

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



Presentation Materials

Board of Directors Meeting

April 14, 2011

**UTIMCO BOARD OF DIRECTORS
ANNUAL MEETING AGENDA
April 14, 2011
UTIMCO
401 Congress Avenue, Suite 2800
Austin, Texas**

Time		Item #	Agenda Item
Begin	End		
			OPEN MEETING:
9:00 a.m.	9:05 a.m.	1	Call to Order of the Annual Meeting/Discussion and Appropriate Action on Minutes of the February 2-3, 2011 Strategy Offsite Meeting and February 3, 2011 Meeting*
9:05 p.m.	9:15 p.m.	2	Discussion and Appropriate Action Related to Corporate Resolutions: - Election of UTIMCO Officers* - Resolutions of Appreciation* - Committee Assignments*,**
9:15 a.m.	10:00 a.m.	3	Endowment and Operating Funds Update Report
10:00 a.m.	11:00 a.m.	4	Task Force Updates
11:00 a.m.	12:00 p.m.		Recess for Briefing Session pursuant to Texas Education Code Section 66.08 (h)(2) related to Investments
12:00 p.m.	12:45 p.m.		Lunch
12:45 p.m.	1:45 p.m.	5	Reconvene into Open Session: Discussion of Policy Portfolio
1:45 p.m.	2:15 p.m.	6	Report from Risk Committee: - Discussion and Appropriate Action Related to the Proposed Amendments to the Charter of the Risk Committee* - Discussion and Appropriate Action Regarding Delegation of Authority Relating to Certain Portfolio Hedging Investments*
2:15 p.m.	2:30 p.m.	7	Report from Policy Committee: - Discussion and Appropriate Action on Recommendation of Distribution Rates for the Investment Funds*,** - Discussion and Appropriate Action Related to Proposed Amendments to the Charter of the Policy Committee* - Discussion and Appropriate Action Related to Increase in Delegation of Authority Limit for Specific Manager*
2:30 p.m.	2:45 p.m.	8	Report from Audit and Ethics Committee: - Discussion and Appropriate Action Related to the Proposed Amendments to the Charter of the Audit and Ethics Committee*
2:45 p.m.	3:00 p.m.	9	UTIMCO Organization Update
3:00 p.m.	3:30 p.m.	10	Report on Special Purpose Entities
3:30 p.m.	4:00 p.m.	11	Educational Program for UTIMCO Directors
4:00 p.m.	4:30 p.m.	12	General Discussion of Investment Environment
4:30 p.m.			Adjourn

* Action by resolution required

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

By: The University of Texas Investment Management Company

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: July 13/14, 2011

Tab 1

RESOLUTION RELATED TO MINUTES

RESOLVED, that the minutes of the Board of Directors Strategy Offsite Meeting held on **February 2-3, 2011**, and the Meeting held on **February 3, 2011**, be, and are hereby, approved.

**MINUTES OF THE
BOARD STRATEGY OFFSITE MEETING OF
THE BOARD OF DIRECTORS OF
THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY**

The Board of Directors (the "Board") of The University of Texas Investment Management Company (the "Corporation") convened in an open meeting, for a Board Strategy Offsite Meeting, at 8:46 a.m. on **February 2, 2011**, at the Mansion on Judges' Hill, 1900 Rio Grande, Austin, Texas, 78705, said meeting having been called to order by the Chairman, Paul Foster, with notice provided to each member in accordance with the Bylaws. The audio portion of the meeting was electronically recorded. Participating in the meeting were the following members of the Board:

Paul Foster, Chairman
J. Philip Ferguson, Vice Chairman
Francisco G. Cigarroa, M.D., Vice Chairman for Policy
Kyle Bass
Janiece M. Longoria
Ardon E. Moore
Charles W. Tate

thus constituting a majority and quorum of the Committee. Director Erle Nye did not attend the meeting. Employees of the Corporation attending the meeting were Bruce Zimmerman, CEO and Chief Investment Officer; Cathy Iberg, President and Deputy CIO; Joan Moeller, Secretary and Treasurer; Christy Wallace, Assistant Secretary; Cecilia Gonzalez, internal General Counsel and Chief Compliance Officer; Lindel Eakman, Managing Director – Private Markets Investments; Mark Warner, Managing Director - Natural Resources Investments; Mark Shoberg, Senior Director – Real Estate Investments; Uzi Yoeli, Senior Director - Portfolio Risk Management; Ryan Ruebsahm, Director - Marketable Alternative Investments; Susan Chen, Director – Public Markets Investments; Russ Kampfe - Senior Portfolio Manager, Fixed Income Investments; and other Staff members. Other attendees included Jerry Turner and Bob Jewell of Andrews Kurth LLP; Charlie Chaffin, William Huang, and Roger Starkey of The University of Texas System (UT System) Administration; and former UTIMCO Chairmen Scott Caven, Woody Hunt, and Robert Rowling. Director Printice L. Gary and Keith Brown of the McCombs School of Business at UT Austin later joined the meeting as noted in the minutes. Mr. Foster called the meeting to order at 8:46 a.m.

Investment Strategy Panel

Mr. Foster opened the meeting by asking Mr. Zimmerman to introduce the panel speakers. Mr. Zimmerman introduced Mr. Howard Marks, Chairman of Oaktree Capital Management, L.P.; Mr. Ray Dalio, President, Co-Chief Executive Officer, Co-Chief Investment Officer of Bridgewater Associates, LP; and Mr. Timothy O'Neill, Co-Head of the Investment Management Division and Member of the Management Committee of Goldman Sachs. Mr. Zimmerman served as moderator as the three speakers provided dialogue and answered questions on several topics including Economic Environment, Capital Markets Environment, Endowment Asset Allocation and Endowment Best Practices.

After the panel discussion, the meeting recessed at 11:10 a.m. to a new location, due to the fact that there was no heat or electricity in the Mansion on Judges' Hill Conference Room, brought on by statewide

electrical rolling blackouts. The meeting reconvened at the offices of the Corporation, Suite 2800, 401 Congress Avenue, Austin, Texas at 11:40 a.m.

Economic Scenarios

Mr. Foster called the meeting back to order in the new location. He welcomed the past Chairmen of the Board that were in attendance. Mr. Foster asked Mr. Zimmerman to begin with the presentation on Economic Scenarios. Mr. Zimmerman reviewed the agenda for the rest of the meeting and then began the discussion of Economic Scenarios. Mr. Zimmerman and Ms. Iberg provided the context of the topic of discussion and information regarding the economic environment, economic forecasts, global GDP and growth trends, and economic forecasts. Ms. Iberg, Mr. Bass and Ms. Chen listed key issues and explained details and implications of several investment scenarios. At approximately 12:30 p.m. the open meeting of the Board recessed for lunch. The open meeting of the Board reconvened in open session in the same location at 1:15 p.m. and discussion of economic scenarios continued. Dr. Brown joined the meeting at this time.

Tactical Positioning

Ms. Iberg followed with a discussion of tactical positioning, tail hedging/insurance, derivatives and leveraging, and limitations of Derivative and Investment Policies.

Managing Other Endowments Assets

The next item presented was an overview of considerations associated with the Corporation investing higher education financial assets in addition to those of The University of Texas System ("UT System").

Discussion of Capital Markets

Mr. Foster asked Ms. Iberg to lead the discussion of Capital Markets. Ms. Iberg presented the value of predictions and provided some predictions for 2011. Staff members from each of the asset classes provided summaries of key indicators across asset classes designed to increase communication across groups and facilitate tactical positioning and reviewed the Indicator Decision Support System utilized by Staff.

At 5:05 p.m., Mr. Foster announced the Board would recess and would reconvene on the morning of February 3, 2011, at 9:00 a.m.

The Board of the Corporation reconvened in open meeting at 9:05 a.m. on the 3rd day of February 2011. Mr. Gary joined the meeting at this time.

Private Direct and Co-Investments

The meeting began with a discussion of the Private Direct and Co-Investments Program. Mr. Eakman, Mr. Shoberg and Mr. Warner presented and discussed the target portfolio, expected capital deployment, portfolio diversification and rationale for the program.

Review of Peers

Mr. Zimmerman continued with a presentation on the Review of Peers. Mr. Zimmerman explained that in the fall of 2010, Rajansh Miglani, a UT MBA Student, agreed to conduct an analysis of selected endowments ("peers") focusing on organization and governance. Mr. Zimmerman and Mr. Miglani presented the results from research including website review, internet search and personal calls/emails.

Conclusion

There being no further business to come before the Board of Directors, the Board Strategy Offsite Meeting was adjourned at approximately 11:05 a.m.

Secretary: _____
Joan Moeller

Approved: _____ Date: _____
Paul Foster
Chairman, Board of Directors of
The University of Texas Investment
Management Company

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

The Board of Directors (the "Board") of The University of Texas Investment Management Company (the "Corporation") convened in an open meeting at 11:28 a.m. on **February 3, 2011**, at the offices of the Corporation, Suite 2800, 401 Congress Avenue, Austin, Texas, said meeting having been called by the Chairman, Paul Foster, with notice provided to each member in accordance with the Bylaws. The audio portion of the meeting was electronically recorded. Participating in the meeting were the following members of the Board:

Paul Foster, Chairman
J. Philip Ferguson, Vice Chairman
Kyle Bass
Printice L. Gary
Janiece Longoria
Ardon E. Moore
Charles W. Tate

Accordingly, a majority and quorum of the Board was in attendance. Director Erle Nye did not attend the meeting. Employees of the Corporation attending the meeting were Bruce Zimmerman, CEO and Chief Investment Officer; Cathy Iberg, President and Deputy CIO; Joan Moeller, Secretary and Treasurer; Christy Wallace, Assistant Secretary; Cecilia Gonzalez, internal General Counsel and Chief Compliance Officer; Mark Warner, Managing Director - Natural Resources Investments; Uzi Yoeli, Senior Director - Portfolio Risk Management; and other Staff members. Other attendees were Keith Brown of the McCombs School of Business at UT Austin; Jerry Turner and Bob Jewell of Andrews Kurth LLP; Philip Aldridge, Charlie Chaffin, Barry McBee, Roger Starkey, Moshmee Kalamkar and Miles Ragland of The University of Texas System (UT System) Administration. Dr. Francisco G. Cigarroa joined the meeting later as noted in the minutes. Mr. Foster called the meeting to order at 11:28 a.m. He asked to postpone the Briefing Session until after lunch.

Minutes

The first item to come before the Board was the approval of the minutes of the meeting of the Board of Directors held on November 9, 2010. 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 **November 9, 2010**, be, and are hereby, approved.

Corporate Resolution

Mr. Foster next recommended Board approval to designate the date for the Annual Meeting of the Board. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the Annual Meeting of the Board of Directors will be held on April 14, 2011, in Austin, Texas.

Endowment and Operating Funds Update

Mr. Foster asked Mr. Zimmerman to present the Corporation's endowment and operating funds update. Mr. Zimmerman presented the net asset value and performance numbers (Preliminary) as of December 31, 2010, and then reported in more detail the Corporation's Performance Summary as of November 30, 2010. He reported the Corporation had \$25.1 billion of assets under management at the end of November 30, 2010. Of the \$25.1 billion, \$11.6 billion was in the Permanent University Fund (PUF), \$6.5 billion in the General Endowment Fund (GEF), \$2.2 billion in the Short-Term Fund (STF) and \$4.4 billion in the Intermediate Term Fund (ITF). Mr. Zimmerman presented actual versus benchmark results, tactical asset allocation, and value-add analysis. The net performance for the quarter ended November 30, 2010, for the PUF was 6.78% and for the GEF was 6.80%, versus benchmark returns of 5.94% for the PUF and GEF. The net performance for the one year ended November 30, 2010, for the PUF was 12.21% and for the GEF was 12.26%, versus benchmark returns of 9.09% for each fund. The ITF's performance was 5.56% versus its benchmark return of 4.66% for the quarter ended November 30, 2010, and 9.66% versus its benchmark return of 5.04% for the one year ended November 30, 2010. Performance for the STF was 0.07% versus 0.03% for its benchmark return for the quarter ended November 30, 2010, and was 0.23% versus a benchmark return of 0.11% for the one year ended November 30, 2010. Mr. Zimmerman reviewed the Funds' Asset Class and Investment Type targets, tactical asset allocation, ranges and performance objectives. He reviewed the Less Correlated and Constrained portfolio categorizations vs. "look thru" exposures. Mr. Zimmerman asked Mr. Yoeli to present risk analytics for the period ending November 30, 2010. Mr. Zimmerman continued reporting on derivatives and counterparties, manager exposure, investment activity as of November 30, 2010, and gave an update on liquidity, contracts and the ITF. Mr. Zimmerman, Ms. Iberg and Mr. Yoeli answered the Directors' questions.

At 12:45 p.m. the open meeting of the Board recessed for lunch.

The open meeting of the Board reconvened in open session at 1:18 p.m.

Risk Committee Report

Mr. Foster asked Mr. Tate to provide a report from the Risk Committee. Mr. Tate reported that the Committee met on January 26, 2010, with all members of the Committee present. The Committee considered several items, including approval of the Categorization of New Investment Mandates. He stated that there were five new investment mandate categorizations prepared by Staff for the period beginning October 16, 2010, and ending January 10, 2011, and three mandates included in the "Mandate Categorization Watch-List" that will continue to be monitored by Staff for possible recategorization. Another item discussed was the Corporation's Liquidity Policy. Mr. Zimmerman explained to the Committee that the Corporation's Liquidity Policy establishes limits on the overall liquidity profile of investments in the PUF, the GEF and the ITF. The allowable range for illiquid investments is 0% to 45% of the total portfolio for the ITF. Once the ITF illiquid investments move into the trigger zone of 35% to 45%, Staff is required to request approval from the Risk Committee or UTIMCO Board before any additional illiquid investments are made. He presented estimated run-off liquidity as of November 30, 2010, and reported that the ITF's illiquid investments have moved closer to the 35% threshold, primarily due to the Less Correlated and Constrained Investment Type allocation being increased from 25% to 35% in the ITF Investment Policy Statement when it was amended August 2009, without a corresponding increase for illiquid investments in the Liquidity Policy. Mr. Zimmerman asked for guidance from the Risk Committee to determine the appropriate course of action, if any, related to the ITF's liquidity position. The Committee

also heard a report on UTIMCO's corporate insurance. The Corporation's Directors and Officers (D&O) insurance coverage period is from February 28, 2011 to February 28, 2012. After discussion on this topic, the Committee tabled the agenda item and asked Staff and Mr. Turner to present additional information on D&O coverage at a future Committee meeting. The Committee also heard a report from Ms. Gonzalez on non-compliance items from the Compliance Report for the Quarter Ended November 30, 2010. Mr. Tate left the meeting at this time.

Policy Committee Report

Mr. Foster asked Mr. Gary to provide a report on the behalf of the Policy Committee. Mr. Gary reported that the Committee convened on January 26, 2010. Mr. Gary said that the Committee discussed proposed amendments to the Separately Invested Funds (SIF) Investment Policy Statement, amendments that were requested by the Office of Finance of UT System. Mr. Gary explained details of the suggested amendments stating that UT System currently had approximately \$1.1 billion of bond proceeds, currently invested in the STF. The Office of Finance staff had asked the Corporation to invest a portion of these debt proceeds into a laddered portfolio in the SIF. The laddered portfolio would be invested by the Corporation's internal Portfolio Managers. The Corporation's back office staff would provide the accounting services for the debt proceeds funds. The SIF Investment Policy Statement needed to be amended to allow for the investment of these funds by Staff. The proposed changes to the SIF Investment Policy Statement were approved by the Policy Committee at their meeting. On behalf of the Committee, Mr. Gary recommended approval by the Board of the amendments to the SIF Investment Policy Statement, with further approval required by the UT System Board of Regents. Staff additionally requested delegated authority from the Board for the internal portfolio managers to invest the debt proceeds in the investments authorized by the SIF Investment Policy Statement. Mr. Zimmerman and Mr. Aldridge answered the Directors' questions. Upon motion duly made and seconded, the following resolutions were unanimously adopted by the Board:

RESOLVED, that amendment to the Investment Policy Statement of the Separately Invested Funds, as presented be, and is hereby, approved, subject to approval by The University of Texas System Board of Regents.

And,

WHEREAS, UTIMCO Staff has been requested by the Office of Finance of The University of Texas System (UT System) staff to invest a portion of the debt proceeds from UT System bond issuances currently invested in the Short Term Fund into a laddered portfolio; and

WHEREAS, UT System has requested that the laddered portfolio be invested by the UTIMCO internal portfolio managers; and

WHEREAS, UTIMCO internal portfolio managers are currently only authorized to manage an Internal Fixed Income Portfolio of \$750,000,000; and

WHEREAS, in order for the UTIMCO internal portfolio managers to be able to invest the debt proceeds, the Board must delegate authority to Corporation's staff.

NOW THEREFORE,

BE IT RESOLVED, that, subject to approval of the amendment to the Investment Policy Statement of the Separately Invested Funds by The University of Texas System Board of Regents, in addition to the currently authorized Internal Fixed Income Portfolio, the internal portfolio managers be, and each of them hereby is, authorized to invest the debt proceeds from UT System bond issuances as requested by UT System staff in accordance with the terms and restrictions in the Investment Policy Statement of the Separately Invested Funds.

Audit and Ethics Committee Report

Mr. Foster asked Ms. Longoria to provide a report on behalf of the Audit and Ethics Committee. Ms. Longoria reported that the Committee convened on January 26, 2011, with all members present. She stated that Mr. Tom Wagner, engagement partner from the independent accounting firm of Deloitte & Touche LLP, presented the audit results and necessary communications for the Corporation for the fiscal years ended August 31, 2010 and August 31, 2009. Mr. Wagner confirmed the completion of the audit of the Corporation, summarized the process and reviewed with the Committee the Audit Results and Communications report covering required communications. Ms. Longoria, on behalf of the Committee, recommended approval of Deloitte and Touche LLP's Financial Statement Audit Results and Communications, and the audited financial statements and audit report for the Corporation. Upon motion duly made and seconded, the resolution was unanimously adopted:

RESOLVED, that Deloitte & Touche LLP's Financial Statement Audit Results and Communications for the Corporation for the year ended August 31, 2010, 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, 2010 and August 31, 2009, be, and are hereby approved in the form as presented to the Board.

The Committee was also presented a report from the UT System Audit Office related to a security audit of information technology. The UT System Audit Office reviewed the UTIMCO Information Security Program Index Audit Report with the Committee and briefed the Committee on the preliminary audit work completed related to the audit of three security applications internally developed by the UTIMCO IT department. A handout of the audit results was provided to the Directors at the Board meeting. The Committee also heard a report from Ms. Gonzalez on non-compliance items from the Compliance Report for the Quarter Ended November 30, 2010.

Cambridge Contract Renewal

Mr. Foster asked Mr. Zimmerman to summarize the changes to the contract with Cambridge Associates. Mr. Zimmerman explained that Cambridge Associates had served as UTIMCO's consultant since its inception in 1996. Under the terms of the current contract with Cambridge, UTIMCO has had access, via the Cambridge Associates consulting team and Cambridge Associates web site, to proprietary databases on capital markets, investment managers, and partnerships. UTIMCO has also had access to comparative peer performance data and quarterly and annual surveys of investment and financial data. Also included in

the current contract is 24 hours of consulting time, a variety of research reports and working papers on investment and financial data, and attendance at UTIMCO Board meetings. Mr. Zimmerman stated that the prior Cambridge Associates contract was \$61,000 annually. The new contract, if approved, would include a retainer of \$46,000 with optional services to be "unbundled". These unbundled services would be charged individually at the time of service. Mr. Zimmerman estimated the annual fees would be less than the previous year, even with the optional services. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the contract renewal of Cambridge Associates as the external investment consultant be, and is hereby, approved in the form submitted to the Board.

Legislative Update

Mr. Foster asked Mr. McBee to give a Legislative update to the Board. Mr. McBee provided a handout, *82nd Texas Legislature Session Update*, to the Board which provided headlines of legislative activities, a comparison of the current State Budget and revenue estimates for the next biennium, and a summary of the Legislative Budget Board recommendations on the appropriations in both the House and Senate budget bills. He also provided key activities and dates for the legislative session. Dr. Cigarroa joined the meeting at this time. Mr. Zimmerman, Mr. McBee, Mr. Starkey and Mr. Turner answered the Directors' questions.

At 2:28 p.m. the open meeting of the Board recessed for a Briefing Session pursuant to Texas Education Code Section 66.08(h)(2) related to Investments.

The open meeting of the Board reconvened in open session at 3:42 p.m.

Organization Update

Mr. Zimmerman provided the Board with a Staff and budget update. Mr. Foster stated that due to time constraints, the Task Force Update would be tabled until the next Board meeting.

There being no further business to come before the Board, the meeting was adjourned at approximately 3:44 p.m.

Secretary: _____
Joan Moeller

Approved: _____ Date: _____
Paul Foster
Chairman, Board of Directors of
The University of Texas Investment
Management Company

Tab 2

Agenda Item
UTIMCO Board of Directors Meeting
April 14, 2011

Agenda Item: Discussion and Appropriate Action Related to Corporate Resolutions
- Election of UTIMCO Officers
- Resolutions of Appreciation
- Committee Assignments

Developed By: Zimmerman, Gonzalez, Moeller

Presented By: Foster

Type of Item: Action required by UTIMCO Board

Description: Chairman Foster will present a recommendation for the Corporate Officers. As stated in the Bylaws, a purpose of the Annual Meeting is to elect Officers for the ensuing year. Employees that are designated as Officers by the UTIMCO Board meet the definition of key employees in the Corporation's Code of Ethics.

Chairman Foster will present a recommendation to the Board to approve resolutions acknowledging Mr. Erle Nye's and Ms. Janiece Longoria's services as UTIMCO Board members.

Chairman Foster will propose the Board committee assignments. When a change is made in the composition of the Audit and Ethics Committee, Section 66.08 of the *Texas Government Code* requires that the U. T. System Board of Regents approve the appointment of the members of the Audit and Ethics Committee of the Board of Directors of UTIMCO.

Recommendation: Chairman Foster will recommend approval of the election of Corporate Officers, the approval of Erle Nye Appreciation Resolution and Janiece Longoria Appreciation Resolution, and approval of the Board Committee assignments.

Reference: None

RESOLUTION RELATED TO CORPORATION OFFICERS

RESOLVED, that the following persons are hereby appointed to the respective office or offices of the Corporation set forth opposite their names, to serve until the next Annual Meeting of the Corporation or until their resignation or removal.

<u>Name</u>	<u>Office or Offices</u>
Paul Foster	Chairman
J. Philip Ferguson	Vice-Chairman
Francisco G. Cigarroa	Vice-Chairman for Policy
Bruce Zimmerman	Chief Executive Officer and Chief Investment Officer
Cathy Iberg	President and Deputy Chief Investment Officer
Joan Moeller	Senior Managing Director, Treasurer and Secretary
Lindel Eakman	Managing Director
Mark Warner	Managing Director
Christy Wallace	Assistant Secretary

RESOLUTION RELATED TO COMMITTEE ASSIGNMENTS

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

subject to approval by the Board of Regents of The University of Texas System at a future meeting, 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 Audit and Ethics Committee and shall preside at its meetings.

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 3



Funds Update

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Returns



UTIMCO Performance Summary February 28, 2011

	Net Asset Value 2/28/2011 (in Millions)	Periods Ended February 28, 2011 (Returns for Periods Longer Than One Year are Annualized)									
		Short Term		Year to Date		Historic Returns			Historic Returns		
		1 Mo	3 Mos	Fiscal	Calendar	1 Yr	3 Yrs	5 Yrs	10 Yrs		
ENDOWMENT FUNDS											
Permanent University Fund	\$12,339	2.64%	6.48%	13.70%	3.00%	17.30%	2.02%	5.39%	6.68%		
General Endowment Fund		2.64	6.52	13.76	3.01	17.35	1.96	5.49	6.91		
Permanent Health Fund	1,006	2.64	6.51	13.73	3.03	17.24	1.88	5.42	6.81		
Long Term Fund	5,971	2.64	6.51	13.73	3.03	17.25	1.88	5.42	6.83		
Separately Invested Funds	225	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A		
Total Endowment Funds	19,541										
OPERATING FUNDS											
Short Term Fund	2,374	0.02	0.06	0.13	0.04	0.25	1.01	2.68	2.49		
Intermediate Term Fund	4,710	1.54	5.12	10.97	1.77	14.75	3.15	N/A	N/A		
Total Operating Funds	7,084										
Total Investments	\$26,625										
VALUE ADDED (Percent)											
Permanent University Fund		1.14%	(0.04%)	0.85%	0.84%	2.01%	2.94%	2.32%	2.20%		
General Endowment Fund		1.14	-	0.91	0.85	2.06	2.88	2.42	2.42		
Short Term Fund		-	0.02	0.06	0.02	0.11	0.43	0.38	0.21		
Intermediate Term Fund		0.38	(0.02)	0.93	0.30	2.97	2.59	N/A	N/A		
VALUE ADDED (\$ IN MILLIONS)											
Permanent University Fund		\$137	\$(4)	\$95	\$101	\$213	\$1,046	\$1,316	\$2,473		
General Endowment Fund		79	0	56	58	122	577	770	1,450		
Intermediate Term Fund		18	(1)	39	14	120	334	496	N/A		
Total Value Added		\$ 234	\$(5)	\$ 190	\$ 173	\$ 455	\$ 1,957	\$ 2,582	\$ 3,923		

(1) - Benchmark returns for the PUF, GEF/LTF, and ITF have been restated for certain prior periods. Details of the restatements and previous policy portfolio benchmark history may be found at www.UTIMCO.org.

(2) - Value added is a measure of the difference between actual returns and benchmark or policy portfolio returns for each period shown. Value added is a result of the active management decisions made by UTIMCO staff and external managers.

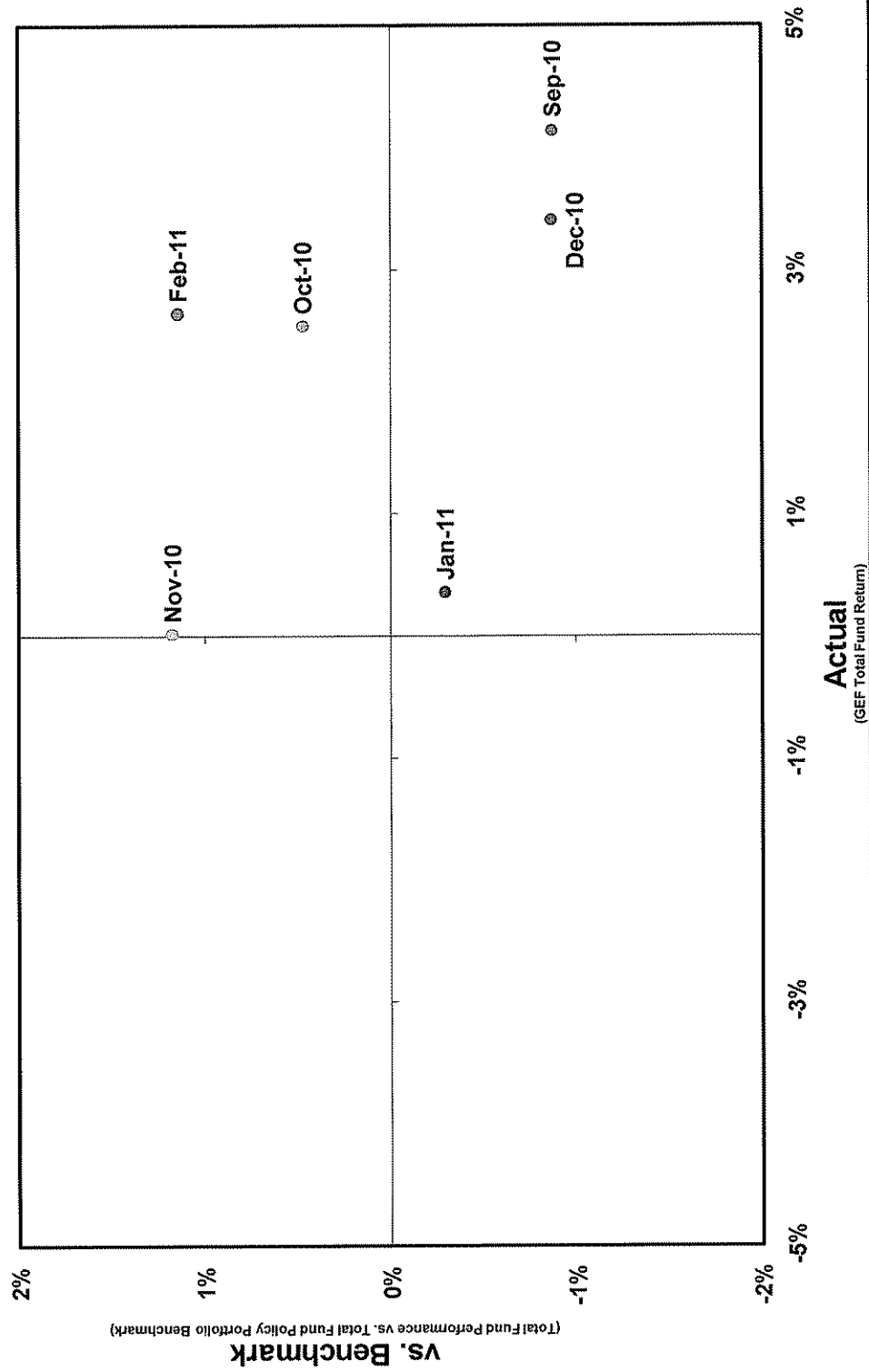


Performance During Last 3 and 6 Months

	3 Months Ended February 2011	6 Months Ended February 2011
BarCap Global Agg	2.1%	1.8%
BarCap TIPS	-0.5%	1.0%
BarCap High Yield	5.5%	9.7%
Global REITs	10.8%	20.3%
DJ-UBS	13.3%	27.1%
Oil Spot	15.3%	34.8%
Natural Gas	-6.0%	3.4%
Copper	18.1%	32.9%
S&P 500	13.0%	27.7%
Nasdaq 100	11.0%	33.0%
EAFE	14.3%	23.8%
FTSE 100	13.1%	21.5%
DJ Euro Stoxx 50	20.2%	24.9%
Topix	12.9%	21.5%
MSCI Emerging Markets	3.3%	14.9%
Brazil Index	2.6%	9.2%
China Index	4.8%	15.6%
India Index	-7.5%	3.1%
Russia Index	23.3%	38.6%
GEF	6.5%	13.8%
ITF	5.1%	11.0%

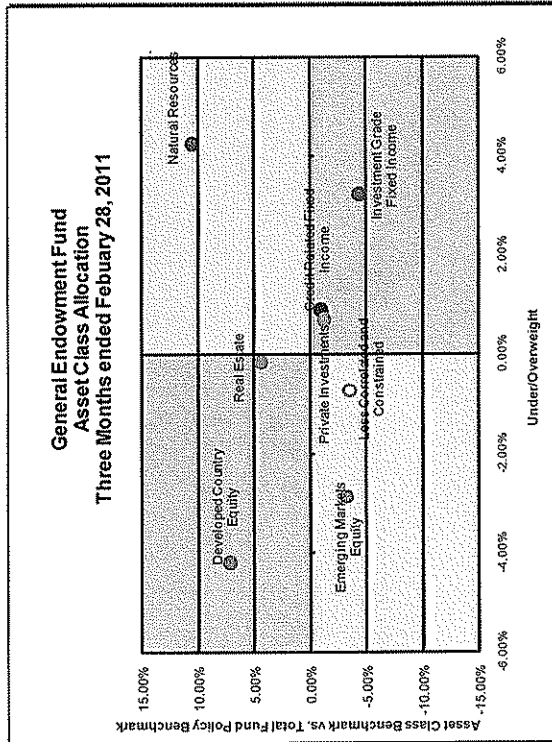


Actual and "vs. Benchmark" Returns by Month Fiscal Year 2011 (GEF)

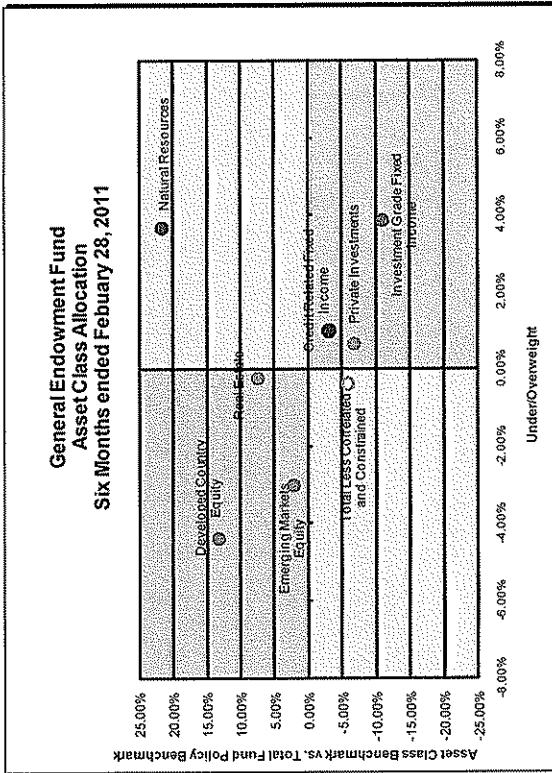




Tactical Asset Allocation



	Actual Returns	Benchmark Returns	Impact on Over/(Under) Performance (bps)
Natural Resources	10.68%	16.95%	42
Emerging Markets Equity	2.54%	3.26%	9
Less Correlated and Constrained	4.41%	2.97%	4
Real Estate	9.66%	10.85%	-
Subtotal			55
Credit Related Fixed Income	10.77%	5.52%	(1)
Investment Grade Fixed Income	1.76%	2.09%	(15)
Developed Country Equity	13.38%	13.62%	(37)
Subtotal			(53)
Total Fund excluding Private Investments			2
Private Investments	6.67%	5.22%	(2)
Total Fund	6.52%	6.52%	Total -



	Actual Returns	Benchmark Returns	Impact on Over/(Under) Performance (bps)
Natural Resources	28.05%	34.45%	72
Less Correlated and Constrained	9.57%	6.85%	4
Subtotal			76
Credit Related Fixed Income	16.61%	9.74%	(3)
Real Estate	19.80%	20.26%	(3)
Emerging Markets Equity	14.16%	14.95%	(12)
Investment Grade Fixed Income	1.79%	1.77%	(47)
Developed Country Equity	26.23%	26.06%	(75)
Subtotal			(140)
Total Fund excluding Private Investments			(64)
Private Investments	11.97%	5.94%	(10)
Total Fund	13.76%	12.95%	Total (74)



Active Management Value Added Periods Ended February 28, 2011 (GEF)

	3 Months (bps)	Manager (Alpha)
Less Correlated	32	Bridgewater (6.25), Maverick (3.52), Farallon (2.92)
Credit Related Fixed Income	-	Angelo Gordon (5.79)
Subtotal	<u>32</u>	
Real Estate	(3)	European Investors (.69), MS REITS (.68), Cohen & Steers Global (.49)
Investment Grade Fixed Income	(4)	Total Internal Fixed Income (.83), Liquidity (.14), Brandywine (.02)
Developed Country Equity	(6)	Carillon (.74), International Value Advisors (.34), Wellington (.30)
Emerging Markets Equity	(11)	Blakeney (.56), Lazard (.38), Wellington Global Emerging (.23)
Natural Resources	(35)	Gold Futures (6.81), Blackrock Global Mining (.47), Gresham (.30)
Subtotal	<u>(59)</u>	
Total Fund excluding Private Investments	<u>(27)</u>	
Private Investments	48	
Total Fund	<u>21</u>	

	6 Months (bps)	Manager (Alpha)
Less Correlated and Constrained	80	Bridgewater (10.38), Cadian (13.66), Farallon (5.81), Maverick (.62)
Developed Country Equity	2	Value Act (.42), Viking (.30), Stelliam (.27)
Credit Related Fixed Income	-	Angelo Gordon (11.71)
Real Estate	-	MS REITS (.61), Cohen & Steers (.58)
Subtotal	<u>82</u>	
Investment Grade Fixed Income	(2)	Liquidity (.92), Total Internal Fixed Income (.77)
Emerging Markets Equity	(13)	Blakeney (.98), Hillhouse (.26), Arohi (.25), Wellington Global Emerging (.25)
Natural Resources	(33)	Gold Futures (9.72), Gresham (.92), MLP AMZI Index Swap (.33)
Subtotal	<u>(48)</u>	
Total Fund excluding Private Investments	<u>34</u>	
Private Investments	154	
Total Fund	<u>188</u>	



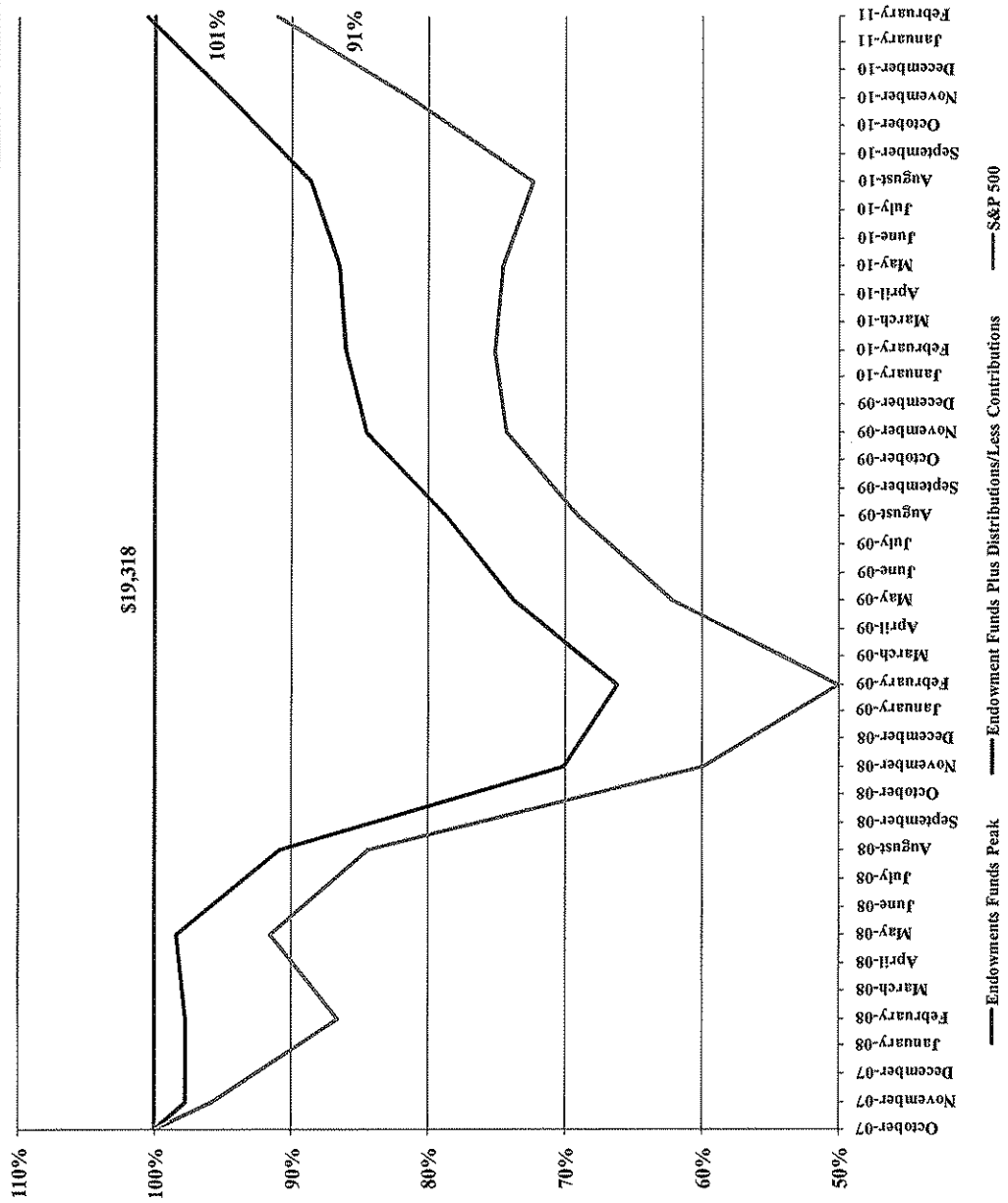
Value-Add Analysis

	FY05	FY06	FY07	FY08	FY09	FY10	1HFY11
MCC							
Tactical	0.43%	-0.54%	0.14%	0.82%	0.29%	0.01%	-0.76%
Active	0.42%	-0.81%	-0.74%	-0.19%	1.68%	2.02%	-0.54%
TOTAL	0.85%	-1.35%	-0.60%	0.63%	1.39%	2.02%	-1.29%
LCC							
Tactical	-0.01%	0.07%	-0.02%	-0.09%	0.04%	0.21%	0.08%
Active	2.09%	0.86%	2.63%	2.02%	1.68%	2.61%	0.84%
TOTAL	2.08%	0.93%	2.61%	1.93%	1.71%	2.82%	0.92%
Private Investments							
Tactical	-0.68%	-0.42%	-0.69%	0.14%	0.35%	0.40%	-0.18%
Active	1.51%	-0.57%	1.20%	-0.59%	1.54%	-0.98%	1.46%
TOTAL	0.83%	-0.99%	0.51%	-0.45%	1.88%	-0.58%	1.28%
Overall GEF							
Tactical	-0.26%	-0.89%	-0.57%	0.87%	0.67%	0.62%	-0.86%
Active	4.02%	-0.52%	3.09%	1.24%	1.53%	3.65%	1.77%
TOTAL	3.76%	-1.41%	2.52%	2.11%	2.20%	4.26%	0.91%



Endowments Peak Value Analysis

10/31/2007 - 2/28/2011





Assets



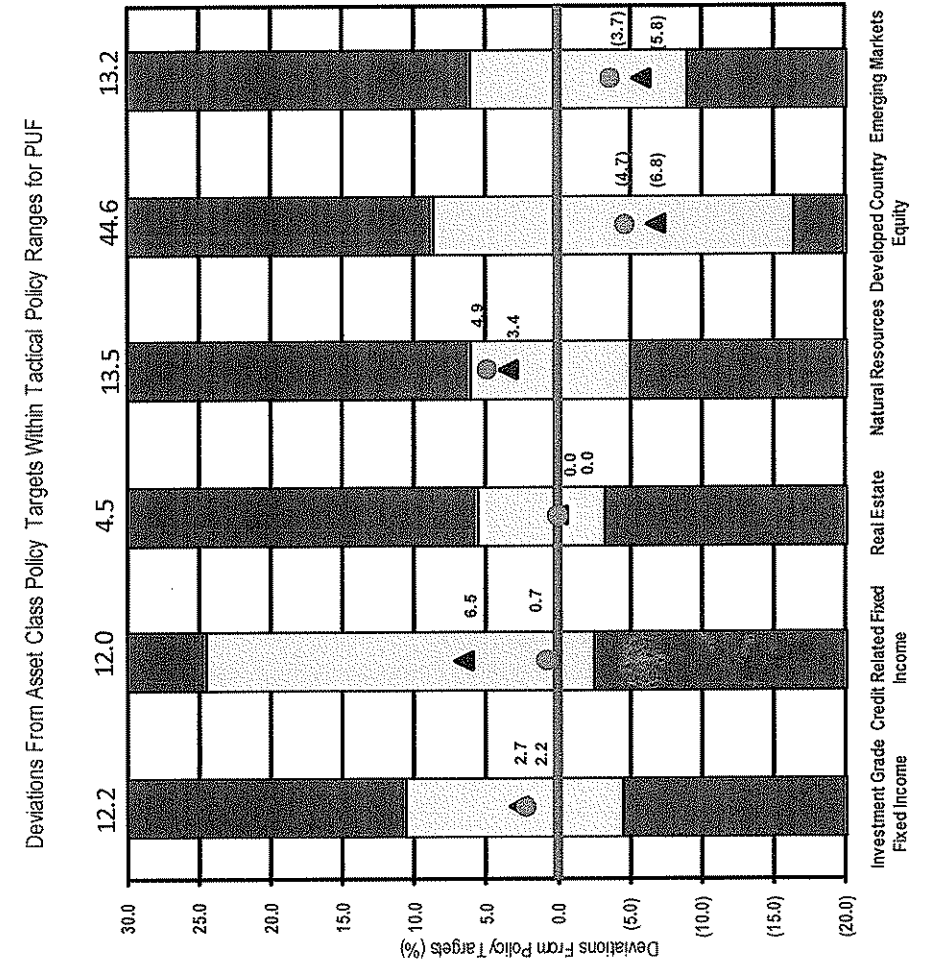
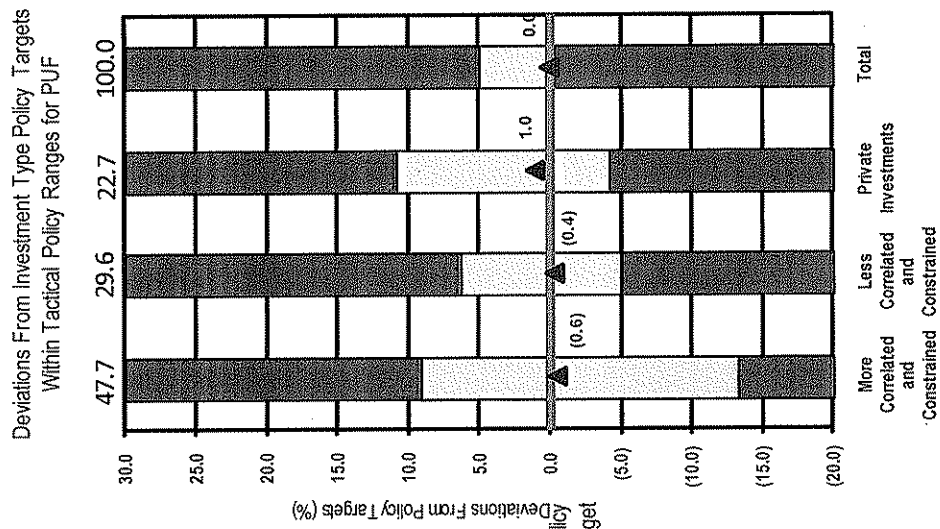
Combined PUF and GEF Asset Allocation as of February 28, 2011 (in millions)

Asset Group	Asset Class	More Correlated and Constrained		Less Correlated and Constrained		Private Investments	Grand Total
		\$	%	\$	%		
Fixed Income	Investment Grade	\$ 1,796	9.3%	\$ 496	2.6%	\$ -	\$ 2,292
	Credit-Related	137	0.7%	885	4.6%	1,297	2,319
Fixed Income Total		1,933	10.0%	1,381	7.2%	1,297	4,611
Real Assets	Real Estate	\$ 574	3.0%	\$ 114	0.6%	\$ 173	861
	Natural Resources	2,149	11.1%	13	0.1%	464	2,626
Real Assets Total		2,723	14.1%	127	0.7%	637	3,487
Equity	Developed Country	\$ 2,797	14.5%	\$ 3,770	19.5%	\$ 2,075	8,642
	Emerging Markets	1,719	8.9%	458	2.3%	399	2,576
Equity Total		4,516	23.4%	4,228	21.8%	2,474	11,218
Grand Total		\$ 9,172	47.5%	\$ 5,736	29.7%	\$ 4,408	\$ 19,316
							100.0%

The total Asset Class & Investment Type exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed 105% of the Asset Class & Investment Type exposures excluding the amount of derivatives exposure not collateralized by Cash.



