

**UTIMCO BOARD OF DIRECTORS
MEETING AGENDA
November 9, 2012**

UTIMCO
401 Congress Ave., Ste. 2800
Austin, Texas 78701

Time	Begin	End	Item #	Agenda Item
	Begin	End		
	9:15 a.m.	9:20 a.m.	1	Call to Order/Discussion and Appropriate Action Related to Minutes of the Meeting held on October 11, 2012*
	9:20 a.m.	9:25 a.m.	2	Discussion and Appropriate Action Related to Corporate Officer*
	9:25 a.m.	10:10 a.m.	3	Report from Task Forces
	10:10 a.m.	11:00 a.m.	4	Private Markets Update
	11:00 a.m.	12:00 p.m.		Recess for Briefing Session pursuant to Texas Education Code Section 66.08 (h)(2) related to Investments
	12:00 p.m.	12:30 p.m.		Lunch
	12:30 p.m.	1:15 p.m.	5	Optimal Illiquidity Discussion
	1:15 p.m.	1:30 p.m.	6	Report and Discussion and Appropriate Action Related to Items from Audit and Ethics Committee*
	1:30 p.m.	1:40 p.m.	7	Report from Risk Committee
	1:40 p.m.	1:50 p.m.	8	Report and Discussion and Appropriate Action Related to Items from Policy Committee*,**
	1:50 p.m.	2:30 p.m.	9	Executive Session: Pursuant to Section 551.074, <i>Texas Government Code</i> , the Board of Directors will convene in Executive Session to Consider Individual Personnel Compensation Matters including Report of Compensation Committee Regarding Performance Incentive Awards for UTIMCO Compensation Program Participants for the Performance Period ended June 30, 2012. Reconvene into Open Session Report from Compensation Committee - Discussion and Appropriate Action Related to Designation of Employees in Eligible Positions as Participants in the UTIMCO Compensation Program for the 2012/2013 Performance Period* - Discussion and Appropriate Action Related to Performance Incentive Awards for UTIMCO Compensation Program Participants for the Performance Period ended June 30, 2012*
	2:30 p.m.	2:45 p.m.	10	UTIMCO Organization Update
	2:45 p.m.	3:25 p.m.	11	Review of Investment Pipeline and Discussion of Investment Environment and Opportunities
	3:25 p.m.	3:30 p.m.	12	Report on 2013 Meeting Dates
	3:30 p.m.			Adjourn

* Action by resolution required

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

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

Next Scheduled Meeting: February 7, 2013

RESOLUTION RELATED TO MINUTES

RESOLVED, that the minutes of the meeting of the Board of Directors held on **October 11, 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 **October 11, 2012**, by means of conference telephone enabling all persons participating in the meeting to hear each other, 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
Ardon E. Moore, Vice Chairman
Francisco G. Cigarroa, Vice Chairman for Policy
Printice L. Gary
R. Steven Hicks
James P. Wilson

Accordingly, a majority and quorum of the Board was in attendance. Directors Kyle Bass, Morris E. Foster and Charles W. Tate did not attend the meeting. Employees of the Corporation attending the meeting were Bruce Zimmerman, CEO and Chief Investment Officer; 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 Shoberg, Managing Director – Real Estate Investments; Mark Warner, Managing Director - Natural Resources Investments; Susan Chen, Senior Director – Public Markets Investments; Uzi Yoeli, Senior Director - Portfolio Risk Management; Courtney Powers, Director – Marketable Alternatives Investments; and other Staff members. Other attendees were Keith Brown of the McCombs School of Business at The University of Texas at Austin; Jerry Turner of Andrews Kurth LLP; Terry Hull and Roger Starkey of The University of Texas System (UT System) Administration; and Greg Anderson of The Texas A&M University System. Mr. Foster called the meeting to order at 10:01 a.m.

Minutes

The first item to come before the Board was approval of the minutes of the Board of Directors Meeting held on July 11, 2012. 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 July 11, 2012, be, and are hereby, approved.

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 August 31, 2012. He reported the Corporation had \$27.8 billion of assets under management at the end of August 31, 2012. Of the \$27.8

billion, \$13.5 billion was in the Permanent University Fund (PUF), \$7.1 billion in the General Endowment Fund (GEF), \$1.5 billion in the Short Term Fund (STF), \$0.7 billion in the Debt Proceeds Fund, and \$4.9 billion in the Intermediate Term Fund (ITF). Mr. Zimmerman presented actual versus benchmark results, tactical asset allocation, value-add analysis and peer group comparison. The net performance for the quarter ended August 31, 2012, for the PUF was 3.71% and for the GEF was 3.77%, versus benchmark returns of 4.99% each for the PUF and GEF. The net performance for the one year ended August 31, 2012, for the PUF was 3.21% and for the GEF was 3.24%, versus benchmark returns of 3.27% for each fund. The ITF's performance was 4.33% versus its benchmark return of 3.98% for the quarter ended August 31, 2012, and 2.87% versus its benchmark return of 1.00% for the one year ended August 31, 2012. Performance for the STF was 0.04% versus 0.03% for its benchmark return for the quarter ended August 31, 2012, and was 0.15% versus a benchmark return of 0.06% for the one year ended August 31, 2012. Mr. Zimmerman and Staff reviewed the Funds' Asset Class and Investment Type targets, tactical asset allocation, ranges and performance objectives. Mr. Zimmerman reported on investment activity as of August 31, 2012, 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 Staff answered the Directors' questions.

There being no further business to come before the Board, the meeting was adjourned at approximately 10:50 a.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
November 9, 2012

Agenda Item: Discussion and Appropriate Action Related to Corporate Officer

Developed By: Zimmerman

Presented By: Zimmerman

Type of Item: Action required by UTIMCO Board

Description: Bruce Zimmerman will request that Mark Shoberg be appointed an officer of the Corporation. Managing directors are considered officers of the Corporation and Mark Shoberg was promoted to the position of Managing Director - Real Estate Investments, effective September 1, 2012.

Recommendation: Staff will recommend approval of Mark Shoberg as an officer of the Corporation.

Reference: None

RESOLUTION RELATED TO CORPORATION OFFICER

RESOLVED, that Mark Shoberg is hereby appointed to the office of Managing Director of the Corporation to serve until the next Annual Meeting of the Corporation or until his resignation or removal.

Agenda Item
UTIMCO Board of Directors Meeting
November 9, 2012

Agenda Item: Report from Task Forces

Developed By: Staff

Presented By: Staff

Type of Item: Information item

Description: UTIMCO formed three investment task forces to focus efforts on each of the specific areas. The Task Forces are the Portfolio Positioning, Credit, and Emerging Markets. Staff will update the Board on the activities of the Task Forces.

Recommendation: None

Reference: *Task Forces Update* presentation



THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

Task Forces Update

November 9, 2012



THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

Portfolio Positioning Task Force



A Framework for Portfolio Positioning

Partners Capital Framework & UTIMCO Portfolio Positioning Examples

- I. Changes in overall portfolio-level risk
Examples: "shorts" or put options to reduce total risk exposure
- II. Deviations from long-term strategic asset allocation
Examples: gold, credit-related fixed income allocation
- III. Intra-asset class positioning
Examples: overweight US, underweight European equities
- IV. Tail risk hedging
Examples: yen payer swaptions, DKK call / EUR put options



Intra-Asset Class Positioning

MCC Equities

Country and currency positions to offset structural underweights and/or increase weights in areas offering attractive valuations / fundamentals

Developed Country Equity		Emerging Market Equity	
<p><u>STRUCTURAL OVERWEIGHT</u></p> <p><i>Countries</i></p> <ul style="list-style-type: none"> Switzerland, Sweden <p><i>Currencies</i></p> <ul style="list-style-type: none"> US Dollar 	<p><u>STRUCTURAL UNDERWEIGHT</u></p> <p><i>Countries</i></p> <ul style="list-style-type: none"> Australia, Canada, Germany <p><i>Currencies</i></p> <ul style="list-style-type: none"> Euro 	<p><u>STRUCTURAL OVERWEIGHT</u></p> <p><i>Countries</i></p> <ul style="list-style-type: none"> Brazil, China/Hong Kong, Nigeria <p><i>Currencies</i></p> <ul style="list-style-type: none"> US Dollar, Euro 	<p><u>STRUCTURAL UNDERWEIGHT</u></p> <p><i>Countries</i></p> <ul style="list-style-type: none"> South Africa, Taiwan, South Korea, India, Mexico <p><i>Currencies</i></p> <ul style="list-style-type: none"> South African Rand, Korean Won, Taiwan Dollar, Indian Rupee, Mexican Peso
<p><u>CURRENT OVERLAYS</u></p> <p><i>Currencies</i></p> <ul style="list-style-type: none"> Long US Dollar - \$362 Million Short Euro- \$264 Million Short Japanese Yen - \$98 Million 	<p><u>HISTORIC OVERLAYS</u></p> <p><i>Countries</i></p> <ul style="list-style-type: none"> Long MSCI Canada swap Long MSCI Australia swap 	<p><u>CURRENT OVERLAYS</u></p> <p><i>Currencies</i></p> <ul style="list-style-type: none"> Short the US Dollar and Euro- \$143.7 Million Long Mexican Peso, Taiwan Dollar, Korean Won <p><i>Countries</i></p> <ul style="list-style-type: none"> Long TAIEX futures, MSCI Korea-\$44.7 Million 	<p><u>HISTORIC OVERLAYS</u></p> <p><i>Countries</i></p> <ul style="list-style-type: none"> Long Brazil ETFs

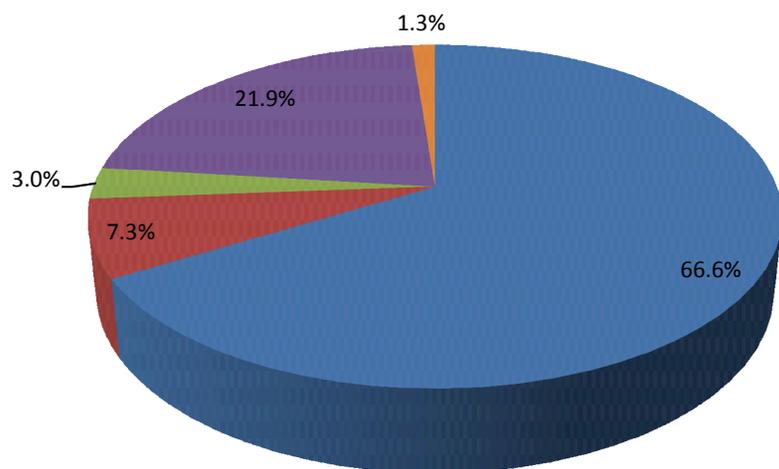


Intra-Asset Class Positioning

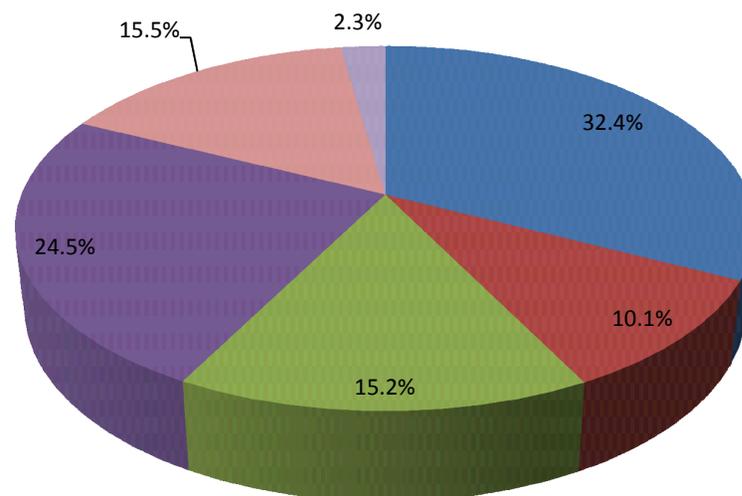
Natural Resources

The exposure of the Natural Resources Public Equity portfolio is more diversified across sectors relative to the Natural Resources Public Equity Benchmark.

Benchmark Portfolio – Sector Exposure



Actual Portfolio – Sector Exposure



■ Upstream
 ■ NAM Service
 ■ Int'l Service
 ■ Metals & Mining
 ■ Food & Fiber
 ■ Midstream
 ■ Cash



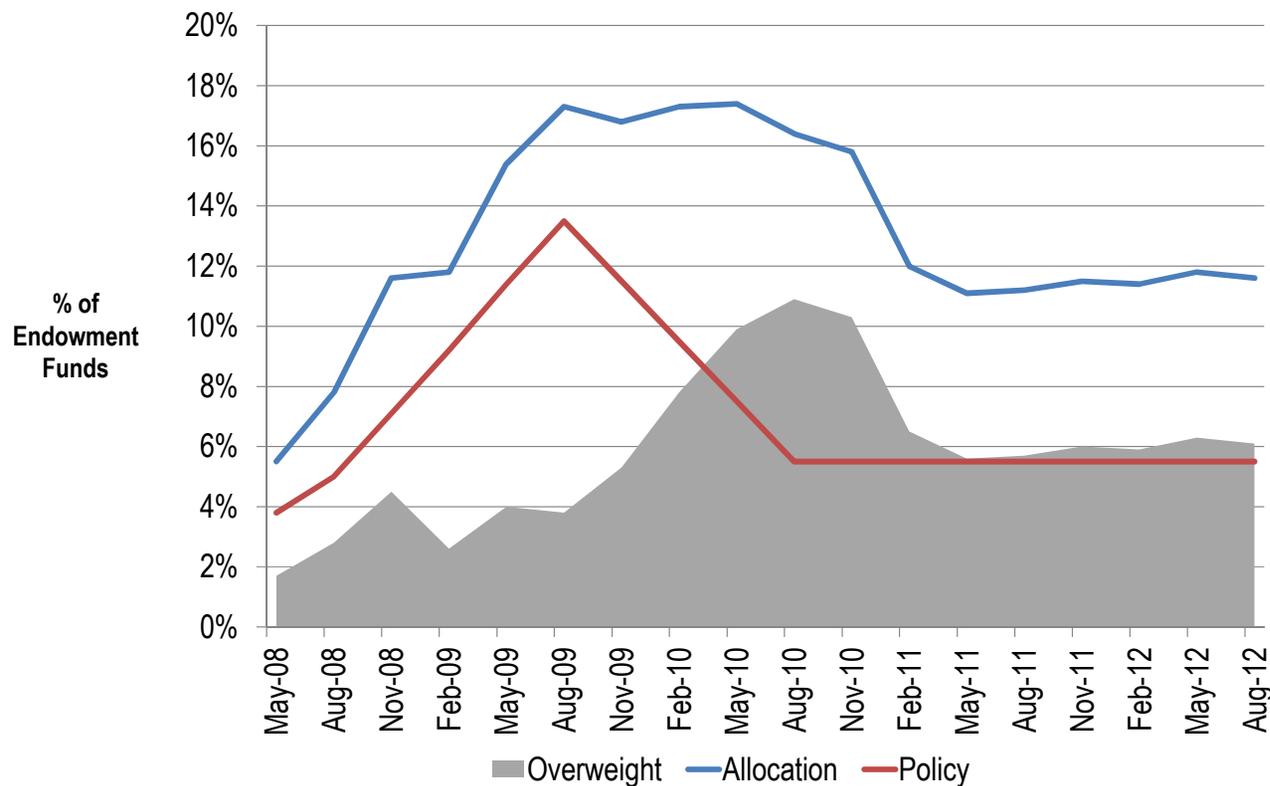
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Credit Task Force



Credit Related Fixed Income: Allocation

- UTIMCO Staff increased CRFI exposure in May 2008 to a peak in May 2010
- Current exposure remains above policy targets but is expected to decrease another 1-3% over the next year





Credit Related Fixed Income: Performance

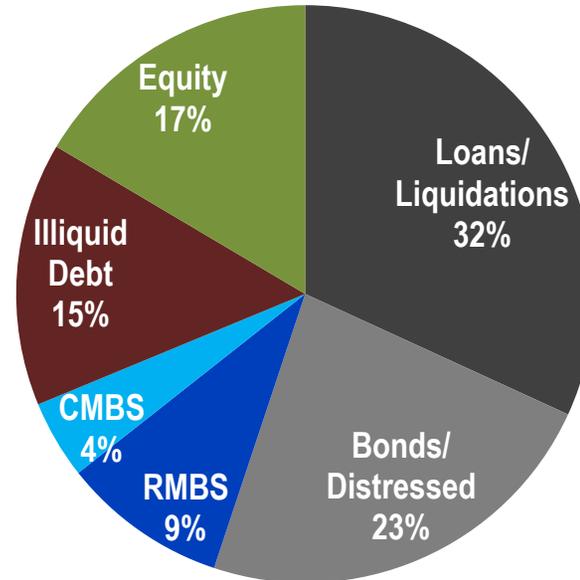
- CRFI has outperformed its benchmark and global equities, and has positively contributed to the Endowments over the past four years

	As of 8/31/12			
	1 Year	2 Year	3 Year	4 Year
PUF CRFI	6.5%	9.1%	14.3%	8.5%
Policy CRFI Benchmark	4.2%	7.2%	9.0%	1.7%
Outperformance	2.3%	1.9%	5.3%	6.8%
MSCI AC World Equities	6.2%	9.9%	7.7%	1.1%
Outperformance	0.3%	-0.8%	6.6%	7.4%
Total PUF Fund	3.3%	8.8%	10.2%	3.9%
Outperformance	3.2%	0.3%	4.1%	4.6%

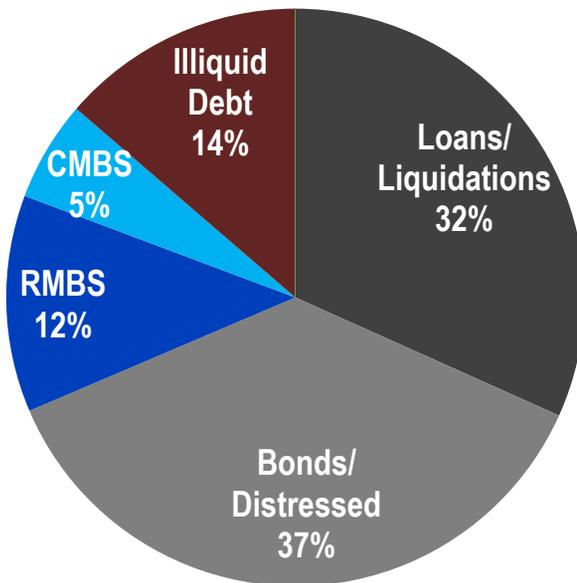


Current Portfolio by Security Type

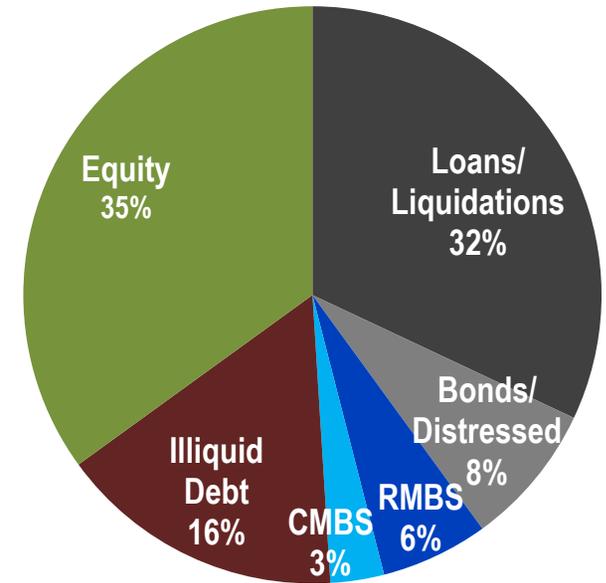
Combined



LCC



Private





Current Portfolio Look-Through: Largest Managers

LCC									
Manager	Value	Unfunded	Exposure	Loans/ Liq.	Bonds/ Distress.	RMBS	CMBS	Illiquid Debt	Private Equity
Centerbridge	\$199		\$199	x	x	x			
Och-Ziff	280		280	x	x	x	x		
Perry	174		174	x	x			x	
Baupost	151		151	x	x	x	x		
Farallon	195	64	259	x	x			x	
Silver Point	123		123	x	x			x	
Owl Creek	95		95	x	x				
Watershed	<u>70</u>		<u>70</u>	x	x	x			
Top 10	1,288	64	1,352						
Remaining 11	188	0	188						
LCC Credit	<u>\$1,476</u>	<u>\$64</u>	<u>\$1,540</u>						

Private Markets									
Manager	Value	Unfunded	Exposure	Loans/ Liq.	Bonds/ Distress.	RMBS	CMBS	Illiquid Debt	Private Equity
Varde	\$405	\$15	\$420	x	x	x	x	x	x
Fortress	224	65	289	x	x	x	x	x	x
Centerbridge	88	68	156	x	x				x
Oaktree	81	30	111	x	x			x	x
CarVal	102	6	108	x	x	x	x	x	x
HIG	46	52	98	x	x				x
Apollo	93	1	94	x	x				
GSO	83	0	83	x	x				
Cerberus	73	6	78	x	x	x	x	x	x
Mount Kellett	<u>44</u>	<u>26</u>	<u>70</u>	x	x			x	x
Top 10	1,237	269	1,506						
Remaining 3	77	14	91						
Private Credit	<u>\$1,314</u>	<u>\$283</u>	<u>\$1,597</u>						



Global Credit Market Opportunity Set

- Focused on performing and non-performing credit across corporates, structured products, and emerging markets

Asset Class	Speculative Grade Corporate				Commercial Real Estate		Residential Real Estate		Emerging Markets		Private / Illiquid		Total
	Leveraged Loans	High Yield Bonds	Defaulted Securities	Converts	Whole Loans	CMBS	Whole Loans	Non-Agency RMBS	Sovereign	Corporate	Consumer, C&I, Leases, etc.	Non-US Privates	
\$ Outstanding	\$1.8 T	\$1.3 T	\$1.5 T	\$0.4 T	\$2.2 T	\$0.9 T	\$3.6 T	\$1.1 T	\$0.2 T	\$2.7 T	\$5.1 T	> \$10.0 T	> \$30.8 T
\$ Actionable	\$0.4 T	\$0.3 T	\$0.5 T	\$0.1 T	\$0.3 T	\$0.1 T	\$0.5 T	\$0.4 T	\$0.0 T	\$0.5 T	\$0.5 T	\$1.0 T	\$4.6 T
Geography	US/Europe	US/Europe	US	Global	US/Europe	US	US	US	EM	EM	US	Europe	15%

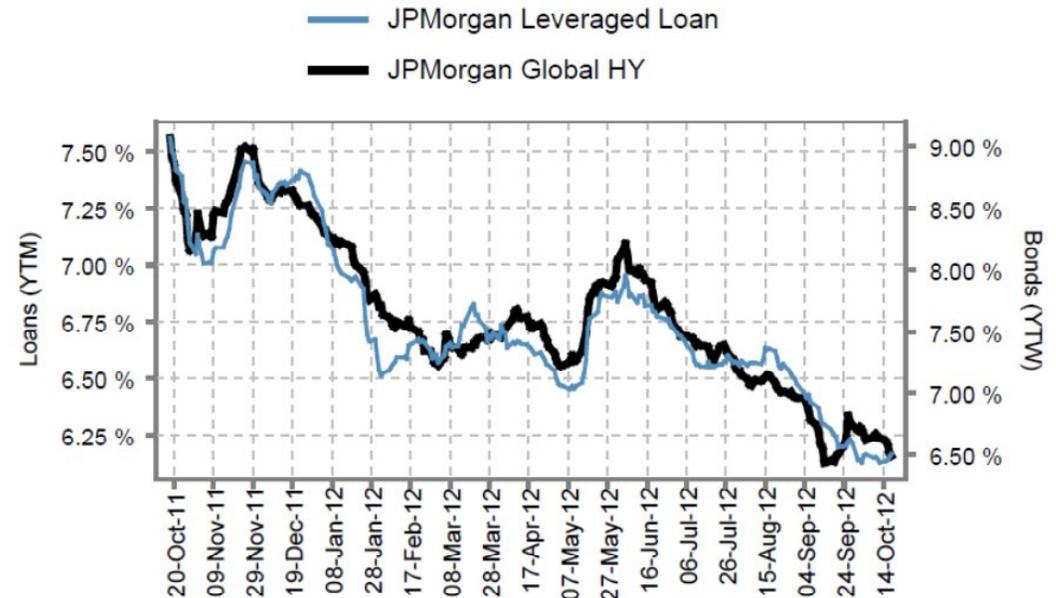
Existing Exposure

Potential Area



U.S. Leveraged Finance Market

- On pace for record issuance
 - High Yield of \$275bn
 - Leveraged Loans of \$236bn
- Deteriorating standards
 - Dividend re-caps
 - PIK toggles
 - “Covenant lite”
- Yields have fallen
 - High Yield from 9% to 6.5%, with many new-issue coupons < 6%
 - Loans from 7.5% to 6.1%, with spreads at historic averages





Fiscal 2012 Activity

- **MCC**

- Have not added capital given sufficient allocations and did not want to reduce equities further
- Filtered RMBS, CMBS, and Emerging Markets universes to select preferred managers and structures; waiting for better entry point

- **LCC**

- Added \$150M to OZ Credit Opportunities across U.S., Europe, corporate, and structured credit
- Liquidation opportunity late last year rallied too quickly so fund was not raised

- **Private Markets** – Closed two opportunistic commitments

- Oaktree (\$25M)
- Mount Kellett (\$75M)



Future Investment Opportunities

- Existing LCC and Private managers will pursue idiosyncratic opportunities as they become available (\$347mm Unfunded Commitments)
- Wait for the next credit cycle to present “fat pitch” opportunities to pursue in MCC; watching RMBS, CMBS, and Emerging Markets corporate
- In LCC, considering an opportunistic co-investment vehicle with an existing event-driven credit manager in order to obtain additional exposure to their large equity and credit ideas
- Lock-up capital in Private Markets in only the most compelling opportunities; “re-up” with existing opportunistic managers



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Emerging Markets Task Force



Emerging Markets Task Force

Progress to Date

Formed to bring a focused effort to EM exposure across UTIMCO Investment Teams

I: Current Exposure

- Determined current Emerging Markets exposure via a portfolio-wide “look through” analysis

II: Country Analysis

- Defined target countries and regions by various metrics including
 - Political corruption ranking, legal environment
 - Economic dynamics: GDP growth and inflation
 - Size and dynamics of capital markets
- ~~Basic country credit analysis~~
Analyzed: Turkey, India, China, Mexico

III: Focused on “Real Time” Investment Opportunities

- Enhanced coordination among investment teams
- Assisted the investment teams with specific investment recommendations

IV: Developed Key EM Themes

- High dividend yielding EM public equities strategy
- Key commercial infrastructure (e.g. India)
- LatAm ex-Brazil opportunities
- EM private sector credit expansion/financial services



Emerging Markets Task Force

Next Steps

- Build on the existing processes and procedures
- Establish internal EM Monitor
 - Facilitate knowledge sharing across investment teams
 - Continue and enhance on-going reporting efforts
 - Track market dislocations and highlight manager themes across the portfolio
- Further incorporate EMTF activities into ongoing investment process
 - Investment Market Reviews produced in conjunction with EM mandates
 - Augment due diligence collaboration across the portfolio
- Frontier markets review
 - Initial focus: African capital markets

Agenda Item
UTIMCO Board of Directors Meeting
November 9, 2012

Agenda Item: Private Markets Update

Developed By: Staff

Presented By: Staff

Type of Item: Information item

Description: Private Markets staff will provide an update on the Private Investments including strategy, performance, and overview of portfolios.

