

**UTIMCO BOARD OF DIRECTORS
MEETING AGENDA
February 7, 2013**

401 Congress Avenue
Austin, Texas 78701

Time	Item #	Agenda Item
Begin	End	
8:30 a.m.	8:35 a.m.	1 Convene in Open Session Call to Order/Discussion and Appropriate Action Related to Minutes of November 9, 2012 Meeting*
8:35 a.m.	8:40 a.m.	2 Discussion and Appropriate Action Related to Corporate Resolutions: - Designation of Annual Meeting of the UTIMCO Board*
8:40 a.m.	9:10 a.m.	3 Endowment and Operating Funds Update Report
9:10 a.m.	9:55 a.m.	4 Optimal Illiquidity Discussion
9:55 a.m.	10:40 a.m.	5 Real Estate Update
10:40 a.m.	11:40 a.m.	Recess for Briefing Session pursuant to Texas Education Code Section 66.08(h)(2) related to Investments
11:40 a.m.	12:15 p.m.	Lunch
12:15 p.m.	12:45 p.m.	Briefing Session pursuant to Texas Education Code Section 66.08(h)(2) related to Investments
12:45 p.m.	1:30 p.m.	6 Reconvene in Open Session Less Correlated and Constrained Update
1:30 p.m.	1:45 p.m.	7 Report on and Discussion and Appropriate Action Related to Items from Audit and Ethics Committee: - Audit of UTIMCO Financial Statements*
1:45 p.m.	2:00 p.m.	8 Report from Risk Committee
2:00 p.m.	2:15 p.m.	9 Report on and Discussion and Appropriate Action Related to Items from Compensation Committee: - UTIMCO Compensation Program Peer Group* - Designation of Employees in Eligible Positions as Participants in the UTIMCO Compensation Program for the 2012/2013 Performance Period*
2:15 p.m.	2:30 p.m.	10 UTIMCO Organization Update
2:30 p.m.	3:00 p.m.	11 Review of Investment Pipeline and Discussion of Investment Environment and Opportunities
3:00 p.m.		Adjourn

* Action by resolution required

Next Scheduled Meeting: April 16, 2013 (Annual Meeting)
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RESOLUTION RELATED TO MINUTES

RESOLVED, that the minutes of the meeting of the Board of Directors held on **November 9, 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 **November 9, 2012**, at the offices of the Corporation, Suite 2800, 401 Congress Avenue, Austin, Texas, said meeting having been called by the Chairman, Paul Foster, with notice provided to each member in accordance with the Bylaws. The audio portion of the meeting was electronically recorded. Participating in the meeting were the following members of the Board:

Paul Foster, Chairman
Ardon E. Moore, Vice Chairman
Francisco G. Cigarroa, Vice Chairman for Policy
Kyle Bass
Morris E. Foster
Printice Gary
R. Steven Hicks
Charles W. Tate
James Wilson

Director James Wilson and Director Printice Gary participated by conference telephone enabling all persons participating in the meeting to hear each other. Accordingly, a majority and quorum of the Board was in attendance. Employees of the Corporation attending the meeting were Bruce Zimmerman, CEO and Chief Investment Officer; Cathy Iberg, President and Deputy CIO; Joan Moeller, Secretary and Treasurer; Christy Wallace, Assistant Secretary; Lindel Eakman, Managing Director – Private Markets Investments; Mark Shoberg, Managing Director – Real Estate Investments; Mark Warner, Managing Director - Natural Resources Investments; Ryan Ruebsahm, Senior Director – Marketable Alternatives Investments; Uzi Yoeli, Senior Director - Portfolio Risk Management; Scott Bigham, Director – Private Markets Investments; Uche Abalogu, Chief Technology Officer; and other Staff members. Other attendees were Keith Brown of the McCombs School of Business at The University of Texas at Austin; Bob Jewell of Andrews Kurth LLP; Jim Phillips, Jason King, Terry Hull and Roger Starkey of The University of Texas System (UT System) Administration; and Tom Wagner and Robert Cowley of Deloitte and Touche LLP. Mr. Foster called the meeting to order at 9:19 a.m.

Minutes

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

Corporate Resolution

Mr. Foster recommended Board approval to appoint Mark Shoberg to the office of Managing Director. Upon motion duly made and seconded, the following resolution was unanimously adopted:

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.

Task Force Update

Mr. Foster asked Mr. Zimmerman to provide a report from the Investment Task Forces. The Corporation formed three investment task forces to focus efforts on three specific areas: Portfolio Positioning, Credit, and Emerging Markets. The first presentation to the Board was from the Credit Task Force. Mr. Ruebsahm and Mr. Bigham provided information on credit related fixed income allocation, performance, and portfolio by security type, a listing of the largest managers, fiscal 2012 activity and future investment opportunities. Ms. Iberg provided an update from the Portfolio Positioning Task Force by presenting a sample framework for portfolio positioning and portfolio positioning examples for UTIMCO. She also presented intra-class positioning in the MCC Equities, using country and currency positions to offset structural underweights and/or increase weights in areas offering attractive valuations/fundamentals, looking at both Developed Country Equity and Emerging Market Equity. Mr. Warner discussed intra-class positioning in the Natural Resources area. The third task force report, Emerging Markets, was provided by Mr. Warner and Mr. Eakman. They reported progress to date, noting current exposure, country analysis and investment opportunities. They also presented next steps, looking to build on the existing processes and procedures by establishing an internal emerging markets monitor, further incorporation of Emerging Markets Task Force activities into the ongoing investment process, and reviewing frontier markets.

Audit and Ethics Committee Report

Mr. Foster asked Mr. Wilson to provide a report on behalf of the Audit and Ethics Committee. Mr. Wilson reported that the Committee convened on November 5, 2012, and he summarized the four action items approved by the Committee. The Committee heard a comprehensive report from Mr. Wagner, Audit Partner, regarding Deloitte & Touche LLP's Financial Statement Audit Results and Communications and the audited financial statements of the Permanent University Fund (PUF), the UT System General Endowment Fund (GEF), the Permanent Health Fund (PHF), the UT System Long Term Fund (LTF), and the UT System Intermediate Term Fund (ITF) (collectively, the "Funds"), and the Statement of Performance Statistics for the year ended August 31, 2012. The accounting staff was recognized for excellent work and cooperation with the audit team. Mr. Wagner provided a summary of the Audit Results and Communications to the Board. Upon motion duly made and adopted, the following resolution was approved unanimously:

RESOLVED, that Deloitte & Touche LLP's Financial Statement Audit Results and Communications on the Investment Funds Under Fiduciary Responsibility of The University of Texas System Board of Regents for the year ended August 31, 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.

Mr. Wilson continued his report by stating that the Committee reviewed 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 later in the meeting. He also reported that J. Michael Peppers, UT System Chief Audit Executive *ad interim* presented their 2013 Audit Plan and received Committee approval of the plan, and reviewed with the Committee the results of the UTIMCO Chief Executive Officer/Chief Investment Officer Expenses Audit Report for FY2012 which contained no findings. In executive session, Mr. Peppers discussed the System Administration Information Technology Follow-up Audit Report FY 2012. Mr. Zimmerman provided the Committee with the quarterly compliance reports.

Private Markets Update

Mr. Foster asked Mr. Eakman to provide an update of Private Investments. Mr. Eakman introduced the members of the Private Markets team ("Team"), and Mr. Eakman and Team gave a report on the Private Investments strategy, performance, discussed co-investment opportunities, and an overview of portfolios. Mr. Zimmerman, Mr. Eakman and Team answered the Directors' questions.

At approximately 11:00 a.m. the Board recessed to a Briefing Session. Mr. Wilson and Mr. Morris Foster left the meeting at this time.

The meeting of the Board reconvened in open session at 12:50 p.m.

Optimal Illiquidity Discussion

Mr. Zimmerman introduced the next agenda item of Optimal Illiquidity and explained to the Board that illiquidity is an important topic to discuss, as it is one element of portfolio risk and also a potential source of return. He reviewed 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, and 3) what is staff's ability to deploy illiquidity risk and generate sufficient returns? Dr. Yoeli led the discussion of illiquidity, discussing required premium, liquidity supply and demand, and ability to deploy capital. Mr. Zimmerman and Dr. Yoeli answered the Directors' questions.

Risk Committee Report

Mr. Foster asked Mr. Tate to provide a report from the Risk Committee. Mr. Tate reported that the Committee met on November 5, 2012. Mr. Tate summarized the Categorization of New Investment Mandates. He stated that there were 14 new investment mandate categorizations prepared by Staff for the period beginning June 26, 2012, through October 19, 2012. The "Mandate Categorization Watch-List"

continues to be monitored by Staff for possible recategorization. Owl Creek Oversees Fund, Ltd. was the only mandate added to the Watch-List. Mr. Tate also reported that the Committee heard a report from Mr. Zimmerman on compliance items for the Quarter Ended August 31, 2012. The Committee also heard an update from Mr. Zimmerman regarding the State Auditor's follow-up audit. Mr. Zimmerman gave a summary to the Board regarding maintaining best practices for personal trading. Staff will provide to the Board a short report from counsel at a future meeting on how peers are handling employee securities trading and best practices.

Policy Committee Report

Mr. Foster asked Mr. Gary to report on behalf of the Policy Committee. Mr. Gary stated that the committee met on November 5, 2012. The Policy Committee approved minutes from the previous meeting and then discussed and took appropriate action related to proposed amendments to the UTIMCO Code of Ethics. He stated *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"). In accordance with the Audit Charter of the Audit and Ethics Committee, the Audit and Ethics Committee will periodically review the Code. During the Audit and Ethics Committee's periodic review, they recommended 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. Mr. Gary reported that 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, the Corporation would no longer be able to purchase its computer equipment from Dell. Staff believed that in most circumstances, the employment in a business entity of a spouse, minor child, or dependent Relative, who is not in a management or executive officer position and has no ability to influence its operating or financial decisions, should not be treated as a prohibited transaction and should, after thoughtful consideration, be able to be waived. For this reason Staff recommended the Code be amended by adding 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) so long as 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. Mr. Gary stated that the draft changes to the Code were based on the joint efforts of Corporation's Staff, Andrews Kurth LLP, and UT System Office of General Counsel. Mr. Zimmerman added that the UT System Office of Governmental Affairs, Board of Regents Office and the Office of External Relations had all reviewed and supported the proposed changes. Upon motion duly made and seconded, the following resolution was unanimously adopted by the Committee:

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.

Executive Session

Mr. Foster announced, at 1:58 p.m., that, "The Board of Directors of The University of Texas Investment Management Company having been duly convened in Open Session and notice of this meeting having been duly given, I hereby announce the convening of a closed meeting as an Executive Session for the purpose of deliberating 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. This Executive Session meeting of the Board is authorized by *Texas Government Code* Section 551.074 (Personnel Matters). The date is November 9, 2012, and the time is now 1:58 p.m." With the exception of Mr. Zimmerman, Mr. Jewell and Dr. Brown, all other meeting participants left the meeting at this time. Mr. Zimmerman left the meeting during discussions regarding his compensation matters.

Open Session

The Board reconvened in open session and Mr. Foster announced that "The Open Session of the Board of Directors of The University of Texas Investment Management Company is now reconvened. The date is November 9, 2012, and the time is now 2:04 p.m. During the Executive Session, the Board deliberated individual personnel compensation matters, but no action was taken nor decisions made, and no vote was called for or had by the Board in Executive Session."

Compensation Committee Report

Mr. Foster asked Mr. Hicks to give a report on behalf of the Compensation Committee. Mr. Hicks reported that on behalf of the Compensation Committee, he recommended approval of three resolutions. Upon motion duly made and seconded, the following resolutions were unanimously adopted by the Committee:

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.

And,

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 \$1,692,167 and be it

FURTHER RESOLVED, that of the CEO's \$1,692,167 Performance Incentive Award for the 2011/2012 Performance Period, 100% (\$1,692,167) will be deferred pursuant to the Plan.

And,

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 \$5,424,278 and be it

FURTHER RESOLVED, that of the Performance Incentive Awards for the 2011/2012 Performance Period (excluding the CEO), 78% (\$4,206,432) will be deferred pursuant to the Plan.

Organization Update

Mr. Foster asked Mr. Zimmerman to provide the Board with an update on Corporation's staffing. Mr. Zimmerman's update was followed by an update from Mr. Abalogu on the technology infrastructure platform and application development.

Review of Investment Pipeline and Discussion of Investment Environment and Opportunities

Mr. Zimmerman asked Staff to review with the Board the types of investments that are currently in the pipeline in each of the investment areas. Mr. Zimmerman and Staff answered the Directors' questions.

UTIMCO Meeting Dates for 2013

Mr. Foster presented the meeting dates for the Board and Committee meetings for 2013.

There being no further business to come before the Board, the meeting was adjourned at approximately 2:42 p.m.

Secretary: _____
Joan Moeller

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

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

ELIGIBLE POSITION

PARTICIPANTS

Investment Professionals

CEO & Chief Investment Officer
 President and Deputy CIO
 Managing Director - Private Investments
 Managing Director - Investments
 Managing Director - Investments
 Senior Director - Investments
 Senior Director - Investments
 Senior Director - Risk Management
 Senior Portfolio Manager
 Portfolio Manager
 Director - Investments
 Director - Investments
 Director - Investments
 Director - Private Investments
 Senior Associate - Investments
 Senior Associate - Private Investments
 Senior Associate - Risk Management
 Associate - Investments
 Associate - Investments
 Associate - Private Investments
 Senior Analyst - Investments
 Senior Analyst - Investments
 Analyst - Investments

Bruce Zimmerman
 Cathy Iberg
 Lindel Eakman
 Mark Warner
 Mark Shoberg
 Ryan Ruebsahm
 Susan Chen
 Uzi Yoeli
 Russ Kampfe
 Harland Doak
 Zac McCarroll
 Courtney Powers
 Edward Lewis
 Scott Bigham
 Amanda Hopper
 Mike McClure
 Kate Wagner
 Alison Hermann
 Mukund Joshi
 Lara Jeremko
 Aman Jain
 Drury Morris
 Wally Onadiji

Operations/Support Professionals

Senior Managing Director
 General Counsel and Chief Compliance Officer
 Chief Technology Officer
 Senior Manager
 Manager
 Manager
 Senior Financial Analyst

Joan Moeller
 Cissie Gonzalez
 Uche Abalogu
 Gary Hill
 Debbie Childers
 Melynda Shepherd
 Lara McKinney

Agenda Item
UTIMCO Board of Directors Meeting
February 7, 2013

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

Developed By: Staff

Presented By: Foster

Type of Item: Action required by UTIMCO Board

Description: Chairman Foster will designate the annual meeting of the Board of Directors of the Corporation. The annual meeting will be held on April 16, 2013.

Recommendation: Chairman Foster will recommend approval of the designation of the annual meeting.

Reference: None

RESOLUTION RELATED TO ANNUAL MEETING

RESOLVED, that the Annual Meeting of the Board of Directors will be held on April 16, 2013, in Austin, Texas.



Funds Update

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• Leverage	40
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Returns



UTIMCO Performance Summary

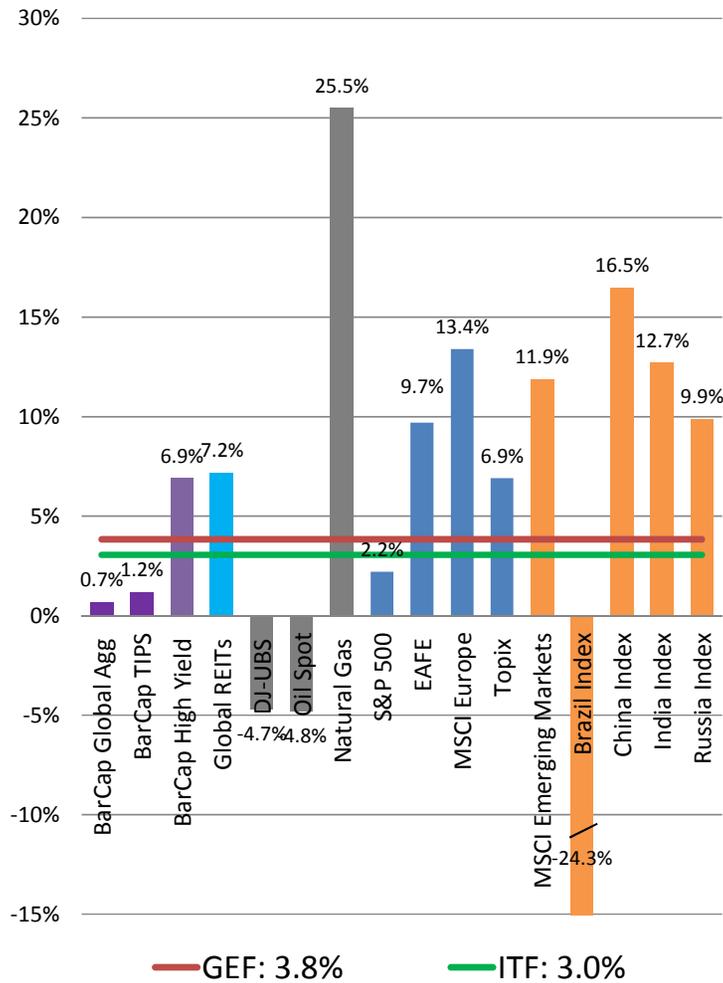
	Net Asset Value 12/31/2012 (in Millions)	Four Months	Calendar
		December	Year to Date December
ENDOWMENT FUNDS			
Permanent University Fund	\$13,855	3.73%	11.18%
Permanent Health Fund	997		
Long Term Fund	<u>6,315</u>		
General Endowment Fund	7,312	3.82	11.33
Separately Invested Funds	<u>120</u>	N/A	N/A
Total Endowment Funds	21,287		
OPERATING FUNDS			
Intermediate Term Fund	5,140	3.01	9.53
Short Term and Debt Proceeds Funds	1,928	0.05	0.16
Total Operating Funds	7,068		
Total Investments	\$28,355		
VALUE ADDED - Percent (1)			
Permanent University Fund		0.47%	2.12%
General Endowment Fund		0.56	2.27
Intermediate Term Fund		0.26	2.28
VALUE ADDED - \$ in Millions (1)			
Permanent University Fund		\$63	\$263
General Endowment Fund		40	153
Intermediate Term Fund		<u>13</u>	<u>106</u>
Total Value Added		\$ 116	\$ 522

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

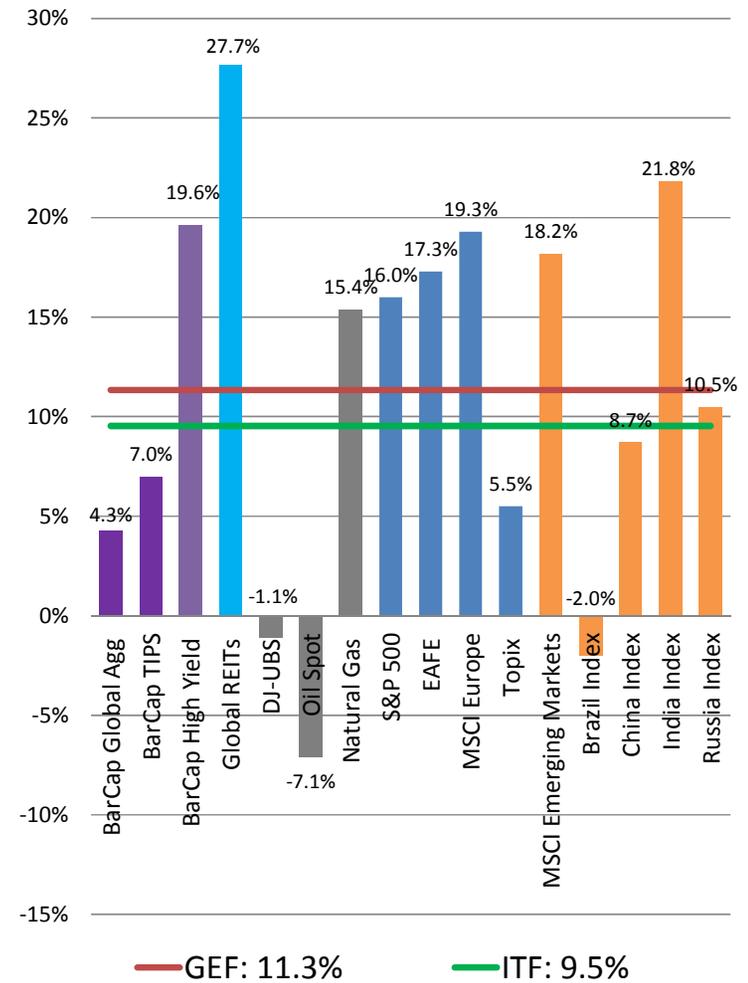


Performance During Last 4 and 12 Months

Performance During Last 4 Months



Performance During Last 12 Months





Total Fund Attribution Breakdown (GEF) Four and Twelve Months Ended December 31, 2012

	Four Months (basis points)	Twelve Months (basis points)
Tactical Allocation		
Asset Based	(68)	(143)
Derivative Based Tactical Allocation ⁽¹⁾	(12)	(45)
Total Tactical	(80)	(188)
Active Management (External Managers vs. Benchmarks)	96	420
Insurance Hedges	(6)	(67)
Interactive Effect	46	62
Total	56	227

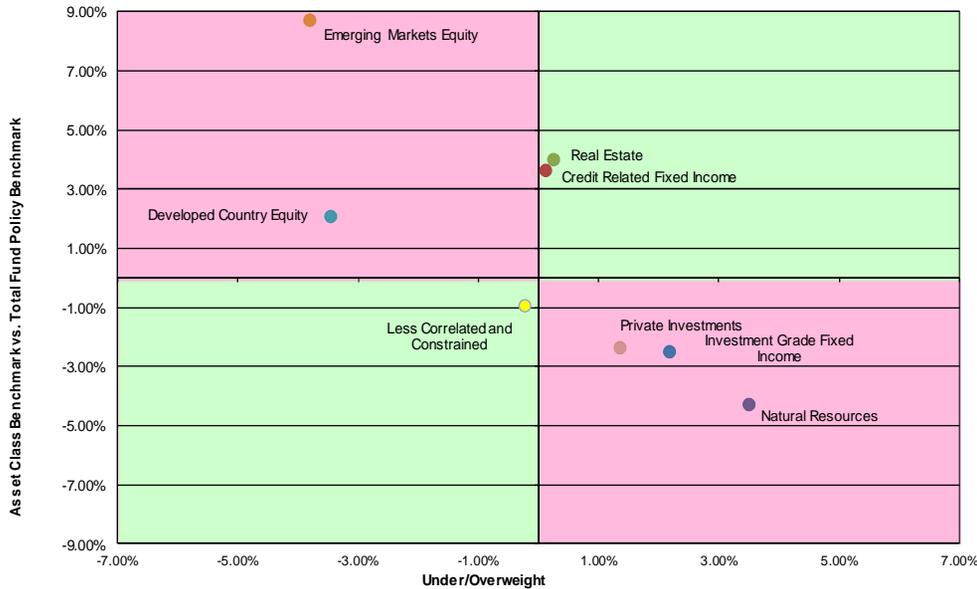
⁽¹⁾ MSCI Japan Short Sw aps, MSCI Europe Short Sw aps, S&P 500 Short Sw aps, S&P 400 Short Sw aps, IYR Written Puts, XME Written Puts, Emerging Markets Written Puts



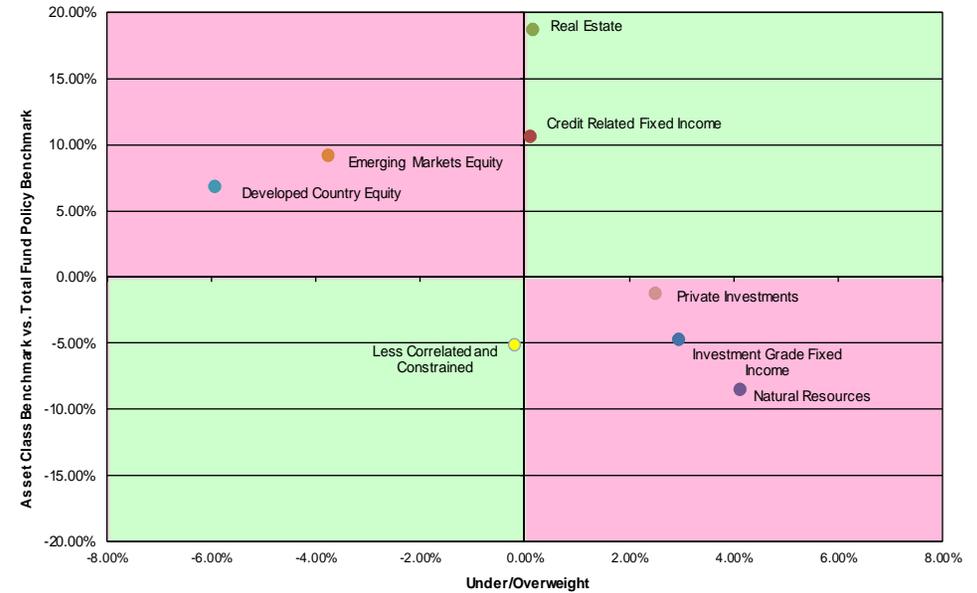
Tactical Value Add

Four and Twelve Months Ended December 31, 2012

Four Months ended December 31, 2012



Twelve Months ended December 31, 2012



	Weight		Over / (Under) Weight	Benchmark Returns	+ / -
	Actual	Policy			
Investment Grade Fixed Income	9.68%	7.50%	2.18%	0.73%	-0.04%
Credit Related Fixed Income	0.12%	0.00%	0.12%	6.85%	0.00%
Real Estate	2.77%	2.50%	0.27%	7.24%	0.01%
Natural Resources	11.01%	7.50%	3.51%	-1.06%	-0.15%
Developed Country Equity	11.56%	15.00%	-3.44%	5.30%	-0.07%
Emerging Markets Equity	8.20%	12.00%	-3.80%	11.95%	-0.33%
Total More Correlated and Constrained	43.34%	44.50%	-1.16%		-0.58%
Less Correlated and Constrained	29.79%	30.00%	-0.21%	2.30%	-0.01%
Total Fund excluding Private Investments	73.13%	74.50%	-1.37%		-0.59%
Private Investments	26.87%	25.50%	1.37%	0.85%	-0.09%
Total Fund: Active Managers	100.00%	100.00%	0.00%	3.26%	-0.68%

	Weight		Over / (Under) Weight	Benchmark Returns	+ / -
	Actual	Policy			
Investment Grade Fixed Income	10.45%	7.50%	2.95%	4.32%	-0.09%
Credit Related Fixed Income	0.11%	0.00%	0.11%	19.60%	0.00%
Real Estate	2.67%	2.50%	0.17%	27.73%	0.01%
Natural Resources	10.97%	6.84%	4.13%	0.49%	-0.38%
Developed Country Equity	11.39%	17.33%	-5.94%	15.83%	-0.47%
Emerging Markets Equity	8.24%	12.00%	-3.76%	18.22%	-0.45%
Total More Correlated and Constrained	43.83%	46.17%	-2.34%		-1.38%
Less Correlated and Constrained	29.82%	30.00%	-0.18%	3.84%	0.03%
Total Fund excluding Private Investments	73.65%	76.17%	-2.52%		-1.35%
Private Investments	26.35%	23.83%	2.52%	7.74%	-0.08%
Total Fund: Active Managers	100.00%	100.00%	0.00%	9.06%	-1.43%



Active Management Value Add Four and Twelve Months Ended December 31, 2012

4 Months (bps)	
Developed Country Equity	38
Investment Grade Fixed Income	9
Real Estate	5
Natural Resources	2
Credit Related Fixed Income	-
Subtotal	54
Less Correlated	(1)
Emerging Markets Equity	(20)
Subtotal	(21)
Total Fund excluding Private Investments	33
Private Investments	63
Total Active Managers	96

12 Months (bps)		Manager (Alpha)
Less Correlated and Constrained	170	Perry Partners (15.94), Eminence (23.32), Baupost (12.27), OZ Credit (31.87),
Developed Country Equity	73	Stelliam (0.92), Value Act (0.84), AKO Capital (0.80)
Natural Resources	19	Gold (2.78), MLP Basket (0.15)
Emerging Markets Equity	14	Hillhouse (1.30), Acadian (0.61), Dimensional (0.26)
Investment Grade Fixed Income	12	Brandywine (1.56), Credit Suisse HG (1.19), Pimco (0.65)
Real Estate	6	European Investors (3.53), MS REITs (2.51)
Credit Related Fixed Income	-	
Subtotal	294	
Subtotal	-	
Total Fund excluding Private Investments	294	
Private Investments	126	
Total Active Managers	420	



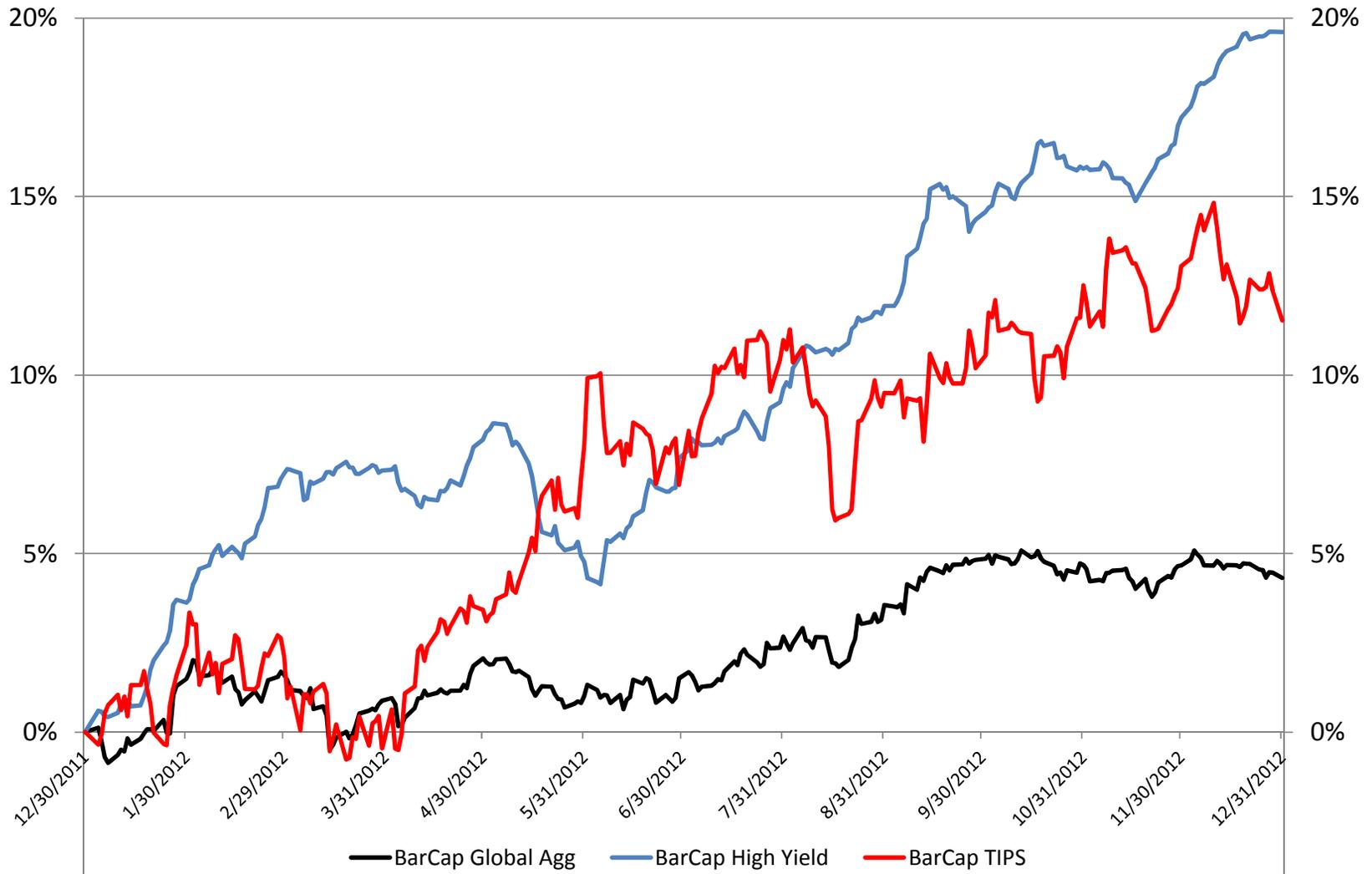
GEF Performance Breakdown

Four Months Ended December 31, 2012

Asset Class		Allocation		Return		Attribution to Total Fund Relative Return
		GEF Average	Policy	GEF	Benchmark	
More Correlated and Constrained:						
Fixed Income	Investment Grade	9.8%	7.5%	1.97%	0.73%	0.07%
	Credit-Related	0.1%	0.0%	8.27%	6.85%	0.00%
Real Assets	Real Estate	2.8%	2.5%	6.62%	7.24%	-0.01%
	Natural Resources	11.0%	7.5%	-0.91%	-1.06%	-0.12%
Equity	Developed Country	11.5%	15.0%	7.37%	5.30%	0.17%
	Emerging Markets	8.2%	12.0%	9.54%	11.95%	-0.51%
Total More Correlated and Constrained		43.4%	44.5%	4.40%	5.32%	-0.40%
Total Less Correlated and Constrained		29.8%	30.0%	2.69%	2.30%	0.10%
Private Real Estate Investments		2.5%	4.0%	-1.86%	3.75%	-0.16%
Private Investments excluding Real Estate		24.3%	21.5%	4.76%	0.32%	1.02%
Total Private Investments		26.8%	25.5%	4.14%	0.85%	0.86%
Total GEF Portfolio		100.0%	100.0%	3.82%	3.26%	0.56%

