

**UTIMCO BOARD OF DIRECTORS  
MEETING AGENDA  
July 29, 2014**

UTIMCO  
401 Congress Avenue, Suite 2800  
Austin, Texas 78701

Time	Item #	Agenda Item
Begin	End	
		<b>OPEN MEETING:</b>
11:30 a.m.	11:35 a.m.	1 <a href="#">Call to Order of the Meeting/Discussion and Appropriate Action related to Minutes of May 7, 2014 Meeting*</a>
11:35 a.m.	11:40 a.m.	2 <a href="#">Discussion and Appropriate Action Related to UTIMCO Board Committee Assignments*,**</a>
11:40 a.m.	12:30 p.m.	3 <a href="#">Endowment and Operating Funds Update Report</a>
12:30 p.m.	12:45 p.m.	<b>Lunch</b>
12:45 p.m.	1:45 p.m.	<b>Briefing Session pursuant to Texas Education Code Section 66.08(h)(2) related to Investments</b>
1:45 p.m.	2:00 p.m.	4 <a href="#">UTIMCO Organization Update</a>
2:00 p.m.	2:10 p.m.	5 <a href="#">Report from Risk Committee</a>
2:10 p.m.	2:20 p.m.	6 <a href="#">Report from Audit and Ethics Committee</a> - Discussion and Appropriate Action Related to Corporate Auditor*
2:20 p.m.	2:35 p.m.	7 <a href="#">Report from Policy Committee:</a> - Discussion of FY 2015 Investment Policy Review and Recommendation - Discussion and Appropriate Action Related to the Investment Policy Statements*,** - Discussion and Appropriate Action Related to the Liquidity Policy*,** - Discussion and Appropriate Action Related to the Derivative Investment Policy*,** - Discussion and Appropriate Action Related to the Delegation of Authority Policy*
2:35 p.m.	2:45 p.m.	8 <b>Executive Session</b> Pursuant to Section 551.074 <i>Texas Government Code</i> , the Board of Directors may convene in Executive Session to deliberate individual personnel matters, including the CEO and Chief Investment Officer <b>Reconvene into Open Session</b> <a href="#">Report from Compensation Committee</a> - Discussion and Appropriate Action Related to the CEO's Base Salary for 2014-2015 Fiscal Year* - Discussion and Appropriate Action Related to Appendices of the UTIMCO Compensation Program, Amended and Restated effective September 1, 2013* - Discussion and Appropriate Action Related to Proposed Amendments to the Charter of the Compensation Committee*
2:45 p.m.	2:55 p.m.	9 <a href="#">Discussion and Appropriate Action Related to UTIMCO 2014-2015 Budget*,**</a>
2:55 p.m.		<b>Adjourn</b>

\* Action by resolution required

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

**Next Regularly Scheduled Meeting: October 9, 2014**

**RESOLUTION RELATED TO MINUTES**

RESOLVED, that the minutes of the meeting of the Board of Directors held on **May 7, 2014**, be, and are hereby, approved.

**MINUTES OF ANNUAL 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 **May 7, 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  
Jeffery D. Hildebrand  
Robert L. Stillwell  
John D. White

thus constituting a majority and quorum of the Board. Chairman Foster called the meeting to order at 2:06 p.m. Directors R. Steven Hicks and Charles W. Tate did not attend the meeting. Director Kyle Bass joined the meeting later as noted in the minutes. Employees of the Corporation attending the meeting were Bruce Zimmerman, CEO and Chief Investment Officer; Cathy Iberg, President and Deputy CIO; Joan Moeller, Secretary and Treasurer; Christy Wallace, Assistant Secretary; Cecilia Gonzalez, internal General Counsel and Chief Compliance Officer; Lindel Eakman, Managing Director – Private Markets Investments; Mark Warner, Managing Director - Natural Resources Investments; Mark Shoberg, Managing Director – Real Estate Investments; Susan Chen, Managing Director – Public Markets Investments; Ryan Ruebsahm, Managing Director – Marketable Alternative Investments; Uzi Yoeli, Senior Director - Portfolio Risk Management; Amanda Hopper, Director – Public Markets Investments; Russ Kampfe, Senior Portfolio Manager – Fixed Income 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 Jim Phillips, Moshmee Kalamkar, Allen Hah, Roger Starkey and Guillermo Garcia of the UT System Administration; Keith Brown of the McCombs School of Business at UT Austin; Jerry Turner of Andrews Kurth LLP; and Maria Robinson of the Texas A&M University System. Copies of materials supporting the Board 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 February 20, 2014. 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  
February 20, 2014, be, and are hereby, approved.

## Corporate Resolutions

Chairman Foster recommended approval of the corporate resolution designating officers for the Corporation. Upon motion duly made and seconded, the following resolution was unanimously adopted by the Board:

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

Chairman Foster also recommended approval of the Resolutions of Appreciation for Charles Tate and James Wilson. Director Moore read brief comments provided by Director Tate and several directors thanked Directors Tate and Wilson for their service. Upon motion duly made and seconded, the following resolutions were unanimously adopted by the Board:

Director Charles Tate's Resolution of Appreciation:

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 7<sup>th</sup> day of May, 2014;

And Director James Wilson's Resolution of Appreciation:

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 12<sup>th</sup> 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 7<sup>th</sup> day of May, 2014.

The newest Board member, John D. White, was introduced and welcomed by Chairman Foster and the Board. Chairman Foster then recommended approval of new committee assignments. Upon motion duly made and seconded, the following resolution was unanimously adopted by the Board:

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

John D. White  
R. Steven Hicks  
Robert L. Stillwell

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 John D. White 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 Compensation Committee of the Board of Directors:

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 Kyle Bass is hereby designated the Chair of the Compensation 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:

Kyle Bass  
Ardon E. Moore  
John D. White

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 Kyle Bass 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:

Jeffery D. Hildebrand  
R. Steven Hicks  
Robert L. Stillwell  
John D. White

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 Jeffery D. Hildebrand is hereby designated the Chair of the Policy Committee and shall preside at its meetings.

### **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 February 28, 2014. Director Kyle Bass joined the meeting at this time. Mr. Zimmerman reported the Corporation had \$32.6 billion of assets under management on February 28, 2014. Of the \$32.6 billion, \$16.3 billion was in the Permanent University Fund ("PUF"), \$7.9 billion in the General Endowment Fund ("GEF"), \$1.9 billion in the Short Term Fund ("STF"), \$0.2 in Separately Invested Funds, \$0.2 billion in the Debt Proceeds Fund, and \$6.1 billion in the Intermediate Term Fund ("ITF"). The net performance for the six months ended February 28, 2014, for the PUF was 8.56% and for the GEF was 8.50%, versus benchmark returns of 7.85% for each fund. The ITF's performance was 6.77% versus its benchmark return of 6.40% for the six months February 28, 2014. Performance for the STF was 0.03% versus a benchmark return of 0.03% for the six months ended February 28, 2014. Mr. Zimmerman presented returns, returns vs. projections, value-add analysis, and assets and risk exposures in the Funds Report presentation. Mr. Kampfe, Mr. Shoberg, Mr. Warner, Ms. Iberg, Mr. Ruebsahm, Ms. Chen 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 February 28, 2014, current risk environment, including 4-way risk decomposition, up/down capture, risk contributions and correlations. Mr. Zimmerman continued by reporting investment activity as of February 28, 2014, 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 begin the presentation on Investment Strategy. Mr. Zimmerman discussed investment strategy decisions relative to process, expected returns in each asset class and investment type, efficient frontiers and staff suggested targets for FY2015. Mr. Zimmerman and Mr. Warner also provided items of discussions from the investment working group meeting held on April 30 and May 1. The investment working group, consisting of two board members and several staff members, met to collaborate and share their thoughts regarding investment strategy. Mr. Zimmerman answered the Directors' questions.

### **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 on April 29, 2014. The Committee approved minutes from previous meetings, and discussed and approved the proposed distribution rates and amounts for the fiscal year ending August 31, 2014 for the PUF, PHF, LTF, and ITF. Mr. Stillwell explained that each year Staff recommends the distribution rates for the Funds to the Policy Committee and the Policy Committee recommends the rates to the Board, which in turn submits its recommendation to the Board of Regents for approval. The distribution rate decision was expected to be placed on the meeting agenda of the Board of Regents at a subsequent meeting. 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 Staff's recommendations for the distribution amount and payout rates were discussed. Upon motion duly made and seconded, the following resolutions were unanimously adopted:

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 and adoption by this Corporation's Board of

Directors, and subject to approval by the Board of Regents of The University of Texas System.

**Audit and Ethics Committee Report**

Chairman Foster asked Mr. Stillwell to provide a report on behalf of the Audit and Ethics Committee. Mr. Stillwell reported that the Committee met on April 29, 2014. At the meeting, the Committee approved minutes from their previous meeting, heard an update of compliance, reporting and audit issues for the period ending February 28, 2014 from Ms. Gonzalez, and Ms. Moeller reviewed the unaudited financial statements for the Investment Funds and Corporation for the six months ending February 28, 2014. Mr. Peppers gave an update from the UT System Audit Office.

**Risk Committee Report**

Chairman Foster asked Mr. Moore to provide a report from the Risk Committee. Mr. Moore reported that the Committee met on April 29, 2014, and approved minutes from the previous meeting. He stated that the Risk Committee approved 16 new investment mandate categorizations prepared by Staff for the period beginning February 6, 2013, and ending April 15, 2014, and reviewed the watch list. The Committee heard a report from Ms. Gonzalez on compliance items for the quarter ending February 28, 2014, and a Funds Update report as of February 28, 2014, from Mr. Zimmerman and Dr. Yoeli.

**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 second quarter fiscal year 2014 actual to budget expenses. Mr. Abalogu provided an update on the technology infrastructure platform and application development. Mr. Warner gave an update of the Strategic Offsite meeting that was held in April. Fifteen members of the senior management participated in a day long discussion that included the history of UTIMCO, culture of the corporation, investment team and processes, staffing and structure, investment support systems and future office relocation. Mr. Zimmerman, Mr. Warner and Mr. Abalogu answered the Director's questions.

There being no further business to come before the Board, the meeting was adjourned at approximately 4:33 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  
July 29, 2014

**Agenda Item:** Discussion and Appropriate Action Related to UTIMCO Board 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 propose new Board committee assignments since the Board of Regents of The University of Texas System has appointed H. Lee Hobson to the UTIMCO Board effective May 20, 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 committee assignments.

**Reference:** None

## **RESOLUTION RELATED TO COMMITTEE ASSIGNMENTS**

BE IT RESOLVED, that Director H. Lee Hobson is hereby designated as a member of the Audit and Ethics Committee of the Board of Directors, subject to approval by the Board of Regents of The University of Texas System at a future meeting, and as a member of the Compensation and Risk Committees of the Board of Directors, to serve until the expiration of his terms, or until his successors have been chosen and qualified, or until his death, resignation, or removal; and

FURTHER RESOLVED, that H. Lee Hobson is hereby designated the Chair of the Compensation Committee and shall preside at its meetings.



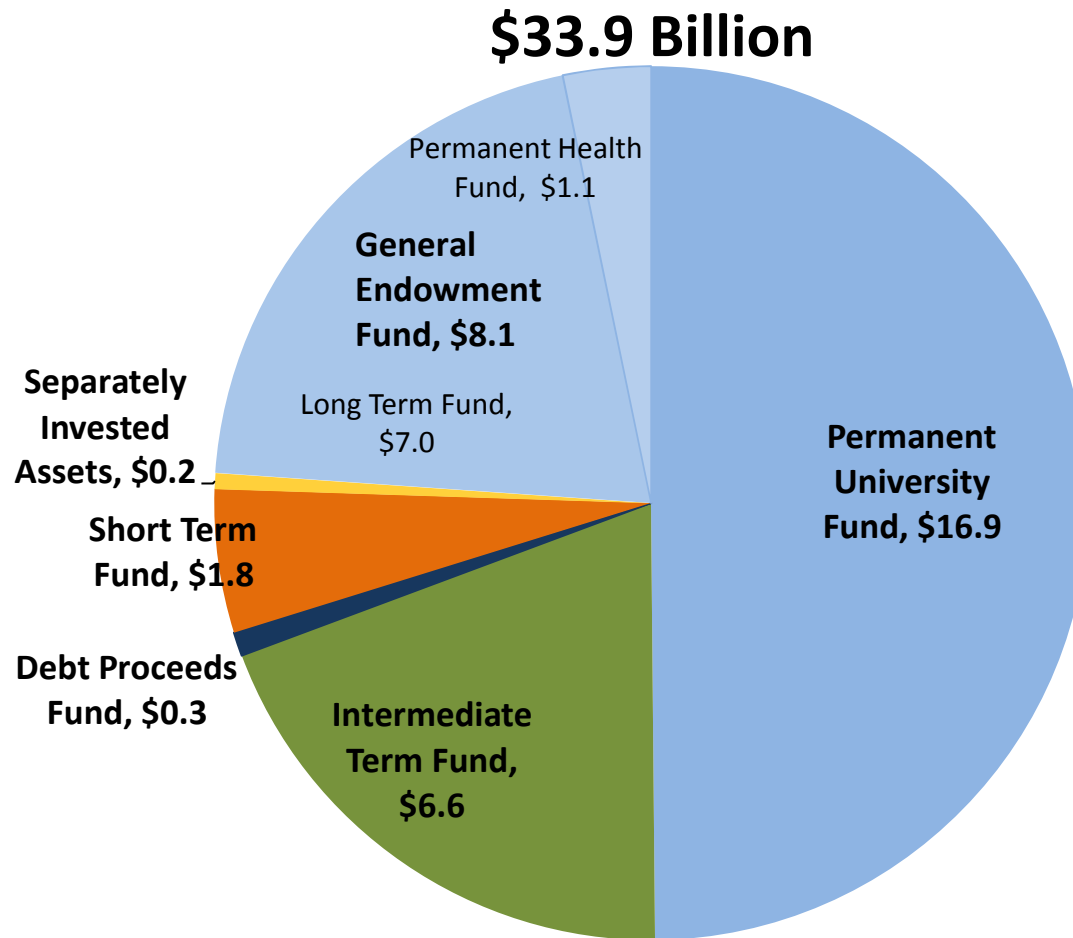
THE UNIVERSITY OF TEXAS  
INVESTMENT MANAGEMENT COMPANY

# UTIMCO Board of Directors Funds Update

July 29, 2014



# UTIMCO Assets Under Management May 31, 2014





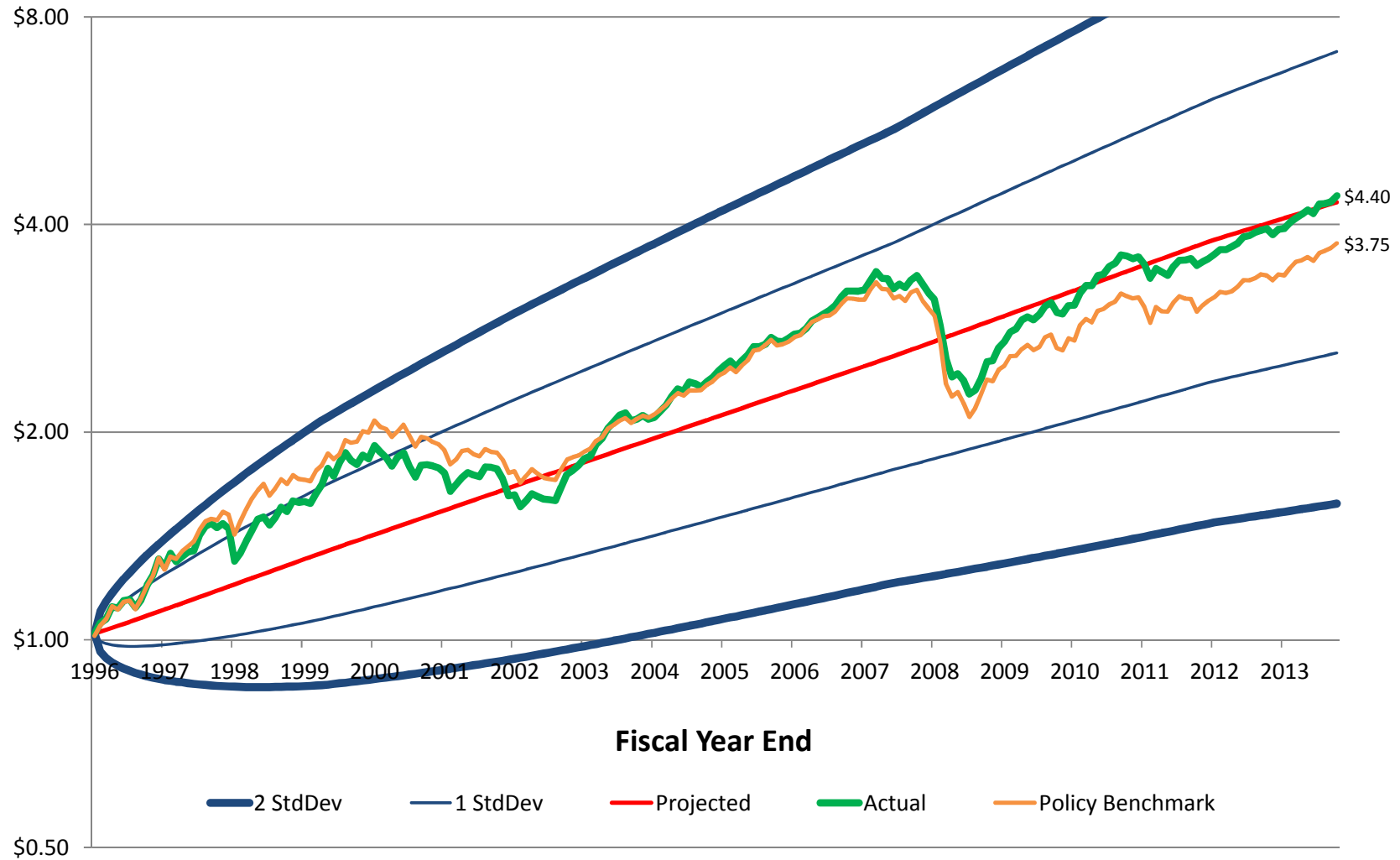
# Returns

Periods Ended May 31, 2014

Fund	Fiscal YTD		One Year	Three Years	Ten Years
	Three Months	Nine Months Ended			
Permanent University Fund (PUF)	3.08%	11.91%	11.81%	6.93%	7.71%
General Endowment Fund (GEF)	2.87%	11.62%	11.57%	6.93%	7.75%
Intermediate Term Fund (ITF)	1.74%	8.62%	7.58%	4.68%	N/A



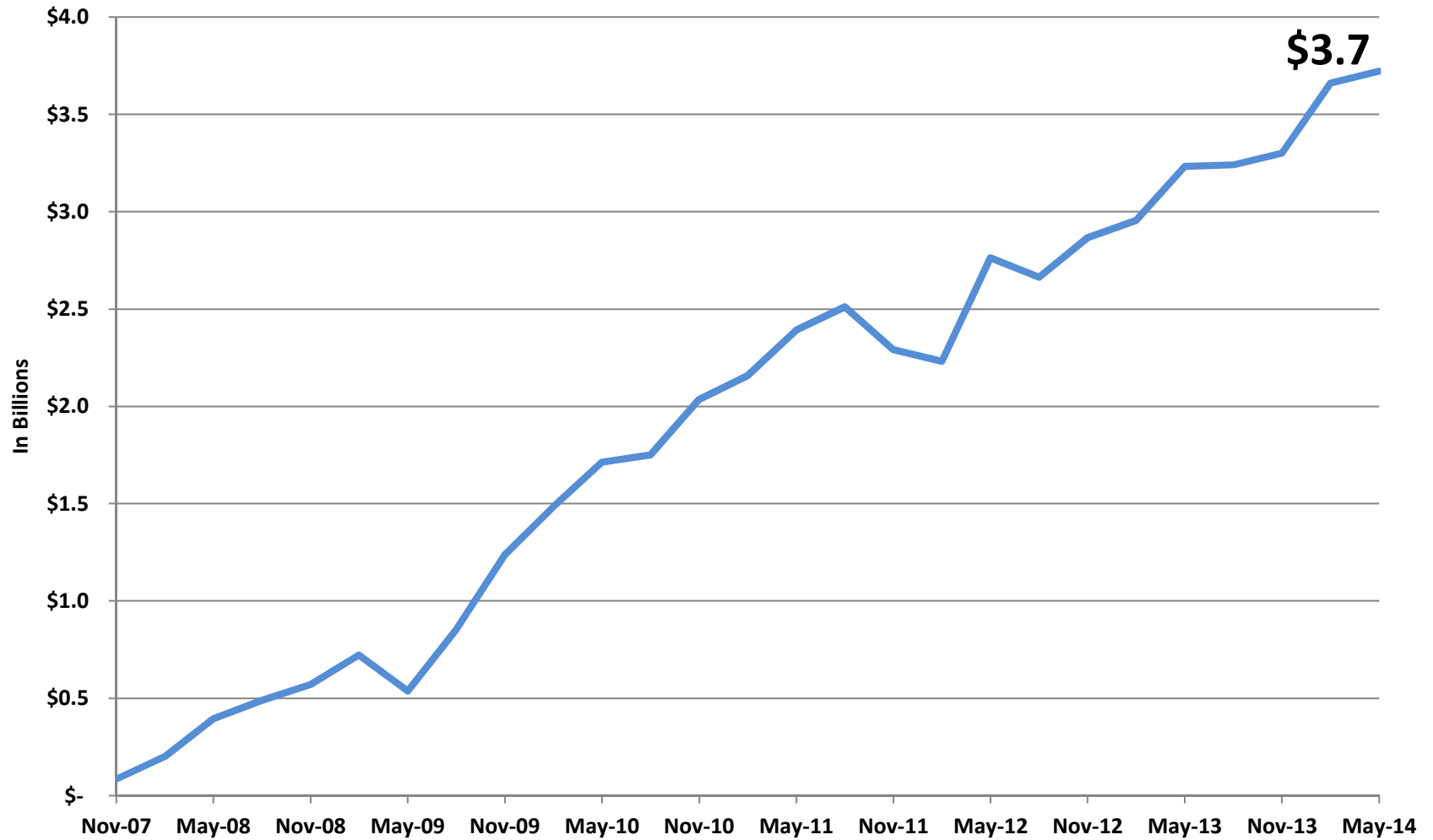
# Returns vs Projections







# Cumulative Value Add





# Value Add Attribution

## Periods Ending May 31, 2014

	Fiscal YTD	Three Years
<b>Active Management</b>		
MCC	0.07%	0.88%
LCC	1.05%	1.49%
Private Markets	0.15%	-0.49%
<b>Total Active Management</b>	<u>1.27%</u>	<u>1.88%</u>
<b>Tactical Allocation:</b>		
Gold	-0.92%	-0.50%
Other	0.12%	-0.08%
<b>Total Tactical Allocation</b>	<u>-0.80%</u>	<u>-0.58%</u>
<b>Insurance Hedges</b>	<u>-0.18%</u>	<u>-0.40%</u>
<b>Total Value Add</b>	<u><u>0.29%</u></u>	<u><u>0.90%</u></u>



# Portfolio Sharpe and Information Ratios

Period Ending May 31, 2014

	One Year	Three Years	Since 7/1/2007
Policy Returns	11.25	6.03	2.70
Risk-Free Returns	0.06	0.08	0.73
Policy Volatility	4.88	7.08	10.24
Policy Sharpe Ratio	2.29	0.84	0.19

Actual Returns	11.57	6.93	4.71
Actual Volatility	5.10	5.86	9.28
Actual Sharpe Ratio	2.26	1.17	0.43

Added Value	0.32	0.90	2.01
Tracking Error	1.75	2.29	2.55
Portfolio Information Ratio	0.18	0.39	0.79



# Returns by Exposures

Investment Type	Fiscal YTD			Three Years		
	Returns	Active Management Value Add	Active Management Information Ratio	Returns	Active Management Value Add	Active Management Information Ratio
More Correlated and Constrained	10.95%	0.07%	0.10	3.15%	0.88%	0.79
Less Correlated and Constrained	9.35%	1.05%	1.64	7.80%	1.49%	3.23
Private Investments	<u>15.16%</u>	<u>0.15%</u>	<u>0.21</u>	<u>12.81%</u>	<u>-0.49%</u>	<u>-0.45</u>
Total Fund	<u>11.62%</u>	<u>1.27%</u>	<u>0.67</u>	<u>6.93%</u>	<u>1.88%</u>	<u>1.06</u>



# Current Tactical Allocation

## Overweights

- Gold 3.1%
- MCC DCE 1.1%
- Private Investments 0.1%
- 4.3%

## Underweights

- MCC NR (1.7%)
- MCC IGFI (1.4%)
- LCC (1.2%)
- (4.3%)

Downside Risk (trailing three years)	
Actual	% of Policy
10.02%	100.5%



# Endowment Insurance Hedges

Exposures as of May 31, 2014						
<u>Event</u>	<u>Hedge</u>	<u>Total Cost</u> <sup>(1)</sup>	<u>bps Cost/Year</u> <sub>(2)</sub>	<u>Notional</u> (\$ millions)	<u>MTM</u> (\$ millions)	<u>P/L</u>
<b>U.S. Inflation</b>						
	CMS Options	(\$46)	4.7	\$8,043	\$2	(\$43)
<b>Sovereign Default</b>						
	JPY Rate Options and Swaptions	(10)	1.9	1,991	1	(10)
	<b>TOTAL</b>	<b>(\$56)</b>	<b>6.6bps</b>		<b>3</b>	<b>(\$53)</b>

(1) Maximum Loss for Options

(2) Total used, with expired trades, is 14.3bps



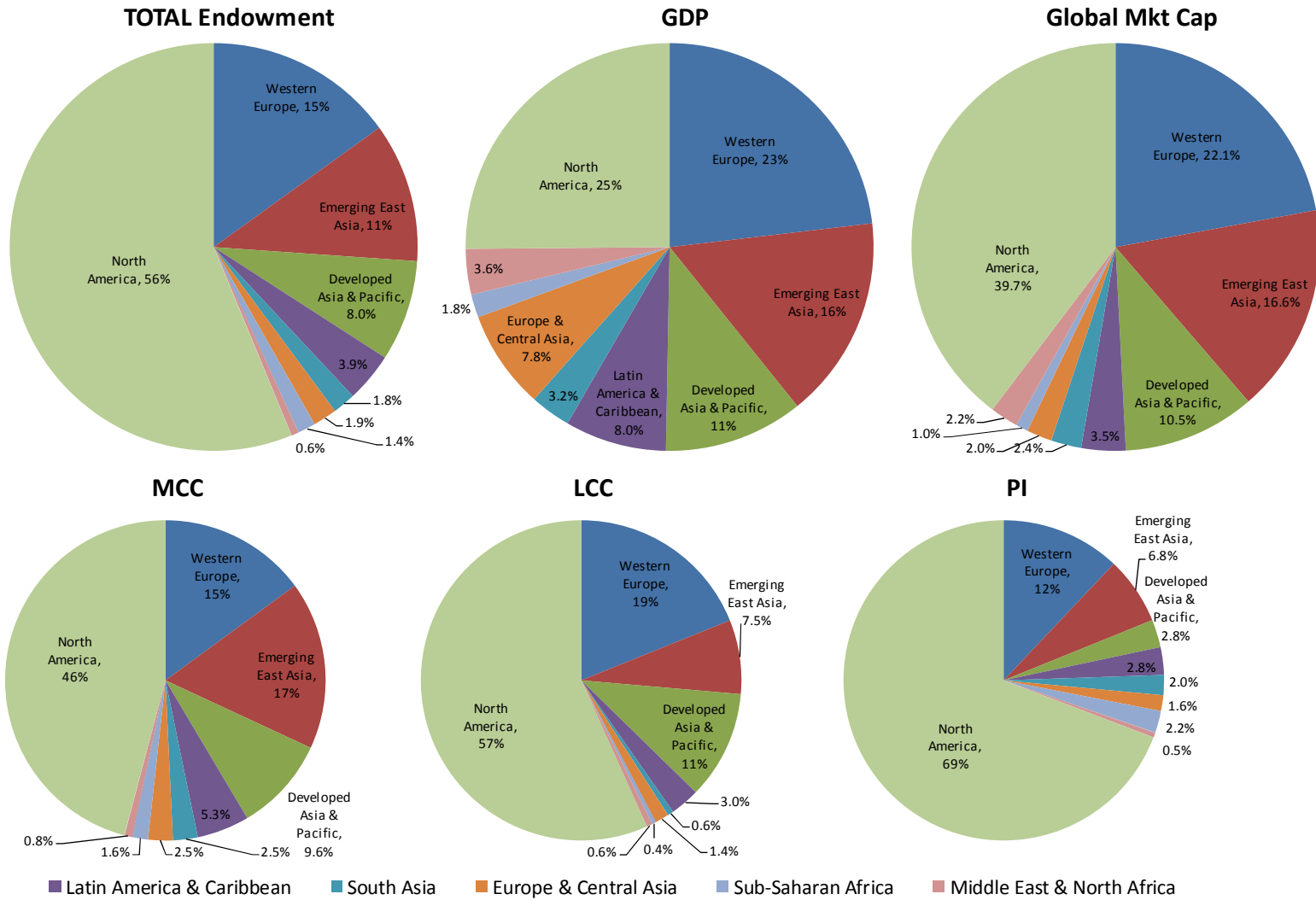
# Leverage, Liquidity and Concentration

Leverage				Liquidity		
Fixed Income		Total Endowment		Three months	One Year	Unfunded Commitments
Gross	Net	Gross	Net			
1.35x	1.04x	1.02x	1.00x	42.2%	65.0%	19.3%

Manager Concentration	
Assets	Risk
Fidelity Fixed Income (4.4%)	ValueAct (4.0%)
Internal Fixed Income (3.3%)	Stelliam (2.7%)
Gold (3.1%)	Viking (2.7%)
ValueAct (3.0%)	Eminence (2.4%)
Brandywine (2.7%)	Maverick (2.2%)



