

EXCERPT FROM THE MINUTES

AUG 11 1994

1. U. T. Board of Regents - Regents' Rules and Regulations, Part Two; Amendments to Chapter IX, Section 3, Subsection 3.5 (Exchange of Bonds).--The Board, upon recommendation of the Asset Management Committee, amended the Regents' Rules and Regulations, Part Two, Chapter IX, Section 3 by deleting in its entirety Subsection 3.5 (Exchange of Bonds).

The referenced Subsection 3.5 was added to the Regents' Rules and Regulations at the August 1969 U. T. Board of Regents' meeting but is no longer applicable. The accounting method for the recording of bond exchanges as cited in that Subsection 3.5 is not in accordance with current generally acceptable accounting principles. The Office of Asset Management prefers to record all future bond exchanges as purchases and sales using the completed transaction method. This method of accounting will assure proper recognition of gains and/or losses on bond exchanges.

EXCERPT FROM THE MINUTES

AUG 11 1994

2. U. T. Board of Regents - Regents' Rules and Regulations, Part Two: Amendments to Chapter VI, Section 5 (Workers' Compensation Insurance) and Section 6 (Unemployment Compensation Insurance Program). --Approval was given to amend the Regents' Rules and Regulations, Part Two, Chapter VI as set forth below:

a. Section 5 was amended to read as follows:

Sec. 5. Workers' Compensation Insurance.

5.1 Pursuant to Section 503.001 et seq., Texas Labor Code, a self-insured System-wide Workers' Compensation Insurance (W.C.I.) Program will provide certain benefits for injuries sustained in the course and scope of employment.

- 5.2 The System Personnel Office, with the assistance of other appropriate System and component institution offices, shall investigate injuries.
- 5.3 The component institutions shall be responsible for reporting all work-related injuries to the System Personnel Office. The System Personnel Office shall file lost time injuries and occupational diseases with the Texas Workers' Compensation Commission (TWCC).
- 5.4 The System Personnel Office shall coordinate occupational safety and health activities.
- 5.5 The Office of General Counsel shall be responsible for a determination on appeal of TWCC decisions.
- 5.6 A percentage of annual payroll, as approved by the U. T. Board of Regents, shall be set aside to fund the Workers' Compensation Insurance Fund (W.C.I. Fund).
 - 5.61 Each institutional chief business officer shall be responsible for the transmission of amounts to be added to the W.C.I. Fund for all salaries paid, as instructed by the System Personnel Office, for receipt into the W.C.I. Fund no later than 20 days after the end of each month.
 - 5.62 The W.C.I. Fund must be deposited or invested in the same manner as other local institutional funds as specified in Part Two, Chapter III, Section 4 of these Rules and Regulations.
- 5.7 The System Personnel Office shall be responsible for processing all W.C.I. claims for medical care and compensation.
- 5.8 The System Personnel Office shall prepare an annual report for the U. T. Board of Regents on the status of the W.C.I. Fund.

b. Section 6 was amended to read as follows:

Sec. 6. Unemployment Compensation Insurance Program.

- 6.1 The System-wide Unemployment Compensation Insurance (U.C.I.) Program will provide weekly benefits as specified in Section 207.001 et seq., Texas Labor Code.

- 6.2 The Unemployment Compensation Insurance Fund (U.C.I. Fund) is established by the U. T. Board of Regents to be deposited or invested in the same manner as other local institutional funds as specified in Part Two, Chapter III, Section 4 of these Rules and Regulations. The System Personnel Office shall administer funding by assessment on all salary sources other than State General Revenue Funds as provided in Subsection 6.24 below.
- 6.21 The System will reimburse the State General Revenue Fund from the U.C.I. Fund for claims charge-backs paid by the State Comptroller for former employees paid from funds other than State General Revenue Funds.
- 6.22 Claims charge-backs for former employees paid from State General Revenue Funds shall be referred to the State Comptroller for payment.
- 6.23 The U.C.I. Fund shall at all times operate under principles established by the U. S. Department of Health and Human Services.
- 6.24 Assessment rates shall be calculated to provide minimum U.C.I. Fund balance fluctuations and maximum rate stability. Each institutional chief business officer shall be responsible for the transmission of such assessed amounts, as instructed by the System Personnel Office, for receipt into the U.C.I. Fund no later than 20 days after the end of the month.
- 6.25 Expenditures from the U.C.I. Fund shall be limited to direct costs in accordance with Office of Management and Budget Circular A-21.
- 6.3 The System Personnel Office, working in coordination with appropriate System and component institution offices, shall administer the U.C.I. Program and represent the System in appeals to the Texas Employment Commission (T.E.C.).

The amendments to Section 5 clarify the responsibility of the employing component institution to initiate an injury report and submit it to the System Personnel Office.

Section 6 was amended to remove outdated language regarding the U.C.I. Fund balance. Editorial changes to both sections clarify the rules and ensure uniformity.

EXCERPT FROM THE MINUTES

JUN - 9 1994

2.

U. T. System: Rescission of the Regental Policy Statement Regarding South African Investments; Amendments to the Regents' Rules and Regulations, Part Two, Chapter IX, Section 3, Subsection 3.2 (Reports Regarding Asset Management) and Subsection 3.4, Subdivision 3.43 (Policies with Respect to Stock Rights, Fractional Shares, and Proxies); and Authorization to Amend the Investment Guidelines Sections of the Permanent University Fund Investment Policy Statement, Common Trust Fund Investment Policy Statement, Medical Liability Self-Insurance Fund Investment Policy Statement, and Operating Funds Investment Policy Statement.--At the February 1986 meeting, the U. T. Board of Regents adopted a policy statement regarding investments in corporations doing business in or with South Africa and denounced the appalling and repugnant system of apartheid in South Africa. That Policy Statement, the Regents' Rules and Regulations, and certain limitations in the Permanent University Fund, the Common Trust Fund, the Medical Liability Self-Insurance Fund, and the Operating Funds investment guidelines were adopted to assist in the dismantling of the system of apartheid in South Africa.

The Policy Statement further provided for its amendment upon the implementation of genuine reforms of the apartheid system. The transition to a multi-racial democracy in South Africa, as evidenced by implementation of the interim constitution on April 26, 1994, and the election of Nelson Mandela as President on May 2, 1994, constitutes definitive reform that demolishes the legal basis of the apartheid system.

For this reason, the Board, upon recommendation of the Asset Management Committee, took the following actions to lift economic sanctions against South Africa:

a. Rescinded the February 1986 U. T. Board of Regents' Policy Statement regarding investments in corporations doing business in or with South Africa

b. In consonance with the above action, amended the Regents' Rules and Regulations, Part Two, Chapter IX, Section 3, Subsection 3.2 and Subsection 3.4, Subdivision 3.43 to read as set forth below:

3.2 Reports Regarding Asset Management.

- 3.21 All purchases, sales, and exchanges of investments shall be reported for ratification by the Board via the Docket.
- 3.22 The investment performance of the PUF, as measured by an unaffiliated organization, shall be reported to the Regents' Asset Management Committee at least annually.
- 3.23 The nature and extent of any investments in or business transacted with any firm with which a member of The University of Texas System investment staff is affiliated will be reported to the Regents' Asset Management Committee annually.
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3.3 The Chancellor, the Vice Chancellor for Asset Management, or the Executive Director for Fixed Income Investments are each authorized to take any and all steps as may be considered necessary or advisable to protect the interest of the PUF in event of default or any other significant changes occurring with respect to any investment.

3.4 Policies with Respect to Stock Rights, Fractional Shares, and Proxies.

3.41 Exercise of or sale of stock rights and warrants is to be made at the discretion of the Chancellor, the Vice Chancellor for Asset Management, the Executive Director for Fixed Income Investments, or the Portfolio Managers. Stock rights or warrants which arise in connection with funds under control of an unaffiliated investment manager shall be handled by that manager at its discretion.

3.42 Fractional shares which arise in connection with funds under control of an unaffiliated investment manager or the System investment staff shall be handled by that manager or the staff at its discretion.

3.43 As a general rule, voting stocks held are to be voted by returning proxies to present management. When the Portfolio Managers or the Manager - Asset Strategy and Analysis determines that a vote with management would not be in the shareholder's best financial interest, or when a proposal under consideration is of a social nature, the matter will be referred to the Chancellor or the Vice Chancellor for Asset Management, or, in the event both of them are absent, to the Chairman of the Asset Management Committee.

c. Deleted from the Investment Guidelines sections of the Permanent University Fund Investment Policy Statement, the Common Trust Fund Investment Policy Statement, the Medical Liability Self-Insurance Fund Investment Policy Statement, and the Operating Funds Investment Policy Statement the directive under "investment restrictions" which reads "No investments may be made in securities of the South African government, its government agencies, or firms headquartered in South Africa."

These investment policy statements, as amended through June 9, 1994, are set forth in their entirety on Pages 195 - 216.

NOTE: Within the Material Supporting the Agenda for the June 1994 meeting, there was no request to amend the Investment Guidelines section of The University of Texas System Operating Funds Investment Policy Statement. However, this policy statement is herewith included in the Minutes to reflect the deletion of Item 2 under the "investment restrictions" related to South African investments.

