

**UTIMCO BOARD OF DIRECTORS  
MEETING AGENDA  
February 2, 2012**

401 Congress Avenue  
Austin, Texas 78701

Time		Item #	Agenda Item
Begin	End		
8:30 a.m.	8:35 a.m.	1	<b>Convene in Open Session</b> Call to Order/Discussion and Appropriate Action Related to Minutes of November 8, 2011 Meeting*
8:35 a.m.	8:40 a.m.	2	Discussion and Appropriate Action Related to Corporate Resolutions: - Designation of Annual Meeting of the UTIMCO Board* - Resolution of Appreciation*
8:40 a.m.	9:40 a.m.	3	Endowment and Operating Funds Update Report
9:40 a.m.	10:10 a.m.	4	Less Correlated and Constrained Review
10:10 a.m.	10:30 a.m.	5	<b>Executive Session:</b> Pursuant to Section 551.074, <i>Texas Government Code</i> , the Board of Directors will convene in Executive Session to Consider Individual Personnel Compensation Matters related to CEO and Chief Investment Officer Offer of Employment <b>Reconvene into Open Session</b> Report on and Discussion and Appropriate Action Related to Items from Compensation Committee: - UTIMCO Compensation Program - CEO and Chief Investment Officer Offer of Employment*
10:30 a.m.	12:00 p.m.		<b>Recess for Briefing Session pursuant to Texas Education Code Section 66.08(h)(2) related to Investments</b>
12:00 p.m.	12:30 p.m.		<b>Lunch</b>
12:30 p.m.	12:45 p.m.	6	Report from Risk Committee
12:45 p.m.	1:00 p.m.	7	Report on and Discussion and Appropriate Action Related to Items from Audit and Ethics Committee: - Audit of UTIMCO Financial Statements*
1:00 p.m.	1:30 p.m.	8	Peer Analysis
1:30 p.m.	1:40 p.m.	9	UTIMCO Organization Update
1:40 p.m.	2:00 p.m.	10	Information Technology Review
2:00 p.m.	2:10 p.m.	11	Discussion and Appropriate Action Related to Cambridge Contract Renewal*
2:10 p.m.	3:00 p.m.	12	Discussion of Investment Environment and Opportunities
3:00 p.m.			<b>Adjourn</b>

\* Action by resolution required

<b>Next Scheduled Meeting: April 11, 2012 (Annual Meeting)</b>
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**RESOLUTION RELATED TO MINUTES**

RESOLVED, that the minutes of the meeting of the Board of Directors held on **November 8, 2011**, be, and are hereby, approved.

**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 on **November 8, 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  
Francisco G. Cigarroa, Vice Chairman for Policy  
Kyle Bass  
Printice L. Gary  
R. Steven Hicks  
Ardon E. Moore  
Charles W. Tate  
James P. Wilson

Accordingly, a majority and quorum of the Board was in attendance. Also attending the meeting was a member of The University of Texas System ("UT System") Board of Regents, Student Regent John Davis Rutkauskas. 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 of Andrews Kurth LLP; Jim Phillips, Terry Hull, Whitney Henry, Charlie Chaffin, Roger Starkey, Matt Flores, and Moshmee Kalamkar of the UT System Administration; and Tom Wagner of Deloitte & Touche LLP. Mr. Foster called the meeting to order at 9:18 a.m.

**Minutes**

The first item to come before the Board was approval of the minutes of the Board of Directors Meeting held on October 13, 2011. 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  
**October 13, 2011**, be, and are hereby, approved.

Mr. Foster asked to defer the item behind Tab 2, a Report from the Compensation Committee, until later in the meeting.

## **Audit and Ethics Committee Report**

Mr. Foster asked Mr. Hicks to provide a report on behalf of the Audit and Ethics Committee. Mr. Hicks reported that the Committee convened on November 3, 2011. He asked Mr. Tom Wagner, engagement partner from the independent accounting firm of Deloitte & Touche LLP, to give a short report to the Board regarding the completed audits of the Permanent University Fund (PUF), the UT System General Endowment Fund (GEF), the Permanent Health Fund (PHF), the UT System Long Term Fund (LTF), and the UT System Intermediate Term Fund (ITF) (collectively, the "Funds"). The Committee heard a comprehensive report from Mr. Wagner regarding Deloitte & Touche LLP's Financial Statement Audit Results and Communications and the audited financial statements of the Funds, and the Statement of Performance Statistics for the year ended August 31, 2011. Mr. Wagner answered the questions from the Board Members. The accounting staff was recognized for excellent work and cooperation with the audit team. Upon motion duly made and adopted, the following resolution was approved unanimously:

RESOLVED, that Deloitte & Touche LLP's Financial Statement Audit Results and Communications on the Investment Funds Under Fiduciary Responsibility of The University of Texas System Board of Regents for the year ended August 31, 2011, be, and is hereby approved in the form as presented to the Board; and

FURTHER RESOLVED, that the separate annual financial statements and audit reports for the Permanent University Fund, the Permanent Health Fund, The University of Texas System Long Term Fund, The University of Texas System General Endowment Fund, and The University of Texas System Intermediate Term Fund each for the fiscal years ended August 31, 2011, and August 31, 2010, and the Statement of Investment Performance Statistics for the year ended August 31, 2011, be, and are hereby approved in the form as presented to the Board.

## **Compensation Committee Report**

Mr. Foster asked Mr. Ferguson to provide a report from the Compensation Committee. Mr. Ferguson reported that the Committee had met three times since the last Board meeting, on September 28, 2011, November 3, 2011 and November 8, 2011, prior to the Board meeting today. At its September meeting, the Committee approved the Designation of Employees in Eligible Positions as Participants in the Corporation's Compensation Program (the "Plan") for the 2011/2012 Performance Period, approved the Plan Participants' Qualitative Performance Goals (other than for the CEO) for the 2011-2012 Performance Period, and engaged Deloitte & Touche LLP to perform agreed upon procedure services for the Corporation's Compensation Program. At the November 3rd meeting, the Committee approved Amendments to Appendix B of the Plan (UTIMCO) Peer Group using information obtained from Cambridge Associates. Mr. Ferguson asked Mr. Zimmerman to briefly explain Exhibit 1, Designation of Plan Participants in Eligible Positions, and changes to Appendix B of the Plan (UTIMCO) Peer Group.

### **Executive Session**

Mr. Foster announced, at 9:35 a.m., that, "The Board of Directors of The University of Texas Investment Management Company having been duly convened in Open Session and notice of this meeting having been duly given, I hereby announce the convening of a closed meeting as an Executive Session of the Board to consider individual personnel compensation matters including report of Compensation Committee regarding Performance Incentive Awards for UTIMCO Compensation Program Participants for the Performance Period ended June 30, 2011. This Executive Session meeting of the Board is authorized by *Texas Government Code* Section 551.074 (Personnel Matters). The date is November 8, 2011, and the time is now 9:35 a.m." With the exception of Mr. Zimmerman, Student Regent Rutkauskas, Mr. Turner and Dr. Brown, all other meeting participants left the meeting at this time. Mr. Zimmerman left the meeting during discussions regarding his compensation matters.

### **Open Session**

The Board reconvened in open session and Mr. Foster announced that "The Open Session of the Board of Directors of The University of Texas Investment Management Company is now reconvened. The date is November 8, 2011, and the time is now 10:12 a.m. During the Executive Session, the Board deliberated individual personnel compensation matters but no action was taken nor decisions made, and no vote was called for or had by the Board in Executive Session."

Mr. Foster asked Mr. Ferguson to continue with his report from the Compensation Committee. Mr. Ferguson, on behalf of the Committee, recommended several resolutions for approval by the Board. The first recommendation was regarding Exhibit 1, the Designation of Plan Participants in Eligible Positions in the 2011/2012 Performance Period. Upon motion duly made and seconded, the following resolution was adopted by the Board:

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

WHEREAS, the Compensation Committee of the Board has recommended the individuals who may become Participants for the 2011/2012 Performance Period set forth on Exhibit 1 attached hereto; and

WHEREAS, the UTIMCO Board has reviewed Exhibit 1 and wishes to select the individuals who may become Participants for the 2011/2012 Performance Period.

NOW, THEREFORE, be it:

RESOLVED, that, except as otherwise noted on Exhibit 1, the individuals set forth on Exhibit 1 attached hereto are hereby designated as "Participants" in the Plan for the 2011/2012 Performance Period, effective as of July 1, 2011.

The next resolution Mr. Ferguson recommended on behalf of the Committee was amendments to Appendix B (UTIMCO Peer Group). Upon motion duly made and seconded, the following resolution was adopted by the Board:

WHEREAS, Section 8.14. of the UTIMCO Compensation Program (the "Plan") provides that the "Peer Group" will be updated annually at the beginning of each Performance Period, and Appendix B (UTIMCO Peer Group) will be amended accordingly; and

WHEREAS, Section 7.2. of the Plan provides that the Board has the right to amend the Plan or any portion thereof from time to time; and

WHEREAS, the Board wishes to amend Appendix B to conform to the updated Peer Group.

NOW, THEREFORE, be it:

RESOLVED, that the updated and amended Appendix B (UTIMCO Peer Group), a copy of which is attached hereto, is hereby adopted and approved as part of the Plan to replace the current Appendix B, effective as of July 1, 2011.

Mr. Ferguson next presented the resolutions recommended for approval by the Committee related to the CEO's Personnel Performance Incentive Awards for the Performance Period ended June 30, 2011, and related to 2010/2011 Performance Incentive Awards for Plan Participants other than the CEO. Upon motion duly made and seconded, the following resolutions were unanimously adopted:

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

WHEREAS, the Compensation Committee has reviewed and approved the actual performance of the CEO during the 2010/2011 Performance Period and has submitted its recommendation to the Board for approval; and

WHEREAS, the Board has reviewed the actual performance of the CEO during the 2010/2011 Performance Period and has compared such actual performance relative to each Performance Goal category for the CEO against his corresponding Performance Goal for such Performance Period.

NOW, THEREFORE, be it:

RESOLVED, that the Board approves the CEO's Performance Incentive Award for the 2010/2011 Performance Period in the amount of \$1,857,020 and be it

FURTHER RESOLVED, that of the CEO's \$1,857,020 Performance Incentive Award for the 2010/2011 Performance Period, 50% (\$928,510) will be deferred pursuant to the Plan.

And the resolution related to 2010/2011 Performance Incentive Awards for Plan Participants other than the CEO:

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

WHEREAS, in accordance with Section 5.5.(d) of the Plan, the Compensation Committee has determined the level of achievement by each Participant in the Plan during the 2010/2011 Performance Period of his or her Performance Incentive Goals for such Performance Period; and

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

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

WHEREAS, the Compensation Committee has reviewed the Performance Incentive Awards for all Participants who have met or exceeded their performance benchmarks for the 2010/2011 Performance Period, made changes it deemed appropriate, approved such Performance Incentive Awards, and recommended that the Board approve the same.

NOW, THEREFORE, be it:

RESOLVED, that the Board approves the Performance Incentive Awards for all Participants for the 2010/2011 Performance Period (excluding the CEO) in the total aggregate amount of \$5,361,137 and be it

FURTHER RESOLVED, that of the Performance Incentive Awards for the 2010/2011 Performance Period (excluding the CEO), approximately 34.5% (\$1,851,260) will be deferred pursuant to the Plan.

### **Risk Committee Report**

Mr. Foster asked Mr. Tate to provide a report from the Risk Committee. Mr. Tate reported that the Committee met on November 3, 2011. Mr. Tate stated that the Risk Committee approved 29 new investment mandate categorizations prepared by Staff for the period beginning July 1, 2011, and ending October 21, 2011. Mr. Tate asked Mr. Zimmerman to summarize the Staff's presentation to the Committee regarding 12 of the new mandate categorizations related to the insurance hedging program. Mr. Zimmerman gave a brief recap of the Exposure Reporting Methodology presentation discussed in detail during the Committee meeting. Mr. Tate also reported that the Committee heard a report from Ms. Gonzalez on compliance items for the Quarter Ended August 31, 2011. Mr. Zimmerman answered the Board Members' questions.

### **Emerging Market Task Force**

Mr. Foster asked Mr. Warner to provide a report from the Emerging Market Task Force. Mr. Warner explained that the Emerging Market Task Force was formed to focus on the endowments' emerging markets exposure across the portfolio. Mr. Warner and other task force members gave an update to the Board on the Task Force's activities and observations, including current exposure, country analysis and focus on investment opportunities. The Task Force members and Mr. Zimmerman answered the Board Members' questions.

At 11:30 a.m. the open meeting of the Board recessed for a Briefing Session and lunch.

The open meeting of the Board reconvened in open session at approximately 1:28 p.m.

### **Portfolio Update**

Mr. Foster asked Mr. Zimmerman to proceed with the Portfolio Update. Mr. Zimmerman explained that staff members from each of the specific portfolio areas would update the Board on investment activities. The Board heard presentations regarding portfolio allocations and activity, efforts and strategy, pipeline, and performance information from each of the Public Markets, Natural Resources, Less Correlated and Constrained, Private Markets, and Real Estate investment groups. Mr. Zimmerman and staff members answered the Board Members' questions.

### **Investment Environment and Opportunities**

Mr. Foster asked Mr. Zimmerman to lead the discussion on Investment Environment and Opportunities. Mr. Zimmerman said that since there had been recent discussions regarding the Corporation's investment environment and risks, he did not have anything to add to the discussion today. There was no further discussion on this topic.



**Special Purposes Entity**

Mr. Foster asked Mr. Turner to report to the Board on the use of Special Purposes Entities (SPE's) in the investment of the PUF, GEF, and the ITF. Mr. Turner discussed the use of SPE's, including benefits, disadvantages and shortcomings, and provided summary conclusions and recommendations. Mr. Turner answered the Directors' questions.

**Organization Update**

Mr. Foster asked Mr. Zimmerman to provide an Organization update. Mr. Zimmerman reported on the Corporation's staffing, years of service of Staff, an update on the search for a Chief Technology Officer, and review of IT strategy. He also discussed the Corporation's focus on hiring additional minority managers.

**UTIMCO Meeting Dates for 2012**

Mr. Foster confirmed 2012 meeting dates for the Corporation's committee and board meetings.

**Diligent Boardbook Training**

Mr. Foster asked a representative from Diligent Boardbooks to give a brief overview and provide training to the Board for the new board portal that the Corporation will be using going forward. Diligent Boardbooks allows the user to view materials online or offline from a secure platform, project the board book at a meeting, print paper books, and/or go paperless. Instruction books and password cards were handed out to the Board Members. The Diligent Boardbooks' representative, Mr. Zimmerman and Ms. Moeller answered the Directors' questions.

There being no further business to come before the Board, the meeting was adjourned at approximately 3:50 p.m.

Secretary: \_\_\_\_\_  
Joan Moeller

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

**Exhibit 1**  
**Designation of Plan Participants in Eligible Positions**  
**in the 2011/2012 Performance Period**

<b>ELIGIBLE POSITION</b>	<b>PARTICIPANTS</b>
<i>Investment Professionals</i>	
CEO & Chief Investment Officer	Bruce Zimmerman
President and Deputy CIO	Cathy Iberg
Managing Director - Private Investments	Lindel Eakman
Managing Director – Investments	Mark Warner
Senior Director – Investments	Mark Shoberg
Senior Director – Investments	Ryan Ruebsahm
Senior Director – Investments	Susan Chen
Senior Director - Risk Management	Uzi Yoeli
Senior Portfolio Manager	Russ Kampfe
Portfolio Manager	Harland Doak
Director – Investments	Zac McCarroll
Senior Associate – Investments	Courtney Powers
Senior Associate – Investments	Edward Lewis*
Senior Associate – Investments	Amanda Hopper
Senior Associate - Private Investments	Scott Bigham
Senior Associate - Private Investments	Mike McClure
Senior Associate - Risk Management	Kate Wagner
Senior Analyst – Investments	Alison Hermann
Senior Analyst – Investments	Mukund Joshi
Senior Analyst – Investments	Daniel Senneff
Senior Analyst – Investments	Lara Jeremko
Analyst – Investments	Adam Scheve
Analyst – Investments	Drury Morris
Analyst – Investments	Wally Onadiji**
<i>Operations/Support Professionals</i>	
Senior Managing Director	Joan Moeller
General Counsel and Chief Compliance Officer	Cissie Gonzalez
Senior Manager	Gary Hill
Manager	Debbie Childers
Manager	Melynda Shepherd
Senior Financial Analyst	Lara McKinney

Participants are eligible as of July 1, 2011, unless otherwise noted.

\*Eligible as of August 1, 2011

\*\*Eligible as of August 29, 2011

## Appendix B

### UTIMCO Peer Group

- Columbia University
- Cornell University
- Duke University
- Emory University
- Harvard University
- Massachusetts Institute of Technology
- Northwestern University
- Princeton University
- Rice University
- Stanford University
- UNC Management Company
- University of California
- University of Chicago
- University of Michigan
- University of Notre Dame
- University of Pennsylvania
- University of Southern California
- University of Virginia
- Vanderbilt University
- Washington University in St. Louis
- Yale University

Source: Cambridge Associates. Represents endowment funds (excluding the Total Endowment Assets) with more than 10 full-time employee positions, allocations to alternative assets in excess of 40%, and with assets greater than \$2.5 billion, all to be determined as of the last day of each fiscal year end June 2009, 2010, 2011.

**Agenda Item**  
UTIMCO Board of Directors Meeting  
February 2, 2012

**Agenda Item:** Discussion and Appropriate Action Related to Corporate Resolutions: Designation of Annual Meeting of the UTIMCO Board and Resolution of Appreciation

**Developed By:** Staff

**Presented By:** Foster

**Type of Item:** Action required by UTIMCO Board

**Description:** Chairman Foster will designate the annual meeting of the Board of Directors of the Corporation.

Chairman Foster will present a recommendation to the Board to approve a resolution acknowledging Mr. Phil Ferguson's service as a UTIMCO Board member as his third and final three - year term of service comes to an end.

**Recommendation:** Chairman Foster will recommend approval of the designation of the annual meeting and the approval of Phil Ferguson Appreciation Resolution.

**Reference:** None

**RESOLUTION RELATED TO ANNUAL MEETING**

RESOLVED, that the Annual Meeting of the Board of Directors will be held on April 11, 2012, in Austin, Texas.



# Funds Update

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# Returns



# UTIMCO Performance Summary

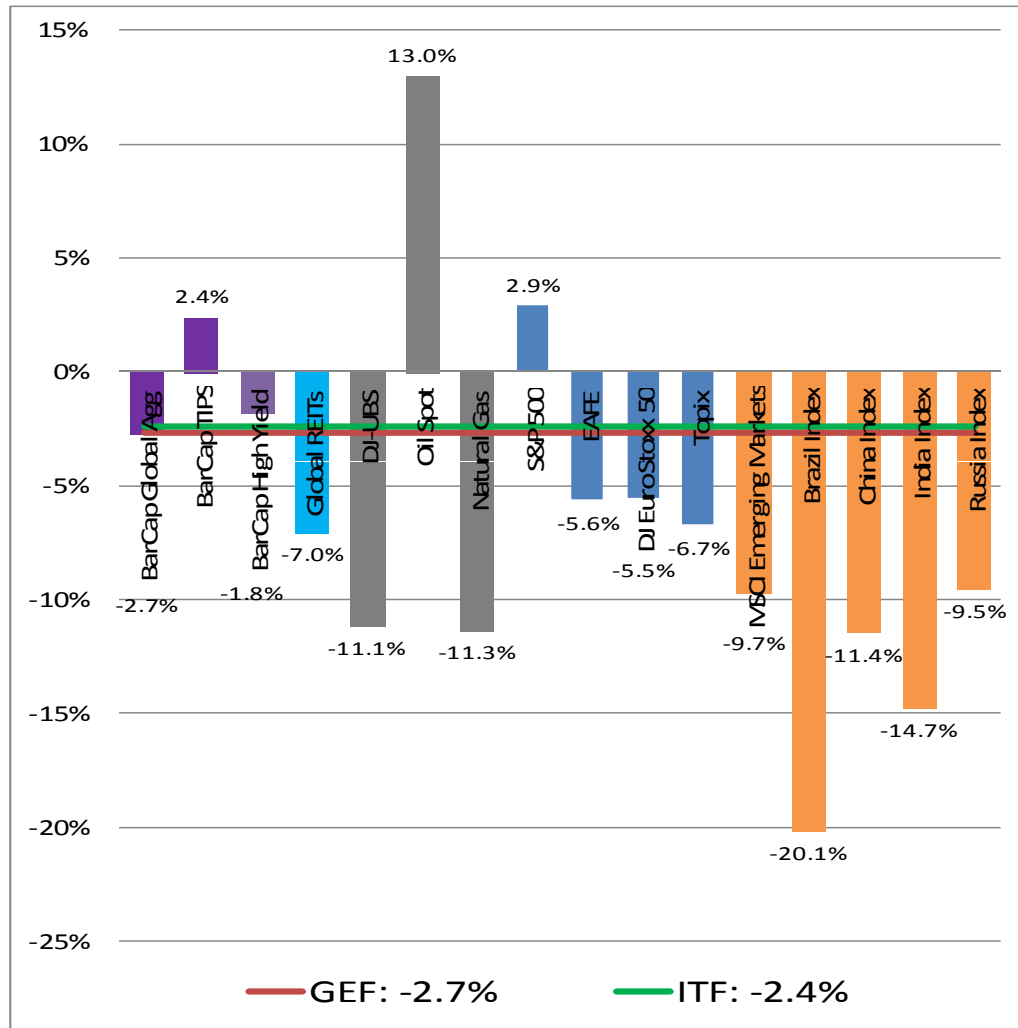
	Asset Value 11/30/2011 (in Millions)	Quarter Ended November	Preliminary		
			Asset Value 12/31/2011 (in Millions)	Month Ended December	Fiscal Year to Date December
<b>ENDOWMENT FUNDS</b>					
Permanent University Fund	\$12,390	(2.63%)	\$12,275	(1.10%)	(3.70%)
Permanent Health Fund	955		940		
Long Term Fund	5,852		5,799		
General Endowment Fund	6,807	(2.66)	6,739	(1.10)	(3.73)
Separately Invested Funds	119	N/A	103	N/A	N/A
<b>Total Endowment Funds</b>	<b>19,316</b>		<b>19,117</b>		
<b>OPERATING FUNDS</b>					
Intermediate Term Fund	4,631	(2.40)	4,590	(0.88)	(3.25)
Short Term and Debt Proceeds Funds	1,918	0.03	2,016	0.01	0.03
<b>Total Operating Funds</b>	<b>6,549</b>		<b>6,606</b>		
<b>Total Investments</b>	<b>\$25,865</b>		<b>\$25,723</b>		
<b>VALUE ADDED - Percent (1)</b>					
Permanent University Fund		(1.03%)		(1.06%)	(2.06%)
General Endowment Fund		(1.06)		(1.06)	(2.09)
Intermediate Term Fund		0.70		(0.74)	(0.02)
<b>VALUE ADDED - \$ in Millions (1)</b>					
Permanent University Fund		\$(131)		\$(131)	\$(262)
General Endowment Fund		(75)		(72)	(147)
Intermediate Term Fund		33		(33)	-
<b>Total Value Added</b>		<b>\$(173)</b>		<b>\$(236)</b>	<b>\$(409)</b>

(1) - 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.





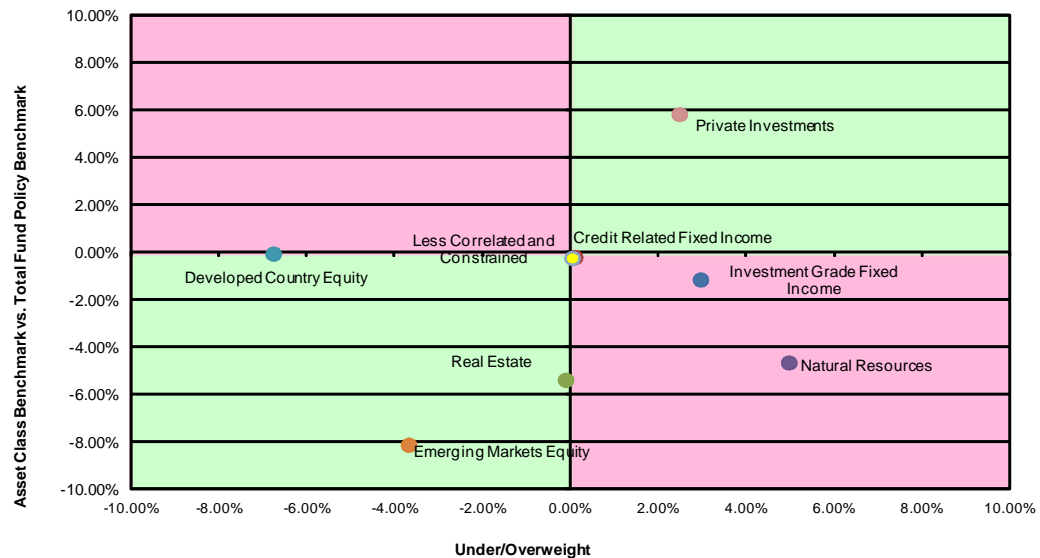
# Fund and Capital Markets Performance for Quarter Ended November 30, 2011





# Tactical Value Add

## Three Months Ended November 30, 2011



	Weight		Over / (Under) Weight	Benchmark Returns	+ / -
	Actual	Policy			
Investment Grade Fixed Income	10.46%	7.50%	2.96%	-2.74%	-0.02%
Credit Related Fixed Income	0.10%	0.00%	0.10%	-1.79%	0.00%
Real Estate	2.39%	2.50%	-0.11%	-6.97%	-0.01%
Natural Resources	11.47%	6.50%	4.97%	-6.24%	-0.28%
Developed Country Equity	11.74%	18.50%	-6.76%	-1.65%	0.00%
Emerging Markets Equity	8.32%	12.00%	-3.68%	-9.71%	0.20%
Total More Correlated and Constrained	44.48%	47.00%	-2.52%		-0.11%
Less Correlated and Constrained	30.04%	30.00%	0.04%	-1.83%	-0.02%
Total Fund excluding Private Investments	74.52%	77.00%	-2.48%		-0.13%
Private Investments	25.48%	23.00%	2.48%	4.23%	0.07%
<b>Total Fund</b>	<b>100.00%</b>	<b>100.00%</b>	<b>0.00%</b>	-1.60%	-0.06%



# Active Management Value Add Three Months Ended November 30, 2011

	<b>(bps)</b>	
Less Correlated	26	Farallon Asia (11.48), Valiant (10.75), Eminence (8.84)
Developed Country Equity	17	Value Act (1.12), AKO Capital (.44), Stelliam (.35)
Investment Grade Fixed Income	10	Total Internal Fixed Income (.89), Brandywine (.49)
Emerging Markets Equity	9	Hillhouse (.78), Dynamo (.58), Lazard (.37)
Credit Related Fixed Income	-	
Subtotal	<u>62</u>	
Natural Resources	<b>(2)</b>	<b>Gresham (.85), Blackrock Global Metals and Mining (.56)</b>
Real Estate	<b>(4)</b>	<b>Morgan Stanley (1.19), European Investors (1.14)</b>
	<u><b>(6)</b></u>	
Total Fund excluding Private Investments	<u>56</u>	
Private Investments	<b>(128)</b>	
Staff Hedging Activity	<b>(14)</b>	
Total Fund	<u><b>(86)</b></u>	



# GEF Performance Breakdown

## Quarter Ended November 30, 2011

Asset Class		Allocation		Return		Attribution to Total Fund Relative Return
		GEF Average	Policy	GEF	Benchmark	
<b>More Correlated and Constrained:</b>						
Fixed Income	Investment Grade	10.5%	7.5%	-2.12%	-2.74%	0.03%
	Credit-Related	0.1%	0.0%	-2.47%	-1.79%	0.00%
Real Assets	Real Estate	2.4%	2.5%	-6.68%	-6.97%	0.00%
	Natural Resources	11.5%	6.5%	-5.69%	-6.24%	-0.23%
Equity	Developed Country	11.7%	18.5%	-1.39%	-1.65%	-0.01%
	Emerging Markets	8.3%	12.0%	-8.46%	-9.71%	0.30%
<b>Total More Correlated and Constrained</b>		<b>44.5%</b>	<b>47.0%</b>	<b>-4.30%</b>	<b>-4.67%</b>	<b>0.09%</b>
<b>Total Less Correlated and Constrained</b>		<b>30.0%</b>	<b>30.0%</b>	<b>-0.60%</b>	<b>-1.83%</b>	<b>0.36%</b>
Private Real Estate Investments		24.1%	3.0%	-2.00%	4.40%	-0.20%
Private Investments excluding Real Estate		1.4%	20.0%	-2.07%	4.20%	-1.31%
<b>Total Private Investments</b>		<b>25.5%</b>	<b>23.0%</b>	<b>-2.06%</b>	<b>4.23%</b>	<b>-1.51%</b>
<b>Total GEF Portfolio</b>		<b>100.0%</b>	<b>100.0%</b>	<b>-2.66%</b>	<b>-1.60%</b>	<b>-1.06%</b>



# Investment Performance Summary

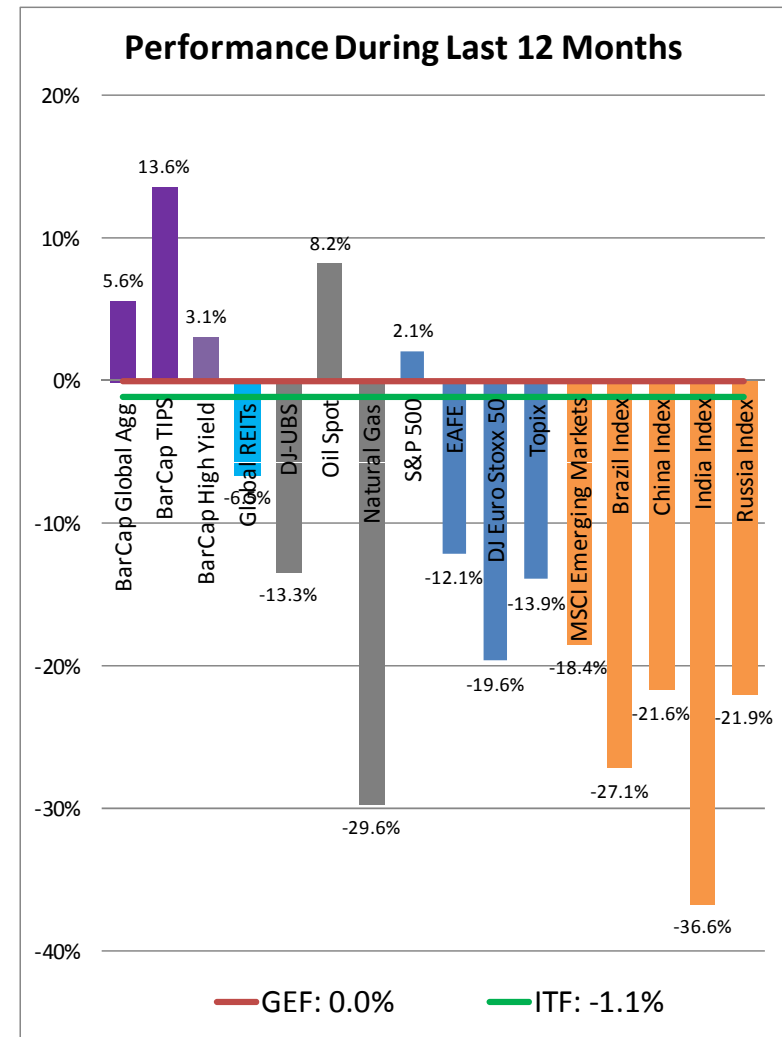
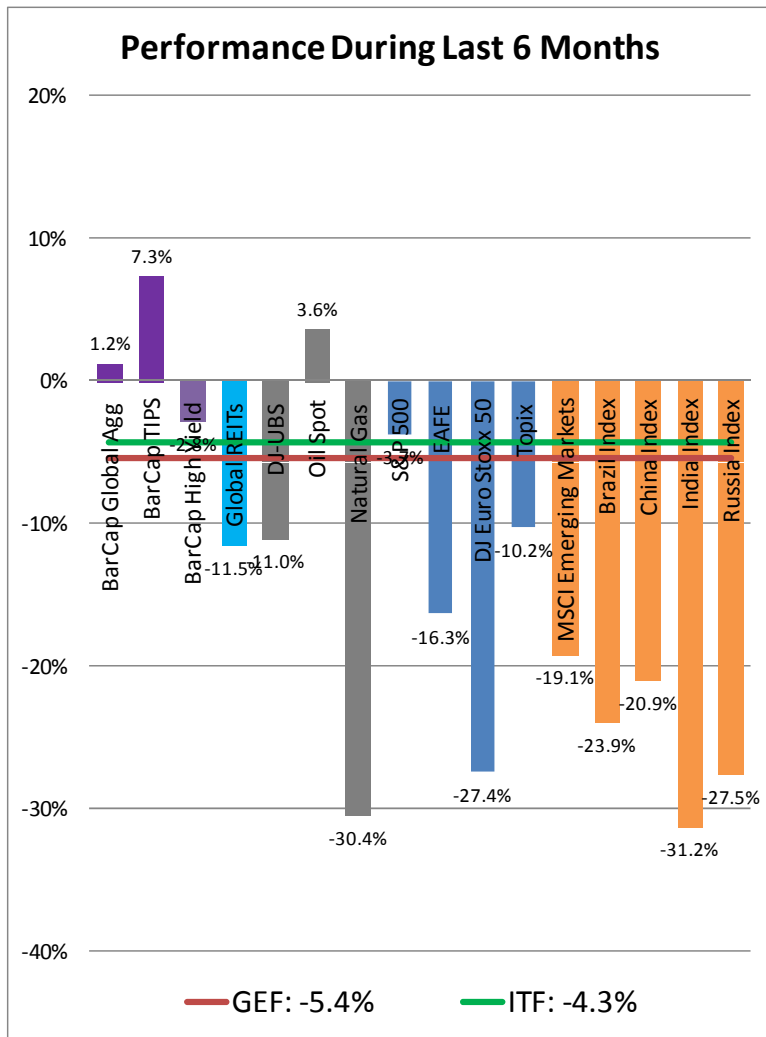
## Periods Ended December 31, 2011

	Periods ended December 31, 2011 <b>(Preliminary)</b>				
	(Returns for Periods Longer Than One Year are Annualized)				
	Year to Date		Historic Returns		
<b>ENDOWMENT FUNDS</b>	Peers YTD	Calendar	3 Yrs	5 Yrs	10 Yrs
Permanent University Fund	(5.38%)	(0.02%)	11.56%	2.78%	6.70%
Permanent Health Fund					
Long Term Fund					
General Endowment Fund	(5.38)	0.03	11.56	2.86	6.80
Separately Invested Funds					
<b>Total Endowment Funds</b>					
<b>OPERATING FUNDS</b>					
Intermediate Term Fund	(4.30)	(1.16)	11.20	3.15	N/A
Short Term and Debt Proceeds Funds	0.06	0.16	0.31	1.83	2.17
<b>VALUE ADDED - Percent (1)</b>					
Permanent University Fund	(0.99%)	0.26%	2.18%	2.25%	1.98%
General Endowment Fund	(0.99)	0.31	2.18	2.33	2.08
Intermediate Term Fund	0.63	1.51	2.51	2.64	N/A
<b>VALUE ADDED - \$ in Millions (1)</b>					
Permanent University Fund	\$(129)	\$29	\$691	\$1,271	\$2,144
General Endowment Fund	(70)	23	389	739	1222
Intermediate Term Fund	31	71	298	529	N/A
<b>Total Value Added</b>	<b>\$ (168)</b>	<b>\$ 123</b>	<b>\$ 1,378</b>	<b>\$ 2,539</b>	<b>\$ 3,366</b>

(1) - 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.