Recommendation: None

Reference: *Private Investments* presentation



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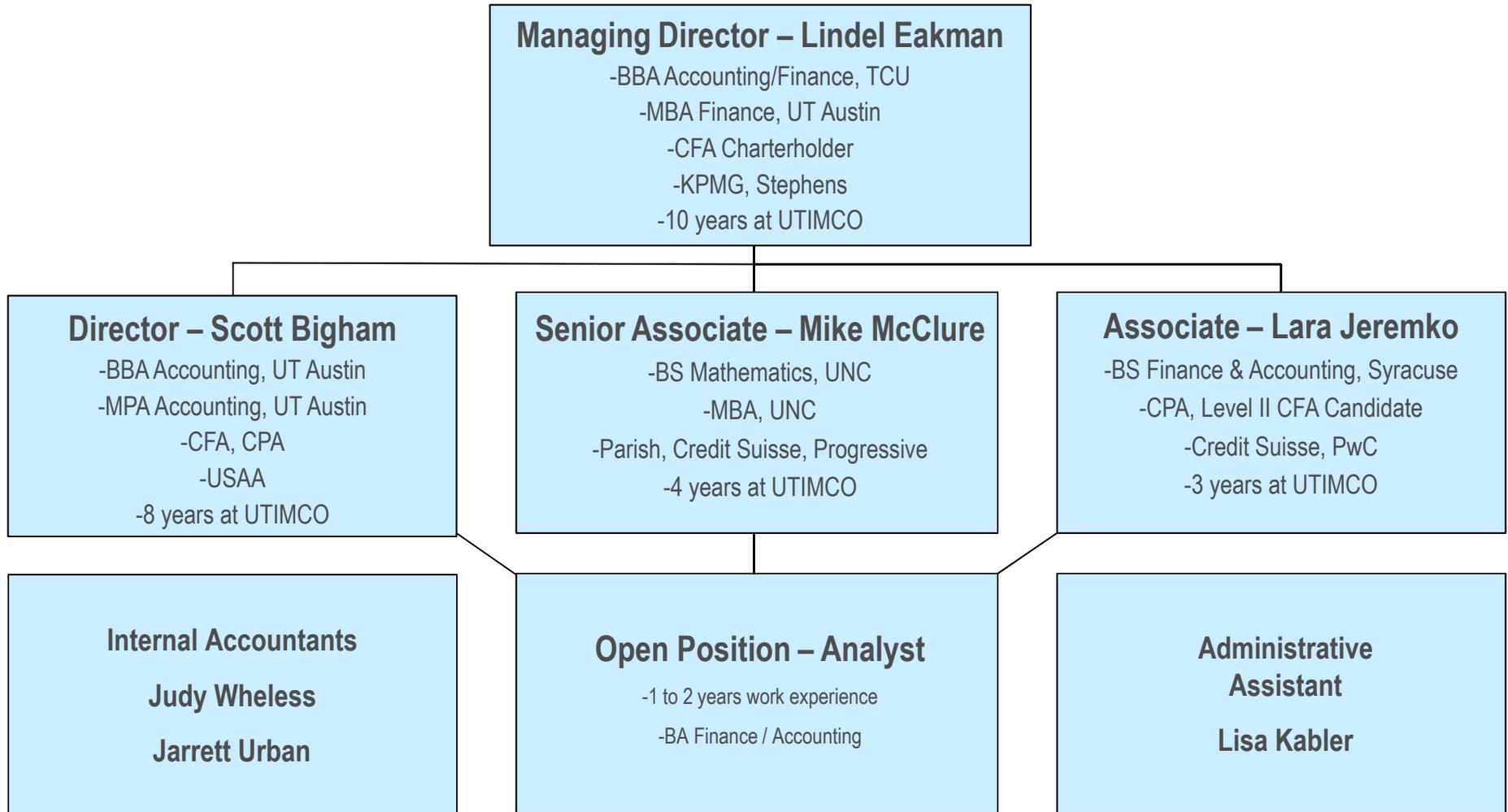
Private Investments

UTIMCO Board Update

November 9, 2012



Private Investments Team Chart





Private Investments Strategy

Private Markets Tenets

- Ensure we get paid for illiquidity
- Bottom-up evaluation of managers
- Fund size
- Alignment of interests

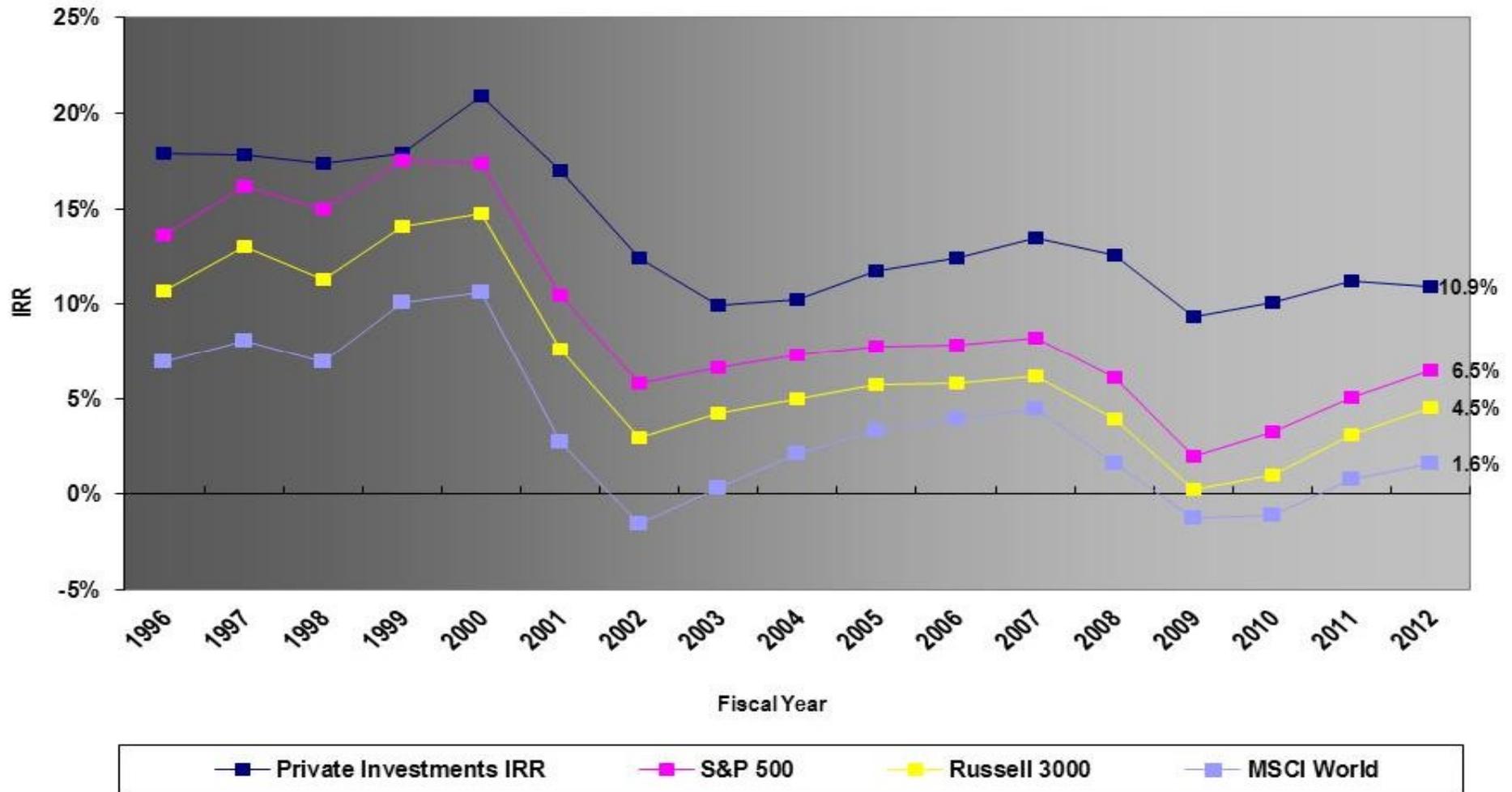
Private Markets Program Efforts

- Concentrate exposures / deepen relationships
- Co-investment activities
- Active portfolio management / secondaries
- Identify themes by sub-asset class and sector
 - *Venture Capital, Lower Middle Market & Growth*
 - *Technology, Education, Healthcare & Consumer*



Private Investments

UTIMCO Performance vs. Public Markets as of 8/31/12

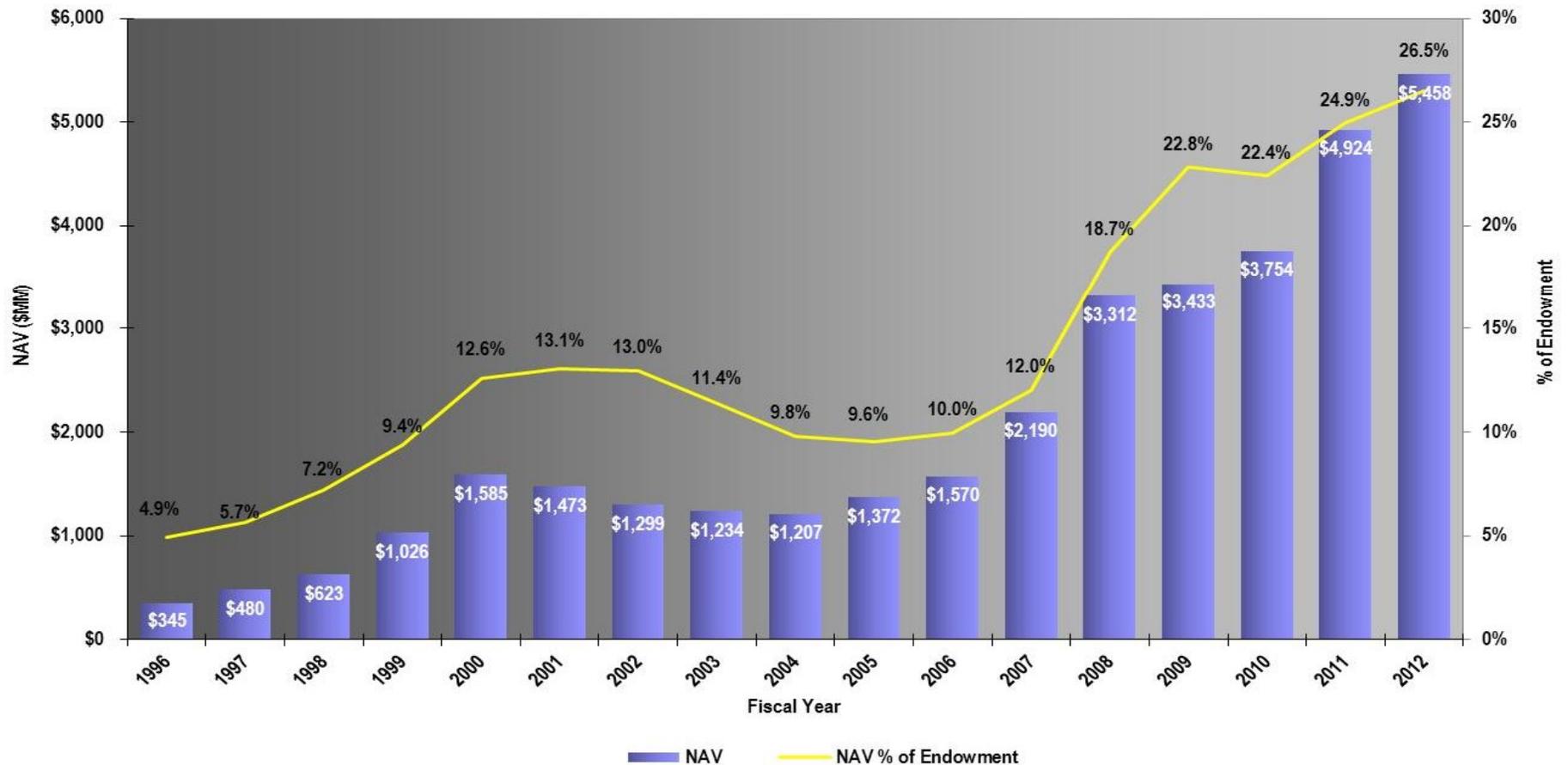




Private Investments

Historical Net Asset Value

- Exposure increased from 4.9% in 1996 to 26.5% in 2012





Private Investments

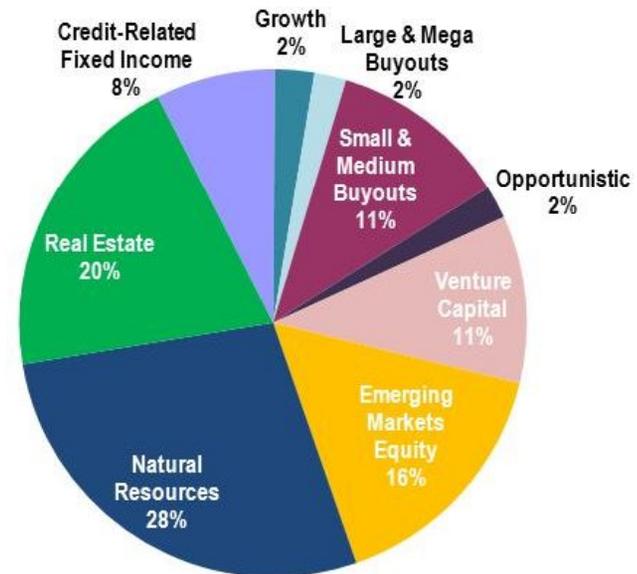
Market Value and Exposure by Sub-Asset Class

- Diversified Portfolio
- Increasing Exposure to Real Estate, Natural Resources and Emerging Markets

Market Value by Sub-Asset Class (\$5.5B)



Unfunded by Sub-Asset Class (\$3.7B)



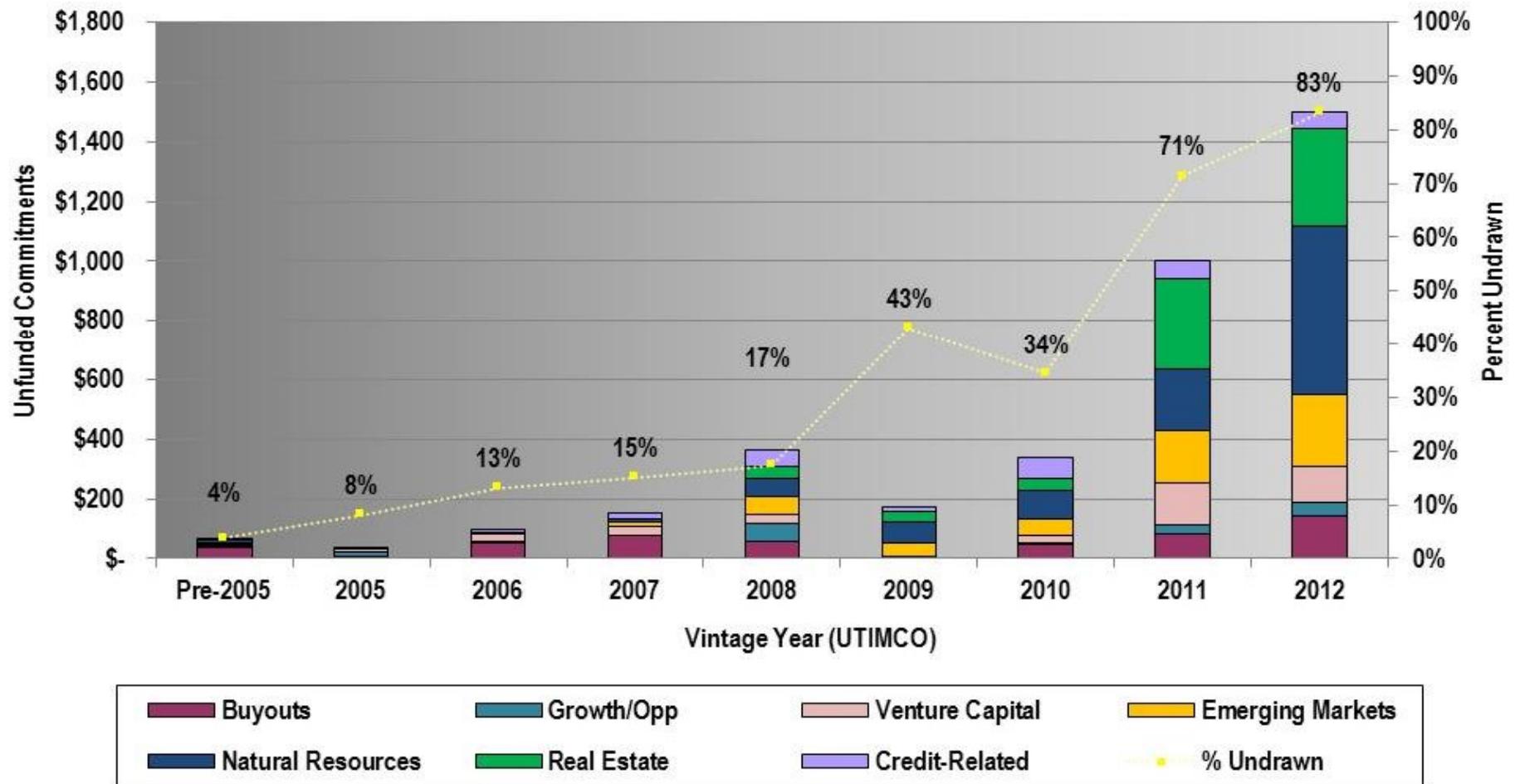
Average Age: 3.3 years

Data as of 8/31/12



Private Investments

Unfunded Commitments by Vintage Year and Asset Class





Private Investments

Credit-Related Fixed Income Portfolio Overview

Credit / Opportunistic - Strategy				
Strategy	% Exposure of Private Markets	Current # Mgrs	Target # Mgrs	Core Manager Examples
Trading	1.3%	3	0 - 1	Oaktree
Control	4.1%	5	2 - 3	Centerbridge, HIG Bayside
Opportunistic / Specialist	<u>12.0%</u>	<u>8</u>	<u>2 - 4</u>	Varde, Mount Kellett, Fortress Credit
TOTAL	<u>17.4%</u>	<u>16</u>	<u>4 - 8</u>	

Credit / Opportunistic - Portfolio Statistics			
# Managers	# Exposure < \$10M	# Exposure \$10M to \$50M	# Exposure > \$50M
16	2	4	10
# Partnerships	# Actively Investing	# Harvest Period	
33	9	24	

Note: *Bolding denotes funds active in the investment period*

CREDIT / OPPORTUNISTIC			
Angelo Gordon Capital Recovery Partners IV, L.P.	CarVal Global Value Fund A, L.P.	Matlin Patterson Global Opportunities III	Oaktree Opportunities Fund VIIB, L.P.
Angelo Gordon Capital Recovery Partners V, L.P.	CarVal Global Value Fund A, L.P. - 2008 Top-Off	Mount Kellett Capital Partners II, L.P.	Oaktree Opportunities Fund VIII, L.P.
Apollo Credit Opportunity Fund II, L.P.	DDJ Total Return Loan Fund, L.P.	Northstar Seidler Mezzanine Partners II, L.P.	Oaktree Opportunities Fund VIIIB, L.P.
Avenue Asia Special Situations Fund IV, L.P.	Fortress FCO MA LSS LP Separate Account	Oaktree Opportunities Fund III, L.P.	Oaktree Opportunities Fund IX, L.P.
Avenue Special Situations Fund V, L.P.	Fortress Credit Opportunities Fund, L.P.	Oaktree Opportunities Fund IV, L.P.	Texas Liquidity Capital, L.L.C.
DDJ B IV Capital Partners, L.P.	H.I.G. Bayside Debt & LBO Fund II, L.P.	Oaktree Opportunities Fund V, L.P.	Varde Fund IX, L.P.
Centerbridge Capital Partners, L.P.	MatlinPatterson Global Opportunities Partners, L.P.	Oaktree Opportunities Fund VI, L.P.	Varde Fund VIII, L.P.
Centerbridge Capital Partners II, L.P.	MatlinPatterson Global Opportunities Partners II	Oaktree Opportunities Fund VII, L.P.	Varde Fund X, L.P.
Cerberus Institutional Partners, L.P.- Series Four			

Data as of 8/31/12



Private Investments

Credit Portfolio Strategy

STRATEGY

- **Wind-down of existing overweight position**
- **Establish separate accounts to activate if opportunity arises**

THEMES

- **Opportunistic, flexible capital in niche or more illiquid opportunities**
- **High return targets**



Private Investments

Developed Country Equity (Ex-VC) Portfolio Overview

Developed Country Equity - Strategy				
Strategy	% Exposure of Private Markets	Current # Mgrs	Target # Mgrs	Core Manager Examples
Lower Middle Market Buyout	7.0%	16	6 - 8	LNK, AIP, Wingate, Cortec
Middle Market Buyout	5.7%	8	2 - 3	Francisco
Large / Mega Buyout	2.9%	2	0 - 2	TPG
Growth	5.7%	9	1 - 3	HIG Growth, University Ventures, Escalate
Opportunistic	<u>4.7%</u>	<u>6</u>	<u>0 - 2</u>	Ford Financial, Community Bancorp
TOTAL	<u>26.1%</u>	<u>41</u>	<u>9 - 18</u>	

Note: TPG manages Mega Buyout and Growth funds, but is included in Mega category only for manager count purposes.

