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The University of Texas Investment Management Company

UTIMCO

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

Presentation Materials Board of Directors Meeting

April 29, 1999

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UTIMCO
BOARD OF DIRECTORS MEETING

April 29, 1999

AGENDA

12:30 p.m. - 12:35 p.m.	Call to Order/Approval of Minutes of February 24, 1999 and March 25, 1999 Meetings (Tab 1)*
	Overview
12:35 p.m. - 1:15 p.m.	Funds Performance Review (Tab 2)
	Recent Developments/Legislation
1:15 p.m. - 2:45 p.m.	LTF Asset Allocation (Tab 3)
	- History
	- Asset Allocation Study: Cambridge Associates
2:45 p.m. - 3:00 p.m.	[Break]
	Alternative Assets
3:00 p.m. - 4:30 p.m.	Non Marketable/Private Equity (Tab 4)
	Program Review (Since Inception)
	Review of Direct Co-Investment Portfolio
	Review of Projected FY1999-FY2002 Activity
	Marketable/Hedge Funds (Tab 5)
	Program Review (Since Inception)
	Scope of Cambridge Associates Evaluation of Alternative Assets Portfolios
	Other
4:30 p.m. - 4:40 p.m.	Amendments to Endowment Investment Policies (Tab 6)*
4:40 p.m.	Adjournment

* Requires action by resolution.

Next Scheduled Meeting: Thursday, June 24, 1999

For consideration by the Board of Directors of The University of Texas Investment Management Company (the "Board") – April 29, 1999

Resolution No. 1
RESOLVED, that the minutes of the Meetings of the Board of Directors held on February 24, 1999 and March 25, 1999 be and are hereby approved.

Resolution No. 2
RESOLVED, that the amendments to the Permanent University Fund, Long Term Fund, and Separately Invested Funds Investment Policy Statements be and are hereby approved.

MINUTES OF SPECIAL MEETING OF THE BOARD OF DIRECTORS OF THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

The Board of Directors of The University of Texas Investment Management Company (the "Corporation") convened in a special meeting on the 24th day of February, 1999, at the offices of Hicks, Muse, Tate & Furst Incorporated, 200 Crescent Court, Suite 1600, Dallas, Texas, said meeting having been called by the Chairman, with notice provided to each Director in accordance with the Bylaws. Participating in the meeting were the following members of the Board of Directors:

Thomas O. Hicks, Chairman
Robert Allen
Susan M. Byrne
J. Luther King, Jr.
Tom Loeffler
A. W. Riter, Jr.

thus, constituting a majority and quorum of the Board of Directors. Director William H. Cunningham was absent. Also participating in the meeting were Thomas G. Ricks, President of the Corporation; Cathy Iberg, Secretary of the Corporation; Dave Russ and Austin Long of Corporation management ("Management"); and Jerry Turner, Vinson & Elkins, legal counsel for the Corporation. The meeting was called to order at 12:02 p.m.

Minutes

The first item to come before the Board of Directors was approval of the minutes of the meetings of the Board of Directors held on December 10, 1998 and December 23, 1998, copies of which had previously been furnished to each Director. Upon motion duly made and seconded, the following resolution was unanimously adopted:

> RESOLVED, that the minutes of the Meetings of the Board of Directors held on December 10, 1998 and December 23, 1998 be and are hereby approved in the forms provided.

Funds Review

The next item was a report on funds managed by the Corporation, copies of which were previously furnished to each Director. Mr. Ricks stated that the total funds under management had increased in value by $1.6 billion from August 31, 1998 to January 31, 1999. Total endowment funds accounted for approximately $10 billion and the balance was in operating funds.

Permanent University Fund (PUF) - Mr. Ricks presented the projected income management program for the PUF through the fiscal year ended August 31, 2005. He reviewed with the Board the income comparison for the 5 months ended January 31, 1998 to the 5 months ended January 31, 1999. Mr. Ricks stated that the S&P index cash equalization program has been successful to date and therefore at this time there was no need to increase the PUF's fixed income allocation to 40% in order to increase income. Projected income for the year was estimated to be close to the $260 million target. Next, Mr. Ricks presented a comparison of the PUF returns against the Cambridge Universe for the periods ended September 30, 1998 and answered the Directors questions.

Long Term Fund (LTF) - Mr. Ricks reviewed the LTF's performance against the Cambridge Universe for the period ended September 30, 1998. Next, Mr. Ricks reviewed with the Board the LTF efficient frontier graph. This graph compares the LTF's actual allocation, the LTF's policy allocation, and other large educational institution's asset allocations against the Black Litterman data on an unconstrained, loosened constraint and constrained to the LTF policy ranges. Mr. Ricks reviewed with the Board the allocation to alternative equities for the 25 largest college and university endowments as reported by Cambridge Associates. He stated that among this universe the mean allocation to alternative assets was 26.9%. The LTF's policy allocation is 18%. He stated that Cambridge Associates was hired by the Corporation to evaluate the LTF's policy portfolio asset mix. Mr. Ricks then answered the Directors questions.

Mr. Ricks and Mr. Russ reviewed with the Board the active manager technology exposure in the PUF and the LTF against the S&P 500 growth and value indicies. They also reviewed the characteristics of the technology indices relative to the P/E ratios and dividend yields. This review was in response to Director Homer Luther's question as to whether the Corporation should create a separate technology asset class. Mr. Ricks and Mr. Russ responded to the Directors questions and it was concluded that a separate technology asset class would not be created.

Mr. Ricks proposed to the Board an increase in the LTF distribution rate. He reviewed with the Board the spending policy and a summary of the LTF's distribution history and answered their questions. Upon motion duly made and seconded, the following resolution was unanimously adopted:

> RESOLVED, that the annual distribution rate for the Long Term Fund be increased from $0.21 per unit to $0.215 per unit, effective November 30, 1999.

Mr. Ricks proposed a change to the performance benchmarks for the Alternative Equities Asset Class. He proposed to change the benchmark for Alternative Marketable Equities from the CPI + 8% to the 90-day T-Bills + 7% and the benchmark for Alternative Nonmarketable

Equities from S&P 500 Index + 5% to 15%. Mr. Ricks answered the Director's questions. The Directors concluded that a 17% benchmark return for the Alternative Equities Nonmarketable asset class would be more appropriate. Upon motion duly made and seconded the following resolution was unanimously adopted:

> RESOLVED, that the performance benchmarks for the Alternative Equities-Marketable and Alternative Equities–Nonmarketable asset classes for the Permanent University Fund and the Long Term Fund be changed to U.S. T-bill rate +7%, and 17%, respectively.

Y2K Update

Ms. Iberg presented to the Board an updated status on the Corporation's efforts regarding the Y2K issue. Copies of certain materials were previously furnished to each Director. Ms. Iberg presented a Year 2000 Risk Matrix and a Year 2000 Status Report. She concluded by stating what the Corporation's follow up steps would be over the ensuing months and answered the Directors questions. She stated that in her opinion the Corporation was well positioned in its efforts to address the Y2K problem.

Amendment No. 3 to Corporation's Cafeteria Plan

Mr. Ricks presented to the Board proposed amendment No. 3 to the Corporation's Cafeteria Plan, copies of which were previously furnished to each Director. These amendments were required to acknowledge a change in the plan year in addition to compliance changes required by the Internal Revenue Code. Upon motion duly made and seconded the following resolution was unanimously adopted:

> RESOLVED, the Amendment Number Three to The University of Texas Investment Management Company Cafeteria Plan, a copy of which shall be filed with these minutes, is hereby approved and adopted, effective March 1, 1999, and the proper officers of the Corporation are hereby authorized and directed to execute and deliver to the Administrator of the Plan one or more counterparts of the Amendment; and
>
> RESOLVED, that the proper officers of the Corporation shall act as soon as possible to notify employees of the Corporation of the adoption of Amendment Number Three to The University of Texas Investment Management Company Cafeteria Plan by delivering to each employee a copy of the summary description of the changes to the Plan in the form of the Summary Plan Description – Material Modification presented to this meeting, which form is hereby approved.

Operating Funds

Mr. Ricks stated that the U.T. System guidelines for the component institutions to invest in the BGI U.S. Debt Index Fund and the Equity Index Fund were available. Copies were previously furnished to each Director. Mr. Ricks stated that this investment option was proceeding along as expected.

GSAM presentation

Mr. Russ introduced Mr. Bob Litterman from Goldman Sachs Asset Management Company who gave a presentation on investment risk management. Mr. Litterman defined the meaning of investment risk and summarized the investment risks of the LTF relative to the various asset classes in which it invests. Following the discussion Mr. Litterman answered the Directors questions and left the meeting.

Public Markets Review

Mr. Russ reviewed with the Board the changes that had taken place regarding the investment in public markets for the calendar year ended December 31, 1998. Copies of these materials were previously furnished to each Director. The discussion focused on public market manager changes, a comparison of asset allocation changes to move the LTF closer to its policy portfolio, and a review of the efficient frontier and the performance of individual managers, as well as the asset class, for the year. Mr. Russ answered the Director's questions following the presentation.

Private Markets Review

Mr. Ricks reviewed with the Board the status of the Alternative Equities Nonmarketable program, copies of which were previously furnished to each Director. He reviewed the changes in commitments to capital and the component changes in invested capital through November 30, 1998 and projected through the year ended August 31, 2002. Mr. Ricks presented a graph, which showed the IRR by vintage year, the percent of the vintage that is invested, and the size of the commitments. Mr. Ricks proceeded to answer the Director's questions then turned the discussion over to Austin Long. Mr. Long presented the Corporation's Co-Investment Program. The presentation focused on the pre-Corporation co-investments; the co-investment strategy; the value-added activities; the Corporation's co-investment deal inflow; and a review of the Corporation's co-investments. Mr. Long addressed the Director's questions regarding the program.

Open Records Status

Mr. Ricks presented a report on the Corporation's open records requests, copies of which were previously furnished to each Director. Mr. Ricks stated that a great deal of the Corporation's time is being utilized in responding to these requests and most of the requests are from one individual. The Board discussed this issue in great detail. It was suggested that the Corporation present this information to the Attorney General's office to discuss the need for legislative anti-abuse provisions.

There being no further business to come before the Board of Directors, the meeting was adjourned at approximately at 4:00 p.m.

Secretary: ___________________________

APPROVED:

Chairman: ___________________________

MINUTES OF SPECIAL MEETING OF THE BOARD OF DIRECTORS OF THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

The Board of Directors of The University of Texas Investment Management Company (the "Corporation") convened in a special meeting on the 25th day of March, 1999 by means of conference telephone enabling all persons participating in the meeting to hear each other, said meeting having been called by Chairman Hicks with notice provided to each Director in accordance with the Bylaws. Participating in the meeting were the following members of the Board of Directors:

Thomas O. Hicks, Chairman
Robert H. Allen
William H. Cunningham
J. Luther King, Jr.
Tom Loeffler

thus, constituting a majority and quorum of the Board of Directors. Directors Susan M. Byrne and A. W. Riter, Jr. were absent. Also participating in the meeting were Thomas G. Ricks, President of the Corporation; Cathy Iberg, Secretary of the Corporation; Jerry Turner, Vinson & Elkins, legal counsel for the Corporation; and Monty Jones of the UT System Office of Development and External Relations. The meeting was called to order at 2:00 p.m.

Disclosure of Private Investment Information

The first and only matter to come before the Board of Directors was a discussion regarding the disclosure of information on private investments. Dr. Cunningham introduced the subject stating that questions had been raised in the news media and by legislators concerning the need by the public to be able to assure itself that private investments were being managed prudently and without conflicts of interests. Mr. Ricks stated that in the past Corporation management had not disclosed the names of individual principals managing the Corporation's private investments or the performance of the individual investments, citing both the existence of confidentiality agreements and the competitive disadvantage management believed such disclosure would create. He further stated that the withholding of such information had been consistently affirmed by the State Attorney General's office.

The directors discussed the Corporation's position with respect to the execution of confidentiality agreements and the competitive disadvantage that might occur from disclosure of security specific returns. Upon motion duly made and seconded, the following resolutions were adopted with all Directors voting for approval:

RESOLVED, that the Corporation obtain permission from each private investment general partner or equivalent counterparty for UTIMCO to disclose the names of the individual principals managing such investments on behalf of the Corporation; and

RESOLVED, that no private investment shall be made with any entity in the future unless the general partner or equivalent counterparty authorizes the disclosure of the names of the individual principals managing such investments on behalf of the Corporation; and

RESOLVED, that the investment returns of each private investment be made available to the public upon request.

There being no further business to come before the Board of Directors, the meeting was adjourned at approximately 2:20 p.m.

Secretary: ___________________________

APPROVED:

Chairman: ___________________________

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[illegible] PUF, LTF, STF [illegible] S/ITF, STF
≥ 2.5

Assets Under Management

	PUF	U.T. Funds					All Funds
	PUF	Pooled Funds			Separate Funds	Total	Total
	PUF	LTF	S/ITF	STF			
Time Horizon	Long 5-30 years	Long 5-30 years	Short/Inter 1-5 yrs.	Short 0-120 days	Short-Long 0-30 years		
Objectives							
Liquidity	x	x	xx	xxx	Various		
Income	xx	x	xx	x	Various		
Safety of Principal	xx	xx	xx	xxx	Various		
Growth of Income	xxx	xxx	xx	-	Various		
Growth of Principal	xxx	xxx	xx	-	Various		
Asset Allocation							
Cash equivalents	1%	0%	14%	100%	Various		
Fixed Income	33%	21%	86%	0%	Various		
Equities	58%	61%	0%	0%	Various		
Alternative Equities	8%	18%	0%	0%	Various		
Market Value							
February 28, 1999	**7,202.1**	2,425.4	1,838.3	693.4	155.6	**5,112.7**	**12,314.8**
~~November 30, 1998~~	**7,188.9**	2,390.2	1,845.9	607.4	140.7	**4,984.2**	**12,173.1**
August 31, 1998	**6,517.1**	2,147.7	1,809.6	655.8	157.4	**4,770.5**	**11,287.6**
August 31, 1997	**6,368.3**	2,125.0	1,631.4	569.3	146.3	**4,472.0**	**10,840.3**
August 31, 1996	**5,292.1**	1,712.1	1,332.1	561.4	149.2	**3,754.8**	**9,046.9**
August 31, 1995	**4,958.5**	1,549.7	1,123.7	526.2	300.9	**3,500.5**	**8,459.0**
August 31, 1994	**4,428.0**	1,214.4	945.3	322.0	516.5	**2,998.2**	**7,426.2**
August 31, 1993	**4,470.9**	1,119.0	696.1	194.5	823.0	**2,832.6**	**7,303.5**
August 31, 1992	**4,145.4**	949.3	0.0	181.5	1,559.5	**2,690.3**	**6,835.7**
August 31, 1991	**3,930.7**	763.7	0.0	243.4	1,382.4	**2,389.5**	**6,320.2**

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OPERATING FUNDS - COMPOSITION BY COMPONENT INSTITUTION ($ MILLIONS)

COMPONENT	SHORT/ INTERMEDIATE TERM FUND	SHORT TERM FUND	TOTAL
U. T. SYSTEM-MANAGED BY OOF	61.1	175.2	236.3
U. T. ARLINGTON	16.6	31.1	47.7
U. T. AUSTIN	246.6	214.2	460.8
U. T. DALLAS	33.4	7.4	40.8
U. T. EL PASO	11.3	16.5	27.8
U. T. PAN AMERICAN	41.2	8.1	49.3
U. T. BROWNSVILLE	-	1.7	1.7
U. T. PERMIAN BASIN	0.9	3.5	4.4
U. T. SAN ANTONIO	21.2	21.9	43.1
U. T. TYLER	0.3	5.8	6.1
U. T. SOUTHWESTERN	309.9	47.3	357.2
U. T. M. B. GALVESTON	103.9	92.1	196.0
U. T. H. S. C. HOUSTON	128.6	26.3	154.9
U. T. H. S. C. SAN ANTONIO	102.8	6.3	109.1
U. T. M.D. ANDERSON C. C.	700.6	28.5	729.1
U. T. H. C. TYLER	1.1	7.5	8.6
U. T. SYSTEM-MANAGED BY UTIMCO	58.8	-	58.8
TOTAL	1,838.3	693.4	$\boxed{2,531.7}$

Most 75% of the $2.5bn of assets is concentrated in the hands of UT Austin and 5 health institutions, most notably MDA @ 729mm

The other comment is regarding p. 3, and that is

U T I M C O
THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

SHORT/INTERMEDIATE TERM FUND AND SHORT TERM FUND
PERFORMANCE SUMMARY
FEBRUARY 28, 1999

	Net Asset Value (in millions)	Periods Ended February 28, 1999								Fiscal Year To Date	Calendar Year To Date
		One Month	Three Months	Six Months	One Year	Two Years	Three Years	Five Years	Seven Years	Six Months Ended February 28, 1999	Two Months Ended February 28, 1999
Short/Intermediate Term Fund	1,838.3	(1.0)	0.0	1.8	6.2	7.5	6.9	6.3	-	1.8	(0.3)
Composite Index		(0.5)	0.4	2.0	5.8	6.4	6.0	6.0	5.9	2.0	0.0
Common Fund - Intermediate Cash Fund		(0.5)	0.5	1.9	5.8	N/A[1]	6.5	6.3	N/A[1]	1.9	0.1
Short Term Fund	1,307.1	0.4	1.3	2.6	5.5	5.6	5.6	5.5	-	2.6	0.8
Dreyfus Institutional Preferred Money Market	1,307.1	0.4	1.3	2.6	5.5	-	-	-	-	2.6	0.8
Treasury Bill		0.3	1.0	2.3	5.0	5.2	5.2	5.3	4.8	2.3	0.6
IBC Institutional Money Market Funds		0.4	1.0	2.3	5.2	5.5	5.6	5.8	-	2.3	0.8
Common Fund - Short Term Fund		0.3	1.2	2.4	5.3	N/A[1]	5.4	5.4	N/A[1]	2.4	0.7
Consumer Price Index		0.1	0.3	0.7	1.6	1.5	2.0	2.3	2.5	0.7	0.4

1 - Not Available

[illegible] although Short/Intermediate performance (top line) ~~[illegible]~~ over last 6 mos @ 1.8% is slightly below benchmark, [illegible] performance over last 3 yrs under [illegible] has been strong at 6.9% vs - - and 5.6% for Short Term Fund.

