

**UTIMCO BOARD OF DIRECTORS
MEETING AGENDA
February 20, 2014**

401 Congress Avenue
Austin, Texas 78701

Time	Item #	Agenda Item
Begin 9:30 a.m.	End 9:35 a.m.	1 Convene in Open Session Call to Order/Discussion and Appropriate Action Related to Minutes of December 3, 2013 Meeting*
9:35 a.m.	9:40 a.m.	2 Discussion and Appropriate Action Related to Corporate Resolutions: - Designation of Annual Meeting of the UTIMCO Board*
9:40 a.m.	10:30 a.m.	3 Endowment and Operating Funds Update Report
10:30 a.m.	11:30 a.m.	4 Investment Strategy Discussion
11:30 a.m.	11:40 a.m.	5 Report on and Discussion and Appropriate Action Related to Items from Audit and Ethics Committee: - Audit of UTIMCO Financial Statements* - Proposed Amendments to the Charter of the Audit and Ethics Committee*
11:40 a.m.	11:50 a.m.	6 Report on and Discussion and Appropriate Action Related to Items from Policy Committee: - Proposed Amendments to the Exhibits of the Investment Policy Statements*,** - Proposed Amendments to the Charter of the Policy Committee*
11:50 a.m.	12:00 p.m.	7 Report on and Discussion and Appropriate Action Related to Items from Compensation Committee: - Proposed Amendments to the UTIMCO Compensation Program*,** - Proposed Amendments to the Charter of the Compensation Committee*
12:00 p.m.	12:10 p.m.	8 Report on and Discussion and Appropriate Action Related to Items from the Risk Committee: - Proposed Amendments to the Charter of the Risk Committee*
12:10 p.m.	12:20 p.m.	9 UTIMCO Organization Update
12:20 p.m.	12:30 p.m.	Recess for Briefing Session pursuant to Texas Education Code Section 66.08 (h)(2) related to Investments
12:30 p.m.		Adjourn

* Action by resolution required

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

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

Next Scheduled Meeting: April 17, 2014 (Annual Meeting)
--

RESOLUTION RELATED TO MINUTES

RESOLVED, that the minutes of the meeting of the Board of Directors held on **December 3, 2013**, be, and are hereby, approved.

**MINUTES OF 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 **December 3, 2013**, at the offices of the Corporation, Suite 2800, 401 Congress Avenue, Austin, Texas, said meeting having been called by the Chairman, Morris 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:

Morris Foster, Chairman
Ardon E. Moore, Vice Chairman
Francisco G. Cigarroa, Vice Chairman for Policy
Kyle Bass
R. Steven Hicks
Jeffery D. Hildebrand
Bobby Stillwell
Charles W. Tate
James P. Wilson

Chairman Foster called the meeting to order at 9:10 a.m. Accordingly, a majority and quorum of the Board was in attendance. Chancellor Cigarroa, Vice Chairman for Policy, joined later in the meeting, as noted in the minutes, by conference telephone enabling all persons participating in the meeting to hear each other. 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; Ryan Ruebsahm, Managing Director – Marketable Alternatives Investments; Mark Shoberg, Managing Director - Real Estate Investments; Mark Warner, Managing Director – Natural Resources; Uzi Yoeli, Senior Director - Portfolio Risk Management; Uche Abalogu, Chief Technology Officer; Jon Ellison – Investment Counsel; 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, Terry Hull, Mike Peppers, Jim Phillips, Guillermo Garcia and Roger Starkey of The University of Texas System ("UT System") Administration; and Tom Wagner and Robert Cowley of Deloitte and Touche LLP. Copies of materials supporting the Board meeting agenda were previously furnished to each Director.

Minutes

The first item to come before the Board was approval of the minutes of the Board of Directors Meeting held on November 4, 2013. 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 4, 2013, be, and are hereby, approved.

Corporate Resolutions

Chairman Foster introduced the new Board members, Jeffery Hildebrand and Bobby Stillwell. Chancellor Cigarroa joined the meeting at this time. Mr. Zimmerman introduced new employees of the Corporation. Chairman Foster proposed new Board committee assignments as a new director had been appointed since the last committee assignments were made. The UT System Board of Regents appointed Robert L. (Bobby) Stillwell to the Board, as a UT System Regent member, on November 14, 2013. Upon motion duly made and seconded, the following resolution was unanimously adopted:

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

James P. Wilson
R. Steven Hicks
Robert L. Stillwell
Charles W. Tate

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

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

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

Charles W. Tate
Kyle Bass
Jeffery D. Hildebrand
Ardon E. Moore

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

FURTHER RESOLVED, that Charles W. Tate is hereby designated the Chair of the Risk Committee and shall preside at its meetings.

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

Robert L. Stillwell
R. Steven Hicks
Jeffery D. Hildebrand
James P. Wilson

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

FURTHER RESOLVED, that Robert L. Stillwell is hereby designated the Chair of the Policy Committee and shall preside at its meetings.

Chairman Foster recommended approval of Mr. Zimmerman's request to the Board that Ryan Ruebsahm and Susan Chen be appointed as officers of the Corporation. Managing Directors are considered officers of the Corporation and they were both promoted to Managing Director as of September 1, 2013. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that Ryan Ruebsahm and Susan Chen are hereby appointed to the office of Managing Director of the Corporation to serve until the next Annual Meeting of the Corporation or until his or her resignation or removal.

Investment Objectives

Chairman Foster asked Mr. Zimmerman to lead the discussion regarding Investment Objectives. Mr. Zimmerman provided a presentation *Investment Objectives* to the Board. Mr. Zimmerman presented three risk/return objectives and then provided background for each one. The first section, "Distributions + Inflation", provided PUF variables, PUF distribution policy with actual percentage and actual dollars, purchasing power parity, projected returns and risk, projected PUF distributions and PUF returns. The second section, "Staff Value Add", provided value add history, actual versus policy risk downside, portfolio information ratio, and tactical allocation. The third investment objective presented was "Peers". Mr. Zimmerman provided information on peer ranking, peer asset allocation and alternative asset allocations and return and distribution expectations. Mr. Zimmerman, Ms. Iberg, Mr. Warner, Mr. Ruebsahm answered the Director's questions. Mr. Zimmerman also provided to the Board a copy of Cambridge Associates LLC 2013 *The Endowment Model 2.0: A Success Story That Endures A Practitioner's Perspective* for their review.

Investment Initiatives

Chairman Foster asked Mr. Zimmerman to provide information on Investment Initiatives. Mr. Zimmerman explained the Corporation's 2014 Strategic Focus, dividing it into two sections, Platform and Portfolio. The platform will be discussed later in the meeting. He asked each of the managing directors to give an overview of their various portfolio investment initiatives.

At approximately 11:15 a.m. the Board recessed for a briefing session, followed by lunch.

The meeting of the Board reconvened in open session at approximately 1:04 p.m.

Executive Session

Chairman Foster announced, at 1:05 p.m., that, "The Board of Directors of The University of Texas Investment Management Company having been duly convened in Open Session and notice of this meeting having been duly given, I hereby announce the convening of a closed meeting as an Executive Session for the purpose of deliberating individual personnel compensation and evaluation matters, including Report of Compensation Committee regarding performance incentive awards for UTIMCO Compensation Program

participants for the performance period ended August 31, 2013, pursuant to Section 551.074 Texas Government Code; and to consult with Counsel regarding legal matters or pending and/or contemplated litigation or settlement offers pursuant to Section 551.071, Texas Government Code. The date is December 3, 2013, and the time is now 1:05 p.m.” With the exception of Mr. Zimmerman, Mr. Turner and Ms. Gonzalez, all attendees left the meeting. Ms. Gonzalez left the meeting during discussion regarding compensation matters. Mr. Zimmerman did not participate during discussion regarding his own compensation matters. Chancellor Cigarroa left the meeting at this time.

Open Session

The Board reconvened in open session and Chairman Foster announced that “The Open Session of the Board of Directors of The University of Texas Investment Management Company is now reconvened. The date is December 3, 2013, and the time is now 1:58 p.m. During the Executive Session, the Board deliberated individual personnel compensation and evaluation matters and consulted with Counsel regarding legal matters or pending and/or contemplated litigation or settlement offers but no action was taken nor decisions made, and no vote was called for or had by the Board in Executive Session.”

Risk Committee Report

Chairman Foster asked Mr. Tate to provide a report from the Risk Committee. Mr. Tate reported that the Committee met on November 18, 2013. He stated that the Risk Committee approved 15 new investment mandate categorizations prepared by Staff for the period beginning June 22, 2013, and ending November 1, 2013 and reviewed the watch list. The Committee also heard a report regarding structured notes, and in particular, whether a particular instrument should be treated as a “structured note”, hence excluded from the definition of Derivative Investments as provided in the Derivative Policy Statement. Staff determined and the Committee agreed that Participation notes (“P-notes”) should be included within the definition of structured notes; therefore, excluded from the definition of Derivative Investments in the Derivative Investment Policy. In addition to the categorization of new mandates and review of existing mandates, Staff performed an in-depth review of mandates with multiple Investment Type criteria with the objective of determining the integrity of their Investment Type categorizations. Staff reviewed the Mandate Categorization Update presentation with the Committee. The Committee also heard a report from Ms. Gonzalez on compliance items for the quarter ending August 31, 2013.

Audit and Ethics Committee Report

Chairman Foster asked Mr. Wilson to provide a report on behalf of the Audit and Ethics Committee. Mr. Wilson reported that the Committee met on October 28, 2013 and December 2, 2013. At the October 28th meeting, the Committee approved and with the CEO jointly recommended to the Compensation Committee, subject to approval by the UTIMCO Board, the Base Salary, Performance Goals, Performance Incentive Plan Participation, Weightings and Incentive Award Opportunities, and Performance Goals for the General Counsel and Chief Compliance Officer for the 2013-2014 Performance Period. At the December 2nd meeting, the Committee heard a report from Mr. Wagner and Mr. Cowley from Deloitte & Touche LLP, and approved the Financial Statement Audit Results and Communications on the Investment Funds Under the Fiduciary Responsibility of The University of Texas System Board of Regents for the year ended August 31, 2013. The Committee also approved the separate annual financial statements and audit reports for the

Permanent University Fund, the UT System General Endowment Fund, the Permanent Health Fund, the UT System Long Term Fund, and the UT System Intermediate Term Fund, each for the fiscal years ended August 31, 2013 and August 31, 2012, and the Statement of Investment Performance Statistics for the year ended August 31, 2013. The Committee approved a recommendation, jointly with the CEO, to the Compensation Committee, subject to approval by the UTIMCO Board, of the Performance Incentive Award for the General Counsel and Chief Compliance Officer for the 2012-2013 Performance Period. The Committee heard a report from the UT System Audit office and a quarterly compliance report from Ms. Gonzalez. Mr. Wilson asked Mr. Wagner to give a brief report of the audit results for the year. Mr. Wagner provided a summary of the Audit Results and Communications to the Board. The accounting staff was recognized for excellent work and cooperation with the audit team. Mr. Wagner, Mr. Cowley and Mr. Zimmerman answered the Directors' questions. Upon motion duly made and adopted, the following resolution was approved unanimously:

RESOLVED, that Deloitte & Touche LLP's Financial Statement Audit Results and Communications on the Investment Funds Under Fiduciary Responsibility of The University of Texas System Board of Regents for the year ended August 31, 2013, be, and is hereby approved in the form as presented to the Board; and

FURTHER RESOLVED, that the separate annual financial statements and audit reports for the Permanent University Fund, the Permanent Health Fund, The University of Texas System Long Term Fund, The University of Texas System General Endowment Fund, and The University of Texas System Intermediate Term Fund each for the fiscal years ended August 31, 2013, and August 31, 2012, and the Statement of Investment Performance Statistics for the year ended August 31, 2013, be, and are hereby approved in the form as presented to the Board.

Compensation Committee Report

Chairman Foster asked Mr. Bass to report on behalf of the Compensation Committee. Mr. Bass reported that the Compensation Committee had met on November 18, 2013 and on December 3, 2013, prior to the Board meeting. He reported that there were three action items from the Compensation Committee requiring Board approval. On behalf of the Committee, Mr. Bass recommended the Performance Incentive Awards for UTIMCO Compensation Program Participants for the Performance Period ended August 31, 2013. Upon motion duly made and seconded, the following resolution was unanimously adopted:

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

WHEREAS, the Compensation Committee has reviewed and approved the actual performance of the CEO during the 2012/2013 Performance Period and has submitted its recommendation to the Board for approval; and

WHEREAS, the Board has reviewed the actual performance of the CEO during the 2012/2013 Performance Period and has compared such actual performance

relative to each Performance Goal category for the CEO against his corresponding Performance Goal for such Performance Period.

NOW, THEREFORE, be it:

RESOLVED, that the Board approves the CEO's Performance Incentive Award for the 2012/2013 Performance Period in the amount of \$1,270,660 and be it

FURTHER RESOLVED, that of the CEO's \$1,270,660 Performance Incentive Award for the 2012/2013 Performance Period, 50% (\$635,330) will be deferred pursuant to the Plan.

And also recommended by the Committee, upon motion duly made and seconded, the following resolution was unanimously adopted:

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

WHEREAS, in accordance with Section 5.5.(d) of the Plan, the Compensation Committee has determined the level of achievement by each Participant in the Plan during the 2012/2013 Performance Period of his or her Performance Incentive Goals for such Performance Period; and

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

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

WHEREAS, the Compensation Committee has reviewed the Performance Incentive Awards for all Participants who have met or exceeded their performance benchmarks for the 2012/2013 Performance Period, made changes it deemed appropriate, approved such Performance Incentive Awards, and recommended that the Board approve the same.

NOW, THEREFORE, be it:

RESOLVED, that the Board approves the Performance Incentive Awards for all Participants for the 2012/2013 Performance Period (excluding the CEO) in the total aggregate amount of \$6,131,399 and be it

FURTHER RESOLVED, that of the Performance Incentive Awards for the 2012/2013 Performance Period (excluding the CEO), 26% (\$1,587,585) will be deferred pursuant to the Plan.

The final resolution recommended by the Committee for Board approval was to add new employees as participants in the Corporation's Compensation Program. Upon motion duly made and seconded, the following resolution was unanimously adopted:

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 Spencer Swayze (Senior Associate – Investments) and Kyle Burhop (Analyst – Investments) becoming Participants for the 2013/2014 Performance Period; and

WHEREAS, the UTIMCO Board wishes to select Spencer Swayze (Senior Associate – Investments) and Kyle Burhop (Analyst – Investments) as Participants for the 2013/2014 Performance Period.

NOW, THEREFORE, be it:

RESOLVED, that, Spencer Swayze (Senior Associate – Investments) and Kyle Burhop (Analyst – Investments) be designated as "Participants" in the Plan for the 2013/2014 Performance Period, effective as of December 2, 2013 and January 2, 2014, respectively.

Emerging Markets Investments

Chairman Foster asked Mr. Zimmerman to discuss the Emerging Markets Investments. Mr. Zimmerman asked Mr. Warner and Mr. Ellison to explain the Foreign Corrupt Practices Act (FCPA) and the UK Bribery Act and describe possible sources of exposure. They explained current Corporation procedures including pre-commitment diligence, legal structuring and protections. Mr. Warner and Mr. Ellison will continue to take the lead in developing best practices with respect to due diligence, legal structuring and manager/partner practices and compliance. Mr. Bass left the meeting at this time.

Document Management Center Demonstration

Mr. Zimmerman asked Mr. Abalogu to provide information on the new document management system. Mr. Abalogu provided a real-time, on-line demonstration of some of the features of the new Corporation's Investment Support System's Document Management Center to the Board. Mr. Zimmerman and Mr. Abalogu answered the Directors' questions.

CEO Board Service

Chairman Foster asked Mr. Zimmerman to explain his request for recommendation of his service as a Board member of Anti-Defamation League of Austin (ADL). Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the Board of Directors hereby approves external board service for Mr. Bruce Zimmerman, CEO and Chief Investment Officer of the Corporation, as a board member of the Anti-Defamation League Austin; and be it

FURTHER RESOLVED, that all external board service will not give rise to conflicts of interest; and be it

FINALLY RESOLVED, that this external board service will meet all requirements of the Code of Ethics and the Master Investment Management Services Agreement for the Corporation applicable to external board service.

2014 Meeting Dates

The 2014 board and committee meeting dates were handed out to the Board. Chairman Foster stated that legislative changes had been made during the last session regarding the Open Meetings Act. He asked Mr. Turner to explain the new laws that became applicable to Board meetings held after June 14, 2013, the effective date of the legislation. Mr. Turner summarized the changes and said that he and Ms. Gonzalez will provide a refresher presentation to the Board at a future meeting regarding the Open Meetings Act. Mr. Turner and Ms. Gonzalez answered the Directors' questions.

Mr. Zimmerman gave a very brief funds update for the first two months of the quarter, giving a 1st day flash for November.

There being no further business to come before the Board, the meeting was adjourned at approximately 2:56 p.m.

Secretary: _____
Joan Moeller

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

Agenda Item
UTIMCO Board of Directors Meeting
February 20, 2014

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

Developed By: Staff

Presented By: Foster

Type of Item: Action required by UTIMCO Board

Description: Chairman Foster will designate the annual meeting of the Board of Directors of the Corporation. The annual meeting will be held on April 17, 2014.

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

Reference: None

RESOLUTION RELATED TO ANNUAL MEETING

RESOLVED, that the Annual Meeting of the Board of Directors will be held on April 17, 2014, in Austin, Texas.



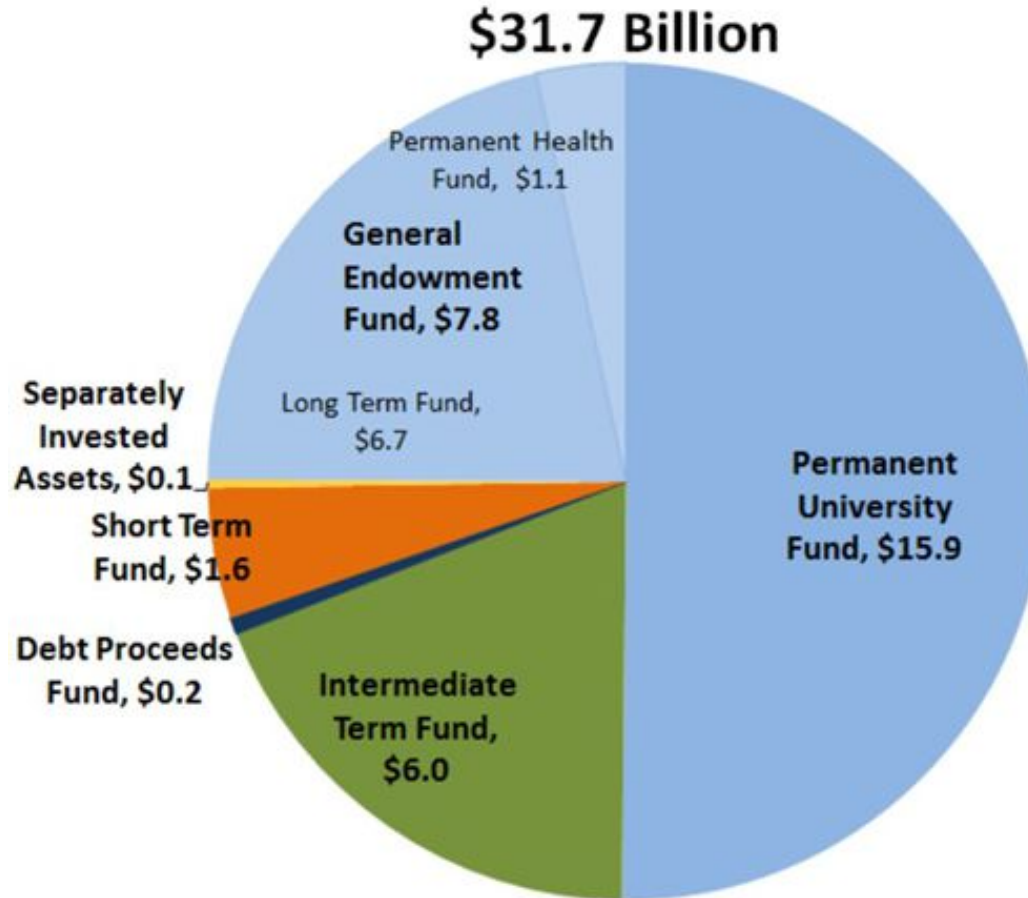
THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

UTIMCO Board of Directors Funds Update

February 20, 2014



UTIMCO Assets Under Management December 31, 2013





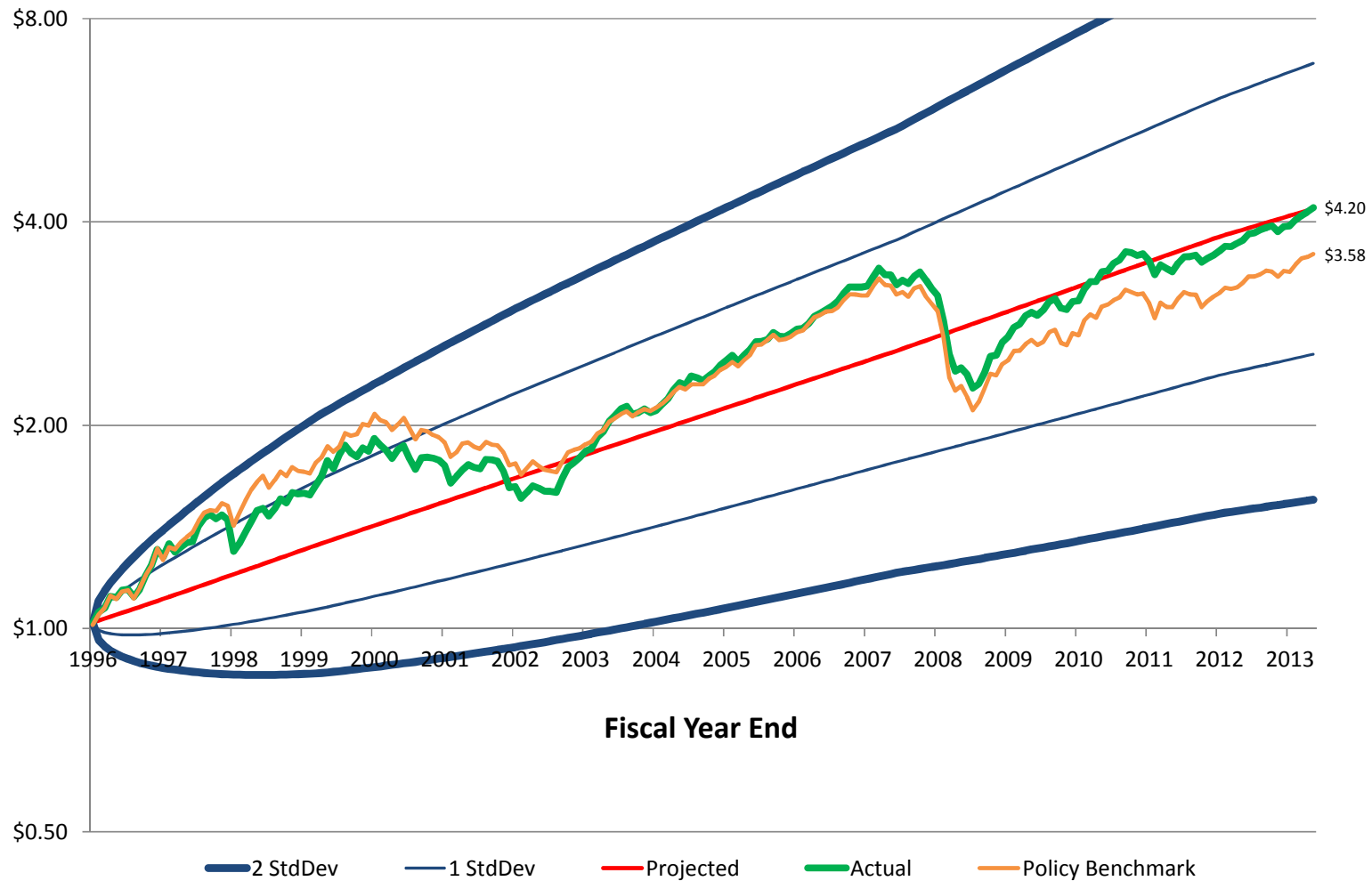
Returns

Periods Ending December 31, 2013

Fund	Fiscal YTD	Calendar YTD	Three Years	Since July 1, 2007
Permanent University Fund (PUF)	6.30%	11.48%	7.41%	4.17%
General Endowment Fund (GEF)	6.45%	11.76%	7.56%	4.26%
Intermediate Term Fund (ITF)	5.08%	7.14%	5.07%	4.13%



Returns vs Projections





Value Add Attribution

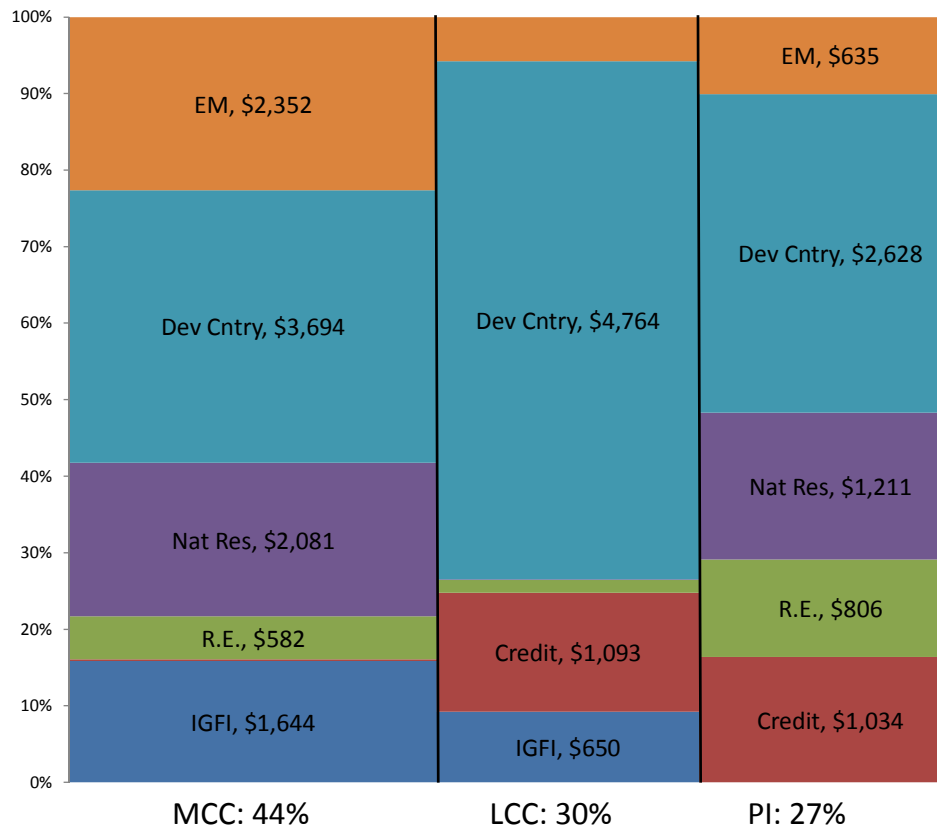
Periods Ending December 31, 2013

	Fiscal YTD	Calendar YTD	Three Years	Since March 1, 2008
Active Management				
MCC	0.12%	1.63%	1.02%	0.46%
LCC	0.68%	2.03%	1.63%	1.84%
Private Markets	0.04%	-0.75%	-0.28%	0.16%
Total Active Management	0.84%	2.91%	2.37%	2.46%
Tactical Allocation:				
Gold	-0.84%	-1.63%	-0.47%	0.15%
Other	0.14%	0.07%	-0.09%	-0.34%
Total Tactical Allocation	-0.70%	-1.56%	-0.56%	-0.19%
Insurance Hedges	-0.01%	0.04%	-0.41%	-0.20%
Total Value Add	0.13%	1.39%	1.40%	2.07%

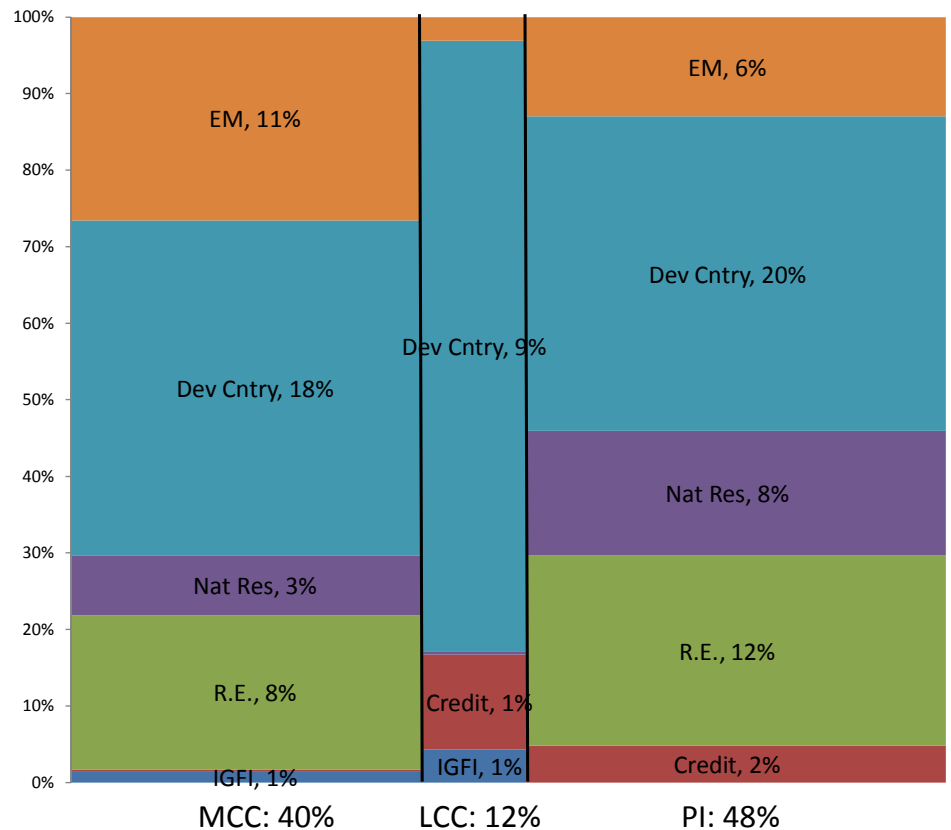


Exposures

Assets



Risk





Endowment Risk Summary

Downside Risk (trailing three years)	
Actual	% of Policy
9.67%	100.6%

Liquidity		
Three months	One Year	Unfunded Commitments
43.1%	66.3%	17.5%



Portfolio Sharpe and Information Ratios

Period Ending December 31, 2013

	One Year	Three Years	Since 7/1/2007
Policy Returns	10.37	6.16	2.19
Risk-Free Returns	0.07	0.10	0.77
Policy Volatility	4.43	7.05	10.50
Policy Sharpe Ratio	2.32	0.86	0.14

Actual Returns	11.76	7.56	4.26
Actual Volatility	3.87	5.78	9.46
Actual Sharpe Ratio	3.02	1.29	0.37

Added Value	1.39	1.40	2.06
Tracking Error	1.84	2.33	2.60
Portfolio Information Ratio	0.76	0.60	0.80



Leverage and Concentration Summary

Leverage					
Fixed Income		Total Endowment		Hedge Funds	
Gross	Net	Gross	Net	Gross	Net
1.29x	0.96x	1.02x	1x	2.24x	0.52x

Manager Concentration	
By Assets	By Risk
Dreyfus (3.6%)	ValueAct (3.9%)
Gold (3.2%)	Eminence (2.6%)
ValueAct (3.0%)	Viking (2.6%)
Internal Fixed Income (2.6%)	Stelliam (2.5%)
Viking (2.6%)	Union Square (2.2%)



Scenario and Sensitivity Analysis

	Scenario						
	US Liquidity Squeeze	EM Slowdown (Esp China)	Eurozone Breakup	Japan Implosion	Currency Debasement	Eurozone Lost Decade	Mideast War / Oil shock
Expected Policy Returns (nominal)	(25.7%)	(21.7%)	(19.4%)	(18.8%)	(16.5%)	(3.9%)	(2.4%)
Gain from tactical positions	3.0%	1.9%	2.5%	2.5%	1.5%	0.9%	0.2%
Gain from current hedges	0.0%	0.5%	0.5%	1.9%	0.3%	(0.1%)	(0.1%)
Gain from manager's alpha	0.5%	2.0%	2.0%	2.0%	2.0%	2.3%	2.0%
Estimated Endowment Returns	(22.3%)	(17.3%)	(14.4%)	(12.3%)	(12.7%)	(0.9%)	(0.3%)

Sensitivity Analysis (beta)

Equities	0.608
Interest Rates	(0.150)
Currencies	(0.146)



Endowment Insurance Hedges

<u>Event</u>	<u>Hedge</u>	<u>Exposures as of December 31, 2013</u>					<u>Changes since August 31, 2013</u>			
		<u>Total Cost</u> ⁽¹⁾	<u>bps Cost/Year</u> ⁽²⁾	<u>Notional (\$ millions)</u>	<u>MTM (\$ millions)</u>	<u>P/L</u>	<u>Cost</u>	<u>bps Cost/Year</u> ⁽²⁾	<u>Notional (\$ millions)</u>	<u>MTM (\$ millions)</u>
ACTIVE POSITIONS										
U.S. Inflation										
	CMS Options	\$ (52)	5.2	\$ 9,249	\$ 13	\$ (39)	\$ -	(0.5)	\$ -	\$ (5)
Twitter IPO Hedge										
	Twitter Collar	\$ (7)	3.0	\$ (3)	(94)	(101)	(7)	3.0	(3)	(94)
Sovereign Default										
	JPY Rate Options and Swaptions	\$ (36)	8.4	\$ 4,193	28	(8)	3	3.8	(990)	4
SUBTOTAL ACTIVE POSITIONS		(95)	16.5		(53)	(148)	(3)	6.2	(993)	(95)
EXPIRED POSITIONS										
	JPY Rate Options and Swaptions	\$ (0.4)	0.05	990		(0.4)	(0.4)	0.0	990	
SUBTOTAL EXPIRED POSITIONS		(0.4)	0.05			\$ (0.4)	(0.4)	\$ 0.05		
TOTAL		\$ (95)	16.5		(53)	\$ (148)	\$ (3)	6.2		\$ (95)

(1) Maximum Loss for Options

(2) Amount of delegated insurance budget used for fiscal year ending August, 2014.



