

**UTIMCO BOARD OF DIRECTORS
MEETING AGENDA
February 28, 2018**

210 West 7th Street, Suite 1700
Austin, Texas 78701

Time	Item #	Agenda Item
Begin	End	
9:00 a.m.	9:05 a.m.	1 Convene in Open Session Call to Order/ Approval of Minutes of November 29, 2017 Meeting*
9:05 a.m.	9:10 a.m.	2 Discussion and Appropriate Action Related to Corporate Resolutions: - Appointment of Corporate Officers* - Designation of Annual Meeting of the UTIMCO Board*
9:10 a.m.	9:55 a.m.	3 Conversation with President and Co-COO of Goldman Sachs
9:55 a.m.	10:25 a.m.	4 Performance and Market Update
10:25 a.m.	11:40 p.m.	5 Total Alignment Presentation
11:40 p.m.	12:45 p.m.	Lunch
12:45 p.m.	1:30 p.m.	6 Private Investments Presentation
1:30 p.m.	2:00 p.m.	7 Co-Investment Strategy Presentation
2:00 p.m.	2:10 p.m.	8 Report from Audit and Ethics Committee: - Approval of Deloitte & Touche LLP Financial Statement Audit Results and Communications and the Audited Financial Statements of UTIMCO*
2:10 p.m.	2:15 p.m.	9 Report from Risk Committee
2:15 p.m.	2:25 p.m.	10 Report from Policy Committee: - Approval of Proposed Amendments to UTIMCO Bylaws*,**
2:25 p.m.	2:40 p.m.	Recess to Executive Session, if required Executive Session: Pursuant to Section 551.074, <i>Texas Government Code</i> , the Board of Directors may convene in Executive Session for the purpose of deliberating individual personnel compensation and evaluation matters. Reconvene into Open Session
2:40 p.m.	2:50 p.m.	11 Report from Compensation Committee: - Approval of Designation of Employees in Eligible Positions as Participants in the UTIMCO Compensation Program for the Performance Period ending August 31, 2018*
2:50 p.m. 3:00 p.m.	3:00 p.m.	12 Contracts Update and Discussion and Appropriate Action Related to Contract* Adjourn

* Action by resolution required

** Resolution requires further approval from the Board of Regents of The University of Texas System

Members of the Board may attend the meeting by telephone conference call pursuant to Tex. Educ. Code Ann. § 66.08(h)(2)(B). The telephone conference will be audible to the public at the meeting location specified in this notice during each part of the meeting that is required to be open to the public.

Next Scheduled Meeting: May 17, 2018 (Annual Meeting)
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RESOLUTION RELATED TO MINUTES

RESOLVED, that the minutes of the Meeting of the Board of Directors held on **November 29, 2017**, be, and are hereby, approved.

**MINUTES OF MEETING
OF THE BOARD OF DIRECTORS OF
THE UNIVERSITY OF TEXAS/TEXAS A&M INVESTMENT MANAGEMENT COMPANY**

The Board of Directors (the "Board") of The University of Texas/Texas A&M Investment Management Company (the "Corporation") convened in an open meeting on **November 29, 2017**, in person and by means of conference telephone at the Hilton Garden Inn located at 220 East Grande Blvd in Tyler, Texas, said meeting having been called by the Chairman, Jeffery D. Hildebrand, with notice provided to each member in accordance with the Bylaws. The audio portion of the meeting was electronically recorded and broadcast over the Internet. Participating in the meeting were the following members of the Board:

Jeffery D. Hildebrand
Phil Adams
J. Kyle Bass
Robert Gauntt
Janet Handley
R. Steven Hicks (via telephone)
Ray Nixon
Ray Rothrock (via telephone)
Rad Weaver

thus constituting a majority and quorum of the Board. Employees of the Corporation attending the meeting were Britt Harris, President, CEO and Chief Investment Officer; Joan Moeller, Secretary and Treasurer; Cecilia Gonzalez, Corporate Counsel and Chief Compliance Officer; Uzi Yoeli, Managing Director; Russell Kampfe, Managing Director; Susan Chen, Managing Director; and other team members. Other attendees were Keith Brown of the McCombs School of Business at UT Austin; Jerry Turner and Isabel Crosby of Andrews Kurth Kenyon LLP; Roger Starkey, Barry McBee, and Karen Adler of UT System; and David Rejino of The Texas A&M University System. Chairman Hildebrand called the meeting to order at 12:47 p.m. Copies of materials supporting the Board meeting agenda were previously furnished to each member of the Board.

Minutes

The first item to come before the Board was approval of the Minutes of the Board of Directors Meetings held on September 11, 2017. Upon motion duly made and seconded, the following resolution was unanimously adopted by the Board:

RESOLVED, that the minutes of the Meeting of the Board of Directors held on September 11, 2017, be, and are hereby, approved.

Designation of Plan Administrative Committee

Chairman Hildebrand asked Ms. Moeller to explain the designation of the plan administrative committee. Ms. Moeller stated the Corporation maintains two deferred compensation plans for employees, the UTIMCO 403(b) Tax Sheltered Annuity Plan available to all employees and the UTIMCO 457(b) Deferred Compensation Plan for a select group of management and highly compensated employees (the "Plans"). She explained these Plans require the designation of a Plan Administrative Committee and the responsibilities of this committee. Ms. Moeller explained that currently there are only two committee members, herself and Melynda Shepherd, Manager of Human Resources, and asked that Britt Harris, President, CEO, and Chief Investment Officer of UTIMCO, be

appointed to this committee. Upon motion duly made and seconded, the following resolution was approved unanimously:

RESOLVED, that the following employees be designated as the Plan Administrative Committee, responsible for general administration of both the 403(b) Tax Sheltered Annuity Plan and 457(b) Deferred Compensation Plan of the Corporation.

Britt Harris	President, CEO and Chief Investment Officer
Joan Moeller	Senior Managing Director – Accounting, Finance and Administration
Melynda Shepherd	Manager – Human Resources

UTIMCO Performance Report and Market Update

Chairman Hildebrand asked Mr. Harris and Dr. Yoeli to present the Corporation's performance report and market update. Mr. Harris reviewed the current market environment then presented the Corporation's assets under management and performance results as of September 30, 2017. Mr. Harris reported the Corporation had \$41.4 billion of assets under management, specifically in Endowment Funds: \$20.0 billion in the Permanent University Fund (PUF), \$8.3 billion in the Long Term Fund (LTF) and \$1.2 billion in the Permanent Health Fund (PHF); and \$11.8 in Operating Funds: \$9.2 billion in the Intermediate Term Fund (ITF), \$1.8 billion in the Short Term Fund (STF), and \$0.8 billion in the Debt Proceeds Fund. The net performance for the 12 months ended September 30, 2017, for the PUF was 11.83%, for the LTF was 12.10%, and for the ITF was 7.73%. Mr. Harris reported that for the period ending June 30, 2017, UTIMCO outperformed large private endowments, reviewed PUF historical performance and performance attribution, presented the current allocation and new PureView Asset Allocation worksheet, addressed special issues for UTIMCO, and global market conditions. Mr. Harris and Dr. Yoeli presented the UTIMCO risk overview. Director Rothrock left the meeting at this time.

The Board recessed briefly at 2:17 p.m.

The meeting of the Board reconvened in open session at 2:28 p.m.

Executive Session

Prior to going into executive session, Chairman Hildebrand announced that, "The Board of Directors of The University of Texas/Texas A&M Investment Management Company having been duly convened in Open Session and notice of this meeting having been duly given, I hereby announce the convening of a closed meeting as an Executive Session to consider individual personnel compensation matters, including Report of Compensation Committee Regarding Performance Awards for UTIMCO Compensation Program Participants for the Performance Period ended August 31, 2017, and to consult with counsel regarding legal matters or pending and/or contemplated litigation or settlement offers, pursuant to Texas Government Code Sections 551.074 and 551.071. The date is November 29, 2017, and the time is now 2:30 p.m."

Reconvene in Open Session

The Board reconvened in open session and Chairman Hildebrand announced that, "The Open Session of the Board of Directors of The University of Texas/Texas A&M Investment Management Company is now reconvened. The date is November 29, 2017, and the time is now 2:45 p.m. During the Executive Session, the Board deliberated individual personnel compensation matters, including Report of Compensation Committee Regarding Performance Awards for UTIMCO Compensation Program Participants for the Performance Period ended August

31, 2017, and consulted with counsel regarding legal matters or pending and/or contemplated litigation or settlement offers, but no action was taken nor decisions made, and no vote was called for or had by the Board in Executive Session."

Report from Risk Committee

Chairman Hildebrand asked Mr. Bass to provide a report from the Risk Committee. Mr. Bass reported that the Risk Committee met via teleconference on November 16, 2017. During the meeting the Committee approved the minutes of the April 19, 2017 meeting. In addition, the Committee approved 19 new mandate categorizations prepared by team members for the period beginning April 1, 2016 and ending November 3, 2017. Routine matters before the Committee included a report from the Corporate Counsel and Chief Compliance Officer on compliance matters for the six months and year ended August 31, 2017. Mr. Harris and Dr. Yoeli gave a market and portfolio risk update for the year ended August 31, 2017.

Report from Audit and Ethics Committee

Chairman Hildebrand asked Ms. Handley to provide a report on behalf of the Audit and Ethics Committee. Ms. Handley reported that the Committee met via teleconference on November 16, 2017. At the meeting, the Committee approved minutes from their August 31st meeting; discussed and approved the Deloitte & Touche LLP's Audit Results and Communications, subject to approval by this Board; approved the audit reports of the PUF, The University of Texas General Endowment Fund ("GEF"), the PHF, LTF, ITF (collectively, the Investment Funds), and the Statement of Investment Performance Statistics for the year ended August 31, 2017, subject to approval by this Board; and made its recommendation to the Compensation Committee regarding the Corporate Counsel and Chief Compliance Officer's Performance Award for the Performance Period ended August 31, 2017, and participation in the UTIMCO Compensation Program (the "Plan") for the Performance Period ending August 31, 2018. Routine matters of the Committee were also considered, including an update on UTIMCO's compliance, reporting and audit matters, the compliance summary for the six months ended August 31, 2017, the annual report on the institutional compliance program, and update on the FY17 action plan and presentation of the FY 18 action plan. Finally, the Committee heard a report from Mr. Cowley of Deloitte and Touche LLP on the Financial Statement Audit Results and Communications for the Investment Funds. Ms. Handley asked Mr. Cowley to provide a brief report to the Board on the Investment Funds audit results. After Mr. Cowley's presentation, Ms. Handley requested approval, on behalf of the Audit and Ethics Committee, of a resolution related to the audits of the Investment Funds for Fiscal Year 2017. Upon motion duly made and seconded, the following resolution was unanimously adopted by the Board:

RESOLVED, that Deloitte & Touche LLP's Financial Statement Audit Results and Communications on the Investment Funds Under Fiduciary Responsibility of The University of Texas System Board of Regents for the year ended August 31, 2017, be, and is hereby approved in the form as presented to the Board; and

FURTHER RESOLVED, that the separate annual financial statements and audit reports for the Permanent University Fund, the Permanent Health Fund, The University of Texas System Long Term Fund, The University of Texas System General Endowment Fund, and The University of Texas System Intermediate Term Fund each for the fiscal years ended August 31, 2017, and August 31, 2016, and the Statement of Investment Performance Statistics for the year ended August 31, 2017, be, and are hereby approved in the form as presented to the Board.

Compensation Committee Report

Chairman Hildebrand asked Director Nixon to provide a report on the Committee's meetings in Director Rothrock's absence. Mr. Nixon stated that the Compensation Committee (the "Committee") met on November 16, 2017 and again on November 29, 2017. The Committee considered six action items at these meetings, four of which require further approval by the Board.

The Committee approved the minutes of its August 31st and November 16th meetings, approved amendments to Appendix C of the Plan effective September 1, 2017, subject to approval by this Board, met in Executive Session to discuss the performance awards for UTIMCO officers and other compensation program participants for the Performance Period ended August 31, 2017, and discussed the designation of employees in Eligible Positions as Participants in the Plan for the Performance Period ended August 31, 2018. After the executive session on November 16th, the Committee approved the designation of employees in Eligible Positions as Participants in the Plan for the Performance Period ended August 31, 2018, subject to approval by the Board.

Following the executive session at the meeting held earlier in the day, the Committee approved the Performance Awards for the Participants for the Performance Period ended August 31, 2017, excluding the Interim CEO and CIO, subject to approval by the Board; and approved a recommendation to the Board of the Performance Incentive Award for the Interim CEO and CIO for the Performance Period ended August 31, 2017.

Director Nixon recommended four resolutions for approval by the Board. Upon motion duly made and seconded, the following resolutions were unanimously adopted by the Board:

WHEREAS, Section 5.5.(d) of the UTIMCO Compensation Program (the "Plan") provides that, at the end of each "Performance Period," the Board will determine the level of achievement of the CEO relative to the CEO's "Performance Goals" for such Performance Period; and

WHEREAS, on October 13, 2016, Mark Warner was appointed as the Interim CEO and Chief Investment Officer of the Corporation with all the powers and duties of Chief Executive Officer and Chief Investment Officer of the Corporation and served in that capacity until July 31, 2017; and

WHEREAS, the Committee has reviewed the actual performance of the Interim CEO during the Performance Period and has compared such actual performance relative to each Performance Goal category for the CEO against his corresponding Performance Goal for such Performance Period and recommends that the Board review the same; and

WHEREAS, Sections 5.5.(e) and 5.5.(f) of the Plan provide that, based on the percentage achieved of each Participant's Performance Goals for a Performance Period, a Performance Award will be calculated for each Participant for such Performance Period in accordance with the calculation methodology set forth in Appendix A of the Plan; and

WHEREAS, Section 5.5.(f) of the Plan provides that the Committee will review all calculations of Performance Awards, make any changes it deems appropriate, and submit its recommendation to the Board for approval; and

WHEREAS, the Committee has reviewed the calculation of the Performance Award for the Interim CEO of the Corporation, approves such calculation, and recommends that the Board approve the Interim CEO's Performance Award.

NOW, THEREFORE, be it:

RESOLVED, that the Interim CEO's Performance Award for the Performance Period ended August 31, 2017, in the total amount of \$1,407,907 is hereby approved, subject to further approval of the UTIMCO Board and be it

FURTHER RESOLVED, that of the Interim CEO's \$1,407,907 Performance Award for the Performance Period ended August 31, 2017, 50% (\$703,953.50) will be deferred pursuant to the Plan.

And

WHEREAS, Section 5.5.(d) of the UTIMCO Compensation Program (the "Plan") provides that, at the end of each Performance Period, the Compensation Committee will approve, subject to further approval of the UTIMCO Board, the Performance Award of each Participant based upon a determination of the level of achievement of such Participant against his or her Performance Goals for such Performance Period; and

WHEREAS, in accordance with Section 5.5.(d) of the Plan, the Compensation Committee has determined the level of achievement by each Participant in the Plan during the Performance Period ended August 31, 2017, of his or her Performance Goals for such Performance Period; and

WHEREAS, Sections 5.5.(e) and 5.5.(f) of the Plan provide that, based on the percentage achieved of each Participant's Performance Goals for a Performance Period, a Performance Award will be calculated for such Participant for such Performance Period in accordance with the calculation methodology set forth in Appendix A of the Plan; and

WHEREAS, Section 5.5.(f) of the Plan provides that the Compensation Committee will review all calculations of Performance Awards, make any changes it deems appropriate, and submit its recommendation to the Board for approval; and

WHEREAS, the Compensation Committee has reviewed the Performance Awards for all Participants who have met or exceeded their performance benchmarks for the Performance Period ended August 31, 2017, made changes it deemed appropriate, approved such Performance Awards, and recommended that the Board approve the same.

NOW, THEREFORE, be it:

RESOLVED, that the Board approves the Performance Awards for all Participants (excluding the CEO) for the Performance Period ended August 31, 2017, in the total aggregate amount of \$7,224,317 and be it

FURTHER RESOLVED, that of the Performance Awards for all Participants (excluding the CEO) for the Performance Period ended August 31, 2017, 25.3% (\$1,825,081) will be deferred pursuant to the Plan.

And

WHEREAS, Section 5.3.(a) of the UTIMCO Compensation Program (the "Plan") provides that, in order to become a "Participant" in the Plan for a Performance Period, a UTIMCO employee must be (1) employed in a position designated by the Board of Directors of UTIMCO (the "Board") as an "Eligible Position" for that Performance Period and (2) selected by the Board as a Participant for that Performance Period; and

WHEREAS, the Compensation Committee of the Board has recommended the individuals who may become Participants for the Performance Period ended August 31, 2018, set forth on Exhibit 1 attached hereto; and

WHEREAS, the UTIMCO Board has reviewed Exhibit 1 and wishes to select the individuals who may become Participants for the Performance Period ended August 31, 2018.

NOW, THEREFORE, be it:

RESOLVED, that the individuals set forth on Exhibit 1 attached hereto are hereby designated as "Participants" in the Plan for the Performance Period ended August 31, 2018, effective as of September 1, 2017.

And

WHEREAS, Section 7.2. of the UTIMCO Compensation Program (the "Plan") provides that UTIMCO, by action of its Board of Directors (the "Board"), has the right in its discretion to amend the Plan or any portion thereof from time to time; and

WHEREAS, Section 5.3.(a) of the Plan requires Table 1 to be revised each Performance Period when necessary to set forth the Eligible Positions, the weightings for the Eligible Positions, the Incentive Award Opportunities, and any Applicable Deferral Percentage for each Eligible Position, for that Performance Period as soon as administratively practicable after confirmation of such Eligible Positions by the Board for such Performance Period and to be attached as Appendix C to the Plan; and

WHEREAS, the Board has reviewed the revised Table 1 and approves the amendments as recommended by the Compensation Committee.

NOW, THEREFORE, be it:

RESOLVED, the updated and amended Table 1, a copy of which is attached hereto, is hereby adopted and approved to replace the current Appendix C, effective as of September 1, 2017.

Public Markets and Venture Capital Investment Presentations

Chairman Hildebrand invited Susan Chen and Russ Kampfe to present an update on Venture Capital and Fixed Income. Ms. Chen reported on the role of Venture Capital in the portfolio. Ms. Chen reported that over the last three years, the portfolio returned 14.3%, outperforming the TUCS Median by 11.6%. The Venture Capital Portfolio is about 5% of the PUF and GEF, up from 3.9% last year. It is the longest time horizon, highest return asset class. There are about 40 managers in Venture Capital with 16 of those being core relationships. There is currently about \$1.6B invested in Venture with another \$700M in unfunded commitments, for a total of \$2.3B. Of the growth in Venture Capital, four or five funds drove the majority of the growth. The long-term goal of the venture capital portion of the fund is to grow it to about 7% of the PUF and GEF. Over the next year, the Venture Capital team will focus on completing team critical process maps, finalize the team's premier list, develop scalable co-investment strategy and actively explore co-investment opportunities with existing managers, and partner with the Emerging Markets team on technology investment opportunities.

Next Ms. Chen next reported on the Long Only and Long Biased Public Equity Portfolio. UTIMCO holds about \$10B of Developed and Emerging Market equity exposure, which represents a quarter of UTIMCO assets. The Developed Market funds have had strong annualized returns in the low teens over the last few years. Emerging Markets has had the lower performance return of the two markets. This sector of UTIMCO's portfolio tends to have higher returns than the benchmark in low performing markets and lower returns in high performing markets. The Public Equity Team is aware of this dynamic and continues to monitor it very closely. The Public Equity Team will also be working to complete critical process maps, finalize the team's premier list, work with Risk and other investment teams to implement more systematic endowment-wide tactical allocation signals and develop career path standardization for investment professionals across UTIMCO. Ms. Chen and Mr. Harris answered the Directors' questions.

Russ Kampfe reported on Investment Grade Fixed Income. The Fixed Income portfolio is a source of diversification and liquidity for the Investment Funds. Mr. Kampfe reported that there has been a significant drawdown in Fixed Income over the years due to portfolio needs. The U.S. has been the dominant bond market due to the currency performance of the U.S. dollar. Corporates and securitized bonds have been the best sectors. The Fixed Income portfolio is 74% external managers and about 26% in internal management. The current portfolio is \$4.8B NAV or 12% of the fund. The value add over the last five and seven years has been very consistent. The portfolio has consistently been in the second quartile of the TUCS universe. The team is closely watching inflation rates around the globe over the next year. The Fixed Income Team 2018 Priorities will be to fully integrate the Investment Grade Fixed Income within the 2018-19 asset allocation framework and contribute relevant information to the "Valuation Library" and asset allocation project. Mr. Kampfe answered the Directors' questions.

Proposed 2018 Meeting Dates

Chairman Hildebrand asked for an update on the proposed meeting dates for 2018. Mr. Harris presented a list of proposed Committee and Board Meeting dates.

Adjourn

There being no further business to come before the Board, the meeting was adjourned at approximately 3:45 p.m.

Secretary: _____
Joan Moeller

Approved: _____ Date: _____
Jeffery D. Hildebrand
Chairman, Board of Directors of
The University of Texas/Texas A&M Investment Management Company

Exhibit 1
Designation of Plan Participants in Eligible Positions
for the Performance Period Ended August 31, 2018

ELIGIBLE POSITION	PARTICIPANTS
<i>Investment Professionals</i>	
Sr Managing Director - Investments	Mark Warner
Managing Director - Investments	Ryan Ruebsahm
Managing Director - Investments	Susan Chen
Managing Director - Investments	Edward Lewis
Managing Director - Fixed Income	Russ Kampfe
Managing Director - Risk Management	Uzi Yoeli
Senior Director - Investments	Courtney Powers
Senior Director - Investments	Amanda Hopper
Senior Director - Investments	Harland Doak
Senior Director - Investments	Pat Pace
Director - Investments	Billy Prather
Director - Investments	Richard Rincon
Director - Investments	Suneel Kaji
Director - Investments	Mukund Joshi
Director - Investments	Kenneth Standley
Director- Risk Management	Kate Wagner
Associate Director - Investments	Drury Morris
Associate Director - Investments	Conrad Shang
Associate Director - Investments	Will Mirshak
Associate - Investments	Russell Brown
Associate - Investments	Jena Michels
Associate - Investments	Kyle Burhop
Associate - Investments	Mallory Glusband
Associate - Investments	Patrick Curby-Lucier
Associate - Investments	Henry Glenn
Senior Analyst - Investments	Spencer Branch
Senior Analyst - Investments	Jim Pappas
Senior Analyst - Investments	Zoe Gabbard
Senior Analyst - Investments	Anson Chuah
Analyst - Investments	Victoria Lee
Analyst - Investments	Adam Harrison
Analyst - Investments	James Ricker
Analyst - Investments	Andres Delgado
Analyst - Investments	Ross Crutchfield
Senior Investment Counsel	Jon Ellison

Support and Control Professionals

Senior Managing Director
Corporate Counsel and Chief Compliance Officer
Chief Technology Officer
Senior Manager
Manager
Manager
Manager
Mgr, Infrastructure and CISO
Mgr, Development
Business Analyst and Document System Manager
Manager

Joan Moeller
Anna Cecilia Gonzalez
Uche Abalogu
Gary Hill
Debbie Childers
Lara McKinney
Kim Bauer
David Gahagan
Akil Franklin
Aman Jain
Melynda Shepherd

Appendix C, Table 1
Eligible Positions, Weightings, Incentive Award Opportunities, and Percentage of Award Deferred for each Eligible Position
(for the Performance Periods Beginning After August 31, 2017)

Eligible Position	Weighting						Percentage of Award Deferred
	Qualitative		Incentive Award Opportunity (% of Salary)				
	Entity	(Individual)	< Threshold	Threshold	Target	Maximum	
<i>Investment Professionals</i>							
CEO & Chief Investment Officer	80%	20%	0%	0%	200%	450%	50%
Deputy Chief Investment Officer	80%	20%	0%	0%	150%	375%	50%
Senior Managing Director - Investments	70%	30%	0%	0%	120%	300%	45%
Managing Director - Investments	65%	35%	0%	0%	100%	250%	40%
Managing Director - Fixed Income	65%	35%	0%	0%	80%	200%	40%
Managing Director - Risk Management	65%	35%	0%	0%	70%	135%	40%
Senior Director - Investments	60%	40%	0%	0%	70%	185%	35%
Director - Investments	50%	50%	0%	0%	65%	175%	30%
Director - Risk Management	50%	50%	0%	0%	35%	80%	30%
Associate Director - Investments	40%	60%	0%	0%	60%	155%	20%
Associate Director - Risk Management	40%	60%	0%	0%	45%	140%	20%
Associate - Investments	35%	65%	0%	0%	50%	145%	15%
Associate - Risk Management	35%	65%	0%	0%	35%	120%	15%
Senior Analyst - Investments	30%	70%	0%	0%	40%	110%	0%
Analyst - Investments	20%	80%	0%	0%	30%	75%	0%
Analyst - Risk Management	20%	80%	0%	0%	25%	75%	0%
Senior Investment Counsel	50%	50%	0%	0%	40%	80%	25%
<i>Support and Control Professionals</i>							
Senior Managing Director	20%	80%	0%	0%	50%	90%	40%
Chief Technology Officer	20%	80%	0%	0%	30%	70%	30%
Corporate Counsel & Chief Compliance Officer	0%	100%	0%	0%	30%	70%	30%
Senior Manager	20%	80%	0%	0%	30%	60%	25%
Manager	20%	80%	0%	0%	30%	60%	25%
Senior Financial Analyst	20%	80%	0%	0%	15%	35%	20%
Mgr, Infrastructure and CISO	20%	80%	0%	0%	25%	50%	20%
Mgr, Development	20%	80%	0%	0%	25%	50%	20%
Business Analyst and Document System Manager	20%	80%	0%	0%	25%	50%	20%

Agenda Item
UTIMCO Board of Directors Meeting
February 28, 2018

Agenda Item: Discussion and Appropriate Action Related to Corporate Resolutions: Appointment of Corporate Officers and Designation of Annual Meeting of the UTIMCO Board

Developed By: Moeller, Gonzalez

Presented By: Hildebrand, Harris

Type of Item: Action required by UTIMCO Board

Description: Chairman Hildebrand will designate the annual meeting of the Board of Directors of the Corporation. The annual meeting will be held on May 17, 2018.

UTIMCO has hired two new employees in positions that are considered officers of the Corporation. Mr. Harris is recommending that Rich Hall, Deputy Chief Investment Officer and Scott Slayton, Managing Director be appointed as UTIMCO officers.

Recommendation: Chairman Hildebrand will recommend approval of the designation of the annual meeting and Mr. Harris will recommend approval of the two UTIMCO officers.

