

**UTIMCO BOARD OF DIRECTORS  
ANNUAL MEETING AGENDA  
April 16, 2013  
UTIMCO  
401 Congress Avenue, Suite 2800  
Austin, Texas**

Time	Item #	Agenda Item
Begin	End	
		<b>OPEN MEETING:</b>
9:00 a.m.	9:05 a.m.	1 <a href="#">Call to Order of the Annual Meeting/Discussion and Appropriate Action on Minutes of the February 7, 2013 Meeting*</a>
9:05 a.m.	9:45 a.m.	2 <a href="#">Endowment and Operating Funds Update Report</a>
9:45 a.m.	9:55 a.m.	3 <a href="#">Report from Risk Committee</a>
9:55 a.m.	10:05 a.m.	4 <a href="#">Report from Audit and Ethics Committee</a>
10:05 a.m.	10:15 a.m.	5 <a href="#">Report on and Discussion and Appropriate Action Related to Items from Compensation Committee:</a> - Designation of Employee in Eligible Position as Participant in the UTIMCO Compensation Program for the 2012/2013 Performance Period*
10:15 a.m.	10:30 a.m.	6 <a href="#">UTIMCO Organization Update</a>
10:30 a.m.	11:30 a.m.	7 <a href="#">Review of Public Markets</a>
11:30 a.m.	12:30 p.m.	8 <a href="#">Presentation by Ian Simms of Colchester Global Investors Limited</a>
12:30 p.m.	1:15 p.m.	<b>Lunch</b>
1:15 p.m.	1:20 p.m.	9 <a href="#">Discussion and Appropriate Action Related to Corporate Resolutions:</a> - Election of UTIMCO Officers*
1:20 p.m.	2:00 p.m.	10 <a href="#">Optimal Illiquidity Discussion</a>
2:00 p.m.	2:45 p.m.	11 <a href="#">Report on and Discussion and Appropriate Action Related to Items from Policy Committee:</a> - Recommendation of Distribution Rates and Amount for the Investment Funds*,**
2:45 p.m.	3:15 p.m.	12 <a href="#">Educational Program for UTIMCO Directors</a>
3:15 p.m.		<b>Adjourn</b>

\* Action by resolution required

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

By: The University of Texas Investment Management Company

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

<b>Next Scheduled Meeting: July 9, 2013</b>
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**RESOLUTION RELATED TO MINUTES**

RESOLVED, that the minutes of the meeting of the Board of Directors held on **February 7, 2013**, be, and are hereby, approved.

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

The Board of Directors (the "Board") of The University of Texas Investment Management Company (the "Corporation") convened in an open meeting on **February 7, 2013**, 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  
Printice L. Gary  
James P. Wilson

Accordingly, a majority and quorum of the Board was in attendance. Director Morris E. Foster did not attend the meeting. Employees of the Corporation attending the meeting were Bruce Zimmerman, CEO and Chief Investment Officer; Cathy Iberg, President and Deputy CIO; Joan Moeller, Secretary and Treasurer; Christy Wallace, Assistant Secretary; Cecilia Gonzalez, internal General Counsel and Chief Compliance Officer; Lindel Eakman, Managing Director – Private Markets Investments; Mark Warner, Managing Director - Natural Resources Investments; Mark Shoberg, Managing Director – Real Estate Investments; Uzi Yoeli, Senior Director - Portfolio Risk Management; Uche Abalogu, Chief Technology Officer; and other Staff members. Other attendees were Keith Brown of the McCombs School of Business at UT Austin; Jerry Turner of Andrews Kurth LLP; Allen Hah, Jim Phillips, Barry McBee and Roger Starkey of The University of Texas System ("UT System") Administration. Directors R. Steven Hicks and Charles W. Tate joined the meeting later, as noted in the minutes. Mr. Foster called the meeting to order at 8:35 a.m.

**Minutes**

The first item to come before the Board was approval of the minutes of the Board of Directors Meeting held on November 9, 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  
**November 9, 2012**, be, and are hereby, approved.

**Corporate Resolutions**

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

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

## **Endowment and Operating Funds Update**

Mr. Foster asked Mr. Zimmerman to present the Corporation's endowment and operating funds update. Mr. Zimmerman summarized the day's meeting schedule, and then presented the Corporation's Performance Summary as of December 31, 2012, calendar year end. Mr. Tate joined the meeting at this time. Mr. Zimmerman reported the Corporation had \$28.4 billion of assets under management at the end of December 31, 2012, the most ever managed by UTIMCO. Of the \$28.4 billion, \$13.9 billion was in the Permanent University Fund ("PUF"), \$7.4 billion in the General Endowment Fund ("GEF"), \$1.4 billion in the Short Term Fund ("STF"), \$0.6 in the Debt Proceeds Fund, and \$5.1 billion in the Intermediate Term Fund ("ITF"). Mr. Zimmerman presented actual versus benchmark results, tactical asset allocation, and value-add analysis. The net performance for four months ended December 31, 2012, for the PUF was 3.73% and for the GEF was 3.82%, versus benchmark returns of 3.52% for the PUF and GEF. The net performance for the one year ended December 31, 2012, for the PUF was 11.18% and for the GEF was 11.33%, versus benchmark returns of 9.33% for each fund. The ITF's performance was 3.01% versus its benchmark return of 2.75% for the four months ended December 31, 2012, and 9.53% versus its benchmark return of 7.25% for the one year ended December 31, 2012. Performance for the STF was 0.05% versus 0.05% for its benchmark return for the four months ended December 31, 2012, and was 0.16% versus a benchmark return of 0.11% for the one year ended December 31, 2012. Mr. Zimmerman asked Dr. Yoeli to review the risk section of the Funds Update. Dr. Yoeli provided risk analytics for the period ending December 31, 2012, beginning with the current risk environment, including 4-way risk decomposition, up/down capture, risk contributions and correlations. Mr. Zimmerman reviewed the Funds' asset class and investment type targets, tactical asset allocation, ranges and performance objectives. Mr. Zimmerman and Senior Staff reported on investment activity as of December 31, 2012, including manager exposure and leverage. He also reported on derivatives and counterparties, and gave an update on liquidity, contracts and the ITF. Mr. Zimmerman, Dr. Yoeli and Senior Staff members answered the Directors' questions.

## **Optimal Illiquidity**

Mr. Foster asked Dr. Yoeli to present the report on optimizing illiquidity. The Board was provided with a presentation handout on Optimizing Illiquidity, the second update to the Board on this topic. Illiquidity is one element of portfolio risk and a potential source of return. Dr. Yoeli presented key issues that are fundamental in determining optimal illiquidity in the portfolio, including required premium/return assumptions. He also led the discussion on database availability, liquidity supply and demand, staff ability to deploy capital, and the next steps to further study liquidity supply and demand, enhance commitment models, further assess our ability to deploy capital while meeting returns targets, identify sources of funds for increased Private Investments, and assess any potential changes to Investment Policies. Mr. Zimmerman and Dr. Yoeli answered the Directors' questions.

## **Real Estate Update**

Mr. Foster asked Mr. Shoberg to present the Real Estate Update to the Board. Mr. Shoberg introduced his team members, and he and the real estate team gave an overview of the real estate portfolio strategy, history, performance, and market opportunities.

At approximately 11:50 a.m. the Board recessed to a Briefing Session. Mr. Hicks joined the meeting at this time.

The meeting of the Board reconvened in open session at 1:24 p.m. Mr. Gary left the meeting at this time.

### **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 January 30, 2013. He stated that the Committee heard a report from Deloitte & Touche LLP regarding completion of the audit of the Corporation. The Committee was presented with quarterly compliance reports and an update on the Enterprise Risk Management ("ERM") from Ms. Gonzalez, an update on the Audit Plan for FY 2013 from the UT System Audit Office, and a review of the unaudited financial statements for the first quarter for the Funds and Corporation by Ms. Moeller. Mr. Wilson also reported that, as part of the Committee oversight responsibilities, the Committee met in Executive Session to discuss with Ms. Gonzalez, Mr. Wagner (Deloitte & Touche LLP Partner), and Mr. Peppers and Ms. Kalamkar (UT System Audit Office) any items concerning management and staff related to compliance and the audit process they wanted to bring to the attention of the Audit and Ethics Committee without management being present. On behalf of the Committee, Mr. Wilson recommended to the Board approval of the audit of the Corporation for the fiscal years ended August 31, 2012 and August 31, 2011. Upon motion duly made and seconded, the following resolution was unanimously adopted by the Board:

RESOLVED, that Deloitte & Touche LLP's Financial Statement Audit Results and Communications for the Corporation for the year ended August 31, 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.

### **Risk Committee Report**

Mr. Foster asked Mr. Tate to provide a report from the Risk Committee. Mr. Tate reported that the Committee met on January 30, 2013. He stated that the Risk Committee approved 12 new investment mandate categorizations prepared by Staff for the period beginning October 19, 2012, and ending January 18, 2013. Mr. Tate also reported that the Committee heard a report from Ms. Gonzalez on compliance items for the Quarter Ended November 30, 2012. Ms. Gonzalez reported one out of compliance issue in the Compliance Summary Program report for the fiscal quarter ending November 30, 2012, which monitors the Derivative Investment Policy, the risk targets, asset allocation targets and ranges and other investment related restrictions. One manager executed FX trades with a counterparty that had not been pre-approved by the Corporation. The manager acknowledged their error and the trade was transferred to the correct counterparty within the quarter. Ms. Gonzalez answered the Directors' questions.

## **Compensation Committee Report**

Mr. Foster asked Mr. Hicks to report on behalf of the Compensation Committee. Mr. Hicks stated that the Compensation Committee had also met on January 30, 2013. Appropriate action was taken related to amendments to Appendix B of the Corporation's Compensation Program (the "Plan"), and related to the designation of two employees in Eligible Positions as Participants in the Plan and Qualitative Goals for those Participants for the 2012/2013 Performance Period. Upon motion duly made and seconded, the following resolutions were adopted by the Board:

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

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

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

NOW, THEREFORE, be it:

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

And,

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.

**Less Correlated and Constrained Update**

Mr. Foster asked Mr. Ruebsahm to provide an update to the Board on the Less Correlated and Constrained (“LCC”) portfolio. Mr. Ruebsahm introduced the team members, and he and LCC staff presented the LCC program size, portfolio objectives and composition, performance, strategy and hedge fund trends.

**Organization Update**

Mr. Foster asked Mr. Zimmerman to provide the Board with an update on staffing and the Corporation’s first quarter actual vs. budget operating expenses. Mr. Zimmerman stated that there were no staff additions since the last Board meeting. He presented the Corporation’s first quarter actual vs. budget operating expenses and then asked Mr. McBee, UT System Vice Chancellor and Chief Governmental Relations Officer, to give an update on activity from the 83<sup>rd</sup> Texas Legislature. Mr. McBee gave a report to the Board focusing on higher education issues, the State Budget FY 2014-2015, the house and senate members makeup, leadership changes and key dates for the session. Mr. McBee answered the Directors’ questions.

**Information Technology Update**

Mr. Zimmerman asked Mr. Abalogu to provide the Board with an update of the Information Technology infrastructure platform and applications development. Mr. Zimmerman and Mr. Abalogu answered the Directors’ questions.

**Investment Pipeline**

Mr. Foster asked if there were any questions regarding the Corporation’s investment pipeline. No questions were asked and no discussion was held.

There being no further business to come before the Board, the meeting was adjourned at approximately 2:35 p.m.

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

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

## 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.





# Funds Update

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# Returns



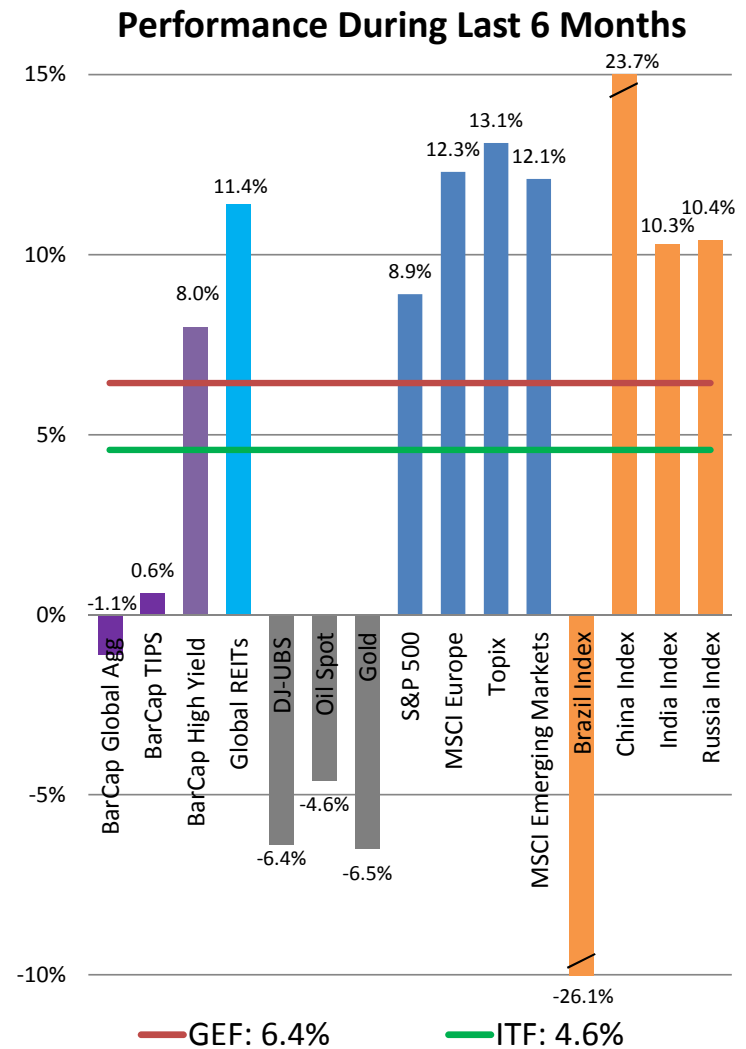
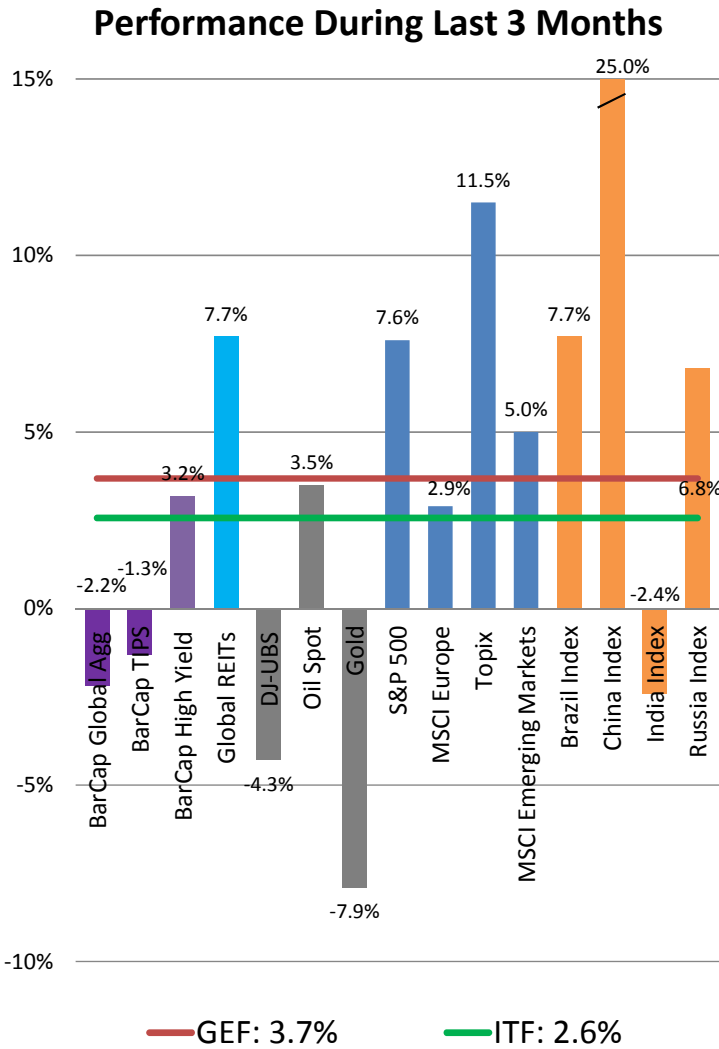
# UTIMCO Performance Summary

	Net Asset Value 2/28/2013 (in Millions)	Current Quarter	Year to Date		Historic Returns			
			Fiscal	Calendar	1 Yr	3 Yrs	5 Yrs	10 Yrs
<b>ENDOWMENT FUNDS</b>								
Permanent University Fund	\$14,242	3.61%	6.29%	2.47%	8.37%	9.06%	3.27%	9.07%
Permanent Health Fund	1,015							
Long Term Fund	6,420							
General Endowment Fund	7,435	3.68	6.43	2.51	8.54	9.15	3.28	9.21
Separately Invested Funds	158							
<b>Total Endowment Funds</b>	<b>21,835</b>							
<b>OPERATING FUNDS</b>								
Intermediate Term Fund	5,243	2.56	4.57	1.51	5.81	7.41	3.46	N/A
Short Term and Debt Proceeds Funds	2,121	0.03	0.07	0.02	0.16	0.19	0.67	1.98
<b>Total Operating Funds</b>	<b>7,364</b>							
<b>Total Investments</b>	<b>\$29,199</b>							
<b>VALUE ADDED - Percent (1)</b>								
Permanent University Fund		(0.20%)	0.49%	0.27%	2.26%	1.33%	2.20%	2.20%
General Endowment Fund		(0.13)	0.63	0.31	2.43	1.42	2.21	2.34
Intermediate Term Fund		0.52	0.78	0.49	2.78	2.29	2.35	N/A
<b>VALUE ADDED - \$ in Millions (1)</b>								
Permanent University Fund		\$(27)	\$66	\$37	\$293	\$504	\$1,408	\$2,641
General Endowment Fund		(9)	45	23	172	300	793	1516
Intermediate Term Fund		26	39	25	136	319	542	N/A
<b>Total Value Added</b>		<b>\$ (10)</b>	<b>\$ 150</b>	<b>\$ 85</b>	<b>\$ 601</b>	<b>\$ 1,123</b>	<b>\$ 2,743</b>	<b>\$ 4,157</b>

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



# Performance During Last 3 and 6 Months





# Total Fund Attribution Breakdown (GEF)

## Three and Six Months Ended February 28, 2013

	<u>Three Months</u>	<u>Six Months</u>
<b>Tactical Allocation</b>		
Asset Based	(33)	(78)
Derivative Based Tactical Allocation <sup>(1)</sup>	(22)	(30)
<b>Total Tactical</b>	<u>(55)</u>	<u>(108)</u>
<b>Active Management</b> (External Managers vs. Benchmarks)	<u>23</u>	<u>118</u>
<b>Insurance Hedges</b>	<u>5</u>	<u>(2)</u>
<b>Interactive Effect</b>	<u>14</u>	<u>55</u>
<b>Total</b>	<u><u>(13)</u></u>	<u><u>63</u></u>

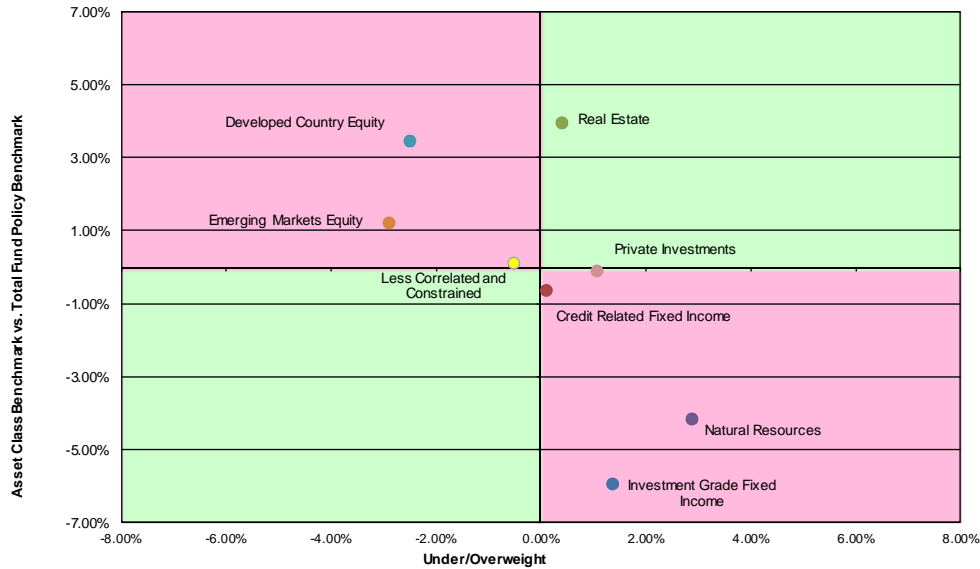
<sup>(1)</sup> MSCI Japan Short Sw aps, MSCI Europe Short Sw aps, S&P 500 Short Sw aps, S&P 400 Short Sw aps, IYR Written Puts, XME Written Puts, Emerging Markets Written Puts, Levered Gold Futures, Levered EM Futures



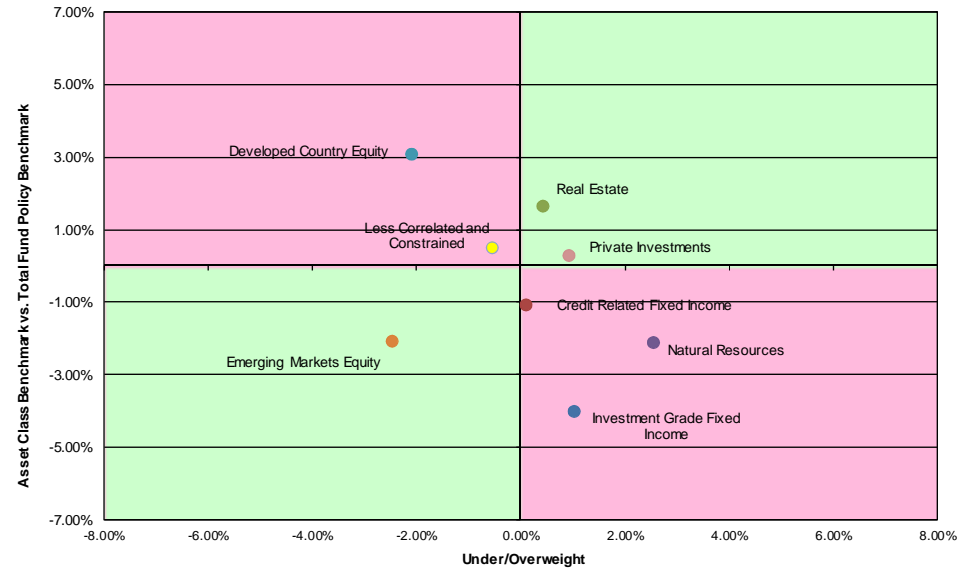
# Tactical Value Add

## Three and Six Months Ended February 28, 2013

Three Months ended February 28, 2013



Six Months ended February 28, 2013



	Weight		Over / (Under) Weight	Benchmark Returns	+ / -
	Actual	Policy			
Investment Grade Fixed Income	8.88%	7.50%	1.38%	-2.17%	-0.09%
Credit Related Fixed Income	0.12%	0.00%	0.12%	3.16%	0.00%
Real Estate	2.90%	2.50%	0.40%	7.74%	0.01%
Natural Resources	10.40%	7.50%	2.90%	-0.38%	-0.09%
Developed Country Equity	12.51%	15.00%	-2.49%	7.25%	-0.09%
Emerging Markets Equity	9.11%	12.00%	-2.89%	5.00%	-0.07%
Total More Correlated and Constrained	43.92%	44.50%	-0.58%		-0.33%
Less Correlated and Constrained	29.50%	30.00%	-0.50%	3.91%	0.00%
Total Fund excluding Private Investments	73.42%	74.50%	-1.08%		-0.33%
Private Investments	26.58%	25.50%	1.08%	3.70%	0.00%
<b>Total Fund: Active Managers</b>	<b>100.00%</b>	<b>100.00%</b>	<b>0.00%</b>	<b>3.81%</b>	<b>-0.33%</b>

	Weight		Over / (Under) Weight	Benchmark Returns	+ / -
	Actual	Policy			
Investment Grade Fixed Income	9.30%	7.50%	1.80%	-1.13%	-0.10%
Credit Related Fixed Income	0.12%	0.00%	0.12%	8.02%	0.00%
Real Estate	2.83%	2.50%	0.33%	11.35%	0.01%
Natural Resources	10.70%	7.50%	3.20%	-1.01%	-0.19%
Developed Country Equity	12.01%	15.00%	-2.99%	10.85%	-0.15%
Emerging Markets Equity	8.64%	12.00%	-3.36%	12.06%	-0.27%
Total More Correlated and Constrained	43.60%	44.50%	-0.90%		-0.70%
Less Correlated and Constrained	29.67%	30.00%	-0.33%	5.06%	-0.01%
Total Fund excluding Private Investments	73.27%	74.50%	-1.23%		-0.71%
Private Investments	26.73%	25.50%	1.23%	4.36%	-0.07%
<b>Total Fund: Active Managers</b>	<b>100.00%</b>	<b>100.00%</b>	<b>0.00%</b>	<b>5.80%</b>	<b>-0.78%</b>



# Active Management Value Add

## Three and Six Months Ended February 28, 2013

3 Months		
(bps)		
Emerging Markets Equity	28	Lazard (0.65), Blakeney (0.44), Acadian (0.26)
Developed Country Equity	24	Indus Japan (0.74), Stelliam (0.54), Value Act (0.54)
Investment Grade Fixed Income	13	Brandywine (0.62), Internal Fixed Income (0.45), Credit Suisse HE (0.37)
Credit Related Fixed Income	-	
Real Estate	-	
Subtotal	65	
Less Correlated	(11)	Valiant (9.48), Maverick (2.45), Coghill (11.23)
Natural Resources	(21)	Gold (3.18), Gresham (0.70), Blackrock Global Mining (0.43)
Subtotal	(32)	
Total Fund excluding Private Investments	33	
Private Investments	(10)	
Total Active Managers	23	

6 Months		
(bps)		Manager (Alpha)
Developed Country Equity	59	Value Act (1.71), Indus Japan (0.80), Stelliam (0.59)
Investment Grade Fixed Income	16	Brandywine (1.12), Credit Suisse HE (0.35), Pimco (0.30)
Emerging Markets Equity	12	Lazard (0.55), New Silk Road (0.35), Acadian (0.28)
Real Estate	3	European Investors (1.71), MS REITS (0.78), Cohen & Steers Global (0.31)
Credit Related Fixed Income	-	
Subtotal	90	
Less Correlated and Constrained	(3)	Valiant (0.32), Maverick (0.17), Bain ARC (0.03)
Natural Resources	(14)	Gold (2.31), Schroder (0.74), Gresham (0.71)
Subtotal	(17)	
Total Fund excluding Private Investments	73	
Private Investments	45	
Total Active Managers	118	



# GEF Performance Breakdown

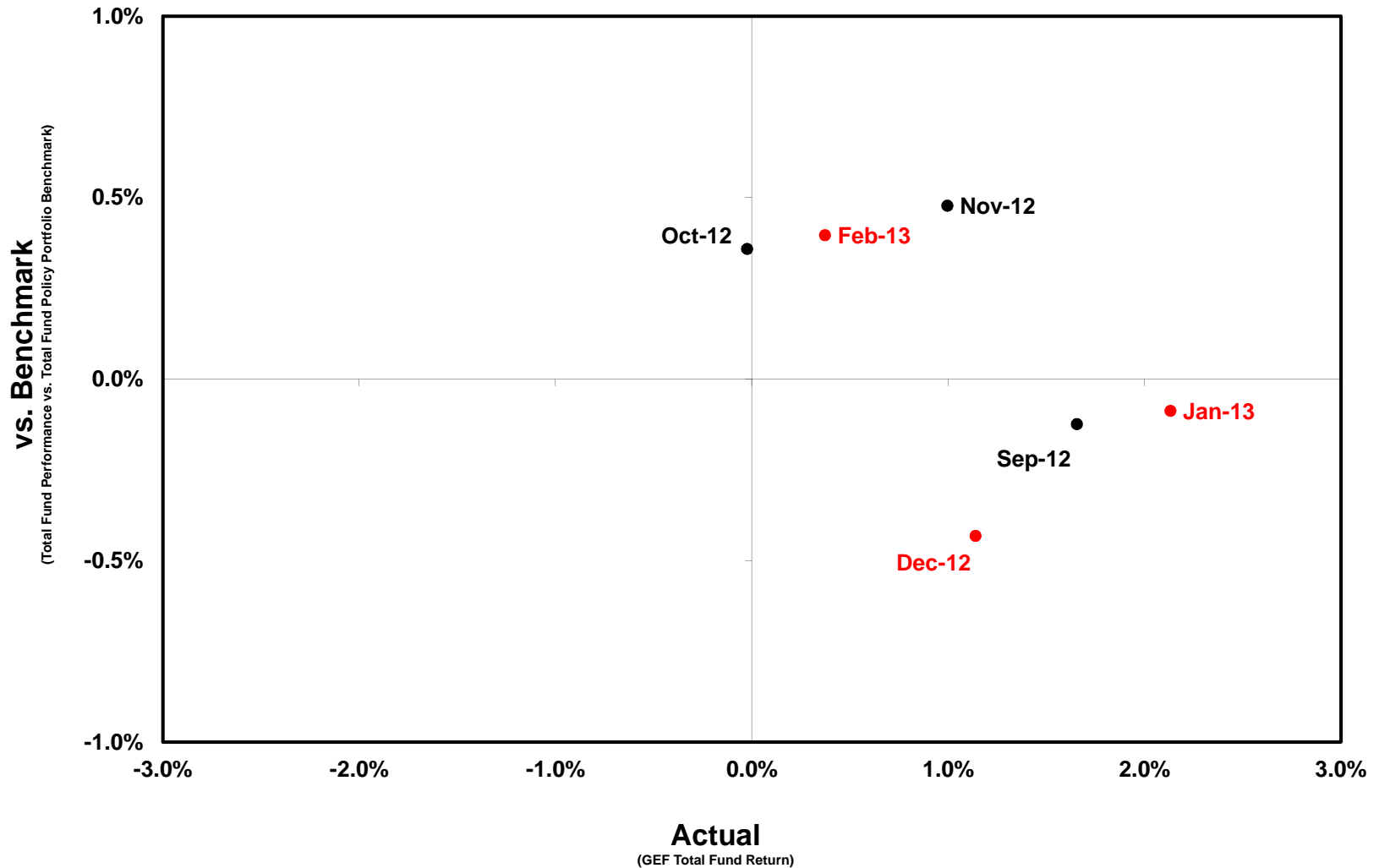
## Six Months Ended February 28, 2013

Asset Class		Allocation		Return		Attribution to Total Fund Relative Return
		GEF Average	Policy	GEF	Benchmark	
<b>More Correlated and Constrained:</b>						
Fixed Income	Investment Grade	9.4%	7.5%	1.72%	-1.13%	0.16%
	Credit-Related	0.1%	0.0%	8.48%	8.02%	0.00%
Real Assets	Real Estate	2.8%	2.5%	8.50%	11.35%	-0.07%
	Natural Resources	10.7%	7.5%	-3.88%	-1.01%	-0.48%
Equity	Developed Country	12.0%	15.0%	14.41%	10.85%	0.27%
	Emerging Markets	8.6%	12.0%	11.99%	12.06%	-0.26%
<b>Total More Correlated and Constrained</b>		<b>43.6%</b>	<b>44.5%</b>	<b>6.29%</b>	<b>7.12%</b>	<b>-0.38%</b>
<b>Total Less Correlated and Constrained</b>		<b>29.7%</b>	<b>30.0%</b>	<b>6.06%</b>	<b>5.06%</b>	<b>0.28%</b>
Private Real Estate Investments		2.6%	4.0%	1.04%	6.31%	-0.14%
Private Investments excluding Real Estate		24.1%	21.5%	7.71%	4.00%	0.87%
<b>Total Private Investments</b>		<b>26.7%</b>	<b>25.5%</b>	<b>7.08%</b>	<b>4.36%</b>	<b>0.73%</b>
<b>Total GEF Portfolio</b>		<b>100.0%</b>	<b>100.0%</b>	<b>6.43%</b>	<b>5.80%</b>	<b>0.63%</b>





# Actual and “vs. Benchmark” Returns by Month Six Months Ended February 28, 2013 (GEF)





# Value-Add Analysis

	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FYTD13
<b>MCC</b>									
Tactical	0.43%	-0.54%	0.14%	0.82%	0.29%	0.01%	0.05%	-1.09%	-0.77%
Active	0.42%	-0.81%	-0.74%	-0.19%	-1.75%	2.11%	0.67%	0.73%	0.69%
<b>TOTAL</b>	0.85%	-1.35%	-0.60%	0.63%	-1.46%	2.11%	0.72%	-0.36%	-0.08%
<b>LCC</b>									
Tactical	-0.01%	0.07%	-0.02%	-0.09%	0.04%	0.21%	0.12%	0.18%	0.16%
Active	2.09%	0.86%	2.63%	2.02%	1.68%	2.61%	1.39%	2.01%	0.14%
<b>TOTAL</b>	2.08%	0.93%	2.61%	1.93%	1.71%	2.82%	1.50%	2.18%	0.29%
<b>Private Investments</b>									
Tactical	-0.68%	-0.42%	-0.69%	0.14%	0.35%	0.40%	-0.11%	-0.09%	0.11%
Active	1.51%	-0.57%	1.20%	-0.59%	1.54%	-0.98%	0.83%	-0.67%	0.63%
<b>TOTAL</b>	0.83%	-0.99%	0.51%	-0.45%	1.88%	-0.58%	0.72%	-0.76%	0.74%
<b>Overall GEF</b>									
Tactical	-0.26%	-0.89%	-0.57%	0.87%	0.67%	0.62%	0.06%	-1.00%	-0.51%
Active	4.02%	-0.52%	3.09%	1.24%	1.46%	3.74%	2.88%	2.06%	1.46%
<b>Insurance Hedges</b>					0.07%	-0.09%	-0.20%	-0.85%	-0.02%
<b>Derivative Based</b>								-0.24%	-0.30%
<b>TOTAL</b>	3.76%	-1.41%	2.52%	2.11%	2.20%	4.26%	2.74%	-0.03%	0.63%



# Private Markets Portfolio Rollforward Six Months Ended February 28, 2013

\$ in millions	Beg FY 9/1/12			Calls	Distributions	Change in Valuation	% Return	FY'13 New Commitments		End 2/28/13	
	NAV	Unfunded	# Funds					# Funds	\$ Committed	NAV	Unfunded
Credit-Related Fixed Income	\$1,314	\$283	33	\$80	\$361	\$128	10.7%	0	\$0	\$1,161	\$248
Real Estate	485	748	25	165	39	8	1.0%	3	210	619	823
Natural Resources	651	1,030	33	312	87	60	7.1%	5	259	936	986
Venture	776	396	44	44	77	32		1	45	775	400
Other Developed Country Equity	<u>1,720</u>	<u>672</u>	<u>82</u>	<u>118</u>	<u>285</u>	<u>142</u>		<u>3</u>	<u>135</u>	<u>1,695</u>	<u>667</u>
Total Developed Country Equity	2,496	1,068	126	162	362	174	7.3%	4	180	2,470	1,067
Emerging Markets Equity	<u>512</u>	<u>589</u>	<u>23</u>	<u>67</u>	<u>18</u>	<u>18</u>	3.4%	<u>1</u>	<u>39</u>	<u>579</u>	<u>563</u>
<b>TOTAL</b>	<b><u>\$5,458</u></b>	<b><u>\$3,718</u></b>	<b><u>240</u></b>	<b><u>\$786</u></b>	<b><u>\$867</u></b>	<b><u>\$388</u></b>	7.1%	<b><u>13</u></b>	<b><u>\$688</u></b>	<b><u>\$5,765</u></b>	<b><u>\$3,687</u></b>
% of Endowment (PUF+ GEF)	27%	18%								27%	17%



# Assets



# Combined PUF and GEF Asset Allocation as of February 28, 2013 (in millions)

Asset Group	Asset Class	More Correlated and Constrained		Less Correlated and Constrained		Private Investments		Grand Total	
		\$	%	\$	%	\$	%	\$	%
Fixed Income	Investment Grade	\$ 1,579	7.3%	\$ 626	2.9%	\$ -	0.0%	\$ 2,205	10.2%
	Credit-Related	25	0.1%	1,098	5.1%	1,161	5.3%	2,284	10.5%
<b>Fixed Income Total</b>		<b>1,604</b>	<b>7.4%</b>	<b>1,724</b>	<b>8.0%</b>	<b>1,161</b>	<b>5.3%</b>	<b>4,489</b>	<b>20.7%</b>
Real Assets	Real Estate	\$ 459	2.1%	\$ 113	0.5%	\$ 619	2.9%	1,191	5.5%
	Natural Resources	2,262	10.4%	6	0.0%	936	4.4%	3,204	14.8%
<b>Real Assets Total</b>		<b>2,721</b>	<b>12.5%</b>	<b>119</b>	<b>0.5%</b>	<b>1,555</b>	<b>7.3%</b>	<b>4,395</b>	<b>20.3%</b>
Equity	Developed Country	\$ 3,010	13.9%	\$ 4,134	19.1%	\$ 2,471	11.4%	9,615	44.4%
	Emerging Markets	2,339	10.8%	471	2.2%	579	2.6%	3,389	15.6%
<b>Equity Total</b>		<b>5,349</b>	<b>24.7%</b>	<b>4,605</b>	<b>21.3%</b>	<b>3,050</b>	<b>14.0%</b>	<b>13,004</b>	<b>60.0%</b>
<b>Grand Total</b>		<b>\$ 9,674</b>	<b>44.6%</b>	<b>\$ 6,448</b>	<b>29.8%</b>	<b>\$ 5,766</b>	<b>26.6%</b>	<b>\$ 21,888</b>	<b>101.0%</b>