Developed Country Equity - Geography				
Geography	Exposure %	Current # Mgrs	Target # Mgrs	Core Manager Examples
US	16.7%	34	7 - 12	LNK, AIP, HIG Growth, Wingate
Europe	4.2%	5	2 - 4	
Global	<u>5.2%</u>	<u>2</u>	<u>0 - 2</u>	
TOTAL	<u>26.1%</u>	<u>41</u>	<u>9 - 18</u>	

Developed Country Equity - Portfolio Statistics			
# Managers	# Exposure < \$10M	# Exposure \$10M to \$50M	# Exposure > \$50M
41	5	15	21
# Partnerships	# Actively Investing	# Harvest Period	
81	28	53	

Data as of 8/31/12



Private Investments

Developed Country Equity (Ex-VC) Partnerships

Note: *Bolding denotes funds active in the investment period*

DEVELOPED COUNTRY EQUITY (EX-VC)

Angelo Gordon Private Equity Partners III, L.P.	CVC European Equity Partners, L.P.	Green Equity Investors V, L.P.	TCV V, L.P.
American Industrial Partners Capital Fund V, L.P.	CVC European Equity Partners IV (C) LP	H.I.G. Growth Buyouts & Equity Fund II, L.P.	TCV VI, L.P.
American Industrial Partners Fund V (Co-Investment)	CVC European Equity Partners Tandem Fund	Hellman & Friedman Capital Partners II, L.P.	TCV VII, L.P.
American Securities Partners III, L.P.	CVC European Equity Partners V, L.P.	Integral Capital Partners VII, L.P.	TDR Capital II 'A' L.P.
Ampersand 2001 Limited Partnership	Doughty Hanson III, L.P.	Invention Development Fund I, LLC	TPG Partners IV, L.P.
Ampersand 2006 Limited Partnership	Doughty Hanson & Co IV, L.P.	Invention Investment Fund II, L.L.C.	TPG Partners V, L.P.
Austin Ventures V, L.P.	Doughty Hanson & Co. V	Inverness Partners II LP	TPG Partners VI, L.P.
Austin Ventures VI, L.P.	Eos Capital Partners III, L.P.	Inverness/Phoenix Partners, L.P.	TPG Star, L.P.
Austin Ventures VII, L.P.	Eos Capital Partners IV, L.P.	Lake Capital Partners LP	Triton Fund II L.P.
Austin Ventures VIII, L.P.	Equistone Partners Europe Fund A LP	Lake Capital Partners II LP	University Ventures Fund I, L.P.
Austin Ventures IX, L.P.	Equistone Partners Europe Fund III E LP	LNK Partners II, L.P.	University Ventures Fund I Parallel Fund
Austin Ventures X, L.P.	Escalate Capital I, L.P.	MSouth Equity Partners, L.P.	Wand Equity Portfolio II, L.P.
Baker Communications Fund II (QP), L.P.	Ford Financial Fund II, L.P.	MSouth Equity Partners II, L.P.	Warburg Pincus Private Equity VIII, L.P.
Beacon Group III - Focus Value Fund, L.P.	Fortress Fund IV (Fund A), L.P.	Parthenon Investors II, L.P.	Warburg Pincus Private Equity IX, L.P.
CGW Southeast Partners IV, L.P.	Fortress Fund IV (Coinvestment Fund A), L.P.	Pomona Capital V, L.P.	Warburg Pincus Private Equity X, L.P.
Clayton, Dubilier & Rice Fund V, L.P.	Fortress Fund V (Fund A), L.P.	Pomona Capital VI, L.P.	Wingate Partners II, L.P.
Community Bancorp, L.L.C.	Fortress Fund V (Coinvestment Fund A), L.P.	Wand 1997 Revocable Trust	Wingate Partners III, L.P.
Cortec Group Fund III, L.P.	Francisco Partners II, L.P.	Reservoir Capital Investment Partners	Wingate Partners IV, L.P.
Cortec Group Fund IV, L.P.	Francisco Partners III, L.P.	Reservoir Capital Partners (Cayman), L.P.	
Cortec Group Fund V, L.P.	Green Equity Investors III, L.P.	SKM Equity Fund II, L.P.	
Cortec Group Fund V (Parallel), L.P.	Green Equity Investors IV, L.P.	TGF Southwest Opportunity Partners	



Private Investments

Developed Country Equity (Ex-VC) Strategy

STRATEGY

- **Maintain current exposure via steady commitment pace**
- **Increasing concentration behind highest conviction managers and strategies**
- **Opportunistic co-investment**
- **Opportunistically sell legacy portfolio in secondary markets**

THEMES

- **US Lower Middle Market Buyouts**
- **US Growth opportunities in Technology, Education and Healthcare**



Private Investments

Venture Capital Portfolio Overview

Venture Capital - Sector				
Sector	% Exposure of Private Markets	Current # Mgrs	Target # Mgrs	Core Manager Examples
Technology	6.7%	10	8 - 10	Union Square, Foundry, True, IA, Artiman
Life Sciences	2.2%	6	0 - 2	Santé, Sofinnova
Diversified	<u>3.8%</u>	<u>9</u>	<u>0 - 2</u>	ARCH
TOTAL	<u>12.8%</u>	<u>25</u>	<u>8 - 14</u>	

Venture Capital - Stage		
Stage	Exposure %	# Managers
Early Stage	7.4%	13
Late Stage	1.1%	1
Diversified	<u>4.2%</u>	<u>11</u>
TOTAL	<u>12.8%</u>	<u>25</u>

Venture Capital - Relative Priority		
Priority	Exposure %	# Managers
Core	8.3%	10
Quality	2.0%	3
Legacy	<u>2.5%</u>	<u>12</u>
TOTAL	<u>12.8%</u>	<u>25</u>

Data as of 8/31/12



Private Investments Venture Capital Partnerships

Note: *Bolding denotes funds active in the investment period*

VENTURE CAPITAL			
Advanced Technology Ventures VII, L.P.	Correlation Ventures Executives Fund, L.P.	Morgenthaler Venture Partners V, L.P.	PTV Sciences II, L.P.
ARCH Venture Fund VI, L.P.	Crescendo III, L.P.	Morgenthaler Partners VI, L.P.	Santé Health Ventures II, LP
ARCH Venture Fund VII, L.P.	Crescendo IV, L.P.	Morgenthaler Partners VII, L.P.	Sofinnova Venture Partners VII, L.P.
Artiman Ventures II, L.P.	Fisher Lynch Venture Partnership, L.P.	Morgenthaler Partners VII (Secondary), L.P.	Sofinnova Venture Partners VIII, L.P.
Artiman Ventures III, L.P.	Foundation Capital IV, L.P.	Morgenthaler Partners VIII, L.P.	Spark Capital II, L.P.
Artiman Ventures Special Opportunities Fund, L.P.	Foundry Venture Capital 2007, L.P.	Morgenthaler Venture Partners IX, L.P.	The Woodlands/Essex Venture Fund III, L.P.
Atlas Venture Fund VI, L.P.	Foundry Venture Capital 2010, L.P.	Pinto TV Annex Fund, L.P.	True Ventures III, L.P.
Band of Angels Fund, L.P.	IA Venture Strategies Fund I, L.P.	Polaris Venture Partners IV, L.P.	Union Square Ventures 2004, L.P.
Care Capital Investments III, L.P.	IA Venture Strategies Fund II, L.P.	Polaris Venture Partners V, L.P.	Union Square Ventures 2008, L.P.
Cendana Co-Investment Fund, L.P.	JatoTech JTV Liquidating Trust	Prospect Venture Partners II, L.P.	Union Square Ventures 2012 Fund, L.P.
Correlation Ventures, L.P.	Knightsbridge Venture Capital VI, L.P.	PTV Sciences, L.P.	Union Square Opportunity Fund, L.P.

Venture Capital - Portfolio Statistics			
# Managers	# Exposure < \$10M	# Exposure \$10M to \$50M	# Exposure > \$50M
25	6	11	8
# Partnerships	# Actively Investing	# Harvest Period	
44	21	23	

Data as of 8/31/12



Private Investments

VC Strategy

STRATEGY

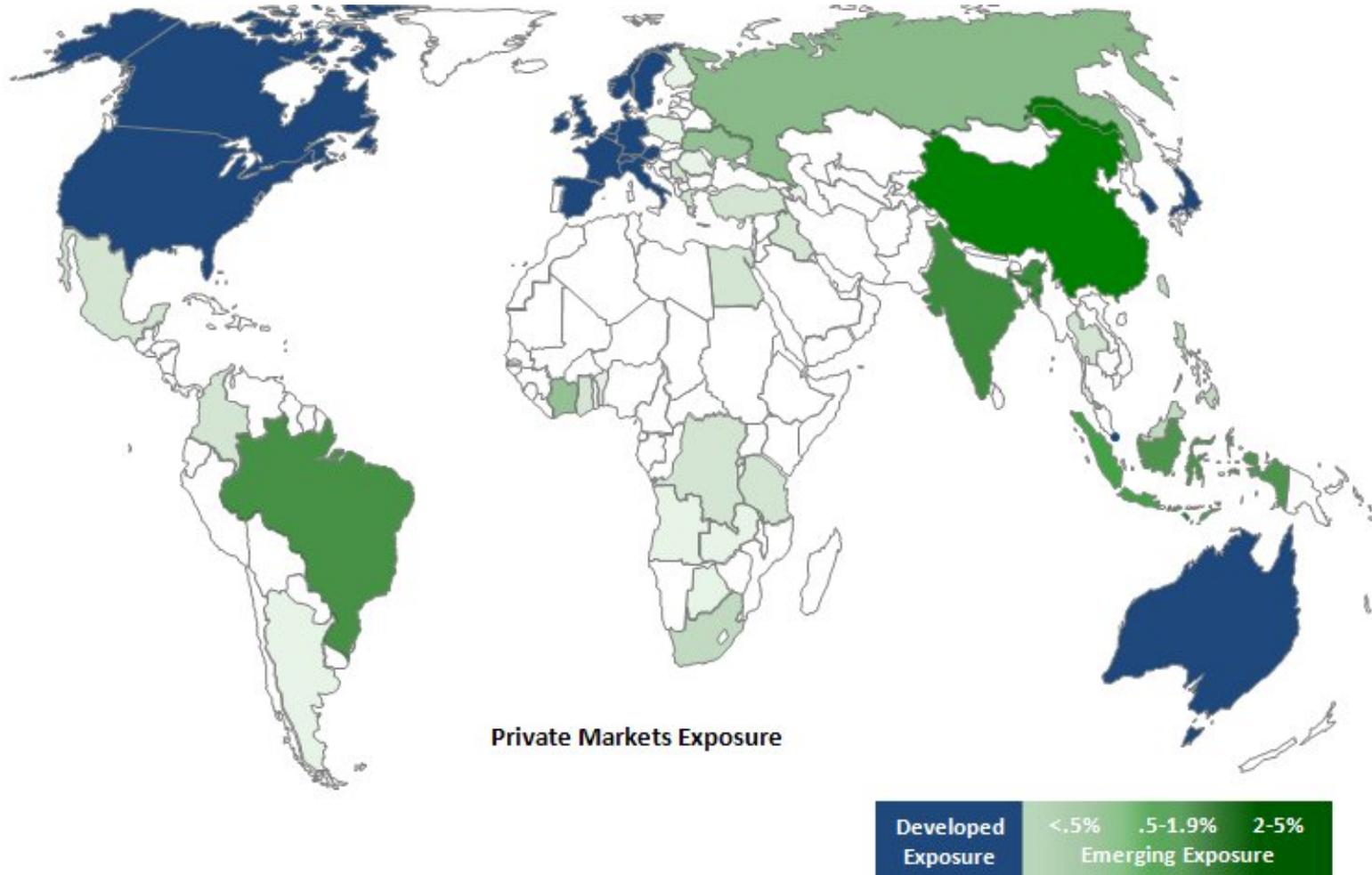
- **Maintain current exposure via steady commitment pace**
- **Increasing concentration behind highest conviction managers and strategies**
- **Opportunistically sell legacy portfolio in secondary markets**

THEMES

- **Seed stage venture capital**
- **Capital efficient information technology models**



Private Investments Emerging Markets Exposure





Private Investments

Emerging Markets Equity Portfolio Overview

Emerging Markets Equity - Geography				
Geography	% Exposure of Private Markets	Current # Mgrs	Target # Mgrs	Core Manager Examples
Central & Eastern Europe	1.7%	4	1 - 3	Turkven, Baring Vostok
Latin America	1.3%	3	1 - 3	Victoria
South Asia	2.2%	2	1 - 2	Northstar, Everstone
North Asia	4.8%	5	1 - 3	Emerald Hill
Africa	1.4%	2	1 - 2	Helios
Global	0.6%	1	0 - 1	
TOTAL	12.0%	17	5 - 14	

Note: Actis manages funds in Africa and India, but is included in Africa category only for manager count purposes.

Emerging Markets Equity - Portfolio Statistics			
# Managers	# Exposure < \$10M	# Exposure \$10M to \$50M	# Exposure > \$50M
17	2	7	8
# Partnerships	# Actively Investing	# Harvest Period	
23	16	7	

Note: Bolding denotes funds active in the investment period

EMERGING MARKETS EQUITY			
Actis Africa 3, L.P.	Emerald Hill Capital Partners II - Co-Invest A, LP	Gavea Investment Fund III, L.P.	Prime Enterprises II, L.P.
Actis India 3, L.P.	Emerald Hill Capital Partners II, L.P.	Gobi Fund II, L.P.	Russia Partners III, L.P.
Ashmore Global Special Situations Fund IV, L.P.	Emerald Hill Capital Partners III, LP	Helios Investors II, L.P.	Turkish Private Equity Fund III L.P.
Baring Asia Private Equity Fund IV, L.P.	Emerald Hill Capital Partners III-A, L.P.	NewMargin Growth Fund, L.P.	Victoria South American Partners II L.P.
Baring Vostok Private Equity Fund V, L.P.	Emerging Europe Growth Fund II, L.P.	Northstar Equity Partners II Limited	ZN Mexico II, L.P.
Emerald Hill Capital Partners I, L.P.	Everstone Capital Partners II, LLC	Northstar Equity Partners III Limited	

Data as of 8/31/12



Private Investments

Emerging Markets Equity Strategy

STRATEGY

- **Ongoing investment activity**
- **Primarily a domestic consumption theme across markets**

THEMES

- **Growth of middle class**
- **Local country funds**
- **Indonesia**
- **Sub-Saharan Africa**
- **China**



Private Investments

Secondary Sale Summary

\$ in millions

Prior Secondary Activity		
Strategy	2008 Secondary Sale	2010 Secondary Sale
# Partnerships Sold	28	20
# Managers	16	8
NAV at Sale	\$193	\$304
Unfunded at Sale	<u>39</u>	<u>165</u>
Total Exposure Sold	<u>\$233</u>	<u>\$469</u>
Relative Price to NAV	89%	92%

Current Activities

- Existing environment generally more attractive to transact as buyer rather than seller
- Ongoing conversations as seller of legacy portfolio and buyer of core manager positions



Private Investments

Commitment Model

Commitment Model Assumptions

- Model updated quarterly to calibrate commitment “budgets”
- Projects NAV’s based on several assumptions including:
 - Capital calls
 - Distributions
 - Portfolio write-ups
- Example: Developed Country VC

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Post Year 10
Capital Calls	11%	23%	22%	16%	12%	7%	4%	2%	2%	1%	0%
Distributions	0%	2%	3%	5%	10%	11%	13%	12%	11%	12%	22%
Appreciation	-	-6%	12%	1%	8%	13%	18%	13%	11%	15%	-

- Private equity as a percent of total endowments most sensitive to total endowment return projections



Private Investments

Expected Capital Deployment

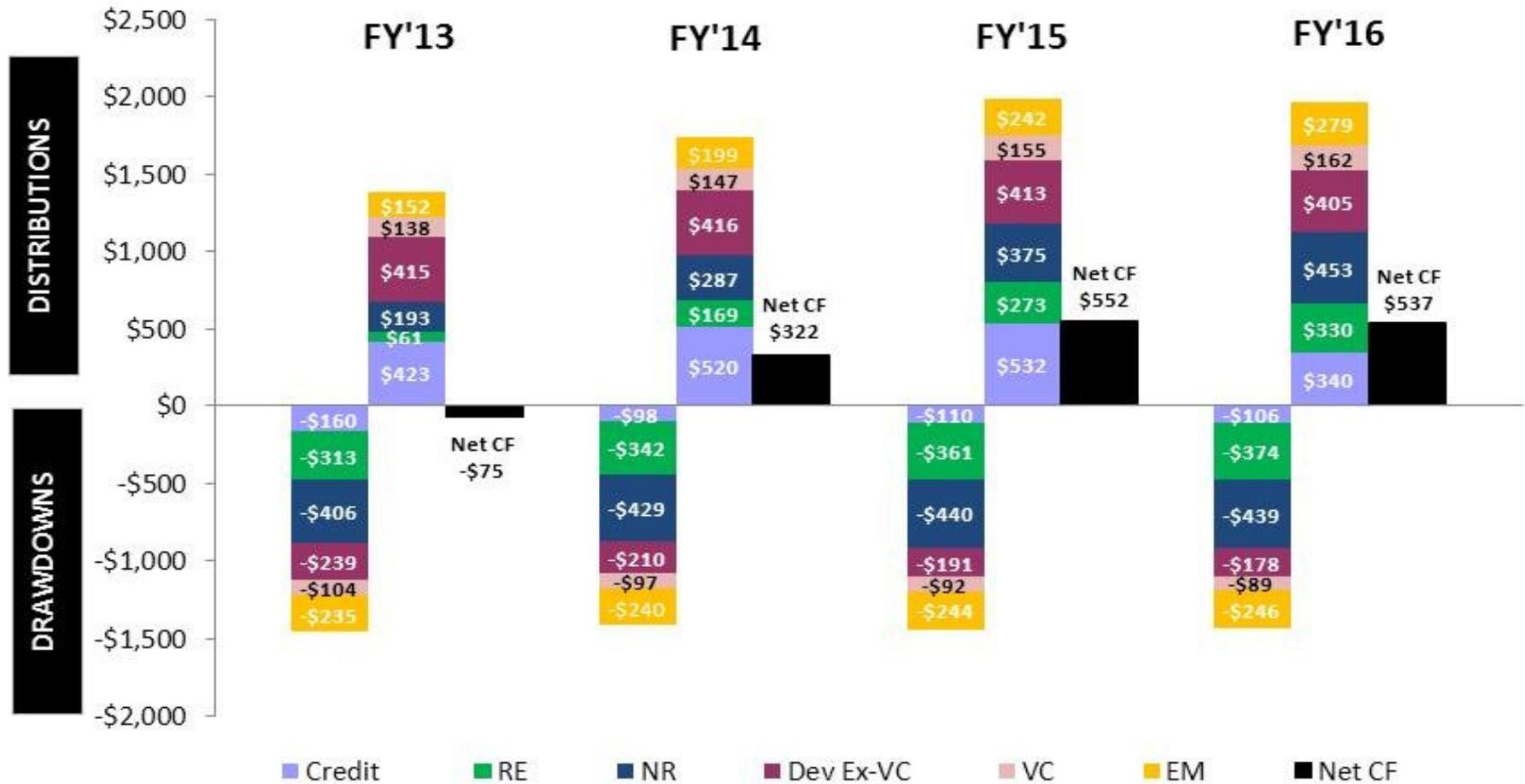
Asset Class	NAV 8/31/12		Unfunded 8/31/12	Commitment Budget				Projected NAV 8/31/16	
	\$MM	% Endowment	\$MM	FY'13	FY'14	FY'15	FY'16	\$MM	% Endowment
Credit-Related Fixed Income	\$1,314	6.4%	\$283	\$100	\$100	\$100	\$100	\$419	1.7%
Real Estate	485	2.4%	748	400	400	375	400	1,500	5.9%
Natural Resource	651	3.2%	1,030	400	550	400	500	1,719	6.8%
Developed Country Equity									
<i>Developed Country - Ex VC</i>	1,720	8.3%	671	150	150	150	150	1,624	6.4%
<i>Venture Capital</i>	776	3.8%	396	75	75	75	75	929	3.7%
Total Developed Country Equity	2,496	12.1%	1,068	225	225	225	225	2,552	10.1%
Emerging Markets Equity	512	2.5%	589	250	250	250	250	1,032	4.1%
TOTAL	<u>\$5,458</u>	<u>26.6%</u>	<u>\$3,718</u>	<u>\$1,375</u>	<u>\$1,525</u>	<u>\$1,350</u>	<u>\$1,475</u>	<u>\$7,223</u>	<u>28.6%</u>

*Note: Assumes Long-Term Endowment Growth Rate



Private Investments

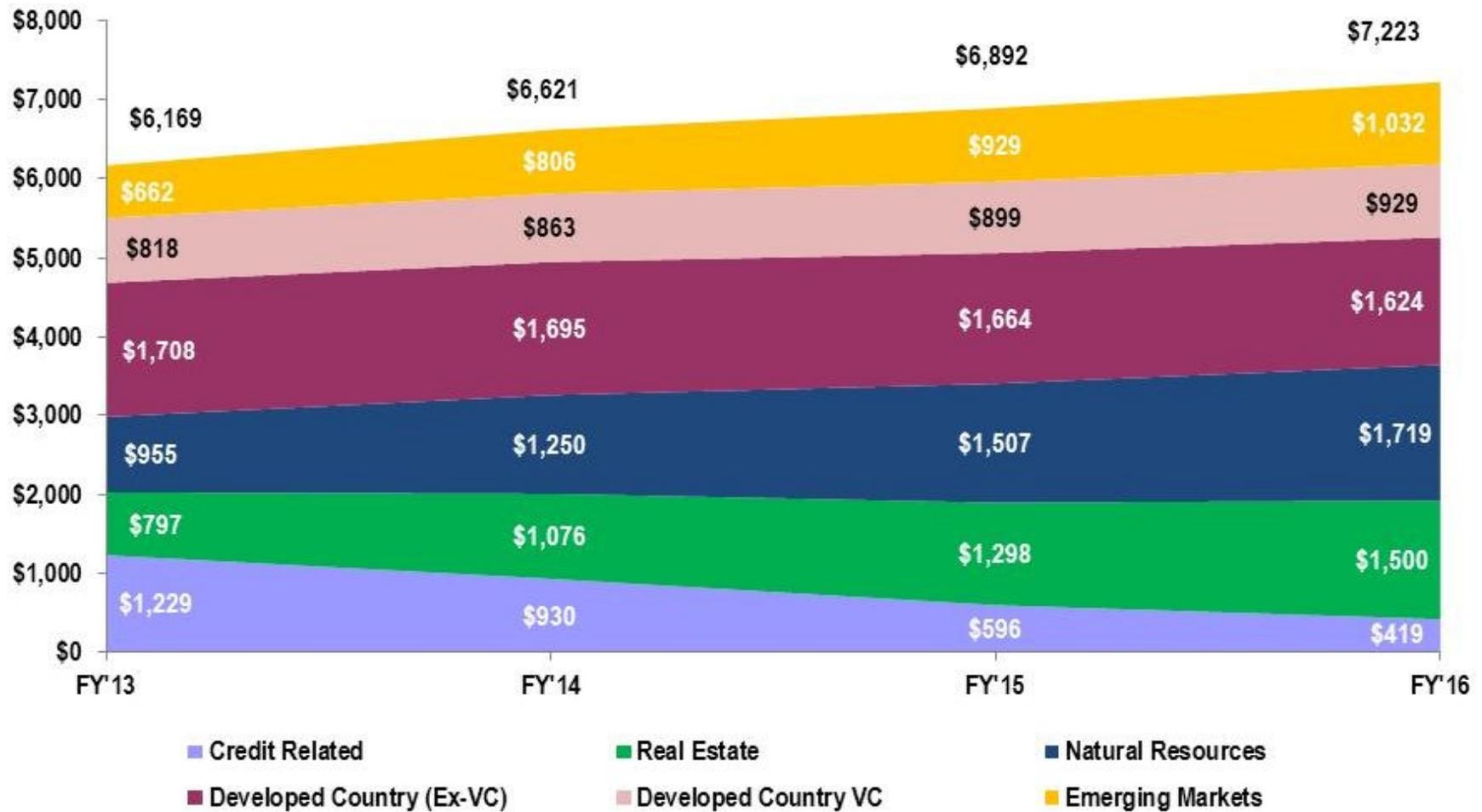
Projected Cash Flows





Private Investments

Projected NAV





Guest Speaker - David Bonderman

TPG Capital

UTIMCO TPG Exposure				
Fund	Vintage / First Inv	Commitment / Invested Capital (\$MM)	Net Multiple	Net IRR
TPG IV	2004	\$20	1.7x	14.8%
TPG V	2006	75	0.9x	-4.2%
TPG VI	2008	90	1.0x	2.5%
TPG Growth	2007	50	1.3x	11.1%
TPG Axon	2005	150	1.2x	3.7%
Total		<u>\$385</u>	<u>1.1x</u>	

David Bonderman

David Bonderman is a founding partner of TPG. TPG generally makes significant investments in operating companies through acquisitions and restructurings across a broad range of industries globally. TPG and its affiliates have approximately \$52 billion in assets under management. Portfolio companies controlled by TPG have combined revenues of over \$100 billion, operate in more than 100 countries and employ approximately 600,000 people. TPG's investments have included: Continental Airlines, Burger King, Petco, Lenovo, Shriram Capital, China Grand Auto, J. Crew, IMS Health and American Tire Distributors. Prior to forming TPG in 1992, Mr. Bonderman was Chief Operating Officer of the Robert M. Bass Group, Inc. (now doing business as Keystone Group, L.P.) in Fort Worth, Texas. Prior to joining RMBG in 1983, Mr. Bonderman was a partner in the law firm of Arnold & Porter in Washington, D.C., where he specialized in corporate, securities, bankruptcy and antitrust litigation. From 1969 to 1970, Mr. Bonderman was a Fellow in Foreign and Comparative Law in conjunction with Harvard University and from 1968 to 1969, he was Special Assistant to the U.S. Attorney General in the Civil Rights Division. From 1967 to 1968, Mr. Bonderman was Assistant Professor at Tulane University School of Law in New Orleans. Mr. Bonderman graduated Magna Cum Laude from Harvard Law School in 1966. He was a member of the Harvard Law Review and a Sheldon Fellow. He is a 1963 graduate of the University of Washington in Seattle. Mr. Bonderman serves on the Boards of the following public companies: CoStar Group, Inc.; General Motors Company; and Ryanair Holdings, plc, of which he is Chairman. He also serves on the Supervisory Board for VTB Bank. In addition, he serves on the Boards of The Wilderness Society, the Grand Canyon Trust, and the American Himalayan Foundation.