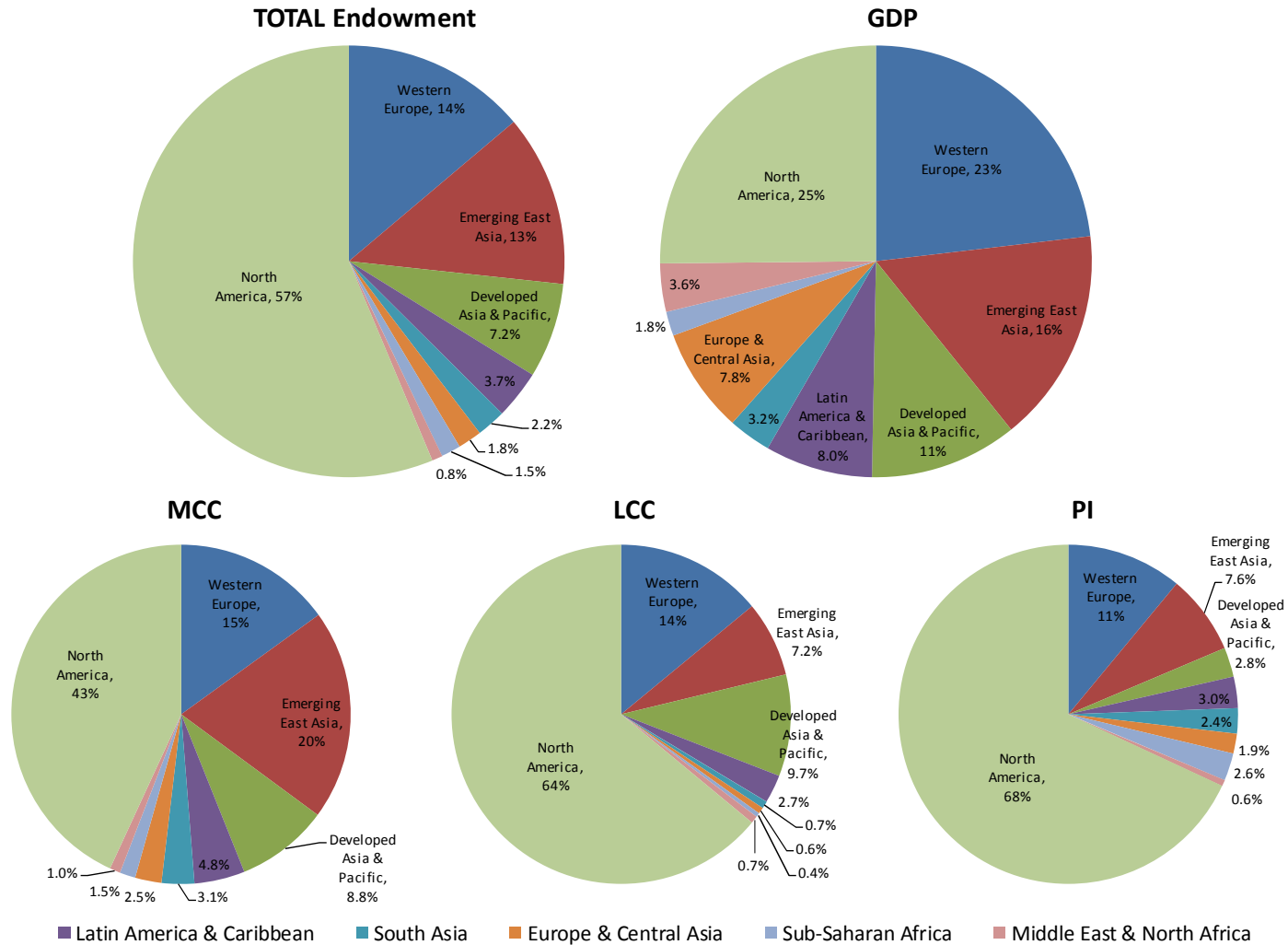
# Geographic Exposure







# Geographic Exposure excluding Fixed Income





# Largest Country Exposures

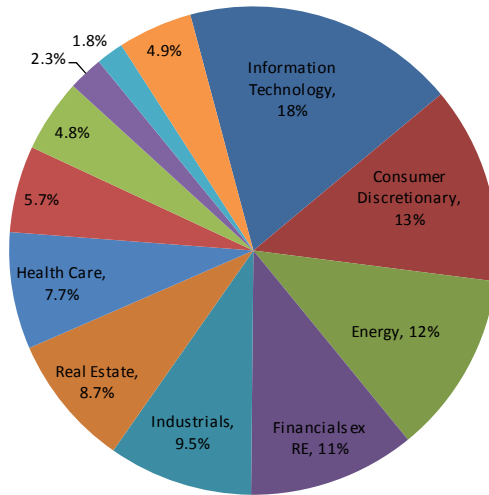
	MCC	LCC	PI	TOTAL	GDP	Global Mkt Cap
United States	44.0%	56.1%	64.4%	53.6%	22.7%	36.1%
China	6.7%	2.7%	3.5%	4.7%	11.5%	6.3%
Japan	6.9%	5.6%	0.9%	4.7%	8.3%	7.2%
United Kingdom	4.1%	3.2%	6.0%	4.4%	3.5%	5.0%
Canada	2.5%	0.9%	3.9%	2.4%	2.5%	3.5%
Brazil	3.4%	0.5%	1.8%	2.1%	3.1%	1.6%
India	2.3%	1.1%	1.7%	1.8%	2.6%	1.9%
South Korea	3.7%	0.9%	0.0%	1.7%	1.6%	2.3%
Australia	1.5%	0.6%	1.5%	1.2%	2.1%	3.5%
France	1.9%	0.7%	0.7%	1.2%	3.6%	5.3%
Hong Kong	1.9%	0.9%	0.5%	1.1%	0.4%	2.2%



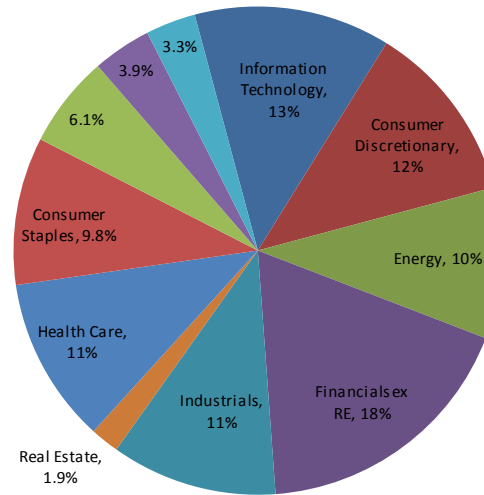
# Sector Exposure

## Endowments, excluding Fixed Income and NR commodities

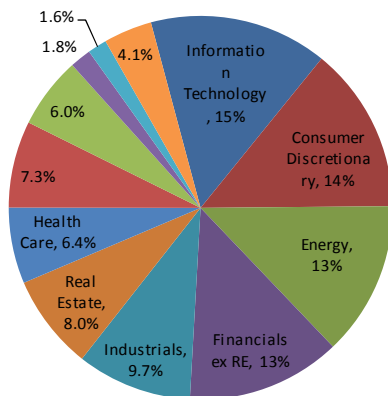
**TOTAL Endowment**



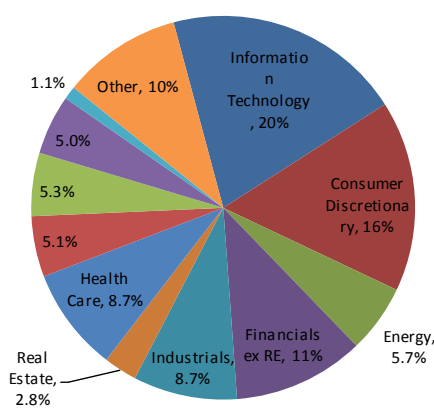
**All Countries Index**



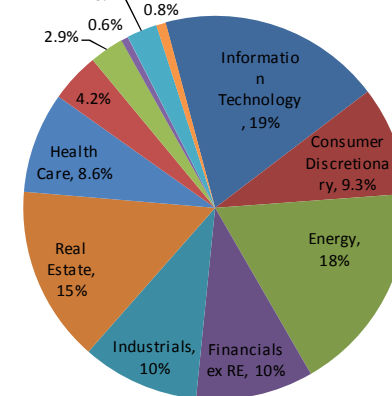
**MCC**



**LCC**



**PI**

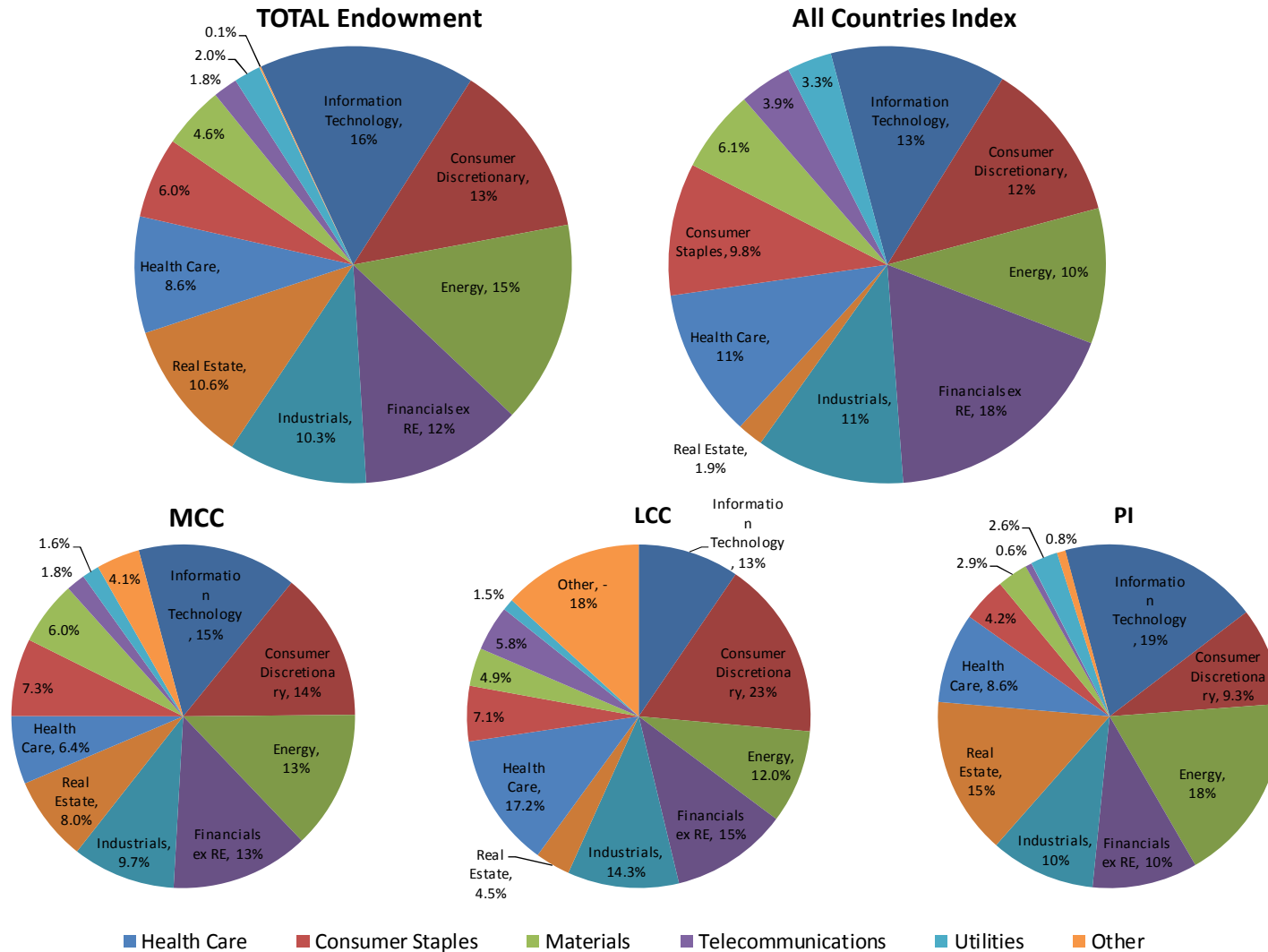


■ Health Care   
 ■ Consumer Staples   
 ■ Materials   
 ■ Telecommunications   
 ■ Utilities   
 ■ Other



# Sector Exposure – $\beta$ adjusted

## Endowments, excluding Fixed Income and NR commodities





# Position Level Concentration: Top Ten Fixed Income and Equity

Fixed Income	\$ (M)	% of AUM	Duration adjusted \$(M)
U.S. Government	\$721	2.88%	\$974
Mexican Sovereign	199	0.63%	204
Italian Sovereign	154	0.49%	296
Lehman Debt	152	0.48%	n/a
Australian Sovereign	146	0.46%	173
Securitized CMO	110	0.35%	77
New Zealand Sovereign	102	0.32%	111
Polish Sovereign	72	0.23%	77
Spanish Sovereign	67	0.21%	80
Japan Sovereign	40	0.13%	216

Equity	\$ (M)	% of AUM
Valeant Pharma	\$239	0.76%
Microsoft	183	0.58%
JD.com	143	0.45%
Adobe	133	0.42%
Motorola Solutions	127	0.40%
Samsung	109	0.35%
AIG	101	0.32%
Private Investment - Bank	84	0.27%
Endo International	75	0.24%
Private Investment - Energy	74	0.23%



# 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
<b>Expected Policy Returns (nominal)</b>	<b>(25.2%)</b>	<b>(21.2%)</b>	<b>(19.0%)</b>	<b>(18.5%)</b>	<b>(16.0%)</b>	<b>(3.8%)</b>	<b>(2.2%)</b>
Gain from tactical positions	1.8%	0.3%	1.3%	1.4%	0.7%	0.4%	0.0%
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%
<b>Estimated Endowment Returns</b>	<b>(22.9%)</b>	<b>(18.9%)</b>	<b>(15.4%)</b>	<b>(14.3%)</b>	<b>(13.0%)</b>	<b>(1.0%)</b>	<b>(0.2%)</b>

## Sensitivity Analysis (beta)

Equities	0.546
Interest Rates	(0.229)
Currencies	(0.172)



# Combined PUF and GEF Exposure as of May 31, 2014 (in millions)

Asset Group	Asset Class	More Correlated and Constrained		Less Correlated and Constrained		Private Investments		Total	
		\$	%	\$	%	\$	%	\$	%
Fixed Income	Investment Grade	\$ 1,522	6.1%	\$ 589	2.3%	\$ -	0.0%	\$ 2,111	8.4%
	Credit-Related	28	0.1%	1,117	4.5%	1,022	4.1%	2,167	8.7%
<b>Fixed Income Total</b>		<b>1,550</b>	<b>6.2%</b>	<b>1,706</b>	<b>6.8%</b>	<b>1,022</b>	<b>4.1%</b>	<b>4,278</b>	<b>17.1%</b>
Real Assets	Real Estate	\$ 638	2.5%	\$ 110	0.5%	\$ 972	3.9%	1,720	6.9%
	Natural Resources	2,219	8.9%	5	0.0%	1,430	5.7%	3,654	14.6%
<b>Real Assets Total</b>		<b>2,857</b>	<b>11.4%</b>	<b>115</b>	<b>0.5%</b>	<b>2,402</b>	<b>9.6%</b>	<b>5,374</b>	<b>21.5%</b>
Equity	Developed Country	\$ 3,811	15.3%	\$ 5,116	20.4%	\$ 2,856	11.4%	11,783	47.1%
	Emerging Markets	2,663	10.6%	274	1.1%	699	2.8%	3,636	14.5%
<b>Equity Total</b>		<b>6,474</b>	<b>25.9%</b>	<b>5,390</b>	<b>21.5%</b>	<b>3,555</b>	<b>14.2%</b>	<b>15,419</b>	<b>61.6%</b>
<b>Total</b>		<b>\$ 10,881</b>	<b>43.5%</b>	<b>\$ 7,211</b>	<b>28.8%</b>	<b>\$ 6,979</b>	<b>27.9%</b>	<b>\$ 25,071</b>	<b>100.2%</b>

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



# MCC Investment Grade Fixed Income

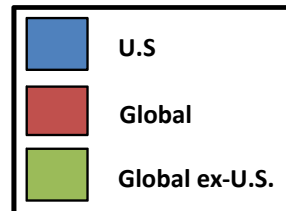
MCC Investment Grade Fixed Income				
	FYTD	1 Year	3 Years	5 Years
Portfolio Return	6.8%	4.8%	4.6%	6.9%
Benchmark Return	<u>5.8%</u>	<u>5.4%</u>	<u>2.3%</u>	<u>4.5%</u>
Value Add	<b>+1.0%</b>	<b>-0.5%</b>	<b>+2.2%</b>	<b>+2.4%</b>
Portfolio Volatility	--	3.7%	4.0%	4.6%
Benchmark Volatility	--	3.6%	4.2%	5.1%
Portfolio Sharpe Ratio	--	<b>1.3</b>	<b>1.1</b>	<b>1.5</b>
Portfolio Information Ratio	--	<b>-0.4</b>	<b>1.5</b>	<b>1.5</b>
IGFI Upcapture vs MSCI World	--	24%	16%	18%
IGFI Downcapture vs MSCI World	--	24%	-1%	-6%

As of 5/31/2014 - Statistics for periods longer than a year are annualized

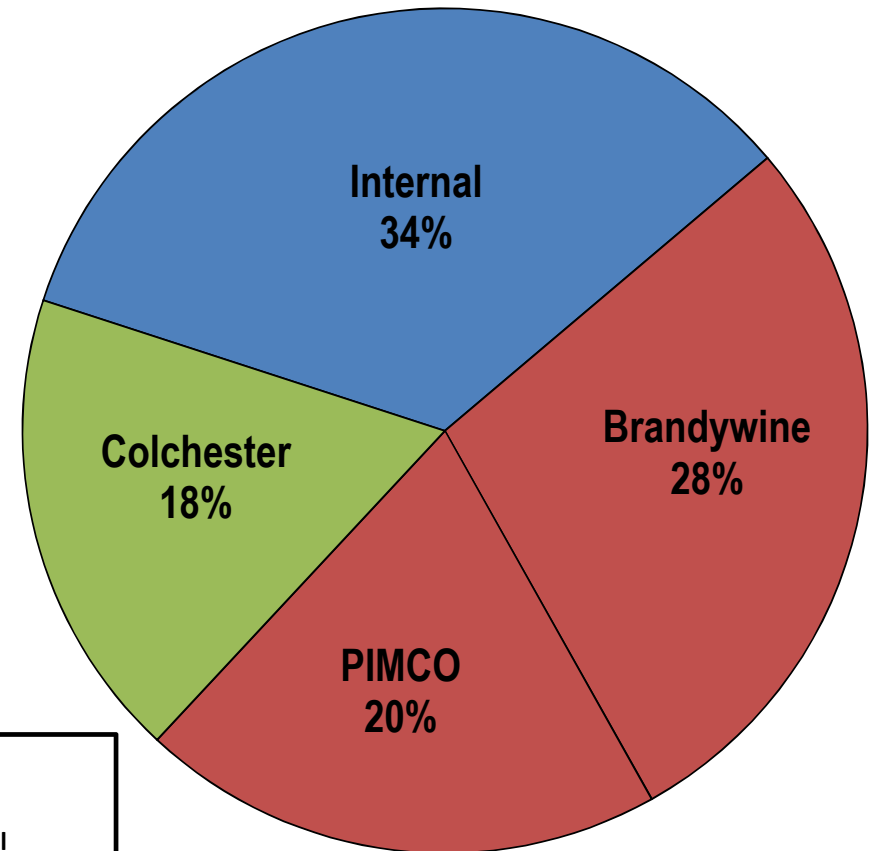
Overview		
	UTIMCO	Barclays Global Agg
Total Portfolio Size	\$3.1B	\$44.9T
Modified Duration	5.8	6.3
Yield to Maturity	2.7%	1.8%
Average Agency Rating	AA3	AA3

As of 5/31/2014

Liquidity
Within 90 days
100%



**\$3.1 Billion**







# MCC Investment Grade Fixed Income

Overview		
	UTIMCO	BC Gbl Agg
Total Portfolio Size	\$3.1B	\$44.9T
Modified Duration	5.82	6.33
Yield to Maturity	2.7%	1.8%
Average Agency Rating	AA3	AA3

Geographical Exposure			
	UTIMCO	BC Gbl Agg	O/U
United States	48.3%	35.6%	12.8%
Canada	-0.5%	3.5%	-3.9%
Europe	20.3%	35.6%	-15.3%
Asian-Pac Aggregate	17.6%	21.1%	-3.5%
Emerging Markets	14.2%	4.3%	10.0%

Currency Exposure			
	UTIMCO	BC Gbl Agg	O/U
United States Dollar	60.1%	40.6%	19.5%
Euro	9.1%	27.0%	-17.9%
Japanese Yen	5.4%	16.9%	-11.4%
UK Pound Sterling	3.9%	6.1%	-2.2%
Emerging Markets	18.7%	2.5%	16.2%
Other	2.8%	6.9%	-4.2%

Sector Exposure			
	UTIMCO	BC Gbl Agg	O/U
Treasuries & Sovereign	71.6%	55.4%	16.2%
Government Related	7.4%	12.4%	-5.0%
Corporates	16.2%	17.0%	-0.7%
Securitized	4.5%	15.2%	-10.7%
Cash & Cash Equivalents	0.2%	0.0%	0.2%

As of 5/31/2014



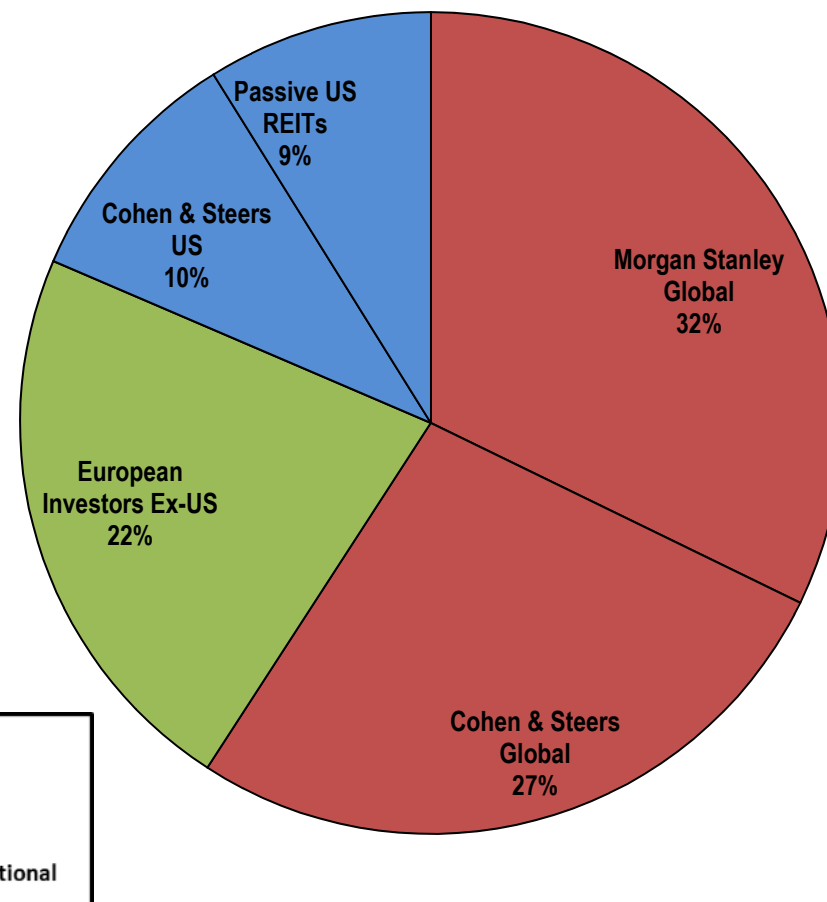
# MCC Real Estate

**\$857 Million**

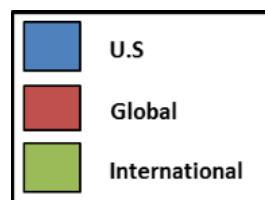
MCC Real Estate Portfolio Characteristics				
	FYTD	1 Year	3 Years	5 Years
Portfolio Return (Ex Hedges)	15.4%	10.0%	7.2%	16.1%
Benchmark Return	<u>15.8%</u>	<u>9.0%</u>	<u>8.1%</u>	<u>16.6%</u>
Value Add	<b>-0.5%</b>	<b>+1.0%</b>	<b>-0.8%</b>	<b>-0.5%</b>
Portfolio Volatility	-	10.2%	17.6%	17.4%
Benchmark Volatility	-	10.9%	16.6%	16.7%
Portfolio Sharpe Ratio	-	1.0	0.5	0.9
Portfolio Information Ratio	-	0.5	-0.3	-0.2

As of 05/31/2014

Statistics for periods longer than a year are annualized



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





# MCC Natural Resources Commodities

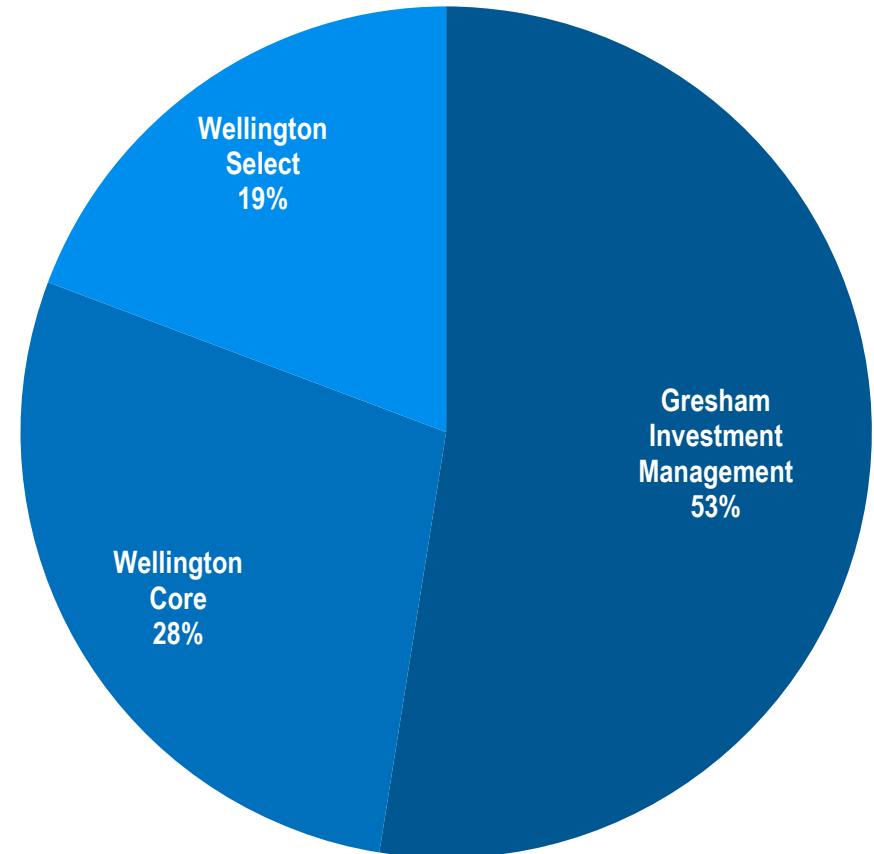
Natural Resources Commodity Portfolio Characteristics				
	FYTD	1 Year	3 Years	5 Years
Commodities Return (Ex-Gold)	2.7%	2.7%	-5.9%	3.2%
Benchmark Return	2.6%	2.5%	-7.0%	1.5%
Value Add	<b>+0.1%</b>	<b>+0.2%</b>	<b>+1.0%</b>	<b>+1.7%</b>
Portfolio Volatility	-	10.1%	13.5%	14.2%
Benchmark Volatility	-	10.4%	15.0%	15.0%
Portfolio Sharpe Ratio	0.1	0.3	-0.4	0.3
Portfolio Information Ratio	0.2	0.1	0.4	0.7

As of 5/31/2014

Statistics for periods longer than a year are annualized

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

**\$799 Million**





# MCC Natural Resources Equities

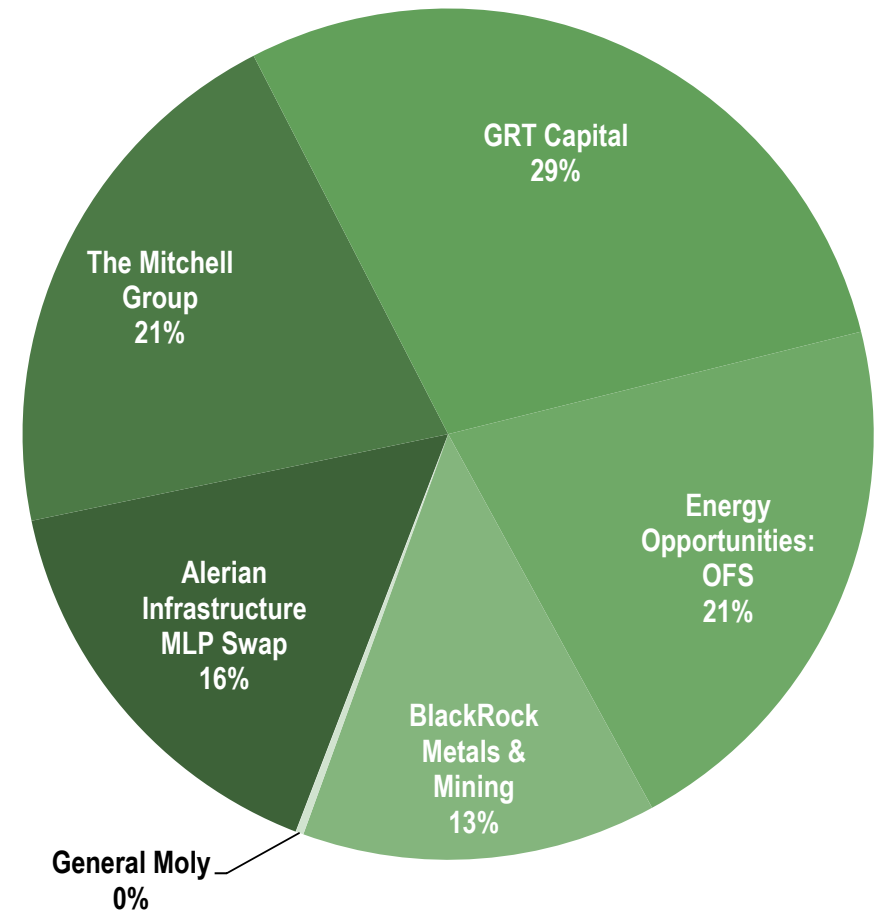
Natural Resources Equity Portfolio Characteristics				
	FYTD	1 Year	3 Years	5 Years
Equity Return	17.0%	20.2%	0.6%	10.6%
Benchmark Return	16.6%	17.4%	1.0%	8.3%
Value Add	+0.4%	+2.8%	-0.5%	+2.3%
Portfolio Volatility	-	12.6%	22.1%	21.6%
Benchmark Volatility	-	13.4%	19.3%	19.5%
Portfolio Sharpe Ratio	0.5	1.5	0.1	0.6
Portfolio Information Ratio	0.3	0.6	-0.1	0.4

