

**UTIMCO BOARD OF DIRECTORS
ANNUAL MEETING AGENDA
May 7, 2014**

UTIMCO
401 Congress Avenue, Suite 2800
Austin, Texas

Time	Item #	Agenda Item
Begin	End	
		OPEN MEETING:
2:00 p.m.	2:05 p.m.	1 Call to Order of the Annual Meeting/Discussion and Appropriate Action Related to Minutes of the February 20, 2014 Meeting*
2:05 p.m.	2:15 p.m.	2 Discussion and Appropriate Action Related to Corporate Resolutions: Election of UTIMCO Officers* Resolutions of Appreciation* Committee Assignments*,**
2:15 p.m.	3:15 p.m.	3 Endowment and Operating Funds Update Report
3:15 p.m.	3:30 p.m.	4 Investment Strategy Discussion
3:30 p.m.	3:45 p.m.	5 Report on and Discussion and Appropriate Action Related to Items from Policy Committee: Recommendation of Distribution Rates and Amount for the Investment Funds*,**
3:45 p.m.	3:50 p.m.	6 Report from Audit and Ethics Committee
3:50 p.m.	3:55 p.m.	7 Report from Risk Committee
3:55 p.m.	4:15 p.m.	8 UTIMCO Organization Update
4:15 p.m.		Adjourn

* Action by resolution required

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

By: The University of Texas Investment Management Company

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

Next Scheduled Meeting: July 22, 2014
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RESOLUTION RELATED TO MINUTES

RESOLVED, that the minutes of the meeting of the Board of Directors held on **February 20, 2014**, 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 **February 20, 2014**, 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 E. Foster, Chairman
Ardon E. Moore, Vice Chairman
Francisco G. Cigarroa, Vice Chairman for Policy
Kyle Bass
R. Steven Hicks
Jeffery D. Hildebrand
Robert L. Stillwell
Charles W. Tate
James P. Wilson

thus constituting a majority and quorum of the Board. The University of Texas System ("UT System") Student Regent Nash Horne also attended the meeting. Chairman Foster called the meeting to order at 9:41 a.m. Employees of the Corporation attending the meeting were Bruce Zimmerman, CEO and Chief Investment Officer; Joan Moeller, Secretary and Treasurer; Christy Wallace, Assistant Secretary; Lindel Eakman, Managing Director – Private Markets Investments; Mark Warner, Managing Director - Natural Resources Investments; Mark Shoberg, Managing Director – Real Estate Investments; Uzi Yoeli, Senior Director - Portfolio Risk Management; Amanda Hopper, Director – Public Markets Investments; Uche Abalogu, Chief Technology Officer; Gary Hill, Senior Manager - Investment Reporting; Debbie Childers, Manager - Portfolio Accounting and Operations; and other staff members. Other attendees were Moshmee Kalamkar, Allen Hah, Jim Phillips, and Roger Starkey of the UT System Administration; Keith Brown of the McCombs School of Business at UT Austin; and Maria Robinson of the Texas A&M University System. Copies of materials supporting the Committee meeting agenda were previously furnished to each member of the Board.

Minutes

The first item to come before the Board was approval of the minutes of the Board of Directors Meeting held on December 3, 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
December 3, 2013, be, and are hereby, approved.

Corporate Resolution

Chairman Foster recommended approval of the corporate resolution, designating April 17, 2014 as the date for the next annual meeting of the Board. Upon motion duly made and seconded, the following resolution was unanimously adopted by the Board:

RESOLVED, that the Annual Meeting of the Board of Directors will be held on April 17, 2014, in Austin, Texas.¹

Endowment and Operating Funds Update

Chairman Foster asked Mr. Zimmerman to present the Corporation's endowment and operating funds update. Mr. Zimmerman presented the Corporation's Performance Summary as of December 31, 2013. Mr. Zimmerman reported the Corporation had \$31.7 billion of assets under management on December 31, 2013. Of the \$31.7 billion, \$15.9 billion was in the Permanent University Fund ("PUF"), \$7.8 billion in the General Endowment Fund ("GEF"), \$1.6 billion in the Short Term Fund ("STF"), \$0.1 in the Separately Invested Funds, \$0.2 billion in the Debt Proceeds Fund, and \$6.0 billion in the Intermediate Term Fund ("ITF"). The net performance for the fiscal year ended December 31, 2013, for the PUF was 6.30% and for the GEF was 6.45%, versus benchmark returns of 6.32% for each fund. The ITF's performance was 5.08% versus its benchmark return of 4.86% for the fiscal ended December 31, 2013. Performance for the STF was 0.02% versus a benchmark return of 0.02% for the fiscal year ended December 31, 2013. Mr. Zimmerman presented returns, returns vs. projections, value-add analysis, and highlighted new charts in the Funds Report presentation. Mr. Kampfe, Mr. Shoberg, Mr. Warner, Ms. Hopper and Mr. Eakman each reported on their current portfolios and answered the Directors' questions. Also included in the presentation was risk analytics for the period ending December 31, 2013, current risk environment, including 4-way risk decomposition, up/down capture, risk contributions and correlations. Mr. Zimmerman continued by reporting investment activity as of December 31, 2013, including manager exposure. He also reported on derivatives and counterparties, and gave an update on liquidity, contracts and the ITF. Mr. Zimmerman and Investment Staff answered the Directors' questions.

Investment Strategy

Chairman Foster asked Mr. Zimmerman to present the presentation on Investment Strategy, a handout that was provided at the meeting. Mr. Zimmerman discussed investment strategy decisions relative to policy and implementation. The discussion also provided an opportunity for the Board to deliberate on issues, expectations, any concerns and opportunities regarding the current investment strategy. Chairman Foster recommended the creation of a small working group, not a committee, composed of two board members and several staff members to collaborate and share with the Board at a future meeting their collective thoughts regarding investment strategy. Mr. Zimmerman answered the Directors' questions.

¹ After the meeting on February 20, 2014, due to scheduling conflicts, the Annual Meeting of the Board date was changed to May 7, 2014.

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 February 13, 2014. At the meeting, the Committee approved minutes from their previous meeting and heard a report from Mr. Tom Wagner, engagement partner from the independent accounting firm of Deloitte & Touche LLP providing the audit results and necessary communications for the Corporation for the fiscal years ended August 31, 2013 and August 31, 2012. Also reviewed and approved were the annual financial statements for the Corporation. The Committee approved proposed amendments to the Charter of the Audit and Ethics Committee and heard an update of compliance, reporting and audit issues for the period ending November 30, 2013 from Ms. Gonzalez. Finally, an executive session was held to allow deliberation of individual personnel evaluation matters, with no action taken by the Committee. The following resolutions were recommended by the Audit and Ethics Committee for approval by the Board. Upon motion duly made and seconded, these resolutions were approved unanimously:

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.

And,

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.

Policy Committee Report

Chairman Foster asked for a report from the Policy Committee Chair, Mr. Stillwell. Mr. Stillwell stated that the Policy Committee had met earlier that morning. The Committee approved minutes from previous meetings, discussed proposed amendments to the Exhibits of the Investment Policy Statements and recommended changes to the Committee Charter. Directly following the Policy Committee meeting, the Committee met jointly with the Compensation Committee to discuss and take appropriate action related to proposed amendments to the Exhibits of the Investment Policy Statements. Changes to the Exhibits of the Investment Policy Statements and the Committee Charter were approved and on behalf of the Committee, Mr. Stillwell recommended further approval by the Board. Upon motion duly made and seconded, the following resolutions were unanimously adopted:

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.

And,

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.

Compensation Committee Report

Chairman Foster asked Mr. Bass to report on behalf of the Compensation Committee. Mr. Bass reported that the Compensation Committee had also met prior to the Board meeting that day. He reported that the Compensation Committee met jointly with the Policy Committee and discussed and took appropriate action on proposed amendments to the Exhibits of the Investment Policy Statements. Discussion and appropriate action on proposed amendments to the Compensation Committee Charter was deferred to a future meeting. On behalf of the Compensation Committee, Mr. Bass recommended approval of the proposed amendments to the UTIMCO Compensation Program (the "Plan"), including the new benchmark adopted in the Investment Policy Statements, contingent on the UT System Board of Regents approval of the proposed amendments to the Plan. Upon motion duly made and seconded, the following resolution was unanimously adopted:

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.

Risk Committee Report

Chairman Foster asked Mr. Tate to provide a report from the Risk Committee. Mr. Tate reported that the Committee met on February 13, 2013 and approved minutes from the previous meeting. He stated that the Risk Committee approved 11 new investment mandate categorizations prepared by Staff for the period beginning November 2, 2013, and ending February 5, 2014, approved one re-categorization and reviewed the watch list. The Committee heard a report from Ms. Gonzalez on compliance items for the quarter

ending November 30, 2013 and a Funds Update report from Mr. Zimmerman. The Committee also approved and further recommended Board approval for recommended changes to the Risk Committee Charter. Upon motion duly made and seconded, the following resolution was unanimously adopted:

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.

Organization Update

Chairman Foster asked Mr. Zimmerman to provide an organization update to the Board. Mr. Zimmerman gave an update on the Corporation's staffing and the first quarter fiscal year 2014 actual to budget expenses.

On behalf of the Board and Staff, Chairman Foster expressed appreciation for the tremendous amount of time and commitment that Charles Tate and Jim Wilson had provided as members of the Board of Directors.

There being no further business to come before the Board, the meeting was adjourned at approximately 12:10 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
May 7, 2014

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

Developed By: Zimmerman, Gonzalez, Moeller

Presented By: Foster

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

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

Chairman Foster will present a recommendation to the Board to approve resolutions acknowledging Mr. Charles Tate's and Mr. James Wilson's services as UTIMCO Board members.

Chairman Foster will propose new Board committee assignments since the terms of two members, Charles Tate and James Wilson, are expiring or have expired. The Board of Regents of Texas A&M University System has appointed Regent John D. White to the UTIMCO Board effective April 1, 2014. If a change is made in the composition of the Audit and Ethics Committee, Section 66.08 of the *Texas Government Code* requires that the U. T. System Board of Regents approve the appointment of the members of the Audit and Ethics Committee of the UTIMCO Board.

Recommendation: Chairman Foster will recommend approval of the election of Corporate Officers, approval of Charles Tate Appreciation Resolution and James Wilson Appreciation Resolution, and approval of committee assignments.

Reference: None

RESOLUTION RELATED TO CORPORATION OFFICERS

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

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

RESOLUTION OF APPRECIATION CHARLES W. TATE

WHEREAS, in recognition of his substantial background and expertise in business, Charles W. Tate was appointed by the Board of Regents of The University of Texas System to the Board of Directors of The University of Texas Investment Management Company (“UTIMCO”) in 2004, reappointed to a second term in 2008, and was reappointed for a third and final term in 2011; and

WHEREAS, Mr. Tate served as Chairman of the Risk Committee since 2005, and served as a member of the Audit and Ethics and Compensation Committees; and

WHEREAS, during his tenure on the UTIMCO Board, Mr. Tate provided invaluable insight and counsel, drawing on his more than 35 years’ business experience in investment and merchant banking, with Bank of America in New York, Morgan Stanley & Co., as a Partner and Member of the Management Committee of Hicks, Muse, Tate & Furst Inc., and currently, as Chairman and Founding Partner of Capital Royalty L.P., a market pioneer and innovator in healthcare investing that focuses on intellectual property investments; and

WHEREAS, Mr. Tate’s commitment and service as a Director of UTIMCO were exemplary, reflecting his deep devotion to the education and development of students at all levels, and further evidenced as a 2002-2003 Inductee of The University of Texas McCombs School of Business Hall of Fame, recipient of the 2007 University of Texas Distinguished Alumnus Award, recipient of The University of Texas at Austin 2011-2012 Presidential Citation in recognition of his leadership, sustained commitment and service to The University of Texas, service on The University Cancer Foundation Board of Visitors, member of the Executive Committee for The University of Texas M.D. Anderson Cancer Center, Chairman of the External Advisory Committee of The University of Texas Department of Biomedical Engineering, service on The University of Texas Development Board, Co-Vice Chair of the “Campaign for Texas,” member of the Executive Committee of The University of Texas Commission of 125, member of The University of Texas Office of the President Business Productivity Committee, including serving as Chairman of its Technology Commercialization Subcommittee; and member of The University of Texas System Chancellor’s Technology Commercialization Advisory Cabinet; and

WHEREAS, Mr. Tate’s unselfish contributions are also evidenced in the civic and corporate arenas by his service on numerous boards, including as a member of the Industry and Community Affiliates Committee of the Academy of Medicine, Engineering, and Science of Texas, a member of the Board of Overseers of the Columbia University Graduate School of Business, and a member of The Robert A. Welch Foundation Board of Directors; and

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

WHEREAS, much of the credit for UTIMCO’s success is directly attributable to Mr. Tate’s leadership, judgment, and commitment. **NOW, THEREFORE**,

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

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

PASSED AND ADOPTED this 7th day of May, 2014.

RESOLUTION OF APPRECIATION JAMES P. WILSON

WHEREAS, in recognition of his substantial background and expertise in business, James P. Wilson was appointed by Governor Rick Perry to the Board of Regents of The Texas A&M University System in 2007, elected to serve a two-year term as vice chairman of the board in 2009; and during his tenure, served as a member of the Board for Lease of University Lands and in 2011 was appointed by the Board of Regents of The University of Texas System to the Board of Directors of The University of Texas Investment Management Company ("UTIMCO"); and

WHEREAS, during his tenure on the UTIMCO Board, Mr. Wilson provided invaluable insight and counsel, drawing on his immense investment and accounting experience as a Certified Public Accountant and Managing Director at Rock Hill Capital Group, LLC, and former positions as Chief Executive Officer, Secretary, and Chairman of Golden Gate Homes, Inc., Managing Partner at Milestone Venture Group, Inc., Founder and Managing Partner of RSTW Partners, Vice President of the First Texas Merchant Banking Group, and an Auditor with Arthur Young & Co.; and

WHEREAS, Mr. Wilson's commitment and service as a Director of UTIMCO were exemplary, reflecting his deep devotion to the education and development of students at all levels, and further evidenced by his work in prior years with Texas A&M University as Chairman of the Board of Trustees of The 12th Man Foundation, member of the President's Advisory Council, member of the Chancellor's Advisory Council, and as a member of the Lowry Mays College and Graduate School of Business Development Council; and

WHEREAS, Mr. Wilson's unselfish contributions are also evidenced in the corporate arena by his current service on numerous boards, including director of Big Lake Services Company LLC, Tideland Signal Corp., Park Energy Services, and Duracoatings Holdings, LLC, and former board service for TGF Management Company, Texas Growth Fund, Blackhawk Specialty Tools, LLC, Restaurants Unlimited, Avalon Correctional Services, Inc., 24 Hour Fitness, Inc., Student Transportation of America, Inc. and Superior Air Parts, Inc.; and

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

WHEREAS, Mr. Wilson has provided outstanding leadership, judgment, and commitment through his dedicated service as Chairman of the Audit and Ethics Committee and Member of the Board's Policy and Compensation Committees. **NOW, THEREFORE**,

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

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

PASSED AND ADOPTED this 7th day of May, 2014.