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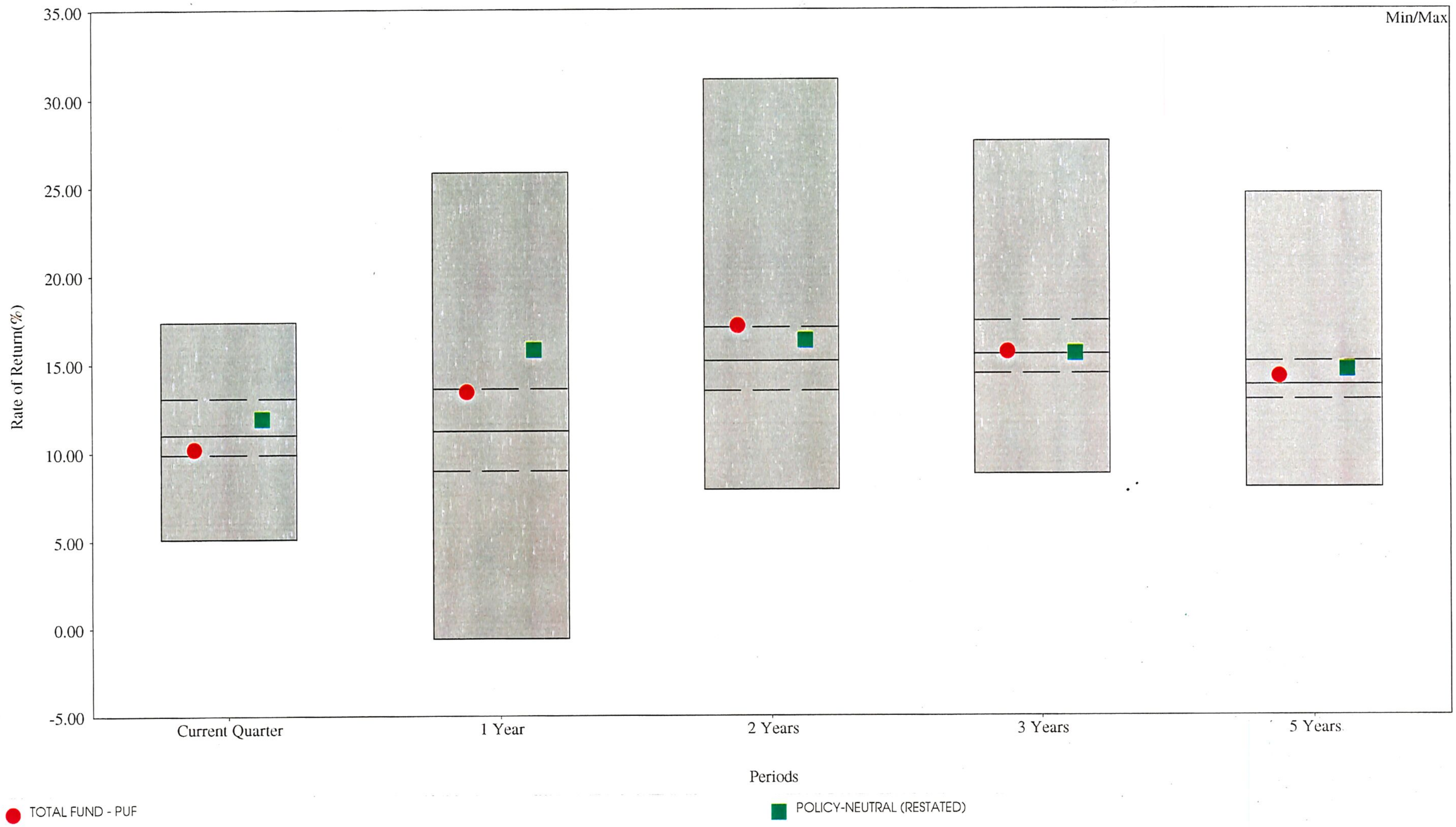
Cambridge Quarterly
Ending Thursday, December 31, 1998
Quartile



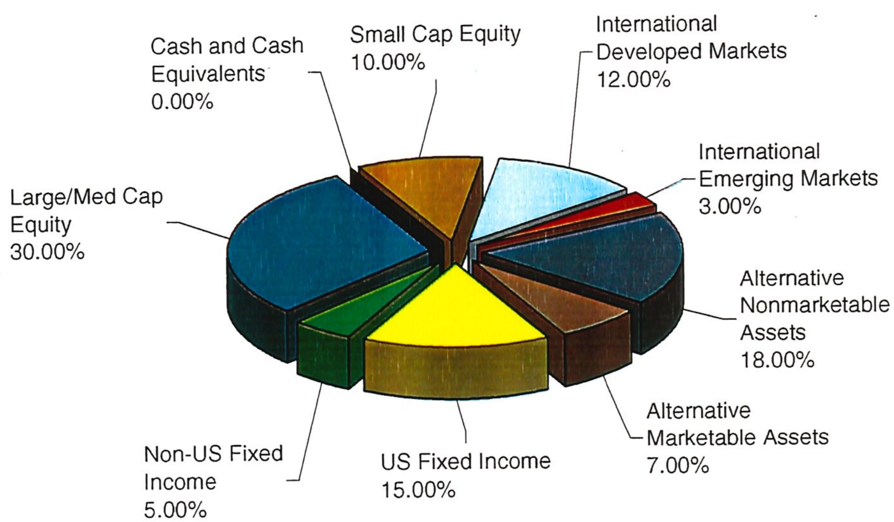
UTIMCO

PERMANENT UNIVERSITY FUND

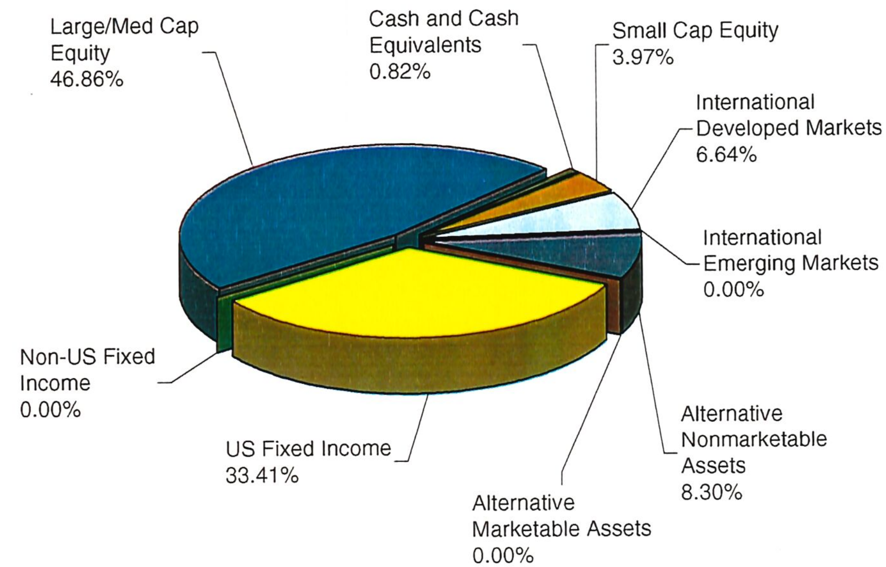
ASSET ALLOCATION
FEBRUARY 28, 1999

the asset allocation approved by the Board specifically for LTF and ideally for the PUF
- more volatility in fixed income yield
- [illegible] in value
- [illegible] equities

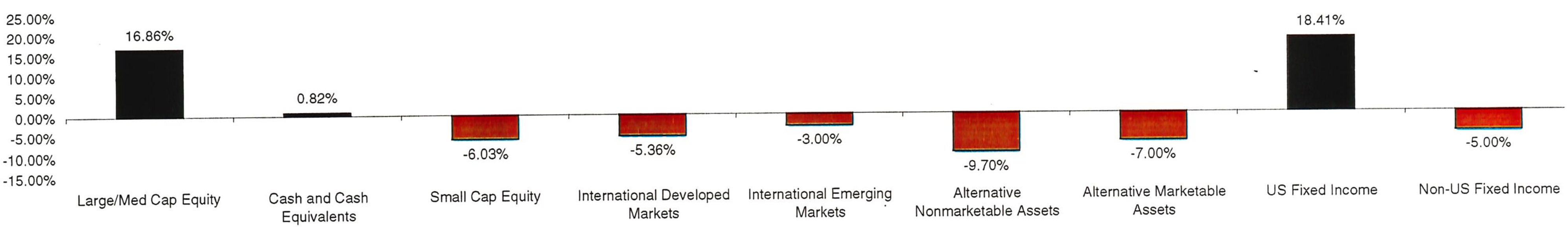
POLICY



ACTUAL — all ratios subordinated to income segment



POLICY VS ACTUAL



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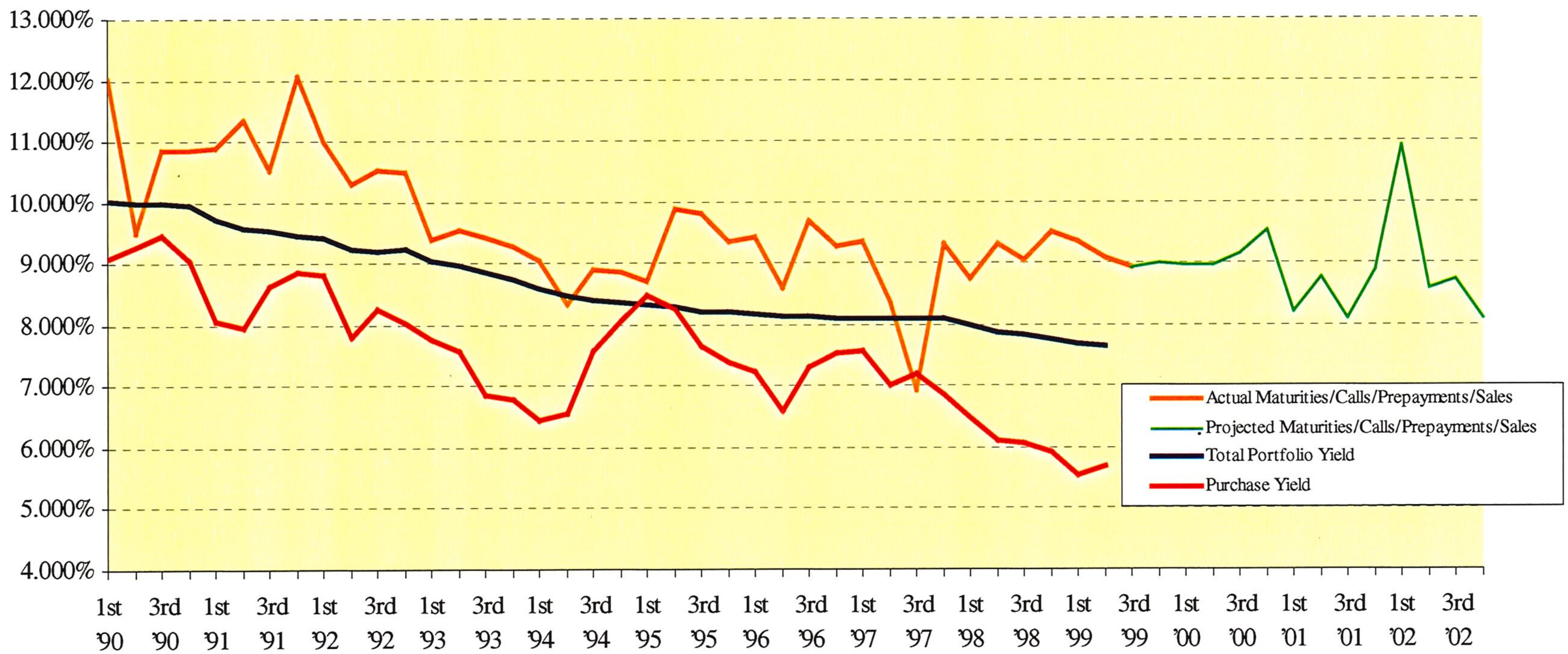
PUF - YIELD LOSS DUE TO BOND RUN-OFF

• Structural problem –
· neg. reinvestment yield on bond run off – throughout the decade
300 bps.



PERMANENT UNIVERSITY FUND
INCOME MANAGEMENT PROGRAM

	Actual	Projected as of 6/30/98						
	1998	1999	2000	2001	2002	2003	2004	2005
Interest Income	$ 173.9	$ 168.3	$ 165.8	$ 162.8	$ 159.8	$ 154.1	$ 151.8	$ 150.9
Dividend Income	82.2	81.2	85.2	89.9	95.0	100.8	106.8	112.9
Other	3.9	1.9	1.4	1.4	1.4	1.4	1.3	1.4
Total	**$ 260.0**	$ 251.4	$ 252.4	$ 254.1	$ 256.2	$ 256.3	$ 259.9	$ 265.2
Base Year 1998 Income		**260.0**	**260.0**	**260.0**	**260.0**	**260.0**		
Income Surplus (Deficit)		(8.6)	(7.6)	(5.9)	(3.8)	(3.7)		
Income Supplement								
Rebalance 2% to 60/40		4.5	4.5	4.5	4.5	4.5		
Money Market/Stock Index Futures		4.1	3.1	1.4	-0.7	-0.8		
		8.6	7.6	5.9	3.8	3.7		

Sell index
nr proceeds in mm fund to step up yield
purchase S&P500 stock index futures using mm fd as collateral.

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PERMANENT UNIVERSITY FUND
INCOME COMPARISON

Asset Class	7 MOS 98	7 MOS 99	$ Growth	% Growth
Cash and Cash Equivalents:	2,051,630	3,292,298	1,240,668	60.5%
Liquidity Reserve				
Equities:				
U.S. Common Stocks:				
Total Med/Large Capitalization	35,691,345	40,758,951	5,067,606	14.2%
Total Small Capitalization	1,732,506	1,621,274	(111,232)	-6.4%
Total U.S. Common Stocks	37,423,851	42,380,225	4,956,374	13.2%
International Common Stocks:				
Total Established Markets	2,611,861	3,280,836	668,975	25.6%
Alternative Equities:				
Total Alternative Equities	4,843,652	4,177,432	(666,220)	-13.8%
Total Equities	44,879,364	49,838,493	4,959,129	11.0%
Fixed Income:				
Total Fixed Income	102,257,520	98,950,635	(3,306,885)	-3.2%
Total Income	**149,188,514**	**152,081,426**	**2,892,912**	**1.9%**

7 Mos. Income Annualized **260,711,016**

PERMANENT UNIVERSITY FUND
$150MM Money Market Equitization Trade
Performance
11/1/98 through 3/31/99

	S&P 500 Index		
	Futures + Money Mkt. Acct.	Index	Difference
Price Return	15.92%	17.17%	-1.25%
Div or Coupon Return	2.16%	0.59%	1.57%
Total Return	18.08%	17.76%	0.32%
Price Return	$23,798,332	$25,828,132	($2,029,800)
Div or Coupon Return (to AUF)	$3,479,864	$971,328	$2,508,536
Total Return	$27,278,196	$26,799,460	$478,736 (*)

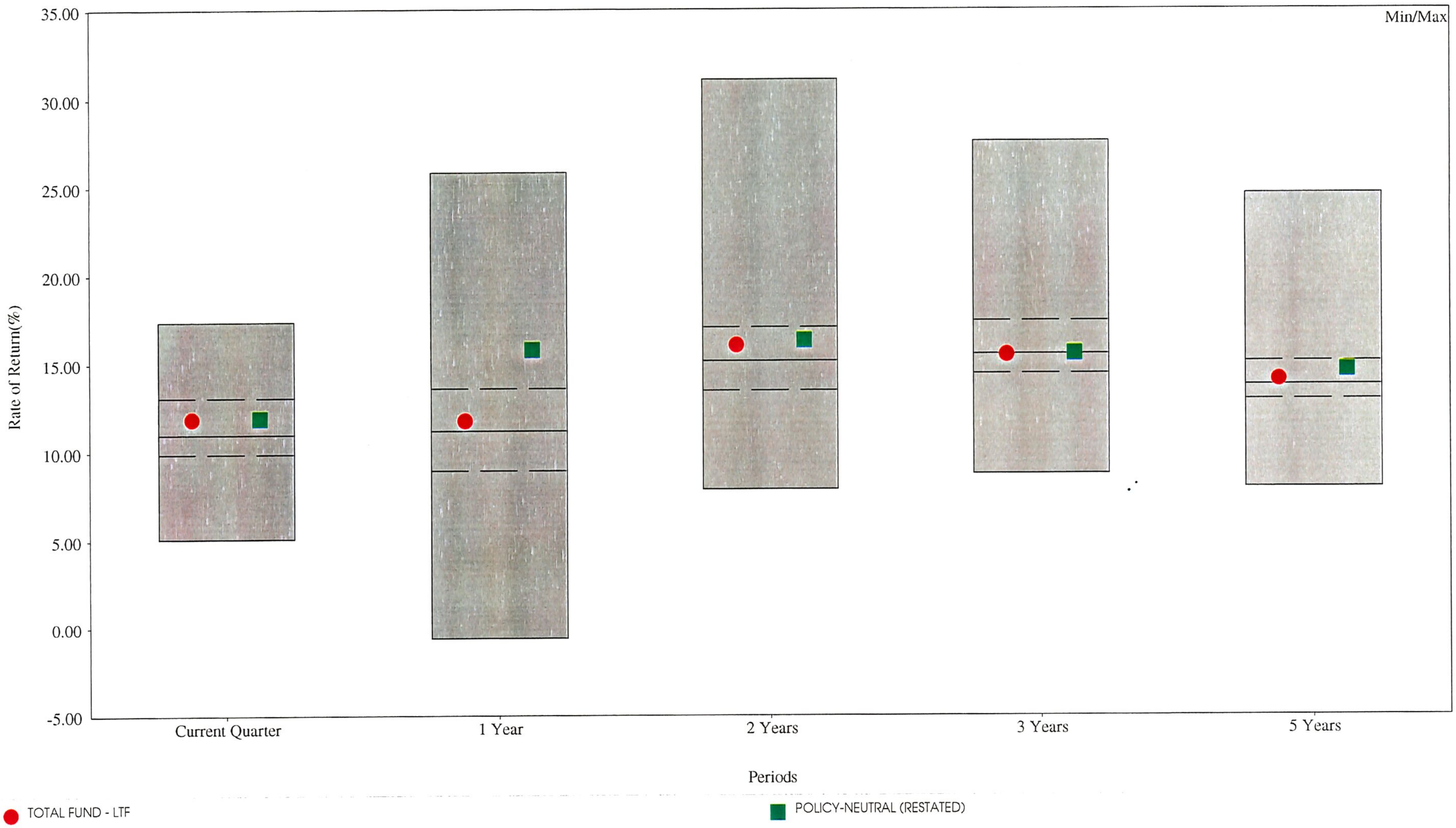
Annualized Incremental Div/Coupon Return:	$5,980,616

reconstituted - component of the rel.

Portfolio Value (11/1/98)	$ 151,664,888
Cash Flow for Income Withdrawals	$ 2,767,289
Portfolio Value (3/31/99)	$ 176,175,795
Total Return	$ 27,278,196

preserved equity exposure -

Cambridge Quarterly
Ending Thursday, December 31, 1998
Quartile



FOR INTERNAL USE ONLY

LTF PERFORMANCE VS. ENDOWMENTS > $1 BILLION (1)
Periods Ended December 31, 1998

University	Quarter 10/1/98-12/31/98	1 Year 1/1/98-12/31/98	3 Years 1/1/96-12/31/98	5 Years 1/1/94-12/31/98
Grinnell College	17.2	25.8	27.7	24.6
Emory University	14.7	3.4	18.2	19.2
California, University of	13.6	17.6	19.7	18.0
Washington University	12.4	15.5	17.0	14.7
U. T.	11.9	11.7	15.5	14.1
Vanderbilt University	11.6	11.1	15.9	14.1
Harvard University	11.5	12.0	19.6	17.3
Chicago, University of	11.2	16.3	17.3	14.9
Southern California, University of	11.1	10.2	15.2	13.0
Johns Hopkins University	10.8	11.9	16.0	13.5
Massachusetts Institute of Technology	10.6	17.5	20.8	17.8
Cornell University	10.6	13.0	15.4	15.0
Northwestern University	10.1	11.4	15.3	13.4
Rochester, University of	10.1	11.8	15.3	13.0
Stanford University	9.8	9.1	15.5	15.0
Dartmouth College	9.5	13.6	17.4	16.1
Notre Dame, University of	9.4	10.0	17.7	14.2
Michigan, University of	9.3	5.6	12.7	11.4
Pennsylvania, University of	9.2	8.7	14.4	13.8
Duke University	8.2	10.4	19.1	16.4
Virginia, University of	7.6	8.1	13.4	12.2
Princeton University	7.4	11.6	16.2	13.6
Brown University	7.3	4.7	14.4	10.4
Columbia University	6.8	2.4	12.9	11.4
U.T. Rank	**5/24**	**11/24**	**14/24**	**13/24**

(1) Excludes Yale University.
Source: Cambridge Associates, Inc.

