

**UTIMCO BOARD OF DIRECTORS  
ANNUAL MEETING AGENDA  
April 11, 2012  
UTIMCO  
401 Congress Avenue, Suite 2800  
Austin, Texas**

<b>Time</b>		<b>Item #</b>	<b>Agenda Item</b>
<b>Begin</b>	<b>End</b>		
			<b>OPEN MEETING:</b>
9:00 a.m.	9:05 a.m.	1	Call to Order of the Annual Meeting/Discussion and Appropriate Action on Minutes of the February 2, 2012 Meeting*
9:05 a.m.	9:10 a.m.	2	Discussion and Appropriate Action Related to Corporate Resolutions: - Election of UTIMCO Officers* - Committee Assignments*,**
9:10 a.m.	10:00 a.m.	3	Endowment and Operating Funds Update Report
10:00 a.m.	11:10 a.m.	4	Review of Natural Resources and Real Estate Portfolios
11:10 a.m.	11:30 a.m.	5	Emerging Market Currency Discussion
11:30 a.m.	12:30 p.m.		<b>Recess for Briefing Session pursuant to Texas Education Code Section 66.08 (h)(2) related to Investments</b>
12:30 p.m.	1:00 p.m.		<b>Lunch</b>
1:00 p.m.	1:30 p.m.	6	Discussion of Investment Environment
1:30 p.m.	1:45 p.m.	7	Report from Risk Committee
1:45 p.m.	2:15 p.m.	8	Report from Policy Committee
2:15 p.m.	2:30 p.m.	9	Report from Audit and Ethics Committee
2:30 p.m.	2:45 p.m.	10	UTIMCO Organization Update
2:45 p.m.	3:15 p.m.	11	Educational Program for UTIMCO Directors
3:15 p.m.			<b>Adjourn</b>

\* Action by resolution required

\*\* Resolution requires further approval from the Board of Regents of The University of Texas System  
By: The University of Texas Investment Management Company

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

<b>Next Scheduled Meeting: July 11/12, 2012</b>
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**RESOLUTION RELATED TO MINUTES**

RESOLVED, that the minutes of the meeting of the Board of Directors held on **February 2, 2012**, 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 **February 2, 2012**, 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. Employees of the Corporation attending the meeting were Bruce Zimmerman, CEO and Chief Investment Officer; Cathy Iberg, President and Deputy CIO; Joan Moeller, Secretary and Treasurer; Christy Wallace, Assistant Secretary; Cecilia Gonzalez, internal General Counsel and Chief Compliance Officer; Lindel Eakman, Managing Director – Private Markets Investments; Mark Warner, Managing Director - Natural Resources Investments; Uzi Yoeli, Senior Director - Portfolio Risk Management; and other Staff members. Other attendees were Keith Brown of the McCombs School of Business at UT Austin; Jerry Turner and Bob Jewell of Andrews Kurth LLP; and Terry Hull, Charlie Chaffin, Roger Starkey, and Moshmee Kalamkar of The University of Texas System (UT System) Administration. Mr. Foster called the meeting to order at 8:36 a.m.

**Minutes**

The first item to come before the Board was approval of the minutes of Board of Directors Meeting held on November 8, 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  
**November 8, 2011**, be, and are hereby, approved.

**Corporate Resolutions**

Mr. Foster recognized Phil Ferguson for his outstanding leadership, commitment, and service to the Corporation as a UTIMCO Board of Director member for three terms. Mr. Foster read the Resolution of Appreciation and recommended approval. Upon motion duly made and seconded, the following resolution was unanimously adopted:

WHEREAS, in recognition of his substantial background and expertise in business, J. Philip Ferguson was appointed by the Board of Regents of The University of Texas System to the Board of Directors of The University of Texas Investment Management Company ("UTIMCO") in 2003, reappointed to a second term in 2006, and was reappointed for a third and final term in 2009; and

WHEREAS, Mr. Ferguson served as Chairman of the Compensation Committee since 2005, was elected Vice Chairman of the UTIMCO Board in 2008, and served as a member of the Board's Advisory Search, Nominating, Policy, and Risk Committees; and

WHEREAS, during his tenure on the UTIMCO Board, Mr. Ferguson provided invaluable insight and counsel, drawing on his immense business experience in the investment field having held various executive positions with AIM Capital Management Inc. from 2000 to 2007, most recently serving as President and Chief Investment Officer; and previously holding senior positions at several investment firms including Beutel, Goodman & Company, Lehman Brothers, Inc., and Goldman, Sachs & Company; and

WHEREAS, during his tenure as Chairman of the Compensation Committee, Mr. Ferguson worked tirelessly to structure a compensation program to enable UTIMCO to attract and retain key investment and operations staff of outstanding competence and ability in order to maximize real, long-term returns for the funds under management by UTIMCO for the benefit of The University of Texas and The Texas A&M University Systems while satisfactorily addressing the concerns of the Legislature and government officials; and

WHEREAS, Mr. Ferguson's commitment and service as a Director of UTIMCO were exemplary, reflecting his deep devotion to the education and development of students at all levels, and further evidenced by his work as a member of the Fund Advisory Committee for The MBA Investment Fund at the McCombs School of Business, The University of Texas at Austin, The Development Board of The UT Health Science Center at Houston, on the Advisory Council of the UT School of Nursing, and as a member of the Chancellor's Advisory Council at Texas Christian University; and

WHEREAS, Mr. Ferguson's unselfish contributions are also evidenced in the civic and corporate arenas by his service on numerous boards, including as a member of the Board of Directors and the Audit and Governance Committees of ABM Industries, Inc. ( NYSE: ABM), member of the Investment Committee for the Museum of Fine Arts, Houston, former director of the Memorial Hermann Foundation, former Governor of The Investment Adviser Association, former trustee of the Houston Ballet, trustee for the Memorial Endowment Fund, St. John the Divine Episcopal Church, member of the advisory board of Murphee Venture Partners; and

WHEREAS, during Mr. Ferguson's tenure on the UTIMCO Board, UTIMCO managed the Permanent University Fund and other investments of The University of Texas System with the highest standards of integrity, professionalism, and competency, earning wide praise and recognition from UTIMCO's investment beneficiaries, namely The University of Texas System and The Texas A&M University System, as well as the alumni and patrons of such Systems, the State's legislative leaders, the national credit rating agencies, capital markets, and investment community generally; and

WHEREAS, much of the credit for UTIMCO's success is directly attributable to Mr. Ferguson's leadership, judgment, and commitment; NOW, THEREFORE,

BE IT RESOLVED, that the Directors of The University of Texas Investment Management Company, on behalf of the grateful people of the State of Texas, particularly the Boards of Regents and Administrators of The University of Texas System and The Texas A&M University System, do hereby express to J. Philip Ferguson their sincerest appreciation for his leadership and service that contributed immeasurably to UTIMCO's success; and

BE IT FURTHER RESOLVED, that all persons who read this Resolution should know that Mr. Ferguson has made a lasting and fundamental contribution to improve the manner in which public university endowments are invested and managed in the State of Texas, to the benefit of all of the citizens of the State, particularly the students and faculty of The University of Texas System and The Texas A&M University System.

PASSED AND ADOPTED this 2nd day of February, 2012.

Mr. Foster also asked for a motion to approve the annual meeting date for the Corporation. Upon motion duly made and seconded, the following resolution was unanimously adopted:

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

### **Endowment and Operating Funds Update**

Mr. Foster asked Mr. Zimmerman to present the Corporation's endowment and operating funds update. Mr. Zimmerman presented the Corporation's Performance Summary as of November 30, 2011 and a preliminary Performance Summary as of December 31, 2011. He reported the Corporation had \$25.9 billion of assets under management at the end of November 30, 2011. Of the \$25.9 billion, \$12.4 billion was in the Permanent University Fund (PUF), \$6.8 billion in the General Endowment Fund (GEF), \$1.2 billion in the Short Term Fund (STF), \$0.7 in the Debt Proceeds Fund, and \$4.6 billion in the Intermediate Term Fund (ITF). Mr. Zimmerman presented actual versus benchmark results, tactical asset allocation, and value-add analysis. The net performance for the quarter ended November 30, 2011, for the PUF was -2.63% and for the GEF was -2.66%, versus benchmark returns of -1.60% for the PUF and GEF. The net performance for the one year ended November 30, 2011, for the PUF was 4.51% and for the GEF was 4.58%, versus benchmark returns of 4.02% for each fund. The ITF's performance was -2.40% versus its

benchmark return of -3.10% for the quarter ended November 30, 2011, and 2.99% versus its benchmark return of 0.98% for the one year ended November 30, 2011. Performance for the STF was 0.03% versus 0.00% for its benchmark return for the quarter ended November 30, 2011, and was 0.17% versus a benchmark return of 0.12% for the one year ended November 30, 2011. Mr. Zimmerman reviewed the Funds' Asset Class and Investment Type targets, tactical asset allocation, ranges and performance objectives. He provided a handout that provided attribution analysis between actual and benchmark. Mr. Zimmerman asked Dr. Yoeli to review the section on risk analytics and stress testing. Mr. Zimmerman reported on investment activity as of November 30, 2011, including manager exposure and leverage. He also reported on derivatives and counterparties, and gave an update on liquidity, contracts and the ITF. Mr. Zimmerman and Dr. Yoeli answered the Directors' questions.

### **Investment Environment and Opportunities**

Mr. Foster asked Mr. Zimmerman to begin the discussion on the investment environment and opportunities. Mr. Zimmerman discussed detailed information from two charts, Wall Street 2012 Forecasted Returns and Wall Street 2012 Rate Forecasts. Ms. Iberg then discussed a handout of a chart displaying Tactical Positioning of Portfolio Risk. Mr. Zimmerman, Ms. Iberg and Dr. Yoeli discussed Staff's views on risk and positioning of the portfolio, and answered the Directors' questions.

### **Executive Session**

Mr. Foster announced, at 10:36 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 related to CEO and Chief Investment Officer Offer of Employment. This Executive Session meeting of the Board is authorized by *Texas Government Code* Section 551.074 (Personnel Matters). The date is February 2, 2012 and the time is now 10:36 a.m." With the exception of Ms. Gonzalez, Mr. Turner, Mr. Jewell and Dr. Brown, all other meeting participants left the meeting at this time.

### **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 February 2, 2012, and the time is now 11:01 a.m. During the Executive Session, the Board considered Individual Personnel Compensation Matters related to CEO and Chief Investment Officer Offer of Employment but no action was taken nor decisions made, and no vote was called for or had by the Board in Executive Session."

### **Compensation Committee Report**

Mr. Foster asked Mr. Ferguson to give a report on behalf of the Compensation Committee. Mr. Ferguson reported that the Committee met on January 26, 2012. The Committee discussed three possible

amendments to the Compensation Program on a preliminary basis, and discussed the CEO and Chief Investment Officer Offer of Employment, but no action was taken.

At approximately 11:12 a.m. the Board adjourned to a Briefing Session.

The open meeting of the Board reconvened in open session at 12:45 p.m.

### **Less Correlated and Constrained Review**

Mr. Foster asked Ms. Iberg to provide an update on the Less Correlated and Constrained (“LCC”) portfolio. Ms. Iberg and the Marketable Alternatives team presented the Board with a presentation which focused on portfolio construction, investment performance and hedge fund industry trends. The team answered the Directors’ questions.

### **Risk Committee Report**

Mr. Foster asked Mr. Tate to provide a report from the Risk Committee. Mr. Tate reported that the Committee met on January 26, 2012, with all members present. He stated that the Risk Committee approved 11 new investment mandate categorizations prepared by Staff for the period beginning October 22, 2011, and ending January 13, 2011. One new LCC mandate, Bridgewater Pure Alpha Major Markets II, Ltd., was discussed in detail, with Mr. Zimmerman and Ms. Iberg answering the Directors’ questions. Mr. Tate also reported that the Committee heard a report from Ms. Gonzalez on compliance items for the Quarter Ended November 30, 2011. He asked her to summarize her report. Mr. Zimmerman and Ms. Gonzalez answered the Directors’ questions. Mr. Tate concluded the report, stating that there was no action required by the Board.

### **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 January 26, 2012. He stated that the Committee heard a report from Deloitte & Touche LLP regarding completion of the audit of the Corporation, heard a review of accounting and compliance considerations related to internal investment pools and special purpose entities, an update on the Audit Plan for FY 2012 from the UT System Audit Office, a review of the unaudited financial statements for the first quarter for the Funds and Corporation, and the quarterly compliance reports. On behalf of the Committee, Mr. Hicks recommended to the Board approval of the audit of the Corporation for the fiscal years ended August 31, 2011 and August 31, 2010. Upon motion duly made and seconded, the following resolution was unanimously adopted by the Board:

RESOLVED, that Deloitte & Touche LLP’s Financial Statement Audit Results and Communications 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.

### **Peer Analysis**

Mr. Foster asked Mr. Zimmerman to present the Peer Analysis. Mr. Zimmerman discussed the annual returns, investment style and asset allocation data for the Corporation and the UTIMCO Peer Group and summarized observations learned from the analysis.

### **Organization Update**

Mr. Foster asked Mr. Zimmerman to provide the Board with an update on staffing and the Corporation's budget, comparing Actual to Budget for the first quarter of FY 2012. Mr. Zimmerman answered the Directors' questions.

### **Information Technology Review**

Mr. Foster asked Mr. Zimmerman to discuss Information Technology Review. Mr. Zimmerman lead a discussion related to an overview of the technology platform, including infrastructure and application systems. He reported that Staff had been tasked with providing a "Wish List" for technology wants and needs. Mr. Zimmerman answered the Directors' questions.

### **Cambridge Contract Renewal**

Mr. Foster stated that Staff was recommending approval of the external investment consultant contract with Cambridge Associates, and recommended Board approval of the contract. Upon motion duly made and seconded, the following resolution was unanimously adopted by the Board:

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.



There being no further business to come before the Board, the meeting was adjourned at approximately 2:06 p.m.

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

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

**Agenda Item**  
UTIMCO Board of Directors Meeting  
April 11, 2012

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

**Developed By:** Zimmerman, Gonzalez, Moeller

**Presented By:** Foster

**Type of Item:** Action required by UTIMCO Board; Further action required by The University of Texas System Board of Regents related to the appointment of the Audit and Ethics Committee

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

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

**Recommendation:** Chairman Foster will recommend approval of the election of Corporate Officers and approval of the Board Committee assignments.

**Reference:** None

<b>RESOLUTION RELATED TO CORPORATION OFFICERS</b>
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RESOLVED, that the following persons are hereby appointed to the respective office or offices of the Corporation set forth opposite their names, to serve until the next Annual Meeting of the Corporation or until their resignation or removal.

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

**RESOLUTION RELATED TO COMMITTEE ASSIGNMENTS**

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

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

subject to approval by the Board of Regents of The University of Texas System at a future meeting, to serve until the expiration of their term, or until their successor has been chosen and qualified, or until their earlier death, resignation or removal; and

FURTHER RESOLVED, that \_\_\_\_\_ is hereby designated the Chair of the Audit and Ethics Committee and shall preside at its meetings.

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

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

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

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

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

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

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

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

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

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

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

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



# Funds Update

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# Returns



# UTIMCO Performance Summary

	Net Asset Value 2/29/2012 (in Millions)	Periods Ended February 29, 2012 (Returns for Periods Longer Than One Year are Annualized)						
		Current Quarter	Year to Date		Historic Returns			
			Fiscal	Calendar	1 Yr	3 Yrs	5 Yrs	10 Yrs
<b>ENDOWMENT FUNDS</b>								
Permanent University Fund	\$12,971	3.97%	1.23%	5.13%	2.05%	16.03%	3.36%	7.37%
Permanent Health Fund	981							
Long Term Fund	6,048							
General Endowment Fund	7,029	3.99	1.23	5.15	2.10	16.05	3.41	7.49
Separately Invested Funds	150							
<b>Total Endowment Funds</b>	<b>20,150</b>							
<b>OPERATING FUNDS</b>								
Intermediate Term Fund	4,825	4.16	1.66	5.08	2.05	15.90	3.77	N/A
Short Term and Debt Proceeds Funds	2,312	0.03	0.06	0.03	0.15	0.25	1.66	2.13
<b>Total Operating Funds</b>	<b>7,137</b>							
<b>Total Investments</b>	<b>\$27,287</b>							
<b>VALUE ADDED - Percent (1)</b>								
Permanent University Fund		(0.67%)	(1.73%)	(0.17%)	(0.14%)	1.89%	2.17%	1.94%
General Endowment Fund		(0.65)	(1.73)	(0.15)	(0.09)	1.91	2.22	2.06
Intermediate Term Fund		(0.84)	(0.09)	(0.07)	1.20	1.71	2.60	N/A
<b>VALUE ADDED - \$ in Millions (1)</b>								
Permanent University Fund		\$(83)	\$(220)	\$(21)	\$(19)	\$605	\$1,284	\$2,191
General Endowment Fund		(44)	(123)	(10)	(4)	344	739	1263
Intermediate Term Fund		(39)	(5)	(3)	56	208	544	N/A
<b>Total Value Added</b>		<b>\$(166)</b>	<b>\$(348)</b>	<b>\$(34)</b>	<b>\$33</b>	<b>\$1,157</b>	<b>\$2,567</b>	<b>\$3,454</b>

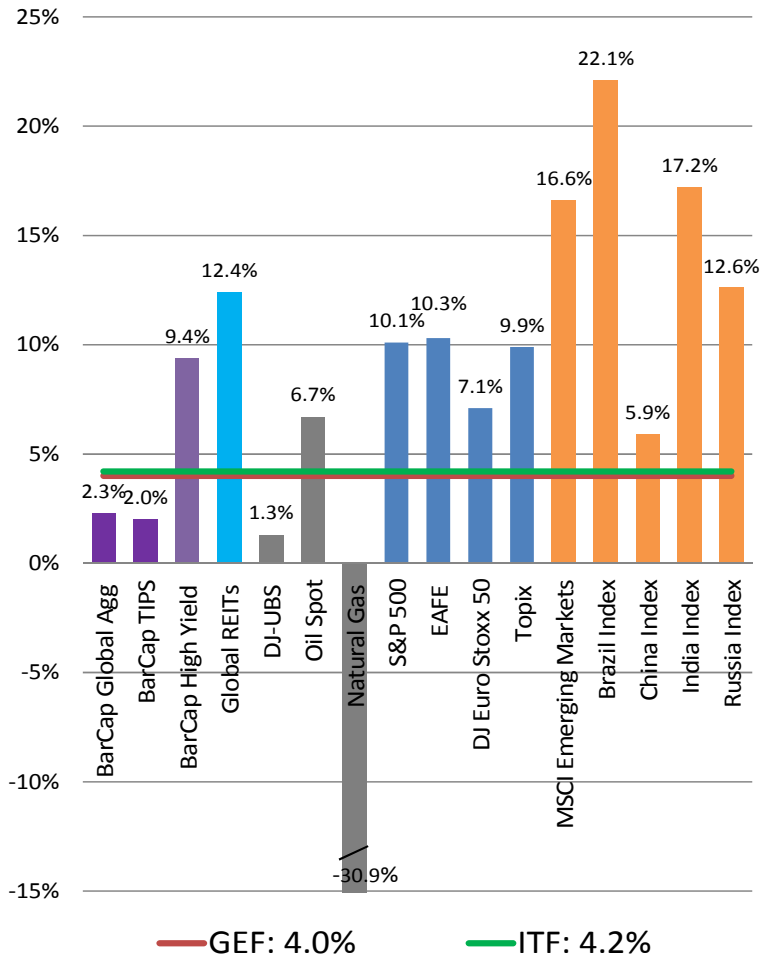
(1) - Value added is a measure of the difference between actual returns and benchmark or policy portfolio returns for each period shown. Value added is a result of the active management decisions made by UTIMCO staff and external managers.



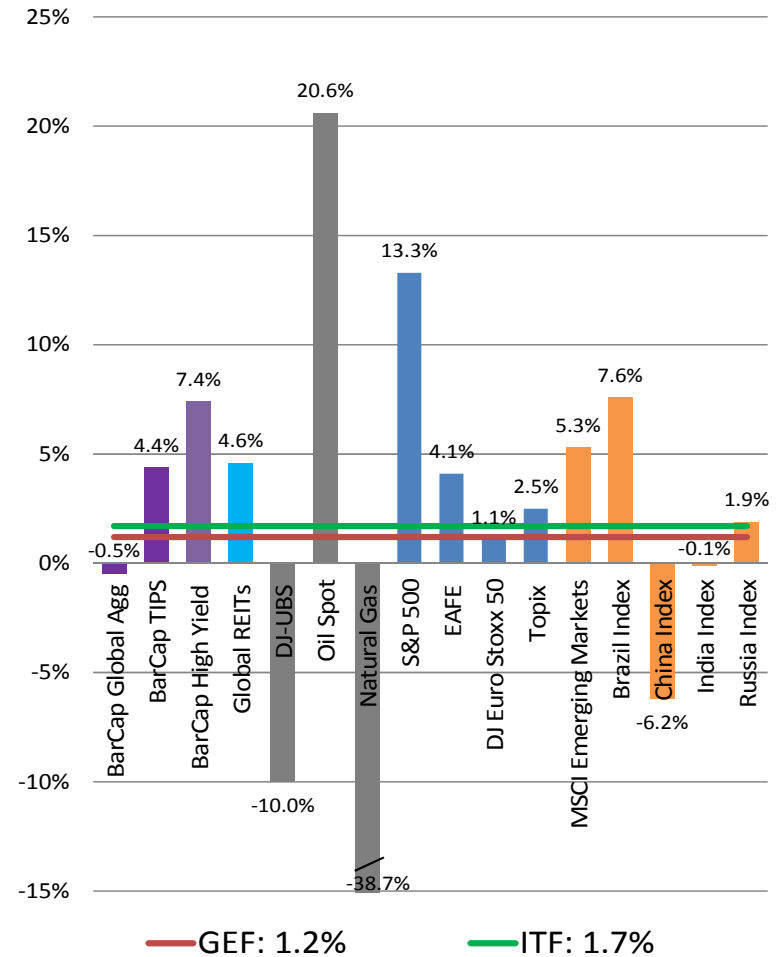


# Performance During Last 3 and 6 Months

### Performance During Last 3 Months



### Performance During Last 6 Months





# Total Fund Attribution Breakdown (GEF) Three and Six Months Ended February 29, 2012

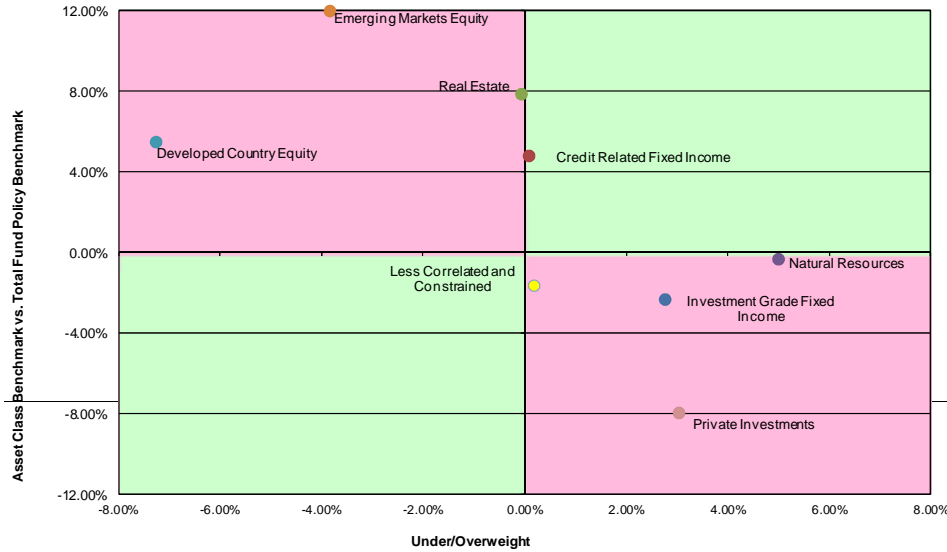
	<u>Three Months</u>	<u>Six Months</u>
<b>Tactical Allocation</b>		
Asset Based	(124)	(129)
Derivative Based Tactical Allocation <sup>(1)</sup>	(25)	(19)
<b>Total Tactical</b>	<u>(149)</u>	<u>(148)</u>
<b>Active Management</b> (External Managers vs. Benchmarks)	<u>97</u>	<u>27</u>
<b>Insurance Hedges</b>	<u>(42)</u>	<u>(58)</u>
<b>Active Manager Interactive Effect</b>	<u>29</u>	<u>6</u>
<b>Total</b>	<u><u>(65)</u></u>	<u><u>(173)</u></u>