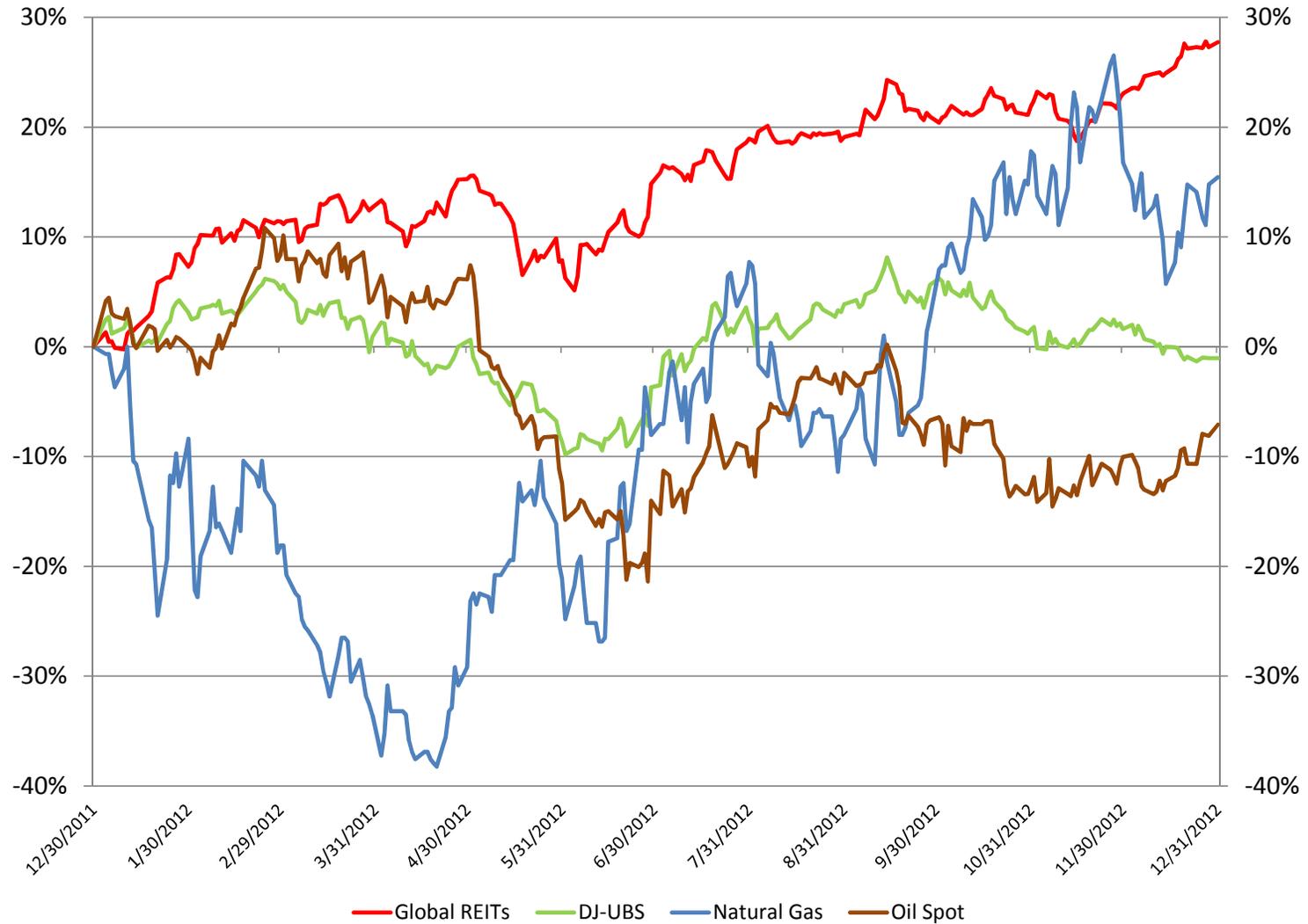


Annual Performance – Fixed Income Indices



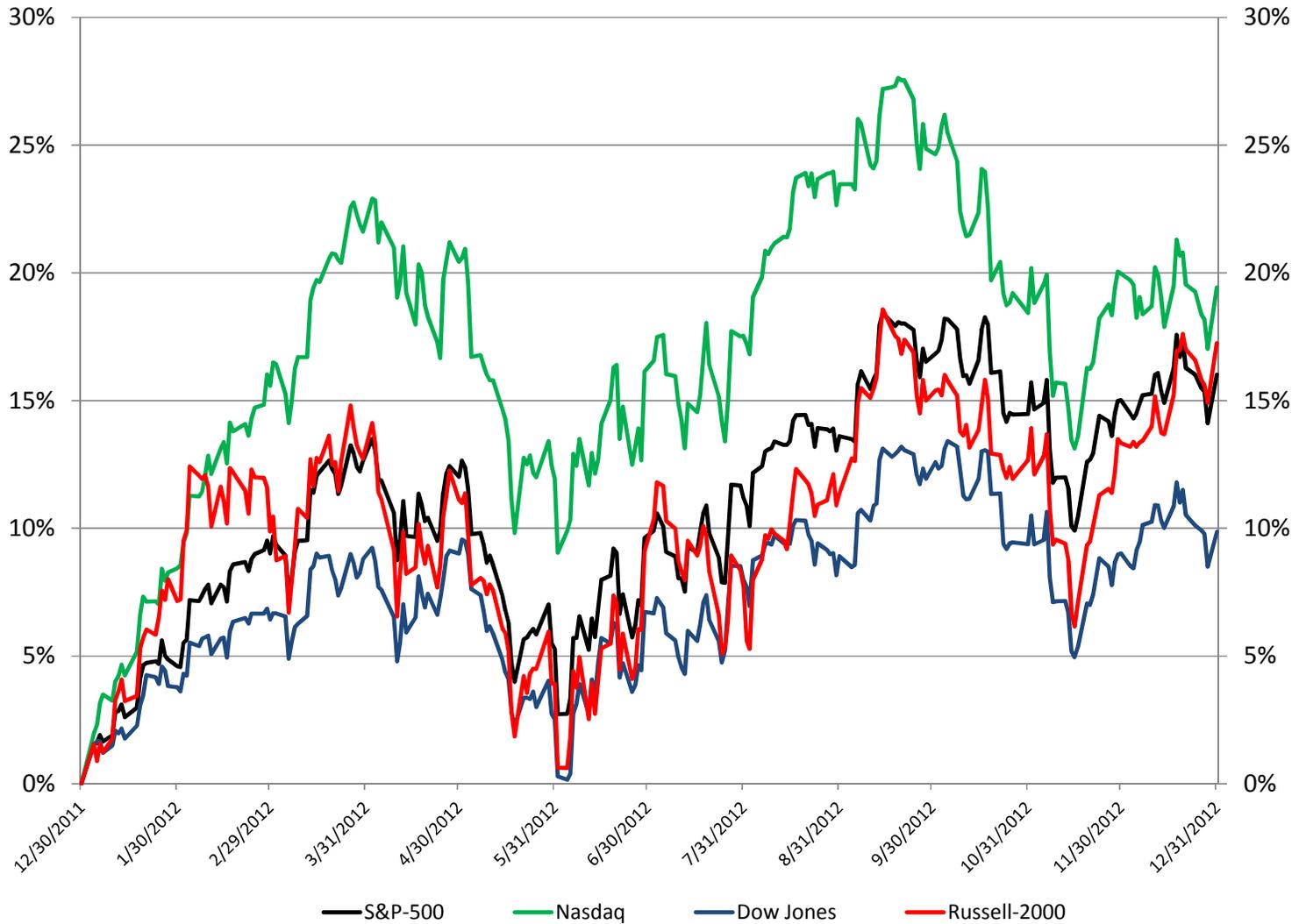


Annual Performance – Real Asset Indices



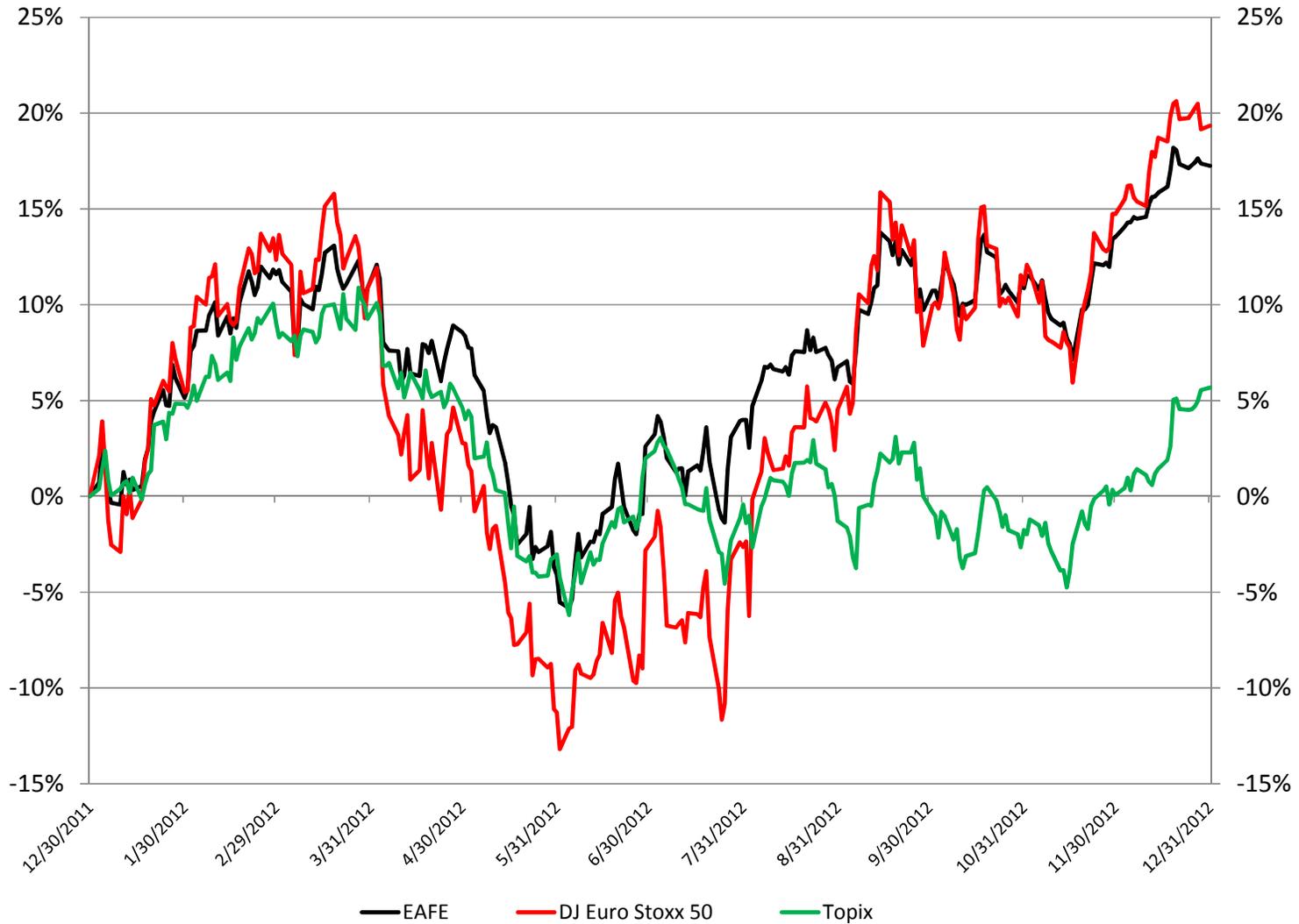


Annual Performance – US Equity



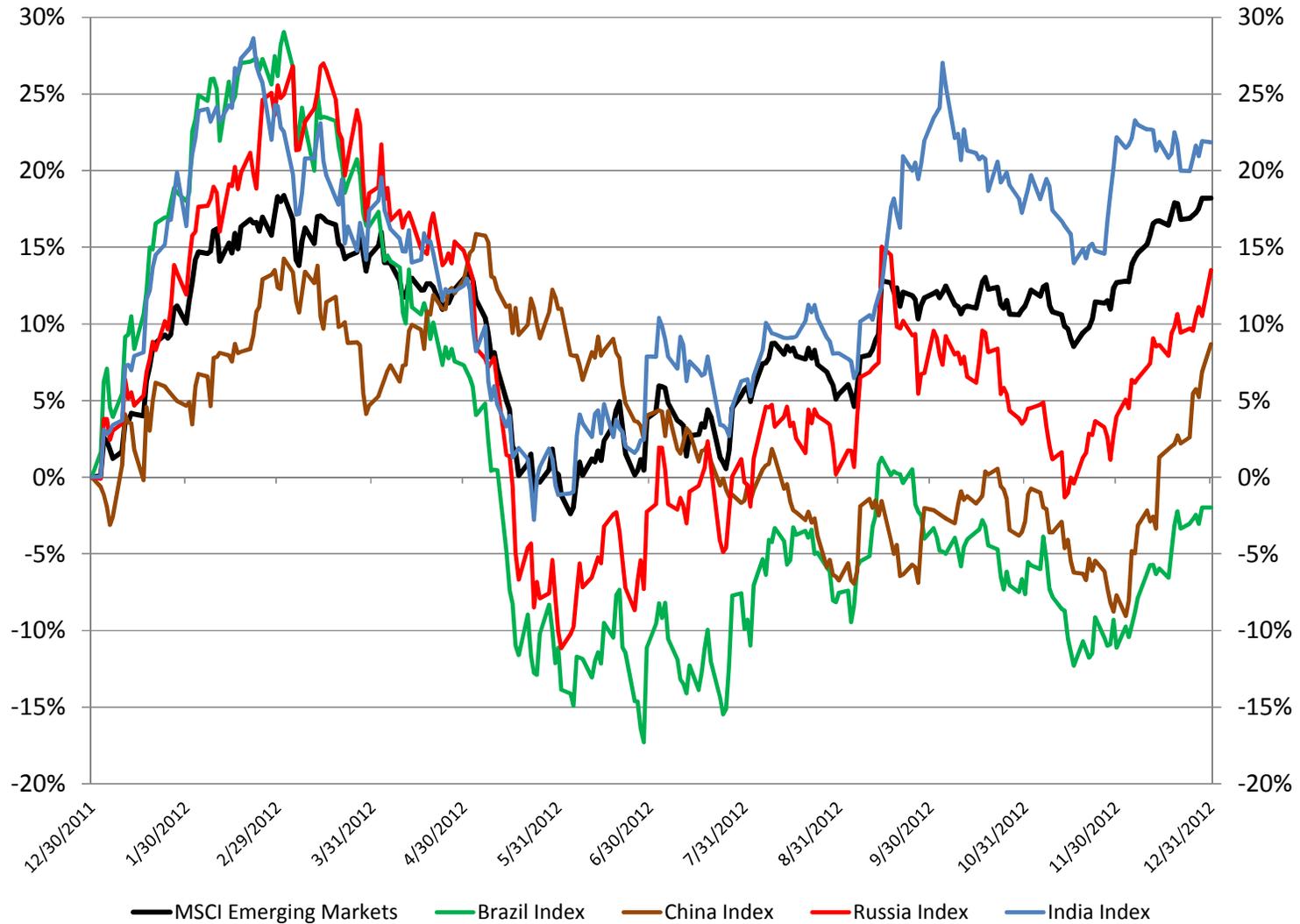


Annual Performance – Dev. Equity Ex US



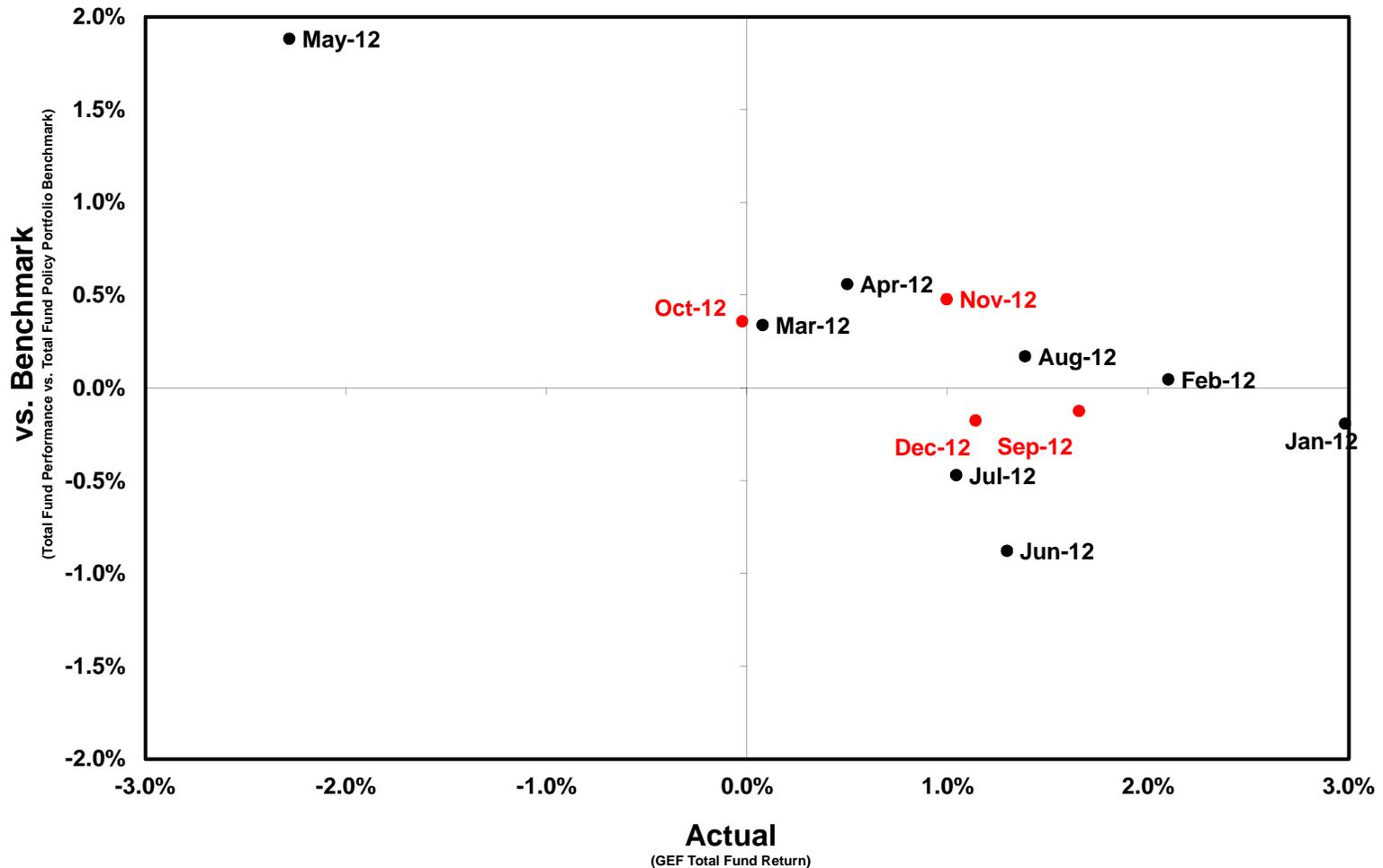


Annual Performance – Emerging Markets





Actual and “vs. Benchmark” Returns by Month Twelve Months Ended December 31, 2012 (GEF)





Value-Add Analysis

	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FYTD13
MCC									
Tactical	0.43%	-0.54%	0.14%	0.82%	0.29%	0.01%	0.05%	-1.09%	-0.58%
Active	0.42%	-0.81%	-0.74%	-0.19%	-1.75%	2.11%	0.67%	0.73%	0.35%
TOTAL	0.85%	-1.35%	-0.60%	0.63%	-1.46%	2.11%	0.72%	-0.36%	-0.23%
LCC									
Tactical	-0.01%	0.07%	-0.02%	-0.09%	0.04%	0.21%	0.12%	0.18%	0.05%
Active	2.09%	0.86%	2.63%	2.02%	1.68%	2.61%	1.39%	2.01%	0.05%
TOTAL	2.08%	0.93%	2.61%	1.93%	1.71%	2.82%	1.50%	2.18%	0.10%
Private Investments									
Tactical	-0.68%	-0.42%	-0.69%	0.14%	0.35%	0.40%	-0.11%	-0.09%	0.08%
Active	1.51%	-0.57%	1.20%	-0.59%	1.54%	-0.98%	0.83%	-0.67%	0.80%
TOTAL	0.83%	-0.99%	0.51%	-0.45%	1.88%	-0.58%	0.72%	-0.76%	0.87%
Overall GEF									
Tactical	-0.26%	-0.89%	-0.57%	0.87%	0.67%	0.62%	0.06%	-1.00%	-0.45%
Active	4.02%	-0.52%	3.09%	1.24%	1.46%	3.74%	2.88%	2.06%	1.19%
Insurance Hedges					0.07%	-0.09%	-0.20%	-0.85%	-0.06%
Derivative Based								-0.24%	-0.12%
TOTAL	3.76%	-1.41%	2.52%	2.11%	2.20%	4.26%	2.74%	-0.03%	0.56%



Private Markets Portfolio Rollforward Four Months Ended December 31, 2012

\$ in millions	Beg FY 9/1/12			Calls	Distributions	Change in Valuation	%	FY'13 New Commitments		End 12/31/12	
	NAV	Unfunded	# Funds					# Funds	\$ Committed	NAV	Unfunded
Credit-Related Fixed Income	\$1,314	\$283	33	\$61	\$268	\$76	6.1%	0	\$0	\$1,183	\$241
Real Estate	485	748	25	129	33	(9)	(1.9)%	2	135	572	780
Natural Resources	651	1,030	33	281	80	23	2.8%	4	226	875	978
Venture	776	396	44	24	75	31		1	45	756	418
Other Developed Country Equity	<u>1,720</u>	<u>672</u>	<u>82</u>	<u>91</u>	<u>234</u>	<u>94</u>		<u>2</u>	<u>100</u>	<u>1,671</u>	<u>652</u>
Total Developed Country Equity	2,496	1,068	126	115	309	125	5.2%	3	145	2,427	1,070
Emerging Markets Equity	<u>512</u>	<u>589</u>	<u>23</u>	<u>47</u>	<u>14</u>	<u>13</u>	2.4%	<u>1</u>	<u>35</u>	<u>558</u>	<u>577</u>
TOTAL	<u>\$5,458</u>	<u>\$3,718</u>	<u>240</u>	<u>\$633</u>	<u>\$704</u>	<u>\$228</u>	4.1%	<u>10</u>	<u>\$541</u>	<u>\$5,615</u>	<u>\$3,646</u>
% of Endowment (PUF+ GEF)	27%	18%								26%	17%



Assets



Combined PUF and GEF Asset Allocation as of December 31, 2012 (in millions)

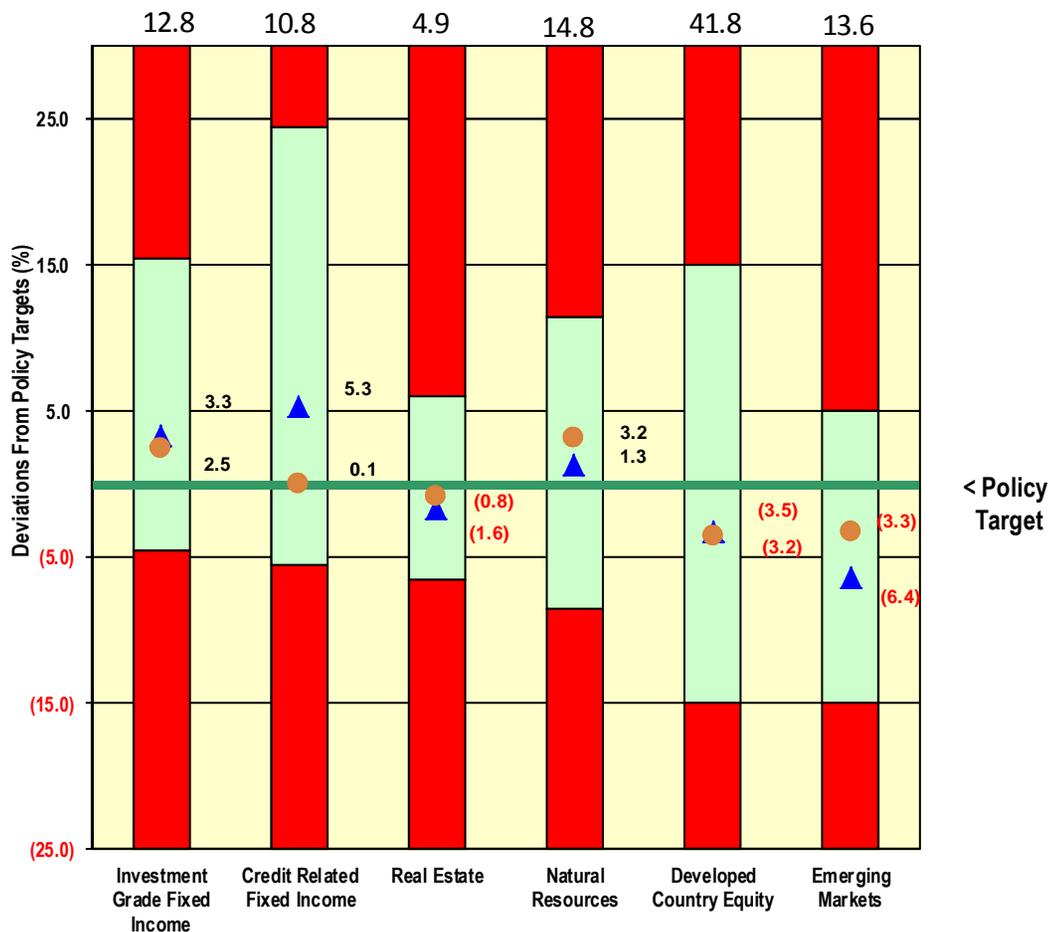
Asset Group	Asset Class	More Correlated and Constrained		Less Correlated and Constrained		Private Investments		Grand Total	
		\$	%	\$	%	\$	%	\$	%
Fixed Income	Investment Grade	\$ 2,090	9.9%	\$ 601	2.8%	\$ -	0.0%	\$ 2,691	12.7%
	Credit-Related	25	0.1%	1,085	5.1%	1,183	5.6%	2,293	10.8%
Fixed Income Total		2,115	10.0%	1,686	7.9%	1,183	5.6%	4,984	23.5%
Real Assets	Real Estate	\$ 371	1.8%	\$ 113	0.5%	\$ 572	2.7%	1,056	5.0%
	Natural Resources	2,270	10.7%	8	0.1%	875	4.1%	3,153	14.9%
Real Assets Total		2,641	12.5%	121	0.6%	1,447	6.8%	4,209	19.9%
Equity	Developed Country	\$ 2,427	11.4%	\$ 3,972	18.7%	\$ 2,428	11.5%	8,827	41.6%
	Emerging Markets	1,852	8.7%	485	2.4%	557	2.6%	2,894	13.7%
Equity Total		4,279	20.1%	4,457	21.1%	2,985	14.1%	11,721	55.3%
Grand Total		\$ 9,035	42.6%	\$ 6,264	29.6%	\$ 5,615	26.5%	\$ 20,914	98.7%

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

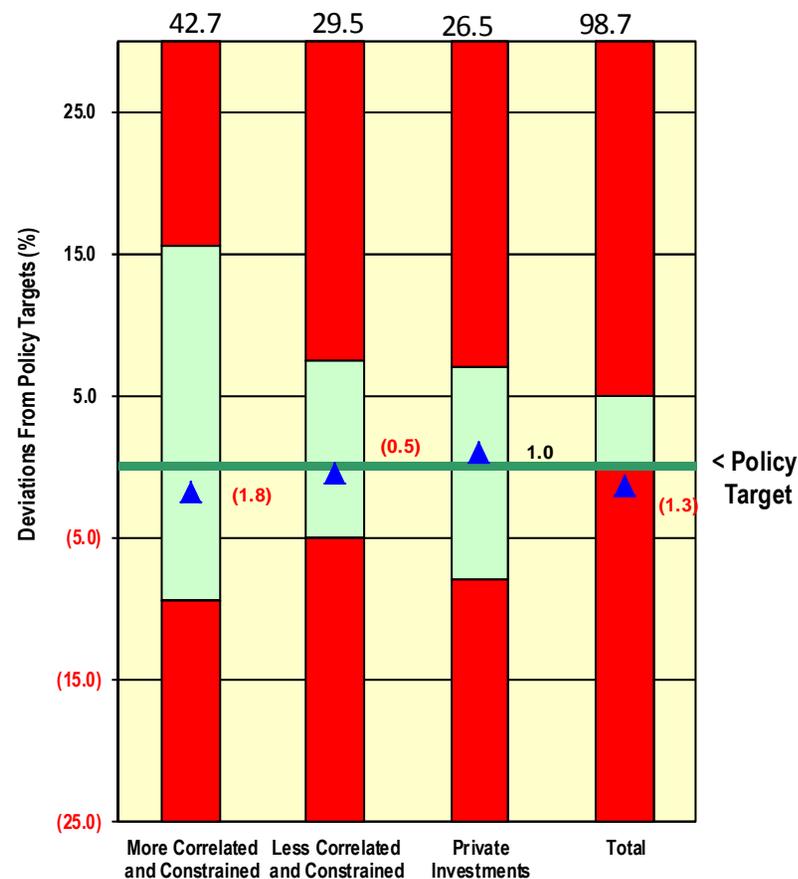


PUF Asset Allocation as of December 31, 2012

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



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



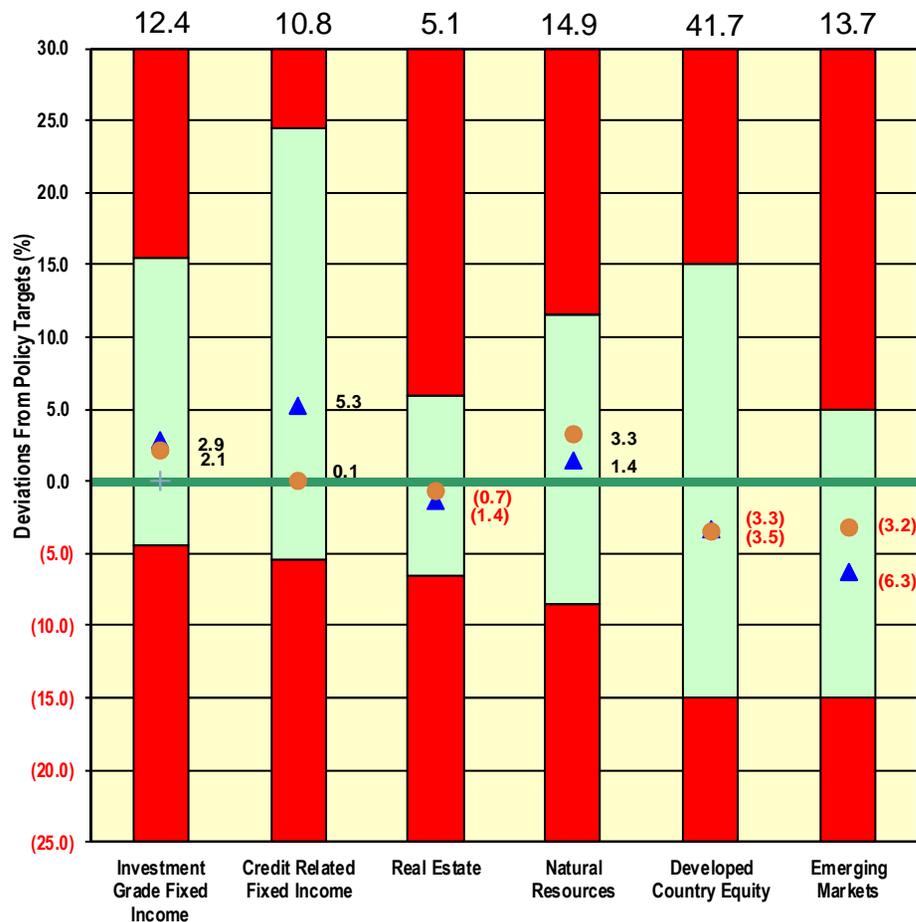
▲ -- All Investment Types

● -- More Correlated and Constrained



GEF Asset Allocation as of December 31, 2012

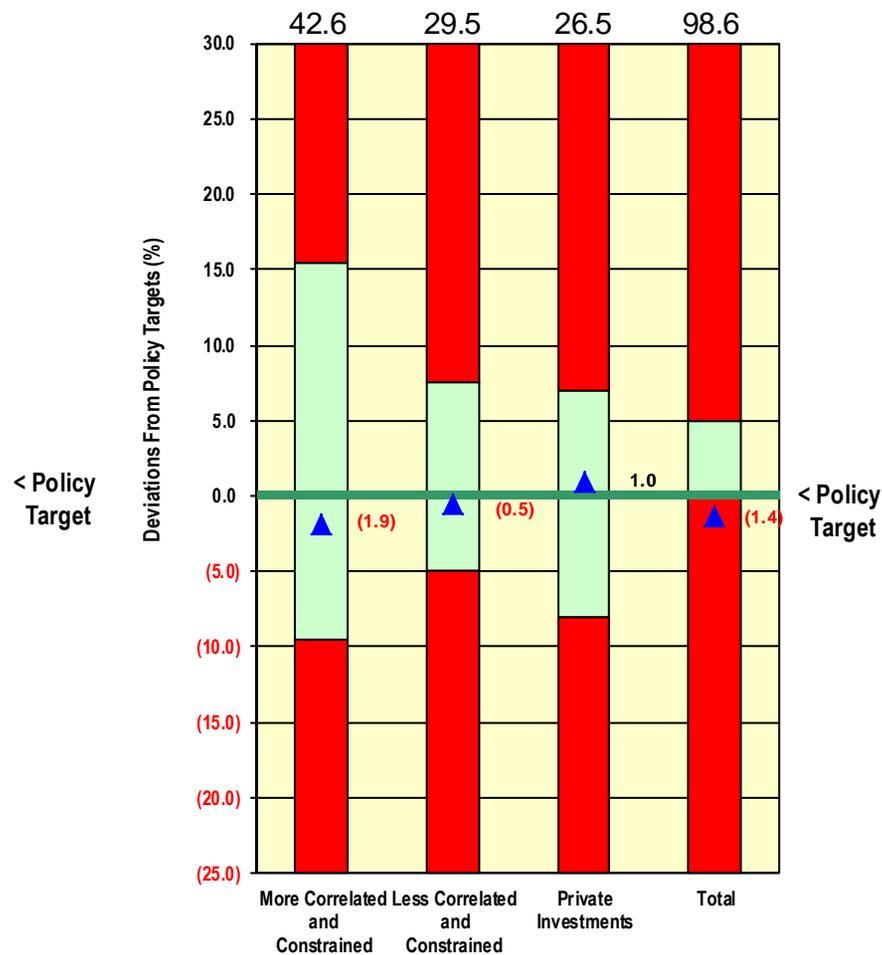
Deviations From Asset Class Policy Targets Within Tactical Policy Ranges for GEF



▲ -- All Investment Types

● -- More Correlated and Constrained

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





LCC Investment Policy Categorizations vs. “Look Thru” Exposures November 30, 2012

Exposure Methodology Comparison			
	<u>Policy</u>	<u>Look-Through</u>	<u>Difference</u>
Investment Grade Fixed Income	3.0%	2.4%	-0.6%
Credit-Related Fixed Income	5.4%	6.4%	1.0%
Real Estate	0.6%	0.5%	0.0%
Natural Resources	0.0%	0.7%	0.6%
Developed Country Equity	19.9%	18.8%	-1.1%
Emerging Markets Equity	<u>2.5%</u>	<u>2.6%</u>	<u>0.2%</u>
Less Correlated & Constrained	31.4%	31.4%	0.0%



Derivatives



Endowment Insurance Hedges

Event	Hedge	Exposures as of December 31, 2012					Changes since August 31, 2012			
		Total Cost ⁽¹⁾	bps Cost/Year ⁽²⁾	Notional (\$mm)	MTM (\$mm)	P/L	Cost	bps Cost/Year ⁽²⁾	Notional (\$mm)	MTM (\$mm)
ACTIVE POSITIONS										
U.S. Inflation	CMS Options	\$ (52)	5.7	\$ 9,249	\$ 8	\$ (44)	\$ -	-	\$ -	\$ (5)
Emerging Markets Bubble										
	KOSPI Put Spread	\$ (27)	7.4	1,339	4	(23)	-	1.6	-	(11)
	Australian Put Spread	\$ (12)	3.7	349	1	(11)	13	(1.4)	(870)	(3)
	Total	(39)	11.1		5	(35)	13	0.2		(13)
Sovereign Default										
	JPY Rate Options and Swaptions	\$ (50)	7.9	\$ 7,005	15	(35)	(3)	(2.7)	1,485	10
SUBTOTAL ACTIVE POSITIONS		(142)	24.7		28	(113)	9	(2.5)	615	(8)
EXPIRED POSITIONS										
	ASX Put Spreads	\$ (13)	0.5	\$ 870		(13)	(13)	0.5	870	
SUBTOTAL EXPIRED POSITIONS		(13)	0.5			(13)	(13)	0.5	870	
TOTAL		\$ (154)	25.2		\$ 28	\$ (126)	\$ (3)	(2.0)		\$ (8)

(1) Maximum Loss for Options

(2) Amount of delegated insurance budget used for fiscal year ending August, 2013.