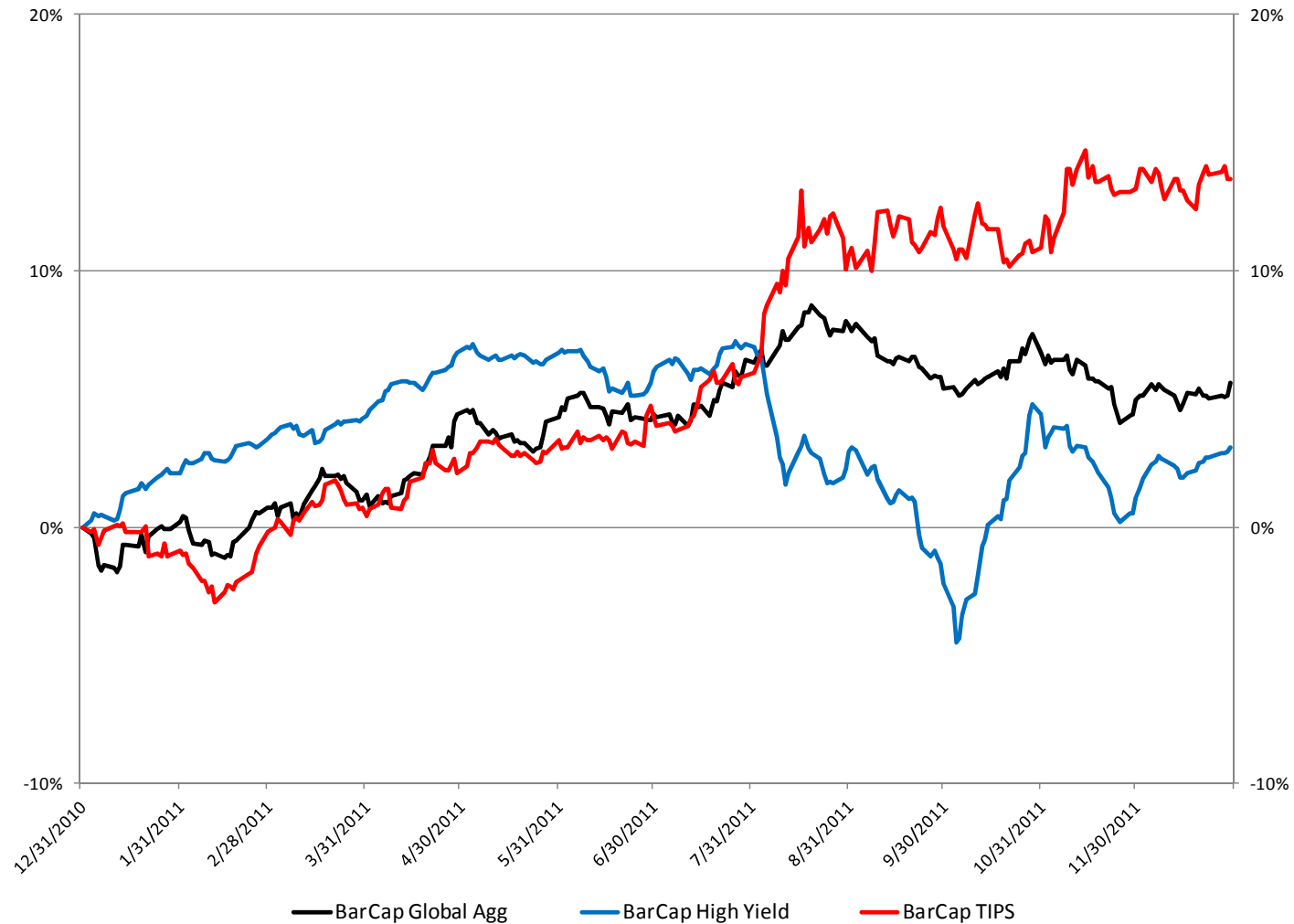


# Fund and Capital Markets Performance for Six Months and Year Ended December 31, 2011



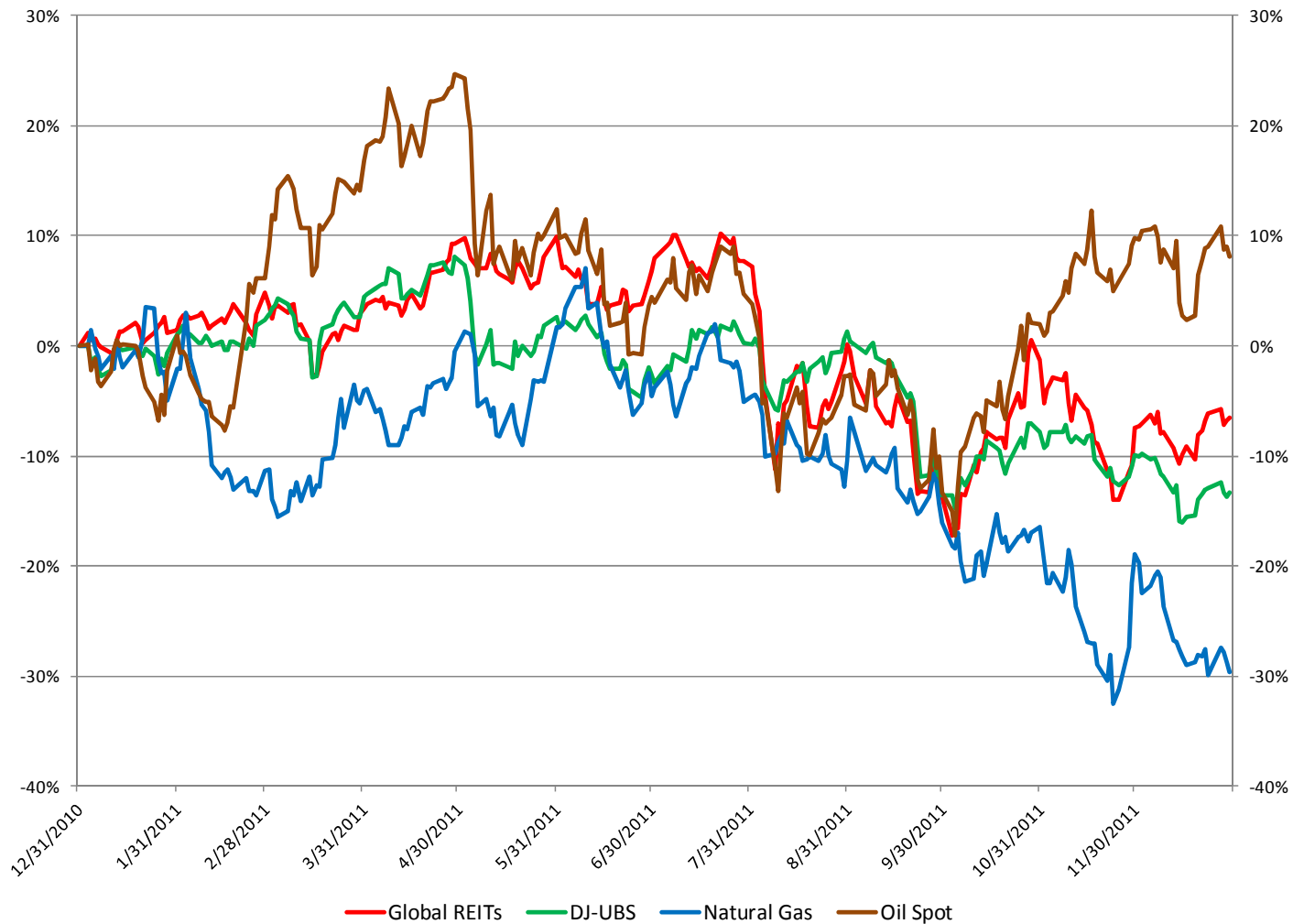


# Annual Performance – Fixed Income Indices





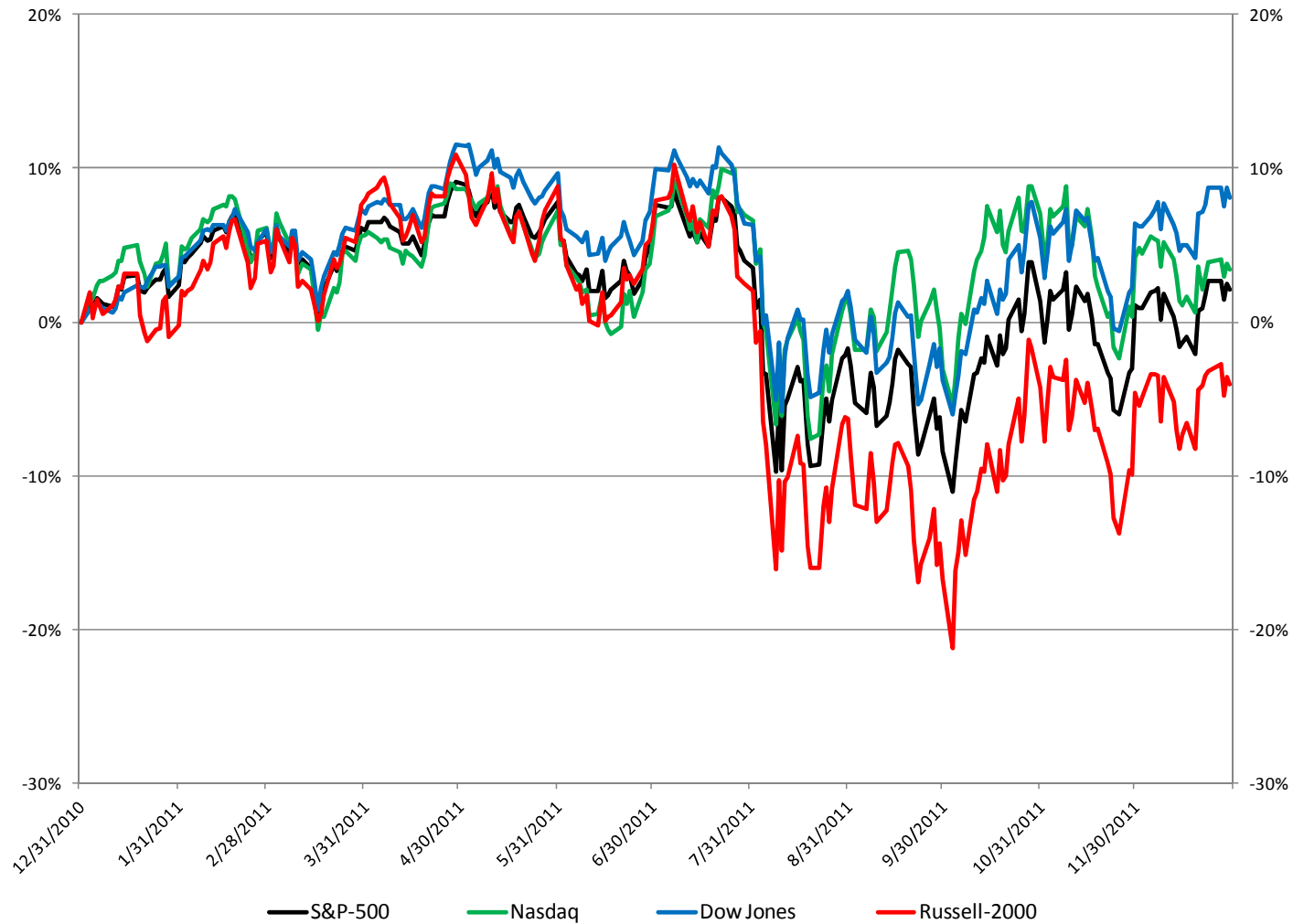
# Annual Performance – Real Asset Indices





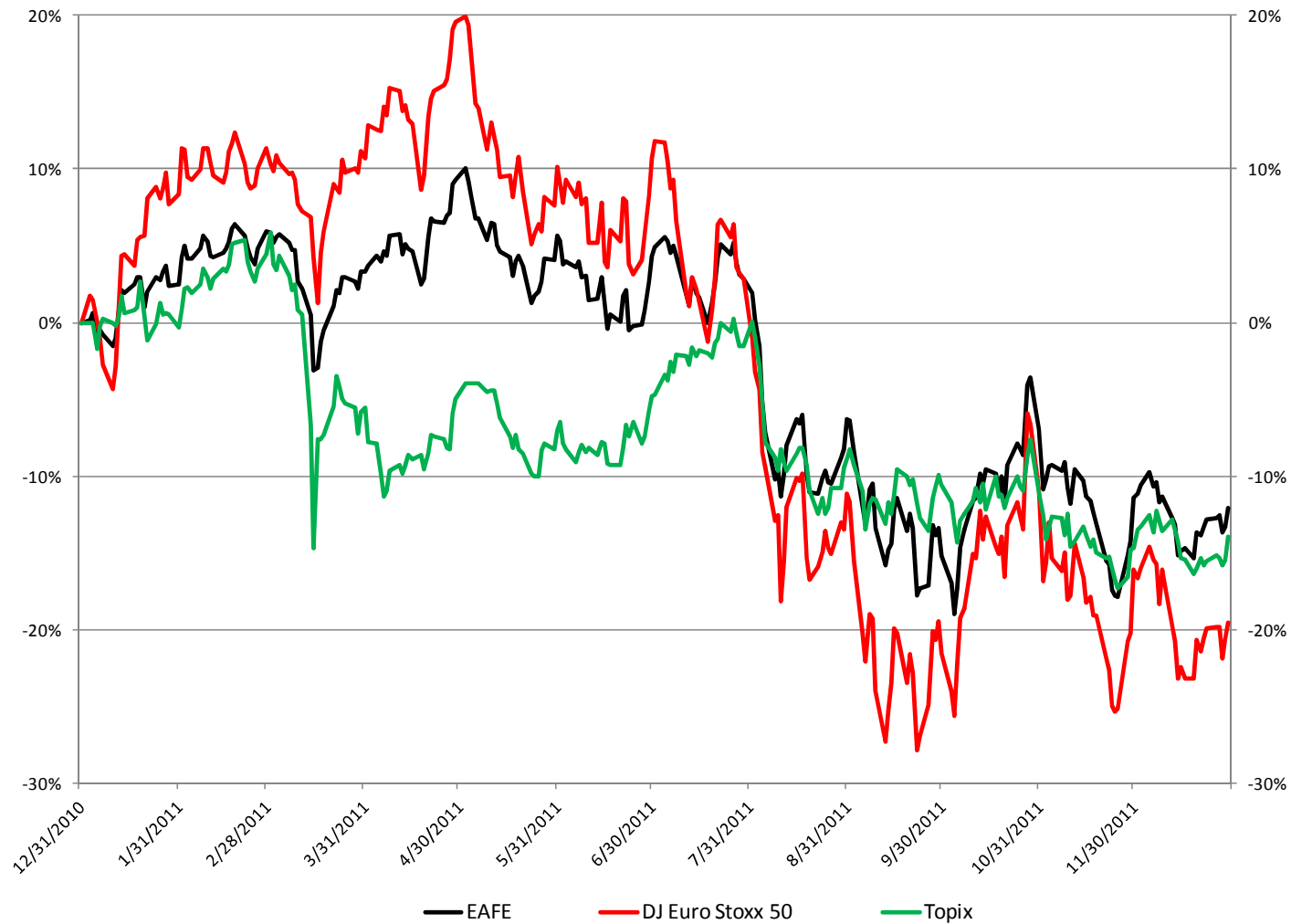


# Annual Performance – US Equity



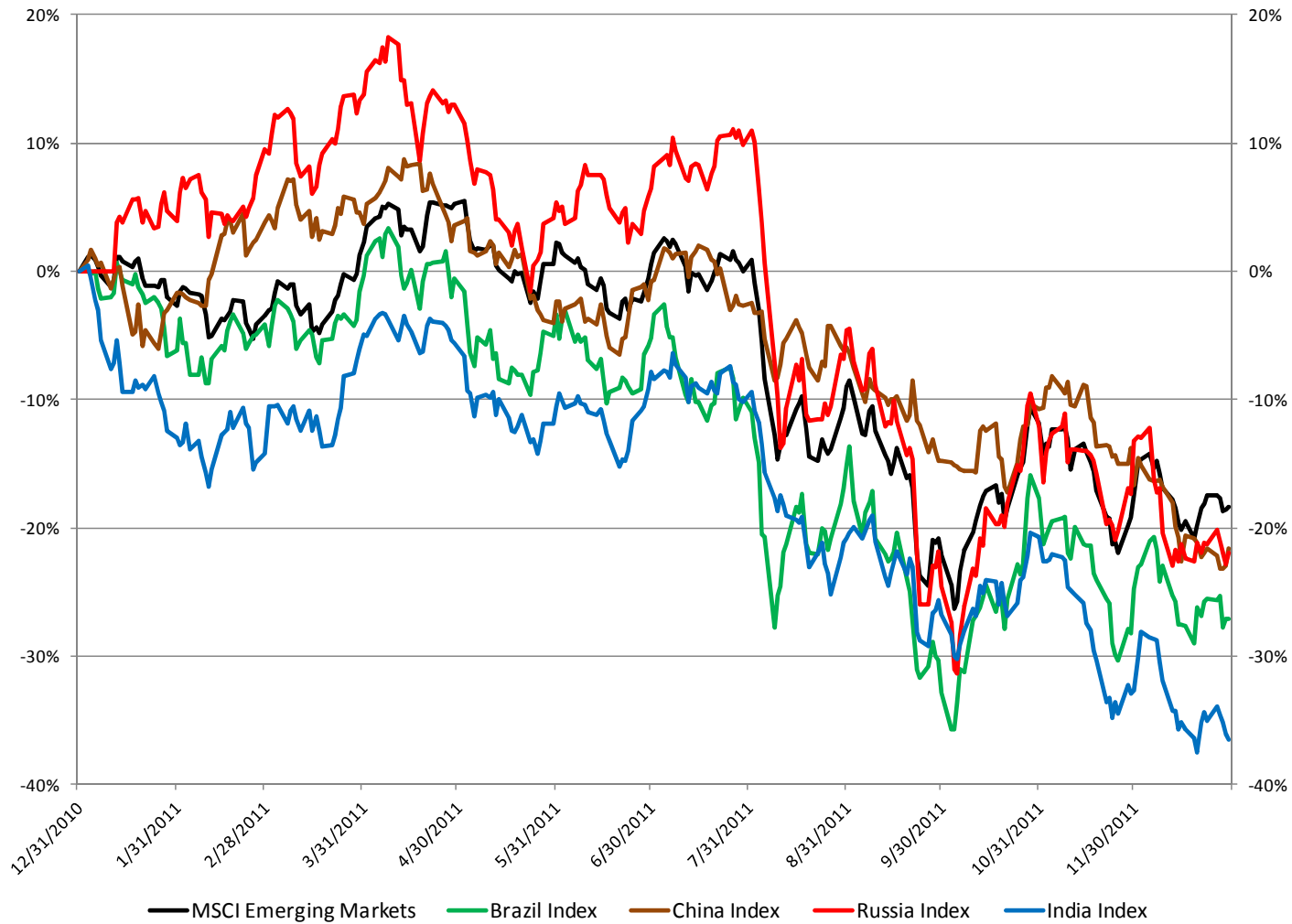


# Annual Performance – Dev. Equity Ex US



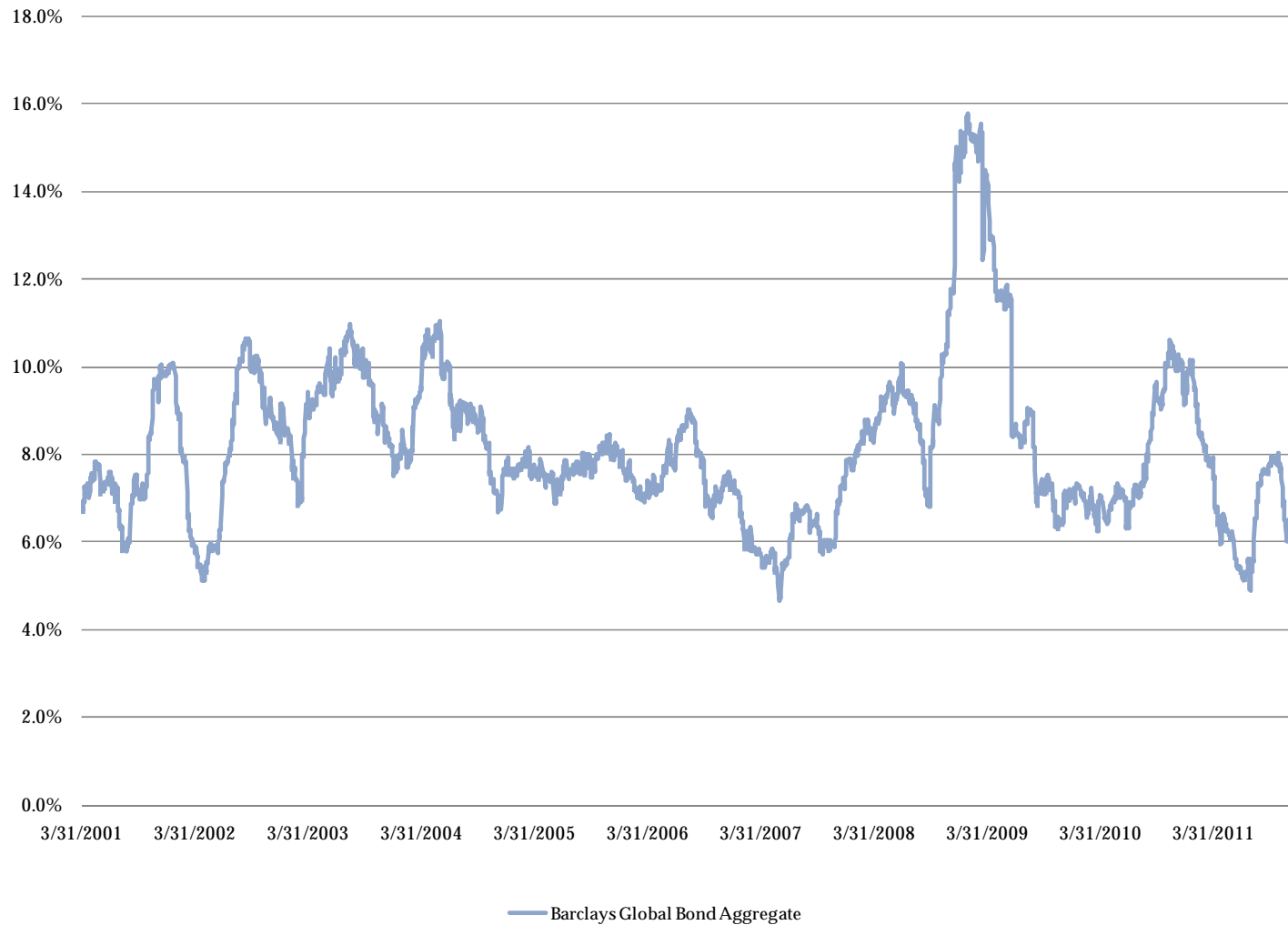


# Annual Performance – Emerging Markets



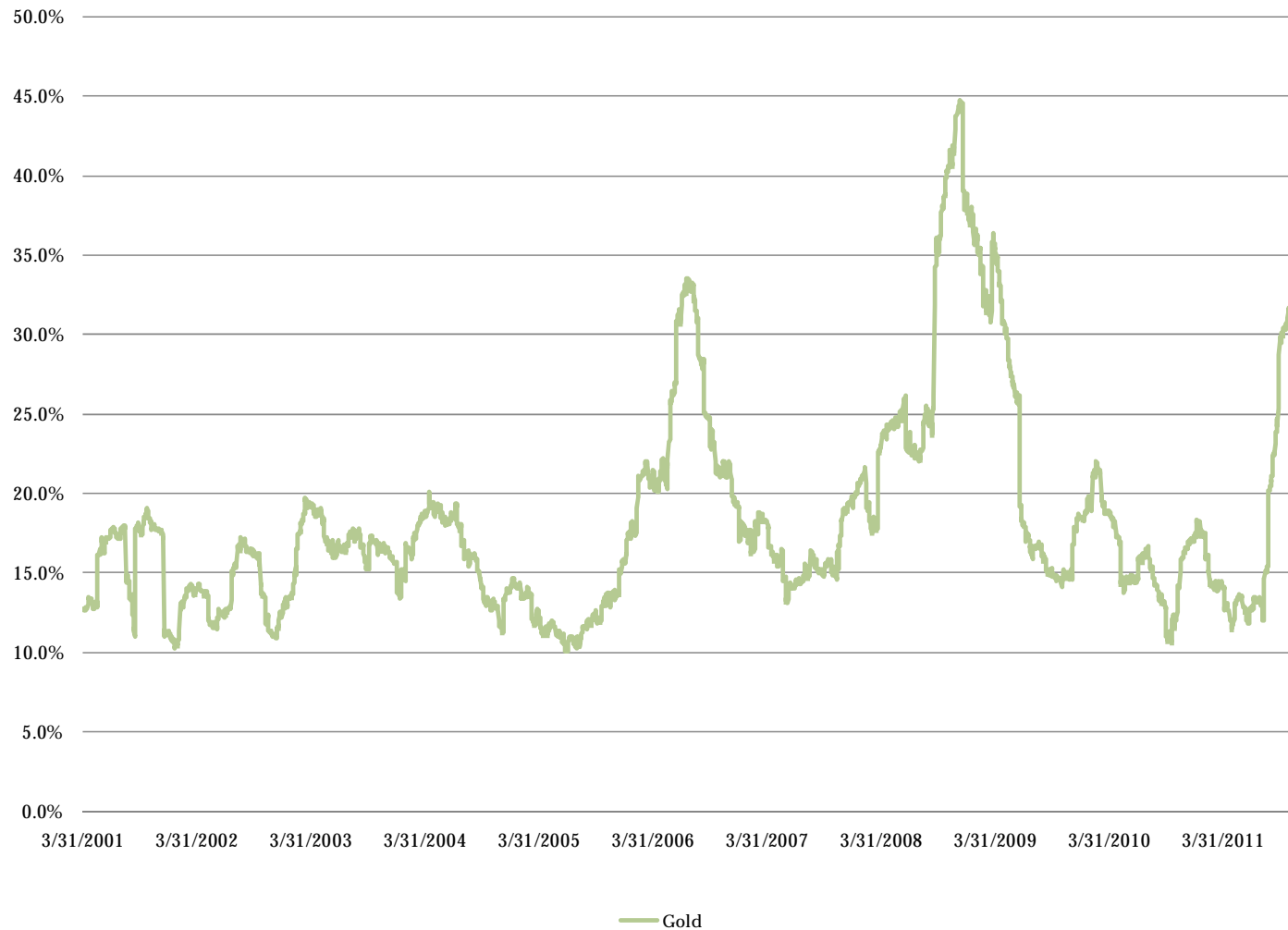


# Annualized Rolling 90-day Standard Deviation of Daily Returns Barclays Global Bond Aggregate (3/31/2001 – 11/30/2011)



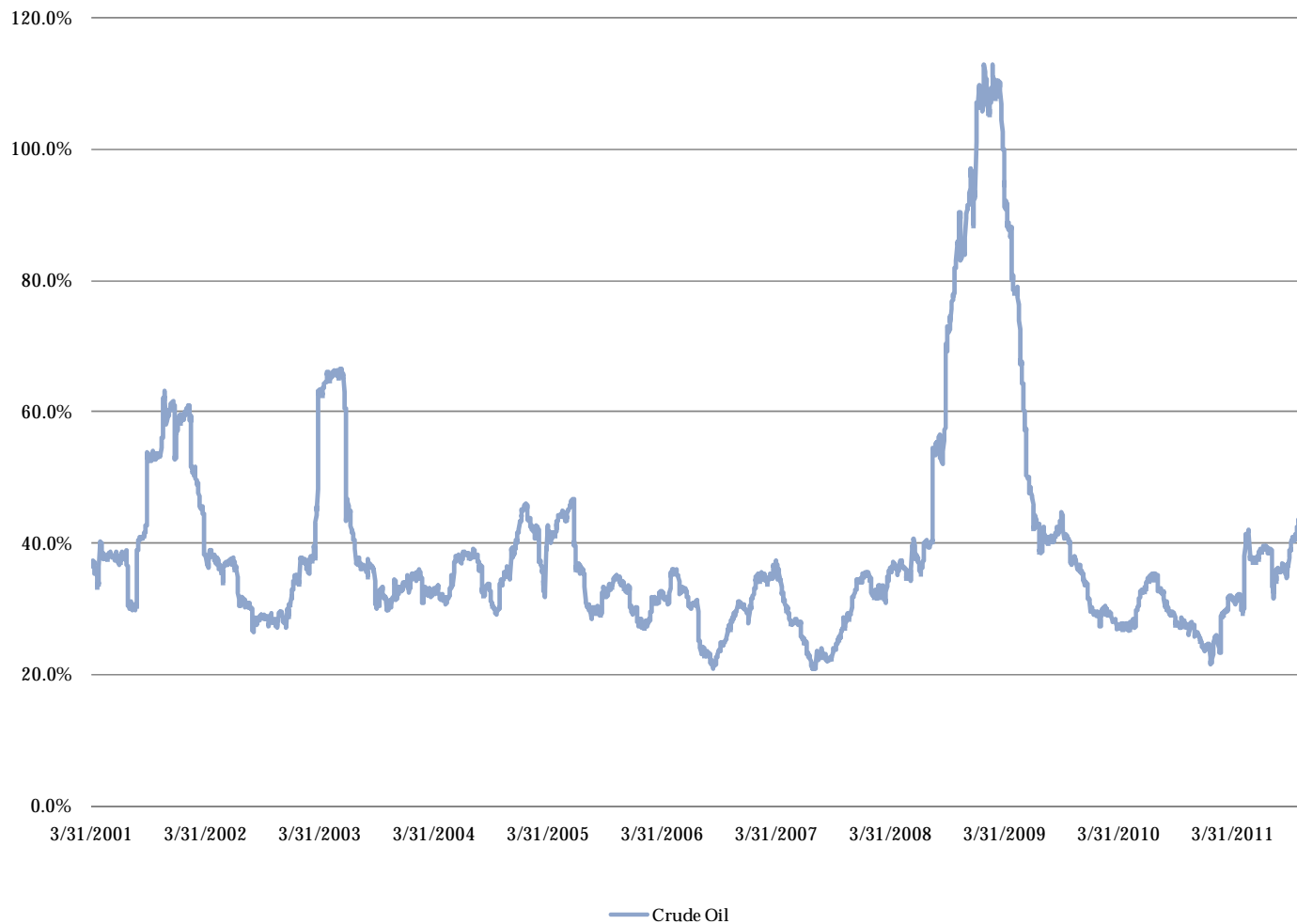


# Annualized Rolling 90-day Standard Deviation of Daily Returns Gold (3/31/2001 – 11/30/2011)



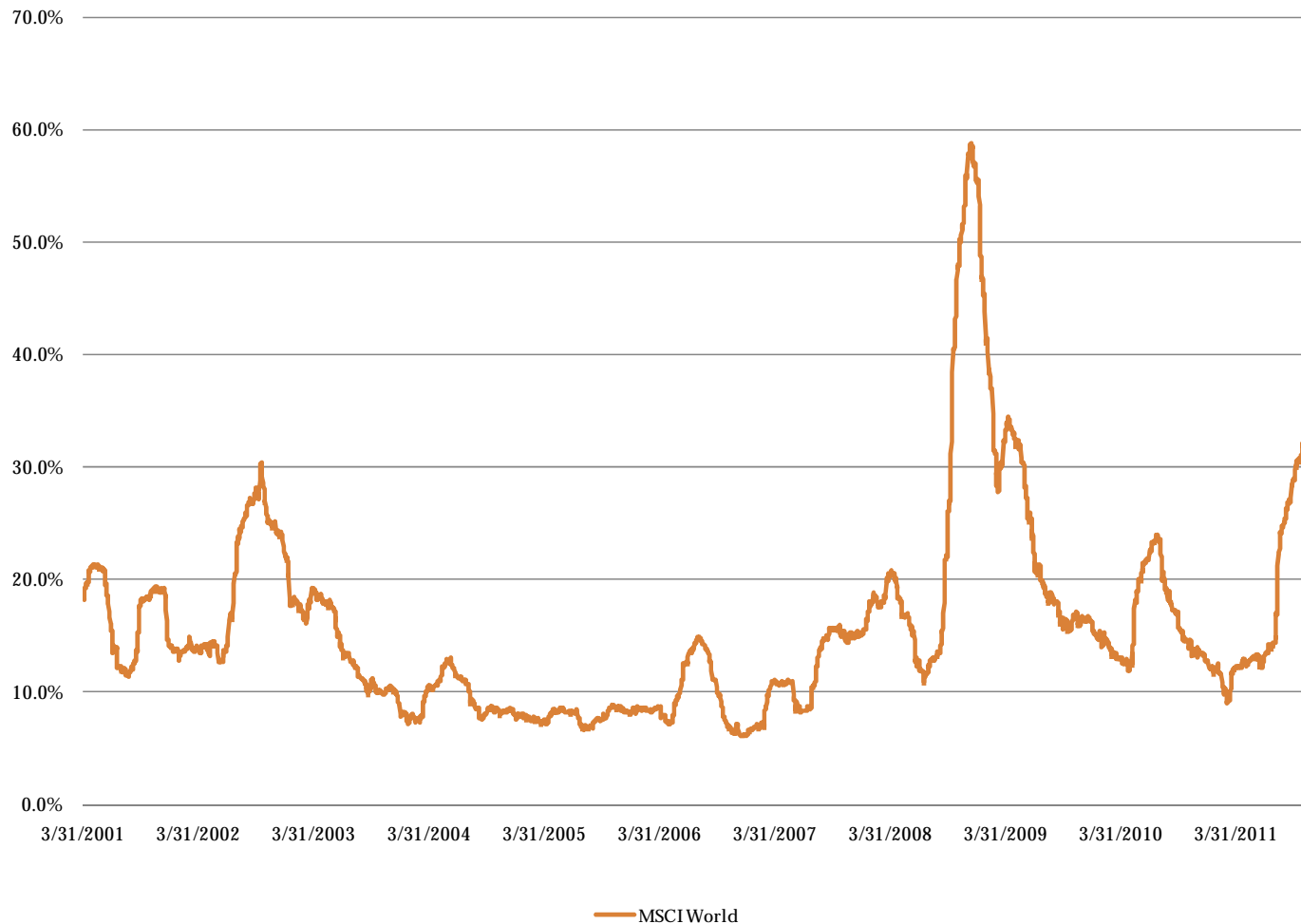


# Annualized Rolling 90-day Standard Deviation of Daily Returns Crude Oil (3/31/2001 – 11/30/2011)



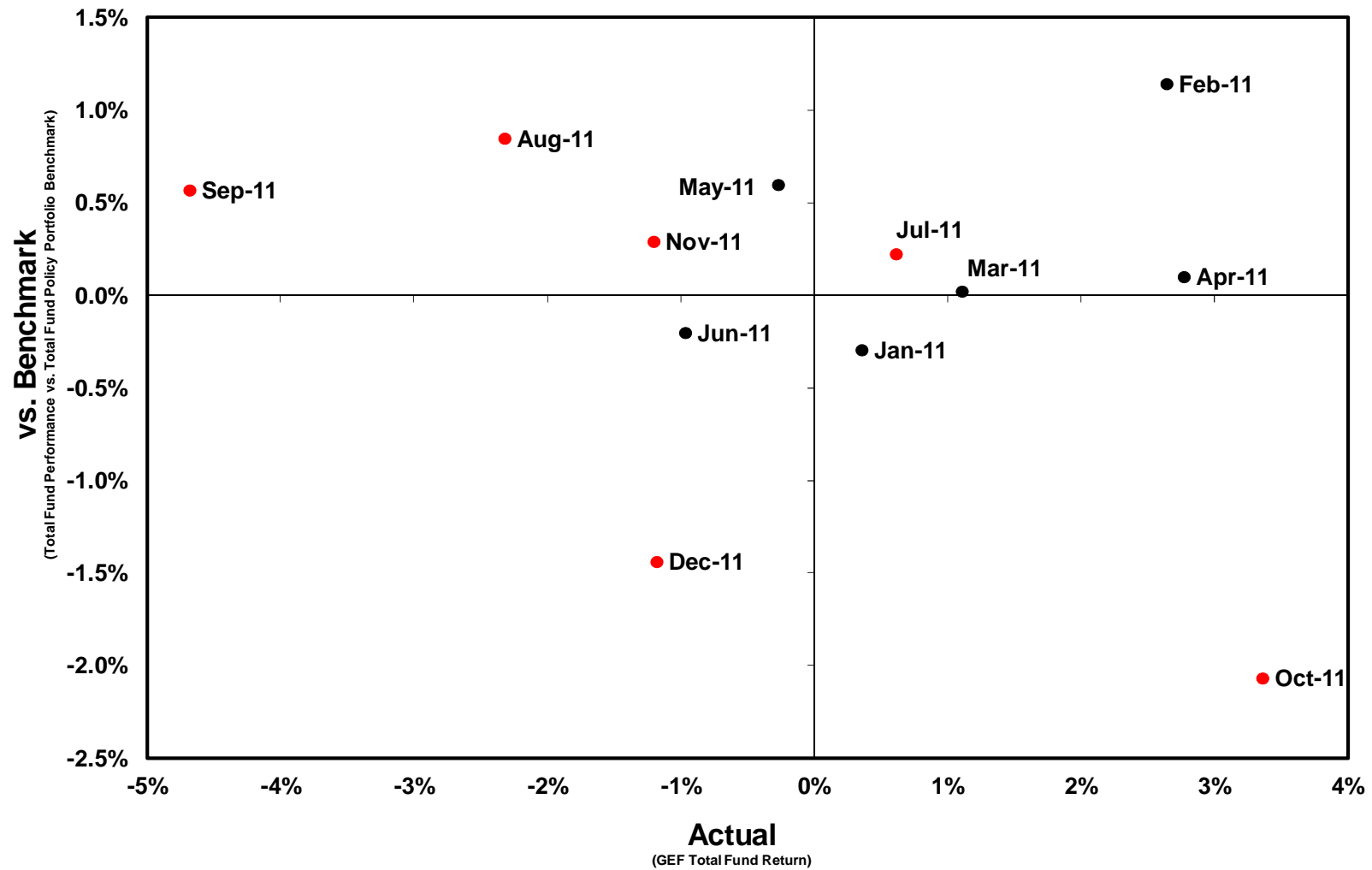


# Annualized Rolling 90-day Standard Deviation of Daily Returns MSCI World (3/31/2001 – 11/30/2011)





# Actual and “vs. Benchmark” Returns by Month Calendar Year 2011 (GEF)







# Value-Add Analysis

	FY05	FY06	FY07	FY08	FY09	FY10	FY11	2H CY11	CY11
<b>MCC</b>									
Tactical	0.43%	-0.54%	0.14%	0.82%	0.29%	0.01%	0.05%	0.75%	0.53%
Active	0.42%	-0.81%	-0.74%	-0.19%	-1.68%	2.02%	0.47%	-0.03%	0.35%
<b>TOTAL</b>	<b>0.85%</b>	<b>-1.35%</b>	<b>-0.60%</b>	<b>0.63%</b>	<b>-1.39%</b>	<b>2.02%</b>	<b>0.52%</b>	<b>0.72%</b>	<b>0.87%</b>
<b>LCC</b>									
Tactical	-0.01%	0.07%	-0.02%	-0.09%	0.04%	0.21%	0.12%	0.04%	0.14%
Active	2.09%	0.86%	2.63%	2.02%	1.68%	2.61%	1.39%	0.20%	1.04%
<b>TOTAL</b>	<b>2.08%</b>	<b>0.93%</b>	<b>2.61%</b>	<b>1.93%</b>	<b>1.71%</b>	<b>2.82%</b>	<b>1.50%</b>	<b>0.24%</b>	<b>1.18%</b>
<b>Private Investments</b>									
Tactical	-0.68%	-0.42%	-0.69%	0.14%	0.35%	0.40%	-0.11%	0.02%	-0.03%
Active	1.51%	-0.57%	1.20%	-0.59%	1.54%	-0.98%	0.83%	-1.97%	-1.72%
<b>TOTAL</b>	<b>0.83%</b>	<b>-0.99%</b>	<b>0.51%</b>	<b>-0.45%</b>	<b>1.88%</b>	<b>-0.58%</b>	<b>0.72%</b>	<b>-1.95%</b>	<b>-1.74%</b>
<b>Overall GEF</b>									
Tactical	-0.26%	-0.89%	-0.57%	0.87%	0.67%	0.62%	0.06%	0.80%	0.64%
Active	4.02%	-0.52%	3.09%	1.24%	1.53%	3.65%	2.68%	-1.79%	-0.33%
<b>TOTAL</b>	<b>3.76%</b>	<b>-1.41%</b>	<b>2.52%</b>	<b>2.11%</b>	<b>2.20%</b>	<b>4.26%</b>	<b>2.74%</b>	<b>-0.99%</b>	<b>0.31%</b>



# Private Markets Portfolio Rollforward Year Ended December 31, 2011

\$ in millions	Beg CY 1/1/11			Calls	Distributions	Change in Valuation	%	CY'11 New Commitments		End CY 12/31/11	
	NAV <sup>(1)</sup>	Unfunded	# Funds					# Funds	\$ Committed	NAV <sup>(1)</sup>	Unfunded
<b>Credit-Related Fixed Income</b>	\$1,304	\$446	33	\$231	\$296	\$41	3.2%	0	\$0	\$1,280	\$274
<b>Real Estate</b>	155	225	8	181	22	11	6.9%	9	662	325	712
<b>Natural Resources</b>	404	454	20	147	136	114	27.9%	6	526	529	810
<b>Venture</b>	704	390	48	158	186	294		7	227	970	497
<b>Other Developed Country Equity</b>	<u>1,208</u>	<u>658</u>	<u>58</u>	<u>293</u>	<u>240</u>	<u>158</u>		<u>6</u>	<u>310</u>	<u>1,419</u>	<u>703</u>
<b>Total Developed Country Equity</b>	1,912	1,048	106	451	426	452	23.0%	13	537	2,389	1,200
<b>Emerging Markets Equity</b>	<u>367</u>	<u>271</u>	<u>16</u>	<u>135</u>	<u>51</u>	<u>(11)</u>	(1.4)%	<u>3</u>	<u>242</u>	<u>440</u>	<u>410</u>
<b>TOTAL</b>	<u>\$4,142</u>	<u>\$2,444</u>	<u>183</u>	<u>\$1,145</u>	<u>\$931</u>	<u>\$607</u>	14.5%	<u>31</u>	<u>\$1,967</u>	<u>\$4,963</u>	<u>\$3,406</u>
<i>% of Endowment (PUF+ GEF)</i>	22%	13%								26%	18%



# Assets



# Combined PUF and GEF Asset Allocation as of November 30, 2011 (in millions)

Asset Group	Asset Class	More Correlated and Constrained		Less Correlated and Constrained		Private Investments		Grand Total	
		\$	%	\$	%	\$	%	\$	%
Fixed Income	Investment Grade	\$ 1,855	9.7%	\$ 550	2.8%	\$ -	0.0%	\$ 2,405	12.5%
	Credit-Related	20	0.1%	894	4.7%	1,283	6.7%	2,197	11.5%
<b>Fixed Income Total</b>		<b>1,875</b>	<b>9.8%</b>	<b>1,444</b>	<b>7.5%</b>	<b>1,283</b>	<b>6.7%</b>	<b>4,602</b>	<b>24.0%</b>
Real Assets	Real Estate	\$ 418	2.2%	\$ 129	0.7%	\$ 276	1.4%	823	4.3%
	Natural Resources	2,357	12.3%	11	0.1%	523	2.7%	2,891	15.1%
<b>Real Assets Total</b>		<b>2,775</b>	<b>14.5%</b>	<b>140</b>	<b>0.8%</b>	<b>799</b>	<b>4.1%</b>	<b>3,714</b>	<b>19.4%</b>
Equity	Developed Country	\$ 1,762	9.2%	\$ 3,789	19.7%	\$ 2,365	12.3%	7,916	41.2%
	Emerging Markets	1,695	8.8%	504	2.6%	453	2.4%	2,652	13.8%
<b>Equity Total</b>		<b>3,457</b>	<b>18.0%</b>	<b>4,293</b>	<b>22.3%</b>	<b>2,818</b>	<b>14.7%</b>	<b>10,568</b>	<b>55.0%</b>
<b>Grand Total</b>		<b>\$ 8,107</b>	<b>42.3%</b>	<b>\$ 5,877</b>	<b>30.6%</b>	<b>\$ 4,900</b>	<b>25.5%</b>	<b>\$ 18,884</b>	<b>98.4%</b>

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.