Agenda Item
UTIMCO Board of Directors Meeting
November 9, 2012

Agenda Item: Optimal Illiquidity Discussion

Developed By: Staff

Presented By: Yoeli

Type of Item: Information item

Description: Dr. Yoeli will lead a discussion about optimizing illiquidity. Illiquidity is one element of portfolio risk and a potential source of return. Dr. Yoeli will review the three issues that are fundamental in determining optimal illiquidity in the portfolio:

- 1) What returns are sufficient to support what levels of illiquidity risk?
- 2) What liquidity needs limit illiquidity exposure?
- 3) What is staff's ability to deploy illiquidity risk and generate sufficient returns?

Recommendation: None

Reference: *Optimizing Illiquidity* presentation



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Optimizing Illiquidity

November 2012



Optimizing Illiquidity

- One element of portfolio risk, and a potential source of return, is illiquidity
- The question of optimal portfolio illiquidity is not new
 - Annual Investment Policy review modeling always calls for higher levels of illiquidity
 - Peer endowments have higher levels of illiquidity
 - The 2008 Financial Crisis called into question the extent of other endowments' illiquidity
 - Some approaches, such as Risk Parity, question the need for any illiquidity (although they often propose leverage)
- Three issues are fundamental in determining optimal illiquidity in the portfolio
 1. What returns are sufficient to support what levels of illiquidity risk?
 2. What liquidity needs limit illiquidity exposure?
 3. What is staff's ability to deploy illiquidity risk and generate sufficient returns?



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Required Premium



Components of Premium Required

- Compensation for “locking up” capital
- Compensation for uncertainty as to the length of the lock up
 - Holding period is average and not guaranteed
 - The risk in markets “drying up” is systemic and cannot be diversified away
- Opportunity cost for the capital which must remain liquid
 - Committed uncalled capital



Compensation for “Locking Up” Capital: MCC

- MCC is the most liquid use of capital so it is the starting point

	<u>Expected Return</u>	<u>Average Annual Returns⁽¹⁾</u>
Investment Grade Fixed Income	4.25%	6.84%
Credit-related Fixed Income	5.00%	9.67%
Real Estate	6.25%	11.05%
Natural Resources	6.50%	8.00%
Developed Equity	6.63%	7.30%
Emerging Equity	8.00%	5.33%
Total ex Investment Grade Fixed Income ⁽²⁾	7.02%	7.06%
Total incl Investment Grade Fixed Income ⁽²⁾	6.55%	7.02%

⁽¹⁾ March 2001 – August 2012

⁽²⁾ Using Policy Weights



Compensation for “Locking Up” Capital: LCC

- LCC is the next point of comparison
 - LCC vs MCC

	Average Lock Up (years)	Expected Return	Actual Return	Adjusted Volatility ⁽¹⁾	Sharpe Ratio ⁽¹⁾
LCC	1.1	6.75%	8.31%	8.7%	.60
MCC	0.1	6.55%	7.23%	14.9%	.28
Difference or ratio	1.0	.20%	1.08%	0.58x	2.1x

⁽¹⁾ Returns from March 1996 to August 2012; Volatility and Sharpe ratio adjusted for serial correlation

- More Liquid LCC vs Less Liquid LCC

	Average Lock Up (years)	Annualized returns	
		All	Excluding extreme over/under performance
More Liquid LCC	0.5	6.3%	6.0%
Less Liquid LCC	2.0	8.5%	7.5%
Difference	1.5	2.2%	1.5%
Premium per year		150 bps	100bps



Compensation for “Locking Up Capital”: Initial Observations

- 100bps/year emerging as “best guess”
 - Less Liquid LCC vs More Liquid LCC
 - Other Endowments
- “Locked up” capital can also result in reduced volatility (e.g., LCC vs MCC)
- And, of course, many different elements affect returns in addition to lock-up period
- Staff intends to continue analyzing
 - How should compensation for lock-up period be risk-adjusted?
 - How does compensation for lock-up period interact with other risk factors, such as political risk, value vs growth, or with margin of safety?
 - Is lock-up compensation linear in the number of years capital is locked up?



What is the “Lock Up” Period in Privates? Part I: What the Models Tell Us

- Key underwriting assumptions are Expected IRR and Expected Multiple, from which Expected Holding Period can be calculated
 - While underwriting assumptions are many times optimistic, the calculated expected holding period, which is a ratio of two assumptions, should be statistically unbiased

Asset Class	Expected IRR	Expected Multiple		Expected UTIMCO Holding Period
Credit	14%	1.5	➔	3.1
RE	15%	1.6		3.4
NR	20%	2.5		5.0
Buyout	15%	1.7		3.8
Venture	18%	2.5		5.5
EM	17%	2.0		4.4
Average ⁽¹⁾	17%	2.0		4.3

⁽¹⁾ Average using FY2013 Policy Asset Class Allocations

- We can also look at our commitment model: it projects distributions of 24% of NAV in FY2013, which corresponds to an average holding period of 4.1 years
 - This is one specific point in time, in a portfolio that is young and evolving; we need to be careful when extrapolating this number to a long term average of a mature portfolio



What is the “Lock Up” Period in Privates?

Part II: What Historic Data Tells Us

- UTIMCO has only a limited amount of funds that have completed their life cycle. This data is statistically biased, since it has more of the “good” funds that produce earlier realizations
- We decided to look at the ratio of distributions to NAV, and extrapolate holding periods. Note that with a young portfolio, this method over-estimates the holding periods

Asset Class	Extrapolated Holding Period		
	Average	Median	Range (one standard deviation)
Credit	3.7	3.9	2.9 – 6.0
RE		N / A	
NR	2.5	3.2	2.2 - 4.3
Buyout	4.5	5.8	3.3 – 7.3
Venture	8.7	11.9	7.1 - 29.1
EM		N / A	
Average	4.3	4.8	3.2 - 6.5

- We also looked at recent past: actual annual distributions in the past 3 years were 22% of NAV on average, which corresponds to an average holding period of 4.4 years



What is the “Lock Up” Period in Privates?

- Using 4 different methods (2 forward looking models, 2 driven by historical data) gave a relatively tight range of answers for the lock-up period of the overall portfolio: between 4.1 years and 4.4 years
 - Per asset class, we have a much larger variance, and are less certain as to what number to use for each asset class
- Staff intends to continue with a careful analysis of this topic
 - For the rest of the analysis in this presentation, we used the first model presented (i.e., the one which results in an average holding period of 4.3 years)



Compensation for Risk in Holding Period

- Holding period uncertainty is not clear
 - UTIMCO's history of distribution implies a 1-year downside risk for the extrapolated holding period in Natural Resources, a 1½ -year downside risk for Buyouts, and 2 years for Credit
 - The downside risk of the holding period of Venture is high, and we do not have sufficient data to estimate it reliably
 - Private Investments in Emerging Markets and in Real Estate are relatively young programs at UTIMCO, and we do not have sufficient data to estimate the mean nor the downside risk of their holding periods
- Assuming markets drying up will have an average effect of increasing holding periods by 1 year, an additional 100bps of return for this risk would be required



Opportunity Cost of Keeping Uncalled Capital Liquid

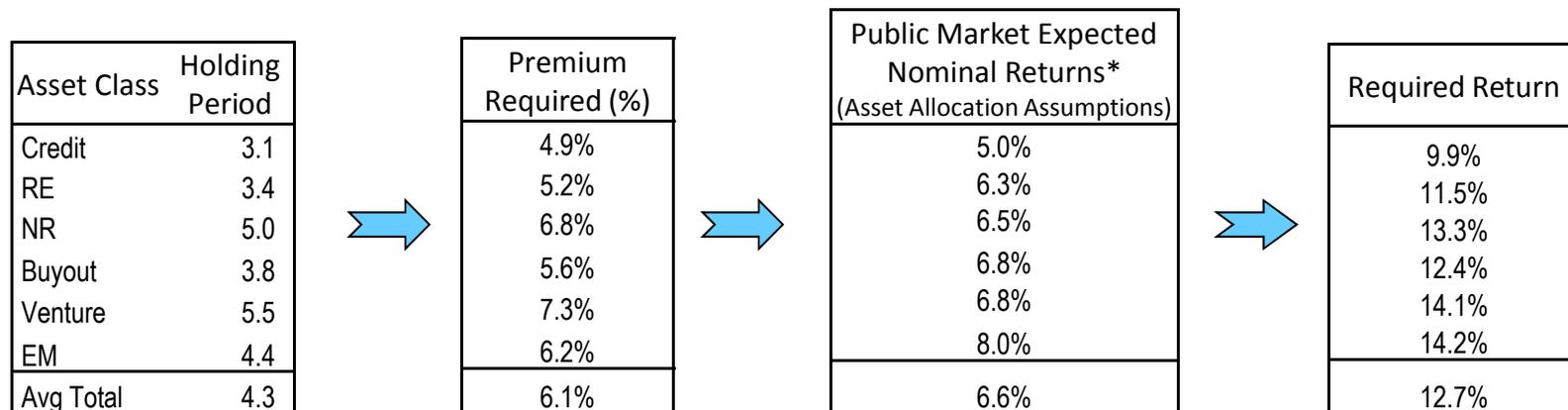
- For each \$100 in Private Investment NAV, our current estimate is that we will need \$55 in unfunded commitments to maintain “steady state”
- The most extreme assumption is that the entire \$55 can be called at “short notice”, and therefore should be in fairly liquid investments
- A further penalizing assumption is that to have this amount during a crisis, we need to have \$80 in fairly liquid investments, to allow for a 30% decline in value during a crisis
- The alternative investment being LCC, which has yielded 100bps higher on average; the opportunity cost is therefore 80bp
 - This number could become lower as we utilize more “co-invests” and “opt-out” structures
- With an assumption that only half could be called at “short notice”, a 40 bps premium would be required



Premium Required (over LCC or Equity Markets)

- Premium Required = Compensation for locking up our money + Compensation for risk in holding period + Opportunity cost for the uncalled capital

$$\text{Premium Required} = (\text{Holding Period} * 100\text{bps}) + 100\text{bps} (\text{Holding Period Risk}) + 80\text{bps} (\text{Uncalled Liquidity})$$



*Inflation assumed to be 2.5%



UTIMCO Actual Experience vs Required Return

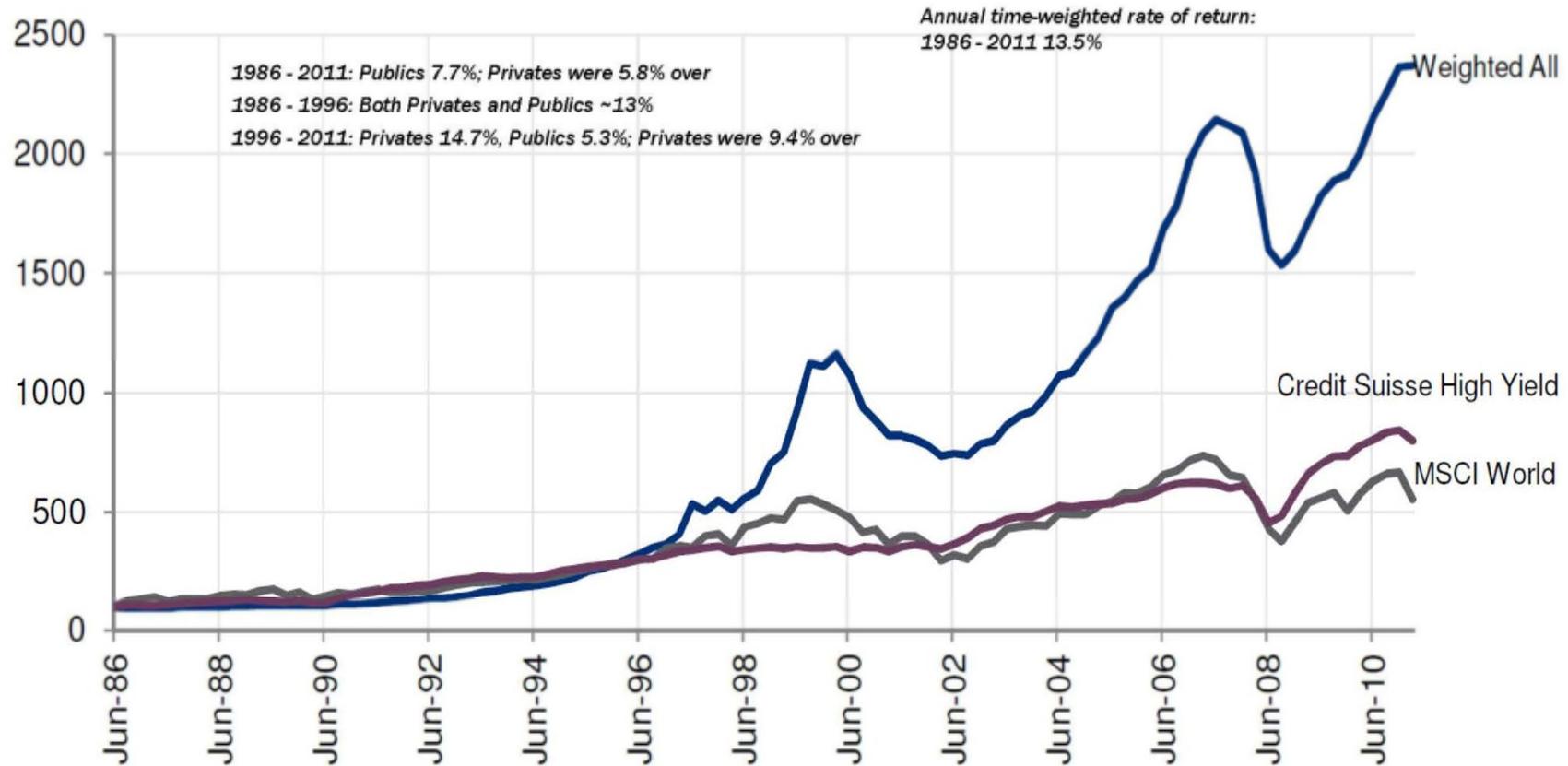
Private Investments	Actual Nominal	Required Nominal
Credit	7.6%	9.9%
RE	-0.6%	11.5%
NR	18.3%	13.3%
Buyout	10.0%	12.4%
Venture	10.7%	14.1%
EM	3.9%	14.2%
Average Total	10.5%	12.7%

LCC	8.31%	6.75%
-----	-------	-------

MCC	7.23%	6.55%
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Private Investments Returns over the Past 25 Years



Note: Total return indices based on net asset values; June 1986 = 100. PE index based on 1882 private equity funds in Preqin database
Source: EVCA, May 2012



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Liquidity Supply and Demand



Demand Assumptions

Normal

- 3% each year in distributions to UT System, net of West Texas Lands and donor income
- 25% of Private Investments assumed to be called each year
 - Assumes new commitments are being made continuously

Stress

- 4% each year in distributions to UT System, net of West Texas Lands and donor income
- 50% of all unfunded commitments will be called in the first year, and another 50% in the second year. No new commitments will be made, and hence no calls after the first two years
- \$125mm of the Endowments are needed to back-stop A&M bond programs; STF and ITF sufficient to back-stop UT bond program

Extreme Stress

- 5.75% each year in distributions to UT System (no income)
- \$1.4bn of the Endowments are needed to back-stop UT and A&M bond programs



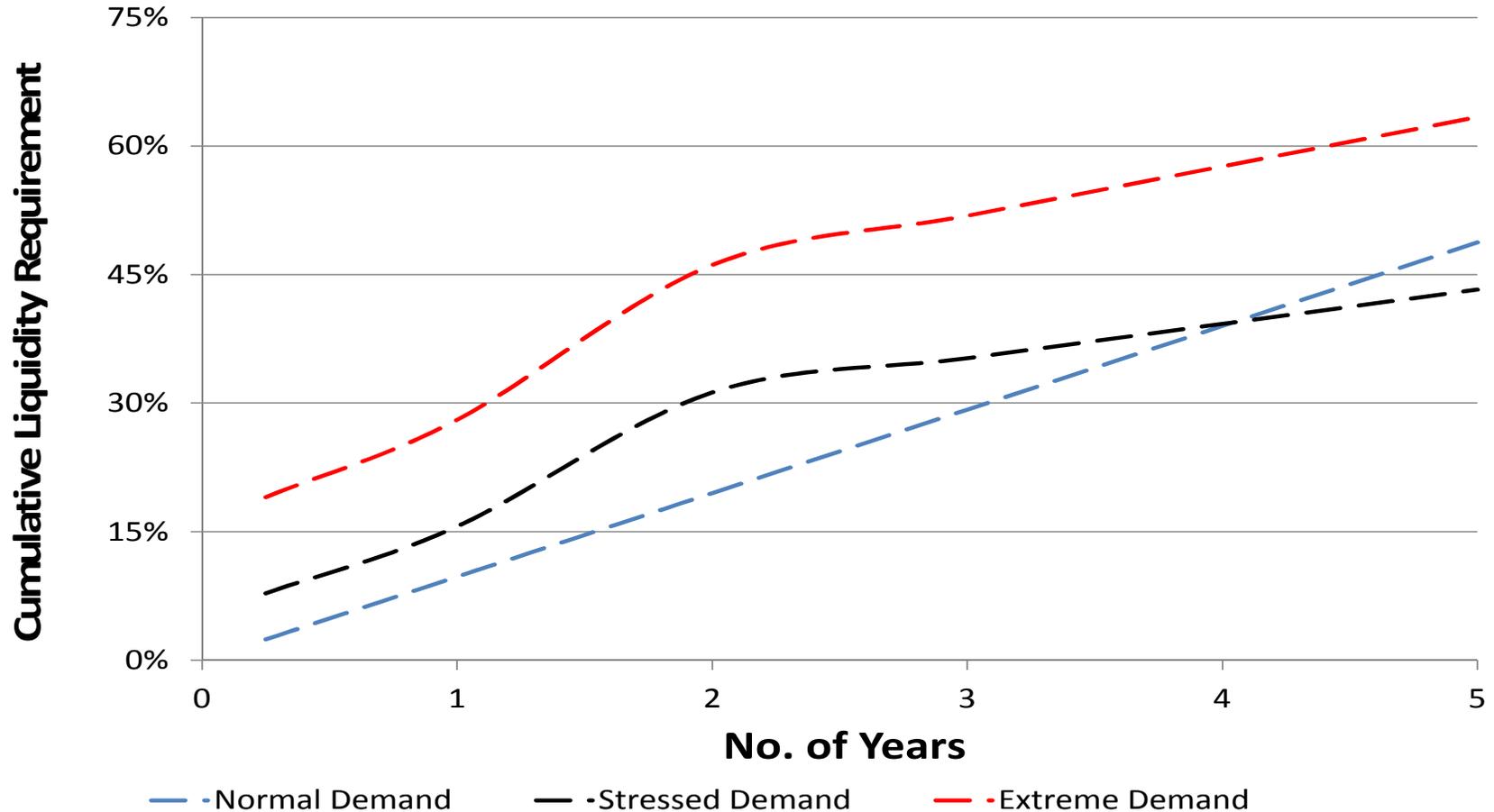
UT and A&M Bond Back Stop

- UT System has \$7.4 billion in outstanding debt
 - \$5.5 billion in fixed rate debt
 - \$1.3 billion variable rate debt swapped to fixed (synthetic fixed rate)
 - \$0.6 billion in commercial paper
- UTIMCO is contractually obligated as the “backstop” for UT System for its variable rate debt and commercial paper programs
 - \$1.9 billion is currently outstanding (\$1.3bn VRBD and \$600mm CP)
 - \$3.1 billion is the maximum size of these programs
- UTIMCO also backstops A&M’s \$125mm commercial paper program



Demand Curves

Distributions to UT System and Calls of Unfunded Commitments





Supply Assumptions

Normal

- MCC and LCC profiles based on the estimated 8/31/2012 run-off liquidity
- Private distributions assumed to be 20% each year, based on remaining asset value (20% in first year, 20% of remaining 80% next year, etc.). Same methodology used for the side-pockets of LCC

Stress

- MCC drops in value by 40%, LCC drops in value by 20%
- In the LCC, of the 23% that were liquid in 3 months, only 8% will remain that liquid. The other 15% will become liquid in 1 year (7%), liquid in 3 years (7%), or illiquid (1%)
- Private distributions will be zero in the first two years, and 20% of remaining asset value thereafter (20% in third year, 20% of remaining 80% next year, etc.)

