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FOR
FINANCE AND PLANNING COMMITTEE

Committee Meeting: 8/22/2012

Board Meeting: 8/23/2012
Austin, Texas

Paul L. Foster, Chairman
Printice L. Gary, Vice Chairman
Alex M. Cranberg
Wallace L. Hall, Jr.
Brenda Pejovich

		Committee Meeting	Board Meeting	Page
9.	**U. T. System Board of Regents: Approval of amendments to the Investment Policy Statements for the Permanent University Fund, the General Endowment Fund, the Permanent Health Fund, the Long Term Fund, the Intermediate Term Fund, the Short Term Fund, the Separately Invested Funds, the Derivative Investment Policy, and the Liquidity Policy**	*4:15 p.m.* **Action** *Mr. Zimmerman*	**Action**	**161**
10.	**U. T. System Board of Regents: Approval of revisions to the amended and restated University of Texas Investment Management Company (UTIMCO) Compensation Program**	*4:20 p.m.* **Action** *Vice Chairman Foster*	**Action**	**239**
11.	**U. T. System Board of Regents: Approval of the Annual Budget, including the capital expenditures budget, invoiced external investment manager fees, and other external direct charges to the Funds, and the Annual Fee and Allocation Schedule for The University of Texas Investment Management Company (UTIMCO)**	*4:25 p.m.* **Action** *Mr. Zimmerman*	**Action**	**285**
Adjourn		*4:30 p.m.*		

1. <u>U. T. System Board of Regents: Review of Consent Agenda items, if any, referred for Committee consideration</u>

(The proposed Consent Agenda is at the end of the book.)

2. U. T. System: Key Financial Indicators Report and Monthly Financial Report

REPORT

Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, will discuss the Key Financial Indicators Report, as set forth on Pages 72 - 79 and the June Monthly Financial Report on Pages 80 - 104. The reports represent the consolidated and detailed operating results of the individual U. T. System institutions.

The Key Financial Indicators Report compares the Systemwide quarterly results of operations, key revenues and expenses, reserves, and key financial ratios in a graphical presentation from Fiscal Year 2008 through May 2012. Ratios requiring balance sheet data are provided for Fiscal Year 2007 through Fiscal Year 2011.

THE UNIVERSITY OF TEXAS SYSTEM

KEY FINANCIAL INDICATORS REPORT

3RD QUARTER FY 2012

KEY

Actual Annual Amounts
(SOURCE: Annual Financial Reports)

Adjustment to Actual Annual Amounts to exclude the Increase in Net OPEB Obligation
(SOURCE: Annual Financial Reports)

Budget amounts
(SOURCE: Operating Budget Summary)

Projected Amounts based on the average change of the previous three years of data

Monthly Financial Report Year-to-Date Amounts

Annual State Net Revenue Collections
(SOURCE: Texas Revenue History by Source and Texas Net Revenue by Source, State Comptroller's Office)

Year-to-Date State Net Revenue Collections
(SOURCE: State Comptroller's Office)

Estimated State Revenue Collections
(SOURCE: Biennial Revenue Estimate, State Comptroller's Office)

Annual and Quarterly Average of FTEs
(SOURCE: State Auditor's Office Quarterly FTE Report)

Year-to-Date Margin
(SOURCE: Monthly Financial Report)

Projected Amounts based on Monthly Financial Report

Year-to-Date Margin
(SOURCE: Monthly Financial Report)

Target Normalized Rates

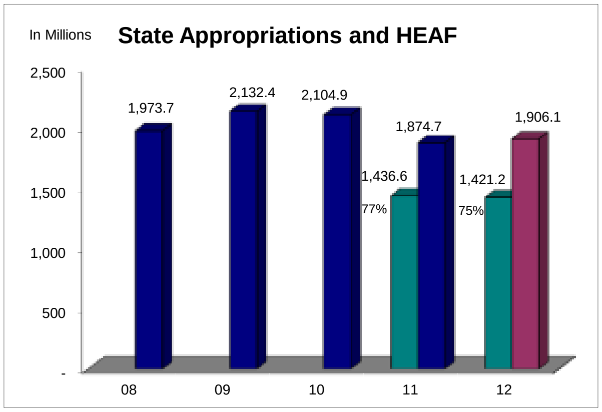
Aaa Median
(SOURCE: Moody's)

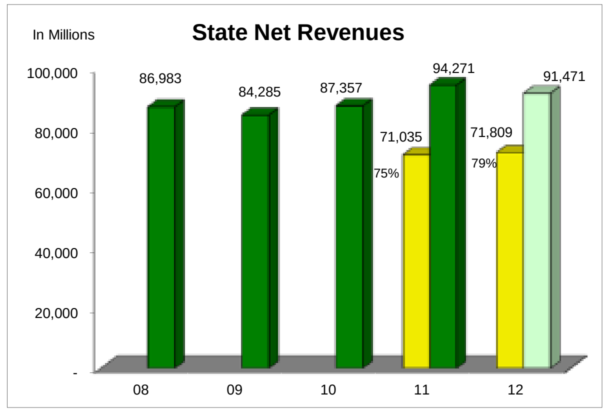
A2 Median
(SOURCE: Moody's)

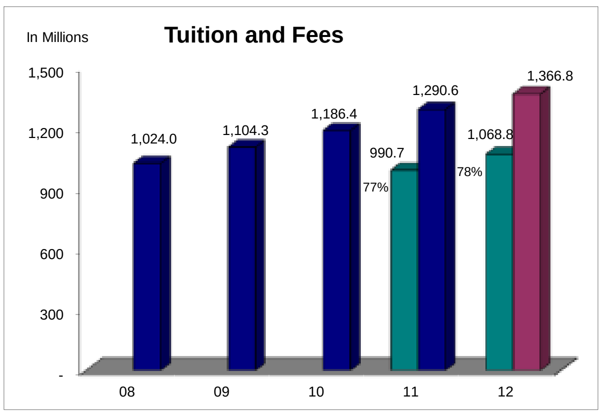
Good Facilities Condition Index (Below 5%)

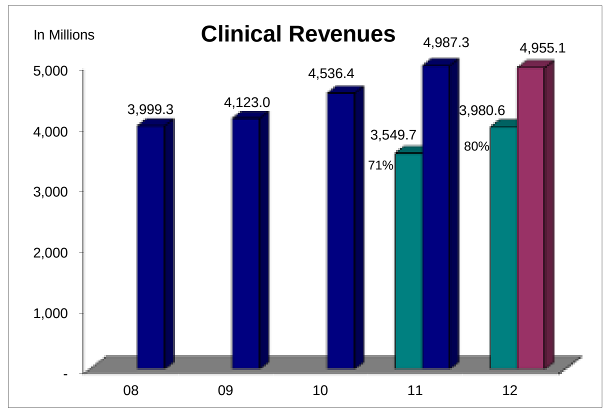
Fair Facilities Condition Index (5% - 10%)

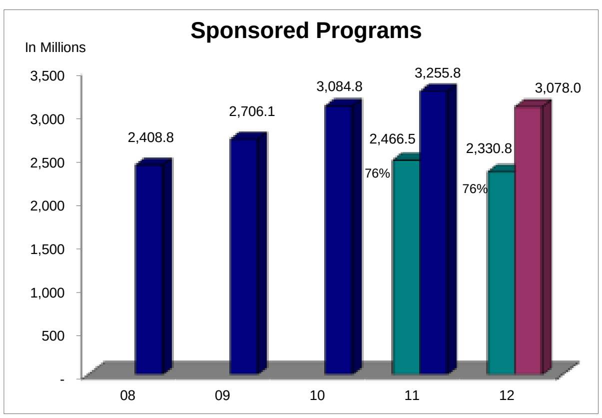
KEY INDICATORS OF REVENUES
ACTUAL 2008 THROUGH 2011
PROJECTED 2012
YEAR-TO-DATE 2011 AND 2012 FROM MAY MONTHLY FINANCIAL REPORT

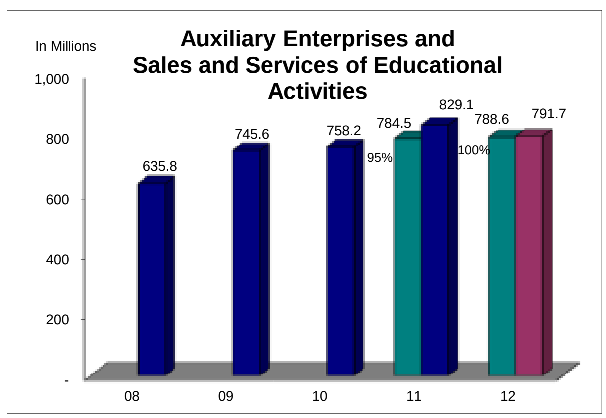


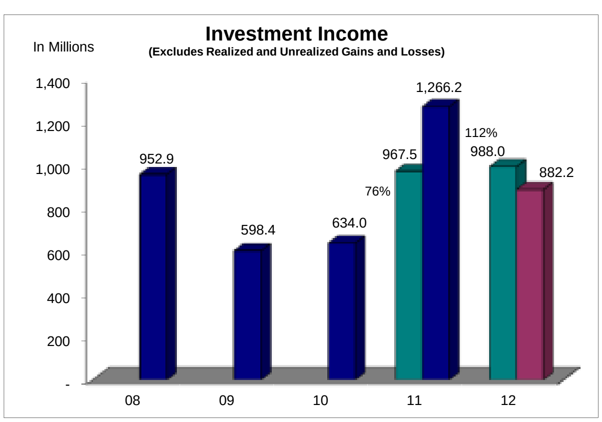


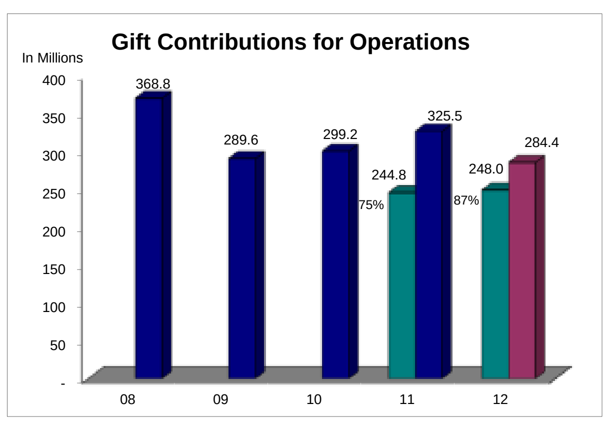




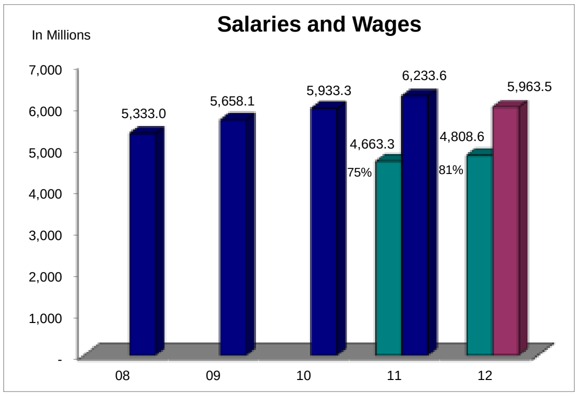


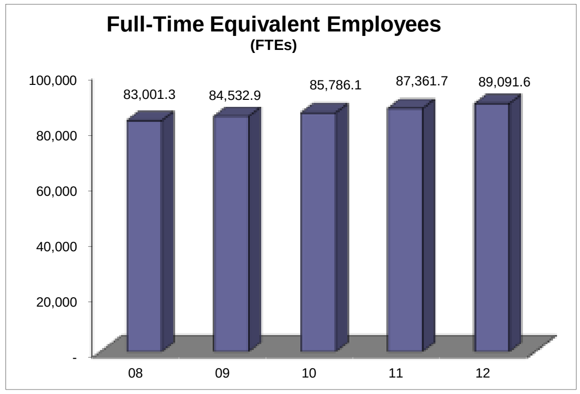


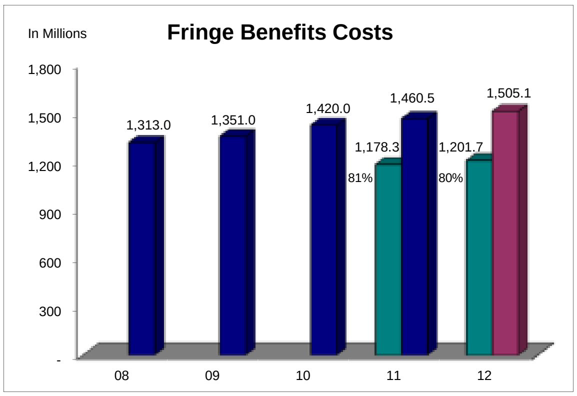


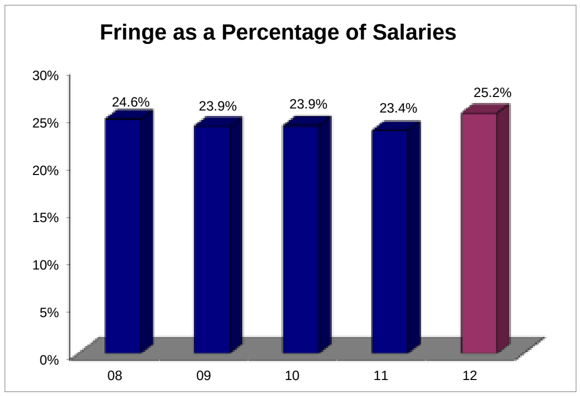


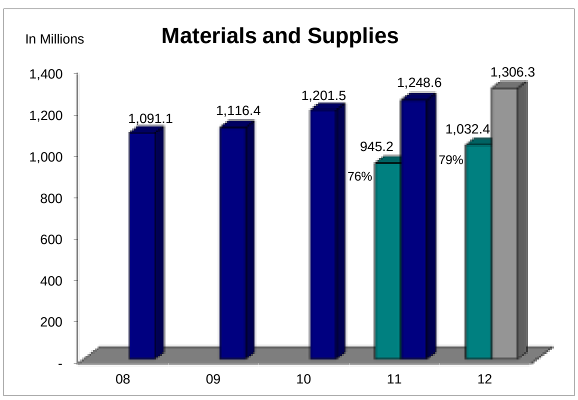
KEY INDICATORS OF EXPENSES
ACTUAL 2008 THROUGH 2011
PROJECTED 2012
YEAR-TO-DATE 2011 AND 2012 FROM MAY MONTHLY FINANCIAL REPORT

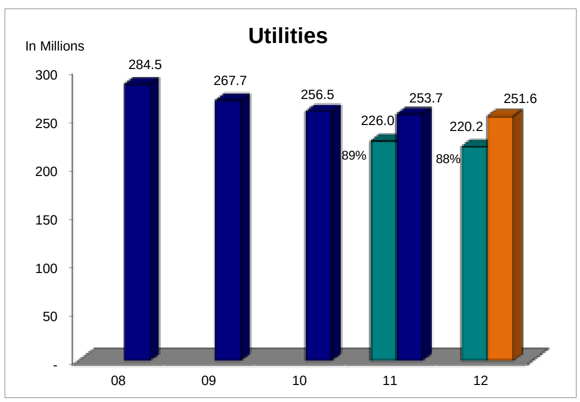


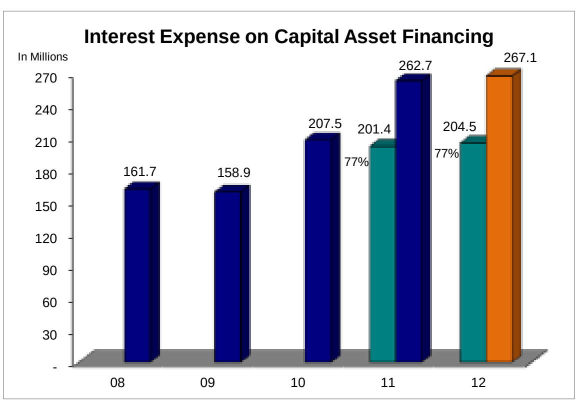


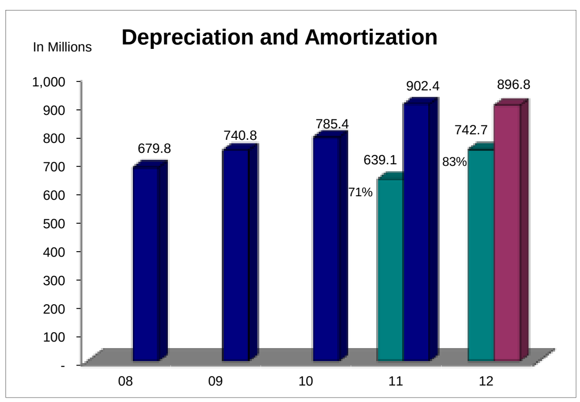




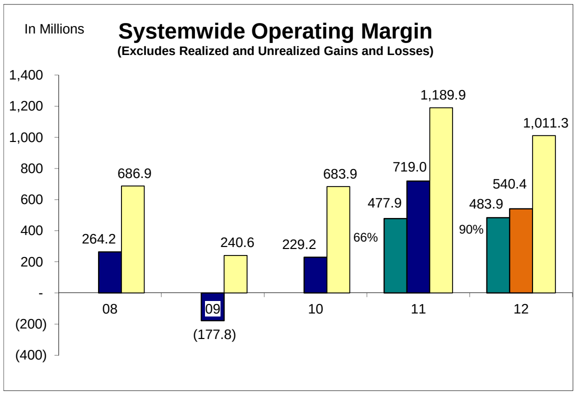


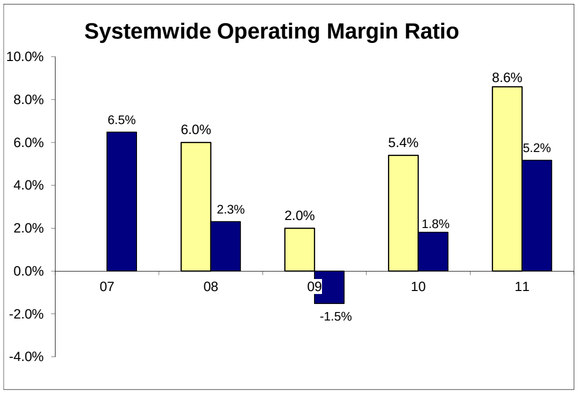


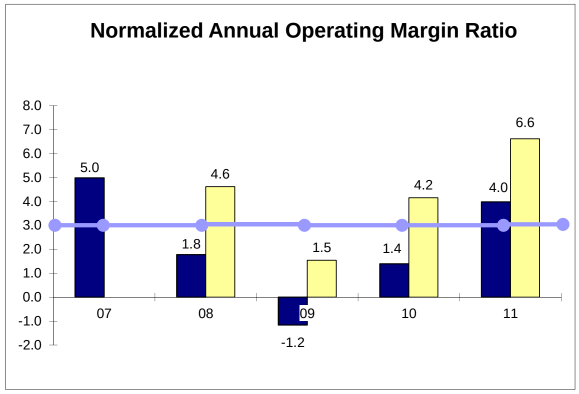


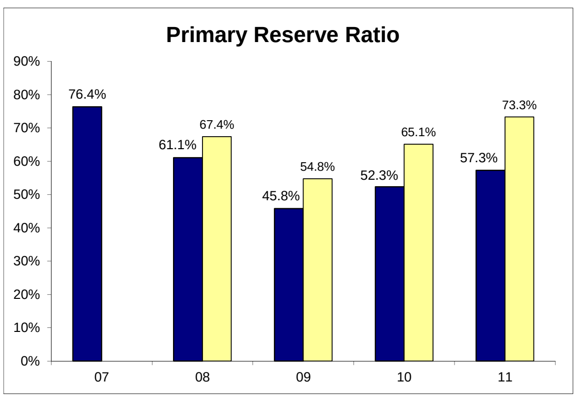


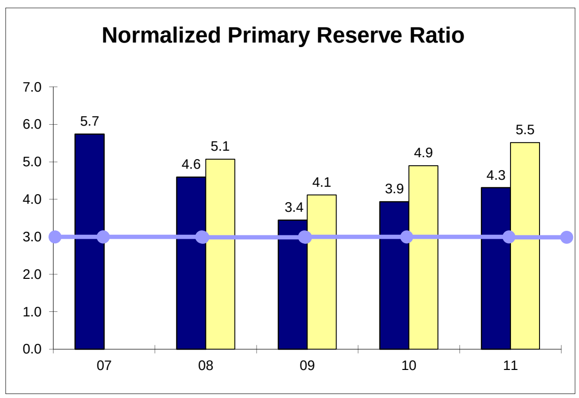
KEY INDICATORS OF RESERVES
ACTUAL 2007 THROUGH 2011
PROJECTED 2012
YEAR-TO-DATE 2011 AND 2012 FROM MAY MONTHLY FINANCIAL REPORT

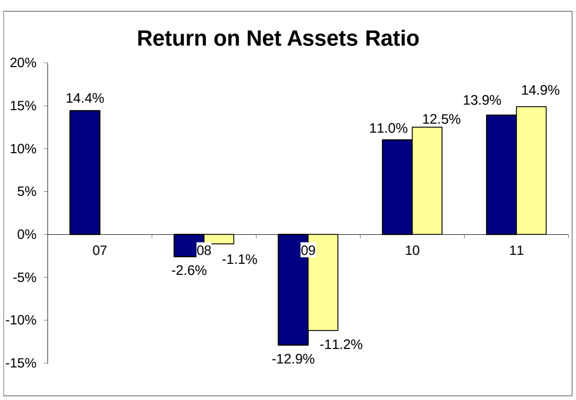


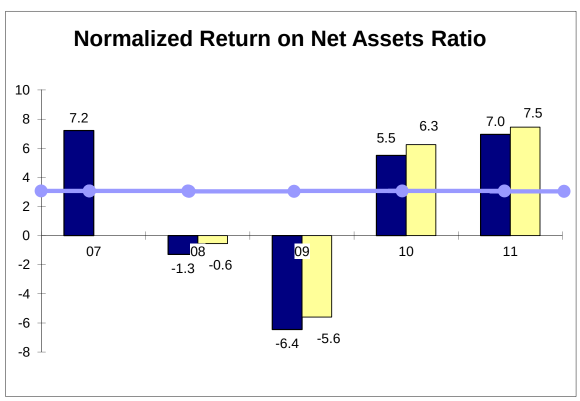




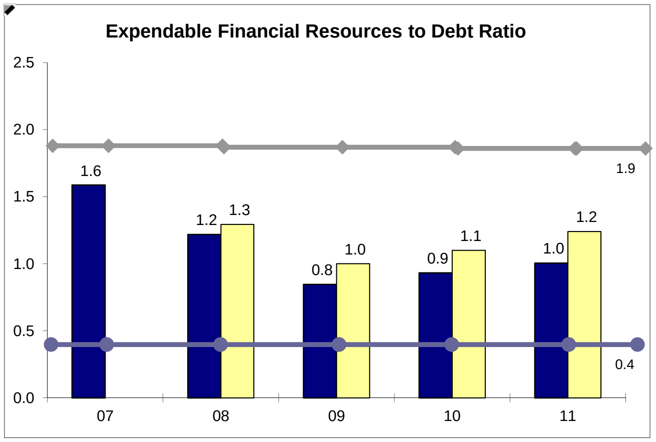


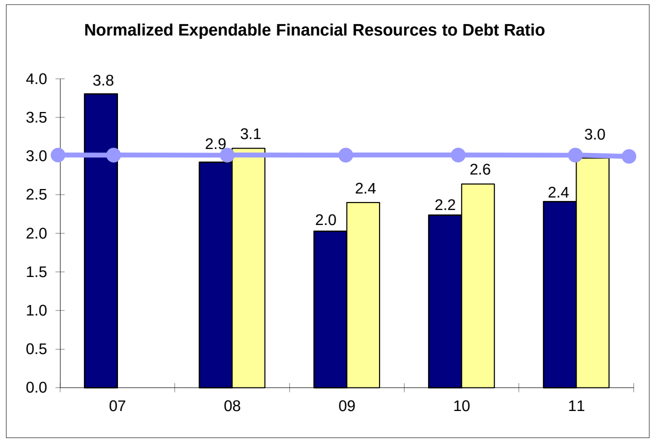


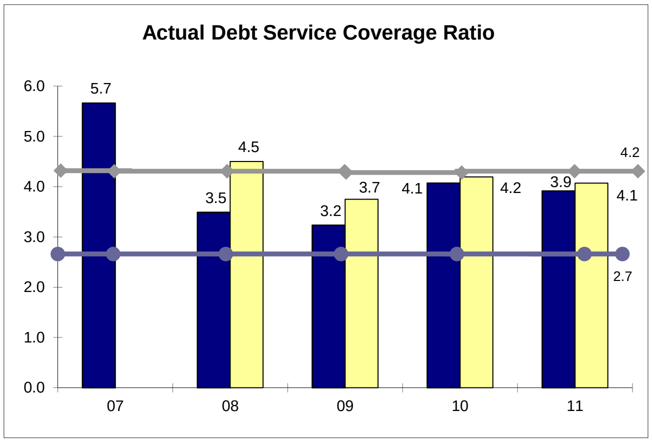


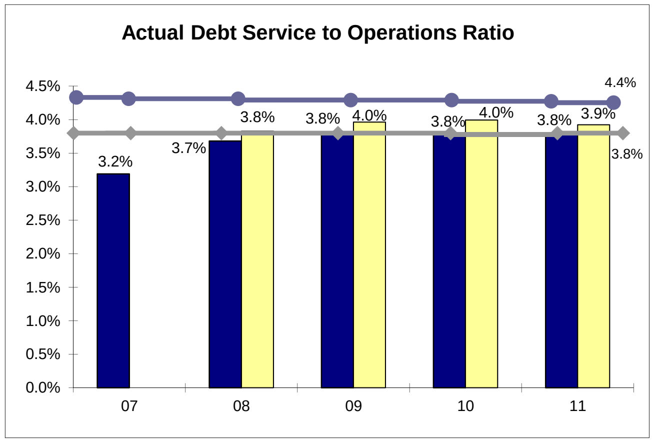


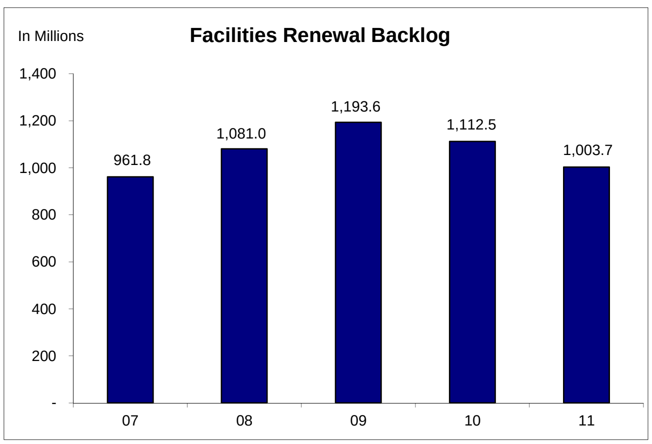
KEY INDICATORS OF CAPITAL NEEDS AND CAPACITY
2007 THROUGH 2011

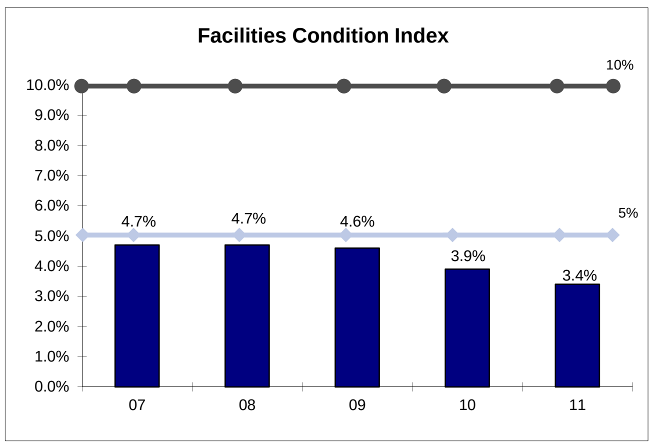




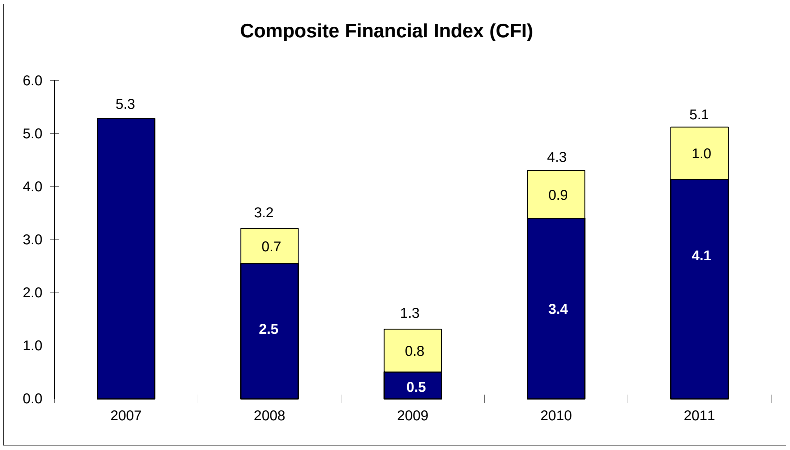




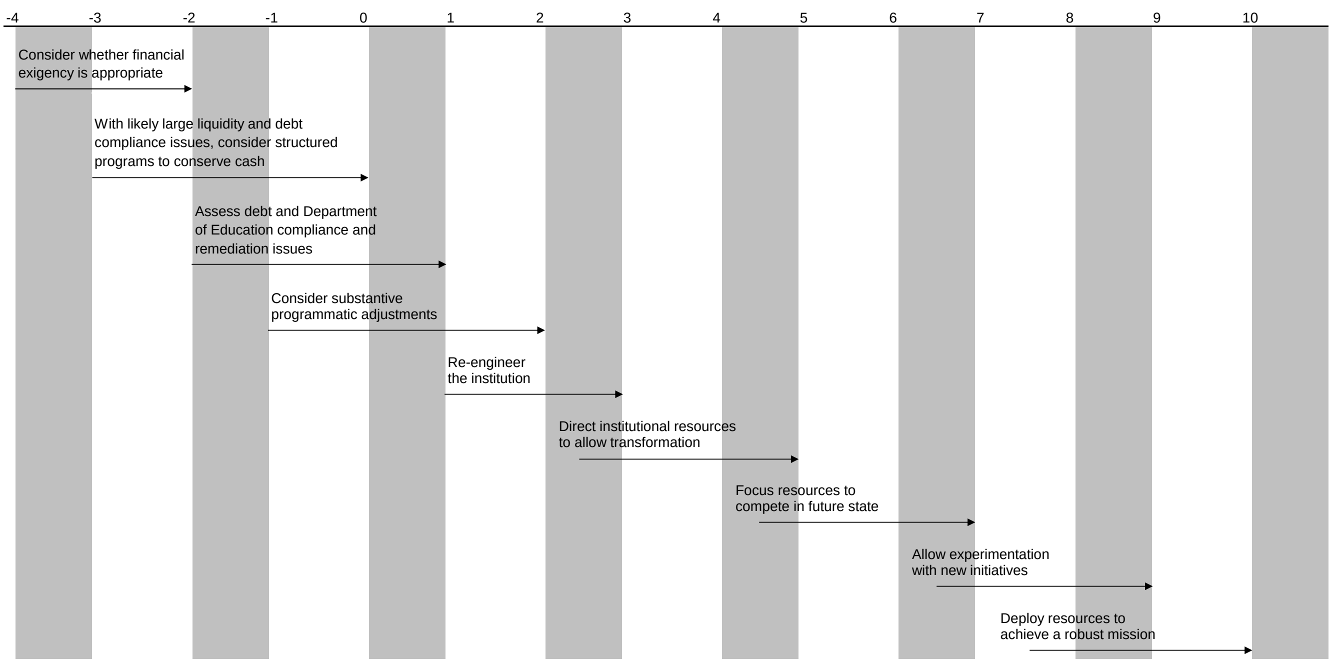




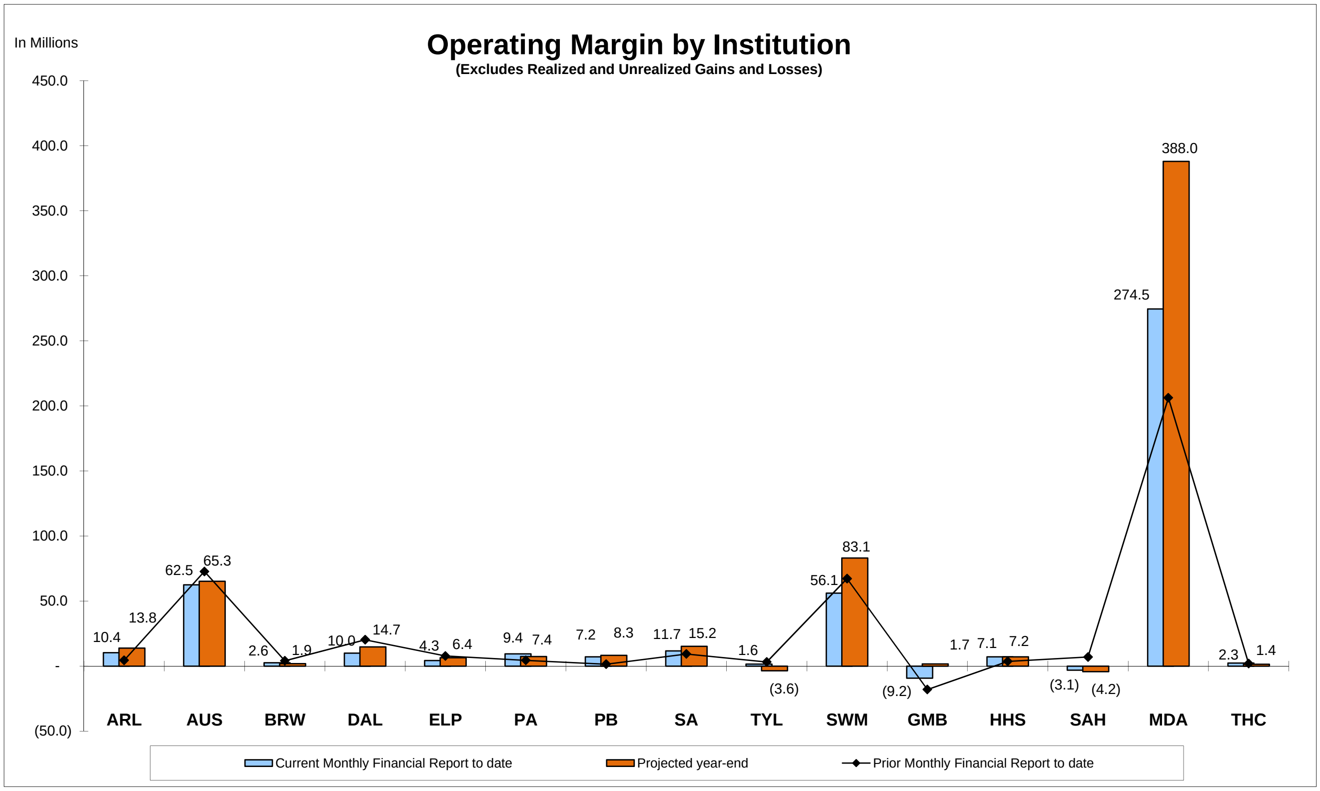
KEY INDICATORS OF FINANCIAL HEALTH
2007 THROUGH 2011

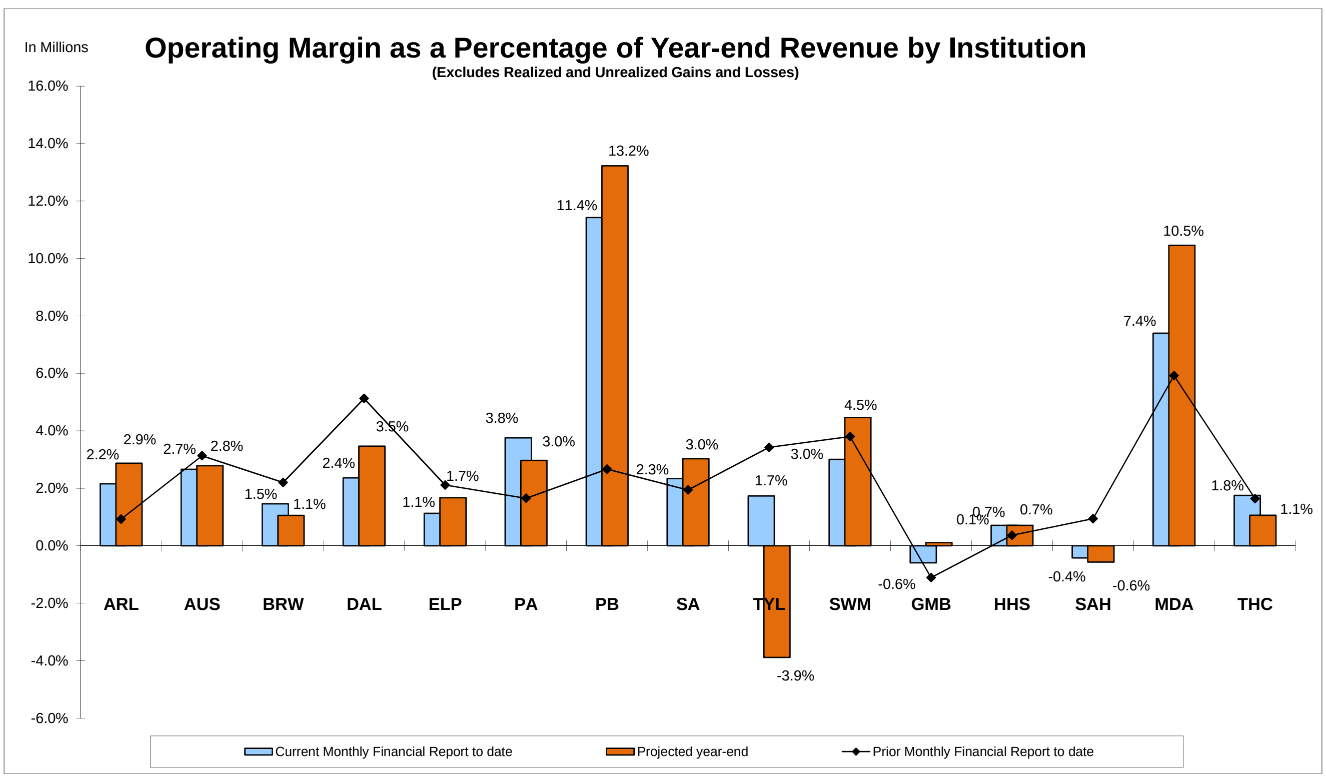


Scale for Charting CFI Performance



KEY INDICATORS OF RESERVES
YEAR-TO-DATE 2011 AND 2012 FROM MAY MONTHLY FINANCIAL REPORT
PROJECTED 2012 YEAR-END MARGIN





THE UNIVERSITY OF TEXAS SYSTEM
OFFICE OF THE CONTROLLER

MONTHLY FINANCIAL REPORT

(unaudited)

JUNE 2012

201 Seventh Street, ASH 5th Floor
Austin, Texas 78701
512.499.4527
www.utsystem.edu/cont

THE UNIVERSITY OF TEXAS SYSTEM
MONTHLY FINANCIAL REPORT
(Unaudited)
FOR THE TEN MONTHS ENDING
JUNE 30, 2012

The University of Texas System
Monthly Financial Report

Foreword

The Monthly Financial Report (MFR) compares the results of operations between the current year-to-date cumulative amounts and the prior year-to-date cumulative amounts. Explanations are provided for institutions having the largest variances in Adjusted Income (Loss) year-to-date as compared to the prior year, both in terms of dollars and percentages. In addition, although no significant variance may exist, institutions with losses may be discussed.

The data is reported in three sections: (1) Operating Revenues, (2) Operating Expenses and (3) Other Nonoperating Adjustments. Presentation of state appropriation revenues are required under GASB 35 to be reflected as nonoperating revenues, so all institutions will report an Operating Loss prior to this adjustment. The MFR provides an Adjusted Income (Loss), which takes into account the nonoperating adjustments associated with core operating activities. An Adjusted Margin (as a percentage of operating and nonoperating revenue adjustments) is calculated for each period and is intended to reflect relative operating contributions to financial health.

UNAUDITED

The University of Texas System Consolidated
Monthly Financial Report, Comparison of Operating Results and Margin
For the Period Ending June 30, 2012

	June Year-to-Date FY 2012	June Year-to-Date FY 2011	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition	1,181,967,312.03	1,092,008,206.91	89,959,105.12	8.2%
Sponsored Programs	2,276,518,804.51	2,380,804,325.96	(104,285,521.45)	-4.4%
Net Sales and Services of Educational Activities	466,946,904.19	495,654,193.12	(28,707,288.93)	-5.8%
Net Sales and Services of Hospitals	3,417,921,877.38	2,997,404,280.86	420,517,596.52	14.0%
Net Professional Fees	1,010,671,513.28	982,398,746.23	28,272,767.05	2.9%
Net Auxiliary Enterprises	396,321,615.30	364,692,255.55	31,629,359.75	8.7%
Other Operating Revenues	132,995,685.01	131,891,807.91	1,103,877.10	0.8%
Total Operating Revenues	**8,883,343,711.70**	**8,444,853,816.54**	**438,489,895.16**	**5.2%**
Operating Expenses				
Salaries and Wages	5,340,312,797.99	5,173,352,012.50	166,960,785.49	3.2%
Payroll Related Costs	1,333,072,927.08	1,308,660,650.87	24,412,276.21	1.9%
Cost of Goods Sold	80,003,265.67	77,641,403.03	2,361,862.64	3.0%
Professional Fees and Services	288,955,354.45	277,983,133.65	10,972,220.80	3.9%
Other Contracted Services	459,398,247.79	426,820,926.35	32,577,321.44	7.6%
Travel	108,201,089.96	103,910,605.21	4,290,484.75	4.1%
Materials and Supplies	1,156,019,201.51	1,058,388,599.11	97,630,602.40	9.2%
Utilities	247,736,552.74	253,788,681.14	(6,052,128.40)	-2.4%
Communications	99,304,455.13	102,245,332.49	(2,940,877.36)	-2.9%
Repairs and Maintenance	199,728,609.19	197,693,921.78	2,034,687.41	1.0%
Rentals and Leases	112,515,083.04	115,407,085.89	(2,892,002.85)	-2.5%
Printing and Reproduction	25,456,096.82	26,671,882.53	(1,215,785.71)	-4.6%
Bad Debt Expense	1,245,423.00	845,909.00	399,514.00	47.2%
Claims and Losses	10,262,770.10	12,471,727.48	(2,208,957.38)	-17.7%
Increase in Net OPEB Obligation	392,407,443.33	378,948,178.33	13,459,265.00	3.6%
Scholarships and Fellowships	386,124,456.08	398,135,604.82	(12,011,148.74)	-3.0%
Depreciation and Amortization	819,124,491.32	718,558,358.64	100,566,132.68	14.0%
Federal Sponsored Program Pass-Through to Other State Agencies	21,772,880.53	23,400,336.87	(1,627,456.34)	-7.0%
State Sponsored Program Pass-Through to Other State Agencies	1,480,248.88	1,871,104.44	(390,855.56)	-20.9%
Other Operating Expenses	280,219,926.95	296,645,351.02	(16,425,424.07)	-5.5%
Total Operating Expenses	**11,363,341,321.56**	**10,953,440,805.15**	**409,900,516.41**	**3.7%**
Operating Loss	**(2,479,997,609.86)**	**(2,508,586,988.61)**	**28,589,378.75**	**1.1%**
Other Nonoperating Adjustments				
State Appropriations	1,580,412,977.58	1,589,098,237.42	(8,685,259.84)	-0.5%
Nonexchange Sponsored Programs	307,076,822.40	343,183,983.60	(36,107,161.20)	-10.5%
Gift Contributions for Operations	270,709,077.32	259,404,832.06	11,304,245.26	4.4%
Net Investment Income	1,068,811,180.24	1,041,433,966.10	27,377,214.14	2.6%
Interest Expense on Capital Asset Financings	(223,920,757.04)	(223,212,706.81)	(708,050.23)	-0.3%
Net Other Nonoperating Adjustments	**3,003,089,300.50**	**3,009,908,312.37**	**(6,819,011.87)**	**-0.2%**
Adjusted Income (Loss) including Depreciation & Amortization	**523,091,690.64**	**501,321,323.76**	**21,770,366.88**	**4.3%**
Adjusted Margin % including Depreciation & Amortization	**4.3%**	**4.3%**		
Investment Gain (Losses)	(62,864,633.28)	3,134,497,340.80	(3,197,361,974.08)	-102.0%
Adj. Inc. (Loss) with Investment Gains (Losses)	**460,227,057.36**	**3,635,818,664.56**	**(3,175,591,607.20)**	**-87.3%**
Adj. Margin % with Investment Gains (Losses)	**3.8%**	**24.5%**		
Adjusted Income (Loss) excluding Depreciation & Amortization	**1,342,216,181.96**	**1,219,879,682.40**	**122,336,499.56**	**10.0%**
Adjusted Margin % excluding Depreciation & Amortization	**11.1%**	**10.4%**		

The University of Texas System
Comparison of Adjusted Income (Loss)
For the Ten Months Ending June 30, 2012

	Including Depreciation and Amortization Expense				
	June Year-to-Date FY 2012	**June Year-to-Date FY 2011**	**Variance**		**Fluctuation Percentage**
UT System Administration	$ 191,702,343.39	$ 225,181,579.34	(33,479,235.95)	(1)	-14.9%
UT Arlington	11,056,978.57	4,717,406.45	6,339,572.12	(2)	134.4%
UT Austin	63,540,548.15	69,528,321.16	(5,987,773.01)		-8.6%
UT Brownsville	1,984,284.59	4,214,464.45	(2,230,179.86)	(3)	-52.9%
UT Dallas	11,190,344.27	13,727,718.55	(2,537,374.28)		-18.5%
UT El Paso	5,543,189.61	8,832,508.01	(3,289,318.40)	(4)	-37.2%
UT Pan American	11,781,507.22	7,549,299.12	4,232,208.10	(5)	56.1%
UT Permian Basin	7,308,567.93	891,302.82	6,417,265.11	(6)	720.0%
UT San Antonio	13,318,191.40	11,976,402.79	1,341,788.61		11.2%
UT Tyler	(277,437.37)	1,378,375.45	(1,655,812.82)	(7)	-120.1%
UT Southwestern Medical Center	68,871,811.83	74,140,785.71	(5,268,973.88)		-7.1%
UT Medical Branch - Galveston	(9,797,565.02)	(16,091,140.44)	6,293,575.42	(8)	39.1%
UT Health Science Center - Houston	6,568,562.88	2,237,471.17	4,331,091.71	(9)	193.6%
UT Health Science Center - San Antonio	(3,038,887.19)	7,131,831.32	(10,170,718.51)	(10)	-142.6%
UT MD Anderson Cancer Center	289,514,975.78	231,929,276.40	57,585,699.38	(11)	24.8%
UT Health Science Center - Tyler	3,457,607.93	2,000,721.46	1,456,886.47	(12)	72.8%
Elimination of AUF Transfer	(149,633,333.33)	(148,025,000.00)	(1,608,333.33)		-1.1%
Total Adjusted Income (Loss)	523,091,690.64	501,321,323.76	21,770,366.88		4.3%
Investment Gains (Losses)	(62,864,633.28)	3,134,497,340.80	(3,197,361,974.08)		-102.0%
Total Adjusted Income (Loss) with Investment Gains (Losses) Including Depreciation and Amortization	**$ 460,227,057.36**	**$ 3,635,818,664.56**	**$ (3,175,591,607.20)**		**-87.3%**

	Excluding Depreciation and Amortization Expense			
	June Year-to-Date FY 2012	**June Year-to-Date FY 2011**	**Variance**	**Fluctuation Percentage**
UT System Administration	$ 197,979,136.73	$ 235,537,894.70	(37,558,757.97)	-15.9%
UT Arlington	39,962,847.08	33,504,543.68	6,458,303.40	19.3%
UT Austin	261,148,463.44	234,291,305.03	26,857,158.41	11.5%
UT Brownsville	8,525,084.93	8,979,792.71	(454,707.78)	-5.1%
UT Dallas	42,584,605.38	40,366,809.12	2,217,796.26	5.5%
UT El Paso	26,092,693.06	24,440,984.85	1,651,708.21	6.8%
UT Pan American	23,571,828.99	19,390,937.79	4,180,891.20	21.6%
UT Permian Basin	16,266,901.26	5,563,230.05	10,703,671.21	192.4%
UT San Antonio	47,290,109.94	44,544,433.35	2,745,676.59	6.2%
UT Tyler	9,079,804.28	10,447,871.49	(1,368,067.21)	-13.1%
UT Southwestern Medical Center	154,997,226.43	148,614,985.29	6,382,241.14	4.3%
UT Medical Branch - Galveston	60,518,949.57	50,317,148.46	10,201,801.11	20.3%
UT Health Science Center - Houston	49,666,730.65	43,015,350.73	6,651,379.92	15.5%
UT Health Science Center - San Antonio	35,294,446.14	37,381,831.32	(2,087,385.18)	-5.6%
UT MD Anderson Cancer Center	508,090,656.72	423,810,983.10	84,279,673.62	19.9%
UT Health Science Center - Tyler	10,780,030.69	7,696,580.73	3,083,449.96	40.1%
Elimination of AUF Transfer	(149,633,333.33)	(148,025,000.00)	(1,608,333.33)	-1.1%
Total Adjusted Income (Loss)	1,342,216,181.96	1,219,879,682.40	122,336,499.56	10.0%
Total Adjusted Income (Loss) Excluding Depreciation and Amortization	**$ 1,342,216,181.96**	**$ 1,219,879,682.40**	**$ 122,336,499.56**	**10.0%**

THE UNIVERSITY OF TEXAS SYSTEM
EXPLANATION OF VARIANCES ON THE MONTHLY FINANCIAL REPORT
For the Ten Months Ending June 30, 2012

Explanations are provided for institutions having the largest variances in adjusted income (loss) year-to-date as compared to the prior year, both in terms of dollars and percentages. Explanations are also provided for institutions with a current year-to-date adjusted loss and/or a projected year-to-date loss.

(1) *UT System Administration* - The $33.5 million (14.9%) decrease in adjusted income over the same period last year was primarily due to a decrease in net other operating revenues and increases in repairs and maintenance and materials and supplies. The decrease in net other operating revenues was due to an increase in inpatient medical care utilization for *UT System's* self-insured medical/dental plan, the Affordable Care Act expanding the population of insured, and *UT System* offering twice the amount of basic and accidental death and dismemberment insurance to employees. The increase in repairs and maintenance and materials and supplies was due to the Board of Regents approving Oracle Maintenance expenses and Microsoft License Fees for the entire *UT System* to be paid by *UT System Administration* in 2012. Excluding depreciation and amortization expense, *UT System Administration's* adjusted income was $198.0 million or 26.2%.

(2) *UT Arlington* - The $6.3 million (134.4%) increase in adjusted income over the same period last year was primarily attributable to an increase in tuition and fees due to increased enrollment and an increase in sales and services of educational activities due to an increase in the Executive MBA Program. Excluding depreciation and amortization expense, *UT Arlington's* adjusted income was $40.0 million or 10.0%.

(3) *UT Brownsville* - The $2.2 million (52.9%) decrease in adjusted income over the same period last year was primarily due to a decrease in state appropriations resulting from the state-wide budget cuts mandated by the state's leadership. Excluding depreciation and amortization expense, *UT Brownsville's* adjusted income was $8.5 million or 5.7%.

(4) *UT El Paso* - The $3.3 million (37.2%) decrease in adjusted income over the same period last year was primarily due to an increase in depreciation and amortization expense and a decrease in state appropriations. Depreciation and amortization expense increased due to a full year of depreciation on the College of Heath Sciences/School of Nursing building, as well as the addition of the Chemistry and Computer Science building, Swimming and Fitness Center, and Schuster Parking Garage which were placed into service this year. State appropriations decreased as a result of the state-wide budget cuts mandated by the state's leadership. Excluding depreciation and amortization expense, *UT El Paso's* adjusted income was $26.1 million or 8.1%.

(5) *UT Pan American* - The $4.2 million (56.1%) increase in adjusted income over the same period last year was primarily due to decreases in the following: a decrease in salaries and wages and payroll related costs as a result of the reduction in force and voluntary separation incentive program during the first quarter of 2011; a reduction in utilities due to lower electric rates as a result of a new contract and energy supplier; a decrease in other operating expenses related to decreased information technology administrative support and fewer project expenses in 2012; and a reduction in repairs and maintenance due to the Board of Regents not requiring the institutions to pay for the Microsoft license fee in 2012. In addition, gift contributions for operations increased over the prior year. Excluding depreciation and amortization expense, *UT Pan American's* adjusted income was $23.6 million or 10.9%.

(6) *UT Permian Basin* - The $6.4 million (720.0%) increase in adjusted income over the same period last year was primarily due to a $6.9 million reduction in scholarships and fellowships expense to correct an overstatement of these expenses which occurred in 2011. The correction was identified by specialists hired by *UT System Administration* after the 2011 AFR was completed. Excluding depreciation and amortization expense, *UT Permian Basin's* adjusted income was $16.3 million or 30.9%. Due to the correction of the overstated scholarships and fellowships expense, *UT Permian Basin* is no longer forecasting a year-end loss.

(7) *UT Tyler* - The $1.7 million (120.1%) decrease in adjusted income over the same period last year was primarily attributable to an increase in salaries and wages expense and payroll related costs due to increased personnel for the newly acquired Science Discovery Place, filling of the previous year's vacancies, and a one-time merit increase. As a result, *UT Tyler* incurred a year-to-date loss of $0.3 million. Excluding depreciation and amortization expense, *UT Tyler's* adjusted income was $9.1 million or 11.4%. *UT Tyler* anticipates ending the year with a $3.5 million loss which

represents -3.8% of projected revenues and includes $11.2 million of depreciation and amortization expense. The projected loss is the result of the following: an increase in salaries and wages expense and payroll related costs; the absence of ARRA funding in 2012; fewer projected gift contributions for operations; and a number of campus renovation projects that will likely be expensed. *UT Tyler*'s use of prior year balances was approved by *UT System Administration* for 2012 for one-time nonrecurring expenses.

(8) *UT Medical Branch - Galveston* - The $6.3 million (39.1%) decrease in adjusted loss over the same period last year was primarily due to a decrease in overall total operating expenses. The decreases in expenses are mainly associated with Correctional Managed Care, patient care costs, and hospital contracts. Although total operating expenses decreased $23.6 million, *UTMB* still incurred a year-to-date loss of $9.8 million primarily due to lower than anticipated net patient care revenue. *UTMB* asked the Legislative Budget Board (LBB) to approve use of a portion of the $150 million *Ike* appropriation to offset non-Federal Emergency Management Agency (FEMA) reimbursed operating expenses incurred in 2012. In June the LBB approved *UTMB's* request to reimburse $6.7 million of the $150 million *Ike* appropriation. Of the $6.7 million, $5.1 million was recognized as operating revenue and the remaining $1.6 million as capital revenue. In December, the LBB approved the use of the $6.3 million remaining balance in the Supplemental Appropriations Request (SAR) from the previous biennium to offset Texas Department of Criminal Justice (TDCJ) contract losses. The LBB also authorized TDCJ to draw on 2013 appropriations to cover 2012 contract losses. *UTMB* has recognized the entire $6.3 million remaining SAR and $7.9 million from the 2013 spend-forward funding. *UTMB* is forecasting a $5 million loss, which represents -0.3% of projected revenues and includes $83.8 million of depreciation expense.