Non-Insurance Related Internal Derivatives

December 31, 2012

Manager	Derivative Strategy	Net Notional Value (\$ millions)	Activity from previous report (8/31/2012) (\$ millions)
<u>Real Estate</u>			
RUGL Sw ap	Short Sw ap on RUGL Index to reduce exposure to global real estate	(270)	(5)
<u>Developed Country Equity</u>			
S&P 500 Sw ap	Short Sw ap on S&P 500 Index to reduce exposure to equity markets	-	127
Japan Forw ards	Sale of Japanese Yen forw ards to hedge the currency exposure in the MCC accounts	(92)	10
MSCI Europe Sw ap	Short Sw ap on MSCI Europe Index to reduce exposure to equity markets	(71)	32
MSCI Japan Sw ap	Short Sw ap on MSCI Japan Index to reduce exposure to equity markets	-	57
<u>Emerging Markets Equity</u>			
Emerging Markets FX Overlay	Currency forw ards to align the Asset Class FX exposure closer to the benchmark	183	5
Korean Sw ap	Long sw ap on MSCI Korea index to increase exposure to Korea	34	8
Taiw an synthetic futures	Long TAIEX synthetic futures to increase exposure to Taiw an	25	7



External Manager Agency Account Derivatives

December 31, 2012

<u>Manager</u>	<u>Derivative Strategy</u>	<u>Net Notional Value (\$ millions)</u>
<u>Investment Grade Fixed Income</u>		
Brandywine	Currency forwards used to hedge foreign currency exposure	(188)
Old Mutual	Short futures to reduce duration at the front end of the yield curve	(25)
Credit Suisse Hedging Griffo	Futures contracts used to hedge the portfolio back to the US dollar	322
PIMCO Global Bonds	Currency forwards used to underwrite the US dollar	17
	Long US and Non-US futures used to overwrite duration in Eurozone	14
	Long futures used to overwrite front end of US and UK yield curves	147
	Receive Interest rate swaps used to overwrite duration in the Eurozone and underwrite intermediate portion of the Japanese yield curve	32
	Pay Interest rate swaps used to overwrite duration in the Eurozone and underwrite intermediate portion of the Japanese yield curve	(60)
	Interest rate swaps used to overwrite front end of US and UK yield curves	-
	Short/Written credit default swaps used to overwrite credit risk	25
	Long/Purchased credit default swaps used to underwrite credit risk	(33)
	Written options used to increase portfolio yield	(119)
Purchased options used to increase portfolio yield	6	
<u>Natural Resources</u>		
Gresham	Long Exchange-traded commodity futures	438
Wellington Commodities SPV	Exchange-traded commodity futures, options and/or swaps	103
<u>Developed Equity</u>		
International Value Advisors	Currency forward contracts for hedging purposes or to provide efficient investment exposure.	(16)
<u>Non-US Emerging Equity</u>		
Squadra	Exchange-traded options and futures to provide higher return on cash holdings	5



OTC Derivative Counterparty Report

December 31, 2012

\$ millions (net of posted collateral)

Counterparty	S & P Counterparty Rating	Mark-to- Market Owed by Broker	Mark-to- Market Owed by UTIMCO	Total Mark- to-Market	Percentage of Total Funds
CITIBANK NY	A-	\$ 3.8	\$ 0.5	\$ 4.3	0.02%
BNP PARIBAS	A+	2.6	(2.9)	(0.3)	0.00%
J P MORGAN, CHASE	A+	2.5	(3.7)	(1.2)	0.00%
HSBC BK USA, NEW YORK	A+	1.1	(0.1)	1.0	0.00%
GOLDMAN SACHS	A-	1.0	0.2	1.2	0.00%
BANK OF AMERICA	A-	0.6	(0.7)	(0.1)	0.00%
BARCLAYS	A+	0.5	(0.3)	0.2	0.00%
MORGAN STANLEY	A-	0.5	0.1	0.6	0.00%
MELLON BANK	A+	0.2	(0.1)	0.1	0.00%
ROYAL BANK OF SCOTLAND PLC	A-	0.2	(0.1)	0.1	0.00%
CHASE MANHATTAN	A	0.1	(0.4)	(0.3)	0.00%
CS FIRST BOSTON GBL FOREIGN EXCH	A	0.1	(0.5)	(0.4)	0.00%
ROYAL BANK OF CANADA	AA-	0.1	-	0.1	0.00%
UBS A G, ZURICH	A	0.1	-	0.1	0.00%
UBS A G, STAMFORD	A	0.1	(1.6)	(1.5)	-0.01%
DEUTSCHE BANK AG	A+	0.1	(1.0)	(0.9)	0.00%
CREDIT SUISSE FIRST	A	-	-	-	0.00%
Grand Total		\$ 13.6	\$ (10.6)	\$ 3.0	0.01%

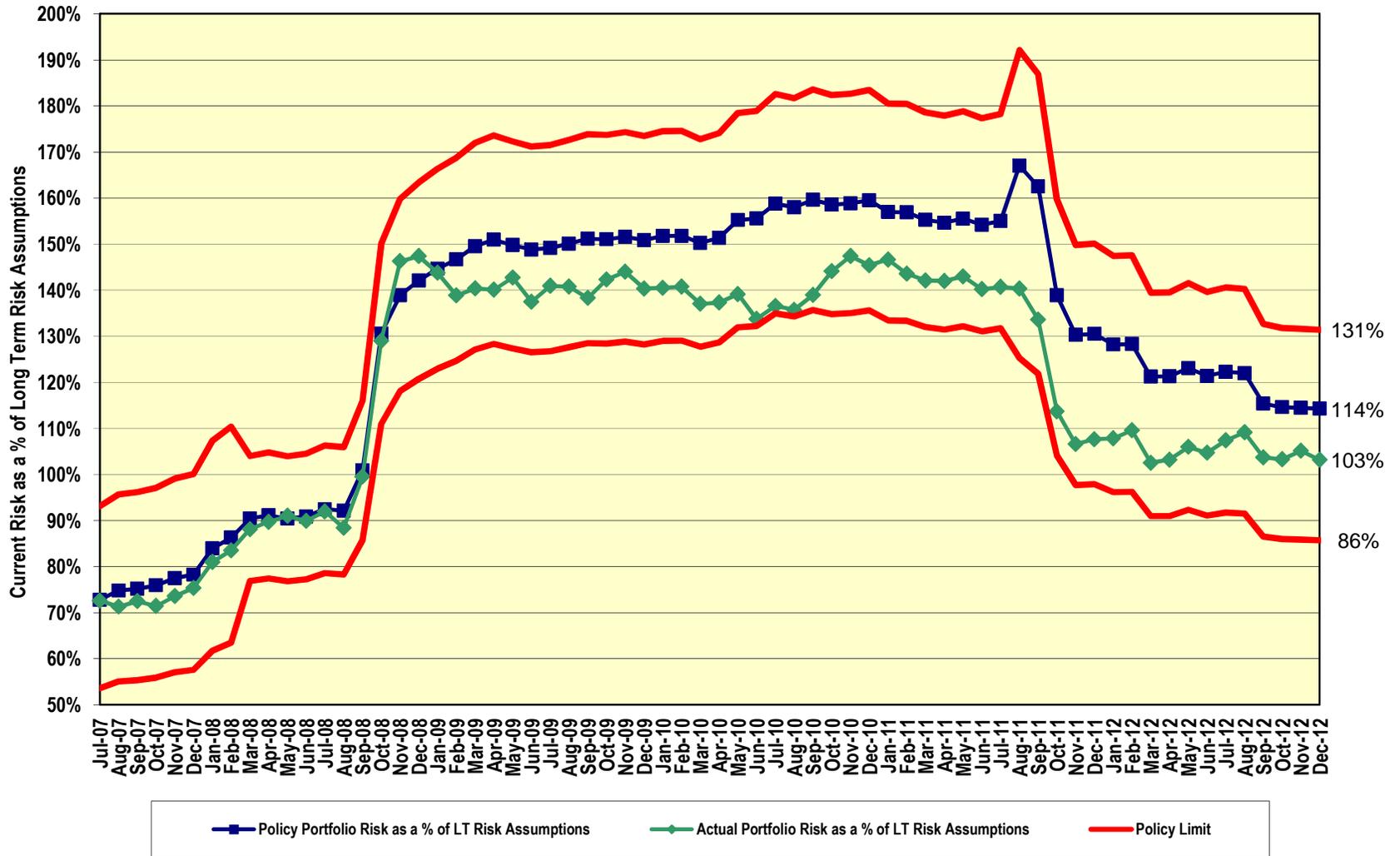


Risk Analytics



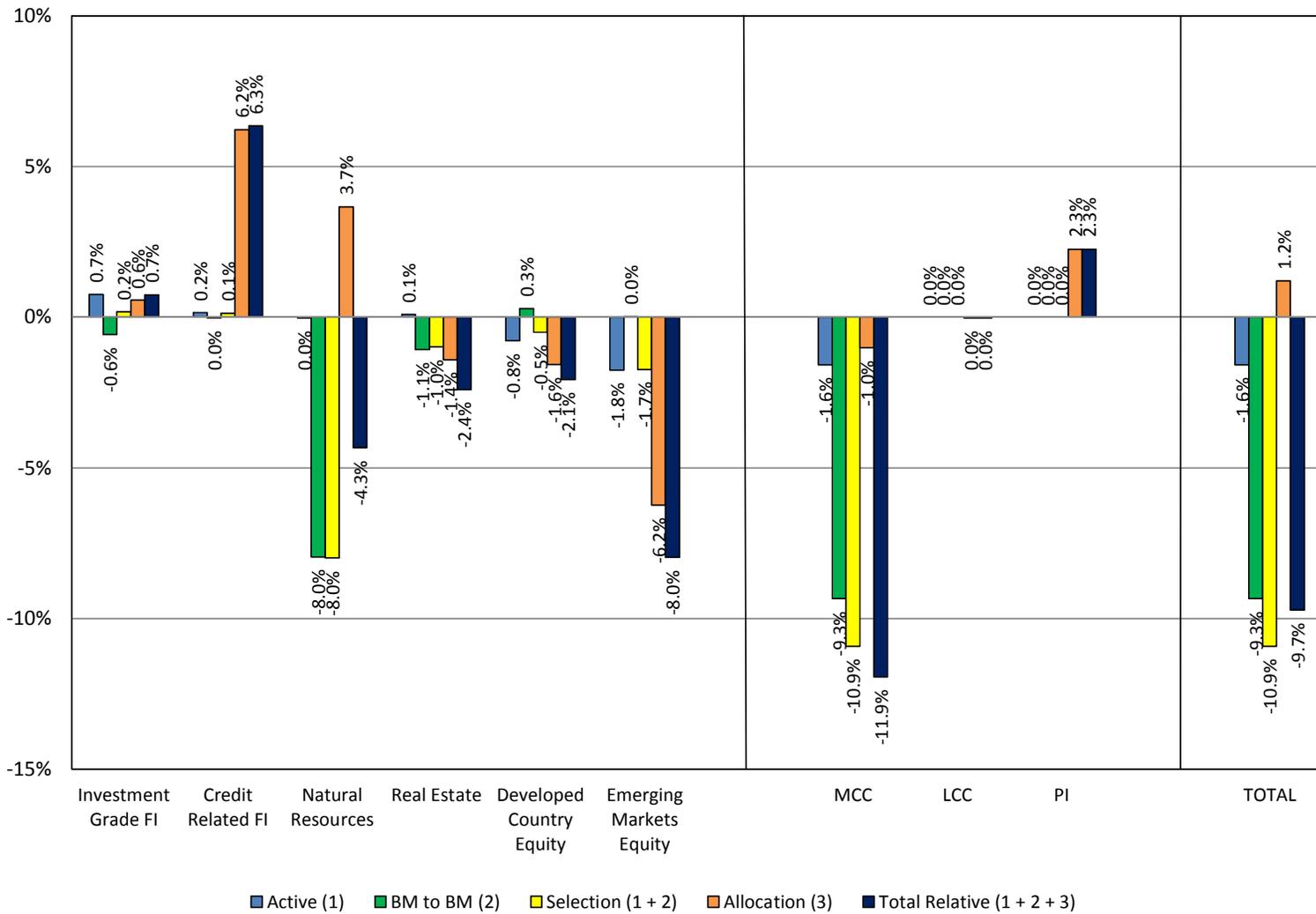
Current Risk Environment of GEF

(Based on Downside Risk; LT assumption = 9.45%)





GEF 4-Way Risk Decomposition as of 12/31/2012





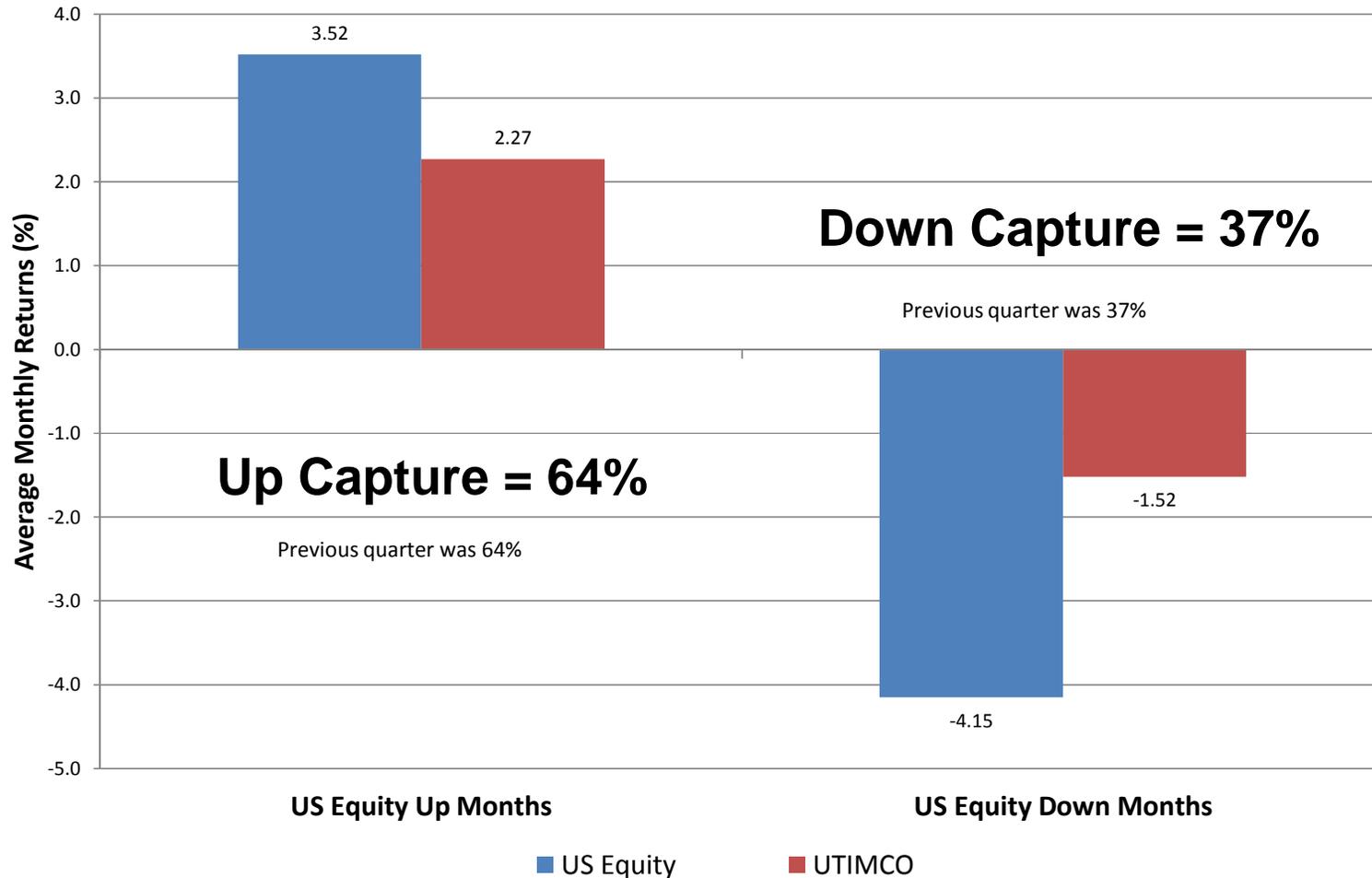
Portfolio Sharpe and Information Ratios

Period Ending December 31, 2012

	Four Months	One Year	Three Years	Five Years	Ten Years
Actual Returns	3.82	11.33	8.53	2.39	8.74
Risk-free Returns	0.05	0.11	0.11	0.52	1.78
Actual Volatility	1.41	4.51	6.85	10.42	8.47
Portfolio Sharpe Ratio	2.68	2.49	1.23	0.18	0.82
Policy Returns	3.39	9.19	6.66	0.17	6.43
Policy Volatility	2.18	6.60	8.68	11.61	8.95
Tracking Error	0.94	2.45	2.71	2.85	2.45
Portfolio Information Ratio	0.46	0.87	0.69	0.78	0.94



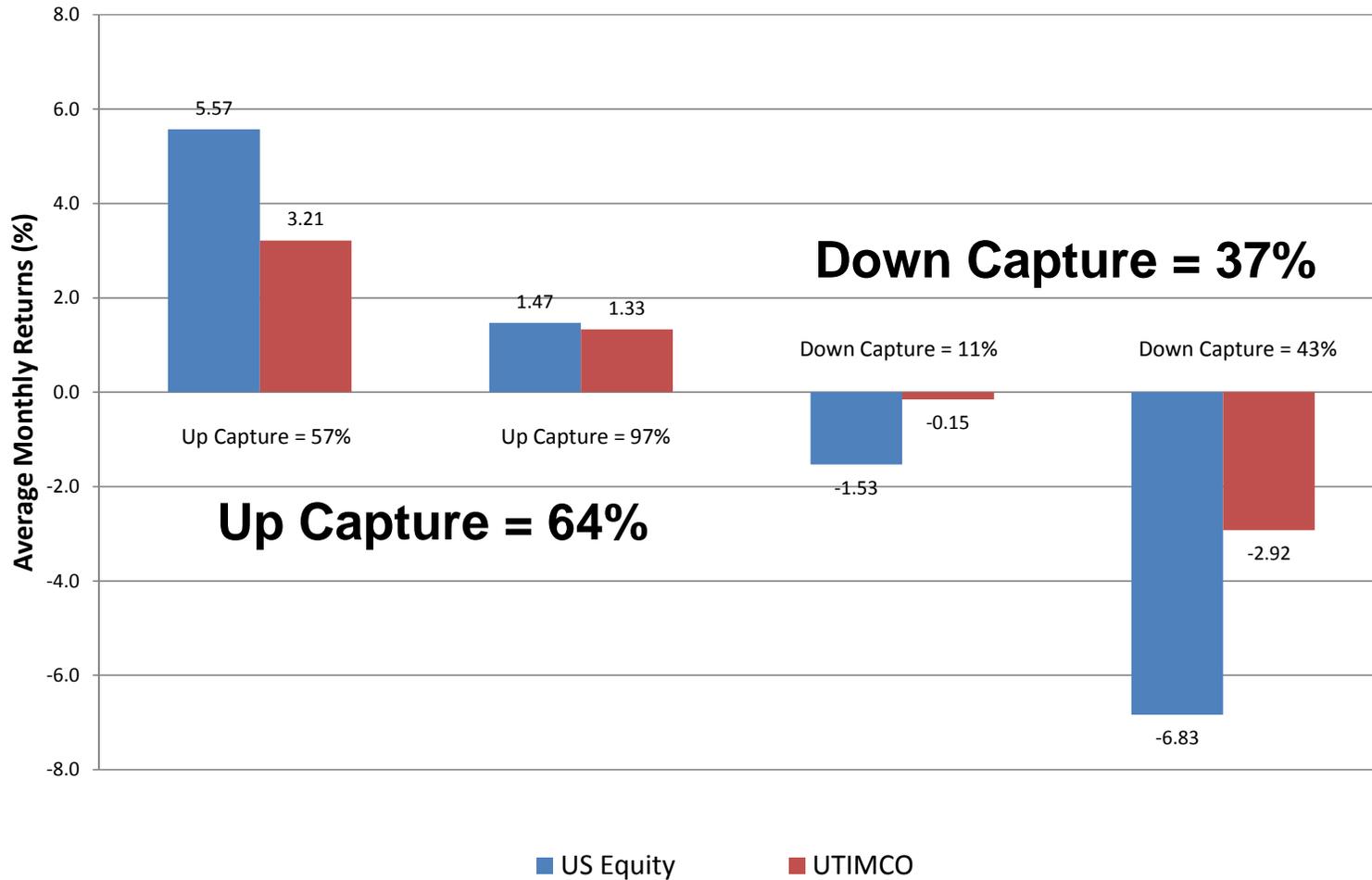
UTIMCO's Up/Down Capture



Data from 8/1996 till 12/2012. US equity had 81 down months and 116 up months



UTIMCO's Up/Down Capture



Data from 8/1996 till 12/2012. US equity had 81 down months and 116 up months



GEF Marginal Risk Contribution

	MCC	LCC	PI	TOTAL
Investment Grade Fixed Income	0.13	-0.01		0.10
Credit-Related Fixed Income	1.34	0.40	0.58	0.50
Natural Resources	0.84	-0.50	2.55	1.31
Real Estate	0.89	0.13	2.59	1.58
Developed Country Equity	1.28	0.52	1.86	1.10
Emerging Markets Equity	1.11	0.18	3.00	1.32
TOTAL	0.86	0.41	1.89	1.00



Derivative Risk Contribution - GEF

Scaled to Risk of Policy Portfolio

Risk	MCC	LCC	PI	TOTAL
Investment Grade Fixed Income	1.2%	0.0%		1.2%
Credit-Related Fixed Income	0.2%	1.9%	2.9%	5.0%
Natural Resources	8.2%	0.0%	9.5%	17.7%
Real Estate	2.3%	0.1%	6.3%	8.7%
Developed Country Equity	13.6%	8.7%	19.2%	41.5%
Emerging Markets Equity	8.8%	0.4%	7.1%	16.2%
TOTAL	34.2%	11.0%	45.0%	90.3%

Risk Contribution of Derivatives

Risk	MCC	LCC	PI	TOTAL
Investment Grade Fixed Income	-0.9%			-0.9%
Credit-Related Fixed Income				0.0%
Natural Resources	1.1%			1.1%
Real Estate	-1.2%			-1.2%
Developed Country Equity	-0.5%			-0.5%
Emerging Markets Equity	-0.1%			-0.1%
TOTAL	-1.6%	0.0%	0.0%	-1.6%

Risk Contribution Excluding Derivatives

Risk	MCC	LCC	PI	TOTAL
Investment Grade Fixed Income	2.1%	0.0%		2.1%
Credit-Related Fixed Income	0.2%	1.9%	2.9%	5.0%
Natural Resources	7.1%	0.0%	9.5%	16.6%
Real Estate	3.4%	0.1%	6.3%	9.8%
Developed Country Equity	14.2%	8.7%	19.2%	42.1%
Emerging Markets Equity	8.8%	0.4%	7.1%	16.3%
TOTAL	35.8%	11.0%	45.0%	91.9%



Correlations

Measured from March 2008 through December 2012

	Total IGFI	Total Credit	Total RE	Total NatRes	Total DC	Total EM	MCC	LCC	PI	GEF
Total IGFI	1.00	0.44	0.62	0.67	0.66	0.69	0.76	0.64	0.30	0.75
Total Credit		1.00	0.59	0.60	0.65	0.58	0.60	0.67	0.71	0.71
Total RE			1.00	0.62	0.80	0.84	0.90	0.57	0.41	0.86
Total NatRes				1.00	0.78	0.80	0.85	0.80	0.37	0.87
Total DC					1.00	0.86	0.91	0.88	0.47	0.96
Total EM						1.00	0.96	0.81	0.21	0.94
MCC							1.00	0.80	0.31	0.98
LCC								1.00	0.29	0.88
PI									1.00	0.45
GEF										1.00

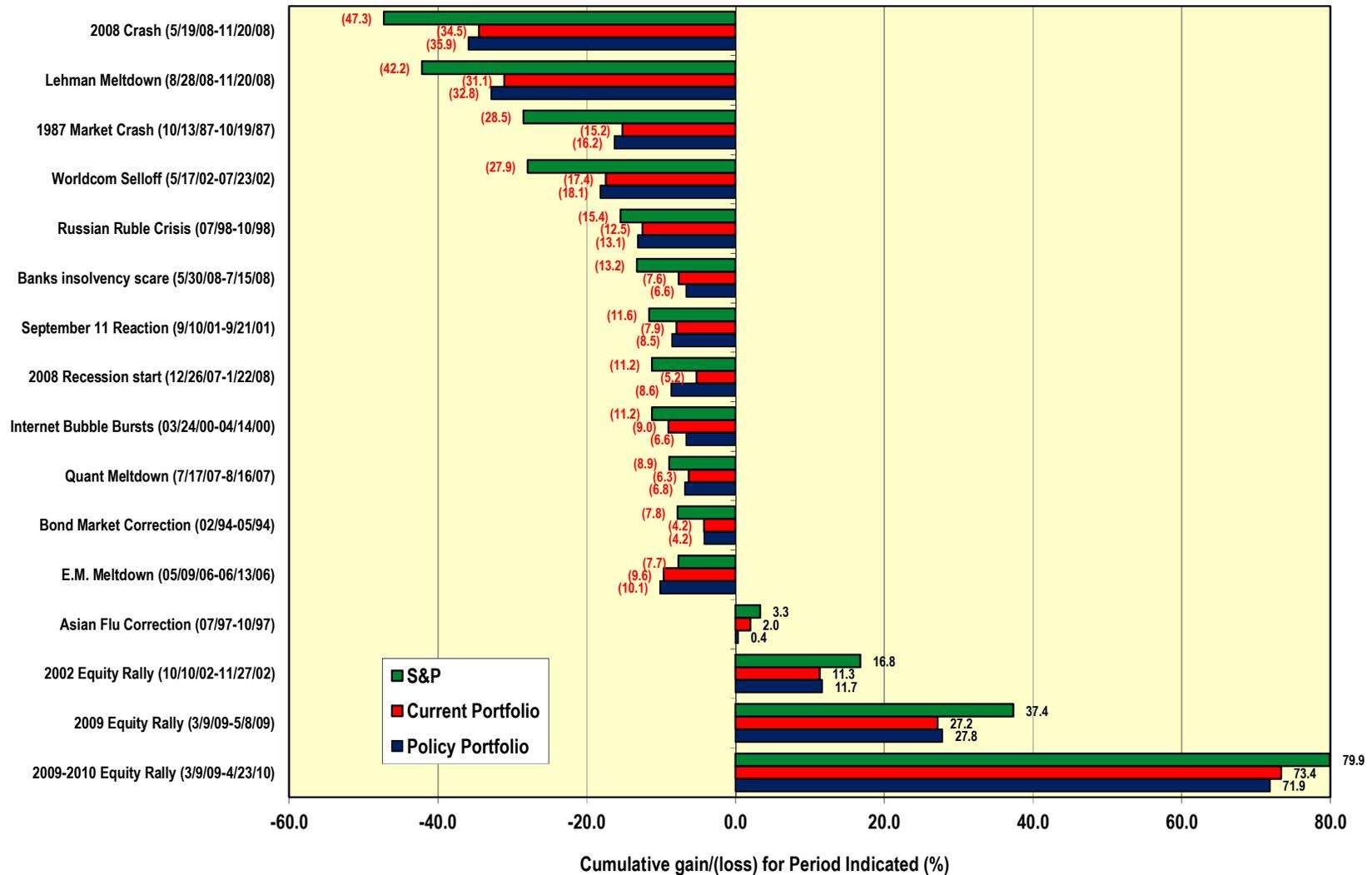


Parametric Stress Tests

<u>Test</u>	<u>Effect on Endowment</u>
• S&P-500 drops 20%	(11.81%)
• Rates rise 100bp	(0.26%)
• Dollar strengthens 5%	0.01%
• Dollar weakens 5%	0.03%
• Yield curve flattens – Bull case	0.25%
• Yield curve flattens – Bear case	(0.12%)
• Yield curve steepens – Bull case	0.12%
• Yield curve steepens – Bear case	(0.13%)

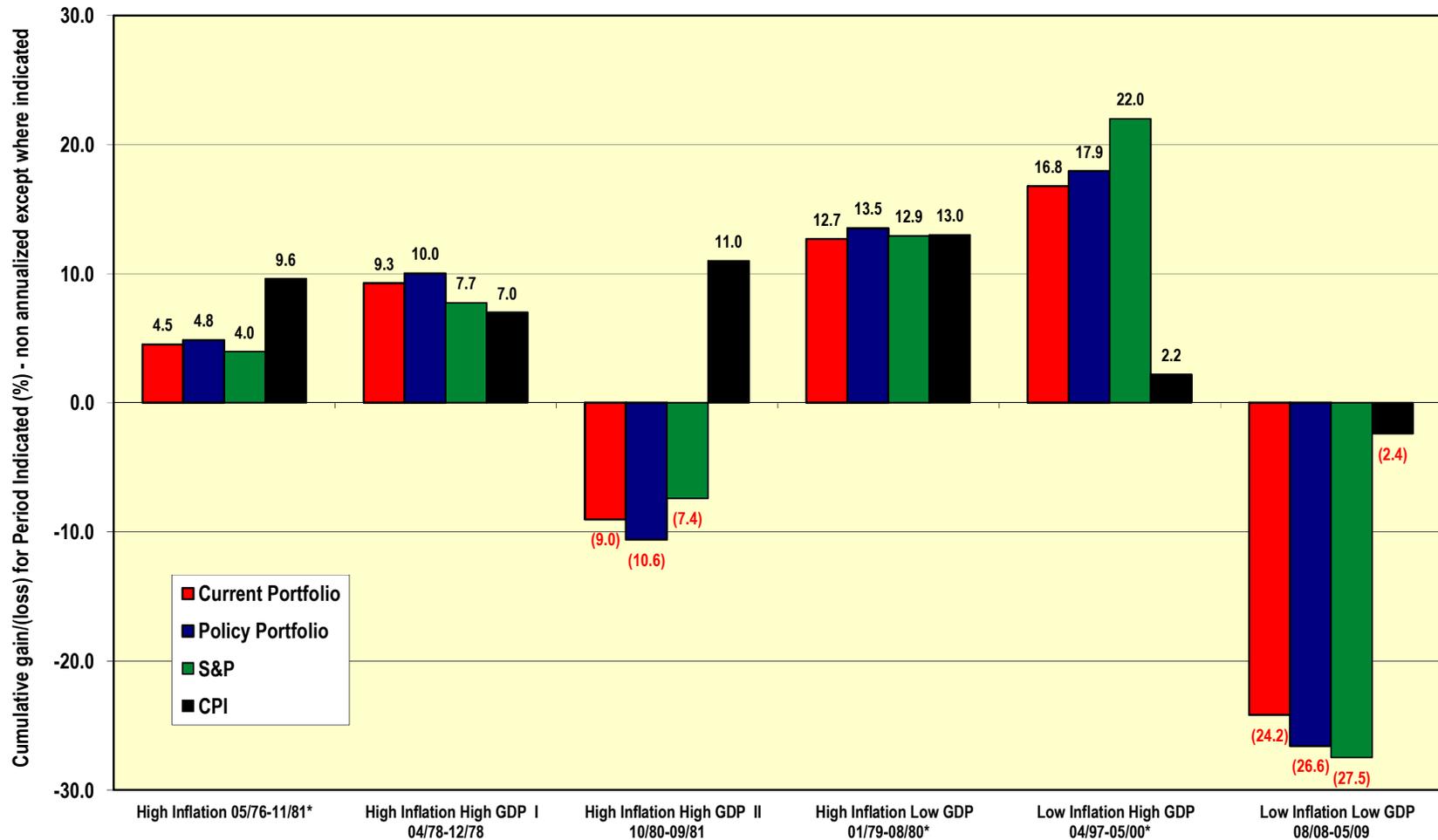


Hypothetical Performance of Current GEF Portfolio in Selected Market Stress Environments





Hypothetical Performance of Current GEF Portfolio in Selected Economic Stress Environments



* Annualized



Scenario Analysis

As of December 31, 2012

	Policy	Scenario							
		Full Recovery	Global Stagflation	Eurozone Default	Big Eurozone Default	Japan Crisis	USD Crisis	EM Bubble "Pop"	Deflation
Expected Policy Returns (nominal)	7.36%	18%	(7.4%)	(5.5%)	(20%)	(19%)	(20%)	(22%)	(26%)
Gain from tactical positions	(0.30%)	(2.7%)	2.2%	1.6%	4.6%	3.7%	4.8%	3.5%	2.5%
Gain from current hedges	(0.50%)	0.0%	0.2%	0.0%	0.9% - 1.5%	0.4% - 2.3%	0.6%	0.7%	1.1%
Gain from manager's alpha	1.00%	0.8%	1.5%	2.3%	2.0%	2.0%	2.0%	2.0%	2.0%
Estimated Endowment Returns	7.56%	16.1%	(3.5%)	(1.6%)	(13%) – (12%)	(13%) – (11%)	(12.4%)	(15.8%)	(20.3%)



Leverage



Portfolio Level Leverage as of December 31, 2012

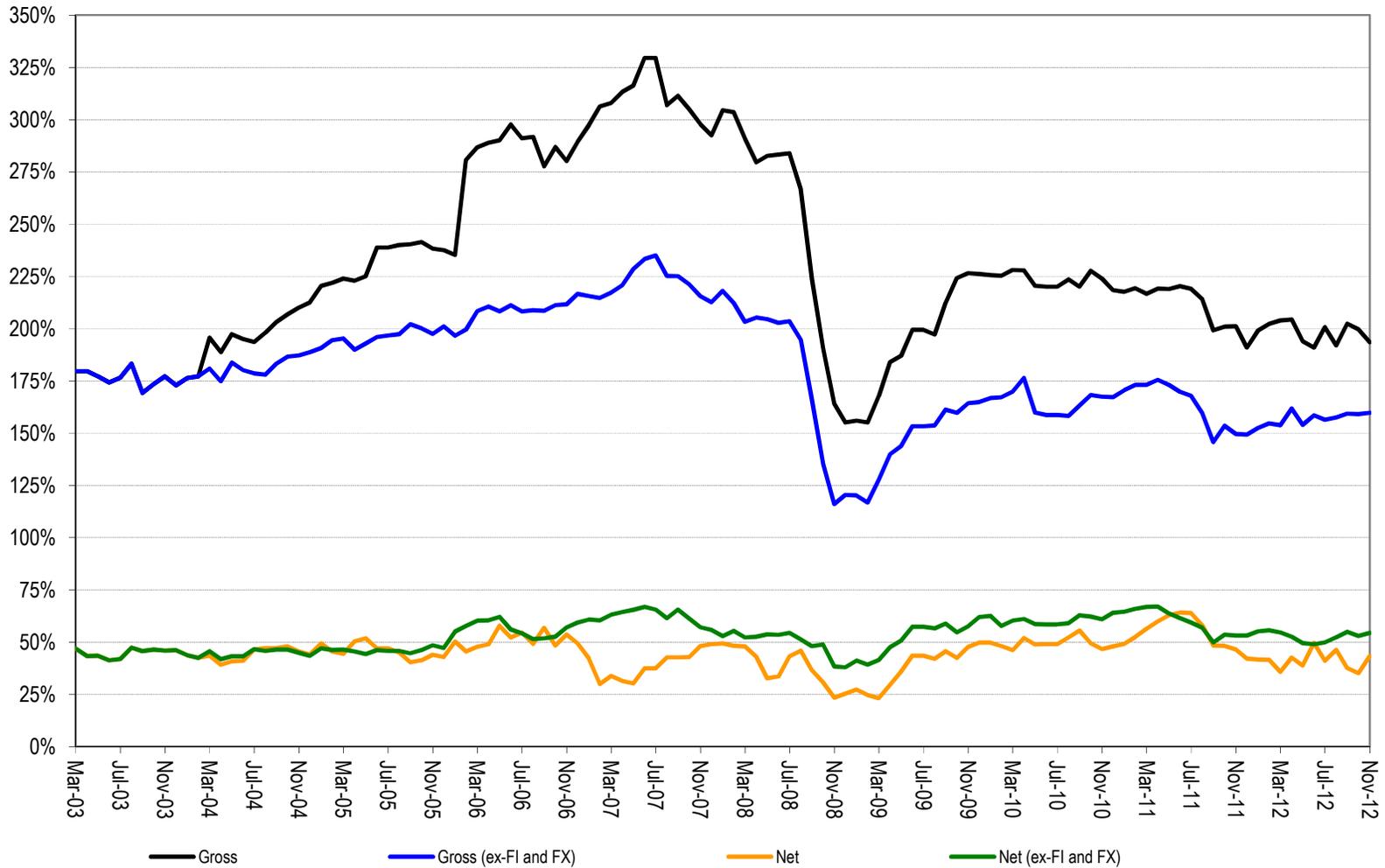
- Investment Grade Fixed Income had a long exposure of 1.13x, no net leverage
- All other asst classes and investment types had no net leverage at the portfolio level
 - Portfolio-level hedges are counted as gross leverage in several asset classes
- Overall the portfolio had a gross leverage of 1.04x, net of 0.99x



LCC Leverage

Estimated as of November 30, 2012

Total Portfolio Exposures



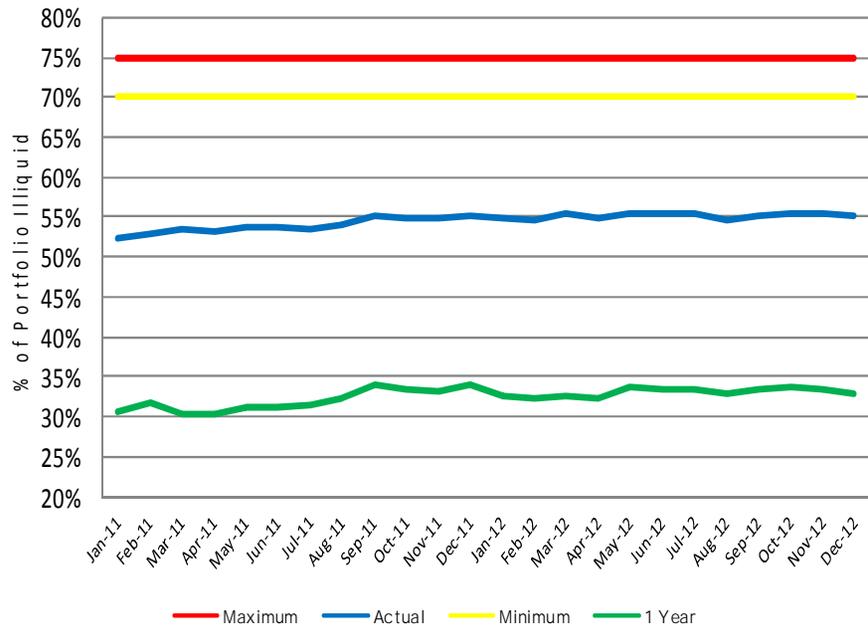


Liquidity



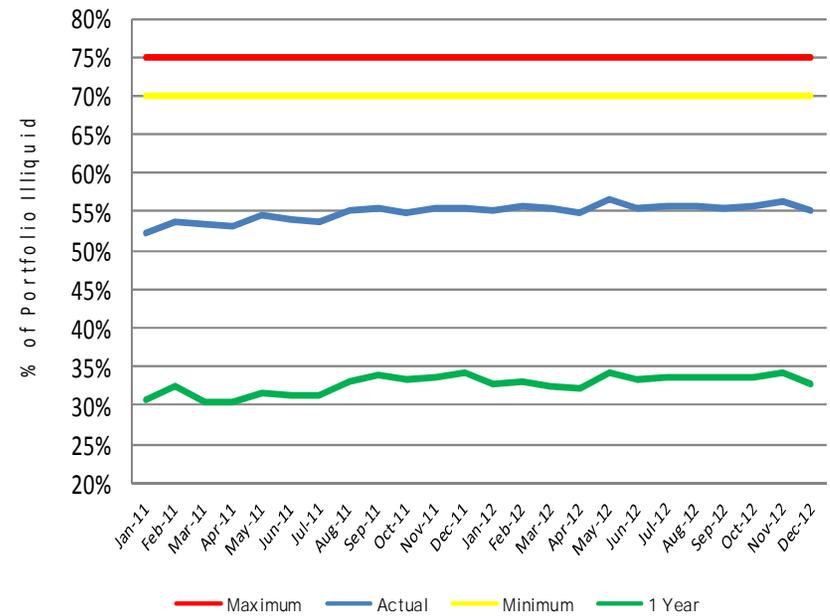
Endowment Fund Liquidity

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



Three Month Liquidity \$ 6,234 million One Year Liquidity \$ 9,313 million

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



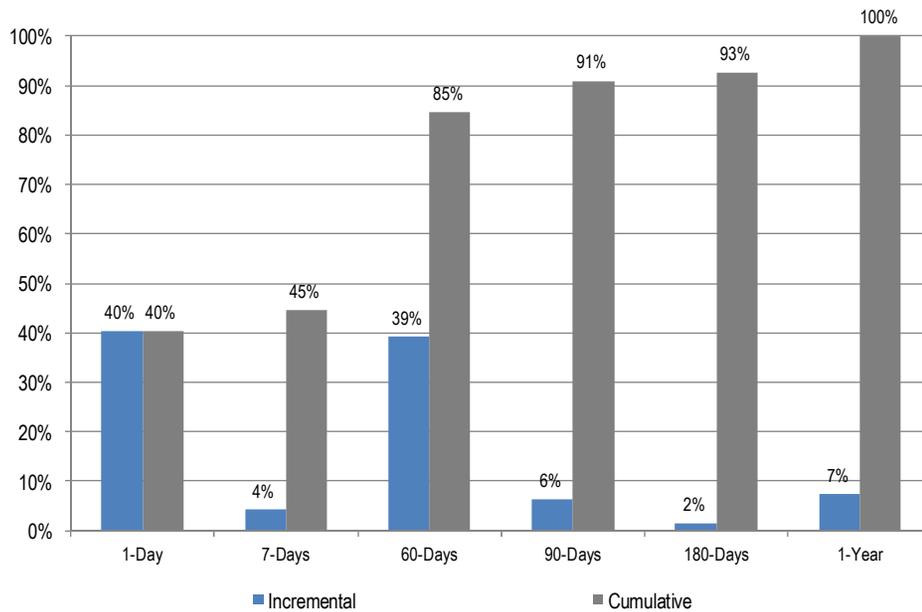
Three Month Liquidity \$ 3,301 million One Year Liquidity \$ 4,935 million