PUF Asset Allocation as of February 28, 2011

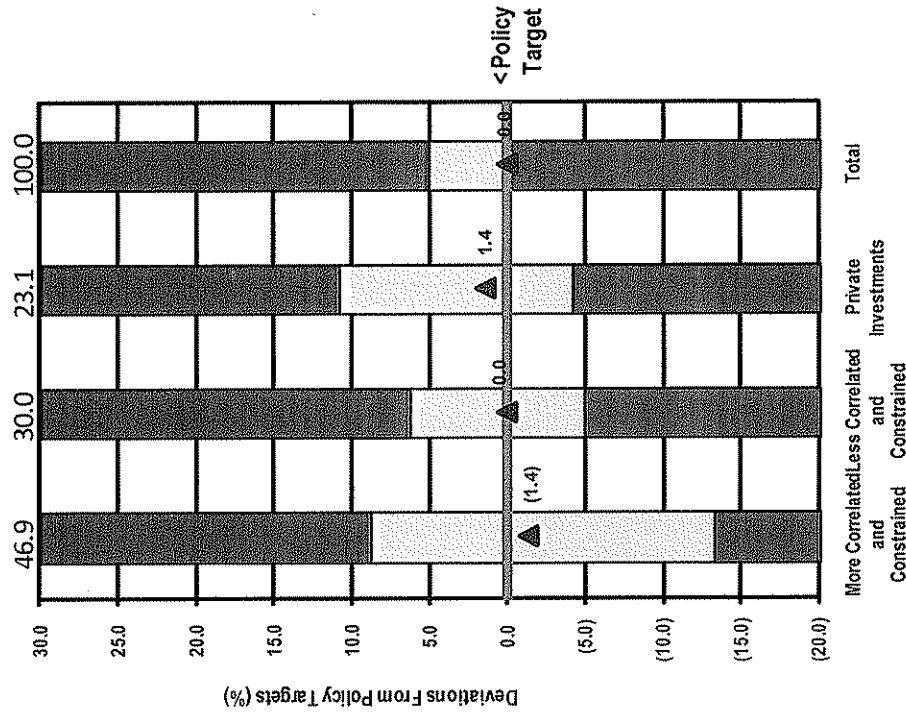


▲ -- All Investment Types ● -- More Correlated and Constrained

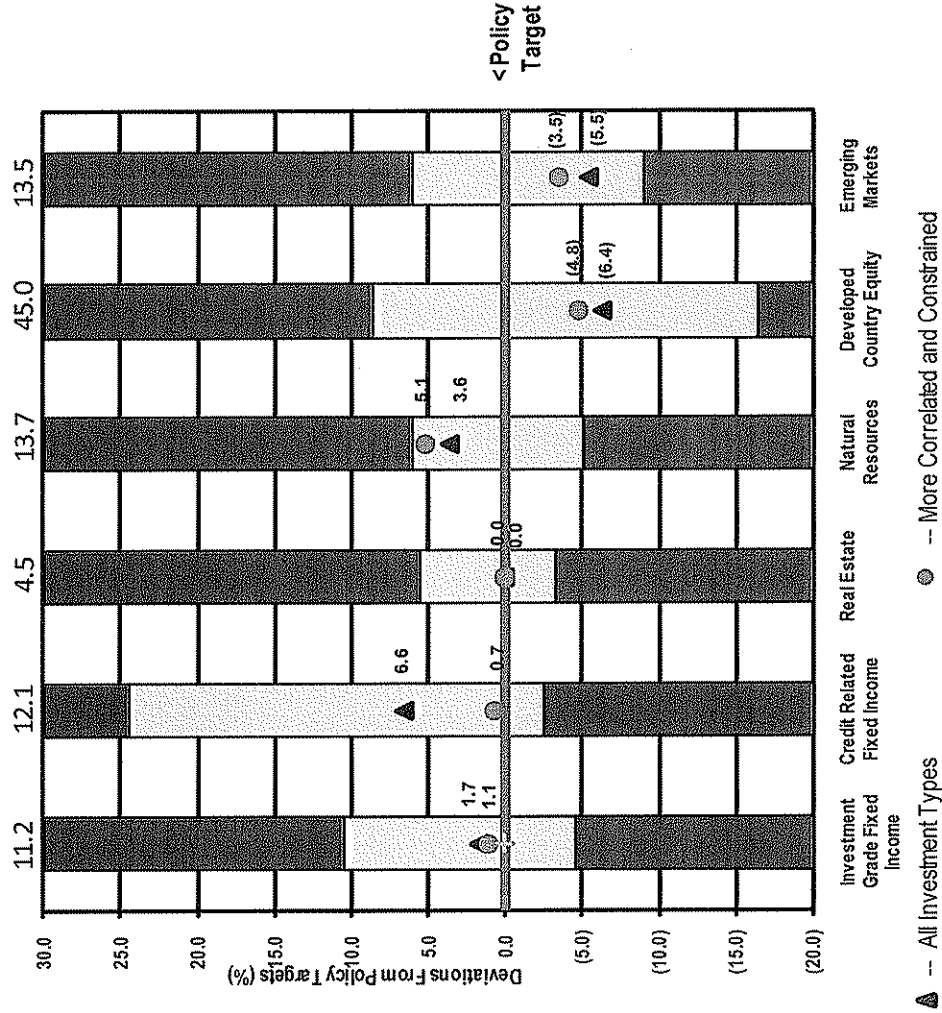


GEF Asset Allocation as of February 28, 2011

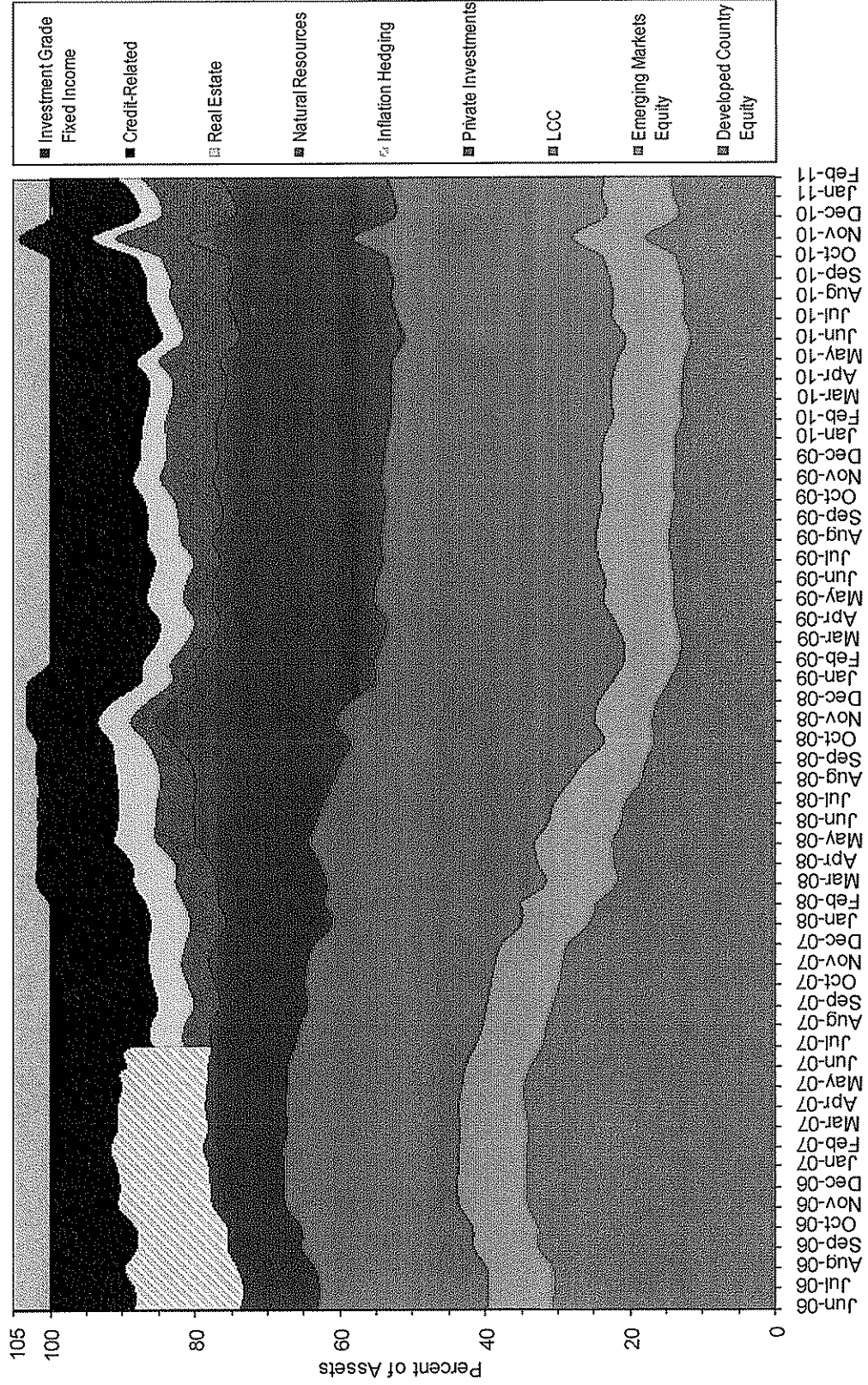
Deviations From Investment Type Policy Targets
Within Tactical Policy Ranges for GEF



Deviations From Asset Class Policy Targets Within Tactical Policy
Ranges for GEF



Asset Allocation Over Time (GEF)





LCC Investment Policy Categorizations vs. "Look Thru" Exposures (1/31/2011)

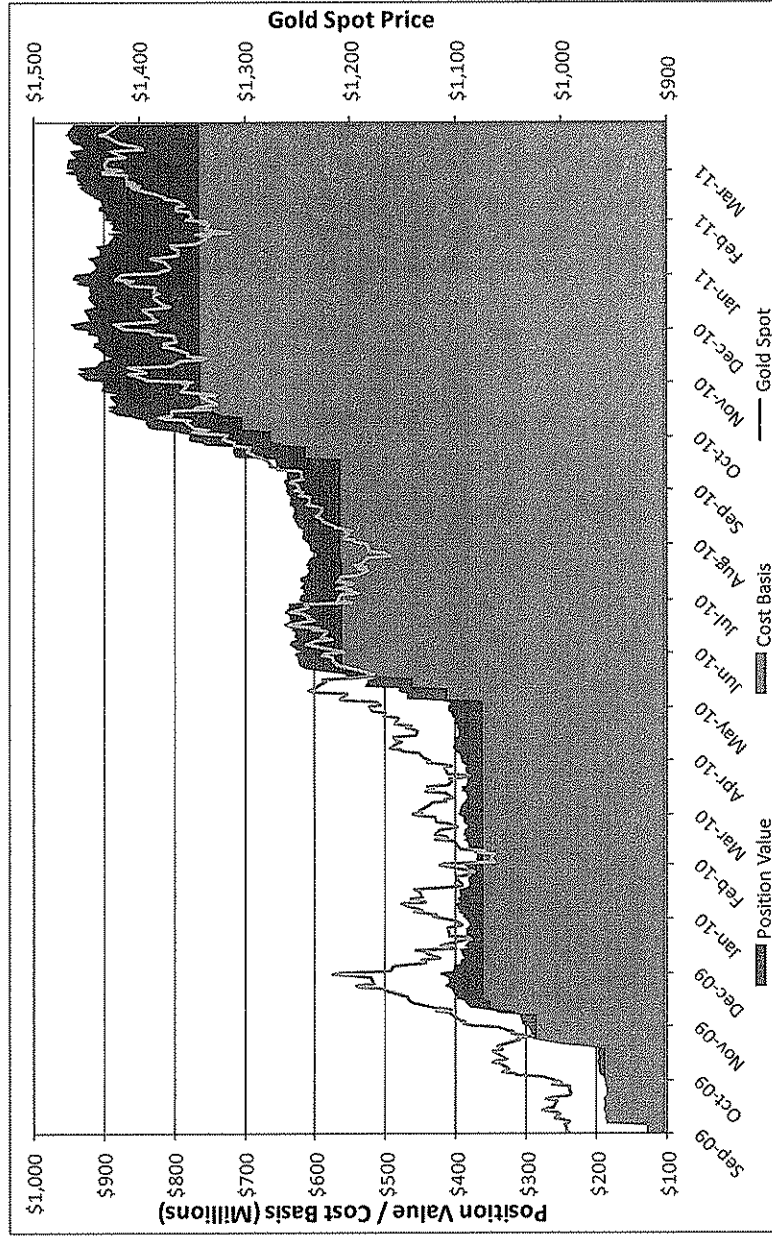
Exposure Methodology Comparison			UTIMCO FY Target Comparison			
	Policy	Look-Through	Difference	Current per 8/31/11	Target	Difference
Investment Grade Fixed Income	1.7%	2.8%	1.1%	1.7%	2.0%	-0.3%
Credit-Related Fixed Income	4.8%	6.1%	1.3%	4.8%	3.2%	1.6%
Real Estate	0.6%	0.5%	-0.1%	0.6%	0.0%	0.6%
Natural Resources	0.1%	0.4%	0.4%	0.1%	1.0%	-0.9%
Developed Country Equity	20.0%	16.4%	-3.6%	20.0%	20.6%	-0.6%
Emerging Markets Equity	2.5%	3.4%	0.9%	2.5%	4.2%	-1.7%
Less Correlated & Constrained	29.7%	29.7%	0.0%	29.7%	31.0%	-1.3%

Asset Classification	Hedge Fund Strategy															
	Fixed Income (ex distressed)	Convertible Arbitrage	Currencies	Other Relative Value & Arbitrage	Investment Grade Fixed Income	Credit Related	Real Estate	Commodities	US Long/Short	Developed Int'l Long/Short	Equity Market Neutral	Merger Arbitrage	Privates & Restructurings	Developed Country Equity	Emerging Markets Long/Short	Total LCC
Fixed Income	0.4%	-	0.6%	0.1%	1.1%	0.0%	-	0.4%	0.2%	0.1%	-	-	-	0.3%	0.0%	1.7%
Credit-Related	0.0%	0.0%	-	-	0.0%	3.6%	-	-	0.2%	0.0%	-	-	0.9%	1.1%	0.0%	4.8%
Real Estate	-	-	-	-	-	0.1%	0.5%	-	-	-	-	-	-	-	-	0.6%
Natural Resources	-	-	-	-	-	-	-	-	-	-	-	-	0.1%	0.1%	-	0.1%
Developed Country Equity	0.3%	0.7%	0.2%	0.4%	1.5%	2.2%	-	0.1%	9.1%	3.2%	-	0.6%	1.2%	14.2%	2.0%	20.0%
Emerging Markets	0.0%	0.0%	0.2%	-	0.2%	0.1%	-	0.0%	0.2%	0.4%	-	-	0.1%	0.8%	1.4%	2.5%
Total LCC	0.7%	0.7%	1.0%	0.4%	2.8%	6.1%	0.5%	0.4%	9.8%	3.7%	-	0.6%	2.3%	16.4%	3.4%	29.7%
Gross Leverage	16.03	2.38	6.03	2.86	7.03	1.13	1.98	1.77	1.91	2.28	0.00	1.37	1.06	1.85	1.71	2.18
Net Leverage	-9.14	0.08	2.55	0.63	-1.12	0.86	0.34	1.65	0.58	0.27	0.00	0.88	1.01	0.88	0.59	0.49



Summary of UTIMCO's Gold Position

- Cost Basis: \$764 MM
- Position Value: \$942 MM
- MTM Profit: \$178 MM (+23.3%)
- Total Ounces: 664,300
- Total Bars: 6,643
- VWAP: \$1,150.17/oz.
- Total gold position now held in physical bar form
- Staff to consider actively managed gold strategies





Investment Activity



Report on Investment Transactions Made Under the Delegation of Authority Fiscal Quarter ended February 28, 2011

	Redemptions (\$ millions)			Investments / Commitments (\$ millions)			Illiquid	
	MCC	LCC	Private	Total	MCC	LCC		Private
<u>Investment Grade Fixed Income</u>								
BlackRock Global Agg Bond Fund	141	-	-	141	-	-	-	-
PIMCO	91	-	-	91	-	-	-	-
Bridgewater	-	62	-	62	-	-	-	-
Lone Peak	-	-	-	-	-	200	-	200
Woodbine	-	-	-	-	-	25	-	25
	232	62	-	294	-	225	-	225
<u>Credit-Related Fixed Income</u>								
Angelo Gordon CMBS	85	-	-	85	-	-	-	-
AG Super Fund	-	75	-	75	-	-	-	-
Baupost	-	22	-	22	-	-	-	-
Farallon Credit Sidecar	-	21	-	21	-	-	-	-
Satellite	-	1	-	1	-	-	-	-
FCO MA LSS LP	-	-	-	-	-	-	100	100
Centerbridge II	-	-	-	-	-	-	100	100
	85	119	-	204	-	-	200	200
<u>Real Estate</u>								
BlackRock REIT Fund	35	-	-	35	-	-	-	-
Cohen & Steers	15	-	-	15	-	-	-	-
Grain Infrastructure Fund, L.P.	-	-	-	-	-	-	60	60
	50	-	-	50	-	-	60	60
<u>Natural Resources</u>								
Physical Gold Buillion	-	-	-	-	903	-	-	903
Gresham	-	-	-	-	187	-	-	187
P2 Brasil Private Infrastructure Fund II, L.P.	-	-	-	-	-	-	100	100
Black River Capital Partners Fund (Food)	-	-	-	-	-	-	40	40
BlackRock Small Cap	-	-	-	-	25	-	-	25
CCM Special Holdings (General Motly)	-	-	-	-	-	3	-	3
	-	-	-	-	1,115	3	140	1,258



Report on Investment Transactions Made Under the Delegation of Authority Fiscal Quarter ended February 28, 2011 (continued)

	Redemptions (\$ millions)			Investments / Commitments (\$ millions)			Illiquid	
	MCC	LCC	Private	Total	MCC	LCC		Private
Developed Country Equity								
Lansdowne	202	-	-	202	-	-	-	-
FCOI II	-	75	-	75	-	-	-	-
BlackRock EAFE Fund	73	-	-	73	-	-	-	-
Levin	24	-	-	24	-	-	-	-
Blue Ridge	-	22	-	22	-	-	-	-
Fox Point	-	15	-	15	-	-	-	-
Shepherd	-	6	-	6	-	-	-	-
Wellington Spec Eq	5	-	5	5	-	-	-	-
Doughty Hanson	-	-	5	5	-	-	-	-
Rock Creek	-	1	-	1	-	-	-	-
ESL	-	1	-	1	-	-	-	-
AKO	-	-	-	-	150	-	-	150
Soroban	-	-	-	-	-	75	-	75
Kingstown	-	-	-	-	-	50	-	50
Praesidium	-	-	-	-	25	-	-	25
Cadian	-	-	-	-	-	25	-	25
Criterion	-	-	-	-	-	25	-	25
Union Square Ventures	-	-	-	-	-	-	25	25
	304	120	5	429	175	175	25	375
Emerging Markets Equity								
BlackRock EM/Sl	114	-	-	114	-	-	-	-
Valiant	-	4	-	4	-	10	-	10
Arohi	-	-	-	-	27	-	-	27
Russian Prosperity	-	-	-	-	25	-	-	25
	114	4	-	118	52	10	-	62
	\$ 785	\$ 305	\$ 5	\$ 1,095	\$ 1,342	\$ 413	\$ 425	\$ 2,180



Report on Investment Transactions Made Under the Delegation of Authority Fiscal Year ended February 28, 2011

	Redemptions (\$ millions)			Investments / Commitments (\$ millions)			Illiquid	
	MCC	LCC	Private	Total	MCC	LCC		Private
Investment Grade Fixed Income								
BlackRock Global Agg Bond Fund	141	-	-	141	-	-	-	-
PIMCO	91	-	-	91	-	-	-	-
Bridgewater	-	62	-	62	-	-	-	-
Brandywine	25	-	-	25	-	-	-	-
Credit Suisse Hedging Griffo	-	-	-	-	200	-	-	200
Lone Peak	-	-	-	-	-	200	-	200
Woodbine	-	-	-	-	-	25	-	25
	257	62	-	319	200	225	-	425
Credit-Related Fixed Income								
Angelo Gordon CMBS	100	-	-	100	-	-	-	-
AG Super Fund	-	75	-	75	-	-	-	-
Watershed RMBS	44	-	-	44	-	-	-	-
Baupost	-	22	-	22	-	-	-	-
Farallon Credit Sidecar	-	21	-	21	-	-	-	-
Satellite	-	7	-	7	-	-	-	-
Blackstone	-	2	-	2	-	-	-	-
FCO MA LSS LP	-	-	-	-	-	100	-	100
Centerbridge II	-	-	-	-	-	100	-	100
Farallon Asia	-	-	-	-	-	50	-	50
	144	127	-	271	-	50	200	250
Real Estate								
BlackRock REIT Fund	35	-	-	35	-	-	-	-
Cohen & Steers	15	-	-	15	-	-	-	-
Grain Infrastructure Fund, L.P.	-	-	-	-	-	60	-	60
Benson Elliot Real Estate Partners III, L.P.	-	-	-	-	-	19	-	19
	50	-	-	50	-	79	-	79
Natural Resources								
Physical Gold Bullion	-	-	-	-	903	-	-	903
Gresham	-	-	-	-	187	-	-	187
P2 Brasil Private Infrastructure Fund II, L.P.	-	-	-	-	-	-	100	100
Global Energy Capital LP	-	-	-	-	-	-	50	50
Black River Capital Partners Fund (Food)	-	-	-	-	-	-	40	40



Report on Investment Transactions Made Under the Delegation of Authority Fiscal Year ended February 28, 2011 (continued)

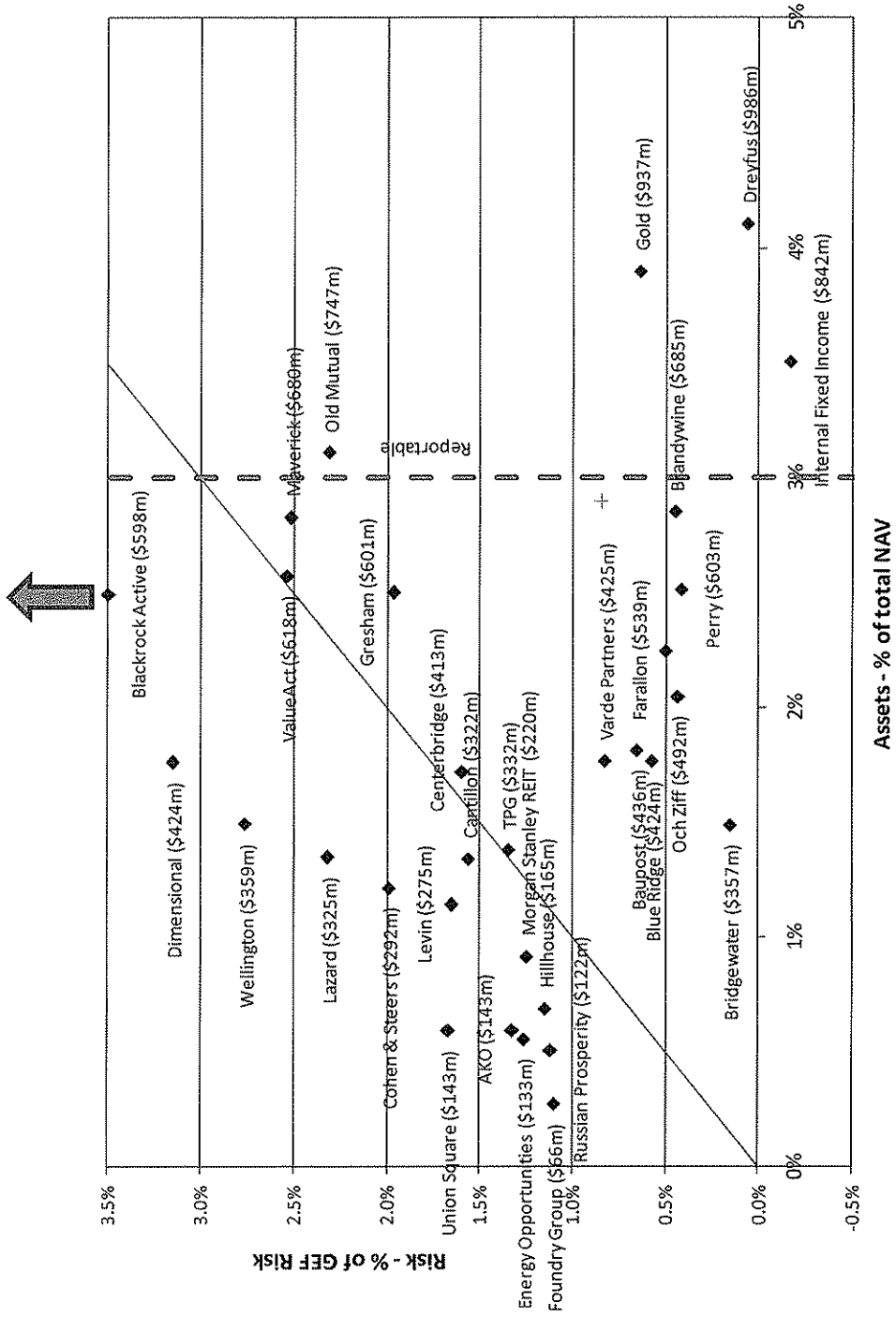
	Redemptions (\$ millions)			Investments / Commitments (\$ millions)			Illiquid
	MCC	LCC	Private	MCC	LCC	Private	
Energy Opportunities	-	-	-	27	-	-	No
BlackRock Small Cap	-	-	-	25	-	-	No
Schroders Commodity Portfolio	-	-	-	23	-	-	No
CCM Special Holdings (General Moly)	-	-	-	3	-	-	Yes
				1,165	3	190	1,358
Developed Country Equity							
Lansdowne	202	-	-	-	-	-	-
FCOI II	-	75	-	-	-	-	-
BlackRock EAFE Fund	73	-	-	-	-	-	-
Fox Point	-	35	-	-	-	-	-
Levin	31	-	-	-	-	-	-
Blue Ridge	-	22	-	-	-	-	-
Shepherd	-	8	-	-	-	-	-
Doughty Hanson	-	-	5	-	-	-	-
Wellington Spec Eq	5	-	-	-	-	-	-
Rock Creek	-	1	-	-	-	-	-
Brahman	-	1	-	-	-	-	-
ESL	-	1	-	-	-	-	-
AKO	-	-	-	150	-	-	150
Cantillon	-	-	-	93	-	-	93
Sorban	-	-	-	-	75	-	75
Deerfield International	-	-	-	-	50	-	50
International Value Advisors	-	-	-	50	-	-	50
Kingstown	-	-	-	-	50	-	50
Foundry Venture Capital 2010 LP	-	-	-	-	-	45	45
Praesidium	-	-	-	45	-	-	45
Route One	-	-	-	-	40	-	40
Cadian	-	-	-	-	25	-	25
Criterion	-	-	-	-	25	-	25
Union Square Ventures	-	-	-	-	-	25	25
	311	143	5	338	265	70	673
Emerging Markets Equity							
BlackRock EMIS1	122	-	-	-	-	-	-
Vallant	-	4	-	-	10	-	10
Arohi	-	-	-	27	-	-	27
Penta Asia	-	-	-	-	25	-	25
Russian Prosperity	-	-	-	25	-	-	25
Hillhouse Gaoling Feeder Fund	-	-	-	10	-	-	10
	122	4	-	62	35	-	97
	\$ 884	\$ 336	\$ 5	\$ 1,765	\$ 578	\$ 539	\$ 2,882



Manager Exposure



Largest Mandates: Risk and Dollar Allocations



Mandates with at least 1.49% of total assets, or at least 1.10% of Risk



Manager Exposures over 3% and 5% February 28, 2011

Managers with exposure >3% relative to total Funds (excluding ITF for Private Investments) 2/28/2011

<u>Manager Name</u>	<u>Investment Amount</u>	<u>%-age</u>
<u>More Correlated and Constrained</u>		
Internal Fixed Income	842,403,012	3.51%
Acadian / Old Mutual	747,248,256	3.11%

Less Correlated and Constrained
None

Private Investments
None

Managers with exposure >5% relative to total Funds (excluding ITF for Private Investments) 2/28/2011

<u>Manager Name</u>	<u>Investment Amount</u>	<u>%-age</u>

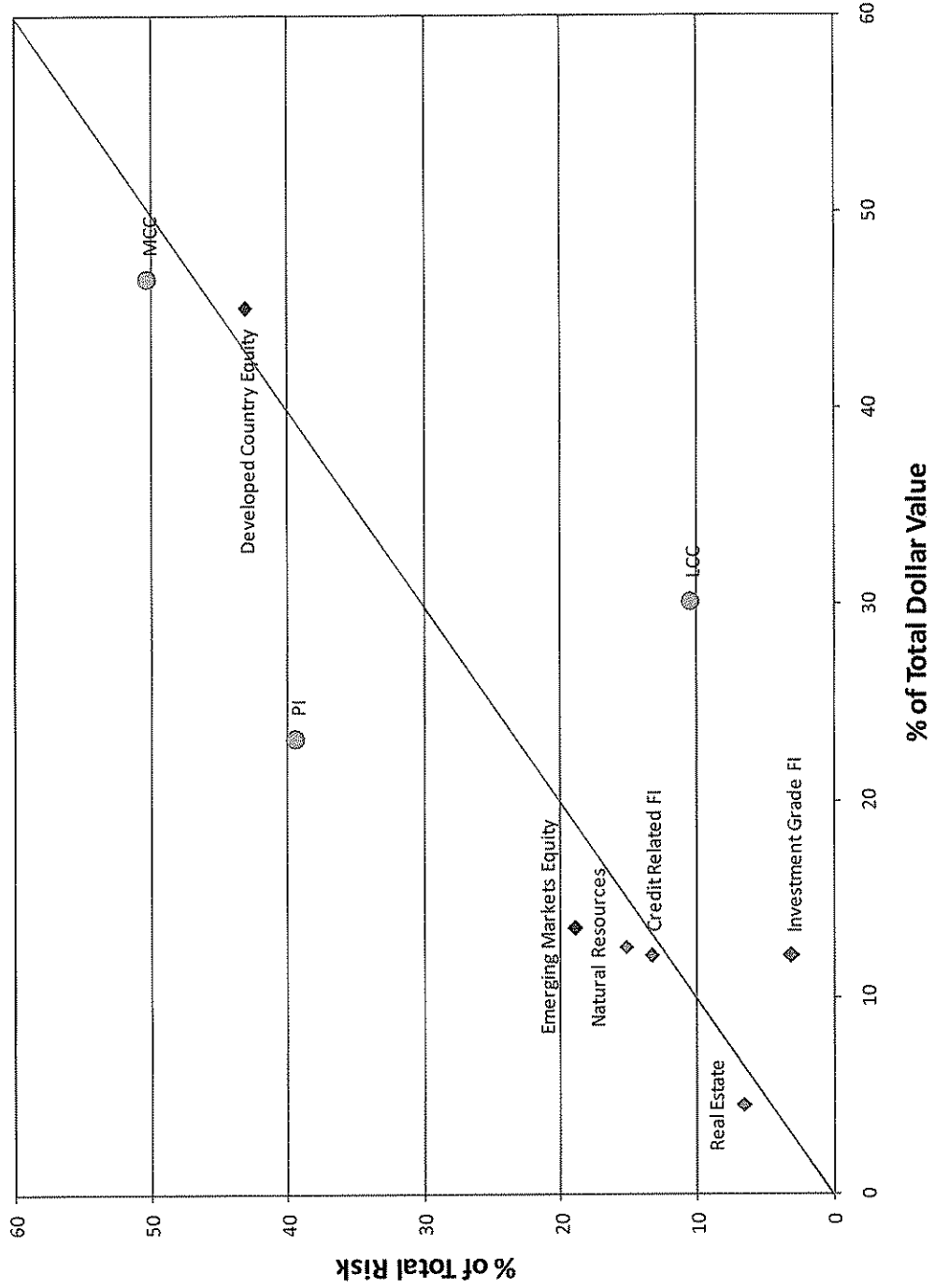
None



Risk Analytics



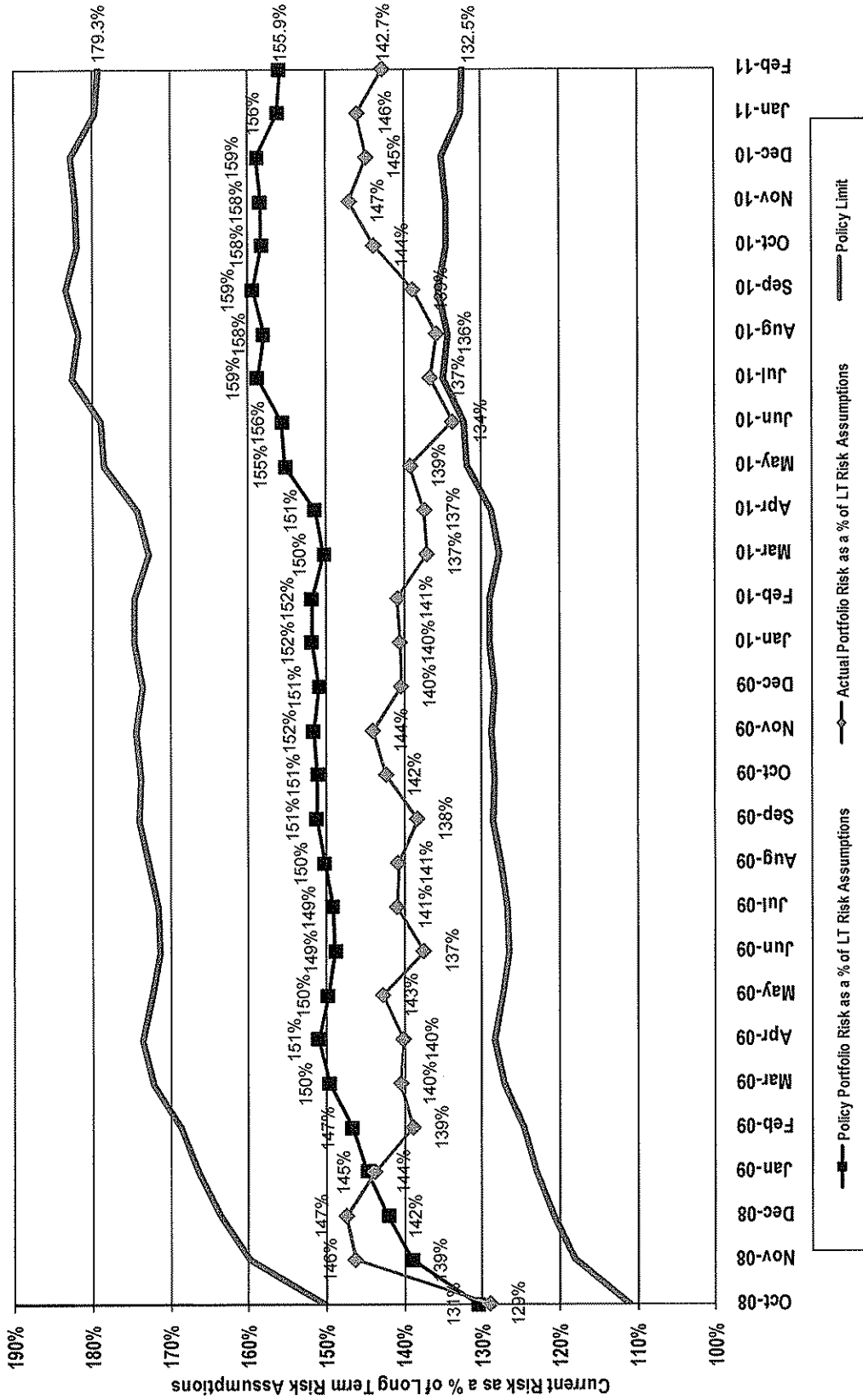
Dollar Allocations Compared to Downside Risk Allocation - GEF