Returns by Exposures

Investment Type	Fiscal YTD			Calendar YTD		
	Returns	Active Value Add	Information Ratio	Returns	Active Value Add	Information Ratio
More Correlated and Constrained	6.43%	0.12%	-0.55	6.99%	1.63%	-0.21
Less Correlated and Constrained	7.48%	0.68%	1.27	16.65%	2.03%	5.58
Private Investments	5.32%	<u>0.04%</u>	0.07	14.56%	<u>-0.75%</u>	-0.78
Total Fund	6.45%	<u><u>0.84%</u></u>	0.06	11.76%	<u><u>2.91%</u></u>	0.76

Investment Type	Three Years			Since March 1, 2008		
	Returns	Active Value Add	Information Ratio	Returns	Active Value Add	Information Ratio
Total More Correlated and Constrained	3.56%	1.02%	-0.08	1.78%	0.46%	-0.12
Total Less Correlated and Constrained	8.44%	1.63%	4.05	5.50%	1.84%	2.67
Total Private Investments	14.33%	<u>-0.28%</u>	-0.21	7.89%	<u>0.16%</u>	0.17
Total Fund	7.56%	<u><u>2.37%</u></u>	0.60	4.33%	<u><u>2.46%</u></u>	0.76



MCC Investment Grade Fixed Income

\$2.8 Billion

Overview		
	UTIMCO	BC Glbl Agg
Total Portfolio Size	\$2.8B	\$42.8T
Modified Duration	5.40	5.98
Yield to Maturity	2.8%	2.1%
Average Agency Rating	AA3	AA3

Geographical Exposure			
	UTIMCO	BC Glbl Agg	O/U
United States	43.4%	36.3%	7.0%
Canada	1.0%	3.5%	-2.5%
Europe	28.2%	35.8%	-7.6%
Asian-Pac Aggregate	16.7%	20.6%	-3.8%
Emerging Markets	10.7%	3.8%	6.9%

Currency Exposure			
	UTIMCO	BC Glbl Agg	O/U
United States Dollar	60.4%	41.4%	19.0%
Euro	12.9%	27.0%	-14.1%
Japanese Yen	5.4%	16.5%	-11.1%
UK Pound Sterling	6.4%	6.1%	0.4%
Emerging Markets	14.7%	2.2%	12.5%
Other	0.2%	6.9%	-6.6%

Sector Exposure			
	UTIMCO	BC Glbl Agg	O/U
Treasuries & Sovereign	65.6%	54.9%	10.6%
Government Related	8.2%	12.4%	-4.2%
Corporates	19.6%	16.8%	2.7%
Securitized	6.3%	15.8%	-9.5%
Cash & Cash Equivalents	0.3%	0.0%	0.3%

As of 12/31/2013



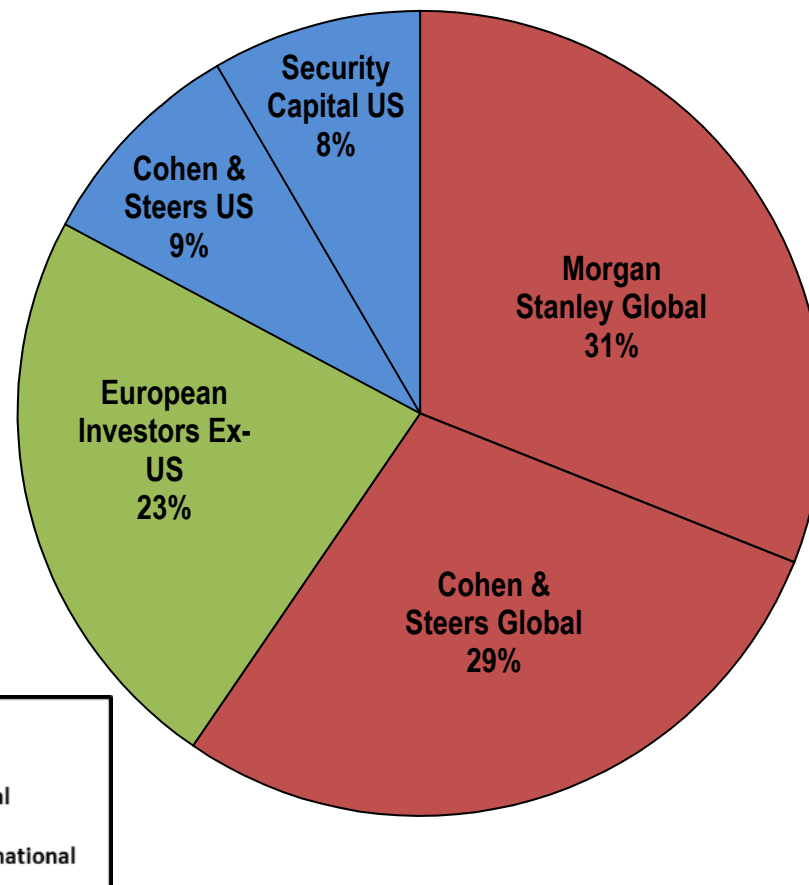
MCC Real Estate

\$799 Million

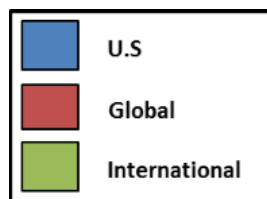
MCC Real Estate Portfolio Characteristics			
	FYTD	CYTD	3 Years
Portfolio Return (Ex Hedges)	5.6%	5.1%	6.8%
Benchmark Return	<u>5.0%</u>	<u>3.7%</u>	<u>7.6%</u>
Value Add	+0.6%	+1.5%	-0.7%
Portfolio Volatility	-	13.3%	17.6%
Benchmark Volatility	-	15.0%	16.7%
Portfolio Sharpe Ratio	-	0.4	0.5
Portfolio Information Ratio	-	0.6	-0.3

As of 12/31/2013

Statistics for periods longer than a year are annualized



Liquidity	
Within 90 days	Within One Year
100%	N/A





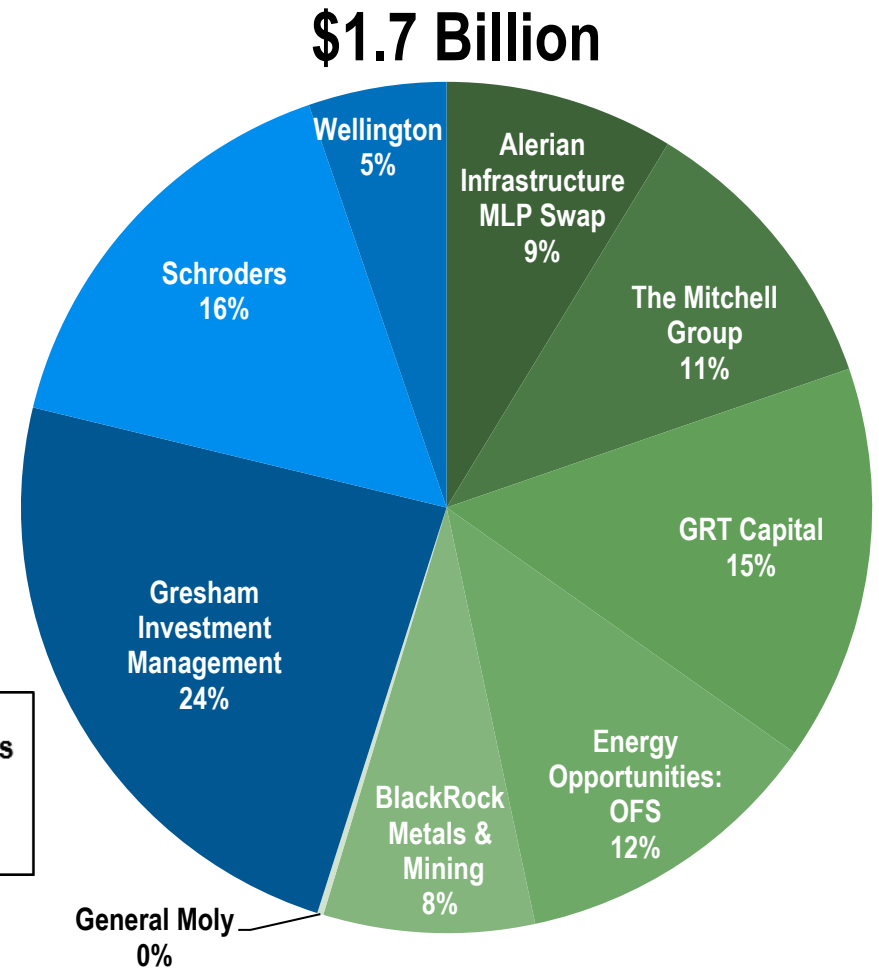
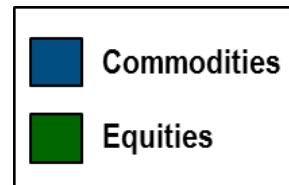
MCC Natural Resources

MCC Natural Resources Portfolio Characteristics			
	FYTD	CYTD	3 Years
Portfolio Return (Ex Gold)	1.9%	1.6%	-3.2%
Benchmark Return	<u>2.6%</u>	<u>0.1%</u>	<u>-3.5%</u>
Value Add	-0.8%	+1.5%	+0.2%
Portfolio Volatility	-	9.3%	17.1%
Benchmark Volatility	-	9.0%	16.1%
Portfolio Sharpe Ratio	-	-0.1	-0.3
Portfolio Information Ratio	-	0.5	0.1

As of 12/31/2013

Statistics for periods longer than a year are annualized

Liquidity	
Within 90 days	Within One Year
100%	N/A





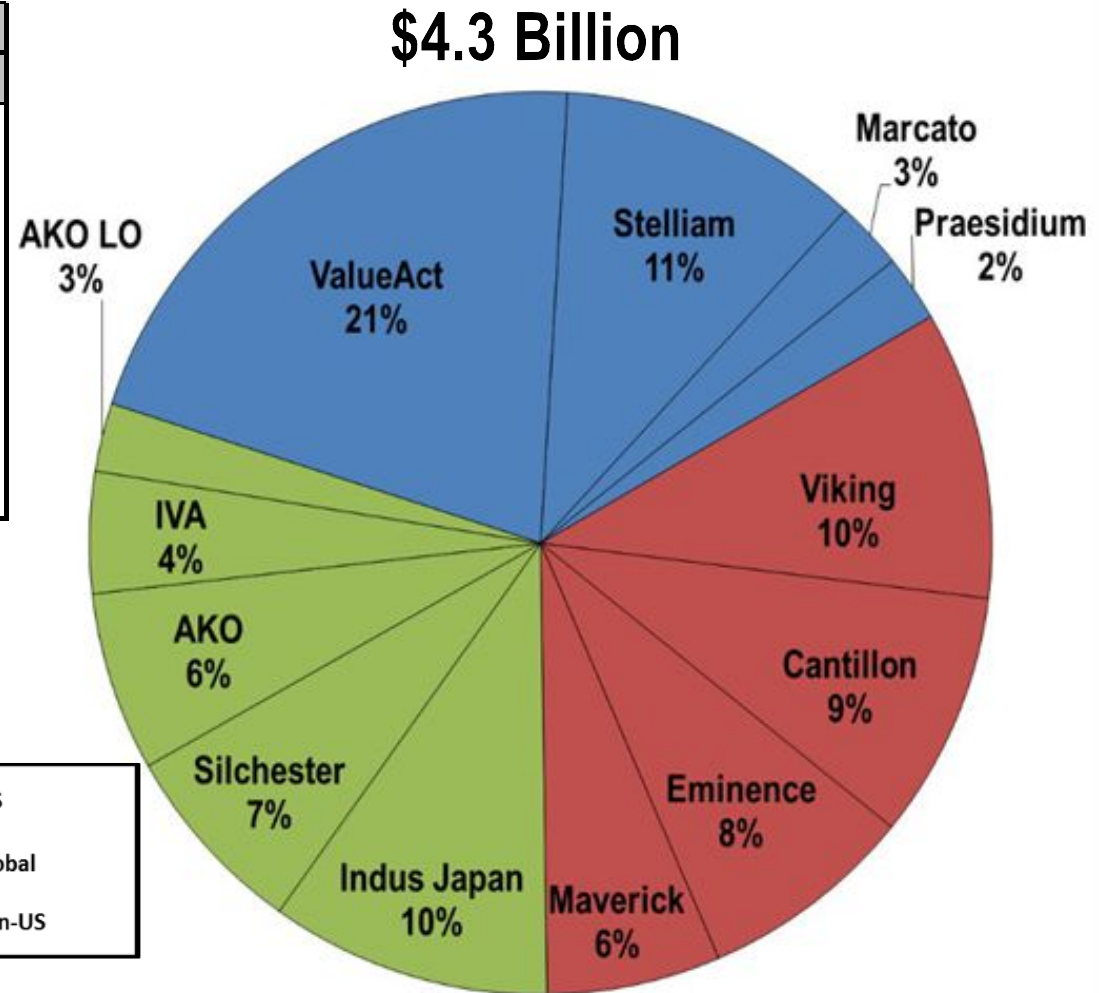
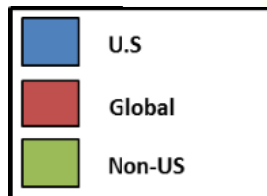
MCC Public Equity – Developed Markets

MCC Developed Country Equity Portfolio			
	FYTD	CYTD	3 Years
Portfolio Return	14.0%	32.4%	15.8%
Benchmark Return	<u>13.4%</u>	<u>26.7%</u>	<u>11.5%</u>
Value Add	+0.6%	+5.7%	+4.3%
Portfolio Volatility	--	7.2%	12.0%
Benchmark Volatility	--	9.3%	13.7%
Portfolio Sharpe Ratio	--	4.5	1.3
Portfolio Information Ratio	--	1.4	1.2

As of 12/31/2013

Statistics for periods longer than a year are annualized

Liquidity	
Within 90 days	Within One Year
77%	89%





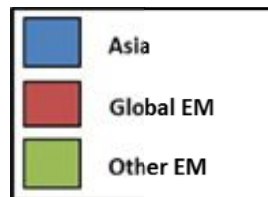
MCC Public Equity – Emerging Markets

MCC Emerging Markets Equity Portfolio			
	FYTD	CYTD	3 Years
Portfolio Return	9.9%	3.4%	1.0%
Benchmark Return	<u>8.5%</u>	<u>-2.6%</u>	<u>-2.1%</u>
Value Add	+1.4%	+6.0%	+3.1%
Portfolio Volatility	--	11.7%	16.9%
Benchmark Volatility	--	11.8%	19.3%
Portfolio Sharpe Ratio	--	0.3	0.1
Portfolio Information Ratio	--	2.4	0.8

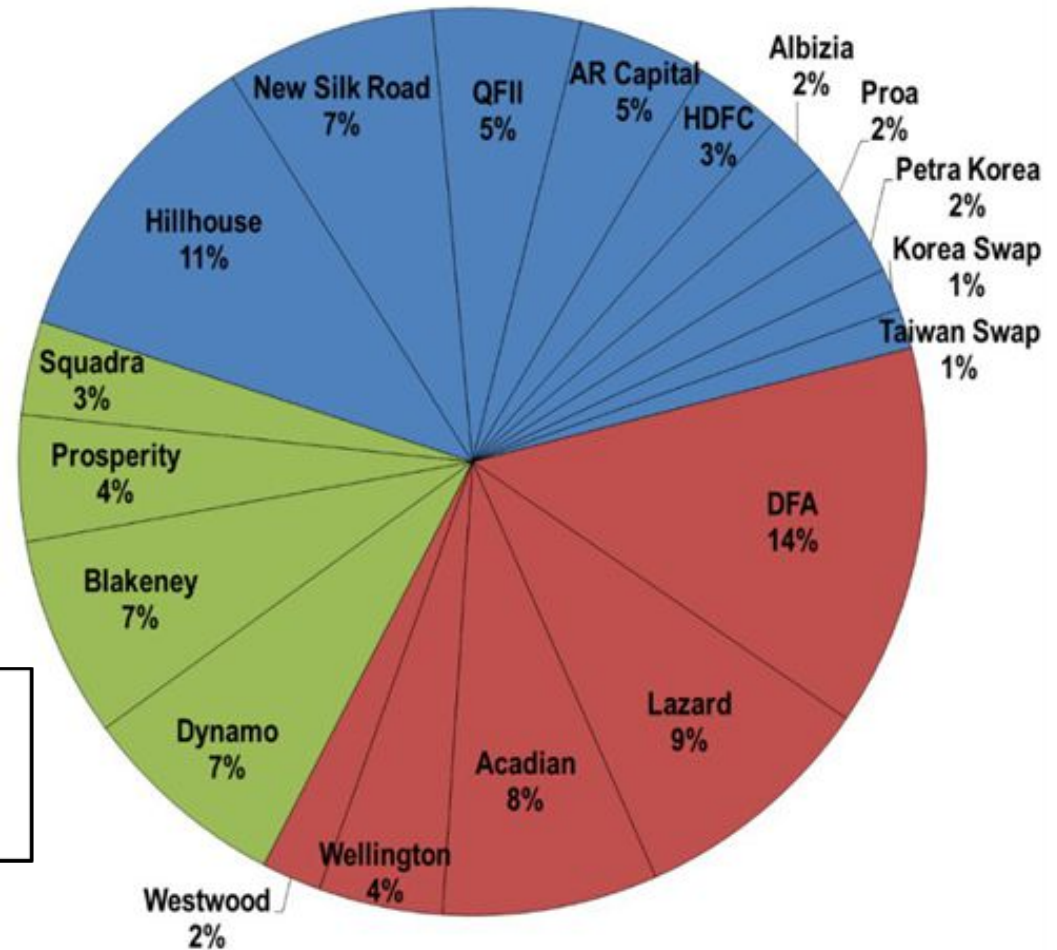
As of 12/31/2013

Statistics for periods longer than a year are annualized

Liquidity	
Within 90 days	Within One Year
76%	96%



\$2.8 Billion





LCC

LCC Portfolio Characteristics

	FYTD	CYTD	Trailing 3 yrs
LCC Returns	7.5%	16.6%	8.4%
HFRI FOF Index	<u>5.2%</u>	<u>9.2%</u>	<u>2.5%</u>
Value Add	+2.3%	+7.5%	+5.9%
LCC Volatility	--	3.3%	4.4%
HFRI FOF Index Vol	--	3.3%	4.2%
Sharpe Ratio	--	5.0	1.9
Information Ratio	--	6.1	4.1

As of 12/31/2013 – Statistics for periods longer than a year are annualized.

Look-Thru Leverage

	<u>% of Capital</u>	<u>Gross</u>	<u>Net</u>
Core Strategies	95%	179%	63%
FI & FX	5%	1094%	-151%
Total LCC	100%	228%	52%

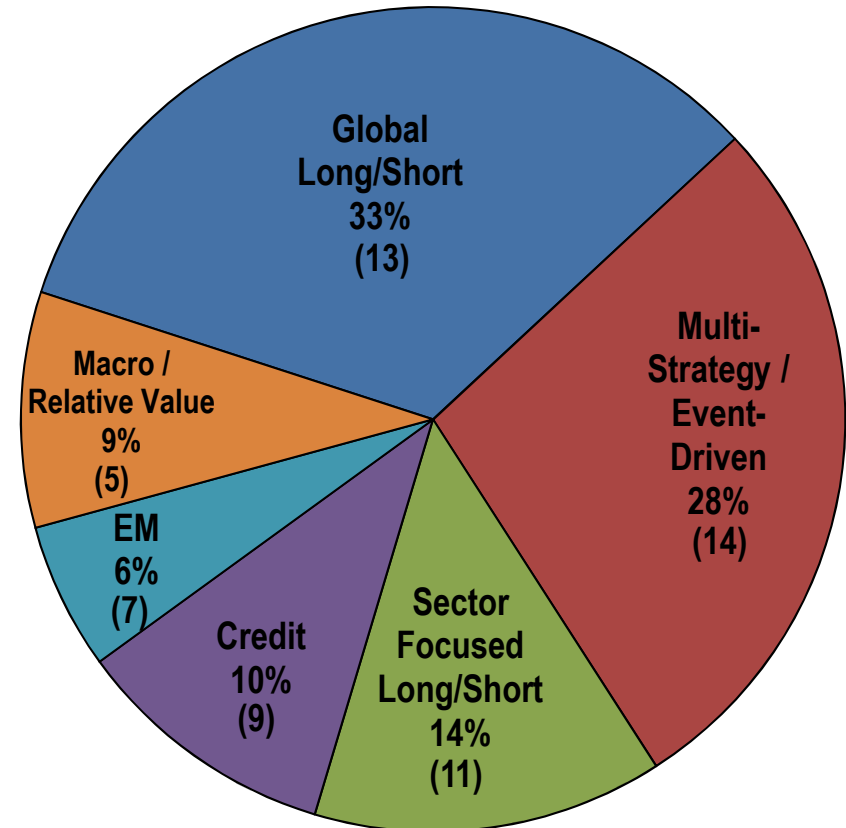
Concentration

Top 10	52%
Top 20	77%
Top 30	91%

Liquidity*

<u>90 days</u>	<u>1 year</u>
50%	81%

Strategy Allocation (\$9.5 Billion)



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



Private Investments Portfolio Rollforward Four Months Ended December 31, 2013

\$ in millions	Beg FY 9/1/13			Calls	Distributions	Change in Valuation	%	FY'14 New Commitments		End 12/31/13	
	NAV	Unfunded	# Funds					# Funds	\$ Committed	NAV	Unfunded
Credit-Related Fixed Income	\$1,062	\$238	33	\$86	\$151	\$38	3.6%	0	\$0	\$1,035	\$173
Real Estate	748	773	29	90	43	11	1.4%	5	343	806	1,020
Natural Resources	1,061	1,118	42	179	93	63	5.5%	4	229	1,210	1,168
Venture	824	387	46	58	52	124		2	56	954	397
Other Developed Country Equity	<u>1,667</u>	<u>751</u>	<u>87</u>	<u>111</u>	<u>182</u>	<u>78</u>		<u>2</u>	<u>100</u>	<u>1,674</u>	<u>774</u>
Total Developed Country Equity	2,491	1,138	133	169	234	202	8.3%	4	156	2,628	1,171
Emerging Markets Equity	<u>594</u>	<u>514</u>	<u>24</u>	<u>65</u>	<u>31</u>	<u>7</u>	1.1%	<u>0</u>	<u>0</u>	<u>635</u>	<u>453</u>
TOTAL	<u>\$5,956</u>	<u>\$3,781</u>	<u>261</u>	<u>\$589</u>	<u>\$552</u>	<u>\$321</u>	5.3%	<u>13</u>	<u>\$728</u>	<u>\$6,314</u>	<u>\$3,985</u>
% of Endowment (PUF+ GEF)	<u>27%</u>	<u>17%</u>								<u>27%</u>	<u>17%</u>

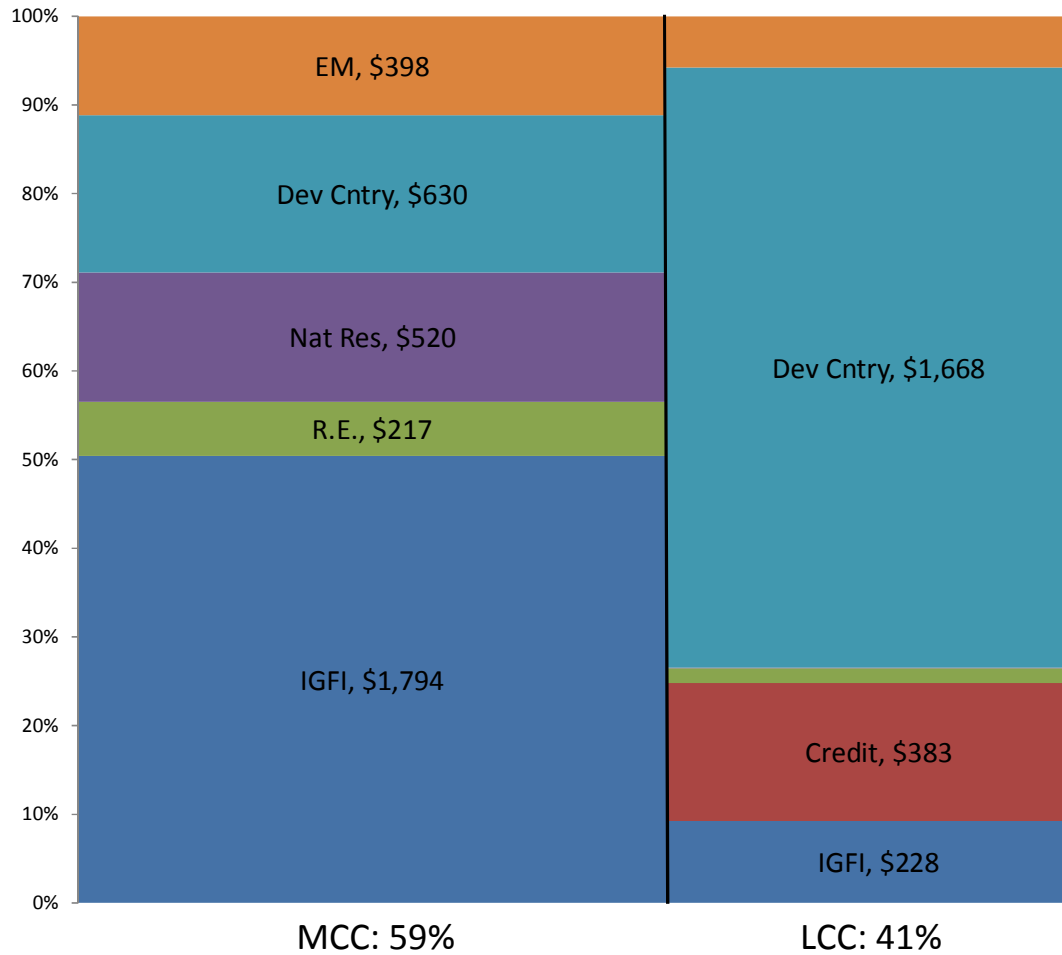


Summary of Transactions Made Under the Delegation of Authority Four Months Ended December 31, 2013

	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	-	-	-	-	-	-	-	-
Credit-Related Fixed Income	-	79	-	79	-	100	-	100
Real Estate	-	-	-	-	-	-	343	343
Natural Resources	-	-	-	-	50	-	229	279
Developed Country Equity	50	14	-	64	50	170	157	377
Emerging Markets Equity	-	41	-	41	76	-	-	76
	<u>\$ 50</u>	<u>\$ 134</u>	<u>\$ -</u>	<u>\$ 184</u>	<u>\$ 176</u>	<u>\$ 270</u>	<u>\$ 729</u>	<u>\$ 1,175</u>



ITF



Downside Risk (trailing three years)	
Actual	% of Policy
5.20%	100.5%

Liquidity	
Three months	One Year
65.1%	90.7%



ITF Insurance Hedges

<u>Event</u>	<u>Hedge</u>	<u>Exposures as of December 31, 2013</u>					<u>Changes since August 31, 2013</u>			
		<u>Total Cost</u> ⁽¹⁾	<u>bps Cost/Year</u> ⁽²⁾	<u>Notional (\$ millions)</u>	<u>MTM (\$ millions)</u>	<u>P/L</u>	<u>Cost</u>	<u>bps Cost/Year</u> ⁽²⁾	<u>Notional (\$ millions)</u>	<u>MTM (\$ millions)</u>
ACTIVE POSITIONS										
U.S. Inflation										
	CMS Options	\$ (13)	5.3	\$ 2,251	\$ 3	\$ (9)	\$ -	(0.5)	\$ -	\$ (1)
Sovereign Default										
	JPY Rate Options and Swaptions	(4)	3.8	465	\$ 3	(1)	0	1.6	(110)	1
SUBTOTAL ACTIVE POSITIONS		\$ (17)	9.1		\$ 7	\$ (10)	\$ 0	\$ 1		\$ (1)
EXPIRED POSITIONS										
	JPY Rate Options and Swaptions	(0.04)	0.02	110		(0.04)	(0.04)	0.02	110	-
SUBTOTAL EXPIRED POSITIONS		(0.04)	0.02			\$ (0.04)	\$ (0.04)	\$ 0.02		\$ -
TOTAL		\$ (17)	9.1		7	\$ (10)	\$ (0.04)	1.1		\$ (1)

(1) Maximum Loss for Options

(2) Amount of delegated insurance budget used for fiscal year ending August, 2014.



Contracts Update

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

Agreement	Purpose	Contract Term	Annual Amount
Fort Sheridan Advisors LLC	Investment consultant to assist in understanding Fund's exposure to unforeseen market events and identify cost-effective ways to hedge against such events	2/18/2014 - 2/17/2015	\$60,000
Cambridge Associates LLC	Access to proprietary database, research reports and working papers on investment and financial issues, and other miscellaneous communications and inquiries	12/1/2013 - 11/30/2014	\$51,000

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
February 20, 2014

Agenda Item: Investment Strategy Discussion

Developed By: Staff

Presented By: Zimmerman

Type of Item: Information Item

Description: Bruce Zimmerman will discuss investment strategy decisions relative to policy and implementation with the Board. This agenda item is also intended to provide an opportunity for an open-ended discussion on issues, expectations, and opportunities regarding the current investment strategy. Staff hopes to get input from Board members on issues, concerns, and opportunities regarding the current investment strategy.

Recommendation: None

Reference: *Investment Strategy* presentation

Investment Strategy presentation
will be forthcoming.

Agenda Item
UTIMCO Board of Directors Meeting
February 20, 2014

Agenda Item: Report on and Discussion and Appropriate Action Related to Items from Audit and Ethics Committee: (1) Audit of UTIMCO Financial Statements; and (2) Proposed Amendments to the Charter of the Audit and Ethics Committee

Developed By: Staff

Presented By: Wilson

Type of Item: Action required by UTIMCO Board related to Audit and Charter of the Audit and Ethics Committee; Information item on other items

Description: The Audit and Ethics Committee (the "Committee") will meet on February 13, 2014. The Committee's agenda includes (1) discussion and appropriate action related to the Committee minutes; (2) discussion and appropriate action related to Deloitte & Touche LLP's Financial Statement Audit Results and Communications and Audited Financial Statements for the Corporation; (3) an update of compliance, reporting, and audit issues; (4) discussion and appropriate action related to the Charter of the Audit and Ethics Committee; and (5) a presentation of the unaudited financial statements for the three months ended November 30, 2013 for the Investment Funds and the Corporation. The Committee will also meet in executive session for the purpose of deliberating individual personnel evaluation matters.

Discussion: ***Audit of UTIMCO Financial Statements.*** The UTIMCO financial statements were audited by Deloitte & Touche LLP. Deloitte & Touche LLP issued an unqualified opinion on the August 31, 2013 and 2012 financial statements. Tom Wagner, the engagement partner, is scheduled to present to the Committee the Deloitte & Touche LLP's Audit Results and Communications letter and answer questions related to the financial statements. A copy of the Audit Results and Communications and the audited financial statements are included.

Charter of the Audit and Ethics Committee. The purpose of the Charter of the Committee (the "Audit Charter") is to outline the duties and responsibilities of the Committee. In accordance with the Charter of the Committee, the Committee will periodically review and reassess the adequacy of the Audit Charter and recommend any proposed changes to the UTIMCO Board for approval. The current Audit Charter was approved by the UTIMCO Board on April 14, 2011. Staff is proposing the follow changes to the Charter:

- Page 2, *Scope*, updated language to refer to the current Master Investment Management Services Agreement by and between the UT Board and the Corporation.
- Page 3, *Review Financial Statements for Quality Considerations*, deleted language "and judgments" based on input from independent auditor that they do not make judgments in connection with the preparation of the financial statements.
- Page 4, *Review Financial Statements for Quality Considerations*, reworded language based on input from independent auditor regarding discussions about independence.

Agenda Item
UTIMCO Board of Directors Meeting
February 20, 2014

- Page 4, *Monitor Management's Handling of Internal Controls*, deleted language regarding obtaining reports from independent auditor with respect to Corporation's policies and procedures regarding compliance with applicable laws and regulations based on input from independent auditor that they do not provide these types of reports.
- Page 5; *Auditor Independence*, added language to ensure that the public accounting firm engaged to perform the annual audit for the Corporation is permitted to perform the agreed upon procedures required by the UTIMCO Compensation Program.
- Page 6, *Auditor Independence*, changed language from "reviewing partner" to "concurring (quality review) partner" and from "5 years" to "7 years" based on input from independent auditor regarding their standard practice.
- Page 8; *Oversee the Corporation's Enterprise Risk Management*, added language related to compliance with investment risk management to make the language consistent with language in the Risk Committee charter.
- Page 8; *Oversee the Corporation's Enterprise Risk Management*, added language related to compliance with investment risk management to make the language consistent with language in the Risk Committee charter.
- Page 8; *Review the Overall Duties and Responsibilities of the Chief Compliance Officer*, rearranged language in this paragraph.
- Page 9; *Other Duties*, changed language regarding evaluation of the Committee's performance from "regular" to "periodic" consistent with other UTIMCO committee charters.
- Page 9; *Other Duties*, deleted language regarding Sarbanes Oxley as this is no longer a function performed by the Corporation.
- Page 9; *Other Duties*, added language to authorize the Committee to perform any other activities consistent with its Charter, the Corporation's Bylaws, and applicable laws as the Committee or the Board deems necessary or appropriate.
- Other minor editorial changes.