In response to Regent Holmes' inquiry as to what other institutions were doing related to lifting economic sanctions against South Africa, Vice Chancellor for Asset Management Ricks reported that because of the recent political changes in that country, the Investor Responsibility Research Center, which monitors corporate policies for institutional investors, found that nearly all of the 50 best endowed colleges and universities in the United States have removed most of their restrictions on investing in South Africa.

Mr. Ricks noted that as of March 31, 1994, only 47 public pension funds continue to prohibit investments in South Africa, down from about 180 pension funds in September 1993. He emphasized that there had been a universal response to the call for lifting economic sanctions and it was appropriate for the U. T. System to lift those sanctions.

Chancellor Cunningham commented "I don't think we'll be subject to any criticism over this action, but we would be if we didn't take this action."

PERMANENT UNIVERSITY FUND
INVESTMENT POLICY STATEMENT

FUND CHARACTERISTICS

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

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

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

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

RESPONSIBILITY AND MANAGEMENT OF THE FUND

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

CONFLICT OF INTEREST

Members of the Board and the Investment Advisory Committee are frequently persons of wide-ranging business interests. Therefore, a prudent, independent investment decision process may result in investments in firms or organizations with which a member of the Board or the Investment Advisory Committee is affiliated. Affiliation shall be interpreted within this section to mean an employee, officer, director, or owner of

five percent or more of the voting stock of a firm or organization. The investment staff or an unaffiliated investment manager may invest in such securities. However, the following restrictions shall apply:

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

INVESTMENT OBJECTIVES

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

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

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

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

ASSET MIX

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

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

- The principal purpose of fixed income investments is to provide a dependable and predictable source of income. Adequate bonds with low enough book yield to meet arbitrage requirements relating to debt secured and payable from the Fund must be owned.
- Equity investments provide both current income and growth of income, but their principal purpose is to provide appreciation of the Fund.

- Cash equivalent-short-term investments provide current income, but their principal purpose is to store purchasing power to fund longer term investments. Cash inflow from Permanent University Fund Lands is recognized as a continuing source of Fund liquidity.
- Other investments, such as venture capital, real estate and other privately placed investments, would be undertaken to provide exceptional returns to the Fund.

In order to meet the Fund's investment objectives and in recognition of the role of various classes of investments, it shall be the policy to invest this Fund's assets with an annual average market value asset mix of each class of investments within the following limits:

	<u>Minimum</u>	<u>Maximum</u>	<u>Long-Term Optimal</u>
Unallocated funds	0%	10%	0%
Fixed income securities(1)	30%	60%	45%
Equity securities(1)	35%	60%	45%
Other investments(1)	0%	15%	10%

(1) Includes allocated cash and cash equivalents

PERFORMANCE GOALS

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

Specific performance goals for the Fund are:

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

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

PERFORMANCE MEASUREMENT

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

INVESTMENT GUIDELINES

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

Investment restrictions include the following:

- All investments must be U. S. dollar denominated unless held by an investment manager retained to manage an international portfolio.
- Commercial paper must be rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).
- Negotiable certificates of deposit must be with a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.
- Bankers' Acceptances must be guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.
- Repurchase Agreements and Reverse Repurchase Agreements must be with a domestic dealer selected by the Federal Reserve as a primary dealer in U. S. Treasury securities; or a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.
- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by the Vice Chancellor for Asset Management prior to investment of Fund monies in such liquid investment fund. No requirement exists that such funds conform to the above restrictions on money market instruments.
- Corporate bonds and preferred stocks must be rated a minimum of Baa3 by Moody's Investors Service, Inc. or BBB- by Standard & Poor's Corporation, respectively, when purchased unless approved by the Vice Chancellor for Asset Management. Bonds rated below A3 or A- shall not constitute an excessive portion of the total bond portfolio. Unrated bonds or preferred stocks may be purchased prior to review by the Asset Management Committee if, in the opinion of the System's investment staff, they are at least equal in quality to publicly offered securities eligible for purchase. The cost of bonds or preferred stocks rated below Baa3 or BBB-, unrated bonds, and unrated preferred stocks which have been purchased but have not been reviewed by the Asset Management Committee may not exceed 1% of the book value of the Fund.
- The weighted average maturity of the fixed income portfolio shall not exceed 17.5 years.
- Less than five percent of the voting securities of a corporation may be owned unless additional ownership is specifically authorized by the Vice Chancellor for Asset Management.
- No securities may be purchased or held which would jeopardize the Fund's tax-exempt status.
- No securities may be purchased on margin or leverage.
- No transactions in short sales will be made.

- Transactions in derivative instruments (other than those received as part of an investment unit) must be authorized by the Vice Chancellor for Asset Management and may occur only as part of a hedging, asset allocation, or other program authorized by the Asset Management Committee. For purposes of this policy, derivatives shall be defined as any instrument whose value is derived, in whole or part, from the value of any one or more underlying assets, or index of assets (such as stocks, bonds, commodities, interest rates, and currencies) and evidenced by forward, futures, swap, cap, floor, option, and other applicable contracts.
- Unaffiliated investment managers transacting solely within their assigned assets:
 - shall hold no more than 25% of their managed portfolio in any one industry at cost unless the manager was retained to concentrate in an industry or industries.
 - shall hold no more than 10% of their managed portfolio in the securities of one corporation at cost.
 - shall not hold investment in real estate, partnerships, and other such illiquid assets unless retained to manage this type of asset and shall hold no more than 10% of their managed portfolio at cost in any other asset category different than the type they were retained to manage. Short-term liquid investments are excluded from this limitation. Convertible securities are considered to be equity equivalents for purposes of this restriction.
 - shall hold no securities traded only in foreign markets unless they were retained to manage an international portfolio.

INVESTMENT MANAGEMENT FIRMS

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

FUND ADMINISTRATION

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

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

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

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

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

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

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

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

INVESTOR RESPONSIBILITY

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

As a significant shareholder, the Fund has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies in a manner consistent with the unique role and mission of higher education as well as for the economic benefit of the Fund.

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

COMMON TRUST FUND
INVESTMENT POLICY STATEMENT

FUND CHARACTERISTICS

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

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

RESPONSIBILITY AND MANAGEMENT OF THE FUND

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

CONFLICT OF INTEREST

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

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

INVESTMENT OBJECTIVES

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

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

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

ASSET MIX

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

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

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

In order to meet the Fund's investment objectives and in recognition of the role of various classes of investments, it shall be the policy to invest this Fund's assets with an annual average market value asset mix of each class of investments within the following limits:

	<u>Minimum</u>	<u>Maximum</u>	<u>Long-Term Optimal</u>
Unallocated funds	0%	10%	0%
Fixed income securities(1)	30%	60%	40%
Equity securities(1)	35%	60%	50%
Other investments(1)	0%	15%	10%

(1) Includes allocated cash and cash equivalents

PERFORMANCE GOALS

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

Specific performance goals for the Fund are:

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

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

PERFORMANCE MEASUREMENT

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

INVESTMENT GUIDELINES

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

Investment restrictions include the following:

- All investments must be U. S. dollar denominated unless held by an investment manager retained to manage an international portfolio.
- Commercial paper must be rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).
- Negotiable certificates of deposit must be with a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.
- Bankers' Acceptances must be guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.

- Repurchase Agreements and Reverse Repurchase Agreements must be with a domestic dealer selected by the Federal Reserve as a primary dealer in U. S. Treasury securities; or a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.
- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by the Vice Chancellor for Asset Management prior to investment of Fund monies in such liquid investment fund. No requirement exists that such funds conform to the above restrictions on money market instruments.
- Corporate bonds and preferred stocks must be rated a minimum of Baa3 by Moody's Investors Service, Inc. or BBB- by Standard & Poor's Corporation, respectively, when purchased unless approved by the Vice Chancellor for Asset Management. Bonds rated below A3 or A- shall not constitute an excessive portion of the total bond portfolio. Unrated bonds or preferred stocks may be purchased prior to review by the Asset Management Committee if, in the opinion of the System's investment staff, they are at least equal in quality to publicly offered securities eligible for purchase. The cost of bonds or preferred stocks rated below Baa3 or BBB-, unrated bonds, and unrated preferred stocks which have been purchased but have not been reviewed by the Asset Management Committee may not exceed 1% of the book value of the Fund.
- Less than five percent of the voting securities of a corporation may be owned unless additional ownership is specifically authorized by the Vice Chancellor for Asset Management.
- No securities may be purchased or held which would jeopardize the Fund's tax-exempt status.
- No securities may be purchased on margin or leverage.
- No transactions in short sales will be made.
- Transactions in derivative instruments (other than those received as part of an investment unit) must be authorized by the Vice Chancellor for Asset Management and may occur only as part of a hedging, asset allocation, or other program authorized by the Asset Management Committee. For purposes of this policy, derivatives shall be defined as any instrument whose value is derived, in whole or part, from the value of any one or more underlying assets, or index of assets (such as stocks, bonds, commodities, interest rates, and currencies) and evidenced by forward, futures, swap, cap, floor, option, and other applicable contracts.
- Unaffiliated investment managers transacting solely within their assigned assets:
 - shall hold no more than 25% of their managed portfolio in any one industry at cost unless the manager was retained to concentrate in an industry or industries.
 - shall hold no more than 10% of their managed portfolio in the securities of one corporation at cost.
 - shall not hold investment in real estate, partnerships, and other such illiquid assets unless retained to manage this type of asset and shall hold no more than 10% of their managed portfolio at cost in any

other asset category different than the type they were retained to manage. Short-term liquid investments are excluded from this limitation. Convertible securities are considered to be equity equivalents for purposes of this restriction.