(9) *UT Health Science Center - Houston* - The $4.3 million (193.6%) increase in adjusted income over the same period last year was primarily due to the recognition of $2.6 million in loan forgiveness related to UT Physicians' loan with Memorial Hermann Hospital System (MHH), and a $1.3 million increase in the Hemophilia/Thrombophilia Pharmacy Program due to price increases, increase in commercial payors and increased usage. Excluding depreciation and amortization expense, *UTHSC-Houston's* adjusted income was $49.7 million or 5.9%.

(10) *UT Health Science Center - San Antonio* - The $10.2 million (142.6%) decrease in adjusted income over the same period last year was primarily due to an annual decrease of approximately $25 million in state appropriations resulting from the state-wide budget cuts mandated by the state's leadership. Further exacerbating the decline was a calculation error identified by the LBB that reduced *UTHSC-San Antonio*'s House Bill 4 (HB4) supplemental appropriations by $2 million ($1 million was intended each for 2012 and 2013 operations), as well as the Governor's request for *UTHSC-San Antonio* to recognize $8 million of HB4 supplemental appropriations in 2011 to meet a certain "maintenance of effort" test in order for the state to retain federal funds ($4 million was intended each for 2012 and 2013 operations). The impact from the subsequent determinations on the treatment of *UTHSC-San Antonio*'s HB4 supplemental appropriations is an additional loss of $5 million in State Appropriations revenue for 2012 and 2013, creating an adjusted budget operating loss of $8.8 million compared to an initial budget loss of $3.8 million. Additionally, depreciation and amortization expense increased by $8 million due to the opening of the South Texas Research Facility in October of 2011. Offsetting these losses are enhanced clinical operations, planned cost containment, and efficiency measures implemented by the schools and administrative units. As a result, *UTHSC-San Antonio* incurred a year-to-date loss of $3.0 million, a $5.8 million improvement over its adjusted budgeted loss. Excluding depreciation and amortization expense, *UTHSC-San Antonio*'s adjusted income was $35.3 million or 5.9%. *UTHSC-San Antonio* anticipates ending the year with a $4.5 million loss due to the reductions in state appropriations and treatment of HB4 supplemental appropriations imposed by the state's leadership for the 2012-2013 biennium ($4.6 million). The projected loss of $4.5 million represents -0.6% of projected revenues, includes $46 million of depreciation and amortization expense, and is supported by $199.1 million of unrestricted net assets.

(11) *UT MD Anderson Cancer Center* - The $57.6 million (24.8%) increase in adjusted income over the same period last year was primarily due to an increase in net sales and services of hospitals as a result of increased inpatient and outpatient visits. Excluding depreciation and amortization expense, *MD Anderson's* adjusted income was $508.1 million or 16.6%.

(12) *UT Health Science Center - Tyler* - The $1.5 million (72.8%) increase in adjusted income over the same period last year was primarily attributable to an increase in state appropriations as a result of HB4 Section 42 additional state support in 2012. Excluding depreciation and amortization expense, *UTHSC - Tyler's* adjusted income was $10.8 million or 10.5%.

GLOSSARY OF TERMS

OPERATING REVENUES:

NET STUDENT TUITION - All student tuition and fee revenues earned at the UT institution for educational purposes, net of tuition discounting.

SPONSORED PROGRAMS - Funding received from local, state and federal governments or private agencies, organizations or individuals, excluding Federal Pell Grant Program which is reported as nonoperating. Includes amounts received for services performed on grants, contracts, and agreements from these entities for current operations. This also includes indirect cost recoveries and pass-through federal and state grants.

NET SALES AND SERVICES OF EDUCATIONAL ACTIVITIES - Revenues that are related to the conduct of instruction, research, and public service and revenues from activities that exist to provide an instructional and laboratory experience for students that create goods and services that may be sold.

NET SALES AND SERVICES OF HOSPITALS - Revenues (net of discounts, allowances, and bad debt expense) generated from UT health institution's daily patient care, special or other services, as well as revenues from health clinics that are part of a hospital.

NET PROFESSIONAL FEES - Revenues (net of discounts, allowances, and bad debt expense) derived from the fees charged by the professional staffs at UT health institutions as part of the Medical Practice Plans. These revenues are also identified as Practice Plan income. Examples of such fees include doctor's fees for clinic visits, medical and dental procedures, professional opinions, and anatomical procedures, such as analysis of specimens after a surgical procedure, etc.

NET AUXILIARY ENTERPRISES - Revenues derived from a service to students, faculty, or staff in which a fee is charged that is directly related to, although not necessarily equal to the cost of the service (e.g., bookstores, dormitories, dining halls, snack bars, inter-collegiate athletic programs, etc.).

OTHER OPERATING REVENUES - Other revenues generated from sales or services provided to meet current fiscal year operating expenses, which are not included in the preceding categories (e.g., certified nonprofit healthcare company revenues, donated drugs, interest on student loans, etc.) Other receipts for settlements, judgments and lawsuits are considered nonoperating revenues.

OPERATING EXPENSES:

SALARIES AND WAGES - Expenses for all salaries and wages of individuals employed by the institution including full-time, part-time, longevity, hourly, seasonal, etc. Includes salary augmentation and incentive compensation.

PAYROLL RELATED COSTS - Expenses for all employee benefits paid by the institution or paid by the state on behalf of the institution. Includes supplemental retirement annuities.

COST OF GOODS SOLD - Purchases of goods for resale and raw materials purchased for use in the manufacture of products intended for sale to others.

PROFESSIONAL FEES AND SERVICES - Payments for services rendered on a fee, contract, or other basis by a person, firm, corporation, or company recognized as possessing a high degree of learning and responsibility. Includes such items as services of a consultant, legal counsel, financial or audit fees, medical contracted services, guest lecturers (not employees) and expert witnesses.

OTHER CONTRACTED SERVICES - Payments for services rendered on a contractual basis by a person, firm, corporation or company that possess a lesser degree of learning and responsibility than that required for Professional Fees and Services. Includes such items as temporary employment expenses, janitorial services, dry cleaning services, etc.

TRAVEL - Payments for travel costs incurred by employees and board members for meetings and training.

MATERIALS AND SUPPLIES - Payments for consumable items. Includes, but is not limited to: computer consumables, office supplies, paper products, soap, lights, plants, fuels and lubricants, chemicals and gasses, medical supplies and copier supplies. Also includes postal services, and subscriptions and other publications not for permanent retention.

UTILITIES - Payments for the purchase of electricity, natural gas, water, and thermal energy.

COMMUNICATIONS - Electronically transmitted communications services (telephone, internet, computation center services, etc.).

REPAIRS AND MAINTENANCE - Payments for the maintenance and repair of equipment, furnishings, motor vehicles, buildings and other plant facilities, and waste disposal. Includes, but is not limited to repair and maintenance to copy machines, furnishings, equipment - including medical and laboratory equipment, office equipment and aircraft.

RENTALS AND LEASES - Payments for rentals or leases of furnishings and equipment, vehicles, land and office buildings (all rental of space).

PRINTING AND REPRODUCTION - Printing and reproduction costs associated with the printing/copying of the institution's documents and publications.

BAD DEBT EXPENSE - Expenses incurred by the university related to nonrevenue receivables such as non-payment of student loans.

CLAIMS AND LOSSES - Payments for claims from self-insurance programs. Other claims for settlements, judgments and lawsuits are considered nonoperating expenses.

INCREASE IN NET OPEB OBLIGATION - The change in the actuarially estimated liability of the cost of providing healthcare benefits to UT System's employees after they separate from employment (retire).

SCHOLARSHIPS AND FELLOWSHIPS - Payments made for scholarship grants to students authorized by law, net of tuition discounting.

FEDERAL SPONSORED PROGRAM PASS-THROUGHS TO OTHER STATE AGENCIES - Pass-throughs to other Texas state agencies, including other universities, of federal grants and contracts.

STATE SPONSORED PROGRAM PASS-THROUGHS TO OTHER STATE AGENCIES - Pass-throughs to other Texas state agencies, including Texas universities.

DEPRECIATION AND AMORTIZATION - Depreciation on capital assets and amortization expense on intangible assets.

OTHER OPERATING EXPENSES - Other operating expenses not identified in other line items above (e.g., certified non-profit healthcare company expenses, property taxes, insurance premiums, credit card fees, hazardous waste disposal expenses, meetings and conferences, etc.). Other claims for settlements, judgments and lawsuits are considered nonoperating expenses.

OPERATING LOSS - Total operating revenues less total operating expenses before other nonoperating adjustments like state appropriations.

<u>OTHER NONOPERATING ADJUSTMENTS</u>:

STATE APPROPRIATIONS - Appropriations from the State General Revenue fund, which supplement the UT institutional revenue in meeting operating expenses, such as faculty salaries, utilities, and institutional support.

NONEXCHANGE SPONSORED PROGRAMS - Funding received for the Federal Pell Grant Program, the portion of "state appropriations" funded by the American Recovery and Reinvestment Act, Texas Research Incentive Program (TRIP) and Enrollment Growth funding.

GIFT CONTRIBUTIONS FOR OPERATIONS - Consist of gifts from donors received for use in current operations, excluding gifts for capital acquisition and endowment gifts. Gifts for capital acquisition which can only be used to build or buy capital assets are excluded because they cannot be used to support current operations. Endowment gifts must be held in perpetuity and cannot be spent. The distributed income from endowment gifts must be spent according to the donor's stipulations.

NET INVESTMENT INCOME (on institutions' sheets) - Interest and dividend income on treasury balances, bank accounts, Short Term Fund, Intermediate Term Fund and Long Term Fund. It also includes distributed earnings from the Permanent Health Fund and patent and royalty income.

NET INVESTMENT INCOME (on the consolidated sheet) - Interest and dividend earnings of the Permanent University Fund, Short Term Fund, Intermediate Term Fund, Long Term Fund and Permanent Health Fund. This line item also includes the Available University Fund surface income, oil and gas royalties, and mineral lease bonus sales.

INTEREST EXPENSE ON CAPITAL ASSET FINANCINGS - Interest expenses associated with bond and note borrowings utilized to finance capital improvement projects by an institution. This consists of the interest portion of mandatory debt service transfers under the Revenue Financing System, Tuition Revenue bond and Permanent University Fund (PUF) bond programs. PUF interest expense is reported on System Administration as the debt legally belongs to the Board of Regents.

ADJUSTED INCOME (LOSS) including Depreciation and Amortization - Total operating revenues less total operating expenses including depreciation and amortization expense plus net other nonoperating adjustments.

ADJUSTED MARGIN % including Depreciation and Amortization - Percentage of Adjusted Income (Loss) including depreciation and amortization expense divided by Total Operating Revenues plus Net Nonoperating Adjustments less Interest Expense on Capital Asset Financings.

AVAILABLE UNIVERSITY FUND TRANSFER - Includes Available University Fund (AUF) transfer to System Administration for Educational and General operations and to UT Austin for Excellence Funding. These transfers are funded by investment earnings from the Permanent University Fund (PUF), which are required by law to be reported in the PUF at System Administration. On the MFR, investment income for System Administration has been reduced for the amount of the System Administration transfer so as not to overstate investment income for System Administration. The AUF transfers are eliminated at the consolidated level to avoid overstating System-wide revenues, as the amounts will be reflected as transfers at year-end.

INVESTMENT GAINS (LOSSES) - Realized and unrealized gains and losses on investments.

ADJUSTED INCOME (LOSS) excluding Depreciation and Amortization - Total operating revenues less total operating expenses excluding depreciation and amortization expense plus net other nonoperating adjustments.

ADJUSTED MARGIN % excluding Depreciation and Amortization - Percentage of Adjusted Income (Loss) excluding depreciation and amortization expense divided by Total Operating Revenues plus Net Nonoperating Adjustments less Interest Expense on Capital Asset Financings.

UNAUDITED

The University of Texas System Administration
Monthly Financial Report, Comparison of Operating Results and Margin
For the Period Ending June 30, 2012

	June Year-to-Date FY 2012	June Year-to-Date FY 2011	Variance	Fluctuation Percentage
Operating Revenues				
Sponsored Programs	14,767,048.43	13,840,975.98	926,072.45	6.7%
Net Sales and Services of Educational Activities	36,098,036.29	24,454,197.26	11,643,839.03	47.6%
Other Operating Revenues	18,416,422.65	51,822,573.82	(33,406,151.17)	-64.5%
Total Operating Revenues	**69,281,507.37**	**90,117,747.06**	**(20,836,239.69)**	**-23.1%**
Operating Expenses				
Salaries and Wages	27,993,173.45	26,921,511.38	1,071,662.07	4.0%
Payroll Related Costs	6,921,487.19	7,333,069.52	(411,582.33)	-5.6%
Professional Fees and Services	5,542,276.83	2,344,146.67	3,198,130.16	136.4%
Other Contracted Services	8,434,848.65	5,549,104.23	2,885,744.42	52.0%
Travel	1,106,851.90	1,046,973.15	59,878.75	5.7%
Materials and Supplies	8,809,616.42	2,360,817.60	6,448,798.82	273.2%
Utilities	444,704.30	421,401.02	23,303.28	5.5%
Communications	2,980,373.77	2,716,935.73	263,438.04	9.7%
Repairs and Maintenance	11,568,366.42	810,973.29	10,757,393.13	1,326.5%
Rentals and Leases	613,275.49	568,165.20	45,110.29	7.9%
Printing and Reproduction	153,467.75	237,977.04	(84,509.29)	-35.5%
Claims and Losses	10,262,710.10	12,471,727.48	(2,209,017.38)	-17.7%
Increase in Net OPEB Obligation	392,407,443.33	378,948,178.33	13,459,265.00	3.6%
Scholarships and Fellowships	836,550.00	1,787,750.00	(951,200.00)	-53.2%
Depreciation and Amortization	6,276,793.34	10,356,315.36	(4,079,522.02)	-39.4%
State Sponsored Program Pass-Through to Other State Agencies	1,480,248.88	1,847,939.78	(367,690.90)	-19.9%
Other Operating Expenses	26,337,314.30	8,015,600.59	18,321,713.71	228.6%
Total Operating Expenses	**512,169,502.12**	**463,738,586.37**	**48,430,915.75**	**10.4%**
Operating Loss	**(442,887,994.75)**	**(373,620,839.31)**	**(69,267,155.44)**	**-18.5%**
Other Nonoperating Adjustments				
State Appropriations	1,378,772.30	1,562,268.08	(183,495.78)	-11.7%
Nonexchange Sponsored Programs	17,172,022.21	17,198,333.61	(26,311.40)	-0.2%
Gift Contributions for Operations	887,871.22	848,546.35	39,324.87	4.6%
Net Investment Income	631,215,594.76	596,865,860.58	34,349,734.18	5.8%
Interest Expense on Capital Asset Financings	(51,584,004.02)	(49,998,114.14)	(1,585,889.88)	-3.2%
Net Other Nonoperating Adjustments	**599,070,256.47**	**566,476,894.48**	**32,593,361.99**	**5.8%**
Adjusted Income (Loss) including Depreciation & Amortization	**156,182,261.72**	**192,856,055.17**	**(36,673,793.45)**	**-19.0%**
Adjusted Margin % including Depreciation & Amortization	**21.7%**	**27.3%**		
Available University Fund Transfer	35,520,081.67	32,325,524.17	3,194,557.50	9.9%
Adjusted Income (Loss) with AUF Transfer	**191,702,343.39**	**225,181,579.34**	**(33,479,235.95)**	**-14.9%**
Adjusted Margin % with AUF Transfer	**25.4%**	**30.5%**		
Investment Gain (Losses)	319,414,849.92	1,955,803,552.04	(1,636,388,702.12)	-83.7%
Adj. Inc. (Loss) with AUF Transfer & Invest. Gains (Losses)	**$511,117,193.31**	**$2,180,985,131.38**	**(1,669,867,938.07)**	**-76.6%**
Adj. Margin % with AUF Transfer & Invest. Gains (Losses)	**47.6%**	**80.9%**		
Adjusted Income (Loss) with AUF Transfer excluding Depreciation & Amortization	**197,979,136.73**	**235,537,894.70**	**(37,558,757.97)**	**-15.9%**
Adjusted Margin % with AUF Transfer excluding Depreciation & Amortization	**26.2%**	**31.9%**		

UNAUDITED

The University of Texas at Arlington
Monthly Financial Report, Comparison of Operating Results and Margin
For the Period Ending June 30, 2012

	June Year-to-Date FY 2012	June Year-to-Date FY 2011	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition	152,273,195.71	135,164,708.35	17,108,487.36	12.7%
Sponsored Programs	62,502,051.58	58,954,001.79	3,548,049.79	6.0%
Net Sales and Services of Educational Activities	15,979,471.97	13,901,988.59	2,077,483.38	14.9%
Net Auxiliary Enterprises	24,175,678.90	22,068,193.45	2,107,485.45	9.5%
Other Operating Revenues	4,487,864.96	4,062,291.32	425,573.64	10.5%
Total Operating Revenues	**259,418,263.12**	**234,151,183.50**	**25,267,079.62**	**10.8%**
Operating Expenses				
Salaries and Wages	181,613,618.04	182,332,111.07	(718,493.03)	-0.4%
Payroll Related Costs	44,230,658.28	42,900,742.72	1,329,915.56	3.1%
Cost of Goods Sold	12,815.03	200.48	12,614.55	6,292.2%
Professional Fees and Services	4,248,251.11	3,947,246.25	301,004.86	7.6%
Other Contracted Services	31,338,895.78	23,123,825.40	8,215,070.38	35.5%
Travel	5,693,638.82	5,105,233.20	588,405.62	11.5%
Materials and Supplies	22,047,449.10	19,031,550.61	3,015,898.49	15.8%
Utilities	7,338,171.52	10,029,540.43	(2,691,368.91)	-26.8%
Communications	5,632,788.81	5,643,854.04	(11,065.23)	-0.2%
Repairs and Maintenance	9,392,041.92	7,253,379.86	2,138,662.06	29.5%
Rentals and Leases	3,510,680.95	3,114,276.57	396,404.38	12.7%
Printing and Reproduction	2,131,246.59	2,213,247.18	(82,000.59)	-3.7%
Bad Debt Expense	100,230.50	305,746.19	(205,515.69)	-67.2%
Scholarships and Fellowships	25,357,736.40	15,479,880.03	9,877,856.37	63.8%
Depreciation and Amortization	28,905,868.51	28,787,137.23	118,731.28	0.4%
Federal Sponsored Program Pass-Through to Other State Agencies	1,471,732.28	1,487,648.44	(15,916.16)	-1.1%
State Sponsored Program Pass-Through to Other State Agencies	-	23,164.66	(23,164.66)	-100.0%
Other Operating Expenses	7,569,689.42	6,849,701.95	719,987.47	10.5%
Total Operating Expenses	**380,595,513.06**	**357,628,486.31**	**22,967,026.75**	**6.4%**
Operating Loss	**(121,177,249.94)**	**(123,477,302.81)**	**2,300,052.87**	**1.9%**
Other Nonoperating Adjustments				
State Appropriations	94,599,900.83	86,603,044.17	7,996,856.66	9.2%
Nonexchange Sponsored Programs	35,000,000.00	38,717,906.67	(3,717,906.67)	-9.6%
Gift Contributions for Operations	2,843,611.95	2,356,820.46	486,791.49	20.7%
Net Investment Income	9,426,970.53	10,593,019.66	(1,166,049.13)	-11.0%
Interest Expense on Capital Asset Financings	(9,636,254.80)	(10,076,081.70)	439,826.90	4.4%
Net Other Nonoperating Adjustments	**132,234,228.51**	**128,194,709.26**	**4,039,519.25**	**3.2%**
Adjusted Income (Loss) including Depreciation & Amortization	**11,056,978.57**	**4,717,406.45**	**6,339,572.12**	**134.4%**
Adjusted Margin % including Depreciation & Amortization	**2.8%**	**1.3%**		
Investment Gain (Losses)	(11,578,811.01)	30,542,202.53	(42,121,013.54)	-137.9%
Adj. Inc. (Loss) with Investment Gains (Losses)	**(521,832.44)**	**35,259,608.98**	**(35,781,441.42)**	**-101.5%**
Adj. Margin % with Investment Gains (Losses)	**-0.1%**	**8.8%**		
Adjusted Income (Loss) excluding Depreciation & Amortization	**39,962,847.08**	**33,504,543.68**	**6,458,303.40**	**19.3%**
Adjusted Margin % excluding Depreciation & Amortization	**10.0%**	**9.0%**		

UNAUDITED

The University of Texas at Austin
Monthly Financial Report, Comparison of Operating Results and Margin
For the Period Ending June 30, 2012

	June Year-to-Date FY 2012	June Year-to-Date FY 2011	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition	404,166,666.67	379,166,666.67	25,000,000.00	6.6%
Sponsored Programs	419,025,503.29	456,042,643.10	(37,017,139.81)	-8.1%
Net Sales and Services of Educational Activities	322,274,590.52	314,924,095.64	7,350,494.88	2.3%
Net Auxiliary Enterprises	222,735,479.36	205,965,462.99	16,770,016.37	8.1%
Other Operating Revenues	4,489,642.07	5,348,091.95	(858,449.88)	-16.1%
Total Operating Revenues	**1,372,691,881.91**	**1,361,446,960.35**	**11,244,921.56**	**0.8%**
Operating Expenses				
Salaries and Wages	901,563,243.53	904,497,709.08	(2,934,465.55)	-0.3%
Payroll Related Costs	226,620,441.03	223,494,674.89	3,125,766.14	1.4%
Professional Fees and Services	28,996,181.80	25,481,044.55	3,515,137.25	13.8%
Other Contracted Services	111,916,925.99	110,476,674.83	1,440,251.16	1.3%
Travel	38,300,699.13	36,376,797.86	1,923,901.27	5.3%
Materials and Supplies	112,634,971.62	112,420,786.02	214,185.60	0.2%
Utilities	76,060,113.31	85,135,128.27	(9,075,014.96)	-10.7%
Communications	47,109,685.11	46,970,893.98	138,791.13	0.3%
Repairs and Maintenance	40,533,059.33	44,700,371.52	(4,167,312.19)	-9.3%
Rentals and Leases	14,160,476.80	15,194,184.70	(1,033,707.90)	-6.8%
Printing and Reproduction	8,659,044.13	8,482,341.77	176,702.36	2.1%
Bad Debt Expense	502,734.56	-	502,734.56	100.0%
Claims and Losses	60.00	-	60.00	100.0%
Scholarships and Fellowships	100,083,333.33	97,981,917.62	2,101,415.71	2.1%
Depreciation and Amortization	197,607,915.29	164,762,983.87	32,844,931.42	19.9%
Federal Sponsored Program Pass-Through to Other State Agencies	2,532,109.96	2,383,265.01	148,844.95	6.2%
Other Operating Expenses	74,178,211.00	71,409,442.00	2,768,769.00	3.9%
Total Operating Expenses	**1,981,459,205.92**	**1,949,768,215.97**	**31,690,989.95**	**1.6%**
Operating Loss	**(608,767,324.01)**	**(588,321,255.62)**	**(20,446,068.39)**	**-3.5%**
Other Nonoperating Adjustments				
State Appropriations	245,914,447.83	257,778,060.47	(11,863,612.64)	-4.6%
Nonexchange Sponsored Programs	46,390,141.96	38,905,974.36	7,484,167.60	19.2%
Gift Contributions for Operations	112,848,698.57	91,925,876.88	20,922,821.69	22.8%
Net Investment Income	156,341,744.77	160,148,407.87	(3,806,663.10)	-2.4%
Interest Expense on Capital Asset Financings	(38,820,494.30)	(38,933,742.80)	113,248.50	0.3%
Net Other Nonoperating Adjustments	**522,674,538.83**	**509,824,576.78**	**12,849,962.05**	**2.5%**
Adjusted Income (Loss) including Depreciation & Amortization	**(86,092,785.18)**	**(78,496,678.84)**	**(7,596,106.34)**	**-9.7%**
Adjusted Margin % including Depreciation & Amortization	**-4.5%**	**-4.1%**		
Available University Fund Transfer	149,633,333.33	148,025,000.00	1,608,333.33	1.1%
Adjusted Income (Loss) with AUF Transfer	**63,540,548.15**	**69,528,321.16**	**(5,987,773.01)**	**-8.6%**
Adjusted Margin % with AUF Transfer	**3.0%**	**3.4%**		
Investment Gain (Losses)	(142,799,358.90)	402,137,127.69	(544,936,486.59)	-135.5%
Adj. Inc. (Loss) with AUF Transfer & Invest. Gains (Losses)	**(79,258,810.75)**	**$471,665,448.85**	**(550,924,259.60)**	**-116.8%**
Adj. Margin % with AUF Transfer & Invest. Gains (Losses)	**-4.1%**	**19.2%**		
Adjusted Income (Loss) with AUF Transfer excluding Depreciation & Amortization	**261,148,463.44**	**234,291,305.03**	**26,857,158.41**	**11.5%**
Adjusted Margin % with AUF Transfer excluding Depreciation & Amortization	**12.5%**	**11.4%**		

UNAUDITED

The University of Texas at Brownsville
Monthly Financial Report, Comparison of Operating Results and Margin
For the Period Ending June 30, 2012

	June Year-to-Date FY 2012	June Year-to-Date FY 2011	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition	18,622,944.83	17,401,228.04	1,221,716.79	7.0%
Sponsored Programs	62,183,083.48	69,599,755.45	(7,416,671.97)	-10.7%
Net Sales and Services of Educational Activities	1,870,529.66	1,929,297.95	(58,768.29)	-3.0%
Net Auxiliary Enterprises	1,898,891.22	1,119,452.11	779,439.11	69.6%
Other Operating Revenues	13,769.74	112,809.18	(99,039.44)	-87.8%
Total Operating Revenues	**84,589,218.93**	**90,162,542.73**	**(5,573,323.80)**	**-6.2%**
Operating Expenses				
Salaries and Wages	57,914,003.38	61,288,204.49	(3,374,201.11)	-5.5%
Payroll Related Costs	15,968,460.97	16,714,878.77	(746,417.80)	-4.5%
Professional Fees and Services	427,177.60	474,867.51	(47,689.91)	-10.0%
Other Contracted Services	843,562.92	799,181.88	44,381.04	5.6%
Travel	1,027,154.47	850,280.16	176,874.31	20.8%
Materials and Supplies	2,823,688.14	3,626,826.52	(803,138.38)	-22.1%
Utilities	3,133,952.81	3,238,729.84	(104,777.03)	-3.2%
Communications	907,584.23	1,201,717.94	(294,133.71)	-24.5%
Repairs and Maintenance	2,126,108.36	2,083,592.30	42,516.06	2.0%
Rentals and Leases	1,829,798.18	1,669,923.00	159,875.18	9.6%
Printing and Reproduction	262,455.09	255,798.92	6,656.17	2.6%
Scholarships and Fellowships	47,521,094.00	53,137,207.68	(5,616,113.68)	-10.6%
Depreciation and Amortization	6,540,800.34	4,765,328.26	1,775,472.08	37.3%
Federal Sponsored Program Pass-Through to Other State Agencies	167,656.30	28,275.43	139,380.87	492.9%
Other Operating Expenses	5,301,093.25	5,309,238.62	(8,145.37)	-0.2%
Total Operating Expenses	**146,794,590.04**	**155,444,051.32**	**(8,649,461.28)**	**-5.6%**
Operating Loss	**(62,205,371.11)**	**(65,281,508.59)**	**3,076,137.48**	**4.7%**
Other Nonoperating Adjustments				
State Appropriations	29,640,392.74	31,735,737.27	(2,095,344.53)	-6.6%
Nonexchange Sponsored Programs	35,099,704.06	38,119,048.23	(3,019,344.17)	-7.9%
Gift Contributions for Operations	415,228.78	305,602.90	109,625.88	35.9%
Net Investment Income	1,128,567.12	1,058,171.74	70,395.38	6.7%
Interest Expense on Capital Asset Financings	(2,094,237.00)	(1,722,587.10)	(371,649.90)	-21.6%
Net Other Nonoperating Adjustments	**64,189,655.70**	**69,495,973.04**	**(5,306,317.34)**	**-7.6%**
Adjusted Income (Loss) including Depreciation & Amortization	**1,984,284.59**	**4,214,464.45**	**(2,230,179.86)**	**-52.9%**
Adjusted Margin % including Depreciation & Amortization	**1.3%**	**2.6%**		
Investment Gain (Losses)	(1,134,951.34)	3,252,805.09	(4,387,756.43)	-134.9%
Adj. Inc. (Loss) with Investment Gains (Losses)	**849,333.25**	**7,467,269.54**	**(6,617,936.29)**	**-88.6%**
Adj. Margin % with Investment Gains (Losses)	**0.6%**	**4.5%**		
Adjusted Income (Loss) excluding Depreciation & Amortization	**8,525,084.93**	**8,979,792.71**	**(454,707.78)**	**-5.1%**
Adjusted Margin % excluding Depreciation & Amortization	**5.7%**	**5.6%**		

UNAUDITED

The University of Texas at Dallas
Monthly Financial Report, Comparison of Operating Results and Margin
For the Period Ending June 30, 2012

	June Year-to-Date FY 2012	June Year-to-Date FY 2011	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition	158,645,689.84	146,360,136.19	12,285,553.65	8.4%
Sponsored Programs	46,286,055.35	39,233,603.75	7,052,451.60	18.0%
Net Sales and Services of Educational Activities	6,988,611.68	13,947,902.01	(6,959,290.33)	-49.9%
Net Auxiliary Enterprises	10,622,781.37	6,277,491.41	4,345,289.96	69.2%
Other Operating Revenues	2,743,121.71	1,594,459.97	1,148,661.74	72.0%
Total Operating Revenues	**225,286,259.95**	**207,413,593.33**	**17,872,666.62**	**8.6%**
Operating Expenses				
Salaries and Wages	166,935,922.03	156,202,069.37	10,733,852.66	6.9%
Payroll Related Costs	36,248,035.14	34,488,925.50	1,759,109.64	5.1%
Professional Fees and Services	8,234,826.23	8,018,310.61	216,515.62	2.7%
Other Contracted Services	7,270,285.68	7,768,096.86	(497,811.18)	-6.4%
Travel	4,597,218.26	3,670,303.83	926,914.43	25.3%
Materials and Supplies	17,270,314.00	20,289,179.21	(3,018,865.21)	-14.9%
Utilities	8,186,686.99	7,709,110.04	477,576.95	6.2%
Communications	469,686.89	995,558.49	(525,871.60)	-52.8%
Repairs and Maintenance	3,948,702.09	2,466,907.80	1,481,794.29	60.1%
Rentals and Leases	2,656,073.39	1,948,907.25	707,166.14	36.3%
Printing and Reproduction	1,402,148.34	1,102,574.39	299,573.95	27.2%
Scholarships and Fellowships	31,828,971.94	27,657,222.56	4,171,749.38	15.1%
Depreciation and Amortization	31,394,261.11	26,639,090.57	4,755,170.54	17.9%
Federal Sponsored Program Pass-Through to Other State Agencies	289,239.24	324,378.09	(35,138.85)	-10.8%
Other Operating Expenses	10,795,586.24	9,618,469.85	1,177,116.39	12.2%
Total Operating Expenses	**331,527,957.57**	**308,899,104.42**	**22,628,853.15**	**7.3%**
Operating Loss	**(106,241,697.62)**	**(101,485,511.09)**	**(4,756,186.53)**	**-4.7%**
Other Nonoperating Adjustments				
State Appropriations	83,633,902.64	75,820,306.71	7,813,595.93	10.3%
Nonexchange Sponsored Programs	17,475,708.40	25,469,971.56	(7,994,263.16)	-31.4%
Gift Contributions for Operations	12,182,456.54	10,510,102.13	1,672,354.41	15.9%
Net Investment Income	13,243,008.61	12,401,095.84	841,912.77	6.8%
Interest Expense on Capital Asset Financings	(9,103,034.30)	(8,988,246.60)	(114,787.70)	-1.3%
Net Other Nonoperating Adjustments	**117,432,041.89**	**115,213,229.64**	**2,218,812.25**	**1.9%**
Adjusted Income (Loss) including Depreciation & Amortization	**11,190,344.27**	**13,727,718.55**	**(2,537,374.28)**	**-18.5%**
Adjusted Margin % including Depreciation & Amortization	**3.2%**	**4.1%**		
Investment Gain (Losses)	(15,727,849.62)	41,415,259.50	(57,143,109.12)	-138.0%
Adj. Inc. (Loss) with Investment Gains (Losses)	**(4,537,505.35)**	**55,142,978.05**	**(59,680,483.40)**	**-108.2%**
Adj. Margin % with Investment Gains (Losses)	**-1.4%**	**14.8%**		
Adjusted Income (Loss) excluding Depreciation & Amortization	**42,584,605.38**	**40,366,809.12**	**2,217,796.26**	**5.5%**
Adjusted Margin % excluding Depreciation & Amortization	**12.1%**	**12.2%**		

UNAUDITED

The University of Texas at El Paso
Monthly Financial Report, Comparison of Operating Results and Margin
For the Period Ending June 30, 2012

	June Year-to-Date FY 2012	June Year-to-Date FY 2011	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition	91,484,301.04	86,033,155.17	5,451,145.87	6.3%
Sponsored Programs	60,831,108.15	63,982,021.84	(3,150,913.69)	-4.9%
Net Sales and Services of Educational Activities	4,023,939.95	4,520,640.58	(496,700.63)	-11.0%
Net Auxiliary Enterprises	21,661,907.09	23,223,417.09	(1,561,510.00)	-6.7%
Other Operating Revenues	100,856.37	194,220.27	(93,363.90)	-48.1%
Total Operating Revenues	**178,102,112.60**	**177,953,454.95**	**148,657.65**	**0.1%**
Operating Expenses				
Salaries and Wages	131,797,268.68	131,825,482.66	(28,213.98)	-
Payroll Related Costs	33,005,615.92	33,011,837.32	(6,221.40)	-
Professional Fees and Services	1,221,873.89	963,361.18	258,512.71	26.8%
Other Contracted Services	15,854,861.87	14,523,554.95	1,331,306.92	9.2%
Travel	6,286,176.27	5,754,459.89	531,716.38	9.2%
Materials and Supplies	19,711,816.04	19,229,906.36	481,909.68	2.5%
Utilities	5,699,618.98	5,296,059.27	403,559.71	7.6%
Communications	477,747.36	536,910.93	(59,163.57)	-11.0%
Repairs and Maintenance	2,956,644.23	3,595,231.90	(638,587.67)	-17.8%
Rentals and Leases	2,752,045.30	3,181,532.04	(429,486.74)	-13.5%
Printing and Reproduction	748,107.83	722,311.89	25,795.94	3.6%
Scholarships and Fellowships	64,507,433.02	69,915,119.34	(5,407,686.32)	-7.7%
Depreciation and Amortization	20,549,503.45	15,608,476.84	4,941,026.61	31.7%
Federal Sponsored Program Pass-Through to Other State Agencies	1,217,515.00	1,047,275.52	170,239.48	16.3%
Other Operating Expenses	4,867,615.57	5,710,303.47	(842,687.90)	-14.8%
Total Operating Expenses	**311,653,843.41**	**310,921,823.56**	**732,019.85**	**0.2%**
Operating Loss	**(133,551,730.81)**	**(132,968,368.61)**	**(583,362.20)**	**-0.4%**
Other Nonoperating Adjustments				
State Appropriations	74,357,078.00	75,572,997.33	(1,215,919.33)	-1.6%
Nonexchange Sponsored Programs	49,527,719.01	55,634,345.60	(6,106,626.59)	-11.0%
Gift Contributions for Operations	11,478,392.18	6,702,694.78	4,775,697.40	71.3%
Net Investment Income	9,964,361.73	9,708,502.41	255,859.32	2.6%
Interest Expense on Capital Asset Financings	(6,232,630.50)	(5,817,663.50)	(414,967.00)	-7.1%
Net Other Nonoperating Adjustments	**139,094,920.42**	**141,800,876.62**	**(2,705,956.20)**	**-1.9%**
Adjusted Income (Loss) including Depreciation & Amortization	**5,543,189.61**	**8,832,508.01**	**(3,289,318.40)**	**-37.2%**
Adjusted Margin % including Depreciation & Amortization	**1.7%**	**2.7%**		
Investment Gain (Losses)	(11,466,270.72)	30,445,479.59	(41,911,750.31)	-137.7%
Adj. Inc. (Loss) with Investment Gains (Losses)	**(5,923,081.11)**	**39,277,987.60**	**(45,201,068.71)**	**-115.1%**
Adj. Margin % with Investment Gains (Losses)	**-1.9%**	**11.0%**		
Adjusted Income (Loss) excluding Depreciation & Amortization	**26,092,693.06**	**24,440,984.85**	**1,651,708.21**	**6.8%**
Adjusted Margin % excluding Depreciation & Amortization	**8.1%**	**7.5%**		

UNAUDITED

The University of Texas - Pan American
Monthly Financial Report, Comparison of Operating Results and Margin
For the Period Ending June 30, 2012

	June Year-to-Date FY 2012	June Year-to-Date FY 2011	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition	49,621,039.37	49,576,666.67	44,372.70	0.1%
Sponsored Programs	42,295,606.62	56,651,269.53	(14,355,662.91)	-25.3%
Net Sales and Services of Educational Activities	4,697,365.09	4,831,555.79	(134,190.70)	-2.8%
Net Auxiliary Enterprises	6,115,595.33	6,212,610.52	(97,015.19)	-1.6%
Other Operating Revenues	1,348,734.20	1,811,800.75	(463,066.55)	-25.6%
Total Operating Revenues	**104,078,340.61**	**119,083,903.26**	**(15,005,562.65)**	**-12.6%**
Operating Expenses				
Salaries and Wages	88,784,445.53	93,117,467.98	(4,333,022.45)	-4.7%
Payroll Related Costs	24,197,981.47	24,759,794.11	(561,812.64)	-2.3%
Cost of Goods Sold	490,582.35	404,257.44	86,324.91	21.4%
Professional Fees and Services	1,166,330.97	1,109,786.24	56,544.73	5.1%
Other Contracted Services	3,484,719.96	6,400,123.15	(2,915,403.19)	-45.6%
Travel	3,373,000.95	3,735,183.88	(362,182.93)	-9.7%
Materials and Supplies	10,083,471.13	8,955,132.59	1,128,338.54	12.6%
Utilities	3,816,904.36	4,731,363.98	(914,459.62)	-19.3%
Communications	856,189.68	412,707.56	443,482.12	107.5%
Repairs and Maintenance	2,311,473.50	2,763,559.20	(452,085.70)	-16.4%
Rentals and Leases	809,234.71	877,728.39	(68,493.68)	-7.8%
Printing and Reproduction	202,369.74	217,176.65	(14,806.91)	-6.8%
Bad Debt Expense	85,388.95	153,382.68	(67,993.73)	-44.3%
Scholarships and Fellowships	47,187,722.54	62,752,058.82	(15,564,336.28)	-24.8%
Depreciation and Amortization	11,790,321.77	11,841,638.67	(51,316.90)	-0.4%
Federal Sponsored Program Pass-Through to Other State Agencies	236,880.64	240,538.78	(3,658.14)	-1.5%
Other Operating Expenses	2,591,529.41	3,301,284.88	(709,755.47)	-21.5%
Total Operating Expenses	**201,468,547.66**	**225,773,185.00**	**(24,304,637.34)**	**-10.8%**
Operating Loss	**(97,390,207.05)**	**(106,689,281.74)**	**9,299,074.69**	**8.7%**
Other Nonoperating Adjustments				
State Appropriations	58,500,275.89	60,266,305.67	(1,766,029.78)	-2.9%
Nonexchange Sponsored Programs	47,583,706.12	52,274,916.00	(4,691,209.88)	-9.0%
Gift Contributions for Operations	2,842,267.74	1,951,211.85	891,055.89	45.7%
Net Investment Income	3,396,221.82	3,070,649.24	325,572.58	10.6%
Interest Expense on Capital Asset Financings	(3,150,757.30)	(3,324,501.90)	173,744.60	5.2%
Net Other Nonoperating Adjustments	**109,171,714.27**	**114,238,580.86**	**(5,066,866.59)**	**-4.4%**
Adjusted Income (Loss) including Depreciation & Amortization	**11,781,507.22**	**7,549,299.12**	**4,232,208.10**	**56.1%**
Adjusted Margin % including Depreciation & Amortization	**5.4%**	**3.2%**		
Investment Gain (Losses)	(1,853,651.95)	6,005,209.12	(7,858,861.07)	-130.9%
Adj. Inc. (Loss) with Investment Gains (Losses)	**9,927,855.27**	**13,554,508.24**	**(3,626,652.97)**	**-26.8%**
Adj. Margin % with Investment Gains (Losses)	**4.6%**	**5.6%**		
Adjusted Income (Loss) excluding Depreciation & Amortization	**23,571,828.99**	**19,390,937.79**	**4,180,891.20**	**21.6%**
Adjusted Margin % excluding Depreciation & Amortization	**10.9%**	**8.2%**		

UNAUDITED

The University of Texas of the Permian Basin
Monthly Financial Report, Comparison of Operating Results and Margin
For the Period Ending June 30, 2012

	June Year-to-Date FY 2012	June Year-to-Date FY 2011	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition	14,782,379.30	12,683,226.78	2,099,152.52	16.6%
Sponsored Programs	1,409,429.55	3,322,160.62	(1,912,731.07)	-57.6%
Net Sales and Services of Educational Activities	80,963.87	304,304.13	(223,340.26)	-73.4%
Net Auxiliary Enterprises	4,026,810.96	2,781,486.38	1,245,324.58	44.8%
Other Operating Revenues	1,050,689.47	1,004,609.78	46,079.69	4.6%
Total Operating Revenues	**21,350,273.15**	**20,095,787.69**	**1,254,485.46**	**6.2%**
Operating Expenses				
Salaries and Wages	15,684,413.48	18,735,469.33	(3,051,055.85)	-16.3%
Payroll Related Costs	4,569,978.70	4,674,818.66	(104,839.96)	-2.2%
Professional Fees and Services	1,181,742.65	2,620,234.40	(1,438,491.75)	-54.9%
Other Contracted Services	2,630,642.53	320.00	2,630,322.53	821,975.8%
Travel	958,488.32	707,323.28	251,165.04	35.5%
Materials and Supplies	1,981,806.89	2,852,893.69	(871,086.80)	-30.5%
Utilities	2,010,620.22	2,083,180.64	(72,560.42)	-3.5%
Communications	505,532.21	522,193.27	(16,661.06)	-3.2%
Repairs and Maintenance	681,735.91	897,383.15	(215,647.24)	-24.0%
Rentals and Leases	224,781.84	388,252.42	(163,470.58)	-42.1%
Printing and Reproduction	43,981.57	152,074.81	(108,093.24)	-71.1%
Bad Debt Expense	45,753.27	-	45,753.27	100.0%
Scholarships and Fellowships	520,292.38	6,843,438.17	(6,323,145.79)	-92.4%
Depreciation and Amortization	8,958,333.33	4,671,927.23	4,286,406.10	91.7%
Other Operating Expenses	881,525.03	553,584.45	327,940.58	59.2%
Total Operating Expenses	**40,879,628.33**	**45,703,093.50**	**(4,823,465.17)**	**-10.6%**
Operating Loss	**(19,529,355.18)**	**(25,607,305.81)**	**6,077,950.63**	**23.7%**
Other Nonoperating Adjustments				
State Appropriations	25,340,145.83	21,550,860.83	3,789,285.00	17.6%
Nonexchange Sponsored Programs	3,685,937.99	4,697,517.55	(1,011,579.56)	-21.5%
Gift Contributions for Operations	1,039,651.52	1,358,130.37	(318,478.85)	-23.4%
Net Investment Income	1,182,872.27	1,900,907.88	(718,035.61)	-37.8%
Interest Expense on Capital Asset Financings	(4,410,684.50)	(3,008,808.00)	(1,401,876.50)	-46.6%
Net Other Nonoperating Adjustments	**26,837,923.11**	**26,498,608.63**	**339,314.48**	**1.3%**
Adjusted Income (Loss) including Depreciation & Amortization	**7,308,567.93**	**891,302.82**	**6,417,265.11**	**720.0%**
Adjusted Margin % including Depreciation & Amortization	**13.9%**	**1.8%**		
Investment Gain (Losses)	(1,934,593.04)	4,107,282.85	(6,041,875.89)	-147.1%
Adj. Inc. (Loss) with Investment Gains (Losses)	**5,373,974.89**	**4,998,585.67**	**375,389.22**	**7.5%**
Adj. Margin % with Investment Gains (Losses)	**10.6%**	**9.3%**		
Adjusted Income (Loss) excluding Depreciation & Amortization	**16,266,901.26**	**5,563,230.05**	**10,703,671.21**	**192.4%**
Adjusted Margin % excluding Depreciation & Amortization	**30.9%**	**11.2%**		

UNAUDITED

The University of Texas at San Antonio
Monthly Financial Report, Comparison of Operating Results and Margin
For the Period Ending June 30, 2012

	June Year-to-Date FY 2012	June Year-to-Date FY 2011	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition	167,130,077.42	153,109,272.12	14,020,805.30	9.2%
Sponsored Programs	61,797,309.46	63,698,884.58	(1,901,575.12)	-3.0%
Net Sales and Services of Educational Activities	8,285,638.63	8,704,962.65	(419,324.02)	-4.8%
Net Auxiliary Enterprises	25,966,954.71	22,014,185.71	3,952,769.00	18.0%
Other Operating Revenues	2,218,229.72	1,911,969.52	306,260.20	16.0%
Total Operating Revenues	**265,398,209.94**	**249,439,274.58**	**15,958,935.36**	**6.4%**
Operating Expenses				
Salaries and Wages	180,248,415.71	179,637,942.22	610,473.49	0.3%
Payroll Related Costs	44,731,127.01	45,387,352.67	(656,225.66)	-1.4%
Cost of Goods Sold	666,666.67	725,524.78	(58,858.11)	-8.1%
Professional Fees and Services	4,693,506.27	3,530,737.59	1,162,768.68	32.9%
Other Contracted Services	11,914,808.50	9,293,208.76	2,621,599.74	28.2%
Travel	8,280,701.07	7,447,297.60	833,403.47	11.2%
Materials and Supplies	25,374,297.89	22,172,300.71	3,201,997.18	14.4%
Utilities	9,667,896.67	9,396,145.83	271,750.84	2.9%
Communications	2,708,676.50	2,524,300.52	184,375.98	7.3%
Repairs and Maintenance	6,590,783.43	7,552,327.00	(961,543.57)	-12.7%
Rentals and Leases	3,801,086.51	3,215,304.07	585,782.44	18.2%
Printing and Reproduction	1,103,829.74	947,197.78	156,631.96	16.5%
Bad Debt Expense	507,809.06	386,540.13	121,268.93	31.4%
Scholarships and Fellowships	44,185,653.84	40,642,922.30	3,542,731.54	8.7%
Depreciation and Amortization	33,971,918.54	32,568,030.56	1,403,887.98	4.3%
Federal Sponsored Program Pass-Through to Other State Agencies	2,519,508.53	2,745,043.99	(225,535.46)	-8.2%
Other Operating Expenses	10,724,434.07	11,550,492.58	(826,058.51)	-7.2%
Total Operating Expenses	**391,691,120.01**	**379,722,669.09**	**11,968,450.92**	**3.2%**
Operating Loss	**(126,292,910.07)**	**(130,283,394.51)**	**3,990,484.44**	**3.1%**
Other Nonoperating Adjustments				
State Appropriations	93,357,507.01	92,619,069.43	738,437.58	0.8%
Nonexchange Sponsored Programs	43,103,503.13	48,719,444.56	(5,615,941.43)	-11.5%
Gift Contributions for Operations	6,132,232.36	5,145,615.23	986,617.13	19.2%
Net Investment Income	9,826,642.17	9,092,745.48	733,896.69	8.1%
Interest Expense on Capital Asset Financings	(12,808,783.20)	(13,317,077.40)	508,294.20	3.8%
Net Other Nonoperating Adjustments	**139,611,101.47**	**142,259,797.30**	**(2,648,695.83)**	**-1.9%**
Adjusted Income (Loss) including Depreciation & Amortization	**13,318,191.40**	**11,976,402.79**	**1,341,788.61**	**11.2%**
Adjusted Margin % including Depreciation & Amortization	**3.2%**	**3.0%**		
Investment Gain (Losses)	(8,441,527.68)	25,628,759.40	(34,070,287.08)	-132.9%
Adj. Inc. (Loss) with Investment Gains (Losses)	**4,876,663.72**	**37,605,162.19**	**(32,728,498.47)**	**-87.0%**
Adj. Margin % with Investment Gains (Losses)	**1.2%**	**8.7%**		
Adjusted Income (Loss) excluding Depreciation & Amortization	**47,290,109.94**	**44,544,433.35**	**2,745,676.59**	**6.2%**
Adjusted Margin % excluding Depreciation & Amortization	**11.3%**	**11.0%**		

UNAUDITED

The University of Texas at Tyler
Monthly Financial Report, Comparison of Operating Results and Margin
For the Period Ending June 30, 2012

	June Year-to-Date FY 2012	June Year-to-Date FY 2011	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition	23,166,673.33	21,500,000.00	1,666,673.33	7.8%
Sponsored Programs	10,089,121.90	9,812,597.62	276,524.28	2.8%
Net Sales and Services of Educational Activities	2,657,729.57	2,172,182.35	485,547.22	22.4%
Net Auxiliary Enterprises	3,908,167.13	3,800,086.18	108,080.95	2.8%
Other Operating Revenues	175,818.20	126,541.87	49,276.33	38.9%
Total Operating Revenues	**39,997,510.13**	**37,411,408.02**	**2,586,102.11**	**6.9%**
Operating Expenses				
Salaries and Wages	36,931,840.14	32,392,629.66	4,539,210.48	14.0%
Payroll Related Costs	9,702,916.06	8,881,230.32	821,685.74	9.3%
Cost of Goods Sold	22,722.32	22,241.21	481.11	2.2%
Professional Fees and Services	962,992.08	1,414,117.55	(451,125.47)	-31.9%
Other Contracted Services	4,050,924.21	3,570,267.27	480,656.94	13.5%
Travel	1,593,834.83	1,253,264.37	340,570.46	27.2%
Materials and Supplies	3,330,556.45	3,552,757.47	(222,201.02)	-6.3%
Utilities	1,291,341.80	1,611,326.58	(319,984.78)	-19.9%
Communications	847,334.88	907,372.68	(60,037.80)	-6.6%
Repairs and Maintenance	1,477,631.52	2,005,680.75	(528,049.23)	-26.3%
Rentals and Leases	280,402.70	235,000.63	45,402.07	19.3%
Printing and Reproduction	595,076.63	520,945.16	74,131.47	14.2%
Scholarships and Fellowships	4,425,036.58	5,583,333.33	(1,158,296.75)	-20.7%
Depreciation and Amortization	9,357,241.65	9,069,496.04	287,745.61	3.2%
Federal Sponsored Program Pass-Through to Other State Agencies	-	25,435.52	(25,435.52)	-100.0%
Other Operating Expenses	2,055,094.84	1,877,364.77	177,730.07	9.5%
Total Operating Expenses	**76,924,946.69**	**72,922,463.31**	**4,002,483.38**	**5.5%**
Operating Loss	**(36,927,436.56)**	**(35,511,055.29)**	**(1,416,381.27)**	**-4.0%**
Other Nonoperating Adjustments				
State Appropriations	26,729,212.96	26,846,559.09	(117,346.13)	-0.4%
Nonexchange Sponsored Programs	8,614,035.65	8,646,183.89	(32,148.24)	-0.4%
Gift Contributions for Operations	802,668.93	984,131.19	(181,462.26)	-18.4%
Net Investment Income	3,776,565.65	3,803,870.57	(27,304.92)	-0.7%
Interest Expense on Capital Asset Financings	(3,272,484.00)	(3,391,314.00)	118,830.00	3.5%
Net Other Nonoperating Adjustments	**36,649,999.19**	**36,889,430.74**	**(239,431.55)**	**-0.6%**
Adjusted Income (Loss) including Depreciation & Amortization	**(277,437.37)**	**1,378,375.45**	**(1,655,812.82)**	**-120.1%**
Adjusted Margin % including Depreciation & Amortization	**-0.3%**	**1.8%**		
Investment Gain (Losses)	(5,068,147.57)	12,415,898.73	(17,484,046.30)	-140.8%
Adj. Inc. (Loss) with Investment Gains (Losses)	**(5,345,584.94)**	**13,794,274.18**	**(19,139,859.12)**	**-138.8%**
Adj. Margin % with Investment Gains (Losses)	**-7.1%**	**15.3%**		
Adjusted Income (Loss) excluding Depreciation & Amortization	**9,079,804.28**	**10,447,871.49**	**(1,368,067.21)**	**-13.1%**
Adjusted Margin % excluding Depreciation & Amortization	**11.4%**	**13.4%**		

UNAUDITED

The University of Texas Southwestern Medical Center
Monthly Financial Report, Comparison of Operating Results and Margin
For the Period Ending June 30, 2012