Other items. Routine activities of the Committee will include reviewing the unaudited financial statements for the first quarter for the Funds and UTIMCO Corporation and the quarterly compliance reports.

Recommendation: The Committee will request the UTIMCO Board take appropriate action based on the Committee's action from its meeting related to approval of Deloitte and Touche LLP's Financial Statement Audit Results and Communications, and the audited financial statements and audit report for the Corporation. The Committee will request that the UTIMCO Board take appropriate action related to the proposed amendments of the Charter of the Audit and Ethics Committee.

Reference: Audit Results and Communications
Audited Financial Statements and Audit Report for the Corporation
Charter of the Audit and Ethics Committee
Quarterly Compliance Reports

**RESOLUTIONS RELATED TO AUDIT OF THE CORPORATION FOR
FISCAL YEAR 2013**

RESOLVED, that Deloitte & Touche LLP's Financial Statement Audit Results and Communications for the Corporation for the year ended August 31, 2013, 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, 2013 and August 31, 2012, be, and are hereby approved in the form as presented to the Board.

**RESOLUTION RELATED TO CHARTER OF
THE AUDIT AND ETHICS COMMITTEE**

RESOLVED, that the amendments to the Charter of the Audit and Ethics Committee be, and are hereby approved, in the form submitted to the Corporation's Board of Directors.

January 23, 2014

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

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

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

We have performed an audit of the financial statements of The University of Texas Investment Management Company (the "Company") as of and for the year ended August 31, 2013, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated December 20, 2013.

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

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS

Our responsibility under generally accepted auditing standards has been described in our engagement letter dated September 16, 2013, a copy of which has been provided to you. As described in that letter, the objective of a financial statement audit conducted in accordance with generally accepted auditing standards is to express an opinion on the fairness of the presentation of the Company's financial statements for the year ended August 31, 2013, in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects. Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Audit and Ethics Committee are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Audit and Ethics Committee of their responsibilities.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether caused by fraud or error. In making those risk assessments, we considered internal control over financial reporting relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the

circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over financial reporting. Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the Company's 2013 financial statements include the recoverability of long-term assets such as property and equipment and liabilities as well as those related to accrued compensation and other compensation related accounts. During the year ended August 31, 2013, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

UNCORRECTED MISSTATEMENTS

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

MATERIAL CORRECTED MISSTATEMENTS

There were no material misstatements that were brought to the attention of management as a result of our audit procedures.

SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are set forth in Note 2 to the Company's 2013 financial statements. During the year ended August 31, 2013, there were no significant changes in previously adopted accounting policies or their application.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Company's 2013 financial statements.

OUR VIEWS ABOUT SIGNIFICANT MATTERS THAT WERE THE SUBJECT OF CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2013.

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

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

OTHER SIGNIFICANT FINDINGS OR ISSUES ARISING FROM THE AUDIT DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT

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

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

MANAGEMENT'S REPRESENTATIONS

We have made specific inquiries of the Company's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the Company is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Appendix A, a copy of the representation letter we obtained from management.

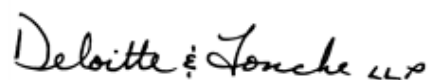
EMPHASIS-OF-MATTER OR OTHER-MATTER PARAGRAPH

We have decided to include an Other Matter paragraph in our opinion on the financial statements related to the fact that as discussed on page 2 of the financial statements, management's discussion and analysis on pages 2 through 5 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and express no opinion on it.

* * * * *

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

Yours truly,



Appendix A:
Representations from Management



January 23, 2014

Deloitte & Touche LLP
400 West 15th Street
Suite 1700
Austin, TX 78701-1648

We are providing this letter in connection with your audits of the statements of net position of The University of Texas Investment Management Company ("UTIMCO") as of August 31, 2013 and 2012, and the statements of revenue, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the net position, results of operations, and cash flows of UTIMCO in conformity with accounting principles generally accepted in the United States of America.

We confirm that we are responsible for the following:

- a. The fair presentation in the statements of net position, statements of revenue, expenses, and changes in net position, and cash flows in conformity with accounting principles generally accepted in the United States of America (GAAP)
- b. The design, implementation, and maintenance of programs and controls to prevent and detect fraud
- c. Establishing and maintaining effective internal control over financial reporting

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

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

1. The financial statements referred to above are fairly presented in conformity with GAAP.
2. UTIMCO has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.
3. UTIMCO has provided you:
 - a. Financial records and related data
 - b. Minutes of the meetings of stockholders, directors, and committees of directors or summaries of actions of recent meetings for which minutes have not yet been prepared.
4. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.
5. UTIMCO has provided to you the results of management's risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud.

6. We have no knowledge of any fraud or suspected fraud affecting UTIMCO involving:
 - a. Management
 - b. Employees who have significant roles in UTIMCO's internal control over financial reporting
 - c. Others, if the fraud could have a material effect on the financial statements.
7. We have no knowledge of any allegations of fraud or suspected fraud affecting UTIMCO received in communications from employees, former employees, regulators, or others.
8. Significant assumptions used by us in making accounting estimates are reasonable.

Except where otherwise stated below, immaterial matters less than \$75,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to, or disclosure in, the financial statements.

9. There are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
10. UTIMCO has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
11. Regarding related parties:
 - a. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
 - b. To the extent applicable, related parties and all the related-party relationships and transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral) have been appropriately identified, properly accounted for, and disclosed in the financial statements.
12. In preparing the financial statements in conformity with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
 - a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.
 - b. The effect of the change would be material to the financial statements.
13. There are no:
 - a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency
 - b. Known actual or possible litigation and claims whose effects should be considered and accounted for and disclosed in the financial statements and that have not been disclosed to you

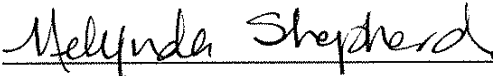
14. UTIMCO has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
15. UTIMCO has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance.
16. No events have occurred after August 31, 2013 through the date the financial statements were issued that require consideration as adjustments to, or disclosures in, the financial statements.



Bruce Zimmerman
Chief Executive Officer and Chief Investment Officer



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



Melynda Shepherd
Manager – Finance and Administration

**THE UNIVERSITY OF TEXAS INVESTMENT
MANAGEMENT COMPANY**

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT**

Years ended August 31, 2013 and 2012

The University of Texas Investment Management Company

Financial Statements

Years Ended August 31, 2013 and 2012

Contents

Independent Auditors' Report	1
Management's Discussion and Analysis (unaudited)	3
Audited Financial Statements	
Statements of Net Position	8
Statements of Revenues, Expenses and Changes in Net Position	9
Statements of Cash Flows	10
Notes to the Financial Statements	12

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of The University of Texas Investment Management Company ("UTIMCO"), as of and for the years ended August 31, 2013, and August 31, 2012, and the related notes to the financial statements which collectively comprise UTIMCO's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The University of Texas Investment Management Company ("UTIMCO" or "management") is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to UTIMCO's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of UTIMCO's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

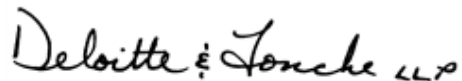
Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of UTIMCO as of August 31, 2013 and 2012, and the changes in its net position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The image shows a handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

January 23, 2014

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

Our discussion and analysis of the financial performance for The University of Texas Investment Management Company (UTIMCO) provides an overview of its activities for the year ended August 31, 2013. This discussion was prepared by UTIMCO management and should be read in conjunction with the UTIMCO financial statements and notes. UTIMCO is a 501(c) (3) investment management corporation whose sole purpose is the management of investment assets that are under the fiduciary care of the Board of Regents of The University of Texas System (UT Board).

Created in March 1996, UTIMCO is the first external investment corporation formed by a public university system. It invests endowment and operating funds in excess of \$29 billion. UTIMCO is governed by a nine-member Board of Directors (UTIMCO Board), consisting of at least three members of the UT Board, the Chancellor of The University of Texas System, three independent directors with substantial background and expertise in investments appointed by the UT Board, and two members appointed by the Texas A&M System Board, one of which must have a substantial background and expertise in investments. The UTIMCO Board and the UT Board have entered into an Investment Management Services Agreement delegating investment management responsibility for all investments to UTIMCO.

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

Financial Highlights

Net position decreased by approximately \$2.1 million from \$6.9 million to \$4.8 million, or approximately 30%, for the year ended August 31, 2013. This is compared to an increase of \$2.4 million from \$4.5 million to \$6.9 million, or approximately 53%, for the year ended August 31, 2012. The increase in net position for FY 2012 was mainly the result of the deferral of the 2012 performance compensation awards to FY 2013 due to the trigger of an extraordinary circumstances provision in the UTIMCO Compensation Program (the "Plan") for certain participants. The decrease in net position for FY 2013 mainly resulted from the Plan's 2012 extraordinary circumstances deferral.

Use of Financial Statements and Notes

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

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

Statements of Net Position

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

The following summarizes the Statements of Net Position:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Assets			
Cash & cash equivalents	\$10,234,124	\$ 7,929,555	\$ 8,815,125
Other assets	<u>3,171,023</u>	<u>2,590,026</u>	<u>2,831,931</u>
Total Assets	<u>\$13,405,147</u>	<u>\$10,519,581</u>	<u>\$11,647,056</u>
Liabilities & Net Position			
Accounts payable & other liabilities	\$ 7,937,182	\$ 2,747,399	\$ 6,037,768
Deferred rent	675,729	900,973	1,126,217
Net position	<u>4,792,236</u>	<u>6,871,209</u>	<u>4,483,071</u>
Total Liabilities & Net Position	<u>\$13,405,147</u>	<u>\$10,519,581</u>	<u>\$11,647,056</u>

The changes in the Statements of Net Position components are primarily the result of the following:

- Net position decreased in FY 2013 by \$2,078,973 and increased in FY 2012 by \$2,388,138 primarily as a result of changes in performance compensation accruals. Certain participants were required to defer their 2012 performance award due to the trigger of an extraordinary circumstances provision in the Plan. In addition, two participants met the Plan's retirement provisions which accelerated the vesting of their deferred award accounts and such amounts were expensed in FY 2013. These two events, when combined with other increases to performance compensation resulting from salary adjustments, promotions, additional eligible participants, and increases in the Plan's incentive award opportunity levels, mainly created the variances across years for net position.
- Cash & cash equivalents increased between FY 2012 and FY 2013 by \$2,304,569 and decreased between FY 2011 and FY 2012 by \$885,570. The increase in FY 2013 mainly resulted from an increase in the operating budget which provided available cash to cover part of the payouts related to FY 2012 deferred performance compensation and increases in the Plan's incentive award opportunity levels. This increase was partially offset by the fixed asset purchases related to the information technology initiative.
- Other assets increased by \$580,997 in FY 2013 as a result of fixed asset purchases related to UTIMCO's information technology initiative, an increase in prepaid expenses and an increase in assets of the deferred compensation plan.

Other assets decreased in 2012 by \$241,905 primarily due to the depreciation of fixed assets.

- Accounts payable & other liabilities increased by \$5,189,783 in FY 2013 and decreased by \$3,290,369 in FY 2012 mainly as a result of the changes in performance compensation as described in the net position matter noted above.

Statements of Revenues, Expenses and Changes in Net Position

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Revenue			
Management fees	\$ 24,133,175	\$ 18,306,201	\$ 17,238,772
Net non-operating revenues	<u>14,444</u>	<u>14,959</u>	<u>14,601</u>
Total Revenue	24,147,619	18,321,160	17,253,373
Expenses			
Salaries & benefits	9,496,301	8,510,794	8,023,454
Performance compensation	12,513,544	3,265,622	6,290,993
General operating	2,152,873	2,060,613	1,807,100
Depreciation	518,707	533,872	552,739
Other	<u>1,545,167</u>	<u>1,562,121</u>	<u>1,493,567</u>
Total Expenses	<u>26,226,592</u>	<u>15,933,022</u>	<u>18,167,853</u>
Increase/Decrease in net position	(2,078,973)	2,388,138	(914,480)
Net Position, Beginning of Year	<u>6,871,209</u>	<u>4,483,071</u>	<u>5,397,551</u>
Net Position, End of Year	<u>\$ 4,792,236</u>	<u>\$ 6,871,209</u>	<u>\$ 4,483,071</u>

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

- Management fees revenue for each year presented are based upon the operating budget and management fee approved in advance each year by both the UTIMCO Board and the UT Board. Revenue fluctuations are the direct result of these approved budgets.
- Total Expenses increased by \$10,293,570 in FY 2013 from FY 2012 and decreased by \$2,234,831 in FY 2012 from FY 2011. Performance compensation has been the main driver of the year over year fluctuations in Total Expenses. The FY 2013 increase of \$9,247,922 in performance compensation, as previously discussed, includes the impact of the extraordinary circumstances deferral provision of the Plan and the impact of accelerated deferred award vesting for certain employees meeting the Plan's retirement provisions. In addition, performance compensation has also

been impacted by salary adjustments, promotions, additional eligible Plan Participants, and increases in the Plan's incentive award opportunity levels.

- Salaries & benefits also contributed to the increase in Total Expenses. Although staff levels only increased slightly over the fiscal years, salaries and benefits were impacted by salary adjustments, promotions, and the fulfillment of open positions.
- General operating expenses increased slightly in 2013 and 2012 primarily related to increased travel expenses.

Statements of Cash Flows

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Cash Flows Provided by/(Used in)			
Operating Activities			
Proceeds from management fees	\$ 24,133,175	\$ 18,306,201	\$ 17,238,772
Payments to and for employees	(17,088,101)	(15,223,212)	(13,509,721)
Other payments	<u>(3,949,048)</u>	<u>(3,842,315)</u>	<u>(3,542,686)</u>
Net cash provided by/(used in) Operating Activities	3,096,026	(759,326)	186,365
Cash Flows Used for Capital and Related Financing Activities			
Purchase of property & equipment, net	<u>(806,916)</u>	<u>(141,437)</u>	<u>(165,748)</u>
Net cash used for Capital and Related Financing Activities	(806,916)	(141,437)	(165,748)
Cash Flows from Investing Activities			
Interest	<u>15,549</u>	<u>15,193</u>	<u>20,765</u>
Net cash provided by Investing Activities	<u>15,549</u>	<u>15,193</u>	<u>20,765</u>
Net Change in cash & cash equivalents	2,304,569	(885,570)	41,382
Cash & cash equivalents, beginning of year	<u>7,929,555</u>	<u>8,815,125</u>	<u>8,773,743</u>
Cash & Cash Equivalents, end of year	<u>\$ 10,234,124</u>	<u>\$ 7,929,555</u>	<u>\$ 8,815,125</u>

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

- Payments to and for employees increased in fiscal years 2013 and 2012 as a result of the increase in performance compensation and other personnel expenses that are directly related to compensation.
- Purchases of property and equipment increased in fiscal year 2013 as a result of

purchases for new information technology initiatives and decreased slightly for FY 2012 as the result of retiring obsolete equipment.

- Interest income remained constant in FY 2013 and decreased in FY 2012 as a direct result of market conditions in the fiscal years.

Contacting UTIMCO

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

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

Financial Statements

Statements of Net Position

August 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 10,234,124	\$ 7,929,555
Prepaid expenses and other assets	<u>617,717</u>	<u>534,397</u>
Total Current Assets	10,851,841	8,463,952
Non-Current Assets:		
Assets of deferred compensation plan	730,737	520,254
Capital Assets, net of accumulated depreciation of \$4,237,728 and \$4,076,304, respectively	<u>1,822,569</u>	<u>1,535,375</u>
Total Non-Current Assets	<u>2,553,306</u>	<u>2,055,629</u>
Total Assets	<u>\$ 13,405,147</u>	<u>\$ 10,519,581</u>
 Liabilities and Net Position		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 7,206,445	\$ 2,227,145
Current portion - deferred rent	<u>225,244</u>	<u>225,244</u>
Total Current Liabilities	7,431,689	2,452,389
Non-Current Liabilities:		
Deferred compensation plan obligations	730,737	520,254
Long-term portion – deferred rent	<u>450,485</u>	<u>675,729</u>
Total Non-Current Liabilities	<u>1,181,222</u>	<u>1,195,983</u>
Total Liabilities	8,612,911	3,648,372
Net Position:		
Net investment in capital assets	1,822,569	1,535,375
Unrestricted	<u>2,969,667</u>	<u>5,335,834</u>
Total Net Position	<u>4,792,236</u>	<u>6,871,209</u>
Total Liabilities and Net Position	<u>\$ 13,405,147</u>	<u>\$ 10,519,581</u>

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

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

Financial Statements

Statements of Revenues, Expenses and Changes in Net Position

For the years ended August 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating Revenues		
Management fee	\$24,133,175	\$18,306,201
Total Operating Revenues	24,133,175	18,306,201
Operating Expenses		
Salaries	7,587,688	6,903,383
Performance compensation	12,513,544	3,265,622
Employee benefits	1,267,521	1,135,215
Payroll taxes	641,092	472,196
General operating	2,152,873	2,060,613
Depreciation	518,707	533,872
Lease	1,035,176	983,934
Professional fees	302,888	369,458
Insurance	<u>207,103</u>	<u>208,729</u>
Total Operating Expenses	<u>26,226,592</u>	<u>15,933,022</u>
Operating Income/(Loss)	(2,093,417)	2,373,179
Nonoperating Revenues (Expenses)		
Interest	15,459	15,193
Loss on disposal of equipment	<u>(1,015)</u>	<u>(234)</u>
Net Nonoperating Revenues	<u>14,444</u>	<u>14,959</u>
Increase/(Decrease) in Net Position	(2,078,973)	2,388,138
Net Position at beginning of year	<u>6,871,209</u>	<u>4,483,071</u>
Net Position at end of year	<u>\$ 4,792,236</u>	<u>\$ 6,871,209</u>

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

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

Financial Statements

Statements of Cash Flows

For the years ended August 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from Operating Activities:		
Proceeds from management fees	\$ 24,133,175	\$ 18,306,201
Payments to suppliers for goods and services	(2,688,628)	(2,633,819)
Payments for facility	(1,260,420)	(1,208,496)
Payments to employees	(15,293,704)	(13,619,068)
Payments for employees	<u>(1,794,397)</u>	<u>(1,604,144)</u>
Net cash provided by/(used in) Operating Activities	3,096,026	(759,326)
Cash flows from Capital and Related Financing Activities:		
Purchases of property and equipment	<u>(806,916)</u>	<u>(141,437)</u>
Net cash used in Capital and Related Financing Activities	(806,916)	(141,437)
Cash flows from Investing Activities:		
Interest	<u>15,459</u>	<u>15,193</u>
Net cash from Investing Activities	<u>15,459</u>	<u>15,193</u>
Net increase/(decrease) in cash and cash equivalents	2,304,569	(885,570)
Cash and cash equivalents at beginning of year	<u>7,929,555</u>	<u>8,815,125</u>
Cash and cash equivalents at end of year	<u>\$ 10,234,124</u>	<u>\$ 7,929,555</u>

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

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

Financial Statements

Statements of Cash Flows, Continued

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

	<u>2013</u>	<u>2012</u>
Operating income/(loss)	\$ (2,093,417)	\$ 2,373,179
Adjustments to reconcile operating income to net cash provided by/(used in) operating activities:		
Depreciation	518,707	533,872
Change in assets and liabilities:		
Increase in prepaid expenses and other assets	(83,320)	(124,234)
Increase in assets of deferred compensation plan	(210,483)	(26,530)
Increase/(decrease) in accounts payable and accrued expenses	4,979,300	(3,316,899)
Increase in liabilities of deferred compensation plan	210,483	26,530
Decrease in deferred rent	<u>(225,244)</u>	<u>(225,244)</u>
Net cash provided by/(used in) operating activities	<u>\$ 3,096,026</u>	<u>\$ (759,326)</u>

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

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

Notes to Financial Statements

Note 1 - Organization

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

Note 2 - Significant Accounting Policies

Basis of Accounting

The financial statements of UTIMCO are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Cash and cash equivalents

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

Prepaid expenses and other assets

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

Capital Assets, net of accumulated depreciation

Net capital assets consist of office furniture, office equipment, software, and leasehold improvements and are stated at net book value. UTIMCO capitalizes assets whose cost exceeds \$300. Depreciation is computed using the straight-line method over the useful lives of the assets. Estimated useful lives range from 3-7 years for office furniture, equipment and software and for the lease term for leasehold improvements. UTIMCO has incurred software development costs related to an ongoing internal software development project. These costs will be depreciated upon the implementation of the software. The following is a schedule of the capital assets at August 31, 2013 and 2012.

	Balance			Balance
	9/1/2012	Additions	Deletions	8/31/2013
Office furniture	\$ 862,578	\$ -	\$ -	\$ 862,578
Office equipment	1,288,502	406,198	(289,131)	1,405,569
Software	303,940	103,564	(69,167)	338,337
Leasehold improvements	3,156,659	-	-	3,156,659
Software Development	-	297,154	-	297,154
Total property and equipment	5,611,679	806,916	(358,298)	6,060,297
Less accumulated depreciation	(4,076,304)	(518,707)	357,283	(4,237,728)
Net Capital Assets	<u>\$ 1,535,375</u>	<u>\$ 288,209</u>	<u>\$ (1,015)</u>	<u>\$ 1,822,569</u>

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

Notes to Financial Statements

	Balance			Balance
	9/1/2011	Additions	Deletions	8/31/2012
Office furniture	\$ 862,578	\$ -	\$ -	\$ 862,578
Office equipment	1,184,330	105,175	(1,003)	1,288,502
Software	267,678	36,262	-	303,940
Leasehold improvements	3,156,659	-	-	3,156,659
Software Development	-	-	-	-
Total property and equipment	5,471,245	141,437	(1,003)	5,611,679
Less accumulated depreciation	(3,543,201)	(533,872)	769	(4,076,304)
Net Capital Assets	<u>\$ 1,928,044</u>	<u>\$ (392,435)</u>	<u>\$ (234)</u>	<u>\$ 1,535,375</u>

Income taxes

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

Use of Estimates

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

Subsequent Events

These financial statements considered subsequent events through January 23, 2014, the date the financial statements were available to be issued.

Reclassification

Certain items in the 2012 financial statements have been reclassified to conform to the 2013 classification.

Recently Issued Accounting Standards

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* was adopted in fiscal year 2013. The adoption resulted in the renaming of net assets to net position in the two required financial statements for fiduciary funds as well as the accompanying notes and disclosures.

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

Notes to Financial Statements

Note 3 - Related Party Transactions

- a) Pursuant to a Master Investment Management Services Agreement with UTIMCO, the UT Board has appointed UTIMCO as its investment manager with complete authority to act for the UT Board in the investment of all funds. The amount of the management fees for the periods ended August 31, 2013 and 2012 were \$24,125,675 and \$18,298,701, respectively. This represents fees for the following:

	<u>2013</u>	<u>2012</u>
Permanent University Fund	\$ 12,158,434	\$ 8,900,255
The University of Texas System Long Term Fund	6,798,178	5,274,701
Permanent Health Fund	1,101,430	893,420
The University of Texas System Intermediate Term Fund	<u>4,067,633</u>	<u>3,230,325</u>
	<u>\$ 24,125,675</u>	<u>\$ 18,298,701</u>

- b) UTIMCO contracts for internet, mainframe connection, and various other technology services with The University of Texas System and The University of Texas at Austin. The expense for these services for the periods ended August 31, 2013 and 2012 were \$20,295 and \$15,306, respectively.

Note 4 – Deposits and Investments

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, UTIMCO will not be able to recover its deposits. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, UTIMCO will not be able to recover the value of its investment or collateral securities that are in the possession of another party. UTIMCO does not have a deposit policy for custodial credit risk. The FDIC insures deposits up to \$250,000. As of August 31, 2013 and 2012, there were no uninsured deposits. Additionally, UTIMCO does not have any investments that are exposed to custodial credit risk.

Note 5 – Deferred Compensation

Effective March 1, 1996, UTIMCO established a tax-sheltered annuity arrangement, which provides retirement benefits for its employees by contributing to a custodial account invested in mutual funds. The employer matches 8.5% of gross compensation on behalf of an employee. Employees are required to contribute 6.5% of their total gross compensation to receive the company match. Employer contributions for the periods ended August 31, 2013 and 2012 were \$566,262 and \$515,669, respectively.

Effective December 1, 2007, UTIMCO adopted a deferred compensation plan under Internal Revenue Code Section 457(b). The 457(b) plan is an unfunded deferred compensation plan that is established and maintained for a select group of management employees. Participants are determined by the Administrative Plan Committee. Participants are permitted to make tax-deferred contributions to the 457(b) plan, but until the plan

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

Notes to Financial Statements

benefits are paid out, these contributions remain part of UTIMCO's general assets and can be used to satisfy claims of the general unsecured creditors of UTIMCO. The assets and obligations of the 457(b) plan are reported on the Statements of Net Position at current values.

Effective May 1, 2011, UTIMCO established a health savings account arrangement, which is a tax-exempt trust or custodial account with a qualified trustee used to pay or reimburse certain medical expenses. Employer contributions for the period ended August 31, 2013 and 2012 were \$115,277 and \$110,168, respectively.

Note 6 – Lease Expense

Effective September 1, 2005, UTIMCO entered into an eleven year lease for its office space and parking with a third party. Under the terms of the lease, the lease expense and building operating expenses for the first 14 months were provided by the new landlord as a lease incentive, except for specific electricity costs incurred by UTIMCO. The lease expense incentive is recorded as a deferred rent liability as detailed in Note 7.

UTIMCO began paying lease and operating costs related to UTIMCO's current lease effective November 2006. For the periods ended August 31, 2013 and 2012, related operating expenses were \$562,482 and \$521,229, respectively. The net lease expense related to the lease incentive and amortization of the tenant allowance for both the periods ending August 31, 2013 and 2012 was \$348,028. For the periods ended August 31, 2013 and 2012, parking expense was \$124,666 and \$114,677, respectively.

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

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

Years ending August 31,	
2014	\$ 573,272
2015	573,272
2016	<u>573,272</u>
Total	<u>\$1,719,816</u>

Note 7 – Deferred Rent

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

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

Notes to Financial Statements

As of August 31, 2013 and 2012, the total deferred rent was \$675,730, and \$900,973, respectively. The portion of the deferred rent related to the rent holidays as of August 31, 2013 and 2012 was \$164,697 and \$219,596, respectively. The remaining portion of the deferred rent as of August 31, 2013 and 2012, was \$511,033 and \$681,377, respectively, and relates to the tenant improvement allowance. UTIMCO was initially provided an allowance of \$1,612,985 to be used and applied toward the cost of leasehold improvements in the new space. In August 2008, an additional allowance of \$173,415 was provided in connection with the expansion. The deferred rent is amortized over the term of the lease.

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

Background

The Board of Directors (the “Board”) of UTIMCO (the “Corporation”) established an Audit and Ethics Committee (the “Committee”) on February 22, 1996. On July 15, 1996, the Board adopted certain resolutions regarding, among other things, the Corporation’s Audit and Ethics Committee Mandate (the “Mandate”). The Mandate was superseded by this Charter. This Charter adopted by the Board on ~~April 14, 2011~~February 20, 2014, supersedes the Charter adopted by the Board on ~~September 21, 2007~~April 14, 2011.

Purpose

The primary purpose of the Committee is to assist the Board in monitoring the ethics programs and the audit, financial and compliance functions of the Corporation and the investment funds managed on behalf of The University of Texas System Board of Regents (the “UT Board”) to assure the balance, transparency and integrity of published financial information. Specifically, the Committee is to assist the Board in monitoring:

- the integrity of the financial reporting process, the system of internal controls, the audit process, and the process for monitoring compliance with laws and regulations;
- the independence and performance of the Chief Compliance Officer;
- the independence and performance of the Corporation’s independent auditors;
- the independence and performance of the independent auditors selected by the UT Board to audit the investment funds managed by ~~UTIMCO~~the Corporation on their behalf;
- internal audit functions performed by the UT System Audit Office;
- independent audit functions performed by the Texas State Auditor’s Office;
- the Corporation’s audit policies, ethics programs, and adherence to regulatory requirements; and
- the Corporation’s enterprise risk management.

The Committee is responsible for maintaining free and open communication as well as effective working relationships among the Committee members, the Chief Compliance Officer, independent external auditors, UT System Audit Office, the Texas State Auditor’s Office, and management of the Corporation. To perform his or her role effectively, each

Committee member will need to develop and maintain his or her skills and knowledge, including an understanding of the Committee's responsibilities and of the Corporation's activities, operations and risks.

The Committee will take all appropriate actions to set the overall tone at the Corporation for quality financial reporting, sound risk practices, and ethical behavior.

Scope

This Audit Charter sets forth the Committee's monitoring responsibilities with respect to the Corporation and the investment funds subject to the Master Investment Management Services Agreement by and between the UT Board and the Corporation effective ~~March 1, 1996~~ November 13, 2008, and any subsequent amendments ~~or restatements~~. As such, the role and purpose of the Committee includes monitoring the functions and processes for both the Corporation and the investment funds managed on behalf of the UT Board.

Composition

The Committee shall be composed of at least three members of the Board; such members to be appointed from time to time by a majority vote of the Board at a meeting at which a quorum is present and approved by the UT Board as required by Section 66.08 (c)(3) of the *Texas Education Code*. Individuals who are not members of the Board may be appointed to the Committee; provided however, a majority of the Committee members shall be members of the Board of Directors. Members of the Committee must meet the independence and financial literacy requirements as defined below. A member may be removed with or without cause at any time by a vote of a majority of the Board.

Independence Requirements

The Board shall determine that all members of the Committee are independent. A person is "independent" who has no relationship with the Corporation which would interfere with his or her exercise of independence from management. In addition, Committee members would not be "independent" if during the three years prior to their appointment or at any time during their service on the Committee, they accepted, directly or indirectly, any consulting, advisory, or other compensatory fee from the Corporation apart from travel and expense reimbursements they may receive as members of the Board and its Committees.

Financial Literacy

The Board, based on its business judgment, shall determine that each member of the Committee is financially literate.

Financial Management Expertise

The Board, based on its business judgment, shall determine that at least one member of the Committee is a "financial expert." A financial expert possesses the following attributes:

- an understanding of generally accepted accounting principles (GAAP) and financial statements;
- an ability to assess the application of GAAP in connection with accounting for estimates, accruals and reserves;
- an understanding of audit committee functions;
- experience preparing, auditing, analyzing or evaluating financial statements, or experience actively supervising persons engaged in such activities; and
- an understanding of internal controls and procedures for financial reporting.

Meetings; Quorum; Etc.

The Corporation's Bylaws state that any committee created by the Board or the Bylaws shall (i) have a chairman designated by the Board, (ii) fix its own rules or procedures, (iii) meet at such times and at such place or places as may be provided by such rules or by resolution of such committee or resolution of the Board, and (iv) keep regular minutes of its meetings and cause such minutes to be recorded in books kept for that purpose in the principal office of the Corporation, and report the same to the Board at its next regular meeting. At every meeting of any such committee, the presence of a majority of all the members thereof shall constitute a quorum, and the affirmative vote of a majority of the members present shall be necessary for the adoption by it of any action, unless otherwise expressly provided in the committee's rules or procedures or the Bylaws of the Corporation or by the Board. The Board may designate one or more Directors as alternate members of any committee, who may replace any absent or disqualified member of such committee. In the absence or disqualification of a member of a committee, the member or members present at any meeting of the committee and not disqualified from voting, whether or not constituting a quorum, may unanimously appoint the designated alternate Director to act at the meeting in the place of the absent or disqualified member.

Functions, Duties and Responsibilities

Review Financial Statements for Quality Considerations

The Committee has the following duties and responsibilities with respect to the financial statements of the Corporation and the investment funds managed on behalf of the UT Board:

- review the annual audited financial statements with management and the independent auditor, including significant issues regarding adequacy of internal controls and accounting principles and practices;
- review an analysis prepared by management and the independent auditor of significant financial reporting issues, ~~if any, and judgments~~ made in connection with the preparation of the financial statements;

- discuss with the independent auditor the matters required to be communicated by AU 380, *The Auditor's Communication with Those Charged with Governance*, as amended, relating to an audit of financial statements;
- discuss with the independent auditor any fraud of which the independent auditor becomes aware that involves senior management and/or which causes a material misstatement of the financial statements; and
- ~~receive and review~~ periodically ~~reports from~~ discuss with the independent auditor ~~regarding~~ the auditor's independence ~~and discuss such reports with the auditor.~~

Monitor Management's Handling of Internal Controls

The Committee has the following duties and responsibilities with respect to its monitoring of the integrity of the financial reporting process and internal controls of the Corporation and the investment funds managed on behalf of the UT Board:

- review with the independent auditor all significant deficiencies and material weaknesses identified during the audit as required by AU 325, *Communicating Internal Control related Matters Identified in an Audit*, as amended.
- review with the independent auditor any problems or difficulties the auditor may have encountered during its audit and any management letter provided by the auditor and the Corporation's response to that letter, such review to include:
 - any restrictions on the scope of activities or access to required information; and
 - any changes required in the planned scope of the audit;
- obtain reports from management, ~~the independent auditor~~ and UT System Audit Office with respect to the Corporation's policies and procedures regarding compliance with applicable laws and regulations;
- when considered necessary, meet with the independent auditor and the senior personnel of the UT System Audit Office without management participation;
- meet periodically with management to review the major financial risk exposures and the steps management has taken to monitor and control such exposures;
- review significant changes to internal controls and accounting principles and practices as suggested by the independent auditor, internal auditors or management;

- review the significant reports to management prepared by the UT System Audit Office and management's responses; and
- review with the Corporation's legal counsel or other appropriate persons legal matters that may have a material impact on the financial statements, the Corporation's compliance policies and any material reports or inquiries received from regulators or governmental agencies.