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



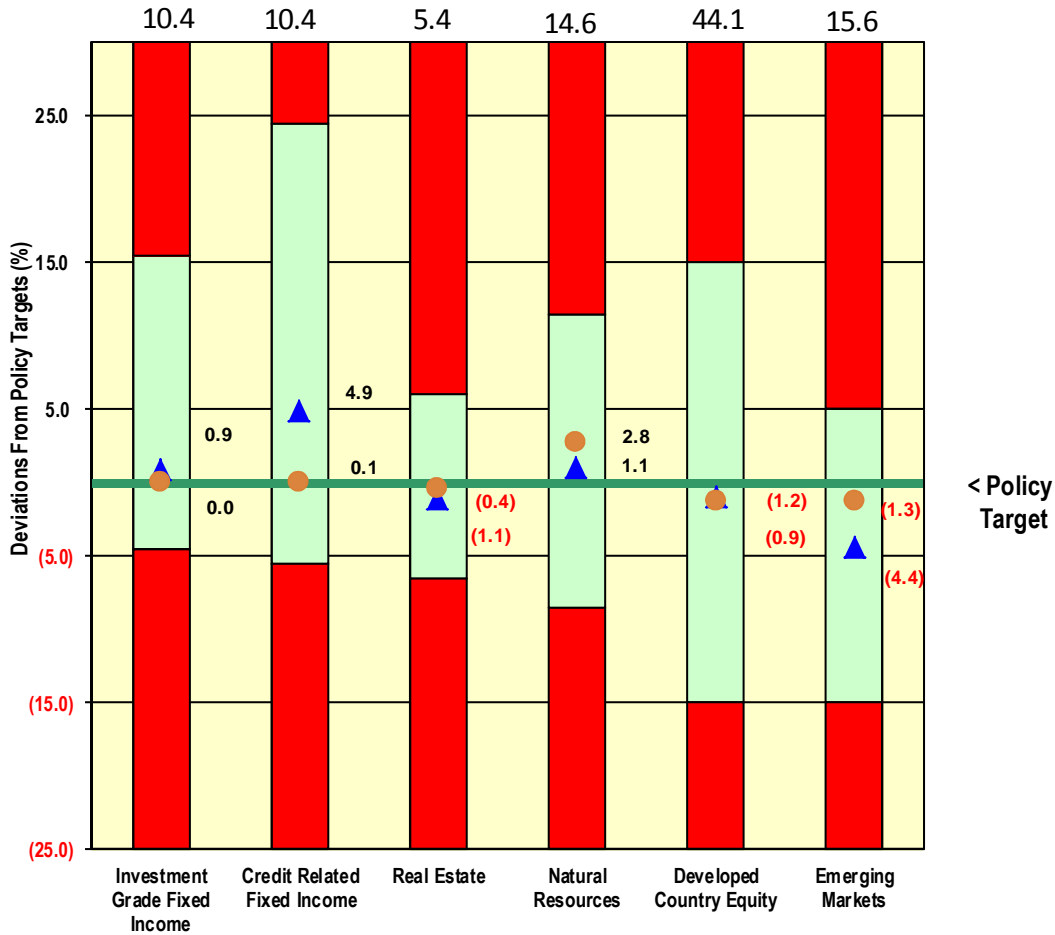
# Emerging Markets Exposure

(As of 9/30/2012)	\$ Exposure			Exposure as a % of Total Endowment		Exposure as a % of Asset Class	
	Emerging Markets	Non-Emerging Markets	Total	Emerging Markets	Non-Emerging Markets	Emerging Markets	Non-Emerging Markets
<b>Asset Class</b>							
Investment Grade Fixed Income	\$ 453	\$ 1,308	\$ 1,762	2.4%	7.0%	25.7%	74.3%
Credit Related Fixed Income	22	1	\$24	0.1%	0.0%	94.6%	5.4%
Public Equity: Developed Country and Emerging Markets	1,399	2,644	4,043	7.5%	14.1%	34.6%	65.4%
<b>Real Estate</b>							
<i>More Correlated and Constrained</i>	17	536	554	0.1%	2.9%	3.1%	96.9%
<i>Private Investments</i>	<u>43</u>	<u>462</u>	<u>505</u>	<u>0.2%</u>	<u>2.5%</u>	8.5%	91.5%
Total Real Estate	60	999	1,059	0.3%	5.3%	5.7%	94.3%
<b>Natural Resources</b>							
<i>More Correlated and Constrained</i>	19	586	605	0.1%	3.1%	3.1%	96.9%
<i>Private Investments</i>	<u>198</u>	<u>536</u>	<u>734</u>	<u>1.1%</u>	<u>2.9%</u>	26.9%	73.1%
Total Natural Resources	216	1,122	1,338	1.2%	6.0%	16.2%	83.8%
Less Correlated and Constrained	979	5,232	6,210	5.2%	27.9%	15.8%	84.2%
Private Investments	<u>602</u>	<u>3,729</u>	<u>4,331</u>	<u>3.2%</u>	<u>19.9%</u>	13.9%	86.1%
<b>Total</b>	<b>\$ 3,732</b>	<b>\$ 15,034</b>	<b>\$ 18,766</b>	<b>19.9%</b>	<b>80.1%</b>	<b>19.9%</b>	<b>80.1%</b>
<b>Investment Style</b>							
More Correlated and Constrained	\$ 1,911	\$ 5,075	\$ 6,986	10.2%	27.0%	27.4%	72.6%
Less Correlated and Constrained	979	5,232	6,210	5.2%	27.9%	15.8%	84.2%
Private Investments	<u>842</u>	<u>4,727</u>	<u>5,570</u>	<u>4.5%</u>	<u>25.2%</u>	15.1%	84.9%
<b>Total</b>	<b>\$ 3,732</b>	<b>\$ 15,034</b>	<b>\$ 18,766</b>	<b>19.9%</b>	<b>80.1%</b>	<b>19.9%</b>	<b>80.1%</b>

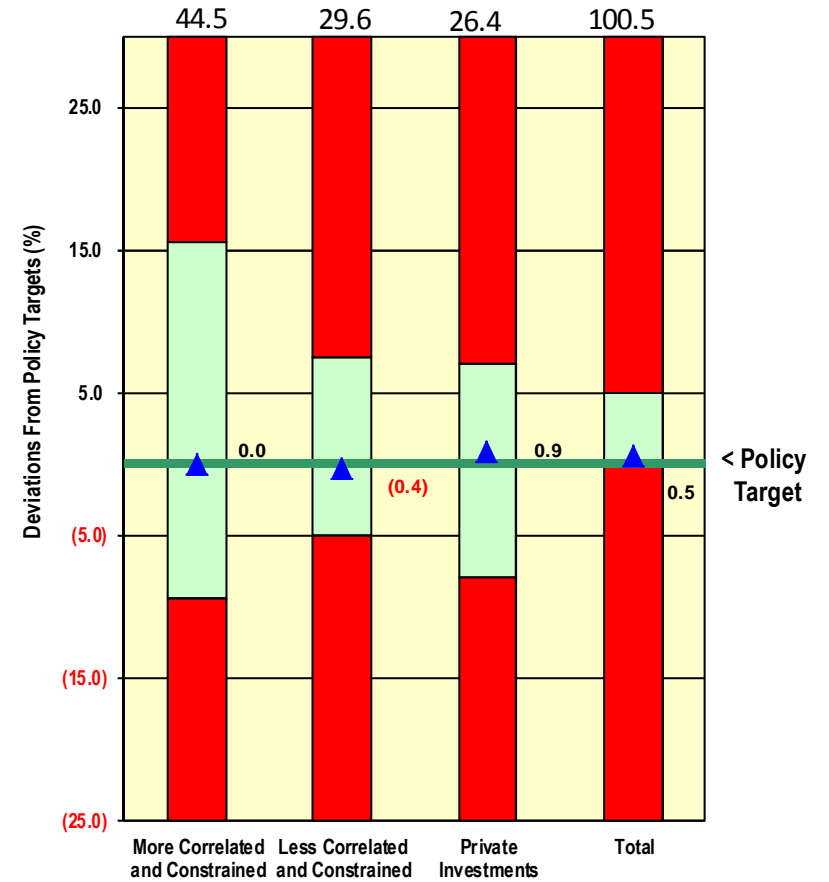


# PUF Asset Allocation as of February 28, 2013

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



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



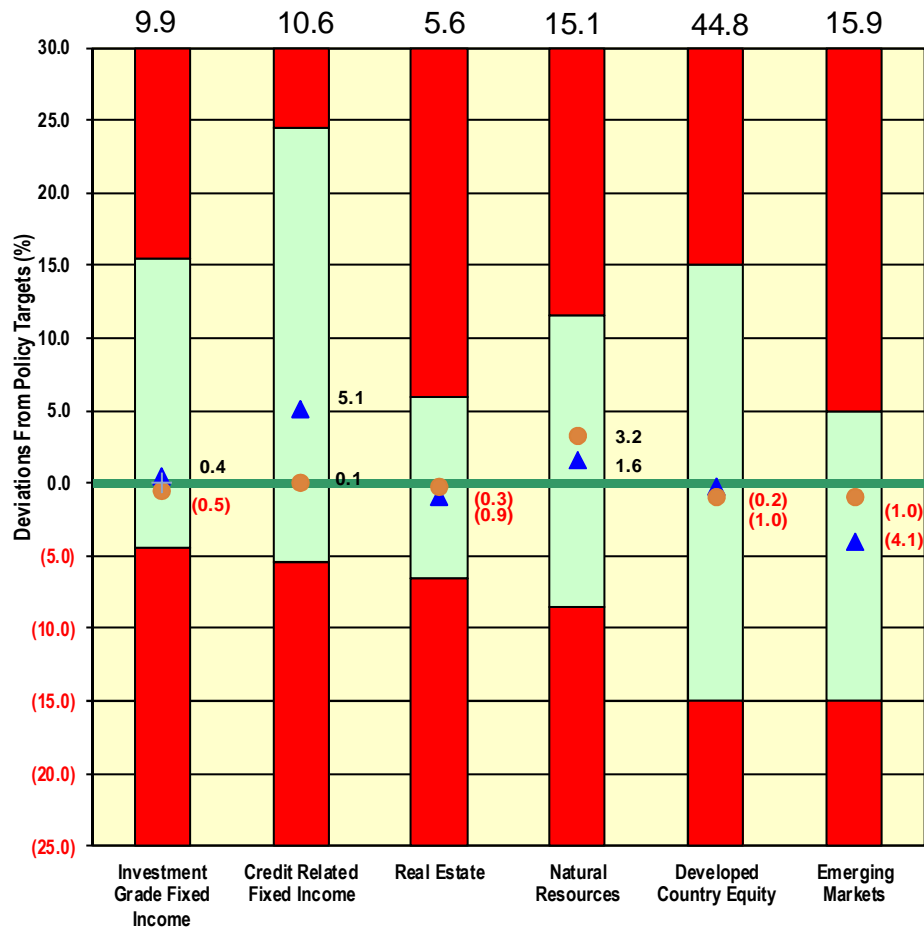
▲ -- All Investment Types

● -- More Correlated and Constrained

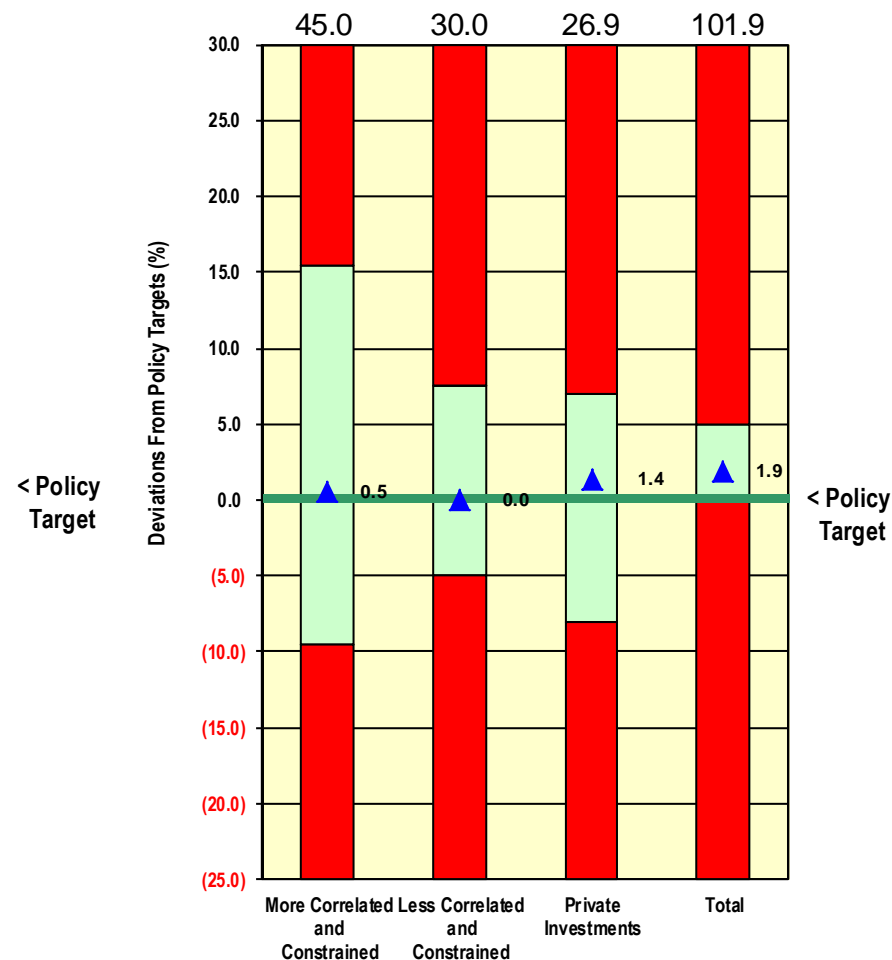


# GEF Asset Allocation as of February 28, 2013

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



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



▲ -- All Investment Types

● -- More Correlated and Constrained





# LCC Investment Policy Categorizations vs. “Look Thru” Exposures Estimated February 28, 2013

<b>Exposure Methodology Comparison</b>			
	<u>Policy</u>	<u>Look-Through</u>	<u>Difference</u>
Investment Grade Fixed Income	3.0%	2.5%	-0.6%
Credit-Related Fixed Income	5.3%	6.5%	1.2%
Real Estate	0.6%	0.5%	-0.1%
Natural Resources	0.0%	0.5%	0.5%
Developed Country Equity	20.1%	19.0%	-1.1%
Emerging Markets Equity	<u>2.3%</u>	<u>2.4%</u>	<u>0.1%</u>
<b>Less Correlated &amp; Constrained</b>	<b>31.4%</b>	<b>31.4%</b>	<b>0.0%</b>



# Derivatives



# Endowment Insurance Hedges

Event	Hedge	Exposures as of February 28, 2013					Changes since December 31, 2012			
		Total Cost <sup>(1)</sup>	bps Cost/Year <sub>(2)</sub>	Notional (\$ millions)	MTM (\$ millions)	P/L	Cost	bps Cost/Year <sub>(2)</sub>	Notional (\$ millions)	MTM (\$ millions)
<b>ACTIVE POSITIONS</b>										
<b>U.S. Inflation</b>										
	CMS Options	\$ (52)	5.7	\$ 9,249	\$ 9	\$ (43)	\$ -	-	\$ -	\$ 1
<b>Emerging Markets Bubble</b>										
	KOSPI Put Spread	\$ (27)	7.4	1,339	1	(26)	-	-	-	(3)
	Australian Put Spread	\$ (12)	3.7	349	0	(12)	-	-	-	(1)
	Total	(39)	11.1		1	(38)	-	-	-	(3)
<b>Sovereign Default</b>										
	JPY Rate Options and Swaptions	\$ (50)	7.9	\$ 7,005	26	(24)	-	-	-	11
<b>SUBTOTAL ACTIVE POSITIONS</b>		<b>(142)</b>	<b>24.7</b>		<b>37</b>	<b>(105)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9</b>
<b>EXPIRED POSITIONS</b>										
	ASX Put Spreads	\$ (13)	0.5	\$ 870		(13)	-	-	-	
<b>SUBTOTAL EXPIRED POSITIONS</b>		<b>(13)</b>	<b>0.5</b>			<b>(13)</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>TOTAL</b>		<b>\$ (154)</b>	<b>25.2</b>		<b>\$ 37</b>	<b>\$ (117)</b>	<b>\$ -</b>	<b>-</b>	<b>-</b>	<b>\$ 9</b>

(1) Maximum Loss for Options

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



# Non-Insurance Related Internal Derivatives

## February 28, 2013

<b>Manager</b>	<b>Derivative Strategy</b>	<b>Net Notional Value (\$ millions)</b>	<b>Activity from previous report (12/31/2012) (\$ millions)</b>
<b><u>Real Estate</u></b>			
RUGL Swap	Short Swap on RUGL Index to reduce exposure to global real estate	(197)	73
<b><u>Natural Resources</u></b>			
Gold Futures	Purchased futures to gain exposure to gold markets.	356	356
<b><u>Developed Country Equity</u></b>			
Japan Forwards	Sale of Japanese Yen forwards to hedge the currency exposure in the MCC accounts	(337)	(245)
MSCI Europe Swap	Short Swap on MSCI Europe Index to reduce exposure to equity markets	-	71
<b><u>Emerging Markets Equity</u></b>			
Emerging Markets FX Overlay	Currency forwards to align the Asset Class FX exposure closer to the benchmark	173	(10)
Korean Swap	Long swap on MSCI Korea index to increase exposure to Korea	34	-
Taiwan synthetic futures	Long TAIEX synthetic futures to increase exposure to Taiwan	-	(25)
MSCI Taiwan Swap	Long MSCI Swap to increase exposure to Taiwan	25	25
Emerging Markets Futures	Purchased futures to gain exposure to emerging markets.	391	391



# External Manager Agency Account Derivatives

## February 28, 2013

<u>Manager</u>	<u>Derivative Strategy</u>	<u>Net Notional Value (\$ millions)</u>
<b><u>Investment Grade Fixed Income</u></b>		
Brandywine	Currency forwards used to hedge foreign currency exposure	(156)
Old Mutual	Short futures to reduce duration at the front end of the yield curve	(81)
Credit Suisse Hedging Griffo	Futures contracts used to hedge the portfolio back to the US dollar	322
PIMCO Global Bonds	Currency forwards used to underweight the US dollar	63
	Long US and Non-US futures used to overweight duration in Eurozone	29
	Long futures used to overweight front end of US and UK yield curves	413
	Receive Interest rate swaps used to overweight duration in the Eurozone and underweight intermediate portion of the Japanese yield curve	16
	Pay Interest rate swaps used to overweight duration in the Eurozone and underweight intermediate portion of the Japanese yield curve	(57)
	Interest rate swaps used to overweight front end of US and UK yield curves	10
	Short/Written credit default swaps used to overweight credit risk	4
	Long/Purchased credit default swaps used to underweight credit risk	(25)
	Written options used to increase portfolio yield	(304)
	Purchased options used to increase portfolio yield	6
<b><u>Natural Resources</u></b>		
Gresham	Long Exchange-traded commodity futures	428
Wellington Commodities SPV	Exchange-traded commodity futures, options and/or swaps	87
<b><u>Developed Equity</u></b>		
International Value Advisors	Currency forward contracts for hedging purposes or to provide efficient investment exposure.	(16)
<b><u>Non-US Emerging Equity</u></b>		
Squadra	Exchange-traded options and futures to provide higher return on cash holdings	1



# OTC Derivative Counterparty Report

## February 28, 2013

\$ 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-	\$ 8.1	\$ 0.1	\$ 8.2	0.03%
MORGAN STANLEY	A-	1.6	(0.1)	1.5	0.01%
J P MORGAN, CHASE	A+	0.9	(2.0)	(1.1)	0.00%
CS FIRST BOSTON GBL FOREIGN EXCH	A	0.8	-	0.8	0.00%
BNP PARIBAS	A+	0.7	-	0.7	0.00%
MELLON BANK	A+	0.6	-	0.6	0.00%
GOLDMAN SACHS	A-	0.5	(0.3)	0.2	0.00%
UBS AG, STAMFORD	A	0.4	(0.8)	(0.4)	0.00%
BANK OF AMERICA	A-	0.3	-	0.3	0.00%
WESTPAC BANKING CORP, SYDNEY	AA-	0.3	(0.1)	0.2	0.00%
BARCLAYS	A+	0.2	(0.8)	(0.6)	0.00%
ROYAL BANK OF SCOTLAND PLC	A-	0.2	(0.5)	(0.3)	0.00%
DEUTSCHE BANK AG	A+	0.1	(0.7)	(0.6)	0.00%
HSBC BK USA, NEW YORK	A+	-	(2.5)	(2.5)	-0.01%
STANDARD & CHARTERED BK, LONDON	A+	-	-	-	0.00%
UBS A G, ZURICH	A	-	-	-	0.00%
CHASE MANHATTAN	A	-	(0.2)	(0.2)	0.00%
ROYAL BANK OF CANADA	AA-	(0.3)	-	(0.3)	0.00%
CREDIT SUISSE FIRST	A	(0.6)	-	(0.6)	0.00%
Grand Total		\$ 13.8	\$ (7.9)	\$ 5.9	0.03%

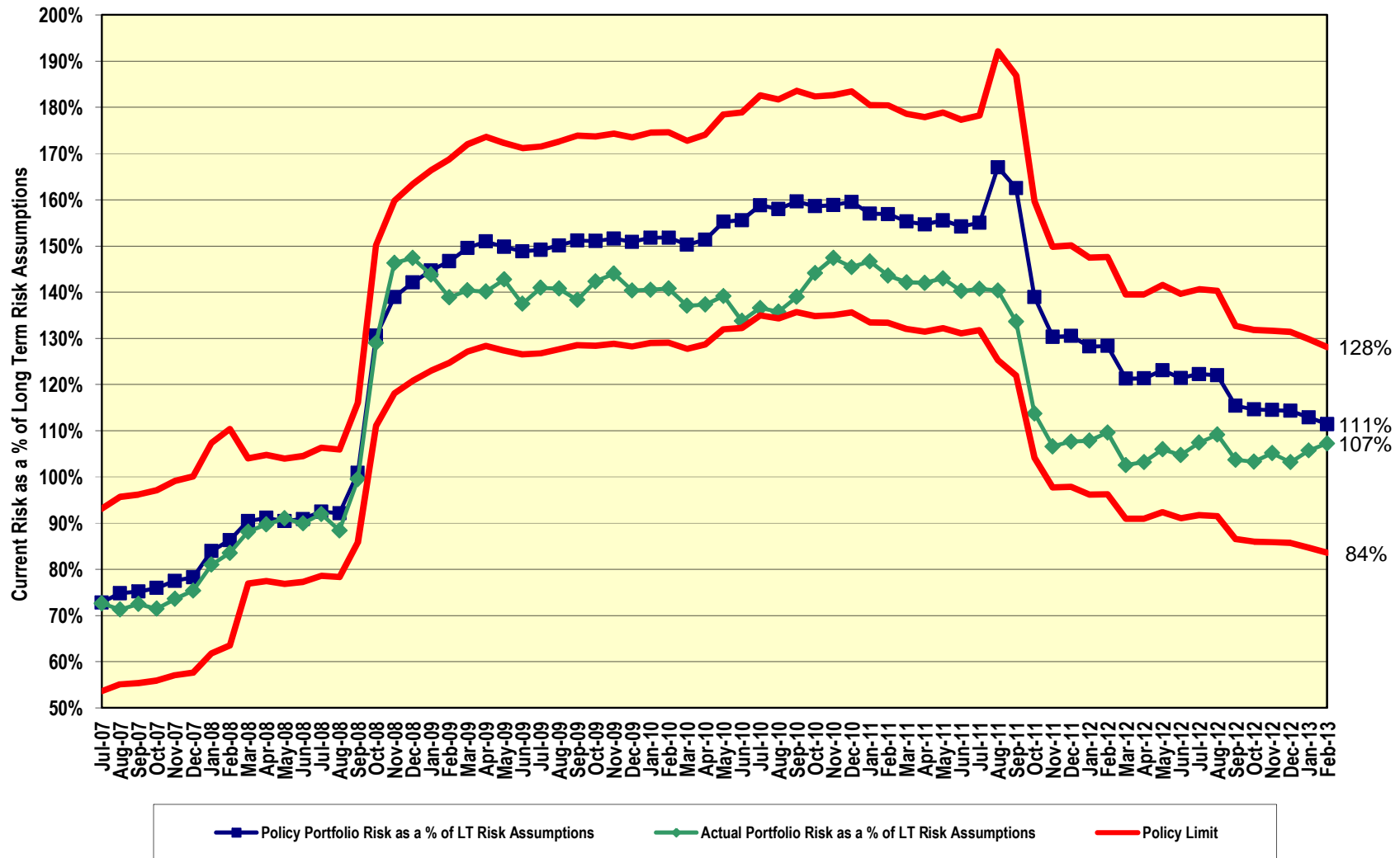


# Risk Analytics



# Current Risk Environment of GEF

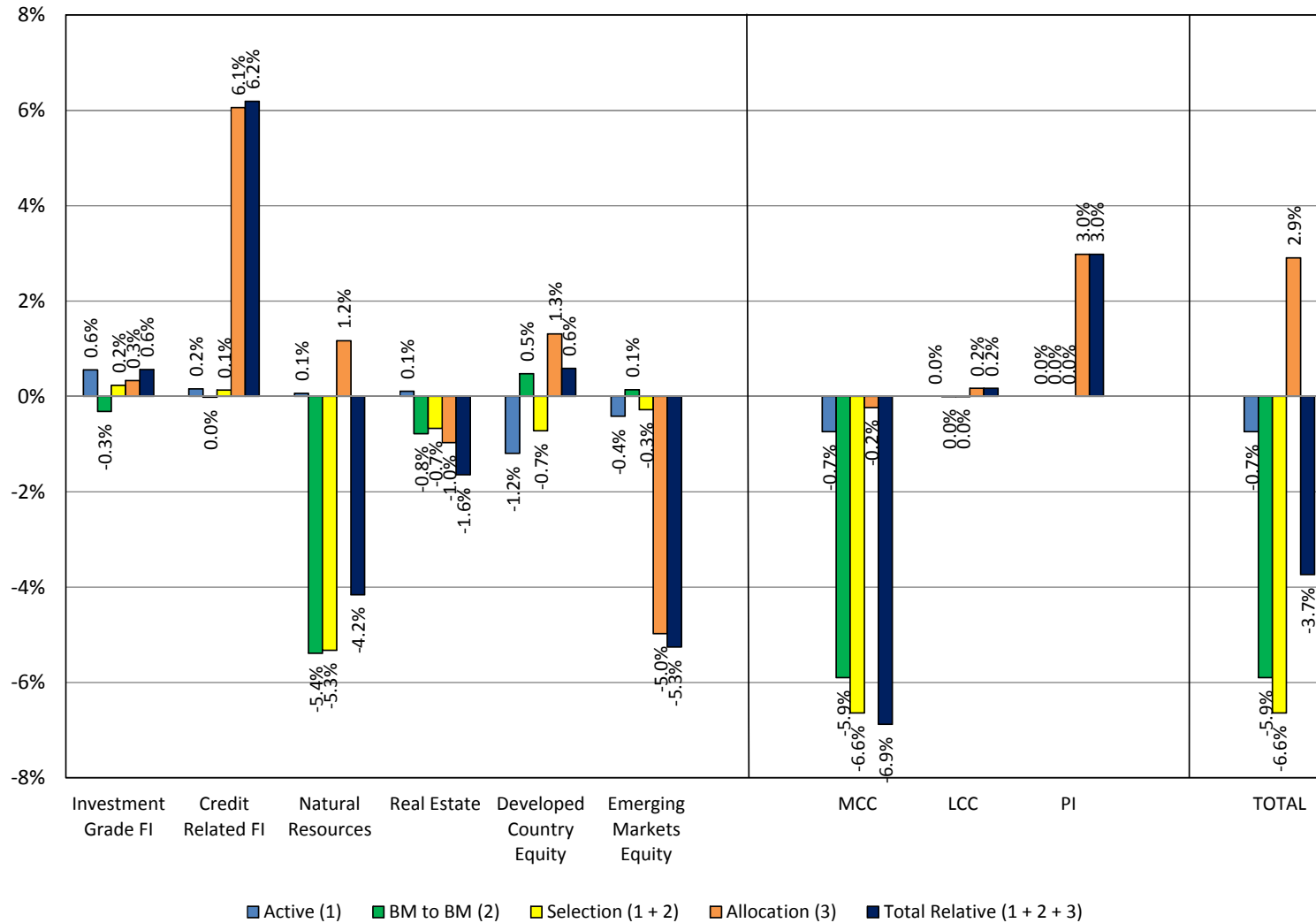
(Based on Downside Risk; LT assumption = 9.45%)







# GEF 4-Way Risk Decomposition as of 2/28/2013





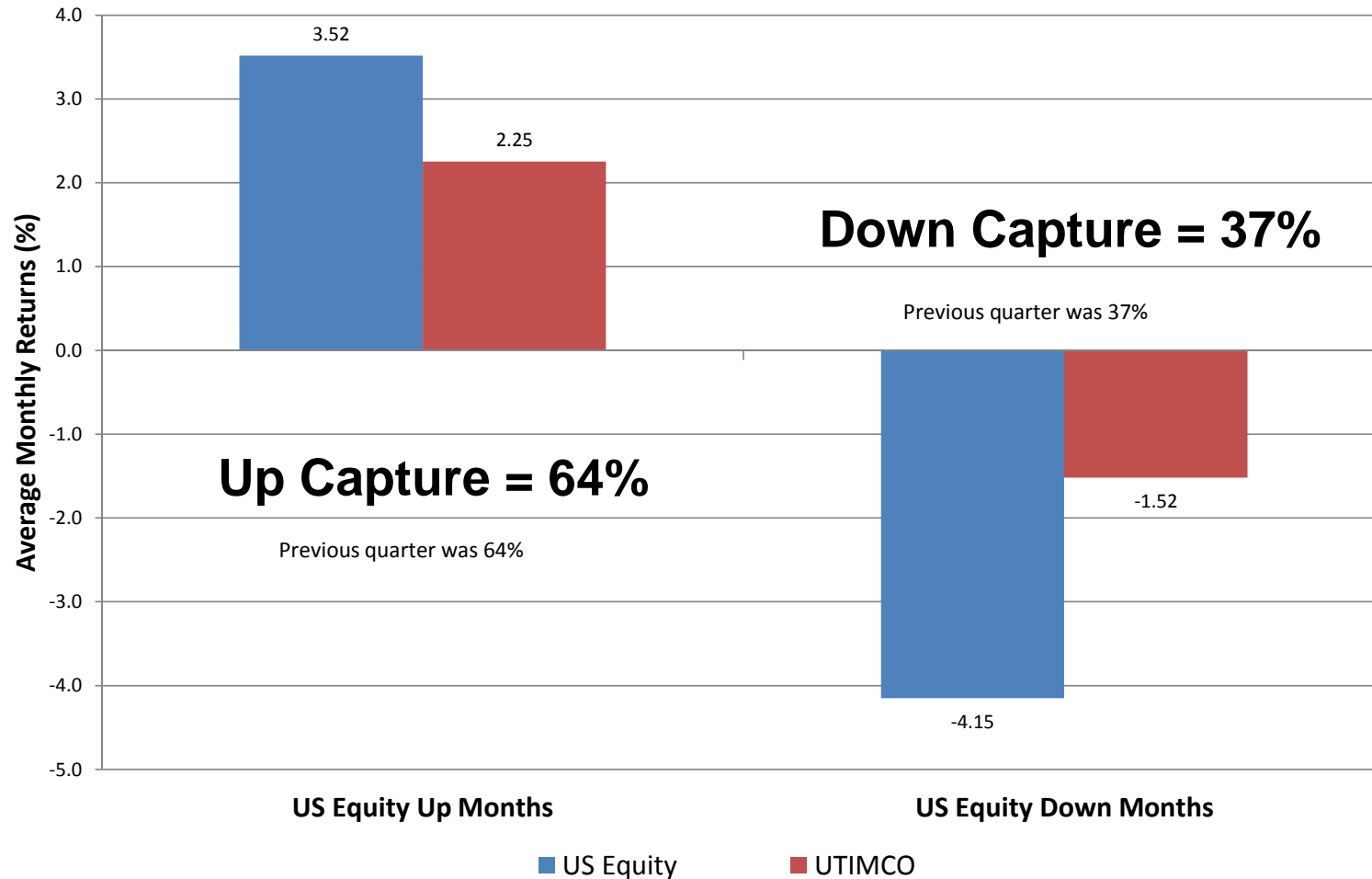
# Portfolio Sharpe and Information Ratios

Period Ending February 28, 2013

	Three Months	One Year	Three Years	Five Years	Ten Years
Actual Returns	3.68	8.54	9.15	3.28	9.12
Risk-free Returns	0.02	0.11	0.11	0.39	1.77
Actual Volatility	1.77	3.93	6.79	10.31	8.46
<b>Portfolio Sharpe Ratio</b>	<b>2.07</b>	<b>2.15</b>	<b>1.33</b>	<b>0.28</b>	<b>0.87</b>
Policy Returns	3.81	6.11	7.73	1.07	6.87
Policy Volatility	2.26	6.21	8.62	11.58	8.96
Tracking Error	0.62	2.52	2.76	3.05	2.58
<b>Portfolio Information Ratio</b>	<b>-0.21</b>	<b>0.97</b>	<b>0.51</b>	<b>0.72</b>	<b>0.87</b>



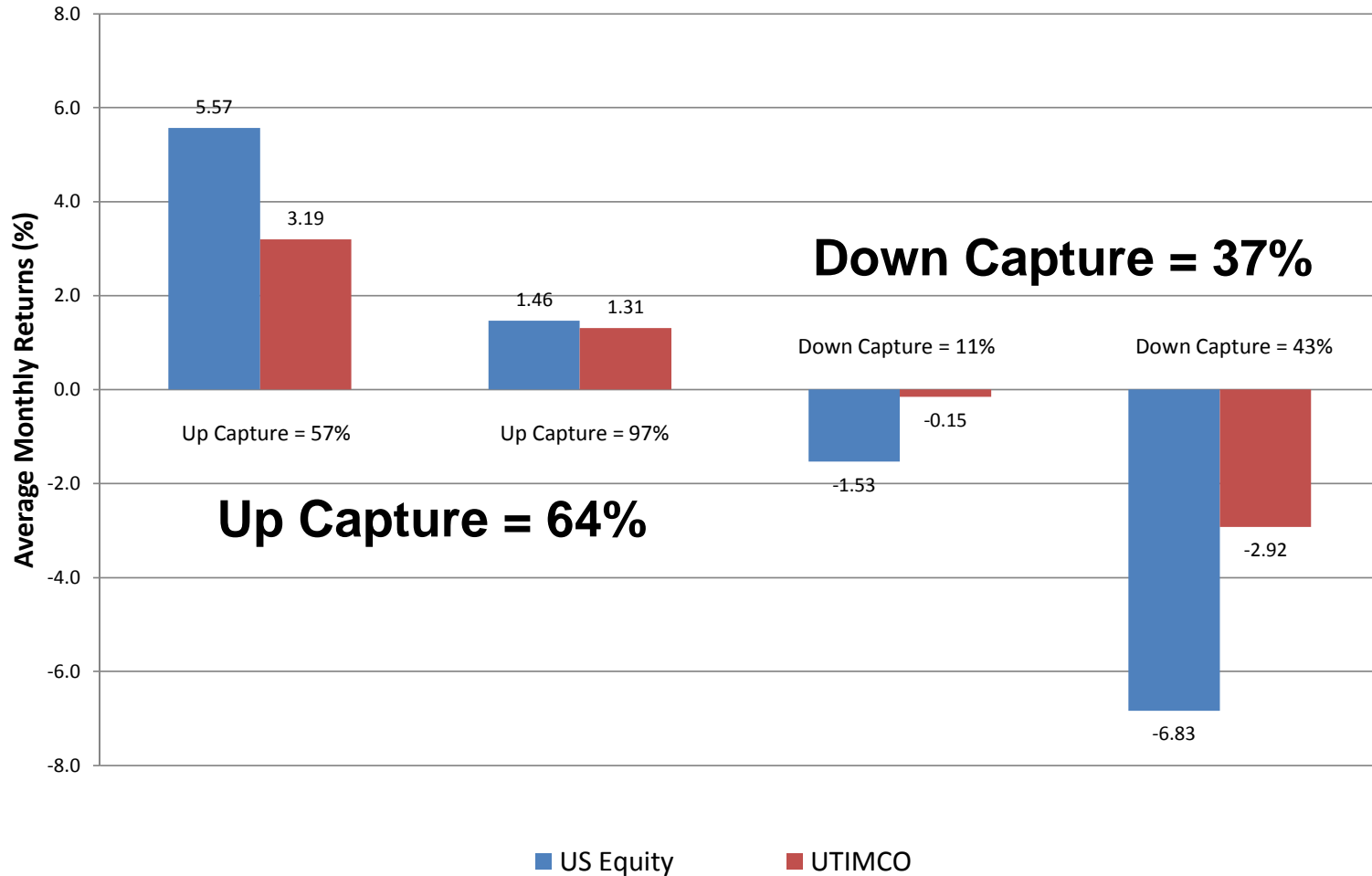
# UTIMCO's Up/Down Capture



Data from 8/1996 till 2/2013. US equity had 81 down months and 118 up months



# UTIMCO's Up/Down Capture



Data from 8/1996 till 2/2013. US equity had 81 down months and 118 up months



# GEF Marginal Risk Contribution

	MCC	LCC	PI	TOTAL
Investment Grade Fixed Income	0.13	-0.01		<b>0.09</b>
Credit-Related Fixed Income	1.25	0.38	0.56	<b>0.48</b>
Natural Resources	0.91	-0.46	2.34	<b>1.37</b>
Real Estate	0.97	0.11	2.42	<b>1.55</b>
Developed Country Equity	1.18	0.48	1.76	<b>1.03</b>
Emerging Markets Equity	1.20	0.17	2.77	<b>1.34</b>
<b>TOTAL</b>	<b>0.94</b>	<b>0.39</b>	<b>1.78</b>	<b>1.00</b>



# Derivative Risk Contribution - GEF

	Risk Contribution					
	MCC	LCC	PI	TOTAL	Of Derivatives	Excluding Derivatives
Investment Grade Fixed Income	0.9%	0.0%		<b>0.9%</b>	<b>-0.9%</b>	<b>1.7%</b>
Credit-Related Fixed Income	0.1%	1.8%	2.9%	<b>4.8%</b>	<b>0.0%</b>	<b>4.8%</b>
Natural Resources	7.8%	0.0%	9.8%	<b>17.6%</b>	<b>1.2%</b>	<b>16.5%</b>
Real Estate	2.8%	0.1%	6.7%	<b>9.6%</b>	<b>-0.8%</b>	<b>10.4%</b>
Developed Country Equity	16.0%	9.0%	19.4%	<b>44.4%</b>	<b>0.1%</b>	<b>44.3%</b>
Emerging Markets Equity	11.4%	0.4%	7.2%	<b>19.0%</b>	<b>2.7%</b>	<b>16.3%</b>
<b>TOTAL</b>	<b>38.9%</b>	<b>11.3%</b>	<b>46.1%</b>	<b>96.3%</b>	<b>2.3%</b>	<b>93.9%</b>



# Correlations

Measured from March 2008 through February 2013

	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	0.65	0.69	0.76	0.63	0.29	0.75
Total Credit		1.00	0.59	0.59	0.65	0.58	0.60	0.67	0.71	0.71
Total RE			1.00	0.62	0.80	0.83	0.89	0.57	0.41	0.85
Total NatRes				1.00	0.77	0.80	0.85	0.79	0.36	0.87
Total DC					1.00	0.86	0.91	0.89	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



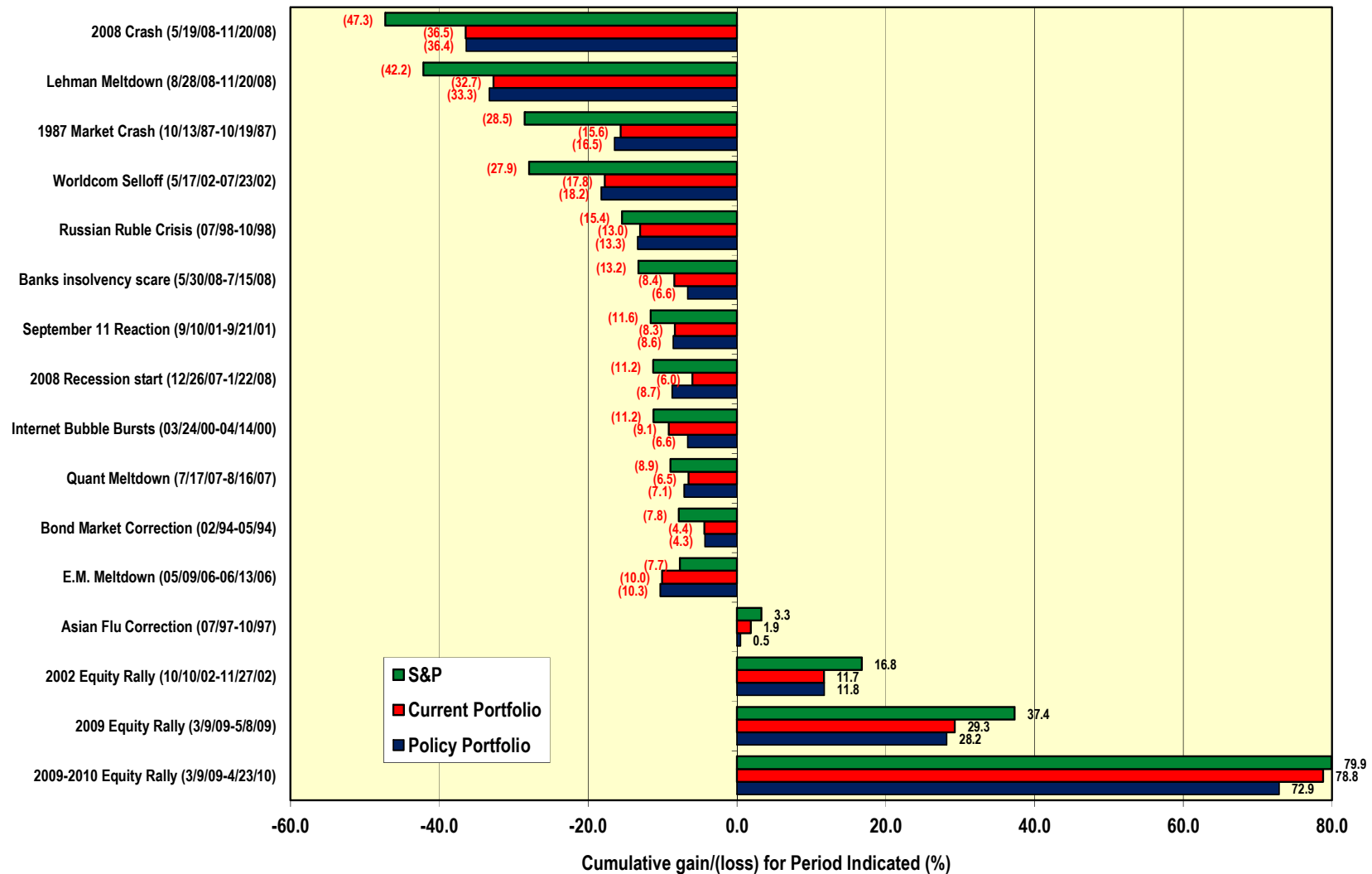
# Parametric Stress Tests

<u>Test</u>	<u>Effect on Endowment</u>
• S&P-500 drops 20%	(12.47%)
• Rates rise 100bp	(0.21%)
• Dollar strengthens 5%	0.03%
• Dollar weakens 5%	0.02%
• Yield curve flattens – Bull case	0.23%
• Yield curve flattens – Bear case	(0.08%)
• Yield curve steepens – Bull case	0.09%
• Yield curve steepens – Bear case	(0.11%)