	June Year-to-Date FY 2012	June Year-to-Date FY 2011	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition	15,068,746.89	13,768,386.94	1,300,359.95	9.4%
Sponsored Programs	389,453,369.13	396,830,238.12	(7,376,868.99)	-1.9%
Net Sales and Services of Educational Activities	10,314,110.50	19,005,131.11	(8,691,020.61)	-45.7%
Net Sales and Services of Hospitals	551,262,108.00	438,267,309.32	112,994,798.68	25.8%
Net Professional Fees	332,136,367.58	344,868,412.35	(12,732,044.77)	-3.7%
Net Auxiliary Enterprises	14,797,865.90	14,474,473.95	323,391.95	2.2%
Other Operating Revenues	14,268,508.47	5,433,407.86	8,835,100.61	162.6%
Total Operating Revenues	**1,327,301,076.47**	**1,232,647,359.65**	**94,653,716.82**	**7.7%**
Operating Expenses				
Salaries and Wages	798,974,578.33	744,404,260.04	54,570,318.29	7.3%
Payroll Related Costs	167,398,810.63	168,357,681.74	(958,871.11)	-0.6%
Cost of Goods Sold	1,579,352.62	1,756,516.88	(177,164.26)	-10.1%
Professional Fees and Services	29,989,155.75	25,238,844.62	4,750,311.13	18.8%
Other Contracted Services	77,448,119.29	63,840,491.43	13,607,627.86	21.3%
Travel	7,931,663.68	7,942,427.04	(10,763.36)	-0.1%
Materials and Supplies	205,480,717.84	180,865,816.69	24,614,901.15	13.6%
Utilities	25,286,160.42	27,972,379.08	(2,686,218.66)	-9.6%
Communications	3,669,896.54	6,738,655.00	(3,068,758.46)	-45.5%
Repairs and Maintenance	9,415,391.49	13,758,448.21	(4,343,056.72)	-31.6%
Rentals and Leases	4,939,589.80	3,735,582.99	1,204,006.81	32.2%
Printing and Reproduction	391,651.60	2,512,054.68	(2,120,403.08)	-84.4%
Scholarships and Fellowships	602,678.33	734,991.56	(132,313.23)	-18.0%
Depreciation and Amortization	86,125,414.60	74,474,199.58	11,651,215.02	15.6%
Federal Sponsored Program Pass-Through to Other State Agencies	1,111,332.75	1,504,744.23	(393,411.48)	-26.1%
Other Operating Expenses	26,219,980.87	45,214,895.71	(18,994,914.84)	-42.0%
Total Operating Expenses	**1,446,564,494.54**	**1,369,051,989.48**	**77,512,505.06**	**5.7%**
Operating Loss	**(119,263,418.07)**	**(136,404,629.83)**	**17,141,211.76**	**12.6%**
Other Nonoperating Adjustments				
State Appropriations	131,106,998.58	139,921,748.49	(8,814,749.91)	-6.3%
Nonexchange Sponsored Programs	34,305.00	3,383,600.33	(3,349,295.33)	-99.0%
Gift Contributions for Operations	15,518,301.78	24,968,657.47	(9,450,355.69)	-37.8%
Net Investment Income	65,903,437.54	67,561,931.35	(1,658,493.81)	-2.5%
Interest Expense on Capital Asset Financings	(24,427,813.00)	(25,290,522.10)	862,709.10	3.4%
Net Other Nonoperating Adjustments	**188,135,229.90**	**210,545,415.54**	**(22,410,185.64)**	**-10.6%**
Adjusted Income (Loss) including Depreciation & Amortization	**68,871,811.83**	**74,140,785.71**	**(5,268,973.88)**	**-7.1%**
Adjusted Margin % including Depreciation & Amortization	**4.5%**	**5.0%**		
Investment Gain (Losses)	(59,406,498.15)	179,808,097.95	(239,214,596.10)	-133.0%
Adj. Inc. (Loss) with Investment Gains (Losses)	**9,465,313.68**	**253,948,883.66**	**(244,483,569.98)**	**-96.3%**
Adj. Margin % with Investment Gains (Losses)	**0.6%**	**15.4%**		
Adjusted Income (Loss) excluding Depreciation & Amortization	**154,997,226.43**	**148,614,985.29**	**6,382,241.14**	**4.3%**
Adjusted Margin % excluding Depreciation & Amortization	**10.1%**	**10.1%**		

UNAUDITED

The University of Texas Medical Branch at Galveston
Monthly Financial Report, Comparison of Operating Results and Margin
For the Period Ending June 30, 2012

	June Year-to-Date FY 2012	June Year-to-Date FY 2011	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition	26,149,314.23	23,269,505.54	2,879,808.69	12.4%
Sponsored Programs	186,162,927.40	226,387,554.24	(40,224,626.84)	-17.8%
Net Sales and Services of Educational Activities	12,606,712.65	14,389,625.99	(1,782,913.34)	-12.4%
Net Sales and Services of Hospitals	623,065,091.05	607,738,937.43	15,326,153.62	2.5%
Net Professional Fees	112,128,831.24	108,622,551.87	3,506,279.37	3.2%
Net Auxiliary Enterprises	5,485,760.99	5,133,574.18	352,186.81	6.9%
Other Operating Revenues	10,515,268.91	(5,727,498.05)	16,242,766.96	283.6%
Total Operating Revenues	**976,113,906.47**	**979,814,251.20**	**(3,700,344.73)**	**-0.4%**
Operating Expenses				
Salaries and Wages	654,714,033.04	659,504,062.05	(4,790,029.01)	-0.7%
Payroll Related Costs	168,602,934.98	169,221,735.55	(618,800.57)	-0.4%
Cost of Goods Sold	53,335,438.71	53,921,306.44	(585,867.73)	-1.1%
Professional Fees and Services	30,560,506.61	37,450,440.68	(6,889,934.07)	-18.4%
Other Contracted Services	65,475,201.98	65,902,145.49	(426,943.51)	-0.6%
Travel	5,427,932.29	5,675,938.80	(248,006.51)	-4.4%
Materials and Supplies	102,490,683.14	101,292,087.91	1,198,595.23	1.2%
Utilities	26,720,696.28	25,622,035.67	1,098,660.61	4.3%
Communications	10,864,369.62	11,717,068.40	(852,698.78)	-7.3%
Repairs and Maintenance	30,093,519.03	34,409,559.33	(4,316,040.30)	-12.5%
Rentals and Leases	19,577,615.60	18,551,595.28	1,026,020.32	5.5%
Printing and Reproduction	1,192,997.22	1,293,597.51	(100,600.29)	-7.8%
Bad Debt Expense	-	240.00	(240.00)	-100.0%
Scholarships and Fellowships	7,155,528.71	6,083,124.66	1,072,404.05	17.6%
Depreciation and Amortization	70,316,514.59	66,408,288.90	3,908,225.69	5.9%
Federal Sponsored Program Pass-Through to Other State Agencies	2,471,070.39	3,886,303.66	(1,415,233.27)	-36.4%
Other Operating Expenses	28,574,135.61	40,186,886.52	(11,612,750.91)	-28.9%
Total Operating Expenses	**1,277,573,177.80**	**1,301,126,416.85**	**(23,553,239.05)**	**-1.8%**
Operating Loss	**(301,459,271.33)**	**(321,312,165.65)**	**19,852,894.32**	**6.2%**
Other Nonoperating Adjustments				
State Appropriations	263,527,589.56	276,801,365.78	(13,273,776.22)	-4.8%
Nonexchange Sponsored Programs	399,096.25	713,359.00	(314,262.75)	-44.1%
Gift Contributions for Operations	7,688,394.98	8,441,415.57	(753,020.59)	-8.9%
Net Investment Income	26,538,945.54	26,117,530.13	421,415.41	1.6%
Interest Expense on Capital Asset Financings	(6,492,320.02)	(6,852,645.27)	360,325.25	5.3%
Net Other Nonoperating Adjustments	**291,661,706.31**	**305,221,025.21**	**(13,559,318.90)**	**-4.4%**
Adjusted Income (Loss) including Depreciation & Amortization	**(9,797,565.02)**	**(16,091,140.44)**	**6,293,575.42**	**39.1%**
Adjusted Margin % including Depreciation & Amortization	**-0.8%**	**-1.2%**		
Investment Gain (Losses)	(22,621,539.40)	71,563,431.77	(94,184,971.17)	-131.6%
Adj. Inc. (Loss) with Investment Gains (Losses)	**(32,419,104.42)**	**55,472,291.33**	**(87,891,395.75)**	**-158.4%**
Adj. Margin % with Investment Gains (Losses)	**-2.6%**	**4.1%**		
Adjusted Income (Loss) excluding Depreciation & Amortization	**60,518,949.57**	**50,317,148.46**	**10,201,801.11**	**20.3%**
Adjusted Margin % excluding Depreciation & Amortization	**4.7%**	**3.9%**		

UNAUDITED

The University of Texas Health Science Center at Houston
Monthly Financial Report, Comparison of Operating Results and Margin
For the Period Ending June 30, 2012

	June Year-to-Date FY 2012	June Year-to-Date FY 2011	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition	32,121,314.96	28,270,340.81	3,850,974.15	13.6%
Sponsored Programs	380,871,200.31	385,740,312.12	(4,869,111.81)	-1.3%
Net Sales and Services of Educational Activities	21,569,468.58	39,922,324.29	(18,352,855.71)	-46.0%
Net Sales and Services of Hospitals	56,271,493.76	30,758,405.19	25,513,088.57	82.9%
Net Professional Fees	133,368,160.83	122,667,289.19	10,700,871.64	8.7%
Net Auxiliary Enterprises	18,866,946.54	19,052,646.51	(185,699.97)	-1.0%
Other Operating Revenues	13,489,851.75	8,739,674.55	4,750,177.20	54.4%
Total Operating Revenues	**656,558,436.73**	**635,150,992.66**	**21,407,444.07**	**3.4%**
Operating Expenses				
Salaries and Wages	458,963,844.05	436,601,220.44	22,362,623.61	5.1%
Payroll Related Costs	100,987,160.47	98,719,594.57	2,267,565.90	2.3%
Cost of Goods Sold	19,748,307.71	17,018,220.13	2,730,087.58	16.0%
Professional Fees and Services	36,596,610.81	42,016,567.58	(5,419,956.77)	-12.9%
Other Contracted Services	38,900,415.51	38,107,708.60	792,706.91	2.1%
Travel	6,319,111.41	6,394,611.56	(75,500.15)	-1.2%
Materials and Supplies	42,238,420.89	39,194,465.39	3,043,955.50	7.8%
Utilities	14,955,052.73	14,062,932.49	892,120.24	6.3%
Communications	3,323,850.78	3,183,557.23	140,293.55	4.4%
Repairs and Maintenance	6,036,606.86	6,949,856.15	(913,249.29)	-13.1%
Rentals and Leases	16,118,722.82	17,018,830.90	(900,108.08)	-5.3%
Printing and Reproduction	3,812,304.64	6,123,988.43	(2,311,683.79)	-37.7%
Bad Debt Expense	3,506.66	-	3,506.66	100.0%
Scholarships and Fellowships	3,737,423.48	3,644,615.30	92,808.18	2.5%
Depreciation and Amortization	43,098,167.77	40,777,879.56	2,320,288.21	5.7%
Federal Sponsored Program Pass-Through to Other State Agencies	6,292,117.50	7,063,625.16	(771,507.66)	-10.9%
Other Operating Expenses	24,764,177.23	26,927,305.58	(2,163,128.35)	-8.0%
Total Operating Expenses	**825,895,801.32**	**803,804,979.07**	**22,090,822.25**	**2.7%**
Operating Loss	**(169,337,364.59)**	**(168,653,986.41)**	**(683,378.18)**	**-0.4%**
Other Nonoperating Adjustments				
State Appropriations	145,471,224.19	132,358,413.81	13,112,810.38	9.9%
Nonexchange Sponsored Programs	747,236.38	8,311,412.32	(7,564,175.94)	-91.0%
Gift Contributions for Operations	15,852,042.09	13,378,407.44	2,473,634.65	18.5%
Net Investment Income	22,582,180.81	25,985,130.61	(3,402,949.80)	-13.1%
Interest Expense on Capital Asset Financings	(8,746,756.00)	(9,141,906.60)	395,150.60	4.3%
Net Other Nonoperating Adjustments	**175,905,927.47**	**170,891,457.58**	**5,014,469.89**	**2.9%**
Adjusted Income (Loss) including Depreciation & Amortization	**6,568,562.88**	**2,237,471.17**	**4,331,091.71**	**193.6%**
Adjusted Margin % including Depreciation & Amortization	**0.8%**	**0.3%**		
Investment Gain (Losses)	(17,214,844.55)	56,680,037.03	(73,894,881.58)	-130.4%
Adj. Inc. (Loss) with Investment Gains (Losses)	**(10,646,281.67)**	**58,917,508.20**	**(69,563,789.87)**	**-118.1%**
Adj. Margin % with Investment Gains (Losses)	**-1.3%**	**6.8%**		
Adjusted Income (Loss) excluding Depreciation & Amortization	**49,666,730.65**	**43,015,350.73**	**6,651,379.92**	**15.5%**
Adjusted Margin % excluding Depreciation & Amortization	**5.9%**	**5.3%**		

UNAUDITED

The University of Texas Health Science Center at San Antonio
Monthly Financial Report, Comparison of Operating Results and Margin
For the Period Ending June 30, 2012

	June Year-to-Date FY 2012	June Year-to-Date FY 2011	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition	27,454,590.00	24,611,865.00	2,842,725.00	11.6%
Sponsored Programs	241,984,424.27	236,264,773.82	5,719,650.45	2.4%
Net Sales and Services of Educational Activities	16,382,374.30	30,187,962.39	(13,805,588.09)	-45.7%
Net Professional Fees	126,459,675.24	117,721,307.49	8,738,367.75	7.4%
Net Auxiliary Enterprises	5,484,450.77	4,779,071.41	705,379.36	14.8%
Other Operating Revenues	8,728,359.21	8,903,024.96	(174,665.75)	-2.0%
Total Operating Revenues	**426,493,873.79**	**422,468,005.07**	**4,025,868.72**	**1.0%**
Operating Expenses				
Salaries and Wages	325,339,229.27	322,589,746.02	2,749,483.25	0.9%
Payroll Related Costs	87,034,524.25	88,222,045.55	(1,187,521.30)	-1.3%
Professional Fees and Services	13,820,504.57	11,195,708.52	2,624,796.05	23.4%
Other Contracted Services	15,200,082.23	20,927,847.07	(5,727,764.84)	-27.4%
Travel	4,676,235.61	4,600,471.50	75,764.11	1.6%
Materials and Supplies	36,293,809.02	36,986,298.26	(692,489.24)	-1.9%
Utilities	15,862,606.67	13,582,340.00	2,280,266.67	16.8%
Communications	10,040,948.45	10,070,510.52	(29,562.07)	-0.3%
Repairs and Maintenance	3,692,324.43	3,388,740.78	303,583.65	9.0%
Rentals and Leases	4,679,765.32	5,203,004.12	(523,238.80)	-10.1%
Printing and Reproduction	1,763,742.72	1,565,642.16	198,100.56	12.7%
Scholarships and Fellowships	4,980,107.79	4,319,290.16	660,817.63	15.3%
Depreciation and Amortization	38,333,333.33	30,250,000.00	8,083,333.33	26.7%
Federal Sponsored Program Pass-Through to Other State Agencies	1,458,333.33	1,250,000.00	208,333.33	16.7%
Other Operating Expenses	30,269,380.37	35,584,746.01	(5,315,365.64)	-14.9%
Total Operating Expenses	**593,444,927.36**	**589,736,390.67**	**3,708,536.69**	**0.6%**
Operating Loss	**(166,951,053.57)**	**(167,268,385.60)**	**317,332.03**	**0.2%**
Other Nonoperating Adjustments				
State Appropriations	134,426,660.00	145,962,865.18	(11,536,205.18)	-7.9%
Nonexchange Sponsored Programs	1,250,000.00	833,333.33	416,666.67	50.0%
Gift Contributions for Operations	10,162,062.97	10,435,772.92	(273,709.95)	-2.6%
Net Investment Income	26,709,458.81	25,291,605.29	1,417,853.52	5.6%
Interest Expense on Capital Asset Financings	(8,636,015.40)	(8,123,359.80)	(512,655.60)	-6.3%
Net Other Nonoperating Adjustments	**163,912,166.38**	**174,400,216.92**	**(10,488,050.54)**	**-6.0%**
Adjusted Income (Loss) including Depreciation & Amortization	**(3,038,887.19)**	**7,131,831.32**	**(10,170,718.51)**	**-142.6%**
Adjusted Margin % including Depreciation & Amortization	**-0.5%**	**1.2%**		
Investment Gain (Losses)	(24,677,707.86)	72,420,168.36	(97,097,876.22)	-134.1%
Adj. Inc. (Loss) with Investment Gains (Losses)	**(27,716,595.05)**	**79,551,999.68**	**(107,268,594.73)**	**-134.8%**
Adj. Margin % with Investment Gains (Losses)	**-4.8%**	**11.7%**		
Adjusted Income (Loss) excluding Depreciation & Amortization	**35,294,446.14**	**37,381,831.32**	**(2,087,385.18)**	**-5.6%**
Adjusted Margin % excluding Depreciation & Amortization	**5.9%**	**6.2%**		

UNAUDITED

The University of Texas M. D. Anderson Cancer Center
Monthly Financial Report, Comparison of Operating Results and Margin
For the Period Ending June 30, 2012

	June Year-to-Date FY 2012	June Year-to-Date FY 2011	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition	1,280,378.44	1,093,048.63	187,329.81	17.1%
Sponsored Programs	285,948,886.83	288,155,128.40	(2,206,241.57)	-0.8%
Net Sales and Services of Educational Activities	1,817,012.95	1,449,184.05	367,828.90	25.4%
Net Sales and Services of Hospitals	2,149,755,180.50	1,879,179,923.83	270,575,256.67	14.4%
Net Professional Fees	297,036,357.10	279,206,216.65	17,830,140.45	6.4%
Net Auxiliary Enterprises	30,449,084.65	27,602,732.72	2,846,351.93	10.3%
Other Operating Revenues	49,950,630.48	46,119,287.09	3,831,343.39	8.3%
Total Operating Revenues	**2,816,237,530.95**	**2,522,805,521.37**	**293,432,009.58**	**11.6%**
Operating Expenses				
Salaries and Wages	1,266,238,427.94	1,178,122,671.09	88,115,756.85	7.5%
Payroll Related Costs	349,209,814.17	329,036,178.31	20,173,635.86	6.1%
Cost of Goods Sold	4,091,337.44	3,763,455.69	327,881.75	8.7%
Professional Fees and Services	115,525,693.56	106,356,609.28	9,169,084.28	8.6%
Other Contracted Services	59,816,495.02	50,409,725.86	9,406,769.16	18.7%
Travel	12,135,839.20	12,900,016.61	(764,177.41)	-5.9%
Materials and Supplies	534,152,618.54	474,929,156.47	59,223,462.07	12.5%
Utilities	45,165,854.17	40,002,881.00	5,162,973.17	12.9%
Communications	8,256,755.53	7,294,818.02	961,937.51	13.2%
Repairs and Maintenance	66,851,465.58	62,895,854.40	3,955,611.18	6.3%
Rentals and Leases	35,740,686.31	39,722,168.62	(3,981,482.31)	-10.0%
Printing and Reproduction	2,538,935.84	-	2,538,935.84	100.0%
Scholarships and Fellowships	3,179,904.24	1,553,236.59	1,626,667.65	104.7%
Depreciation and Amortization	218,575,680.94	191,881,706.70	26,693,974.24	13.9%
Federal Sponsored Program Pass-Through to Other State Agencies	1,630,210.09	1,284,630.14	345,579.95	26.9%
Other Operating Expenses	23,444,457.88	22,999,592.62	444,865.26	1.9%
Total Operating Expenses	**2,746,554,176.45**	**2,523,152,701.40**	**223,401,475.05**	**8.9%**
Operating Loss	**69,683,354.50**	**(347,180.03)**	**70,030,534.53**	**20,171.2%**
Other Nonoperating Adjustments				
State Appropriations	134,156,351.00	133,072,438.08	1,083,912.92	0.8%
Nonexchange Sponsored Programs	993,706.24	1,558,636.59	(564,930.35)	-36.2%
Gift Contributions for Operations	69,370,778.92	79,887,867.59	(10,517,088.67)	-13.2%
Net Investment Income	48,618,853.72	52,100,996.07	(3,482,142.35)	-6.7%
Interest Expense on Capital Asset Financings	(33,308,068.60)	(34,343,481.90)	1,035,413.30	3.0%
Net Other Nonoperating Adjustments	**219,831,621.28**	**232,276,456.43**	**(12,444,835.15)**	**-5.4%**
Adjusted Income (Loss) including Depreciation & Amortization	**289,514,975.78**	**231,929,276.40**	**57,585,699.38**	**24.8%**
Adjusted Margin % including Depreciation & Amortization	**9.4%**	**8.3%**		
Investment Gain (Losses)	(56,035,350.60)	234,957,511.49	(290,992,862.09)	-123.8%
Adj. Inc. (Loss) with Investment Gains (Losses)	**233,479,625.18**	**466,886,787.89**	**(233,407,162.71)**	**-50.0%**
Adj. Margin % with Investment Gains (Losses)	**7.7%**	**15.4%**		
Adjusted Income (Loss) excluding Depreciation & Amortization	**508,090,656.72**	**423,810,983.10**	**84,279,673.62**	**19.9%**
Adjusted Margin % excluding Depreciation & Amortization	**16.6%**	**15.2%**		

UNAUDITED

The University of Texas Health Science Center at Tyler
Monthly Financial Report, Comparison of Operating Results and Margin
For the Period Ending June 30, 2012

	June Year-to-Date FY 2012	June Year-to-Date FY 2011	Variance	Fluctuation Percentage
Operating Revenues				
Sponsored Programs	10,911,678.76	12,288,405.00	(1,376,726.24)	-11.2%
Net Sales and Services of Educational Activities	1,300,347.98	1,008,838.34	291,509.64	28.9%
Net Sales and Services of Hospitals	37,568,004.07	41,459,705.09	(3,891,701.02)	-9.4%
Net Professional Fees	9,542,121.29	9,312,968.68	229,152.61	2.5%
Net Auxiliary Enterprises	125,240.38	187,370.94	(62,130.56)	-33.2%
Other Operating Revenues	997,917.10	434,543.07	563,374.03	129.6%
Total Operating Revenues	**60,445,309.58**	**64,691,831.12**	**(4,246,521.54)**	**-6.6%**
Operating Expenses				
Salaries and Wages	46,616,341.39	45,179,455.62	1,436,885.77	3.2%
Payroll Related Costs	13,642,980.81	13,456,090.67	186,890.14	1.4%
Cost of Goods Sold	56,042.82	29,679.98	26,362.84	88.8%
Professional Fees and Services	5,787,723.72	5,821,110.42	(33,386.70)	-0.6%
Other Contracted Services	4,817,457.67	6,128,650.57	(1,311,192.90)	-21.4%
Travel	492,543.75	450,022.48	42,521.27	9.4%
Materials and Supplies	11,294,964.40	10,628,623.61	666,340.79	6.3%
Utilities	2,096,171.51	2,894,127.00	(797,955.49)	-27.6%
Communications	653,034.77	808,278.18	(155,243.41)	-19.2%
Repairs and Maintenance	2,052,755.09	2,162,056.14	(109,301.05)	-5.1%
Rentals and Leases	820,847.32	782,629.71	38,217.61	4.9%
Printing and Reproduction	454,737.39	324,954.16	129,783.23	39.9%
Scholarships and Fellowships	14,989.50	19,496.70	(4,507.20)	-23.1%
Depreciation and Amortization	7,322,422.76	5,695,859.27	1,626,563.49	28.6%
Federal Sponsored Program Pass-Through to Other State Agencies	375,174.52	129,172.90	246,001.62	190.4%
Other Operating Expenses	1,645,701.86	1,536,441.42	109,260.44	7.1%
Total Operating Expenses	**98,143,889.28**	**96,046,648.83**	**2,097,240.45**	**2.2%**
Operating Loss	**(37,698,579.70)**	**(31,354,817.71)**	**(6,343,761.99)**	**-20.2%**
Other Nonoperating Adjustments				
State Appropriations	38,272,518.22	30,626,197.03	7,646,321.19	25.0%
Gift Contributions for Operations	644,416.79	203,978.93	440,437.86	215.9%
Net Investment Income	3,435,672.72	3,408,017.21	27,655.51	0.8%
Interest Expense on Capital Asset Financings	(1,196,420.10)	(882,654.00)	(313,766.10)	-35.5%
Net Other Nonoperating Adjustments	**41,156,187.63**	**33,355,539.17**	**7,800,648.46**	**23.4%**
Adjusted Income (Loss) including Depreciation & Amortization	**3,457,607.93**	**2,000,721.46**	**1,456,886.47**	**72.8%**
Adjusted Margin % including Depreciation & Amortization	**3.4%**	**2.0%**		
Investment Gain (Losses)	(2,318,380.81)	7,314,517.66	(9,632,898.47)	-131.7%
Adj. Inc. (Loss) with Investment Gains (Losses)	**1,139,227.12**	**9,315,239.12**	**(8,176,012.00)**	**-87.8%**
Adj. Margin % with Investment Gains (Losses)	**1.1%**	**8.8%**		
Adjusted Income (Loss) excluding Depreciation & Amortization	**10,780,030.69**	**7,696,580.73**	**3,083,449.96**	**40.1%**
Adjusted Margin % excluding Depreciation & Amortization	**10.5%**	**7.8%**		

3. U. T. System Board of Regents: Approval of an Incentive Plan for the U. T. System Presidents and U. T. System Administration Executive Officers

RECOMMENDATION

The Chancellor and the Executive Vice Chancellor for Business Affairs will recommend approval of an Incentive Plan for the U. T. System Presidents and U. T. System Administration Executive Officers.

INCENTIVE PLAN

For

The University of Texas System
Presidents and System Administration Executive Officers

Effective September 1, 2012

TABLE OF CONTENTS

Incentive Plan for The University of Texas System Presidents and U. T. System Administration Executive Officers

1. BACKGROUND

The University of Texas System “Framework for Advancing Excellence” identified use of incentive-based compensation strategies as a focus area. In support of that objective, the President/Executive Officer Incentive Plan (“Incentive Plan”) is designed to gradually increase the percent of pay that is based on pre-determined performance goals.

Effective Date: September 1, 2012

2. INCENTIVE PLAN OBJECTIVES

The Incentive Plan serves a number of objectives, including:

- supporting the “Framework for Advancing Excellence” by setting performance objectives aligned to attainment in focus areas,
- enhancing The University of Texas System’s ability to provide competitive pay levels to attract the highest quality Presidents and System Administration Executive Officers, and
- retaining high performing Presidents and System Administration Executive Officers through a combination of short-term and long-term incentives.

3. INCENTIVE PLAN DESIGN

The Incentive Plan is designed to provide a significant percentage of the direct compensation paid to the Presidents and System Administration Executive Officers of The University of Texas System.

3.1 Eligibility

(a) University of Texas presidents and The University of Texas System Administration Executive Officers will be “Participants” in the Incentive Plan for a performance period if (and only if) he or she is both: (i) employed by The University of Texas System in an employment position that is designated as an “Eligible Position” and (ii) selected by the Board of Regents as eligible to participate in the Incentive Plan. Generally, employees who are newly hired or promoted into an Eligible Position on or before March 1 of a given year may participate in the short-term performance period on a pro-rated basis. Participation in the long-term performance period will begin with the next academic year.

The Board of Regents, in its discretion, may designate the employment position of a newly hired or promoted employee as eligible to participate in the full Incentive Plan for any performance period (or remainder of a performance period).

A list of Eligible Positions is set forth in Attachment A.

(b) An employee will cease to be a Participant in the Incentive Plan on the earliest to occur of: (i) the date such employee is no longer employed in an Eligible Position; (ii) the date of termination of the Performance Incentive Plan; (iii) the date such employee commences a leave of absence; (iv) the date the Board of Regents designates that such employee's employment position is not an Eligible Position; or (v) any date designated by the Board of Regents as the date on which such employee is no longer a Participant.

(c) Except as provided in Section 3.8, only individuals who are Participants on the last day of a performance period are eligible to receive an Incentive Award under the Incentive Plan for that performance period.

3.2 Performance Goals

(a) Performance goals will be established annually with final approval by Board of Regents or their designee. Each Participant may have both University of Texas System-wide goals and specific University or functional area goals. Where practical, performance goals will be tied to the "Framework for Advancing Excellence." Performance Goals will be realistic, but aggressive.

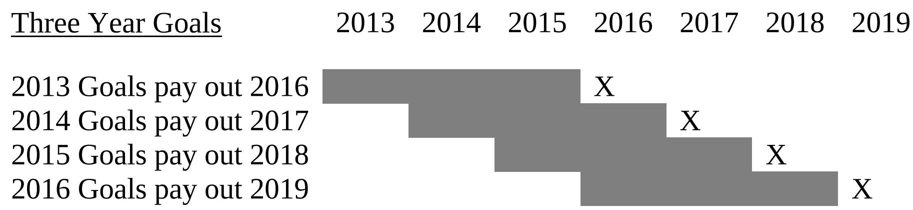
(b) Performance goals are established each year within 60 days of the beginning of the fiscal year. Performance goals for newly eligible Participants will be established within 90 days of hire or promotion.

(c) Performance Goals will include short-term (one year) and long-term (three year) goals.

(d) A weighting for each performance goal will be determined when goals are established and approved by the Board of Regents or its designee.

3.3 Performance Period

The Performance period for short-term goals is one fiscal year. The performance period for long-term goals is three fiscal years. Long-term (three year) goals are created on an overlapping cycle to provide (after the first three-year cycle) a long-term incentive opportunity each year.



3.4 Assessment Levels

(a) All performance goals, whether quantitative or qualitative will be readily measurable, utilizing evaluative tools deemed appropriate by the Board of Regents or their designee, including statistics from The Office of Strategic Initiatives, national benchmarks, or other independently verified measures.

(b) Following the end of each performance period, the Board of Regents will review the actual performance of each Participant against the performance goals for the respective Participant and determine the Participant's level of achievement of his/her performance goals. The Board of Regents will seek, and may rely on, the independent confirmation of the level of performance goal achievement from external sources.

3.5 Award Opportunity Levels

(a) The University of Texas System will continue to target total direct compensation for key executives as per Regents' Rule 20203, which is defined as base salary, deferred compensation, and short and long-term incentive pay. Adjustments to base salary will gradually reduce and be replaced with incentive award opportunities becoming a larger portion of total direct compensation.

(b) The incentive award opportunity level is the targeted percentage of a Participant's base salary that is subject to incentive awards.

The Board of Regents will review and may adjust a Participant's award opportunity level annually when approving performance goals.

3.6 Award Multipliers

(a) Award opportunity levels will be adjusted to reflect the Participant's success in attaining performance goals. Attainment of the "target" goal will earn 100% of the weighted award. Lower "threshold" goals will be set, allowing the Participant to earn 50% of the weighted award. Maximum award opportunity goals will be set, allowing the Participant to earn 150% of the weighted award. Payments will not be interpolated, but will be paid at the threshold, target, or maximum rates.

(b) Each performance goal is calculated independently and paid out based on attainment and pre-determined weight.

3.7 Gate Keeper

The Board of Regents may annually approve a financial or other appropriate threshold that must be achieved for incentive payments to be made. If that threshold is not met, no incentive awards will be paid regardless of individual performance on goals.

3.8 Payment of Incentive Award Upon Termination of Employment

(a) Except as otherwise provided in this Section 3.8, any Participant who ceases to be a Participant either because of termination of employment with The University of Texas System or U. T. System institution, or for any other reason stated in Section 3.8 (c) prior to the end of a performance period will not be eligible to receive payment of any incentive award for that or any subsequent performance periods.

(b) If a Participant ceases to be a Participant in the Incentive Plan prior to the end of the performance period because he or she commences an approved leave of absence, such Participant's incentive award for the current performance period, if any, will be calculated on a prorated basis from the first day of the performance period to the date coinciding with the date the Participant commences such leave of absence, and such individual will not be entitled to any incentive awards for any performance period thereafter (unless he or she again becomes a Participant in accordance with Section 3.1).

(c) The chart below provides for the treatment of the incentive award upon termination of Participant's employment.

Termination Scenario	Forfeit	Prorated	Discretion of BOR
Death		X	
Disability		X	
Retirement			X
Quit	X		
Termination			X

3.9 Payment of Awards

(a) Incentive awards will be paid annually at the end of the performance cycle, following preliminary audit results and Board of Regents' approval. Payment must be made no later than two and a half months after the calendar year in which the incentive award was earned to comply with current Internal Revenue Service regulations.

(b) Mid-cycle payouts on short-term and long-term goals will not be made.

(c) Incentive Awards will be calculated for each Participant based on the level achieved on each performance goal (as determined in Section 3.4), taking into account the weightings for each goal.

(d) Incentive award payments will be made in one lump sum and may be deferred, subject to IRS limitations.

(e) Calculation of the prorated incentive award will be based on the Participant's attainment of performance goals (threshold, target, or maximum) and the length of time a Participant was eligible to receive an incentive award during the performance period.

3.10 Recovery of Performance Award

(a) Notwithstanding anything in this Plan to the contrary, if the Board of Regents or their designee (in its sole discretion, but acting in good faith) determines that a Participant has engaged in fraudulent and/or willful misconduct that materially disrupts, damages, impairs, or interferes with the business, reputation, or employee relations of The University of Texas System, such Participant will not be entitled to any incentive awards for the performance periods during which the Board of Regents determines such misconduct occurred, whether in current or past performance periods.

(b) To the extent a Participant has been awarded any incentive awards to which he or she is not entitled as a result of this Section 3.10, the incentive award will be recovered by The University of Texas System pursuant to the following remedies in the order listed: (i) any current performance period incentive awards will be forfeited, (ii) any deferred compensation will be forfeited in the amount of the forfeited incentive award, and (iii) such Participant must return to The University of Texas System any remaining excess amount. Recovery of incentive awards to which a Participant is not entitled pursuant to this Section 3.10, does not constitute a settlement of other claims that The University of Texas System may have against such Participant including claims resulting from the conduct giving rise to such recovery. Rather, the remedies set forth above are in addition to and not in lieu of, any actions imposed by law enforcement agency regulators or other authorities and any civil remedies available to The University of Texas System.

4. INCENTIVE PLAN AUTHORITY AND RESPONSIBILITY

4.1 Board of Regents as Plan Administrator

Except as otherwise specifically provided in this Incentive Plan, the Incentive Plan will be administered by the Board of Regents or their designee.

4.2 Powers of Board of Regents

The Board of Regents has all powers specifically vested herein and all powers necessary or advisable to administer the Incentive Plan as it determines in its discretion, including without limitation the authority to:

1. establish the conditions for the determination and payment of compensation by establishing the provisions of the Incentive Plan,
2. select the employees who are eligible to be Participants in the Incentive Plan, and
3. delegate to any other person, committee, or entity any of its ministerial powers and/or duties under the Incentive Plan as long as any such delegation is in writing and complies with The University of Texas System Regents' *Rules and Regulations*.

5. INCENTIVE PLAN INTERPRETATION

5.1. Board of Regents' Discretion

Consistent with the provisions of the Incentive Plan, the Board of Regents has the discretion to interpret the Incentive Plan and may from time to time adopt such rules and regulations that it may deem advisable to carry out the Incentive Plan. All decisions made by the Board of Regents in selecting the Participants approved to receive incentive awards, including the amount thereof, and in construing the provisions of the Incentive Plan, including without limitation the terms of any incentive awards, are final.

5.2. Duration, Amendment, and Termination

The Board of Regents has the right in its discretion to amend the Incentive Plan or any portion thereof from time to time, to suspend it for a specified period, or to terminate it entirely or any portion thereof. However, if the Incentive Plan is suspended or terminated during a performance period, Participants will receive a prorated incentive award based on performance achieved through the performance measurement date immediately preceding such suspension or termination. The Incentive Plan will be in effect until suspension or termination by the Board of Regents.

5.3. Records and Reporting

All records for the Incentive Plan will be maintained by the Office of Business Affairs of The University of Texas System. Relative performance data and calculations will be reviewed by The University of Texas System external auditor before Incentive Awards are finalized and approved by the Board of Regents.

5.4. Continued Employment

Nothing in the adoption of the Incentive Plan or the awarding of incentive awards will confer on any employee the right to continued employment with The University of Texas System or affect in any way the right of The University of Texas System to terminate his or her employment at any time.

5.*5. Non-transferability of Awards*

Except for the rights of the estate or designated beneficiaries of Participants to receive payments, as set forth herein, incentive awards under the Incentive Plan are non-assignable and nontransferable and are not subject to anticipation, adjustment, alienation, encumbrance, garnishment, attachment, or levy of any kind. The preceding notwithstanding, the Incentive Plan will pay any portion of an incentive award that is or becomes vested in accordance with an order that meets the requirements of a “qualified domestic relations order” as set forth in Section 414(p) of the *Internal Revenue Code.*

5.6. Unfunded Liability

(a) Neither the establishment of the Incentive Plan nor the award of any incentive awards will be deemed to create a trust. The Incentive Plan will constitute an unfunded, unsecured liability of The University of Texas System to make payments in accordance with the provisions of the Incentive Plan. Any amounts set aside by The University of Texas System to assist it in the payment of incentive awards or other benefits under the Incentive Plan will be the assets of The University of Texas System, and no Participant will have any security or other interest in any assets of The University of Texas System or Board of Regents by reason of the Incentive Plan.

(b) Nothing contained in the Incentive Plan will be deemed to give any Participant, or any personal representative or beneficiary, any interest or title to any specific property of The University of Texas System or any right against The University of Texas System.

5.7. Compliance with State and Federal Law

No portion of the Incentive Plan will be effective at any time when such portion violates an applicable state or federal law, regulation, or governmental order or directive.

5.8. Federal, State, and Local Tax and Other Deductions

All Incentive Awards will be subject to any deductions (1) for tax and withholding required by federal, state, or local law at the time such tax and withholding is due (irrespective of whether such incentive award is deferred and not payable at such time) and (2) for any and all amounts owed by the Participant to The University of Texas System at the time of payment of the incentive award. The University of Texas System will not be obligated to advise an employee of the existence of the tax or the amount that The University of Texas System will be required to withhold.

ATTACHMENT A
LIST OF ELIGIBLE POSITIONS

President, The University of Texas at Arlington
President, The University of Texas at Austin
President, The University of Texas at Brownsville
President, The University of Texas at Dallas
President, The University of Texas at El Paso
President, The University of Texas-Pan American
President, The University of Texas of the Permian Basin
President, The University of Texas at San Antonio
President, The University of Texas at Tyler
President, The University of Texas Health Science Center at Houston
President, The University of Texas Health Science Center at San Antonio
President, The University of Texas Health Science Center at Tyler
President, The University of Texas M. D. Anderson Cancer Center
President, The University of Texas Medical Branch at Galveston
President, The University of Texas Southwestern Medical Center
Executive Vice Chancellor for Academic Affairs
Executive Vice Chancellor for Business Affairs
Executive Vice Chancellor for Health Affairs
Vice Chancellor for Health Affairs
Vice Chancellor for External Relations
Vice Chancellor for Strategic Initiatives
Vice Chancellor and General Counsel
Vice Chancellor and Chief Governmental Relations Officer
Vice Chancellor for Federal Relations

Possibly Eligible Positions at the Discretion of the Board of Regents
Chancellor
General Counsel to the Board of Regents

Attachment B

UNIVERSITY OF TEXAS – PRESIDENT/EXECUTIVE OFFICER INCENTIVE PLAN
SAMPLE GOALS (Not Interpolated)

Base salary $350,000
Incentive Award Opportunity 10.0%

		PERFORMANCE STANDARDS			PAYOUT CALCULATION		
Performance Goals	**Relative weighting**	**Threshold**	**Target**	**Maximum**	**Actual Performance**	**% Earned**	**Calculated Award**
Percent of Target Earned		**50%**	**100%**	**150%**			
Short Term							
System-wide Cost Savings from Shared Services Initiatives	25	$200M	$300M	$400M	$450M	150%	$13,125
Growth in Sponsored Research from Prior Year	20	5%	10%	15%	13%	100%	$7,000
Philanthropic Funding as a % of Institutional Expenditures	20	3.3%	3.5%	3.6%	3.4%	50%	$3,500
						Total Short-Term Payout	**$23, 625**
Long Term							
4-Year Graduation Rates	35	60%	64%	66%	65%	100%	$12,250
						Total Long-Term Payout (Set Aside but Not Paid Until Year 3)	**$12,250**

4. U. T. System Board of Regents: Adoption of a Resolution authorizing the issuance, sale, and delivery of Permanent University Fund Bonds and authorization to complete all related transactions

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. System Board of Regents

a. adopt a Resolution, substantially in the form previously approved by the U. T. System Board of Regents, authorizing the issuance, sale, and delivery of Board of Regents of The University of Texas System Permanent University Fund (PUF) Bonds in one or more installments in an aggregate principal amount not to exceed $500 million to be used to refund certain outstanding PUF Bonds, to refund PUF Flexible Rate Notes, Series A, to refund PUF Commercial Paper Notes, to provide new money to fund construction and acquisition costs, and to pay the costs of issuance; and

b. authorize appropriate officers and employees of U. T. System as set forth in the Resolution to take any and all actions necessary to carry out the intentions of the U. T. System Board of Regents within the limitations and procedures specified therein; to make certain covenants and agreements in connection therewith; and to resolve other matters incident and related to the issuance, sale, security, and delivery of such bonds.

BACKGROUND INFORMATION

On August 25, 2011, the Board of Regents adopted a resolution authorizing the issuance of PUF Bonds in an amount not to exceed $500 million. Adoption of this Resolution would rescind the resolution approved by the Board of Regents in August 2011, and would provide a similar authorized amount and purposes as the prior resolution.

Adoption of the Resolution would authorize the advance or current refunding of a portion of certain outstanding PUF Bonds provided that an advance refunding exceeds a minimum 3% present value debt service savings threshold. An advance refunding involves issuing bonds to refund outstanding bonds more than 90 days in advance of the call date, whereas a current refunding involves issuing bonds to refund outstanding bonds within 90 days of the call date. Refunding bonds are issued at lower interest rates thereby producing debt service savings. Adoption of this Resolution would provide the flexibility to select the particular bonds to be refunded depending on market conditions at the time of pricing.

The Resolution would also authorize the current refunding of all or a portion of the PUF Commercial Paper Notes. The PUF Commercial Paper Note program is used to provide interim financing for PUF projects approved by the Board. Adoption of the Resolution would permit the interim financing provided through the Notes to be replaced with long-term financing. The Resolution also authorizes the issuance of bonds to provide new money to fund the capital costs of eligible projects.

The Resolution would also authorize the appropriate officers and employees of the U. T. System to refund outstanding PUF Bonds pursuant to a tender program and to use lawfully available funds to defease outstanding PUF Bonds when economically advantageous.

The proposed Resolution has been reviewed by outside bond counsel and the U. T. System Office of General Counsel.

<u>Note</u>: The proposed Resolution is available online at
http://www.utsystem.edu/board-of-regents/meetings/board-meeting-2012-08-22

5. U. T. System Board of Regents: Adoption of a Supplemental Resolution authorizing the issuance, sale, and delivery of Revenue Financing System Bonds and authorization to complete all related transactions

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. System Board of Regents

a. adopt a Supplemental Resolution, substantially in the form previously approved by the U. T. System Board of Regents, authorizing the issuance, sale, and delivery of Board of Regents of The University of Texas System Revenue Financing System (RFS) Bonds in one or more installments in an aggregate principal amount not to exceed $500 million to be used to refund certain outstanding RFS Bonds, to refund RFS Commercial Paper Notes, to provide new money to fund construction and acquisition costs of projects in the Capital Improvement Program, and to pay the costs of issuance; and

b. authorize appropriate officers and employees of U. T. System as set forth in the Supplemental Resolution to take any and all actions necessary to carry out the intentions of the U. T. System Board of Regents within the limitations and procedures specified therein; to make certain covenants and agreements in connection therewith; and to resolve other matters incident and related to the issuance, sale, security, and delivery of such RFS Bonds.

BACKGROUND INFORMATION

On August 25, 2011, the Board of Regents adopted a resolution authorizing the issuance of additional RFS Bonds in an amount not to exceed $500 million. A portion of this authority was utilized with the issuance of $195.85 million in RFS Refunding Bonds, Series 2012A, issued on March 1, 2012, and $238.1 million of RFS Bonds, Series 2012B, issued on March 21, 2012.

Adoption of this Supplemental Resolution would rescind the remaining issuance authority under the prior resolution, and provide a similar authorized amount and purposes as the prior resolution.

Adoption of the Supplemental Resolution would authorize the advance or current refunding of a portion of certain outstanding RFS Bonds provided that an advance refunding exceeds a minimum 3% present value debt service savings threshold. An advance refunding involves issuing bonds to refund outstanding bonds more than 90 days in advance of the call date whereas a current refunding involves issuing bonds to refund outstanding bonds within 90 days of the call date. Refunding bonds are issued at lower interest rates thereby producing debt service savings. Adoption of this Supplemental Resolution will provide the flexibility to select the particular bonds to be refunded depending on market conditions at the time of pricing.

The Supplemental Resolution would also authorize the current refunding of all or a portion of the RFS Commercial Paper Notes. The RFS Commercial Paper Note program is used to provide interim financing for RFS projects approved by the Board. Adoption of the Supplemental

Resolution will permit the interim financing provided through the Notes to be replaced with long-term financing. The Supplemental Resolution also authorizes the issuance of bonds to provide new money to fund the capital costs of eligible projects.

The Supplemental Resolution also authorizes the appropriate officers and employees of the U. T. System to refund outstanding RFS Bonds pursuant to a tender program and to use lawfully available funds to defease outstanding RFS Bonds when economically advantageous.

The proposed Supplemental Resolution has been reviewed by outside bond counsel and the U. T. System Office of General Counsel.

Note: The proposed Resolution is available online at http://www.utsystem.edu/board-of-regents/meetings/board-meeting-2012-08-22

6. **<u>U. T. System Board of Regents: Adoption of resolutions authorizing certain bond enhancement agreements for Revenue Financing System debt and Permanent University Fund debt, including ratification of U. T. System Interest Rate Swap Policy</u>**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. System Board of Regents adopt resolutions substantially in the form set out on the following pages (the Resolutions) authorizing appropriate officers of the U. T. System to enter into bond enhancement agreements related to its Revenue Financing System (RFS) and Permanent University Fund (PUF) debt programs in accordance with the U. T. System Interest Rate Swap Policy and to take any and all actions necessary to carry out the intentions of the U. T. System Board of Regents.

The Resolution authorizing the execution and delivery of bond enhancement agreements relating to Permanent University Fund debt is on Pages 122 - 133. The Resolution authorizing the execution and delivery of bond enhancement agreements relation to Revenue Financing System debt is located on Pages 134 - 144.

BACKGROUND INFORMATION

Texas Education Code Section 65.461 provides specific authority to the U. T. System Board of Regents to enter into "bond enhancement agreements," which include interest rate swaps and related agreements in connection with administration of the U. T. System's RFS and PUF debt programs.

The U. T. System Interest Rate Swap Policy was approved by the Board of Regents as a Regental Policy on February 13, 2003, and was incorporated into the Regents' *Rules and Regulations*, Rule 70202, on December 10, 2004. The Rule was subsequently amended on August 23, 2007. Section 1371.056(l) of the *Texas Government Code* requires that while an interest rate management agreement transaction is outstanding, the governing body of the issuer shall review and ratify or modify its related risk management policy at least biennially.

On August 25, 2011, the Board approved bond enhancement agreement resolutions for FY 2012. Approval of this item would authorize the execution of bond enhancement agreement transactions related to RFS and PUF debt in accordance with the U. T. System Interest Rate Swap Policy for FY 2013 and will ratify the existing U. T. System Interest Rate Swap Policy, set out as Exhibit B, as required by *Texas Government Code* Section 1371.056. The determination to utilize bond enhancement agreements will be made based on market conditions at the time of pricing the related debt issuance. The Chancellor and the Chairman of the Board's Finance and Planning Committee will be informed in advance of any proposed transactions to be undertaken pursuant to the resolutions.

A RESOLUTION AUTHORIZING THE EXECUTION AND DELIVERY OF BOND ENHANCEMENT AGREEMENTS RELATING TO PERMANENT UNIVERSITY FUND DEBT AND AUTHORIZING AND APPROVING OTHER INSTRUMENTS AND PROCEDURES RELATING TO SAID AGREEMENTS

August 23, 2012

WHEREAS, the Board of Regents (the "Board") of The University of Texas System (the "System") is the governing body of the System, an institution of higher education under the Texas Education Code and an agency of the State of Texas (the "State"); and

WHEREAS, the Permanent University Fund is a constitutional fund and public endowment created in the Texas Constitution of 1876, as created, established, implemented and administered pursuant to Sections 10, 11, 11a, 11b, 15, and 18 of Article VII of the Constitution of the State, as amended, and by other applicable present and future constitutional and statutory provisions, and further implemented by the provisions of Chapter 66, *Texas Education Code*, as amended (the "Permanent University Fund"); and

WHEREAS, the Available University Fund is defined by the Constitution of the State and consists of distributions made to it from the total return on all investment assets of the Permanent University Fund, including the net income attributable to the surface of Permanent University Fund land, as determined by the Board pursuant to Section 18 of Article VII of the Constitution of the State, as amended (the "Available University Fund"); and

WHEREAS, Section 18 of Article VII of the Constitution of the State, as may hereafter be amended (the "Constitutional Provision"), authorizes the Board to issue bonds and notes ("PUF Debt") not to exceed a total amount of 20% of the cost value of investments and other assets of the Permanent University Fund, exclusive of real estate, at the time of issuance thereof and to pledge all or any part of its two-thirds interest in the Available University Fund (the "Interest of the System") to secure the payment of the principal of and interest on PUF Debt, for the purpose of acquiring land, constructing and equipping buildings or other permanent improvements, major repair and rehabilitation of buildings and other permanent improvements, acquiring capital equipment and library books and library materials, and refunding bonds or notes issued under the Constitutional Provision or prior law, at or for the System administration and institutions of the System as listed in the Constitutional Provision; and

WHEREAS, the Constitutional Provision also provides that out of the Interest of the System in the Available University Fund there shall be appropriated an annual sum sufficient to pay the principal and interest due on PUF Debt, and the remainder of the Interest of the System in the Available University Fund (the "Residual AUF") shall be appropriated for the support and maintenance of The University of Texas at Austin and the System Administration; and

WHEREAS, unless otherwise defined herein, terms used herein shall have the meaning as set forth in Exhibit A hereto; and

WHEREAS, the Board has previously entered into certain Executed Master Agreements (as defined herein) with certain counterparties setting forth the terms and conditions applicable to each Confirmation (as defined herein) to be executed thereunder; and

WHEREAS, the Board hereby desires to ratify the U.T. System's Interest Rate Swap Policy, a copy of which is attached hereto as Exhibit B, and to severally authorize each Authorized Representative (as defined in the System's Interest Rate Swap Policy) to enter into Bond Enhancement Agreements (as defined herein) from time to time, all as provided in this Resolution.

NOW THEREFORE BE IT RESOLVED, that

SECTION 1. DEFINITIONS. Capitalized terms used in this Resolution and not otherwise defined shall have the meanings given in Exhibit A attached hereto and made a part hereof.

SECTION 2. AUTHORIZATION OF BOND ENHANCEMENT AGREEMENTS.

(a) Delegation. Each Authorized Representative is hereby severally authorized to act on behalf of the Board in accepting and executing new or amended confirmations under one or more of the Master Agreements (each, a "Confirmation" and, collectively with the applicable Master Agreement, a "Bond Enhancement Agreement") when, in his or her judgment, the execution of such Confirmation is consistent with this Resolution and the System's Interest Rate Swap Policy and either (i) the transaction is expected to reduce the net interest to be paid by the Board with respect to any then outstanding PUF Debt or PUF Debt anticipated to be issued in the future over the term of the Bond Enhancement Agreement or (ii) the transaction is in the best interests of the Board given the market conditions at that time. Prior to entering into any such transaction, an Authorized Representative must deliver to the General Counsel of the Board a certificate setting forth the determinations of the Authorized Representative in connection with the foregoing. Each Authorized Representative is also severally authorized to execute any required novation agreement related to the execution and delivery of a new or amended Confirmation undertaken in conjunction with the novation of an existing Confirmation. The delegation to each Authorized Representative to execute and deliver Bond Enhancement Agreements on behalf of the Board under this Resolution shall expire on September 1, 2013.

(b) Authorizing Law and Treatment as Credit Agreement. The Board hereby determines that any such Bond Enhancement Agreement entered into by an Authorized Representative pursuant to this Resolution is necessary or appropriate to place the Board's obligations with respect to its outstanding PUF Debt or PUF Debt anticipated to be issued in the future on the interest rate, currency, cash flow or other basis set forth in such Bond Enhancement Agreement as approved and executed on behalf of the Board by an Authorized Representative. Each Bond Enhancement Agreement constitutes a "bond enhancement agreement" under Section 65.461 of the *Texas Education Code*, as amended ("Section 65.461"). Pursuant to Section 65.461, a Bond Enhancement Agreement authorized and executed by an Authorized Representative under this Resolution shall not be considered a "credit agreement" under Chapter 1371 of the *Texas Government Code*, as amended ("Chapter 1371"), unless specifically designated as such by such Authorized Representative. In the event an Authorized Representative elects to treat a Bond Enhancement Agreement authorized by this Resolution as a "credit agreement" under Chapter 1371 and this Resolution has not previously been submitted to the Attorney General by an Authorized Representative, such Authorized Representative shall submit this Resolution to the Attorney General for review and approval in accordance with the requirements of Chapter 1371 as the proceedings authorizing Bond Enhancement Agreements entered into by the Board pursuant to this Resolution.

(c) Costs; Maximum Term. The costs of any Bond Enhancement Agreement and the amounts payable thereunder, including but not limited to any amounts payable by the Board as a result of terminating a Bond Enhancement Agreement, shall be payable from the Residual AUF as a cost of the support and maintenance of System administration or from any other source that is legally available to make such payments.

The maximum term of each Bond Enhancement Agreement authorized by this Resolution shall not exceed the maturity date of the then outstanding related PUF Debt or the related PUF Debt anticipated to be issued in the future, as applicable.

(d) Notional Amount. The notional amount of any Bond Enhancement Agreement authorized by this Resolution shall not at any time exceed the aggregate principal amount of the then outstanding related PUF Debt or related PUF Debt anticipated to be issued in the future, as applicable; provided that the aggregate notional amount of multiple Bond Enhancement Agreements relating to the same PUF Debt may exceed the principal amount of the related PUF Debt if such Bond Enhancement Agreements are for different purposes, as evidenced for example by different rates for calculating payments owed, and the aggregate notional amount of any such Bond Enhancement Agreements for the same purpose otherwise satisfies the foregoing requirements.

(e) Early Termination. No Confirmation entered into pursuant to this Resolution shall contain early termination provisions at the option of the counterparty except upon the occurrence of an event of default or an additional termination event, as prescribed in the applicable Master Agreement. In addition to subsections (a) and (b) of Section 5 hereof, each Authorized Representative is hereby severally authorized to terminate any Bond Enhancement when, in his or her judgment, such termination is in the best interests of the Board given the market conditions at that time.

(f) Maximum Rate. No Bond Enhancement Agreement authorized by this Resolution shall be payable at a rate greater than the maximum rate allowed by law.

(g) Credit Enhancement. An Authorized Representative may obtain credit enhancement for any Bond Enhancement Agreement if such Authorized Representative, as evidenced by a certificate delivered to the General Counsel to the Board, has determined that after taking into account the cost of such credit enhancement, such credit enhancement will reduce the amount payable by the Board pursuant to such Bond Enhancement Agreement; provided that the annual cost of credit enhancement on any

Bond Enhancement Agreement entered into pursuant to this Resolution may not exceed 0.50% of the notional amount of such Bond Enhancement Agreement.

SECTION 3. AUTHORIZATION FOR SPECIFIC TRANSACTIONS.