Manage the Relationship with the External Auditors

The external auditors for the Permanent University Fund are selected by the UT Board. These auditors have a dual reporting responsibility, reporting to both the Audit, Compliance, and Management Review Committee of the UT Board and to the Committee. The external auditors for the Corporation are selected by, and report to, the Board. By agreement between the UT Board and the Board, the external auditors for the other investment funds managed by the Corporation on behalf of the UT Board will be selected by the UT Board and will have a dual reporting responsibility, reporting to both the Audit, Compliance, and Management Review Committee of the UT Board and to the Committee. The Committee may approve additional audit and non-audit services provided by the external auditor related to the Corporation and investment funds as long as the work does not impair auditor independence.

The Committee has the following specific duties and responsibilities with respect to the Corporation's independent auditors:

- recommend to the Board the appointment of the independent auditor, which firm is ultimately accountable to the Committee and the Board.
- approve the fee arrangement of the independent auditor;
- after interviewing members of the Corporation's staff, evaluate together with the Board the performance of the independent auditor and, if so determined by the Committee, recommend that the Board replace the independent auditor; and
- if determined by the Committee to be necessary or advisable, recommend that the Board take appropriate action to satisfy itself of the independence of the auditor.

Auditor Independence

In connection with the selection of external auditors, the Committee shall determine that:

- the public accounting firm engaged to perform the annual audit does not provide non-audit services to the Corporation contemporaneously with the audit (other than the agreed upon procedures required for compliance with the terms of the UTIMCO Compensation Program);

- the lead audit partner and the concurring (quality reviewing) partner rotate off of the audit every 5-7 years, unless the Committee adopts a resolution affirmatively determining that such rotation is not required; and
- the CEO, Controller, CFO, Chief Accounting Officer, or person in an equivalent position shall not have been employed by the public accounting firm during the 1 year period preceding the audit.

Work with the Internal Audit Function

The Corporation utilizes the UT System Audit Office to perform internal audit functions hereunder with respect to the Corporation and investment funds and report directly to the Committee. The Committee has the following duties and responsibilities with respect to internal audit:

- review the independence, qualifications, activities, resources and structure of the internal audit function;
- -review significant findings and recommendations made by the internal auditor and management's response and proposed implementation plan;
- review the proposed internal audit plan for the coming year to determine that it addresses key areas of risk and that there is appropriate coordination with the external auditor;
- review completed internal audits and the status of management's implementation of related recommendations; and
- receive a progress report on the internal audit plan with explanations for any deviations from the original plan.

Monitor Ethics Program

The Committee is responsible for overseeing codes of conduct/conflicts of interest and a system of addressing complaints. The Committee has the following duties and responsibilities in monitoring the ethics program:

- periodically review the Code of Ethics policy of the Corporation and recommend any proposed changes to the Policy Committee for concurrence and submission to the Board for approval;
- periodically evaluate and review the Corporation's compliance process;

- follow the UT System compliance guideline as outlined in the Action Plan to Enhance Institutional Compliance; and
- review procedures for the receipt, retention and treatment of complaints about accounting, internal accounting controls or auditing matters.

Oversee Regulatory Compliance

The Committee is responsible for overseeing the effectiveness of the system for assuring compliance with laws and regulations and has the following duties and responsibilities:

- review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management’s investigation and follow-up of any fraudulent acts or non-compliance;
- obtain regular updates from management, the Chief Compliance Officer, and the Corporation’s legal counsel regarding compliance matters that may have a material impact on the Corporation’s and investment funds’ financial statements or compliance policies;
- obtain regular updates from management and the Chief Compliance Officer regarding their consideration of all regulatory compliance matters in connection with the preparation of the financial statements; and
- review the findings of any examinations by regulatory agencies, including the Texas State Auditor’s Office.

Oversee the Corporation’s Enterprise Risk Management

Without limiting any of the foregoing, the Committee, along with management and other personnel, as directed by the ~~UTIMCO~~ Board, is responsible for the Corporation’s enterprise risk management. Enterprise risk management assists management in achieving the Corporation’s performance goals and prevents loss of resources; helps ensure effective reporting and compliance with laws and regulations; and helps avoid damage to the Corporation’s reputation and associated consequences. Enterprise risk management enables management to effectively deal with uncertainty and associated risk and opportunity, enhancing the capacity to build value. The Committee has the following responsibilities related to enterprise risk management:

- evaluate the overall effectiveness of the Corporation’s achievement of its objectives, as set forth in four categories:
 - Strategic – high-level goals, aligned with and supporting its mission;
 - Operations – effective and efficient use of its resources;
 - Reporting – reliability and timeliness of reporting; and

- > Compliance -
 - with applicable laws and regulations;
 - with non-investment Board policies such as the Code of Ethics and Delegation of Authority, and non-investment items in the Board investment policies; and
 - with 1) investment risk management and compliance, 2) integrity of risk management procedures and controls, 3) integrity of risk models and modeling processes, ~~and~~ 4) liquidity of the Permanent University Fund, General Endowment Fund, and Intermediate Term Fund; 5) compliance with the Derivative Investment Policy; 6) the categorization of investment mandates; and 7) the monitoring of manager mandates;
- evaluate whether management is setting the appropriate tone at the top by communicating the importance of enterprise risk; and
- inquire of management, the Chief Compliance Officer, the UT System Audit Office, and the independent external auditor about significant enterprise risks or exposures to the Corporation and how these are being managed.

With respect to 1) investment risk management and compliance, 2) integrity of risk management procedures and controls, 3) integrity of risk models and modeling processes, and 4) liquidity of the Permanent University Fund, General Endowment Fund, and Intermediate Term Fund, 5) compliance with the Derivative Investment Policy; 6) the categorization of investment mandates; and 7) the monitoring of manager mandates, the Committee may rely on assurances from the Risk Committee in determining compliance.

Review the Overall Duties and Responsibilities of the Chief Compliance Officer

The Chief Compliance Officer will report functionally to the Committee and administratively to the CEO and Chief Investment Officer. The CEO and Chief Investment Officer will nominate the Chief Compliance Officer for hiring by the Committee. The Committee has exclusive dismissal authority. ~~The Chief Compliance Officer will develop an annual plan for review and approval by the Committee.~~ The Committee and the CEO and Chief Investment Officer will approve the Chief Compliance Officer's individual performance goals and achievement of the goals, and will make joint recommendations to the Compensation Committee as to base salary and performance incentive awards for the Chief Compliance Officer. ~~The CEO and Chief Investment Officer will nominate the Chief Compliance Officer for hiring by the Committee. The Committee has exclusive dismissal authority.~~ The Chief Compliance Officer will report compliance activities directly to the Committee at its regular meetings and to the chair between meetings. The Chief

Compliance Officer will develop an annual plan for review and approval by the Committee.

The CEO and Chief Investment Officer will direct day-to-day responsibilities of the Chief Compliance Officer with oversight by the Committee.

Other Duties

The Committee has the following additional duties and responsibilities:

- make regular reports (at least twice each calendar year) to the Board regarding the Committee's activities and such other reports as may be requested by the Board;
- periodically review ~~and reassess~~ the adequacy of this ~~Audit~~ Charter ~~periodically~~ and recommend any proposed changes to the Board for approval;
- perform such additional special functions, duties or responsibilities related thereto as may from time to time be designated by the Board Chairman;
- ~~direct the scope of the Corporation's voluntary compliance with relevant provisions of the Sarbanes—Oxley Act of 2002, monitor and review the implementation of the relevant provisions; and~~
- ~~evaluate the Committee's own performance, both of individual members and collectively, on a regular-periodic basis; and~~
- perform any other activities consistent with this Charter, the Corporation's Bylaws, and applicable laws as the Committee or the Board deems necessary or appropriate.

Powers and Limitations

The Committee shall have the authority to retain special legal, accounting or other consultants to advise the Committee. The Committee may request any officer or employee of the Corporation, the Corporation's outside legal counsel or an employee in the UT System Audit Office to attend any meeting of the Committee or to meet with any members of, or consultants to, the Committee.

Approved by the Board of Directors on ~~April 14, 2014~~ February 20, 2014.

**The University of Texas Investment Management Company
Institutional Compliance Program Annual Report
for the Quarter Ended November 30, 2013**

Section I – Organizational Matters

- One meeting of the Ethics and Compliance Committee was held during the quarter: September 20, 2013.
- Director changes included the following: Director Jeff Hildebrand was appointed to a three-year term on September 12, 2013. Director Robert L. Stillwell was appointed to a three-year term on November 14, 2013.

Section II - Risk Assessment, Monitoring Activities and Specialized Training (Performed by Responsible Party)

High-Risk Area #1: Investment Due Diligence

Responsible Party: Managing Directors for Public Markets, Marketable Alternatives, 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 68 meetings/calls with potential managers. Serious due diligence was initiated on one manager. One manager was hired. Ongoing review of active external managers included 50 meetings/calls. Additional efforts included monthly performance tracking, reviews and analyses by the team, one portfolio review meeting, and participation in two annual meetings.

Marketable Alternative Investments: The Marketable Alternative Investments group participated in 83 meetings/calls with potential managers. Serious due diligence was initiated on four managers. One manager was hired. Ongoing review of active external managers was conducted in the form of 84 meetings/calls/site visits. Additional efforts included monthly performance tracking, reviews and analyses by the team, and participation in seven annual meetings/functions with active managers.

Private Markets: The Private Markets group initiated serious due diligence on six potential managers. Two commitments were made. The Private Markets group also participated in 112 meetings with active external managers and 74 meetings with potential managers, including site visits, conference calls, and Advisory Board and Annual meetings. The team also participated in six ILPA meetings.

Natural Resources: The Natural Resources group participated in 33 meetings/calls with potential managers. Serious due diligence was initiated on four managers. Two managers were hired. Ongoing review of active external managers included 107 meetings/calls. Additional efforts included participation in 3 annual meetings with active managers.

Real Estate: The Real Estate group participated in 56 meetings/calls with potential managers. No serious due diligence was initiated during the quarter. Three managers were hired. Ongoing review of active external managers included 92 meetings/calls. Additional efforts included participation in eight annual meetings and one portfolio review meeting.

Specialized Training: Staff attended 19 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 the quarter, including trend analysis of risk exposure and attribution, as well as analysis of managers’ portfolio-level risk and performance.
- Risk Team developed an analysis of the commodity allocation of the Natural Resources MCC portfolio, which was presented and discussed in several forums.
- Risk Team started looking into new ways to better convey the risk attributes of the Portfolio; to that end the Risk Team is meeting with members of the Risk Committee, and has also solicited sample reports from members of the Risk Management Working Group. In particular, Risk Team worked on calculating risk-adjusted returns when compared to peers.
- Risk Team continued to engage in discussions with Regulatory Entities and current counterparties 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 and to support investment staff in understanding the risks inherent in managers operating under agency agreements.
- 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. Risk Team took a fresh look at the future scenarios with high risk, and is working with Portfolio Positioning Task Force to address such scenarios.
- Risk Team continued the development and implementation of a proposed new Private Investments benchmark.
- All internal derivatives were reviewed and analyzed in detail prior to initiation. The insurance budget is continuously tracked. As a preparation for single-name hedges of Private Investments, prime broker structure was compared to swap/ISDA structure, and various hedging derivatives were studied.
- Derivative positions are monitored on a daily basis. External managers that may use derivatives are monitored daily for spikes in returns or in volatility. Effects of derivatives on the overall portfolio are monitored monthly. Fixed income duration and tracking error is being monitored on an ongoing basis. Managers’ use of margin and leverage is monitored on an ongoing basis. Risk Team confirmed each month downside risk and VaR calculations.
- Risk Team participated in the due diligence of one new MCC manager. Risk Team prepared projections on portfolio risk, country exposure, liquidity, and asset allocations; updated projections on a weekly basis.

Specialized Training: Risk Team participated 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:

- New employee security training sessions were completed for all new employees and interns.
- All laptops and desktops in use are encrypted; new machines will be encrypted during installation and configuration.
- UTIMCO’s CISO has exempted the Bloomberg terminals from the encryption requirement.
- Several alerts were sent 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.
- Random laptop security reviews continue. The CISO and CCO verify laptops are physically secured to the desk. Violators are notified as necessary.
- Compliance checks for nightly shutdown/logout. 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 continue.
- Classic VPN continues to be phased out and replaced with Citrix and Remote Desktop.
- Exchange upgraded to 2013, not without issues. Most issues have been resolved. Outlook Web Access (OWA) is currently available. Will re-evaluate the security posture of OWA and public access. OWA still available from inside UTIMCO and via Citrix.
- Lastpass initial rollout complete. One-on-one training continues as requested. Transition of all credentials off the intranet to Lastpass will continue.
- Continuing to monitor and address policy violations for unauthorized software, sharing of credentials, and use of network resources.
- UT System is replacing ISAAC with RSA Archer for risk assessments for all institutions, UTIMCO is included. UTIMCO staff will need to get up to speed on RSA Archer once it has been rolled out.
- No malware infections this quarter. We continue to looking for a better desktop AV/AM tool.
- Secunia patch management implemented to update Java, Flash, and other third-party software.
- ARDC Disaster recovery site hardware installed. Services are being brought online.
- Exchange disaster recovery pressed into service due to server failure and worked as designed.
- ShoreTel disaster recovery pressed into service due to server failure and worked as designed.
- Attend meeting of the CISO council and UT INFOSEC groups in November.
- One cloud based software application, Pivotal Tracker, was purchased without prior security review. A security review was completed after purchase. While controls are adequate for public information, they are not adequate for sensitive or confidential information. Permissible passwords include anything with 6

or more characters. There are no complexity, history, or entropy requirements with respect to the user password. As long as the intended use doesn't expand beyond basic tracking of ISS bugs to include details about the configuration, security, or system details of the ISS system or UTIMCO's networks, the security is adequate for the data being stored.

- Performed security reviews on SQL Sentry Plan Explorer Pro, Plugin for SSMS, and Plugin for Visual Studio. Legal reviews will be completed once final purchase decisions are made.

Specialized Training: CISO attended several teleconference meetings of the Chief Information Security Officers Council. Also attended training on SharePoint, Citrix, Juniper.

High-Risk Area #4: Investment Compliance

Responsible Party: Manager - Portfolio Accounting and Operations

Key "A" risk(s) identified:

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

Key Monitoring Activities:

- Verified that investments are in compliance with rules and guidelines in policies, rules and regulations utilizing custodian's software and in-house developed databases and reports.
- Work continues to verify that custodian software queries and database queries are working properly for manager compliance. No visit by Mellon this quarter.
- 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:

- Two new directors were appointed during the quarter. One financial disclosure statement and ethics compliance statement was received from a director on a timely basis. The other director has until December 11, 2013 to file the required forms.
- One new employee received employee training within a reasonable time after hire.
- The financial disclosure statements and ethics compliance statements were received timely from all new employees.
- 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. The restricted list was sent to one manager 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.
- Effective April 1, 2013, a new procedure regarding the periodic review of public resources for comparison with financial disclosure statement information provided by Directors and Key Employees was adopted, which requires review of these statements within 90 days after the deadline for filing the statements. CCO began the review of public resources for the two new directors and two employees now considered Key Employees due to promotion to Managing Director.
- No securities transactions requiring preclearance occurred during the quarter. All transaction disclosures forms were turned in by the required ten days.
- CEO approval was given to two employees for outside employment.
- Twenty-three (23) trips/events containing vendor reimbursed/paid expenses, which required documentation and supervisor approval, had appropriate documentation and approval. Three (3) additional trips occurred that were not preapproved; one received post-approval. Thirteen (13) sponsored entertainment events required and received CEO, CCO, or UTIMCO Chairman approval.

Specialized Training: None

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

High-Risk Area #1: Investment Due Diligence

Assessment of Control Structure: *Well controlled*

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

Significant Findings: None.

High-Risk Area #2: Investment Risk Management

Assessment of Control Structure: *Well controlled*

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

Significant Findings: None

High-Risk Area #3: Information Technology & Security

Assessment of Control Structure: *Well controlled*

Assurance Activities Conducted: CCO continues to meet with CISO 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

One training session for new hires was held during the quarter.

Section V – Action Plan Activities

See updated Institutional Compliance Action Plan Fiscal Year 2014.

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	FYTD 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%

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

**The University of Texas Investment Management Company
Institutional Compliance Action Plan
Fiscal Year 2014**

#	ACTION ITEM	TARGET COMPLETION DATE	STATUS
<i>A. RISK ASSESSMENT</i>			
1.	Review risk assessments to determine if updates are needed and map controls identified in the risk assessment to controls identified in the process documentation where needed	11/30/13	<i>Completed</i>
<i>B. MONITORING ACTIVITIES / ASSURANCE</i>			
2.	Continual enhancement of compliance monitoring and reporting	On-going	<i>Revised monitoring plans in process</i>
3.	Periodic review of Responsible Party Monitoring Plan documentation for high risk areas A	On-going	<i>First quarter fy 14 reviewed</i>
<i>C. COMPLIANCE TRAINING / AWARENESS</i>			
4.	Provide Code of Ethics training and information to improve staff awareness of compliance program	04/30/14	<i>One training session during the quarter</i>
5.	Identify and network with similarly situated compliance professionals	On-going	<i>Attended Association of Corporate Counsel annual meeting</i>
<i>D. REPORTING</i>			
6.	Conduct quarterly meetings with the internal ethics and compliance committee	On-going	<i>Last meeting held on September 17, 2013</i>
7.	Provide quarterly/annual reports to the Audit and Ethics Committee and System-wide compliance office	On-going	<i>Annual report submitted September 30, 2013</i>
<i>E. OTHER / GENERAL COMPLIANCE</i>			
8.	Manage and transition compliance work from Back Office staff to Compliance Office after Legal and Compliance Specialist is hired	08/31/14	<i>Interviewing of prospective employee in process</i>
9.	Update/revise Institutional Compliance Program Manual as needed	08/31/14	<i>No activity</i>
10.	Update/review UTIMCO Fraud Prevention and Detection Program as needed	08/31/14	<i>No activity</i>
11.	Manage implementation and assist with live testing of Business Continuity Plan; update as business processes change	08/31/14	<i>Final tasks assigned; rewrites ongoing in second quarter; staff training to be held in January; live testing in February</i>
12.	ICAC activities: ICAC and Standing Committee participation	On-going	<i>No activity</i>

Updated 12/16/13

#	ACTION ITEM	TARGET COMPLETION DATE	STATUS
13.	Hotline reporting	On-going	<i>1 hangup/wrong number during the quarter</i>

Updated 12/16/13

Agenda Item
UTIMCO Board of Directors Meeting
February 20, 2014

Agenda Item: Report on and Discussion and Appropriate Action Related to Items from the Policy Committee: (1) Proposed Amendments to the Exhibits of the Investment Policy Statements; and (2) Proposed Amendments to the Charter of the Policy Committee

Developed By: Staff

Presented By: Stillwell, Zimmerman

Type of Item: Action item; Action required by UTIMCO Board and by UT System Board of Regents related to proposed amendments to the Investment Policy Statements

Description: The Policy Committee (“Committee”) will meet on February 13, 2014, separately and jointly with the Compensation Committee. The Committee’s agenda for the joint meeting includes discussion and appropriate action related to proposed amendments to Exhibits of the Investment Policy Statements. The separate meeting agenda includes: 1) discussion and appropriate action related to minutes of the July 9, 2013 meeting and the July 9, 2013 joint meeting of the Policy and Risk Committees; and 2) discussion and appropriate action related to proposed amendments to the Charter of the Policy Committee.

Discussion: ***Exhibits of the Investment Policy Statements.*** Staff is recommending a change to the Private Investments benchmarks and will present to the Policy Committee and the Compensation Committee the rationale for the change. The change is reflected in the Exhibits of the Investment Policy Statements for the Permanent University Fund (PUF), General Endowment Fund (GEF), Permanent Health Fund (PHF) and the Long Term Fund (LTF). The Exhibits are enclosed for the approval of the UTIMCO Board and further approval by the UT System Board of Regents required. Staff is requesting that the proposed benchmark be effective as of September 1, 2013 and the Policy Portfolio be “trued up” in the month that the change is approved by the UT System Board of Regents. If approved, the UTIMCO Compensation Program will be amended and restated to incorporate the new benchmark.

Mr. Zimmerman will present the *Private Investments Benchmark* presentation. Exhibit A of the Investment Policy Statements of the PUF and GEF and Exhibit B of the PHF and LTF will be amended to reflect the proposed change in the Private Investments benchmarks. Attachment 1 reflects the proposed changes to the PUF, GEF, PHF, and LTF. The proposed benchmark is the Custom Cambridge Fund of Funds Benchmark. It replaces the Venture Economics Custom Index for all Asset Classes for the Private Investments except Real Estate and the Custom NACREIF for Real Estate Private Investments. Cambridge will supply a database of Private Equity Fund of Funds data, which will be used to calculate the benchmark based on Staff developed methodology.

Agenda Item
UTIMCO Board of Directors Meeting
February 20, 2014

Charter of the Policy Committee. Staff is proposing changes to the Charter of the Committee (the “Charter”) and will discuss the changes with the Committee. The purpose of the Charter is to outline the duties and responsibilities of the Committee. In accordance with the Charter of the Committee, the Committee will periodically review and reassess the adequacy of the Charter and recommend any proposed changes to the UTIMCO Board for approval. The current Charter was approved by the UTIMCO Board on April 14, 2011.

The following changes to the Charter are proposed by staff:

- Page 2; *Duties and Responsibilities*, added language to assign responsibility for the Corporation’s employee benefit plans to the Committee
- Pages 2; *Duties and Responsibilities*, added language to assign responsibility for the UTIMCO Travel Guidelines to the Committee
- Page 2; *Duties and Responsibilities*, moved second and third paragraphs to *Other Duties* section
- Page 3; *Duties and Responsibilities, Investment Policies of the U.T. Board*, deleted last sentence in third paragraph because it was included elsewhere.
- Page 3; *Other Duties*, added paragraphs moved from *Duties and Responsibilities* section with minor edits
- Other minor editorial changes.

Recommendation: The Committee will request the UTIMCO Board to take appropriate action related to the proposed amendments to the Exhibits of the Investment Policy Statements for the PUF, GEF, PHF and LTF for the fiscal year beginning September 1, 2013. The Committee will also request the UTIMCO Board take appropriate related to the proposed amendments of the Charter of the Policy Committee.

Reference: Attachment 1 – Exhibit A and B to Investment Policy Statements
Charter of the Policy Committee
Private Investments Benchmark presentation

**RESOLUTION RELATED TO EXHIBITS OF THE
INVESTMENT POLICY STATEMENTS**

RESOLVED, that amendments to the Exhibits A of the Investment Policy Statements of the Permanent University Fund and General Endowment Fund, and Exhibits B of the Investment Policy Statements of the Permanent Health Fund and Long Term Fund, as presented be, and are hereby, approved, subject to approval by the Board of Regents of The University of Texas System, effective September 1, 2013.

**RESOLUTION RELATED TO CHARTER OF
THE POLICY COMMITTEE**

RESOLVED, that the amendments to the Charter of the Policy Committee be, and are hereby approved, in the form submitted to the Corporation's Board of Directors.

ATTACHMENT 1 - EXHIBIT A AND B
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES
EFFECTIVE SEPTEMBER 1, 2013

POLICY PORTFOLIO	FYE 2014		
	Min	Target	Max
<u>Asset Classes</u>			
Investment Grade Fixed Income	5.0%	10.5%	25.0%
Credit-Related Fixed Income	0.0%	8.8%	30.0%
Real Estate	0.0%	8.2%	12.5%
Natural Resources	5.0%	13.3%	25.0%
Developed Country Equity	30.0%	43.8%	60.0%
Emerging Markets Equity	5.0%	15.4%	25.0%
<u>Investment Types</u>			
More Correlated & Constrained	35.0%	41.5%	60.0%
Less Correlated & Constrained	25.0%	30.0%	37.5%
Private Investments	17.5%	28.5%	35.0%

*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 2014
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	14.0%
MSCI Emerging Markets with net dividends	10.0%
Hedge Fund Research Indices Fund of Funds Composite Index	30.0%
Venture Economics Custom Index Custom Cambridge Fund of Funds Benchmark	23.3% 28.5%
NACREIF Custom Index	5.2%



POLICY/TARGET RETURN/RISKS	FYE 2014
Expected Annual Return (Benchmarks) **	7.40%
One Year Downside Deviation	9.30%
Risk Bounds	
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%.

ATTACHMENT 1 - EXHIBIT A AND B
(continued)
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE SEPTEMBER 1, 2013

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE 2014

FYE 2014		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	Investment Grade	Barclays Capital Global Aggregate Index (7.5%)	3.0%	0.0%	10.5%
	Credit-Related	0.00%	5.0%	3.8%	8.8%
Real Assets	Real Estate	FTSE EPRA/NAREIT Developed Index Net TRI USD (2.5%)	0.5%	Custom-NACREIF 5.2%	8.2%
	Natural Resources	50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index (7.5%)	0.0%	5.8%	13.3%
Equity	Developed Country	MSCI World Index with Net Dividends (14.0%)	19.5%	10.3%	43.8%
	Emerging Markets	MSCI EM Index with Net Dividends (10.0%)	2.0%	3.4%	15.4%
Total		41.5%	30.0%	28.5%	100.0%

 Hedge Fund Research Indices Fund of Funds Composite Index
 ~~Venture Economics Custom Index~~
 Custom Cambridge Fund of Funds Benchmark

Investment Policy/Benchmarks are indicated in Black/Bold
Reportable Targets are indicated in Gray



THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

Private Investments Benchmark



Summary

- **Benchmarks affect incentive compensation**
- **Private Investment benchmarks are the most difficult to determine**
- **UTIMCO last addressed Private Investment benchmarks nine years ago**
 - **Best data available**
 - **Different benchmarks used for Investment Team and Total Fund**
- **Better, though still less than desirable, data is now available, including Fund of Funds returns**
- **A trailing three-year, vintage-year weighted, Fund of Funds average return benchmark is recommended by Cambridge and supported by staff for both the Investment Teams and Total Fund**
- **If the new benchmark had been used over the past five years, Investment Team compensation would have been marginally negatively affected, while Total Fund compensation would have been marginally positively affected**
- **As the benchmark data set continues to improve, the Board may wish to revisit this issue, particularly with an eye to Asset Class specific benchmarks**



Agenda

- **Context**
- **UTIMCO History**
- **Recent Analysis and Recommendations**
- **Implementation**



Context



Purpose and Impact

- The purpose of benchmarks is to give UTIMCO's Board and client an ability to gauge actual investment performance relative to what investment performance would have been in the absence of UTIMCO staff
 - Returns
 - Risk
- Benchmark's primary impact is in calculating staff compensation



Private Investments Impact on Compensation

	Percent of Impact on Compensation		
	Total	Investment	Total
	Fund ¹	Team	
CEO	18.0 %	0.0 %	18.0 %
Deputy CIO	12.0 %	0.0 %	12.0 %
MD's			
- Private Investments	9.0 %	30.0 %	39.0 %
- RE & Nat Res	9.0 %	20.0 %	29.0 %
- LCC & MCC	9.0 %	0.0 %	9.0 %
Directors			
- Private Investments	6.0 %	30.0 %	36.0 %
- RE & Nat Res	6.0 %	20.0 %	26.0 %
- LCC & MCC	6.0 %	0.0 %	6.0 %
Associates			
- Private Investments	4.5 %	20.0 %	24.5 %
- RE & Nat Res	4.5 %	15.0 %	19.5 %
- LCC & MCC	4.5 %	0.0 %	4.5 %
Analysts			
- Private Investments	3.0 %	20.0 %	23.0 %
- RE & Nat Res	3.0 %	10.0 %	13.0 %
- LCC & MCC	3.0 %	0.0 %	3.0 %

¹Assumes Privates are 30% of the Total Fund



Principles

- Benchmarks should be:
 - Investable
 - Straightforward (avoid “gaming” and misunderstandings)
 - Infrequently changed



Current Benchmark Concerns

- Not investable
- Inferior data
- Difference between benchmarks for
 - Total Fund Private Investment Component
 - Private Investment and Natural Resources Teams
 - Real Estate Team



Challenges

- Private Investment is the most difficult Investment Type to benchmark
 - Investable option does not exist
 - Longer-lived assets; staff tenure typically shorter than Private Investment cycles
 - Smaller universe from which to gather meaningful comparisons
- Cambridge Associates was engaged to conduct analysis and make recommendations, as has been customary for UTIMCO's determination of appropriate benchmarks



UTIMCO History



Benchmark Evolution

- UTIMCO last changed its Private Investment benchmark in 2004; Private Investments then represented 10% of Total Fund assets vs 27% today and 33% projected by 2018
- The benchmark adopted in 2004 utilizes a “Custom Venture Economics” methodology
 - Venture Economics was the leading data source
 - A Private Equity Fund of Funds benchmark was unavailable so individual Fund returns were utilized
 - The Private Investment component of the Total Fund benchmark is different than Investment Team benchmark:

	Total Fund	Investment Type
Time Period	Trailing Three Years	"Since Inception"
Data	Aggregate Cash Flows	Median Fund
Vintage Year Weighting	No	Yes



Historical Total Fund vs. Investment Team Benchmarks

- The Total Fund benchmark has averaged 11.7% and the Investment Teams benchmark has averaged 3.6% over the past nine years

Period Ending August	Total Fund Benchmark (Rolling Three Years, Aggregate Cash Flows)			Investment Teams Benchmark (Since Inception; Vintage Year Weighted Median Fund)		
	UTIMCO Actual	Spread		UTIMCO Actual	Spread	
2013	14.3%	14.3%	0.0%	9.1%	10.7%	1.6%
2012	16.3	15.4	(0.9)	7.8	11.8	4.0
2011	3.6	6.8	3.2	7.1	11.1	4.0
2010	0.4	0.6	0.2	0.8	6.1	5.3
2009	1.5	4.3	2.8	(6.2)	(3.7)	2.5
2008	19.4	17.8	(1.6)	2.0	9.6	7.6
2007	22.4	27.2	4.8	6.2	20.8	14.6
2006	20.5	21.4	0.9	3.3	16.0	12.7
2005	6.6	10.9	4.3	2.3	16.0	13.7
Average	11.7%	13.2%	1.5%	3.6%	10.9%	7.3%



Benchmark Evolution

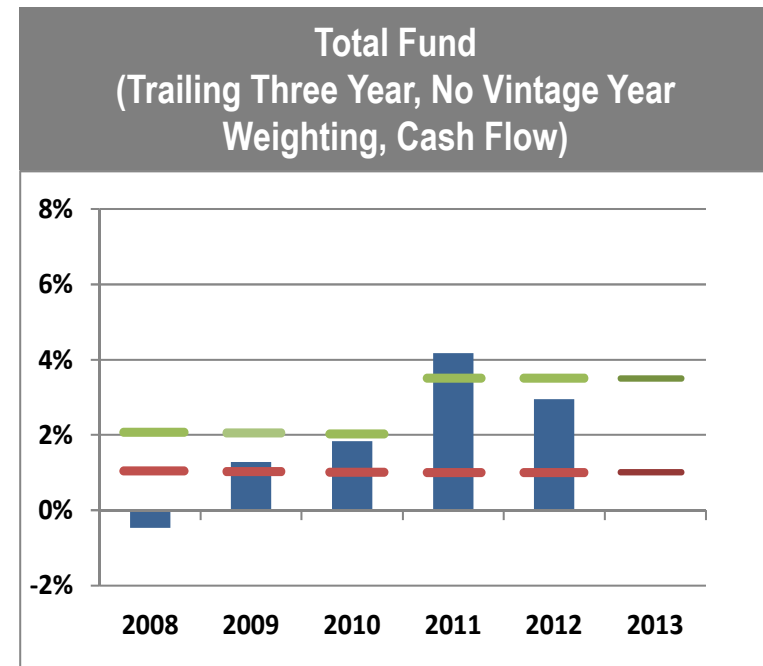
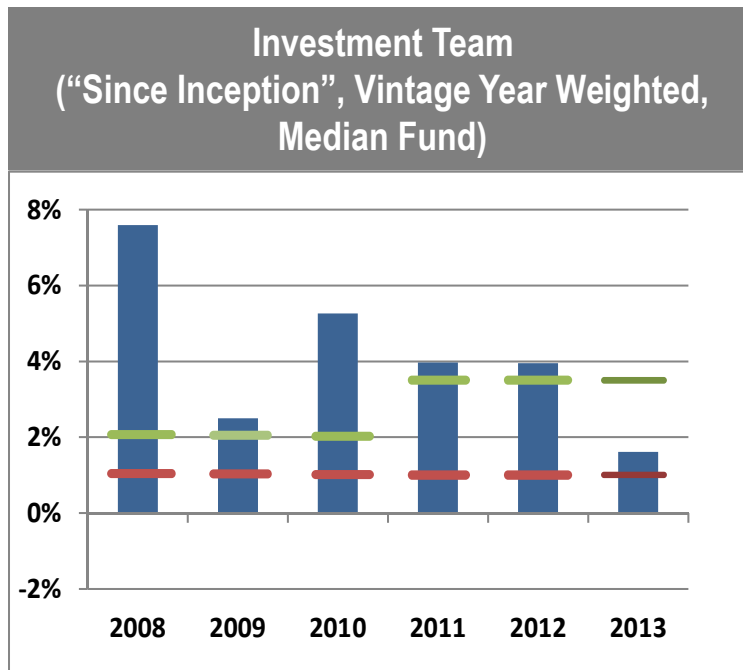
- In 2008, a Private Real Estate benchmark was added
 - Actual Private RE benchmark data availability proved extremely limited
 - Fortunately, Private RE investments represented a small portion of Total Endowment and the RE Asset Class
- Incentive compensation Targets & Maximum “hurdles” for the Investment Teams were set at:

	Target	Maximum
2004	105	210
2011	100	350
2014	150	450



Performance vs Benchmark

- The Investment Team's performance has exceeded their maximum hurdles in five of the past six compensation periods
- At the Total Fund level, Private Investment returns exceeded the target hurdle in four of the past six compensation periods, however that only reached the maximum hurdle in 2011



Actual Value Add



Target Value Add



Max Value Add





Recent Analysis and Recommendations



Considerations

- Benchmark determination entails a number of issues, including
 - I. Data Provider
 - II. Fund of Funds vs. Individual Funds
 - III. Time Period: Trailing Three Years vs. “Since Inception”
 - IV. Vintage Year Weightings
 - V. Mean (Average), Median or Cash Flows
 - VI. Single vs. Asset-Class Specific benchmark
 - VII. Reporting Lags
 - VIII. Hurdles



I. Data Provider

- Private Equity Fund of Funds data was not available in 2004, but is available now
 - Cambridge Associates (“CA”) and Burgiss have become leading data providers
 - Venture Economics (“VE”) has not invested in their database and it is no longer a viable option
 - ILPA recently partnered with Cambridge to increase size and quality of database
- Cambridge recommends, and staff concurs with, using the Private Equity Fund of Funds data as provided by Cambridge

# of PE Fund of Funds		
	Cambridge	Burgiss
Pre-2000	82	56
2000	45	27
2001	24	13
2002	34	11
2003	36	23
2004	32	28
2005	70	40
2006	81	69
2007	85	54
2008	49	63
2009	19	22
2010	26	18
2011	21	26
2012	13	18
TOTAL	<u>617</u>	<u>468</u>



II: Fund of Funds vs. Individual Funds

- In the absence of UTIMCO staff, the U.T. System Board of Regents could invest in one or more Fund of Private Equity Funds
- The U.T. System Board of Regents could also hire a consultant to select individual Private Equity Funds, although fees would likely be somewhat similar to the Funds of Funds option
- Cambridge recommended, and staff concurs with, using a Fund of Funds return to calculate the benchmark



III. Time Period

- Currently, the incentive compensation plan calculation for the Private Investments component of the Total Fund utilizes “Trailing Three Years” returns, while the Investment Teams’ incentive compensation calculation utilizes “Since Inception”
- Given the long-lived nature of Private Investments, “Since Inception” is a more accurate measure than a trailing three year time period
- “Since Inception” returns, however, do not completely capture current staff’s performance
 - Legacy investments made when current staff was not at UTIMCO or in more junior positions
 - Previous few years and recent investment results won’t be known for some years to come
- Also, the Total Endowment’s incentive compensation plan uses a trailing three-year measure for all other Asset Classes and Investment Types
- Cambridge recommends, and staff concurs with, adopting a Trailing Three Year methodology for the Total Fund and Investment Teams



IV. Vintage Year Weightings

- One consideration in calculating the benchmark is whether or not to weight the benchmark's returns by vintage year
- In a mature, steady portfolio vintage year weighting is less important than in a declining or growing portfolio
 - For example, in a growing portfolio such as UTIMCO's, more recent vintage years are more likely to be in the "J Curve" or have lower returns due to newer investments
- Vintage year benchmark weightings more closely resemble the actual portfolio and, therefore, more accurately capture staff's value-add based on manager selection
- Cambridge recommends, and staff concurs with, using vintage year weightings by NAV



V. Mean (Average), Median or Cash Flows

- Cambridge and staff analyzed and discussed three potential specific, trailing three year Fund of Funds benchmarks:
 - Mean (Average) Returns of all Fund of Funds
 - Median (the middle Fund of Funds)
 - Cash Flow (All Fund of Funds)
- The Mean is the most likely representative of the investable option, as the client is unlikely to invest in all (Cash Flow) or a single (Median) Fund of Funds
- Cash Flows will always skew the results higher as the lower bound is always zero and there is no upper bound
- Historically, the mean returns are higher than the Median but lower than Cash Flows
- Cambridge recommends, and staff concurs with, using the Mean



Comparison of Individual Fund and Fund of Funds Benchmark

3 years ending	Individual Fund ¹			Fund of Funds ¹		
	Median	Average	Pooled	Median	Average	Pooled
8/31/2013	4.7%	7.8%	13.0%	9.0%	9.6%	11.0%
8/31/2012	3.5%	6.1%	13.9%	9.5%	10.2%	11.9%
8/31/2011	-4.0%	-5.3%	1.7%	0.9%	1.2%	2.5%
8/31/2010	-6.9%	-8.2%	-4.2%	-3.7%	-3.5%	-2.6%
8/31/2009	-4.7%	-0.6%	1.5%	-0.2%	1.3%	2.2%
8/31/2008	3.8%	18.9%	22.5%	12.7%	15.8%	18.0%
8/31/2007	5.1%	22.6%	30.9%	14.8%	19.0%	22.2%
8/31/2006	2.4%	16.2%	25.3%	11.1%	13.5%	17.1%
8/31/2005	-1.0%	4.7%	15.0%	2.6%	3.6%	6.2%
Average:	0.3%	6.9%	13.3%	6.3%	7.9%	9.8%

¹ Vintage Year Weighted



VI. Single vs. Asset Class-Specific Benchmarks

- Using Asset-Class specific benchmarks for each Private Investment team was discussed
- Private Equity Fund of Funds data by Asset Class is still too limited to provide meaningful benchmarks by Asset Class, however
- UTIMCO's actual experience with its Real Estate and Natural Resources Investment Teams' investments is also early in its life-cycle
- Cambridge recommends, and staff concurs with, using the "General" Cambridge Fund of Funds Benchmark and total actual private investment returns across all private investment teams

# of PE Fund of Funds	
	<u>Cambridge</u>
General	316
Credit/Buyout	120
Venture Capital	116
Real Estate	39
Natural Resources	26
TOTAL	<u>617</u>



VII. Reporting Lags

- A reality of Private Investment actual and benchmark data is that the returns are not timely
 - Funds have 45-90 days to report results after period ends
 - Fund of Funds must then aggregate underlying Fund data
 - Benchmark providers must then aggregate the Fund of Funds data
 - Actual results typically reflect Fund returns as of June 30th +/- known cash flows through August 31st, which are typically minimal
- The most accurate benchmark, therefore, would also be as of June 30th. This data is not available until early November.
- Cambridge recommends, and staff concurs, that Benchmark data through June be utilized
 - One implication of this approach, however, is that Total Fund and Private Investments Investment Type value add, while still being reported every month, won't be finalized for the compensation year end until early November. A "true-up" to the monthly reported value-added numbers for July and August will take place in November for purposes of calculating incentive compensation.



VIII. Hurdles

- UTIMCO’s incentive compensation plan is designed to reward actual performance in excess of returns that could be realized without UTIMCO
 - Incentive compensation begins at benchmark performance
 - Maximum Incentive Compensation is targeted to be reached at top quartile performance
 - Over the past six trailing three year periods, top quartile performance has outpaced average performance by 2.9% to 7.1% with an average of 4.7% over the past six trailing-three year periods

	Trailing 3-Year Periods						
	2008	2009	2010	2011	2012	2013	Average
Top Quartile	18.7%	5.8%	0.5%	8.3%	15.3%	14.3%	10.5%
Mean	15.8%	1.3%	-3.5%	1.2%	10.2%	9.6%	5.8%
Difference	<u>2.9%</u>	<u>4.5%</u>	<u>4.0%</u>	<u>7.1%</u>	<u>5.1%</u>	<u>4.7%</u>	<u>4.7%</u>

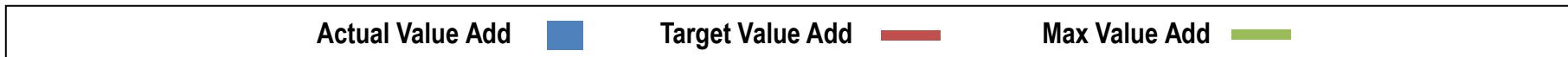
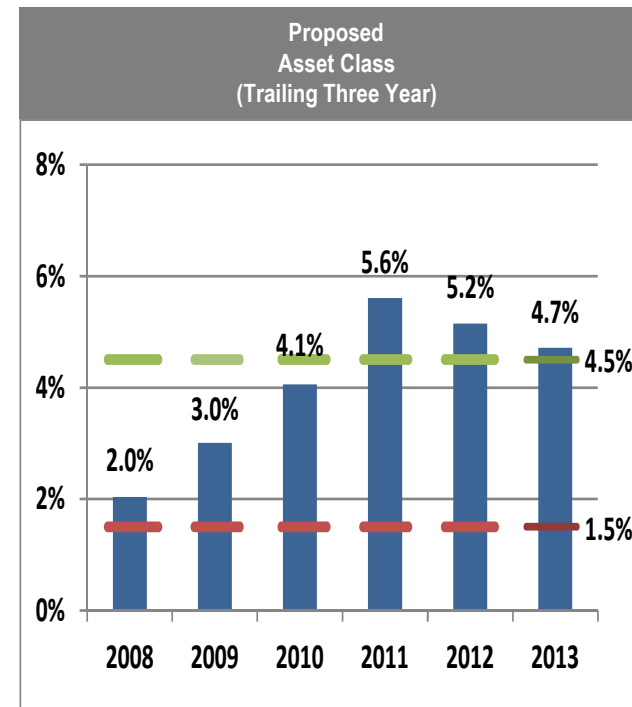
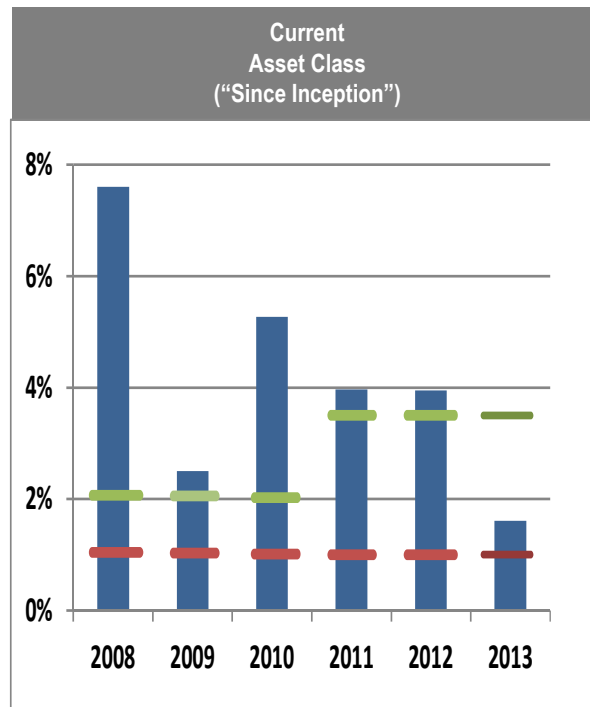
- Cambridge recommends, and staff concurs with, the following hurdles for incentive compensation

	Historic	New
Target	100	150
Maximum	350	450



Proposed vs Current Benchmark: Investment Team Historic Performance

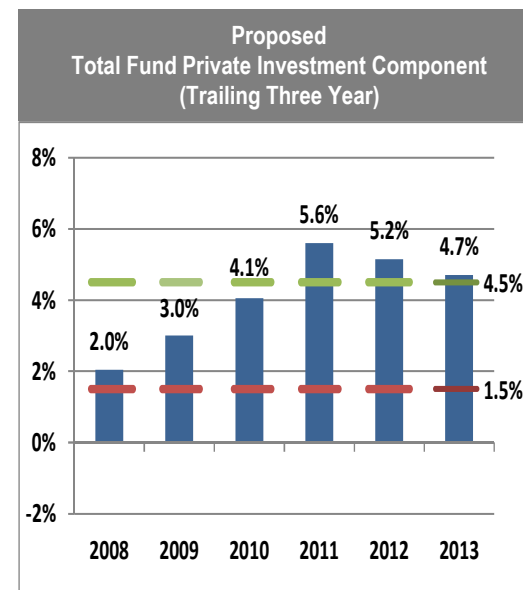
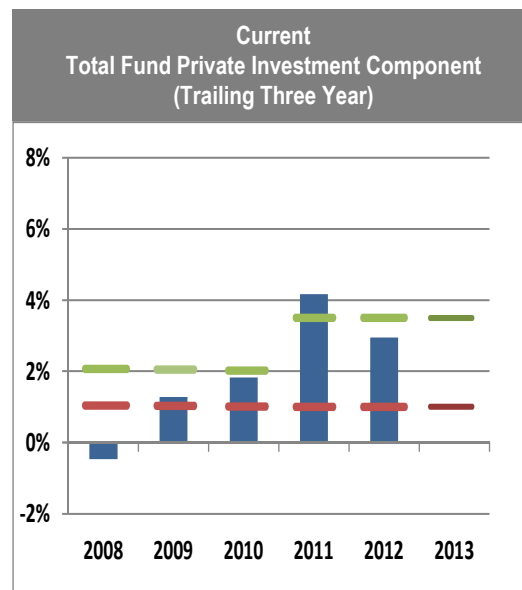
- The Investment Team’s actual performance has exceeded the maximum Value Add under its current benchmark in five of the past six trailing three year periods;
- Under the proposed benchmark, however, the Investment Teams actual performance exceeded the maximum in only three of the past six trailing three year periods





Proposed vs Current Benchmark: Total Fund Private Investment Component Historic Performance

- For the Total Fund Private Investment Component, the recommended change to the Private Investment Benchmark would have had a minimal effect on the past six trailing three year periods
 - Three years ending 2008: Actual exceeded target versus below benchmark
 - Three years ending 2012: Actual exceeded maximum versus between target and maximum
 - Three years ending 2013: Actual exceeded maximum versus slightly below benchmark



Actual Value Add



Target Value Add



Max Value Add





Implementation



Implementation

- Cambridge recommends, and staff concurs with, the following implementation plan
 - Total Endowment phases-in the utilization of the proposed Cambridge Associate benchmark beginning 9/1/2013
 - Existing benchmark prior to 9/1/2013 does not change
 - Total Endowment benchmark will reflect proposed Cambridge Associates benchmark fully in fiscal year 2016 on a three-year trailing basis
 - Private Markets, Natural Resources, and Real Estate Investment Teams immediately utilize proposed Cambridge Associate benchmark on a three-year trailing basis
 - Methodology change occurs at the Asset Class level whereby the Since Inception IRR is switched to a periodic IRR creating challenges in combining to determine a three-year trailing return
 - Immediate implementation matches other Asset Classes



Future Potential Changes

- One benchmark principle is to change it infrequently; the last change to the benchmark was nine years ago
- Staff recommends, however, to monitor the new benchmarks and anticipates possibly recommending another change in 3-5 years
 - Given the relative newness of the PE FoF data, close monitoring is prudent
 - Given the increasing availability of PE FoF data, it may be possible to move entirely to Asset Class-specific PE FoF benchmarks



Appendix



Pooled versus Average

1) Equal size funds, one returns 1x, the other 2x

	Year 1	Year 2	Year 3	Year 4	IRR	
Fund 1	-25	0	25	0	0.0%	
Fund 2	-25	0	50	0	41.4%	
Pool	-50	0	75	0	22.5%	Pooled
					20.7%	Average

2) Equal size funds, one returns zero, the other 2x

	Year 1	Year 2	Year 3	Year 4	IRR	
Fund 1	-25	0	0	0	-100.0%	
Fund 2	-25	0	50	0	41.4%	
Pool	-50	0	50	0	0.0%	Pooled
					-29.3%	Average

3) Equal size funds, one returns zero, the other 10x

	Year 1	Year 2	Year 3	Year 4	IRR	
Fund 1	-25	0	0	0	-100.0%	
Fund 2	-25	0	250	0	216.2%	
Pool	-50	0	250	0	123.6%	Pooled
					58.1%	Average

Assume the worse fund calls less

	Year 1	Year 2	Year 3	Year 4	IRR	
Fund 1	-15	0	15	0	0.0%	
Fund 2	-25	0	50	0	41.4%	
Pool	-40	0	65	0	27.5%	Pooled
					20.7%	Average

	Year 1	Year 2	Year 3	Year 4	IRR	
Fund 1	-15	0	0	0	-100.0%	
Fund 2	-25	0	50	0	41.4%	
Pool	-40	0	50	0	11.8%	Pooled
					-29.3%	Average

	Year 1	Year 2	Year 3	Year 4	IRR	
Fund 1	-15	0	0	0	-100.0%	
Fund 2	-25	0	250	0	216.2%	
Pool	-40	0	250	0	150.0%	Pooled
					58.1%	Average

Assume the worse fund calls later

	Year 1	Year 2	Year 3	Year 4	IRR	
Fund 1	0	-25	0	25	0.0%	
Fund 2	-25	0	50	0	41.4%	
Pool	-25	-25	50	25	24.7%	Pooled
					20.7%	Average

	Year 1	Year 2	Year 3	Year 4	IRR	
Fund 1	0	-25	0	0	-100.0%	
Fund 2	-25	0	50	0	41.4%	
Pool	-25	-25	50	0	0.0%	Pooled
					-29.3%	Average

	Year 1	Year 2	Year 3	Year 4	IRR	
Fund 1	0	-25	0	0	-100.0%	
Fund 2	-25	0	250	0	216.2%	
Pool	-25	-25	250	0	170.2%	Pooled
					58.1%	Average

The University of Texas Investment Management Company Charter of the Policy Committee

Background

The Board of Directors (the “Board”) of The University of Texas Investment Management Company (the “Corporation”) has established a Policy Committee (the “Committee”). This Charter, adopted by the Board on ~~April 14, 2011~~February 20, 2014, supersedes the Charter adopted by the Board on ~~November 16, 2005~~April 14, 2011, and sets forth the responsibilities of the Committee.

Purpose

The primary purpose of the Committee is to provide oversight and to monitor:

1. The development and amendment of UTIMCO Board Policies and Corporate Documents;
2. Recommendations concerning the development and amendment of investment-related policies of The University of Texas System Board of Regents (U.T. Board) related to the management of funds under the control and management of the U.T. Board; and
3. Recommendations concerning the amendment of the Investment Management Services Agreement (the “IMSA”), Code of Ethics, and Bylaws.

Any decisions made by the Committee regarding the above responsibilities will be submitted to the Board for approval.

Composition

The Committee shall be composed of at least three members of the Board appointed from time to time by a majority vote of the Board at a meeting at which a quorum is present. Individuals who are not members of the Board may be appointed to the Committee; provided however, a majority of the Committee members shall be members of the Board of Directors. A member may be removed with or without cause at any time by a majority vote of the Board.

Meetings; Quorum; Etc.

The Corporation’s Bylaws state that any committee created by the Board or the Bylaws, including the Committee, shall (i) have a chairman designated by the Board, (ii) fix its own rules or procedures, (iii) meet at such times and at such place or places as may be provided by such rules or by resolution of the Committee or resolution of the Board, and (iv) keep regular minutes of its meetings and cause such minutes to be recorded in books kept for that purpose in the principal office of the Corporation, and report the same to the Board at its next regular meeting. At every meeting of the Committee, the presence of a majority of all the members thereof shall constitute a quorum, and the affirmative vote of a

majority of the members present shall be necessary for the adoption by it of any action, unless otherwise expressly provided in the Committee's rules or procedures or the Bylaws of the Corporation or by the Board. The Board may designate one or more Directors as alternate members of the Committee, who may replace any absent or disqualified member of the Committee. In the absence or disqualification of a member of the Committee, the member or members present at any meeting of the Committee and not disqualified from voting, whether or not constituting a quorum, may unanimously appoint the designated alternate Director to act at the meeting in the place of the absent or disqualified member.

Duties and Responsibilities

UTIMCO Board Policies and Corporate Documents

The Committee has the following duties and responsibilities with respect to its oversight and monitoring of UTIMCO Board Policies and Corporate Documents (excluding the IMSA, Code of Ethics, Bylaws and any other corporate documents requiring U.T. Board approval):

- Review any UTIMCO Board Policies developed by UTIMCO staff and provide guidance and suggested language when necessary;
- Determine which internal policies and procedures should be considered UTIMCO Board Policies;
- Recommend to the Board the approval of any new UTIMCO Board Policies; **and**
- Review suggested amendments to UTIMCO Board Policies and Corporate Documents and provide guidance and suggested language when necessary;
- Review and make recommendations to the Board regarding employee benefit plans for the Corporation, which includes the ability to adopt, amend and terminate such plans; and
- Review and make recommendations to the Board regarding UTIMCO Travel Guidelines

~~In addition to its duties and responsibilities with respect to its oversight and monitoring of UTIMCO Board Policies and Corporate Documents, the Committee shall perform such additional special functions, duties or responsibilities related thereto as may from time to time be designated to it by the Board Chairman.~~

~~In discharging its responsibilities, the Committee may accept comments and suggestions from Board consultants, U.T. System staff, and other individuals as it deems necessary.~~

Investment Policies of the U.T. Board

The Board has been delegated certain responsibilities by the U.T. Board including the development and review of investment policies with respect to the investment management of funds under the control and management of the U.T. Board, including asset allocation, distribution (spending) guidelines, long-term investment return expectations and expected risk levels, asset allocation targets and ranges, and other matters as the U.T. Board requests. Upon its review and approval, the Board shall present recommendations concerning the investment policies to the U.T. Board for approval.

The Committee has the following duties and responsibilities with respect to its oversight and monitoring of the investment policies of the U.T. Board related to the investment management of the funds under the control and management of the U.T. Board:

- Review U.T. Board investment policy recommendations developed by UTIMCO staff and provide guidance and suggested language when necessary;
- Recommend to the Board the approval of any new U.T. Board Policies;
- Review suggested amendments to U.T. Board Policies and provide guidance and suggested language when necessary; and
- Recommend to the Board the approval of amended U.T. Board Policies.

In addition to its duties and responsibilities with respect to its oversight and monitoring of the investment policies, the Committee, if requested by the Board Chairman, shall provide recommendations concerning the annual distribution amount and payout rates of the fund assets under management.

In discharging its responsibilities, the Committee may accept comments and suggestions from Board consultants, U.T. System staff, and other individuals as it deems necessary. ~~The investment policies of the U.T. Board require U.T. Board approval.~~

Amendments of the IMSA, Code of Ethics, Bylaws and other Corporate documents requiring U.T. Board approval

The Committee has the following duties and responsibilities with respect to its oversight and monitoring of the amendments of the IMSA, Code of Ethics, Bylaws and other Corporate documents requiring U.T. Board approval:

- Review amendments to the IMSA, Code of Ethics, Bylaws and other Corporate documents prepared by UTIMCO staff requiring U.T. Board approval and provide guidance and suggested language when necessary; ~~and~~
- Recommend to the Board the approval of such amendments.

Upon its review and approval, the Board shall present the amendments to the U.T. Board for approval. In discharging its responsibilities, the Committee may accept comments and suggestions from Board consultants, U.T. System staff, and other individuals as it deems necessary.

Other Duties

In addition to its duties and responsibilities with respect to its oversight and monitoring of UTIMCO Board Policies and Corporate Documents outlined above, the Committee, shall perform such additional special functions, duties or responsibilities related thereto as may from time to time be designated to it by the Board Chairman.

In discharging its responsibilities, the Committee may accept comments and suggestions obtain advice and assistance from Board consultants, U.T. System staff, and other individuals as it deems necessary.

The Committee will evaluate the Committee's performance on a periodic basis, periodically review the adequacy of this Charter and submit this Charter to the Board for its approval; and perform any other activities consistent with this Charter, the Corporation's Bylaws, and applicable laws as the Committee or the Board deems necessary or appropriate.

Approved by the Board of Directors on ~~April 14, 2014~~ February 20, 2014.

Agenda Item
UTIMCO Board of Directors Meeting
February 20, 2014

Agenda Item: Report on and Discussion and Appropriate Action related to Items from the Compensation Committee, including: (1) Proposed Amendments to the UTIMCO Compensation Program; and (2) Proposed Amendments to the Charter of the Compensation Committee

Developed By: Zimmerman, Moeller, Gonzalez

Presented By: Bass

Type of Item: Action item; Action required by UTIMCO Board; further action required by the UT System Board of Regents related to the UTIMCO Compensation Program (the "Plan")

Description: The Compensation Committee (the "Committee") will meet jointly with the Policy Committee and separately on February 13, 2014.

The Committee's joint meeting with the Policy Committee relates to proposed amendments to the Exhibits of the Investment Policy Statements, which affect the Plan. The Committee's agenda for its February 13, 2014 meeting includes discussion and appropriate action related to (1) minutes of its December 3, 2013 meeting; (2) proposed amendments to the Plan; and (3) proposed amendments to the Charter of the Committee (the "Charter"). The Committee may also meet in Executive Session for the purpose of consulting with counsel regarding legal matters related to the Plan.

Discussion: ***Proposed Amendments to the Plan.*** The Committee will report on its action related to proposed changes to the UTIMCO Compensation Program effective September 1, 2012 (the "Prior Plan"). The proposed changes incorporate (1) updates to Appendix D, Table 2 and the deletion of Section 5.8 (b)(2) to reflect a proposed change in the Private Investments benchmark as well as in the methodology to calculate the Private Investments performance at the Asset Class level; (2) updates to Appendix A, Performance Incentive Award Methodology to reflect actual CEO Performance Incentive Award opportunities; and (3) updates to Appendix B, UTIMCO Peer Group.

Appendix D, Table 2. Staff is presenting the request for a new benchmark in a Joint Meeting of the Policy and Compensation Committees to be held immediately before the Compensation Committee. The Custom Cambridge Fund of Funds Benchmark is being proposed to replace the current Venture Economics Custom Index for all Asset Classes for the Private Investments except Real Estate and the Custom NACREIF for Real Estate Private Investments. The proposed benchmark change is contingent on the UT System Board of Regents approving the new benchmark for the Investment Policy Statements.

Agenda Item
UTIMCO Board of Directors Meeting
February 20, 2014

Private Investments performance will no longer be calculated differently from other Asset Classes and Investment Types. Therefore, Staff is requesting that the language in Section 5.8 (b)(2) of the Prior Plan be deleted. The Prior Plan required that the Private Investments performance be determined based on the performance of partnership commitments made since 2001 based on internal rate of returns (IRR) relative to the respective Venture Economics benchmark and relative to the NACRIEF Custom Index benchmark for Real Estate Private Investments. If the proposed benchmark changes are approved, the Private Investments performance will be based on a time weighted return (periodic return) and will be measured relative to the Custom Cambridge Fund of Funds Benchmark based on a three-year rolling historical performance. Table 2 in Appendix D reflects the change in the benchmark. The performance periods ended August 31, 2012, 2013 and 2014 will be amended to reflect the Private Investments' proposed new benchmark. The Private Investments will also be considered as one Asset Class in the Plan. The Private Investments teams, headed by the three managing directors, Lindel Eakman, Mark Warner, and Mark Shoberg, will now be measured as one Asset Class. Staff will no longer segregate Mr. Warner's team of Private Investments Natural Resources and Mark Shoberg's team of Private Investments Real Estate from the remaining Private Investments invested by Lindel Eakman and his team in the Plan. The Performance Standards for each Performance Period will be 150 bps for Target and 450 bps for Maximum.

Appendix A. Appendix A sets forth the Performance Incentive Award Methodology. It has been updated to reflect actual CEO Performance Incentive Award Opportunities.

Appendix B, UTIMCO Peer Group. The Peer Group set forth in Appendix B is a peer group of endowment funds that is composed of all endowment funds with more than 10 full-time employee positions, allocations to alternative assets in excess of 40%, and with assets greater than \$2.5 billion, determined as of the last day of each of the three immediately preceding Performance Periods, excluding the Total Endowment Assets (PUF and GEF). The Peer Group for the Performance Period ending August 31, 2014 incorporates June 2011, 2012, and 2013. The Peer Group is updated annually, and Appendix B is updated accordingly. The Peer Group may be included as a Qualitative Performance Goal for certain Plan Participants.

The Compensation Plan Universe for 2013/14 as determined by Staff will be used as the Peer Group for Appendix B of the Plan. Staff has determined that four additional endowment funds have met the required criteria for the three immediately preceding Performance Periods. Therefore, Staff is recommending that these four endowment funds be added to the Peer Group. The additional four endowment funds are Brown University, Dartmouth College, John Hopkins University, and New York University.

Agenda Item
UTIMCO Board of Directors Meeting
February 20, 2014

The Committee will take appropriate action at its meeting on February 13, 2014, and requests that the UTIMCO Board take action related to the proposed amendments to the Plan.

Charter of the Committee. The Committee will report on its actions related to the proposed amendments to the Charter of the Committee.

The purpose of the Charter is to outline the duties and responsibilities of the Committee. In accordance with the Charter of the Committee, the Committee periodically reviews and reassesses the adequacy of the Charter and recommends any proposed changes to the UTIMCO Board for approval. The current Charter was approved by the UTIMCO Board on July 14, 2011.

The following changes to the Charter are proposed by Staff:

- Page 1; *Purpose*, changed language to provide that Committee's primary purpose is "to carry out the responsibilities delegated to it by the Board relating to the review and determination of compensation for officers and employees of the Corporation".
- Page 2; *Duties and Responsibilities*, added language to require the Committee to review UTIMCO Compensation Program (the "Plan") relative to risk.
- Page 2; *Duties and Responsibilities*, added language to require the qualified compensation consultant selected by the Committee to be independent.
- Page 2; *Duties and Responsibilities*, added language to require the Committee to review and approve the CEO's annual goals and objectives and to determine CEO's level of achievement of those goals and objectives.
- Page 2; *Duties and Responsibilities*, added language to require the Committee to determine the Incentive Award Opportunity for each Performance Goal for the Plan participants.
- Page 2; *Duties and Responsibilities*, added language to require the Committee to review and approve the Plan participants' annual goals and objectives and to determine their level of achievement of those goals and objectives.
- Page 2; *Duties and Responsibilities*, added language to require the Committee to develop and recommend to the Board for approval an officer succession plan, periodically review it with the CEO, and evaluate potential candidates.
- Page 3; *Other Duties*, added language to require the Committee to perform any additional special functions, duties or responsibilities that may be designated to it by the Chairman of the UTIMCO Board.
- Page 3; *Other Duties*, added language to permit the Committee to obtain advice and assistance from UTIMCO Board consultants, U.T. System staff, and other individuals as it deems necessary.
- Other minor editorial changes.

Agenda Item
UTIMCO Board of Directors Meeting
February 20, 2014

The Committee will take appropriate action at its meeting on February 14, 2014, and requests that the UTIMCO Board take action related to the proposed amendments to the Charter of the Committee.

Recommendation: The Committee will request appropriate action from the Board related to (1) the proposed amendments to the Plan; and (2) the proposed amendments to the Charter of the Compensation Committee

Reference: UTIMCO Compensation Program, Amended and Restated effective September 1, 2013
Peer Group Determination Summary
Charter of the Compensation Committee

**RESOLUTION RELATED TO AMENDMENTS TO THE UTIMCO
COMPENSATION PROGRAM EFFECTIVE SEPTEMBER 1, 2013**

WHEREAS, Section 7.2 of the UTIMCO Compensation Program (the "Plan") provides that UTIMCO, by action of its Board of Directors (the "Board"), has the right in its discretion to amend the Plan or any portion thereof from time to time; and

WHEREAS, the Compensation Committee of the Board (the "Committee") has reviewed certain proposed amendments to the Plan incorporated into an Amended and Restated Plan, effective September 1, 2013 (the "Amended and Restated Plan"), in the form previously provided to the Board; and

WHEREAS, the Committee approved the Amended and Restated Plan and made its recommendation to the Board that the Board approve and adopt the Amended and Restated Plan; and

WHEREAS, the Board has reviewed the Amended and Restated Plan.

NOW, THEREFORE, be it:

RESOLVED, that the Board hereby approves and adopts the Amended and Restated Plan, effective as of September 1, 2013, subject to the approval of the Board of Regents of The University of Texas System.

**RESOLUTION RELATED TO CHARTER OF
THE COMPENSATION COMMITTEE**

RESOLVED, that the amendments to the Charter of the Compensation Committee be, and are hereby approved, in the form submitted to the Corporation's Board of Directors.