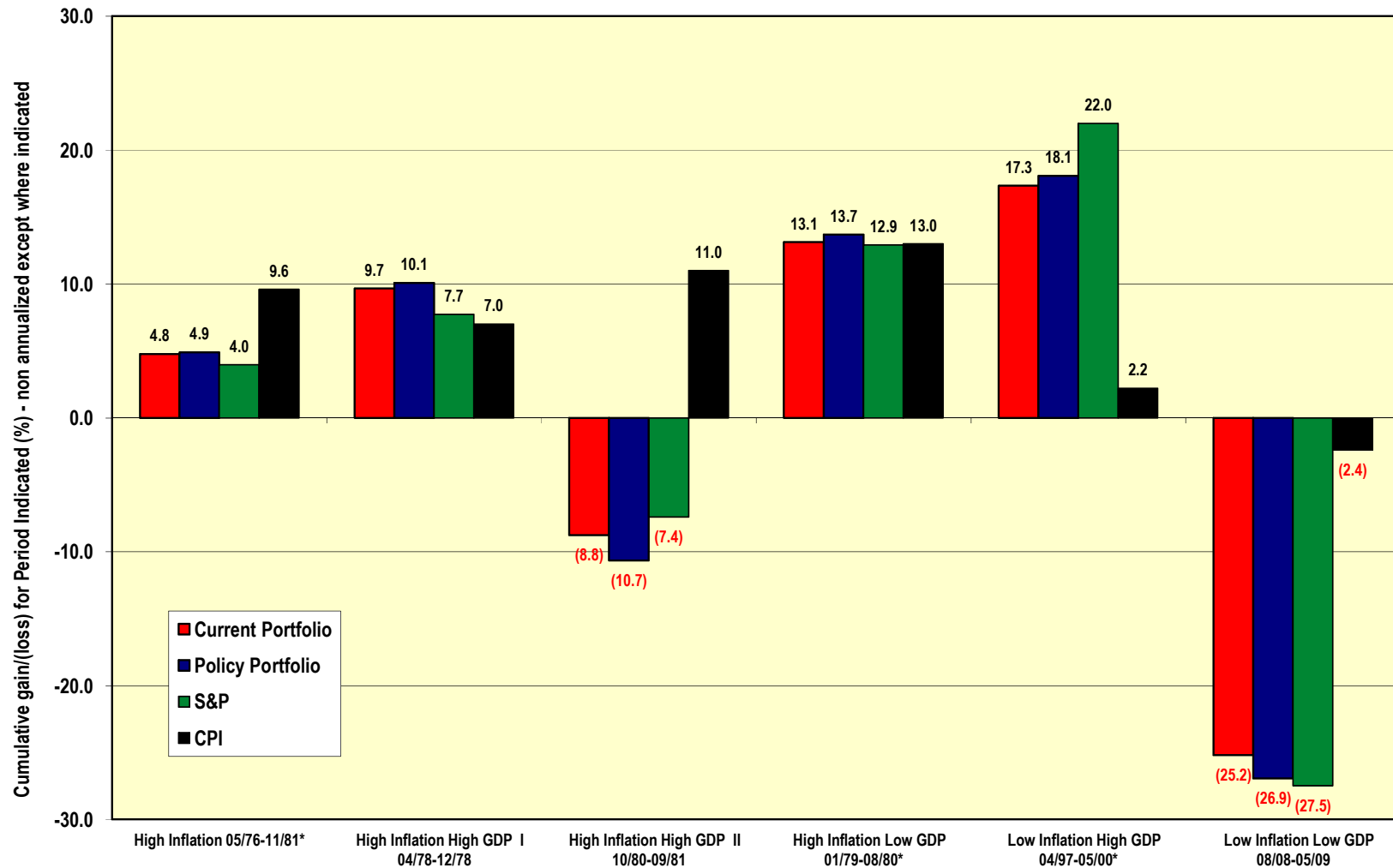


# Hypothetical Performance of Current GEF Portfolio in Selected Market Stress Environments





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



\* Annualized



# Scenario Analysis

As of February 28, 2013

	Policy	Scenario							
		Full Recovery	Global Stagflation	Eurozone Default	Big Eurozone Default	Japan Crisis	USD Crisis	EM Bubble "Pop"	Deflation
<b>Expected Policy Returns (nominal)</b>	<b>7.36%</b>	<b>18%</b>	<b>(7.4%)</b>	<b>(5.5%)</b>	<b>(20%)</b>	<b>(19%)</b>	<b>(20%)</b>	<b>(22%)</b>	<b>(26%)</b>
Gain from tactical positions	(0.06%)	(1.4%)	1.7%	1.1%	3.0%	2.4%	3.5%	1.6%	0.3%
Gain from current hedges	(0.50%)	0.0%	0.2%	0.1%	0.9% - 1.5%	0.4% - 2.3%	0.6%	0.6%	1.0%
Gain from manager's alpha	1.00%	0.8%	1.5%	2.2%	2.0%	2.0%	2.0%	2.0%	2.0%
<b>Estimated Endowment Returns</b>	<b>7.81%</b>	<b>17.5%</b>	<b>(4.0%)</b>	<b>(2.1%)</b>	<b>(14%)</b>	<b>(14%) – (12%)</b>	<b>(13.7%)</b>	<b>(17.8%)</b>	<b>(22.6%)</b>

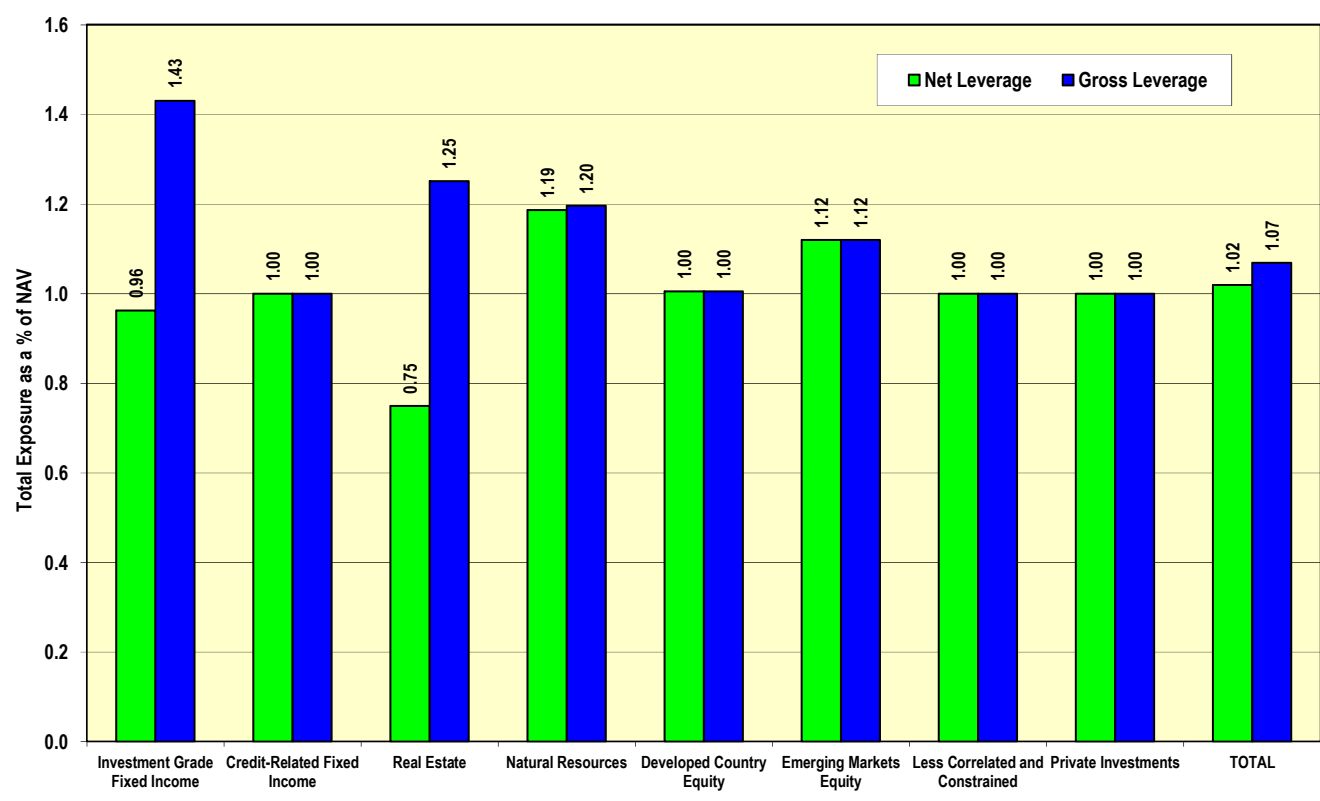


# Leverage



# Portfolio Level Leverage as of February 28, 2013

- Overall the portfolio had a net leverage of 1.02x, gross of 1.07x
  - Leverage is being used to gain exposure in Natural Resources and in Emerging Markets

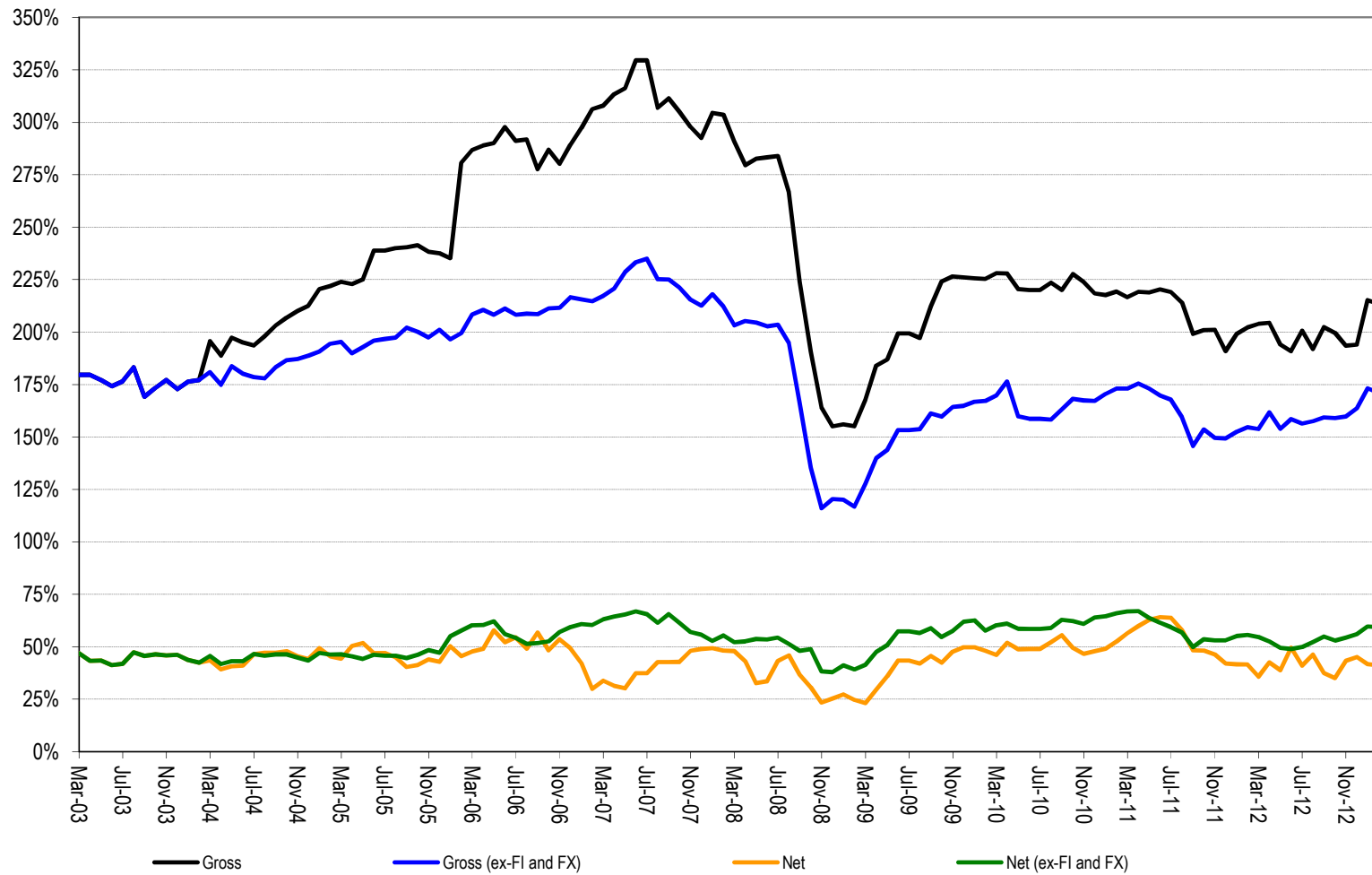




# LCC Leverage

Estimated as of February 28, 2013

Total Portfolio Exposures



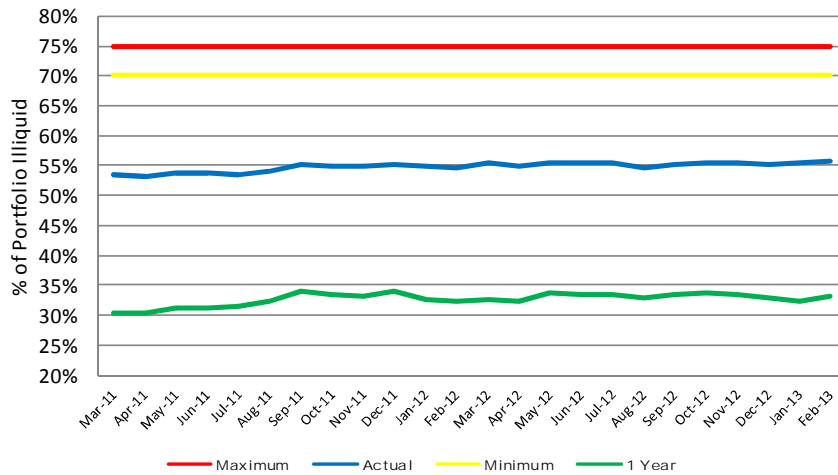


# Liquidity



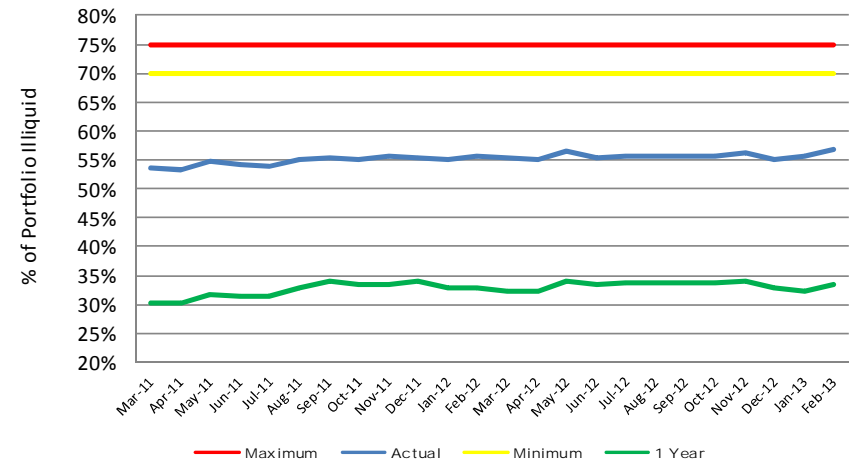
# Endowment Fund Liquidity

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



Three Month Liquidity \$ 6,290 million    One Year Liquidity \$ 9,539 million

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



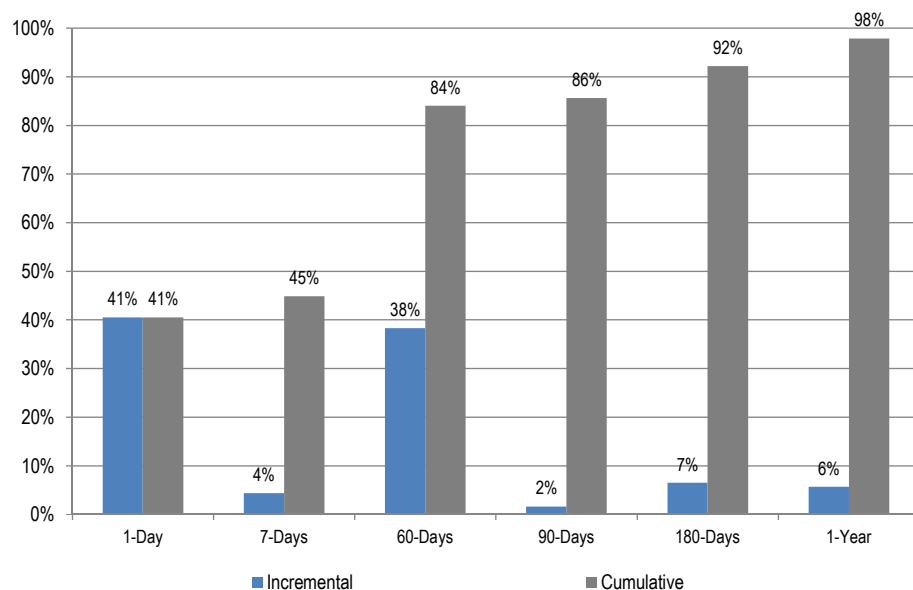
Three Month Liquidity \$ 3,215 million    One Year Liquidity \$ 4,942 million



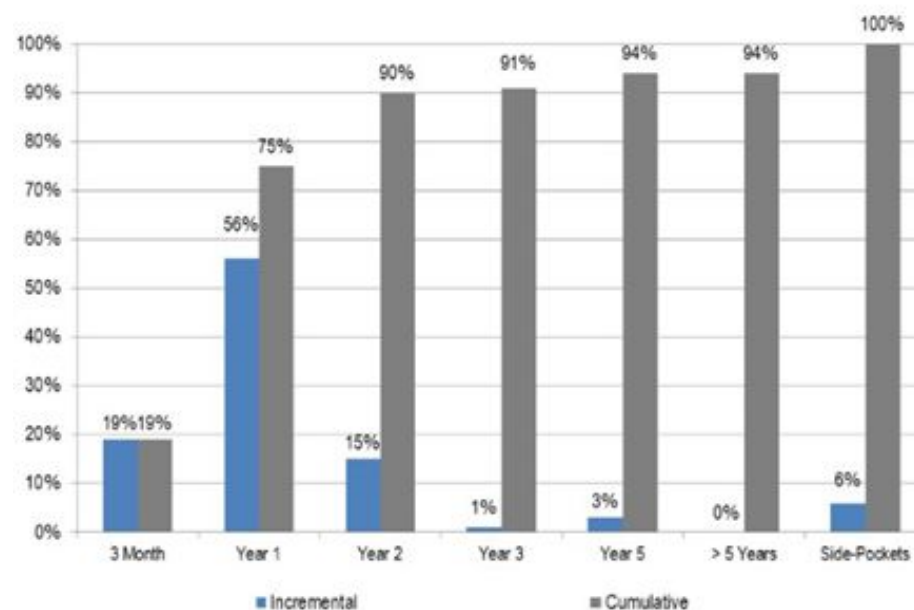


# Estimated Run-Off Liquidity\* As of February 28, 2013

MCC



LCC



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

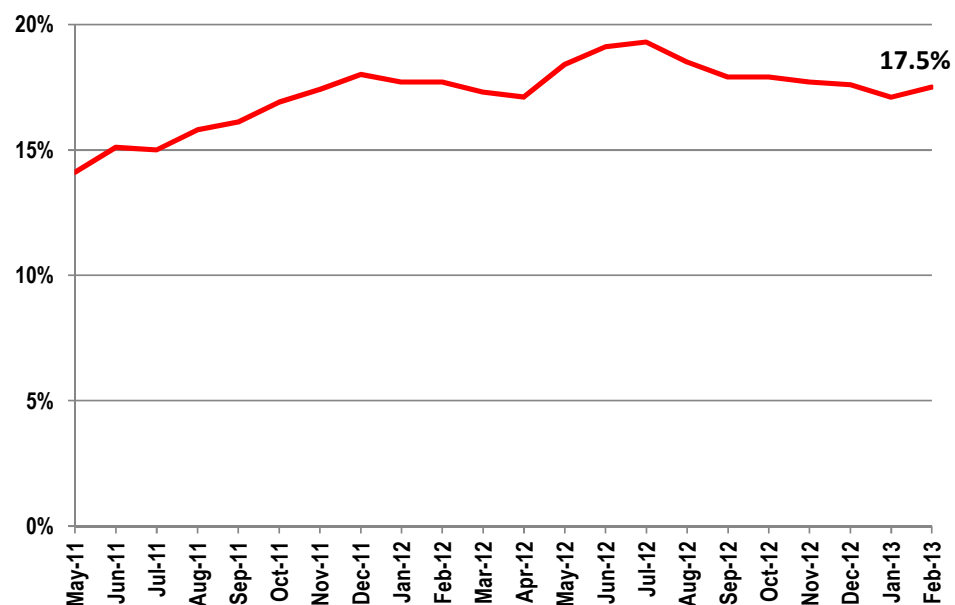


# Unfunded Commitments

Unfunded Commitments as of 2/28/13

Asset Class	Unfunded Commitment	Unfunded Commitment as % of Total Endowments
<b>PRIVATE INVESTMENTS</b>		
CREDIT-RELATED FIXED INCOME	248	1.1%
REAL ESTATE	823	3.8%
NATURAL RESOURCES	986	4.5%
NON-VENTURE CAPITAL	667	3.1%
VENTURE CAPITAL	400	1.9%
DEVELOPED MARKETS EQUITY	1,067	5.0%
EMERGING MARKETS EQUITY	563	2.6%
<b>TOTAL PRIVATE INVESTMENTS</b>	<b>\$3,687</b>	<b>17.0%</b>
TOTAL LESS CORRELATED AND CONSTRAINED	\$89	0.4%
TOTAL MORE CORRELATED AND CONSTRAINED	\$16	0.1%
<b>GRAND TOTAL</b>	<b>\$3,792</b>	<b>17.5%</b>
<b>TOTAL ENDOWMENTS HOLDINGS</b>	<b>\$21,677</b>	
<b>MAXIMUM AMOUNT OF UNFUNDED COMMITMENTS ALLOWED PER LIQUIDITY POLICY</b>		<b>30.0%</b>

Unfunded Commitments as a % of Endowment Assets

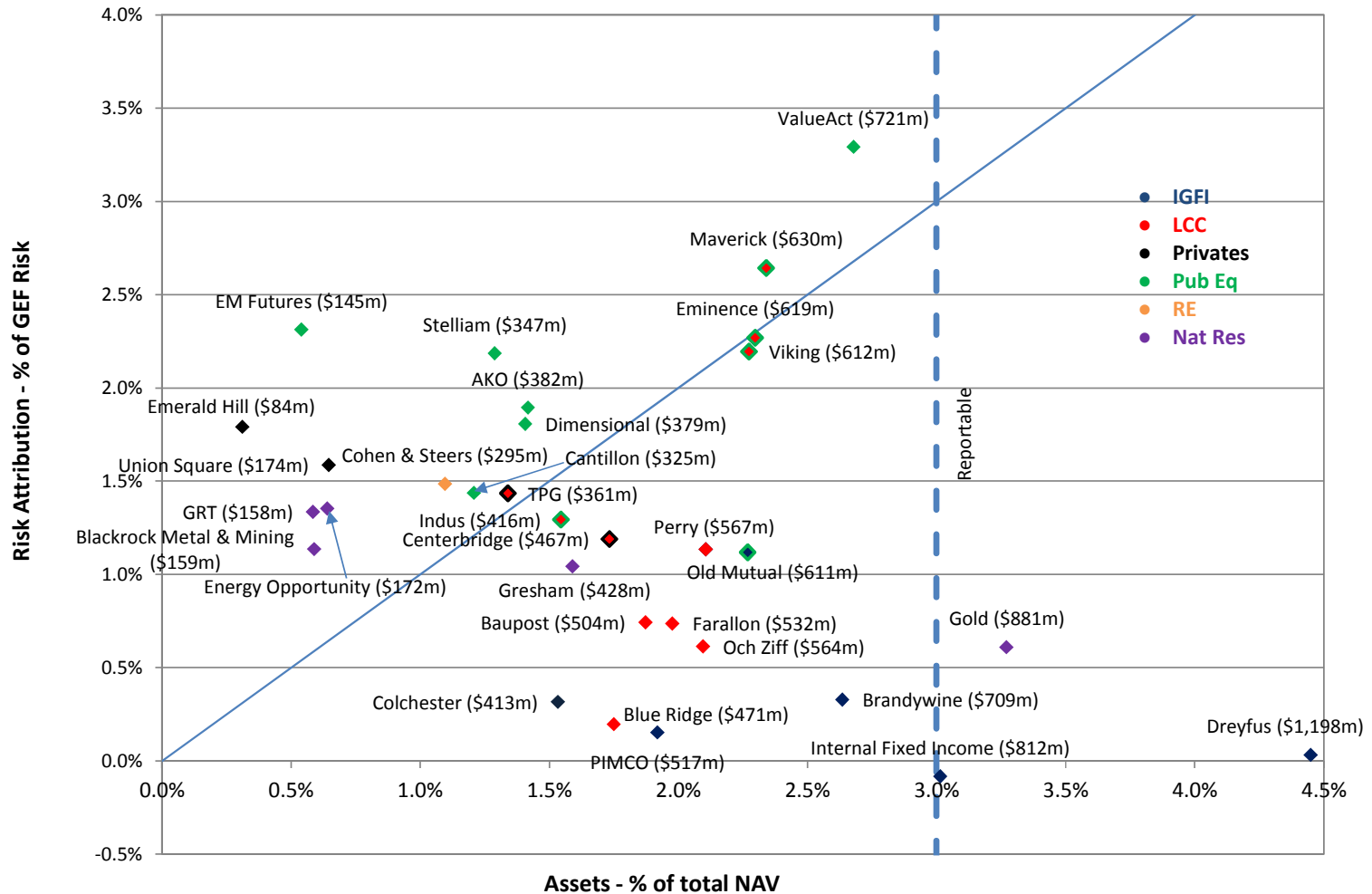




# Manager Exposure



# Largest Mandates: Risk and Dollar Allocations



Mandates with at least 1.42% of total assets, or at least 1.12% of Risk. Risk on this chart is measured using historical downside risk



# Manager Exposures over 3% and 5% February 28, 2013

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

2/28/2013

<u>Manager Name</u>	<u>Investment Amount</u>	<u>%age</u>
<u>More Correlated and Constrained</u> Internal Fixed Income	\$812 m	3.01%

### Less Correlated and Constrained

None

### Private Investments

None

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

2/28/2013

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

None



# **Investment Activity**

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



# Summary of Transactions Made Under the Delegation of Authority Six Months Ended February 28, 2013

	Redemptions (\$ millions)				Investments / Commitments (\$ millions)			
	<u>MCC</u>	<u>LCC</u>	<u>Private</u>	<u>Total</u>	<u>MCC</u>	<u>LCC</u>	<u>Private</u>	<u>Total</u>
Investment Grade Fixed Income	235	-	-	235	-	50	-	50
Credit-Related Fixed Income	-	22	-	22	-	26	-	26
Real Estate	-	-	-	-	-	-	210	210
Natural Resources	527	-	-	527	336	-	259	595
Developed Country Equity	14	272	-	286	379	357	180	916
Emerging Markets Equity	104	138	-	242	181	50	39	270
<b>Grand Total</b>	<b>\$ 880</b>	<b>\$ 491</b>	<b>\$ -</b>	<b>\$ 1,371</b>	<b>\$ 896</b>	<b>\$ 483</b>	<b>\$ 688</b>	<b>\$ 2,067</b>



**ITF**





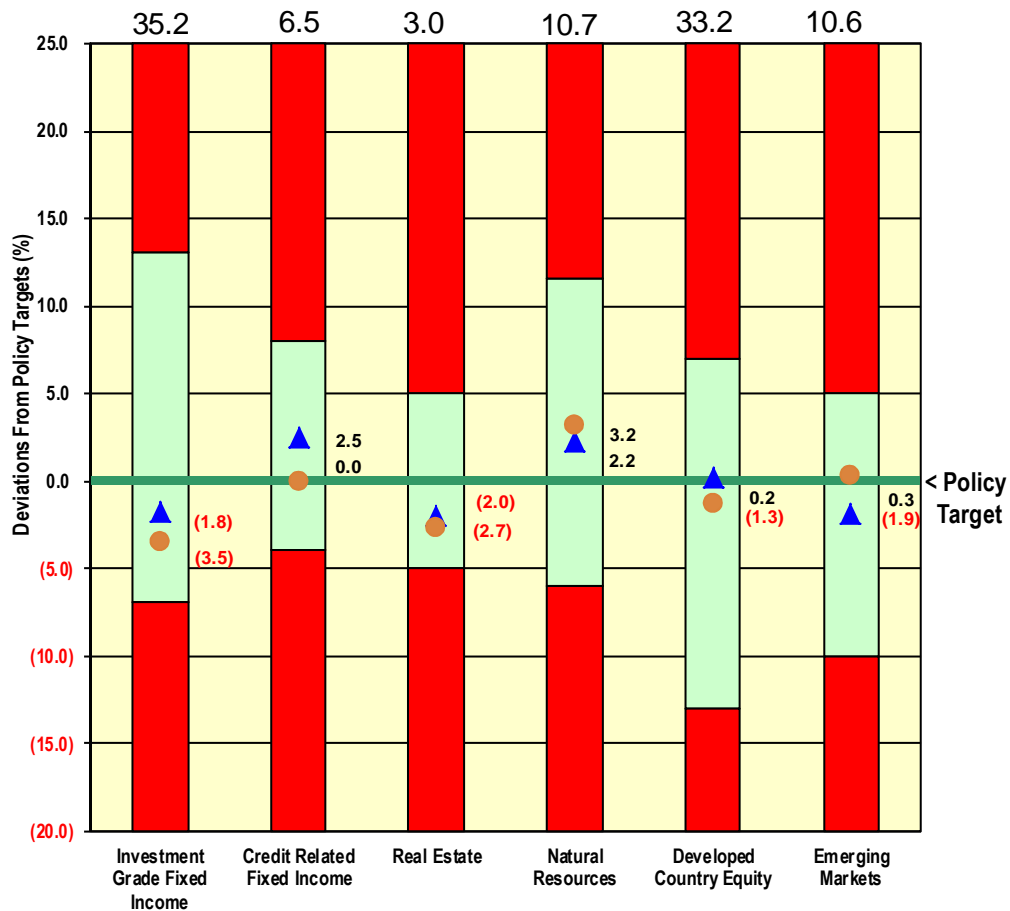
# ITF Asset Allocation as of February 28, 2013 (in millions)

Asset Group	Asset Class	More Correlated and Constrained		Less Correlated and Constrained		Private Investments		Grand Total	
		\$	%	\$	%	\$	%	\$	%
Fixed Income	Investment Grade	1,649	31.5%	194	3.7%	-	0.0%	1,843	35.2%
	Credit-Related	-	0.0%	341	6.5%	-	0.0%	341	6.5%
<b>Fixed Income Total</b>		<b>1,649</b>	<b>31.5%</b>	<b>535</b>	<b>10.2%</b>	<b>-</b>	<b>0.0%</b>	<b>2,184</b>	<b>41.7%</b>
Real Assets	Real Estate	123	2.3%	35	0.7%	-	0.0%	158	3.0%
	Natural Resources	563	10.7%	2	0.0%	-	0.0%	565	10.7%
<b>Real Assets Total</b>		<b>686</b>	<b>13.0%</b>	<b>37</b>	<b>0.7%</b>	<b>-</b>	<b>0.0%</b>	<b>723</b>	<b>13.7%</b>
Equity	Developed Country	458	8.7%	1,283	24.5%	-	0.0%	1,741	33.2%
	Emerging Markets	406	7.8%	146	2.8%	-	0.0%	552	10.6%
<b>Equity Total</b>		<b>864</b>	<b>16.5%</b>	<b>1,429</b>	<b>27.3%</b>	<b>-</b>	<b>0.0%</b>	<b>2,293</b>	<b>43.8%</b>
<b>Grand Total</b>		<b>\$ 3,199</b>	<b>61.0%</b>	<b>\$ 2,001</b>	<b>38.2%</b>	<b>\$-</b>	<b>0.0%</b>	<b>\$ 5,200</b>	<b>99.2%</b>

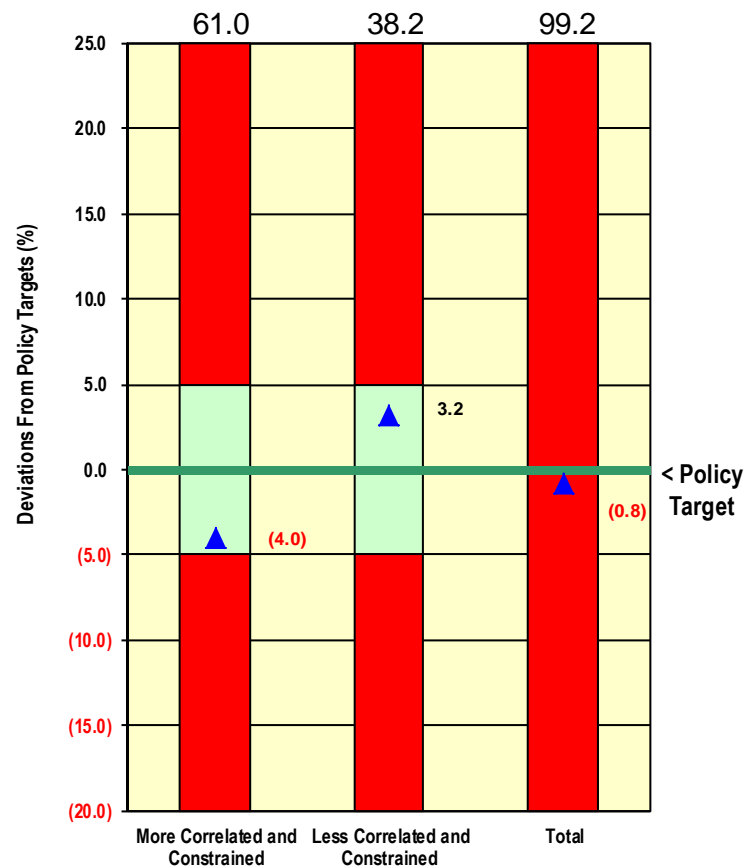


# ITF Asset Allocation as of February 28, 2013

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

Event	Hedge	Exposures as of February 28, 2013					Changes since December 31, 2012			
		Total Cost <sup>(1)</sup>	bps Cost/Year <sup>(2)</sup>	Notional (\$ millions)	MTM (\$ millions)	P/L	Cost	bps Cost/Year <sup>(2)</sup>	Notional (\$ millions)	MTM (\$ millions)
<b>ACTIVE POSITIONS</b>										
<b>U.S. Inflation</b>										
	CMS Options	\$ (13)	5.8	\$ 2,251	\$ 2	\$ (10)	\$ -	-	\$ -	\$ 0
<b>Emerging Markets Bubble</b>										
	KOSPI Put Spreads	(5)	5.7	261	\$ 0	(5)	-	-	-	(0)
	ASX Put Spreads	(2)	2.4	55	\$ 0	(2)	-	-	-	(0)
	Total	(7)	8.2		0	(7)	-	-		(1)
<b>Sovereign Default</b>										
	JPY Rate Options and Swaptions	(6)	3.8	810	\$ 3	(3)	-	-	-	1
<b>SUBTOTAL ACTIVE POSITIONS</b>		<b>\$ (25)</b>	<b>17.8</b>		<b>6</b>	<b>(20)</b>	<b>-</b>	<b>-</b>		<b>1</b>
<b>EXPIRED POSITIONS</b>										
	ASX Put Spreads	(2)	0.3	361		(2)	-	-	-	-
<b>SUBTOTAL EXPIRED POSITIONS</b>		<b>\$ (2)</b>	<b>0.3</b>			<b>(2)</b>	<b>-</b>	<b>-</b>		<b>-</b>
<b>TOTAL</b>		<b>\$ (27)</b>	<b>18.1</b>			<b>\$ (22)</b>	<b>\$ -</b>	<b>-</b>		<b>\$ 1</b>