As of 5/31/2014

Statistics for periods longer than a year are annualized

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

**\$997 Million**





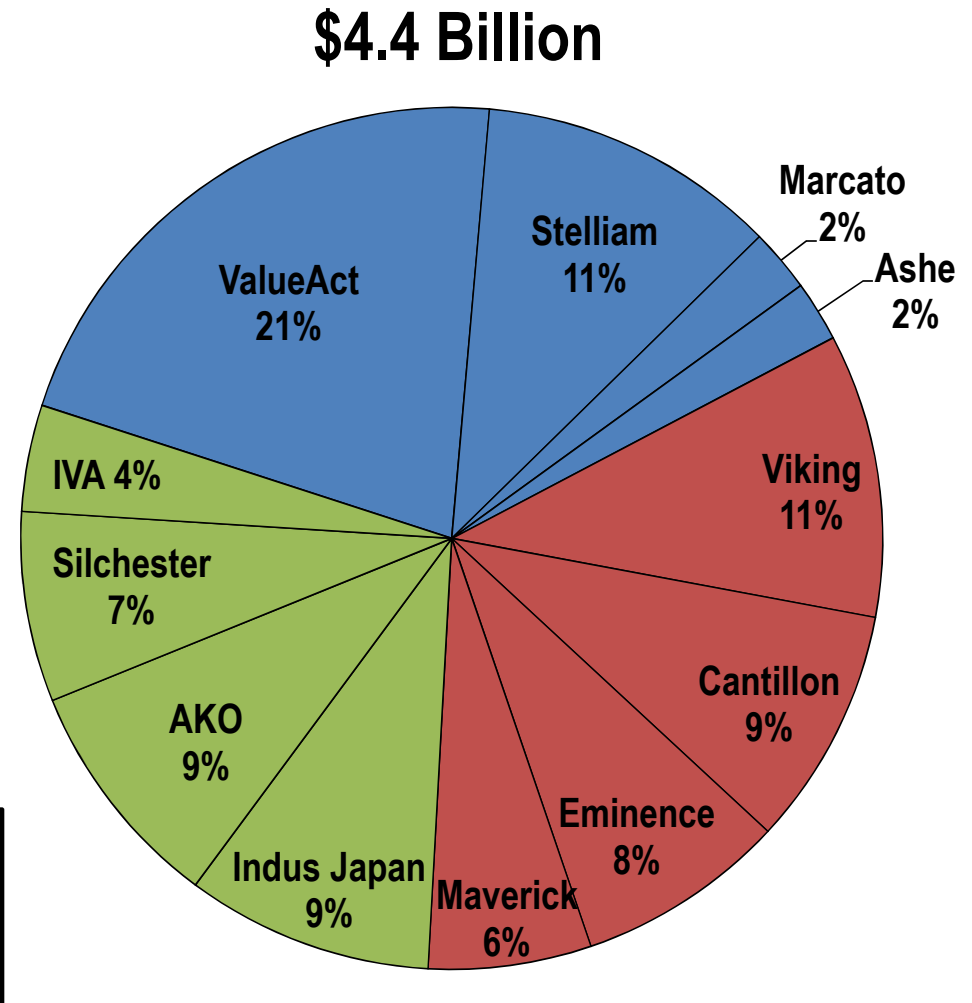
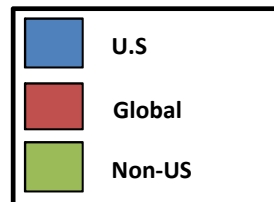
# MCC Public Equity – Developed Country

MCC Developed Country Equity				
	FYTD	1 Year	3 Years	5 Years
Portfolio Return	18.0%	18.6%	13.9%	17.8%
Benchmark Return	<u>18.3%</u>	<u>18.9%</u>	<u>10.6%</u>	<u>14.5%</u>
Value Add	<b>-0.3%</b>	<b>-0.2%</b>	<b>+3.3%</b>	<b>+3.3%</b>
Portfolio Volatility	--	8.8%	12.2%	12.8%
Benchmark Volatility	--	10.6%	13.8%	14.7%
Portfolio Sharpe Ratio	--	<b>2.1</b>	<b>1.1</b>	<b>1.4</b>
Portfolio Information Ratio	--	<b>-0.1</b>	<b>0.9</b>	<b>0.9</b>

As of 5/31/2014

Statistics for periods longer than a year are annualized

Liquidity	
Within 90 days	Within One Year
65%	87%





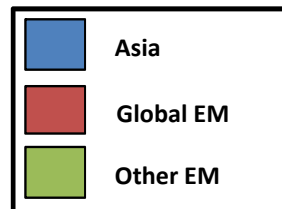
# MCC Public Equity – Emerging Markets

MCC Emerging Markets Equity				
	FYTD	1 Year	3 Years	5 Years
Portfolio Return	18.6%	10.5%	2.7%	11.2%
Benchmark Return	<u>12.1%</u>	<u>4.3%</u>	<u>-1.8%</u>	<u>8.4%</u>
Value Add	<b>+6.5%</b>	<b>+6.2%</b>	<b>+4.5%</b>	<b>+2.9%</b>
Portfolio Volatility	--	15.2%	17.5%	17.2%
Benchmark Volatility	--	14.3%	19.5%	19.2%
Portfolio Sharpe Ratio	--	<b>0.7</b>	<b>0.1</b>	<b>0.6</b>
Portfolio Information Ratio	--	<b>1.0</b>	<b>0.9</b>	<b>0.7</b>

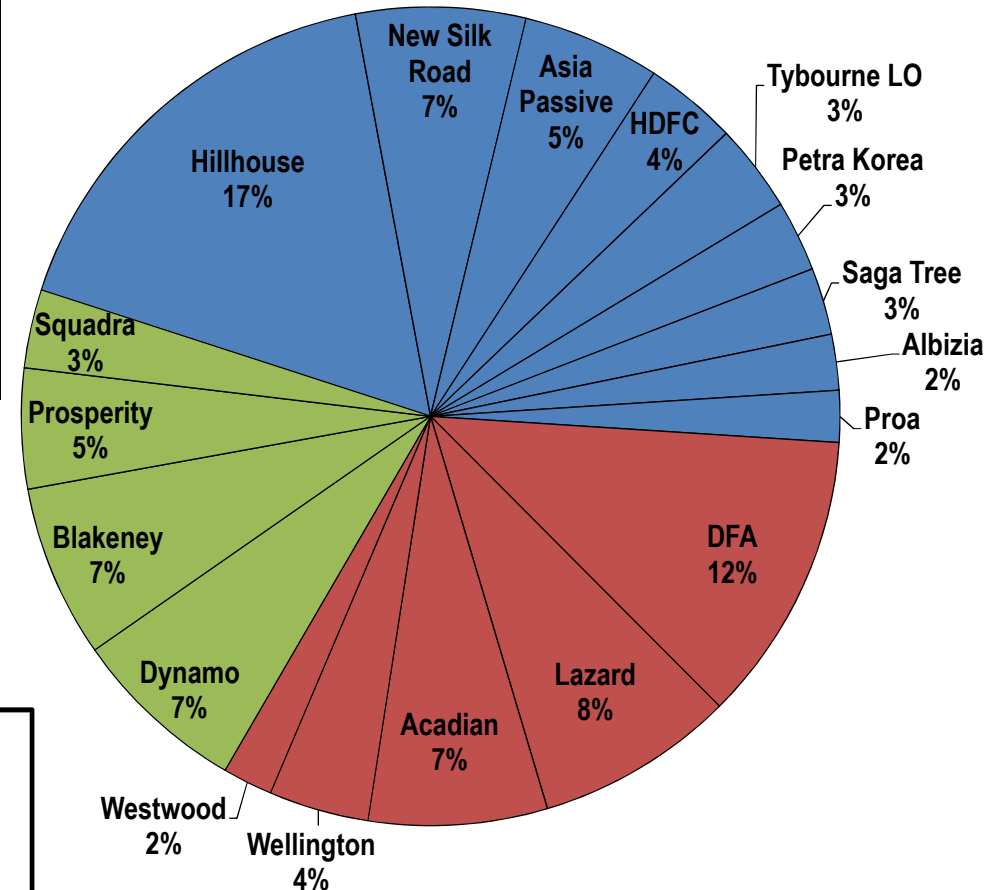
As of 5/31/2014

Statistics for periods longer than a year are annualized

Liquidity	
Within 90 days	Within One Year
66%	87%



**\$2.9 Billion**





# LCC

LCC Portfolio Characteristics				
	FYTD	1 Year	3 Year	5 Year
LCC Return	9.3%	9.7%	7.8%	10.2%
Benchmark Return	<u>6.0%</u>	<u>4.9%</u>	<u>2.5%</u>	<u>4.1%</u>
Value Add	3.3%	4.8%	5.3%	6.1%
LCC Volatility	---	4.9%	4.8%	4.5%
Benchmark Volatility	---	3.8%	4.3%	4.2%
Sharpe Ratio	---	2.0	1.6	2.3
Information Ratio	---	3.0	3.2	3.7

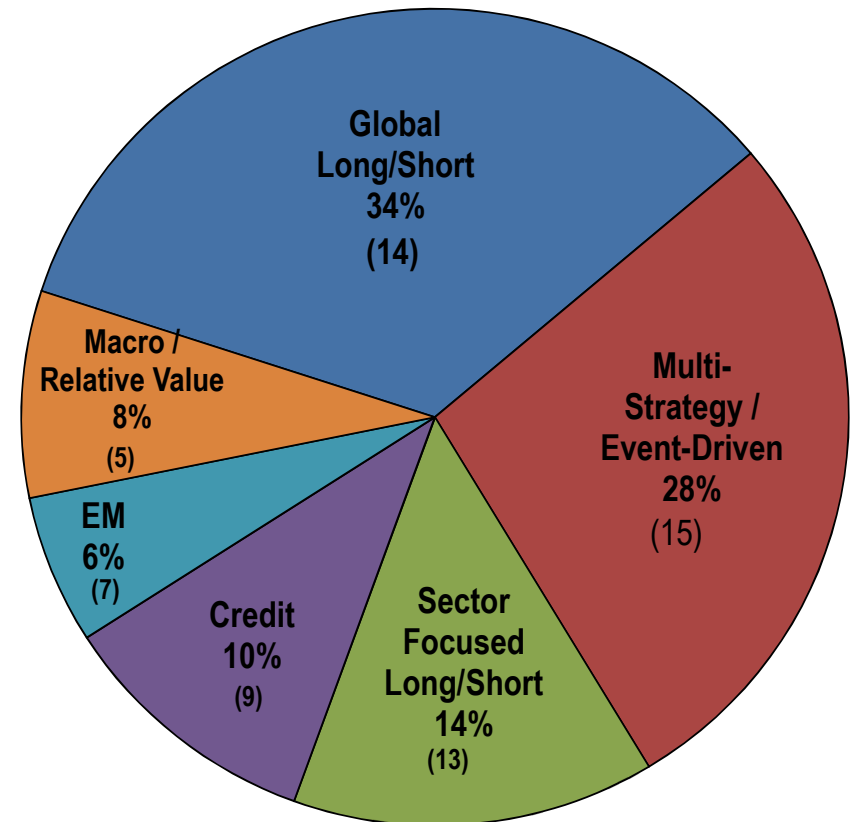
As of 5/31/2014 - Statistics for periods longer than a year are annualized.

Look-Thru Leverage			
	% of Capital	Gross	Net
Core Strategies	95%	171%	57%
FI & FX	5%	858%	30%
<b>Total LCC</b>	<b>100%</b>	<b>206%</b>	<b>56%</b>

Concentration	
Top 10	49%
Top 20	73%
Top 30	88%

Liquidity	
90 days	1 year
23%	53%

## Strategy Allocation (\$10.1 Billion)





# LCC: Ten Largest Relationships

**\$4.9 billion NAV**  
**50% of LCC Portfolio**

Managers	
Blue Ridge	Perry
Baupost	Och Ziff
Bridgewater	Farallon
Centerbridge	Eminence
Steadfast	Maverick

Manager Statistics			
	<u>Low</u>	<u>Avg.</u>	<u>High</u>
Firm AUM (B)	\$5	\$29	\$150
UT % of Firm AUM	0.3%	4.5%	8.6%
Gross Exp.	89%	227%	722%
Net Exp.	9%	61%	226%

UTIMCO Statistics			
	<u>Low</u>	<u>Avg.</u>	<u>High</u>
NAV (M)	\$395	\$497	\$692
% of PUF/GEF/ITF	0.9%	1.5%	2.2%
Management Fee	0.8%	1.2%	1.8%
Incentive Fee	17.5%	19.5%	20.0%
Tenure (yrs)	6	11	16
Liquidity (months)	1	15	40

UTIMCO Rank as LP
Largest: 3
Top Five: 3

Composite Performance*	
3 Yr Return	9.0%
3 Yr Vol	6.0%
Sharpe	1.50x

Exposures as of 4/30/2014. AUM data as of 12/31/2013.

\*Represents return on invested capital.





# LCC: Next 10 Relationships

**\$2.5 billion NAV**  
**25% of LCC Portfolio**

Managers	
Viking	Criterion
Soroban	Lansdowne
Owl Creek	Lone Peak
Valiant	Myriad
Silver Point	Falcon Edge

Manager Statistics			
	<u>Low</u>	<u>Avg.</u>	<u>High</u>
Firm AUM (B)	< \$1	\$7	\$27
UT % of Firm AUM	1.3%	10.9%	52.4%
Gross Exp.	117%	217%	423%
Net Exp.	-48%	34%	81%

UTIMCO Statistics			
	<u>Low</u>	<u>Avg.</u>	<u>High</u>
NAV (M)	\$206	\$249	\$347
% of PUF/GEF/ITF	0.7%	0.8%	1.1%
Management Fee	0.5%	1.5%	2.0%
Incentive Fee	15.0%	17.5%	20.0%
Tenure (yrs)	2	5	8
Liquidity (months)	1	13	30

UTIMCO Rank as LP
Largest: 5
Top Five: 4

Composite Performance*	
3 Yr Return	9.1%
3 Yr Vol	7.3%
Sharpe	1.24x

Exposures as of 4/30/2014. AUM data as of 12/31/2013.

\*Represents return on invested capital.



# LCC: Remaining 21 Relationships

**\$2.4 billion NAV**  
**25% of LCC Portfolio**

Managers
21 Satellite Relationships

Manager Statistics			
	<u>Low</u>	<u>Avg.</u>	<u>High</u>
Firm AUM (B)	\$1	\$2	\$6
UT % of Firm AUM	1.2%	6.6%	19.5%
Gross Exp.	65%	181%	697%
Net Exp.	-94%	45%	100%

UTIMCO Statistics			
	<u>Low</u>	<u>Avg.</u>	<u>High</u>
NAV (M)	\$35	\$114	\$188
% of PUF/GEF/ITF	0.1%	0.4%	0.6%
Management Fee	1.0%	1.4%	2.0%
Incentive Fee	5.0%	18.2%	20.0%
Tenure (yrs)	.3	3	11
Liquidity (months)	1	13	36

UTIMCO Rank as LP
Largest: 6
Top Five: 9

Composite Performance*	
3 Yr Return	6.3%
3 Yr Vol	5.9%
Sharpe	1.05x

Exposures as of 4/30/2014. AUM data as of 12/31/2013.

\*Represents return on invested capital.

Excludes redeeming managers.



# Private Investments Portfolio Rollforward

## Nine Months Ended May 31, 2014

\$ in millions	Beg FY 9/1/13			Change in %				FY'14 New Commitments		End 5/31/14	
	NAV	Unfunded	# Funds	Calls	Distributions	Valuation	Return	# Funds	\$ Committed	NAV	Unfunded
Credit-Related Fixed Income	\$1,062	\$238	33	\$153	\$306	\$113	11.5%	2	\$125	\$1,022	\$247
Real Estate	748	773	29	248	153	129	16.4%	8	518	972	1,058
Natural Resources	1,061	1,118	42	354	136	150	12.8%	10	689	1,429	1,456
Venture	824	387	46	123	315	284	31.2%	6	188	916	458
Other Developed Country Equity	<u>1,667</u>	<u>751</u>	<u>87</u>	<u>187</u>	<u>286</u>	<u>215</u>	13.3%	<u>6</u>	<u>250</u>	<u>1,783</u>	<u>871</u>
Total Developed Country Equity	2,491	1,138	133	310	601	499	19.1%	12	438	2,699	1,329
Emerging Markets Equity	<u>594</u>	<u>514</u>	<u>24</u>	<u>121</u>	<u>44</u>	<u>29</u>	4.5%	<u>2</u>	<u>130</u>	<u>700</u>	<u>530</u>
<b>TOTAL</b>	<b><u>\$5,956</u></b>	<b><u>\$3,781</u></b>	<b><u>261</u></b>	<b><u>\$1,186</u></b>	<b><u>\$1,240</u></b>	<b><u>\$920</u></b>	15.2%	<b><u>34</u></b>	<b><u>\$1,900</u></b>	<b><u>\$6,822</u></b>	<b><u>\$4,620</u></b>
<i>% of Endowment (PUF+ GEF)</i>	<i>27%</i>	<i>17%</i>								<i>27%</i>	<i>18%</i>



# Co-Investment Pipeline and Portfolio

	<u>Real Estate</u>		<u>Natural Resources</u>		<u>Private Investments</u>		<u>Total</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
<b><u>Pipeline:</u></b>								
Reviewed	28	\$540	38	\$915	30	\$1,296	96	\$2,751
Interest	12	218	21	534	21	996	54	1,748
Committed	7	122	12	329	9	159	28	610
In Process	3	55	2	45	2	55	7	155
<b><u>Portfolio Returns:</u></b>								
Invested	7	\$101	12	\$268	8	\$141	27	\$510
Realized Proceeds	4	9	1	105	0	0	5	114
Total Value		126		425		164		715
Multiple		1.25x		1.59x		1.17x		1.40x
IRR		16%		54%		10%		28%

As of 5/31/2014



# Summary of Transactions Made Under the Delegation of Authority Three Months Ended May 31, 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	419	118	-	537	567	70	-	637
Credit-Related Fixed Income	-	-	-	-	-	-	125	125
Real Estate	18	-	-	18	-	-	175	175
Natural Resources	279	-	-	279	280	-	260	540
Developed Country Equity	27	66	-	93	100	425	57	582
Emerging Markets Equity	140	23	-	163	201	-	130	331
<b>Total</b>	<u>\$ 883</u>	<u>\$ 207</u>	<u>\$ -</u>	<u>\$ 1,090</u>	<u>\$ 1,148</u>	<u>\$ 495</u>	<u>\$ 747</u>	<u>\$ 2,390</u>

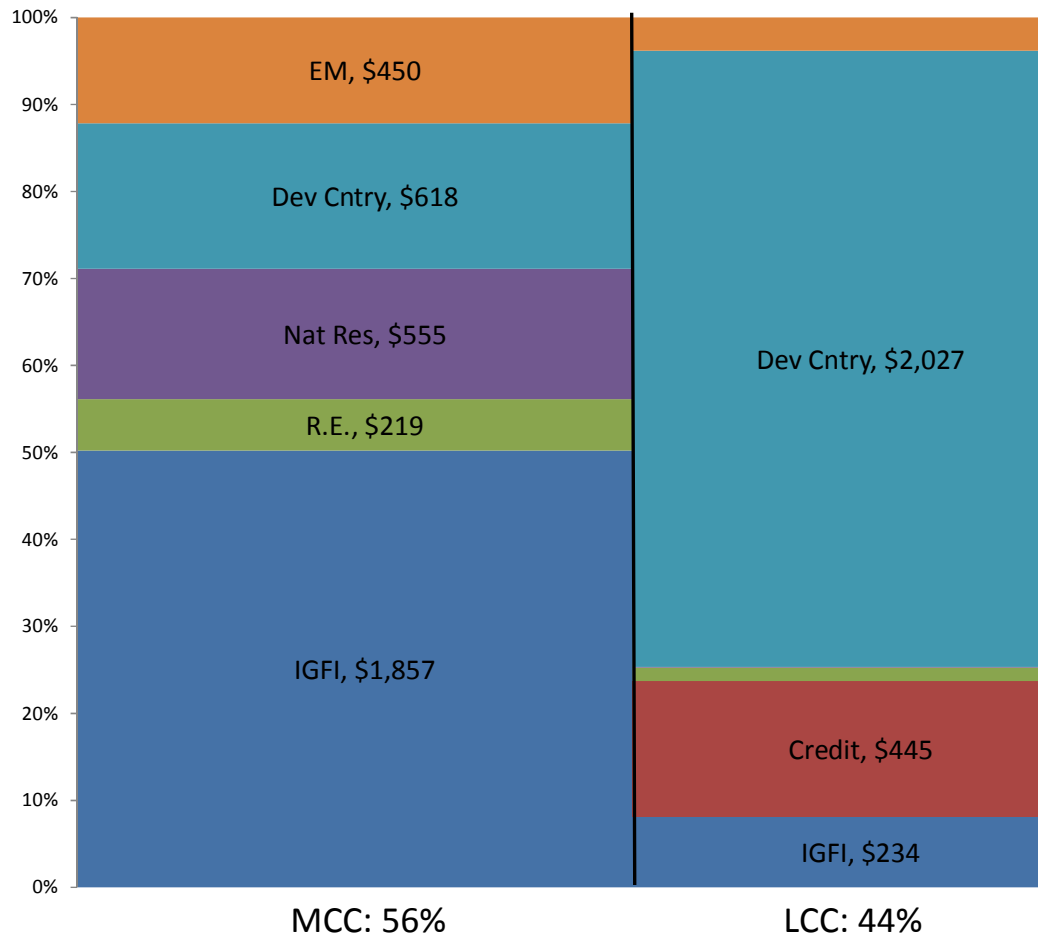


# Summary of Transactions Made Under the Delegation of Authority Nine Months Ended May 31, 2014

	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	419	118	-	537	567	70	-	637
Credit-Related Fixed Income	-	79	-	79	-	100	125	225
Real Estate	87	-	-	87	-	-	518	518
Natural Resources	279	-	-	279	330	-	689	1,019
Developed Country Equity	179	238	-	417	150	945	438	1,533
Emerging Markets Equity	157	71	-	228	279	-	130	409
	<u>\$ 1,121</u>	<u>\$ 506</u>	<u>\$ -</u>	<u>\$ 1,627</u>	<u>\$ 1,326</u>	<u>\$ 1,115</u>	<u>\$ 1,900</u>	<u>\$ 4,341</u>



# ITF



Downside Risk (trailing three years)	
Actual	% of Policy
5.34%	102.7%

Liquidity	
Three months	One Year
62.7%	89.2%



# ITF Insurance Hedges

Exposures as of May 31, 2014

<u>Event</u>	<u>Hedge</u>	<u>Total Cost</u> <sup>(1)</sup>	<u>bps Cost/Year</u> <sup>(2)</sup>	<u>Notional</u> (\$ millions)	<u>MTM (\$ millions)</u>	<u>P/L</u>
<b>U.S. Inflation</b>						
	CMS Options	(\$11)	4.8	\$1,957	\$1	(\$11)
<b>Sovereign Default</b>						
	JPY Rate Options and Swaptions	(1)	0.9	234	0	(1)
	<b>TOTAL</b>	<b>(\$12)</b>	<b>5.7bps</b>		<b>\$1</b>	<b>(\$12)</b>

(1) Maximum Loss for Options

(2) Total used, with expired trades, is 9.4bps





# Contracts Update

## April 16, 2014 through June 30, 2014

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

Agreement	Purpose	Contract Term	Annual Amount
Burgiss Group	Portfolio management system for Private Markets	One year through April 2015	\$110,450

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  
July 29, 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, compliance and corporate legal update, and deal legal fees. 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

July 29, 2014

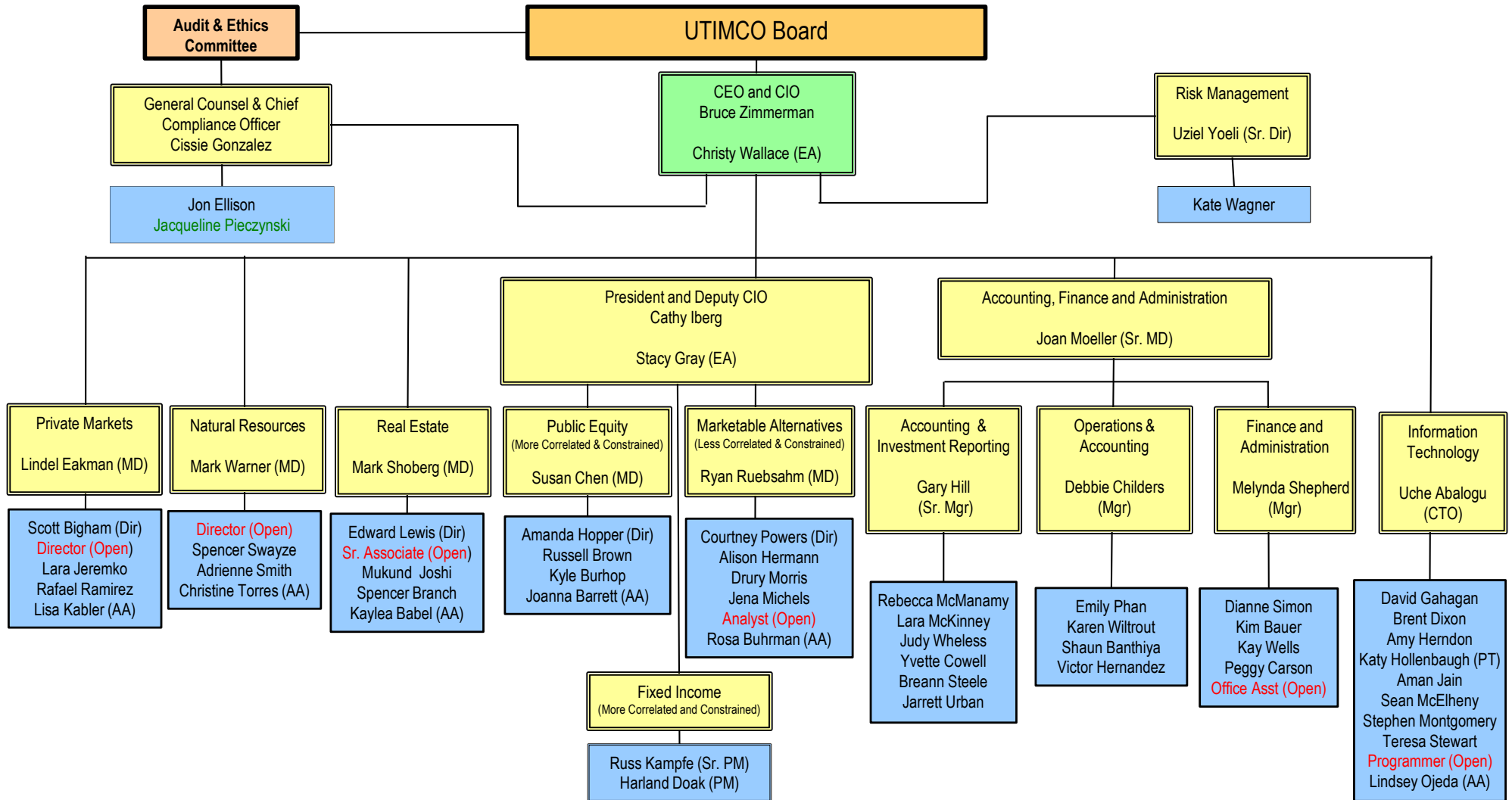


# UTIMCO Update

- Staffing
- Compliance and Corporate Legal Update
- Deal Legal Fees
- Technology



# UTIMCO – Organizational Structure



As of July 2014



# Compliance and Corporate Legal: Update

## Ongoing Compliance

- Enterprise Risk Management
  - Monitoring Plans
  - Monthly/Quarterly Reviews
- Code of Ethics
  - Staff and Director Filings
  - Conflicts of Interest
  - Pre-clearance and Trading
  - Outside Employment
  - Training
- New Investments
  - Certificates of Compliance
  - Mandate Categorization
  - Delegation of Authority/Option to Review
- UT System
  - Institutional Compliance
  - Office of General Counsel
  - Board of Regents
- Policies/Procedures

## Ongoing Legal

- Board and Committee Meeting Preparation
  - Agendas
  - Minutes
- Contracts
- Employee Benefits/Retirement/Compensation
- Dodd Frank/EMIR<sup>1</sup>
- Open Records Requests
- Tax Matters - State, Federal, Foreign
- Litigation
- Research/Advise on miscellaneous topics

## Periodic Projects

- Legislative Issues
- State Audits
- Records Retention
- HIPAA
- Fraud Program

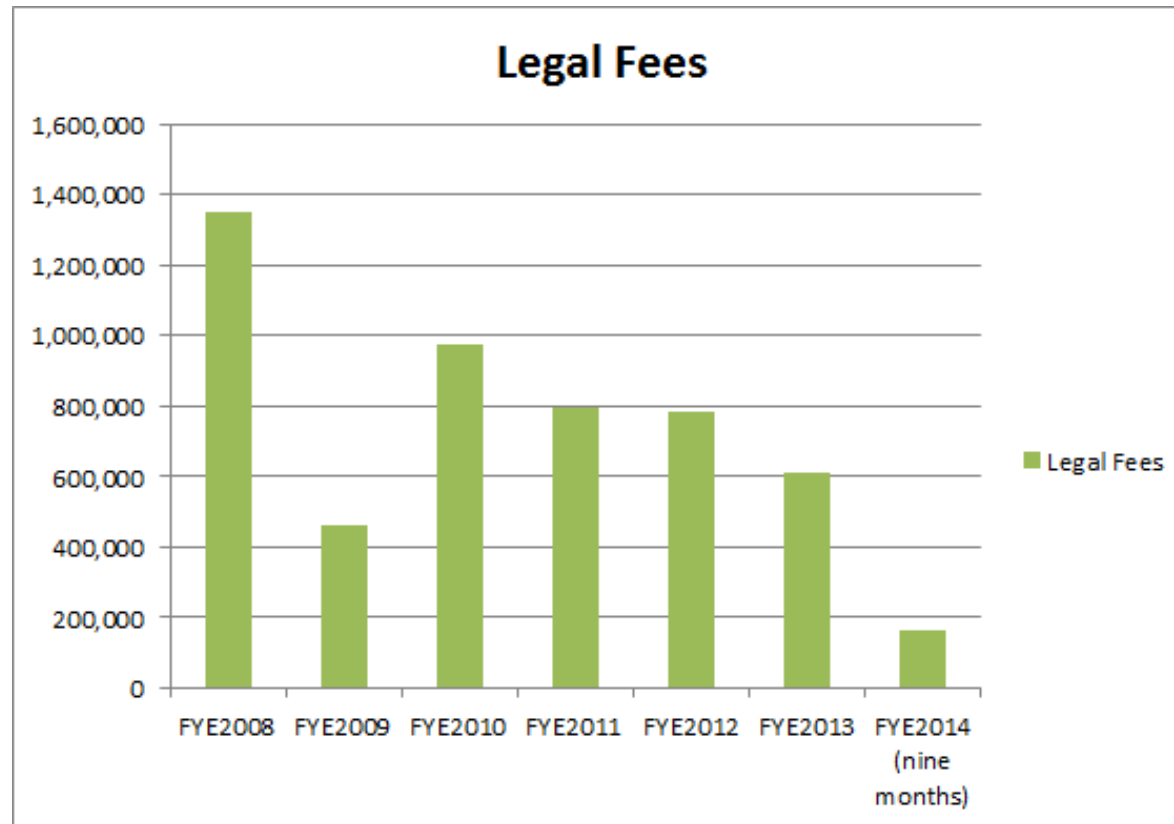
## Additional Responsibilities

- Business Continuity Plan
- SPVs
- ISDAs
- Supervise
  - Deal Counsel
  - Compliance Specialist

<sup>1</sup>European Market Infrastructure Regulation



# Deal Legal Fees





# Existing Platform

- **Enhanced External-Facing Systems**
  - Component Reports
  - Component Reporting Information System (CRIS)
  - Endowment Reporting System
  - Fund Accounting System (eFAS/iFAS)
  - Client Participation System (CPS)
  - Client Management System (CMS)
- **Second Site (Arlington) For Load-Balancing and Disaster Recovery**
- **Tested Disaster recovery Capabilities**
- **Cyber Threat Management System Implemented**





# Investment Support System

<u>Initiative</u>	<u>Status</u>	<u>Timing</u>	<u>Next Steps</u>
Document Center	In Use	On/Slight Ahead of Schedule	None Until Second Half of FY 2015
Data Integration	In Progress	Slightly Behind Schedule	<ul style="list-style-type: none"><li>• Completing Logical Design</li><li>• Aggressive First Half of FY 2015 Implementation</li></ul>
Portfolio Analytics	Power Plus In Use	Less Defined Workplan/At best on Schedule	<ul style="list-style-type: none"><li>• Portfolio Views</li><li>• Pre-Defined Reports</li><li>• Excel Data Export</li></ul>

**Agenda Item**  
UTIMCO Board of Directors Meeting  
July 29, 2014

<b>Agenda Item:</b>	Report from Risk Committee
<b>Developed By:</b>	Staff
<b>Presented By:</b>	Bass
<b>Type of Item:</b>	Information item
<b>Description:</b>	<p>The Risk Committee (“Committee”) will meet separately on July 23, 2014 and jointly with the Policy Committee on July 29, 2014. The Committee’s agenda for the July 23<sup>rd</sup> meeting includes (1) discussion and appropriate action related to the minutes; (2) discussion and appropriate action related to categorization of new investment mandates; (3) review and discussion of compliance reporting; and (4) review and discussion of performance and risk reporting. The joint meeting agenda includes discussion and appropriate action related to proposed amendments to the investment policies.</p>
<b>Discussion</b>	<p>The Committee will review and take appropriate action related to 19 mandate categorizations prepared by staff for the period beginning April 16, 2014, and ending July 9, 2014. The Committee will report to the UTIMCO Board the results of its review of the Investment Mandate Categorizations.</p> <p>The Committee will review the quarterly compliance reporting.</p> <p>The Committee also will have a joint meeting with the Policy Committee to discuss staff’s recommended amendments to the Exhibits of the Investment Policy Statements of the Permanent University Fund, General Endowment Fund, Intermediate Term Fund, Permanent Health Fund, and Long Term Fund. Additional amendments to the PUF, ITF, PHF and LTF are also being submitted for approval. The Committee also will discuss Staff’s recommended amendments to the Liquidity Policy, Derivative Investment Policy and Delegation of Authority Policy. The discussion of the Investment Policies is covered in the Report from the Policy Committee in Tab 7.</p>
<b>Recommendation:</b>	None
<b>Reference:</b>	None

**Agenda Item**  
UTIMCO Board of Directors Meeting  
July 29, 2014

**Agenda Item:** Report from Audit and Ethics Committee, including Discussion and Appropriate Action Related to Corporate Auditor

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

**Presented By:** White

**Type of Item:** Action item related to Engaging Corporate Auditor; information item on other items

**Description:** The Audit and Ethics Committee (“Committee”) will meet on July 22, 2014. The Committee’s agenda includes the following: (1) discussion and appropriate action related to minutes; (2) discussion and appropriate action related to engaging corporate external auditor; (3) report from UT System Audit Office: a) update on FY 2014 Audit Plan, and b) discussion and appropriate action related to FY 2015 audit plan; (4) update on compliance, reporting, and audit issues; (5) discussion and appropriate action related to base salary, performance incentive plan participation, and performance goals for the General Counsel and Chief Compliance Officer for the 2014-15 fiscal year; and (6) presentation of unaudited financial statements for the nine months ended May 31, 2014 for the Funds and the Corporation.