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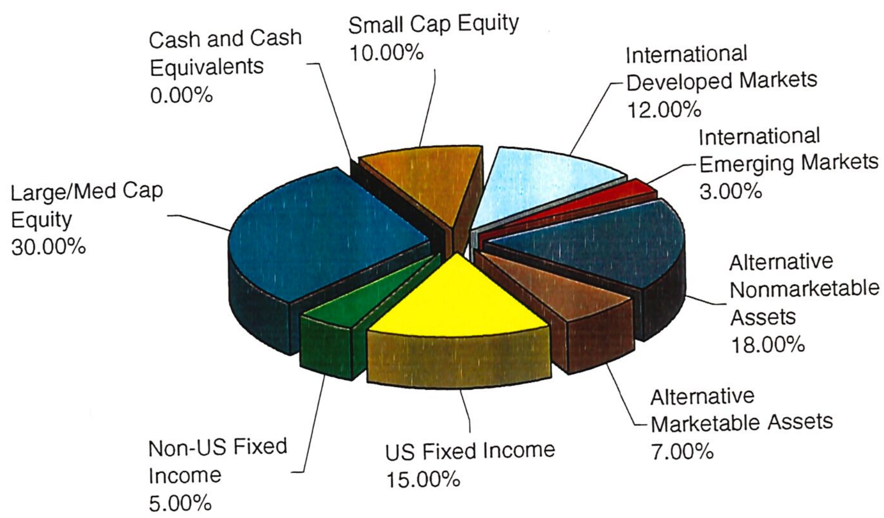
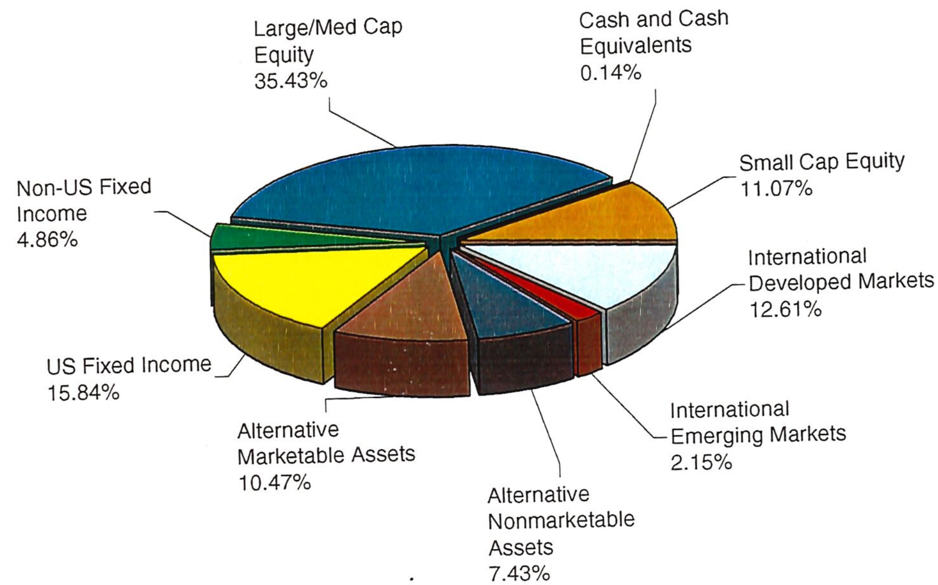
UTIMCO
LONG TERM FUND
ASSET ALLOCATION
FEBRUARY 28, 1999

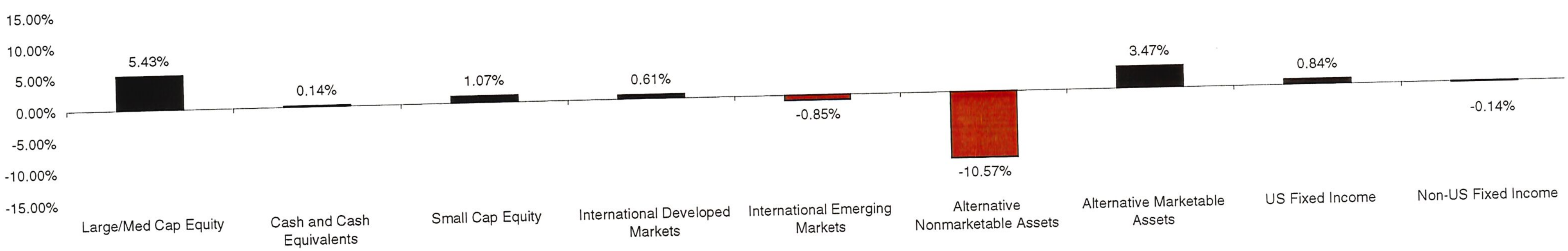
POLICY



ACTUAL



POLICY VS ACTUAL



LEGISLATION: PUBLIC HEALTH ENDOWMENTS

single

- **Permanent Health Fund for Higher Education (PHFHI) - $400MN**
  - administered by U. T. System Board of Regents
  - State Legislature appropriates (as determined by U. T. BOR) distributions to health related institutions of higher education
  - 6 U. T. System institutions
  - 4 non-U. T. System institutions
- **Permanent Funds for Health Related Institutions (PFHRI) - $555MN**
  - administered by governing board of each beneficiary institution
  - 12 separate endowment funds
    - $450 MN to 7 U. T. System institutions
    - $105 MN to other state institutions
  - Distributions appropriated by State Legislature for prescribed purposes

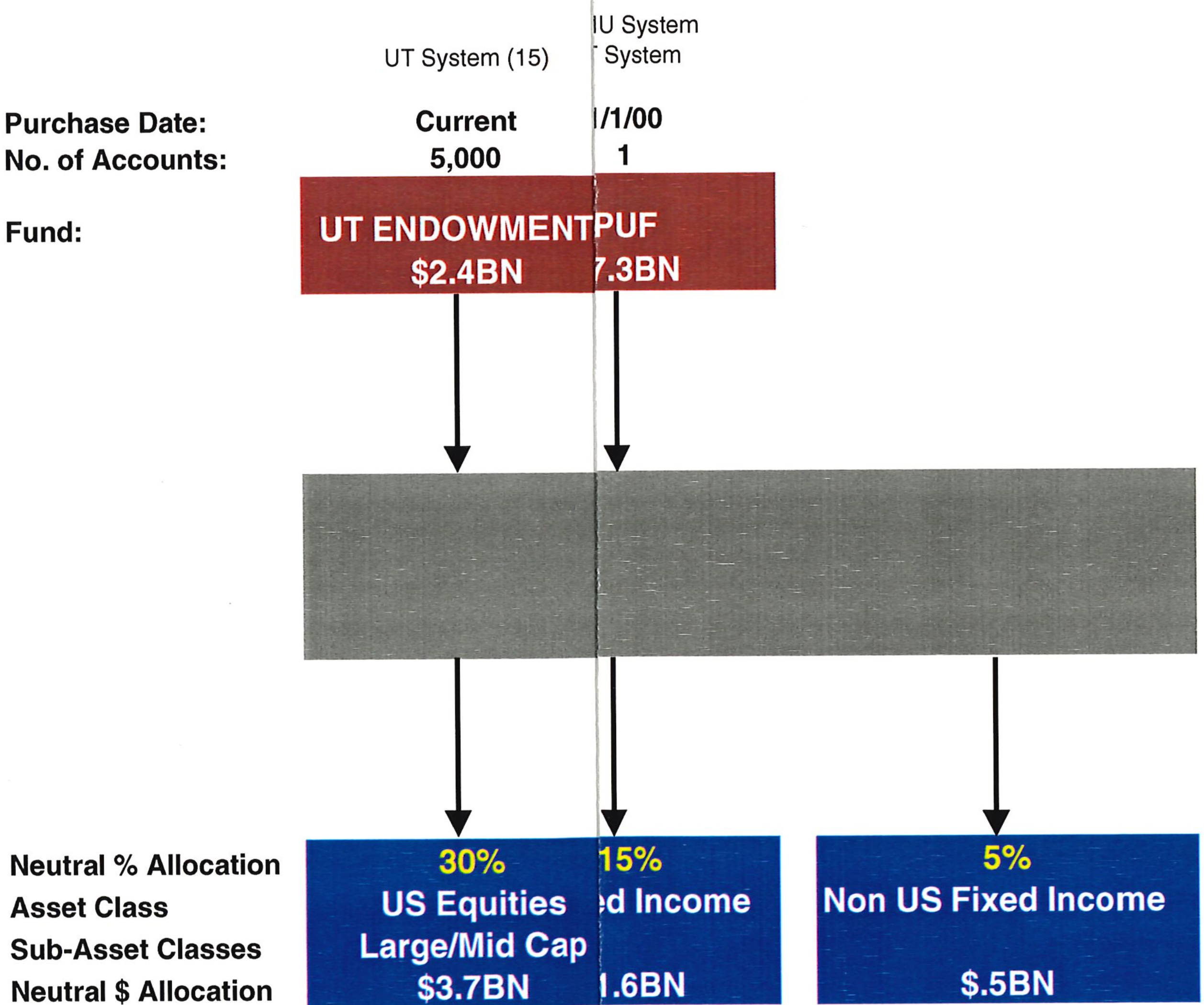
LEGISLATION: PUBLIC HEALTH ENDOWMENTS (cont.)

- **Permanent Fund for Higher Education Nursing and Allied Health Programs (PFHENHP) - $46MN**
  - administered by a beneficiary institution per contract w/ State Comptroller
  - distributions appropriated by Texas Higher Ed. Coordinating Board to higher education nursing and allied health programs.

LEGISLATION: PUF -AMENDMENTS TO TEXAS CONSTITUTION

- **Conversion to Total Return Based Distributions**
  - redefines AUF to be distributions made from total return as determined by U.T. System BOR and in a manner that attempts to:
    - provide AUF w/ stable and predictable stream of distributions over time
    - maintain purchasing power of both PUF investments and AUF distributions
  - distributions are discretionary except:
    - may not exceed 7% of average market value of PUF investments (as determined by UT System BOR)
    - no increase in annual distributions if purchasing power of PUF investments not preserved over rolling 10-year periods
  - authorizes payment of investment expenses from PUF assets (not just income)
- **Conversion to Prudent Investor Standard**

F)



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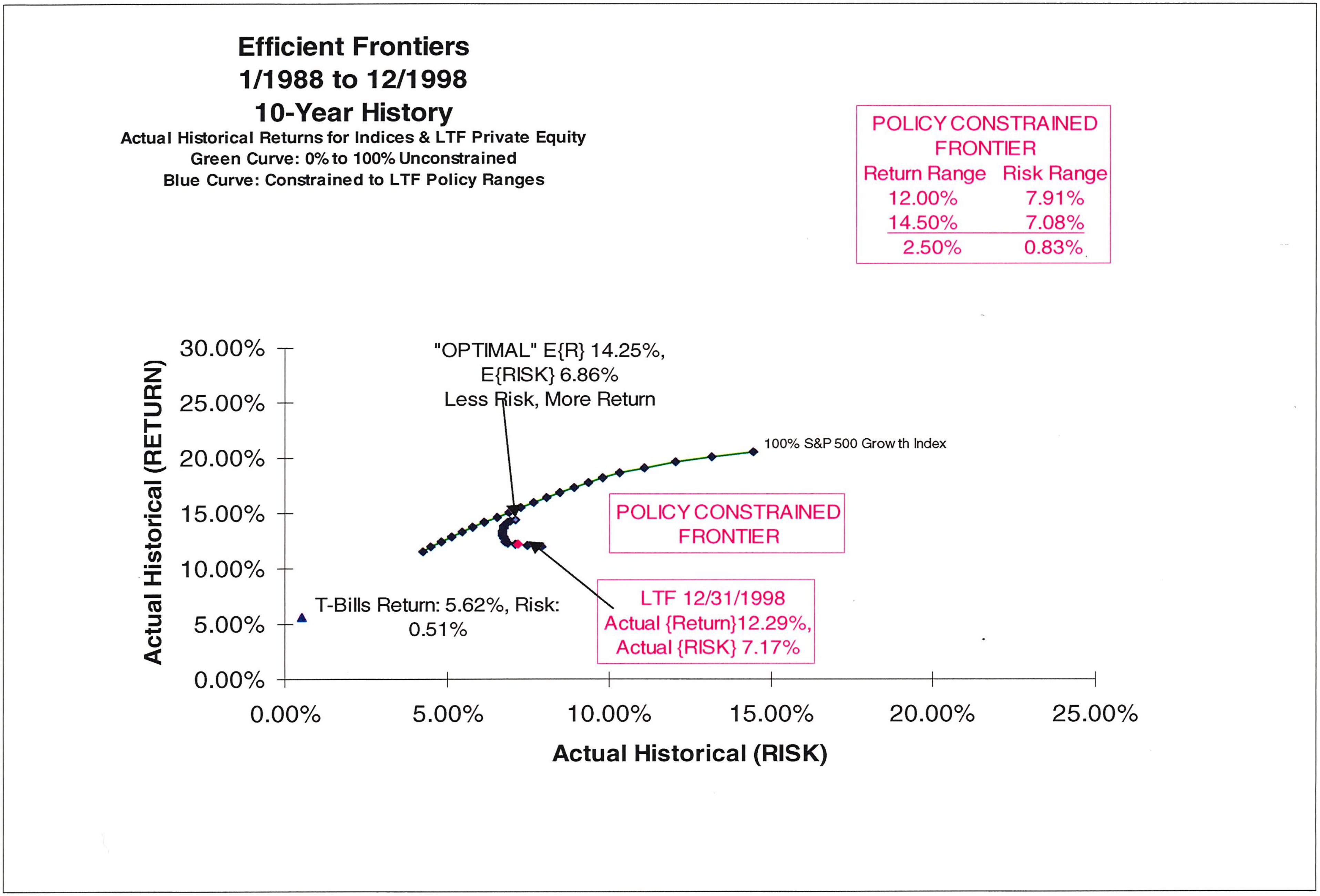
Sheet1

10-Year Historical Risk/Return including LTF Private Equity Actual



Asset Allocation

- **The LTF Neutral Policy Portfolio has generated returns above the median return of the Cambridge Universe for the trailing 5 years.**
- **UTIMCO has spent the past 3 years moving the LTF Actual Allocation incrementally towards the Policy Portfolio, increasing diversity in the process.**
  - Funded Non-US Fixed Income Allocation
  - Converted Internal Fixed Income Management to External Fixed Income Management (PIMCO)
  - Funded Alternative Asset Allocations:
    - Alternative Marketable Equities (Absolute Return Strategies, Merger Arbitrage, Event Arbitrage, Hedge Funds, Market Neutral)
    - Alternative Non-Marketable Equity (Private Equity, Management Buyouts, Leveraged Buyouts, Venture Capital, Mezzanine Financing, Directs)

- **Results good so far: Second Quartile Performance versus the Cambridge Universe last 2 years.**

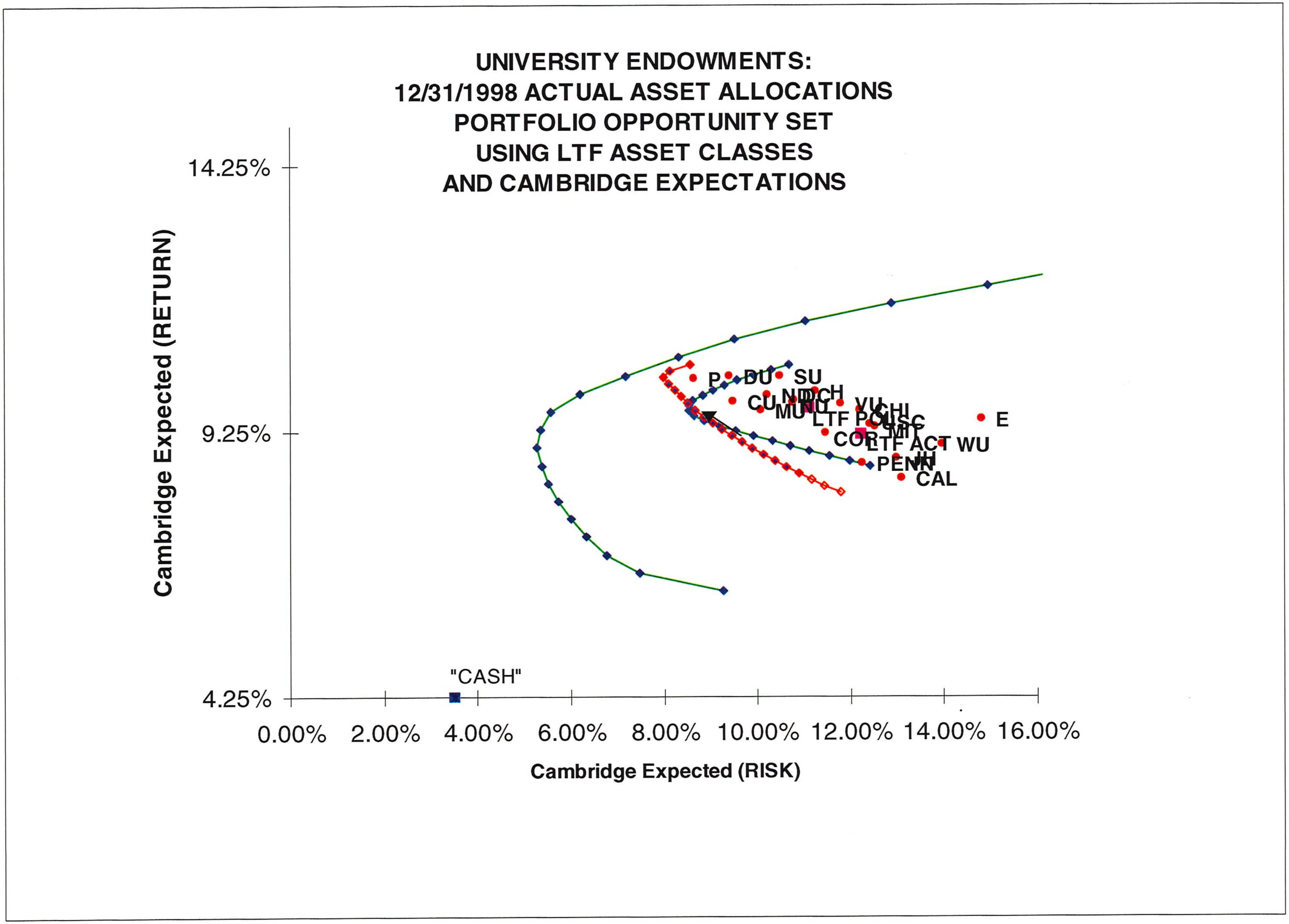
Asset Allocation (continued)

- **Policy Portfolio Asset Allocation needs to be evaluated and updated to remain competitive versus the Endowment Universe.**
- **Current Asset Allocation constrains availability of the potential opportunity set**
  - Opportunity Set = All the possible combinations of portfolios that can be constructed from the multiple asset classes.
- **The objective is to consistently move the LTF opportunity set further into the Northwest Quadrant to allow for a higher return, lower risk fund profile.**
- **Minor adjustments to the asset class ranges contained in the Policy Portfolio should be considered.**

LTF Policy Portfolio

SPECIFIC ASSET ALLOCATION, EXPECTED RETURN AND RISK, NEUTRAL POSITION, RANGES, AND PERFORMANCE OBJECTIVES

	Neutral	Range	Performance Objective
Cash and Equivalents	0%	0.0%-5.0%	91 day T-Bill Ave. Yield
Equities			
U. S. Common Stocks:			
Med/Large Capitalization Stocks	30%	10%-40%	S&P 500 Index
Small Capitalization Stocks	10%	5%-15%	Russell 2000 Index
sub-total	40%	15%-55%	
International Common Stocks:			
Established Markets	12%	5%-20%	FT Actuaries World (ex-U.S.)
Emerging Markets	3%	0%-10%	MSCI-Emerging Mkts. Free
sub-total	15%	5%-30%	
Total Common Stocks	55%	35%-80%	
Alternative Equities[Assets]:			
Marketable[Liquid]	7%	0%-10%	91-Day T-Bills + 7%
Non-Marketable[Illiquid]	18%	5%-25%	17%
Total Alternative Assets	25%	5%-35%	
TOTAL EQUITIES	**80%**	**68%-87%**	
Fixed Income			
U. S. (Domestic)	15%	13%-25%	Lehman Brothers Aggregate
International	5%	0%-7%	Salomon Non-U.S. WGBI Unhedged
TOTAL FIXED INCOME	**20%**	**13%-32%**	
TOTAL ASSETS	**100%**		