Reference: None

RESOLUTION RELATED TO CORPORATION OFFICERS

RESOLVED, that Rich Hall and Scott Slayton are hereby appointed to the offices of Deputy Chief Investment Officer and Managing Director, respectively, of the Corporation to serve until the next Annual Meeting of the Corporation or until his resignation or removal.

RESOLUTION RELATED TO ANNUAL MEETING

RESOLVED, that the Annual Meeting of the Board of Directors will be held on May 17, 2018, in Austin, Texas.

Agenda Item
UTIMCO Board of Directors Meeting
February 28, 2018

Agenda Item: Conversation with President and Co-COO of Goldman Sachs

Developed By: Team

Presented By: Schwartz, Harris

Type of Item: Information Item

Description: Mr. Harris will interview Harvey Schwartz, President and Co-Chief Operating Officer of Goldman Sachs.

Reference: None

Agenda Item
UTIMCO Board of Directors Meeting
February 28, 2018

Agenda Item: Performance and Market Update

Developed By: Slayton

Presented By: Slayton

Type of Item: Information Item

Description: Mr. Slayton will present on performance and provide a market update.

Reference: *Performance and Market Update* presentation



The University of Texas / Texas A&M Investment Management Company

Performance and Market Update

February 2018

Scott T. Slayton, CFA
Managing Director

2017: Reflecting on an Extraordinary Year



- Risk adjusted returns exceptionally high
- Realized volatility on DJIA hit a 110 year low
- First synchronous growth acceleration in 20 years
- Fed raised rates and began “quantitative tightening” without a hitch
- Inflation remained docile and below the Fed’s target
- Global liquidity remained highly abundant
- Ugly geopolitical backdrop exerted little influence on prices or vol
- The US dollar declined in a benign fashion
- Fiscal policy impulse returned with tax cut

Global Markets, Risk Premiums and Diversification

Periods Ending December 31, 2017



	Market Returns							Std Dev		Max Drawdown	Corr vs. S&P500	Sharpe Ratio	
	MTD	QTR	YTD	1Y	3Y	5Y	10Y	1	10E			5	10
United States													
CPI	(0.06)	(0.12)	2.11	2.11	1.64	1.43	1.61	0.79	1.39	4.43	0.12	1.15	0.88
Cash	0.11	0.28	0.86	0.86	0.41	0.27	0.39	0.09	0.27	0.01	(0.30)		
Long Treasury (Duration)	1.72	2.37	8.53	8.53	2.80	3.48	6.55	5.10	11.93	15.94	(0.30)	0.32	0.52
Credit (IG)	0.35	1.08	7.39	7.39	2.01	0.79	2.64	2.77	5.72	10.07	0.30	0.11	0.39
High Yield (Default)	0.46	0.87	10.43	10.43	7.08	5.67	8.08	2.28	11.23	33.37	0.75	0.97	0.68
US Dollar Index	(0.99)	(1.02)	(9.87)	(9.87)	0.68	2.92	1.85	5.13	8.70	17.13	(0.51)	0.39	0.17
S&P 500	1.11	6.64	21.83	21.83	11.41	15.79	8.50	3.94	15.04	50.95	1.00	1.63	0.54
U.S. Small Cap	1.00	6.34	21.13	21.13	11.12	15.58	8.60	3.85	15.57	51.20	1.00	1.57	0.53
Private Equity ¹	(0.42)	2.68	9.47	9.47	9.05	11.80	8.79	5.98	9.85	23.84	0.05	2.22	0.85
Size	(1.18)	(3.55)	(3.35)	(3.35)	(0.41)	(0.60)	1.86	7.24	8.00	15.37	0.28	(0.11)	0.18
Value	0.19	0.30	(10.36)	(10.36)	(0.74)	(0.58)	(0.82)	6.92	9.63	25.02	0.32	(0.11)	(0.13)
Momentum	(1.50)	2.12	4.80	4.80	1.69	2.46	(3.09)	6.94	17.35	57.39	(0.37)	0.21	(0.20)
Non-US Equity													
EAFE Developed (USD)	1.61	4.23	25.03	25.03	7.80	7.90	1.94	4.16	18.40	56.68	0.89	0.65	0.08
Emerging Markets (USD)	3.59	7.44	37.28	37.28	9.10	4.35	1.68	6.54	22.75	61.59	0.80	0.28	0.06
Global Equity (USD)	1.61	5.73	23.97	23.97	9.30	10.80	4.65	2.84	16.73	54.92	0.96	1.06	0.25
Europe (USD)	1.51	2.21	25.51	25.51	6.69	7.37	1.34	6.34	20.19	59.29	0.89	0.56	0.05
Europe (Local)	0.96	1.27	13.06	13.06	8.34	10.10	3.52	6.38	15.01	50.09	0.87	0.94	0.21
Japan (USD)	0.72	8.52	24.39	24.39	11.98	11.48	3.39	5.21	15.65	45.42	0.72	0.91	0.19
Diversifiers (Typical)													
Hedge Funds	0.90	2.08	7.68	7.68	2.57	3.98	1.07	1.50	5.10	22.20	0.74	1.14	0.13
Real Estate (Private) ¹	0.17	2.31	14.90	14.90	9.89	12.42	4.88	4.22	16.24	42.48	(0.09)	2.06	0.28
REITS	(0.21)	1.41	5.07	5.07	5.37	9.34	7.44	5.73	25.30	65.48	0.74	0.66	0.28
TIPS	0.92	1.26	3.01	3.01	2.05	0.13	3.53	2.11	6.17	12.22	0.18	(0.03)	0.51
Infrastructure	4.74	(0.95)	(6.52)	(6.52)	(9.33)	(0.06)	6.05	11.11	18.87	48.51	0.53	(0.02)	0.30
Diversifiers (Other)													
Commodities	2.99	4.71	1.70	1.70	(5.03)	(8.45)	(6.83)	5.72	17.58	67.02	0.51	(0.73)	(0.41)
Natural Resources	2.20	1.79	8.08	8.08	(0.52)	(2.54)	(3.25)	7.28	18.16	54.23	0.67	(0.24)	(0.20)
Oil	5.26	16.93	12.47	12.47	4.29	(8.03)	(4.52)	19.67	32.22	75.99	0.47	(0.28)	(0.15)
Energy Equipment & Services ²	9.30	0.50	(16.16)	(16.16)	(6.00)	(4.85)	4.56	22.36	27.12	52.63	0.66	(0.23)	0.15
Mining	10.68	11.13	32.27	32.27	8.69	(4.04)	(3.77)	22.72	32.59	75.11	0.62	(0.15)	(0.13)
Gold	2.18	1.80	13.53	13.53	3.23	(4.91)	4.57	8.72	18.93	41.88	0.03	(0.33)	0.22

¹ Private Market assets are based on independent and/or manager valuations

² 10Y columns are only for 9 years

Overview of Funds

Periods Ending December 31, 2017



Overview of Funds Periods Ending December 2017

Endowment Funds	\$B	Returns							Alpha							Fiscal YTD	
		1 Mth	QTR	YTD	1Y	3Y	5Y	10Y	1 Mth	QTR	YTD	1Y	3Y	5Y	10Y	4 mth	Alpha
PUF	\$ 21.0	1.11	3.28	14.15	14.15	7.18	7.96	5.14	0.42	(0.06)	0.60	0.60	0.87	1.09	1.67	3.71	(0.09)
PHF	\$ 1.2	1.23	3.52	14.50	14.50	7.32	8.09	5.17	0.54	0.18	0.95	0.95	1.01	1.22	1.70	4.04	0.24
LTF	\$ 8.6	1.23	3.52	14.51	14.51	7.33	8.09	5.17	0.54	0.18	0.96	0.96	1.02	1.22	1.70	4.04	0.24
Other	\$ 0.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	\$ 30.9																

Operating Funds		1 Mth	QTR	YTD	1Y	3Y	5Y	10Y	1 Mth	QTR	YTD	1Y	3Y	5Y	10Y	4 mth	Alpha
ITF	\$ 9.5	1.15	2.11	11.27	11.27	4.02	4.53	3.78	0.18	(0.54)	(0.09)	(0.09)	0.31	0.98	1.68	2.37	(0.47)
Debt Proceeds	\$ 0.7	0.11	0.32	1.13	1.13	0.62	0.41	N/A	0.00	0.04	0.27	0.27	0.21	0.14	N/A	0.42	0.05
STF	\$ 2.1	0.11	0.31	1.02	1.02	0.50	0.33	0.57	0.00	0.03	0.16	0.16	0.09	0.06	0.18	0.40	0.03
TOTAL	\$ 12.3																

All Assets	\$	Increase
	\$ 43.2	\$ 1.8
September 2017	\$ 41.4	\$ 1.0
June 2017	\$ 40.4	\$ 0.7
March 2017	\$ 39.7	\$ 2.0
December 2016	\$ 37.7	

Income & Distributions (\$M)

PUF Land Contributions
PUF Distribution
Net Payout (\$M)

Projected 8/31/2018

\$692
(\$887)
(\$195)

8/31/2017

\$665
(\$839)
(\$174)

8/30/2016

\$512
(\$773)
(\$261)



UTIMCO Risk Overview

Periods Ending December 31, 2017



Current Cycle Stage	Start Date	End Date	Length (yrs)	Average Bull Length
Expansion	3/2009	12/2017	8.8	4.6

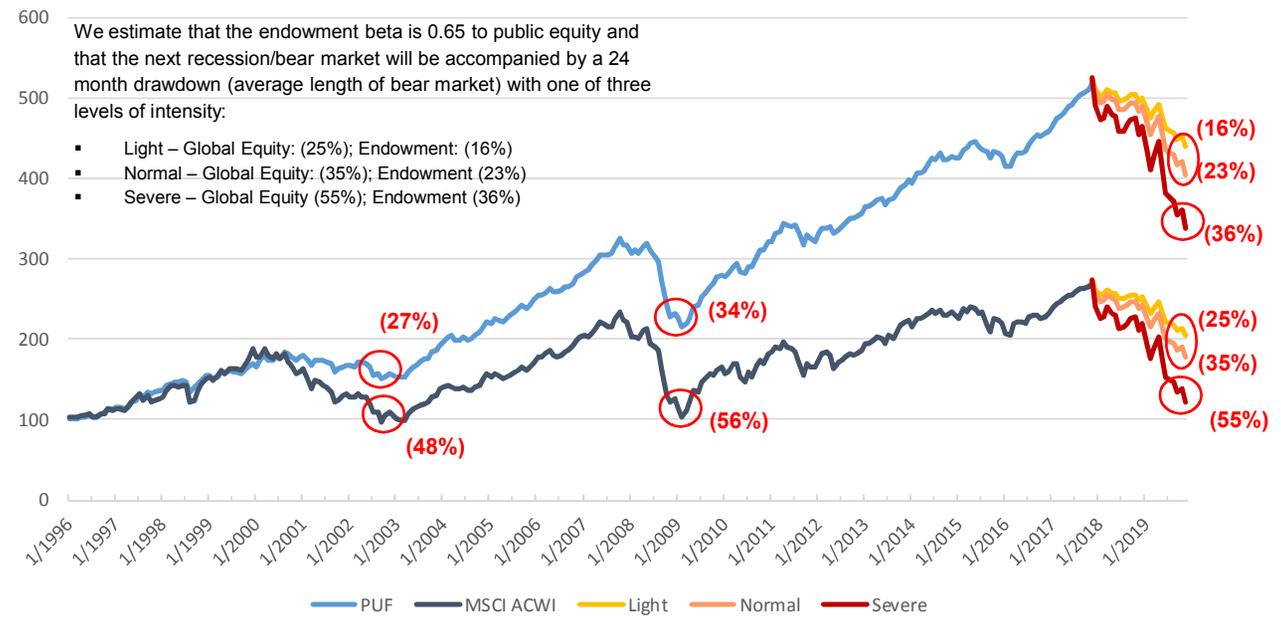
Asset Class	Cumulative	Annualized	1-yr Vol
UTIMCO	142%	10.5%	1.8%
Policy	115%	9.1%	2.1%
S&P 500	338%	18.2%	3.8%
EM (USD)	187%	12.7%	6.3%
Natural Resources	32%	3.2%	7.0%
Long Treasury	68%	6.1%	4.9%
Credit	192%	12.9%	2.2%
Hedge Funds	42%	4.0%	1.4%

Metric	3/2009	12/2014	12/2017
S&P P/E (T)	11.1	18.3	22.5
EM P/E (T)	8.1	13.1	15.9
S&P Implied Vol	49.7	19.2	11.0
2-yr UST YTM	1.0	0.7	1.9
10-yr UST YTM	2.9	2.2	2.4
Brent Oil	44.1	57.3	66.9
Natural Gas	3.9	2.9	3.0
Gold	918.0	1,184.1	1,309.3

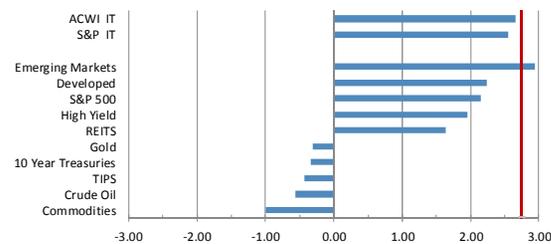
Fed Balance Sheet (\$B)	3/2009	12/2014	12/2017
US	1,902	4,498	4,449
ECB	1,460	1,777	3,725

UTIMCO Metrics	TE	IR	Sharpe
UTIMCO 3-Yr	2.2%	0.46	1.61
UTIMCO 5-Yr	2.0%	0.60	1.79

Historical and Projected PUF Drawdowns



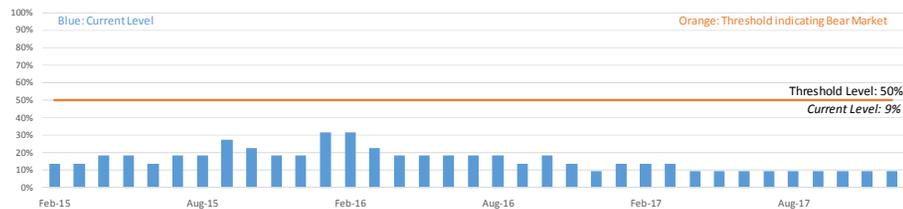
Bubble Level Monitor



Probability of Recession in the Next Year

Country	6/2016	12/2016	6/2017	12/2017
US	20%	20%	20%	15%
UK	18%	25%	25%	20%
Japan	30%	20%	20%	20%
Eurozone	13%	15%	10%	10%

Percentage of Bear Market Indicators On



Historical Geopolitical Shocks Event	Date of Shock	Days of Equity	US Equity Prices	Treasury Returns	Gold Price*	Real USD	Oil Price*
Nazis Invade France	5/1940	8	-25%	-1.4%	0.0%	1.7%	-
Pearl Harbor	12/1941	17	-10%	-1.4%	3.0%	0.3%	-
North Korea Invades South Korea	6/1950	14	-13%	-0.4%	7.0%	-0.1%	-
Cuban Missile Crisis	10/1962	1	-3%	-0.2%	-	0.0%	-
Arab Oil Embargo	10/1973	27	-17%	1.4%	-7.9%	6.7%	69%
Iraq Invades Kuwait	8/1990	16	-14%	-3.1%	11.0%	-1.5%	46%
September 11	9/2011	9	-12%	1.2%	7.0%	-0.1%	-6%
Average	-	13	-13%	-0.6%	3.3%	1.0%	36%

* Excludes gold when it was pegged and oil when it was carefully managed

Equity Risk Process Strongly Bullish Post Correction



- Objective, systematic, data driven approach to market backdrop
- Proprietary process driven by 48 underlying inputs

FIN COND	CYCLE
TREND	MODELS
PSTNING	SNTMNT
SEASNL	FLAWS
CREDIT	VALUE
EARNINGS	STUDIES

UTIMCO vs. Peers



UTIMCO vs Peers (TUCS) Fund Level Results December 31, 2017

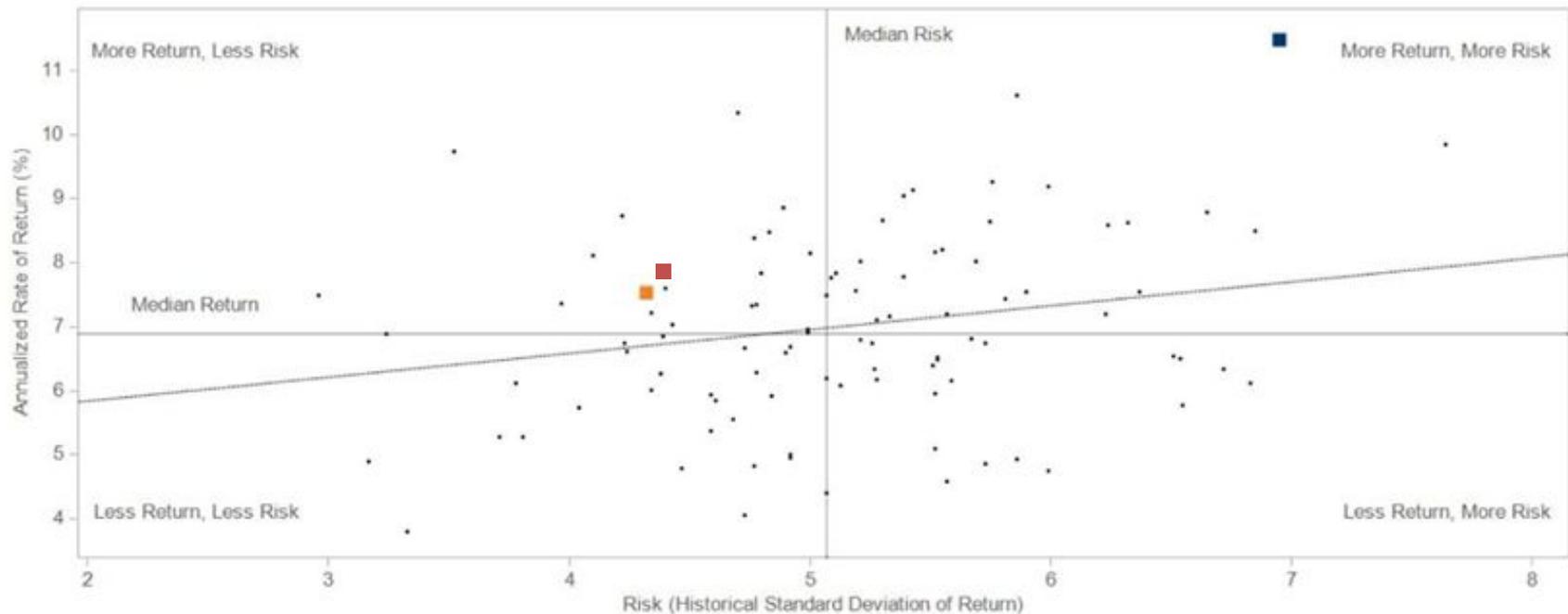
	Return					Rank (TUCS)					Universe
	1	3	5	7	10	1	3	5	7	10	
PUF Return	14.5	7.5	8.3	7.5	5.4	53	39	53	60	69	All
Median	14.7	7.0	8.4	8.0	5.9						
Q1	16.2	8.0	9.7	8.9	6.5	56	37	53	57	64	Endowments
Benchmark	13.5	6.3	6.9	6.1	3.5						
Alpha	1.0	1.2	1.4	1.4	1.9						
Alpha Target	1.0	1.0	1.0	1.0	1.0						
Real Return	12.5	5.5	6.3	5.5	0.4						
Real Return Target	5.0	5.0	5.0	5.0	5.0						
	Return					Rank (TUCS)					
	1	3	5	7	10	1	3	5	7	10	Universe
GEF Return	15.2	7.8	8.5	7.7	5.5	42	30	48	54	65	All
Median	14.7	7.0	8.4	8.0	5.9						
Q1	16.2	8.0	9.7	8.9	6.5	44	27	45	48	60	Endowments
Benchmark	13.5	6.3	6.9	6.1	3.5						
Alpha	1.7	1.5	1.6	1.6	2.0						

Risk / Return

Periods Ending December 31, 2017



For past 3 years, PUF and GEF have generated more returns for less risk



	Risk Value	Risk Rank	Return Value	Return Rank
PUF TOTAL FUND	4.34	84	7.46	37
GEF TOTAL FUND	4.41	77	7.81	27
S&P 500	6.97	1	11.41	1
Median	5.07		6.89	

2018 Outlook



- Future expected portfolio returns are likely to be lower
- **The US economy is late cycle and the trade off between growth and inflation has become more acute**
- Fiscal policy burst could prove problematic
- US Treasuries are in a cyclical bear market
- A new higher volatility regime for risk assets
- Global economic growth is likely to remain robust
- Global equities are more attractive than US equities
- Commodities, gold and emerging markets are poised for solid returns in 2018

10-Year Asset Return Projections



	COMPOUND % RETURNS P.A.		
	THE PAST 1982-2017	THE FUTURE 2018-2028	PORTFOLIO WEIGHT
U.S. EQUITIES	11.4	2.6	40
OTHER DEVELOPED EQUITIES	9.4	4.8	20
EM EQUITIES	12.9	6.5	5
10-YEAR TREASURIES	7.5	2.4	25
CORPORATE BONDS	9.3	3.5	10
TOTAL PORTFOLIO*	9.9	3.3	100
INFLATION	2.7	2.0	
TOTAL PORTFOLIO REAL RETURN	7.0	1.3	

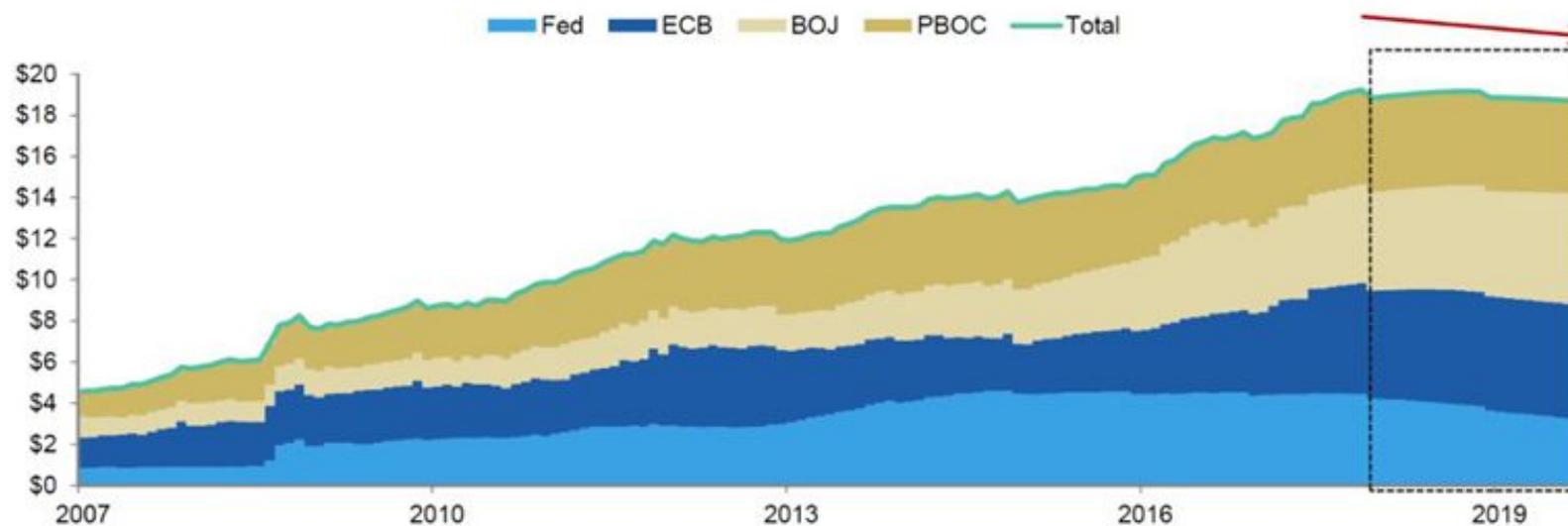
* BASED ON WEIGHTS IN FINAL COLUMN.

Balance Sheets of Major Central Banks to Shrink This Year Onwards



Aggregate G4 Central Bank Balance Sheet, Including Forecasts

(\$Tn)



Source: Citi Research., MSIM EM , Haver, UBS. Assumes domestic balance sheet is flat for PBOC. As of December 31, 2017. Forecasts/estimates are based on current market conditions, subject to change, and may not necessarily come to pass.

A New Fed Chair and Much More Hawkish Voters



FOMC Voters in 2018 Are Much More Hawkish			
2017 FOMC Voters	Hawk/Dove Rating	2018 FOMC Voters	Hawk/Dove Rating
Yellen	4	Powell	6
Dudley	4	Dudley	7
Brainard	2	Brainard	4
Evans	2	Mester	9
Harker	5	Barkin	n/a
Kaplan	6	Bostic	6
Kashkari	1	Williams	8
Powell	5	Goodfriend	10
Quarles	8	Quarles	7
Avg	4	Avg	7

NY Fed Underlying Inflation Gauge



(Includes: consumer prices, real estate, financial assets)



A Cyclical Bear Market for Bonds Underway



S&P 500 Earnings Estimates Have Ramped Higher





Conclusions:

- 2017 returns were exceptionally high with historically low volatility
- PUF/GEF returns were above benchmark and top quartile on a risk adjusted basis
- **Total AUM grew to \$43.2 billion, up \$5.5 billion in 2017**
- 2018 is off to a volatile start as trade-off between growth and inflation becomes more acute
- US Treasuries in a cyclical bear market driven by rising inflation expectations, rising term premiums and a tighter Fed
- Future portfolio returns are projected to be significantly lower than returns over the past 25 years
- The global economy remains robust, corporate earnings are surging and the equity backdrop remains constructive



Appendix

The Trend in the Dollar Is Lower



Commodities Poised to Break L-T Bear Market



US Equity Outperformance Topping



Bond Bear Market Watch Report



Indicator	Key Bear Level	Current Level	Date
Rising Yields			
10-Year Treasury Yield [†]	2.49%	2.79%	02/06/2018
Fair Value Residual	50.0 bps	27.5 bps	01/31/2018
10-Year Treasury Term Premium	0.30%	-0.27%	02/02/2018
Higher Inflation			
Output Gap	0.0%	0.5%	12/31/2017
Unemployment Gap [*]	0.0%	-0.6%	01/31/2018
5-Year Implied Forward Inflation	2.00%	2.32%	02/06/2018
5-Year/5-Year Inflation Swap	2.00%	2.44%	02/06/2018
U.S. Dollar (Year-to-Year Change) [*]	-4.3%	-8.5%	01/31/2018
Increased Supply			
Federal Debt Outstanding (Year-to-Year Change)	7.0%	2.6%	12/31/2017
MBS Outstanding (Year-to-Year Change)	4.0%	1.4%	12/31/2016
Weaker Demand			
Bank Securities (Year-to-Year Change) [*]	0.0%	2.8%	01/26/2018
Flows to Bond Mutual Funds and ETFs [*]	\$0 Mil.	\$16,788 Mil.	01/26/2018
Foreign Bond Purchases (12-Month Smoothing) [*]	\$0.0 Bil.	\$23.5 Bil.	11/30/2017
Fed Total Securities Holdings (Year-to-Year Change) [*]	-0.5%	-0.3%	02/02/2018

Has the Secular Trend Changed for Bonds?