Extreme

- MCC bid/ask spread effectively lowers asset value by an additional 10%

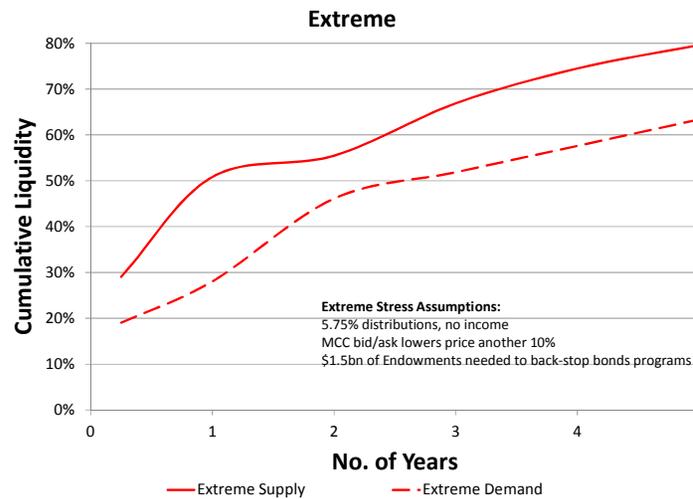
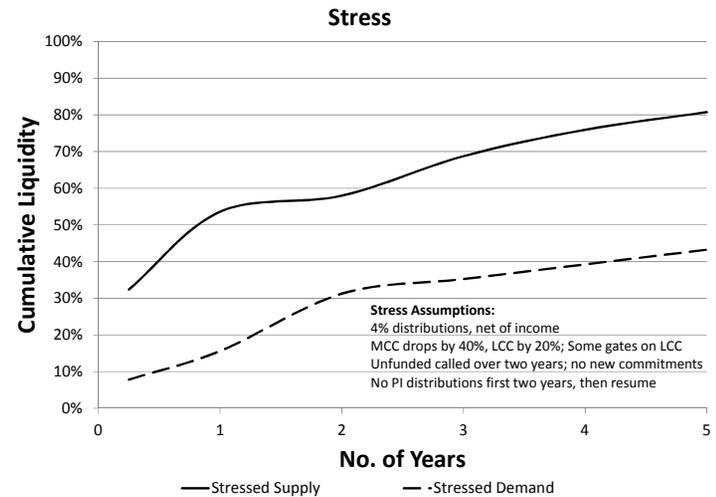
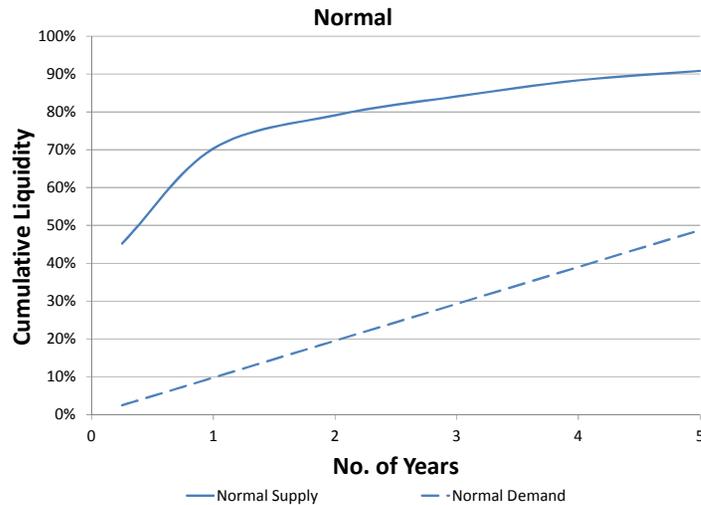


Liquidity Supply and Demand – Current Portfolio

MCC: 43%

LCC: 30%

PI: 27%



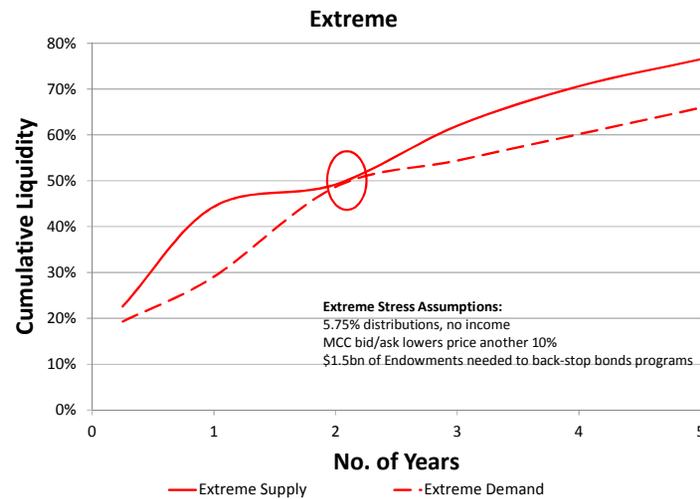
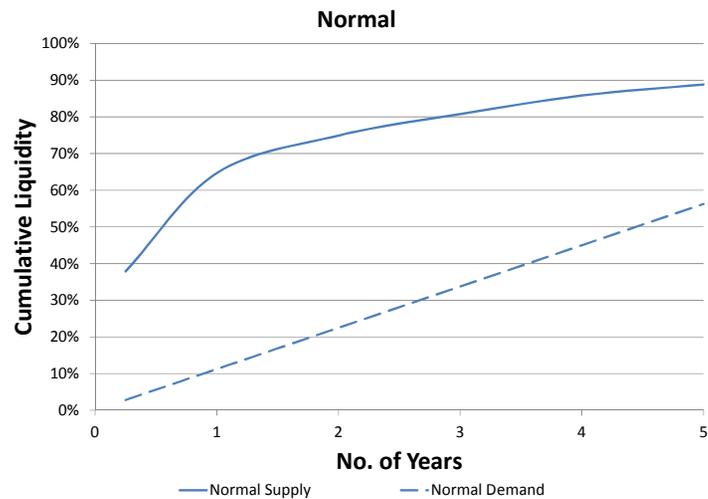


Liquidity Supply and Demand – Sample Portfolio I

MCC: 34%

LCC: 33%

PI: 33%



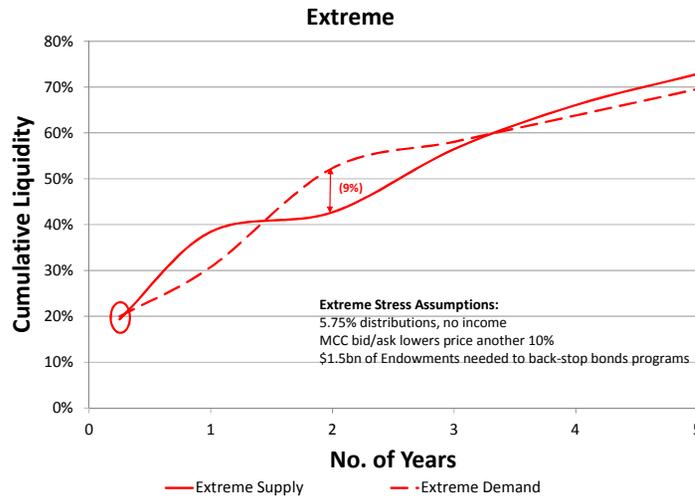
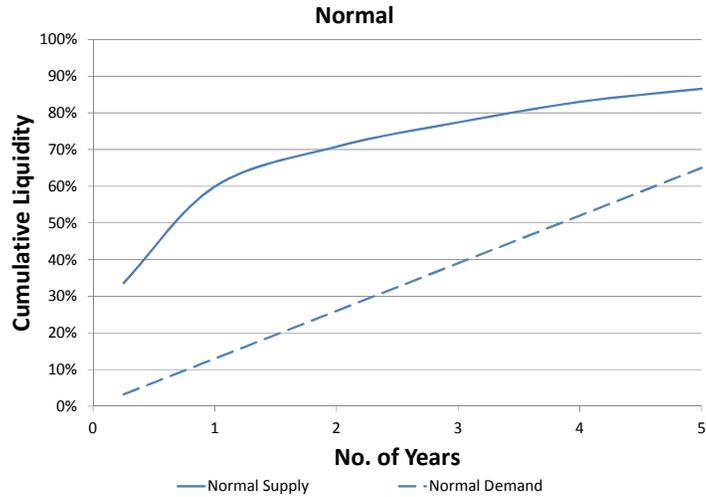


Liquidity Supply and Demand – Sample Portfolio II

MCC: 30%

LCC: 30%

PI: 40%



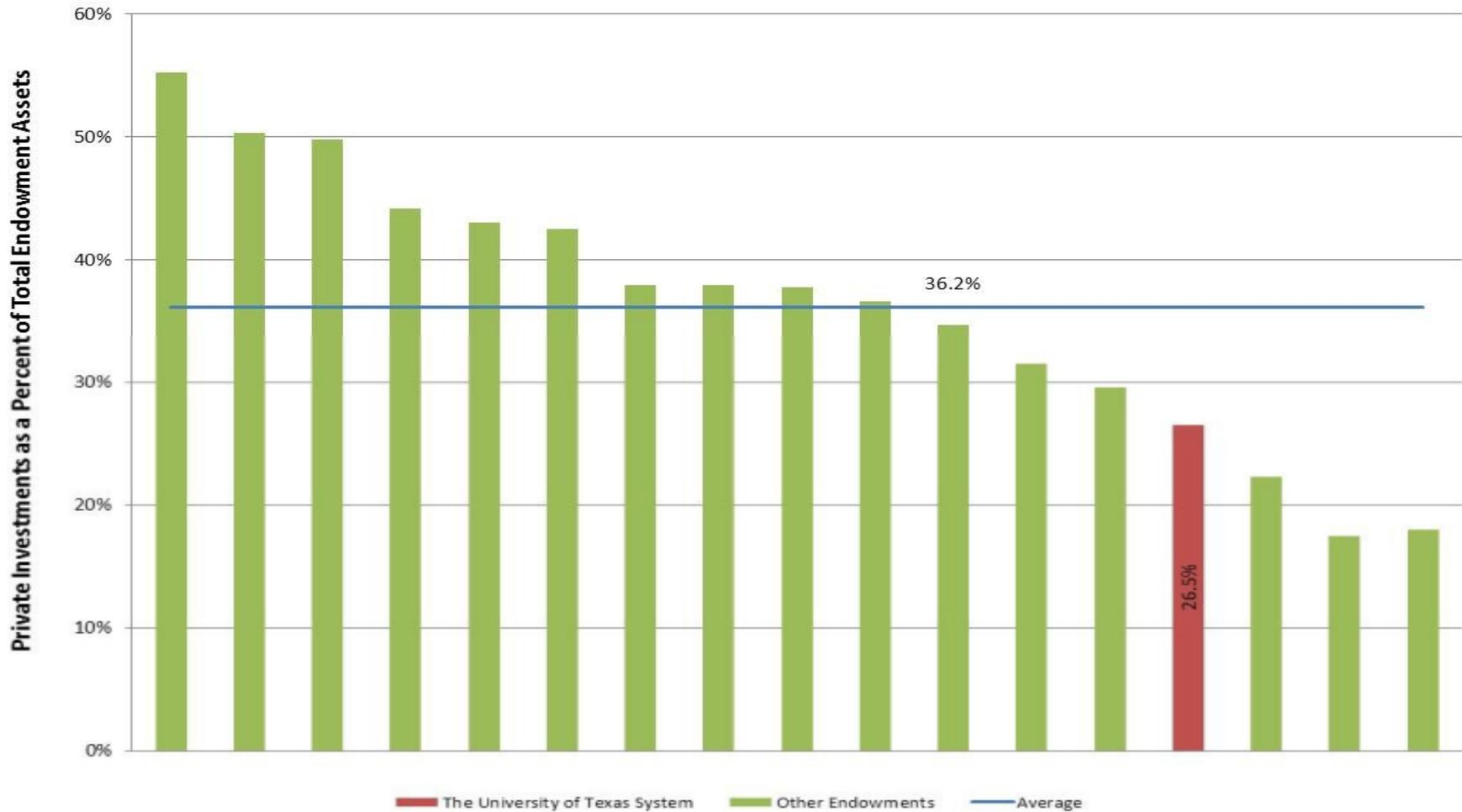


THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

Ability to Deploy Capital



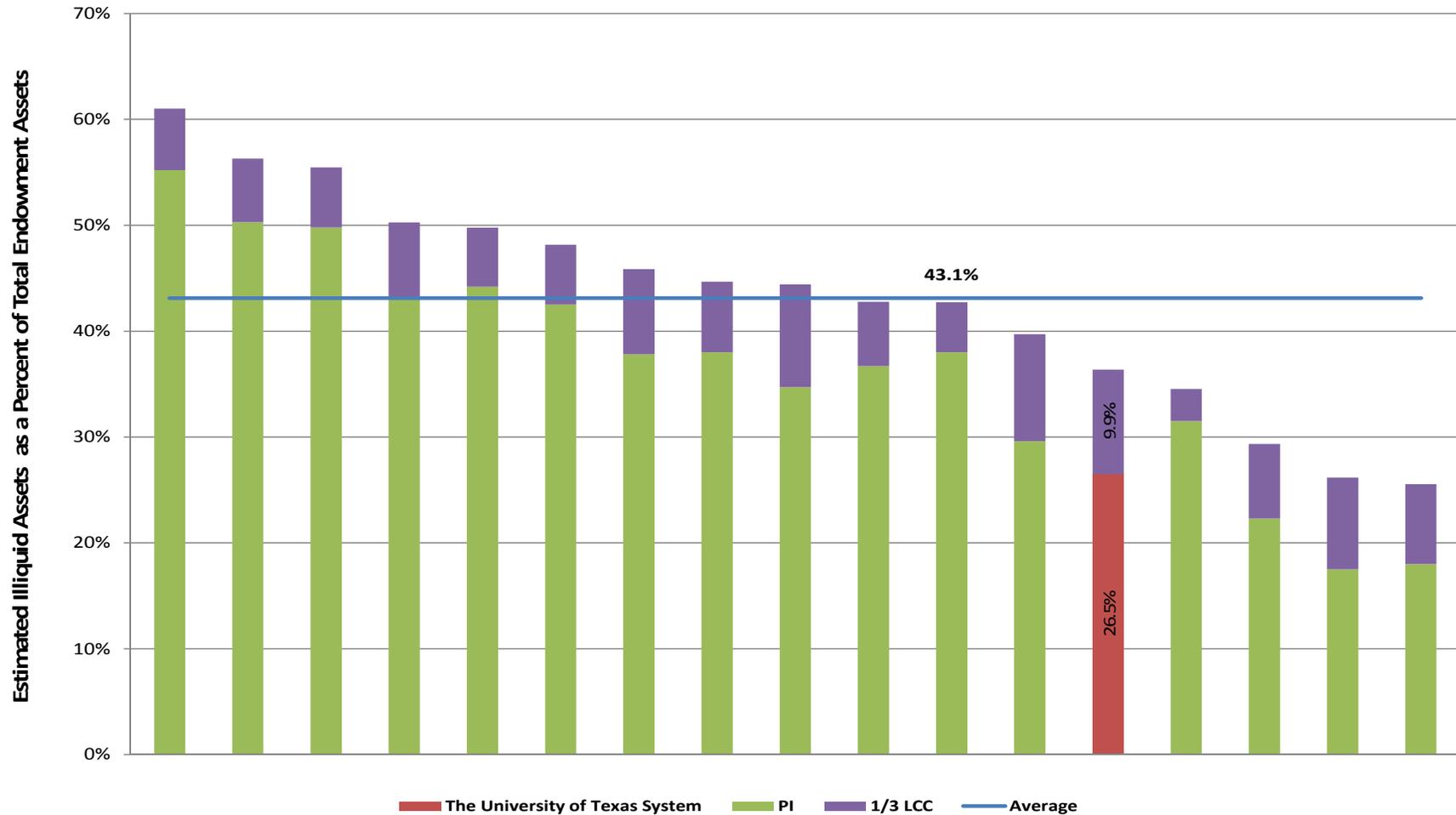
Peer Allocation to Private Investments





Peer Allocation to Illiquid Assets

PI assumed illiquid; LCC assumed 1/3 illiquid





Endowment Reaction in 2008

We interviewed five of our peers to find out what they did during and after the 2008 crisis. Key takeaways include:

- Illiquidity during crisis spiked to over 50%
- An immediate moratorium or reduction on new commitments to Private Investments
- 3 of the 5 Endowments sold Private Investments holdings during the crisis, but each had a plan to sell if it became necessary
- All sold Public Equity at the height of the crisis
- Each of the Endowments had negotiated access to the debt markets, but none was used
- Boards were generally involved, but no more than was customary



Endowment Steady State post-Crisis

Each also shared a view of their desired “steady state” Private Investments portfolio:

- Target allocation to Private Investments is between 35% and 45%
- Cost of Illiquidity:
 - Range for Hedge Funds:
 - 1) 100bps per year
 - 2) Different for each strategy as some funds are used for correlation diversification
 - 3) Unquantifiable
 - Range for Private Equity :
 - 1) 150-250bps
 - 2) ~200bps over corresponding public index
 - 3) More than 500bps
- Risk Management changes:
 - More focus on opportunity cost of capital and getting paid for illiquidity
 - More explicit target for Unfunded Commitments
 - Tighten up liquidity and cash flow models



Capital Commitments: Historic and Projected

	Historical Commitments (\$mm)								Commitment Budget (\$mm)				
	FY'05	FY'06	FY'07	FY'08	FY'09	FY'10	FY'11	FY'12	FY'13	FY'14	FY'15	FY'16	FY'17
<u>Credit-Related Fixed Income</u>	\$50	\$135	\$340	\$846	\$75	\$330	\$100	\$100	\$100	\$100	\$100	\$100	\$100
<u>Real Estate</u>	0	0	0	308	44	75	479	438	400	400	375	400	400
<u>Natural Resources</u>	66	50	40	250	135	233	275	646	400	550	400	500	500
Developed Country Equity													
Developed Country - Ex VC	318	691	585	557	25	155	135	154	150	150	150	150	150
Venture Capital	<u>137</u>	<u>115</u>	<u>115</u>	<u>112</u>	<u>0</u>	<u>40</u>	<u>205</u>	<u>120</u>	<u>75</u>	<u>75</u>	<u>75</u>	<u>75</u>	<u>75</u>
<u>Total Dev Country Equity</u>	455	806	700	669	25	195	340	274	225	225	225	225	225
<u>Emerging Markets Equity</u>	<u>0</u>	<u>0</u>	<u>50</u>	<u>325</u>	<u>120</u>	<u>140</u>	<u>242</u>	<u>195</u>	<u>250</u>	<u>250</u>	<u>250</u>	<u>250</u>	<u>250</u>
<u>TOTAL</u>	<u>\$571</u>	<u>\$991</u>	<u>\$1,130</u>	<u>\$2,398</u>	<u>\$399</u>	<u>\$973</u>	<u>\$1,436</u>	<u>\$1,653</u>	<u>\$1,375</u>	<u>\$1,525</u>	<u>\$1,350</u>	<u>\$1,475</u>	<u>\$1,475</u>

- Projected Plan is 28% of Endowments to be in Private Investments



Projected Capital Commitments

Commitment Budget (\$mm)

	FY'13	FY'14	FY'15	FY'16	FY'17
Current Plan (28%)	\$1,375	\$1,525	\$1,350	\$1,475	\$1,475
33% Target	\$1,800	\$1,875	\$1,950	\$2,025	\$2,100
40% Target	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500



Next Steps

- Continue analyzing risk-adjusted cost of capital
- “Fine-tune” commitment model and improve cash-flow projections
 - Effect of longer investment periods vs shorter investment periods
 - Effect of business cycles
 - Effect of co-invests and of opt-out options
 - Enhance model with buys and sells in the secondary market
- Better understanding of our options and their costs at time of crisis
- Additional tools for cash management
- Analyze our ability to deploy capital while meeting returns targets
 - Identify sources of funds for increased Private Investments

Agenda Item
UTIMCO Board of Directors Meeting
November 9, 2012

Agenda Item: Report and Discussion and Appropriate Action related to Items from Audit and Ethics Committee

Developed By: Moeller, Hill, Gonzalez

Presented By: Wilson

Type of Item: Action required by UTIMCO Board related to year end audits; information item on other items

Description: The Audit and Ethics Committee (“Committee”) will meet on November 5, 2012. The Committee’s agenda includes the following: (1) discussion and appropriate action related to minutes; (2) discussion and appropriate action related to Deloitte & Touche LLP’s Audit Results and Communications and the audit reports of the Permanent University Fund (“PUF”), General Endowment Fund (“GEF”), Permanent Health Fund (“PHF”), Long Term Fund (“LTF”), Intermediate Term Fund (“ITF”), and the Statement of Investment Performance Statistics for the year ended August 31, 2012; (3) discussion and appropriate action related to proposed amendments to the UTIMCO Code of Ethics; (4) report from UT System Audit Office including discussion and appropriate action related to Audit Plan for Fiscal Year 2013; (5) update on compliance, reporting and audit issues; and (6) discussion and appropriate action related to the General Counsel and Chief Compliance Officer’s Performance Incentive Award for the Performance Period ended June 30, 2012.

Discussion: The financial statements were audited by Deloitte & Touche LLP. Tom Wagner, engagement partner, will present to the Committee Deloitte & Touche LLP’s Financial Statement Audit Results and Communications letter (the “Letter”) and answer questions related to the financial statements. Included in these materials is a draft of the Letter and Management’s Representation Letter to Deloitte confirming in writing Management’s responsibilities and representations with regard to these audits. Because of the voluminous nature of the audited financial statements, they are not included in the Board book. However, the complete audited financial statements will be available on UTIMCO’s website, www.utimco.org after November 5th.

As required by the Charter of the Audit and Ethics Committee, the Committee will approve the CEO’s recommendation of the performance incentive award for the performance period ending June 30, 2012 for the General Counsel and Chief Compliance Officer and together make a recommendation to the Compensation Committee.

J. Michael Peppers, UT System Chief Audit Executive *ad interim* will review with the Committee the UTIMCO Chief Executive Officer/Chief Investment Officer Expenses Audit Report for FY2012 and in executive session, the System Administration

Agenda Item
UTIMCO Board of Directors Meeting
November 9, 2012

Information Technology Follow-up Audit Report FY 2012. Mr. Peppers will also present the 2013 Audit Plan and request Committee approval of the plan.

The Committee will also review proposed amendments to the UTIMCO Code of Ethics. The proposed amendments to the UTIMCO Code of Ethics will be discussed in the report from the Policy Committee under Tab 8.

Routine activities of the Committee include a report from Mr. Zimmerman, in Ms. Gonzalez's absence, related to the quarterly compliance reports.

Recommendation: The Committee will recommend that the UTIMCO Board take appropriate action related to the Deloitte & Touche LLP Financial Statement Audit Results and Communications and the audited financial statements of the PUF, GEF, PHF, LTF, ITF, and the Statement of Investment Performance Statistics for the year ended August 31, 2012.

Reference: Draft Deloitte & Touch LLP's Financial Statement Audit Results and Communications
Draft Management's Representation Letter
Institutional Compliance Program Annual Report and Action Plans

**RESOLUTIONS RELATED TO AUDITS OF THE INVESTMENT FUNDS
FOR FISCAL YEAR 2012**

RESOLVED, that Deloitte & Touche LLP's Financial Statement Audit Results and Communications on the Investment Funds Under Fiduciary Responsibility of The University of Texas System Board of Regents for the year ended August 31, 2012, be, and is hereby approved in the form as presented to the Board; and

FURTHER RESOLVED, that the separate annual financial statements and audit reports for the Permanent University Fund, the Permanent Health Fund, The University of Texas System Long Term Fund, The University of Texas System General Endowment Fund, and The University of Texas System Intermediate Term Fund each for the fiscal years ended August 31, 2012, and August 31, 2011, and the Statement of Investment Performance Statistics for the year ended August 31, 2012, be, and are hereby approved in the form as presented to the Board.

October 31, 2012

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

The Audit, Compliance and Management Review Committee of
The Board of Regents of the University of Texas System

The Audit and Ethics Committee of the Board of Directors of
The University of Texas Investment Management Company

401 Congress Avenue, Suite 2800
Austin, TX 78701

Dear Mr. Zimmerman, Members of The Audit, Compliance and Management Review Committee of The Board of Regents of the University of Texas System as well as Members of The Audit and Ethics Committee of the Board of Directors of The University of Texas Investment Management Company (the “Board”):

We have performed the audits of the financial statements of the Permanent University Fund, The University of Texas System General Endowment Fund, the Permanent Health Fund, The University of Texas System Long Term Fund and The University of Texas System Intermediate Term Fund (collectively, the “Funds”) as of and for the year ended August 31, 2012, in accordance with auditing standards generally accepted in the United States of America and have issued our reports thereon dated October 31, 2012.

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

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS

Our responsibility under auditing standards generally accepted in the United States of America has been described in our contract dated February 15, 2012 (the “Contract”). As described in Exhibit A-1 – Section B to the Contract, the objective of a financial statement audit conducted in accordance with auditing standards generally accepted in the United States of America is to express an opinion on the reasonableness of the presentation of the Funds’ financial statements for the year ended August 31, 2012 in conformity with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”), in all material respects. Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Board are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audits of the financial statements do not relieve management or the Board of their responsibilities.

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

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the Funds' financial statements include valuation of certain investments which are specifically the Funds' investments in hedge funds, private investments, and private placements recorded at amounts included in the table below which have been estimated by management in the absence of readily determinable fair values.

FUND	VALUE OF INVESTMENTS IN THE ABSENCE OF READILY DETERMINABLE FAIR VALUES AT 08/31/12	PERCENTAGE OF NET ASSETS AT 08/31/12
Permanent University Fund	\$9,147,993,604	67.9%
The University of Texas System General Endowment Fund	\$4,933,094,554	69.4%
The University of Texas System Intermediate Term Fund	\$2,225,960,412	46.1%

Although management believes the accounting estimates reflected in the Funds' 2012 financial statements are reasonable, there can be no assurances that the Funds could ultimately realize these values. The basis for our conclusions as to the reasonableness of these estimates when considered in the context of the financial statements taken as a whole, as expressed in our auditors' reports on the financial statements, is our understanding and testing of the process used by management to develop the estimates.

Management uses a process to estimate the fair value of these entities which includes, but is not limited to, consideration of financial information from the underlying funds provided at various interim dates during the year, other information from the underlying funds, as well as information from other relevant sources. We feel this valuation process is reasonable based on the requirements of the AICPA Practice Aid for Auditors *Alternative Investments—Audit Considerations* and investment management industry general practices.

During the year ended August 31, 2012, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

UNCORRECTED MISSTATEMENTS

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

MATERIAL CORRECTED MISSTATEMENTS

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

SIGNIFICANT ACCOUNTING POLICIES

The Funds' significant accounting policies are set forth in the footnotes to the Funds' 2012 financial statements. During the year ended August 31, 2012, there were no significant changes in previously adopted accounting policies or their application.