UNIVERSITY ENDOWMENTS:
12/31/1998 ACTUAL ASSET ALLOCATIONS
PORTFOLIO OPPORTUNITY SET
USING LTF ASSET CLASSES
AND CAMBRIDGE EXPECTATIONS
Cambridge Expected (RETURN)
14.25%
9.25%
4.25%
"CASH"
P
DU
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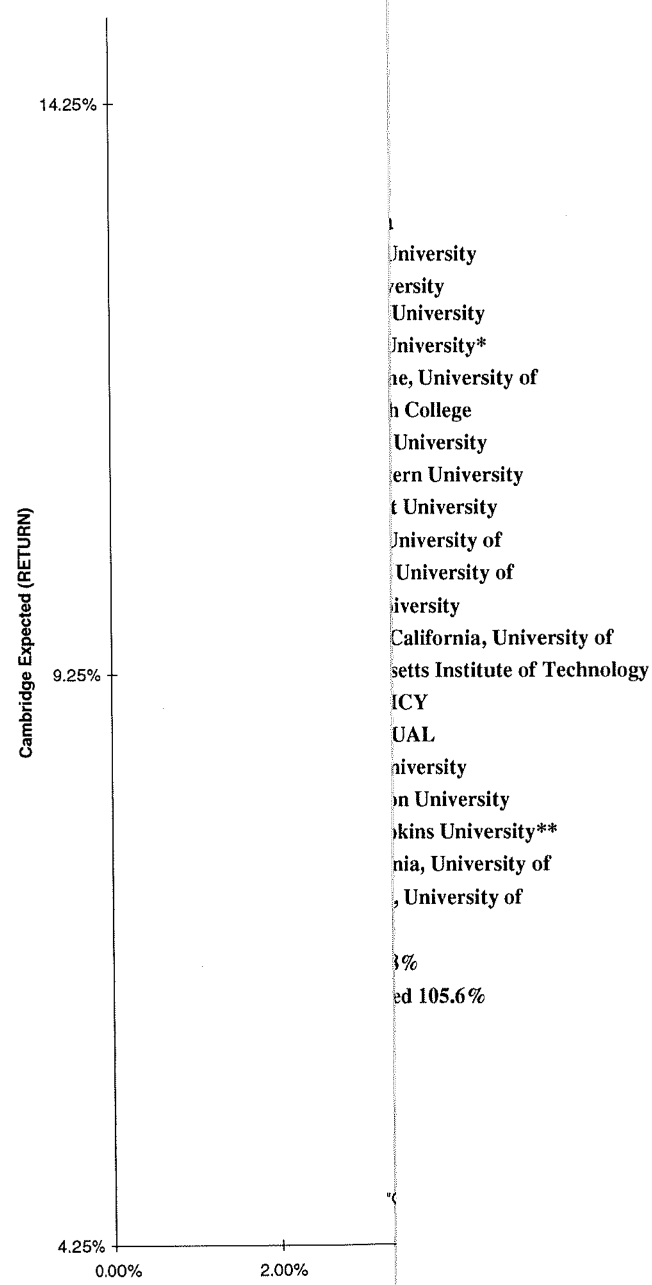
CU
E
CAL
0.00%
2.00%
4.00%
6.00%
8.00%
10.00%
12.00%
14.00%
16.00%
Cambridge Expected (RISK)


14.25%
9.25%
4.25%
0.00%
2.00%
Cambridge Expected (RETURN)
ı
Jniversity
ersity
University
Jniversity*
ıe, University of
h College
University
ern University
t University
Jniversity of
University of
iversity
California, University of
setts Institute of Technology
ICY
UAL
ıiversity
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nia, University of
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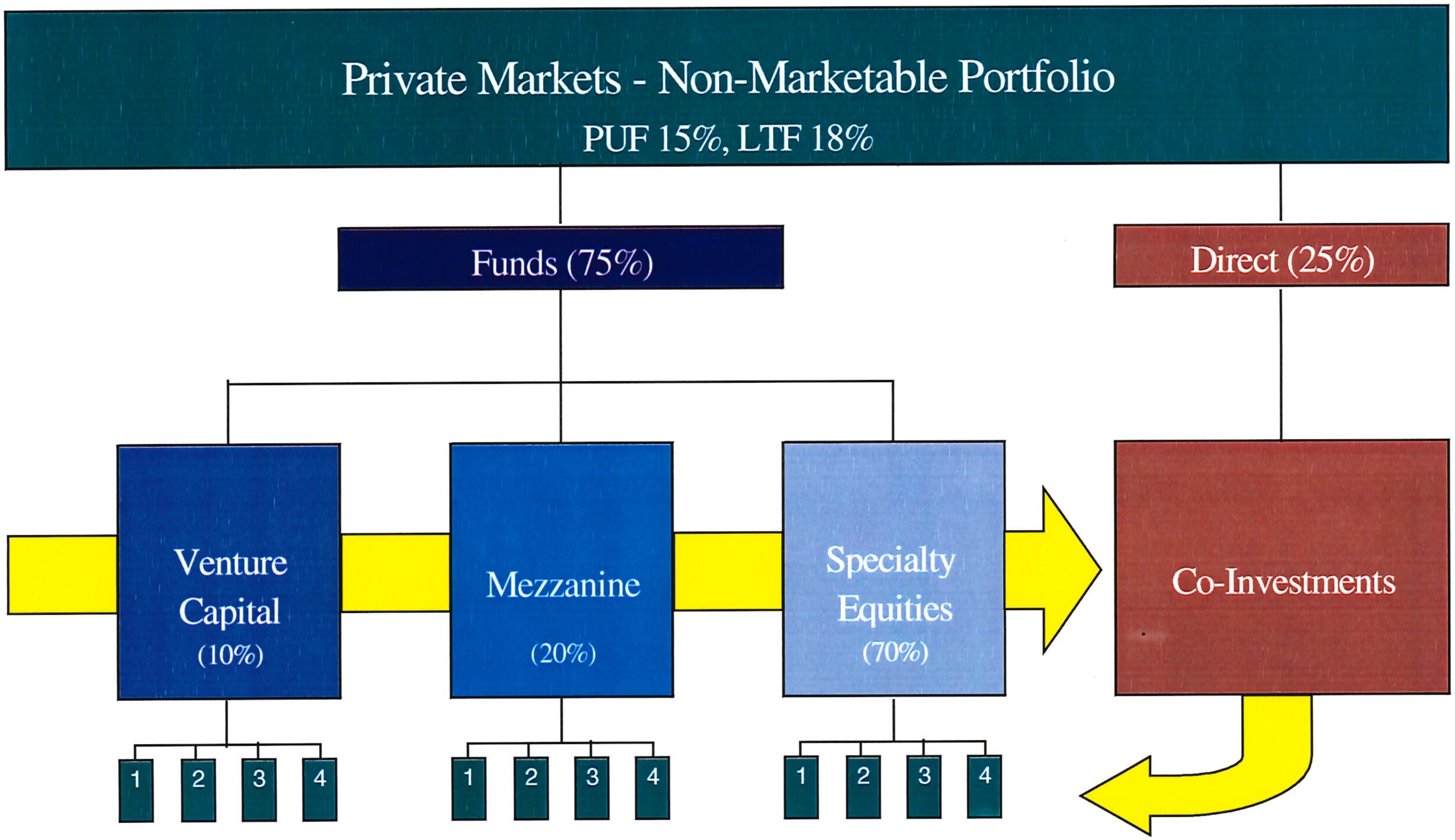
3%
ed 105.6%

– in concept is part of a institutional fund of funds manager.

BASIC INVESTMENT STRATEGY

– ultimately invest 15% of PUF and 18% of LTF assets into a normally defined portfolio
– 75% funds/partnerships
– 25% direct co-investments



– 16% today

U T I M C O
The University of Texas Investment Management Company

U T I M C O
The University of Texas
Investment Management Company

Alternative Equities – Nonmarketable Program

Notes Regarding Calculation of Investment Returns

Calculation of Returns

Each private market investment return shown in the schedule above is the internal rate of return (IRR) of all cash flows related to the investment, calculated in accordance with the method cited in *AIMR Performance Presentation Standards Handbook*, p. 66 (Association for Investment Management and Research, 2nd Edition, 1997).

Cash flows for this purpose are of three types: capital contributed to the investment; capital distributed by the investment; and, for unrealized investments, the end of period value.

The first type of cash flow, capital contributed to the investment, is self-explanatory because all capital contributions are made in cash.

The second type of cash flow is equally straightforward when the investment distributes cash. In-kind distributions, on the other hand, are distributions of securities, not cash. The cash flow amount of a distribution of securities is equal to the market value of the securities as of the date of the distribution[1].

The method of determining the third type of cash flow for performance measurement purposes, end of period value, depends upon whether the investment is a fund investment or a direct co-investment. For a fund investment, the value is the end of period capital account. A direct co-investment is valued at market value, if it is publicly traded; otherwise, a direct co-investment has the value implied by the last financing round at which the price was set by a material third-party participant, with a 20% discount for illiquidity.

The internal rate of return (IRR) is the discount rate (r) at which the net present values of all three types of cash flows from an investment sum to zero:

$$0 = \sum_{i=0}^{n} CF_i \left(1 + \frac{r}{c}\right)^{-(ic)}$$

After solving this equation iteratively to find an r that reduces the present value of the net stream of cash flows from the investment to zero, the result is annualized to produce the IRR reported by UTIMCO:

$$IRR = (1 + r)^c - 1$$

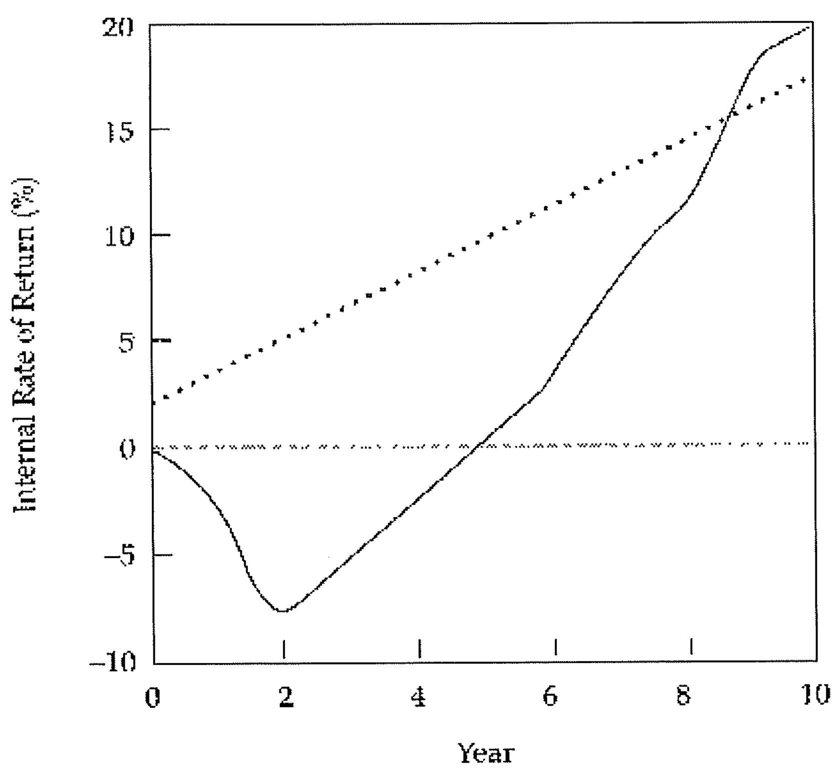
[1] The UTIMCO staff places in-kind distributions into an internally managed portfolio of such securities, using the value at the distribution date as the cost of the investment. Performance after the distribution date is attributable to the UTIMCO staff, not the distributing investment.

Timing of Returns[2]

During the early years of a typical private investment partnership, the investor can expect negative returns and cash flows. Returns are negative because cash is being called to invest in portfolio companies and to pay the general partner's management fees. Because initial investments are carried at cost, early-year returns are negative primarily because of the expense of the management fees and also because of the occasional decision to write off an investment early in the fund's investment cycle.

This pattern, illustrated by the solid line in Figure 1 below, is called the "J-curve phenomenon." The beginning of the J represents negative returns in the first two years. In year 3, however, returns begin to improve as some investments are written up in value. Break-even typically occurs around the fourth or fifth year of the investment in the fund. After year 5, liquidity events begin to occur as the general partner starts to execute exit strategies for the portfolio holdings. At this time, the fund's returns and positive cash flows are being realized.

Figure 1. The J-Curve Phenomenon



[2] This section is adapted from "Structuring a Venture Capital Portfolio: An Investor's Perspective," Henry G. Robin, CFA, p. 14 (AIMR Readings in Venture Capital, 1997). Mr. Robin's article was itself an adaptation of a speech to the February 15, 1996 AIMR Conference on Venture Capital in San Francisco.

It is important to note that the J-curve phenomenon applies to entire vintage years, as well as to individual private investments. Vintage years group all private investments from a particular fiscal year into a single investment, which possesses the same cash flow and valuation characteristics as a single investment. Thus, vintage year 1997 is in its second year in 1999 and could therefore be expected to exhibit negative returns, while vintage year 1992 is in its seventh year and can therefore be expected to feature positive returns.

ALTERNATIVE EQUITIES
NONMARKETABLE PROGRAM

First private investment made in 1983 - 15 years ago.

($ MILLIONS)	Inception to 2/28/99
Committed Capital	
Beginning Balance	0.0
Added	1,950.7
Drawdown	(1,096.6)
Ending Undrawn Balance	854.1
Invested Capital	
Beginning Value	0.0
Drawdown	1,096.6
Return of Capital	(341.9)
Income/Net Realized Gains	(443.2)
Undistributed Capital	311.5
Value of Portfolio	777.7
PUF/LTF Asset Base ($ millions)	9,628
% PUF/LTF Asset Base (combined)	8.1%

- over 100 investments since 1983 -

> 16.57%

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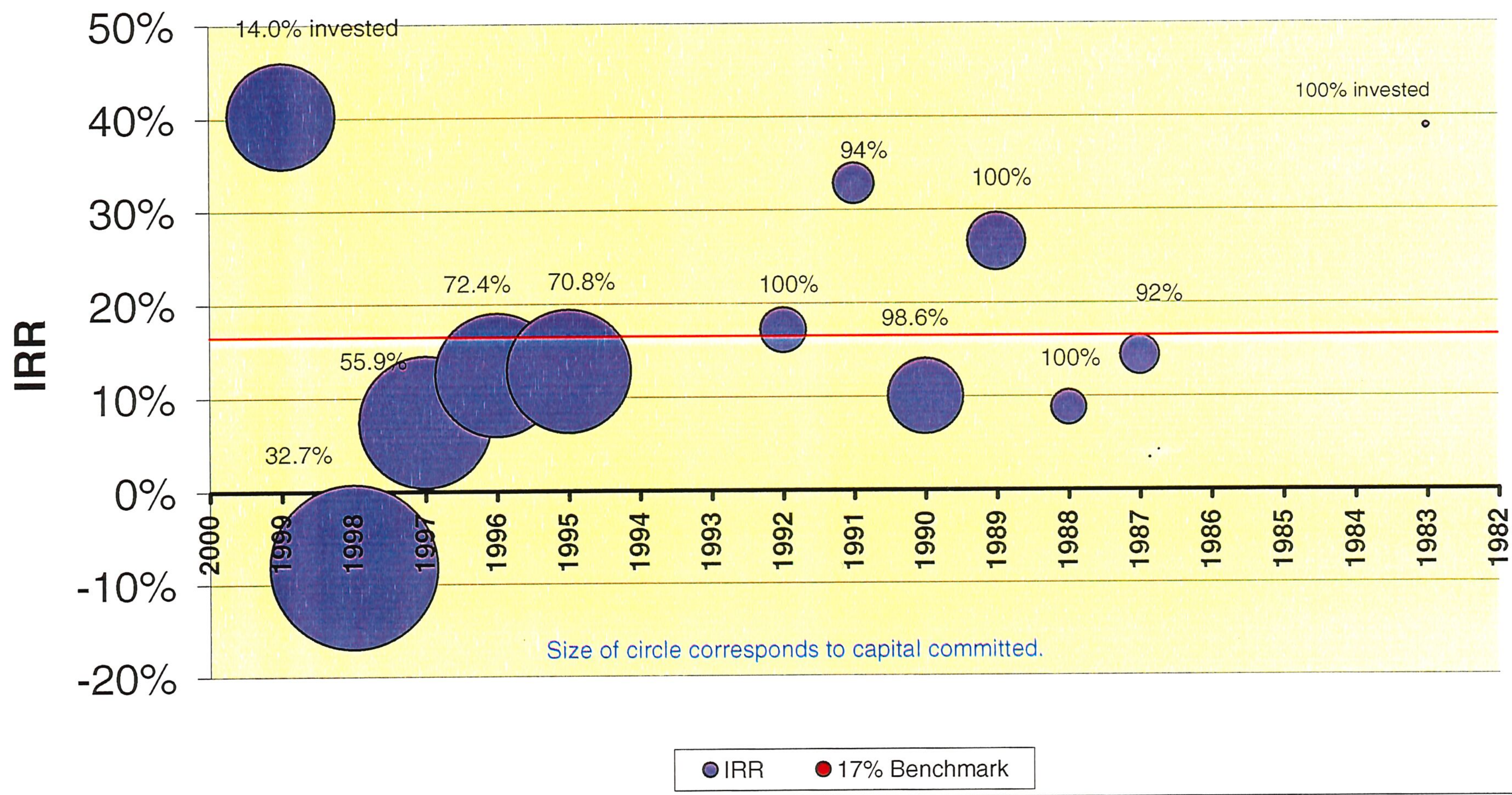
Alternative Equities - Nonmarketable Program
Annualized IRR by Vintage Fiscal Year
(16.87% Annualized IRR by Program)
As of February 28, 1999



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ALTERNATIVE EQUITIES - NONMARKETABLE

Fiscal 1983-94 As of February 28, 1999

No.	Approval Date	Name	Commitment	Invested	Returned	Remaining Value	IRR
1	1983	Narragansett First Fund	$.9	$.9	$2.8	$.0	38.80%
1	1987	Cheyenne Partners, Ltd.	$5.3	$5.1	$6.1	$.3	7.10%
2	1987	Investors Insurance Holding Corp.	$4.2	$4.2	$3.6	$.0	-1.60%
3	1987	TCW Special Placements Fund II	$5.0	$5.0	$5.5	$.7	3.30%
4	1987	The Carotex Trust II	$5.0	$3.2	$3.8	$.0	3.50%
5	1987	Wingate Partners, L.P.	$10.0	$9.6	$38.6	$9.3	29.30%
		Total	**$29.5**	**$27.1**	**$57.6**	**$10.3**	14.40%
1	1988	Floyd Capital Holdings, Inc Bridge Loan	$7.9	$7.9	$8.2	$.0	15.10%
2	1988	Floyd Capital Holdings, Inc. Trust	$2.0	$2.0	$3.8	$.0	41.30%
3	1988	Morningstar Foods, Inc.	$1.5	$1.5	$.1	$.0	-55.80%
4	1988	Saratoga Partners II, L.P.	$10.0	$10.0	$15.4	$.2	10.10%
5	1988	The Woodlands Venture Fund, L.P.	$3.0	$3.0	$4.2	$.4	6.60%
		Total	**$24.4**	**$24.4**	**$31.7**	**$.6**	8.80%
1	1989	Cheyenne II	$10.0	$9.9	$11.5	$1.2	8.40%
2	1989	Farm & Home Financial Corporation, Inc.	$7.0	$7.0	$17.9	$.0	20.20%
3	1989	LifeCell, Inc.	$.5	$.5	$.6	$.0	2.40%
4	1989	Newfield Exploration Company	$11.0	$11.0	$31.8	$19.5	29.20%
5	1989	North American Fund II, L.P.	$20.0	$20.0	$61.8	$33.4	33.40%
6	1989	OSCCO III, L.P.	$4.6	$4.6	$2.1	$1.4	-5.80%
7	1989	SCF Partners, L.P.[1]	$11.1	$11.5	$36.4	$.2	33.70%
		Total	**$64.2**	**$64.5**	**$162.1**	**$55.7**	26.60%