US Economy Is Booming!



Agenda Item
UTIMCO Board of Directors Meeting
February 28, 2018

Agenda Item: Total Alignment Presentation

Developed By: Team

Presented By: Harris, Hall

Type of Item: Information Item

Description: Mr. Harris and Mr. Hall will present UTIMCO's Total Alignment Plan and top 10 priorities for 2018.

Reference: *Total Alignment* presentation



The University of Texas/Texas A&M Investment Management Company

Total Alignment

UTIMCO Top 10 Priorities for 2018

Britt Harris

Rich Hall

Total Alignment



UTIMCO's Mantra for 2018: Total Alignment

Comprehensive Planning Process Designed to...

- Get re-engaged with our **mission**
- Articulate a compelling **vision**
- Establish standards for **excellence**
- Strategize and prioritize our **execution**
- Create a sustainable and healthy **environment**

All with the goal of being Totally Aligned with our most important relationships

Each Other

Our Board

Our Partners

Our Clients

UTIMCO Top 10 Priorities for 2018



1. Total Alignment Map
2. Address agency priorities
3. Preferred Destination for investors/investments
4. Focus on critical processes
5. Align compensation
6. Review underperforming areas
7. Create new products
8. Preferred investment employer
9. Modernize analytical systems
10. Create great relationships/continually improve

1- Total Alignment Map



Excellence

UTIMCO Vision Tree

Achieve Investment Goals

Effective Risk Management

Fiduciary Excellence

Best-In-Class Technology Platform

Enduring Organizational Health

UTIMCO Mission:

We generate superior long-term investment returns to support The University of Texas and Texas A&M University Systems as they provide world-class teaching, push the boundaries of discovery, and achieve excellence in patient healthcare for the people of Texas and beyond

UTIMCO Vision:

We strive to be the world's leading endowment fund, making a lasting positive impact on the future of Texas and beyond

Execution

UTIMCO Strategy Tree

Public Equity/
VC

Fixed Income

Hedge Funds/
Credit

Real Estate

Private
Investments

Asset
Allocation

Risk
Management

Operations

Info Systems

Human
Resources

Top
10

Environment

Cultural Values

Success Factors

Code of Conduct

Mission Statement



UTIMCO Mission:

We generate superior long-term investment returns to support The University of Texas and Texas A&M University Systems as they provide world-class teaching, push the boundaries of discovery, and achieve excellence in patient healthcare for the people of Texas and beyond

Our Mission is to be GREAT

**Grow Endowment for
Research
Education
Advancements in Society
Treatment of Patients**

Vision Statement



UTIMCO Vision:

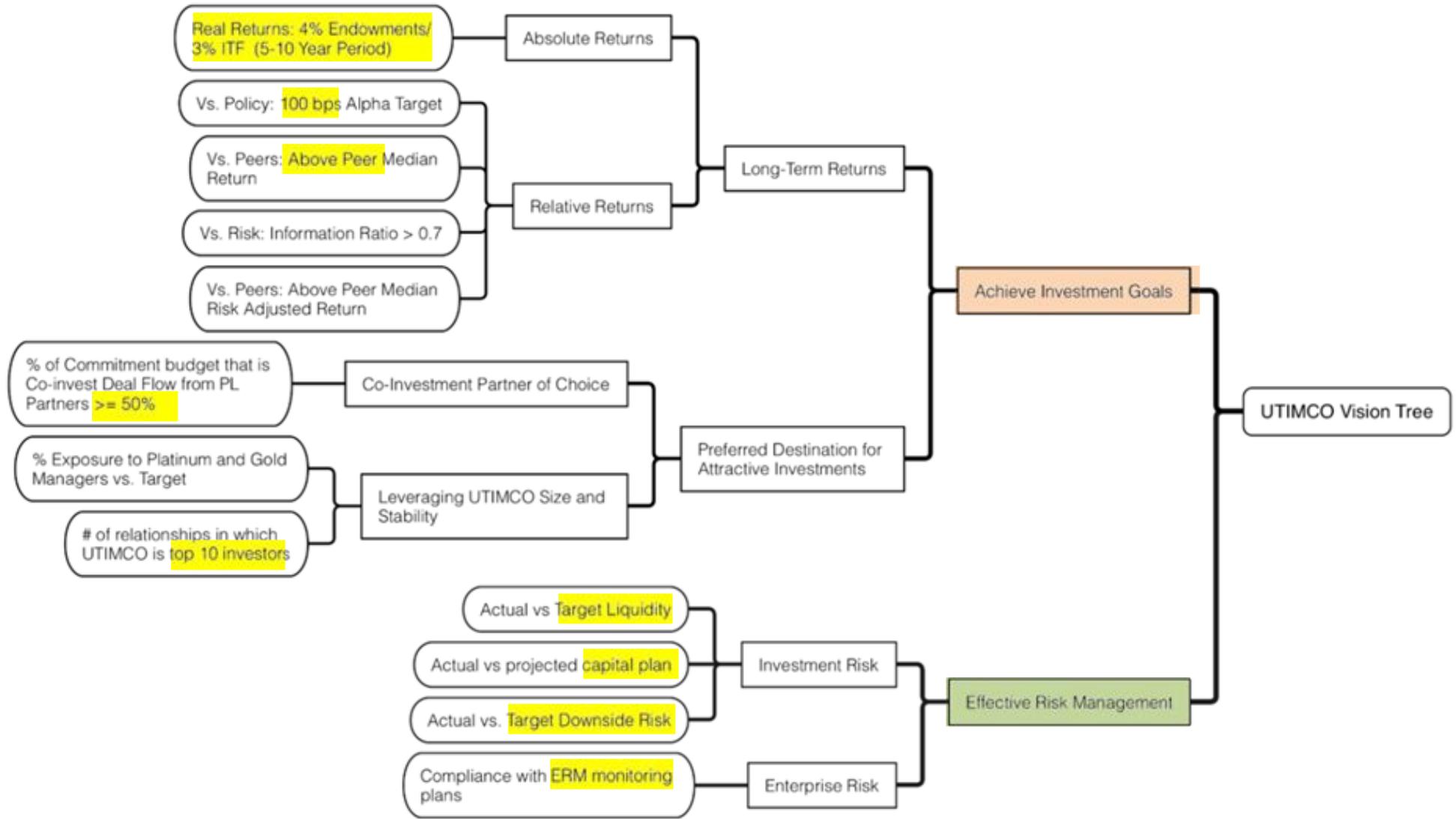
We strive to be the world's leading endowment fund, making a lasting positive impact on the future of Texas and beyond

Our Vision is to have an IMPACT

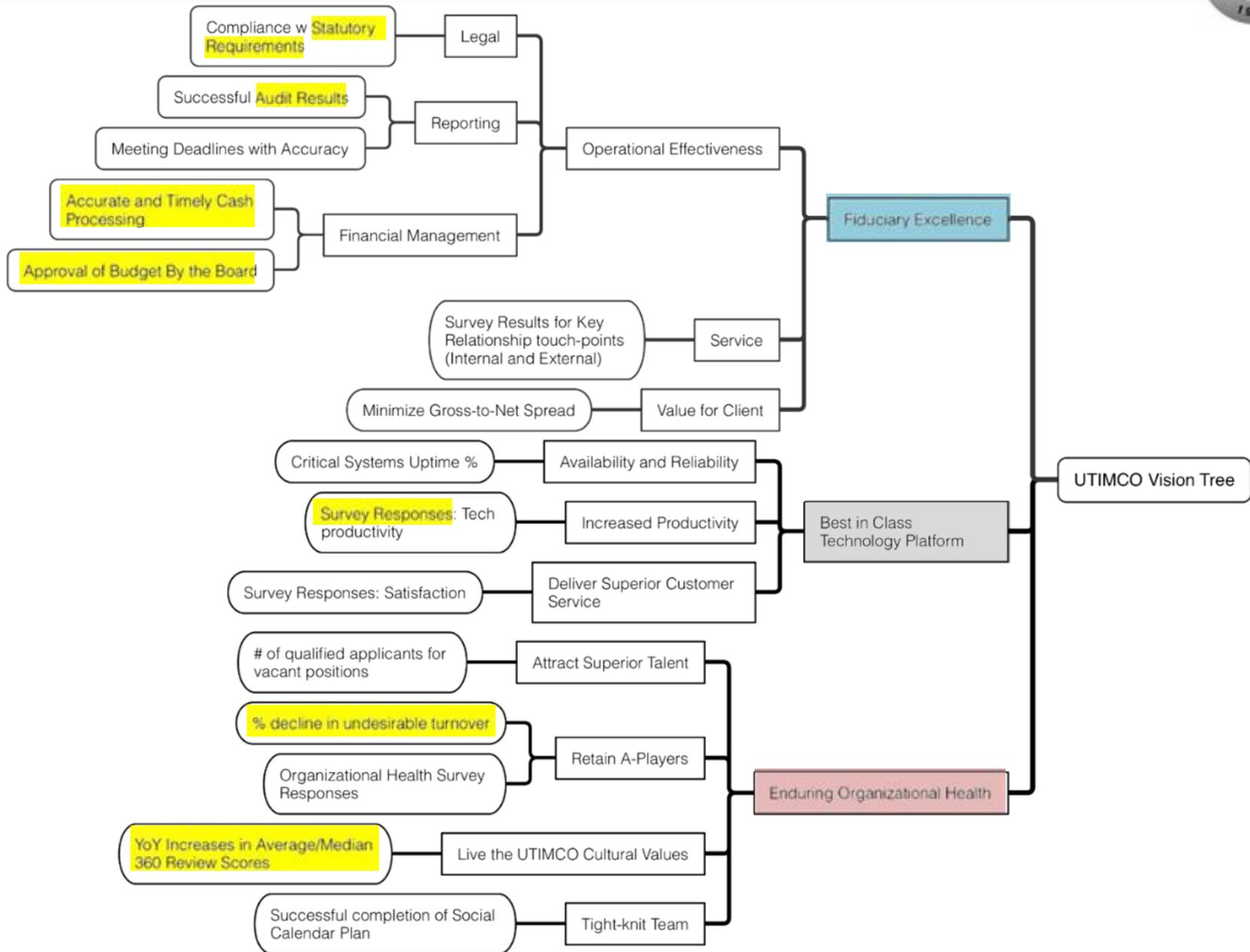
Invest to have
Meaningful
Permanent
Affirmative
Contribution to
Texas and beyond

- Eradicate poverty through education
- Enhance society through research
- Cure and care for cancer patients and others who are suffering from debilitating diseases

Vision Tree (First Section) – “Excellence”



Vision Tree (Second Section) – “Excellence”



Sample Action Plan – Public Equity/VC



Critical Process	Premier List	Risk Monitoring and Tactical Allocation	Human Capital and Constituents
<ul style="list-style-type: none"> Document key processes for fund investments, co-investments and portfolio construction. For all current managers, identify funded “diversifying” and unfunded “comparison” manager. Identify ways to improve the efficiency and quality of key processes, and eliminate duplicative or unnecessary processes. Implement improved processes. Review compensation for all relationships > 50bps that are not performance-based with low fulcrum rate. <p>Metrics: initial map and target map w/time estimates, bureaucracy list</p> <p>Deadline: Q1 2018</p>	<ul style="list-style-type: none"> Finalize initial Premier List Identify areas of growth for key managers to create stronger alignment with UTIMCO Develop market maps to identify key strategies and managers to evaluate and add to Premier List. Determine target areas to reduce/add exposure (special focus on US equity active management). Identify 2-3 potential multi-asset class Strategic Partners. Finalize co-investment strategy based on portfolio needs and resource availability. Communicate to key partners and increase frequency of dialogue to drive deal volume. <p>Metrics: initial PL, market maps/white papers, key lists of managers to track, co-investment parameters document, unique access to co-investment opportunities or new strategies</p> <p>Deadline: Q2 2018</p>	<p>Public Equities</p> <ul style="list-style-type: none"> Review US Public Equity Performance Establish objectives and limits for public equity exposures (country, sector, currency, factors). Formalize decision process around exposure positioning. Collaborate with Asset allocation, Risk and other teams to (a) identify, communicate, and formalize decisions around Endowment-wide allocation signals and (b) design/execute 2019 Best Ideas Survey. <p>Venture Capital</p> <ul style="list-style-type: none"> Update projected liquidity (expected calls and distributions). Work with Data Management team on robust holdings-level reporting and analysis. Develop long-term valuation dashboard. <p>Metrics: public equities exposure policy, signal library, scenario analyses, liquidity projection, holdings-level reports</p> <p>Deadline: Q4 2018</p>	<ul style="list-style-type: none"> Determine growth initiatives and associated hiring and training needs. Produce standardized career path document and communicate path to firm. Work with team members to establish individual growth objectives and plans. Increase engagement with UT/TAMU venture ecosystems and student groups. Increase investment dialogue with UT/TAMU patent offices. Evaluate transfer of deal legal to Operations. <p>Metrics: formal career path document, individual development plans, frequency of quality UT/TAMU interactions</p> <p>Deadline: Q1 2018</p>
<p>20% YoY improvement in efficiency and quality (increased satisfaction for UTIMCO and partners)</p>	<p>Increased exposure to optimal market areas and managers; Increased importance of UTIMCO to best managers; Lower blended fees</p>	<p>Improved tactical alloc. alpha Improved understanding of fund performance and visibility on co-investment opportunities</p>	<p>Increased employee satisfaction and retention Leverage UT/TAMU as competitive advantage</p>

Cultural Values – “Environment”



Our Values are to do what is RIGHT

Responsible and Accountable

Integrity

Great Alignment

High Performance

Transparent and Open

Responsible and Accountable

- Fiduciary duty
- Client focus
- Awareness of larger context

Integrity

- Do the right thing at the right time for the right reasons
- High ethical standards
- High character people

Great Alignment

- Getting and staying in sync
- Collaboration from foundation of trust and respect
- Value relationships inside and outside organization

High Performance

- Personal Genius (natural ability and inclination)
- Continual improvement in the pursuit of excellence
- Awareness of impact on the total organization

Transparent and Open

Openness of Ideas

- Transforming defensiveness into curiosity
- Innovation
- Embracing different views/perspectives
- Prioritize deep learning

Openness of Communication

- Candor – “speak the truth with love”
- Respectful debate
- Recognize mistakes and learn from them
- Let logic prevail

Success Factors – “Environment”



Success Factors

- We will be a top tier investment organization
- Our processes are clear and transparent, documented and always improving
- Internal Professionalism
- External Professionalism
- We understand that career development and succession planning are essential to sustainable success
- All incentives will reflect “Total Alignment” (One Boat, One Common Destination)

Success Factors Drill Down– “Environment”



We will be a top tier investment organization

- We will be fully engaged
- Our communications will be consistent, truthful, transparent, timely and fully disseminated
- We will be an organization of A-players
- We will abide by our code of conduct and never forget our broader purpose

Our processes are clear and transparent, documented and always improving

- We are continually improving, never settling for “good enough”
- We recognize the importance of portfolio construction and maintain buy/sell discipline
- We are creative and innovative to pursue and invest in the most attractive opportunities and will not hesitate to succeed unconventionally while always maintaining prudent risk management
- We document our decision making and regularly conduct post-mortems on investments where useful lessons could be learned so we can accurately review our thought process
- We use quantitative tools but acknowledge that the value of information depends on judgment
- We do deep research from first principles (Prior Preparation Prevents Poor Performance)
- We use the Pareto Principle to identify and focus on the areas of highest impact. We identify a handful of critical factors, that will determine “80%” of our success in any area
- We use the “Domino Method” of planning so that each action taken makes future actions easier or unnecessary
- We work to reduce all unproductive bureaucracy

We understand that career development and succession planning are essential to sustainable success

- HBR career development plans
- Professional succession planning
- All team members will fully reflect the values, ideals and processes included in these areas that are important at UTIMCO
- All individuals will gladly accept/seek an area of significant personal accountability (e.g., their oar to row that matters)

Internal Professionalism

- We enjoy working with one another
- We value and respect different thinking styles in those committed to the Fund and one another
- We are curious rather than defensive and view the highest attitude as gratitude
- We seek and value high curiosity, full engagement, determination and persistence
- We value IQ, EQ and SQ
- We debate well
- We develop our team members, act to drive retention and support career progression
- We maintain and accept clear decision rights
- We create psychological safety
- We value and expect transparency and openness in our interactions with one another, as a manifestation of mutual respect and desire to improve
- We do not accept nor tolerate gossip
- We believe in our peers and ourselves working in their area of ‘personal genius’

External Professionalism

- We work from a pre-determined, exclusive and regularly maintained long-term “premier list”
- We treat our external relationships as critical suppliers (strategic partners) rather than adversaries and we expect the same in return
- We maintain close relationships with the strongest complements and substitutes to our current managers
- We will endeavor to find every means to be in Total Alignment with all of our relationships. This begins with fair, just and sustainable compensation structures along with common views on professionalism and client service and commitment

All incentives will reflect “Total Alignment” (One Boat, One Common Destination)

- External compensation versus results received
- Internal compensation versus Total Fund results
- Teamwork and Individual Accountability

Code of Conduct – “Environment”



Code of Conduct

- Be early
- Listen carefully to understand; not to respond
- Arrive prepared and participate
- Communicate respectfully
- Let others finish their thoughts before responding
- Ideas from all levels welcomed and respected
- Be willing to offer ideas, but remain open to the outcome
- Be fully engaged in meetings (avoid mobile device distractions)
- Behave consistent with our cultural values at all times

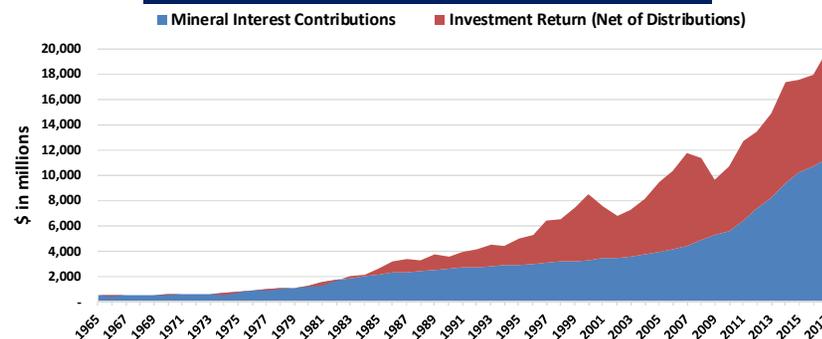
2- Address agency Priorities



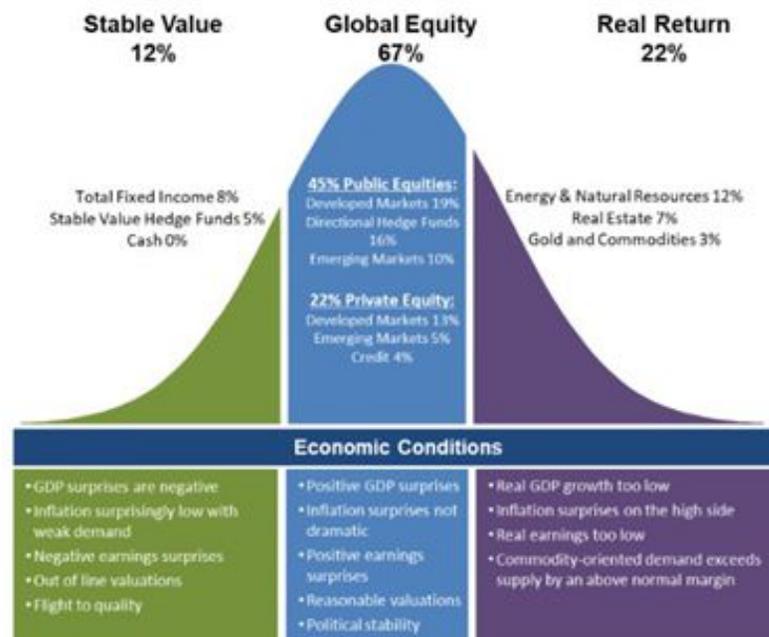
Objective: Improve diversification and increase long-term expected returns

PUF	ITF
<ul style="list-style-type: none"> Funding / Investment Diversification Payout policy 	<ul style="list-style-type: none"> Longer time horizon Modify Policy and/or create/merge Fund(s)
\$20B	\$10B

Composition of PUF NAV



UTIMCO Asset Allocation



Policies
<ul style="list-style-type: none"> Implement regime-based Strategic Asset Allocation Improve Liquidity Policy Examine role of bonds/ gold Develop Stable Value Hedge Funds Examine co-investment cap Extend board chair maximum term

3- Preferred Destination for investors/investments



Objective: Preferred Destination for Attractive Investments

Premier List

- Continue to refine
- Strategic Partnerships
 - Public
 - Private
- Help our partners grow

Co-Investment

- Deal Size
- From Premier List
- Preferred Destination
- 25% Target

Short-Term

- Examine cash management
- Review Securities Lending

Reverse Relationship Management

4- Focus on critical processes



Objective: Focus organization on highest value activities/ foundation for higher productivity

80%

- Establish critical processes (Top 10)
- Standardize
- Optimize
- Educate
- 20% Productivity improvement/year

20%

- Routine maintenance
- Ongoing review and refinement
- Automation

**Eliminate unproductive bureaucracy
Outsourcing**

UTIMCO Top 10 Critical Processes (Drill Down)



Firm-Wide Critical Processes

1. Total Alignment

- a. Mission and Vision Statements
- b. Vision and Strategy Trees
- c. Shared Cultural Values
- d. Success Factors
- e. Communication & Collaboration

2. Human Resources – Promoting a Culture of Excellence

- a. Professional Development – Training & Teaching
- b. Personnel Evaluations, Feedback Processes
- c. Industry Leadership
- d. Recruiting
- e. Succession Planning

3. Audit & Budgeting

4. Legal & Compliance

Investment Related Critical Processes

5. Asset Allocation

- a. Strategic Asset Allocation
- b. Tactical Asset Allocation
- c. Risk Management

6. Investment Process

- a. Funds
- b. Co-Investments
- c. Tactical Positions
- d. Direct Positions
- e. Legal Review

7. Investment Sourcing

- a. Reverse Relationship Management with Premier List
- b. Partner Selection

8. Monitoring, Evaluation, and Positioning

- a. Feedback Processes

Operations Related Critical Processes

9. Technological Support Systems

10. Reporting & Analytics Systems

5- Align compensation



Objective: Fair, just and sustainable compensation

Ensure High Alpha Retention

- “1 or 30”
- New industry best practice

Align UTIMCO more effectively with Fund, Unit and Individual Results

- Fund: 30% minimum (Quantitative)
- Unit: Up to 50% (Quantitative)
- 20% Qualitative (Individual ranking and scorecards)

Address Public firms with above average base rate

- Performance fee should ensure payment for what is received versus promised

6- Review underperforming areas



Objective: Address underperforming areas/ expand process

Performance Priorities

- US Equity
- Emerging Markets Private Equity
- Traditional Private Equity
- Cash Management
- US Fixed Income

Execution

- Sector Specialists
- Secondary Sales
- Strategy Optimization
- Real Estate (Expand Beyond Opportunistic)

7- Create new products



Objective: Expand UTIMCO investment and operational capabilities

Strategic (Longer term)	Tactical (Intermediate Term)	External	Additional
<ul style="list-style-type: none">• Strategic Asset Allocation and Policy Portfolio• Capital Allocation framework• Long-term valuation dashboards<ul style="list-style-type: none">• Private Equity/Venture Capital• Real Asset• Foreign Exchange	<ul style="list-style-type: none">• Investment<ul style="list-style-type: none">• Global environment• Bear Market• Improved commitment model• Risk<ul style="list-style-type: none">• Bubble Monitor• CUSUM• Standardized Risk Scorecard	<ul style="list-style-type: none">• “Mine” network• Strategic Partnerships	<ul style="list-style-type: none">• Risk management contingency plans• Enterprise Risk Management

8- Preferred investment employer



Objective: Preferred investment employer in the Southwest

General	Processes	Evaluation	Location
<ul style="list-style-type: none">• Mature teams• Success Factors• Code of Conduct• Recruiting practices	<ul style="list-style-type: none">• Career Path• Long-term Compensation• Succession planning• 50 hour HR training	<ul style="list-style-type: none">• Scorecards• Individual counsel• Unit counsel	<ul style="list-style-type: none">• Successful move• Healthy team environment• Onboarding

9- Modernize analytical systems



Objective: Install modern/professional analytical systems across UTIMCO

Investments

- iLevel
- Caissa
- Blackrock Aladdin
- IDM
- Atlas
- Tableau
- Power BI

Operations

- PureView Performance Report

Capital

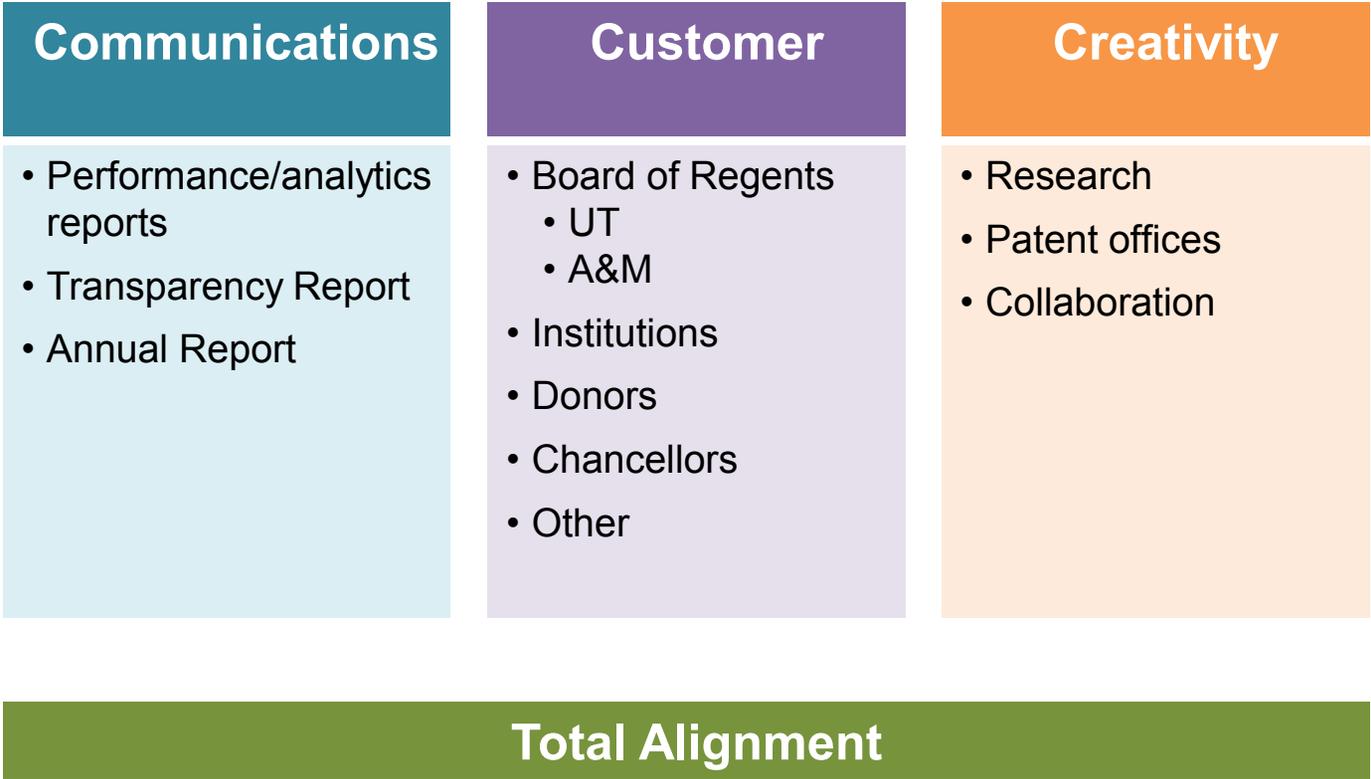
- Deals visualization
- Remote access
- Long-term sustainability

**Effective investment assessment
Successful audits
Strong accounting systems**

10- Great relationships and continual improvement



Objective: Great relationships and continual improvement



Agenda Item
UTIMCO Board of Directors Meeting
February 28, 2018

Agenda Item: Private Investments Presentation

Developed By: Private Investments Team

Presented By: Warner, Pace, Prather, Rincon

Type of Item: Information Item

Description: Mr. Warner will lead the presentation on Private Investments overall, with Mr. Pace, Mr. Prather and Mr. Rincon leading the discussions on Private Equity, Natural Resources, and Emerging Markets portfolios, respectively.