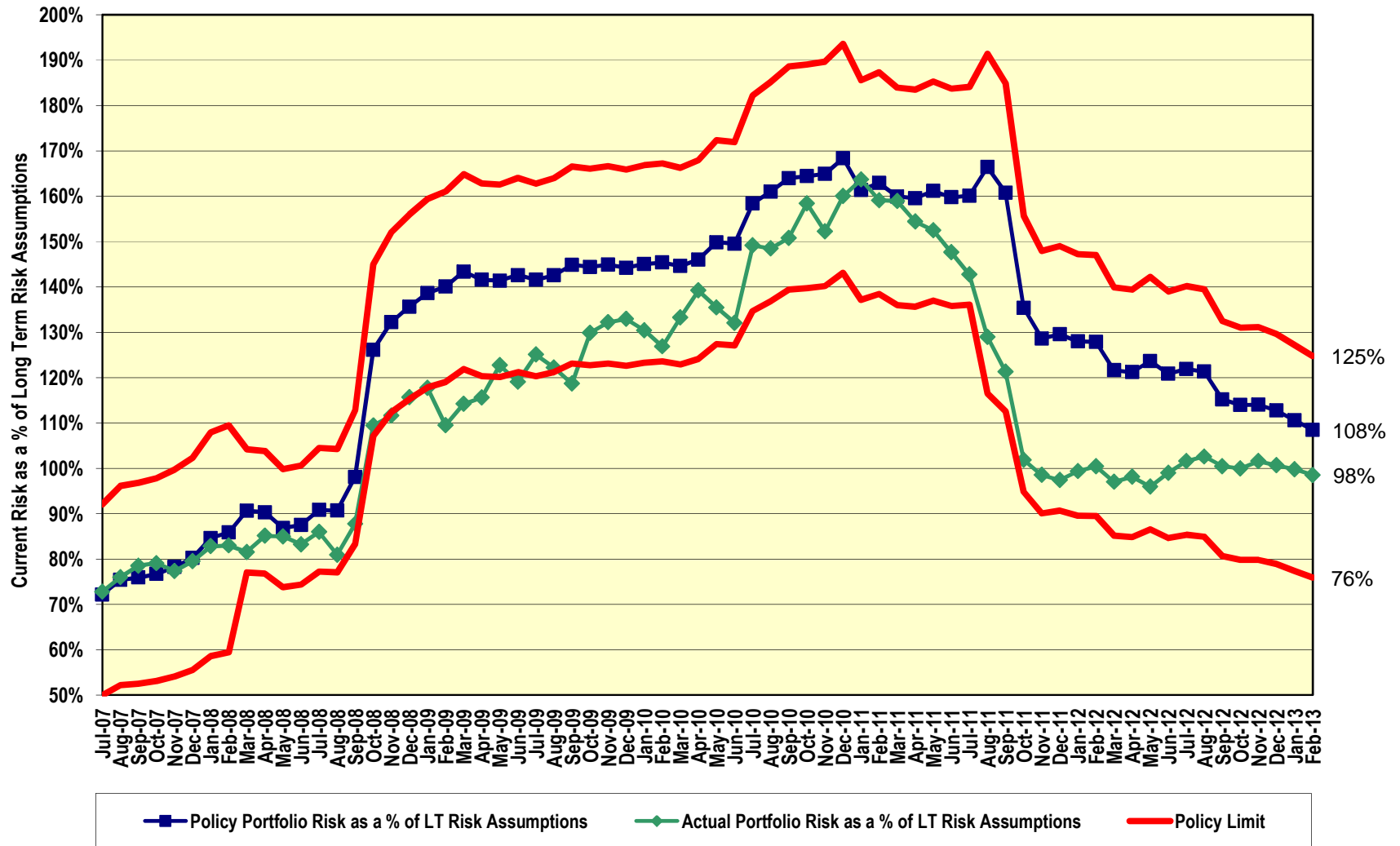
(1) Maximum Loss for Options

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



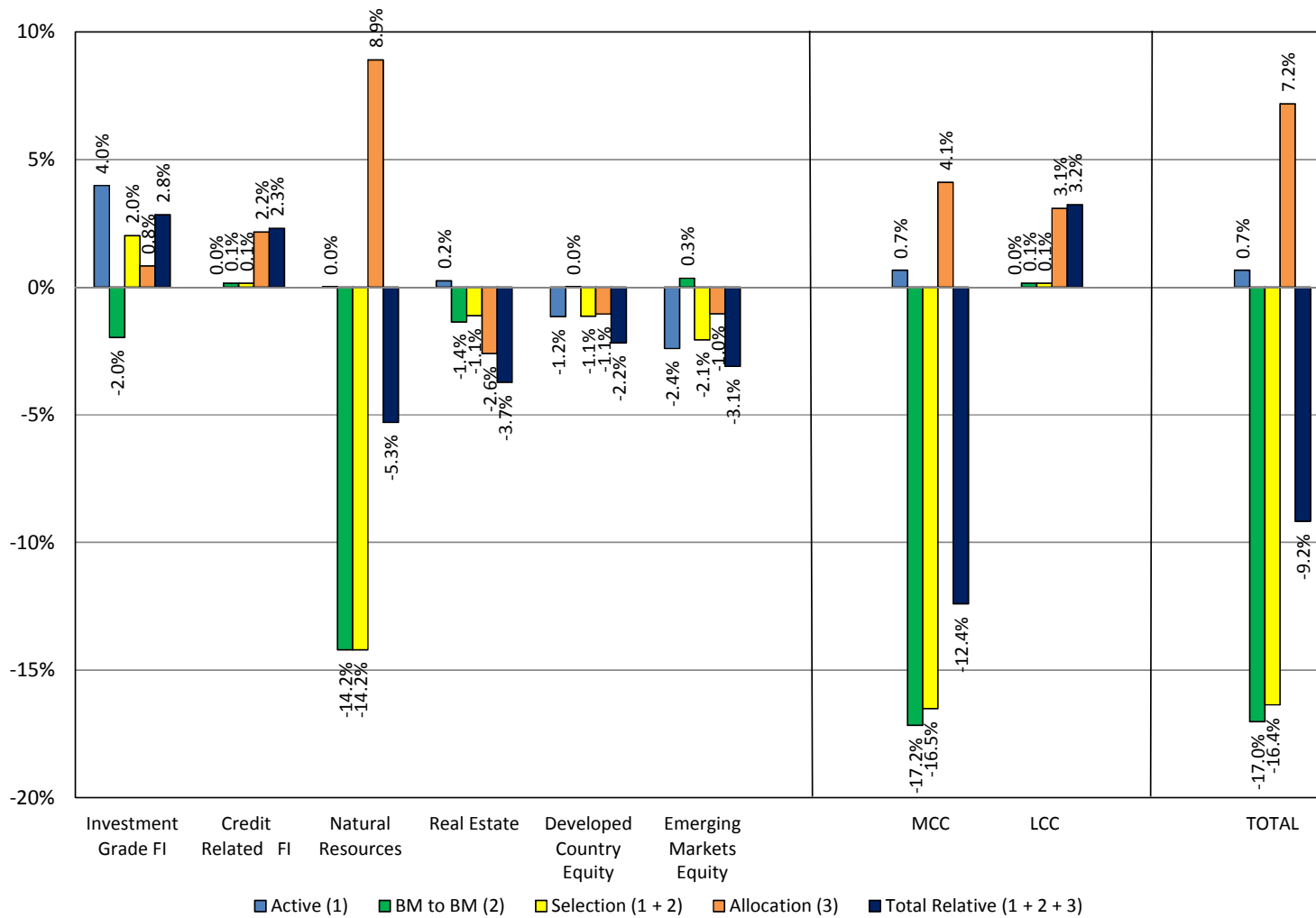
# Current Risk Environment of ITF

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





# ITF 4-Way Risk Decomposition as of February 28, 2013



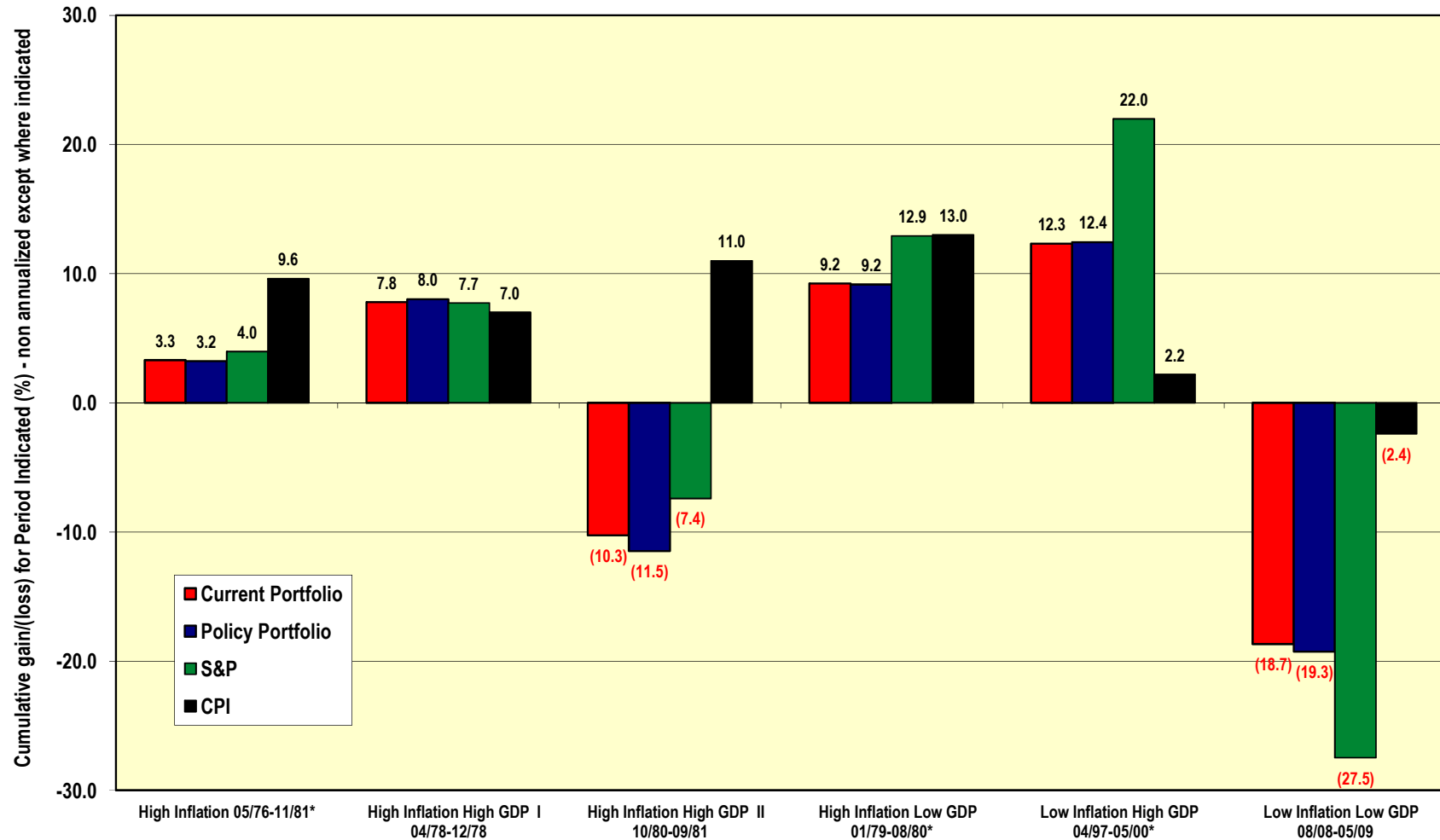


# Parametric Stress Tests

<u>Test</u>	<u>Effect on ITF</u>
• S&P-500 drops 20%	(4.56%)
• Rates rise 100bp	(1.27%)
• Dollar strengthens 5%	(0.08%)
• Dollar weakens 5%	0.12%
• Yield curve flattens – Bull case	1.05%
• Yield curve flattens – Bear case	(0.36%)
• Yield curve steepens – Bull case	0.36%
• Yield curve steepens – Bear case	(0.88%)



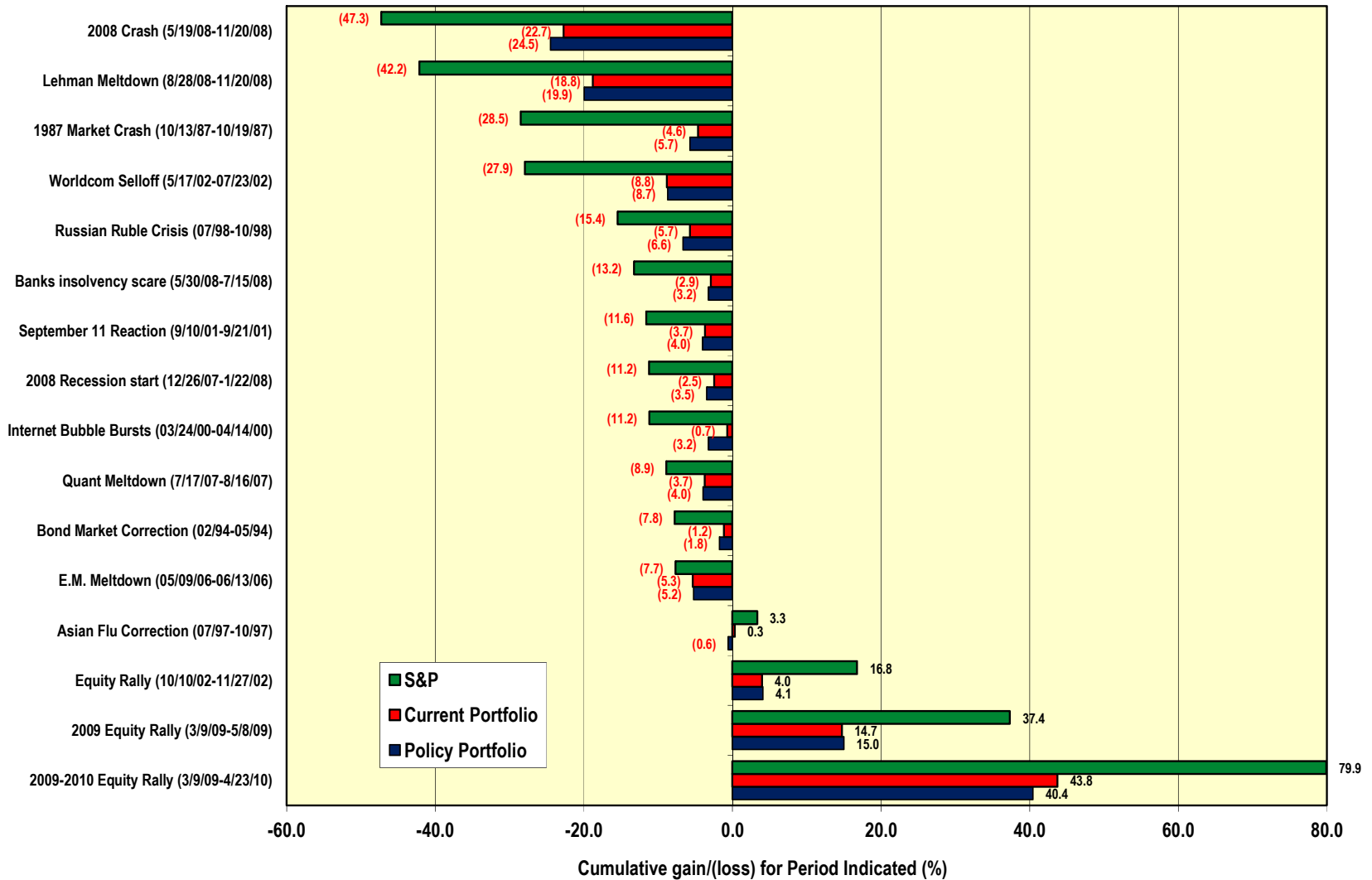
# Hypothetical Performance of Current ITF Portfolio in Selected Economic Stress Environments



\* Annualized



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







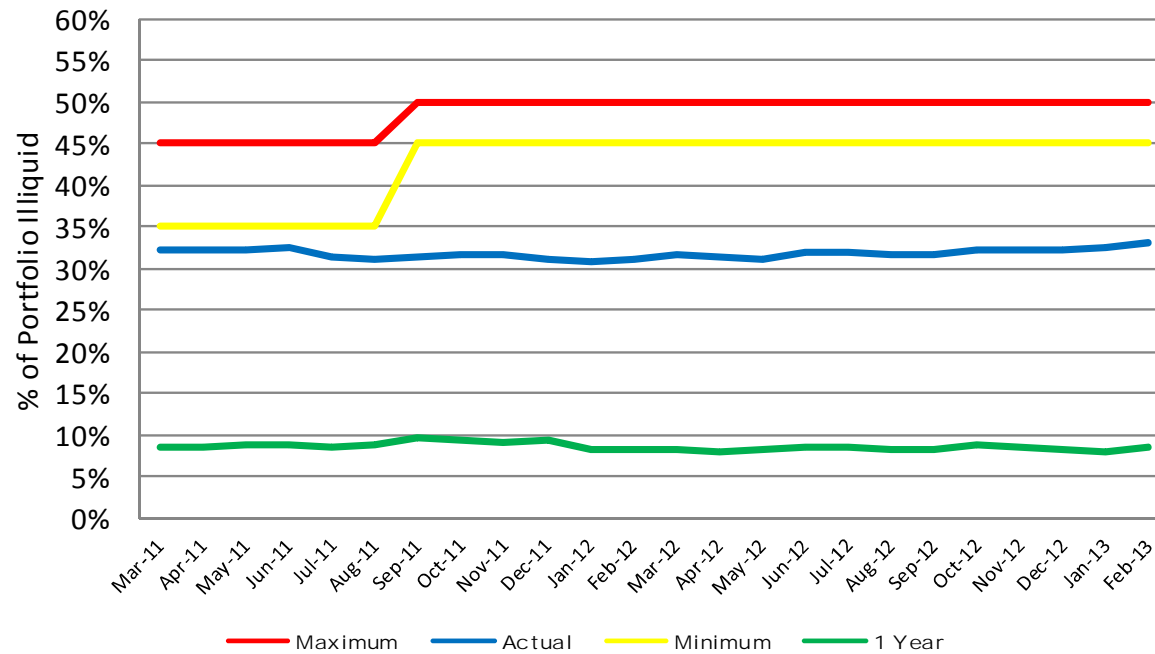
## ITF Leverage as of February 28, 2013

- Investment Grade Fixed Income had a long exposure of 1.24x, 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 1.17x, net of 0.98x



# ITF Liquidity

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



**Three Month Liquidity      \$ 3,508 million      One Year Liquidity      \$ 4,799 million**



# Contracts Update



# Report on New Contracts and Existing Contract Renewals, Leases, and Other Commercial Arrangements For February 1, 2013 through March 31, 2013

Agreement	Purpose	Contract Term	Annual Amount
Fort Sheridan Advisors LLC	Investment consultant to assist in understanding Fund's exposure to unforeseen market events and identify cost-effective ways to hedge against such events	2/18/2013 - 2/17/2014	\$60,000
Kincannon Reed Global Executive Search	Conduct search for Director, Agribusiness Investments	6 months from execution	\$100,000

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

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

**Agenda Item**  
UTIMCO Board of Directors Meeting  
April 16, 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 April 11, 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 and discussion of mandate categorization procedure; (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 two new mandate categorizations prepared by Staff for the period beginning January 19, 2013, and ending March 29, 2013. The Committee will also hear a report on the Mandate Categorization Procedure (“Procedure”). The purpose of the Procedure is to provide greater transparency into the process of classifying an investment mandate within the approved Asset Classes and Investment Types as defined in the Investment Policy Statements for the Funds. Included in the Procedure is a requirement that all existing mandates must be reviewed annually by the Managing Director, Chief Compliance Officer, and Chief Investment Officer with any recommended re-categorization requiring Risk Committee approval. Mr. Zimmerman will discuss with the Committee the requirement to perform an annual review of all 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  
April 16, 2013

<b>Agenda Item:</b>	Report from Audit and Ethics Committee
<b>Developed By:</b>	Staff
<b>Presented By:</b>	Hicks
<b>Type of Item:</b>	Information item
<b>Description:</b>	The Audit and Ethics Committee (“Committee”) will meet on April 11, 2013. The Committee’s agenda includes (1) discussion and appropriate action related to the Committee minutes; (2) an update of other compliance, reporting, and audit matters; and (3) a presentation of the unaudited financial statements for the six months ended February 28, 2013, for the Investment Funds and the Corporation.
<b>Discussion:</b>	Routine activities of the Committee will include discussion and appropriate action related to the minutes, reviewing the unaudited financial statements for the six months ended February 28, 2013 for the Investment Funds and UTIMCO Corporation and the quarterly compliance reports. The Committee will also be given an update by the UT System Audit Office on two audits being conducted by the Audit Office. Ms. Gonzalez will also discuss with the Committee the results of the State Auditor’s Office audit: <i>A Follow-up report on Ethics Policies for Trustee Investing Practices at the Employees Retirement System, the Teacher Retirement System, and The University of Texas Investment Management Company.</i>
<b>Recommendation:</b>	None
<b>Reference:</b>	Quarterly Compliance Reports

**The University of Texas Investment Management Company  
Institutional Compliance Program Annual Report  
for the Quarter Ended February 28, 2013**

**Section I – Organizational Matters**

- Two meetings of the Ethics and Compliance Committee have been held during this fiscal year: September 13, 2012, and December 18, 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 47 meetings/calls with potential managers. No serious due diligence was initiated this quarter. Two managers were hired. Ongoing review of active external managers included 47 meetings/calls. Additional efforts included monthly performance tracking, reviews and analyses by the team and participation in an annual meeting.

**Marketable Alternative Investments:** The Marketable Alternative Investments group participated in 77 meetings/calls with potential managers. Serious due diligence was initiated on one manager during the quarter. No managers were hired. Ongoing review of external managers was conducted in the form of 59 meetings/calls/site visits.

**Private Markets:** The Private Markets group initiated serious due diligence on one potential manager during the quarter. One commitment was made. The Private Markets group also participated in 73 meetings with active external managers and 41 meetings with potential managers, including site visits, conference calls, and Advisory Board and Annual meetings. The team also participated in 15 ILPA meetings.

**Natural Resources:** The Natural Resources group participated in 39 meetings/calls with potential managers. Serious due diligence was initiated on five managers. Six managers were hired during the quarter. Ongoing review of active external managers included 78 meetings/calls. Additional efforts during the year included participation in an annual meeting.

**Real Estate:** The Real Estate group participated in 38 meetings/calls with potential managers. Serious due diligence was initiated on three managers during the quarter. Two managers were hired. Ongoing review of active external managers included 52 meetings/calls. Additional efforts during the year included participation in an annual meeting and one quarterly portfolio review meeting.

**Specialized Training:** Staff attended eight 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 and sharing thoughts with other risk teams via a UTIMCO-chaired working group.
- 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 one new LCC manager and two new Private RE managers. Risk Team continues to discuss the best process and added-value when participating in the due diligence of LCC and PI 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.
- Risk Team present the “risk process” to the Operations staff and UTIMCO’s analysts to establish a better understanding of UTIMCO risk management.

**Specialized Training:** Participated as a panel member in one conference 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:**

- Annual information security plan was submitted to UT System CISO.
- Full disk encryption rollout continues.
- Several alerts to staff about information security issues, including Windows Updates for mobile, personal device security, and phishing attacks.
- 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.
- Random checks for software compliance were completed.
- Continue to monitor and address policy violations for unauthorized software, sharing of credentials, and use of network resources.
- Disaster Recovery site identified, beginning planning to implement.
- Class VPN continues to be phased out and replaced with Citrix.
- Outlook Web Access shutdown for external access. Still available from inside UTIMCO and via Citrix.
- Rollout of Lastpass software for secure password management.

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

**High-Risk Area #4:** Investment Compliance

**Responsible Party:** Manager - Portfolio Accounting and Operations

**Key “A” risk(s) identified:**

- *Organization could fail to comply with investment policies, applicable laws and regulations, and other policies.*
- *Organization could fail to detect non-compliance with applicable policies, etc.*

**Key Monitoring Activities:**

- During the quarter, annual compliance letters were sent to 26 managers. All letters were returned by January 31st deadline.

## FINAL 032513

- 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.
- 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. Two managers were hired requiring the list to be sent during the quarter.
- On a daily basis, accounting staff reviewed security holdings of internal and external managers for compliance with the restricted list. No exceptions noted.
- Periodic review of public resources for comparison with financial disclosure statement information provided by Directors and Employee was not performed during the quarter.
- Preclearance of securities transactions was required and appropriately requested and received for one trade during the quarter. All transaction disclosures forms were turned in by the required ten days.
- Five (5) trips/events for vendor reimbursed/paid expenses which required documentation and supervisor approval had appropriate documentation and approval. No sponsored entertainment events that required CEO or CCO approval occurred.

**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

FINAL 032513

Management and CCO participated in the bi-weekly Investment Committee meetings and quarterly/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. Monitoring for potential conflicts of interest in the areas of personal securities transactions, outside employment and business activities, and manager/third party-paid travel, entertainment and gifts is ongoing.

**Significant Findings:** None

#### **Section IV – General Compliance Training Activities**

None

#### **Section V – Action Plan Activities**

- Meetings of the Employee Ethics and Compliance Committee are held quarterly.
- Updated ERM report was presented to the Audit and Ethics Committee on November 5, 2013.

#### **Section VI – Confidential Reporting**

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

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

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All calls are accepted by the hotline and reported to the UTMCO 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
<b><i>A. RISK ASSESSMENT</i></b>			
1.	Review risk assessments to determine if updates are needed and map controls identified in the risk assessment to controls identified in the process documentation where needed	08/31/13	<i>In process</i>
<b><i>B. MONITORING ACTIVITIES / ASSURANCE</i></b>			
2.	Continual enhancement of compliance monitoring and reporting	On-going	On-going
3.	Periodic review of Responsible Party Monitoring Plan documentation for high risk areas A	On-going	<i>Second quarter FY 2013 reports have been reviewed</i>
<b><i>C. COMPLIANCE TRAINING / AWARENESS</i></b>			
4.	Provide Code of Ethics training and information to improve staff awareness of compliance program	04/30/13	<i>No new employees or interns were hired during the quarter</i>
5.	Identify and network with similarly situated compliance professionals	On-going	<i>Participated in Council of Pension Fund Compliance Officers monthly teleconference</i>
<b><i>D. REPORTING</i></b>			
6.	Conduct quarterly meetings with the internal ethics and compliance committee	On-going	<i>First and second quarter meetings held</i>
7.	Provide quarterly/annual reports to the Audit and Ethics Committee and System-wide compliance office	On-going	<i>First and second quarter reports sent to UTS</i>
<b><i>E. OTHER / GENERAL COMPLIANCE</i></b>			
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>Completed; Report was presented at the November 5, 2012, Audit &amp; Ethics Committee meeting</i>
10.	ICAC activities: ICAC and Standing Committee participation	On-going	<i>No current activities</i>
11.	Manage implementation and assist with live testing of Business Continuity Plan; update as business processes change	04/30/13	<i>Awaiting confirmation of available space from UT Austin</i>
12.	Manage implementation of Records	08/31/13	<i>In process</i>

Updated 03/18/13

#	ACTION ITEM	TARGET COMPLETION DATE	STATUS
	Retention Procedures		
13.	Hotline reporting	On-going	<i>Reporting included in each Institutional Compliance Program report</i>

Updated 03/18/13

**Agenda Item**  
UTIMCO Board of Directors Meeting  
April 16, 2013

**Agenda Item:** Report on and Discussion and Appropriate Action Related to Items from Compensation Committee: Designation of Employee in Eligible Position as Participant in the UTIMCO Compensation Program for the 2012/2013 Performance Period

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

**Presented By:** Hicks

**Type of Item:** Action Item

**Description:** The Compensation Committee (the "Committee") will meet on April 11, 2013. The Committee's agenda includes (1) discussion and appropriate action related to minutes of January 30, 2013 meeting; and (2) discussion and appropriate action related to the designation of employee in Eligible Position as participant in the UTIMCO Compensation Program and Qualitative Goals for the participant for the 2012/2013 Performance Period.

**Discussion:** 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 UTIMCO Compensation Program (Plan) for the 2012/2013 Performance Period and approved the Qualitative Performance Goals of the Participants. Mr. Zimmerman is requesting that an additional individual be designated in an Eligible Position. 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. Generally, an employee may not commence participation in the Plan and first become a participant during the last six months of the Performance Period. The Board, however, may select an employee to participate in the Plan during the last six months when compelling individual circumstances justify a shorter period of time and such circumstances are recorded in the minutes of the UTIMCO Board meeting. Section 5.4 of the UTIMCO Plan 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).

Mr. Zimmerman is requesting that Jon Ellison be designated as a Participant in the Plan for the 2012/2013 Performance Period. His position is Deal Attorney and his effective date is April 1, 2013. Mr. Zimmerman will discuss with the Committee the compelling individual circumstances related to designating Mr. Ellison as a Plan Participant during the last six months of the Performance Period.

**Agenda Item**  
UTIMCO Board of Directors Meeting  
April 16, 2013

**Recommendation:** The Committee will recommend appropriate action related to the designation of an additional Employee in Eligible Position as Participant in the Plan for the 2012/2013 Performance Period.

**Reference:** None



**RESOLUTION RELATED TO  
2012/2013 PARTICIPANT 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, an employee may be selected by the UTIMCO Board to participate in the Plan during the last six months of a Performance Period only when compelling individual circumstances justify a shorter period of time and such circumstances are recorded in the minutes of the UTIMCO Board meeting; and

WHEREAS, the Compensation Committee of the Board has recommended Jon Ellison, Deal Attorney, becoming a Participant for the 2012/2013 Performance Period; and

WHEREAS, the UTIMCO Board has been advised of the compelling individual circumstances and based on same wishes to select Jon Ellison (Deal Attorney) as a Participant for the 2012/2013 Performance Period.

NOW, THEREFORE, be it:

RESOLVED, that, Jon Ellison (Deal Attorney), be designated as a “Participant” in the Plan for the 2012/2013 Performance Period, effective as of April 1, 2013.

**Agenda Item**  
UTIMCO Board of Directors Meeting  
April 16, 2013

**Agenda Item:** UTIMCO Organization Update

**Developed By:** Staff

**Presented By:** Zimmerman, Abalogu, McBee

**Type of Item:** Information Item

**Description:** Bruce Zimmerman will provide an update on UTIMCO's staffing and second 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 8<sup>th</sup> and ends May 27, 2013.

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



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# UTIMCO ORGANIZATION UPDATE

April 16, 2013

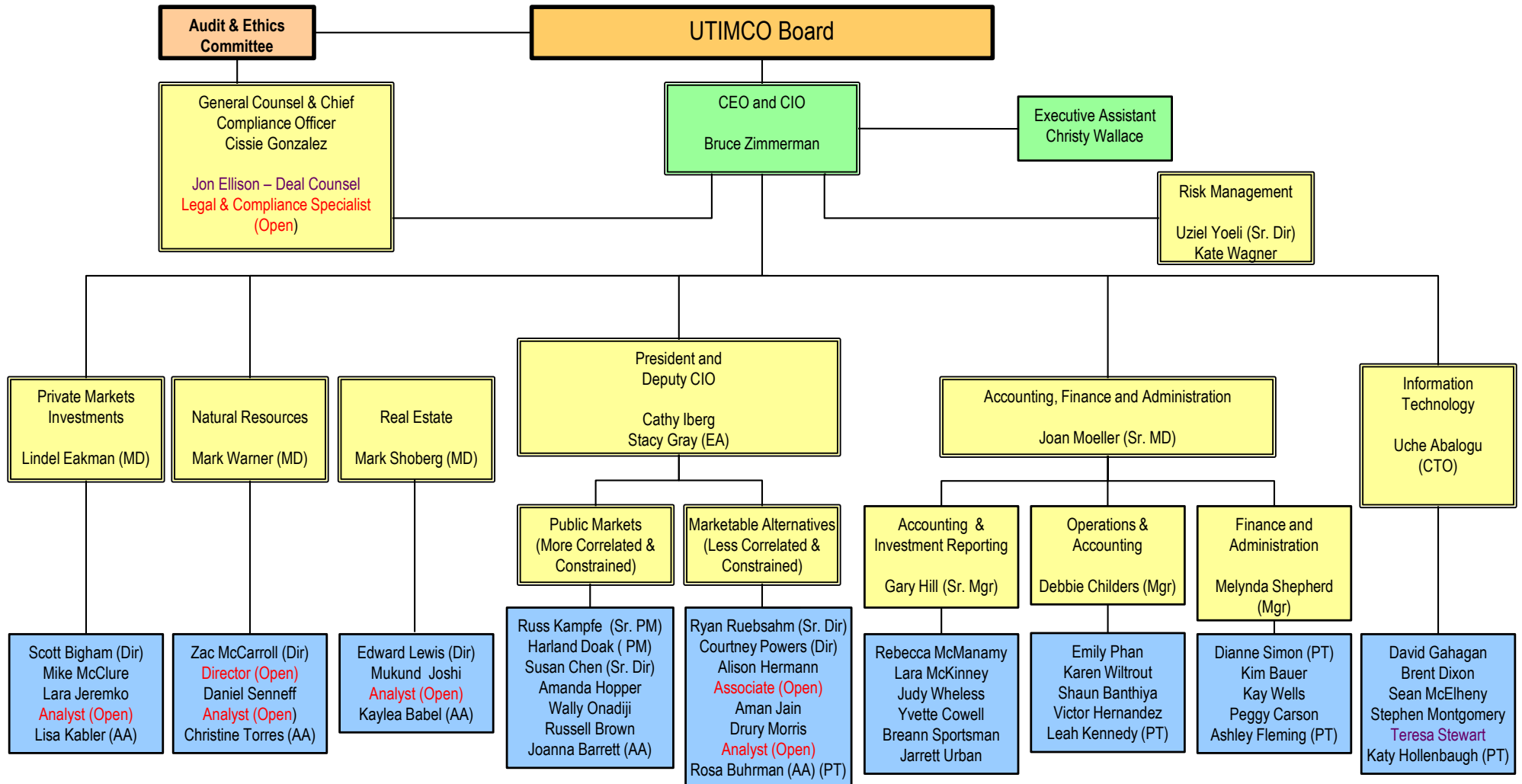


# UTIMCO Update

- Staffing
- Budget
- Technology
- Legislative



# UTIMCO – Organizational Structure





# UTIMCO Expenses

## Q2 FY 2013

UTIMCO Expenses (\$ in thousands)	2Q FY 13		Favorable / (Unfavorable)
	Actual	Budget	
Salaries & Benefits	\$4,359	\$4,686	\$327
Other Expenses	2,275	2,425	150
Subtotal	6,634	7,111	477
Incentive Compensation	7,255	5,633	(1,622)
Total UTIMCO	<u>\$13,889</u>	<u>\$12,744</u>	<u>(\$1,145)</u>
Non-UTIMCO, Non-Investment Management Expenses	<u>\$3,708</u>	<u>\$3,772</u>	<u>\$64</u>



# Information Technology Progress Since Last Update

- **Technology Infrastructure Platform**

- IP Telephones with instant messaging/chat system now live
- UT Systems Arlington data center Business Continuity Program/Disaster Recovery design ongoing

- **Applications Development**

- Investment Support System (ISS) & document management “storyboards” 85% complete
- ISS and Document Management architecture completed
  - Programming languages
  - Server configurations



# Information Technology Next Steps

- **Technology Infrastructure Platform**
  - Business Continuity/Disaster Recovery
  - Video Conferencing
  - Upgrade email system





# Information Technology Next Steps

- Application Development
  - “Document Center” application implementation
  - “Investment Support System” (ISS) implementation for the Less Correlated and Constrained team

		<b>Investment Support System (ISS) Implementation Timeline (Phase 1)</b>																							
		<b>2013</b>												<b>2014</b>											
<b>Project</b>	<b>Notes</b>	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	
<b>I. Infrastructure Build-out</b>																									
<b>II. Document Management</b>																									
Release 1	"Vanilla" Install																								
Release 2	Initial Outlook Integration																								
Release 3	Contacts & Additional Features																								
Release 4	Incoming Doc. Automated Processing																								
Release 5	Mobile Applications Support																								
<b>III. LCC Migration to ISS</b>																									
Release 1	Load Historical Data																								
Release 2	Portfolio Enhancements																								
Release 3	Reporting & Pipeline																								

**Agenda Item**  
UTIMCO Board of Directors Meeting  
April 16, 2013

**Agenda Item:** Review of Public Markets

**Developed By:** Staff

**Presented By:** Staff

**Type of Item:** Information item

**Description:** Public Markets staff will provide an update on public market investments including strategy, performance, and an overview of the portfolio.