[1]Partnership agreement dictated separate payment of management fees

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ALTERNATIVE EQUITIES - NONMARKETABLE

Fiscal 1995 As of February 28, 1999

No.	Approval Date	Name	Commitment	Invested	Returned	Remaining Value	IRR
1	7/7/95	Asian Corporate Finance Fund, L.P.	$20.0	$9.0	$3.4	$4.4	-9.60%
2	11/1/94	Austin Ventures IV, L.P.	$5.0	$5.0	$.9	$8.3	26.80%
3	3/1/95	Carlyle Partners II, L.P.	$10.0	$6.3	$3.6	$7.8	38.80%
4	2/24/95	Citicorp Mezzanine Partners, L.P.	$25.0	$16.1	$6.9	$14.0	23.10%
5	2/24/95	Clayton, Dubilier & Rice Fund V, L.P.	$20.0	$16.7	$.0	$14.5	-9.10%
6		*Distributed Stock	$.0	$3.2	$3.1	$.0	-5.50%
7	8/9/95	Information Technology Ventures, L.P.	$10.0	$8.9	$6.0	$9.9	40.90%
8	2/8/95	KB Mezzanine Fund II, L.P.	$25.0	$18.5	$3.0	$15.9	1.80%
9	5/11/95	Morgenthaler Venture Partners IV, L.P.	$15.0	$11.3	$3.3	$10.5	16.10%
10	5/11/95	North American Fund III, L.P.	$15.0	$3.8	$.0	$3.3	-6.80%
11	7/7/95	PMI Mezzanine Fund, L.P.	$25.0	$18.4	$8.7	$13.4	13.40%
12	11/25/94	Rice Partners II, L.P.	$25.0	$20.8	$12.4	$12.2	8.40%
13	5/11/95	SCF-III, L.P.	$25.0	$18.5	$.4	$18.5	1.20%
14	7/7/95	Technologies for Info. & Entertainment III	$10.0	$7.4	$.5	$8.2	7.60%
15	7/7/95	The Texas Growth Fund II	$10.0	$4.7	$.3	$4.4	-0.30%
16	9/15/94	The Woodlands/Essex Venture Fund III, L.P.	$6.0	$5.6	$1.0	$4.7	1.40%
17	8/9/95	VS&A Communications Partners II, L.P.	$30.0	$24.5	$.0	$34.8	21.20%
18	3/15/95	Wingate Partners II, L.P.	$15.0	$7.2	$7.8	$6.3	46.50%
			$291.0	**$205.9**	**$61.3**	**$191.1**	12.80%

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ALTERNATIVE EQUITIES - NONMARKETABLE

Fiscal 1996 As of February 28, 1999

No.	Approval Date	Name	Commitment	Invested	Returned	Remaining Value	IRR
1		Distributed Stock	$.0	$21.6	$23.0	$.0	45.50%
2	10/13/95	Cortec Group Fund II, L.P.	$20.0	$11.4	$.0	$10.3	-4.80%
3	11/20/95	Ampersand Specialty Materials & Chemicals III, LP	$15.0	$10.5	$.0	$11.6	6.70%
4	1/18/96	3i UK Investment Partners, L.P.	$22.7	$21.9	$4.0	$22.9	11.00%
5	1/18/96	CVC European Equity Partners, L.P.	$30.0	$27.5	$6.1	$28.8	15.70%
6	1/18/96	Doughty Hanson & Co. II	$30.5	$24.8	$20.6	$15.1	43.10%
7	1/18/96	Energy Arrow East Texas Pinnacle Reef	$2.0	$2.0	$2.0	$.0	6.60%
8	2/8/96	Atlantic Medical Partners, L.P.	$10.0	$5.9	$.0	$5.5	-5.90%
9	2/8/96	Brentwood Associates Buyout Fund II	$20.0	$15.2	$3.3	$12.8	5.10%
10	2/8/96	Willis Stein & Partners, L.P.	$20.0	$18.3	$14.6	$12.6	25.20%
11	4/17/96	Wand Equity Portfolio II, L.P.	$43.0	$9.3	$.4	$10.4	7.30%
12	6/10/96	Beacon Group III - Focus Value Fund	$25.0	$17.0	$.0	$16.7	-1.30%
13	8/30/96	KKR 1996 Fund	$50.0	$23.2	$1.5	$21.0	-2.90%
			$288.2	**$208.6**	**$75.5**	**$167.7**	12.40%

UNAUDITED

ALTERNATIVE EQUITIES - NONMARKETABLE

Fiscal 1997 As of February 28, 1999

No.	Approval Date	Name	Commitment	Invested	Returned	Remaining Value	IRR
1	10/24/96	Crescendo II	$15.0	$11.1	$2.3	$10.5	13.40%
2	12/20/96	SKM Equity Fund II	$40.0	$25.0	$.0	$23.5	-7.30%
3	12/20/96	Austin Ventures V	$15.0	$9.0	$1.5	$9.6	23.90%
4	1/27/97	Evercore Partners	$40.0	$3.1	$.0	$1.6	-71.10%
5	3/13/97	3i European Fund II	$30.0	$20.0	$.0	$19.9	-0.40%
6	3/13/97	RSTW Partners III	$40.0	$11.0	$.0	$10.4	-8.50%
7	4/14/97	ING Equity Partners II	$40.0	$17.2	$.2	$17.0	-0.40%
8	6/3/97	Prime VIII	$20.0	$6.8	$.0	$7.6	13.50%
9	6/3/97	Prism Venture Partners	$20.0	$13.7	$.1	$12.6	-6.10%
10	6/25/97	Wand Secondary Interests	$10.0	$10.0	$4.9	$5.6	3.90%
11	7/16/97	EnCap Energy Capital Fund III	$50.0	$21.6	$3.2	$18.4	0.00%
12	8/6/97	Acordia Brokers	$10.0	$10.0	$.0	$17.0	42.10%
		Distributed Stock	$.0	$26.0	$29.6	$.0	94.40%
			$330.0	**$184.5**	**$41.8**	**$153.7**	7.40%

UNAUDITED

ALTERNATIVE EQUITIES - NONMARKETABLE

Fiscal 1998 As of February 28, 1999

No.	Approval Date	Name	Commitment	Invested	Returned	Remaining Value	IRR
1	9/15/97	Doughty Hanson III	$40.0	$5.6	$.0	$5.6	0.00%
2	10/30/97	Halpern Denny Fund II	$30.0	$11.6	$.0	$11.0	-9.30%
3	12/15/97	Inverness/Phoenix Partners Fund	$40.0	$4.7	$.0	$2.8	-67.20%
4	12/15/97	Baker Communciations Fund	$40.0	$12.0	$.0	$10.7	-13.50%
5	12/22/97	3i UK Investment Partners II	$34.0	$13.3	$.0	$12.3	-13.50%
6	12/22/97	SCF IV L.P	$40.0	$5.4	$.0	$4.4	-27.80%
7	1/15/98	Information Technology Ventures II	$25.0	$9.1	$.0	$8.5	-12.30%
8	4/23/98	InterLink Communications Partners	$25.0	$25.0	$.0	$25.0	0.00%
9	4/23/98	Prime Enterprises II	$20.0	$1.8	$.0	$1.8	0.00%
10	4/23/98	Oakbay B.V.	$25.0	$11.6	$.3	$11.6	4.10%
11	5/22/98	American Securities Partners II	$30.0	$6.2	$.0	$6.2	0.00%
12	7/2/98	Morgenthaler Venture Partners V	$25.0	$3.8	$.0	$3.6	-21.60%
13	7/2/98	Green Equity Investors	$75.0	$.7	$.0	$.7	0.00%
14	8/20/98	Northstar Seidler Mezzanine Partners II	$25.0	$12.5	$.0	$12.2	-7.40%
15	8/20/98	Willis Stein & Partners II	$50.0	$5.6	$.0	$5.1	-27.60%
16		Distributed Stock	$.0	$42.3	$41.1	$2.3	8.70%
			$524.0	**$171.2**	**$41.4**	**$123.8**	-8.20%

UNAUDITED

ALTERNATIVE EQUITIES - NONMARKETABLE

Fiscal 1999 As of February 28, 1999

No.	Approval Date	Name	Commitment	Invested	Returned	Remaining Value	IRR
1	8/20/98	Brentwood Associates Private Equity III, L.P.	$75.0	$.0	$.0	$.0	0.00%
2	8/20/98	VS&A Communications Partners III, L.P.	$40.0	$.8	$.0	$.7	-50.70%
3	8/20/98	Prism Venture Partners II, L.P.	$25.0	$1.3	$.0	$1.1	-42.00%
4	8/20/98	Crescendo III, L.P.	$25.0	$5.9	$.0	$5.9	0.00%
5	10/22/98	Austin Ventures VI, L.P.	$20.0	$1.7	$.0	$1.7	0.00%
6	12/10/98	HDA Partners I, L.P.	$25.0	$3.0	$.0	$3.0	0.00%
7	12/23/98	Terastor, Corp.	$8.0	$8.0	$.0	$8.0	0.50%
8		Distributed Stock	$.0	$8.5	$7.9	$2.1	695.00%
			$218.0	**$29.2**	**$7.9**	**$22.5**	40.30%

The Direct Co-Investment Program

Austin M. Long, III
Managing Director, Private Markets

UTIMCO

Office of Asset Management Co-Investment Portfolio

(1983 to Feb. 1996)

- Portfolio of 11 investments totaling $79.7 million, 4 still active
- 3 losses totaling $15.6 million
- 8 gains totaling $197.1 million
- Overall portfolio IRR to date: 17.4%
  - Versus 17.9% for partnerships
- Overall times money: 2.3 x
  - Versus 1.6 x for partnerships

UTIMCO Co-Investment Portfolio
(Mar. 1996 to Present)

- 6 commitments totaling $103 million
  - $79.6 million invested to date
- 2 have objective evidence for mark-up
  - Signed sale agreement for $24 million gain on $25 million investment, 130% IRR (InterLink)
  - Co-investor sold position, resulting in $7 million increase in valuation net to UTIMCO (Acordia)
- 1 partially liquidated at $3 million gain (Warburg secondary)

UTIMCO Co-Investment Portfolio (cont.)

- 1 in IPO discussions
  - Price range suggests 2.3 x to 2.6 x cost (HDA)
- 2 carried at cost
- Overall IRR since March 1996: 64.2%[1]
  - Versus -3.3% for partnerships
- Overall times money: 1.4 x
  - Versus 0.97 x for partnerships

(1) Using sales price for InterLink as value 2/28/99 and HDA at cost

Overall Co-investment Portfolio

at Feb. 28, 1999

	OAM	UTIMCO	Combined
Value	$25.3	$103.2	$128.4
% PUF/LTF	0.26%	1.05%	1.31%
% Priv. Eq.	3.2%	13.1%	16.3%

UTIMCO Co-investment Strategy

- Rationale
  - Increase returns at the margin (lower expenses)
  - Improve staff expertise
  - Assist GPs (***not*** compete with them)
- Implementation
  - Opportunistic
  - Adjunct to fund investment
  - Value-added activities to build relationships

Value-Added Activities

- Referred 37 transactions to GPs
  - 30 from staff network
  - 7 from GP network
- Held selective GP gatherings
  - UTIMCO/VC/Wand meetings with Cisco
  - Energy services meeting with ING, Inverness and Wand
- Provided active due diligence support, ongoing monitoring support

UTIMCO Co-Investment Deal Inflow

- 56 co-investment opportunities
- Substantive due diligence on 18
- Presented 7, approved and closed 6
  - Total commitment of $103.0 million
  - Total investment through 11/30/98 of $79.6 million
- 1 in late stages of due diligence (Trico Marine[1] - $20 million)

(1) Public company - ***HIGHLY CONFIDENTIAL***

UTIMCO Co-Investments

- SBC Warburg Secondary Interests (Wand Partners)
  - Secondary interest
- Acordia (Wand Partners)
  - Insurance brokerage
- Varel Manufacturing (3i Group)
  - Drill bit manufacturer
- InterLink Communications (Hampshire Equity)
  - exurban cable systems
- City Truck Holdings (Brentwood)
  - Heavy duty truck parts
- TeraStor (ITV)
  - High density data storage

SBC Warburg Secondary Interests

- Closed July, 1997
- Invested $10 million
- Realized to date: $4.9 million
- Remaining value: $5.6 million
- IRR: 3.9%
- Comments
  - Selling opportunistically
  - Several positions have upside potential

Acordia Inc.

- Closed September, 1997
- Invested $10 million
- Realized to date: -$0-
- Remaining value: $17.0 million
- IRR: 42.1%
- Comments
  - On plan; ongoing sale discussions with KKR/Willis Coroon
  - Co-investor positions sold at 70% mark-up in 9/98

Varel Manufacturing

- Closed July, 1998
- Committed $25 million
- Invested $11.6 million
- Realized to date: $0.4 million
- Remaining value: $11.6 million (cost)
- IRR: N/A
- Comments
  - Making significant operational improvements
  - Est. $6 million FY 99 EBITDA vs. $7 million plan

InterLink Communications

- Closed September, 1998
- Invested $25 million
- Realized to date: -$0-
- Remaining value: $49 million (see below)
- IRR: 129.8% (assuming a 9/15/99 close)
- Comments
  - Signed agreement with Charter to sell at 12.5x estimated 1999 SCF for a $24 million gain

City Truck Holdings

- Closed January, 1999
- Committed $25 million
- Invested $15 million
- Realized to date: -$0-
- Remaining value: $15 million (cost)
- IRR: N/A
- Comments
  - On plan with acquisition program
  - Mgmt. considering IPO at significant mark-up

TeraStor

- Closed January, 1999
- Invested $8 million
- Realized to date: -$0-
- Remaining value: $8 million (cost)
- IRR: N/A
- Comments
  - – Produced working prototype
  - – In discussions for new financing round

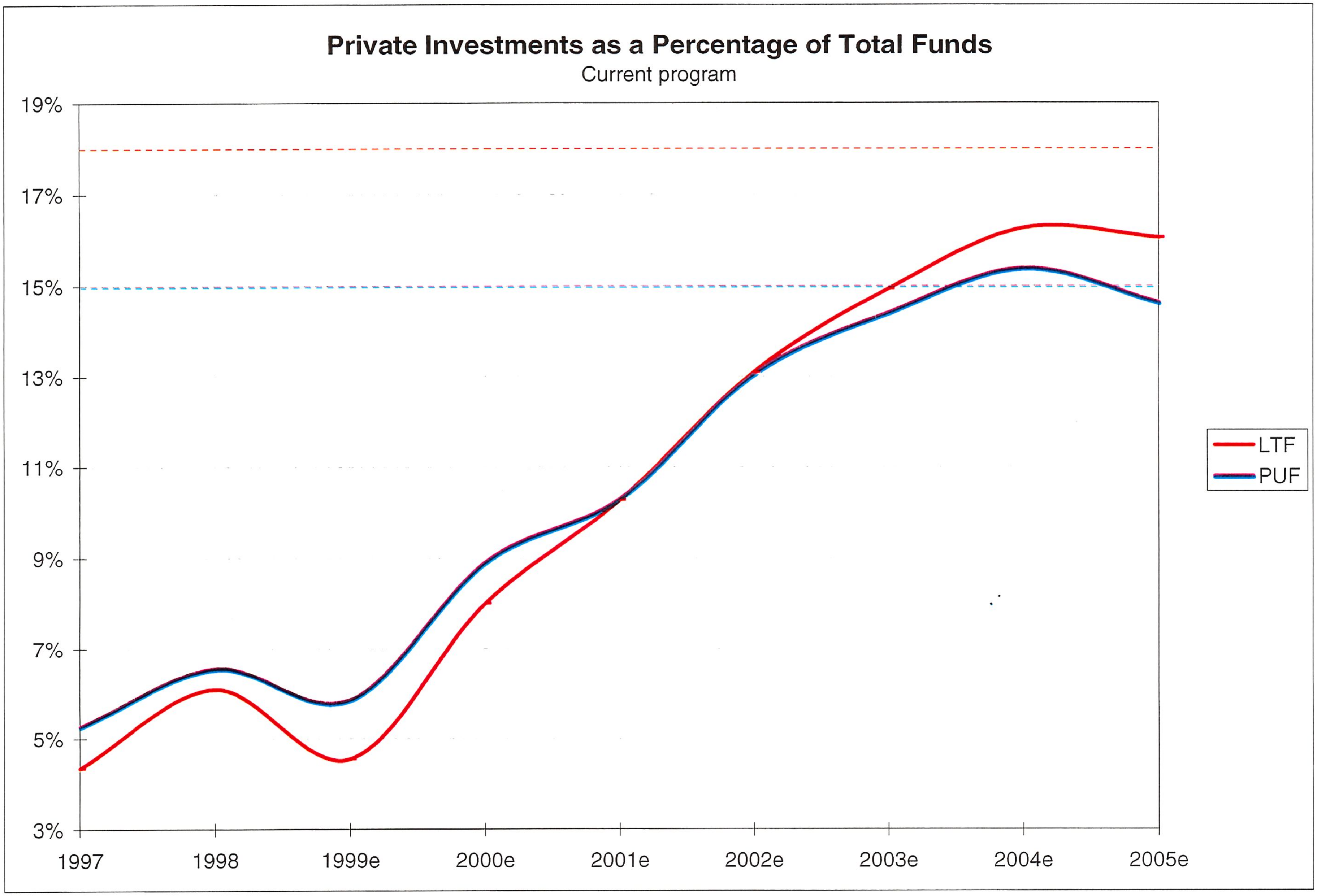
Summary of the UTIMCO Co-Investment Program

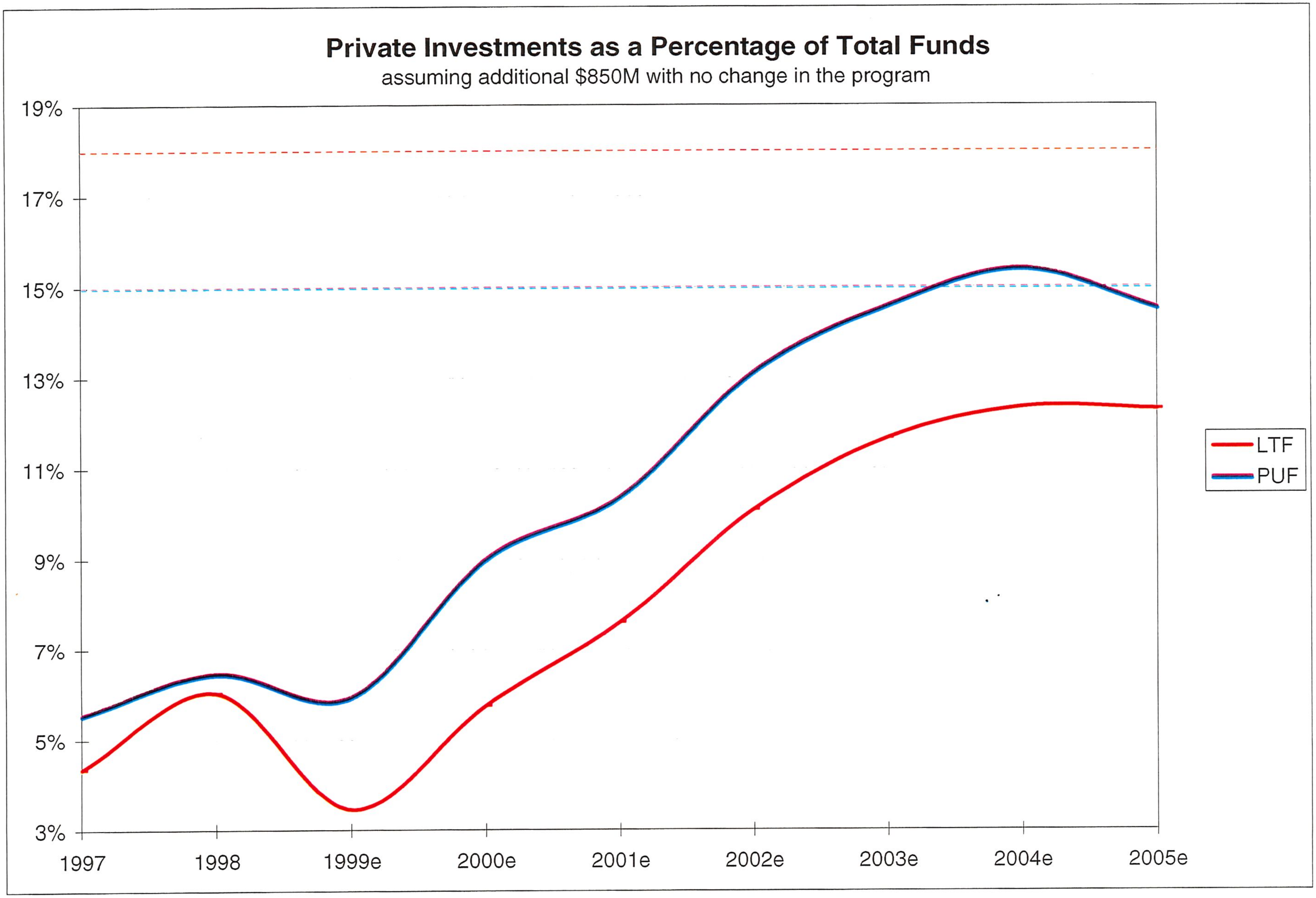
- Co-investment strategy is working
  - Enhances returns
  - Complements fund program
  - Builds staff expertise
  - Value-added to portfolio GPs
- UTIMCO co-investment portfolio looks promising