Reference: *Private Investments* presentation



The University of Texas / Texas A&M Investment Management Company

Private Investments Review

**Mark Warner
Senior Managing Director**

February 2018

Private Investments – Performance and Allocation



NAV and Investment Returns reflect September 30, 2017 valuations and cash flows as of December 31, 2017

Private Investments Portfolio								
Portfolio	Total NAV	% of PUF and GEF	# of Active Managers	1 Year TWR	3 Years TWR	5 Years TWR	SI IRR	Inception Year
Natural Resources	\$3,769	12.2%	26	18.5%	6.4%	10.2%	18.5%	1986
Private Equity	1,959	6.4%	47	8.2%	15.6%	14.6%	11.4%	1982
Emerging Markets	1,566	5.1%	20	12.8%	7.8%	6.3%	5.8%	1995
Total	\$7,293	23.7%	93	14.1%	10.2%	11.2%		
CA PI Composite ⁽¹⁾				9.5%	9.0%	11.7%		
Value Add				4.7%	1.1%	-0.6%		

Private Investments Co-Investment Portfolio ⁽²⁾								
Portfolio	Total NAV	% of PUF and GEF	Count	1 Yr IRR	3 Yr IRR	5 Yr IRR	SI IRR	Inception Year
Natural Resources	\$819	2.8%	33	4.5%	4.8%	18.1%	17.0%	2010
Private Equity	249	0.8%	11	(20.7%)	59.8%	46.4%	46.3%	2012
Emerging Markets	135	0.5%	5	(8.8%)	11.5%	11.3%	11.3%	2014
Total	\$1,202	4.1%	49	(3.3%)	12.2%	22.7%	21.4%	

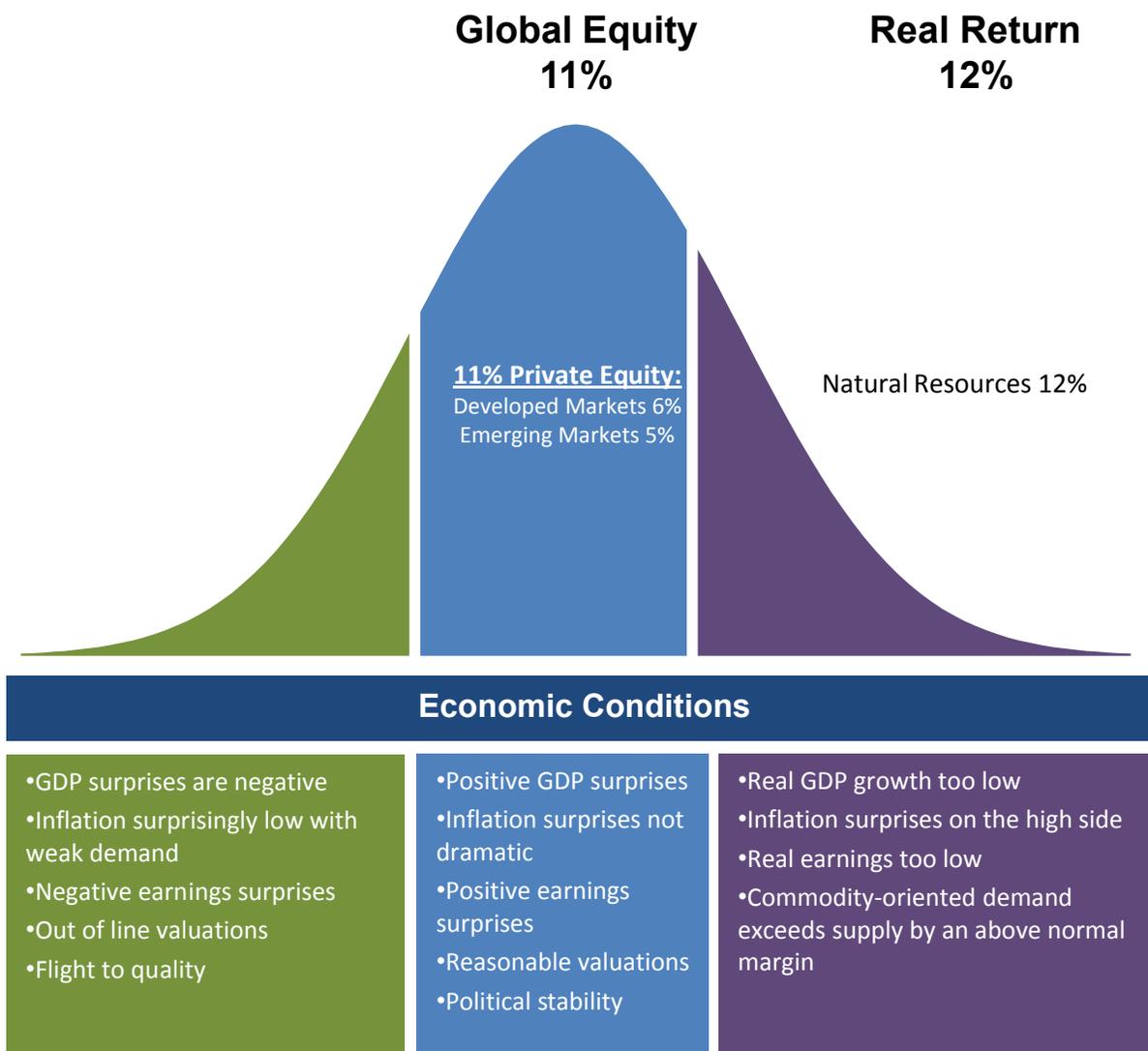
¹Cambridge PI Composite reflects NAV-weighted Cambridge Fund of Funds Index as of September 30, 2017 (TWR)

²Co-Investment Portfolio data reflects since inception IRR returns based on June 30, 2017 valuations and cash flows as of August 31, 2017
Investment Returns reflect time-weighted returns based on September 30, 2017 valuations and cash flows as of December 31, 2017

Diversification and Risk Contribution



As of December 31, 2017



Risk Impact ⁽¹⁾		
Portfolio	Contribution to Risk	% of PUF and GEF
Natural Resources	17.3%	12.2%
Private Equity	7.8%	6.4%
Emerging Markets	7.0%	5.1%
Total	32.2%	23.7%

Downside Risk (Last 10 Years)	
Portfolio	Max Drawdown
S&P 500	48.5%
Natural Resources	20.5%
Combined Private Equity	24.9%
Developed Markets	25.5%
Emerging Markets	22.5%

Correlations ⁽²⁾			
Portfolio	Stable Value	Global Equity	Real Return
Natural Resources	0.26	0.45	0.78
Combined Private Equity	0.10	0.79	0.83
Developed Markets	0.04	0.68	0.81
Emerging Markets	0.33	0.80	0.42

¹Contribution to risk reflects the % of downside impact generated by each portfolio during a below target endowment return scenario, calculated based on rolling three day volatility and correlation data over the past three years.

²Correlations reflect 1y returns over rolling quarters from 2008 – 2017

Private Investments – Team



- 12 investment professionals plus 3 support personnel
- Senior investment team with 6 graduate degrees and an average of 19 years of investment experience and 4 years at UTIMCO:



Mark Warner, *Senior Managing Director – DM/EM/NR (UTIMCO since 2007)*

- Univ. Missouri, Univ. Oklahoma - MSPE, Southern Methodist Univ. - MBA
- Enron, Growth Capital Partners



Patrick Pace, *Senior Director – DM (2015)*

- Vanderbilt Univ., Univ. Texas - MD
- Credit Suisse, UBS, AIG, Citadel, EDG Partners



William Prather III, *Director – NR (2014)*

- Univ. Texas, Univ. Texas - MPA, CPA, CFA
- Teton Capital, Lehman Brothers, BlackRock



Richard Rincon, *Director – EM (2014)*

- Univ. Michigan, Kellogg/Northwestern Univ. - MBA
- ABN Amro, Hispania Capital Partners/HCP & Company



Suneel Kaji, *Director – EM (2016)*

- Wharton/Univ. Pennsylvania, Stanford Univ. - MBA
- Goldman Sachs, DLJ Merchant Banking, GEM Group-Kinderhook, The Rohatyn Group

PI – Executive Summary



- The increase in total private market investments from 14% to 39% of endowment assets has been the most significant change in the endowments' investment strategy over the last decade

	1/2008	12/2017
Private Investments NAV*	\$2.6 B	\$11.9 B
Endowment NAV	\$18.8 B	\$30.8 B
% of Endowments (PUF+GEF)	13.8%	38.7%

- The Private Investment (PI) portfolio is comprised of two main strategies that encompass both fund and co-investment activities
 - Natural Resources (NR) - \$3.8B NAV in Energy, Infrastructure, Metals/Mining, Agriculture assets
 - Global Private Equity - \$3.6B NAV
 - Developed Markets (DM): \$2.0B NAV in U.S. Buyout, Growth, and Opportunistic assets
 - Emerging Markets (EM): \$1.6B NAV in Asian, Latin American, African and Other assets
- PI has generated over \$3.5B of net investment gains since the beginning of 2008: \$1.5B from NR, \$1.6B from PE, and \$407M from EM
- Investment returns over the past five years have come primarily from:
 - US lower middle market buyout focused partners
 - Domestic energy, including upstream, midstream, and services
 - China PE and VC
- Going forward, the PI team will prioritize:
 - Liquidity through active management of capital commitments based on distributions and distribution expectations
 - Focus on our highest value-add strategic partners as well as the co-investment portfolio (current: 16% of NAV; target: 25%) and the following key themes:
 - NR – Domestic power, metals and mining production and services, energy midstream
 - DM – Europe and lower middle market buyout
 - EM – Brazil, China-Mid Cap, Sub-Saharan Africa, Indonesia

*All figures include PUF and GEF and all Private Market Investments including private credit, real estate and venture capital.

Private Investments – 2018 Total Alignment



Develop Partnerships	Optimize Returns	Invest in Processes	Strong Hands
<ul style="list-style-type: none"> Finalize premier list methodology/ categorization Identify and pursue strategy extensions and portfolio factors to drive returns Identify growth areas to elevate key premier list managers and create stronger UTIMCO alignment Monitor portfolio risk attributes at the endowment level Identify 2-3 firms to consider as multi-asset class Private Strategic Partners <p>Metric: CEO Approval of Premier List Deadline: Q1 2018</p>	<ul style="list-style-type: none"> Target top quartile performance (3-year basis) Leverage UTIMCO competitive edge to achieve team and institutional goals: <ul style="list-style-type: none"> A) Deep network with internal/external stakeholders B) Strong reputation for investment excellence Drive more proactive co-investment penetration (target 20-25% of capital deployment in high quality co-investments) Assessment of effectiveness of sector investing framework Identify sectors, geographic areas, and business/manager profiles to proactively add exposure Establish capital allocation framework among strategy verticals Secondary sale analysis <p>Metric: Top quartile quantitative benchmark ranking Deadline: Q4 2018</p>	<ul style="list-style-type: none"> Streamline investment process for: <ul style="list-style-type: none"> A) Fund Investments B) Co-Investments Drive individual accountability and team productivity through process refinement Track liquidity Evaluate partner-related and portfolio-level risks on overall endowment Monitor potential macro downside scenarios and portfolio effects Review infrastructure and agriculture sector assessment processes Create LT Valuation dashboard for NR, EM and PE Eliminate bureaucracy Help ensure a successful iLEVEL rollout <p>Metric: CEO process approval Deadline: Q4 2018</p>	<ul style="list-style-type: none"> Engage with university stakeholders on strategic initiatives: <ul style="list-style-type: none"> A) NR (ULandCo) B) Healthcare C) Leverage IP “know how” with university patent offices Raise profile among existing managers and global PE community Participate in industry speaking events, conferences, and lecture opportunities Research project: New technology and regulatory impact road map on conventional energy investing Collaborate on ITF asset allocation review <p>Metric: ULandCo diversification decision/recommendation; 20 conferences attended Deadline: Q4 2018</p>
<p>More efficient use of time (Pareto Principle)</p>	<p>Attractive risk-adjusted performance</p>	<p>20% productivity increase; Mitigate downside risk</p>	<p>Improved teams & retention; Brand strength</p>



NATURAL RESOURCES (NR)

William Prather III
Director



Natural Resources – Team

- 6 investment professionals plus one support personnel
 - Investment team with average of 13 years relevant experience and 4 years at UTIMCO



Mark Warner, *Senior Managing Director – DM/EM/NR (UTIMCO since 2007)*

- Univ. Missouri, Univ. Oklahoma - MSPE, Southern Methodist Univ. - MBA
- Enron, Growth Capital Partners



William Prather III, *Director – NR (2014)*

- Univ. Texas, Univ. Texas - MPA, CPA, CFA
- Teton Capital, Lehman Brothers, BlackRock



Henry Glenn, *Associate – NR (2017)*

- Univ. North Carolina, Univ. Texas MBA
- Morgan Creek, Corrum Capital



Zoe Gabbard, *Senior Analyst – EM/NR (2014)*

- Univ. Texas
- BVA Group



James Pappas, *Senior Analyst – EM/NR (2016)*

- Univ. Notre Dame
- Tudor Pickering Holt & Co., Samson Resources



Ryan Moores, *Analyst – EM/NR (2018)*

- Univ. Texas, Univ. Texas - MS Finance
- Soros Fund Management (intern)



Christine Torres, *Investment Team Coordinator – NR (2008)*

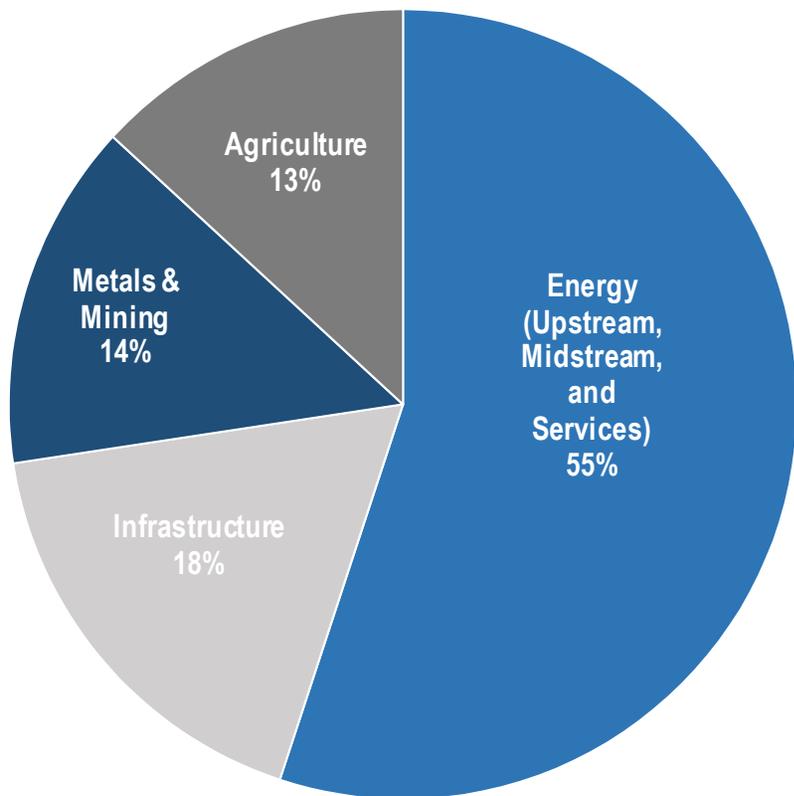
Shared
Resource
w/EM



Natural Resources – Performance

NAV, Unfunded, and Investment Returns reflect September 30, 2017 valuations and cash flows as of December 31, 2017

\$3.8 Billion NAV; \$1.3 Billion Unfunded
12.2% of PUF/GEF



	Investment Returns (TWR)			SI IRR
	1 Year	3 Years	5 Years	
UTIMCO Return	18.5%	6.4%	10.2%	18.5%
Cambridge NR Benchmark ⁽¹⁾	12.1%	-1.4%	3.1%	
Value Add	6.4%	7.8%	7.0%	
Cambridge PI Composite ⁽²⁾	9.5%	9.0%	11.7%	
Value Add	9.1%	-2.7%	-1.5%	

Returns:

- Outperformance relative to the Cambridge NR benchmark and Cambridge PI composite over the one year period was driven by UTIMCO Energy and Metals & Mining absolute performance of 26.1% and 18.0%, respectively
- Over three and five year periods, outperformance relative to the Cambridge NR benchmark was driven by absolute performance in the UTIMCO Energy and Infrastructure strategies of 10.0% and 10.2% for three years, respectively, and 10.9% and 4.4% for five years, respectively
- Agriculture related investments have lagged

Outlook:

- Attractive: Domestic Power, Metals and Mining Services, Midstream
- Neutral: Domestic Upstream
- Less Attractive: Developed Market Greenfield Power Development

¹Cambridge NR Benchmark reflects 80% Cambridge Associates Natural Resources Index and 20% Cambridge Associates Infrastructure Index as of September 30, 2017 (TWR)

²Cambridge PI Composite reflects NAV-weighted Cambridge Associates Fund of Funds Index as of September 30, 2017 (TWR)

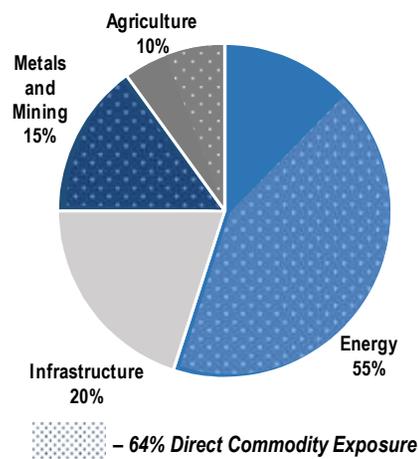
Investment Returns reflect time-weighted returns based on September 30, 2017 valuations and cash flows as of December 31, 2017



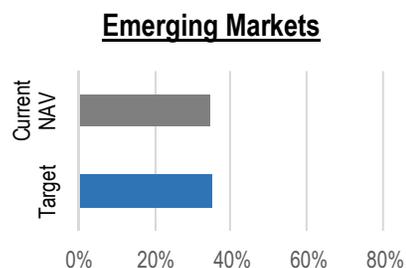
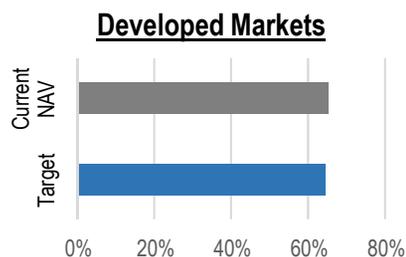
Natural Resources – Strategy Overview

as of December 31, 2017

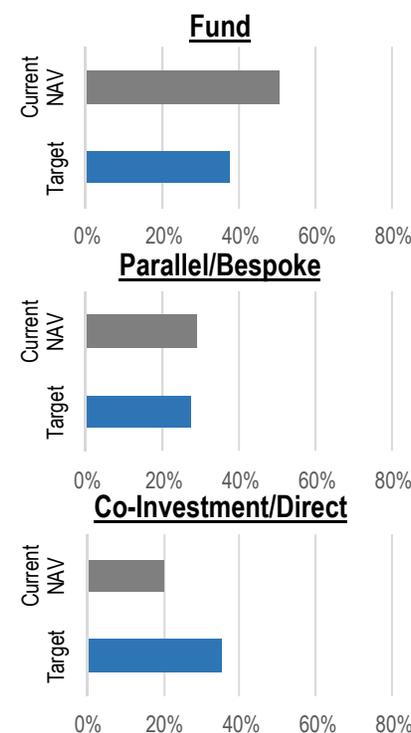
- Aim to generate superior long-term, risk-adjusted investment returns by leveraging UTIMCO’s scale, industry leadership status, global network and dedicated NR specialist resources
- The NR team is currently focused on opportunities in Domestic Power, Metals and Mining Production and Services, and Midstream with a 25%+ target allocation to attractive co-investments
- Actual commitments for the 3-year period ending December 31, 2017 were in line with the long-term targets with 37% Fund, 27% Parallel/Bespoke and 35% Co-investments
- The NR team targets full-cycle investment returns in the 13-17% net nominal IRR range with alpha generation from geographic and manager/co-investment selection, preferred investment terms, and active portfolio management
- 12% of PUF/GEF; contribution to risk of 17%



Strategies Targeted



Geographic Focus



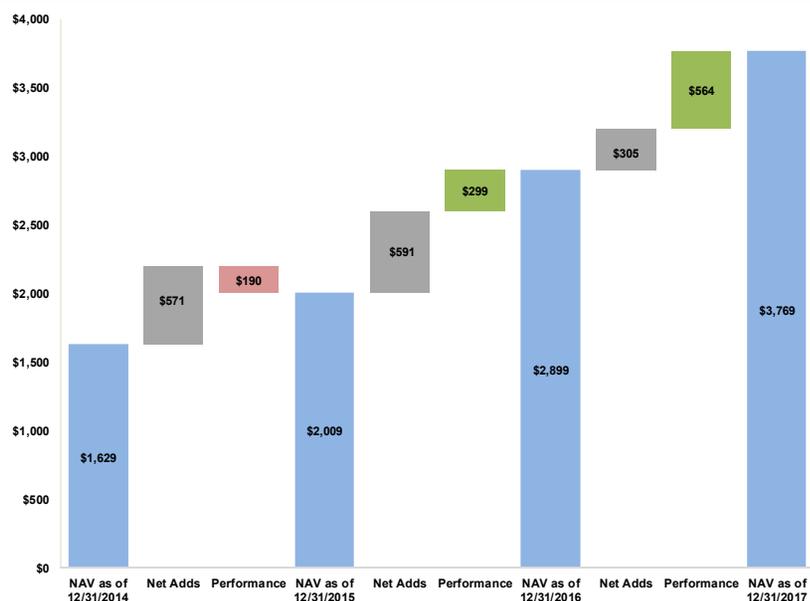
Implementation

Contribution to risk reflects the % of downside impact generated by each portfolio during a below target endowment return scenario, calculated based on rolling three day volatility and correlation data over the past three years as of December 31, 2017.