**Peer Group Determination Summary
As of 2013 for Compensation Year 2014**

Institution	Existing Peer Group	Assets > \$2.5 Billion for 3 Years Endowment Value as of 6/30/2013	Allocation > 40% to Alternative Assets	10 Fulltime Investment Staff
1 Harvard Management Company	Yes	\$32.3	Yes	Yes
2 Yale University	Yes	20.8	Yes	Yes
3 Stanford University	Yes	18.7	Yes	Yes
4 Princeton University	Yes	18.2	Yes	Yes
5 MIT Investment Management Co	Yes	11.0	Yes	Yes
6 University of Michigan	Yes	8.4	Yes	Yes
7 Columbia University	Yes	8.2	Yes	Yes
8 Northwestern University	Yes	7.9	Yes	Yes
9 University of Pennsylvania	Yes	7.7	Yes	Yes
10 University of Notre Dame	Yes	6.9	Yes	Yes
11 University of Chicago	Yes	6.7	Yes	Yes
12 University of California	Yes	6.4	Yes	Yes
13 Duke University	Yes	6.0	Yes	Yes
14 University of Virginia	Yes	6.0	Yes	Yes
15 Emory University	Yes	5.8	Yes	Yes
16 Washington University in St. Louis	Yes	5.7	Yes	Yes
17 Cornell University	Yes	5.3	Yes	Yes
18 Rice University	Yes	4.8	Yes	Yes
19 University of Southern California	Yes	3.9	Yes	Yes
20 Vanderbilt University	Yes	3.7	Yes	Yes
21 UNC Management Company	Yes	3.5	Yes	Yes
<i>Proposed Additions to Peer Group:</i>				
22 Johns Hopkins University	No	3.0	Yes	Yes
23 Dartmouth College	No	3.7	Yes	Yes
24 New York University	No	2.9	Yes	Yes
25 Brown University	No	2.7	Yes	Yes



UTIMCO COMPENSATION PROGRAM

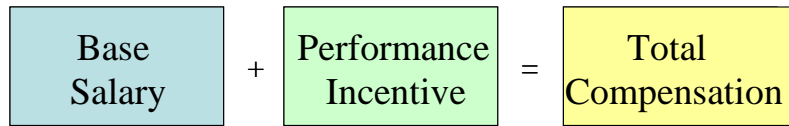
**Amended and Restated
Effective September 1, ~~2012~~2013**

TABLE OF CONTENTS

1. Compensation Program Structure and Effective Date	1
2. Compensation Program Objectives	1
3. Total Compensation Program Philosophy.....	2
4. Base Salary Administration.....	2
4.1 Salary Structure	2
4.2 Salary Adjustments	3
5. Performance Incentive Plan	3
5.1 Purpose of the Performance Incentive Plan	3
5.2 Performance Period	4
5.3 Eligibility and Participation	4
5.4 Performance Goals	5
5.5 Incentive Award Opportunity Levels and Performance Incentive Awards	7
5.6 Form and Timing of Payouts of Performance Incentive Awards.....	9
5.7 Nonvested Deferred Awards	9
5.8 Performance Measurement Standards	11
5.9 Modifications of Measurement Period for Measuring Entity and Asset Class/Investment Type Performance Goals.....	13
5.10 Termination Provisions	14
5.11 Eligibility for Retirement	16
5.12 Extraordinary Circumstances	17
5.13 Recovery of Performance Incentive Awards.....	19
6. Compensation Program Authority and Responsibility.....	20
6.1 Board as Plan Administrator	20
6.2 Powers of Board	20
7. Compensation Program Interpretation	20
7.1 Board Discretion	20
7.2 Duration, Amendment, and Termination	21
7.3 Recordkeeping and Reporting	21
7.4 Continued Employment.....	21
7.5 Non-transferability of Awards	21
7.6 Unfunded Liability	22
7.7 Compliance with State and Federal Law.....	22
7.8 Federal, State, and Local Tax and Other Deductions.....	22
7.9 Prior Plan.....	22
8. Definition of Terms	24
Appendix A	A-1
Appendix B	B-1
Appendix C	C-1
Appendix D	D-1
Appendix E.....	E-1

1. COMPENSATION PROGRAM STRUCTURE AND EFFECTIVE DATE

The UTIMCO Compensation Program (“Compensation Program” or “Plan”) consists of two elements: base salary and an annual incentive plan (the “Performance Incentive Plan”):



The base salary portion of the Compensation Program sets forth a structure and guidelines for establishing and adjusting the salaries of key investment and operations staff employees. The Performance Incentive Plan portion of the Compensation Program sets forth the criteria for calculating and receiving annual incentive awards for key investment and operations staff who are eligible Participants in the Performance Incentive Plan. Provisions of the Compensation Program relating solely to the base salary portion of the Compensation Program are described in Section 4. Provisions of the Compensation Program relating solely to the Performance Incentive Plan portion of the Compensation Program are described in Section 5. Sections 1, 2, 3, 6, 7, and 8 of the Compensation Program relate to both the base salary portion and the Performance Incentive Plan portion except where otherwise specified in any such Section.

Effective Date: Except as provided in Section 7.9, this document, with an “Effective Date” of September 1, ~~2012~~2013, supersedes the UTIMCO Compensation Program that was effective ~~July 1, 2009~~ September 1, 2012.

2. COMPENSATION PROGRAM OBJECTIVES

UTIMCO’s Compensation Program serves a number of objectives:

- To attract and retain key investment and operations staff of outstanding competence and ability.
- To encourage key investment staff to develop a strong commitment to the performance of the assets for which UTIMCO has been delegated investment responsibility.
- To motivate key investment staff to focus on maximizing real, long-term returns for all funds managed by UTIMCO while assuming appropriate levels of risk.
- To facilitate teamwork so that members of UTIMCO operate as a cohesive group.

3. TOTAL COMPENSATION PROGRAM PHILOSOPHY¹

UTIMCO aspires to attract and retain high caliber employees from nationally recognized peer institutions and the investment management community in general. UTIMCO strives to provide a total compensation program that is competitive nationally, with the elements of compensation evaluated relative to comparably sized university endowments, foundations, and for-profit investment management firms with a similar investment philosophy (e.g., externally managed funds).

UTIMCO's total Compensation Program is positioned against the competitive market as follows:

- Base salaries are targeted at the market median (e.g., 50th percentile).
- Target total compensation (salary plus target Incentive Award Opportunity) is positioned at the market median.
- Maximum total compensation (salary plus maximum Incentive Award Opportunity) is targeted at the market 75th percentile if individual performance is outstanding; provided that if individual performance is outstanding during a Performance Period when endowment investment performance at the end of such Performance Period exceeds 20%, maximum total compensation (salary plus maximum Incentive Award Opportunity modified when Net Returns on Total Endowment Assets exceed 20%) for Affected Participants is targeted at the 90th percentile. (For this purpose, 0 is the lowest point and 100 is the highest.)

Although base salaries, as well as target and maximum total compensation, have a targeted positioning relative to market, an individual employee's actual total compensation may vary from the targeted positioning based on the individual's experience, education, knowledge, skills, and performance as well as UTIMCO's investment performance as described in this document. Except as provided in Sections 5.8 and 5.9 for purposes of determining the length of historical performance, base salaries and Incentive Award Opportunities (as well as the actual Performance Incentive Awards) are not determined based on seniority at UTIMCO.

4. BASE SALARY ADMINISTRATION

4.1. Salary Structure

- (a) Base salaries are administered through a Salary Structure as set forth in this Section 4.1. Each employment position has its own salary range, with the midpoint set approximately equal to the market median base salary for employment positions with similar job content and level of responsibility.

¹ This explanation of UTIMCO's "Total Compensation Program Philosophy" is not intended to modify any of the substantive provisions of this document.

- (b) The salary range midpoints will be determined by the Compensation Committee based on consultation with an outside compensation consultant and with UTIMCO management. Salary range midpoints for key management, investment, and operations positions will be updated at least every three years based on a salary benchmarking study conducted by a qualified compensation consultant selected by the Compensation Committee. In years in which the Compensation Committee does not commission a formal salary survey, the base salary midpoints may be adjusted at the Compensation Committee's discretion based on expected annual salary structure adjustments as reported in one or more published compensation planning surveys.

4.2. Salary Adjustments

- (a) The base salary of the CEO is determined by the Board. The base salary of the Chief Compliance Officer ("CCO") will be determined by the Compensation Committee based on the joint recommendation of the Audit and Ethics Committee and the CEO and the base salaries of the other key investment and operations employees are determined by the Compensation Committee. Base salaries will be set within the salary range for each employment position. An individual's base salary within the range may be higher or lower than the salary range midpoint based on his or her level of experience, education, knowledge, skills, and performance. On an exception basis, the Board may set individual base salaries outside of the salary range if an individual either substantially exceeds or does not meet all of the market criteria for a particular position.
- (b) Individuals may receive an annual adjustment (increase or decrease) of their base salaries at the discretion of the Compensation Committee or, in the case of the CEO, at the discretion of the Board. Base salary adjustments, if any, will be determined based on each individual employee's experience, education, knowledge, skills, and performance; provided that, in the case of the CCO, any such adjustment shall be based on the joint recommendation of the Audit and Ethics Committee and the CEO. Employees are not guaranteed an annual salary increase.

5. PERFORMANCE INCENTIVE PLAN

5.1. Purpose of the Performance Incentive Plan

The purpose of the Performance Incentive Plan is to provide annual Performance Incentive Awards to eligible Participants based on specific objective criteria relative to UTIMCO's and each Participant's performance. The primary objectives of the Performance Incentive Plan are outlined in Section 2.

5.2. Performance Period

- (a) For purposes of the Performance Incentive Plan, the “Performance Period” begins on September 1 of each year and ends the following August 31.
- (b) Except as otherwise provided under Sections 5.8 and 5.9, performance for each year in the historical performance period will be measured between September 1 and the following August 31 of the applicable year for gauging achievement of the Entity and Asset Class/Investment Type Performance Goals.

5.3. Eligibility and Participation

- (a) Each employee of UTIMCO will be a “Participant” in the Performance Incentive Plan for a Performance Period if (and only if) he or she is both (i) employed by UTIMCO in an employment position that is designated as an “Eligible Position” for that Performance Period and (ii) selected by the Board as eligible to participate in the Performance Incentive Plan for that Performance Period. “Eligible Positions” for a Performance Period include senior management, investment staff, and other key positions as designated by the CEO and approved by the Board as Eligible Positions for that Performance Period. An employment position that is an Eligible Position in one Performance Period is not automatically an Eligible Position in any subsequent Performance Period, and each Eligible Position must be confirmed or re-confirmed by the Board as being an “Eligible Position” for the applicable Performance Period. Similarly, an employee who is eligible to participate in the Performance Incentive Plan in one Performance Period is not automatically eligible to participate in any subsequent Performance Period (notwithstanding that such employee may be employed in an Eligible Position in that subsequent Performance Period), and each employee must be designated or re-designated by the Board as being eligible to participate in the Performance Incentive Plan for the applicable Performance Period. The Board will confirm the Eligible Positions and designate the eligible employees who will become Participants for a Performance Period within the first 90 days of the Performance Period or, if later, as soon as administratively feasible after the start of the Performance Period. The Board in its discretion may also designate the employment position of a newly hired or promoted employee as an “Eligible Position” and may designate such newly hired or promoted employee as eligible to participate in the Performance Incentive 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 after such hire or promotion. A list of Eligible Positions for each Performance Period is set forth in Table 1, which is attached as Appendix C. Table 1 will be revised each Performance Period when necessary to set forth the Eligible Positions for that Performance Period as soon as administratively practicable after confirmation of such Eligible Positions by the Board for such Performance Period, and such revised Table 1 will be attached as Appendix C.

- (b) An employee in an Eligible Position who has been selected by the Board to participate in the Performance Incentive Plan will become a Participant on the later of (i) the date he or she is employed in an Eligible Position or (ii) the date he or she is selected by the Board to participate in the Performance Incentive Plan; provided, however, that the Board in its discretion may designate any earlier or later date (but not earlier than such employee's date of hire and not later than such employee's date of Termination of employment) upon which such employee will become a Participant, and such employee will instead become a Participant on such earlier or later date. The preceding notwithstanding, except as provided below, an employee may not commence participation in the Performance Incentive Plan and first become a Participant during the last six months of any Performance Period; provided however, that the Board may select an employee to participate in the Performance Incentive Plan during the last six months of the Performance Period when compelling individual circumstances justify a shorter period of time and such circumstances are recorded in the minutes of a meeting of the Board in which event participation of the employee in the Performance Incentive Plan will begin on the participation date selected by the Board for the employee but not earlier than the employee's date of hire (assuming such employee is employed by UTIMCO in an Eligible Position on such date).
- (c) An employee will cease to be a Participant in the Performance Incentive Plan on the earliest to occur of: (i) the date such employee is no longer employed in an Eligible Position; (ii) the date of Termination of such employee's employment with UTIMCO for any reason (including Voluntary Termination and Involuntary Termination, death, and Disability); (iii) the date of termination of the Performance Incentive Plan; (iv) the date such employee commences a leave of absence; (v) the date such employee begins participation in any other UTIMCO incentive program; (vi) the date the Board designates that such employee's employment position is not an Eligible Position (or fails to designate the employee's employment position as an Eligible Position with respect to a Performance Period); or (vii) any date designated by the Board as the date on which such employee is no longer a Participant.
- (d) Except as provided in Sections 5.10(b) and (c), only individuals who are Participants on the last day of a Performance Period are eligible to receive Performance Incentive Awards under the Performance Incentive Plan for that Performance Period.

5.4. Performance Goals

- (a) Within the first 60 days of each Performance Period, except as provided below, the CEO will recommend goals ("Performance Goals") for each Participant (other than the Performance Goals for the CEO, which are determined as provided in Section 5.4(c), and the Performance Goals for employees who are hired or promoted later during a Performance Period)

subject to approval by the Compensation Committee within the first 90 days of the Performance Period. The CEO will also 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). If the position of the CCO is determined to be an Eligible Position and the employee in the Eligible Position has been designated by the Compensation Committee as a Participant in the Performance Incentive Plan for the Performance Period, the Performance Goals of the employee holding the position of CCO will be determined jointly by the Audit and Ethics Committee and the CEO. References to the CCO hereafter assume that the position of CCO has been determined to be an Eligible Position and the employee holding the position of CCO has been determined to be a Participant in the Performance Incentive Plan for the Performance Period. If the position of CCO has not been determined to be an Eligible Position for the Performance Period the provisions hereafter specific to the CCO have no force and effect.

- (b) There are three categories of Performance Goals:
- (1) Entity Performance (measured as described in Section 5.8(a))
 - (2) Asset Class/Investment Type Performance (measured as described in Section 5.8(b))
 - (3) Qualitative Performance (measured as described in Section 5.8(c))

Except for the CEO and CCO, Qualitative Performance Goals will be defined jointly by each Participant and his or her supervisor, subject to approval by the CEO and subject to final approval by the Compensation Committee. Qualitative Performance Goals for the CCO will be defined jointly by the Audit and Ethics Committee and the CEO. Qualitative Performance Goals may be established in one or more of the following areas:

- Leadership
- Implementation of operational goals
- Management of key strategic projects
- Effective utilization of human and financial resources
- UTIMCO investment performance relative to the Peer Group

- (c) The CEO's Performance Goals will be determined and approved by the Board.

- (d) Each Performance Goal for each Eligible Position is assigned a weight for the Performance Period. The Audit and Ethics Committee and the CEO will jointly recommend to the Compensation Committee the weightings of the Performance Goals for the CCO. For each Performance Period, the Compensation Committee will approve (or adjust as it deems appropriate) the weightings of the Performance Goals at the same time it approves the Performance Goals. The weightings for each Eligible Position are set forth in Table 1, which is attached as Appendix C. Table 1 will be revised each Performance Period when necessary to set forth the weightings for the Eligible Positions for that Performance Period as soon as administratively practicable after such weightings are approved by the Compensation Committee for such Performance Period. Notwithstanding the identified weighting for a Performance Goal for an Eligible Position, the Compensation Committee, may adjust the weightings (up or down) for any Participant for a Performance Period when it considers the identified weighting for a Performance Goal to be inappropriate for such Participant because of his or her length of service with UTIMCO, his or her tenure in the respective Eligible Position, his or her prior work experience, or other factors as deemed appropriate by the Compensation Committee; provided that, in the case of the CCO, any such adjustment shall be based on the joint recommendation of the Audit and Ethics Committee and the CEO. The weightings for the Performance Goals for each Performance Period are subject to approval by the Board.

5.5. Incentive Award Opportunity Levels and Performance Incentive Awards

- (a) At the beginning of each Performance Period, each Eligible Position is assigned an “Incentive Award Opportunity” for each Performance Goal for the Participants in that Eligible Position. The Audit and Ethics Committee and CEO will jointly recommend the Incentive Award Opportunity for the CCO to the Compensation Committee. Each Incentive Award Opportunity is determined by the Compensation Committee (and subject to approval by the Board) and is expressed as a percentage of base salary earned during the Performance Period. The Incentive Award Opportunities include a threshold, target, and maximum award for achieving commensurate levels of performance of the respective Performance Goal.
- (b) Incentive Award Opportunities for each Performance Period are set forth in Table 1, which is attached as Appendix C. Table 1 will be revised each Performance Period when necessary to set forth the Incentive Award Opportunities for that Performance Period as soon as administratively practicable after approval of the Incentive Award Opportunities by the Board for such Performance Period, and such revised Table 1 will be attached as Appendix C.
- (c) Actual “Performance Incentive Awards” are the amounts that are actually awarded to Participants for the respective Performance Period. Actual Performance Incentive Awards will range from zero (if a Participant

performs below threshold on all Performance Goals or, pursuant to Section 5.12(c) in the case of Affected Participants, Net Returns of the Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined are below a negative 14.01% at the end of such Performance Period) to the maximum Incentive Award Opportunity (if a Participant performs at or above maximum on all Performance Goals) depending on performance relative to objectives; provided that, pursuant to Section 5.12(d), actual Performance Incentive Awards for Affected Participants may exceed the maximum Incentive Award Opportunity if the Net Returns of the Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined exceed positive 20.0% at the end of such Performance Period. Awards are capped at maximum levels regardless of whether a Participant exceeds the stated maximum Performance Goals.

- (d) Following the end of each Performance Period, the Compensation Committee will review the actual performance of each Participant against the Performance Goals of the respective Participant and determine the Participant's level of achievement of his or her Performance Goals. The Compensation Committee may seek and rely on the independent confirmation of the level of Performance Goal achievement from an external investment consultant to evaluate Entity Performance and Asset Class/Investment Type Performance. The CEO will submit a written report to the Compensation Committee, which documents the Participant's performance relative to the Participant's Performance Goals set at the beginning of the Performance Period, and upon which the Compensation Committee may rely in evaluating the Participant's performance. The Audit and Ethics Committee and the CEO will jointly determine the CCO's level of achievement relative to the CCO's Performance Goals. The Board will determine the CEO's level of achievement relative to the CEO's Performance Goals.
- (e) Performance Incentive Awards will be calculated for each Participant based on the percentage achieved of each Performance Goal, taking into account the weightings for the Participant's Entity Performance, Asset Class/Investment Type Performance, and Qualitative Performance Goals and each Participant's Incentive Award Opportunity; provided that, Performance Incentive Awards of Affected Participants will be (i) increased if the Net Returns of the Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined exceed positive 20.0% at the end of such Performance Period and (ii) decreased if the Net Returns of the Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined are below negative 5.0% at the end of such Performance Period, all pursuant to Section 5.12. The methodology for calculating Incentive Award Opportunities and Performance Incentive Awards is presented on Appendix A. Performance Incentive Awards will be interpolated in a linear fashion between threshold and target as well as between target and maximum.

- (f) Within 120 days following the end of a Performance Period, and after review by the external auditor, the Compensation Committee will review all Performance Incentive Award calculations, and make any changes it deems appropriate. The Compensation Committee will submit its recommendations to the Board for approval. Subject to the provisions of Section 7.1, the Board will approve Performance Incentive Awards.
- (g) Following the approval of a Performance Incentive Award by the Board, each Participant will be notified as to the amount, if any, of his or her Performance Incentive Award as well as the terms, provisions, conditions, and limitations of the Nonvested Deferred Award portion of such Performance Incentive Award.

5.6. Form and Timing of Payouts of Performance Incentive Awards

Except as provided in Sections 5.11, 5.12, and 5.13, approved Performance Incentive Awards will be paid as follows:

- (a) Subject to the Applicable Deferral Percentage of an Eligible Position as documented in Table 1, which is attached as Appendix C, the Performance Incentive Award will be paid to the Participant (“Paid Performance Incentive Award”) within 120 days of the completion of the Performance Period on a date selected in the discretion of UTIMCO and in no event later than the last day of the calendar year in which the Performance Period ends, and
- (b) An amount of the Performance Incentive Award for an Eligible Position equal to the Applicable Deferral Percentage set forth on Table 1 will be treated as a “Nonvested Deferred Award” subject to the terms of Section 5.7 and paid in accordance with that Section. Table 1 will be revised, as necessary, for each Performance Period to set forth any Applicable Deferral Percentage for each Eligible Position as soon as administratively practicable after approval of the deferral percentages by the Board for such Performance Period and such revised Table 1 will be attached as Appendix C.

5.7. Nonvested Deferred Awards

- (a) For each Performance Period, a hypothetical account on UTIMCO’s books (“Nonvested Deferred Award Account”) will be established for each Participant. As of the date that the corresponding Paid Performance Incentive Award is paid to the Participant, each Participant’s Nonvested Deferred Award for a Performance Period will be credited to his or her Nonvested Deferred Award Account established for that Performance Period; provided, however, that, in the case of any Participant whose Nonvested Deferred Award has been forfeited pursuant to Section 5.10(a) or Section 5.13 on the date such Nonvested Deferred Award would be so credited to his or her Nonvested Deferred Award Account, such Nonvested Deferred Award will not be credited to such Participant’s Nonvested Deferred Award

Account. The Nonvested Deferred Award Accounts will be credited (or debited) monthly with an amount equal to the net investment returns of the Total Endowment Assets (“Net Returns”) for the month multiplied by the balance of the respective Participant’s Nonvested Deferred Award Account(s) as of the last day of the month. When the Nonvested Deferred Award is initially credited to the Nonvested Deferred Award Account, the Nonvested Deferred Award Account will be credited (or debited) with Net Returns for the month of the initial credit of a Nonvested Deferred Award, but the Net Returns will be prorated to reflect the number of days of the month during which the amounts were credited to the Nonvested Deferred Award Account. Participants are not entitled to their Nonvested Deferred Award Accounts unless and until they become vested in those accounts in accordance with Section 5.7(b).

- (b) Unless a Participant’s Nonvested Deferred Award has been forfeited pursuant to Section 5.10(a) or Section 5.13, such Participant will become vested in, and entitled to payment of, his or her Nonvested Deferred Award Account for each respective Performance Period according to the following schedule:
 - (1) On the first anniversary of the last day of the Performance Period for which the Nonvested Deferred Award was earned, one third of the amount then credited to the Participant’s Nonvested Deferred Award Account for that Performance Period will be vested and paid to the Participant.
 - (2) On the second anniversary of the end of the Performance Period for which the Nonvested Deferred Award was earned, one half of the amount then credited to the Participant’s Nonvested Deferred Award Account for that Performance Period will be vested and paid to the Participant.
 - (3) On the third anniversary of the end of the Performance Period for which the Nonvested Deferred Award was earned, the remaining amount then credited to the Participant’s Nonvested Deferred Award Account for that Performance Period will be vested and paid to the Participant.
 - (4) Nonvested Deferred Award Accounts payable under the above paragraphs of this Section 5.7(b) will be paid on a date selected in the discretion of UTIMCO after the applicable portion of any such Nonvested Deferred Award Account becomes vested and in no event later than the last day of the calendar year in which the applicable portion of such Nonvested Deferred Award Account becomes vested.

5.8. Performance Measurement Standards

(a) Entity Performance

- (1) Entity Performance for purposes of the Performance Incentive Plan is the performance of the Total Endowment Assets (weighted at 80%) and the Intermediate Term Fund (weighted at 20%).
- (2) The performance of the Total Endowment Assets (“TEA”) is measured based on the TEA’s performance relative to the TEA Policy Portfolio Return (TEA benchmark).
- (3) The performance of the Intermediate Term Fund will be measured based on the performance of the ITF relative to the ITF Policy Portfolio Return (ITF benchmark).
- (4) Performance standards related to the TEA and ITF for each Performance Period beginning after August 31, 2010, will be set forth on a revised table for each such Performance Period and set forth on Appendix D as soon as administratively practicable after such standards are determined. Performance of the TEA and ITF is measured net of fees, meaning performance is measured after factoring in all administrative and other fees incurred for managing the TEA and ITF.
- (5) Except as provided in Section 5.9, performance of the Total Endowment Assets (based on the TEA benchmark) and the Intermediate Fund (based on the ITF benchmark) will be measured based on a three-year rolling historical performance of each such fund.

(b) Asset Class/Investment Type Performance

(H) Asset Class/Investment Type Performance is the performance of specific asset classes and investment types within the Total Endowment Assets and the Intermediate Term Fund (such as developed country, private investments, etc.) based on the standards set forth in this Section 5.8(b). Except as provided in ~~paragraph (2) below and~~ Section 5.9, Asset Class/Investment Type Performance will be measured relative to the appropriate benchmark based on three-year rolling historical performance. Performance standards for each asset class and investment type will vary depending on the ability to outperform the respective benchmark. The benchmarks for each asset class and investment type, as well as threshold, target, and maximum performance standards in effect during the three-year rolling historical period, culminating with the current Performance Period, are set forth on Table 2, which is attached as Appendix D. Table 2 will be revised, as necessary, for subsequent Performance Periods to reflect new benchmarks, as well as threshold, target, and maximum performance standards, in effect during the three-year rolling historical period,

culminating with the subsequent Performance Period, in which event, such revised table will be attached as Appendix D as soon as administratively practicable after the change in such benchmarks and standards necessitating such change are set.

~~(2) Performance for private investments is calculated differently from other asset classes and investment types due to its longer investment horizon and illiquidity of assets. Except for private investments in Real Estate, performance of private investments is determined based on the performance of partnership commitments made since 2001 based on internal rates of return (IRR's) relative to the respective Venture Economics benchmarks. Performance of private investments in Real Estate will be determined based on the performance of partnership commitments made relative to a NACRIEF Custom Index benchmark.~~

(c) Qualitative Performance

- (1) The level of a Participant's Qualitative Performance will be measured by the CEO (in the case of the CCO, jointly by the Audit and Ethics Committee and the CEO), subject to approval by the Compensation Committee, based on the level of attainment (below threshold, threshold, target, or maximum) of the Participant's Qualitative Performance Goals for the Performance Period.
- (2) For purposes of determining the level of attainment of each Participant's Qualitative Performance Goals for the Performance Period, the Participant will have attained below threshold level if he or she fails to successfully complete at least 50% of his or her Qualitative Performance Goals for that Performance Period, threshold level if he or she successfully completes 50% of his or her Qualitative Performance Goals for that Performance Period, target level if he or she successfully completes 75% of his or her Qualitative Performance Goals for that Performance Period, and maximum level if he or she successfully completes 100% of his or her Qualitative Performance Goals for that Performance Period (with interpolation for levels of attainment between threshold, target, and maximum).
- (3) In determining the percentage of successful completion of a Participant's Qualitative Performance Goals, the CEO, and in the case of the CCO, the Audit and Ethics Committee (in the initial determination) and the Compensation Committee (in its review of the attained levels for approval) need not make such determination based solely on the number of Qualitative Performance Goals successfully completed but may take into account the varying degrees of importance of the Qualitative Performance Goals, changes in the Participant's employment duties occurring after the Qualitative Performance Goals are determined for the Performance Period, and any other facts and circumstances determined by the CEO, and in the

case of the CCO, the Audit and Ethics Committee, or Compensation Committee (as applicable) to be appropriate for consideration in evaluation of the level of achievement of the Participant's Qualitative Performance Goals for the Performance Period.

5.9. Modifications of Measurement Period for Measuring Entity and Asset Class/Investment Type Performance Goals

- (a) Although generally Entity Performance and most Asset Class/Investment Type Performance are measured based on three-year rolling historical performance, newly hired Participants will be phased into the Performance Incentive Plan so that Entity Performance and Asset Class/Investment Type Performance are measured over a period of time consistent with each Participant's tenure at UTIMCO. This provision ensures that a Participant is measured and rewarded over a period of time consistent with the period during which he or she influenced the performance of the entity or a particular asset class and investment type. In the Performance Period in which a Participant begins participation in the Performance Incentive Plan, the Entity Performance and Asset Class/Investment Type Performance components of the Incentive Award Opportunity will be based on one full year of historical performance (i.e., the performance for the Performance Period during which the Participant commenced Performance Incentive Plan participation). During a Participant's second year of Performance Incentive Plan participation, the Entity Performance and Asset Class/Investment Type Performance components of the Incentive Award Opportunity will be based on two full years of historical performance. In the third year of a Participant's Performance Incentive Plan participation and beyond, the Entity and Asset Class/Investment Type Performance components of the Incentive Award Opportunity will be based on the three full years of rolling historical performance.
- (b) For purposes of measuring Entity and Asset Class/Investment Type Performance, the three-year historical performance cycle will not be utilized for any specific asset class and investment type (or subset of an asset class and investment type) until that asset class and investment type (or subset of that asset class and investment type) has three years of historical performance as part of the Performance Incentive Plan and, until that time, the actual years (full and partial) of historical performance of that asset class and investment type (or subset of that asset class and investment type) while part of the Performance Incentive Plan will be used as the measurement period.
- (c) For purposes of measuring Entity and Asset Class/Investment Type Performance of an asset class and investment type (or subset of an asset class and investment type) that is removed from the Performance Incentive Plan prior to completion of the then in-progress three-year historical performance cycle, the three-year historical performance cycle will not be utilized for that removed asset class and investment type (or subset of an asset class and investment type), but instead the actual number of full months that the

removed asset class and investment type was part of the Performance Incentive Plan during the then in-progress three-year historical performance cycle will be used as the measurement period.

- (d) For purposes of measuring Asset Class/Investment Type Performance for a particular Participant of an asset class and investment type (or subset of an asset class and investment type) that is removed from or added to the Participant's responsibility during the then in-progress three-year historical performance cycle, the three-year historical performance cycle will not be utilized for that removed or added asset class and investment type (or subset of an asset class and investment type), but instead the actual number of full months that the removed or added asset class and investment type was part of the Participant's responsibility during the then in-progress three-year historical performance cycle will be used as the measurement period for evaluating the Asset Class/Investment Type Performance with respect to such Participant.
- (e) Beginning with the Performance Period September 1, 2012 to August 31, 2013, Entity Performance and Asset Class/Investment Type Performance for the one-, two-, and three-year historical performance cycles will be measured from September 1st to August 31st. Notwithstanding anything in this Plan to the contrary, if, as a result of the change in the measurement period, in the opinion of the Board, an adjustment to a Participant's Performance Incentive Award is warranted, the Board in its discretion, is authorized to change the amount of a Participant's Performance Incentive Award for the first three Performance Periods beginning after August 31, 2012, so as not to unduly benefit, nor deprive or eliminate an award of a Participant.

5.10. Termination Provisions

- (a) Except as otherwise provided in this Section 5.10, any Participant who ceases to be a Participant (either because of Termination of employment with UTIMCO or for any other reason stated in Section 5.3(c)) prior to the end of a Performance Period will not be eligible to receive payment of any Performance Incentive Award for that or any subsequent Performance Periods. In addition, a Participant will forfeit any Nonvested Deferred Awards at such Participant's Voluntary Termination or Involuntary Termination for Cause. Further, upon Involuntary Termination for reasons other than Cause, the amount in the Nonvested Deferred Award Accounts of such terminated individual will vest immediately and be paid on a date selected by UTIMCO and in no event later than the last day of the calendar year in which such Termination occurs.
- (b) If a Participant ceases to be a Participant in the Performance Incentive Plan under Section 5.3(c) prior to the end of a Performance Period because his or her employment position is no longer an Eligible Position (but such employee continues to be employed with UTIMCO), such Participant's Performance Incentive Award for the current Performance Period, if any, will be

calculated on a prorated basis from the first day of the Performance Period to the Performance Measurement Date immediately preceding or, if applicable, coinciding with the date the Participant ceases to be in an Eligible Position, and such individual will not be entitled to any Performance Incentive Awards for any Performance Period thereafter (unless he or she again becomes a Participant in accordance with Sections 5.3(a) and (b)). All Nonvested Deferred Awards of such individual continue to vest and be paid subject to the provisions of Section 5.7(b).

- (c) If a Participant ceases to be a Participant in the Performance Incentive Plan under Section 5.3(c) prior to the end of a Performance Period because his or her employment with UTIMCO terminates due to death or Disability, the Participant's Performance Incentive Award for the Performance Period in which Termination occurs, in lieu of any other Performance Incentive Award under the Performance Incentive Plan, will be paid at target on a prorated basis from the first day of the Performance Period to the Performance Measurement Date immediately preceding or, if applicable, coinciding with the date of the Participant's death or Disability, and such individual will not be entitled to any Performance Incentive Awards for any Performance Period thereafter (unless he or she again becomes a Participant in accordance with Sections 5.3(a) and (b)). All Nonvested Deferred Award Accounts of such terminated individual will vest immediately and be paid on a date selected in the discretion of UTIMCO and in no event later than the last day of the calendar year in which such termination occurs. Payments under this provision will be made to the estate or designated beneficiaries of the deceased Participant or to the disabled Participant, as applicable.
- (d) If a Participant ceases to be a Participant in the Performance Incentive Plan under Section 5.3(c) prior to the end of a Performance Period because he or she commences a leave of absence, such Participant's Performance Incentive Award for the current Performance Period, if any, will be calculated on a prorated basis from the first day of the Performance Period to the Performance Measurement Date immediately preceding or coinciding with the date the Participant commences such leave of absence, and such individual will not be entitled to any Performance Incentive Awards for any Performance Period thereafter (unless he or she again becomes a Participant in accordance with Sections 5.3(a) and (b)). All Nonvested Deferred Awards of such individual continue to vest and be paid subject to the provisions of Section 5.7(b).
- (e) In the case of any Participant who ceases to be a Participant in the Performance Incentive Plan prior to the end of Performance Period and is entitled to a Performance Incentive Award or a prorated Performance Incentive Award under this Section 5.10, such Performance Incentive Award will be calculated at the time and in the manner provided in Section 5.5 and Appendix A and paid in accordance with Section 5.6 and will not be calculated or paid prior to such time.

5.11. Eligibility for Retirement

A participant is eligible for retirement on the last day of the month in which the sum of the Participant's age and years of service, including months of age and months of service credit, equals or exceeds the number 75.