# Combined PUF and GEF Asset Allocation as of December 31, 2011 (in millions)

Asset Group	Asset Class	More Correlated and Constrained		Less Correlated and Constrained		Private Investments		Grand Total	
		\$	%	\$	%	\$	%	\$	%
Fixed Income	Investment Grade	\$ 2,039	10.7%	\$ 551	2.9%	\$ -	0.0%	\$ 2,590	13.6%
	Credit-Related	20	0.1%	903	4.7%	1,279	6.8%	2,202	11.6%
<b>Fixed Income Total</b>		<b>2,059</b>	<b>10.8%</b>	<b>1,454</b>	<b>7.6%</b>	<b>1,279</b>	<b>6.8%</b>	<b>4,792</b>	<b>25.2%</b>
Real Assets	Real Estate	\$ 416	2.2%	\$ 130	0.7%	\$ 326	1.7%	872	4.6%
	Natural Resources	2,216	11.6%	11	0.1%	529	2.8%	2,756	14.5%
<b>Real Assets Total</b>		<b>2,632</b>	<b>13.8%</b>	<b>141</b>	<b>0.8%</b>	<b>855</b>	<b>4.5%</b>	<b>3,628</b>	<b>19.1%</b>
Equity	Developed Country	\$ 1,751	9.2%	\$ 3,722	19.6%	\$ 2,389	12.5%	7,862	41.3%
	Emerging Markets	1,671	8.8%	506	2.6%	439	2.3%	2,616	13.7%
<b>Equity Total</b>		<b>3,422</b>	<b>18.0%</b>	<b>4,228</b>	<b>22.2%</b>	<b>2,828</b>	<b>14.8%</b>	<b>10,478</b>	<b>55.0%</b>
<b>Grand Total</b>		<b>\$ 8,113</b>	<b>42.6%</b>	<b>\$ 5,823</b>	<b>30.6%</b>	<b>\$ 4,962</b>	<b>26.1%</b>	<b>\$ 18,898</b>	<b>99.3%</b>

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.



# Changes in Combined PUF and GEF Asset Allocation

December 31, 2010 to December 31, 2011

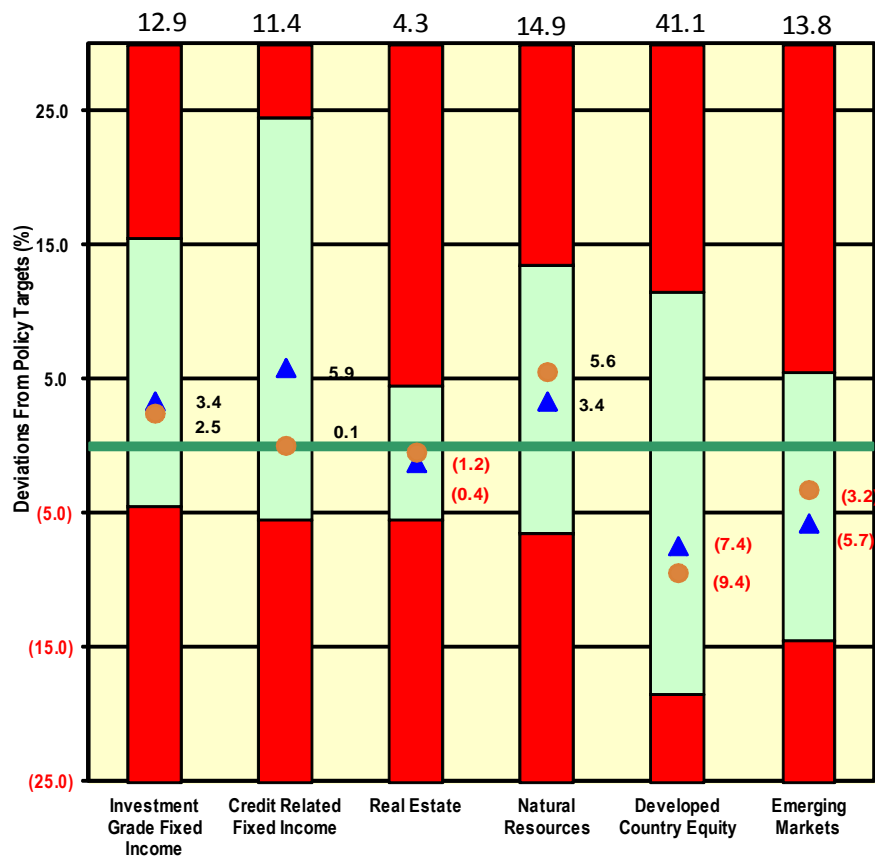
Asset Group	Asset Class	More Correlated and Constrained		Less Correlated and Constrained		Private Investments		Grand Total	
Fixed Income	Investment Grade	\$ 59	0.2%	\$ 236	1.2%	\$ -	0.0%	\$ 295	1.4%
	Credit-Related	(171)	-0.9%	(25)	-0.2%	(26)	-0.2%	(222)	-1.3%
<b>Fixed Income Total</b>		<b>(112)</b>	<b>-0.7%</b>	<b>211</b>	<b>1.0%</b>	<b>(26)</b>	<b>-0.2%</b>	<b>73</b>	<b>0.1%</b>
Real Assets	Real Estate	\$ (137)	-0.7%	\$ 19	0.1%	\$ 171	0.9%	53	0.3%
	Natural Resources	252	1.1%	(2)	0.0%	126	0.7%	376	1.8%
<b>Real Assets Total</b>		<b>115</b>	<b>0.4%</b>	<b>17</b>	<b>0.1%</b>	<b>297</b>	<b>1.6%</b>	<b>429</b>	<b>2.1%</b>
Equity	Developed Country	\$ (1,169)	-6.4%	\$ 67	0.1%	\$ 478	2.3%	(624)	-4.0%
	Emerging Markets	(170)	-1.0%	36	0.1%	71	0.3%	(63)	-0.6%
<b>Equity Total</b>		<b>(1,339)</b>	<b>-7.4%</b>	<b>103</b>	<b>0.2%</b>	<b>549</b>	<b>2.6%</b>	<b>(687)</b>	<b>-4.6%</b>
<b>Grand Total</b>		<b>\$ (1,336)</b>	<b>-7.7%</b>	<b>\$ 331</b>	<b>1.3%</b>	<b>\$ 820</b>	<b>4.0%</b>	<b>\$ (185)</b>	<b>-2.4%</b>

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 November 30, 2011

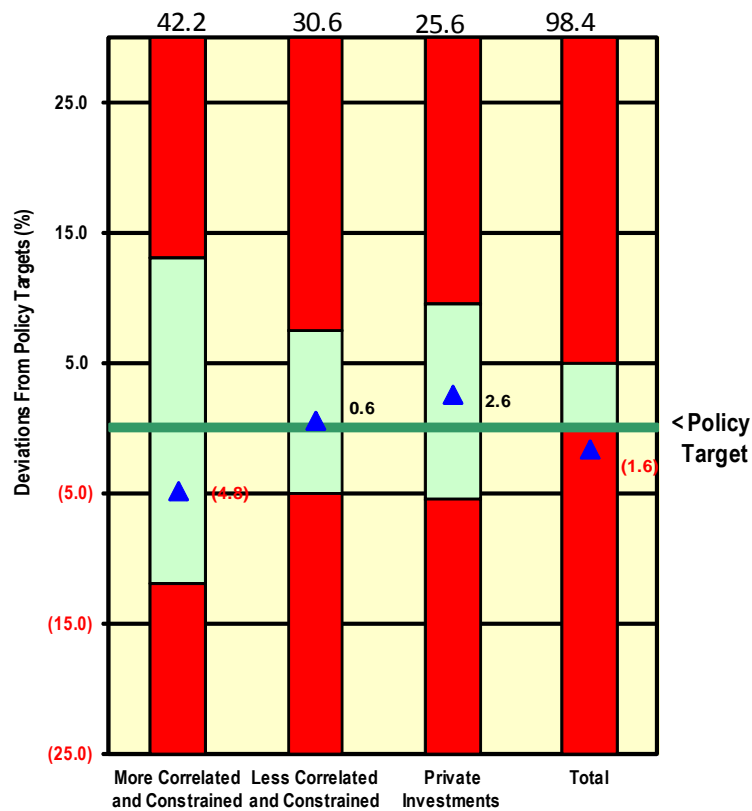
Deviations From Asset Class Policy Targets Within Tactical Policy Ranges for PUF



▲ -- All Investment Types

● -- More Correlated and Constrained

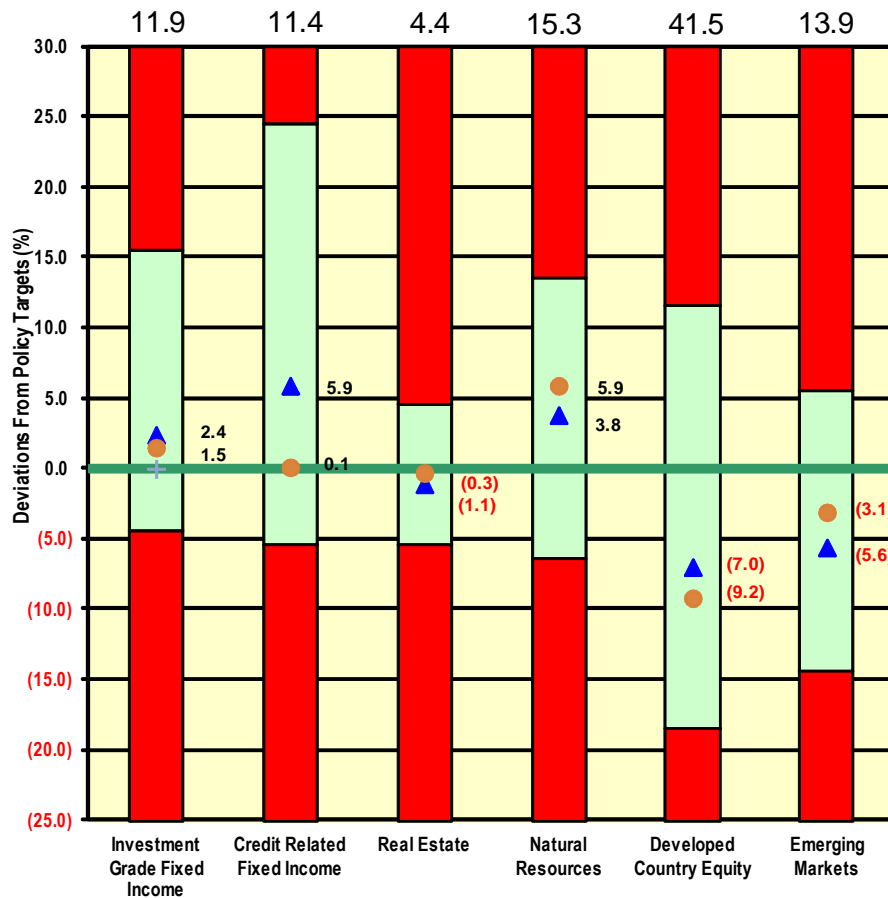
Deviations From Investment Type Policy Targets Within Tactical Policy Ranges for PUF



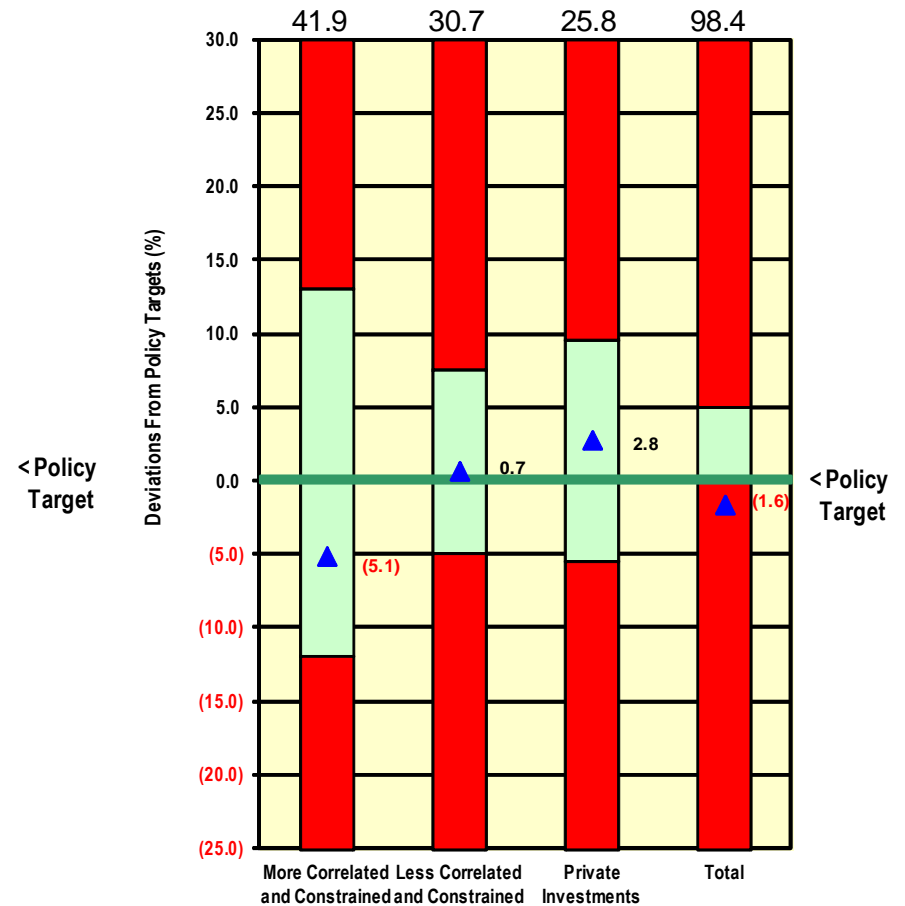


# GEF Asset Allocation as of November 30, 2011

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



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



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





# LCC Investment Policy Categorizations vs. “Look Thru” Exposures November 30, 2011

<b>Exposure Methodology Comparison</b>			
	<u>Policy</u>	<u>Look-Through</u>	<u>Difference</u>
Investment Grade Fixed Income	3.0%	3.2%	0.3%
Credit-Related Fixed Income	4.8%	6.5%	1.7%
Real Estate	0.7%	0.6%	-0.1%
Natural Resources	0.1%	0.7%	0.6%
Developed Country Equity	20.5%	18.0%	-2.5%
Emerging Markets Equity	<u>2.7%</u>	<u>2.8%</u>	<u>0.1%</u>
<b>Less Correlated &amp; Constrained</b>	<b>31.8%</b>	<b>31.8%</b>	<b>0.0%</b>



# Derivatives



# Endowment Insurance Hedges as of November 30, 2011

Event	Hedge	Current Exposures					Changes since August 31			
		Total Cost <sup>(1)</sup>	bps Cost/Year <sup>(2)</sup>	Notional (\$ millions)	MTM (\$ millions)	P/L	Cost	bps Cost/Year <sup>(2)</sup>	Notional (\$ millions)	MTM (\$ millions)
<b>U.S. Inflation</b>										
	CMS Options	\$ (52)	5.7	\$ 9,249	\$ 31	\$ (21)	\$ (10)	0.8	\$ 1,616	\$ (3)
<b>Emerging Markets Bubble</b>										
	KOSPI Put Spreads	(29)	7.4	1,123	29	(0)	(0)	-	(0)	(2)
	ASX Put Spreads	(37)	10.8	1,560	48	11	(0)	-	0	6
	AUD forwards to hedge ASX premiums	-	-	(35)	(0)	(0)	-	-	(73)	1
	Total	(66)	18.2		77	10	(0)	-		5
<b>Sovereign Default</b>										
	JPY Rate Options and Swaptions	\$ (55)	13.0	10,299	20	(35)	(0)	-	(0)	1
	DKK Call / EURO Put Options	(11)	5.3	1,510	11	(0)	(3)	1.8	461	5
	Total	(66)	18.4		31	(35)	(3)	1.8		6
<b>Low Growth / Recession</b>										
	S&P Put Spreads	\$ (61)	32.2	2,181	45	(17)	(61)	32.2	2,181	45
	Short Japan Index Swaps	-	-	(62)	2	2	-	-	3	3
	Short MSCI Europe Index Swaps	-	-	(105)	4	4	-	-	4	10
	Short Real Estate Index Swaps (RUGL)	-	-	(70)	(0)	(0)	-	-	(0)	8
	Short Real Estate Index Swaps (DJUSRE)	-	-	(98)	(1)	(1)	-	-	0	7
	Short S&P 500 Index Swaps	-	-	(269)	(18)	(18)	-	-	(18)	4
	Short S&P 400 Index Swaps	-	-	(106)	(7)	(7)	-	-	(7)	4
	Total	(61)	32.2		25	(36)	(61)	32.2		81
	<b>TOTAL</b>	<b>\$ (246)</b>	<b>74.4</b>			<b>\$ (82)</b>	<b>\$ (75)</b>	<b>34.7</b>		

(1) Maximum Loss for Options

(2) Amount of delegated insurance budget used for fiscal year ending August, 2012.



# Non-Insurance Related Internal Derivatives

## November 30, 2011

<u>Manager</u>	<u>Derivative Strategy</u>	<u>Net Notional Value</u> (\$ millions)	<u>Activity from previous report</u> (8/31/2011) (\$ millions)
<b><u>Real Estate</u></b>			
Sale of Real Estate Puts	Sold out of the money Put options on U.S. REIT ETF (IYR underlying)	250	250
<b><u>Natural Resources</u></b>			
Integrated Oil & Gas Sw ap	Long a basket of Oil and Gas related equity names	77	2
Sale of Natural Resource Puts	Sold out of the money Put options on Metals and Materials ETF (XME underlying)	160	160
<b><u>Developed Country Equity</u></b>			
S&P 500 Futures	Long S&P 500 futures	-	(1)
Canadian Sw ap	Long Canadian sw aps	-	(6)
Developed Country Futures	Long German DAX and London FTSE futures	-	(7)
Indus Japan Forw ards	Sale of Japanese Yen forw ards to hedge the currency exposure in the MCC Indus Japan accounts	-	-
<b><u>Emerging Markets Equity</u></b>			
Emerging Markets FX Overlay	Currency forw ards to align the Asset Class FX exposure closer to the benchmark.	179	51
Sale of Emerging Markets Puts	Sold out of the money Put options on emerging markets	185	-



# External Manager Agency Account Derivatives

## November 30, 2011

<u>Manager</u>	<u>Derivative Strategy</u>	<u>Net Notional Value (\$ millions)</u>
<b><u>Investment Grade Fixed Income</u></b>		
Brandywine	Currency forwards used to hedge foreign currency exposure	(116)
PIMCO Global Bonds	Currency forwards used to underwrite the US dollar	54
	Long US and Non-US futures used to overweight duration in Eurozone	158
	Receive Interest rate swaps used to overweight duration in the Eurozone and underwrite intermediate portion of the Japanese yield curve	52
	Pay Interest rate swaps used to overweight duration in the Eurozone and underwrite intermediate portion of the Japanese yield curve	(160)
	Short/Written credit default swaps used to overweight credit risk	135
	Long/Purchased credit default swaps used to underwrite credit risk	(36)
	Written options used to increase portfolio yield	(198)
	Purchased options used to increase portfolio yield	6
<b><u>Natural Resources</u></b>		
Gresham	Long Exchange-traded commodity futures	449
Wellington Commodities SPV	Exchange-traded commodity futures, options and/or swaps	70
<b><u>Developed Equity</u></b>		
International Value Advisors	Currency forward contracts for hedging purposes or to provide efficient investment exposure.	(29)
Wellington (SPE and Emerging)	Purchased options on single name shares	-



# OTC Derivative Counterparty Report

## November 30, 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
MORGAN STANLEY	A-	\$ 17.9	\$ (11.6)	\$ 6.3	0.03%
J P MORGAN, CHASE	A+	11.0	(10.0)	1.0	0.00%
GOLDMAN SACHS	A-	8.2	(43.6)	(35.4)	-0.15%
CITIBANK NY	A-	5.8	(3.4)	2.4	0.01%
DEUTSCHE BANK AG	A+	4.4	(8.8)	(4.4)	-0.02%
HSBC BK USA, NEW YORK	A+	1.8	(1.1)	0.7	0.00%
BANK OF AMERICA	A-	0.4	(0.2)	0.2	0.00%
MELLON BANK	A+	0.3	-	0.3	0.00%
UBS A G, ZURICH	A	0.2	-	0.2	0.00%
BNP PARIBAS	AA-	0.1	-	0.1	0.00%
CREDIT SUISSE FIRST	A	0.1	(0.1)	-	0.00%
ROYAL BANK OF CANADA	AA-	0.1	(0.1)	-	0.00%
CS FIRST BOSTON GBL FOREIGN EXCH	A	-	-	-	0.00%
SOCIETE GENERALE, PARIS	A+	-	-	-	0.00%
MERRILL LYNCH	A-	-	-	-	0.00%
WESTPAC BANKING CORP, SYDNEY	AA-	-	(0.1)	(0.1)	0.00%
ROYAL BANK OF SCOTLAND PLC	A-	-	(0.2)	(0.2)	0.00%
UBS AG, STAMFORD	A	-	(0.4)	(0.4)	0.00%
CHASE MANHATTAN	A	-	(0.6)	(0.6)	0.00%
BARCLAYS	A+	-	(7.5)	(7.5)	-0.03%
Grand Total		\$ 50.3	\$ (87.7)	\$ (37.4)	-0.16%

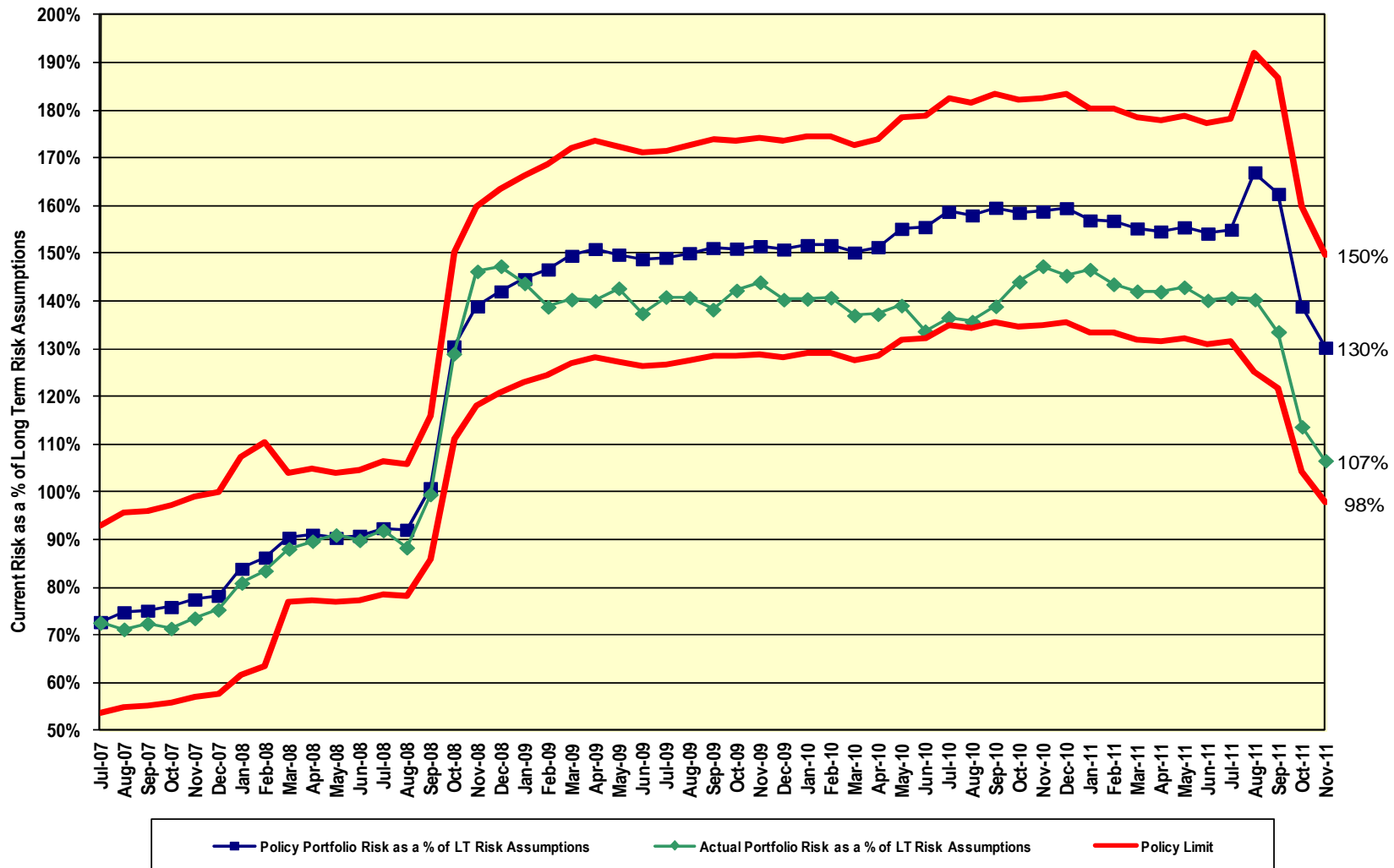


# Risk Analytics



# Current Risk Environment of GEF

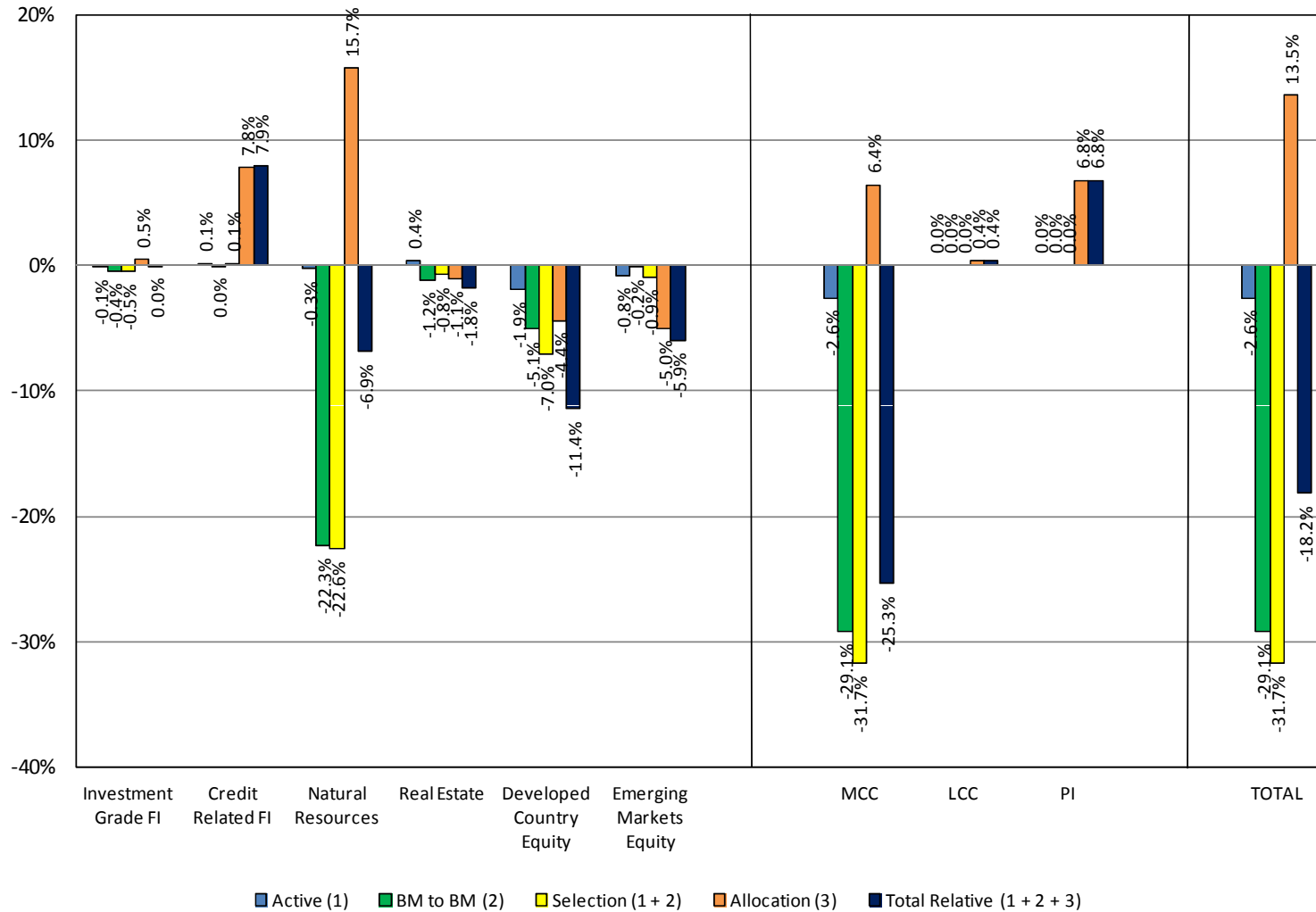
(Based on Downside Risk; LT assumption = 8.92%)







# GEF 4-Way Risk Decomposition as of 11/30/2011





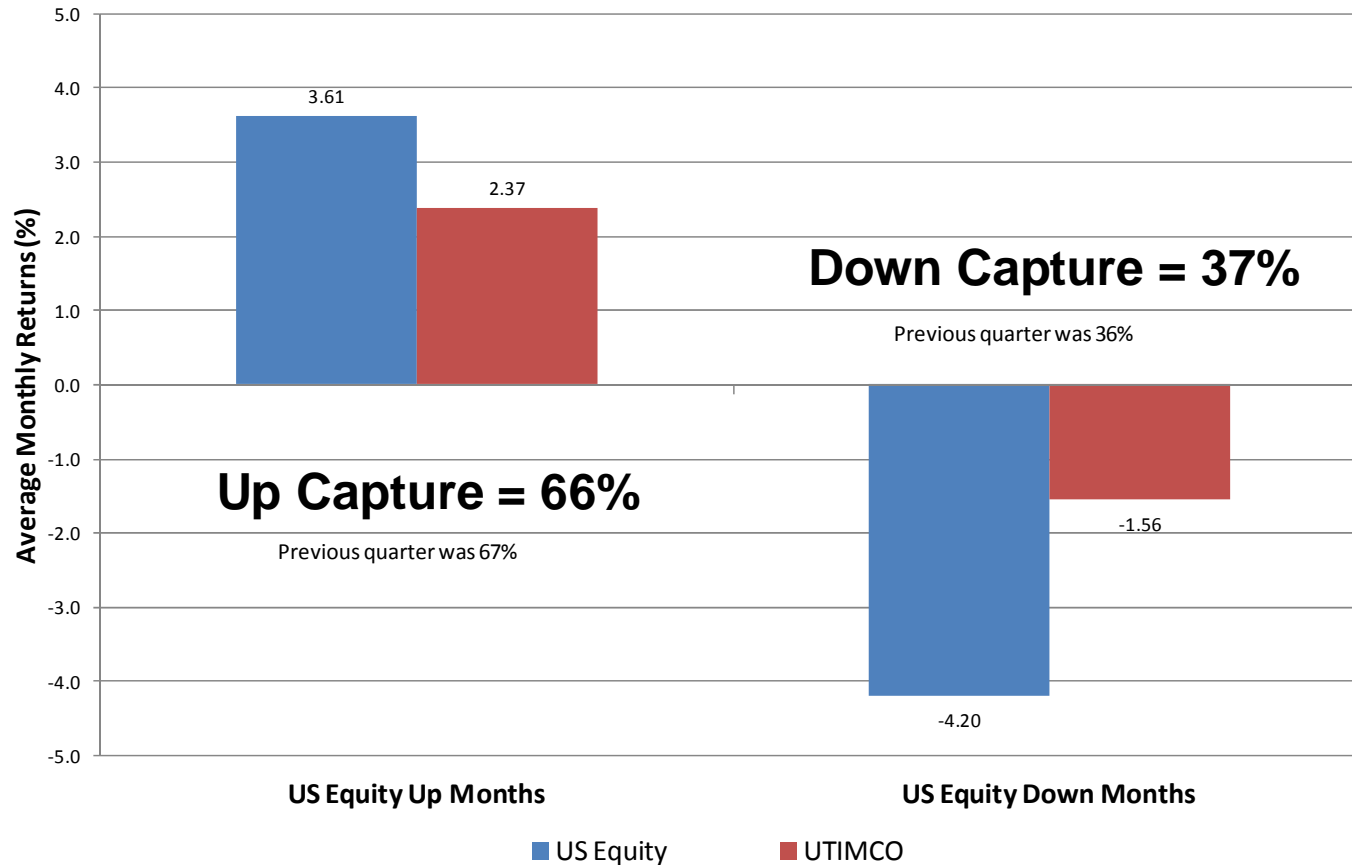
# Portfolio Sharpe and Information Ratios

Period Ending November 30, 2011

	Three Months	One Year	Three Years	Five Years	Ten Years
Actual Returns	-2.66	4.58	12.37	3.31	7.03
Risk-free Returns	0.00	0.12	0.15	1.57	1.97
Actual Volatility	6.98	8.55	8.51	10.53	8.90
<b>Portfolio Sharpe Ratio</b>	<b>-0.38</b>	<b>0.52</b>	<b>1.44</b>	<b>0.17</b>	<b>0.57</b>
Policy Returns	-1.60	4.02	9.94	0.70	4.76
Policy Volatility	6.25	10.23	13.46	11.33	9.43
Tracking Error	2.44	2.84	3.13	2.87	2.62
<b>Portfolio Information Ratio</b>	<b>-0.43</b>	<b>0.20</b>	<b>0.78</b>	<b>0.91</b>	<b>0.87</b>