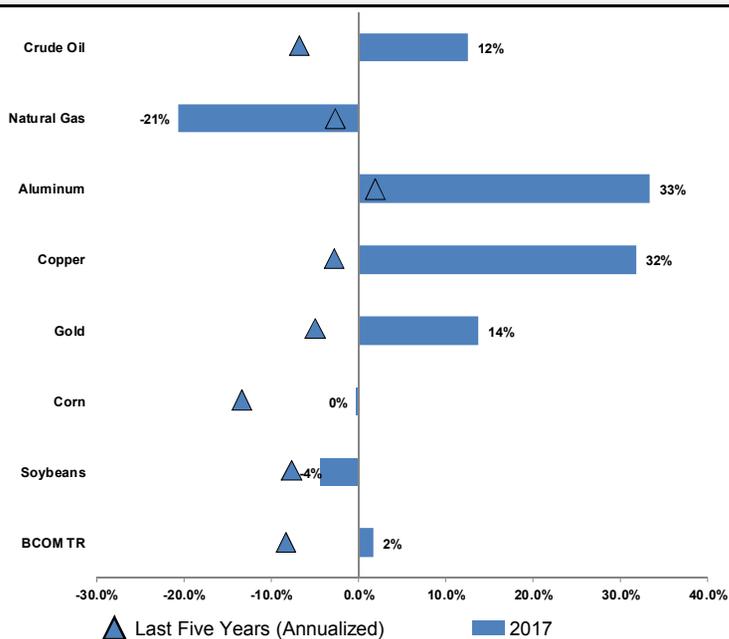


Natural Resources – Market Conditions

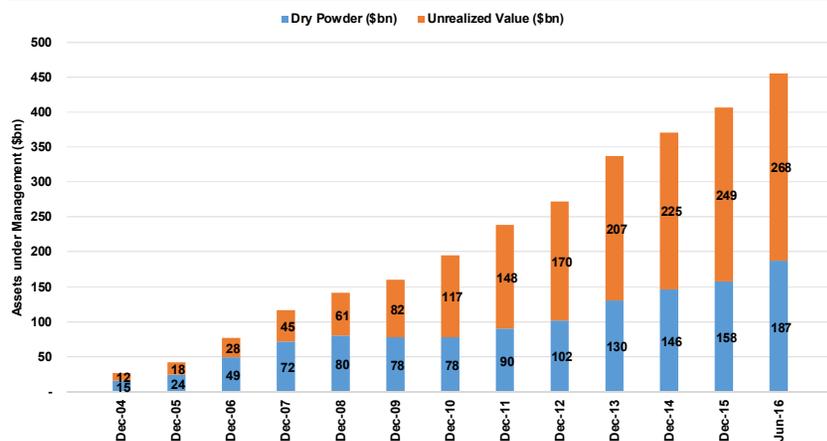
UTIMCO NR - NAV Rollforward



Commodity (BCOM) Index Constituents - Performance



Total NR Industry Assets Under Management (AUM)



US Public Upstream Company ROACE



Sources: 2017 Prequin Global Natural Resources Report, Kimmeridge Energy, Bloomberg as of December 31, 2017

Natural Resources – 2018 Top Priorities



- Generate attractive risk-adjusted performance across cycles through proactive portfolio construction and monitoring
 - Maintain co-investment allocation (target 25% of capital deployment) through proactive sourcing efforts and deep relationships

- Finalize Premier List – Focus on scalable, strong relationships (Platinum and Gold partner exposure)

- Invest in critical processes to achieve 20% (YoY) improvement in efficiency and quality
 - Fund and co-investment underwriting
 - Create long-term valuation dashboard for Natural Resources (expand to subsectors)

- Engage with University Lands to share best practices, understand combined exposure, and explore opportunities to further partner and optimize

- Focus on team cohesiveness, continuity and development (mentoring/training/industry leadership)



DEVELOPED MARKETS (DM)

Patrick Pace
Senior Director



Developed Markets – Team

- 5 investment professionals plus one support personnel
 - Investment team with average of 12 years relevant experience and 4 years at UTIMCO



Mark Warner, *Senior Managing Director – DM/EM/NR (UTIMCO since 2007)*

- Univ. Missouri, Univ. Oklahoma - MSPE, Southern Methodist Univ. - MBA
- Enron, Growth Capital Partners



Patrick Pace, *Senior Director – DM (2015)*

- Vanderbilt Univ., Univ. Texas - MD
- Credit Suisse, UBS, AIG, Citadel, EDG Partners



Patrick Curby-Lucier, *Associate – DM/VC (2016)*

- Texas A&M, CFA
- Dimensional Fund Advisors, Texas Teachers



Victoria Lee, *Analyst – DM/VC (2015)*

- Univ. Texas
- UTIMCO



Ross Crutchfield, *Analyst – DM/VC (2017)*

- Univ. Texas
- UTIMCO



Lisa Kabler, *Investment Team Coordinator – DM/VC (2011)*

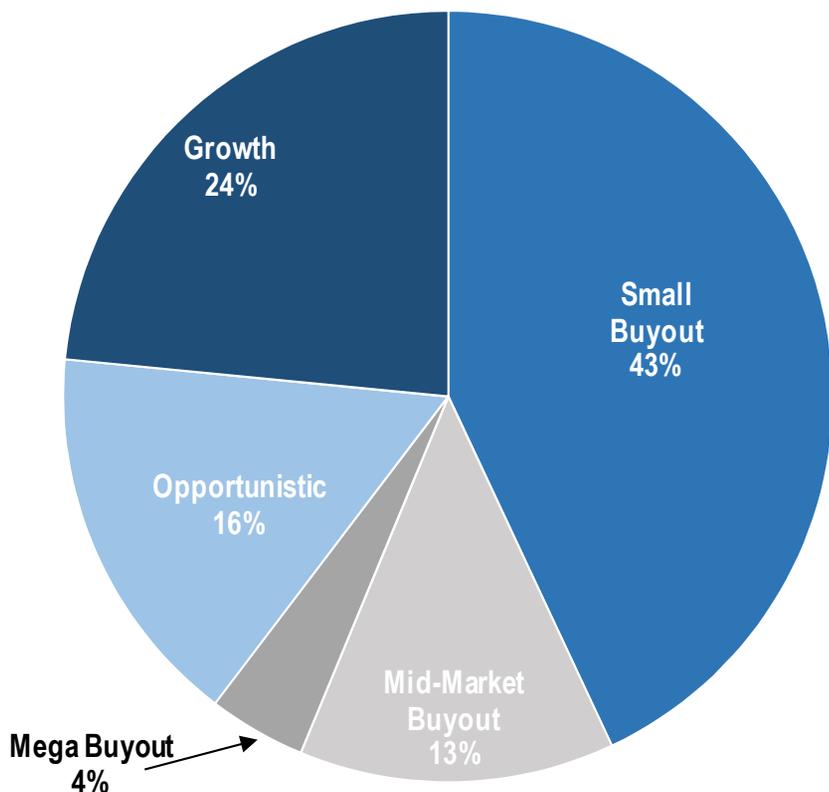
Shared
Resource
w/VC



Developed Markets— Performance

NAV, Unfunded, and Investment Returns reflect September 30, 2017 valuations and cash flows as of December 31, 2017

\$2.0 Billion NAV; \$757 Million Unfunded
6.4% of PUF/GEF



	Investment Returns (TWR)			SI IRR
	1 Year	3 Years	5 Years	
<u>UTIMCO Return</u>	8.2%	15.6%	14.6%	11.4%
<u>Cambridge PE Benchmark⁽¹⁾</u>	<u>18.5%</u>	<u>12.2%</u>	<u>14.1%</u>	
Value Add	-10.4%	3.4%	0.5%	
<u>Cambridge PI Composite⁽²⁾</u>	<u>9.5%</u>	<u>9.0%</u>	<u>11.7%</u>	
Value Add	-1.3%	6.5%	2.9%	

Returns:

- Over the last 3 years, the portfolio returned 15.6%, outperforming the Cambridge PE benchmark by 3.4%
- Over the last year, the portfolio returned 8.2%, underperforming the Cambridge PE benchmark by 10.4% due to a valuation decline in a well known concentrated position
- Strong relative performance versus the Cambridge Private Investments Composite benchmark across longer term horizons

Outlook:

- Funds continue to deploy capital at a measured pace due to valuation environment
- Focused on maintaining and growing core partner relationships and underwriting potential new partners
- Number of partners expected to decline as non-premier list, legacy relationships roll off

¹Cambridge PE Benchmark reflects the Cambridge Associates Buyout & Growth Equity Index (TWR) as of September 30, 2017.

²Cambridge PI Composite reflects NAV-weighted Cambridge Associates Fund of Funds Index as of September 30, 2017 (TWR)

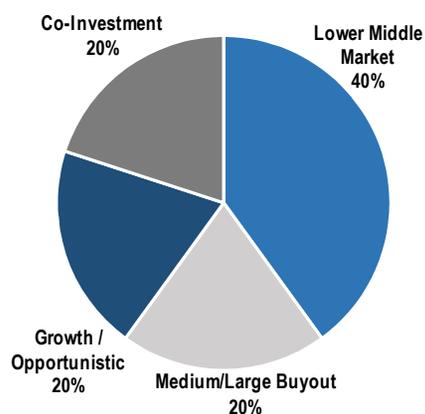
Investment Returns reflect time-weighted returns based on September 30, 2017 valuations and cash flows as of December 31, 2017



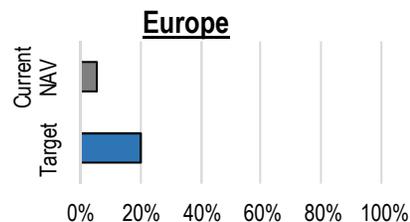
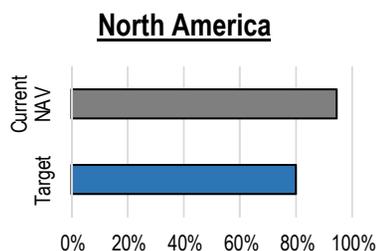
Developed Markets – Strategy Overview

as of December 31, 2017

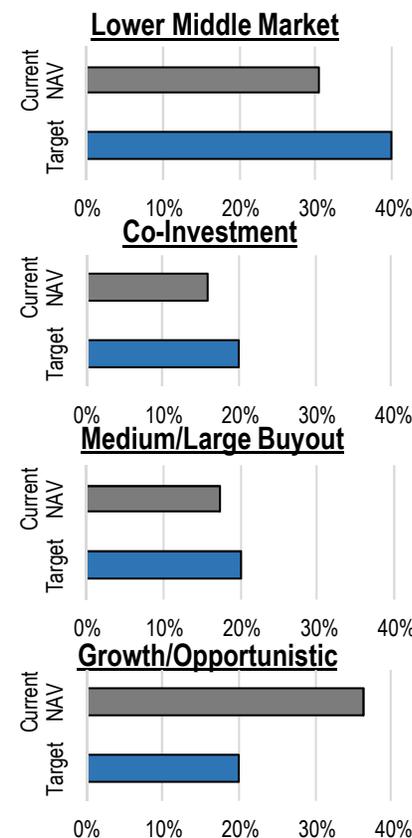
- The team has continued its multi-year strategy to focus on opportunities with lower middle market and middle market funds while maintaining a core position in medium to large buyout funds; growth equity and opportunistic strategies will remain complimentary to these primary portfolio strategies
- The team will primarily focus on North America and Europe with an increasing allocation to co-investments
- Until recently, the team has not been active in Europe since before the Global Financial Crisis (GFC)
- Coming out of the GFC, the team made two investments in bank acquisition strategies that have not yet been realized and create an overweight in the Growth/Opportunistic arena
- The team targets full cycle investment returns in the 11-15% net nominal IRR range
- 6% of PUF/GEF; contribution to risk of 8%



Strategies Targeted



Geographic Focus



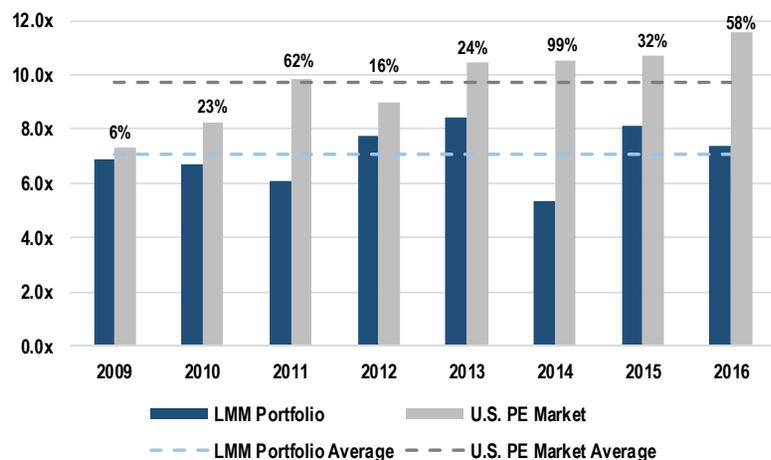
Implementation

Contribution to risk reflects the % of downside impact generated by each portfolio during a below target endowment return scenario, calculated based on rolling three day volatility and correlation data over the past three years as of December 31, 2017.

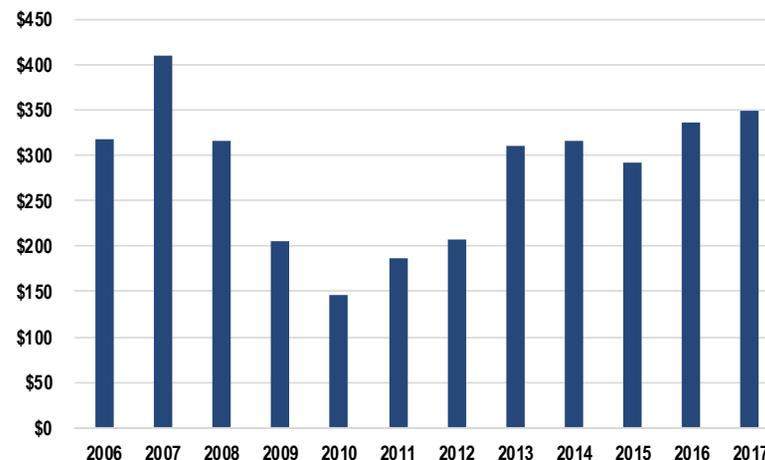


Developed Markets – Market Conditions

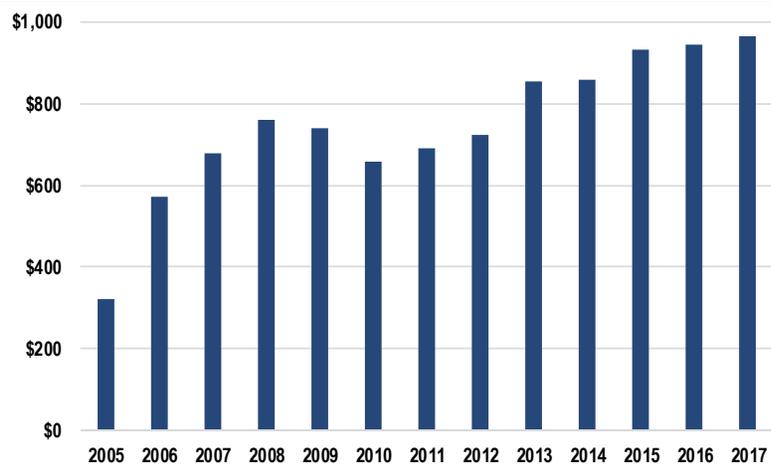
Purchase Multiples – EV / LTM EBITDA*



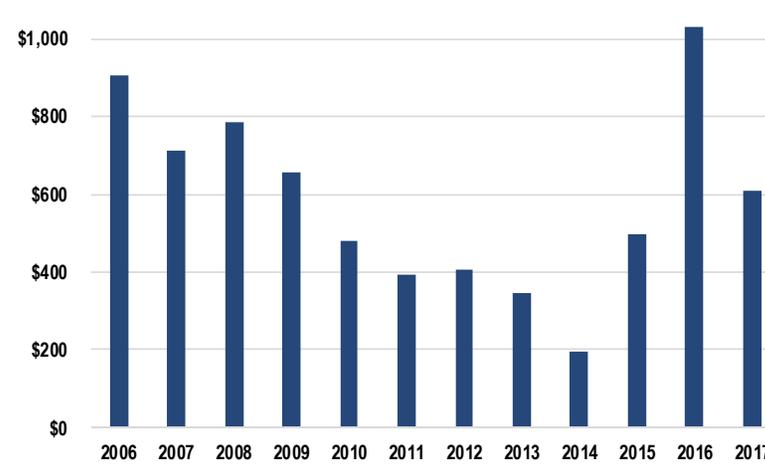
Global Private Equity Fundraising



Global Private Equity Dry Powder



Global Private Equity Capital Invested



Source: Pitchbook, S&P LCD LBO 2017 3Q
\$ in billions

Developed Markets – 2018 Top Priorities



- Optimize returns by driving more proactive co-investment sourcing, targeting 20%+ of capital deployment in high quality co-investments over the next 3 to 5 years
- Finalize Premier List and continue to update with attractive prospects
- Complete Private Investments critical process maps and target 20% YoY improvement in efficiency and quality
- Create valuation dashboard to monitor private equity market environment
- Strengthen the team



EMERGING MARKETS (EM)

Richard Rincon
Director

Suneel Kaji
Director



Emerging Markets – Team

- 6 investment professionals plus one support personnel
 - Investment team with average of 15 years relevant experience and 3 years at UTIMCO



Mark Warner, *Senior Managing Director – DM/EM/NR* (UTIMCO since 2007)

- Univ. Missouri, Univ. Oklahoma – MS-E, Southern Methodist Univ. - MBA
- Enron, Growth Capital Partners



Richard Rincon, *Director – EM* (2014)

- Univ. Michigan, Kellogg/Northwestern Univ. - MBA
- ABN Amro, Hispania Capital Partners/HCP & Company



Suneel Kaji, *Director – EM* (2016)

- Wharton/Univ. Pennsylvania, Stanford Univ. - MBA
- Goldman Sachs, DLJ Merchant Banking, GEM Group-Kinderhook, The Rohatyn Group



Zoe Gabbard, *Senior Analyst – EM/NR* (2014)

- Univ. Texas
- BVA Group



James Pappas, *Senior Analyst – EM/NR* (2016)

- Univ. Notre Dame
- Tudor Pickering Holt & Co., Samson Resources,



Ryan Moores, *Analyst – EM/NR* (2018)

- Univ. Texas, Univ. Texas - MS Finance
- Soros Fund Management (intern)



Jennifer Grahmann, *Investment Team Coordinator – EM* (2016)

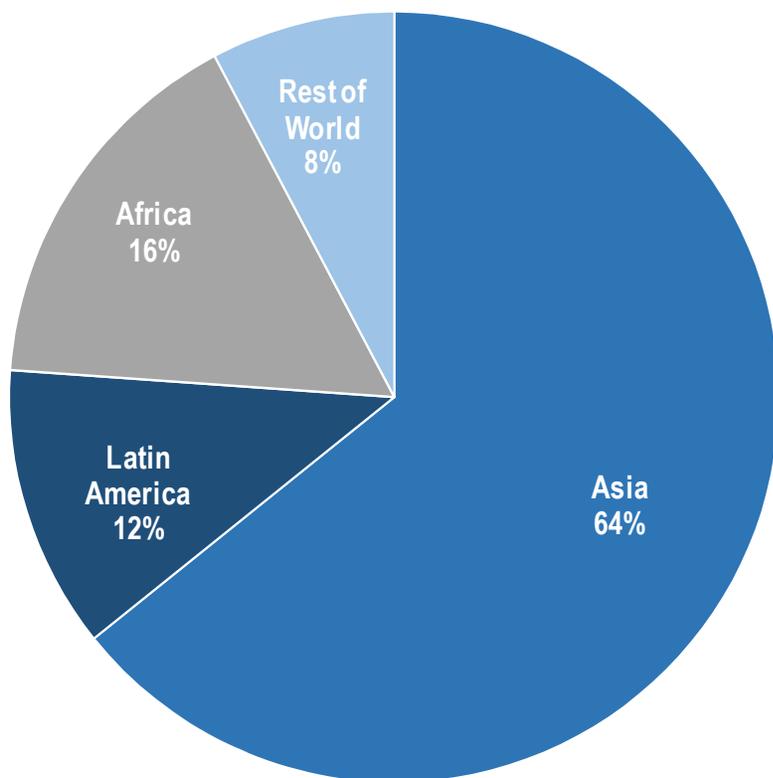
Shared
Resource
w/NR



Emerging Markets – Performance

NAV, Unfunded, and Investment Returns reflect September 30, 2017 valuations and cash flows as of December 31, 2017

\$1.6 Billion NAV; \$409 Million Unfunded
5.1% of PUF/GEF



Investment Returns (TWR)				SI IRR
	1 Year	3 Years	5 Years	
<u>UTIMCO Return</u>	12.8%	7.8%	6.3%	5.8%
<u>Cambridge EM Benchmark⁽¹⁾</u>	13.4%	10.5%	11.8%	
Value Add	-0.7%	-2.7%	-5.5%	
<u>Cambridge PI Composite⁽²⁾</u>	9.5%	9.0%	11.7%	
Value Add	3.3%	-1.3%	-5.4%	

Returns:

- Underperforming benchmark as portfolio has lagged across longer time horizons due to: (i) underperforming legacy managers; (ii) young portfolio age
- Gradual improvement in returns as broader EM markets rally and UTIMCO's dedicated EM team and strategy (formed 2014) gain traction
- Notable contributors include Chinese and African managers and a nascent co-investment portfolio, partially offset by legacy exposures in commodity heavy portfolios in Russia, Brazil and Indonesia

Outlook:

- Target sectors benefitting from core EM investment themes: rising domestic consumption, digital transformation and infrastructure modernization. Current geographic views:
 - Attractive: Brazil, China-Mid Cap, Sub-Saharan Africa, Indonesia
 - Neutral: China-Large Cap, India, LatAm ex-Brazil, Turkey
 - Unattractive: MENA, Russia

¹CA EM Benchmark reflects Cambridge Emerging Markets Index excl. energy and subordinated capital as of September 30, 2017 (TWR)

²CA PI Composite reflects NAV-weighted Cambridge Fund of Funds Index as of September 30, 2017 (TWR)

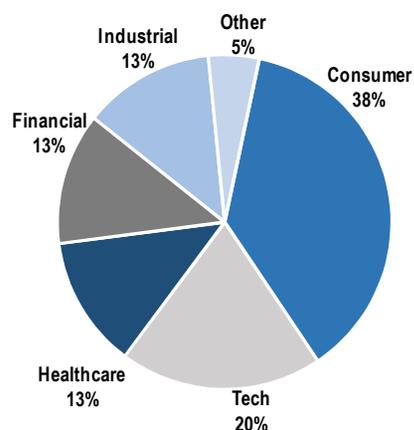
Investment Returns reflect time-weighted returns based on September 30, 2017 valuations and cash flows as of December 31, 2017



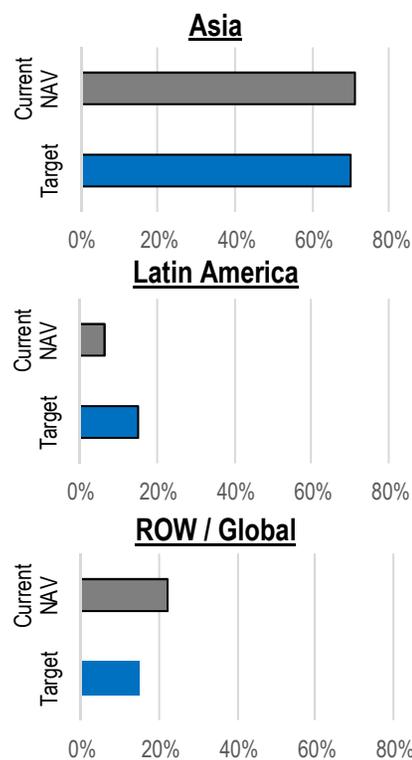
Emerging Markets – Strategy Overview

as of December 31, 2017

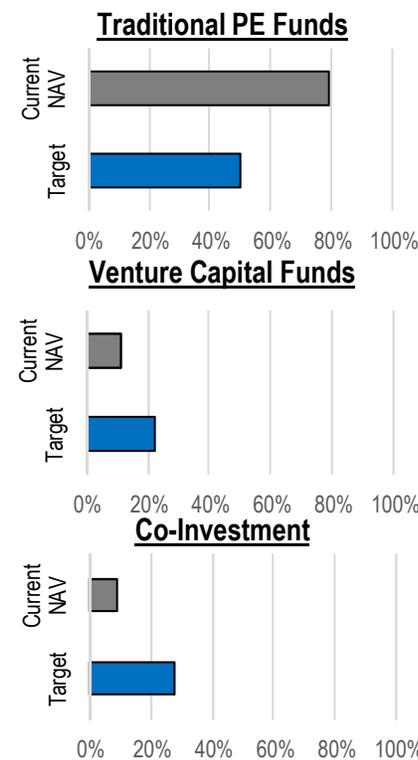
- Aim to generate superior long-term, risk-adjusted investment returns by leveraging UTIMCO's scale, industry leadership status, global network, dedicated EM specialist resources, and investing acumen and discipline
- The EM team will primarily focus on Asia, Latin America and Africa with a 20-25% target allocation to co-investments over the next 5 years
- The EM team targets full cycle investment returns in the 12-18% net nominal IRR range with alpha generation from geographic and manager/co-investment selection, preferred investment terms, and active portfolio management
- 5% of PUF/GEF; contribution to risk of 7%



Strategies Targeted



Geographic Focus



Implementation*

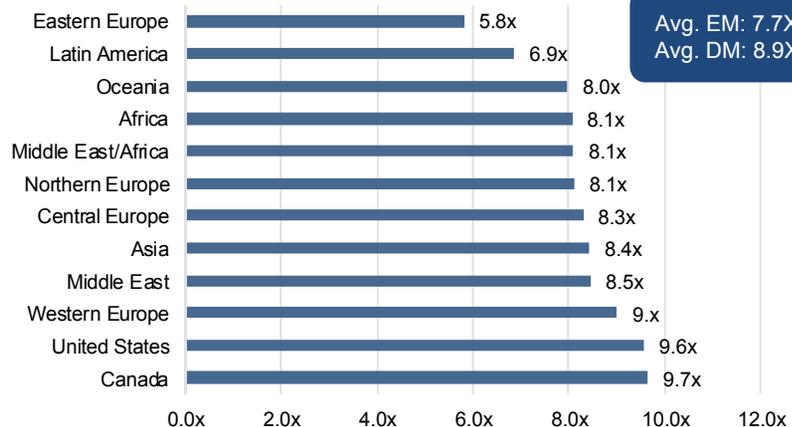
*Traditional PE Funds exclude non-core fund of funds strategy NAV and thus current NAV allocation does not sum to 100%

Contribution to risk reflects the % of downside impact generated by each portfolio during a below target endowment return scenario, calculated based on rolling three day volatility and correlation data over the past three years as of December 31, 2017.

