

***The University of Texas Investment
Management Company***



Presentation Materials

Board of Directors Meeting

August 6, 2010

**UTIMCO BOARD OF DIRECTORS
SPECIAL CALLED
MEETING AGENDA
August 6, 2010**

UTIMCO
401 Congress Avenue, Suite 2800
Austin, Texas

Time	Item #	Agenda Item
Begin	End	
		OPEN MEETING:
10:00 a.m.	10:05 a.m.	1 Call to Order/ Discussion and Appropriate Action Related to Corporate Resolutions: - Committee Assignments*
10:05 a.m.	10:45 a.m.	2 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 matters. Reconvene into Open Session - Report from Compensation Committee - Discussion and Appropriate Action Related to Appendices C, D, and E of the UTIMCO Compensation Program, effective July 1, 2010* - Discussion and Appropriate Action Related to the CEO's Base Salary for 2010-11 fiscal year* - Discussion and Appropriate Action Related to CEO's Qualitative Performance Goals for the Performance Period ended June 30, 2011*
10:45 a.m.	11:00 a.m.	3 Discussion and Appropriate Action Related to UTIMCO 2010-11 Budget*,**
11:00 a.m.		Adjourn

* Action by resolution required

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

Next Scheduled Meeting: November 8, 2010

Tab 1

Agenda Item
UTIMCO Board of Directors Meeting
August 6, 2010

Agenda Item: Discussion and Appropriate Action Related to Corporate Resolutions: Committee Assignments

Developed By: Staff

Presented By: Chairman Foster

Type of Item: Action item

Description: Chairman Foster will propose the Board committee assignments for the Compensation, Policy, and Risk Committees.

Recommendation: Chairman Foster will recommend approval of the Board committee assignments.

Reference: None

RESOLUTION RELATED TO COMMITTEE ASSIGNMENTS

BE IT RESOLVED, that the following Directors of the Corporation are hereby designated as the Compensation Committee of the Board of Directors:

to serve until the expiration of their term, or until their successor has been chosen and qualified, or until their earlier death, resignation or removal; and

FURTHER RESOLVED, that _____ is hereby designated the Chair of the Compensation Committee and shall preside at its meetings.

BE IT RESOLVED, that the following Directors of the Corporation are hereby designated as the Risk Committee of the Board of Directors:

to serve until the expiration of their term, or until their successor has been chosen and qualified, or until their earlier death, resignation or removal; and

FURTHER RESOLVED, that _____ is hereby designated the Chair of the Risk Committee and shall preside at its meetings.

BE IT RESOLVED, that the following Directors of the Corporation are hereby designated as the Policy Committee of the Board of Directors:

to serve until the expiration of their term, or until their successor has been chosen and qualified, or until their earlier death, resignation or removal; and

FURTHER RESOLVED, that _____ is hereby designated the Chair of the Policy Committee and shall preside at its meetings.

Tab 2

Agenda Item
UTIMCO Board of Directors Meeting
August 6, 2010

Agenda Item: Report from Compensation Committee, including Discussion and Appropriate Action Related to Appendices C, D, and E of the UTIMCO Compensation Program, effective July 1, 2010; Discussion and Appropriate Action Related to the CEO's Base Salary for 2010-11 fiscal year; Discussion and Appropriate Action Related to CEO's Qualitative Performance Goals for the Performance Period ended June 30, 2011

Developed By: Zimmerman, Moeller, Gonzalez

Presented By: Ferguson

Type of Item: Action item

Description: The Compensation Committee (the "Committee") will meet on August 6, 2010. The Committee will report on the items discussed at its meeting, as follows:

1. Action related to the revised and updated Appendices C, D, and E of the UTIMCO Compensation Program (the "Plan"). The Plan, including Appendices, effective July 1, 2009, consists of two elements: base salary and an annual incentive plan. The UTIMCO Board has the discretion to interpret, adopt such rules and regulations it deems necessary to carry out the Plan, and amend the Plan. Staff will present revised and updated Tables for the July 1, 2010 to June 30, 2011 Performance Period in Appendices C, D and E of the Plan. No other revisions to the Plan are being requested by Staff.
2. Action related to base salaries for the UTIMCO Officers and other Plan Participants (other than the CEO) for 2010-11 fiscal year. Mercer performed a salary benchmarking study, including salary midpoints and salary ranges, to assist UTIMCO in developing a total compensation program that is competitive nationally.
3. Action related to the CEO's Qualitative Performance Goals for the Performance Period ended June 30, 2011. Section 5.4. of the Plan requires that the CEO's performance goals be determined and approved by the UTIMCO Board. The Committee will present and recommend the approval of the CEO's goals to the UTIMCO Board. There are three categories of performance goals in the Plan: (1) entity performance; (2) asset class performance; and (3) qualitative performance.
4. Each member of the Committee has been requested to evaluate the Committee's performance, both of the individual member and collectively. The results of the assessment will be discussed at the Committee meeting.