- shall hold no securities traded only in foreign markets unless they were retained to manage an international portfolio.

INVESTMENT MANAGEMENT FIRMS

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

FUND ADMINISTRATION

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

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

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

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

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

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

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

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

INVESTOR RESPONSIBILITY

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

As a significant shareholder, the Fund has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies in a manner consistent with the unique role and mission of higher education as well as for the economic benefit of the Fund.

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

MEDICAL LIABILITY SELF-INSURANCE FUND
INVESTMENT POLICY STATEMENT

FUND CHARACTERISTICS

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

RESPONSIBILITY AND MANAGEMENT OF THE FUND

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

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

CONFLICT OF INTEREST

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

- A member of the Board or the Investment Advisory Committee shall not direct nor participate in the decision to purchase or sell securities of a firm with which such member is affiliated.
- Investments will not be purchased from or sold to a member of the Board or the Investment Advisory Committee.
- All members of The University of Texas System investment and administrative staff must report any

affiliation with another firm or organization to the Regents' Asset Management Committee. On an annual basis the staff will report the nature and extent of any investments in or business transacted with such firms.

INVESTMENT OBJECTIVES

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

ASSET MIX

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

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

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

Equity, fixed income, and other investments will be held based on their potential risk-adjusted total return.

In order to meet the Fund's investment objectives and in recognition of the role of various classes of investments, it shall be the policy to invest this Fund's assets with an annual average market value asset mix of each class of investments within the following limits:

	<u>Minimum</u>	<u>Maximum</u>	<u>Long-Term Optimal</u>
Unallocated funds	(1)	15%	5%
Fixed income securities(2)	30%	60%	40%
Equity securities(2)	35%	60%	50%
Other investments(2)	0%	10%	5%

- (1) As calculated based on the short-term investment minimum requirements established above
- (2) Includes allocated cash and cash equivalents

PERFORMANCE GOALS

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

Specific performance goals for the Fund are:

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

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

PERFORMANCE MEASUREMENT

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

INVESTMENT GUIDELINES

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

Investment restrictions include the following:

- All investments must be U. S. dollar denominated unless held by an investment manager retained to manage an international portfolio.
- Commercial paper must be rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).
- Negotiable certificates of deposit must be with a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.
- Bankers' Acceptances must be guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.
- Repurchase Agreements and Reverse Repurchase Agreements must be with a domestic dealer selected by the Federal Reserve as a primary dealer in U. S. Treasury securities; or a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.
- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by the Vice Chancellor for Asset Management prior to investment of Fund monies in such liquid investment

fund. No requirement exists that such funds conform to the above restrictions on money market instruments.

- Corporate bonds and preferred stocks must be rated a minimum of Baa3 by Moody's Investors Service, Inc. or BBB- by Standard & Poor's Corporation, respectively, when purchased unless approved by the Vice Chancellor for Asset Management. Bonds rated below A3 or A- shall not constitute an excessive portion of the total bond portfolio. Unrated bonds or preferred stocks may be purchased prior to review by the Asset Management Committee if, in the opinion of the System's investment staff, they are at least equal in quality to publicly offered securities eligible for purchase. The cost of bonds or preferred stocks rated below Baa3 or BBB-, unrated bonds, and unrated preferred stocks which have been purchased but have not been reviewed by the Asset Management Committee may not exceed 1% of the book value of the Fund.
- Less than five percent of the voting securities of a corporation may be owned unless additional ownership is specifically authorized by the Vice Chancellor for Asset Management.
- No securities may be purchased or held which would jeopardize the Fund's tax-exempt status.
- No securities may be purchased on margin or leverage.
- No transactions in short sales will be made.
- Transactions in derivative instruments (other than those received as part of an investment unit) must be authorized by the Vice Chancellor for Asset Management and may occur only as part of a hedging, asset allocation, or other program authorized by the Asset Management Committee. For purposes of this policy, derivatives shall be defined as any instrument whose value is derived, in whole or part, from the value of any one or more underlying assets, or index of assets (such as stocks, bonds, commodities, interest rates, and currencies) and evidenced by forward, futures, swap, cap, floor, option, and other applicable contracts.
- Unaffiliated investment managers transacting solely within their assigned assets:
 - shall hold no more than 25% of their managed portfolio in any one industry at cost unless the manager was retained to concentrate in an industry or industries.
 - shall hold no more than 10% of their managed portfolio in the securities of one corporation at cost.
 - shall not hold investment in real estate, partnerships, and other such illiquid assets unless retained to manage this type of asset and shall hold no more than 10% of their managed portfolio at cost in any other asset category different than the type they were retained to manage. Short-term liquid investments are excluded from this limitation. Convertible securities are considered to be equity equivalents for purposes of this restriction.
 - shall hold no securities traded only in foreign markets unless they were retained to manage an international portfolio.

INVESTMENT MANAGEMENT FIRMS

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

FUND ADMINISTRATION

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

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

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

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

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

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

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

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

INVESTOR RESPONSIBILITY

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

As a significant shareholder, the Fund has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies in a manner consistent with the unique role and mission of higher education as well as for the economic benefit of the Fund.

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

THE UNIVERSITY OF TEXAS SYSTEM
OPERATING FUNDS INVESTMENT POLICY STATEMENT

SCOPE

This investment policy statement shall govern the investment of institutional funds, as defined by Sections 51.008 and 51.009 of the Texas Education Code, under the control of The University of Texas System and its component institutions, excluding the following funds:

- a. Endowment funds and funds functioning as endowments, trust funds, and agency funds administered by the Office of Asset Management
- b. Medical Liability Self-Insurance Fund authorized by Chapter 59 of the Texas Education Code administered by the Office of Asset Management
- c. Investment income related to endowment funds and funds functioning as endowments, trust funds, agency funds and the self-insurance fund in b. above as long as such income remains administered by the Office of Asset Management.

Funds governed by this investment policy statement shall hereinafter be referred to as "operating funds." Nothing in this investment policy statement shall be construed to limit the holding, management, or sale of non-cash gifts or bequests by The University of Texas System and its component institutions.

BACKGROUND

The investment of operating funds under the control of component institutions of The University of Texas System is governed by the following statutes:

- a. Section 51.0031 of the Texas Education Code, and
- b. The Public Funds Investment Act of 1987 (Article 842a-2, Texas Revised Civil Statutes Annotated), as amended.

This policy is written in compliance with Section 5 of the Public Funds Investment Act of 1987 which requires that investments be made in accordance with written policies approved by the governing body of an institution of higher education.

INVESTMENT OBJECTIVE

The primary objective of the operating funds investment program is to generate a high rate of income and secondly to produce capital appreciation when consistent with the reasonable preservation of principal and the maintenance of adequate liquidity. Within the exposure limits contained herein, investments shall be diversified among authorized investment categories and issuers in order to minimize portfolio risk for a given level of expected return. Volatility of interest rates is expected and, therefore, periodic maturities of portions of each portfolio afford opportunities to restructure portfolios through yield and maturity adjustment.

INVESTMENT GUIDELINES

Investment restrictions include the following:

1. All investments must be U. S. dollar denominated.
2. Commercial paper must be rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).
3. Negotiable certificates of deposit must be with a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.
4. Bankers' Acceptances must be guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.
5. Repurchase Agreements and Reverse Repurchase Agreements shall conform to the Repurchase Agreement Investment Guidelines as approved by the Operating Funds Advisory Board.
6. All investments in bonds or other evidence of indebtedness shall be issued by or guaranteed by the U. S. government or U. S. government agencies or instrumentalities except for the securities listed in restrictions 2, 3, 4, and 5 above.
7. No preferred or common stocks or other ownership interests or securities convertible into ownership interests may be purchased.
8. No securities may be purchased or held which would jeopardize the Fund's tax exempt status.
9. No securities may be purchased on margin or leverage.
10. No transactions in short sales will be made.
11. Transactions in derivative instruments (other than those received as part of an investment unit) must be authorized by the Vice Chancellor for Asset Management and may occur only as part of a hedging, asset allocation, or other program authorized by the Operating Funds Advisory Board and the Asset Management Committee. For purposes of this policy, derivatives shall be defined as any instrument whose value is derived, in whole or part, from the value

of any one or more underlying assets, or index of assets (such as stocks, bonds, commodities, interest rates, and currencies) and evidenced by forward, futures, swap, cap, floor, option, and other applicable contracts. (See Secretary's Note on Page 215.)

12. Any unaffiliated liquid investment fund must be reviewed and approved by the Vice Chancellor for Asset Management and the Funds Advisory Board prior to investment of Fund monies in such liquid investment fund.