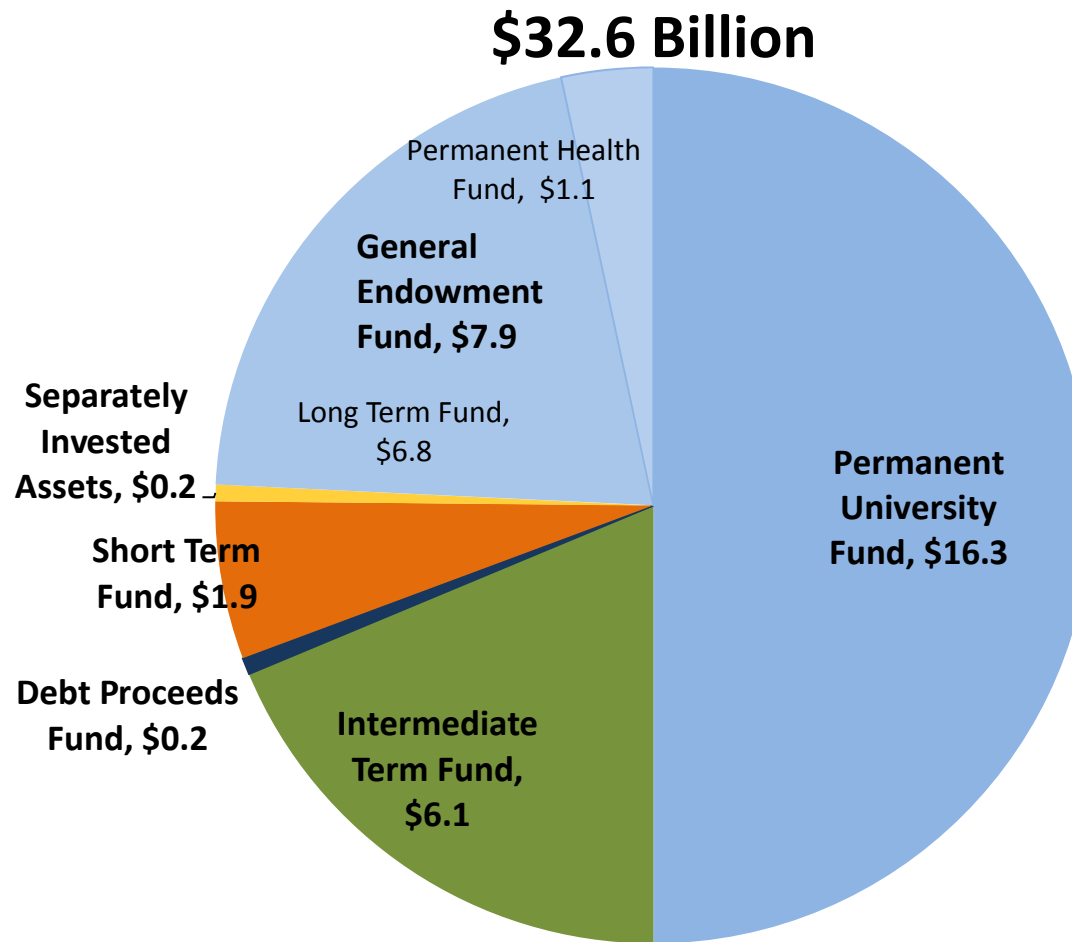
THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

UTIMCO Board of Directors Funds Update

May 7, 2014



UTIMCO Assets Under Management February 28, 2014



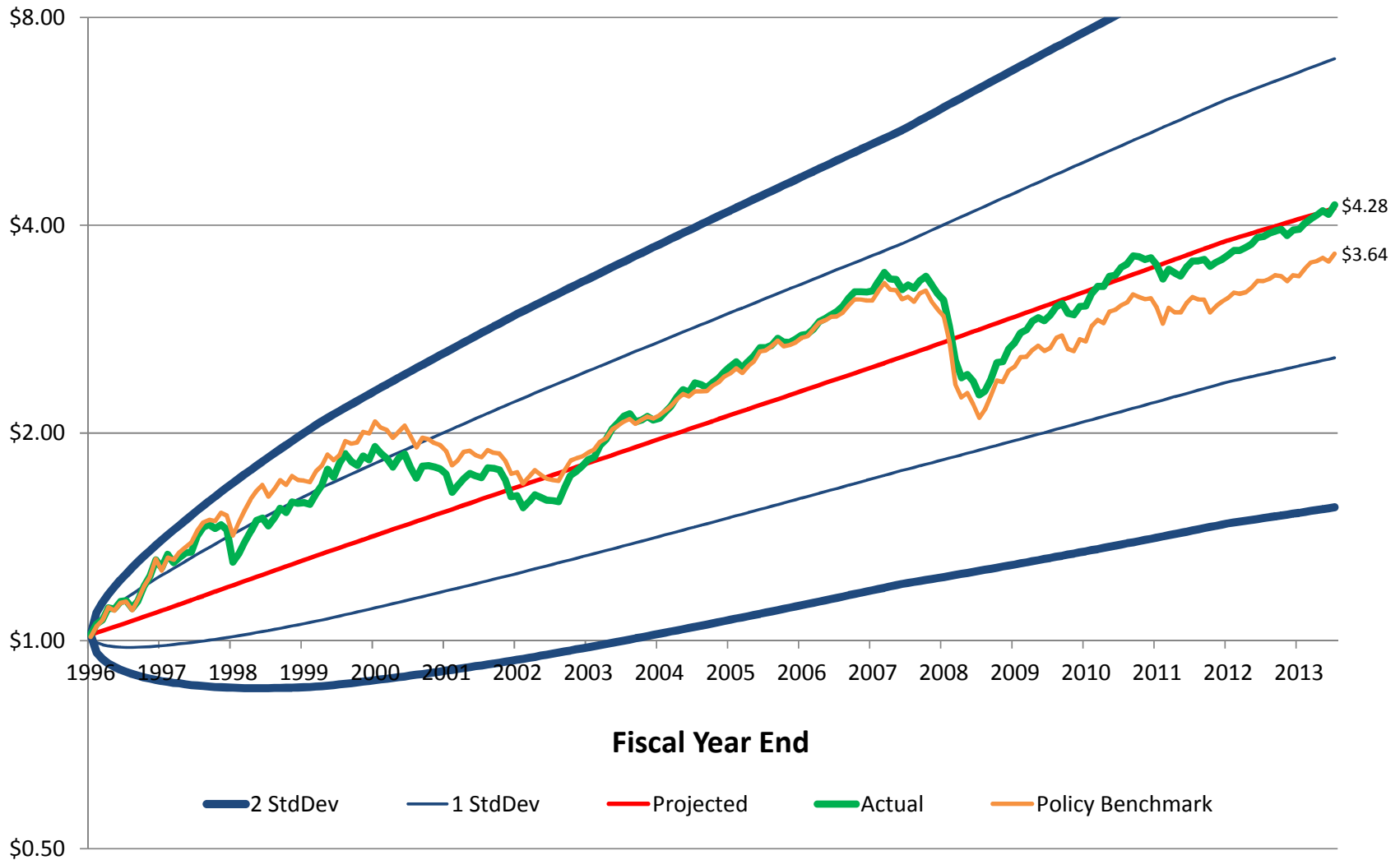


Returns

Fund	Fiscal YTD March 31, 2014	Periods Ended February 28, 2014			
		Six months	One Year	Three Years	Since July 1, 2007
Permanent University Fund (PUF)	8.68%	8.56%	11.11%	7.11%	4.39%
General Endowment Fund (GEF)	8.67%	8.50%	11.12%	7.19%	4.45%
Intermediate Term Fund (ITF)	6.33%	6.77%	7.24%	5.01%	4.28%



Returns vs Projections





Value Add Attribution

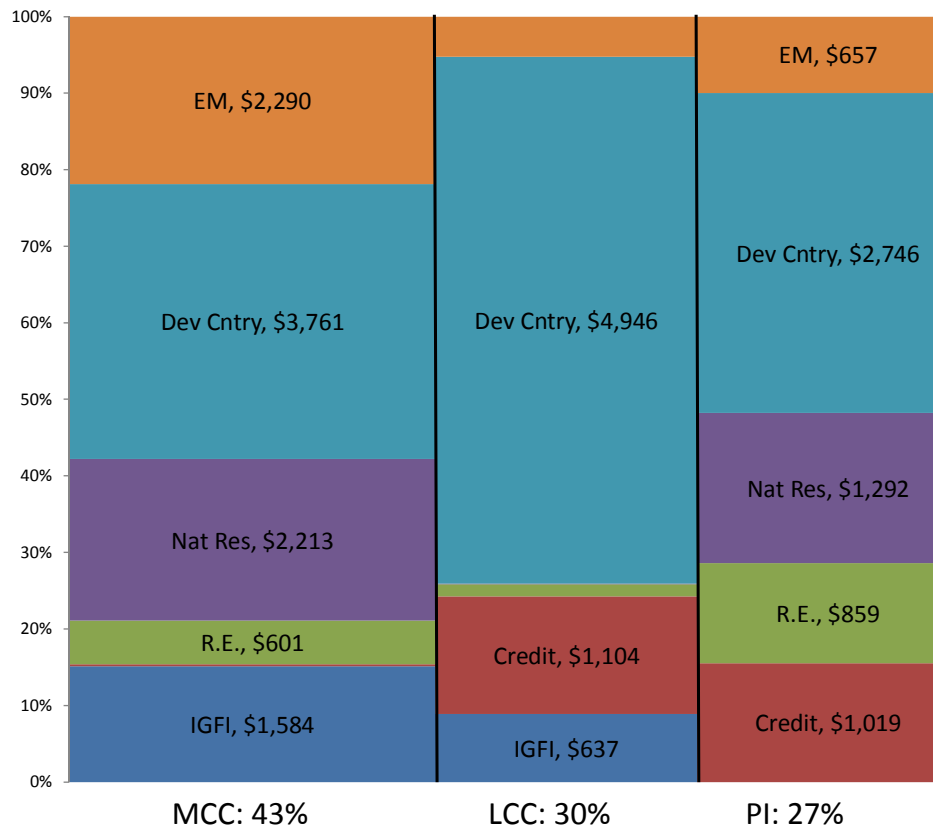
Periods Ending February 28, 2014

	Fiscal YTD	Three Years	Since March 1, 2008
Active Management			
MCC	0.04%	0.96%	0.41%
LCC	0.86%	1.60%	1.81%
Private Markets	0.32%	-0.42%	0.21%
Total Active Management	1.22%	2.14%	2.43%
Tactical Allocation:			
Gold	-0.56%	-0.32%	0.16%
Other	0.13%	-0.10%	-0.27%
Total Tactical Allocation	-0.43%	-0.42%	-0.11%
Insurance Hedges	-0.14%	-0.44%	-0.22%
Total Value Add	0.65%	1.28%	2.10%

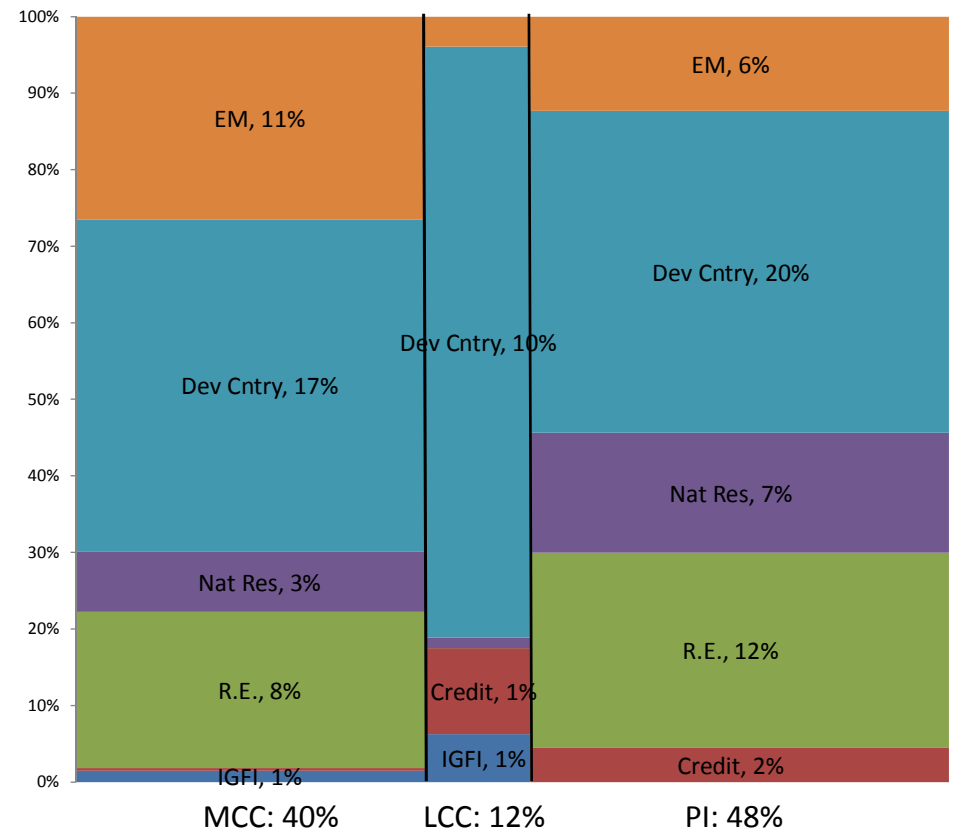


Exposures

Assets



Risk





Endowment Risk Summary

Downside Risk (trailing three years)	
Actual	% of Policy
9.91%	97.1%

Liquidity		
Three months	One Year	Unfunded Commitments
42.2%	65.6%	18.5%



Portfolio Sharpe and Information Ratios

Period Ending February 28, 2014

	One Year	Three Years	Since 7/1/2007
Policy Returns	9.56	5.91	2.31
Risk-Free Returns	0.08	0.09	0.76
Policy Volatility	4.99	7.21	10.42
Policy Sharpe Ratio	1.90	0.81	0.15

Actual Returns	11.12	7.19	4.45
Actual Volatility	4.89	5.96	9.43
Actual Sharpe Ratio	2.26	1.19	0.39

Added Value	1.56	1.28	2.13
Tracking Error	1.87	2.26	2.57
Portfolio Information Ratio	0.84	0.57	0.83



Leverage and Concentration Summary

Leverage					
Fixed Income		Total Endowment		Hedge Funds	
Gross	Net	Gross	Net	Gross	Net
1.37x	0.99x	1.02x	1x	2.17x	0.50x

Manager Concentration	
By Assets	By Risk
Gold (3.4%)	ValueAct (4.1%)
ValueAct (3.1%)	Viking (2.6%)
Dreyfus (3.0%)	Stelliam (2.5%)
Viking (2.7%)	Eminence (2.5%)
Internal Fixed Income (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)	(25.2%)	(21.2%)	(19.0%)	(18.5%)	(16.0%)	(3.8%)	(2.2%)
Gain from tactical positions	2.3%	0.8%	1.8%	1.8%	0.8%	0.5%	0.1%
Gain from current hedges	0.0%	0.0%	0.3%	0.8%	0.3%	0.1%	0.0%
Gain from manager's alpha	0.5%	2.0%	2.0%	2.0%	2.0%	2.3%	2.0%
Estimated Endowment Returns	(22.4%)	(18.4%)	(14.9%)	(13.9%)	(12.8%)	(0.9%)	(0.1%)

Sensitivity Analysis (beta)

Equities	0.576
Interest Rates	(0.218)
Currencies	(0.164)