(a) In addition to the authority otherwise granted in this Resolution, each Authorized Representative is hereby severally granted continuing authority to enter into the following specific transactions pursuant to a Confirmation (or other agreement or instrument deemed necessary by an Authorized Representative) upon satisfaction of the following respective conditions:

(1) Floating-to-fixed rate interest rate swap transactions under which the Board would pay an amount based upon a fixed rate of interest and the counterparty would pay an amount based upon a variable rate of interest with respect to PUF Debt then outstanding bearing interest at a variable rate and any PUF Debt anticipated to be issued in the future that will bear interest at a variable rate, as applicable. Prior to entering into such transaction, an Authorized Representative must deliver to the General Counsel to the Board a certificate to the effect that (i) the synthetic fixed rate to the Board pursuant to the swap transaction is lower than the rate available to the Board for comparable fixed rate debt at the time of the swap transaction, and (ii) if the variable rate being paid or expected to be paid by the Board on the applicable PUF Debt is computed on a basis different from the calculation of the variable rate to be received under the swap transaction over the stated term of such swap transaction, the basis risk of the transaction is expected to be minimal based upon historical relationships between such bases.

(2) Fixed-to-floating rate interest rate swap transactions under which the Board would pay an amount based upon a variable rate of interest and the counterparty would pay an amount based upon a fixed rate of interest, with respect to PUF Debt then outstanding bearing interest at a fixed rate or PUF Debt anticipated to be issued in the future that will bear interest at a fixed rate, as applicable. Prior to entering into such transaction, an Authorized Representative must deliver to the General Counsel to the Board a certificate to the effect that converting such portion of fixed rate PUF Debt to a variable rate pursuant to the fixed-to-floating interest rate swap transaction would be beneficial to the System by (i) lowering the anticipated net interest cost on the PUF Debt to be swapped against or (ii) assisting in the System's asset/liability management by matching a portion of its variable rate assets with variable rate PUF Debt.

(3) Basis swap transactions under which the Board would pay a variable rate of interest computed on one basis, such as the Securities Industry and Financial Markets Association Municipal Swap Index, and the counterparty would pay a variable rate of interest computed on a different basis, such as a designated maturity of the London Interbank Offered Rate ("LIBOR"), with respect to a given principal amount of PUF Debt then outstanding or PUF Debt anticipated to be issued in the future, as applicable. Prior to entering into such transaction, an

Authorized Representative must deliver to the General Counsel to the Board a certificate to the effect that by entering into the basis swap transaction the Board is expected to be able to (i) achieve spread income or upfront cash payments, (ii) preserve call option and advance refunding capability on its PUF Debt, (iii) lower net interest cost by effecting a percent of LIBOR synthetic refunding without issuing additional bonds or acquiring credit enhancement, (iv) lower net interest cost on PUF Debt by layering tax risk on top of a traditional or synthetic fixed rate financing, (v) preserve liquidity capacity, or (vi) avoid the mark to market volatility of a fixed-to-floating or floating-to-fixed swap in changing interest rate environments.

(4) Interest rate locks, caps, options, floors, and collars for the purpose of limiting the exposure of the Board to adverse changes in interest rates in connection with outstanding PUF Debt or additional PUF Debt anticipated to be issued in the future. Prior to entering into such a transaction, an Authorized Representative must deliver to the General Counsel to the Board a certificate to the effect that such transaction is expected to limit or eliminate such exposure.

(b) The foregoing is not intended to be a comprehensive list of permissible types of transactions, but rather to specify additional conditions necessary to enter into the specified types of transactions. The requirements of Section 2(a) above shall apply to any transaction not specified in Section 3(a) above.

SECTION 4. APPLICATION OF PAYMENTS RECEIVED UNDER BOND ENHANCEMENT AGREEMENTS.

(a) General. Except as provided in subsection (b) hereof, to the extent the Board receives payments pursuant to a Bond Enhancement Agreement, such payments shall be applied for any lawful purpose.

(b) Payments under Chapter 1371 Credit Agreements. In the event an Authorized Representative elects to treat a Bond Enhancement Agreement authorized by this Resolution as a "credit agreement" under Chapter 1371 and such Bond Enhancement Agreement is executed and delivered pursuant to Chapter 1371, to the extent that the Board receives payments pursuant to such a Bond Enhancement Agreement, such payments shall be applied as follows: (i) to pay (A) debt service on the PUF Debt or anticipated issuance of PUF Debt related to the Bond Enhancement Agreement, or (B) the costs to be financed by the PUF Debt or anticipated issuance of PUF Debt related to the Bond Enhancement Agreement; provided that, if applicable, such costs shall have been approved for construction by the Board and that the applicable projects have received the required approval or review of the Texas Higher Education Coordinating Board to the extent and as required by the provisions of Chapter 61 of the *Texas Education Code*, including Section 61.058 thereof; (ii) to pay other liabilities or expenses that are secured on parity with or senior to the PUF Debt or anticipated issuance of PUF Debt related to the Bond Enhancement Agreement; or (iii) to the extent that costs set forth in (i) and (ii) have been satisfied, for any other lawful purpose.

SECTION 5. BOND ENHANCEMENT AGREEMENTS IN CONNECTION WITH ANTICIPATED PUF DEBT.

(a) Requirement to Terminate or Modify Agreement for Non-issuance of Anticipated PUF Debt. In the event a Bond Enhancement Agreement is entered into under this Resolution in connection with the anticipated issuance of PUF Debt and such PUF Debt is not actually issued on or prior to the effective date of such agreement, an Authorized Representative shall either terminate such Bond Enhancement Agreement or amend such Bond Enhancement Agreement in such event (i) to delay the effective date of such Bond Enhancement Agreement; or (ii) to replace such anticipated PUF Debt with any then outstanding PUF Debt having the same types of interest rates (fixed or variable) as the anticipated PUF Debt.

(b) Requirement to Terminate or Modify Agreement for Notional Amount in Excess of Anticipated PUF Debt as Issued. In the event a Bond Enhancement Agreement is entered into under this Resolution in connection with the anticipated issuance of PUF Debt and such Bond Enhancement Agreement has a notional amount that at any time exceeds the principal amount to be outstanding of such anticipated PUF Debt as actually issued, an Authorized Representative shall either terminate such Bond Enhancement Agreement or amend such Bond Enhancement Agreement (i) to reduce the notional amount of such Bond Enhancement as appropriate so that such notional amount does not exceed at any time the principal amount to be outstanding of such anticipated PUF Debt as actually issued or (ii) supplement or replace all or a portion of such anticipated PUF Debt with any then outstanding PUF Debt having the same types of interest rates (fixed or variable) as the anticipated PUF Debt as necessary to ensure that the notional amount of such Bond Enhancement Agreement does not exceed at any time the principal amount of the applicable PUF Debt.

(c) Board Recognition of Anticipated Parity Debt. No Bond Enhancement Agreement may be entered into under this Resolution with respect to the Board's obligations under an anticipated future issuance of PUF Debt unless such anticipated issuance of future debt shall have been recognized by official action of the Board pursuant to (i) the Board's prior adoption of a resolution authorizing the issuance of such debt, including but not limited to a resolution delegating the parameters of such issuance to an Authorized Representative or a resolution authorizing the issuance of commercial paper notes, (ii) the Board's prior approval of its then current Capital Improvement Program contemplating the financing of the projects to be financed by such anticipated issuance of debt and the amount of such debt to be issued, or (iii) the Board's action pursuant to subsection (e) hereof with respect to PUF Debt anticipated to be issued to refund outstanding PUF Debt.

(d) Required Description of Anticipated PUF Debt. To the extent that a Bond Enhancement Agreement is entered into under this Resolution with respect to the Board's obligations under an anticipated future issuance of PUF Debt, an Authorized Representative must also deliver to the General Counsel to the Board at the time such agreement is entered into a certificate with respect to such anticipated PUF Debt stating: (i) the anticipated issuance date of such PUF Debt or a range of anticipated dates of up to six months for such issuance, provided that such date or range of dates may not be more than the lesser of seventy-two (72) months after the date of the applicable Confirmation or the latest date contemplated for the issuance of such PUF Debt in the Board's then current Capital Improvement Program; (ii) whether such PUF Debt will bear interest at a fixed or variable rate; (iii) if such PUF Debt will bear interest at a fixed rate, what fixed interest rate or range of interest rates with respect to such PUF Debt is anticipated; (iv) if such PUF Debt will bear interest at a variable rate, what basis is anticipated to be used to compute such variable rate; (v) the assumed maturity schedule and amortization for such PUF Debt, including the assumed interest cost; (vi) the anticipated purposes for which the proceeds of such PUF Debt will be used; and (vii) for PUF Debt anticipated to be issued for new money projects, a list or description of such projects anticipated to be financed, provided that each such project must be contemplated for financing with PUF Debt by the Board's then current Capital Improvement Program or have otherwise received Board approval for financing.

(e) Board's Statement of Intent to Issue Advance Refunding Debt for Savings. If the conditions in this Resolution are otherwise satisfied, the Board hereby authorizes each Authorized Representative to enter into a Bond Enhancement Agreement in connection with PUF Debt anticipated to be issued for the purpose of advance refunding any existing PUF Debt, provided that as certified by an Authorized Representative to the General Counsel to the Board, such anticipated issue of PUF Debt, when taking into consideration the effect of such Bond Enhancement Agreement, is expected to result in a present value savings in connection with such advance refunding of at least 3.0% (determined in the manner set forth in the resolution approved by the Board authorizing the issuance of such anticipated issue of PUF Debt), and in such event, the Board hereby declares its intention to cause such anticipated PUF Debt to be issued. No such certification or declaration shall be applicable in connection with PUF Debt anticipated to be issued for the purpose of currently refunding any existing PUF Debt within ninety (90) days of the date of issuance of such anticipated PUF Debt.

SECTION 6. MASTER AGREEMENTS.

(a) New Master Agreements. Each Authorized Representative is hereby severally authorized to enter into ISDA Master Agreements (the "New Master Agreements") with counterparties satisfying the ratings requirements of the System's Interest Rate Swap Policy. Such New Master Agreements shall be in substantially the same form as the Executed Master Agreements, with such changes as, in the judgment of an Authorized Representative, with the advice and counsel of the Office of General Counsel and Bond Counsel, are necessary or desirable (i) to carry out the intent of the Board as expressed in this Resolution, (ii) to receive approval of this Resolution by the Attorney General of the State of Texas, if pursuant Section 2(b) of this Resolution, an Authorized Representative elects to designate any Bond Enhancement Agreement entered into by the Board pursuant to this Resolution as a "credit agreement" under Chapter 1371, (iii) to accommodate the credit structure or requirements of a particular counterparty or (iv) to incorporate comments received or anticipated to be received from any credit rating agency relating to a New Master Agreement. Each Authorized Representative is authorized to enter into such New Master Agreements and to enter into Confirmations thereunder in accordance with this Resolution and in furtherance of and to carry out the intent hereof. If a New Master Agreement entered into pursuant to this subsection replaces a then effective Master Agreement with the same or a related counterparty, each Authorized Representative is hereby severally authorized to terminate such existing Master Agreement upon the New Master Agreement becoming effective and to take any and all actions necessary to transfer any Confirmations thereunder to such New Master Agreement.

(b) Amendments to Master Agreements. Each Authorized Representative is hereby further severally authorized to enter into amendments to the Master Agreements to allow Confirmations thereunder to be issued and entered into with respect to any then outstanding PUF Debt or PUF Debt anticipated to be issued in the future and to make such other amendments in accordance with the terms of the respective Master Agreements as in the judgment of such Authorized Representative, with the advice and counsel of the Office of General Counsel and Bond Counsel, are necessary or desirable to allow the Board to achieve the benefits of the Bond Enhancement Agreements in accordance with and subject to the System's Interest Rate Swap Policy and this Resolution.

SECTION 7. ADDITIONAL AUTHORIZATION; RATIFICATION OF SWAP POLICY.

(a) Additional Agreements and Documents Authorized. Each Authorized Representative and all officers of the Board are severally authorized to execute and deliver such other agreements and documents as are contemplated by this Resolution and the Master Agreements or are otherwise necessary in connection with entering into Confirmations and Bond Enhancement Agreements as described in this Resolution, as any such Authorized Representative or officer shall deem appropriate, including without limitation, officer's certificates, legal opinions, and credit support documents.

(b) Further Actions. Each Authorized Representative and all officers of the Board are severally authorized to take all such further actions, to execute and deliver such further instruments and documents in the name and on behalf of the Board to pay all such expenses as in his or her judgment shall be necessary or advisable in order fully to carry out the purposes of this Resolution.

(c) Swap Policy. The Board has reviewed and hereby ratifies and affirms the System's Interest Rate Swap Policy, a copy of which is attached hereto as Exhibit B.

[Remainder of page intentionally left blank]

EXHIBIT A

DEFINITIONS

As used in this Resolution the following terms shall have the meanings set forth below, unless the text hereof specifically indicates otherwise:

"Authorized Representative" shall have the meaning given to such term in the System's Interest Rate Swap Policy (a copy of which is attached hereto as Exhibit B).

"Available University Fund" shall have the meaning given to such term in the recitals to this Resolution.

"Board" shall have the meaning given to such term in the recitals to this Resolution.

"Bond Enhancement Agreement" shall have the meaning given to such term in Section 2(a) hereof.

"Chapter 1371" shall have the meaning given to such term in Section 2(b) hereof.

"Confirmation" shall have the meaning given to such term in Section 2(a) hereof.

"Constitutional Provision" shall have the meaning given to such term in the recitals to this Resolution.

"Executed Master Agreements" shall mean the following existing and fully executed ISDA Master Agreements currently in effect between the Board and the respective counterparty noted below (copies of which are attached hereto as Exhibit C):

(i) ISDA Master Agreement with Bank of America, N.A., dated as of December 1, 2007;

(ii) ISDA Master Agreement with Goldman Sachs Capital Markets, L.P., dated as of December 1, 2007;

(iii) ISDA Master Agreement with JPMorgan Chase Bank, National Association, dated as of December 1, 2007;

(iv) ISDA Master Agreement with Merrill Lynch Capital Services, Inc., dated as of December 1, 2007;

(v) ISDA Master Agreement with Morgan Stanley Capital Services Inc., dated as of December 1, 2007;

(vi) ISDA Master Agreement with UBS AG, dated as of April 1, 2008;

(vii) ISDA Master Agreement with Barclays Bank PLC, dated as of February 3, 2011;

(viii) ISDA Master Agreement with Deutsche Bank AG, New York Branch, dated as of February 1, 2011;

(ix) ISDA Master Agreement with Royal Bank of Canada, dated as of June 8, 2011; and

(x) ISDA Master Agreement with Wells Fargo Bank, National Association, dated as of January 15, 2010.

"Interest of the System" shall have the meaning given to such term in the recitals to this Resolution.

"ISDA" shall mean the International Swaps and Derivatives Association, Inc.

"LIBOR" shall have the meaning given to such term in Section 3(a)(3) hereof.

"Master Agreements" shall mean, collectively, the Executed Master Agreements and any New Master Agreements.

"New Master Agreements" shall have the meaning given to such term in Section 6(a) hereof.

"Permanent University Fund" shall have the meaning given to such term in the recitals to this Resolution.

"PUF Debt" shall have the meaning given to such term in the recitals to this Resolution.

"Residual AUF" shall have the meaning given to such term in the recitals to this Resolution.

"Section 65.461" shall have the meaning given to such term in Section 2(b) hereof.

"State" shall have the meaning given to such term in the recitals to this Resolution.

"System" shall have the meaning given to such term in the recitals to this Resolution.

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EXHIBIT B

INTEREST RATE SWAP POLICY
OF THE UNIVERSITY OF TEXAS SYSTEM

[As set forth on Pages 145 - 151]

EXHIBIT C

EXECUTED MASTER AGREEMENTS

[On file with the Board]

A RESOLUTION AUTHORIZING THE EXECUTION AND DELIVERY OF BOND ENHANCEMENT AGREEMENTS RELATING TO REVENUE FINANCING SYSTEM DEBT AND AUTHORIZING AND APPROVING OTHER INSTRUMENTS AND PROCEDURES RELATING TO SAID AGREEMENTS

August 23, 2012

WHEREAS, the Board of Regents (the "Board") of The University of Texas System (the "System") is the governing body of the System, an institution of higher education under the *Texas Education Code* and an agency of the State of Texas; and

WHEREAS, on February 14, 1991, the Board adopted the First Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System and amended such resolution on October 8, 1993, and August 14, 1997 (referred to herein as the "Master Resolution"); and

WHEREAS, unless otherwise defined herein, terms used herein shall have the meaning given in the Master Resolution or as set forth in Exhibit A hereto; and

WHEREAS, the Master Resolution establishes the Revenue Financing System comprised of the institutions now or hereafter constituting components of the System that are designated "Members" of the Financing System by action of the Board and pledges the Pledged Revenues attributable to each Member of the Financing System to the payment of Parity Debt to be outstanding under the Master Resolution; and

WHEREAS, the Board has adopted Supplemental Resolutions to the Master Resolution authorizing the issuance of Parity Debt thereunder as special, limited obligations of the Board payable solely from and secured by a lien on and pledge of Pledged Revenues pledged for the equal and proportionate benefit and security of all owners of Parity Debt; and

WHEREAS, the Board has previously entered into certain Executed Master Agreements (as defined herein) with certain counterparties setting forth the terms and conditions applicable to each Confirmation (as defined herein) executed or to be executed thereunder; and

WHEREAS, the Board hereby desires to ratify the System's Interest Rate Swap Policy, a copy of which is attached hereto as Exhibit B, and to severally authorize each Authorized Representative (as defined in the System's Interest Rate Swap Policy) to enter into Bond Enhancement Agreements (as defined herein) from time to time, all as provided in this Resolution.

NOW THEREFORE BE IT RESOLVED, that

SECTION 1. DEFINITIONS. In addition to the definitions set forth in the preamble of this Resolution, the terms used in this Resolution and not otherwise defined shall have the meanings given in the Master Resolution or in Exhibit A to this Resolution attached hereto and made a part hereof.

SECTION 2. AUTHORIZATION OF BOND ENHANCEMENT AGREEMENTS.

(a) Delegation. Each Authorized Representative is hereby severally authorized to act on behalf of the Board in accepting and executing new or amended confirmations under one or more of the Master Agreements (each, a "Confirmation", and collectively with the applicable Master Agreement, a "Bond Enhancement Agreement") when, in his or her judgment, the execution of such Confirmation is consistent with this Resolution and the System's Interest Rate Swap Policy and either (i) the transaction is expected to reduce the net interest to be paid by the Board with respect to any then outstanding Parity Debt or Parity Debt anticipated to be issued in the future over the term of the Bond Enhancement Agreement or (ii) the transaction is in the best interests of the Board given the market conditions at that time. Prior to entering into any such transaction, an Authorized Representative must deliver to the General Counsel of the Board a certificate setting forth the determinations of the Authorized Representative in connection with the foregoing. Each Authorized Representative is also severally authorized to execute any required novation agreement related to the execution and delivery of a new or amended Confirmation undertaken in conjunction with the novation of an existing Confirmation. The delegation to each Authorized Representative to execute and deliver Bond Enhancement Agreements on behalf of the Board under this Resolution shall expire on September 1, 2013.

(b) Authorizing Law and Treatment as Credit Agreement. The Board hereby determines that any such Bond Enhancement Agreement entered into by an Authorized Representative pursuant to this Resolution is necessary or appropriate to place the Board's obligations with respect to its outstanding Parity Debt or Parity Debt anticipated to be issued in the future on the interest rate, currency, cash flow or other basis set forth in such Bond Enhancement Agreement as approved and executed on behalf of the Board by an Authorized Representative. Each Bond Enhancement Agreement constitutes a "Credit Agreement" as defined in the Master Resolution and a "bond enhancement agreement" under Section 65.461 of the *Texas Education Code,* as amended ("Section 65.461"). Pursuant to Section 65.461, a Bond Enhancement Agreement authorized and executed by an Authorized Representative under this Resolution shall not be considered a "credit agreement" under Chapter 1371 of the *Texas Government Code*, as amended ("Chapter 1371"), unless specifically designated as such by such Authorized Representative. In the event an Authorized Representative elects to treat a Bond Enhancement Agreement authorized by this Resolution as a "credit agreement" under Chapter 1371 and this Resolution has not previously been submitted to the Attorney General by an Authorized Representative, such Authorized Representative shall submit this Resolution to the Attorney General for review and approval in accordance with the requirements of Chapter 1371 as the proceedings authorizing Bond Enhancement Agreements entered into by the Board pursuant to this Resolution.

(c) Maximum Term. The maximum term of each Bond Enhancement Agreement authorized by this Resolution shall not exceed the maturity date of the then outstanding related Parity Debt or the related Parity Debt anticipated to be issued in the future, as applicable.

(d) Notional Amount. The notional amount of any Bond Enhancement Agreement authorized by this Resolution shall not at any time exceed the aggregate principal amount of the then outstanding related Parity Debt and related Parity Debt anticipated to be issued in the future, as applicable; provided that the aggregate notional amount of multiple Bond Enhancement Agreements relating to the same Parity Debt may exceed the principal amount of the related Parity Debt if such Bond Enhancement Agreements are for different purposes, as evidenced for example by different rates for calculating payments owed, and the aggregate notional amount of any such Bond Enhancement Agreements for the same purpose otherwise satisfies the foregoing requirements.

(e) Early Termination. No Confirmation entered into pursuant to this Resolution shall contain early termination provisions at the option of the counterparty except upon the occurrence of an event of default or an additional termination event, as prescribed in the applicable Master Agreement. In addition to subsections (a) and (b) of Section 6 hereof, each Authorized Representative is hereby severally authorized to terminate any Bond Enhancement when, in his or her judgment, such termination is in the best interests of the Board given the market conditions at that time.

(f) Maximum Rate. No Bond Enhancement Agreement authorized by this Resolution shall be payable at a rate greater than the maximum rate allowed by law.

(g) Credit Enhancement. An Authorized Representative may obtain credit enhancement for any Bond Enhancement Agreement if such Authorized Representative, as evidenced by a certificate delivered to the General Counsel to the Board, has determined that after taking into account the cost of such credit enhancement, such credit enhancement will reduce the amount payable by the Board pursuant to such Bond Enhancement Agreement; provided that the annual cost of credit enhancement on any Bond Enhancement Agreement entered into pursuant to this Resolution may not exceed 0.50% of the notional amount of such Bond Enhancement Agreement.

SECTION 3. BOND ENHANCEMENT AGREEMENTS AS PARITY DEBT. The costs of any Bond Enhancement Agreement and the amounts payable thereunder shall be payable out of Pledged Revenues and each Bond Enhancement Agreement shall constitute Parity Debt under the Master Resolution, except to the extent that a Bond Enhancement Agreement provides that an obligation of the Board thereunder shall be payable from and secured by a lien on Pledged Revenues subordinate to the lien securing the payment of the Parity Debt. The Board determines that this Resolution shall constitute a Supplemental Resolution to the Master Resolution and as required by Section 5(a) of the Master Resolution, the Board further determines that upon the delivery of the Bond Enhancement Agreements authorized by this Resolution it will have sufficient funds to meet the financial obligations of the System, including sufficient Pledged Revenues to satisfy the Annual Debt Service Requirements of the Financing System and to meet all financial obligations of the Board relating to the Financing System and that the Members on whose behalf such Bond Enhancement Agreements are entered into possess the financial capacity to satisfy their Direct Obligations after taking such Bond Enhancement Agreements into account.

SECTION 4. AUTHORIZATION FOR SPECIFIC TRANSACTIONS. (a) In addition to the authority otherwise granted in this Resolution, each Authorized Representative is hereby severally granted continuing authority to enter into the following specific transactions pursuant to a Confirmation (or other agreement or instrument deemed necessary by an Authorized Representative) upon satisfaction of the following respective conditions:

(1) Floating-to-fixed rate interest rate swap transactions under which the Board would pay an amount based upon a fixed rate of interest and the counterparty would pay an amount based upon a variable rate of interest with respect to Parity Debt then outstanding bearing interest at a variable rate and Parity Debt anticipated to be issued in the future that will bear interest at a variable rate, as applicable. Prior to entering into such transaction, an Authorized Representative must deliver to the General Counsel to the Board a certificate to the effect that (i) the synthetic fixed rate to the Board pursuant to the swap transaction is lower than the rate available to the Board for comparable fixed rate debt at the time of the swap transaction, and (ii) if the variable rate being paid or expected to be paid by the Board on the applicable Parity Debt is computed on a basis different from the calculation of the variable rate to be received under the swap transaction over the stated term of such swap transaction, the basis risk of the transaction is expected to be minimal based upon historical relationships between such bases.

(2) Fixed-to-floating rate interest rate swap transactions under which the Board would pay an amount based upon a variable rate of interest and the counterparty would pay an amount based upon a fixed rate of interest, with respect to Parity Debt then outstanding bearing interest at a fixed rate and Parity Debt anticipated to be issued in the future that will bear interest at a fixed rate, as applicable. Prior to entering into such transaction an Authorized Representative must deliver to the General Counsel to the Board a certificate to the effect that converting such portion of fixed rate Parity Debt to a variable rate pursuant to the fixed-to-floating interest rate swap transaction would be beneficial to the System by (i) lowering the anticipated net interest cost on the Parity Debt to be swapped against or (ii) assisting in the System's asset/liability management by matching a portion of its variable rate assets with variable rate Parity Debt.

(3) Basis swap transactions under which the Board would pay a variable rate of interest computed on one basis, such as the Securities Industry and Financial Markets Association Municipal Swap Index, and the counterparty would pay a variable rate of interest computed on a different basis, such as the London Interbank Offered Rate ("LIBOR"), with respect to a designated maturity or principal amount of outstanding Parity Debt and Parity Debt anticipated to be issued in the future, as applicable. Prior to entering into such transaction, an Authorized Representative must deliver to the General Counsel to the Board a certificate to the effect that by entering into the basis swap transaction the Board is expected to be able to (i) achieve spread income or upfront cash payments, (ii) preserve call option and advance refunding capability on its Parity Debt, (iii) lower net interest cost by effecting a percent of LIBOR synthetic refunding without issuing additional bonds or acquiring credit enhancement, (iv) lower net interest cost on Parity Debt by layering tax risk on top of a traditional or synthetic fixed rate financing, (v) preserve liquidity capacity, or (vi) avoid the mark to market volatility of a fixed-to-floating or floating-to-fixed swap in changing interest rate environments.

(4) Interest rate locks, caps, options, floors, and collars for the purpose of limiting the exposure of the Board to adverse changes in interest rates in connection with outstanding Parity Debt or additional Parity Debt anticipated to be issued in the future. Prior to entering into such a transaction, an Authorized Representative must deliver to the General Counsel to the Board a certificate to the effect that such transaction is expected to limit or eliminate such exposure.

(b) The foregoing is not intended to be a comprehensive list of permissible types of transactions, but rather to specify additional conditions necessary to enter into the specified types of transactions. The requirements of Section 2(a) above shall apply to any transaction not specified in subsection (a) hereof.

SECTION 5. APPLICATION OF PAYMENTS RECEIVED UNDER BOND ENHANCEMENT AGREEMENTS.

(a) General. Except as further limited by subsection (b) hereof, to the extent the Board receives payments pursuant to a Bond Enhancement Agreement, such payments shall be applied for any lawful purpose.

(b) Payments under Chapter 1371 Credit Agreements. In the event an Authorized Representative elects to treat a Bond Enhancement Agreement authorized by this Resolution as a "credit agreement" under Chapter 1371 and such Bond Enhancement Agreement is executed and delivered pursuant to Chapter 1371, to the extent that the Board receives payments pursuant to such a Bond Enhancement Agreement, such payments shall be applied as follows: (i) to pay (A) debt service on the Parity Debt or anticipated issuance of Parity Debt related to the Bond Enhancement Agreement, or (B) the costs to be financed by the Parity Debt or anticipated issuance of Parity Debt related to the Bond Enhancement Agreement; provided that, if applicable, such costs shall have been approved for construction by the Board and that the applicable projects have received the required approval or review of the Texas Higher Education Coordinating Board to the extent and as required by the provisions of Chapter 61 of the *Texas Education Code*, including Section 61.058 thereof; (ii) to pay other liabilities or expenses that are secured on parity with or senior to the Parity Debt or anticipated issuance of Parity Debt related to the Bond Enhancement Agreement; or (iii) to the extent that costs set forth in (i) and (ii) have been satisfied, for any other lawful purpose.

SECTION 6. BOND ENHANCEMENT AGREEMENTS IN CONNECTION WITH ANTICIPATED PARITY DEBT.

(a) Requirement to Terminate or Modify Agreement for Non-issuance of Anticipated Parity Debt. In the event a Bond Enhancement Agreement is entered into under this Resolution in connection with the anticipated issuance of Parity Debt and such Parity Debt is not actually issued on or prior to the effective date of such agreement, an Authorized Representative shall either terminate such Bond Enhancement Agreement or amend such Bond Enhancement Agreement in such event to (i) delay the effective date of such Bond Enhancement Agreement; or (ii) replace such anticipated Parity Debt with any then outstanding Parity Debt having the same types of interest rates (fixed or variable) as the anticipated Parity Debt.

(b) Requirement to Terminate or Modify Agreement for Notional Amount in Excess of Anticipated Parity Debt as Issued. In the event a Bond Enhancement Agreement is entered into under this Resolution in connection with the anticipated issuance of Parity Debt and such Bond Enhancement Agreement has a notional amount that at any time exceeds the principal amount to be outstanding of such anticipated Parity Debt as actually issued, an Authorized Representative shall either terminate such Bond Enhancement Agreement or amend such Bond Enhancement Agreement to (i) reduce the notional amount of such Bond Enhancement as appropriate so that such notional amount does not exceed at any time the principal amount to be outstanding of such anticipated Parity Debt as actually issued or (ii) supplement or replace all or a portion of such anticipated Parity Debt with any then outstanding Parity Debt having the same types of interest rates (fixed or variable) as the anticipated Parity Debt as necessary to ensure that the notional amount of such Bond Enhancement Agreement does not exceed at any time the principal amount of the applicable Parity Debt.

(c) Board Recognition of Anticipated Parity Debt. No Bond Enhancement Agreement may be entered into under this Resolution with respect to the Board's obligations under an anticipated future issuance of Parity Debt unless such anticipated issuance of future debt shall have been recognized by official action of the Board pursuant to (i) the Board's prior adoption of a resolution authorizing the issuance of such debt, including, but not limited to, a resolution delegating the parameters of such issuance to an Authorized Representative or a resolution authorizing the issuance of commercial paper notes, (ii) the Board's prior approval of its then current Capital Improvement Program contemplating the financing of the projects to be financed by such anticipated issuance of debt and the amount of such debt to be issued, or (iii) the Board's action pursuant to subsection (e) hereof with respect to Parity Debt anticipated to be issued to refund outstanding Parity Debt.

(d) Required Description of Anticipated Parity Debt. To the extent that a Bond Enhancement Agreement is entered into under this Resolution with respect to the Board's obligations under an anticipated future issuance of Parity Debt, an Authorized Representative must also deliver to the General Counsel to the Board at the time such agreement is entered into a certificate with respect to such anticipated Parity Debt stating: (i) the anticipated issuance date of such Parity Debt or a range of anticipated dates of up to six months for such issuance, provided that such date or range of dates may not be more than the lesser of seventy-two (72) months after the date of the applicable Confirmation or the latest date contemplated for the issuance of such Parity Debt in the Board's then current Capital Improvement Program; (ii) whether such Parity Debt will bear interest at a fixed or variable rate; (iii) if such Parity Debt will bear interest at a fixed rate, what fixed interest rate or range of interest rates with respect to such Parity Debt is anticipated; (iv) if such Parity Debt will bear interest at a variable rate, what basis is anticipated to be used to compute such variable rate; (v) the assumed maturity schedule and amortization for such Parity Debt, including the assumed interest cost; (vi) the anticipated purposes for which the proceeds of such Parity Debt will be used; and (vii) for Parity Debt anticipated to be issued for new money projects, a list or description of such projects anticipated to be financed, provided that each such project must be contemplated for financing with Parity Debt by the Board's then current Capital Improvement Program or have otherwise received Board approval for financing.

(e) Board's Statement of Intent to Issue Refunding Debt for Savings. If the conditions in this Resolution are otherwise satisfied, the Board hereby authorizes each Authorized Representative to enter into a Bond Enhancement Agreement in connection with Parity Debt anticipated to be issued for the purpose of advance refunding any existing Parity Debt, provided that as certified by an Authorized Representative to the General Counsel to the Board, such anticipated issue of Parity Debt, when taking into consideration the effect of such Bond Enhancement Agreement, is expected to result in a present value savings in connection with such advance refunding of at least 3.0% (determined in the manner set forth in a supplemental resolution approved by the Board authorizing the issuance of additional Parity Debt), and in such event, the Board hereby declares its intention to cause such Parity Debt to be issued. No such certification or declaration shall be applicable in connection with Parity Debt anticipated to be issued for the purpose of currently refunding any existing Parity Debt within ninety (90) days of the date of issuance of such anticipated Parity Debt.

SECTION 7. MASTER AGREEMENTS.

(a) New Master Agreements. Each Authorized Representative is hereby severally authorized to enter into ISDA Master Agreements (the "New Master Agreements") with counterparties satisfying the ratings requirements of the System's Interest Rate Swap Policy. Such New Master Agreements shall be in substantially the same form as the Executed Master Agreements, with such changes as, in the judgment of an Authorized Representative, with the advice and counsel of the Office of General Counsel and Bond Counsel, are necessary or desirable (i) to carry out the intent of the Board as expressed in this Resolution, (ii) to receive approval of this Resolution by the Attorney General of the State of Texas, if pursuant Section 2(b) of this Resolution, an Authorized Representative elects to designate any Bond Enhancement Agreement entered into by the Board pursuant to this Resolution as a "credit agreement" under Chapter 1371, (iii) to accommodate the credit structure or requirements of a particular counterparty or (iv) to incorporate comments received or anticipated to be received from any credit rating agency relating to a New Master Agreement. Each Authorized Representative is authorized to enter into such New Master Agreements and to enter into Confirmations thereunder in accordance with this Resolution and in furtherance of and to carry out the intent hereof. If a New Master Agreement entered into pursuant to this subsection replaces a then effective Master Agreement with the same or a related counterparty, each Authorized Representative is hereby severally authorized to terminate such existing Master Agreement upon the New Master Agreement becoming effective and to take and all actions necessary to transfer any Confirmations thereunder to such New Master Agreement.

(b) Amendments to Master Agreements. Each Authorized Representative is hereby further severally authorized to enter into amendments to the Master Agreements to allow Confirmations thereunder to be issued and entered into with respect to any then outstanding Parity Debt or Parity Debt anticipated to be issued in the future and to make such other amendments in accordance with the terms of the respective Master Agreements as in the judgment of such Authorized Representative, with the advice and counsel of the Office of General Counsel and Bond Counsel, are necessary or desirable to allow the Board to achieve the benefits of the Bond Enhancement Agreements in accordance with and subject to the System's Interest Rate Swap Policy and this Resolution.

SECTION 8. ADDITIONAL AUTHORIZATION; RATIFICATION OF SWAP POLICY.

(a) Additional Agreements and Documents Authorized. Each Authorized Representative and all officers of the Board are severally authorized to execute and deliver such other agreements and documents as are contemplated by this Resolution and the Master Agreements or are otherwise necessary in connection with entering into Confirmations and Bond Enhancement Agreements as described in this

Resolution, as any such Authorized Representative or officer shall deem appropriate, including without limitation, officer's certificates, legal opinions, and credit support documents.

(b) Further Actions. Each Authorized Representative and all officers of the Board are severally authorized to take all such further actions, to execute and deliver such further instruments and documents in the name and on behalf of the Board to pay all such expenses as in his or her judgment shall be necessary or advisable in order fully to carry out the purposes of this Resolution.

(c) Swap Policy. The Board has reviewed and hereby ratifies and affirms the System's Interest Rate Swap Policy, a copy of which is attached hereto as Exhibit B.

EXHIBIT A

DEFINITIONS

As used in this Resolution the following terms and expressions shall have the meanings set forth below, unless the text hereof specifically indicates otherwise:

"Authorized Representative" – As defined in the System's Interest Rate Swap Policy (a copy of which is attached hereto as Exhibit B).

"Board" – The Board of Regents of The University of Texas System.

"Bond Enhancement Agreement" – Collectively, each Confirmation and the applicable Master Agreement.

"Chapter 1371" – Chapter 1371 of the *Texas Government Code*, as amended.

"Confirmation" – Each confirmation entered into by an Authorized Representative on behalf of the Board pursuant to this Resolution.

"Executed Master Agreements" – The following existing and fully executed ISDA Master Agreements currently in effect between the Board and the respective counterparty noted below (copies of which are attached hereto as Exhibit C):

(i) ISDA Master Agreement with Bank of America, N.A., dated as of December 6, 2005;

(ii) ISDA Master Agreement with JPMorgan Chase Bank, National Association, dated as of May 2, 2006;

(iii) ISDA Master Agreement with Merrill Lynch Capital Services, Inc., dated as of May 1, 2006;

(iv) ISDA Master Agreement with Morgan Stanley Capital Services Inc., dated as of December 6, 2005;

(v) ISDA Master Agreement with UBS AG, dated as of November 1, 2007;

(vi) ISDA Master Agreement with Goldman Sachs Bank USA, dated as of August 1, 2009;

(vii) ISDA Master Agreement with Wells Fargo Bank, National Association, dated as of August 21, 2009;

(viii) ISDA Master Agreement with Barclays Bank PLC, dated as of November 4, 2010;

(ix) ISDA Master Agreement with Deutsche Bank AG, New York Branch, dated as of May 1, 2011;

(x) ISDA Master Agreement with Royal Bank of Canada, dated as of June 8, 2011; and

(xi) ISDA Master Agreement with Citibank, N.A., dated as of October 26, 2011.

"ISDA" – The International Swaps and Derivatives Association, Inc.

"LIBOR" – London Interbank Offered Rate.

"Master Agreements" – Collectively, the Executed Master Agreements and any New Master Agreements.

"Master Resolution" – The First Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System adopted by the Board on February 14, 1991, and amended on October 8, 1993, and August 14, 1997.

"New Master Agreements" – Any ISDA Master Agreements entered into by an Authorized Representative pursuant to Section 7(a) of this Resolution.

"Section 65.461" – Section 65.461 of the *Texas Education Code,* as amended.

"System" – The University of Texas System.

EXHIBIT B

INTEREST RATE SWAP POLICY OF THE UNIVERSITY OF TEXAS SYSTEM

[As set forth on Pages 145 - 151]

EXHIBIT C

EXECUTED MASTER AGREEMENTS

[On File with the Board]

The University of Texas System
Rules and Regulations of the Board of Regents **Rule: 70202**

1. Title

Interest Rate Swap Policy

2. Rule and Regulation

Sec. 1 Authority. *Texas Education Code*, Chapter 55, including Section 55.13, *Texas Education Code,* Chapter 65, including Section 65.461, and *Texas Government Code*, Chapter 1371, including Section 1371.056, authorize the Board of Regents (Board) of The University of Texas System (U. T. System) to enter into interest rate management agreements and bond enhancement agreements (collectively "swaps").

Sec. 2 Purpose. This policy will govern the use of swaps in connection with the U. T. System's management of its debt programs, including the Permanent University Fund and Revenue Financing System debt programs. By using swaps in a prudent manner, the U. T. System can increase the U. T. System's financial flexibility, provide opportunities for interest rate savings, allow the U. T. System to actively manage asset and liability interest rate risk, take advantage of market opportunities to lower the overall cost of debt, balance interest rate risk, or hedge other exposures. The use of swaps must be tied directly to U. T. System debt instruments. The U. T. System shall not enter into swaps for speculative purposes.

Sec. 3 Legality/Approval. Prior to entering into a swap, the U. T. System must receive approval from the Board of Regents (which may include a delegation of authority to an Authorized Representative to enter into one or more swaps) and any required approvals from the Texas Attorney General and the Texas Bond Review Board. The U. T. System will also secure an opinion acceptable to the Authorized Representative from legal counsel that the swap is a legal, valid, and binding obligation of the U. T. System and that entering into the swap complies with applicable State and federal laws.

Sec. 4 Form of Agreements. Each interest rate swap shall contain terms and conditions as set forth in the International Swaps and Derivatives Association, Inc. (ISDA) Master Agreement, as amended, and such other terms and conditions including schedules, credit support annexes, and confirmations as deemed necessary by an Authorized Representative.

Sec. 5 Methods of Procuring Swaps. Swaps can be procured via competitive bids or on a negotiated basis with counterparties or its credit support providers having credit ratings of ‘A’ or ‘A2’ or better from Standard & Poor’s or Moody’s, respectively.

5.1 Competitive. The competitive bid should include a minimum of three firms. An Authorized Representative may allow a firm or firms not submitting the bid that produces the lowest cost to match the lowest bid and be awarded a specified percentage of the notional amount of the swap.

5.2 Negotiated. An Authorized Representative may procure swaps by negotiated methods in the following situations:

(a) A determination is made by an Authorized Representative that due to the complexity of a particular swap, a negotiated bid would result in the most favorable pricing;

(b) A determination is made by an Authorized Representative that, in light of the facts and circumstances, a negotiated bid will promote the U. T. System’s interests by encouraging and rewarding innovation; or

(c) A determination is made by an Authorized Representative that a competitive bid would likely create market pricing effects that would be detrimental to the interests of the U. T. System.

Sec. 6 Counterparty Risk. Counterparty risk is the risk of a failure by one of the U. T. System’s swap counterparties to perform as required under a swap. To mitigate this risk, the U. T. System will 1) diversify its exposure among highly rated swap counterparties satisfying the rating criteria set forth in Section 5 above; 2) require collateralization as set forth below; and 3) include an optional termination event if the counterparty (or its credit support provider, if applicable) is downgraded below a second (lower) threshold.

6.1 Value Owed by Counterparty. To limit and diversify the U. T. System’s counterparty risk and to monitor credit exposure to each counterparty, the U. T. System may not enter into a swap with an otherwise qualified counterparty unless the cumulative mark-to-market value owed by the counterparty (and its credit support provider, if applicable) to the U. T. System shall be less than or equal to the applicable threshold amount set forth in Section 6.3 below.

6.2 Calculation of Value Owed. The value owed shall be the sum of all mark-to-market values between the subject counterparty and the U. T. System regardless of the type of swap, net of collateral posted by the counterparty. Collateral will consist of cash, U.S. Treasury securities, and Federal Agency securities guaranteed unconditionally by the full faith and credit of the U.S. Government. Collateral shall be deposited with a third party trustee acceptable to U. T. System or as mutually agreed upon between U. T. System and each counterparty.

6.3 Threshold Amounts Based on Credit Rating. Specific threshold amounts by counterparty are based on the cumulative mark-to-market value of the swap(s) and the credit rating of the counterparty or its credit support provider. The threshold amounts are as follows:

(a) AAA / Aaa	$30 million
(b) AA+ / Aa1	$25 million
(c) AA / Aa2	$20 million
(d) AA- / Aa3	$15 million
(e) A+ / A1	$10 million
(f) A / A2	$ 5 million

6.4 Downgraded Rating. If the credit rating of a counterparty or its credit support provider is downgraded such that the cumulative mark-to-market value of all swaps between such counterparty and the U. T. System exceeds the maximum permitted by this policy, the counterparty must post collateral or provide other credit enhancement that is satisfactory to the U. T. System and ensures compliance with this policy.

Sec. 7 Termination Risk. The U. T. System shall consider the merits of including a provision that permits optional termination at any time over the term of the swap (elective termination right). In general, exercising the right to optionally terminate a swap should produce a benefit to the U. T. System, either through receipt of a payment from a termination, or if a termination payment is made by the U. T. System, a conversion to a more beneficial debt instrument or credit relationship. It is possible that a termination payment by the U. T. System may be required in the event of termination of a swap due to a counterparty default or following a decrease in credit rating.

Sec. 8 Amortization Risk. The amortization schedules of the debt and associated swap should be closely matched for the duration of the swap. Mismatched amortization schedules can result in a less than satisfactory hedge and create unnecessary risk. In no circumstance may (i) the notional amount of a swap exceed the principal amount of the related debt at any time, or (ii) the term of a swap extend beyond the final maturity date of the related debt instrument, or in the case of a refunding transaction, beyond the final maturity date of the refunding bonds.

Sec. 9 Basis Risk. Basis risk arises as a result of movement in the underlying variable rate indices that may not be in tandem, creating a cost differential that could result in a net cash outflow from the U. T. System. Basis risk can also result from the use of floating, but different, indices. To mitigate basis risk, any index used as part of a swap shall be a recognized market index, including but not limited to the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index or the London Interbank Offered Rate (LIBOR).

Sec. 10 Tax Risk. Tax risk is the risk that tax laws will change, resulting in a change in the marginal tax rates on swaps and their underlying assets. Tax risk is present in all tax-exempt debt issuances. The U. T. System Office of Finance will continually monitor and evaluate tax risk.

Sec. 11 Interest Rate Risk. Interest rate risk is the risk that costs associated with variable rate exposure increase as a result of changes in market interest rates. Additional interest rate risk can be created by entering into certain types of swaps. The U. T. System Office of Finance will incorporate the impact of each swap on the overall debt portfolio.

Sec. 12 Reporting.

12.1 The U. T. System Office of Finance staff will report to the Board within 30 days of completion of any swap transaction.

12.2 The Annual Financial Report prepared by the U. T. System and presented to the Board of Regents will discuss the status of all swaps. The report shall include a list of all swaps with notional value and interest rates, a list of counterparties (and credit support providers, if applicable) and their respective credit ratings, and other key terms.

3. Definitions

Authorized Representative – includes the Executive Vice Chancellor for Business Affairs, the Vice Chancellor and General Counsel, the Associate Vice Chancellor for Finance, and the Assistant Vice Chancellor for Finance.

Counterparty – a participant in a swap who exchanges payments based on interest rates or other criteria with another counterparty.

Counterparty Long-Term Debt Rating – lowest prevailing rating from Standard & Poor's / Moody's.

Hedge – a transaction entered into to reduce exposure to market fluctuations.

Interest Rate Swap – a swap in which two parties agree to exchange future net cash flows based on predetermined interest rates or indices calculated on an agreed notional amount. An interest rate swap is not a debt instrument and there is no exchange of principal.

ISDA Master Agreement – the International Swaps and Derivatives Association, Inc. (ISDA), is the global trade association for the derivatives industry. The ISDA Master Agreement is the basic governing document that serves as a framework for all interest rate swaps and certain other types of swaps between two counterparties. It is a standard form used throughout the industry. It is typically negotiated once, prior to the first swap transaction, and remains in force for all subsequent swap transactions.

London Interbank Offered Rate (LIBOR) – the rate of interest at which banks borrow funds from other banks in the London interbank market. It is a commonly used benchmark for swaps.

Mark-to-Market – calculation of the value of a financial instrument (like an interest rate swap) based on the current market rates or prices of the underlying indices.

Maximum cumulative mark-to-market – value of swaps owed to the U. T. System by counterparty (net of collateral posted).

Notional Amount – the size of the swap and the dollar amount used to calculate interest payments.

SIFMA Index – the principal benchmark for floating rate payments for tax-exempt issuers [formerly known as the Bond Market Association (BMA) Municipal Swap index]. The index is a national rate based on a market basket of high-grade, seven-day, tax-exempt variable rate bond issues.

4. Relevant Federal and State Statutes

Texas Education Code, Chapter 55 – Financing Permanent Improvements

Texas Education Code, Chapter 65 – Administration of The University of Texas System

Texas Government Code, Chapter 1371 – Obligations for Certain Public Improvements

5. Relevant System Policies, Procedures, and Forms

None

6. Who Should Know

Administrators

7. System Administration Office(s) Responsible for Rule

Office of Business Affairs

8. Dates Approved or Amended

Editorial amendment to Number 3 made July 24, 2012
Editorial amendments made June 30, 2011
August 23, 2007
December 10, 2004

9. Contact Information

Questions or comments regarding this Rule should be directed to:

- bor@utsystem.edu

7. U. T. System: Approval of an aggregate amount of $164,482,000 of equipment financing for Fiscal Year 2013 and resolution regarding parity debt

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. System Board of Regents

a. approve an aggregate amount of $164,482,000 of Revenue Financing System Equipment Financing for FY 2013 as allocated to those U. T. System institutions set out on Page 154; and

b. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that

- parity debt shall be issued to pay the cost of equipment including costs incurred prior to the issuance of such parity debt;

- sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. System Board of Regents relating to the Financing System;

- the U. T. System institutions and U. T. System Administration, which are "Members" as such term is used in the Master Resolution, possess the financial capacity to satisfy their direct obligation as defined in the Master Resolution relating to the issuance by the U. T. System Board of Regents of tax-exempt parity debt in the aggregate amount of $164,482,000 for the purchase of equipment; and

- this resolution satisfies the official intent requirements set forth in Section 1.150-2 of Title 26 of the *Code of Federal Regulations* that evidences the Board's intention to reimburse project expenditures with bond proceeds.

BACKGROUND INFORMATION

On April 14, 1994, the U. T. System Board of Regents approved the use of Revenue Financing System debt for equipment purchases in accordance with the Guidelines Governing Administration of the Revenue Financing System. Equipment financing is used for the purchase of equipment in lieu of more costly vendor financing. The guidelines specify that the equipment to be financed must have a useful life of at least three years. The debt is amortized twice a year with full amortization not to exceed 10 years.

This agenda item requests approval of an aggregate amount of $164,482,000 for equipment financing for Fiscal Year 2013. On August 25, 2011, the U. T. System Board of Regents approved a total of $179,550,000 of equipment financing for Fiscal Year 2012, of which $50,143,000 has been issued as of July 31, 2012.

Further details on the equipment to be financed and debt service coverage ratios for individual institutions may be found on the following page.

APPROVAL OF U. T. SYSTEM EQUIPMENT FINANCING
FY 2013

Institution	$ Amount of Request	Description of Expected Equipment Purchases	DSC*
U. T. Arlington	$1,000,000	IT equipment	3.0x
U. T. Austin	1,500,000	Classroom equipment, athletics equipment, research equipment, and IT equipment	2.4x
U. T. Dallas	12,000,000	PeopleSoft implementation, research equipment, business operations equipment	2.7x
U. T. El Paso	4,882,000	Vehicle replacement, landscape equipment, PeopleSoft implementation	2.1x
U. T. Pan American	2,600,000	Food service equipment	1.4x
U.T. San Antonio	3,800,000	PeopleSoft implementation, athletics equipment	3.0x
U. T. Southwestern Medical Center - Dallas	40,000,000	Information resources equipment, clinical equipment, hospital equipment, non-clinical	2.0x
U. T. Medical Branch - Galveston	30,000,000	Clinical equipment, IT equipment, research-related equipment, facilities-related	2.5x
U. T. Health Science Center - Houston	3,200,000	IT equipment	3.6x
U. T. Health Science Center - San Antonio	7,000,000	Research equipment, clinical equipment, infrastructure equipment	2.1x
U. T. M. D. Anderson Cancer Center	50,000,000	Medical equipment, research equipment, IT equipment, and diagnostic equipment	9.6x
U. T. Health Science Center - Tyler	8,500,000	Clinical equipment	2.7x

Total	$164,482,000

* Debt Service Coverage ("DSC") based on six-year forecasted Statement of Revenues, Expenses, and Changes in Net Assets ("SRECNA") for FY2013 – FY2018.

U. T. System Office of Finance, June 29, 2012

8. U. T. System Board of Regents: The University of Texas Investment Management Company (UTIMCO) Performance Summary Report and Investment Reports for the quarter ended May 31, 2012

REPORT

The May 31, 2012 UTIMCO Performance Summary Report is attached on Page 156.

The Investment Reports for the quarter ended May 31, 2012, are set forth on Pages 157 - 160.

Item I on Page 157 reports activity for the Permanent University Fund (PUF) investments. The PUF's net investment return for the quarter was negative 1.69% versus its composite benchmark return of negative 4.47%. The PUF's net asset value decreased during the quarter to $12,843 million. The decrease was due to a negative net investment return of $225 million and distributions to the Available University Fund (AUF) of $117 million. The change in net asset value also includes an increase of $214 million from PUF Lands receipts.

Item II on Page 158 reports activity for the General Endowment Fund (GEF) investments. The GEF's net investment return for the quarter was negative 1.72% versus its composite benchmark return of negative 4.47%. The GEF's net asset value decreased by $145 million during the quarter to $6,884 million.

Item III on Page 159 reports activity for the Intermediate Term Fund (ITF). The ITF's net investment return for the quarter was negative 3.02% versus its composite benchmark return of negative 4.53%. The net asset value decreased during the quarter to $4,745 million due to a negative net investment return of $148 million and distributions of $37 million. The change in net asset value also includes net contributions of $104 million.

All exposures were within their asset class and investment type ranges. Liquidity was within policy.

Item IV on Page 160 presents book and market values of cash, debt, equity, and other securities held in funds outside of internal investment pools. Total cash and equivalents, consisting primarily of institutional operating funds held in the Dreyfus money market fund, increased by $16 million to $2,351 million during the three months since the last reporting period. Market values for the remaining asset types were debt securities: $72 million versus $75 million at the beginning of the period; equities: $48 million versus $51 million at the beginning of the period; and other investments: $1 million versus $1 million at the beginning of the period.

