

ADDITIONAL AGENDA ITEM
FINANCE AND PLANNING COMMITTEE
MAY 12, 2004

9. **Approval to amend the Short Intermediate Term Fund Investment Policy Statement**

RECOMMENDATION

The Board of Directors of The University of Texas Investment Management Company (UTIMCO) recommends that the U. T. Board of Regents approve the proposed amendments to the Investment Objectives section of the Short Intermediate Term Fund (SITF) Investment Policy Statement as set forth below in congressional style:

SITF Investment Objectives

The primary investment objective shall be to provide both income through investment in high grade fixed income and floating rate obligations and capital appreciation when consistent with income generation. ~~reasonable preservation of capital and maintenance of adequate SITF liquidity. In seeking to achieve its objectives, the SITF shall attempt to minimize the probability of a negative total return over a one-year period.~~ Within the exposure limits contained herein, investments shall be diversified among authorized asset classes and issuers (excluding the U. S. Government) in order to minimize portfolio risk for a given level of expected return. This objective will be achieved by adding value through active management including duration and yield curve management, sector rotation, security selection, and cost efficient trading.

Achievement of this objective shall be defined by a fund return over a market cycle in excess of the Short Term Fund ("STF") and the Policy Portfolio benchmark, and the average return of the median manager of the MorningStar universe of government bond funds restricted to an average maturity of less than or equal to three years. ~~The SITF will attempt to achieve a return in excess of the STF primarily through a longer average maturity/duration and through UTIMCO active portfolio management efforts.~~ The Policy Portfolio benchmark will be established by UTIMCO and will be comprised of a blend of asset class indices weighted to reflect SITF asset allocation policy targets.

It is important to note that the SITF return will be more volatile than the STF fund returns, and under very unusual capital market conditions, the total return of the SITF could be negative over a 12-month period.

BACKGROUND INFORMATION

Section 3(a) of the Investment Management Services Agreement dated March 1, 1996, second amended and restated effective August 7, 2003, between the Board of Regents of The University of Texas System and UTIMCO provides that UTIMCO shall review the investment policies of the assets under its management and recommend any changes of such policies for approval by the U. T. Board of Regents.

The recommended changes are to clarify the investment objectives of the SITF Investment Policy. The UTIMCO Board of Directors approved the proposed amendments to the SITF Investment Policy Statement on May 6, 2004.