Endowment Insurance Hedges

Event	Hedge	Exposures as of February 28, 2014					Changes since December 31, 2013			
		Total Cost ⁽¹⁾	bps Cost/Year ₍₂₎	Notional (\$ millions)	MTM (\$ millions)	P/L	Cost	bps Cost/Year ₍₂₎	Notional (\$ millions)	MTM (\$ millions)
ACTIVE POSITIONS										
U.S. Inflation										
	CMS Options	\$ (52)	5.2	\$ 9,249	\$ 5	\$ (47)	\$ -	-	\$ -	\$ (8)
Twitter IPO Hedge										
	Twitter Collar	\$ (7)	3.0	\$ (3)	(58)	(65)	-	-	-	36
Sovereign Default										
	JPY Rate Options and Swaptions	\$ (34)	10.2	\$ 4,231	6	(28)	3	1.9	37	(22)
SUBTOTAL ACTIVE POSITIONS		(92)	18.4			(47)	3	1.9	37	6
EXPIRED POSITIONS										
	JPY Rate Options and Swaptions	\$ (0.4)	0.05	990		(0.4)	-	-	-	
SUBTOTAL EXPIRED POSITIONS		(0.4)	0.05			\$ (0.4)	-	\$ -		
TOTAL		\$ (92)	18.4			(47)	\$ 3	1.9		\$ 6

(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		
	Returns	Active Value Add	Information Ratio
More Correlated and Constrained	7.44%	0.04%	-0.49
Less Correlated and Constrained	9.15%	0.86%	1.74
Private Investments	9.54%	<u>0.32%</u>	0.29
Total Fund	8.50%	<u><u>1.22%</u></u>	0.34

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	3.12%	0.97%	-0.04	1.59%	0.42%	-0.11
Total Less Correlated and Constrained	8.36%	1.60%	3.85	5.93%	1.82%	2.66
Total Private Investments	13.50%	<u>-0.41%</u>	-0.38	9.17%	<u>0.21%</u>	0.19
Total Fund	7.19%	<u><u>2.16%</u></u>	0.57	4.45%	<u><u>2.45%</u></u>	0.78



MCC Investment Grade Fixed Income

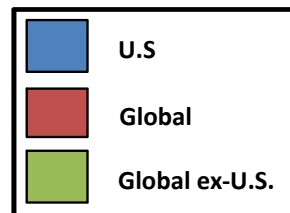
MCC Investment Grade Fixed Income				
	FYTD	1 Year	3 Years	5 Years
Portfolio Return	3.9%	1.0%	4.7%	8.1%
Benchmark Return	<u>4.1%</u>	<u>1.7%</u>	<u>3.0%</u>	<u>5.6%</u>
Value Add	-0.2%	-0.7%	+1.8%	+2.5%
Portfolio Volatility	--	4.9%	4.2%	4.9%
Benchmark Volatility	--	5.0%	4.5%	5.4%
Portfolio Sharpe Ratio	--	0.2	1.1	1.6
Portfolio Information Ratio	--	-0.6	1.2	1.5
IGFI Upcapture vs MSCI World	--	6%	14%	18%
IGFI Downcapture vs MSCI World	--	11%	-6%	-7%

As of 2/28/2014 - Statistics for periods longer than a year are annualized

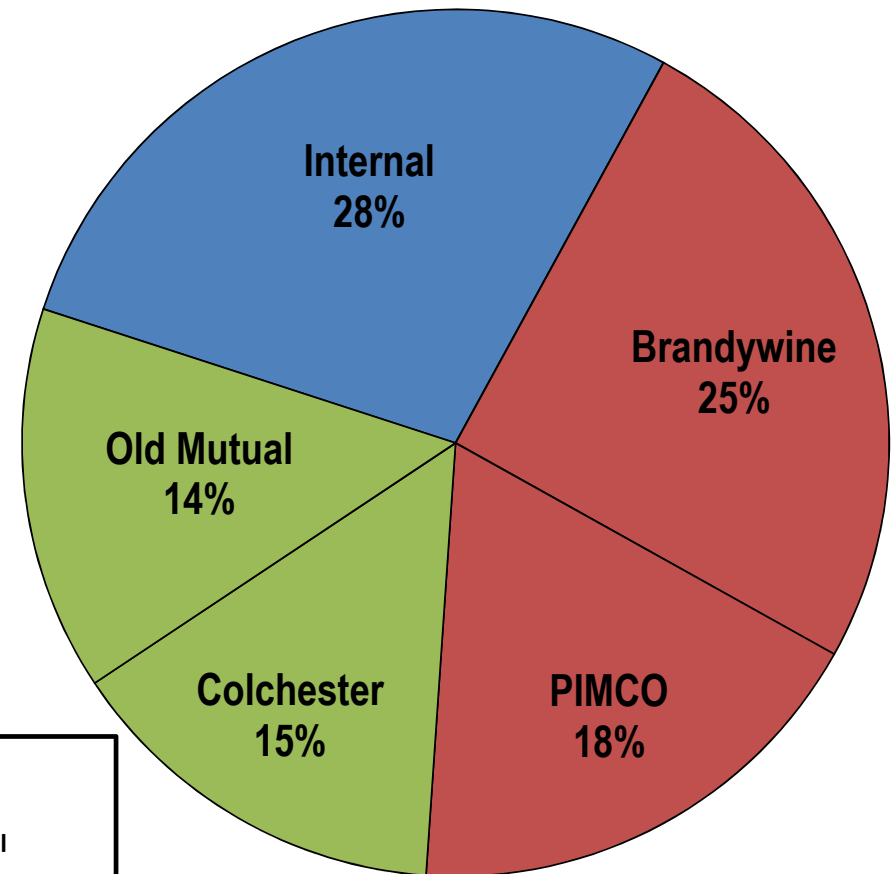
Overview		
	UTIMCO	Barclays Global Agg
Total Portfolio Size	\$2.9B	\$44T
Modified Duration	6.3	6.2
Yield to Maturity	2.5%	1.9%
Average Agency Rating	AA3	AA3

As of 2/28/2014

Liquidity
Within 90 days
100%



\$2.9 Billion





MCC Investment Grade Fixed Income

\$2.9 Billion

Overview		
	UTIMCO	BC GIBI Agg
Total Portfolio Size	\$2.9B	\$44T
Modified Duration	6.33	6.17
Yield to Maturity	2.5%	1.9%
Average Agency Rating	AA3	AA3

Geographical Exposure			
	UTIMCO	BC GIBI Agg	O/U
United States	41.7%	36.0%	5.7%
Canada	0.1%	3.4%	-3.3%
Europe	30.2%	35.8%	-5.6%
Asian-Pac Aggregate	15.8%	21.1%	-5.2%
Emerging Markets	12.2%	3.8%	8.4%

Currency Exposure			
	UTIMCO	BC GIBI Agg	O/U
United States Dollar	55.8%	41.0%	14.8%
Euro	13.1%	27.1%	-14.0%
Japanese Yen	6.7%	17.0%	-10.3%
UK Pound Sterling	6.7%	6.0%	0.7%
Emerging Markets	15.4%	2.0%	13.4%
Other	-0.1%	2.0%	-2.1%

Sector Exposure			
	UTIMCO	BC GIBI Agg	O/U
Treasuries & Sovereign	67.5%	55.1%	12.4%
Government Related	8.0%	12.3%	-4.3%
Corporates	18.7%	16.8%	1.9%
Securitized	5.4%	15.6%	-10.2%
Cash & Cash Equivalents	0.3%	0%	0.3%

As of 2/28/2014



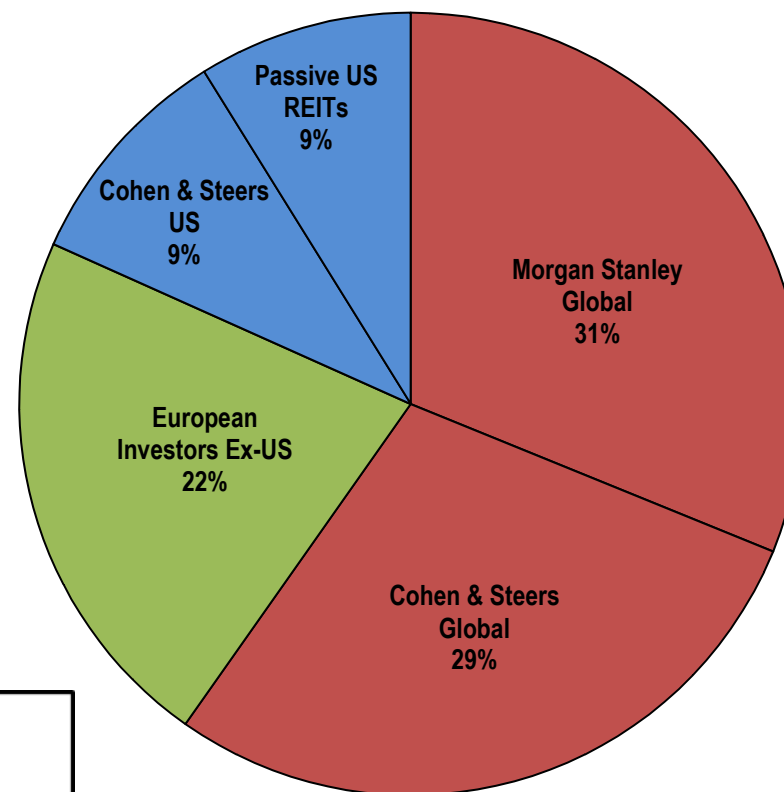
MCC Real Estate

\$825 Million

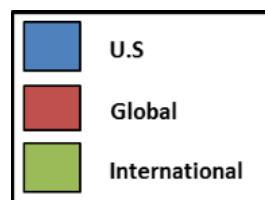
MCC Real Estate Portfolio Characteristics				
	FYTD	1 Year	3 Years	5 Years
Portfolio Return (Ex Hedges)	9.0%	5.2%	6.8%	24.5%
Benchmark Return	<u>9.0%</u>	<u>3.6%</u>	<u>7.4%</u>	<u>24.2%</u>
Value Add	-0.01%	+1.6%	-0.6%	+0.3%
Portfolio Volatility	-	13.7%	17.8%	20.7%
Benchmark Volatility	-	15.2%	16.7%	19.5%
Portfolio Sharpe Ratio	-	0.4	0.5	1.2
Portfolio Information Ratio	-	0.6	-0.2	0.1

As of 02/28/2014

Statistics for periods longer than a year are annualized



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





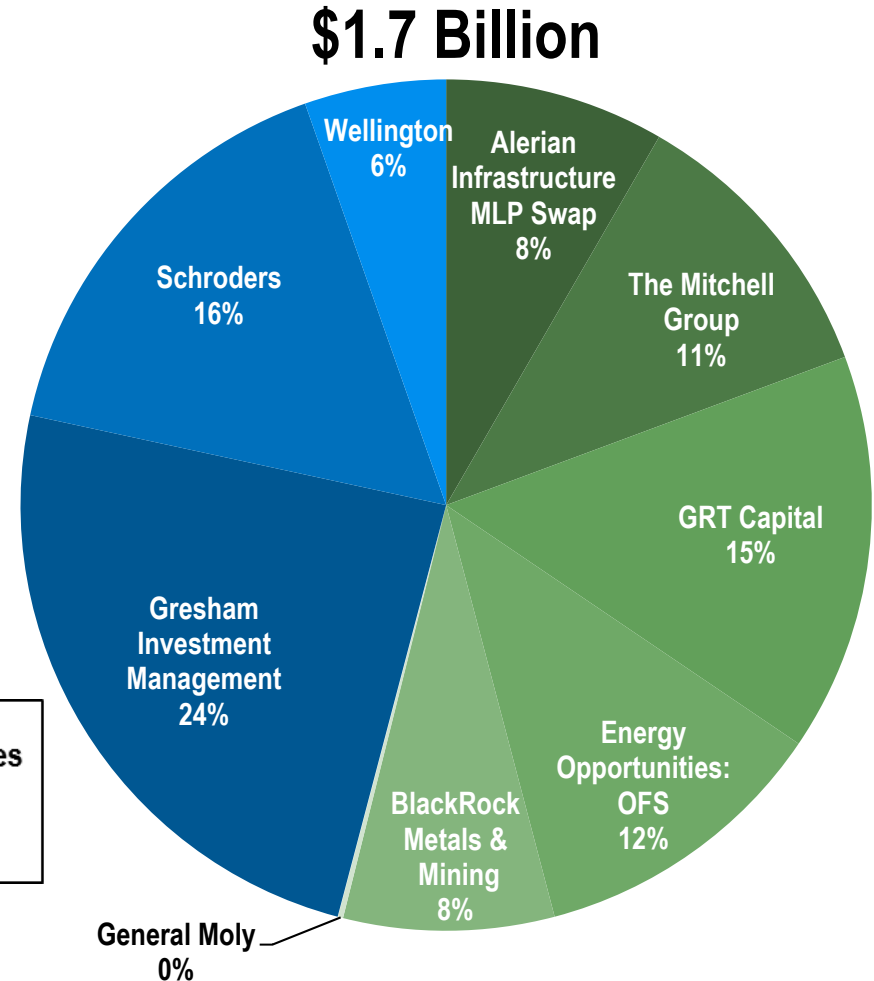
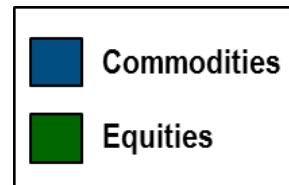
MCC Natural Resources

MCC Natural Resources Portfolio Characteristics				
	FYTD	1 Year	3 Years	5 Years
Portfolio Return (Ex-Gold)	6.0%	5.1%	-3.8%	12.2%
Benchmark Return	6.1%	3.5%	-4.1%	9.2%
Value Add	-0.1%	+1.6%	+0.3%	+3.0%
Portfolio Volatility	-	10.2%	17.3%	18.8%
Benchmark Volatility	-	10.2%	16.3%	17.7%
Portfolio Sharpe Ratio	0.3	0.5	-0.1	0.7
Portfolio Information Ratio	-0.1	0.5	0.1	0.9