UTIMCO Performance Summary

May 31, 2012

	Net Asset Value 5/31/2012 (in Millions)	Periods Ended May 31, 2012 (Returns for Periods Longer Than One Year are Annualized)							
		Short Term		Year to Date		Historic Returns			
ENDOWMENT FUNDS		1 Mo	3 Mos	Fiscal	Calendar	1 Yr	3 Yrs	5 Yrs	10 Yrs
Permanent University Fund	$ 12,843	(2.25%)	(1.69%)	(0.48%)	3.35%	(3.17%)	11.27%	1.67%	6.93%
General Endowment Fund		(2.28)	(1.72)	(0.51)	3.34	(3.17)	11.29	1.71	7.03
Permanent Health Fund	953	(2.27)	(1.75)	(0.59)	3.32	(3.26)	11.20	1.64	6.94
Long Term Fund	5,931	(2.27)	(1.75)	(0.59)	3.32	(3.25)	11.20	1.65	6.95
Separately Invested Funds	140	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Endowment Funds	19,867								
OPERATING FUNDS									
Intermediate Term Fund	4,745	(3.12)	(3.02)	(1.41)	1.91	(3.63)	9.35	2.32	N/A
Debt Proceeds Fund	808	0.02	0.05	0.11	0.07	0.15	N/A	N/A	N/A
Short Term Fund	1,524	0.02	0.05	0.11	0.07	0.14	0.22	1.40	2.09
Total Operating Funds	7,077								
Total Investments	$ 26,944								
VALUE ADDED (Percent)									
Permanent University Fund		1.91%	2.78%	1.15%	2.76%	1.94%	3.40%	2.54%	2.11%
General Endowment Fund		1.88	2.75	1.12	2.75	1.94	3.42	2.58	2.21
Intermediate Term Fund		0.78	1.51	1.45	1.52	2.00	2.90	2.65	N/A
Debt Proceeds Fund		0.01	0.02	0.08	0.04	0.10	N/A	N/A	N/A
Short Term Fund		0.01	0.02	0.08	0.04	0.09	0.10	0.34	0.21
VALUE ADDED (1) ($ IN MILLIONS)									
Permanent University Fund		$ 251	$ 362	$ 152	$ 342	$ 259	$ 1,113	$ 1,499	$ 2,313
General Endowment Fund		134	195	78	185	140	625	850	1,320
Intermediate Term Fund		38	74	70	71	98	357	551	N/A
Total Value Added		$ 423	$ 631	$ 300	$ 598	$ 497	$ 2,095	$ 2,900	$ 3,633

Footnotes available upon request

UTIMCO 7/16/2012

I. PERMANENT UNIVERSITY FUND

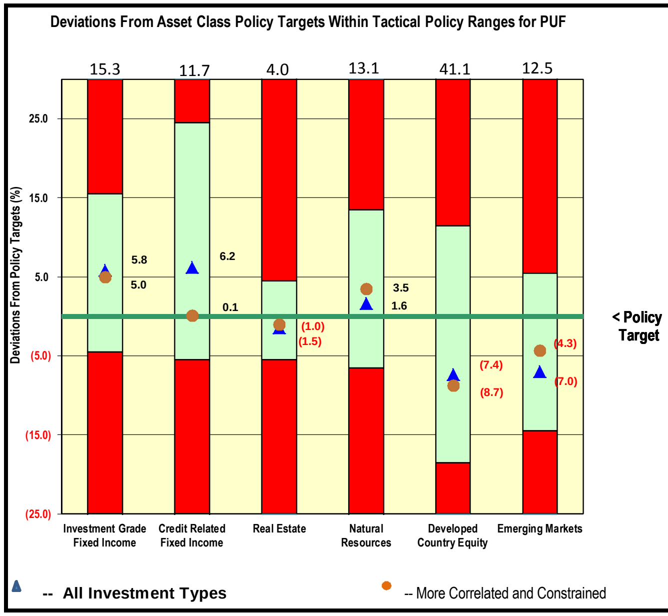
Investment Reports for Periods Ended May 31, 2012

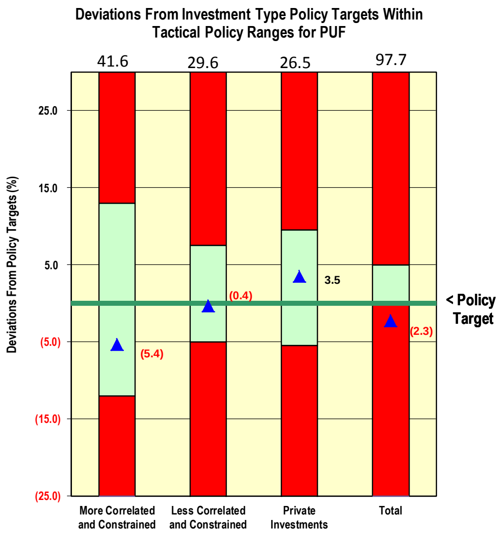
Prepared in accordance with *Texas Education Code* Sec. 51.0032

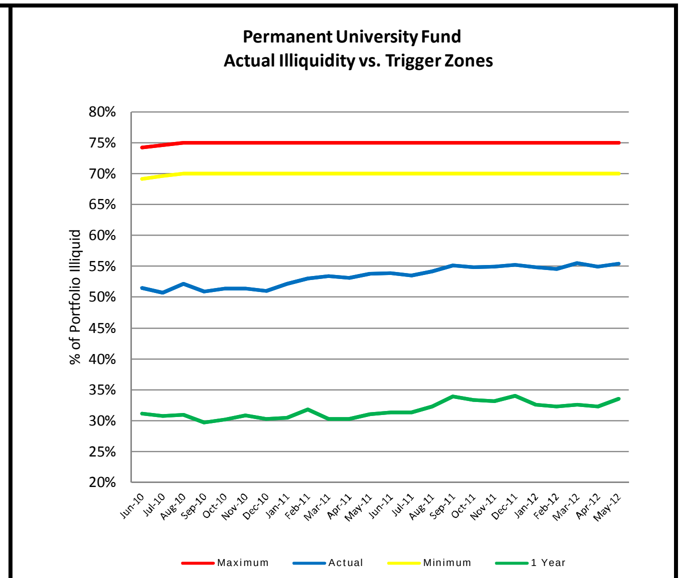
Summary of Capital Flows

($ millions)	Fiscal Year Ended August 31, 2011	Quarter Ended May 31, 2012	Fiscal Year to Date May 31, 2012
Beginning Net Assets	$ 10,725	$ 12,971	$ 12,688
PUF Lands Receipts	896	214	803
Investment Return (Net of Expenses)	1,573	(225)	(72)
Distributions to AUF	(506)	(117)	(576)
Ending Net Assets	$ 12,688	$ 12,843	$ 12,843

	Fiscal Year to Date				
	Returns		Value Added		
	Portfolio	Policy Benchmark	From Asset Allocation	From Security Selection	Total
More Correlated and Constrained:					
Investment Grade	-1.38%	-1.09%	0.06%	-0.04%	0.02%
Credit-Related	5.11%	4.93%	0.00%	0.00%	0.00%
Real Estate	-1.84%	1.22%	-0.01%	-0.08%	-0.09%
Natural Resources	-16.40%	-17.69%	-0.79%	0.10%	-0.69%
Developed Country	-0.28%	-0.94%	-0.12%	0.01%	-0.11%
Emerging Markets	-8.92%	-10.74%	0.20%	0.13%	0.33%
Total More Correlated and Constrained	**-6.23%**	**-5.50%**	**-0.66%**	**0.12%**	**-0.54%**
Less Correlated and Constrained	**3.61%**	**-1.64%**	**0.18%**	**1.35%**	**1.53%**
Private Investments	**5.42%**	**5.03%**	**-0.17%**	**0.33%**	**0.16%**
Total	**-0.48%**	**-1.63%**	**-0.65%**	**1.80%**	**1.15%**







II. GENERAL ENDOWMENT FUND

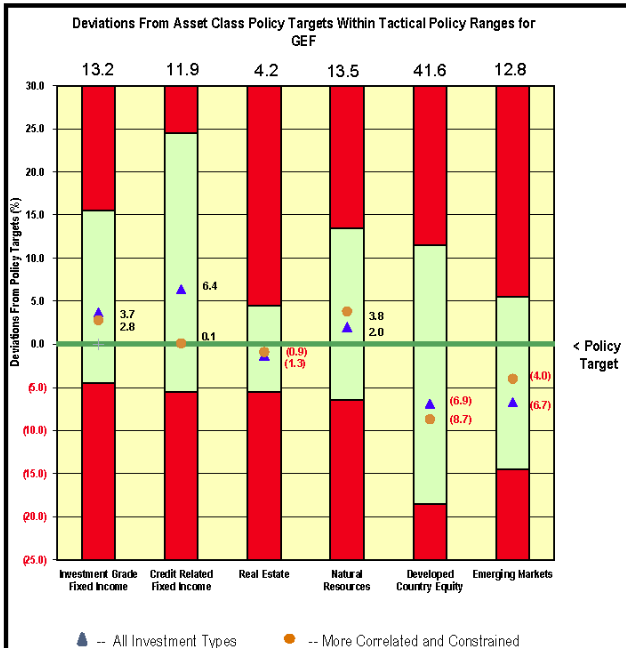
Investment Reports for Periods Ended May 31, 2012

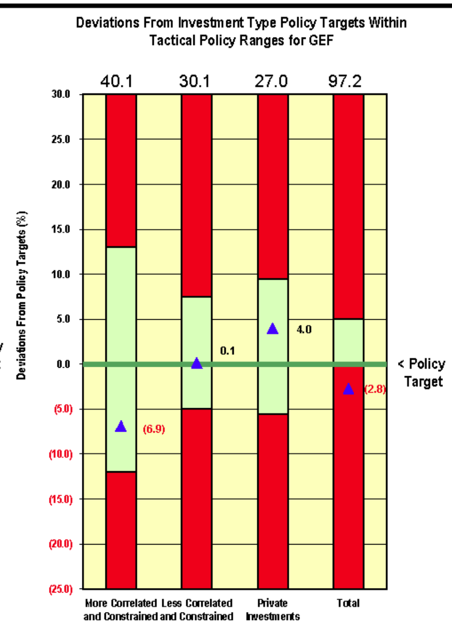
Prepared in accordance with *Texas Education Code* Sec. 51.0032

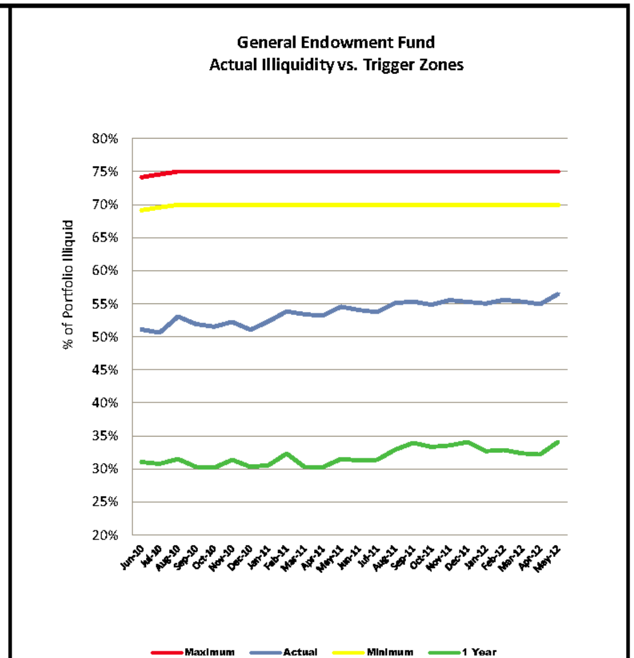
Summary of Capital Flows

($ millions)	Fiscal Year Ended August 31, 2011	Quarter Ended May 31, 2012	Fiscal Year to Date May 31, 2012
Beginning Net Assets	$ 6,035	$ 7,029	$ 7,049
Contributions	432	64	134
Withdrawals	(12)	(1)	(5)
Distributions	(327)	(86)	(257)
Investment Return (Net of Expenses)	921	(122)	(37)
Ending Net Assets	$ 7,049	$ 6,884	$ 6,884

	Fiscal Year to Date				
	Returns		Value Added		
	Portfolio	Policy Benchmark	From Asset Allocation	From Security Selection	Total
More Correlated and Constrained:					
Investment Grade	-1.15%	-1.09%	0.07%	-0.03%	0.04%
Credit-Related	5.11%	4.93%	0.00%	0.00%	0.00%
Real Estate	-1.83%	1.22%	0.00%	-0.09%	-0.09%
Natural Resources	-16.43%	-17.69%	-0.82%	0.06%	-0.76%
Developed Country	-0.13%	-0.94%	-0.11%	0.07%	-0.04%
Emerging Markets	-8.92%	-10.74%	0.18%	0.14%	0.32%
Total More Correlated and Constrained	**-6.32%**	**-6.50%**	**-0.68%**	**0.15%**	**-0.53%**
Less Correlated and Constrained	**3.61%**	**-1.64%**	**0.17%**	**1.34%**	**1.51%**
Private Investments	**5.42%**	**5.03%**	**-0.17%**	**0.31%**	**0.14%**
Total	**-0.51%**	**-1.63%**	**-0.68%**	**1.80%**	**1.12%**







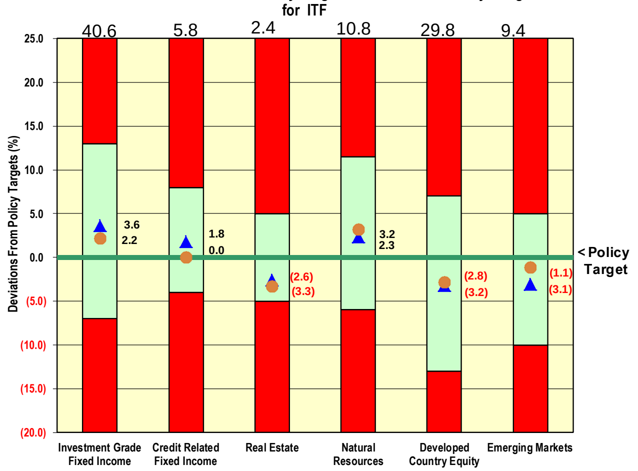
III. INTERMEDIATE TERM FUND
Investment Reports for Periods Ended May 31, 2012
Prepared in accordance with *Texas Education Code* Sec. 51.0032

Summary of Capital Flows

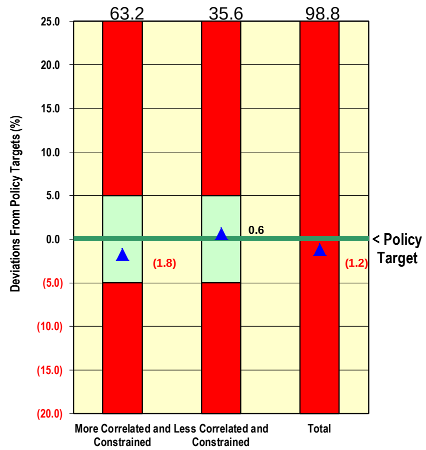
($ millions)	Fiscal Year Ended August 31, 2011	Quarter Ended May 31, 2012	Fiscal Year to Date May 31, 2012
Beginning Net Assets	$ 4,156	$ 4,826	$ 4,662
Contributions	328	130	396
Withdrawals	(168)	(26)	(138)
Distributions	(139)	(37)	(106)
Investment Return (Net of Expenses)	485	(148)	(69)
Ending Net Assets	$ 4,662	$ 4,745	$ 4,745

	Fiscal Year to Date				
	Returns		Value Added		
	Portfolio	Policy Benchmark	From Asset Allocation	From Security Selection	Total
More Correlated and Constrained:					
Investment Grade	0.77%	-1.09%	0.03%	0.62%	0.65%
Credit-Related	0.00%	4.93%	0.00%	0.00%	0.00%
Real Estate	-3.31%	1.22%	-0.02%	-0.25%	-0.27%
Natural Resources	-16.99%	-17.69%	-0.75%	0.07%	-0.68%
Developed Country	-0.35%	-0.94%	-0.06%	0.02%	-0.04%
Emerging Markets	-9.18%	-10.74%	-0.01%	0.08%	0.07%
Total More Correlated and Constrained	**-3.99%**	**-3.59%**	**-0.81%**	**0.54%**	**-0.27%**
Less Correlated and Constrained	**3.60%**	**-1.64%**	**0.16%**	**1.56%**	**1.72%**
Private Investments	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
Total	**-1.41%**	**-2.86%**	**-0.65%**	**2.10%**	**1.45%**

Deviations From Asset Class Policy Targets Within Tactical Policy Ranges for ITF

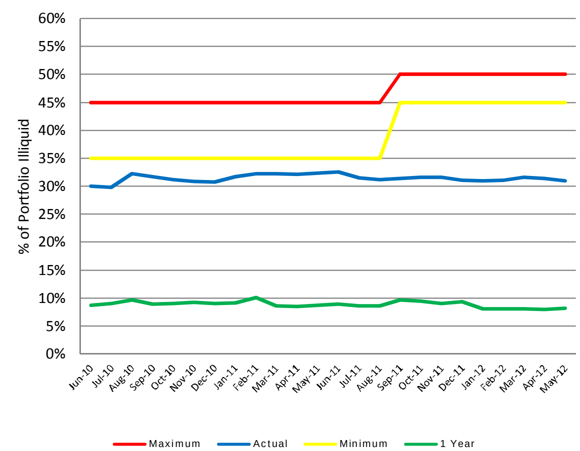


Deviations From Investment Type Policy Targets Within Tactical Policy Ranges for ITF



▲ -- All Investment Types ● -- More Correlated and Constrained

Intermediate Term Fund
Actual Illiquidity vs. Trigger Zones



IV. SEPARATELY INVESTED ASSETS

Summary Investment Report at May 31, 2012

Report prepared in accordance with *Texas Education Code* Sec. 51.0032

($ thousands)

FUND TYPE

	CURRENT PURPOSE DESIGNATED		CURRENT PURPOSE RESTRICTED		ENDOWMENT & SIMILAR FUNDS		ANNUITY & LIFE INCOME FUNDS		AGENCY FUNDS		TOTAL EXCLUDING OPERATING FUNDS		OPERATING FUNDS (DEBT PROCEEDS AND (SHORT TERM FUND)		TOTAL	
ASSET TYPES																
Cash & Equivalents:	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET
Beginning value 02/29/12	-	-	2,188	2,188	65,697	65,697	948	948	4,326	4,326	73,159	73,159	2,261,536	2,261,536	2,334,695	2,334,695
Increase/(Decrease)	-	-	64	64	(4,940)	(4,940)	1,516	1,516	(1,247)	(1,247)	(4,607)	(4,607)	20,799	20,799	16,192	16,192
Ending value 05/31/12	-	-	2,252	2,252	60,757	60,757	2,464	2,464	3,079	3,079	68,552	68,552	2,282,335	2,282,335	2,350,887	2,350,887
Debt Securities:																
Beginning value 02/29/12	-	-	101	101	11,731	12,859	11,744	12,408	-	-	23,576	25,368	49,841	49,607	73,417	74,975
Increase/(Decrease)	-	-	(56)	(56)	(63)	(38)	(3,134)	(3,229)	-	-	(3,253)	(3,323)	-	(100)	(3,253)	(3,423)
Ending value 05/31/12	-	-	45	45	11,668	12,821	8,610	9,179	-	-	20,323	22,045	49,841	49,507	70,164	71,552
Equity Securities:																
Beginning value 02/29/12	460	2,942	1,506	1,457	30,127	34,093	12,823	12,716	-	-	44,916	51,208	-	-	44,916	51,208
Increase/(Decrease)	-	144	(1,309)	(1,265)	(330)	(2,014)	811	403	-	-	(828)	(2,732)	-	-	(828)	(2,732)
Ending value 05/31/12	460	3,086	197	192	29,797	32,079	13,634	13,119	-	-	44,088	48,476	-	-	44,088	48,476
Other:																
Beginning value 02/29/12	-	-	155	155	12	12	438	142	407	407	1,012	716	-	-	1,012	716
Increase/(Decrease)	-	-	107	107	(3)	(3)	13	2	(207)	(207)	(90)	(101)	-	-	(90)	(101)
Ending value 05/31/12	-	-	262	262	9	9	451	144	200	200	922	615	-	-	922	615
Total Assets:																
Beginning value 02/29/12	460	2,942	3,950	3,901	107,567	112,661	25,953	26,214	4,733	4,733	142,663	150,451	2,311,377	2,311,143	2,454,040	2,461,594
Increase/(Decrease)	-	144	(1,194)	(1,150)	(5,336)	(6,995)	(794)	(1,308)	(1,454)	(1,454)	(8,778)	(10,763)	20,799	20,699	12,021	9,936
Ending value 05/31/12	460	3,086	2,756	2,751	102,231	105,666	25,159	24,906	3,279	3,279	133,885	139,688	2,332,176	2,331,842	2,466,061	2,471,530

Details of individual assets by account furnished upon request.

UTIMCO 06/15/2012

9. U. T. System Board of Regents: Approval of amendments to the Investment Policy Statements for the Permanent University Fund, the General Endowment Fund, the Permanent Health Fund, the Long Term Fund, the Intermediate Term Fund, the Short Term Fund, the Separately Invested Funds, the Derivative Investment Policy, and the Liquidity Policy

RECOMMENDATION

The Chancellor and the Executive Vice Chancellor for Business Affairs concur in the recommendation of the Board of Directors of The University of Texas Investment Management Company (UTIMCO) that the U. T. System Board of Regents approve proposed amendments to the following Investment Policy Statements, including asset allocation, and the Derivative Investment Policy and the Liquidity Policy, as set forth on the referenced pages.

a. Permanent University Fund (PUF) (See Pages 163 - 174)

b. General Endowment Fund (GEF) (See Pages 175 - 184)

c. Permanent Health Fund (PHF) (See Pages 185 - 194)

d. Long Term Fund (LTF) (See Pages 195 - 204)

e. Intermediate Term Fund (ITF) (See Pages 205 - 214)

f. Short Term Fund (STF) (See Pages 215 - 220)

g. Separately Invested Funds (SIF) (See Pages 221 - 228)

h. Derivative Investment Policy (See Pages 229 - 234)

i. Liquidity Policy (See Pages 235 - 238)

BACKGROUND INFORMATION

The Master Investment Management Services Agreement (IMSA) between the U. T. System Board of Regents and UTIMCO requires that UTIMCO review the current Investment Polices for each Fund at least annually. The review includes distribution (spending) guidelines; long-term investment return expectations and expected risk levels; Asset Class and Investment Type allocation targets and ranges for each eligible Asset Class and Investment Type; expected returns for each Asset Class, Investment Type, and Fund; designated performance benchmarks for each Asset Class and/or Investment Type; and such other matters as the U. T. System Board of Regents or its staff designees may request. The UTIMCO Board approved the amendments to the Investment Policy Statements, the Derivative Investment Policy, and the Liquidity Policy on July 11, 2012.

Exhibits A in the PUF, GEF, and ITF Investment Policy Statements and Exhibits B in the PHF and LTF Investment Policy Statements have been amended to set forth the revised Policy Portfolio Asset Class and Investment Type targets and ranges for FY 2013. In addition, the one year downside deviation has been adjusted to reflect the revised Asset Class and Investment Type targets for FY 2013. Finally, the Expected Annual Return (Benchmark) target for FY 2013 has been updated for the PUF, GEF, PHF, and LTF.

Other significant amendments to the PUF, GEF, and ITF Investment Policy Statements are as follows:

a. changed Asset Class definitions to clarify Investment Grade Fixed Income and Credit-Related Fixed Income;

b. changed Investment Guidelines, General to include references to the Delegation of Authority Policy and Derivative Investment Policy with respect to when the use of internal investment strategies or programs employing short sales is authorized; and

c. changed Investment Guidelines, General, adding the authorization for the use and amount of aggregated annual premium (75 basis points for PUF and GEF, 50 basis points for ITF) of Derivative Investments utilized to reduce long exposure to an Asset Class or hedge against risk.

Amendments made to the STF Investment Policy Statement expand the items included under Investment Guidelines for Cash and Cash Equivalents.

Amendments made to the SIF Investment Policy Statement changed Asset Class definitions to clarify Investment Grade Fixed Income and Credit-Related Fixed Income.

Amendments to the Derivative Investment Policy are as follows:

a. clarified definition of foreign currency contracts that are excluded from the definition of Derivative Investments;

b. for Counterparty Risks, added exception to exclude foreign currency contracts that mature within 91 days of initial settlement from the requirement to be subject to an established ISDA Netting Agreement consistent with market practice, provided that the contracts are traded with a counterparty that has been preapproved by UTIMCO staff;

c. amended Exhibit B, Delegated Derivative Investment Point #3, changed to reference aggregated prorated annual premium budget for Derivative Investments utilized to reduce long exposure to an Asset Class or hedge against global interest rate shocks and risk in Investment Policy Statements; and

d. amended Exhibit B, Delegated Derivative Investment Point #5, added language to allow for use of individual stock(s) swaps within the portfolio provided the portfolio would not be net short the individual stock(s).

Amendments to the Liquidity Policy expand the items included under the definition of Cash and reword the definition of Liquid and Illiquid under the Liquidity Risk Measurement.

THE UNIVERSITY OF TEXAS SYSTEM
PERMANENT UNIVERSITY FUND
INVESTMENT POLICY STATEMENT

Purpose

The Permanent University Fund (the "PUF") is a public endowment contributing to the support of institutions of The University of Texas System (other than The University of Texas - Pan American and The University of Texas at Brownsville) and institutions of The Texas A&M University System (other than Texas A&M University-Corpus Christi, Texas A&M International University, Texas A&M University-Kingsville, West Texas A&M University, Texas A&M University-Commerce, Texas A&M University-Texarkana, and Baylor College of Dentistry).

PUF Organization

The PUF was established in the *Texas Constitution* of 1876 through the appropriation of land grants previously given to The University of Texas at Austin plus one million acres. The land grants to the PUF were completed in 1883 with the contribution of an additional one million acres of land. Today, the PUF contains 2,109,190 acres of land (the "PUF Lands") located in 19 counties primarily in West Texas.

The 2.1 million acres comprising the PUF Lands produce two streams of income: a) mineral income, primarily in the form of oil and gas royalties and b) surface income, primarily from surface leases and easements. Under the Texas Constitution, mineral income, as a non-renewable source of income, remains a non-distributable part of PUF corpus, and is invested pursuant to this Policy Statement. Surface income, as a renewable source of income, is distributed to the Available University Fund (the "AUF"), as received. The Constitution also requires that all surface income and investment distributions paid to the AUF be expended for certain authorized purposes.

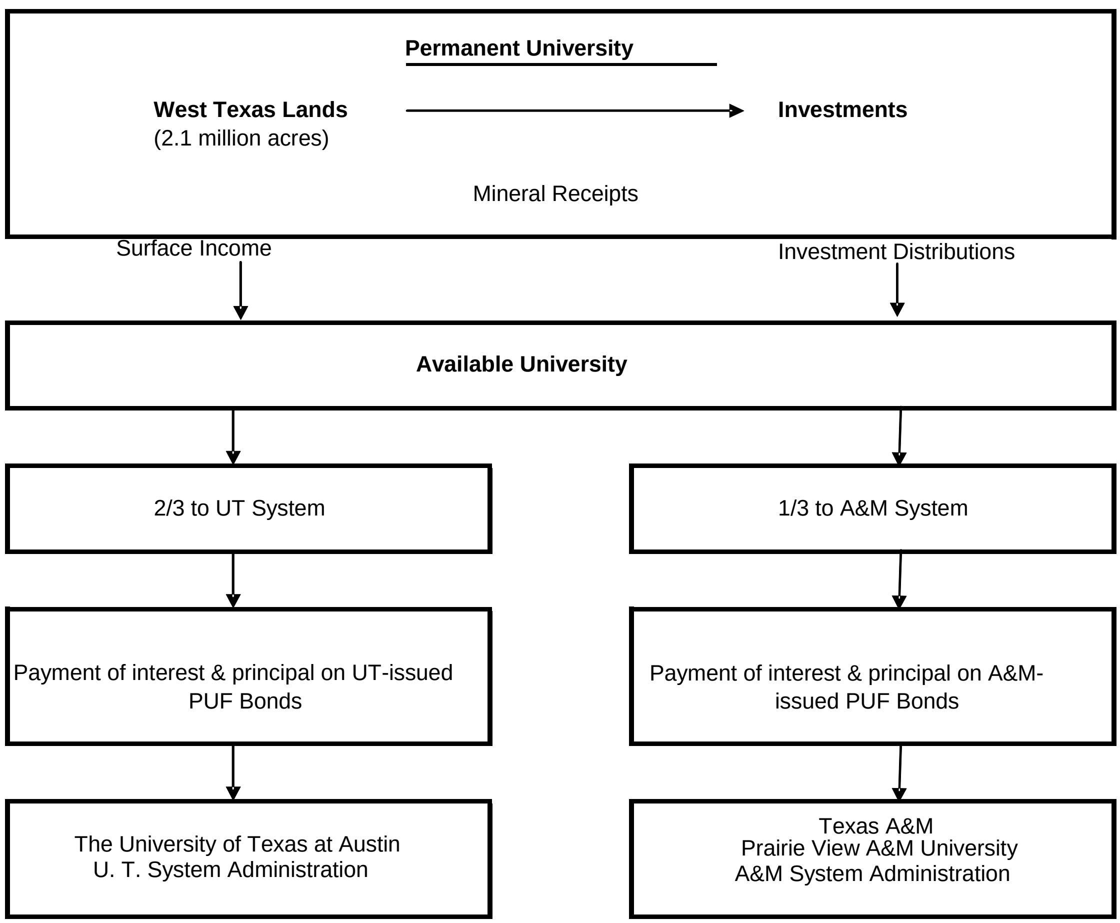
The expenditure of the AUF is subject to a prescribed order of priority:

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

Second, AUF receipts are expended to fund a) excellence programs specifically at U. T. Austin, Texas A&M University and Prairie View A&M University and b) the administration of the university Systems.

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

Exhibit 1



PUF Management

Article VII, Section 11b of the *Texas Constitution* assigns fiduciary responsibility for managing and investing the PUF to the Board of Regents. Article VII, Section 11b authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the PUF in any kind of investments 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.

Ultimate fiduciary responsibility for the PUF rests with the Board of Regents. Section 66.08 of the *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 PUF shall be managed by UTIMCO, which shall a) recommend investment policy for the PUF, b) recommend specific Asset Class and Investment Type allocation targets, ranges and performance benchmarks consistent with PUF objectives, and c) monitor PUF performance against PUF objectives. UTIMCO shall invest the PUF's 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.

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

PUF Investment Objectives

The PUF and the General Endowment Fund (the “GEF”) are pooled for efficient investment purposes. The primary investment objective for each fund shall be to preserve the purchasing power of fund assets and annual distributions by earning an average annual real return over rolling ten-year periods or longer at least equal to the target distribution rate of such fund after all expenses. The current target distribution rate is 4.75%. The target is subject to adjustment from time to time consistent with the primary investment objectives for the funds. Investment returns are expressed net of all investment-related expenses. Additional expenses include U.T. System administrative fees charged to the fund.

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 PUF will be governed by the Liquidity Policy, overseen by the Risk Committee of the UTIMCO Board.

PUF 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. 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 Portfolio 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 PUF asset values could warrant requesting approval of the UTIMCO Board Chairman to waive immediate remedial action.

PUF 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 across all maturities, 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 across all maturities, 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.

Private Investments – Mandates that invest primarily in non-public securities and typically entail capital commitments, calls and distributions.

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 PUF will be measured by the PUF's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, and compared against the stated Policy Benchmarks of the PUF, 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 weighted to reflect PUF's 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 PUF 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 PUF assets in such investments.

- No securities may be purchased or held which would jeopardize the PUF'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 in the Delegation of Authority Policy, the Derivative Investment Policy or by the UTIMCO Board.

- The PUF's investments in warrants shall not exceed more than 5% of the PUF's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.

- The PUF may utilize derivatives only in accordance with the Derivative Investment Policy. The aggregate prorated annual premium of Derivative Investments utilized to reduce long exposure to an Asset Class or hedge against risk shall not exceed 75 basis points of PUF value.

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 value 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.

PUF Distributions

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

- provide a predictable, stable stream of distributions over time;

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

- ensure that the inflation adjusted value of PUF assets after distributions is maintained over rolling 10-year periods.

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

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

Annually, the Board of Regents will approve a distribution amount to the Available University Fund.

In conjunction with the annual U. T. System budget process, UTIMCO shall recommend to the Board of Regents each May, or at other times as needed, an amount to be distributed to the AUF during the next fiscal year. UTIMCO's recommendation to the Board of Regents shall be an amount equal to 4.75% of the trailing 12-quarter average of the net asset value of the PUF for the quarter ending February of each year unless the average annual rate of return of the PUF investments over the trailing 12 quarters exceeds the Expected Return by 25 basis points or more, in which case the distribution shall be 5.0% of the trailing 12-quarter average. "Expected Return" is the Expected Annual Return or Benchmarks set out in Exhibit A to this Policy Statement.

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

PUF Accounting

The fiscal year of the PUF shall begin on September 1st and end on August 31st. Market value of the PUF 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 PUF'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 PUF net assets. Valuation of PUF assets shall be based on the books and records of the custodian for the valuation date. The final determination of PUF net assets for a month end close shall normally be completed within five business days but determination may be longer under certain circumstances. Valuation of alternative assets shall be determined in accordance with the UTIMCO Valuation Criteria for Alternative Assets as approved by the UTIMCO Board and then in effect.

The fair market value of the PUF's net assets shall include all related receivables and payables of the PUF on the valuation. 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 non-compliant activity within this Policy.

Securities Lending

The PUF may participate in a securities lending contract with a bank or nonbank security lending agent for purposes of realizing additional income. Loans of securities by the PUF 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 insure compliance with contract provisions.

Investor Responsibility

As a shareholder, the PUF 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 PUF. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the PUF solely in the interest of the U. T. System and the A&M System, in compliance with the Proxy Voting Policy then in effect, and shall not invest the PUF 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 this Policy Statement as it deems necessary or advisable.

Effective Date

The effective date of this Policy shall be September 1, ~~2011~~ 2012~~(except for Min and Max ranges and Risk Bounds in Exhibit A, which became effective August 15, 2011)~~.

Permanent University Fund Investment Policy Statement (continued)

EXHIBIT A
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES
EFFECTIVE SEPTEMBER 1, 2012 ~~2011 except Min and Max Ranges and Risk Bounds are Effective August 15, 2011~~

POLICY PORTFOLIO	FYE ~~2012~~ 2013		
	Min	Target	Max
Asset Classes			
Investment Grade Fixed Income	5.0%	9.5%	25.0%
Credit-Related Fixed Income	0.0%	5.5%	30.0%
Real Estate	0.0%	~~5.5%~~ 6.5%	~~10.0%~~ 12.5%
Natural Resources	5.0%	~~11.5%~~ 13.5%	25.0%
Developed Country Equity	30.0%	~~48.5%~~ 45.0%	60.0%
Emerging Markets Equity	5.0%	~~19.5%~~ 20.0%	25.0%
Investment Types			
More Correlated & Constrained	35.0%	~~47.0%~~ 44.5%	60.0%
Less Correlated & Constrained	25.0%	30.0%	37.5%
Private Investments	17.5%	~~23.0%~~ 25.5%	32.5%

*The total Asset Class & Investment Type exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed 105% of the Asset Class & Investment Type exposures excluding the amount of derivatives exposure not collateralized by Cash.

POLICY BENCHMARK (reset monthly)	FYE ~~2012~~ 2013
Barclays Capital Global Aggregate Index	7.5%
FTSE EPRA/NAREIT Developed Index Net TRI USD	2.5%
50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index	~~6.5%~~ 7.5%
MSCI World Index with net dividends	~~18.5%~~ 15.0%
MSCI Emerging Markets with net dividends	12.0%
Hedge Fund Research Indices Fund of Funds Composite Index	30.0%
Venture Economics Custom Index	~~20.0%~~ 21.5%
NACREIF Custom Index	~~3.0%~~ 4.0%

POLICY/TARGET RETURN/RISKS	FYE ~~2012~~ 2013
Expected Annual Return (Benchmarks) **	~~8.81~~ 7.36%
One Year Downside Deviation	~~8.86~~ 9.45%
Risk Bounds	
Lower: 1 Year Downside Deviation	75%
Upper: 1 Year Downside Deviation	115%

**Equal to nominal return, net of all investment-related expenses and assuming an inflation rate of ~~3~~ 2.5%.

EXHIBIT A
(continued)
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE SEPTEMBER 1, 2012 ~~2011 except Min and Max Ranges and Risk Bounds are Effective August 15, 2011~~

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE ~~2012~~ 2013

FYE ~~2012~~ 2013		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	Investment Grade	Barclays Capital Global Aggregate Index (7.5%)	2.0%	0.0%	9.5%
	Credit-Related	0.00%	3.0%	2.5%	5.5%
Real Assets	Real Estate	FTSE EPRA/NAREIT Developed Index Net TRI USD (2.5%)	0.0%	Custom NACREIF ~~3.0~~ 4.0%	~~5.5~~ 6.5%
	Natural Resources	50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index (~~6.5~~ 7.5%)	1.0%	~~4.0~~ 5.0%	~~11.5~~ 13.5%
Equity	Developed Country	MSCI World Index with Net Dividends (~~18.5~~ 15.0%)	20.0%	10.0%	~~48.5~~ 45.0%
	Emerging Markets	MSCI EM Index with Net Dividends (12.0%)	4.0%	~~3.5~~ 4.0%	~~19.5~~ 20.0%
Total		~~47.0~~ 44.5%	30.0%	~~23~~ 25.5%	100.0%

Yellow: Hedge Fund Research Indices Fund of Funds Composite Index
Blue: Venture Economics Custom Index

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

THE UNIVERSITY OF TEXAS SYSTEM
GENERAL ENDOWMENT FUND
INVESTMENT POLICY STATEMENT

Purpose

The General Endowment Fund (the "GEF"), established by the Board of Regents of The University of Texas System (the "Board of Regents") March 1, 2001, is a pooled fund for the collective investment of certain long-term funds under the control and management of the Board of Regents. The GEF provides for greater diversification of investments than would be possible if each account were managed separately.

GEF Organization

The GEF functions like a mutual fund in which each eligible fund purchases and redeems GEF units as provided herein. The ownership of GEF 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.

GEF 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 GEF.

Ultimate fiduciary responsibility for the GEF 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 GEF shall be managed by UTIMCO, which shall a) recommend investment policy for the GEF, b) recommend specific Asset Class and Investment Type allocation targets, ranges, and performance benchmarks consistent with GEF objectives, and c) monitor GEF performance against GEF objectives. UTIMCO shall invest the GEF 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.

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

Funds Eligible to Purchase GEF Units

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

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

Currently, the Long Term Fund (the "LTF") and the Permanent Health Fund (the "PHF") purchase units in the GEF.

GEF Investment Objectives

The GEF and the PUF are pooled for efficient investment purposes. The primary investment objective for each fund shall be to preserve the purchasing power of fund assets by earning an average annual real return over rolling ten-year periods or longer at least equal to the target distribution rate of such fund (in case of the GEF, the target distribution rate of the LTF and the PHF) after all expenses. The current target distribution rate is 4.75%. The target is subject to adjustment from time to time consistent with the primary investment objectives for the funds. Investment returns are expressed net of all investment-related expenses. Additional expenses include U.T. System administrative fees charged to the fund.

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 GEF will be governed by the Liquidity Policy, overseen by the Risk Committee of the UTIMCO Board.

GEF 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. 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 Classes or Investment Types or the Portfolio 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 GEF asset values could warrant requesting approval of the UTIMCO Board Chairman to waive immediate remedial action.

GEF 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 across all maturities, 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 across all maturities, 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.

Private Investments – Mandates that invest primarily in non-public securities and typically entail capital commitments, calls and distributions.

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 GEF will be measured by the GEF's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, and compared against the stated Policy Benchmarks of the GEF, 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 weighted to reflect GEF's 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 GEF 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 GEF assets in such investments.
- No securities may be purchased or held which jeopardize the GEF'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 in the Delegation of Authority Policy, the Derivative Investment Policy or by the UTIMCO Board.
- The GEF's investments in warrants shall not exceed more than 5% of the GEF's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.
- The GEF may utilize derivatives only in accordance with the Derivative Investment Policy. The aggregate prorated annual premium of Derivative

Investments utilized to reduce long exposure to an Asset Class or hedge against risk shall not exceed 75 basis points of GEF value.

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 value 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.

GEF Accounting

The fiscal year of the GEF shall begin on September 1st and end on August 31st. Market value of the GEF 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 GEF'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 GEF net assets and the net asset value per unit of the GEF. Valuation of GEF assets shall be based on the books and records of the custodian for the valuation date. The final determination of GEF net assets for a month end close shall normally be completed within five business days but determination may be longer under certain circumstances. Valuation of alternative assets shall be determined in accordance with the UTIMCO Valuation Criteria for Alternative Assets as approved by the UTIMCO Board and then in effect.

The fair market value of the GEF's net assets shall include all related receivables and payables of the GEF 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 non-compliant activity within this Policy.

Purchase of GEF Units

Purchase of GEF 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 GEF or contribution of assets approved by UTIMCO's Chief Investment Officer, at the net asset value per unit of the GEF as of the most recent quarterly valuation date. Each fund whose monies are invested in the GEF shall own an undivided interest in the GEF in the proportion that the number of units invested therein bears to the total number of all units comprising the GEF.

Redemption of GEF Units

Redemption of GEF units shall be paid in cash as soon as practicable after the quarterly valuation date of the GEF. Withdrawals from the GEF shall be at the market value price per unit determined at the time of the withdrawal.

Securities Lending

The GEF may participate in a securities lending contract with a bank or nonbank security lending agent for purposes of realizing additional income. Loans of securities by the GEF 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 insure compliance with contract provisions.

Investor Responsibility

As a shareholder, the GEF 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 GEF. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the GEF solely in the interest of GEF unit holders, in compliance with the Proxy Voting Policy then in effect, and shall not invest the GEF 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 this Policy Statement as it deems necessary or advisable.

Effective Date

The effective date of this Policy shall be September 1, ~~2011~~ 2012~~(except for Min and Max ranges and Risk Bounds in Exhibit A, which became effective August 15, 2011)~~.

General Endowment Fund Investment Policy Statement (continued)

EXHIBIT A
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES
EFFECTIVE SEPTEMBER 1, 2012 ~~2011 except Min and Max Ranges and Risk Bounds are Effective August 15, 2011~~

POLICY PORTFOLIO	FYE ~~2012~~ 2013		
	Min	Target	Max
Asset Classes			
Investment Grade Fixed Income	5.0%	9.5%	25.0%
Credit-Related Fixed Income	0.0%	5.5%	30.0%
Real Estate	0.0%	~~5.5%~~ 6.5%	~~10.0%~~ 12.5%
Natural Resources	5.0%	~~11.5%~~ 13.5%	25.0%
Developed Country Equity	30.0%	~~48.5%~~ 45.0%	60.0%
Emerging Markets Equity	5.0%	~~19.5%~~ 20.0%	25.0%
Investment Types			
More Correlated & Constrained	35.0%	~~47.0%~~ 44.5%	60.0%
Less Correlated & Constrained	25.0%	30.0%	37.5%
Private Investments	17.5%	~~23.0%~~ 25.5%	32.5%

*The total Asset Class & Investment Type exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed 105% of the Asset Class & Investment Type exposures excluding the amount of derivatives exposure not collateralized by Cash.

POLICY BENCHMARK (reset monthly)	FYE ~~2012~~ 2013
Barclays Capital Global Aggregate Index	7.5%
FTSE EPRA/NAREIT Developed Index Net TRI USD	2.5%
50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index	~~6.5%~~ 7.5%
MSCI World Index with net dividends	~~18.5%~~ 15.0%
MSCI Emerging Markets with net dividends	12.0%
Hedge Fund Research Indices Fund of Funds Composite Index	30.0%
Venture Economics Custom Index	~~20.0%~~ 21.5%
NACREIF Custom Index	~~3.0%~~ 4.0%

POLICY/TARGET RETURN/RISKS	FYE ~~2012~~ 2013
Expected Annual Return (Benchmarks) **	~~8.81~~ 7.36%
One Year Downside Deviation	~~8.86~~ 9.45%
Risk Bounds	
Lower: 1 Year Downside Deviation	75%
Upper: 1 Year Downside Deviation	115%

**Equal to nominal return, net of all investment-related expenses and assuming an inflation rate of ~~3~~ 2.5%.

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Meeting of the U. T. System Board of Regents - Finance and Planning Committee

EXHIBIT A
(continued)
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE SEPTEMBER 1, 2012 ~~2011 except Min and Max Ranges and Risk Bounds are Effective August 15, 2011~~

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE ~~2012~~ 2013

FYE ~~2012~~ 2013		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	Investment Grade	Barclays Capital Global Aggregate Index (7.5%)	2.0%	0.0%	9.5%
	Credit-Related	0.00%	3.0%	2.5%	5.5%
Real Assets	Real Estate	FTSE EPRA/NAREIT Developed Index Net TRI USD (2.5%)	0.0%	Custom NACREIF ~~3.0~~ 4.0%	~~5.5~~ 6.5%
	Natural Resources	50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index (~~6.5~~ 7.5%)	1.0%	~~4.0~~ 5.0%	~~11.5~~ 13.5%
Equity	Developed Country	MSCI World Index with Net Dividends (~~18.5~~ 15.0%)	20.0%	10.0%	~~48.5~~ 45.0%
	Emerging Markets	MSCI EM Index with Net Dividends (12.0%)	4.0%	~~3.5~~ 4.0%	~~19.5~~ 20.0%
Total		~~47.0~~ 44.5%	30.0%	~~23~~ 25.5%	100.0%

Yellow	Hedge Fund Research Indices Fund of Funds Composite Index
Blue	Venture Economics Custom Index

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

THE UNIVERSITY OF TEXAS SYSTEM
PERMANENT HEALTH FUND
INVESTMENT POLICY STATEMENT

Purpose

The Permanent Health Fund (the "PHF"), established by the Board of Regents of The University of Texas System (the "Board of Regents"), is a pooled fund for the collective investment of certain permanent funds for health-related institutions of higher education created, effective August 30, 1999, by Chapter 63 of the *Texas Education Code*. The permanent health funds which have assets in the PHF are:

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

B. Eight of the thirteen separate Permanent Funds for Health Related Institutions (the "PFHRIs"), the distributions from which are to fund research and other programs at health-related institutions of higher education that benefit public health. The PFHRIs invested in the PHF are:

U. T. Health Science Center - San Antonio
U. T. M. D. Anderson Cancer Center
U. T. Southwestern Medical Center
U. T. Medical Branch - Galveston
U. T. Health Science Center - Houston
U. T. Health Science Center - Tyler
U. T. El Paso
Regional Academic Health Center

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

PHF Organization

The PHF functions like a mutual fund in which each eligible fund purchases and redeems PHF units as provided herein.

PHF Management

Chapter 63 of the *Texas Education Code* designates: a) the Board of Regents as the administrator for the PHFHE and b) the governing board of an institution for which a PFHRI fund is established as the administrator for its own PFHRI, or if the governing board so elects, the Comptroller of Public Accounts (State Comptroller). It permits the State Comptroller, in turn, to contract with the governing board of any institution that is eligible to receive a grant under Chapter 63. Pursuant to the foregoing and an Investment Management Services Agreement between the Board of Regents and the State Comptroller, the Board of Regents is the administrator responsible for managing the PHF. Chapter 63 further states that the Board of Regents may manage and invest the PHF in the same manner as the Board of Regents manages and invests other permanent endowments. It also requires that the administrator invest the funds in a manner that preserves the purchasing power of the funds' assets and distributions. It further requires that the administrator make distributions in a manner consistent with the administrator's policies and procedures for making distributions to the beneficiaries of its own endowments in the case of the PHFHE or the funds themselves in the case of the PFHRI funds.

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 Chapter 63 of the *Texas Education Code*, the Board of Regents has elected the PUF prudent investor standard to govern its management of the PHF.

Ultimate fiduciary responsibility for the PHF 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 PHF shall be managed by UTIMCO which shall: a) recommend investment policy for the PHF; b) recommend specific Asset Class and Investment Type allocation targets, ranges, and performance benchmarks consistent with PHF objectives; and c) monitor PHF performance against PHF objectives. UTIMCO shall invest the PHF 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.

PHF Administration

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

Funds Eligible to Purchase PHF Units

No fund shall be eligible to purchase units of the PHF unless it is a permanent health fund established pursuant to Chapter 63 of the *Texas Education Code*, under the control, with full discretion as to investments, of the Board of Regents.

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

PHF Investment Objectives

The primary investment objective shall be to preserve the purchasing power of PHF assets and annual distributions 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 5.2%. The target is subject to adjustment from time to time consistent with the primary investment objective of the PHF.

Asset Allocation and Policy

PHF assets shall be allocated among the following investments:

A. Cash and Cash Equivalents - Cash and Cash Equivalents has the same meaning as given to the term "Cash" in the Liquidity Policy.

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.

In the event that actual Cash and Cash Equivalents positions move outside the range 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 the Cash and Cash Equivalents positions back within the policy range 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 PHF asset values could warrant requesting approval of the UTIMCO Board Chairman to waive immediate remedial action.

Performance Measurement

The investment performance of the PHF will be measured by the PHF's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, and compared against the stated Policy Benchmarks of the PHF, as indicated in Exhibits A and B (incorporating the impact of internal derivative positions) and reported to the UTIMCO Board and the Board of Regents at least quarterly. 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 PHF must be invested at all times in strict compliance with applicable law. Investment guidelines for the U. T. System GEF shall be as stated in the GEF Investment Policy Statement.

PHF Distributions

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

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

UTIMCO shall be responsible for calculating the PHF'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, PHF 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% (computed in the same manner).

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 PHF to the unit holders 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.

PHF Accounting

The fiscal year of the PHF shall begin on September 1st and end on August 31st. Market value of the PHF 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 PHF'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 PHF net assets and the net asset value per unit of the PHF. Valuation of PHF assets shall be based on the books and records of the custodian for the valuation date. The final determination of PHF 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 PHF's net assets shall include all related receivables and payables of the PHF 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 non-compliant activity within this Policy.

Purchase of PHF Units

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

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

Redemption of PHF Units

Redemption of PHF units shall be paid in cash as soon as practicable after the quarterly valuation date of the PHF. If the withdrawal is greater than $10 million, advance notice of 60 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 5% of the PHF'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 time frame to liquidate illiquid investments and the best interests of all PHF unit holders. Withdrawals from the PHF shall be at the market value price per unit determined for the period of the withdrawal.

Investor Responsibility

As a shareholder, the PHF 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 PHF. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the PHF solely in the interest of PHF unit holders, in compliance with the Proxy Voting Policy then in effect, and shall not invest the PHF 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~~2012~~, except for Exhibit B~~. ~~Exhibit B follows the effective date of Exhibit A of the GEF~~

Permanent Health Fund Investment Policy Statement (continued)

EXHIBIT A

PHF ASSET ALLOCATION

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE SEPTEMBER 1, 2008

	Neutral Allocation	Range	Benchmark Return
GEF Commingled Fund	100.0%	95% - 100%	Endowment Policy Portfolio
Cash and Cash Equivalents	0.0%	-1% - 5%	90 day T-Bills
Unencumbered Cash			
Temporary Cash Imbalance*			
Net non-trading receivable			

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

*3 trading days or less

Permanent Health Fund Investment Policy Statement (continued)

EXHIBIT B - GENERAL ENDOWMENT FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES
EFFECTIVE SEPTEMBER 1, 2012 ~~2011 except Min and Max Ranges and Risk Bounds are Effective August 15, 2011~~

POLICY PORTFOLIO	FYE ~~2012~~ 2013		
	Min	Target	Max
Asset Classes			
Investment Grade Fixed Income	5.0%	9.5%	25.0%
Credit-Related Fixed Income	0.0%	5.5%	30.0%
Real Estate	0.0%	~~5.5%~~ 6.5%	~~10.0%~~ 12.5%
Natural Resources	5.0%	~~11.5%~~ 13.5%	25.0%
Developed Country Equity	30.0%	~~48.5%~~ 45.0%	60.0%
Emerging Markets Equity	5.0%	~~19.5%~~ 20.0%	25.0%
Investment Types			
More Correlated & Constrained	35.0%	~~47.0%~~ 44.5%	60.0%
Less Correlated & Constrained	25.0%	30.0%	37.5%
Private Investments	17.5%	~~23.0%~~ 25.5%	32.5%

*The total Asset Class & Investment Type exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed 105% of the Asset Class & Investment Type exposures excluding the amount of derivatives exposure not collateralized by Cash.

POLICY BENCHMARK (reset monthly)	FYE ~~2012~~ 2013
Barclays Capital Global Aggregate Index	7.5%
FTSE EPRA/NAREIT Developed Index Net TRI USD	2.5%
50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index	~~6.5%~~ 7.5%
MSCI World Index with net dividends	~~18.5%~~ 15.0%
MSCI Emerging Markets with net dividends	12.0%
Hedge Fund Research Indices Fund of Funds Composite Index	30.0%
Venture Economics Custom Index	~~20.0%~~ 21.5%
NACREIF Custom Index	~~3.0%~~ 4.0%

POLICY/TARGET RETURN/RISKS	FYE ~~2012~~ 2013
Expected Annual Return (Benchmarks) **	~~8.81~~ 7.36%
One Year Downside Deviation	~~8.86~~ 9.45%
Risk Bounds	
Lower: 1 Year Downside Deviation	75%
Upper: 1 Year Downside Deviation	115%

**Equal to nominal return, net of all investment-related expenses and assuming an inflation rate of ~~3~~ 2.5%.

EXHIBIT B
(continued)
GENERAL ENDOWMENT FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE SEPTEMBER 1, 2012 ~~2011 except Min and Max Ranges and Risk Bounds are Effective August 15, 2011~~

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE ~~2012~~ 2013

FYE ~~2012~~ 2013		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	Investment Grade	Barclays Capital Global Aggregate Index (7.5%)	2.0%	0.0%	9.5%
	Credit-Related	0.00%	3.0%	2.5%	5.5%
Real Assets	Real Estate	FTSE EPRA/NAREIT Developed Index Net TRI USD (2.5%)	0.0%	Custom NACREIF ~~3.0~~ 4.0%	~~5.5~~ 6.5%
	Natural Resources	50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index (~~6.5~~ 7.5%)	1.0%	~~4.0~~ 5.0%	~~11.5~~ 13.5%
Equity	Developed Country	MSCI World Index with Net Dividends (~~18.5~~ 15.0%)	20.0%	10.0%	~~48.5~~ 45.0%
	Emerging Markets	MSCI EM Index with Net Dividends (12.0%)	4.0%	~~3.5~~ 4.0%	~~19.5~~ 20.0%
Total		~~47.0~~ 44.5%	30.0%	~~23~~ 25.5%	100.0%

Yellow	Hedge Fund Research Indices Fund of Funds Composite Index
Blue	Venture Economics Custom Index

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

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 Class and Investment Type 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 Class and Investment Type 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 5.2%. 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.

Asset Allocation and Policy

LTF assets shall be allocated among the following investments.

A. Cash and Cash Equivalents – Cash and Cash Equivalents has the same meaning as given to the term "Cash" in the Liquidity Policy.

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.

In the event that actual Cash and Cash Equivalents positions move outside the range 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 range 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 to waive immediate remedial action.

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, and compared against the stated Policy Benchmarks of the PHF, as indicated in Exhibits A and B (incorporating the impact of internal derivative positions) and reported to the UTIMCO Board and the Board of Regents at least quarterly. 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 LTF must be invested at all times in strict compliance with applicable law. Investment guidelines for the U. T. System GEF shall be as stated in 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 and expense ratio in order to preserve the purchasing power of LTF distributions and underlying assets.

Generally, pursuant to the Uniform Prudent Management of Institutional Funds Act, Chapter 163, *Texas Property Code,* as amended, ("Act"), subject to the intent of a donor in a gift instrument, the Board of Regents may appropriate for expenditure or accumulate so much of the LTF as it determines is prudent for the uses, benefits, purposes, and duration for which the LTF is established. Notwithstanding the preceding sentence, the Board of Regents may not appropriate for expenditure in any year an amount greater than nine percent (9%) of the LTF, calculated on the basis of market values determined at least quarterly and averaged over a period of not less than three years immediately preceding the year in which the appropriation for expenditure was made.

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% (computed in the same manner).

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 unit holders 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 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 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. 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.

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 non-compliant activity within this Policy.