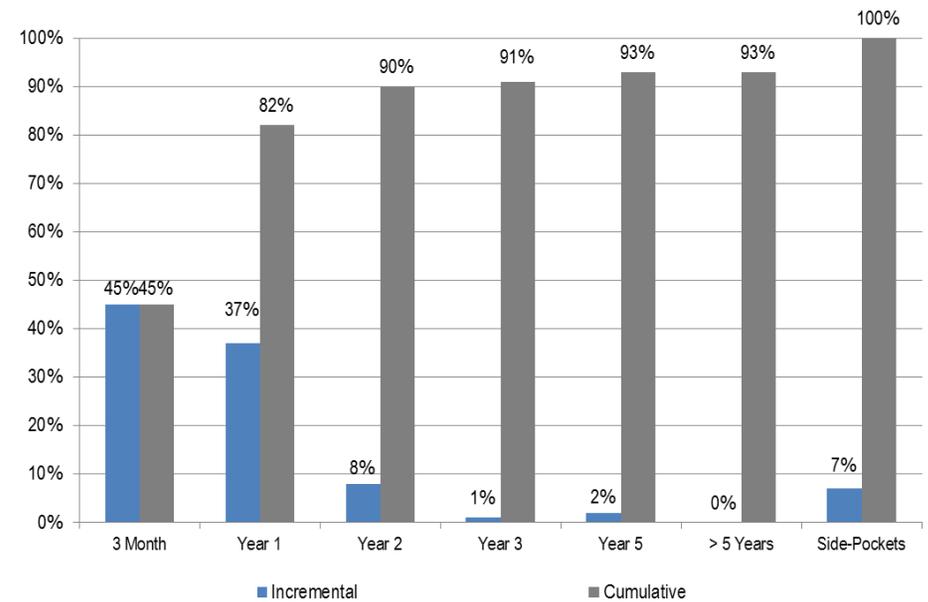
Estimated Run-Off Liquidity*

As of December 31, 2012

MCC



LCC



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



Unfunded Commitments As of December 31, 2012

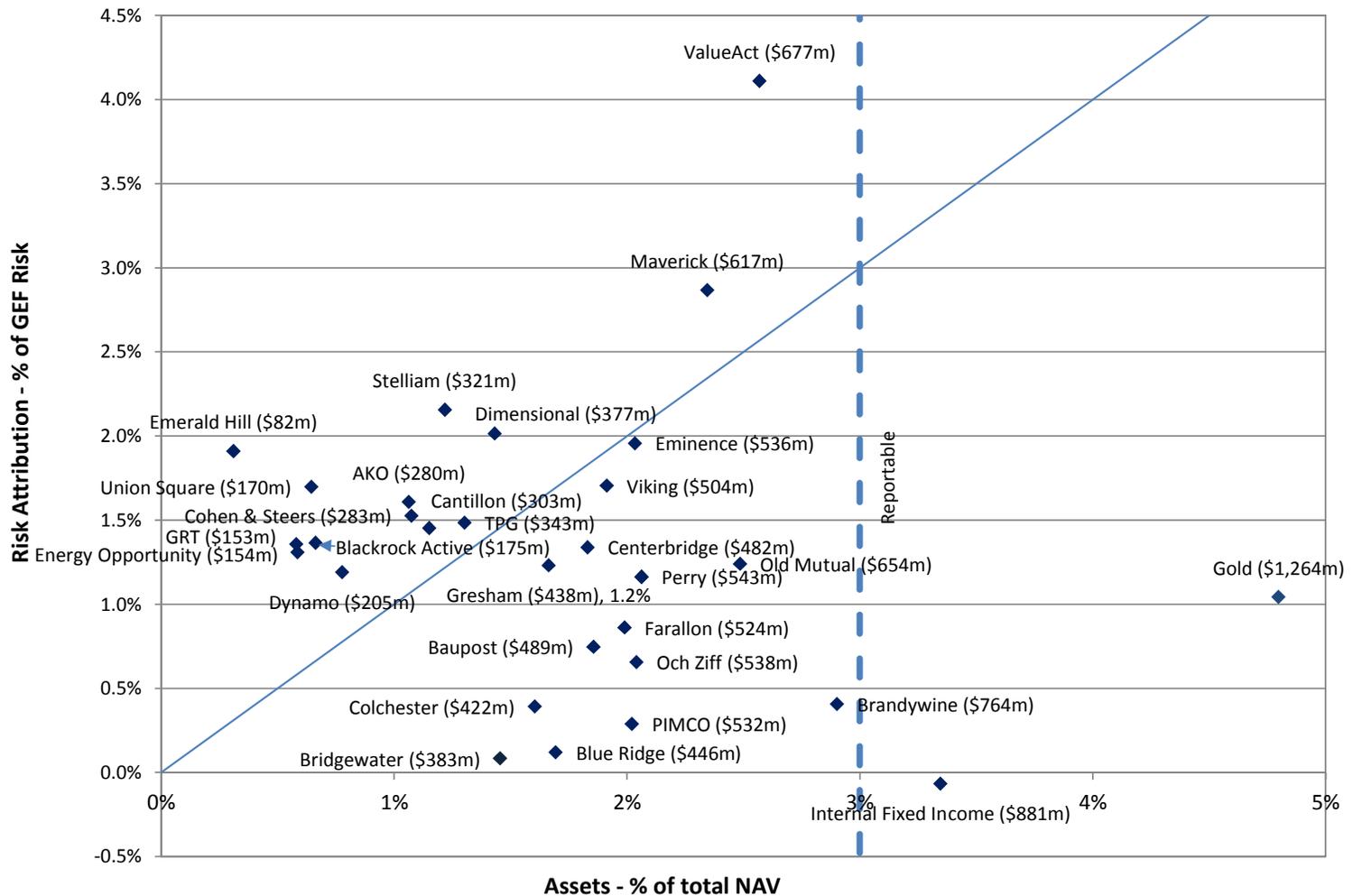
Asset Class	Unfunded Commitment	Unfunded Commitment as % of Total Endowments
<u>PRIVATE INVESTMENTS</u>		
TRADING	\$28	0.1%
CONTROL	127	0.6%
OPPORTUNISTIC	86	0.4%
CREDIT-RELATED FIXED INCOME	241	1.1%
REAL ESTATE	780	3.7%
NATURAL RESOURCES	978	4.6%
MEGA/LARGE BUYOUT	69	0.3%
MEDIUM/SMALL BUYOUT	371	1.8%
VENTURE CAPITAL	418	2.0%
GROWTH/OPPORTUNISTIC	212	1.0%
DEVELOPED MARKETS EQUITY	1,070	5.1%
EMERGING MARKETS EQUITY	577	2.7%
TOTAL PRIVATE INVESTMENTS	\$3,646	17.2%
<u>LESS CORRELATED AND CONSTRAINED</u>		
INVESTMENT GRADE FIXED INCOME	\$ -	0.0%
CREDIT-RELATED FIXED INCOME	52	0.2%
REAL ESTATE	-	0.0%
NATURAL RESOURCES	-	0.0%
DEVELOPED MARKETS EQUITY	19	0.1%
EMERGING MARKETS EQUITY	15	0.1%
TOTAL LESS CORRELATED AND CONSTRAINED	\$86	0.4%
GRAND TOTAL PI AND LCC	\$3,732	17.6%
TOTAL ENDOWMENTS HOLDINGS	\$21,196	
MAXIMUM AMOUNT OF UNFUNDED COMMITMENTS ALLOWED PER LIQUIDITY POLICY		30.0%



Manager Exposure



Largest Mandates: Risk and Dollar Allocations



Mandates with at least 1.43% of total assets, or at least 1.16% of Risk. Risk on this chart is measured using historical downside risk



Manager Exposures over 3% and 5% December 31, 2012

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

<u>Manager Name</u>	<u>Investment Amount</u>	<u>%age</u>
<u>More Correlated and Constrained</u>		
Internal Fixed Income	881,305,618	3.35%
<u>Less Correlated and Constrained</u>		
None		
<u>Private Investments</u>		
None		

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

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



Investment Activity

Investments, Commitments, Significant Redemptions



Report on Investment Transactions Made Under the Delegation of Authority

Four Months Ended December 2012

	Redemptions (\$ millions)				Investments / Commitments (\$ millions)				Illiquid
	MCC	LCC	Private	Total	MCC	LCC	Private	Total	
<u>Investment Grade Fixed Income</u>									
Brandywine	18	-	-	18	-	-	-	-	
Internal Fixed Income (Kampfe and Doak)	18	-	-	18	-	-	-	-	
Old Mutual	12	-	-	12	-	-	-	-	
PIMCO	12	-	-	12	-	-	-	-	
Absolute Return (Bain)	-	-	-	-	-	25	-	25	No
	<u>60</u>	<u>-</u>	<u>-</u>	<u>60</u>	<u>-</u>	<u>25</u>	<u>-</u>	<u>25</u>	
<u>Credit-Related Fixed Income</u>									
Farallon Asia II	-	10	-	10	-	-	-	-	
Farallon Asia	-	6	-	6	-	-	-	-	
OZ Credit Opportunity	-	-	-	-	-	26	-	26	Yes
	<u>-</u>	<u>16</u>	<u>-</u>	<u>16</u>	<u>-</u>	<u>26</u>	<u>-</u>	<u>26</u>	
<u>Real Estate</u>									
Meadow Real Estate Fund II LP	-	-	-	-	-	-	75	75	Yes
Grain Infrastructure Fund II, L.P.	-	-	-	-	-	-	60	60	Yes
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>135</u>	<u>135</u>	
<u>Natural Resources</u>									
BlackRock Small Cap	152	-	-	152	-	-	-	-	
GRT Capital	-	-	-	-	152	-	-	152	Yes
Physical Gold Bullion	-	-	-	-	132	-	-	132	No
Galena Private Equity Resources Fund, L.P.	-	-	-	-	-	-	100	100	Yes
Corex Resources Ltd	-	-	-	-	-	-	50	50	Yes
SCF Partners VIII, L.P.	-	-	-	-	-	-	46	46	Yes
Vautron Holdings Pty Ltd	-	-	-	-	-	-	30	30	Yes
SCF Partners VII, L.P.	-	-	-	-	-	-	8	8	Yes
	<u>152</u>	<u>-</u>	<u>-</u>	<u>152</u>	<u>284</u>	<u>-</u>	<u>234</u>	<u>518</u>	



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

Four Months Ended December 2012

	Redemptions (\$ millions)				Investments / Commitments (\$ millions)				Illiquid
	MCC	LCC	Private	Total	MCC	LCC	Private	Total	
<u>Developed Country Equity</u>									
OZ Europe Overseas Fund	-	26	-	26	-	-	-	-	
Slate Path	-	-	-	-	-	75	-	75	Yes
LNK Partners II (Co-Investment LSS), L.P.	-	-	-	-	-	-	50	50	Yes
Carrick Capital Partners, L.P.	-	-	-	-	-	-	50	50	Yes
Foundry Venture Capital 2012, L.P.	-	-	-	-	-	-	45	45	Yes
Falcon Edge	-	-	-	-	-	30	-	30	Yes
Gotham Diversified	-	-	-	-	-	15	-	15	No
	-	26	-	26	-	120	145	265	
<u>Emerging Markets Equity</u>									
Spinnaker	-	116	-	116	-	-	-	-	
Wellington Emerging	39	-	-	39	-	-	-	-	
Arohi	28	-	-	28	-	-	-	-	
Quorum	11	-	-	11	-	-	-	-	
HDFC	-	-	-	-	52	-	-	52	No
Altra Private Equity Fund II, L.P.	-	-	-	-	-	-	35	35	Yes
Myriad	-	-	-	-	-	25	-	25	Yes
Albizia	-	-	-	-	17	-	-	17	Yes
Dynamo	-	-	-	-	4	-	-	4	No
	78	116	-	194	73	25	35	133	
Subtotal	\$ 290	\$ 158	\$ -	\$ 448	\$ 357	\$ 196	\$ 549	\$ 1,102	
Other	-	19	-	19	-	-	-	-	
Grand Total	\$ 290	\$ 177	\$ -	\$ 467	\$ 357	\$ 196	\$ 549	\$ 1,102	



ITF



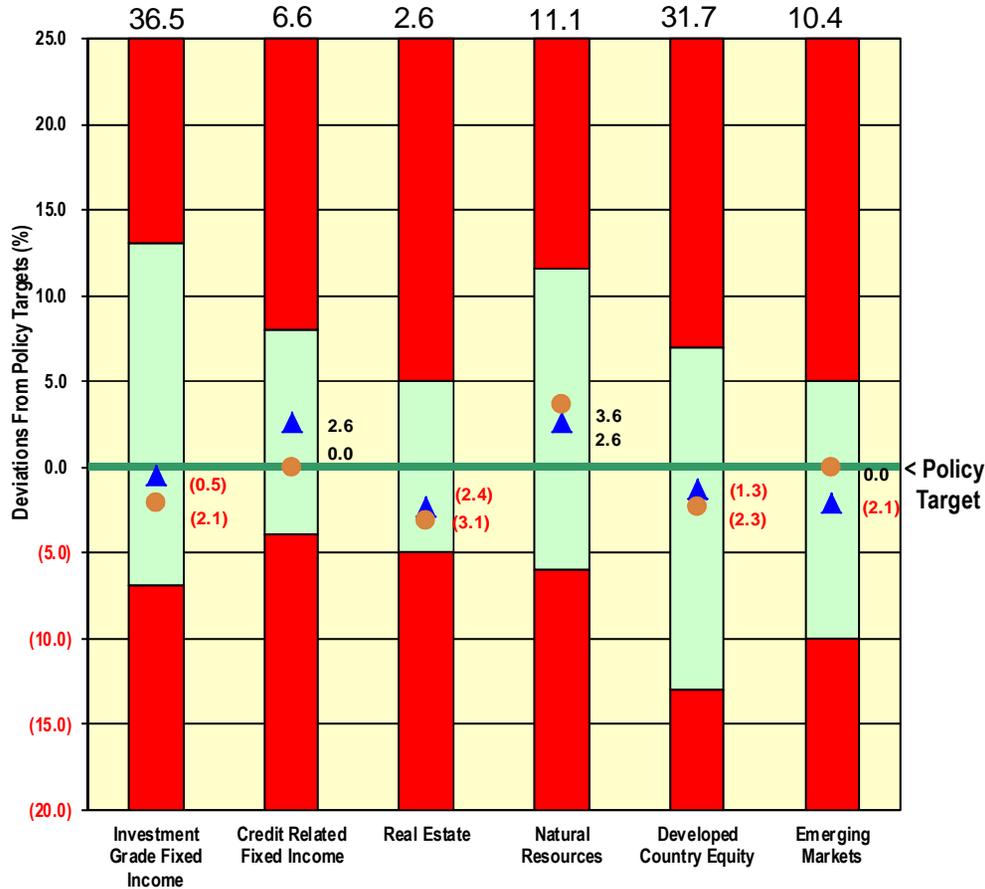
ITF Asset Allocation as of December 31, 2012 (in millions)

Asset Group	Asset Class	More Correlated and Constrained		Less Correlated and Constrained		Private Investments		Grand Total	
		\$	%	\$	%	\$	%	\$	%
Fixed Income	Investment Grade	1,688	32.9%	186	3.6%	-	0.0%	1,874	36.5%
	Credit-Related	-	0.0%	337	6.6%	-	0.0%	337	6.6%
Fixed Income Total		1,688	32.9%	523	10.2%	-	0.0%	2,211	43.1%
Real Assets	Real Estate	99	1.9%	35	0.7%	-	0.0%	134	2.6%
	Natural Resources	567	11.1%	2	0.0%	-	0.0%	569	11.1%
Real Assets Total		666	13.0%	37	0.7%	-	0.0%	703	13.7%
Equity	Developed Country	397	7.7%	1,233	24.0%	-	0.0%	1,630	31.7%
	Emerging Markets	387	7.5%	151	2.9%	-	0.0%	538	10.4%
Equity Total		784	15.2%	1,384	26.9%	-	0.0%	2,168	42.1%
Grand Total		\$ 3,138	61.1%	\$ 1,944	37.8%	\$-	0.0%	\$ 5,082	98.9%

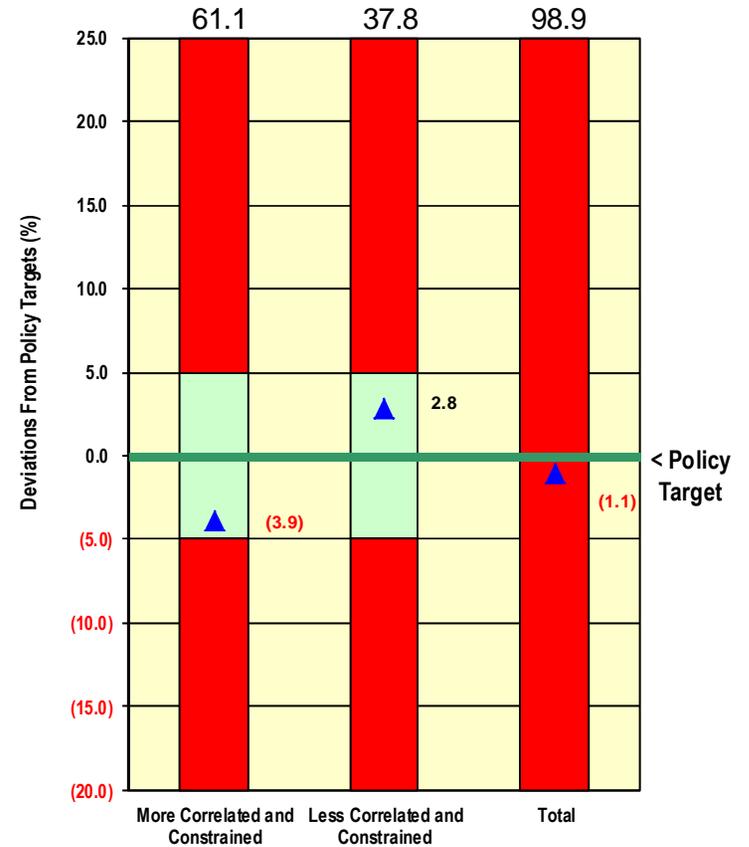


ITF Asset Allocation as of December 31, 2012

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



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



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



ITF Insurance Hedges

<u>Event</u>	<u>Hedge</u>	<u>Exposures as of December 31, 2012</u>					<u>Changes since August 31, 2012</u>			
		<u>Total Cost</u> ⁽¹⁾	<u>bps Cost/Year</u> ⁽²⁾	<u>Notional (\$mm)</u>	<u>MTM (\$mm)</u>	<u>P/L</u>	<u>Cost</u>	<u>bps Cost/Year</u> ⁽²⁾	<u>Notional (\$mm)</u>	<u>MTM (\$mm)</u>
ACTIVE POSITIONS										
U.S. Inflation										
	CMS Options	\$ (13)	5.8	\$ 2,251	\$ 2	\$ (11)	\$ -	-	\$ -	\$ (1)
Emerging Markets Bubble										
	KOSPI Put Spreads	(5)	5.7	261	\$ 1	(4)	-	1.7	-	(2)
	ASX Put Spreads	(2)	2.4	55	\$ 0	(2)	2	(0.9)	(130)	(0)
	Total	(7)	8.2		1	(6)	2	0.8		(2)
Sovereign Default										
	JPY Rate Options and Swaptions	(6)	3.8	810	\$ 2	(4)	(0)	(1.3)	165	1
SUBTOTAL ACTIVE POSITIONS		\$ (25)	17.8		5	(21)	2	(0.5)		(2)
EXPIRED POSITIONS										
	ASX Put Spreads	(2)	0.3	361		(2)	(2)	0.3	361	-
SUBTOTAL EXPIRED POSITIONS		\$ (2)	0.3			(2)	(2)	0.3		-
TOTAL		\$ (27)	18.1			\$ (23)	\$ (0)	(0.1)		\$ (2)

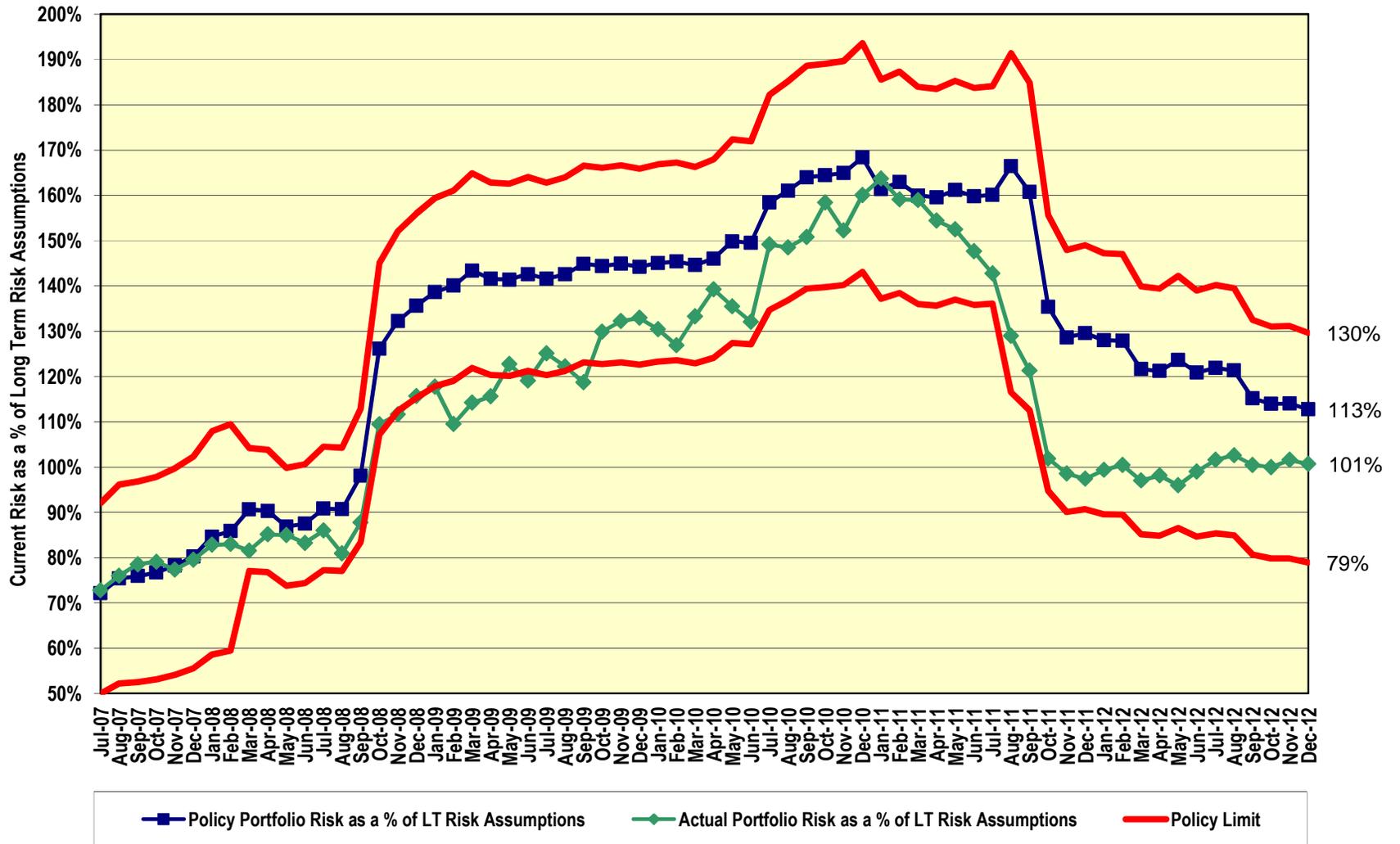
(1) Maximum Loss for Options (\$mm)

(2) Amount of delegated insurance budget used for fiscal year ending August, 2013.



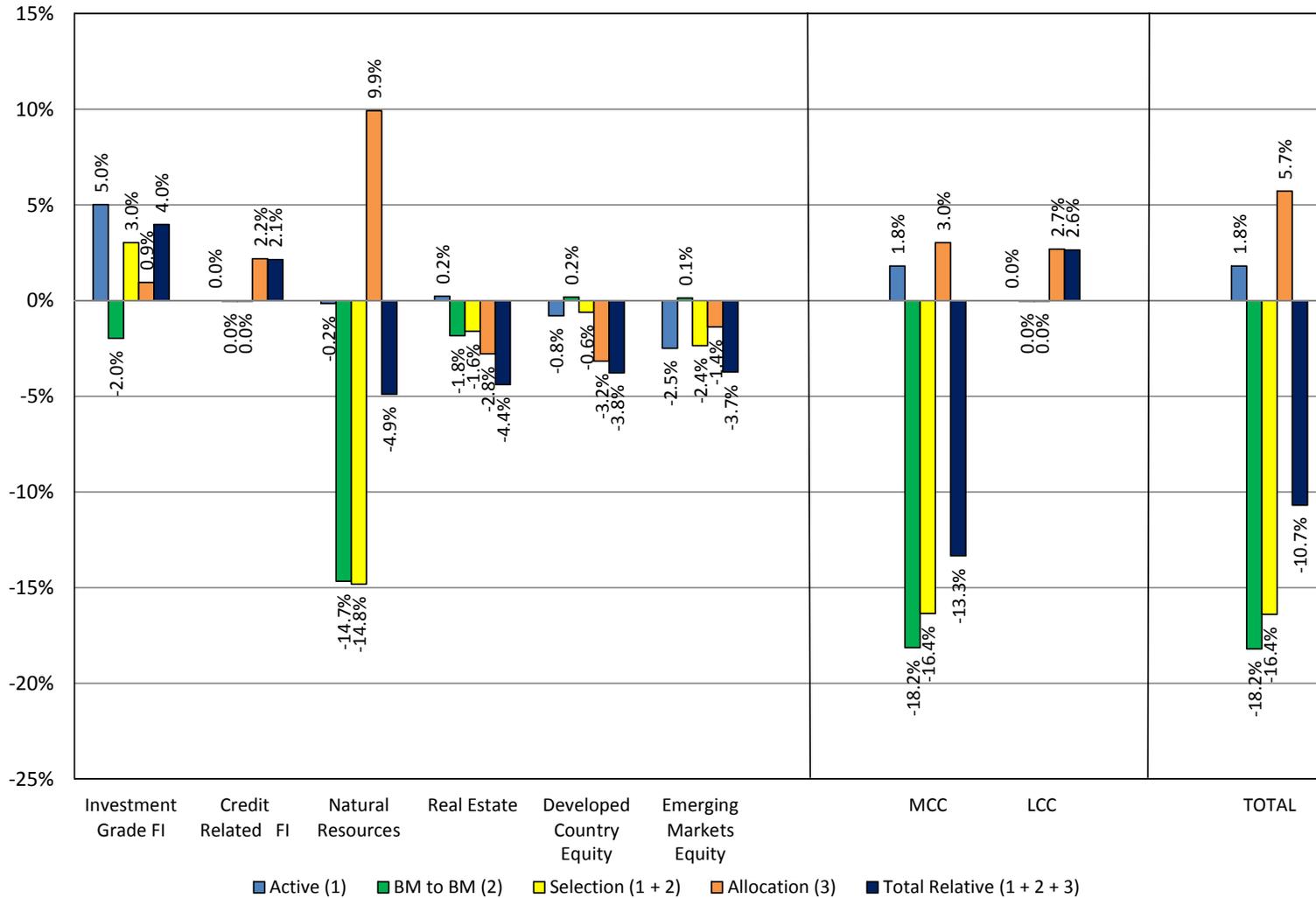
Current Risk Environment of ITF

(Based on Downside Risk; LT assumption = 5.59%)





ITF 4-Way Risk Decomposition as of December 31, 2012



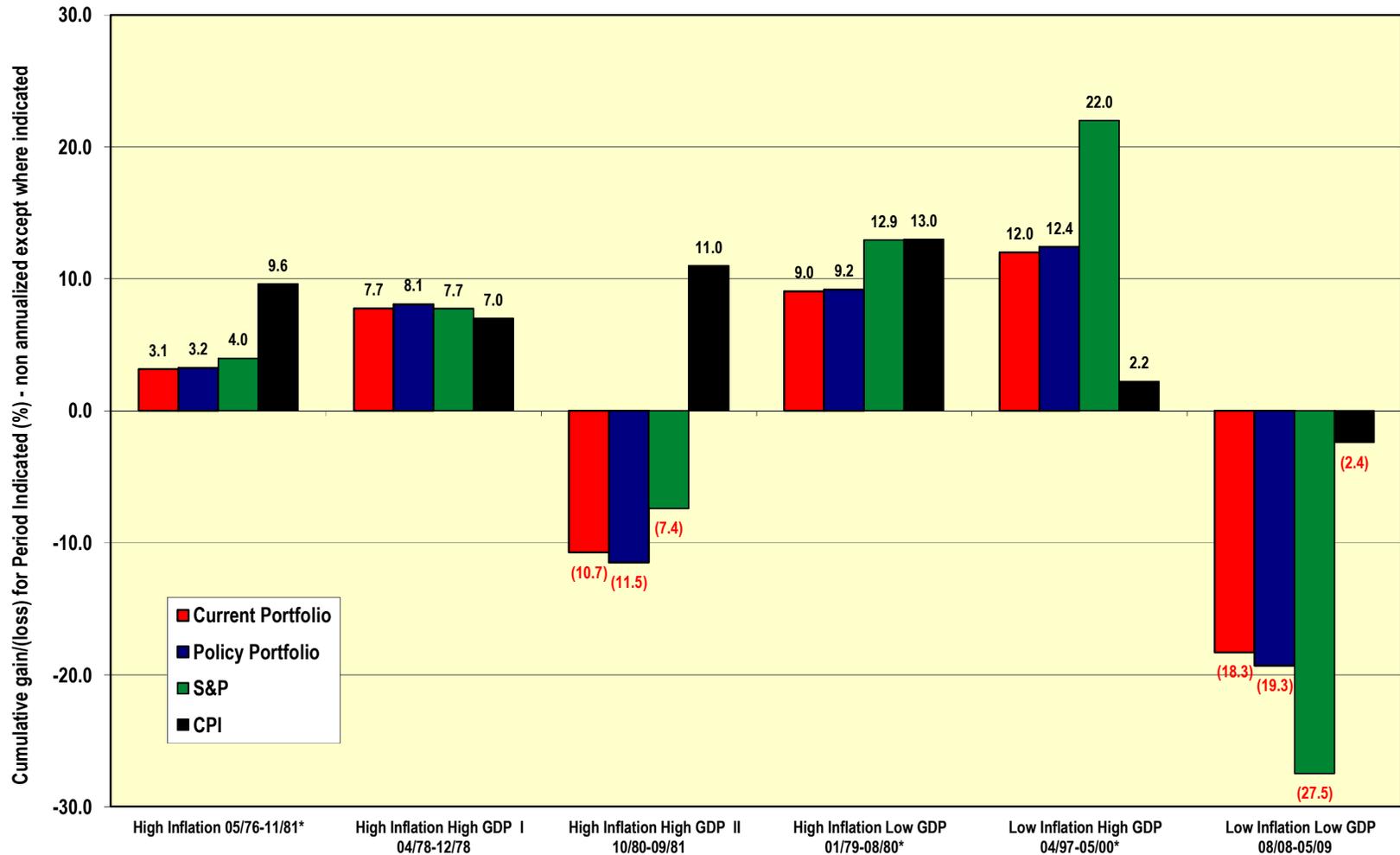


Parametric Stress Tests

<u>Test</u>	<u>Effect on ITF</u>
• S&P-500 drops 20%	(4.27%)
• Rates rise 100bp	(1.33%)
• Dollar strengthens 5%	(0.10%)
• Dollar weakens 5%	0.12%
• Yield curve flattens – Bull case	1.14%
• Yield curve flattens – Bear case	(0.39%)
• Yield curve steepens – Bull case	0.40%
• Yield curve steepens – Bear case	(0.92%)



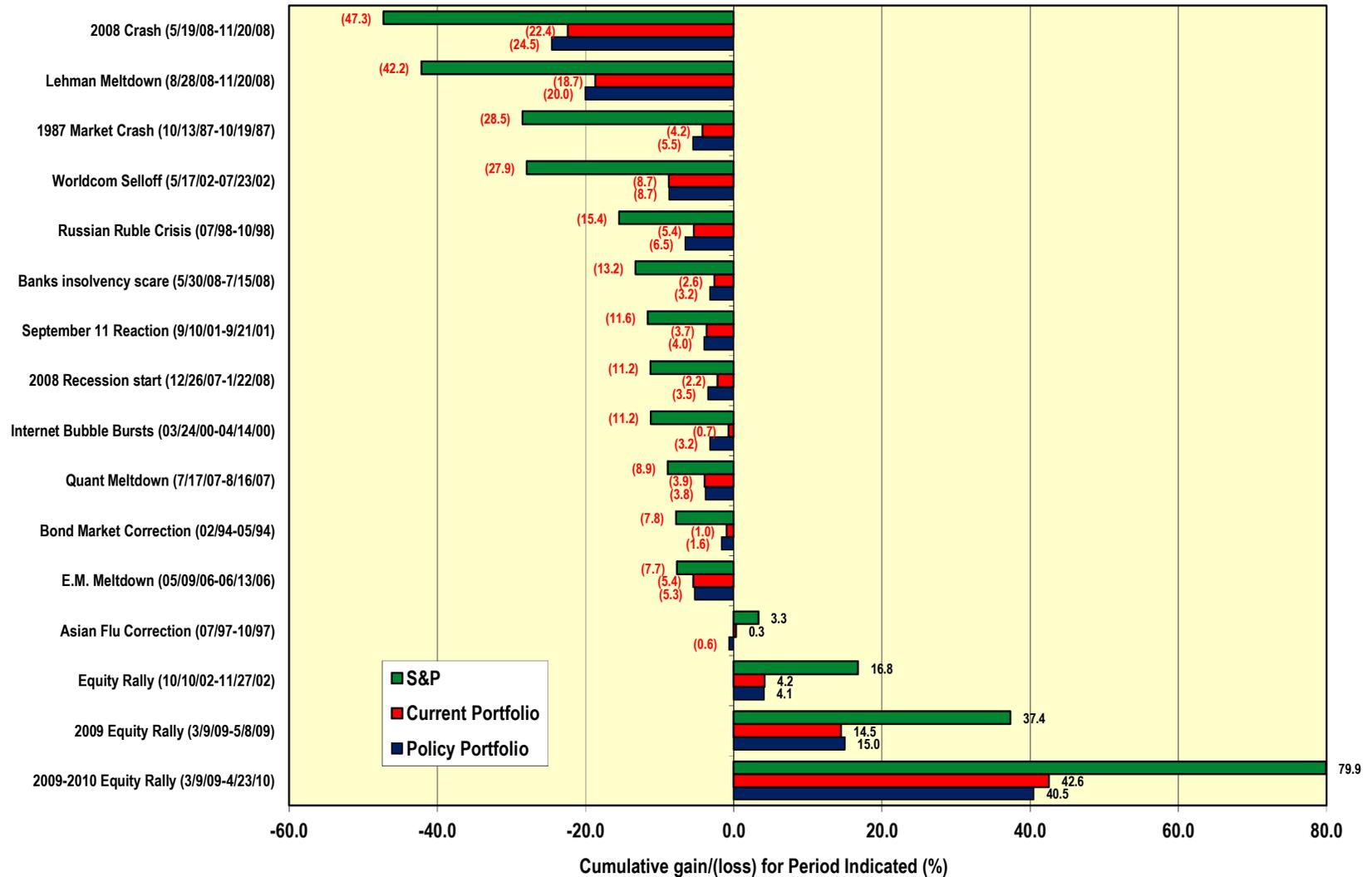
Hypothetical Performance of Current ITF Portfolio in Selected Economic Stress Environments



* Annualized



Hypothetical Performance of Current ITF Portfolio in Selected Market Stress Environments





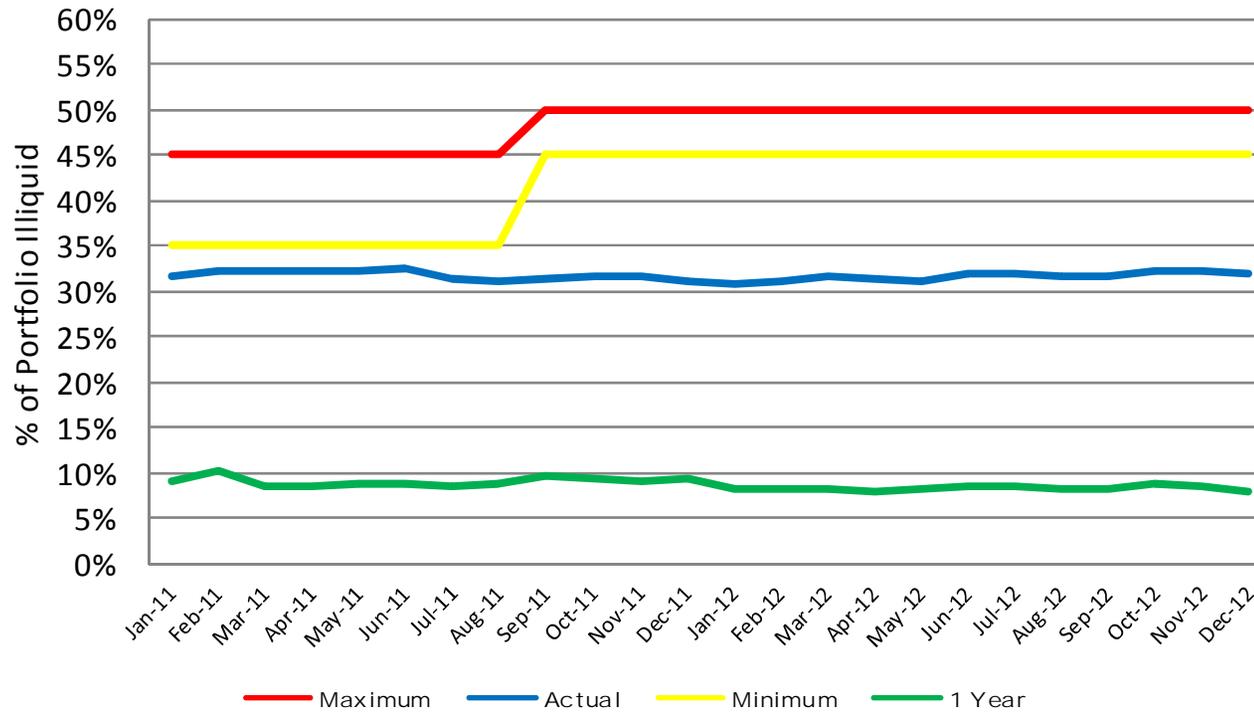
ITF Leverage as of December 31, 2012

- Investment Grade Fixed Income had a long exposure of 1.16x, no net leverage
- All other asset classes and investment types had no net leverage at the portfolio level
 - Portfolio-level hedges are counted as gross leverage in one asset class (Real Estate)
- Overall the portfolio had a gross leverage of 1.12x, net of 0.99x



ITF Liquidity

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



Three Month Liquidity \$ 3,519 million One Year Liquidity \$ 4,764 million



Contracts Update



Report on New Contracts and Existing Contract Renewals, Leases, and Other Commercial Arrangements For October 1, 2012 through January 31, 2013

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

Agreement	Purpose	Contract Term	Annual Amount
None			

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

Agreement	Purpose	Contract Term	Annual Amount
Bloomberg	Portfolio Order Management System	Renews quarterly via invoice	\$140,000
Bloomberg	All-in-one investment platform for trading, analysis and information	Renews quarterly via invoice and may be canceled at any time	\$309,840
International Fund Services	Risk System	Quarterly invoice – fees increased as underlying accounts are added	\$292,000
Factset Research Systems	Analytical tool for performance	Monthly invoice	\$375,464
Albourne America LLC	Advisor to Marketable Alternative staff	Monthly invoice	\$240,000

Agenda Item
UTIMCO Board of Directors Meeting
February 7, 2013

Agenda Item:	Optimal Illiquidity Discussion
Developed By:	Staff
Presented By:	Yoeli
Type of Item:	Information item
Description:	<p>Dr. Yoeli will continue the discussion about optimizing illiquidity. Illiquidity is one element of portfolio risk and a potential source of return. Dr. Yoeli will present an update on the three issues that are fundamental in determining optimal illiquidity in the portfolio:</p> <ol style="list-style-type: none">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:	<i>Optimizing Illiquidity- Update</i> presentation



THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

Optimizing Illiquidity

Second UTIMCO Board Update

February 2013



Context

- Coming out of the annual summer 2012 Investment Policy review for FY2013, Staff began a thorough analysis of the optimal levels of illiquidity in the portfolio as a prelude to the FY2014 Investment Policy review, which will begin in the spring and conclude in the summer of 2013
- Staff shared with the Board the first update of the Optimal Illiquidity analysis at the November 2012 Board meeting
- This is the second update for the Board
- The analysis is scheduled to be completed and presented to the Board at the April meeting



Key Issues

- Three issues are fundamental to determine optimal illiquidity in the portfolio:
 - I. What returns are sufficient to support what levels of illiquidity risk?
 - II. What liquidity needs limit illiquidity exposure?
 - III. What is staff's ability to deploy illiquidity risk and generate sufficient returns?
- Since the November Board meeting, staff has focused its efforts on issues I and III



Current (Preliminary) Thinking

I. What returns are sufficient to support what levels of illiquidity risk?

Preliminary View:

- Returns should be 4.1% – 5.6% above the liquid equivalent, depending on the asset class.