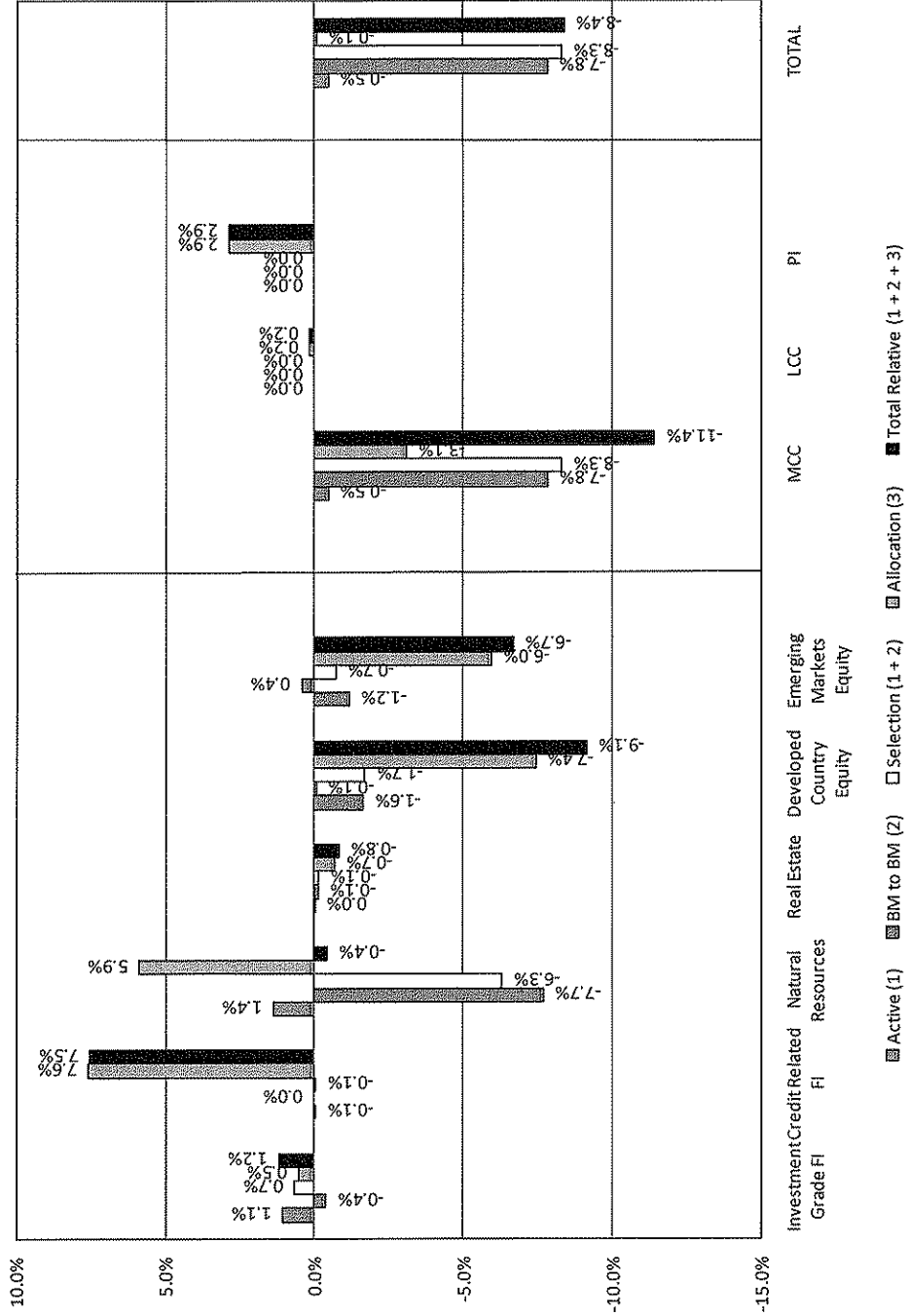
Current Risk Environment of GEF

(Based on Downside Risk; LT assumption = 9.05%)





GEF 4-Way Risk Decomposition as of 2/28/2011



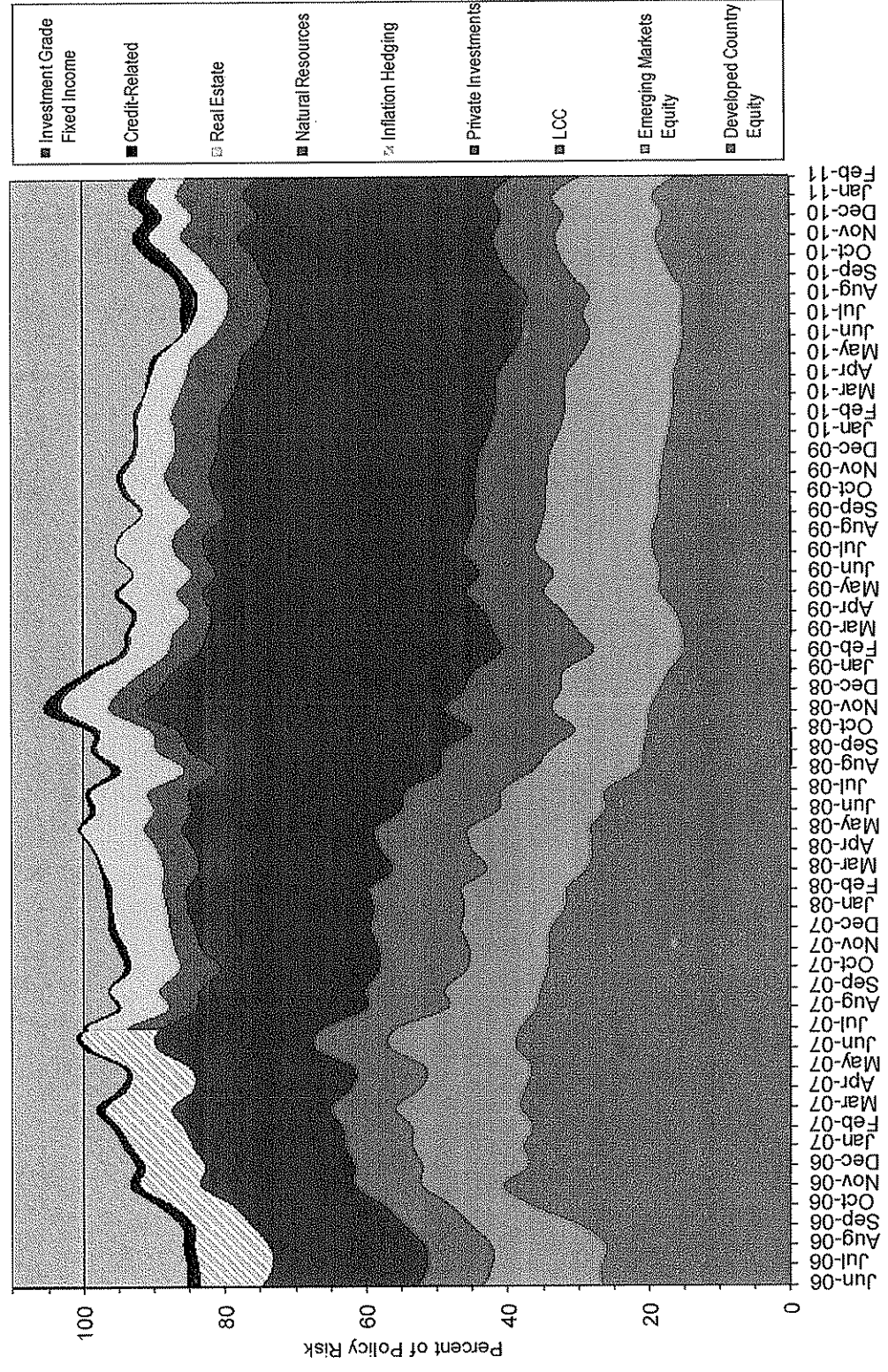


GEF Marginal Risk Contribution

	MCC	LCC	PI	TOTAL
Investment Grade Fixed Income	0.25	0.21		0.24
Credit-Related Fixed Income	0.19	0.43	0.60	0.51
Natural Resources	0.99	0.08	2.52	1.25
Real Estate	1.60	0.14	2.86	1.66
Developed Country Equity	1.23	0.32	1.95	1.01
Emerging Markets Equity	1.60	0.59	2.55	1.57
TOTAL	1.07	0.35	1.71	1.00



Risk Allocation Over Time (GEF)





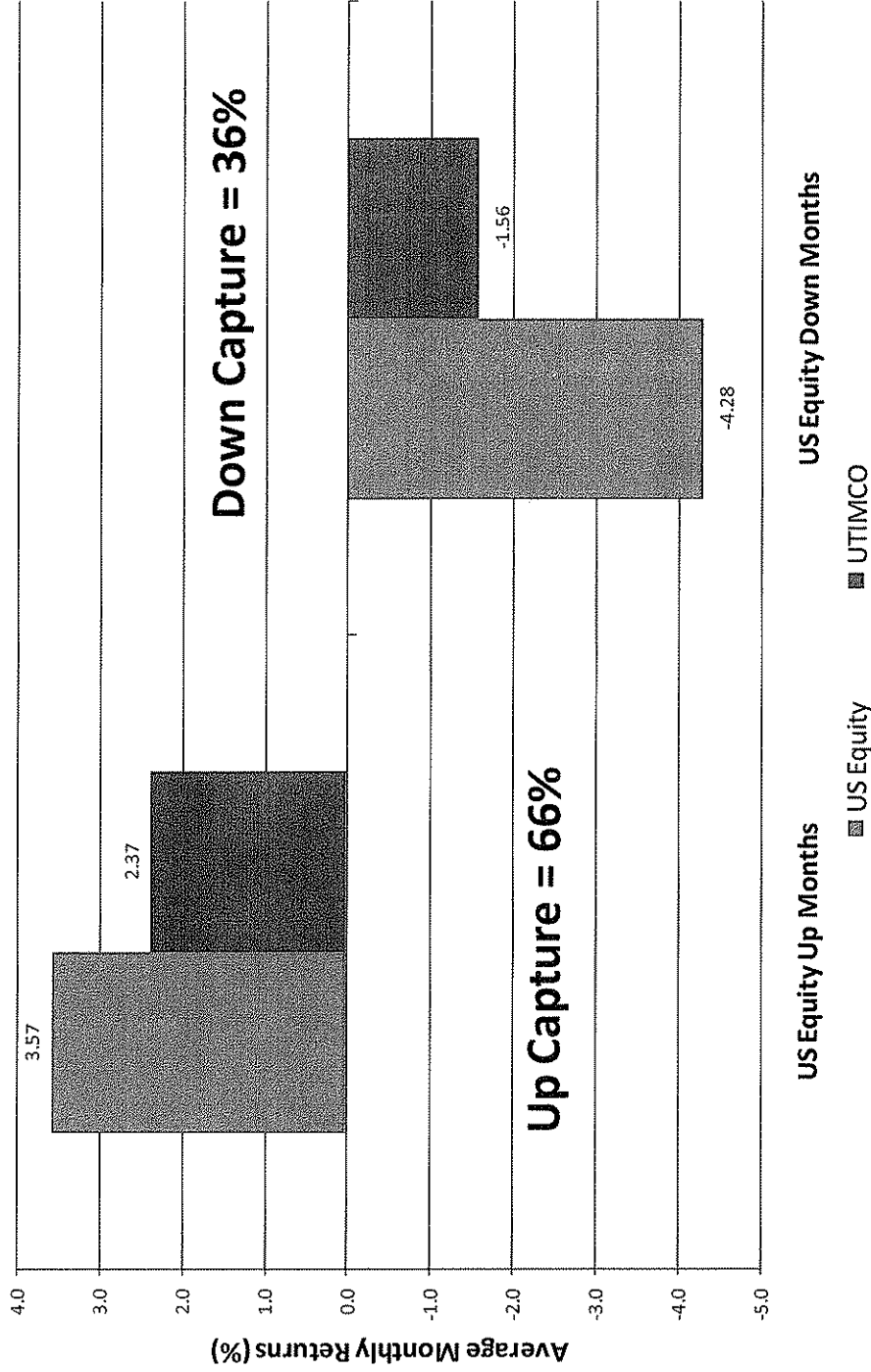
Portfolio Sharpe and Information Ratios

Period Ending February 28, 2011

	Three Months	One Year	Three Years	Five Years	Ten Years
Actual Returns	6.52	17.35	1.96	5.49	6.83
Risk-free Returns	0.04	0.14	0.58	2.30	2.28
Actual Volatility	2.75	7.22	12.31	10.15	9.06
Portfolio Sharpe Ratio	2.36	2.38	0.11	0.31	0.50
Policy Returns	6.52	15.29	-0.92	3.07	4.49
Policy Volatility	2.97	9.55	13.49	11.00	9.27
Tracking Error	1.58	3.12	3.32	2.76	2.59
Portfolio Information Ratio	0.00	0.66	0.87	0.88	0.90



UTIMCO's Up/Down Capture



Data from 8/1996 till 2/2011. US equity had 72 down months and 103 up months



Correlations

Measured as of February 28, 2011

	Total IGFI	Total Credit	Total RE	Total NatRes	Total DC	Total EM	MCC	LCC	PI	GEF
Total IGFI	1.00	0.43	0.63	0.64	0.70	0.69	0.76	0.66	0.30	0.75
Total Credit		1.00	0.58	0.65	0.64	0.56	0.59	0.67	0.75	0.70
Total RE			1.00	0.64	0.80	0.84	0.91	0.53	0.45	0.86
Total NatRes				1.00	0.86	0.82	0.84	0.85	0.43	0.88
Total DC					1.00	0.88	0.94	0.88	0.51	0.98
Total EM						1.00	0.96	0.81	0.25	0.94
MCC							1.00	0.79	0.37	0.98
LCC								1.00	0.33	0.88
PI									1.00	0.50
GEF										1.00

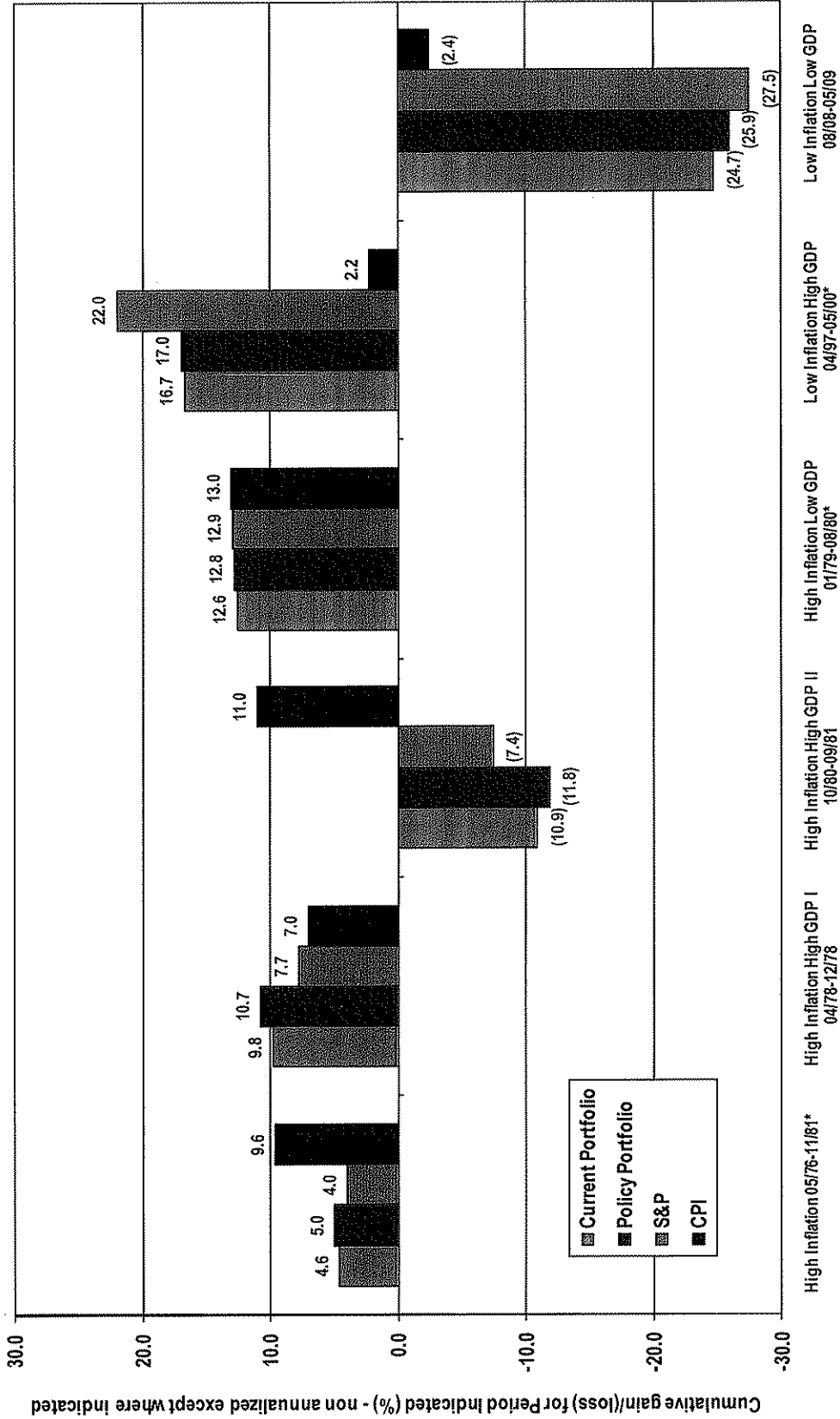


Parametric Stress Tests

<u>Test</u>	<u>Effect on Endowment</u>
• S&P-500 drops 20%	(10.22%)
• Rates rise 100bp	(0.07%)
• Dollar strengthens 5%	(1.00%)
• Dollar weakens 5%	1.10%
• Yield curve flattens – Bull case	0.20%
• Yield curve flattens – Bear case	(0.14%)
• Yield curve steepens – Bull case	0.17%
• Yield curve steepens – Bear case	0.01%



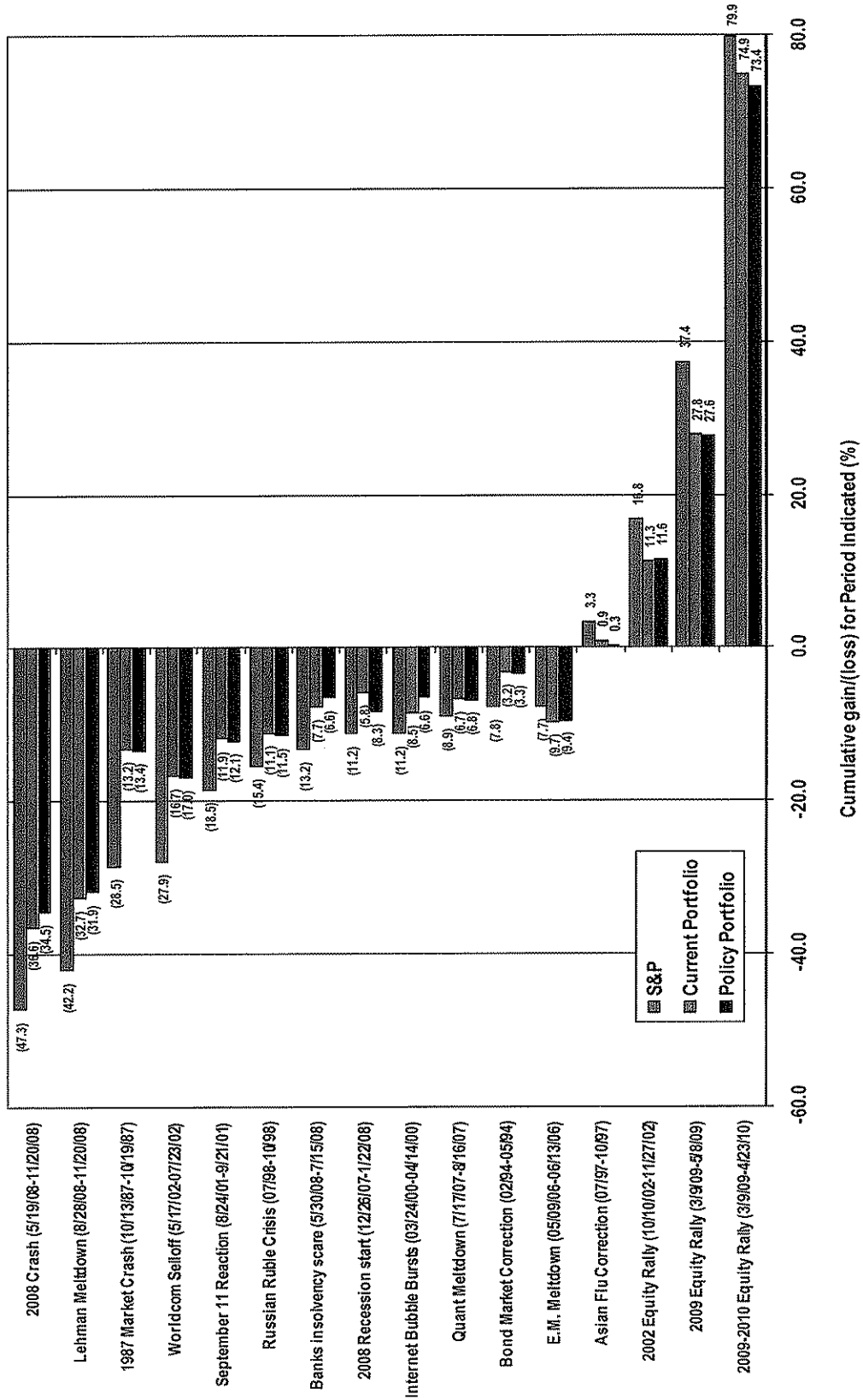
Hypothetical Performance of Current GEF Portfolio in Selected Economic Stress Environments



* Annualized



Hypothetical Performance of Current GEF Portfolio in Selected Market Stress Environments



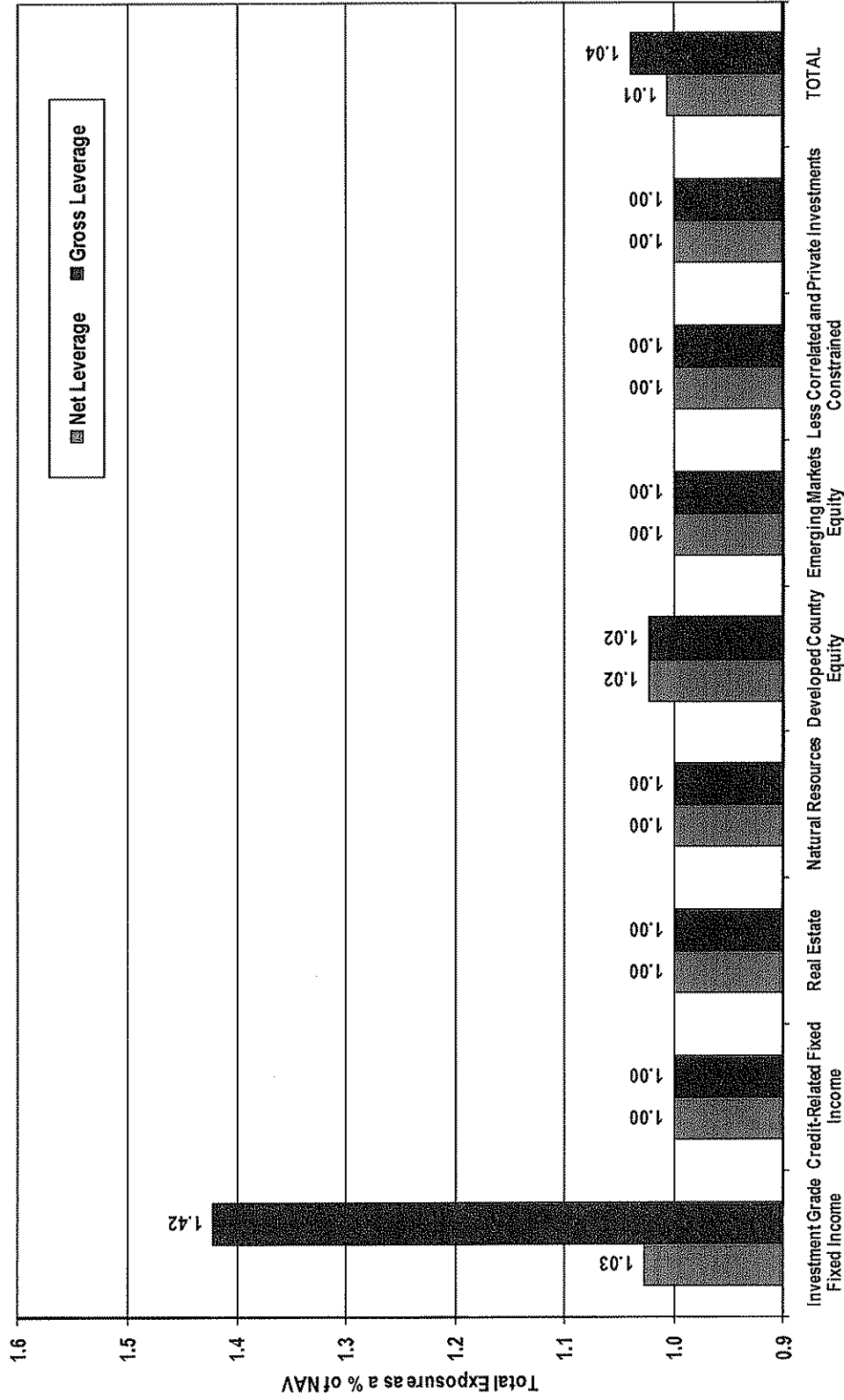


Leverage

- Derivatives
- Counterparty Risk



Net and Gross Leverage of GEF as of February 28, 2011





Comprehensive Derivative Report

February 28, 2011

<u>INTERNAL MANAGERS</u>	Derivative Strategy	Net Notional Value (\$ millions)	Activity from previous report (11/30/2010) (\$ millions)
<u>Manager</u>			
<u>Natural Resources</u>			
MLP AMZ Index Sw ap	Long a basket of infrastructure names (subset of Alerian Index)	77	6
Gold Futures	Long Gold futures	-	(921)
<u>Developed Country Equity</u>			
S&P 500 Futures	Long S&P 500 futures	160	68
EQUITY SKEW OPTIONS	Long Call and Short Put option trades on the S&P 500 Index	-	(1,200)
EQUITY GROWTH SKEW OPTIONS	Long Call and Short Put option trades on the S&P Growth Index	-	(600)
<u>Non-US Developed Equity</u>			
Australian Sw aps	Long Australian sw aps	93	6
Canadian Sw ap	Long Canadian sw aps	117	16
Developed Country Futures	Long German DAX futures	41	41
Japan Futures	Long Japanese TOPIX futures	16	16
<u>Emerging Markets Equity</u>			
Blakeney FX Overlay	Currency forwards to align the manager's FX exposure closer to the benchmark.	124	124
<u>Investment Grade Fixed Income</u>			
Inflation hedge	Long caplets on the 5y10y CMS and on the 7y10y CMS (Constant Maturity Sw ap)	8,500	-
Yen Payer Sw aps and Rate Puts	Purchased Sw aps on Japanese LIBOR and Puts on Japanese Currency Rates	4,633	4,633
	Total Internal Managers	\$ 13,761	



Comprehensive Derivative Report

February 28, 2011

EXTERNAL MANAGERS

Manager	Derivative Strategy	Net Notional Value (\$ millions)
<u>Natural Resources</u> Gresham	Long Exchange-traded commodity futures	\$ 601
<u>Non-US Developed Equity</u> International Value Advisors Wellington (SPE and Emerging)	Currency forward contracts for hedging purposes or to provide efficient investment exposure. Purchased options on single name shares	(32) 1
<u>Investment Grade Fixed Income</u> Brandywine	Currency forwards used to hedge foreign currency exposure	(37)
PMCO Global Bonds	Currency forwards used to underwrite the US dollar Long futures used to overwrite front end of US and UK yield curves Receive interest rate sw aps used to overwrite duration in the Eurozone and underwrite intermediate portion of the Japanese yield curve	226 646 1
	Pay interest rate sw aps used to overwrite duration in the Eurozone and underwrite intermediate portion of the Japanese yield curve Interest rate sw aps used to overwrite front end of US and UK yield curves	(56) 130
	Short/Written credit default sw aps used to overwrite credit risk	133
	Long/Purchased credit default sw aps used to underwrite credit risk Written options used to increase portfolio yield Purchased options used to increase portfolio yield	(39) (349) -
	Total External Managers	\$ 1,225
	GRAND TOTAL	\$ 14,986



Comprehensive Report on Derivative Investments February 28, 2011

Internal Managers

Derivative Investment (account name)		Purpose of Investment
S&P 500 / Developed Country Equity / Japan Futures	PUF/GEF	Replicate Index exposure by Utilizing Futures and Cash (Cash Equitization), possibly without committing capital (i.e. creating financial leverage)
MLP AMZ Index Swap	ITF	Replicate Index exposure by Utilizing Futures and Cash (Cash Equitization)
Australian Swap	PUF/GEF/ITF	Use derivatives in order for Funds to gain market (systematic) exposure without trading the underlying cash market securities and add value over the index by taking advantage of the borrow rate.
Canadian Swap	PUF/GEF/ITF	Use derivatives in order for Funds to gain market (systematic) exposure without trading the underlying cash market securities and add value over the index by taking advantage of the borrow rate.
Currency forwards	PUF/GEF/ITF	Hedge foreign currency exposure on investment made in local foreign equity markets
Inflation hedge	PUF/GEF/ITF	Purchase options on forward 10 year swap rates to generate an "insurance" payoff if rates rise significantly in response to inflation expectations - downside limited to premium paid
Equity Skew	PUF/GEF	Use derivatives to gain market (systematic) exposure without trading the underlying cash market securities and take advantage of skew in volatility
FX Overlay (Blakeney)	PUF/GEF/ITF	Use derivatives to align manager's FX exposure closer to benchmark
Yen Payer Swaptions	PUF/GEF/ITF	Use derivatives to buy "insurance" for a low probability event that might have a very significant effect on the Funds. The specific left tail event being insured is concern that the Japanese economy could implode given its high levels of debt.



Comprehensive Report on Derivative Investments February 28, 2011 (continued)

External Managers Under Agency Agreement		Primary Use of Derivatives
Arohi	PUF/GEF/ITF	Hedge undesirable foreign currency exposure via forwards
Brandywine	PUF/GEF/ITF	Hedge undesirable foreign currency exposure and/or gain desirable short term fixed income and FX exposure
Cantillon	PUF/GEF/ITF	May hedge up to 5% of equity exposure
Credit Suisse Hedging Griffo	PUF/GEF/ITF	Currency futures used to hedge Brazilian Real exposure back to U.S. Dollar
Dynamo	PUF/GEF/ITF	May invest in listed and OTC swaps and other equity and fixed income instruments, CFDs, MBS, currencies and commodities for the purpose of replicating long exposure and for hedging purposes
Gresham	PUF/GEF/ITF	Use derivatives to gain market (systematic) exposure without trading the physical commodity
International Value Advisors	PUF/GEF/ITF	May invest in currency forward contracts, futures, options and swaps for hedging purposes or to provide efficient investment exposure
Old Mutual	PUF/GEF/ITF	Currency forwards used to create overweight/underweight investment exposures and to hedge physical bond positions. Purchased options to replicate bond exposure.
PIMCO Global Bonds	PUF/GEF/ITF	May invest in foreign currency forward and foreign currency futures contracts in order to maintain the same currency exposure as its respective index or to protect against anticipated adverse changes in exchange rates among foreign currencies. Use interest rate swaps to overweight duration in Eurozone, underweight intermediate portion of Japanese yield curve and overweight front end of US and UK yield curves. Write (short) credit default swaps used to overweight credit risk; purchase (long) credit default swaps to underweight credit risk. Written and purchased options used to increase portfolio yield.
Wellington Management Company	PUF/GEF/ITF	May invest in currency forward contracts, fully collateralized futures, options and swaps to reduce risk or provide efficient investment exposure



OTC Derivative Counterparty Report

February 28, 2011

\$ millions (net of posted collateral)

Counterparty	S & P Counterparty Rating	Mark-to-Market Owed by Broker	Mark-to-Market Owed by UTIMCO	Total Mark-to- Market	Percentage of Total Funds	Notional Value
MORGAN STANLEY	A	\$ 77.3	\$(0.4)	\$ 76.9	0.32%	\$ 2,296
HSBC BK USA, NEW YORK	AA-	5.2	(4.8)	0.4	0.00%	389
J P MORGAN, CHASE	A+	2.2	0.1	2.3	0.01%	880
DEUTSCHE BANK AG	A+	1.5	(1.4)	0.1	0.00%	221
CITIBANK NY	A+	1.5	(1.2)	0.3	0.00%	294
BANK OF AMERICA	A	0.7	(0.4)	0.3	0.00%	111
ROYAL BANK OF SCOTLAND PLC	A	0.6	(0.3)	0.3	0.00%	140
CHASE MANHATTAN	A+	0.5	-	0.5	0.00%	27
BNP PARIBAS	AA	0.2	(0.2)	-	0.00%	94
MELLON BANK	AA-	0.1	-	0.1	0.00%	32
CS FIRST BOSTON GBL FOREIGN EXCH	A	0.1	-	0.1	0.00%	3
WESTPAC BANKING CORP, SYDNEY	AA	0.1	-	0.1	0.00%	4
GOLDMAN SACHS	A	-	(0.3)	(0.3)	0.00%	5,312
ROYAL BANK OF CANADA	AA-	-	-	-	0.00%	11
UBS A G, ZURICH	A+	-	(0.1)	(0.1)	0.00%	16
MERRILL LYNCH	A	-	(0.3)	(0.3)	0.00%	33
UBS A G, STAMFORD	A+	-	0.2	0.2	0.00%	20
CREDIT SUISSE FIRST	A	-	-	-	0.00%	15
SOCIETE GENERALE, PARIS	A+	-	-	-	0.00%	2
BARCLAYS	A+	(0.7)	(0.5)	(1.2)	0.00%	5,407
Grand Total		\$ 89.3	\$(9.6)	\$ 79.7	0.33%	\$ 15,307



OTC Derivative Counterparty Report by Counterparty and Manager February 28, 2011

\$ millions (net of posted cash collateral)									
Counterparty	Manager	S & P Counterparty Rating	Mark-to- Market Owed by Broker	Mark-to- Market Owed by LTI/MCO	Total Mark-to- Market	Percentage of Total Funds	Notional Value		
INTERVALLY MANAGED									
BARCLAYS	INFLATION HEDGE	A+	\$ (1.8)	\$ -	(1.8)	0.00%	\$ 3,352		
BARCLAYS	YEN PAYER SWAPIONS	A+	-	-	-	0.00%	1,974		
BARCLAYS Total			(1.8)	-	(1.8)	-0.01%	5,326		
GOLDMAN SACHS	BLAKENEY FX OVERLAY	A	0.4	-	0.4	0.00%	124		
GOLDMAN SACHS	INFLATION HEDGE	A	(0.6)	-	(0.6)	0.00%	2,500		
GOLDMAN SACHS	YEN PAYER SWAPIONS	A	-	-	-	0.00%	2,659		
GOLDMAN SACHS Total			(0.2)	-	(0.2)	0.00%	5,283		
J.P. MORGAN, CHASE	AUSTRALIA SWAP	A+	(0.1)	0.1	-	0.00%	93		
J.P. MORGAN, CHASE	CANADA SWAP	A+	1.8	0.1	1.9	0.01%	117		
J.P. MORGAN, CHASE	INFLATION HEDGE	A+	1.0	-	1.0	0.00%	648		
J.P. MORGAN, CHASE Total			2.7	0.2	2.9	0.01%	858		
MORGAN STANLEY	MLP AIMZI INDEX NR SWAP	A	77.1	-	77.1	0.32%	77		
MORGAN STANLEY	INFLATION HEDGE	A	(0.2)	-	(0.2)	0.00%	2,000		
MORGAN STANLEY Total			76.9	-	76.9	0.32%	2,077		
Grand Total Internally Managed			77.8	0.2	77.8	0.32%	13,344		
EXTERNALLY MANAGED									
BANK OF AMERICA	PIMCO FIXED INCOME	A	0.7	(0.4)	0.3	0.00%	111		
BANK OF AMERICA Total			0.7	(0.4)	0.3	0.00%	111		
BARCLAYS	PIMCO FIXED INCOME	A+	1.1	(0.5)	0.6	0.00%	81		
BARCLAYS Total			1.1	(0.5)	0.6	0.00%	81		
BNP PARIBAS	PIMCO FIXED INCOME	AA	0.2	(0.2)	-	0.00%	94		
BNP PARIBAS Total			0.2	(0.2)	-	0.00%	94		
CHASE MANHATTAN	PIMCO FIXED INCOME	A+	0.5	-	0.5	0.00%	27		
CHASE MANHATTAN Total			0.5	-	0.5	0.00%	27		
CITIBANK NY	BRANDYWINE GLOBAL	A+	0.7	(0.3)	0.4	0.00%	168		
CITIBANK NY	PIMCO FIXED INCOME	A+	0.8	(0.9)	(0.1)	0.00%	126		
CITIBANK NY Total			1.5	(1.2)	0.3	0.00%	294		
CREDIT SUISSE FIRST	PIMCO FIXED INCOME	A	-	-	-	0.00%	15		
CREDIT SUISSE FIRST Total			-	-	-	0.00%	15		
CS FIRST BOSTON GBL FOREIGN EXCH	PIMCO FIXED INCOME	A	0.1	-	0.1	0.00%	3		
CS FIRST BOSTON GBL Total			0.1	-	0.1	0.00%	3		
DEUTSCHE BANK AG	PIMCO FIXED INCOME	A+	1.1	(1.4)	(0.3)	0.00%	221		
DEUTSCHE BANK AG	WELLINGTON EMERGING	A+	0.4	-	0.4	0.00%	-		
DEUTSCHE BANK AG Total			1.5	(1.4)	0.1	0.00%	221		



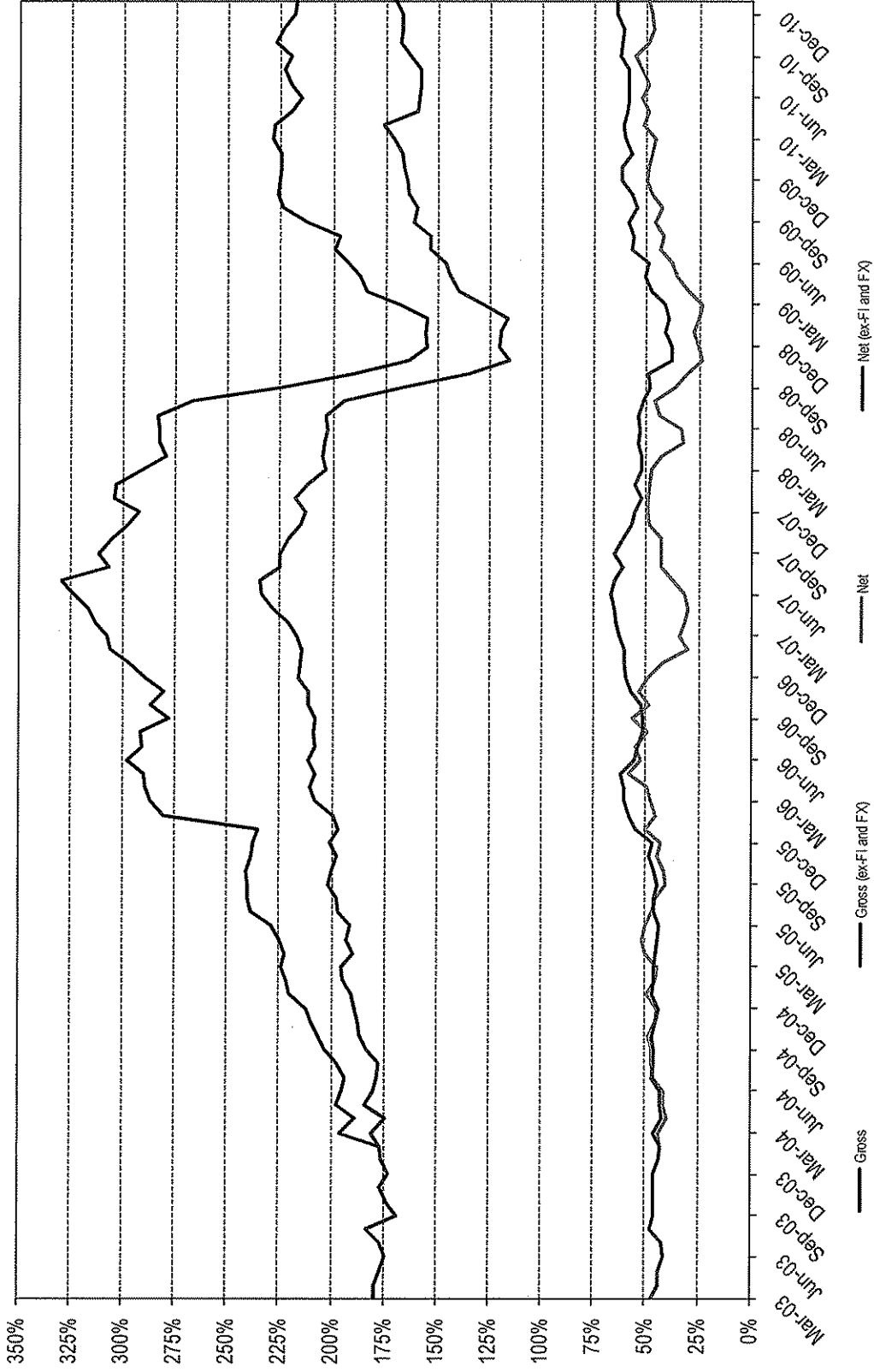
OTC Derivative Counterparty Report by Counterparty and Manager February 28, 2011