Discussion: *(1) Appendices C, D, and E of the Plan.* The Committee will report on its action related to the following revised and updated tables in Appendices C, D, and E:

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- Appendix C, Table 1, sets forth the Eligible Positions, Weightings, Incentive Award Opportunities, and Percentage of Award Deferred for each Eligible Position. Mr. Zimmerman is recommending the addition of three new Eligible Positions. Staff is not proposing any changes to the weightings, incentive award opportunities, or percentage of award deferred. Information related to the proposed new Eligible Positions will be included in the Executive Session materials.
- Appendix D, Table 2, sets forth two of the Performance Goals categories referenced in Section 5.4.(b) of the Plan for the Plan Participants: the Entity Performance and the Asset Class/Investment Type Performance Goals, including the benchmarks for Asset Class/Investment Type and the Threshold, Target, and Maximum Performance Standards for the Total Endowment Funds, Intermediate Term Fund, and the Asset Class/Investment Types. Staff is only recommending changes to the Policy Portfolio Weights for the Total Endowment Funds in Table 2. These updated Policy Portfolio Weights are consistent with Staff's proposed target adjustments in Exhibits A of the Permanent University Fund and General Endowment Fund Investment Policy Statements. The UTIMCO Board approved the recommended targets at its meeting held July 14, 2010. It is anticipated that the recommended new targets will be adopted by the Board of Regents of The University of Texas System at its August 11-12, 2010 meeting. Included in the materials is a memorandum from Bruce Myers with Cambridge Associates LLC, "Performance Standards for Incentive Compensation Plan," commenting on the appropriateness of the metrics set forth in Table 2.
- Appendix E, Table 3, sets forth the Eligible Positions of Affected Participants. Table 3 is required to be revised each Performance Period to identify the Eligible Positions whose Performance Incentive Awards are subject to automatic adjustment as to timing and amount pursuant to Section 5.11. of the Plan. Mr. Zimmerman will discuss the Eligible Positions of Affected Participants.

(2) Base Salaries. The Committee will report on its action related to the base salaries for all UTIMCO officers and Plan Participants (other than the CEO) for the 2010-11 fiscal year. The Committee will request that the Board take appropriate action related to the CEO's base salary.

(3) CEO's Qualitative Performance Goals. The Committee will discuss with Mr. Zimmerman his Qualitative Performance Goals for the 2010-11 Performance Period. Qualitative Performance Goals may be established in one or more of the following areas: leadership, implementation of operational goals, management of key strategic

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projects, effective utilization of human and financial resources, and UTIMCO's investment performance relative to the Peer Group. The CEO's Qualitative Performance Goals will be reviewed in Executive Session with the UTIMCO Board. The Entity and Asset Class Performance Goals are included in the Plan in Appendix D, Table 2.

Recommendation: The Committee will request appropriate action from the Board related to (1) the revised and updated Appendices C, D, and E of the Plan with an effective date of July 1, 2010; (2) the CEO's Base Salary for 2010-11 fiscal year; and (3) the CEO's Qualitative Performance Goals for the Performance Period ended June 30, 2011.

Reference: Table 2, Appendix D – Benchmarks for Entities and Asset/Class Investment Type and Threshold, Target, and Maximum Performance Standards
Cambridge Associates LLC Memorandum
Compensation materials will be provided for executive session

**RESOLUTION RELATED TO AMENDMENTS TO
UTIMCO COMPENSATION PROGRAM APPENDICES**

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 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 by the Board for such Performance Period and to be attached as Appendix C to the Plan; and

WHEREAS, Section 5.8.(b)(1) of the Plan requires Table 2 to be revised, as necessary, for subsequent Performance Periods to reflect new benchmarks, as well as threshold, target, and maximum performance standards, in effect during the three-year rolling historical period, culminating with the subsequent Performance Period and to be attached as Appendix D to the Plan; and

WHEREAS, Section 5.11.(3) of the Plan requires Table 3 to be revised each Performance Period to identify the Eligible Positions whose Performance Incentive Awards are subject to automatic adjustment as to timing and amount pursuant to the Plan provisions pertaining to extraordinary circumstances and to be attached as Appendix E to the Plan; and

WHEREAS, the Compensation Committee of the Board (the "Committee") has reviewed the revised Tables, approves such amendments, and has determined to recommend them to the Board; and

WHEREAS, the Board has reviewed and concurs in the amendments to the revised Tables 1, 2, and 3, as recommended by the Committee.