II. What liquidity needs limit illiquidity exposure?

Preliminary View:

- The Endowments can bear 33% in Privates and another 33% in LCC with a low probability of illiquidity stress.
- The Endowments can likely bear higher levels of illiquidity, but additional analysis and discussion is required prior to making any recommendations.



Current (Preliminary) Thinking

III. What is staff's ability to deploy illiquidity risk and generate sufficient returns?

Preliminary View:

1. *Historically UTIMCO has selected Private Investment funds at the 55th – 72nd percentile of the universe, depending on the asset class*.*
2. *This performance appears generally sufficient to generate the required illiquidity premium.*
3. *Two asset classes, Real Estate and Emerging Markets, in particular bear additional thought:*
 - A. *Over the past decade or so, Public Real Estate has slightly outperformed Private Real Estate.*
 - B. *Private Emerging Markets, as an asset class, has been very challenging in the past.*
 - C. *Additionally, we have inadequate history to determine Staff's ability in selecting Real Estate and Emerging Markets managers.*
4. *Across all asset classes, the future opportunity set may be more, or less, attractive than the historic opportunity set.*

(*) Throughout this presentation, a higher percentile number is better (e.g., 99th percentile is the best)



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Required Premium



Methodology for Determining the Required Premium

The premium required in an illiquid Private investment has the following components:

- I. The “illiquidity-free” rate for each asset class: expected returns in MCC
- II. Compensation for locking-up capital
 - i. What is the Weighted Average Life (WAL) of Private Investments?
 - ii. What is the appropriate compensation for such a given WAL?
- III. Compensation for uncertainty as to the length of the lock-up
- IV. Opportunity cost for the capital which must remain liquid (committed but uncalled)



Databases

- Cambridge supplied fund-by-fund data (3,499 funds, no-name basis), which allowed evaluation of the median and dispersion of WAL and the correlation between WAL and fund quartile performance.

Asset Class	Pre-2004	Post-2004	Total Funds
Credit	89	120	209
Real Estate	269	328	597
Nat Res	135	134	269
Buyouts	406	226	632
Venture	1,051	335	1,386
Emerging	<u>185</u>	<u>221</u>	<u>406</u>
Total Funds	<u>2,135</u>	<u>1,364</u>	<u>3,499</u>

- In addition, the Burgiss database has approximately 4,000 funds, with data on each fund over its life-cycle (e.g., calls, distributions, valuations, and IRRs in each year of a fund's life). This data can be used to:
 - Calculate our relative performance (percentile),
 - Project “going-forward” performance, and
 - Calibrate our commitment models



What is the Weighted Average Life?

- The average WAL of a median-performing Private Investment fund varies from 3.9 – 5.3 years, depending on the asset class.
- Better funds tend to have shorter WAL: at the 75th percentile of performance, the average WAL varies from 3.2 – 4.7 years, depending on the asset class

Asset Class	Average WAL (in years) of		
	Median Fund	65 th percentile fund ¹	75 th percentile fund
Credit	4.3	4.0	3.8
Real Estate	3.9	3.5	3.2
Nat Res	4.8	4.4	4.2
Buyouts	4.5	4.2	4.0
Venture	5.3	5.0	4.6
Emerging	5.2	4.9	4.7

⁽¹⁾ 65th percentile chosen as a proxy for UTIMCO's historic performance

Source: Cambridge database, funds up to 2004; funds subsequent to 2004 have not completed their investments and monetization



What is the appropriate compensation for a given Weighted Average Life?

- UTIMCO's More Liquid LCC vs Less Liquid LCC experience:

	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 of 100 bps/year for the first three years of lock-up
 - LCC can provide an alternative investment
 - Three years is generally the longest LCC lock-up
- Beyond three years of lock-up, there is no direct comparison
 - We believe there should be compensation for longer lock-ups, but not necessarily linear
 - We chose to use 50 bps/year after the first three years



Compensation for “Locking Up Capital”

- Assess an illiquidity premium of 100 bps/year for the first three years and 50 bps/year thereafter
 - Lock-up of median-performing funds requires a premium of 3.4% – 4.2%, depending on asset class
 - Lock-up of 65th percentile funds requires a premium of 3.2% – 4.0%, depending on asset class

Asset Class	WAL of median fund (years)	Premium Required	WAL of 65 th percentile fund ¹	Premium Required
Credit	4.3	3.7%	4.0	3.5%
Real Estate	3.9	3.4%	3.5	3.2%
Nat Res	4.8	3.9%	4.4	3.7%
Buyouts	4.5	3.8%	4.2	3.6%
Venture	5.3	4.2%	5.0	4.0%
Emerging	5.2	4.1%	4.9	3.9%

⁽¹⁾ 65th percentile chosen as a proxy for UTIMCO’s historic experience



Compensation for uncertainty as to the length of the lock up

- An uncertainty premium is assessed against longer lock-up than “expected”
- We calculate the difference between worst-quartile WAL and the median WAL; it varies between 0.9 and 1.5 years, depending on asset class
- The required uncertainty premium is 50 bps/year, since the uncertainty always extends WAL beyond three years

Asset Class	Median WAL (in years)	25 th percentile WAL (in years)	Uncertainty Premium (in years)	Uncertainty Premium (in bps)
Credit	4.2	5.2	1.0	50 bps
Real Estate	3.7	4.9	1.2	60
Nat Res	4.5	5.7	1.2	60
Buyouts	4.3	5.2	0.9	45
Venture	5.2	6.7	1.5	75
Emerging	5.0	6.4	1.4	70

Source: Cambridge database, funds up to 2004



Opportunity cost of keeping uncalled capital liquid

- For each \$100 in Private Investment NAV, based on our modeling of commitments, calls, and distributions, we estimate that \$20 - \$50 is needed in unfunded commitments to maintain “steady state” NAV.
 - This number varies by asset class – it is lower for asset classes that tend to call capital earlier
 - This number also depends how often co-investments are used, as co-investments do not have this overhang
- This amount can be called at short notice, and therefore needs to be in liquid investments.
- To ensure sufficient funds to meet these calls even after a significant market decline, we need a “cushion” on top of the \$20 - \$50. For example, \$30 - \$75 in liquid investments would allow us to meet these calls even after a 33% market decline.
- The opportunity cost is therefore 30bp – 75bp, depending on the asset class and the use of co-investments.



Adding it Together: Required Returns

- **Required Returns =**
MCC Returns
+ Compensation for locking up capital
+ Compensation for risk in holding period
+ Opportunity cost for the uncalled capital
- As a starting point, required Private Investment nominal returns vary from 9.4% to 13.4%, depending on asset class

Asset Class	Projected Nominal MCC Returns*	Premium for Locking up Capital	Uncertainty Premium	Call Liquidity	Total Illiquidity Premium	Required Nominal Returns
Credit	5.00%	3.5%	0.5%	0.4%	4.4%	9.4%
Real Estate	6.25%	3.2%	0.6%	0.3%	4.1%	10.4%
Nat Res	6.50%	3.7%	0.6%	0.3%	4.6%	11.1%
Buyouts	6.63%	3.6%	0.5%	0.7%	4.8%	11.4%
Venture	6.63%	4.0%	0.8%	0.8%	5.6%	12.2%
Emerging	8.00%	3.9%	0.7%	0.8%	5.4%	13.4%

*Inflation assumed to be 2.5%; Returns are from the FY2013 asset allocation review, and do not include UTIMCO added-value (alpha)



Required Returns – Effect of Alpha in MCC

- Adding alpha to the projected MCC returns would raise the required Private Investment nominal returns
- Depending on asset class, required Private Investment returns vary from 10.4% to 14.9%

Asset Class	Projected Nominal MCC Returns	Projected Alpha*	Projected Nominal MCC Returns with Alpha	Total Illiquidity Premium	Required Nominal Returns
Credit	5.00%	1.0%	6.00%	4.4%	10.4%
Real Estate	6.25%	1.5%	7.75%	4.1%	11.9%
Nat Res	6.50%	1.5%	8.00%	4.6%	12.6%
Buyouts	6.63%	1.5%	8.13%	4.8%	12.9%
Venture	6.63%	1.5%	8.13%	5.6%	13.7%
Emerging	8.00%	1.5%	9.50%	5.4%	14.9%

* Alpha is proxied using the Comp Plan maximums



Required Returns – Using longer-term Assumptions for MCC

- For the FY2013 Investment Strategy review, MCC asset classes return assumptions used lower expectations for the next 5-10 years
- If returns revert more quickly to their long-term average, MCC asset class returns would increase by 125-150bps
- Depending on asset class, required Private Investment returns vary from 10.9% to 14.9%

Asset Class	FY2013 projected nominal returns	Cambridge Projections for MCC (nominal returns)	Total Illiquidity Premium	Required Nominal Returns
Credit	5.00%	6.50%	4.4%	10.9%
Real Estate	6.25%	7.50%	4.1%	11.6%
Nat Res	6.50%	6.63%	4.6%	11.2%
Buyouts	6.63%	8.00%	4.8%	12.8%
Venture	6.63%	8.00%	5.6%	13.6%
Emerging	8.00%	9.50%	5.4%	14.9%



Required Returns – Long-term Assumption plus Alpha

- If long-term asset class returns **and** projected alpha are used as the “liquid equivalent”, required nominal returns for Private Investment are even higher, ranging from 11.9% to 16.4%, depending on asset class

Asset Class	Long-Term Projections for MCC ¹	Projected Alpha	Long-Term Projections for MCC with Alpha	Total Illiquidity Premium	Required Nominal Returns
Credit	6.50%	1.0%	7.50%	4.4%	11.9%
Real Estate	7.50%	1.5%	9.00%	4.1%	13.1%
Nat Res	6.63%	1.5%	8.13%	4.6%	12.7%
Buyouts	8.00%	1.5%	9.50%	4.8%	14.3%
Venture	8.00%	1.5%	9.50%	5.6%	15.1%
Emerging	9.50%	1.5%	11.00%	5.4%	16.4%

⁽¹⁾ Source: Cambridge



Range of Possible Required Returns

- In summary, depending on using short-term vs. long-term assumptions and with or without alpha, when calculating the “liquid equivalent”, required nominal returns for Private Investment vary from 9.4%–11.9% for Credit to 13.4%–16.4% for Emerging Markets

Asset Class	Required Returns			
	Short-term assumptions, no alpha	Short-term assumptions, with alpha	Long-term assumptions, no alpha	Long-term assumptions, with alpha
Credit	9.4%	10.4%	10.9%	11.9%
Real Estate	10.4%	11.9%	11.6%	13.1%
Nat Res	11.1%	12.6%	11.2%	12.7%
Buyouts	11.4%	12.9%	12.8%	14.3%
Venture	12.2%	13.7%	13.6%	15.1%
Emerging	13.4%	14.9%	14.9%	16.4%



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Liquidity Supply and Demand



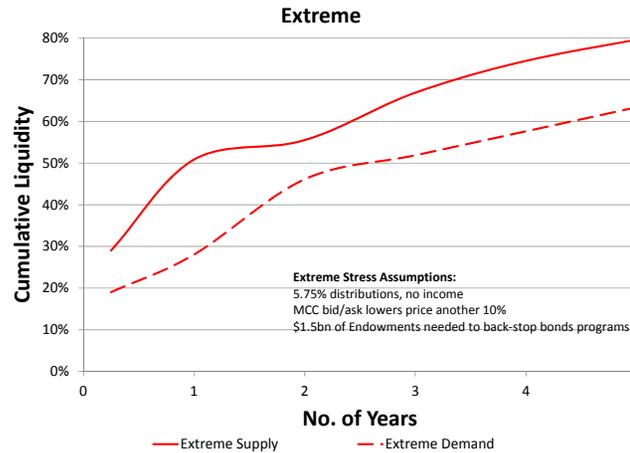
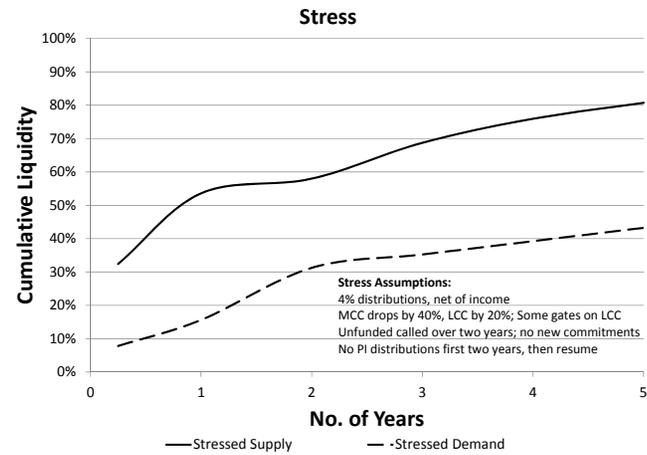
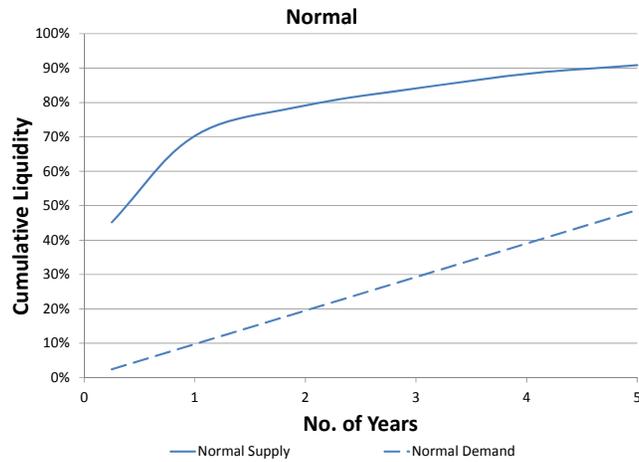
What is the limit of our illiquidity exposure?

- We have not conducted further analysis on this topic since November
- The next three slides are a summary of liquidity supply and demand; these slides were presented in the November Board meeting
- We plan to further study this issue:
 - Refine assumptions for the “stress” and “extreme” scenarios, and develop additional scenarios
 - Understand what gets liquidated and when in these scenarios, and how the portfolio would look like at the trough of these scenarios
 - Further refine our commitment models
 - Study options to lower the demand for liquidity in stress and extreme scenarios:
 - Choosing an asset mix that lowers the amount of unfunded commitments
 - Using co-investments and opt-out structures to reduce the amount of outstanding legal obligation for unfunded commitments
 - Discuss with UT System and A&M alternatives to the Endowments providing the liquidity (back-stop) for their variable bond programs



Liquidity Supply and Demand – Current Portfolio

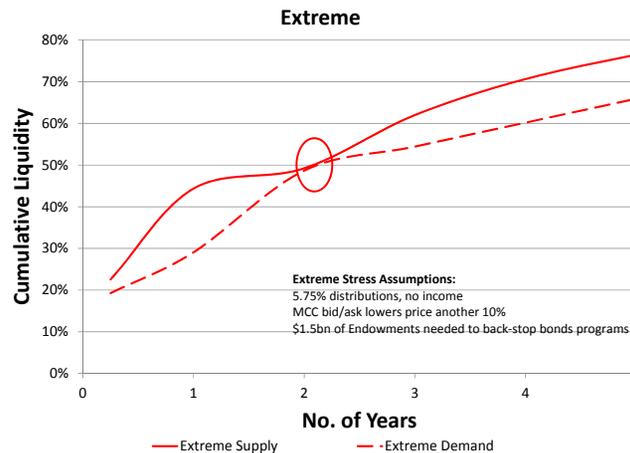
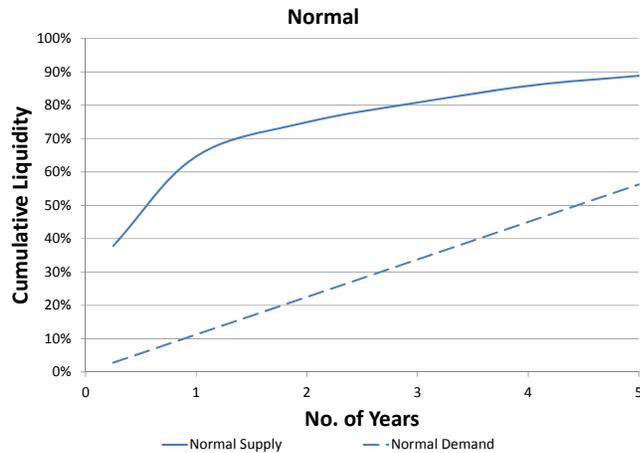
MCC: 43% LCC: 30% PI: 27%





Liquidity Supply and Demand – Sample Portfolio I

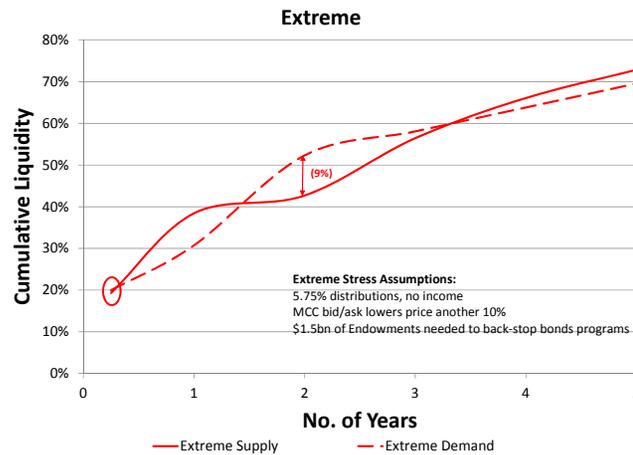
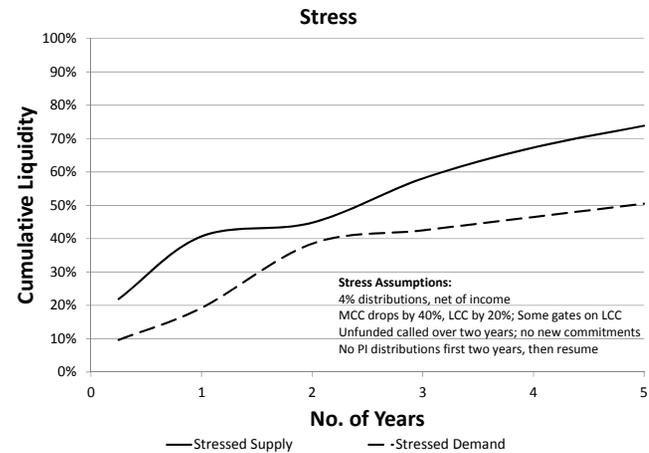
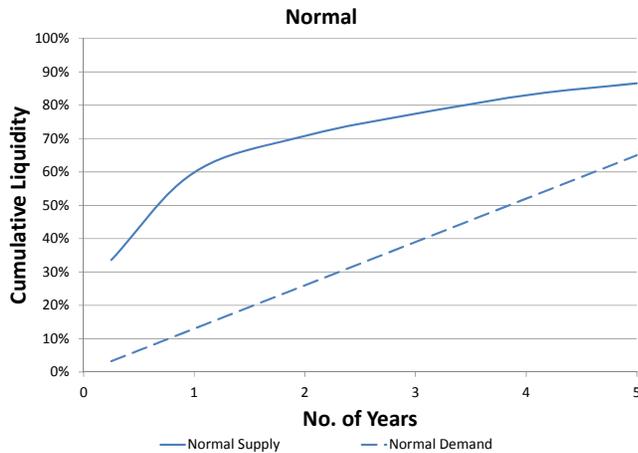
MCC: 34% LCC: 33% PI: 33%





Liquidity Supply and Demand – Sample Portfolio II

MCC: 30% LCC: 30% PI: 40%





Commitment Models

- A commitment model is a tool that predicts the evolving path of calls, marks, and distributions
- UTIMCO has several commitments models – both “top-down”, based on statistical attributes (mostly from the Burgiss database), as well as “bottom-up”, based on the specific funds we invest and Staff’s assessment of near-term calls and distributions by fund
- By comparing and contrasting the models we can improve all models, as well as understand and refine the areas of greatest uncertainty
- For example, both approaches suggest that a commitment budget of \$1.5bn / year would eventually get us close to 33% of NAV, although there are many areas of uncertainty – e.g., how long will it take, the probability of overshooting, which asset classes would grow fastest, etc.
- Staff is working to further enhance these models and build asset-class specific models, which can incorporate the specific characteristics of these asset classes (e.g., what drives mark-ups, co-investment opportunities, etc.)



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Ability to Deploy Capital



UTIMCO Experience vs Required Return

In order to properly assess UTIMCO's "going-forward" required returns, two issues must be addressed:

Issue 1: UTIMCO's portfolio is relatively young and evolving, whereas required returns are after the funds are completely wound down and all investments have been realized.

Adjustment Methodology:

1. Compare UTIMCO's past experience with similar vintage funds to establish UTIMCO's percentage performance, given the life, or maturity, of a fund
2. Calculate performance of mature funds (pre-2004 vintages) at that percentile performance to predict ultimate, final returns

Issue 2: The opportunity set "going forward" may (will likely) be different than in the past.

Adjustment Methodology:

1. Convert the returns calculated for mature funds into a "risk premium", either over a public-market equivalent or over a single reference point such as US treasuries
2. Add the risk premium to the "going-forward" expected returns of the public market equivalent and/or US treasuries

Note: this adjustment methodology will not fully reflect the potential difference between historic and "going forward" opportunity sets, as the supply and demand characteristics of Private Investment asset class capital markets will also greatly affect returns.



Calculating UTIMCO's Performance Percentile

- Historically, UTIMCO has performed at the 55th – 72nd percentile, depending on asset class
 - UTIMCO's Real Estate and Emerging Markets portfolios are not mature enough to meaningfully determine percentile performance

Asset Class	UTIMCO's since-inception IRR	Vintage year-weighted performance ²		UTIMCO's Percentile Performance
		Median	75 th percentile	
Credit ¹	9.3%	7.1%	10.4%	67%
Real Estate	(1.6%)	N/M	N/M	N/M
Energy	20.3%	10.7%	21.5%	72%
Buyouts	10.2%	8.7%	16.1%	55%
Venture	10.7%	3.1%	15.5%	65%
Emerging	4.3%	N/M	N/M	N/M

(1) Credit measured only investments post-2006. UTIMCO had earlier credit investments, but they are not representative of the current strategy

(2) Source: Burgiss Database



Performance of Mature Funds

- UTIMCO's performance, when applied to fully mature funds, produced wide returns (7.3% – 28.8%), depending on asset class
- These “mature” returns also produced wide “return premiums” of 2% – 25% over treasuries, and **(2.6%)** – 13.1% over liquid alternatives, depending on asset class

Asset Class	Percentage	IRR of Mature Funds in Database			
		Nominal	Return Premium over 10-year treasuries	Return Premium over 5-year treasuries	Return Premium over relevant MCC investment
Credit	67%	14.4%	8.5%	9.0%	4.4%
Real Estate	65% ¹	13.7%	8.5%	8.9%	(0.4%)
Energy	72%	28.8%	24.2%	24.9%	13.1%
Natural Resources ²		23.8%	19.2%	19.9%	8.1%
Buyouts	55%	14.3%	8.5%	8.8%	5.8%
Venture	65%	17.7%	11.3%	11.6%	9.6%
Emerging	65% ¹	7.3%	1.8%	2.2%	(2.6%)

1) UTIMCO's Real Estate and Emerging portfolios are not mature enough to estimate percentile. Assumed 65th percentile

2) While Burgiss only has "Energy", which has had outstanding performance, Cambridge has both "Energy" and "Natural Resources", and from their database it seems Energy has outperformed Natural Resources by ~500bps



UTIMCO Actual Experience vs “Going-Forward” Required Return

Asset Class	Projected “Going Forward” Returns Based on premium over			Required Nominal Return
	10-year treasuries	5-year treasuries	relevant MCC liquid investment	
Credit	10.4%	9.8%	9.4%	9.4% - 11.9%
Real Estate	10.4%	9.7%	5.9%	10.4% - 13.1%
Natural Resources	21.1%	20.7%	14.6%	11.1% - 12.7%
Buyouts	10.4%	9.6%	12.4%	11.4% - 14.3%
Venture	13.2%	12.3%	16.2%	12.2% - 15.1%
Emerging	3.7%	2.9%	5.4%	13.4% - 16.4%

- Credit, Natural Resources, and Venture Private Investments appear attractive
- Buyout Private Investments, currently at 55th percentile performance, is unclear
- Real Estate and Emerging Market Private Investments will depend on the robustness of Private vs Public markets and Staff’s ability to improve its relative performance



Investment Policies

- Investment Policies specify a target percentage of the Endowments' assets to be in Private Investments.
 - Private Investment NAV is not directly controllable: after commitments are made, capital is drawn over a number of years, holdings are marked up (or down), and distributions are made – none of which are under our control.
 - NAV as a percentage of the Endowments is also greatly affected by how the MCC and LCC portions perform, as they, along with Private Investments, determine the denominator in this ratio.
- Investment Policies could target a commitment budget and range, rather than specify a target percentage of the Endowments to be in Private Investments. This approach has pros and cons.



Investment Policies (Cont'd)

Pros:

- Higher expected returns: When the target is specified as a percentage of NAV, the resulting commitments are pro-cyclical, which tends to result in lower returns:
 - In 2009, while the opportunity set was rich, UTIMCO made no new commitments because Private Investments percentage of total NAV was far above its target
 - In 2005-2006, Private Investments percentage of NAV was significantly below its target, which resulted in a high level of new commitments even though the opportunity set was not the best

Cons:

- Making commitments in a market downturn, while expected to improve returns, puts additional pressure on the “liquidity demand”.
- Increases complexity, and therefore has greater risk of “unintended consequences”
- Such a change would affect how the Policy Portfolio is defined, what the Total Portfolio benchmark returns are, and how Staff’s added-value is calculated
- Staff is just beginning to study potential changes and has not yet developed any recommendations to bring to the Board



Next Steps

- Further study liquidity supply and demand in different scenarios
- Enhance commitment models and improve cash-flow projections
- Further assess our ability to deploy capital while meeting returns targets
- Identify sources of funds for increased Private Investments
- Assess any potential changes to Investment Policies

Agenda Item
UTIMCO Board of Directors Meeting
February 7, 2013

Agenda Item: Real Estate Update

Developed By: Staff

Presented By: Staff

Type of Item: Information item

Description: Real Estate staff will provide an update on real estate investments including strategy, performance, and an overview of the portfolio.

Recommendation: None

Reference: *Real Estate* presentation



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Real Estate UTIMCO Board Update

February 7, 2013



Real Estate Team

- Mark Shoberg, *Managing Director*
 - Stanford MBA, BE Vanderbilt (Mechanical Engineering)
 - 16 years experience, 7.5 years with UTIMCO
 - Investment Committee, Credit Task Force
- Edward Lewis, *Director*
 - Chicago MBA, BS Texas A&M (Civil Engineering)
 - 14 years experience, 1.5 years with UTIMCO
 - Investment Committee, Portfolio Positioning Task Force
- Mukund Joshi, *Associate*
 - University of Texas MBA, MS U of Houston (Electrical Engineering), BE Kuvempu (Mechanical Engineering)
 - 11 yrs work experience, 3.5 years with UTIMCO
 - Emerging Markets Task Force
- Kaylea Babel, *Administrative Assistant*
 - BS University of Texas
 - 1 year with UTIMCO
- *Analyst TBD – Open Position*



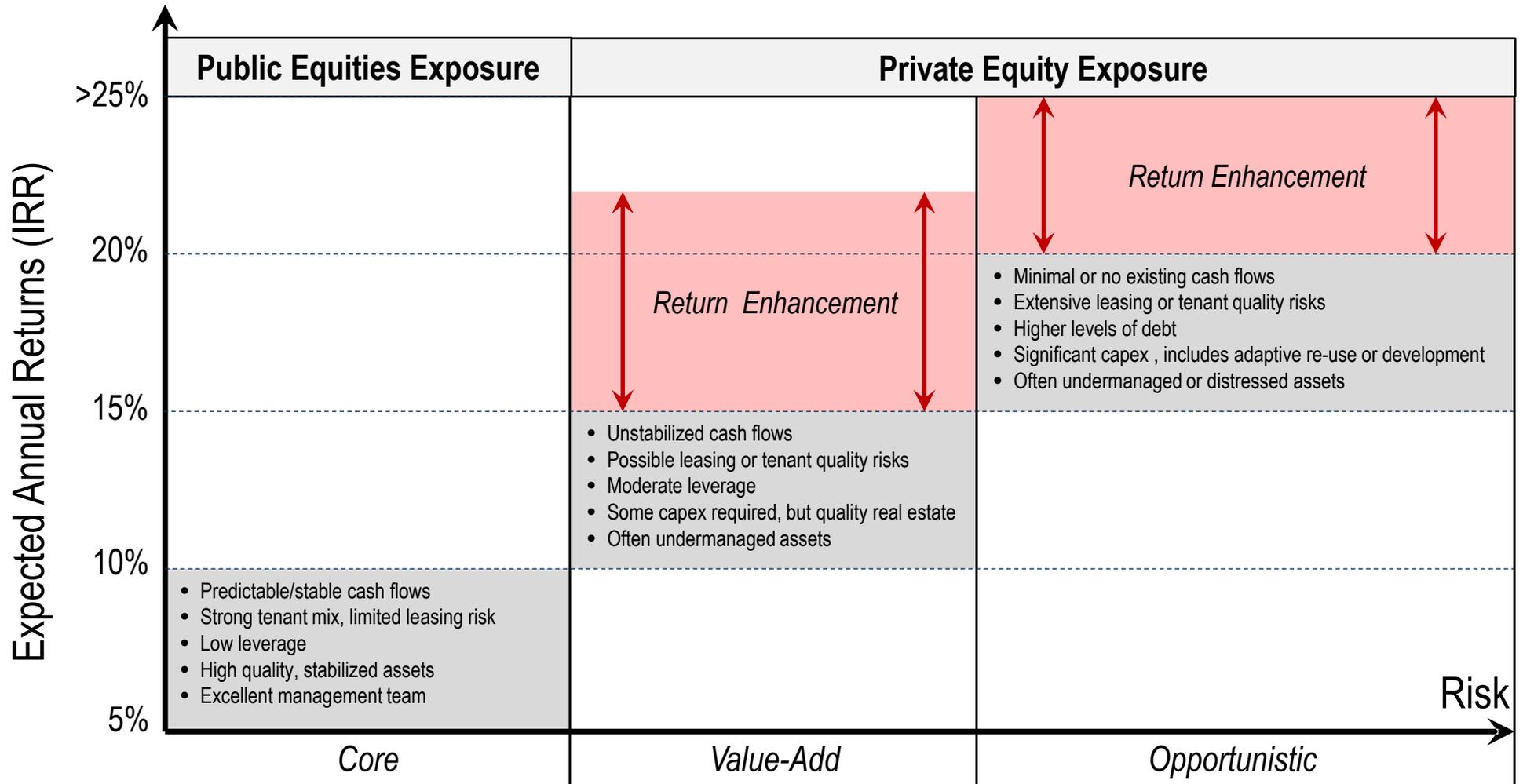
Real Estate Strategy

Build a global portfolio of diversified Real Estate holdings capable of delivering superior risk-adjusted returns

- Real Estate public equities
 - Exposure to high quality core assets
 - Ability to maintain liquidity
 - Yields in excess of bond market coupons commensurate with added risk of owning real estate assets
- Real Estate private equity
 - Unique access to real estate not available through public markets
 - Opportunistic managers with flexible mandates
 - Niche strategies targeting secular trends
 - Primary focus on developed markets



Real Estate Return Enhancement Opportunities





Portfolio History

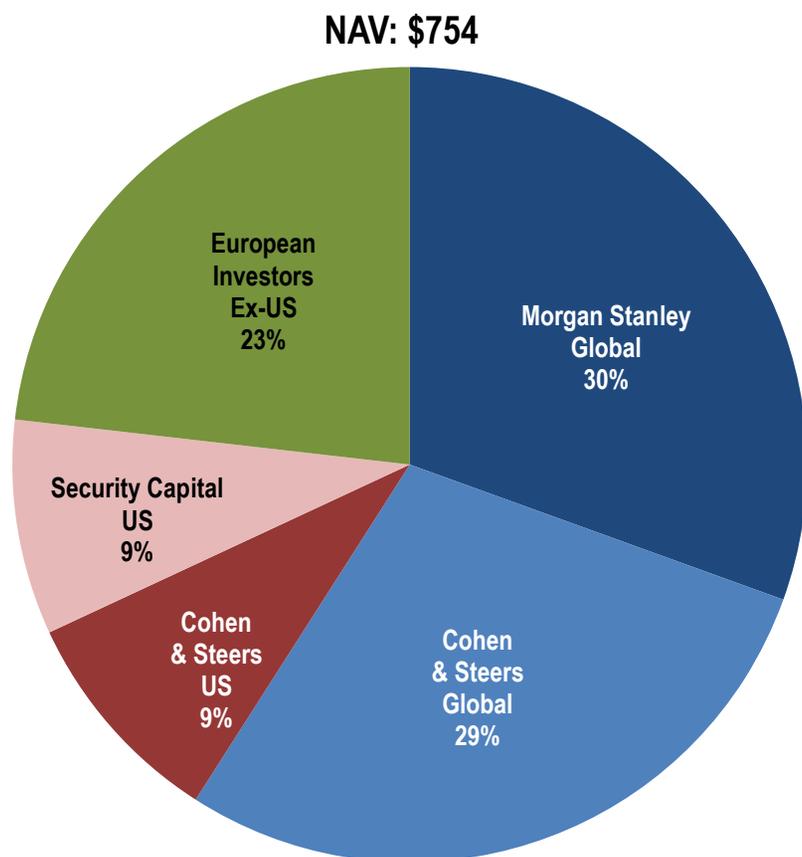
(Calendar year-end, \$ in millions)