As of 2/28/2014

Statistics for periods longer than a year are annualized

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





MCC Natural Resources Equities

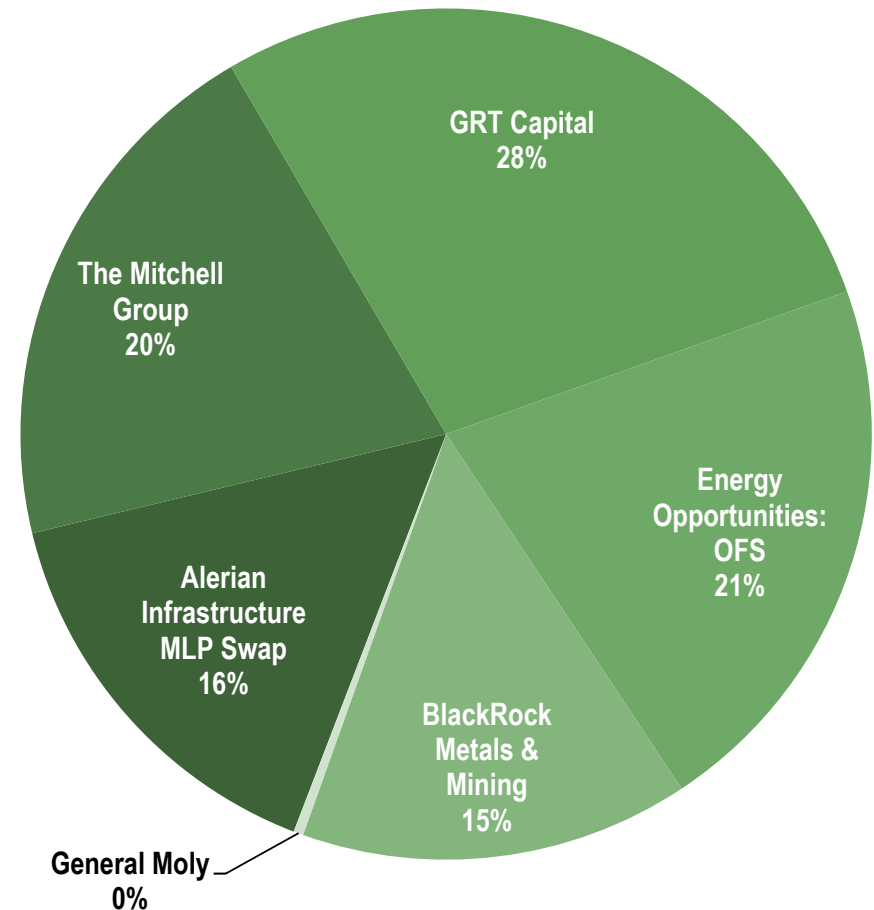
Natural Resources Equity Portfolio Characteristics				
	FYTD	1 Year	3 Years	5 Years
Equity Return	9.7%	13.1%	-2.1%	17.2%
Benchmark Return	9.4%	8.8%	-1.7%	13.3%
Value Add	+0.3%	+4.4%	-0.3%	+3.8%
Portfolio Volatility	-	12.7%	22.1%	23.7%
Benchmark Volatility	-	13.0%	19.4%	20.9%
Portfolio Sharpe Ratio	0.4	1.0	0.0	0.8
Portfolio Information Ratio	0.2	0.7	-0.1	0.6

As of 2/28/2014

Statistics for periods longer than a year are annualized

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

\$933 Million





MCC Natural Resources Commodities

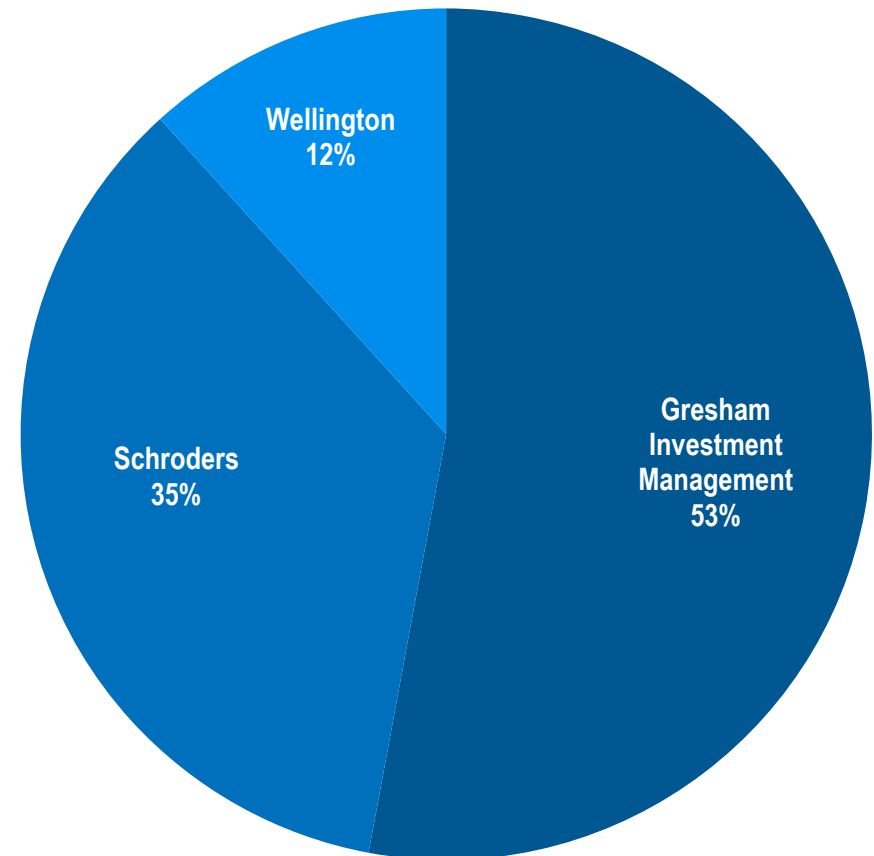
Natural Resources Commodity Portfolio Characteristics				
	FYTD	1 Year	3 Years	5 Years
Commodities Return (Ex-Gold)	2.3%	-2.4%	-6.0%	6.7%
Benchmark Return	2.7%	-1.8%	-6.9%	4.9%
Value Add	-0.5%	-0.6%	+0.8%	+1.8%
Portfolio Volatility	-	10.2%	14.0%	15.1%
Benchmark Volatility	-	10.4%	15.3%	16.1%
Portfolio Sharpe Ratio	0.1	-0.2	-0.4	0.5
Portfolio Information Ratio	-1.0	-0.3	0.3	0.7

As of 2/28/2014

Statistics for periods longer than a year are annualized

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

\$792 Million





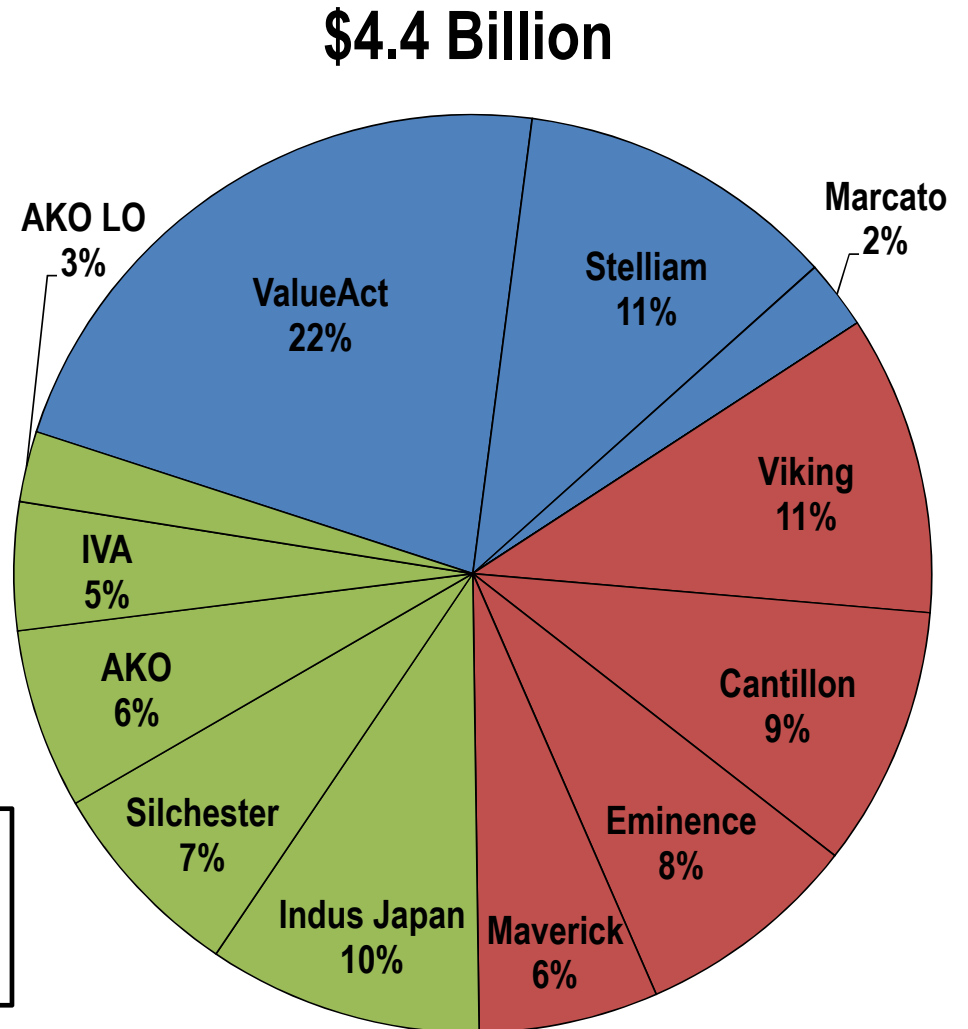
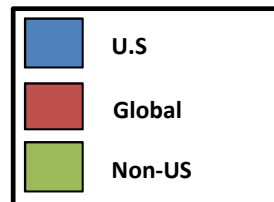
MCC Public Equity – Developed Markets

MCC Developed Country Equity Portfolio				
	FYTD	1 Year	3 Years	5 Years
Portfolio Return	15.8%	26.1%	14.5%	22.7%
Benchmark Return	<u>14.7%</u>	<u>21.7%</u>	<u>9.8%</u>	<u>20.0%</u>
Value Add	+1.2%	+4.5%	+4.7%	+2.7%
Portfolio Volatility	--	8.4%	12.2%	13.6%
Benchmark Volatility	--	10.8%	14.1%	16.0%
Portfolio Sharpe Ratio	--	3.1	1.2	1.7
Portfolio Information Ratio	--	1.1	1.3	0.7

As of 2/28/2014

Statistics for periods longer than a year are annualized

Liquidity	
Within 90 days	Within One Year
69%	89%





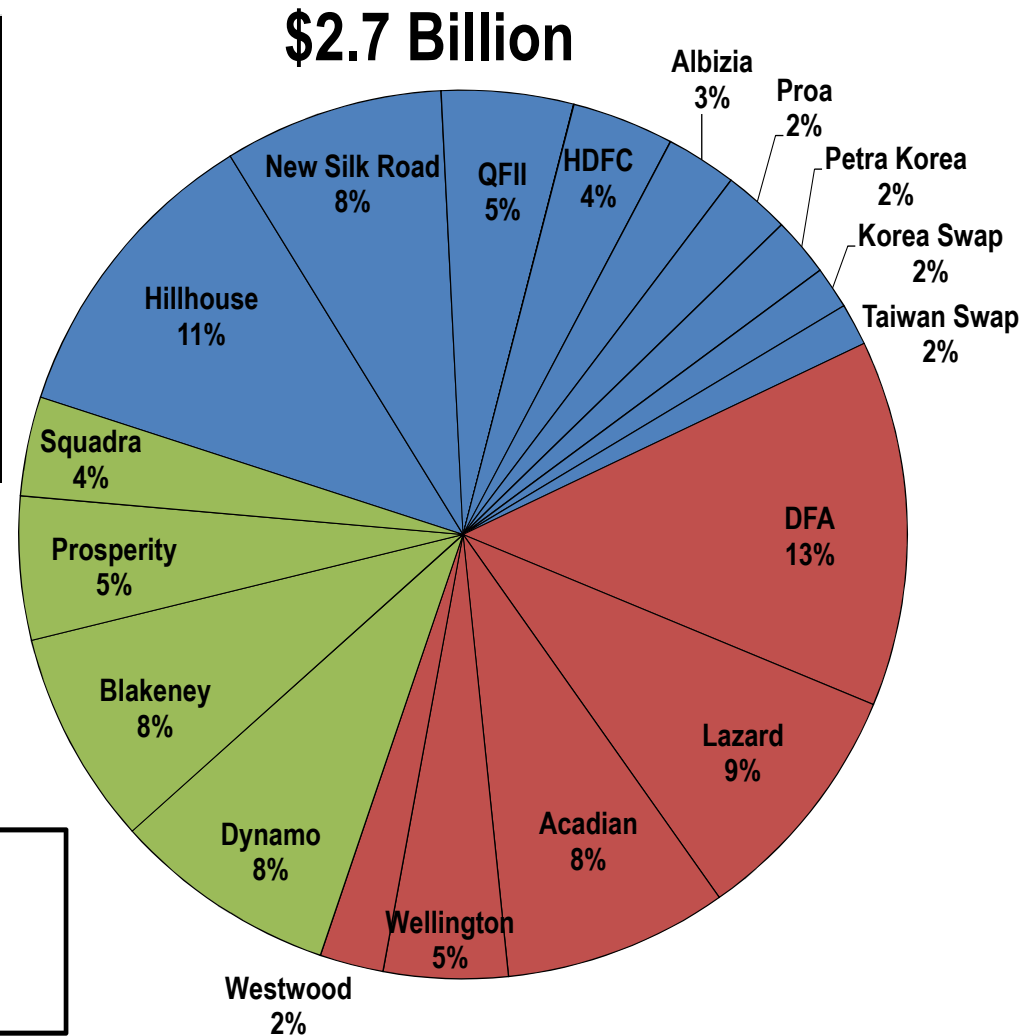
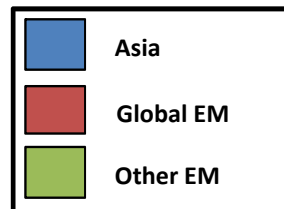
MCC Public Equity – Emerging Markets

MCC Emerging Markets Equity Portfolio				
	FYTD	1 Year	3 Years	5 Years
Portfolio Return	4.6%	-4.0%	0.3%	17.7%
Benchmark Return	<u>4.8%</u>	<u>-6.0%</u>	<u>-2.0%</u>	<u>16.9%</u>
Value Add	-0.1%	+2.0%	+2.3%	+0.8%
Portfolio Volatility	--	13.2%	17.3%	19.9%
Benchmark Volatility	--	13.8%	19.7%	22.4%
Portfolio Sharpe Ratio	--	-0.3	0.0	0.9
Portfolio Information Ratio	--	0.7	0.6	0.2

As of 2/28/2014

Statistics for periods longer than a year are annualized

Liquidity	
Within 90 days	Within One Year
62%	91%





LCC

LCC Portfolio Characteristics				
	FYTD	1 Year	3 Year	5 Year
LCC Return	9.1%	14.7%	8.4%	11.2%
Benchmark Return	<u>6.2%</u>	<u>7.3%</u>	<u>2.6%</u>	<u>5.0%</u>
Value Add	2.9%	7.4%	5.8%	6.2%
LCC Volatility	---	3.8%	4.5%	4.6%
Benchmark Volatility	---	3.3%	4.3%	4.3%
Sharpe Ratio	---	3.8	1.8	2.4
Information Ratio	---	5.6	3.9	3.6

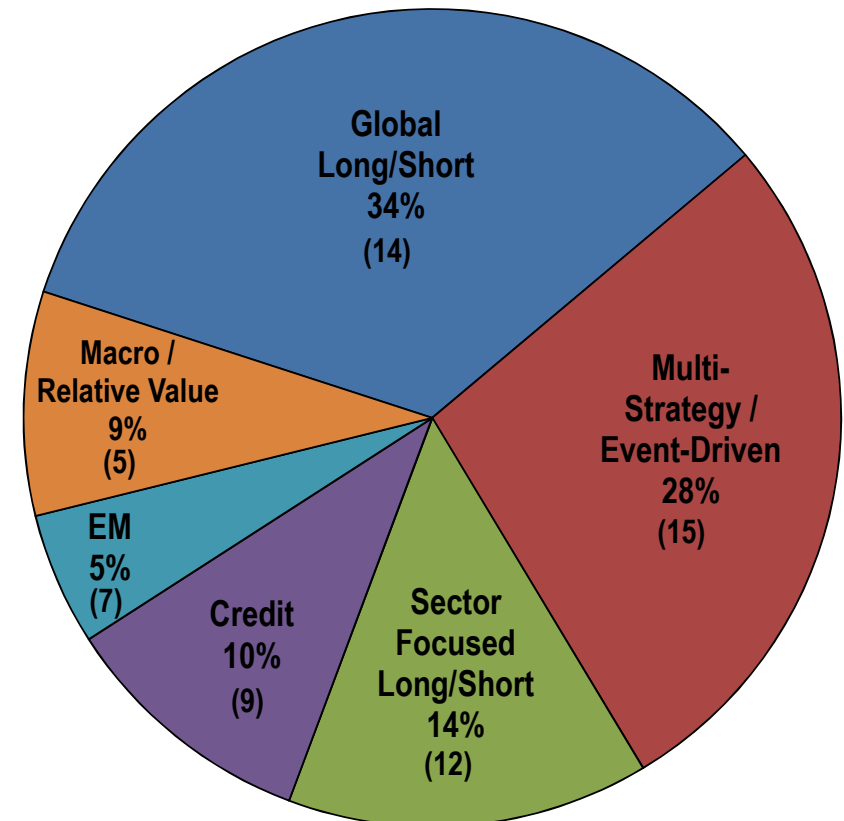
As of 2/28/2014 - Statistics for periods longer than a year are annualized.