	1995	1996	1997	1998	1999	2000	2001	2002
PUF/LTF Asset Base								
Jul 95 Projection	6,517	7,016	7,384	7,771	8,189	8,638	9,123	9,646
Nov 97 Projection			8,493	9,001	9,545	10,125	10,739	11,384
Jul 98 Projection				9,617	10,175	10,786	11,434	12,116
Commitments								
Jul 95 Projection	285	265	220	173	126			
Aug 96 Projection	285	265	309	247	234			
Nov 97 Projection			330	355	322	341	369	397
Jul 98 Projection				519	566	505	416	337
Invested (mkt. value)	295	347	489	736	789	1,297	1,525	1,930
Invested % (mkt. Value)								
LTF	4.6%	4.6%	4.3%	5.3%	7.6%	12.2%	14.1%	16.7%
PUF	4.5%	5.1%	5.6%	8.5%	7.8%	12.0%	13.1%	15.6%

ALTERNATIVE EQUITIES
NON MARKETABLE PROGRAM

	Inception	Projected Balance			
($ MILLIONS)	to 2/28/99	1999	2000	2001	2002
Committed Capital					
Beginning Balance	0.0	854.1	950.2	1,005.0	962.7
Added	1,950.7	347.8	505.0	416.0	337.0
Drawndown	(1,096.6)	(251.7)	(450.2)	(458.3)	(405.2)
Ending Undrawn Balance	854.1	950.2	1,005.0	962.7	894.5
Invested Capital					
Beginning Value	0.0	777.7	858.3	1,366.0	1,594.8
Drawndown	1,096.6	251.7	450.2	458.3	405.2
Return of Capital	(341.9)	(51.1)	(125.3)	(169.1)	(200.5)
Income/Net Realized Gains	(443.2)	(73.2)	(205.4)	(312.6)	(456.0)
Unrealized Value	466.2	(46.8)	388.2	252.2	655.4
Ending Value	777.7	858.3	1,366.0	1,594.8	1,998.9
PUF/LTF Asset Base ($ millions)	9,628	10,175	10,786	11,434	12,116
% PUF/LTF Asset Base (unallocated)	8.1%	8.4%	12.7%	13.9%	16.5%


Private Investments as a Percentage of Total Funds
Current program
19%
17%
15%
13%
11%
9%
7%
5%
3%
1997
1998
1999e
2000e
2001e
2002e
2003e
2004e
2005e
LTF
PUF


Private Investments as a Percentage of Total Funds
assuming additional $850M with no change in the program
19%
17%
15%
13%
11%
9%
7%
5%
3%
1997
1998
1999e
2000e
2001e
2002e
2003e
2004e
2005e
LTF
PUF

LONG TERM FUND
ALTERNATIVE EQUITIES - MARKETABLE
PERFORMANCE
FOR SEVEN MONTHS ENDED 3/31/99

Fund	Strategy	Value ($ millions)	Portfolio Return	US T-bills +7%	Long	Short	Gross Exposure (1)	Net Exposure (2)
Maverick Fund	True Hedge Fund	98.9	15.3%	7.0%	155%	95%	250%	60%
RIEM	Market Neutral	78.7	-11.8%	7.0%	100%	100%	200%	0%
Perry Partners	Merger Arbitrage	44.1	9.7%	7.0%	154%	59%	213%	95%
Farallon Capital	Merg. Arb./Sp. Sits.	35.8	6.7%	7.0%	134%	75%	209%	59%
	Combined	257.5	3.3%	7.0%				

LTF Value	2,507.4
Actual Allocation (% of LTF)	10.3%
Neutral Allocation	7.0%

(1) Longs + Shorts
(2) (Longs - Shorts)/Capital

ALTERNATIVE EQUITIES
CAMBRIDGE ASSOCIATES REVIEW

- Non Marketable (Private Equity)
  - Asset Allocation Review
  - Review of Portfolio Holdings (since inception)
  - Portfolio Company Review (post 1994 only)
  - Strategic Review
- Marketable (Absolute Return/Hedge Funds)
  - Asset Allocation Review
  - Review of Portfolio Holdings (since inception 8/98)
  - Strategic Review
- Delivery: Next Board meeting (June 24, 1999)

THE UNIVERSITY OF TEXAS SYSTEM
PERMANENT UNIVERSITY FUND
INVESTMENT POLICY STATEMENT

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

Fund Organization
The Permanent University Fund was established in the Texas Constitution of 1876 through the appropriation of land grants previously given to The University of Texas at Austin plus one million acres. The land grants to the Permanent University Fund were completed in 1883 with the contribution of an additional one million acres of land. Today, the Permanent University Fund contains 2,109,190 acres of land (the "PUF Lands") located in 24 counties primarily in West Texas.

The 2.1 million acres comprising the PUF Lands produce two streams of income: a) mineral income, primarily in the form of oil and gas royalties and b) surface income, in the form of surface leases and easements. Under the Texas Constitution, mineral income, as a non-renewable source of income, remains a non-distributable part of PUF corpus, and is invested in securities. Surface income, as a renewable source of income, is distributed to the Available University Fund, (the "AUF") as received.

The Constitution prohibits the distribution and expenditure of mineral income contributed to the Fund and the realized and unrealized gains earned from Fund investments. The Constitution also requires the distribution of all PUF investment income to the AUF to be expended for certain authorized purposes.

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

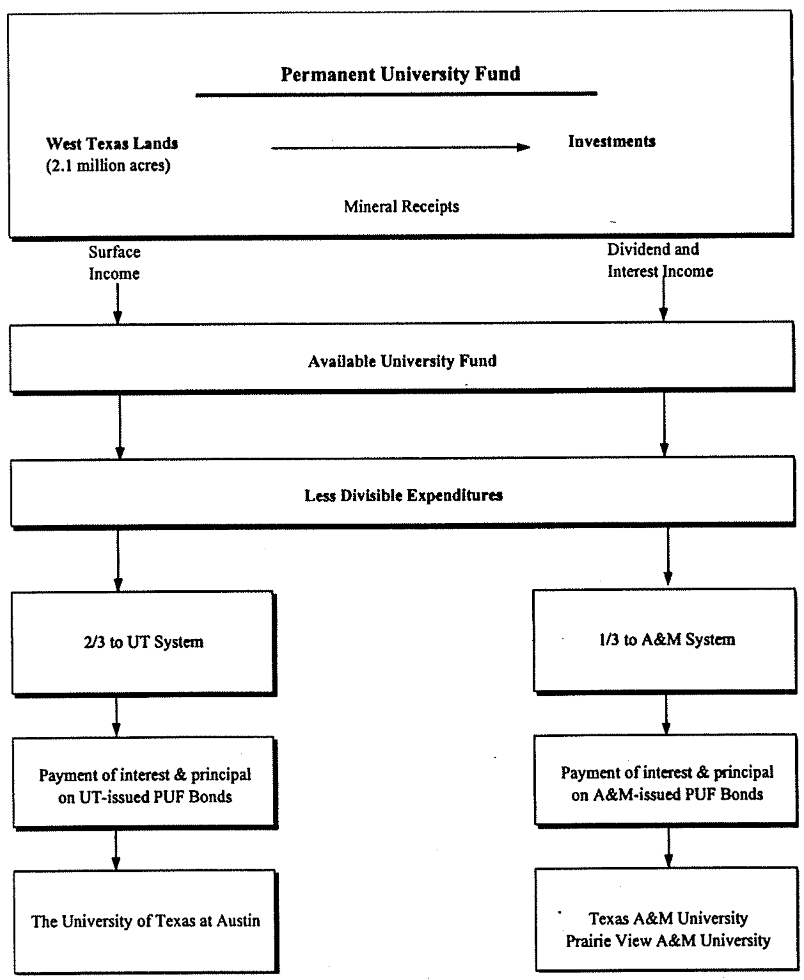
First, expenses incurred in the administration of PUF Lands and Investments. Resolutions adopted by the U. T. Board of Regents (the "U. T. Board") require that administrative expenses of the PUF be restricted to a minimum consistent with prudent business judgment. Second, following a 2/3rds and 1/3rd allocation of distributed PUF income (net of administrative expenses) to the U. T. System and Texas A&M University System, respectively, expenditures for debt service on PUF bonds. Article VII of the Texas

Constitution authorizes the U. T. Board and the Texas A&M University System (the "TAMUS Board") to issue bonds payable from their respective interests in distributed PUF income to finance permanent improvements and to refinance outstanding PUF obligations. The Constitution limits the amount of bonds and notes secured by each System's interest in divisible PUF income to 20% and 10% of the book value of PUF investment securities, respectively. Bond resolutions adopted by both Boards also prohibit the issuance of additional PUF parity obligations unless the projected interest in PUF net income for each System covers projected debt service at least 1.5 times.

Third, expenditures to fund a) excellence programs specifically at U. T. Austin, Texas A&M University and Prairie View A&M University and b) the administration of the university systems.

The distribution of income and expenditures from the PUF to the AUF is depicted below in Exhibit 1:

Exhibit 1



Fund Management

Article VII of the Texas Constitution assigns fiduciary responsibility for managing and investing the Fund to the U. T. Board. Article VII authorizes the U. T. Board, subject to procedures and restrictions it establishes, to invest the Fund in any kind of investments and in amounts it considers appropriate, provided that it adheres to the prudent person investment standard. This standard requires that the U. T. Board, in making investments, shall exercise the judgment and care under the circumstances then prevailing which persons of ordinary prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income therefrom as well as the probable safety of their capital.

Ultimate fiduciary responsibility for the Fund rests with the Board. Section 66.08 of the Texas Education Code authorizes the U. T. Board to delegate to its committees, officers or employees of the U. T. System and other agents the authority to act for the U. T. Board in investment of the PUF. The Fund shall be managed through The University of Texas Investment Management Company ("UTIMCO") which shall a) recommend investment policy for the Fund, b) determine specific asset allocation targets, ranges and performance benchmarks consistent with Fund objectives, and c) monitor Fund performance against Fund objectives. UTIMCO shall invest the Fund's assets in conformity with investment policy.

Unaffiliated investment managers may be hired by UTIMCO to improve the Fund's return and risk characteristics. Such managers shall have complete investment discretion unless restricted by the terms of their management contracts. Managers shall be monitored for performance and adherence to investment disciplines.

Fund Administration

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

Fund Investment Objectives

The primary investment objective shall be to preserve the purchasing power of Fund assets and annual distributions by earning an average annual total return after inflation of 5.5% over rolling ten-year periods or longer. The Fund's success in meeting its objectives depends upon its ability to generate high returns in periods of low inflation that will offset lower returns generated in years when the capital markets underperform the rate of inflation.

The secondary fund objective is to generate a fund return in excess of the Policy Portfolio benchmark over rolling five-year periods or longer. The Policy Portfolio benchmark will be established by UTIMCO and will be comprised of a blend of asset class indices weighted to reflect Fund asset allocation policy targets.

The U. T. Board recognizes that achievement of Fund investment objectives is substantially hindered by the inability to make distributions on a total return basis and current distribution rates in excess of long-term equilibrium levels.

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

Fund assets shall be allocated among the following broad asset classes based upon their individual return/risk characteristics and relationships to other asset classes:

1. Cash Equivalents - are highly reliable in protecting the purchasing power of current income streams but historically have not provided a reliable return in excess of inflation. Cash equivalents provide good liquidity under both deflation and inflation conditions.

2. Fixed Income Investments - offer the best protection for hedging against the threat of deflation by providing a dependable and predictable source of Fund income. Such bonds should be high quality, and intermediate to long-term maturity with reasonable call protection in order to ensure the generation of current income and preservation of nominal capital even during periods of severe economic contraction.

3. Equities - provide both current income and growth of income, but their principal purpose is to provide appreciation of the Fund. Historically, returns for equities have been higher than for bonds over all extended periods. As such, equities represent the best chance of preserving the purchasing power of the Fund.

4. Alternative Investments - generally consist of alternative marketable investments and alternative nonmarketable investments.
~~. Alternative equity investments shall be expected to earn superior equity type returns over extended periods. The advantages of alternative equity investments are that they enhance long-term returns through investment in inefficient, complex markets. They offer reduced volatility of Fund asset values through their characteristics of low correlation with listed equities and fixed income instruments. The disadvantages of this asset class are that they may be illiquid, require higher and more complex fees, and are frequently dependent on the quality of external managers. In addition, they possess a limited return history versus traditional stocks and bonds. The risk of alternative equity investments shall be controlled with extensive due diligence and diversification~~.

Alternative Marketable Investments ~~Equities~~ -
These investments are broadly defined to include hedge funds, arbitrage and special situation funds, high yield bonds, distressed debt, market neutral, commodities and other non-traditional investment strategies whose underlying securities are traded on public exchanges or are otherwise readily marketable. Alternative marketable investments may be made directly by UTIMCO or through partnerships. -If these investments are made through partnerships ~~As such,~~ they offer faster drawdown of committed capital and earlier realization potential than alternative non-marketable investments. Alternative marketable investments ~~may be~~ made through partnerships~~, but they~~ will generally provide investors with liquidity at least annually.

Alternative Non-m~~M~~arketable Investments -
Alternative Nonmarketable investments shall be expected to earn superior equity type returns over extended periods. The advantages of alternative nonmarketable investments are that they enhance long-term returns through investment in inefficient, complex markets. They offer reduced volatility of Fund asset values through their characteristics of low correlation with listed equities and fixed income instruments. The disadvantages of this asset class are that they may be illiquid, require higher and more complex fees, and are frequently dependent on the quality of external managers. In addition, they possess a limited return history versus traditional stocks and bonds. The risk of alternative nonmarketable investments shall be controlled with extensive due diligence and diversification. These investments are held either through limited partnership or as direct ownership interests. They include special equity, mezzanine venture capital, oil and gas, real estate and other investments that are privately held and which are not registered for sale on public exchanges. In partnership form, these investments require a commitment of capital for extended periods of time with no liquidity.

Asset Allocation Policy
The asset allocation policy and ranges herein recognize that the Fund's return/risk profile can be enhanced by diversifying the Fund's investments across different types of assets whose returns are not closely correlated. The targets and ranges seek to protect the Fund against both routine illiquidity in normal markets and extraordinary illiquidity during a period of extended deflation.

The long-term asset allocation policy for the Fund must recognize that the 5.5% real return objective requires a high allocation to broadly defined equities, including domestic, international stocks, and alternative equity investments of 50% to 90%. The allocation to Fixed Income should therefore not exceed 50% of the Fund.

The Board delegates authority to UTIMCO to establish specific neutral asset allocations and ranges within the broad policy guidelines described above. UTIMCO may establish specific asset allocation targets and ranges for large and small capitalization U. S. stocks, established and emerging market international stocks, marketable and non-marketable alternative equity investments, and other asset classes as well as the specific performance objectives for each asset class. Specific asset allocation policies shall be decided by UTIMCO and reported to the U. T. Board.

Performance Measurement
The investment performance of the Fund will be measured by an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, and compared against the stated investment benchmarks 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 portfolios.

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

Investment guidelines include the following:

<u>General</u>

- Investment guidelines for index and other commingled funds managed externally shall be governed by the terms and conditions of the Investment Management Contract.
- All investments will be U. S. dollar denominated assets unless held by an internal or external portfolio manager with discretion to invest in foreign currency denominated securities.
- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by the chief investment officer prior to investment of Fund assets in such liquid investment fund.
- No securities may be purchased or held which would jeopardize the Fund's tax-exempt status.
- No investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.
- The Fund may utilize Derivative Securities with the approval of the UTIMCO Board to; a) simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes; b) to facilitate trading; c) to reduce transaction costs; d) to seek higher investment returns when a Derivative Security is priced more attractively than the underlying security; e) to index or to hedge risks

associated with Fund investments; or f) to adjust the market exposure of the asset allocation, including long and short strategies; provided that: i) no leverage is employed in the implementation of such Derivative purchases or sales, ii) no more than 5% of Fund assets are required as an intitial margin deposit for such contracts; iii) the Fund's investments in warrants shall not exceed more than 5% of the Fund's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges. Notwithstanding the above, leverage strategies are permissible within the alternative equities investment class with the approval of the UTIMCO Board, if the investment strategy is uncorrelated to the Fund as a whole, the manager has demonstrated skill in the strategy, the strategy implements systematic risk control techniques, value at risk measures, and pre-defined risk parameters.

- Such Derivative Securities shall be defined to be those instruments 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.

UTIMCO shall attempt to minimize the risk of an imperfect correlation between the change in market value of the securities held by the Fund and the prices of Derivative Security investments by investing in only those contracts whose behavior is expected to resemble that of the Fund's underlying securities. UTIMCO also shall attempt to minimize the risk of an illiquid secondary market for a Derivative Security contract and the resulting inability to close a position prior to its maturity date by entering into such transactions on an exchange with an active and liquid secondary market. The net market value of exposure of Derivative Securities purchased or sold over the counter may not represent more than 15% of the net assets of the Fund.

In the event that there are no Derivative Securities traded on a particular market index such as MSCI EAFE, the Fund may utilize a composite of other Derivative Security contracts to simulate the performance of such index. UTIMCO shall attempt to reduce any tracking error from the low correlation of the selected Derivative Securities with its index by investing in contracts whose behavior is expected to resemble that of the underlying securities.

UTIMCO shall minimize the risk that a party will default on its payment obligation under a Derivative Security agreement by entering into agreements that mark to market no less frequently than monthly and where the counterparty is an investment grade credit. UTIMCO also shall attempt to mitigate the risk that the Fund will not be able to meet its obligation to the counterparty by investing the Fund in the specific asset for which it is obligated to pay a return or by holding adequate short-term investments.

The Fund may be invested in foreign currency forward and foreign currency futures contracts in order to maintain the same currency exposure as its respective index or to protect against anticipated adverse changes in exchange rates among foreign currencies and between foreign currencies and the U. S. dollar.

Cash and Cash Equivalents

Holdings of cash and cash equivalents may include internal short term pooled investment funds managed by UTIMCO.

- Unaffiliated liquid investment funds as ~~must be~~ approved by the chief investment officer.
- Deposits of the Texas State Treasury.
- 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.~~

- Repurchase Agreements and Reverse Repurchase Agreements must be transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a Primary Dealer in U. S. Treasury securities and rated A-1 or P-1 or the equivalent.
- Each approved counterparty shall execute the Standard Public Securities Association (PSA) Master Repurchase Agreement with UTIMCO.
- Eligible Collateral Securities for Repurchase Agreements are limited to U. S. Treasury securities and U. S. Government Agency securities with a maturity of not more than 10 years.
- The maturity for a Repurchase Agreement may be from one day to two weeks.
- The value of all collateral shall be maintained at 102% of the notional value of the Repurchase Agreement, valued daily.
- All collateral shall be delivered to the PUF custodian bank. Tri-party collateral arrangements are not permitted.
- The aggregate amount of Repurchase Agreements with maturities greater than seven calendar days may not exceed 10% of the Fund's fixed income assets.
- Overnight Repurchase Agreements may not exceed 25% of the Fund's fixed income assets.