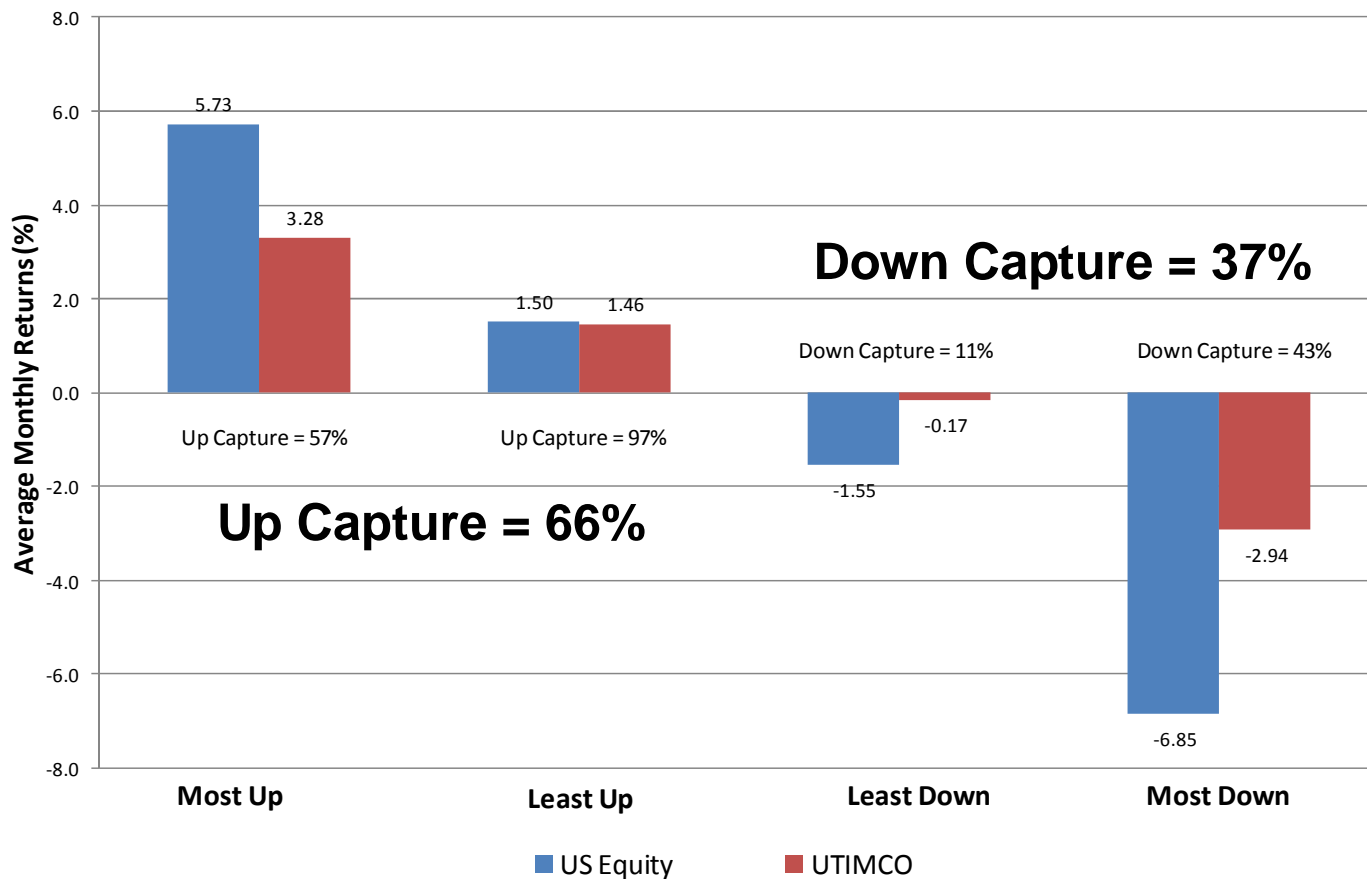
# UTIMCO's Up/Down Capture



Data from 8/1996 till 11/2011. US equity had 78 down months and 106 up months



# UTIMCO's Up/Down Capture



Data from 8/1996 till 11/2011. US equity had 78 down months and 106 up months



# GEF Marginal Risk Contribution

	MCC	LCC	PI	TOTAL
Investment Grade Fixed Income	0.06	0.14		<b>0.08</b>
Credit-Related Fixed Income	1.55	0.38	0.62	<b>0.53</b>
Natural Resources	0.99	-0.19	3.12	<b>1.39</b>
Real Estate	1.16	0.16	4.46	<b>2.07</b>
Developed Country Equity	0.65	0.45	2.20	<b>1.00</b>
Emerging Markets Equity	1.28	0.37	3.28	<b>1.46</b>
<b>TOTAL</b>	<b>0.77</b>	<b>0.40</b>	<b>2.11</b>	<b>1.00</b>



# Derivative Risk Contribution - GEF

## Scaled to Risk of Policy Portfolio

Risk	MCC	LCC	PI	TOTAL
Investment Grade Fixed Income	0.4%	0.3%		0.7%
Credit-Related Fixed Income	0.2%	1.5%	3.4%	5.0%
Natural Resources	9.5%	0.0%	7.0%	16.5%
Real Estate	2.3%	0.1%	5.3%	7.7%
Developed Country Equity	6.4%	7.4%	22.4%	36.2%
Emerging Markets Equity	8.5%	0.8%	6.4%	15.7%
<b>TOTAL</b>	<b>27.2%</b>	<b>10.1%</b>	<b>44.5%</b>	<b>81.8%</b>

## Risk Contribution of Derivatives

Risk	MCC	LCC	PI	TOTAL
Investment Grade Fixed Income	-1.4%			-1.4%
Credit-Related Fixed Income				0.0%
Natural Resources	2.2%			2.2%
Real Estate	-1.0%			-1.0%
Developed Country Equity	-7.1%			-7.1%
Emerging Markets Equity	0.4%			0.4%
<b>TOTAL</b>	<b>-6.9%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>-6.9%</b>

## Risk Contribution Excluding Derivatives

Risk	MCC	LCC	PI	TOTAL
Investment Grade Fixed Income	1.8%	0.3%		2.1%
Credit-Related Fixed Income	0.2%	1.5%	3.4%	5.0%
Natural Resources	7.3%	0.0%	7.0%	14.3%
Real Estate	3.3%	0.1%	5.3%	8.7%
Developed Country Equity	13.5%	7.4%	22.4%	43.3%
Emerging Markets Equity	8.1%	0.8%	6.4%	15.3%
<b>TOTAL</b>	<b>34.1%</b>	<b>10.1%</b>	<b>44.5%</b>	<b>88.7%</b>



# Correlations

Measured from March 2008 through November 2011

	Total IGFI	Total Credit	Total RE	Total NatRes	Total DC	Total EM	MCC	LCC	PI	GEF
Total IGFI	1.00	0.44	0.62	0.67	0.67	0.68	0.76	0.64	0.32	0.75
Total Credit		1.00	0.59	0.61	0.65	0.59	0.60	0.67	0.72	0.71
Total RE			1.00	0.63	0.81	0.84	0.90	0.57	0.42	0.86
Total NatRes				1.00	0.80	0.80	0.84	0.81	0.40	0.87
Total DC					1.00	0.87	0.92	0.88	0.49	0.97
Total EM						1.00	0.96	0.81	0.24	0.94
MCC							1.00	0.80	0.34	0.98
LCC								1.00	0.30	0.88
PI									1.00	0.48
GEF										1.00



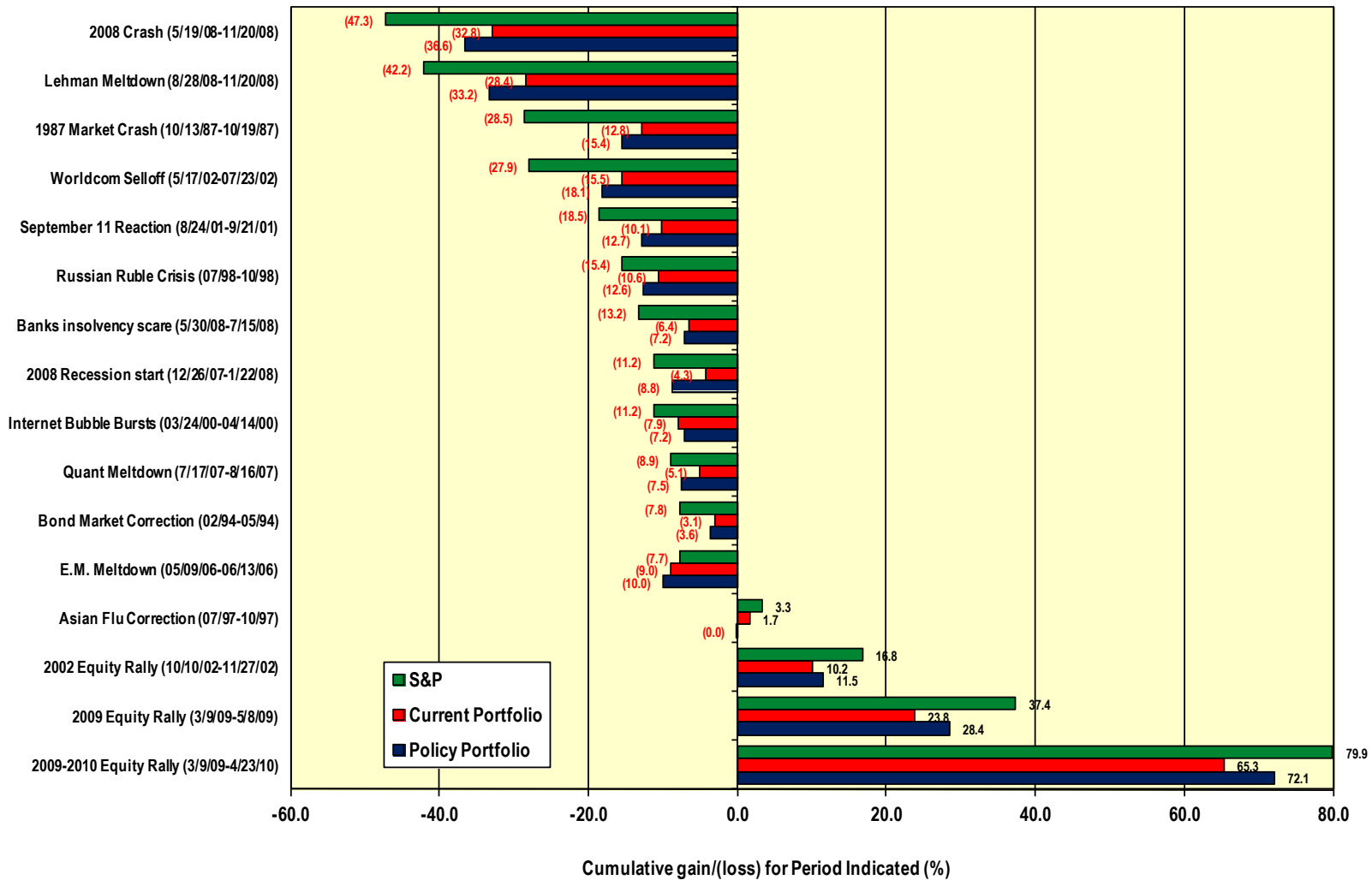
# Parametric Stress Tests

<u>Test</u>	<u>Effect on Endowment</u>
• S&P-500 drops 20%	(10.30%)
• Rates rise 100bp	(0.29%)
• Dollar strengthens 5%	(0.76%)
• Dollar weakens 5%	0.87%
• Yield curve flattens – Bull case	0.29%
• Yield curve flattens – Bear case	(0.18%)
• Yield curve steepens – Bull case	0.19%
• Yield curve steepens – Bear case	(0.11%)



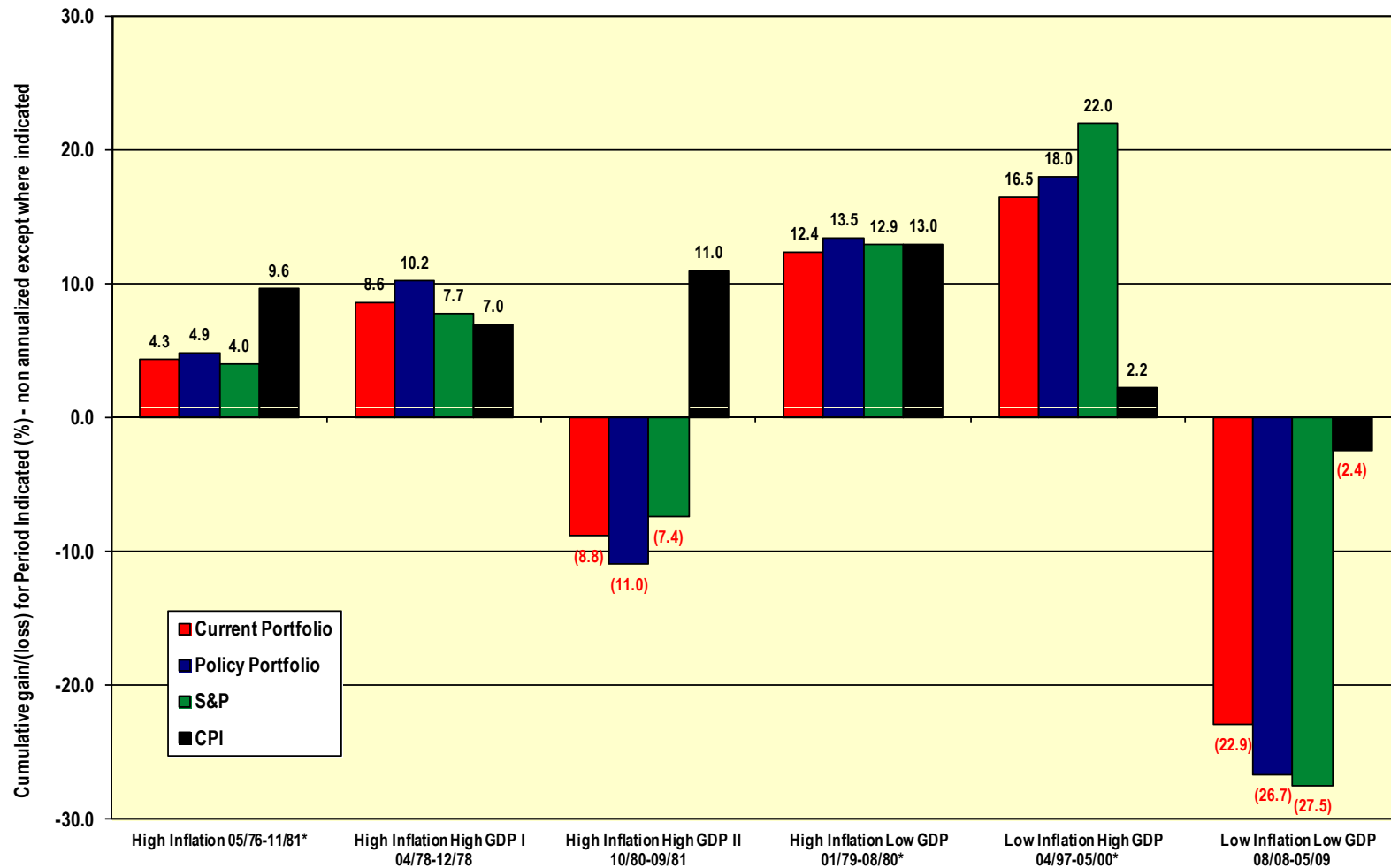


# Hypothetical Performance of Current GEF Portfolio in Selected Market Stress Environments





# Hypothetical Performance of Current GEF Portfolio in Selected Economic Stress Environments



\* Annualized



# Leverage

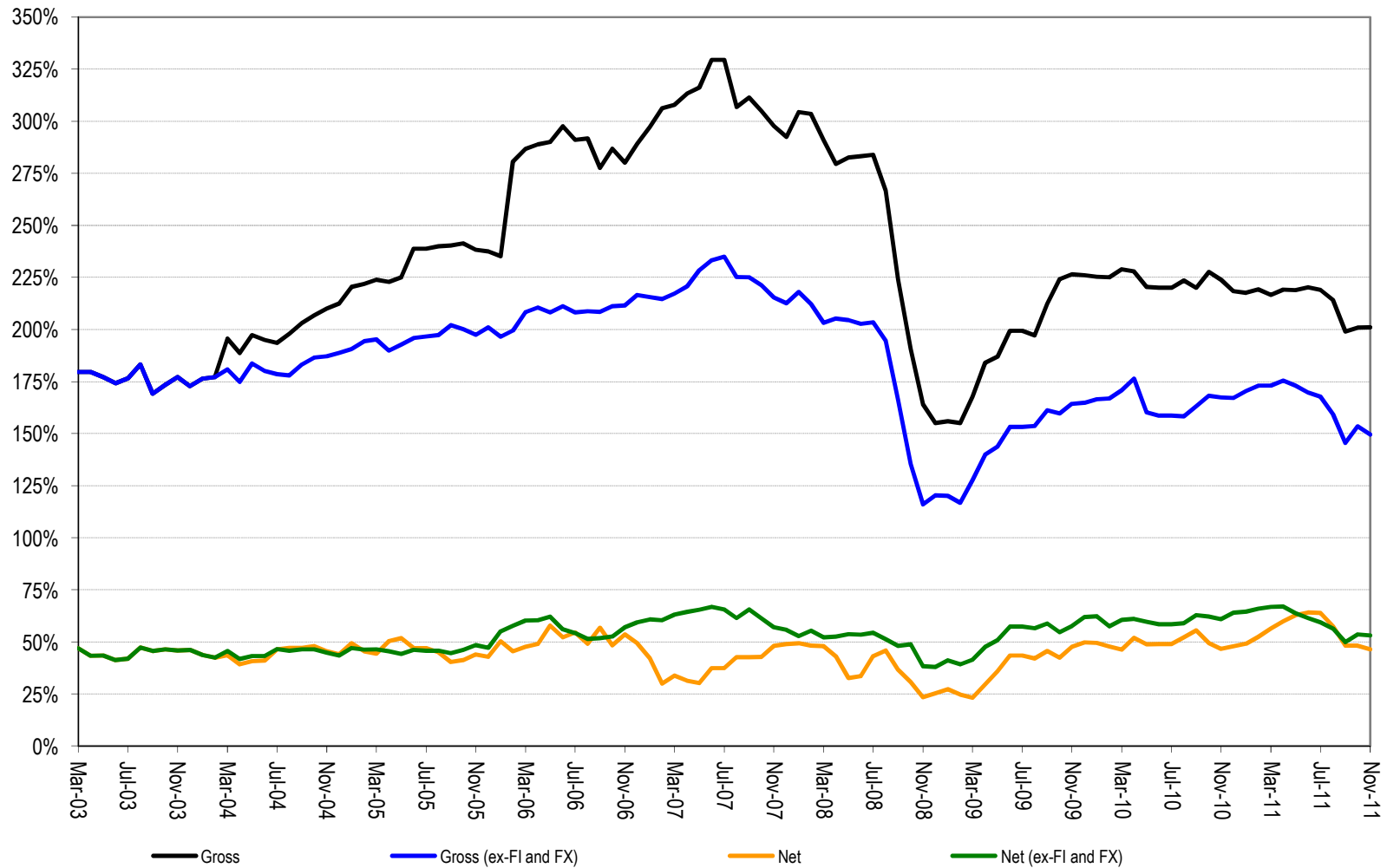


## Portfolio Level Leverage as of November 30, 2011

- Investment Grade Fixed Income had a gross leverage of 1.49x, no net leverage
- All other asst classes and investment types had no gross or net leverage at the portfolio level
- Overall the portfolio had a gross leverage of 1.04x, no net leverage



# LCC Leverage as of November 30, 2011



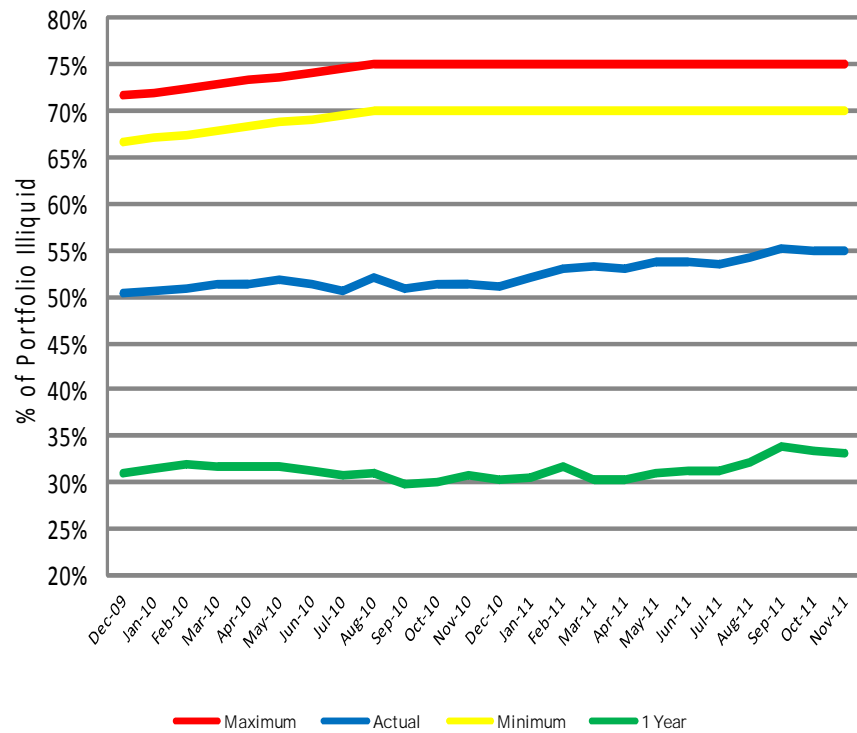


# Liquidity



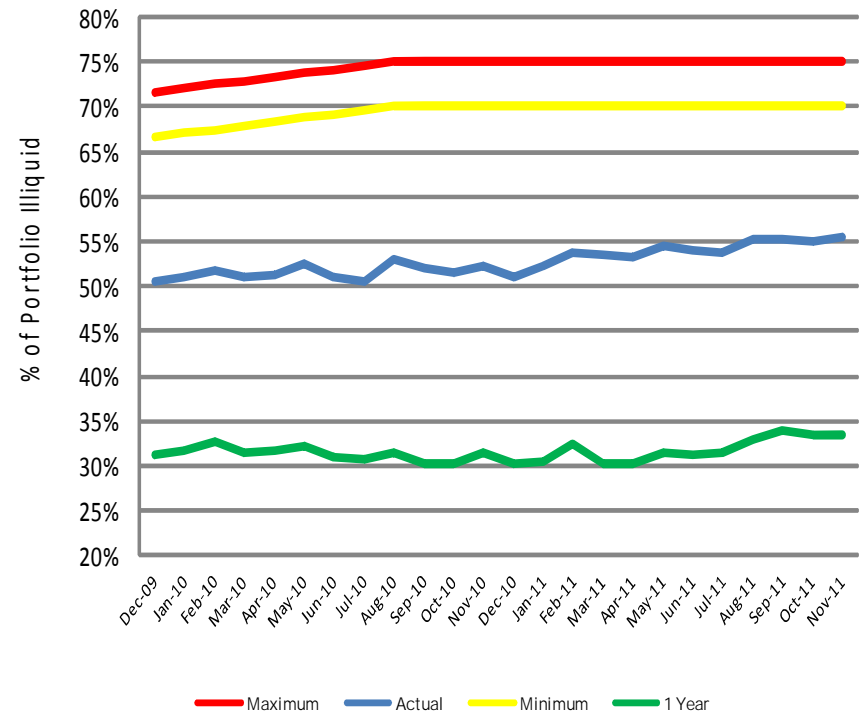
# Endowment Fund Liquidity

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



Three Month Liquidity \$ 5,578 million    One Year Liquidity \$ 8,281 million

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

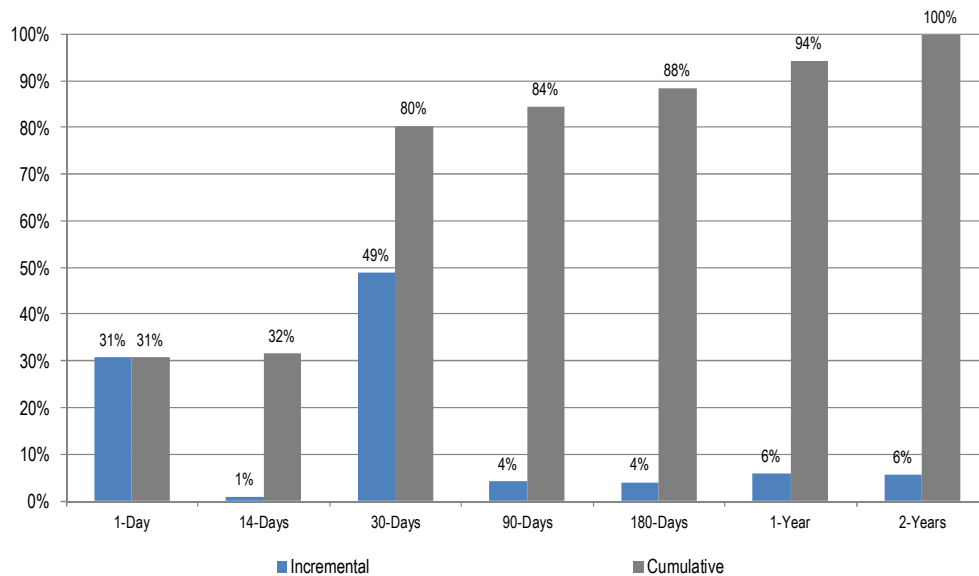


Three Month Liquidity \$ 3,025 million    One Year Liquidity \$ 4,523 million

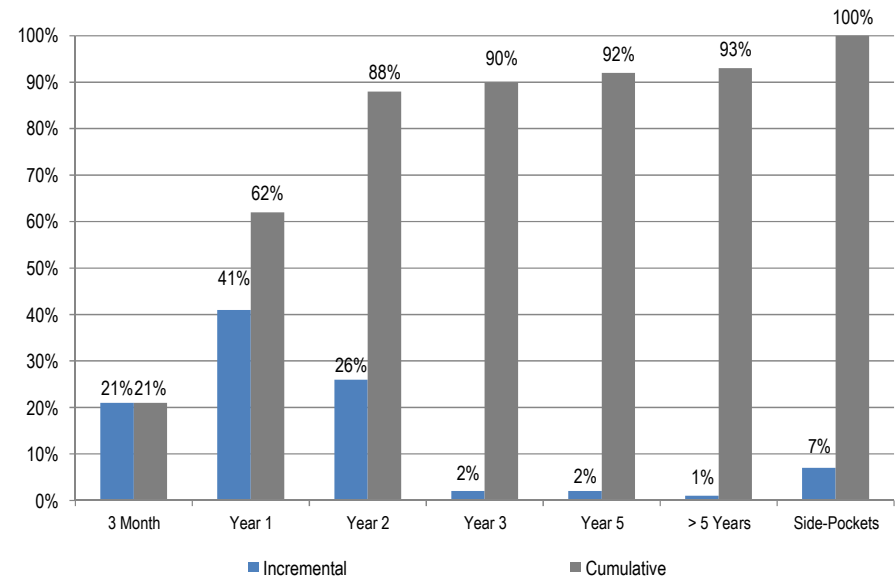


# Estimated Run-Off Liquidity\* As of November 30, 2011

MCC



LCC



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





# Unfunded Commitments As of November 30, 2011

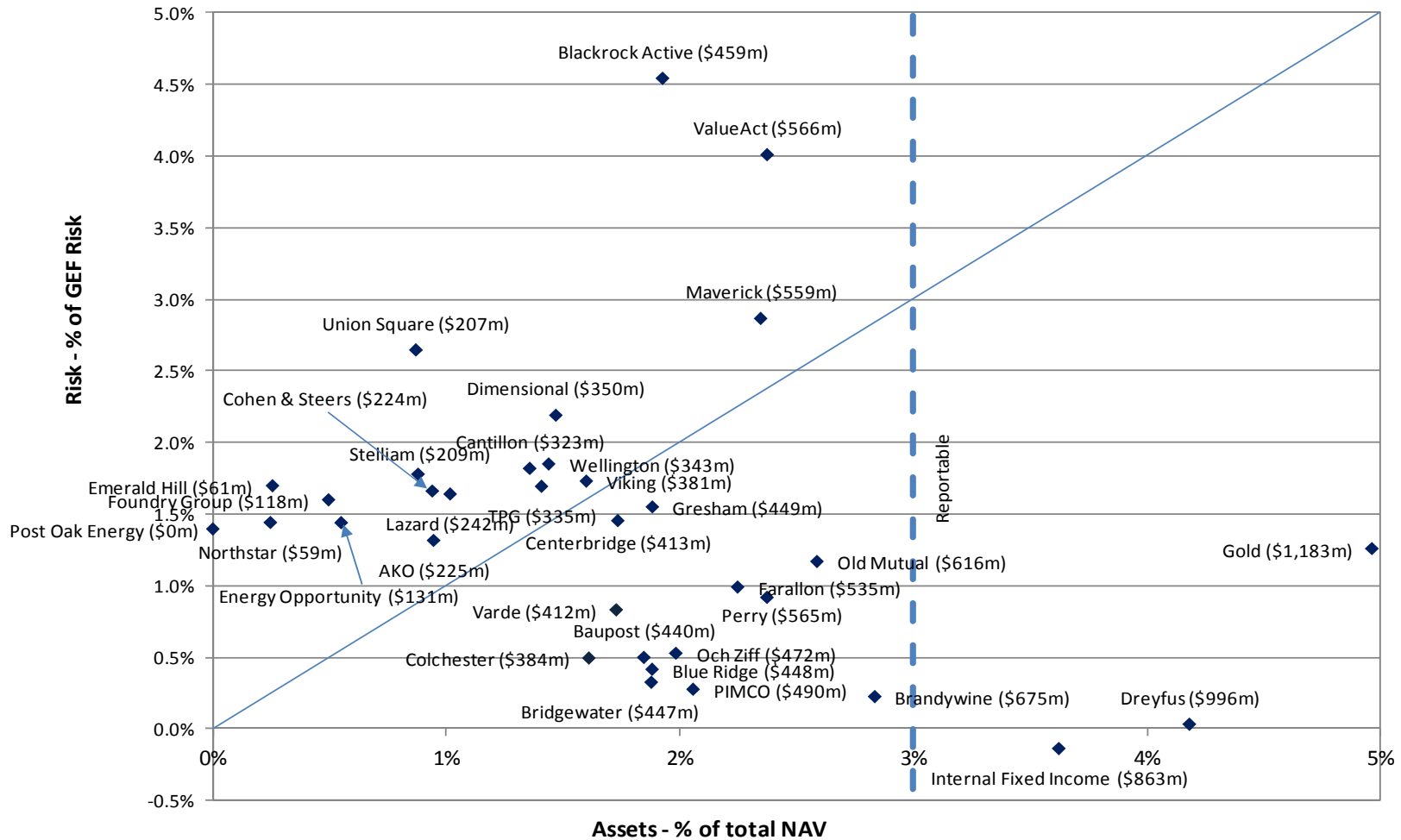
Asset Class	Unfunded Commitment	Unfunded Commitment as % of Total Endowments
<b><u>PRIVATE INVESTMENTS</u></b>		
TRADING	\$8	0.0%
CONTROL	164	0.9%
OPPORTUNISTIC	135	0.7%
<b>CREDIT-RELATED FIXED INCOME</b>	<b>307</b>	<b>1.6%</b>
<b>REAL ESTATE</b>	<b>695</b>	<b>3.6%</b>
<b>NATURAL RESOURCES</b>	<b>765</b>	<b>4.0%</b>
MEGA/LARGE BUYOUT	85	0.4%
MEDIUM/SMALL BUYOUT	430	2.2%
VENTURE CAPITAL	429	2.2%
GROWTH/OPPORTUNISTIC	197	1.0%
<b>DEVELOPED MARKETS EQUITY</b>	<b>1,141</b>	<b>5.8%</b>
<b>EMERGING MARKETS EQUITY</b>	<b>414</b>	<b>2.2%</b>
<b>TOTAL PRIVATE INVESTMENTS</b>	<b>\$3,322</b>	<b>17.2%</b>
<b><u>LESS CORRELATED AND CONSTRAINED</u></b>		
<b>INVESTMENT GRADE FIXED INCOME</b>	<b>\$ -</b>	<b>0.0%</b>
<b>CREDIT-RELATED FIXED INCOME</b>	<b>18</b>	<b>0.1%</b>
<b>REAL ESTATE</b>	<b>-</b>	<b>0.0%</b>
<b>NATURAL RESOURCES</b>	<b>-</b>	<b>0.0%</b>
<b>DEVELOPED MARKETS EQUITY</b>	<b>-</b>	<b>0.0%</b>
<b>EMERGING MARKETS EQUITY</b>	<b>7</b>	<b>0.0%</b>
<b>TOTAL LESS CORRELATED AND CONSTRAINED</b>	<b>\$25</b>	<b>0.1%</b>
<b>GRAND TOTAL PI AND LCC</b>	<b>\$3,347</b>	<b>17.3%</b>
<b>TOTAL ENDOWMENTS HOLDINGS</b>	<b>\$19,196</b>	
<b>MAXIMUM AMOUNT OF UNFUNDED COMMITMENTS ALLOWED PER LIQUIDITY POLICY</b>		<b>30.0%</b>



# Manager Exposure



# Largest Mandates: Risk and Dollar Allocations



Mandates with at least 1.60% of total assets, or at least 1.32% of Risk. Risk on this chart is measured using historical downside risk



# Manager Exposures over 3% and 5% November 30, 2011

<u>Manager Name</u>	<u>Investment Amount</u>	<u>%age</u>
<b><u>More Correlated and Constrained</u></b>		
Internal Fixed Income	863,135,640	3.62%
 <b><u>Less Correlated and Constrained</u></b>		
None		
 <b><u>Private Investments</u></b>		
None		

## Managers with exposure >5% relative to total Funds (excluding ITF for Private Investments) 11/30/2011

<u>Manager Name</u>	<u>Investment Amount</u>	<u>%age</u>
None		



# **Investment Activity**

## **Investments, Commitments, Significant Redemptions**



# Report on Investment Transactions Made Under the Delegation of Authority

**Quarter Ended November 30, 2011**

	Redemptions (\$ millions)				Investments / Commitments (\$ millions)				Illiquid
	MCC	LCC	Private	Total	MCC	LCC	Private	Total	
<b><u>Investment Grade Fixed Income</u></b>									
PIMCO	248	-	-	248	-	-	-	-	
Brandywine	54	-	-	54	-	-	-	-	
Internal Fixed Income (Kampfe and Doak)	45	-	-	45	-	-	-	-	
Old Mutual	14	-	-	14	-	-	-	-	
Colchester	-	-	-	-	400	-	-	400	No
	<u>361</u>	<u>-</u>	<u>-</u>	<u>361</u>	<u>400</u>	<u>-</u>	<u>-</u>	<u>400</u>	
<b><u>Credit-Related Fixed Income</u></b>									
OZ Credit Opportunity	-	-	-	-	-	100	-	100	Yes
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100</u>	<u>-</u>	<u>100</u>	
<b><u>Real Estate</u></b>									
Wheelock Street Real Estate Fund	-	-	-	-	-	-	100	100	Yes
Green Courte Real Estate Partners III	-	-	-	-	-	-	50	50	Yes
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>150</u>	<u>150</u>	
<b><u>Natural Resources</u></b>									
POEP Co-invest LP	-	-	-	-	-	-	100	100	Yes
Post Oak Energy Partners LP	-	-	-	-	-	-	100	100	Yes
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>200</u>	<u>200</u>	



# Report on Investment Transactions Made Under the Delegation of Authority (continued)

Quarter Ended November 30, 2011

	Redemptions				Investments / Commitments				Illiquid
	(\$ millions)				(\$ millions)				
	MCC	LCC	Private	Total	MCC	LCC	Private	Total	
<b>Developed Country Equity</b>									
Levin	24	-	-	24	-	-	-	-	
Wellington	20	-	-	20	-	-	-	-	
Criterion Capital Partners	-	66	-	66	-	-	-	-	
OZ Overseas Fund	-	35	-	35	-	-	-	-	
Lansdowne UK	-	25	-	25	-	-	-	-	
Eton Park	-	18	-	18	-	-	-	-	
Perry Partners	-	12	-	12	-	-	-	-	
AKO	-	-	-	-	50	-	-	50	Yes
Criterion Horizon Offshore	-	-	-	-	-	66	-	66	Yes
Viking Global Equities	-	-	-	-	-	50	-	50	No
Senator Global Opportunities	-	-	-	-	-	50	-	50	Yes
Gotham Diversified	-	-	-	-	-	40	-	40	No
Kingstown	-	-	-	-	-	25	-	25	Yes
LNK Partners II, L.P.	-	-	-	-	-	-	50	50	Yes
Union Square Ventures 2012 Fund, L.P.	-	-	-	-	-	-	28	28	1 Yes
True Ventures III, L.P.	-	-	-	-	-	-	35	35	Yes
IA Venture Strategies Fund II, L.P.	-	-	-	-	-	-	30	30	Yes
	44	156	-	200	50	231	143	424	
<b>Emerging Markets Equity</b>									
Acadian	50	-	-	50	-	-	-	-	
Blakeney	45	-	-	45	-	-	-	-	
Lazard	40	-	-	40	-	-	-	-	
Dimensional Fund Advisors	10	-	-	10	20	-	-	20	No
AR Capital	-	-	-	-	100	-	-	100	No
New Silk Road	-	-	-	-	25	-	-	25	Yes
Janchor	-	-	-	-	-	25	-	25	Yes
Valiant	-	-	-	-	-	5	-	5	Yes
	145	-	-	145	145	30	-	175	
<b>Subtotal</b>	<b>\$ 550</b>	<b>\$ 156</b>	<b>\$ -</b>	<b>\$ 706</b>	<b>\$ 595</b>	<b>\$ 361</b>	<b>\$ 493</b>	<b>\$ 1,449</b>	
Other	-	2	-	2	-	-	-	-	
<b>Grand Total</b>	<b>\$ 550</b>	<b>\$ 158</b>	<b>\$ -</b>	<b>\$ 708</b>	<b>\$ 595</b>	<b>\$ 361</b>	<b>\$ 493</b>	<b>\$ 1,449</b>	

(1) - Final commitment amount will be the lesser of 20% of total commitments or the maximum commitment. This report reflects the maximum commitment.