<sup>(1)</sup> MSCI Japan Short Sw aps, MSCI Europe Short Sw aps, S&P 500 Short Sw aps, S&P 400 Short Sw aps, IYR Written Puts, XME Written Puts, Emerging Markets Written Puts



# Tactical Value Add – Active Managers (GEF) Three and Six Months Ended February 29, 2012

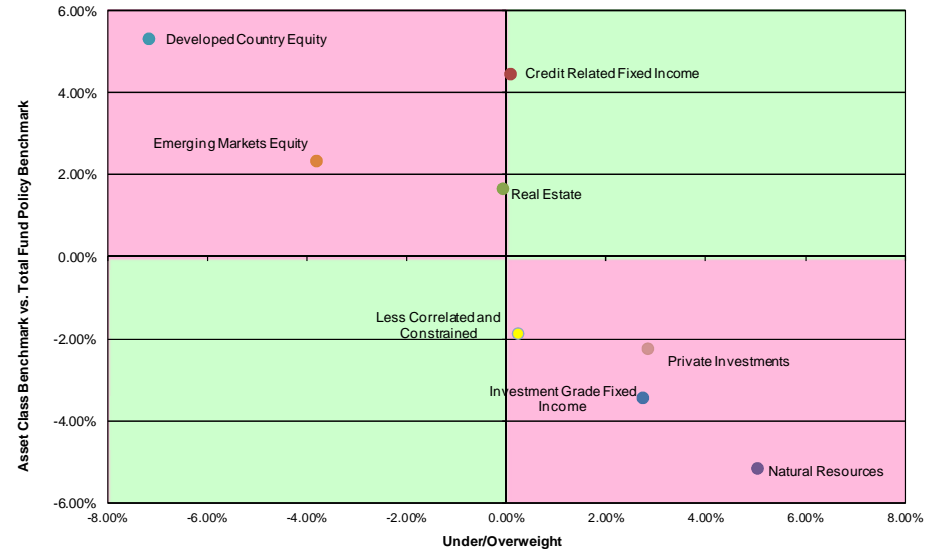
Three Months ended February 29, 2012



Under/Overweight

	Weight		Over / (Under) Weight	Benchmark Returns	+ / -
	Actual	Policy			
Investment Grade Fixed Income	10.27%	7.50%	2.77%	2.29%	-0.08%
Credit Related Fixed Income	0.10%	0.00%	0.10%	9.36%	0.00%
Real Estate	2.45%	2.50%	-0.05%	12.43%	0.00%
Natural Resources	11.51%	6.50%	5.01%	4.28%	-0.01%
Developed Country Equity	11.25%	18.50%	-7.25%	10.09%	-0.40%
Emerging Markets Equity	8.17%	12.00%	-3.83%	16.59%	-0.45%
Total More Correlated and Constrained	43.75%	47.00%	-3.25%		-0.94%
Less Correlated and Constrained	30.21%	30.00%	0.21%	2.95%	0.02%
Total Fund excluding Private Investments	73.96%	77.00%	-3.04%		-0.92%
Private Investments	26.04%	23.00%	3.04%	-3.39%	-0.32%
<b>Total Fund: Active Managers</b>	<b>100.00%</b>	<b>100.00%</b>	<b>0.00%</b>	<b>4.64%</b>	<b>-1.24%</b>

Six Months ended February 29, 2012



Under/Overweight

	Weight		Over / (Under) Weight	Benchmark Returns	+ / -
	Actual	Policy			
Investment Grade Fixed Income	10.26%	7.50%	2.76%	-0.51%	-0.10%
Credit Related Fixed Income	0.10%	0.00%	0.10%	7.40%	0.00%
Real Estate	2.44%	2.50%	-0.06%	4.59%	-0.02%
Natural Resources	11.54%	6.50%	5.04%	-2.22%	-0.31%
Developed Country Equity	11.35%	18.50%	-7.15%	8.27%	-0.42%
Emerging Markets Equity	8.20%	12.00%	-3.80%	5.27%	-0.22%
Total More Correlated and Constrained	43.89%	47.00%	-3.11%		-1.07%
Less Correlated and Constrained	30.26%	30.00%	0.26%	1.07%	0.01%
Total Fund excluding Private Investments	74.15%	77.00%	-2.85%		-1.06%
Private Investments	25.85%	23.00%	2.85%	0.70%	-0.23%
<b>Total Fund: Active Managers</b>	<b>100.00%</b>	<b>100.00%</b>	<b>0.00%</b>	<b>2.96%</b>	<b>-1.29%</b>



# Active Management Value Add

## Three and Six Months Ended February 29, 2012

		<b>3 Months</b>	
		<b>(bps)</b>	
Less Correlated and Constrained Investment Grade Fixed Income	17		Cadian (11.28), Eminence (6.04), Lansdowne UK (2.32)
Real Estate	5		Credit Suisse Hedging Griffo (0.76), Brandywine (0.32)
Credit Related Fixed Income	1		MS REITS (1.83), European Investors (0.54)
Subtotal	<u>29</u>		GMO Emerging Debt (1.30)
Developed Country Equity	(9)		Value Act (0.41), International Value Advisors (0.33)
Natural Resources	(17)		Gold (2.95), Gresham (0.46)
Emerging Markets Equity	(28)		Hillhouse (1.52), Lazard (0.52), Blakeney (0.50)
Subtotal	<u>(54)</u>		
Total Fund excluding Private Investments	<u>(25)</u>		
Private Investments	<u>122</u>		
Total Active Managers	<u><u>97</u></u>		

		<b>6 Months</b>	<b>Manager (Alpha)</b>
		<b>(bps)</b>	
Less Correlated and Constrained Investment Grade Fixed Income	44		Eminence (16.19), Cadian (12.82), Soroban (9.52)
Developed Country Equity	15		Internal Fixed Income (0.85), Brandywine (0.82)
Real Estate	2		Value Act (0.82), Stelliam (0.75), Viking Global (0.38)
Credit Related Fixed Income	-		MS REITS (0.33), Cohen & Steers (0.25)
Subtotal	<u>76</u>		
Natural Resources	(18)		Gold (1.97), Gresham (1.31)
Emerging Markets Equity	(19)		Blakeney (0.81), Hillhouse (0.48)
Subtotal	<u>(37)</u>		
Total Fund excluding Private Investments	<u>39</u>		
Private Investments	<u>(12)</u>		
Total Active Managers	<u><u>27</u></u>		



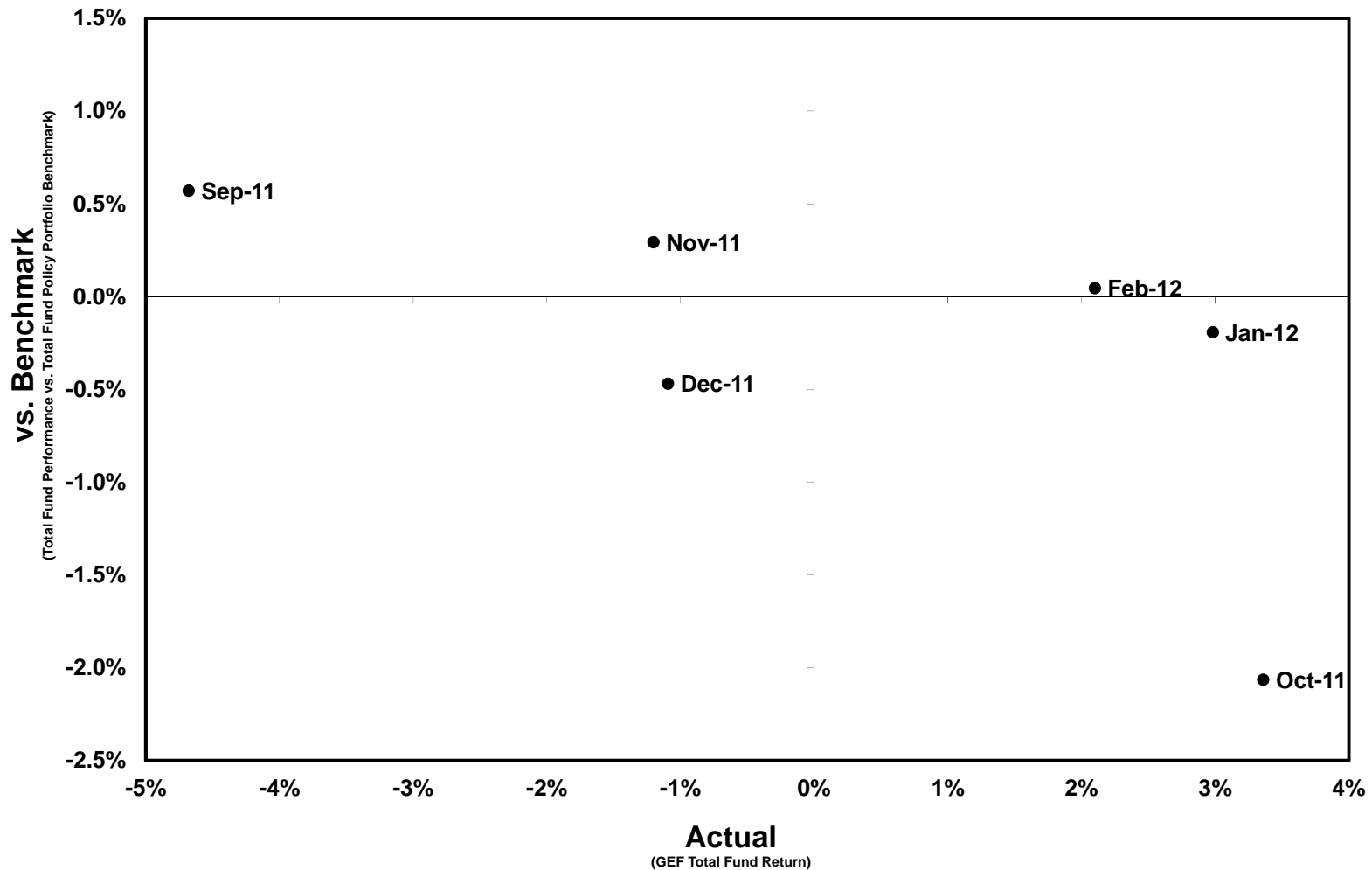
# GEF Performance Breakdown

## Six Months Ended February 29, 2012

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	10.4%	7.5%	0.54%	-0.51%	0.00%
	Credit-Related	0.1%	0.0%	7.92%	7.40%	0.00%
Real Assets	Real Estate	2.4%	2.5%	2.59%	4.59%	-0.05%
	Natural Resources	11.5%	6.5%	-4.19%	-2.22%	-0.56%
Equity	Developed Country	11.6%	18.5%	3.47%	8.27%	-0.95%
	Emerging Markets	8.3%	12.0%	3.72%	5.27%	-0.37%
<b>Total More Correlated and Constrained</b>		<b>44.3%</b>	<b>47.0%</b>	<b>0.79%</b>	<b>4.69%</b>	<b>-1.93%</b>
<b>Total Less Correlated and Constrained</b>		<b>30.0%</b>	<b>30.0%</b>	<b>3.11%</b>	<b>1.07%</b>	<b>0.61%</b>
Private Real Estate Investments		1.5%	3.0%	0.36%	3.77%	-0.07%
Private Investments excluding Real Estate		24.2%	20.0%	-0.14%	0.24%	-0.34%
<b>Total Private Investments</b>		<b>25.7%</b>	<b>23.0%</b>	<b>-0.11%</b>	<b>0.70%</b>	<b>-0.41%</b>
<b>Total GEF Portfolio</b>		<b>100.0%</b>	<b>100.0%</b>	<b>1.23%</b>	<b>2.96%</b>	<b>-1.73%</b>



# Actual and “vs. Benchmark” Returns by Month Fiscal Year to Date 2012 (GEF)





# Value-Add Analysis

	FY05	FY06	FY07	FY08	FY09	FY10	FY11	H1 FY12
<b>MCC</b>								
Tactical	0.43%	-0.54%	0.14%	0.82%	0.29%	0.01%	0.05%	-1.09%
Active	0.42%	-0.81%	-0.74%	-0.19%	-1.68%	2.02%	0.47%	-0.07%
<b>TOTAL</b>	0.85%	-1.35%	-0.60%	0.63%	-1.39%	2.02%	0.52%	-1.16%
<b>LCC</b>								
Tactical	-0.01%	0.07%	-0.02%	-0.09%	0.04%	0.21%	0.12%	0.10%
Active	2.09%	0.86%	2.63%	2.02%	1.68%	2.61%	1.39%	0.53%
<b>TOTAL</b>	2.08%	0.93%	2.61%	1.93%	1.71%	2.82%	1.50%	0.63%
<b>Private Investments</b>								
Tactical	-0.68%	-0.42%	-0.69%	0.14%	0.35%	0.40%	-0.11%	-0.27%
Active	1.51%	-0.57%	1.20%	-0.59%	1.54%	-0.98%	0.83%	-0.16%
<b>TOTAL</b>	0.83%	-0.99%	0.51%	-0.45%	1.88%	-0.58%	0.72%	-0.43%
<b>Overall GEF</b>								
Tactical	-0.26%	-0.89%	-0.57%	0.87%	0.67%	0.62%	0.06%	-1.26%
Active	4.02%	-0.52%	3.09%	1.24%	1.53%	3.65%	2.68%	0.30%
<b>Insurance Hedges</b>								-0.58%
<b>Derivative Based</b>								-0.19%
<b>TOTAL</b>	3.76%	-1.41%	2.52%	2.11%	2.20%	4.26%	2.74%	-1.73%



# Assets





# Combined PUF and GEF Asset Allocation as of February 29, 2012 (in millions)

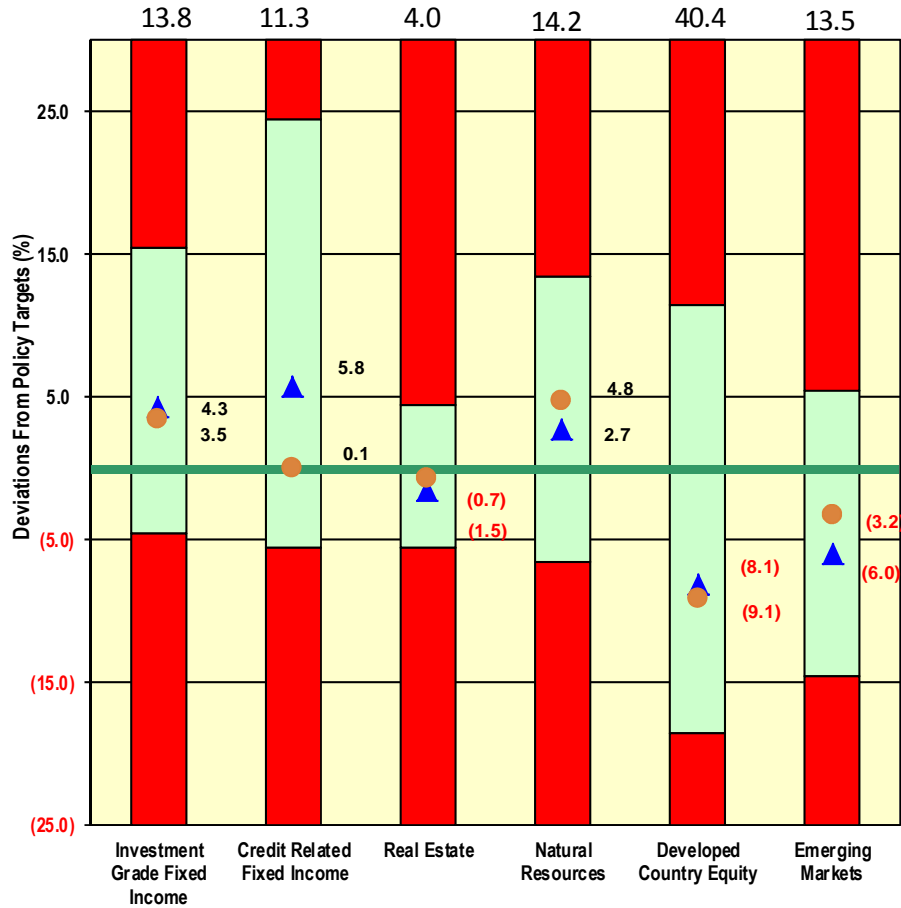
Asset Group	Asset Class	More Correlated and Constrained		Less Correlated and Constrained		Private Investments		Grand Total	
Fixed Income	Investment Grade	\$ 2,064	10.3%	\$ 568	2.9%	\$ -	0.0%	\$ 2,632	13.2%
	Credit-Related	22	0.1%	931	4.7%	1,328	6.6%	2,281	11.4%
<b>Fixed Income Total</b>		<b>2,086</b>	<b>10.4%</b>	<b>1,499</b>	<b>7.6%</b>	<b>1,328</b>	<b>6.6%</b>	<b>4,913</b>	<b>24.6%</b>
Real Assets	Real Estate	\$ 321	1.6%	\$ 110	0.6%	\$ 343	1.7%	774	3.9%
	Natural Resources	2,278	11.4%	8	0.0%	583	2.9%	2,869	14.3%
<b>Real Assets Total</b>		<b>2,599</b>	<b>13.0%</b>	<b>118</b>	<b>0.6%</b>	<b>926</b>	<b>4.6%</b>	<b>3,643</b>	<b>18.2%</b>
Equity	Developed Country	\$ 1,873	9.4%	\$ 3,850	19.2%	\$ 2,398	12.0%	8,121	40.6%
	Emerging Markets	1,765	8.8%	501	2.5%	450	2.3%	2,716	13.6%
<b>Equity Total</b>		<b>3,638</b>	<b>18.2%</b>	<b>4,351</b>	<b>21.7%</b>	<b>2,848</b>	<b>14.3%</b>	<b>10,837</b>	<b>54.2%</b>
<b>Grand Total</b>		<b>\$ 8,323</b>	<b>41.6%</b>	<b>\$ 5,968</b>	<b>29.9%</b>	<b>\$ 5,102</b>	<b>25.5%</b>	<b>\$ 19,393</b>	<b>97.0%</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.

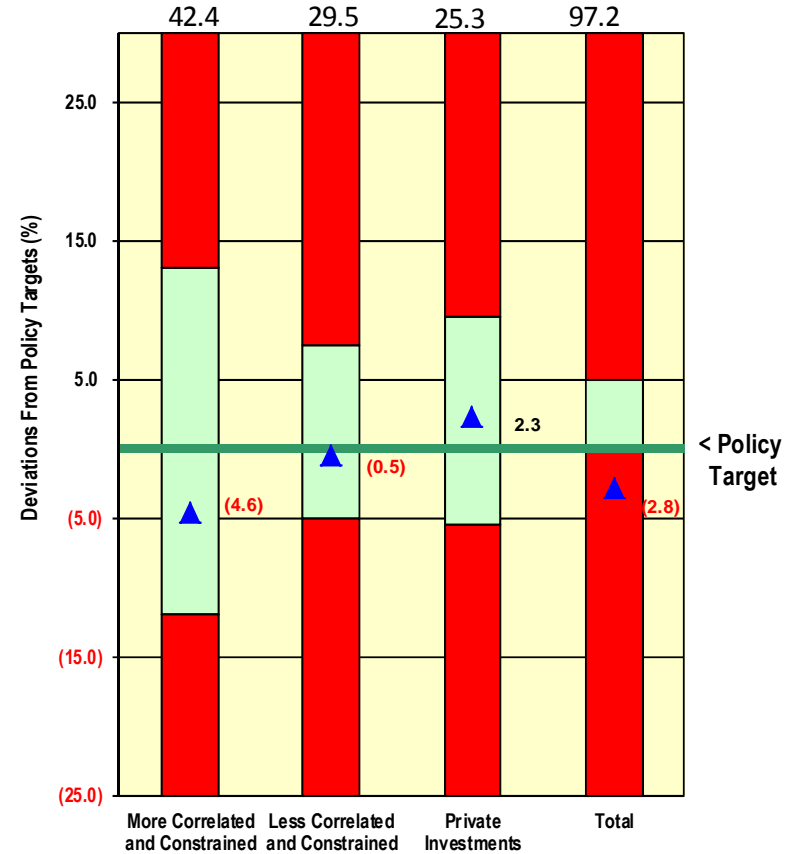


# PUF Asset Allocation as of February 29, 2012

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



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



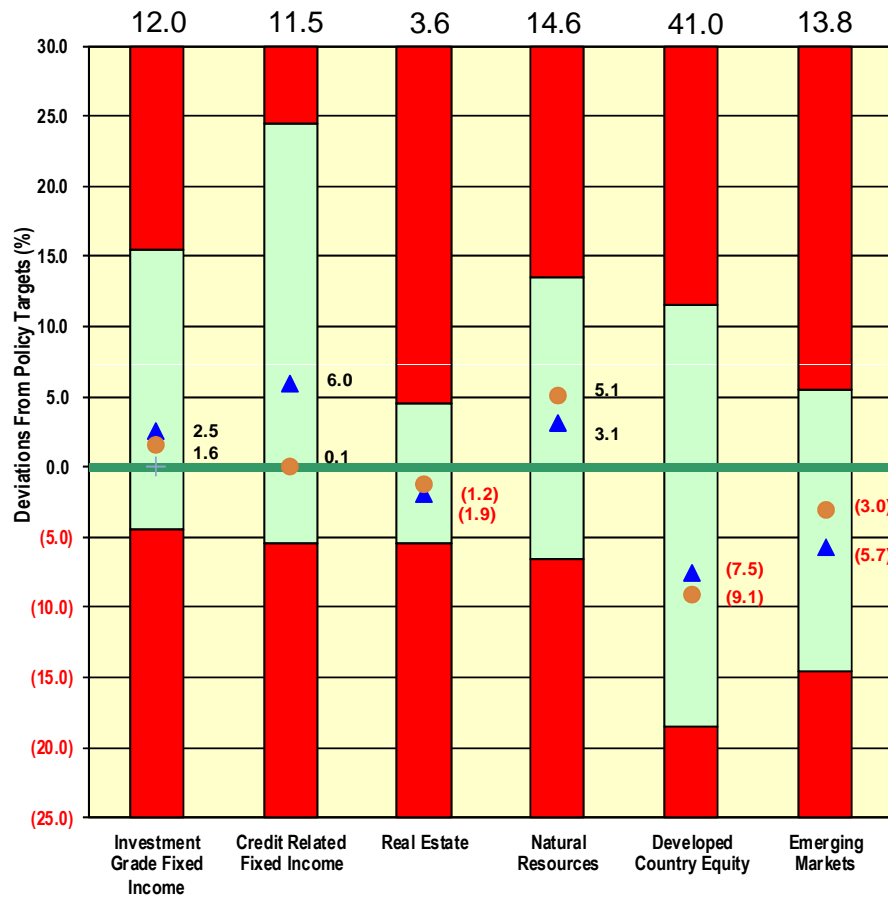
▲ -- All Investment Types

● -- More Correlated and Constrained



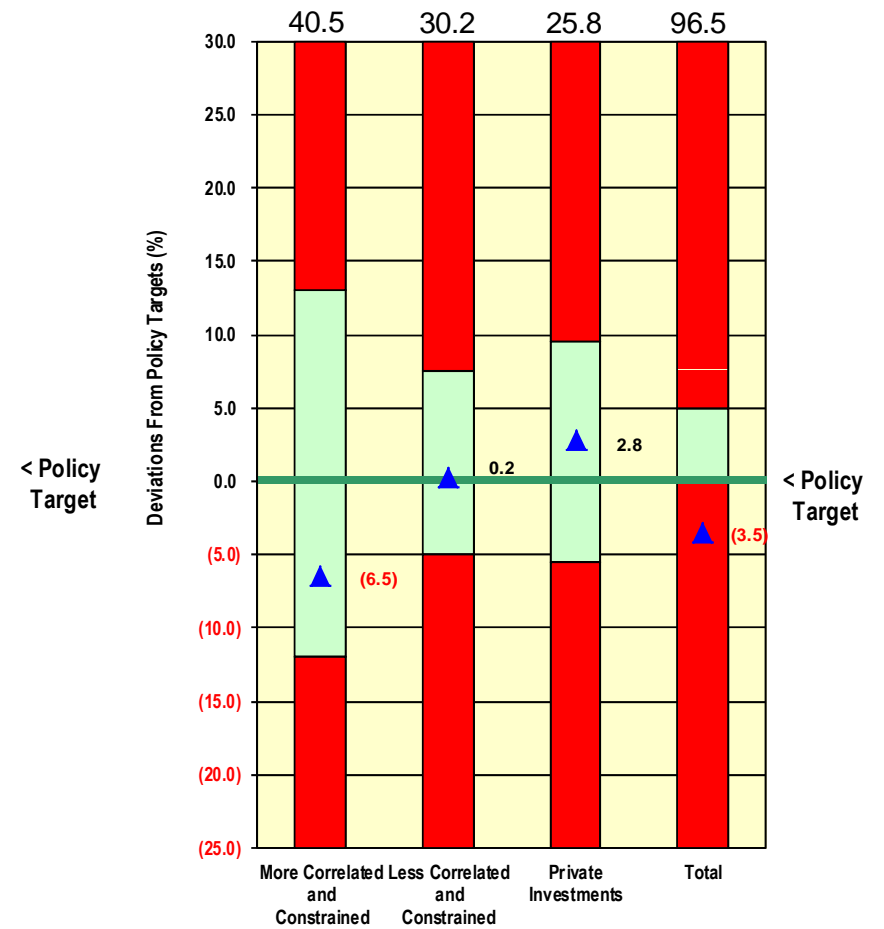
# GEF Asset Allocation as of February 29, 2012