**Recommendation:** None

**Reference:** *Public Markets* presentation



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INVESTMENT MANAGEMENT COMPANY

# MCC

## UTIMCO Board Update

April 16, 2013



# Public Markets Team

## Cathy Iberg, President and Deputy CIO

- *BS Southern Illinois University (Accounting), CPA*
- *37 years of experience, 22 years with UTIMCO*

### Equities

#### Susan Chen, Senior Director

- *MBA Harvard, JD Harvard, AB Harvard (economics)*
- *12 years of experience, 5 years with UTIMCO*

#### Amanda Hopper, Senior Associate

- *MBA U. of Chicago, BBA U. of Michigan (finance & marketing)*
- *14 years of experience, 5 years with UTIMCO*

#### Wally Onadiji, Analyst

- *BBA UT-Austin*
- *2 years of experience, 2 years with UTIMCO*

### Fixed income

#### Russ Kampfe, Senior Portfolio Manager

- *MBA UT-Austin, BBA UT-Austin*
- *25 years of experience, 24 years with UTIMCO*

#### Harland Doak, Portfolio Manager

- *MBA St. Edward's, BBA UT-Austin, CFA*
- *22 years of experience, 12 years with UTIMCO*

#### Russ Brown, Analyst

- *MPA UT-Austin, BS Brigham Young Univ.*
- *3 years of experience, 5 months with UTIMCO*

#### Joanna Barrett, Administrative Assistant

- *BA, University of San Francisco*
- *10 years of experience, 6 years with UTIMCO*



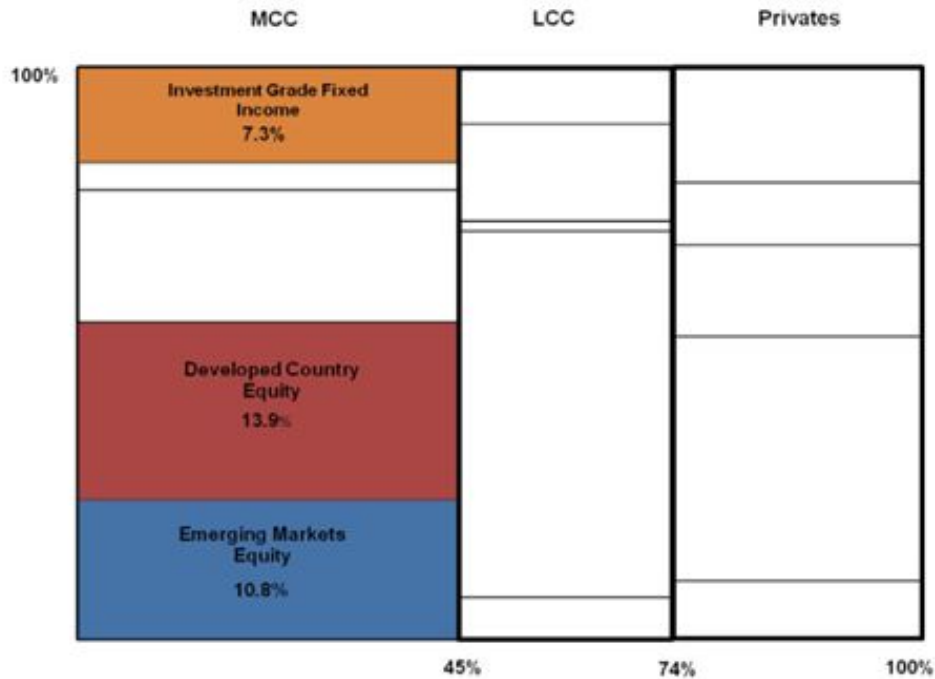
# MCC Portfolio Size

**MCC Public Equity and Fixed Income assets total \$9.4 billion**

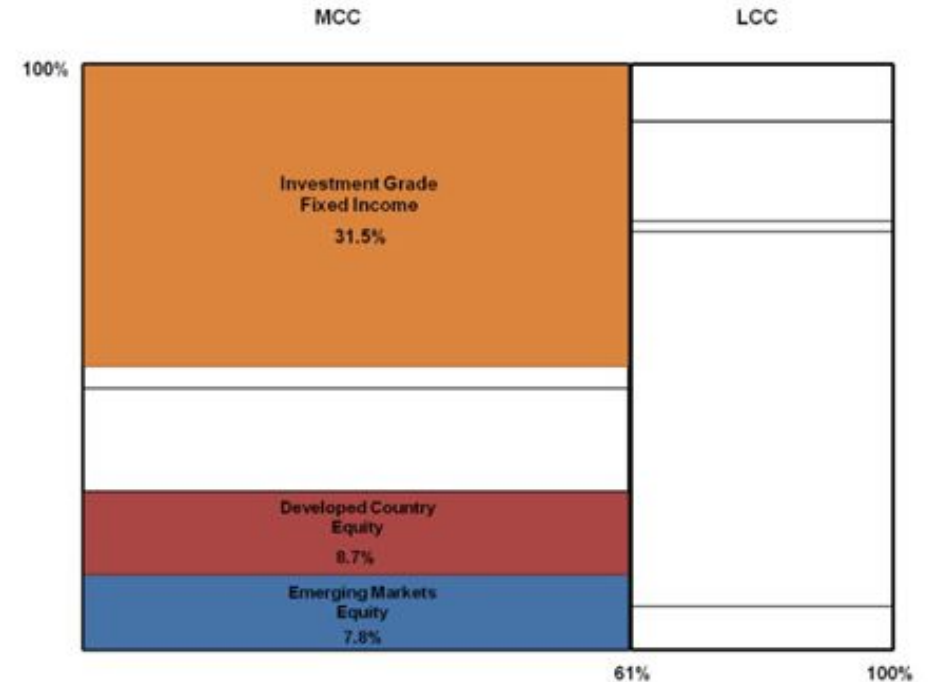
Fixed Income: \$3.2 billion

Public Equity: \$6.2 billion

## Endowments



## ITF



**If the MCC portfolio were a stand-alone endowment, it would be the 7<sup>th</sup> largest endowment in the U.S.**



# MCC Public Equity Objectives

- Provide market or “Beta” exposure for the endowments and ITF
- Add value through active management
  - Compensation Plan: +62.5 bps target; +150 bps maximum
- Serve as a source of liquidity as needed



# MCC Public Equity Approach

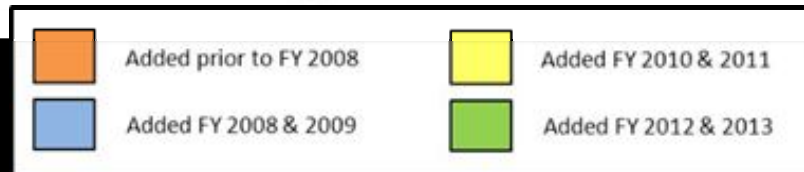
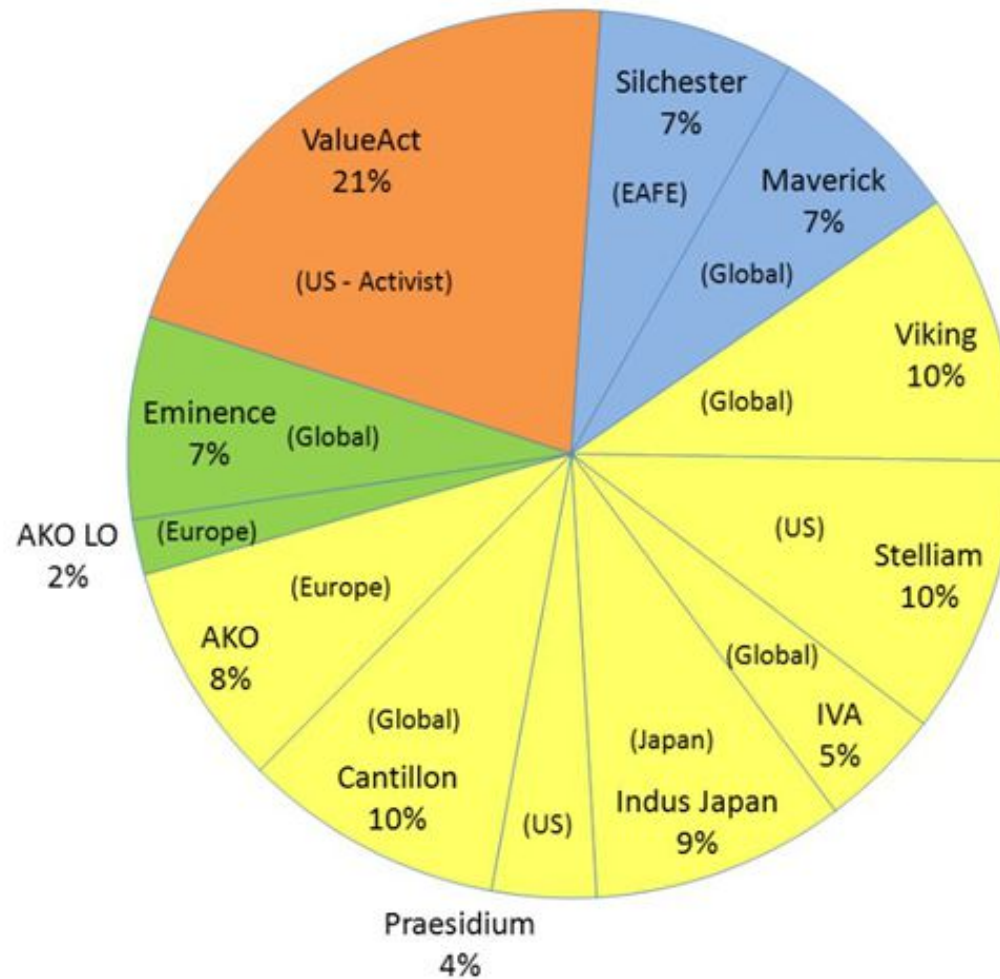
- Manager underwriting preferences
  - 1) Separate accounts to achieve optimal transparency and liquidity
  - 2) Flexibility for absolute return orientation and ability to deliver market outperformance or “alpha”
  - 3) Managers who run concentrated portfolios
  - 4) Market-based performance benchmarks and lower management fees
- Portfolio construction
  - Balance global managers with country/regional managers
  - Restrict number of managers to avoid over-diversification
  - Set high hurdle for locking up capital



# MCC Developed Country Equity Portfolio

(NAVs as of 2/28/2013)

Developed Country Equity Managers (\$3.5 billion)



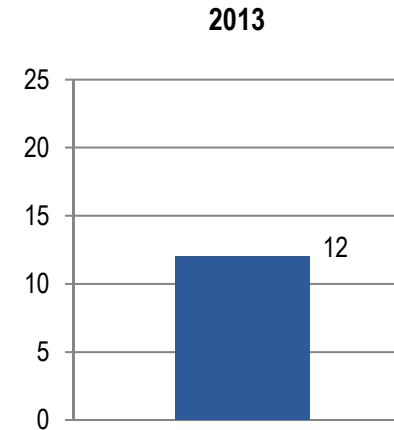
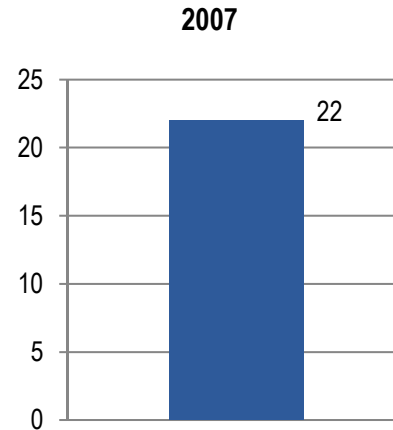




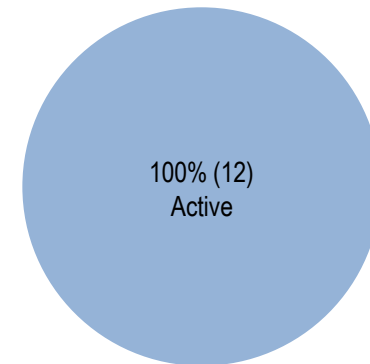
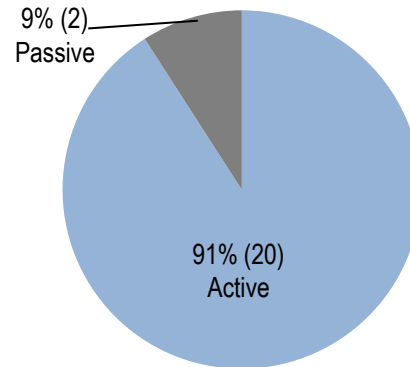
# MCC Developed Country Public Equity Portfolio

Since 2007, we have...

**Reduced the number of manager relationships**



**Moved from a partially passive (indices/ETFs) portfolio to completely active mandates**



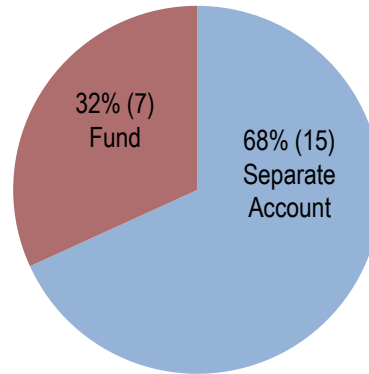


# MCC Developed Country Public Equity Portfolio

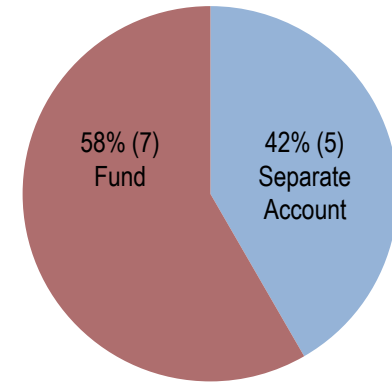
Since 2007, we have...

**Moved from a preponderance of separate accounts to a majority of commingled funds**

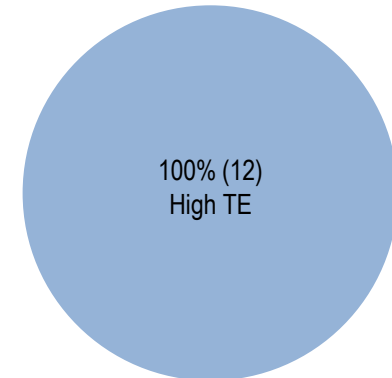
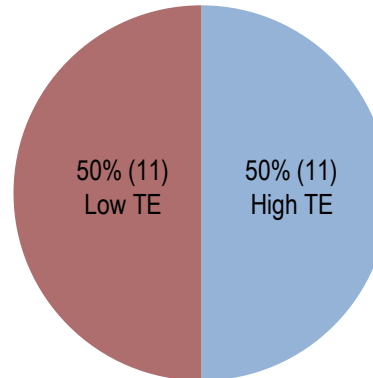
2007



2013



**Moved from a balance of “low” tracking error-focus managers (more market or beta returns) to a portfolio comprised of exclusively “high” tracking error-focus managers (value-added or “alpha” returns)**



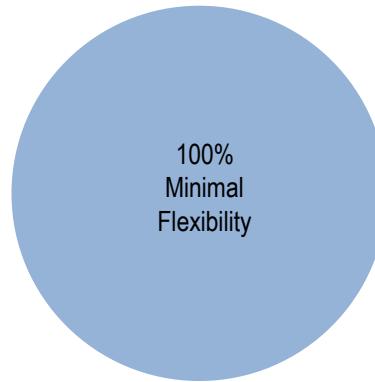


# MCC Developed Country Public Equity Portfolio

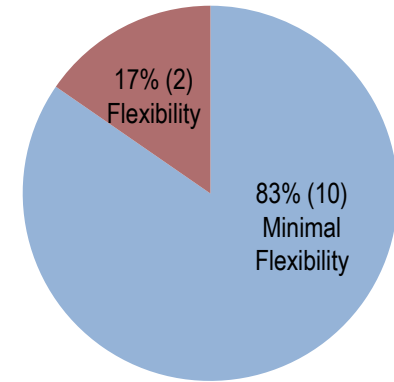
Since 2007, we have...

**Given two of our managers the flexibility to invest across asset classes**

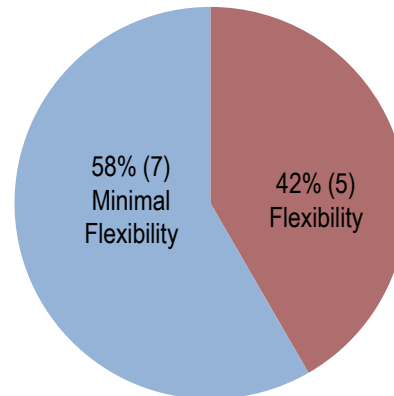
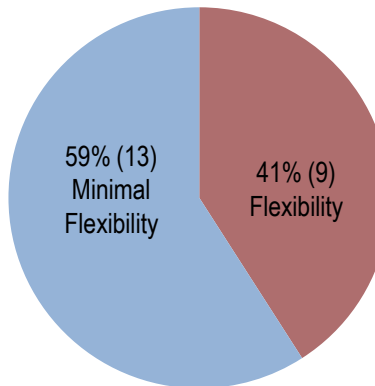
2007



2013



**Maintained the portion of our portfolio allowing managers the flexibility to hold cash**



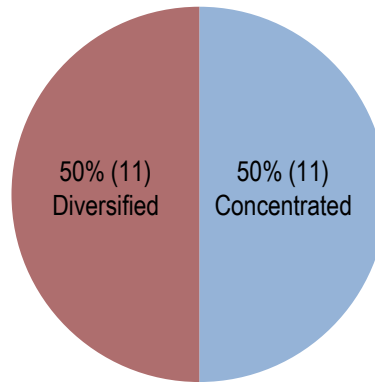


# MCC Developed Country Public Equity Portfolio

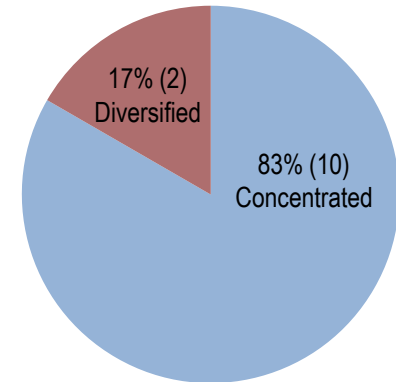
Since 2007, we have...

**Moved away from managers with a diversified investment mandate to managers with a more concentrated investment mandate**

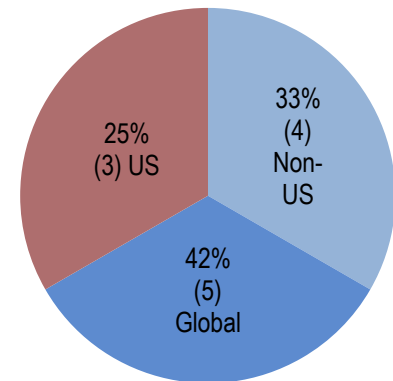
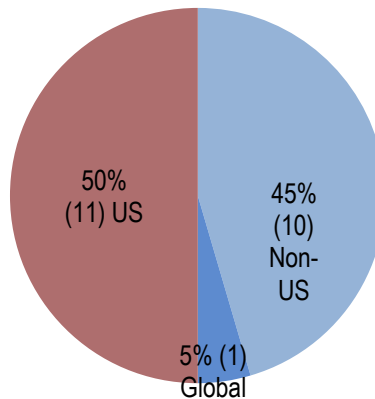
2007



2013



**Moved from a mostly US portfolio to a more balanced portfolio of US, Non-US and Global managers**





# MCC Developed Country Equity Performance

	Net Asset Value (in Billions)	Performance* as of 2/28/2013		
		One Year	Three Years	Five Years
<b>Total Developed Country</b>	\$3.5	17.21%	13.76%	3.45%
vs. Policy Benchmark				
(%) Value Added		6.52%	3.95%	1.89%
(\$) Value Added		\$176	\$346	\$360

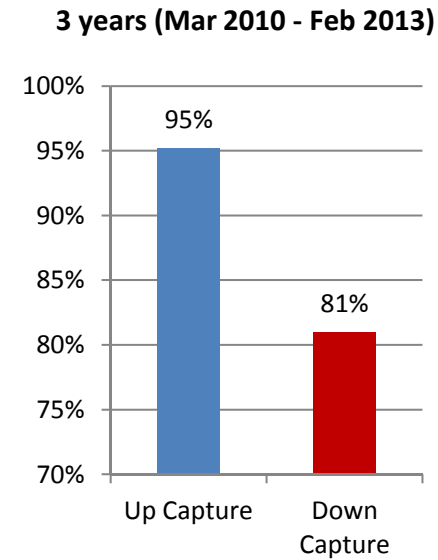
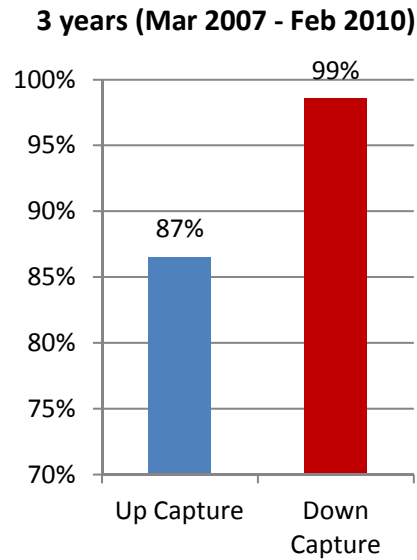
Performance metrics are based on the GEF as a proxy for all Funds.  
 \*(excludes Hedges & Tactical)



# MCC Developed Country Equity Performance

## Other metrics have also improved

**Up/Down Capture  
vs. MSCI World Index**



**Information Ratio:**

-0.49

1.04

**Annualized Excess Return:**

-2.0%

4.0%

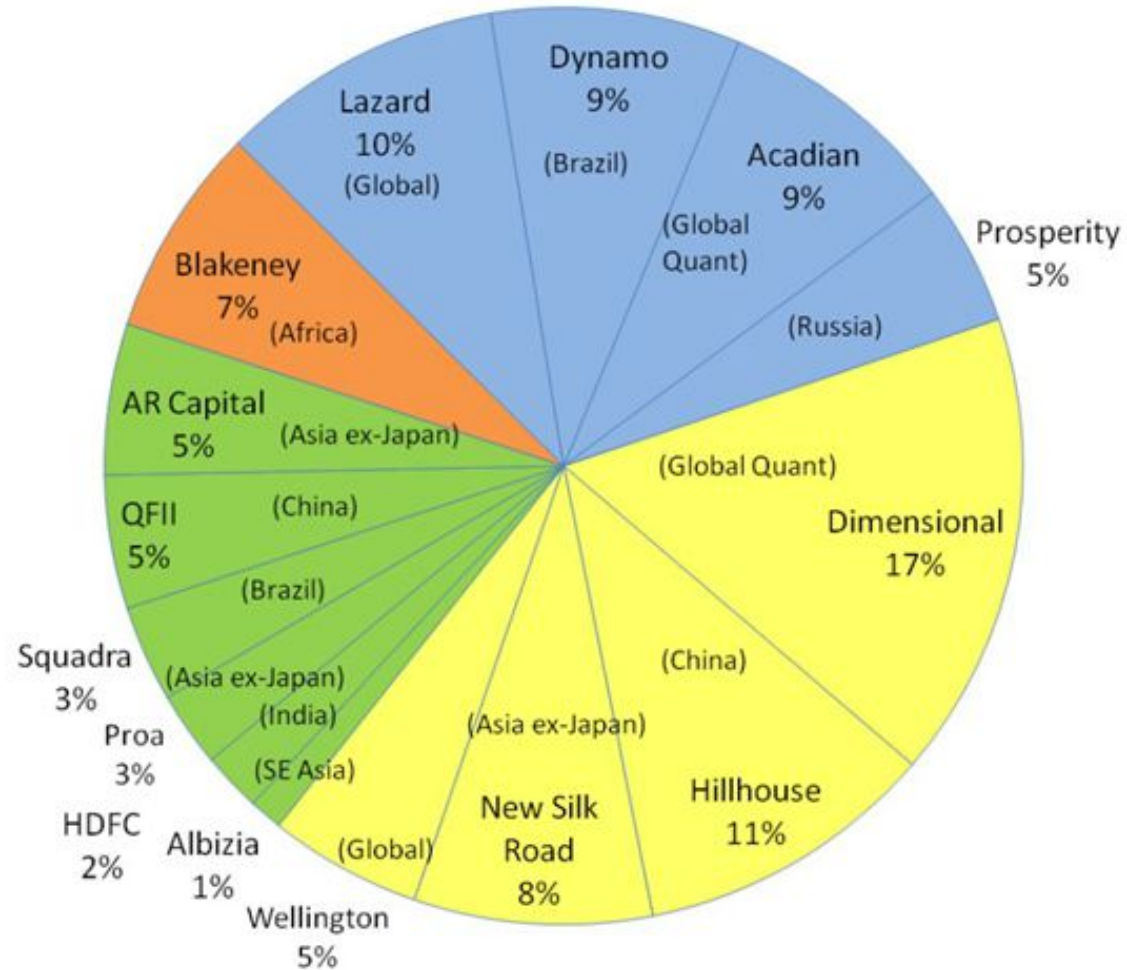
*Performance metrics are based on the GEF as a proxy for all Funds.*



# MCC Emerging Markets Equity Portfolio

(NAVs as of 2/28/2013)

Emerging Market Equity Managers (\$2.7 billion)



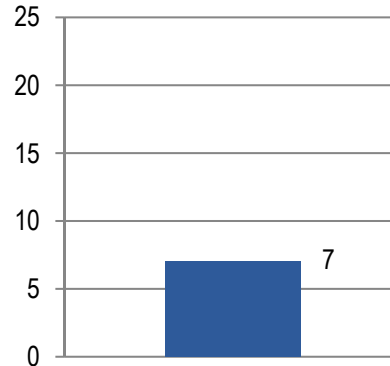


# MCC Emerging Markets Public Equity Portfolio

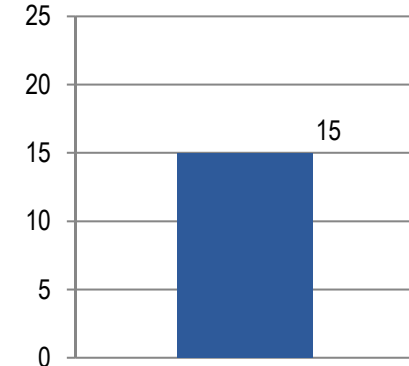
Since 2007, we have...

**Increased the number of manager relationships**

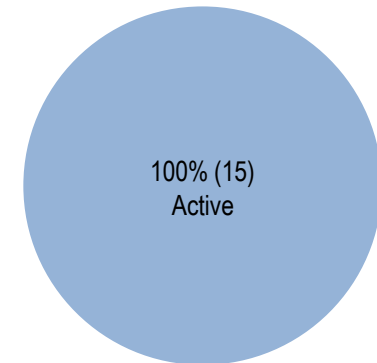
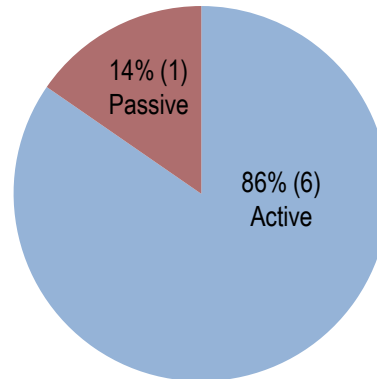
2007



2013



**Moved from a partially passive (indices/ETFs) portfolio to completely active mandates**





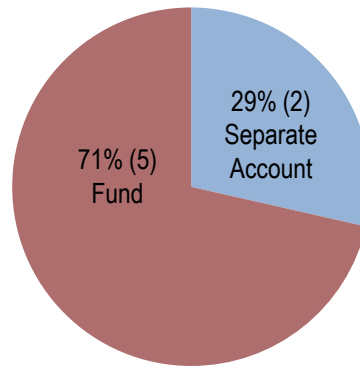


# MCC Emerging Markets Public Equity Portfolio

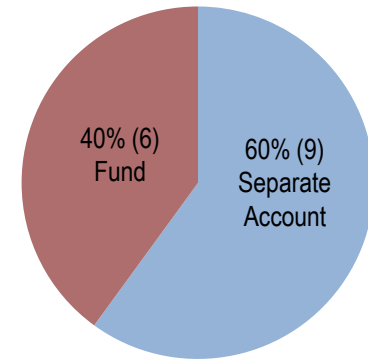
Since 2007, we have...

**Moved from a portfolio with a preponderance of commingled funds to a portfolio with a majority of separate accounts**

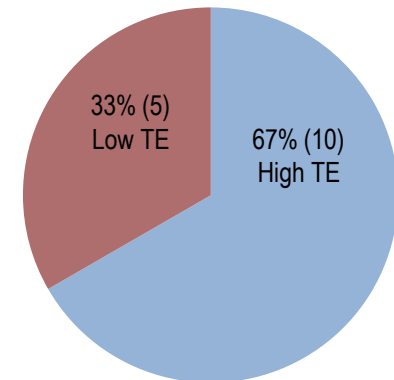
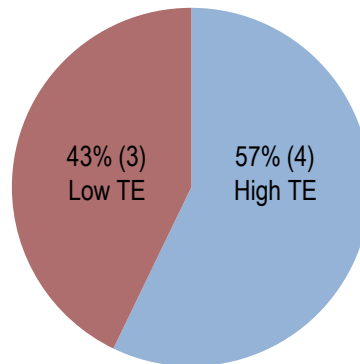
2007



2013



**Moved from a balance of “low” tracking error-focus managers (more market or beta returns) to a portfolio comprised mostly of “high” tracking error-focus managers (value-added or “alpha” return)**



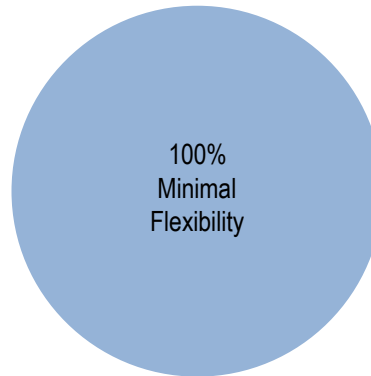


# MCC Emerging Markets Public Equity Portfolio

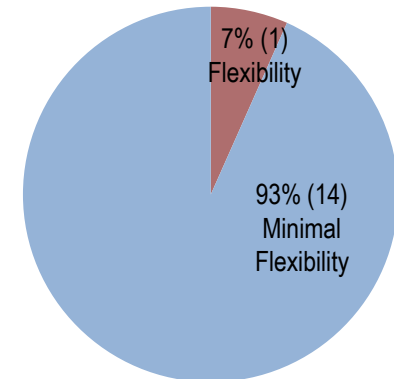
Since 2007, we have...

**Given one of our managers the flexibility to invest across asset classes**

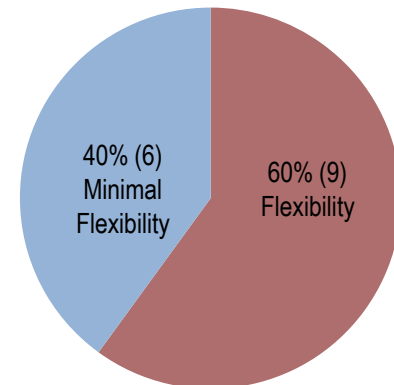
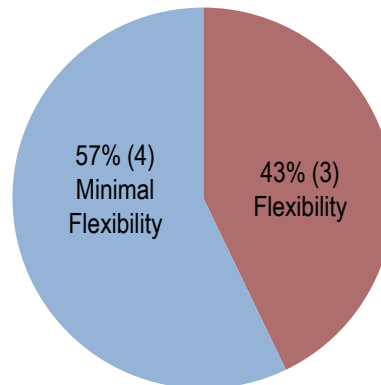
2007



2013



**Given our managers more flexibility to hold cash**



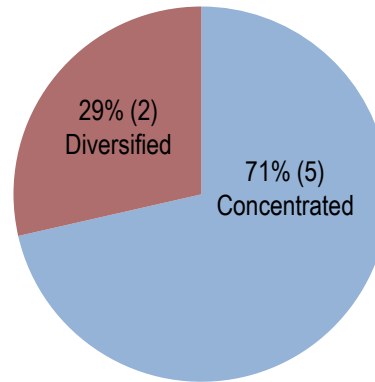


# MCC Emerging Markets Public Equity Portfolio

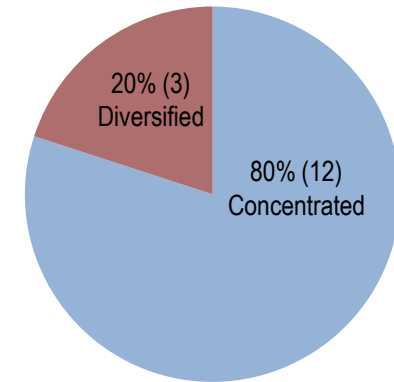
Since 2007, we have...

**Moved even further away from managers with a diversified investment mandate to managers with a more concentrated investment mandate**

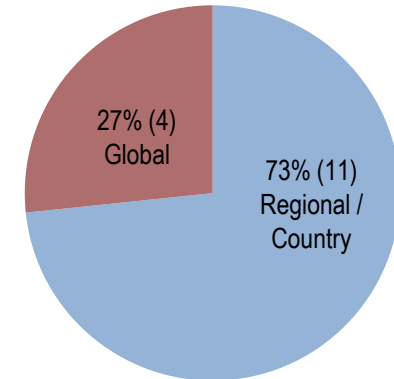
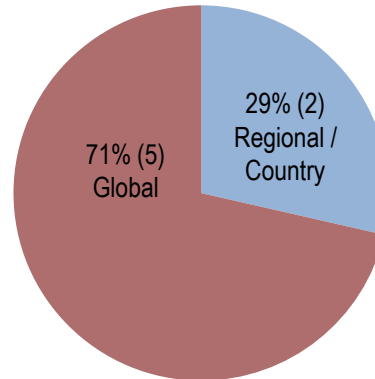
2007



2013



**Moved from a mostly "Global EM" manager portfolio to a portfolio comprised mostly of regional or country-specific managers**





# MCC Emerging Markets Equity Performance

	Net Asset Value (in Billions)	Performance* as of 2/28/2013		
		One Year	Three Years	Five Years
<b>Total Emerging Markets</b>	\$2.7	5.69%	8.70%	-0.80%
vs. Policy Benchmark				
(%) Value Added		5.40%	2.11%	-1.15%
(\$) Value Added		\$114	\$126	\$(131)

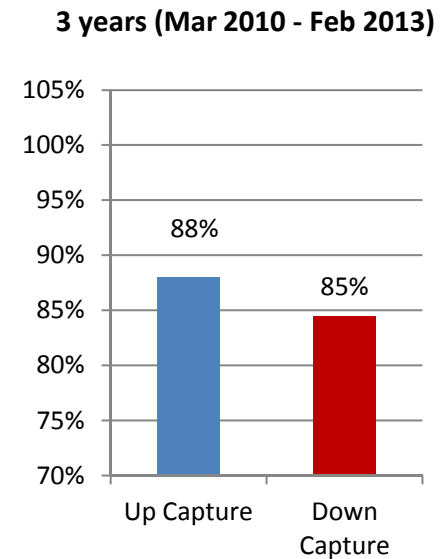
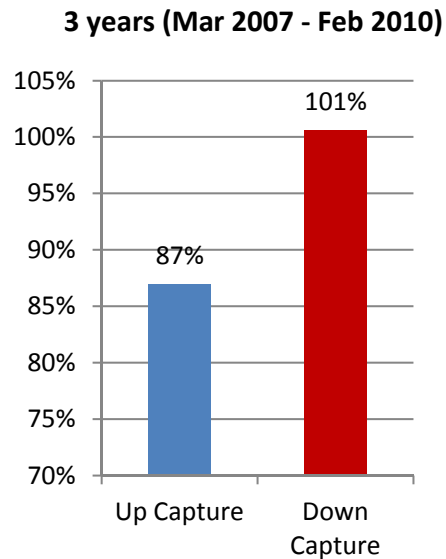
Performance metrics are based on the GEF as a proxy for all Funds.  
 \*(excludes Hedges & Tactical)



# MCC Emerging Market Equity Performance

## Other metrics have also improved

**Up/Down Capture vs. MSCI Emerging Markets Index**



<b>Information Ratio:</b>	-1.07	0.52
<b>Annualized Excess Return:</b>	-4.9%	2.1%

*Performance metrics are based on the GEF as a proxy for all Funds.*



# MCC Public Equity Pipeline

## Near-Term Opportunities

### POSSIBLE USES OF FUNDS

#### Emerging markets

- Latin America (1)
- Asia ex-Japan (1)
- Africa (1)

#### Developed country

- U.S. small/mid-cap, value/activist (1)

### POSSIBLE SOURCES OF FUNDS

#### Emerging markets

- Diversified GEM

#### Developed country

- U.S.
- Diversified global



# MCC Investment Grade Fixed Income Portfolio Objectives

- Add value through active management
  - Compensation Plan: +25 bps target; +62.5 bps maximum
  - Information Ratio above 0.5
- Serve as a source of liquidity as needed
- Diversification of cyclical equity risk



# MCC IGFI Portfolio Strategy

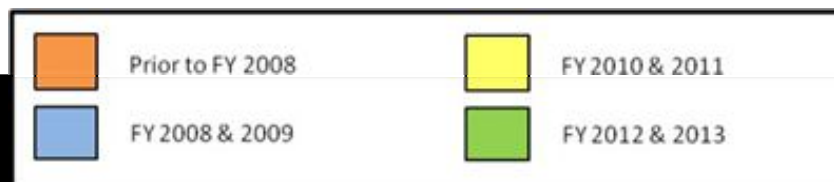
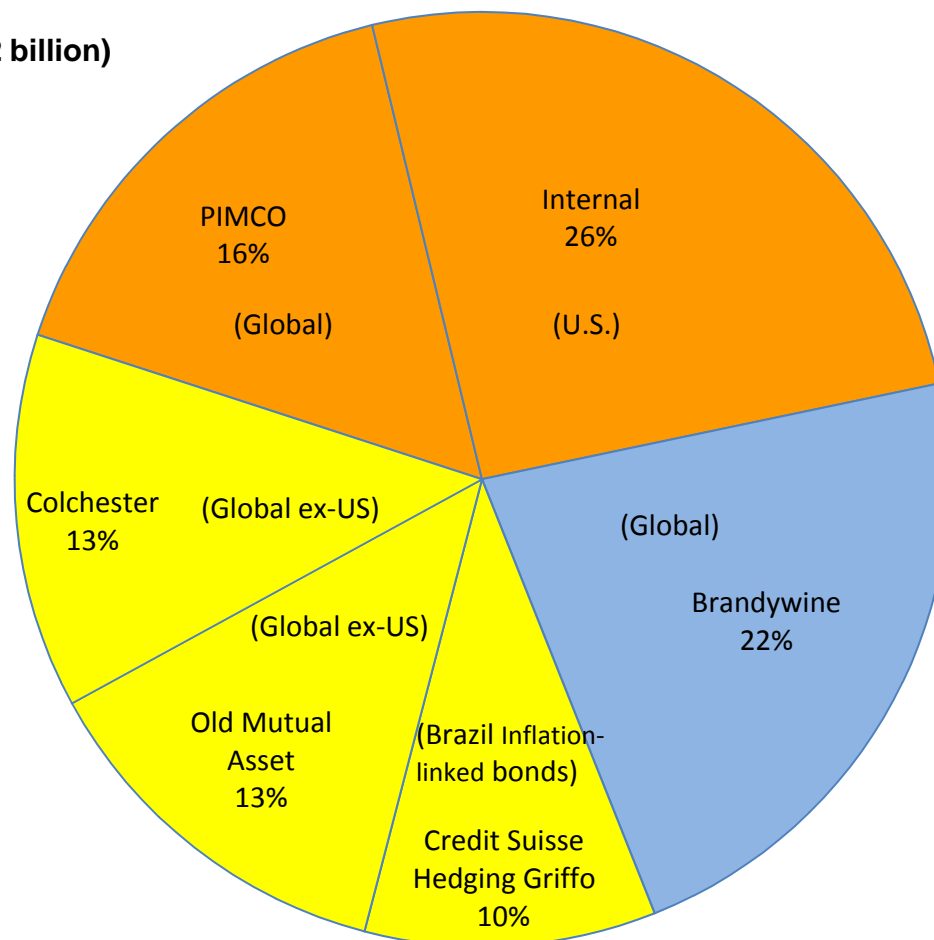
- Manager underwriting
  - Prefer large separate accounts to achieve optimal transparency and liquidity
  - Market-based benchmarks and low fixed management fees
- Portfolio construction
  - Balance
    - Internal management (US)
    - Ex-US managers
    - Global managers
  - Set broad guidelines, letting the managers allocate to the opportunity set
  - Tactically move to balance manager allocation based on performance and mean reversion





# MCC IGFI Portfolio

Fixed Income Managers (\$3.2 billion)





# MCC IGFI Performance

Performance has improved as manager mix has shifted

	Net Asset Value (in Billions)	Performance as of 2/28/2013		
		One Year	Three Years	Five Years
<b>Total MCC IGFI</b>	\$3.2	3.85%	6.88%	5.97%
vs. Policy Benchmark				
(%) Value Added		3.08%	2.53%	1.84%
(\$ ) Value Added		\$107	\$243	\$270
<b>Information Ratio</b>		2.11	1.32	0.73
<b>Sharpe Ratio</b>		1.08	1.38	0.83
<b>Total MCC IGFI</b> (including liquidity reserve)	\$3.4	2.88%	5.15%	4.26%



# MCC IGFI Managers

- **PIMCO**
  - Mandate started February 2001, global mandate, 2008
  - Last five years, 194 bps per annum value added vs. Barclays Global Aggregate; 6.07% annualized return
  - Broad diversification of investment strategies with high credit quality and limited currency and duration deviations.
  - Lower tracking error
- **Brandywine**
  - Global mandate started March 2008
  - Since inception, 533 bps per annum value added vs. Barclays Global Aggregate; 9.10% annualized return
  - Generalist approach identifying undervalued countries, currencies and sectors
  - Benchmark agnostic exploiting the opportunity set within their guidelines
- **Old Mutual**
  - Global, ex-US mandate started June 2010
  - Since inception, 59 bps per annum value added vs. Barclays Global Aggregate ex-US; 6.45% annualized return
  - Theme-based investment approach taking high conviction positions led by an experienced manager



# MCC IGFI Managers

- Colchester
  - Global, ex-US mandate started September 2011
  - Since inception, 431 bps per annum value added vs. Barclays Global Aggregate ex-US; 1.88% annualized return
  - Value-oriented analysis targeting high real yields utilizing only sovereign bonds
  - Exceptional country selection and currency management
- Internal
  - US mandate started February 2000
  - Last five years, 90 bps per annum value added vs. Barclays US Aggregate; 6.42% annualized return
  - Higher quality, defensive portfolio
  - Information Ratio: 0.63
- Credit Suisse Hedging-Griffo
  - Brazilian inflation-linked bond mandate started October 2010
  - Since inception, -553 bps per annum underperformance vs. IMAB IPCA ; 5.97% annualized return
  - Actively managed portfolio capturing the real yield component of Brazilian bonds in USD
  - Brazilian currency active management



# MCC Cash Managers

- Dreyfus

- Mandate invested in Institutional Preferred Money Market Fund in June 1997, \$2.91 billion as of 2/28/13
- Last five years, 28 bps per annum value added vs. 90 day Treasury Bills; 0.67% annualized return
- Prime money market fund which follows SEC 2a-7 rules
- Weighted Average Maturity was 37 days on 2/28/13
- Asset Allocation:
  - Time Deposits 27%
  - Foreign Bank Obligations 25%
  - Repurchase Agreements 19%
  - Commercial Paper 15%
  - Floating Rate Notes 11%
  - U.S. Treasuries 3%

- Invesco

- Mandate invested in Short Term Investments Trust Treasury Portfolio in May 2009, \$200.3 million as of 2/28/13
- Since inception, 0.04% annualized return
- U.S. Treasury money market fund
- Weighted Average Maturity was 50 days on 2/28/13



# UTIMCO Portfolio vs. Benchmark

As of 2/28/2013

	UTIMCO	Barclays Global Agg.
Average Quality	AA3	AA3
Modified Duration	4.8	6.0
Yield to Maturity	2.3%	1.7%
<b>Sector</b>		
Treasuries and Sovereigns	50.8%	58.1%
Government-Related	6.1%	7.7%
Corporates	17.3%	18.1%
Securitized	12.4%	15.8%
Cash and Derivatives	13.4%	0.0%
<b>Geographical Exposure</b>		
United States	51.1%	42.0%
Canada	1.2%	2.8%
European	23.1%	33.0%
Asian-Pac Aggregate	9.5%	21.1%
Emerging Markets*	15.2%	1.2%

\*Excludes 8.4% of Emerging Markets invested in Brazilian Inflation-linked bonds.