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 $25 million, advance notice of 60 business days shall be required prior to the quarterly valuation date. If the withdrawal is for less than $25 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 5% 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 time frame to ~~liquidiate~~liquidate illiquid investments and the best interests of all LTF unit holders. 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 unit holders 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 unit holders, in compliance with the Proxy Voting Policy then in effect, 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 September 1, ~~2011~~2012~~, 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
EFFECTIVE DATE SEPTEMBER 1, 2008

	Neutral Allocation	Range	Benchmark Return
GEF Commingled Fund	100.0%	95% - 100%	Endowment Policy Portfolio
Cash and Cash Equivalents	0.0%	-1% - 5%	90 day T-Bills
Unencumbered Cash			
Temporary Cash Imbalance*			
Net non-trading receivable			

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

*3 trading days or less

Long Term Fund Investment Policy Statement (continued)

EXHIBIT B - GENERAL ENDOWMENT FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES
EFFECTIVE SEPTEMBER 1, 2012 ~~2011 except Min and Max Ranges and Risk Bounds are Effective August 15, 2011~~

POLICY PORTFOLIO	FYE ~~2012~~ 2013		
	Min	Target	Max
Asset Classes			
Investment Grade Fixed Income	5.0%	9.5%	25.0%
Credit-Related Fixed Income	0.0%	5.5%	30.0%
Real Estate	0.0%	~~5.5%~~ 6.5%	~~10.0%~~ 12.5%
Natural Resources	5.0%	~~11.5%~~ 13.5%	25.0%
Developed Country Equity	30.0%	~~48.5%~~ 45.0%	60.0%
Emerging Markets Equity	5.0%	~~19.5%~~ 20.0%	25.0%
Investment Types			
More Correlated & Constrained	35.0%	~~47.0%~~ 44.5%	60.0%
Less Correlated & Constrained	25.0%	30.0%	37.5%
Private Investments	17.5%	~~23.0%~~ 25.5%	32.5%

*The total Asset Class & Investment Type exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed 105% of the Asset Class & Investment Type exposures excluding the amount of derivatives exposure not collateralized by Cash.

POLICY BENCHMARK (reset monthly)	FYE ~~2012~~ 2013
Barclays Capital Global Aggregate Index	7.5%
FTSE EPRA/NAREIT Developed Index Net TRI USD	2.5%
50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index	~~6.5%~~ 7.5%
MSCI World Index with net dividends	~~18.5%~~ 15.0%
MSCI Emerging Markets with net dividends	12.0%
Hedge Fund Research Indices Fund of Funds Composite Index	30.0%
Venture Economics Custom Index	~~20.0%~~ 21.5%
NACREIF Custom Index	~~3.0%~~ 4.0%

POLICY/TARGET RETURN/RISKS	FYE ~~2012~~ 2013
Expected Annual Return (Benchmarks) **	~~8.81~~ 7.36%
One Year Downside Deviation	~~8.86~~ 9.45%
Risk Bounds	
Lower: 1 Year Downside Deviation	75%
Upper: 1 Year Downside Deviation	115%

**Equal to nominal return, net of all investment-related expenses and assuming an inflation rate of ~~3~~ 2.5%.

EXHIBIT B
(continued)
GENERAL ENDOWMENT FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE SEPTEMBER 1, 2012 ~~2011 except Min and Max Ranges and Risk Bounds are Effective August 15, 2011~~

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE ~~2012~~ 2013

FYE ~~2012~~ 2013		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	Investment Grade	Barclays Capital Global Aggregate Index (7.5%)	2.0%	0.0%	9.5%
	Credit-Related	0.00%	3.0%	2.5%	5.5%
Real Assets	Real Estate	FTSE EPRA/NAREIT Developed Index Net TRI USD (2.5%)	0.0%	Custom NACREIF ~~3.0~~ 4.0%	~~5.5~~ 6.5%
	Natural Resources	50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index (~~6.5~~ 7.5%)	1.0%	~~4.0~~ 5.0%	~~11.5~~ 13.5%
Equity	Developed Country	MSCI World Index with Net Dividends (~~18.5~~ 15.0%)	20.0%	10.0%	~~48.5~~ 45.0%
	Emerging Markets	MSCI EM Index with Net Dividends (12.0%)	4.0%	~~3.5~~ 4.0%	~~19.5~~ 20.0%
Total		~~47.0~~ 44.5%	30.0%	~~23~~ 25.5%	100.0%

Yellow	Hedge Fund Research Indices Fund of Funds Composite Index
Blue	Venture Economics Custom Index

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

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 across all maturities, including real and nominal, US and non-US, ~~and across all maturities~~ that

Intermediate Term Fund Investment Policy Statement (continued)

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 across all maturities, 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.

Intermediate Term Fund Investment Policy Statement (continued)

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 in the Delegation of Authority Policy, the Derivative Investment Policy or 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. The aggregate prorated annual premium of Derivative Investments utilized to reduce long exposure to an Asset Class or hedge against risk shall not exceed 50 basis points of ITF value.

Intermediate Term Fund Investment Policy Statement (continued)

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

Intermediate Term Fund Investment Policy Statement (continued)

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~~ 2012~~(except for Min and Max ranges and Risk Bounds in Exhibit A, which became effective August 15, 2011)~~.

Intermediate Term Fund Investment Policy Statement (continued)

EXHIBIT A - INTERMEDIATE TERM FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES
EFFECTIVE SEPTEMBER 1, 2012 ~~2011 except Min and Max Ranges and Risk Bounds are Effective August 15, 2011~~

POLICY PORTFOLIO	FYE ~~2012~~ 2013		
	Min	Target	Max
Asset Classes			
Investment Grade Fixed Income	30.0%	37.0%	50.0%
Credit-Related Fixed Income	0.0%	4.0%	12.0%
Real Estate	0.0%	5.0%	10.0%
Natural Resources	2.5%	8.5%	20.0%
Developed Country Equity	20.0%	33.0%	40.0%
Emerging Markets Equity	2.5%	12.5%	17.5%
Investment Types			
More Correlated & Constrained	60.0%	65.0%	70.0%
Less Correlated & Constrained	30.0%	35.0%	40.0%

*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.

POLICY BENCHMARK (reset monthly)	FYE ~~2012~~ 2013
Barclays Capital Global Aggregate Index	35.0%
FTSE EPRA/NAREIT Developed Index Net TRI USD	5.0%
50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index	7.5%
MSCI World Index with net dividends	10.0%
MSCI Emerging Markets with net dividends	7.5%
Hedge Fund Research Indices Fund of Funds Composite Index	35.0%

POLICY/TARGET RETURN/RISKS	FYE ~~2012~~ 2013
Expected Annual Return (Benchmarks) **	~~7.28~~ 5.91%
One Year Downside Deviation	~~5.34~~ 5.59%
Risk Bounds	
Lower: 1 Year Downside Deviation	70%
Upper: 1 Year Downside Deviation	115%

**Equal to nominal return, net of all investment-related expenses and assuming an inflation rate of ~~3~~ 2.5%.

EXHIBIT A - INTERMEDIATE TERM FUND
(continued)
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE SEPTEMBER 1, 2012 ~~2011 except Min and Max Ranges and Risk Bounds are Effective August 15, 2011~~

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE ~~2012~~ 2013

FYE ~~2012~~ 2013		More Correlated & Constrained	Less Correlated & Constrained	Total
Fixed Income	Investment Grade	Barclays Capital Global Aggregate Index (35.0%)	2.0%	37.0%
	Credit-Related	(0.0%)	4.0%	4.0%
Real Assets	Real Estate	FTSE EPRA/NAREIT Developed Index Net TRI USD (5.0%)	0.0%	5.0%
	Natural Resources	50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index (7.5%)	1.0%	8.5%
Equity	Developed Country	MSCI World Index with Net Dividends (10.0%)	23.0%	33.0%
	Emerging Markets	MSCI EM Index with Net Dividends (7.5%)	5.0%	12.5%
Total		65.0%	35.0%	100.0%

Hedge Fund Research Indices Fund of Funds Composite Index

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

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Meeting of the U. T. System Board of Regents - Finance and Planning Committee

THE UNIVERSITY OF TEXAS SYSTEM
SHORT TERM FUND
INVESTMENT POLICY STATEMENT

Purpose

The Short Term Fund (the "STF") 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 short and intermediate term funds held by U. T. System institutions and System Administration with an investment horizon of less than one year.

STF Organization

The STF functions like a mutual fund in which each eligible account purchases and redeems STF units as provided herein. The ownership of STF 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.

STF 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 STF.

Ultimate fiduciary responsibility for the STF 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 STF shall be managed by UTIMCO, which shall: a) recommend investment policy for the STF, b) determine specific Asset Class targets, ranges and performance benchmarks consistent with STF objectives, and c) monitor STF performance against STF objectives. UTIMCO shall invest the STF assets in conformity with this Policy Statement.

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

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

Funds Eligible to Purchase STF Units

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

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 STF.

The funds of a foundation structured as a supporting organization described in Section 509(a) of the *Internal Revenue Code of 1986*, which supports the activities of the U. T. System and its institutions, may purchase units in the STF provided that a contract between the Board of Regents and the foundation has been executed authorizing investment of foundation funds in the STF.

STF Investment Objectives

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

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

Asset Class Allocation and Policy

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

STF assets shall be allocated to the following broad Asset Class:

Cash and Cash Equivalents – Short-term, 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.

Performance Measurement

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

Investment Guidelines

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

Investment guidelines include the following:

General

- All investments will be U.S. dollar denominated assets.
- 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 STF assets in such investments.
- No securities may be purchased or held which jeopardize the STF'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.

Cash and Cash Equivalents
Holdings of cash and cash equivalents may include the following:

- unaffiliated liquid (Money Market Funds) investment funds rated AAA_M by Standard & Poor's Corporation or the equivalent by a Nationally Recognized Statistical Rating Organization (NRSRO),
- securities of the U.S. Treasury and U.S. Agencies and their instrumentalities with maturities of 397 days or less,
- separately managed accounts with investment guidelines equivalent to, or more stringent than, unaffiliated liquid investment funds rated AAA_M by Standard & Poor's Corporation or the equivalent by a NRSRO,
- the Custodian's late deposit interest bearing liquid investment fund,
- municipal short term securities,
- commercial paper rated in the two highest quality classes by Moody's Investor Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2 or the equivalent),
- negotiable certificates of deposit with a bank that is associated with a holding company whose short-term rating meets the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps,
- floating rate securities, if they meet the single security duration criteria and are based on a spread over or under a well known index such as LIBOR or a Constant Maturity Treasury index. No internally leveraged floating rate securities are permitted (i.e., a coupon equivalent to a formula that creates a multiplier of an index value). The following types of floating rate securities are not eligible for investment: inverse floaters, non-money market based floaters, interest only or principal only floaters, non-dollar based floaters, and range note floaters, and
- repurchase agreements and reverse repurchase agreements transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a Primary Dealer in U.S. Treasury securities and rated A-1 or P-1 or the equivalent:

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

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

  - The maturity for a repurchase agreement may be from one day to two weeks.

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

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

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

- Overnight repurchase agreements may not exceed 50% of the STF's total assets.

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.

STF Distributions

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

STF Accounting

The fiscal year of the STF shall begin on September 1st and end on August 31st. Market value of the STF 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.

Valuation of Assets

All investments are stated at amortized cost, which in most cases approximates the market value of securities. The objective of the fund is to maintain a stable

$1.00 net asset value; however, the $1.00 net asset value is neither guaranteed nor insured by UTIMCO.

The STF's net assets shall include all related receivables and payables of the STF 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 STF Units

Purchase of STF units may be made on each business day upon payment of cash to the STF or contribution of assets approved by UTIMCO's Chief Investment Officer, at the net asset value per unit of the STF as of the most recent valuation date.

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

Redemption of STF Units

Redemption of units may be made on each business day at the net asset value per unit.

Securities Lending

The STF may not participate in a securities lending contract with a bank or nonbank security lending agent.

Investor Responsibility

The UTIMCO Board shall discharge its fiduciary duties with respect to the STF solely in the interest of STF unitholders and shall not invest the STF 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, ~~2010~~2012.

THE UNIVERSITY OF TEXAS SYSTEM
SEPARATELY INVESTED FUNDS
INVESTMENT POLICY STATEMENT

Purpose

The Separately Invested Funds (the "Accounts") include the Endowment, Trust, Debt Proceeds, and Other Accounts established in the name of the Board of Regents of The University of Texas System (the "Board of Regents"), and are Accounts which are not solely invested in one of the pooled investment vehicles. These Accounts are not invested in the pooled investment vehicle because: a) they are charitable trusts; b) of investment restrictions incorporated into the trust/endowment document; c) of the inability to sell the gifted investment asset; d) they are assets being migrated upon liquidation into a pooled investment vehicle; e) they are debt proceeds with a short-intermediate investment horizon; or f) they are assets held by The University of Texas Investment Management Company ("UTIMCO") at the request of a University of Texas System institution for which UTIMCO does not have investment discretion (for example, tech stock). This policy covers the Accounts collectively. However, specific guidelines are applied to each individual account. Specific Account restrictions may not fall within the guidelines established in this policy.

Investment 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 Accounts.

Ultimate fiduciary responsibility for the Accounts 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. The applicable trust/endowment document will apply to the management of each trust or endowment. The restrictions set forth in this policy and in any separate writing applicable to the Debt Proceeds Accounts and the Other Accounts will apply to the management of those Accounts.

Pursuant to an Investment Management Services Agreement between the Board of Regents and UTIMCO, the assets for the Accounts shall be managed by UTIMCO, which shall: a) recommend investment policy for the Accounts, b) determine specific Asset Class allocation targets, ranges and performance benchmarks consistent with the Accounts objectives, and if appropriate c) monitor the Accounts' performance against Accounts objectives. UTIMCO shall invest the Accounts' assets in conformity with this Policy Statement.

UTIMCO may select and terminate unaffiliated investment managers subject to any limitations stated herein. Managers shall be monitored for performance and adherence to investment disciplines.

Accounts Administration

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

Investment Objectives

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

Trust Accounts - Trust Accounts are defined as either Foundation Accounts or Charitable Trusts ((Charitable Remainder Unitrusts (CRUT), Charitable Remainder Annuity Trusts (CRAT), Pooled Income Funds (PIF), or Charitable Trusts (CT)). The Board of Regents recognizes that the investment objective of a trust is dependent on the terms and conditions as defined in the trust document of each trust. The conditions that will affect the investment strategy are a) the trust payout provisions; b) the ages of the income beneficiaries; c) the ability to sell the gifted assets that were contributed to the trust; and d) consideration to investment preferences of the income beneficiaries. Taking these conditions into consideration, the fundamental investment objectives of the trust are to generate a low to moderate growth in trust principal and to provide adequate liquidity in order to meet the payout provisions of the trust.

Debt Proceeds Accounts – The primary investment objective shall be safety of principal and maintenance of adequate liquidity sufficient to meet the spend-out schedules of each Account, as provided by the U. T. System Office of Finance.

Debt Proceeds Accounts, other than investments in cash as defined in the Liquidity Policy, will be invested in U.S. government obligations, including obligations of an agency or instrumentality of the United States, taking into consideration the spending needs of the Accounts.

Other Accounts – These are all accounts which are not Endowment Accounts, Trust Accounts, or Debt Proceeds Accounts that hold assets not invested in one of the pooled investment vehicles. These accounts include agency funds, institution current purpose accounts, and tech stock accounts.

Asset Class Allocation

Asset Class allocation is the primary determinant of the volatility of investment return and subject to the Asset Class allocation ranges specified herein, is the responsibility of UTIMCO. Specific Asset Class allocation positions may be changed from time to time based on the economic and investment outlook.

Unless otherwise restricted herein, the Accounts' assets shall be allocated among the following broad Asset Classes based upon their individual return/risk characteristics and relationships to other Asset Classes:

Asset Classes:

Investment Grade Fixed Income – Investment Grade Fixed Income represents ownership of fixed income instruments across all maturities, 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 across all maturities, 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).

In addition, life insurance and variable annuities may be acceptable investments.

Asset Class Allocation Policy

The Asset Class allocation policy and ranges for the Endowment and Trust Accounts are dependent on the terms and conditions of the applicable trust/endowment or trust document. The Asset Class allocation policy and ranges for the Debt Proceeds and Other Accounts will be determined by the terms and conditions of any applicable documents. If possible, the Accounts' assets shall be diversified among different types of assets whose returns are not closely correlated in order to enhance the return/risk profile of the Accounts.

The Board of Regents delegates authority to UTIMCO to establish specific Asset Class allocation targets and ranges for each Account. UTIMCO may establish specific Asset Class allocation targets and ranges for or within the Asset Classes listed above as well as the specific performance benchmarks for each Asset Class.

Performance Measurement

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

Investment Guidelines

The Accounts 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 SIF assets in such investments.

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

- No securities may be purchased or held which would jeopardize, if applicable, the Account'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 Account may utilize derivatives only in accordance with the Derivative Investment Policy.

Investment Grade Fixed Income

Permissible securities for investment include the securities within the component categories of the Barclays Aggregate Bond Index (BAGG). These component categories include investment grade government and corporate securities, agency mortgage pass-through securities, and asset-backed securities. These sectors are divided into more specific sub-sectors:

1) Government: Treasury and Agency;
2) Corporate: Industrial, Finance, Utility, and Yankee;
3) Mortgage-backed securities: GNMA, FHLMC, and FNMA;
4) Asset-backed securities;
5) Municipal securities; and
6) Commercial Mortgage-backed securities.

In addition to the permissible securities listed above, the following securities shall be permissible:

a) Floating rate securities with periodic coupon changes in market rates issued by the same entities that are included in the BAGG as issuers of fixed rate securities;
b) Medium term notes issued by investment grade corporations;
c) Zero coupon bonds and stripped Treasury and Agency securities created from coupon securities; and
d) Structured notes issued by BAGG qualified entities.

- U.S. Domestic Bonds must be rated investment grade, Baa3 or better by Moody's Investors Services, BBB- by Standard & Poor's Corporation, or BBB- or better by Fitch Investors Service at the time of acquisition.

- Not more than 35% of the Account's fixed income portfolio may be invested in non-U.S. dollar bonds. Not more than 15% of the Account's fixed income portfolio may be invested in bonds denominated in any one currency other than U.S. dollar.
- Non-dollar bond investments shall be restricted to bonds rated equivalent to the same credit standard as the U.S. Fixed Income Portfolio.
- Not more than 7.5% of the Account's fixed income portfolio may be invested in Emerging Market debt.
- International currency exposure may be hedged or unhedged at UTIMCO's discretion or delegated by UTIMCO to an external investment manager.
- Permissible securities for investment include Fixed Income Mutual Funds and Debt Index Funds as approved by UTIMCO's Chief Investment Officer.
- Permissible securities for investment include Fixed Income Variable Annuity Contracts as approved by UTIMCO's Chief Investment Officer.

<u>Credit-Related Fixed Income</u>

Not more than 5% of the market value of fixed income securities may be invested in corporate and municipal bonds of a single issuer.

<u>Real Estate, Natural Resources, Developed Country Equity, and Emerging Markets Equity</u>

- 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.

The provisions concerning investment in Investment Grade Fixed Income, Credit-Related Fixed Income, and Real Estate, Natural Resources, Developed Country Equity, and Emerging Markets Equity shall not apply to Accounts when expressly prohibited by the terms and conditions of the applicable trust/endowment, trust or other controlling document. To the extent determined practical by the U. T. System Office of Development and Gift Planning Services, donor preferences will be considered in determining whether gifts of securities are held or sold.

Distributions

Distributions of income or amounts from the Accounts shall be made as soon as practicable, either: a) based on the terms of the applicable trust instrument; b) following the fiscal quarter end for endowments; or c) based on specific requirements for other accounts.

Accounting

The fiscal year of the Accounts shall begin on September 1st and end on August 31st. Trusts will also have a tax year end which may be different than August 31st. Market value of the Accounts shall be maintained on an accrual basis in compliance with Generally Accepted Accounting Principles ("GAAP"), Governmental Accounting Standards Board Statements, industry guidelines, or federal income tax laws, whichever is applicable. Significant asset write-offs or write-downs shall be approved by 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.

Valuation of Assets

As of the close of business for each month, UTIMCO shall determine the fair market value of all assets in the Accounts. Such valuation of assets shall be based on the bank trust custody agreement in effect or other external source if not held in the bank custody account at the date of valuation. The final determination of the Accounts net assets for a month end close shall normally be completed within ten business days but determination may be longer under certain circumstances.

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.

Securities Lending

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

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

Investor Responsibility

As a shareholder, the Accounts have 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 Accounts. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the Accounts solely in the interest of the beneficiaries, in compliance with the Proxy Voting Policy then in effect, and shall not invest the Accounts 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 this Policy Statement as it deems necessary or advisable.

Effective Date

The effective date of this policy shall be ~~March 1, 2011~~September 1, 2012.

The University of Texas Investment Management Company
Derivative Investment Policy

Effective Date of Policy: ~~August 15, 2011~~August 23, 2012
Date Approved by U. T. System Board of Regents: ~~August 15, 2011~~August 23, 2012
Date Approved by UTIMCO Board: ~~August 15, 2011~~July 11, 2012
Supersedes: Derivative Investment Policy approved ~~August 12, 2010~~August 15, 2011

Purpose:

The purpose of the Derivative Investment Policy is to set forth the applications, documentation and limitations for investment in derivatives in the Permanent University Fund (PUF), the General Endowment Fund (GEF), the Intermediate Term Fund (ITF), and the Separately Invested Funds (SIF), hereinafter referred to as the Funds. The Board of Regents approved investment policy guidelines for the Funds to allow for investment in derivatives provided that their use is in compliance with UTIMCO's Board approved Derivative Investment Policy. This Derivative Investment Policy supplements the Investment Policy Statements for the Funds.

Objective:

The objective of investing in derivatives is to facilitate risk management and provide efficiency in the implementation of various investment strategies for the Funds. Derivatives can provide the Funds with more economical means to improve the Funds' risk/return profile.

Scope:

This Policy applies to all derivatives in the Funds executed by UTIMCO staff and by external managers operating under an Agency Agreement. This Policy does not apply to external managers operating under limited partnership agreements, offshore corporations, or other Limited Liability Entities that limit the liability exposure of the Funds' investments. Derivative policies for external managers are established on a case-by-case basis with each external manager, as described below.

This Policy applies to both exchange traded derivatives and over the counter (OTC) derivatives. This Policy shall not be construed to apply to index or other common or commingled funds that are not controlled by UTIMCO. These commingled investment vehicles are governed by separate investment policy statements.

External Managers:

External managers are selected to manage the Funds' assets under either an Agency Agreement or through a Limited Liability Entity. An external manager operating under an Agency Agreement may engage in derivative investments only if (i) such manager has been approved to use derivatives by the UTIMCO Chief Investment Officer and (ii) the investments are consistent with the overall investment objectives of the account and in compliance with this Policy. The use of derivatives by an external manager operating under an Agency Agreement shall be approved by the UTIMCO Chief Investment Officer only for external managers that (i) demonstrate investment expertise in their use, (ii) have appropriate risk management and valuation policies and procedures, and (iii) effectively monitor and control their use.

While this Policy does not specifically include external managers operating through a Limited Liability Entity, it is noted that selecting and monitoring external managers through a Limited Liability Entity requires a clear understanding of the external managers' use of derivatives, particularly as it relates to various risk controls and leverage. The permitted uses of derivatives and leverage must be fully documented in the limited liability agreements with these managers.

Definition of Derivatives:

Derivatives are financial instruments whose value is derived, in whole or part, from the value of any one or more underlying securities or assets, or index of securities or assets (such as bonds, stocks, commodities, and currencies). For the purposes of this Policy, derivatives shall include Derivative Investments but shall not include a broader range of securities, including mortgage backed securities, structured notes, convertible bonds, exchange traded funds (ETFs), and foreign currency contracts that ~~settle~~ mature within thirty (30) days of initial settlement. Derivatives may be purchased

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through a national or international exchange or through an OTC direct arrangement with a counterparty. Refer to the attached Exhibit A for a glossary of terms.

Permitted Derivative Applications:

The primary intent of derivatives should be to hedge risk in portfolios or to implement investment strategies more effectively and at a lower cost than would be possible in the Cash market.

Permitted Derivative Applications are Derivative Investments used:

- To implement investment strategies in a low cost and efficient manner;
- To alter the Funds' market (systematic) exposure without trading the underlying Cash market securities through purchases or short sales, or both, of appropriate derivatives;
- To construct portfolios with risk and return characteristics that could not be created with Cash market securities;
- To hedge and control risks; or
- To facilitate transition trading.

UTIMCO staff may not enter into any Derivative Investment that is not a Permitted Derivative Application. To the extent that a Derivative Investment is a Permitted Derivative Application but is not within the delegated authority as set forth on Exhibit B, the UTIMCO Board will be provided with an "Option to Review" following the process outlined in Exhibit A to the Delegation of Authority Policy. This "Option to Review" applies to any new Derivative Investment recommended by UTIMCO staff and approved by UTIMCO's Chief Investment Officer that is not within the delegated authority set forth on Exhibit B or the engagement of an external manager operating under an Agency Agreement that seeks to engage in a Derivative Investment that is not within the delegated authority set forth on Exhibit B. Notwithstanding, with respect to any Derivative Investment, UTIMCO's Chief Investment Officer, the Risk Manager, or Chief Compliance Officer may determine that presentation and approval of the proposed Derivative Investment at a UTIMCO Board meeting is warranted before engaging in the Derivative Investment.

Risk and Investment Policy Controls:

Following the implementation of any Derivative Investment, the Funds' projected downside deviation and risk bounds, and projected exposure to Asset Class and Investment Type, must be within the permissible ranges as set forth in the Funds' Investment Policy Statements.

Documentation and Controls:

Prior to the implementation of a new Derivative Investment by UTIMCO staff, UTIMCO staff shall document the purpose, valuation method, methods for calculating delta, delta-adjusted exposure, Asset Class and Investment Type exposure, the effect on portfolio leverage (if applicable), risks (including, but not limited to modeling, pricing, liquidity and counterparty risks), the expected increase or reduction in risk resulting from the Derivative Investments, and the procedures in place to monitor and manage the derivative exposure. For any short exposure, UTIMCO staff shall also document the basis risk and appropriate stop-loss procedures. UTIMCO shall establish appropriate risk management procedures to monitor daily the risk of internally managed and of externally managed accounts operating under an Agency Agreement that utilize derivatives. Internal control procedures to properly account and value the Funds' exposure to the Derivative Investment shall be fully documented.

Additional Limitations:

Leverage: Leverage is inherent in derivatives since only a small cash deposit is required to establish a much larger economic impact position. Thus, relative to the Cash markets, where in most cases the cash outlay is equal to the asset acquired, Derivative Investments offer the possibility of establishing substantially larger market risk exposures with the same amount of cash as a traditional Cash market portfolio. Therefore, risk management and control processes must focus on the total risk assumed in a Derivative Investment. Exhibits A of the Fund's Investment Policy Statements provide a limitation on the amount of uncollateralized derivative exposure that can be utilized by the Funds whereby, the total Asset Class and Investment Type exposure, including the amount of derivatives exposure not collateralized by

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cash, may not exceed 105% (100% in the ITF) of the Asset Class and Investment Type exposures excluding the amount of derivatives exposure not collateralized by cash.

Counterparty Risks: In order to limit the financial risks associated with Derivative Investments, rigorous counterparty selection criteria and netting agreements shall be required to minimize counterparty risk for over the counter (OTC) derivatives. Any counterparty in an OTC derivative transaction with the Funds must have a credit rating of at least A- (Standard and Poor's) or A3 (Moody's). All OTC derivatives, with the exception of foreign currency contracts that mature within 91 days of initial settlement and are traded with a counterparty that has been pre-approved by UTIMCO, must be subject to established ISDA Netting Agreements and have full documentation of all legal obligations of the Funds. In the event a counterparty is downgraded below the minimum credit rating requirements stated above, UTIMCO staff will take appropriate action to protect the interests of the Funds, including availing itself of all potential remedies contained in the ISDA agreements, The net market value, net of collateral postings, of all OTC derivatives for any individual counterparty may not exceed 1% of the total market value of the Funds.

Risk Management and Compliance:

To ensure compliance with all terms and limitations of this Policy, all internally managed and externally managed Derivative Investments in accounts under Agency Agreements will be marked to market on a daily basis by the Funds' custodian and reviewed periodically, but no less frequently than monthly, for accuracy by the UTIMCO Risk Manager. In addition, data from the external risk model will be reviewed for accuracy and completeness by the UTIMCO Risk Manager.

Compliance with this Policy will be monitored by the UTIMCO Chief Compliance Officer using data provided by the custodian and the external risk model.

Any instances of noncompliance with this Policy will be reported immediately to the UTIMCO Chief Compliance Officer and the UTIMCO Chief Investment Officer, who will determine the appropriate remedy and report promptly to the Chairs of the Risk Committee, the Audit & Ethics Committee, and the UTIMCO Board Chairman. The UTIMCO Board Chairman may waive immediate remedial action in appropriate circumstances.

Reporting:

On a quarterly basis, UTIMCO shall provide a comprehensive report to UTIMCO's Board and the Risk Committee. This report shall include all outstanding Derivative Investments, by type, entered into during the period being reported for both internal managers and external managers operating under Agency Agreements. Asset allocation as provided in the Funds' Investment Policy Statements shall incorporate the impact of uncollateralized derivative exposure associated with derivatives. For risk reporting purposes, the models used to calculate the expected profit or loss in each scenario will include the effect of delta sensitivity and other derivative sensitivity parameters as appropriate. Risk calculations will take into account leverage, correlation, and exposure parameters such as beta for equities and duration for fixed income. The UTIMCO Risk Manager will calculate risk attribution - i.e., how much of the overall risk is attributed to each Asset Class and Investment Type, including the full effect on risk of the derivatives in each. The UTIMCO Risk Manager will calculate risk attribution for each Derivative Investment.

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Derivative Investment Policy

Derivative Investment Policy Exhibit A
Glossary of Terms

Agency Agreement – A form of legal agreement that typically grants limited investment discretion to an external investment manager to act as the investment agent of the Funds but does not limit the liability of the Funds for actions taken by that agent.

Basket – A group of securities and a weighting scheme, or a proprietary index. Baskets are typically defined to achieve a certain investment goal, within certain limitations. For example, a Basket could replicate an emerging market index, excluding certain companies that UTIMCO is not permitted to hold.

Cash market - The physical market for a commodity or financial instrument.

Counterparty - The offsetting party in an exchange agreement.

Derivative Investment – An investment in a futures contract, forward contract, swap, and all forms of options.

Exchange traded derivatives - A Derivative Investment traded on an established national or international exchange. These derivatives "settle" daily in that cash exchanges are made between the exchange and parties to the contracts consistent with the change in price of the instrument. Fulfillment of the contract is guaranteed by the exchange on which the derivatives are traded. Examples include S&P 500 futures contracts and Goldman Sachs Commodities Index futures contracts.

Forward contract - A nonstandardized contract for the physical or electronic (through a bookkeeping entry) delivery of a commodity or financial instrument at a specified price at some point in the future. The most typical Forward contract is a forward foreign currency contract, which involves the contemplated exchange of two currencies.

Futures contract - A standardized contract for either the physical delivery of a commodity or instrument at a specified price at some point in the future, or a financial settlement derived from the change in market price of the commodity or financial instrument during the term of the contract.

ISDA Netting Agreement - The International Swaps and Derivatives Association (ISDA) is the global trade association representing participants in the privately negotiated derivatives industry, covering swaps and options across all asset classes. ISDA has produced generally accepted "Master Agreements," a 1992 Master Agreement and a 2002 Master Agreement, that are used by most counterparties in OTC derivatives. Netting agreements are terms within the applicable Master Agreement that deal with the calculation of exposure for each counterparty. These netting agreements require that exposures between counterparties will be "netted" so that payables and receivables under all existing derivatives between two counterparties are offset in determining the net exposure between the two counterparties.

Limited Liability Entity – A legal entity created to define how assets contributed to the entity by external partners to the agreement will be managed by the manager of the entity. These entities are typically limited liability partnerships, corporations, or other such entities that limit the liability of external investors to the current value of the external investors' investment in the entity.

Long exposure to an Asset Class – The Net Asset Value of the Asset Class and Investment Type as defined in the Funds' Investment Policy Statement.

Option - A derivative that conveys the right but not the obligation to buy or deliver the subject financial instrument at a specified price, at a specified future date.

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Over the counter (OTC) derivatives - A derivative which results from direct negotiation between a buyer and a counterparty. The terms of such derivatives are nonstandard and are the result of specific negotiations. Settlement occurs at the negotiated termination date, although the terms may include interim cash payments under certain conditions. Examples include currency swaps and forward contracts, interest rate swaps, and collars.

Replicating Derivatives – Derivatives that are intended to replicate the return characteristics of an underlying index or any other Cash market security.

Swap - A contract whereby the parties agree to exchange cash flows of defined investment assets in amounts and times specified by the contract.

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Derivative Investment Policy Exhibit B
Delegated Derivative Investments

Subject to the limitations contained in the Derivative Investment Policy, the UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer the authority to enter into the following Derivative Investments:

Delegated Derivative Investments:

1. Replicating Derivatives - Derivative Investments that replicate the return characteristics of a long exposure to an underlying index, Basket or commodity. These investments are generally futures contracts and swaps on a passive index, Basket or commodity.

2. Derivative Investments that upon their expiration would not exceed the loss of a similar investment in the cash index being referred to in the derivative contract. These investments may include swaps whereby the holder of the instrument will forgo potential upside return in exchange for downside protection or receive a multiple of a referenced return should the return of the underlying referenced index be within a certain range and may also include the selling of put options.

3. Derivative Investments that reduce long exposure to an Asset Class or hedge against ~~global interest rate shocks and~~ risk, and limit maximum loss to the premium paid for the Derivative Investment, i.e., purchase options. The aggregate prorated annual premium of all Derivative Investments under this provision shall ~~not exceed 75 basis points of the Fund value~~be as set forth in the respective Fund's Investment Policy Statement.

4. Futures contracts and forward contracts on foreign currency if used (i) by an external fixed income manager within its investment guidelines, (ii) for hedging purposes by an external equities manager within its investment guidelines, or (iii) to hedge existing or prospective foreign currency risk by UTIMCO staff.

5. Derivative Investments used to manage bond duration or hedge equity exposure to countries, sectors or capitalization factors, or individual stock(s) swaps within the portfolio only if subsequent to the investment the portfolio would not be net short to any one of those factors. An example of such a hedge is selling futures contracts or call options on a country or sector index, provided the manager is exposed to that country or sector.

6. Derivative Investments used to gain long exposure to an Asset Class and limit maximum loss to the premium paid for the Derivative Investment.

The delegated authority set forth above should not be construed to permit UTIMCO staff to enter into Derivative Investments that are unhedged or 'naked' short positions containing unlimited loss.

Modeling: Each Delegated Derivative Investment must be such that it can be decomposed into one or more components, and each said component can be modeled using a model such as the CDS valuation model, Black-Scholes model, including modifications for foreign currency ("Quanto"), allowing both normal and log-normal distributions (the Black model), and modifications to handle dividends or other model approved by the Policy Committee.

Leverage: Each Delegated Derivative Investment must be modeled on a fully collateralized basis. During the course of the investment, cash collateral backing a Derivative Investment may be utilized to invest in other investments thereby creating leverage at the Fund level. This is only allowed if within the Funds' Investment Policy Statements.

The University of Texas Investment Management Company
Liquidity Policy

Effective Date of Policy: ~~August 25, 2011~~August 23, 2012
Date Approved by U.T. System Board of Regents: ~~August 25, 2011~~August 23, 2012
Date Approved by UTIMCO Board: ~~July 14, 2011~~July 11, 2012
Original Effective Date of Policy: August 7, 2003
Supersedes: Liquidity Policy dated ~~August 20, 2009~~August 25, 2011

Purpose:

The purpose of this Liquidity Policy is to establish limits on the overall liquidity profile of investments in (1) the Permanent University Fund (PUF) and the General Endowment Fund (GEF), hereinafter collectively referred to as the Endowment Funds and, (2) the Intermediate Term Fund (ITF). For the purposes of this policy, "liquidity" is defined as a measure of the ability of an investment position to be converted into Cash. The established liquidity profile limits will act in conjunction with, but do not supersede, the Investment Policies adopted by the U. T. System Board of Regents.

Objective:

The objective of this Liquidity Policy is to control the element of total risk exposure of the Endowment Funds and the ITF stemming from the uncertainties associated with the ability to convert longer term investments to Cash to meet immediate needs or to change investment strategy, and the potential cost of that conversion.

Scope:

This Liquidity Policy applies to all PUF, GEF, and ITF investments made by The University of Texas Investment Management Company (UTIMCO), both by internal and by external managers. Policy implementation will be managed at the aggregate UTIMCO level and will not be a responsibility of individual internal or external managers managing a portion of the aggregate assets.

Definition of Liquidity Risk:

"Liquidity risk" is defined as that element of total risk resulting from the uncertainty associated with both the cost and time period necessary to convert existing investment positions to Cash. Liquidity risk also entails obligations relating to the unfunded portions of capital commitments. Liquidity risk can result in lower than expected returns and reduced opportunity to make changes in investment positions to respond to changes in capital market conditions. Modern finance theory asserts that liquidity risk is a systematic risk factor that is incorporated into asset prices such that future longer-term returns will be higher for assets with higher liquidity risk, although that may not be the case in the short term.

Definition of Cash:

Cash is defined as short term (generally securities with time to maturity or mandatory purchase or redemption of three months or less), highly liquid investments that are readily convertible to known amounts and which are subject to a relatively small risk of changes in value. Holdings may include:

- the existing Dreyfus Institutional Preferred Money Market Fund mandate and any other UTIMCO Board approved SEC Rule 2a-7 money market fund rated AAAm by Standard & Poors or the equivalent by a Nationally Recognized Statistical Rating Organization (NRSRO),
- securities of the U.S. Treasury and U.S. Agencies and their instrumentalities with maturities of 397 days or less,
- separately managed accounts with investment guidelines equivalent to, or more stringent than, unaffiliated liquid investment funds rated AAAM by Standard & Poor's Corporation or the equivalent by a NRSRO,
- the Custodian's late deposit interest bearing liquid investment fund,
- municipal short term securities,
- commercial paper rated in the two highest quality classes by Moody's Investor Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2 or the equivalent),

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- negotiable certificates of deposit with a bank that is associated with a holding company whose short-term rating meets the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps, and
- repurchase agreements and reverse repurchase agreements transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve as a Primary Dealer in U.S. Treasury securities and rated A-1 or P-1 or the equivalent.

Liquidity Risk Measurement-The Liquidity Profile:

For the purposes of this Liquidity Policy, potential liquidity risk will be monitored by measuring the aggregate liquidity profile of the Endowment Funds and ITF. All individual investments within the Endowment Funds and ITF will be segregated into two categories:

- **Liquid:** Investments that could be converted to Cash within a period of ~~one day to less than 90 days~~90 days or less in an orderly market at a discount of 10% or less.

- **Illiquid:** Investments that could be converted to Cash in an orderly market over a period of ~~90 days or more~~more than 90 days or in a shorter period of time by accepting a discount of more than 10%.

UTIMCO staff will report individual investments within the Endowment Funds and ITF categorized as follows:

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

- Liquid (Weekly)**:** Investments that could be converted to Cash within a period of one day to less than 7 days in an orderly market at a discount of 5% or less.

- Liquid (Quarterly): Investments that could be converted to Cash within a period of ~~one day to less than 90 days~~90 days or less in an orderly market at a discount of 10% or less.

- Liquid (Annual): Investments that could be converted to Cash within a period of one day to less than 365 days in an orderly market at a discount of 10% or less.

The measurements necessary to segregate all existing investments into one of the two categories assume normally functioning capital markets and cash market transactions. In addition, swaps, derivatives, or other third party arrangements to alter the status of an investment classified as illiquid may be considered, with the prior approval of the UTIMCO Board or the Risk Committee, in determining the appropriate liquidity category for each investment.

The result of this liquidity risk measurement process will be a liquidity profile for the Endowment Funds and the ITF which indicates the percentage of the total portfolio assets within each liquidity category. This Liquidity Policy defines the acceptable range of percentage of total assets within each liquidity category, specifies "trigger zones" requiring special review by UTIMCO staff and special action by the UTIMCO Board or the Risk Committee, and specifies the method of monitoring and presenting actual versus policy liquidity profiles.

Liquidity Policy Profile:

The current Liquidity Policy Profile ranges and trigger zones for each of the Endowment Funds are defined by the table below:

	FY 09	FY 10+
Liquidity above trigger zone:	35.0%	30.0%
Liquidity within trigger zone:	30.0%-35.0%	25.0%-30.0%

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Liquidity below trigger zone:	<30.0%	<25.0%

Investments that maintain liquidity below the trigger zone do not require any action by the UTIMCO Board or the Risk Committee. Liquidity within the trigger zone requires special action by the UTIMCO Board or the Risk Committee. For example, the allowable range for **illiquid** investments in FY 09 is up to 70.0% of the total portfolio. However, any **illiquid** investments made in the 65.0% to 70.0% trigger zone require prior approval by the Risk Committee or the UTIMCO Board. Risk Committee review of new investments in the illiquid trigger zone will supplement, rather than replace, the procedures established by the UTIMCO Board for the approval of new investments.

The current Liquidity Policy Profile ranges and trigger zones for the ITF are defined by the table below:

	FY 09-11	**FY 12+**
Liquidity above trigger zone:	65%	55%
Liquidity within trigger zone:	55%-65%	50%-55%
Liquidity below trigger zone:	<55%	<50%

The allowable range for **illiquid** investments is 0% to 50% of the total portfolio for the ITF. However, any **illiquid** investments made in the 45% to 50% trigger zone require prior approval by the Risk Committee or the UTIMCO Board. Risk Committee review of new investments in the illiquid trigger zone will supplement, rather than replace, the procedures established by the UTIMCO Board for the approval of new investments.

Unfunded Commitments:

As used herein, "unfunded commitments" refers to capital that has been legally committed from an Endowment Fund and has not yet been called but may still be called by the general partner or investment manager. The Maximum Permitted Amount of unfunded commitments for each Endowment Fund is:

	FY 09	**FY 10+**
Unfunded Commitment as a percent of total invested assets:	27.5%	30.0%

No new commitments may be made for an Endowment Fund without approval from the Risk Committee if the actual amount of unfunded commitments for such Endowment Fund exceeds, or, as a result of such commitment, would exceed the Maximum Permitted Amount.

Documentation and Controls:

Managing Directors responsible for each asset class are responsible for determining the liquidity category for each investment in that asset class as well as the amount of unfunded commitments for each Endowment Fund. The determination of liquidity will include underlying security trading volumes, notice periods, redemption dates, lock-up periods, and "soft" and "hard" gates. These classifications will be reviewed by the Risk Manager and the Chief Compliance Officer, and must receive final approval from the Chief Investment Officer. Classifications and weights within each liquidity category will be updated and reported on a monthly basis. All new investments considered will be categorized by liquidity category, and a statement regarding the effect on overall liquidity and the amount of unfunded commitments for each Endowment Fund of the addition of a new investment must be an element of the due diligence process and will be a part of the recommendation report to the UTIMCO Board.

As additional safeguards, trigger zones have been established as indicated above to trigger required review and action by the UTIMCO Board or the Risk Committee in the event any investment action would cause the actual investment position in illiquid investments to enter the designated trigger zone, or in the event market actions caused the actual investment position in illiquid investments to move into trigger zones. In addition, any proposed investment actions which would increase the actual investment position in illiquid investments in any of the PUF,

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the GEF, or the ITF by 10% or more of the total asset value of such fund would also require review and action by the UTIMCO Board or the Risk Committee prior to the change. Any actual positions in any trigger zones or outside the policy ranges will be communicated to the Chief Investment Officer immediately. The Chief Investment Officer will then determine the process to be used to eliminate the exception and report promptly to the UTIMCO Board and the Risk Committee the circumstances of the deviation from Policy and the remedy to the situation. Furthermore, as indicated above, no new commitments may be made for an Endowment Fund without approval from the Risk Committee if the actual amount of unfunded commitments for such Endowment Fund exceeds, or, as a result of such new commitment, would exceed, the Maximum Permitted Amount.

Reporting:

The actual liquidity profiles of the Endowment Funds and the ITF, including a detailed analysis of liquidity by category, and the status of unfunded commitments for each Endowment Fund, and compliance with this Liquidity Policy will be reported to the UTIMCO Board on at least a quarterly basis. Any exception to this Liquidity Policy and actions taken to remedy the exception will be reported promptly.

10. U. T. System Board of Regents: Approval of revisions to the amended and restated University of Texas Investment Management Company (UTIMCO) Compensation Program

RECOMMENDATION

The University of Texas Investment Management Company Board of Directors (UTIMCO Board) and the Executive Vice Chancellor for Business Affairs recommend that the U. T. System Board of Regents (U. T. Board) approve the amended and restated UTIMCO Compensation Program (Plan) effective September 1, 2012, as set forth in congressional style on the following pages. The Plan was approved by the UTIMCO Board on July 11, 2012, and amends and restates the UTIMCO Compensation Program that was approved by the U. T. Board on August 20, 2009, and amended on November 11, 2010 (Prior Plan). The Plan is to be effective for the Plan Year beginning September 1, 2012.

BACKGROUND INFORMATION

The Prior Plan consists of two elements: base salary and an annual incentive plan. The UTIMCO Board has the discretion to interpret the compensation program and may from time to time adopt such rules and regulations that it may deem necessary to carry out the compensation program and may also amend the compensation program.

The proposed changes are as follows:

a. Section 5.2 has been changed to reflect a new Performance Period. The Performance Period will begin on September 1 and end August 31, consistent with the fiscal year of the Investment Funds, replacing the current Performance Period of July 1 through June 30.

b. Section 5.5(d) has been changed to make the use of an external investment consultant to evaluate the performance of Entity and Asset Class/Investment Type permissive rather than mandatory.

c. Section 5.5(f) has been changed to require the Compensation Committee to review and make its recommendations regarding the payment of Performance Incentive Awards within 120 days following the end of the Performance Period rather than 150 days to coincide with the change in Performance Period beginning and ending dates.

d. Section 5.5(f) has also been changed to clarify the party responsible for calculations of the third party review of Performance Incentive Awards by adding "and after review by the external auditor," and deleting "based on the certification of its advisors" language.

e. Section 5.6(a) has been changed to require payment of Performance Incentive Awards within 120 days following the end of the Performance Period rather than 150 days to coincide with the change in Performance Period beginning and ending dates.

f. Section 5.8(a)(1) has been amended to change the weights of the performance of the Total Endowment Assets (TEA) from 85% to 80% and the Intermediate Term Fund (ITF) from 15% to 20%.

g. Section 5.9(e) has been added to authorize the UTIMCO Board to adjust Performance Incentive Awards for the first three Performance Periods beginning September 1, 2012, if the change in Performance Period unduly benefits or harms a Plan Participant.

h. Section 5.11 has been added to incorporate new terminology in the Plan related to Eligibility for Retirement. A Plan Participant will be eligible to retire and will immediately be vested in all Performance Incentive Awards on the last day of the month in which the sum of the Participant's age and years of service with UTIMCO, including months of age and months of service credit, equals or exceeds the number 75. A Plan Participant who becomes eligible for retirement may voluntarily defer all or a portion of his or her Performance Incentive Award that otherwise would have been deferred had the Participant not been eligible for retirement. Any amount voluntarily deferred will be subject to a three year payout.

i. Renumbered Section 5.12. Section 5.12(a) and (b) has been changed to add language to exclude retirement eligible Participants from the deferrals of Performance Incentive Awards required when certain Extraordinary Circumstances occur.

j. Section 8.10 has been changed to add Eligible for Retirement as a defined term.

k. Former Sections 8.10 to 8.34 have been renumbered as Sections 8.11 to 8.35.

l. Renumbered Section 8.24 regarding the definition of Peer Group has changed to eliminate the requirement that Peer Group be maintained by the UTIMCO Board's external investment advisor.

m. Appendix A, Performance Incentive Award Methodology, has been updated to reflect actual CEO Performance Incentive Award opportunities based on a new assumed base salary and new percentages for determining the award.

n. Table 1, Appendix C, has been updated related to two Eligible Positions in the Operations/Support Professionals section. The Managing Director title has been changed to Chief Technology Officer and a Deal Attorney Eligible Position has been added. Also, the maximum % of salary for incentive award opportunities has been changed for several eligible positions.

o. Table 2, Appendix D, has been added for the Performance Period beginning September 1, 2012. In the Policy Portfolio Weights, Total Endowment Assets column, % of Portfolio has been changed for Natural Resources, Developed Country Equity, Private Investments (excludes Real Estate), and Private Investments Real Estate. This change corresponds with the proposed amendments to Exhibit A of the Permanent University Fund and the General Endowment Fund Investment Policy Statements.

p. Table 3, Appendix E, has been updated to change the Eligible Position, Operations/Support Professionals, Managing Director title to Chief Technology Officer and a Deal Attorney eligible position has been added.

q. Other miscellaneous nonsubstantive and editorial changes have been made.

DRAFT 07/11/12

UTIMCO
COMPENSATION PROGRAM

Amended and Restated
Effective ~~July~~ September 1, ~~2009~~2012

~~(Appendices updated as of July 1, 2011)~~

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1. COMPENSATION PROGRAM STRUCTURE AND EFFECTIVE DATE

The UTIMCO Compensation Program ("Compensation Program" or "Plan") consists of two elements**:** base salary and an annual incentive plan (the "Performance Incentive Plan"):

Base Salary	+	Performance Incentive	=	Total Compensation

The base salary portion of the Compensation Program sets forth a structure and guidelines for establishing and adjusting the salaries of key investment and operations staff employees. The Performance Incentive Plan portion of the Compensation Program sets forth the criteria for calculating and receiving annual incentive awards for key investment and operations staff who are eligible Participants in the Performance Incentive Plan. Provisions of the Compensation Program relating solely to the base salary portion of the Compensation Program are described in Section 4. Provisions of the Compensation Program relating solely to the Performance Incentive Plan portion of the Compensation Program are described in Section 5. Sections 1, 2, 3, 6, 7, and 8 of the Compensation Program relate to both the base salary portion and the Performance Incentive Plan portion except where otherwise specified in any such Section.

Effective Date: Except as provided in Section 7.9, this document, with an "Effective Date" of ~~July 1, 2009~~ September 1, 2012, supersedes the UTIMCO Compensation Program that was effective July 1, ~~2008~~2009.

2. COMPENSATION PROGRAM OBJECTIVES

UTIMCO's Compensation Program serves a number of objectives:

- To attract and retain key investment and operations staff of outstanding competence and ability.
- To encourage key investment staff to develop a strong commitment to the performance of the assets for which UTIMCO has been delegated investment responsibility.
- To motivate key investment staff to focus on maximizing real, long-term returns for all funds managed by UTIMCO while assuming appropriate levels of risk.
- To facilitate teamwork so that members of UTIMCO operate as a cohesive group.

3. TOTAL COMPENSATION PROGRAM PHILOSOPHY[1]

UTIMCO aspires to attract and retain high caliber employees from nationally recognized peer institutions and the investment management community in general. UTIMCO strives to provide a total compensation program that is competitive nationally, with the elements of compensation evaluated relative to comparably sized university endowments, foundations, and for-profit investment management firms with a similar investment philosophy (e.g., externally managed funds).

UTIMCO's total Compensation Program is positioned against the competitive market as follows:

- Base salaries are targeted at the market median (e.g., 50th percentile).
- Target total compensation (salary plus target Incentive Award Opportunity) is positioned at the market median.
- Maximum total compensation (salary plus maximum Incentive Award Opportunity) is targeted at the market 75th percentile if individual performance is outstanding; provided that if individual performance is outstanding during a Performance Period when endowment investment performance at the end of such Performance Period exceeds 20%, maximum total compensation (salary plus maximum Incentive Award Opportunity modified when Net Returns on Total Endowment Assets exceed 20%) for Affected Participants is targeted at the 90th percentile. (For this purpose, 0 is the lowest point and 100 is the highest.)

Although base salaries, as well as target and maximum total compensation, have a targeted positioning relative to market, an individual employee's actual total compensation may vary from the targeted positioning based on the individual's experience, education, knowledge, skills, and performance as well as UTIMCO's investment performance as described in this document. Except as provided in Sections 5.8 and 5.9 for purposes of determining the length of historical performance, base salaries and Incentive Award Opportunities (as well as the actual Performance Incentive Awards) are not determined based on seniority at UTIMCO.

4. BASE SALARY ADMINISTRATION

4.1. Salary Structure

(a) Base salaries are administered through a Salary Structure as set forth in this Section 4.1. Each employment position has its own salary range, with the midpoint set approximately equal to the market median base salary for employment positions with similar job content and level of responsibility.

[1] This explanation of UTIMCO's "Total Compensation Program Philosophy" is not intended to modify any of the substantive provisions of this document.

(b) The salary range midpoints will be determined by the Compensation Committee based on consultation with an outside compensation consultant and with UTIMCO management. Salary range midpoints for key management, investment, and operations positions will be updated at least every three years based on a salary benchmarking study conducted by a qualified compensation consultant selected by the Compensation Committee. In years in which the Compensation Committee does not commission a formal salary survey, the base salary midpoints may be adjusted at the Compensation Committee's discretion based on expected annual salary structure adjustments as reported in one or more published compensation planning surveys.

4.2. Salary Adjustments

(a) The base salary of the CEO is determined by the Board. The base salary of the Chief Compliance Officer ("CCO") will be determined by the Compensation Committee based on the joint recommendation of the Audit and Ethics Committee and the CEO and the base salaries of the other key investment and operations employees are determined by the Compensation Committee**.** Base salaries will be set within the salary range for each employment position. An individual's base salary within the range may be higher or lower than the salary range midpoint based on his or her level of experience, education, knowledge, skills, and performance. On an exception basis, the Board may set individual base salaries outside of the salary range if an individual either substantially exceeds or does not meet all of the market criteria for a particular position.

(b) Individuals may receive an annual adjustment (increase or decrease) of their base salaries at the discretion of the Compensation Committee or, in the case of the CEO, at the discretion of the Board. Base salary adjustments, if any, will be determined based on each individual employee's experience, education, knowledge, skills, and performance; provided that, in the case of the CCO, any such adjustment shall be based on the joint recommendation of the Audit and Ethics Committee and the CEO. Employees are not guaranteed an annual salary increase.

5. PERFORMANCE INCENTIVE PLAN

5.1. Purpose of the Performance Incentive Plan

The purpose of the Performance Incentive Plan is to provide annual Performance Incentive Awards to eligible Participants based on specific objective criteria relative to UTIMCO's and each Participant's performance. The primary objectives of the Performance Incentive Plan are outlined in Section 2.

5.2. Performance Period

(a) For purposes of the Performance Incentive Plan, the "Performance Period" begins on ~~July~~September 1 of each year and ends the following ~~June 30~~August 31.

(b) Except as otherwise provided under Sections 5.8 and 5.9, performance for each year in the historical performance period will be measured between ~~July~~September 1 and the following ~~June 30~~August 31 of the applicable year for gauging achievement of the Entity and Asset Class/Investment Type Performance Goals.