**Discussion:** The Committee will report on its action related to the hiring of Deloitte and Touche LLP as the corporate auditor and will request that the Board take appropriate action related to the hiring Deloitte and Touch LLP as the corporate auditor. If approved by the Board, FY 2014 will be the eighth year that Deloitte serves as the Corporation’s independent auditor. Estimated fees for the 2014 audit services are \$39,000 plus out-of-pocket expenses, an increase of \$3,500 from the 2013 audit.

UT System Audit Office will present to the Committee the Audit Office’s FY 2015 internal audit plan and provide an update of its FY 2014 audit activities. The Committee will report on its action related to the FY 2015 audit plan.

The Committee will report on its action related to the General Counsel and Chief Compliance Officer’s base salary, performance incentive plan participation, and performance goals for the 2014-2015 fiscal year and performance period.

Routine activities of the Committee include reviewing the unaudited financial statements for the nine month period for the Funds and the UTIMCO Corporation, and the quarterly compliance reports.

**Recommendation:** Committee will request appropriate action related to the hiring of Deloitte & Touche LLP as the corporate auditor.

**Reference:** Draft Deloitte & Touche LLP Engagement Letter  
Quarterly Compliance Reports

**RESOLUTION RELATED TO INDEPENDENT AUDITOR  
FOR THE CORPORATION**

RESOLVED, that the firm of Deloitte & Touche LLP be, and is hereby, engaged as the independent auditor of the Corporation for the year ended August 31, 2014.

July 9, 2014

Ms. Joan Moeller  
Senior Managing Director—Accounting, Finance and Administration  
The University of Texas Investment Management Company  
401 Congress Street, Suite 2800  
Austin, TX 78701

Dear Ms. Moeller:

Deloitte & Touche LLP (“D&T” or “we” or “us”) is pleased to serve as independent auditors for The University of Texas Investment Management Company (“UTIMCO” or the “Company” or “you” or “your”). Mr. Robert Cowley will be responsible for the services that we perform for the Company hereunder.

In addition to the audit services we are engaged to provide under this engagement letter, we would also be pleased to assist the Company on issues as they arise throughout the year. Hence, we hope that you will call Mr. Cowley whenever you believe D&T can be of assistance.

The services to be performed by D&T pursuant to this engagement are subject to the terms and conditions set forth herein and in the accompanying appendices. Such terms and conditions shall be effective as of the date of the commencement of such services.

### **Audit of Financial Statements**

Our engagement is to perform an audit in accordance with auditing standards generally accepted in the United States of America (“generally accepted auditing standards”). The objective of an audit conducted in accordance with generally accepted auditing standards is to express an opinion on whether the Company’s financial statements for the year ending August 31, 2014, are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”).

Appendix A contains a description of the auditor’s responsibilities and the scope of an audit in accordance with generally accepted auditing standards.

### **D&T Reports**

We expect to issue a written report upon the completion of our audit. Our ability to express an opinion or to issue any report as a result of this engagement and the wording thereof will, of course, be dependent on the facts and circumstances at the date of our report. If, for any reason, we are unable to complete our audit or are unable to form or have not formed an opinion, we may decline to express an opinion or decline to issue any report as a result of this engagement. If we are unable to complete our audit, or if any report to be issued by D&T as a result of this engagement requires modification, the reasons for this will be discussed with the Audit and Ethics Committee of the UTIMCO Board of Directors (“Audit and Ethics Committee”) and the Company’s management.

### **Management’s Responsibilities**

Appendix B describes management’s responsibilities.

## Responsibility of the Audit and Ethics Committee

As independent auditors of the Company, we acknowledge that the Audit and Ethics Committee is directly responsible for the appointment, compensation, and oversight of our work, and accordingly, except as otherwise specifically noted, we will report directly to the Audit and Ethics Committee. You have advised us that the services to be performed under this engagement letter, including, where applicable, the use by D&T of affiliates or related entities as subcontractors in connection with this engagement, have been approved by the Audit and Ethics Committee in accordance with the Audit and Ethics Committee's established preapproval policies and procedures.

## Communications with the Audit and Ethics Committee

Appendix C describes various matters that we are required by generally accepted auditing standards to communicate with the Audit and Ethics Committee and management.

## Fees

We estimate that our fees for this engagement will be \$39,000, plus expenses. Based on the anticipated timing of the work, our fees will be billed approximately as follows:

Invoice Date	Amount
August 29, 2014	\$10,000
October 7, 2014	29,000

We anticipate sending invoices according to the above schedule, and payments are due 30 days from the date of the invoice. Engagement-related expenses, such as travel, lodging, transportation, meals, telephone, typing, etc. will be billed in addition to the fees and will be stated separately on the invoices.

Our continued service on this engagement is dependent upon payment of our invoices in accordance with these terms. Our estimated fees are based on certain assumptions, including (1) timely and accurate completion of the requested entity participation schedules and additional supporting information, (2) no inefficiencies during the audit process or changes in scope caused by events that are beyond our control, (3) the effectiveness of internal control over financial reporting throughout the period under audit, (4) a minimal level of audit adjustments (recorded or unrecorded), and (5) no changes to the timing or extent of our work plans. We will notify you promptly of any circumstances we encounter that could significantly affect our estimate and discuss with you any additional fees, as necessary.

## Inclusion of D&T Reports or References to D&T in Other Documents or Electronic Sites

If the Company intends to publish or otherwise reproduce in any document any report issued as a result of this engagement, or otherwise make reference to D&T in a document that contains other information in addition to the audited financial statements (e.g., in a periodic filing with a regulator, in a debt or equity offering circular, or in a private placement memorandum), thereby associating D&T with such document, the Company agrees that its management will provide D&T with a draft of the document to read and obtain our approval for the inclusion or incorporation by reference of any of our reports, or the reference to D&T, in such document before the document is printed and distributed. The inclusion or incorporation by reference of any of our reports in any such document would constitute the reissuance of such reports. The Company also agrees that its management will notify us and obtain our approval prior to including any of our reports on an electronic site.

Our engagement to perform the services described herein does not constitute our agreement to be associated with any such documents published or reproduced by or on behalf of the Company. Any request by the Company to reissue any report issued as a result of this engagement, to consent to any such report's inclusion or incorporation by reference in an offering or other document, or to agree to any such report's inclusion on an electronic site will be considered based on the facts and circumstances existing at the time of such request. The estimated fees outlined herein do not include any procedures that would need to be performed in connection with any such request. Should D&T agree to perform such procedures, fees for such procedures would be subject to the mutual agreement of the Company and D&T.

\* \* \* \* \*

The parties acknowledge and agree that D&T is being engaged under this engagement letter to provide only the services described herein. Should the Company or the Audit and Ethics Committee request, and should D&T agree to provide, services (including audit services) beyond those described herein, such services will constitute a separate engagement and will be governed by a separate engagement letter.

This engagement letter, including Appendices A through E attached hereto and made a part hereof, constitutes the entire agreement between the parties with respect to this engagement and supersedes any other prior or contemporaneous agreements or understandings between the parties, whether written or oral, relating to this engagement.

If the above terms are acceptable and the services described are in accordance with your understanding, please sign the copy of this engagement letter in the space provided and return it to us.

Yours truly,

Accepted and agreed to by The University of Texas Investment Management Company:

By: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

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

## APPENDIX A

### **AUDITOR'S RESPONSIBILITIES AND SCOPE OF AN AUDIT IN ACCORDANCE WITH GENERALLY ACCEPTED AUDITING STANDARDS**

This Appendix A is part of the engagement letter dated July 9, 2014, between Deloitte & Touche LLP and The University of Texas Investment Management Company.

#### **Auditor's Responsibilities**

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 accordance with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Audit and Ethics Committee of their responsibilities.

#### **Scope of an Audit**

Generally accepted auditing standards require that we plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements as a whole are free from material misstatement, whether caused by fraud or error. However, because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk exists that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with generally accepted auditing standards. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by fraud or error, that are not material to the financial statements as a whole are detected.

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 consider internal control relevant to the Company'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 the Company's internal control. 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.



**MANAGEMENT'S RESPONSIBILITIES**

This Appendix B is part of the engagement letter dated July 9, 2014, between Deloitte & Touche LLP and The University of Texas Investment Management Company.

**Financial Statements**

Management is responsible for the preparation, fair presentation, and overall accuracy of the financial statements in accordance with generally accepted accounting principles. In this regard, management has the responsibility for, among other things:

- Selecting and applying the accounting policies
- Designing, implementing, and maintaining effective internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
- Identifying and ensuring that the Company complies with the laws and regulations applicable to its activities and informing us of all instances of identified or suspected noncompliance with such laws or regulations
- Providing us with (1) access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters, (2) additional information that we may request from management for the purpose of our audit, and (3) unrestricted access to personnel within the Company from whom we determine it necessary to obtain audit evidence

**Management's Representations**

We will make specific inquiries of the Company's management about the representations embodied in the financial statements. In addition, we will request that management provide us with the written representations the Company is required to provide to its independent auditors under generally accepted auditing standards. The responses to those inquiries and the written representations of management are part of the evidential matter that D&T will rely on in forming its opinion on the Company's financial statements. Because of the importance of management's representations, the Company agrees to release and indemnify D&T, its subcontractors, and their respective personnel from all claims, liabilities, and expenses relating to our services under this engagement letter attributable to any misrepresentation by management.

**Independence Matters**

In connection with our engagement, D&T, management, and the Audit and Ethics Committee will assume certain roles and responsibilities in an effort to assist D&T in maintaining independence. D&T will communicate to its partners, principals, and employees that the Company is an attest client. Management of the Company will ensure that the Company, together with its subsidiaries and other entities that comprise the Company for purposes of the consolidated financial statements, has policies and procedures in place for the purpose of ensuring that neither the Company nor any such subsidiary or other entity will act to engage D&T or accept from D&T any service that under American Institute of Certified Public

Accountants (AICPA) or other applicable rules would impair D&T's independence. All potential services are to be discussed with Mr. Cowley.

In connection with the foregoing paragraph, the Company agrees to furnish to D&T and keep D&T updated with respect to a corporate tree that identifies the legal names of the Company's affiliates, as defined in AICPA *Code of Professional Conduct* Interpretation No. 101-18 (e.g., parents, subsidiaries, investors, or investees) ("Company Affiliates"), together with the ownership relationship among such entities. Such information will be maintained in a database accessible by D&T in connection with their compliance with AICPA or other applicable independence rules.

Management will coordinate with D&T to ensure that D&T's independence is not impaired by hiring former or current D&T partners, principals, or professional employees in a key position, as defined in the AICPA *Code of Professional Conduct*. Management of the Company, together with its subsidiaries and other entities that comprise the Company for purposes of the consolidated financial statements, will ensure that the Company, also has policies and procedures in place for purposes of ensuring that D&T's independence will not be impaired by hiring a former or current D&T partner, principal, or professional employee in a key position that would cause a violation of the AICPA *Code of Professional Conduct* or other applicable independence rules. Any employment opportunities with the Company for a former or current D&T partner, principal, or professional employee should be discussed with Mr. Cowley before entering into substantive employment conversations with the former or current D&T partner, principal, or professional employee.

For purposes of the preceding section entitled "Independence Matters", "D&T" shall mean Deloitte & Touche LLP and its subsidiaries; Deloitte Touche Tohmatsu Limited, its member firms, the affiliates of Deloitte & Touche LLP, Deloitte Touche Tohmatsu Limited and its member firms; and, in all cases, any successor or assignee.

**COMMUNICATIONS WITH AUDIT AND ETHICS COMMITTEE**

This Appendix C is part of the engagement letter dated July 9, 2014, between Deloitte & Touche LLP and The University of Texas Investment Management Company.

We are responsible for communicating with the Audit and Ethics Committee significant matters related to the audit that are, in our professional judgment, relevant to the responsibilities of the Audit and Ethics Committee in overseeing the financial reporting process.

In connection with the foregoing, we will communicate to the Audit and Ethics Committee any fraud we identify or suspect that involves (1) management, (2) employees of the Company who have significant roles in internal control, or (3) other employees of the Company when the fraud results in a material misstatement of the financial statements. In addition, we will communicate with the Audit and Ethics Committee any other matters related to fraud that are, in our professional judgment, relevant to their responsibilities. We will communicate to management any fraud perpetrated by lower-level employees of which we become aware that does not result in a material misstatement of the financial statements; however, we will not communicate such matters to the Audit and Ethics Committee, unless otherwise directed by the Audit and Ethics Committee.

We will also communicate to the Audit and Ethics Committee matters involving the Company's noncompliance with laws and regulations that have come to our attention during the course of our audit, other than when such matters are clearly inconsequential.

We will also communicate in writing to management and the Audit and Ethics Committee any significant deficiencies or material weaknesses in internal control (as defined in generally accepted auditing standards) that we have identified during the audit, including those that were remediated during the audit.

Generally accepted auditing standards do not require us to design procedures for the purpose of identifying other matters to communicate with the Audit and Ethics Committee. However, we will communicate to the Audit and Ethics Committee matters required by AICPA AU-C 260, *The Auditor's Communication with Those Charged with Governance*.

**Texas State Auditor's Office**

D&T agrees that the Texas State Auditor's Office or any authorized regulatory representative of the State of Texas (the "State") shall at any time have access to and the rights to examine and audit any pertinent books, documents, working papers, and records of D&T relating to this engagement letter, and to excerpt and transcribe any pertinent books, documents, working papers, and records of D&T. If photocopies of pertinent books, documents, working papers, and records of D&T are requested, D&T will send a letter to the Texas State Auditor's Office or regulatory representative of the State similar (but not identical) in form to that in the American Institute Of Certified Public Accountants AU-C Section 9230, and such letter will be acknowledged by the Texas State Auditor's Office or regulatory representative of the State prior to the provision of any photocopies by D&T. Any photocopies of pertinent books, documents, working papers, and records of D&T will be identified as "confidential treatment requested by Deloitte & Touche LLP."

D&T understands that the Texas State Auditor's Office may opt to rely on the work of D&T to support the Texas State Auditor's Office's opinion on the Comprehensive Annual Financial Report for the State

of Texas, and D&T agrees to cooperate with the Texas State Auditor's Office in a joint effort to comply with American Institute of Certified Public Accountants standard AU-C 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*. D&T acknowledges that the Texas State Auditor's Office has informed it that it is serving in the capacity of the group engagement auditor. As a component auditor, information D&T agrees to provide to the Texas State Auditor's Office includes information necessary to facilitate determinations regarding D&T's understanding and compliance with ethical requirements and professional competence.

**GENERAL BUSINESS TERMS**

This Appendix D is part of the engagement letter to which these terms are attached (the engagement letter, including its appendices, the “engagement letter”) dated July 9, 2014, between Deloitte & Touche LLP and The University of Texas Investment Management Company.

1. **Independent Contractor.** D&T is an independent contractor and D&T is not, and will not be considered to be, an agent, partner, fiduciary, or representative of the Company or the Audit and Ethics Committee.
2. **Survival.** The agreements and undertakings of the Company contained in the engagement letter will survive the completion or termination of this engagement.
3. **Assignment and Subcontracting.** Except as provided below, no party may assign any of its rights or obligations hereunder (including, without limitation, interests or claims) relating to this engagement without the prior written consent of the other parties. The Company hereby consents to D&T subcontracting a portion of its services under this engagement to any affiliate or related entity, whether located within or outside of the United States. Professional services performed hereunder by any of D&T’s affiliates or related entities shall be invoiced as professional fees, and any related expenses shall be invoiced as expenses, unless otherwise agreed.
4. **Severability.** If any term of the engagement letter is unenforceable, such term shall not affect the other terms, but such unenforceable term shall be deemed modified to the extent necessary to render it enforceable, preserving to the fullest extent permissible the intent of the parties set forth herein.
5. **Force Majeure.** No party shall be deemed to be in breach of the engagement letter as a result of any delays or non-performance directly or indirectly resulting from circumstances or causes beyond its reasonable control, including, without limitation, fire, epidemic, or other casualty, act of God, strike or labor dispute, war or other violence, or any law, order or requirement of any governmental agency or authority.
6. **Dispute Resolution.** Any controversy or claim between the parties arising out of or relating to the engagement letter or this engagement (a “Dispute”) shall be resolved by mediation or binding arbitration as set forth in the Dispute Resolution Provision attached hereto as Appendix E and made a part hereof.
7. **Governing Law.** This engagement letter, together with the appendices, and all of the rights and obligations of the parties hereto and all of the terms and conditions hereof shall be construed, interpreted and applied in accordance with and governed by and enforced under the laws of the State of Texas.

## APPENDIX E

### DISPUTE RESOLUTION PROVISION

This Appendix E is part of the engagement letter dated July 9, 2014, between Deloitte & Touche LLP and The University of Texas Investment Management Company.

This Dispute Resolution Provision sets forth the dispute resolution process and procedures applicable to the resolution of Disputes and shall apply to the fullest extent of the law, whether in contract, statute, tort (such as *negligence*), or otherwise.

**Mediation:** All Disputes shall be first submitted to nonbinding confidential mediation by written notice to the parties, and shall be treated as compromise and settlement negotiations under the standards set forth in the Federal Rules of Evidence and all applicable state counterparts, together with any applicable statutes protecting the confidentiality of mediations or settlement discussions. If the parties cannot agree on a mediator, the International Institute for Conflict Prevention and Resolution (“CPR”), at the written request of a party, shall designate a mediator.

**Arbitration Procedures:** If a Dispute has not been resolved within 90 days after the effective date of the written notice beginning the mediation process (or such longer period, if the parties so agree in writing), the mediation shall terminate and the Dispute shall be settled by binding arbitration to be held in Austin, Texas. The arbitration shall be solely between the parties and shall be conducted in accordance with the CPR Rules for Non-Administered Arbitration that are in effect at the time of the commencement of the arbitration, except to the extent modified by this Dispute Resolution Provision (the “Rules”).

The arbitration shall be conducted before a panel of three arbitrators. Each of the Company and Deloitte & Touche LLP shall designate one arbitrator in accordance with the “screened” appointment procedure provided in the Rules and the two party-designated arbitrators shall jointly select the third in accordance with the Rules. No arbitrator may serve on the panel unless he or she has agreed in writing to enforce the terms of the engagement letter (including its appendices) to which this Dispute Resolution Provision is attached and to abide by the terms of this Dispute Resolution Provision. Except with respect to the interpretation and enforcement of these arbitration procedures (which shall be governed by the Federal Arbitration Act), the arbitrators shall apply the laws of the State of Texas (without giving effect to its choice of law principles) in connection with the Dispute. The arbitrators shall have no power to award punitive, exemplary or other damages not based on a party’s actual damages (and the parties expressly waive their right to receive such damages). The arbitrators may render a summary disposition relative to all or some of the issues, provided that the responding party has had an adequate opportunity to respond to any such application for such disposition. Discovery shall be conducted in accordance with the Rules.

All aspects of the arbitration shall be treated as confidential, as provided in the Rules. Before making any disclosure permitted by the Rules, a party shall give written notice to all other parties and afford such parties a reasonable opportunity to protect their interests. Further, judgment on the arbitrators’ award may be entered in any court having jurisdiction.

**Costs:** Each party shall bear its own costs in both the mediation and the arbitration; however, the parties shall share the fees and expenses of both the mediators and the arbitrators equally.

**The University of Texas Investment Management Company  
Institutional Compliance Program Annual Report  
for the Quarter Ended May 31, 2014**

**Section I – Organizational Matters**

- One meeting of the Ethics and Compliance Committee was held during the quarter: March 21, 2014.
- Texas A&M University System Regent John White was appointed to the UTIMCO Board by the Board of Regents of The Texas A&M University System, effective April 1, 2014.
- H. Lee S. Hobson was appointed to the UTIMCO Board by the Board of Regents of The University of Texas System on May 20, 2014.
- Jacqueline Pieczynski was hired as Legal and Compliance Specialist with a start date of June 2, 2014.

**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 77 meetings/calls with potential managers. Serious due diligence was initiated on four managers. Two managers were hired. Ongoing review of active external managers included 78 meetings/calls. Additional efforts included monthly performance tracking, reviews and analyses by the team, one QFII Compliance call, and participation in two annual meetings.

**Marketable Alternative Investments:** The Marketable Alternative Investments group participated in 59 meetings/calls with potential managers. Serious due diligence was initiated on two managers. One manager was hired. Ongoing review of active external managers was conducted in the form of 64 meetings/calls/site visits. Additional efforts included monthly performance tracking, reviews and analyses by the team.

**Private Markets:** The Private Markets group initiated serious due diligence on six potential managers. Four commitments were made. The Private Markets group also participated in 152 meetings with active external managers and 77 meetings with potential managers, including site visits, conference calls, and Advisory Board and Annual meetings. Additional efforts included participation in nine ILPA meetings.

**Natural Resources:** The Natural Resources group participated in 117 meetings/calls with potential managers. Serious due diligence was initiated on three managers. Four managers were hired. Ongoing review of active external managers included 146 meetings/calls. Additional efforts included participation in five annual meetings with active managers.

**Real Estate:** The Real Estate group participated in 89 meetings/calls with potential managers. Serious due diligence was initiated on two managers during the quarter. Two managers were hired. Ongoing review of active external managers included 60 meetings/calls. Additional efforts included participation in seven annual meetings.

**Specialized Training:** Staff attended 17 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 participated in 2 due diligence calls for the Public Markets Group.
- Risk Team met with several peers regarding liquidity “best practices”.
- Risk Team is reviewing additional tools and metrics to convey the various aspects of risk of the portfolio, in particular, Private Investments.
- Risk Team is reviewing aspects of currency risk; in particular, evaluating whether UTIMCO is compensated for this type of risk.
- 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 negotiate one new ISDA and to support other ISDA-related issues. Risk Team continues 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.
- 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:** None.

**High-Risk Area #3: Information Technology & Security**

**Responsible Party:** Chief Technology Officer

**Key “A” risk(s) identified:**

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

**Key Monitoring Activities:**

- Annual Information Security and Awareness Training was completed for all employees.
- New employee security training sessions were completed for all new employees and interns.



- Annual IT audit is underway.
- Annual Fire Warden training was completed.
- Annual fire inspection for Data Center Completed.
- Annual fire permit with APD completed and received.
- Data Warehouse to SQL Server High Availability upgrade completed.
- Migration to BitDefender for our anti-virus/anti-malware solution began.
- 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 covering topics such as viruses, malware, phishing scams, secure electronic transmission of credit card and social security numbers, and updates for mobile devices.
- Applications that monitor virus or malicious software are running. Mechanisms are in place to provide notification if applications are not functioning properly. Additional applications monitor server activity and notify IT staff of any perceived problems.
- Continued training of users on the procedures and proper use of encrypted USB drives on an as-needed basis.
- Provided topic specific email alerts to employees regarding encryption of social security numbers and credit card numbers, computer viruses, potential attacks, and critical updates.
- Monitoring and blocking of unencrypted electronic transmissions of social security numbers and credit card numbers is ongoing. Violations are reported to the CCO and staff is reminded to transmit via encrypted means.
- Laptop security reviews continue. At random, the CISO and CCO verify laptops are physically secured to the desk. Violators are notified when necessary.
- Compliance checks for nightly shutdown/logout are performed. Violators are notified when necessary.
- Random checks for confidential data storage continue and CISO continues to work with development staff to limit access to source code.
- Random checks for software compliance were completed.
- Lastpass rollout was completed. IT continues to work with users on a case-by-case basis to assist and educate them on use of Lastpass and elimination of passwords stored in spreadsheets.
- Collection of data vendors from all business units was completed. Spreadsheet sent to Jon Ellison for legal review and David Gahagan for security review.
- Continuing to monitor and address policy violations for unauthorized software downloads, sharing of credentials, and use of network resources.
- No malware infections this quarter.
- Continuing rollout of Splunk for infrastructure monitoring and alerting. Currently monitoring 54 servers plus network infrastructure and Ironport devices.
- Review of ISS screens, system components, configurations and scripts continues.
- Detected one cloud service installation, user was unaware the service was installed. Service has been removed.

**Specialized Training:** CISO, IT Developer, and Infrastructure Engineer attended several Microsoft TechEd Conferences; CISO also attended teleconference meetings of the Chief Information Security Officers Council and audit kick off meeting.

**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. Mellon made one of its periodic visits during the 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:**

- One Director was appointed by the Texas A&M University System Board of Regents effective April 1, 2014 and the Director's financial disclosure statement and ethics compliance statement were received timely based on the extension granted by the CEO. One Director was appointed by The University of Texas System Board of Regents on May 20, 2014. This Director's financial disclosure and ethics compliance statements were not due during this quarter. Seven directors returned their annual financial disclosure statement and ethics compliance statement timely before the April 30th deadline. One director requested and received an extension from the CEO to file the annual statements.
- Annual employee training was held during the quarter on April 15th and an additional training session was held on April 30th for those that were not able to attend the annual session. All employees turned in their financial disclosure and ethics compliance statements timely. No employees or interns commenced work in the quarter.
- 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. No review was required during the quarter.

- 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.
- Eighteen (18) trips 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 the expense. Post approval was obtained. Seven (7) events occurred that included sponsored entertainment and approval was provided by the CEO as required. One (1) sponsored entertainment event requiring CEO, CCO, or UTIMCO Chairman pre-approval did not have the appropriate approval. Post approval was obtained.

**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.

**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 annual training session and one makeup session for all employees 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**:

<b>Type</b>	<b>FYTD Number</b>	<b>% of Total</b>
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
<b><i>A. RISK ASSESSMENT</i></b>			
1.	Review risk assessments to determine if updates are needed and map controls identified in the risk assessment to controls identified in the process documentation where needed	11/30/13	<i>Completed</i>
<b><i>B. MONITORING ACTIVITIES / ASSURANCE</i></b>			
2.	Continual enhancement of compliance monitoring and reporting	On-going	<i>Revised monitoring plans for Conflicts of Interest, General Management, IT and Operations and Accounting were rolled out in this third quarter; Monitoring plans for the Investment groups are in process; Due to the hiring of the Legal and Compliance Specialist, responsibility for certain compliance processes will change; monitoring plans will be updated as needed for these changes</i>
3.	Periodic review of Responsible Party Monitoring Plan documentation for high risk areas A	On-going	<i>Third quarter FY14 monitoring plan documentation has been reviewed</i>
<b><i>C. COMPLIANCE TRAINING / AWARENESS</i></b>			
4.	Provide Code of Ethics training and information to improve staff awareness of compliance program	04/30/14	<i>One annual training sessions and one makeup session were held during the quarter with all employees participating</i>
5.	Identify and network with similarly situated compliance professionals	On-going	<i>Participated in Compliance Officer Roundtable monthly meetings</i>
<b><i>D. REPORTING</i></b>			
6.	Conduct quarterly meetings with the internal ethics and compliance committee	On-going	<i>Last meeting held on March 21, 2014</i>
7.	Provide quarterly/annual reports to the Audit and Ethics Committee and System-	On-going	<i>Quarterly report submitted March 21,</i>

Updated 06/17/14

#	ACTION ITEM	TARGET COMPLETION DATE	STATUS
	wide compliance office		2014
<b><i>E. OTHER / GENERAL COMPLIANCE</i></b>			
8.	Manage and transition compliance work from Back Office staff to Compliance Office after Legal and Compliance Specialist is hired	08/31/14	<i>Hiring completed; Transition in progress</i>
9.	Update/revise Institutional Compliance Program Manual as needed	08/31/14	<i>In progress</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>Plan edits completed and Plan document signed; Live testing held on April 30th; Process changes resulting from debrief will be incorporated into plan design</i>
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 06/17/14

**Agenda Item**  
UTIMCO Board of Directors Meeting  
July 29, 2014

**Agenda Item:** Report from Policy Committee: (1) FY 2015 Investment Policy Review and Recommendation; (2) Discussion and Appropriate Action Related to the Investment Policy Statements; (3) Discussion and Appropriate Action Related to Liquidity Policy; (4) Discussion and Appropriate Action Related to Derivative Investment Policy; (5) Discussion and Appropriate Action Related to Delegation of Authority Policy

**Developed By:** Staff

**Presented By:** Hildebrand, 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, Liquidity Policy and Derivative Investment Policy

**Description:** The Policy Committee (“Committee”) will meet on July 29, 2014, separately and jointly with the Risk Committee. The separate meeting agenda includes discussion and appropriate action related to minutes of the April 29, 2014 meeting. The Committee’s agenda for the joint meeting includes discussion and appropriate action related to proposed amendments to the Investment Policy Statements, Liquidity Policy, Derivative Investment Policy and Delegation of Authority Policy.