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



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

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





# LCC Investment Policy Categorizations vs. “Look Thru” Exposures January 31, 2012

## Exposure Methodology Comparison

	<u>Policy</u>	<u>Look-Through</u>	<u>Difference</u>
Investment Grade Fixed Income	2.9%	3.1%	0.2%
Credit-Related Fixed Income	4.9%	6.4%	1.5%
Real Estate	0.6%	0.5%	-0.1%
Natural Resources	0.1%	0.6%	0.6%
Developed Country Equity	19.9%	17.7%	-2.2%
Emerging Markets Equity	<u>2.6%</u>	<u>2.6%</u>	<u>0.0%</u>
<b>Less Correlated &amp; Constrained</b>	<b>30.9%</b>	<b>30.9%</b>	<b>0.0%</b>



# Private Investments Portfolio Rollforward Six Months Ended February 29, 2012

\$ in millions	Beg FY 9/1/11			Calls	Distributions	Change in Valuation	%	FY'12 New Commitments		End FQ 2/29/12	
	NAV	Unfunded	# Funds					# Funds	\$ Committed	NAV	Unfunded
<b>Credit-Related Fixed Income</b>	\$1,319	\$361	32	\$160	\$120	(\$30)	(2.2)%	1	\$75	\$1,329	\$306
<b>Real Estate</b>	264	568	17	94	18	3	0.4%	4	275	343	709
<b>Natural Resources</b>	519	591	25	80	64	48	9.2%	3	275	583	786
<b>Venture</b>	725	364	39	59	59	33		3	93	758	400
<b>Other Developed Country Equity</b>	<u>1,642</u>	<u>763</u>	<u>75</u>	<u>159</u>	<u>134</u>	<u>(28)</u>		<u>5</u>	<u>250</u>	<u>1,639</u>	<u>742</u>
<b>Total Developed Country Equity</b>	2,367	1,127	114	218	193	5	0.2%	8	343	2,397	1,142
<b>Emerging Markets Equity</b>	<u>455</u>	<u>440</u>	<u>18</u>	<u>49</u>	<u>26</u>	<u>(28)</u>	(6.0)%	<u>2</u>	<u>105</u>	<u>450</u>	<u>507</u>
<b>TOTAL</b>	<u>\$4,924</u>	<u>\$3,087</u>	<u>206</u>	<u>\$601</u>	<u>\$421</u>	<u>(\$2)</u>	<u>(0.1)%</u>	<u>18</u>	<u>\$1,073</u>	<u>\$5,102</u>	<u>\$3,450</u>
<b>% of Endowment (PUF+ GEF)</b>	<u>25%</u>	<u>16%</u>								<u>26%</u>	<u>17%</u>



# Derivatives



# Endowment Insurance Hedges as of February 29, 2012

Event	Hedge	Exposures as of February 29, 2012					Changes since November 30, 2011			
		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>ACTIVE TRADES</b>										
<b>U.S. Inflation</b>										
	CMS Options	\$ (52)	5.7	\$ 9,249	\$ 26	\$ (26)	\$ -	-	\$ -	\$ (6)
<b>Emerging Markets Bubble</b>										
	KOSPI Put Spreads	(29)	7.4	1,123	18	(12)	-	-	-	(12)
	ASX Put Spreads	(37)	10.8	1,560	28	(9)	-	-	-	(19)
	AUD forwards to hedge ASX premiums	-	-	(35)	(3)	(3)	-	-	-	(2)
	Total	(66)	18.2		43	(24)	-	-		(33)
<b>Sovereign Default</b>										
	JPY Rate Options and Swaptions	(51)	12.1	6,114	22	(29)	4	(1.0)	(4,184)	2
	DKK Call / EURO Put Options	(11)	5.3	1,510	5	(6)	-	-	-	(6)
	Total	(62)	17.4		27	(35)	4	(1.0)		(4)
<b>Low Growth / Recession</b>										
	S&P Put Spreads	(30)	16.0	786	1	(29)	31	(16.2)	(1,395)	(27)
<b>SUBTOTAL ACTIVE TRADES</b>		<b>(211)</b>	<b>57</b>		<b>97</b>	<b>(114)</b>	<b>35</b>	<b>(17)</b>		<b>(71)</b>
<b>EXPIRED TRADES</b>										
	JPY Rate Options and Swaptions	(4)	1.0	4,184		(4)	(4)	1.0	4,184	(4)
	S&P Put Spreads	(31)	16.2	1,395		(31)	(31)	16.2	1,395	(31)
<b>SUBTOTAL EXPIRED TRADES</b>		<b>(35)</b>	<b>\$ 17.2</b>			<b>(35)</b>				
<b>TOTAL</b>		<b>\$ (246)</b>	<b>74.4</b>			<b>\$ (149)</b>	<b>\$ 35</b>	<b>\$ (17)</b>		<b>\$ (71)</b>



# Non-Insurance Related Internal Derivatives

## February 29, 2012

<u>Manager</u>	<u>Derivative Strategy</u>	<u>Net Notional Value</u> <u>(\$ millions)</u>	<u>Activity from previous report</u> <u>(11/30/2011)</u> <u>(\$ millions)</u>
<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, \$8m premium)	-	(250)
RUGL Sw ap	Short Sw ap on RUGL Index to reduce exposure to global real estate	(81)	(5)
DJUSRE Sw ap	Short Sw ap on DJUSRE Index to reduce exposure to U.S. real estate	(165)	(19)
<b><u>Natural Resources</u></b>			
Integrated Oil & Gas Sw ap	Long a basket of Oil and Gas related equity names	-	(77)
Sale of Natural Resource Puts	Sold out of the money Put options on Metals and Materials ETF (XME underlying, \$8m premium)	-	(160)
<b><u>Developed Country Equity</u></b>			
S&P 400 Sw ap	Short Sw ap on S&P 400 Index to reduce exposure to equity markets	-	116
S&P 500 Sw ap	Short Sw ap on S&P 500 Index to reduce exposure to equity markets	(231)	61
MSCI Europe Sw ap	Short Sw ap on MSCI Europe Index to reduce exposure to equity markets	(121)	(15)
MSCI Japan Sw ap	Short Sw ap on MSCI Japan Index to reduce exposure to equity markets	(70)	(5)
<b><u>Emerging Markets Equity</u></b>			
Emerging Markets FX Overlay	Currency forwards to align the Asset Class FX exposure closer to the benchmark.	182	3
Sale of Emerging Markets Puts	Sold out of the money Put options on emerging markets (EEM underlying, \$6m premium)	-	(185)





# External Manager Agency Account Derivatives

## February 29, 2012

<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	(122)
Old Mutual	Short futures to reduce duration at the front end of the yield curve	(32)
Colchester	Currency forwards used to create over/underweight investment exposures and to hedge physical bond positions.	(82)
PIMCO Global Bonds	Currency forwards used to underweight the US dollar	(3)
	Long US and Non-US futures used to overweight duration in Eurozone	151
	Receive Interest rate swaps used to overweight duration in the Eurozone and underweight intermediate portion of the Japanese yield curve	45
	Pay Interest rate swaps used to overweight duration in the Eurozone and underweight intermediate portion of the Japanese yield curve	(149)
	Short/Written credit default swaps used to overweight credit risk	108
	Long/Purchased credit default swaps used to underweight credit risk	(35)
	Written options used to increase portfolio yield	(193)
<b><u>Natural Resources</u></b>		
Gresham	Long Exchange-traded commodity futures	455
Wellington Commodities SPV	Exchange-traded commodity futures, options and/or swaps	78
<b><u>Developed Equity</u></b>		
International Value Advisors	Currency forward contracts for hedging purposes or to provide efficient investment exposure.	(37)



# OTC Derivative Counterparty Report

## February 29, 2012

\$ millions (net of posted collateral)

Counterparty	S & P Counterparty Rating	Mark-to-Market		Total Mark- to-Market	Percentage of Total Funds
		Owed by Broker	Owed by UTIMCO		
BARCLAYS	A+	\$ 14.5	\$ (14.4)	\$ 0.1	0.00%
J P MORGAN, CHASE	A+	12.8	(12.9)	(0.1)	0.00%
GOLDMAN SACHS	A-	9.3	(7.7)	1.6	0.01%
MORGAN STANLEY	A-	7.2	(8.9)	(1.7)	-0.01%
HSBC BK USA, NEW YORK	A+	4.0	(3.3)	0.7	0.00%
CITIBANK NY	A-	3.4	(9.0)	(5.6)	-0.02%
DEUTSCHE BANK AG	A+	2.6	(2.2)	0.4	0.00%
MELLON BANK	A+	2.0	(4.8)	(2.8)	-0.01%
BANK OF AMERICA	A-	0.4	(0.1)	0.3	0.00%
ROYAL BANK OF CANADA	AA-	0.2	-	0.2	0.00%
UBS AG, STAMFORD	A	0.2	(0.6)	(0.4)	0.00%
BNP PARIBAS	AA-	0.1	-	0.1	0.00%
UBS A G, ZURICH	A	0.1	-	0.1	0.00%
ROYAL BANK OF SCOTLAND PLC	A-	0.1	-	0.1	0.00%
CHASE MANHATTAN	A	0.1	(0.3)	(0.2)	0.00%
CS FIRST BOSTON GBL FOREIGN EXCH	A	-	(0.4)	(0.4)	0.00%
MERRILL LYNCH	A-	-	-	-	0.00%
SOCIETE GENERALE, PARIS	A	-	-	-	0.00%
CREDIT SUISSE FIRST	A	-	-	-	0.00%
Grand Total		\$ 57.0	\$ (64.6)	\$ (7.6)	-0.03%

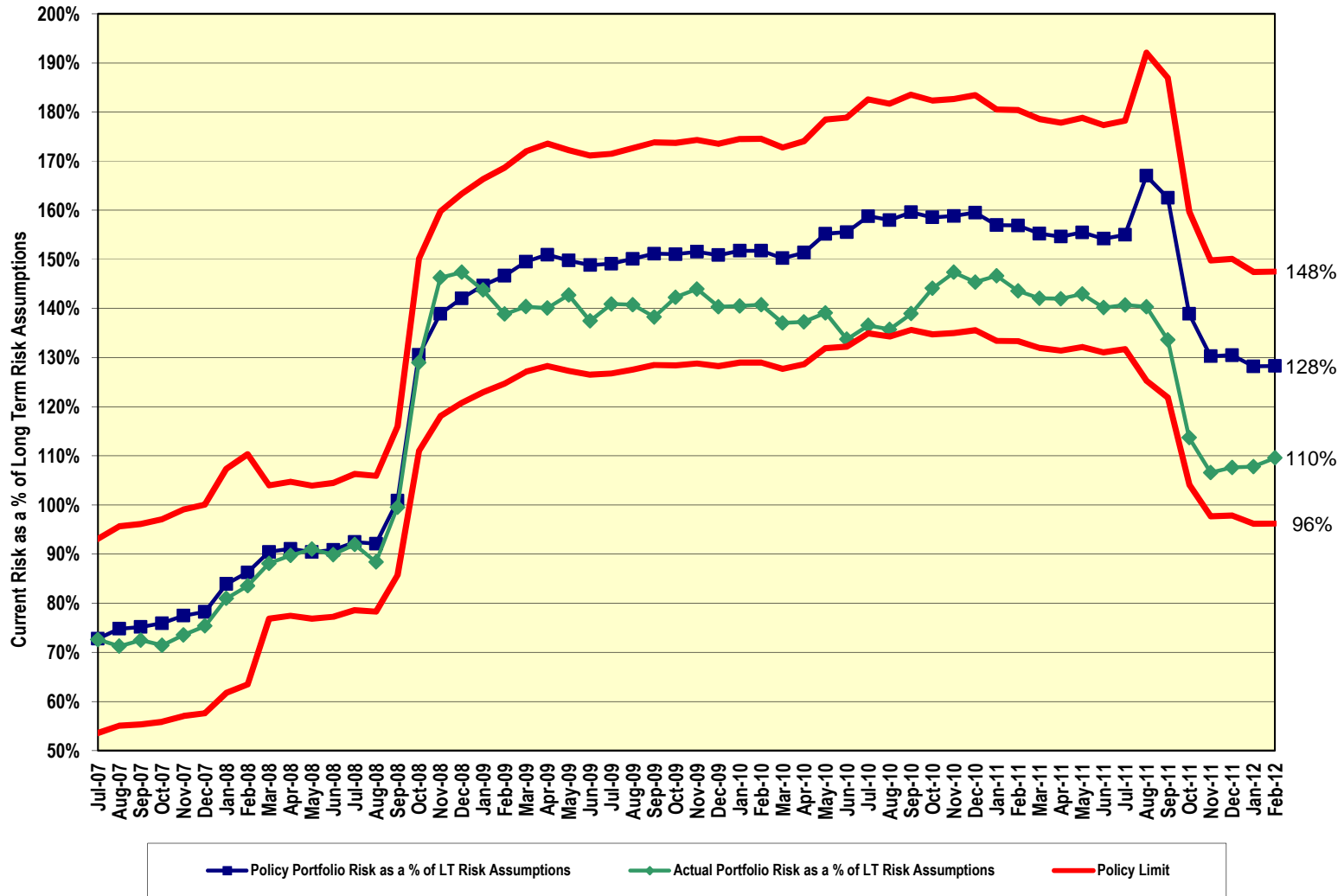


# Risk Analytics



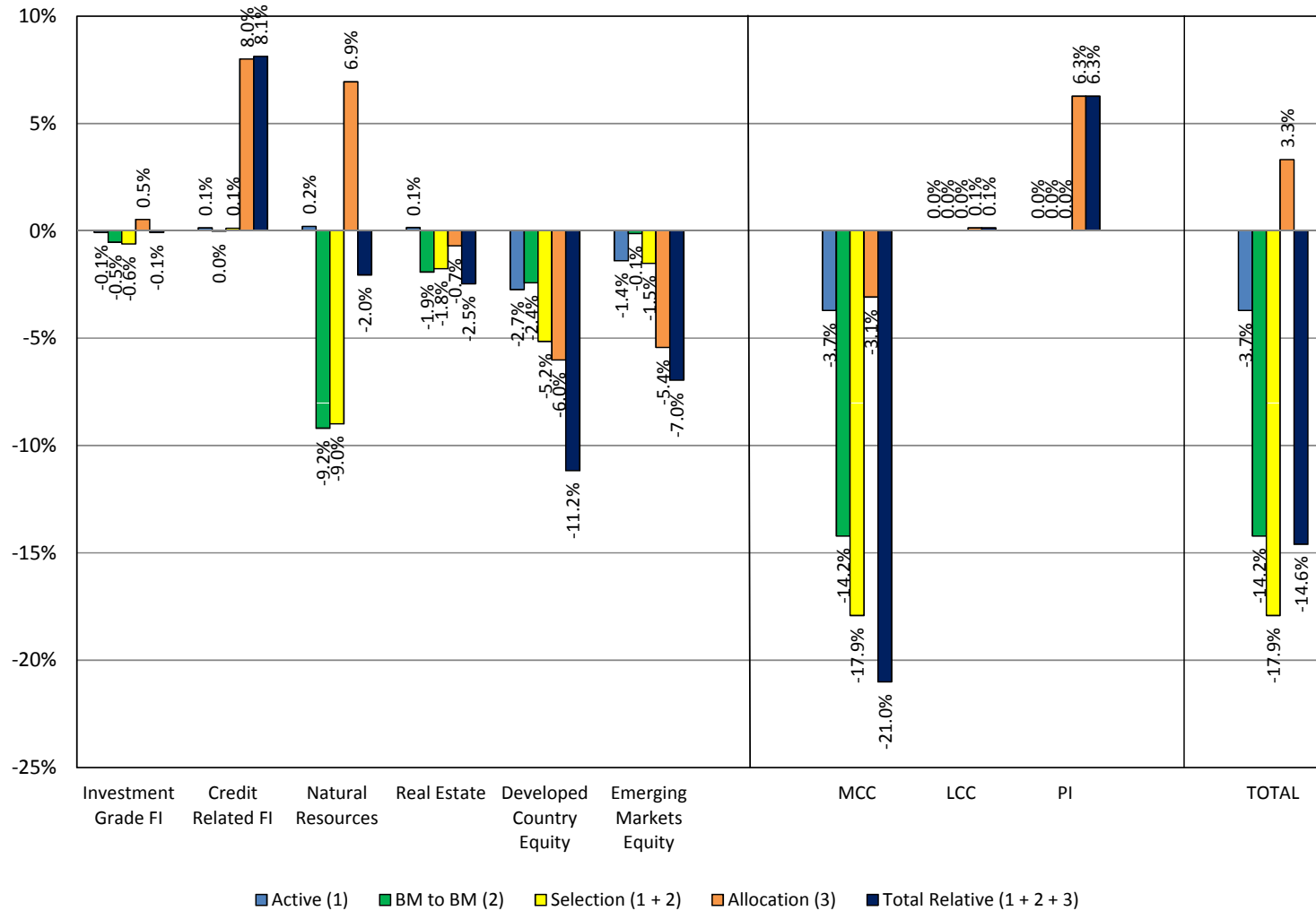
# Current Risk Environment of GEF

(Based on Downside Risk; LT assumption = 8.90%)





# GEF 4-Way Risk Decomposition as of February 29, 2012





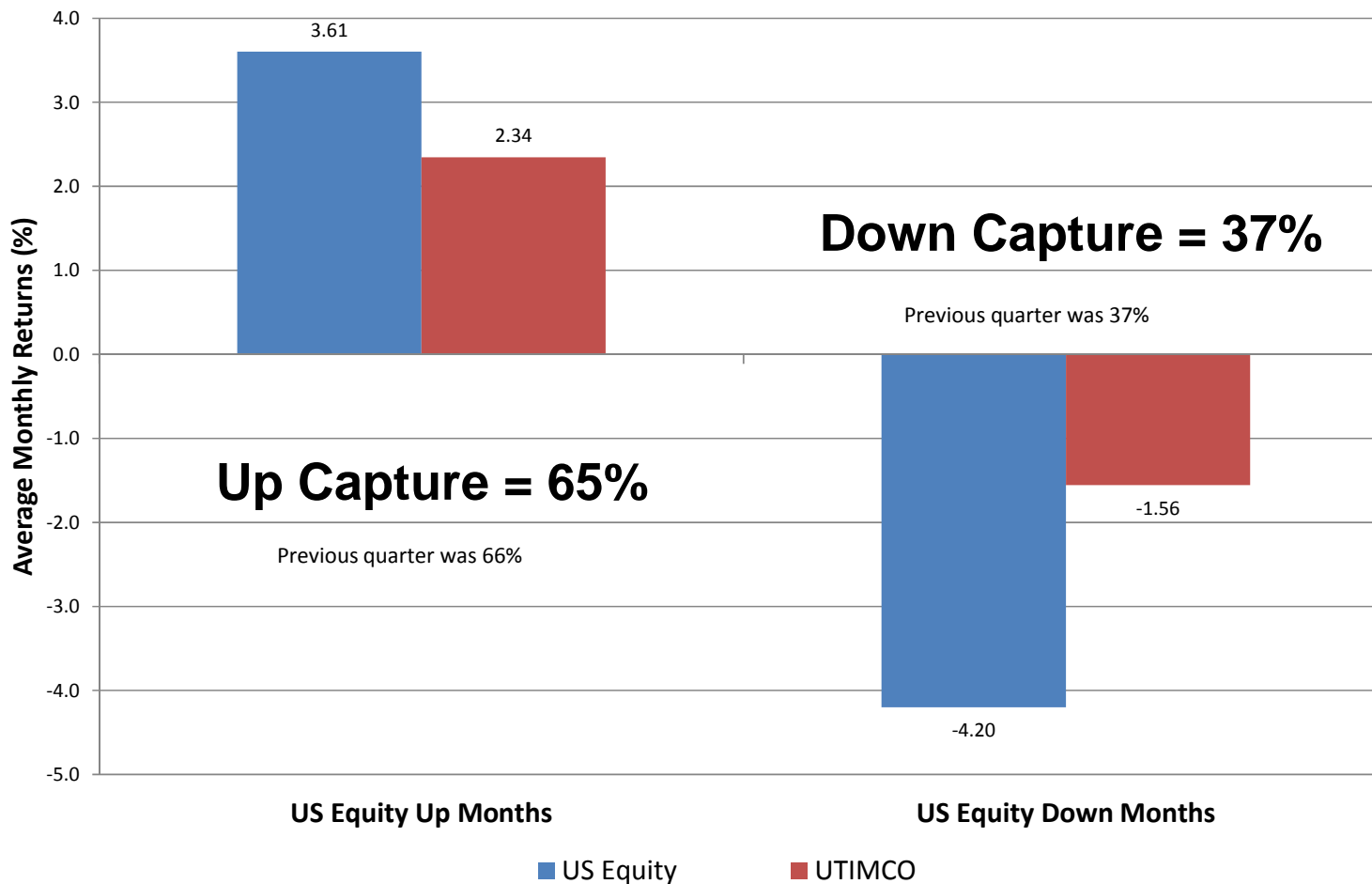
# Portfolio Sharpe and Information Ratios

Period Ending February 29, 2012

	Three Months	One Year	Three Years	Five Years	Ten Years
Actual Returns	3.99	2.10	16.05	3.41	7.41
Risk-free Returns	0.00	0.08	0.14	1.32	1.92
Actual Volatility	3.72	8.38	7.80	10.63	8.93
<b>Portfolio Sharpe Ratio</b>	<b>1.07</b>	<b>0.24</b>	<b>2.04</b>	<b>0.20</b>	<b>0.61</b>
Policy Returns	4.64	2.19	14.14	1.19	5.43
Policy Volatility	2.83	9.97	9.15	11.63	9.41
Tracking Error	1.00	2.73	3.09	2.90	2.63
<b>Portfolio Information Ratio</b>	<b>-0.65</b>	<b>-0.03</b>	<b>0.62</b>	<b>0.76</b>	<b>0.75</b>