OTHER INFORMATION IN THE ANNUAL REPORT

When audited financial statements are included in documents containing other information such as the Funds' Management Discussion & Analysis and Supplemental Schedules, we read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. We have read the other information in the Funds' financial statements and have inquired as to the methods of measurement and presentation of such information.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Funds' 2012 financial statements.

CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during the year ended August 31, 2012.

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

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

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

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

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

MANAGEMENT'S REPRESENTATIONS

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

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

Yours truly,

October 31, 2012

October 31, 2012

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

We are providing this letter in connection with your audits of the statements of fiduciary net assets as of August 31, 2012 and August 31, 2011, of the entities (the "Funds") listed in Appendix A, and changes in fiduciary net assets for the Funds for the years then ended, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position and the changes in the fiduciary net assets of the Funds in conformity with accounting principles generally accepted in the United States of America (GAAP), as promulgated by the Governmental Accounting Standards Board (GASB).

We are also providing this letter in conjunction with your audits of the detailed schedule of investment securities of the Permanent University Fund as of August 31, 2012 and the statement of investment performance statistics for the Funds for the year ended August 31, 2012.

We confirm that we are responsible for the following:

- a. The fair presentation in the statements of fiduciary net assets, statements of changes in fiduciary net assets, detailed schedule of investment securities, and investment performance statistics in conformity with GAAP
- b. The fair presentation of the supplemental schedules accompanying the basic financial statements that are presented for the purpose of additional analysis of the basic financial statements
- c. The design, implementation, and maintenance of programs and controls to prevent and detect fraud
- d. Establishing and maintaining effective internal control over financial reporting.

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

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

1. The financial statements referred to above are fairly presented in conformity with GAAP.

2. The Funds have provided to you all relevant information and access as agreed in the terms of the audit contract, including:
 - a. All relevant information and access as agreed in the terms of the contract entered into by The University of Texas System, as amended on February 15, 2012
 - b. Financial records and related data
 - c. Minutes of the meetings of directors/trustees, and committees of directors/trustees; or summaries of actions of recent meetings for which minutes have not yet been prepared
 - d. Information relating to the Funds' compliance with all statutes, laws, or regulations that have a direct effect on our financial statements
 - e. All new or revised governance documents and agreements
 - f. Information relating to contracts with and results of work by management's experts.
3. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.
4. There were no uncorrected financial statement misstatements and/or differences in estimating valuations aggregated by you during the current audit engagement and pertaining to the latest period in the current year which, individually and in the aggregate, are material to the financial statements taken as a whole.
5. The Funds have provided to you the results of management's risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud.
6. We have no knowledge of any fraud or suspected fraud affecting the Funds involving:
 - a. Management
 - b. Employees of The University of Texas Management Company ("UTIMCO"), the Funds' investment manager, who have significant roles in the Funds' internal control over financial reporting
 - c. Others if the fraud could have a material effect on the financial statements.
7. We have no knowledge of any allegations of fraud or suspected fraud affecting the Funds received in communications from UTIMCO employees, former UTIMCO employees, analysts, regulators, or others.
8. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with Governmental Accounting Standards Board (GASB) Statement No. 10 (paragraph 53) *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*.
9. All investments during the period were made in accordance with the investment policies.
10. Significant assumptions used by us in making accounting estimates are reasonable.

Except for the statement of investment performance statistics and where otherwise stated below, matters less than the materiality limits indicated in Appendix A for each Fund collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. These amounts are not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

11. There are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
12. The Funds have no plans or intentions that may affect the carrying value or classification of assets and liabilities.
13. We have disclosed to you any change in the Funds' internal control over financial reporting that occurred during the Funds' most recent fiscal year that have materially affected, or are reasonably likely to materially affect, the Funds' internal control over financial reporting.
14. With regard to the fair value measurements and disclosures of certain assets and liabilities, we believe that:
 - a. Investments are stated at fair value as determined in accordance with the valuation method set forth in the Funds' respective investment policies
 - b. The measurement methods, including the related assumptions, used in determining fair value were appropriate, consistent with market participant assumptions where available without undue cost and effort, and were consistently applied in accordance with GAAP
 - c. The completeness and adequacy of the disclosures related to fair values are in conformity with GAAP
 - d. No events have occurred subsequent to August 31, 2012 that require adjustment to the fair value measurements and disclosures included in the financial statements.
15. Private investment funds are fair valued by management. The fair values of these investments are estimated by management using the individual private investment fund's capital account balance at the closest available reporting period, as communicated by the investment fund's general partner or investment manager, adjusted for contributions and withdrawals subsequent to the latest available reporting period as well as consideration of any other information which has been provided. In rare cases the private market funds are valued at cost but only when management feels this is the best approximation of value.
16. The following, to the extent applicable, have been appropriately identified, properly recorded, and disclosed in the financial statements:
 - a. Related-party transactions and other transactions with affiliates and associated amounts receivable or payable, including fees, commissions, sales, purchases, loans, transfers, leasing arrangements, side agreements, and guarantees (written or oral)
 - b. Guarantees, whether written or oral, under which the Funds are contingently liable
 - c. Restricted securities that may not be publicly sold without registration under the federal Securities Act of 1933

- d. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line-of-credit, or similar arrangements
 - e. All derivative financial instruments (e.g., futures, options, swaps), including bank loan commitments and other outstanding commitments to purchase or sell securities under forward placement and standby commitments
 - f. Financial instruments with significant individual or group concentration of credit risk, whether from an individual counterparty or group of counterparties.
17. In preparing the financial statements in conformity with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
- a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.
 - b. The effect of the change would be material to the financial statements.
18. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:
- a. The concentration exists at the date of the financial statements
 - b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact
 - c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.
19. There are no:
- a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency
 - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed under Government Accounting Standards Board (GASB) Statement No. 10 (paragraph 53), *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*.
20. The Funds have satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral, except for those disclosed in the financial statements.

21. Regarding supplementary information:
 - a. We are responsible for the fair presentation of the supplementary information
 - b. We believe the supplementary information, including its form and content, is fairly presented
22. We have disclosed all soft-dollar arrangements to you. We confirm to you that the usage of soft-dollar credits are restricted to activities that are specified in the UTIMCO Soft Dollar Policy and Procedures document. The Funds have not utilized soft-dollar credits to offset direct Fund expenses. As of August 31, 2012, there were no soft-dollar commissions paid, which the Funds plan to recapture at a later date.
23. UTIMCO as investment manager of the Funds under the control and management of The University of Texas System Board of Regents (“UT Board”), entered into a security purchase agreement with the UT Board. The agreement committed the Funds to purchase UT System notes and bonds outstanding up to \$3,094,315,000. The PUF also has an agreement with the Texas A&M University (TAMU) System Board of Regents which commits the PUF to acquire up to \$125,000,000 of Texas A&M System flexible rate notes in the event of a failed remarketing of such notes. No UT System notes and bonds or Texas A&M System flexible rate notes have been or are expected to be purchased by the Funds under their required purchase commitment.
24. For those private investment funds where the Funds’ combined investment exceeds 5% of the investment fund’s equity, management does not have, and does not intend to obtain, effective control of these entities.
25. None of the entities which have borrowed from the Funds, subject to their securities lending programs, have defaulted during the year ended August 31, 2012.
26. The Funds have complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance. The Funds enter into certain contracts that contain a variety of indemnifications. The Funds have not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.
27. All trades made by the Funds during the year were appropriately authorized by management.
28. In conjunction with the Funds’ investments in the private investment and hedge fund pools, there are no instances where the Funds would be required to assume additional commitment responsibility should other limited partners or shareholders default on their own commitments.
29. As of August 31, 2012, the Funds do not have any deposits or investments that are exposed to custodial credit risk.
30. No events have occurred after August 31, 2012, but before October 31, 2012, the date the financial statements were available to be issued, that require consideration as adjustments to or disclosures in the financial statements.

Bruce Zimmerman
Chief Executive Officer and Chief Investment Officer

Joan Moeller
Senior Managing Director – Accounting, Finance, &
Administration

Gary Hill
Senior Manager – Investment Reporting

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APPENDIX A

Entity Name	Materiality Limit
The Permanent University Fund (“PUF”)	\$ 25,500,000
The University of Texas System General Endowment Fund (“GEF”)	13,500,000
The University of Texas System Long Term Fund (“LTF”)	11,500,000
The Permanent Health Fund (“PHF”)	1,500,000
The University of Texas System Intermediate Term Fund (“ITF”)	9,000,000

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**The University of Texas Investment Management Company
Institutional Compliance Program Annual Report
for the Year Ended August 31, 2012**

Section I – Organizational Matters

- Four meetings of the Ethics and Compliance Committee have been held during this fiscal year: September 19, 2011, December 15, 2011, March 21, 2012, and June 15, 2012.
- Director changes included the following: Director J. Philip Ferguson was replaced by Director Morris Foster effective April 4, 2012, for a three-year term to expire on April 1, 2015.
- Significant personnel changes: Senior Director – Real Estate Investments, Mark Shoberg, was appointed to the position of Managing Director – Real Estate Investments in July 2012. Uche Abalogu, Chief Technology Officer for UTIMCO, began employment on March 5, 2012, replacing David Gahagan who was serving as Acting Head of Information Technology.
- Investment Policy Statements were amended during the fiscal year, effective September 1, 2012. The Delegation of Authority Policy was amended effective July 14, 2012. The Derivative Investment Policy and Liquidity Policy were amended effective August 23, 2012. Two UTIMCO internal policies - Soft Dollar Policy and Proxy Policy - were amended effective July 1, 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, Natural Resources Investments, and 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 340 meetings/calls with potential managers. Serious due diligence was initiated on 11 managers. Six managers were hired. Ongoing review of active external managers included 184 meetings/calls. Additional efforts included monthly performance tracking, reviews and analyses by the team. Two semi-annual portfolio review meetings were held during the year.

Marketable Alternative Investments: The Marketable Alternative Investments group participated in 231 meetings/calls with potential managers. Serious due diligence was initiated on 11 managers. Six managers were hired. Ongoing review of external managers was conducted in the form of 293 meetings/calls/site visits and participation in various annual meetings. Three quarterly portfolio review meetings were held during the year.

Private Markets: The Private Markets group initiated serious due diligence on 22 potential managers. Seventeen commitments were made. The Private Markets group also participated in 306 meetings with active external managers and 267 meetings with potential managers, including site visits, conference calls, Advisory Board or Annual meetings, and ILPA meetings. Four quarterly portfolio review meetings were held during the year.

Natural Resources: The Natural Resources group participated in 190 meetings/calls with potential managers. Serious due diligence was initiated on six managers. Seven managers were hired. Ongoing review of active external managers included 272 meetings/calls. Additional efforts during the year included participation in annual meetings and four quarterly portfolio review meetings.

Real Estate: The Real Estate group participated in 225 meetings/calls with potential managers. Serious due diligence was initiated on nine managers. Eight managers were hired. Ongoing review of active external managers included 179 meetings/calls. Additional efforts during the year included participation in annual meetings and four quarterly portfolio review meetings.

Specialized Training: Staff attended 59 industry-related conferences/forums during the year.

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 year, 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 continued to engage in discussions with Regulatory Entities, current Counterparties and other Risk Management teams regarding the possible downgrade of various counterparties and ways UTIMCO can mitigate its Counterparty Risk, as well as various aspects of Dodd Frank.
- Risk Team reviewed OPERA with Albourne, Risk Managers of other Endowments, and 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; work continues with Albourne and IFS to improve proxies for LCC and Private Investments.
- Risk Team continued to monitor the current macro environment, thought processes, and methodologies of other risk teams, by coordinating and chairing an Endowments Risk Management forum, by analyzing new product offerings for risk management, and by participating in conferences.
- All internal derivatives were reviewed and analyzed in detail prior to initiation. The 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.
- Risk Team participated in the due diligence of four new managers and assisted Investment Staff in the analysis of Manager derivative trading agreements.
- Risk Team prepared projections on portfolio risk, country exposure, liquidity, and asset allocations; updated projections on a weekly basis.
- Risk Team is evaluating its sources and flow of data/information to better assist the new Chief of Technology in his goal of integrating systems.

Specialized Training: Participated in six conferences during the year. Kate Wagner passed the levels 1 and 2 CAIA exams.

High-Risk Area #3: Information Technology & Security

Responsible Party: Chief Technology Officer

Key "A" risk(s) identified:

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

Key Monitoring Activities:

- The annual financial report audit with Deloitte & Touche, LLP was completed.
- Denim Group was retained to complete a security review of the EFAS mainframe replacement web application.
- New hire and annual user security trainings were completed for all new employees and interns.
- Full disk encryption rollout for all laptops was completed. Desktop encryption is forthcoming.
- Several alerts to staff about information security issues, including the Stratfor, Zappos.com, Visa/MasterCard breach and Windows Updates for mobile and personal device security.
- 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.
- Worked with other UTIMCO staff on the continued development of the Business Continuity Plan. Tabletop test was performed.
- Revised Information Security Plan submitted to UT System.
- Staff replaced the Ironport email security appliance.
- Rolled out additional monitoring tools for windows server patch management.
- Attended a training session on Mobile Device Security and Good Technology options.

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, ConfigureSoft, VMware security. DCTO, DuoSecurity, Citrix and VMware security and Network Analyst attended a seminar on security and backup of storage arrays and VMware.

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:

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- Verified that investments are in compliance with rules and guidelines in policies, rules and regulations utilizing custodian's software and in-house developed databases and reports
- Work continues to verify that custodian software queries and database queries are working properly for manager compliance. Continued cross training of new employee.
- Review of monthly and quarterly investment compliance reports prepared by staff.
- Annual compliance statements were sent out to 23 managers. All were returned with no compliance issues noted.
- 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.
- Portfolio Accounting and Operations staff participated in the investment due diligence of 13 prospective and active external managers.
- 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 additions to the restricted list occurred during the year. With the exception of one manager, the restricted list was provided to new managers timely upon hiring. The manager that did not receive the restricted list timely had not purchased nor held any of the restricted securities; therefore, no violation occurred.
- On a daily basis, accounting staff reviewed security holdings of internal and external managers for compliance with the restricted list. No exceptions noted.
- One Director was appointed by the Texas A&M System Board of Regents effective April 4, 2012. The financial disclosure statement and ethics compliance statements of the new Director were received timely. Six Directors returned their annual financial disclosure statement and ethics compliance statement timely before the April 30th deadline. Two Directors requested and received extensions of time to file the annual statements from the CEO. Both Directors filed the statements by the extension deadline.
- The financial disclosure statement and ethics compliance statements of all employees and interns hired during the year were received timely.
- Periodic review of public resources for comparison with financial disclosure statement information provided by Directors was performed during the year.
- Eight requests for preclearance of securities transactions were made during the year. Sixteen trades (by 5 individuals) occurred whereby the transaction disclosures forms were not turned in within the ten calendar day deadline. Two trades were made without the appropriate preclearance request due to an intra-day update to the Preclearance Securities list on the intranet and the UTIMCO policy of trading a gift security on the day received from UT System. For the next fiscal year, all employees

will be required to include compliance with the preclearance of securities transactions procedures as part of their annual goals.

- Annual employee training was held on March 27, 2012 and a makeup session was held on April 4, 2012. All new employees and interns received employee training within a reasonable time after hire.
- Thirty-four trips/events with vendor reimbursed/paid expenses, which required documentation and supervisor/CEO approval, had appropriate documentation and approval. Nineteen trips occurred that included entertainment and CEO approval was obtained for 17 of the trips. One employee obtained approval to attend a sponsored event that included entertainment subsequent to the employee's attendance at the event. No approval was received for one sponsored event but the event was hosted by a Director.

Specialized Training: None

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

High-Risk Area #1: Investment Due Diligence

Assessment of Control Structure: *Well controlled*

Assurance Activities Conducted: CCO reviewed results of quarterly due diligence monitoring plans for each Investment group. Ongoing due diligence efforts on multiple managers continue. The Senior Director, Risk Management and CCO participated in the bi-weekly Investment Committee meetings, the monthly Investment meetings, and quarterly and semi-annual 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.

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

Two annual training sessions were held for all staff; training sessions were held for all new employees and interns.

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.
- All Monitoring Plans for risks identified in 2010 Enterprise Risk Management (ERM) Report have been completed and are being followed.
- Draft of updated ERM report has been prepared and is being circulated.
- Implementation of Diligent Board Books occurred.
- Tabletop testing of Business Continuity Plan has occurred. Live testing will occur once second alternate staff location has been secured.
- Refinement of Records Retention Procedure continues; anticipated completion date of December 31, 2012. Staff departments have submitted updated listings of types of records and holding periods for update to Retention schedule.
- Review of risk assessments to determine if updates are needed is ongoing and should be completed by October 31, 2012.

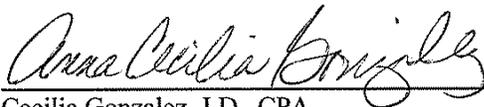
Section VI – Confidential Reporting

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:

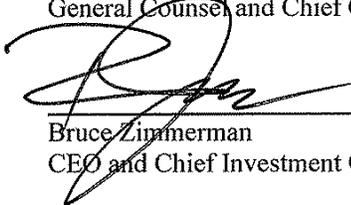
Type	Number	% of Total
Employee Relations	0	0.00%
Policy Issues	0	0.00%
Hang ups or wrong numbers	9	100.00%
Total	9	100.00%

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.

This 2012 Annual Report is submitted by:



Cecilia Gonzalez, J.D., CPA
General Counsel and Chief Compliance Officer



Bruce Zimmerman
CEO and Chief Investment Officer

**The University of Texas Investment Management Company
Institutional Compliance Action Plan
Fiscal Year 2012**

#	ACTION ITEM	TARGET COMPLETION DATE	STATUS
<i>A. RISK ASSESSMENT</i>			
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; 10/31/12 anticipated completion date
<i>B. MONITORING ACTIVITIES / ASSURANCE</i>			
2.	Draft Monitoring Plans related to primary risks identified in ERM : * Portfolio Strategy and Management * Operations, Accounting, and Reporting * General Management	03/31/12	Completed
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
<i>C. COMPLIANCE TRAINING / AWARENESS</i>			
5.	Provide Code of Ethics training and information to improve staff awareness of compliance program	04/30/12	Annual training held on March 27, 2012; Makeup session held April 4, 2012; New hire training for 4 interns and 2 new employees held during the quarter
6.	Identify and network with similarly situated compliance professionals	On-going	On-going
<i>D. REPORTING</i>			
7.	Conduct quarterly meetings with the internal ethics and compliance committee	On-going	On-going
8.	Provide quarterly/annual reports to the System-wide office	On-going	On-going
<i>E. OTHER / GENERAL COMPLIANCE</i>			
9.	Hotline report investigations	On-going	On-going
10.	Periodic Re-evaluation of enterprise risk management and regular reporting to UTIMCO Audit and Ethics committee	06/30/12	Draft of updated ERM report in circulation
11.	ICAC activities: ICAC and Standing Committee participation	On-going	On-going
12.	Work with Board Secretary and IT staff on implementation of Diligent BoardBooks	02/28/12	Completed
13.	Manage implementation of Records	08/31/12	Refinement of procedure

Updated 091312

#	ACTION ITEM	TARGET COMPLETION DATE	STATUS
	Retention Procedures		continues, Staff departments have submitted updated listings of types of records and holding periods for update to Retention schedule; 12/31/12 anticipated completion date
14.	Refine and implement business continuity plan	08/31/12	Tabletop testing held on 8/31/12; live testing will occur once second alternate staff location site has been secured

Updated 091312

**The University of Texas Investment Management Company
Institutional Compliance Action Plan
Fiscal Year 2013**

#	ACTION ITEM	TARGET COMPLETION DATE	STATUS
<i>A. RISK ASSESSMENT</i>			
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	10/30/12	<i>In process</i>
<i>B. MONITORING ACTIVITIES / ASSURANCE</i>			
2.	Continual enhancement of compliance monitoring and reporting	On-going	
3.	Periodic review of Responsible Party Monitoring Plan documentation for high risk areas A	On-going	
<i>C. COMPLIANCE TRAINING / AWARENESS</i>			
4.	Provide Code of Ethics training and information to improve staff awareness of compliance program	04/30/13	
5.	Identify and network with similarly situated compliance professionals	On-going	
<i>D. REPORTING</i>			
6.	Conduct quarterly meetings with the internal ethics and compliance committee	On-going	
7.	Provide quarterly/annual reports to the Audit and Ethics Committee and System-wide compliance office	On-going	
<i>E. OTHER / GENERAL COMPLIANCE</i>			
8.	Manage and transition compliance work from Back Office staff to Compliance Office after Legal and Compliance Specialist is hired	08/31/13	<i>Currently in interview stage</i>
9.	Update and report to UTIMCO Audit and Ethics Committee on enterprise risk management	11/30/12	<i>Draft Report is currently being circulated to staff</i>
10.	ICAC activities: ICAC and Standing Committee participation	On-going	
11.	Manage implementation and assist with live testing of Business Continuity Plan; update as business processes change	02/28/13	
12.	Manage implementation of Records Retention Procedures	12/31/12	
13.	Hotline reporting	On-going	

09/13/12

Agenda Item
UTIMCO Board of Directors Meeting
November 9, 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 November 5, 2012. The Committee’s agenda includes (1) discussion and appropriate action related to minutes; (2) discussion and appropriate action related to categorization of new investment mandates; and (3) review and discussion of compliance reporting.

Discussion The Committee will review and approve, as appropriate, the 14 mandate categorizations prepared by Staff for the period beginning June 26, 2012, and ending October 19, 2012. The Committee will report to the UTIMCO Board the results of its review of the Investment Mandate Categorizations.

Recommendation: None

Reference: None

Agenda Item
UTIMCO Board of Directors Meeting
November 9, 2012

Agenda Item: Report and Discussion and Appropriate Action Related to Items from Policy Committee

Developed By: Staff

Presented By: Gary

Type of Item: Action item; Action required by UTIMCO Board and by the Board of Regents of The System Board of Regents

Description: The Policy Committee (“Committee”) will meet on November 5, 2012. The Policy Committee’s agenda includes (1) discussion and appropriate action related to minutes; and (2) discussion and appropriate action related to proposed amendments to the UTIMCO Code of Ethics

Texas Education Code Section 66.08(c)(4) requires that the Board of Regents of The University of Texas System (“U.T. Board”) approve the Code of Ethics of The University of Texas Investment Management Company (“UTIMCO”). The Code of Ethics (“Code”) sets forth the basic principles and guidelines for Directors and Employees of UTIMCO. In accordance with the Audit Charter of the Audit and Ethics Committee, the Audit and Ethics Committee will periodically review the Code and recommend any proposed changes to the Policy Committee for concurrence and submission to the UTIMCO Board for approval. The charter of the Policy Committee also requires the Policy Committee to review proposed amendments to the Code and recommend to the UTIMCO Board the approval of such amendments. The current Code was reviewed in July of 2010 and approved by the U. T. Board on August 12, 2010.

Discussion: The draft changes to the Code are based on the joint efforts of UTIMCO Staff and Andrews Kurth LLP. The University of Texas System Office of General Counsel has reviewed the draft changes to the Code and finds that the changes are consistent with *Texas Education Code* Section 66.08. The only significant change to the Code is the addition of Section 3.01(d) to permit the CEO, with the approval of the Chairman of the Policy Committee, to waive the application of Section 3.01 with respect to an agreement or transaction with a business entity in which the spouse, minor child, or other dependent Relative of an Employee received more than 5% of his income from the entity in the prior year (i.e., a pecuniary interest) when the individual is not in a management or executive officer position and does not have control of the operating or financial decisions of the business entity. Staff realized recently, based on the Code as currently drafted, that Staff is prevented from doing business with a publicly traded company merely because an employee’s spouse, minor child, or dependent Relative works for that company, for example, UTIMCO would no longer be able to purchase its computer equipment from Dell. Staff believes that in most circumstances, the employment in a business entity of a spouse, minor child, or dependent Relative, who is not in

Agenda Item
UTIMCO Board of Directors Meeting
November 9, 2012

a management or executive officer position and has no ability to influence its operating or financial decisions, should not be treated a prohibited transaction and should, after thoughtful consideration, be able to be waived.

A discussion of the draft changes will be submitted for action to the U.T. Board at a future meeting.

- Page 12, Subchapter C, Section 3.01(d) added
- Minor editorial change on Page 8, Subchapter A, Section 1.13(c)

Recommendation: The Policy Committee will recommend appropriate action by the Board related to the amendments to the UTIMCO Code of Ethics.