The Investment Management Services Agreement (IMSA) requires that UTIMCO review the current Investment Policies for each Fund at least annually. The review includes distribution (spending) guidelines, long-term investment return expectations and expected risk levels, Asset Class and Investment Type allocation targets and ranges for each eligible Asset Class and Investment Type, expected returns for each Asset Class, Investment Type, and Fund, designated performance benchmarks for each Asset Class and/or Investment Type and such other matters as the UT System Board of Regents or its staff designees may request.

**Discussion:** Mr. Zimmerman will present the *FY 2015 Investment Policy Review and Recommendation*. The investment policy review and recommendation will provide a comprehensive analysis of the portfolio’s positioning, return/risk assumptions, and the current and future economic environment considerations used in developing the recommended changes to the Asset Class and Investment Type targets and ranges for FY 2015.

Following is a brief summary of the proposed changes to the Investment Policies.

Investment Policy Statements

Exhibit A of the Investment Policy Statements of the PUF, GEF and ITF and Exhibit B of the Investment Policy Statements for the PHF and LTF will be

**Agenda Item**  
UTIMCO Board of Directors Meeting  
July 29, 2014

amended to reflect the proposed changes. Additional amendments to the PUF, GEF, and ITF Investment Policy Statements are also being submitted for approval. The amendments to the PUF, GEF, ITF, PHF, and LTF are effective September 1, 2014. Staff reviewed but is not recommending any changes to the Separately Investment Funds (SIF) and Short Term Funds (STF) Investment Policy Statements. The SIF Investment Policy Statement and STF Investment Policy Statement were amended by the Board of Regents in August 2012.

Exhibits A of the PUF, GEF, and ITF, and Exhibits B in the PHF and LTF Investment Policy Statements, have been amended to set forth the revised Policy Portfolio Asset Class and Investment Type targets and ranges for FY 2015. In addition, the one year downside deviation has been adjusted to reflect the revised Asset Class and Investment Type targets for FY 2015. Finally, the Expected Annual Return (Benchmark) target for FY 2015 has been updated for the PUF, GEF, PHF and LTF.

*PUF Investment Policy Statement*

Page 8, PUF Distributions; deleted language related to the requirement for UTIMCO to recommend to the U.T. System Board of Regents the annual PUF distribution amount.

*GEF Investment Policy Statement*

No changes other than amendments to Exhibit A.

*PHF Investment Policy Statement*

Page 1, Purpose, changed names of the U.T. institutions consistent with names listed on U.T. System website

Page 4, PHF Distributions; deleted language related to the requirement for UTIMCO to recommend to the U.T. System Board of Regents the PHF's distribution rate.

*LTF Investment Policy Statement*

Page 4, LTF Distributions; deleted language related to the requirement for UTIMCO to recommend to the U.T. System Board of Regents the LTF's distribution rate.

*ITF Investment Policy Statement*

Page 7, ITF Distributions; deleted language related to the requirement for UTIMCO to recommend the annual distribution (%) rate to the U.T. System Board of Regents and changed language from an annual distribution (%) rate to an annual distribution amount.

In addition, the following Investment Policies are submitted for approval of amendments:



**Agenda Item**  
 UTIMCO Board of Directors Meeting  
 July 29, 2014

- Derivative Investment Policy (effective August 21, 2014)
- Liquidity Policy (effective August 21, 2014)
- Delegation of Authority Policy (effective July 29, 2014)

*Derivative Investment Policy*

Changes to the Derivative Investment Policy are as follows:

Page 1, Definition of Derivatives; added language to reflect that participation notes are included within the definition of structured notes

Page 2, Definition of Derivatives; added language to allow the Risk Manager and Chief Compliance Officer (CCO), in consultation with the Chief Investment Officer (CIO), to determine whether a particular financial instrument meets the definition of Derivative Investment and require the CIO to report these determinations to the Chairman of the Risk Committee.

Minor editorial changes.

*Liquidity Policy*

Changes to the Liquidity Policy are as follows:

Page 1, Definition of Liquidity Risk; deleted superfluous language

Pages 2-3, Liquidity Policy Profile; changed language in this section for clarity

Minor editorial changes.

*Delegation of Authority Policy*

Changes to the Delegation of Authority Policy are as follows:

Page 2, Public Relations; added language to reflect current practice of consulting with The University of Texas System Offices of Public Affairs and Governmental Relations regarding public relations matters.

Page 3, Contracts; changed requirement to report all contracts, leases, and other commercial arrangements of \$50,000 or more from every meeting of the UTIMCO Board to annually and to only require reporting of new contracts, leases, and other commercial arrangements of \$50,000 or more at every meeting.

Pages 3-4, Allocation of Investment Funds; Investment type limitations for both new relationships/new mandates to existing relationships and increases to existing relationships have been changed as follows:

	New Mandates		Increases	
	Current (in millions)	Proposed (as a percent of Applicable Assets)	Current (in millions)	Proposed (as a percent of Applicable Assets)
MCC	500	1.5%	250	1.5%
LCC	250	1.0%	125	1.0%
Private Investment	125	0.75%	175	0.75%
Co-Investment	50	0.25%	50	0.25%*

**Agenda Item**  
UTIMCO Board of Directors Meeting  
July 29, 2014

\*Maximum during the life of the Co-investment

Page 5, Terms Applicable to All Internal and External Managers; added definition of Applicable Assets

Page 5, Terms Applicable to All Internal and External Managers; language added to consolidate existing limitation applicable to all managers regarding the additional 50% of the Total Assets managed by the manager in a particular investment strategy

Page 5, Terms Applicable to All Internal and External Managers; increased the maximum delegated authority for all managers except MCC Investment Grade Fixed Income from \$750 million to 3.0% of Applicable Assets; and increased MCC Investment Grade Fixed Income maximum delegated authority from \$1.1 billion to 4.0% of Applicable Assets.

Page 7, Appendix A, deleted language regarding inclusion of a due diligence report when required by the UTIMCO Chief Executive Officer to instead provide that a due diligence report will be provided when requested by a UTIMCO Director. Minor editorial changes.

**Recommendation:** The Committee will request the UTIMCO Board to take appropriate action related to the proposed amendments to the Investment Policy Statements for the PUF, GEF, PHF, LTF and ITF for the fiscal year beginning September 1, 2014. The Committee will also request the UTIMCO Board take appropriate action related to the proposed amendments to the Liquidity Policy and Derivative Investment Policy, effective August 31, 2014 and the Delegation of Authority Policy, effective July 29, 2014.

**Reference:** *FY 2015 Investment Policy Review and Recommendation* presentation  
Investment Policy Statements for the PUF, GEF, PHF, LTF and ITF, effective September 1, 2014, including Exhibits  
Derivative Investment Policy, effective August 21, 2014  
Liquidity Policy, effective August 21, 2014  
Delegation of Authority Policy, effective July 29, 2014

## **RESOLUTION RELATED TO INVESTMENT POLICIES**

RESOLVED, that amendments to the Investment Policy Statements of the Permanent University Fund, General Endowment Fund, Permanent Health Fund, Long Term Fund, and Intermediate Term Fund, and amendments to the Derivative Investment Policy, Delegation of Authority Policy, and Liquidity Policy, as presented be, and are hereby, approved.



THE UNIVERSITY OF TEXAS  
INVESTMENT MANAGEMENT COMPANY

**FY 2015**

**Investment Policy  
Review and Recommendation**



# Annual Policy Review

- The University of Texas System Board of Regents (the “Regents”) require an annual review of all Investment Policies (the “Policies”), although no changes to the Policies are required. **In fact, significant annual changes to the Investment Policies should not be expected.**
- UTIMCO staff initiates this review by presenting recommendations to a joint Risk-Policy Committee meeting, which is then followed by a UTIMCO Board meeting. The process culminates at a Regents meeting, where the Policies are ultimately determined
- In 2009, staff presented a Long Term Strategic Asset Allocation (“LTSAA”) plan for the Endowments, providing a five-year context to help guide the annual discussions
- Staff presented a second, five-year horizon LTSAA for the Endowments in 2013
- This year Staff is recommending only slight changes to the Endowments consistent with the five-year LTSAA presented last year
- Staff, however, does want to begin discussions with the Board and the Regents regarding more significant potential changes to the Endowments’ long term investment strategy



# June 30, 2007 Portfolio

When current management arrived, the Endowments' portfolio consisted of:

- 13% in investment grade bonds
- 12% in Real Assets, primarily in long only, including 6% in REITS, 4% in a commodity index and less than 1% in private investments
- 40% in Public Equity, with three times as much in Developed Countries as Emerging Markets
- 8.5% in Private Investments, primarily in large buyouts and venture capital

		More Correlated and Constrained (Long Only)	Less Correlated and Constrained (Hedge Funds)	Private Investments	TOTAL
<b>Fixed Income</b>	Investment Grade	13.0%	3.0%	0.0%	<b>16.0%</b>
	Credit Related	<u>0.0%</u>	<u>1.0%</u>	<u>1.2%</u>	<u>2.2%</u>
	<b>Fixed Income Total</b>	<b>13.0%</b>	<b>4.0%</b>	<b>1.2%</b>	<b>18.2%</b>
<b>Real Assets</b>	Real Estate	6.0%	0.0%	0.0%	<b>6.0%</b>
	Natural Resources	<u>4.0%</u>	<u>1.0%</u>	<u>0.8%</u>	<u>5.8%</u>
	<b>Real Assets Total</b>	<b>10.0%</b>	<b>1.0%</b>	<b>0.8%</b>	<b>11.8%</b>
<b>Equity</b>	Developed Country	31.5%	22.0%	6.4%	<b>59.9%</b>
	Emerging Market	<u>9.0%</u>	<u>1.0%</u>	<u>0.1%</u>	<u>10.1%</u>
	<b>Equity Total</b>	<b>40.5%</b>	<b>23.0%</b>	<b>6.5%</b>	<b>70.0%</b>
<b>TOTAL</b>		<b><u>63.5%</u></b>	<b><u>28.0%</u></b>	<b><u>8.5%</u></b>	<b><u>100.0%</u></b>



# 2009 Long-Term Strategic Asset Allocation

- In 2009, Staff proposed a five-year Long Term Strategic Asset Allocation (“LTSA”)

Fiscal Year End 2013

		More Correlated and Constrained (Long Only)	Less Correlated and Constrained (Hedge Funds)	Private Investments	TOTAL
<b>Fixed Income</b>	Investment Grade	7.5%	2.0%	0.0%	<b>9.5%</b>
	Credit Related	<u>0.0%</u>	<u>3.0%</u>	<u>2.5%</u>	<b><u>5.5%</u></b>
	<b>Fixed Income Total</b>	<b>7.5%</b>	<b>5.0%</b>	<b>2.5%</b>	<b>15.0%</b>
<b>Real Assets</b>	Real Estate	3.5%	0.0%	5.0%	<b>8.5%</b>
	Natural Resources	<u>5.5%</u>	<u>1.0%</u>	<u>5.0%</u>	<b><u>11.5%</u></b>
	<b>Real Assets Total</b>	<b>9.0%</b>	<b>1.0%</b>	<b>10.0%</b>	<b>20.0%</b>
<b>Equity</b>	Developed Country	16.0%	20.0%	9.0%	<b>45.0%</b>
	Emerging Market	<u>12.0%</u>	<u>4.0%</u>	<u>4.0%</u>	<b><u>20.0%</u></b>
	<b>Equity Total</b>	<b>28.0%</b>	<b>24.0%</b>	<b>13.0%</b>	<b>65.0%</b>
<b>TOTAL</b>		<b><u>44.5%</u></b>	<b><u>30.0%</u></b>	<b><u>25.5%</u></b>	<b><u>100.0%</u></b>



# LTSAA vs June 30, 2007

The 2009-2013 LTSAA called for

## Reductions in

- Investment Grade Bonds
- Real Estate Public Equity
- Developed Country Public Equity

## Increases in

- Credit
- Real Asset Private Investments
- Recognition of the increase in Developed Country Private Investments due to previous years' commitments
- Emerging Markets Private Investments

		More Correlated and Constrained (Long Only)	Less Correlated and Constrained (Hedge Funds)	Private Investments	TOTAL
<b>Fixed Income</b>	Investment Grade	(5.5%)	(1.0%)	0.0%	(6.5%)
	Credit Related	<u>0.0%</u>	<u>2.0%</u>	<u>1.3%</u>	<u>3.3%</u>
	<b>Fixed Income Total</b>	<b>(5.5%)</b>	<b>1.0%</b>	<b>1.3%</b>	<b>(3.2%)</b>
<b>Real Assets</b>	Real Estate	(2.5%)	0.0%	5.0%	2.5%
	Natural Resources	<u>1.5%</u>	<u>0.0%</u>	<u>4.2%</u>	<u>5.7%</u>
	<b>Real Assets Total</b>	<b>(1.0%)</b>	<b>0.0%</b>	<b>9.2%</b>	<b>8.2%</b>
<b>Equity</b>	Developed Country	(15.5%)	(2.0%)	2.6%	(14.9%)
	Emerging Market	<u>3.0%</u>	<u>3.0%</u>	<u>3.9%</u>	<u>9.9%</u>
	<b>Equity Total</b>	<b>(12.5%)</b>	<b>1.0%</b>	<b>6.5%</b>	<b>(5.0%)</b>
<b>TOTAL</b>		<b>(19.0%)</b>	<b>2.0%</b>	<b>17.0%</b>	<b>0.0%</b>





# Actual Asset Allocation as of August 31, 2013

- The 2013 Actual Portfolio was very close to the 2009 Proposed Portfolio for 2013

		More Correlated and Constrained (Long Only)	Less Correlated and Constrained (Hedge Funds)	Private Investments	TOTAL
<b>Fixed Income</b>	Investment Grade	7.0%	2.9%	0.0%	<b>9.9%</b>
	Credit Related	<u>0.1%</u>	<u>5.0%</u>	<u>4.8%</u>	<u>9.9%</u>
	<b>Fixed Income Total</b>	<b>7.1%</b>	<b>7.9%</b>	<b>4.8%</b>	<b>19.8%</b>
<b>Real Assets</b>	Real Estate	2.5%	0.5%	3.3%	<b>6.3%</b>
	Natural Resources	<u>9.6%</u>	<u>0.0%</u>	<u>4.8%</u>	<u>14.4%</u>
	<b>Real Assets Total</b>	<b>12.1%</b>	<b>0.5%</b>	<b>8.1%</b>	<b>20.7%</b>
<b>Equity</b>	Developed Country	14.6%	19.5%	11.2%	<b>45.3%</b>
	Emerging Market	<u>9.6%</u>	<u>1.9%</u>	<u>2.7%</u>	<u>14.2%</u>
	<b>Equity Total</b>	<b>24.2%</b>	<b>21.4%</b>	<b>13.9%</b>	<b>59.5%</b>
<b>TOTAL</b>		<b><u>43.4%</u></b>	<b><u>29.8%</u></b>	<b><u>26.8%</u></b>	<b><u>100.0%</u></b>



# Asset Allocation

## Projected August 31, 2014

- FYE 2014 shows continued progress along the strategic plan

		More Correlated and Constrained (Long Only)	Less Correlated and Constrained (Hedge Funds)	Private Investments	TOTAL
<b>Fixed Income</b>	Investment Grade	6.2%	2.4%	0.0%	<b>8.6%</b>
	Credit Related	<u>0.1%</u>	<u>4.6%</u>	<u>4.1%</u>	<u>8.8%</u>
	<b>Fixed Income Total</b>	<b>6.3%</b>	<b>7.0%</b>	<b>4.1%</b>	<b>17.4%</b>
<b>Real Assets</b>	Real Estate	2.6%	0.4%	3.8%	<b>6.8%</b>
	Natural Resources	<u>8.8%</u>	<u>0.0%</u>	<u>5.7%</u>	<u>14.5%</u>
	<b>Real Assets Total</b>	<b>11.4%</b>	<b>0.4%</b>	<b>9.5%</b>	<b>21.3%</b>
<b>Equity</b>	Developed Country	15.4%	21.3%	10.7%	<b>47.4%</b>
	Emerging Market	<u>10.0%</u>	<u>1.1%</u>	<u>2.9%</u>	<u>14.0%</u>
	<b>Equity Total</b>	<b>25.4%</b>	<b>22.4%</b>	<b>13.6%</b>	<b>61.4%</b>
<b>TOTAL</b>		<b><u>43.1%</u></b>	<b><u>29.8%</u></b>	<b><u>27.2%</u></b>	<b><u>100.1%</u></b>



# FY 2015 Process

## Staff had two strategy sessions

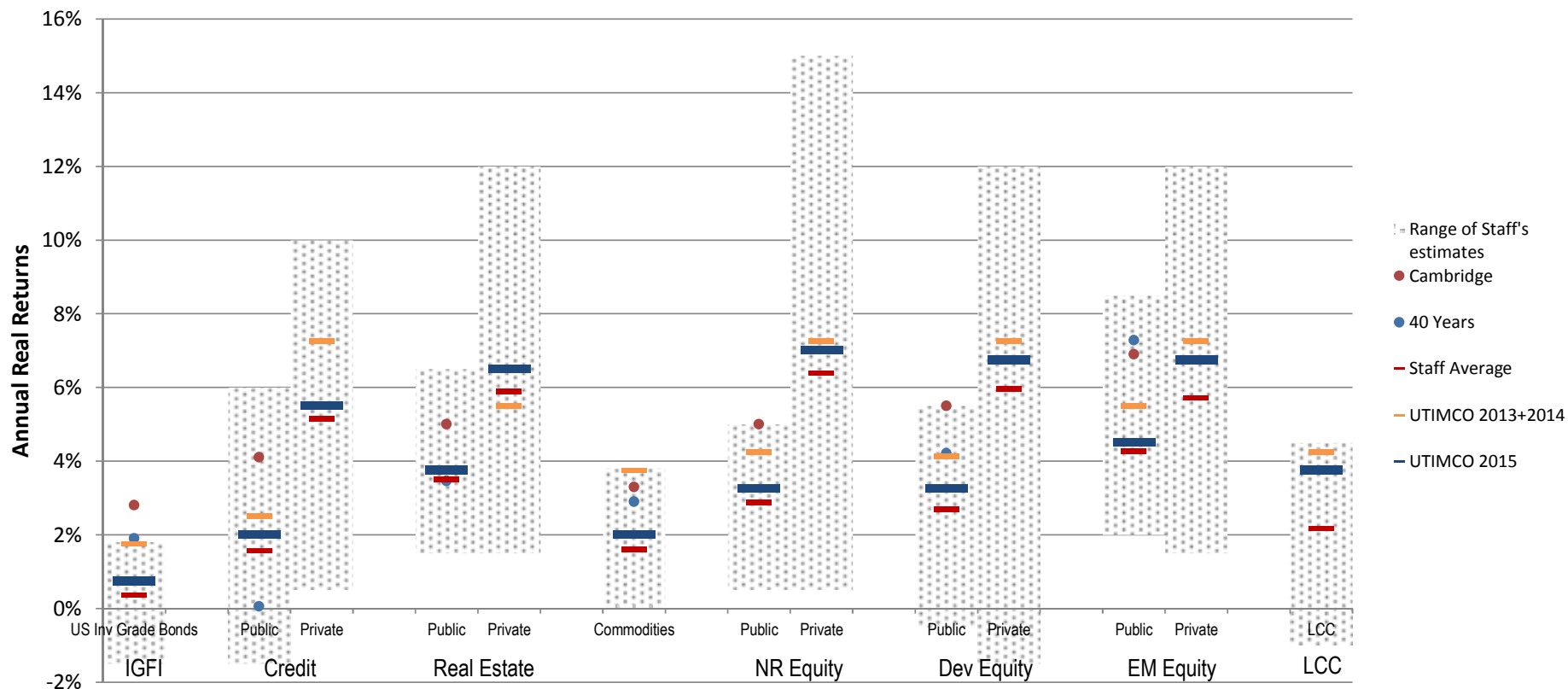
- In the first session:
  - Each staff member presented their expected returns in each asset class and investment type, broken into its market return component and staff value-add (alpha) component
  - This estimate was done for a 3-year horizon and a 10-year horizon
  - Staff members then discussed their thought process, and the opportunities and concerns they saw
- Efficient frontiers were calculated for each staff member's estimated returns
- In the second session:
  - Each staff member presented their proposed asset allocation grid for FY2105 and FY2019
  - The range of opinions was relatively narrow, particularly for FY2015
  - Where there were substantial differences, the staff members at each extreme presented their thought process
- The Investment Strategy Working Group<sup>1</sup> had a two day meeting
- The CIO then came up with his preliminary proposal for FY2015

<sup>1</sup>Ardon Moore, Kyle Bass, Keith Brown, Cathy Iberg, Uzi Yoeli, Mark Warner and Bruce Zimmerman



# Market Returns

## (Three Year Horizon; real returns)



Market returns:	0.75%	2.00%	5.50%	3.75%	6.50%	2.00%	3.25%	7.00%	3.25%	6.75%	4.50%	6.75%	3.75%
Value add:	0.25	0.40	1.50	0.65	1.50	0.65	0.65	1.50	0.65	1.50	0.65	1.50	0.75
<b>Total return:</b>	<b>1.00%</b>	<b>2.40%</b>	<b>7.00%</b>	<b>4.40%</b>	<b>8.00%</b>	<b>2.65%</b>	<b>3.90%</b>	<b>8.50%</b>	<b>3.90%</b>	<b>8.25%</b>	<b>5.15%</b>	<b>8.25%</b>	<b>4.50%</b>



# Efficient Frontiers

- Efficient frontier optimization tends to choose extreme solutions, and therefore should not be taken literally
- When the optimization was completely unconstrained:
  - When the goal was to maximize returns at the current level of risk, the model chose to allocate all assets to Private Investments, for almost each and every returns estimate that was proposed
  - When the goal was to achieve 5% real returns, the model chose to allocate to Private Investments and Hedge Funds as much as is needed to achieve this goal, and the rest of assets were placed in cash, fixed income, and commodities
- When the optimization was somewhat constrained (e.g., Private Investment exposure), the average allocation across all inputs and both types of goals was:

– MCC Fixed Income	16%	– Hedge Funds	26%
– MCC Real Assets	7%	– Private Investments	29%
– MCC Equities	22%		



# Issues Discussed

- MCC IGFI
  - Current Exposure (6.2%); Includes Cash
  - Liquidity, Diversifier, Hedge
- Gold/Broad Commodity Exposure
  - Current Exposure (Gold 3.2%, Broad Commodity 2.4%)
  - Diversifier and Hedge
  - Single Commodity vs. Broader Discretion
- Public Equity Exposure
  - Current Exposure (31.2%)
    - Developed Country (15.1%)
    - Emerging Markets (10.0%)
    - REITs (2.6%)
    - Natural Resources (3.2%)
  - Mix
  - Source of funds for increased private investment exposure



# CIO's Proposal for FY2015 Targets

		MCC	LCC	PI	TOTAL
<b>Fixed Income</b>	Investment Grade	6.5%	2.5%	0.0%	<b>9.0%</b>
	Credit Related	<u>0.0%</u>	<u>5.0%</u>	<u>3.5%</u>	<b><u>8.5%</u></b>
	<b>Fixed Income Total</b>	<b>6.5%</b>	<b>7.5%</b>	<b>3.5%</b>	<b>17.5%</b>
<b>Real Assets</b>	Real Estate	2.5%	0.5%	5.5%	<b>8.5%</b>
	Natural Resources <sup>1</sup>	<u>7.5%<sup>1</sup></u>	<u>0.0%</u>	<u>6.5%</u>	<b><u>14.0%</u></b>
	<b>Real Assets Total</b>	<b>10.0%</b>	<b>0.5%</b>	<b>12.0%</b>	<b>22.5%</b>
<b>Equity</b>	Developed Country	14.0%	20.0%	11.0%	<b>45.0%</b>
	Emerging Market	<u>9.5%</u>	<u>2.0%</u>	<u>3.5%</u>	<b><u>15.0%</u></b>
	<b>Equity Total</b>	<b>23.5%</b>	<b>22.0%</b>	<b>14.5%</b>	<b>60.0%</b>
<b>TOTAL</b>		<b><u>40.0%</u></b>	<b><u>30.0%</u></b>	<b><u>30.0%</u></b>	<b><u>100.0%</u></b>

(1) Change benchmark from 50% Nat Res Equities and 50% broad commodities to 33.4% Nat Res Equities, 33.3% broad commodities and 33.3% gold



# CIO's Proposal for FY2015 Targets

	Projections			
	FY2014	FY2015		
		<u>Low</u>	<u>Base</u>	<u>High</u>
Real Market Return	4.90%	2.95%	4.32%	5.68%
Value Add Target	<u>1.00%</u>	<u>0.00%</u>	<u>0.90%</u>	<u>2.50%</u>
	5.90%	2.95%	5.22%	8.18%
Downside Risk	9.30%	10.47%	9.67%	8.91%





# Change Relative to FY2014 Policy

		More Correlated and Constrained (Long Only)	Less Correlated and Constrained (Hedge Funds)	Private Investments	TOTAL
<b>Fixed Income</b>	Investment Grade	-1.0%	-0.5%	0.0%	-1.5%
	Credit Related	<u>0.0%</u>	<u>0.0%</u>	<u>-0.3%</u>	<u>-0.3%</u>
	<b>Fixed Income Total</b>	<b>-1.0%</b>	<b>-0.5%</b>	<b>-0.3%</b>	<b>-1.8%</b>
<b>Real Assets</b>	Real Estate	0.0%	0.0%	0.3%	<b>0.3%</b>
	Natural Resources	<u>0.0%</u>	<u>0.0%</u>	<u>0.7%</u>	<u>0.7%</u>
	<b>Real Assets Total</b>	<b>0.0%</b>	<b>0.0%</b>	<b>1.0%</b>	<b>1.0%</b>
<b>Equity</b>	Developed Country	0.0%	0.5%	0.7%	<b>1.2%</b>
	Emerging Market	<u>-0.5%</u>	<u>0.0%</u>	<u>0.1%</u>	<u>-0.4%</u>
	<b>Equity Total</b>	<b>-0.5%</b>	<b>0.5%</b>	<b>0.8%</b>	<b>0.8%</b>
<b>TOTAL</b>		<b><u>-1.5%</u></b>	<b><u>0.0%</u></b>	<b><u>1.5%</u></b>	<b><u>0.0%</u></b>

## MCC Natural Resources Benchmark Change

	<u>Current</u>	<u>Proposed</u>
NR-related Public Equity	3.75%	<b>2.50%</b>
Broad Commodities	3.75%	<b>2.50%</b>
Gold	0.00%	<b>2.50%</b>



# Proposed Targets vs. Projected 8/31/14

		More Correlated and Constrained (Long Only)	Less Correlated and Constrained (Hedge Funds)	Private Investments	TOTAL
<b>Fixed Income</b>	Investment Grade	0.3%	0.1%	0.0%	<b>0.4%</b>
	Credit Related	<u>-0.1%</u>	<u>0.4%</u>	<u>-0.6%</u>	<u>-0.3%</u>
	<b>Fixed Income Total</b>	<b>0.2%</b>	<b>0.5%</b>	<b>-0.6%</b>	<b>0.1%</b>
<b>Real Assets</b>	Real Estate	<u>-0.1%</u>	0.1%	1.7%	<b>1.7%</b>
	Natural Resources	<u>-1.3%</u>	<u>0.0%</u>	<u>0.8%</u>	<u>-0.5%</u>
	<b>Real Assets Total</b>	<b>-1.4%</b>	<b>0.1%</b>	<b>2.5%</b>	<b>1.2%</b>
<b>Equity</b>	Developed Country	<u>-1.4%</u>	<u>-1.3%</u>	0.3%	<u>-2.4%</u>
	Emerging Market	<u>-0.5%</u>	<u>0.9%</u>	<u>0.6%</u>	<u>1.0%</u>
	<b>Equity Total</b>	<b>-1.9%</b>	<b>-0.4%</b>	<b>0.9%</b>	<b>-1.4%</b>
<b>TOTAL</b>		<b><u>-3.1%</u></b>	<b><u>0.2%</u></b>	<b><u>2.8%</u></b>	<b><u>-0.1%</u></b>



# Other Investment Policy Change Recommendations

- Remove UTIMCO responsibility for Distribution Rate recommendation and Distribution Amount calculation
- Liquidity Policy: Wording changes to facilitate ease of reading
- Derivative Policy (Definitions of Derivatives and Permitted Derivative Applications):
  - Added Participation Note
  - Added language to clarify the process in instances of uncertainty regarding definitions and delegated authority
- Delegation of Authority:
  - Changed limits from dollar amounts to percentages of Applicable Assets<sup>1</sup>
  - Limit of 50% of manager's strategy
  - First Six Months
    - » MCC 1.50%
    - » LCC 1.00%
    - » Privates .75%
    - » Co-investments .25%
  - Subsequent investments:
    - Annual Increases limited by same percentage as first six months
    - Co-investments limited to a maximum of .50%
  - Maximum limit of 4% for IGFI and 3% for all other investments

<sup>1</sup>For MCC and LCC, Applicable Assets equal Endowments + ITF; For Privates, Applicable Assets equal Endowments



# Investment Policy Range Change Recommendation

- Endowment Ranges**

	Minimum	
	Current	Proposed
<b><u>Asset Classes</u></b>		
Investment Grade Fixed Income	5.0%	3.0%
Emerging Market Equity	5.0%	8.0%
<b><u>Investment Styles</u></b>		
More Correlated and Constrained	35.0%	30.0%
Private Investments	17.5%	20.0%

- ITF Ranges**

	Minimum		Maximum	
	Current	Proposed	Current	Proposed
<b><u>Asset Classes</u></b>				
Investment Grade Fixed Income	30.0%	20.0%		
Developed Country Equity			45.0%	50.0%
<b><u>Investment Styles</u></b>				
More Correlated and Constrained	50.0%	45.0%		
Less Correlated and Constrained			50.0%	55.0%