	2007	2008	2009	2010	2011	2012
<u>MCC</u>						
# of Managers	3	7	6	5	4	4
NAV	\$1,314	\$888	\$755	\$754	\$573	\$754
<u>Private Investments</u>						
# of Managers	0	7	7	8	14	17
NAV	\$0	\$76	\$104	\$165	\$319	\$571
Unfunded	\$0	\$228	\$192	\$225	\$735	\$840
Drawn	\$0	\$96	\$38	\$61	\$181	\$303
Distributed	\$0	\$1	\$1	\$15	\$23	\$54
<u>LCC</u>						
# of Managers	0	1	1	1	1	1
NAV	\$0	\$51	\$84	\$141	\$168	\$148



MCC Real Estate Performance

(As of 12/31/2012, \$ in millions)



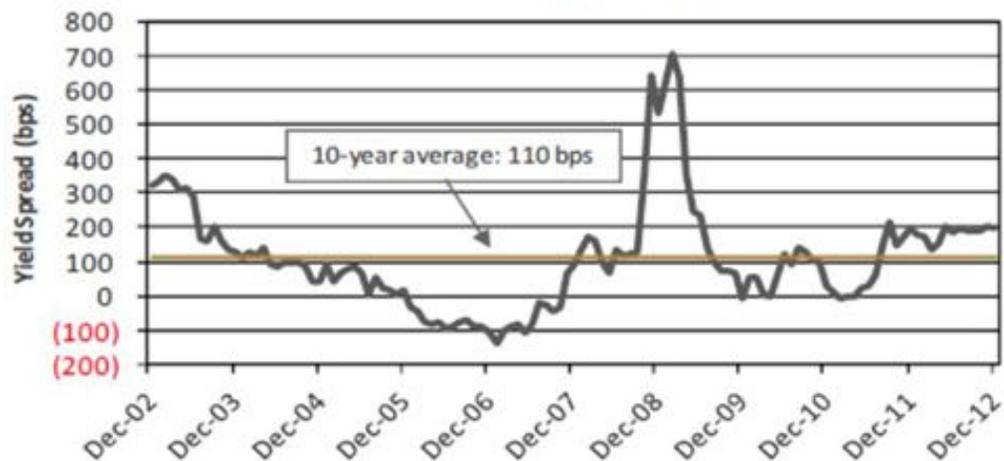
MCC Portfolio Performance ⁽¹⁾			
	One Year	Three Years	Five Years
Real Estate MCC Portfolio vs. Real Estate Composite	30.7%	12.3%	2.7%
	3.0%	(0.8%)	1.4%

(1) Excludes Portfolio-level derivative activity positions

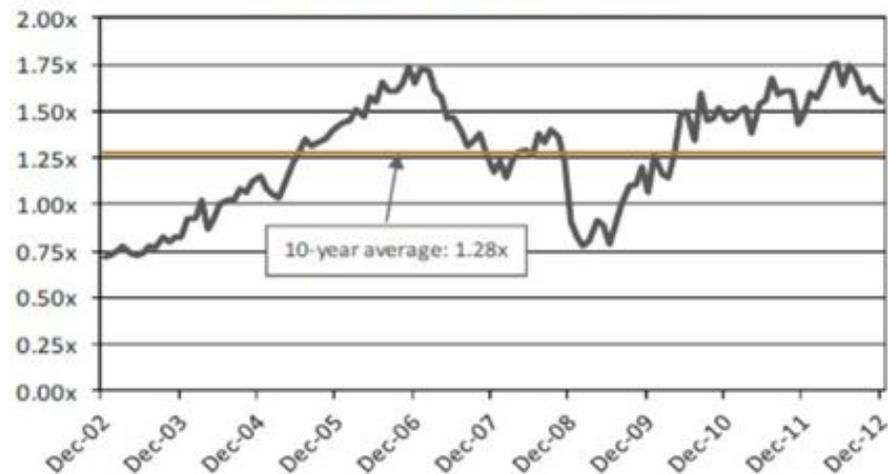


Public Real Estate Market Opportunity

NAREIT Equity Yield Spread Over 10-Year U.S.
Treasury Yield



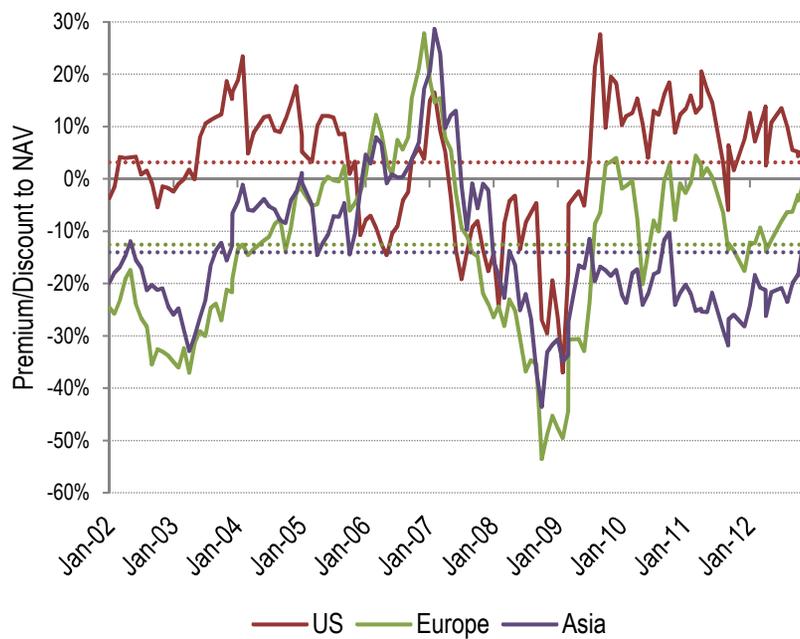
Forward REIT P/AFFO vs S&P P/E



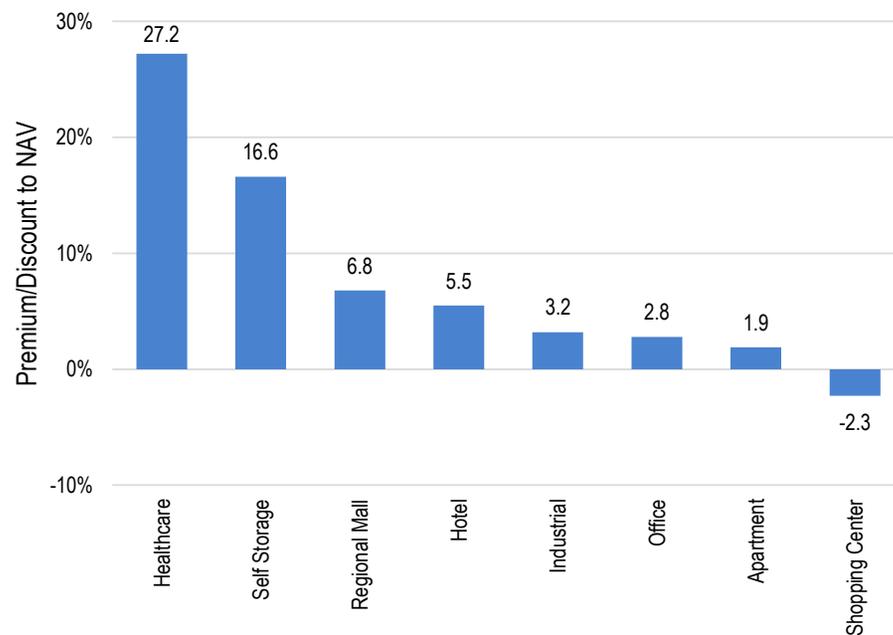


Public Real Estate Market Opportunity

Regional Price/NAV



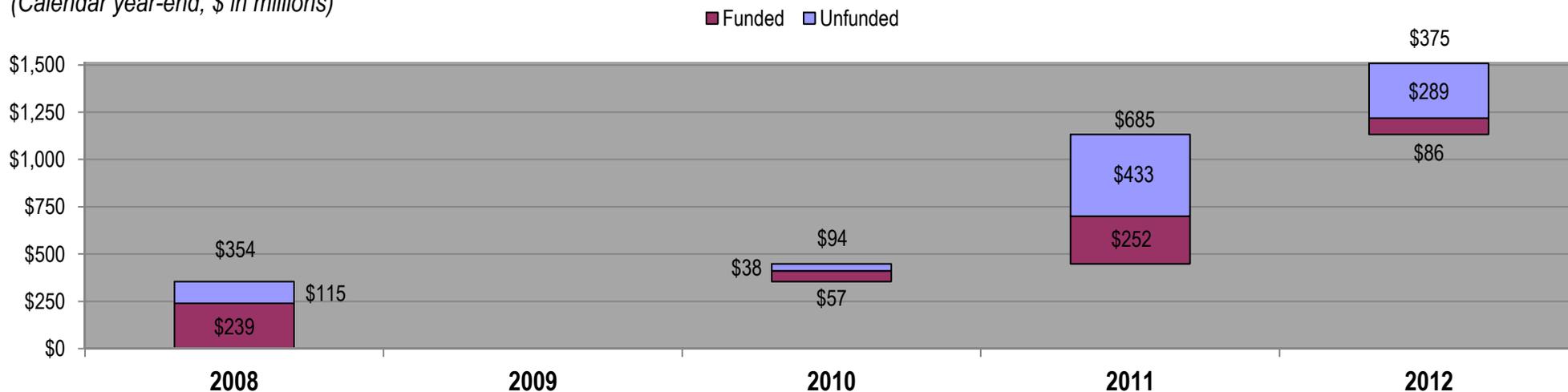
US Price/NAV





Commitment Activity

(Calendar year-end, \$ in millions)



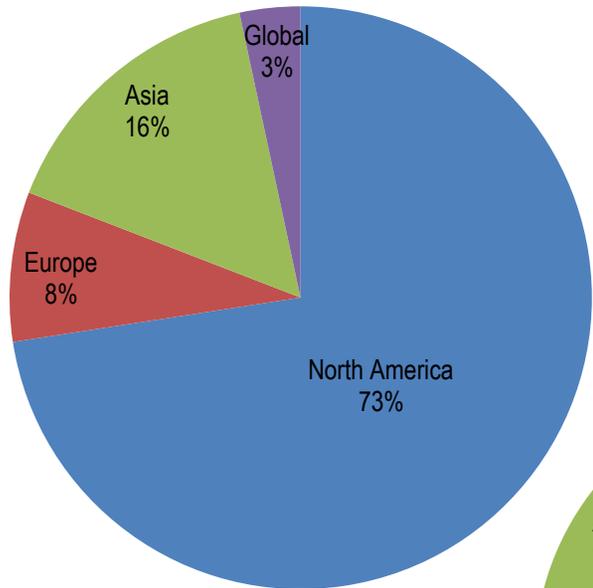
Trophy I	\$55	GEM IV	\$75	AGRE US I	\$100	Meadow II	\$100
Northwood	\$53	Benson Elliot III	\$19	Northwood	\$100	Grain II	\$60
Five Mile II	\$50			Wheelock I	\$100	Blackstone VII	\$50
MSSS III	\$50			Alcion II	\$75	Secured Capital V	\$50
Secured Capital Japan IV	\$50			Carmel IV	\$75	Niam V	\$45
Shorenstein IX	\$50			KSL III	\$75	*Apollo GSS	\$35
Benson Elliot III	\$46			Grain	\$60	*TPS Co-Investment	\$35
				Green Courte III	\$50		
				Wheelock WS/UT	\$50		
Total	\$354	Total	\$94	Total	\$685	Total	\$375

* Co-Investments

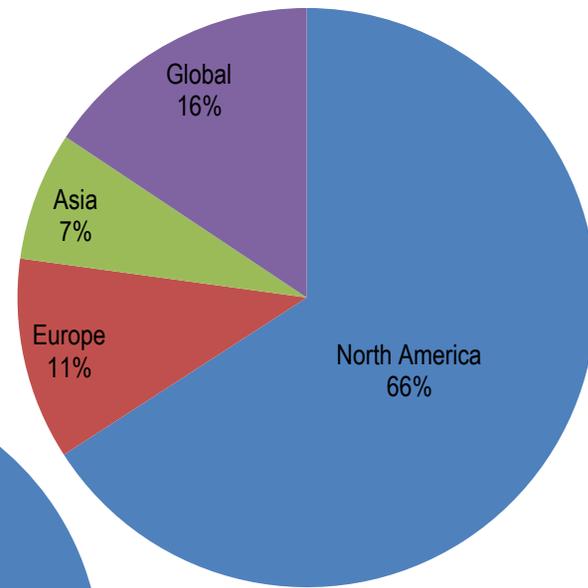


Private Exposure by Geography

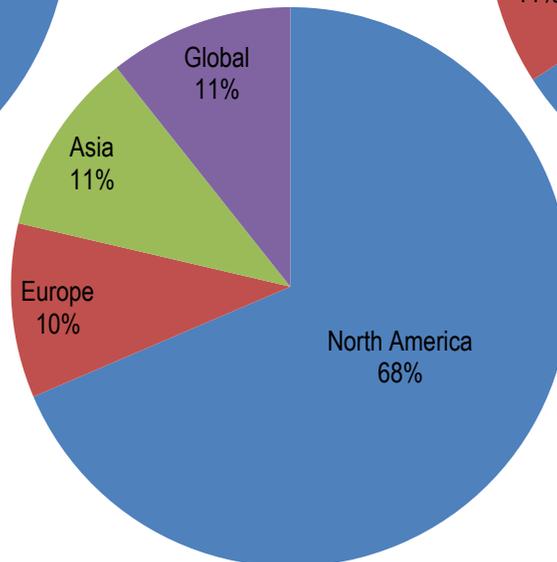
(As of 12/31/2012, \$ in millions)



Market Value: \$571



Unfunded: \$840



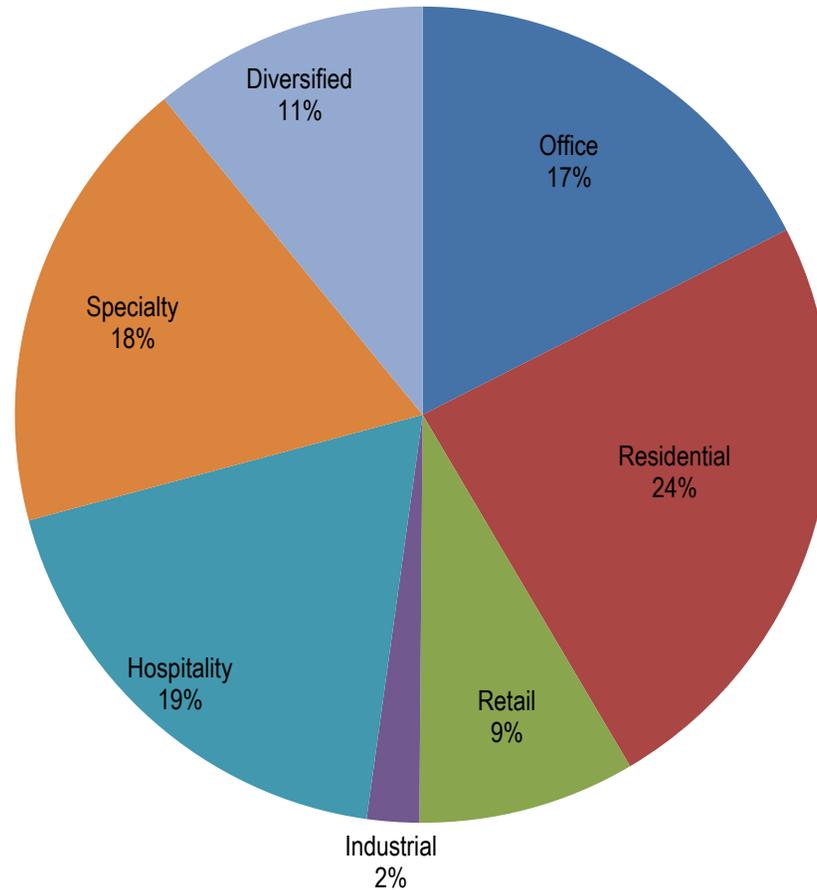
Total Exposure: \$1,411



Private Exposure by Property Type

(As of 12/31/2012, \$ in millions)

Total Exposure: \$1,411

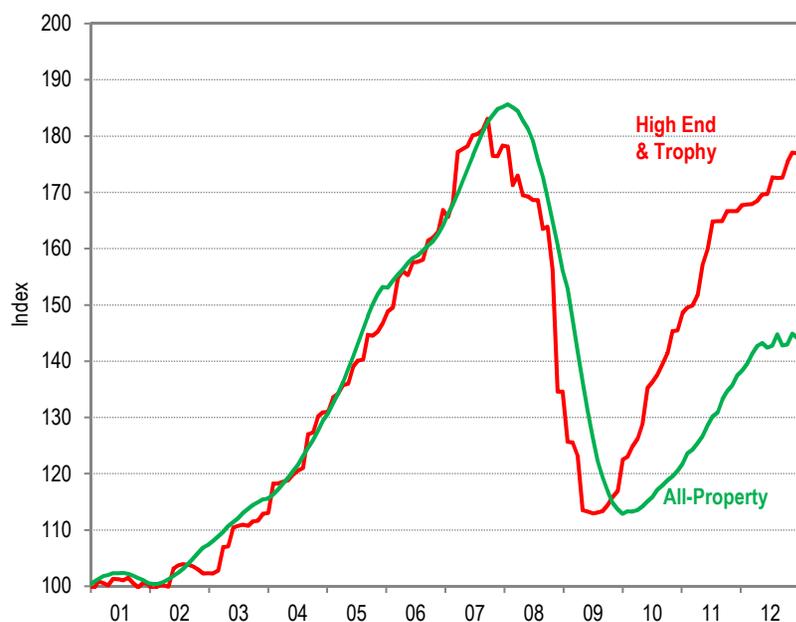




Private Real Estate Market Opportunity

Create & Sell, Don't Buy High End/Trophy Assets

Relative Price



Execution Strategies

- Property Repositioning
- Stressed or Non-traditional Owners
- Broken Capital Stacks
- Aggregation
- Purchase in Secondary Markets
- Development in Undersupplied Markets



FY 2013 Pipeline

North America

- Four existing manager “re-ups”
 - Existing tower operator (completed)
 - Three opportunistic strategies
- Office operator

Asia

- Industrial operator

Europe

- Opportunistic Pan-European strategy
- Country-specific manager (Germany)

Global

- NY/London focus (completed)

Agenda Item
UTIMCO Board of Directors Meeting
February 7, 2013

Agenda Item: Less Correlated and Constrained Update

Developed By: Staff

Presented By: Iberg

Type of Item: Information item

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

Recommendation: None

Reference: *LCC UTIMCO Board Update* presentation



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LCC

UTIMCO Board Update

February 7, 2013



Marketable Alternatives Team

- **Cathy Iberg, President and Deputy CIO**
 - *BS University of Illinois (Accounting), CPA*
 - *37 years experience, 22 years with UTIMCO*
- **Ryan Ruebsahm, Senior Director**
 - *MBA University of Texas, BBA University of Texas (Finance)*
 - *10 years experience, 7 years with UTIMCO*
- **Courtney Powers, Director**
 - *MBA University of Texas, AB University of Georgia (English)*
 - *15 years experience, 6 years with UTIMCO*
- **Alison Hermann, Associate**
 - *MBA Butler University, BS Indiana University (Finance), CAIA*
 - *11 years experience, 3 years with UTIMCO*
- **Aman Jain, Senior Analyst**
 - *BBA University of Texas (Finance)*
 - *6 years experience, 4 years with UTIMCO*
- **Drury Morris, Senior Analyst**
 - *BA Rhodes College (Economics and Business Administration), CFA*
 - *5 years experience, 3 years with UTIMCO*
- **Stacy Gray, Executive Assistant**
 - *BA St. Edward's University (Sociology)*
 - *20 years experience, <1 year with UTIMCO*
- **Rosa Buhrman, File Clerk**
 - *15 years experience, 6 years with UTIMCO*



LCC Program Size

- LCC assets total \$8.2bn
 - Thirty percent of Endowments; thirty-eight percent of ITF
- UTIMCO's hedge fund portfolio is:
 - The largest among global endowments & foundations
 - The largest among all U.S. pension plans, public or private; among the five largest among global pension plans
 - Among the 25 largest among global Fund-of-Hedge-Funds
- If the LCC portfolio were a stand-alone endowment, it would be the 7th largest in the U.S.



Objectives

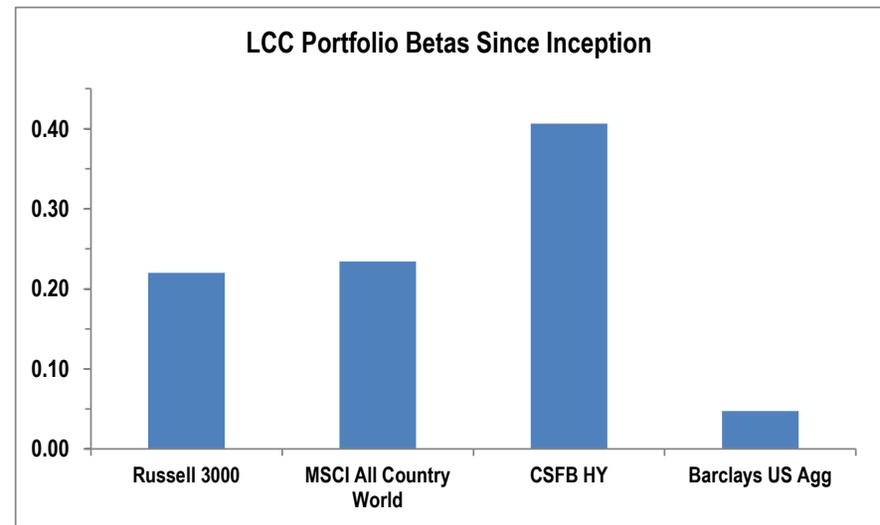
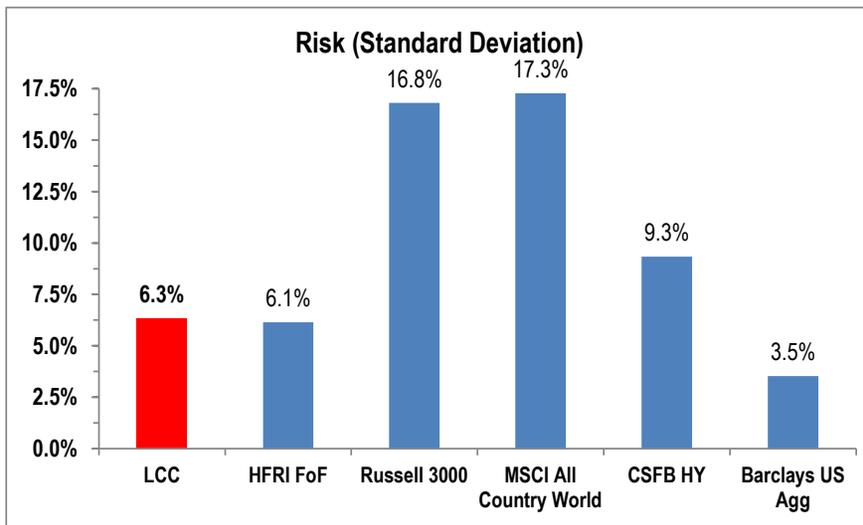
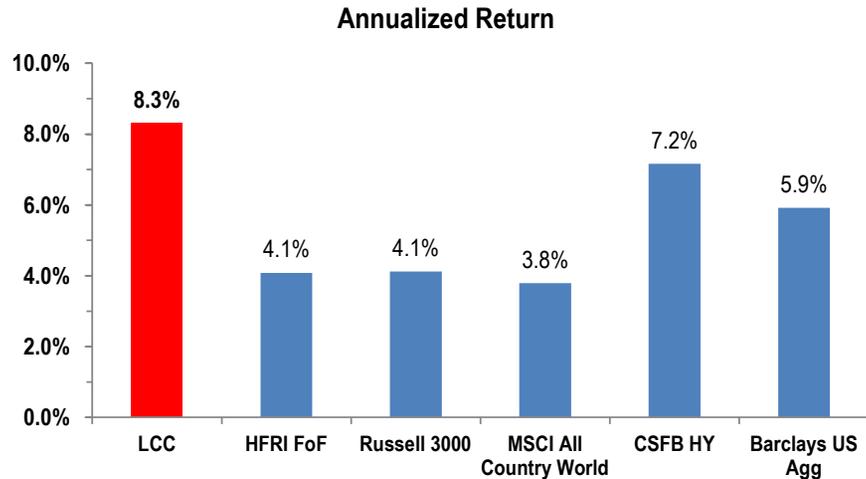
- Preserve Capital
- “Equity-like” Returns with “Bond-like” Risk
- Diversify MCC and Private Investment portfolios
- Value Add through Active Management



Performance

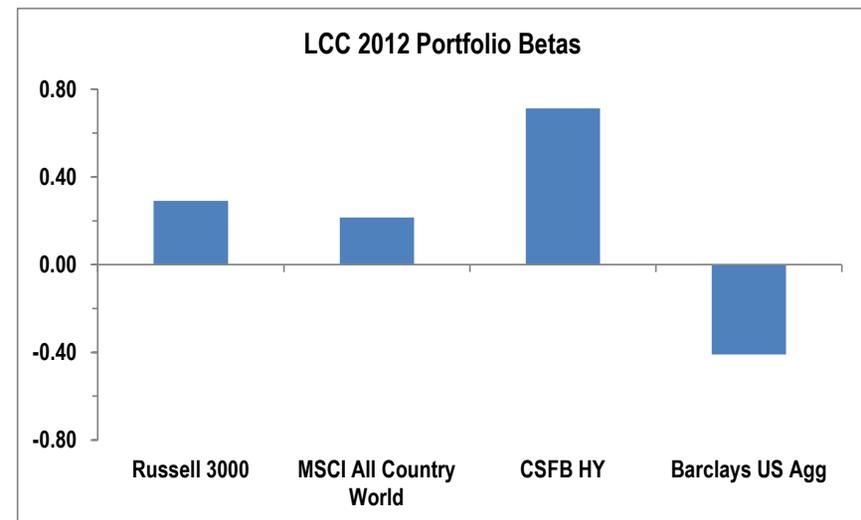
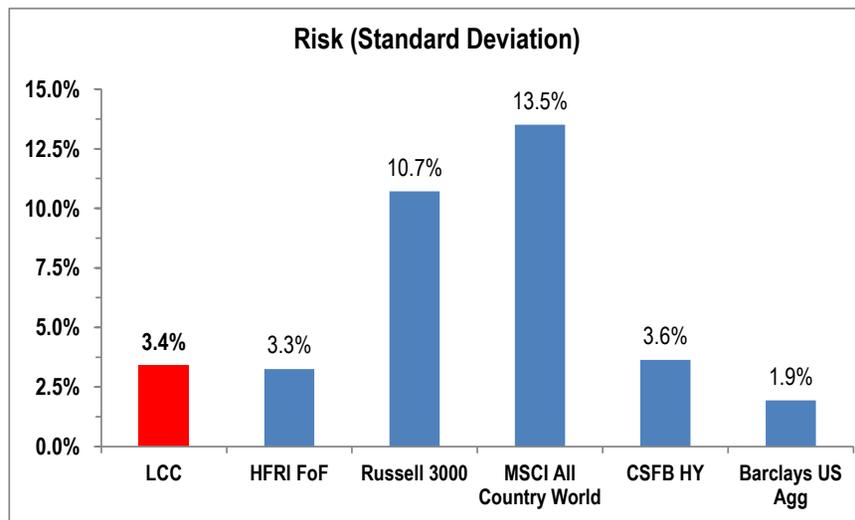
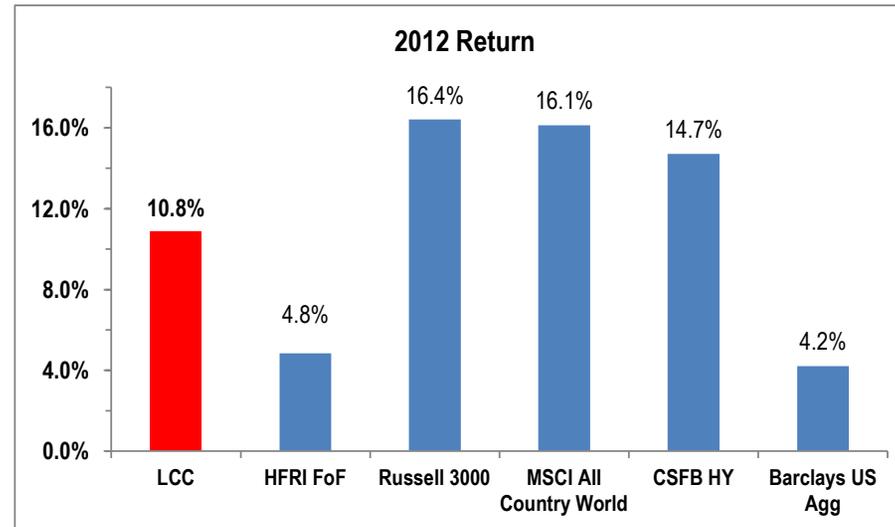


Results Relative to Program Objectives (August 1998 inception – December 2012)





Results Relative to Program Objectives (Calendar Year 2012)





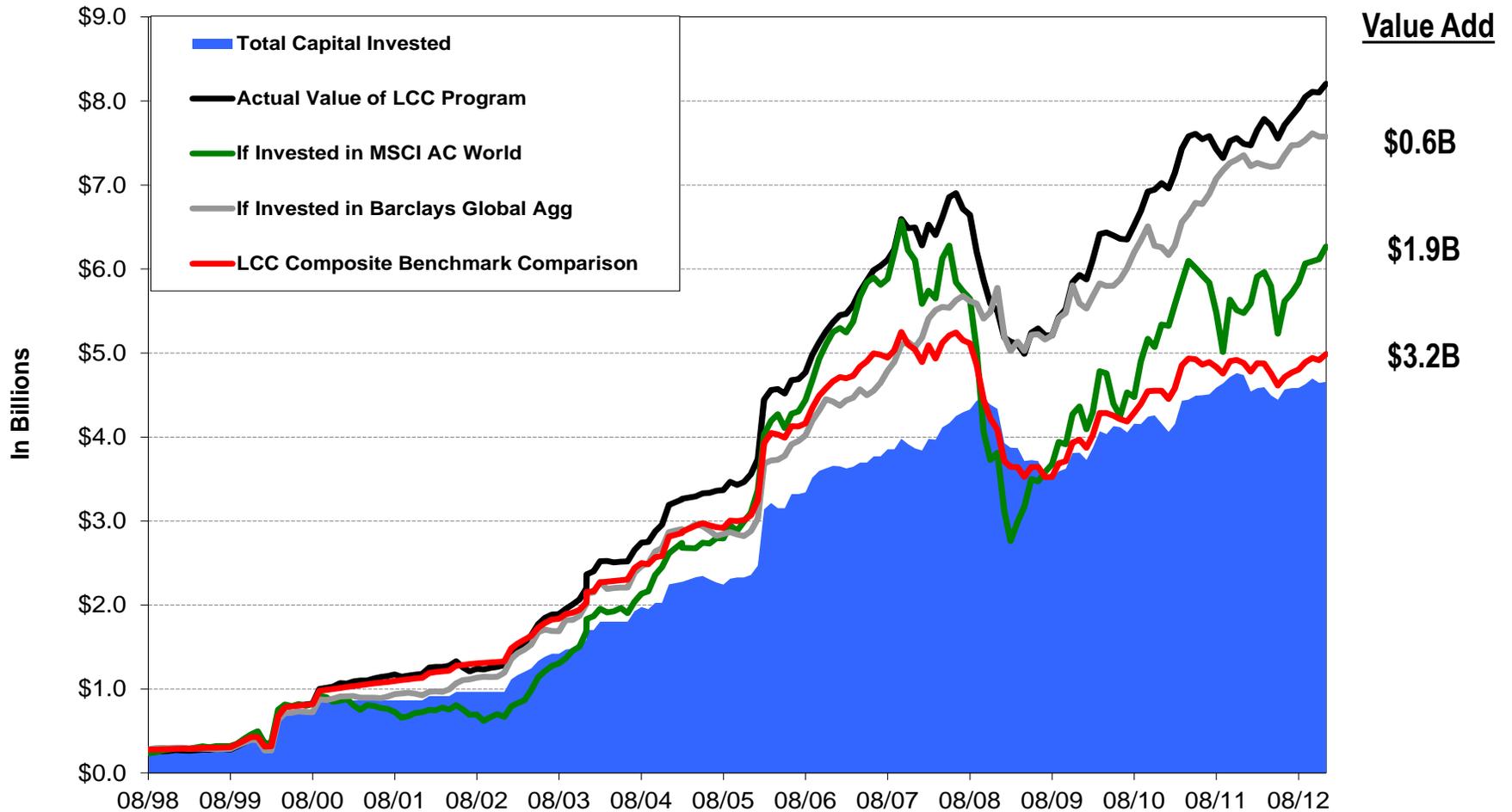
UTIMCO Performance vs. Fund of Funds

(Year Ending 9/30/12)

	One Year			Five Year			Ten Year		
	Cambridge Fund of Funds	HFR Fund of Funds	UTIMCO	Cambridge Fund of Funds	HFR Fund of Funds	UTIMCO	Cambridge Fund of Funds	HFR Fund of Funds	UTIMCO
# of Funds	144	1,271		117	909		51	399	
Average Return	5.9%	2.8%	10.1%	1.1%	-0.5%	3.4%	6.1%	4.3%	8.3%
25th (top)	9.8%	5.5%		1.9%	1.4%		6.9%	5.6%	
75th (bottom)	3.7%	-0.2%		-0.1%	-2.5%		5.3%	2.7%	
Standard Deviation		5.5%	3.8%		7.9%	7.5%		6.8%	5.9%
Return to Risk Ratio		0.5x	2.6x		-0.1x	0.5x		0.6x	1.4x
UTIMCO Percentile Ranking		9th			10th			5th	



Cumulative Performance (August 1998 inception – December 2012)



- \$3.2 billion of gains since inception



Strategy

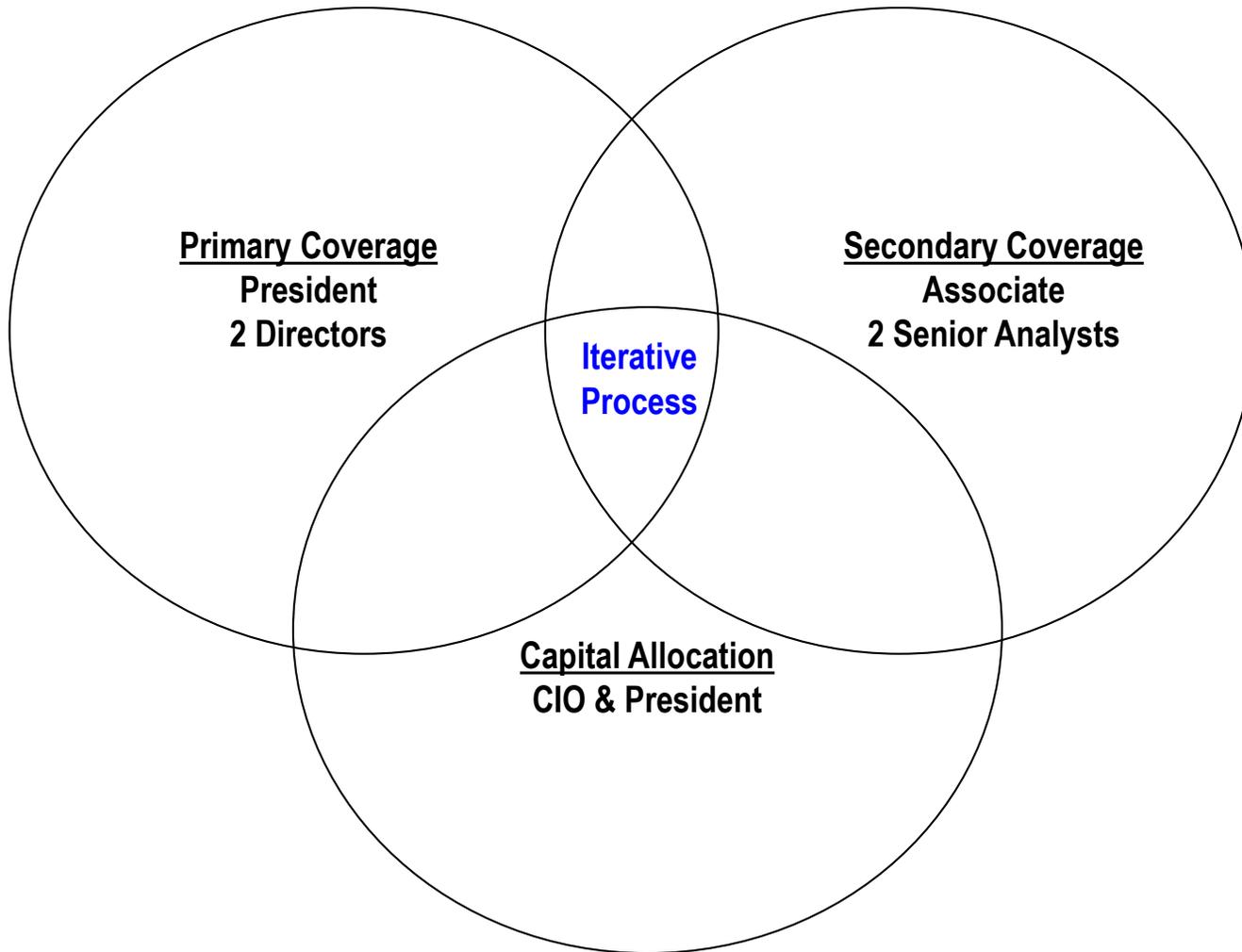


Competitive Advantages

- Reputation
 - Long-time investor
 - Viewed as dependable partner
- Focus on Fundamental Investing in Strategies We Understand
- Long Time Horizon
 - Moderate, incremental changes to both strategies and managers over time
 - Ability to invest in multi-year lock-ups when warranted
- Long Term Relationships
 - Seven year weighted average tenure
 - “Children” and “Grandchildren”
- Economic Alignment
 - 1.37% average management fee
 - 19.4% average incentive fee
 - 12 month weighted average life
- Six Investment Staff