Counterparty	Manager	S & P Counterparty Rating	Mark-to- Market Owed by Broker	Mark-to- Market Owed by UTMCO	Total Mark-to- Market	Percentage of Total Funds	Notional Value	\$ millions (net of posted cash collateral)	
								Mark-to- Market Owed by UTMCO	Total Mark-to- Market
GOLDMAN SACHS	PMCO FIXED INCOME	A	0.2	(0.3)	(0.1)	0.00%	29		
GOLDMAN SACHS Total			0.2	(0.3)	(0.1)	0.00%	29		
HSBC BK USA, NEW YORK	BRANDYWINE GLOBAL	AA-	5.3	(4.7)	0.6	0.02%	349		
HSBC BK USA, NEW YORK	PMCO FIXED INCOME	AA-	(0.1)	(0.1)	(0.2)	0.00%	40		
HSBC BK USA, NEW YORK Total			5.2	(4.8)	0.4	0.00%	389		
J P MORGAN, CHASE	PMCO FIXED INCOME	A+	(0.5)	(0.1)	(0.6)	0.00%	22		
J P MORGAN, CHASE Total			(0.5)	(0.1)	(0.6)	0.00%	22		
MELLON BANK	INTERNATIONAL VALUE	AA-	0.1	-	0.1	0.00%	32		
MELLON BANK Total			0.1	-	0.1	0.00%	32		
MERRILL LYNCH	PMCO FIXED INCOME	A	-	(0.3)	(0.3)	0.00%	33		
MERRILL LYNCH Total			-	(0.3)	(0.3)	0.00%	33		
MORGAN STANLEY	PMCO FIXED INCOME	A	0.2	(0.4)	(0.2)	0.00%	219		
MORGAN STANLEY	WELLINGTON EMERGING	A	0.2	-	0.2	0.00%	-		
MORGAN STANLEY Total			0.4	(0.4)	-	0.00%	219		
ROYAL BANK OF CANADA	PMCO FIXED INCOME	AA-	-	-	-	0.00%	11		
ROYAL BANK OF CANADA Total			-	-	-	0.00%	11		
ROYAL BANK OF SCOTLAND PLC	PMCO FIXED INCOME	A	0.6	(0.3)	0.3	0.00%	140		
ROYAL BANK OF SCOTLAND PLC Total			0.6	(0.3)	0.3	0.00%	140		
SOCIETE GENERALE, PARIS	PMCO FIXED INCOME	A+	-	-	-	0.00%	2		
SOCIETE GENERALE, PARIS Total			-	-	-	0.00%	2		
UBS A G, ZURICH	PMCO FIXED INCOME	A+	-	(0.1)	(0.1)	0.00%	16		
UBS A G, ZURICH Total			-	(0.1)	(0.1)	0.00%	16		
UBS AG, STAMFORD	PMCO FIXED INCOME	A+	-	0.2	0.2	0.00%	20		
UBS AG, STAMFORD Total			-	0.2	0.2	0.00%	20		
WESTPAC BANKING CORP, SYDNEY	PMCO FIXED INCOME	AA	0.1	-	0.1	0.00%	4		
WESTPAC BANKING CORP, SYDNEY	Grand Total Externally Managed		0.1	-	0.1	0.00%	4		
Grand Total Externally Managed			11.7	(9.8)	1.9	0.01%	1,763		
GRAND TOTAL - ALL MANAGERS			\$ 89.3	\$ (9.6)	\$ 79.7	0.33%	\$ 15,307		



LCC Leverage

as of January 31, 2011



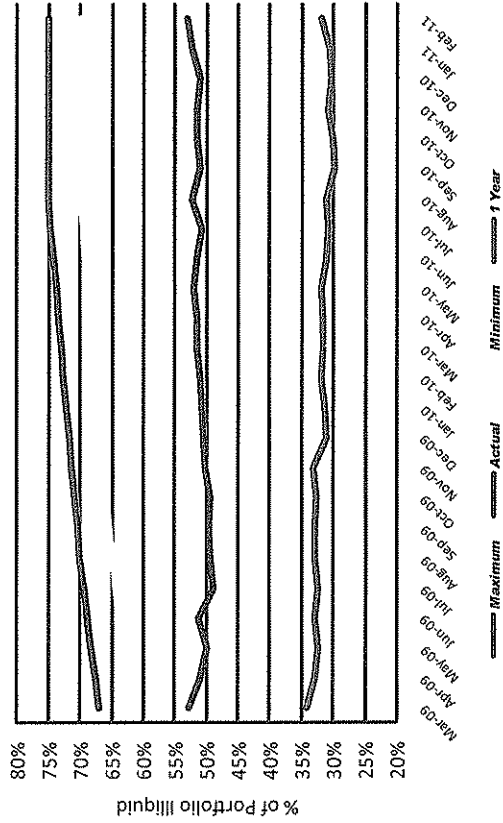


Liquidity



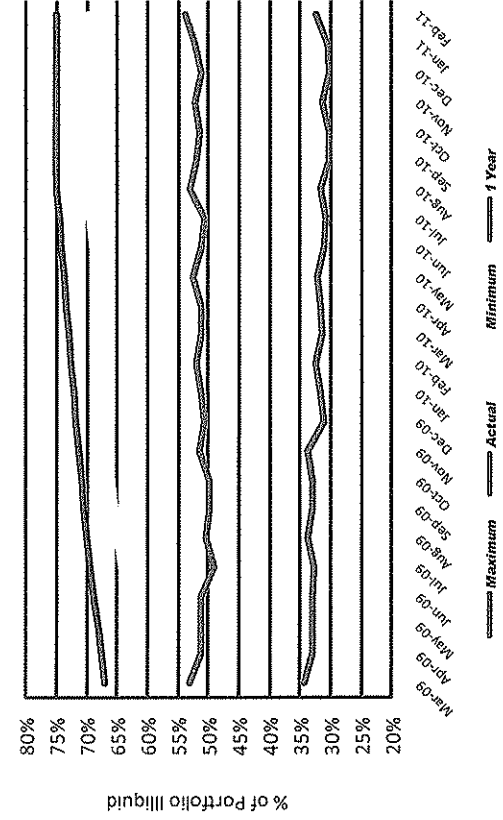
Endowment Fund Liquidity

**Permanent University Fund
Actual Illiquidity vs. Trigger Zones**



Three Month Liquidity \$ 5,803 million One Year Liquidity \$ 8,415 million

**General Endowment Fund
Actual Illiquidity vs. Trigger Zones**

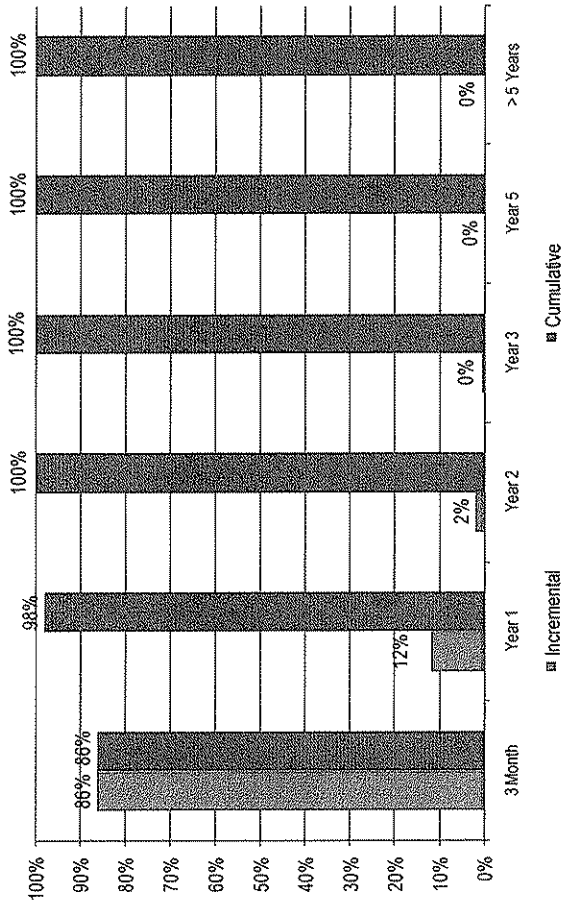


Three Month Liquidity \$ 3,222 million One Year Liquidity \$ 4,720 million

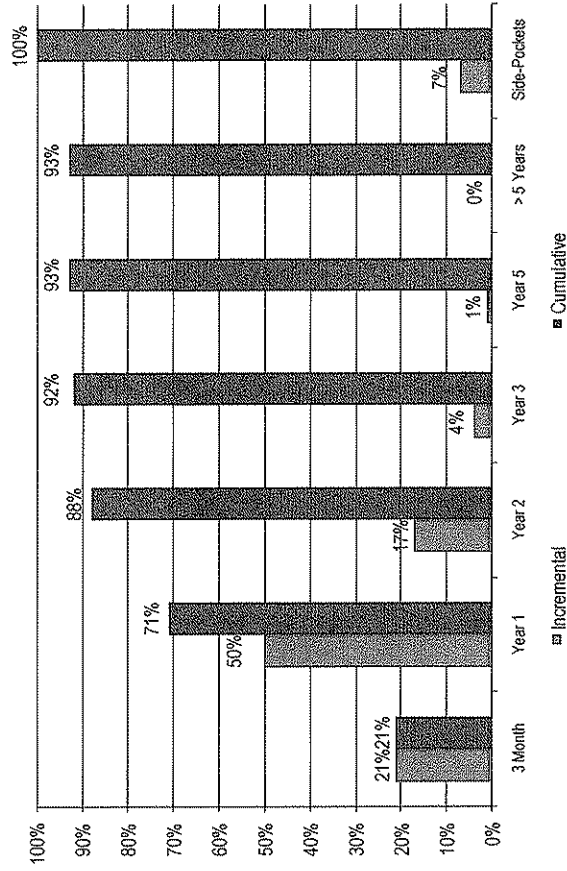


Estimated Run-Off Liquidity* As of February 28, 2011

MCC



LCC



*Actual point in time liquidity varies from “smoothed” Policy Liquidity methodology



Unfunded Commitments As of February 28, 2011

Asset Class	Unfunded Commitment	Unfunded Commitment as % of Total Endowments
<u>PRIVATE INVESTMENTS</u>		
TRADING	\$22	0.1%
CONTROL	188	1.0%
OPPORTUNISTIC	224	1.2%
CREDIT-RELATED FIXED INCOME	434	2.3%
REAL ESTATE	273	1.4%
NATURAL RESOURCES	557	2.9%
MEGALARGE BUYOUT	97	0.5%
MEDIUMSMALL BUYOUT	360	1.9%
VENTURE CAPITAL	374	1.9%
GROWTH/OPPORTUNISTIC	171	0.9%
DEVELOPED MARKETS EQUITY	1,002	5.2%
EMERGING MARKETS EQUITY	241	1.2%
TOTAL PRIVATE INVESTMENTS	\$2,507	13.0%
<u>LESS CORRELATED AND CONSTRAINED</u>		
INVESTMENT GRADE FIXED INCOME	\$ -	0.0%
CREDIT-RELATED FIXED INCOME	39	0.2%
REAL ESTATE	-	0.0%
NATURAL RESOURCES	-	0.0%
DEVELOPED MARKETS EQUITY	-	0.0%
EMERGING MARKETS EQUITY	15	0.1%
TOTAL LESS CORRELATED AND CONSTRAINED	\$54	0.3%
GRAND TOTAL PI AND LCC	\$2,561	13.3%
TOTAL ENDOWMENTS HOLDINGS	\$19,316	
MAXIMUM AMOUNT OF UNFUNDED COMMITMENTS ALLOWED PER LIQUIDITY POLICY		30.0%

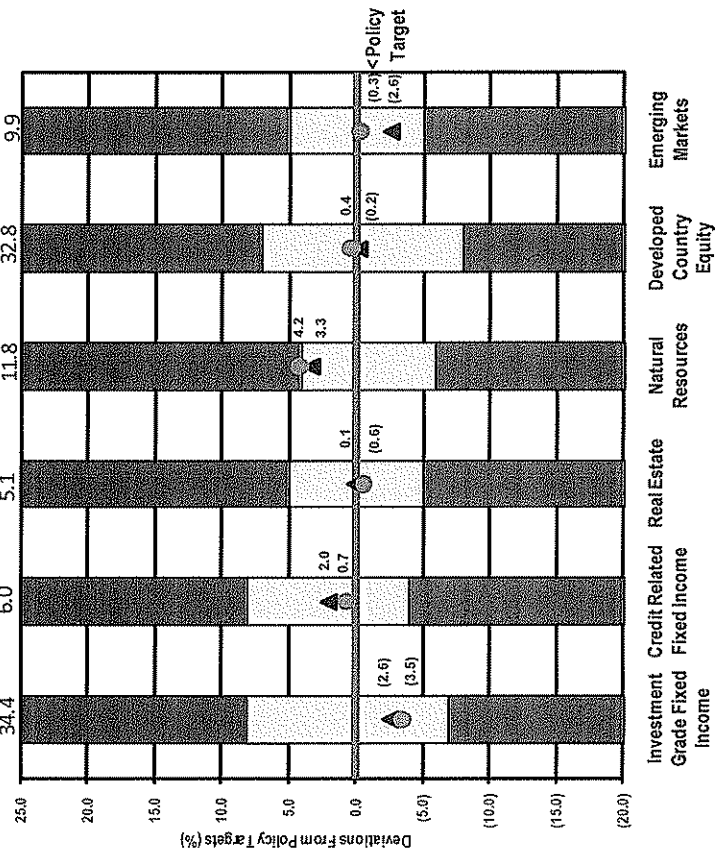


ITF

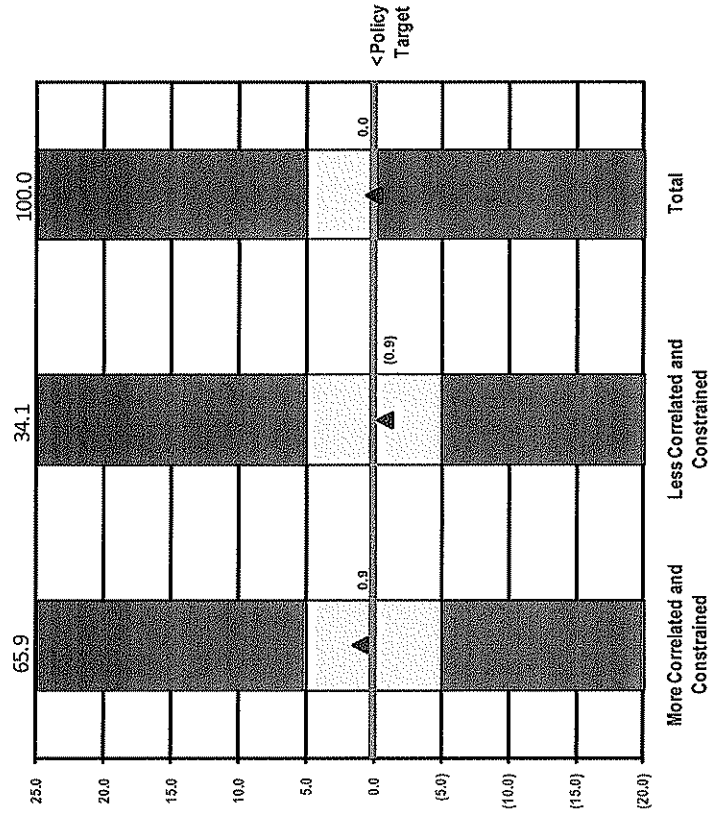


ITF Asset Allocation as of February 28, 2011

Deviations From Asset Class Policy Targets Within Tactical Policy Ranges for ITF



Deviations From Investment Type Policy Targets Within Tactical Policy Ranges for ITF

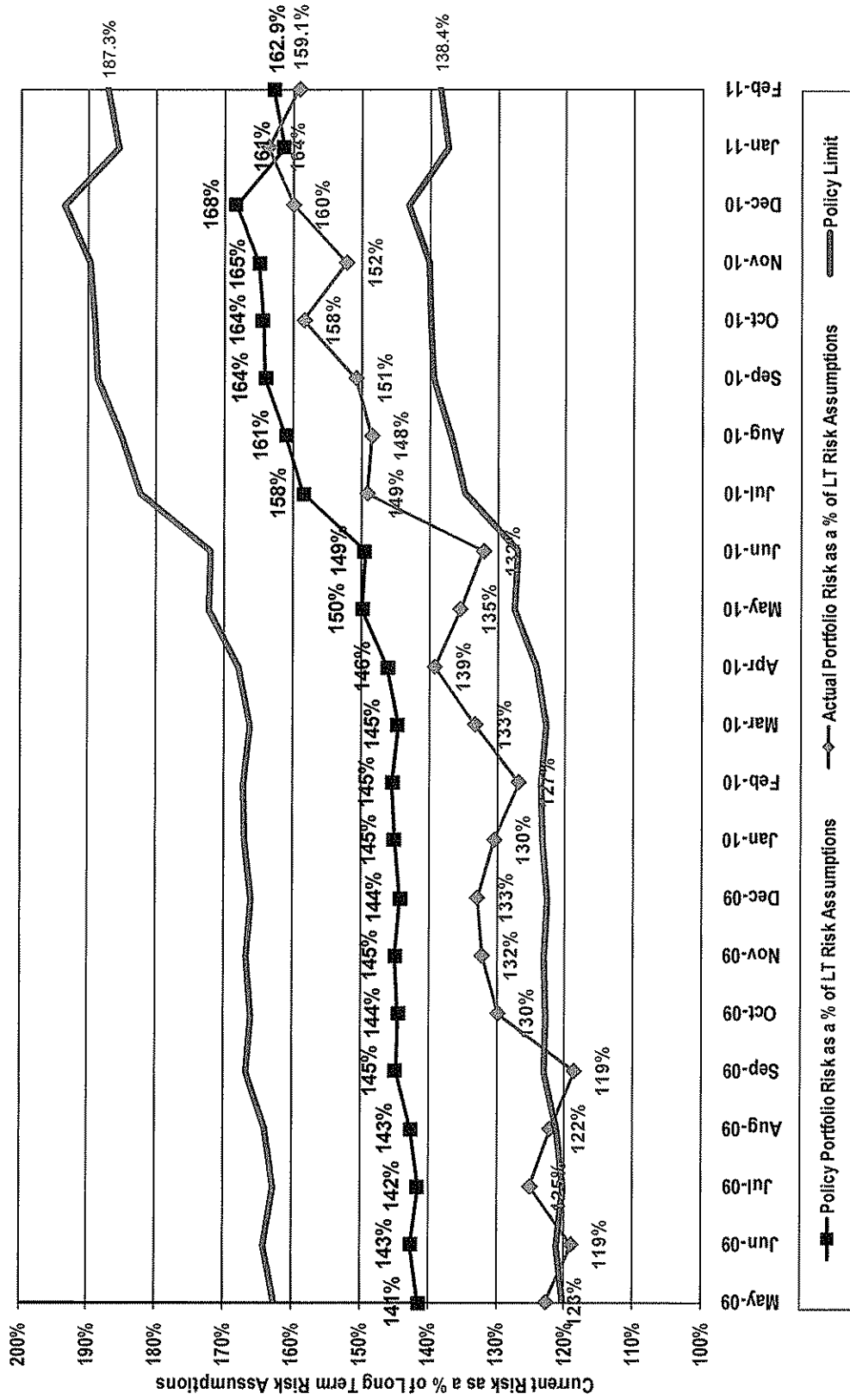


▲ All Investment Types ● -- More Correlated and Constrained



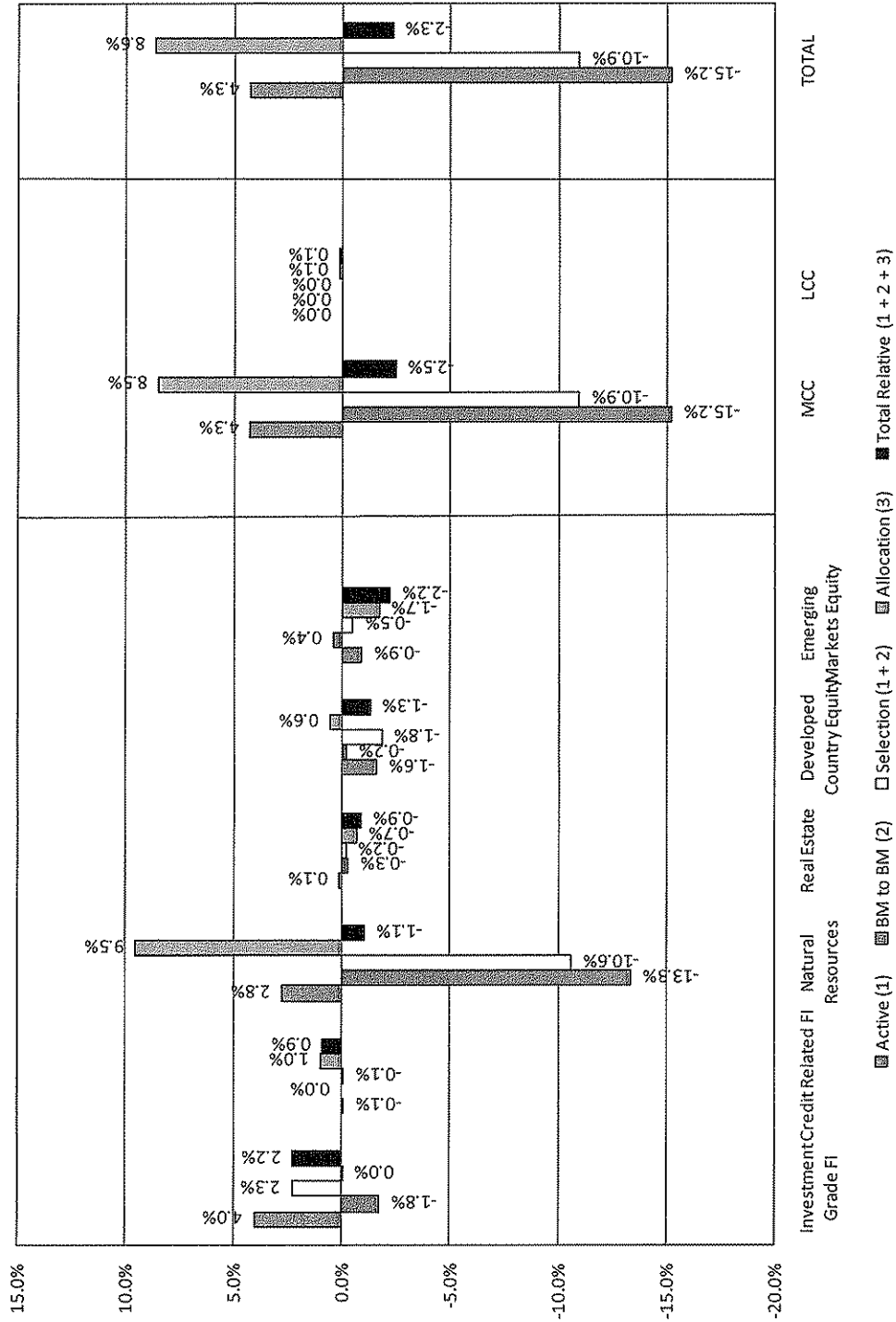
Current Risk Environment of ITF

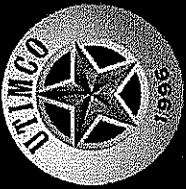
(Based on Downside Risk; LT assumption = 5.34%)



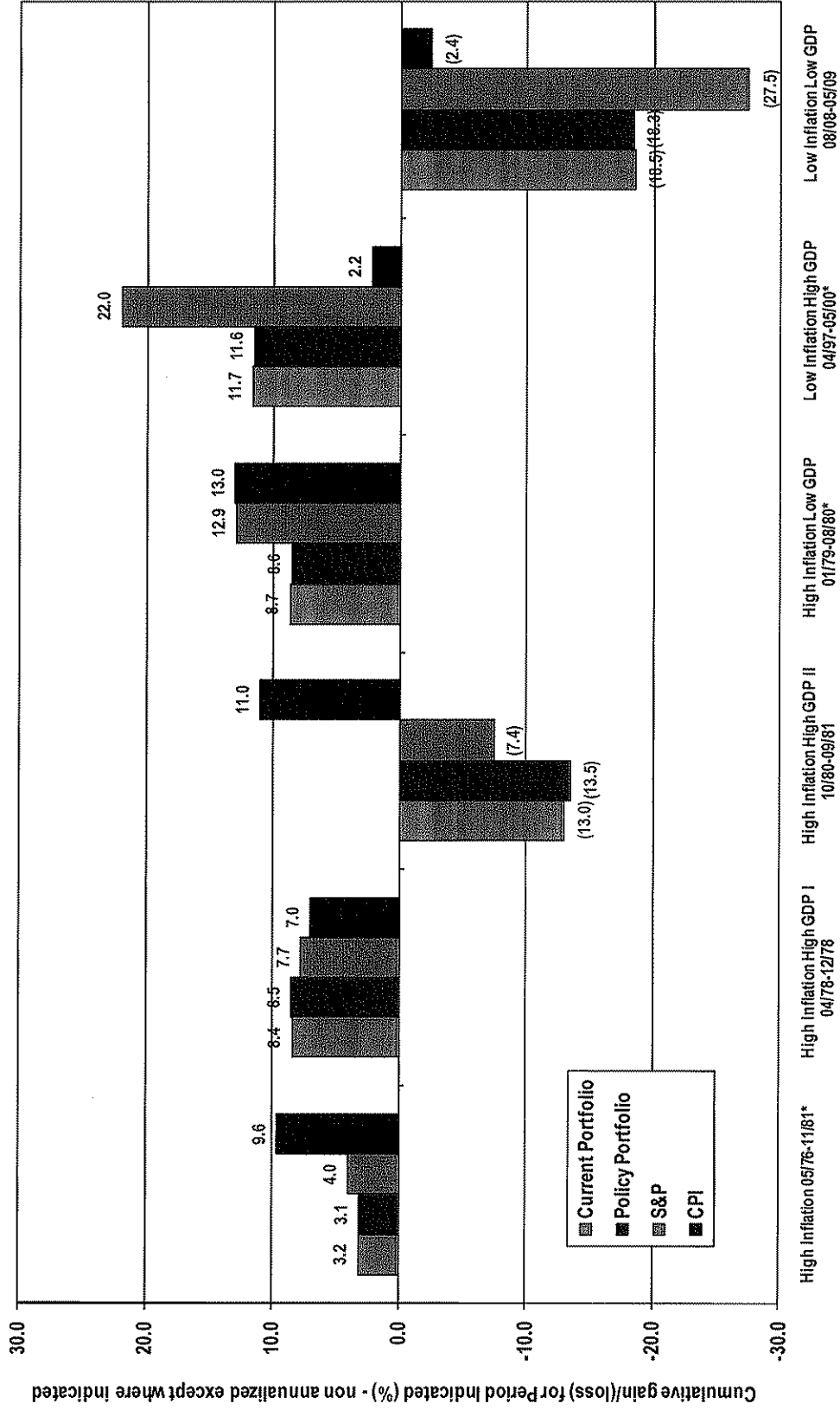


ITF 4-Way Risk Decomposition as of February 28, 2011





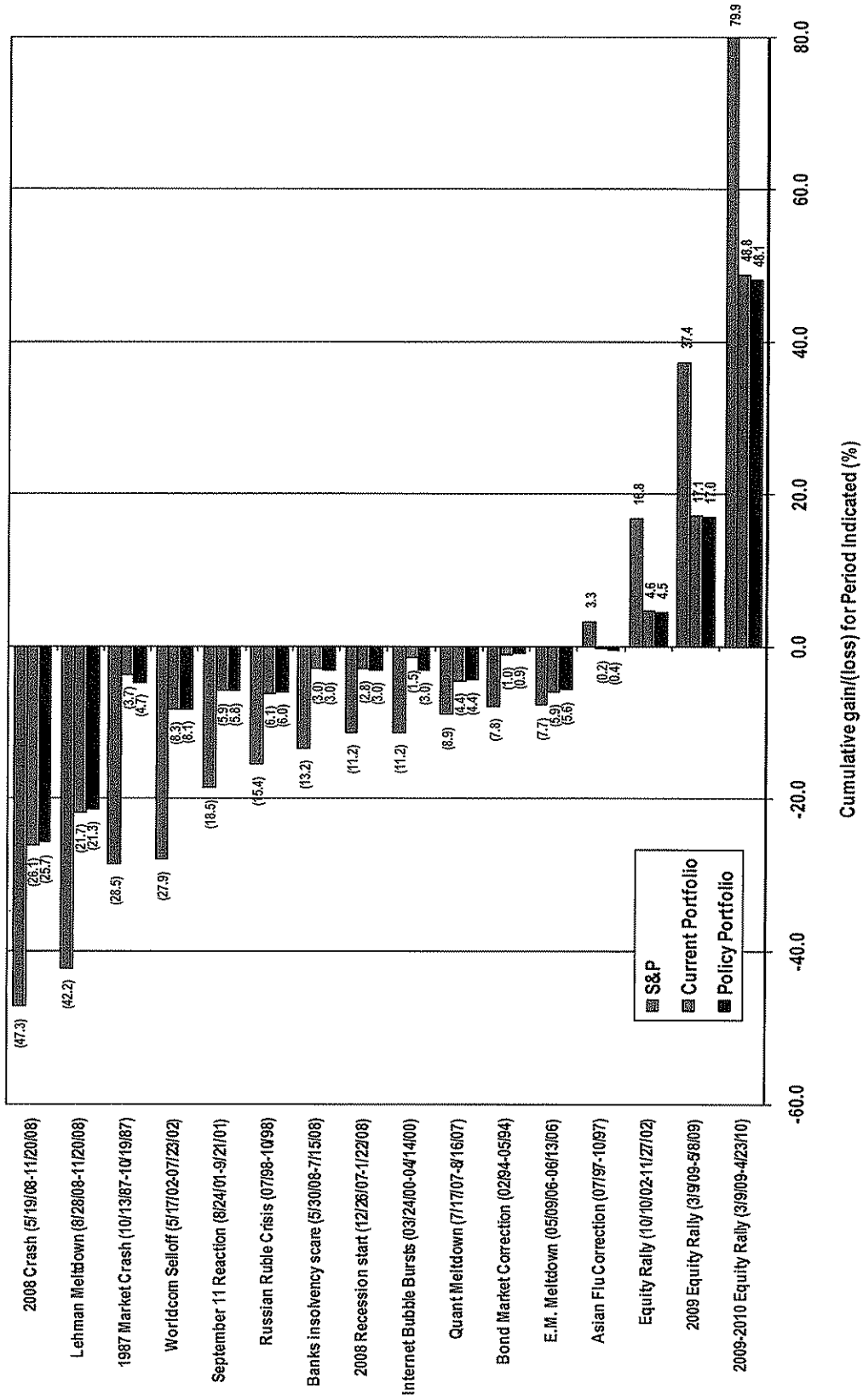
Hypothetical Performance of Current ITF Portfolio in Selected Economic Stress Environments



* Annualized

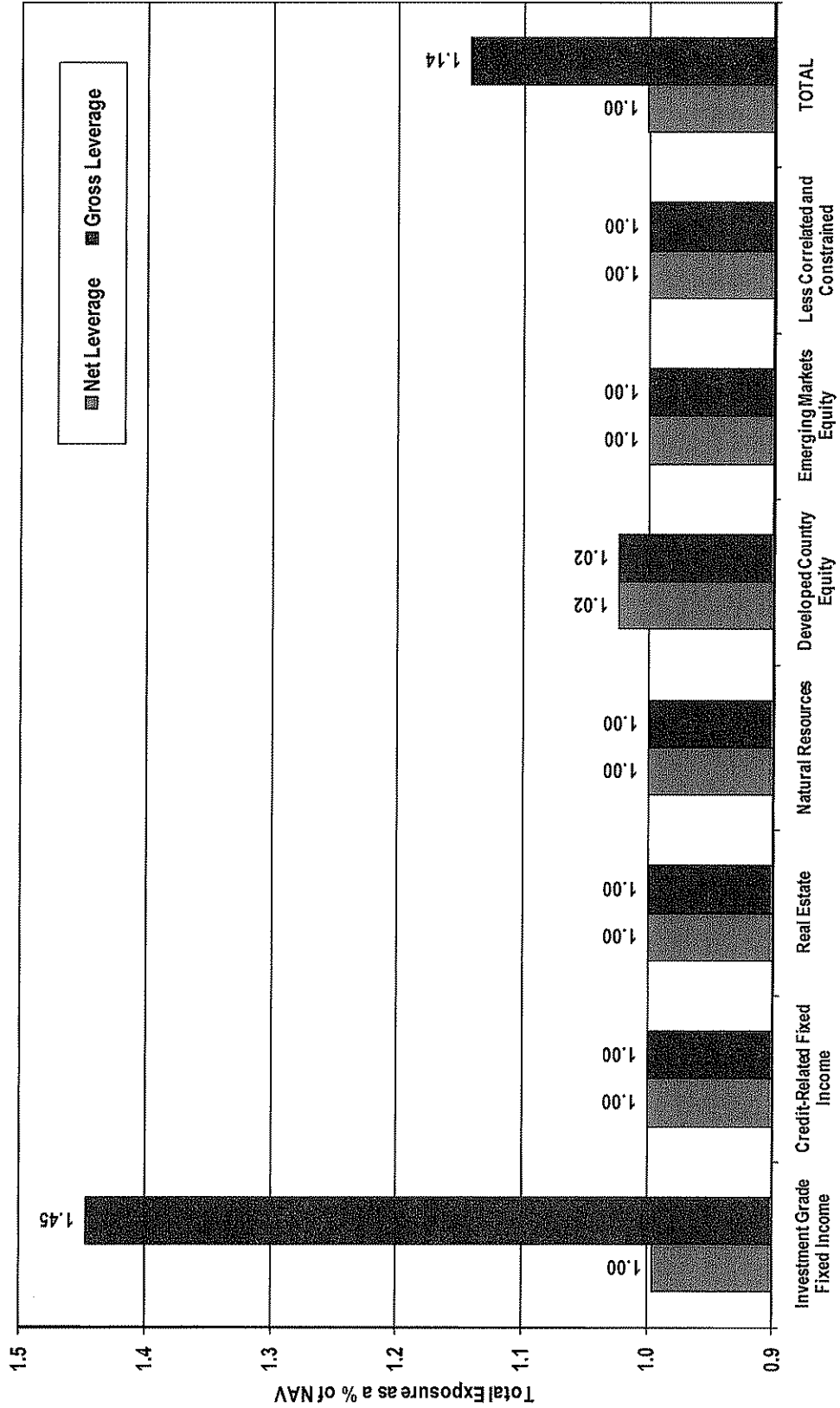


Hypothetical Performance of Current ITF Portfolio in Selected Market Stress Environments





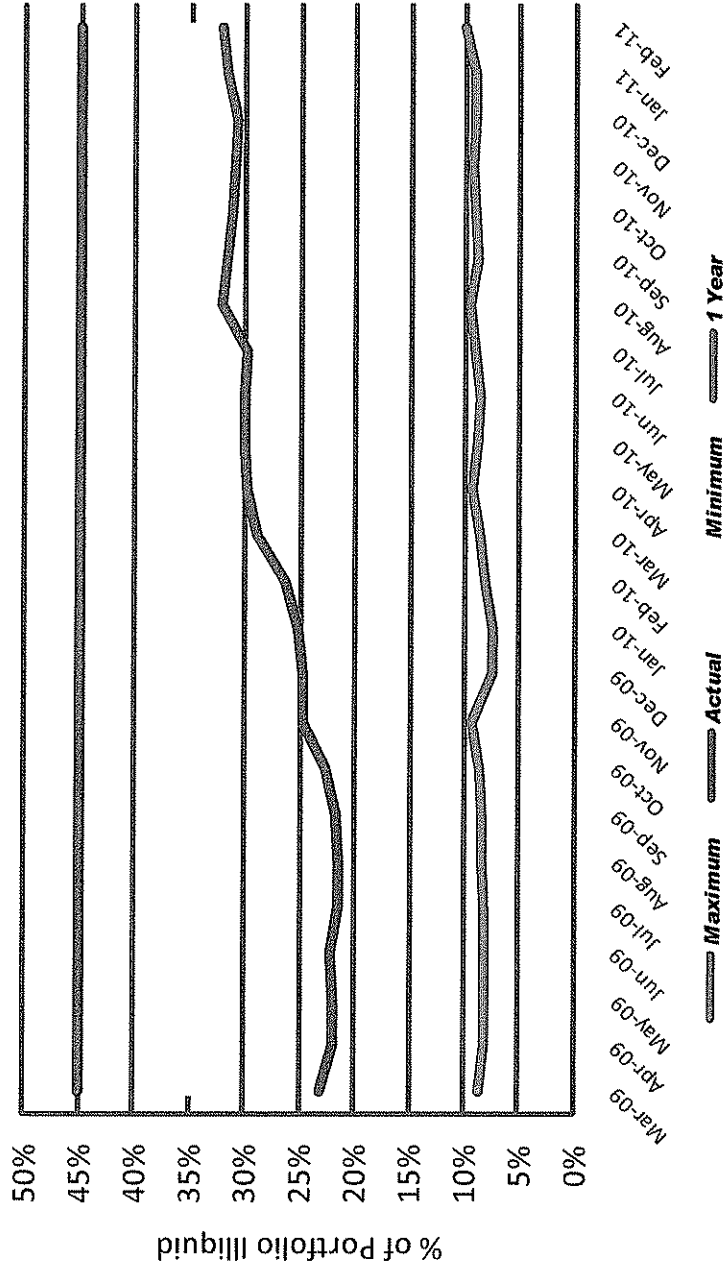
Net and Gross Leverage of ITF as of February 28, 2011





ITF Liquidity

Intermediate Term Fund
Actual Illiquidity vs. Trigger Zones



Three Month Liquidity \$ 3,192 million One Year Liquidity \$ 4,234 million



Contracts Update



Report on New Contracts and Existing Contract Renewals, Leases, and Other Commercial Arrangements For January 15, 2011 through March 31, 2011

(Total Obligation per Agreement greater than \$50,000)

Agreement	Purpose	Contract Term	Annual Amount
Fort Sheridan Advisors LLC	Investment consultant to assist in understanding Fund's exposure to unforeseen market events and identify cost-effective ways to hedge against such events	Initial 12-month term; will terminate unless both parties agree in writing to extend the term	\$120,000

Services that renew via invoice on a monthly or quarterly basis:

Agreement	Purpose	Contract Term	Annual Amount
Bloomberg	Portfolio Order Management System	Renews quarterly via invoice	\$125,000
Bloomberg	All-in-one investment platform for trading, analysis and information	Renews quarterly via invoice and may be canceled at any time	\$309,840
International Fund Services	Risk System	Quarterly invoice -- fees increased as underlying accounts are added	\$292,000
Factset Research Systems	Analytical tool for performance	Monthly invoice	\$296,620
Albourne LLC	Advisor to Marketable Alternative staff	Monthly invoice	\$240,000

Tab 4

Agenda Item
UTIMCO Board of Directors Meeting
April 14, 2011

Agenda Item: Task Force Updates

Developed By: Staff

Presented By: Zimmerman, Ruebsahm, Warner

Type of Item: Information item

Description: UTIMCO Staff created three investment task forces in the summer of 2010: Portfolio Positioning, Credit, and Emerging Markets.

Discussion: Ryan Ruebsahm, chair of the Credit Task Force, and Mark Warner, chair of Emerging Markets Task Force will update the Board on the activities of the Task Forces. The Portfolio Positioning Task Force activities will be reported under Tab 6, Report from Risk Committee in the *Insurance Derivative Investments* presentation.

Reference: None

Tab 5

Agenda Item
UTIMCO Board of Directors Meeting
April 14, 2011

Agenda Item: Discussion of Policy Portfolio

Developed By: Yoeli. Zimmerman

Presented By: Yoeli, Zimmerman

Type of Item: Information item

Description: Policy Portfolios have a strategic component and a tactical component. The strategic component includes strategic asset allocation and risk budget. It can be changed more frequently or less frequently. The tactical component includes the ranges for asset classes, investment types, and risk. The pros and cons will be presented and discussed.