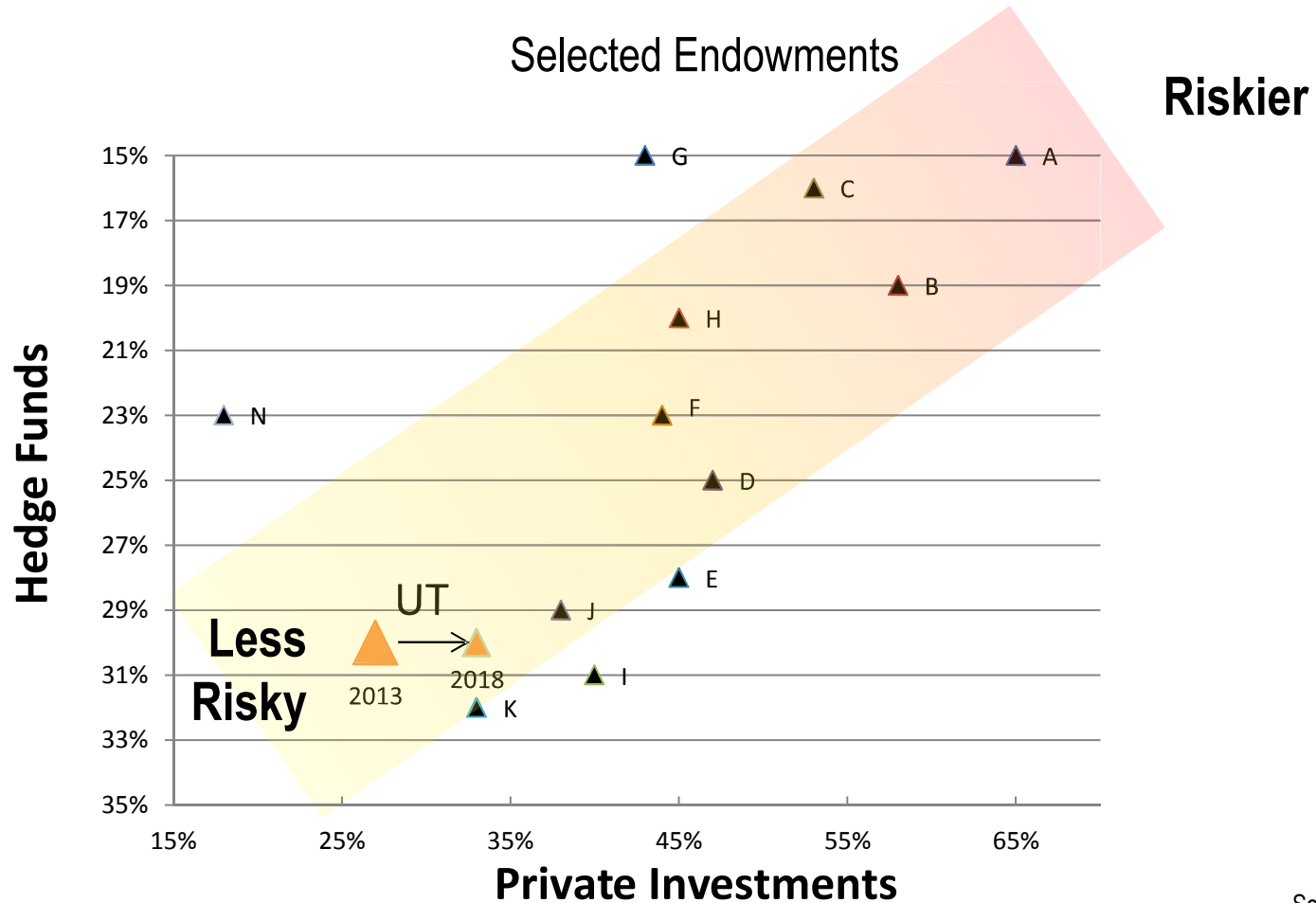


# **Investment Strategy Post FY 2015**



# Qualitative Risk Exposure

- UTIMCO's Portfolio remains one of the least risky large U.S. university portfolio



Source: Cambridge



# 2014 Long-Term Strategic Asset Allocation

- Last year, staff presented an updated five-year plan  
Fiscal Year End 2018

		More Correlated and Constrained (Long Only)	Less Correlated and Constrained (Hedge Funds)	Private Investments	TOTAL
<b>Fixed Income</b>	Investment Grade	7.5%	3.0%	0.0%	<b>10.5%</b>
	Credit Related	<u>0.0%</u>	<u>4.0%</u>	<u>2.0%</u>	<u>6.0%</u>
	<b>Fixed Income Total</b>	<b>7.5%</b>	<b>7.0%</b>	<b>2.0%</b>	<b>16.5%</b>
<b>Real Assets</b>	Real Estate	2.0%	0.0%	8.0%	<b>10.0%</b>
	Natural Resources	<u>7.0%</u>	<u>1.0%</u>	<u>8.0%</u>	<u>16.0%</u>
	<b>Real Assets Total</b>	<b>9.0%</b>	<b>1.0%</b>	<b>16.0%</b>	<b>26.0%</b>
<b>Equity</b>	Developed Country	12.5%	20.0%	10.0%	<b>42.5%</b>
	Emerging Market	<u>8.0%</u>	<u>2.0%</u>	<u>5.0%</u>	<u>15.0%</u>
	<b>Equity Total</b>	<b>20.5%</b>	<b>22.0%</b>	<b>15.0%</b>	<b>57.5%</b>
<b>TOTAL</b>		<b><u>37.0%</u></b>	<b><u>30.0%</u></b>	<b><u>33.0%</u></b>	<b><u>100.0%</u></b>

Expected Annual Nominal Return: 7.47%

One Year Downside Deviation: 9.09%



# Private Investment Commitment Target

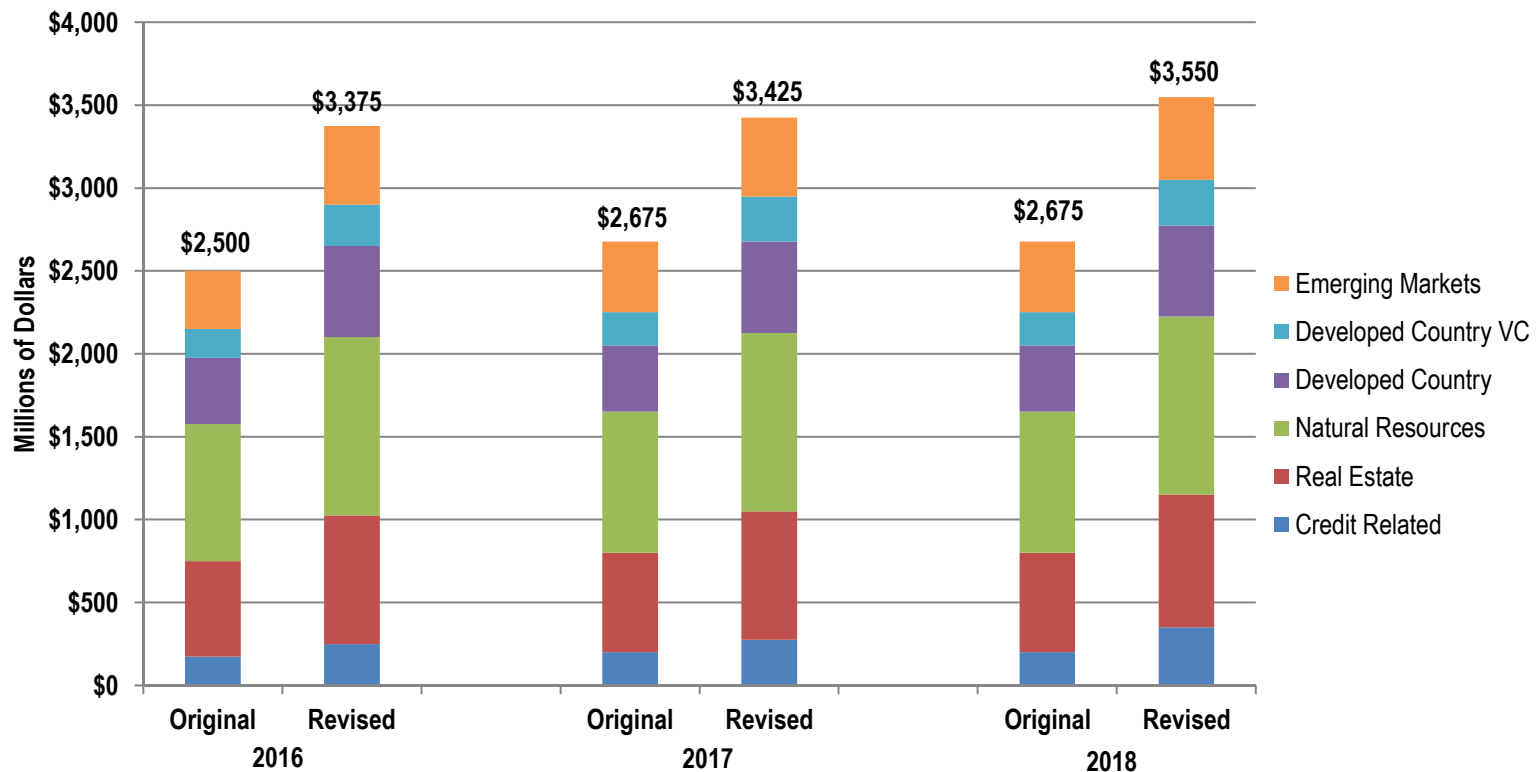
- A by-product of the higher West Texas Mineral Revenues (“WTMR”) and strong investment returns is that higher private investment commitment targets will be required to reach a level of private investments equaling 33% of total assets by 2018
- For FY2014, forecast commitments of \$2.4 billion will exceed the initially targeted commitments of \$2.0 billion, although private investments as a percentage of total assets are now projected to be 27.2% vs. an initially projected 28.5% at fiscal year end
- For FY2015, commitments of \$3.3 billion vs. the original projected \$2.3 billion annual commitment will be required to stay on track to the 33% private investment to total asset level by 2018
- For 2015, Staff has reasonable “line of sight” for 70% of the \$3.3 billion commitment target
- However, Staff will not “force” any investments, and is concerned that prices are currently high due to plentiful liquidity





# Private Investment Commitment Targets 2016-2018

- The chart below shows the original and revised commitment targets for 2016-2018



- All commitments are made on a deal-by-deal basis; No commitments are made unless underwriting thresholds are met



# Growth in Endowment Assets

- Over the past decade, UTIMCO's Assets Under Management have grown from \$16B to \$34B
- Growth in AUM's is projected to continue based on WTMR, LTF Contributions, Investment Returns, and the Distribution Rate
- The net result of the Distribution Rate minus WTMR/LTF Contributions ("Net Payout") is a key variable
- During the 2000's, the Net Payout had been around 2%; Since 2010 the Net Payout rate has been around 0%
- Below are projections for endowment AUM's under two different Net Payout scenarios

	<b>Net Payout</b>	
	<b>0%</b>	<b>2%</b>
2014	\$26B	\$26B
2018	\$36B	\$35B
2023	\$62B	\$56B



# Increasing Investment Returns

- The question of whether investment returns can be increased has also surfaced
  - Desire to increase distribution
  - Recognition of low investment risk level relative to peers
  - Recognition of staff's ability to generate superior, risk adjusted returns
- Staff's view is that "vanilla" investing will not generate desired returns
  - GP/Investment Manager size presents "headwinds" to returns
  - Largest Institutional Investors (e.g. SWF) have lower return hurdles



# Strategic Initiatives to Enhance Returns: Private Investments

- While private investments will not necessarily in and of themselves lead to higher returns, “superior” private investments should
- Substantial increases in “superior” private investing will be required both as a result of the increased AUMs and the desire to enhance returns

	Private Investments		
	Commitments	NAV	
		\$	% of Total
2014	\$2.4B	\$7B	27.6%
2018	\$3.6B	\$12B	33.0%
<u>2023</u>			
33%	\$5.5B	\$20B	33.0%
40%	\$6.8B	\$25B	40.0%

- Increased staff resources will be required to generate “superior” private investments



# Tactical Initiates to Enhance Returns

- Concentration
  - Fewer Managers
  - More concentrated manager portfolios
- Increased Capital Market Specificity (“Domain Expertise”)
  - Natural Resources
  - Real Estate
  - Information Technology Venture Capital
  - Country-specific emerging market managers
- “Next Generation” Managers
- “Anchor”/Exclusive Partner
- Co-Investments

# THE UNIVERSITY OF TEXAS SYSTEM PERMANENT UNIVERSITY FUND INVESTMENT POLICY STATEMENT

## Purpose

The Permanent University Fund (the “PUF”) is a public endowment contributing to the support of eligible institutions of The University of Texas System and The Texas A&M University System as provided in Article VII, Section 18 of the *Texas Constitution*.

## PUF Organization

The PUF was established in the *Texas Constitution* of 1876 through the appropriation of land grants previously given to The University of Texas at Austin plus one million acres. The land grants to the PUF were completed in 1883 with the contribution of an additional one million acres of land. Today, the PUF contains 2,109,190 acres of land (the “PUF Lands”) located in 19 counties primarily in West Texas.

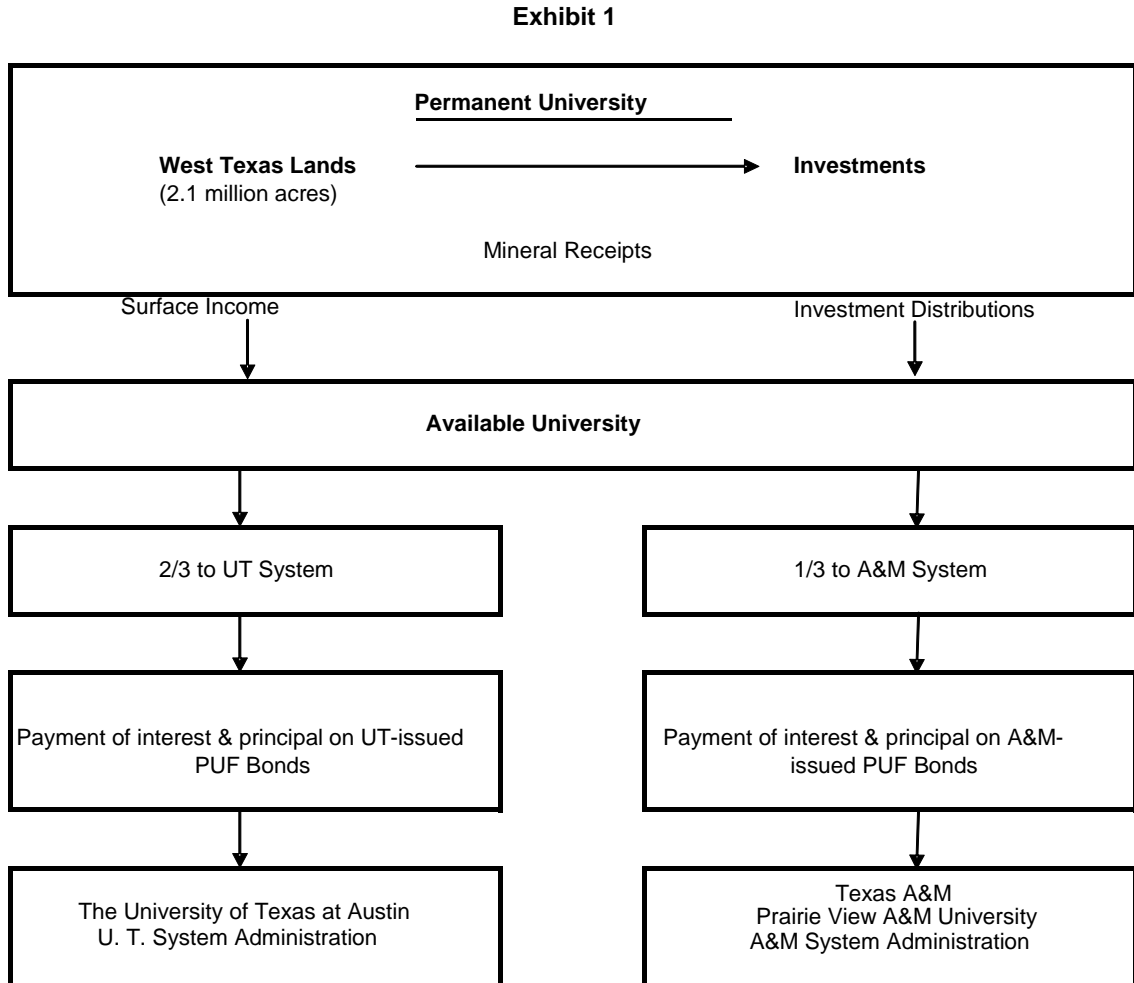
The 2.1 million acres comprising the PUF Lands produce two streams of income: a) mineral income, primarily in the form of oil and gas royalties and b) surface income, primarily from surface leases and easements. Under the *Texas Constitution*, mineral income, as a non-renewable source of income, remains a non-distributable part of PUF corpus, and is invested pursuant to this Policy Statement. Surface income, as a renewable source of income, is distributed to the Available University Fund (the “AUF”), as received. The *Constitution* also requires that all surface income and investment distributions paid to the AUF be expended for certain authorized purposes.

The expenditure of the AUF is subject to a prescribed order of priority:

First, following a 2/3rds and 1/3rd allocation of AUF receipts to the U. T. System and the A&M System, respectively, AUF receipts are expended for debt service on PUF bonds. Article VII of the *Texas Constitution* authorizes the U. T. System Board of Regents (the “Board of Regents”) and the Texas A&M University System Board of Regents (the “TAMUS Board”) to issue bonds payable from their respective interests in AUF receipts to finance permanent improvements and to refinance outstanding PUF obligations. The *Constitution* limits the amount of bonds and notes secured by each System’s interest in divisible PUF income to 20% and 10% of the book value of PUF investment securities, respectively. Bond resolutions adopted by both Boards also prohibit the issuance of additional PUF parity obligations unless the interest of the related System in AUF receipts during the preceding fiscal year covers projected debt service on all PUF Bonds of that System by at least 1.5 times.

Second, AUF receipts are expended to fund a) excellence programs specifically at U. T. Austin, Texas A&M University and Prairie View A&M University and b) the administration of the university Systems.

The payment of surface income and investment distributions from the PUF to the AUF and the associated expenditures is depicted below in Exhibit 1:



## **PUF Management**

Article VII, Section 11b of the *Texas Constitution* assigns fiduciary responsibility for managing and investing the PUF to the Board of Regents. Article VII, Section 11b authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the PUF in any kind of investments and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment.

Ultimate fiduciary responsibility for the PUF rests with the Board of Regents. Section 66.08 of the *Texas Education Code*, as amended, authorizes the Board of Regents, subject to certain conditions to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board of Regents.

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company (“UTIMCO”), the PUF shall be managed by UTIMCO, which shall a) recommend investment policy for the PUF, b) recommend specific Asset Class and Investment Type allocation targets, ranges and performance benchmarks consistent with PUF objectives, and c) monitor PUF performance against PUF objectives. UTIMCO shall invest the PUF’s assets in conformity with this Policy Statement. All changes to this Policy Statement or the exhibits to this Policy Statement, including changes to Asset Class and Investment Type allocation targets, ranges, and performance benchmarks, are subject to approval by the Board of Regents.

UTIMCO may select and terminate unaffiliated investment managers subject to the Delegation of Authority Policy approved by the UTIMCO Board. Managers shall be monitored for performance and adherence to investment disciplines.

## **PUF Administration**

UTIMCO shall employ an administrative staff to ensure that all transaction and accounting records are complete and prepared on a timely basis. Internal controls shall be emphasized so as to provide for responsible separation of duties and adequacy of an audit trail. Custody of PUF assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.



## **PUF Investment Objectives**

The PUF and the General Endowment Fund (the “GEF”) are pooled for efficient investment purposes. The primary investment objective for each fund shall be to preserve the purchasing power of fund assets and annual distributions by earning an average annual real return over rolling ten-year periods or longer at least equal to the target distribution rate of such fund after all expenses. The current target distribution rate is 4.75%. The target is subject to adjustment from time to time consistent with the primary investment objectives for the funds. Investment returns are expressed net of all investment-related expenses. Additional expenses include U.T. System administrative fees charged to the fund.

Investments must be within the Asset Class and Investment Type ranges, prudently diversified, and within the approved Policy Risk Bounds, as defined in Exhibit A, and measured at least monthly by UTIMCO’s risk model. Liquidity of the PUF will be governed by the Liquidity Policy, overseen by the Risk Committee of the UTIMCO Board.

PUF return, Asset Class and Investment Type allocations, and risk targets are subject to adjustment from time to time by the Board of Regents.

## **Asset Class and Investment Type Allocation and Policy**

Asset Class and Investment Type allocation is the primary determinant of the volatility of investment return and, subject to the Asset Class and Investment Type allocation ranges specified in Exhibit A, is the responsibility of UTIMCO. UTIMCO is responsible for measuring actual Asset Class and Investment Type allocation at least monthly (incorporating the impact of derivative positions covered under the Derivative Investment Policy), and for reporting the actual portfolio Asset Class and Investment Type allocation to the UTIMCO Board and the Board of Regents at least quarterly. While specific Asset Class and Investment Type allocation positions may be changed within the ranges specified in Exhibit A based on the economic and investment outlook from time to time, the range limits cannot be intentionally breached without prior approval of the Board of Regents.

In the event that actual portfolio positions in Asset Class or Investment Type or the Portfolio Projected Downside Deviation move outside the ranges indicated in Exhibit A due to market forces that shift relative valuations, UTIMCO staff will immediately report this situation to the UTIMCO Board Chairman and take steps to rebalance portfolio positions back within the policy ranges in an orderly manner as soon as practicable. Extenuating circumstances that could cause immediate rebalancing to be irrational and detrimental to the interest of the PUF asset values could warrant requesting approval of the UTIMCO Board Chairman to waive immediate remedial action.

PUF assets shall be allocated among the following broad Asset Classes and Investment Types based upon their individual return/risk characteristics and relationships to other Asset Classes and Investment Types:

Asset Classes:

Investment Grade Fixed Income – Investment Grade Fixed Income represents ownership of fixed income instruments across all maturities, including real and nominal, US and non-US, that are rated investment grade, including cash as defined in the Liquidity Policy.

Credit-Related Fixed Income – Credit-Related Fixed Income represents ownership of fixed income instruments, including real and nominal across all maturities, US and non-US, that are rated below investment grade.

Natural Resources - Natural Resources represents ownership directly or in securities, the value of which are directly or indirectly tied to natural resources including, but not limited to, energy, metals and minerals, agriculture, livestock and timber.

Real Estate - Real Estate represents primarily equity ownership in real property including public and private securities.

Developed Country Equity – Developed Country Equity represents ownership in companies domiciled in developed countries as defined by the composition of the MSCI World Index.

Emerging Markets Equity – Emerging Markets Equity represents ownership in companies domiciled in emerging economies as defined by the composition of the MSCI Emerging Markets Index. In addition, such definition will also include those companies domiciled in economies that have yet to reach MSCI Emerging Markets Index qualification status (either through financial or qualitative measures).

Investment Types:

More Correlated & Constrained Investments – Mandates that exhibit higher levels of beta exposure to the underlying assets being traded, tend to be in a single Asset Class, have lower levels of short exposure and leverage, have more underlying security transparency, are more likely to be in publicly traded securities and are less likely to entail lock-ups.

Less Correlated & Constrained Investments – Mandates that exhibit lower levels of beta exposure to the underlying assets being traded, may be across Asset Classes, may have higher levels of short exposure and leverage, may not have underlying security transparency, are more likely to be in publicly traded securities and may entail lock-ups.

Private Investments – Mandates that invest primarily in non-public securities and typically entail capital commitments, calls and distributions.

All mandates will be categorized at inception and on an ongoing basis by Asset Class and Investment Type according to the Mandate Categorization Procedures as approved by the UTIMCO Board and then in effect.

### **Performance Measurement**

The investment performance of the PUF will be measured by the PUF's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, and compared against the stated Policy Benchmarks of the PUF, as indicated in Exhibit A (incorporating the impact of internal derivative positions) and reported to the UTIMCO Board and the Board of Regents at least quarterly. The Policy Portfolio benchmark will be maintained by UTIMCO and will be comprised of a blend of Asset Class and Investment Type indices weighted to reflect PUF's Asset Class and Investment Type allocation policy targets as defined in Exhibit A. Monthly performance data and net asset values will be available on the UTIMCO website within a reasonable time after each month end.

### **Investment Guidelines**

The PUF must be invested at all times in strict compliance with applicable law.

Investment guidelines include the following:

#### General

- Investment guidelines for index, commingled funds, limited partnerships, and corporate vehicles managed externally shall be governed by the terms and conditions of the respective investment management contracts, partnership agreements or corporate documents.
- Investment guidelines of all other externally managed accounts as well as internally invested funds must be reviewed and approved by UTIMCO's Chief Investment Officer prior to investment of PUF assets in such investments.
- No securities may be purchased or held which would jeopardize the PUF's tax-exempt status.
- No internal investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No internal investment strategy or program employing short sales may be made unless specifically authorized in the Delegation of Authority Policy, the Derivative Investment Policy or by the UTIMCO Board.

- The PUF's investments in warrants shall not exceed more than 5% of the PUF's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.
- The PUF may utilize derivatives only in accordance with the Derivative Investment Policy. The aggregate prorated annual premium of Derivative Investments utilized to reduce long exposure to an Asset Class or hedge against risk shall not exceed 75 basis points of PUF value.

#### Investment Grade and Credit-Related Fixed Income

Not more than 5% of the market value of fixed income securities may be invested in corporate and municipal bonds of a single issuer.

#### Real Estate, Natural Resources, Developed Country Equity, and Emerging Markets Equity

- Not more than 25% of the market value of equity securities may be invested in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at cost.
- Not more than 5% of the market value of equity securities may be invested in the securities of one corporation at cost.
- Not more than 7.5% of the market value of equity and fixed income securities taken together may be invested in one corporation at cost.

#### **PUF Distributions**

The PUF shall balance the needs and interests of present beneficiaries with those of the future. PUF spending policy objectives shall be to:

- provide a predictable, stable stream of distributions over time;
- ensure that the inflation adjusted value of distributions is maintained over the long term; and
- ensure that the inflation adjusted value of PUF assets after distributions is maintained over rolling 10-year periods.

The goal is for the PUF's average spending rate over time not to exceed the PUF's average annual investment return after inflation and expenses in order to preserve the purchasing power of PUF distributions and underlying assets.

The *Texas Constitution* states that "The amount of any distributions to the available university fund shall be determined by the board of regents of The University of

Texas System in a manner intended to provide the available university fund with a stable and predictable stream of annual distributions and to maintain over time the purchasing power of permanent university fund investments and annual distributions to the available university fund. The amount distributed to the available university fund 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 bonds and notes issued under this section. If the purchasing power of permanent university fund investments for any rolling 10-year period is not preserved, the board may not increase annual distributions to the available university fund until the purchasing power of the permanent university fund investments is restored, except as necessary to pay the principal and interest due and owing on bonds and notes issued under this section. An annual distribution made by the board to the available university fund during any fiscal year may not exceed an amount equal to seven percent of the average net fair market value of permanent university fund investment assets as determined by the board, except as necessary to pay any principal and interest due and owing on bonds issued under this section. The expenses of managing permanent university fund land and investments shall be paid by the permanent university fund.”

Annually, the Board of Regents will approve a distribution amount to the Available University Fund.

~~In conjunction with the annual U. T. System budget process, UTIMCO shall recommend to the Board of Regents each May, or at other times as needed, an amount to be distributed to the AUF during the next fiscal year. UTIMCO's recommendation to the Board of Regents shall be an amount equal to 4.75% of the trailing 12-quarter average of the net asset value of the PUF for the quarter ending February of each 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 this Policy Statement.~~

Following approval of the distribution amount, distributions from the PUF to the AUF may be quarterly or annually at the discretion of UTIMCO Management.

### **PUF Accounting**

The fiscal year of the PUF shall begin on September 1st and end on August 31st. Market value of the PUF shall be maintained on an accrual basis in compliance with Generally Accepted Accounting Principles (“GAAP”), Governmental Accounting Standards Board Statements, industry guidelines, or state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO’s Chief Investment Officer and reported to the UTIMCO Board. Assets deemed to be “other than temporarily impaired” as defined by GAAP shall be written off and reported to UTIMCO’s Chief Investment Officer and the UTIMCO Board when material. The PUF’s financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

## **Valuation of Assets**

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all PUF net assets. Valuation of PUF assets shall be based on the books and records of the custodian for the valuation date. The final determination of PUF net assets for a month end close shall normally be completed within five business days but determination may be longer under certain circumstances. Valuation of alternative assets shall be determined in accordance with the UTIMCO Valuation Criteria for Alternative Assets as approved by the UTIMCO Board and then in effect.

The fair market value of the PUF's net assets shall include all related receivables and payables of the PUF on the valuation. Such valuation shall be final and conclusive.

## **Compliance**

Compliance with this Policy will be monitored by UTIMCO's Chief Compliance Officer. UTIMCO's Chief Executive Officer, the UTIMCO Board, and the UTIMCO Audit & Ethics Committee will receive regular reports on UTIMCO's compliance with this Policy. All material instances of noncompliance, as determined by UTIMCO's Chief Compliance Officer and the Chair of the UTIMCO Audit & Ethics Committee, will require an action plan proposed by UTIMCO's Chief Executive Officer and approved by the Chairman of the UTIMCO Board with timelines for bringing the non-compliant activity within this Policy.

## **Securities Lending**

The PUF may participate in a securities lending contract with a bank or nonbank security lending agent for purposes of realizing additional income. Loans of securities by the PUF shall be collateralized by cash, letters of credit or securities issued or guaranteed by the U.S. Government or its agencies. The collateral will equal at least 100% of the current market value of the loaned securities. The contract shall state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and collateral, acceptable investment of collateral and indemnification provisions. The contract may include other provisions as appropriate.

The securities lending program will be evaluated from time to time as deemed necessary by the UTIMCO Board. Monthly reports issued by the lending agent shall be reviewed by UTIMCO staff to insure compliance with contract provisions.

## **Investor Responsibility**

As a shareholder, the PUF has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies

in a manner consistent with the unique role and mission of higher education as well as for the economic benefit of the PUF. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the PUF solely in the interest of the U. T. System and the A&M System, in compliance with the Proxy Voting Policy then in effect, and shall not invest the PUF so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

#### **Amendment of Policy Statement**

The Board of Regents reserves the right to amend this Policy Statement as it deems necessary or advisable.

#### **Effective Date**

The effective date of this Policy shall be September 1, ~~2013~~2014.

**EXHIBIT A**  
**ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES**  
**EFFECTIVE SEPTEMBER 1, ~~2013~~ 2014**

POLICY PORTFOLIO	FYE <del>2014</del> 2015		
	Min	Target	Max
<b>Asset Classes</b>			
Investment Grade Fixed Income	<del>5.0%</del> 3.0%	<del>10.5%</del> 9.0%	25.0%
Credit-Related Fixed Income	0.0%	<del>8.8%</del> 8.5%	30.0%
Real Estate	0.0%	<del>8.2%</del> 8.5%	12.5%
Natural Resources	5.0%	<del>13.3%</del> 14.0%	25.0%
Developed Country Equity	30.0%	<del>43.8%</del> 45.0%	60.0%
Emerging Markets Equity	<del>5.0%</del> 8.0%	<del>15.4%</del> 15.0%	25.0%
<b>Investment Types</b>			
More Correlated & Constrained	<del>35.0%</del> 30.0%	<del>41.5%</del> 40.0%	60.0%
Less Correlated & Constrained	25.0%	30.0%	37.5%
Private Investments	<del>17.5%</del> 20.0%	<del>28.5%</del> 30.0%	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 <del>2014</del> 2015
Barclays Capital Global Aggregate Index	<del>7.5%</del> 6.5%
FTSE EPRA/NAREIT Developed Index Net TRI USD	2.5%
<del>50%</del> 33.4% Bloomberg <del>Dow Jones</del> -UBS Commodity Total Return Index, and <del>50%</del> 33.3% MSCI World Natural Resources Index and 33.3% Gold Spot price (XAU)	7.5%
MSCI World Index with net dividends	14.0%
MSCI Emerging Markets with net dividends	<del>10%</del> 9.5%
Hedge Fund Research Indices Fund of Funds Composite Index	30.0%
Custom Cambridge Fund of Funds Benchmark	<del>28.5%</del> 30.0%

POLICY/TARGET RETURN/RISKS	FYE <del>2014</del> 2015
Expected Annual Return (Benchmarks) **	<del>7.4%</del> 6.82%
One Year Downside Deviation	<del>9.3%</del> 9.67%
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%.