BIDS

Investments in bank common trust funds may be made only after oral or written competitive bids have been solicited from at least three banks located within Texas. Investments in bank and S&L certificates of deposits may be made after electronic, oral or written bids have been solicited.

INVESTMENT MANAGEMENT

Overall fiduciary responsibility for the investment of operating funds resides with the U. T. Board of Regents. U. T. System component institutions shall be responsible for the allocation of investments between eligible money market funds, collateralized bank and S&L certificates of deposit and the Operating Funds Short/Intermediate Term Fund ("the Fund") subject to prescribed limits for each U. T. System component institution. The Fund shall be managed per the terms of the Fund Information Memorandum and governed by a nine-member Advisory Board ("Operating Funds Advisory Board") consisting of representatives from U. T. System component institutions and System Administration. The Operating Funds Advisory Board shall approve investment policy, selection and evaluation of the Fund investment manager and other Fund agents and annual Fund budgets. Fund portfolio management shall be the responsibility of the Office of Fixed Income Investments for an initial period of five years from the creation of the Fund. The Fund shall be administered on a day-to-day basis by the Office of Asset Management.

REPORTING

Component business officers shall be responsible for transmitting all necessary information to the Office of Asset Management in order to permit periodic reporting by System Administration to the Board concerning portfolio balances and yields for individual components and for the U. T. System as a whole.

STANDARD OF CARE

Investments should be made with judgement and care, under circumstances then prevailing, that persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

EFFECTIVE DATE

This policy shall be effective concurrent with the establishment of the Fund and shall remain in effect until amended or revoked by the U. T. Board of Regents.

Secretary's Note: At the April 1994 meeting, the U. T. Board of Regents amended the Investment Guidelines section of the Permanent University Fund, Common Trust Fund, and Medical Liability Self-Insurance Fund Investment Policy Statements to allow for the use of derivative instruments in the management of these funds. In reviewing the records, it was determined that these amendments would also be applicable to The University of Texas System Operating Funds Investment Policy Statement. To correct that inadvertent oversight, Item 11 under the Investment Guidelines section of the U. T. System Operating Funds Investment Policy Statement above is amended to conform to the April 1994 Board action.

EXCERPT FROM THE MINUTES

JUN - 9 1994

5. U. T. Board of Regents - Regents' Rules and Regulations, Part Two: Amendments to Chapter VII, Section 2, Subsection 2.3 (Inventories), Section 3, Subsection 3.6 (Motor Vehicles), Section 7 (Telephones), and Section 10, Subsections 10.6 and 10.7 (Disposition of Abandoned and Unclaimed Personal Property).--Upon recommendation of the Business Affairs and Audit Committee, the Board amended the Regents' Rules and Regulations, Part Two, Chapter VII, Section 2, Subsection 2.3 (Inventories), Section 3, Subsection 3.6 (Motor Vehicles), Section 7 (Telephones), and Section 10, Subsections 10.6 and 10.7 (Disposition of Abandoned and Unclaimed Personal Property) to read as set forth below:

Sec. 2. Inventories.

- 2.3 Inventories as of August 31 include all equipment on hand as defined by the General Services Commission under the State Purchasing and General Services Act. Items that are worn out or discarded shall be deleted in accordance with the regulations of the General Services Commission.

Sec. 3. Motor Vehicles.

- 3.6 Each component institution shall be cognizant of and render reports on operation of motor vehicles as required by the current Appropriations Act.

- Sec. 7. Telephones.--The director of information services, the director of physical plant, the chief business officer, or other person designated by the chief administrative officer shall be responsible for the installation of telephones and the administration of all telephone facilities. Personal toll calls shall not be charged to institutional telephones. Charges for telephones and toll calls shall be pursuant to approved institutional policy included in the Handbook of Operating Procedures.

Sec. 10. Disposition of Abandoned and Unclaimed Personal Property.

- 10.6 Vehicles that are abandoned and unclaimed will be disposed of in accordance with Section 365.001 et seq. of the Texas Health and Safety Code.
- 10.7 Drugs in the possession of any component institutional police department will be disposed of in the manner prescribed by Section 483.074 of the Texas Health and Safety Code (the Texas Dangerous Drugs Act) and by Sections 481.158 and 481.159 of the Texas Health and Safety Code (the Texas Controlled Substances Act).
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EXCERPT FROM THE MINUTES

DEC - 2 1993

2. U. T. Board of Regents - Regents' Rules and Regulations, Part Two: Amendments to Chapter III, Section 4, Subsection 4.1, Subdivision 4.11 (Local Institutional Funds). -- Approval was granted to amend the Regents' Rules and Regulations, Part Two, Chapter III, Section 4, Subsection 4.1, Subdivision 4.11 to read as set forth below:

Sec. 4. Local Institutional Funds.

- 4.1 All institutional funds not required to be deposited in the State Treasury must be deposited in official depository banks for safekeeping or invested as specified by law and by the applicable Rules and Regulations, Business Procedure Memoranda and Investment Policy Statements.

4.11 Funds held in demand deposits, time deposits, or non-negotiable certificates of deposit shall be deposited or invested only in banks with which the Board has a depository agreement. Depository and custody agreements may be negotiated and executed by the Vice Chancellor for Asset Management or the Executive Vice Chancellor for Business Affairs when such depository agreements are in substantially the same form as a standard depository agreement approved by the Board or, for other agreements, in a form approved by the Office of General Counsel and are with banks meeting the then current policies of the Board. Each chief administrative officer and chief business officer of a component institution or the Executive Vice Chancellor for Business Affairs may negotiate and execute contracts for banking services with banks which have entered into a depository agreement with the Board if the contract has been approved by the Office of General Counsel and the Office of Business Affairs.

EXCERPT FROM THE MINUTES

DEC - 2 1993^{1.}

U. T. Board of Regents - Regents' Rules and Regulations, Part Two: Amendments to Chapter I, Section 9, Subsections 9.2 and 9.4 (Official Seal, Colors, Flag, and Mascot).--Upon recommendation of the Academic Affairs and Health Affairs Committees, the Board amended the Regents' Rules and Regulations, Part Two, Chapter I, Section 9, Subsections 9.2 and 9.4 to read as set forth below:

Sec. 9. Official Seal, Colors, Flag, Logo, and Mascot.

9.2 The official colors for the System shall be orange and white; provided, however, that a component institution may adopt one additional color to be used in connection with athletic and other activities of the institution when approved by the Board upon recommendation of the chief administrative officer of the component institution, the appropriate Executive Vice Chancellor and the Chancellor.

9.4 Each component institution may adopt a theme, a logo and a mascot, provided same are approved by the Board upon recommendation of the chief administrative officer of the component institution, the appropriate Executive Vice Chancellor and the Chancellor.

These amendments clarify the component institution option to adopt a school color in addition to orange and white and to expand upon the uses of that color and require prior approval by the U. T. Board of Regents of a logo.

FEB 10 1994

2. U. T. Board of Regents - Regents' Rules and Regulations, Part Two: Amendments to Chapter V, Section 2, Subsection 2.3, Subdivision 2.31 (Overtime).--The Board amended the Regents' Rules and Regulations, Part Two, Chapter V, Section 2, Subsection 2.3, Subdivision 2.31 related to overtime to read as set forth below:

2.3 Overtime.

2.31

The schedule of activities shall be so organized that non-exempt employees are not required to work in excess of forty hours within an established work week except when required by operating necessities. Any overtime services must be justified in writing and have the advance approval of the chief administrative officer, the chief business officer or designee.

EXCERPT FROM THE MINUTES

OCT - 8 1993

2. U. T. Board of Regents - Regents' Rules and Regulations: Amendments to (a) Part One, Chapter III, Section 16 (Leaves of Absence Without Pay) and (b) Part Two, Chapter V, Section 2, Subsection 2.2 (Medical Disability Leave).--Approval was given to amend the Regents' Rules and Regulations, Parts One and Two as set forth below:

- a. Part One, Chapter III, Section 16 regarding leaves of absence without pay was amended to read as follows:

Sec. 16. Leaves of Absence Without Pay.

- 16.1 With the interest of the institution being given first consideration and for good cause, leaves of absence without pay may be granted for a period within the term of appointment of a member of any faculty or staff.
- 16.2 The maximum period for which a leave of absence will be granted is the end of the fiscal year in which the leave begins. In the case of faculty, the date for return to duty will generally coincide with the beginning of the next semester, following the period of absence. In normal circumstances, leaves for up to one year will be granted liberally, provided the department so recommends and can supply satisfactory replacements. The first period of leave of absence may

be approved, subject to the general conditions included herein, by the chief administrative officer. Requests for additional leave under this section must be submitted to the U. T. Board of Regents for approval.