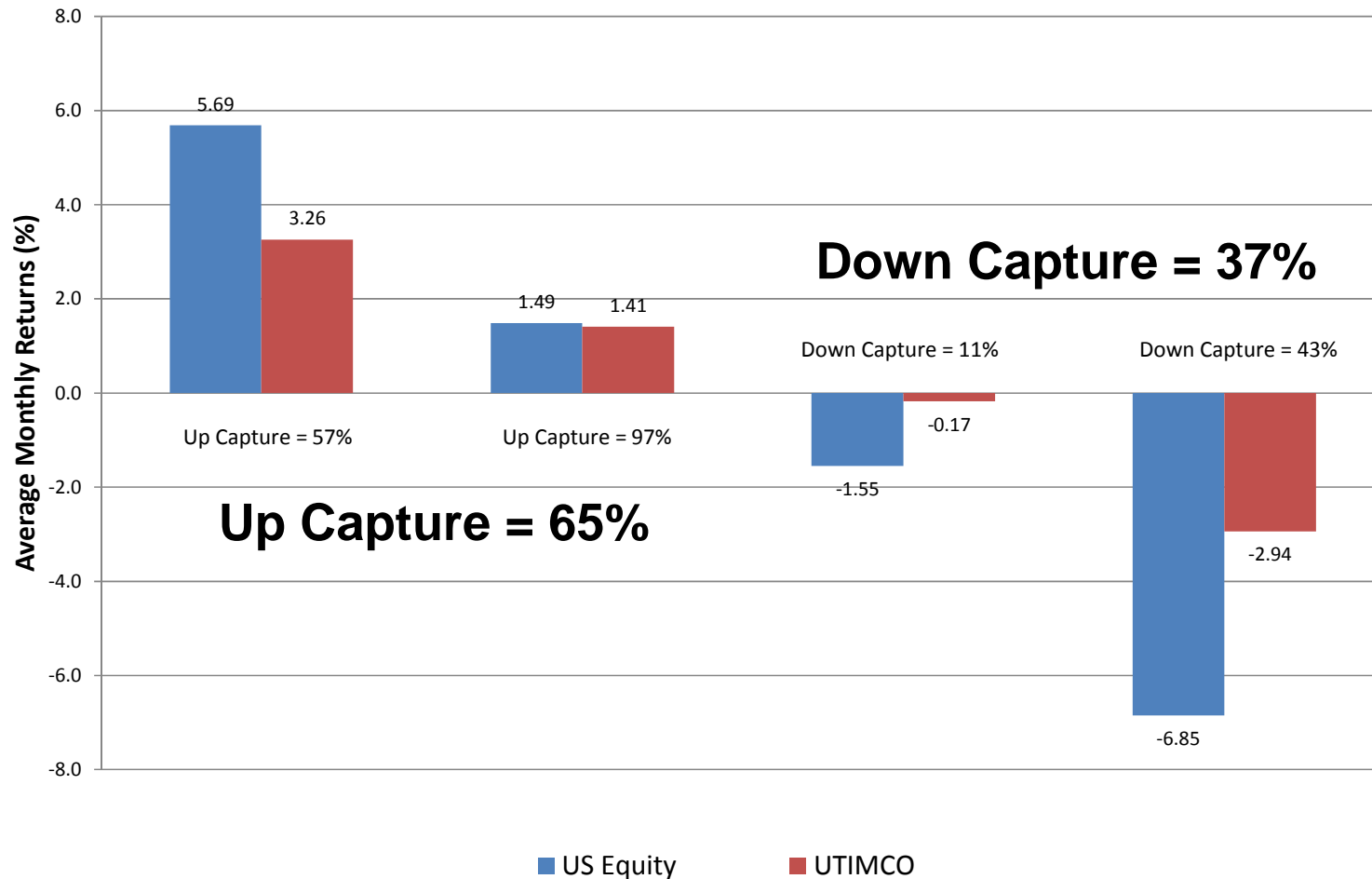
# UTIMCO's Up/Down Capture



Data from 8/1996 till 2/2012. US equity had 78 down months and 109 up months



# UTIMCO's Up/Down Capture



Data from 8/1996 till 2/2012. US equity had 78 down months and 109 up months





# GEF Marginal Risk Contribution

	MCC	LCC	PI	TOTAL
Investment Grade Fixed Income	0.08	0.13		<b>0.09</b>
Credit-Related Fixed Income	1.48	0.36	0.62	<b>0.52</b>
Natural Resources	1.01	-0.25	2.83	<b>1.38</b>
Real Estate	0.77	0.08	3.71	<b>1.73</b>
Developed Country Equity	0.91	0.45	2.12	<b>1.04</b>
Emerging Markets Equity	1.20	0.32	3.35	<b>1.39</b>
<b>TOTAL</b>	<b>0.82</b>	<b>0.39</b>	<b>2.03</b>	<b>1.00</b>



# Derivative Risk Contribution - GEF

## Scaled to Risk of Policy Portfolio

Risk	MCC	LCC	PI	TOTAL
Investment Grade Fixed Income	0.7%	0.3%		1.0%
Credit-Related Fixed Income	0.2%	1.5%	3.6%	5.2%
Natural Resources	9.9%	0.0%	7.2%	17.1%
Real Estate	1.7%	0.0%	5.5%	7.2%
Developed Country Equity	9.1%	7.5%	21.9%	38.5%
Emerging Markets Equity	9.2%	0.7%	6.5%	16.4%
<b>TOTAL</b>	<b>30.7%</b>	<b>10.0%</b>	<b>44.7%</b>	<b>85.4%</b>

## Risk Contribution of Derivatives

Risk	MCC	LCC	PI	TOTAL
Investment Grade Fixed Income	-1.3%			-1.3%
Credit-Related Fixed Income				0.0%
Natural Resources	1.4%			1.4%
Real Estate	-1.8%			-1.8%
Developed Country Equity	-4.3%			-4.3%
Emerging Markets Equity	-0.1%			-0.1%
<b>TOTAL</b>	<b>-6.1%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>-6.1%</b>

## Risk Contribution Excluding Derivatives

Risk	MCC	LCC	PI	TOTAL
Investment Grade Fixed Income	2.0%	0.3%		2.3%
Credit-Related Fixed Income	0.2%	1.5%	3.6%	5.2%
Natural Resources	8.5%	0.0%	7.2%	15.7%
Real Estate	3.5%	0.0%	5.5%	9.0%
Developed Country Equity	13.3%	7.5%	21.9%	42.8%
Emerging Markets Equity	9.3%	0.7%	6.5%	16.5%
<b>TOTAL</b>	<b>36.8%</b>	<b>10.0%</b>	<b>44.7%</b>	<b>91.5%</b>



# Correlations

Measured from March 2008 through February 2012

	Total IGFI	Total Credit	Total RE	Total NatRes	Total DC	Total EM	MCC	LCC	PI	GEF
Total IGFI	1.00	0.45	0.62	0.67	0.68	0.69	0.76	0.65	0.32	0.75
Total Credit		1.00	0.59	0.61	0.65	0.59	0.61	0.67	0.72	0.71
Total RE			1.00	0.62	0.81	0.84	0.90	0.57	0.43	0.86
Total NatRes				1.00	0.80	0.80	0.85	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	0.82	0.24	0.94
MCC							1.00	0.81	0.35	0.98
LCC								1.00	0.31	0.88
PI									1.00	0.48
GEF										1.00

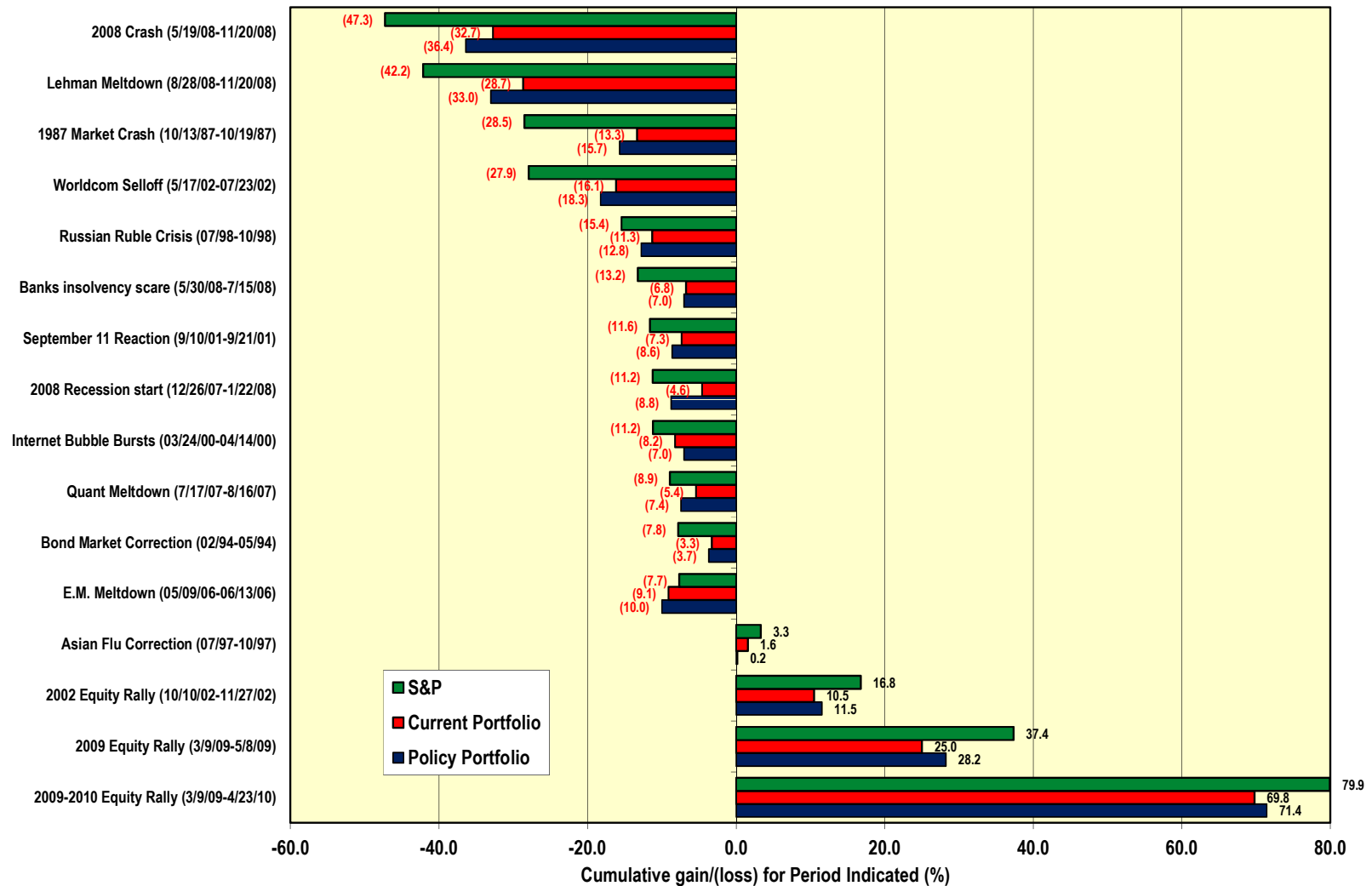


# Parametric Stress Tests

<u>Test</u>	<u>Effect on Endowment</u>
• S&P-500 drops 20%	(10.92%)
• Rates rise 100bp	(0.29%)
• Dollar strengthens 5%	(0.82%)
• Dollar weakens 5%	0.94%
• Yield curve flattens – Bull case	0.27%
• Yield curve flattens – Bear case	(0.17%)
• Yield curve steepens – Bull case	0.17%
• Yield curve steepens – Bear case	(0.11%)

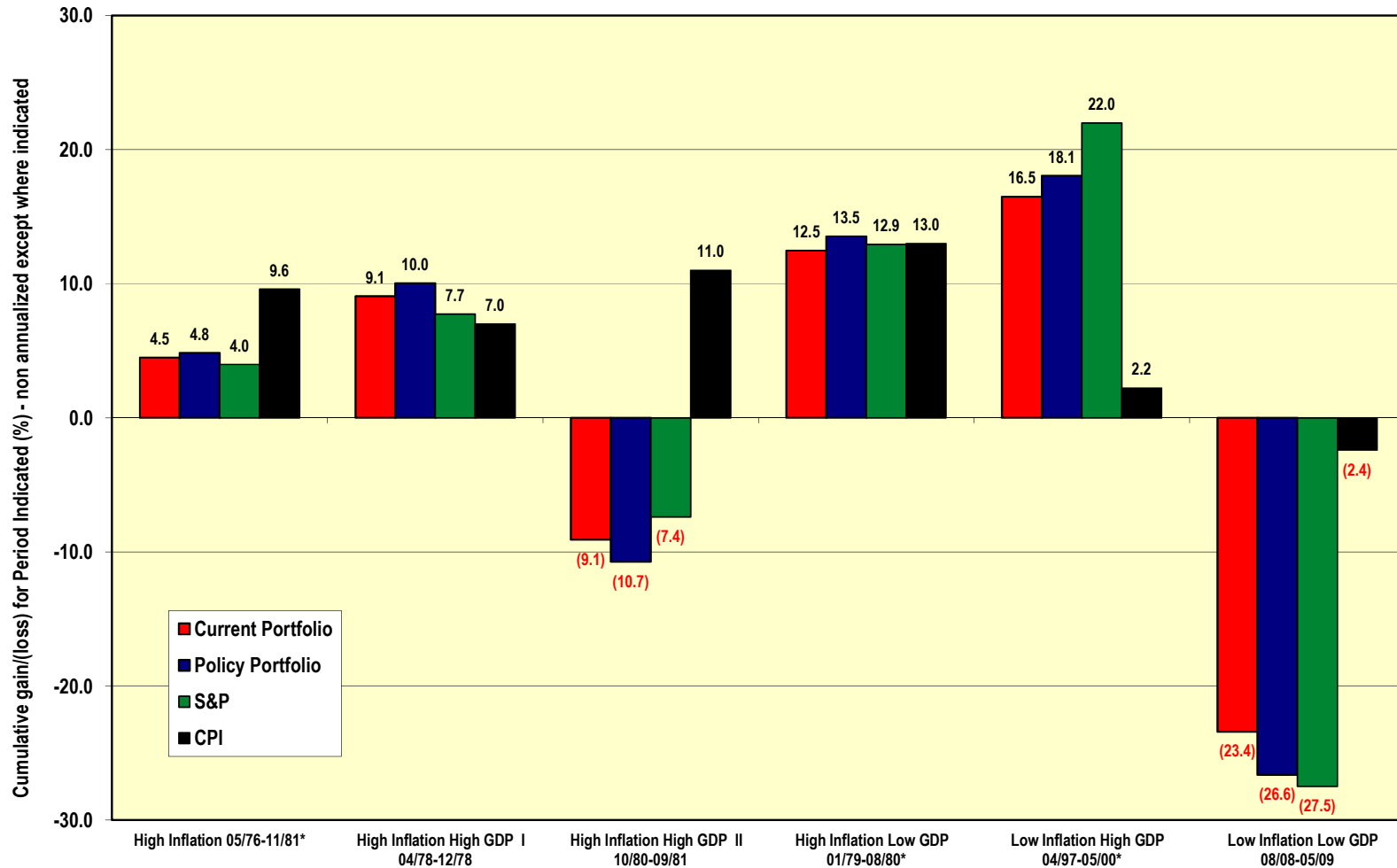


# Hypothetical Performance of Current GEF Portfolio in Selected Market Stress Environments





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



\* Annualized



# Scenario Analysis

Asset Class	1. Policy	Scenario								
		2. Full Recovery	3. Long Workout, Long March	4. Global Stagflation	5. Eurozone Default	5.1 Big Eurozone Default	6. Japan Crisis	7. USD Crisis	8. EM Bubble "Pop"	9. Deflation
Investment Grade	5.5%	-2%	4%	-8%	-1%	-3%	-5%	-15%	9%	10%
Credit Related	6.0%	-1%	5%	-8%	-2%	-7%	-10%	-25%	-5%	-20%
Real Estate	7.5%	17%	6%	0%	-10%	-30%	-25%	-15%	-23%	-40%
Natural Resources	7.5%	22%	8%	12%	-4%	-11%	-30%	30%	-45%	-50%
Developed Country Equity	8.5%	22%	1%	-16%	-10%	-30%	-25%	-40%	-27%	-30%
Emerging Market Equity	10.5%	28%	10%	-16%	-13%	-38%	-30%	-30%	-45%	-50%
Gold	7.5%	11%	9%	14%	8%	15%	17%	30%	-18%	-35%
<b>Expected Policy Returns</b>	<b>8.8%</b>	<b>18%</b>	<b>5%</b>	<b>-7%</b>	<b>-6%</b>	<b>-20%</b>	<b>-19%</b>	<b>-20%</b>	<b>-22%</b>	<b>-26%</b>
Gain from tactical positions	-0.6%	-3.3%	0.1%	2.2%	1.9%	5.3%	4.3%	5.0%	4.5%	3.7%
Gain from hedges (current)	-0.2%	-0.2%	-0.2%	0.9%	-0.1% - 0.3%	1.7% - 2.8%	1.9% - 5.6%	2.1%	0.8%	1.0%
Gain from hedges (post April)	-0.2%	-0.2%	-0.2%	0.9%	-0.1% - 0.3%	1.4% - 2.5%	1.8% - 5.5%	1.9%	0.7%	0.8%
Gain from hedges (post July)	-0.1%	-0.1%	-0.1%	0.6%	-0.2% - 0.1%	1.0% - 2.1%	1.1% - 4.3%	1.5%	0.3%	0.4%
Gain from manager's alpha	<u>1.0%</u>	<u>0.8%</u>	<u>1.5%</u>	<u>1.5%</u>	<u>2.3%</u>	<u>2.0%</u>	<u>2.0%</u>	<u>2.0%</u>	<u>2.0%</u>	<u>2.0%</u>
<b>Estimated Endowment Returns (current)</b>	<b><u>8.9%</u></b>	<b><u>15.3%</u></b>	<b><u>6.8%</u></b>	<b><u>-2.7%</u></b>	<b><u>-2% - -1%</u></b>	<b><u>-11% - -10%</u></b>	<b><u>-10% - 7%</u></b>	<b><u>-10.6%</u></b>	<b><u>-14.6%</u></b>	<b><u>-19.2%</u></b>
<b>Estimated Endowment Returns (post July)</b>	<b><u>9.0%</u></b>	<b><u>15.4%</u></b>	<b><u>6.9%</u></b>	<b><u>-3.1%</u></b>	<b><u>-2% - -1%</u></b>	<b><u>-12% - -11%</u></b>	<b><u>-11% - 8%</u></b>	<b><u>-11.3%</u></b>	<b><u>-15.2%</u></b>	<b><u>-19.8%</u></b>



# Leverage





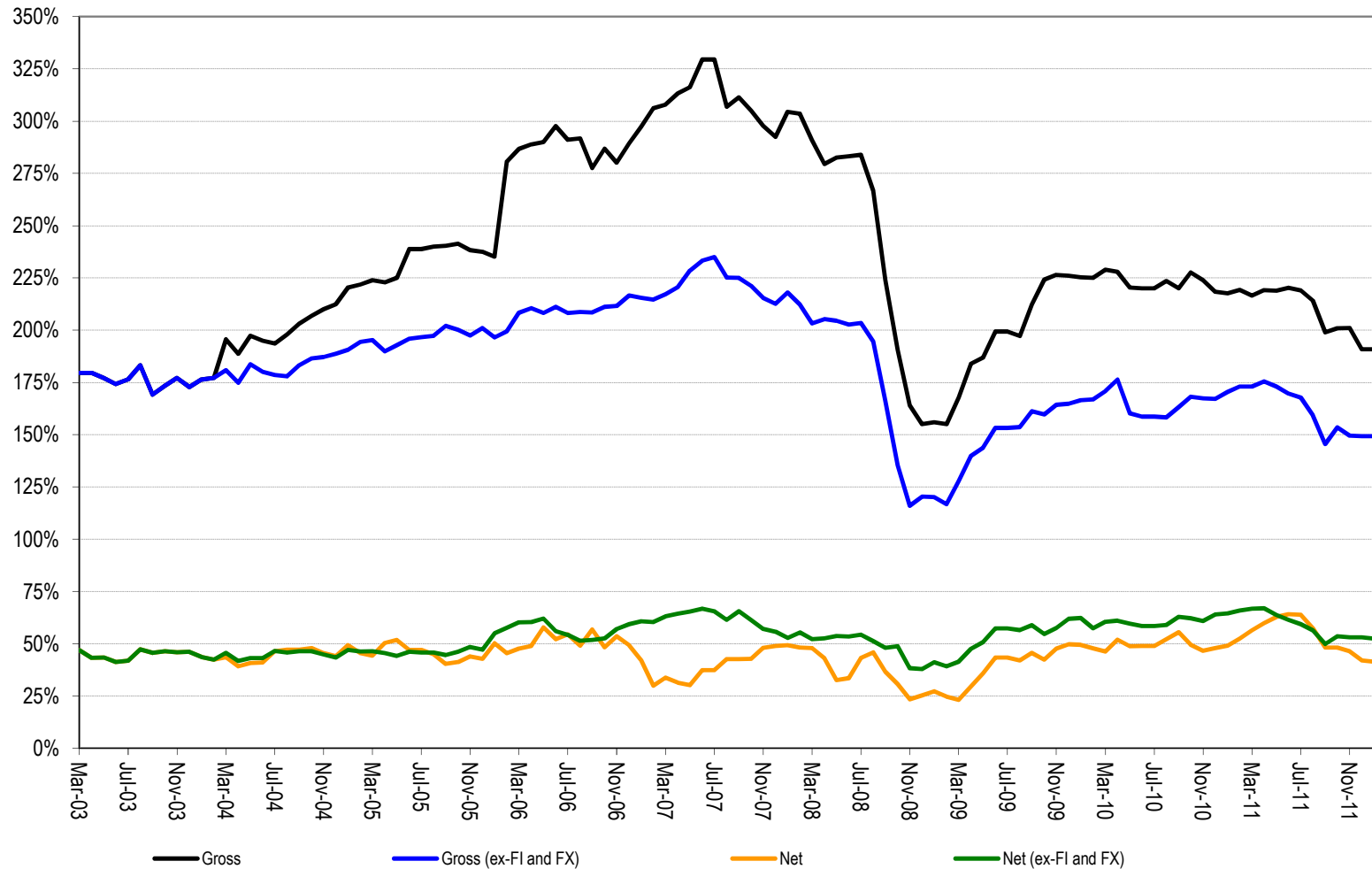
## Portfolio Level Leverage as of February 29, 2012

- Investment Grade Fixed Income had a gross leverage of 1.33x, 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 1.03x, no net leverage