**Agenda Item**  
UTIMCO Board of Directors Meeting  
April 16, 2013

**Agenda Item:** Presentation by Ian Simms of Colchester Global Investors Limited

**Developed By:** Zimmerman

**Presented By:** Zimmerman

**Type of Item:** Information Item

**Description:** Ian Simms of Colchester Global Investors Limited will explain his value-oriented, international bond strategy that invests primarily in high-quality sovereign bond markets that offer attractive real yields. Mr. Simms is the Chairman and Chief Investment Officer with over 20 years of portfolio management experience and 30 years of investment experience. He joined Colchester in 2000.

**Recommendation:** None

**Reference:** None

**Agenda Item**  
UTIMCO Board of Directors Meeting  
April 16, 2013

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

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

**Presented By:** Foster

**Type of Item:** Action Item

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

**Recommendation:** Chairman Foster will recommend approval of the election of Corporate Officers.

**Reference:** None



## RESOLUTION RELATED TO CORPORATION OFFICERS

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

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

**Agenda Item**  
UTIMCO Board of Directors Meeting  
April 16, 2013

<b>Agenda Item:</b>	Optimal Illiquidity Discussion
<b>Developed By:</b>	Staff
<b>Presented By:</b>	Yoeli
<b>Type of Item:</b>	Information item
<b>Description:</b>	<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"><li>1) What returns are sufficient to support what levels of illiquidity risk?</li><li>2) What liquidity needs limit illiquidity exposure?</li><li>3) What is staff's ability to deploy illiquidity risk and generate sufficient returns?</li></ol>
<b>Recommendation:</b>	None
<b>Reference:</b>	<i>Optimizing Illiquidity- Third UTIMCO Board Update</i> presentation



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# Optimizing Illiquidity

## Third UTIMCO Board Update

April 2013



# Summary of 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?**

- *Returns should be 4.1% – 5.6% above the liquid equivalent, depending on the asset class*
- *Required nominal returns for Private Investment vary from 10.4% – 11.9% for Credit to 14.9% – 16.4% for Emerging Markets*

Asset Class	Short-term assumptions with alpha	Long-term assumptions with alpha
Credit	10.4%	11.9%
Real Estate	11.9%	13.1%
Nat Res	12.6%	12.7%
Buyouts	12.9%	14.3%
Venture	13.7%	15.1%
Emerging	14.9%	16.4%



# Summary of Key Issue II

## II. What liquidity needs limit illiquidity exposure?

- *The Endowments can bear 33% in Privates and another 30% in LCC with a low probability of illiquidity stress*
- *Analysis indicates the Endowments can likely actually bear 37.5% in Privates and 30% in LCC, but Staff recommends taking a cautious approach to these higher levels of illiquidity*



# Summary of Key Issue III

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

- *Historically UTIMCO has selected Private Investment funds at the 55<sup>th</sup> – 72<sup>nd</sup> percentile of the universe, depending on the asset class\*.*
- *This performance appears generally sufficient to generate the required illiquidity premium.*
- *Two asset classes, Real Estate and Emerging Markets, in particular require additional thought:*
  - *Over the past decade or so, Public Real Estate has slightly outperformed Private Real Estate.*
  - *Private Emerging Markets, as an asset class, has been very challenging in the past.*
  - *Additionally, we have inadequate history to determine Staff's ability in selecting Real Estate and Emerging Markets managers.*
- *Across all asset classes, the future opportunity set may be more, or less, attractive than the historic opportunity set, which is true for both liquid and illiquid investments.*

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



# Activities Since the Last Update

- The February 2013 Board update concluded that the following analysis would be helpful:
  - 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, including Benchmarks



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# Required Premium





# Recap of 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)



# Components of Required Returns

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

Asset Class	Premium for Locking up Capital	Uncertainty Premium	Call Liquidity Premium	Total Illiquidity Premium
Credit	3.5%	0.5%	0.4%	<b>4.4%</b>
Real Estate	3.2%	0.6%	0.3%	<b>4.1%</b>
Nat Res	3.7%	0.6%	0.3%	<b>4.6%</b>
Buyouts	3.6%	0.5%	0.7%	<b>4.8%</b>
Venture	4.0%	0.8%	0.8%	<b>5.6%</b>
Emerging	3.9%	0.7%	0.8%	<b>5.4%</b>



# Range of Possible Required Returns

- Staff assessed Private Investment required returns based on both short-term and long-term capital market expectations.
- Staff believes the “liquid equivalent” should include alpha that is expected in the liquid MCC book, because this is the true alternative for the capital being allocated.

Asset Class	Required Returns				“CIO Hurdle”
	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%	10.5% - 12.0%
Real Estate	10.4%	11.9%	11.6%	13.1%	12.0% - 13.0%
Nat Res	11.1%	12.6%	11.2%	12.7%	12.5% - 13.0%
Buyouts	11.4%	12.9%	12.8%	14.3%	13.0% - 14.5%
Venture	12.2%	13.7%	13.6%	15.1%	14.0% - 15.0%
Emerging	13.4%	14.9%	14.9%	16.4%	15.0% - 16.5%



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# Liquidity Supply and Demand

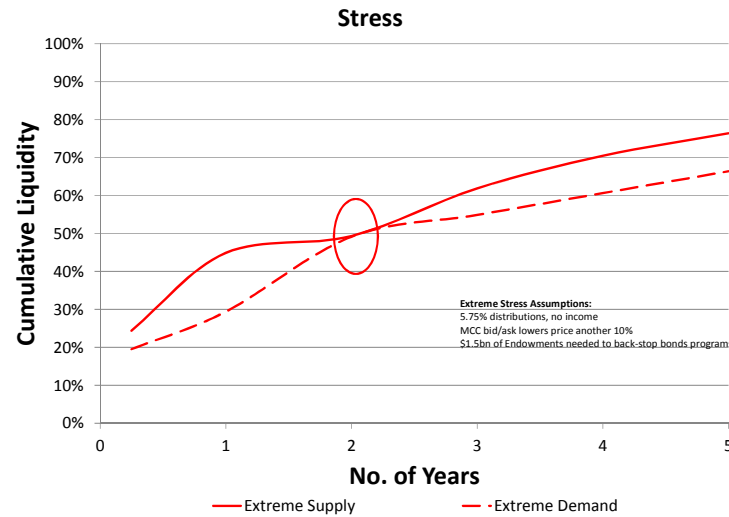
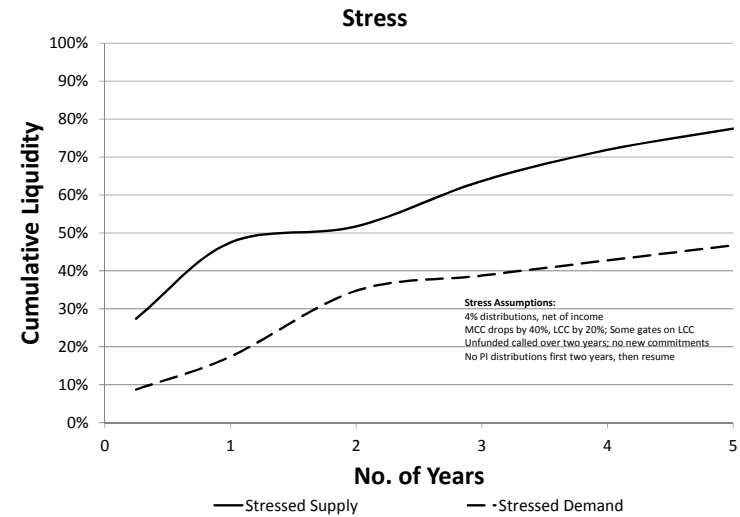
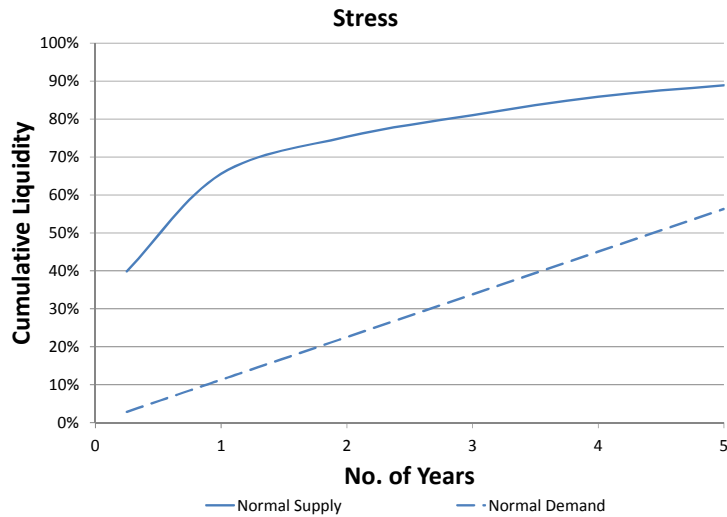


# Liquidity Supply and Demand

MCC: 37%

LCC: 30%

PI: 33%





# Scenario Analysis

The following few pages describe staff's analysis of the portfolio's evolution through a crisis.

- The portfolio starts with 33% in Privates and 30% in LCC and an Endowment NAV of \$20B:

Asset Class / Investment Type	\$	Percent of Total
Investment Grade Fixed Income	\$1.5B	7.5%
Gold	0.9	4.5%
Public Equity and Commodities	<u>5.0</u>	<u>25.0%</u>
MCC	7.4	37.0%
LCC	6.0	30.0%
PI	<u>6.6</u>	<u>33.0%</u>
<b>TOTAL</b>	<b><u>\$20.0B</u></b>	<b><u>100.0%</u></b>

- The level of unfunded commitments would be \$2.6B, plus another \$0.9B in “opt out” structures
- Annual capital calls would be \$1.5B, and annual distributions from Private Investments would be \$1.8B



# Description of Crisis

- In “crisis” we have assumed:
  - Public Equities and Commodities all drop by 50%
    - This is similar to the depth of the 2008 Financial Crisis
    - Unlike 2008/2009, we assume no recovery in asset prices – i.e., an “L” shaped event
  - LCC drops by 20%
  - At the beginning of the crisis, Private Investments are not marked down
- Under these assumptions, the \$6.6B Private book would quickly become 40.5% of the total Endowment:

Asset Class / Investment Type	\$	Percent of Total	“Steady State” Percentage
Investment Grade Fixed Income	\$1.5B	9.2%	7.5%
Gold	0.9	5.5%	4.5%
Public Equity and Commodities	<u>2.5</u>	<u>15.3%</u>	<u>25.0%</u>
MCC	4.9	30.0%	37.0%
LCC	4.8	29.5%	30.0%
PI	<u>6.6</u>	<u>40.5%</u>	<u>33.0%</u>
<b>TOTAL</b>	<b><u>\$16.3B</u></b>	<b><u>100.0%</u></b>	<b><u>100.0%</u></b>



# First Year of the Crisis

## During the first year of the crisis:

- **Contributions:** \$250M from West Texas Lands (PUF), \$100M from donors (LTF)
- **Distributions to UT System and A&M:** 4.75% of 3-year rolling value equals \$900M
- **Capital Calls:**
  - We opt out from all opt-out structures
  - For the “hard” commitments that are still unfunded, we assume:
    - A slightly higher than normal call rate for Credit
    - The normal call rate for Venture
    - 80% of the normal call rate for all other asset classes
  - This results in \$0.9B of capital calls (vs \$1.5B of capital calls in “steady state”)
- **Distributions from Privates:** assumed to be zero
- **Mark-downs:**
  - No further mark-downs or mark-ups on MCC and LCC
  - Private Investments, which were not marked-down at the outset of the crisis, are assumed to be marked down 15% during the first year





# First Year of Crisis (Cont'd)

## Sources and uses of liquidity:

### Sources

West Texas Lands (PUF)	\$250M
Donors (LTF)	100
MCC Liquidation:	
Fixed Income	300
Real Estate	170
Nat Res (including gold)	360
DCE	240
EM	<u>130</u>
Total MCC liquidation (out of \$4.9B)	1,200
LCC Liquidation (out of \$4.8B)	<u>250</u>
<b>TOTAL SOURCES</b>	<b><u>\$1,800M</u></b>

### Uses

Distributions	\$900M
Capital Calls	<u>900</u>
<b>TOTAL USES</b>	<b><u>\$1,800M</u></b>

At the end of year 1 of the crisis, the Endowments asset allocation would be:

Asset Class / Investment Type	\$	Percent of Total	Percent at onset of crisis
Inv. Grade Fixed Income	\$1.2B	8%	9.2%
Gold	0.7	5%	5.5%
Public Eq and Comm.	<u>1.8</u>	<u>12%</u>	<u>15.3%</u>
MCC	3.7	25%	30.0%
LCC	4.5	31%	29.5%
PI	<u>6.5</u>	<u>44%</u>	<u>40.5%</u>
<b>TOTAL</b>	<b><u>\$14.7B</u></b>	<b><u>100%</u></b>	<b><u>100.0%</u></b>



# Year 2 of Crisis

## Sources and uses of liquidity:

### Sources

West Texas Lands	\$250M
Donors	100
Distributions from Privates	150
MCC liquidation (out of \$3.7B)	500
LCC liquidation (out of \$4.5B)	<u>600</u>
<b>TOTAL SOURCES</b>	<b><u>\$1,600M</u></b>

### Uses

Distributions	\$800M
Capital Calls	<u>800</u>
<b>TOTAL USES</b>	<b><u>\$1,600M</u></b>

At the end of year 2 of the crisis, the Endowments asset allocation would be:

Asset Class / Investment Type	\$	Percent of Total	Percent at end of Year 1
Inv. Grade Fixed Income	\$1.0B	7.0%	8%
Gold	0.6	4.2%	5%
Public Eq. and Comm.	<u>1.6</u>	<u>11.2%</u>	<u>12%</u>
MCC	3.2	22.4%	25%
LCC	3.9	27.3%	31%
PI	<u>7.2</u>	<u>50.3%</u>	<u>44%</u>
<b>TOTAL</b>	<b><u>\$14.3B</u></b>	<b><u>100.0%</u></b>	<b><u>100%</u></b>

We assume that year 2 is the trough of the liquidity crisis:

- Private Investment capital calls will decline significantly in year 3 (total remaining unfunded commitments are \$900M)
- Private Investment distributions will resume and, together with revenue from West Texas Lands and from donors, will be sufficient to fund the Endowments' distributions to UT System and A&M without further liquidation of the MCC or LCC portfolios



# Stress Testing with Privates at 37.5%

As a further “stress” test, we assumed Private Investments start at 37.5%, and the total allocation between Investment Grade Fixed Income and Gold is 7.5%

At the end of year 1 of the crisis, the Endowments asset allocation would be:

Asset Class / Investment Type	\$	Percent of Total
Investment Grade Fixed Income	\$0.7B	4.8%
Gold	0.3	2.2%
Public Equity and Commodities	<u>1.6</u>	<u>11.0%</u>
MCC	2.6	18.0%
LCC	4.5	31.0%
PI	<u>7.4</u>	<u>51.0%</u>
<b>TOTAL</b>	<b><u>\$14.5B</u></b>	<b><u>100.0%</u></b>

At the end of year 2 of the crisis, the Endowments asset allocation would be:

Asset Class / Investment Type	\$	Percent of Total
Investment Grade Fixed Income	\$0.6B	4.3%
Gold	0.15	1.1%
Public Equity and Commodities	<u>1.25</u>	<u>8.9%</u>
MCC	2.0	14.3%
LCC	3.9	27.8%
PI	<u>8.1</u>	<u>57.9%</u>
<b>TOTAL</b>	<b><u>\$14.0B</u></b>	<b><u>100.0%</u></b>



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# Ability to Deploy Capital



# Recap: UTIMCO Actual Experience vs “Going-Forward” Required Return

Asset Class	UTIMCO's Percentile Performance	Projected “Going Forward” Returns Based on premium over			CIO Hurdle
		10-year treasuries	5-year treasuries	relevant MCC liquid investment	
Credit	67%	10.4%	9.8%	9.4%	10.5% - 12.0%
Real Estate	N/M	10.4%	9.7%	5.9%	12.0% - 13.0%
Natural Resources	72%	21.1%	20.7%	14.6%	12.5% - 13.0%
Buyouts	55%	10.4%	9.6%	12.4%	13.0% - 14.5%
Venture	65%	13.2%	12.3%	16.2%	14.0% - 15.0%
Emerging	N/M	3.7%	2.9%	5.4%	15.0% - 16.5%



# Private Real Estate Equity

- The analysis shared with the Board in February showed historic Private Real Estate Equity returns to be below Public Real Estate Equity returns
  - Because this seemed counter-intuitive, additional analysis was conducted
- Recent analysis
  - Used a single database (Cambridge)
  - More consistently matched private real estate equity “lifetime” returns with similar period public real estate equity returns
  - Separate Core vs Value-Added vs Opportunistic private real estate equity returns
  - Assessed 18 years of returns over rolling five and ten year periods
- The new analysis confirmed a private premium over public returns in real estate equity. On average:
  - Value added: 1.4% per year
  - Opportunistic: 5.1% per year
  - Overall: 3.0% per year
- The new analysis also identified the hazard of investing at the top of the cycle
  - Higher leverage increases the probability of losing all of the invested equity during a downturn
  - “Core” real estate recovers more quickly than Opportunistic or Value-Added at the onset of a recovery period



# Private Emerging Markets Equity

- The analysis shared with the Board in February showed historic Private Emerging Market Equity returns to be below the returns required to justify the illiquidity risk premium
  - Because this seemed counter-intuitive, additional analysis was conducted
- A deeper analysis of the data set identified
  - Very thin data
    - Over a 25 year period, a median of only 13 funds in a given vintage year
    - Single digit number of funds through 1993, and between 2001 and 2003
  - Large increase in number of “pre-bubble” funds
    - 2.3x number of funds raise 1994 – 1997 vs 1986 – 1993
    - 4.8x number of funds raised 2004 – 2007 vs 2001 – 2003
  - “Lagged” decrease in number of funds raised post bubbles
    - 2x number of funds raised in 1998 – 1999 vs 1986 – 1993
    - 3x number of funds raised in 2008 vs 2001 – 2003
- Very wide dispersion across funds in a given vintage year

## Key Takeaways

- **“Counter-cyclical” investing**
- **Manager Selection**



# Staff's Ability to Partner with Top Managers

- Because Private Real Estate and Private Emerging Markets investing is relatively new for UTIMCO, there is no empirical evidence to confirm staff's ability to partner with top managers in these capital markets
- The CIO believes staff will be able to partner with top managers because
  - Staff has demonstrated competence in other areas
    - Top third rankings in Credit, Natural Resources, and Venture
  - Many of the staff that demonstrated competence in other areas are now focused on Private Real Estate and Private Emerging Markets
  - A very deliberate, diligent-intense approach to these areas
- Progress should be closely monitored





# FY2013 Capital Deployment Plan

- Staff has developed a single, firm-wide commitment model
- Private Investments NAV as percentage of Total Endowment NAV is most sensitive to the overall Endowment investment return assumptions
- The model's other key assumptions include the pace of capital calls and distributions, and the magnitude of mark-to-markets
- Varying the new commitments then drives Net Asset Value (NAV)
- As an example, below are some summary statistics the model projects through the end of the current fiscal year

Feb 2013 – Aug 2013	Feb 2013 NAV (\$M)		Feb 2013 Unfunded Commitments		Calls	Distri- butions	Mark to Market	New Commit- ments	Aug 2013 NAV (\$M)		Aug 2013 Unfunded Commitments	
Credit Related	\$1,161	5.4%	\$248	1.1%	\$70	\$199	\$88	\$100	\$1,120	5.1%	\$278	1.3%
Real Estate	619	2.9%	823	3.8%	181	25	35	165	810	3.7%	807	3.6%
Natural Resources	936	4.3%	986	4.5%	187	136	72	290	1,059	4.8%	1,089	4.9%
Developed Country	1,694	7.8%	667	3.1%	125	182	83	100	1,721	7.8%	642	2.9%
Developed Country VC	775	3.6%	400	1.8%	59	68	39	50	806	3.6%	390	1.8%
Emerging Markets	<u>579</u>	<u>2.7%</u>	<u>563</u>	<u>2.6%</u>	<u>106</u>	<u>45</u>	<u>30</u>	<u>160</u>	<u>671</u>	<u>3.0%</u>	<u>617</u>	<u>2.8%</u>
<b>Total Privates</b>	<b><u>\$5,765</u></b>	<b><u>26.6%</u></b>	<b><u>\$3,687</u></b>	<b><u>17.0%</u></b>	<b><u>\$729</u></b>	<b><u>\$655</u></b>	<b><u>\$347</u></b>	<b><u>\$865</u></b>	<b><u>\$6,186</u></b>	<b><u>27.9%</u></b>	<b><u>\$3,823</u></b>	<b><u>17.3%</u></b>



# FY14 – FY16 Capital Deployment Plan

- A commitment plan of \$1.55B - \$1.725B per year over the next few years is projected to increase the Private Investment share of Total Endowment assets to 33% by 2016
- The specific asset class break-out below is for illustrative purposes only; Final recommendations will be made during this summer's Investment Policy Review

Commitment Plan (\$M)	FY2014	FY2015	FY2016
Credit Related	\$100	\$125	\$150
Real Estate	400	400	425
Natural Resources	575	600	625
Developed Country	150	150	150
Developed Country VC	100	100	100
Emerging Markets	<u>225</u>	<u>250</u>	<u>275</u>
<b>Total Privates</b>	<b><u>\$1,550</u></b>	<b><u>\$1,625</u></b>	<b><u>\$1,725</u></b>

NAV (\$M)	8/31/2013		8/31/2014		8/31/2015		8/31/2016	
Credit Related	\$1,120	5.1%	\$1,063	4.6%	\$882	3.6%	\$646	2.6%
Real Estate	810	3.7%	1,218	5.3%	1,587	6.6%	1,898	7.5%
Natural Resources	1,059	4.8%	1,364	5.9%	1,664	6.9%	1,952	7.7%
Developed Country	1,721	7.8%	1,734	7.5%	1,716	7.1%	1,680	6.6%
Developed Country VC	806	3.6%	870	3.8%	926	3.8%	975	3.9%
Emerging Markets	<u>671</u>	<u>3.0%</u>	<u>879</u>	<u>3.8%</u>	<u>1,051</u>	<u>4.3%</u>	<u>1,191</u>	<u>4.7%</u>
<b>Total Privates</b>	<b><u>\$6,186</u></b>	<b><u>27.9%</u></b>	<b><u>\$7,129</u></b>	<b><u>30.8%</u></b>	<b><u>\$7,826</u></b>	<b><u>32.3%</u></b>	<b><u>\$8,342</u></b>	<b><u>33.0%</u></b>



# Sensitivity Analysis

- Sensitivity analysis varying the rate of Endowment growth and appreciation of Privates, and the rate of Private Investment capital calls and distributions, show the range of Private Investments as a percentage of Total Endowment assets
- The red shading highlights scenarios where Private Investment NAV is less than 25% or more than 40% of the Total Endowment assets

			<u>FYE 2015</u>				
			-8.0%	3.0%	7.5%	13.0%	23.0%
Capital Calls	Endowment Growth Rate:		Bear	Down	Base	Up	Bull
Rate	Distributions						
	Rate						
20%	7.5%	Bear	40.1%	37.6%	36.6%	35.7%	34.2%
30%	17.0%	Down	38.2%	35.2%	34.0%	32.9%	31.1%
35%	22.0%	Base	36.7%	33.6%	32.3%	31.2%	29.3%
40%	27.0%	Up	35.1%	31.9%	30.6%	29.4%	27.4%
50%	37.0%	Bull	28.3%	25.6%	24.5%	23.6%	21.9%
			<u>FYE 2016</u>				
20%	7.5%	Bear	47.0%	42.2%	40.3%	38.7%	36.0%
30%	17.0%	Down	43.4%	37.8%	35.7%	33.8%	30.8%
35%	22.0%	Base	40.9%	35.2%	33.0%	31.1%	28.0%
40%	27.0%	Up	38.3%	32.5%	30.3%	28.4%	25.4%
50%	37.0%	Bull	32.4%	26.8%	24.6%	22.8%	19.9%



# Benchmarks

- As part of the Optimal Illiquidity Analysis, Staff revisited Private Investment benchmarks. The Private Investment benchmarks:
  - Were last updated in 2004
  - Are different for compensation purposes between the Total Fund and the Private Investment asset class
  - Are inherently difficult in reconciling periodic (e.g., rolling three years) results with the long-term nature of the asset class
  - Have the least consistency across peer institutions
- Final benchmark recommendations will be made during this summer’s Investment Policy Review, but a summary of current and likely proposed benchmarks is below:

	Current		Likely Proposed
	Total Endowment	Asset Class	Total Endowment and Asset Class will be the same
Measure	Individual fund summation	Individual fund summation	Fund of Funds
Term	Trailing three years	2002-2011	Trailing three years
Data Source	Venture Economics	Venture Economics	Cambridge
Real Estate	Separate	Separate	Same
Required Outperformance: Target	75bp	100bp	TBD
Max	225bp	350bp	TBD

**Agenda Item**  
UTIMCO Board of Directors Meeting  
April 16, 2013

**Agenda Item:** Report on and Discussion and Appropriate Action Related to Item from Policy Committee: Recommendation of Distribution Rates and Amount for the Investment Funds

**Developed By:** Staff

**Presented By:** Gary

**Type of Item:** Action item; Action required by UTIMCO Board and by The University of Texas System ("UT System") Board of Regents related to the Recommendation of Distribution Rates and Amount for the Investment Funds; Information item on other items

**Description:** The Policy Committee ("Committee") will meet on April 11, 2013. The Committee's agenda includes (1) discussion and appropriate action related to minutes of the November 5, 2012 meeting; (2) discussion and appropriate action related to distribution rates and amount – Permanent University Fund, Permanent Health Fund, Long Term Fund, and Intermediate Term Fund (the "Funds"); and (3) discussion of Mandate Categorization Procedure.

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

The Committee will also hear a report on the Mandate Categorization Procedure ("Procedure"). The purpose of the Procedure is to provide greater transparency into the process of classifying an investment mandate within the approved Asset Classes and Investment Types as defined in the Investment Policy Statements for the Funds. Included in the Procedure is a requirement that all existing mandates must be reviewed annually by the Managing Director, Chief Compliance Officer, and Chief Investment Officer with any recommended re-categorization requiring Risk Committee approval. Mr. Zimmerman will discuss with the Committee the requirement to perform an annual review of all mandate categorizations.

**Recommendation:** UTIMCO staff recommends that the Policy Committee approve and recommend to the UTIMCO Board that the UTIMCO Board approve the following for fiscal year ending August 31, 2014:

- 1) The distribution from the PUF to the Available University Fund be based on 5% of the rolling twelve-quarter average net asset value or \$626,695,580;

**Agenda Item**

UTIMCO Board of Directors Meeting  
April 16, 2013

- 2) The distribution rate for the PHF be increased from \$0.0573 per unit to \$0.0585 per unit;
- 3) The distribution rate for the LTF be increased from \$0.3283 per unit to \$0.3352 per unit; and
- 4) The distribution rate for the ITF remain at 3.0% per annum.

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

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

RESOLVED, that the annual distribution amount for the Permanent University Fund be based on 5% of the trailing twelve-quarter average net asset value or \$626,695,580 for fiscal year 2014, effective with the September 1, 2013 distribution; the distribution rate for the Permanent Health Fund be increased from \$.0573 per unit to \$.0585 per unit for fiscal year 2014, effective with the November 30, 2013 quarterly distributions; the distribution rate for the Long Term Fund be increased from \$0.3283 per unit to \$0.3352 per unit for fiscal year 2014, effective with the November 30, 2013 quarterly distributions; and the distribution rate for the Intermediate Term Fund remain at 3.0% per annum for fiscal year 2014, effective with the September 1, 2013 monthly distribution.

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

## Recommendation of Distribution Amount and Rates

### PUF

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

As shown in the table below the average annual return of the PUF investments for the trailing twelve quarters ending February 28, 2013 has exceeded the Expected Return by 25 basis points or more (≥.25%).

	Trailing 12 - Quarters Ending February 28, 2013	Expected or Benchmarks	Excess (Deficit)
Average Annual Rate of Return	9.06%	7.36%	1.70%

Therefore, as outlined in the PUF Investment Policy, the amount to be distributed from the PUF for Fiscal Year 2013-2014 is \$626,695,580 as calculated below:

Quarter Ended	Net Asset Value
5/31/2010	10,524,153,261
8/31/2010	10,724,962,438
11/30/2010	11,619,582,822
2/28/2011	12,338,732,852
5/31/2011	12,908,189,971
8/31/2011	12,687,945,718
11/30/2011	12,389,608,519
2/29/2012	12,971,283,084
5/31/2012	12,843,337,655
8/31/2012	13,470,262,684
11/30/2012	13,686,958,344
2/28/2013	14,241,921,929
	\$ 150,406,939,277
Number of quarters	12
Average Net Asset Value	\$ 12,533,911,606
Distribution Percentage	5.00%
FY 2012-13 Distribution	\$ 626,695,580

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



- The amount of PUF distributions to the AUF in a fiscal year must be not less than the amount needed to pay the principal and interest due and owing in that fiscal year on PUF bonds and notes. The proposed distribution of \$626,695,580 is substantially greater than PUF bond debt service of \$250,800,000 projected for FY 2013-2014.

System	Debt Service
U. T.	\$ 165,900,000
TAMU	84,900,000
Total	\$ 250,800,000

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

- The Board of Regents may not increase annual PUF distributions to the AUF (except as necessary to pay PUF debt service) if the purchasing power of PUF investments for any rolling 10-year period has not been preserved. As the schedule below indicates, the average annual increase in the rate of growth of the value of PUF investments (net of expenses, inflation, and distributions) for the trailing 10-year period ended February 28, 2013 was 5.89%, which indicates that the purchasing power test was met.

Average Annual	Percent
Rate of Total Return	9.36%
Mineral Interest Receipts	3.83%
Expense Rate	(0.34)% (1)
Inflation Rate	(2.40)%
Distribution Rate	(4.56)%
Net Real Return	<b>5.89%</b>

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

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

Value of PUF Investments (1)	Proposed Distribution	Proposed Distribution as a % of Value of PUF Investments	Maximum Allowed Rate
\$12,533,911,606	\$626,695,580	<b>5.00%</b>	7.00%

(1) Source: UTIMCO

## LTF AND PHF

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

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

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

We are recommending a 2.1% increase in the LTF distribution rate from \$0.3283 to \$0.3352 per unit. The increase is recommended based on the LTF’s Investment Policy to increase the distributions by the average rate of inflation for the trailing twelve quarters. The LTF’s distribution rate calculated using the prior twelve quarter average value of the LTF is 5.2%, within the range of 3.5% to 5.5% set forth in the LTF Investment Policy. The increase in the consumer price index for the prior three years as of November 30, 2012, was 2.1%.

We are recommending a 2.1% increase in the PHF distribution rate of \$.0573 to \$.0585 per unit. The PHF’s distribution rate calculated using the prior twelve quarter average value of the PHF is 5.0%, within the range of 3.5% to 5.5% set forth in the PHF Investment Policy.

## **ITF**

We are recommending that the distribution rate for the Intermediate Term Fund (“ITF”) remain at 3.0% for fiscal year 2013.



**THE UNIVERSITY OF TEXAS  
INVESTMENT MANAGEMENT COMPANY**

# **Distribution Policy**

**April 2013**



# Distributions are Determined by Regents with Constitutional Limitations

- As the PUF Fiduciary, The University of Texas System Board of Regents has final authority regarding PUF distributions.
- Their discretion is limited only by the State Constitution
  - Distributions must be sufficient to cover debt service
    - Debt is limited to 30% of the book value of PUF Assets
      - 20% UT
      - 10% A&M
  - Distributions cannot exceed 7% of PUF assets
  - The dollar amount of distributions cannot increase unless Purchasing Power Parity is maintained

Appendix I details existing distribution methodology



# UTIMCO Role and Timetable

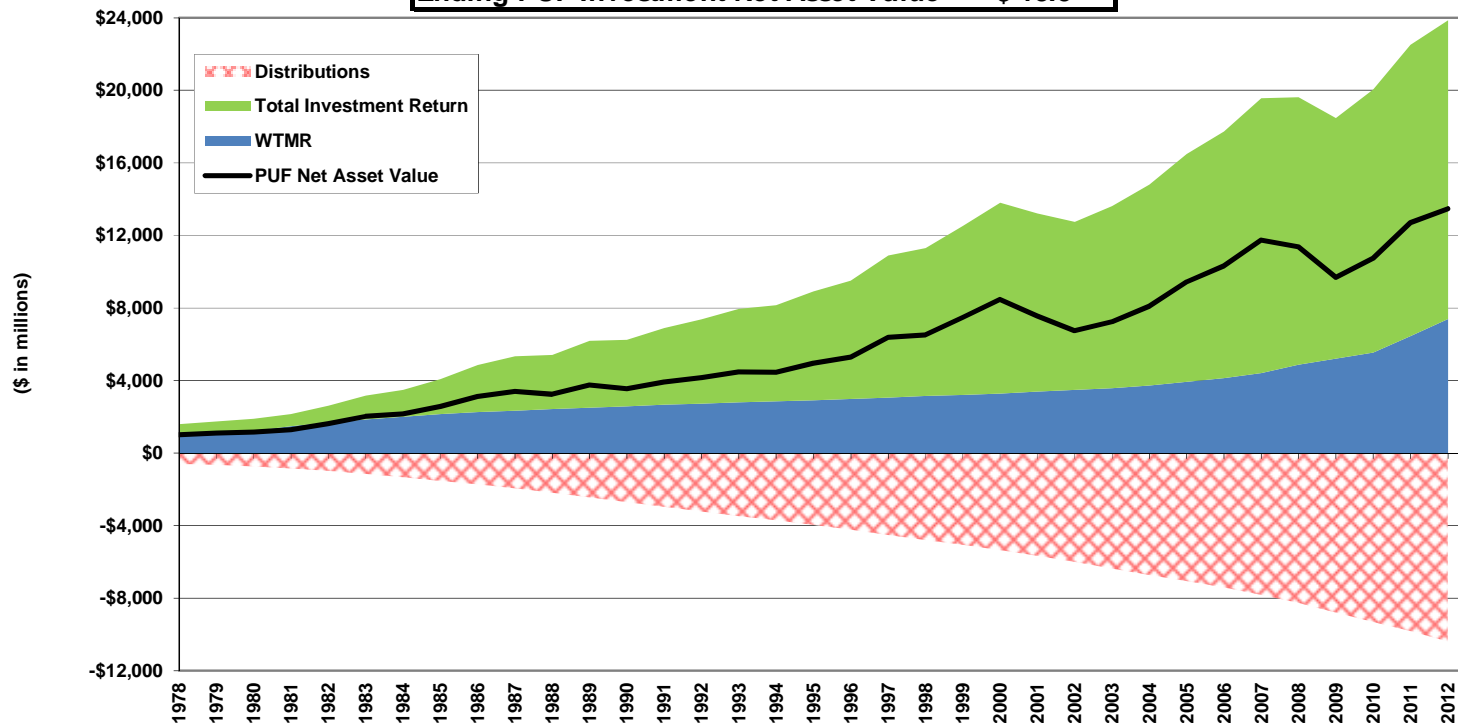
- Recommendation by the UTIMCO Board of Directors based on investment policy statement approved by UT System Board of Regents
- The timetable for recommendation and decision is:
  - April: UTIMCO Board Recommendation
  - May or later: Regents' Decision
  - September: New Distribution Amounts Become Effective



# Components of PUF Growth 1978-2013

In summary, asset levels, and thus future distributions, are an interplay of WTMR, Investment Returns and Distributions

Since 1924 (\$ in Billions):	Total
WTMR	\$ 7.4
Distributions to AUF	(10.4)
Investment Return	16.5
Ending PUF Investment Net Asset Value	\$ 13.5



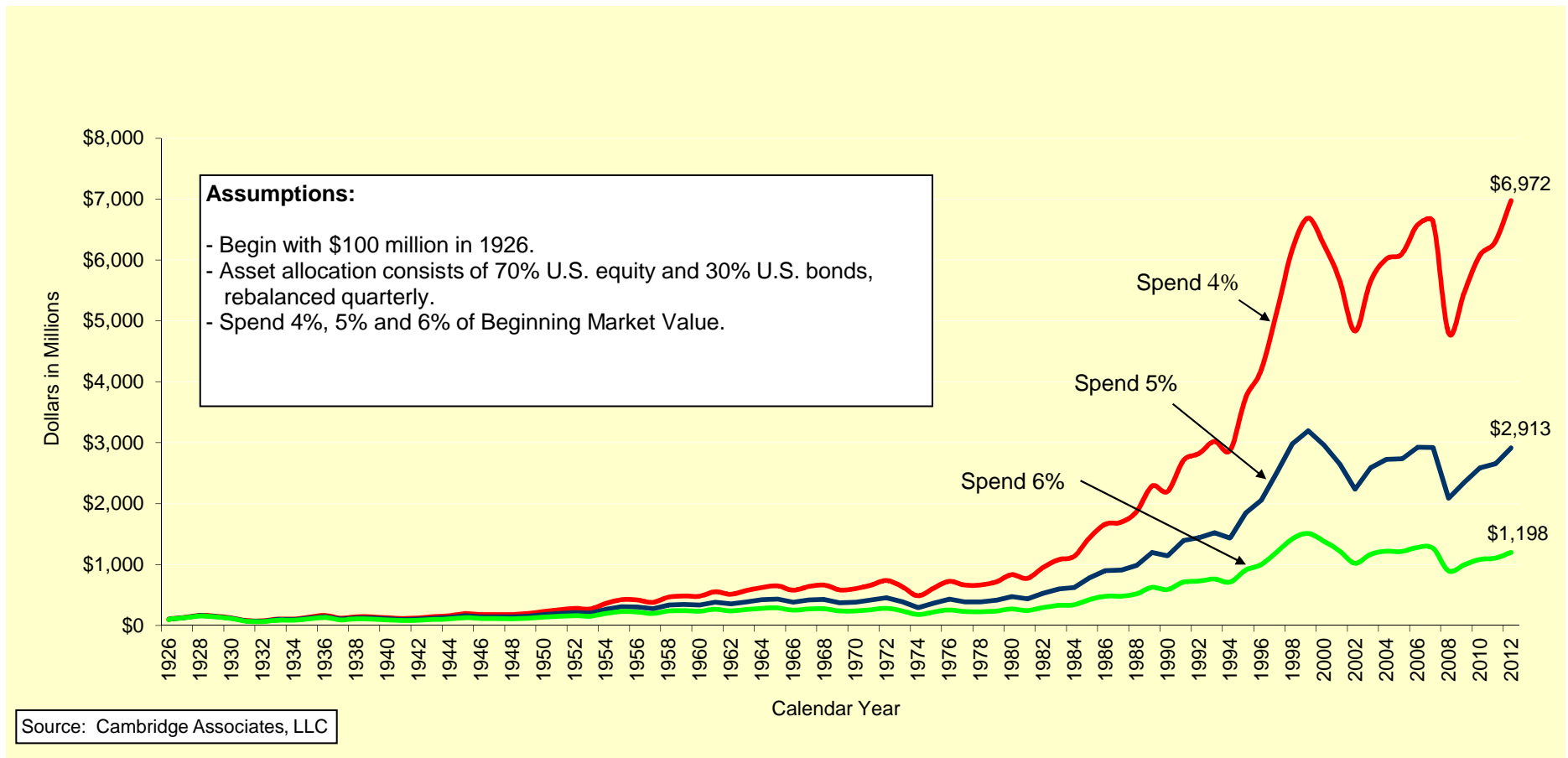


# Demand for Distribution Is, Has Been, and Always Will Be, Unlimited

- Needs / Wants are always valid
  - Compelling Investments
  - Transformational Investments
- Needs / Wants exceed means