- 16.3 Except in unusual circumstances, such as military service, reasons of health, continued graduate study, and public service or other activity that reflects credit on the institution and enhances an individual's ability to make subsequent contributions to the institution, a second consecutive year of leave will not be granted.
- 16.4 Except in very unusual circumstances a third consecutive leave of absence for one year will not be granted.
- 16.5 After a return to duty of one year, the leave-of-absence privilege will be available.
- 16.6 Unless otherwise provided by or authorized pursuant to law, all accumulated paid leave entitlement must be exhausted before a leave of absence without pay may be granted, with the additional provision that sick leave must be exhausted in those cases where the employee is eligible to take sick leave.
- 16.7 Upon expiration of Family and Medical Leave pursuant to these Rules and Regulations, an employee may be eligible for a leave of absence under this section. For leave of absence to participate in a political campaign, faculty development leave, parental leave, sick leave, leave for jury duty, leave for military duty, and leave related to on-the-job injuries, see other sections of these Rules and Regulations.

b. Part Two, Chapter V, Section 2, Subsection 2.2 regarding medical disability leave was amended to read as follows:

2.2 Family and Medical Leave.

2.21 Any employee, whether faculty, classified, or administrative, may request and receive a leave of absence without pay for up to twelve weeks per year for family and medical reasons specified by the Family and Medical Leave Act of 1993 and accompanying regulations governing the Act, as set forth in approved institutional and System policies. Eligibility criteria are defined in the Act.

2.22 Upon expiration of the twelve weeks of leave taken pursuant to the Family and Medical Leave Act, an employee may be eligible for a leave of absence without pay pursuant to Part One, Chapter III, Section 16 of the Regents' Rules and Regulations.

The amendments to Part One concerning leaves of absence without pay are consistent with federal law and clarify the approval procedure for leaves without pay.

The federal Family and Medical Leave Act of 1993, which was enacted to be effective August 5, 1993, necessitates the amendments to Part Two of the Regents' Rules and Regulations.

EXCERPT FROM THE MINUTES

AUG 12 1993

1. U. T. Board of Regents - Regents' Rules and Regulations, Part Two: Amendments to Chapter I, Section 1 (Gifts to The University of Texas System). --To ensure that Part Two, Chapter I of the Regents' Rules and Regulations is clearly consistent with current policies and procedures used for the processing of bequests by The University of Texas System, the Board, upon recommendation of the Asset Management Committee, amended the Regents' Rules and Regulations, Part Two, Chapter I, Section 1 regarding gifts to The University of Texas System to read as set forth below:

Sec. 1. Gifts to The University of Texas System.

- 1.1 The authority to accept gifts to the System or to any of the component institutions is vested in the Board.
- 1.2 Recommendations to the Board for the acceptance of gifts showing details as to value, form, stipulations regarding use, and disbursement of funds shall be transmitted by the chief administrative officer through the appropriate Executive Vice Chancellor to the Chancellor.
- 1.3 Recommendations to the Board for the acceptance of gifts should be made in accordance with the provisions of the U. T. System Endowment Policy Guidelines, the U. T. System Planned Giving Policy Guidelines, and related Business Procedure Memoranda.
- 1.4 Gifts to Establish Endowments.
 - 1.41 All gifts to establish endowments of any nature shall be accepted by the Board via the Agenda after review and recommendation by the appropriate Executive Vice Chancellor and the Chancellor, including the Office of Asset Management, of the terms of the endowment and the nature of the donated assets. Gifts to an endowment previously established by the Board may be accepted by the chief administrative officer of a component institution after review and approval by the Office of Asset Management of the nature of the donated asset.
 - 1.42 Endowments will be established with gifts which have been completed for tax purposes or a combination of such gifts and pledges at a minimum funding level of \$10,000. Endowments may be established to fund scholarship programs and other educational activities as well as the endowed academic positions specified in Section 3 below.

- 1.43 Should the Board determine at any time that an endowment fund is not of sufficient size, and has no foreseeable prospects of growing to sufficient size to justify the continuing costs of maintenance of such fund as a separate fund, then in the Board's discretion the principal of such fund may be expended for or otherwise devoted to the accomplishment, as near as may be possible, of the purposes for which the fund was established.
- 1.5 Except as provided in other subsections of this Section, the authority to accept gifts to a component institution is delegated to the chief administrative officer when the gift is to a fund, foundation, or enterprise already approved by the Board or is a continuation of a series which has been previously approved by the Board. Each chief administrative officer, or a designee specified in writing, is empowered to accept cash gifts (except to establish endowments) to a component institution of the System in the amount of \$25,000 or less and gifts in kind (except from estates) having a value of \$25,000 or less, within the policies of the Board and Legislature governing the acceptability of gifts, and to deposit such gifts to the appropriate accounts. All gifts (except those described in Subsections 1.6 and 1.7 below) shall be reported by the dockets of each component institution as prescribed by the Board.
- 1.6 A quarterly report of all such gifts of \$25,000 or less showing name and address of donor, amount of cash gift or value of gift in kind, purpose, and date of the gift shall be filed with the Board via the System Development Office within thirty (30) days after August 31, November 30, February 28, and May 31 of each year. Such reports will summarize gifts of \$2,500 or less showing only total dollars and number of gifts.
- 1.7 The authority to accept specific cash bequests to a component institution of \$25,000 or less that are not to be used to fund an endowment is delegated to the chief administrative officer. These gifts must be reported as specified in Subsections 1.5 and 1.6 above. All bequests that are not specific cash bequests (regardless of the value), are over \$25,000, or are to fund an endowment must be accepted by the Board via the Agenda.
- 1.8 Except as provided in this Subsection and the preceding Subsections, no member of the staff of any institution has the authority to accept gifts to the System or to any of its component institutions. Gifts to the component institutions (except from estates) of books or other

objects of very small value and very obvious propriety, without conditions attached, may be accepted by individual members of the staffs provided these gifts are reported to the Board as specified in Subsections 1.5 or 1.6 as appropriate.

- 1.9 Due to the inefficiencies and high costs associated with separately tailoring investment management programs for gifts that are investment-restricted, notwithstanding any other provision of this Chapter, a gift subject to investment restrictions shall be referred for review and approval as specified in the U. T. System Endowment Policy Guidelines and the U. T. System Planned Giving Policy Guidelines.
- 1.(10) Neither the System nor any of its component institutions will accept a gift for the benefit of any designated student unless the donor is exempt from Federal Income Taxes as defined by the Commissioner of Internal Revenue.
- 1.(11) The acceptance of gifts of real property is prohibited without prior express approval of the Legislature except for establishing scholarships, professorships, or other trusts for educational purposes, provided that such property will not thereafter require legislative appropriations for operation, maintenance, repair, or construction of buildings (current Appropriations Act). Acceptance of all gifts of real estate shall be subject to the U. T. System Trust Fund Real Estate Policy Statement and the Environmental Review Policy for Acquisitions of Real Estate.

EXCERPT FROM THE MINUTES

7.
AUG 12 1993

U. T. Board of Regents - Regents' Rules and Regulations, Part Two: Amendments to Chapter II, Section 1, Subsection 1.5, Subdivision 1.53 (Retirement of Indebtedness Funds) and Chapter IX (Matters Relating to Investments, Trusts, and Lands).--Upon recommendation of the Asset Management Committee, the Board:

- a. Amended Chapter II, Section 1, Subsection 1.5, Subdivision 1.53 (Retirement of Indebtedness Funds) to read as set forth below:
 - 1.53 Retirement of Indebtedness Funds.--Funds specified by the Board or by external sources to be set aside to meet debt service charges and the retirement of indebtedness on institutional plant assets.
- b. Amended Chapter IX (Matters Relating to Investments, Trusts, and Lands) to read as set forth below:

CHAPTER IX

MATTERS RELATING TO INVESTMENTS, TRUSTS, AND LANDS

Sec. 1. Authority Regarding Assets.

- 1.1 Subject to the more specific provisions of other sections of the Regents' Rules and Regulations or specific Regental policies, the authority to manage and invest assets of or held by the U. T. System shall be as set forth below.
- 1.2 All assets, regardless of the nature of the asset, received through a bequest or through a distribution from an account held in trust by others shall be managed by the Office of Asset Management until appropriate distribution may be made to the beneficiary institution or to an endowment fund, a fund functioning as an endowment, or a life income or annuity fund.
- 1.3 All assets of the Permanent University Fund, excluding the real property of the Permanent University Fund, shall be managed by the Office of Asset Management. Real property of the Permanent University Fund shall be managed by the Office of Business Affairs.
- 1.4 All assets, regardless of the nature of the asset, received for or held in an endowment fund (other than the Permanent University Fund), a fund functioning as an endowment, or a life income or annuity fund shall be managed by the Office of Asset Management until such funds terminate.
- 1.5 All assets of Retirement of Indebtedness Funds, Bond Proceeds, Unemployment Compensation Funds, Workers' Compensation Funds, the Medical/Dental Self-Insurance Fund, the Vision

Services Fund, and the Medical Liability Self-Insurance Fund ("consolidated System funds") shall be managed with respect to investment of such funds as set forth below:

- 1.51 The Office of Business Affairs shall invest the Retirement of Indebtedness Funds, Bond Proceeds, Unemployment Compensation Funds, Workers' Compensation Funds, the Medical/Dental Self-Insurance Fund, and the Vision Services Fund in the same manner that chief business officers may invest the operating funds of each component institution.
 - 1.52 The Office of Asset Management shall invest the Medical Liability Self-Insurance Fund as set out in this Chapter.
- 1.6 Except as provided in Subsection 1.2 of this Section, assets which are not a part of the Permanent University Fund, an endowment fund, a fund functioning as an endowment, or a life income or annuity fund or consolidated System funds shall be managed as set forth below:
- 1.61 Real property used for campus lands shall be managed by the chief administrative officer of the component institution subject to review by the Office of Business Affairs prior to requesting Board approval to acquire the property. Otherwise, real property and notes secured by a deed of trust shall be managed by the Office of Asset Management.
 - 1.62 Tangible personal property shall be managed by the chief administrative officer of the component institution.
 - 1.63 Intangible personal property consisting of securities, interests in businesses, and equity interests in technology transfer firms as set out in the Regents' Intellectual Property Policy shall be managed by the Office of Asset Management. Other intangible personal property shall be managed by the chief administrative officer of the component institution.