# LCC Leverage

as of January 31, 2012



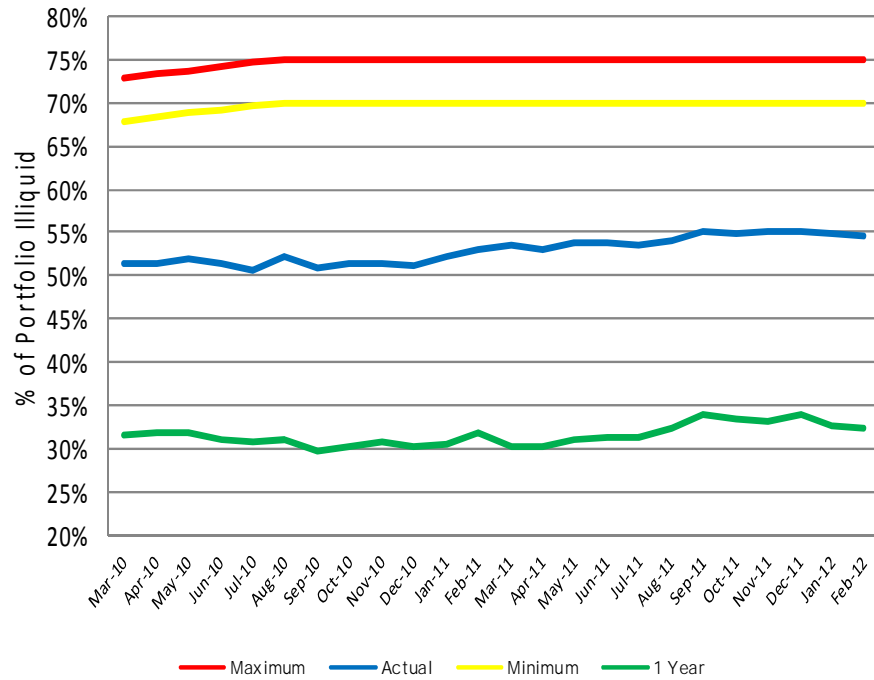


# Liquidity



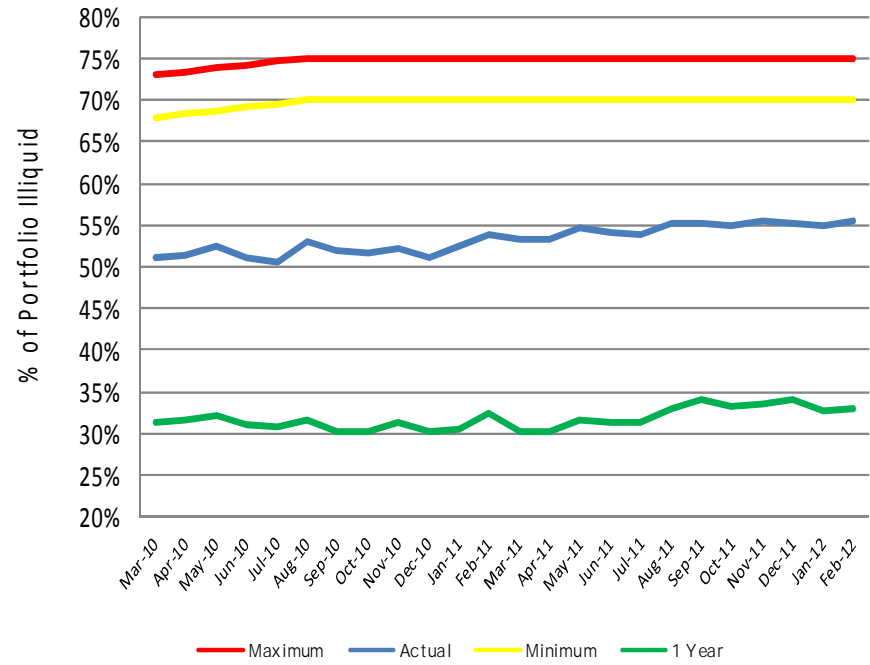
# Endowment Fund Liquidity

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



Three Month Liquidity \$ 5,898 million    One Year Liquidity \$ 8,783 million

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

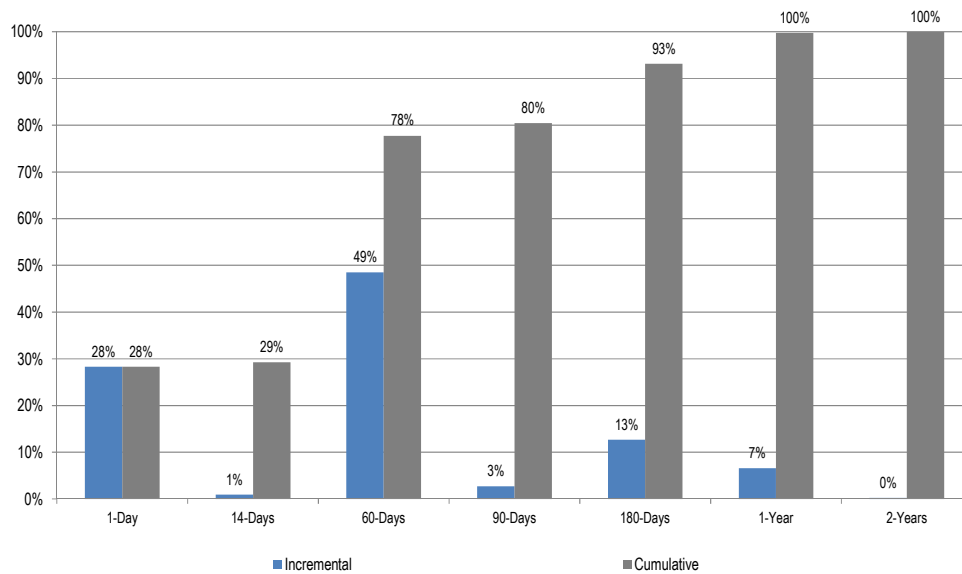


Three Month Liquidity \$ 3,121 million    One Year Liquidity \$ 4,718 million

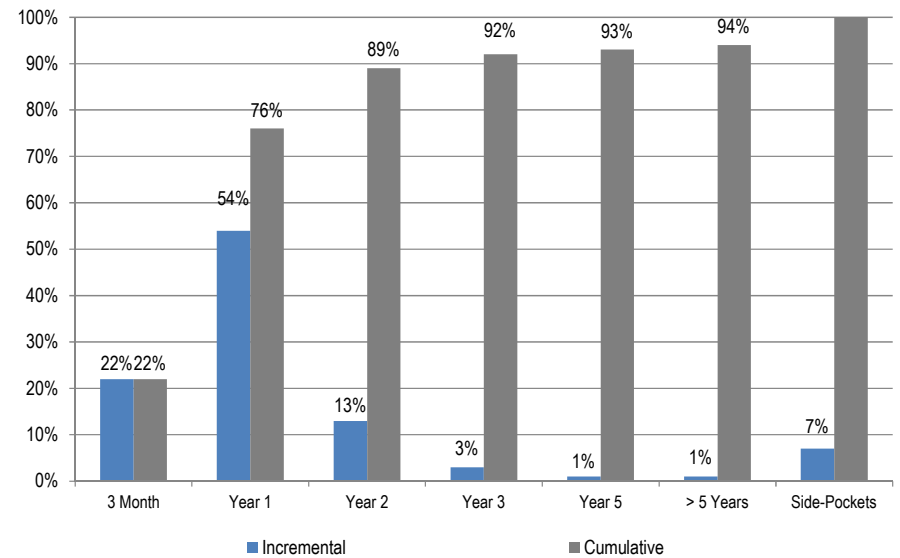


# Estimated Run-Off Liquidity\* As of January 31, 2012

MCC



LCC



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



# Unfunded Commitments As of February 29, 2012

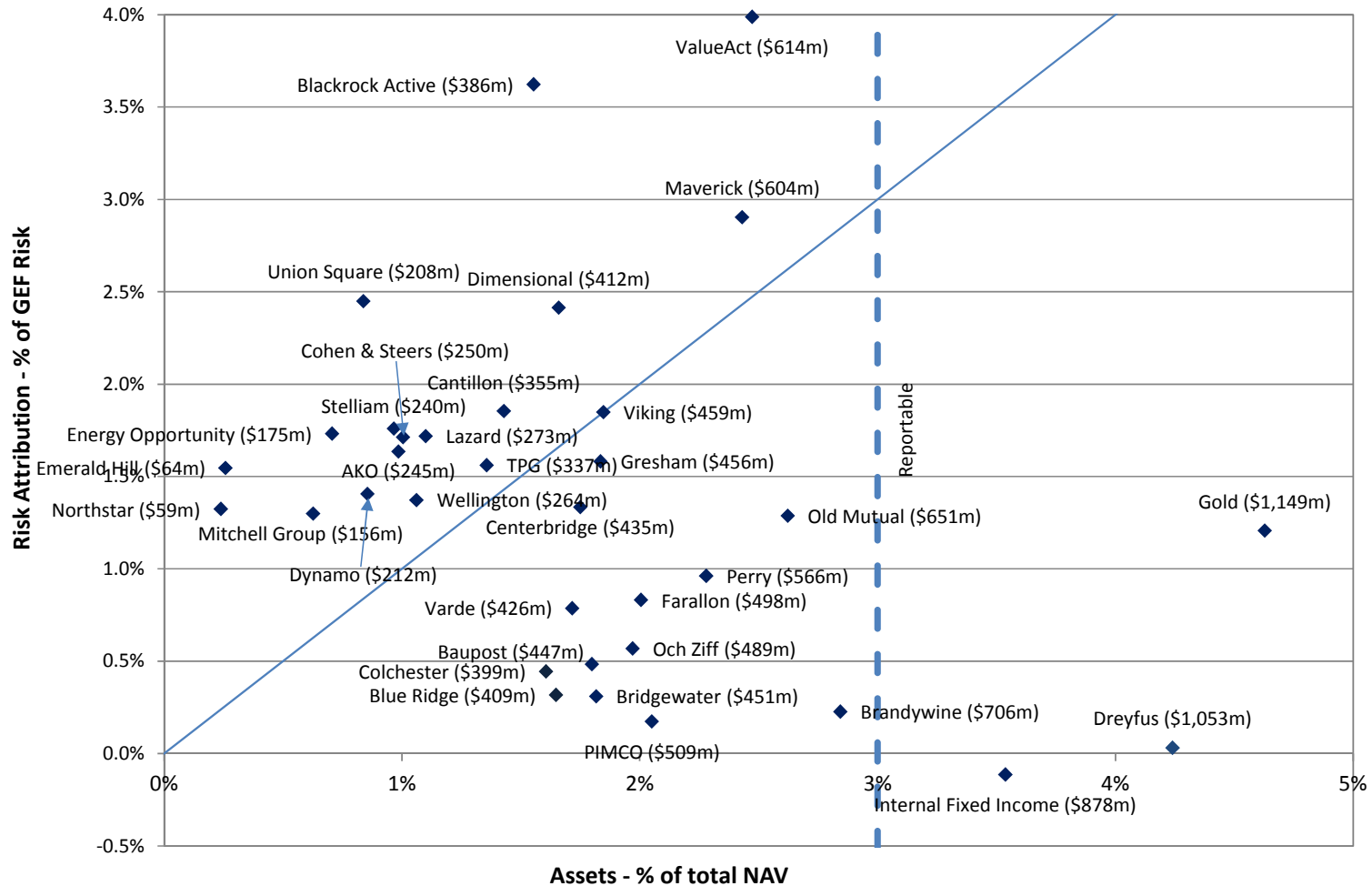
Asset Class	Unfunded Commitment	Unfunded Commitment as % of Total Endowments
<b><u>PRIVATE INVESTMENTS</u></b>		
TRADING	\$7	0.1%
CONTROL	155	0.8%
OPPORTUNISTIC	144	0.7%
<b>CREDIT-RELATED FIXED INCOME</b>	<b>306</b>	<b>1.6%</b>
<b>REAL ESTATE</b>	<b>709</b>	<b>3.5%</b>
<b>NATURAL RESOURCES</b>	<b>786</b>	<b>3.9%</b>
MEGA/LARGE BUYOUT	80	0.4%
MEDIUM/SMALL BUYOUT	446	2.3%
VENTURE CAPITAL	400	2.0%
GROWTH/OPPORTUNISTIC	216	1.1%
<b>DEVELOPED MARKETS EQUITY</b>	<b>1,142</b>	<b>5.8%</b>
<b>EMERGING MARKETS EQUITY</b>	<b>507</b>	<b>2.5%</b>
<b>TOTAL PRIVATE INVESTMENTS</b>	<b>\$3,450</b>	<b>17.3%</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>57</b>	<b>0.3%</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>19</b>	<b>0.1%</b>
<b>EMERGING MARKETS EQUITY</b>	<b>4</b>	<b>0.0%</b>
<b>TOTAL LESS CORRELATED AND CONSTRAINED</b>	<b>\$80</b>	<b>0.4%</b>
<b>GRAND TOTAL PI AND LCC</b>	<b>\$3,530</b>	<b>17.7%</b>
<b>TOTAL ENDOWMENTS HOLDINGS</b>	<b>\$20,000</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 1.61% of total assets, or at least 1.30% of Risk. Risk on this chart is measured using historical downside risk





# Manager Exposures over 3% and 5% February 29, 2012

## Managers with exposure >3% relative to total Funds (excluding ITF for Private Investments)

<u>Manager Name</u>	<u>Investment Amount</u>	<u>%age</u>
<b><u>More Correlated and Constrained</u></b>		
Internal Fixed Income	878,226,399	3.54%
<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)

<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 February 29, 2012

	Redemptions (\$ millions)				Investments / Commitments (\$ millions)				Illiquid
	MCC	LCC	Private	Total	MCC	LCC	Private	Total	
<b><u>Investment Grade Fixed Income</u></b>									
Bridgewater II	-	79	-	79	-	-	-	-	No
Bridgewater PAMM	-	-	-	-	-	79	-	79	Yes
Farallon Asia Special Situations II	-	-	-	-	-	60	-	60	Yes
Lone Peak	-	-	-	-	-	25	-	25	Yes
	-	79	-	79	-	164	-	164	
<b><u>Credit-Related Fixed Income</u></b>									
Mount Kellett Capital Partners II, L.P.	-	-	-	-	-	-	75	75	Yes
	-	-	-	-	-	-	75	75	
<b><u>Real Estate</u></b>									
GEM Realty	-	25	-	25	-	-	-	-	Yes
Carmel Partners Investments Fund IV, L.P.	-	-	-	-	-	-	75	75	Yes
Blackstone Real Estate Partners VII, L.P.	-	-	-	-	-	-	50	50	Yes
	-	25	-	25	-	-	125	125	
<b><u>Natural Resources</u></b>									
BlackRock Global	123	-	-	123	-	-	-	-	No
The Mitchell Group	-	-	-	-	150	-	-	150	No
NGP Natural Resources X, L.P.	-	-	-	-	-	-	75	75	Yes
Energy Opportunities	-	-	-	-	40	-	-	40	No
BlackRock Small Cap	-	-	-	-	22	-	-	22	No
BlackRock Metals & Mining	-	-	-	-	6	-	-	6	No
	123	-	-	123	218	-	75	293	
<b><u>Developed Country Equity</u></b>									
Levin	110	-	-	110	-	-	-	-	
Wellington Special Equity	103	-	-	103	-	-	-	-	
FCOI II	-	50	-	50	-	-	-	-	
Protege Partners	-	50	-	50	-	-	-	-	
Blue Ridge	-	46	-	46	-	-	-	-	
Indus Japan	-	25	-	25	-	-	-	-	
TPG Axon	-	16	-	16	-	-	-	-	
Perry Partners	-	12	-	12	-	-	-	-	
OZ Overseas Fund	-	10	-	10	-	-	-	-	



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

## Quarter Ended February 29, 2012

	Redemptions (\$ millions)				Investments / Commitments (\$ millions)				Illiquid
	MCC	LCC	Private	Total	MCC	LCC	Private	Total	
Ford Financial Fund II, L.P.	-	-	-	-	-	-	75	75	Yes
American Industrial Partners Capital Fund V, L.P.	-	-	-	-	-	-	50	50	Yes
University Ventures Fund I UTIMCO-Investment LP	-	-	-	-	-	-	50	50	Yes
Viking Global Equities	-	-	-	-	-	50	-	50	No
Gotham Diversified	-	-	-	-	-	30	-	30	No
University Ventures Fund I, L.P.	-	-	-	-	-	-	25	25	Yes
Kingstown	-	-	-	-	-	25	-	25	Yes
	<u>213</u>	<u>209</u>	<u>-</u>	<u>422</u>	<u>-</u>	<u>105</u>	<u>200</u>	<u>305</u>	
<b>Emerging Markets Equity</b>									
Moon Capital	-	25	-	25	-	-	-	-	
Victoria South American Partners II L.P.	-	-	-	-	-	-	65	65	Yes
Turkish Private Equity Fund III L.P.	-	-	-	-	-	-	40	40	Yes
	<u>-</u>	<u>25</u>	<u>-</u>	<u>25</u>	<u>-</u>	<u>-</u>	<u>105</u>	<u>105</u>	
<b>Subtotal</b>	<b>\$ 336</b>	<b>\$ 338</b>	<b>\$ -</b>	<b>\$ 674</b>	<b>\$ 218</b>	<b>\$ 269</b>	<b>\$ 580</b>	<b>\$ 1,067</b>	
Other	-	7	-	7	-	-	-	-	
<b>Grand Total</b>	<b>\$ 336</b>	<b>\$ 345</b>	<b>\$ -</b>	<b>\$ 681</b>	<b>\$ 218</b>	<b>\$ 269</b>	<b>\$ 580</b>	<b>\$ 1,067</b>	

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



# Report on Investment Transactions Made Under the Delegation of Authority

Year-to-date as of February 29, 2012

	Redemptions				Investments / Commitments				Illiquid
	(\$ millions)				(\$ millions)				
	MCC	LCC	Private	Total	MCC	LCC	Private	Total	
<b><u>Investment Grade Fixed Income</u></b>									
PIMCO	248	-	-	248	-	-	-	-	
Bridgewater II	-	79	-	79	-	-	-	-	
Brandywine	54	-	-	54	-	-	-	-	
Internal Fixed Income (Kampfe and Doak)	45	-	-	45	-	-	-	-	
Old Mutual	14	-	-	14	-	-	-	-	
Colchester	-	-	-	-	400	-	-	400	No
Bridgewater PAMM	-	-	-	-	-	79	-	79	No
Farallon Asia Special Situations II	-	-	-	-	-	-	60	60	Yes
Lone Peak	-	-	-	-	-	25	-	25	Yes
	<u>361</u>	<u>79</u>	<u>-</u>	<u>440</u>	<u>400</u>	<u>164</u>	<u>-</u>	<u>564</u>	
<b><u>Credit-Related Fixed Income</u></b>									
OZ Credit Opportunity	-	-	-	-	-	100	-	100	Yes
Mount Kellett Capital Partners II, L.P.	-	-	-	-	-	-	75	75	Yes
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100</u>	<u>75</u>	<u>175</u>	
<b><u>Real Estate</u></b>									
GEM Realty	-	25	-	25	-	-	-	-	
Wheelock Street Real Estate Fund	-	-	-	-	-	-	100	100	Yes
Carmel Partners Investments Fund IV, L.P.	-	-	-	-	-	-	75	75	Yes
Green Courte Real Estate Partners III	-	-	-	-	-	-	50	50	Yes
Blackstone Real Estate Partners VII, L.P.	-	-	-	-	-	-	50	50	Yes
	<u>-</u>	<u>25</u>	<u>-</u>	<u>25</u>	<u>-</u>	<u>-</u>	<u>275</u>	<u>275</u>	
<b><u>Natural Resources</u></b>									
BlackRock Global	123	-	-	123	-	-	-	-	
The Mitchell Group	-	-	-	-	150	-	-	150	No
POEP Co-invest LP	-	-	-	-	-	-	100	100	Yes
Post Oak Energy Partners LP	-	-	-	-	-	-	100	100	Yes
NGP Natural Resources X, L.P.	-	-	-	-	-	-	75	75	Yes
Energy Opportunities	-	-	-	-	40	-	-	40	No
BlackRock Small Cap	-	-	-	-	22	-	-	22	No
BlackRock Metals & Mining	-	-	-	-	6	-	-	6	No
	<u>123</u>	<u>-</u>	<u>-</u>	<u>123</u>	<u>218</u>	<u>-</u>	<u>275</u>	<u>493</u>	



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

Year-to-date as of February 29, 2012

	Redemptions (\$ millions)				Investments / Commitments (\$ millions)				Illiquid
	MCC	LCC	Private	Total	MCC	LCC	Private	Total	
<b>Developed Country Equity</b>									
Levin	134	-	-	134	-	-	-	-	
Wellington Special Equity	123	-	-	123	-	-	-	-	
Criterion Capital Partners	-	66	-	66	-	-	-	-	
FCOI II	-	50	-	50	-	-	-	-	
Protege Partners	-	50	-	50	-	-	-	-	
Blue Ridge	-	46	-	46	-	-	-	-	
OZ Overseas Fund	-	45	-	45	-	-	-	-	
Indus Japan	-	25	-	25	-	-	-	-	
Lansdowne UK	-	25	-	25	-	-	-	-	
Perry Partners	-	24	-	24	-	-	-	-	
Eton Park	-	18	-	18	-	-	-	-	
TPG Axon	-	16	-	16	-	-	-	-	
Viking Global Equities	-	-	-	-	-	100	-	100	No
Ford Financial Fund II, L.P.	-	-	-	-	-	-	75	75	Yes
University Ventures Fund I UTIMCO-Investment LP	-	-	-	-	-	-	50	50	Yes
American Industrial Partners Capital Fund V, L.P.	-	-	-	-	-	-	50	50	Yes
Gotham Diversified	-	-	-	-	-	70	-	70	No
Criterion Horizon Offshore	-	-	-	-	-	66	-	66	Yes
AKO	-	-	-	-	50	-	-	50	Yes
Kingstown	-	-	-	-	-	50	-	50	Yes
LNK Partners II, L.P.	-	-	-	-	-	-	50	50	Yes
Senator Global Opportunities	-	-	-	-	-	50	-	50	Yes
True Ventures III, L.P.	-	-	-	-	-	-	35	35	Yes
IA Venture Strategies Fund II, L.P.	-	-	-	-	-	-	30	30	Yes
Union Square Ventures 2012 Fund, L.P.	-	-	-	-	-	-	28	28	Yes
University Ventures Fund I, L.P.	-	-	-	-	-	-	25	25	Yes
	257	365	-	622	50	336	343	729	



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

Year-to-date as of February 29, 2012

	Redemptions (\$ millions)				Investments / Commitments (\$ millions)				Illiquid
	MCC	LCC	Private	Total	MCC	LCC	Private	Total	
<b>Emerging Markets Equity</b>									
Acadian	50	-	-	50	-	-	-	-	
Blakeney	45	-	-	45	-	-	-	-	
Lazard	40	-	-	40	-	-	-	-	
Moon Capital	-	25	-	25	-	-	-	-	
Dimensional Fund Advisors	10	-	-	10	20	-	-	20	No
AR Capital	-	-	-	-	100	-	-	100	No
Victoria South American Partners II L.P.	-	-	-	-	-	-	65	65	Yes
Turkish Private Equity Fund III L.P.	-	-	-	-	-	-	40	40	Yes
New Silk Road	-	-	-	-	25	-	-	25	Yes
Janchor	-	-	-	-	-	25	-	25	Yes
Valiant	-	-	-	-	-	5	-	5	Yes
	145	25	-	170	145	30	105	280	
<b>Subtotal</b>	<b>\$ 886</b>	<b>\$ 494</b>	<b>\$ -</b>	<b>\$ 1,380</b>	<b>\$ 813</b>	<b>\$ 630</b>	<b>\$ 1,073</b>	<b>\$ 2,516</b>	
Other	-	9	-	9	-	-	-	-	
<b>Grand Total</b>	<b>\$ 886</b>	<b>\$ 503</b>	<b>\$ -</b>	<b>\$ 1,389</b>	<b>\$ 813</b>	<b>\$ 630</b>	<b>\$ 1,073</b>	<b>\$ 2,516</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**