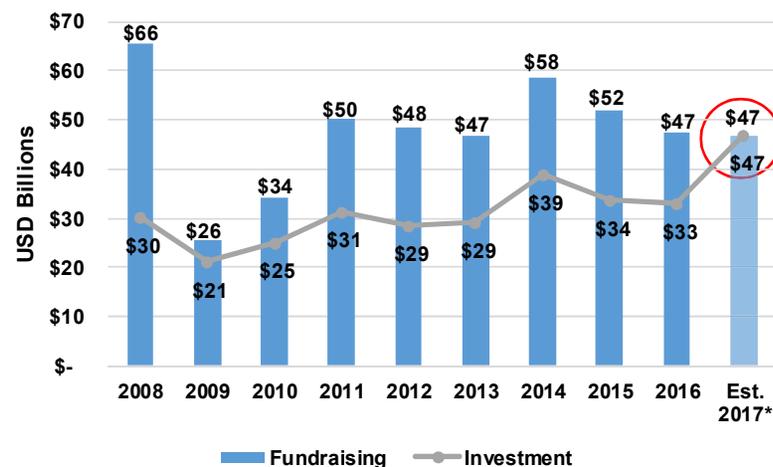


Emerging Markets – Market Conditions

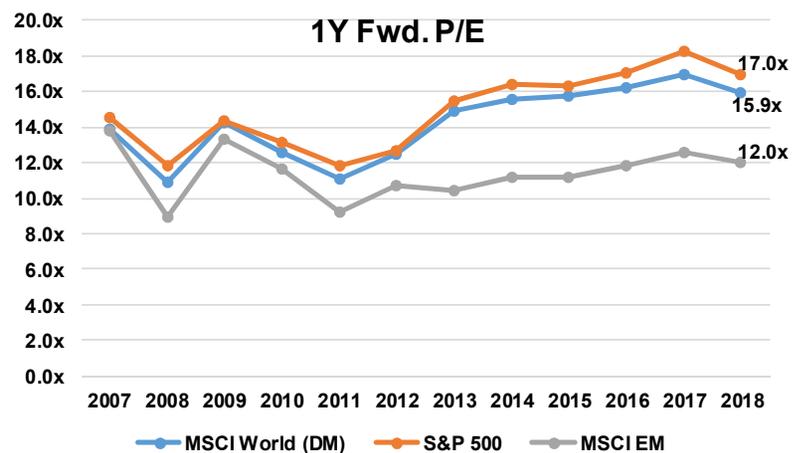
Median Buyout Multiples By Region (2006 – 2017)



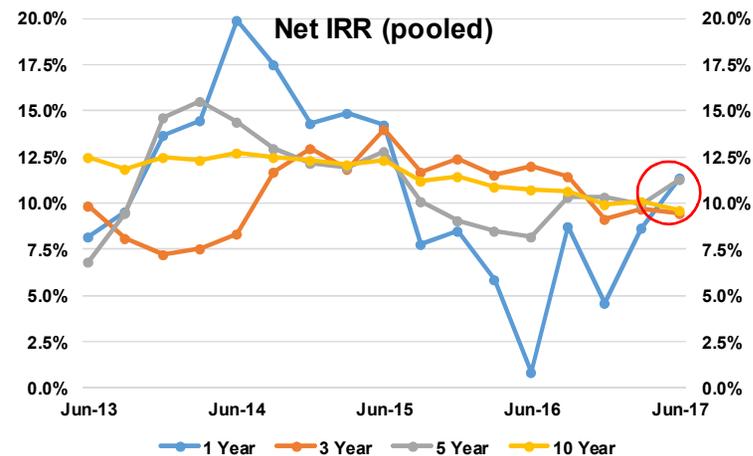
EM Fundraising/Investment



EM Valuations



EM PE/VC Returns



Sources: Cambridge Associates, EMPEA, World Bank, Pitchbook

*Est. 2017 based on actual data through September 30, 2017 as compiled by EMPEA

**Pooled end-to-end returns, net of fees, expenses and carried interest; data as of June 30, 2017 as compiled by Cambridge Associates

Emerging Markets – 2018 Top Priorities



- Generate attractive risk-adjusted performance through proactive portfolio construction and monitoring
 - Drive co-investment penetration to reach a target portfolio weight of 20-25% over the next 3 to 5 years

- Finalize Premier List – prioritize growth in Platinum and Gold partner exposure

- Invest in critical processes to achieve 20% (YoY) improvement in efficiency and quality
 - Fund and co-investment underwriting
 - Create valuation dashboard to monitor global EM investing environment

- Continued investment in EM team

Agenda Item
UTIMCO Board of Directors Meeting
February 28, 2018

Agenda Item: Co-Investment Strategy Presentation

Developed By: Warner, Lewis

Presented By: Warner, Lewis

Type of Item: Information Item

Description: Mr. Warner and Mr. Lewis will lead the presentation on UTIMCO's Private Markets Co-Investment Strategy.

Reference: *Co-Investment Strategy* presentation



The University of Texas/Texas A&M Investment Management Company

Co-Investment Strategy

Mark Warner
Senior Managing Director

Eddie Lewis
Managing Director

February 2018



Executive Summary

- The UTIMCO Private Markets Strategy centers on partnering with top performing, Premier List managers and building deep, strategic relationships with them
- Since 2010, the UTIMCO Private Markets Team has individually underwritten and invested \$1.27 billion in 78 co-investments that have collectively generated a 1.4x MOIC and an 18% IRR
 - Average investment size of \$16.3 million
- A significant portion of relationship building involves actively cultivating partner deal flow to drive the volume of co-investment opportunities to allow for best-of-the-best deal selection
 - Provides in-depth, ongoing diligence on our existing partners' capabilities and processes, which can help build conviction on continued partnership with them
 - Represents a key driver of returns and outperformance for the Private Markets Strategy and the endowments
 - Allows concentration of capital with high conviction managers in high conviction investment themes
 - Provides for fee reduction and J-curve mitigation
- Screening, conducting diligence and underwriting direct co-investments is a core competency of the UTIMCO Private Markets Team, which is comprised of team leaders with principal investing experience and sector expertise

Executive Summary



Portfolio	Fund NAV	Co-Investment NAV	Total NAV	Co-Investment % of Total NAV	Co-Investment IRR SI	Fund IRR	Co-Investment Premium
Developed Markets	\$1,765	\$249	\$2,014	12.3%	46.3%	-	35.0%
Natural Resources	2,820	819	3,639	22.5%	17.3%	-	2.7%
Emerging Markets	1,336	135	1,471	9.2%	11.3%	-	7.0%
Total Private Investments	\$5,738	\$1,202	\$6,940	17.3%	21.6%	-	10.7%
Real Estate	1,927	209	2,136	9.8%	13.7%	-	1.1%
Venture Capital	1,535	41	1,577	2.6%	(12.5%)	-	(23.8%)
Private Credit	761	26	787	3.3%	15.9%	-	6.9%
Total Private Markets	\$10,232	\$1,412	\$11,644	12.1%	18.4%	-	6.8%

Vintage	# of Co-Invests	Committed	Avg Inv Size	Invested	Total Value	Gain/Loss	Multiple	IRR
2010	2	\$41	\$20	\$41	\$117	\$76	2.9x	75.0%
2011	3	78	25	75	118	43	1.6x	13.3%
2012	9	248	23	204	365	161	1.8x	16.2%
2013	10	243	21	208	286	79	1.4x	12.5%
2014	14	226	13	177	225	48	1.3x	9.8%
2015	11	258	18	197	259	62	1.3x	16.8%
2016	20	316	15	290	358	68	1.2x	23.8%
2017	9	90	8	75	84	8	1.1x	53.2%
Total	78	\$1,500	\$16	\$1,268	\$1,812	\$544	1.4x	18.4%

As of August 31, 2017; \$ in millions



Private Markets Strategy

- Create unique, **strategic partnerships** that are able to scale with the endowment
- Make **transformational commitments**, allowing our partner to build a portfolio demonstrating the viability of the opportunity, the strategy, and their capabilities
- UTIMCO is willing to make a material fund commitment as an anchor or sole investor
 - Develop a close working relationship with frequent interaction
 - A focus on net returns
 - Co-investments play a critical role in the partnership
- UTIMCO has generally **not** sought an equity stake in our partners as foundational investors, and instead pursued **long term (multi-fund or vintage) advantaged/strategic LP terms**

UTIMCO Co-Investment Strategy



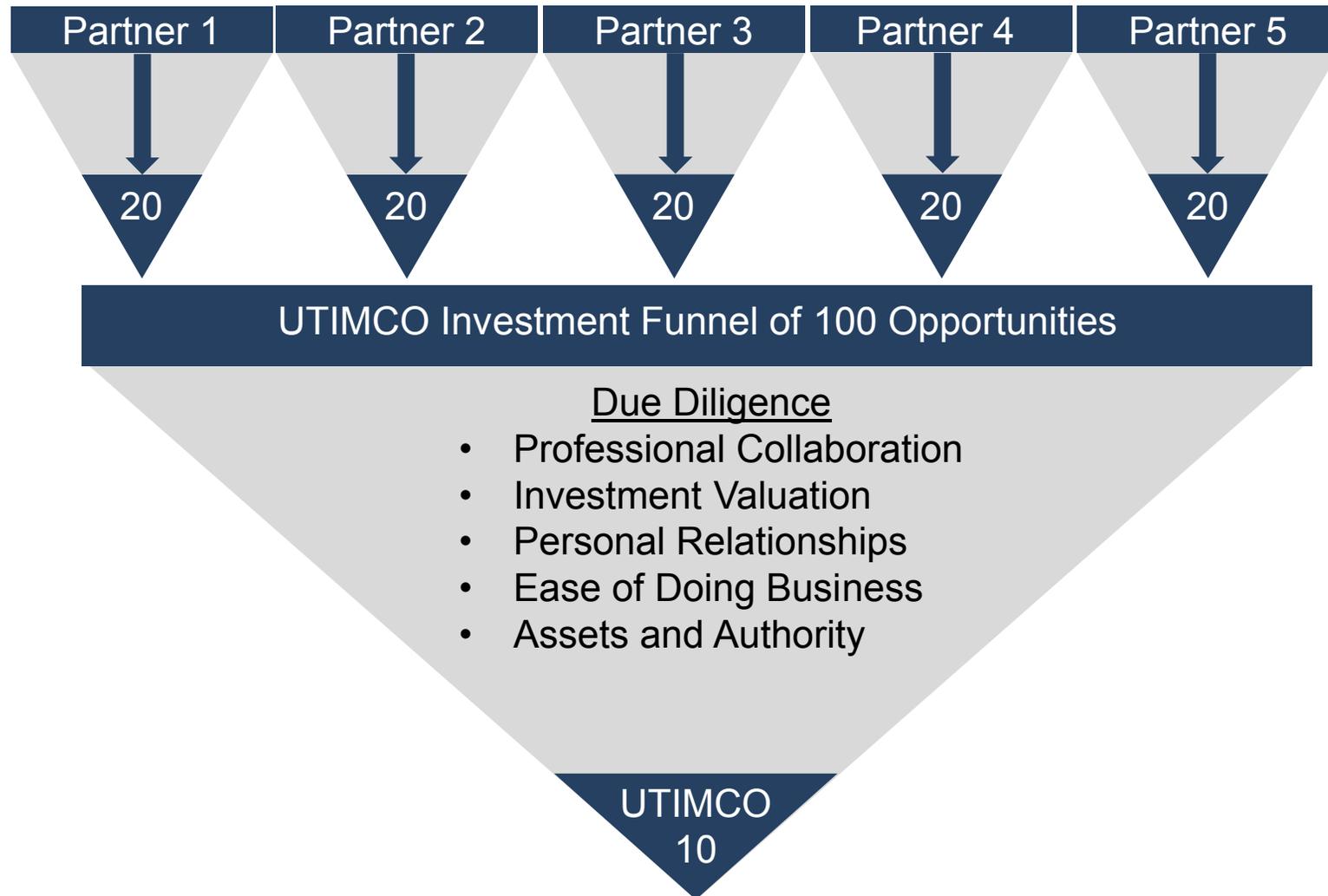
What are our objectives?



What is the UTIMCO Way?

- UTIMCO Team contribution to endowment alpha, beyond that achieved through fee reduction alone
 - Aim to enhance portfolio returns
 - Target 500 basis points above main fund vehicle net IRR
 - J-curve mitigation
 - Allow for **ongoing diligence** of partners (front row seat on deal execution and value creation)
 - Increase **depth of our partnerships**
 - Broaden and deepen **UTIMCO global network** and brand
 - Leverage our fund commitment with a 50%+ target of shown co-investment opportunities
- Target **best-in-class partners**
 - Become **preferred destination** for attractive investments:
 - Highly-structured partnerships with preferred LP terms, enabling execution agility
 - Sector and Geography expertise
 - Ease of doing business through clear, established internal policies and processes
 - Leverage UTIMCO Private Markets Team's ability to "cherry pick" high-conviction investments (**proactive security selection**)
 - Co-investment structuring allows for **advantaged economics** in reduced or fee/carry-free investing leading to lower blended fees

Co-Investments – “UTIMCO Way”



Preferred Destination for Attractive Global Investments

Co-Investments – Representative UTIMCO Examples



Investment 1

(UTIMCO as part of club)

Company: Industrial supplier to global mining industry

Source: Mid-Market PE partner

Total Co-Investment: \$40M out of \$200M total co-invest

UTIMCO Share of Co-Investment: 20%

Timeline: Four week firm decision, two months to close

Value Add: UTIMCO received outsized allocation of co-invest due to 1) UTIMCO Team mining sector expertise and knowledge of the target company and 2) ability to move swiftly to a “yes/no” decision

Expected

Contribution: 2.5x net MOIC, 20% net IRR

Investment 2

(UTIMCO as only co-investor)

Company: Tech-enabled service provider to clinical trial management sector

Source: Healthcare Growth Equity partner

Total Co-Investment: \$10M

UTIMCO Share of Co-Investment: 100%

Timeline: Two months from deal announcement to first close

Value Add: UTIMCO received all available co-investment due to UTIMCO Team healthcare sector expertise and position as the anchor investor for this partner

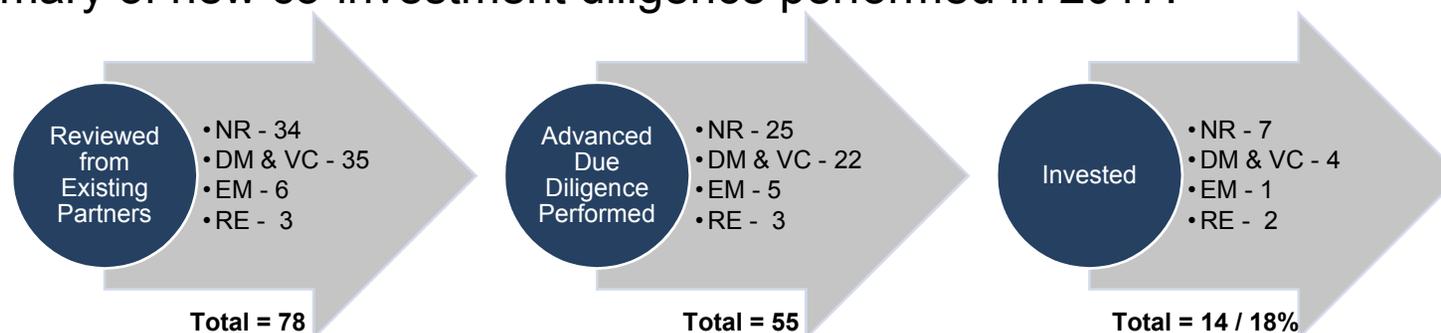
Expected

Contribution: 3.0x net MOIC, 25% net IRR



Sourcing and Execution

- UTIMCO Private Markets Team actively works to deepen relationships with partners
 - Minimum twice yearly in-person meetings; frequent, recurring phone updates
 - The Team sometimes sources opportunities for our partners
- UTIMCO Private Markets Team has developed a critical process for execution of co-investments and an Investment Recommendation Memorandum template specific for co-investments
- Underwriting includes completing Co-Investment Scorecard
 - Standardizing objectives in order to compare opportunities
 - Focus on deal dynamics, risks, and returns
 - Return sensitivities and ongoing monitoring plans also included
- Summary of new co-investment diligence performed in 2017:





Co-Investments – UTIMCO Policy

- Governance
 - Co-Investment Committee
 - Investment Committee
 - Management Committee

- Policy Parameters/Constraints: Delegation of Authority

Investment Type	New Co-Investment % Applicable Assets Limit	New Co-Investment Dollar Limit (\$M)	Increase Co-Investment Applicable Assets Limit after 6 months and for each subsequent 12 months	Increase Existing Co- Investment Dollar Limit (\$M)	Total Limits % (Co-Investment + Blind Pool deployment)	Total Limit (Co-Investment + Blind Pool deployment \$M)
PI Co-Investment	0.3% AA ¹ /50% ²	\$90.8 ³	0.3% AA ¹ /50% ²	\$90.8 ³	3.00% AA ¹	\$1190.7 ³

- Co-Investment History (*since 2010*)

Invested (\$M) (Deal Count #)	Natural Resources	Developed Markets	Emerging Markets	Total Private Investments	Real Estate	Venture Capital	Private Credit	Total Private Markets
Less than \$10	(5) \$31	(7) \$46	(0) \$0	(12) \$77	(7) \$48	(10) \$40	(0) \$0	(29) \$166
\$10 - \$25	(20) \$325	(2) \$21	(3) \$44	(25) \$390	(8) \$104	(1) \$13	(1) \$22	(35) \$529
\$25 - \$50	(4) \$121	(2) \$65	(2) \$72	(85) \$259	(2) \$75	(0) \$0	(0) \$0	(10) \$334
\$50+	(4) \$240	(0) \$0	(0) \$0	(4) \$240	(0) \$0	(0) \$0	(0) \$0	(4) \$240
Total	(33) \$717	(11) \$133	(5) \$116	(49) \$966	(17) \$227	(11) \$53	(1) \$22	(78) \$1,268
Minimum	\$1	\$4	\$10	\$1	\$4	\$2	\$22	\$1
Average	\$22	\$12	\$23	\$19	\$13	\$5	\$22	\$16
Median	\$19	\$9	\$22	\$14	\$10	\$5	\$22	\$11
Maximum	\$70	\$40	\$44	\$70	\$45	\$13	\$22	\$70

(1) Applicable Assets (AA) represents the latest quarterly combined NAV of the Endowments.

(2) 50% reflects UTIMCO's concentration limit of a manager's applicable strategy AUM.

(3) Dollar limits reset quarterly

Note: Co-Investment data as of August 31, 2017



Conclusion

- The UTIMCO Private Markets Team continues to focus on co-investments
 - Drive more proactive co-investment deal flow by developing deeper relationships with Premier List partners
 - Streamlined co-investment process increases efficiency of execution
- Through a combination of the Team's principal investing skills, sector and geography expertise, ease of doing business, and vehicle structuring, UTIMCO will remain a preferred destination for attractive co-investments from our partners

Agenda Item
UTIMCO Board of Directors Meeting
February 28, 2018

Agenda Item:	Report from Audit and Ethics Committee: Approval of Deloitte & Touche LLP Financial Statement Audit Results and Communications and the Audited Financial Statements of UTIMCO
Developed By:	Moeller, Gonzalez
Presented By:	Handley
Type of Item:	Action required by UTIMCO Board related to Audit; Information item on other items
Description:	<p>The Audit and Ethics Committee (the “Committee”) met on February 21, 2018. The Committee’s agenda included (1) approval of Committee minutes; (2) discussion and appropriate action related to financial statement audit results and communications and audited financial statements for the Corporation; (3) report from UT System Audit Office; (4) an update on UTIMCO’s compliance, reporting, and audit matters; (5) a presentation of unaudited financial statements as of November 30, 2017 for the Investment Funds and the Corporation; and (6) discussion and appropriate action related to the Qualitative Performance Goals for the Corporate Counsel and Chief Compliance Officer for the Performance Period ended August 31, 2018.</p>
Discussion:	<p>The UTIMCO financial statements were audited by Deloitte & Touche LLP. Deloitte & Touche LLP issued an unqualified opinion on the August 31, 2017 and 2016 financial statements. Robert Cowley, the engagement partner, presented to the Committee the Deloitte & Touche LLP’s Audit Results and Communications letter and answered questions related to the financial statements. A copy of the Audit Results and Communications and the audited financial statements are included.</p> <p>J. Michael Peppers, Chief Audit Executive, provided a report on their 2017/2018 audit plan and current audit.</p> <p>Routine activities of the Committee included reviewing the unaudited financial statements for the first quarter for the Funds and the Corporation and the quarterly compliance reports.</p>
Recommendation:	The Committee will request the UTIMCO Board take appropriate action based on the Committee’s action from its meeting related to approval of Deloitte and Touche LLP’s Financial Statement Audit Results and Communications, and the audited financial statements and audit report for the Corporation.
Reference:	Audit Results and Communications Audited Financial Statements and Audit Report for the Corporation Quarterly Compliance Reports

**RESOLUTIONS RELATED TO AUDIT OF THE CORPORATION FOR
FISCAL YEAR 2017**

RESOLVED, that Deloitte & Touche LLP's Financial Statement Audit Results and Communications for the Corporation for the year ended August 31, 2017, be, and is hereby approved in the form as presented to the Board; and further

RESOLVED, that the annual financial statements and audit report for the Corporation for the fiscal years ended August 31, 2017 and August 31, 2016, be, and are hereby approved in the form as presented to the Board.



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Austin, TX 78701
USA
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www.deloitte.com

January 18, 2018

Mr. Britt Harris
President, CEO and Chief Investment Officer
The University of Texas/ Texas A&M Investment Management Company

The Audit and Ethics Committee of the Board of Directors of
The University of Texas/ Texas A&M Investment Management Company

401 Congress Avenue, Suite 2800
Austin, TX 78701

Dear Mr. Harris and Members of the Audit and Ethics Committee of the Board of Directors of
The University of Texas/ Texas A&M Investment Management Company (the "Audit and
Ethics Committee"):

We have performed an audit of the financial statements of The University of Texas/ Texas
A&M Investment Management Company (the "Company") as of and for the year ended
August 31, 2017, in accordance with auditing standards generally accepted in the United
States of America ("generally accepted auditing standards") and have issued our report
thereon dated January 18, 2018.

We have prepared the following comments to assist you in fulfilling your obligation to
oversee the financial reporting and disclosure process for which management of the
Company is responsible.

This report is intended solely for the information and use of management, the Audit and
Ethics Committee, and others within the organization and is not intended to be and should
not be used by anyone other than these specified parties.

Yours truly,

cc: Management of The University of Texas/ Texas A&M Investment Management Company

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS

Our responsibility under generally accepted auditing standards has been described in our engagement letter dated July 14, 2017, a copy of which has been provided to you. As described in that letter, the objective of a financial statement audit conducted in accordance with generally accepted auditing standards is to express an opinion on the fairness of the presentation of the Company's financial statements for the year ended August 31, 2017, in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects. Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Audit and Ethics Committee are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Audit and Ethics Committee of their responsibilities.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether caused by fraud or error. In making those risk assessments, we considered internal control over financial reporting relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over financial reporting. Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are set forth in Note 2 to the Company's 2017 financial statements. We are not aware of any significant changes in previously adopted accounting policies or their application during the year ended December 31, 2017.

We have evaluated the significant qualitative aspects of the Company's accounting practices, including accounting policies, accounting estimates and financial statement disclosures and concluded that the policies are appropriate, adequately disclosed, and consistently applied by management.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the Company's 2017 financial statements include the recoverability of long-term assets such as property and equipment and liabilities, as well as those related to accrued compensation and other compensation related accounts. During the year ended August 31, 2017, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

UNCORRECTED MISSTATEMENTS

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. There were no uncorrected misstatements or disclosure items passed identified during our audit.

MATERIAL CORRECTED MISSTATEMENTS

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. There were no material misstatements that were brought to the attention of management as a result of our audit procedures.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Company's 2017 financial statements.

OUR VIEWS ABOUT SIGNIFICANT MATTERS THAT WERE THE SUBJECT OF CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during fiscal year 2017.

SIGNIFICANT FINDINGS OR ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT PRIOR TO OUR INITIAL ENGAGEMENT OR RETENTION

Throughout the year, routine discussions were held, or were the subject of correspondence, with management regarding the application of accounting principles or auditing standards in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions or correspondence were not held in connection with our retention as auditors.

OTHER SIGNIFICANT FINDINGS OR ISSUES ARISING FROM THE AUDIT DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT

Throughout the year, routine discussions were held, or were the subject of correspondence, with management. In our judgment, such discussions or correspondence did not involve significant findings or issues requiring communication to the Audit and Ethics Committee.

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

In our judgment, we received the full cooperation of the Company's management and staff and had unrestricted access to the Company's senior management in the performance of our audit.

MANAGEMENT'S REPRESENTATIONS

We have made specific inquiries of the Company's management about the representations embodied in the financial statements. In addition, we have requested that management provide to us the written representations the Company is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Appendix A, a copy of the representation letter we obtained from management.

OTHER-MATTER PARAGRAPH

We included the following other matter in our opinion on the financial statements:

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



January 18, 2018

Appendix A

Deloitte & Touche LLP
400 West 15th Street - Suite 1700
Austin, TX 78701

We are providing this letter in connection with your audits of the statements of net position of The University of Texas/Texas A&M Investment Management Company (the "Company") as of August 31, 2017 and 2016, and the related statements of revenue, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial net position, results of operations, and cash flows of the Company in accordance with accounting principles generally accepted in the United States of America (GAAP).

We confirm that we are responsible for the following:

- a. The preparation and fair presentation in the statements of net position, statements of revenue, expenses and changes in net position, and cash flows in accordance with GAAP.
- b. The design, implementation, and maintenance of internal control:
 - Relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
 - To prevent and detect fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits.

1. The financial statements referred to above are fairly presented in accordance with GAAP.
2. The Company has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.
3. The Company has made available to you:
 - a. All financial records and related data.
 - b. All minutes of the meetings of stockholders, directors, and committees of directors or summaries of actions of recent meetings for which minutes have not yet been prepared.
4. There have been no communications with regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.

Tel 512 225 1600 | Fax 512 225 1660 | 401 Congress Avenue, Suite 2800 | Austin, TX 78701

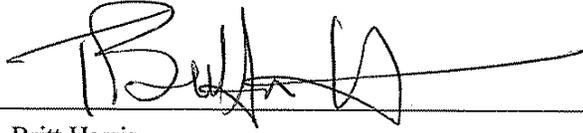
The University of Texas/Texas A&M Investment Management Company

5. The Company has disclosed to you the results of management's risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud.
6. We have no knowledge of any fraud or suspected fraud affecting the Company involving:
 - a. Management
 - b. Employees who have significant roles in the Company's internal control over financial reporting
 - c. Others, where the fraud could have a material effect on the financial statements.
7. We have no knowledge of any allegations of fraud or suspected fraud affecting the Company's financial statements communicated by employees, former employees, regulators, or others.
8. Significant assumptions used by us in making accounting estimates are reasonable.

Except where otherwise stated below, immaterial matters less than \$60,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to, or disclosure in, the financial statements.

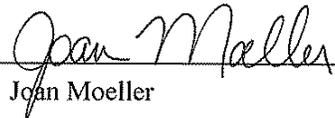
9. There are no transactions that have not been properly recorded and reflected in the financial statements.
10. The Company has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
11. Regarding related parties:
 - a. We have disclosed to you the identity of the Company's related parties and all the related-party relationships and transactions of which we are aware.
 - b. To the extent applicable, related parties and all the related-party relationships and transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral) have been appropriately identified, properly accounted for, and disclosed in the financial statements.
12. In preparing the financial statements in accordance with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
 - a. It is reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.
 - b. The effect of the change would be material to the financial statements.