Sec. 2. Authorizations Regarding Sales, Assignments, Conveyances, Receipt of Property, and Proxies.

- 2.1 Authority to Purchase, Exchange, and Sell Securities for and on Behalf of the Permanent University Fund (hereinafter sometimes referred to as "PUF") and the Board.--The Chancellor, or his or her delegate, the Vice Chancellor for Asset Management, the Executive Director for Fixed Income Investments, and the Portfolio Managers are authorized to purchase, exchange, and sell any and all securities of any description whatever and from any source, including gifts and bequests, for and on behalf of the PUF or the Board. In addition, external investment managers appointed by the Board of Regents may purchase, sell, or exchange securities, pursuant to written agreement with the Board of Regents.

- 2.2 Authority to Transact Through Investment Dealers.--Sales, purchases, and exchanges shall be effected through investment dealers or brokers in accordance with the applicable Investment Policy Statement.
- 2.3 Authority to Assign and Transfer Securities Owned by the PUF and the Board.--The Chancellor, or his or her delegate, the Vice Chancellor for Asset Management, the Executive Director for Endowment Management and Administration, and the Director of the Office of Budget and Fiscal Policy may each assign and transfer any and all securities of any description whatever and from any source, including gifts and bequests, and execute any and all documents necessary to the consummation of any sale, assignment, or transfer of any securities registered in the name of the PUF or the Board, or in any other form of registration of such securities held for the account of the PUF or the Board in whatever manner, including all fiduciary capacities and including those registered in the names of trusts or foundations managed and controlled by said Board. In addition, custodian banks appointed by the Vice Chancellor for Asset Management may assign and transfer securities and execute any and all documents necessary to the consummation of any sale, assignment, or transfer of any security owned by the Board.
- 2.4 Authority to Execute Instruments Relating to Land and Mineral Interests.--The authority to execute conveyances, deeds, surface and/or mineral leases, easements, rights-of-way, oil and gas division orders, and transfer orders, geophysical and material source permits, water contracts, pooling and unitization agreements, and any other instruments as may be necessary or appropriate from time to time, relating to the handling, management, control, and disposition of any real estate or mineral interest held or controlled by the Board is hereby authorized as follows:
- (i) Real Estate or Mineral Interests held as part of the PUF or campus lands:
 - The Chancellor or his or her delegate
 - The Executive Vice Chancellor for Business Affairs
 - (ii) Real Estate or Mineral Interests held as part of any endowment, trust, or other fund excluding the PUF and campus lands:
 - The Chancellor or his or her delegate
 - The Vice Chancellor for Asset Management
 - The Executive Director for Endowment Real Estate.

- 2.5 Authority to Receive and Collect Money and/or Property.--The Chancellor, the Vice Chancellor for Asset Management, the Executive Director for Endowment Management and Administration, and the Manager of Estates and Trusts are each authorized and empowered to ask, demand, collect, recover, and receive any and all sums of money, debts, dues, rights, property, effects, or demands, whatever, due, payable, or belonging, or that may become due, payable, or belonging to the PUF or the Board from investment transactions and bequests, from any person or persons, whatever, and to execute any and all necessary or proper receipts, releases, and discharges therefor and any other instruments as may be necessary or appropriate from time to time, relating to the handling, management, and control and disposition of any bequest.
- 2.6 Authority to Execute Proxies and Consent to Modifications in Bond Indentures.--The Chancellor, or his or her delegate, the Vice Chancellor for Asset Management, the Executive Director for Fixed Income Investments, the Executive Director for Endowment Management and Administration, and the Portfolio Managers are each authorized to consent to modifications in bond indentures and to execute proxies within the approved investment policies.
- 2.7 Authority to Deliver and Maintain Securities in Book-Entry Form.--Securities owned by the PUF or the Board may be delivered and maintained by a custodian bank or a member bank of the Federal Reserve System in book-entry form subject to applicable law.

Sec. 3. Policy for Investment and Management of the PUF.

- 3.1 The policies for the investment of funds for the Permanent University Fund shall be those outlined in The Permanent University Fund Investment Policy Statement.
- 3.2 Reports Regarding Asset Management.
 - 3.21 All purchases, sales, and exchanges of investments shall be reported for ratification by the Board via the Docket.
 - 3.22 The investment performance of the PUF, as measured by an unaffiliated organization, shall be reported to the Regents' Asset Management Committee at least annually.
 - 3.23 The nature and extent of any investments in or business transacted with any firm with which a member of The University of Texas System investment staff is affiliated will be reported to the Regents' Asset Management Committee annually.

- 3.24 The PUF's investment in U. S. companies with substantive investments or operations in South Africa will be reported to the Regents' Asset Management Committee semiannually in combination with the status review of these firms' effective compliance with the spirit of the six key elements of the Sullivan Principles.
- 3.25 All proxy votes on the social issue of investment and corporate conduct in South Africa will be reported to the Regents' Asset Management Committee.
- 3.3 The Chancellor, the Vice Chancellor for Asset Management, or the Executive Director for Fixed Income Investments are each authorized to take any and all steps as may be considered necessary or advisable to protect the interest of the PUF in event of default or any other significant changes occurring with respect to any investment.
- 3.4 Policies with Respect to Stock Rights, Fractional Shares, and Proxies.
- 3.41 Exercise of or sale of stock rights and warrants is to be made at the discretion of the Chancellor, the Vice Chancellor for Asset Management, the Executive Director for Fixed Income Investments, or the Portfolio Managers. Stock rights or warrants which arise in connection with funds under control of an unaffiliated investment manager shall be handled by that manager at its discretion.
- 3.42 Fractional shares which arise in connection with funds under control of an unaffiliated investment manager or the System investment staff shall be handled by that manager or the staff at its discretion.
- 3.43 As a general rule, voting stocks held are to be voted by returning proxies to present management. When the Portfolio Managers or the Executive Director for Endowment Management and Administration determines that a vote with management would not be in the shareholder's best financial interest, or when a proposal under consideration is of a social nature, the matter will be referred to the Chancellor or the Vice Chancellor for Asset Management, or, in the event both of them are absent, to the Chairman of the Asset Management Committee. Voting on the issue of investments and corporate conduct in South

Africa shall correspond to the Regents' Policy Statement on South African Issues adopted by the Board at its February 1986 meeting.

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

Sec. 4. Policy for Investment and Management of Other U. T. Investment Pools.

- 4.1 The policies for the investment of funds for U. T. investment pools shall be those outlined in the applicable Investment Policy Statement.
- 4.2 The provisions of Sections 3.2, 3.3, and 3.4, with respect to the investment and management of the PUF, shall likewise apply to other U. T. investment pools.
- 4.3 The Common Trust Fund shall be administered in a manner consistent with all provisions of the U. T. System Common Trust Fund Charter.
- 4.4 The Operating Funds Short/Intermediate Term Fund shall be administered in a manner consistent with all provisions of The University of Texas System Operating Funds Short/Intermediate Term Fund Information Memorandum.
- 4.5 The Medical Liability Self-Insurance Fund shall be administered in a manner consistent with all provisions of the Plan for Professional Medical Liability Self-Insurance.
- 4.6 Each pooled income fund established by U. T. shall be administered according to its trust indenture and applicable law.

Sec. 5. Policy for Investment and Management of Endowment and Trust Funds Invested Through or Separate From U. T. Investment Pools.

- 5.1 Endowment funds and funds functioning as endowments will be managed in a manner consistent with the U. T. System Endowment Policy Guidelines, prudent person investment standards, and the Uniform

Management of Institutional Funds Act (Title 10, Chapter 163, Texas Property Code). These funds will be managed separately and not commingled with the Common Trust Fund if the terms of the instrument by which the fund was created or documents and instructions from the donor preclude investment through the Common Trust Fund. In addition, nonmarketable securities held by an endowment fund may be recorded as separately invested. All other endowment funds and funds functioning as endowments will be invested through the Common Trust Fund.

- 5.2 Trust funds and other life income accounts will be invested and administered consistent with the U. T. System Planned Giving Policy Guidelines, prudent person investment standards, and the Texas Trust Code (Title 9, Subtitle B, Texas Property Code).
- 5.3 The provisions of Sections 3.2, 3.3, and 3.4 with respect to the investment and management of the PUF, shall likewise apply to endowment and trust funds except that Subsection 3.22 shall be applied only when such funds are invested through a U. T. investment pool.