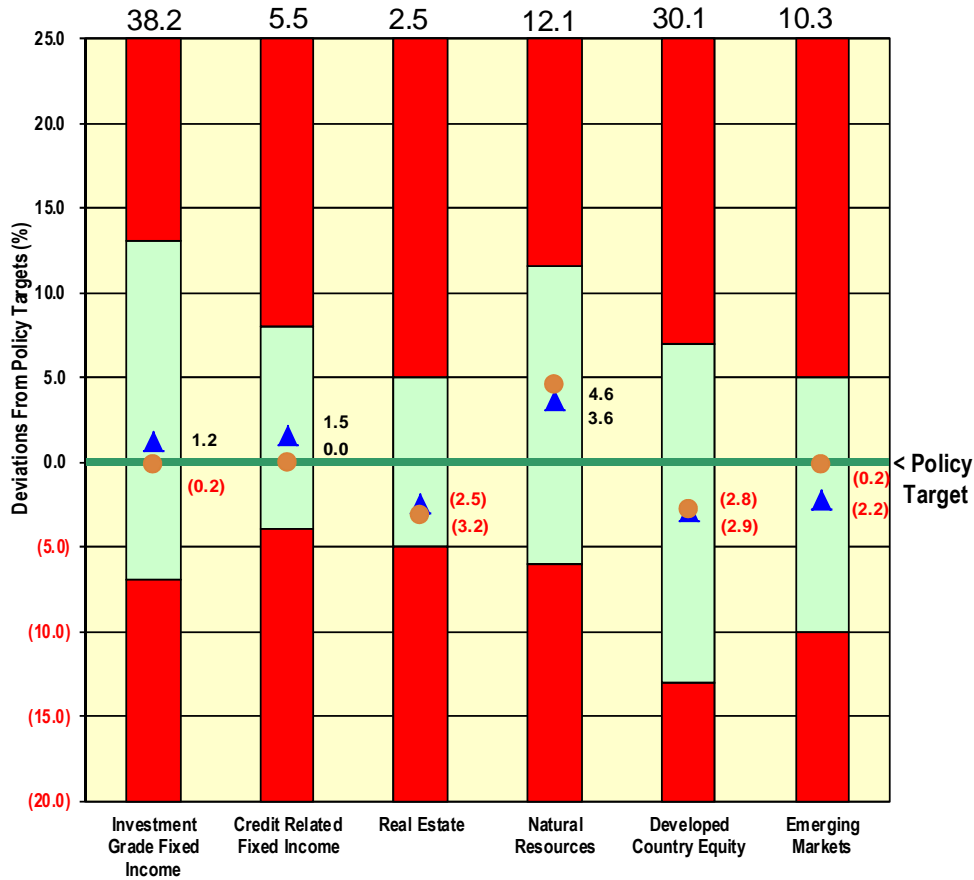
# ITF Asset Allocation as of February 29, 2012 (in millions)

Asset Group	Asset Class	More Correlated and Constrained		Less Correlated and Constrained		Private Investments		Grand Total	
		\$	%	\$	%	\$	%	\$	%
Fixed Income	Investment Grade	\$ 1,679	34.8%	\$ 163	3.4%	\$ -	0.0%	\$ 1,842	38.2%
	Credit-Related	-	0.0%	267	5.5%	-	0.0%	267	5.5%
<b>Fixed Income Total</b>		<b>1,679</b>	<b>34.8%</b>	<b>430</b>	<b>8.9%</b>	<b>-</b>	<b>0.0%</b>	<b>2,109</b>	<b>43.7%</b>
Real Assets	Real Estate	86	1.8%	31	0.7%	-	0.0%	117	2.5%
	Natural Resources	582	12.1%	2	0.0%	-	0.0%	584	12.1%
<b>Real Assets Total</b>		<b>668</b>	<b>13.9%</b>	<b>33</b>	<b>0.7%</b>	<b>-</b>	<b>0.0%</b>	<b>701</b>	<b>14.6%</b>
Equity	Developed Country	352	7.2%	1,103	22.9%	-	0.0%	1,455	30.1%
	Emerging Markets	356	7.3%	143	3.0%	-	0.0%	499	10.3%
<b>Equity Total</b>		<b>708</b>	<b>14.5%</b>	<b>1,246</b>	<b>25.9%</b>	<b>-</b>	<b>0.0%</b>	<b>1,954</b>	<b>40.4%</b>
<b>Grand Total</b>		<b>\$ 3,055</b>	<b>63.2%</b>	<b>\$ 1,709</b>	<b>35.5%</b>	<b>\$-</b>	<b>0.0%</b>	<b>\$ 4,764</b>	<b>98.7%</b>

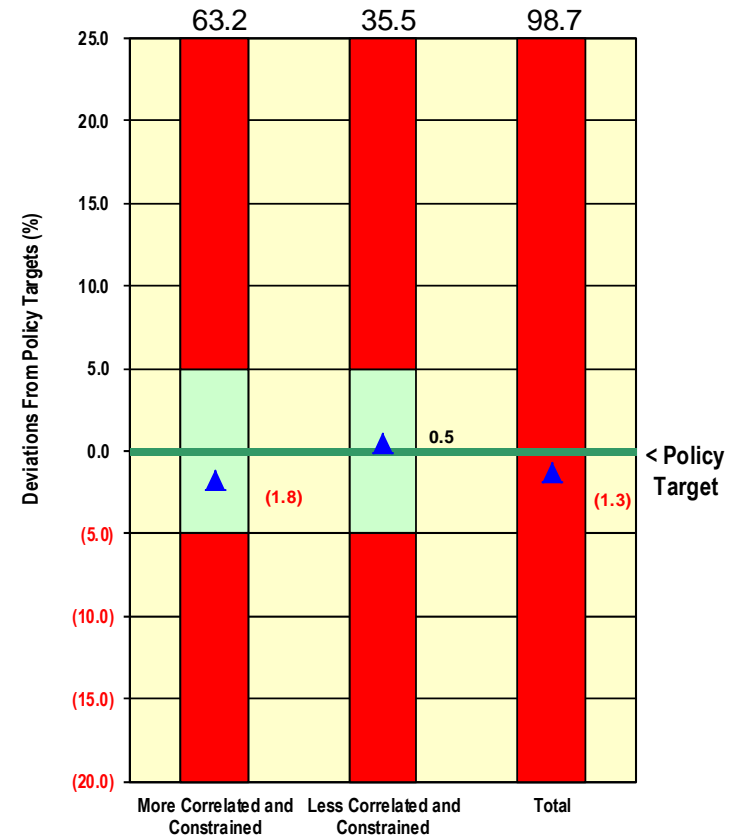


# ITF Asset Allocation as of February 29, 2012

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 February 29, 2012

Event	Hedge	Exposures as of February 29, 2012					Changes since November 30, 2011			
		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>ACTIVE TRADES</b>										
<b>U.S. Inflation</b>										
	CMS Options	\$ (13)	5.8	\$ 2,251	\$ 6	\$ (6)	\$ -	-	\$ -	(1.46)
<b>Emerging Markets Bubble</b>										
	KOSPI Put Spreads	(5)	4.9	177	3	(2)	-	-	-	(2)
	ASX Put Spreads	(6)	7.0	242	4	(1)	-	-	-	(3)
	AUD forwards to hedge ASX premiums	-	-	(5)	(0)	(0)	-	-	-	(0)
	Total	(10)	12.0		7	(4)	-	-		(5)
<b>Sovereign Default</b>										
	JPY Rate Options and Swaptions	\$ (6)	5.9	717	3	(3)	0	(0.4)	(454)	0
	DKK Call / EURO Put Options	(3)	5.3	358	1	(1)	-	-	-	(1)
	Total	(9)	11.2		4	(5)	0	(0.4)		(1)
<b>Low Growth / Recession</b>										
	S&P Put Spreads	\$ (5)	10.5	124	0	(5)	5	(10.7)	(220)	(4)
<b>SUBTOTAL ACTIVE TRADES</b>		<b>(36)</b>	<b>39</b>		<b>6</b>	<b>(30)</b>	<b>5</b>	<b>(11)</b>		<b>(18)</b>
<b>EXPIRED TRADES</b>										
	JPY Rate Options and Swaptions	\$ (0)	0.4	454		(0)	(0)	0.4	454	(0)
	S&P Put Spreads	(5)	10.7	220		(5)	(5)	10.7	220	(5)
<b>SUBTOTAL EXPIRED TRADES</b>		<b>(5)</b>	<b>\$ 11.1</b>			<b>(5)</b>				
<b>TOTAL</b>		<b>\$ (42)</b>	<b>50.6</b>			<b>\$ (35)</b>	<b>\$ 5</b>	<b>\$ (11)</b>		<b>\$ (18)</b>

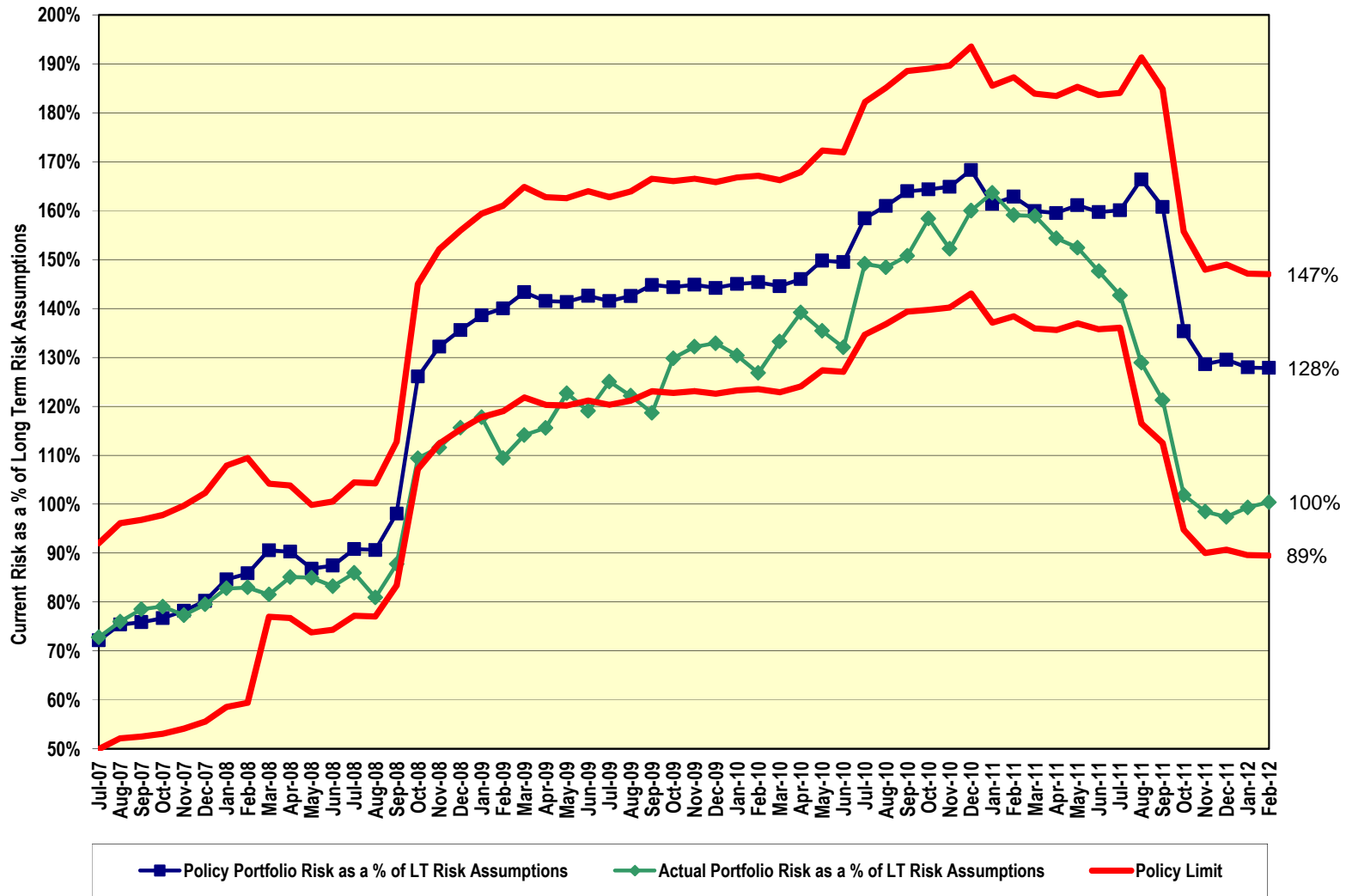
(1) Maximum Loss for Options

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



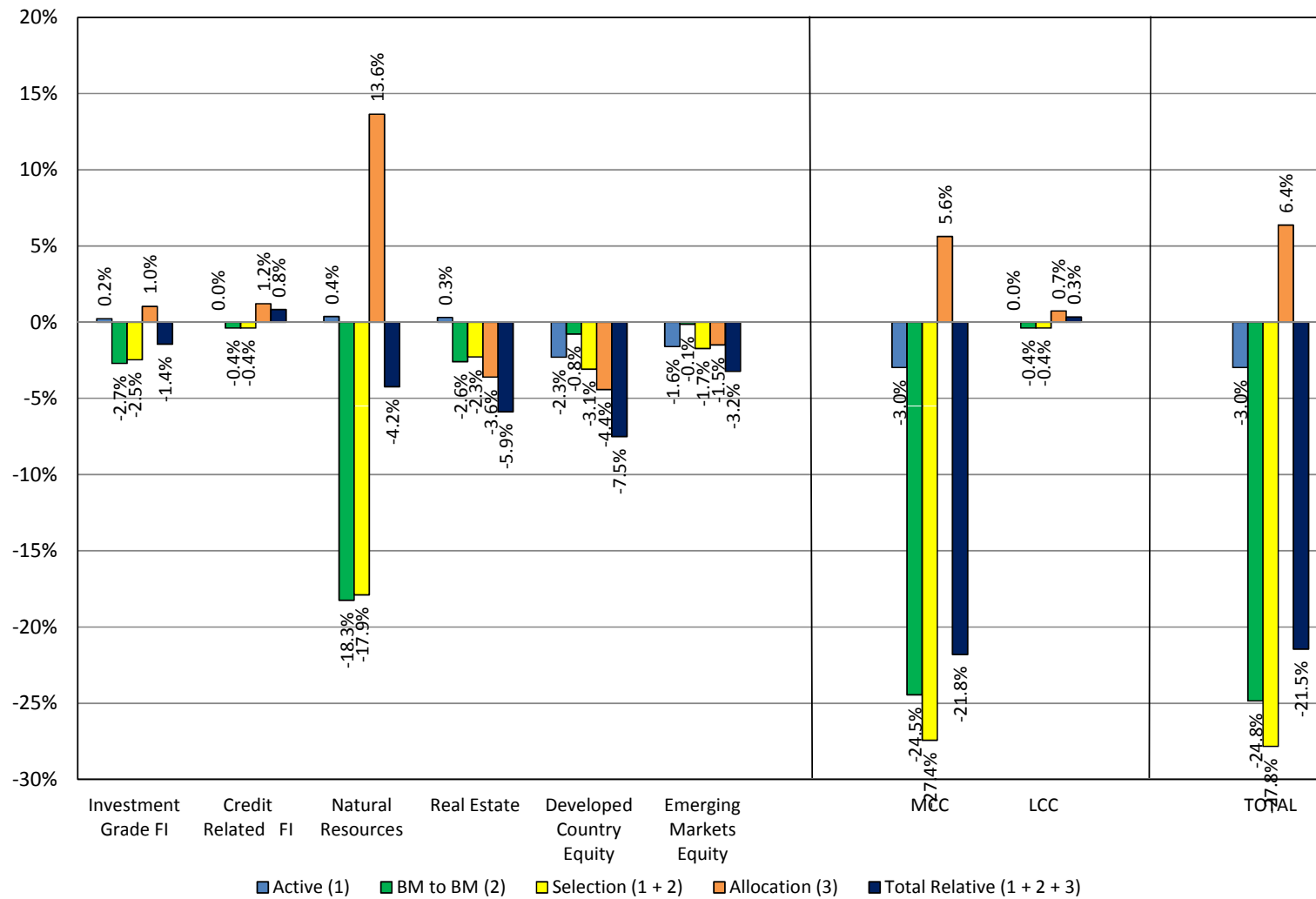
# Current Risk Environment of ITF

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





# ITF 4-Way Risk Decomposition as of February 29, 2012



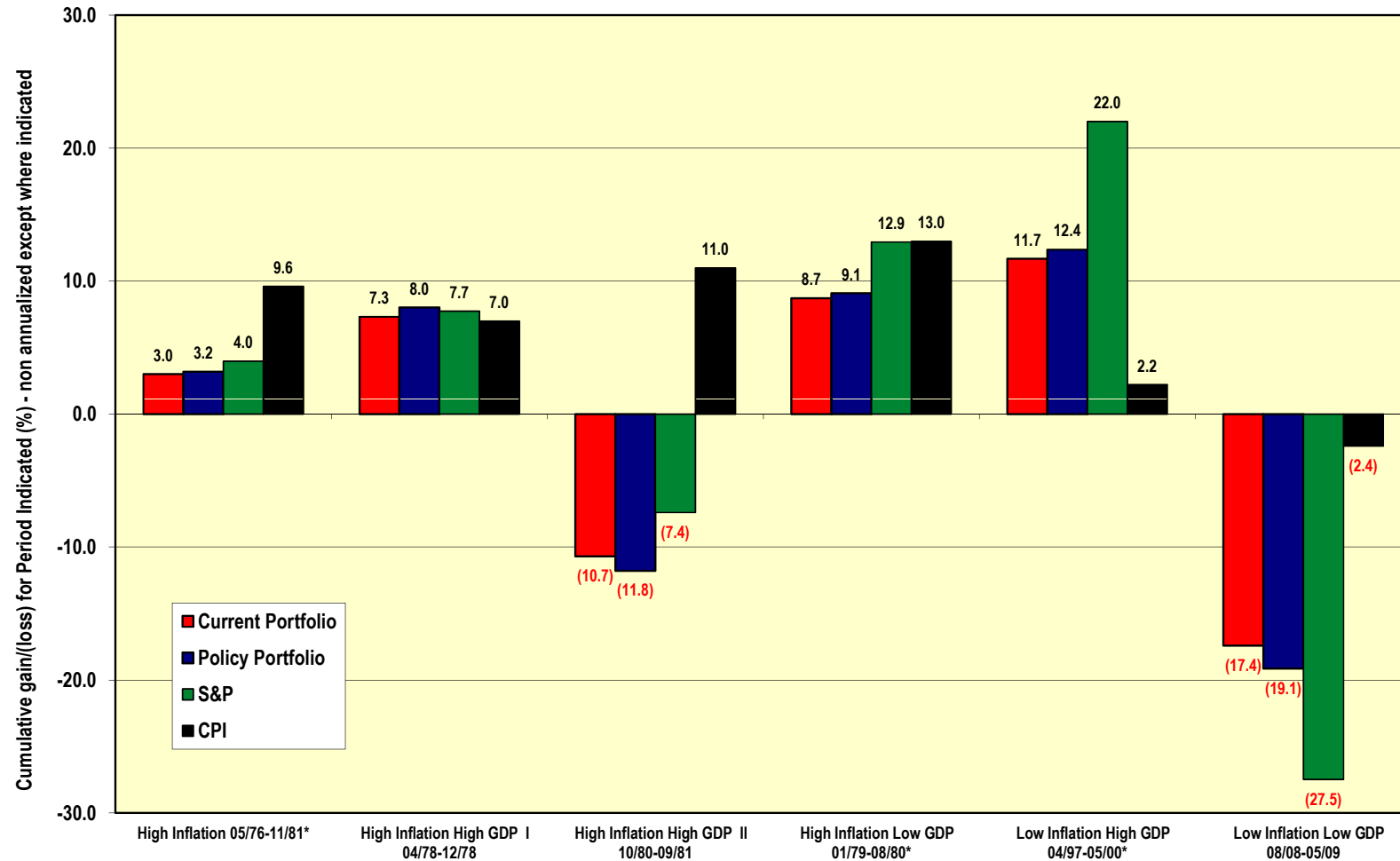


# Parametric Stress Tests

<u>Test</u>	<u>Effect on ITF</u>
• S&P-500 drops 20%	(3.66%)
• Rates rise 100bp	(1.54%)
• Dollar strengthens 5%	(1.28%)
• Dollar weakens 5%	1.43%
• Yield curve flattens – Bull case	1.36%
• Yield curve flattens – Bear case	(0.46%)
• Yield curve steepens – Bull case	0.47%
• Yield curve steepens – Bear case	(1.07%)



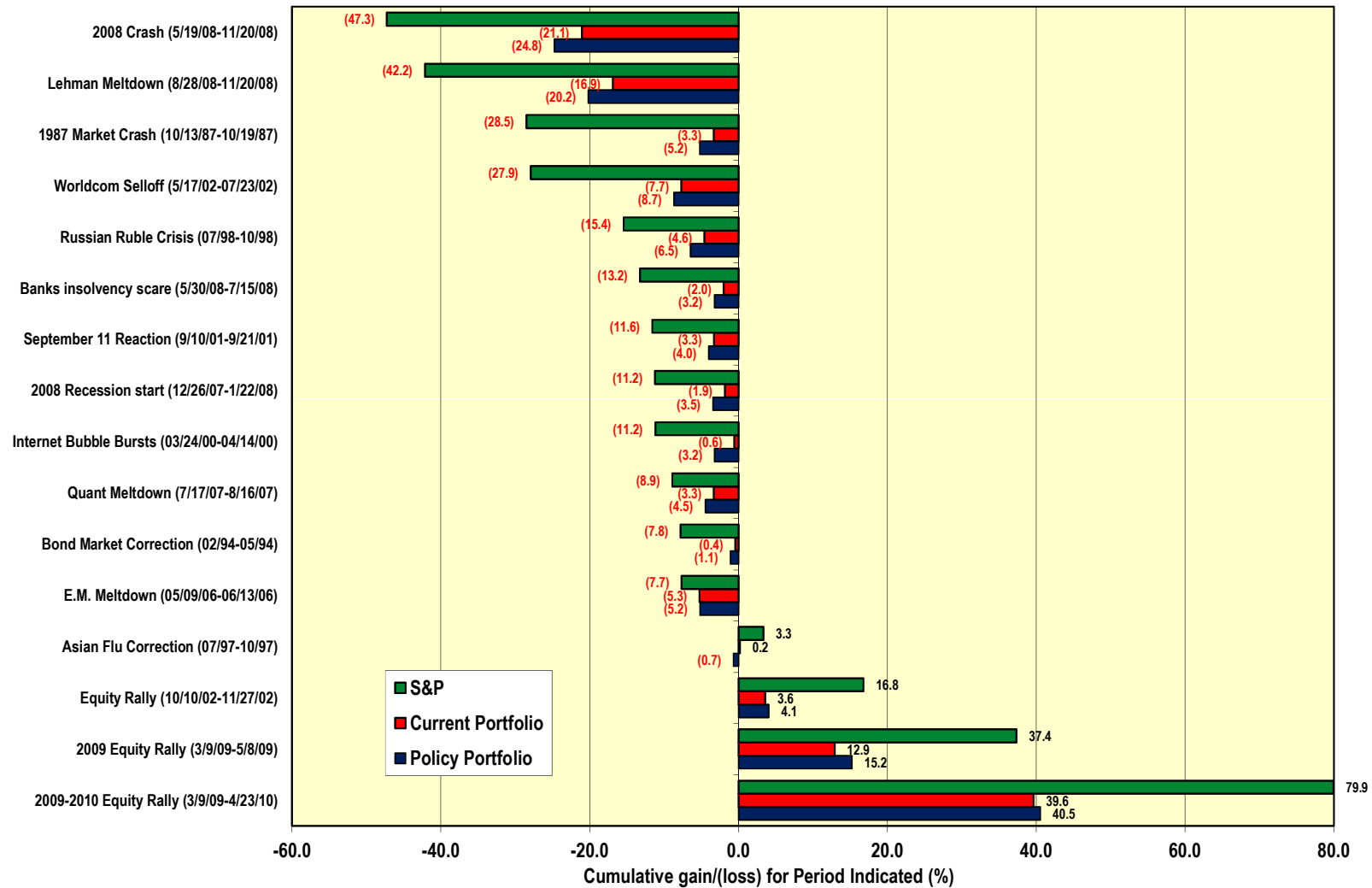
# Hypothetical Performance of Current ITF Portfolio in Selected Economic Stress Environments