Reference: UTIMCO Code of Ethics

RESOLUTION RELATED TO CODE OF ETHICS

WHEREAS, the charter of the Audit and Ethics Committee requires it to periodically review the Code of Ethics policy of the Corporation and recommend any proposed changes to the Policy Committee for concurrence and submission to the Board for approval; and

WHEREAS, the Audit and Ethics Committee has reviewed the Code of Ethics policy and recommended its changes to the Policy Committee for concurrence and submission to the Board for approval; and

WHEREAS, the Policy Committee has reviewed the changes recommended by the Audit and Ethics Committee and recommends same to the Board for its approval; and

WHEREAS, the Board wishes to document its approval of the amendments to the Code of Ethics policy in the form previously provided to the Board, subject to the approval by the Board of Regents of The University of Texas System.

NOW, THEREFORE, be it:

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



**THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY**

CODE OF ETHICS

| Approved by the Board of Regents ~~August 12, 2010~~ _____, 2012

**THE UNIVERSITY OF TEXAS INVESTMENT
MANAGEMENT COMPANY
CODE OF ETHICS**

Subchapter A. GENERAL PROVISIONS

Sec. 1.01. General Principles. (a) The Board of Regents of The University of Texas System has ultimate fiduciary responsibility for causing the funds within its investment authority to be managed in accordance with applicable law.

(b) The standard mandated by Article VII, Section 11b, of the Texas Constitution concerning the permanent university fund, the standard mandated by the Board of Regents concerning all of the funds within its investment authority under the Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company (UTIMCO), and the standard mandated by the Board of Regents' Investment Policy Statements require those funds to be invested in such investments that "prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of the assets of the fund rather than a single investment."

(c) Pursuant to the Investment Management Services Agreement, the Board of Regents has appointed UTIMCO as its investment manager with respect to those funds for which the Board of Regents has investment responsibility. In the agreement, UTIMCO has acknowledged that it acts as a fiduciary of the Board of Regents in the discharge of its investment management responsibilities and is obligated to manage the investments of the funds pursuant to policies of the Board of Regents that incorporate and adhere to the prudent investor standard. Accordingly, both the Board of Regents and UTIMCO have fiduciary interests in assuring that the Directors and Employees of UTIMCO possess the requisite knowledge, skill, and experience to manage the funds in accordance with the prudent investor standard described in Subsection (b) of this section and other applicable law.

(d) This Code of Ethics (Code) sets forth the basic principles and guidelines for Directors and Employees of UTIMCO, in addition to and in accordance with the requirements of Section 66.08 of the *Texas Education Code*, the Texas Non-Profit Corporation Act, and other applicable laws.

(e) This Code of Ethics anticipates that many of UTIMCO's Directors and Employees will be active investors, either individually or on behalf of others, in the same asset categories as the funds managed by UTIMCO on behalf of the Board of Regents. Without seeking to disqualify those Directors and Employees from service to UTIMCO except to the extent necessary or appropriate to avoid conflicts of interest or otherwise conform to applicable law, this Code holds all Directors and Employees to high standards of conduct consistent with their special relationship of trust, confidence, and responsibility to UTIMCO. This Code also recognizes UTIMCO's unique role as the dedicated investment manager of the Board of Regents in investing the funds in furtherance of the education mission of the Board of Regents, the institutions of The University of Texas System, and other beneficiaries of the funds.

(f) In addition to strict compliance with legal requirements, all Directors and Employees are expected to be guided by the basic principles of loyalty, prudence, honesty and fairness in conducting UTIMCO's affairs.

Sec. 1.02. Definitions. In this Code:

- (1) "Audit and Ethics Committee" means the standing Audit and Ethics Committee established by UTIMCO bylaws.
- (2) "Board" means the Board of Directors of UTIMCO.
- (3) "Board of Regents" means the Board of Regents of The University of Texas System.
- (4) "CEO" means the Chief Executive Officer of UTIMCO.
- (5) "Chief Compliance Officer" means the person designated from time to time as the chair of the Employee Ethics and Compliance Committee.
- (6) "Director" means a member of the Board of Directors of UTIMCO.
- (7) "Director entity" means an investment fund or other entity controlled by a UTIMCO Director.
- (8) "Employee" means a person working for UTIMCO in an employer-employee relationship.
- (9) "Employee entity" means an investment fund or other entity controlled by a UTIMCO Employee.

- (10) “General Counsel” means the lawyer or firm of lawyers designated from time to time as the external General Counsel of UTIMCO.
- (11) “Key Employee” means an Employee who has been designated by the Board as an officer of UTIMCO.
- (12) “Pecuniary interest” in a business entity means:
- (A) ownership of five percent or more of the voting stock or shares of the business entity; or
 - (B) ownership of five percent or more of the fair market value of the business entity; or
 - (C) receipt of more than five percent of the person’s gross income for the preceding calendar year from the business entity; or
 - (D) any private investment in the business entity.
- (13) “Personal securities transactions” means:
- (A) transactions for a Director’s or Employee’s own account, including an individual retirement account; or
 - (B) transactions for an account, other than an account over which the Director or Employee has no direct or indirect influence or control, in which the Director or Employee, or the Director’s or Employee’s spouse, minor child, or other dependent Relative:
 - (i) is an income or principal beneficiary or other equity owner of the account; or
 - (ii) receives compensation for managing the account for the benefit of persons other than such person or his or her family.
- (14) “Private investment” means any debt obligation or equity interest that is not a publicly traded security, including a “private investment” in a publicly traded company.
- (15) “Publicly traded company” means a business entity with a class of securities that consists of publicly traded securities.

- (16) “Publicly traded securities” means securities of a class that is listed on a national securities exchange or quoted on the NASDAQ national market system in the United States or that is publicly traded on any foreign stock exchange or other foreign market.
- (17) “Relative” means a person related within the third degree by consanguinity or the second degree by affinity determined in accordance with Sections 573.021 – 573.025, *Government Code*. For purposes of this definition:
- (i) examples of a relative within the third degree by consanguinity are a child, grandchild, great-grandchild, parent, grandparent, great-grandparent, brother, sister, uncle, aunt, niece, or nephew;
 - (ii) examples of a relative within the second degree by affinity are a spouse, a person related to a spouse within the second degree by consanguinity, or a spouse of such a person;
 - (iii) a person adopted into a family is considered a relative on the same basis as a natural born family member; and
 - (iv) a person is considered a spouse even if the marriage has been dissolved by death or divorce if there are surviving children of that marriage.
- (18) “UTIMCO” means The University of Texas Investment Management Company.
- (19) “UTIMCO entity” means an investment fund or other entity controlled by UTIMCO.

Sec. 1.03. Definition of “Control.” (a) For purposes of this Code, UTIMCO or a Director or Employee is presumed to control an investment fund or other entity if UTIMCO’s or the Director’s or Employee’s management role with or investment in the fund or entity enables UTIMCO or the Director or Employee, as appropriate, to direct the operating or financial decisions of the fund or entity. However, the presumption of control by a Director or Employee shall be rebutted if the General Counsel advises the Board that, based upon a review and confirmation of relevant facts provided by the respective Director or Employee, it is the opinion of the General Counsel that the Director or Employee does not have ultimate control of the operating or financial decisions of a particular fund or entity.

(b) Without limiting the provisions of Subsection (a), UTIMCO or a Director or Employee is not presumed to control an investment fund or other entity if UTIMCO or the Director or Employee, as appropriate, does not have a management role, if the terms of the investment do not give UTIMCO or the Director or Employee, as appropriate, the legal right to direct the operating or financial decisions of the fund or entity, and if UTIMCO or the Director or Employee, as appropriate, does not attempt to direct the operating or financial decisions.

Sec. 1.04. Decision-Making Based on Merit. (a) UTIMCO Directors and Employees shall base UTIMCO business transactions on professional integrity and competence, financial merit and benefit to UTIMCO, and, if required or prudent, on a competitive basis.

(b) UTIMCO Directors and Employees may not base any UTIMCO business decisions on family or personal relationships.

Sec. 1.05. Compliance with Law. Directors and Employees shall comply with all applicable laws, and should be specifically knowledgeable of Section 66.08, *Education Code* (Investment Management), Section 39.02, *Penal Code* (Abuse of Official Capacity), and Section 39.06, *Penal Code* (Misuse of Official Information).

Sec. 1.06. Compliance with Professional Standards. Directors and Employees who are members of professional organizations, such as the CFA Institute, shall comply with any standards of conduct adopted by the organizations of which they are members.

Sec. 1.07. Accounting and Operating Controls. Directors and Employees shall observe the accounting and operating controls established by law and UTIMCO policies, including restrictions and prohibitions on the use of UTIMCO property for personal or other purposes not related to UTIMCO business.

Sec. 1.08. General Standards of Conduct for Directors and Employees.

(a) It is the policy of UTIMCO that a Director or Employee should not:

- (1) accept or solicit any gift, favor, or service that might reasonably tend to influence the Director or Employee in the discharge of his or her duties for UTIMCO or that the Director or Employee knows or should know is being offered with the intent to influence the Director's or Employee's conduct on behalf of UTIMCO;
- (2) accept other employment or engage in a business or professional activity that the Director or Employee might

reasonably expect would require or induce the Director or Employee to disclose confidential information acquired by reason of his or her position with UTIMCO;

- (3) accept other employment or compensation that could reasonably be expected to impair the Director's or Employee's independence of judgment in the performance of his or her duties for UTIMCO;
- (4) make personal investments that could reasonably be expected to create a substantial conflict between the Director's or Employee's private interest and the interests of UTIMCO; or
- (5) intentionally or knowingly solicit, accept, or agree to accept any benefit for having exercised the Director's or Employee's authority or performed the Director's or Employee's duties at UTIMCO in favor of another.

Sec. 1.09. Honesty and Loyalty. (a) Directors and Employees shall be honest in the exercise of their duties and may not take actions that will discredit UTIMCO.

(b) Directors and Employees should be loyal to the interests of UTIMCO to the extent that their loyalty is not in conflict with other duties that legally have priority.

Sec. 1.10. Relationship with UTIMCO Not Used for Personal Gain.

(a) Directors and Employees may not use their relationship with UTIMCO to seek or obtain personal gain beyond agreed compensation or any properly authorized expense reimbursement.

(b) This section does not prohibit the use of UTIMCO as a reference or prohibit communicating to others the fact that a relationship with UTIMCO exists as long as no misrepresentation is involved.

Sec. 1.11. Confidential Information. (a) Directors and Employees may not disclose confidential information unless duly authorized personnel determine that the disclosure is either permitted or required by law.

(b) Directors and Employees shall use confidential information for UTIMCO purposes and not for their own personal gain or for the gain of third parties.

(c) Directors and Employees may not copy confidential information, for any reason, except as required to fulfill their duties for UTIMCO.

(d) Employees may not remove confidential information from the premises of UTIMCO, except as required to fulfill their duties for UTIMCO and then only for so long as required to fulfill their duties.

(e) Employees must return to UTIMCO all confidential information in their possession immediately upon request or immediately upon the termination of Employee's employment with UTIMCO, whichever comes first.

Sec. 1.12. Nepotism. (a) UTIMCO may not employ a person who is a Relative of a Director. This subsection does not prohibit the continued employment of a person who has been working for UTIMCO for at least 30 consecutive days before the date of the related Director's appointment.

(b) UTIMCO may not employ a person who is a Relative of a Key Employee, of a consultant, or of any owner, director, or officer of a consultant. This subsection does not prohibit the continued employment of a person who has been working for UTIMCO for at least 30 consecutive days:

- (1) before the date of the selection of the Key Employee or consultant; or
- (2) before becoming a Relative.

(c) An Employee may not exercise discretionary authority to hire, evaluate, or promote a Relative.

(d) An Employee may not directly or indirectly supervise a Relative. In this subsection, "supervise" means to oversee with the powers of direction and decision-making the implementation of one's own or another's intentions, and normally involves assigning duties, overseeing and evaluating work, and approving leave.

(e) This section does not prohibit the employment of a Relative of an Employee for a short-term special project as a non-exempt Employee if the Employee seeking to employ a Relative discloses the relationship in advance to the Chief Compliance Officer and obtains prior approval from that officer for the employment.

Sec. 1.13. Gifts and Entertainment. (a) A Director or Employee may not accept a gift that the Director or Employee knows or should know is being offered or given because of the Director's or Employee's position with UTIMCO. This prohibition applies to gifts solicited or accepted for

the personal benefit of the Director or Employee as well as to gifts to third parties.

(b) The prohibitions in this Code do not apply to the following gifts if acceptance does not violate a law:

- (1) gifts given on special occasions between Employees and/or Directors;
- (2) books, pamphlets, articles, or other similar materials that contain information directly related to the job duties of a Director or Employee and that are accepted by the Director or Employee on behalf of UTIMCO for use in performing his or her job duties;
- (3) gifts from the Relatives of a Director or Employee that are based solely on a personal relationship between the Director or Employee and his or her Relative;
- (4) business meals and receptions when the donor or a representative of the donor is present;
- (5) ground transportation in connection with business meetings, meals, or receptions;
- (6) fees for seminars or conferences that relate to the Director's or Employee's job duties and that are sponsored by UTIMCO's consultants or agents, prospective consultants or agents, or persons or entities whose interests may be affected by UTIMCO; and
- (7) items of nominal intrinsic value, such as modest items of food and refreshment on infrequent occasions, gifts on special occasions, and unsolicited advertising or promotional material such as plaques, certificates, trophies, paperweights, calendars, note pads, and pencils, but excluding cash or negotiable instruments.

(c) Attendance of Directors or Employees at seminars, conferences or other sponsored events that involve entertainment or recreation and that are hosted in person and paid for by UTIMCO's consultants or agents, prospective consultants or agents, or persons or entities ~~who~~ whose interests may be affected by UTIMCO may in some cases be in the best interest of UTIMCO. An Employee must obtain specific written approval to attend such events from the CEO or Chief Compliance Officer.

Approval may be withheld for elaborate entertainment events such as ski trips, hunting trips, or stays at expensive resorts.

(d) A Director or Employee may not accept a gift if the source of the gift is not identified or if the Director or Employee knows or has reason to know that a prohibited gift is being offered through an intermediary.

(e) A Director or Employee who receives a prohibited gift should return the gift to its source or, if that is not possible or feasible, donate the gift to charity.

Sec. 1.14. Communications with General Counsel. When the General Counsel of UTIMCO is a firm of lawyers, one principal within that firm must be identified to receive all written and oral communications made pursuant to this Code.

Subchapter B. CONFLICTS OF INTEREST

Sec. 2.01. Definition of Conflict of Interest. (a) A conflict of interest exists for a Director or Employee when the Director or Employee has a personal or private commercial or business relationship that could reasonably be expected to diminish the Director's or Employee's independence of judgment in the performance of the Director's or Employee's responsibilities to UTIMCO.

(b) For example, a person's independence of judgment is diminished when the person is in a position to take action or not take action with respect to UTIMCO or its business and the act or failure to act is or reasonably appears to be influenced by considerations of personal gain or benefit rather than motivated by the interests of UTIMCO.

Sec. 2.02. Duty to Avoid Conflicts of Interest. (a) Directors and Employees should avoid personal, employment, or business relationships that create conflicts of interest.

(b) A Director or Employee may not take action personally or on behalf of UTIMCO that will result in a reasonably foreseeable conflict of interest. If a Director or Employee believes that an action is in the best interest of UTIMCO but could foreseeably result in a conflict of interest, the Director must disclose that fact to the General Counsel or the Employee must disclose that fact to the Chief Compliance Officer before taking the action.

Sec. 2.03. Duty to Disclose and Cure Conflicts. A Director or Employee who becomes aware of a conflict of interest has an affirmative duty to disclose and cure the conflict in a manner provided for in this Code.

Sec. 2.04. Curing Conflicts of Interest. (a) A Director or Employee who becomes aware, or reasonably should have become aware, of a conflict of interest shall cure the conflict by promptly eliminating it, except as provided by Subsection (b).

(b) A Director or Employee may cure a conflict by prudently withdrawing from action on a particular matter in which a conflict exists if:

- (1) the Director or Employee may be and is effectively separated from influencing the action taken;
- (2) the action may properly be taken by others;
- (3) the nature of the conflict is not such that the Director or Employee must regularly and consistently withdraw from decisions that are normally the Director's or Employee's responsibility with respect to UTIMCO; and
- (4) the conflict is not a prohibited transaction resulting from a Director or Employee having a pecuniary interest in a business entity as defined in Section 1.02(12) of this Code.

(c) A Director or Employee who cannot or does not wish to eliminate or cure a conflict of interest shall terminate his or her relationship with UTIMCO as quickly as responsibly and legally possible.

Sec. 2.05. Disclosing and Refraining from Participation. (a) A Director must disclose any conflicts of interest regarding matters that are before the Board, absent himself or herself from any relevant deliberations, and refrain from voting on the matter.

(b) An Employee must disclose any conflicts of interest and refrain from giving advice or making decisions about matters affected by the conflict unless the Board, after consultation with the General Counsel, expressly waives the conflict.

Sec. 2.06. Waivers of Conflicts of Interest. (a) The Board shall decide at an official meeting whether to waive any conflict of interest disclosed under Section 2.05(b) of this Code.

(b) To assist it in deciding whether to grant waivers, the Board may develop criteria for determining the kinds of relationships that do not constitute material conflicts.

(c) Any waiver of a conflict of interest, including the reasons supporting the waiver, must be included in the minutes of the meeting.

(d) The Chief Compliance Officer shall maintain records of all waivers granted, including the reasons supporting the waivers.

Sec. 2.07. Procedures for Director's Disclosure of Conflict of Interest. A Director must disclose conflicts of interest in writing to the General Counsel before a UTIMCO Board meeting. If disclosure is made at a Board meeting, the minutes of the meeting must include the disclosure of the conflict.

Sec. 2.08. Procedures for Employee's Disclosure of Conflict of Interest.

(a) An Employee must promptly disclose conflicts of interest in writing to the Chief Compliance Officer through the financial disclosure and ethics compliance statement required by Section 4.03 of this Code. The Chief Compliance Officer shall report to the Audit and Ethics Committee regarding the statements the officer receives under this subsection.

(b) If a person with a duty to disclose a conflict has a reasonable cause to believe that disclosure to the Chief Compliance Officer will be ineffective, the person shall disclose the conflict to the Audit and Ethics Committee by filing a written disclosure with the chair of the Committee.

(c) A copy of the disclosure provided to either the Chief Compliance Officer or the Audit and Ethics Committee shall be provided to the Employee's supervisor unless the person with the conflict of interest believes that the disclosure would be detrimental to the resolution of the conflict.

Sec. 2.09. Procedures for Preventing Conflicts Related to Publicly Traded Companies. UTIMCO and UTIMCO entities shall implement procedures and safeguards to insure that none of the funds for which the Board of Regents has investment responsibility and for which UTIMCO has been appointed as investment manager is invested by UTIMCO or a UTIMCO entity in the publicly traded securities of a publicly traded company in which a Director or Employee has a pecuniary interest.

Sec. 2.10. Exceptions for Minimal Stock Ownership. It is not a conflict of interest solely because a Director or Employee has an investment in the stock of a publicly traded company that is owned, purchased, sold, or otherwise dealt with by UTIMCO if the Director's or Employee's interest in the stock is not more than five percent of any class and if the Director or Employee is not a director or officer of the company.

Sec. 2.11. Referrals. Referral of information from a Director related to investment opportunities outside of a posted open meeting of the Board must be made using the procedures provided by the Regents' *Rules and Regulations*, Rule 70201, Section 12.

Subchapter C. PROHIBITED TRANSACTIONS AND INTERESTS

Sec. 3.01. Prohibitions Related to UTIMCO. (a) Except as provided in Sections 3.04 and 3.05, UTIMCO or a UTIMCO entity may not enter into an agreement or transaction with:

- (1) a Director or Employee acting in other than an official capacity on behalf of UTIMCO;
- (2) a Director entity, Employee entity, or other business entity in which a Director or Employee has, or is in the process of acquiring, a pecuniary interest; or
- (3) an investment fund or account managed by a Director, Director entity, Employee, or Employee entity as a fiduciary or agent for compensation, other than funds for which the Board of Regents has investment responsibility and for which UTIMCO has been appointed as investment manager.

(b) UTIMCO or a UTIMCO entity may not enter into an agreement or transaction with a former Director or Employee, an investment fund or other entity controlled by a former Director or Employee, or a business entity in which a former Director or Employee has a pecuniary interest, on or before the first anniversary of the date the person ceased to be a Director or Employee.

(c) The prohibitions provided by this section apply to the spouse, minor children, or other dependent Relatives of a current or former Director or Employee.

(d) Notwithstanding the prohibitions provided by this section, the CEO, with the approval of the Chairman of the Policy Committee, may waive the application of this section with respect to an agreement or transaction with a business entity in which the spouse, minor child, or other dependent Relative of an Employee has a pecuniary interest as a result of Section 1.02(12)(C) of this Code so long as such spouse, minor child, or other dependent Relative is not in a management or executive officer position and does not have control of the operating or financial decisions of the business entity.

Sec. 3.02. Prohibitions Related to Directors. (a) Except as provided in Sections 3.04 and 3.05, a Director or a Director entity may not enter into an agreement or transaction with:

- (1) UTIMCO or an Employee acting in other than an official capacity on behalf of UTIMCO; or
- (2) a UTIMCO entity, Employee entity, or other business entity in which UTIMCO owns, or is in the process of acquiring, a private investment or an Employee has, or is in the process of acquiring, a pecuniary interest.

(b) The prohibitions provided by this section apply to the spouse, minor children, or other dependent Relatives of a Director or Employee.

Sec. 3.03. Prohibitions Related to Employees. (a) Except as provided in Sections 3.04 and 3.05, an Employee or Employee entity may not enter into an agreement or transaction with:

- (1) UTIMCO or a Director acting in other than an official capacity on behalf of UTIMCO; or
- (2) a UTIMCO entity, Director entity, or other business entity in which UTIMCO owns, or is in the process of acquiring, a private investment or a Director has, or is in the process of acquiring, a pecuniary interest.

(b) The prohibitions provided by this section apply to the spouse, minor children, or other dependent Relatives of a Director or Employee.

Sec. 3.04. UTIMCO Investments in Private Investments of Certain Business Entities. UTIMCO or a UTIMCO entity may invest in the private investments of a business entity when a Director or Director entity then owns a private investment in the same business entity if:

- (1) the Director or Director entity acquired the private investment before the date on which the Director assumed a position with UTIMCO;
- (2) the Director's private investment does not constitute a pecuniary interest in a business entity as defined in Section 1.02(12)(A)-(C) of this Code; and
- (3) the Board approves the investment by UTIMCO or the UTIMCO entity by a vote of two-thirds of the membership of the Board after a full disclosure in an open meeting of the

relevant facts and a finding by the Board that the investment will not benefit the director or director entity financially.

Sec. 3.05. Divestment Not Required For Certain Private Investments. A Director, Director entity, Employee or Employee entity that owns a private investment in a business entity on the date on which the Director or Employee assumes a position with UTIMCO is not required by Section 3.02 or 3.03 of this Code to divest that private investment as long as the private investment does not constitute a pecuniary interest in a business entity as defined in Section 1.02(12)(A)-(C) of this Code. Any transactions concerning the private investment that might occur after that date are subject to this Code.

Sec. 3.06. Director Personal Securities Transactions. (a) A Director or Director entity may buy or sell a publicly traded security of an issuer that is held by UTIMCO but may not engage in a personal securities transaction if the Director has actual knowledge that an internal portfolio manager of UTIMCO has placed a buy/sell order for execution.

(b) The prohibition provided by this section applies to a Director's spouse, minor child, or other dependent Relative.

Sec. 3.07. Employee Personal Securities Transactions. (a) Employees are prohibited from using advance knowledge of a UTIMCO decision to buy or sell a security for the personal financial gain of the Employee.

(b) An Employee or Employee entity may engage in a personal securities transaction without obtaining preclearance for the transaction from the Chief Compliance Officer with respect to a security that is not a security of an issuer that is held by UTIMCO and included on the UTIMCO maintained list of securities holdings. The UTIMCO list of securities holdings will be posted on the UTIMCO intranet and updated as securities holdings change. An employee may rely on the posted list when engaging in personal securities transactions.

(c) Before an Employee or Employee entity may engage in a personal securities transaction with respect to a security of an issuer that is included on the UTIMCO maintained list of securities holdings, the Employee or Employee entity must obtain preclearance for the transaction from the Chief Compliance Officer. Preclearance is effective for one trading day only.