**ITF**





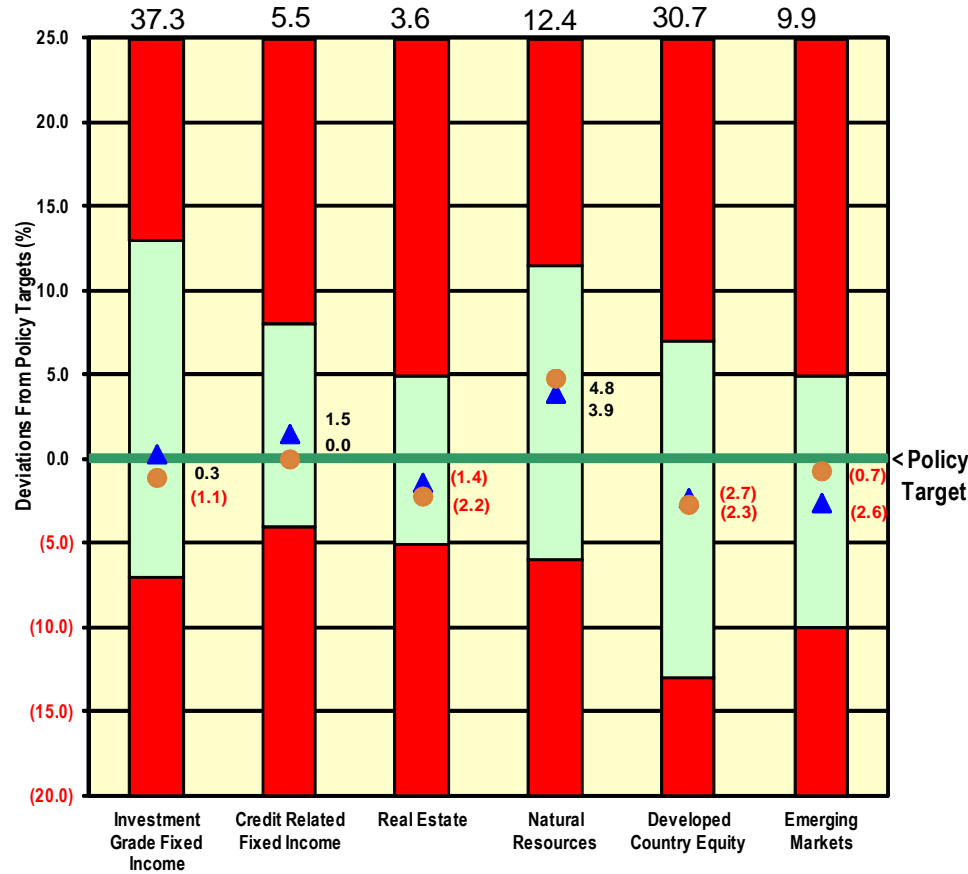
# ITF Asset Allocation as of November 30, 2011 (in millions)

Asset Group	Asset Class	More Correlated and Constrained		Less Correlated and Constrained		Private Investments		Grand Total	
		\$	%	\$	%	\$	%	\$	%
Fixed Income	Investment Grade	\$ 1,569	33.9%	\$ 158	3.4%	\$ -	0.0%	\$ 1,727	37.3%
	Credit-Related	-	0.0%	256	5.5%	-	0.0%	256	5.5%
<b>Fixed Income Total</b>		<b>1,569</b>	<b>33.9%</b>	<b>414</b>	<b>8.9%</b>	<b>-</b>	<b>0.0%</b>	<b>1,983</b>	<b>42.8%</b>
Real Assets	Real Estate	126	2.8%	37	0.8%	-	0.0%	163	3.6%
	Natural Resources	573	12.3%	3	0.1%	-	0.0%	576	12.4%
<b>Real Assets Total</b>		<b>699</b>	<b>15.1%</b>	<b>40</b>	<b>0.9%</b>	<b>-</b>	<b>0.0%</b>	<b>739</b>	<b>16.0%</b>
Equity	Developed Country	332	7.3%	1,085	23.4%	-	0.0%	1,417	30.7%
	Emerging Markets	312	6.8%	144	3.1%	-	0.0%	456	9.9%
<b>Equity Total</b>		<b>644</b>	<b>14.1%</b>	<b>1,229</b>	<b>26.5%</b>	<b>-</b>	<b>0.0%</b>	<b>1,873</b>	<b>40.6%</b>
<b>Grand Total</b>		<b>\$ 2,912</b>	<b>63.1%</b>	<b>\$ 1,683</b>	<b>36.3%</b>	<b>\$-</b>	<b>0.0%</b>	<b>\$ 4,595</b>	<b>99.4%</b>

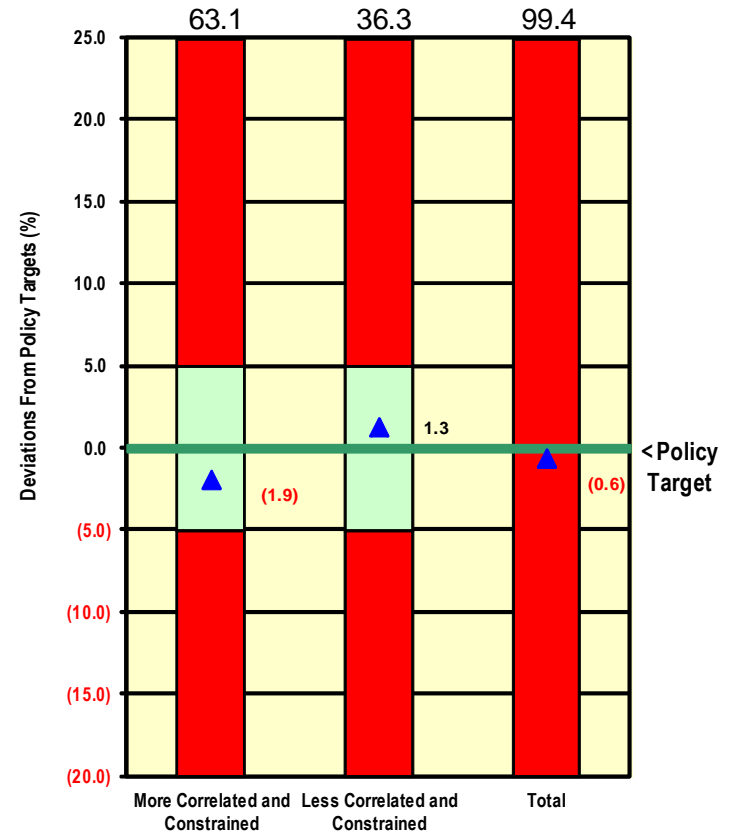


# ITF Asset Allocation as of November 30, 2011

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



# Intermediate Term Fund Insurance Hedges as of November 30, 2011

Event	Hedge	Current Exposures					Changes since August 31			
		Total Cost <sup>(1)</sup>	bps Cost/Year <sup>(2)</sup>	Notional (\$ millions)	MTM (\$ millions)	P/L	Cost	bps Cost/Year <sup>(2)</sup>	Notional (\$ millions)	MTM (\$ millions)
<b>U.S. Inflation</b>	CMS Options	\$ (13)	5.8	\$ 2,251	\$ 7	\$ (5)	\$ (3)	0.8	\$ 384	(0.54)
<b>Emerging Markets Bubble</b>	KOSPI Put Spreads	(5)	4.9	177	5	(0)	0	-	0	(0)
	ASX Put Spreads	(6)	7.0	242	7	2	0	-	0	0
	AUD forwards to hedge ASX premiums	-	-	(5)	(0)	(0)	-	-	(11)	(0)
	Total	(10)	12.0		12	2	1	-		(0)
<b>Sovereign Default</b>	JPY Rate Options and Swaptions	\$ (7)	6.3	1,171	2	(4)	0	-	(0)	0
	DKK Call / EURO Put Options	(3)	5.3	358	3	(0)	(1)	1.8	109	2
	Total	(9)	11.6		5	(4)	(0)	1.8		2
<b>Low Growth / Recession</b>	S&P Put Spreads	\$ (10)	21.2	344	7	(3)	(10)	21.2	344	7
	Short Japan Index Swaps	-	-	(3)	-	-	-	-	(0)	-
	Short MSCI Europe Index Swaps	-	-	(4)	0	0	-	-	6	1
	Short Real Estate Index Swaps (DJUSRE)	-	-	(46)	(0)	(0)	-	-	1	4
	Short S&P 500 Index Swaps	-	-	(24)	(2)	(2)	-	-	(0)	0
	Short S&P 400 Index Swaps	-	-	(10)	(1)	(1)	-	-	(1)	0
	Total	(10)	21.2		5	(5)	(10)	21.2		13
	<b>TOTAL</b>	<b>\$ (42)</b>	<b>50.6</b>			<b>\$ (13)</b>	<b>\$ (12)</b>	<b>23.8</b>		

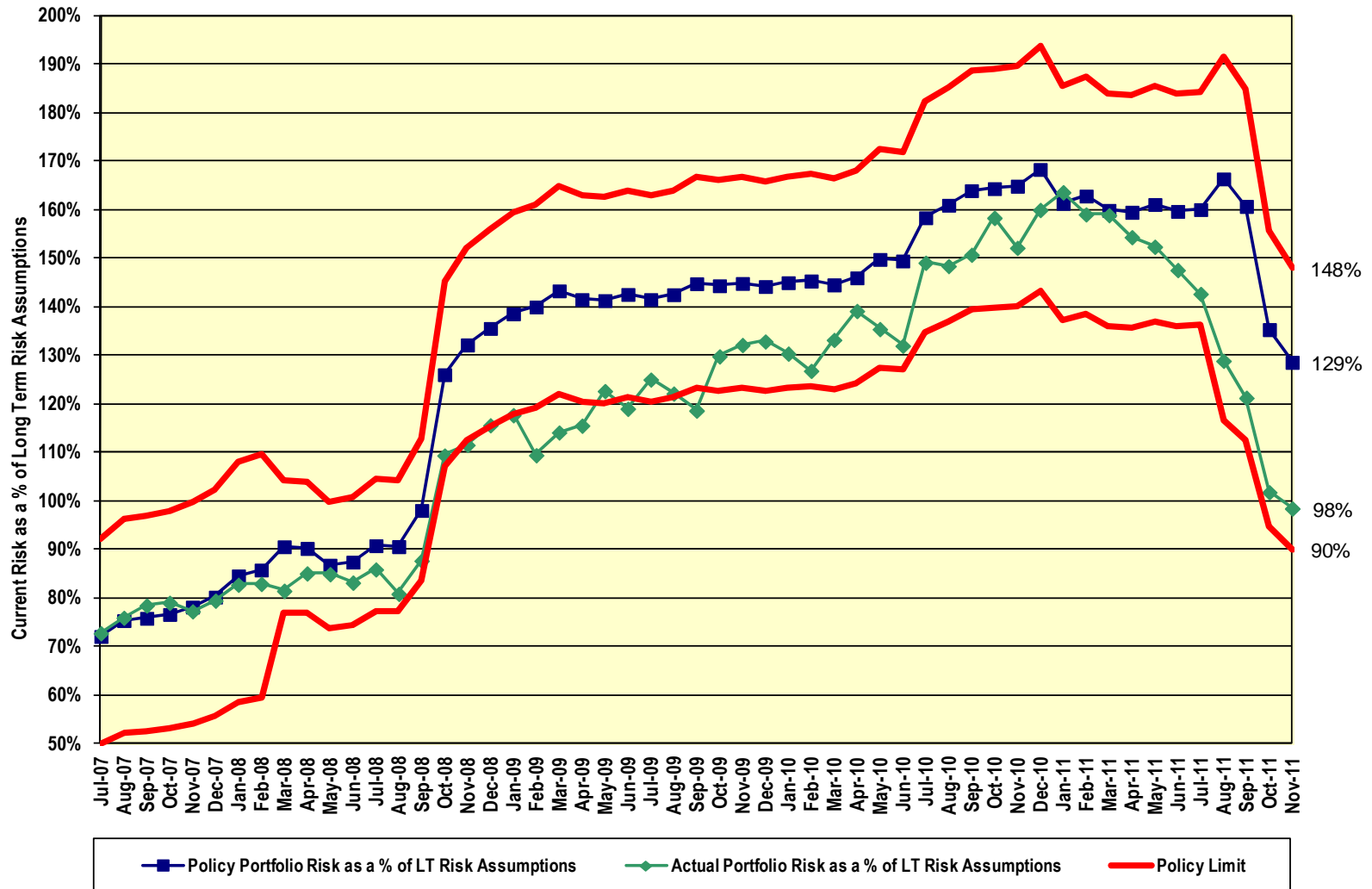
(1) Maximum Loss for Options

(2) Amount of delegated insurance budget used for fiscal year ending August, 2012.



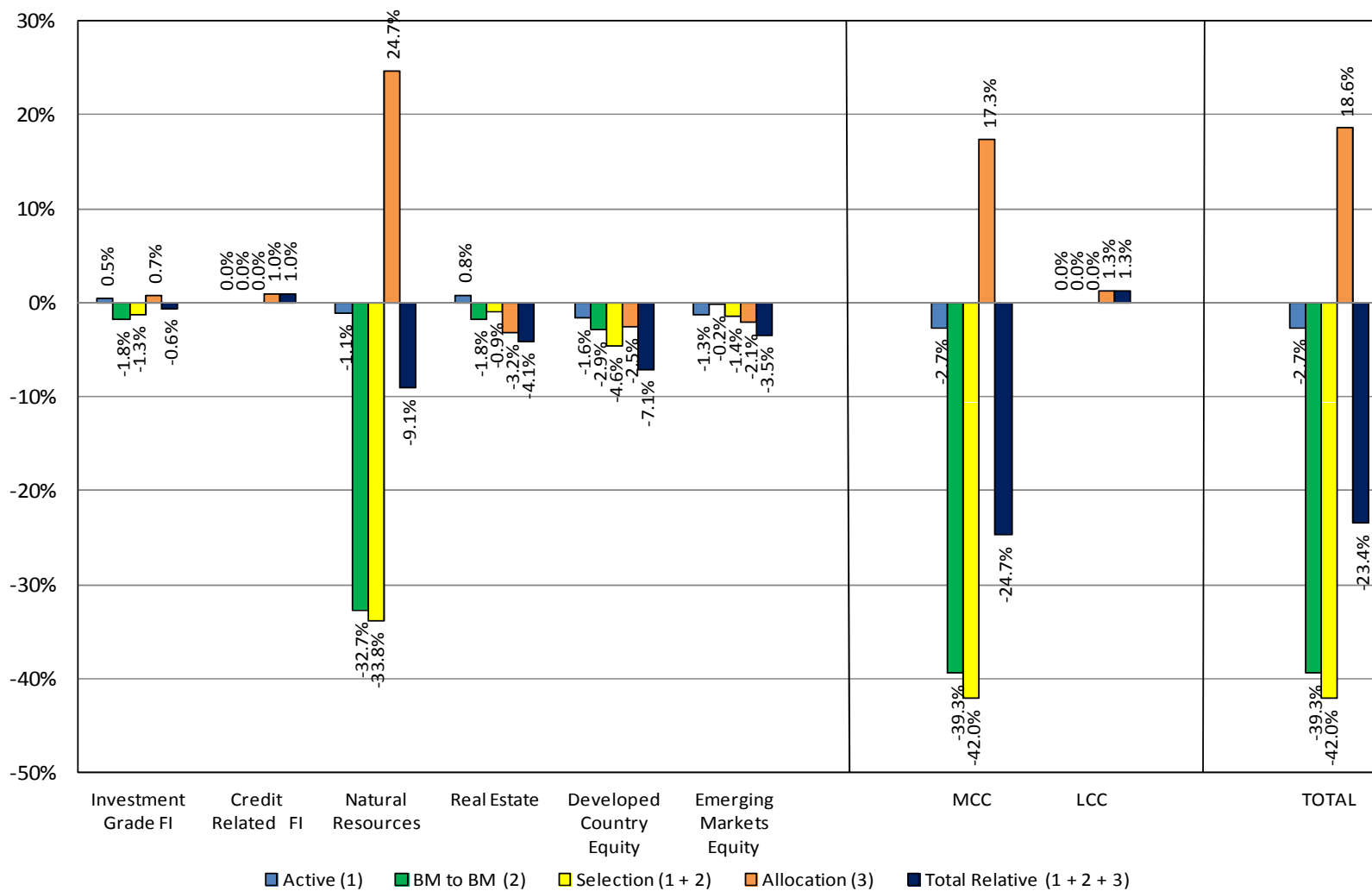
# Current Risk Environment of ITF

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





# ITF 4-Way Risk Decomposition as of November 30, 2011



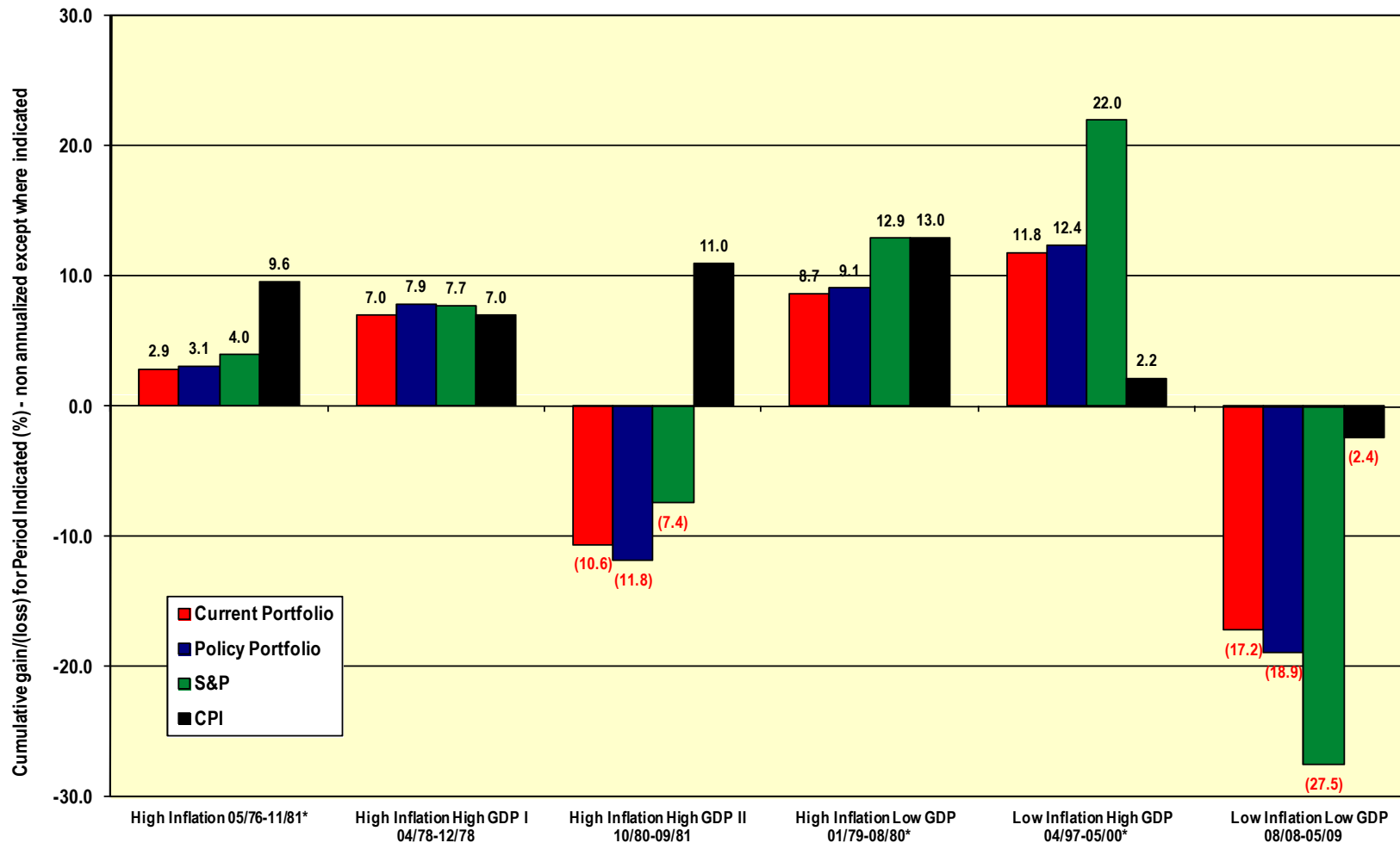


# Parametric Stress Tests

<u>Test</u>	<u>Effect on ITF</u>
• S&P-500 drops 20%	(3.38%)
• Rates rise 100bp	(1.63%)
• Dollar strengthens 5%	(1.23%)
• Dollar weakens 5%	1.38%
• Yield curve flattens – Bull case	1.47%
• Yield curve flattens – Bear case	(0.48%)
• Yield curve steepens – Bull case	0.50%
• Yield curve steepens – Bear case	(1.14%)



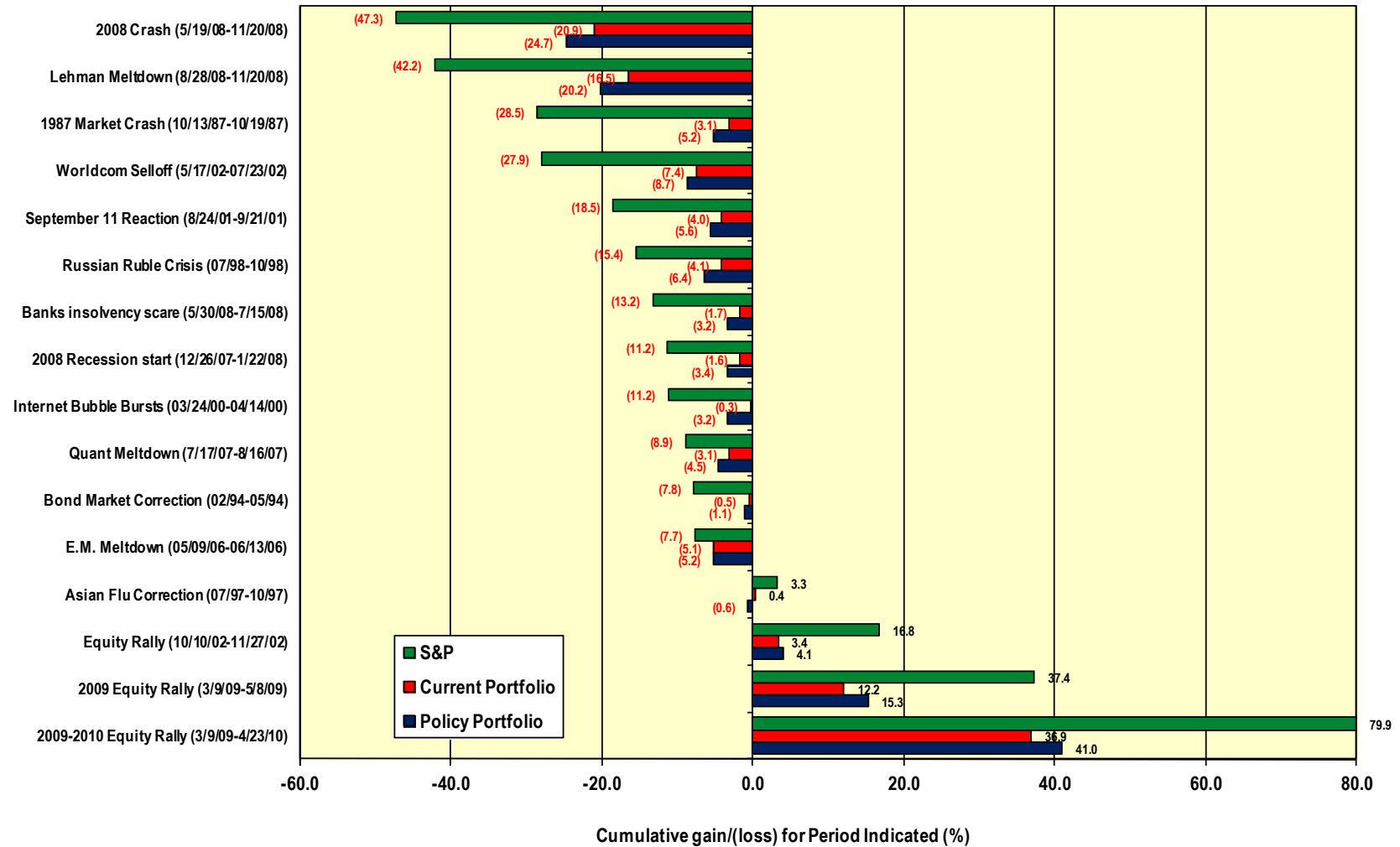
# Hypothetical Performance of Current ITF Portfolio in Selected Economic Stress Environments



\* Annualized



# Hypothetical Performance of Current ITF Portfolio in Selected Market Stress Environments







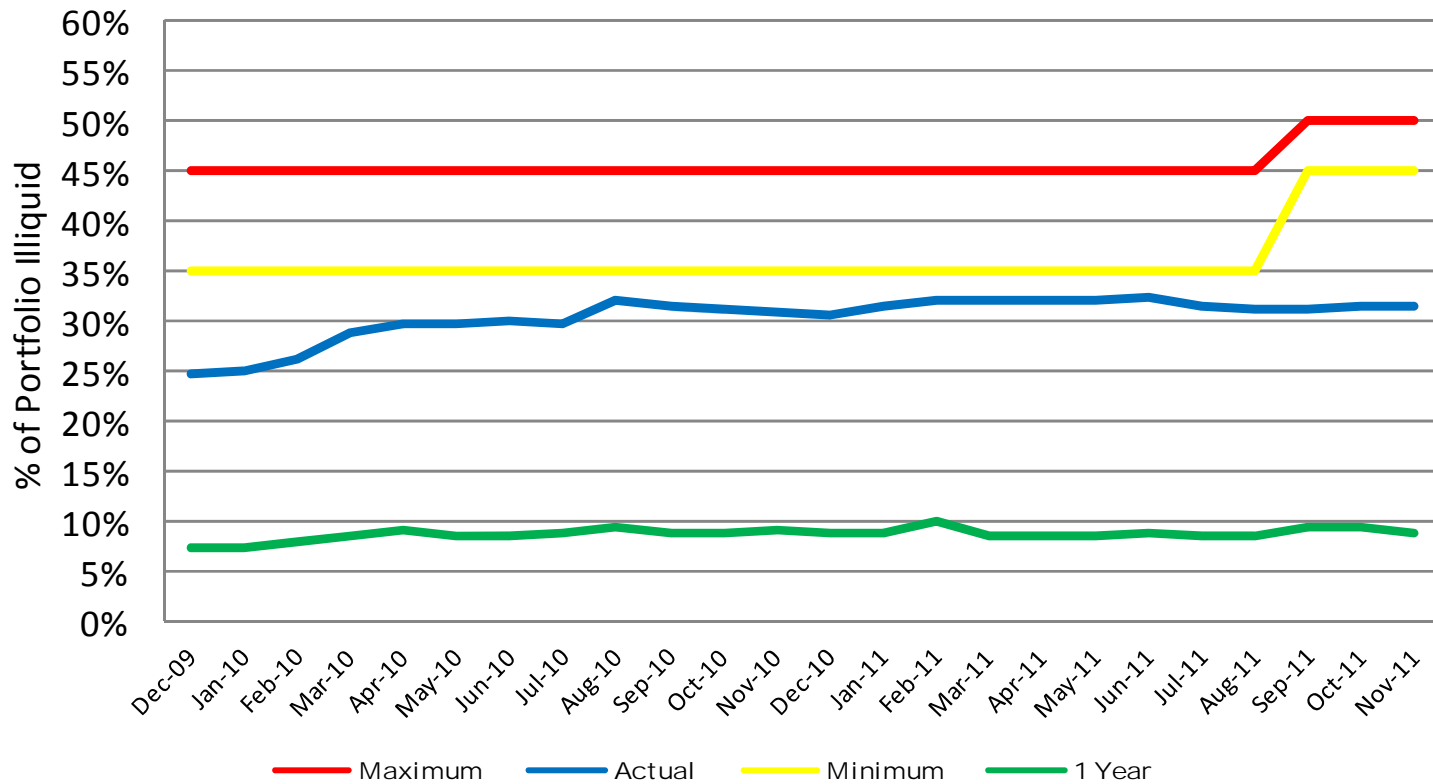
## ITF Leverage as of November 30, 2011

- Investment Grade Fixed Income had a gross leverage of 1.52x, no net leverage
- All other asst classes had no gross or net leverage at the portfolio level
- Overall the portfolio had a gross leverage of 1.18x, no net leverage



# ITF Liquidity

**Intermediate Term Fund  
Actual Illiquidity vs. Trigger Zones**





# Contracts Update



# Report on New Contracts and Existing Contract Renewals, Leases, and Other Commercial Arrangements For October 1, 2011 through December 31, 2011

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

Agreement	Purpose	Contract Term	Annual Amount
Interactive Data-BondEdge	Global provider of financial market data, analytics and related services. Provides fixed-income portfolio analytics.	8/10/2011 – 8/9/2012 (Renews annually)	\$87,720

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	\$348,411
Albourne LLC	Advisor to Marketable Alternative staff	Monthly invoice	\$240,000

**Agenda Item**  
UTIMCO Board of Directors Meeting  
February 2, 2012

**Agenda Item:** Less Correlated and Constrained Review

**Developed By:** Staff

**Presented By:** Iberg

**Type of Item:** Information item

**Description:** Ms. Iberg and the LCC team will provide an update on the Less Correlated and Constrained ("LCC") portfolio. The presentation will focus on portfolio construction, investment performance and hedge fund industry trends.

**Recommendation:** None

**Reference:** *LCC UTIMCO Board Update* presentation



THE UNIVERSITY OF TEXAS  
INVESTMENT MANAGEMENT COMPANY

# LCC

## UTIMCO Board Update

February 2, 2012



# Marketable Alternatives Team

<b>Team Member</b>	<b>Title</b>	<b>Years with UTIMCO</b>	<b>Task Force</b>
Cathy Iberg	President and Deputy CIO	16	Investment Committee
Ryan Ruebsahm	Senior Director	6	IC, Credit, Positioning
Courtney Powers	Senior Associate	4.5	EM & Positioning
Alison Hermann	Senior Analyst	1.5	Credit & EM
Drury Morris	Analyst	1.5	Portfolio Positioning
Don Stanley	Investment Accountant	1	
Paula Arbuckle	Executive Assistant	4	
Rosa Buhrman	File Clerk	5	



# Discussion Topics

- Portfolio Construction
- Performance
- Hedge Fund Industry Trends





# 'Periodic Table' of Hedge Fund Returns

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	YTD11	
Global Macro	37.1%															
Emg Mkts	26.6%															
L/S Equity	21.5%															
Distr Secs	20.7%															
Multi Strat	18.3%															
Eq Mkt Neutral	14.8%															
Conv Arb	14.5%															
Risk Arb	9.8%															
Fxd Inc Arb	9.3%															
Mgd Futures	3.1%															
Short Bias	0.4%															
Distr Secs	-1.7%															
Global Macro	-3.6%															
Conv Arb	-4.4%															
Short Bias	-6.0%															
Fxd Inc Arb	-6.2%															
Emg Mkts	-37.7%															
Global Macro																
Emg Mkts																
L/S Equity																
Distr Secs																
Multi Strat																
Eq Mkt Neutral																
Conv Arb																
Risk Arb																
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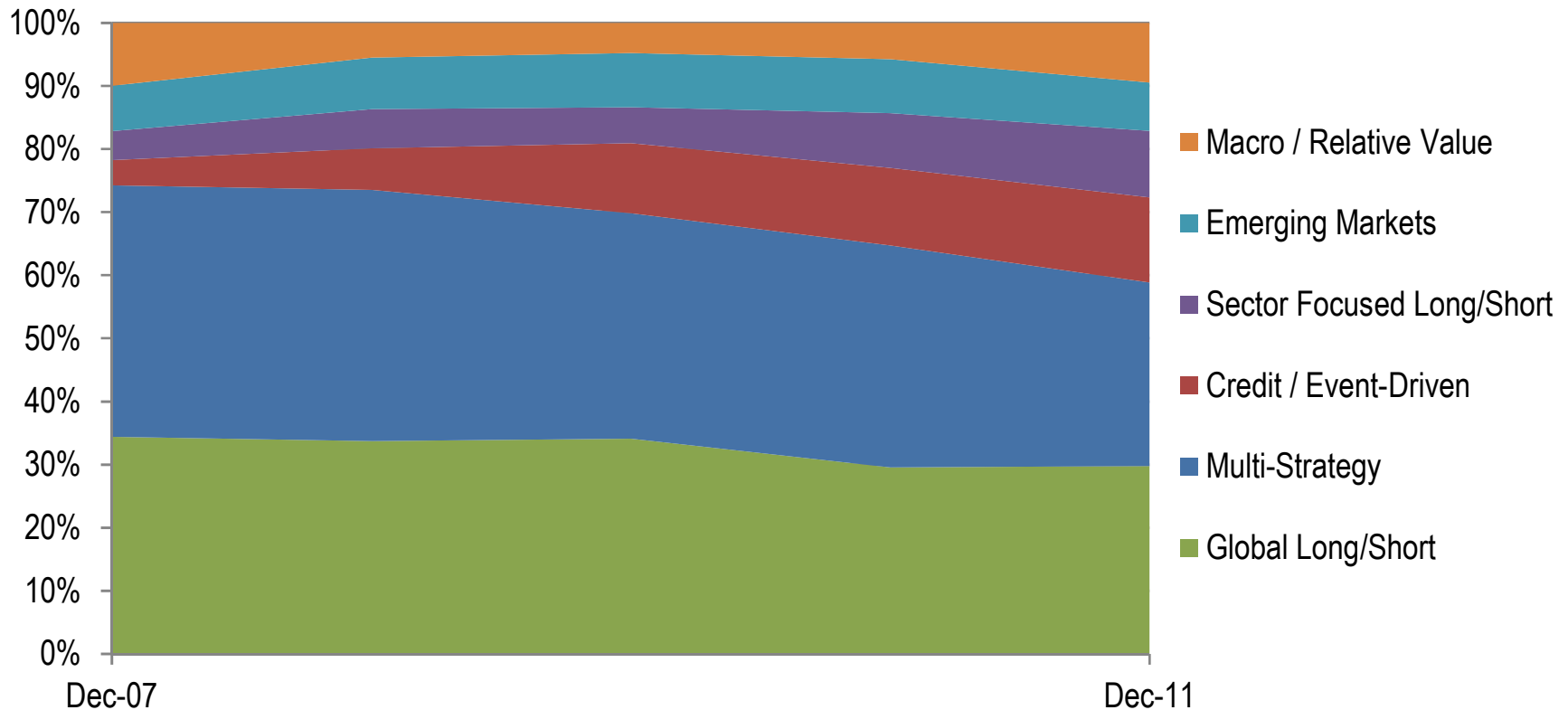
## Hedge Fund Return by Strategy

10 Years (2002 - 2011)	
Global Macro	11%
Emerging Markets	10%
Distressed	7%
Multi-Strat	7%
Managed Futures	7%
L/S Equity	6%
Convertible Arbitrage	5%
Risk Arbitrage	4%
Fixed Income Arbitrage	4%
Equity Market Neutral	0%
Short Bias	-5%