- Mortgage Backed Securities (MBS) Dollar Rolls shall be executed as matched book transactions in the same manner as Reverse Repurchase Agreements above. As above, the rules for trading MBS Dollar Rolls shall follow the Public Securities Association standard industry terms.

Fixed Income

Holdings of domestic fixed income securities shall be limited to those securities a) issued by or fully guaranteed by the U. S. Treasury, U. S. Government-Sponsored Enterprises, or U. S. Government Agencies and b) issued by corporations and municipalities. Within this overall limitation:

- Not less than 50% of the market value of domestic fixed income securities shall be invested in direct obligations of the U. S. Treasury, U. S. government agencies, and U. S. government sponsored entities.
- Not more than 5% of the market value of domestic fixed income securities may be invested in corporate and municipal bonds of a single issuer provided that such bonds, at the time of purchase are rated, not less than Baa3 or BBB-, or the equivalent, by any two nationally-recognized rating services, such as Moody's Investors Service, Standard & Poor's Corporation, or Fitch Investors Service.
- The weighted average maturity of the domestic fixed income portfolio shall be not less than ten years unless approved in advance by the UTIMCO Board.

These guidelines shall not require the sale of any fixed income investments prior to their scheduled maturities unless the credit quality of the fixed income portfolio shall decline below Aa2.

~~Holdings of eligible fixed income derivative securities shall be limited by the following guidelines:~~

> ~~With prior written approval of the UTIMCO Board, the Portfolio Manager may enter into derivatives transactions utilizing exchange traded fixed income futures contracts or options on fixed income futures contracts; provided that such derivatives transactions are designed to control duration or manage risk.~~
>
> ~~Such derivatives transactions shall be established on a case by case basis. These contracts shall include, but not be limited to, Ten-Year Treasury Futures, Eurodollar Futures, provided that the futures exchanges are rated AAA or the equivalent as determined by UTIMCO.~~
>
> ~~Such derivatives shall be priced daily.~~
>
> ~~Market risk shall be measured in dollar duration equivalent values or in the case of options in delta or percentage of equivalent futures contracts.~~

~~For the purpose of this policy, Collaterlized Mortgage Obligations ("CMOs") are considered to be MBS, not derivatives.~~

Equities

- The Fund shall:
  - hold no more than 25% of its equity securities in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at market
  - hold no more than 5% of its equity securities in the securities of one corporation at cost unless authorized by the chief investment officer.

Alternative Investments~~Equities~~

Investments in alternative ~~equities~~ assets may be made through management contracts with unaffiliated organizations (including but not limited to limited partnerships, trusts, and joint ventures) so long as such organizations:

- possess specialized investment skills
- possess full investment discretion subject to the management agreement
- are managed by principals with a demonstrated record of accomplishment and performance in the investment strategy being undertaken
- align the interests of the investor group with the management as closely as possible
- charge fees and performance compensation which do not exceed prevailing industry norms at the time the terms are negotiated.

Investments in alternative nonmarketable assets ~~equities~~ also may be made directly by UTIMCO in co-investment transactions sponsored by and invested in by a management firm or partnership in which the Fund has invested prior to the co-investment or in transactions sponsored by investment firms well-known to UTIMCO management, provided that such direct investments shall not exceed 25% of the market value of the alternative nonmarketable assets portfolio at the time of the direct investment.

Members of UTIMCO management, with the approval of the UTIMCO Board, may serve as directors of companies in which UTIMCO has directly invested Fund assets. In such event, any and all compensation paid to UTIMCO management for their services as directors shall be endorsed over to UTIMCO and applied against UTIMCO management fees. Furthermore, UTIMCO Board approval of UTIMCO management's service as a director of an investee company shall be conditioned upon the extension of UTIMCO's Directors and Officers Insurance Policy coverage to UTIMCO management's service as a director of an investee company.

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

a) provide a predictable, stable stream of distributions over time
b) ensure that the inflation adjusted value of distributions is maintained over the long-term
c) ensure that the inflation adjusted value of Fund assets after distributions is maintained over the long-term.

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

The Texas Constitution requires that all dividends, interest and other income earned from Fund investments be distributed to the AUF. At the same time, the Constitution prohibits the distribution of mineral income contributed to the Fund and any realized and unrealized gains earned on such contributions.

UTIMCO shall be responsible for the establishment of the Fund's asset allocation so as to produce an annual income distribution that balances the needs of current beneficiaries with those of future beneficiaries. The Board explicitly recognizes that the generation of income under the Constitutional provisions governing the Fund is highly dependent upon the level of interest rates over which the UTIMCO Board has no control. It also recognizes that the distribution rate as a percentage of the Fund's assets is above average and that the maintenance of current levels of distributed income reduces the UTIMCO Board's ability to grow income over time.

Fund Accounting
The fiscal year of the Fund shall begin on September 1st and end on August 31st. Market value of the Fund shall be maintained on an accrual basis in compliance with Financial Accounting Standards Board Statements, Government Accounting Standards Board Statements, industry guidelines, and state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by the chief investment officer and reported to the UTIMCO Board.

Valuation of Assets
As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all Fund net assets. Such valuation of Fund assets shall be based on the bank trust custody agreement in effect at the date of valuation. Valuation of alternative assets shall be determined in accordance with the UTIMCO Valuation Criteria for Alternative Assets.

The fair market value of the Fund's net assets shall include all related receivables and payables of the Fund on the valuation. Such valuation shall be final and conclusive.

Securities Lending

The Fund may participate in a securities lending contract with a bank or nonbank security lending agent for either short-term or long-term purposes of realizing additional income. Loans of securities by the Fund shall be collateralized by cash, letters of credit or securities issued or guaranteed by the U. S. Government or its agencies. The collateral will equal at least 100% of the current market value of the loaned securities. The contract shall state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and collateral, acceptable investment of collateral and indemnification provisions. The contract may include other provisions as appropriate. The securities lending program will be evaluated from time to time as deemed necessary by the UTIMCO Board. Monthly reports issued by the agent shall be reviewed by UTIMCO to insure compliance with contract provisions.

Investor Responsibility

As a 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. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the Fund solely in the interest of Fund unitholders and shall not invest the Fund so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

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

Effective Date

The effective date of this policy shall be August 12~~February 11~~, 1999.

Click here for PUF Specific Asset Allocation, Expected Return and Risk, Neutral Position, Ranges, and Performance Objectives

THE UNIVERSITY OF TEXAS SYSTEM
LONG TERM FUND
INVESTMENT POLICY STATEMENT

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

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

Fund Management
Ultimate fiduciary responsibility for the Fund rests with the Board. Section 163 of the Property Code authorizes the U. T. Board to delegate to its committees, officers or employees of the U. T. System and other agents the authority to act for the U. T. Board in the investment of the Fund. The Fund shall be governed through The University of Texas Investment Management Company ("UTIMCO") which shall a) recommend investment policy for the Fund, b) determine specific asset allocation targets, ranges, and performance benchmarks consistent with Fund objectives, and c) monitor Fund performance against Fund objectives. UTIMCO shall invest the Fund assets in conformity with investment policy.

Unaffiliated investment managers may be hired by UTIMCO to improve the Fund's return and risk characteristics. Such managers shall have complete investment discretion unless restricted by the terms of their management contracts. Managers shall be monitored for performance and adherence to investment disciplines.

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

Funds Eligible to Purchase Fund Units
No fund shall be eligible to purchase units of the Fund unless it is under the sole control, with full discretion as to investments, by the Board and/or UTIMCO.

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

The funds of a foundation which is structured as a supporting organization described in Section 509(a) of the Internal Revenue Code of 1986, which supports the activities of the U. T. System and its component institutions, may purchase units in the Fund provided that:

A. the purchase of Fund units by foundation funds is approved by the chief investment officer
B. all members of the foundation's governing board are also members of the Board
C. the foundation has the same fiscal year as the Fund
D. a contract between the Board and the foundation has been executed authorizing investment of foundation funds in the Fund
E. no officer of such foundation, other than members of the Board, the Chancellor, the chief investment officer or his or her delegate shall have any control over the management of the Fund other than to request purchase and redemption of Fund units.

Fund Investment Objectives
The primary investment objective shall be to preserve the purchasing power of Fund assets and annual distributions by earning an average annual total return after inflation of 5.5% over rolling ten year periods or longer. The Fund's success in meeting its objectives depends upon its ability to generate high returns in periods of low inflation that will offset lower returns generated in years when the capital markets underperform the rate of inflation.

The secondary fund objectives are to generate a fund return in excess of the Policy Portfolio benchmark and the average median return of the universe of the college and university endowments as reported annually by Cambridge Associates and NACUBO over rolling five-year periods or longer. The Policy Portfolio benchmark will be established by UTIMCO and will be comprised of a blend of asset class indices weighted to reflect Fund's asset allocation policy targets.

Asset Allocation
Asset allocation is the primary determinant of investment performance and, subject to the asset allocation ranges specified herein, is the responsibility of UTIMCO. Specific asset allocation targets may be changed from time to time based on the economic and investment outlook. Fund assets shall be allocated among the following broad asset classes based upon their individual return/risk characteristics and relationships to other asset classes:

1. Cash Equivalents - are highly reliable in protecting the purchasing power of current income streams but historically have not provided a reliable return in excess of inflation. Cash equivalents provide good liquidity under both deflation and inflation conditions.

2. Fixed Income Investments - offer the best protection for hedging against the threat of deflation by providing a dependable and predictable source of Fund income. Such bonds should be high quality, and intermediate to long-term duration with reasonable call protection in order to ensure the generation of current income and preservation of nominal capital even during periods of severe economic contraction.

3. Equities - provide both current income and growth of income, but their principal purpose is to provide appreciation of the Fund. Historically, returns for equities have been higher than for bonds over all extended periods. Therefore, equities represent the best chance of preserving the purchasing power of the Fund.

4. Alternative Investments~~Equities~~ - generally consist of alternative marketable investments and alternative non-marketable investments. ~~Alternative equity investments shall be expected to earn superior equity type returns over extended periods. The advantages of alternative equity investments are that they enhance long-term returns through investment in inefficient, complex markets. They offer reduced volatility of Fund asset values through their characteristics of low correlation with listed equities and fixed income instruments. The disadvantages of this asset class are that they may be illiquid, require higher and more complex fees, and are frequently dependent on the quality of external managers. In addition, they possess a limited return history versus traditional stocks and bonds. The risk of alternative equity investments shall be controlled with extensive due diligence and diversification.~~

   Alternative Marketable Investments~~Assets~~~~Marketable Equities~~ -
   These investments are broadly defined to include hedge funds, arbitrage and special situation funds, high yield bonds, distressed debt, market neutral, commodities and other non-traditional investment strategies whose underlying securities are traded on public exchanges or are otherwise readily marketable. Alternative marketable investments may be made directly by UTIMCO or through partnerships. -If these investments are made through partnerships ~~As such,~~ they offer faster drawdown of committed capital and earlier realization potential than alternative non-marketable investments.~~-~~Alternative marketable investments ~~may be~~ made through partnerships~~, but they~~ will generally provide investors with liquidity at least annually.

Alternative Non-m~~M~~arketable Investments -
Alternative Nonmarketable investments shall be expected to earn superior equity type returns over extended periods. The advantages of alternative nonmarketable investments are that they enhance long-term returns through investment in inefficient, complex markets. They offer reduced volatility of Fund asset values through their characteristics of low correlation with listed equities and fixed income instruments. The disadvantages of this asset class are that they may be illiquid, require higher and more complex fees, and are frequently dependent on the quality of external managers. In addition, they possess a limited return history versus traditional stocks and bonds. The risk of alternative nonmarketable investments shall be controlled with extensive due diligence and diversification. These investments are held through either limited partnership or as direct ownership interests. They include special equity, mezzanine venture capital, oil and gas, real estate and other investments that are privately held and which are not registered for sale on public exchanges. In partnership form, these investments require a commitment of capital for extended periods of time with no liquidity. They also generally require an extended period of time to achieve targeted investment levels.

Asset Allocation Policy
The asset allocation policy and ranges herein recognize that the Fund's return/risk profile can be enhanced by diversifying the Fund's investments across different types of assets whose returns are not closely correlated. The targets and ranges seek to protect the Fund against both routine illiquidity in normal markets and extraordinary illiquidity during a period of extended deflation.

The long-term asset allocation policy for the Fund must recognize that the 5.5% real return objective requires a high allocation to broadly defined equities, including domestic, international stocks, and alternative equity investments, of 68% to 90%. The allocation to fixed income investments should therefore not exceed 32% of the Fund.

The Board delegates authority to UTIMCO to establish specific neutral asset allocations and ranges within the broad policy guidelines described above. UTIMCO may establish specific asset allocation targets and ranges for large and small capitalization U. S. stocks, established and emerging market international stocks, marketable and non-marketable alternative equity investments, and other asset classes as well as the specific performance objectives for each asset class. Specific asset allocation policies shall be decided by UTIMCO and reported to the U. T. Board.

Performance Measurement
The investment performance of the Fund will be measured by an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board,

and compared against the stated investment benchmarks 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 portfolios.

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

Investment guidelines include the following:

General

- Investment guidelines for index and other commingled funds managed externally shall be governed by the terms and conditions of the Investment Management Contract.
- All investments will be U. S. dollar denominated assets unless held by an internal or external portfolio manager with discretion to invest in foreign currency denominated securities.
- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by the chief investment officer prior to investment of Fund assets in such liquid investment fund.
- No securities may be purchased or held which jeopardize the Fund's tax exempt status.
- No investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.
- The Fund may utilize Derivative Securities with the approval of the UTIMCO Board to; a) simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes; b) to facilitate trading; c) to reduce transaction costs; d) to seek higher investment returns when a Derivative Security is priced more attractively than the underlying security; e) to index or to hedge risks associated with Fund investments; or f) to adjust the market exposure of the asset allocation, including long and short strategies; provided that; i) no leverage is employed in the implementation of such Derivative purchases or sales; ii) no more than 5% of Fund assets are required as an initial margin deposit for such contracts; iii) the Fund's investments in warrants shall not exceed more than 5% of the Fund's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges. Notwithstanding the above, leverage strategies are permissible within the alternative equities investment class with the approval of the UTIMCO Board, if the investment strategy is uncorrelated to the Fund as a whole, the manager has demonstrated skill in the strategy, the strategy implements systematic risk control techniques, value at risk measures, and pre-defined risk parameters.

- Such Derivative Securities shall be defined to be those instruments 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.

  UTIMCO shall attempt to minimize the risk of an imperfect correlation between the change in market value of the securities held by the Fund and the prices of Derivative Security investments by investing in only those contracts whose behavior is expected to resemble that of the Fund's underlying securities. UTIMCO also shall attempt to minimize the risk of an illiquid secondary market for a Derivative Security contract and the resulting inability to close a position prior to its maturity date by entering into such transactions on an exchange with an active and liquid secondary market. The net market value of exposure of Derivative Securities purchased or sold over the counter may not represent more than 15% of the net assets of the Fund.

  In the event that there are no Derivative Securities traded on a particular market index such as MSCI EAFE, the Fund may utilize a composite of other Derivative Security contracts to simulate the performance of such index. UTIMCO shall attempt to reduce any tracking error from the low correlation of the selected Derivative Securities with its index by investing in contracts whose behavior is expected to resemble that of the underlying securities.

  UTIMCO shall minimize the risk that a party will default on its payment obligation under a Derivative Security agreement by entering into agreements that mark to market no less frequently than monthly and where the counterparty is an investment grade credit. UTIMCO also shall attempt to mitigate the risk that the Fund will not be able to meet its obligation to the counterparty by investing the Fund in the specific asset for which it is obligated to pay a return or by holding adequate short-term investments.

  The Fund may be invested in foreign currency forward and foreign currency futures contracts in order to maintain the same currency exposure as its respective index or to protect against anticipated adverse changes in exchange rates among foreign currencies and between foreign currencies and the U. S. dollar.

Cash and Cash Equivalents

Holdings of cash and cash equivalents may include internal short term pooled investment funds managed by UTIMCO.

- Unaffiliated liquid investment funds as~~must be~~ approved by the chief investment officer.
- 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~~.
- Repurchase Agreements and Reverse Repurchase Agreements must be transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a Primary Dealer in U. S. Treasury securities and rated A-1 or P-1 or the equivalent.

    - Each approved counterparty shall execute the Standard Public Securities Association (PSA) Master Repurchase Agreement with UTIMCO.
    - Eligible Collateral Securities for Repurchase Agreements are limited to U. S. Treasury securities and U. S. Government Agency securities with a maturity of not more than 10 years.
    - The maturity for a Repurchase Agreement may be from one day to two weeks.
    - The value of all collateral shall be maintained at 102% of the notional value of the Repurchase Agreement, valued daily.
    - All collateral shall be delivered to the LTF custodian bank. Tri-party collateral arrangements are not permitted.

- The aggregate amount of repurchase agreements with maturities greater than seven calendar days may not exceed 10% of the Fund's fixed income assets.
- Overnight Repurchase Agreements may not exceed 25% of the Fund's fixed income assets.
- Mortgage Backed Securities (MBS) Dollar Rolls shall be executed as matched book transactions in the same manner as Reverse Repurchase Agreements above. As above, the rules for trading MBS Dollar Rolls shall follow the Public Securities Association standard industry terms.

<u>Fixed Income</u>

<u>Domestic Fixed Income</u>

Holdings of domestic fixed income securities shall be limited to those securities a) issued by or fully guaranteed by the U. S. Treasury, U. S. Government-Sponsored Enterprises, or U. S. Government Agencies, and b) issued by corporations and municipalities. Within this overall limitation:

- Permissible securities for investment include the components of the Lehman Brothers Aggregate Bond Index (LBAGG): investment grade government and corporate securities, agency mortgage pass-through securities, and asset-backed securities. These sectors are divided into more specific sub-indices; 1) Government: Treasury and Agency; 2) Corporate: Industrial, Finance, Utility, and Yankee; 3) Mortgage-backed securities: GNMA, FHLMC, and FNMA; and 4) Asset-backed securities. In addition to the permissible securities listed above, the following securities shall be permissible: a) floating rate securities with periodic coupon changes in market rates issued by the same entities that are included in the LBAGG as issuers of fixed rate securities; b) medium term notes issued by investment grade corporations; c) zero coupon bonds and stripped Treasury and Agency securities created from coupon securities; and d) structured notes issued by LBAGG qualified entities.
- U.S. Domestic Bonds must be rated investment grade, Baa3 or better by Moody's Investors Services, BBB- by Standard & Poor's Corporation, or an equivalent rating by a nationally recognized rating agency at the time of acquisition.
- Not more than 5% of the market value of domestic fixed income securities may be invested in corporate and municipal bonds of a single issuer provided that such bonds, at the time of purchase, are rated, not less than Baa3 or BBB-, or the equivalent, by any two nationally-recognized rating services, such as Moody's Investors Service, Standard & Poor's Corporation, or Fitch Investors Service.

~~Holdings of eligible fixed income derivative securities shall be limited by the following guidelines:~~

~~With prior written approval of the UTIMCO Board, the Portfolio Manager may enter into derivatives transactions utilizing exchange traded fixed income futures contracts or options on fixed income futures contracts; provided that such derivatives transactions are designed to control duration or manage risk.~~

~~Such derivatives transactions shall be established on a case by case basis. These contracts shall include, but shall not be limited to, Ten-Year Treasury Futures, or Treasury Bill Futures, provided that the futures are rated AAA or the equivalent as determined by UTIMCO.~~

~~Such derivatives shall be priced daily.~~

~~Market risk shall be measured in dollar duration equivalent values or in the case of options in delta or percentage of equivalent futures contracts.~~

~~For the purpose of this policy Collateralized Mortgage Obligations ("CMOs") are considered to be MBS, not derivatives.~~

Non-U.S. Fixed Income

- Not more than 35% of the Fund's fixed income portfolio may be invested in non-U. S. dollar bonds. Not more than 15% of the Fund's fixed income portfolio may be invested in bonds denominated in any one currency.
- Non-dollar bond investments shall be restricted to bonds rated equivalent to the same credit standard as the U.S. Fixed Income Portfolio.
- Not more than 7.5% of the Fund's fixed income portfolio may be invested in Emerging Market debt.
- International currency exposure may be hedged or unhedged at UTIMCO's discretion or delegated by UTIMCO to an external investment manager.