(d) The Chief Compliance Officer shall verify that no buy/sell order has been placed by a UTIMCO internal manager with respect to the security of an issuer held by and included on the UTIMCO maintained list of securities holdings that is the subject of the Employee's personal

securities transaction. If such a buy/sell order has been placed, an Employee or Employee entity may not conduct the personal securities transaction for those securities until at least one trading day after the buy/sell order has been completed or canceled.

(e) The Chief Compliance Officer shall document preclearances in a personal securities transaction log for each Employee, which will provide a record of all requests and approvals or denials of preclearances.

(f) An Employee who engages in a personal securities transaction must provide transactional disclosure for each transaction by completing a transactional disclosure form and filing it with the Chief Compliance Officer not later than the tenth calendar day after the trade date. The form must contain the:

- (1) name and amount of the security involved;
- (2) date and nature of the transaction;
- (3) price at which the transaction was effected; and
- (4) name of the broker through whom the transaction was effected.

(g) The preclearance and transactional disclosure requirements apply only to equity or equity-related transactions, including stocks, convertibles, preferreds, options on securities, warrants, and rights, etc., for domestic and foreign securities, whether publicly traded or privately placed. The preclearance and transactional disclosure requirements do not apply to bonds other than convertible bonds, mutual funds, commingled trust funds, exchange traded funds, interest rate, currency, commodity, and stock index futures, and options on those futures.

(h) This section applies to an Employee's spouse, minor child, or other dependent Relative.

Sec. 3.08. Interest in Brokerage Firm (a) A Director may not direct trades or exercise discretion over the selection of brokerage firms.

(b) An Employee may not have stock or other ownership or profit sharing interest in a brokerage firm selected by the Employee for UTIMCO business if the Employee has the discretion to direct trading and therefore the discretion to select brokerage firms.

(c) The restrictions provided by this section apply to:

- (1) stock held for an Employee's own account;
- (2) stock or other ownership or profit sharing interests held by an Employee's spouse; and
- (3) stock held for an account, other than an account over which the Employee has no direct or indirect influence or control, in which the Employee has a beneficial interest, such as accounts involving the spouse, minor child, or other dependent Relative.

(d) The restrictions provided by this section do not prohibit the ownership of stock in a company that may own stock in a brokerage firm if the brokerage firm is not the dominant or primary business of the parent company.

Sec. 3.09. Employee's Outside Employment or Business Activity. (a) An Employee may not engage in outside employment, business, or other activities that detract from the ability to reasonably fulfill the full-time responsibilities to UTIMCO.

(b) An Employee must obtain advance written approval from the CEO for any outside employment or business, including service as director, officer, or investment consultant or manager for another person or entity. The CEO must obtain advance approval from the Board for any outside employment.

(c) An Employee, with the prior approval of the Board, may serve as a director of a company in which UTIMCO has directly invested its assets. The Board's approval must be conditioned on the extension of UTIMCO's Directors and Officers Insurance Policy coverage to the Employee's service as director of the investee company. All compensation paid to an Employee for service as director of an investee company shall be endorsed to UTIMCO and applied against UTIMCO's fees.

Sec. 3.10. Further Restrictions on Directors and Employees. A Director or Employee may not:

- (1) participate in a matter before UTIMCO that involves a business, contract, property, or investment held by the person if it is reasonably foreseeable that UTIMCO action on the matter would confer a benefit to the person by or through the business, contract, property, or investment;
- (2) recommend or cause discretionary UTIMCO business to be transacted with or for the benefit of a Relative;

- (3) accept offers by reason of the person's position with UTIMCO to trade in any security or other investment on terms more favorable than available to the general investing public;
- (4) borrow from investment managers, outside service providers, professional advisors or consultants, banks, or other financial institutions with which UTIMCO has a business relationship unless the entity is normally engaged in such lending in the usual course of business, in which case the transaction must be on customary terms offered to others under similar circumstances to finance proper and usual activities; or
- (5) represent any person in any action or proceeding before or involving the interests of UTIMCO except as a duly authorized representative or agent of UTIMCO.

Sec. 3.11. Former Directors and Employees. (a) A former Director or Employee may not make any communication to or appearance before a current Director or Employee before the second anniversary, in the case of a former Director, or the first anniversary, in the case of a former Employee, of the date the former Director or Employee ceased to be a Director or Employee if the communication is made:

- (1) with the intent to influence; and
- (2) on behalf of any person in connection with any matter on which the former Director or Employee seeks action by UTIMCO.

(b) State law provides that a former Director who violates subsection (a) commits an offense. An offense under this subsection is a Class A misdemeanor.

(c) A Director or Employee who knowingly communicates with a former Director or Employee in violation of subsection (a) is subject to disciplinary action, including removal from serving as a Director.

(d) A former officer or Employee may not represent any person or receive compensation for services rendered on behalf of any person regarding a particular matter in which the former officer or Employee participated during the period of service or employment with the corporation, either through personal involvement or because the particular matter was within the officer's or Employee's responsibility. In this subsection:

- (1) "Participated" means to have taken action as an officer or Employee through decision, approval, disapproval, recommendation, giving advice, investigation, or similar action.
- (2) "Particular matter" means a specific investigation, application, request for a ruling or determination, rulemaking proceeding, contract, claim, charge, accusation, arrest, or judicial or other proceeding.

(e) State law provides that a former officer or Employee who violates subsection (d) commits an offense. An offense under this subsection is a Class A misdemeanor.

(f) A former Director or Employee may not disclose confidential information without UTIMCO's written consent or except as permitted or required by law.

Subchapter D. FINANCIAL DISCLOSURE, COMPLIANCE, AND ENFORCEMENT

Sec. 4.01. Employee Ethics and Compliance Committee. (a) The CEO shall appoint an Employee Ethics and Compliance Committee composed of UTIMCO personnel.

(b) The Chief Compliance Officer appointed by the Audit and Ethics Committee shall be the chair of the Employee Ethics and Compliance Committee.

(c) The Employee Ethics and Compliance Committee shall:

- (1) provide ethics training for UTIMCO personnel; and
- (2) issue opinions on the proper interpretation of this Code.

(d) An Employee may file a written request with the Employee Ethics and Compliance Committee for an opinion on the proper interpretation of this Code, and may rely on that opinion with respect to compliance with this Code.

Sec. 4.02. Financial Disclosure Statements. (a) Directors and Employees shall file financial disclosure statements with the Chief Compliance Officer.

(b) Directors and Employees shall file the financial disclosure statement not later than the 30th day after the date of appointment or employment, and not later than April 30 of each year thereafter. The CEO may postpone a filing deadline for not more than 60 days on the written request of a Director or Employee (other than the CEO), or for an additional period for good cause as determined by the chair of the Board. A CEO's request to postpone his/her filing deadline must be approved by the chair of the Board.

(c) UTIMCO must maintain a financial disclosure statement for at least five years after the date it is filed.

(d) Directors who are required to file disclosure statements with the Texas Ethics Commission shall file those statements in the form prescribed by law.

Sec. 4.03. Ethics Compliance Statements. (a) Directors and Employees, including acting or interim Employees, must file ethics compliance statements with the Chief Compliance Officer.

(b) Directors and Employees shall sign, date, and file the ethics compliance statements not later than the 30th day after the date of appointment or employment. Thereafter, any person who is a Director or Employee on December 31 of any year must file the compliance statement not later than April 30 of the following year. The CEO may postpone a filing deadline for not more than 60 days on the written request of a Director or Employee (other than the CEO), or for an additional period for good cause as determined by the chair of the Board. A CEO's request to postpone his/her filing deadline must be approved by the chair of the Board.

(c) In the ethics compliance statement, the Director or Employee must acknowledge that he or she has received and read this Code, that he or she will comply with its provisions, and that it is his or her duty to report any act by other Directors or Employees when he or she has knowledge of a violation of this Code. An Employee must also acknowledge that adherence to this Code is a condition of employment. The statement must also disclose any conflicts of interest or violations of the Code of which the Director or Employee is aware.

(d) Key Employees must acknowledge their Key Employee status in the ethics compliance statement.

(e) The ethics compliance statement must include a reminder that a Director or Employee is required to update a statement if a change in circumstances occurs that would require reporting under this Code.

(f) The Chief Compliance Officer shall maintain the Directors' and Employees' signed statements.

Sec. 4.04. Certification of No Pecuniary Interest. Before the Board enters into an agreement or transaction with a business entity each Director and Key Employee shall certify that he or she does not have a pecuniary interest, as defined by Section 1.02(12) of this Code, in the business entity.

Sec. 4.05. Disciplinary Action Disclosure Statements. (a) Directors and Key Employees shall file disciplinary action disclosure statements that disclose any proceedings, actions, or hearings by any professional organization or other entity involving the Director or Key Employee.

(b) Directors and Key Employees must file the disciplinary action disclosure statement with the Chief Compliance Officer not later than April 30 of the first year of designation as a Director or Key Employee and not later than April 30 of each year thereafter. The CEO may postpone a filing deadline for not more than 60 days on the written request of a Director or Employee (other than the CEO), or for an additional period for good cause as determined by the chair of the Board. A CEO's request to postpone his/her filing deadline must be approved by the chair of the Board.

(c) A Director or Key Employee must promptly update a statement if any action occurs that would cause a Director's or Employee's answers to change.

Sec. 4.06. Custodian of Records. For open records purposes, the Chief Compliance Officer is the custodian of the disclosure statements required by this Code.

Sec. 4.07. Enforcement. (a) The CEO is responsible for implementing this Code with respect to Employees. The Board shall enforce this Code with respect to Employees through the CEO.

(b) An Employee who violates this Code may be subject to the full range of disciplinary options under UTIMCO personnel policies and practices, including termination.

(c) The Board shall enforce this Code with respect to individual Directors through resolutions of reprimand, censure, or other appropriate parliamentary measures, including requests for resignation.

Sec. 4.08. Duty to Report. (a) A Director who has knowledge of a violation of this Code shall report the violation to the General Counsel.

(b) An Employee who has knowledge of a violation of this Code shall report the violation to the Chief Compliance Officer or to a member of the Audit and Ethics Committee.

(c) Retaliatory action may not be taken against a person who makes a good faith report of a violation involving another person.

Sec. 4.09. Notice to Audit and Ethics Committee. The CEO shall notify the Audit and Ethics Committee in writing not later than February 15 of each year concerning:

(1) any approval given for outside employment by Employees, including the nature of the employment; and

(2) any disciplinary action disclosed by Directors or Key Employees.

Agenda Item
UTIMCO Board of Directors Meeting
November 9, 2012

Agenda Item: Report from Compensation Committee: Discussion and Appropriate Action Related to Designation of Employees in Eligible Positions as Participants in the UTIMCO Compensation Program for the 2012/2013 Performance Period; and Discussion and Appropriate Action Related to Performance Incentive Awards for UTIMCO Compensation Program Participants for the Performance Period ended June 30, 2012

Developed By: Zimmerman, Gonzalez, Moeller

Presented By: Hicks

Type of Item: Action Item; Action Required by UTIMCO Board

Description: The Compensation Committee (the "Committee") met on September 27, 2012, and will meet on November 5, 2012 and November 9, 2012. At its meeting on September 27, 2012, the Committee (1) approved the minutes of the July 11, 2012 meeting; (2) approved the Designation of Employees in Eligible Positions as Participants in the UTIMCO Compensation Program ("Plan") for the 2012/2013 Performance Period; (3) approved the Plan Participants' Qualitative Performance Goals (other than for the CEO) for the 2012/2013 Performance Period; and (4) engaged Deloitte & Touche LLP to perform agreed upon procedure services.

At its November 5th meeting, the Committee will discuss and take appropriate action related to the minutes of the September 27, 2012 meeting. The Committee will also convene in Executive Session for the purpose of deliberating individual personnel compensation and evaluation matters related to the Performance Incentive Awards for the Plan Participants for the Performance Period ended June 30, 2012. At its November 9th meeting, the Committee will discuss and take appropriate action related to the minutes of the November 5, 2012 meeting and the Personnel Performance Incentive Awards for the Performance Period ended June 30, 2012.

Discussion: Approval is required by the UTIMCO Board related to the designation of Employees in Eligible Positions as Participants in the Plan for the 2012/2013 Performance Period. Eligible Positions, as defined in Section 5.3. of the Plan include senior management, investment staff, and other key positions as designated by the CEO and approved by the UTIMCO Board. Section 5.3. of the Plan provides that in order for an employee of UTIMCO to become a Participant in the Plan for a Performance Period, the employee must be (1) employed by UTIMCO in an employment position that is designated as an Eligible Position for the Performance Period and (2) be selected by the UTIMCO Board as eligible to participate in the performance incentive award opportunity available under the Plan. An employment position that is an Eligible Position in one Performance Period is not automatically an Eligible Position in any subsequent Performance Period. Similarly, an employee eligible to participate in one Performance Period is not automatically eligible to participate in

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any subsequent Performance Period. The UTIMCO Board in its discretion may also designate the employment position of a newly hired or promoted employee as an Eligible Position. The designation of Plan Participants in Eligible Positions in the 2012/2013 Performance Period as recommended by the Committee is included Exhibit 1.

The Committee will take appropriate action and make its recommendation to the UTIMCO Board related to the Performance Incentive Awards under the Plan for all Plan Participants. Performance Incentive Awards in the Plan for the 2011/2012 Performance Period are calculated for each Participant based on the percentage achieved of each Performance Goal, taking into account the weightings for the Participant's Entity Performance, Asset Class/Investment Type Performance, and Individual Performance Goals. Action is required by the UTIMCO Board related to the Performance Incentive Awards.

UTIMCO staff will forward supporting materials to the Committee members for Executive Session discussion.

Recommendation: The Committee will recommend appropriate action related to the designation of Employees in Eligible Positions as Participants in the Plan for the 2012/2013 Performance Period, and the 2011/2012 Performance Incentive Awards, including the 2011/2012 Performance Incentive Award proposed for the CEO of UTIMCO.

Reference: Exhibit 1 Designation of Plan Participants in Eligible Positions in the 2012/2013 Performance Period

**RESOLUTION RELATED TO
2012/2013 PARTICIPANTS IN
UTIMCO COMPENSATION PROGRAM**

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

WHEREAS, the Compensation Committee of the Board has recommended the individuals who may become Participants for the 2012/2013 Performance Period set forth on Exhibit 1 attached hereto; and

WHEREAS, the UTIMCO Board has reviewed Exhibit 1 and wishes to select the individuals who may become Participants for the 2012/2013 Performance Period.

NOW, THEREFORE, be it:

RESOLVED, that, the individuals set forth on Exhibit 1 attached hereto are hereby designated as “Participants” in the Plan for the 2012/2013 Performance Period, effective as of September 1, 2012.

**RESOLUTION RELATED TO THE
CEO'S 2011/2012 PERFORMANCE INCENTIVE AWARD**

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

WHEREAS, the Compensation Committee has reviewed and approved the actual performance of the CEO during the 2011/2012 Performance Period and has submitted its recommendation to the Board for approval; and

WHEREAS, the Board has reviewed the actual performance of the CEO during the 2011/2012 Performance Period and has compared such actual performance relative to each Performance Goal category for the CEO against his corresponding Performance Goal for such Performance Period.

NOW, THEREFORE, be it:

RESOLVED, that the Board approves the CEO's Performance Incentive Award for the 2011/2012 Performance Period in the amount of \$_____ and be it

FURTHER RESOLVED, that of the CEO's \$_____ Performance Incentive Award for the 2011/2012 Performance Period, 100% (\$_____) will be deferred pursuant to the Plan.

**RESOLUTION RELATED TO
2011/2012 PERFORMANCE INCENTIVE AWARDS**

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

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

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

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

WHEREAS, the Compensation Committee has reviewed the Performance Incentive Awards for all Participants who have met or exceeded their performance benchmarks for the 2011/2012 Performance Period, made changes it deemed appropriate, approved such Performance Incentive Awards, and recommended that the Board approve the same.

NOW, THEREFORE, be it:

RESOLVED, that the Board approves the Performance Incentive Awards for all Participants for the 2011/2012 Performance Period (excluding the CEO) in the total aggregate amount of \$_____ and be it

FURTHER RESOLVED, that of the Performance Incentive Awards for the 2011/2012 Performance Period (excluding the CEO), _____% (\$_____) will be deferred pursuant to the Plan.

Exhibit 1
Designation of Plan Participants in Eligible Positions
in the 2012/2013 Performance Period

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

Agenda Item
UTIMCO Board of Directors Meeting
November 9, 2012

Agenda Item: UTIMCO Organization Update

Developed By: Staff

Presented By: Zimmerman, Abalogu

Type of Item: Information item

Description: Mr. Zimmerman will provide an update on UTIMCO's staffing. Mr. Abalogu will provide an update on the technology infrastructure platform and application development.

Reference: *UTIMCO Organization Update* presentation



**THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY**

UTIMCO ORGANIZATION UPDATE

November 9, 2012

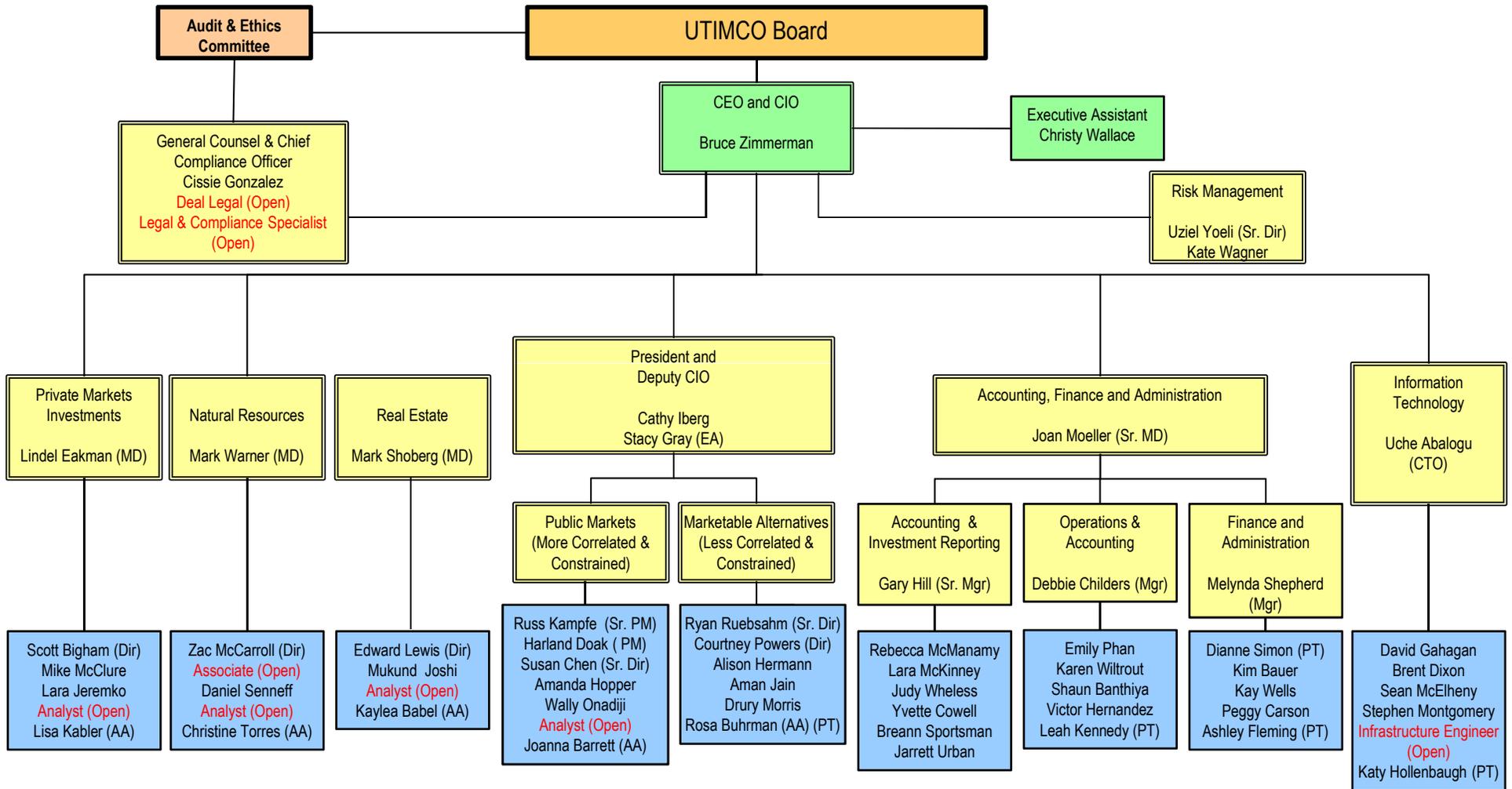


UTIMCO Update

- Staffing
- Technology



UTIMCO – Organizational Structure





Information Technology Update

- **Progress to date: Technology Infrastructure Platform**
 - Central Storage capacity upgrade
 - Storage Area Network (SAN) speed upgrade (1Gb to 10Gb)
 - Server capacity upgrade to handle projected resources demand
 - Server Virtualization
 - Citrix web remote access portal



Information Technology Update

- **Progress to date: Applications Development**
 - Broad overview of investment activities including data acquisition and lifecycle
 - Comprehensive mapping of daily activities including “pain points” analysis
 - Detailed look at document processing



Information Technology Update

- **Next Steps: Infrastructure Platform**
 - Improve systems availability (Business Continuity/Disaster Recovery)
 - Video Conferencing
 - Upgrade email system
 - IP telephony system
 - “Chat” framework
 - Upgrade development and test environments
 - Improve support and engineering coverage



Information Technology Update

- **Next Steps: Applications Development**
 - Begin implementation of a “Document Center” application
 - Initial rollout of an “Investment Support System” for the Less Correlated and Constrained team
 - Enhance internal and external websites

Agenda Item
UTIMCO Board of Directors Meeting
November 9, 2012

Agenda Item: Review of Investment Pipeline and Discussion of Investment Environment and Opportunities

Developed By: Staff

Presented By: Zimmerman

Type of Item: Information Item

Description: Staff will review with the Board the types of investments that are currently in the pipeline in each of the investment areas. This agenda item is also intended to provide an opportunity for an open-ended discussion on issues, expectations, and opportunities in the current investment environment. Staff hopes to get input from Board members on issues, concerns, and opportunities in the current investment environment.

Recommendation: None

Reference: *Investment Pipeline* report



Investment Pipeline

MCC – Public Equity

- India
- SE Asia
- China
- Africa
- Latin America
- Global

LCC

- Event Driven “side-car” with credit manager
- European L/S (2 managers)
- Opportunistic credit
- L/S specialists
- Global Macro

Real Estate

- Cell Tower
- NY/London
- Europe
- India
- US Office
- Germany

Natural Resources

- Metals and Mining Funds
- Canadian Oil & Gas and Co-Investment
- Oilfield Services and Co-Investment
- Indian Agribusiness Fund
- North American Upstream Fund

Private Investments

- Technology Sector Fund
- Andean Region Fund
- Lower Middle Market U.S. & Europe Buyout Franchise
- Indonesia & Africa Follow-ons
- Lower Middle Market Buyout Follow-on (Texas)

Agenda Item
UTIMCO Board of Directors Meeting
November 9, 2012

Agenda Item: Report on 2013 Meeting Dates

Developed By: Zimmerman

Presented By: Zimmerman

Type of Item: Information item

Description: This agenda item presents the 2013 UTIMCO Board Meeting schedule and the Committee meetings schedule.

Recommendation: None

Reference: UTIMCO Meeting Dates 2013



UTIMCO Meeting Dates 2013

Month	Board Of Directors	Audit and Ethics Committee*	Compensation Committee*	Policy Committee*	Risk Committee*	UT System Board of Regents	TAMU System Board of Regents
January		Jan 30	Jan 30		Jan 30		Jan 31-Feb 1
February	Feb 7					Feb 13-14	
March							
April (annual)	Apr 18	Apr 11		Apr 11	Apr 11		
May						May 8-9	May 1-2
June							
July	Jul 9	Jul 2	Jul 2	Jul 2	Jul 2	Jul 10-11	
August						Aug 21-22	Aug 8-9
September			September 26				
October	Oct 10*						
November	Nov 12	Nov 6	Nov 6		Nov 6	Nov 13-14	Nov 7-8
December						Dec 4-5	Dec 5-6

**UTIMCO Board of Directors Meetings will be held in the Corporate Office:
401 Congress, Suite 2800, Austin, Texas 78701**

**October 10 Board Meeting and all Committee Meetings to be held via teleconference*

Committee Assignments:

Audit and Ethics: Wilson - Chair, Gary, Tate, Hicks

Compensation: Hicks - Chair, Bass, Moore, Wilson

Policy: Gary - Chair, Bass, M.E. Foster, Hicks

Risk: Tate - Chair, Bass, M.E. Foster, Moore