Sec. 6. Investment Advisory Committee.--The Chancellor and the Vice Chancellor for Asset Management shall seek the advice and counsel of the Investment Advisory Committee at its regular quarterly meetings and at other times as appropriate on all of the major matters involving investments. The Investment Advisory Committee is and has been established in order to assist and advise the Chancellor and the Vice Chancellor for Asset Management with respect to matters relating to the management of investments. The following rules shall apply to such Committee:

- 6.1 Membership.--Seven members of the Committee shall be selected because of their particular qualifications and experience in the field of investments, including experience in bond and corporate stock investments.
- 6.2 Selection Procedure.--Appointments to such Committee shall be made by the Board after recommendation by the Chancellor.
- 6.3 Term of Office.--Each member shall serve a three-year term, with the terms of two (or three as applicable) members expiring each August 31. A member is eligible for reappointment to a consecutive three-year term but may not be reappointed thereafter without a three-year break in service.
- 6.4 Meetings.--Meetings shall be held quarterly and at such other dates as may be considered advisable by the Chancellor and the Vice Chancellor for Asset Management.

The amendment to Part Two, Chapter II, Section 1, Subsection 1.5, Subdivision 1.53 reflects the reassignment of the Office of Finance from the Office of Asset Management to the Office of Business Affairs.

The amendments to Part Two, Chapter IX address the assignment of management authority with respect to all assets, changes in titles and reporting relationships and the passage of S. B. 709 applying the Uniform Management of Institutional Funds Act to endowments of public higher education institutions.

EXCERPT FROM THE MINUTES

AUG 12 1993

3. U. T. Board of Regents - Regents' Rules and Regulations, Part Two: Amendments to Chapter III, Section 3 (Deposits with the State Treasurer) and Section 4, Subsection 4.1 (Local Institutional Funds). --The Board, upon recommendation of the Asset Management Committee, amended the Regents' Rules and Regulations, Part Two, Chapter III as set forth below:

a. Section 3 was amended to read as follows:

Sec. 3. Deposits with the State Treasurer.

- 3.1 The statutes and the current Appropriations Act require that all cash receipts accruing to component institutions be deposited in the State Treasury, with the exception of those funds named in Section 51.008 of the Texas Education Code, including those funds from auxiliary enterprises, noninstructional services, agency, designated and restricted funds, endowment funds, trust funds, other gift funds, student loan funds, funds retained under Chapter 145 of the Texas Education Code, and Constitutional College Building Amendment Funds.
- 3.2 Cash receipts that are required to be deposited in the State Treasury shall be so deposited in the manner prescribed in the statutes and the current Appropriations Act.
- 3.3 Component institutions of the System are authorized by the current Appropriations Act to establish Revolving Funds under certain prescribed procedures to facilitate the payment of nominal expenses and to pay bills within cash discount periods, as well as for regular monthly payrolls, weekly, and special payrolls. Such Revolving Funds are authorized, subject to approval of the Director of the Office of Budget and Fiscal Policy.

b. Subsection 4.1 of Section 4 was amended to read as follows:

Sec. 4. Institutional Funds.

- 4.1 All institutional funds not required to be deposited in the State Treasury must be deposited in official depository banks for safekeeping or invested as specified by law and by the applicable Rules and Regulations, Business Procedure Memoranda and Investment Policy Statements.
- 4.11 Funds held in demand deposits, time deposits, or non-negotiable certificates of deposit shall be deposited or invested only in banks with which the Board has a depository agreement. Depository and custody agreements may be negotiated and executed by the Vice Chancellor for Asset Management when such depository agreements are in substantially the same form as a standard depository agreement approved by the Board or, for other agreements, in a form approved by the Office of General Counsel and are with banks meeting the then current policies of the Board. Each chief administrative officer and chief business officer of a

component institution or the Executive Vice Chancellor for Business Affairs may negotiate and execute contracts for banking services with banks which have entered into a depository agreement with the Board if the contract has been approved by the Office of General Counsel and the Office of Business Affairs.

- 4.12 Requests for documentation specifying staff authorized to sign checks or initiate funds movements, or changes thereto, for all bank accounts, bank common trust funds, or money market funds shall be approved by each institutional chief administrative officer and chief business officer with copies of the changes and/or authorization sent to the Director of the Office of Budget and Fiscal Policy.
- 4.13 Operating funds, as defined by The University of Texas System Operating Funds Investment Policy, shall be invested in compliance with that investment policy statement. Operating funds held in bank common trust funds or money market funds shall be invested in funds approved by the Vice Chancellor for Asset Management based on, at a minimum, the criteria specified in The University of Texas System Operating Funds Investment Policy. The Vice Chancellor for Asset Management shall administer pooled investment funds for the investment of operating funds as authorized by the Board. The chief business officer of any component institution may add or withdraw operating funds of the component to or from (i) demand deposits, time deposits, or non-negotiable certificates of deposit as set forth in Subsection 4.11 of this Section, (ii) any common trust fund or money market fund approved by the Vice Chancellor for Asset Management or (iii) any investment pool administered by the Office of Asset Management for the investment of such operating funds on any established addition or withdrawal date of the pool.

These amendments to the Regents' Rules and Regulations acknowledge that various types of funds are defined by Section 51.009 of the Texas Education Code as institutional funds and that various Regents' Rules and Regulations apply to the depositing, custody, and investing of each of these types of funds. The amendments reference a definition of "operating funds" set out in an amendment to The University of Texas System Operating Funds Investment Policy which defines "operating funds" to be a subset of institutional funds, which excludes the following funds:

- a. Endowment funds and funds functioning as endowments, trust funds, and agency funds administered by the Office of Asset Management
- b. Medical Liability Self-Insurance Fund authorized by Chapter 59 of the Texas Education Code administered by the Office of Asset Management

- c. Investment income related to endowment funds and funds functioning as endowments, trust funds, agency funds and the self-insurance fund in b. above as long as such income remains administered by the Office of Asset Management.

The amendments also describe the appropriate investment options for operating funds and conform the Regents' Rules and Regulations with the standard bank depository agreement by authorizing specified officers of components and The University of Texas System to execute contracts for banking services.

EXCERPT FROM THE MINUTES

2.
AUG 12 1993

U. T. Board of Regents - Regents' Rules and Regulations, Part Two: Authorization to Amend Chapter V, Section 1, Subsection 1.22 (The Pay Plan).--Approval was given to amend the Regents' Rules and Regulations, Part Two, Chapter V, Section 1, Subsection 1.22 (The Pay Plan) to read as set forth below:

1.22 The Pay Plan.

1.221

All classified positions will have a minimum and maximum defined for each salary range. The salary ranges shall be determined by annual market studies and the local economy. Merit increases will be awarded within the established salary ranges according to budget instructions and institutional policy approved for inclusion in the institutional Handbook of Operating Procedures.

This revision eliminates graduated pay steps within the classified pay plan and allows salaries to be set anywhere within the designated salary range for each classification to provide greater flexibility in the administration of merit increases and entry-level salaries.

EXCERPT FROM THE MINUTES

AUG 12 1993

3. U. T. Board of Regents - Regents' Rules and Regulations, Part Two: Amendments to Chapter VII, Section 10 (Disposition of Abandoned and Unclaimed Personal Property).-- Upon recommendation of the Business Affairs and Audit Committee, the Board amended the Regents' Rules and Regulations, Part Two, Chapter VII, Section 10 regarding disposition of abandoned and unclaimed personal property to read as set forth below:

Sec. 10. Disposition of Abandoned and Unclaimed Personal Property.--Except as otherwise specified in Subsections 10.6, 10.7, and 10.8, abandoned and unclaimed personal property of every kind that is not being held as evidence to be used in a pending criminal case and remains in the custody of the Property Manager of any component institution for a period of sixty (60) days will be disposed of in the following manner:

- 10.1 The Property Manager designated by the chief administrative officer shall mail a notice to the last known address of the owner of such property by first-class certified mail, return receipt requested, if the owner is known. If the Property Manager determines that the value of the property exceeds the anticipated cost of storage and sale of the property and if no owner's address is known or if the last known owner does not respond to the notice mailed to his or her last known address, then the Property Manager shall cause to be published once in the campus student newspaper or once in a paper of general circulation in the county in which the institution is located a notice as described below. The mailed and published notices shall contain a description of the property held; the name of the owner, if known; the name, telephone number and address of the officer holding the property; and the location where the property can be inspected and redeemed. The published notice shall also state that the property, if unclaimed, will be sold at public sale and provide the date, time, and place of such sale.
- 10.2 All personal property that remains unclaimed at the expiration of sixty (60) days from the date of publication in a newspaper of the notice required by Subsection 10.1 shall be deemed to be abandoned and may be sold at the announced date.