5.3. Eligibility and Participation

(a) Each employee of UTIMCO will be a "Participant" in the Performance Incentive Plan for a Performance Period if (and only if) he or she is both (i) employed by UTIMCO in an employment position that is designated as an "Eligible Position" for that Performance Period and (ii) selected by the Board as eligible to participate in the Performance Incentive Plan for that Performance Period. "Eligible Positions" for a Performance Period include senior management, investment staff, and other key positions as designated by the CEO and approved by the Board as Eligible Positions for that Performance Period. An employment position that is an Eligible Position in one Performance Period is not automatically an Eligible Position in any subsequent Performance Period, and each Eligible Position must be confirmed or re-confirmed by the Board as being an "Eligible Position" for the applicable Performance Period. Similarly, an employee who is eligible to participate in the Performance Incentive Plan in one Performance Period is not automatically eligible to participate in any subsequent Performance Period (notwithstanding that such employee may be employed in an Eligible Position in that subsequent Performance Period), and each employee must be designated or re-designated by the Board as being eligible to participate in the Performance Incentive Plan for the applicable Performance Period. The Board will confirm the Eligible Positions and designate the eligible employees who will become Participants for a Performance Period within the first 90 days of the Performance Period or, if later, as soon as administratively feasible after the start of the Performance Period. The Board in its discretion may also designate the employment position of a newly hired or promoted employee as an "Eligible Position" and may designate such newly hired or promoted employee as eligible to participate in the Performance Incentive Plan for a Performance Period (or remainder of a Performance Period) within 30 days of such hire or promotion or, if later, as soon as administratively feasible after such hire or promotion**.** A list of Eligible Positions for each Performance Period is set forth in Table 1, which is attached as Appendix C. Table 1 will be revised each Performance Period when necessary to set forth the Eligible Positions for that Performance Period as soon as administratively practicable after confirmation of such Eligible

Positions by the Board for such Performance Period, and such revised Table 1 will be attached as Appendix C.

(b) An employee in an Eligible Position who has been selected by the Board to participate in the Performance Incentive Plan will become a Participant on the later of (i) the date he or she is employed in an Eligible Position or (ii) the date he or she is selected by the Board to participate in the Performance Incentive Plan; provided, however, that the Board in its discretion may designate any earlier or later date (but not earlier than such employee's date of hire and not later than such employee's date of Termination of employment) upon which such employee will become a Participant, and such employee will instead become a Participant on such earlier or later date. The preceding notwithstanding, except as provided below, an employee may not commence participation in the Performance Incentive Plan and first become a Participant during the last six months of any Performance Period; provided however, that the Board may select an employee to participate in the Performance Incentive Plan during the last six months of the Performance Period when compelling individual circumstances justify a shorter period of time and such circumstances are recorded in the minutes of a meeting of the Board in which event participation of the employee in the Performance Incentive Plan will begin on the participation date selected by the Board for the employee but not earlier than the employee's date of hire (assuming such employee is employed by UTIMCO in an Eligible Position on such date).

(c) An employee will cease to be a Participant in the Performance Incentive Plan on the earliest to occur of: (i) the date such employee is no longer employed in an Eligible Position; (ii) the date of Termination of such employee's employment with UTIMCO for any reason (including Voluntary Termination and Involuntary Termination, death, and Disability); (iii) the date of termination of the Performance Incentive Plan; (iv) the date such employee commences a leave of absence; (v) the date such employee begins participation in any other UTIMCO incentive program; (vi) the date the Board designates that such employee's employment position is not an Eligible Position (or fails to designate the employee's employment position as an Eligible Position with respect to a Performance Period); or (vii) any date designated by the Board as the date on which such employee is no longer a Participant.

(d) Except as provided in Sections 5.10(b) and (c), only individuals who are Participants on the last day of a Performance Period are eligible to receive Performance Incentive Awards under the Performance Incentive Plan for that Performance Period.

5.4. Performance Goals

(a) Within the first 60 days of each Performance Period, except as provided below, the CEO will recommend goals ("Performance Goals") for each Participant (other than the Performance Goals for the CEO, which are determined as provided in Section 5.4(c), and the Performance Goals for employees who are hired or promoted later during a Performance Period) subject to approval by the Compensation Committee within the first 90 days of the Performance Period. The CEO will also recommend Performance Goals for employees who are hired or promoted during the Performance Period and become Participants at the time those employees are designated as Participants (with such Performance Goals subject to confirmation by the Compensation Committee as soon as administratively feasible after such Performance Goals are recommended). If the position of the CCO is determined to be an Eligible Position and the employee in the Eligible Position has been designated by the Compensation Committee as a Participant in the Performance Incentive Plan for the Performance Period, the Performance Goals of the employee holding the position of CCO will be determined jointly by the Audit and Ethics Committee and the CEO. References to the CCO hereafter assume that the position of CCO has been determined to be an Eligible Position and the employee holding the position of CCO has been determined to be a Participant in the Performance Incentive Plan for the Performance Period. If the position of CCO has not been determined to be an Eligible Position for the Performance Period the provisions hereafter specific to the CCO have no force and effect.

(b) There are three categories of Performance Goals:

(1) Entity Performance (measured as described in Section 5.8(a))

(2) Asset Class/Investment Type Performance (measured as described in Section 5.8(b))

(3) Qualitative Performance (measured as described in Section 5.8(c))

Except for the CEO and CCO, Qualitative Performance Goals will be defined jointly by each Participant and his or her supervisor, subject to approval by the CEO and subject to final approval by the Compensation Committee. Qualitative Performance Goals for the CCO will be defined jointly by the Audit and Ethics Committee and the CEO. Qualitative Performance Goals may be established in one or more of the following areas:

- Leadership
- Implementation of operational goals
- Management of key strategic projects
- Effective utilization of human and financial resources
- UTIMCO investment performance relative to the Peer Group

(c) The CEO's Performance Goals will be determined and approved by the Board.

(d) Each Performance Goal for each Eligible Position is assigned a weight for the Performance Period. The Audit and Ethics Committee and the CEO will jointly recommend to the Compensation Committee the weightings of the Performance Goals for the CCO. For each Performance Period, the Compensation Committee will approve (or adjust as it deems appropriate) the weightings of the Performance Goals at the same time it approves the Performance Goals. The weightings for each Eligible Position are set forth in Table 1, which is attached as Appendix C. Table 1 will be revised each Performance Period when necessary to set forth the weightings for the Eligible Positions for that Performance Period as soon as administratively practicable after such weightings are approved by the Compensation Committee for such Performance Period. Notwithstanding the identified weighting for a Performance Goal for an Eligible Position, the Compensation Committee, may adjust the weightings (up or down) for any Participant for a Performance Period when it considers the identified weighting for a Performance Goal to be inappropriate for such Participant because of his or her length of service with UTIMCO, his or her tenure in the respective Eligible Position, his or her prior work experience, or other factors as deemed appropriate by the Compensation Committee; provided that, in the case of the CCO, any such adjustment shall be based on the joint recommendation of the Audit and Ethics Committee and the CEO. The weightings for the Performance Goals for each Performance Period are subject to approval by the Board.

5.5. Incentive Award Opportunity Levels and Performance Incentive Awards

(a) At the beginning of each Performance Period, each Eligible Position is assigned an "Incentive Award Opportunity" for each Performance Goal for the Participants in that Eligible Position. The Audit and Ethics Committee and CEO will jointly recommend the Incentive Award Opportunity for the CCO to the Compensation Committee. Each Incentive Award Opportunity is determined by the Compensation Committee (and subject to approval by the Board) and is expressed as a percentage of base salary earned during the Performance Period. The Incentive Award Opportunities include a threshold, target, and maximum award for achieving commensurate levels of performance of the respective Performance Goal.

(b) Incentive Award Opportunities for each Performance Period are set forth in Table 1, which is attached as Appendix C. Table 1 will be revised each Performance Period when necessary to set forth the Incentive Award Opportunities for that Performance Period as soon as administratively practicable after approval of the Incentive Award Opportunities by the Board for such Performance Period, and such revised Table 1 will be attached as Appendix C.

(c) Actual "Performance Incentive Awards" are the amounts that are actually awarded to Participants for the respective Performance Period. Actual

Performance Incentive Awards will range from zero (if a Participant performs below threshold on all Performance Goals or, pursuant to Section 5.~~11~~12(c) in the case of Affected Participants, Net Returns of the Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined are below a negative 14.01% at the end of such Performance Period) to the maximum Incentive Award Opportunity (if a Participant performs at or above maximum on all Performance Goals) depending on performance relative to objectives; provided that, pursuant to Section 5.~~11~~12(d), actual Performance Incentive Awards for Affected Participants may exceed the maximum Incentive Award Opportunity if the Net Returns of the Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined exceed positive 20.0% at the end of such Performance Period. Awards are capped at maximum levels regardless of whether a Participant exceeds the stated maximum Performance Goals.

(d) Following the end of each Performance Period, the Compensation Committee will review the actual performance of each Participant against the Performance Goals of the respective Participant and determine the Participant's level of achievement of his or her Performance Goals. The Compensation Committee ~~will~~ may seek~~,~~ and ~~may~~ rely on~~,~~ the independent confirmation of the level of Performance Goal achievement from an external investment consultant to evaluate Entity Performance and Asset Class/Investment Type Performance. The CEO will submit a written report to the Compensation Committee, which documents the Participant's performance relative to the Participant's Performance Goals set at the beginning of the Performance Period, and upon which the Compensation Committee may rely in evaluating the Participant's performance. The Audit and Ethics Committee and the CEO will jointly determine the CCO's level of achievement relative to the CCO's Performance Goals. The Board will determine the CEO's level of achievement relative to the CEO's Performance Goals.

(e) Performance Incentive Awards will be calculated for each Participant based on the percentage achieved of each Performance Goal, taking into account the weightings for the Participant's Entity Performance, Asset Class/Investment Type Performance, and Qualitative Performance Goals and each Participant's Incentive Award Opportunity; provided that, Performance Incentive Awards of Affected Participants will be (i) increased if the Net Returns of the Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined exceed positive 20.0% at the end of such Performance Period and (ii) decreased if the Net Returns of the Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined are below negative 5.0% at the end of such Performance Period, all pursuant to Section 5.~~11~~12. The methodology for calculating Incentive Award Opportunities and Performance Incentive Awards is presented on Appendix A. Performance

Incentive Awards will be interpolated in a linear fashion between threshold and target as well as between target and maximum.

(f) Within ~~150~~ 120 days following the end of a Performance Period, and after review by the external auditor, the Compensation Committee will review all Performance Incentive Award calculations, ~~based on the certification of its advisors~~, and make any changes it deems appropriate. The Compensation Committee will submit its recommendations to the Board for approval. Subject to the provisions of Section 7.1, the Board will approve Performance Incentive Awards.

(g) Following the approval of a Performance Incentive Award by the Board, each Participant will be notified as to the amount, if any, of his or her Performance Incentive Award as well as the terms, provisions, conditions, and limitations of the Nonvested Deferred Award portion of such Performance Incentive Award.

5.6. Form and Timing of Payouts of Performance Incentive Awards

Except as provided in Sections 5.11, ~~and~~ 5.12, and 5.13, approved Performance Incentive Awards will be paid as follows:

(a) Subject to the Applicable Deferral Percentage of an Eligible Position as documented in Table 1, which is attached as Appendix C, the Performance Incentive Award will be paid to the Participant ("Paid Performance Incentive Award") within ~~150~~ 120 days of the completion of the Performance Period on a date selected in the discretion of UTIMCO and in no event later than the last day of the calendar year in which the Performance Period ends, and

(b) An amount of the Performance Incentive Award for an Eligible Position equal to the Applicable Deferral Percentage set forth on Table 1 will be treated as a "Nonvested Deferred Award" subject to the terms of Section 5.7 and paid in accordance with that Section. Table 1 will be revised, as necessary, for each Performance Period to set forth any Applicable Deferral Percentage for each Eligible Position as soon as administratively practicable after approval of the deferral percentages by the Board for such Performance Period and such revised Table 1 will be attached as Appendix C.

5.7. Nonvested Deferred Awards

(a) For each Performance Period, a hypothetical account on UTIMCO's books ("Nonvested Deferred Award Account") will be established for each Participant. As of the date that the corresponding Paid Performance Incentive Award is paid to the Participant, each Participant's Nonvested Deferred Award for a Performance Period will be credited to his or her Nonvested Deferred Award Account established for that Performance Period; provided, however, that, in the case of any Participant whose Nonvested Deferred Award has been forfeited pursuant to Section 5.10(a) or Section

5.~~12~~ 13 on the date such Nonvested Deferred Award would be so credited to his or her Nonvested Deferred Award Account, such Nonvested Deferred Award will not be credited to such Participant's Nonvested Deferred Award Account. The Nonvested Deferred Award Accounts will be credited (or debited) monthly with an amount equal to the net investment returns of the Total Endowment Assets ("Net Returns") for the month multiplied by the balance of the respective Participant's Nonvested Deferred Award Account(s) as of the last day of the month. When the Nonvested Deferred Award is initially credited to the Nonvested Deferred Award Account, the Nonvested Deferred Award Account will be credited (or debited) with Net Returns for the month of the initial credit of a Nonvested Deferred Award, but the Net Returns will be prorated to reflect the number of days of the month during which the amounts were credited to the Nonvested Deferred Award Account. Participants are not entitled to their Nonvested Deferred Award Accounts unless and until they become vested in those accounts in accordance with Section 5.7(b).

(b) Unless a Participant's Nonvested Deferred Award has been forfeited pursuant to Section 5.10(a) or Section 5.~~12~~13, such Participant will become vested in, and entitled to payment of, his or her Nonvested Deferred Award Account for each respective Performance Period according to the following schedule:

(1) On the first anniversary of the last day of the Performance Period for which the Nonvested Deferred Award was earned, one third of the amount then credited to the Participant's Nonvested Deferred Award Account for that Performance Period will be vested and paid to the Participant.

(2) On the second anniversary of the end of the Performance Period for which the Nonvested Deferred Award was earned, one half of the amount then credited to the Participant's Nonvested Deferred Award Account for that Performance Period will be vested and paid to the Participant.

(3) On the third anniversary of the end of the Performance Period for which the Nonvested Deferred Award was earned, the remaining amount then credited to the Participant's Nonvested Deferred Award Account for that Performance Period will be vested and paid to the Participant.

(4) Nonvested Deferred Award Accounts payable under the above paragraphs of this Section 5.7(b) will be paid on a date selected in the discretion of UTIMCO after the applicable portion of any such Nonvested Deferred Award Account becomes vested and in no event later than the last day of the calendar year in which the applicable portion of such Nonvested Deferred Award Account becomes vested.

5.8. Performance Measurement Standards

(a) Entity Performance

(1) Entity Performance for purposes of the Performance Incentive Plan is the performance of the Total Endowment Assets (weighted at ~~85~~80%) and the Intermediate Term Fund (weighted at ~~15~~20%).

(2) The performance of the Total Endowment Assets ("TEA") is measured based on the TEA's performance relative to the TEA Policy Portfolio Return (TEA benchmark).

(3) The performance of the Intermediate Term Fund will be measured based on the performance of the ITF relative to the ITF Policy Portfolio Return (ITF benchmark). ~~The performance standards related to the Intermediate Term Fund for the Performance Period beginning July 1, 2007, are reflected in Table 2 on Appendix D.~~

~~(3)~~(4) Performance standards related to the TEA and ITF for each Performance Period beginning after ~~June 30~~August 31, ~~2008~~2010, will be set forth on a revised table for each such Performance Period and set forth on Appendix D as soon as administratively practicable after such standards are determined. Performance of the TEA and ~~Intermediate Term Fund~~ITF is measured net of fees, meaning performance is measured after factoring in all administrative and other fees incurred for managing the TEA and ITF.

~~(4)~~(5) Except as provided in Section 5.9, performance of the Total Endowment Assets (based on the TEA benchmark) and the Intermediate Fund (based on the ITF benchmark) will be measured based on a three-year rolling historical performance of each such fund.

(b) Asset Class/Investment Type Performance

(1) Asset Class/Investment Type Performance is the performance of specific asset classes and investment types within the Total Endowment Assets and the Intermediate Term Fund (such as developed country, private investments, etc.) based on the standards set forth in this Section 5.8(b). Except as provided in paragraph (2) below and Section 5.9, Asset Class/Investment Type Performance will be measured relative to the appropriate benchmark based on three-year rolling historical performance. Performance standards for each asset class and investment type will vary depending on the ability to outperform the respective benchmark. The benchmarks for each asset class and investment type, as well as threshold, target, and maximum performance standards in effect during the three-year rolling historical period, culminating with the current Performance Period, are set forth on Table 2, which is attached as Appendix D. Table 2 will be revised,

as necessary, for subsequent Performance Periods to reflect new benchmarks, as well as threshold, target, and maximum performance standards, in effect during the three-year rolling historical period, culminating with the subsequent Performance Period, in which event, such revised table will be attached as Appendix D as soon as administratively practicable after the change in such benchmarks and standards necessitating such change are set.

(2) Performance for private investments is calculated differently from other asset classes and investment types due to its longer investment horizon and illiquidity of assets. Except for private investments in Real Estate, performance of private investments is determined based on the performance of partnership commitments made since 2001 based on internal rates of return (IRR's) relative to the respective Venture Economics benchmarks. Performance of private investments in Real Estate will be determined based on the performance of partnership commitments made relative to a NACRIEF Custom Index benchmark.

(c) Qualitative Performance

(1) The level of a Participant's Qualitative Performance will be measured by the CEO (in the case of the CCO, jointly by the Audit and Ethics Committee and the CEO), subject to approval by the Compensation Committee, based on the level of attainment (below threshold, threshold, target, or maximum) of the Participant's Qualitative Performance Goals for the Performance Period.

(2) For purposes of determining the level of attainment of each Participant's Qualitative Performance Goals for the Performance Period, the Participant will have attained below threshold level if he or she fails to successfully complete at least 50% of his or her Qualitative Performance Goals for that Performance Period, threshold level if he or she successfully completes 50% of his or her Qualitative Performance Goals for that Performance Period, target level if he or she successfully completes 75% of his or her Qualitative Performance Goals for that Performance Period, and maximum level if he or she successfully completes 100% of his or her Qualitative Performance Goals for that Performance Period (with interpolation for levels of attainment between threshold, target, and maximum).

(3) In determining the percentage of successful completion of a Participant's Qualitative Performance Goals, the CEO, and in the case of the CCO, the Audit and Ethics Committee (in the initial determination) and the Compensation Committee (in its review of the attained levels for approval) need not make such determination based solely on the number of Qualitative Performance Goals successfully completed but may take into account the varying degrees of importance of the Qualitative Performance Goals, changes in the

Participant's employment duties occurring after the Qualitative Performance Goals are determined for the Performance Period, and any other facts and circumstances determined by the CEO, and in the case of the CCO, the Audit and Ethics Committee, or Compensation Committee (as applicable) to be appropriate for consideration in evaluation of the level of achievement of the Participant's Qualitative Performance Goals for the Performance Period.

5.9. *Modifications of Measurement Period for Measuring Entity and Asset Class/Investment Type Performance Goals*

(a) Although generally Entity Performance and most Asset Class/Investment Type Performance are measured based on three-year rolling historical performance, newly hired Participants will be phased into the Performance Incentive Plan so that Entity Performance and Asset Class/Investment Type Performance are measured over a period of time consistent with each Participant's tenure at UTIMCO. This provision ensures that a Participant is measured and rewarded over a period of time consistent with the period during which he or she influenced the performance of the entity or a particular asset class and investment type. In the Performance Period in which a Participant begins participation in the Performance Incentive Plan, the Entity Performance and Asset Class/Investment Type Performance components of the Incentive Award Opportunity will be based on one full year of historical performance (i.e., the performance for the Performance Period during which the Participant commenced Performance Incentive Plan participation). During a Participant's second year of Performance Incentive Plan participation, the Entity Performance and Asset Class/Investment Type Performance components of the Incentive Award Opportunity will be based on two full years of historical performance. In the third year of a Participant's Performance Incentive Plan participation and beyond, the Entity and Asset Class/Investment Type Performance components of the Incentive Award Opportunity will be based on the three full years of rolling historical performance.

(b) For purposes of measuring Entity and Asset Class/Investment Type Performance, the three-year historical performance cycle will not be utilized for any specific asset class and investment type (or subset of an asset class and investment type) until that asset class and investment type (or subset of that asset class and investment type) has three years of historical performance as part of the Performance Incentive Plan and, until that time, the actual years (full and partial) of historical performance of that asset class and investment type (or subset of that asset class and investment type) while part of the Performance Incentive Plan will be used as the measurement period.

(c) For purposes of measuring Entity and Asset Class/Investment Type Performance of an asset class and investment type (or subset of an asset class and investment type) that is removed from the Performance Incentive Plan prior to completion of the then in-progress three-year historical performance cycle, the three-year historical performance cycle will not be utilized for that removed asset class and investment type (or subset of an asset class and investment type), but instead the actual number of full months that the removed asset class and investment type was part of the Performance Incentive Plan during the then in-progress three-year historical performance cycle will be used as the measurement period.

(d) For purposes of measuring Asset Class/Investment Type Performance for a particular Participant of an asset class and investment type (or subset of an asset class and investment type) that is removed from or added to the Participant's responsibility during the then in-progress three-year historical performance cycle, the three-year historical performance cycle will not be utilized for that removed or added asset class and investment type (or subset of an asset class and investment type), but instead the actual number of full months that the removed or added asset class and investment type was part of the Participant's responsibility during the then in-progress three-year historical performance cycle will be used as the measurement period for evaluating the Asset Class/Investment Type Performance with respect to such Participant.

(e) Beginning with the Performance Period September 1, 2012 to August 31, 2013, Entity Performance and Asset Class/Investment Type Performance for the one-, two-, and three-year historical performance cycles will be measured from September 1st to August 31st. Notwithstanding anything in this Plan to the contrary, if, as a result of the change in the measurement period, in the opinion of the Board, an adjustment to a Participant's Performance Incentive Award is warranted, the Board in its discretion, is authorized to change the amount of a Participant's Performance Incentive Award for the first three Performance Periods beginning after August 31, 2012, so as not to unduly benefit, nor deprive or eliminate an award of a Participant.

5.10. Termination Provisions

(a) Except as otherwise provided in this Section 5.10, any Participant who ceases to be a Participant (either because of Termination of employment with UTIMCO or for any other reason stated in Section 5.3(c)) prior to the end of a Performance Period will not be eligible to receive payment of any Performance Incentive Award for that or any subsequent Performance Periods. In addition, a Participant will forfeit any Nonvested Deferred Awards at such Participant's Voluntary Termination or Involuntary Termination for Cause. Further, upon Involuntary Termination for reasons other than Cause, the amount in the Nonvested Deferred Award Accounts of such terminated individual will vest immediately and be paid on a date selected by UTIMCO and in no event later than the last day of the calendar year in which such Termination occurs.

(b) If a Participant ceases to be a Participant in the Performance Incentive Plan under Section 5.3(c) prior to the end of a Performance Period because his or her employment position is no longer an Eligible Position (but such employee continues to be employed with UTIMCO), such Participant's Performance Incentive Award for the current Performance Period, if any, will be calculated on a prorated basis from the first day of the Performance Period to the Performance Measurement Date immediately preceding or, if applicable, coinciding with the date the Participant ceases to be in an Eligible Position, and such individual will not be entitled to any Performance Incentive Awards for any Performance Period thereafter (unless he or she again becomes a Participant in accordance with Sections 5.3(a) and (b)). All Nonvested Deferred Awards of such individual continue to vest and be paid subject to the provisions of Section 5.7(b).

(c) If a Participant ceases to be a Participant in the Performance Incentive Plan under Section 5.3(c) prior to the end of a Performance Period because his or her employment with UTIMCO terminates due to death or Disability, the Participant's Performance Incentive Award for the Performance Period in which Termination occurs, in lieu of any other Performance Incentive Award under the Performance Incentive Plan, will be paid at target on a prorated basis from the first day of the Performance Period to the Performance Measurement Date immediately preceding or, if applicable, coinciding with the date of the Participant's death or Disability, and such individual will not be entitled to any Performance Incentive Awards for any Performance Period thereafter (unless he or she again becomes a Participant in accordance with Sections 5.3(a) and (b)). All Nonvested Deferred Award Accounts of such terminated individual will vest immediately and be paid on a date selected in the discretion of UTIMCO and in no event later than the last day of the calendar year in which such termination occurs. Payments under this provision will be made to the estate or designated beneficiaries of the deceased Participant or to the disabled Participant, as applicable.

(d) If a Participant ceases to be a Participant in the Performance Incentive Plan under Section 5.3(c) prior to the end of a Performance Period because he or she commences a leave of absence, such Participant's Performance Incentive Award for the current Performance Period, if any, will be calculated on a prorated basis from the first day of the Performance Period to the Performance Measurement Date immediately preceding or coinciding with the date the Participant commences such leave of absence, and such individual will not be entitled to any Performance Incentive Awards for any Performance Period thereafter (unless he or she again becomes a Participant in accordance with Sections 5.3(a) and (b)). All Nonvested Deferred Awards of such individual continue to vest and be paid subject to the provisions of Section 5.7(b).

(e) In the case of any Participant who ceases to be a Participant in the Performance Incentive Plan prior to the end of Performance Period and is entitled to a Performance Incentive Award or a prorated Performance

Incentive Award under this Section 5.10, such Performance Incentive Award will be calculated at the time and in the manner provided in Section 5.5 and Appendix A and paid in accordance with Section 5.6 and will not be calculated or paid prior to such time.

5.11. Eligibility for Retirement.

A participant is eligible for retirement on the last day of the month in which the sum of the Participant's age and years of service, including months of age and months of service credit, equals or exceeds the number 75.

In the case of any Participant who is eligible for retirement, any Performance Incentive Award to which the Participant becomes entitled, as well as any remaining Nonvested Deferred Award, will vest immediately and be includible in the Participant's gross income for Federal income tax purposes in the calendar year in which vesting occurs without regard to when payment is made to the Participant. The vested Performance Incentive Award and any remaining Nonvested Deferred Award will be paid to the participant on a date selected by UTIMCO and in no event later than the last day of the calendar year unless the Participant has agreed to a Voluntary Deferral of all or a portion of his Performance Incentive Award that would otherwise have been deferred had the Participant not been eligible for retirement ("Amount Voluntarily Deferred"). If the Participant has agreed to a Voluntary Deferral of such amount of his Performance Incentive Award,

(a) the Amount Voluntarily Deferred (1) will be credited to a hypothetical account established in the Participant's name on UTIMCO's books ("Amount Voluntarily Deferred Account") and (2) will be credited (or debited) monthly with an amount equal to the Net Returns for the month multiplied by the balance in the Participant's Amount Voluntarily Deferred Account as of the last day of the month, provided that when the Amount Voluntarily Deferred is initially credited to the Participant's Amount Voluntarily Deferred Account, the Participant's Amount Voluntarily Deferred Account will be credited (or debited) with Net Returns for the month of the initial credit, but the Net Returns will be prorated to reflect the number of days of the month during which the amounts were credited to the Participant's Amount Voluntarily Deferred Account;

(b) except as provided in clause (c) below, the amount credited to the Participant's Amount Voluntarily Deferred Account shall be paid to the Participant only on the following dates and in the following amounts:

(1) On the first anniversary of the last day of the Performance Period for which the Amount Voluntarily Deferred was earned, one third of the amount then credited to the Participant's Amount Voluntarily Deferred Account for that Performance Period will be paid to the Participant.

(2) On the second anniversary of the end of the Performance Period for which the Amount Voluntarily Deferred was earned, one half of the

amount then credited to the Participant's Amount Voluntarily Deferred Account for that Performance Period will be paid to the Participant.

(3) On the third anniversary of the end of the Performance Period for which the Amount Voluntarily Deferred was earned, the remaining amount then credited to the Participant's Amount Voluntarily Deferred Account for that Performance Period will be paid to the Participant.

(4) Amount Voluntarily Deferred Accounts payable under the above paragraphs of this Section 5.11(b) will be paid on a date selected in the discretion of UTIMCO and in no event later than the last day of the calendar year in which the applicable portion of such Amount Voluntarily Deferred Account becomes due and payable; and

(c) any net credits or debits to the Participant's Amount Voluntarily Deferred Account pursuant to clause (a)(2) above will be includible in the Participant's gross income and taxable to the Participant as ordinary income for Federal income tax purposes, and will be subject to Federal employment taxes and wage withholding during the year in which such amounts are paid pursuant to clauses (a) or (b) above.

~~(c)~~

5.~~11~~12. Extraordinary Circumstances.

Notwithstanding anything in this Plan to the contrary, the timing and amount of Performance Incentive Awards of each Participant holding an Eligible Position listed on Table 3, which is attached as Appendix E (each, an "Affected Participant"), are subject to automatic adjustment as follows:

(a) If the Net Returns of the Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined are negative at the end of such Performance Period, (i) an amount otherwise equal to the Paid Performance Incentive Award attributable to such Performance Period for each Affected Participant will be treated as an "Extraordinary Nonvested Deferral Award" for such Affected Participant that is subject to forfeiture in the same manner and for the same reasons as Nonvested Deferral Awards pursuant to Section 5.10(a), (ii) a separate hypothetical account for such Affected Participant will be established on UTIMCO's books ("Extraordinary Nonvested Deferral Award Account"), which will be (1) credited with such Affected Participant's Extraordinary Nonvested Deferral Award and (2) credited (or debited) monthly with Net Returns of the Total Endowment Assets on the same dates and in the same manner as applies to Nonvested Deferral Award Accounts pursuant to Section 5.7(a), and (iii) unless such Affected Participant's Extraordinary Nonvested Deferral Award has been forfeited pursuant to Section 5.10(a) or

Section 5.~~12~~13, such Affected Participant will become vested in, and entitled to payment of, the amount of his or her Extraordinary Nonvested Deferral Award Account on the first anniversary of the last day of such Performance Period; provided that upon the death, Disability or Involuntary Termination of an Affected Participant for reasons other than Cause, the amount in the Extraordinary Nonvested Deferral Award Account of such Affected Participant will vest immediately and be paid (to the Affected Participant or, in the case of death, to the estate or designated beneficiaries of the deceased Affected Participant) on a date selected by UTIMCO and in no event later than the last day of the calendar year in which such Termination occurs; provided, further, that nothing in this clause (a) shall affect the vesting and payment of Nonvested Deferral Awards to any Affected Participant nor shall it affect the vesting and payment of Performance Incentive Awards to a Participant that has satisfied the requirements for Eligibility for Retirement;

(b) If the Net Returns of the Total Endowment Assets since the end of the Performance Period for which Performance Incentive Awards are being determined are a negative 10.00% or below (measured as of the most recent month-end for which performance data are available) on the date the Board approves the Performance Incentive Award for an Affected Participant, an amount otherwise equal to such Affected Participant's Paid Performance Incentive Award attributable to such Performance Period will also be treated as an "Extraordinary Nonvested Deferral Award" for such Affected Participant that is subject to clause (a) above; provided that nothing in this clause (b) shall affect the vesting and payment of Nonvested Deferral Awards to any Affected Participant nor shall it affect the vesting and payment of Performance Incentive Awards to a Participant that has satisfied the requirements for Eligibility for Retirement;

(c) If the Net Returns of the Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined are below negative 5.00% at the end of such Performance Period, the Performance Incentive Award for each Affected Participant for that Performance Period (calculated pursuant to Section 5.5 above) will be reduced by 10% for each percentage point (or portion thereof) of Net Returns below a negative 5.00%, such that the Performance Incentive Award for each such Affected Participant will be eliminated in the event of negative Net Returns below 14.00% (e.g., negative Net Returns of 5.01% will result in the Performance Incentive Award for such Affected Participant being reduced by 10%, negative Net Returns of 6.01% will result in the Performance Incentive Award for such Affected Participant being reduced by 20%, and so forth);

(d) If the Net Returns of the Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined are in excess of positive 20.00% at the end of such Performance Period, the Performance Incentive Award for each Affected Participant for that Performance Period (calculated pursuant to Section 5.5 above) will be increased by 10% for each percentage point (or portion thereof) of positive

Net Returns in excess of 20.00% (subject to an overall increase limit of 100%), such that the increase in Performance Incentive Award for such Affected Participant will be capped at 100% for positive performance in excess of 29.00% (e.g., positive Net Returns of 20.01% will result in the Performance Incentive Award for such Affected Participant being increased by 10%, positive Net Returns of 21.01% will result in the Performance Incentive Award for such Affected Participant being increased by 20%, and so forth); and

(e) Table 3, which is attached as Appendix E, will be revised, as necessary, for each Performance Period to identify the Eligible Positions whose Performance Incentive Awards are subject to automatic adjustment as to timing and amount pursuant to clauses (a)-(d) above as soon as administratively practicable after approval by the Board and such revised Table 3 will be attached as Appendix E.

5.~~12~~13. Recovery of Performance Incentive Awards

Notwithstanding anything in this Plan to the contrary, if the Board (in its sole discretion, but acting in good faith) determines (a) that a Participant has engaged in willful misconduct that materially disrupts, damages, impairs or interferes with the business, reputation or employee relations of UTIMCO or The University of Texas System, such Participant will not be entitled to any Performance Incentive Awards for the Performance Periods during which the Board determines such misconduct occurred, or (b) that a Participant has engaged in fraudulent misconduct that caused or contributed to a restatement of the investment results upon which such Participant's Performance Incentive Awards were determined by knowingly falsifying any financial or other certification, knowingly providing false information relied upon by others in a financial or other certification, or engaging in other fraudulent activity, or knowingly failing to report any such fraudulent misconduct by others in accordance with UTIMCO's Employee Handbook, such Participant will not be entitled to any Performance Incentive Awards for the Performance Periods for which investment results were so restated. To the extent a Participant has been awarded Performance Incentive Awards to which he or she is not entitled as a result of clause (a) or (b) above, Performance Incentive Awards shall be recovered by UTIMCO pursuant to the following remedies in the order listed: first, such Participant's Nonvested Deferred Awards and Extraordinary Nonvested Deferred Awards will be automatically forfeited; second, any Paid Performance Incentive Award not then paid to such Participant will be withheld and automatically forfeited; and third, such Participant must return to UTIMCO the remaining excess amount. Recovery of Performance Incentive Awards to which a Participant is not entitled pursuant to this Section 5.~~12~~ 13 does not constitute a settlement of other claims that UTIMCO may have against such Participant, including as a result of the conduct giving rise to such recovery. Further, the remedies set forth above are in addition to, and not in lieu of, any actions imposed by law enforcement agencies, regulators or other authorities.

6. COMPENSATION PROGRAM AUTHORITY AND RESPONSIBILITY

6.1. Board as Plan Administrator

Except as otherwise specifically provided in this Compensation Program with respect to powers, duties, and obligations of the Compensation Committee, the Compensation Program will be administered by the Board.

6.2. Powers of Board

The Board has all powers specifically vested herein and all powers necessary or advisable to administer the Compensation Program as it determines in its discretion, including, without limitation, the authority to:

(1) Establish the conditions for the determination and payment of compensation by establishing the provisions of the Performance Incentive Plan.

(2) Select the employees who are eligible to be Participants in the Performance Incentive Plan**.**

(3) Delegate to any other person, committee, or entity any of its ministerial powers and/or duties under the Compensation Program as long as any such delegation is in writing and complies with the UTIMCO Bylaws.

7. COMPENSATION PROGRAM INTERPRETATION

7.1. Board Discretion

(a) Consistent with the provisions of the Compensation Program, the Board has the discretion to interpret the Compensation Program and may from time to time adopt such rules and regulations that it may deem advisable to carry out the Compensation Program. All decisions made by the Board in selecting the Participants approved to receive Performance Incentive Awards, including the amount thereof, and in construing the provisions of the Compensation Program, including without limitation the terms of any Performance Incentive Awards, are final and binding on all Participants.

(b) Notwithstanding any provision of the Compensation Program to the contrary and subject to the requirement that the approval of Performance Incentive Awards that will result in an increase of 5% or more in the total Performance Incentive Awards calculated using the methodology set out on Appendix A must have the prior approval of the U.T. System Board of Regents, the Board has the discretion and authority to make changes in the terms of the Compensation Program in determining a Participant's eligibility for, or amount of, a Performance Incentive Award for any Performance Period whenever it considers that circumstances have occurred during the

Performance Period so as to make such changes appropriate in the opinion of the Board, provided, however, that any such change will not deprive or eliminate an award of a Participant after it has become vested and that such circumstances are recorded in the minutes of a meeting of the Board.

7.2. Duration, Amendment, and Termination

The Board has the right in its discretion to amend the Compensation Program or any portion thereof from time to time, to suspend it for a specified period, or to terminate it entirely or any portion thereof. However, if the Performance Incentive Plan is suspended or terminated during a Performance Period, Participants will receive a prorated Performance Incentive Award based on performance achieved and base salary earned through the Performance Measurement Date immediately preceding such suspension or termination. The Compensation Program will be in effect until suspension or termination by the Board; provided, however, that if the Board so determines at the time of any suspension or termination of the Performance Incentive Plan, Nonvested Deferred Awards credited to Participants' Nonvested Deferred Award Account(s) as of the effective date of such suspension or termination will continue to be administered under the terms of the Performance Incentive Plan after any suspension or termination, except as the Board otherwise determines in its discretion at the time of such suspension or termination.

7.3. Recordkeeping and Reporting

(a) All records for the Compensation Program will be maintained by the Managing Director of Accounting, Finance, and Administration at UTIMCO. Relative performance data and calculations will be reviewed by UTIMCO's external auditor before Performance Incentive Awards are finalized and approved by the Board.

(b) UTIMCO will provide all Participants with a comprehensive report of the current value of their respective Nonvested Deferred Award and Extraordinary Nonvested Deferred Award Account balances, including a complete vesting status of those balances, on at least a quarterly basis.

7.4. Continued Employment

Nothing in the adoption of the Compensation Program or the awarding of Performance Incentive Awards will confer on any employee the right to continued employment with UTIMCO or affect in any way the right of UTIMCO to terminate his or her employment at any time.

7.5. Non-transferability of Awards

Except for the rights of the estate or designated beneficiaries of Participants to receive payments, as set forth herein, Performance Incentive Awards under the Performance Incentive Plan, including both the Paid Performance Incentive Award portion and the Nonvested Deferred Award portion, are non-assignable and nontransferable and are not subject to anticipation, adjustment, alienation, encumbrance, garnishment, attachment, or levy of any kind. The preceding notwithstanding, the Compensation Program will pay any portion of a Performance Incentive Award that is or becomes vested in accordance with an order that meets the requirements of a "qualified domestic relations order" as set forth in Section 414(p) of the *Internal Revenue Code* and Section 206(d) of ERISA.

7.6. Unfunded Liability

(a) Neither the establishment of the Compensation Program, the award of any Performance Incentive Awards, nor the creation of Nonvested Deferred Awards Accounts will be deemed to create a trust. The Compensation Program will constitute an unfunded, unsecured liability of UTIMCO to make payments in accordance with the provisions of the Compensation Program. Any amounts set aside by UTIMCO to assist it in the payment of Performance Incentive Awards or other benefits under the Compensation Program, including without limitation, amounts set aside to pay for Nonvested Deferred Awards, will be the assets of UTIMCO, and no Participant will have any security or other interest in any assets of UTIMCO or the U.T. System Board of Regents by reason of the Compensation Program.

(b) Nothing contained in the Compensation Program will be deemed to give any Participant, or any personal representative or beneficiary, any interest or title to any specific property of UTIMCO or any right against UTIMCO other than as set forth in the Compensation Program.

7.7. Compliance with State and Federal Law

No portion of the Compensation Program will be effective at any time when such portion violates an applicable state or federal law, regulation, or governmental order or directive.

7.8. Federal, State, and Local Tax and Other Deductions

All Performance Incentive Awards under the Compensation Program will be subject to any deductions (1) for tax and withholding required by federal, state, or local law at the time such tax and withholding is due (irrespective of whether such Performance Incentive Award is deferred and not payable at such time) and (2) for any and all amounts owed by the Participant to UTIMCO at the time of payment of the Performance Incentive Award. UTIMCO will not be obligated to advise an employee of the existence of the tax or the amount that UTIMCO will be required to withhold.

7.9. Prior Plan

(a) Except as provided in the following paragraphs of this Section 7.9, this Compensation Program supersedes any prior version of the Compensation Program ("Prior Plan").

(b) All nonvested deferred awards under a Prior Plan will retain the vesting schedule in effect under the Prior Plan at the time such awards were allocated to the respective Participant's account. In all other respects, as of the Effective Date, those nonvested deferred amounts will (1) be credited or debited with the Net Returns over the remaining deferral period in accordance with Section 5.7(a), and (2) be subject to the terms and conditions for Nonvested Deferred Awards under the Performance Incentive Plan as set forth in this restated document.

8. DEFINITION OF TERMS

8.1. **Affected Participant** is defined in Section 5.~~11~~12.

8.2. **Applicable Deferral Percentage** means, as to each Eligible Position, the percentage set forth opposite such Eligible Position under the heading "Percentage of Award Deferred" on Table 1, which is attached as Appendix C.

8.3. **Asset Class/Investment Type Performance** is the performance of specific asset classes and investment types within the Total Endowment Assets and the Intermediate Term Fund (such as developed country, private investments, etc.) based on the standards set forth in Section 5.8(b).

8.4. **Board** is the UTIMCO Board of Directors.

8.5. **Cause** means, as to any employee, that such employee has committed (as determined by UTIMCO in its sole discretion) any of the following: (1) a violation of any securities law or any other law, rule or regulation; (2) willful conduct that reflects negatively on the public image of UTIMCO or the U.T. System; or (3) a breach of UTIMCO's Code of Ethics.

8.6. **Compensation Committee** is the Compensation Committee of the UTIMCO Board of Directors.

8.7. **Compensation Program** is defined in Section 1.

8.8. **Disability** means a condition whereby a Participant either (i) is unable to engage in any substantial gainful activity by reason of a medically determinable physical or mental impairment that is expected either to result in death or to last for a continuous period of not less than 12 months or (ii) is, by reason of a medically determinable physical or mental impairment that is expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three months under a disability plan maintained or contributed to by UTIMCO for the benefit of eligible employees.

8.9. **Effective Date** is defined in Section 1.

~~8.9.~~8.10. **Eligible for Retirement is defined in Section 5.11.**

~~8.10.~~8.11. **Eligible Position** is defined in Section 5.3(a).

~~8.11.~~8.12. **Entity Performance** represents the performance of the Total Endowment Assets and the Intermediate Term Fund (based on the measurement standards set forth in Section 5.8(a)).

~~8.12.~~8.13. **Extraordinary Nonvested Deferral Award** is defined in Section 5.~~11~~12.

~~8.13.~~8.14. **Extraordinary Nonvested Deferral Award Account** is defined in Section 5.~~11~~12.

~~8.14.~~8.15. **Incentive Award Opportunity** is defined in Section 5.5(a).

~~8.15.~~8.16. **Intermediate Term Fund or ITF** is The University of Texas System ("U.T. System") Intermediate Term Fund established by the U.T. System Board of Regents as a pooled fund for the collective investment of operating funds and other intermediate and long-term funds held by the U.T. System institutions and U.T. System Administration. Performance of the Intermediate Term Fund is measured net of fees, meaning performance is measured after factoring in all administrative and other fees incurred for managing the Intermediate Term Fund.

~~8.16.~~8.17. **Intermediate Term Fund Policy Portfolio Return** is the benchmark return for the Intermediate Term Fund policy portfolio and is calculated by summing the neutrally weighted index returns (percentage weight for each asset class and investment type multiplied by the benchmark return for the asset class and investment type) for the various asset classes and investment types in the Intermediate Term Fund policy portfolio for the Performance Period.

~~8.17.~~8.18. **Involuntary Termination** means, as to any person the Termination of such person's employment with UTIMCO wholly initiated by UTIMCO and not due to such person's implicit or explicit request, at a time when such person is otherwise willing and able to continue to perform services for UTIMCO.

~~8.18.~~8.19. **Net Returns** is the investment performance return of the Total Endowment Assets, net of fees. Net of fees factors in all administrative and other fees for managing the Total Endowment Assets. The net investment return will be calculated as follows:

$$\frac{\text{Permanent University Fund Beginning Net Asset Value}}{\text{Total Endowment Beginning Net Asset Value}} \times \text{Permanent University Fund Net Investment Return}$$

Plus

$$\frac{\text{General Endowment Fund Beginning Net Asset Value}}{\text{Total Endowment Beginning Net Asset Value}} \times \text{General Endowment Fund Net Investment Return}$$

~~8.19.~~8.20. **Nonvested Deferred Award** is defined in Section 5.6(b).

~~8.20.~~8.21. **Nonvested Deferred Award Account** is defined in Section 5.7(a).

~~8.21.~~8.22. **Paid Performance Incentive Award** is defined in Section 5.6(a).

~~8.22.~~8.23. **Participant** is defined in Section 5.3(a).

~~8.23.~~8.24. **Peer Group** is a peer group of endowment funds ~~maintained by the Board's external investment advisor~~ that is comprised of all endowment funds with more than 10 full-time employee positions, allocations to alternative assets in excess of 40%, and with assets greater than $2.5 billion, all to be determined as of the last day of each of the three immediately preceding Performance Periods as set forth on Appendix B; provided, however, that the Total Endowment Assets are excluded from the Peer Group. The Peer Group will be updated from time to time as deemed appropriate by the Board, and Appendix B will be amended accordingly.

~~8.24.~~8.25. **Performance Goals** are defined in Section 5.4.

~~8.25.~~8.26. **Performance Incentive Award** is the component of a Participant's total compensation that is based on specific performance goals and awarded as current income or deferred at the end of a Performance Period in accordance with Section 5 and Appendix A.

~~8.26.~~8.27. **Performance Incentive Plan** is as defined in Section 1 and described more fully in Section 5.

~~8.27.~~8.28. **Performance Measurement Date** is the close of the last business day of the month.

~~8.28.~~8.29. **Performance Period** is defined in Section 5.2.

~~8.29.~~8.30. **Prior Plan** is defined in Section 7.9.

~~8.30.~~8.31. **Salary Structure** is described in Section 4.1.

~~8.31.~~8.32. **Termination** means, as to any person, a complete severance of the relationship of employer and employee between UTIMCO and such person.

~~8.32.~~8.33. **Total Endowment Assets or TEA** means the combination of the Permanent University Fund and the General Endowment Fund, but does not include any other endowment funds monitored by UTIMCO such as the Separately Invested Fund. Performance of the Total Endowment Assets is measured net of fees, meaning performance is measured after factoring in all administrative and other fees incurred for managing the Total Endowment Assets.

~~8.33.~~8.34. **Total Endowment Assets Policy Portfolio Return** is the benchmark return for the Total Endowment Assets policy portfolio and is calculated by summing the neutrally weighted index returns (percentage weight for each asset class and investment type multiplied by the benchmark return for the asset class and investment type) for the various asset classes and investment types in the Total Endowment Assets policy portfolio for the Performance Period.

~~8.34.~~8.35. **Voluntary Terminations** means, as to any person, the Termination of such person's employment with UTIMCO not resulting from an Involuntary Termination or by reason of Death or disability.

Appendix A

Performance Incentive Award Methodology (for Performance Periods beginning on or after ~~July~~ September 1, ~~2008~~2012)

I. Determine "Incentive Award Opportunities" for Each Participant[2]

Step 1. Identify the weights to be allocated to each of the three Performance Goals for each Participant's Eligible Position. The weights vary for each Eligible Position each Performance Period and are set forth in Table 1 on Appendix C for the applicable Performance Period. The total of the weights ascribed to the three Performance Goals must add up to 100% for each Participant. For example, Table 1 on Appendix C may reflect for a Performance Period for the CEO that the weight allocated to the Entity Performance Goal is 60%, the weight allocated to the Asset Class/Investment Type Performance Goal is 0%, and the weight allocated to the Individual Performance Goal is 40%.

Step 2. Identify the percentage of base salary for the Participant's Eligible Position that determines the Performance Incentive Award for achievement of the Threshold, Target, and Maximum levels of the Performance Goals. The percentages vary for each Eligible Position each Performance Period and are set forth in Table 1 on Appendix C for the applicable Performance Period. For example, Table 1 on Appendix C may show that for a Performance Period the applicable percentages for determining the Performance Incentive Award for the CEO are ~~50~~0% of his or her base salary for achievement of Threshold level performance of all three Performance Goals, 100% of his or her base salary for achievement of Target level performance of all three Performance Goals, and ~~200~~320% of his or her base salary for achievement of Maximum level performance of all three Performance Goals.

Step 3. Calculate the dollar amount of the potential Threshold, Target, and Maximum awards (the "Incentive Award Opportunities") for each Participant by multiplying the Participant's base salary for the Performance Period by the applicable percentage (from Step #2 above). For example, assuming the CEO has a base salary of $~~575,000~~600,000 for a Performance Period, based on the assumed percentages set forth in Step #2 above, the CEO will be eligible for a total award of $~~287,500~~0 ~~(50% of his or her base salary)~~ if he or she achieves Threshold level performance of all three

[2] These Incentive Award Opportunities represent amounts that each Participant will be awarded if he or she achieves his or her Performance Goals at varying levels and are calculated at the beginning of each Performance Period or, if later, the date such Participant commences participation in the Performance Incentive Plan.

Performance Goals, $~~575,000~~600,000 (100% of his or her base salary) if he or she achieves Target level performance of all three Performance Goals, and $~~1,150,000~~1,920,000 (~~200~~320% of his or her base salary) if he or she achieves Maximum level performance of all three Performance Goals.

Step 4. Because a Participant may achieve different levels of performance in different Performance Goals and be eligible for different levels of awards for that achievement (e.g., he or she may achieve Target performance in the Entity Performance Goal and be eligible to receive a Target award for that goal and achieve Maximum performance in the Qualitative Performance Goal and be eligible to receive a Maximum award for that Performance Goal), it is necessary to determine the Incentive Award Opportunity of the Threshold, Target, and Maximum award for each separate Performance Goal (and, because achievement of the Entity Performance Goal is determined in part by achievement of the Total Endowment Assets and in part by achievement of the Intermediate Term Fund, a Threshold, Target, and Maximum Incentive Award Opportunity separately for the TEA and the ITF must be determined)**.** This is done by multiplying the dollar amount of the Threshold, Target, and Maximum awards for the performance of all three Performance Goals calculated in Step #3 above for the Participant by the weight allocated for that Participant to the particular Performance Goal (and, further, by multiplying the Incentive Award Opportunity for the Entity Performance by the weight ascribed to achievement of the Total Endowment Assets (~~85~~80%) and by the weight ascribed to achievement of the Intermediate Term Fund (~~15~~20%)).

Step 5. After Steps #3 and #4 above are performed for each of the three levels of performance for each of the three Performance Goals, there will be 12 different Incentive Award Opportunities for each Participant. For example, for the CEO (based on an assumed base salary of $~~575,000~~600,000, the assumed weights for the Performance Goals set forth in Step #1 above, and the assumed percentages of base salary for the awards set forth in Step #2 above), the 12 different Incentive Award Opportunities for achievement of the Performance Goals for the Performance Period are as follows:

Incentive Award Opportunities for CEO
(based on assumed base salary of $~~575,000~~600,000)

Performance Goal	Weight	Threshold Level Award	Target Level Award	Maximum Level Award
Entity (TEA v. TEA Policy Portfolio Return	.51% (~~.85~~.80 x .60)	$~~146,625~~0	$~~293,250~~288,000	$~~586,500~~921,600
Entity (ITF v. ITF Policy Portfolio Return)	9.0% (~~.15~~.20 x .60)	$~~25,875~~0	$~~51,750~~72,000	$~~103,500~~230,400
Asset Class/Investment Type	0%	$0	$0	$0
Qualitative	40%	$~~115,000~~0	$~~230,000~~240,000	$~~460,000~~768,000
Total	100%	$~~287,500~~0 (~~50~~0% of salary)	$~~575,000~~600,000 (100% of salary)	$~~1,150,000~~1,920,000 (~~200~~320% of salary)

II. Calculate Performance Incentive Award for Each Participant[3]

Step 6. Identify the achievement percentiles or achieved basis points that divide the Threshold, Target, and Maximum levels for each Performance Goal. These divisions for the level of achievement of the Entity and Asset Class/Investment Type Performance Goals are set forth in the table for the applicable Performance Period as set forth on Appendix D. The measurement for the level of achievement (i.e., Threshold, Target, or Maximum) for the Qualitative Performance Goal is initially determined each Performance Period by the Participant's supervisor, if any, (in the case of the CCO, jointly by the Audit and Ethics Committee and the CEO), and then is approved (or adjusted) by the Compensation Committee as it deems appropriate in its discretion. If the Participant has no supervisor, the measurement for the level of achievement for the Qualitative Performance Goal is determined each Performance Period by the Compensation Committee**.** The Board will determine the CEO's level of achievement relative to the CEO's Performance Goals.

Step 7. Determine the percentile or basis points achieved for each Performance Goal for each Participant using the standards set forth in Sections 5.5 and 5.8 of the Compensation Program, as modified in Section 5.9. Determine the level of achievement of each Participant's Qualitative Performance Goal.

Step 8. Calculate the amount of each Participant's award attributable to each Performance Goal by identifying the Incentive Award Opportunity amount for each Performance Goal (e.g., as assumed and set forth for the CEO in the table in Step #5 above) commensurate with the Participant's level of

[3] In the event that the Net Returns of the Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined are below negative 14.0% at the end of such Performance Period, steps 6 through 14 need not be followed with respect to Affected Participants when calculating Performance Incentive Awards for that Performance Period.

achievement for that Performance Goal (determined in Steps #6 and #7 above). An award for achievement percentiles in between the stated Threshold, Target, and Maximum levels is determined by linear interpolation. For example, if +100 bps of the TEA benchmark portion of the Total Endowment Assets portion of the Entity Performance Goal has been achieved, that +100 bps is between the Target (+75bps) and the Maximum (+~~150~~225bps) levels, so to determine the amount of the award attributable to +100 bps of achievement of the TEA benchmark portion of the Total Endowment Assets portion of the Entity Performance Goal, perform the following steps: (i) subtract the difference between the dollar amounts of the Target and Maximum Incentive Award Opportunities for the Participant (e.g., for the CEO, as illustrated in the table in Step #5, the difference is $~~293,250~~633,600 ($~~586,500~~921,600-$~~293,250~~288,000)); (ii) divide 25 (the bps difference between the Target level of +75 bps and the attained level of +100 bps) by ~~75~~150 (the bps difference between the Target level and Maximum level) to get the fraction ~~25/75~~25/150 to determine the pro rata portion of the difference between Target and Maximum actually achieved; (iii) multiply the amount determined in the preceding Step (i) by the fraction determined in the preceding Step (ii) ($~~293,250~~633,600 x ~~25/75~~25/150 = $~~97,750~~105,600); and (iv) add the amount determined in the preceding Step (iii) to the Target Incentive Award Opportunity for the Participant to get the actual award for the Participant attributable to each Performance Goal ($~~97,750~~105,600 + $~~293,250~~288,000 = $~~391,000~~393,600).