\* Annualized



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







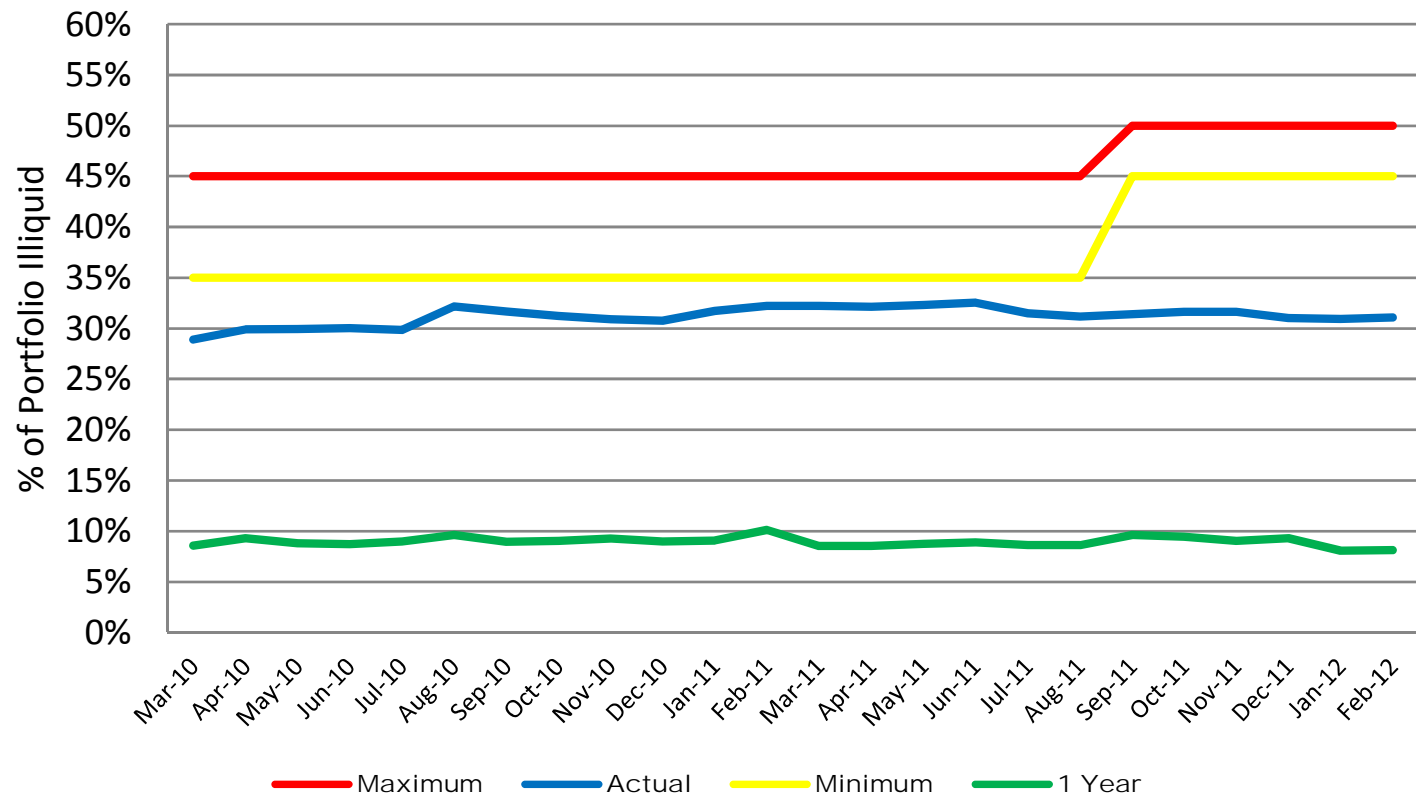
## ITF Leverage as of February 29, 2012

- Investment Grade Fixed Income had a gross leverage of 1.42x, no net leverage
- All other asset classes had no net leverage, and up to 1.01x gross leverage at the portfolio level
- Overall the portfolio had a gross leverage of 1.15x, 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 January 1, 2012 through March 31, 2012

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

Agreement	Purpose	Contract Term	Annual Amount
Fort Sheridan Advisors LLC	Investment consultant to assist in understanding Fund's exposure to unforeseen market events and identify cost-effective ways to hedge against such events	2/18/2012 – 2/17/2013 (Renews annually)	\$120,000

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

Agreement	Purpose	Contract Term	Annual Amount
Bloomberg	Portfolio Order Management System	Renews quarterly via invoice	\$140,000
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 America LLC	Advisor to Marketable Alternative staff	Monthly invoice	\$240,000

**Agenda Item**  
UTIMCO Board of Directors Meeting  
April 11, 2012

**Agenda Item:** Review of Natural Resources and Real Estate Portfolios

**Developed By:** Staff

**Presented By:** Warner, Shoberg

**Type of Item:** Information item

**Description:** Team members from Natural Resources and Real Estate will update the Board on their respective portfolios. The presentation will focus on platform history, existing exposure, investment performance, portfolio construction, and new investment activities.

**Recommendation:** None

**Reference:** *Natural Resources UTIMCO Board Update – April 11, 2012 presentation*  
*Real Estate UTIMCO Board Update – April 11, 2012 presentation*  
(presentations will be distributed at meeting.)

**Agenda Item**  
UTIMCO Board of Directors Meeting  
April 11, 2012

**Agenda Item:** Emerging Market Currency Discussion

**Developed By:** Chen

**Presented By:** Chen

**Type of Item:** Information item

**Description:** Ms. Chen and the Portfolio Positioning Committee will provide an update on emerging market currencies. The presentation will focus on the endowments' current exposure to emerging market currencies and ways to access emerging market currencies.

**Recommendation:** None

**Reference:** *Emerging Market Currency Alternatives* presentation (to be distributed at meeting)

**Agenda Item**  
UTIMCO Board of Directors Meeting  
April 11, 2012

**Agenda Item:** Discussion of Investment Environment

**Developed By:** Zimmerman

**Presented By:** Zimmerman

**Type of Item:** Information Item

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

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

**Recommendation:** None

**Reference:** None

**Agenda Item**  
UTIMCO Board of Directors Meeting  
April 11, 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 April 5, 2012. The Committee’s agenda includes (1) approval of the Committee minutes; (2) discussion and appropriate action related to the categorization of new investment mandates and the annual review of existing mandate categorizations; (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 six new mandate categorizations prepared by staff for the period beginning January 14, 2012, and ending March 23, 2012. Additionally, staff completed its annual review of mandate categorizations and the Committee will review a presentation of the results of that review. No mandates are being recommended for re-categorization at this time. Four mandates have been added to the “watch-list,” i.e., categorizations that may require re-categorization in the near future.

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

**Recommendation:** None

**Reference:** None



**Agenda Item**  
UTIMCO Board of Directors Meeting  
April 11, 2012

**Agenda Item:** Report from Policy Committee

**Developed By:** Staff

**Presented By:** Gary

**Type of Item:** Information item

**Description:** The Policy Committee (“Committee”) will meet on April 5, 2012. The Committee’s agenda includes (1) approval of the Committee minutes; and (2) discussion of distribution rates and amount – Permanent University Fund, Permanent Health Fund, Long Term Fund, and Intermediate Term Fund (the “Funds”).

**Discussion:** Mr. Zimmerman will present to the Committee the *Distribution Policy* presentation. Each of the Funds’ respective Investment Policy Statement provides the guidelines to calculate the distribution amount or rate and provides the spending policy objectives of the Fund. The calculations of the distribution amount and payout rates are discussed in the attached Discussion of Distribution Rates and Amount and are based on the Investment Policy Statements.

**Recommendation:** None

**Reference:** Discussion of Distribution Rates and Amount; *Distribution Policy* presentation

## Discussion of Distribution Rates and Amount

### PUF

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

As shown in the table below the average annual return of the PUF investments for the trailing twelve quarters ending February 29, 2012 has exceeded the Expected Return by 25 basis points or more (≥.25%).

	Trailing 12 - Quarters Ending February 29, 2012	Expected or Benchmarks	Excess
Average Annual Rate of Return	16.03%	8.81%	7.22%

Therefore, as outlined in the PUF Investment Policy, the amount to be distributed from the PUF for Fiscal Year 2012-2013 is \$565,805,253 as calculated below:

Quarter Ended	Net Asset Value
5/31/2009	9,143,803,884
8/31/2009	9,673,908,334
11/30/2009	10,341,053,437
2/28/2010	10,470,036,500
5/31/2010	10,524,153,261
8/31/2010	10,724,962,438
11/30/2010	11,619,582,822
2/28/2011	12,338,732,852
5/31/2011	12,908,189,971
8/31/2011	12,687,945,718
11/30/2011	12,389,608,519
2/29/2012	12,971,283,084
	\$ 135,793,260,820
Number of quarters	12
Average Net Asset Value	\$ 11,316,105,068
Distribution Percentage	5.00%
FY 2012-13 Distribution	\$ 565,805,253

Article VII, Section 18 of the Texas Constitution requires that the amount of distributions to the AUF be determined by the Board of Regents of The University Texas System (“Board of Regents”) in a manner intended to provide the AUF with a stable and predictable stream of annual distributions and to maintain over time the purchasing power of PUF investments and annual distributions to the AUF. The Constitution further limits the Board of Regents’ discretion to set annual PUF distributions to the satisfaction of three tests:

1. The amount of PUF distributions to the AUF in a fiscal year must be not less than the amount needed to pay the principal and interest due and owing in that fiscal year on PUF bonds and notes. The proposed distribution of \$565,805,253 is substantially greater than PUF bond debt service of \$187,700,000 projected for FY 2012-2013.

System	Debt Service
U. T.	\$ 96,600,000
TAMU	91,100,000
Total	\$ 187,700,000

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

2. The Board of Regents may not increase annual PUF distributions to the AUF (except as necessary to pay PUF debt service) if the purchasing power of PUF investments for any rolling 10-year period has not been preserved. As the schedule below indicates, the average annual increase in the rate of growth of the value of PUF investments (net of expenses, inflation, and distributions) for the trailing 10-year period ended February 29, 2012 was 3.57%, which indicates that the purchasing power test was met.

Average Annual	Percent
Rate of Total Return	7.64%
Mineral Interest Receipts	3.39%
Expense Rate	(0.34)% (1)
Inflation Rate	(2.50)%
Distribution Rate	(4.62)%
Net Real Return	3.57%

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

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

Value of PUF Investments (1)	Proposed Distribution	Proposed Distribution as a % of Value of PUF Investments	Maximum Allowed Rate
\$11,316,105,068	\$565,805,253	5.00%	7.00%

(1) Source: UTIMCO

## **LTF AND PHF**

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

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

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

The increase in the consumer price index for the prior three years as of November 30, 2011, was 2.1%, which equates to an increase in the LTF distribution rate from \$0.3215 to \$0.3283 per unit for the fiscal year ending August 31, 2013. The LTF’s distribution rate calculated using the prior twelve quarter average value of the LTF is 5.4%, within the range of 3.5% to 5.5% set forth in the LTF Investment Policy.

The calculated increase in the PHF distribution rate is from \$.0561 to \$.0573 per unit for the fiscal year ending August 31, 2013. The PHF’s distribution rate calculated using the prior twelve quarter average value of the PHF is 5.2%, within the range of 3.5% to 5.5% set forth in the PHF Investment Policy.

## **ITF**

The distribution rate for the Intermediate Term Fund (“ITF”) has remained at 3.0% since its inception in February 2006.



THE UNIVERSITY OF TEXAS  
INVESTMENT MANAGEMENT COMPANY

# Distribution Policy

April 11, 2012



# Distribution Policy

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



# Current Distribution Rates and Methodologies

	PUF	LTF	PHF	ITF
<b>Current Methodology</b>	Percent of Assets	Constant Growth	Constant Growth	Percent of Assets
<b>Current Distribution Rate</b>	4.75% *	\$.3215/Unit Effective Rate = 4.88%	\$.0561/Unit Effective Rate = 4.68%	3.00%
<b>Asset Base Rate Applied To</b>	Trailing twelve quarters ending February current fiscal year	Trailing twelve quarters ending November current fiscal year	Trailing twelve quarters ending November current fiscal year	Ending Balance
<b>Role of Inflation</b>	–	Unit Rate increased by trailing twelve quarter inflation rate	Unit Rate increased by trailing twelve quarter inflation rate	–
<b>Potential Distribution Rate Increase</b>	If Investment Returns exceed Expected Return by .25% or more over trailing twelve quarters, Distribution Rate will increase to 5%	–	–	–

\* A one time additional distribution of .75% was authorized by the Board of Regents for Fiscal Year 2012 due to a record year of PUF Lands' lease sales and royalty income.



# Rationale for Distribution Methodologies

## PUF

•The percent of assets methodology may be appropriate for endowments where:

1. the current distribution is small relative to the total budget, and therefore distribution volatility is not of overriding importance, and
2. long-term growth is a key objective.

## LTF

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

## PHF

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





# Distribution Rate Limitations

## PUF

### Per State Constitution

- Distribution must cover debt service
  - Debt Obligations Limited to 30% (20% UT System/10% A&M System) of Book Value of PUF Investments (\$11,245 Billion as of 2/29/2012)
- Distribution may not exceed 7% of Assets **(1)**
- Must Maintain Purchasing Power in order for distributed dollars to increase

Formula (Rolling Ten Years):

+Investment Returns

**+Mineral Interests**

- Expenses

- Inflation

- Distribution

> 0

Current Purchasing Power Calculation:

Investment Return      7.64%

**Mineral Receipts**      **3.39%**

Expenses                (0.34%)

Inflation                (2.50%)

Distribution Rate      (4.62%)

Net Real Return        3.57%

(1) Applied to trailing twelve quarters per Regents Policy

## LTF

### Per Regents Policy

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

### UPMIFA

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

## PHF

### Per Regents Policy

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

### UPMIFA

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



# PUF Balances and Distribution Rates



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



# PUF Distribution Rates

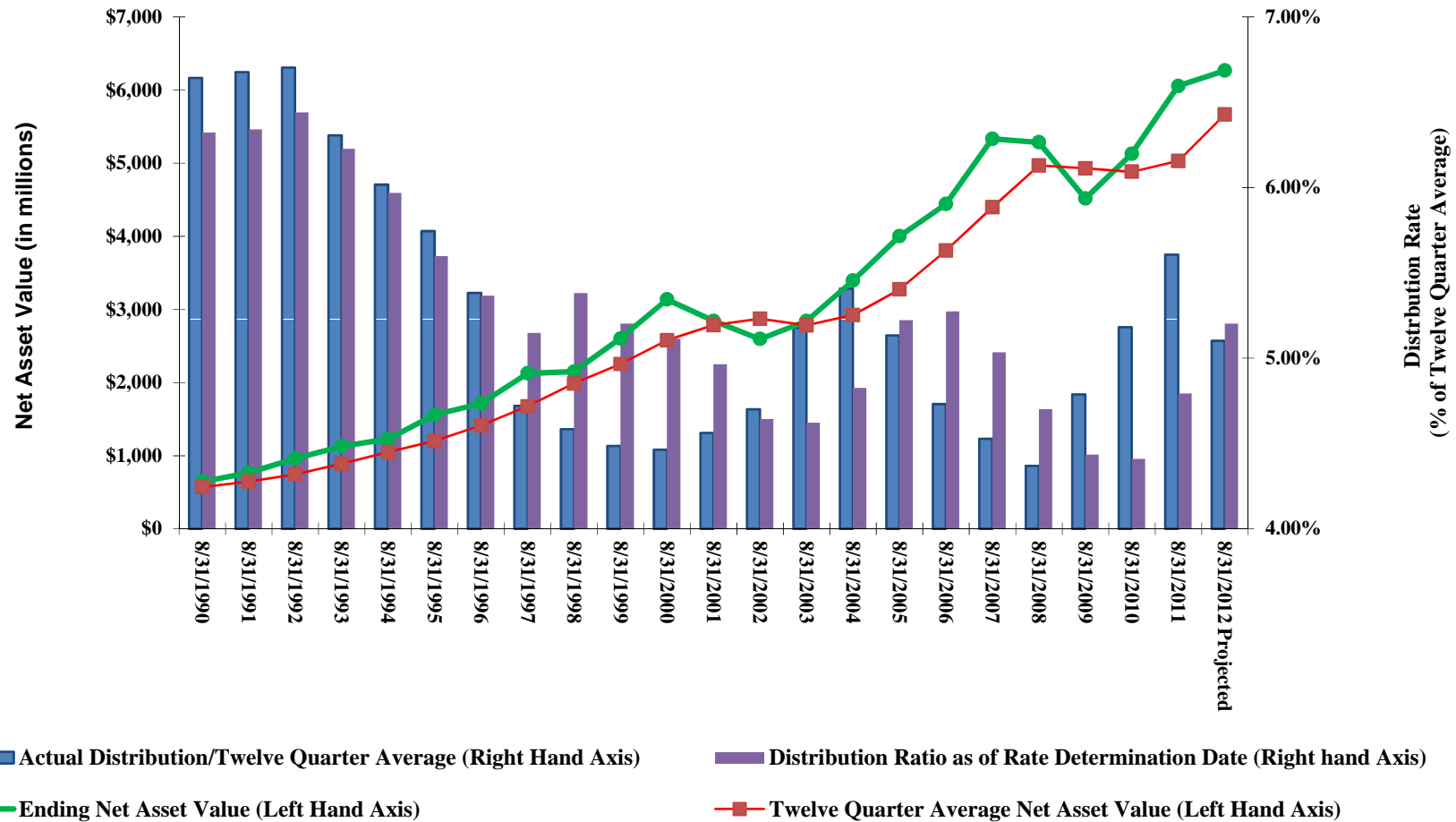
(\$ in millions)

Ending Net Asset Value	Twelve Quarter Average Net Asset Value	\$ Distribution	Policy Distribution Rate *	Actual Distribution/ Twelve Quarter Average	Actual Distribution/ Ending Net Asset Value
\$3,541	\$3,587	\$266	N/A	7.42%	7.51%
3,922	3,716	258	N/A	6.94%	6.58%
4,145	3,830	257	N/A	6.71%	6.20%
4,469	4,058	250	N/A	6.16%	5.59%
4,428	4,269	242	N/A	5.67%	5.47%
4,959	4,453	250	N/A	5.61%	5.04%
5,292	4,768	254	N/A	5.33%	4.80%
6,368	5,294	265	N/A	5.01%	4.16%
6,517	6,024	307	N/A	5.10%	4.71%
7,466	6,709	264	N/A	3.94%	3.54%
8,452	7,375	298	4.50%	4.04%	3.53%
7,540	7,659	317	4.50%	4.14%	4.20%
6,738	7,571	338	4.50%	4.46%	5.02%
7,245	7,138	363	4.75%	5.09%	5.01%
8,088	7,249	348	4.75%	4.80%	4.30%
9,427	7,880	341	4.75%	4.33%	3.62%
10,313	8,956	357	4.75%	3.99%	3.46%
11,743	10,070	401	4.75%	3.98%	3.41%
11,359	11,059	449	4.75%	4.06%	3.95%
9,674	10,745	531	5.00%	4.94%	5.49%
10,725	10,473	516	4.75%	4.93%	4.81%
12,688	10,630	506	4.75%	4.76%	3.99%
13,522	11,978	497 + 79	4.75% + 0.75%	4.15% + 0.68%	3.68% + 0.58%

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



# LTF Balances and Distribution Rates





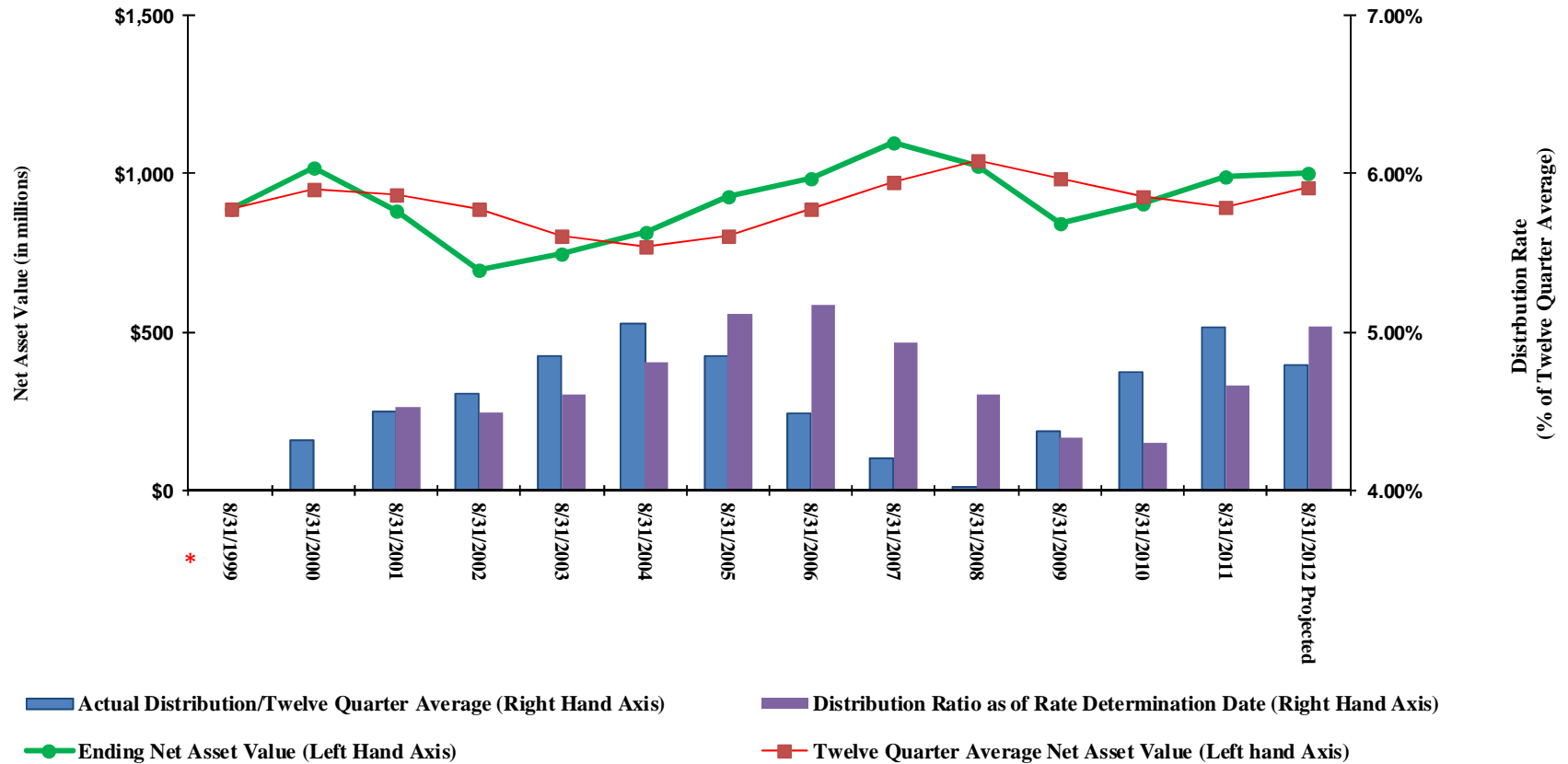
# LTF Distribution Rates

(\$ in millions)

	Ending Net Asset Value	Twelve Quarter Average Net Asset Value	\$ Distribution	Distribution Ratio as of Rate Determination Date	Actual Distribution/ Twelve Quarter Average	Actual Distribution/ Ending Net Asset Value
8/31/1990	\$645	\$572	\$38	6.32%	6.64%	5.89%
8/31/1991	764	644	43	6.34%	6.68%	5.63%
8/31/1992	959	746	50	6.44%	6.70%	5.21%
8/31/1993	1,128	888	56	6.23%	6.31%	4.96%
8/31/1994	1,226	1,047	63	5.97%	6.02%	5.14%
8/31/1995	1,559	1,201	69	5.60%	5.75%	4.43%
8/31/1996	1,712	1,412	76	5.37%	5.38%	4.44%
8/31/1997	2,125	1,674	79	5.15%	4.72%	3.72%
8/31/1998	2,148	1,986	91	5.38%	4.58%	4.24%
8/31/1999	2,602	2,252	101	5.20%	4.48%	3.88%
8/31/2000	3,136	2,576	115	5.11%	4.46%	3.67%
8/31/2001	2,843	2,784	127	4.96%	4.56%	4.47%
8/31/2002	2,595	2,872	135	4.64%	4.70%	5.20%
8/31/2003	2,840	2,781	144	4.62%	5.18%	5.07%
8/31/2004	3,393	2,922	158	4.83%	5.41%	4.66%
8/31/2005	4,001	3,273	168	5.22%	5.13%	4.20%
8/31/2006	4,441	3,805	180	5.27%	4.73%	4.05%
8/31/2007	5,333	4,396	199	5.03%	4.53%	3.73%
8/31/2008	5,285	4,967	217	4.70%	4.37%	4.11%
8/31/2009	4,517	4,930	236	4.43%	4.79%	5.22%
8/31/2010	5,130	4,883	253	4.41%	5.18%	4.93%
8/31/2011	6,057	5,029	282	4.79%	5.61%	4.66%
8/31/2012 Projected	6,267	5,666	289	5.20%	5.10%	4.61%