In the case of any Participant who is eligible for retirement, any Performance Incentive Award to which the Participant becomes entitled, as well as any remaining Nonvested Deferred Award, will vest immediately and be includible in the Participant's gross income for Federal income tax purposes in the calendar year in which vesting occurs without regard to when payment is made to the Participant. The vested Performance Incentive Award and any remaining Nonvested Deferred Award will be paid to the participant on a date selected by UTIMCO and in no event later than the last day of the calendar year unless the Participant has agreed to a Voluntary Deferral of all or a portion of his Performance Incentive Award that would otherwise have been deferred had the Participant not been eligible for retirement ("Amount Voluntarily Deferred"). If the Participant has agreed to a Voluntary Deferral of such amount of his Performance Incentive Award,

- (a) the Amount Voluntarily Deferred (1) will be credited to a hypothetical account established in the Participant's name on UTIMCO's books ("Amount Voluntarily Deferred Account") and (2) will be credited (or debited) monthly with an amount equal to the Net Returns for the month multiplied by the balance in the Participant's Amount Voluntarily Deferred Account as of the last day of the month, provided that when the Amount Voluntarily Deferred is initially credited to the Participant's Amount Voluntarily Deferred Account, the Participant's Amount Voluntarily Deferred Account will be credited (or debited) with Net Returns for the month of the initial credit, but the Net Returns will be prorated to reflect the number of days of the month during which the amounts were credited to the Participant's Amount Voluntarily Deferred Account;
- (b) except as provided in clause (c) below, the amount credited to the Participant's Amount Voluntarily Deferred Account shall be paid to the Participant only on the following dates and in the following amounts:
 - (1) On the first anniversary of the last day of the Performance Period for which the Amount Voluntarily Deferred was earned, one third of the amount then credited to the Participant's Amount Voluntarily Deferred Account for that Performance Period will be paid to the Participant.
 - (2) On the second anniversary of the end of the Performance Period for which the Amount Voluntarily Deferred was earned, one half of the amount then credited to the Participant's Amount Voluntarily Deferred Account for that Performance Period will be paid to the Participant.

- (3) On the third anniversary of the end of the Performance Period for which the Amount Voluntarily Deferred was earned, the remaining amount then credited to the Participant's Amount Voluntarily Deferred Account for that Performance Period will be paid to the Participant.
 - (4) Amount Voluntarily Deferred Accounts payable under the above paragraphs of this Section 5.11(b) will be paid on a date selected in the discretion of UTIMCO and in no event later than the last day of the calendar year in which the applicable portion of such Amount Voluntarily Deferred Account becomes due and payable; and
- (c) any net credits or debits to the Participant's Amount Voluntarily Deferred Account pursuant to clause (a)(2) above will be includible in the Participant's gross income and taxable to the Participant as ordinary income for Federal income tax purposes, and will be subject to Federal employment taxes and wage withholding during the year in which such amounts are paid pursuant to clauses (a) or (b) above.

5.12. Extraordinary Circumstances

Notwithstanding anything in this Plan to the contrary, the timing and amount of Performance Incentive Awards of each Participant holding an Eligible Position listed on Table 3, which is attached as Appendix E (each, an "Affected Participant"), are subject to automatic adjustment as follows:

- (a) If the Net Returns of the Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined are negative at the end of such Performance Period, (i) an amount otherwise equal to the Paid Performance Incentive Award attributable to such Performance Period for each Affected Participant will be treated as an "Extraordinary Nonvested Deferral Award" for such Affected Participant that is subject to forfeiture in the same manner and for the same reasons as Nonvested Deferral Awards pursuant to Section 5.10(a), (ii) a separate hypothetical account for such Affected Participant will be established on UTIMCO's books ("Extraordinary Nonvested Deferral Award Account"), which will be (1) credited with such Affected Participant's Extraordinary Nonvested Deferral Award and (2) credited (or debited) monthly with Net Returns of the Total Endowment Assets on the same dates and in the same manner as applies to Nonvested Deferral Award Accounts pursuant to Section 5.7(a), and (iii) unless such Affected Participant's Extraordinary Nonvested Deferral Award has been forfeited pursuant to Section 5.10(a) or Section 5.13, such Affected Participant will become vested in, and entitled to payment of, the amount of his or her Extraordinary Nonvested Deferral Award Account on the first anniversary of the last day of such Performance Period; provided that upon the death, Disability or Involuntary Termination of an Affected Participant for reasons other than Cause, the amount in the Extraordinary Nonvested Deferral Award Account of such Affected

Participant will vest immediately and be paid (to the Affected Participant or, in the case of death, to the estate or designated beneficiaries of the deceased Affected Participant) on a date selected by UTIMCO and in no event later than the last day of the calendar year in which such Termination occurs; provided, further, that nothing in this clause (a) shall affect the vesting and payment of Nonvested Deferral Awards to any Affected Participant nor shall it affect the vesting and payment of Performance Incentive Awards to a Participant that has satisfied the requirements for Eligibility for Retirement;

- (b) If the Net Returns of the Total Endowment Assets since the end of the Performance Period for which Performance Incentive Awards are being determined are a negative 10.00% or below (measured as of the most recent month-end for which performance data are available) on the date the Board approves the Performance Incentive Award for an Affected Participant, an amount otherwise equal to such Affected Participant's Paid Performance Incentive Award attributable to such Performance Period will also be treated as an "Extraordinary Nonvested Deferral Award" for such Affected Participant that is subject to clause (a) above; provided that nothing in this clause (b) shall affect the vesting and payment of Nonvested Deferral Awards to any Affected Participant nor shall it affect the vesting and payment of Performance Incentive Awards to a Participant that has satisfied the requirements for Eligibility for Retirement;
- (c) If the Net Returns of the Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined are below negative 5.00% at the end of such Performance Period, the Performance Incentive Award for each Affected Participant for that Performance Period (calculated pursuant to Section 5.5 above) will be reduced by 10% for each percentage point (or portion thereof) of Net Returns below a negative 5.00%, such that the Performance Incentive Award for each such Affected Participant will be eliminated in the event of negative Net Returns below 14.00% (e.g., negative Net Returns of 5.01% will result in the Performance Incentive Award for such Affected Participant being reduced by 10%, negative Net Returns of 6.01% will result in the Performance Incentive Award for such Affected Participant being reduced by 20%, and so forth);
- (d) If the Net Returns of the Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined are in excess of positive 20.00% at the end of such Performance Period, the Performance Incentive Award for each Affected Participant for that Performance Period (calculated pursuant to Section 5.5 above) will be increased by 10% for each percentage point (or portion thereof) of positive Net Returns in excess of 20.00% (subject to an overall increase limit of 100%), such that the increase in Performance Incentive Award for such Affected Participant will be capped at 100% for positive performance in excess of 29.00% (e.g., positive Net Returns of 20.01% will result in the Performance Incentive Award for such Affected Participant being increased by 10%, positive Net Returns of 21.01% will result in the Performance

Incentive Award for such Affected Participant being increased by 20%, and so forth); and

- (e) Table 3, which is attached as Appendix E, will be revised, as necessary, for each Performance Period to identify the Eligible Positions whose Performance Incentive Awards are subject to automatic adjustment as to timing and amount pursuant to clauses (a)-(d) above as soon as administratively practicable after approval by the Board and such revised Table 3 will be attached as Appendix E.

5.13. *Recovery of Performance Incentive Awards*

Notwithstanding anything in this Plan to the contrary, if the Board (in its sole discretion, but acting in good faith) determines (a) that a Participant has engaged in willful misconduct that materially disrupts, damages, impairs or interferes with the business, reputation or employee relations of UTIMCO or The University of Texas System, such Participant will not be entitled to any Performance Incentive Awards for the Performance Periods during which the Board determines such misconduct occurred, or (b) that a Participant has engaged in fraudulent misconduct that caused or contributed to a restatement of the investment results upon which such Participant's Performance Incentive Awards were determined by knowingly falsifying any financial or other certification, knowingly providing false information relied upon by others in a financial or other certification, or engaging in other fraudulent activity, or knowingly failing to report any such fraudulent misconduct by others in accordance with UTIMCO's Employee Handbook, such Participant will not be entitled to any Performance Incentive Awards for the Performance Periods for which investment results were so restated. To the extent a Participant has been awarded Performance Incentive Awards to which he or she is not entitled as a result of clause (a) or (b) above, Performance Incentive Awards shall be recovered by UTIMCO pursuant to the following remedies in the order listed: first, such Participant's Nonvested Deferred Awards and Extraordinary Nonvested Deferred Awards will be automatically forfeited; second, any Paid Performance Incentive Award not then paid to such Participant will be withheld and automatically forfeited; and third, such Participant must return to UTIMCO the remaining excess amount. Recovery of Performance Incentive Awards to which a Participant is not entitled pursuant to this Section 5.13 does not constitute a settlement of other claims that UTIMCO may have against such Participant, including as a result of the conduct giving rise to such recovery. Further, the remedies set forth above are in addition to, and not in lieu of, any actions imposed by law enforcement agencies, regulators or other authorities.

6. COMPENSATION PROGRAM AUTHORITY AND RESPONSIBILITY

6.1. Board as Plan Administrator

Except as otherwise specifically provided in this Compensation Program with respect to powers, duties, and obligations of the Compensation Committee, the Compensation Program will be administered by the Board.

6.2. Powers of Board

The Board has all powers specifically vested herein and all powers necessary or advisable to administer the Compensation Program as it determines in its discretion, including, without limitation, the authority to:

- (1) Establish the conditions for the determination and payment of compensation by establishing the provisions of the Performance Incentive Plan.
- (2) Select the employees who are eligible to be Participants in the Performance Incentive Plan.
- (3) Delegate to any other person, committee, or entity any of its ministerial powers and/or duties under the Compensation Program as long as any such delegation is in writing and complies with the UTIMCO Bylaws.

7. COMPENSATION PROGRAM INTERPRETATION

7.1. Board Discretion

- (a) Consistent with the provisions of the Compensation Program, the Board has the discretion to interpret the Compensation Program and may from time to time adopt such rules and regulations that it may deem advisable to carry out the Compensation Program. All decisions made by the Board in selecting the Participants approved to receive Performance Incentive Awards, including the amount thereof, and in construing the provisions of the Compensation Program, including without limitation the terms of any Performance Incentive Awards, are final and binding on all Participants.
- (b) Notwithstanding any provision of the Compensation Program to the contrary and subject to the requirement that the approval of Performance Incentive Awards that will result in an increase of 5% or more in the total Performance Incentive Awards calculated using the methodology set out on Appendix A must have the prior approval of the U.T. System Board of Regents, the Board has the discretion and authority to make changes in the terms of the Compensation Program in determining a Participant's eligibility for, or amount of, a Performance Incentive Award for any Performance Period whenever it considers that circumstances have occurred during the Performance Period so as to make such changes appropriate in the opinion of

the Board, provided, however, that any such change will not deprive or eliminate an award of a Participant after it has become vested and that such circumstances are recorded in the minutes of a meeting of the Board.

7.2. *Duration, Amendment, and Termination*

The Board has the right in its discretion to amend the Compensation Program or any portion thereof from time to time, to suspend it for a specified period, or to terminate it entirely or any portion thereof. However, if the Performance Incentive Plan is suspended or terminated during a Performance Period, Participants will receive a prorated Performance Incentive Award based on performance achieved and base salary earned through the Performance Measurement Date immediately preceding such suspension or termination. The Compensation Program will be in effect until suspension or termination by the Board; provided, however, that if the Board so determines at the time of any suspension or termination of the Performance Incentive Plan, Nonvested Deferred Awards credited to Participants' Nonvested Deferred Award Account(s) as of the effective date of such suspension or termination will continue to be administered under the terms of the Performance Incentive Plan after any suspension or termination, except as the Board otherwise determines in its discretion at the time of such suspension or termination.

7.3. *Recordkeeping and Reporting*

- (a) All records for the Compensation Program will be maintained by the Managing Director of Accounting, Finance, and Administration at UTIMCO. Relative performance data and calculations will be reviewed by UTIMCO's external auditor before Performance Incentive Awards are finalized and approved by the Board.
- (b) UTIMCO will provide all Participants with a comprehensive report of the current value of their respective Nonvested Deferred Award and Extraordinary Nonvested Deferred Award Account balances, including a complete vesting status of those balances, on at least a quarterly basis.

7.4. *Continued Employment*

Nothing in the adoption of the Compensation Program or the awarding of Performance Incentive Awards will confer on any employee the right to continued employment with UTIMCO or affect in any way the right of UTIMCO to terminate his or her employment at any time.

7.5. *Non-transferability of Awards*

Except for the rights of the estate or designated beneficiaries of Participants to receive payments, as set forth herein, Performance Incentive Awards under the Performance Incentive Plan, including both the Paid Performance Incentive Award portion and the Nonvested Deferred Award portion, are non-assignable and non-transferable and are not subject to anticipation, adjustment, alienation,

encumbrance, garnishment, attachment, or levy of any kind. The preceding notwithstanding, the Compensation Program will pay any portion of a Performance Incentive Award that is or becomes vested in accordance with an order that meets the requirements of a “qualified domestic relations order” as set forth in Section 414(p) of the *Internal Revenue Code* and Section 206(d) of ERISA.

7.6. *Unfunded Liability*

- (a) Neither the establishment of the Compensation Program, the award of any Performance Incentive Awards, nor the creation of Nonvested Deferred Awards Accounts will be deemed to create a trust. The Compensation Program will constitute an unfunded, unsecured liability of UTIMCO to make payments in accordance with the provisions of the Compensation Program. Any amounts set aside by UTIMCO to assist it in the payment of Performance Incentive Awards or other benefits under the Compensation Program, including without limitation, amounts set aside to pay for Nonvested Deferred Awards, will be the assets of UTIMCO, and no Participant will have any security or other interest in any assets of UTIMCO or the U.T. System Board of Regents by reason of the Compensation Program.
- (b) Nothing contained in the Compensation Program will be deemed to give any Participant, or any personal representative or beneficiary, any interest or title to any specific property of UTIMCO or any right against UTIMCO other than as set forth in the Compensation Program.

7.7. *Compliance with State and Federal Law*

No portion of the Compensation Program will be effective at any time when such portion violates an applicable state or federal law, regulation, or governmental order or directive.

7.8. *Federal, State, and Local Tax and Other Deductions*

All Performance Incentive Awards under the Compensation Program will be subject to any deductions (1) for tax and withholding required by federal, state, or local law at the time such tax and withholding is due (irrespective of whether such Performance Incentive Award is deferred and not payable at such time) and (2) for any and all amounts owed by the Participant to UTIMCO at the time of payment of the Performance Incentive Award. UTIMCO will not be obligated to advise an employee of the existence of the tax or the amount that UTIMCO will be required to withhold.

7.9. *Prior Plan*

- (a) Except as provided in the following paragraphs of this Section 7.9, this Compensation Program supersedes any prior version of the Compensation Program (“Prior Plan”).

- (b) All nonvested deferred awards under a Prior Plan will retain the vesting schedule in effect under the Prior Plan at the time such awards were allocated to the respective Participant's account. In all other respects, as of the Effective Date, those nonvested deferred amounts will (1) be credited or debited with the Net Returns over the remaining deferral period in accordance with Section 5.7(a), and (2) be subject to the terms and conditions for Nonvested Deferred Awards under the Performance Incentive Plan as set forth in this restated document.

8. DEFINITION OF TERMS

- 8.1. Affected Participant** is defined in Section 5.12.
- 8.2. Applicable Deferral Percentage** means, as to each Eligible Position, the percentage set forth opposite such Eligible Position under the heading “Percentage of Award Deferred” on Table 1, which is attached as Appendix C.
- 8.3. Asset Class/Investment Type Performance** is the performance of specific asset classes and investment types within the Total Endowment Assets and the Intermediate Term Fund (such as developed country, private investments, etc.) based on the standards set forth in Section 5.8(b).
- 8.4. Board** is the UTIMCO Board of Directors.
- 8.5. Cause** means, as to any employee, that such employee has committed (as determined by UTIMCO in its sole discretion) any of the following: (1) a violation of any securities law or any other law, rule or regulation; (2) willful conduct that reflects negatively on the public image of UTIMCO or the U.T. System; or (3) a breach of UTIMCO’s Code of Ethics.
- 8.6. Compensation Committee** is the Compensation Committee of the UTIMCO Board of Directors.
- 8.7. Compensation Program** is defined in Section 1.
- 8.8. Disability** means a condition whereby a Participant either (i) is unable to engage in any substantial gainful activity by reason of a medically determinable physical or mental impairment that is expected either to result in death or to last for a continuous period of not less than 12 months or (ii) is, by reason of a medically determinable physical or mental impairment that is expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three months under a disability plan maintained or contributed to by UTIMCO for the benefit of eligible employees.
- 8.9. Effective Date** is defined in Section 1.
- 8.10. Eligible for Retirement** is defined in Section 5.11.
- 8.11. Eligible Position** is defined in Section 5.3(a).
- 8.12. Entity Performance** represents the performance of the Total Endowment Assets and the Intermediate Term Fund (based on the measurement standards set forth in Section 5.8(a)).
- 8.13. Extraordinary Nonvested Deferral Award** is defined in Section 5.12.
- 8.14. Extraordinary Nonvested Deferral Award Account** is defined in Section 5.12.
- 8.15. Incentive Award Opportunity** is defined in Section 5.5(a).

- 8.16. Intermediate Term Fund or ITF** is The University of Texas System (“U.T. System”) Intermediate Term Fund established by the U.T. System Board of Regents as a pooled fund for the collective investment of operating funds and other intermediate and long-term funds held by the U.T. System institutions and U.T. System Administration. Performance of the Intermediate Term Fund is measured net of fees, meaning performance is measured after factoring in all administrative and other fees incurred for managing the Intermediate Term Fund.
- 8.17. Intermediate Term Fund Policy Portfolio Return** is the benchmark return for the Intermediate Term Fund policy portfolio and is calculated by summing the neutrally weighted index returns (percentage weight for each asset class and investment type multiplied by the benchmark return for the asset class and investment type) for the various asset classes and investment types in the Intermediate Term Fund policy portfolio for the Performance Period.
- 8.18. Involuntary Termination** means, as to any person the Termination of such person’s employment with UTIMCO wholly initiated by UTIMCO and not due to such person’s implicit or explicit request, at a time when such person is otherwise willing and able to continue to perform services for UTIMCO.
- 8.19. Net Returns** is the investment performance return of the Total Endowment Assets, net of fees. Net of fees factors in all administrative and other fees for managing the Total Endowment Assets. The net investment return will be calculated as follows:
- $$\frac{\text{Permanent University Fund Beginning Net Asset Value}}{\text{Total Endowment Beginning Net Asset Value}} \times \text{Permanent University Fund Net Investment Return}$$
- Plus
- $$\frac{\text{General Endowment Fund Beginning Net Asset Value}}{\text{Total Endowment Beginning Net Asset Value}} \times \text{General Endowment Fund Net Investment Return}$$
- 8.20. Nonvested Deferred Award** is defined in Section 5.6(b).
- 8.21. Nonvested Deferred Award Account** is defined in Section 5.7(a).
- 8.22. Paid Performance Incentive Award** is defined in Section 5.6(a).
- 8.23. Participant** is defined in Section 5.3(a).
- 8.24. Peer Group** is a peer group of endowment funds that is comprised of all endowment funds with more than 10 full-time employee positions, allocations to alternative assets in excess of 40%, and with assets greater than \$2.5 billion, all to be determined as of the last day of each of the three immediately preceding Performance Periods as set forth on Appendix B; provided, however, that the Total Endowment Assets are excluded from the Peer Group. The Peer Group will be updated from time to time as deemed appropriate by the Board, and Appendix B will be amended accordingly.
- 8.25. Performance Goals** are defined in Section 5.4.
- 8.26. Performance Incentive Award** is the component of a Participant’s total compensation that is based on specific performance goals and awarded as current

income or deferred at the end of a Performance Period in accordance with Section 5 and Appendix A.

- 8.27. Performance Incentive Plan** is as defined in Section 1 and described more fully in Section 5.
- 8.28. Performance Measurement Date** is the close of the last business day of the month.
- 8.29. Performance Period** is defined in Section 5.2.
- 8.30. Prior Plan** is defined in Section 7.9.
- 8.31. Salary Structure** is described in Section 4.1.
- 8.32. Termination** means, as to any person, a complete severance of the relationship of employer and employee between UTIMCO and such person.
- 8.33. Total Endowment Assets or TEA** means the combination of the Permanent University Fund and the General Endowment Fund, but does not include any other endowment funds monitored by UTIMCO such as the Separately Invested Fund. Performance of the Total Endowment Assets is measured net of fees, meaning performance is measured after factoring in all administrative and other fees incurred for managing the Total Endowment Assets.
- 8.34. Total Endowment Assets Policy Portfolio Return** is the benchmark return for the Total Endowment Assets policy portfolio and is calculated by summing the neutrally weighted index returns (percentage weight for each asset class and investment type multiplied by the benchmark return for the asset class and investment type) for the various asset classes and investment types in the Total Endowment Assets policy portfolio for the Performance Period.
- 8.35. Voluntary Terminations** means, as to any person, the Termination of such person's employment with UTIMCO not resulting from an Involuntary Termination or by reason of Death or disability.

Appendix A

Performance Incentive Award Methodology (for Performance Periods beginning on or after September 1, ~~2012~~2013)

I. Determine “Incentive Award Opportunities” for Each Participant²

- Step 1. Identify the weights to be allocated to each of the three Performance Goals for each Participant’s Eligible Position. The weights vary for each Eligible Position each Performance Period and are set forth in Table 1 on Appendix C for the applicable Performance Period. The total of the weights ascribed to the three Performance Goals must add up to 100% for each Participant. For example, Table 1 on Appendix C may reflect for a Performance Period for the CEO that the weight allocated to the Entity Performance Goal is 60%, the weight allocated to the Asset Class/Investment Type Performance Goal is 0%, and the weight allocated to the Individual Performance Goal is 40%.
- Step 2. Identify the percentage of base salary for the Participant’s Eligible Position that determines the Performance Incentive Award for achievement of the Threshold, Target, and Maximum levels of the Performance Goals. The percentages vary for each Eligible Position each Performance Period and are set forth in Table 1 on Appendix C for the applicable Performance Period. For example, Table 1 on Appendix C may show that for a Performance Period the applicable percentages for determining the Performance Incentive Award for the CEO are 0% of his or her base salary for achievement of Threshold level performance of all three Performance Goals, ~~40~~125% of his or her base salary for achievement of Target level performance of all three Performance Goals, and ~~32~~34% of his or her base salary for achievement of Maximum level performance of all three Performance Goals.
- Step 3. Calculate the dollar amount of the potential Threshold, Target, and Maximum awards (the “Incentive Award Opportunities”) for each Participant by multiplying the Participant’s base salary for the Performance Period by the applicable percentage (from Step #2 above). For example, assuming the CEO has a base salary of ~~\$600,000~~\$655,000 for a Performance Period, based on the assumed percentages set forth in Step #2 above, the CEO will be eligible for a total award of \$0 if he or she achieves Threshold level performance of all three Performance Goals, ~~\$600,000~~\$655,000 (~~40~~125% of his or her base salary) if he or she achieves

² These Incentive Award Opportunities represent amounts that each Participant will be awarded if he or she achieves his or her Performance Goals at varying levels and are calculated at the beginning of each Performance Period or, if later, the date such Participant commences participation in the Performance Incentive Plan.

Target level performance of all three Performance Goals, and ~~\$1,920,000~~2,227,000 (~~320~~340% of his or her base salary) if he or she achieves Maximum level performance of all three Performance Goals.

- Step 4. Because a Participant may achieve different levels of performance in different Performance Goals and be eligible for different levels of awards for that achievement (e.g., he or she may achieve Target performance in the Entity Performance Goal and be eligible to receive a Target award for that goal and achieve Maximum performance in the Qualitative Performance Goal and be eligible to receive a Maximum award for that Performance Goal), it is necessary to determine the Incentive Award Opportunity of the Threshold, Target, and Maximum award for each separate Performance Goal (and, because achievement of the Entity Performance Goal is determined in part by achievement of the Total Endowment Assets and in part by achievement of the Intermediate Term Fund, a Threshold, Target, and Maximum Incentive Award Opportunity separately for the TEA and the ITF must be determined). This is done by multiplying the dollar amount of the Threshold, Target, and Maximum awards for the performance of all three Performance Goals calculated in Step #3 above for the Participant by the weight allocated for that Participant to the particular Performance Goal (and, further, by multiplying the Incentive Award Opportunity for the Entity Performance by the weight ascribed to achievement of the Total Endowment Assets (80%) and by the weight ascribed to achievement of the Intermediate Term Fund (20%)).
- Step 5. After Steps #3 and #4 above are performed for each of the three levels of performance for each of the three Performance Goals, there will be 12 different Incentive Award Opportunities for each Participant. For example, for the CEO (based on an assumed base salary of ~~\$600,000~~655,000, the assumed weights for the Performance Goals set forth in Step #1 above, and the assumed percentages of base salary for the awards set forth in Step #2 above), the 12 different Incentive Award Opportunities for achievement of the Performance Goals for the Performance Period are as follows:

Incentive Award Opportunities for CEO
(based on assumed base salary of ~~\$600,000~~\$655,000)

Performance Goal	Weight	Threshold Level Award	Target Level Award	Maximum Level Award
Entity (TEA v. TEA Policy Portfolio Return)	48% (.80 x .60)	\$0	\$288,000 <u>\$393,000</u>	\$921,600 <u>\$1,068,960</u>
Entity (ITF v. ITF Policy Portfolio Return)	12% (.20 x .60)	\$0	\$72,000 <u>\$98,250</u>	\$230,400 <u>\$267,240</u>
Asset Class/Investment Type	0%	\$0	\$0	\$0
Qualitative	40%	\$0	\$240,000 <u>\$327,500</u>	\$768,000 <u>\$990,800</u>
Total	100%	\$0 (0% of salary)	\$600,000 <u>\$818,750</u> (100 <u>125</u> % of salary)	\$1,920,000 <u>\$2,227,000</u> (320 <u>340</u> % of salary)

II. Calculate Performance Incentive Award for Each Participant³

- Step 6. Identify the achievement percentiles or achieved basis points that divide the Threshold, Target, and Maximum levels for each Performance Goal. These divisions for the level of achievement of the Entity and Asset Class/Investment Type Performance Goals are set forth in the table for the applicable Performance Period as set forth on Appendix D. The measurement for the level of achievement (i.e., Threshold, Target, or Maximum) for the Qualitative Performance Goal is initially determined each Performance Period by the Participant’s supervisor, if any, (in the case of the CCO, jointly by the Audit and Ethics Committee and the CEO), and then is approved (or adjusted) by the Compensation Committee as it deems appropriate in its discretion. If the Participant has no supervisor, the measurement for the level of achievement for the Qualitative Performance Goal is determined each Performance Period by the Compensation Committee. The Board will determine the CEO’s level of achievement relative to the CEO’s Performance Goals.
- Step 7. Determine the percentile or basis points achieved for each Performance Goal for each Participant using the standards set forth in Sections 5.5 and 5.8 of the Compensation Program, as modified in Section 5.9. Determine the level of achievement of each Participant’s Qualitative Performance Goal.
- Step 8. Calculate the amount of each Participant’s award attributable to each Performance Goal by identifying the Incentive Award Opportunity amount for each Performance Goal (e.g., as assumed and set forth for the CEO in the table in Step #5 above) commensurate with the Participant’s level of achievement for that Performance Goal (determined in Steps #6 and #7

³ In the event that the Net Returns of the Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined are below negative 14.0% at the end of such Performance Period, steps 6 through 14 need not be followed with respect to Affected Participants when calculating Performance Incentive Awards for that Performance Period.

above). An award for achievement percentiles in between the stated Threshold, Target, and Maximum levels is determined by linear interpolation. For example, if +100 bps of the TEA benchmark portion of the Total Endowment Assets portion of the Entity Performance Goal has been achieved, that +100 bps is between the Target (+75bps) and the Maximum (+225bps) levels, so to determine the amount of the award attributable to +100 bps of achievement of the TEA benchmark portion of the Total Endowment Assets portion of the Entity Performance Goal, perform the following steps: (i) subtract the difference between the dollar amounts of the Target and Maximum Incentive Award Opportunities for the Participant (e.g., for the CEO, as illustrated in the table in Step #5, the difference is ~~\$633,600~~\$75,960 (~~\$921,600 - \$288,000~~\$1,068,960 - \$393,000)); (ii) divide 25 (the bps difference between the Target level of +75 bps and the attained level of +100 bps) by 150 (the bps difference between the Target level and Maximum level) to get the fraction 25/150 to determine the pro rata portion of the difference between Target and Maximum actually achieved; (iii) multiply the amount determined in the preceding Step (i) by the fraction determined in the preceding Step (ii) (~~\$633,600~~\$75,960 x 25/150 = ~~\$105,600~~\$12,660); and (iv) add the amount determined in the preceding Step (iii) to the Target Incentive Award Opportunity for the Participant to get the actual award for the Participant attributable to each Performance Goal (~~\$105,600~~ + ~~\$288,000~~ = ~~\$393,600~~) (\$12,660 + \$393,000 = \$505,660).

- Step 9. In determining the Asset Class/Investment Type Performance portion of an award for a Performance Period for each Participant who is responsible for more than one asset class and investment type during that Performance Period, first, the Participant's attained level of achievement (i.e., Below Threshold, Threshold, Target, or Maximum) is determined for each asset class and investment type for which such Participant is responsible by comparing the actual performance to the appropriate benchmark for the asset class and investment type; then, the award is calculated for the determined level of achievement for each such asset class and investment type by multiplying the award commensurate with the level of achievement by the weight assigned to the Asset Class/Investment Type Performance Goal for such Participant; then, the various asset classes and investment types for which the Participant is responsible are assigned a pro rata weight (i.e., the assets in such asset class and investment type relative to the total assets under such Participant's responsibility); then, each determined award for a separate asset class and investment type is multiplied by the weight for that asset class and investment type; and, finally, the weighted awards are totaled to produce the Participant's award attributable to Asset Class/Investment Type Performance.
- Step 10. In determining the award attributable to the Entity Performance Goal, achievement of the Total Endowment Assets portion of the Entity Performance Goal (and the commensurate award) is weighted at 80% (and then multiplied by the weight assigned to the Entity Performance Goal for

the Participant), and achievement of the Intermediate Term Fund portion of the Entity Performance Goal (and commensurate award) is weighted at 20% (and then multiplied by the weight assigned to the Entity Performance Goal for the Participant). For example, assuming a base salary of ~~\$600,000~~655,000, if the CEO achieved the Target level (+75 bps) of the TEA benchmark portion of the Total Endowment Assets portion of the Entity Performance Goal, and achieved the Maximum level (+150 bps) of the Intermediate Term Fund portion of the Entity Performance Goal, he or she would have earned an award of ~~\$518,400~~660,240 for his or her level of achievement of the Entity Performance Goal as follows: ~~\$288,000~~393,000 for Target level of achievement of the TEA benchmark portion of the TEA portion of Entity Performance Goal (.80 x .60 x ~~\$600,000~~655,000) plus ~~\$230,400~~267,240 for Maximum level of achievement of the ITF portion of the Entity Performance Goal (.20 x .60 x ~~\$1,920,000~~2,227,000).

- Step 11. No award is given for an achievement percentile below Threshold, and no award above the Maximum award is given for an achievement percentile above the Maximum level.
- Step 12. Subject to any applicable adjustment in Step #13 below, add the awards determined in Steps #8, #9, and #10 above for each Performance Goal (as modified by Step #11) together to determine the total amount of the Participant's Performance Incentive Award for the Performance Period.
- Step 13. In the case of any Participant who becomes a Participant in the Performance Incentive Plan after the first day of the applicable Performance Period, such Participant's Performance Incentive Award (determined in Step #12) will be prorated to reflect the actual portion of the Performance Period in which he or she was a Participant. In the case of a Participant who ceases to be a Participant prior to the end of a Performance Period, his or her entitlement to any Performance Incentive Award is determined under Section 5.10 and, in the case of such entitlement, such Participant's Performance Incentive Award, if any, will be prorated and adjusted as provided in Section 5.10.
- Step 14. In the case of any Affected Participant, such Affected Participant's Performance Incentive Award calculated pursuant to Steps #1 through #13 above shall be multiplied by the appropriate factor set forth in the following charges:

When Net Returns of Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined are below negative 5.0% at the end of such Performance Period:

Actual Negative Net Returns (Rounded to Nearest <u>One-Hundredth Decimal</u>)	<u>Factor</u>
5.01 - 6.00	.9
6.01 - 7.00	.8
7.01 - 8.00	.7
8.01 - 9.00	.6
9.01 - 10.00	.5
10.01 - 11.00	.4
11.01 - 12.00	.3
12.01 - 13.00	.2
13.01 - 14.00	.1
14.01 and Below	.0

When Net Returns of Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined are in excess of positive 20.0% at the end of such Performance Period:

Actual Positive Net Returns (Rounded to Nearest <u>One-Hundredth Decimal</u>)	<u>Factor</u>
20.01 - 21.00	1.1
21.01 - 22.00	1.2
22.01 - 23.00	1.3
23.01 - 24.00	1.4
24.01 - 25.00	1.5
25.01 - 26.00	1.6
26.01 - 27.00	1.7
27.01 - 28.00	1.8
28.01 - 29.00	1.9
29.01 and Above	2.0

Appendix B

UTIMCO Peer Group

- Brown University
- Columbia University
- Cornell University
- Dartmouth
- Duke University
- Emory University
- Harvard University
- John Hopkins Univeristy
- Massachusetts Institute of Technology
- New York University
- 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 Investment Management Company
- Vanderbilt University
- Washington University in St. Louis
- Yale University

Source: Cambridge Associates. Represents endowment funds (excluding the Total Endowment Assets) with more than 10 full-time employee positions, allocations to alternative assets in excess of 40%, and with assets greater than \$2.5 billion, all to be determined as of the last day of each fiscal year end June ~~2010~~, 2011, 2012, and 2013.