NOW, THEREFORE, be it:

RESOLVED, the updated and amended Tables 1, 2, and 3, copies of which are attached hereto, are hereby adopted and approved to replace the current Appendix C, D, and E, respectively, effective as of July 1, 2010.

**RESOLUTION REGARDING CORPORATIONS'S CEO'S BASE
SALARY**

RESOLVED, that the Board of Directors of UTIMCO hereby approves the Base Salary of the Corporation's CEO for the Fiscal Year 2010-2011 in the amount of \$_____.

**RESOLUTION RELATED TO THE CEO'S QUALITATIVE PERFORMANCE
GOALS FOR THE PERFORMANCE PERIOD ENDED JUNE 30, 2011**

WHEREAS, Section 5.4.(a) of the UTIMCO Compensation Program (the "Plan") provides that the Compensation Committee (the "Committee") of the Board of Directors of UTIMCO (the "Board") will approve the Performance Goals for each Participant (other than for the CEO) each Performance Period; and

WHEREAS, Section 5.4.(c) of the Plan provides that the Board will determine the Performance Goals of the CEO for each Performance Period; and

WHEREAS, the Board has reviewed the CEO's Qualitative Performance Goals for the Performance Period ended June 30, 2011, as prepared by the CEO, and recommended by the Committee and set forth in the document presented to the Board.

NOW, THEREFORE, be it:

RESOLVED, that the Board approves the Qualitative Performance Goals for the CEO for the Performance Period ended June 30, 2011, effective as of July 1, 2010, as set forth in the document presented to the Board.

Table 2, Appendix D
Benchmarks for Entities and Asset/Class Investment Type
Threshold, Target, and Maximum Performance Standards
(7/1/10 through 6/30/11)

Asset Class/Investment Type	Benchmark	Policy Portfolio Weights		Performance Standards		
		Total Endowment	ITF	Threshold	Target	Maximum
		(% of Portfolio)	(% of Portfolio)			
Entity: Benchmark (Total Endowment Funds)	Policy Portfolio	n/a	n/a	+0 bps	+75 bps	+150 bps
Entity: Benchmark (Intermediate Term Fund)	Policy Portfolio	n/a	n/a	+0 bps	+50 bps	+100 bps
Investment Grade Fixed Income	Barclays Capital Global Aggregate Index	7.5%	30.0%	+0 bps	+25 bps	+50 bps
Real Estate	FTSE EPRA/NAREIT Developed Index	3-5%	2.5%	+0 bps	+50 bps	+100 bps
Natural Resources	50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index	5-5%	6.5%	+0 bps	+50 bps	+100 bps
Developed Country Equity	MSCI World Index with net dividends	19%	19.5%	+0 bps	+62.5 bps	+125 bps
Emerging Markets Equity	MSCI Emerging Markets with net dividends	13%	12.0%	+0 bps	+75 bps	+150 bps
Hedge Funds (Less Correlated & Constrained Investments)	Hedge Fund Research Indices Fund of Funds Composite Index	30.0%	35.0%	+0 bps	+75 bps	+150 bps
Private Investments (excludes Real Estate)	Venture Economics Custom Index	20-5%	20.0%	+0 bps	+100 bps	+200 bps
Private Investments Real Estate	NACREIF Custom Index	1%-2.0%	0%	+0 bps	+100 bps	+200 bps
Specific asset class benchmarks:						
Credit-Related Fixed Income	Barclays Capital Global High Yield Index			+0 bps	+37.5 bps	+75 bps
Internal Investment Grade Fixed Income	US Barclays Capital Aggregate			+0 bps	+25 bps	+50 bps



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M e m o r a n d u m

To: Bruce Zimmerman, CEO
The University of Texas Investment Management Company

From: Bruce Myers

Date: June 22, 2010

Re: Performance Standards for Incentive Compensation Plan

We have been asked to comment on the appropriateness of these metrics. There are four key inputs that together lead to the specification of targets and maximums for compensation plan purposes. Those inputs are: the relevant asset allocation policy targets, the benchmarks that the Board has linked to those policy allocations, and the Targets and Maximums dictated by the compensation plan. We will take up each of these sequentially.

Asset Allocation Targets

UTIMCO is proposing modest changes to the asset allocation targets. These changes are not likely to materially affect performance over longer periods of time, but they do reflect thoughtful adjustments in light of recent market movements and comparative asset class valuations. We support these changes.

Benchmarks

No changes to the policy benchmarks are being requested. Once again, we have reviewed these benchmarks at the request of UTIMCO staff and have no recommended changes to propose.