# PHF Balances and Distribution Rates



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



# PHF Distribution Rates

(\$ in millions)

	Ending Net Asset Value	Twelve Quarter Average Net Asset Value	\$ Distribution *	Distribution Ratio as of Rate Determination Date *	Actual Distribution/ Twelve Quarter Average *	Actual Distribution/ Ending Net Asset Value *
8/31/1999	890	890	N/A	N/A	N/A	N/A
8/31/2000	1,017	949	41	N/A	4.32%	4.03%
8/31/2001	881	933	42	4.53%	4.50%	4.77%
8/31/2002	698	890	41	4.49%	4.61%	5.87%
8/31/2003	745	804	39	4.61%	4.85%	5.23%
8/31/2004	814	772	39	4.81%	5.05%	4.79%
8/31/2005	926	804	39	5.11%	4.85%	4.21%
8/31/2006	987	891	40	5.17%	4.49%	4.05%
8/31/2007	1,100	976	41	4.93%	4.20%	3.73%
8/31/2008	1,026	1,043	42	4.60%	4.03%	4.09%
8/31/2009	842	984	43	4.34%	4.37%	5.11%
8/31/2010	905	927	44	4.30%	4.75%	4.86%
8/31/2011	993	894	45	4.67%	5.03%	4.53%
8/31/2012 Projected	1,000	959	46	5.04%	4.80%	4.60%

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



# PUF and LTF Inflows: Actual and Forecast

<u>PUF:</u>	Actual												Forecasted
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>West Texas Land Mineral Receipts</b>	\$83	\$116	\$81	\$102	\$147	\$193	\$215	\$273	\$458	\$340	\$338	\$896	\$722
<b>% of Annual Average NAV</b>	1.04%	1.45%	1.13%	1.46%	1.92%	2.20%	2.18%	2.48%	3.97%	3.23%	3.31%	7.65%	5.51%
<b>% of 10 Year Average Contributions to 10 Year Average NAV</b>	1.26%	1.23%	1.21%	1.20%	1.27%	1.38%	1.48%	1.61%	1.95%	2.22%	2.44%	3.10%	3.51%

<u>LTF:</u>	Actual												Forecasted
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Endowment Contributions</b>	\$119	\$122	\$92	\$71	\$287	\$142	\$46	\$230	\$183	\$176	\$180	\$142	\$194
<b>Foundations and Other Accounts</b>	\$-	\$-	\$-	\$-	\$-	\$-	\$126	\$133	\$172	\$16	\$119	\$311	\$7
<b>Total Contributions</b>	\$119	\$122	\$92	\$71	\$287	\$142	\$172	\$363	\$355	\$192	\$299	\$453	\$201
<b>% of Annual Average NAV</b>	4.15%	4.08%	3.38%	2.61%	9.21%	3.84%	4.07%	7.43%	6.69%	3.92%	6.20%	8.10%	3.26%
<b>% of 10 Year Average Contributions to 10 Year Average NAV</b>	5.85%	5.53%	4.85%	4.33%	4.66%	4.03%	4.06%	4.57%	4.94%	4.99%	5.19%	5.57%	5.36%





# Projected Distributions (1)

(in millions)

		<u>PUF</u>	<u>Projected</u>									
		<u>FY 2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Case I												
Investment Return = Real 5%		\$576	\$566	\$627	\$643	\$680	\$714	\$748	\$782	\$816	\$850	\$884
Case II												
Investment Return = 0%		\$576	\$566	\$585	\$605	\$595	\$576	\$555	\$533	\$511	\$489	\$468
		<u>LTF</u>	<u>Projected</u>									
		<u>FY 2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Case I												
Investment Return = Real 5%		\$298	\$314	\$333	\$353	\$374	\$395	\$416	\$439	\$462	\$485	\$510
Case II												
Investment Return = 0%		\$298	\$314	\$335	\$357	\$370	\$385	\$400	\$416	\$434	\$454	\$476
		<u>PHF</u>	<u>Projected</u>									
		<u>FY 2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Case I												
Investment Return = Real 5%		\$46	\$47	\$48	\$50	\$51	\$53	\$55	\$56	\$58	\$59	\$61
Case II												
Investment Return = 0%		\$46	\$47	\$48	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50

(1) Assumed 3.0% Inflation Rate



# LTF Distribution Projections Based on 4.75% of a Rolling Twelve Quarter Average

(in millions)

Purchasing Power Calculation:  
Ten Year Periods Ending February 28,

	Actual												Projected										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Rate of Investment Return:	13.26%	12.23%	10.34%	8.39%	10.53%	11.34%	10.38%	10.17%	8.78%	4.49%	5.06%	6.89%	7.49%	9.24%	7.11%	6.83%	6.48%	6.09%	6.05%	10.94%	8.96%	8.14%	8.82%
Less:																							
Expenses	-0.24%	-0.23%	-0.20%	-0.20%	-0.20%	-0.19%	-0.18%	-0.18%	-0.17%	-0.19%	-0.19%	-0.21%	-0.23%	-0.26%	-0.29%	-0.32%	-0.35%	-0.38%	-0.41%	-0.41%	-0.42%	-0.43%	-0.45%
Inflation	-2.88%	-2.70%	-2.53%	-2.50%	-2.42%	-2.43%	-2.52%	-2.46%	-2.72%	-2.58%	-2.47%	-2.33%	-2.50%	-2.51%	-2.64%	-2.64%	-2.58%	-2.64%	-2.53%	-2.81%	-2.90%	-2.99%	-3.00%
Distributions	-5.07%	-4.86%	-4.72%	-4.68%	-4.66%	-4.59%	-4.54%	-4.52%	-4.52%	-4.57%	-4.72%	-4.81%	-4.84%	-4.79%	-4.73%	-4.70%	-4.68%	-4.66%	-4.66%	-4.56%	-4.41%	-4.33%	-4.28%
Net Real Return	5.07%	4.44%	2.89%	1.00%	3.25%	4.12%	3.13%	3.02%	1.36%	-2.84%	-2.33%	-0.46%	-0.08%	1.68%	-0.54%	-0.82%	-1.12%	-1.59%	-1.56%	3.16%	1.23%	0.39%	1.09%

Purchasing Power not met   Purchasing Power not met   Purchasing Power not met   Purchasing Power not met   Purchasing Power not met   Purchasing Power not met   Purchasing Power not met

Distributions: Periods Ending August 31,	Actual (1)												Projected (2)											
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	
Per Unit Distribution Rate	\$0.2450	\$0.2510	\$0.2580	\$0.2645	\$0.2697	\$0.2764	\$0.2844	\$0.2929	\$0.3024	\$0.3098	\$0.3172	\$0.3215	\$0.3131	\$0.3117	\$0.3117	\$0.3117	\$0.3117	\$0.3117	\$0.3117	\$0.3117	\$0.3857	\$0.4024	\$0.4193	\$0.4360

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

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



**Agenda Item**  
UTIMCO Board of Directors Meeting  
April 7, 2012

**Agenda Item:** Report from Audit and Ethics Committee

**Developed By:** Staff

**Presented By:** Hicks

**Type of Item:** Information item

**Description:** The Audit and Ethics Committee (“Committee”) will meet on April 7, 2011. The Committee’s agenda includes (1) approval of the Committee minutes; (2) an update of other compliance, reporting, and audit issues; (3) discussion and appropriate action affirming the continuance of the lead audit partner and reviewing partner for Deloitte & Touche LLP; and (4) a presentation of the unaudited financial statements for the six months ended February 29, 2012, for the Investment Funds and the Corporation.

**Discussion:** The Charter of the Audit and Ethics Committee includes a provision that the lead audit partner and reviewing partner rotate off of the audit every five years, unless the Committee adopts a resolution affirmatively determining that such rotation is not required. The University of Texas System is in the process of engaging Deloitte & Touche LLP (“Deloitte”) for the 2012 System-wide audit which includes the separate audits of the Permanent University Fund, General Endowment Fund, Permanent Health Fund, Long Term Fund, and Intermediate Term Fund (the “Investment Funds”) managed by UTIMCO. The 2012 audits will be the sixth year that Deloitte has audited the Investment Funds and the UTIMCO corporate audit. Tom Wagner has been the lead partner and Brian Gallagher has been the reviewing or concurring partner during the five year tenure of Deloitte. The Committee will discuss and take appropriate action related to Staff’s request that Mr. Wagner and Mr. Gallagher continue as the lead audit partner and lead reviewing partner, respectively, for the 2012 and 2013 year end audits.

Routine activities of the Committee will include approving the minutes, reviewing the unaudited financial statements for the six months ended February 29, 2012 for the Investment Funds and UTIMCO Corporation and the quarterly compliance reports.

**Recommendation:** None

**Reference:** Quarterly Compliance Reports

**The University of Texas Investment Management Company  
Institutional Compliance Program Annual Report  
for the Quarter Ended February 29, 2012**

**Section I – Organizational Matters**

- Two meetings of the Ethics and Compliance Committee have been held during this fiscal year: September 19, 2011 and December 15, 2011.
- Uche Abalogu has been hired as the Chief Technology Officer for UTIMCO with an employment start date of March 5, 2012.

**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 98 meetings/calls with potential managers. Serious due diligence was initiated on three managers. No managers were hired. Ongoing review of active external managers included 34 meetings/calls. Additional efforts included monthly performance tracking, reviews and analyses by the team. Quarterly portfolio review meetings have been changed to semi-annual meetings. The next meeting is scheduled for May 3, 2012.

**Marketable Alternative Investments:** The Marketable Alternative Investments group participated in 46 meetings/calls with potential managers. Serious due diligence was initiated on three managers. One manager was hired. Ongoing review of external managers was conducted in the form of 65 meetings/calls/site visits and participation in various annual meetings. A portfolio review meeting was held during the quarter.

**Private Markets:** The Private Markets group initiated serious due diligence on twelve potential managers. Six commitments were made. The Private Markets group also participated in 76 meetings with active external managers and 55 meetings 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 46 meetings/calls with potential managers. Serious due diligence was initiated on three managers. Two managers were hired. Ongoing review of active external managers included 57 meetings/calls. Additional efforts included participation in annual meetings. The quarterly portfolio review meeting was held on March 7, 2012.

**Real Estate:** The Real Estate group participated in 69 meetings/calls with potential managers. Serious due diligence was initiated on two managers. Two managers were hired. Ongoing review of active external managers included 40 meetings/calls. Additional efforts included participation in annual meetings. The quarterly portfolio review meeting was held on March 7, 2012.

**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. 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 and support of ISDAs for UTIMCO's direct trades, and for 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; continued to work with Albourne and IFS on improving proxies for LCC and Private Investments.
- 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. Based on these inputs, Risk Team started prototyping new tools.
- All internal derivatives were reviewed and analyzed in detail prior to initiation. 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 participated in the due diligence of 2 new managers.
- Risk Team prepared projections on portfolio risk, country exposure, liquidity, and asset allocations; updated projections on a weekly basis.

**Specialized Training:** Participated in one conference during the quarter.

**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:**

- Several alerts to staff about information security issues, including the Stratfor and Zappos.com breaches, mobile and personal device security.

## FINAL 032112

- 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.
- Reviewed Information Security Compliance materials in preparation for annual training.
- Worked with other UTIMCO staff on the continued development of the Business Continuity Plan

**Specialized Training:** CISO attended meetings of the Chief Information Security Officers Council and the UT System-wide Information Security Conference (INFO-SEC). Also attended training on Diligent Board Books security.

### **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. Continued cross training of new employee. Plans are to cross train more members of the team during this fiscal year.
- Annual compliance statements were sent out to 23 managers. All were returned with no compliance issues noted.
- 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 funded. 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 during the quarter. One new manager was hired which required the list to be sent. The restricted list was sent to the manager timely.
- 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 performed during the quarter.
- No preclearance of securities transactions was requested during the quarter. One employee trade occurred on the same day that UTIMCO received and traded a gift security. Gift securities are traded the day received per policy. Per the employee, he did not request preclearance because when he made the trade in the morning, the security was not on the preclearance list. (The gift security had been added to the preclearance list midday.) Since it was not possible to verify the time of the trade, the incident has been included in the report. All transactional disclosure forms were filed timely.
- One employee was hired during the quarter. Employee did not start employment until March 5, 2012, so no ethics compliance forms were required to be filed during the quarter.
- Three trips/events for vendor reimbursed/paid expenses, which required documentation and supervisor/CEO approval, had appropriate documentation and approval. No trips occurred that had entertainment. One employee obtained approval to attend a sponsored event that included entertainment after the employee’s attendance at the event.

**Specialized Training:** None

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

**High-Risk Area #1:** Investment Due Diligence

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

**Assurance Activities Conducted:** CCO reviewed results of quarterly due diligence monitoring plan for each Investment group. 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 regarding information technology and security practices. CCO reviews semi-annual 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. 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**

None; no employees nor interns began employment during the quarter.

**Section V – Action Plan Activities**

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

**Section VI – Confidential Reporting**

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

Type	Number	% of Total
Employee Relations	0	0.00%
Policy Issues	0	0.00%
Hang ups or wrong numbers	5	100.00%
Total	5	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	In process
<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	03/31/12	General Management plan completed; Draft of Operations, Accounting, and Reporting plan with Responsible Party for review and editing; 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	No new hires nor interns began employment during the quarter; annual training scheduled for March 27, 2012
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	In process
11.	ICAC activities: ICAC and Standing Committee participation	On-going	On-going

Updated 032112

#	ACTION ITEM	TARGET COMPLETION DATE	STATUS
12.	Work with Board Secretary and IT staff on implementation of Diligent BoardBooks	02/28/12	Completed
13.	Manage implementation of Records Retention Procedures	08/31/12	Refinement of procedure continues, Staff departments have submitted updated listings of types of records and holding periods for update to Retention schedule
14.	Refine and implement business continuity plan	08/31/12	Testing in process; CISO David Gahagan is managing the process for testing of plan

Updated 032112

**Agenda Item**  
UTIMCO Board of Directors Meeting  
April 11, 2012

**Agenda Item:** UTIMCO Organization Update

**Developed By:** Zimmerman

**Presented By:** Zimmerman

**Type of Item:** Information item

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

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



THE UNIVERSITY OF TEXAS  
INVESTMENT MANAGEMENT COMPANY

# UTIMCO ORGANIZATION UPDATE

April 11, 2012

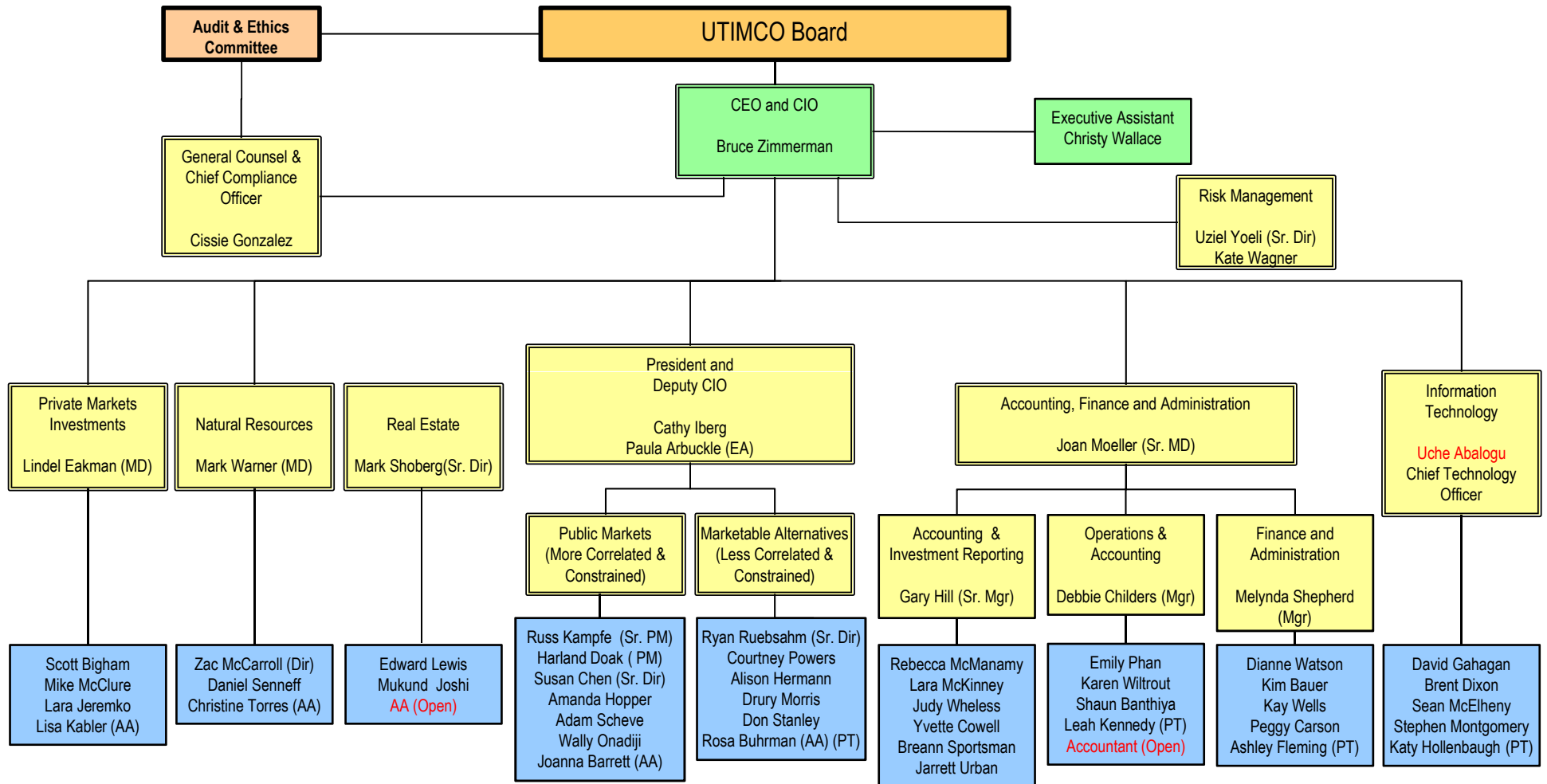


# UTIMCO Update

- Staffing
- Budget
- Technology



# UTIMCO – Organizational Structure





# UTIMCO Actual v Budget

## Q2 FY 2012

FYTD February 2012 <i>(in thousands)</i>	Actual	Budget	Actual v. Budget Favorable/(Unfavorable)	
			\$	%
Salaries	\$ 3,476	\$ 3,518	\$ 42	1%
Performance Compensation - Policy Accruals	2,778	2,624	(154)	-6%
Earnings on Deferred Compensation	120	71	(49)	-69%
Other Employee Related	749	914	165	18%
<b>Total Employee Related Expenses</b>	<b>7,123</b>	<b>7,127</b>	<b>4</b>	<b>0%</b>
Travel and Meetings	317	285	(32)	-11%
Legal	49	87	38	44%
Other	1,657	1,652	(5)	0%
<b>Total Other UTIMCO</b>	<b>2,023</b>	<b>2,024</b>	<b>1</b>	<b>0%</b>
<b>Total UTIMCO</b>	<b>\$ 9,146</b>	<b>\$ 9,151</b>	<b>\$ 5</b>	<b>0%</b>
Custodian	2,124	2,244	120	5%
Performance Measurement, Analytics and Risk Management	536	569	33	6%
Consultants	223	208	(15)	-7%
Legal and Background Checks	465	597	132	22%
Audit	429	168	(261)	-155%
Other	13	2	(11)	-550%
<b>Total Non-UTIMCO Costs Excluding Investment Manager Fees</b>	<b>3,790</b>	<b>3,788</b>	<b>(2)</b>	<b>0%</b>
<b>Total Non-Investment Manager Costs</b>	<b>\$ 12,936</b>	<b>\$ 12,939</b>	<b>\$ 3</b>	<b>0%</b>



**Agenda Item**  
UTIMCO Board of Directors Meeting  
April 11, 2012

**Agenda Item:** Educational Program for UTIMCO Directors

**Developed By:** Turner

**Presented By:** Turner

**Type of Item:** Information item

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

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

**Recommendation:** None

**Reference:** *Educational Program for UTIMCO Directors* presentation

# Educational Program for UTIMCO Directors

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THE UNIVERSITY OF TEXAS  
INVESTMENT MANAGEMENT COMPANY

April 11, 2012

**ANDREWS**  
ATTORNEYS **KURTH** LLP

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## Director Training Required

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

Master Investment Management  
Services Agreement (IMSA)

## An “Effective Board”

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

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

## Fiduciary Obligations of Nonprofit Directors

- Directors of for-profit vs. nonprofit corporations have differing stakeholder focus for their fiduciary obligations
  - Directors of for-profits have a primary fiduciary duty to owners

“The [for-profit] board’s fiduciary objective is long-term value creation for the corporation . . . .” – NCAD Report

- Directors of nonprofits have a primary fiduciary duty to **beneficiaries**

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

## Understanding Investment Objectives is Key

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

## Understanding Mission is Key

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

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

Current Mission Statement

## Overview of Standards of Conduct for UTIMCO Directors

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



## General Standard under Texas Corporate Law

Section 22.221, Texas Business Organizations Code, provides

“(a) A director shall discharge the director’s duties, including duties as a committee member, in **good faith**, with the **ordinary care**, and in a manner the director **reasonably believes** to be in the **best interests** of the corporation.

(b) A director is not liable to the corporation, a member, or another person for an action taken or not taken as a director if the director acted in compliance with [(a) above]. A person seeking to establish liability of a director must prove that the director did not act:

- (1) in good faith;
- (2) with ordinary care; and
- (3) in a manner the director reasonably believed to be in the best interest of the corporation.”

## Standards under UT Board of Regents' Investment Policies

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

## Standards under Texas UPMIFA

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

§163.004(b), Texas UPMIFA

# Standards under UTIMCO Code of Ethics

## General Standards

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

## Standards under UTIMCO Code of Ethics (cont'd)

### UTIMCO Prohibited Transactions

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

## Standards under UTIMCO Code of Ethics (cont'd)

### Director Prohibited Transactions

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

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

## Standards under UTIMCO Code of Ethics (cont'd)

### Restriction on Investments in Publicly Traded Securities

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

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

## Standards under UTIMCO Code of Ethics (cont'd)

### Conflicts of Interest

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



## Overview of Fiduciary Duties

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

## Overview of Fiduciary Duties (cont'd)

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

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

## Fiduciary Duty of Care

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

## Fiduciary Duty of Loyalty

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

## Fiduciary Duty of Obedience

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

# Specific Duty to Determine Reasonable Compensation

## Executive Compensation

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

## Balancing Interests

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

## Overview of Immunity Theories

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



## Sovereign Immunity under Texas Law

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

## Official Immunity under Texas Law

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

## Charitable Immunity under Texas Law

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

## Corporate Director's Immunity under Texas Law

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

## Qualified Immunity under Federal Law

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

## Volunteer's Immunity under Federal law

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

## Overview of Claims for Indemnification

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

## Indemnification Under Chapter 104, Texas Civil Practices and Remedies Code

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



## Indemnification under Chapter 104 (cont'd)

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

## Indemnification Under UTIMCO's Articles

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

## Indemnification under IMSA

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

## Overview of Certain Common Law Defenses

- *Business Judgment Rule*
- Disclosed Principal

## *Business Judgment Rule Defense*

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

## Disclosed Principal Defense

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

## UT's Insurance Coverage

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

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