Look-Thru Leverage			
	<u>% of Capital</u>	<u>Gross</u>	<u>Net</u>
Core Strategies	94%	172%	58%
FI & FX	6%	958%	-95%
Total LCC	100%	217%	50%

Concentration	
Top 10	50%
Top 20	74%
Top 30	89%

Liquidity*	
<u>90 days</u>	<u>1 year</u>
18%	58%

Strategy Allocation (\$9.8 Billion)



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



Private Investments Portfolio Rollforward

Six Months Ended February 28, 2014

\$ in millions	Beg FY 9/1/13			Calls	Distributions	Change in Valuation	%	FY'14 New Commitments		End 2/28/14	
	NAV	Unfunded	# Funds					# Funds	\$ Committed	NAV	Unfunded
Credit-Related Fixed Income	\$1,062	\$238	33	\$135	\$243	\$66	6.4%	0	\$0	\$1,020	\$137
Real Estate	748	773	29	150	116	77	9.9%	5	343	859	1,001
Natural Resources	1,061	1,118	42	221	108	117	10.2%	5	429	1,291	1,328
Venture	824	387	46	81	62	166		4	131	1,009	449
Other Developed Country Equity	<u>1,667</u>	<u>751</u>	<u>87</u>	<u>141</u>	<u>208</u>	<u>134</u>		<u>6</u>	<u>250</u>	<u>1,734</u>	<u>918</u>
Total Developed Country Equity	2,491	1,138	133	222	270	300	15.0%	10	381	2,743	1,367
Emerging Markets Equity	<u>594</u>	<u>514</u>	<u>24</u>	<u>83</u>	<u>35</u>	<u>14</u>	2.2%	<u>0</u>	<u>0</u>	<u>656</u>	<u>437</u>
TOTAL	<u>\$5,956</u>	<u>\$3,781</u>	<u>261</u>	<u>\$811</u>	<u>\$772</u>	<u>\$574</u>	9.5%	<u>20</u>	<u>\$1,153</u>	<u>\$6,569</u>	<u>\$4,270</u>
% of Endowment (PUF+ GEF)	27%	17%								27%	18%

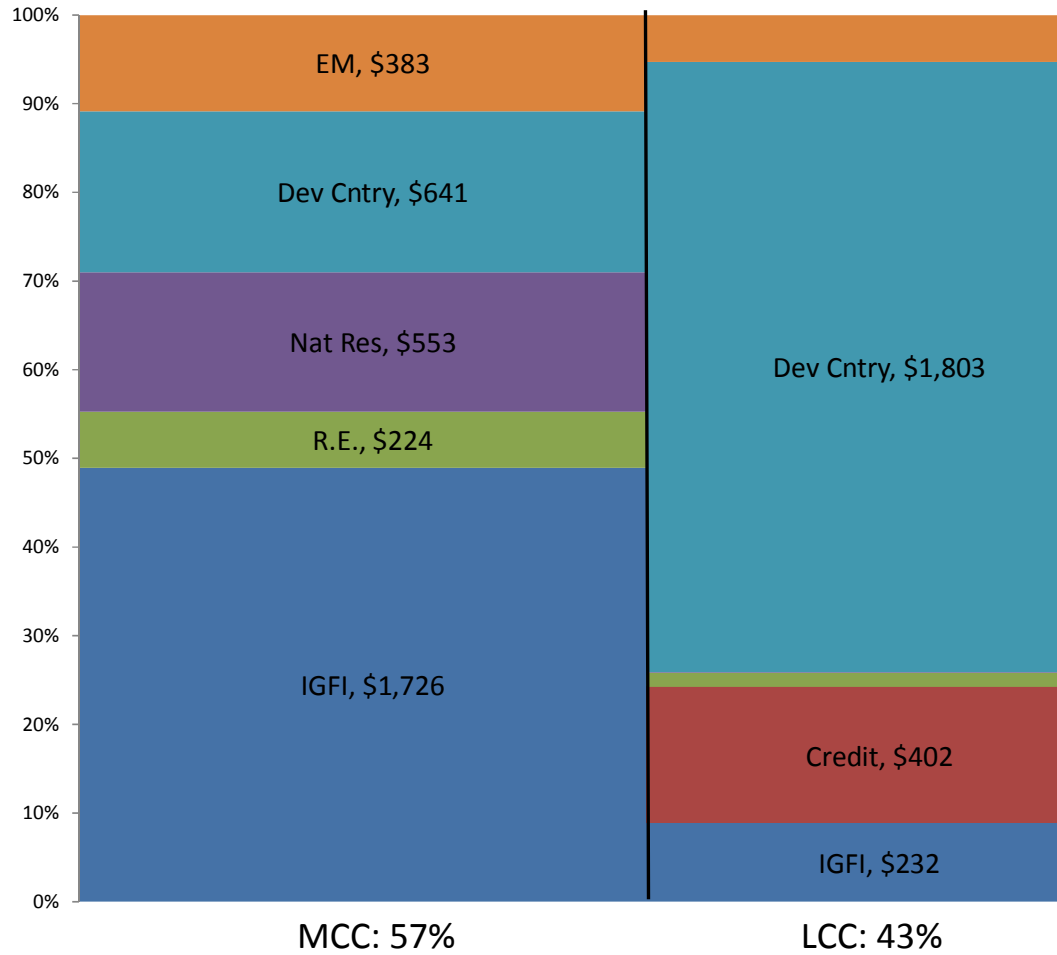


Summary of Transactions Made Under the Delegation of Authority Six Months Ended February 28, 2014

	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	69	-	-	69	-	-	343	343
Natural Resources	-	-	-	-	50	-	429	479
Developed Country Equity	152	172	-	324	50	520	431	1,001
Emerging Markets Equity	17	48	-	65	78	-	-	78
	<u>\$ 238</u>	<u>\$ 299</u>	<u>\$ -</u>	<u>\$ 537</u>	<u>\$ 178</u>	<u>\$ 620</u>	<u>\$ 1,203</u>	<u>\$ 2,001</u>



ITF



Downside Risk (trailing three years)	
Actual	% of Policy
5.44%	100.0%

Liquidity	
Three months	One Year
63.4%	90.0%



ITF Insurance Hedges

<u>Event</u>	<u>Hedge</u>	<u>Exposures as of February 28, 2014</u>					<u>Changes since December 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	\$ 1	\$ (11)	\$ -	-	\$ -	\$ (2)
Sovereign Default										
	JPY Rate Options and Swaptions	(4)	4.7	469	\$ 1	(3)	0	0.9	5	(3)
SUBTOTAL ACTIVE POSITIONS		\$ (16)	10.0	\$	2	\$ (14)	\$ 0	\$ 0.9	\$	(5)
EXPIRED POSITIONS										
	JPY Rate Options and Swaptions	(0.04)	0.02	110		(0.04)	-	-	-	-
SUBTOTAL EXPIRED POSITIONS		(0.04)	0.02			\$ (0.04)	\$ -	\$ -		\$ -
TOTAL		\$ (16)	10.0		2	\$ (14)	\$ -	0.9		\$ (5)

(1) Maximum Loss for Options

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



Contracts Update

February 1, 2014 through April 15, 2014

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

Agreement	Purpose	Contract Term	Annual Amount
None			

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

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

Agenda Item
UTIMCO Board of Directors Meeting
May 7, 2014

Agenda Item: Investment Strategy Discussion

Developed By: Staff

Presented By: Zimmerman

Type of Item: Information Item

Description: Bruce Zimmerman will lead the continuation of the discussion from the February Board meeting related to 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: None

Agenda Item
UTIMCO Board of Directors Meeting
May 7, 2014

- Agenda Item:** Report on and Discussion and Appropriate Action Related to Items from Policy Committee: Recommendation of Distribution Rates and Amount for the Investment Funds
- Developed By:** Staff
- Presented By:** Stillwell
- Type of Item:** Action item; Action required by UTIMCO Board and by The University of Texas System (“UT System”) Board of Regents
- Description:** The Policy Committee (“Committee”) will meet on April 29, 2014. The Committee’s agenda includes (1) discussion and appropriate action related to minutes of the February 20, 2014 meeting and the February 20, 2014 Joint Meeting of the Policy and Compensation Committees; and (2) discussion and appropriate action related to distribution rates and amount – Permanent University Fund, Permanent Health Fund, Long Term Fund, and Intermediate Term Fund (the “Funds”).
- Discussion:** Mr. Zimmerman will present to the Committee the *Distribution Policy* presentation. Each of the Funds’ respective Investment Policy Statement provides the guidelines to calculate the distribution amount or rate and provides the spending policy objectives of the Fund. The calculations of the distribution amount and payout rates are discussed in the attached Recommendation of Distribution Amount and Rates and are based on the Investment Policy Statements.
- Recommendation:** The Committee will request that the UTIMCO Board take appropriate action related to the following for the fiscal year ending August 31, 2015:
- 1) The distribution from the PUF to the Available University Fund be based on 4.75% of the trailing twelve-quarter average net asset value or \$659,431,829;
 - 2) The distribution rate for the PHF be increased from \$0.0585 per unit to \$0.0597 per unit;
 - 3) The distribution rate for the LTF be increased from \$0.3352 per unit to \$0.3423 per unit; and
 - 4) The distribution rate for the ITF remain at 3.0% per annum.
- Reference:** Recommendation of Distribution Amount and Rates; *Distribution Policy* presentation

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

RESOLVED, that the annual distribution amount for the Permanent University Fund be based on 4.75% of the trailing twelve-quarter average net asset value or \$659,431,829 for fiscal year 2015, effective with the September 1, 2014 distribution; the distribution rate for the Permanent Health Fund be increased from \$.0585 per unit to \$.0597 per unit for fiscal year 2015, effective with the November 30, 2014 quarterly distributions; the distribution rate for the Long Term Fund be increased from \$0.3352 per unit to \$0.3423 per unit for fiscal year 2015, effective with the November 30, 2014 quarterly distributions; and the distribution rate for the Intermediate Term Fund remain at 3.0% per annum for fiscal year 2015, effective with the September 1, 2014 monthly distribution.

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

Recommendation of Distribution Amount and Rates

PUF

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

As shown in the table below the average annual return of the PUF investments for the trailing twelve quarters ending February 28, 2014 has not exceeded the Expected Return by 25 basis points or more (≥.25%).

	Trailing 12 - Quarters Ending February 28, 2014	Expected or Benchmarks	Excess (Deficit)
Average Annual Rate of Return	7.11%	7.40%	-0.29%

Therefore, as outlined in the PUF Investment Policy, the amount to be distributed from the PUF for Fiscal Year 2014-2015 is \$659,431,829 as calculated below:

Quarter Ended	Net Asset Value
5/31/2011	12,908,189,971
8/31/2011	12,687,945,718
11/30/2011	12,389,608,519
2/29/2012	12,971,283,084
5/31/2012	12,843,337,655
8/31/2012	13,470,262,684
11/30/2012	13,686,958,344
2/28/2013	14,241,921,929
5/31/2013	14,630,924,697
8/31/2013	14,852,538,510
11/30/2013	15,625,425,857
2/28/2014	16,284,907,290
	\$ 166,593,304,258
Number of quarters	12
Average Net Asset Value	\$ 13,882,775,355
Distribution Percentage	4.75%
FY 2014-15 Distribution	\$ 659,431,829

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

1. The amount of PUF distributions to the AUF in a fiscal year must be not less than the amount needed to pay the principal and interest due and owing in that fiscal year on PUF bonds and notes. The proposed distribution of \$659,431,829 is substantially greater than PUF bond debt service of \$259,400,000 projected for FY 2014-2015.

<u>System</u>	<u>Debt Service</u>
U. T.	\$ 146,000,000
TAMU	113,400,000
Total	\$ 259,400,000

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

2. The Board of Regents may not increase annual PUF distributions to the AUF (except as necessary to pay PUF debt service) if the purchasing power of PUF investments for any rolling 10-year period has not been preserved. As the schedule below indicates, the average annual increase in the rate of growth of the value of PUF investments (net of expenses, inflation, and distributions) for the rolling 10-year period ended February 28, 2014 was 4.70%, which indicates that the purchasing power test was met.

<u>Average Annual</u>	<u>Percent</u>
Rate of Total Return, Net of Investment Manager Fees	7.34%
Mineral Interest Receipts	4.39%
UTIMCO Management Fees	(0.07)%
West Texas Lands Management Fees	(0.07)%
Other	(0.03)%
Inflation Rate	(2.36)%
Distribution Rate	(4.50)%
Net Real Return	4.70%

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

Value of PUF Investments (1)	Proposed Distribution	Proposed Distribution as a % of Value of PUF Investments	Maximum Allowed Rate
\$13,882,775,355	\$659,431,829	4.75%	7.00%

(1) Source: UTIMCO

LTF AND PHF

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

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

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

We are recommending a 2.1% increase in the LTF distribution rate from \$0.3352 to \$0.3423 per unit. The increase is recommended based on the LTF's Investment Policy Statement to increase the distributions by the average rate of inflation for the trailing twelve quarters. The LTF's distribution rate calculated using the prior twelve quarter average value of the LTF is 5.1%, within the range of 3.5% to 5.5% set forth in the LTF Investment Policy Statement. The increase in the consumer price index for the prior three years as of November 30, 2013, was 2.1%.

We are recommending a 2.1% increase in the PHF distribution rate of \$.0585 to \$.0597 per unit. The PHF's distribution rate calculated using the prior twelve quarter average value of the PHF is 4.9%, within the range of 3.5% to 5.5% set forth in the PHF Investment Policy Statement.

ITF

We are recommending that the distribution rate for the Intermediate Term Fund ("ITF") remain at 3.0% for fiscal year 2015.



**THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY**

Distribution Policy

May 2014



Summary

- UTIMCO Staff recommends:
 - The Policy Distribution Rate of 4.75%, or \$659 million, for the PUF for Fiscal Year 2015
 - The Policy Distribution Rate for the LTF and the PHF for Fiscal Year 2015, which is based on last year's rate adjusted for the three year average inflation rate of 2.1%
 - 5.1% for the LTF, or \$.3423 per unit, or approximately \$330 million (based on units as of 3/1/2014)
 - 4.9% for the PHF, or \$.0597 per unit, or \$49 million



PUF Distributions are Determined by Regents with Constitutional Limitations

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

Appendix I details existing distribution methodology for the PUF, LTF and PHF



UTIMCO Role and Timetable

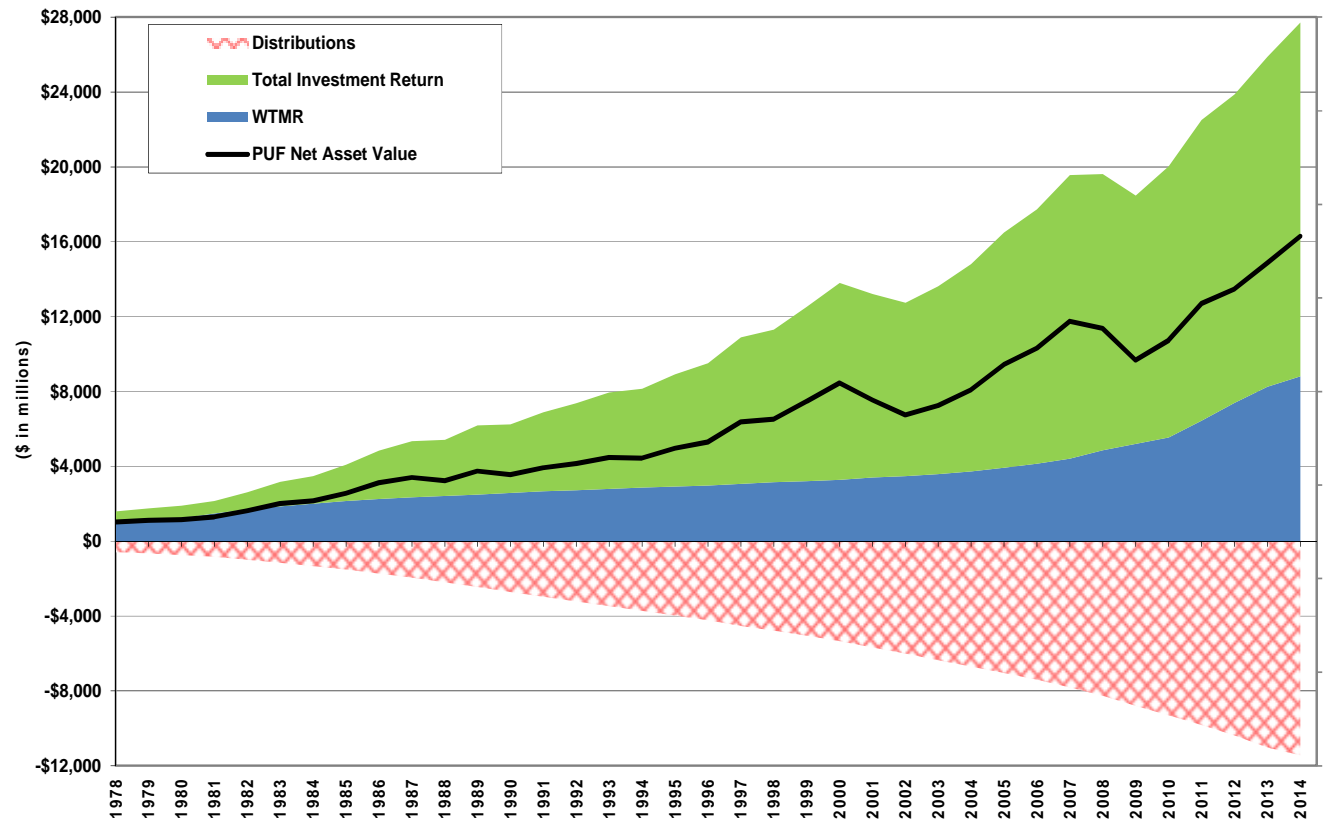
- Policy and Actual recommendations by the UTIMCO Board of Directors to the Regents based on Investment Policy Statements
- The timetable for recommendation and decision is:
 - May: UTIMCO Board Recommendation on Actual Distribution
 - May or later: Regents' Decision
 - September: New Distribution Amounts Become Effective



Components of PUF Growth 1978-2014

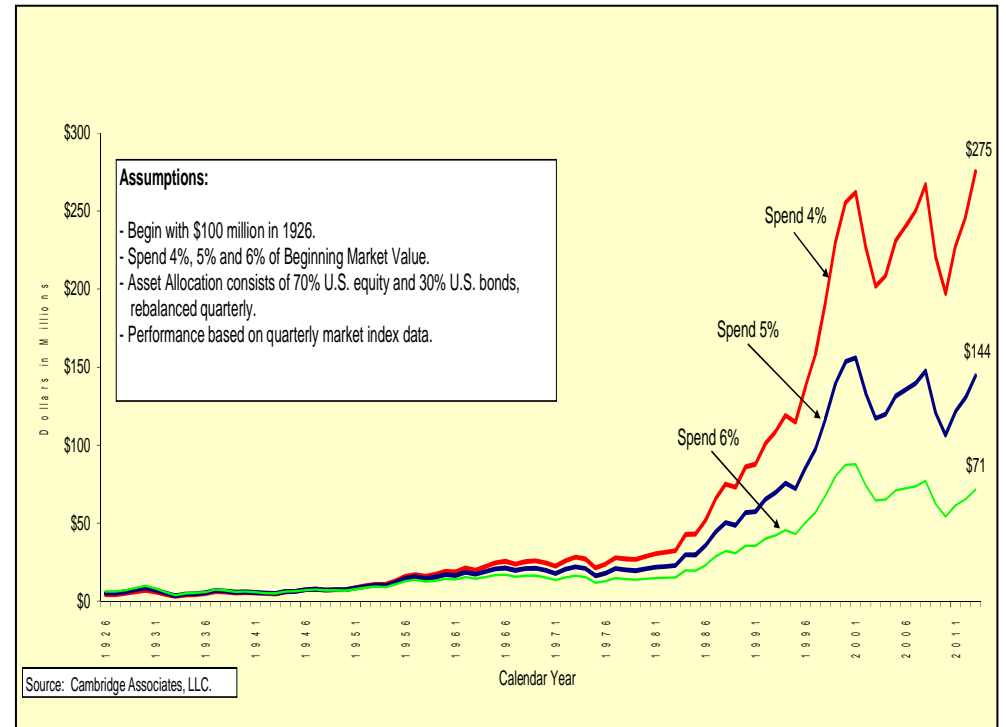
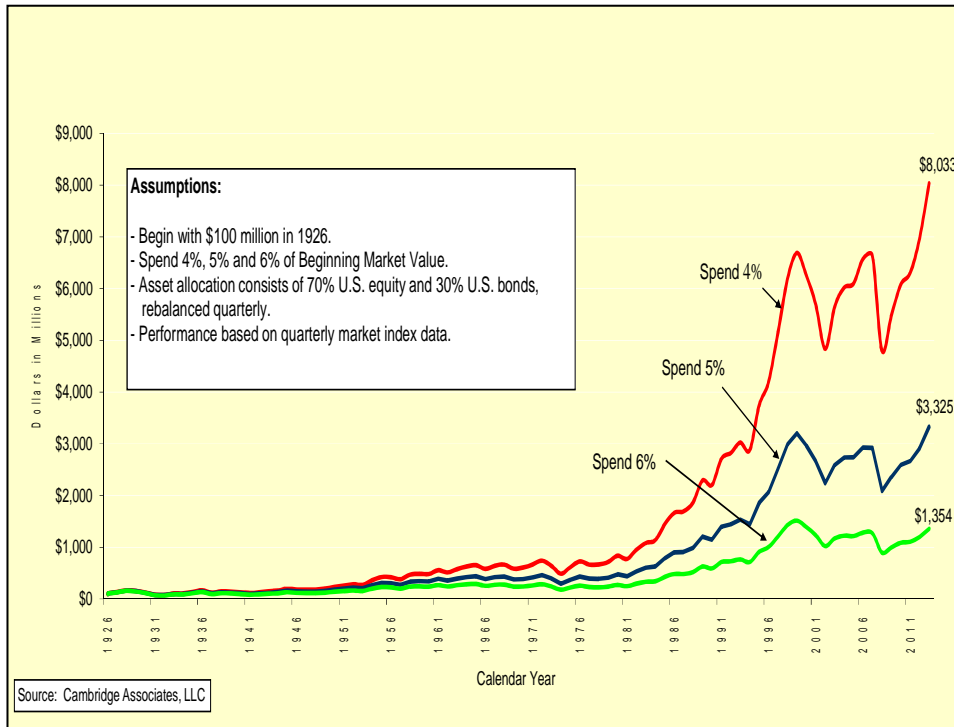
In summary, asset levels, and thus future distributions, are an interplay of West Texas Mineral Revenues (“WTMR”), Investment Returns and Distributions

Since 1974 (\$ in Billions):	Total
WTMR	\$ 8.8
Distributions to AUF	(11.4)
Investment Return	18.9
PUF Net Asset Value	\$ 16.3



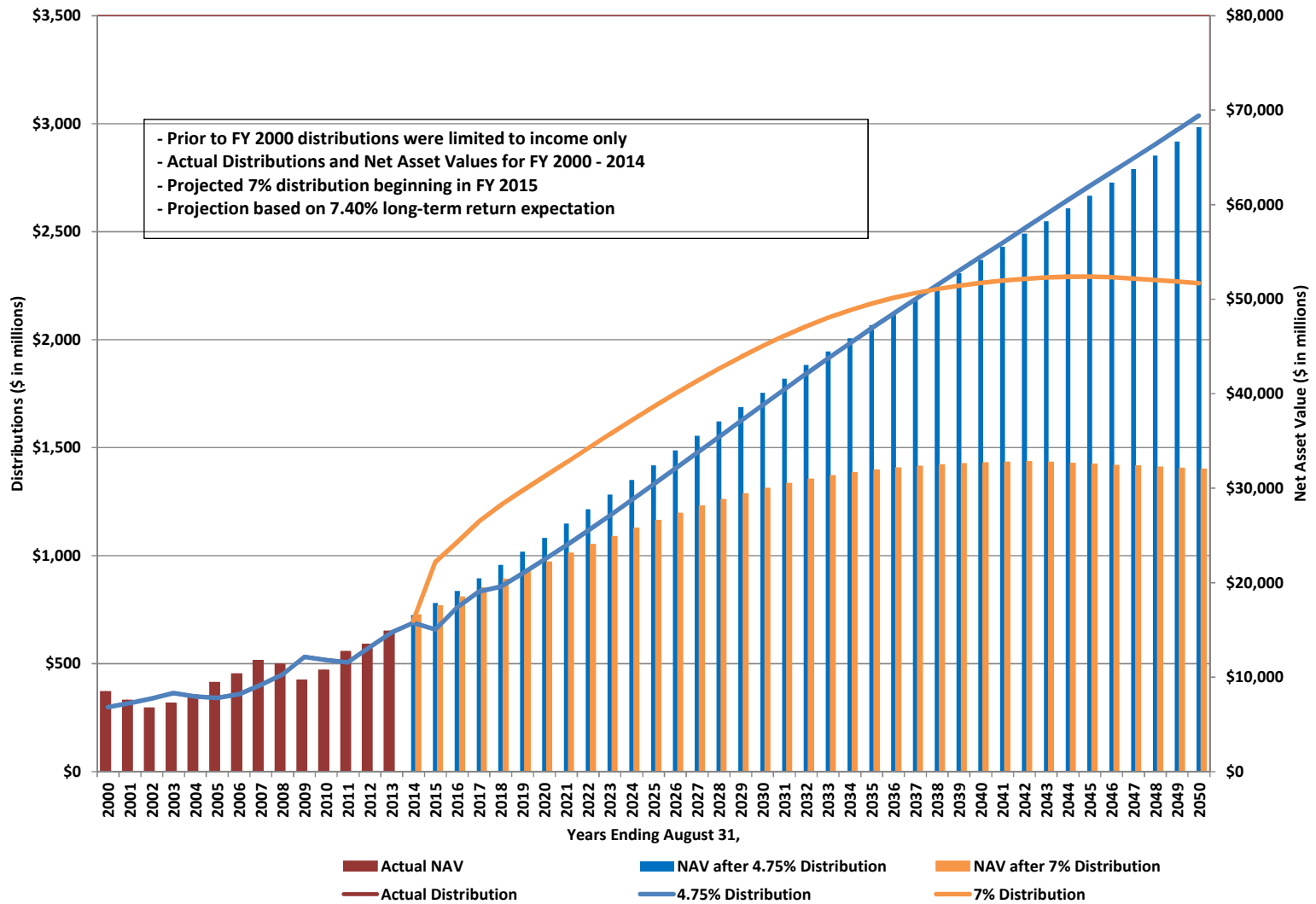


Higher Distributions “Today” Result In Lower Endowment Value and Distributions “Tomorrow”



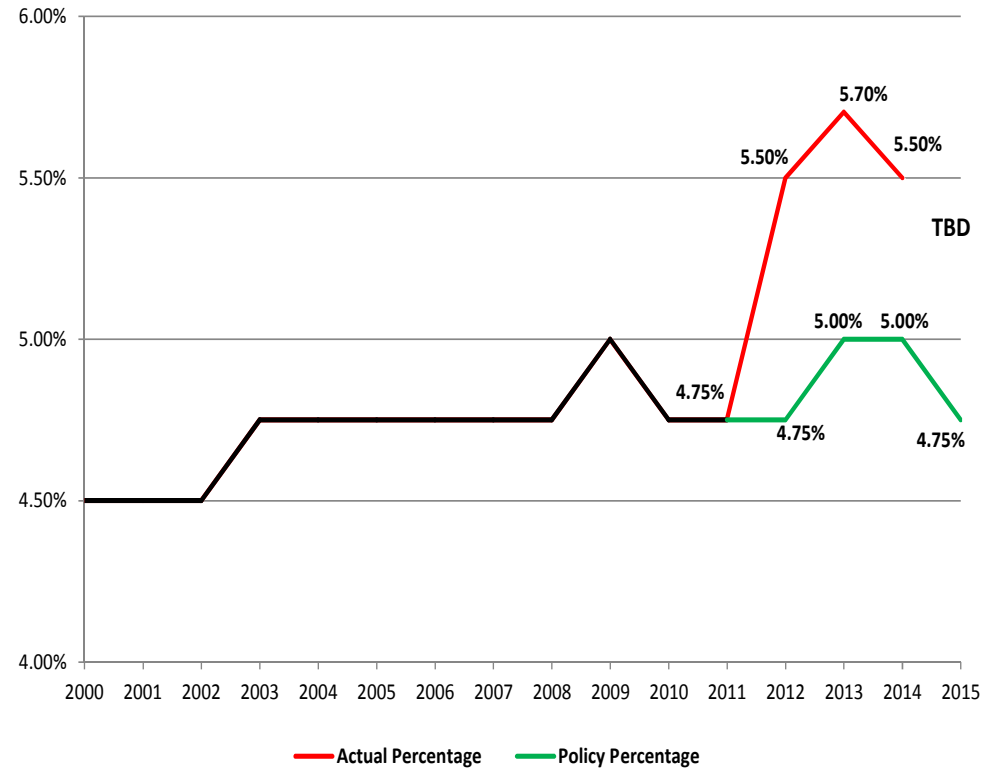
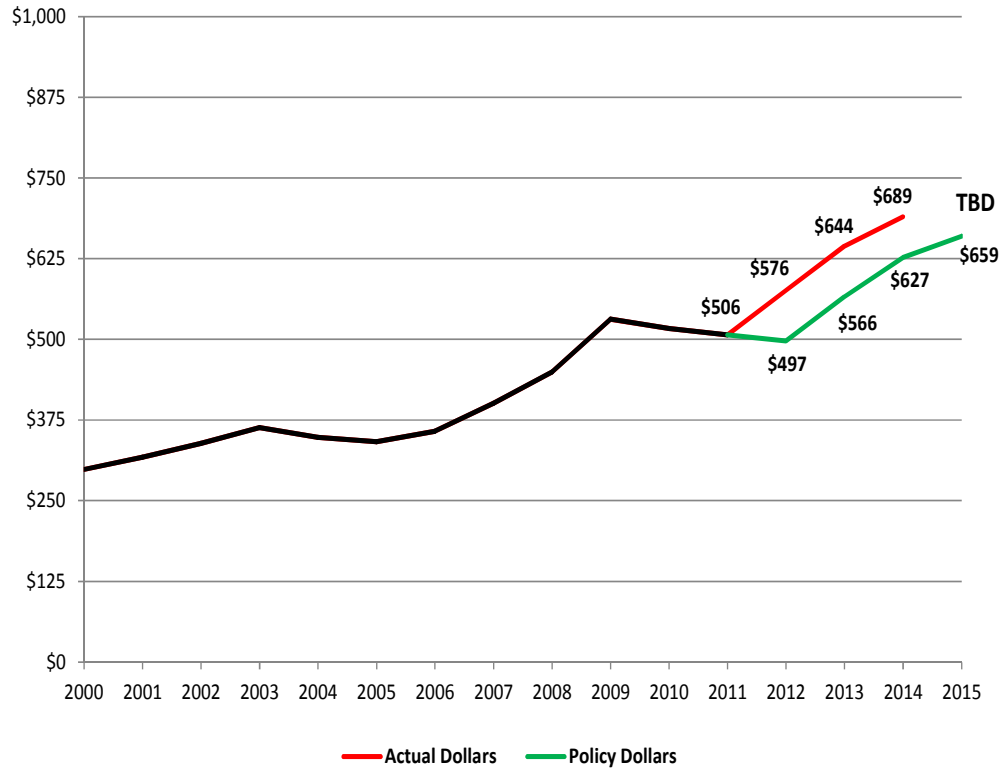