Source: Boomerang Capital, through Dec 2011

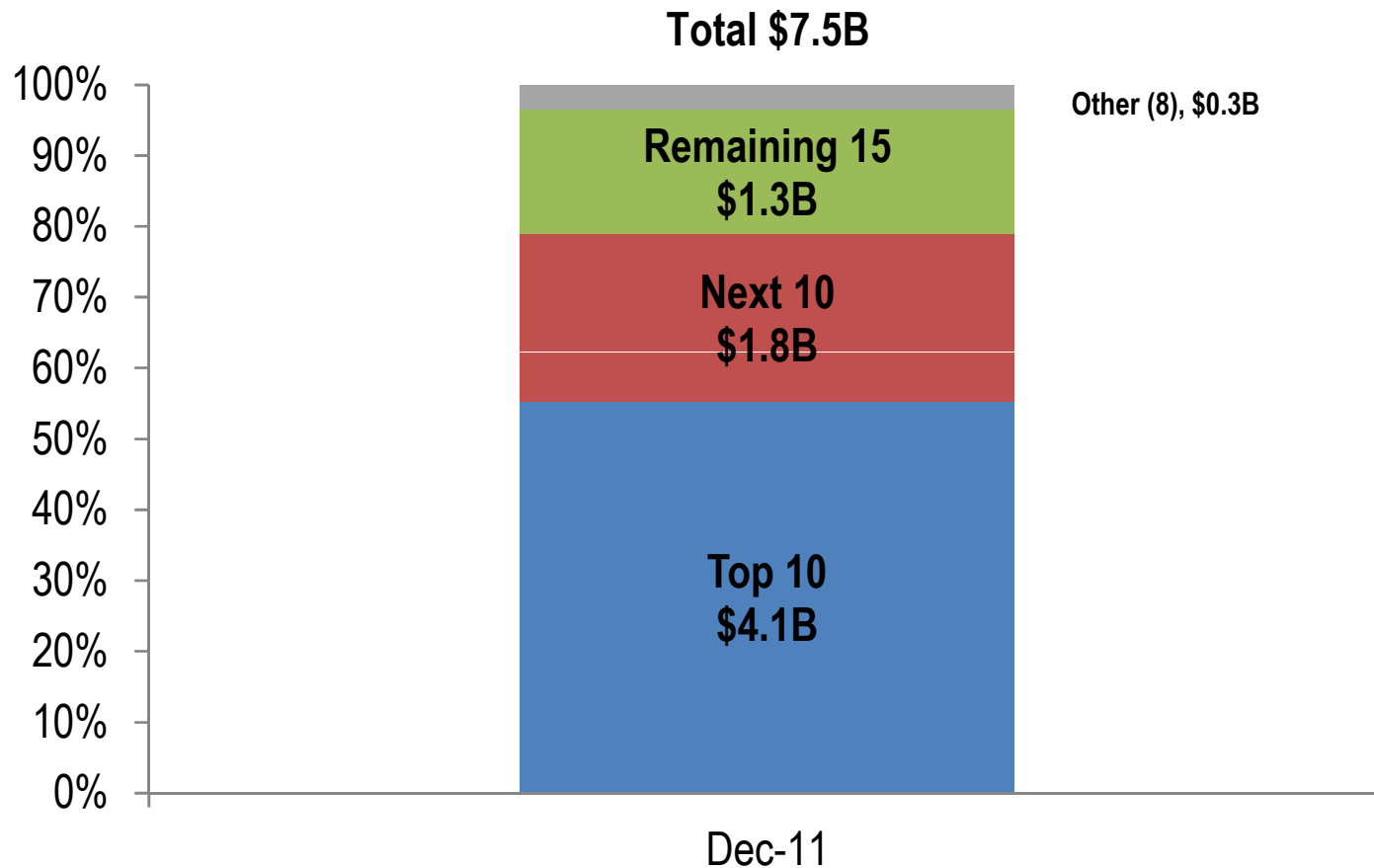


# LCC Capital Allocation by Hedge Fund Strategy Over Time



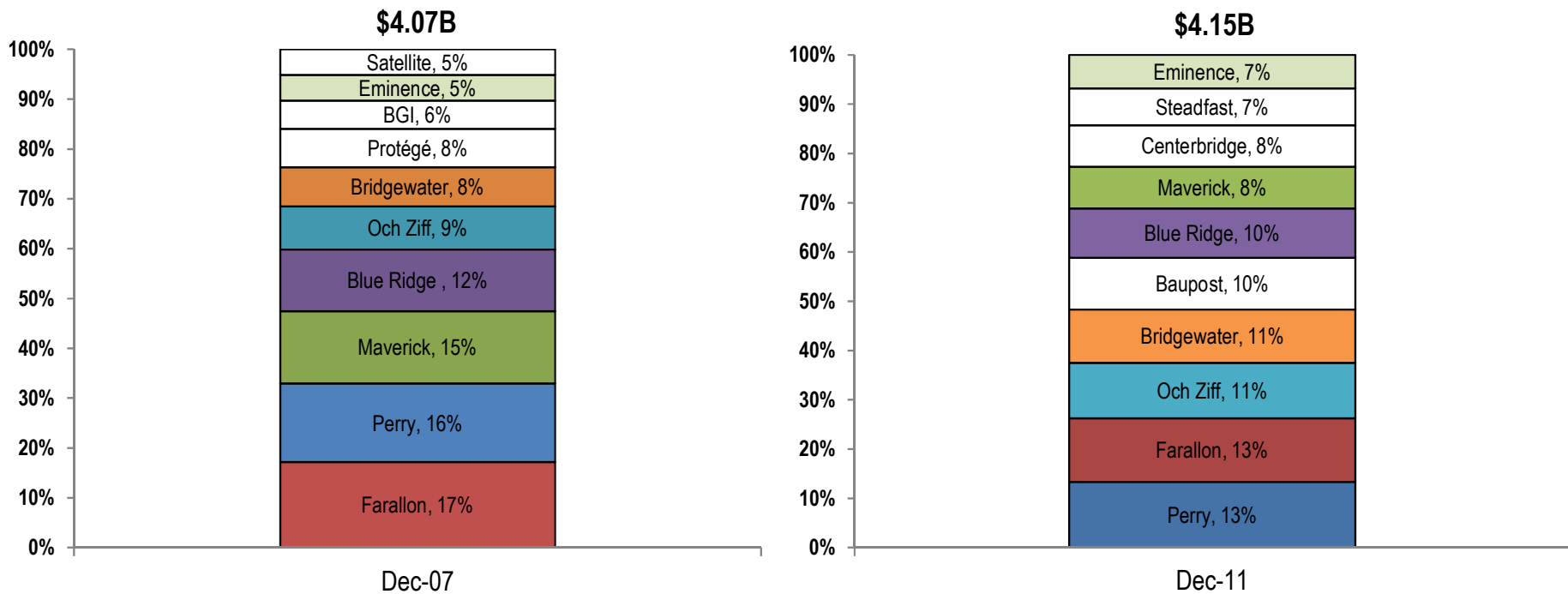


# Current Portfolio Concentration by Relationship



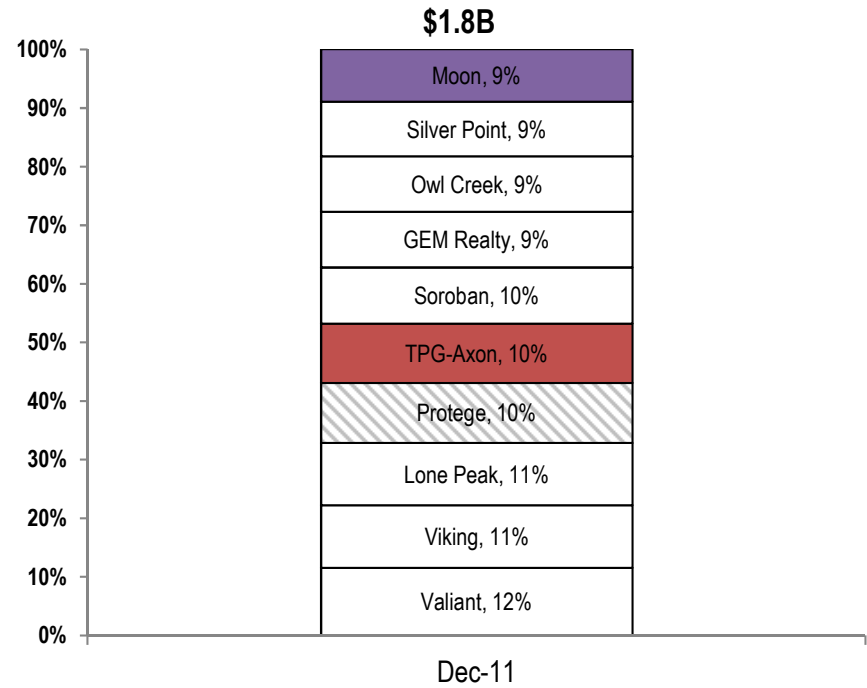
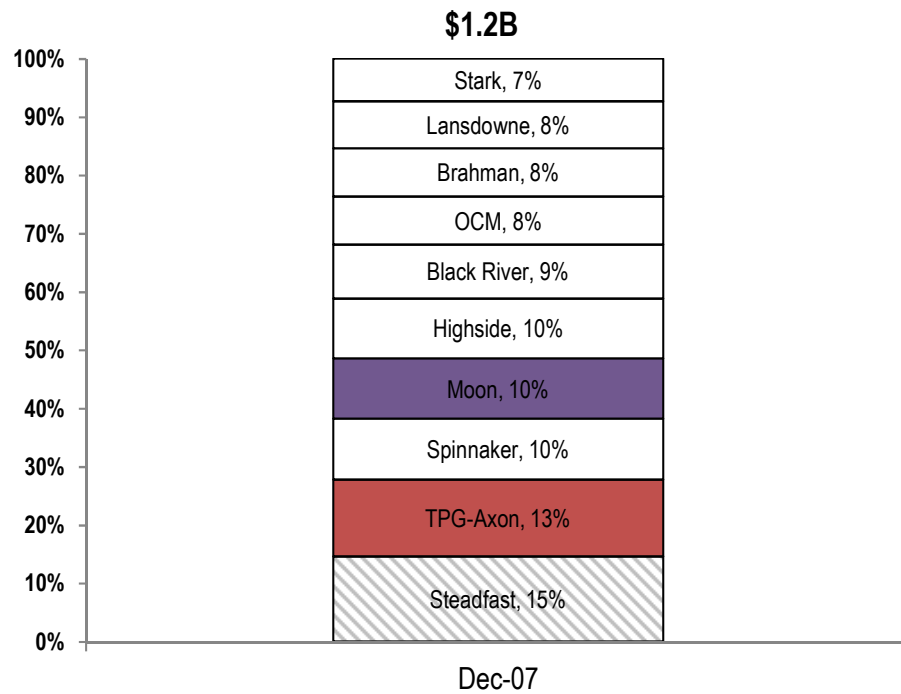


# Top Ten Composition by Manager





# Next Ten Composition by Manager

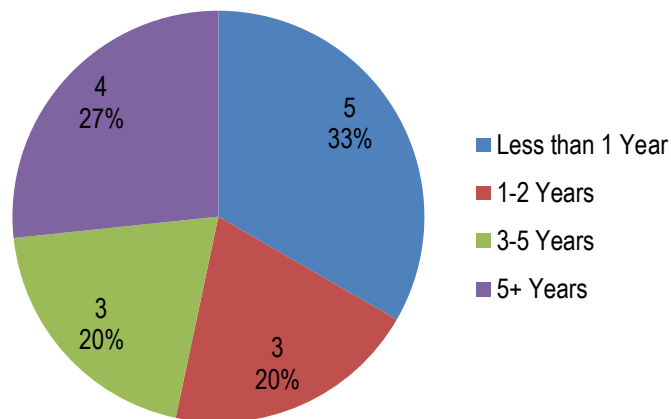




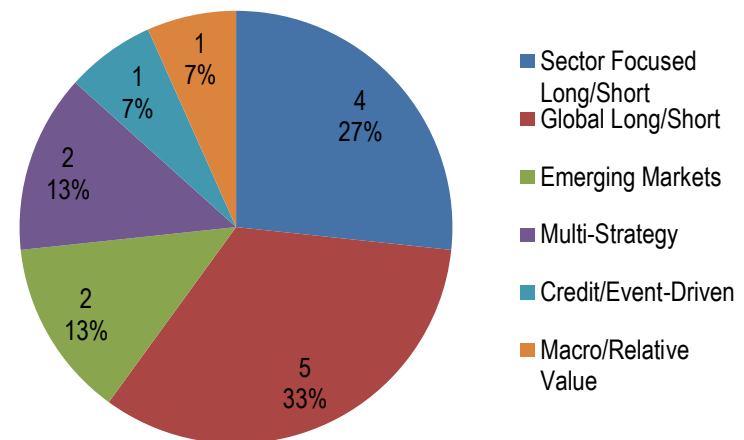
# Remaining Fifteen Manager Composition as of Dec 2011

- Eleven of the remaining fifteen managers were added after Dec 2007

Remaining 15 Managers by Tenure

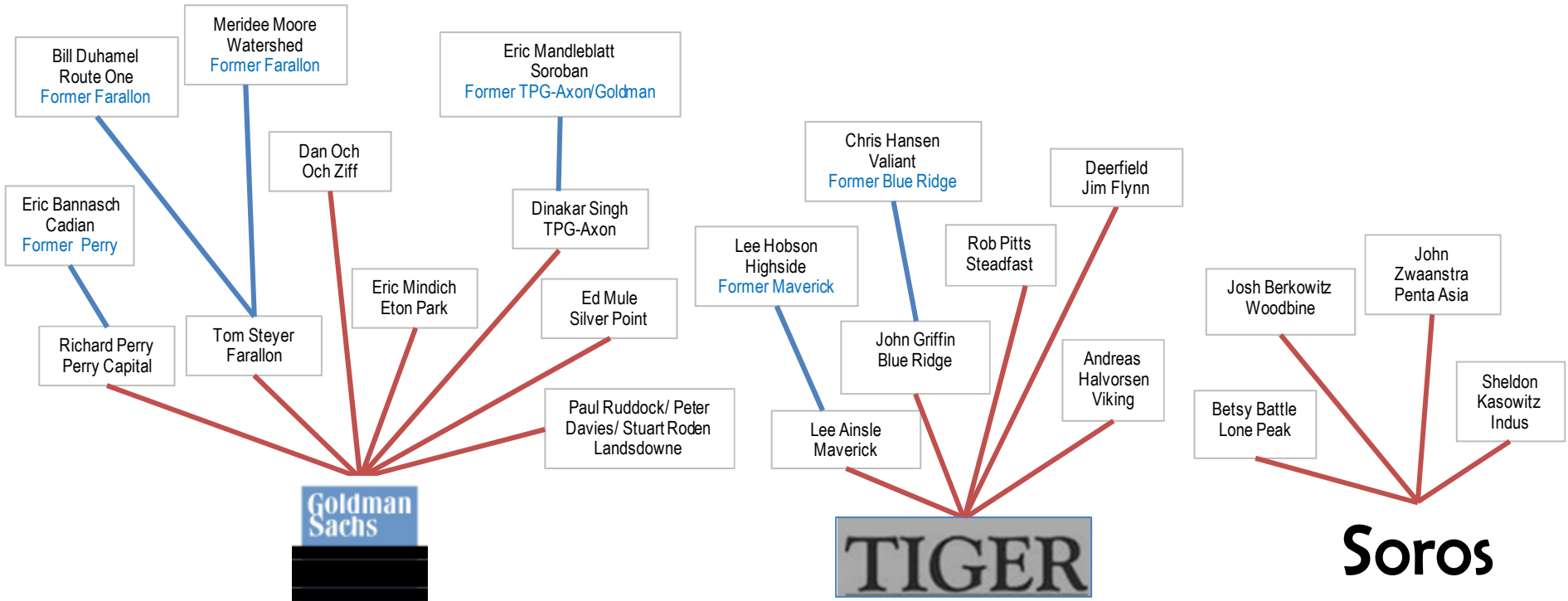


Remaining 15 Managers by Strategy





# Manager Genealogy



- Represents 63% of total LCC portfolio assets



# Performance





# LCC Portfolio “Value-Add”

- UTIMCO categorizes its hedge fund portfolio as “Less Correlated” because, while it is not non-correlated or absolute return, it is less correlated to its underlying asset classes
- Correlation measures the extent to which one variable is dependent on, or explained by, another variable. However, correlation only explains the direction, not the magnitude. Therefore, Staff prefers to evaluate each manager’s and the LCC portfolio’s historical performance using beta, which incorporates **both** correlation and volatility
- The returns associated with non-asset class returns is termed alpha and represents the managers value-add or investment skill. A common measure of alpha is based on the Capital Asset Pricing Model (CAPM), which states:

$$\text{Total Return} = \text{Risk-free Rate} + (\text{Beta} \times \text{Market Risk Premium}) + \text{Alpha}$$

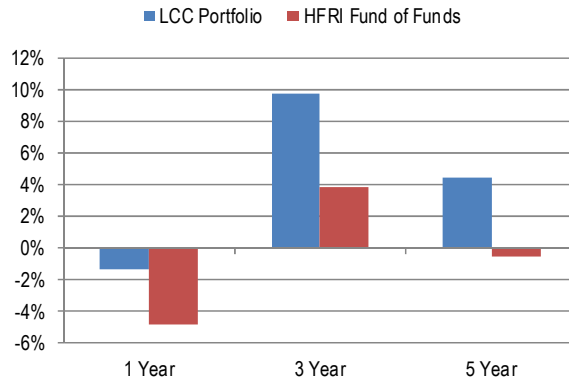
## 5 Years Ending December 2011

	MSCI AC World	Barclays Agg	LCC
Return	-1.9%	6.5%	4.1%
LCC Beta	0.26	0.09	
<b>LCC Alpha</b>	<b>3.5%</b>	<b>2.1%</b>	
Volatility	21.0%	3.6%	7.5%

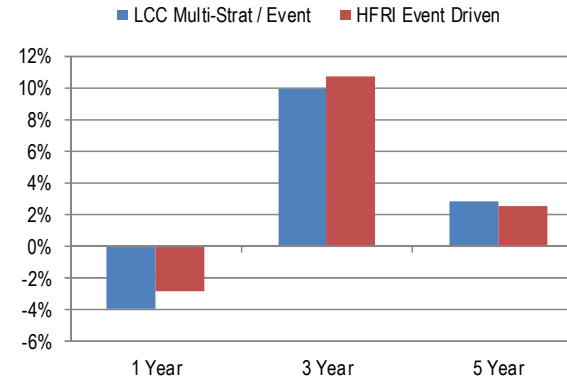


# Underlying Strategy Performance

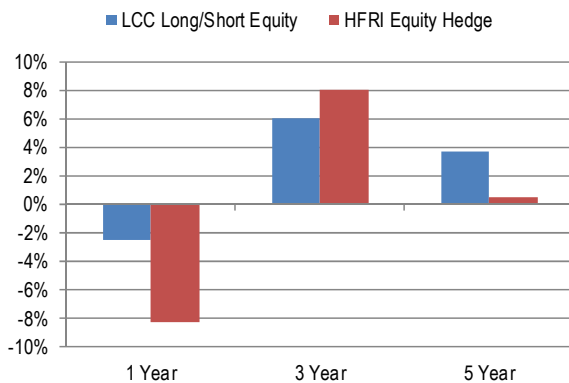
### Total Portfolio



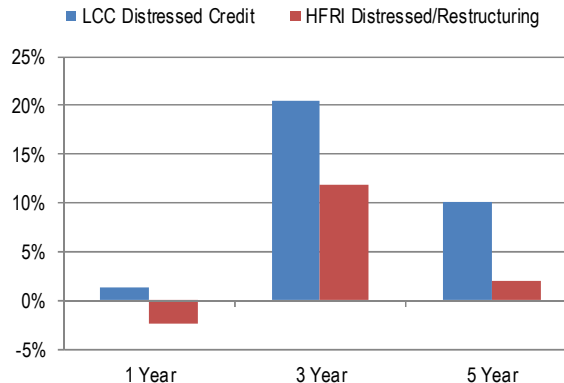
### Multi-Strat / Event



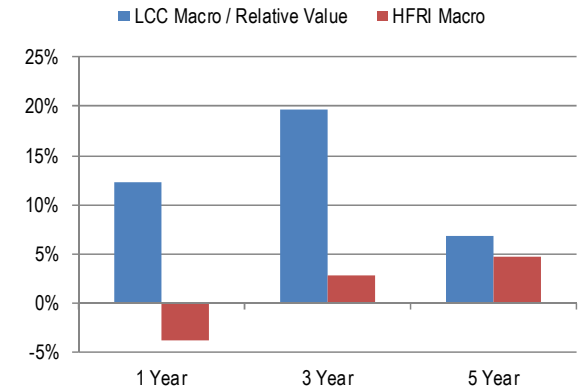
### Long/Short Equity



### Distressed Credit



### Macro / Relative Value

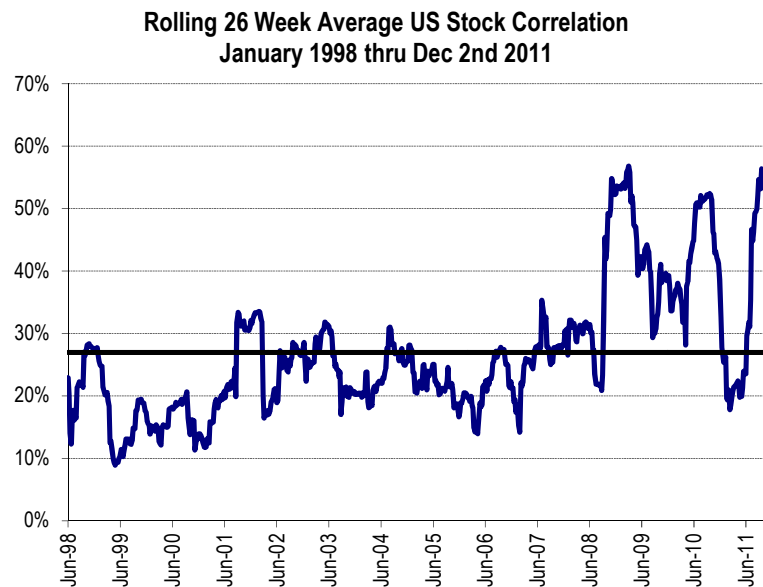


\*Performance presented on an annualized basis

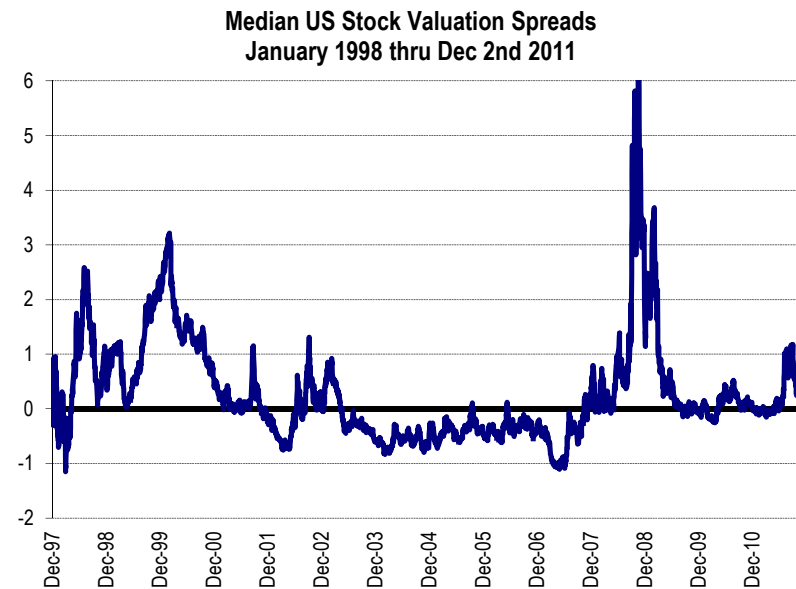


# Stock Selection “Rewards”

- Equity long/short performance was disappointing over the past year
- Difficult strategy when faced with high asset correlations and low valuation dispersion



Source: Maverick Capital

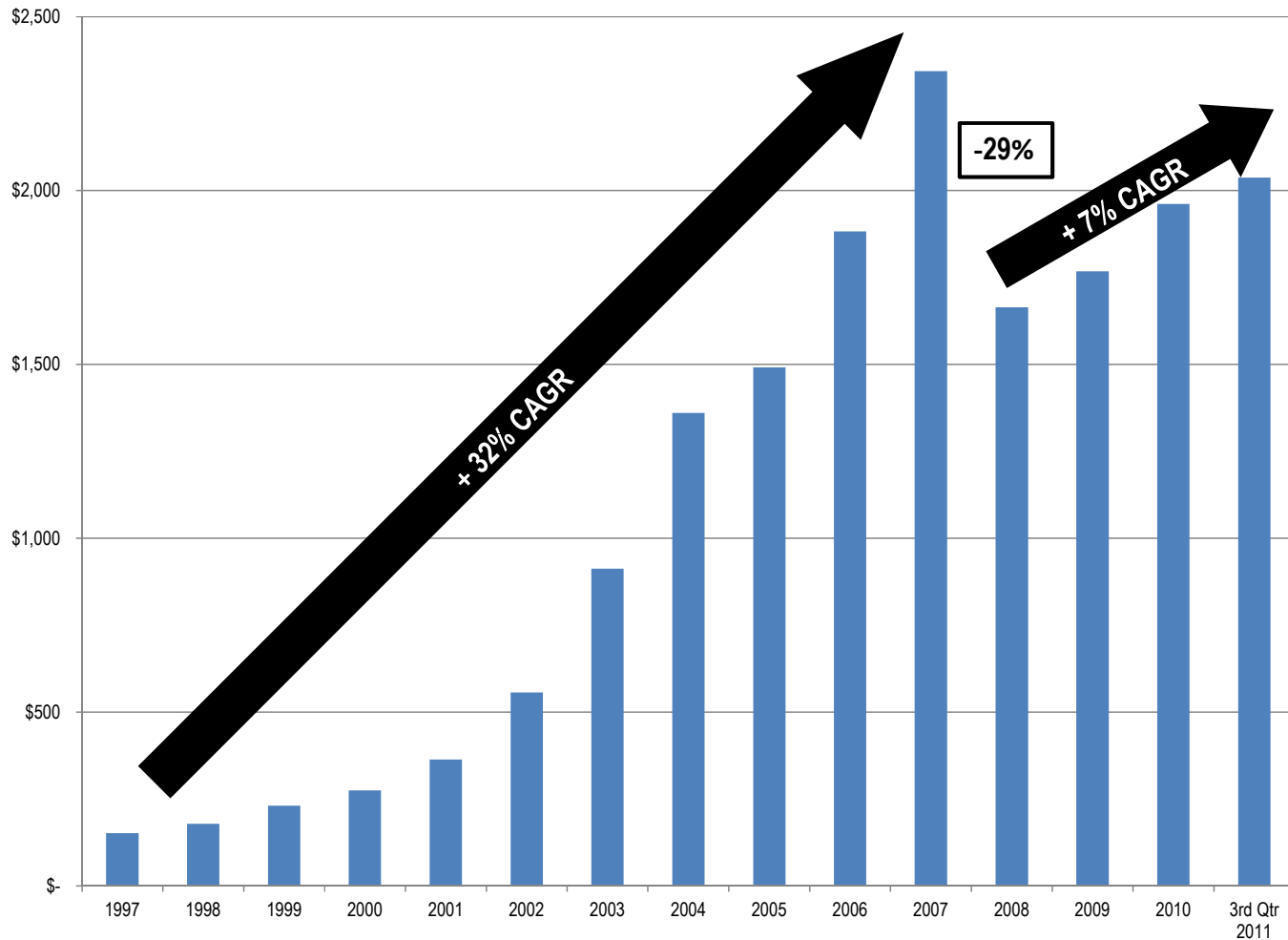




# Hedge Fund Industry Trends



# Hedge Fund Industry Assets



Source: BarclayHedge



# Fund Launches and Liquidations

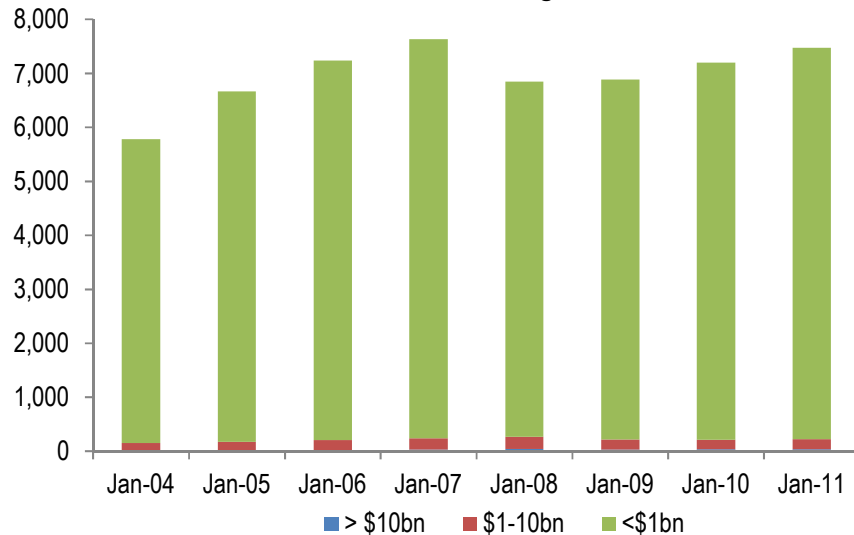


Source: Hedge Fund Research, Morgan Stanley Prime Brokerage



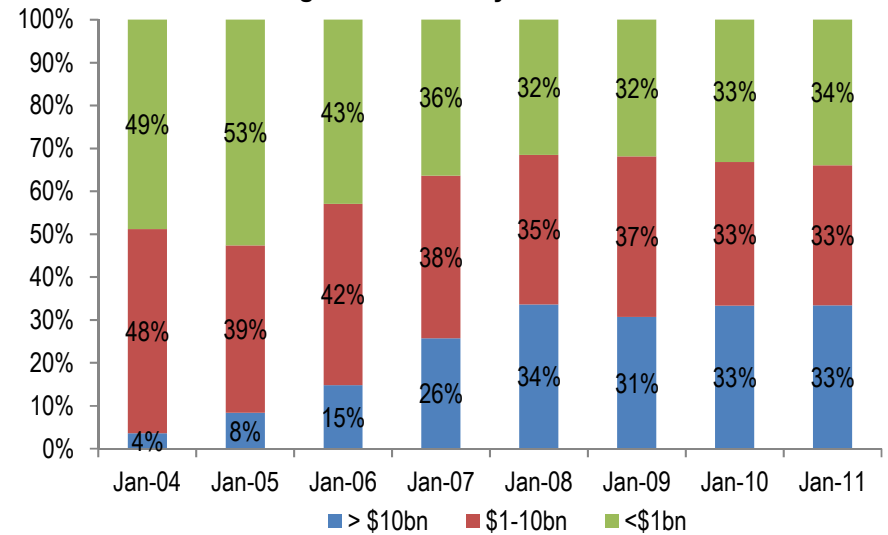
# Hedge Fund Industry Concentration

Number of Direct Hedge Funds



Source: Absolute Return, HFR

Hedge Fund AUM by Fund Size

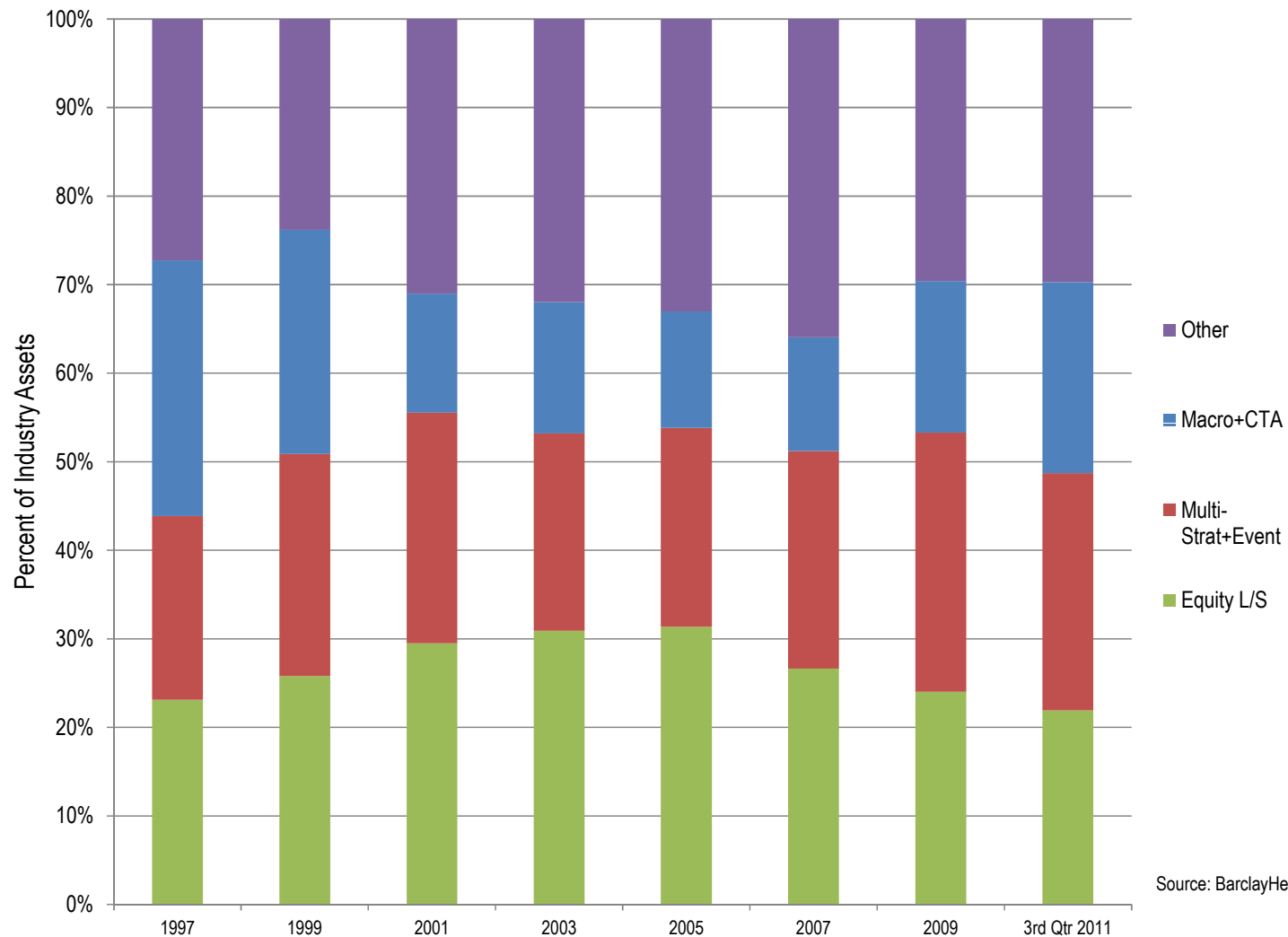


Source: Absolute Return, BarclayHedge

- Since 2004, 73 firms with over \$1bn in assets have subsequently fallen below the \$1bn threshold and 138 new firms have grown to more than \$1bn in assets



# Industry-wide Investment Strategies



Source: BarclayHedge





# “Institutionalization”

- High net worth individuals pioneered hedge fund investing. North American Endowments pioneered **institutional** hedge fund investing
- North American endowments manage only \$350 billion of assets versus the \$31 trillion invested by Global Pension and Sovereign Wealth Funds
- Public and private pensions have almost doubled their allocations to hedge funds since 2007 (from 3.6% to 6.8% and from 5.0% to 8.2%, respectively) and are expected to continue to increase their hedge fund allocations

**Institutional Hedge Fund Assets (\$bn)\***

Global Fund of Funds	North American Endowments	North American Public Pensions	International Pensions
Blackstone 37.2	UTIMCO 7.5	Ontario Teachers 11.4	ABP (Netherlands) 12.2
UBS 30.8	Endowment A 5.0	CalPERS 5.3	BVK (Germany) 3.2
HSBC 29.8	Endowment B 4.7	CalSTRS 2.3	USS (UK) 2.0
Grosvenor 24.4	Endowment C 3.4	NY Pension 3.9	PKZH (Switzerland) 1.1
GSAM 23.6	Endowment D 3.1	TX Teachers 4.3	WMPF (UK) 0.9

\* Different sources of data with differing end-dates utilized.



# Regulatory Trends

- SEC Registration – Hedge Funds required to register as an Investment Advisor:
  - If manage more than \$30m and have more than 15 U.S. “clients” over the previous 12 months
  - Registration must be complete by March 30, 2012
- Form 13H – Will be used to identify high-frequency traders and analyze trading activity
  - Includes firms with (i) transactions of >2m shares or \$20m in a calendar day or (ii) transactions >20m shares or \$200m in any calendar month
- Form PF – Being refined to help SEC monitor systemic risk created by large Hedge (and potentially Private Equity) funds
  - SEC registered advisors above certain asset thresholds (still being determined) will be required to report varying levels of portfolio detail (also TBD) on a confidential basis to regulators
- Short Bans – 3Q11 saw bans on short-selling across various global markets
  - European ban on shorting financial stocks



# Transparency – Asset Verification by Independent Third Parties

- Staff verifies and confirms the existence of hedge fund assets through direct contact with the funds' third party service providers (administrator and/or prime brokers) as part of the regular monitoring process
- Funds have traditionally offered ongoing asset verification via their annual financial audits and engaging auditors to issue AUPs (Agreed Upon Procedures) reports
- In 2011, many third party fund administrators began to independently issue monthly or quarterly reports directly to investors confirming the existence of fund assets, pricing methodologies used to calculate NAV, ASC 820 (fka FAS 157) asset classifications and in some cases counterparty concentrations
  - Staff receives these asset verification statements for approximately 60% of LCC assets

**Agenda Item**  
UTIMCO Board of Directors Meeting  
February 2, 2012

**Agenda Item:** Report on and Discussion and Appropriate Action Related to Items from Compensation Committee: UTIMCO Compensation Program; and CEO and Chief Investment Officer Offer of Employment

**Developed By:** Staff

**Presented By:** Ferguson

**Type of Item:** Action item related to CEO Offer of Employment; Information item related UTIMCO Compensation Program

**Description:** The Compensation Committee (“Committee”) will meet on January 26, 2012. The Committee’s agenda includes (1) discussion and appropriate action related to the minutes; (2) discussion related to UTIMCO Compensation Program; (3) and discussion and appropriate action related to CEO and Chief Investment Officer Offer of Employment.

Mr. Zimmerman received and signed an offer of employment from the Corporation’s Board dated May 2, 2007 (“Offer”), prior to commencing employment with the Corporation. The Offer sets forth the initial terms of employment with the Corporation, which to date have been substantially completed, possibly negating any need to continue the Offer in force.

**Discussion** Staff has identified potential changes to the UTIMCO Compensation Program (“Plan”) that Staff is requesting that the Committee consider and, if appropriate, request that the UTIMCO Board consider the proposed changes. Staff is not requesting any action be taken but is seeking permission to go forward with amendment of the Plan for approval at a subsequent meeting. The proposed changes relate to the following:

- Performance Periods: currently July 1 to June 30; change to September 1 to August 31
- Vesting upon becoming eligible for retirement: provide a retirement provision, including parameters for reaching retirement eligibility
- “Peer” Group: eliminate or change process

The Committee will discuss, in executive session, whether it is desirable to declare the offer to be of no continuing force and effect in order to avoid any uncertainty as to whether the Offer constitutes an ongoing employment contract.

**Recommendation:** The Committee will recommend to the UTIMCO Board appropriate action related Mr. Zimmerman’s Offer.

**Reference:** *UTIMCO Compensation Program* presentation

## **RESOLUTION RELATED TO OFFER OF EMPLOYMENT**

WHEREAS, the Board has reviewed the recommendation of the Compensation Committee regarding the Offer of Employment to Mr. Bruce Zimmerman dated May 2, 2007 ("Offer"), concurs in the recommendation of the Committee that the Offer has been in all material respects completed and should be declared to be of no continuing force and effect, and wishes to document same.

NOW, THEREFORE, be it:

RESOLVED, that the Board declares that the Offer does not constitute an ongoing employment contract between the Board and Mr. Bruce Zimmerman and is hereby declared to be of no continuing force and effect.



THE UNIVERSITY OF TEXAS  
INVESTMENT MANAGEMENT COMPANY

# UTIMCO Compensation Program

February 2, 2012



# Plan Changes for Discussion

- Performance Period
- Retirement Vesting
- “Peer” Group



# Change Performance Periods

- Performance Periods currently are three year rolling periods from July 1 to June 30  
(Two years for two year participants; One year for one year participants)
- Change the Performance Periods to begin on September 1 and end on August 31





# Effects of Changing Performance Periods





# Performance vs Benchmark Comparisons

	<u>July &amp; August 2010</u>	<u>July &amp; August 2011</u>	<u>July &amp; August 2012</u>
<b>Endowments</b>	(42)	106	TBD
<b>ITF</b>	16	67	TBD
Basis points of value add			



# Compensation Plan Year Transition - Options

- Do Nothing
- Align Compensation Year with Fiscal Year
  - Phased Implementation
    - 2013
      - Three Year Participants = 38 months
      - Two Year Participants = 26 months
      - One Year Participants = 14 months
    - 2014
      - Three Year Participants = 38 months
      - Two Year Participants = 26 months
    - 2015
      - Three Year Participants = 38 months
  - Quick Implementation for Plan Year 2013
    - Three Year Participants = 38 months
    - Two Year Participants = 26 months
    - One Year Participants = 14 months
  - Immediate Implementation (36/24/12)



# Retirement Provision

- UTIMCO Compensation Program (the “Plan”) does not include a retirement provision
- Currently, if a participant retires, his or her nonvested deferred account is forfeited
- Vast majority of endowment and foundation staff incentive plan deferrals will vest upon retirement according to Mercer
- Retirement vs Retirement Eligibility
  - Define a Retirement Eligibility Time Frame
  - Provide Parameters if Participant elects not to retire upon his or her eligibility



# Possible Parameters for Reaching Retirement Eligibility

- Rule of 80 – Participant's Age plus years of service equals 80
- Rule of 75 – Participant's Age plus years of service equals 75
- A Participant is 62 with five years of service
- A Participant is 55 with ten years of service

Note: Years of service would include employment at UT System prior to formation of UTIMCO



# Reaching Retirement Eligibility

- **No longer is there a substantial risk of forfeiture**
  - New awards vest immediately
  - Nonvested deferred account automatically vests
  - Federal income taxes will be due on vested amounts
- **Participant does not have to retire**
  - may continue to participate in the Plan (subject to the current provisions of the Plan)
- **Voluntary deferral of vested amounts**
  - Participants will be permitted to invest all or a portion of the vested amount in the Plan subject to a three year payout



# Retirement

A retiring Participant (versus a retirement eligible Participant) that performs at least six months of service in the Performance Period will receive a pro-rated award for the plan year in which retirement occurs

Plan Termination Provisions apply

- Upon retirement from UTIMCO, all remaining vested accounts and earnings will be paid before the end of the calendar year on a date selected by UTIMCO



# Peer Group

- Currently in Plan due to previous use of “vs peers” instead of “vs Benchmarks” to determine Total Fund performance for compensation purposes
- Now included in CEO’s and President’s Qualitative Goals
- Cambridge Associates, as the Board’s external investment advisor, currently continues to maintain the Peer Group and reports annual ranking
- Consider:
  - Eliminating Peer Group language from the Plan; or
  - Eliminating Plan requirement that Board’s external investment advisor has to maintain



**Agenda Item**  
UTIMCO Board of Directors Meeting  
February 2, 2012

**Agenda Item:** Report from Risk Committee

**Developed By:** Staff

**Presented By:** Tate

**Type of Item:** Information item

**Description:** The Risk Committee (“Committee”) will meet on January 26, 2012. The Committee’s agenda includes (1) discussion and appropriate action related to the minutes; (2) discussion and appropriate action related to categorization of new investment mandates; (3) review and discussion of compliance reporting; and (4) review and discussion of performance and risk reporting.