There are several ways to approach designing a Policy Portfolio: the classical mean variance or mean-downside risk, a risk parity approach, and a factor approach. These methods will be presented and compared to the current Policy Portfolio.

Discussion: Mr. Yoeli will lead a discussion related to the Policy Portfolio including the reasons to have a Policy Portfolio, issues, flexibility, risk issues and other alternatives.

Recommendation: None

Reference: *Discussion of Policy Portfolio* presentation



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Discussion of Policy Portfolio

April 14, 2011

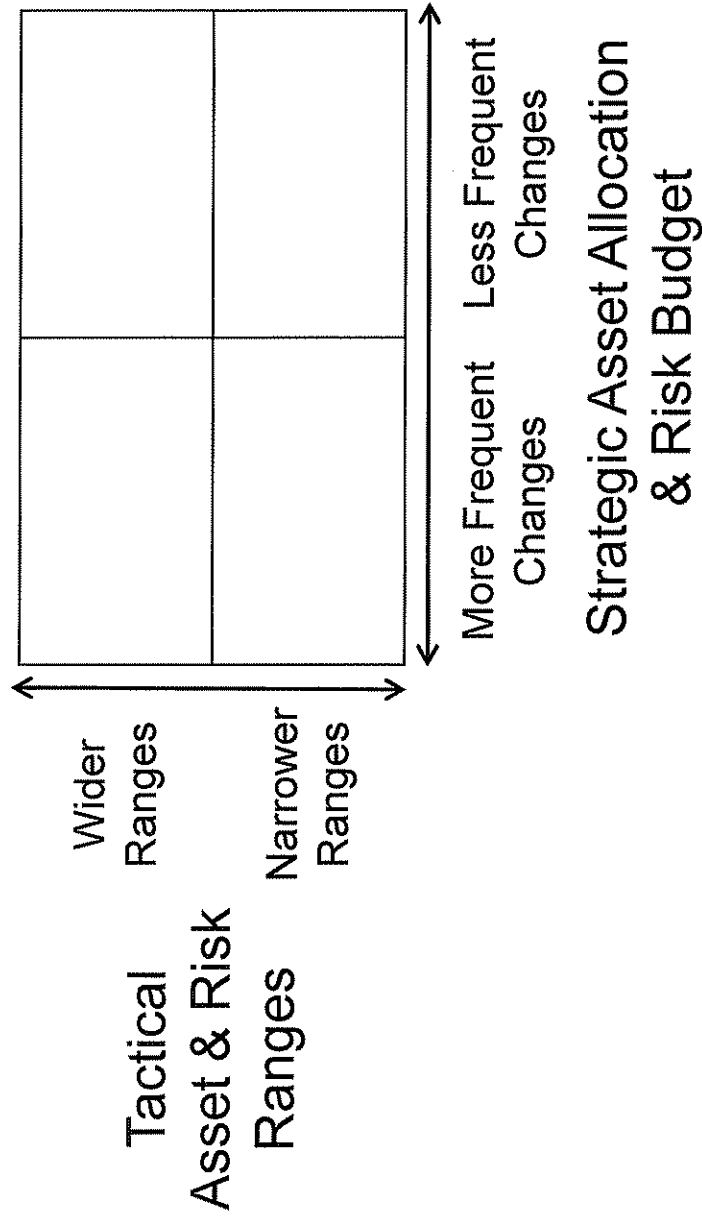


Policy Portfolio: Strategic vs Tactical Decisions

- **Strategic**
 - Asset Class Targets
 - Risk Budget
- **Tactical**
 - Asset Class Ranges
 - Risk Ranges



Policy Portfolio Decisions: Target and Range Continuums





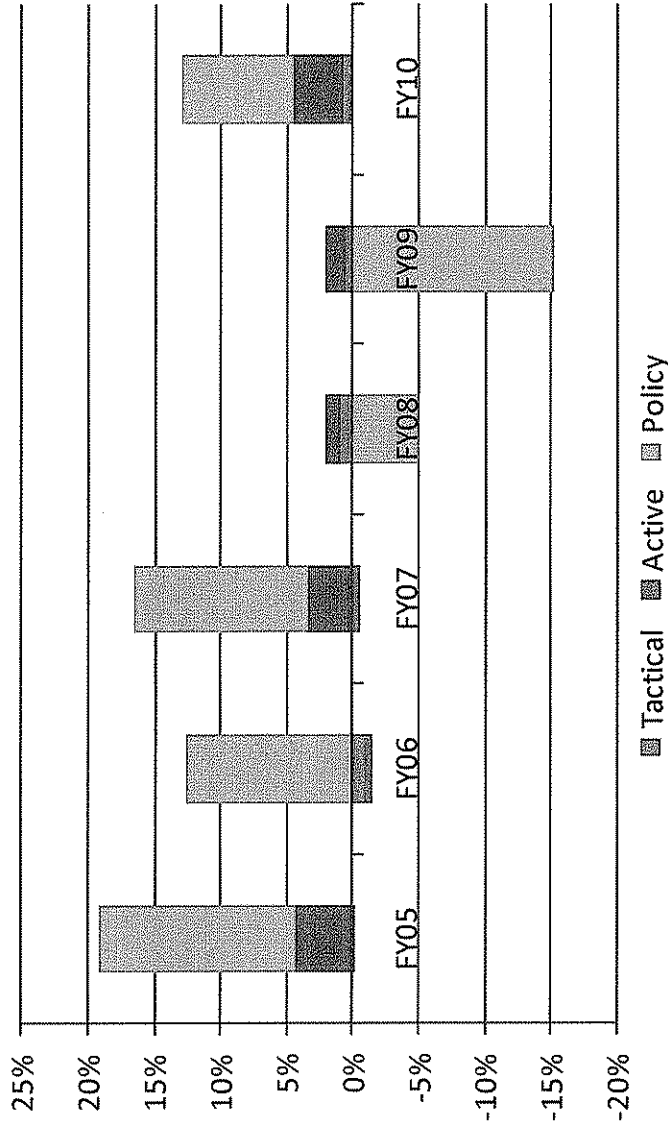
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Strategic Targets



Why Have a Policy Portfolio

- Client/Board Fiduciary responsibility to control investments
- Provides a framework in which to meet the Board's minimum return objectives
- Introduces structure, discipline, control, and a benchmark to evaluate staff
- 92% of annual returns are due to the Policy Portfolio





Issues with Policy Portfolio

- A Policy Portfolio affects staff's behavior
 - Creates a focus on relative performance versus absolute performance
 - Off-target allocations require strong staff conviction
- Diversification – an essential element underlying a Policy Portfolio – at times is in name only: many asset classes are highly correlated at different times
- Risk and returns depend on the actions of other market players
 - Should other investors follow a similar investment strategy, risk is likely to increase and returns are likely to decrease
- Static policy portfolio ignores pricing (at what price is it a good asset); this is where ranges come into play



Policy Portfolio Flexibility

- A less-frequently changed Policy
 - Assumptions are periodically reviewed, and changes tend to be phased in
 - Targets anchor the portfolio
 - Ranges allow staff to modify portfolio based on market conditions
- A more-frequently changed Policy
 - Acknowledges that the global investment environment is constantly changing, and that the “long-term” view may be inconsistent with the current market realities
 - “Strategic” asset allocation does not mean “static” asset allocation



Basic Scenarios: Key Assumptions

	Assumed Real Returns	
	UTIMCO	Cambridge 1970-2010
More Correlated and Constrained		
Investment Grade Fixed Income	2.7%	3.0%
Credit-Related Fixed Income	4.0%	5.0%
Real Estate	5.0%	6.0%
Natural Resources	6.0%	6.0%
Developed Country	6.8%	7.0%
Emerging Markets	9.5%	10.0%
Less Correlated and Constrained	5.0%	5.0%
Private Investments	9.6%	9.5%
		8.0%*

*LCC and PI are estimated based on expected added value in each quadrant

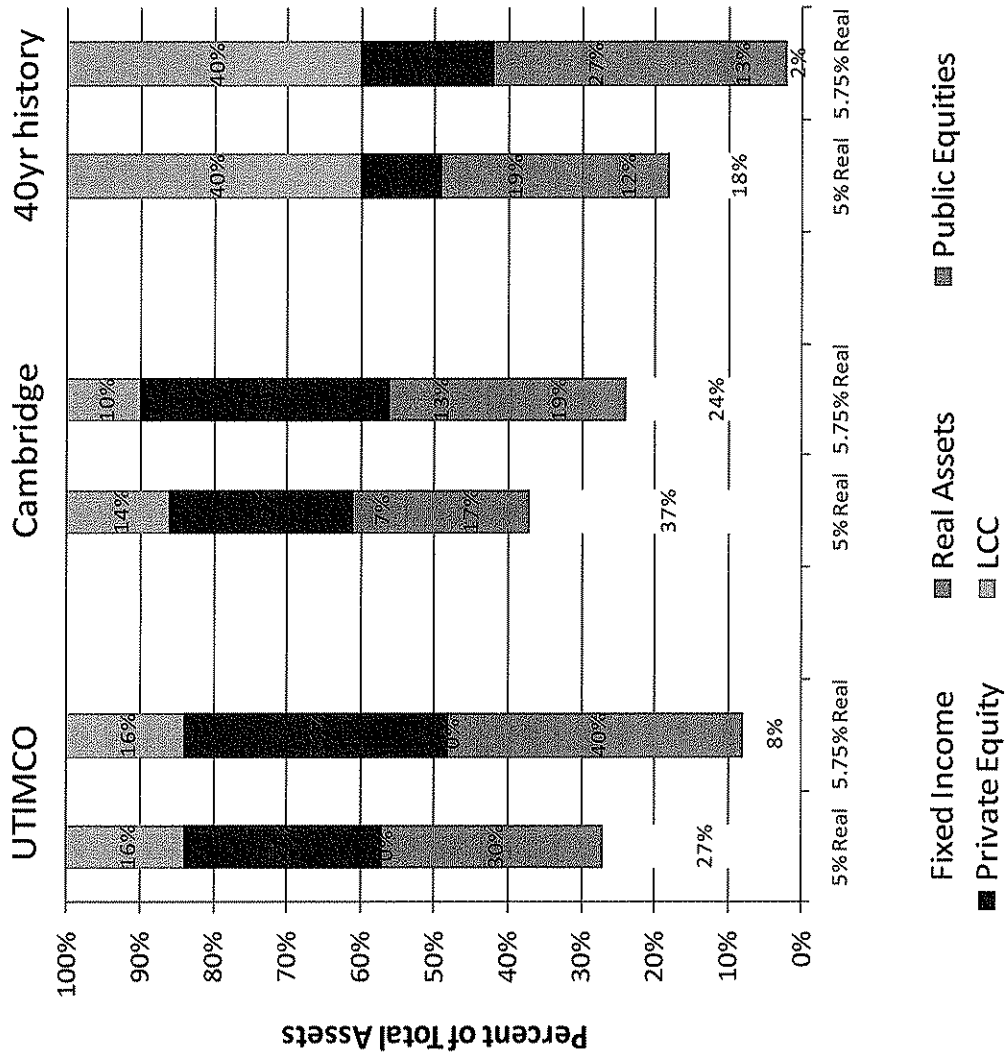
Correlation Table – UTIMCO Assumptions

Fixed Income	Credit-Related	REITs	Commodities	US Equity	Non-US Dev Equity	EM Equity	LCC	PE ex RE	Private RE
1.00	0.30	0.15	0.05	0.15	0.10	0.00	0.15	0.09	0.03
	1.00	0.45	0.00	0.50	0.60	0.30	0.50	0.40	0.20
		1.00	0.10	0.35	0.35	0.35	0.35	0.12	0.50
			1.00	0.00	0.00	0.20	0.13	0.04	0.00
				1.00	0.80	0.75	0.58	0.76	0.30
					1.00	0.75	0.63	0.68	0.30
						1.00	0.55	0.64	0.25
							1.00	0.50	0.22
								1.00	0.12
									1.00

- Optimization methodology creates a mean-downside risk efficient frontier



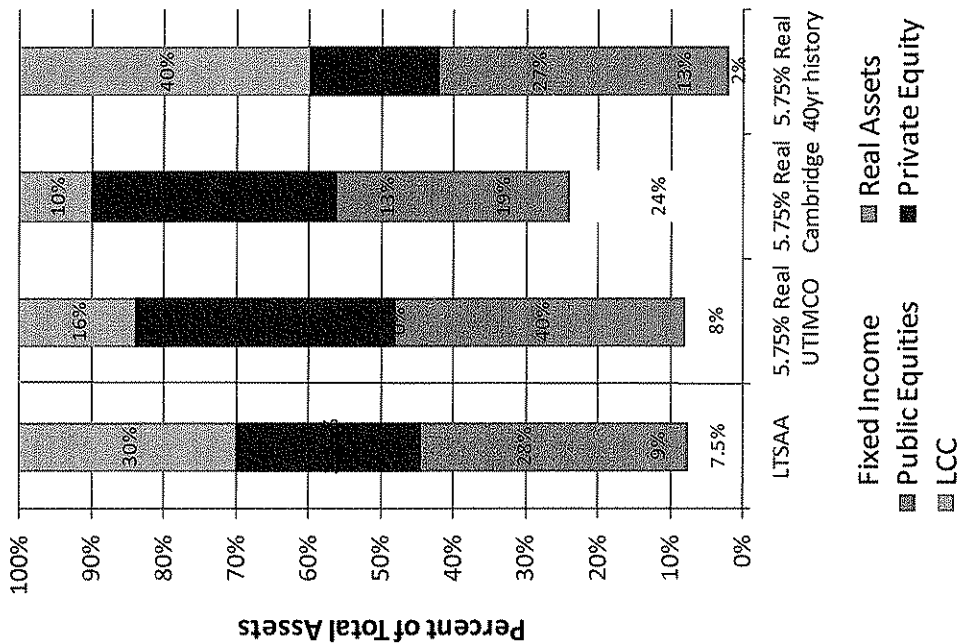
Efficient Portfolios I





Long Term Strategic Asset Allocation

Efficient Frontier Portfolios



LTSAA Grid

	More Correlated and Constrained	Less Correlated and Constrained	Private Investments	Total
Investment Grade Fixed Income	7.5%	2.0%	0.0%	9.5%
Credit Related Fixed Income	0.0%	3.0%	2.5%	5.5%
Real Estate	3.5%	0.0%	5.0%	8.5%
Natural Resources	5.5%	1.0%	5.0%	11.5%
Developed Country Equity	16.0%	20.0%	9.0%	45.0%
Emerging Market Equity	12.0%	4.0%	4.0%	20.0%
Total	44.5%	30.0%	25.5%	100.0%

Multi-year implementation of Private Investment Exposure



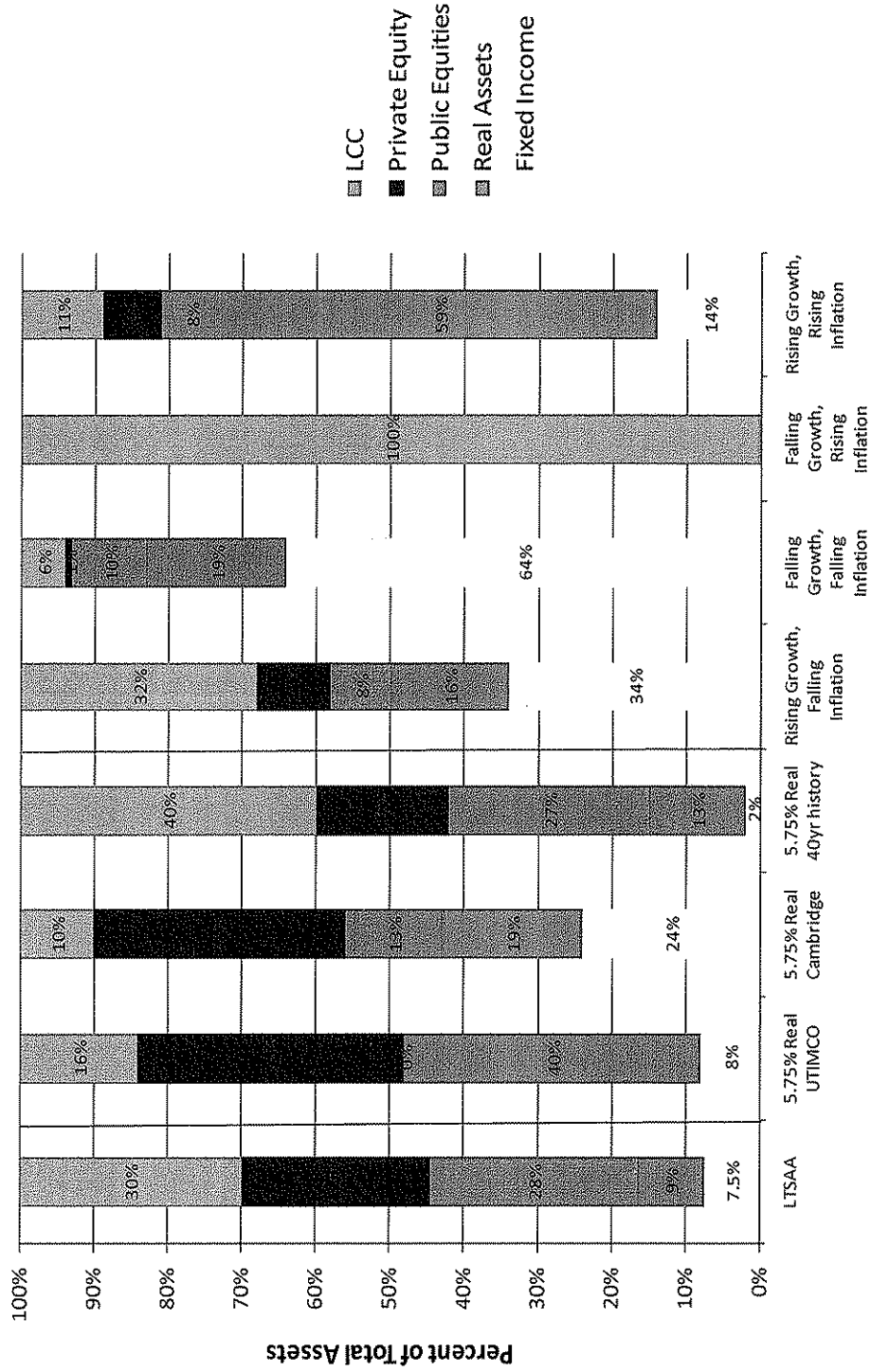
Policy Portfolio Changes Over Time

	FYE2001	FYE2007	FYE2008	FYE2009	FYE2010	FYE2011
	Policy	Policy	Policy	Policy	Policy	Policy
<u>More Correlated & Constrained</u>						
Investment Grade Fixed Income	20.0%	15.0%	8.5%	5.5%	7.5%	7.5%
Credit-Related Fixed Income	0.0%	0.0%	1.5%	1.0%	0.0%	0.0%
Real Estate	5.0%	5.0%	5.5%	5.5%	3.5%	2.5%
Natural Resources	2.5%	3.0%	5.0%	5.5%	5.5%	6.5%
Developed Country Equity	44.5%	30.0%	22.0%	17.0%	19.0%	19.5%
Emerging Markets Equity	3.0%	7.0%	11.0%	10.0%	13.0%	12.0%
Total More Correlated & Constrained	<u>75.0%</u>	<u>60.0%</u>	<u>53.5%</u>	<u>44.5%</u>	<u>48.5%</u>	<u>48.0%</u>
Less Correlated & Constrained	10.0%	25.0%	33.0%	33.0%	30.0%	30.0%
Private Investments	15.0%	15.0%	13.5%	22.5%	21.5%	22.0%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>



Efficient Frontier Portfolios II

- Efficient Frontier Portfolios vary by economic environment





Different Approaches to Asset Allocation

- Classical mean-variance (or mean-downside risk) optimization uses long-term assumptions about returns, volatility and correlations. Unfortunately, these numbers can diverge from their mean for very long periods of time
- Despite the intended portfolio diversification, the correlation between the Endowments and the global stock market since 1996 has been 92%, 75% correlation to the High-Yield index, and 7% correlation to a bond index
- Annual performance of the Endowments varies substantially, as do five year periods:
 - 1996-2000 13.8%
 - 2001-2005 6.8%
 - 2006-2010 5.3%
- Experienced 13% drawdown in FY09 vs 18% drawdown in public markets; peak loss was 33% vs 51% drawdown in public markets



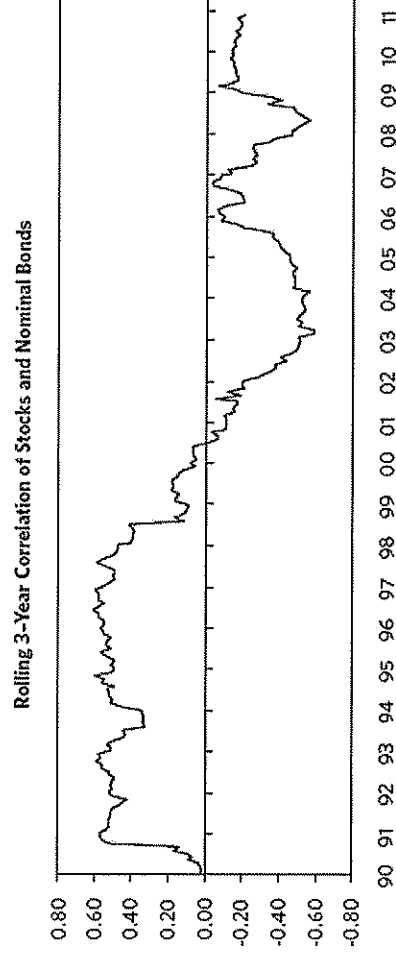
Different Approaches

- Risk Parity
- Factors



Risk Parity Approach

- Correlation between stocks and bonds was highly positive throughout the 90s, and highly negative throughout the 2000s. Using the long-term average of zero misrepresents both
- Correlations and returns are driven by key economic variables, such as growth and inflation
 - Unexpected changes to **growth** induce a negative correlation between stocks and bonds. Rising growth is good for stocks and bad for bonds, whereas falling growth is good for bonds and bad for stocks
 - Unexpected changes to **inflation** induce a positive correlation between stocks and bonds. Rising inflation is bad for both stocks and bonds, whereas falling inflation is good for both





Unknown Future Economic Growth Environment

- In a rising growth environment, the above-average returns of stocks should be sufficient to compensate for the below-average returns of bonds to generate the required 5% real returns
- In a falling growth environment, the above-average returns of bonds should be sufficient to compensate for the below-average returns of stocks to generate the required 5% real returns
- This requires the average real returns of both stocks and bonds to be 5%
 - This is not the typical bonds portfolio, which at a duration of 4.5-5 years has expected real returns of ~1.5%. **5% expected real returns requires using longer duration bonds, and/or using leverage to increase the bond exposure**
- With a portfolio evenly split between equities and long duration or levered bonds, we don't need to know what lies ahead in terms of growth
- However, inflation remains an issue for such a portfolio, as inflation shocks induce a positive correlation between stocks and bonds



Unknown Future Inflation Environment

- Rising inflation is bad for both stocks and bonds (i.e., they both perform below their long-term average), whereas falling inflation is good for both (i.e., they both perform above their long-term average)
- We need therefore to accommodate a rising inflation scenario by having assets that return 5% real on average, and perform above average in rising inflation environments
 - Inflation-linked bonds and commodities are good choices
 - Once again, this is not the typical inflation-linked bonds portfolio, which has expected real returns of ~1.5%. **As with nominal bonds, this requires using inflation-linked bonds with long duration, and/or leverage**
 - If real rates rise, performance of inflation-linked bonds will be poor



Risk Parity Portfolio Construction

Good Assets for Given Economic Environments

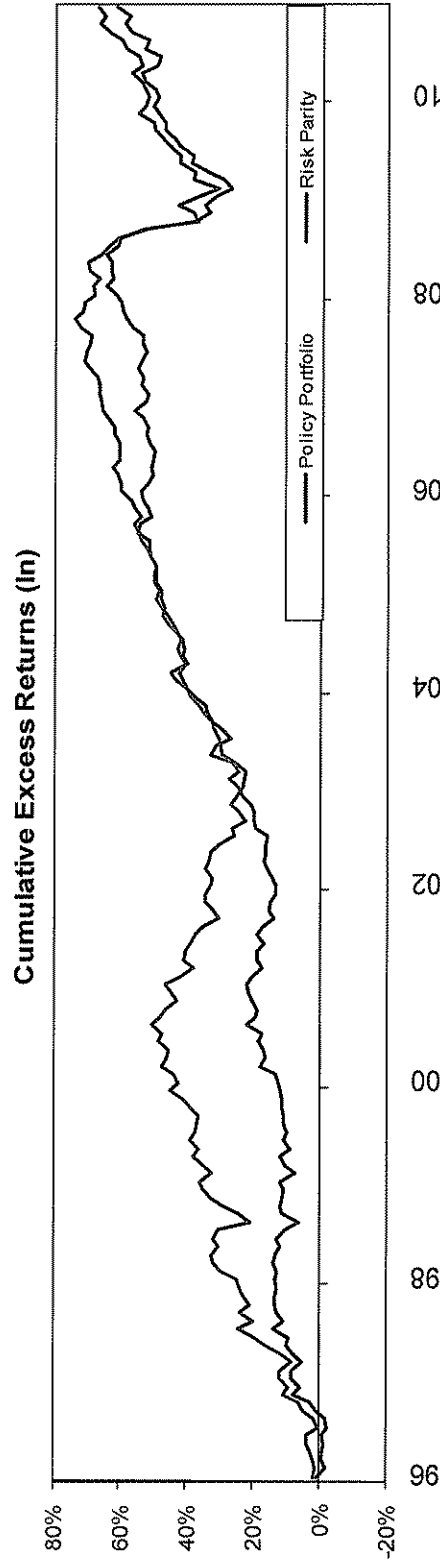
	Rising Growth	Falling Growth
Falling Inflation	Equities	Nominal Bonds
Rising Inflation	Commodities	Inflation-Linked Bonds

- Allocate 25% to each bucket
- Portfolio must be constructed using duration and/or leverage to adjust bonds to yield 5% real expected returns
- Exposure to equities and commodities can be via public or private investment vehicles



Simulated Returns for Risk Parity

- Risk Parity improves returns and Sharpe ratio, compared to the historic Endowment benchmark
 - The difference over the past 15 years is not very large, suggesting UTIMCO achieved similar objectives using a different approach
 - The difference is more substantial if back-tested over 29 years (returns are higher by 120bp/year). It should be noted that these past 29 years produced very strong bond returns



1982 - Present		Risk Parity	Policy Portfolio	Actual Portfolio
Historical Total Return	11.0%	9.8%	4.4%	10.4%
Historical Excess Return	5.6%	8.1%	8.2%	5.0%
Realized Volatility	8.4%	0.67	0.54	0.61
Sharpe Ratio				

1996 - Present		Risk Parity	Policy Portfolio	Actual Portfolio
Historical Total Return	8.1%	7.7%	8.6%	5.0%
Historical Excess Return	4.6%	8.8%	9.4%	9.5%
Realized Volatility	0.52	0.44	0.53	
Sharpe Ratio				



Issues and Observations

- The Risk Parity strategy has worked well in many environments; however, there are some caveats
 - Requires leverage and/or long duration bond portfolios
 - Not the best returning portfolio in all environments
 - Does not have an equity orientation, which has proven most beneficial over the longest periods of time
- Can the same amount of alpha be added, via tactical shifts and active management?
 - Is it the wrong time to move to Risk Parity and long-duration bonds?
 - The active management alpha opportunity set in long duration bonds is not clear
- LCC is a complementary approach to Risk Parity

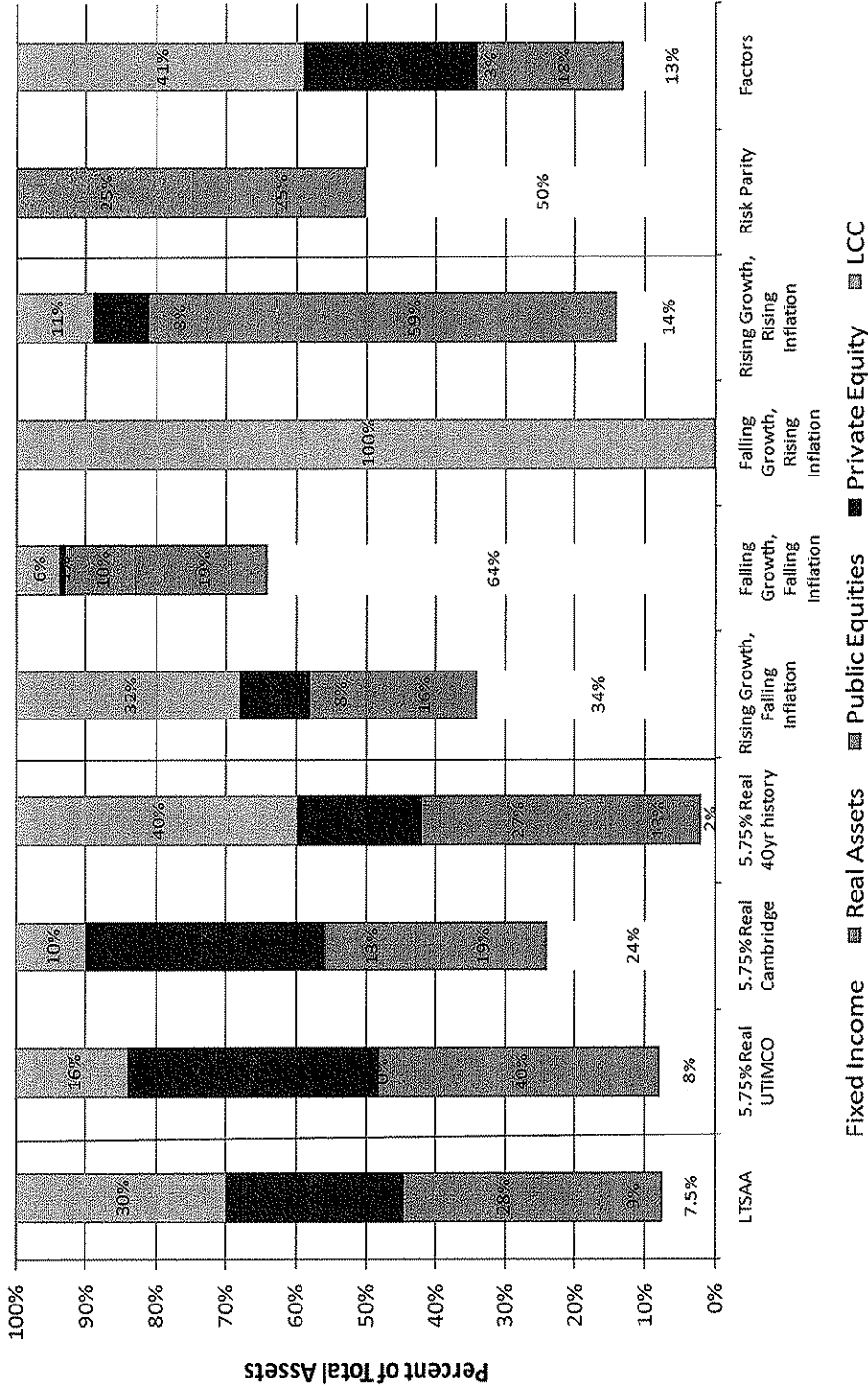


Factor Approach

- **Hypothesis:** there are several independent risk factors, with each commanding its own risk premium
- Identifying such independent factors is the key issue. Usually involves financial theory, economics, and statistics. Factors typically considered:
 - Equity Factors, such as market, small-minus-large, value-minus-growth, momentum
 - Fixed Income Factors, such as level, steepness, curvature
 - Currency
 - Real Assets
- Returns of all assets and asset classes can be calculated from the exposure to the “true” risk factors, plus some idiosyncratic component
- Correlations are a by-product of different assets exposed to the same set of risk factors
- An efficient frontier can be constructed based on the risk/returns characteristics of the underlying factors. Implementation would then seek exposure to the factors to achieve the desired mix. Hedging (long-short) is typically used to isolate factors



Efficient Frontier Portfolios III



- Risk Parity: The 50% in Investment Grade is comprised of 25% in 20-year duration treasuries, 25% in 15-year duration inflation Linked bonds.
- Factors: The 13% in Investment Grade is in 3x levered bonds. The 41% in LCC is mostly in hedged strategies that capture specific, uncorrelated factors, such as the value premium (value minus growth) or momentum



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Tactical Ranges



Tactical Asset Allocation Over Time

	Actual vs. Policy Portfolio				
	June 30, 2007	August 31, 2008	March 31, 2009	December 31, 2009	February 28, 2011
<u>More Correlated & Constrained</u>					
Investment Grade Fixed Income	-2.0%	3.6%	7.7%	4.5%	1.8%
Credit-Related Fixed Income	0.0%	-1.5%	-0.8%	1.2%	0.7%
Real Estate	1.0%	0.1%	-1.7%	-1.4%	0.0%
Natural Resources	1.0%	0.1%	-1.7%	1.9%	5.0%
Developed Country Equity	1.5%	-3.6%	-5.9%	-3.8%	-4.7%
Emerging Markets Equity	2.0%	-1.4%	-2.6%	-1.0%	-3.6%
Total More Correlated & Constrained	3.5%	-2.7%	-5.0%	1.4%	-0.8%
<u>Less Correlated & Constrained</u>					
Credit-Related Fixed Income	1.7%	0.8%	0.5%	2.4%	1.6%
Other	1.3%	-1.7%	-0.3%	-4.5%	-1.9%
Total Less Correlated & Constrained	3.0%	-0.9%	0.2%	-2.1%	-0.3%
<u>Private Investments</u>					
Credit-Related Fixed Income	0.9%	3.5%	2.1%	2.5%	4.2%
Other	-7.4%	1.7%	2.8%	-1.8%	-3.1%
Total Private Investments	-6.5%	5.2%	4.9%	0.7%	1.1%
Total	0.0%	1.6%	0.1%	0.0%	0.0%



UTIMCO Value Add History

	FY05	FY06	FY07	FY08	FY09	FY10	Six Months FY11
Total Value Add bps	3.76%	-1.41%	2.52%	2.11%	2.20%	4.26%	0.91%
Dollars (\$millions)	\$458	(\$195)	\$342	\$357	\$412	\$640	\$151
Tactical Value Add bps	-0.26%	-0.89%	-0.57%	0.87%	0.67%	0.62%	-0.85%
Dollars (\$millions)	(\$32)	(\$123)	(\$77)	\$147	\$125	\$92	(\$141)

Value add shown for PUF/GEF.



Current Views

- **Over- and under-weights relative to policy**
 - Overweight credit (LCC and Private Investments)
 - Overweight natural resources (holding a 4% position in Gold)
 - Underweight public equities
- **Manager tilts**
 - Overweight high-quality within the MCC equity portfolio
 - Deploying more active investment strategies and reducing passive equity allocations
 - Allowing managers broader discretion
 - Hiring managers less driven by relative performance standards
- **Potential Changes**
 - Add Cash
 - Add Gold
 - Increase Natural Resources
 - Reduce Developed Countries Public Equities
 - Reduce Emerging Markets Public Equities
 - Add Emerging Markets Fixed Income
 - Add Emerging Markets Currencies
 - Increase Real Estate
 - Increase LCC allocation
- **Are these views tactical or strategic? Should they be implemented as a change to the Policy Portfolio? As an “opportunistic” bucket?**



Potential Tactical Extremes

Extreme Low Risk Portfolio

	MCC	LCC	PI	Total
Investment Grade Fixed Income	20.0%			20.0%
Credit related Fixed Income	7.5%			7.5%
Real Estate	10.0%			10.0%
Natural resources	17.5%			17.5%
Developed Country Equity		25.0%	10.0%	35.0%
Emerging Market Equity		2.5%	7.5%	10.0%
Total	55.0%	27.5%	17.5%	100.0%

Expected returns 7.63%, at 70% of Policy risk

Low Risk Portfolio (85% of Policy Portfolio)

	MCC	LCC	PI	Total
	2.0%	6.0%		8.0%
	2.5%	5.0%	5.0%	10.0%
	17.5%		7.5%	10.0%
		20.0%	15.0%	17.5%
	9.5%	5.0%	5.0%	35.0%
Total	31.5%	36.0%	32.5%	100.0%

Expected returns 8.91%

Optimized Portfolio at Policy Risk

	MCC	LCC	PI	Total
		5.0%		5.0%
		3.0%	9.5%	12.5%
	9.0%		1.0%	10.0%
	17.5%			17.5%
		20.0%	20.0%	40.0%
	13.0%		2.0%	15.0%
Total	39.5%	28.0%	32.5%	100.0%

Expected returns 9.31%

Extreme High Risk Portfolio

	MCC	LCC	PI	Total
Investment Grade Fixed Income	5.0%			5.0%
Credit related Fixed Income	5.0%		12.5%	17.5%
Real Estate				0.0%
Natural resources		5.0%		5.0%
Developed Country Equity	17.5%	10.0%	20.0%	47.5%
Emerging Market Equity	25.0%			25.0%
Total	42.5%	25.0%	32.5%	100.0%

Expected returns 9.89%, at 130% of Policy risk

High Risk Portfolio (115% of Policy Portfolio)

	MCC	LCC	PI	Total
		5.0%		5.0%
		3.0%	9.5%	12.5%
	3.5%		1.0%	4.5%
	13.0%		2.0%	15.0%
	1.0%	17.0%	20.0%	38.0%
	25.0%			25.0%
Total	42.5%	25.0%	32.5%	100.0%

Expected returns 9.68%

FY2011 Policy Portfolio

	MCC	LCC	PI	Total
	7.5%	2.0%		9.5%
		3.0%	2.5%	5.5%
	2.5%		2.0%	4.5%
	6.5%	1.0%	3.5%	11.0%
	19.5%	20.0%	11.0%	50.5%
	12.0%	4.0%	3.0%	19.0%
Total	48.0%	30.0%	22.0%	100.0%

Expected returns 8.82%



Utilization of Policy Portfolio Risk Capacity

- UtiMCO is consistently taking less risk than the policy portfolio, and is usually generating higher returns than the policy portfolio
 - From 10/2004 (when we started measuring downside risk), average risk capacity has been 92% of policy portfolio risk, while the annual returns were 2.0% higher than the policy portfolio
 - From 7/2007, average risk capacity has been 95% of policy portfolio risk, while the annual returns were 2.6% higher than the policy portfolio
- Generating higher returns than policy, while taking less risk than policy, is a good a priori outcome
- Could we be generating even higher returns by running at the risk level of the policy portfolio?



Why are we Constantly Under Risk?

- Smart managers and smart investment strategies both reduce risk and increase returns
- As fiduciaries, we tend to err on the conservative side
- The layered investment process creates layers of “defense”. Managers are defensive, the investment officers at UTIMCO are defensive, and UTIMCO’s senior management is defensive. This may aggregate to being overly defensive
- Leverage is not allowed to offset the above
- It is reasonable to assume is that we will continue to look for managers, asset classes, and investment strategies that generate higher returns than benchmark while taking less risk



The Cost of Being Constantly Under Risk

- The simplest way to think about increasing risk and the corresponding returns is through using leverage at the portfolio level
- Since we were 8% under risk on average from 2004, if we would have constantly leveraged the entire portfolio 8%, we would be running at policy risk on average
 - Annualized returns from 10/2004 are 7.47%. If we had used 8% leverage to run the same portfolio at policy risk, annual returns would have been 7.90% - a gain of 43bp/year
 - Annual returns from 7/2007 are 1.57%. Leveraging 8% would not have made any meaningful change to these returns
 - Investment Policies currently cap leverage at 5% for the Endowments



Tactical Risk Allocation

- The value of risk taking varies over time
 - We should be taking risk off the table when we think the compensation for bearing risk is low, and/or when markets are headed down
 - We should take more than average risk when risk is well compensated, and/or when markets are rising
 - Done correctly, this should increase our returns
- Like any other market timing, this is easier said than done
- Over the past three and a half years, the time to increase risk would have been during the fall of 2009 and the winter of 2010. This would have looked very scary, but, in hindsight, risk taking at that time has been rewarded to date

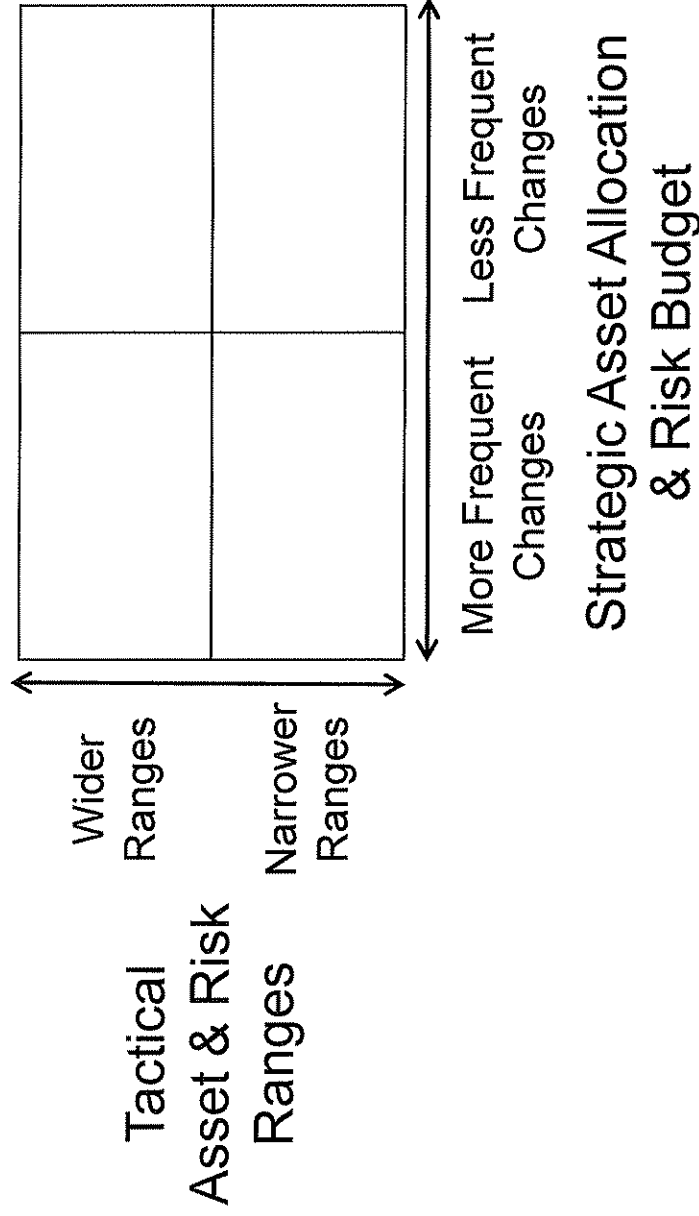


Running the Portfolio at Constant Risk Capacity

- We could vary leverage periodically so that the portfolio risk closely tracks the risk of the Policy Portfolio
 - This is an alternative to using constant leverage (e.g., 8%), and matching Policy risk just on average
- This methodology would have further improved returns
 - If we had leveraged in this way, annual returns would have been 8.71% from 10/2004 to the present
 - 8.71% is 124bp/year better than what was achieved (which was annual returns of 7.47%)
 - It is 81bp/year better than had we used 8% constant leverage (annual results would have been 7.90%)
 - From 7/2007 to the present, annual returns would have been 2.37%
 - This would have been an improvement of 80bp/year over what was actually achieved in this timeframe



Policy Portfolio Decisions: Target and Range Continuums



Tab 6

Agenda Item
UTIMCO Board of Directors Meeting
April 14, 2011

trades being considered, and Staff's recommendation regarding increasing the delegated authority limits related to the premium budget of 25 basis points.