Step 9. In determining the Asset Class/Investment Type Performance portion of an award for a Performance Period for each Participant who is responsible for more than one asset class and investment type during that Performance Period, first, the Participant's attained level of achievement (i.e., Below Threshold, Threshold, Target, or Maximum) is determined for each asset class and investment type for which such Participant is responsible by comparing the actual performance to the appropriate benchmark for the asset class and investment type; then, the award is calculated for the determined level of achievement for each such asset class and investment type by multiplying the award commensurate with the level of achievement by the weight assigned to the Asset Class/Investment Type Performance Goal for such Participant; then, the various asset classes and investment types for which the Participant is responsible are assigned a pro rata weight (i.e., the assets in such asset class and investment type relative to the total assets under such Participant's responsibility); then, each determined award for a separate asset class and investment type is multiplied by the weight for that asset class and investment type; and, finally, the weighted awards are totaled to produce the Participant's award attributable to Asset Class/Investment Type Performance.

Step 10. In determining the award attributable to the Entity Performance Goal, achievement of the Total Endowment Assets portion of the Entity Performance Goal (and the commensurate award) is weighted at ~~85~~80%

(and then multiplied by the weight assigned to the Entity Performance Goal for the Participant), and achievement of the Intermediate Term Fund portion of the Entity Performance Goal (and commensurate award) is weighted at ~~15~~20% (and then multiplied by the weight assigned to the Entity Performance Goal for the Participant). For example, assuming a base salary of $~~575,000~~600,000, if the CEO achieved the Target level (+75 bps) of the TEA benchmark portion of the Total Endowment Assets portion of the Entity Performance Goal, and achieved the Maximum level (+~~100~~150 bps) of the Intermediate Term Fund portion of the Entity Performance Goal, he or she would have earned an award of $~~396,750~~518,400 for his or her level of achievement of the Entity Performance Goal as follows: $~~293,250~~288,000 for Target level of achievement of the TEA benchmark portion of the TEA portion of Entity Performance Goal (.~~85~~ 80 x .60 x $~~575,000~~600,000) plus $~~103,500~~230,400 for Maximum level of achievement of the ITF portion of the Entity Performance Goal (.~~15~~ 20 x .60 x $~~1,150,000~~1,920,000).

Step 11. No award is given for an achievement percentile below Threshold, and no award above the Maximum award is given for an achievement percentile above the Maximum level.

Step 12. Subject to any applicable adjustment in Step #13 below, add the awards determined in Steps #8, #9, and #10 above for each Performance Goal (as modified by Step #11) together to determine the total amount of the Participant's Performance Incentive Award for the Performance Period.

Step 13. In the case of any Participant who becomes a Participant in the Performance Incentive Plan after the first day of the applicable Performance Period, such Participant's Performance Incentive Award (determined in Step #12) will be prorated to reflect the actual portion of the Performance Period in which he or she was a Participant. In the case of a Participant who ceases to be a Participant prior to the end of a Performance Period, his or her entitlement to any Performance Incentive Award is determined under Section 5.10 and, in the case of such entitlement, such Participant's Performance Incentive Award, if any, will be prorated and adjusted as provided in Section 5.10.

Step 14. In the case of any Affected Participant, such Affected Participant's Performance Incentive Award calculated pursuant to Steps #1 through #13 above shall be multiplied by the appropriate factor set forth in the following charges:

When Net Returns of Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined are below negative 5.0% at the end of such Performance Period:

Actual Negative Net Returns (Rounded to Nearest One-Hundredth Decimal)	Factor
5.01 - 6.00	.9
6.01 - 7.00	.8
7.01 - 8.00	.7
8.01 - 9.00	.6
9.01 - 10.00	.5
10.01 - 11.00	.4
11.01 - 12.00	.3
12.01 - 13.00	.2
13.01 - 14.00	.1
14.01 and Below	.0

When Net Returns of Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined are in excess of positive 20.0% at the end of such Performance Period:

Actual Positive Net Returns (Rounded to Nearest One-Hundredth Decimal)	Factor
20.01 - 21.00	1.1
21.01 - 22.00	1.2
22.01 - 23.00	1.3
23.01 - 24.00	1.4
24.01 - 25.00	1.5
25.01 - 26.00	1.6
26.01 - 27.00	1.7
27.01 - 28.00	1.8
28.01 - 29.00	1.9
29.01 and Above	2.0

Appendix B

UTIMCO Peer Group

- Columbia University
- Cornell University
- Duke University
- Emory University
- Harvard University
- Massachusetts Institute of Technology
- Northwestern University
- Princeton University
- Rice University
- Stanford University
- UNC Management Company
- University of California
- University of Chicago
- University of Michigan
- University of Notre Dame
- University of Pennsylvania
- University of Southern California
- University of Virginia Investment Management Company
- Vanderbilt University
- Washington University in St. Louis
- Yale University

Source: Cambridge Associates. Represents endowment funds (excluding the Total Endowment Assets) with more than 10 full-time employee positions, allocations to alternative assets in excess of 40%, and with assets greater than $2.5 billion, all to be determined as of the last day of each fiscal year end June 2009, 2010, 2011.

Appendix C

Eligible Positions
Weightings
Incentive Award Opportunities
Percentage of Award Deferred
for each Eligible Position
(for each Performance Period)

TABLE 1 (For the Performance Periods beginning ~~after June 30, 2010~~September 1, 2012 and ending August 31, 2013)

Eligible Position	Weighting: Entity	Weighting: Asset Class/ Investment Type	Weighting: Qualitative (Individual)	Incentive Award Opportunity (% of Salary): < Threshold	Incentive Award Opportunity (% of Salary): Threshold	Incentive Award Opportunity (% of Salary): Target	Incentive Award Opportunity (% of Salary): Maximum	Percentage of Award Deferred
Investment Professionals								
CEO & Chief Investment Officer	60%	0%	40%	0%	0%	100%	~~300%~~320%	50%
President & Deputy CIO	40%	40%	20%	0%	0%	95%	~~250%~~275%	50%
Managing Director - Investments	30%	40%	30%	0%	0%	85%	~~215%~~227.5%	40%
Managing Director - Private Investments	30%	30%	40%	0%	0%	85%	~~215%~~227.5%	40%
Senior Director - Investments	25%	35%	40%	0%	0%	60%	~~150%~~167.5%	35%
Senior Portfolio Manager	20%	40%	40%	0%	0%	60%	~~150%~~167.5%	35%
Senior Director - Risk Management	30%	0%	70%	0%	0%	50%	~~135%~~152.5%	35%
Portfolio Manager	20%	40%	40%	0%	0%	50%	~~130%~~150%	30%
Director - Investments	20%	40%	40%	0%	0%	50%	~~130%~~150%	30%
Director - Private Investments	20%	30%	50%	0%	0%	50%	~~130%~~150%	30%
Director - Risk Management	30%	0%	70%	0%	0%	40%	~~90%~~120%	30%
Senior Associate - Investments	15%	35%	50%	0%	0%	40%	~~90%~~120%	20%
Senior Associate - Private Investments	15%	25%	60%	0%	0%	40%	~~90%~~120%	20%
Senior Associate - Risk Management	30%	0%	70%	0%	0%	40%	~~80%~~110%	20%
Associate - Investments	15%	30%	55%	0%	0%	35%	~~85%~~110%	15%
Associate - Private Investments	15%	20%	65%	0%	0%	35%	~~85%~~110%	15%
Associate - Risk Management	30%	0%	70%	0%	0%	35%	~~70%~~95%	15%
Senior Analyst - Investments	10%	20%	70%	0%	0%	30%	~~60%~~80%	0%
Analyst - Investments	10%	20%	70%	0%	0%	25%	~~50%~~62.5%	0%
Analyst - Risk Management	30%	0%	70%	0%	0%	25%	~~50%~~62.5%	0%
Operations/Support Professionals								
Senior Managing Director	20%	0%	80%	0%	0%	60%	~~120%~~135%	40%
~~Managing Director~~Chief Technology Officer	20%	0%	80%	0%	0%	50%	100%	30%
General Counsel & Chief Compliance Officer	0%	0%	100%	0%	0%	50%	~~100%~~110%	30%
Senior Manager	20%	0%	80%	0%	0%	40%	90%	25%
Manager	20%	0%	80%	0%	0%	40%	80%	25%
Deal Attorney	20%	0%	80%	0%	0%	40%	80%	25%
Senior Financial Analyst	20%	0%	80%	0%	0%	30%	60%	20%

TABLE 1 (For the Performance Periods beginning after August 31, 2013)

Eligible Position	Weighting: Entity	Weighting: Asset Class/ Investment Type	Weighting: Qualitative (Individual)	Incentive Award Opportunity (% of Salary): < Threshold	Threshold	Target	Maximum	Percentage of Award Deferred
Investment Professionals								
CEO & Chief Investment Officer	60%	0%	40%	0%	0%	100%	340%	50%
President & Deputy CIO	40%	40%	20%	0%	0%	95%	300%	50%
Managing Director - Investments	30%	40%	30%	0%	0%	85%	240%	40%
Managing Director - Private Investments	30%	30%	40%	0%	0%	85%	240%	40%
Senior Director - Investments	25%	35%	40%	0%	0%	60%	185%	35%
Senior Portfolio Manager	20%	40%	40%	0%	0%	60%	185%	35%
Senior Director - Risk Management	30%	0%	70%	0%	0%	50%	170%	35%
Portfolio Manager	20%	40%	40%	0%	0%	50%	170%	30%
Director - Investments	20%	40%	40%	0%	0%	50%	170%	30%
Director - Private Investments	20%	30%	50%	0%	0%	50%	170%	30%
Director - Risk Management	30%	0%	70%	0%	0%	40%	150%	30%
Senior Associate - Investments	15%	35%	50%	0%	0%	40%	150%	20%
Senior Associate - Private Investments	15%	25%	60%	0%	0%	40%	150%	20%
Senior Associate - Risk Management	30%	0%	70%	0%	0%	40%	140%	20%
Associate - Investments	15%	30%	55%	0%	0%	35%	135%	15%
Associate - Private Investments	15%	20%	65%	0%	0%	35%	135%	15%
Associate - Risk Management	30%	0%	70%	0%	0%	35%	120%	15%
Senior Analyst - Investments	10%	20%	70%	0%	0%	30%	100%	0%
Analyst - Investments	10%	20%	70%	0%	0%	25%	75%	0%
Analyst - Risk Management	30%	0%	70%	0%	0%	25%	75%	0%
Operations/Support Professionals								
Senior Managing Director	20%	0%	80%	0%	0%	60%	150%	40%
Chief Technology Officer	20%	0%	80%	0%	0%	50%	100%	30%
General Counsel & Chief Compliance Officer	0%	0%	100%	0%	0%	50%	120%	30%
Senior Manager	20%	0%	80%	0%	0%	40%	90%	25%
Manager	20%	0%	80%	0%	0%	40%	80%	25%
Deal Attorney	20%	0%	80%	0%	0%	40%	80%	25%
Senior Financial Analyst	20%	0%	80%	0%	0%	30%	60%	20%

Appendix D

Benchmarks for Entity and Asset Class/Investment Type and Threshold, Target, and Maximum Performance Standards

(for Performance Periods beginning on or after ~~July 1, 2008~~September 1, 2010)

~~**Performance Standards for Intermediate Term Fund**~~

~~**(for Performance Periods beginning on or after July 1, 2008)**~~

UPDATED TABLE 2 (~~7/1/08~~09/01/10 through 8/31/11)

Asset Class/Investment Type	Benchmark	Policy Portfolio Weights: Total Endowment Assets (% of Portfolio)	Policy Portfolio Weights: ITF (% of Portfolio)	Performance Standards: Threshold	Performance Standards: Target	Performance Standards: Maximum
Entity: Benchmark (Total Endowment Funds)	Policy Portfolio	n/a	n/a	+0 bps	+75 bps	+225 bps
Entity: Benchmark (Intermediate Term Fund)	Policy Portfolio	n/a	n/a	+0 bps	+50 bps	+150 bps
Investment Grade Fixed Income	Barclays Capital Global Aggregate Index	7.5%	30.0%	+0 bps	+25 bps	+62.5 bps
Real Estate	FTSE EPRA/NAREIT Developed Index	2.5%	5.0%	+0 bps	+62.5 bps	+150 bps
Natural Resources	50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index	6.5%	7.5%	+0 bps	+62.5 bps	+150 bps
Developed Country Equity	MSCI World Index with net dividends	19.5%	15.0%	+0 bps	+62.5 bps	+150 bps
Emerging Markets Equity	MSCI Emerging Markets with net dividends	12.0%	7.5%	+0 bps	+62.5 bps	+150 bps
Hedge Funds (Less Correlated & Constrained Investments)	Hedge Fund Research Indices Fund of Funds Composite Index*	30.0%	35.0%	+0 bps	+75 bps	+250 bps
Private Investments (excludes Real Estate)	Venture Economics Custom Index	20.0%	0%	+0 bps	+100 bps	+350 bps
Private Investments Real Estate	NACREIF Custom Index	2.0%	0%	+0 bps	+100 bps	+325 bps
Specific asset class benchmarks:						
Credit-Related Fixed Income	Barclays Capital Global High Yield Index			+0 bps	+37.5 bps	+100 bps
Internal Investment Grade Fixed Income	US Barclays Capital Aggregate			+0 bps	+25 bps	+50 bps

* For the Performance Period beginning 7/01/2008 through 12/31/2008, the benchmark is MSCI Investable Hedge Fund Index

UPDATED TABLE 2 (9/1/11 through ~~6/30/12~~08/31/12)

Asset Class/Investment Type	Benchmark	Policy Portfolio Weights: Total Endowment Assets (% of Portfolio)	Policy Portfolio Weights: ITF (% of Portfolio)	Performance Standards: Threshold	Performance Standards: Target	Performance Standards: Maximum
Entity: Benchmark (Total Endowment Funds)	Policy Portfolio	n/a	n/a	+0 bps	+75 bps	+225 bps
Entity: Benchmark (Intermediate Term Fund)	Policy Portfolio	n/a	n/a	+0 bps	+50 bps	+150 bps
Investment Grade Fixed Income	Barclays Capital Global Aggregate Index	7.5%	35.0%	+0 bps	+25 bps	+62.5 bps
Real Estate	FTSE EPRA/NAREIT Developed Index NET TRI USD	2.5%	5.0%	+0 bps	+62.5 bps	+150 bps
Natural Resources	50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index	6.5%	7.5%	+0 bps	+62.5 bps	+150 bps
Developed Country Equity	MSCI World Index with net dividends	18.5%	10.0%	+0 bps	+62.5 bps	+150 bps
Emerging Markets Equity	MSCI Emerging Markets with net dividends	12.0%	7.5%	+0 bps	+62.5 bps	+150 bps
Hedge Funds (Less Correlated & Constrained Investments)	Hedge Fund Research Indices Fund of Funds Composite Index	30.0%	35.0%	+0 bps	+75 bps	+250 bps
Private Investments (excludes Real Estate)	Venture Economics Custom Index	20.0%	0%	+0 bps	+100 bps	+350 bps
Private Investments Real Estate	NACREIF Custom Index	3.0%	0%	+0 bps	+100 bps	+325 bps
Specific asset class benchmarks:						
Credit-Related Fixed Income	Barclays Capital Global High Yield Index			+0 bps	+37.5 bps	+100 bps
Internal Investment Grade Fixed Income	US Barclays Capital Aggregate			+0 bps	+25 bps	+50 bps

UPDATED TABLE 2 (9/1/12 through 08/31/13)

Asset Class/Investment Type	Benchmark	Policy Portfolio Weights: Total Endowment Assets (% of Portfolio)	Policy Portfolio Weights: ITF (% of Portfolio)	Performance Standards: Threshold	Performance Standards: Target	Performance Standards: Maximum
Entity: Benchmark (Total Endowment Funds)	Policy Portfolio	n/a	n/a	+0 bps	+75 bps	+225 bps
Entity: Benchmark (Intermediate Term Fund)	Policy Portfolio	n/a	n/a	+0 bps	+50 bps	+150 bps
Investment Grade Fixed Income	Barclays Capital Global Aggregate Index	7.5%	35.0%	+0 bps	+25 bps	+62.5 bps
Real Estate	FTSE EPRA/NAREIT Developed Index NET TRI USD	2.5%	5.0%	+0 bps	+62.5 bps	+150 bps
Natural Resources	50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index	7.5% ~~6.5%~~	7.5%	+0 bps	+62.5 bps	+150 bps
Developed Country Equity	MSCI World Index with net dividends	15.0% ~~18.5%~~	10.0%	+0 bps	+62.5 bps	+150 bps
Emerging Markets Equity	MSCI Emerging Markets with net dividends	12.0%	7.5%	+0 bps	+62.5 bps	+150 bps
Hedge Funds (Less Correlated & Constrained Investments)	Hedge Fund Research Indices Fund of Funds Composite Index	30.0%	35.0%	+0 bps	+75 bps	+250 bps
Private Investments (excludes Real Estate)	Venture Economics Custom Index	21.5% ~~20.0%~~	0%	+0 bps	+100 bps	+350 bps
Private Investments Real Estate	NACREIF Custom Index	4.0% ~~3.0%~~	0%	+0 bps	+100 bps	+325 bps
Specific asset class benchmarks:						
Credit-Related Fixed Income	Barclays Capital Global High Yield Index			+0 bps	+37.5 bps	+100 bps
Internal Investment Grade Fixed Income	US Barclays Capital Aggregate			+0 bps	+25 bps	+50 bps

Appendix E

Eligible Positions of Affected Participants

Table 3 (For the Performance Periods beginning after ~~June 30, 2011~~September 1, 2012)

Eligible Position
Investment Professionals
CEO & Chief Investment Officer
President & Deputy CIO
Managing Director
Managing Director - Private Investments
Senior Director, Investment
Senior Portfolio Manager
Senior Director, Risk Management
Portfolio Manager
Director, Investment
Director - Private Investments
Director, Risk Management
Operations/Support Professionals
Senior Managing Director
~~Managing Director~~ Chief Technology Officer
General Counsel & Chief Compliance Officer
Senior Manager
Deal Attorney
Manager

11. **U. T. System Board of Regents: Approval of the Annual Budget, including the capital expenditures budget, invoiced external investment manager fees, and other external direct charges to the Funds, and the Annual Fee and Allocation Schedule for The University of Texas Investment Management Company (UTIMCO)**

RECOMMENDATION

The University of Texas Investment Management Company (UTIMCO) Board of Directors recommends that the U. T. System Board of Regents approve the proposed Annual Budget for the fiscal year ending August 31, 2013, as set forth on Pages 286 - 288, which includes the capital expenditures budget, invoiced external investment manager fees, and other external direct charges to the Funds, and the Annual Fee and Allocation Schedule as set forth on Pages 289 - 300.

BACKGROUND INFORMATION

The proposed Total Budgeted Costs consist of $24.1 million for UTIMCO services, $7.1 million for external noninvestment manager services such as custodial, legal, audit and consulting services, and $59.6 million for invoiced external investment manager and performance fees associated with separate accounts, which exist only to provide customized investment guidelines and/or provide for direct custody. These Total Budgeted Costs represent only a portion of total investment costs as they exclude external manager fees paid by the funds and netted from asset values. UTIMCO will provide a comprehensive analysis to U. T. System Office of Finance of all fees paid to external investment managers. The proposed Total Budgeted Costs were approved by the UTIMCO Board on July 11, 2012.

The proposed Annual Fee and Allocation Schedule shows the allocation of the proposed budgeted expenses among U. T. System funds. The fees are to be paid quarterly.

The proposed capital expenditures budget totaling $1.4 million is included in the total Annual Budget.

UTIMCO projects that there will be no cash reserves available to be distributed back to the U. T. System funds per the Master Investment Management Services Agreement (IMSA) between the U. T. System Board of Regents and UTIMCO.

The U. T. System Office of Finance has prepared a memorandum for the purpose of reviewing budgeted expenses, which is included as a part of this agenda item on Pages 289 - 300.

UTIMCO ANNUAL BUDGET

UTIMCO FY 2012 Forecast and FY 2012 & 2013 Budget ($ in thousands)	FY 2012		FY 2012 Forecast vs. FY 2012 Budget	FY 2013	FY 2013 Budget vs. FY 2012 Budget
	Forecast	Budget	Over/ (Under)	Budget	Over/ (Under)
UTIMCO Services	$15,611	$18,299	($2,688)	$24,126	$5,827
Other Investment Related Expenses Charged to Funds *	7,019	7,576	(557)	7,139	(437)
Total	**$22,630**	**$25,875**	**($3,245)**	**$31,265**	**$5,390**

* Does not include any external investment manager fees

Prepared by: UTIMCO
Date: July 31, 2012

Detail of UTIMCO Services Expenses

UTIMCO Expenses (thousands $)	FY 2012 Forecast	FY 2012 Budget	FY 2012 Forecast vs. FY 2012 Budget Over/ (Under)	FY 2013 Budget	FY 2013 Budget vs. FY 2012 Budget Over/ (Under)
Salaries:					
Existing Salaries	$6,993	$7,036	($43)	$7,107	$71
Salary Increases	-	-	-	198	198
Promotions	-	-	-	118	118
Staff Additions	-	-	-	553	553
Total Salaries	**$6,993**	**$7,036**	**($43)**	**$7,976**	**$940**
Performance Compensation:					
Cash Awards	$865	$3,572	($2,707)	$4,491	$919
Deferrals - Regular	1,842	1,675	167	2,226	551
Deferrals - Extraordinary	-	-	-	2,700	2,700
Earnings	158	143	15	419	276
Total Performance Compensation	**$2,865**	**$5,390**	**($2,525)**	**$9,836**	**$4,446**
All Other	5,753	5,873	(120)	6,314	441
Total	**$15,611**	**$18,299**	**($2,688)**	**$24,126**	**$5,827**

Prepared by: UTIMCO
Date: July 31, 2012

UTIMCO Management Fee and Direct Budgeted Investment Expenses
Annual Fee and Allocation Schedule
For the fiscal year ending August 31, 2013

Proposed Budget	PUF	PHF	LTF	GEF (PHF, LTF)	ITF	STF	Separate Funds	Total
Market Value 2/29/12 ($ millions)	**12,971**	**981**	**6,048**	**7,029** (2)	**4,826**	**1,544**	**918**	**27,288**
UTIMCO Management Fee								
Dollars (thousands)	12,158	1,102	6,798		4,068			24,126
Basis Points	9.4	11.2	11.2	0	8.4	0	0	8.8
Direct Expenses to the Fund, excluding UT System Direct Expenses to the Fund								
Dollars (thousands)								
Other Direct Costs	3,225	19	21	2,069	1,805			7,139
External Management Fees - AUM	20,424	0	0	11,314	9,730	N/A (1)		41,468
External Management Fees - Performance	9,528	0	0	5,314	3,267			18,109
Total Dollars	**33,177**	**19**	**21**	**18,697**	**14,802**		**0**	**66,716**
Basis Points								
Other Direct Costs	2.5	0.2	0.0	2.9	3.7	0	0	2.6
External Management Fees - AUM	15.7	-	-	16.1	20.2	N/A (1)		15.2
External Management Fees - Performance	7.3	-	-	7.6	6.8			6.6
Total Basis Points	25.5	0.2	0.0	26.6	30.7	N/A (1)		24.4
UT System Direct Expenses to the Fund								
Dollars (thousands)								
UT System Fees for Endowment Admin & Mgmt	0	0	13,571	0	0	0	0	13,571
UT System Oversight Fees	207	17	98	0	78	0	0	400
UT System PUF Lands	8,879	0	0	0	0	0	0	8,879
Total Dollars	9,086	17	13,669	0	78	0	0	22,850
Total Basis Points	7.0	0.2	22.6	0	0.2	0	0	8.4

(1) Income is net of fees

(2) Pooled Fund for the collective investment of the PHF and LTF

Prepared by: UTIMCO

Date: July 31, 2012

Fiscal Year 2013

Review of UTIMCO Services Budget and Other Budgeted Investment Management Expenses

The University of Texas System

Office of Finance

Presented by:
Terry Hull – Associate Vice Chancellor for Finance

July 20, 2012

REVISED based on information provided by UTIMCO staff following UTIMCO Board approval on July 11, 2012

Fiscal Year 2013
Review of UTIMCO Services Budget and
Other Budgeted Investment Management Expenses

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Executive Summary

This report reviews the UTIMCO Services budget and other budgeted investment management expenses ("Direct Costs to Funds") for fiscal year 2013 that the UTIMCO Board considered on July 11, 2012 and the U. T. System Board of Regents will consider at its August 2012 annual meeting. The UTIMCO Services budget includes corporate expenses paid directly by UTIMCO. The Direct Costs to Funds budget includes external investment manager fees paid directly by UTIMCO and other costs related to custody, consulting, corporate legal, audit, and risk measurement. The proposed budget for FY13 is:

	FY13 ($ millions)
• Direct Costs to Funds: External Investment Manager Fees	$ 59.6
• UTIMCO Services Budget	24.1
• Direct Costs to Funds: Other Costs	7.1
Total Budgeted Costs	$ 90.8

The Total Budgeted Costs excludes external manager fees that are paid by the funds and netted from asset values. The total investment costs for UTIMCO managed funds, comprising Investment Manager Fees paid directly and fees netted against asset values, are reviewed in a separate report.

Highlights:

- **Total Budgeted Costs for FY13**: The FY13 budget is $90.8 million, a 16% increase from the FY12 budget. The increase is partially due to FY12 performance compensation that is being deferred into FY13 in accordance with provisions of the UTIMCO Compensation Program.
- **Total Forecasted Costs for FY12**: Total forecasted costs for FY12 are projected at $60.9 million, or 22% under the FY12 budget. The decrease is due primarily to lower external management fees in addition to the performance compensation deferral.
- **The Total Direct Costs to Funds budget consists primarily of external investment manager fees**. The FY13 budget of $66.7 million for direct fund costs is up 11% from the FY12 budget. The increase is due to higher budgeted external management performance fees, due in part to the addition of several new managers.
- **The UTIMCO Services Budget: The FY13 budget is $24.1 million** for the "operating" budget of UTIMCO, a 32% increase from the FY12 budget. The increase in the Services Budget is 97% attributable to increases in Employee Related Expenses.
- **Compensation: Compensation-related expenses represent approximately 82% of the UTIMCO Services Budget.** Aggregate salaries for FY13 are budgeted to be up 14% from the FY12 budget. Budgeted salaries for FY13 include a 4% increase for existing staff (including promotions) and seven open positions. Budgeted performance compensation for FY 2013 reflects significant increases due in part to the deferral of $2.7 million of FY 2012 performance compensation into FY13 due to negative endowment returns for the performance period ending June 30, 2012. Excluding the impact of the deferral, aggregate performance compensation in FY13 is budgeted to increase $1.4 million (28%) from the FY12 budget due to salary increases, additional staff, and increases in maximum performance incentive awards.
- **UTIMCO Reserves:** UTIMCO staff projects that UTIMCO will have no cash reserves available to be distributed at fiscal year-end 2012. We concur with UTIMCO staff in recommending that no distribution of reserves be made at this time.

Budget Analysis and Trends

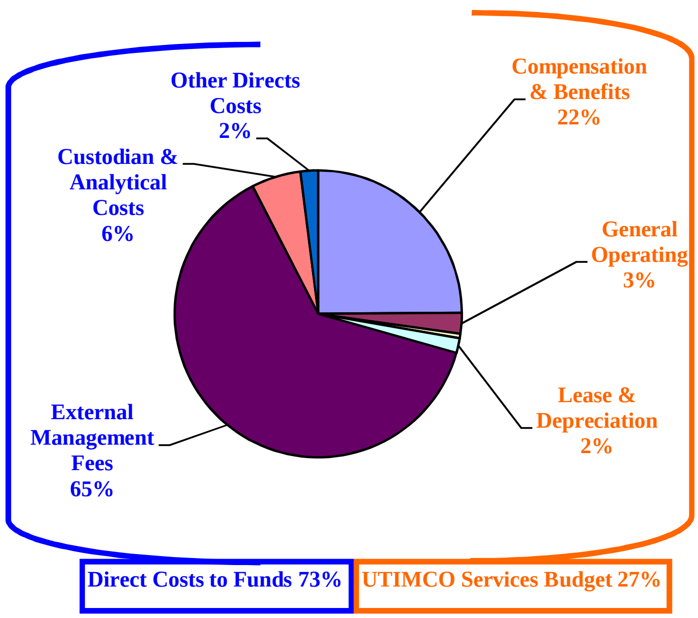
UTIMCO proposes Total Budgeted Costs for FY13 of $90.8 million. Table 1 shows the Total Budgeted Costs (Direct Costs to Funds and UTIMCO Services Budget) as a percent of average Assets Under Management (AUM) since FY08.

Table 1: Total Budgeted Costs Trend FY08-FY13 ($ millions)

	FY08	FY09	FY10	FY11	Projected FY12	Budget FY13
Average Total Assets Under Management (AUM) *	23,359	21,864	21,750	24,840	26,822	26,822
% Change in AUM	6%	-6%	-1%	14%	8%	0%
Direct Costs to Funds	35.1	37.8	50.4	57.1	45.3	66.7
% Change in Direct Costs to Funds	-33%	8%	33%	13%	-21%	47%
Direct Costs to Funds % of AUM	0.15%	0.17%	0.23%	0.23%	0.17%	0.25%
UTIMCO Services Budget	13.9	15.1	16.6	18.2	15.6	24.1
% Change in UTIMCO Services Budget	23%	9%	10%	9%	-14%	55%
UTIMCO Services Budget % of AUM	0.06%	0.07%	0.08%	0.07%	0.06%	0.09%
Total Budgeted Costs	49.0	52.9	67.0	75.3	60.9	90.8
% Change in Total Budgeted Costs	-23%	8%	27%	12%	-19%	49%
Total Budgeted Costs % of AUM	0.21%	0.24%	0.31%	0.30%	0.23%	0.34%

** The FY12 and FY13 values are based on average AUM at May 2012.*

FY 2013 Total Budgeted Costs
$90.8 million



The pie chart above shows the breakdown of Total Budgeted Costs. The UTIMCO Services Budget represents 27% of the total budget, with Compensation & Benefits being the largest component. Direct

Costs to Funds include External Management Fees (including performance fees) paid directly, Custodian & Analytical Costs, and Other Direct Costs. External Management Fees represent the largest component of the total budget at 65%. UTIMCO retains external managers for approximately 90% of the AUM, however most of the management fees are not paid directly, instead the fees are netted against asset values. UTIMCO staff directly manage the remaining approximately 10% of assets as well as an internal derivatives portfolio.

Table 2 compares the Total Budgeted Costs for FY12 and FY13. Refer to Exhibits A and B for a detailed budget comparison for FY12-FY13 and budget trend for FY08-FY13.

Table 2: FY12 Forecast and FY13 Budget Overview

	FY12				FY13			
	$ Budget	**$ Projected**	**$ Change vs FY12 Budget**	**% Change vs FY12 Budget**	**$ Budget**	**$ Change vs FY12 Projected**	**% Change vs FY12 Projected**	**% Change vs FY12 Budget**
UTIMCO Services Budget	18,298,701	15,611,048	-2,687,653	-14.69%	24,125,675	8,514,627	54.54%	31.84%
Direct Costs to Funds	60,194,059	45,304,228	-14,889,831	-24.74%	66,715,586	21,411,359	47.26%	10.83%
Total Budgeted Costs	78,492,760	60,915,275	-17,577,485	-22.39%	90,841,261	29,925,986	54.39%	15.73%

<u>FY12 Forecast versus FY12 Budget</u>: UTIMCO staff projects FY12 Total Budgeted Costs will be $60.9 million, $17.6 million (22%) under the FY12 budget of $78.5 million. Of the expected decrease, $14.3 million is due to lower external manager fees with the balance of the decrease due to the deferral of performance compensation from FY12 to FY13.

- UTIMCO Services corporate expenses are projected to be slightly under budget by $2.7 million, due to the deferral of a portion of performance compensation as a result of negative investment returns.

  - Salaries and other employee related expenses are expected to be $2.6 million (19%) under budget.
  - Online data service expenses are projected to be $110k (14.9%) over budget.
  - Corporate legal expenses are expected to be $64k (37%) under budget.

- Direct Costs to Funds are projected to be under budget by $14.9 million (25%) primarily due to lower than expected external management fees.

  - External management fees are estimated to be $9.3 million (22%) under budget and manager performance fees are anticipated to be $5.1 million (47%) under budget in FY12. This is driven almost entirely by lower than expected/budgeted investment performance.
  - Foreign tax consultant fees are projected to be $63k (14%) over budget.
  - Investment legal fees are projected to be $260k (28%) under budget due to fewer investments being made than expected/budgeted.

- Capital Expenditures are forecasted at $118k (74%) more than budget, for technology and software upgrades.

<u>FY13 Proposed Budget</u>: The proposed $90.8 million Total Budgeted Costs for FY13 is 16% higher than the approved FY12 budget with $2.7 million of the increase attributable to the deferral of FY 2012 performance compensation.

- FY13 Direct Costs to Funds of $66.7 million are budgeted to increase 11% versus budgeted costs for FY12 primarily due to higher external management performance fees related to new managers with higher potential performance fees in FY13.
- UTIMCO Services costs for FY13 are budgeted to be $24.1 million, an increase of 32% over FY12 budgeted costs primarily due to additional staff, higher maximum incentive awards, higher overall salaries, the deferral of FY12 performance compensation to FY13 and the vesting of previously deferred compensation, which compounds at the rate of return of the endowments.
- Capital Expenditures are budgeted at $1.35 million, an increase of 384%, as UTIMCO undertakes many new projects recommended by its new Chief Technology Officer. The Capital Expenditures will comprise expansion of software and technology upgrades, document management and other ongoing expenses.

Direct Costs to Funds

Direct Costs to Funds for FY13 are projected at $66.7 million.

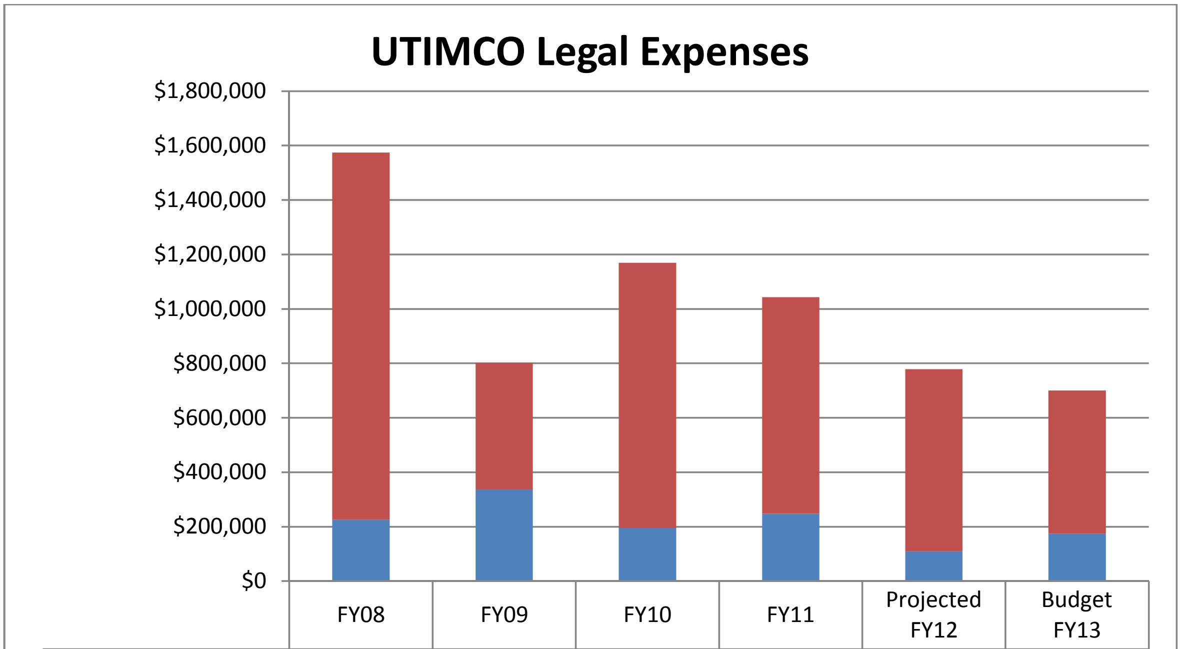
<u>External Management and Performance Fees</u> paid to external managers are the largest component of the overall budget. These fees, projected at $38.3 million in FY12 and budgeted at $59.6 million for FY13, represent 89% of all Direct Costs to Funds and 66% of Total Budgeted Costs for FY13. Although UTIMCO staff estimates external management and performance fees using each manager's fee structure and current asset base, these fees are difficult to forecast and budget due to the uncertainty of individual manager performance. Projected external manager fees in FY12 reflect investment performance less than what was budgeted, impacting both assets under management and performance fees.

<u>Custodian and Analytical Costs:</u> Custodian fees for FY12 are projected at $4.1 million, 8.5% under budget. Custodian fees are down slightly over budget due to a fee reduction implemented during the year. Performance measurement expenses paid in FY12 are projected to be $429k and the budget for FY13 is $513k.

<u>Risk Measurement</u>: Risk measurement expenses charged to the funds are expected to be 3% under budget at $307k for FY12 and budgeted at $316k for FY13.

<u>Auditing</u> expenses in FY12 of $372k funded external auditors and U. T. System Audit Office fees. Audit expenses are budgeted at $465k for FY13 reflecting a cost increase from Deloitte and Touche and an increase in System audit requirements for FY13.

<u>Legal</u>: The chart on page 6 shows the trend in UTIMCO Services (corporate) legal fees and direct legal expenses charged to the funds since FY08. Legal fees paid directly by the funds in FY12 are projected to be $669k (28% under budget). Direct legal fees are budgeted for FY13 at $526k, a further 21% decrease that will be offset by the anticipated hiring of an additional internal legal position. Overall, legal expenses have been down since FY08.



	FY08	FY09	FY10	FY11	Projected FY12	Budget FY13
Direct Costs to Funds	1,348,784	464,600	973,934	795,933	669,471	526,000
UTIMCO Services	225,172	337,065	194,930	247,303	109,598	174,000

UTIMCO Services Budget

For FY12, total personnel-related expenses including employee benefits account for 78% of the UTIMCO Services budget (18% of Total Budgeted Costs). Trends in staffing and total compensation in relation to assets are shown in Table 3 on the next page. Highlights from Table 3 include:

- Staffing has been steady from FY08 to FY12 but is expected to increase by 12% in FY 2013.
- Average AUM per employee has grown approximately 3% annually from FY08 to FY12.
- Aggregate salaries for FY12 are projected to be 30% above FY08 levels.
- Given the deferral of a significant portion of FY12 incentive compensation, projected incentive compensation for FY12 reflects a 1% decrease compared to FY08, and total compensation for FY 12 is projected to be 17% above FY08 levels.
- Total compensation has increased from $8.4 million in FY08 to $15.1 million budgeted for FY13 excluding the $2.7 million incentive compensation deferred from FY12.
- Total compensation per employee has increased 10% (annualized) since FY08 to $229k budgeted in FY13, excluding the impact of the FY12 incentive deferral into FY 2013.

Table 3: UTIMCO Compensation and Headcount FY08-FY13

	FY08	FY09	FY10	FY11	Projected FY12	% Change Since FY08 (annual)	Budget FY13	% Change From FY12
Employees (as of year end)	58	57	57	54	59	0%	66	12%
Average Total AUM ($ millions)	23,359	21,864	21,750	24,840	26,822	4%	26,822	0%
Average AUM/Employee ($ millions)	403	384	382	460	455	3%	406	-11%
Salaries and Wages ($)	5,377,233	6,443,360	6,454,270	6,422,656	6,992,739	7%	7,976,326	14%
Performance Compensation ($)	3,016,393	3,245,765	4,490,396	6,290,993	2,865,336	-1%	9,835,675	243%
Total Compensation ($)	8,393,626	9,689,125	10,944,666	12,713,650	9,858,075	4%	17,812,001	81%
Total Compensation per Employee ($)	144,718	169,985	192,012	235,438	167,086	4%	269,879	62%
Perf. Comp. as % of Salaries	56%	50%	70%	98%	41%		123%	
Perf. Comp. as % of Total Comp.	36%	33%	41%	49%	29%		55%	

Staffing: The FY12 budget was based on staffing of 57 employees; actual staffing is projected to be 59 employees at fiscal year-end 2012. The FY13 budget is based on staffing of 66 employees.

Personnel-related Expenses:

- **Salaries and Wages** are projected to be $7.0 million in FY12, $42k (1%) under budget, and are budgeted at $8.0 million in FY13 due in part to several new positions. Budgeted salaries for FY13 include a 4% increase for existing staff (including promotions) and seven open positions.

- **Performance Compensation** for FY12 based on performance year-to-date (including deferred incentive compensation earned in prior years and related income) is forecast to be $2.5 million under budget, or 48%, due to negative endowment returns that result in a significant portion of performance compensation being deferred to FY13. The FY13 budget of $9.8 million in performance compensation is 82% higher than budgeted FY12 performance compensation due primarily to the extraordinary deferral but also reflects salary increases, additional staff, and increases in maximum performance incentive awards.

- **Employee Benefits** are expected to be largely unchanged from FY12 budget to projections. Employee Benefits costs are budgeted to increase 14% to $1.3 million in FY13.

General Operating Expenses (non-employee) are forecast to be largely unchanged from budget for FY12 at $4.0 million. General operating expenses, including office expenses, lease expenses, insurance, and accounting fees for FY13 are budgeted to increase 5%.

Lease Expenses: Table 4 shows that lease expenses have stabilized in recent years since UTIMCO's move in FY06 and addition of lease space in FY08. Total net lease expenses are approximately $1 million annually.

Table 4: UTIMCO Lease Expenses FY08-FY13

	FY08	FY09	FY10	FY11	Projected FY12	Budget FY13
Property Lease	$499,823	$518,373	$518,373	$518,373	$518,373	$518,373
Operating Expenses	$515,296	$515,848	$538,894	$468,651	$511,248	$519,104
Parking Expenses	$100,007	$96,847	$107,940	$111,911	$112,978	$113,100
Other Expenses	$10,473	$1,461	$8,969	$6,900	$6,675	$6,720
Amortization (Deferred Rent Credit)	($150,679)	($170,344)	($170,344)	($170,344)	($170,344)	($170,345)
Total Lease Expenses (net)	$974,920	$962,185	$1,003,832	$935,490	$978,930	$986,952

UTIMCO Capital Expenditures

The trend for Capital Expenditures for FY08-FY13 is summarized in Table 5. In FY12, total capital expenditures are forecasted to be $279k, with the largest increase from expanding remote access capabilities. The Chief Technology Officer, hired in March 2012, has identified several key initiatives including document management, disaster recovery efforts, and upgrading video conferencing and phone systems that will greatly increase capital expenditure in FY13.

Table 5: UTIMCO Capital Expenditures FY08-FY13

	FY08	FY09	FY10	FY11	Projected FY12	Budget FY13
Ongoing: Technology and Software Upgrades	$139,860	$113,502	$48,169	$122,048	$38,726	$110,000
Ongoing: Office Equipment and Fixtures	$18,498	$22,672	$32,168	$43,700	$20,000	$20,000
Expansion: Technology and Software Upgrades	$7,490	$0	$0	$0	$150,000	$850,000
Expansion: Office Equipment and Fixtures	$152,864	$0	$0	$0	$0	$120,000
Expansion: Leasehold Improvements (net)	$166,453	$0	$0	$0	$0	$0
Expansion: Remote Access & Disaster Recovery	$0	$0	$0	$0	$70,000	$80,000
Expansion: Document Management	$0	$0	$0	$0	$0	$170,000
Total Capital Expenditures (net)	$485,165	$136,174	$80,337	$165,748	$278,726	$1,350,000

EXHIBIT A

Total Budgeted Costs FY12-FY13

	FY12		Change from FY12 Budget		FY13	Change from FY12 Projected		Change from FY12 Budget
	Budget	Projected	$	%	Budget	$	%	%
UTIMCO Services								
Salaries and Wages + Vacation	7,035,600	6,992,739	(42,861)	-0.6%	7,976,326	983,587	14.1%	13.4%
Performance Compensation + Earnings	5,389,694	2,865,336	(2,524,358)	-46.8%	9,835,675	6,970,339	243.3%	82.5%
Total Compensation	12,425,294	9,858,075	(2,567,219)	-20.7%	17,812,001	7,953,926	80.7%	43.4%
Total Payroll taxes	563,379	465,004	(98,375)	-17.5%	691,706	226,702	48.8%	22.8%
403(b) Contributions	532,491	515,395	(17,096)	-3.2%	612,659	97,264	18.9%	15.1%
Group Health, Dental, AD&D, Life, LTD	559,593	574,264	14,671	2.6%	636,067	61,802	10.8%	13.7%
Employee Benefits	1,092,084	1,089,659	(2,425)	-0.2%	1,248,726	159,066	14.6%	14.3%
On-Line Data & Contract Services	1,078,548	1,169,779	91,231	8.5%	1,237,932	68,153	5.8%	14.8%
Recruiting and Relocation Expenses	75,000	78,005	3,005	4.0%	30,000	(48,005)	-61.5%	-60.0%
Travel	550,000	554,531	4,531	0.8%	600,000	45,469	8.2%	9.1%
Phone and Telecommunications	76,380	77,207	827	1.1%	77,470	263	0.3%	1.4%
Computer & Office Supplies	88,740	86,047	(2,693)	-3.0%	78,500	(7,547)	-8.8%	-11.5%
Employee Education	51,360	41,365	(9,995)	-19.5%	52,464	11,099	26.8%	2.1%
Repairs/Maintenance	168,084	161,453	(6,631)	-3.9%	174,996	13,543	8.4%	4.1%
BOD Meetings	12,000	11,908	(92)	-0.8%	12,000	92	0.8%	0.0%
Other Operating Expenses	49,260	54,188	4,928	10.0%	57,028	2,840	5.2%	15.8%
Total General Operating	2,149,372	2,234,482	85,110	4.0%	2,320,390	85,908	3.8%	8.0%
Total Lease Expense	963,472	978,929	15,457	1.6%	986,952	8,023	0.8%	2.4%
Invest., Hiring & Board Consultants	30,000	30,000	0	0.0%	30,000	0	0.0%	0.0%
Legal Expenses	174,000	109,598	(64,402)	-37.0%	174,000	64,402	58.8%	0.0%
Compensation Consultant	55,200	60,750	5,550	10.1%	16,500	(44,250)	-72.8%	-70.1%
Accounting fees	40,500	52,850	12,350	30.5%	40,500	(12,350)	-23.4%	0.0%
Total Professional Fees	299,700	253,198	(46,502)	-15.5%	261,000	7,802	3.1%	-12.9%
Property/Liability Package	12,000	10,960	(1,040)	-8.7%	12,000	1,040	9.5%	0.0%
Umbrella Policy	4,500	4,509	9	0.2%	4,500	(9)	-0.2%	0.0%
Workers Compensation	21,000	15,271	(5,729)	-27.3%	19,500	4,229	27.7%	-7.1%
Business Auto	900	861	(39)	-4.3%	900	39	4.5%	0.0%
Commercial Bonding Policy	24,000	15,242	(8,758)	-36.5%	15,000	(242)	-1.6%	-37.5%
Prof., D&O & Emp. Practices Liability	168,000	152,800	(15,200)	-9.0%	153,000	200	0.1%	-8.9%
Total Insurance	230,400	199,643	(30,757)	-13.3%	204,900	5,257	2.6%	-11.1%
Depreciation of Equipment	575,000	532,057	(42,943)	-7.5%	600,000	67,943	12.8%	4.3%
Total UTIMCO Services	18,298,701	15,611,048	(2,687,653)	-14.7%	24,125,675	8,514,627	54.5%	31.8%
Direct Costs to Funds								
External Management Fees	41,849,744	32,572,626	(9,277,118)	-22.2%	41,467,849	8,895,223	27.3%	-0.9%
External Performance Fees	10,768,047	5,712,084	(5,055,963)	-47.0%	18,108,967	12,396,883	217.0%	68.2%
External Management/Performance Fees	52,617,791	38,284,710	(14,333,081)	-27.2%	59,576,816	21,292,106	55.6%	13.2%
Custodian Fees and Other Direct Costs	4,487,507	4,104,305	(383,202)	-8.5%	4,029,043	(75,261)	-1.8%	-10.2%
Performance Measurement	480,100	428,546	(51,554)	-10.7%	513,087	84,541	19.7%	6.9%
Analytical Tools	343,322	356,380	13,058	3.8%	391,665	35,285	9.9%	14.1%
Risk Measurement	315,500	307,000	(8,500)	-2.7%	315,500	8,500	2.8%	0.0%
Custodian and Analytical Costs	5,626,428	5,196,231	(430,198)	-7.6%	5,249,295	53,065	1.0%	-6.7%
Consultant Fees	456,690	519,332	62,642	13.7%	560,650	41,318	8.0%	22.8%
Auditing	296,000	371,779	75,779	25.6%	465,000	93,221	25.1%	57.1%
Controls Assessment (Sarbanes-Oxley)	0	0	0	N/A	0	0	N/A	N/A
Printing	0	0	0	N/A	0	0	N/A	N/A
Legal Fees	929,500	669,471	(260,029)	-28.0%	526,000	(143,471)	-21.4%	-43.4%
Background Searches & Other	267,650	262,705	(4,945)	-1.8%	337,825	75,120	28.6%	26.2%
Other Direct Costs Total	1,949,840	1,823,287	(126,553)	-6.5%	1,889,475	66,188	3.6%	-3.1%
Total Direct Costs to Funds	60,194,059	45,304,228	(14,889,831)	-24.7%	66,715,586	21,411,359	47.3%	10.8%
Total Budgeted Costs	78,492,760	60,915,275	(17,577,485)	-22.4%	90,841,261	29,925,986	49.1%	15.7%

EXHIBIT B

Total Budgeted Costs FY08-FY13

	FY08 Actual	FY09 Actual	FY10 Actual	FY11 Actual	FY12 Projected	FY13 Budget
UTIMCO Services						
Salaries and Wages + Vacation	5,377,233	6,443,360	6,454,270	6,422,656	6,992,739	7,976,326
Performance Compensation + Earnings	3,016,393	3,245,765	4,490,396	6,290,993	2,865,336	9,835,675
Total Compensation	8,393,626	9,689,126	10,944,666	12,713,650	9,858,075	17,812,001
Total Payroll taxes	394,313	449,846	479,799	492,963	465,004	691,706
403(b) Contributions	404,671	478,096	487,207	485,227	515,395	612,659
Group Health, Dental, AD&D, Life, LTD	510,154	602,258	617,525	585,957	574,264	636,067
Employee Benefits	914,825	1,080,354	1,104,733	1,071,185	1,089,659	1,248,726
On-Line Data & Contract Services	851,499	894,096	965,058	1,003,058	1,169,779	1,237,932
Recruiting and Relocation Expenses	108,198	16,697	2,594	15,210	78,005	30,000
Travel	515,494	290,632	470,600	391,104	554,531	600,000
Phone Equipment and Charges	38,400	72,014	77,524	69,072	77,207	77,470
Computer & Office Supplies	140,512	93,136	89,027	80,768	86,047	78,500
Employee Education	20,311	6,230	37,381	30,159	41,365	52,464
Repairs/Maintenance	179,217	188,875	181,288	182,535	161,453	174,996
BOD Meetings	58,615	12,760	8,793	25,609	11,908	12,000
Other Operating Expenses	40,748	29,426	60,097	52,400	54,188	57,028
Total General Operating	1,952,993	1,603,865	1,892,362	1,849,914	2,234,482	2,320,390
Total Lease Expense	974,920	962,184	1,003,831	935,490	978,929	986,952
Invest., Hiring & Board Consultants	30,000	30,000	30,000	30,000	30,000	30,000
Legal Expenses	225,172	337,065	194,930	247,303	109,598	174,000
Compensation Consultant	146,455	99,650	56,400	14,500	60,750	16,500
Accounting fees	53,414	41,035	33,135	38,950	52,850	40,500
Total Professional Fees	455,041	507,750	314,465	330,753	253,198	261,000
Property/Liability Package	15,100	12,372	11,924	10,932	10,960	12,000
Umbrella Policy	4,977	4,454	4,459	4,464	4,509	4,500
Workers Compensation	17,315	16,653	20,210	20,794	15,271	19,500
Business Auto	811	836	851	861	861	900
Commercial Bonding Policy	39,785	33,839	30,729	23,836	15,242	15,000
Prof., D&O & Emp. Practices Liability	164,300	172,064	179,953	166,439	152,800	153,000
Total Insurance	242,288	240,217	248,125	227,325	199,643	204,900
Depreciation of Equipment	556,450	590,929	579,925	552,739	532,057	600,000
Total UTIMCO Services	**13,884,456**	**15,124,270**	**16,567,904**	**18,174,018**	15,611,048	24,125,675
Direct Costs to Funds						
External Management Fees	20,767,775	15,656,987	23,886,540	32,664,372	32,572,626	41,467,849
External Performance Fees	8,087,324	17,129,808	20,802,785	16,698,308	5,712,084	18,108,967
External Management/Performance Fees	28,855,099	32,786,795	44,689,325	49,362,680	38,284,710	59,576,816
Custodian Fees and Other Direct Costs	1,771,313	1,918,015	2,277,038	4,452,927	4,104,305	4,029,043
Performance Measurement	459,962	417,322	405,838	408,525	428,546	513,087
Analytical Tools	370,497	347,713	351,642	342,534	356,380	391,665
Risk Measurement	491,986	416,416	377,458	292,000	307,000	315,500
Custodian and Analytical Costs	3,093,758	3,099,466	3,411,976	5,495,986	5,196,231	5,249,295
Consultant Fees	736,654	567,125	485,625	554,891	519,332	560,650
Auditing	829,938	733,097	692,093	677,000	371,779	465,000
Controls Assessment (Sarbanes-Oxley)	0	0	0	0	0	0
Printing	152,719	132,932	0	0	0	0
Legal Fees	1,348,784	464,600	973,934	795,933	669,471	526,000
Background Searches & Other	50,512	35,107	134,673	231,403	262,705	337,825
Other Direct Costs Total	3,118,607	1,932,861	2,286,325	2,259,227	1,823,287	1,889,475
Total Direct Costs to Funds	35,067,464	37,819,122	50,387,626	57,117,893	45,304,228	66,715,586
Total Budgeted Costs	**48,951,921**	**52,943,394**	**66,955,530**	**75,291,911**	60,915,275	90,841,261

EXHIBIT C

UTIMCO Reserve Analysis for August 31, 2012

Projected Cash Reserves at August 31, 2012		
Cash		7,885,171
Prepaid Expenses		377,694
Less: Accounts Payable (Includes incentive compensation & earnings payable)		(2,066,985)
Expected Cash Reserves at August 31, 2012		$ 6,195,879
FY13 Proposed Operating Budget	24,125,675	
Applicable Percentage	25%	6,031,419
FY13 Proposed Capital Expenditures	1,350,000	1,350,000
Required Cash Reserves at August 31, 2012		$ 7,381,419
Balance Available for Distribution		$ (1,185,540)
Recommended Distribution		$ -