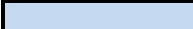


EXHIBIT A  
(continued)

ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES  
EFFECTIVE DATE SEPTEMBER 1, ~~2013~~ 2014

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE ~~2014~~ 2015

FYE <del>2014</del> 2015		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	Investment Grade	Barclays Capital Global Aggregate Index ( <del>7.5%-6.5%</del> )	<del>3.0%</del> 2.5%	0.0%	<del>10.5%</del> 9.0%
	Credit-Related	0.00%	5.0%	<del>3.8%</del> 3.5%	<del>8.8%</del> 8.5%
Real Assets	Real Estate	FTSE EPRA/NAREIT Developed Index Net TRI USD (2.5%)	0.5%	<del>5.2%</del> 5.5%	<del>8.2%</del> 8.5%
	Natural Resources	<del>50 33.4% Dow Jones-UBS Bloomberg Commodity Total Return Index, and 50 33.3% MSCI World Natural Resources Index and 33.3% Gold Spot price (XAU) (7.5%)</del>	0.0%	<del>5.8%</del> 6.5%	<del>13.3%</del> 14.0%
Equity	Developed Country	MSCI World Index with Net Dividends (14.0%)	<del>19.5%</del> 20.0%	<del>10.3%</del> 11.0%	<del>43.8%</del> 45.0%
	Emerging Markets	MSCI EM Index with Net Dividends ( <del>10.0%</del> 9.5%)	2.0%	<del>3.4%</del> 3.5%	<del>15.4%</del> 15.0%
Total		<del>41.5%</del> 40.0%	30.0%	<del>28.5%</del> 30.0%	100.0%

 Hedge Fund Research Indices Fund of Funds Composite Index  
 Custom Cambridge Fund of Funds Benchmark

**THE UNIVERSITY OF TEXAS SYSTEM  
GENERAL ENDOWMENT FUND  
INVESTMENT POLICY STATEMENT**

**Purpose**

The General Endowment Fund (the "GEF"), established by the Board of Regents of The University of Texas System (the "Board of Regents") March 1, 2001, is a pooled fund for the collective investment of certain long-term funds under the control and management of the Board of Regents. The GEF provides for greater diversification of investments than would be possible if each account were managed separately.

**GEF Organization**

The GEF functions like a mutual fund in which each eligible fund purchases and redeems GEF units as provided herein. The ownership of GEF assets shall at all times be vested in the Board of Regents. Such assets shall be deemed to be held by the Board of Regents, as a fiduciary, regardless of the name in which the assets may be registered.

**GEF Management**

Article VII, Section 11b of the Texas Constitution authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (the "PUF") in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment. Pursuant to Section 51.0031(c) of the *Texas Education Code*, the Board of Regents has elected the PUF prudent investor standard to govern its management of the GEF.

Ultimate fiduciary responsibility for the GEF rests with the Board of Regents. Section 66.08, *Texas Education Code*, as amended, authorizes the Board of Regents, subject to certain conditions, to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board of Regents.

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company (“UTIMCO”), the GEF shall be managed by UTIMCO, which shall a) recommend investment policy for the GEF, b) recommend specific Asset Class and Investment Type allocation targets, ranges, and performance benchmarks consistent with GEF objectives, and c) monitor GEF performance against GEF objectives. UTIMCO shall invest the GEF assets in conformity with this Policy Statement. All changes to this Policy Statement or the exhibits to this Policy Statement, including changes to Asset Class and Investment Type allocation targets, ranges and performance benchmarks, are subject to approval by the Board of Regents.

UTIMCO may select and terminate unaffiliated investment managers subject to the Delegation of Authority Policy approved by the UTIMCO Board. Managers shall be monitored for performance and adherence to investment disciplines.

### **GEF Administration**

UTIMCO shall employ an administrative staff to ensure that all transaction and accounting records are complete and prepared on a timely basis. Internal controls shall be emphasized so as to provide for responsible separation of duties and adequacy of an audit trail. Custody of GEF assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

### **Funds Eligible to Purchase GEF Units**

No fund shall be eligible to purchase units of the GEF unless it is under the sole control, with full discretion as to investments, of the Board of Regents.

Any fund whose governing instrument contains provisions which conflict with this Policy Statement, whether initially or as a result of amendments to either document, shall not be eligible to purchase or hold units of the GEF.

Currently, the Long Term Fund (the “LTF”) and the Permanent Health Fund (the “PHF”) purchase units in the GEF.

### **GEF Investment Objectives**

The GEF and the PUF are pooled for efficient investment purposes. The primary investment objective for each fund shall be to preserve the purchasing power of fund assets by earning an average annual real return over rolling ten-year periods or longer at least equal to the target distribution rate of such fund (in case of the GEF, the target distribution rate of the LTF and the PHF) after all expenses. The current target distribution rate is 4.75%. The target is subject to adjustment from time to time consistent with the primary investment objectives for the funds. Investment

returns are expressed net of all investment-related expenses. Additional expenses include U.T. System administrative fees charged to the fund.

Investments must be within the Asset Class and Investment Type ranges, prudently diversified, and within the approved Policy Risk Bounds, as defined in Exhibit A, and measured at least monthly by UTIMCO's risk model. Liquidity of the GEF will be governed by the Liquidity Policy, overseen by the Risk Committee of the UTIMCO Board.

GEF return, Asset Class and Investment Type allocations, and risk targets are subject to adjustment from time to time by the Board of Regents.

### **Asset Class and Investment Type Allocation and Policy**

Asset Class and Investment Type allocation is the primary determinant of the volatility of investment return and, subject to the Asset Class and Investment Type allocation ranges specified in Exhibit A, is the responsibility of UTIMCO. UTIMCO is responsible for measuring actual Asset Class and Investment Type allocation at least monthly (incorporating the impact of derivative positions covered under the Derivative Investment Policy), and for reporting the actual portfolio Asset Class and Investment Type allocation to the UTIMCO Board and the Board of Regents at least quarterly. While specific Asset Class and Investment Type allocation positions may be changed within the ranges specified in Exhibit A based on the economic and investment outlook from time to time, the range limits cannot be intentionally breached without prior approval of the Board of Regents.

In the event that actual portfolio positions in Asset Classes or Investment Types or the Portfolio Projected Downside Deviation move outside the ranges indicated in Exhibit A due to market forces that shift relative valuations, UTIMCO staff will immediately report this situation to the UTIMCO Board Chairman and take steps to rebalance portfolio positions back within the policy ranges in an orderly manner as soon as practicable. Extenuating circumstances that could cause immediate rebalancing to be irrational and detrimental to the interest of the GEF asset values could warrant requesting approval of the UTIMCO Board Chairman to waive immediate remedial action.

GEF assets shall be allocated among the following broad Asset Classes and Investment Types based upon their individual return/risk characteristics and relationships to other Asset Classes and Investment Types:

#### Asset Classes:

Investment Grade Fixed Income – Investment Grade Fixed Income represents ownership of fixed income instruments across all maturities, including real and nominal, US and non-US, that are rated investment grade, including cash as defined in the Liquidity Policy.

Credit-Related Fixed Income – Credit-Related Fixed Income represents ownership of fixed income instruments across all maturities, including real and nominal, US and non-US, that are rated below investment grade.

Natural Resources - Natural Resources represents ownership directly or in securities, the value of which are directly or indirectly tied to natural resources including, but not limited to, energy, metals and minerals, agriculture, livestock, and timber.

Real Estate - Real Estate represents primarily equity ownership in real property including public and private securities.

Developed Country Equity – Developed Country Equity represents ownership in companies domiciled in developed countries as defined by the composition of the MSCI World Index.

Emerging Markets Equity – Emerging Markets Equity represents ownership in companies domiciled in emerging economies as defined by the composition of the MSCI Emerging Markets Index. In addition, such definition will also include those companies domiciled in economies that have yet to reach MSCI Emerging Markets Index qualification status (either through financial or qualitative measures).

Investment Types:

More Correlated & Constrained Investments – Mandates that exhibit higher levels of beta exposure to the underlying assets being traded, tend to be in a single Asset Class, have lower levels of short exposure and leverage, have more underlying security transparency, are more likely to be in publicly traded securities, and are less likely to entail lock-ups.

Less Correlated & Constrained Investments – Mandates that exhibit lower levels of beta exposure to the underlying assets being traded, may be across Asset Classes, may have higher levels of short exposure and leverage, may not have underlying security transparency, are more likely to be in publicly traded securities, and may entail lock-ups.

Private Investments – Mandates that invest primarily in non-public securities and typically entail capital commitments, calls and distributions.

All mandates will be categorized at inception and on an ongoing basis by Asset Class and Investment Type according to the Mandate Categorization Procedures as approved by the UTIMCO Board and then in effect.

## Performance Measurement

The investment performance of the GEF will be measured by the GEF's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, and compared against the stated Policy Benchmarks of the GEF, as indicated in Exhibit A (incorporating the impact of internal derivative positions) and reported to the UTIMCO Board and the Board of Regents at least quarterly. The Policy Portfolio benchmark will be maintained by UTIMCO and will be comprised of a blend of Asset Class and Investment Type indices weighted to reflect GEF's Asset Class and Investment Type allocation policy targets as defined in Exhibit A. Monthly performance data and net asset values will be available on the UTIMCO website within a reasonable time after each month end.

## Investment Guidelines

The GEF must be invested at all times in strict compliance with applicable law.

Investment guidelines include the following:

### General

- Investment guidelines for index, commingled funds, limited partnerships, and corporate vehicles managed externally shall be governed by the terms and conditions of the respective investment management contracts, partnership agreements or corporate documents.
- Investment guidelines of all other externally managed accounts as well as internally invested funds must be reviewed and approved by UTIMCO's Chief Investment Officer prior to investment of GEF assets in such investments.
- No securities may be purchased or held which jeopardize the GEF's tax-exempt status.
- No internal investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No internal investment strategy or program employing short sales may be made unless specifically authorized in the Delegation of Authority Policy, the Derivative Investment Policy or by the UTIMCO Board.
- The GEF's investments in warrants shall not exceed more than 5% of the GEF's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.
- The GEF may utilize derivatives only in accordance with the Derivative Investment Policy. The aggregate prorated annual premium of Derivative

Investments utilized to reduce long exposure to an Asset Class or hedge against risk shall not exceed 75 basis points of GEF value.

#### Investment Grade and Credit-Related Fixed Income

Not more than 5% of the market value of fixed income securities may be invested in corporate and municipal bonds of a single issuer.

#### Real Estate, Natural Resources, Developed Country Equity, and Emerging Markets Equity

- Not more than 25% of the market value of equity securities may be invested in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at cost.
- Not more than 5% of the market value of equity securities may be invested in the securities of one corporation at cost.
- Not more than 7.5% of the market value of equity and fixed income securities taken together may be invested in one corporation at cost.

#### **GEF Accounting**

The fiscal year of the GEF shall begin on September 1st and end on August 31st. Market value of the GEF shall be maintained on an accrual basis in compliance with Generally Accepted Accounting Principles (“GAAP”), Governmental Accounting Standards Board Statements, industry guidelines, or state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO’s Chief Investment Officer and reported to the UTIMCO Board. Assets deemed to be “other than temporarily impaired” as defined by GAAP shall be written off and reported to UTIMCO’s Chief Investment Officer and the UTIMCO Board when material. The GEF’s financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

#### **Valuation of Assets**

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all GEF net assets and the net asset value per unit of the GEF. Valuation of GEF assets shall be based on the books and records of the custodian for the valuation date. The final determination of GEF net assets for a month end close shall normally be completed within five business days but determination may be longer under certain circumstances. Valuation of alternative assets shall be determined in accordance with the UTIMCO Valuation Criteria for Alternative Assets as approved by the UTIMCO Board and then in effect.

The fair market value of the GEF’s net assets shall include all related receivables and payables of the GEF on the valuation date and the value of each unit thereof



shall be its proportionate part of such net value. Such valuation shall be final and conclusive.

### **Compliance**

Compliance with this Policy will be monitored by UTIMCO's Chief Compliance Officer. UTIMCO's Chief Executive Officer, the UTIMCO Board, and the UTIMCO Audit & Ethics Committee will receive regular reports on UTIMCO's compliance with this Policy. All material instances of noncompliance, as determined by UTIMCO's Chief Compliance Officer and the Chair of the UTIMCO Audit & Ethics Committee, will require an action plan proposed by UTIMCO's Chief Executive Officer and approved by the Chairman of the UTIMCO Board with timelines for bringing the non-compliant activity within this Policy.

### **Purchase of GEF Units**

Purchase of GEF units may be made on any quarterly purchase date (September 1, December 1, March 1, and June 1 of each fiscal year or the first business day subsequent thereto) upon payment of cash to the GEF or contribution of assets approved by UTIMCO's Chief Investment Officer, at the net asset value per unit of the GEF as of the most recent quarterly valuation date. Each fund whose monies are invested in the GEF shall own an undivided interest in the GEF in the proportion that the number of units invested therein bears to the total number of all units comprising the GEF.

### **Redemption of GEF Units**

Redemption of GEF units shall be paid in cash as soon as practicable after the quarterly valuation date of the GEF. Withdrawals from the GEF shall be at the market value price per unit determined at the time of the withdrawal.

### **Securities Lending**

The GEF may participate in a securities lending contract with a bank or nonbank security lending agent for purposes of realizing additional income. Loans of securities by the GEF shall be collateralized by cash, letters of credit, or securities issued or guaranteed by the U.S. Government or its agencies. The collateral will equal at least 100% of the current market value of the loaned securities. The contract shall state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and collateral, acceptable investment of collateral and indemnification provisions. The contract may include other provisions as appropriate.

The securities lending program will be evaluated from time to time as deemed necessary by the UTIMCO Board. Monthly reports issued by the lending agent shall be reviewed by UTIMCO staff to insure compliance with contract provisions.



### **Investor Responsibility**

As a shareholder, the GEF has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies in a manner consistent with the unique role and mission of higher education as well as for the economic benefit of the GEF. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the GEF solely in the interest of GEF unit holders, in compliance with the Proxy Voting Policy then in effect, and shall not invest the GEF so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

### **Amendment of Policy Statement**

The Board of Regents reserves the right to amend this Policy Statement as it deems necessary or advisable.

### **Effective Date**

| The effective date of this Policy shall be September 1, ~~2013~~2014.

**EXHIBIT A**  
**ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES**  
**EFFECTIVE SEPTEMBER 1, ~~2013~~ 2014**

POLICY PORTFOLIO	FYE <del>2014</del> 2015		
	Min	Target	Max
<b>Asset Classes</b>			
Investment Grade Fixed Income	<del>5.0%</del> 3.0%	<del>40.5%</del> 9.0%	25.0%
Credit-Related Fixed Income	0.0%	<del>8.8%</del> 8.5%	30.0%
Real Estate	0.0%	<del>8.2%</del> 8.5%	12.5%
Natural Resources	5.0%	<del>13.3%</del> 14.0%	25.0%
Developed Country Equity	30.0%	<del>43.8%</del> 45.0%	60.0%
Emerging Markets Equity	<del>5.0%</del> 8.0%	<del>15.4%</del> 15.0%	25.0%
<b>Investment Types</b>			
More Correlated & Constrained	<del>35.0%</del> 30.0%	<del>41.5%</del> 40.0%	60.0%
Less Correlated & Constrained	25.0%	30.0%	37.5%
Private Investments	<del>17.5%</del> 20.0%	<del>28.5%</del> 30.0%	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 <del>2014</del> 2015
Barclays Capital Global Aggregate Index	<del>7.5%</del> 6.5%
FTSE EPRA/NAREIT Developed Index Net TRI USD	2.5%
<del>50%</del> 33.4% Bloomberg Dow Jones-UBS Commodity Total Return Index, and <del>50%</del> 33.3% MSCI World Natural Resources Index and 33.3% Gold Spot price (XAU)	7.5%
MSCI World Index with net dividends	14.0%
MSCI Emerging Markets with net dividends	<del>10%</del> 9.5%
Hedge Fund Research Indices Fund of Funds Composite Index	30.0%
Custom Cambridge Fund of Funds Benchmark	<del>28.5%</del> 30.0%

POLICY/TARGET RETURN/RISKS	FYE <del>2014</del> 2015
Expected Annual Return (Benchmarks) **	<del>7.4%</del> 6.82%
One Year Downside Deviation	<del>9.3%</del> 9.67%
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%.

EXHIBIT A  
(continued)

ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES  
EFFECTIVE DATE SEPTEMBER 1, ~~2013~~ 2014

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE ~~2014~~ 2015

FYE <del>2014</del> 2015		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	Investment Grade	Barclays Capital Global Aggregate Index ( <del>7.5%</del> - 6.5%)	<del>3.0%</del> 2.5%	0.0%	<del>10.5%</del> 9.0%
	Credit-Related	0.00%	5.0%	<del>3.8%</del> 3.5%	<del>8.8%</del> -8.5%
Real Assets	Real Estate	FTSE EPRA/NAREIT Developed Index Net TRI USD (2.5%)	0.5%	<del>5.2%</del> 5.5%	<del>8.2%</del> 8.5%
	Natural Resources	<del>50</del> 33.4% <del>Dow Jones-UBS Bloomberg</del> Commodity Total Return Index, and <del>50</del> 33.3% MSCI World Natural Resources Index and 33.3% Gold Spot price (XAU) (7.5%)	0.0%	<del>5.8%</del> 6.5%	<del>13.3%</del> 14.0%
Equity	Developed Country	MSCI World Index with Net Dividends (14.0%)	<del>19.5%</del> 20.0%	<del>10.3%</del> 11.0%	<del>43.8%</del> 45.0%
	Emerging Markets	MSCI EM Index with Net Dividends ( <del>10.0%</del> 9.5%)	2.0%	<del>3.4%</del> 3.5%	<del>15.4%</del> 15.0%
<b>Total</b>		<b><del>41.5%</del> 40.0%</b>	<b>30.0%</b>	<b><del>28.5%</del> 30.0%</b>	<b>100.0%</b>

 Hedge Fund Research Indices Fund of Funds Composite Index  
 Custom Cambridge Fund of Funds Benchmark

**THE UNIVERSITY OF TEXAS SYSTEM  
PERMANENT HEALTH FUND  
INVESTMENT POLICY STATEMENT**

**Purpose**

The Permanent Health Fund (the “PHF”), established by the Board of Regents of The University of Texas System (the “Board of Regents”), is a pooled fund for the collective investment of certain permanent funds for health-related institutions of higher education created, effective August 30, 1999, by Chapter 63 of the *Texas Education Code*. The permanent health funds which have assets in the PHF are:

- A. The Permanent Health Fund for Higher Education (the “PHFHE”), the distributions from which are to fund programs that benefit medical research, health education, or treatment programs at 10 health-related institutions of higher education; and
- B. Eight of the thirteen separate Permanent Funds for Health Related Institutions (the “PFHRIs”), the distributions from which are to fund research and other programs at health-related institutions of higher education that benefit public health. The PFHRIs invested in the PHF are:

- U. T. Health Science Center ~~-at~~ San Antonio
- U. T. M-~~D~~: Anderson Cancer Center
- U. T. Southwestern Medical Center
- U. T. Medical Branch ~~-at~~ Galveston
- U. T. Health Science Center ~~-at~~ Houston
- U. T. Health Science Center ~~-at~~ Tyler
- U. T. El Paso
- Regional Academic Health Center

The PHF provides for greater diversification of investments than would be possible if each account were managed separately.

**PHF Organization**

The PHF functions like a mutual fund in which each eligible fund purchases and redeems PHF units as provided herein.

## PHF Management

Chapter 63 of the *Texas Education Code* designates: a) the Board of Regents as the administrator for the PHFHE and b) the governing board of an institution for which a PFHRI fund is established as the administrator for its own PFHRI, or if the governing board so elects, the Comptroller of Public Accounts (State Comptroller). It permits the State Comptroller, in turn, to contract with the governing board of any institution that is eligible to receive a grant under Chapter 63. Pursuant to the foregoing and an Investment Management Services Agreement between the Board of Regents and the State Comptroller, the Board of Regents is the administrator responsible for managing the PHF. Chapter 63 further states that the Board of Regents may manage and invest the PHF in the same manner as the Board of Regents manages and invests other permanent endowments. It also requires that the administrator invest the funds in a manner that preserves the purchasing power of the funds' assets and distributions. It further requires that the administrator make distributions in a manner consistent with the administrator's policies and procedures for making distributions to the beneficiaries of its own endowments in the case of the PHFHE or the funds themselves in the case of the PFHRI funds.

Article VII, Section 11b of the Texas Constitution authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (the "PUF") in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment. Pursuant to Chapter 63 of the *Texas Education Code*, the Board of Regents has elected the PUF prudent investor standard to govern its management of the PHF.

Ultimate fiduciary responsibility for the PHF rests with the Board of Regents. Section 66.08, *Texas Education Code*, as amended, authorizes the Board of Regents, subject to certain conditions, to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board of Regents.

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company ("UTIMCO"), the PHF shall be managed by UTIMCO which shall: a) recommend investment policy for the PHF; b) recommend specific Asset Class and Investment Type allocation targets, ranges, and performance benchmarks consistent with PHF objectives; and c) monitor PHF performance against PHF objectives. UTIMCO shall invest the PHF assets in conformity with this Policy Statement. All changes to this Policy Statement or the exhibits to this Policy

Statement, including changes to Asset Class and Investment Type allocation targets, ranges and performance benchmarks, are subject to approval by the Board of Regents.

### **PHF Administration**

UTIMCO shall employ an administrative staff to ensure that all transaction and accounting records are complete and prepared on a timely basis. Internal controls shall be emphasized so as to provide for responsible separation of duties and adequacy of an audit trail. Custody of PHF assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

### **Funds Eligible to Purchase PHF Units**

No fund shall be eligible to purchase units of the PHF unless it is a permanent health fund established pursuant to Chapter 63 of the *Texas Education Code*, under the control, with full discretion as to investments, of the Board of Regents.

Any fund whose governing instrument contains provisions which conflict with this Policy Statement, whether initially or as a result of amendments to either document, shall not be eligible to purchase or hold units of the PHF.

### **PHF Investment Objectives**

The primary investment objective shall be to preserve the purchasing power of PHF assets and annual distributions by earning an average annual real return over rolling ten-year periods or longer at least equal to the target distribution rate, plus the annual expected expense. The current target rate is 5.2%. The target is subject to adjustment from time to time consistent with the primary investment objective of the PHF.

### **Asset Allocation and Policy**

PHF assets shall be allocated among the following investments:

- A. Cash and Cash Equivalents - Cash and Cash Equivalents has the same meaning as given to the term "Cash" in the Liquidity Policy.
- B. U. T. System General Endowment Fund (GEF) - See Exhibit B for the current GEF allocation, which is subject to changes by the Board of Regents. Upon any change to the GEF asset allocation, Exhibit B shall be revised accordingly.

In the event that actual Cash and Cash Equivalents positions move outside the range indicated in Exhibit A due to market forces that shift relative valuations, UTIMCO staff will immediately report this situation to the UTIMCO Board Chairman

and take steps to rebalance the Cash and Cash Equivalents positions back within the policy range in an orderly manner as soon as practicable. Extenuating circumstances that could cause immediate rebalancing to be irrational and detrimental to the interest of the PHF asset values could warrant requesting approval of the UTIMCO Board Chairman to waive immediate remedial action.

### **Performance Measurement**

The investment performance of the PHF will be measured by the PHF's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, and compared against the stated Policy Benchmarks of the PHF, as indicated in Exhibits A and B (incorporating the impact of internal derivative positions) and reported to the UTIMCO Board and the Board of Regents at least quarterly. Monthly performance data and net asset values will be available on the UTIMCO website within a reasonable time after each month end.

### **Investment Guidelines**

The PHF must be invested at all times in strict compliance with applicable law. Investment guidelines for the U. T. System GEF shall be as stated in the GEF Investment Policy Statement.

### **PHF Distributions**

The PHF shall balance the needs and interests of present beneficiaries with those of the future. PHF spending policy objectives shall be to:

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

The goal is for the PHF's average spending rate over time not to exceed the PHF's average annual investment return after inflation and expense ratio in order to preserve the purchasing power of PHF distributions and underlying assets.

The Board of Regents will designate a per unit distribution amount annually.

~~UTIMCO shall be responsible for calculating the PHF's distribution percentage and determining the equivalent per unit rate for any given year. Unless otherwise recommended by UTIMCO and approved by the Board of Regents, PHF distributions shall be based on the following criteria:~~

~~The annual unit distribution amount shall be adjusted annually based on the following formula:~~

- ~~A. Increase the prior year's per unit distribution amount (cents per unit) by the average inflation rate (C.P.I.) for the previous twelve quarters. This will be the per unit distribution amount for the next fiscal year. This amount may be rounded to the nearest \$.0005 per unit.~~
- ~~B. If the inflationary increase in Step A results in a distribution rate below 3.5% (computed by taking the proposed distribution amount per unit divided by the previous twelve quarter average market value price per unit), the UTIMCO Board may recommend an increase in the distribution amount as long as such increase does not result in a distribution rate of more than 5.5% (computed in the same manner).~~
- ~~C. If the distribution rate exceeds 5.5% (computed by taking the proposed distribution amount per unit divided by the previous twelve quarter average market value price per unit), the UTIMCO Board may recommend a reduction in the per unit distribution amount.~~

~~Notwithstanding any of the foregoing provisions, the Board of Regents may approve a per unit distribution amount that, in their judgment, would be more appropriate than the rate calculated by the policy provisions.~~

Distributions from the PHF to the unit holders shall be made quarterly as soon as practicable on or after the last business day of November, February, May, and August of each fiscal year.

### **PHF Accounting**

The fiscal year of the PHF shall begin on September 1st and end on August 31st. Market value of the PHF shall be maintained on an accrual basis in compliance with Generally Accepted Accounting Principles ("GAAP"), Governmental Accounting Standards Board Statements, industry guidelines, or state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO's Chief Investment Officer and reported to the UTIMCO Board. Assets deemed to be "other than temporarily impaired" as defined by GAAP shall be written off and reported to UTIMCO's Chief Investment Officer and the UTIMCO Board when material. The PHF's financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

### **Valuation of Assets**

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all PHF net assets and the net asset value per unit of the PHF. Valuation of PHF assets shall be based on the books and records of the custodian for the valuation date. The final determination of PHF net assets for



a month end close shall normally be completed within six business days but determination may be longer under certain circumstances.

The fair market value of the PHF's net assets shall include all related receivables and payables of the PHF on the valuation date and the value of each unit thereof shall be its proportionate part of such net value. Such valuation shall be final and conclusive.

### **Compliance**

Compliance with this Policy will be monitored by UTIMCO's Chief Compliance Officer. UTIMCO's Chief Executive Officer, the UTIMCO Board, and the UTIMCO Audit & Ethics Committee will receive regular reports on UTIMCO's compliance with this Policy. All material instances of noncompliance, as determined by UTIMCO's Chief Compliance Officer and the Chair of the UTIMCO Audit & Ethics Committee, will require an action plan proposed by UTIMCO's Chief Executive Officer and approved by the Chairman of the UTIMCO Board with timelines for bringing the non-compliant activity within this Policy.

### **Purchase of PHF Units**

Purchase of PHF units may be made on any quarterly purchase date (September 1, December 1, March 1, and June 1 of each fiscal year or the first business day subsequent thereto) upon payment of cash to the PHF or contribution of assets approved by UTIMCO's Chief Investment Officer, at the net asset value per unit of the PHF as of the most recent quarterly valuation date.

Each fund whose monies are invested in the PHF shall own an undivided interest in the PHF in the proportion that the number of units invested therein bears to the total number of all units comprising the PHF.

### **Redemption of PHF Units**

Redemption of PHF units shall be paid in cash as soon as practicable after the quarterly valuation date of the PHF. If the withdrawal is greater than \$10 million, advance notice of 60 business days shall be required prior to the quarterly valuation date. If the withdrawal is for less than \$10 million, advance notice of five business days shall be required prior to the quarterly valuation date. If the aggregate amount of redemptions requested on any redemption date is equal to or greater than 5% of the PHF's net asset value, the Board of Regents may redeem the requested units in installments and on a pro rata basis over a reasonable period of time that takes into consideration the time frame to liquidate illiquid investments and the best interests of all PHF unit holders. Withdrawals from the PHF shall be at the market value price per unit determined for the period of the withdrawal.

### **Investor Responsibility**

As a shareholder, the PHF has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies in a manner consistent with the unique role and mission of higher education as well as for the economic benefit of the PHF. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the PHF solely in the interest of PHF unit holders, in compliance with the Proxy Voting Policy then in effect, and shall not invest the PHF so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

### **Amendment of Policy Statement**

The Board of Regents reserves the right to amend the Investment Policy Statement as it deems necessary or advisable.

### **Effective Date**

| The effective date of this Policy shall be September 1, ~~2013~~2014.

**EXHIBIT A**

**PHF ASSET ALLOCATION**

**POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES  
EFFECTIVE DATE SEPTEMBER 1, 2008**

	<b>Neutral Allocation</b>	<b>Range</b>	<b>Benchmark Return</b>
GEF Commingled Fund	100.0%	95% - 100%	Endowment Policy Portfolio
Cash and Cash Equivalents	0.0%	-1% - 5%	90 day T-Bills
Unencumbered Cash			
Temporary Cash Imbalance*			
Net non-trading receivable			

The endowment policy portfolio is the sum of the neutrally weighted benchmark returns for the GEF.

\*3 trading days or less

**EXHIBIT B - GENERAL ENDOWMENT FUND**  
**ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES**  
**EFFECTIVE SEPTEMBER 1, 2013 2014**

POLICY PORTFOLIO	FYE 2014 2015		
	Min	Target	Max
<b><u>Asset Classes</u></b>			
Investment Grade Fixed Income	5.0% 3.0%	40.5% 9.0%	25.0%
Credit-Related Fixed Income	0.0%	8.8% 8.5%	30.0%
Real Estate	0.0%	8.2% 8.5%	12.5%
Natural Resources	5.0%	43.3% 14.0%	25.0%
Developed Country Equity	30.0%	43.8% 45.0%	60.0%
Emerging Markets Equity	5.0% 8.0%	15.4% 15.0%	25.0%
<b><u>Investment Types</u></b>			
More Correlated & Constrained	35.0% 30.0%	41.5% 40.0%	60.0%
Less Correlated & Constrained	25.0%	30.0%	37.5%
Private Investments	17.5% 20.0%	28.5% 30.0%	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 2015
Barclays Capital Global Aggregate Index	7.5% 6.5%
FTSE EPRA/NAREIT Developed Index Net TRI USD	2.5%
50% 33.4% Bloomberg Dow-Jones-UBS Commodity Total Return Index, and 50% 33.3% MSCI World Natural Resources Index and 33.3% Gold Spot price (XAU)	7.5%
MSCI World Index with net dividends	14.0%
MSCI Emerging Markets with net dividends	10% 9.5%
Hedge Fund Research Indices Fund of Funds Composite Index	30.0%
Custom Cambridge Fund of Funds Benchmark	28.5% 30.0%



POLICY/TARGET RETURN/RISKS	FYE 2014 2015
Expected Annual Return (Benchmarks) **	7.4% 6.82%
One Year Downside Deviation	9.3% 9.67%
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%.