**Discussion** The Committee will review and approve, as appropriate, the eleven mandate categorizations prepared by Staff for the period beginning October 22, 2011, and ending January 13, 2012. The Committee will report to the UTIMCO Board the results of its review of the Investment Mandate Categorizations.

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

**Recommendation:** None

**Reference:** None

**Agenda Item**  
UTIMCO Board of Directors Meeting  
February 2, 2012

<b>Agenda Item:</b>	Report on and Discussion and Appropriate Action Related to Item from Audit and Ethics Committee - Audit of UTIMCO Financial Statements
<b>Developed By:</b>	Staff
<b>Presented By:</b>	Hicks
<b>Type of Item:</b>	Action required by UTIMCO Board related to year audit; information item on other items
<b>Description:</b>	<p>The Audit and Ethics Committee (“Committee”) will meet on January 26, 2012. The Committee’s agenda includes (1) discussion and appropriate action related to the Committee minutes; (2) discussion and appropriate action related to Deloitte &amp; Touche LLP’s Financial Statement Audit Results and Communications and Audited Financial Statements for the Corporation; (3) review and discussion of accounting and compliance considerations related to internal investment pools and special purpose entities; (4) an update of compliance, reporting, and audit issues; and (5) a presentation of the unaudited financial statements for the three months ended November 30, 2011, for the Investment Funds and the Corporation. The Committee will also meet in executive session for the purpose of deliberating individual evaluation matters.</p>
<b>Discussion:</b>	<p>The UTIMCO financial statements were audited by Deloitte &amp; Touche LLP. Deloitte &amp; Touche LLP issued an unqualified opinion on the August 31, 2011 and 2010 financial statements. Tom Wagner, the engagement partner, is scheduled to present to the Committee the Deloitte &amp; Touche LLP’s Audit Results and Communications letter and answer questions related to the financial statements. A copy of the Audit Results and Communications and the audited financial statements are included.</p> <p>Staff will provide a report to the Committee on accounting and compliance considerations that have been encountered as UTIMCO has pooled investments by the Permanent University Fund, General Endowment Fund, and Intermediate and begun utilizing Special Purpose Entities.</p> <p>Routine activities of the Committee will include reviewing the unaudited financial statements for the first quarter for the Funds and UTIMCO Corporation and the quarterly compliance reports.</p>
<b>Recommendation:</b>	The Committee will request the UTIMCO Board take appropriate action based on the Committee’s action from its meeting related to approval of Deloitte and Touche LLP’s Financial Statement Audit Results and Communications, and the audited financial statements and audit report for the Corporation.
<b>Reference:</b>	Audit Results and Communications; Audited financial statements and audit report for the Corporation; Quarterly Compliance Reports

**RESOLUTIONS RELATED TO AUDIT OF THE CORPORATION FOR  
FISCAL YEAR 2011**

RESOLVED, that Deloitte & Touche LLP's Financial Statement Audit Results and Communications for the Corporation for the year ended August 31, 2011, 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, 2011 and August 31, 2010, be, and are hereby approved in the form as presented to the Board.

December 20, 2011

Mr. Bruce Zimmerman  
CEO and Chief Investment Officer  
The University of Texas Investment Management Company

The Audit and Ethics Committee of the Board of Directors of The University of Texas Investment Management Company  
401 Congress Avenue, Suite 2800  
Austin, TX 78701

Dear Mr. Zimmerman and Members of the Audit and Ethics Committee of the Board of Directors of The University of Texas Investment Management Company:

We have performed an audit of the financial statements of The University of Texas Investment Management Company (the “Company”) as of and for the year ended August 31, 2011, in accordance with auditing standards generally accepted in the United States of America and have issued our report thereon dated December 20, 2011.

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

## **OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS**

Our responsibility under auditing standards generally accepted in the United States of America has been described in our engagement letter dated June 27, 2011, a copy of which has been provided to you. As described in that letter, the objective of a financial statement audit conducted in accordance with auditing standards generally accepted in the United States of America is to express an opinion on the fairness of the presentation of the Company’s financial statements for the year ended August 31, 2011 in conformity with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”), in all material respects. Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Audit and Ethics Committee are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Audit and Ethics Committee of their responsibilities.

We considered the Company’s internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company’s internal control over financial reporting. Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

## **ACCOUNTING ESTIMATES**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the Company's 2011 financial statements include the recoverability of long-term assets such as property and equipment and liabilities as well as those related to accrued compensation and other compensation related accounts. During the year ended August 31, 2011, there were no significant changes in accounting estimates or in management's judgments relating to such estimates.

## **UNCORRECTED MISSTATEMENTS**

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

## **MATERIAL CORRECTED MISSTATEMENTS**

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

## **SIGNIFICANT ACCOUNTING POLICIES**

The Company's significant accounting policies are set forth in Note 2 to the Company's 2011 financial statements. During the year ended August 31, 2011, there were no significant changes in previously adopted accounting policies or their application.

## **DISAGREEMENTS WITH MANAGEMENT**

We have not had any disagreements with management related to matters that are material to the Company's 2011 financial statements.

## **CONSULTATION WITH OTHER ACCOUNTANTS**

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during the year ended August 31, 2011.

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

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

**OTHER SIGNIFICANT ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT**

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

**SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT**

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

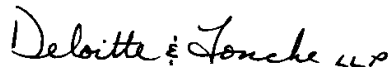
**MANAGEMENT'S REPRESENTATIONS**

We have made specific inquiries of the Company's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the Company is required to provide to its independent auditors under generally accepted auditing standards.

\* \* \* \* \*

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

**Yours truly,**

The image shows a handwritten signature in cursive script that reads "Deloitte & Touche LLP". The signature is written in dark ink and is positioned below the "Yours truly," text.

**THE UNIVERSITY OF TEXAS INVESTMENT  
MANAGEMENT COMPANY**

**FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITORS' REPORT**

Years ended August 31, 2011 and 2010

# The University of Texas Investment Management Company

## Financial Statements

Years Ended August 31, 2011 and 2010

### Contents

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## Independent Auditors' Report

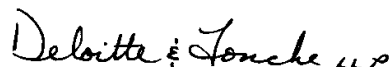
The Board of Directors of The University of Texas Investment Management Company

We have audited the accompanying Balance Sheets of The University of Texas Investment Management Company ("UTIMCO"), as of August 31, 2011 and 2010, and the related Statements of Revenues, Expenses and Changes in Net Assets, and the Statements of Cash Flows for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing the audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of UTIMCO's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of UTIMCO as of August 31, 2011 and 2010, and the results of its operations, changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 2 through 5 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



December 20, 2011

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

Our discussion and analysis of the financial performance for The University of Texas Investment Management Company (UTIMCO) provides an overview of its activities for the year ended August 31, 2011. This discussion was prepared by UTIMCO management and should be read in conjunction with the UTIMCO financial statements and notes. UTIMCO is a 501(c) (3) investment management corporation whose sole purpose is the management of investment assets that are under the fiduciary care of the Board of Regents of The University of Texas System (UT Board).

Created in March 1996, UTIMCO is the first external investment corporation formed by a public university system. It invests endowment and operating funds in excess of \$26 billion. UTIMCO is governed by a nine-member Board of Directors, with seven appointed by the UT System Board of Regents. The UTIMCO Board of Directors includes three members of the UT Board, the Chancellor of The University of Texas System, and three outside investment professionals. The UTIMCO Bylaws were amended in August 2011 to allow the Texas A&M University System to appoint two directors, with one having outside investment experience. The UTIMCO Board and the UT Board have entered into an Investment Management Services Agreement delegating investment management responsibility for all investments to UTIMCO.

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

### **Financial Highlights**

Net assets decreased by approximately \$.9 million from \$5.4 million to \$4.5 million, or approximately 16.7%, for the year ended August 31, 2011. This is compared to a decrease of \$5.6 million from \$11.0 million to \$5.4 million, or approximately 50.9%, for the year ended August 31, 2010. The change in net assets from 2010 to 2011 is mainly a result of the increase in performance compensation. The change in net assets from 2009 to 2010 is mainly attributable to the fact that UTIMCO rebated \$5,000,000 during the year ended December 31, 2010 back to the funds per the contractual requirements of the Investment Management Services Agreement with the UT Board.

### **Use of Financial Statements and Notes**

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

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

## Balance Sheets

The Balance Sheets present assets, liabilities, and the net assets of UTIMCO as of the end of the fiscal year. These statements have been prepared using the accrual basis of accounting.

The following summarizes the Balance Sheets:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Assets</b>			
Cash & Cash Equivalents	\$ 8,815,125	\$ 8,773,743	\$ 12,618,433
Other Assets	<u>2,831,931</u>	<u>3,076,643</u>	<u>3,423,832</u>
<b>Total Assets</b>	<b><u>\$ 11,647,056</u></b>	<b><u>\$ 11,850,386</u></b>	<b><u>\$ 16,042,265</u></b>
<b>Liabilities &amp; Net Assets</b>			
Accounts Payable & Deferred Compensation Plan Obligations	\$ 6,037,768	\$ 5,101,374	\$ 3,510,534
Deferred Rent	1,126,217	1,351,461	1,576,705
Unrestricted Net Assets	<u>4,483,071</u>	<u>5,397,551</u>	<u>10,955,026</u>
<b>Total Liabilities &amp; Net Assets</b>	<b><u>\$ 11,647,056</u></b>	<b><u>\$ 11,850,386</u></b>	<b><u>\$ 16,042,265</u></b>

The changes in Balance Sheet components are primarily the result of the following:

- Cash remained constant between FY 2010 and 2011. Unrestricted net assets decreased in 2011 by approximately \$914,000 primarily as a result of increased performance compensation. Cash decreased in 2010 as a result of a \$5,000,000 rebate to the funds as per the provisions of the Investment Management Services Agreement between UTIMCO and the Board of Regents of The University of Texas System and as a result of a net operating loss for the fiscal year. Unrestricted net assets decreased in 2010 for the same reasons.
- Other Assets decreased by approximately \$245,000 in 2011 and by approximately \$347,000 in 2010 primarily as a result of fixed assets becoming fully depreciated. Additionally, UTIMCO added a deferred compensation program in FY 2008, which continues to annually increase other assets and other accrued expenses.
- Accounts payable and deferred compensation plan obligations increased by approximately \$936,000 in 2011 and by approximately \$1,591,000 in 2010 as a result of an increase in performance compensation.

## Statements of Revenues, Expenses and Changes in Net Assets

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Revenue</b>			
Management Fees	\$ 17,238,772	\$ 15,984,625	\$ 16,551,209
Net Non-operating Revenues	<u>14,601</u>	<u>24,348</u>	<u>157,174</u>
	17,253,373	16,008,973	16,708,383
<b>Expenses</b>			
Salaries & Benefits	14,314,447	12,569,998	11,253,722
General Operating	1,807,100	1,850,104	1,570,137
Depreciation	552,739	579,925	588,684
Other	<u>1,493,567</u>	<u>1,566,421</u>	<u>1,710,151</u>
	18,167,853	16,566,448	15,122,694
<b>Management Fee Rebate</b>	<u>-</u>	<u>(5,000,000)</u>	<u>-</u>
Increase/Decrease in Unrestricted Net Assets	(914,480)	(5,557,475)	1,585,689
Net Assets, Beginning of Year	<u>5,397,551</u>	<u>10,955,026</u>	<u>9,369,337</u>
<b>Net Assets, End of Year</b>	<u>\$ 4,483,071</u>	<u>\$ 5,397,551</u>	<u>\$ 10,955,026</u>

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

- Management Fees revenue for each year presented are based upon the operating budget and management fee approved in advance each year by both the UTIMCO Board of Directors and the UT System Board of Regents. Revenue fluctuations are the direct result of these approved budgets.
- Salary and Benefit expenses fluctuated primarily as a result of changes in performance based compensation in all fiscal years. Staff levels were primarily constant in fiscal years 2011, 2010 and 2009.
- General Operating Expenses decreased slightly in 2011 and increased in 2010 primarily related to travel expenses.
- In FY 2010, UTIMCO issued a \$5,000,000 rebate to the funds as per the provisions of the Investment Management Services Agreement between UTIMCO and the Board of Regents of The University of Texas System. There was no such amount for FY 2011.

## Statements of Cash Flows

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Cash Flows from Operating Activities</b>			
Proceeds from management fees	\$ 17,238,772	\$ 15,984,625	\$ 16,551,209
Payments to and for employees	(13,509,721)	(11,156,007)	(11,122,513)
Other payments	<u>(3,542,686)</u>	<u>(3,623,927)</u>	<u>(3,740,551)</u>
	186,365	1,204,691	1,688,145
<b>Cash Flows from (used for) Capital and Related Financing Activities</b>			
Purchase of property & equipment, net	(165,748)	(75,186)	(136,174)
Rebate of management fees to the funds	-	(5,000,000)	-
Interest	<u>20,765</u>	<u>25,805</u>	<u>159,420</u>
	<u>(144,983)</u>	<u>(5,049,381)</u>	<u>23,246</u>
Net Change in Cash & Cash Equivalents	41,382	(3,844,690)	1,711,391
Cash & cash equivalents, beginning of year	<u>8,773,743</u>	<u>12,618,433</u>	<u>10,907,042</u>
<b>Cash &amp; cash equivalents, end of year</b>	<u>\$ 8,815,125</u>	<u>\$ 8,773,743</u>	<u>\$ 12,618,433</u>

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

- Payments to and for employees increased in fiscal year 2011 as a result of the increase in compensation and other personnel expenses that are directly related to compensation.
- The rebate of management fees to the funds for the fiscal year 2009 was paid in the first quarter of fiscal year 2010.
- Purchases of property and equipment increased in fiscal year 2011 as the result of replacing obsolete equipment.
- Interest income decreased in 2011 and 2010 as a direct result of market conditions in the fiscal year.

## Contacting UTIMCO

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

# THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

## Financial Statements

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### Balance Sheets

August 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 8,815,125	\$ 8,773,743
Prepaid expenses and other assets	<u>410,163</u>	<u>437,944</u>
Total Current Assets	9,225,288	9,211,687
Non-Current Assets:		
Assets of deferred compensation plan	493,724	317,500
Property and equipment, net of accumulated depreciation of \$3,543,201 and \$3,126,026, respectively	<u>1,928,044</u>	<u>2,321,199</u>
Total Non-Current Assets	<u>2,421,768</u>	<u>2,638,699</u>
<b>Total Assets</b>	<b><u>\$ 11,647,056</u></b>	<b><u>\$ 11,850,386</u></b>
<b>Liabilities and Net Assets</b>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 5,544,044	\$ 4,783,874
Current portion - deferred rent	<u>225,244</u>	<u>225,244</u>
Total Current Liabilities	5,769,288	5,009,118
Non-Current Liabilities:		
Deferred compensation plan obligations	493,724	317,500
Long-term portion – deferred rent	<u>900,973</u>	<u>1,126,217</u>
Total Non-Current Liabilities	<u>1,394,697</u>	<u>1,443,717</u>
Total Liabilities	7,163,985	6,452,835
Net Assets:		
Unrestricted	<u>4,483,071</u>	<u>5,397,551</u>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 11,647,056</u></b>	<b><u>\$ 11,850,386</u></b>

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

# THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

## Financial Statements

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### Statements of Revenues, Expenses and Changes in Net Assets

For the years ended August 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>Operating Revenues</b>		
Management fee	\$17,238,772	\$15,984,625
Total Operating Revenues	17,238,772	15,984,625
<b>Operating Expenses</b>		
Salaries	12,713,649	10,944,666
Employee benefits	1,107,835	1,145,533
Payroll taxes	492,963	479,799
General operating	1,807,100	1,850,104
Depreciation	552,739	579,925
Lease	935,490	1,003,831
Professional fees	330,752	314,465
Insurance	<u>227,325</u>	<u>248,125</u>
Total Operating Expenses	<u>18,167,853</u>	<u>16,566,448</u>
<b>Operating Loss</b>	(929,081)	(581,823)
<b>Nonoperating Revenues</b>		
Interest	20,765	25,805
Loss on disposal of equipment	<u>(6,164)</u>	<u>(1,457)</u>
Net Nonoperating Revenues	<u>14,601</u>	<u>24,348</u>
<b>Loss Before Other Changes in Net Assets</b>	(914,480)	(557,475)
<b>Other Changes in Net Assets</b>		
Rebate of management fees to the funds	<u>-</u>	<u>(5,000,000)</u>
<b>Decrease in Unrestricted Net Assets</b>	(914,480)	(5,557,475)
<b>Net assets at beginning of year</b>	<u>5,397,551</u>	<u>10,955,026</u>
<b>Net assets at end of year</b>	<u>\$ 4,483,071</u>	<u>\$ 5,397,551</u>

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

# THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

## Financial Statements

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### Statements of Cash Flows

For the years ended August 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>Cash flows from operating activities:</b>		
Proceeds from management fees	\$ 17,238,772	\$ 15,984,625
Payments to suppliers for goods and services	(2,381,270)	(2,394,853)
Payments for facility	(1,161,416)	(1,229,074)
Payments to employees, net	(11,908,971)	(9,530,671)
Payments for employees, net	<u>(1,600,750)</u>	<u>(1,625,336)</u>
<b>Net cash provided by operating activities</b>	<u>186,365</u>	<u>1,204,691</u>
<b>Cash flows from noncapital financing activities:</b>		
Rebate to investment funds	<u>-</u>	<u>(5,000,000)</u>
<b>Net cash used in noncapital financing activities</b>	<u>-</u>	<u>(5,000,000)</u>
<b>Cash flows from capital and related financing activities:</b>		
Proceeds from return of property and equipment	-	5,151
Purchases of property and equipment	<u>(165,748)</u>	<u>(80,337)</u>
<b>Net cash used in capital and related financing activities</b>	<u>(165,748)</u>	<u>(75,186)</u>
<b>Cash flows from financing activities:</b>		
Interest	<u>20,765</u>	<u>25,805</u>
<b>Net cash from financing activities</b>	<u>20,765</u>	<u>25,805</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	41,382	(3,844,690)
<b>Cash and cash equivalents at beginning of year</b>	<u>8,773,743</u>	<u>12,618,433</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 8,815,125</u>	<u>\$ 8,773,743</u>

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



# THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

## *Financial Statements*

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### Statements of Cash Flows, Continued

#### Reconciliation of operating income to net cash provided by operating activities:

	<u>2011</u>	<u>2010</u>
<b>Operating loss</b>	\$ (929,081)	\$ (581,823)
<b>Adjustments to reconcile operating income to net cash provided by operating activities:</b>		
Depreciation	552,739	579,925
Change in assets and liabilities:		
(Increase)/decrease in prepaid expenses and other assets	27,781	(16,221)
Increase in assets of deferred compensation plan	(176,224)	(142,785)
Increase in accounts payable and accrued expenses	760,170	1,850,916
Decrease in long term portion of deferred compensation	-	(402,862)
Increase in liabilities of deferred compensation plan	176,224	142,785
Decrease in deferred rent	<u>(225,244)</u>	<u>(225,244)</u>
 <b>Net cash provided by operating activities</b>	 <u>\$ 186,365</u>	 <u>\$ 1,204,691</u>

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

# THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

## *Notes to Financial Statements*

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### **Note 1 - Organization**

The University of Texas Investment Management Company (UTIMCO) is a not-for-profit corporation organized to invest funds that are under the control and management of the Board of Regents of The University of Texas System (UT Board). UTIMCO commenced business on March 1, 1996. The financial statements of UTIMCO have been prepared on the accrual basis of accounting. The significant accounting policies are described in Note 2.

### **Note 2 - Significant Accounting Policies**

#### *Basis of Accounting*

The financial statements of UTIMCO are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). UTIMCO applies all applicable GASB pronouncements and Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

#### *Cash and cash equivalents*

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

#### *Prepaid expenses and other assets*

Prepaid expenses consist of expenses paid in advance for insurance and various services. The prepaid expenses will be ratably expensed over the period to which they relate.

#### *Property and equipment, net of accumulated depreciation*

Net property and equipment consists of office furniture, office equipment, software, and leasehold improvements and is stated at net book value. UTIMCO capitalizes assets whose cost exceeds \$300. Depreciation is computed using the straight-line method over the useful lives of the assets. Estimated useful lives range from 3-7 years for office furniture, equipment and software and for the lease term for leasehold improvements. The following is a schedule of the property and equipment at August 31, 2011 and 2010.

	<u>2011</u>	<u>2010</u>
Office furniture	\$ 862,578	\$ 862,578
Office equipment	1,184,331	1,118,808
Software	267,678	309,180
Leasehold improvements	<u>3,156,659</u>	<u>3,156,659</u>
Total property and equipment	5,471,245	5,447,225
Less accumulated depreciation	<u>(3,543,201)</u>	<u>(3,126,026)</u>
Net property and equipment	<u>\$ 1,928,044</u>	<u>\$ 2,321,199</u>

# THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

## *Notes to Financial Statements*

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### *Income taxes*

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

### *Use of Estimates*

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

### *Subsequent Events*

These financial statements considered subsequent events through December 20, 2011, the date the financial statements were available to be issued.

## **Note 3 - Related Party Transactions**

a) Pursuant to a Master Investment Management Services Agreement with UTIMCO, the UT Board has appointed UTIMCO as its investment manager with complete authority to act for the UT Board in the investment of all funds. The amount of the management fees for the periods ended August 31, 2011 and 2010 were \$17,231,272 and \$15,977,125, respectively. This represents fees for the following:

	<u>2011</u>	<u>2010</u>
Permanent University Fund	\$ 8,470,821	\$ 7,846,504
The University of Texas System Long Term Fund	4,821,311	4,439,641
Permanent Health Fund	874,369	809,630
The University of Texas System Intermediate Term Fund	<u>3,064,771</u>	<u>2,881,350</u>
	<u>\$ 17,231,272</u>	<u>\$ 15,977,125</u>

b) UTIMCO contracts for internet, mainframe connection, and various other technology services with The University of Texas System and The University of Texas at Austin. The expense for these services for the periods ended August 31, 2011 and 2010 were \$66,276 and \$45,830, respectively.

## THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

### *Notes to Financial Statements*

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#### **Note 4 – Deposits and Investments**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, UTIMCO will not be able to recover its deposits. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, UTIMCO will not be able to recover the value of its investment or collateral securities that are in the possession of another party. UTIMCO does not have a deposit policy for custodial credit risk. The FDIC insures deposits up to \$250,000. As of August 31, 2011 and 2010, there were no uninsured deposits. Additionally, UTIMCO does not have any investments that are exposed to custodial credit risk.

#### **Note 5 - Deferred Revenue**

UTIMCO assesses on or before the first day of The University of Texas System's fiscal quarter one-fourth of the annual management fee. The fee is deferred and is ratably credited to revenue monthly. As of August 31, 2011 and 2010, there was no deferred revenue.

#### **Note 6 – Deferred Compensation**

Effective March 1, 1996, UTIMCO established a tax-sheltered annuity arrangement, which provides retirement benefits for its employees by contributing to a custodial account invested in mutual funds. The employer matches 8.5% of gross compensation on behalf of an employee. Employees are required to contribute 6.5% of their total gross compensation to receive the company match. Employer contributions for the periods ended August 31, 2011 and 2010 were \$485,227 and \$487,207, respectively.

Effective December 1, 2007, UTIMCO adopted a deferred compensation plan under Internal Revenue Code Section 457(b) (the Plan). The UTIMCO Plan is an unfunded deferred compensation plan that is established and maintained for a select group of management employees. Participants are determined by the Administrative Plan Committee. Participants are permitted to make tax-deferred contributions to the Plan, but until Plan benefits are paid out, these contributions remain part of UTIMCO's general assets and can be used to satisfy claims of the general unsecured creditors of UTIMCO. The assets and obligations of the Plan are reported on the balance sheets at current values.

Effective May 1, 2011, UTIMCO established a health savings account arrangement, which is a tax-exempt trust or custodial account with a qualified trustee used to pay or reimburse certain medical expenses. Employer contributions for the period ended August 31, 2011 were \$35,709.

# THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

## Notes to Financial Statements

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### Note 7 – Lease Expense

Effective September 1, 2005, UTIMCO entered into an eleven year lease for its office space and parking with a third party. Under the terms of the lease, the lease expense and building operating expenses for the first 14 months were provided by the new landlord as a lease incentive, except for specific electricity costs incurred by UTIMCO. The lease expense incentive is recorded as a deferred rent liability as detailed in Note 8.

UTIMCO began paying lease and operating costs related to UTIMCO's current lease effective November 2006. For the periods ended August 31, 2011 and 2010, related operating expenses were \$475,551 and \$547,863, respectively. The net lease expense related to the lease incentive and amortization of the tenant allowance for both the periods ending August 31, 2011 and 2010 was \$348,028. For the periods ended August 31, 2011 and 2010, parking expense was \$111,911 and \$107,940, respectively.

The 132 month lease expires August 31, 2016. Commencing November 1, 2006, the minimum rental commitment was \$43,135 per month through December 31, 2007. The commitment increased to \$47,773 per month effective January 1, 2008, with the increase in rentable space.

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

Years ending August 31,	
2012	\$ 573,272
2013	573,272
2014	573,272
2015	573,272
2016	<u>573,272</u>
Total	<u>\$2,866,360</u>

### Note 8 – Deferred Rent

Under the terms of the office lease effective September 1, 2005, the landlord provided UTIMCO with rent holidays and a tenant improvement allowance. The property was placed in service on November 14, 2005. Additional tenant improvement allowance was provided in August 2008 in connection with the expansion. UTIMCO has recorded the rent holidays and tenant improvement allowances as a deferred rent liability.

As of August 31, 2011 and 2010, the total deferred rent was \$1,126,217 and \$1,351,461, respectively. The portion of the deferred rent related to the rent holidays as of August 31, 2011 and 2010 was \$274,495 and \$329,395, respectively. The remaining portion of the deferred rent as of August 31, 2011 and 2010, was \$851,722 and \$1,022,066, respectively, and relates to the tenant improvement allowance. UTIMCO was initially provided an allowance of \$1,612,985 to be used and applied toward the cost of leasehold improvements in the new space. In August 2008, an additional allowance of \$173,415 was provided in connection with the expansion. The deferred rent is amortized over the term of the lease.

# THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

## *Notes to Financial Statements*

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### **Note 9 – Management Fee Rebate**

On November 25, 2009, UTIMCO rebated \$5 million back to the UT Investment Funds as required by the Investment Management Services Agreement between UTIMCO and the UT System Board of Regents. The rebate was returned to the funds in the amounts detailed below:

Permanent University Fund	\$ 2,648,238
The University of Texas System Long Term Fund	1,393,602
Permanent Health Fund	311,124
The University of Texas System Intermediate Term Fund	<u>647,036</u>
	<u>\$ 5,000,000</u>

**The University of Texas Investment Management Company  
Institutional Compliance Program Annual Report  
for the Quarter Ended November 30, 2011**

**Section I – Organizational Matters**

- One meeting of the Ethics and Compliance Committee has been held during this fiscal year: September 19, 2011.

**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 83 meetings/calls with potential managers. Serious due diligence was initiated on two managers. Two managers were hired. Ongoing review of active external managers included 47 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 73 meetings/calls with potential managers. Serious due diligence was initiated on three managers. Four managers were hired. Ongoing review of external managers was conducted in the form of 58 meetings/calls and participation in various annual meetings.

**Private Markets:** The Private Markets group initiated serious due diligence on seven potential managers. Four commitments were made. The Private Markets group also participated in 75 meetings with active external managers and 71 with potential managers, including site visits, conference calls, Advisory Board or Annual meetings, ILPA meetings, and a quarterly portfolio review meeting.

**Natural Resources:** The Natural Resources group participated in 76 meetings/calls with potential managers. One manager was hired. Ongoing review of active external managers included 58 meetings/calls. Additional efforts included participation in annual meetings and a quarterly portfolio review meeting.

**Real Estate:** The Real Estate group participated in 73 meetings/calls with potential managers. Serious due diligence was initiated on one manager. Two managers were hired. Ongoing review of active external managers included 45 meetings/calls. Additional efforts included participation in annual meetings and a quarterly portfolio review meeting.

**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. The 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, and expanded an existing ISDA to support managers operating under agency agreements.
- Risk Team reviewed OPERA with Albourne, Risk Managers of other Endowments, and with IFS, in order to promote this protocol of reporting when position level data is not available, and to be able to aggregate risk across the different investment types.
- Risk Team continued to engage in discussions with Regulatory Entities, current counterparties and other Risk Management teams regarding the rulings and implementation process of Dodd Frank.
- Risk Team continued to monitor the current macro environment, thought processes, and methodologies of other risk teams, by coordinating and chairing an Endowments Risk Management forum, by analyzing new product offerings for risk management, and by participating in conferences.
- All internal derivatives were reviewed and analyzed in detail prior to initiation.
- The Risk Team developed the process and methodology to calculate the use of the "insurance budget"; the insurance budget is continuously tracked.
- Derivative positions are monitored on a daily basis. External managers that may use derivatives are monitored daily for spikes in returns or in volatility. Effects of derivatives on the overall portfolio are monitored monthly. Fixed income duration and tracking error is being monitored on an ongoing basis. Managers' use of margin and leverage is monitored on an ongoing basis. Risk Team confirmed each month downside 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:** Participated in three conferences during the quarter. Kate Wagner passed the level 1 CAIA exam.

**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:**

- The annual financial report audit with Deloitte & Touche, LLP was completed.
- Denim Group was retained to complete a security review of the eFAS mainframe replacement web application.
- New hire user security training was completed for one new employee and three interns upon commencement of employment with UTIMCO.



## FINAL 121511

- 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.

**Specialized Training:** CISO attended 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 continues to verify that custodian software queries and database queries are working properly for manager compliance. Some cross training has occurred with new employee. Plans are to cross train more members of the team during this fiscal year.
- Review of monthly and quarterly investment compliance reports prepared by staff.
- 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.

**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 and funds committed. 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.

- 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. Two new managers were hired which required the list to be sent. One manager was sent the list but the other was inadvertently missed. Manager has now been sent the list. The manager had not purchased nor held any of the restricted securities; therefore, no violation occurred.
- On a daily basis, accounting staff reviewed security holdings of internal and external managers for compliance with the restricted list. No exceptions noted.
- Periodic review of public resources for comparison with financial disclosure statement information provided by Directors was not performed during the quarter.
- There were six requests for preclearance of securities transactions. Another trade required preclearance but was not requested. Security was on preclearance list and employee traded on the same day UTIMCO traded. However, the UTIMCO trade was a gift security received by UT System and traded the same day by UTIMCO as is policy. Two employees did not file security transactional disclosure forms within the required 10 days. One employee did not file timely for seven securities; one employee did not file timely for one security.
- One employee and three interns were hired during the quarter. All received timely training and turned in their financial disclosure and ethics compliance statements.
- 19 trips/events for vendor reimbursed/paid expenses, which required documentation and supervisor/CEO approval, had appropriate documentation and approval. Six trips/events had entertainment that required CEO or CCO approval, which was appropriately requested and approved by CEO or CCO.

**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, Lara McKinney, performed quarterly due diligence monitoring plan for each Investment group. CCO designee reviewed initial due diligence for 7 managers hired by the Investment groups during the year. 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:** *Well controlled*

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

**Significant Findings:** None

#### **High-Risk Area #3: Information Technology & Security**

**Assessment of Control Structure:** *Well controlled*

**Assurance Activities Conducted:** CCO continues to meet with ISO, currently Acting Head of 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.

**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 one new employee and three interns. 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 new hire and three intern training sessions were held as required for all new hires.

**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:

<b>Type</b>	<b>Number</b>	<b>% of Total</b>
Employee Relations	0	0.00%
Policy Issues	0	0.00%
Hang ups or wrong numbers	4	100.00%
Total	4	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 2012**

#	ACTION ITEM	TARGET COMPLETION DATE	STATUS
<b><i>A. RISK ASSESSMENT</i></b>			
1.	Review risk assessments to determine if updates are needed and map controls identified in the risk assessment to controls identified in the process documentation where needed	06/30/12	Work to begin in early 2012
<b><i>B. MONITORING ACTIVITIES / ASSURANCE</i></b>			
2.	Draft Monitoring Plans related to primary risks identified in ERM : * Portfolio Strategy and Management * Operations, Accounting, and Reporting * General Management	12/31/2011	In process for Operations, Accounting, and Reporting, and General Management; Portfolio Strategy and Management included as part of investment group monitoring plans
3.	Periodic review of Responsible Party Monitoring Plan documentation for high risk areas A	On-going	On-going
4.	Work with Risk Management to enhance monitoring by CCO	On-going	On-going
<b><i>C. COMPLIANCE TRAINING / AWARENESS</i></b>			
5.	Provide Code of Ethics training and information to improve staff awareness of compliance program	04/30/12	New hire and interns trained during quarter
6.	Identify and network with similarly situated compliance professionals	On-going	On-going
<b><i>D. REPORTING</i></b>			
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
<b><i>E. OTHER / GENERAL COMPLIANCE</i></b>			
9.	Hotline report investigations	On-going	On-going
10.	Periodic Re-evaluation of enterprise risk management and regular reporting to UTIMCO Audit and Ethics committee	06/30/12	
11.	ICAC activities: ICAC and Standing Committee participation	On-going	On-going
12.	Work with Board Secretary and IT staff on implementation of Diligent BoardBooks	02/28/12	Training for BOD held in November; February roll out to BOD and staff
13.	Manage implementation of Records	08/31/12	Refinement of procedure

Updated 12/13/11

#	ACTION ITEM	TARGET COMPLETION DATE	STATUS
	Retention Procedures		continues, additional meetings with staff to be held
14.	Refine and implement business continuity plan	08/31/12	Meeting will be held in January to initiate test of BCP

Updated 12/13/11

**Agenda Item**  
UTIMCO Board of Directors Meeting  
February 2, 2012

**Agenda Item:** Peer Analysis

**Developed By:** Zimmerman

**Presented By:** Zimmerman

**Type of Item:** Information item

**Description:** Mr. Zimmerman will give a presentation analyzing the annual returns, investment style and asset allocation of UTIMCO and the UTIMCO Peer Group (the twenty-one endowment funds listed as Appendix B of the UTIMCO Compensation Program). The purpose of the analysis is to discern what lessons might be learned.