UTIMCO staff will discuss with the Committee staff's rationale for increasing the delegated authority limit for Wellington. UTIMCO staff would like to increase the investment limit in excess of the limits provided in the Policy for Wellington Management Company, LLC. ("Wellington") UTIMCO currently has \$355 million with Wellington and would like to make up to a \$250 million commitment to their commodity strategy which would bring the invested amount to \$605 million, above the delegated authority limit of \$600 million. Staff would like the ability to make the commodity investment of \$250 million but would also like the flexibility to allow a potential investment in the Special Equity and/or Emerging account. Therefore, staff is requesting an increase in the delegated authority limit to \$750 million.

The Committee will review and take action on staff's proposed changes to the Charter of the Risk Committee.

The Committee will review the quarterly compliance reporting and the performance and risk reporting.

Recommendation:

The Committee will request that the UTIMCO Board take action related to staff's recommendation regarding increasing the aggregate prorated annual premium for Derivative Investments included within item 3 of Exhibit B of the Derivative Investment Policy to 50 basis points; and will request the UTIMCO Board take appropriate action based on the Committee's action from its meeting related to proposed amendments to the Charter of the Risk Committee. Action related to the increase in delegation of authority limits for a specific manager will be proposed by the Policy Committee in Tab 7 of the materials.

Reference:

Insurance Derivative Investments presentation; Proposed Amendments to the Charter of the Risk Committee

RESOLUTION RELATED TO CHARTER OF THE RISK COMMITTEE

RESOLVED, that the amendments to the Charter of the Risk Committee be, and are hereby approved, in the form submitted to the Corporation's Board of Directors.

**RESOLUTION RELATED TO INCREASE IN THE DELEGATED
AUTHORITY UNDER THE DERIVATIVE INVESTMENT POLICY FOR
ANNUAL PREMIUM PAID ON DERIVATIVE INVESTMENTS**

WHEREAS, the Corporation's Derivative Investment Policy ("Policy") sets forth the applications, documentation and limitations for investment in derivatives in the Permanent University Fund, the General Endowment Fund, the Intermediate Term Fund, and the Separately Invested Funds; and

WHEREAS, Exhibit B to the Policy lists the five types of Derivative Investments the UTIMCO Board has authorized the CEO to enter into; and

WHEREAS, the third type of Derivative Investment authorized ("Insurance Derivatives") limits the maximum loss that may be suffered to the premium paid for the Insurance Derivative, regardless of notional value; and

WHEREAS, the aggregate prorated annual premium of all Insurance Derivatives may not exceed 25 basis points of the Fund value; and

WHEREAS, Corporation staff would like the authority to invest up to an additional 25 basis points in Insurance Derivatives for a total aggregate prorated annual premium of 50 basis points of the Fund value; and

WHEREAS, Corporation staff has documented and presented to the Policy and Risk Committees its reasons for desiring to increase the aggregate prorated annual premium limit for Insurance Derivatives, the Committees concur with the reasons presented by Corporation staff and recommend that the Board approve the same; and

WHEREAS, the Board concurs in the recommendations of the Policy and Risk Committees and wishes to document its approval of same.

NOW, THEREFORE, BE IT

RESOLVED, that an increase in the aggregate prorated annual premium of Insurance Derivatives to a maximum of 50 basis points of the Fund value is hereby approved.

The University of Texas Investment Management Company

Charter of the Risk Committee

Background

The Board of Directors (the "Board") of The University of Texas Investment Management Company (the "Corporation") established a Liquidity Committee on November 20, 2003. The name of the Liquidity Committee was changed to the Risk Committee (the "Committee") on May 19, 2005 to reflect the expanded responsibilities of the Committee. This Charter adopted by the Board on ~~January 30, 2008~~April 14, 2011, supersedes the Charter adopted by the Board on ~~March 30, 2006~~January 30, 2008.

Purpose

The primary purpose of the Committee is to provide oversight and monitor 1) investment risk management and compliance, 2) the integrity of risk management procedures and controls, 3) the integrity of risk models and modeling processes, and 4) liquidity of the Permanent University Fund (PUF), the General Endowment Fund (GEF), and the Intermediate Term Fund (ITF) (individually referred to as the "Fund" and collectively, the "Funds", 5) compliance with the Derivative Investment Policy, 6) the categorization of investment mandates, and 7) the monitoring of manager mandates.

Composition

The Committee shall be composed of at least three members of the Board appointed from time to time by a majority vote of the Board at a meeting at which a quorum is present. Individuals who are not members of the Board may be appointed to the Committee; provided however, a majority of the Committee members shall be members of the Board of Directors. A member may be removed with or without cause at any time by a majority vote of the Board. ~~Only members of the Board are eligible to serve on the Committee.~~

Meetings; Quorum; Etc.

The Corporation's Bylaws state that any committee created by the Board or the Bylaws, including the Committee, shall (i) have a chairman designated by the Board, (ii) fix its own rules or procedures, (iii) meet at such times and at such place or places as may be provided by such rules or by resolution of the Committee or resolution of the Board, and (iv) keep regular minutes of its meetings and cause such minutes to be recorded in books kept for that purpose in the principal office of the Corporation, and report the same to the Board at its next regular meeting. At every meeting of the Committee, the presence of a majority of all the members thereof shall constitute a quorum, and the affirmative vote of a majority of the members present shall be necessary for the adoption by it of any action, unless otherwise expressly provided in the Committee's rules or procedures or the Bylaws

of the Corporation or by the Board. The Board may designate one or more Directors as alternate members of the Committee, who may replace any absent or disqualified member of the Committee. In the absence or disqualification of a member of the Committee, the member or members present at any meeting of the Committee and not disqualified from voting, whether or not constituting a quorum, may unanimously appoint the designated alternate Director to act at the meeting in the place of the absent or disqualified member.

Duties and Responsibilities

The Committee will provide assurances to the Audit and Ethics Committee on a periodic basis regarding the following items so the Audit and Ethics Committee may evaluate them as a part of the Audit and Ethics Committee's evaluation of the Corporation's overall enterprise-risk management.

Investment Risk Management and Compliance: The Committee has the following duties and responsibilities related to the oversight and monitoring of investment and compliance risk:

- The Committee will monitor actual risk levels in the PUF, GEF, and ITF to assess whether current risk levels are within the bounds established by the Investment Policies adopted by the UT Board of Regents;
- The Committee will monitor trends and changes in actual risk levels in the PUF, GEF, and ITF and report any significant changes to the Board; and
- The Committee will monitor the compliance processes related to the derivative investment policy, risk targets, asset class and investment type targets and ranges, and investment related restrictions in the Investment Policy statements.

Integrity of risk management procedures and controls: The Committee has the following duties and responsibilities related to the oversight and monitoring of the risk management procedures and controls:

- The Committee will understand and review how the information provided by the Risk Manager is reported to the Chief Compliance Officer; and
- The Committee will monitor the reports provided by the Risk Manager to the Chief Compliance Officer.

Integrity of risk models and modeling processes: The Committee has the following duties and responsibilities related to the oversight and monitoring of the risk models and modeling processes:

- The Committee will monitor the investment risk models, tools, and processes used by Corporation staff; and
- The Committee will review and understand the data used in the risk models.

Liquidity: The Committee has the following duties and responsibilities related to the oversight and monitoring of liquidity:

- The Committee (or the Board) must review and ~~recommend for consideration to the Board~~ approve any new investment that would cause the allocation for illiquid

investments in the PUF, GEF, or ITF to move within the trigger zone specified in the Liquidity Policy for the respective Fund's total portfolio.

- The Committee (or the Board) must review and approve, before any such action or actions are taken, any proposed changes in allocations among existing investments that would cause the allocation for illiquid investments in the PUF, GEF, or ITF to move within the trigger zone specified in the Liquidity Policy for the respective Fund's total portfolio.
- The Committee (or the Board) must review and approve, before any such action or actions are taken, any proposed investment action or actions that would increase the actual investment position in illiquid investments in the PUF, GEF, or ITF by 10% or more of a respective Fund's total asset value.
- The Committee must review and approve, before any such action or actions are taken, any new commitments for the PUF or GEF, if the actual amount of such Fund's unfunded commitments, as defined in the Liquidity Policy, exceeds or, as a result of the commitment, would exceed the Maximum Permitted Amount specified in the Liquidity Policy.
- In the event that market actions cause actual investment positions in illiquid investments to move into the trigger zone specified in the Liquidity Policy for the PUF, GEF, or ITF, the Committee must review and approve the Chief Investment Officer's proposed remedy or strategy for complying with the required allocation range for liquid and illiquid investments before any such actions are taken.
- The Committee (or the Board) must approve the use of swaps, derivatives, or other third party arrangements to alter the liquidity status of any investment classified as illiquid.

Committee review of new investments in the trigger zone will supplement, rather than replace, the procedures established by the Board for the approval of new investments.

Compliance with the Derivative Investment Policy: The Committee has the following duties and responsibilities related to compliance with the Derivative Investment Policy:

- The Committee will review the comprehensive report of all outstanding derivative investments, by type, entered into during the period being reported, for both internal managers and external managers operating under agency agreements.

Categorization of Investment Mandates: The Committee has the following duties and responsibilities related to the categorization of investment mandates:

- The Committee will review and approve or re-categorize new mandates as prepared by staff.

- The Committee will review and approve any recommended categorization of a mandate proposed by staff.

Monitoring of Manager Mandates: The Committee has the following duties and responsibilities related to the monitoring of internal and external investment mandates:

- The Committee will review manager mandates (excluding passive exposure), aggregated across investment types, resulting in three percent (3%) or more exposure relative to the total Funds (excluding the ITF for Private Investments) on a quarterly basis;
- The Committee will review and approve staff's recommendation regarding an appropriate course of action for any manager mandate resulting in five percent (5%) or more exposure relative to the total Funds (excluding the ITF for the Private Investments) or determine a different appropriate level of exposure.

Other Duties

The Committee will evaluate the Committee's performance on a periodic basis, periodically review the adequacy of this Charter and submit this Charter to the Board for its approval; and perform any other activities consistent with this Charter, the Corporation's Bylaws, and applicable laws as the Committee or the Board deems necessary or appropriate.

Approved by the Board of Directors on ~~January 30, 2008~~ April 14, 2011.



THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

**Delegation of Authority Relating to Certain Portfolio
Hedging Investments
“Insurance Derivative Investments”**

**UTIMCO Board Meeting
April 14, 2011**



Agenda

- Current insurance derivative investments :
 - US inflation risk: CMS caps
 - Japan sovereign default risk: Yen puts and payer swaptions
- Prospective trades being considered to mitigate effects of:
 - Japan sovereign default risk
 - Significant decline in emerging market growth
 - Significant U.S. deflation
 - Significant debasement of developed currencies
 - Eurozone fiscal crisis
 - Underperformance relative to equity market
- Delegated authority limitations of Derivative Investment Policy
 - Insurance Derivatives Premium Budget - 0.25 % of Funds FMV, ~\$60 million (a)
 - Notional Limit- 33% of Funds FMV, ~\$8 billion (a)
- Recommendation
 - BOD approval for increase in insurance derivative budget

(a) Assumes PUJ/GEF/ITF assets of ~\$24 billion.



THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

Current Portfolio Positions



U.S. CMS Caps

- Thesis: In the spring of 2009, the cost of 10-year U.S. Constant Maturity Swap (“CMS”) rate caps had declined due to deflation concerns. Concurrently, the Fed embarked on an aggressive monetary easing plan. Staff had concerns that aggressive easing could lead to future inflationary pressures, resulting in increased interest rates. Staff believed that the purchase of CMS caps at attractive rates would provide protection in a “falling growth, rising inflation” economic environment.
- Trade Execution: March-April 2009 and September-October 2010
 - Purchased 5- and 7-year call options on 10-year U.S. CMS rates (“CMS caps”)
 - \$8.5 billion notional at strikes ranging from 5.63% to 5.91%
 - \$45.4 million in total premium (\$8.3 million annualized)
 - If 10-year CMS rates rose to 8%, the caps would pay out ~\$195 million, a 4.3x payoff on total premium
 - Current 10-year swap rate is ~3.56% (as of 3/25/11)
 - Combined UTIMCO delegated authority and Chairman approved- \$12.0 billion of notional value (\$3.5 billion remains to be executed)
 - Current value of CMS caps net of premium (as of 3/25/11)- \$17.6 million



Japan

- Thesis: At over 500%, Japan's total debt/GDP level is the highest of any developed country. As the population ages, absorption of Japanese bonds by domestic investors is expected to decline, while the need to issue additional debt to fund social security and interest obligations is expected to increase. As a result, debt costs and sovereign default risk may increase while the value of the yen may decline. The March 11 Honshu earthquake and tsunami may accelerate a fiscal crisis.
- Trade Execution: February and March 2011
 - Yen payer swaptions
 - Bought 1-year options on 5-year swap rates @ 2.5% strike, plus 2-year options on 3-year swap rates @ 1.89% strike
 - Notional amount of \$5.2 billion
 - \$9.0 million total premium (\$6.9 million annualized)
 - If swap rates increased by 250bps, the payer swaptions would pay out \$122 million. This would be a 13.5x payoff on total premium.
 - Current 5-year and 3-year swap rates (as of 3/25/11) are 0.66% and 0.44%, respectively.
 - Current value of Yen payer swaptions net of premium (as of 3/25/11)- loss of \$2.2 million



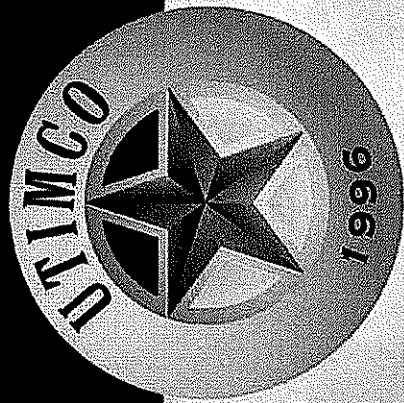
Japan Continued

- Trade Execution: February and March 2011
 - JPY puts / USD calls
 - Bought 1-year options @ 130 strike, plus 2-year options @ 105 and 115 strikes
 - Notional amount of \$4.2 billion
 - \$29.4 million of total premium (\$14.8 million annualized)
 - If JPY falls to 135, the puts would pay out \$639 million. This would be a 21.7x payoff on total premium.
 - Current JPY/USD (as of 3/25/11) is 81.22.
 - Current value of JPY puts net of premium (as of 3/25/11)- loss of \$6.8 million
 - Combined UTIMCO delegated authority plus Chairman approved amounts for Yen payer swaptions and JPY puts- \$9.5 billion notional (all executed)



Insurance Derivatives Budget Summary

Budget used (in bp)	FYE 2010-2011		FYE 2011-2012	
	<u>PUF/GEF</u>	<u>ITF</u>	<u>PUF/GEF</u>	<u>ITF</u>
CMS Caps	4.26	4.39	4.34	4.48
Japan Rate Options	1.82	0.81	1.95	0.88
Yen Puts	3.45	1.64	6.82	3.24
Total Budget Used	9.53	6.84	13.11	8.60
Budget Available	25.00	25.00	25.00	25.00
Available to Spend	15.47	18.16	11.89	16.40



THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

Prospective Trades



Prospective Trades

- To mitigate expected portfolio losses in event of a Japan sovereign default risk:
 - Yen payer swaptions
 - Buy additional 2-year options on 3-year swap rates @ ATMF+100bps strike.
 - Total premium is ~0.30% or \$3,000 per \$1 million notional (0.15% annualized).
 - If swap rates increased by 250bps, the payer swaptions would pay out 2.9% of notional. This would be a 9.5x payoff on total premium.
 - Current 3-year swap rate (as of 3/25/11) is 0.44%. ATMF rate is 0.75%.
 - JPY puts / USD calls
 - Buy additional 2-year options @ 95 to 105 strikes.
 - Total premium is ~1.50% or \$15,000 per \$1 million notional.
 - If JPY fell to 135, the puts would pay out 24.4% of notional. This would be a 16.3x payoff on total premium.
 - Current JPY/USD (as of 3/25/11) is 81.22.
 - Additional notional amounts require Chairman approval.



Prospective Trades

- To mitigate expected portfolio losses in event of a significant, sudden decline in emerging market (particularly China) growth:
 - Korea equity index puts
 - Buy 1-year, 20% out of the money put options on KOSPI index.
 - Total premium is ~1.67% or \$16,700 per \$1 million notional.
 - If KOSPI declined by 30%, the puts would pay out 8.2% of notional. This would be a 4.9x payoff on total premium.
 - Current KOSPI level (as of 3/25/11) is 271.66.
 - Australia equity index puts
 - Buy 1-year, 20% out of the money put options on AS51 index.
 - Total premium is ~1.59% or \$15,900 per \$1 million notional.
 - If AS51 declined by 30%, the puts would pay out 8.4% of notional. This would be a 5.3x payoff on total premium.
 - Current AS51 level (as of 3/25/11) is 2371.3.



Prospective Trades

- To mitigate expected portfolio losses in event of a significant, sudden decline in emerging market (particularly China) growth:
 - Copper puts
 - Buy 18-month, 25% out of the money put options on copper.
 - Total premium is ~4.28% or \$42,800 per \$1 million notional.
 - If copper price declined by 30%, the puts would pay out 20.4% of notional. This would be a 4.8x payoff on total premium.
 - Current copper price (as of 3/25/11) is \$442.15.
 - Zinc puts
 - Buy 1-year, 20% out of the money put options on zinc.
 - Total premium is ~4.57% or \$45,700 per \$1 million notional.
 - If zinc price declined by 50%, the puts would pay out 26.1% of notional. This would be a 5.7x payoff on total premium.
 - Current zinc price (as of 3/25/11) is \$2,422.



Prospective Trades

- To mitigate expected portfolio losses in event of significant U.S. deflation:
 - U.S. CMS floors
 - Buy 5 year floor on 10 year U.S. CMS rate @ ATMF-100bps strike.
 - Total premium is ~0.45% or \$4,500 per \$1 million notional.
 - If 10-year CMS rates declined by 410bps, the floors would pay out 2.65% of notional. This would be a 5.9x payoff on total premium.
 - Current ATMF 10-year CMS rate (as of 3/25/11) is 5.35%.
- To mitigate expected portfolio losses in event of significant developed currency debasement:
 - Call options on gold
 - Buy 1 year, 10% out of the money call option on gold.
 - Total premium is ~5.06% or \$50,600 per \$1 million notional.
 - If gold price increased by 50%, the calls would pay out 33.5% of notional. This would be a 6.6x payoff on total premium.
 - Current gold price (as of 3/25/11) is \$1,429.



Prospective Trades

- To mitigate portfolio losses in event of a Eurozone fiscal crisis:
 - EUR put options
 - Buy 1-year, Danish Kroner call / EUR put
 - Total premium is ~0.59% or \$5,880 per \$1 million notional
 - If DKK appreciated by 10.5% against EUR, the options would pay out 11.1% of notional. This would be an 18.9x payoff on total premium.
 - Current DKK/EUR (as of 3/25/11) is 7.46.
- To mitigate underperformance in event of a significant, sudden equity rally:
 - Equity index call options
 - Buy 1-year, 5% out of the money call options on Hang Seng Index (HSI).
 - Total premium is ~6.10% or \$61,000 per \$1 million notional.
 - If HSI rallied by 40%, the calls would pay out 29.0% of notional.. This would be a 4.8x payoff on total premium.
 - Current HSI level (as of 3/25/11) is 23,159.



THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

Delegation of Authority Relating to Certain Portfolio Hedging Investments



Insurance Derivative Investments

- Annual delegated budget for derivatives classified as insurance derivatives is currently 25 basis points of Fund value per year.
 - Increases to the annual budget require Board approval.
 - Derivatives classified in this category are those for which risk of loss is limited to the premium paid.
 - Under a strict policy interpretation and due to a lack of other obvious categorization under the policy, call premiums are included in this delegated “insurance” budget amount.
 - Budget equates to approximately \$60 million in annual premium based on Funds’ FMV (a)
- Notional per derivative investment is limited to 33% of Funds FMV
 - Notional values in excess of 33% limit require approval from UTIMCO Board Chairman
 - Limit per derivative investment equates to approximately \$8 billion notional based on current NAV (a)
 - Chief Investment Officer shall present executed approvals at UTIMCO’s next regularly scheduled meeting
- Staff will request formal changes to the Derivative Investment Policy to address the above limitations at the July 2011 BOD meeting for BOR approval in November of 2011.

(a) Assumes PUF/GEF/ITF assets of ~\$24 billion.



THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

Recommendation



BOD Recommendation

- Request approval from Board of Directors to spend up to an additional 25 basis points of annualized insurance premium^(a) for Insurance Derivatives, defined in the Derivative Investment Policy as derivatives whereby the maximum loss is limited to the premium paid for the Derivative Investment, regardless of notional value. If approved, the aggregated prorated annual premium of all Insurance Derivative Investments shall not exceed 50 basis points of the Fund value until otherwise changed and approved by the Board of Directors.

(a) 25 basis points of insurance premium over the delegated authority of 25 basis points computed on an annual basis for the Endowment funds and ITF respectively.

Tab 7

Agenda Item
UTIMCO Board of Directors Meeting
April 14, 2011

Agenda Item: Report on and Discussion and Appropriate Action Related to Items from Policy Committee – Discussion and Appropriate Action on Recommendation of Distribution Rates for the Investment Funds; Discussion and Appropriate Action Related to Proposed Amendments to the Charter of the Policy Committee, Discussion and Appropriate Action Related to Increase in Delegation of Authority Limit for Specific Manager

Developed By: Staff

Presented By: Gary

Type of Item: Action item; Action required by UTIMCO Board and by The University of Texas System (“UT System”) Board of Regents related to the Recommendation of Distribution Rates for the Investment Funds; Action required by UTIMCO Board related to Proposed Amendments to Charter of the Policy Committee, and to the Increase in Delegation of Authority Limit for Specific Manager; Information item on other items

Description: The Policy Committee (“Committee”) will meet on April 7, 2011. The Policy Committee’s agenda includes (1) approval of the Committee minutes; (2) discussion and appropriate action related to recommended distribution rates for the Investment Funds; (3) discussion and appropriate action regarding delegation of authority relating to certain portfolio hedging investments; (4) discussion and appropriate action related to increase in delegation of authority limits for specific manager; and (5) discussion and appropriate action related to proposed amendments to the Charter of the Policy Committee.

Discussion: The Committee will review the proposed distribution rates for the Investment Funds. Each of the Investment Funds’ respective Investment Policy Statement provides the guidelines to calculate the distribution amount or rate and provides the spending policy objectives of the Investment Fund. The recommendations for the distribution amount and payout rates are discussed in the attached Recommendation of Distribution Rates and are based on the Investment Policy Statements. Mr. Zimmerman will discuss, at both the Committee and the UTIMCO Board meetings, the *Distribution Policy* presentation.

Ms. Iberg will present to the Committee the *Insurance Derivative Investments* presentation related to the current “insurance” positions, prospective insurance trades being considered, and Staff’s recommendation regarding increasing the delegated authority limits related to the premium budget of 25 basis points.

UTIMCO staff will discuss with the Committee staff’s rationale for increasing the delegated authority limit for Wellington Management Company, LLC. (“Wellington”). UTIMCO staff would like to increase the investment limit in excess of the limits provided in the Policy for Wellington. UTIMCO currently has \$355

Agenda Item
UTIMCO Board of Directors Meeting
April 14, 2011

million with Wellington and would like to make up to a \$250 million commitment to their commodity strategy which would bring the invested amount to \$605 million, above the delegated authority limit of \$600 million. Staff would like the ability to make the commodity investment of \$250 million but would also like the flexibility to allow a potential investment in the Special Equity and/or Emerging account. Therefore, staff is requesting an increase in the delegated authority limit to \$750 million.

The Committee will review and take action on staff's proposed changes to the Charter of the Policy Committee.

Recommendation: Staff has recommended to the Committee to approve the recommendation of distribution rates for the Investment Funds. The Committee will request the UTIMCO Board take appropriate action based on the Committee's action from its meeting. UTIMCO staff has proposed the following for fiscal year ending August 31, 2012:

- 1) The distribution from the PUF to the Available University Fund be decreased by 1.8% from \$506,395,811 to \$497,032,518;
- 2) The distribution rate for the PHF be increased from \$0.0554 per unit to \$0.0561 per unit;
- 3) The distribution rate for the LTF be increased from \$0.3172 per unit to \$0.3215 per unit; and
- 4) The distribution rate for the ITF remain at 3.0% per annum.

The Committee will also request that the UTIMCO Board take action related to staff's recommendation regarding increasing the delegated authority limit for Wellington to \$750 million, and will request the UTIMCO Board take appropriate action based on the Committee's action from its meeting related to proposed amendments to the Charter of the Policy Committee. Action regarding the delegation of authority relating to certain portfolio hedging investments will be proposed by the Risk Committee in Tab 6 of the materials.

Reference: Recommendation of Distribution Rates; *Distribution Policy* Presentation; Proposed Amendments to the Charter of the Policy Committee; Wellington Management Company and Wellington Commodity Strategy slides

**RESOLUTION RELATED TO PUF DISTRIBUTION AND
PHF, LTF AND ITF DISTRIBUTION RATES**

RESOLVED, that the annual distribution amount for the Permanent University Fund be decreased from \$506,395,811 to \$497,032,518 for fiscal year 2012, effective with the September 1, 2011 distribution; the distribution rate for the Permanent Health Fund be increased from \$.0554 per unit to \$.0561 per unit for fiscal year 2012, effective with the November 30, 2011 quarterly distributions; the Long Term Fund be increased from \$0.3172 per unit to \$0.3215 per unit for fiscal year 2012, effective with the November 30, 2011 quarterly distributions; and the distribution rate for the Intermediate Term Fund remain at 3.0% per annum for fiscal year 2012, effective with the September 1, 2011 monthly distributions.

BE IT FURTHER RESOLVED, that the annual distribution amount for the Permanent University Fund and the distribution rates for the Permanent Health Fund, Long Term Fund, and Intermediate Term Fund be, and are hereby, approved subject to approval by the Board of Regents of The University of Texas System.

RESOLUTION RELATED TO CHARTER OF THE POLICY COMMITTEE

RESOLVED, that the amendments to the Charter of the Policy Committee be, and are hereby approved, in the form submitted to the Corporation's Board of Directors.

**RESOLUTION RELATED TO INCREASE IN INVESTMENT LIMIT FOR
WELLINGTON MANAGEMENT COMPANY, LLC**

WHEREAS, the Corporation Delegation of Authority Policy ("Policy") limits the CEO's authority to increase investments and commitments to existing internal and external investment managers; and

WHEREAS, Corporation staff would like to invest up to \$750 million with Wellington Management Company, LLC ("Wellington") but by Policy is limited to \$600 million; and

WHEREAS, Corporation staff has documented and presented to the Policy and Risk Committees its reasons for desiring to increase the delegated authority limit for Wellington, and the Committees concurred with the reasons presented by Corporation staff for desiring to increase the delegated authority limit for Wellington and recommended that the Board approve the same; and

WHEREAS, the Board concurs in the recommendations of the Policy and Risk Committees and wishes to document its approval of same.

NOW, THEREFORE, BE IT

RESOLVED, that the increase in Corporation staff's delegated authority limit for Wellington Management Company, LLC up to a maximum of \$750 million is hereby approved.

Recommendation of Distribution Amount and Rates

PUF

The Permanent University Fund ("PUF") Investment Policy states that the annual distribution from the PUF to the Available University Fund ("AUF") shall be an amount equal to 4.75% of the trailing 12 - quarter average of the net asset value of the Fund for the quarter ending February of each fiscal year unless the average annual rate of return of the PUF investments over the trailing 12 quarters exceeds the Expected Return by 25 basis points or more, in which case the distribution shall be 5.0% of the trailing 12 - quarter average. "Expected Return" is the Expected Annual Return or Benchmarks set out in Exhibit A to the PUF Investment Policy Statement.

As shown in the table below, the average annual return of the PUF investments for the trailing twelve quarters ending February 28, 2011 has not exceeded the Expected Return by 25 basis points or more (.25%).

	Trailing 12 - Quarters Ending February 28, 2011	Expected or Benchmarks	Excess (Deficit)
Average Annual Rate of Return	2.02%	8.82%	-6.80%

Therefore, as outlined in the PUF Investment Policy, the amount to be distributed from the PUF for Fiscal Year 2011-2012 is \$497,032,518 as calculated below:

Quarter Ended	Net Asset Value
5/31/2008	12,245,951,162
8/31/2008	11,359,463,077
11/30/2008	8,837,574,480
2/28/2009	8,286,887,451
5/31/2009	9,143,803,884
8/31/2009	9,673,908,334
11/30/2009	10,341,053,437
2/28/2010	10,470,036,500
5/31/2010	10,524,153,261
8/31/2010	10,724,962,438
11/30/2010	11,619,582,822
2/28/2011	12,338,732,852
	\$ 125,566,109,698
Number of quarters	12
Average Net Asset Value	\$ 10,463,842,475
Distribution Percentage	4.75%
FY 2011-12 Distribution	\$ 497,032,518

Article VII, Section 18 of the Texas Constitution requires that the amount of distributions to the AUF be determined by the Board of Regents of The University Texas System ("Board of Regents") in a manner intended to provide the AUF with a stable and predictable stream of annual distributions and to maintain over time the purchasing power of PUF investments and annual distributions to the AUF. The Constitution

further limits the Board of Regents' discretion to set annual PUF distributions to the satisfaction of three tests:

1. The amount of PUF distributions to the AUF in a fiscal year must be not less than the amount needed to pay the principal and interest due and owing in that fiscal year on PUF bonds and notes. The proposed distribution of \$497,032,518 is substantially greater than PUF bond debt service of \$187,277,934 projected for FY 2011-2012.

System	Debt Service
U. T.	\$ 108,542,691
TAMU	78,735,243
Total	\$ 187,277,934

Sources: U. T. System Office of Finance
Texas A&M University System Office of Treasury Services

2. The Board of Regents may not increase annual PUF distributions to the AUF (except as necessary to pay PUF debt service) if the purchasing power of PUF investments for any rolling 10-year period has not been preserved. As the schedule below indicates, the average annual increase in the rate of growth of the value of PUF investments (net of expenses, inflation, and distributions) for the trailing 10-year period ended February 28, 2011 was 2.29%, which indicates that the purchasing power test was met.

Average Annual	Percent
Rate of Total Return	6.94%
Mineral Interest Receipts	2.65%
Expense Rate	(0.33)% (1)
Inflation Rate	(2.33)%
Distribution Rate	(4.64)%
Net Real Return	2.29%

(1) The expense rate as shown is a ten year annualized average and includes all PUF Investment and PUF Land expenses, including the UTIMCO management fee, paid directly by the PUF. Management fees that are netted from asset valuations, and are not paid directly by the PUF are not included, as they are a reduction to the Rate of Total Return.

3. The annual distribution from the PUF to the AUF during any fiscal year made by the Board of Regents may not exceed an amount equal to 7% of the average net fair market value of PUF investment assets as determined by the Board of Regents, (except as necessary to pay PUF bond debt service). The annual distribution rate calculated using the trailing 12 - quarter average value of the PUF is within the 7% maximum allowable distribution rate.

Value of PUF Investments (1)	Proposed Distribution	Proposed Distribution as a % of Value of PUF Investments	Maximum Allowed Rate
\$10,463,842,475	\$497,032,518	4.75%	7.00%

(1) Source: UTIMCO

LTF AND PHF

The spending policy objectives of the LTF and PHF are to:

- A. provide a predictable stable stream of distributions over time;
- B. ensure that the inflation adjusted value of the distributions is maintained over the long-term;
and
- C. ensure that the inflation adjusted value of the assets of the LTF and the PHF, as appropriate, after distributions is maintained over the long-term.

The spending formula under the Long Term Fund ("LTF") Investment Policy and the Permanent Health Fund ("PHF") Investment Policy increases distributions at the rate of inflation subject to a distribution range of 3.5% to 5.5% of the average market value of the LTF assets and PHF assets for each fund's respective trailing twelve fiscal quarters. The Board of Regents has full authority to alter distribution rates at their sole discretion.

We are recommending a 1.4% increase in the LTF distribution rate from \$0.3172 to \$0.3215 per unit. The increase is recommended based on the LTF's Investment Policy to increase the distributions by the average rate of inflation for the trailing twelve quarters. The LTF's distribution rate calculated using the prior twelve quarter average value of the LTF is 5.2%, within the range of 3.5% to 5.5% set forth in the LTF Investment Policy. The increase in the consumer price index for the prior three years as of November 30, 2010, was 1.4%.

We are recommending a 1.4% increase in the PHF distribution rate of \$.0554 to \$.0561 per unit. The PHF's distribution rate calculated using the prior twelve quarter average value of the PHF is 5.0%, within the range of 3.5% to 5.5% set forth in the PHF Investment Policy.

ITF

We are recommending that the distribution rate for the Intermediate Term Fund ("ITF") remain at 3.0% for fiscal year 2012.



THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

Distribution Policy

April 14, 2011



Distribution Policy

- The University of Texas System Board of Regents (“Regents”) is responsible for setting Endowment (PUF, LTF and PHF) and ITF distribution rates
 - Within certain limitations imposed on the PUF by the Texas State Constitution
 - Also Regents’-imposed limitations on LTF and PHF
 - Upon recommendation by the UTIMCO Board of Directors
- The timetable for recommendation and decision is:
 - April: UTIMCO Board Recommendation
 - May: Regents’ Decision
 - September: New Distribution Amounts Become Effective
- Distribution Rate determination is ultimately a decision balancing current vs. future needs
- Predictability and stability of Distributions are also important to recipients



Current Distribution Rates and Methodologies

	PUF	LTF	PHF	ITF
Current Methodology	Percent of Assets	Constant Growth	Constant Growth	Percent of Assets
Current Distribution Rate	4.75%	\$.3172/Unit Effective Rate = 4.80%	\$.0554/Unit Effective Rate = 4.63%	3.00%
Asset Base Rate Applied To	Trailing twelve quarters ending February current fiscal year	Trailing twelve quarters ending November current fiscal year	Trailing twelve quarters ending November current fiscal year	Ending Balance
Role of Inflation	-	Unit Rate increased by trailing twelve quarter inflation rate	Unit Rate increased by trailing twelve quarter inflation rate	-
Potential Distribution Rate Increase	If Investment Returns exceed Expected Return by .25% or more over trailing twelve quarters, Distribution Rate will increase to 5%	-	-	-



Rationale for Distribution Methodologies

PUF

- The percent of assets methodology may be appropriate for endowments where:
 1. the current distribution is small relative to the total budget, and therefore distribution volatility is not of overriding importance, and
 2. long-term growth is a key objective.

LTF

- The constant growth methodology allows distributions to grow at a steady rate equal to the rate of inflation, which provides a stable stream of “real” resources to the beneficiaries of the endowments. Stable distribution streams allow the specific faculty positions, programs and scholarships on campuses to operate without budget fluctuations from year to year.
- The constant growth methodology may, however, benefit current beneficiaries at the expense of future beneficiaries if a purchasing power requirement does not exist.

PHF

- The constant growth methodology allows distributions to grow at a steady rate equal to the rate of inflation, which provides a stable stream of “real” resources to the beneficiaries of the endowments. Stable distribution streams allow the specific programs to operate without budget fluctuations from year to year.
- The constant growth methodology may, however, benefit current beneficiaries at the expense of future beneficiaries if a purchasing power requirement does not exist.



Distribution Rate Limitations

PUF

Per State Constitution

- Distribution must cover debt service
 - Debt Obligations Limited to 30% (20% UT System/10% A&M System) of Book Value of PUF Investments (\$10,489 Billion as of 2/28/2011)
- Distribution may not exceed 7% of Assets (1)
- Must Maintain Purchasing Power in order for distributed dollars to increase

Formula (Rolling Ten Years):

- +Investment Returns
 - +Mineral Interests
 - Expenses
 - Inflation
 - Distribution
- > 0

Current Purchasing Power Calculation:

Investment Return	6.94%
Mineral Receipts	2.65%
Expenses	(0.33%)
Inflation	(2.33%)
Distribution Rate	(4.64%)
Net Real Return	2.29%

- (1) Applied to trailing twelve quarters per Regents Policy

LTF

Per Regents Policy

- Distribution Rate must be between 3.5% - 5.5% of assets (Rolling Twelve Quarter)

UPMIFA

Distribution cannot be greater than 9% of the three year average net asset value.

PHF

Per Regents Policy

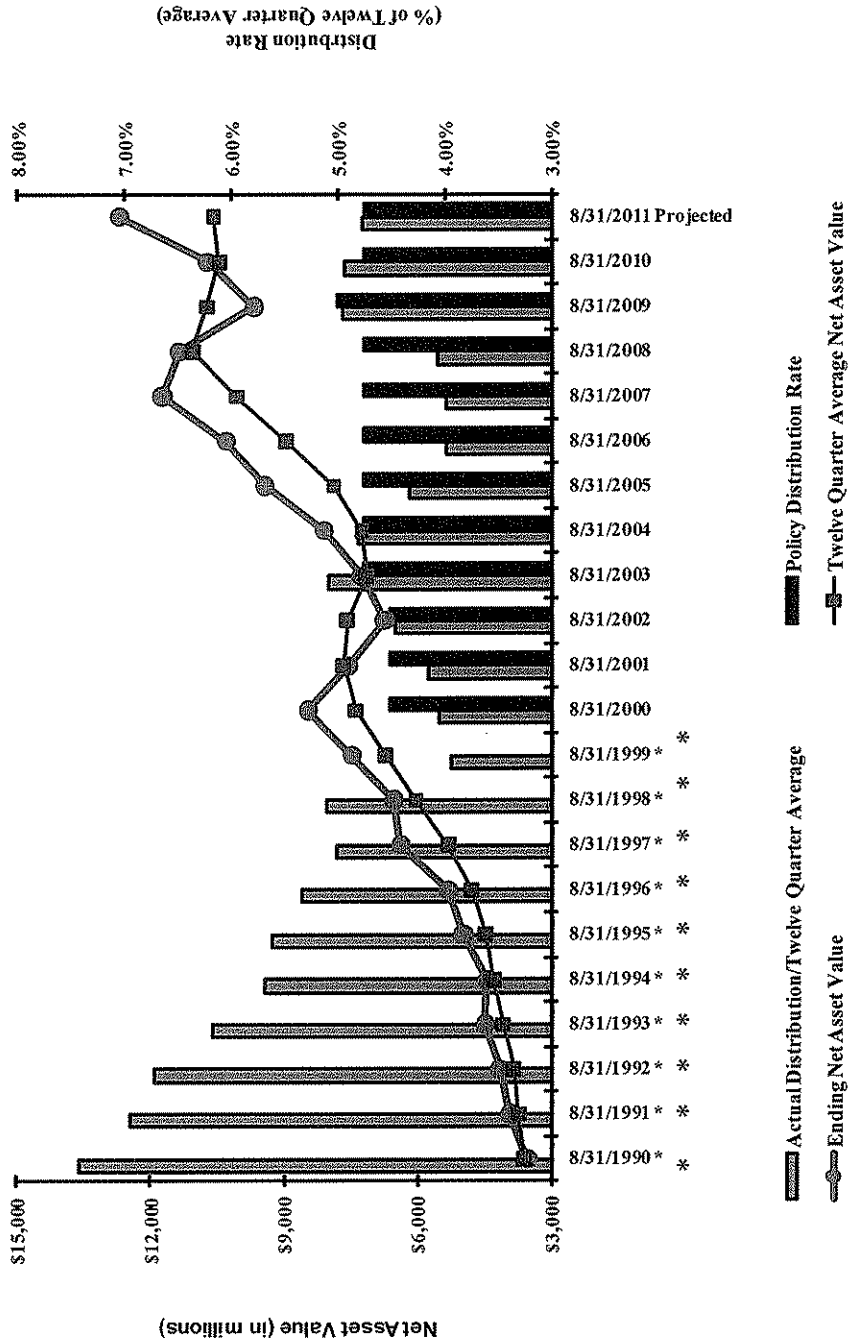
- Distribution Rate must be between 3.5% - 5.5% of assets (Rolling Twelve Quarter)

UPMIFA

Distribution cannot be greater than 9% of the three year average net asset value.