- 10.3 The Property Manager shall sell the property that remains unclaimed to the highest bidder at the announced public sale. The Property Manager may decline the highest bid if he or she considers such bid insufficient and need not reoffer any property for sale, if, in his or her opinion, the probable cost of sale is in excess of the value of the property. All proceeds of the sale shall be deposited into a fund designated for this purpose.
- 10.4 Any person claiming an interest in any property presumed abandoned and sold under the provisions of this Section shall be allowed to file a claim to such property with the Property Manager on forms and through procedures prescribed by the Property Manager; upon approval of such claim by the Property Manager, the owner may recover the proceeds of such sale after deduction of the reasonable expense of storage and sale of such property.
- 10.5 Proceeds of sales that remain unclaimed may be used by the institution for student scholarships or other institutional purposes.
- 10.6 Vehicles that are abandoned and unclaimed will be disposed of in accordance with Article 4477-9a of Vernon's Texas Civil Statutes.
- 10.7 Drugs in the possession of any component institutional police department will be disposed of in the manner prescribed by Article 4476-14, Section 8, of the Texas Dangerous Drugs Act and by Article 4476-15, Section 5.08, of the Texas Controlled Substances Act.
- 10.8 The custody and disposition of property of tenants of dormitory rooms and other residential units of a component institution shall be in accordance with Subchapter C, Title 5, Sections 54.044 and 54.045 of the Texas Property Code.

These amendments detail the proper disposition of sales proceeds based upon the specific type of property sold, allows institutions additional discretion in the disposal of personal items such as eye glasses, and brings this section of the Regents' Rules and Regulations into conformity with various state statutes.

EXCERPT FROM THE MINUTES

JUN 10 1993

3. U. T. Board of Regents - Regents' Rules and Regulations, Part Two: Amendments to Chapter II, Section 4 (Reporting).--Approval was given to amend the Regents' Rules and Regulations, Part Two, Chapter II, Section 4 (Reporting) to read as set forth below:

Sec. 4. Reporting.

- 4.1 All financial reports shall be prepared in accordance with the provisions of the statutes, official directives of the Texas Higher Education Coordinating Board, and directives of the Board, and in conformity with the manual, "College and University Business Administration, Fifth Edition," (1991) referred to in Subsection 2.1 of this Chapter. The reports shall be prepared by the chief business officer and approved by the Director of the Office of Budget and Fiscal Policy.
- 4.2 The Annual Financial Report shall be prepared under the direction of the chief business officer and the Director of the Office of Budget and Fiscal Policy. As required by law, printed financial reports, in the format recommended in "College and University Business Administration, Fifth Edition," (1991), or its successor publication, shall be filed with the Texas Higher Education Coordinating Board and other state offices as specified by law.
- 4.3 Monthly financial reports, in the form prescribed by the Director of the Office of Budget and Fiscal Policy, shall be prepared by each institutional chief business officer and distributed to the chief administrative officer and the Director of the Office of Budget and Fiscal Policy. Copies of such monthly reports, verified under oath, shall be furnished semiannually to the Governor.

Executive Vice Chancellor for Business Affairs Burck noted that these amendments reflect the deletion of the Salary Payment Report which is no longer utilized by U. T. System Administration and establish a more limited distribution of the monthly financial reports.

EXCERPT FROM THE MINUTES

DEC 03 1992

2. U. T. Board of Regents - Regents' Rules and Regulations, Part Two: Amendments to Chapter VIII, Section 6 (Professional Services).--Approval was given to amend the Regents' Rules and Regulations, Part Two, Chapter VIII, Section 6 (Professional Services) to read as set forth below:

Sec. 6. Professional Services.--Each component institution is authorized to make use of architects, engineers, and other professional services up to a maximum cost of \$50,000 for projects previously approved for implementation in accordance with Section 4 or Subsection 5.2 above, on recommendation of the chief administrative officer and the chief business officer. Authorization for such services not previously approved for implementation in accordance with Section 4 or Subsection 5.2 above will require the approval of the Executive Vice Chancellor for Academic Affairs or Health Affairs, as appropriate, and the Executive Vice Chancellor for Business Affairs.

Committee Chairman Loeffler noted that he had visited informally with Chairman Beecherl and members of the Board about the selection of architects and engineers for construction projects within The University of Texas System and reported that the Business Affairs and Audit Committee will be working with appropriate individuals in the U. T. System Administration and component institutions to review the System's use of outside professional service contracts (law firms, accounting firms, architects, engineers, etc.) to have more insight into who the Board is hiring, what the costs are, etc. Mr. Loeffler indicated that the Business Affairs and Audit Committee would be moving forward with this review after the first of the year.

EXCERPT FROM THE MINUTES

OCT - 9 1992

1. U. T. Board of Regents - Regents' Rules and Regulations, Part Two: Amendments to Chapter IX, Section 5 (Investment Advisory Committee) and Appointment of Ms. Carol Lott, Tyler, Texas, and Ms. Barbara Sublett Guthery, Austin, Texas, to Investment Advisory Committee (Exec. Com. Letter 92-19). --In order to provide the Investment Advisory Committee for The University of Texas System with a broader representation of investment backgrounds, the Board, upon recommendation of the Executive Committee, amended the Regents' Rules and Regulations, Part Two, Chapter IX, Section 5 (Investment Advisory Committee) to read as set forth below:

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

- 5.1 Membership.--Seven members of the Committee shall be selected because of their particular qualifications and experience in the field of investments, including experience in bond and corporate stock investments.
- 5.2 Selection Procedure.--Appointments to such Committee shall be made by the Board after recommendation by the Chancellor.
- 5.3 Term of Office.--Each member shall serve a three-year term, with the terms of two (or three as applicable) members expiring each August 31. A member is eligible for reappointment to a consecutive three-year term but may not be reappointed thereafter without a three-year break in service.
- 5.4 Meetings.--Meetings shall be held quarterly and at such other dates as may be considered advisable by the Chancellor and the Vice Chancellor for Asset Management.

Further, as permitted by this amendment to the Regents' Rules and Regulations, the Board approved the following appointments to the Investment Advisory Committee:

- a. Ms. Carol Lott, Investment Executive with PaineWebber, Tyler, Texas, to a three-year term from September 1, 1992 to August 31, 1995
- b. Ms. Barbara Sublett Guthery, Vice President - Investments with Prudential Securities, Inc., Austin, Texas, to an unfilled term to expire August 31, 1994.

With these appointments, the membership of the Investment Advisory Committee will be as follows:

<u>Member</u>	<u>Term Expires</u>
L. Lowry Mays	8/31/93
Michael J. C. Roth	8/31/93
Barbara Sublett Guthery	8/31/94
J. Luther King, Jr.	8/31/94
Carol Lott	8/31/95
Monroe M. Luther	8/31/95
Robert E. Wise	8/31/95

In response to Regent Holmes' inquiry as to whether there were any African-Americans or other minorities on the Investment Advisory Committee, Chancellor Cunningham reported that there were no African-Americans on this Committee at this stage, but The University of Texas System is working to diversify the Committee and to ensure that ethnic minorities are considered in the future.

Regent Rapoport pointed out that the Asset Management Committee had considered one African-American female, but since she was an employee of the Governor's Office, it was determined that it would be inappropriate to have a member of that staff serve on the Investment Advisory Committee.

EXCERPT FROM THE MINUTES

OCT - 9 1992

2. U. T. Board of Regents - Regents' Rules and Regulations, Part Two: Amendments to Chapter IV, Section 6 (Space Leases).--To facilitate potential streamlining of the approval process and specify that space lease agreements be in the name of the U. T. Board of Regents, the Board amended the Regents' Rules and Regulations, Part Two, Chapter IV, Section 6 regarding space leases to read as set forth below:

Sec. 6. Space Leases.

- 6.1 Space leases involving buildings paid from general revenue appropriations must, by law, be approved by the General Services Commission and may not extend beyond a ten-year period.
- 6.2 Proposals for space leases require the approval of the Executive Vice Chancellor for Academic Affairs or the Executive Vice Chancellor for Health Affairs, as appropriate, and of the Executive Vice Chancellor for Business Affairs. The proposal must show type of space and purpose of its use, approximate number of square feet, location, whether janitor service and/or utilities will be furnished by the lessor, period of lease, and any other requirements set out by the above cited System Administration officials or the General Services Commission.
- 6.3 Leases should be entered in the name of the Board of Regents of The University of Texas System on behalf of The University of Texas (component) and may be executed by the chief administrative officer or chief business officer. A proposal shall be approved and the lease should be completed prior to occupancy of any space for office, storage, or other purposes. Lease documents are to be submitted to the Board through the institutional docket procedures following approval by the Executive Vice Chancellor for Business Affairs.

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3. U. T. Board of Regents - Regents' Rules and Regulations, Part Two: Amendments to Chapter V, Section 1, Subsection 1.22 (Classified Personnel).--In order to allow greater flexibility in the administration of merit increases and entry level salaries under the classified pay plan for The University of Texas System, the Board amended the Regents' Rules and Regulations, Part Two, Chapter V, Section 1, Subsection 1.22 to read as set forth below:

1.22 The Pay Plan.

- 1.221 A uniform system of salary steps providing for an increase of approximately 1.7 percent, to the nearest dollar, above each preceding step shall be used for all pay plans. All salaries shall be on salary steps or a fractional part thereof.