13. There are no:
 - a. Instances of identified or suspected noncompliance with laws or regulations whose effects should be considered when preparing the financial statements.
 - b. Known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and that have not been disclosed to you and accounted for and disclosed in accordance with GAAP.
14. The Company has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral.
15. The Company has complied with all aspects of contractual agreements that may affect the financial statements.
16. The performance incentive awards approved for the year ended August 31, 2017 and approved on November 29, 2017 totaled \$8,632,224.
17. Regarding required supplementary information:
 - a. We confirm that we are responsible for the required supplementary information
 - b. The required supplementary information is measured and presented in accordance with the Governmental Accounting Standards Board
 - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.
18. No events have occurred after August, 31, 2017 but before January 18, 2018, the date the financial statements were issued that require consideration as adjustments to, or disclosures in, the financial statements.



Britt Harris

President, Chief Executive Officer and Chief Investment Officer



Joan Moeller

Senior Managing Director – Accounting, Finance and Administration



Kim Bauer

Manager – Corporate Accounting

**THE UNIVERSITY OF TEXAS/TEXAS A&M INVESTMENT
MANAGEMENT COMPANY**

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT**

Years ended August 31, 2017 and 2016

The University of Texas/Texas A&M Investment Management Company

Financial Statements

Years Ended August 31, 2017 and 2016

Contents

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The University of Texas/Texas A&M Investment Management Company

Report on the Financial Statements

We have audited the accompanying financial statements of The University of Texas/Texas A&M Investment Management Company ("UTIMCO"), which comprise the statements of net position as of August 31, 2017 and 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to UTIMCO's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of UTIMCO's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The University of Texas/Texas A&M Investment Management Company as of August 31, 2017 and 2016, and the results of its changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Deloitte & Touche LLP

January 18, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (Unaudited)

Our discussion and analysis of the financial performance for The University of Texas/Texas A&M Investment Management Company (UTIMCO) provides an overview of its activities for the year ended August 31, 2017. This discussion was prepared by UTIMCO management and should be read in conjunction with the UTIMCO financial statements and notes. UTIMCO is a 501(c) (3) investment management corporation whose sole purpose is the management of investment assets that are under the fiduciary care of the Board of Regents of The University of Texas System (UT Board).

Created in March 1996, UTIMCO is the first external investment corporation formed by a public university system. It invests endowment and operating funds in excess of \$41 billion as of August 31, 2017. UTIMCO is governed by a nine-member Board of Directors consisting of at least three members of the UT Board and four other members appointed by the UT Board, and two members appointed by The Texas A&M University System Board of Regents (A&M Board). At least three members appointed by the UT Board and at least one member appointed by the A&M Board must have substantial background and expertise in investments. The UTIMCO Board and the UT Board have entered into an Investment Management Services Agreement delegating investment management responsibility for most investments to UTIMCO.

The purpose of the MD&A is to provide an objective and easily readable analysis of the UTIMCO financial statements based upon currently known facts, decisions or conditions.

Financial Highlights

Net position decreased by approximately \$0.7 million from \$10.5 million to \$9.8 million, or approximately 7%, for the year ended August 31, 2017. This is compared to an increase of approximately \$4.7 million from \$5.8 million to \$10.5 million, or approximately 81%, for the year ended August 31, 2016. The decrease in net position for FY 2017 was primarily the result of an increase in depreciation expense due to the accelerating of depreciation related to the software that was developed internally in partnership with a contracted software development firm ("Investment Support System") that was removed from service. The increase in net position for FY 2016 was primarily the result of employee compensation being lower than budgeted due to staff departures and unfilled positions. In addition, the UTIMCO Performance Compensation Program's (the Plan) awards earned were less than budgeted for participants.

Use of Financial Statements and Notes

UTIMCO financial statements are prepared in accordance with standards issued by the Governmental Accounting Standards Board (GASB). Three financial statements are typically required under GASB: the Statements of Net Position; the Statements of Revenues, Expenses and Changes in Net Position; and the Statements of Cash Flows.

The notes to the financial statements contain supplemental information that is essential for the fair presentation of the financial statements.

Statements of Net Position

The Statements of Net Position present assets, liabilities, and the net position of UTIMCO as of the end of the fiscal years. These statements have been prepared using the accrual basis of accounting.

The following summarizes the Statements of Net Position:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Assets			
Current Assets			
Cash and cash equivalents	\$18,724,958	\$15,627,261	\$10,331,467
Prepaid expenses and other assets	<u>2,421,973</u>	<u>944,958</u>	<u>675,062</u>
Total Current Assets	21,146,931	16,572,219	11,006,529
Non-Current Assets			
Assets of the 457(b) deferred compensation plan	1,788,893	1,470,030	1,193,178
Capital assets, net of accumulated depreciation	<u>297,558</u>	<u>2,690,841</u>	<u>4,076,643</u>
Total Non-Current Assets	<u>2,086,451</u>	<u>4,160,871</u>	<u>5,269,821</u>
Total Assets	<u>\$23,233,382</u>	<u>\$20,733,090</u>	<u>\$16,276,350</u>
Liabilities and Net Position			
Current Liabilities	\$11,664,000	\$ 8,743,616	\$ 9,279,507
Non-Current Liabilities	<u>1,788,893</u>	<u>1,470,030</u>	<u>1,193,178</u>
Total Liabilities	<u>13,452,893</u>	<u>10,213,646</u>	<u>10,472,685</u>
Net Position	<u>9,780,489</u>	<u>10,519,444</u>	<u>5,803,665</u>
Total Liabilities and Net Position	<u>\$23,233,382</u>	<u>\$20,733,090</u>	<u>\$16,276,350</u>

The changes in the Statements of Net Position components are primarily the result of the following:

- Net position decreased in FY 2017 by \$738,955 and increased in FY 2016 by \$4,715,779. The decrease in net position for FY 2017 was primarily the result of the additional depreciation expense incurred related to the Investment Support System. The increase in FY 2016 was primarily the result of lower than budgeted employee compensation resulting from staff departures and unfilled positions. In addition, the Plan's awards earned were less than budgeted for participants.

- Cash & cash equivalents increased between FY 2016 and FY 2017 by \$3,097,697 and increased between FY 2015 and FY 2016 by \$5,295,794. The increase in cash & cash equivalents for FY 2017 was the result of several budgeted positions remaining unfilled during the year and the deferral of capital purchases due to the upcoming move to new office space. The increase in cash & cash equivalents for FY 2016 resulted from an increase in the management fee revenue to cover staff additions and performance compensation which was not spent in FY 2016. The additional management fee was not spent due to staff departures, unfilled positions and a decrease in Plan participants' performance compensation.
- Prepaid expenses and other assets increased by \$1,477,015 in FY 2017 primarily as a result of deposits and costs incurred for the furniture, equipment and leasehold improvements related to UTIMCO's future office space. Prepaid expenses and other assets increased by \$269,896 in FY 2016 primarily as a result of a prepayment for an investment support software subscription.
- Non-current assets decreased by \$2,074,420 in FY17 and decreased by \$1,108,950 in FY 2016. The decreases in both FY 2017 and FY 2016 were primarily a result of depreciating fixed assets related to the Investment Support System offset by an increase in assets of the 457(b) deferred compensation plan.
- Current liabilities increased by \$2,920,384 in FY 2017 and decreased by \$535,891 in FY 2016. The increase in FY 2017 was primarily the result of an increase in accounts payable related to the leasehold improvement costs for the future office space and an increase in the performance compensation liability. The decrease in FY 2016 was primarily the result of a decrease in the performance compensation liability.
- Non-current liabilities increased by \$318,863 in FY 2017 and increased by \$276,852 in FY 2016. The increases in both FY 2017 and FY 2016 were the result of an increase in the liabilities of the 457(b) deferred compensation plan.

Statements of Revenues, Expenses and Changes in Net Position

The Statements of Revenues, Expenses and Changes in Net Position are based upon the financial activities of the organization. The purpose of these statements is to present details comprising the revenues, expenses, and changes to net position for the years reported. The following table summarizes the Statements of Revenues, Expenses and Changes in Net Position:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Revenue			
Management fees and advisory board fees	\$32,307,792	\$31,527,266	\$25,436,194
Net non-operating revenues	<u>147,225</u>	<u>32,062</u>	<u>9,069</u>
Total Revenue	32,455,017	31,559,328	25,445,263
Expenses			
Salaries, benefits & payroll taxes	13,639,378	12,735,551	11,031,415
Performance compensation	10,291,209	7,235,982	8,410,030
General operating	3,541,914	3,028,224	2,581,968
Depreciation	2,453,498	1,657,536	1,129,717
Other	<u>3,267,973</u>	<u>2,186,256</u>	<u>1,806,536</u>
Total Expenses	<u>33,193,972</u>	<u>26,843,549</u>	<u>24,959,666</u>
Net Position, beginning of year	<u>10,519,444</u>	<u>5,803,665</u>	<u>5,318,068</u>
Net Position, end of year	<u><u>\$9,780,489</u></u>	<u><u>\$10,519,444</u></u>	<u><u>\$5,803,665</u></u>

The changes in the Statements of Revenues, Expenses and Changes in Net Position are primarily the result of the following:

- Management fees revenue for each year presented are based upon the operating budget and management fee approved in advance each year by both the UTIMCO Board and the UT Board. The revenue fluctuations are the direct result of these approved budgets.
- Total Expenses increased by \$6,350,423 in FY 2017 from FY 2016 and increased by \$1,883,883 in FY 2016 from FY 2015. The increase in FY 2017 was primarily the result of an increase in salaries, performance compensation, employee benefits and payroll taxes. These employee-related expenses increased mainly because numerous open and new positions were filled in FY 2017. In addition, Total Expenses increased due to costs associated with the departure and subsequent hire of the Chief Executive Officer and Chief Investment Officer. The increase in FY 2016 was primarily a result of an increase in salaries, benefits and payroll taxes expenses related to the Investment Support System since development of the software ceased and the expenses were not reclassified to capitalized software as they were in FY 2015.

In FY 2015, \$729,342 of salaries, performance compensation, employee benefits and payroll taxes related to the Investment Support System was reclassified to capitalized software, thus reducing these costs.

- Depreciation expense also was a significant component of the increase in total expense. Depreciation expense has been increasing year over year since the Investment Support System was put into service and the costs have been depreciated over the useful life of the software. The software was fully depreciated in FY 2017 and removed from service because it no longer met the needs of the organization.
- Other expenses also contributed to the total expense increases in FY 2017 and FY 2016. Specifically, lease expense, on-line data, and professional fees increased in FY 2017 from FY 2016. In FY 2016, the hiring of recruiting firms and on-line data and other contract services were higher than in FY 2015.

Statements of Cash Flows

The Statements of Cash Flows are presented to identify the cash flows from operating, financing and investing activities. The following table summarizes the Statements of Cash Flows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Cash flows from Operating Activities			
Proceeds from management fees and advisory board fees	\$32,307,792	\$31,527,266	\$25,436,194
Payments to and for employees	(22,599,764)	(20,224,285)	(19,904,545)
Other payments	<u>(6,697,341)</u>	<u>(5,767,515)</u>	<u>(4,749,634)</u>
Net cash provided by Operating Activities	3,010,687	5,535,466	782,015
Cash flows from Capital and Related Financing Activities			
Purchase of capital assets, net	<u>(61,862)</u>	<u>(275,166)</u>	<u>(2,171,015)</u>
Net cash used for Capital and Related Financing Activities	(61,862)	(275,166)	(2,171,015)
Cash flows from Investing Activities			
Interest	<u>148,872</u>	<u>35,494</u>	<u>9,069</u>
Net cash provided by Investing Activities	148,872	35,494	9,069
Net Change in cash & cash equivalents	3,097,697	5,295,794	(1,379,931)
Cash & cash equivalents, beginning of year	<u>15,627,261</u>	<u>10,331,467</u>	<u>11,711,398</u>
Cash & cash equivalents, end of year	<u>\$18,724,958</u>	<u>\$15,627,261</u>	<u>\$10,331,467</u>

The changes in the Statements of Cash Flows are primarily the result of the following:

- Receipt of management fees and advisory board fees increased in FY 2017 as a result of the increase in UTIMCO's budget. The UTIMCO budget is approved in advance each year by both the UTIMCO board and the UT Board and the management fee fluctuates as the direct result of the approved budget.
- Payments to and for employees increased in fiscal years 2017 and 2016 mainly as a result of the increase in salaries and other personnel expenses that are directly related to compensation.
- Purchases of capital assets decreased in FY 2017 and FY 2016 as a result of ceasing the development of the Investment Support System. Additionally, capital asset purchases in FY 2017 were limited in anticipation of the FY 2018 move to the future office space.

Contacting UTIMCO

The above financial highlights are designed to provide a general overview of the UTIMCO corporate results and insight into the following financial statements. Additional information may be found on our website and inquiries may be directed to UTIMCO via www.utimco.org.

THE UNIVERSITY OF TEXAS/TEXAS A&M INVESTMENT MANAGEMENT COMPANY
Financial Statements

Statements of Net Position

August 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 18,724,958	\$ 15,627,261
Prepaid expenses and other assets	<u>2,421,973</u>	<u>944,958</u>
Total Current Assets	21,146,931	16,572,219
Non-Current Assets		
Assets of the 457(b) deferred compensation plan	1,788,893	1,470,030
Capital assets, net of accumulated depreciation of \$5,778,073 and \$7,393,762, respectively	<u>297,558</u>	<u>2,690,841</u>
Total Non-Current Assets	2,086,451	4,160,871
Total Assets	<u><u>\$ 23,233,382</u></u>	<u><u>\$ 20,733,090</u></u>
Liabilities and Net Position		
Current Liabilities		
Accounts payable and accrued expenses	\$ 11,609,867	\$ 8,743,616
Current portion - unamortized rent	<u>54,133</u>	<u>-</u>
Total Current Liabilities	11,664,000	8,743,616
Non-Current Liabilities		
457(b) deferred compensation plan obligations	<u>1,788,893</u>	<u>1,470,030</u>
Total Non-Current Liabilities	<u>1,788,893</u>	<u>1,470,030</u>
Total Liabilities	13,452,893	10,213,646
Net Position		
Net investment in capital assets	297,558	2,690,841
Unrestricted	<u>9,482,931</u>	<u>7,828,603</u>
Total Net Position	<u>9,780,489</u>	<u>10,519,444</u>
Total Liabilities and Net Position	<u><u>\$ 23,233,382</u></u>	<u><u>\$ 20,733,090</u></u>

The accompanying notes are an integral part of these financial statements.

THE UNIVERSITY OF TEXAS/TEXAS A&M INVESTMENT MANAGEMENT COMPANY
Financial Statements

Statements of Revenues, Expenses and Changes in Net Position

For the years ended August 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues		
Management Fees	\$ 32,302,792	\$ 31,517,266
Advisory Board Fees	5,000	10,000
Total Operating Revenues	<u>32,307,792</u>	<u>31,527,266</u>
Operating Expenses		
Salaries	10,919,642	10,394,021
Performance Compensation	10,291,209	7,235,982
Employee Benefits	1,876,075	1,640,450
Payroll Taxes	843,661	701,080
General Operating	3,541,914	3,028,224
Depreciation	2,453,498	1,657,536
Lease	2,072,648	1,173,823
Professional Fees	1,007,977	808,005
Insurance	187,348	204,428
Total Operating Expenses	<u>33,193,972</u>	<u>26,843,549</u>
Operating Income/(Loss)	(886,180)	4,683,717
Non-Operating Revenues		
Interest	148,872	35,494
Loss on Disposal of Equipment	(1,647)	(3,432)
Net Non-Operating Revenues	<u>147,225</u>	<u>32,062</u>
Increase/(decrease) in Net Position	(738,955)	4,715,779
Net Position at beginning of year	<u>10,519,444</u>	<u>5,803,665</u>
Net Position at end of year	<u>\$ 9,780,489</u>	<u>\$ 10,519,444</u>

The accompanying notes are an integral part of these financial statements.

THE UNIVERSITY OF TEXAS/TEXAS A&M INVESTMENT MANAGEMENT COMPANY
Financial Statements

Statements of Cash Flows

For the years ended August 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from Operating Activities		
Proceeds from management fees and advisory board fees	\$ 32,307,792	\$ 31,527,266
Payments to suppliers for goods and services	(4,678,827)	(4,368,448)
Payments for facility	(2,018,514)	(1,399,067)
Payments to employees	(20,136,259)	(17,888,214)
Payments for employees	(2,463,505)	(2,336,071)
Net cash provided by Operating Activities	<u>3,010,687</u>	<u>5,535,466</u>
 Cash flows from Capital and Related Financing Activities		
Purchases of capital assets	(61,862)	(275,166)
Net cash used in Capital and Related Financing Activities	<u>(61,862)</u>	<u>(275,166)</u>
 Cash flows from Investing Activities		
Interest	148,872	35,494
Net cash provided by Investing Activities	<u>148,872</u>	<u>35,494</u>
 Net increase in cash and cash equivalents	3,097,697	5,295,794
Cash and cash equivalents at beginning of year	<u>15,627,261</u>	<u>10,331,467</u>
Cash and cash equivalents at end of year	<u><u>\$ 18,724,958</u></u>	<u><u>\$ 15,627,261</u></u>

The accompanying notes are an integral part of these financial statements.

THE UNIVERSITY OF TEXAS/TEXAS A&M INVESTMENT MANAGEMENT COMPANY
Financial Statements

Statements of Cash Flows, Continued

For the years ended August 31, 2017 and 2016

Reconciliation of operating income/(loss) to net cash provided by

Operating Activities:

	<u>2017</u>	<u>2016</u>
Operating Income/(Loss)	\$ (886,180)	\$ 4,683,717
Adjustments to reconcile operating income/(loss) to net cash provided by Operating Activities		
Depreciation	2,453,498	1,657,536
Changes in assets and liabilities:		
Increase in prepaid expenses and other assets	(1,477,015)	(269,896)
Increase in assets of 457(b) deferred compensation plan	(318,863)	(276,852)
Increase/(decrease) in accounts payable and accrued expenses	2,866,251	(310,647)
Increase in liabilities of 457(b) deferred compensation plan	318,863	276,852
Increase/(decrease) in unamortized rent	54,133	(225,244)
Net cash provided by Operating Activities	<u>\$ 3,010,687</u>	<u>\$ 5,535,466</u>

The accompanying notes are an integral part of these financial statements.

THE UNIVERSITY OF TEXAS/TEXAS A&M INVESTMENT MANAGEMENT COMPANY
Notes to Financial Statements

Note 1 - Organization

UTIMCO is a not-for-profit corporation organized to invest funds that are under the control and management of the Board of Regents of The UT Board. UTIMCO commenced business on March 1, 1996. The financial statements of UTIMCO have been prepared on the accrual basis of accounting. The significant accounting policies are described in Note 2. Effective May 10, 2017, the organization's name was changed from The University of Texas Investment Management Company to The University of Texas/Texas A&M Investment Management Company.

Note 2 - Significant Accounting Policies

Basis of Accounting

The financial statements of UTIMCO are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Cash and cash equivalents

For purposes of the statements of cash flows, UTIMCO considers highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. UTIMCO invests excess cash in an interest-bearing money market account.

Prepaid expenses and other assets

Prepaid expenses consist of expenses paid in advance for insurance and various services. Other assets consist of deposits and costs incurred for the furniture, equipment and leasehold improvements related to UTIMCO's future office space as discussed in Note 3 (d). The prepaid expenses will be ratably expensed over the period to which they relate.

Capital assets, net of accumulated depreciation

Net capital assets consist of office furniture, office equipment, software, and leasehold improvements and are stated at net book value. UTIMCO capitalizes assets whose cost exceeds \$500. Depreciation is computed using the straight-line method over the useful lives of the assets. Estimated useful lives range from three to seven years for office furniture, equipment and software, and for the lease term for leasehold improvements. UTIMCO incurred software development costs related to the development of the Investment Support System that was developed internally in partnership with a contracted software development firm. These costs were depreciated over the useful life of the asset which was accelerated because it was determined that the software could not provide the functionality as originally intended and it was fully removed from service effective July 31, 2017. Consequently, an additional \$1,292,811 was included in depreciation expense for the period ended August 31, 2017 and \$46,089 was included for the period ended August 31, 2016. The Investment Support System's capitalized costs of \$3,935,123 and \$77,061 were removed from service for the periods ended August 31, 2017 and 2016, respectively. The following is a schedule of the capital assets at August 31, 2017 and 2016:

THE UNIVERSITY OF TEXAS/TEXAS A&M INVESTMENT MANAGEMENT COMPANY
Notes to Financial Statements

	Balance			Balance
	8/31/2016	Additions	Deletions	8/31/2017
Office furniture	\$ 939,823	\$ 4,046	\$ -	\$ 943,869
Office equipment	1,404,724	57,816	(117,523)	1,345,017
Software	4,433,312	-	(3,953,311)	480,001
Leasehold improvements	3,306,744	-	-	3,306,744
Total property and equipment	10,084,603	61,862	(4,070,834)	6,075,631
Less accumulated depreciation	(7,393,762)	(2,453,498)	4,069,187	(5,778,073)
Net Capital Assets	<u>\$ 2,690,841</u>	<u>\$ (2,391,636)</u>	<u>\$ (1,647)</u>	<u>\$ 297,558</u>

	Balance	Additions/ Transfers		Balance
	8/31/2015	into service	Deletions	8/31/2016
Office furniture	\$ 935,582	\$ 4,241	\$ -	\$ 939,823
Office equipment	1,389,928	60,009	(45,213)	1,404,724
Software	4,299,457	210,916	(77,061)	4,433,312
Leasehold improvements	3,306,744	-	-	3,306,744
Total property and equipment	9,931,711	275,166	(122,274)	10,084,603
Less accumulated depreciation	(5,855,068)	(1,657,536)	118,842	(7,393,762)
Net Capital Assets	<u>\$ 4,076,643</u>	<u>\$ (1,382,370)</u>	<u>\$ (3,432)</u>	<u>\$ 2,690,841</u>

Income taxes

The exclusive purposes for which UTIMCO is organized and is to be operated are charitable and educational within the meaning of section 501(c)(3) of the Internal Revenue Service Code, and therefore, UTIMCO is not subject to federal income taxes on normal operations. UTIMCO may, however, incur federal income taxes on unrelated business income.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Fair Value Measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Generally accepted accounting principles provide a hierarchy that prioritizes the inputs of fair value measurements based on the extent to which inputs to valuation techniques are

THE UNIVERSITY OF TEXAS/TEXAS A&M INVESTMENT MANAGEMENT COMPANY
Notes to Financial Statements

observable in the marketplace. The hierarchy assigns a higher priority to observable inputs that reflect verifiable information obtained from independent sources, and a lower priority to unobservable inputs that would reflect management’s assumptions about how market participants would value an asset or liability based on the best information available. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs.

The three levels of the hierarchy of inputs used to measure fair value are as follows:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that are available at the measurement date.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – Unobservable inputs for the asset or liability.

Subsequent Events

These financial statements considered subsequent events through January 18, 2018, the date the financial statements were available to be issued.

Note 3 - Related Party Transactions

- a) Pursuant to a Master Investment Management Services Agreement with UTIMCO, the UT Board has appointed UTIMCO as its investment manager with complete authority to act for the UT Board in the investment of all funds. The amount of the management fees for the periods ended August 31, 2017 and 2016 were \$32,295,292 and \$31,509,766, respectively. This represents fees for the following:

	<u>2017</u>	<u>2016</u>
Permanent University Fund	\$ 17,618,775	\$ 16,912,692
The University of Texas System Long Term Fund	7,905,499	8,662,531
Permanent Health Fund	1,291,263	1,290,296
The University of Texas System Intermediate Term Fund	<u>5,479,755</u>	<u>4,644,247</u>
	<u>\$ 32,295,292</u>	<u>\$ 31,509,766</u>

- b) UTIMCO contracts for internet, mainframe connection, technology services, and various other expenses with The University of Texas System, The University of Texas at Austin, and The University of Texas at Arlington. The total for these services for the periods ended August 31, 2017 and 2016 were \$40,249 and \$37,358, respectively.
- c) On July 31, 2017, UTIMCO entered into a new 124 month lease agreement for its future office space and parking with The University of Texas System commencing on February 1, 2018. The minimum rental commitment is \$161,004 per month for the first year and escalates annually by \$4,735 per month. An additional tenant improvement allowance of \$2,841,250 will be applied toward the tenant construction costs. Additional lease details are discussed in Note 6 below.

- d) In connection with the construction of the future office space as noted in c) above, UTIMCO incurred \$1,367,186 in construction and project management costs as of August 31, 2017. These costs were paid directly to the contractors by The University of Texas System and are included in accounts payable and accrued expenses at August 31, 2017.

Note 4 – Deposits and Investments

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, UTIMCO will not be able to recover its deposits. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, UTIMCO will not be able to recover the value of its investment or collateral securities that are in the possession of another party. UTIMCO does not have a deposit policy for custodial credit risk. The FDIC insures deposits up to \$250,000. As of August 31, 2017 and 2016, there were no uninsured deposits. Additionally, UTIMCO does not have any investments that are exposed to custodial credit risk. The UTIMCO operating funds are invested in an institutional preferred money market account. The current fair value of the assets of the account is categorized as Level 1 of the fair value hierarchy as defined in GASB No. 72. The money market account balances as of August 31, 2017 and 2016 were \$18,664,093 and \$15,461,229 respectively.

Note 5 – Elective Deferral Plans

Effective March 1, 1996, UTIMCO established a tax-sheltered annuity arrangement, the UTIMCO 403(b) Tax Sheltered Annuity Plan, which provides retirement benefits for its employees by contributing to a custodial account invested in mutual funds. The employer matches 8.5% of gross compensation on behalf of an employee. Employees are required to contribute 6.5% of their total gross compensation to receive the company match. Employer contributions for the periods ended August 31, 2017 and 2016 were \$749,882 and \$748,756, respectively.

Effective December 1, 2007, UTIMCO adopted a compensation plan under Internal Revenue Code Section 457(b). The 457(b) plan is an unfunded deferred compensation plan that is established and maintained for a select group of management employees. Participants are determined by the Administrative Plan Committee. Participants are permitted to make tax-deferred contributions to the 457(b) plan, but until the plan benefits are paid out, these contributions remain part of UTIMCO's general assets and can be used to satisfy claims of the general unsecured creditors of UTIMCO. The assets and obligations of the 457(b) plan are reported on the Statements of Net Position at current fair values. The assets of the 457(b) plan are invested in publicly traded mutual funds and are categorized as Level 1 of the fair value hierarchy as defined in GASB No. 72.

Effective May 1, 2011, UTIMCO established a health savings account arrangement, which is a tax-exempt trust or custodial account with a qualified trustee used to pay or reimburse certain medical expenses. Employer contributions for the period ended August 31, 2017 and 2016 were \$208,961, and \$174,084, respectively.