Appendix C

**Eligible Positions
Weightings
Incentive Award Opportunities
Percentage of Award Deferred
for each Eligible Position
(for each Performance Period)**

TABLE 1 (For the Performance Period beginning September 1, 2012 and ending August 31, 2013)

Eligible Position	Weighting			Incentive Award Opportunity (% of Salary)				Percentage of Award Deferred
	Entity	Asset Class/ Investment Type	Qualitative (Individual)	< Threshold	Threshold	Target	Maximum	
<i>Investment Professionals</i>								
CEO & Chief Investment Officer	60%	0%	40%	0%	0%	100%	320%	50%
President & Deputy CIO	40%	40%	20%	0%	0%	95%	275%	50%
Managing Director - Investments	30%	40%	30%	0%	0%	85%	227.5%	40%
Managing Director - Private Investments	30%	30%	40%	0%	0%	85%	227.5%	40%
Senior Director - Investments	25%	35%	40%	0%	0%	60%	167.5%	35%
Senior Portfolio Manager	20%	40%	40%	0%	0%	60%	167.5%	35%
Senior Director - Risk Management	30%	0%	70%	0%	0%	50%	152.5%	35%
Portfolio Manager	20%	40%	40%	0%	0%	50%	150%	30%
Director - Investments	20%	40%	40%	0%	0%	50%	150%	30%
Director - Private Investments	20%	30%	50%	0%	0%	50%	150%	30%
Director - Risk Management	30%	0%	70%	0%	0%	40%	120%	30%
Senior Associate - Investments	15%	35%	50%	0%	0%	40%	120%	20%
Senior Associate - Private Investments	15%	25%	60%	0%	0%	40%	120%	20%
Senior Associate - Risk Management	30%	0%	70%	0%	0%	40%	110%	20%
Associate - Investments	15%	30%	55%	0%	0%	35%	110%	15%
Associate - Private Investments	15%	20%	65%	0%	0%	35%	110%	15%
Associate - Risk Management	30%	0%	70%	0%	0%	35%	95%	15%
Senior Analyst - Investments	10%	20%	70%	0%	0%	30%	80%	0%
Analyst - Investments	10%	20%	70%	0%	0%	25%	62.5%	0%
Analyst - Risk Management	30%	0%	70%	0%	0%	25%	62.5%	0%
<i>Operations/Support Professionals</i>								
Senior Managing Director	20%	0%	80%	0%	0%	60%	135%	40%
Chief Technology Officer	20%	0%	80%	0%	0%	50%	100%	30%
General Counsel & Chief Compliance Officer	0%	0%	100%	0%	0%	50%	110%	30%
Senior Manager	20%	0%	80%	0%	0%	40%	90%	25%
Manager	20%	0%	80%	0%	0%	40%	80%	25%
Deal Attorney	20%	0%	80%	0%	0%	40%	80%	25%
Senior Financial Analyst	20%	0%	80%	0%	0%	30%	60%	20%

TABLE 1 (For the Performance Periods beginning after August 31, 2013)

Eligible Position	Weighting			Incentive Award Opportunity (% of Salary)				Percentage of Award Deferred
	Entity	Asset Class/ Investment Type	Qualitative (Individual)	< Threshold	Threshold	Target	Maximum	
<i>Investment Professionals</i>								
CEO & Chief Investment Officer	60%	0%	40%	0%	0%	125%	340%	50%
President & Deputy CIO	40%	40%	20%	0%	0%	115%	300%	50%
Managing Director - Investments	30%	40%	30%	0%	0%	100%	240%	40%
Managing Director - Private Investments	30%	30%	40%	0%	0%	100%	240%	40%
Senior Director - Investments	25%	35%	40%	0%	0%	70%	185%	35%
Senior Portfolio Manager	20%	40%	40%	0%	0%	70%	185%	35%
Senior Director - Risk Management	30%	0%	70%	0%	0%	55%	170%	35%
Portfolio Manager	20%	40%	40%	0%	0%	60%	170%	30%
Director - Investments	20%	40%	40%	0%	0%	60%	170%	30%
Director - Private Investments	20%	30%	50%	0%	0%	60%	170%	30%
Director - Risk Management	30%	0%	70%	0%	0%	50%	150%	30%
Senior Associate - Investments	15%	35%	50%	0%	0%	50%	150%	20%
Senior Associate - Private Investments	15%	25%	60%	0%	0%	50%	150%	20%
Senior Associate - Risk Management	30%	0%	70%	0%	0%	45%	140%	20%
Associate - Investments	15%	30%	55%	0%	0%	35%	135%	15%
Associate - Private Investments	15%	20%	65%	0%	0%	35%	135%	15%
Associate - Risk Management	30%	0%	70%	0%	0%	35%	120%	15%
Senior Analyst - Investments	10%	20%	70%	0%	0%	30%	100%	0%
Analyst - Investments	10%	20%	70%	0%	0%	25%	75%	0%
Analyst - Risk Management	30%	0%	70%	0%	0%	25%	75%	0%
<i>Operations/Support Professionals</i>								
Senior Managing Director	20%	0%	80%	0%	0%	65%	150%	40%
Chief Technology Officer	20%	0%	80%	0%	0%	55%	100%	30%
General Counsel & Chief Compliance Officer	0%	0%	100%	0%	0%	50%	120%	30%
Senior Manager	20%	0%	80%	0%	0%	50%	90%	25%
Manager	20%	0%	80%	0%	0%	50%	80%	25%
Investment Counsel	20%	0%	80%	0%	0%	40%	80%	25%
Senior Financial Analyst	20%	0%	80%	0%	0%	40%	60%	20%
IT Investment Associate	20%	0%	80%	0%	0%	35%	100%	20%

Appendix D

**Benchmarks for Entity and Asset Class/Investment Type and
Threshold, Target, and Maximum Performance Standards**
(for Performance Periods beginning on or after September 1, ~~2010~~2011)

UPDATED TABLE 2 (09/01/10 through 8/31/11)

Asset Class/Investment Type	Benchmark	Policy Portfolio Weights		Performance Standards		
		Total Endowment Assets	ITF	Threshold	Target	Maximum
		(% of Portfolio)	(% of Portfolio)			
Entity: Benchmark (Total Endowment Funds)	Policy Portfolio	n/a	n/a	+0 bps	+75 bps	+225 bps
Entity: Benchmark (Intermediate Term Fund)	Policy Portfolio	n/a	n/a	+0 bps	+50 bps	+150 bps
Investment Grade Fixed Income	Barclays Capital Global Aggregate Index	7.5%	30.0%	+0 bps	+25 bps	+62.5 bps
Real Estate	FTSE EPRA/NAREIT Developed Index	2.5%	5.0%	+0 bps	+62.5 bps	+150 bps
Natural Resources	50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index	6.5%	7.5%	+0 bps	+62.5 bps	+150 bps
Developed Country Equity	MSCI World Index with net dividends	19.5%	15.0%	+0 bps	+62.5 bps	+150 bps
Emerging Markets Equity	MSCI Emerging Markets with net dividends	12.0%	7.5%	+0 bps	+62.5 bps	+150 bps
Hedge Funds (Less Correlated & Constrained Investments)	Hedge Fund Research Indices Fund of Funds Composite Index*	30.0%	35.0%	+0 bps	+75 bps	+250 bps
Private Investments (excludes Real Estate)	Venture Economics Custom Index	20.0%	0%	+0 bps	+100 bps	+350 bps
Private Investments Real Estate	NACREIF Custom Index	2.0%	0%	+0 bps	+100 bps	+325 bps
Specific asset class benchmarks:						
Credit-Related Fixed Income	Barclays Capital Global High Yield Index			+0 bps	+37.5 bps	+100 bps
Internal Investment Grade Fixed Income	US Barclays Capital Aggregate			+0 bps	+25 bps	+50 bps

* For the Performance Period beginning 7/01/2008 through 12/31/2008, the benchmark is MSCI Investable Hedge Fund Index

UPDATED TABLE 2 (9/1/11 through 08/31/12)

Asset Class/Investment Type	Benchmark	Policy Portfolio Weights		Performance Standards		
		Total Endowment Assets	ITF	Threshold	Target	Maximum
		(% of Portfolio)	(% of Portfolio)			
Entity: Benchmark (Total Endowment Funds)	Policy Portfolio	n/a	n/a	+0 bps	+75 bps	+225 bps
Entity: Benchmark (Intermediate Term Fund)	Policy Portfolio	n/a	n/a	+0 bps	+50 bps	+150 bps
Investment Grade Fixed Income	Barclays Capital Global Aggregate Index	7.5%	35.0%	+0 bps	+25 bps	+62.5 bps
Real Estate	FTSE EPRA/NAREIT Developed Index NET TRI USD	2.5%	5.0%	+0 bps	+62.5 bps	+150 bps
Natural Resources	50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index	6.5%	7.5%	+0 bps	+62.5 bps	+150 bps
Developed Country Equity	MSCI World Index with net dividends	18.5%	10.0%	+0 bps	+62.5 bps	+150 bps
Emerging Markets Equity	MSCI Emerging Markets with net dividends	12.0%	7.5%	+0 bps	+62.5 bps	+150 bps
Hedge Funds (Less Correlated & Constrained Investments)	Hedge Fund Research Indices Fund of Funds Composite Index	30.0%	35.0%	+0 bps	+75 bps	+250 bps
Private Investments (excludes Real Estate)	Venture Economics Custom Index Custom Cambridge Fund of Funds Benchmark	20.0% 23.0%	0%	+0 bps	+100 +150 bps	+350 +450 bps
Private Investments Real Estate	NACREIF Custom Index	2.0%	0%	+0 bps	+100 bps	+325 bps
Specific asset class benchmarks:						
Credit-Related Fixed Income	Barclays Capital Global High Yield Index			+0 bps	+37.5 bps	+100 bps
Internal Investment Grade Fixed Income	US Barclays Capital Aggregate			+0 bps	+25 bps	+50 bps

UPDATED TABLE 2 (9/1/12 through 08/31/13)

Asset Class/Investment Type	Benchmark	Policy Portfolio Weights		Performance Standards		
		Total Endowment Assets	ITF	Threshold	Target	Maximum
		(% of Portfolio)	(% of Portfolio)			
Entity: Benchmark (Total Endowment Funds)	Policy Portfolio	n/a	n/a	+0 bps	+75 bps	+225 bps
Entity: Benchmark (Intermediate Term Fund)	Policy Portfolio	n/a	n/a	+0 bps	+50 bps	+150 bps
Investment Grade Fixed Income	Barclays Capital Global Aggregate Index	7.5%	35.0%	+0 bps	+25 bps	+62.5 bps
Real Estate	FTSE EPRA/NAREIT Developed Index NET TRI USD	2.5%	5.0%	+0 bps	+62.5 bps	+150 bps
Natural Resources	50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index	7.5%	7.5%	+0 bps	+62.5 bps	+150 bps
Developed Country Equity	MSCI World Index with net dividends	15.0%	10.0%	+0 bps	+62.5 bps	+150 bps
Emerging Markets Equity	MSCI Emerging Markets with net dividends	12.0%	7.5%	+0 bps	+62.5 bps	+150 bps
Hedge Funds (Less Correlated & Constrained Investments)	Hedge Fund Research Indices Fund of Funds Composite Index	30.0%	35.0%	+0 bps	+75 bps	+250 bps
Private Investments (excludes Real Estate)	Venture Economics Custom Index Custom Cambridge Fund of Funds Benchmark	21.5% 25.5%	0%	+0 bps	+100 +150 bps	+350 +450 bps
Private Investments Real Estate	NACREIF Custom Index	4.0%	0%	+0 bps	+100 bps	+325 bps
Specific asset class benchmarks:						
Credit-Related Fixed Income	Barclays Capital Global High Yield Index			+0 bps	+37.5 bps	+100 bps
Internal Investment Grade Fixed Income	US Barclays Capital Aggregate			+0 bps	+25 bps	+50 bps

UPDATED TABLE 2 (9/1/13 through 08/31/14)

Asset Class/Investment Type	Benchmark	Policy Portfolio Weights		Performance Standards		
		Total Endowment Assets	ITF	Threshold	Target	Maximum
		(% of Portfolio)	(% of Portfolio)			
Entity: Benchmark (Total Endowment Funds)	Policy Portfolio	n/a	n/a	+0 bps	+100 bps	+250 bps
Entity: Benchmark (Intermediate Term Fund)	Policy Portfolio	n/a	n/a	+0 bps	+50 bps	+150 bps
Investment Grade Fixed Income	Barclays Capital Global Aggregate Index	7.5%	30.0%	+0 bps	+25 bps	+62.5 bps
Real Estate	FTSE EPRA/NAREIT Developed Index NET TRI USD	2.5%	3.0%	+0 bps	+62.5 bps	+150 bps
Natural Resources	50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index	7.5%	7.0%	+0 bps	+62.5 bps	+150 bps
Developed Country Equity	MSCI World Index with net dividends	14.0%	9.0%	+0 bps	+62.5 bps	+150 bps
Emerging Markets Equity	MSCI Emerging Markets with net dividends	10.0%	6.0%	+0 bps	+62.5 bps	+150 bps
Hedge Funds (Less Correlated & Constrained Investments)	Hedge Fund Research Indices Fund of Funds Composite Index	30.0%	45.0%	+0 bps	+75 bps	+250 bps
Private Investments (excludes Real Estate)	Venture Economics Custom Index Custom Cambridge Fund of Funds Benchmark	23.3% 28.5%	0%	+0 bps	+150 bps	+450 bps
Private Investments Real Estate	NACREIF Custom Index	5.2%	0%	+0 bps	+150 bps	+450 bps
Specific asset class benchmarks:						
Credit-Related Fixed Income	Barclays Capital Global High Yield Index			+0 bps	+37.5 bps	+100 bps
Internal Investment Grade Fixed Income	US Barclays Capital Aggregate			+0 bps	+25 bps	+50 bps

Appendix E

Eligible Positions of Affected Participants

Table 3 (For the Performance Periods beginning after September 1, 2013)

Eligible Position
<p style="text-align: center;"><i>Investment Professionals</i></p> <p>CEO & Chief Investment Officer President & Deputy CIO Managing Director Managing Director - Private Investments Senior Director, Investment Senior Portfolio Manager Senior Director, Risk Management Portfolio Manager Director, Investment Director - Private Investments Director, Risk Management</p> <p style="text-align: center;"><i>Operations/Support Professionals</i></p> <p>Senior Managing Director Chief Technology Officer General Counsel & Chief Compliance Officer Senior Manager Investment Counsel Manager</p>

The University of Texas Investment Management Company

Charter of the Compensation Committee

Background

The Board of Directors (the "Board") of The University of Texas Investment Management Company (the "Corporation") established a Compensation Committee (the "Committee") on August 30, 1996. The Committee's responsibilities were enumerated and documented in the August 30, 1996 Board minutes. This Charter, adopted by the Board on ~~July 14, 2011~~ February 20, 2014, supersedes the Charter adopted by the Board on ~~May 26, 2004~~ July 11, 2011.

Purpose

The primary purpose of the Committee is to ~~provide oversight of the~~ carry out the responsibilities delegated to it by the Board relating to the review and determination of compensation ~~system~~ for officers and employees of the Corporation.

Composition

The Committee shall be composed of three members of the Board appointed from time to time by a majority vote of the Board at a meeting at which a quorum is present. Individuals who are not members of the Board may be appointed to the Committee; provided however, a majority of the Committee members shall be members of the Board. A member may be removed with or without cause at any time by a majority vote of the Board.

Meetings; Quorum; Etc.

The Corporation's Bylaws state that any committee created by the Board or the Bylaws, including the Committee, shall (i) have a chairman designated by the Board, (ii) fix its own rules or procedures, (iii) meet at such times and at such place or places as may be provided by such rules or by resolution of such committee or resolution of the Board, and (iv) keep regular minutes of its meetings and cause such minutes to be recorded in books kept for that purpose in the principal office of the Corporation, and report the same to the Board at its next regular meeting. At every meeting of any such committee, the presence of a majority of all the members thereof shall constitute a quorum, and the affirmative vote of a majority of the members present shall be necessary for the adoption by it of any action, unless otherwise expressly provided in the committee's rules or procedures or the Bylaws of the Corporation or by the Board. The Board may designate one or more Directors as alternate members of any committee, who may replace any absent or disqualified member of such committee. In the absence or disqualification of a member of a committee, the member or members present at any meeting of the committee and not disqualified from voting, whether or not constituting a quorum, may unanimously appoint the designated alternate Director to act at the meeting in the place of the absent or disqualified member.

Duties and Responsibilities

The Committee has the following duties and responsibilities:

- Recommend to the Board the UTIMCO Compensation Program and any amendments thereto
- Review the UTIMCO Compensation Program to determine whether it encourages optimal risk-taking, to review and discuss at least annually the relationship between risk management policies and practices and compensation, and to evaluate compensation policies and practices that could mitigate any such risk
- ~~Select and retain the services of an independent~~ qualified compensation consultant ~~to advise the Committee as necessary to assist with the execution of its duties and responsibilities as set forth in this Charter~~ and periodically perform a salary benchmarking study
- Review and approve annually the goals and objectives applicable to the compensation of the Chief Executive Officer and Chief Investment Officer ("CEO"), at least annually, determine the CEO's level of achievement in light of those goals and objectives, and determine and r~~Recommend to the Board the base salary and performance incentive award of the Chief Executive Officer and Chief Investment Officer of the Corporation~~
- Approve the base salaries of all officers (except the Chief Executive Officer and Chief Investment Officer) of the Corporation
- Recommend to the Board the Eligible Employees who are ~~to be granted~~ designated as eligible to participate in the performance incentive awards under the Performance Incentive Plan
- Determine the Incentive Award Opportunity for each Performance Goal for the Participants in an Eligible Position
- Review and approve annually the goals and objectives applicable to the compensation of the Eligible Employees as recommended by the CEO, at least annually, determine each Eligible Employees' level of achievement in light of those goals and objectives, and determine and A~~approve the Performance Incentive Plan awards for all e~~Eligible e~~Employees except the Chief Executive Officer and Chief Investment Officer~~
- Develop and recommend to the Board an officer succession plan (the "Succession Plan"), review the Succession Plan periodically with the CEO, develop and evaluate potential candidates for executive positions and recommend to the Board any changes to, and any candidates for succession under, the Succession Plan
- Provide the Board with full supporting materials for each of the foregoing recommendations in sufficient time to allow such materials to be considered by the Board prior to its full discussion and review of such recommendations.

Determination of performance compensation for employees not included in the Performance Incentive Plan is delegated to Corporation management.

Other Duties

In addition to its duties and responsibilities outlined above, the Committee shall perform such additional special functions, duties or responsibilities related thereto as may from time to time be designated to it by the Board Chairman. In discharging its responsibilities, the Committee may obtain advice and assistance from Board consultants, U.T. System staff, and other individuals as it deems necessary.

The Committee will evaluate the Committee's performance on a periodic basis, periodically review the adequacy of this Charter and submit this Charter to the Board for its approval; and perform any other activities consistent with this Charter, the Corporation's Bylaws, and applicable laws as the Committee or the Board deems necessary or appropriate.

Approved by the Board of Directors on ~~July 14, 2011~~February 20, 2014.

Agenda Item
UTIMCO Board of Directors Meeting
February 20, 2014

Agenda Item: Report on and Discussion and Appropriate Action Related to Items from the Risk Committee: Proposed Amendments to the Charter of the Risk Committee

Developed By: Staff

Presented By: Tate

Type of Item: Action item; Action required by UTIMCO Board related to Proposed Amendments to the Charter of the Risk Committee; Information item on other items

Description: The Risk Committee (“Committee”) will meet on February 13, 2014. The Committee’s agenda includes (1) discussion and appropriate action related to minutes; (2) discussion and appropriate action related to categorization of investment mandates; (3) discussion and appropriate action related to proposed amendments to the Charter of the Risk Committee (the “Charter”); (4) review and discussion of compliance reporting; and (5) review and discussion of performance and risk reporting.

Discussion ***Categorization of Investment Mandates.*** The Committee will review and approve, as appropriate, the 11 mandate categorizations prepared by Staff for the period beginning November 2, 2013, and ending February 5, 2014. In addition, the Committee will review and approve, as appropriate, an existing mandate, Myriad Opportunities Offshore Fund Ltd., that Staff recommends re-categorizing from Emerging Markets Equity to Developed Country Equity. The Committee will report to the UTIMCO Board the results of its review of the Investment Mandate Categorizations.

Charter of the Committee. The Committee will review and take action on Staff’s proposed changes to the Charter.

The purpose of the Charter is to outline the duties and responsibilities of the Committee. In accordance with the Charter of the Committee, the Committee periodically reviews and reassesses the adequacy of the Charter and recommends any proposed changes to the UTIMCO Board for approval. The current Charter was approved by the UTIMCO Board on April 14, 2011.

The following changes to the Charter are proposed by Staff:

- Page 2; *Duties and Responsibilities*, changed “risk management” to “enterprise risk management” to make language consistent with language in the Audit and Ethics Committee charter.
- Page 4; *Other Duties*, added language to require the Committee to perform any additional special functions, duties or responsibilities that may be designated to it by the Chairman of the UTIMCO Board.

Agenda Item
UTIMCO Board of Directors Meeting
February 20, 2014

- Page 4; *Other Duties*, added language to permit the Committee to obtain advice and assistance from UTIMCO Board consultants, U.T. System staff, and other individuals as it deems necessary.
- Other minor editorial changes.

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

Recommendation: The Committee will request that the UTIMCO Board take appropriate action based on the Committee's action from its meeting related to proposed amendments to the Charter of the Risk Committee.

Reference: Charter of the Risk Committee

RESOLUTION RELATED TO CHARTER OF THE RISK COMMITTEE

RESOLVED, that the amendments to the Charter of the Risk Committee be, and are hereby approved, in the form submitted to the Corporation's Board of Directors.

The University of Texas Investment Management Company

Charter of the Risk Committee

Background

The Board of Directors (the "Board") of The University of Texas Investment Management Company (the "Corporation") established a Liquidity Committee on November 20, 2003. The name of the Liquidity Committee was changed to the Risk Committee (the "Committee") on May 19, 2005 to reflect the expanded responsibilities of the Committee. This Charter adopted by the Board on ~~April 14, 2011~~February 20, 2014, supersedes the Charter adopted by the Board on ~~January 30, 2008~~April 14, 2011.

Purpose

The primary purpose of the Committee is to provide oversight and monitor

- 1) investment risk management and compliance;
- 2) the integrity of risk management procedures and controls;
- 3) the integrity of risk models and modeling processes;
- 4) liquidity of the Permanent University Fund (PUF), the General Endowment Fund (GEF), and the Intermediate Term Fund (ITF) (individually referred to as the "Fund" and collectively, the "Funds");
- 5) compliance with the Derivative Investment Policy;
- 6) the categorization of investment mandates; and
- 7) the monitoring of manager mandates.

Composition

The Committee shall be composed of at least three members of the Board appointed from time to time by a majority vote of the Board at a meeting at which a quorum is present. Individuals who are not members of the Board may be appointed to the Committee; provided however, a majority of the Committee members shall be members of the Board of Directors. A member may be removed with or without cause at any time by a majority vote of the Board.

Meetings; Quorum; Etc.

The Corporation's Bylaws state that any committee created by the Board or the Bylaws, including the Committee, shall (i) have a chairman designated by the Board, (ii) fix its own rules or procedures, (iii) meet at such times and at such place or places as may be provided by such rules or by resolution of the Committee or resolution of the Board, and (iv) keep regular minutes of its meetings and cause such minutes to be recorded in books kept for that purpose in the principal office of the Corporation, and report the same to the Board at its next regular meeting. At every meeting of the Committee, the presence of a majority of all the members thereof shall constitute a quorum, and the affirmative vote of a

majority of the members present shall be necessary for the adoption by it of any action, unless otherwise expressly provided in the Committee's rules or procedures or the Bylaws of the Corporation or by the Board. The Board may designate one or more Directors as alternate members of the Committee, who may replace any absent or disqualified member of the Committee. In the absence or disqualification of a member of the Committee, the member or members present at any meeting of the Committee and not disqualified from voting, whether or not constituting a quorum, may unanimously appoint the designated alternate Director to act at the meeting in the place of the absent or disqualified member.

Duties and Responsibilities

The Committee will provide assurances to the Audit and Ethics Committee on a periodic basis regarding the following items so the Audit and Ethics Committee may evaluate them as a part of the Audit and Ethics Committee's evaluation of the Corporation's overall enterprise risk management.

Investment Risk Management and Compliance: The Committee has the following duties and responsibilities related to the oversight and monitoring of investment and compliance risk:

- The Committee will monitor actual risk levels in the PUF, GEF, and ITF to assess whether current risk levels are within the bounds established by the Investment Policies adopted by the UT Board of Regents;
- The Committee will monitor trends and changes in actual risk levels in the PUF, GEF, and ITF and report any significant changes to the Board; and
- The Committee will monitor the compliance processes related to the derivative Derivative investment—Investment policyPolicy, risk targets, asset class and investment type targets and ranges, and investment related restrictions in the Investment Policy statements.

Integrity of risk management procedures and controls: The Committee has the following duties and responsibilities related to the oversight and monitoring of the risk management procedures and controls:

- The Committee will understand and review how the information provided by the Risk Manager is reported to the Chief Compliance Officer; and
- The Committee will monitor the reports provided by the Risk Manager to the Chief Compliance Officer.

Integrity of risk models and modeling processes: The Committee has the following duties and responsibilities related to the oversight and monitoring of the risk models and modeling processes:

- The Committee will monitor the investment risk models, tools, and processes used by Corporation staff; and
- The Committee will review and understand the data used in the risk models.

Liquidity: The Committee has the following duties and responsibilities related to the oversight and monitoring of liquidity:

- The Committee (or the Board) must review and approve any new investment that would cause the allocation for illiquid investments in the PUF, GEF, or ITF to move within the trigger zone specified in the Liquidity Policy for the respective Fund's total portfolio.
- The Committee (or the Board) must review and approve, before any such action or actions are taken, any proposed changes in allocations among existing investments that would cause the allocation for illiquid investments in the PUF, GEF, or ITF to move within the trigger zone specified in the Liquidity Policy for the respective Fund's total portfolio.
- The Committee (or the Board) must review and approve, before any such action or actions are taken, any proposed investment action or actions that would increase the actual investment position in illiquid investments in the PUF, GEF, or ITF by 10% or more of a respective Fund's total asset value.
- The Committee must review and approve, before any such action or actions are taken, any new commitments for the PUF or GEF, if the actual amount of such Fund's unfunded commitments, as defined in the Liquidity Policy, exceeds or, as a result of the commitment, would exceed the Maximum Permitted Amount specified in the Liquidity Policy.
- In the event that market actions cause actual investment positions in illiquid investments to move into the trigger zone specified in the Liquidity Policy for the PUF, GEF, or ITF, the Committee must review and approve the Chief Investment Officer's proposed remedy or strategy for complying with the required allocation range for liquid and illiquid investments before any such actions are taken.
- The Committee (or the Board) must approve the use of swaps, derivatives, or other third party arrangements to alter the liquidity status of any investment classified as illiquid.

Committee review of new investments in the trigger zone will supplement, rather than replace, the procedures established by the Board for the approval of new investments.

Compliance with the Derivative Investment Policy: The Committee has the following duties and responsibilities related to compliance with the Derivative Investment Policy:

- The Committee will review the comprehensive report of all outstanding derivative investments, by type, entered into during the period being reported, for both internal managers and external managers operating under agency agreements.

Categorization of Investment Mandates: The Committee has the following duties and responsibilities related to the categorization of investment mandates:

- The Committee will review and approve or re-categorize new mandates as prepared by staff.
- The Committee will review and approve or re-categorize any recommended re-categorization of an existing mandate proposed by staff.

Monitoring of Manager Mandates: The Committee has the following duties and responsibilities related to the monitoring of internal and external investment mandates:

- The Committee will review manager mandates (excluding passive exposure), aggregated across investment types, resulting in three percent (3%) or more exposure relative to the total Funds (excluding the ITF for Private Investments) on a quarterly basis;
- The Committee will review and approve staff's recommendation regarding an appropriate course of action for any manager mandate resulting in five percent (5%) or more exposure relative to the total Funds (excluding the ITF for the Private Investments) or determine a different appropriate level of exposure.

Other Duties

In addition to its duties and responsibilities outlined above, the Committee shall perform such additional special functions, duties or responsibilities related thereto as may from time to time be designated to it by the Board Chairman. In discharging its responsibilities, the Committee may obtain advice and assistance from Board consultants, U.T. System staff, and other individuals as it deems necessary.

The Committee will evaluate the Committee's performance on a periodic basis, periodically review the adequacy of this Charter and submit this Charter to the Board for its approval; and perform any other activities consistent with this Charter, the Corporation's Bylaws, and applicable laws as the Committee or the Board deems necessary or appropriate.

Approved by the Board of Directors on ~~April 14, 2014~~February 20, 2014.

Agenda Item
UTIMCO Board of Directors Meeting
February 20, 2014

Agenda Item: UTIMCO Organization Update

Developed By: Staff

Presented By: Zimmerman

Type of Item: Information Item

Description: Bruce Zimmerman will provide an update on UTIMCO's staffing and first quarter fiscal year 2014 actual to budget expenses.

Reference: *UTIMCO Organization Update* presentation



**THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY**

UTIMCO ORGANIZATION UPDATE

February 20, 2014

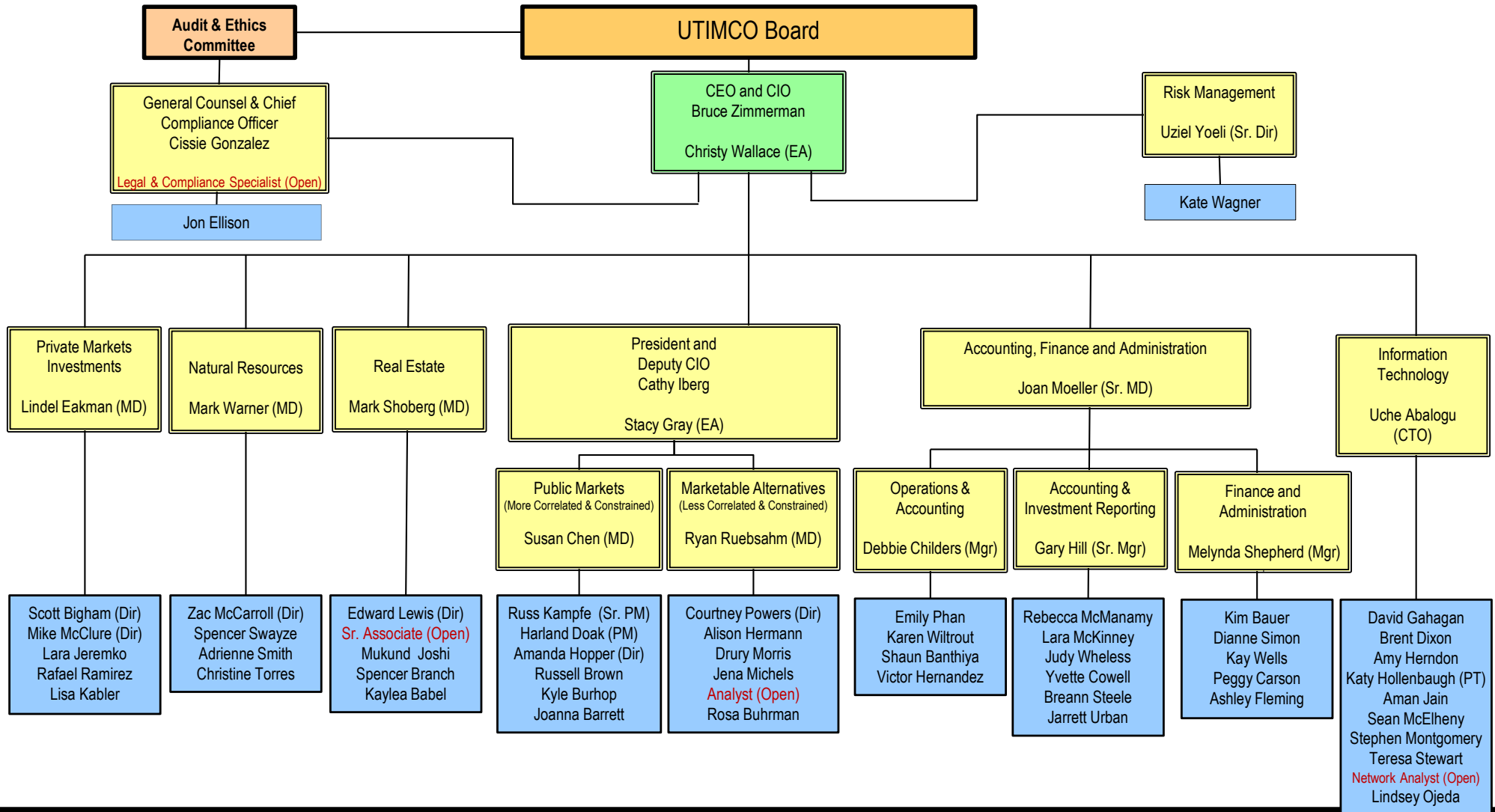


UTIMCO Update

- Staffing
- Budget



UTIMCO – Organizational Structure





UTIMCO Expenses

Q1 FY 2014

UTIMCO Expenses (\$ in thousands)	1Q FY 14		Favorable / (Unfavorable)
	Actual	Budget	
Salaries & Benefits	\$2,640	\$2,777	\$137
Other Expenses	1,161	1,205	44
Subtotal	3,801	3,982	181
Incentive Compensation	2,026	1,957	(69)
Total UTIMCO	<u>\$5,827</u>	<u>\$5,939</u>	<u>\$112</u>
Non-UTIMCO, Non-Investment Management Expenses	<u>\$1,843</u>	<u>\$2,194</u>	<u>\$351</u>