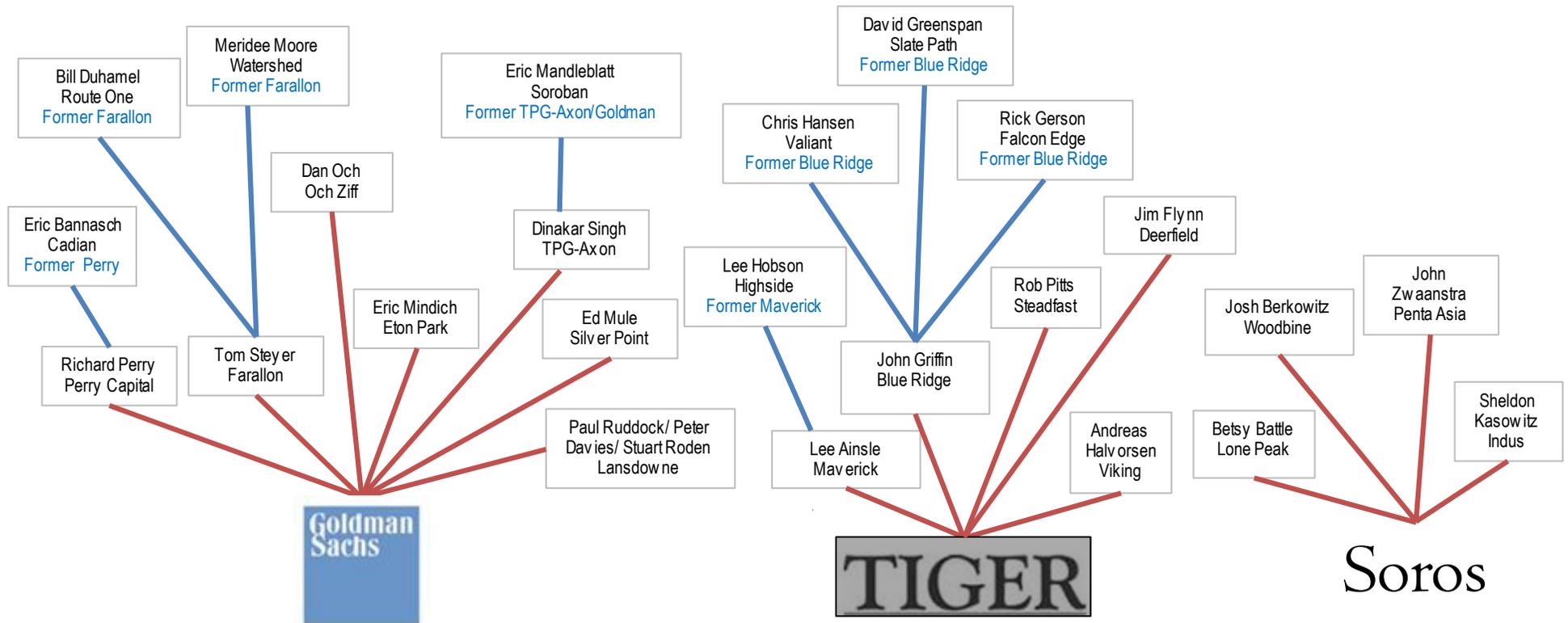
Relationship Coverage



<u>FY 2011</u>	<u># of Meetings</u>	<u># of New Mandates</u>
Existing	265	
Prospects	<u>313</u>	7
Total	<u>578</u>	
<u>FY 2012</u>	<u># of Meetings</u>	<u># of New Mandates</u>
Existing	293	
Prospects	<u>231</u>	8
Total	<u>524</u>	



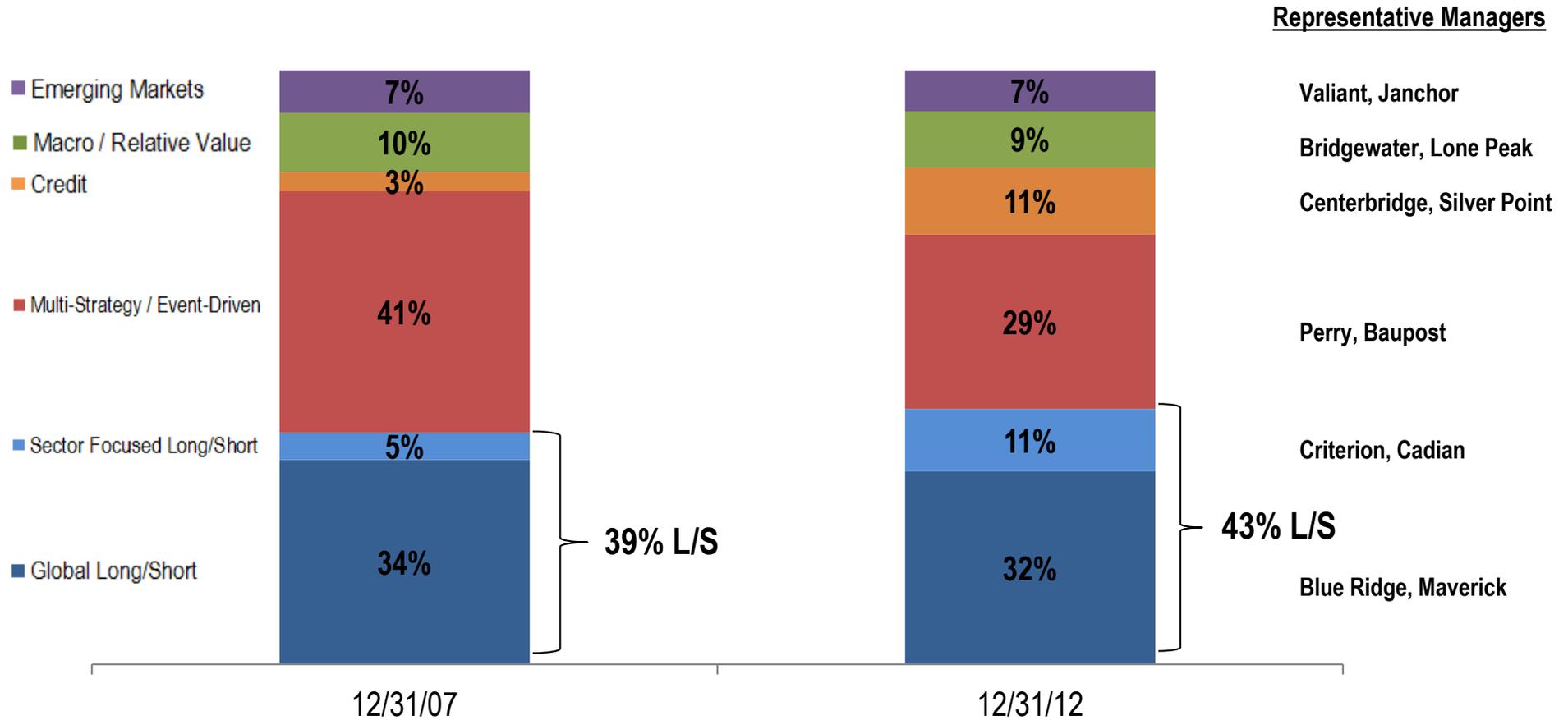
Manager Genealogy



Represent 62% of portfolio



Allocation by Hedge Fund Strategy





Capital Allocation, Leverage, and Net Exposure

(Estimated as of November 30, 2012)

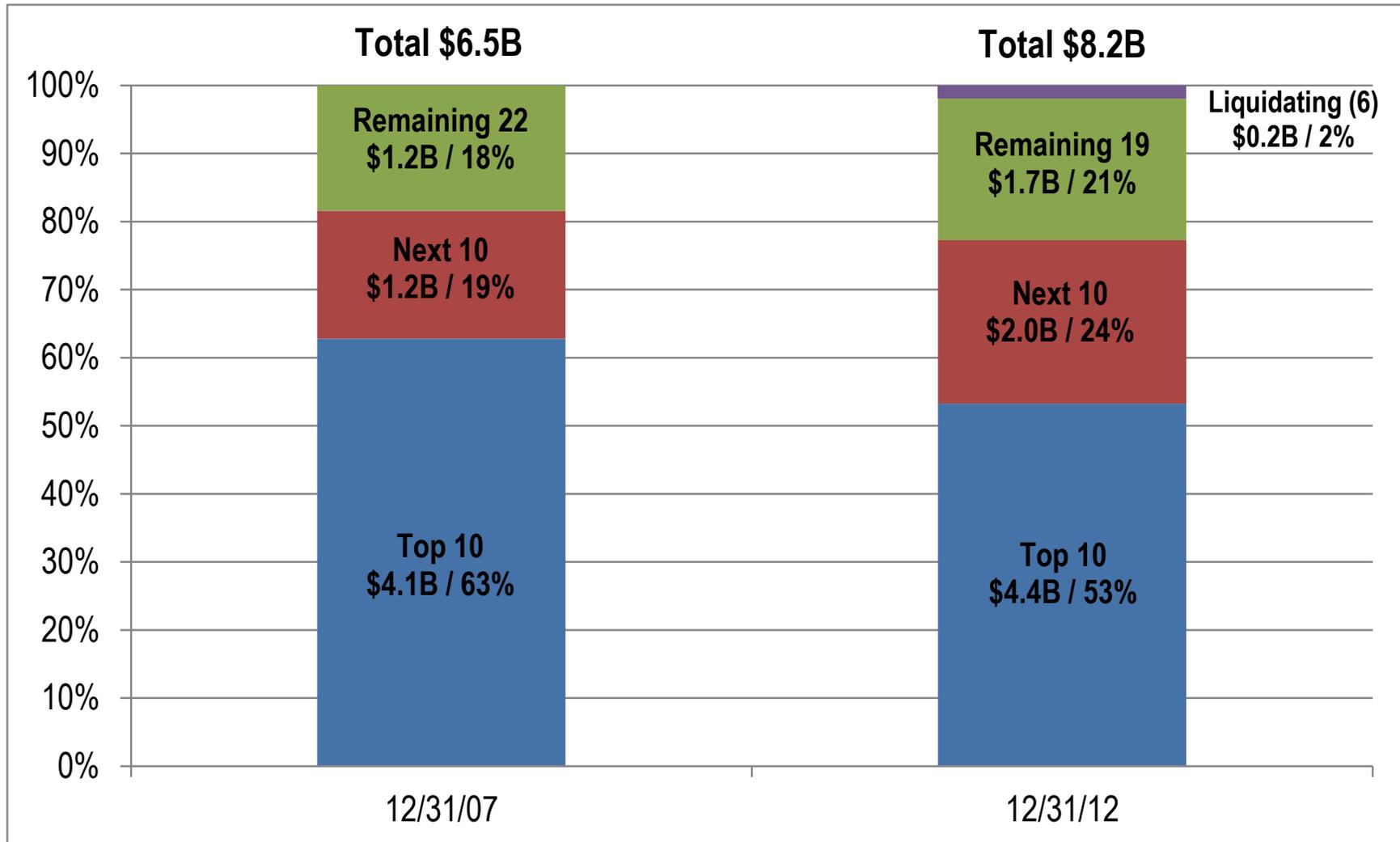
	Capital Allocation	Strategy-Level Leverage		Contribution to LCC Leverage	
	<u>% of NAV</u>	<u>Gross</u>	<u>Net</u>	<u>Gross</u>	<u>Net</u>
Credit Related FI	17%	108%	59%	19%	10%
Real Estate	2%	164%	48%	3%	1%
Developed Country Equity	63%	183%	38%	116%	24%
Emerging Markets Equity	<u>8%</u>	<u>156%</u>	<u>29%</u>	<u>12%</u>	<u>2%</u>
Sub Total	91%	166%	41%	150%	37%
Investment Grade FI	<u>9%</u>	<u>459%</u>	<u>61%</u>	<u>43%</u>	<u>6%</u>
<u>LCC Total</u>	<u>100%</u>	<u>193%</u>	<u>43%</u>	<u>193%</u>	<u>43%</u>



Portfolio

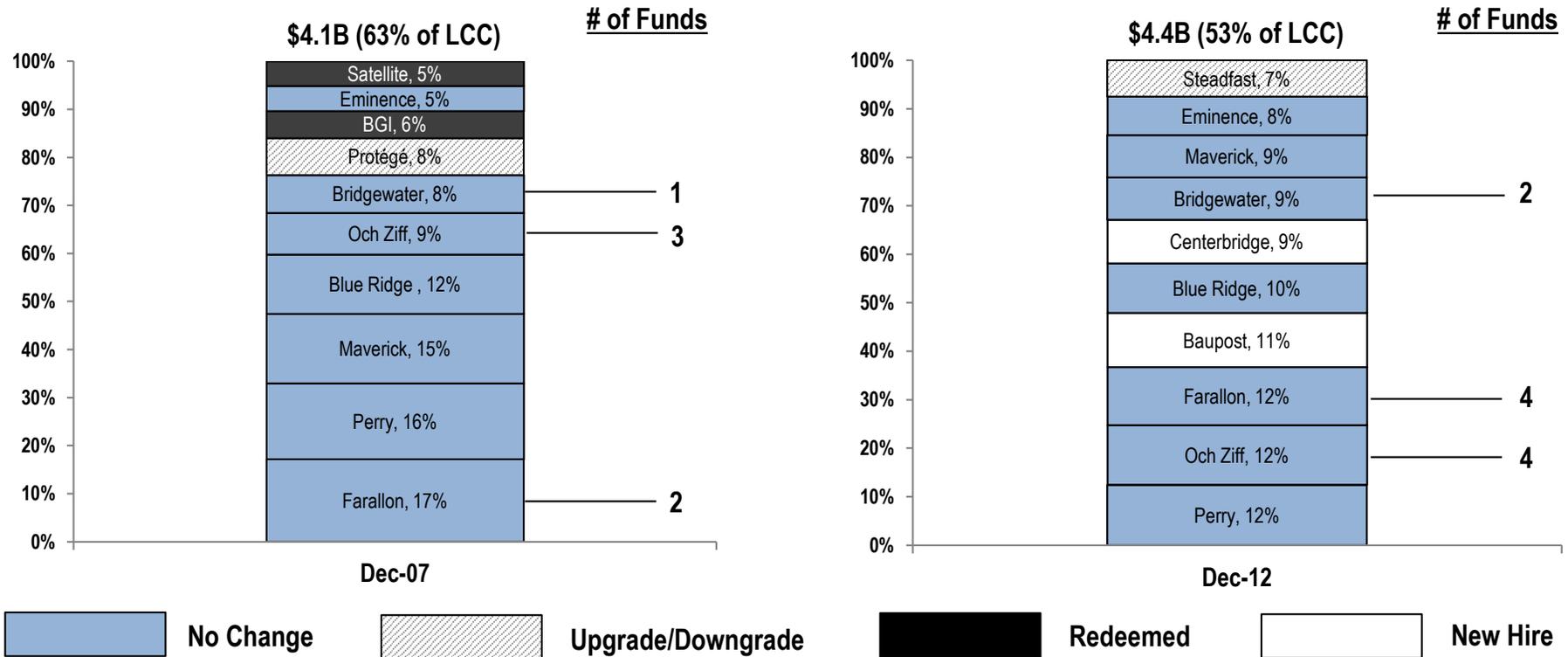


Portfolio Concentration by Relationship





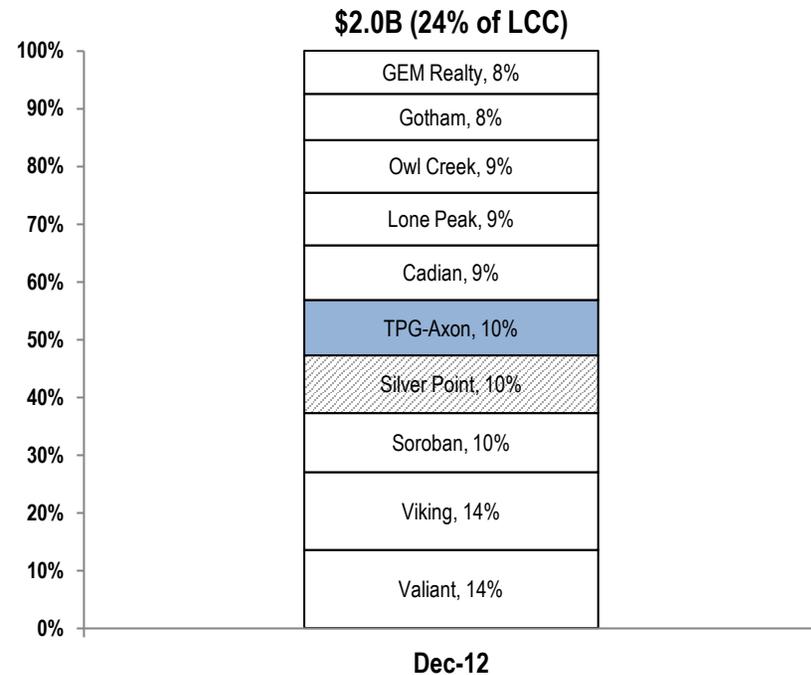
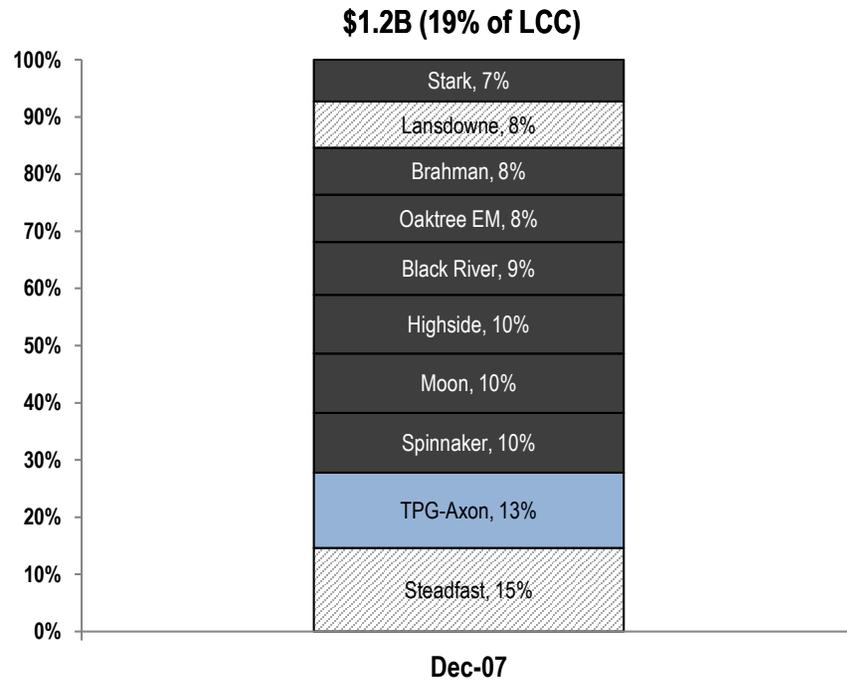
Top Ten Composition by Manager



- No change in seven of the top ten
- Within these seven, active deployment of capital since December 2007
 - \$0.7 billion of additions and \$1.5 billion of redemptions



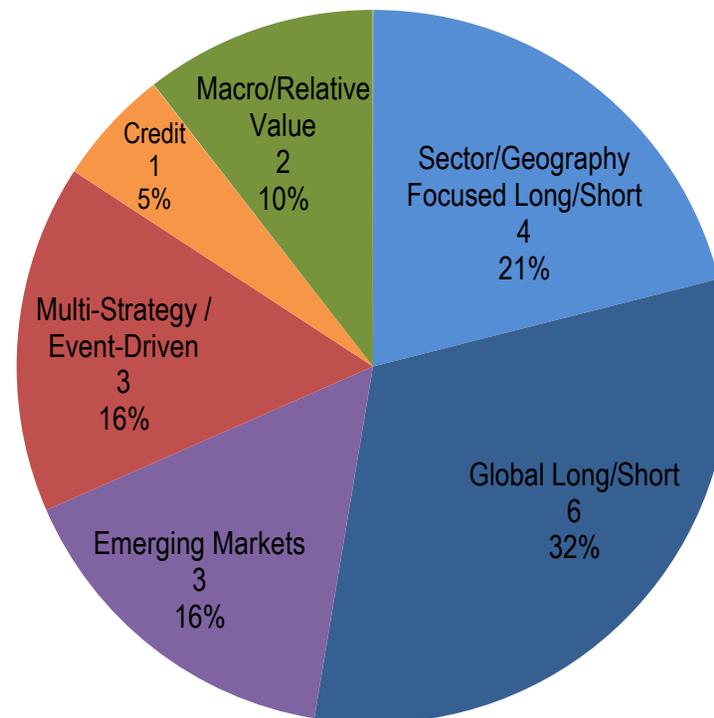
Next Ten Composition by Manager





Remaining 19 Manager Composition as of Dec 2012

- Eleven of the remaining nineteen “satellite” managers were added in the last five years
- The other eight have an average tenure of seven years
- Ten are “children” & “grandchildren” of other long-term LCC relationships





Capital Planning Next 6 Months

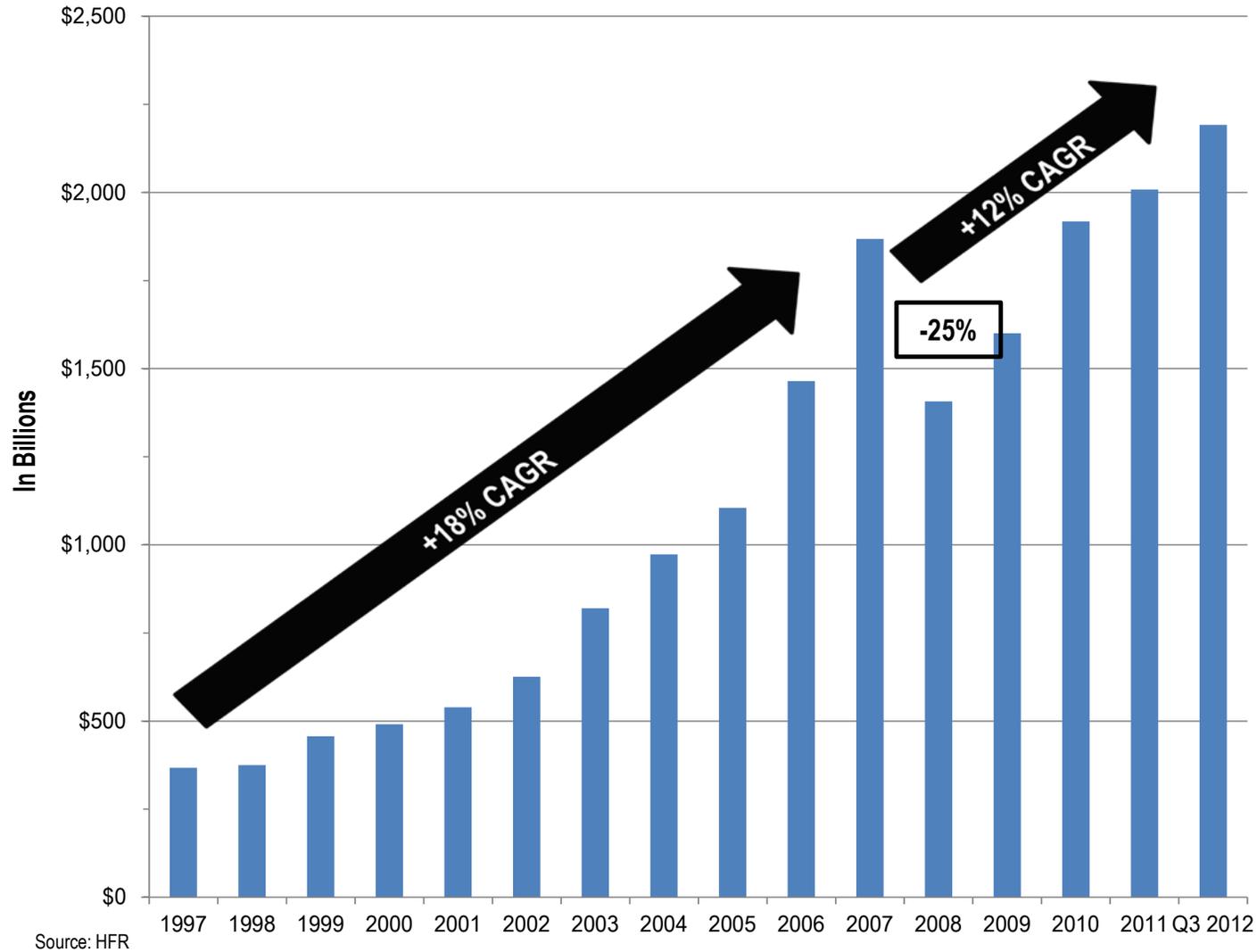
- Additions to Existing Relationships
 - \$75M to long/short equity specialist
 - \$25M to emerging markets manager
 - Likely \$25M to discretionary macro manager
- Redemptions
 - Continue staggered redemptions from emerging markets relationship
 - \$30-60 million rebalance from large distressed credit mandate
 - Likely full redemption from a long/short equity manager
- New Managers
 - Likely \$60 million to a European long/short equity manager
 - Potentially \$60 million with a <\$500 million long/short equity manager
 - Potentially \$100 million to an emerging markets strategy



Hedge Fund Industry Trends

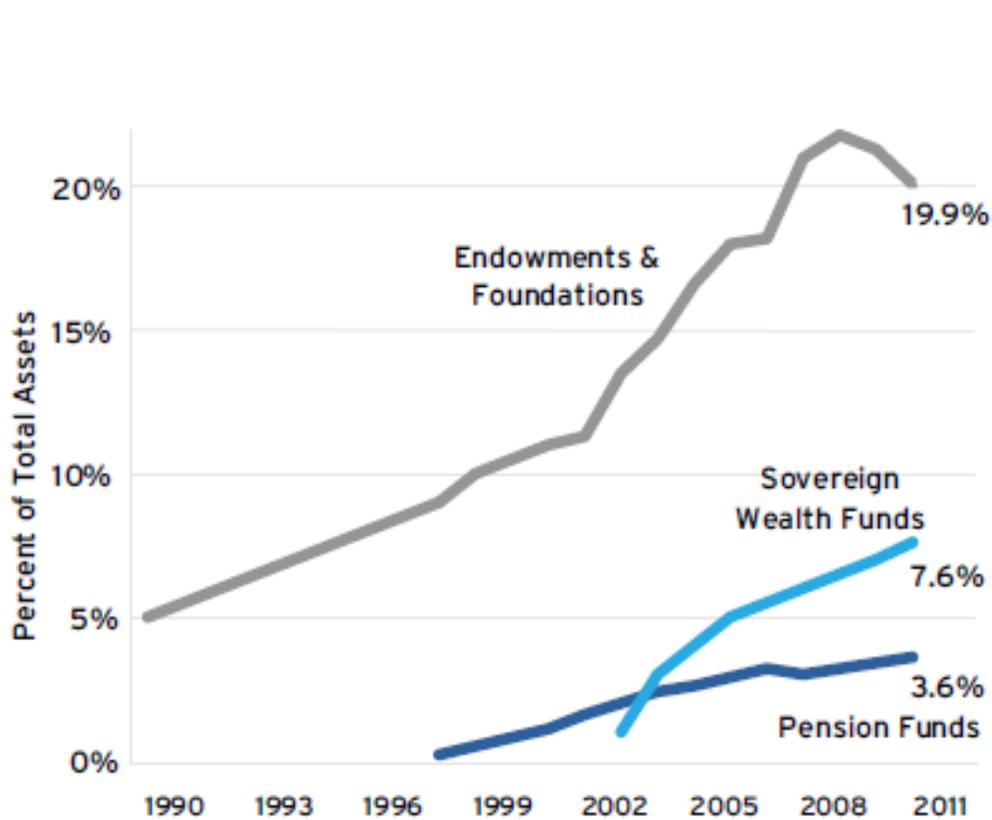


Hedge Fund Industry Assets

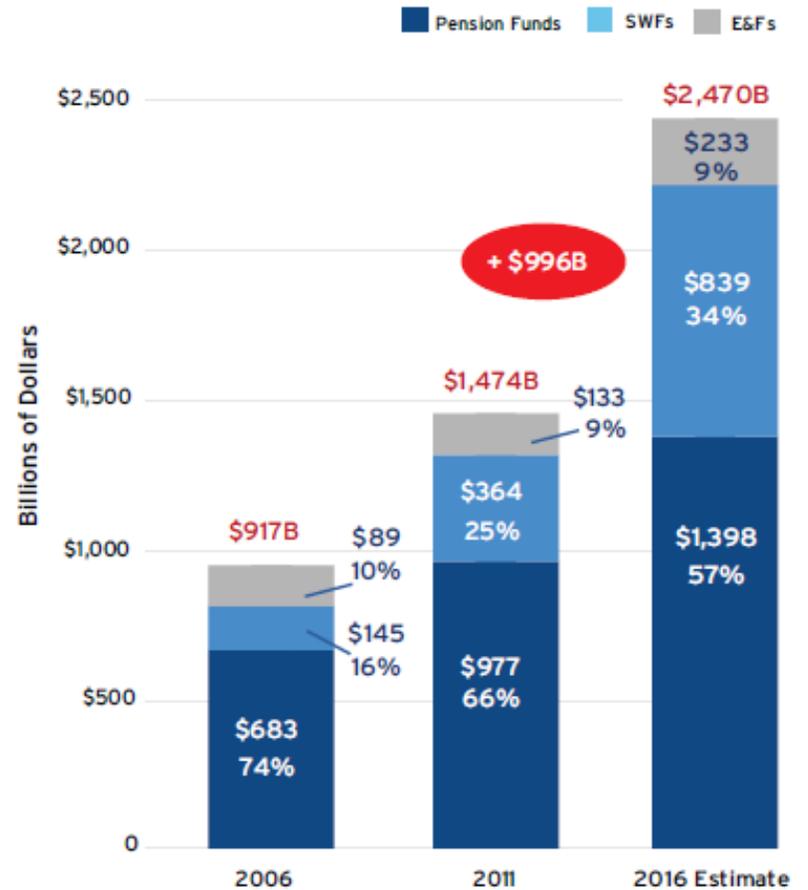




Hedge Fund Allocation Trends



Source: Citi Prime Finance Analysis



Source: Citi Prime Finance Analysis based on Towers Watson, SWF Institute, OECD, NACUBO Commonfund & eVestment HFN data



Hedge Fund Industry Activity

- ~1,000 hedge funds launched in 2012E, consistent with 10-12% growth seen in 2010 and 2011
- ~600 hedge funds liquidated in 2012E, consistent with 6-9% contraction since 2005 (other than 17% in 2008)
- Net flows YTD Q3 2012 total \$31 billion, annualizing at lowest rate since 2000 (excluding 2008 and 2009 redemptions)
- Industry trends since 2008 show increased flows to Macro and CTA strategies, and net redemptions from Equity Long/Short



Regulatory Issues

<p>SEC RIA CFTC Commodity Pool Operator</p>	<p>All funds must register with the SEC as an investment advisor and file form ADV part 1 and part 2. CFTC requires anyone trading commodity futures to register as CPO and removes prior Rule 4.13(a)(4) exemption (small number of investors) unless volume is <i>de minimus</i></p>
<p>Form PF (Private Fund)</p>	<p>Confidential quarterly reporting to SEC that resembles a mutual fund prospectus. Detail around gross and net exposures, notional CDS, delta adjusted options, lock-ups, investor concentration, side letters. Filing requirements based on gross exposure (longs+shorts). Minimum gross threshold of \$250 million to file.</p>
<p>Large Trader Status</p>	<p>Fund issued "large trader ID #". Must self-report (and the prime brokers must also report) everytime a fund trades over 20m shares a day or more than 5m shares 4-5x a month.</p>
<p>European Equity Short Rules</p>	<p>Any short position that is greater than 25bps of the share capital of a European listed company must be disclosed. Any change of 5-10 bps requires a refresh of the disclosure.</p>
<p>European CDS Rules (Enacted Nov 1, 2012)</p>	<p>No naked purchasing of Sovereign Credit Default Swaps on any European Union member country. Portfolio is considered "covered" if it has an 85%+ correlation to the underlying country markets.</p>

Agenda Item
UTIMCO Board of Directors Meeting
February 7, 2013

Agenda Item:	Report on and Discussion and Appropriate Action Related to Items from Audit and Ethics Committee - Audit of UTIMCO Financial Statements
Developed By:	Staff
Presented By:	Wilson
Type of Item:	Action required by UTIMCO Board related to audit; information item on other items
Description:	<p>The Audit and Ethics Committee (the "Committee") will meet on January 30, 2013. The Committee's agenda includes (1) discussion and appropriate action related to the Committee minutes; (2) discussion and appropriate action related to Deloitte & Touche LLP's Financial Statement Audit Results and Communications and Audited Financial Statements for the Corporation; (3) an update of compliance, reporting, and audit issues; (4) an update on enterprise risk management; and (5) a presentation of the unaudited financial statements for the three months ended November 30, 2012, for the Investment Funds and the Corporation. The Committee will also meet in executive session for the purpose of deliberating individual evaluation matters.</p>
Discussion:	<p>The UTIMCO financial statements were audited by Deloitte & Touche LLP. Deloitte & Touche LLP issued an unqualified opinion on the August 31, 2012 and 2011 financial statements. Tom Wagner, the engagement partner, is scheduled to present to the Committee the Deloitte & Touche LLP's Audit Results and Communications letter and answer questions related to the financial statements. A copy of the Audit Results and Communications and the audited financial statements are included.</p> <p>Cissie Gonzalez will provide an update on enterprise risk management to the Committee. The charter of the Audit and Ethics Committee requires the Committee to assist the Board in monitoring the Corporation's Enterprise Risk Management.</p> <p>Routine activities of the Committee will include reviewing the unaudited financial statements for the first quarter for the Funds and UTIMCO Corporation and the quarterly compliance reports.</p>
Recommendation:	The Committee will request the UTIMCO Board take appropriate action based on the Committee's action from its meeting related to approval of Deloitte and Touche LLP's Financial Statement Audit Results and Communications, and the audited financial statements and audit report for the Corporation.
Reference:	Audit Results and Communications; Audited financial statements and audit report for the Corporation; Quarterly Compliance Reports

**RESOLUTIONS RELATED TO AUDIT OF THE CORPORATION FOR
FISCAL YEAR 2012**

RESOLVED, that Deloitte & Touche LLP's Financial Statement Audit Results and Communications for the Corporation 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 annual financial statements and audit report for the Corporation for the fiscal years ended August 31, 2012 and August 31, 2011, be, and are hereby approved in the form as presented to the Board.

January 15, 2013

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

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

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

We have performed an audit of the financial statements of The University of Texas Investment Management Company (the “Company”) as of and for the year ended August 31, 2012, in accordance with auditing standards generally accepted in the United States of America and have issued our report thereon dated January 15, 2013.

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

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS

Our responsibility under auditing standards generally accepted in the United States of America has been described in our engagement letter dated July 19, 2012, a copy of which has been provided to you. As described in that letter, the objective of a financial statement audit conducted in accordance with auditing standards generally accepted in the United States of America is to express an opinion on the fairness of the presentation of the Company’s financial statements for the year ended August 31, 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 Audit and Ethics Committee are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Audit and Ethics Committee of their responsibilities.

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

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the Company's 2012 financial statements include the recoverability of long-term assets such as property and equipment and liabilities as well as those related to accrued compensation and other compensation related accounts. During the year ended August 31, 2012, there were no significant changes in accounting estimates or in management's judgments relating to such estimates.

UNCORRECTED MISSTATEMENTS

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

MATERIAL CORRECTED MISSTATEMENTS

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

SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are set forth in Note 2 to the Company's 2012 financial statements. During the year ended August 31, 2012, there were no significant changes in previously adopted accounting policies or their application.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Company's 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 Audit and Ethics Committee.

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

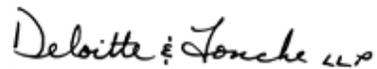
MANAGEMENT'S REPRESENTATIONS

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

* * * * *

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

Yours truly,

Handwritten signature of Deloitte & Touche LLP in cursive script.

**THE UNIVERSITY OF TEXAS INVESTMENT
MANAGEMENT COMPANY**

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT**

Years ended August 31, 2012 and 2011

The University of Texas Investment Management Company

Financial Statements

Years Ended August 31, 2012 and 2011

Contents

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Statements of Revenues, Expenses and Changes in Net Assets	7
Statements of Cash Flows	8
Notes to the Financial Statements	10

Independent Auditors' Report

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

We have audited the accompanying Balance Sheets of The University of Texas Investment Management Company ("UTIMCO"), as of August 31, 2012 and 2011, and the related Statements of Revenues, Expenses and Changes in Net Assets, and the Statements of Cash Flows for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of UTIMCO as of August 31, 2012 and 2011, and the results of its operations, changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Deloitte & Touche LLP

January 15, 2013

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

Our discussion and analysis of the financial performance for The University of Texas Investment Management Company (UTIMCO) provides an overview of its activities for the year ended August 31, 2012. This discussion was prepared by UTIMCO management and should be read in conjunction with the UTIMCO financial statements and notes. UTIMCO is a 501(c) (3) investment management corporation whose sole purpose is the management of investment assets that are under the fiduciary care of the Board of Regents of The University of Texas System (UT Board).