Distributions and NAV's at 4.75% and 7.00% Distribution Rates





PUF Distribution Policy and Actual Percentage and Dollars





Distributions and Investment Returns are Linked

- Because the purpose of endowments is to provide for current **and** future generations, distributions and investment returns are inextricably linked
- The linkage is specified by the Purchasing Power Parity requirement in the State Constitution
- Purchasing Power Parity has been met 86% of the time using the current methodology which includes WTMR; it has been met 57% of the time if WTMRs are excluded, as shown on page 10
- The linkage is further evidenced by the Distribution Policy language being embedded in the Investment Policy Statements
- There is still further evidence of linkage based on other university practices, as shown on page 11



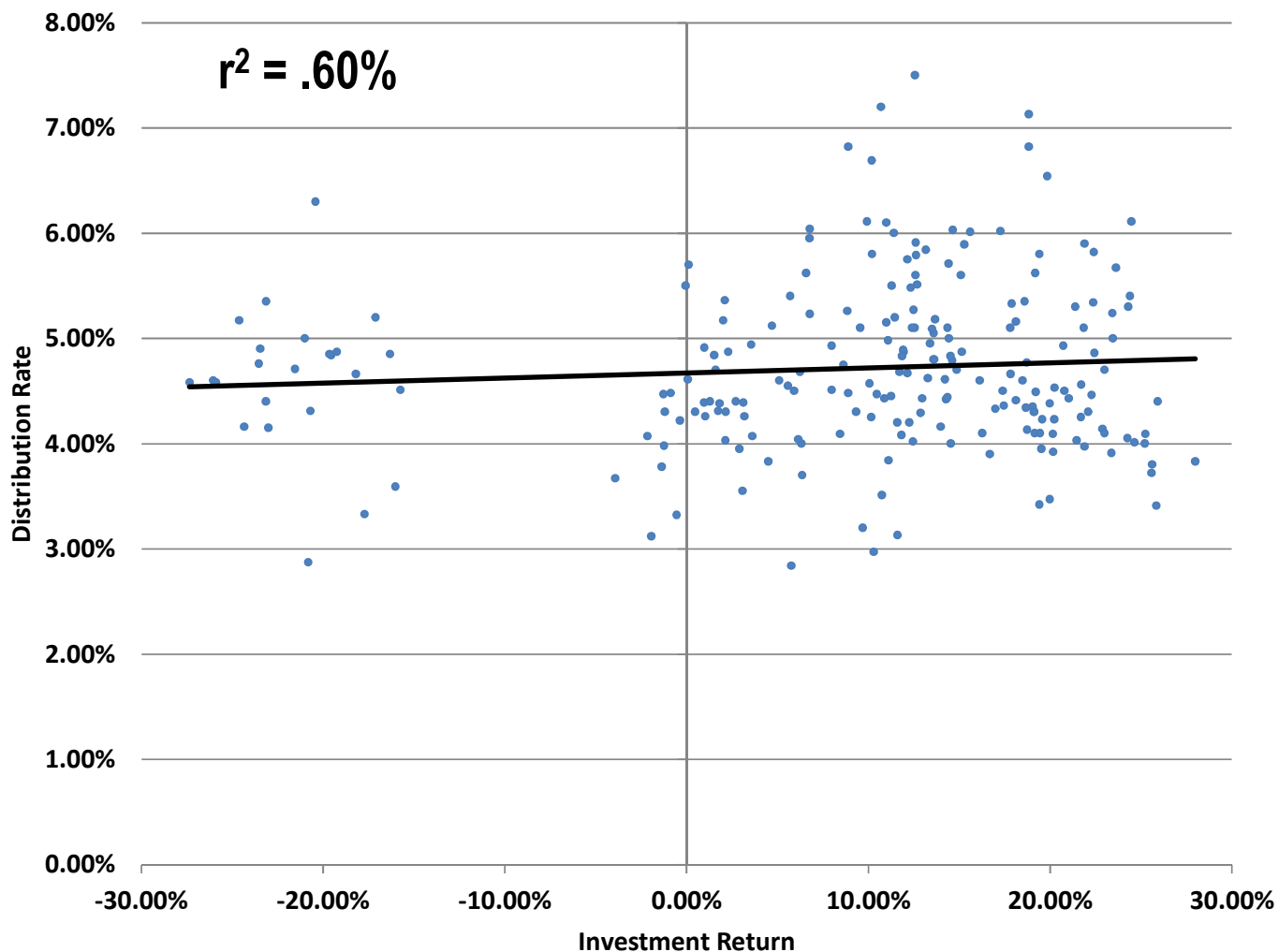
Purchasing Power Parity

	Rolling Ten Year Average as of February 28,						
	2008	2009	2010	2011	2012	2013	2014
Investment Returns	8.12%	3.61%	4.89%	6.61%	7.30%	9.02%	7.19%
Less Inflation	-2.72%	-2.58%	-2.47%	-2.33%	-2.50%	-2.40%	-2.35%
Real Returns	5.40%	1.03%	2.42%	4.28%	4.80%	6.62%	4.84%
Less Distributions	-4.26%	-4.40%	-4.39%	-4.64%	-4.62%	-4.56%	-4.50%
Purchasing Parity <u>Pre</u>-West Texas Revenue	1.14%	-3.37%	-1.97%	-0.36%	0.18%	2.06%	0.34%
West Texas Revenue	1.67%	2.07%	2.25%	2.65%	3.39%	3.83%	4.44%
Purchasing Parity <u>Post</u>-West Texas Revenue	2.81%	-1.30%	0.28%	2.29%	3.57%	5.89%	4.78%



Relationship Between Investment Rate and Distribution Rate

Twenty-Five Largest U.S. Endowments (2005-2013)





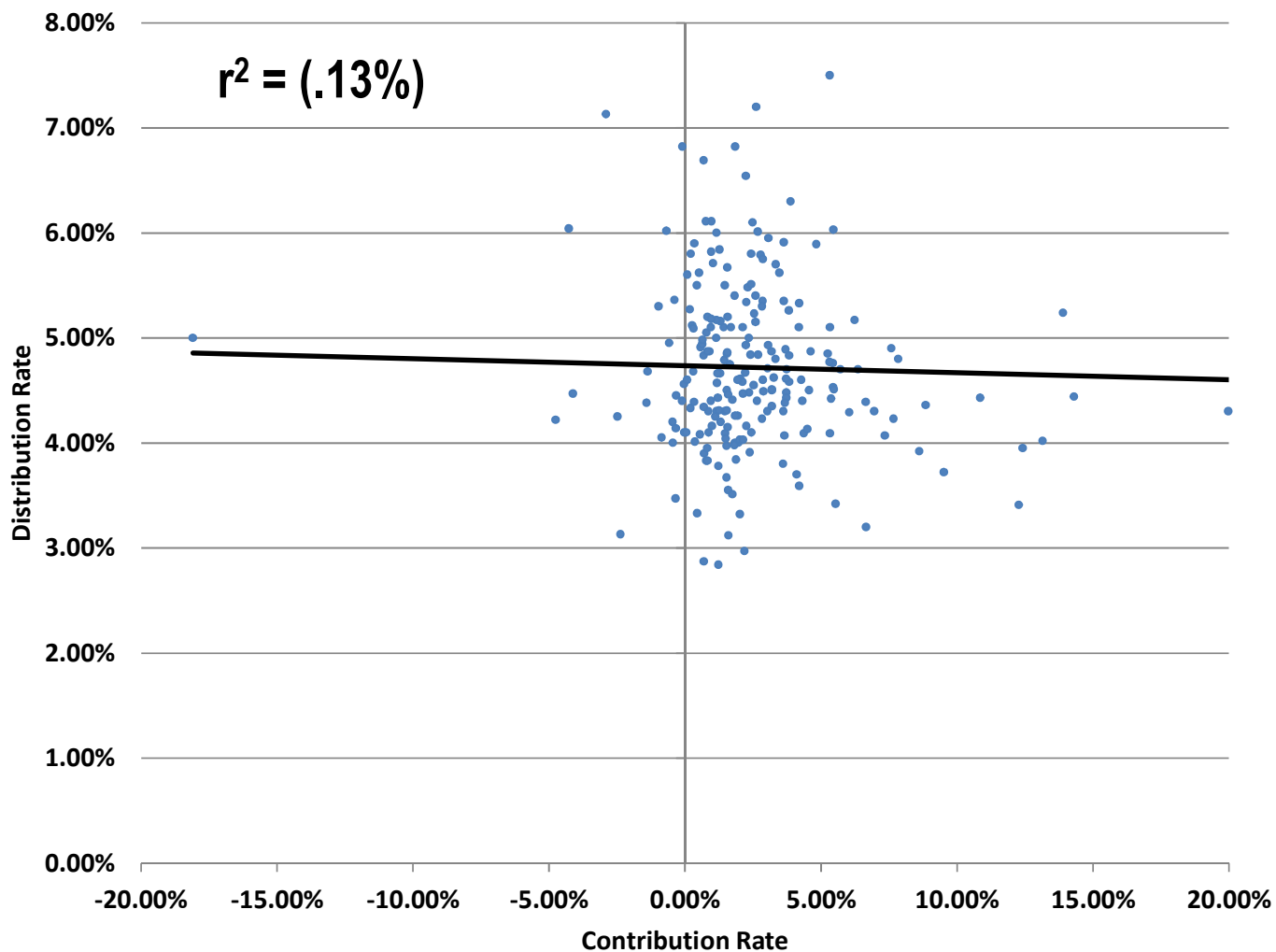
WTMR: Source of Contributions to the PUF

- WTMR were established constitutionally as a source of contributions to the PUF
 - West Texas surface revenues, however, were established to be a “parallel” fund, as surface revenues are directly distributed for current expenditures
- A constitutional amendment would be required to change the status of the WTMR from a “contributor” to the PUF to a “parallel” fund
- Recently increased distributions have been based on increased WTMR
- There is no connection between Endowment distribution percentages and contribution levels among other large U.S. universities, as shown on page 11



Relationship Between Contribution Rate and Distribution Rate

Twenty-Five Largest U.S. Endowments (2005-2013)





UT Contribution Rates Relative to Twenty-Five Largest U.S. Endowments

- UT Contribution Rates are among the highest in peer set
- UT Distribution Rates are in the third quartile of the peer set

	Years ending June 30, 2013							
	Three		Five		Seven		Nine	
	Rate	Rank	Rate	Rank	Rate	Rank	Rate	Rank
<u>Contributions</u>								
PUF	7.41%	1 st	5.72%	1 st	5.02%	2 nd	4.41%	11 th
LTF	4.06%	7 th	4.44%	3 rd	5.29%	1 st	5.05%	8 th
<u>Distributions</u>								
PUF	4.68%	66 th	4.81%	68 th	3.84%	80 th	4.42%	76 th
LTF	5.18%	40 th	5.12%	42 nd	4.13%	46 th	4.85%	31 st
<u>Peers</u>								
Median	4.95%		5.09%		4.10%		4.70%	
25th	5.37%		5.39%		4.37%		4.94%	



Recent Investment Returns and 2015 Policy Distribution

More recent investment returns have varied from 5.1% to 13.4%

Periods Ending February 28, 2014				
One Year	Three Years	Five Years	Seven Years	Ten Years
11.1%	7.1%	13.4%	5.1%	7.2%

- For the three years ending February 28, 2014, average annual actual investment returns of 7.1% lagged the projected investment return of 7.4%
 - Therefore, the 2015 PUF distribution rate, according to the Distribution Policy, is 4.75%
- The trailing twelve-quarter average PUF assets are \$13.883 billion
 - Therefore, according to Policy, the 2015 PUF distribution should be \$659 million



LTF and PHF Distribution Rates

Staff recommends a 2.1% increase in the LTF distribution rate from \$0.3352 to \$0.3423 per unit.

- The increase is based on the LTF's Investment Policy Statement which is to increase distributions by the average rate of inflation for the trailing twelve quarters, which was 2.1% as of November 30, 2013.
- The LTF's distribution rate calculated using the prior twelve quarter average value of the LTF is 5.1%, which is within the range of 3.5% to 5.5% set forth in the LTF Investment Policy Statement.

Staff recommends a 2.1% increase in the PHF distribution rate of \$.0585 to \$.0597 per unit.

- The PHF's distribution rate calculated using the prior twelve quarter average value of the PHF is 4.9%, which is within the range of 3.5% to 5.5% set forth in the PHF Investment Policy Statement.