**Recommendation:** None

**Reference:** *Peer Group Analysis Presentation*



THE UNIVERSITY OF TEXAS  
INVESTMENT MANAGEMENT COMPANY

## Peer Group Analysis



# Peer Group Analysis

- Objective
  - The purpose of analyzing peers is to discern what lessons might be learned
- Caveats
  - All information is historic: past results / factors do not guarantee future performance
    - Twenty years of data
    - Yearly performance and year-end allocations
  - Asset class and investment style data is high level, incomplete (e.g. asset class or investment style return data) and subject to each endowment's reporting interpretation





# Summary Observations

- It is not necessarily obvious who are the “best endowments”
  - Different time periods produce different rankings
  - Return only ranking; no risk-adjusted return ranking
- It is possible, however, to identify with a reasonable amount of confidence, top quartile and bottom quartile performing endowments
  - The more current top quartile performing endowments are not the ones that receive the most press



## Summary Observations (cont'd)

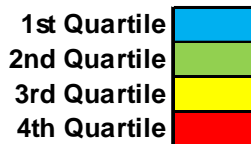
- Across the full range of analyzed endowments, asset class and investment style allocations are much more similar than different
  - Decreasing long-only and increasing private investments and hedge funds; high levels of equity and low levels of fixed income
  - Performance differences may be more a function of implementation (e.g. manager selection and relationship structuring) than a function of strategic choices
- There are some discernable distinctions, however, between the top quartile and bottom quartile performers.
- Top quartile performers vs. lower quartile performers:
  - Have higher allocation to private equity; they expend illiquidity risk
  - Tend to keep risk on during and after downturns
  - Have higher allocations to equity and lower allocations to bonds



# Annual Returns

## For Periods Ending June 30

Rank	Institution	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
1	A	2nd	3rd	1st	4th	2nd	2nd	4th	4th	3rd	1st	2nd	2nd	3rd	2nd	2nd	2nd	4th	1st	1st	1st
2	B	2nd	1st	3rd	1st	4th	4th	4th	1st	1st	1st	1st	1st	4th	3rd	3rd	2nd	1st	2nd	1st	1st
3	C	1st	1st	2nd	2nd	3rd	4th	3rd	1st	2nd	1st	1st	1st	3rd	3rd	1st	2nd	2nd	4th	1st	2nd
4	D	3rd	3rd	1st	3rd	1st	4th	2nd	1st	3rd	3rd	2nd	2nd	2nd	2nd	1st	1st	1st	4th	2nd	1st
5	E	2nd	3rd	2nd	4th	2nd	1st	2nd	2nd	1st	4th	4th	4th	1st	1st	1st	1st	2nd	2nd	3rd	2nd
6	F	4th	1st	2nd	4th	3rd	4th	4th	2nd	1st	3rd	2nd	2nd	1st	1st	3rd	1st	1st	3rd	3rd	1st
7	G	3rd	1st	1st	3rd	1st	2nd	3rd	2nd	2nd	1st	1st	1st	1st	1st	1st	1st	2nd	4th	4th	2nd
8	H	4th	4th	4th	2nd	3rd	2nd	3rd	2nd	2nd	4th	3rd	3rd	4th	2nd	2nd	3rd	2nd	3rd	1st	4th
9	I	1st	4th	4th	1st	2nd	1st	4th	4th	4th	1st	2nd	2nd	2nd	3rd	3rd	3rd	3rd	1st	4th	1st
10	J	4th	2nd	1st	3rd	1st	3rd	1st	2nd	2nd	2nd	2nd	2nd	2nd	1st	1st	2nd	3rd	4th	4th	2nd
11	K	3rd	4th	2nd	1st	1st	1st	1st	1st	1st	3rd	4th	4th	2nd	2nd	1st	3rd	2nd	1st	4th	4th
12	L	4th	1st	1st	2nd	1st	1st	1st	2nd	2nd	2nd	2nd	1st	1st	2nd	2nd	3rd	1st	4th	3rd	3rd
13	M	3rd	4th	3rd	2nd	4th	3rd	4th	4th	2nd	2nd	2nd	3rd	1st	4th	4th	4th	3rd	3rd	1st	3rd
14	N	2nd	4th	4th	4th	4th	3rd	4th	3rd	3rd	3rd	3rd	3rd	1st	3rd	2nd	1st	3rd	3rd	3rd	1st
15	O	1st	2nd	1st	2nd	4th	1st	4th	3rd	4th	1st	1st	2nd	3rd	4th	4th	4th	4th	1st	2nd	4th
16	P	1st	1st	4th	4th	4th	4th	2nd	4th	3rd	1st	3rd	3rd	4th	3rd	2nd	2nd	1st	2nd	4th	4th
17	Q	3rd	2nd	3rd	4th	4th	3rd	3rd	3rd	1st	3rd	4th	4th	3rd	2nd	4th	4th	4th	3rd	2nd	2nd
18	R	1st	2nd	4th	1st	2nd	1st	1st	2nd	4th	4th	4th	2nd	4th	4th	4th	4th	4th	1st	4th	3rd
19	S	4th	3rd	2nd	3rd	3rd	2nd	3rd	1st	3rd	3rd	3rd	3rd	3rd	2nd	4th	3rd	3rd	1st	4th	4th
20	T	4th	3rd	3rd	3rd	3rd	3rd	1st	4th	4th	4th	4th	4th	2nd	4th	4th	4th	4th	2nd	2nd	3rd
21	U	1st	4th	4th	1st	1st	1st	4th	4th	4th	1st	4th	4th	4th	4th	3rd	4th	4th	2nd	3rd	4th
22	V	2nd	2nd	3rd	1st	2nd	4th	2nd	3rd	3rd	4th	4th	4th	4th	4th	3rd	1st	3rd	4th	2nd	3rd

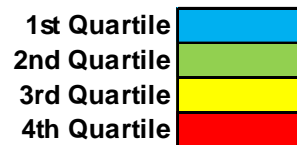




# Trailing Returns

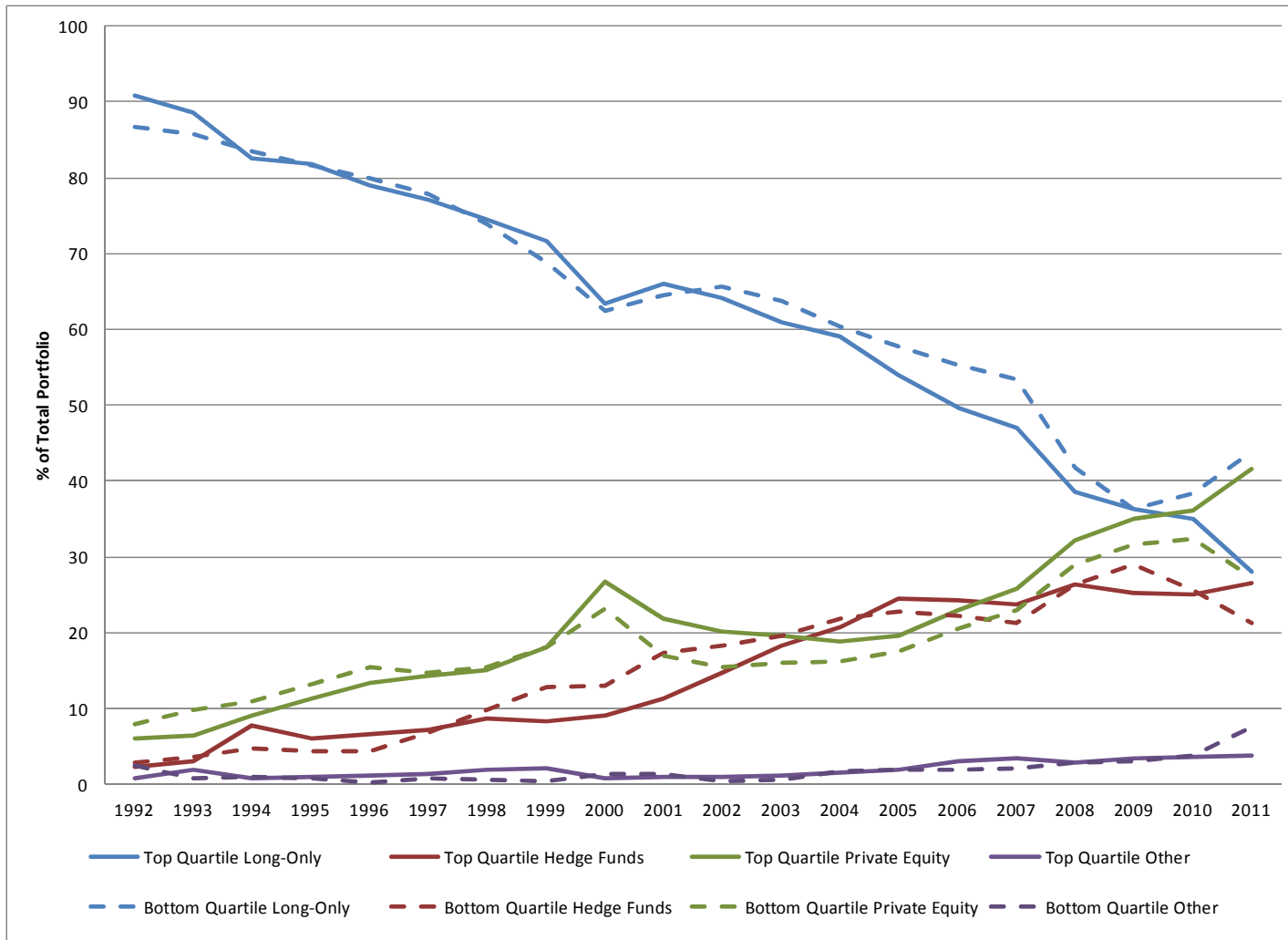
## For Period Ending June 30, 2011

Rank	Institution	Twenty Years	Ten Years	Five Years	Three Years	One Year
1	A	2nd	1st	1st	1st	1st
2	B	2nd	2nd	1st	1st	1st
3	C	1st	1st	1st	2nd	2nd
4	D	1st	1st	1st	3rd	1st
5	E	2nd	2nd	1st	2nd	2nd
6	F	2nd	2nd	1st	3rd	1st
7	G	1st	1st	3rd	4th	2nd
8	H	2nd	2nd	2nd	1st	4th
9	I	3rd	3rd	2nd	1st	1st
10	J	1st	1st	2nd	4th	2nd
11	K	1st	3rd	2nd	2nd	4th
12	L	1st	1st	3rd	4th	3rd
13	M	4th	3rd	3rd	2nd	3rd
14	N	3rd	3rd	2nd	3rd	1st
15	O	4th	4th	3rd	1st	4th
16	P	3rd	2nd	3rd	4th	4th
17	Q	3rd	4th	4th	3rd	2nd
18	R	4th	4th	4th	1st	3rd
19	S	3rd	3rd	4th	4th	4th
20	T	4th	4th	4th	2nd	3rd
21	U	4th	4th	4th	3rd	4th
22	V	4th	4th	4th	4th	3rd



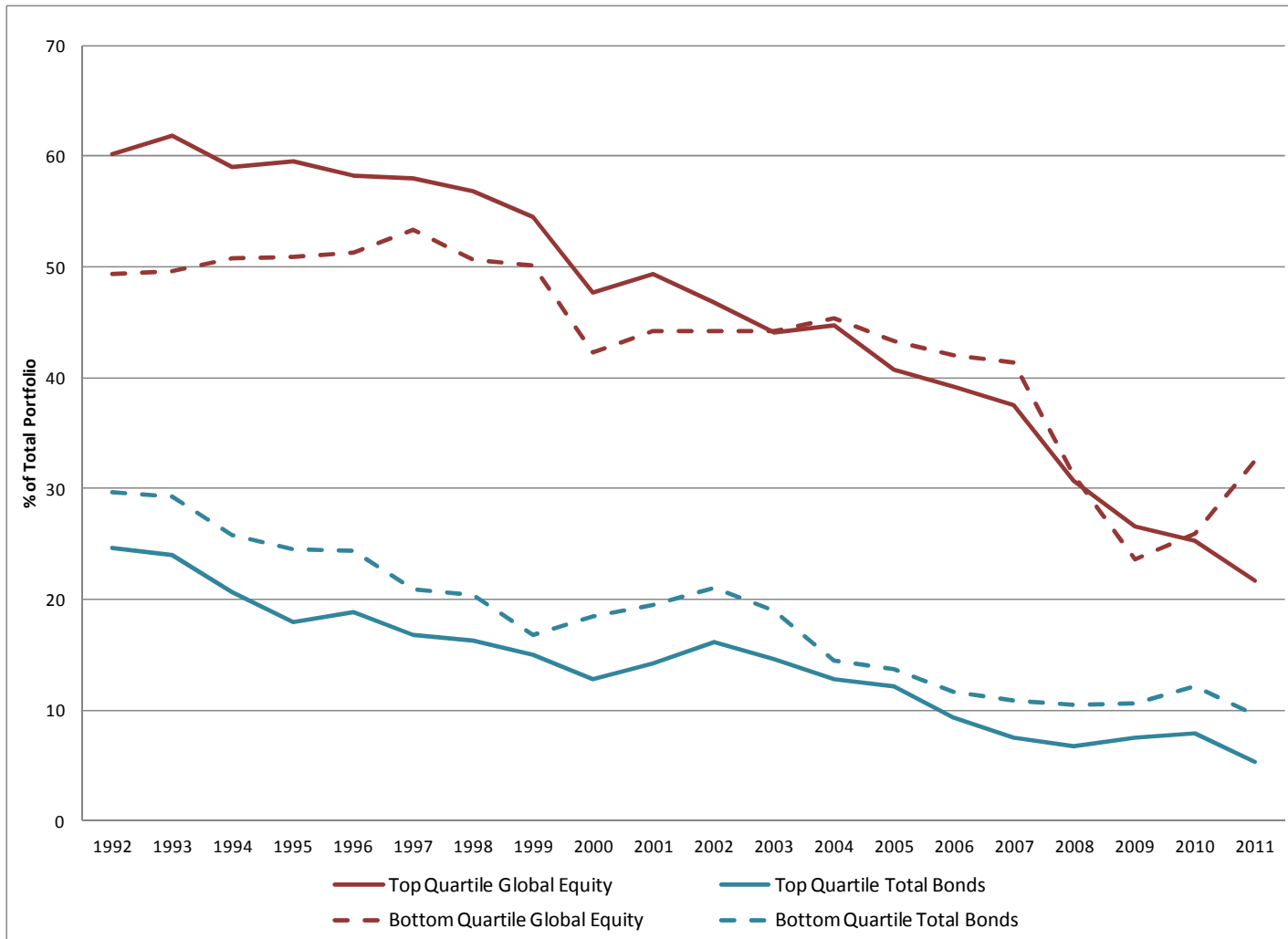


# Investment Style Allocation of Top and Bottom Quartile Endowments



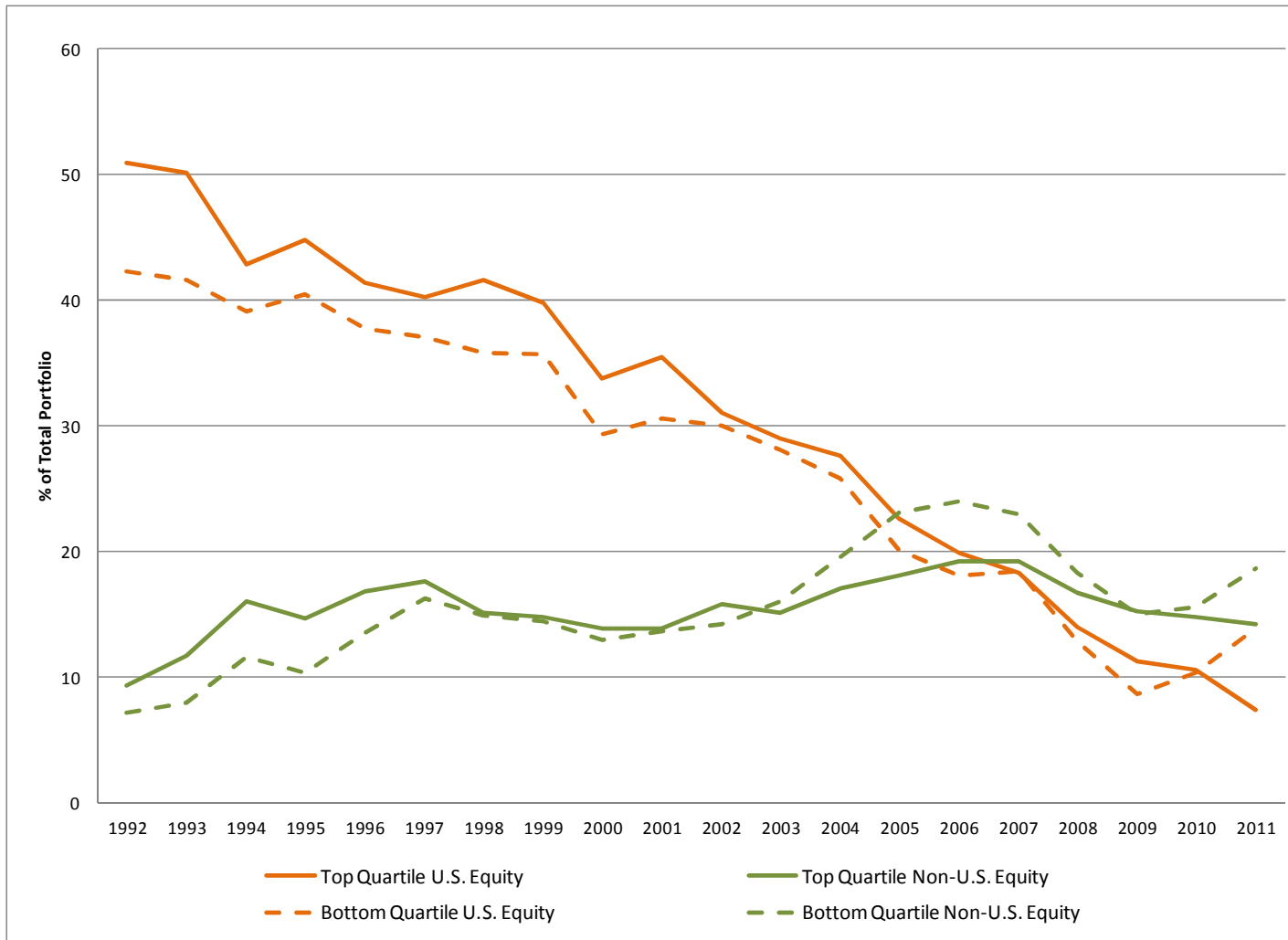


# Asset Allocation of Top and Bottom Quartile Endowments: Long-Only Equity and Bonds





# Asset Allocation of Top and Bottom Quartile Endowments: Long-Only U.S. and Non-U.S. Equity





# Asset Allocation of Top and Bottom Quartile Endowments: Real Estate and Cash





**Agenda Item**  
UTIMCO Board of Directors Meeting  
February 2, 2012

**Agenda Item:** UTIMCO Organization Update

**Developed By:** Zimmerman

**Presented By:** Zimmerman

**Type of Item:** Discussion item

**Description:** Mr. Zimmerman will provide an update on UTIMCO's staffing and budget.

**Reference:** *UTIMCO Organization Update* presentation



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# UTIMCO ORGANIZATION UPDATE

February 2, 2012

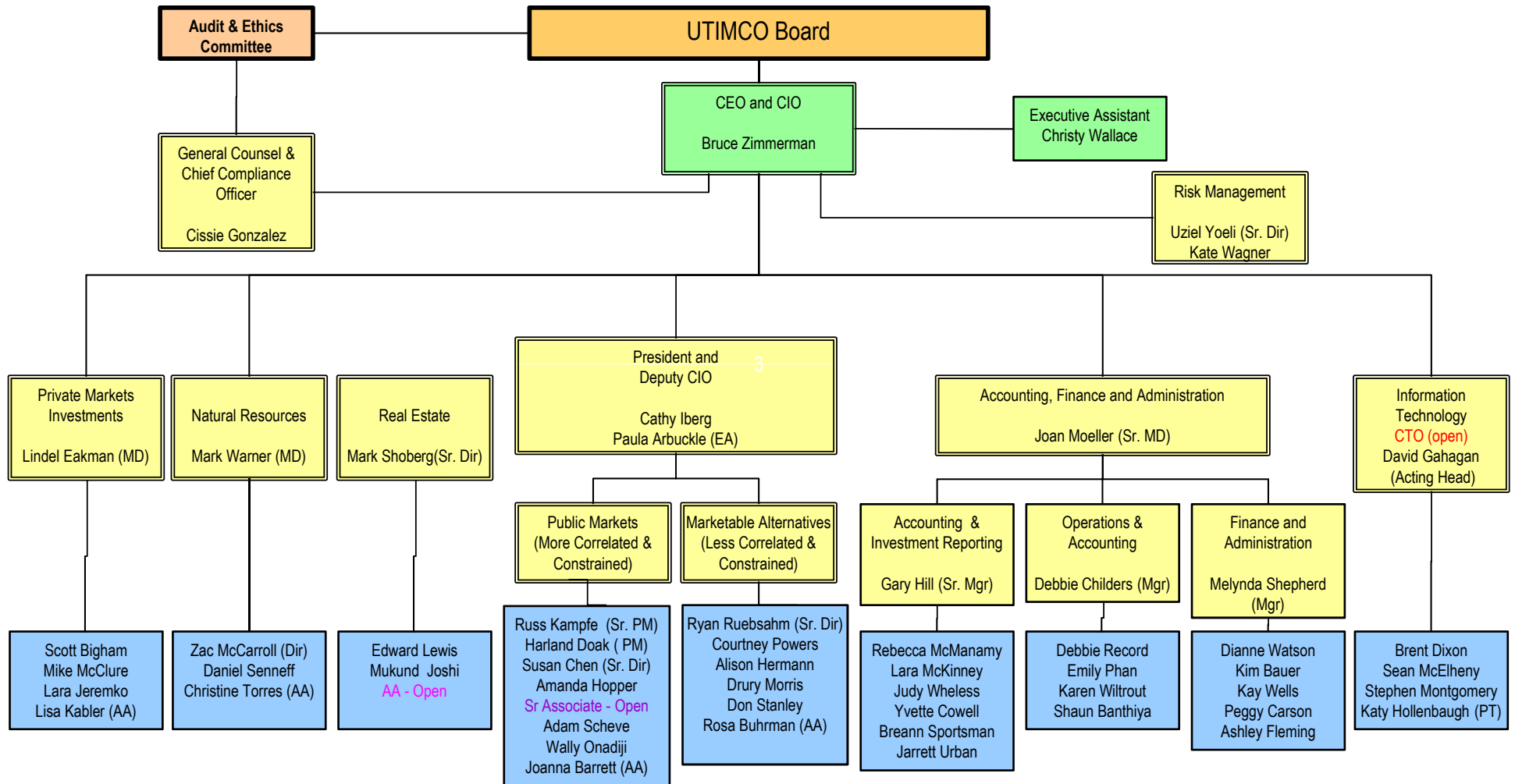


# UTIMCO Update

- Staffing
- Budget



# UTIMCO – Organizational Structure





# UTIMCO Actual v Budget Q1 FY 2012

FYTD November 2011 <i>(in thousands)</i>	Actual v. Budget Favorable/(Unfavorable)			
	Actual	Budget	\$	%
Salaries	\$ 1,772	\$ 1,828	\$ 56	3%
Performance Compensation - Policy Accruals	1,359	1,312	(47)	-4%
Earnings on Deferred Compensation	11	35	24	69%
Other Employee Related	348	380	32	8%
<b>Total Employee Related Expenses</b>	<b>3,490</b>	<b>3,555</b>	<b>65</b>	<b>2%</b>
Travel and Meetings	145	143	(2)	-1%
Legal	20	44	24	55%
Other	754	819	65	8%
<b>Total Other UTIMCO</b>	<b>919</b>	<b>1,006</b>	<b>87</b>	<b>9%</b>
<b>Total UTIMCO</b>	<b>\$ 4,409</b>	<b>\$ 4,561</b>	<b>\$ 152</b>	<b>3%</b>
Custodian	1,111	1,122	11	1%
Performance Measurement, Analytics and Risk Management	263	285	22	8%
Consultants	109	104	(5)	-5%
Legal and Background Checks	254	298	44	15%
Audit	369	369	-	0%
Other	10	1	(9)	-900%
<b>Total Non-UTIMCO Costs Excluding Investment Manager Fees</b>	<b>2,116</b>	<b>2,179</b>	<b>63</b>	<b>3%</b>
<b>Total Non-Investment Manager Costs</b>	<b>\$ 6,525</b>	<b>\$ 6,740</b>	<b>\$ 215</b>	<b>3%</b>

**Agenda Item**  
UTIMCO Board of Directors Meeting  
February 2, 2012

**Agenda Item:** Information Technology Review

**Developed By:** Zimmerman, Gahagan

**Presented By:** Zimmerman

**Type of Item:** Information item

**Description:** Mr. Zimmerman will lead a discussion related to an overview of the technology platform, including infrastructure and application systems. Each UTIMCO department was tasked with providing a "Wish List" for its technology wants and needs. Mr. Zimmerman will summarize UTIMCO's current infrastructure and systems, and opportunities for enhancements based on the Wish Lists and Staff discussions.

**Recommendation:** None

**Reference:** *UTIMCO Technology Platform Overview*



THE UNIVERSITY OF TEXAS  
INVESTMENT MANAGEMENT COMPANY

# UTIMCO

## Technology Platform Overview

February 2, 2012



# Technology Platform Overview

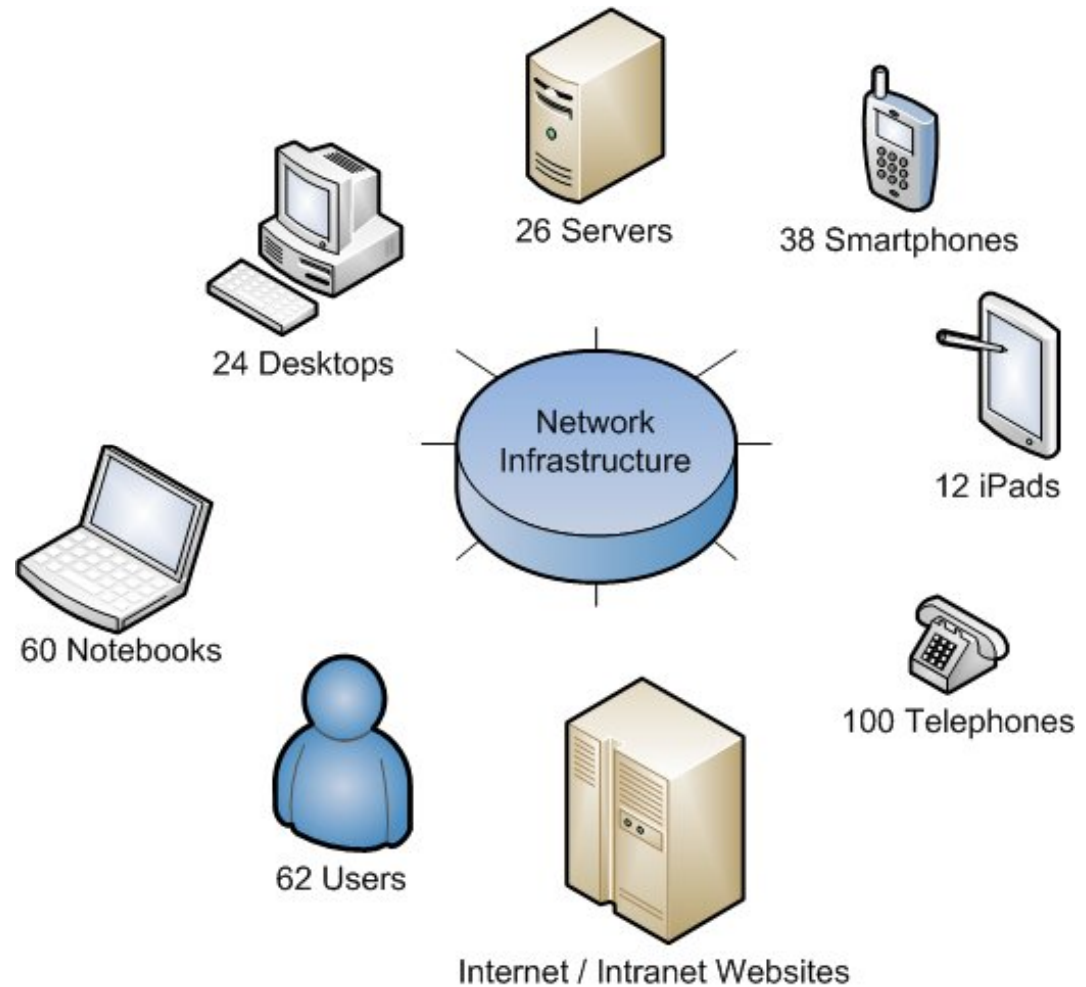
- Infrastructure
  - Current
  - Challenges/Opportunities
- Application Systems
  - Current
  - Opportunities





# Solid Infrastructure

- Reliable
- Secure
- Compliant





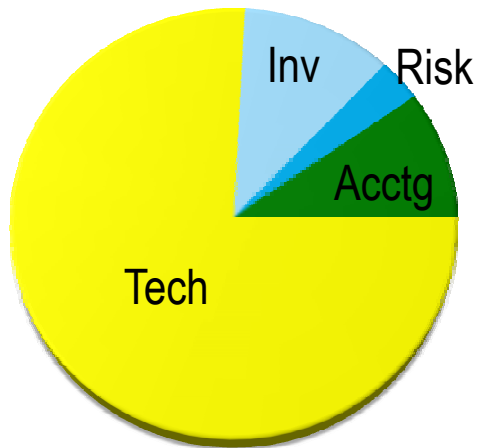
# Infrastructure Requirements/Opportunities

- Laptop/PDA Encryption
- Video Conferencing
- Ease of Remote Access
- iPads
- Enhanced Internal Messaging
- Cloud



# Existing Applications

## Main Externally Developed (62)<sup>1</sup>



- Primarily Support Technology
- Investments
  - UTRaCs
  - Zephyr
  - Private I

## Internally Developed (60)



- Primarily Support Ops, Acctg & Rptg
- Investments
  - MARS

<sup>1</sup> 867 total applications, including every installation of Microsoft Office, etc.



# Application Opportunities (“Wish list”)

## Investments

- Investment Teams
  - Document Management
  - “Filing” System
  - Speech-to-Text/Handwriting-to-Text
- Overall Portfolio
  - Security/Investment Level Detail
  - Full Integration
  - Derivative Monitoring & Reporting
- Standard Reports
  - Automation



# Application Opportunities ("Wish list") cont.

## Support and Control

- More Automation (30+)
  - Manager Fee Calculations
  - Timesheets
  - Daily Liquidity Report
  - Numerous Monthly Reports
- Transition from
  - Access Databases to "Industrial Strength" Databases
- UTIMCO, Inc.
  - Cash Management
  - Inventory
  - HRIS

**Agenda Item**  
UTIMCO Board of Directors Meeting  
February 2, 2012

- Agenda Item:** Discussion and Appropriate Action Related to Cambridge Contract Renewal
- Developed By:** Staff
- Presented By:** Zimmerman
- Type of Item:** Action required by UTIMCO Board
- Description:** In accordance with the Delegation of Authority, the UTIMCO Board executes the investment consultant contract. This agenda item renews the contract expiring on November 30, 2011. The renewal contract is for the twelve month period beginning December 1, 2011.
- Discussion:** Cambridge Associates has served as UTIMCO's consultant since its inception in 1996. Under the terms of the current contract with Cambridge, UTIMCO receives access, via the Cambridge Associates consulting team and Cambridge Associate's web site, to proprietary databases on capital markets, investment managers, and partnerships. UTIMCO also has 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. Cambridge Associates annual contract renewal is \$48,500, an increase of \$2,500 or 5.4% over the prior year Cambridge Associates contract of \$46,000.
- Cambridge also has a fee schedule for additional consulting services. Exhibits I and II outline the individual consulting services. Exhibit II details the services that may be specifically requested by UTIMCO staff including the Annual Peer Performance Memo, Performance Standards Memo, Investment Performance Memo, Presentation for Joint Meeting, In-Person Attendance at Meetings, and Teleconference Attendance at Meetings. Pricing for the additional services have remained unchanged.
- Recommendation:** Staff recommends the approval of the external investment consultant contract with Cambridge Associates.
- Reference:** None

**RESOLUTION REGARDING RENEWAL OF CAMBRIDGE  
ASSOCIATES CONTRACT**

RESOLVED that the Board approves the renewal of the contract with Cambridge Associates to serve as an external investment consultant for the Corporation and directs staff to negotiate and enter into a contract with Cambridge Associates (the "Agreement").

FURTHER RESOLVED, that the CEO and Chief Investment Officer, President and Deputy CIO, any Managing Director, and the Secretary of this Corporation be, and each of them hereby is, authorized and empowered (any one of them acting alone) to do or cause to be done all such acts or things and to sign and deliver, or cause to be signed and delivered, all such documents, in the name and on behalf of the Corporation, as such officer of this Corporation may deem necessary, advisable or appropriate to effectuate or carry out the purposes and intent of the foregoing resolution and to perform the obligations of this Corporation under the Agreement.



CAMBRIDGE ASSOCIATES LLC

100 Summer Street  
Boston, Massachusetts 02110-2112  
TEL 617-457-7500 FAX 617-457-7501  
[www.cambridgeassociates.com](http://www.cambridgeassociates.com)

November 7, 2011

Mr. Paul Foster  
Chair  
The University of Texas Investment Management Company  
401 Congress Avenue, Suite 2800  
Austin, TX 78701

Dear Mr. Foster:

We are writing to confirm the continuation of services provided by Cambridge Associates to University of Texas Investment Management Company ("UTIMCO"). We have assumed that you wish us to continue to provide you with the following services for the twelve month period beginning December 1, 2011.

1. Access to CA's proprietary databases (directly through CA's website or through CA's consultant team) on capital markets, investment managers and partnerships, comparative peer performance and quarterly and annual surveys of investment and financial data.
2. A variety of research reports and working papers on investment and financial issues.
3. Twelve (12) hours for miscellaneous communications and inquiries, e.g., telephone, email and fax.

These services will be provided for a fee of \$48,500. This fee will be payable in two equal installments; the first payable at the beginning of the annual period and the second six months thereafter. Any reasonable out-of-pocket expenses such as costs associated with travel, printing, and postage or other delivery charges will be billed as reimbursable expenses.

At your request, additional consulting services will be provided and billed at CA's standard fees with prior fee authorization when requested. Additional services may include, for example, additional meetings, manager searches or special projects as pre-defined by UTIMCO (see Exhibit I and II).

All other terms and conditions of the Defined Services Agreement remain unchanged. We greatly value our relationship and look forward to continuing to work with you. We always welcome ideas as to how we can improve or better align our services with your needs. We encourage you to have a dialogue with your consulting team members if you have any suggestions, questions, or concerns. Please sign below and return to our Client Accounting department. You can hold onto the second copy for your records.

Sincerely,

Deborah R. McKinley  
Associate Director of Client Accounting

cc: Amy Callahan



**APPROVED:**

---

By: Paul Foster  
Chair  
The University of Texas Investment Management Company

**EXHIBIT I**  
**MANAGER SEARCHES**  
**2012 FEE SCHEDULE ♦**

**Traditional Marketable Securities Managers Searches/Fund of Fund  
Manager Searches\***

First manager search	\$27,000
Second and subsequent simultaneous searches**	\$22,500

\* These searches are billable with 50% due at the beginning of the work and the remainder of the fee payable upon completion.

\*\* The reduced fee assumes that manager interviews will be scheduled concurrently.

The fees for traditional marketable securities manager searches (separate and commingled) are cumulative. For example, if only names, manager search books and comparative manager analyses are required, the fee is \$18,000. The components are broken down as follows:

**Traditional Marketable Securities Manager Searches/Fund of  
Fund Manager Searches**

Names and Factsheets	\$9,000
Comparative Analyses	\$9,000
Participation in Interviews	<u>\$9,000</u>
<b>TOTAL</b>	<b>\$27,000</b>

**Marketable Alternative Assets Manager Searches\*\*\***

50 basis points on the initial investment in each fund subject to a Minimum fee of \$40,000, half of which is non-refundable.

Marketable Alternative Assets funds, otherwise known as hedge funds, are defined to include long/short equity funds, arbitrage funds of various sorts, distressed and credit opportunity funds, event-driven funds, as well as funds utilizing a variety of investment strategies (multi-strategy and “open mandate” funds).

Multiple managers may be hired in the same search for a particular strategy.

**Private Investment Manager Searches\*\*\***

50 basis points on the initial commitment in each fund subject to a Minimum fee of \$40,000, half of which is non-refundable.

\*\*\*50% of the Minimum fee is payable in advance with the balance payable when an investment or commitment is made.

♦ This fee schedule is in effect through December 31, 2012.

**EXHIBIT II**  
**ADDITIONAL SERVICES**

**Memos**

Annual Peer Performance Memo	\$7,500
Performance Standards Memo	\$4,750
Investment Performance Memo	\$3,250

**Meetings**

Presentation for Joint Meetings	\$4,000
In-Person Attendance at Meetings	\$7,500*
Teleconference Attendance at Meetings	\$3,500

\*Expenses not included in fee

**Agenda Item**  
UTIMCO Board of Directors Meeting  
February 2, 2012

**Agenda Item:** Discussion of Investment Environment and Opportunities

**Developed By:** Zimmerman

**Presented By:** Zimmerman

**Type of Item:** Information Item

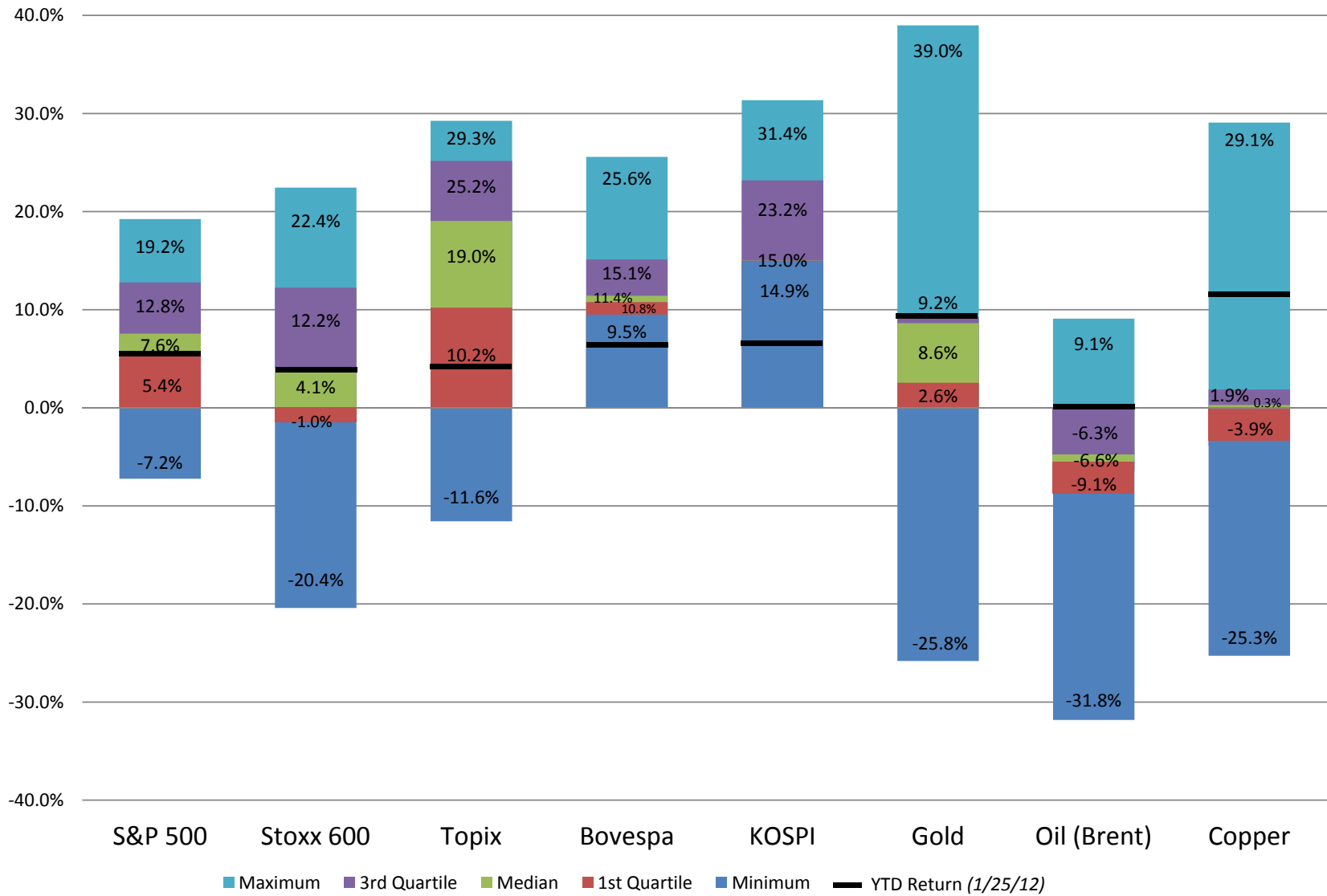
**Description:** This agenda item is intended to provide an opportunity for an open-ended discussion on issues, expectations, and opportunities in the current investment environment.

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

**Recommendation:** None

**Reference:** None

## Wall Street 2012 Forecasted Returns



## Wall Street 2012 Rate Forecasts