Created in March 1996, UTIMCO is the first external investment corporation formed by a public university system. It invests endowment and operating funds in excess of \$27 billion. UTIMCO is governed by a nine-member Board of Directors (UTIMCO Board), consisting of at least three members of the UT Board, the Chancellor of the University of Texas System, three independent directors with substantial background and expertise in investments appointed by the UT Board, and two members appointed by the Texas A&M System Board, one of which must have a substantial background and expertise in investments. The UTIMCO Board and the UT Board have entered into an Investment Management Services Agreement delegating investment management responsibility for all investments to UTIMCO.

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

Financial Highlights

Net assets increased by approximately \$2.4 million from \$4.5 million to \$6.9 million, or approximately 53.0%, for the year ended August 31, 2012. This is compared to a decrease of \$.9 million from \$5.4 million to \$4.5 million, or approximately 16.7%, for the year ended August 31, 2011. The change in net assets from 2011 to 2012 is mainly a result of the decrease in performance compensation. The change in net assets from 2010 to 2011 is mainly a result of the increase in performance compensation.

Use of Financial Statements and Notes

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

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

Balance Sheets

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

The following summarizes the Balance Sheets:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets			
Cash & Cash Equivalents	\$ 7,929,555	\$ 8,815,125	\$ 8,773,743
Other Assets	<u>2,590,026</u>	<u>2,831,931</u>	<u>3,076,643</u>
Total Assets	<u>\$10,519,581</u>	<u>\$11,647,056</u>	<u>\$11,850,386</u>
Liabilities & Net Assets			
Accounts Payable & Deferred Compensation Plan Obligations	\$ 2,747,399	\$ 6,037,768	\$ 5,101,374
Deferred Rent	900,973	1,126,217	1,351,461
Unrestricted Net Assets	<u>6,871,209</u>	<u>4,483,071</u>	<u>5,397,551</u>
Total Liabilities & Net Assets	<u>\$10,519,581</u>	<u>\$11,647,056</u>	<u>\$11,850,386</u>

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

- Cash decreased between FY 2011 and 2012 by approximately \$885,600, primarily as a result of an increase in the payment of deferred performance compensation. Unrestricted net assets increased in FY 2012 by approximately \$2,388,000 primarily as a result of a decrease in performance compensation. Cash remained constant between FY 2010 and 2011. Unrestricted net assets decreased in 2011 by approximately \$914,000 primarily as a result of increased performance compensation.
- Other Assets decreased by approximately \$242,000 in 2012 and by approximately \$245,000 in 2011 primarily as a result of fixed assets depreciating. Additionally, UTIMCO added a deferred compensation program in FY 2008, which continues to annually increase other assets and other accrued expenses.
- Accounts payable and deferred compensation plan obligations decreased by approximately \$3,290,000 in 2012 as a result of a decrease in performance compensation and increased by approximately \$936,000 in 2011 as a result of an increase in performance compensation.

Statements of Revenues, Expenses and Changes in Net Assets

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Revenue			
Management Fees	\$ 18,306,201	\$ 17,238,772	\$ 15,984,625
Net Non-operating Revenues	<u>14,959</u>	<u>14,601</u>	<u>24,348</u>
	18,321,160	17,253,373	16,008,973
Expenses			
Salaries & Benefits	11,776,416	14,314,447	12,569,998
General Operating	2,060,613	1,807,100	1,850,104
Depreciation	533,872	552,739	579,925
Other	<u>1,562,121</u>	<u>1,493,567</u>	<u>1,566,421</u>
	15,933,022	18,167,853	16,566,448
Management Fee Rebate	<u>-</u>	<u>-</u>	<u>(5,000,000)</u>
Increase/Decrease in Unrestricted Net Assets	2,388,138	(914,480)	(5,557,475)
Net Assets, Beginning of Year	<u>4,483,071</u>	<u>5,397,551</u>	<u>10,955,026</u>
Net Assets, End of Year	<u>\$ 6,871,209</u>	<u>\$ 4,483,071</u>	<u>\$ 5,397,551</u>

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

- Management Fees revenue for each year presented are based upon the operating budget and management fee approved in advance each year by both the UTIMCO Board and the UT Board. Revenue fluctuations are the direct result of these approved budgets.
- Salary and Benefit expenses fluctuated primarily as a result of changes in performance based compensation in all fiscal years. Additionally, in fiscal year 2012, performance compensation was approximately \$2.9 million lower than 2011 primarily because of the deferral provision of the performance compensation plan. Staff levels were primarily constant in fiscal years 2012, 2011 and 2010.
- General Operating Expenses increased in 2012 and decreased slightly in 2011 primarily related to travel expenses.
- In FY 2010, UTIMCO issued a \$5,000,000 rebate to the funds as per the provisions of the Investment Management Services Agreement between UTIMCO and the Board of Regents of The University of Texas System. There was no such amount for FY 2011 or FY 2012.

Statements of Cash Flows

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Cash Flows (Used in)/Provided by Operating Activities			
Proceeds from management fees	\$ 18,306,201	\$ 17,238,772	\$ 15,984,625
Payments to and for employees	(15,223,212)	(13,509,721)	(11,156,007)
Other payments	<u>(3,842,315)</u>	<u>(3,542,686)</u>	<u>(3,623,927)</u>
Net cash (used in)/provided by operating activities	(759,326)	186,365	1,204,691
Cash Flows Used for Capital and Related Financing Activities			
Purchase of property & equipment, net	(141,437)	(165,748)	(75,186)
Rebate of management fees to the funds	-	-	(5,000,000)
Interest	<u>15,193</u>	<u>20,765</u>	<u>25,805</u>
Net cash used for capital and related financing activities	<u>(126,244)</u>	<u>(144,983)</u>	<u>(5,049,381)</u>
Net Change in Cash & Cash Equivalents	(885,570)	41,382	(3,844,690)
Cash & cash equivalents, beginning of year	<u>8,815,125</u>	<u>8,773,743</u>	<u>12,618,433</u>
Cash & cash equivalents, end of year	<u>\$ 7,929,555</u>	<u>\$ 8,815,125</u>	<u>\$ 8,773,743</u>

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

- Payments to and for employees increased in fiscal years 2012 and 2011 as a result of the increase in compensation and other personnel expenses that are directly related to compensation.
- The rebate of management fees to the funds for the fiscal year 2009 was paid in the first quarter of fiscal year 2010.
- Purchases of property and equipment decreased slightly for fiscal year 2012 and increased in fiscal year 2011 as the result of replacing obsolete equipment.
- Interest income decreased in 2012 and 2011 as a direct result of market conditions in the fiscal year.

Contacting UTIMCO

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

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

Financial Statements

Balance Sheets

August 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 7,929,555	\$ 8,815,125
Prepaid expenses and other assets	<u>534,397</u>	<u>410,163</u>
Total Current Assets	8,463,952	9,225,288
Non-Current Assets:		
Assets of deferred compensation plan	520,254	493,724
Property and equipment, net of accumulated depreciation of \$4,076,304 and \$3,543,201, respectively	<u>1,535,375</u>	<u>1,928,044</u>
Total Non-Current Assets	<u>2,055,629</u>	<u>2,421,768</u>
Total Assets	<u>\$ 10,519,581</u>	<u>\$ 11,647,056</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 2,227,145	\$ 5,544,044
Current portion - deferred rent	<u>225,244</u>	<u>225,244</u>
Total Current Liabilities	2,452,389	5,769,288
Non-Current Liabilities:		
Deferred compensation plan obligations	520,254	493,724
Long-term portion – deferred rent	<u>675,729</u>	<u>900,973</u>
Total Non-Current Liabilities	<u>1,195,983</u>	<u>1,394,697</u>
Total Liabilities	3,648,372	7,163,985
Net Assets:		
Unrestricted	<u>6,871,209</u>	<u>4,483,071</u>
Total Liabilities and Net Assets	<u>\$ 10,519,581</u>	<u>\$ 11,647,056</u>

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

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

Financial Statements

Statements of Revenues, Expenses and Changes in Net Assets

For the years ended August 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues		
Management fee	\$18,306,201	\$17,238,772
Total Operating Revenues	18,306,201	17,238,772
Operating Expenses		
Salaries	10,169,005	12,713,649
Employee benefits	1,135,215	1,107,835
Payroll taxes	472,196	492,963
General operating	2,060,613	1,807,100
Depreciation	533,872	552,739
Lease	983,934	935,490
Professional fees	369,458	330,752
Insurance	<u>208,729</u>	<u>227,325</u>
Total Operating Expenses	<u>15,933,022</u>	<u>18,167,853</u>
Operating Income/(Loss)	2,373,179	(929,081)
Nonoperating Revenues		
Interest	15,193	20,765
Loss on disposal of equipment	<u>(234)</u>	<u>(6,164)</u>
Net Nonoperating Revenues	<u>14,959</u>	<u>14,601</u>
Increase/(Decrease) in Unrestricted Net Assets	2,388,138	(914,480)
Net assets at beginning of year	<u>4,483,071</u>	<u>5,397,551</u>
Net assets at end of year	<u>\$ 6,871,209</u>	<u>\$ 4,483,071</u>

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

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

Financial Statements

Statements of Cash Flows

For the years ended August 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Proceeds from management fees	\$ 18,306,201	\$ 17,238,772
Payments to suppliers for goods and services	(2,633,819)	(2,381,270)
Payments for facility	(1,208,496)	(1,161,416)
Payments to employees	(13,619,068)	(11,908,971)
Payments for employees	<u>(1,604,144)</u>	<u>(1,600,750)</u>
Net cash (used in)/provided by operating activities	<u>(759,326)</u>	<u>186,365</u>
Cash flows from capital and related financing activities:		
Purchases of property and equipment	<u>(141,437)</u>	<u>(165,748)</u>
Net cash used in capital and related financing activities	<u>(141,437)</u>	<u>(165,748)</u>
Cash flows from financing activities:		
Interest	<u>15,193</u>	<u>20,765</u>
Net cash from financing activities	<u>15,193</u>	<u>20,765</u>
Net increase/(decrease) in cash and cash equivalents	(885,570)	41,382
Cash and cash equivalents at beginning of year	<u>8,815,125</u>	<u>8,773,743</u>
Cash and cash equivalents at end of year	<u>\$ 7,929,555</u>	<u>\$ 8,815,125</u>

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

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

Financial Statements

Statements of Cash Flows, Continued

Reconciliation of operating income to net cash (used in)/provided by operating activities:

	<u>2012</u>	<u>2011</u>
Operating income/(loss)	\$ 2,373,179	\$ (929,081)
Adjustments to reconcile operating income to net cash (used in)/provided by operating activities:		
Depreciation	533,872	552,739
Change in assets and liabilities:		
(Increase)/decrease in prepaid expenses and other assets	(124,234)	27,781
Increase in assets of deferred compensation plan	(26,530)	(176,224)
Increase/(decrease) in accounts payable and accrued expenses	(3,316,899)	760,170
Increase in liabilities of deferred compensation plan	26,530	176,224
Decrease in deferred rent	<u>(225,244)</u>	<u>(225,244)</u>
Net cash (used in)/provided by operating activities	<u>\$ (759,326)</u>	<u>\$ 186,365</u>

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

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

Notes to Financial Statements

Note 1 - Organization

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

Note 2 - Significant Accounting Policies

Basis of Accounting

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

Cash and cash equivalents

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

Prepaid expenses and other assets

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

Property and equipment, net of accumulated depreciation

Net property and equipment consists of office furniture, office equipment, software, and leasehold improvements and is stated at net book value. UTIMCO capitalizes assets whose cost exceeds \$300. Depreciation is computed using the straight-line method over the useful lives of the assets. Estimated useful lives range from 3-7 years for office furniture, equipment and software and for the lease term for leasehold improvements. The following is a schedule of the property and equipment at August 31, 2012 and 2011.

	<u>2012</u>	<u>2011</u>
Office furniture	\$ 862,578	\$ 862,578
Office equipment	1,288,502	1,184,330
Software	303,940	267,678
Leasehold improvements	<u>3,156,659</u>	<u>3,156,659</u>
Total property and equipment	5,611,679	5,471,245
Less accumulated depreciation	<u>(4,076,304)</u>	<u>(3,543,201)</u>
Net property and equipment	<u>\$ 1,535,375</u>	<u>\$ 1,928,044</u>

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

Notes to Financial Statements

Income taxes

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

Use of Estimates

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

Subsequent Events

These financial statements considered subsequent events through January 15, 2013, the date the financial statements were available to be issued.

Note 3 - Related Party Transactions

a) Pursuant to a Master Investment Management Services Agreement with UTIMCO, the UT Board has appointed UTIMCO as its investment manager with complete authority to act for the UT Board in the investment of all funds. The amount of the management fees for the periods ended August 31, 2012 and 2011 were \$18,298,701 and \$17,231,272, respectively. This represents fees for the following:

	<u>2012</u>	<u>2011</u>
Permanent University Fund	\$ 8,900,255	\$ 8,470,821
The University of Texas System Long Term Fund	5,274,701	4,821,311
Permanent Health Fund	893,420	874,369
The University of Texas System Intermediate Term Fund	<u>3,230,325</u>	<u>3,064,771</u>
	<u>\$ 18,298,701</u>	<u>\$ 17,231,272</u>

b) UTIMCO contracts for internet, mainframe connection, and various other technology services with The University of Texas System and The University of Texas at Austin. The expense for these services for the periods ended August 31, 2012 and 2011 were \$15,306 and \$66,276, respectively.

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

Notes to Financial Statements

Note 4 – Deposits and Investments

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, UTIMCO will not be able to recover its deposits. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, UTIMCO will not be able to recover the value of its investment or collateral securities that are in the possession of another party. UTIMCO does not have a deposit policy for custodial credit risk. The FDIC insures deposits up to \$250,000. As of August 31, 2012 and 2011, there were no uninsured deposits. Additionally, UTIMCO does not have any investments that are exposed to custodial credit risk.

Note 5 - Deferred Revenue

UTIMCO assesses on or before the first day of The University of Texas System's fiscal quarter one-fourth of the annual management fee. The fee is deferred and is ratably credited to revenue monthly. As of August 31, 2012 and 2011, there was no deferred revenue.

Note 6 – Deferred Compensation

Effective March 1, 1996, UTIMCO established a tax-sheltered annuity arrangement, which provides retirement benefits for its employees by contributing to a custodial account invested in mutual funds. The employer matches 8.5% of gross compensation on behalf of an employee. Employees are required to contribute 6.5% of their total gross compensation to receive the company match. Employer contributions for the periods ended August 31, 2012 and 2011 were \$515,669 and \$485,227, respectively.

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

Effective May 1, 2011, UTIMCO established a health savings account arrangement, which is a tax-exempt trust or custodial account with a qualified trustee used to pay or reimburse certain medical expenses. Employer contributions for the period ended August 31, 2012 and 2011 were \$110,168 and \$35,709, respectively.

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

Notes to Financial Statements

Note 7 – Lease Expense

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

UTIMCO began paying lease and operating costs related to UTIMCO's current lease effective November 2006. For the periods ended August 31, 2012 and 2011, related operating expenses were \$521,229 and \$475,551, respectively. The net lease expense related to the lease incentive and amortization of the tenant allowance for both the periods ending August 31, 2012 and 2011 was \$348,028. For the periods ended August 31, 2012 and 2011, parking expense was \$114,677 and \$111,911, respectively.

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

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

Years ending August 31,	
2013	\$ 573,272
2014	573,272
2015	573,272
2016	<u>573,272</u>
Total	<u>\$2,293,088</u>

Note 8 – Deferred Rent

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

As of August 31, 2012 and 2011, the total deferred rent was \$900,973, and \$1,126,217, respectively. The portion of the deferred rent related to the rent holidays as of August 31, 2012 and 2011 was \$219,596 and \$274,495, respectively. The remaining portion of the deferred rent as of August 31, 2012 and 2011, was \$681,377 and \$851,722, respectively, and relates to the tenant improvement allowance. UTIMCO was initially provided an allowance of \$1,612,985 to be used and applied toward the cost of leasehold improvements in the new space. In August 2008, an additional allowance of \$173,415 was provided in connection with the expansion. The deferred rent is amortized over the term of the lease.

**The University of Texas Investment Management Company
Institutional Compliance Program Annual Report
for the Quarter Ended November 30, 2012**

Section I – Organizational Matters

- One meeting of the Ethics and Compliance Committee has been held during this fiscal year: September 13, 2012.
- The UTIMCO Code of Ethics was amended during the quarter, effective December 6, 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 51 meetings/calls with potential managers. Serious due diligence was initiated on 2 managers. One manager was hired. Ongoing review of active external managers included 52 meetings/calls. Additional efforts included monthly performance tracking, reviews and analyses by the team, attendance at a conference and participation in two annual meetings. One semi-annual portfolio review meetings was held during the quarter.

Marketable Alternative Investments: The Marketable Alternative Investments group participated in 62 meetings/calls with potential managers. No serious due diligence was initiated during the quarter. One manager was hired. Ongoing review of external managers was conducted in the form of 69 meetings/calls/site visits and participation in various annual meetings. One quarterly portfolio review meetings was held during the quarter.

Private Markets: The Private Markets group did not initiate any serious due diligence on potential managers during the quarter. Four commitments were made. The Private Markets group also participated in 84 meetings with active external managers and 74 meetings with potential managers, including site visits, conference calls, Advisory Board or Annual meetings, and ILPA meetings. The portfolio was reviewed with the UTIMCO Board of Directors during its November meeting.

Natural Resources: The Natural Resources group participated in 55 meetings/calls with potential managers. Serious due diligence was initiated on four managers. One manager was hired. Ongoing review of active external managers included 83 meetings/calls. Additional efforts during the year included participation in annual meetings, attendance at conferences and one quarterly portfolio review meeting.

Real Estate: The Real Estate group participated in 67 meetings/calls with potential managers. No serious due diligence was initiated on managers during the quarter. One manager was hired. Ongoing review of active external managers included 51 meetings/calls. Additional efforts during the year included participation in annual meetings, conferences and one quarterly portfolio review meeting.

Specialized Training: Staff attended 18 industry-related conferences/forums during the quarter.

High-Risk Area #2: Investment Risk Management

Responsible Party: Senior Director - Risk Management

Key “A” risk(s) identified:

- *Organization could fail to accurately perform its assessment of risk due to data and investment instrument modeling error.*
- *Organization could fail to respond to risk levels (manage risk budget).*

Key Monitoring Activities:

- During the quarter, Risk Team reconciled accounting records’ market value with market values modeled by IFS; reconciled month end values from IFS to accounting records and identified reasons for all discrepancies. Compared each month’s risk results with both prior month results and with market activity to determine consistency, and identified reasons for all changes; prepared monthly charts and reports based on inputs from risk model during this quarter, including trend analysis of risk exposure and attribution, as well as analysis of managers’ portfolio-level risk and performance.
- Risk Team continued to engage in discussions with Regulatory Entities, current counterparties and other Risk Management teams regarding the near-term compliance requirements for the Business Conduct Rules of Dodd Frank. Risk Team continued to monitor UTIMCO Counterparties for any negative news and/or potential downgrades. Risk Team also continued to support investment staff in understanding the risks inherent in managers operating under agency agreements.
- Risk Team is developing a framework to better understand Illiquidity Risk by formulating what returns should be required to compensate for this risk, and how increased exposure to illiquidity risk would affect portfolio construction. Risk Team is leading a UTIMCO-wide effort to develop tools and processes to better monitor and manage illiquidity exposure, and mitigate negative effects such an exposure could have.
- Risk Team continued to work with Albourne and IFS on improving proxies for LCC and Private Investments.
- Risk Team continued to monitor the current macro environment. This process involves continuing education by participating in conferences, sharing thoughts with other risk teams via a UTIMCO-chaired working group, working with risk system providers to understand the newest offerings, and listening to our Managers and UTIMCO Staff.
- 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 are permitted to 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 two new managers.
- Risk Team prepared projections on portfolio risk, country exposure, liquidity, and asset allocations; updated projections on a weekly basis.
- Risk Team increased interaction with other investment teams, in order to develop a better understanding of their risks, their internal risk reporting, and their decision processes.

Specialized Training: Participated in two conferences during the quarter.

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.
- New hire user security training was completed for a new employee.
- Full disk encryption rollout for all desktops has begun.
- Several alerts to staff about information security issues, including 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 limit access to source code.
- Worked with other UTIMCO staff on the continued development of the Business Continuity Plan.
- Revised Information Security Plan submitted to UT System.
- Rolled out Citrix remote access, moving towards replacement of classic VPN services.
- Began rollout of Lastpass software for secure password management.

Specialized Training: CISO attended meetings of the Chief Information Security Officers Council. Also attended training on DuoSecurity, Citrix, Lastpass, ShoreTel, and VMware security and CISO 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:

- 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.
- Periodic meeting held with Mellon to discuss changes/improvements that could be made to manager compliance.
- Review of monthly and quarterly investment compliance reports prepared by staff.
- All mandates submitted to the Chief Compliance Officer were reviewed and categorized pursuant to asset class and investment type in accordance with the Mandate Categorization Procedure and approved by the UTIMCO Risk Committee.

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- Continued participation by the Portfolio Accounting and Operations staff in prospective and active external manager investment due diligence.
- Derivative Investment Controls and Processes are being followed and work continues on improving them.

Specialized Training: None

High-Risk Area #5: Conflicts of Interest

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

Key “A” risk(s) identified:

- *Organization could fail to comply with conflicts of interest provisions in Code of Ethics and Texas Education Code section 66.08.*

Key Monitoring Activities:

- All Certificates of Compliance were received timely from all UTIMCO Board members and key employees for all investment managers hired and funded. Certificates were reviewed for completeness; no conflicts of interest were noted, i.e., no pecuniary interests were identified by any UTIMCO Board member or key employee.
- List of publicly traded securities of all publicly traded companies in which a UTIMCO Board member or employee has a pecuniary interest (the “restricted list”) was maintained. Internal and external managers under agency agreements are provided the restricted list in order to prevent the violation of UTIMCO Code of Ethics and Texas Education Code section 66.08. No changes to the restricted list occurred during the quarter. No managers were hired requiring the list to be sent during the quarter. An updated restricted list was sent to all managers reflecting securities that were no longer required to be on the list as of February.
- On a daily basis, accounting staff reviewed security holdings of internal and external managers for compliance with the restricted list. No exceptions noted.
- No periodic review of public resources for comparison with financial disclosure statement information provided by Directors and Employee was performed during the quarter.
- Preclearance of securities transactions was not required during the quarter. All transaction disclosures forms were turned in by the required ten days.
- A new employee and new intern received employee training within a reasonable time after hire.
- The financial disclosure statement and ethics compliance statements of all employees and interns hired during the quarter were received timely.
- Twenty-four (24) trips/events for vendor reimbursed/paid expenses which required documentation and supervisor approval had appropriate documentation and approval. An additional four trips did not have approval because the travelers did not know in advance that the hotel costs were to be paid by the vendor. Twenty-one (21) events, four (4) of which were associated with annual meetings, occurred that had entertainment and CEO or CCO approval was obtained. An additional annual meeting event with entertainment occurred without approval.

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

Training session was held for one new employee and one new intern.

Section V – Action Plan Activities

- Meetings of the Employee Ethics and Compliance Committee are held quarterly.
- Draft of updated ERM report has been prepared and is being circulated.
- 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 December 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%

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Policy Issues	0	0.00%
Hang ups or wrong numbers	1	100.00%
Total	1	100.00%

All calls are accepted by the hotline and reported to the UTIMCO Compliance Office. All reports are handled by a 5-person team comprised of the Chief Compliance Officer, Manager of Finance & Administration, the Office Manager, the Executive Assistant to the CEO and Chief Investment Officer, and David Givens from the System-wide Compliance Office.

**The University of Texas Investment Management Company
Institutional Compliance Action Plan
Fiscal Year 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>First quarter 2012 reports for have been reviewed Investment Due Diligence have been reviewed.</i>
<i>C. COMPLIANCE TRAINING / AWARENESS</i>			
4.	Provide Code of Ethics training and information to improve staff awareness of compliance program	04/30/13	<i>One new employee and one new intern were trained during the quarter</i>
5.	Identify and network with similarly situated compliance professionals	On-going	<i>Participated in Council of Compliance Officers (CalPers); joined National Society of Compliance Professionals</i>
<i>D. REPORTING</i>			
6.	Conduct quarterly meetings with the internal ethics and compliance committee	On-going	<i>First quarter meeting held September 13, 2012</i>
7.	Provide quarterly/annual reports to the Audit and Ethics Committee and System-wide compliance office	On-going	<i>First quarter report sent to UTS on September 24, 2012</i>
<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 reviewing résumés; interviews to begin soon</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	<i>No current activities</i>
11.	Manage implementation and assist with live	02/28/13	<i>Reminder regarding</i>

Updated 12/21/12

#	ACTION ITEM	TARGET COMPLETION DATE	STATUS
	testing of Business Continuity Plan; update as business processes change		<i>updating of contacts list sent to staff; still awaiting confirmation of available space from UT Austin</i>
12.	Manage implementation of Records Retention Procedures	12/31/12	<i>In process</i>
13.	Hotline reporting	On-going	<i>Reporting included in first and second quarter Institutional Compliance Program reports</i>

Updated 12/21/12

Agenda Item
UTIMCO Board of Directors Meeting
February 7, 2013

Agenda Item: Report from Risk Committee

Developed By: Staff

Presented By: Tate

Type of Item: Information item

Description: The Risk Committee (“Committee”) will meet on January 30, 2013. 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; (3) review and discussion of compliance reporting; and (4) review and discussion of performance and risk reporting.

Discussion

The Committee will review and approve, as appropriate, the twelve new mandate categorizations prepared by Staff for the period beginning October 19, 2012, and ending January 18, 2013. The Committee will report to the UTIMCO Board the results of its review of the Investment Mandate Categorizations.

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

Recommendation: None

Reference: None

Agenda Item
UTIMCO Board of Directors Meeting
February 7, 2013

Agenda Item: Report on and Discussion and Appropriate Action Related to Items from Compensation Committee: UTIMCO Compensation Program Peer Group; and Designation of Employees in Eligible Positions as Participants in the UTIMCO Compensation Program for the 2012/2013 Performance Period

Developed By: Zimmerman, Gonzalez, Moeller

Presented By: Hicks

Type of Item: Action Required by UTIMCO Board

Description: The Compensation Committee (the "Committee") will meet on January 30, 2013. The Committee's agenda includes (1) discussion and appropriate action related to minutes of November 9, 2012 meeting; (2) discussion and appropriate action related to amendments to Appendix B of UTIMCO Compensation Program ("Peer Group"); and (3) discussion and appropriate action related to the designation of employees in Eligible Positions as participants in the UTIMCO Compensation Program and Qualitative Goals for the participants of the UTIMCO Compensation Program for the 2012/2013 Performance Period.

Discussion: The Peer Group set forth in Appendix B of the UTIMCO Compensation Program (the "Plan") is a peer group of endowment funds that is composed of all endowment funds with more than 10 full-time employee positions, allocations to alternative assets in excess of 40%, and with assets greater than \$2.5 billion, determined as of the last day of each of the three immediately preceding Performance Periods, excluding the Total Endowment Assets (PUF and GEF). The Peer Group for the Performance Period ending June 2013 incorporates June 2010, 2011, and 2012. The Peer Group is updated annually, and Appendix B is updated accordingly. The Peer Group may be included as a Qualitative Performance Goal for certain Plan Participants. The Compensation Plan Universe for 2012/13 as determined by UTIMCO staff will be used as the Peer Group for Appendix B of the UTIMCO Compensation Program. Staff has determined that no other endowment funds have met the required criteria for the three immediately preceding Performance Periods. Therefore, Staff is recommending no changes to the Peer Group.

The Compensation Committee, at its September 27, 2012 meeting, and the UTIMCO Board, at its November 9, 2012, meeting, approved the Designation of Employees in Eligible Positions in the Plan for the 2012/2013 Performance and approved the Qualitative Performance Goals of the Participants. Mr. Zimmerman is requesting that two additional individuals be designated in Eligible Positions. Section 5.3 of the Plan provides that the Board may designate a newly hired or promoted employee as eligible to participate in the Plan for a Performance Period (or remainder of a Performance Period) within 30 days of such hire or promotion or, if later, as soon as administratively feasible. Section 5.4 of the UTIMCO Plan

Agenda Item
UTIMCO Board of Directors Meeting
February 7, 2013

requires that the CEO recommend Performance Goals for employees who are hired or promoted during the Performance Period and become Participants at the time those employees are designated as Participants (with such Performance Goals subject to confirmation by the Compensation Committee as soon as administratively feasible after such Performance Goals are recommended). The Committee will take appropriate action at its meeting on January 30, 2013, and requests that the UTIMCO Board take action related to the designation of the two additional employees as Participants in the Plan. The Qualitative Goals do not require Board approval. Mr. Zimmerman is requesting that the following two individuals be designated as Participants in the Plan for the 2012/2013 Performance Period as set forth below:

ELIGIBLE POSITION	PARTICIPANTS	EFFECTIVE DATE
Senior Analyst - Investments	Daniel Senneff	September 1, 2012
Analyst - Investments	Russell Brown	November 19, 2012

Recommendation: The Committee will recommend appropriate action related to the designation of the two additional Employees in Eligible Positions as Participants in the Plan for the 2012/2013 Performance Period and the UTIMCO Compensation Program Peer Group.

Reference: Amended Appendix B of the Plan

**RESOLUTION RELATED TO
PEER GROUP**

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

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

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

NOW, THEREFORE, be it:

RESOLVED, that the updated and amended Appendix B (UTIMCO Peer Group), a copy of which is attached hereto, is hereby adopted and approved as part of the Plan to replace the current Appendix B, effective as of September 1, 2012.

**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 Daniel Senneff (Senior Analyst – Investments) and Russell Brown (Analyst – Investments) becoming Participants for the 2012/2013 Performance Period; and

WHEREAS, the UTIMCO Board wishes to select Daniel Senneff (Senior Analyst – Investments) and Russell Brown (Analyst – Investments) as Participants for the 2012/2013 Performance Period.

NOW, THEREFORE, be it:

RESOLVED, that, Daniel Senneff (Senior Analyst – Investments) and Russell Brown (Analyst – Investments), be designated as “Participants” in the Plan for the 2012/2013 Performance Period, effective as of September 1, 2012 and November 19, 2012, respectively.

Appendix B

UTIMCO Peer Group

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

Source: UTIMCO Staff. Represents endowment funds (excluding the Total Endowment Assets) with more than 10 full-time employee positions, allocations to alternative assets in excess of 40%, and with assets greater than \$2.5 billion, all to be determined as of the last day of each year ended June 2010, 2011, 2012.

Agenda Item
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Agenda Item: UTIMCO Organization Update

Developed By: Staff

Presented By: Zimmerman, Abalogu, McBee

Type of Item: Discussion item

Description: Bruce Zimmerman will provide an update on UTIMCO's staffing and first quarter fiscal year 2013 actual to budget expenses. Uche Abalogu will provide an update on the technology infrastructure platform and application development.

Barry McBee, Vice Chancellor and Chief Governmental Relations Officer for UT System, will update the UTIMCO Board on issues and potential legislation of interest to UTIMCO. The 83rd Regular Legislative Session started on January 8th and ends May 27, 2013.

Reference: *UTIMCO Organization Update* presentation



THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

UTIMCO ORGANIZATION UPDATE

February 7, 2013

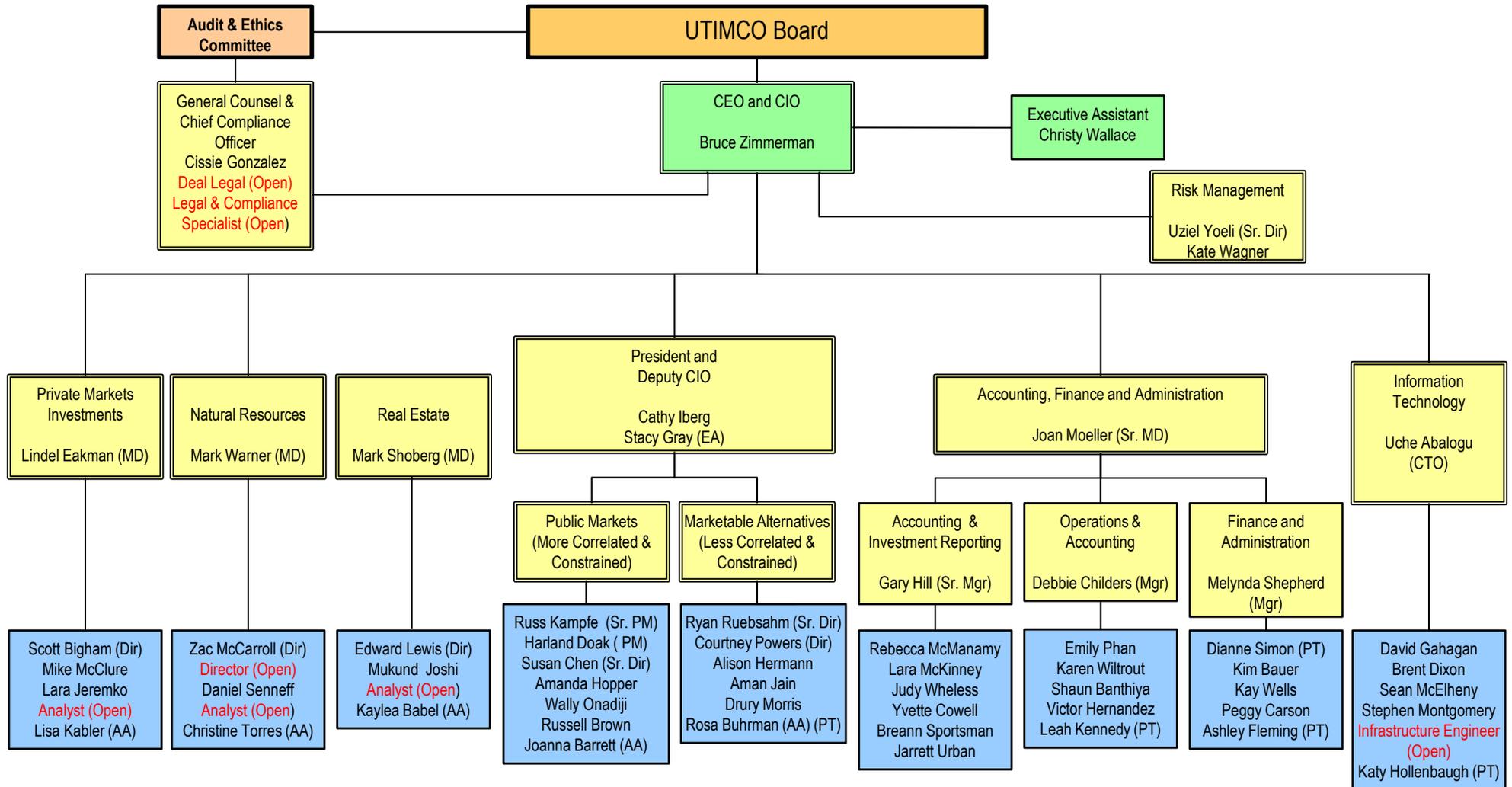


UTIMCO Update

- Staffing
- Budget
- Technology
- Legislative



UTIMCO – Organizational Structure





UTIMCO Expenses

Q1 FY 2013

UTIMCO Expenses (\$ in thousands)	1Q FY 13		Favorable / (Unfavorable)
	Actual	Budget	
Salaries & Benefits	\$2,194	\$2,382	\$188
Other Expenses	1,132	1,186	54
Subtotal	3,326	3,568	242
Incentive Compensation	4,352	3,146	(1,206)
Total UTIMCO	<u>\$7,678</u>	<u>\$6,714</u>	<u>(\$964)</u>
Non-UTIMCO, Non-Investment Management Expenses	<u>\$1,973</u>	<u>\$2,026</u>	<u>\$53</u>



Information Technology Update

- **Progress since last board update: Technology Infrastructure Platform**
 - New Telephone System
 - IP
 - Chat
 - Fully functioning development and test environments
 - Selected UT Systems' Dallas datacenter for Disaster Recovery location



Information Technology Update

- **Progress to date: Applications Development**
 - Completed overview of current investment activities and data acquisition and reporting methodologies across all investment teams
 - Requirements analysis for document processing and management across UTIMCO
 - “Deep dive” into Investment Support System (ISS) requirements for the Less Correlated & Constrained and Private Markets investment teams



Information Technology Update

- **Next Steps: Infrastructure Platform**
 - Improved Business Continuity/Disaster Recovery capabilities
 - Video Conferencing
 - Upgrade email system
 - Continue improving development and test environments
 - Improve support and engineering coverage



Information Technology Update

- **Next Steps: Applications Development**
 - Begin implementation of our “Document Center” application
 - Initial rollout of ISS for the Less Correlated & Constrained team
 - Enhance internal and external websites

Agenda Item
UTIMCO Board of Directors Meeting
February 7, 2013

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

- US small/mid-cap
- Africa
- Latin America

LCC

- Event Driven “side-car” with credit manager
- European L/S manager
- Three L/S managers with < \$500 million AUM
- Global Macro
- Emerging Markets Debt

Real Estate

- Existing US
- US Office
- Europe
- India
- Germany

Natural Resources

- Metals and Mining Funds & Co-Investment
- Indian Agribusiness Fund
- Canadian Agribusiness Fund
- Midstream Oil & Gas Co-Investment
- Latin American Infrastructure Fund & Co-Investment

Private Investments

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