Appendix I

Current Distribution Rate Methodologies Rationale and Limitations



Current Distribution Rates and Methodologies

	PUF	LTF	PHF	ITF
Current Methodology	Percent of Assets	Constant Growth	Constant Growth	Percent of Assets
Current Distribution Rate	4.75% *	\$.3352/Unit Effective Rate = 4.75%	\$.0585/Unit Effective Rate = 4.51%	3.00%
Asset Base Rate Applied To	Trailing twelve quarters ending February current fiscal year	Trailing twelve quarters ending November current fiscal year	Trailing twelve quarters ending November current fiscal year	Ending Balance
Role of Inflation	-	Unit Rate increased by trailing twelve quarter inflation rate	Unit Rate increased by trailing twelve quarter inflation rate	-
Potential Distribution Rate Increase	If Investment Returns exceed Expected Return by .25% or more over trailing twelve quarters, Distribution Rate will increase to 5%	-	-	-

* FY2013's distribution approved by the Board of Regents was 5.70% and totaled \$644 million
 FY2014's distribution approved by the Board of Regents was 5.50% and totaled \$389 million



Rationale for Distribution Methodologies

PUF

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

LTF

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

PHF

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



Distribution Rate Limitations

PUF

Per State Constitution

- Distribution must cover debt service
 - Debt Obligations Limited to 30% (20% UT System/10% A&M System) of Book Value of PUF Investments (\$13.1 Billion as of 2/28/2014)
- Distribution may not exceed 7% of Assets⁽¹⁾
- Must Maintain Purchasing Power in order for distributed dollars to increase
Formula (Rolling Ten Years):
 - +Investment Returns
 - +Mineral Interests
 - Expenses
 - Inflation
 - Distribution> 0

(1) Applied to trailing twelve quarters per Regents Policy

LTF

Per Regents Policy

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

UPMIFA

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

PHF

Per Regents Policy

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

UPMIFA

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



Purchasing Power Parity

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

Net Investment Return	7.19%
Mineral Receipts	4.44%
Inflation	(2.35%)
Distribution Rate	<u>(4.50%)</u>
Net Real Return	<u>4.78%</u>



PUF Net Asset Value vs. Book Value

- PUF Debt Capacity is calculated on Book Value

PUF Net Asset Value at Market Value	\$16.3
PUF Net Asset Value at Cost	\$13.1
Unrealized Gain	\$3.2



PUF Investment Policy Exhibit A

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

POLICY PORTFOLIO	FYE 2014		
	Min	Target	Max
Asset Classes			
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%
Investment Types			
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	23.3%
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%.

Agenda Item
UTIMCO Board of Directors Meeting
May 7, 2014

Agenda Item: Report from Audit and Ethics Committee

Developed By: Staff

Presented By: Stillwell

Type of Item: Information item

Description: The Audit and Ethics Committee (“Committee”) will meet on April 29, 2014. The Committee’s agenda includes (1) discussion and appropriate action related to the Committee minutes; (2) an update of compliance, reporting, and audit matters; and (3) a presentation of the unaudited financial statements for the six months ended February 28, 2014, for the Investment Funds and the Corporation.

Discussion: Routine activities of the Committee will include discussion and appropriate action related to the minutes, reviewing the unaudited financial statements for the six months ended February 28, 2014 for the Investment Funds and the Corporation and the quarterly compliance reports.

Mr. Peppers will update the Committee on the System Audit Office’s follow-up procedures for the October 2013 UTIMCO Separately Invested Funds (SIF) audit, which included one recommendation related to augmenting the existing documentation and organization of the processes over the SIF. The Audit Office determined that management fully implemented the recommendation.

Recommendation: None

Reference: Quarterly Compliance Reports

**The University of Texas Investment Management Company
Institutional Compliance Program Annual Report
for the Quarter Ended February 28, 2014**

Section I – Organizational Matters

- One meeting of the Ethics and Compliance Committee was held during the quarter: December 16, 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 44 meetings/calls with potential managers. Serious due diligence was initiated on five managers. No managers were hired. Ongoing review of active external managers included 52 meetings/calls. Additional efforts included monthly performance tracking, reviews and analyses by the team, one semi-annual portfolio review meeting, and participation in one annual meeting.

Marketable Alternative Investments: The Marketable Alternative Investments group participated in 52 meetings/calls with potential managers. Serious due diligence was initiated on two managers. Three managers were hired. Ongoing review of active external managers was conducted in the form of 75 meetings/calls/site visits. Additional efforts included monthly performance tracking, reviews and analyses by the team, and participation in one annual meeting/function with an active manager.

Private Markets: The Private Markets group initiated serious due diligence on seven potential managers. Seven commitments were made. The Private Markets group also participated in 79 meetings with active external managers and 43 meetings with potential managers, including site visits, conference calls, and Advisory Board and Annual meetings.

Natural Resources: The Natural Resources group participated in 66 meetings/calls with potential managers. Serious due diligence was initiated on three managers. Two managers were hired. Ongoing review of active external managers included 102 meetings/calls. Additional efforts included participation in 2 annual meetings with active managers and one semi-annual portfolio review meeting.

Real Estate: The Real Estate group participated in 35 meetings/calls with potential managers. Serious due diligence was initiated on three managers during the quarter. Two managers were hired. Ongoing review of active external managers included 44 meetings/calls. Additional efforts included participation in one annual meeting and one semi-annual portfolio review meeting.

Specialized Training: Staff attended 13 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 reviewed with members of the IFS team current status and future projects.
- Risk Team continued the development and implementation of a proposed new Private Investments benchmark.
- 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. 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.
- All internal derivatives were reviewed and analyzed in detail prior to initiation. The insurance budget is continuously tracked.
- Derivative positions are monitored on a daily basis. External managers that may use derivatives are monitored daily for spikes in returns or in volatility. Effects of derivatives on the overall portfolio are monitored monthly. Fixed income duration and tracking error is being monitored on an ongoing basis. Managers’ use of margin and leverage is monitored on an ongoing basis. Risk Team confirmed each month downside risk and VaR calculations.
- Risk Team prepared projections on portfolio risk, country exposure, liquidity, and asset allocations; updated projections on a weekly basis.

Specialized Training: Risk Team chaired one conference and 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 has been 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 is now in place. Transition of all credentials off the intranet to Lastpass continues.
- 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 look for a better desktop AV/AM tool.
- Secunia patch management implemented to update Java, Flash, and other third-party software.
- ARDC Disaster recovery site is online. Services are being transitioned to active/active or active/passive as required to support them in a DR scenario. IT continues to explore ways to leverage this new asset.
- Attended meetings of the CISO council and UT INFOSEC groups in February.

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

- Twenty-nine annual compliance statements were sent to external managers. All have been returned with no non-compliance issues noted.
- 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 continues.
- 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:

- Three new employees 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. A security was added to the restricted list during the quarter. An updated restricted list was sent to all required managers 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. The CCO reviewed four financial disclosure forms for the two new directors and two new Key Employees during the quarter. All reviews were performed within the 90-day deadline.
- 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 one employee for outside employment. The required communication regarding outside employment from the CEO was timely sent to three members of the Audit and Ethics Committee. An email was sent to the chairman of the Audit and Ethics Committee when it was discovered he was inadvertently omitted from the original email.
- Nine (9) trips/events containing vendor reimbursed/paid expenses, which required documentation and supervisor approval, had appropriate documentation and approval. One (1) additional trip occurred that was not preapproved because the traveler was not aware the manager would cover expenses. Two (2) 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

Two training sessions for new hires were 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>Second 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>Two training sessions held during the quarter</i>
5.	Identify and network with similarly situated compliance professionals	On-going	<i>Participated in Compliance Officer Roundtable monthly meetings</i>
<i>D. REPORTING</i>			
6.	Conduct quarterly meetings with the internal ethics and compliance committee	On-going	<i>Last meeting held on December 16, 2013</i>
7.	Provide quarterly/annual reports to the Audit and Ethics Committee and System-wide compliance office	On-going	<i>Quarterly report submitted December 19, 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>Four telephone and two in-office interviews conducted; reaching out to recruiting firms for candidates</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>Staff training held in January; Plan edits for changed information and final tasks being completed before live testing can occur</i>

Updated 03/21/14

#	ACTION ITEM	TARGET COMPLETION DATE	STATUS
12.	ICAC activities: ICAC and Standing Committee participation	On-going	<i>No activity</i>
13.	Hotline reporting	On-going	<i>No hangups/wrong numbers during the quarter</i>

Updated 03/21/14

Agenda Item
UTIMCO Board of Directors Meeting
May 7, 2014

Agenda Item: Report from Risk Committee

Developed By: Staff

Presented By: Tate

Type of Item: Information item

Description: The Risk Committee (“Committee”) will meet on April 29, 2014. The Committee’s agenda includes (1) discussion and appropriate action related to the Committee minutes; (2) discussion and appropriate action related to categorization of investment mandates; (3) review and discussion of compliance reporting; and (4) review and discussion of performance and risk reporting.

Discussion The Committee will review and approve, as appropriate, the sixteen new mandate categorizations prepared by Staff for the period beginning February 6, 2014, and ending April 15, 2014.

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

Recommendation: None

Reference: None

Agenda Item
UTIMCO Board of Directors Meeting
May 7, 2014

Agenda Item: UTIMCO Organization Update

Developed By: Staff

Presented By: Zimmerman, Abalogu

Type of Item: Information Item

Description: Bruce Zimmerman will provide an update on UTIMCO's staffing and second quarter fiscal year 2014 actual to budget expenses. Uche Abalogu will provide an update on the technology infrastructure platform and application development.

Reference: *UTIMCO Organization Update* presentation



THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

UTIMCO ORGANIZATION UPDATE

May 7, 2014

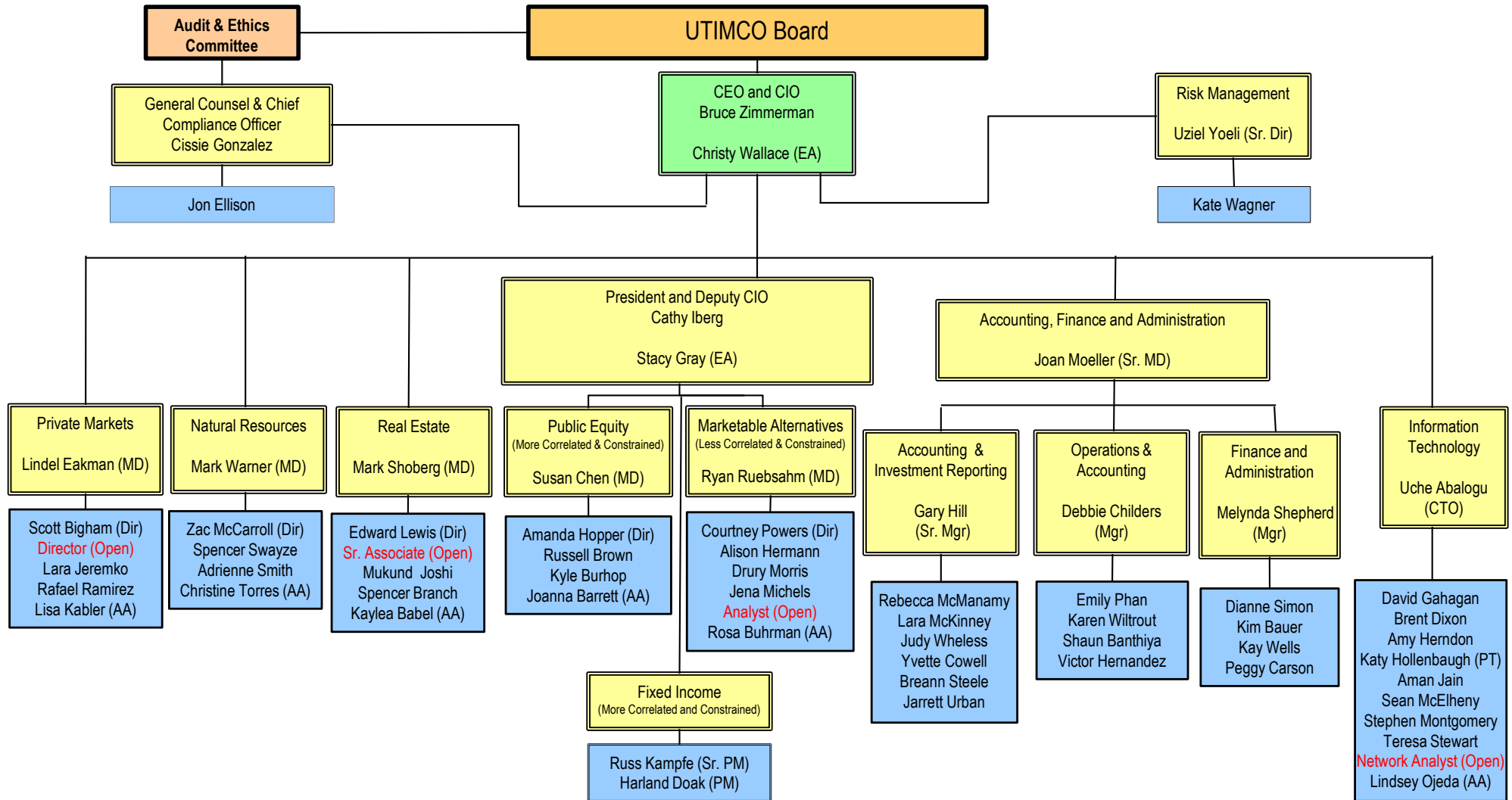


UTIMCO Update

- Staffing
- Budget
- Technology



UTIMCO – Organizational Structure





UTIMCO Expenses

Q2 FY 2014

UTIMCO Expenses (\$ in thousands)	2Q FY 14		Favorable / (Unfavorable)
	Actual	Budget	
Salaries & Benefits	\$5,422	\$5,532	\$110
Other Expenses	2,215	2,344	129
Subtotal	7,637	7,876	239
Incentive Compensation	4,431	4,259	(172)
Total UTIMCO	<u>\$12,068</u>	<u>\$12,135</u>	<u>\$67</u>
Non-UTIMCO, Non-Investment Management Expenses	<u>\$3,474</u>	<u>\$4,081</u>	<u>\$607</u>



Investment Support System High Level Goals/Vision

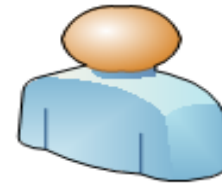
Pre-ISS

Outlook

- Calendar
- Contacts
- Email/Attachments

MS Office

- Excel
- PowerPoint
- Word



Inv. Officer

Ops/Actg
Workbench

Factset

NAV/Perf Data

- Mellon
- DataWarehouse

Burgiss

Files

Bloomberg

UTRACS

- Firms/Funds
- Contacts
- Notes
- Due Diligence

(Vendor Relationship Management)



Investment Support System High Level Goals/Vision

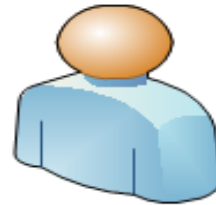
Post-ISS (Integrated Data Access)

Outlook

- Personal Email/Attachments
- Personal Contacts
- Personal Calendar

MS Office

- Excel
- PowerPoint
- Word



Inv. Officer

Factset

Burgiss

Bloomberg

Working Files

Business Unit

- BU Contacts
- BU Email/Attachments
- Calendar
- Meeting Notes



Dashboards
Ad Hoc Reports
Data Download

NAV/Perf/Exposure/Risk Data

- Mellon
- DataWarehouse
- Burgiss/Other
- User Direct Entry

Doc Center
- Archives

Vendor Relationship Management



Investment Support System Project Plan

Investment Support System Project Plan

Document Management System	April	May	June	July	August	September	October	November	December	January 2015
Document View & Comments										
Outlook "Drag & Drop"										
Virtual File System Dual Window Navigation										
Custom Doc Set (Ad Hoc - One Time)										
Business Group Email Integration										
User Acceptance Test With Live Data (Restore Process)										
Notifications										
"Smart" Doc Set (Rules Based)										
Multiple/Cross Tree Tags										
Data Integration										
"Power Plus" for MCC & PI										
Salesforce Data Analysis										
Build Location Object										
Build Firms Object										
Salesforce Data Migration										
Portfolio Data Loader										
Portfolio Drill-Down Dashboard										