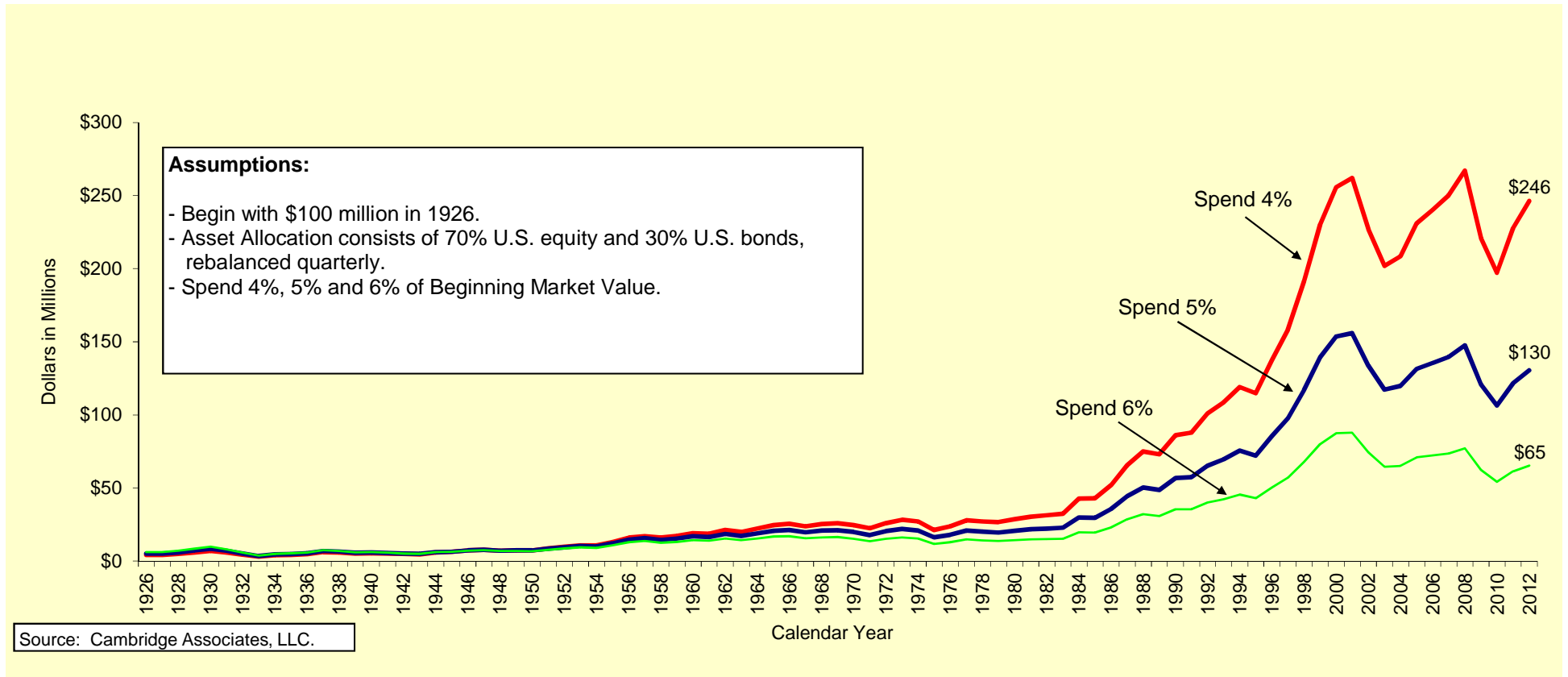
# Higher Distributions “Today” Result In Lower Endowment Value “Tomorrow”





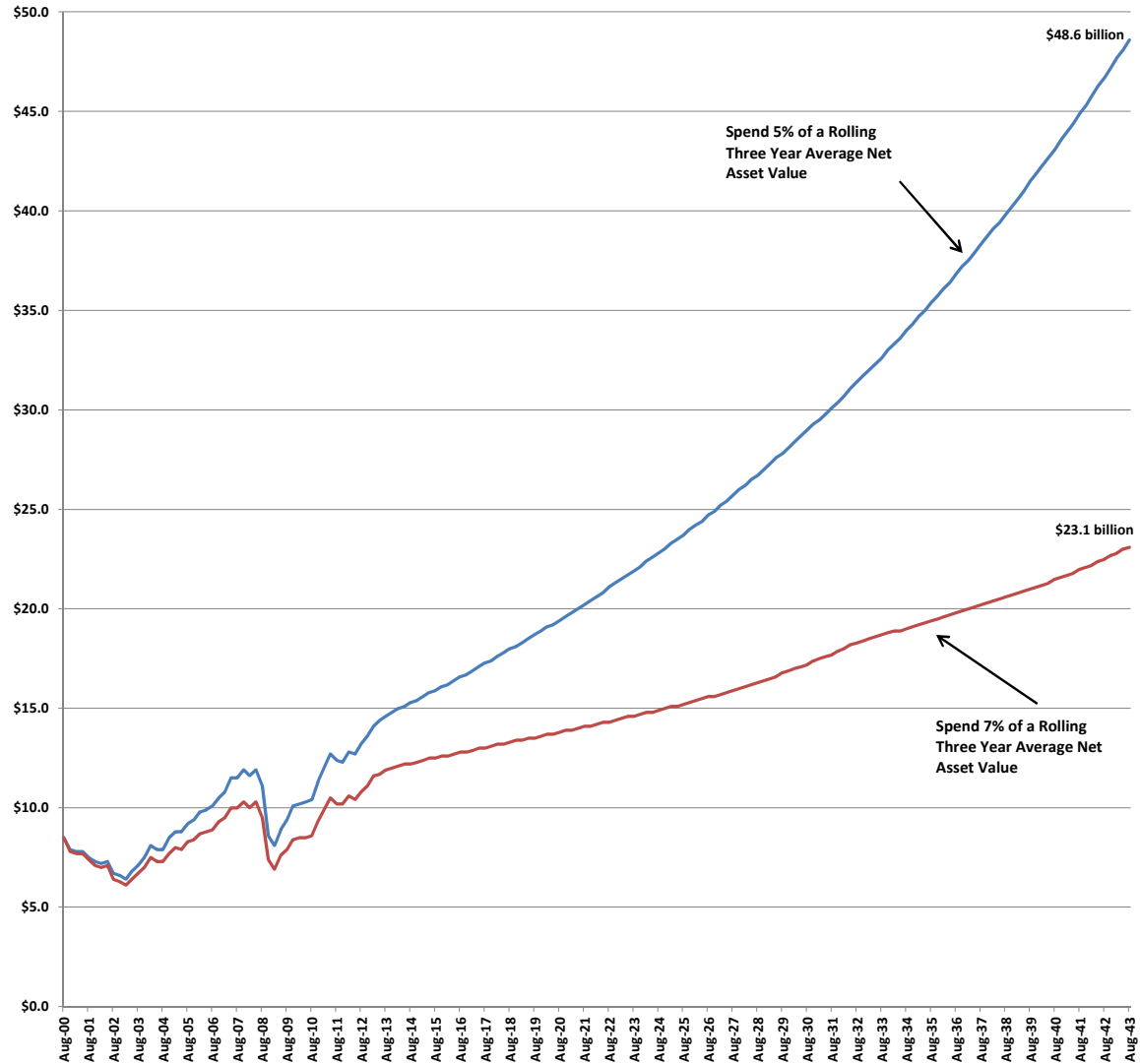


# Higher Distributions “Today” Result In Lower Distributions “Tomorrow”



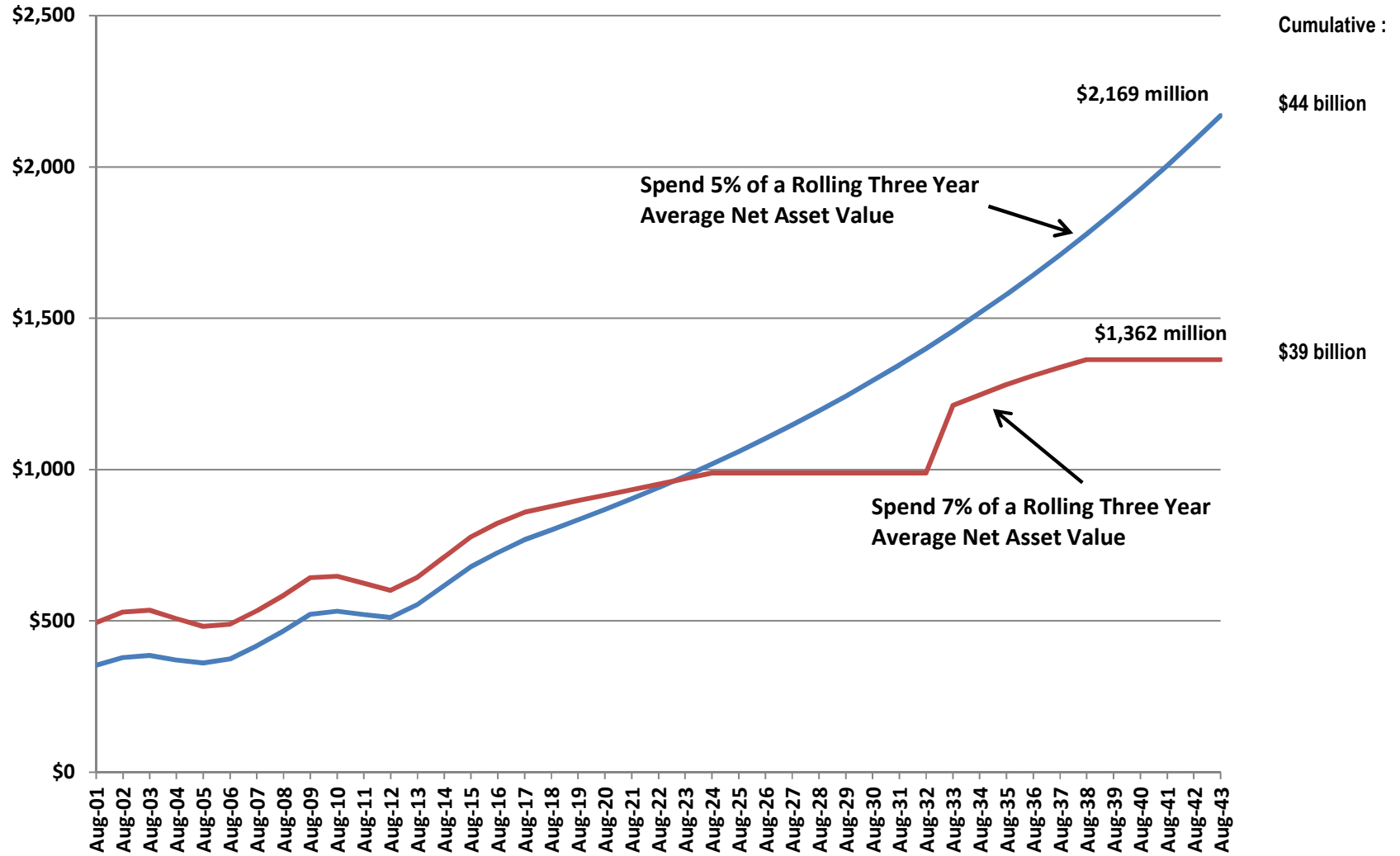


# Higher PUF Distributions “Today” Result In Lower PUF Value “Tomorrow”



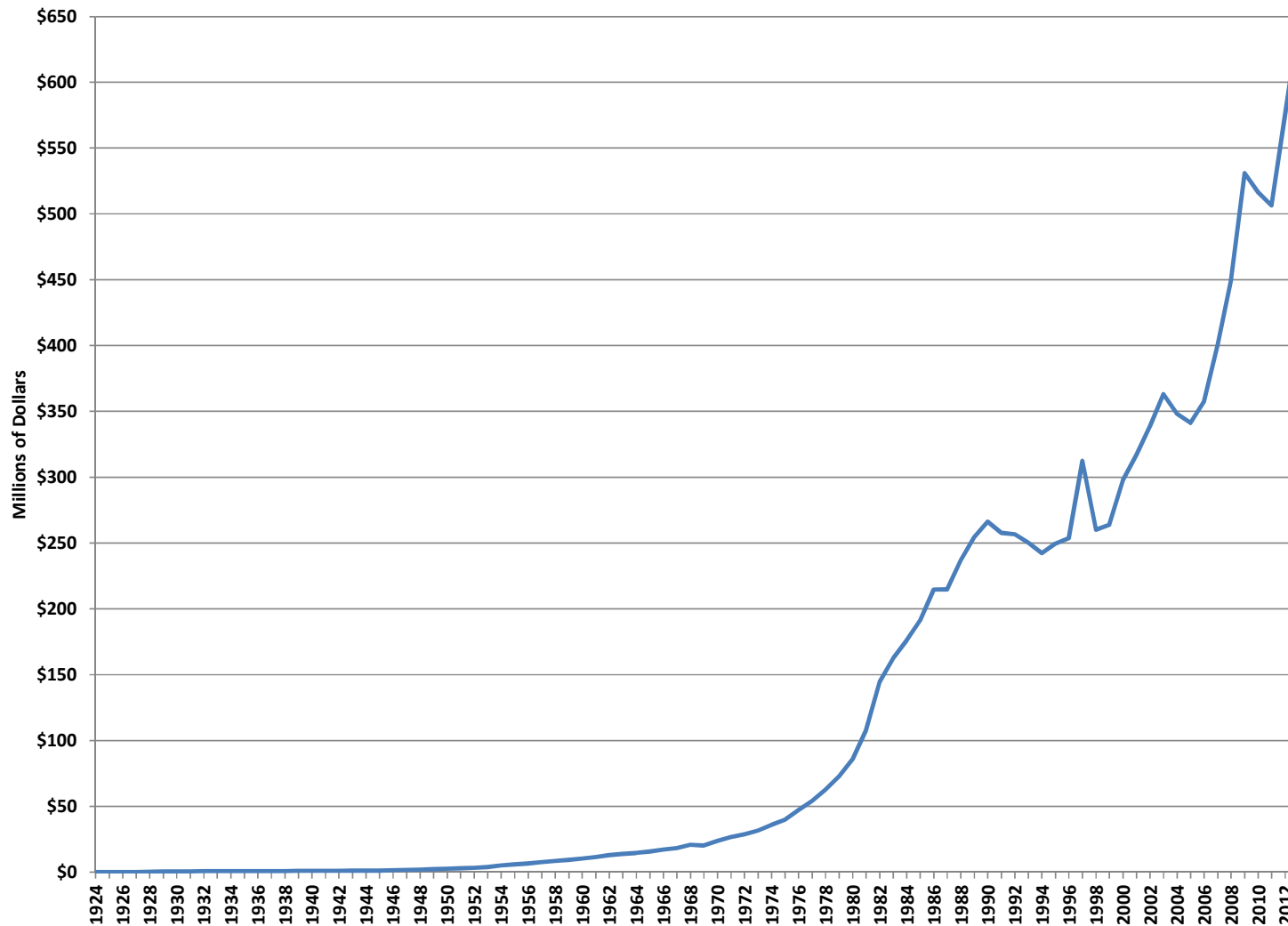


# Higher PUF Distributions “Today” Result In Lower PUF Distributions “Tomorrow”



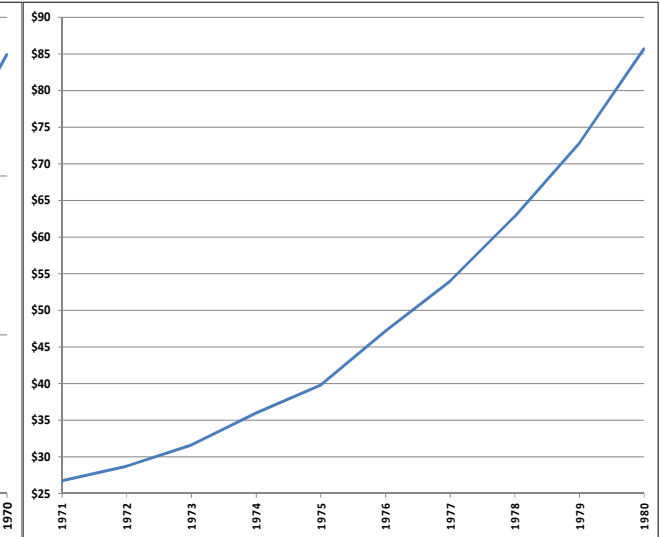
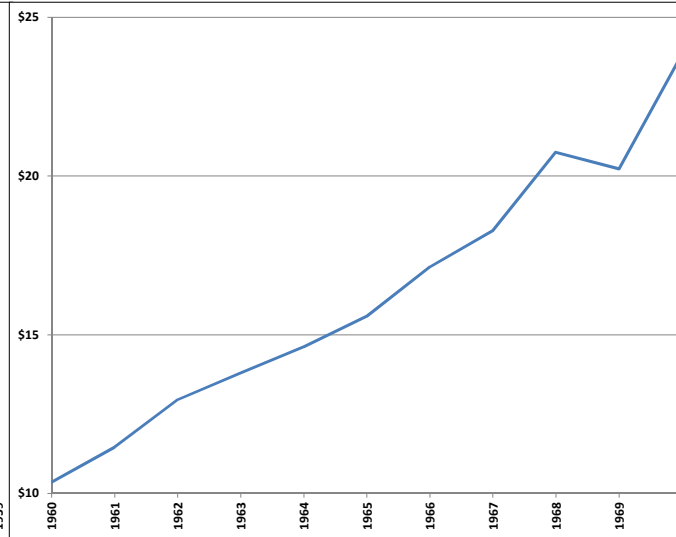
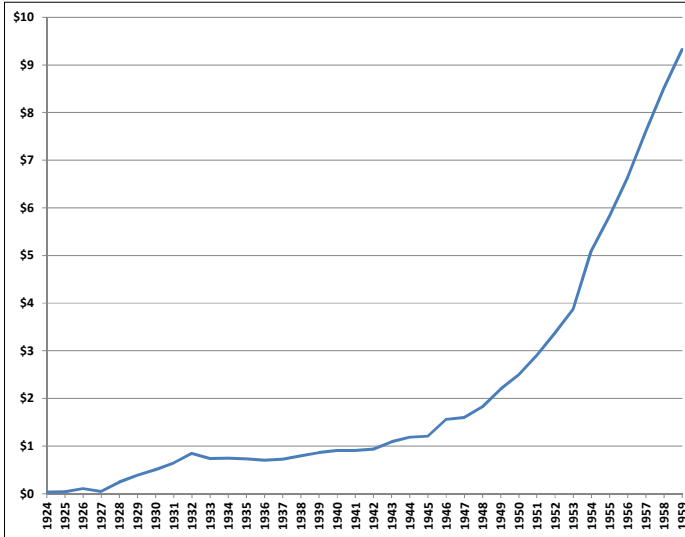


# Distributions Have Steadily, If Not Dramatically, Climbed Over the PUF's 88 Year History





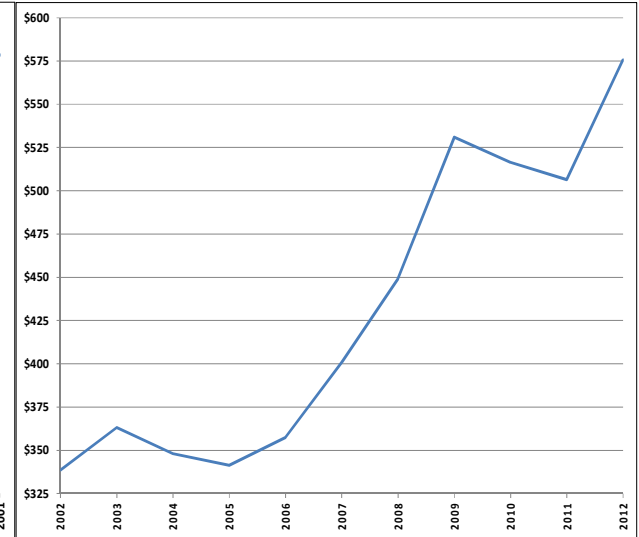
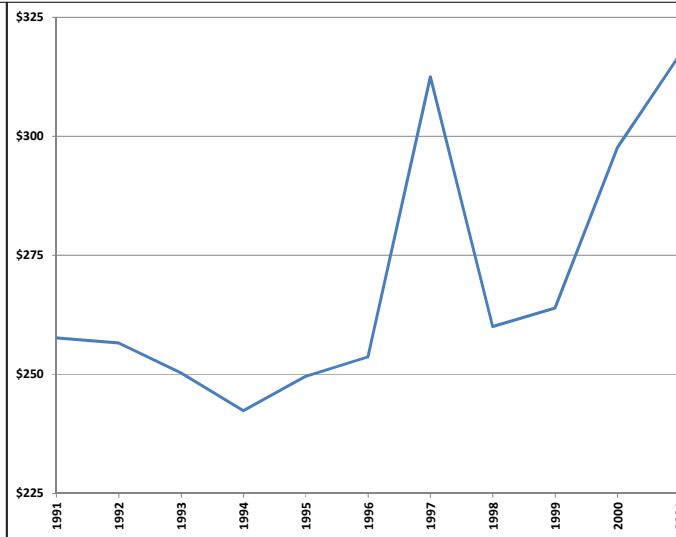
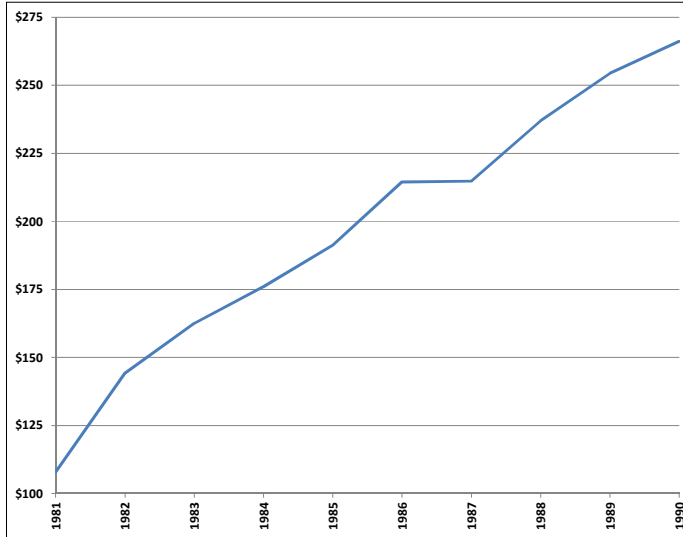
# Distributions (\$ in millions)



- From 1924 to 1959, distributions were less than \$10 million per year
- From 1960 to 1970, distributions doubled from \$10 million per year to \$24 million per year
- From 1971 – 1980, distributions increased five-fold, from \$20 million to \$85 million per year



# Distributions (\$ in millions)



- From 1981 to 1990, distributions increased 2.5x from \$100 million to \$250 million per year
- From 1991 to 2001, distributions remained in the \$240 million to \$315 million per year range
- Since 2002, distributions have climbed steadily to over \$500 million per year in each of the last three years

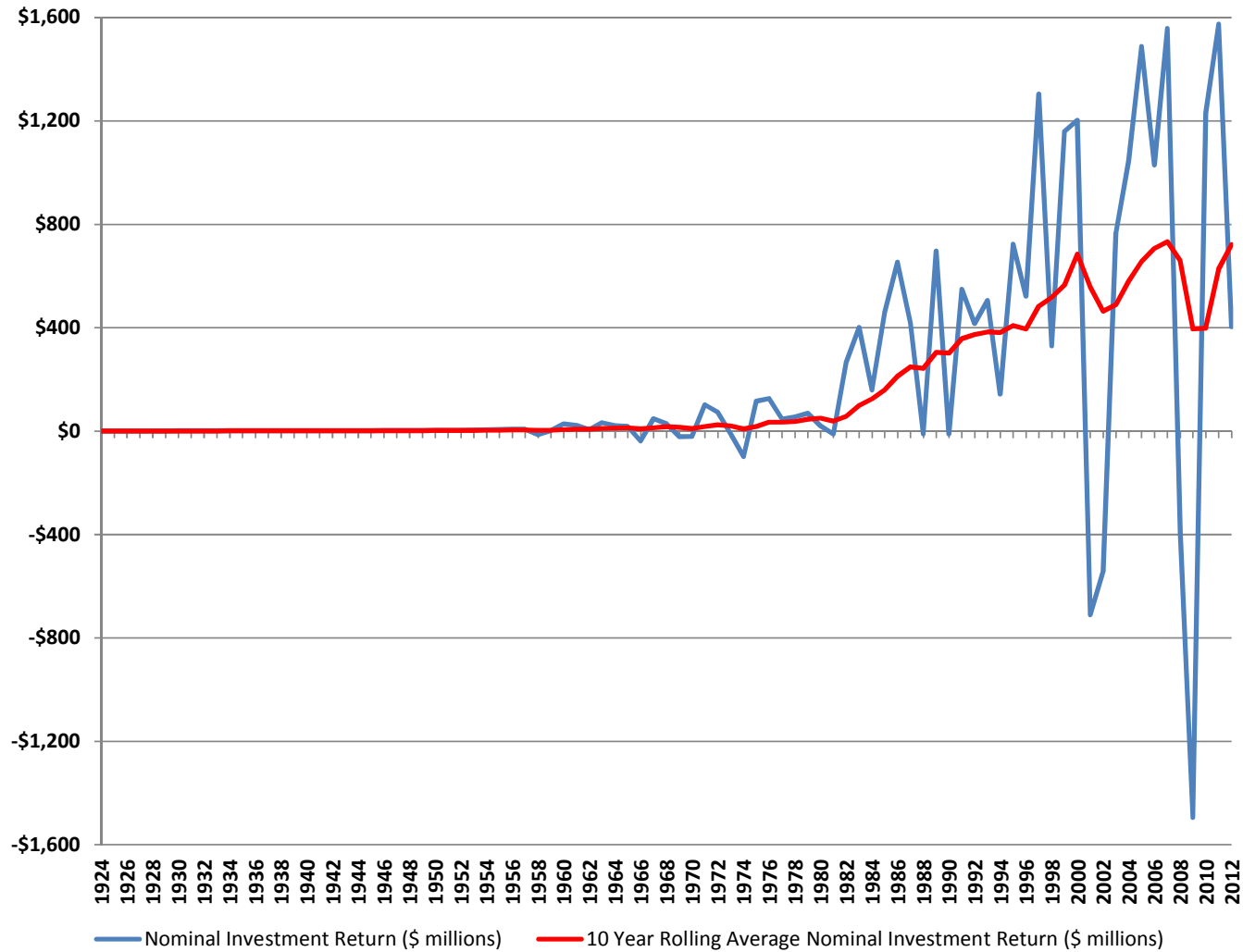


# Distributions and Investment Returns are Linked

- Because the purpose of endowments is to provide for current **and** future generations, distributions and investment returns are inextricably linked
- The linkage is specified by the Purchasing Power Parity requirement in the State Constitution
- The linkage is evidenced by the Distribution Policy language being embedded in the Investment Policy Statements
- The Investment Policies currently project a real investment return of 4.75%, which, not coincidentally, is the distribution rate
- As a matter of process, the Regents look to UTIMCO for a recommendation regarding distributions



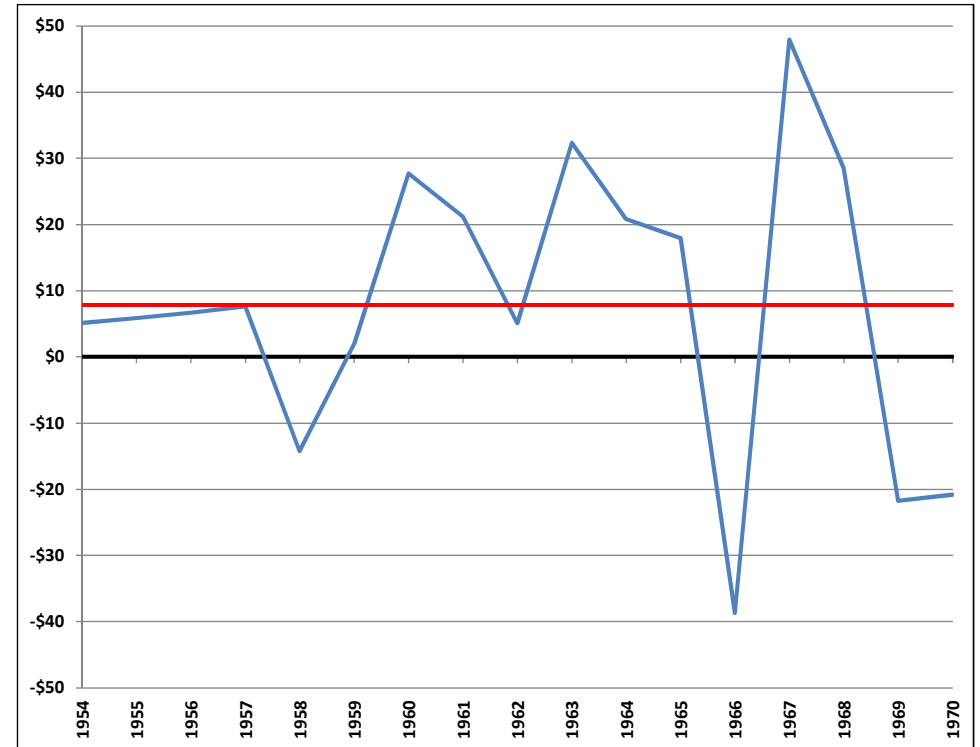
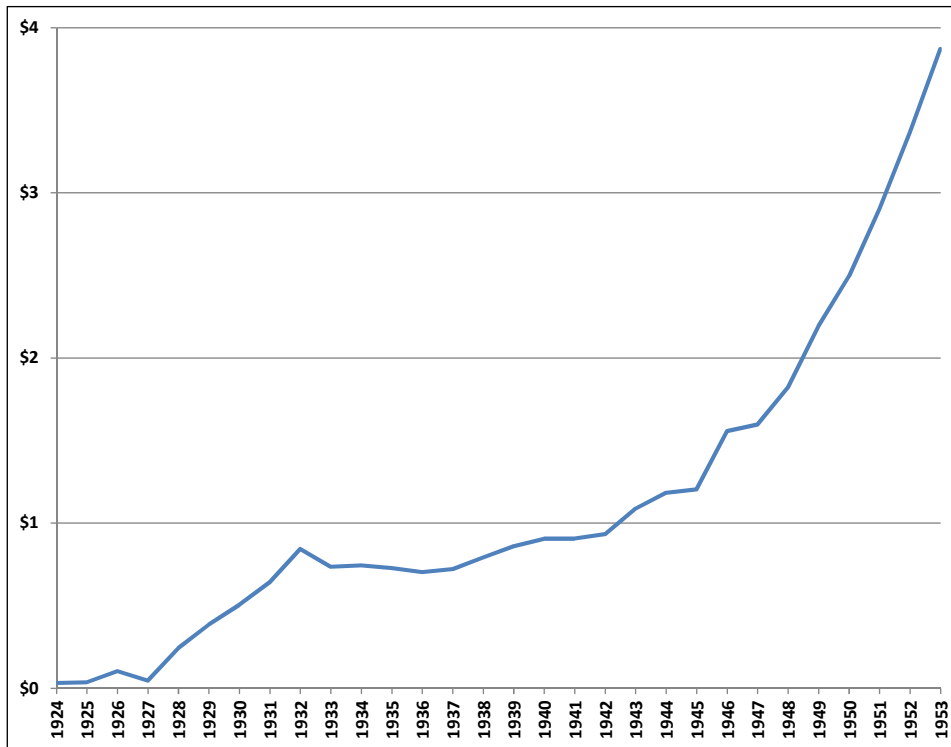
# PUF Investment Returns (\$ in millions)







# PUF Investment Returns (\$ in millions)

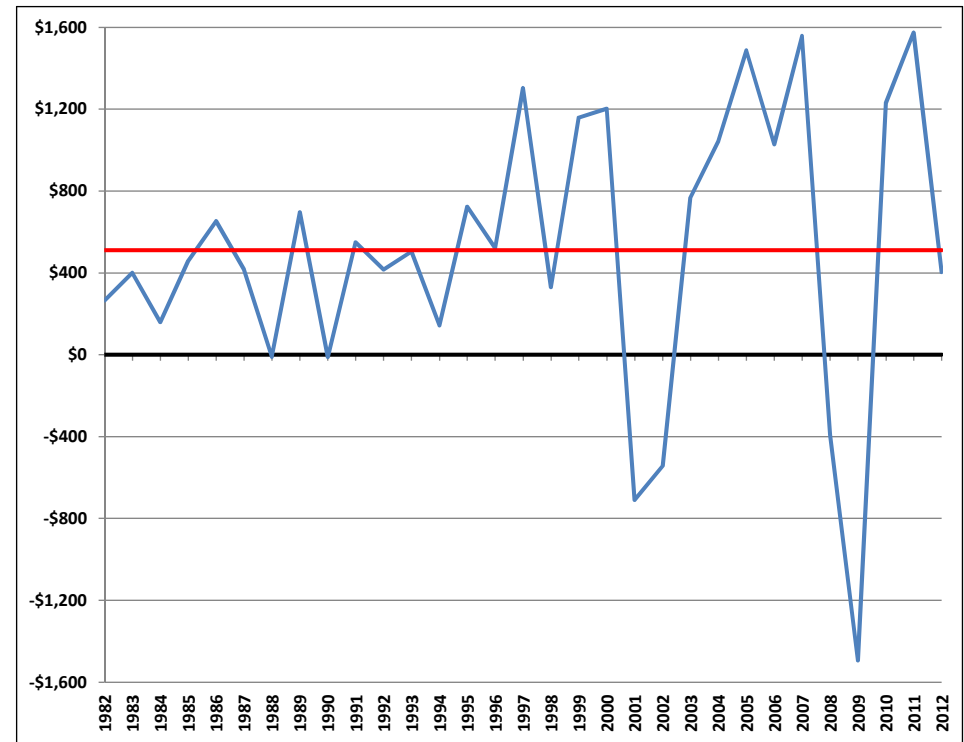
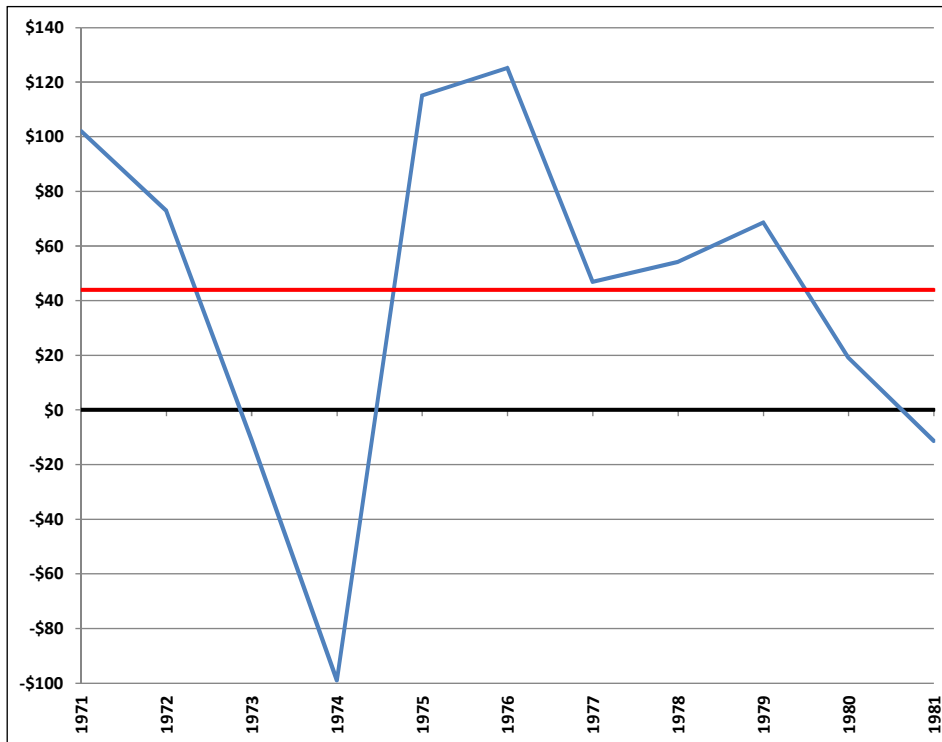


- Investment returns were negligible until the late 1950's

- From 1954 until 1970, investment returns varied from +\$50 million to (\$40) million, averaging \$8 million per year



# PUF Investment Returns (\$ in millions)

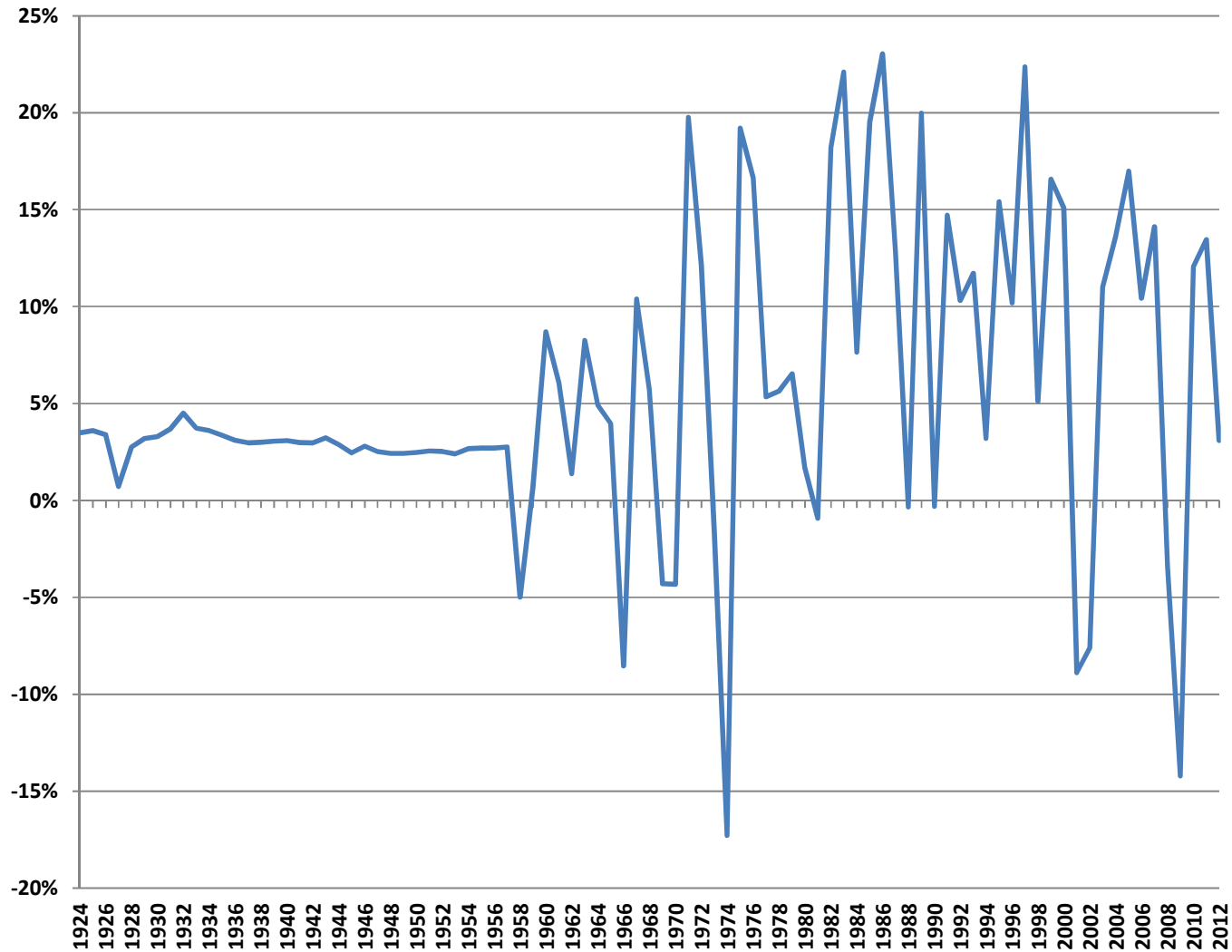


- From 1971 to 1981, investment returns varied from +\$125 million to (\$100) million, averaging \$44 million per year

- Since 1982, investments have varied from \$1.5 billion to (\$1.5) billion, averaging \$510 million per year