Performance Standards: Targets and Maximums

No changes to the adopted targets and ranges are being proposed. In our previous work for UTIMCO, we had affirmed the reasonableness of these benchmarks, all of which are broadly used by endowments and foundations.

As we have noted in the past, the HFR Fund-of-Funds Index, while very broadly used, has historically been a benchmark that large and sophisticated endowments have tended to outperform. This results in large part from the quality of managers that are available to large endowments as opposed to those that are available to funds-of-funds. Many managers, as UTIMCO Directors as well aware, will welcome an investment from a stable, long-term investor like UTIMCO while seeking to control their exposure to funds-of-funds. The performance bias of the HFR Fund-of-funds was particularly noticeable in the twelve months ending 3/31/2010. In addition to the factor noted above, several of the component funds-of-funds experienced liquidity and redemption issues which were a drag on performance during that period.

For all of the issues associated by the HFR Fund-of-Funds Index, there is perhaps no more widely used benchmark in this area for measuring performance at the program or asset class level.

Recommendations

We support the minor adjustments to asset allocation and are comfortable with the benchmark, targets and ranges currently in use. As we have noted in the past, quantitative analysis of manager performance within any given asset class is of limited usefulness. This is especially true in periods with market dislocations such as we have recently experienced. Nonetheless, the targets and ranges used for compensation plan purposes should be reasonable in three aspects:

- *Reasonable* with respect to the historical performance of managers within that asset class, and to an assessment of the degree of inefficiency in that portion of the financial markets.
- *Reasonable* with respect to each other. The relationships between public and private equity, equity and fixed income, emerging markets and developed markets should be internally consistent.
- *Reasonable* with respect to entity outperformance. The weighted average of maximums need not equal, but should be comparable to, the entity level outperformance maximum.

As we did last year, we feel that the existing targets and ranges meet those three tests for reasonableness. The overarching target for entity outperformance should be reviewed by the Directors in light of current prospects for benchmark outperformance and the institutions' risk tolerance.

Conclusion

As noted above, the current targets and ranges are imprecise estimates and good arguments can be made for slightly higher or lower targets and maximums in every asset class. While we believe these estimates to be reasonable, we are not wedded to them, and will be happy to answer any questions you might have. Notwithstanding the reasonableness factors noted above, our experience is that the best solutions are most likely to result from an ongoing dialog between consultant, staff, and Board.

Tab 3

Agenda Item
UTIMCO Board of Directors Meeting
August 6, 2010

Agenda Item: Discussion and Appropriate Action Related to UTIMCO 2010-11 Budget

Developed By: Zimmerman, Moeller, Shepherd

Presented By: Zimmerman

Type of Item: Action required by UTIMCO Board; Action required by Board of Regents of The University of Texas System ("U.T. Board")

Description: The Master Investment Management Services Agreement with UTIMCO ("IMSA") sets forth the annual budget and management fee requirements. UTIMCO submits to the U.T. Board its proposed annual budget for the following fiscal year within the time frame specified by the U.T. Board for other annual budget submissions. The annual budget includes all estimated expenses associated with the management of the Investment Funds. The annual budget also includes an annual UTIMCO management fee which includes all operating expenses associated with the general management of the funds, including, without limitation, reasonable salaries, benefits and performance compensation of portfolio management and support personnel, expenses for consulting services, office space lease expenses, office furniture and equipment expenses, professional, legal, payroll, and other general services, travel, insurance, capital expenditures, and other miscellaneous expense incurred by UTIMCO in connection with the performance of its obligations under the IMSA. At the same time UTIMCO submits its annual budget, it submits to the U.T. Board an allocation formula for charging the annual budget to the Investment Funds. In addition to the annual budget, UTIMCO submits its capital expenditures budget.

During the preparation of the annual budget, a reserve analysis is also prepared. Within 90 days after the end of each fiscal year in the event that there is a surplus, UTIMCO distributes that portion of the cash reserves as may be directed by the U.T. Board back to the Funds which generated the surplus.

Discussion: Mr. Zimmerman will present the Budget Review for UTIMCO's annual budget for the 2010-11 fiscal year, including the reserve analysis.

Recommendation: UTIMCO staff recommends that the UTIMCO 2010-2011 Annual Budget, Capital Budget, Management Fee Request, and Allocation Schedule be approved as presented.

Reference: Materials to be distributed prior to the meeting

RESOLUTION RELATED TO BUDGET

RESOLVED, that the Corporation's Annual Budget of \$_____, Management Fee Request of \$_____, Capital Budget of \$_____, and the Allocation Schedule as provided to the Board for the period beginning September 1, 2010 through August 31, 2011, be, and is hereby, approved, subject to approval by the Board of Regents of The University of Texas System.