PUF Balances and Distribution Rates



* Prior to the fiscal year ending August 31, 2000, only investment income (interest and dividends) could be distributed from PUF assets as restricted per the State Constitution. The passage of Proposition 17 in November 1999 eliminated this restriction.



PUF Distribution Rates

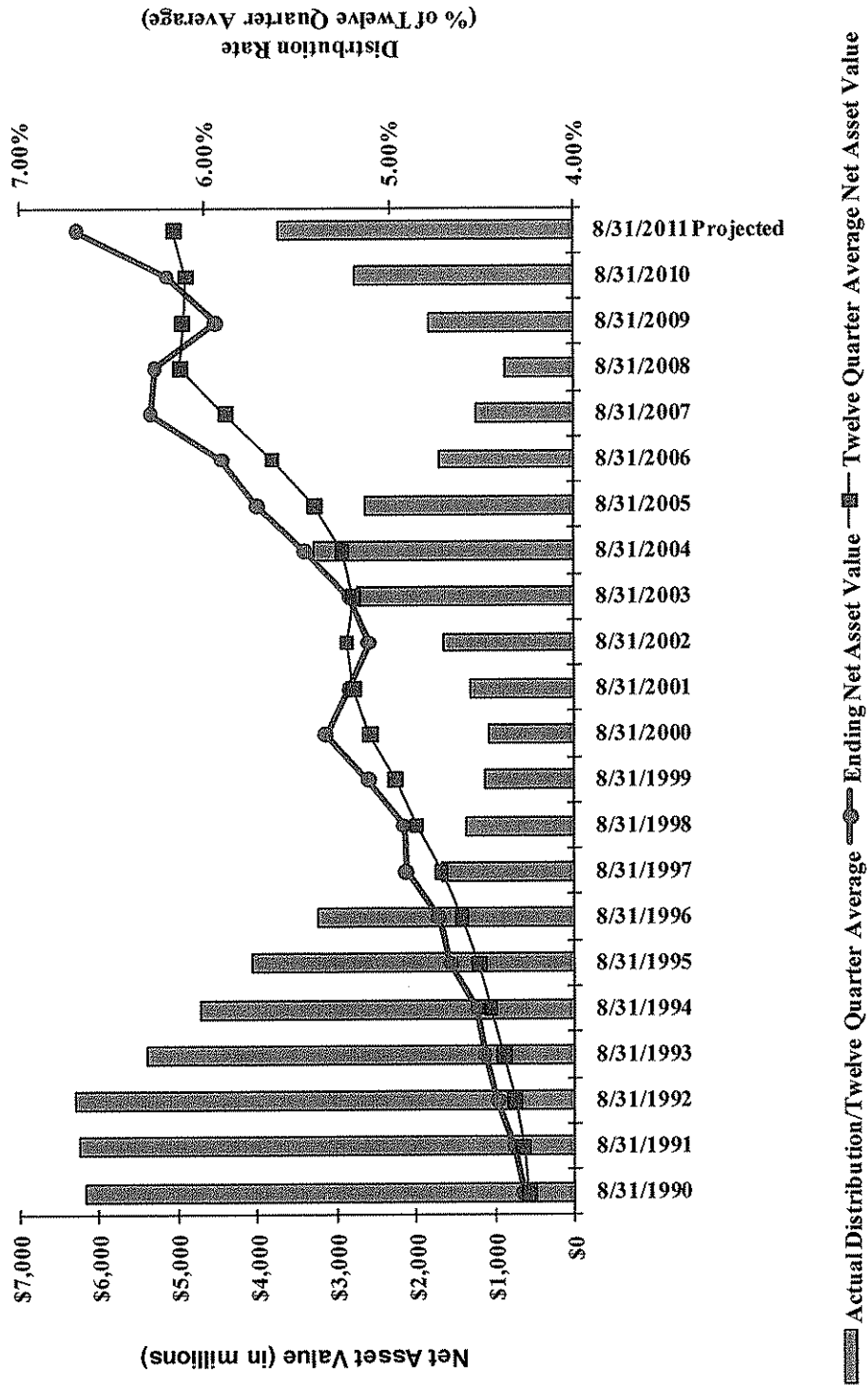
(\$ in millions)

	Ending Net Asset Value	Twelve Quarter Average Net Asset Value	\$ Distribution	Policy Distribution Rate	Actual Distribution/ Twelve Quarter Average	Actual Distribution/ Ending Net Asset Value
8/31/1990 *	\$3,541	\$3,587	\$266	N/A	7.42%	7.51%
8/31/1991 *	3,922	3,716	258	N/A	6.94%	6.58%
8/31/1992 *	4,145	3,830	257	N/A	6.71%	6.20%
8/31/1993 *	4,469	4,058	250	N/A	6.16%	5.59%
8/31/1994 *	4,428	4,269	242	N/A	5.67%	5.47%
8/31/1995 *	4,959	4,453	250	N/A	5.61%	5.04%
8/31/1996 *	5,292	4,768	254	N/A	5.33%	4.80%
8/31/1997 *	6,368	5,294	265	N/A	5.01%	4.16%
8/31/1998 *	6,517	6,024	307	N/A	5.10%	4.71%
8/31/1999 *	7,466	6,709	264	N/A	3.94%	3.54%
8/31/2000	8,452	7,375	298	4.50%	4.04%	3.53%
8/31/2001	7,540	7,659	317	4.50%	4.14%	4.20%
8/31/2002	6,738	7,571	338	4.50%	4.46%	5.02%
8/31/2003	7,245	7,138	363	4.75%	5.09%	5.01%
8/31/2004	8,088	7,249	348	4.75%	4.80%	4.30%
8/31/2005	9,427	7,880	341	4.75%	4.33%	3.62%
8/31/2006	10,313	8,956	357	4.75%	3.99%	3.46%
8/31/2007	11,743	10,070	401	4.75%	3.98%	3.41%
8/31/2008	11,359	11,059	449	4.75%	4.06%	3.95%
8/31/2009	9,674	10,745	531	5.00%	4.94%	5.49%
8/31/2010	10,725	10,473	516	4.75%	4.93%	4.81%
8/31/2011 Projected	12,700	10,598	506	4.75%	4.77%	3.98%

* Prior to the fiscal year ending August 31, 2000, only investment income (interest and dividends) could be distributed from PUF assets as restricted per the State Constitution. The passage of Proposition 17 in November 1999 eliminated this restriction.



LTF Balances and Distribution Rates





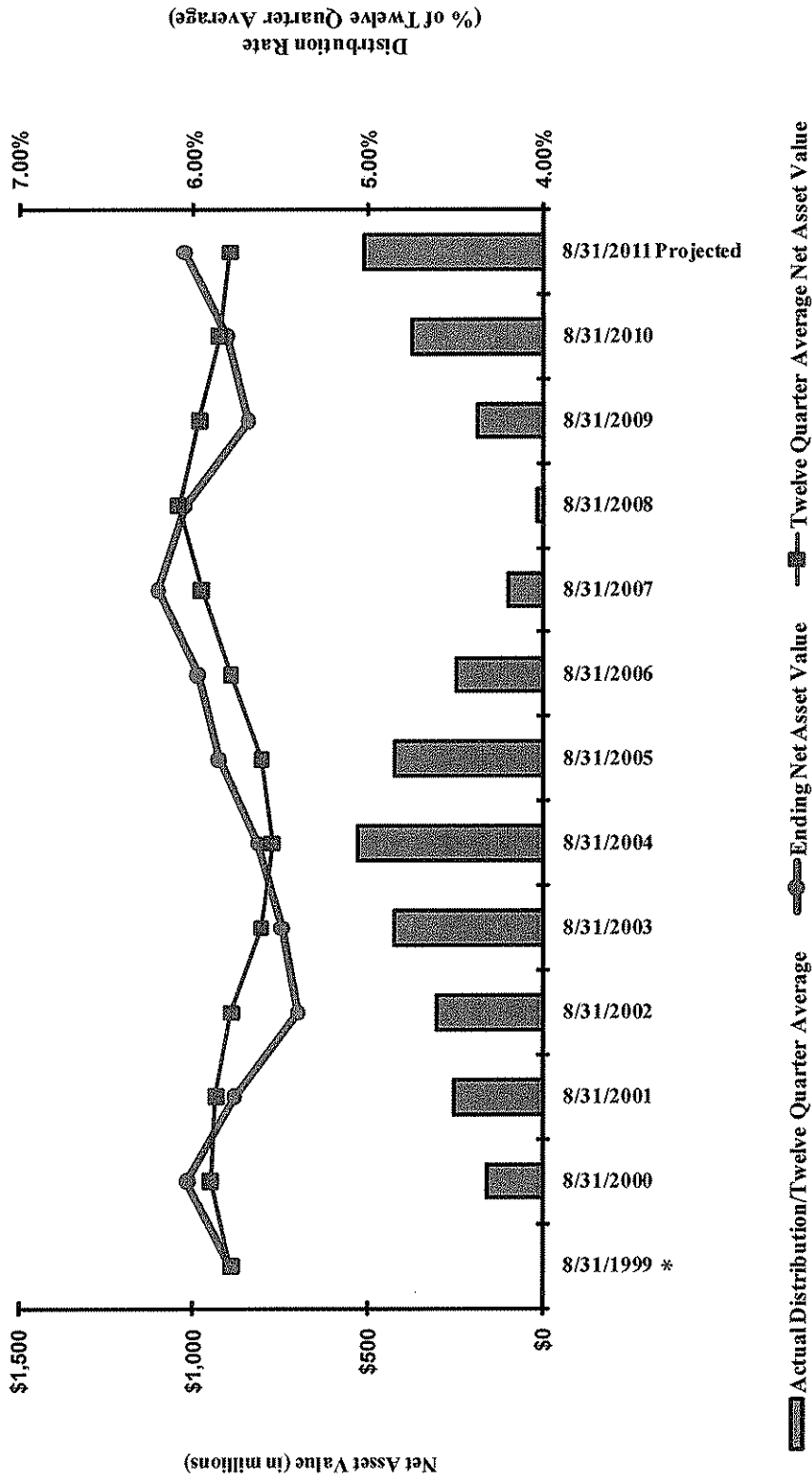
LTF Distribution Rates

(\$ in millions)

	Ending Net Asset Value	Twelve Quarter Average Net Asset Value	Twelve Quarter Average Net Asset Value	\$ Distribution	Actual Distribution/ Twelve Quarter Average	Actual Distribution/ Ending Net Asset Value
8/31/1990	\$645	\$572	\$38	6.64%	5.89%	
8/31/1991	764	644	43	6.68%	5.63%	
8/31/1992	959	746	50	6.70%	5.21%	
8/31/1993	1,128	888	56	6.31%	4.96%	
8/31/1994	1,226	1,047	63	6.02%	5.14%	
8/31/1995	1,559	1,201	69	5.75%	4.43%	
8/31/1996	1,712	1,412	76	5.38%	4.44%	
8/31/1997	2,125	1,674	79	4.72%	3.72%	
8/31/1998	2,148	1,986	91	4.58%	4.24%	
8/31/1999	2,602	2,252	101	4.48%	3.88%	
8/31/2000	3,136	2,576	115	4.46%	3.67%	
8/31/2001	2,843	2,784	127	4.56%	4.47%	
8/31/2002	2,595	2,872	135	4.70%	5.20%	
8/31/2003	2,840	2,781	144	5.18%	5.07%	
8/31/2004	3,393	2,922	158	5.41%	4.66%	
8/31/2005	4,001	3,273	168	5.13%	4.20%	
8/31/2006	4,441	3,805	180	4.73%	4.05%	
8/31/2007	5,333	4,396	199	4.53%	3.73%	
8/31/2008	5,285	4,967	217	4.37%	4.11%	
8/31/2009	4,517	4,930	236	4.79%	5.22%	
8/31/2010	5,130	4,883	253	5.18%	4.93%	
8/31/2011 Projected	6,270	5,039	282	5.60%	4.50%	



PHF Balances and Distribution Rates



* The PHF was funded August 30, 1999. Average net asset values for periods less than twelve quarters are calculated based on the number of applicable periods. The first PHF distribution was paid November 30, 1999.



PHF Distribution Rates

(\$ in millions)

	Ending Net Asset Value	Twelve Quarter Average Net Asset Value	\$ Distribution	Actual Distribution/ Twelve Quarter Average	Actual Distribution/ Ending Net Asset Value
8/31/1999	890	890	N/A	N/A	N/A
8/31/2000	1,017	949	41	4.32%	4.03%
8/31/2001	881	933	42	4.50%	4.77%
8/31/2002	698	890	41	4.61%	5.87%
8/31/2003	745	804	39	4.85%	5.23%
8/31/2004	814	772	39	5.05%	4.79%
8/31/2005	926	804	39	4.85%	4.21%
8/31/2006	987	891	40	4.49%	4.05%
8/31/2007	1,100	976	41	4.20%	3.73%
8/31/2008	1,026	1,043	42	4.03%	4.09%
8/31/2009	842	984	43	4.37%	5.11%
8/31/2010	905	927	44	4.75%	4.86%
8/31/2011 Projected	1,026	896	45	5.02%	4.39%

* The PHF was funded August 30, 1999. Average net asset values for periods less than twelve quarters are calculated based on the number of applicable periods. The first PHF distribution was paid November 30, 1999.



PUF and LTF Inflows: Actual and Forecast

	Actual										Forecasted	
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
PUF:												
West Texas Land Mineral Receipts	\$83	\$116	\$81	\$102	\$147	\$193	\$215	\$273	\$458	\$340	\$338	\$502
% of Annual Average NAV	1.04%	1.45%	1.13%	1.46%	1.92%	2.20%	2.18%	2.48%	3.97%	3.23%	3.31%	4.29%

% of 10 Year Average Contributions to 10 Year Average NAV	1.26%	1.23%	1.21%	1.20%	1.27%	1.38%	1.48%	1.61%	1.95%	2.22%	2.44%	2.70%
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	Actual										Forecasted	
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
LTF:												
Contributions	\$119	\$122	\$92	\$71	\$287	\$142	\$172	\$363	\$355	\$192	\$291	\$455
% of Annual Average NAV	4.15%	4.08%	3.38%	2.61%	9.21%	3.84%	4.07%	7.43%	6.69%	3.92%	6.03%	7.98%
% of 10 Year Average Contributions to 10 Year Average NAV	5.85%	5.53%	4.85%	4.33%	4.66%	4.03%	4.06%	4.57%	4.94%	4.99%	5.17%	5.52%



Projected Distributions (1)

(in millions)

	Projected										
	FY 2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
PUF											
Case I	\$506	\$497	\$566	\$623	\$634	\$662	\$691	\$691	\$691	\$779	\$810
Investment Return = Real 5%											
Case II											
Investment Return = 0%	\$506	\$497	\$555	\$556	\$554	\$533	\$511	\$488	\$466	\$445	\$424
LTF											
Case I	\$282	\$298	\$317	\$335	\$355	\$375	\$395	\$416	\$438	\$460	\$483
Investment Return = Real 5%											
Case II											
Investment Return = 0%	\$282	\$299	\$318	\$339	\$352	\$365	\$379	\$394	\$411	\$429	\$449
PHF											
Case I	\$45	\$46	\$48	\$49	\$51	\$52	\$54	\$56	\$57	\$59	\$61
Investment Return = Real 5%											
Case II											
Investment Return = 0%	\$45	\$46	\$48	\$49	\$51	\$51	\$51	\$51	\$51	\$51	\$51

(1) Assumed 3.0% Inflation Rate



LTF Distribution Projections Based on 4.75% of a Rolling Twelve Quarter Average (in millions)

Purchasing Power Calculation:

Ten Year Periods Ending February 28,

	Actual										Projected											
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Rate of Investment Return:	13.26%	12.23%	10.34%	8.39%	10.53%	11.34%	10.38%	10.17%	8.78%	4.49%	5.06%	6.89%	8.17%	9.95%	7.79%	7.50%	7.15%	6.76%	6.72%	11.64%	9.65%	8.82%
Less:																						
Expenses	-0.24%	-0.23%	-0.20%	-0.20%	-0.20%	-0.19%	-0.18%	-0.18%	-0.17%	-0.19%	-0.19%	-0.21%	-0.25%	-0.27%	-0.30%	-0.35%	-0.37%	-0.40%	-0.42%	-0.43%	-0.44%	-0.45%
Inflation	-2.88%	-2.70%	-2.53%	-2.50%	-2.42%	-2.43%	-2.46%	-2.46%	-2.72%	-2.58%	-2.47%	-2.33%	-2.52%	-2.52%	-2.65%	-2.65%	-2.59%	-2.65%	-2.55%	-2.83%	-2.91%	-3.00%
Distributions	-5.07%	-4.86%	-4.72%	-4.68%	-4.66%	-4.59%	-4.54%	-4.52%	-4.52%	-4.57%	-4.72%	-4.81%	-4.82%	-4.73%	-4.67%	-4.65%	-4.64%	-4.64%	-4.65%	-4.56%	-4.41%	-4.33%
Net Real Return	5.07%	4.44%	2.89%	1.00%	3.25%	4.12%	3.13%	3.02%	1.36%	-2.84%	-2.33%	-0.46%	0.58%	2.40%	0.16%	-0.13%	-0.44%	-0.92%	-0.90%	3.82%	1.89%	1.04%

Purchasing Power not met

Purchasing Power not met

Distributions:

Periods Ending August 31,

	Actual (1)										Projected (2)											
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Per Unit Distribution Rate	\$0.2450	\$0.2510	\$0.2580	\$0.2645	\$0.2697	\$0.2764	\$0.2844	\$0.2929	\$0.3024	\$0.3098	\$0.3172	\$0.2894	\$0.3114	\$0.3290	\$0.3259	\$0.3259	\$0.3259	\$0.3259	\$0.3259	\$0.3934	\$0.4100	\$0.4270

(1) Distribution based on current methodology of increasing current per unit distribution rate by trailing three year average inflation rate.

(2) Distribution based on 4.75% of a rolling twelve quarter average net asset value per unit.



PHF Distributions Based on 4.75% of a Rolling Twelve Quarter Average (in millions)

Purchasing Power Calculation:
Ten Year Periods Ending February 28,

	Actual												Projected										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Rate of Investment Return:	9.68%	5.20%	1.69%	-0.99%	5.62%	6.71%	7.57%	8.27%	8.38%	3.40%	5.02%	6.89%	8.17%	9.93%	7.79%	7.50%	7.15%	6.76%	6.72%	11.64%	9.64%	8.82%	
Less:																							
Expenses	-0.13%	-0.19%	-0.14%	-0.12%	-0.11%	-0.10%	-0.10%	-0.10%	-0.10%	-0.10%	-0.09%	-0.08%	-0.08%	-0.08%	-0.08%	-0.08%	-0.08%	-0.08%	-0.08%	-0.08%	-0.08%	-0.08%	-0.08%
Inflation	-1.62%	-3.42%	-2.52%	-2.65%	-2.44%	-2.54%	-2.70%	-2.67%	-2.83%	-2.56%	-2.47%	-2.33%	-2.52%	-2.52%	-2.65%	-2.65%	-2.59%	-2.65%	-2.55%	-2.83%	-2.91%	-3.00%	
Distributions	-2.17%	-4.36%	-4.57%	-4.86%	-4.95%	-4.89%	-4.81%	-4.71%	-4.60%	-4.60%	-4.70%	-4.75%	-4.70%	-4.56%	-4.46%	-4.42%	-4.43%	-4.46%	-4.52%	-4.49%	-4.39%	-4.34%	
Net Real Return	5.76%	-2.78%	-5.54%	-8.61%	-1.87%	-0.83%	-0.84%	0.79%	0.85%	-3.86%	-2.24%	-0.27%	0.87%	2.77%	0.60%	0.55%	0.05%	-0.43%	-0.43%	4.24%	2.28%	1.40%	

Purchasing Power not met
Purchasing Power met
Purchasing Power met

Purchasing Power not met
Purchasing Power met
Purchasing Power met

	Actual (1)												Projected (2)										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	
Distributions:																							
Periods Ending August 31,	\$0.0460	\$0.0470	\$0.0470	\$0.0470	\$0.0470	\$0.0482	\$0.0496	\$0.0511	\$0.0528	\$0.0541	\$0.0554	\$0.0524	\$0.0547	\$0.0589	\$0.0624	\$0.0652	\$0.0679	\$0.0679	\$0.0679	\$0.0769	\$0.0801	\$0.0835	
Per Unit Distribution Rate																							

(1) Distribution based on current methodology of increasing current per unit distribution rate by trailing three year average inflation rate.
(2) Distribution based on 4.75% of a rolling twelve quarter average net asset value per unit.



Recommendations

- PUF distribution for FY 2012 be set at \$497.0 million based on 4.75% of rolling twelve quarter average net asset value of PUF Investments;
- Increase the LTF distribution rate from \$.3172 per unit to \$.3215 per unit based on a trailing twelve quarter average rate of inflation of 1.4%;
- Increase the PHF distribution rate from \$.0554 per unit to \$.0561 per unit based on a trailing twelve quarter average rate of inflation of 1.4%; and
- Retain 3.00% distribution rate for ITF.

The University of Texas Investment Management Company Charter of the Policy Committee

Background

The Board of Directors (the "Board") of The University of Texas Investment Management Company (the "Corporation") has established a Policy Committee (the "Committee"). This Charter, adopted by the Board on ~~November 16, 2005~~ April 14, 2011, supersedes the Charter adopted by the Board on November 16, 2005, and sets forth the responsibilities of the Committee.

Purpose

The primary purpose of the Committee is to provide oversight and to monitor:

1. The development and amendment of UTIMCO Board Policies and Corporate Documents;
2. Recommendations concerning the development and amendment of investment-related policies of The University of Texas System Board of Regents (U.T. Board) related to the management of funds under the control and management of the U.T. Board; and
3. Recommendations concerning the amendment of the Investment Management Services Agreement (the "IMSA"), Code of Ethics, and Bylaws.

Any decisions made by the Committee regarding the above responsibilities will be submitted to the Board for approval.

Composition

The Committee shall be composed of at least three members of the Board appointed from time to time by a majority vote of the Board at a meeting at which a quorum is present. Individuals who are not members of the Board may be appointed to the Committee; provided however, a majority of the Committee members shall be members of the Board of Directors. A member may be removed with or without cause at any time by a majority vote of the Board. ~~Only members of the Board are eligible to serve on the Committee.~~

Meetings; Quorum; Etc.

The Corporation's Bylaws state that any committee created by the Board or the Bylaws, including the Committee, shall (i) have a chairman designated by the Board, (ii) fix its own rules or procedures, (iii) meet at such times and at such place or places as may be provided by such rules or by resolution of the Committee or resolution of the Board, and (iv) keep regular minutes of its meetings and cause such minutes to be recorded in books kept for that purpose in the principal office of the Corporation, and report the same to the Board at its next ~~succeeding~~ regular meeting. At every meeting of the Committee, the presence of a majority of all the members thereof shall constitute a quorum, and the

affirmative vote of a majority of the members present shall be necessary for the adoption by it of any action, unless otherwise expressly provided in the Committee's rules or procedures or the Bylaws of the Corporation or by the Board. The Board may designate one or more Directors as alternate members of the Committee, who may replace any absent or disqualified member of the Committee. In the absence or disqualification of a member of the Committee, the member or members present at any meeting of the Committee and not disqualified from voting, whether or not constituting a quorum, may unanimously appoint the designated alternate Director to act at the meeting in the place of the absent or disqualified member.

Duties and Responsibilities

UTIMCO Board Policies and Corporate Documents

The Committee has the following duties and responsibilities with respect to its oversight and monitoring of UTIMCO Board Policies and Corporate Documents (excluding the IMSA, Code of Ethics, Bylaws and any other corporate documents requiring U.T. Board approval):

- Review any UTIMCO Board Policies developed by UTIMCO staff and provide guidance and suggested language when necessary;
- Determine which internal policies and procedures should be considered UTIMCO Board Policies;
- Recommend to the Board the approval of any new UTIMCO Board Policies; and
- Review suggested amendments to UTIMCO Board Policies and Corporate Documents and provide guidance and suggested language when necessary.

In addition to its duties and responsibilities with respect to its oversight and monitoring of UTIMCO Board Policies and Corporate Documents, the Committee, shall perform such additional special functions, duties or responsibilities related thereto as may from time to time be designated to it by the Board Chairman.

In discharging its responsibilities, the Committee may accept comments and suggestions from Board consultants, U.T. System staff, and other individuals as it deems necessary.

Investment Policies of the U.T. Board

The Board has been delegated certain responsibilities by the U.T. Board including the development and review of investment policies with respect to the investment management of funds under the control and management of the U.T. Board, including asset allocation, distribution (spending) guidelines, long-term investment return expectations and expected risk levels, asset allocation targets and ranges, and other matters as the U.T. Board requests. Upon its review and approval, the Board shall present recommendations concerning the investment policies to the U.T. Board for approval.

The Committee has the following duties and responsibilities with respect to its oversight and monitoring of the investment policies of the U.T. Board related to the investment management of the funds under the control and management of the U.T. Board:

- Review U.T. Board investment policy recommendations developed by UTIMCO staff and provide guidance and suggested language when necessary;
- Recommend to the Board the approval of any new U.T. Board Policies;
- Review suggested amendments to U.T. Board Policies and provide guidance and suggested language when necessary; and
- Recommend to the Board the approval of amended U.T. Board Policies.

In addition to its duties and responsibilities with respect to its oversight and monitoring of the investment policies, the Committee, if requested by the Board Chairman, shall provide recommendations concerning the annual distribution amount and payout rates of the fund assets under management.

In discharging its responsibilities, the Committee may accept comments and suggestions from Board consultants, U.T. System staff, and other individuals as it deems necessary. The investment policies of the U.T. Board require U.T. Board approval.

Amendments of the IMSA, Code of Ethics, Bylaws and other Corporate documents requiring U.T. Board approval

The Committee has the following duties and responsibilities with respect to its oversight and monitoring of the amendments of the IMSA, Code of Ethics, Bylaws and other Corporate documents requiring U.T. Board approval:

- Review amendments to Corporate documents prepared by UTIMCO staff requiring U.T. Board approval and provide guidance and suggested language when necessary; and
- Recommend to the Board the approval of such amendments.

Upon its review and approval, the Board shall present the amendments to the U.T. Board for approval. In discharging its responsibilities, the Committee may accept comments and suggestions from Board consultants, U.T. System staff, and other individuals as it deems necessary.

Other Duties

The Committee will evaluate the Committee's performance on a periodic basis, periodically review the adequacy of this Charter and submit this Charter to the Board for its approval; and perform any other activities consistent with this Charter, the Corporation's Bylaws, and applicable laws as the Committee or the Board deems necessary or appropriate.

Approved by the Board of Directors on April 14, 2011.



Wellington Management Company

- Wellington Management Company, LLP (“Wellington”) manages ~\$634 billion in assets for approximately 1,900 institutions in over 50 countries and across a range of asset classes, including equities, fixed income, currencies, and commodities.
 - Assets under management are approximately 45% equities, 42% bonds, and 13% multi-strategy.
 - Offices located in Boston, Chicago, Radnor, San Francisco, Beijing, Hong Kong, London, Frankfurt, Singapore, Sydney, and Tokyo.
- Wellington’s strategies have demonstrated a strong record of alpha generation. Wellington also has strong trading/reporting systems and risk controls.
- UTIMCO currently has two mandates with Wellington:
 - Special Equity (global equities)
 - Investment of \$196 million*
 - Initially funded September 2008
 - Wellington AUM for this strategy is ~\$1.3 billion
 - Emerging Markets (emerging markets equities)
 - Investment of \$164 million*
 - Initially funded December 2009
 - Wellington AUM for this strategy is ~\$11.0 billion

* Across PUF, GEF, and ITF as of February 28, 2011.



Wellington Commodity Strategy

- UTIMCO is considering an investment of up to \$250 million in the Wellington Commodities Portfolio focused on fundamental research-based active management.
- The Commodity Strategy was launched in July 2003 and has generated 14.64% annualized return with 17.59% annualized volatility since inception through November, 2010. Wellington has ~\$4 billion under management in this strategy.
 - David Chang, CFA and Gregory LeBlanc, CFA act as co-portfolio managers for the Commodity Portfolio
 - There are 14 investment professionals dedicated to the strategy, including the two portfolio managers
- The Commodity strategy invests in actively traded futures contracts for a universe of 50 commodities and focuses on commodity and contract selection as well as sector allocation
 - Wellington has already placed a “soft” close on strategy
 - The Commodity Portfolio has daily liquidity
 - There is a flat management fee of 75 bps

Tab 8

Agenda Item
UTIMCO Board of Directors Meeting
April 14, 2011

- Agenda Item:** Report on and Discussion and Appropriate Action Related to Items from Audit and Ethics Committee – Discussion and Appropriate Action Related to Proposed Amendments to the Charter of the Audit and Ethics Committee
- Developed By:** Staff
- Presented By:** Staff
- Type of Item:** Action required by UTIMCO Board related to proposed amendments to the Charter of the Audit and Ethics Committee; Information item on other items
- Description:** The Audit and Ethics Committee (“Committee”) will meet on April 7, 2011. The Committee's agenda includes (1) approval of the Committee minutes; (2) report from the UT System Audit Office related to audits of information technology; (3) an update of other compliance, reporting, and audit issues; (4) a presentation of the unaudited financial statements for the six months ended February 28, 2011, for the Investment Funds and the Corporation; and (5) discussion and appropriate action related to proposed amendments to the Charter of the Audit and Ethics Committee.
- Discussion:** The Committee will review and take action on staff's proposed changes to the Charter of the Audit and Ethics Committee.
- The UT System Audit Office will review the UTIMCO Information Security Application Audit Report, which is related to the audit of three security applications internally developed by the UTIMCO IT department, with the Committee.
- Routine activities of the Committee will include reviewing the unaudited financial statements for the six months ended February 28, 2011 for the Investment Funds and UTIMCO Corporation and the quarterly compliance reports.
- Recommendation:** The Committee will request the UTIMCO Board take appropriate action based on the Committee's action from its meeting related to proposed amendments to the Charter of the Audit and Ethics Committee.
- Reference:** Proposed Amendments to the Charter of the Audit and Ethics Committee; Quarterly Compliance Reports

**RESOLUTION RELATED TO
AUDIT CHARTER OF THE AUDIT AND ETHICS COMMITTEE**

RESOLVED, that the amendments to the Charter of the Audit and Ethics Committee be, and are hereby approved, in the form submitted to the Corporation's Board of Directors.

UTIMCO The University of Texas Investment Management Company

Audit Charter of the Audit And Ethics Committee
OF THE
AUDIT AND ETHICS COMMITTEE

Background

The Board of Directors (the "Board") of UTIMCO (the "Corporation") established an Audit and Ethics Committee (the "Committee") on February 22, 1996. On July 15, 1996, the Board adopted certain resolutions regarding, among other things, the Corporation's Audit and Ethics Committee Mandate (the "Mandate"). The Mandate was superseded superseded by this Audit Charter. This Charter adopted by the Board on April 14, 2011, supersedes the Charter adopted by the Board on September 21, 2007.

Purpose

The primary purpose of the Committee is to assist the Board in monitoring the ethics programs and the audit, financial and compliance functions of the Corporation and the investment funds managed on behalf of The University of Texas System Board of Regents (the "UT Board") to assure the balance, transparency and integrity of published financial information. Specifically, the Committee is to assist the Board in monitoring:

- the integrity of the financial reporting process, the system of internal controls, the audit process, and the process for monitoring compliance —with laws and regulations;
- the independence and performance of the Chief Compliance Officer;
- the independence and performance of the Corporation's independent auditors;
- the independence and performance of the independent auditors selected by the UT Board to audit the investment funds managed by UTIMCO on their behalf;
- internal audit functions performed by the UT System Audit Office;
- independent audit functions performed by the Texas State Auditor's Office;
- the Corporation's audit policies, ethics programs, and adherence to regulatory requirements; and
- the Corporation's enterprise risk management.

The Committee is responsible for maintaining free and open communication as well as effective working relationships among the Committee members, the Chief Compliance Officer, independent external auditors, UT System's ~~internal auditors~~ Audit Office, the Texas State Auditor's Office, and management of the Corporation. To perform his or her role effectively, each ~~committee~~Committee member will need to develop and maintain his or her skills and knowledge, including an understanding of the Committee's responsibilities and of the Corporation's activities, operations and risks.

The Committee will take all appropriate actions to set the overall tone at the Corporation for quality financial reporting, sound risk practices, and ethical behavior.

Scope

-This Audit Charter sets forth the Committee's monitoring responsibilities with respect to the Corporation and the investment funds subject to the Master Investment Management Services Agreement by and between the UT Board and the Corporation effective March 1, 1996, and any subsequent amendments or restatements. As such, the role and purpose of the Committee includes monitoring the functions and processes for both the Corporation and the investment assets-funds managed on behalf of the UT Board.

Composition

The Committee shall be composed of at least three members of the Board; such members to be appointed from time to time by a majority vote of the Board at a meeting a which a quorum is present and approved by the UT Board as required by Section 66.08 (c)(3) of the *Texas Education Code*. Individuals who are not members of the Board may be appointed to the Committee; provided however, a majority of the Committee members shall be members of the Board of Directors. Members of the Committee must meet the independence and financial literacy requirements as defined below. A member may be removed with or without cause at any time by a vote of a majority of the Board.

Independence Requirements

The Board shall determine that all members of the Committee are independent. A person is "independent" who has no relationship with the Corporation which would interfere with his or her exercise of independence from management. In addition, Committee members would not be "independent" if during the three years prior to their appointment or at any time during their service on the Committee, they accepted, directly or indirectly, any consulting, advisory, or other compensatory fee from the Corporation apart from travel and expense reimbursements they may receive as members of the Board and its Committees.

Financial Literacy

The Board, based on its business judgment, shall determine that each member of the Committee is financially literate.

Financial Management Expertise

The Board, based on its business judgment, shall determine that at least one member of the Committee is a "financial expert." A financial expert possesses the following attributes:

- an understanding of generally accepted accounting principles (GAAP) and financial statements;
- an ability to assess the application of GAAP in connection with accounting for estimates, accruals and reserves;
- an understanding of audit committee functions;
- experience preparing, auditing, analyzing or evaluating financial statements, or experience actively supervising persons engaged in such activities; and
- an understanding of internal controls and procedures for financial reporting.

Meetings; Quorum; Etc.

The Corporation's Bylaws state that any committee created by the Board or the Bylaws shall (i) have a chairman designated by the Board, (ii) fix its own rules or procedures, (iii) meet at such times and at such place or places as may be provided by such rules or by resolution of such committee or resolution of the Board, and (iv) keep regular minutes of its meetings and cause such minutes to be recorded in books kept for that purpose in the principal office of the Corporation, and report the same to the Board at its next succeeding regular meeting. At every meeting of any such committee, the presence of a majority of all the members thereof shall constitute a quorum, and the affirmative vote of a majority of the members present shall be necessary for the adoption by it of any action, unless otherwise expressly provided in the committee's rules or procedures or the Bylaws of the Corporation or by the Board. The Board may designate one or more Directors as alternate members of any committee, who may replace any absent or disqualified member of such committee. In the absence or disqualification of a member of a committee, the member or members present at any meeting of the committee and not disqualified from voting, whether or not constituting a quorum, may unanimously appoint the designated alternate Director to act at the meeting in the place of the absent or disqualified member.

Functions, Duties and Responsibilities

Review Financial Statements for Quality Considerations

The Committee has the following duties and responsibilities with respect to the financial statements of the Corporation and the investment funds managed on behalf of the UT Board:

- review the annual audited financial statements with management and the independent auditor, including significant issues regarding adequacy of internal controls and accounting principles and practices;
- review an analysis prepared by management and the independent auditor of significant financial reporting issues and judgments made in connection with the preparation of the financial statements;
- discuss with the independent auditor the matters required to be discussed communicated by Statement on Auditing Standards No. 61AU 380, *The Auditor's Communication with Those Charged with Governance*, as amended, relating to the conduct of an audit of financial statements;
- discuss with the independent auditor any fraud of which the independent auditor becomes aware that involves senior management and/or which causes a material misstatement of the financial statements; and
- receive and review periodic reports from the independent auditor regarding the auditor's independence and discuss such reports with the auditor.

Monitor Management's Handling of Internal Controls

The Committee has the following duties and responsibilities with respect to its monitoring of the integrity of the financial reporting process and internal controls of the Corporation and the investment funds managed on behalf of the UT Board:

- review with the independent auditor all significant deficiencies and material weaknesses identified during the audit as required by AU 325, *Communicating Internal Control related Matters Identified in an Audit*, as amended.
- review with the independent auditor any problems or difficulties the auditor may have encountered during its audit and any management letter provided by the auditor and the Corporation's response to that letter, such review to include:
 - any restrictions on the scope of activities or access to required information; and
 - any changes required in the planned scope of the audit;
- obtain reports from management, the independent auditor and UT System internal auditor Audit Office with respect to the Corporation's policies and procedures regarding compliance with applicable laws and regulations;
- when considered necessary, meet at least annually with the independent auditor and the senior personnel of the UT System Audit Office without management participation;

- meet periodically with management to review the major financial risk exposures and the steps management has taken to monitor and control such exposures;
- review significant changes to internal controls and accounting principles and practices as suggested by the independent auditor, internal auditors or management;
- review the significant reports to management prepared by the UT System Audit Office and management's responses; and
- review with the Corporation's legal counsel or other appropriate persons legal matters that may have a material impact on the financial statements, the Corporation's compliance policies and any material reports or inquiries received from regulators or governmental agencies.

Manage the Relationship with the External Auditors

The external auditors for the Permanent University Fund are selected by the UT Board. These auditors have a dual reporting responsibility, reporting to both the Audit, Compliance, and Management Review Committee of the UT Board and to the Committee. The external auditors for the Corporation are selected by, and report to, the Board. By agreement between the UT Board and the Board, the external auditors for the other investment funds managed by the Corporation on behalf of the UT Board will be selected by the UT Board and will have a dual reporting responsibility, reporting to both the Audit, Compliance, and Management Review Committee of the UT Board and to the Committee. The Committee may approve additional audit and non-audit services provided by the external auditor related to the Corporation and investment funds as long as the work does not impair auditor independence.

The Committee has the following specific duties and responsibilities with respect to the Corporation's independent auditors:

- recommend to the Board the appointment of the independent auditor, which firm is ultimately accountable to the Committee and the Board.
- approve the fee arrangement of the independent auditor;
- after interviewing members of the Corporation's staff, evaluate together with the Board the performance of the independent auditor and, if so determined by the Committee, recommend that the Board replace the independent auditor; and
- if determined by the Committee to be necessary or advisable, recommend that the Board take appropriate action to satisfy itself of the independence of the auditor.

Auditor Independence

In connection with the selection of external auditors, the Committee shall determine that:

- the public accounting firm engaged to perform the annual audit does not provide non-audit services contemporaneously with the audit;
- the lead audit partner and reviewing partner rotate off of the audit every 5 years, unless the Committee adopts a resolution affirmatively determining that such rotation is not required; and
- the CEO, Controller, CFO, Chief Accounting Officer, or person in an equivalent position shall not have been employed by the public accounting firm during the 1 year period proceeding the audit.

Work with the Internal Audit Function

The Corporation utilizes the UT System ~~Internal Audit Department~~ Audit Office to perform internal audit functions hereunder with respect to the Corporation and investment funds and report directly to the Committee. The Committee has the following duties and responsibilities with respect to internal audit:

- review the independence, qualifications, activities, resources and structure of the internal audit function;
- review significant findings and recommendations made by the internal auditor and management's response and proposed implementation plan;
- review the proposed internal audit plan for the coming year to determine that it addresses key areas of risk and that there is appropriate coordination with the external auditor;
- review completed internal audits and the status of management's implementing implementation of related recommendations; and
- receive a progress report on the internal audit plan with explanations for any deviations from the original plan.