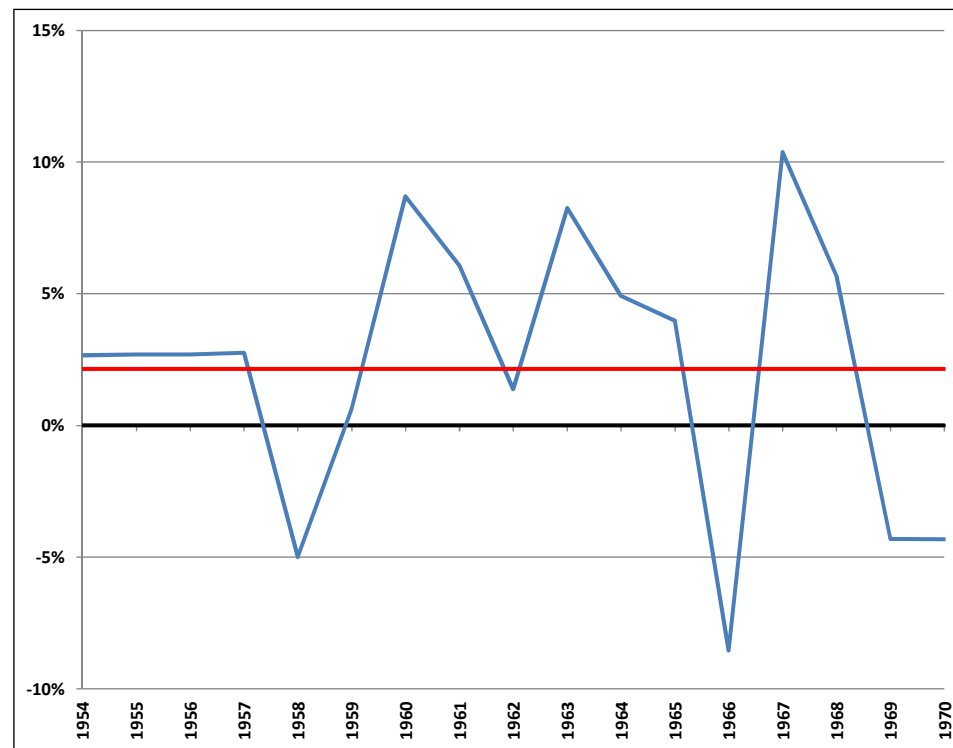
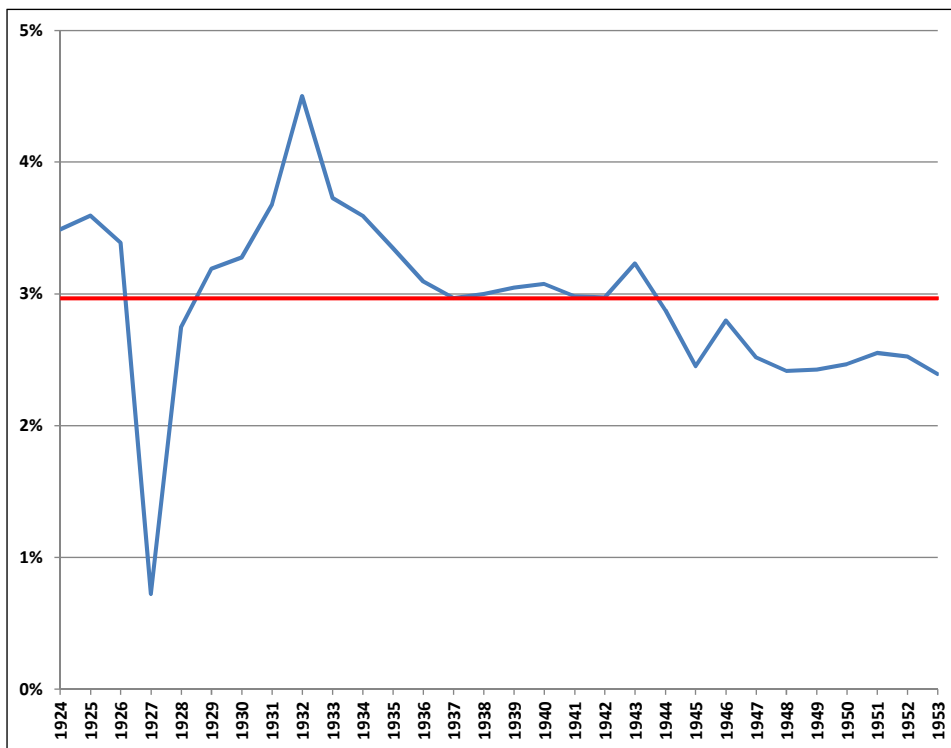


# PUF Investment Returns as % of PUF Average Assets





# PUF Investment Returns as % of PUF Average Assets

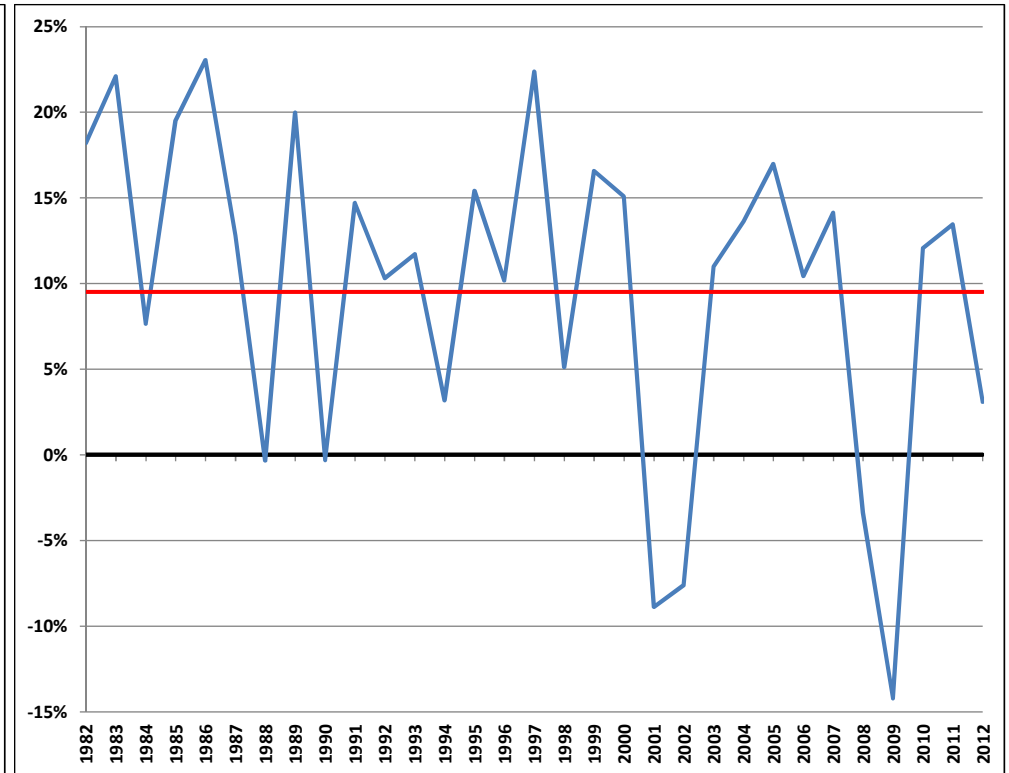
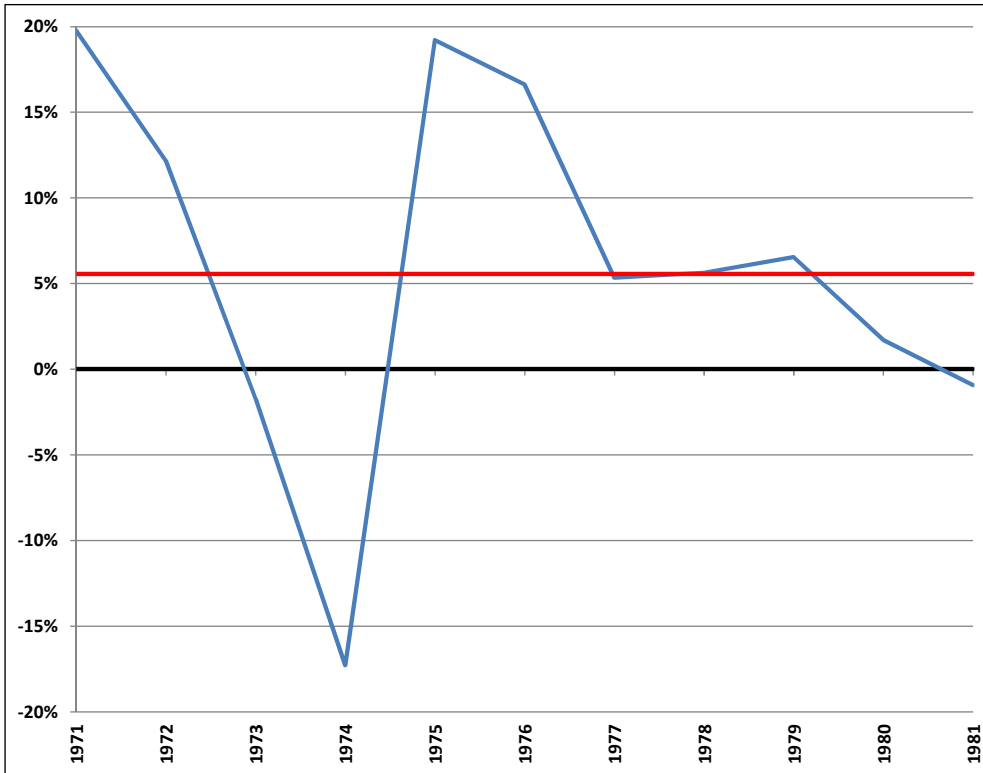


- From 1924 through 1953, investment returns varied slightly from 0.7 to 4.5%, averaging 3.0% per year

- On a percentage basis, from 1954 through 1970, investment returns were more volatile, ranging from (8.6%) to 10.4%, averaging 2.1% per year



# PUF Investment Returns as % of PUF Average Assets



- From 1971 through 1981, investment returns varied from (17.3%) to 19.8%, averaging 5.6% per year

- On a percentage basis, from 1982 through 2012, investment returns were more volatile, ranging from (14.2%) to 23.0%, averaging 9.5% per year



# Recent Investment Returns and 2014 Policy Distribution

More recent investment returns have varied from 3.3% to 9.1%

<b>Periods Ending February 28, 2013</b>				
<b>One Year</b>	<b>Three Years</b>	<b>Five Years</b>	<b>Seven Years</b>	<b>Ten Years</b>
8.4%	9.1%	3.3%	5.3%	9.1%

- For the three years ending February 28, 2013, average annual actual investment returns of 9.1% exceeded the projected investment return of 7.4% by more than .25% per year
  - Therefore, the 2014 PUF distribution rate, according to the Distribution Policy, is 5%
- The trailing three-year average PUF assets are \$12.534 billion
  - Therefore, according to Policy, the 2014 PUF distribution should be \$627 million



# PUF Distribution History

	<u>FY 10</u>	<u>FY 11</u>	<u>FY 12</u>	<u>FY 13</u>	<u>FY14</u>
<b><u>Actual Distribution</u></b>					
<b>\$ in millions</b>	\$516	\$506	\$576	\$644	<b>TBD</b>
<b>%</b>	4.75%	4.75%	5.50%	5.69%	<b>TBD</b>
<b><u>Policy</u></b>					
<b>\$ in millions</b>	\$516	\$506	\$497	\$566	\$627
<b>%</b>	4.75%	4.75%	4.75%	5.00%	5.00%
<b><u>Three Year Average Net Assets</u></b>					
<b>\$ in billions</b>	\$ 10.872	\$ 10.661	\$ 10.464	\$ 11.316	\$ 12.534



# “Flexing” the Distribution Rate Based on Shorter Term Investment Returns

- The Regents amended the Distribution Policy to increase distributions if actual investment returns exceeded projected investment returns by .25% or more over the recent three-year period
- The Regents did not direct distributions to be reduced if actual investment returns were less than projected over the recent three-year time period
- The Regents may wish to make the “shorter term” dynamic symmetric

Projected Investment Returns are in the Investment Policy Statement, Exhibit A



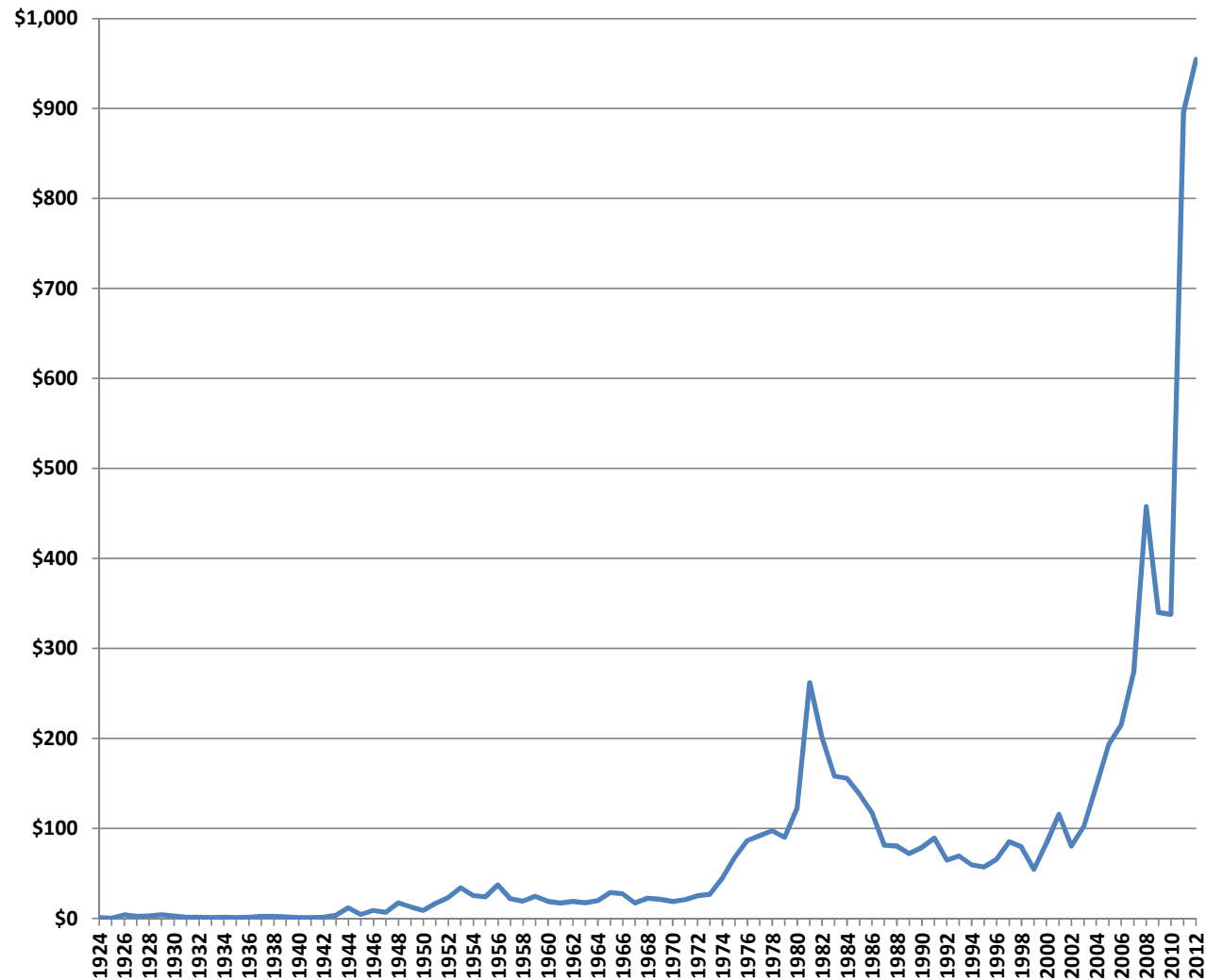


# West Texas Mineral Revenues (“WTMR”): Source of Contributions to the PUF

- Recently increased distributions have been linked to increased WTMR
- WTMR were established constitutionally as a source of contributions to the PUF
  - WTMR were not established as a “parallel” fund
  - West Texas surface revenues, however, were established to be a “parallel” fund, as surface revenues are directly distributed for current expenditures
- A constitutional amendment would be required to change the status of the WTMR from a “contributor” to the PUF to a “parallel” fund
- Generally, endowment distribution percentages have no connection to contribution levels

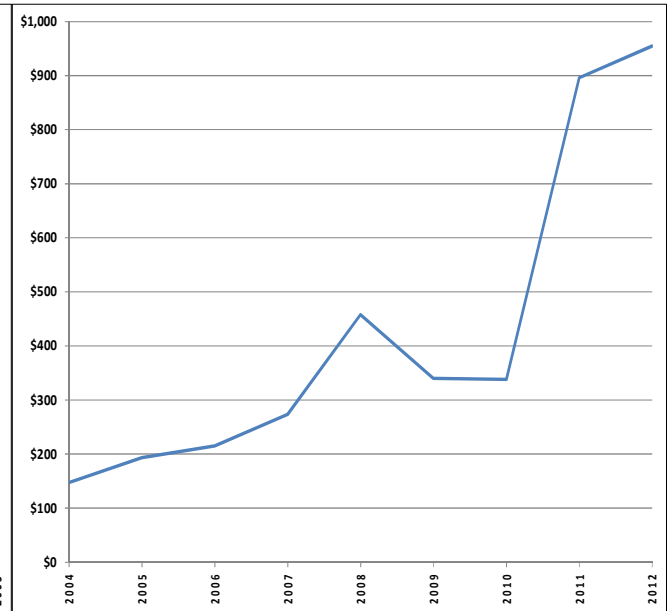
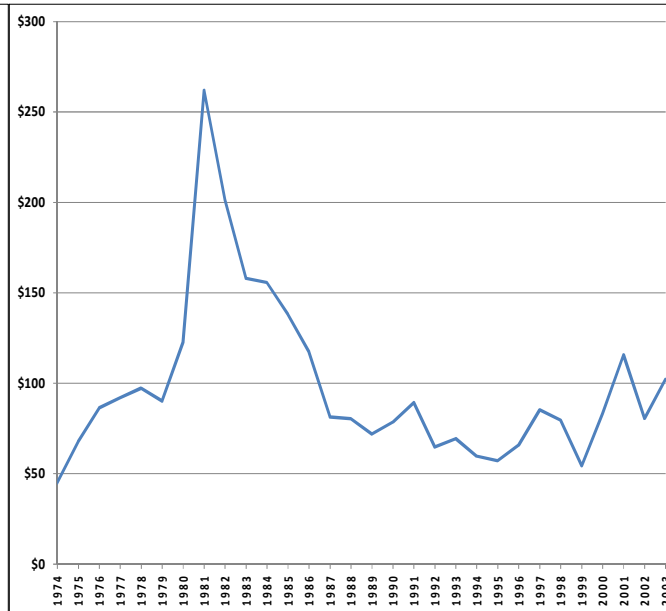
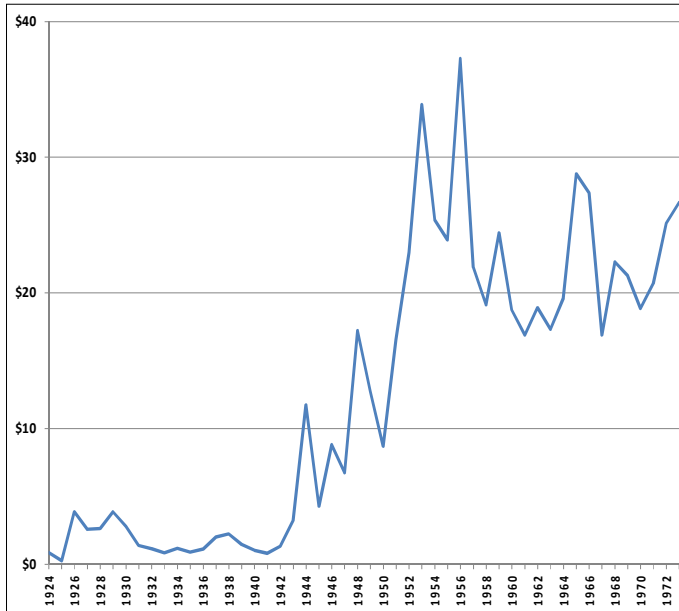


# West Texas Mineral Revenues (\$ in millions)





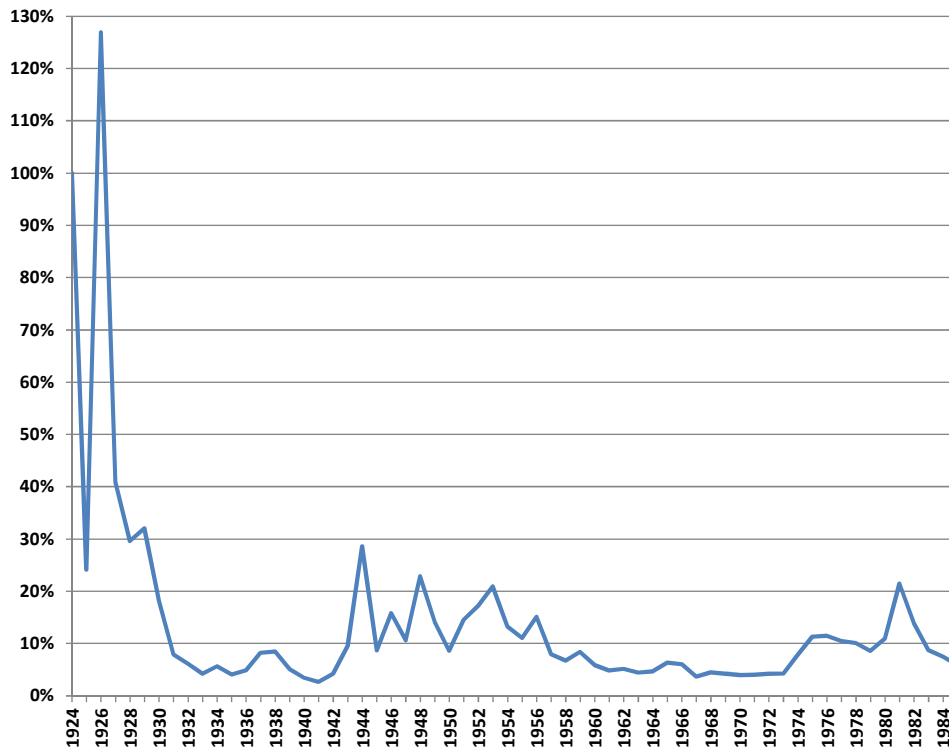
# West Texas Mineral Revenues (\$ in millions)



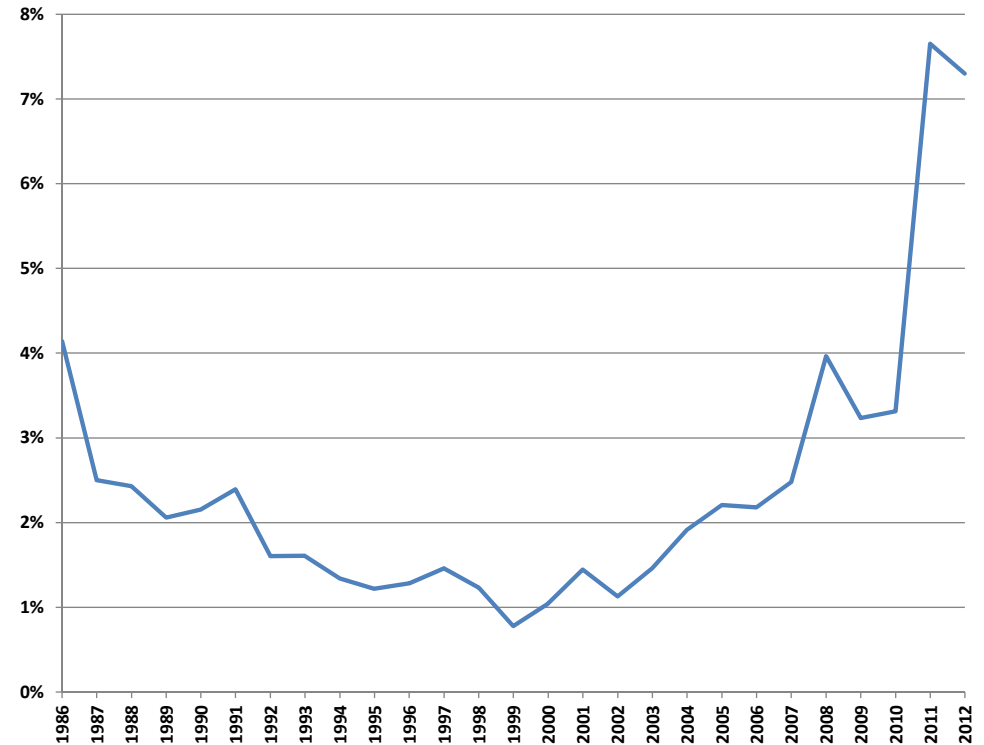
- Annual revenues, beginning in 1924, remained below \$40 million until 1973
- In 1974, revenues rose to a high of \$262 million in 1981, and then stayed between \$50-110 million from 1987 through 2003
- Revenues rose annually again beginning in 2004 to \$950 million in 2012



# West Texas Mineral Revenues as % of PUF Average Net Assets



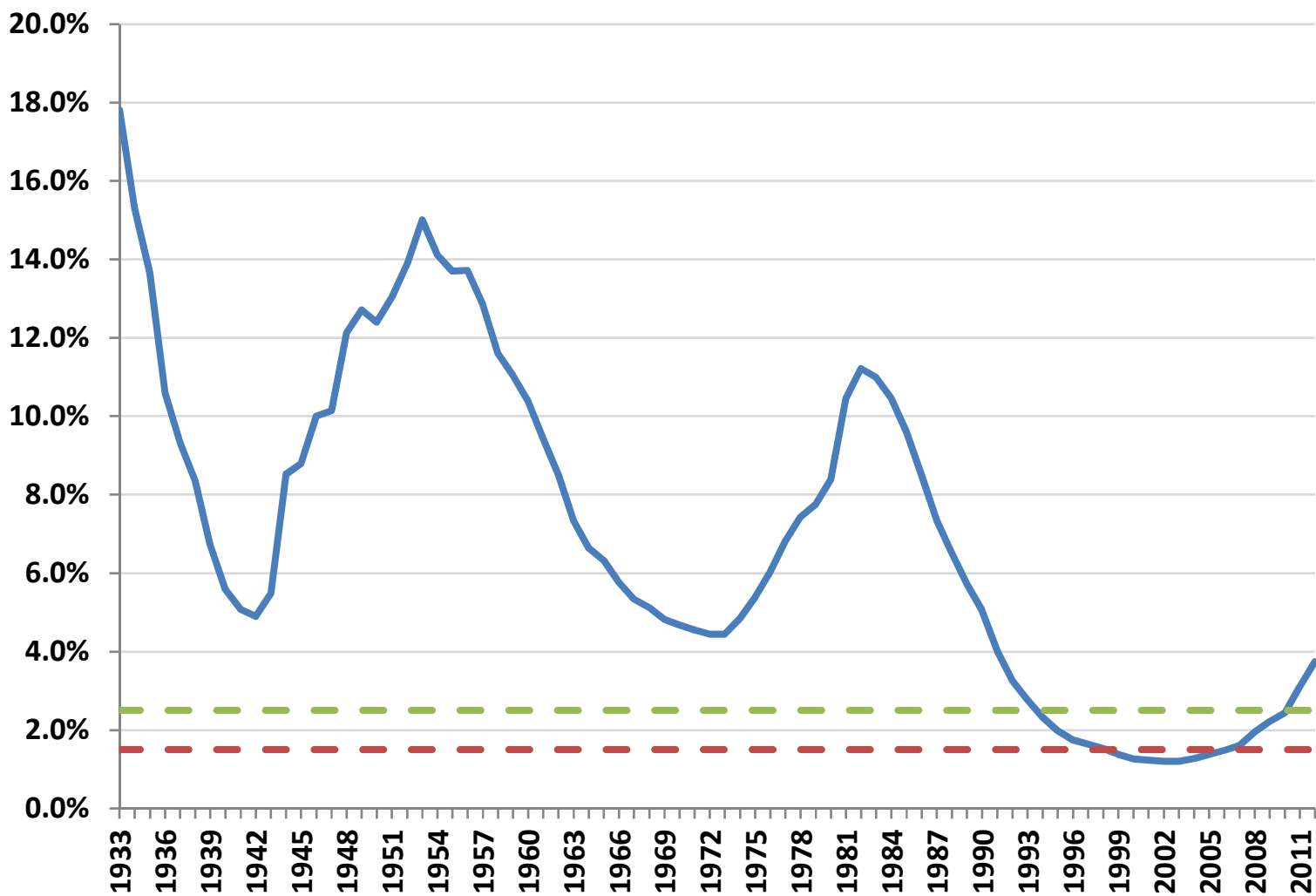
- As a percent of the Fund, varied from 5% to 30% from 1928-1985



- From 1986 – 2010, WTMR varied from a low of 0.8% to a high of 4.1%
- In 2011, WTMR were 7.7% and in 2012 they were 7.3%

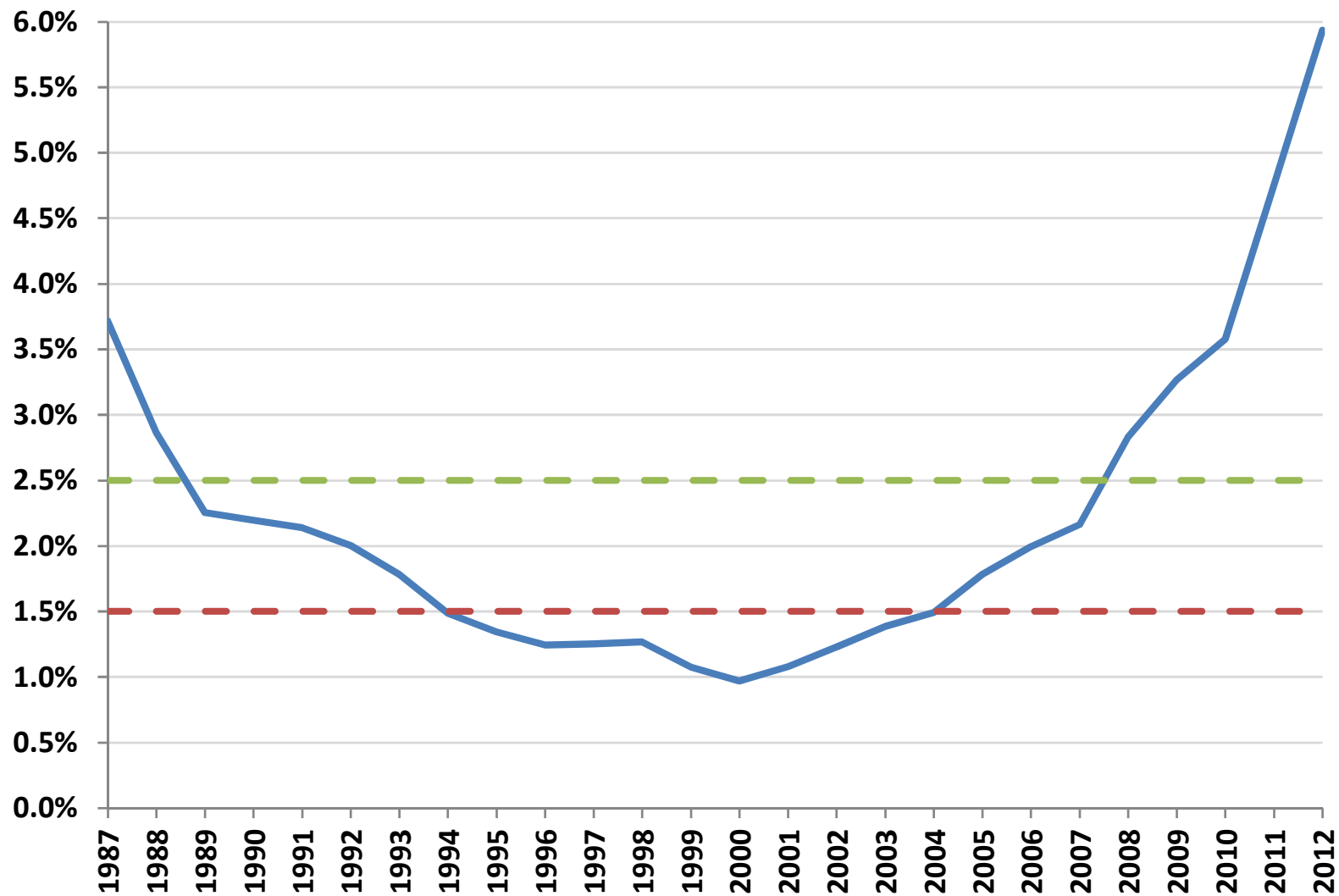


# Rolling Ten-Year WTMR as a % of PUF Assets (1933 -2012)





# Rolling Three-Year WTMR as a % of PUF Assets (1987 -2012)





# Potential “Flex” Distribution Rates Based on Three-Year Investment Returns

If the Regents were to amend the Distribution Policy to symmetrically take into consideration shorter term investment returns and WTMR, the grid below is one option:

WTMR as a % of PUF Asset	>2.5%	4.75%	5.00%	5.25%
	1.5% - 2.5%	4.50%	4.75%	5.00%
	<1.5%	4.75%	4.50%	4.75%
		<4.5%	4.5% - 5.0%	>5.0%
		Three Year		



# Appendix I

## Current Distribution Rate Methodologies Rationale and Limitations





# Current Distribution Rates and Methodologies

	PUF	LTF	PHF	ITF
<b>Current Methodology</b>	Percent of Assets	Constant Growth	Constant Growth	Percent of Assets
<b>Current Distribution Rate</b>	4.75% *	\$.3283/Unit Effective Rate = 4.95%	\$.0561/Unit Effective Rate = 4.70%	3.00%
<b>Asset Base Rate Applied To</b>	Trailing twelve quarters ending February current fiscal year	Trailing twelve quarters ending November current fiscal year	Trailing twelve quarters ending November current fiscal year	Ending Balance
<b>Role of Inflation</b>	-	Unit Rate increased by trailing twelve quarter inflation rate	Unit Rate increased by trailing twelve quarter inflation rate	-
<b>Potential Distribution Rate Increase</b>	If Investment Returns exceed Expected Return by .25% or more over trailing twelve quarters, Distribution Rate will increase to 5%	-	-	-

\* An additional distribution of .75% was authorized by the Board of Regents for Fiscal Year 2012, with a distribution of 5.50% totaling \$575 million. FY2013's distribution was 5.70% and totaled \$644 million



# Rationale for Distribution Methodologies

## PUF

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

## LTF

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

## PHF

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



# Distribution Rate Limitations

## PUF

### Per State Constitution

- Distribution must cover debt service
  - Debt Obligations Limited to 30% (20% UT System/10% A&M System) of Book Value of PUF Investments (\$12.021 Billion as of 2/28/2013)
- Distribution may not exceed 7% of Assets<sup>(1)</sup>
- Must Maintain Purchasing Power in order for distributed dollars to increase  
Formula (Rolling Ten Years):
  - +Investment Returns
  - +Mineral Interests
  - Expenses
  - Inflation
  - Distribution> 0

(1) Applied to trailing twelve quarters per Regents Policy

## LTF

### Per Regents Policy

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

### UPMIFA

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

## PHF

### Per Regents Policy

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

### UPMIFA

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



# Purchasing Power Parity

- The linkage between Investment Returns, WTMR and Distributions is captured by the Purchasing Power Parity requirement

Net Investment Return	9.07%
Mineral Receipts	3.83%
Inflation	(2.40%)
Distribution Rate	<u>(4.56%)</u>
Net Real Return	<u>5.94%</u>



# PUF Net Asset Value vs. Book Value

- PUF Debt Capacity is calculated on Book Value

PUF Net Asset Value at Market Value	\$14.2
PUF Net Asset Value at Cost	<u>\$12.0</u>
Unrealized Gain	\$2.2



# PUF Investment Policy Exhibit A

EXHIBIT A  
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES  
EFFECTIVE SEPTEMBER 1, 2012

POLICY PORTFOLIO	FYE 2013		
	Min	Target	Max
<u>Asset Classes</u>			
Investment Grade Fixed Income	5.0%	9.5%	25.0%
Credit-Related Fixed Income	0.0%	5.5%	30.0%
Real Estate	0.0%	6.5%	12.5%
Natural Resources	5.0%	13.5%	25.0%
Developed Country Equity	30.0%	45.0%	60.0%
Emerging Markets Equity	5.0%	20.0%	25.0%
<u>Investment Types</u>			
More Correlated & Constrained	35.0%	44.5%	60.0%
Less Correlated & Constrained	25.0%	30.0%	37.5%
Private Investments	17.5%	25.5%	32.5%

\*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.

POLICY BENCHMARK (reset monthly)	FYE 2013
Barclays Capital Global Aggregate Index	7.5%
FTSE EPRA/NAREIT Developed Index Net TRI USD	2.5%
50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index	7.5%
MSCI World Index with net dividends	15.0%
MSCI Emerging Markets with net dividends	12.0%
Hedge Fund Research Indices Fund of Funds Composite Index	30.0%
Venture Economics Custom Index	21.5%
NACREIF Custom Index	4.0%

POLICY/TARGET RETURN/RISKS	FYE 2013
Expected Annual Return (Benchmarks)**	7.36%
One Year Downside Deviation	9.45%
<u>Risk Bounds</u>	
Lower: 1 Year Downside Deviation	75%
Upper: 1 Year Downside Deviation	115%

\*\*Equal to nominal return, net of all investment-related expenses and assuming an inflation rate of 2.5%.

**Agenda Item**  
UTIMCO Board of Directors Meeting  
April 16, 2013

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

**Developed By:** Turner

**Presented By:** Turner

**Type of Item:** Information item

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

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

**Recommendation:** None

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

# Educational Program for UTIMCO Directors

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THE UNIVERSITY OF TEXAS  
INVESTMENT MANAGEMENT COMPANY

April 16, 2013



## Director Training Required

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

Master Investment Management  
Services Agreement (IMSA)

## An “Effective Board”

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

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

# Fiduciary Obligations of Nonprofit Directors

- Directors of for-profit vs. nonprofit corporations have differing stakeholder focus for their fiduciary obligations

- Directors of for-profits have a primary fiduciary duty to owners

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

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

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

# Understanding Investment Objectives is Key

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

## Understanding Mission is Key

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

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

Current Mission Statement

# Overview of Standards of Conduct for UTIMCO Directors

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

# General Standard under Texas Corporate Law

Section 22.221, Texas Business Organizations Code, provides

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

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

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

# Standards under UT Board of Regents' Investment Policies

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



## Standards under Texas UPMIFA

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

§163.004(b), Texas UPMIFA

# Standards under UTIMCO Code of Ethics

## General Standards

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

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

## UTIMCO Prohibited Transactions

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

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

## Director Prohibited Transactions

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

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

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

### Restriction on Investments in Publicly Traded Securities

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

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

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

## Conflicts of Interest

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

# Overview of Fiduciary Duties

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

## Overview of Fiduciary Duties (cont'd)

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

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



# Fiduciary Duty of Care

- Duty of Care
  - Directors should discharge their duties with such care as ordinarily prudent person under similar circumstances
    - Directors should keep themselves informed about the affairs of the corporation and seek out and use reasonably available information when making decisions
    - Directors may, in **good faith** and with **ordinary care**, rely on reports of other persons as to matters the director reasonably believes are within the person's professional or expert competence
    - Directors should prepare for and participate in board and committee meetings
- *Business Judgment Rule* is a defense to accusations of breach of the **Duty of Care** (*Gearhart*)
  - Under the *Business Judgment Rule*, a court will defer to the judgment of a director, if that director acts on an informed basis, in **good faith**, with the care of an ordinary prudent person in a like position, and in a manner believed to be in the best interests of the corporation

## Fiduciary Duty of Care

- Case law indicates that *Business Judgment Rule* protects all but fraudulent or *ultra vires* conduct; however, some cases in banking context indicate that gross negligence not protected

# Fiduciary Duty of Loyalty

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

# Fiduciary Duty of Obedience

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

# Specific Duty to Determine Reasonable Compensation

## Executive Compensation

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

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