Equities

I. The Fund shall:

A. hold no more than 25% of its equity securities in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at market

B. hold no more than 5% of its equity securities in the securities of one corporation at cost unless authorized by the chief investment officer.

Alternative Investments ~~Assets~~

Investments in alternative assets may be made through management contracts with unaffiliated organizations (including but not limited to limited partnerships, trusts, and joint ventures) so long as such organizations:

II. possess specialized investment skills

III. possess full investment discretion subject to the management agreement

IV. are managed by principals with a demonstrated record of accomplishment and performance in the investment strategy being undertaken

V. align the interests of the investor group with the management as closely as possible

VI. charge fees and performance compensation which do not exceed prevailing industry norms at the time the terms are negotiated.

Investments in alternative nonmarketable assets also may be made directly by UTIMCO in co-investment transactions sponsored by and invested in by a management firm or partnership in which the Fund has invested prior to the co-investment or in transactions sponsored by investment firms well known to UTIMCO management, provided that such direct investments shall not exceed 25% of the market value of the alternative nonmarketable assets portfolio at the time of the direct investment.

Members of UTIMCO management, with the approval of the UTIMCO Board, may serve as directors of companies in which UTIMCO has directly invested Fund assets. In such event, any and all compensation paid to UTIMCO management for their services as directors shall be endorsed over to UTIMCO and applied against UTIMCO management fees. Furthermore, UTIMCO Board approval of UTIMCO management's service as a director of an investee company shall be conditioned upon the extension of UTIMCO's Directors and Officers Insurance Policy coverage to UTIMCO management's service as a director of an investee company.

Fund Distributions

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

a) provide a predictable, stable stream of distributions over time
b) ensure that the inflation adjusted value of distributions is maintained over the long-term
c) ensure that the inflation adjusted value of Fund assets after distributions is maintained over the long-term.

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

Pursuant to the Uniform Management of Institutional Funds Act, a governing board may distribute, for the uses and purposes for which the fund is established, the net realized appreciation in the fair market value of the assets of an endowment fund over the historic dollar value of the fund to the extent prudent under the standard provided by the Act. In addition, income may be distributed for the purposes associated with the endowments/foundations.

UTIMCO shall be responsible for establishing the Fund's distribution percentage and determining the equivalent per unit rate for any given year. Unless otherwise established by UTIMCO and approved by the Board or prohibited by the Act, fund distributions shall be based on the following criteria:

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

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

B. If the inflationary increase in Step A. results in a distribution rate below 3.5%, (computed by taking the proposed distribution amount per unit divided by the previous twelve quarter average market value price per unit) the UTIMCO Board, at its sole discretion, may grant an increase in the distribution amount as long as such increase does not result in a distribution rate of more than 4.5%.

C. If the distribution rate exceeds 5.5%, (computed by taking the proposed distribution amount per unit divided by the previous twelve quarter average market value price per unit) the UTIMCO Board at its sole discretion, may reduce the per unit distribution amount.

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

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

Fund Accounting
The fiscal year of the Fund shall begin on September 1st and end on August 31st. Market value of the Fund shall be maintained on an accrual basis in compliance with Financial Accounting Standards Board Statements, Government Accounting Standards Board Statements, or industry guidelines, whichever is applicable. Significant asset write-offs or write-downs shall be approved by the chief investment officer and reported to the UTIMCO Board.

Valuation of Assets
As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all Fund net assets and the net asset value per unit of the Fund. Such valuation of Fund assets shall be based on the bank trust custody agreement in effect at the date of valuation. Valuation of alternative assets shall be determined in accordance with the UTIMCO Valuation Criteria for Alternative Assets.

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

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

In order to permit complete investment of funds and to avoid fractional units, any purchase amount will be assigned a whole number of units in the Fund based on the appropriate per unit value of the Fund. Any fractional amount of purchase funds which exceeds the market value of the units assigned will be transferred to the Fund but no units shall be issued. Each fund whose monies are invested in the Fund shall own an undivided interest in the Fund in the proportion that the number of units invested therein bears to the total number of all units comprising the Fund.

Redemption of Fund Units

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

Securities Lending

The Fund may participate in a securities lending contract with a bank or nonbank security lending agent for either short-term or long-term purposes of realizing additional income. Loans of securities by the Fund shall be collateralized by cash, letters of credit, or securities issued or guaranteed by the U. S. Government or its agencies. The collateral will equal at least 100% of the current market value of the loaned securities. The contract shall state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and collateral, acceptable investment of collateral and indemnification provisions. The contract may include other provisions as appropriate. The securities lending program will be evaluated from time-to-time as deemed necessary by the UTIMCO Board. Monthly reports issued by the agent shall be reviewed by UTIMCO to insure compliance with contract provisions.

Investor Responsibility

As a 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. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the Fund solely in the interest of Fund unitholders and shall not invest the Fund so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

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

Effective Date

The effective date of this policy shall be August 12~~February 11~~, 1999.

Click here for LTF Specific Asset Allocation, Expected Return and Risk, Neutral Position, Ranges, and Performance Objectives

THE UNIVERSITY OF TEXAS SYSTEM
SEPARATELY INVESTED ENDOWMENT, TRUST, AND OTHER ACCOUNTS INVESTMENT POLICY STATEMENT

Purpose

The Separately Invested Endowment, Trust, and Other Accounts are Accounts established in the name of the Board of Regents of The University of Texas System (the "Board") as trustee, and are Accounts which are not solely invested in one of the pooled investment vehicles. These Accounts are not invested in the pooled investment vehicle because a) they are charitable trusts; b) of investment restrictions incorporated into the endowment document; c) of inability to sell the gifted investment asset; or d) they are assets being migrated upon liquidation into a pooled investment vehicle.

Investment Management

Ultimate fiduciary responsibility for the assets of the Accounts rests with the Board. Section 163 of the Property Code authorizes the U. T. Board to delegate to its committees, officers or employees of the U. T. System and other agents the authority to act for the U. T. Board in the investment of the institutional assets for the Account (endowment and operating accounts). The applicable trust instrument will apply to the management of trust investments. The assets for the Account shall be governed through The University of Texas Investment Management Company ("UTIMCO") which shall a) recommend investment policy for the Accounts, b) determine specific asset allocation targets, ranges and performance benchmarks consistent with the Account objectives, and if appropriate c) monitor the Account's performance against Account objectives. UTIMCO shall invest the Account's assets in conformity with investment policy.

Unaffiliated investment managers may be hired by UTIMCO to improve the Account's return and risk characteristics. Such managers shall have complete investment discretion unless restricted by the terms of their management contracts. Managers shall be monitored for performance and adherence to investment disciplines.

Account Administration

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

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

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

Operating Accounts-These are separate operating accounts of the Component institutions which invest in a~~the~~ Equity Index Fund ~~B~~ and a ~~the~~ U. S. Debt Index Fund ~~B~~ as approved by the Chief Investment Officer. The amount of component operating funds invested in the index funds is governed by the U. T. System Financial Policy.

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

If appropriate, the Account's assets shall be allocated among the following broad asset classes based upon their individual return/risk characteristics and relationships to other asset classes:

1. Cash Equivalents - are highly reliable in protecting the purchasing power of current income streams but historically have not provided a reliable return in excess of inflation. Cash equivalents provide good liquidity under both deflation and inflation conditions.

2. Fixed Income Investments - offer the best protection for hedging against the threat of deflation by providing a dependable and predictable source of income for the Account. Such bonds should be high quality, with reasonable call protection in order to ensure the generation of current income and preservation of nominal capital even during periods of severe economic contraction. This

classification shall include fixed income mutual funds.

3. Equities - provide both current income and growth of income, but their principal purpose is to provide appreciation for the Account. Historically, returns for equities have been higher than for bonds over all extended periods. Therefore, equities represent the best chance of preserving the purchasing power of the Account. This classification shall include equity mutual funds.

Variable Annuities- These are insurance contracts purchased on the life or lives of the income beneficiaries and for which the funds underlying the contract are invested in various mutual funds which offer diversification of the Account's assets. These contracts offer some downside market risk protection in case of the income beneficiary's death in the early years of the contract. These investment assets are only appropriate for the charitable remainder trusts.

Asset Allocation Policy

The asset allocation policy and ranges for each trust or endowment herein is dependent on the terms and conditions of the endowment or trust document. With respect to the operating accounts, the U. T. System financial policies shall govern. If possible, the Account's assets shall be diversified among different types of assets whose returns are not closely correlated in order to enhance the return/risk profile of the Account.

The Board delegates authority to UTIMCO to establish specific asset allocation targets and ranges for each trust or endowment Account.

Performance Measurement

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

Investment Guidelines

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

Investment guidelines include the following:

General

- Investment guidelines for index and other commingled funds managed externally shall be governed by the terms and conditions of the Investment Management Contract.

- All investments will be U. S. dollar denominated assets unless held by an internal or external portfolio manager with discretion to invest in foreign currency denominated securities.
- Investment policies of any unaffiliated liquid investment Account must be reviewed and approved by the chief investment officer prior to investment of Account's assets in such liquid investment Account.
- No securities may be purchased or held which would jeopardize, if applicable, the Account's tax-exempt status.
- No investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.
- The Account may utilize Derivative Securities with the approval of the UTIMCO Board to; a) simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes; b) to facilitate trading; c) to reduce transaction costs; d) to seek higher investment returns when a Derivative Security is priced more attractively than the underlying security; e) to index or to hedge risks associated with Account investments; or f) to adjust the market exposure of the asset allocation, including long and short strategies; provided that; i) no leverage is employed in the implementation of such Derivative purchases or sales; ii) no more than 5% of the Accounts assets are required as an initial margin deposit for such contracts; iii) the Account's investments in warrants shall not exceed more than 5% of the Account's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.
- Such Derivative Securities shall be defined to be those instruments 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.

  UTIMCO shall attempt to minimize the risk of an imperfect correlation between the change in market value of the securities held by the Account and the prices of Derivative Security investments by investing in only those contracts whose behavior is expected to resemble that of the Account's underlying securities. UTIMCO also shall attempt to minimize the risk of an illiquid secondary market for a Derivative Security contract and the resulting inability to close a position prior to its maturity date by entering into such transactions on an exchange with an active and liquid secondary market. The net market value of exposure of Derivative Securities purchased or sold over the counter may not represent more than 15% of the net assets of the Account.

In the event that there are no Derivative Securities traded on a particular market index, the Account may utilize a composite of other Derivative Security contracts to simulate the performance of such index. UTIMCO shall attempt to reduce any tracking error from the low correlation of the selected Derivative Securities with its index by investing in contracts whose behavior is expected to resemble that of the underlying securities.

UTIMCO shall minimize the risk that a party will default on its payment obligation under a Derivative Security agreement by entering into agreements that mark to market no less frequently than monthly and where the counterparty is an investment grade credit. UTIMCO also shall attempt to mitigate the risk that the Account will not be able to meet its obligation to the counterparty by investing the Account in the specific asset for which it is obligated to pay a return or by holding adequate short-term investments.

The Account may be invested in foreign currency forward and foreign currency futures contracts in order to maintain the same currency exposure as its respective index or to protect against anticipated adverse changes in exchange rates among foreign currencies and between foreign currencies and the U. S. dollar.

Risk Management

- Credit risk shall be controlled by UTIMCO who is responsible for the development and maintenance of credit quality standards for the Account.
- ~~Not more than 5% of the total value of the securities in the Account shall be placed with any one issuer (i.e., Commercial Paper, Certificates of Deposit, or Bankers Acceptances) other than the U. S. Treasury, U. S. Agencym or Government Sponsored entities.~~
- Counterparty exposure in the area of Repurchase Agreements and Reverse Repurchase Agreements shall not be more than 5% of the total value of the securities in the Account shall be placed with any one counterparty.
- Diversification of credit risk shall be determined on an account basis.

Eligible Investments

Holdings of cash and cash equivalents may include the following:

- Unaffiliated liquid (Money Market Funds) investment funds rated AAA_M by Standard & Poor's Corporation.
- Approved Tax Exempt unaffliated liquid investment fund.
- Internal short term pooled investment fund managed by UTIMCO.

- Commercial paper, negotiable certificates of deposit, and Bankers' Acceptances must be rated at least A-1 by Standard & Poor's Corporation and P-1 by Moody's Investors Service, Inc.
- Floating rate securities, if they are based on a spread over or under a well known index such as LIBOR or a Constant Maturity Treasury index. No internally leveraged floating rate securities are permitted (i.e., a coupon equivalent to a formula that creates a multiplier of an index value). The following types of floating rate securities are not eligible for investment; inverse floaters, non-money market based floaters, interest only or principal only floaters, non-dollar based floaters, and range note floaters.
- Repurchase Agreements and Reverse Repurchase Agreements must be transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a Primary Dealer in U. S. Treasury securities and rated A-1 or P-1 or the equivalent.
  - Each approved counterparty shall execute the Standard Public Securities Association (PSA) Master Repurchase Agreement with UTIMCO.
  - Eligible Collateral Securities for Repurchase Agreements are limited to U. S. Treasury securities and U. S. Government Agency securities with a maturity of not more than 10 years.
  - The maturity for a Repurchase Agreement may be from one day to two weeks.
  - The value of all collateral shall be maintained at 102% of the notional value of the Repurchase Agreement, valued ~~dialy~~daily.
  - All collateral shall be delivered to the Account's custodian bank. Tri-party collateral arrangements are not permitted
  - The aggregate amount of repurchase agreements with maturities greater than seven calendar days may not exceed 10% of the Account's total assets.
  - Overnight repurchase agreements may not exceed 10% of the Account's total assets.
- Mortgage Backed Securities (MBS) Dollar Rolls shall be executed as matched book transactions in the same manner as Reverse Repurchase Agreements above. As above, the rules for trading MBS Dollar Rolls shall follow the Public Securities Association standard industry terms.

Holdings of eligible fixed income securities shall be limited to those securities a) issued by or fully guaranteed by the U. S. Treasury, U. S. Government-Sponsored Enterprises, or U. S. Government Agencies, and b) issued by corporations and municipalities. Within this overall limitation:

- Permissible securities for investment include the components of the Lehman Brothers Aggregate Bond Index (LBAGG): investment grade government and corporate securities, agency mortgage pass-through securities, and asset-backed securities. These sectors are divided into more specific sub-indices; 1) Government: Treasury and Agency; 2) Corporate: Industrial, Finance, Utility, and Yankee; 3) Mortgage-backed securities: GNMA, FHLMC, and FNMA; and 4) Asset-backed securities. In addition to the permissible securities listed above, the following securities shall be permissible: a) floating rate securities with periodic coupon changes in market rates issued by the same entities that are included in the LBAGG as issuers of fixed rate securities; b) medium term notes issued by investment grade corporations; c) zero coupon bonds and stripped Treasury and Agency securities created from coupon securities; and d) structured notes issued by LBAGG qualified entities.

- U.S. Domestic Bonds must be rated investment grade, Baa3 or better by Moody's Investors Services, BBB- by Standard & Poor's Corporation, or an equivalent rating by a nationally recognized rating agency at the time of acquisition.
- ~~Not more than 5% of the market value of domestic fixed income securities may be invested in corporate and municipal bonds of a single issuer provided that such bonds, at the time of purchase, are rated, not less than Baa or BBB, or the equivalent, by any two nationally recognized rating services, such as Moody's Investors Service, Standard & Poor's Corporation, Fitch Investors Service.~~
- Not more than 35% of the Account's fixed income portfolio may be invested in non-U. S. dollar bonds. Not more than 15% of the Account's fixed income portfolio may be invested in bonds denominated in any one currency.
- Non-dollar bond investments shall be restricted to bonds rated equivalent to the same credit standard as the U.S. Fixed Income Portfolio.
- Not more than 7.5% of the Account's fixed income portfolio may be invested in Emerging Market debt.
- International currency exposure may be hedged or unhedged at UTIMCO's discretion or delegated by UTIMCO to an external investment manager.
- Permissable securities for investment include Fixed Income Mutual Funds <u>and Debt Index Funds</u> as approved by the Chief Investment Officer.
- Permissable securities for investment include Fixed Income Variable Annuity Contracts as approved by the Chief Investment Officer.

~~Holdings of eligible fixed income derivative securities shall be limited by the following guidelines:~~

~~With prior written approval of the UTIMCO Board, the Account may enter into derivatives transactions utilizing exchange traded fixed income futures~~

~~contracts or options on fixed income futures contracts; provided that such derivatives transactions are designed to control duration or manage risk.~~

~~Such derivatives transactions shall be established on a case by case basis. These contracts shall include but shall not be limited to Ten-Year Treasury Futures, Eurodollar Futures, or Treasury Bill Futures, provided that the futures exchanges are rated AAA or the equivalent as determined by UTIMCO.~~

~~Such derivatives shall be priced daily.~~

~~Market risk shall be measured in dollar duration equivalent values or in the case of options in delta or percentage of equivalent futures contracts.~~

~~For the purpose of this policy Collateralized Mortgage Obligations ("CMO's") are considered to be MBS, not derivatives.~~

Equities

I. The Account may purchase equity securities as long as it

A. holds no more than 25% of its equity securities in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at market.

B. holds no more than 5% of its equity securities in the securities of one corporation at cost unless authorized by the Chief Investment Officer.

~~These provisions do not apply to an endowment in which the agreement prohibits the sale of an equity security.~~

II. ~~II.~~ The Account may purchase Equity Mutual Funds and Equity Variables Annuity Contracts as approved by the Chief Investment Officer.

The provisions concerning investment in fixed income and equities securities shall not apply to an endowment in which the agreement prohibits the sale of an equity or fixed income security. Donor preferences shall be considered in determining the disposition of a gifted security.

Distributions

Distributions of income or amounts from the Accounts to the beneficiaries shall be made as soon as practicable, either a) based on the terms of the trust instrument; b) following the fiscal quarter end for endowments; c) on or after the last day of the month for operating Accounts.

Accounting

The fiscal year of the Accounts shall begin on September 1st and end on August 31st. Trusts will also have a tax year end which may be different than August 31st. Market value of the Accounts shall be maintained on an accrual basis in compliance with Financial Accounting Standards Board Statements, Government Accounting Standards Board Statements, industry guidelines, or federal income tax laws, whichever is applicable. Significant asset write-offs or write-downs shall be approved by the chief investment officer and reported to the UTIMCO Board.

Valuation of Assets

As of the close of business for each month, UTIMCO shall determine the fair market value of all assets in the Accounts. Such valuation of assets shall be based on the bank trust custody agreement in effect or other external source if not held in the bank custody account at the date of valuation.

Securities Lending

The Account may participate in a securities lending contract with a bank or nonbank security lending agent for either short-term or long-term purposes of realizing additional income. Loans of securities by the Accounts shall be collateralized by cash, letters of credit or securities issued or guaranteed by the U. S. Government or its agencies. The collateral will equal at least 100% of the current market value of the loaned securities. The contract shall state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and collateral, acceptable investment of collateral and indemnification provisions. The contract may include other provisions as appropriate. The securities lending program will be evaluated from time to time as deemed necessary by the UTIMCO Board. Monthly reports issued by the agent shall be reviewed by UTIMCO to insure compliance with contract provisions.

Investor Responsibility

As a shareholder, the Account 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 Account. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the Account solely in the interest of the beneficiaries and shall not invest the Account so as to achieve temporal benefits for any purpose, including use of its economic power to advance social or political purposes.