Monitor Ethics Program

The Committee is responsible for overseeing codes of conduct/conflicts of interest and a system of addressing complaints. The Committee has the following duties and responsibilities in monitoring the ethics program:

- periodically review the Code of Ethics policy of the Corporation and recommend any proposed changes to the Policy Committee for concurrence and submission to the Board for approval;
- periodically evaluate and review the Corporation's compliance process;
- follow the UT System compliance guideline as outlined in the Action Plan to Enhance Institutional Compliance; and
- review procedures for the receipt, retention and treatment of complaints about accounting, internal accounting controls or auditing matters.

Oversee Regulatory Compliance

The Committee is responsible for overseeing the effectiveness of the system for assuring compliance with laws and regulations and has the following duties and responsibilities:

- review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up of any fraudulent acts or non-compliance;
- obtain regular updates from management, the Chief Compliance Officer, and the Corporation's legal counsel regarding compliance matters that may have a material impact on the Corporation's and investment funds' financial statements or compliance policies;
- obtain regular updates from management and the Chief Compliance Officer regarding their consideration of all regulatory compliance matters in connection with the preparation of the financial statements; and
- review the findings of any examinations by regulatory agencies, including the Texas State Auditor's Office.

Oversee the Corporation's Enterprise Risk Management

Without limiting any of the foregoing, the Committee, along with management and other personnel, as directed by the UTIMCO Board, is responsible for the Corporation's enterprise risk management. Enterprise risk management assists management in achieving the Corporation's performance goals and prevents loss of resources; helps ensure effective reporting and compliance with laws and regulations; and helps avoid

damage to the Corporation's reputation and associated consequences. Enterprise risk management enables management to effectively deal with uncertainty and associated risk and opportunity, enhancing the capacity to build value. The Committee has the following responsibilities related to enterprise risk management:

- evaluate the overall effectiveness of the Corporation's achievement of its objectives, as set forth in four categories:
 - > Strategic – high-level goals, aligned with and supporting its mission;
 - > Operations – effective and efficient use of its resources;
 - > Reporting – reliability and timeliness of reporting; and
 - > Compliance -
 - with applicable laws and regulations;
 - with non-investment Board policies such as the Code of Ethics and Delegation of Authority, and non-investment items in the Board investment policies; and
 - with 1) investment risk management and compliance, 2) integrity of risk management procedures and controls, 3) integrity of risk models and modeling processes, and 4) liquidity of the Permanent University Fund, General Endowment Fund, and Intermediate Term Fund;
- evaluate whether management is setting the appropriate tone at the top by communicating the importance of enterprise risk; and
- inquire of management, the Chief Compliance Officer, the UT System's internal auditor Audit Office, and the independent external auditor about significant enterprise risks or exposures to the Corporation and how these are being managed.

With respect to 1) investment risk management and compliance, 2) integrity of risk management procedures and controls, 3) integrity of risk models and modeling processes, and 4) liquidity of the Permanent University Fund, General Endowment Fund, and Intermediate Term Fund, the Committee may rely on assurances from the Risk Committee in determining compliance.

Review the Overall Duties and Responsibilities of the Chief Compliance Officer

-The Chief Compliance Officer will report functionally to the Committee and administratively to the CEO and ~~President~~Chief Investment Officer. The Chief Compliance Officer will develop an annual plan for review and approval by the Committee. The Committee and the CEO and ~~President~~Chief Investment Officer will approve the Chief Compliance

Officer's individual performance goals and achievement of the goals, and will make joint recommendations to the Compensation Committee as to base salary and performance incentive awards for the Chief Compliance Officer. The CEO and ~~President~~Chief Investment Officer will nominate the Chief Compliance Officer for hiring by the Committee. The Committee has exclusive dismissal authority. The Chief Compliance Officer will report compliance activities directly to the Committee at its regular meetings and to the chair between meetings. The CEO and ~~President~~Chief Investment Officer will direct day-to-day responsibilities of the Chief Compliance Officer with oversight by the Committee.

Other Duties

The Committee has the following additional duties and responsibilities:

- make regular reports (at least twice each calendar year) to the Board regarding the Committee's activities and such other reports as may be requested by the Board;
- review and reassess the adequacy of this Audit Charter periodically and recommend any proposed changes to the Board for approval;
- perform such additional special functions, duties or responsibilities as may from time to time be designated by the Board;
- direct the scope of the Corporation's voluntary compliance with relevant provisions of the Sarbanes – Oxley Act of 2002, monitor and review the implementation of the relevant provisions; and
- evaluate the Committee's own performance, both of individual members and collectively, on a regular basis.

Powers and Limitations

The Committee shall have the authority to retain special legal, accounting or other consultants to advise the Committee. The Committee may request any officer or employee of the Corporation, the Corporation's outside legal counsel or an employee in the UT System Audit Office to attend any meeting of the Committee or to meet with any members of, or consultants to, the Committee.

Approved by the Board of Directors on ~~September 21, 2007~~April 14, 2011.



**The University of Texas Investment Management Company
Institutional Compliance Program Annual Report
for the Quarter Ended February 28, 2011**

Section I – Organizational Matters

- Director Janiece Longoria was replaced by Director Steve Hicks on February 17, 2011.
- Director Erle Nye resigned effective February 9, 2011.
- The departure of Directors Longoria and Nye leaves two vacancies on the Audit and Ethics Committee of the Board, including the chairmanship.
- Significant personnel changes: Bill Edwards, Managing Director – Information Technology, resigned on January 20, 2011. David Gahagan is serving as Acting Head of Information Technology.

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

High-Risk Area #1: Investment Due Diligence

Responsible Party: President and Deputy CIO for Public Markets and Marketable Alternatives, Managing Directors for Private Markets and Natural Resources Investments, and Senior Director - Real Estate Investments

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:

Public Markets: The Public Markets groups participated in 84 meetings/calls with potential managers. Serious due diligence was initiated on 19 managers. One manager was hired. Ongoing review of active external managers included 34 meetings/calls. Additional efforts included monthly performance tracking, reviews and analyses by the team and a quarterly portfolio review meeting.

Marketable Alternative Investments: The Marketable Alternative Investments group participated in 79 meetings/calls with potential managers. Serious due diligence was initiated on three managers. Two managers were hired. Ongoing review of external managers was conducted in the form of 68 meetings/calls and a quarterly portfolio review meeting.

Private Markets: The Private Markets group initiated serious due diligence on four potential managers. Two commitments were made. The Private Markets group also participated in 52 meetings with active external managers and 50 with potential managers, including site visits, conference calls, Advisory Board or Annual meetings and a quarterly portfolio review meeting.

Natural Resources: The Natural Resources group participated in 66 meetings/calls with potential managers. Serious due diligence was initiated on one manager. Two managers were hired. Ongoing review of active external managers included 77 meetings/calls.

Real Estate: The Real Estate group participated in 95 meetings/calls with potential managers. Serious due diligence was initiated on one manager. One manager was hired. Ongoing review of active external managers included 9 meetings/calls.

Specialized Training: Staff attended various industry-related conferences/forums and functions during the quarter.

High-Risk Area #2: Investment Risk Management

Responsible Party: Senior 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. Risk Team compared each month's risk results with both prior month results and with market activity to determine consistency, and identified reasons for all changes; prepared monthly charts and reports based on inputs from risk model during this quarter, including trend analysis of risk exposure and attribution, as well as analysis of managers' betas and correlations.
- Risk Team continued the negotiations of ISDAs with new counterparties.
- Risk Team is continuing to evaluate various tail-hedging strategies and alternatives to asset allocation methodology. A presentation on alternative Policy Portfolios was prepared for the Board and the Investment Committee.
- All internal derivatives were reviewed and analyzed in detail prior to initiation.
- Derivative positions are monitored on a daily basis. External managers that may use derivatives are monitored daily for spikes in returns or 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 risk and VaR calculations on total P&L data.
- Risk Team prepared projections on portfolio risk, country exposure, liquidity, and asset allocations; updated projections on a weekly basis.

Specialized Training: None.

High-Risk Area #3: Information Technology & Security

Responsible Party: Acting Head of Information Technology

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:

- UTIMCO completed two audits of Information Security covering (1) the ISPI and Information Security Program and (2) web application security. Relative to other institutions within the UT System, UTIMCO ranks high however the ISPI audit identified several areas for improvement. These have been incorporated into the UTIMCO Information Security Plan to work on improvement. The web application security audit included one recommendation – to increase the frequency of web application user reviews. Work is ongoing to implement this recommendation on or before June 1, 2011.
- Applications that monitor virus or malicious software are running. Mechanisms are in place to provide notification if applications are not functioning properly. Additional applications monitor server activity and notify IT staff of any perceived problems.
- Continued training of users on the procedures and proper use of encrypted USB drives on an as needed basis.
- Provided topic specific email alerts to employees regarding encryption of social security numbers and credit card numbers, computer viruses, potential attacks, and critical updates.

- Monitoring and blocking of unencrypted electronic transmissions of social security numbers and credit card numbers is ongoing. Violations are reported to the CCO and staff is reminded to transmit via encrypted means.
- Laptop security reviews continue. At random, the ISO and CCO verify laptops are physically secured to the desk. Violators are notified when necessary.
- Compliance checks for nightly shutdown/logout and VPN access continue. Violations noted and violators notified when necessary.
- Random checks for confidential data storage continue and CISO continues to work with development staff to restrict access to source code.
- A new intern was hired and trained on information security.

Specialized Training: CISO attended several UT System configuration management user group meetings and meetings of the Chief Information Security Officers Council.

High-Risk Area #4: Investment Compliance

Responsible Party: Manager - Portfolio Accounting and Operations

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. Work with custodian on getting a few remaining tests moved from old system to new Compliance Monitor continues.
- Work continues to verify that custodian software queries and database queries are working properly for manager compliance. Performed cross training with employees who work on manager compliance. Training a new employee did not occur as planned, but it is still planned for the future.
- 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 staff in prospective and active external manager investment due diligence.
- Derivative Investment Controls and Processes are being followed and work continues on improving them.
- Annual compliance statements were sent to 24 external managers.

Specialized Training: None

High-Risk Area #5: Conflicts of Interest

Responsible Party: Senior Managing Director - Accounting, Finance and Administration

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 UTIMCO Board members and key employees for all investment managers hired. Certificates were reviewed for completeness; no conflicts of interest were noted, i.e., no pecuniary interests were identified by any UTIMCO Board member or key employee.
- Verified that the funds committed during the quarter had the appropriate signed certificates of compliance.
- List of publicly traded securities of all publicly traded companies in which a UTIMCO Board member or employee has a pecuniary interest (the "restricted list") was maintained. Internal and external managers

under agency agreements are provided the restricted list in order to prevent the violation of the UTIMCO Code of Ethics and *Texas Education Code* section 66.08. No changes to the restricted list occurred and no new managers were hired which required the list to be sent.

- On a daily basis, accounting staff reviewed security holdings of internal and external managers for compliance with the restricted list. No exceptions noted.
- A new Director was appointed by the Board of Regents of The University of Texas System. Since the appointment was effective on February 17, 2011, the financial disclosure statement and ethics compliance will not be due until March 19th (30 days after the date of appointment). A request for the annual ethics compliance and financial disclosure statements from each director was made on February 25, 2011. These statements will be due on April 30, 2011.
- Periodic review of public resources for comparison with financial disclosure statement information provided by Directors and employees was not performed.
- There was one request for preclearance of securities transactions. No other trades required preclearance. Two security transactional disclosure forms were not filed within the required 10 days.
- One employee requested outside employment approval from the CEO. As required by the Code of Ethics, the CEO notified the Audit and Ethics Committee of approval given for outside employment for the previous calendar year, however, the notification was provided on March 8th (after the February 15th deadline stated in the Code of Ethics).
- One new employee (intern) was hired. Ethics training was held for the intern in February. The financial disclosure and ethics compliance statements were not provided to the intern on a timely basis; therefore, were not received within 30 days of employment as required by the Code of Ethics. The intern returned all completed statements to the Office Manager within two weeks after receiving them.
- Appropriate supporting documentation for all trips/events that required supervisor/CEO approval was received.

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 designee performed quarterly due diligence monitoring plan for each Investment group. CCO designee reviewed initial due diligence for seven (7) managers hired by the Investment groups during the quarter. Ongoing due diligence efforts on multiple managers continue. The Senior Director, Risk Management and CCO participated in the bi-weekly Investment Committee meetings, the monthly Investment meetings, and quarterly portfolio reviews.

Significant Findings: None.

High-Risk Area #2: Investment Risk Management

Assessment of Control Structure: *Opportunity for enhancement*

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 ISO and Managing Director – Information Technology regarding information technology and security practices. CCO reviews quarterly and annual reporting to System-wide Chief Information Security Officer required by UT System policy.

Significant Findings: None

High-Risk Area #4: Investment Compliance

Assessment of Control Structure: *Well controlled*

Assurance Activities Conducted: CCO is performing monthly review of Compliance Reports. CCO reviewed the documentation and workpapers supporting the various compliance reports prepared by the Responsible Parties. Monthly report (checklist) reviewed and signed off by Debbie Childers to determine that policy requirements have been maintained based on the activity performed by staff. Activities related to procedures implemented as a result of Investment Training and Consulting, Inc. risk-focused audit related to internal Fixed Income and internal Derivatives are being monitored by the CCO.

Significant Findings: None

High-Risk Area #5: Conflicts of Interest

Assessment of Control Structure: *Well controlled*

Assurance Activities Conducted: CCO designee reviewed the completed sign-offs for completeness for all certificates of compliance received. All UTIMCO Board members and all employees had timely signed off on certificates of compliance; no conflicts of interest were noted. CCO performed Code of Ethics training for new hire. 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

- Meetings of the Employee Ethics and Compliance Committee are held quarterly.
- Information Technology Access & Security: Staff member is participating in the Chief Information Security Officers Council.

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	Number	% of Total
Employee Relations	0	0.00%
Policy Issues	0	0.00%
Hang ups or wrong numbers	1	100.00%
Total	1	100.00%

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 Chief Compliance Officer, Manager of Finance & Administration, the Office Manager, the Executive Assistant to the CEO and Chief Investment Officer, and David Givens from the System-wide Compliance Office.

**The University of Texas Investment Management Company
Institutional Compliance Action Plan
Fiscal Year 2011**

#	ACTION ITEM	TARGET COMPLETION DATE	STATUS
<i>A. RISK ASSESSMENT</i>			
1.	As needed, update risk assessment and map controls identified in the risk assessment to controls identified in the process documentation	On-going	On-going
<i>B. MONITORING ACTIVITIES / ASSURANCE</i>			
2.	Meet with Responsible Parties for updates	On-going	On-going; monitoring plans are being followed
3.	Inspect high risk areas A	On-going	On-going
4.	Work with Risk Management to enhance monitoring by CCO	On-going	On-going
<i>C. COMPLIANCE TRAINING / AWARENESS</i>			
5.	Provide Code of Ethics training and information to improve staff awareness of compliance program	04/30/11	Sessions scheduled for April 4 and 8, 2011
6.	Identify and network with similarly situated compliance professionals	On-going	On-going
<i>D. REPORTING</i>			
7.	Conduct quarterly meetings with the internal ethics and compliance committee	On-going	On-going
8.	Provide quarterly/annual reports to the System-wide office	On-going	On-going
<i>E. OTHER / GENERAL COMPLIANCE</i>			
9.	Hotline report investigations	On-going	No reports needing investigation have been made for the fiscal year to date
10.	Periodic Re-evaluation of enterprise risk management and regular reporting to UTIMCO Audit and Ethics Committee	06/30/11	Will begin work on this next month
11.	ICAC activities: ICAC and Standing Committee participation	On-going	No meetings have been held during the fiscal year
12.	Work with IT to enable web-based transmission and completion of Certificates of Compliance electronically; Review of Directors Desk and other comparable products	12/31/10	David Gahagan has prepared a recommendation for the board
13.	Update and Monitor Records Retention Procedures	01/31/11	In-process, need to complete procedure; will complete by April 30th
14.	Draft and implement business continuity plan	06/30/11	Draft in -process; will schedule meetings with critical function areas

Tab 9

Agenda Item
UTIMCO Board of Directors Meeting
April 14, 2011

Agenda Item: UTIMCO Organization Update

Developed By: Zimmerman

Presented By: Zimmerman

Type of Item: Information item

Description: Mr. Zimmerman will provide an update on UTIMCO's staffing, 2011 actual to budget expenses for the six months ended February 28, 2011, and technology initiatives.

Barry McBee, Vice Chancellor and Chief Governmental Relations Officer for UT System, will update the UTIMCO Board on issues and potential legislation of interest to UTIMCO. The 82nd Regular Legislative Session started on January 11th and ends May 30, 2011.

Recommendation: None

Reference: *UTIMCO Organization Update* presentation



THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

UTIMCO ORGANIZATION UPDATE

April 14, 2011

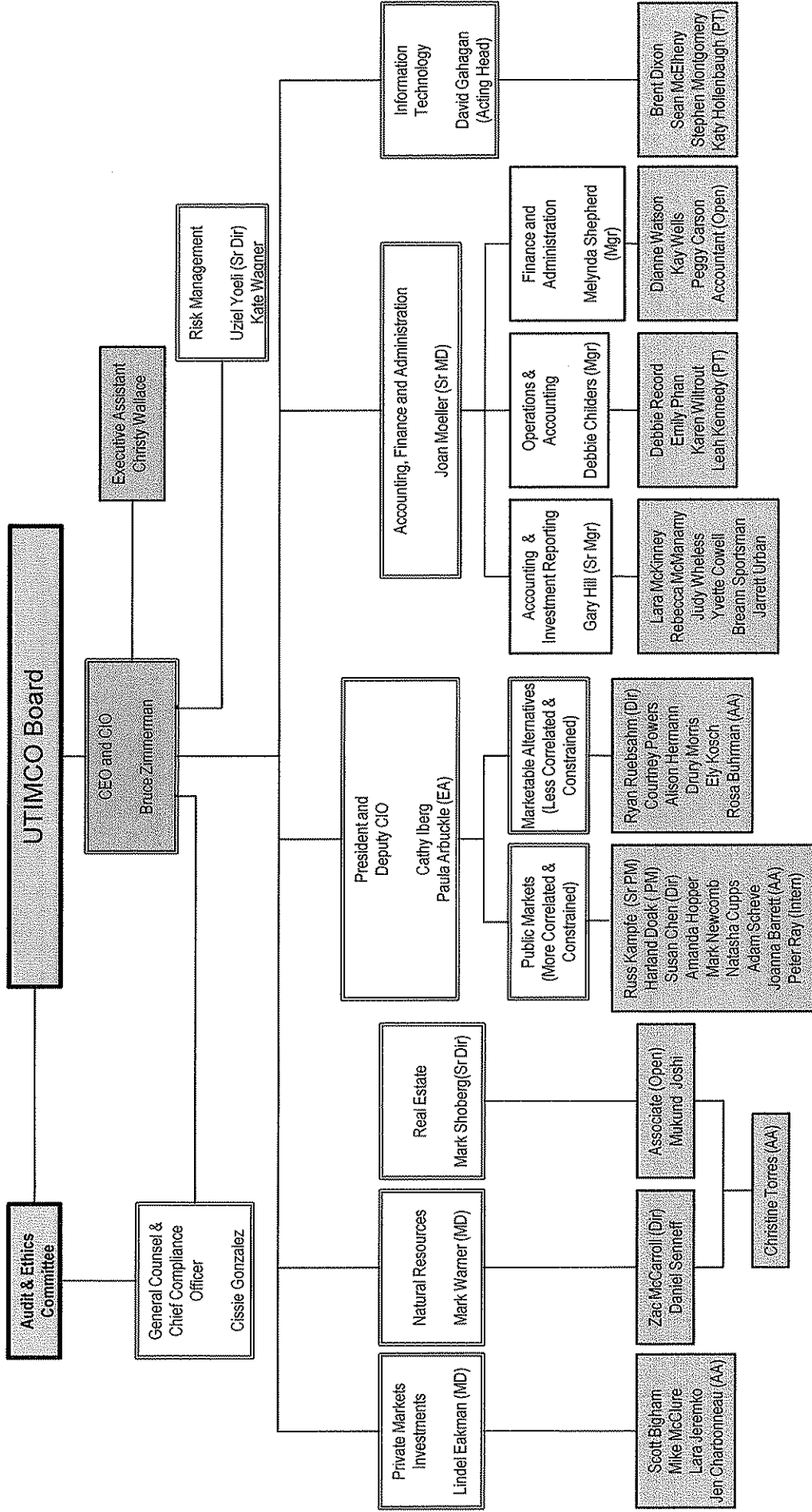


UTIMCO Update

- Staffing
- Budget
- Technology
- Legislative Update



UTIMCO – Organizational Structure





UTIMCO Actual v Budget 1st Half FY 2011

FYTD February 2011		Actual v. Budget	
<i>(in thousands)</i>		Favorable/(Unfavorable)	%
Actual	Budget	\$	%
Salaries	\$ 3,291	\$ 76	2%
Performance Compensation - Policy Accruals	2,345	(85)	-4%
Earnings on Deferred Compensation	224	(149)	-199%
Other Employee Related	748	61	8%
Total Employee Related Expenses	6,608	(97)	-1%
Travel and Meetings	226	132	37%
Legal	110	(35)	-47%
Other	1,652	6	0%
Total Other UTIMCO	1,988	103	5%
Total UTIMCO	\$ 8,596	\$ 6	0%
Custodian	1,907	(685)	-56%
Performance Measurement, Analytics and Risk Management	532	(2)	0%
Consultants	211	34	14%
Legal and Background Checks	570	(165)	-41%
Audit	654	(1)	0%
Other	1	4	80%
Total Non-UTIMCO Costs Excluding Investment Manager Fees	3,875	(815)	-27%
Total Non-Investment Manager Costs	\$ 12,471	\$ (809)	-7%



Technology

- Director's Desk
- FAS

Tab 10

Agenda Item
UTIMCO Board of Directors Meeting
April 14, 2011

Agenda Item: Report on Special Purpose Entities

Developed By: Turner

Presented By: Turner

Type of Item: Information item

Description: Mr. Turner will report to the UTIMCO Board on the use of Special Purpose Entities ("SPE") to aid in the investment of the Permanent University Fund ("PUF"), the General Endowment Fund ("GEF"), and the Intermediate Term Fund ("ITF"), collectively the Funds. UTIMCO Staff has made limited use of SPEs in the past and has been interested, as has the UTIMCO Board, in the legal considerations related to the use of SPEs and whether it might be advantageous to expand the use of SPEs when making investments on behalf of the Funds. For purposes of his report, Mr. Turner has defined a SPE as a legal entity formed on behalf of and wholly-owned by the Board of Regents of The University of Texas System for the purpose of making and holding investments for the Funds.

Discussion: Mr. Turner will discuss the use of SPEs, including benefits, disadvantages and shortcomings, and provide summary conclusions and recommendations.

Recommendation: None

Reference: Presentation to be handed out

Tab 11

Agenda Item
UTIMCO Board of Directors Meeting
April 14, 2011

Agenda Item: Educational Program for UTIMCO Directors

Developed By: Turner

Presented By: Turner

Type of Item: Information item

Description: The Investment Management Services Agreement between the Board of Regents of The University of Texas System ("Board of Regents") and UTIMCO requires that UTIMCO provide training and education to members of the UTIMCO Board of Directors as may be determined in consultation with U.T. System staff to assure that all duties required of directors under the Texas Non-Profit Corporation Act and that matters related to the legal and fiduciary responsibilities of the Directors, including current regulations for determining reasonable compensation, are outlined and discussed fully. Board training is provided through an orientation session when new members of the Board are selected by the Board of Regents. This agenda item serves as an update for current Board members.

Discussion: Jerry Turner of Andrews Kurth LLP, external general counsel of UTIMCO, will present the "Educational Program for UTIMCO Directors."

Recommendation: None

Reference: *Educational Program for UTIMCO Directors* presentation

Andrews Kurth LLP

**Educational Program
for
UTIMCO Directors**



THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

April 14, 2011

ANDREWS
ATTORNEYS **KURTH** LLP

STRAIGHT TALK IS GOOD BUSINESS.®

Director Training Required

“UTIMCO shall provide other investment management services, including . . . providing training and education to members of the UTIMCO Board of Directors as may be determined in consultation with U.T. System staff to assure that all **duties** required of directors under the Texas Non-Profit Corporation Act and that matters related to **legal and fiduciary responsibilities** of the directors, including current regulations for determining **reasonable compensation**, are outlined and discussed fully . . .”

Master Investment Management
Services Agreement (IMSA)

An “Effective Board”

“A board’s effectiveness depends on the competency of its individual members, their understanding of the role of a fiduciary and their ability to work together as a group. Obviously, the foundation is an understanding of the fiduciary role and the basic principles that position directors to fulfill their responsibilities of **care, loyalty and good faith.**”

National Association of Corporate
Directors “Key Agreed Principles to
Strengthen Corporate Governance for
U.S. Publicly Traded Companies”

Fiduciary Obligations of Nonprofit Directors

- Directors of for-profit vs. nonprofit corporations have differing stakeholder focus for their fiduciary obligations
 - Directors of for-profits have a primary fiduciary duty to owners
- “The [for-profit] board’s fiduciary objective is long-term value creation for the corporation” – NCAD Report
- Directors of nonprofits have a primary fiduciary duty to **beneficiaries**

UTIMCO Board’s fiduciary objective is achievement of the investment objectives set forth in the investment policy statements for UT Funds adopted by the UT Board of Regents consistent with limitations and restrictions set forth therein

Understanding Investment Objectives is Key

- Investment Objectives of Endowment Funds
 - *Primary* – preserve purchasing power of fund assets and annual distributions by earning average annual real return over rolling 10-year periods or longer at least equal to target distribution rate (4.75%), after all expenses (0.35% for PUF and 0.45% for GEF)

Understanding Mission is Key

“For our clients, UTIMCO will provide competitive, innovative and effective asset management and financial advisory services to our clients within The University of Texas and Texas A&M Systems.

For the community, UTIMCO accepts its responsibilities as the manager of the largest public endowment fund in the United States and will act as a leader to advance endowment fund management practices of both public and private endowments.”

Current Mission Statement

Overview of Standards of Conduct for UTIMCO Directors

- General Standards under Texas Corporate Law
- Standards under UT Board of Regents' Investment Policies
- Standards under Texas UPMIFA
- Standards under UTIMCO's Code of Ethics

General Standard under Texas Corporate Law

Section 22.221, Texas Business Organizations Code, provides

- “(a) A director shall discharge the director’s duties, including duties as a committee member, in **good faith**, with the **ordinary care**, and in a manner the director **reasonably believes** to be in the **best interests** of the corporation.
- (b) A director is not liable to the corporation, a member, or another person for an action taken or not taken as a director if the director acted in compliance with [(a) above]. A person seeking to establish liability of a director must prove that the director did not act:
- (1) in good faith;
 - (2) with ordinary care; and
 - (3) in a manner the director reasonably believed to be in the best interest of the corporation.”

Standards under UT Board of Regents' Investment Policies

- UT Board of Regents' investment policy statements adopt "prudent investor standard" of Article VII, Section 11b, Texas Constitution (relating to the PUF) as the standard for investment of all UT Funds
 - Investment policy statements recite that UTIMCO required to invest assets in conformity with investment policy statements
- Additionally, in IMSA, UTIMCO recognizes that it acts as fiduciary in the management and investment of UT funds pursuant to UT Board of Regents' investment policy statements

Standards under Texas UPMIFA

“In addition to complying with the duty of loyalty imposed by law other than this chapter, each person responsible for managing and investing an institutional fund [e.g., GEF] shall manage and invest the fund in **good faith** and with the care of an **ordinarily prudent person** in a like position would exercise under similar circumstances.”
§163.004(b), Texas UPMIFA

Standards under UTIMCO Code of Ethics

General Standards

- Among others, the following fiduciary or ethical obligations are imposed upon Directors
 - Director must **not** use relationship with UTIMCO for personal gain
 - Director must **not** make personal investments reasonably expected to create a substantial conflict between Director's private interest and the interest of UTIMCO
 - Director must be **honest** in the exercise of duties and **loyal** to UTIMCO
 - Director must **not** use UTIMCO's confidential information for personal gain or to assist private clients

Standards under UTIMCO Code of Ethics (cont'd)

UTIMCO Prohibited Transactions

- UTIMCO and any entity “controlled” by UTIMCO may *not* enter into agreement or transaction with
 - Director
 - other business entity in which Director has, or is acquiring, a “pecuniary interest”
 - entity “controlled” by Director
 - specifically, “an investment fund or account managed by a Director [or] Director entity”
- UTIMCO and any entity “controlled” by UTIMCO may *not* invest in “private investments” of a business entity if a Director or any entity “controlled” by Director has (or is acquiring) a “pecuniary interest” in same business entity

Standards under UTIMCO Code of Ethics (cont'd)

Director Prohibited Transactions

- Director and any entity “managed or controlled” by Director may not
 - acquire a “pecuniary interest” in a business entity if UTIMCO or entity “controlled” by UTIMCO then owns “private investment” in same business entity
 - co-invest with UTIMCO employee in “private investments” of same business entity

* *Note that the above prohibitions apply equally to any entity managed or controlled by a Director’s spouse, minor child or other dependent relative*

Standards under UTIMCO Code of Ethics (cont'd)

Restriction on Investments in Publicly Traded Securities

- Director and any entity “managed or controlled” by Director may not engage in “personal securities transaction” with actual knowledge that UTIMCO internal portfolio manager has pending buy/sell order*
- UTIMCO and any entity “controlled” by UTIMCO required to implement procedures and safeguard to preclude investments in publicly traded securities of a publicly traded company in which Director has a “pecuniary interest”
 - UTIMCO maintains a restricted list of publicly traded companies in which a Director has a “pecuniary interest”
 - Restricted list compiled from financial disclosures by Directors

* *Note that the above prohibition on Directors applies to Director's spouse, minor child or other dependent relative*

Standards under UTIMCO Code of Ethics (cont'd)

Conflicts of Interest

- Conflict of interest exists whenever Director has personal or private commercial or business relationship that could reasonably be expected to diminish Director's independence of judgment
- Director who becomes aware of a conflict of interest has duty to cure by eliminating conflict; however, if Director may prudently withdraw from discussion and vote, Director may cure conflict in that manner provided that
 - Director is effectively separated from influencing action
 - action may be properly taken by others
 - conflict is such that Director is not required to regularly and consistently withdraw
 - conflict is not a "Prohibited Transaction"
- Director who does not cure a conflict of interest must resign from UTIMCO Board as quickly as reasonably and legally possible

Overview of Fiduciary Duties

- Fiduciary duties of corporate directors are largely matters of evolving common law.
 - Based upon concepts originating in English common law over 200 years ago
 - Largely defined by courts through damage and injunctive actions against directors
- Seminal case defining corporate directors' fiduciary duties in Texas is *Gearhart Industries, Inc. v. Smith International, Inc.*, 741 F.2d 707 (5th Cir. 1984)

Overview of Fiduciary Duties (cont'd)

Consistent with the *Gearhart* decision, UTIMCO Directors have the following “three broad duties” stemming from their fiduciary status:

- **Duty of Loyalty**
 - **Duty of Care**
 - **Duty of Obedience**
-
- Failure to comply with applicable standards of conduct and fiduciary duties can result in Director liability

Fiduciary Duty of Care

- Duty of Care
 - Directors should discharge their duties with such care as ordinarily prudent person under similar circumstances
 - Directors should keep themselves informed about the affairs of the corporation and seek out and use reasonably available information when making decisions
 - Directors may, in **good faith** and with **ordinary care**, rely on reports of other persons as to matters the director reasonably believes are within the person's professional or expert competence
 - Directors should prepare for and participate in board and committee meetings

Fiduciary Duty of Loyalty

- Duty of Loyalty
 - Directors must act in **good faith** and not allow director's personal interest to prevail over the interests of the corporation
 - To avoid self-dealing in violation of this duty, when confronted with a potential conflict directors should
 - Provide full disclosure
 - Not attempt to unduly influence other directors
 - Recuse themselves from discussion and vote
 - “**Good faith**” is an essential element of the Duty of Loyalty
 - Absence of **good faith** may be found when there is a severe failure of director oversight

Fiduciary Duty of Obedience

- Duty of Obedience
 - Directors must avoid committing *ultra vires* acts, meaning acts beyond the scope of the powers of the corporation
 - Directors must act in accordance with corporation's rules and policies
 - Directors must act in furtherance of corporation's central goals and objectives as expressed in mission statement, governing documents and agreements
 - In general, courts appear reluctant to hold directors liable for *ultra vires* acts
 - While an *ultra vires* act may be voidable under Texas law, directors should not be held personally liable for such act unless the act is unlawful or against public policy (*Resolution Trust Corp. v. Norris*, 830 F.Supp. 351, 357 (S.D. Tex. 1993))

Specific Duty to Determine Reasonable Compensation

Executive Compensation

- Decisions regarding compensation of management are among the most important and controversial decisions directors make
- Fiduciary duties of care, loyalty and obedience are all applicable when directors consider executive compensation matters
- Since UTIMCO is a tax-exempt organization under § 501(c)(3) of IRC, additional concerns are raised
 - Excessive compensation can be deemed “private inurement” causing loss of status as a tax-exempt organization
 - Also § 4958 of IRC imposes sanctions when tax-exempt organization enters “excess benefit transaction” with “disqualified person”
 - “Excess Benefit Transaction” – when economic benefit provided by organization exceeds value of consideration received (including unreasonable compensation)
 - “Disqualified Person” – person in position to exercise substantial authority over organization’s affairs
- Parties to transaction entitled to rely on rebuttable presumption of reasonableness for a compensation package approved by independent board or committee
 - composed of persons not controlled by Disqualified Person
 - relies on appropriate comparability data
 - adequately documented basis for its determination

Balancing Interests

- Regental Directors and Chancellor should be careful not to blur the lines between their roles as officials of the UT System and Directors of UTIMCO
 - Seek to make it clear through action and communication in what capacity they are acting
 - Seek legal advice when needed

Overview of Immunity Theories

- Immunity Theories under Texas Law
 - Sovereign Immunity
 - Official Immunity
 - Charitable Immunity
 - Corporate Director's Immunity
- Immunity Theories under Federal Law
 - Qualified Immunity
 - Volunteer's Immunity

Sovereign Immunity under Texas Law

- Protects the State, its agencies and officials from lawsuits for damages in order to protect the public's funds from being wasted in litigation rather than intended use
- Extends to any entity the Legislature has granted the “nature, purposes, and powers” of an “arm of State government”
- UTIMCO and its directors *may* be entitled to sovereign immunity
 - UTIMCO is subject to Section 66.08, Texas Education Code
 - UTIMCO serves a wholly public purpose
 - UTIMCO invests and is supported by public funds
 - *TRST Corpus, Inc. v. Financial Center, Inc.*, 9 S.W.3d, 316 (Tex. App. – Houston [14th Dist.] 1999, no pet.), holding that TRST, a title-holding subsidiary of TRS, “is entitled to assert sovereign immunity . . . to the extent that TRS may assert sovereign immunity. . . .”

Official Immunity under Texas Law

- Protects governmental employees, and private individuals performing governmental functions, from lawsuits against them in their individual capacities arising from
 - performance of **discretionary duties**
 - in **good faith**
 - when acting **within scope of authority**
- No protection for “ministerial acts” requiring strict adherence to orders or performance of duties over which there is no discretion
- “**Good faith**” determined by “objective legal reasonableness” test – would a prudent official, under a similar situation, have believed the acts were justified

Charitable Immunity under Texas Law

- Protects “volunteers” (including volunteer directors) of 501(c)(3) tax-exempt organizations for “educational purposes” from lawsuit for actions performed in the **scope** and **course** of their duties (Texas Charitable Immunity and Liability Act)
 - “Volunteer” defined as a “person rendering services for or on behalf of a charitable organization who does **not** receive compensation in excess of reimbursement for expenses incurred”
- No protection for conduct that is intentional, willfully negligent, or done with conscious indifference or reckless disregard for safety of others
- Does not apply to governmental units – alternate theory of immunity where sovereign immunity and official immunity not available

Corporate Director's Immunity under Texas Law

- Consistent with Section 7.001, Texas Business Organizations Code, UTIMCO's Articles of Incorporation provide that Directors are **not** liable to UTIMCO for monetary damages for any act or omission in the Director's capacity as a Director, except for liability for
 - breach of the Duty of Loyalty
 - bad faith involving breach of duty, intentional misconduct or knowing violation of law
 - a transaction in which Director receives an improper benefit
 - actions where Directory liability is expressly provided by applicable law

Qualified Immunity under Federal Law

- Protects governmental officials from lawsuits as long as conduct does not violate clearly established statutory or constitutional right of which a reasonable person would have known
- Protection applies even if governmental official's act is a mistake of law, a mistake of fact, or both

Volunteer's Immunity under Federal law

- Protects volunteers (including volunteer directors) of 501(c)(3) tax-exempt organizations organized for “educational purposes” from harm caused by act or omission of the volunteer acting on behalf of the organization
 - “Volunteer” defined as someone who performs services for a nonprofit organization or governmental entity and does not receive compensation or anything of value in lieu of compensation over \$500 per year
 - “Harm” defined to include physical, nonphysical, economic and noneconomic losses
- No protection for harm caused by willful or criminal misconduct, gross negligence, reckless misconduct, or a conscious flagrant indifference to the rights and safety of harmed individual

Overview of Claims for Indemnification

- Chapter 104, Texas Civil Practices and Remedies Code
- UTIMCO's Articles of Incorporation
- IMSA with UT Board of Regents

Indemnification Under Chapter 104, Texas Civil Practices and Remedies Code

- Provides State indemnification of person serving on the governing board of a corporation at the request and on behalf of an institution of higher education so long as damages are based on act or omission within the **scope of indemnitee's office** and if
 - damages do not result from willful or wrongful act or act of gross negligence by indemnitee, or
 - in the case of damages resulting from deprivation of legal rights, privileges or immunities, the court or jury does not find that the indemnitee acted in **bad faith**, with conscious indifference or reckless disregard, or
 - Attorney General determines that indemnification is in best interest of the State
- Chapter 104 does not waive immunity

Indemnification under Chapter 104 (cont'd)

- State liability on indemnification capped at \$100,000 to single person indemnified and \$300,000 for a single occurrence
- D&O policy applicable to damages covered by Chapter 104 must have deductible equal to foregoing limits of liability
- State is not liable for indemnification to extent damages are recoverable under contract of insurance and are in excess of deductible amount
- Attorney General required to defend an indemnified party

Indemnification Under UTIMCO's Articles

- “To the fullest extent required or permitted by applicable law,” Directors are indemnified by UTIMCO; indemnification stated to “include, without limitation, advancing reasonable expenses”
- Chapter 8, Business Organizations Code, limits indemnification to situations where director
 - acted in **good faith**
 - reasonably believed conduct was in best interest of corporation (if conduct was in official capacity) or was not opposed to corporation’s best interest (if conduct outside of official capacity), and
 - in case of criminal proceeding, did not have reasonable cause to believe conduct was unlawful

Indemnification under IMSA

- “To the fullest extent authorized by the Constitution and laws of the State of Texas,” Directors indemnified and held harmless by UT Board of Regents for “Losses” (including, among others, attorney fees, litigation and court costs and settlement amounts) resulting from negligence of Directors
- No indemnification for
 - intentional misconduct or knowing violation of law
 - transaction in which Director received improper benefit
 - conduct where Director liability expressly provided by statute
 - gross negligence

Overview of Certain Common Law Defenses

- *Business Judgment Rule*
- Disclosed Principal

Business Judgment Rule Defense

- *Business Judgment Rule* is a defense to accusations of breach of the **Duty of Care** (*Gearhart*)
 - Under the *Business Judgment Rule*, a court will defer to the judgment of a director, if that director acts on an informed basis, in **good faith**, with the care of an ordinary prudent person in a like position, and in a manner believed to be in the best interests of the corporation
- Case law indicates that *Business Judgment Rule* protects all but fraudulent or *ultra vires* conduct; however, some cases in banking context indicate that gross negligence not protected

Disclosed Principal Defense

- Texas case law provides that an agent is not liable in contract actions where the principal is disclosed
- Texas Attorney General has stated “UTIMCO and the Board of Regents . . . have a common purpose and objective such that an agency-type relationship is created”
- Defense provides limited relief – does not protect against tort liability

UT's Insurance Coverage

- UT has established a Self-Insurance Plan and maintains D&O insurance to protect its **governmental officials**, including Regents, in the event of liability claims
- UT lawyers have advised that under UT's Self-Insurance Plan
 - UT Regents are insured for service on UTIMCO Board
 - Coverage is in excess of any insurance in force with UTIMCO (*i.e.*, secondary) and any indemnification provided by UTIMCO
 - UTIMCO and its non-Regental Directors are not covered
 - UT is not authorized by law to extend its Plan coverage to UTIMCO and its non-Regental Directors
- UT lawyers have also advised that under UT's AIG policy
 - UT Regents are insured for service on UTIMCO Board
 - UTIMCO and its non-Regental Directors are not covered
- UT is not authorized by law to purchase insurance covering UTIMCO and its non-Regental Directors

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Tab 12

Agenda Item
UTIMCO Board of Directors Meeting
April 14, 2011

Agenda Item: General Discussion of Investment Environment

Developed By: Zimmerman

Presented By: Zimmerman

Type of Item: Information Item

Description: This agenda item is intended to provide an opportunity for an open-ended discussion on issues, expectations, and opportunities in the current investment environment.

Discussion: Staff hopes to get input from Board members on issues, concerns, and opportunities in the current investment environment.

Recommendation: None

Reference: None