Note 6 – Lease Expense

Effective September 1, 2005, UTIMCO entered into an eleven year lease for its current office space and parking with a third party. UTIMCO extended the lease on November 14, 2014 for an additional eighteen months, expiring on February 28, 2018. Under the terms of the original lease, the lease expense and building operating expenses for the first 14 months were provided by the landlord as a lease incentive, except for specific electricity costs incurred by UTIMCO. Under the terms of the extension, an additional tenant allowance of \$162,400 was provided. UTIMCO used the allowance toward the payment of base rent in lieu of applying it toward construction related expenses as provided for in the lease. The lease expense incentives were recorded as an unamortized rent liability as detailed in Note 7.

The net lease expense related to the lease incentive and amortization of the tenant allowance for the periods ended August 31, 2017 and 2016 were \$1,028,533 and \$348,028, respectively. For the periods ended August 31, 2017 and 2016, related operating expenses were \$874,780 and \$671,447, respectively. Parking expense was \$169,335 and \$154,348, respectively, for the periods ended August 31, 2017 and 2016.

UTIMCO entered into a new 124 month lease agreement with The University of Texas System on July 31, 2017, for its future office space as discussed in Note 3 c) above. Under the terms of the lease, base rent and operating expense rent for the first four months of the term will be abated. The lease provides for an additional allowance of \$2,841,250 that may be used for the construction of the tenant work space.

The minimum rental commitment for UTIMCO’s current office space is \$94,733 per month for the eighteen month lease extension expiring February 28, 2018. The minimum rental commitment for UTIMCO’s future office space beginning February 1, 2018 and expiring May 31, 2028 is \$161,004 for the first year and escalates annually by \$4,735 per month.

The following is a schedule by years of the future minimum lease payments under the lease terms:

Years ending August 31,	
2018	\$ 1,695,429
2019	1,965,198
2020	2,022,023
2021	2,078,848
2022	2,135,673
Thereafter	13,363,346
	<u>\$23,260,517</u>

Note 7 – Unamortized Rent

Under the terms of the current office lease eighteen month extension effective September 1, 2016, UTIMCO was provided with an additional allowance of \$162,400 in connection with this extension. UTIMCO used the allowance toward the payment of base rent in lieu of applying it toward construction related expenses as provided for in the lease. As of August 31, 2017, unamortized rent relating to the eighteen month extension was \$54,133. There was no unamortized rent for the period ended August 31, 2016.

Note 8 – Advisory Board Fees

UTIMCO received a fee on behalf of an employee who served as an advisory board member for a private equity investment. Advisory board fees for the periods ended August 31, 2017 and 2016 were \$5,000 and \$10,000, respectively.

**The University of Texas/Texas A&M Investment Management Company
Institutional Compliance Program Report
for the Quarter Ended November 30, 2017**

Section I – Organizational Matters

- One meeting of the Ethics and Compliance Committee was held during the quarter: November 1, 2017.
- Director Ray Rothrock was appointed Vice Chairman of the Board.
- Director Steve Hicks was appointed Vice Chairman for Policy.

Section II - Risk Assessment, Monitoring Activities and Specialized Training (Performed by Responsible Party)

High-Risk Area #1: Investment Due Diligence

Responsible Party: Managing Director – LCC; Managing Director - MCC, Technology and Deal Legal; Senior Managing Director - Natural Resources, Emerging Markets & Lower/Middle Markets; Managing Director - Fixed Income; Senior Director –Real Estate.

Key “A” risk(s) identified:

- *Organization could fail to adequately conduct due diligence on prospective managers.*
- *Organization could fail to adequately conduct continual review and evaluation of external managers hired to manage UT System investment funds.*

Key Monitoring Activities:

MCC - Public Markets: The MCC-Public Markets group participated in 33 meetings/calls with potential managers. Serious due diligence was not initiated on any new mandates. No new mandates were completed. Ongoing review of active external managers included 60 meetings/calls. Additional efforts included monthly performance tracking, reviews and analyses by the team and participation in one annual meeting.

MCC - Fixed Income: The MCC-Fixed Income group participated in 10 meetings/calls with potential managers. Ongoing review of active external managers included 14 meetings/calls. No serious due diligence was initiated on any mandates. No new mandate was completed. Additional efforts included six calls with brokers.

Less Correlated and Constrained: The Less Correlated and Constrained group participated in 91 meetings/calls with potential managers. No serious due diligence was initiated. No new mandates were completed. Ongoing review of active external managers was conducted in the form of 133 meetings/calls/site visits. Additional efforts included monthly performance tracking, reviews and analyses by the team.

Private Credit: The Private Credit group participated in 34 meetings/calls with potential managers. No serious due diligence was initiated. No new mandates were completed. Ongoing review of active external managers included 46 meetings/calls.

Private Equity: The Private Equity group participated in 16 meetings/calls with potential managers. Serious due diligence was not initiated on any new or existing mandates. No new mandates or additions

to existing mandates were completed. Ongoing review of active external managers included 14 meetings/calls. Additional efforts included participation in four annual meetings.

Healthcare: The Healthcare group participated in six meetings/calls with potential managers. No serious due diligence was initiated on any new or existing mandates. No new mandates were completed. One addition to an existing mandate was completed. Ongoing review of active external managers included eight meetings/calls and two annual meetings.

Technology: The Technology group participated in 34 meetings/calls with potential managers. Serious due diligence was initiated on two new mandates. Three new mandates were completed. Ongoing review of active external managers included 36 meetings/calls. Additional efforts included participation in seven annual meetings.

Natural Resources: The Natural Resources group participated in 74 meetings/calls with potential managers. Serious due diligence was initiated on 3 new mandates. One new mandate was completed and there were no additions to existing mandates. Ongoing review of active external managers included 140 meetings/calls. Additional efforts included participation in six annual meetings and one semi-annual portfolio review.

Emerging Markets: The Emerging Markets group participated in 104 meetings/calls with potential managers. Serious due diligence was initiated on one new mandate. No new mandates were completed. Ongoing review of active external managers included 53 meetings/calls. Additional efforts included participation in six annual meetings and one semi-annual portfolio review.

Real Estate: The Real Estate group participated in 36 meetings/calls with potential managers. Serious due diligence was initiated on two mandates. Two new mandates were completed and there was one addition to an existing mandate. Ongoing review of active external managers included 87 meetings/calls. Additional efforts included participation in 9 annual meetings.

Specialized Training: The Investment Team attended 26 industry-related conferences/functions.

High-Risk Area #2: Investment Risk Management

Responsible Party: Managing Director - Risk Management

Key “A” risk(s) identified:

- *Organization could fail to accurately perform its assessment of risk due to data and investment instrument modeling error.*
- *Organization could fail to respond to risk levels (manage risk budget).*

Key Monitoring Activities:

- During the quarter, Risk Team reconciled accounting records’ market value with market values modeled by IFS; reconciled month end values from IFS to accounting records and identified reasons for all discrepancies. Compared each month’s downside volatility with both prior month results and with market activity to determine consistency, and identified reasons for all changes; performed analysis of managers’ portfolio-level risks and performance.
- Risk Team continued to enhance its understanding and reporting of macro risks and market risks. This currently includes tracking and reporting a bubble monitor, a bear market monitor, an environment monitor, and factor data. Additional research was done on asset classes that

were signaling "bubble". Risk Team also continued to monitor the probability of a recession in the next year and the potential impact on the UTIMCO portfolio.

- Risk Team worked with the LCC team to better understand manager-level and portfolio-level factor / style exposures. This involved conversations with managers on factors, running regressions on historical returns in various time periods, and reviewing the results with the team.
- Risk Team continued to develop a system and processes by which the accuracy and integrity of the underlying data for Private Investments can be verified; looking at systems to collect and analyze data at the holdings level.
- Risk Team reviewed one due-diligence questionnaire.
- Risk Team continued to monitor sources and uses of cash and the sources and uses of illiquid capital. The commitment model was updated with the most recent data, and a 16-month plan (i.e., till December 2018) was developed with the teams.
- Risk Team continued to develop and enhance standard processes for quantifying risks of proposed investments ("Risk scorecard") and for signaling manager under-performance ("CUSUM").
- All internal derivatives were reviewed and analyzed in detail prior to initiation.
- External managers that may use derivatives are monitored daily for spikes in returns or in volatility. Effects of derivatives on the overall portfolio are monitored monthly. Fixed income duration and tracking error is being monitored on an ongoing basis. Managers' use of margin and leverage is monitored on an ongoing basis. Risk Team confirmed each month downside volatility and VaR calculations.
- Risk Team prepared projections on portfolio downside volatility utilization, country exposure, liquidity, and asset allocations; updated projections on a weekly basis.

Specialized Training: Risk Team participated in one conference during the quarter.

High-Risk Area #3: Information Technology & Security

Responsible Party: Chief Technology Officer

Key "A" risk(s) identified:

- *Organization could fail to adequately secure networks and data to prevent abuse, destruction, and/or theft.*
- *Organization could fail to manage computer software and hardware resulting in internal and external users unable to perform necessary job duties.*

Key Monitoring Activities:

- New employee/intern security training completed.
- Several alerts were sent to employees covering topics such as viruses, malware, phishing scams, securely sending credit card and social security numbers and updates for mobile devices.
- Compliance checks for nightly shutdown/logout are performed. Violations noted and violators notified as necessary.
- Random checks for confidential data storage continue and CISO continues to work with development employees to limit access to source code and follow secure coding practices.
- Random checks for software compliance were completed. CISO continues to monitor and address policy violations for unauthorized software, sharing of credentials, and use of network resources.

- Continued refinement of Splunk for infrastructure monitoring and alerting, began upgrade to Splunk server.
- Construction of new building space continues; CISO has addressed security, infrastructure, and safety concerns.
- No violations for not completing software/service security and legal review prior to software download/utilization were identified.
- Phishing campaigns against UTIMCO users continue; no victims this quarter.
- Multiple alerts for mobile device upgrades were sent to employees.

Specialized Training: CISO attended teleconference UT Security meetings and on-site CISO Council and InfoSec meetings. CISO met with Dell computer, Microsoft, Sequel Data Systems, M&S Technologies, APC, and Dynamo to review new technologies, security standards, and security.

High-Risk Area #4: Investment Compliance

Responsible Party: Manager - Portfolio Accounting and Operations and Chief Compliance Officer

Key “A” risk(s) identified:

- *Organization could fail to comply with investment policies, applicable laws and regulations, and other policies.*
- *Organization could fail to detect non-compliance with applicable policies, etc.*

Key Monitoring Activities:

- Verified that investments are in compliance with rules and guidelines in policies, rules and regulations utilizing custodian’s software and in-house developed databases and reports.
- Review of monthly and quarterly investment compliance reports prepared by employees continues.
- All mandates submitted to the Chief Compliance Officer were reviewed and categorized pursuant to asset class and investment type in accordance with the Mandate Categorization Procedure and approved by the UTIMCO Risk Committee.
- Continued participation by the Portfolio Accounting and Operations employees in prospective and active external manager investment due diligence.
- Derivative Investment Controls and Processes are being followed and work continues on improving them.

Specialized Training: None

High-Risk Area #5: Conflicts of Interest

Responsible Party: Chief Compliance Officer

Key “A” risk(s) identified:

- *Organization could fail to comply with conflicts of interest provisions in Code of Ethics and Texas Education Code section 66.08.*

Key Monitoring Activities:

- All Certificates of Compliance were received timely from all Directors and Key Employees for all investment managers hired and funded. No conflicts of interests were noted, i.e. no pecuniary interests were identified.
- All director compliance statements were received by the due date or within the extension of time granted by the CEO.

- One employee was hired during the quarter. One individual contracted through an employment agency began work during the quarter. One individual contracted through an employment agency at the end of the prior quarter filed her statements late; all other employee financial disclosure statements and ethics compliance statements due were received before the required due dates.
- One ethics and compliance training session was held during the quarter. New hires and temporary workers received training within a reasonable time after hire.
- Effective April 1, 2013, a new procedure regarding the periodic review of public resources for comparison with financial disclosure statement information provided by Directors and Key Employees was adopted, which requires review of these statements within 90 days after the deadline for filing the statements. Review was required during the quarter for one new director appointed August 24, 2017. Review was not completed timely for this appointee, however, review was completed upon discovery of the failure to complete.
- List of publicly traded securities of all publicly traded companies in which a Director or employee has a pecuniary interest (the "restricted list") was maintained. Internal managers and external managers operating under agency agreements are provided the restricted list in order to prevent the violation of UTIMCO Code of Ethics and Texas Education Code Section 66.08. No new securities were added to the list. No new manager operating under an agency agreement was hired during the quarter. Consequently, the restricted list was not required to be sent to any manager operating under an agency agreement during the quarter.
- On a daily basis, the Chief Compliance Officer designee reviewed security holdings of internal and external managers operating under agency agreements for compliance with the restricted list. No exceptions were noted.
- Of 81 employee securities transactions during the quarter, one required preclearance and was precleared as required. No transactional disclosure forms were filed late.
- No employee requested CEO approval for outside employment.
- Beginning with the fourth quarter 2015, the Finance and Administration travel review process was modified to require testing of a sample of expense reports only and no longer provide a review of all reimbursement requests. As a result, compliance reporting is now limited to information obtained from the sample tested during each quarter. Of the nine expense reports tested during the quarter, three included third party paid expenses; all but one were preapproved as required. Two expense reports tested included a sponsored entertainment event and preapproval was obtained as required.
- Effective September 1, 2017, employees must submit sponsored entertainment requests for approval to the CCO. Eleven employees requested and received approval for sponsored entertainment events during the quarter.

Specialized Training: None

Section III – Monitoring and Assurance Activities (Performed by Compliance Office)

High-Risk Area #1: Investment Due Diligence

Assessment of Control Structure: *Well controlled*

Assurance Activities Conducted: CCO reviewed results of quarterly due diligence monitoring plans for each Investment group. Ongoing due diligence efforts on multiple managers continue. The CCO participates in the monthly Investment Committee meetings.

Significant Findings: None.

High-Risk Area #2: Investment Risk Management

Assessment of Control Structure: *Well controlled*

Assurance Activities Conducted: CCO continues to review documentation maintained by the Risk Team evidencing risk monitoring performed by the Risk Team.

Significant Findings: None

High-Risk Area #3: Information Technology & Security

Assessment of Control Structure: *Well controlled*

Assurance Activities Conducted: CCO continues to meet with CISO regarding information technology and security practices. CCO met with UT System CISO regarding UTS165 applicability to UTIMCO.

Significant Findings: None

High-Risk Area #4: Investment Compliance

Assessment of Control Structure: *Well controlled*

Assurance Activities Conducted: CCO continues to review investment and fund compliance reports to determine that policy requirements have been maintained based on the activity performed by employees. CCO reviewed the documentation and workpapers supporting the various compliance reports prepared by the Responsible Parties.

Significant Findings: None

High-Risk Area #5: Conflicts of Interest

Assessment of Control Structure: *Well controlled*

Assurance Activities Conducted: CCO reviewed the completed sign-offs for completeness for all certificates of compliance received. Monitoring for potential conflicts of interest in the areas of personal securities transactions, outside employment and business activities, and manager/third party-paid travel, entertainment and gifts is ongoing.

Significant Findings: None

Section IV – General Compliance Training Activities

One training session was held during the quarter.

Section V – Action Plan Activities

See updated Institutional Compliance Action Plan Fiscal Year 2018.

Section VI – Confidential Reporting

UTIMCO maintains a Compliance Hotline to receive and process complaints. UTIMCO has contracted with an outside vendor to provide the service. The chart below summarizes the calls received during the **FISCAL YEAR:**

Type	FYTD Number	% of Total
Employment Related	0	0.00%
Policy Issues	0	0.00%

Hang ups or wrong numbers	0	0.00%
Total	0	00.00%

All calls are accepted by the hotline and reported to the UTIMCO Compliance Office. All reports are handled by a 5-person team comprised of the Corporate Counsel and Chief Compliance Officer, the Compliance Specialist, the Manager – Human Resources, the Executive Assistant to the CEO and Chief Investment Officer, and David Givens from The University of Texas Systemwide Compliance Office.

**The University of Texas Investment Management Company
Institutional Compliance Action Plan
Fiscal Year 2018**

#	ACTION ITEM	TARGET COMPLETION DATE	STATUS
<i>A. RISK ASSESSMENT</i>			
1.	Perform detailed review of Enterprise Risk Management Framework; update risk assessments, including mapping of controls in conjunction with updated investment and operations processes under new CEO, if any; prepare new/updated monitoring plans for high risk areas and update Fraud Program as needed	05/31/18	<i>No activity</i>
<i>B. MONITORING ACTIVITIES / ASSURANCE</i>			
2.	Revise Responsible Party Monitoring Plan documentation for high risk areas A in conjunction with updated investment and operations processes under new CEO, if any	On-going	<i>No activity</i>
3.	Continual enhancement of compliance monitoring and reporting	On-going	<i>On-going</i>
<i>C. COMPLIANCE TRAINING / AWARENESS</i>			
4.	Provide new employee and annual Code of Ethics training and information to improve employee awareness of compliance program	04/30/18	<i>Training session held 10/20/17</i>
5.	Identify and network with similarly situated compliance professionals	On-going	<i>Systemwide Compliance meeting 09/27/17; UT System Legal Conference 09/28-09/29/17; Association of Corporate Counsel (ACC) annual meeting 10/16-17/17; ACC Austin meeting 10/03/17; Council of Public Funds Compliance Officers 11/28/17</i>
<i>D. REPORTING</i>			
6.	Conduct quarterly meetings with the internal ethics and compliance committee	On-going	<i>Quarterly meeting held 11/01/17</i>
7.	Provide quarterly/annual reports to the Audit and Ethics Committee and System-wide compliance office	On-going	<i>FY 17 Annual report presented to A&E and Risk Committees 11/16/17</i>
<i>E. OTHER / GENERAL COMPLIANCE</i>			
8.	UT Systemwide Compliance Office Annual Attestation & Effectiveness Reporting	12/05/17	<i>Report submitted 12/04/17</i>

Updated 01/30/18

#	ACTION ITEM	TARGET COMPLETION DATE	STATUS
9.	Finalize draft of compilation of all laws and regulations and to the extent necessary, modify compliance processes and reporting	12/31/17	<i>On-going</i>
10.	Update Business Continuity Plan due to move to new office space	05/31/18	<i>No activity</i>
11.	Supervise and manage work of Compliance Specialist	08/31/18	<i>Ongoing</i>
12.	UT Systemwide Compliance Office activities participation: annual compliance officers' forum and other activities	On-going	<i>Systemwide Compliance meeting 09/27/17; UT System Legal Conference 09/28-09/29/17; Compliance meeting with Jason King, Associate Systemwide Compliance Officer and Ethics Officer for the U.T. System 10/06/17; Meeting with UT System CISO 10/30/17</i>
13.	Hotline reporting	On-going	<i>No activity</i>

Updated 01/30/18

Agenda Item
UTIMCO Board of Directors Meeting
February 28, 2018

Agenda Item: Report from Risk Committee

Developed By: Moeller, Gonzalez

Presented By: Bass

Type of Item: Information item

Description: The Risk Committee (“Committee”) met on February 21, 2018. The Committee’s agenda for its meeting included (1) approval of the minutes of the November 16, 2017 meeting; (2) discussion and appropriate action related to the categorization of investment mandates; (3) review and discussion of compliance reporting; and (4) market and portfolio risk update.

Discussion

The Committee reviewed and approved nine (9) mandate categorizations prepared by staff for the period beginning November 14, 2017 and ending February 13, 2018. The Committee will report to the UTIMCO Board the results of its review of the Investment Mandate Categorizations.

The Committee reviewed the performance and risk reporting and the quarterly compliance reporting.

Recommendation: None

Reference: None

Agenda Item
UTIMCO Board of Directors Meeting
February 28, 2018

- Agenda Item:** Report from Policy Committee: Approval of Proposed Amendments to UTIMCO Bylaws
- Developed By:** Gonzalez, Moeller
- Presented By:** Harris
- Type of Item:** Action item; Action required by UTIMCO Board and by Board of Regents of The University of Texas System
- Description:** The Policy Committee (“Committee”) met on February 21, 2018. The Committee’s agenda included: (1) approval of minutes of the August 30, 2017 meeting; and (2) discussion and appropriate action related to proposed amendments to the Bylaws of The University of Texas/Texas A&M Investment Management Company.
- The Bylaws may be altered, amended, or repealed by the Board of Directors of the Corporation with the approval of the UT Board. Section 66.08 of the *Texas Education Code* requires that the UT Board approve the articles of incorporation and bylaws of the Corporation and any amendment to the articles of incorporation or bylaws. The Bylaws of UTIMCO were initially approved by the UT Board on February 8, 1996, and have been restated various times to include amendments adopted; the most recent amendment of the Bylaws occurred on August 22, 2013, with an editorial amendment on May 10, 2017, for the Corporation’s name change.
- Discussion:** Mr. Harris is proposing to amend Article II, Section 1 (page 2) to update the principal place of business of the Corporation. Mr. Harris is also proposing amendments to Article V, Sections 4 and 5 (page 6) to allow a director to serve up to five full one-year terms as Chairman and Vice Chairman rather than the current three year limitation on service in these offices.
- Recommendation:** The Policy Committee recommends approval by the UTIMCO Board of the proposed amendments to the UTIMCO Bylaws, effective May 1, 2018, subject to approval by the Board of Regents of The University of Texas System.
- Reference:** None

RESOLUTION RELATED TO UTIMCO BYLAWS

RESOLVED, that amendments to the UTIMCO Bylaws, as presented be, and are hereby, approved, subject to approval by the Board of Regents of The University of Texas System.

Agenda Item
UTIMCO Board of Directors Meeting
February 28, 2018

Agenda Item: Report from Compensation Committee: Approval of Designation of Employees in Eligible Positions as Participants in the UTIMCO Compensation Program for the Performance Period ending August 31, 2018

Developed By: Moeller, Gonzalez

Presented By: Rothrock

Type of Item: Action item; Action required by UTIMCO Board

Description: The Compensation Committee (the "Committee") met on February 21, 2018. The Committee's agenda included the following (1) approval of minutes of the November 29, 2017 meeting; (2) discussion and appropriate action related to designation of Employees in Eligible Positions as Participants in the UTIMCO Compensation Program for the Performance Period ending August 31, 2018; (3) discussion and appropriate action related to Qualitative Performance Goals for the Participants of the UTIMCO Compensation Program for the Performance Period ended August 31, 2018. The Committee also met in Executive Session for the purpose of deliberating individual personnel compensation matters.

Discussion: During its meeting, the Committee approved Mr. Harris's request that, subject to Board approval, two newly hired employees be designated in Eligible Positions. Section 5.3 of the UTIMCO Compensation Program ("Plan") provides that the Board may designate a newly hired or promoted employee as eligible to participate in the Plan for a Performance Period (or remainder of a Performance Period) within 30 days of such hire or promotion or, if later, as soon as administratively feasible.

The UTIMCO Employees in the Eligible Positions that the Committee is recommending be designated as Participants in the Plan for the Performance Period ended August 31, 2018 are as follows:

- Scott Slayton; Managing Director – Investments, effective 1/29/2018
- Steve Muenzen; Analyst – Investments, effective 2/26/2018

The Committee will report on its actions related to the Participants' Qualitative Performance Goals for the Performance Period ended August 31, 2018. There are two categories of performance goals in the Plan: (1) entity performance and (2) qualitative performance. Qualitative Performance Goals may be established in one or more of the following areas: asset class/investment type, leadership, implementation of operational goals, management of key strategic projects, effective utilization of human and financial resources, and UTIMCO's investment performance relative to the Peer Group. The entity performance goals are included in the Plan in Table 2 of Appendix D of the Plan.

Agenda Item
UTIMCO Board of Directors Meeting
February 28, 2018

Recommendation: The Committee will request the Board to approve the designation of Scott Slayton and Steve Muenzen as Employees in Eligible Positions as Participants in the Plan for the 2017/2018 Performance Period.

Reference: None

**RESOLUTION RELATED TO
2017-2018 PARTICIPANTS IN
UTIMCO COMPENSATION PROGRAM**

WHEREAS, Section 5.3.(a) of the UTIMCO Compensation Program (the “Plan”) provides that, in order to become a “Participant” in the Plan for a Performance Period, a UTIMCO employee must be (1) employed in a position designated by the Board of Directors of UTIMCO (the “Board”) as an “Eligible Position” for that Performance Period and (2) selected by the Board as a Participant for that Performance Period; and

WHEREAS, the Compensation Committee of the Board has recommended the following individuals, Scott Slayton (Managing Director – Investments) and Steve Muenzen (Analyst – Investments), as Participants in the Plan for the Performance Period ended August 31, 2018; and

WHEREAS, the UTIMCO Board wishes to select Scott Slayton (Managing Director – Investments) and Steve Muenzen (Analyst – Investments) as Participants for the Performance Period ending August 31, 2018.

NOW, THEREFORE, be it:

RESOLVED, that Scott Slayton (Managing Director – Investments) and Steve Muenzen (Analyst – Investments) are hereby designated as “Participants” in the Plan for the Performance Period ended August 31, 2018, effective as of January 29, 2018 and February 26, 2018, respectively.

Agenda Item
UTIMCO Board of Directors Meeting
February 28, 2018

Agenda Item: Contracts Update and Discussion and Appropriate Action Related to Contract

Developed By: Moeller, Gonzalez

Presented By: Harris

Type of Item: Action item on Contract; Information item on Contracts Update

Description: The Board has delegated to the CEO the authority to execute on the behalf of corporation all contracts, leases, or other commercial arrangements (except investment management agency contracts, partnership agreements, investment consultant agreements and agreements with independent auditors) for a total obligation of \$1 million or less during the contract term; provided that, any contract without a fixed term is deemed to have a one-year term. The CEO is also required to report to the Board at its next regularly scheduled meeting all new contracts, leases, or other commercial arrangements of \$100,000 or more, and annually, all existing contracts, leases, or other commercial arrangements of \$100,000 must be reported to the Board.

Discussion: Mr. Harris will present the report on contracts entered into since the last Board meeting. Contracts related to the office move will be presented at the next scheduled Board meeting. Mr. Harris will further request the Board to ratify the contract as presented in Executive Session.

Reference: Contract Report
Materials provided for Executive Session

Resolution to be distributed at meeting.

CONTRACT REPORT

New Contracts, Leases, and Other Commercial Arrangements
 (Total Obligation per Agreement greater than \$100,000)
 November 11, 2017 through February 16, 2018

Agreement	Purpose	Contract Term	Annual Amount
IPREO (iLevel)	Collection & reporting of schedules of investment and portfolio company metrics	12/31/2017 - 12/31/2020	\$241,625