**EXHIBIT B**  
(continued)  
**GENERAL ENDOWMENT FUND**  
**ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES**  
**EFFECTIVE DATE SEPTEMBER 1, 2013 2014**

**POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE 2014 2015**

FYE 201415		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	Investment Grade	Barclays Capital Global Aggregate Index ( <del>7.5%</del> -6.5%)	3.0% 2.5%	0.0%	10.5% 9.0%
	Credit-Related	0.00%	5.0%	3.8% 3.5%	8.8% 8.5%
Real Assets	Real Estate	FTSE EPRA/NAREIT Developed Index Net TRI USD (2.5%)	0.5%	5.2% 5.5%	8.2% 8.5%
	Natural Resources	50 33.4% <del>Dow Jones-UBS Bloomberg</del> Commodity Total Return Index, and 50 33.3% MSCI World Natural Resources Index and 33.3% Gold Spot price (XAU) (7.5%)	0.0%	5.8% 6.5%	13.3% 14.0%
Equity	Developed Country	MSCI World Index with Net Dividends (14.0%)	19.5% 20.0%	10.3% 11.0%	43.8% 45.0%
	Emerging Markets	MSCI EM Index with Net Dividends ( <del>10.0%</del> 9.5%)	2.0%	3.4% 3.5%	15.4% 15.0%
<b>Total</b>		<b>41.5% 40.0%</b>	<b>30.0%</b>	<b>28.5% 30.0%</b>	<b>100.0%</b>

 Hedge Fund Research Indices Fund of Funds Composite Index  
 Custom Cambridge Fund of Funds Benchmark

**THE UNIVERSITY OF TEXAS SYSTEM  
LONG TERM FUND  
INVESTMENT POLICY STATEMENT**

**Purpose**

The Long Term Fund (the "LTF"), succeeded the Common Trust Fund in February 1995, and was established by the Board of Regents of The University of Texas System (the "Board of Regents") as a pooled fund for the collective investment of private endowments and other long-term funds supporting various programs of The University of Texas System. The LTF provides for greater diversification of investments than would be possible if each account were managed separately.

**LTF Organization**

The LTF functions like a mutual fund in which each eligible account purchases and redeems LTF units as provided herein. The ownership of LTF assets shall at all times be vested in the Board of Regents. Such assets shall be deemed to be held by the Board of Regents, as a fiduciary, regardless of the name in which the assets may be registered.

**LTF Management**

Article VII, Section 11b of the Texas Constitution authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (the "PUF") in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment. Pursuant to Section 51.0031(c) of the *Texas Education Code*, the Board of Regents has elected the PUF prudent investor standard to govern its management of the LTF.

Ultimate fiduciary responsibility for the LTF rests with the Board of Regents. Section 66.08, *Texas Education Code*, as amended, authorizes the Board of Regents, subject to certain conditions, to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board of Regents.

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company (“UTIMCO”), the LTF shall be managed by UTIMCO, which shall a) recommend investment policy for the LTF, b) recommend specific Asset Class and Investment Type allocation targets, ranges, and performance benchmarks consistent with LTF objectives, and c) monitor LTF performance against LTF objectives. UTIMCO shall invest the LTF assets in conformity with this Policy Statement. All changes to this Policy Statement or the exhibits to this Policy Statement, including changes to Asset Class and Investment Type allocation targets, ranges and performance benchmarks, are subject to approval by the Board of Regents.

### **LTF Administration**

UTIMCO shall employ an administrative staff to ensure that all transaction and accounting records are complete and prepared on a timely basis. Internal controls shall be emphasized so as to provide for responsible separation of duties and adequacy of an audit trail. Custody of LTF assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

### **Funds Eligible to Purchase LTF Units**

No account shall be eligible to purchase units of the LTF unless it is under the sole control, with full discretion as to investments, of the Board of Regents.

Any account whose governing instrument contains provisions which conflict with this Policy Statement, whether initially or as a result of amendments to either document, shall not be eligible to purchase or hold units of the LTF.

### **LTF Investment Objectives**

The primary investment objective shall be to preserve the purchasing power of LTF assets by earning an average annual real return over rolling ten-year periods or longer at least equal to the target distribution rate, plus the annual expected expense. The current target rate is 5.2%. The target is subject to adjustment from time to time consistent with the primary investment objective of the LTF. The LTF’s success in meeting its objectives depends upon its ability to generate high returns in periods of low inflation that will offset lower returns generated in years when the capital markets underperform the rate of inflation.

### **Asset Allocation and Policy**

LTF assets shall be allocated among the following investments.

- A. Cash and Cash Equivalents – Cash and Cash Equivalents has the same meaning as given to the term “Cash” in the Liquidity Policy.

- B. U. T. System General Endowment Fund (GEF) - See Exhibit B for the current GEF allocation, which is subject to changes by the Board of Regents. Upon any change to the GEF asset allocation, Exhibit B shall be revised accordingly.

In the event that actual Cash and Cash Equivalents positions move outside the range indicated in Exhibit A due to market forces that shift relative valuations, UTIMCO staff will immediately report this situation to the UTIMCO Board Chairman and take steps to rebalance portfolio positions back within the policy range in an orderly manner as soon as practicable. Extenuating circumstances that could cause immediate rebalancing to be irrational and detrimental to the interest of the LTF asset values could warrant requesting approval of the UTIMCO Board Chairman to waive immediate remedial action.

### **Performance Measurement**

The investment performance of the LTF will be measured by the LTF's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, and compared against the stated Policy Benchmarks of the PHF, as indicated in Exhibits A and B (incorporating the impact of internal derivative positions) and reported to the UTIMCO Board and the Board of Regents at least quarterly. Monthly performance data and net asset values will be available on the UTIMCO website within a reasonable time after each month end.

### **Investment Guidelines**

The LTF must be invested at all times in strict compliance with applicable law. Investment guidelines for the U. T. System GEF shall be as stated in the GEF Investment Policy Statement.

### **LTF Distributions**

The LTF shall balance the needs and interests of present beneficiaries with those of the future. LTF spending policy objectives shall be to:

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



The goal is for the LTF's average spending rate over time not to exceed the LTF's average annual investment return after inflation and expense ratio in order to preserve the purchasing power of LTF distributions and underlying assets.

Generally, pursuant to the Uniform Prudent Management of Institutional Funds Act, Chapter 163, *Texas Property Code*, as amended, ("Act"), subject to the intent of a donor in a gift instrument, the Board of Regents may appropriate for expenditure or accumulate so much of the LTF as it determines is prudent for the uses, benefits, purposes, and duration for which the LTF is established. Notwithstanding the preceding sentence, the Board of Regents may not appropriate for expenditure in any year an amount greater than nine percent (9%) of the LTF, calculated on the basis of market values determined at least quarterly and averaged over a period of not less than three years immediately preceding the year in which the appropriation for expenditure was made.

The Board of Regents will annually approve a per unit distribution amount.

~~UTIMCO shall be responsible for calculating the LTF's distribution percentage and determining the equivalent per unit rate for any given year. Unless otherwise recommended by UTIMCO and approved by the Board of Regents or prohibited by the Act, LTF distributions shall be based on the following criteria:~~

~~The annual unit distribution amount shall be adjusted annually based on the following formula:~~

- ~~A. Increase the prior year's per unit distribution amount (cents per unit) by the average inflation rate (C.P.I.) for the previous twelve quarters. This will be the per unit distribution amount for the next fiscal year. This amount may be rounded to the nearest \$.0005 per unit.~~
- ~~B. If the inflationary increase in Step A results in a distribution rate below 3.5% (computed by taking the proposed distribution amount per unit divided by the previous twelve quarter average market value price per unit), the UTIMCO Board may recommend an increase in the distribution amount as long as such increase does not result in a distribution rate of more than 5.5% (computed in the same manner).~~
- ~~C. If the distribution rate exceeds 5.5% (computed by taking the proposed distribution amount per unit divided by the previous twelve quarter average market value price per unit), the UTIMCO Board may recommend a reduction in the per unit distribution amount.~~

~~Notwithstanding any of the foregoing provisions, the Board of Regents may approve a per unit distribution amount that, in their judgment, would be more appropriate than the rate calculated by the policy provisions.~~

Distributions from the LTF to the unit holders shall be made quarterly as soon as practicable on or after the last business day of November, February, May, and August of each fiscal year.

### **LTF Accounting**

The fiscal year of the LTF shall begin on September 1st and end on August 31st. Market value of the LTF shall be maintained on an accrual basis in compliance with Generally Accepted Accounting Principles (“GAAP”), Governmental Accounting Standards Board Statements, industry guidelines, or state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO’s Chief Investment Officer and reported to the UTIMCO Board. Assets deemed to be “other than temporarily impaired” as defined by GAAP shall be written off and reported to UTIMCO’s Chief Investment Officer and the UTIMCO Board when material. The LTF’s financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

### **Valuation of Assets**

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all LTF net assets and the net asset value per unit of the LTF. Valuation of LTF assets shall be based on the books and records of the custodian for the valuation date. The final determination of LTF net assets for a month end close shall normally be completed within six business days but determination may be longer under certain circumstances.

The fair market value of the LTF’s net assets shall include all related receivables and payables of the LTF on the valuation date and the value of each unit thereof shall be its proportionate part of such net value. Such valuation shall be final and conclusive.

### **Compliance**

Compliance with this Policy will be monitored by UTIMCO’s Chief Compliance Officer. UTIMCO’s Chief Executive Officer, the UTIMCO Board, and the UTIMCO Audit & Ethics Committee will receive regular reports on UTIMCO’s compliance with this Policy. All material instances of noncompliance, as determined by UTIMCO’s Chief Compliance Officer and the Chair of the UTIMCO Audit & Ethics Committee, will require an action plan proposed by UTIMCO’s Chief Executive Officer and approved by the Chairman of the UTIMCO Board with timelines for bringing the non-compliant activity within this Policy.

### **Purchase of LTF Units**

Purchase of LTF units may be made on any quarterly purchase date (September 1, December 1, March 1, and June 1 of each fiscal year or the first business day subsequent thereto) upon payment of cash to the LTF or contribution of assets approved by UTIMCO's Chief Investment Officer, at the net asset value per unit of the LTF as of the most recent quarterly valuation date.

Each account whose monies are invested in the LTF shall own an undivided interest in the LTF in the proportion that the number of units invested therein bears to the total number of all units comprising the LTF.

### **Redemption of LTF Units**

Redemption of LTF units shall be paid in cash as soon as practicable after the quarterly valuation date of the LTF. If the withdrawal is greater than \$25 million, advance notice of 60 business days shall be required prior to the quarterly valuation date. If the withdrawal is for less than \$25 million, advance notice of five business days shall be required prior to the quarterly valuation date. If the aggregate amount of redemptions requested on any redemption date is equal to or greater than 5% of the LTF's net asset value, the Board of Regents may redeem the requested units in installments and on a pro rata basis over a reasonable period of time that takes into consideration the time frame to liquidate illiquid investments and the best interests of all LTF unit holders. Withdrawals from the LTF shall be at the market value price per unit determined for the period of the withdrawal except as follows: withdrawals to correct administrative errors shall be calculated at the per unit value at the time the error occurred. To be considered an administrative error, the contribution shall have been invested in the LTF for a period less than or equal to one year determined from the date of the contribution to the LTF. Transfer of units between endowment unit holders shall not be considered redemption of units subject to this provision.

### **Investor Responsibility**

As a shareholder, the LTF has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies in a manner consistent with the unique role and mission of higher education as well as for the economic benefit of the LTF. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the LTF solely in the interest of LTF unit holders, in compliance with the Proxy Voting Policy then in effect, and shall not invest the LTF so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

**Amendment of Policy Statement**

The Board of Regents reserves the right to amend the Investment Policy Statement as it deems necessary or advisable.

**Effective Date**

| The effective date of this Policy shall be September 1, ~~2013~~2014.

**EXHIBIT A**

**LTF ASSET ALLOCATION**

**POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES  
EFFECTIVE DATE SEPTEMBER 1, 2008**

	<b>Neutral Allocation</b>	<b>Range</b>	<b>Benchmark Return</b>
GEF Commingled Fund	100.0%	95% - 100%	Endowment Policy Portfolio
Cash and Cash Equivalents	0.0%	-1% - 5%	90 day T-Bills
Unencumbered Cash			
Temporary Cash Imbalance*			
Net non-trading receivable			

The endowment policy portfolio is the sum of the neutrally weighted benchmark returns for the GEF.

\*3 trading days or less

**EXHIBIT B - GENERAL ENDOWMENT FUND**  
**ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES**  
**EFFECTIVE SEPTEMBER 1, ~~2013~~ 2014**

POLICY PORTFOLIO	FYE <del>2014</del> 2015		
	Min	Target	Max
<b>Asset Classes</b>			
Investment Grade Fixed Income	<del>5.0%</del> 3.0%	<del>10.5%</del> 9.0%	25.0%
Credit-Related Fixed Income	0.0%	<del>8.8%</del> 8.5%	30.0%
Real Estate	0.0%	<del>8.2%</del> 8.5%	12.5%
Natural Resources	5.0%	<del>13.3%</del> 14.0%	25.0%
Developed Country Equity	30.0%	<del>43.8%</del> 45.0%	60.0%
Emerging Markets Equity	<del>5.0%</del> 8.0%	<del>15.4%</del> 15.0%	25.0%
<b>Investment Types</b>			
More Correlated & Constrained	<del>35.0%</del> 30.0%	<del>41.5%</del> 40.0%	60.0%
Less Correlated & Constrained	25.0%	30.0%	37.5%
Private Investments	<del>17.5%</del> 20.0%	<del>28.5%</del> 30.0%	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 <del>2014</del> 2015
Barclays Capital Global Aggregate Index	<del>7.5%</del> 6.5%
FTSE EPRA/NAREIT Developed Index Net TRI USD	2.5%
<del>50%</del> 33.4% Bloomberg <del>Dow Jones</del> -UBS Commodity Total Return Index, and <del>50%</del> 33.3% MSCI World Natural Resources Index and 33.3% Gold Spot price (XAU)	7.5%
MSCI World Index with net dividends	14.0%
MSCI Emerging Markets with net dividends	<del>10%</del> 9.5%
Hedge Fund Research Indices Fund of Funds Composite Index	30.0%
Custom Cambridge Fund of Funds Benchmark	<del>28.5%</del> 30.0%

POLICY/TARGET RETURN/RISKS	FYE <del>2014</del> 2015
Expected Annual Return (Benchmarks) **	<del>7.4%</del> 6.82%
One Year Downside Deviation	<del>9.3%</del> 9.67%
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%.

**EXHIBIT B**  
(continued)  
**GENERAL ENDOWMENT FUND**  
**ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES**  
**EFFECTIVE DATE SEPTEMBER 1, ~~2013~~ 2014**

**POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE ~~2014~~ 2015**

<b>FYE <del>2014</del> 2015</b>		<b>More Correlated &amp; Constrained</b>	<b>Less Correlated &amp; Constrained</b>	<b>Private Investments</b>	<b>Total</b>
<b>Fixed Income</b>	<b>Investment Grade</b>	<b>Barclays Capital Global Aggregate Index (<del>7.5%-6.5%</del>)</b>	<b>3.0% 2.5%</b>	<b>0.0%</b>	<b>10.5% 9.0%</b>
	<b>Credit-Related</b>	<b>0.00%</b>	<b>5.0%</b>	<b>3.8% 3.5%</b>	<b>8.8% 8.5%</b>
<b>Real Assets</b>	<b>Real Estate</b>	<b>FTSE EPRA/NAREIT Developed Index Net TRI USD (2.5%)</b>	<b>0.5%</b>	<b>5.2% 5.5%</b>	<b>8.2% 8.5%</b>
	<b>Natural Resources</b>	<b><del>50 33.4% Dow Jones-UBS Bloomberg Commodity Total Return Index, and 50 33.3% MSCI World Natural Resources Index and 33.3% Gold Spot price (XAU) (7.5%)</del></b>	<b>0.0%</b>	<b>5.8% 6.5%</b>	<b>13.3% 14.0%</b>
<b>Equity</b>	<b>Developed Country</b>	<b>MSCI World Index with Net Dividends (14.0%)</b>	<b>19.5% 20.0%</b>	<b>10.3% 11.0%</b>	<b>43.8% 45.0%</b>
	<b>Emerging Markets</b>	<b>MSCI EM Index with Net Dividends (<del>10.0% 9.5%</del>)</b>	<b>2.0%</b>	<b>3.4% 3.5%</b>	<b>15.4% 15.0%</b>
<b>Total</b>		<b>41.5% 40.0%</b>	<b>30.0%</b>	<b>28.5% 30.0%</b>	<b>100.0%</b>

 Hedge Fund Research Indices Fund of Funds Composite Index  
 Custom Cambridge Fund of Funds Benchmark

# THE UNIVERSITY OF TEXAS SYSTEM INTERMEDIATE TERM FUND INVESTMENT POLICY STATEMENT

## Purpose and Structure

The University of Texas System Intermediate Term Fund (the "ITF") was established by the Board of Regents of The University of Texas System (the "Board of Regents") as a pooled fund for the collective investment of operating funds and other intermediate and long-term funds held by U. T. System institutions and U. T. System Administration.

## ITF Organization

The ITF functions as a mutual fund in which each eligible account purchases and redeems ITF units as provided herein. The ownership of ITF assets shall at all times be vested in the Board of Regents. Such assets shall be deemed to be held by the Board of Regents, as a fiduciary, regardless of the name in which the assets may be registered.

## ITF Management

Article VII, Section 11b of the Texas Constitution authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (the "PUF") in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment. Pursuant to Section 51.0031(c) of the *Texas Education Code*, the Board of Regents has elected the PUF prudent investor standard to govern its management of the ITF.

Ultimate fiduciary responsibility for the ITF rests with the Board of Regents. Section 66.08, *Texas Education Code*, as amended, authorizes the Board of Regents, subject to certain conditions, to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board of Regents.

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company ("UTIMCO"), the ITF shall be managed by UTIMCO, which shall a) recommend



investment policy for the ITF, b) recommend specific Asset Class and Investment Type allocation targets, ranges, and performance benchmarks consistent with ITF objectives, and c) monitor ITF performance against ITF objectives. UTIMCO shall invest the ITF assets in conformity with this Policy Statement. All changes to this Policy Statement or the exhibits to this Policy Statement, including changes to Asset Class and Investment Type allocation targets, ranges and performance benchmarks, are subject to approval by the Board of Regents.

UTIMCO may select and terminate unaffiliated investment managers subject to the Delegation of Authority Policy approved by the UTIMCO Board. Managers shall be monitored for performance and adherence to investment disciplines.

### **ITF Administration**

UTIMCO shall employ an administrative staff to ensure that all transaction and accounting records are complete and prepared on a timely basis. Internal controls shall be emphasized so as to provide for responsible separation of duties and adequacy of an audit trail. Custody of ITF assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

### **Funds Eligible to Purchase ITF Units**

No account shall be eligible to purchase units of the ITF unless it is under the sole control, with full discretion as to investments, by the Board of Regents. Any account whose governing instrument contains provisions which conflict with this Policy Statement, whether initially or as a result of amendments to either document, shall not be eligible to purchase or hold units of the ITF.

### **ITF Investment Objectives**

The ITF consists of intermediate and long-term funds held by the U. T. System Board of Regents, as a fiduciary, for the benefit of U. T. System institutions, U. T. System Administration, and other affiliated funds. ITF assets are pooled for efficient investment purposes and managed by UTIMCO over the intermediate to longer term.

The primary investment objective of the ITF is to preserve the purchasing power of ITF assets by earning a compound annualized return over rolling five-year periods, net of all direct and allocated expenses, of at least inflation as measured by the Consumer Price Index (CPI-U) plus 3%.

The secondary investment objective is to generate average annual returns net of all investment-related expenses, in excess of the approved Policy Portfolio over rolling five-year periods.

Investments must be within the Asset Class and Investment Type ranges, prudently diversified, and within the approved Policy Risk Bounds, as defined in Exhibit A, and measured at least monthly by UTIMCO's risk model. Liquidity of the ITF will be governed by the Liquidity Policy, overseen by the Risk Committee of the UTIMCO Board.

ITF return, Asset Class and Investment Type allocations, and risk targets are subject to adjustment from time to time by the Board of Regents.

### **Asset Class and Investment Type Allocation and Policy**

Asset Class and Investment Type allocation is the primary determinant of the volatility of investment return and, subject to the Asset Class and Investment Type allocation ranges specified in Exhibit A, is the responsibility of UTIMCO. The Asset Class and Investment Type allocation is designed to accommodate the intermediate investment horizon of the ITF assets with enhanced returns at moderate managed risk levels. UTIMCO is responsible for measuring actual Asset Class and Investment Type allocation at least monthly (incorporating the impact of derivative positions covered under the Derivative Investment Policy), and for reporting the actual portfolio Asset Class and Investment Type allocation to the UTIMCO Board and the Board of Regents at least quarterly. While specific Asset Class and Investment Type allocation positions may be changed within the ranges specified in Exhibit A based on the economic and investment outlook from time to time, the range limits cannot be intentionally breached without prior approval of the Board of Regents.

In the event that actual portfolio positions in Asset Class or Investment Type or the Projected Downside Deviation move outside the ranges indicated in Exhibit A due to market forces that shift relative valuations, UTIMCO staff will immediately report this situation to the UTIMCO Board Chairman and take steps to rebalance portfolio positions back within the policy ranges in an orderly manner as soon as practicable. Extenuating circumstances that could cause immediate rebalancing to be irrational and detrimental to the interest of the ITF asset values could warrant requesting approval of the UTIMCO Board Chairman to waive remedial action.

ITF assets shall be allocated among the following broad Asset Classes and Investment Types based upon their individual return/risk characteristics and relationships to other Asset Classes and Investment Types:

#### **Asset Classes:**

Investment Grade Fixed Income – Investment Grade Fixed Income represents ownership of fixed income instruments across all maturities,

including real and nominal, US and non-US, that are rated investment grade, including Cash as defined in the Liquidity Policy.

Credit-Related Fixed Income – Credit-Related Fixed Income represents ownership of fixed income instruments across all maturities, including real and nominal, US and non-US, that are rated below investment grade.

Natural Resources - Natural Resources represents ownership directly or in securities, the value of which are directly or indirectly tied to natural resources including, but not limited to, energy, metals and minerals, agriculture, livestock, and timber.

Real Estate - Real Estate represents primarily equity ownership in real property including public and private securities.

Developed Country Equity – Developed Country Equity represents ownership in companies domiciled in developed countries as defined by the composition of the MSCI World Index.

Emerging Markets Equity – Emerging Markets Equity represents ownership in companies domiciled in emerging economies as defined by the composition of the MSCI Emerging Markets Index. In addition, such definition will also include those companies domiciled in economies that have yet to reach MSCI Emerging Markets Index qualification status (either through financial or qualitative measures).

Investment Types:

More Correlated & Constrained Investments – Mandates that exhibit higher levels of beta exposure to the underlying assets being traded, tend to be in a single Asset Class, have lower levels of short exposure and leverage, have more underlying security transparency, are more likely to be in publicly traded securities, and are less likely to entail lock-ups.

Less Correlated & Constrained Investments – Mandates that exhibit lower levels of beta exposure to the underlying assets being traded, may be across Asset Classes, may have higher levels of short exposure and leverage, may not have underlying security transparency, are more likely to be in publicly traded securities, and may entail lock-ups.

All mandates will be categorized at inception and on an ongoing basis by Asset Class and Investment Type according to the Mandate Categorization Procedures as approved by the UTIMCO Board and then in effect.

## Performance Measurement

The investment performance of the ITF will be measured by the ITF's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, compared against the stated Policy Benchmarks of the ITF, as indicated in Exhibit A (incorporating the impact of internal derivative positions) and reported to the UTIMCO Board and the Board of Regents at least quarterly. The Policy Portfolio benchmark will be maintained by UTIMCO and will be comprised of a blend of Asset Class and Investment Type indices reported by the independent custodian and weighted to reflect ITF's approved Asset Class and Investment Type allocation policy targets as defined in Exhibit A. Monthly performance data and net asset values will be available on the UTIMCO website within a reasonable time after each month end.

## Investment Guidelines

The ITF must be invested at all times in strict compliance with applicable law. Investment guidelines include the following:

### General

- Investment guidelines for index, commingled funds, limited partnerships, and corporate vehicles managed externally shall be governed by the terms and conditions of the respective investment management contracts, partnership agreements or corporate documents.
- Investment guidelines of all other externally managed accounts as well as internally invested funds must be reviewed and approved by UTIMCO's Chief Investment Officer prior to investment of ITF assets in such investments.
- No securities may be purchased or held which would jeopardize the ITF's tax-exempt status.
- No internal investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No internal investment strategy or program employing short sales may be made unless specifically authorized in the Delegation of Authority Policy, the Derivative Investment Policy or by the UTIMCO Board.
- The ITF's investments in warrants shall not exceed more than 5% of the ITF's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.
- The ITF may utilize derivatives only in accordance with the Derivative Investment Policy. The aggregate prorated annual premium of Derivative Investments utilized to reduce long exposure to an Asset Class or hedge against risk shall not exceed 50 basis points of ITF value.

### Investment Grade and Credit-Related Fixed Income

Not more than 5% of the market value of fixed income securities may be invested in corporate and municipal bonds of a single issuer.

### Real Estate, Natural Resources, Developed Country Equity, and Emerging Markets Equity

- Not more than 25% of the market of equity securities may be invested in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at cost.
- Not more than 5% of the market value of equity securities may be invested in the securities of one corporation at cost.
- Not more than 7.5% of the market value of equity and fixed income securities taken together may be invested in one corporation at cost.

### **ITF Accounting**

The fiscal year of the ITF shall begin on September 1st and end on August 31st. Market value of the ITF shall be maintained on an accrual basis in compliance with Generally Accepted Accounting Principles (“GAAP”), Governmental Accounting Standards Board Statements, industry guidelines, or state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO’s Chief Investment Officer and reported to the UTIMCO Board. Assets deemed to be “other than temporarily impaired” as defined by GAAP shall be written off and reported to UTIMCO’s Chief Investment Officer and the UTIMCO Board when material. The ITF’s financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

### **Valuation of ITF Assets**

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all ITF net assets and the net asset value per unit of the ITF. The final determination of ITF net assets for a month end close shall normally be completed within six business days but determination may be longer under certain circumstances. Valuation of ITF assets shall be based on the books and records of the custodian for the valuation date.

The fair market value of the ITF’s net assets shall include all related receivables and payables of the ITF on the valuation date and the value of each unit thereof shall be its proportionate part of such net value. Such valuation shall be final and conclusive.

## Compliance

Compliance with this Policy will be monitored by UTIMCO's Chief Compliance Officer. UTIMCO's Chief Executive Officer, the UTIMCO Board, and the UTIMCO Audit & Ethics Committee will receive regular reports on UTIMCO's compliance with this Policy. All material instances of noncompliance, as determined by UTIMCO's Chief Compliance Officer and the Chair of the UTIMCO Audit & Ethics Committee, will require an action plan proposed by UTIMCO's Chief Executive Officer and approved by the Chairman of the UTIMCO Board with timelines for bringing the noncompliant activity within this Policy.

## ITF Distributions

The ITF shall provide monthly distributions to the unit holders. The ~~UTIMCO Board~~ Board of Regents will ~~recommend~~ approve ~~the~~ an annual distribution ~~amount(%) rate to the Board of Regents~~. Distributions from the ITF to the unit holders shall be made monthly on the first business day of each month. To calculate the monthly distribution, the distribution rate (% divided by 12) will be multiplied by each unit holder's account, determined as follows:

- Net asset value of each unit holder's account on the last business day of the second prior month;
- Plus value of each unit holder's net purchase/redemption amount on the first business day of the prior month;
- Less the distribution amount paid to each unit holder's account on the first business day of the prior month.

## Purchase and Redemption of ITF Units

The ITF participants may purchase units on the first business day of each month upon payment of cash or reinvestment of distributions to the ITF, at the net asset value per unit of the ITF as of the prior month ending valuation date. Such purchase commitments are binding. The ITF participants may redeem ITF units on a monthly basis. The unit redemption shall be paid in cash as soon as practicable after the month end valuation date of the ITF. Redemptions from the ITF shall be at the market price per unit determined at the time of the redemption. Such redemption commitments are binding.

Participants of the ITF are required to provide notification of purchases and redemptions based on specific notification requirements as set forth in The University of Texas System Allocation Policy for Non-Endowment Funds.

## Securities Lending

The ITF may participate in a securities lending contract with a bank or non-bank security lending agent for purposes of realizing additional income. Loans of securities by the ITF shall be collateralized by cash, letters of credit, or securities

issued or guaranteed by the U.S. Government or its agencies. The collateral will equal at least 100% of the current market value of the loaned securities. The contract shall state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and collateral, acceptable investment of collateral and indemnification provisions. The contract may include other provisions as appropriate.

The securities lending program will be evaluated from time to time as deemed necessary by the UTIMCO Board. Monthly reports issued by the lending agent shall be reviewed by UTIMCO staff to ensure compliance with contract provisions.

### **Investor Responsibility**

As a shareholder, the ITF has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies in a manner consistent with the unique role and mission of higher education as well as for the economic benefit of the ITF. **Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the ITF solely in the interest of ITF unitholders, in compliance with the Proxy Voting Policy then in effect, and shall not invest the ITF so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.**

### **Amendment of Policy Statement**

The Board of Regents reserves the right to amend the Investment Policy Statement as it deems necessary or advisable.

### **Effective Date**

The effective date of this Policy shall be September 1, ~~2013~~2014.

Intermediate Term Fund Investment Policy Statement (continued)

EXHIBIT A - INTERMEDIATE TERM FUND  
 ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES  
 EFFECTIVE SEPTEMBER 1, ~~2013~~ 2014

POLICY PORTFOLIO	FYE <del>2014</del> 2015		
	Min	Target	Max
<b>Asset Classes</b>			
Investment Grade Fixed Income	<del>30.0%</del> 20.0%	34.5%	50.0%
Credit-Related Fixed Income	0.0%	7.5%	12.0%
Real Estate	0.0%	4.0%	10.0%
Natural Resources	2.5%	7.0%	20.0%
Developed Country Equity	20.0%	38.0%	<del>45.0%</del> 50.0%
Emerging Markets Equity	2.5%	9.0%	17.5%
<b>Investment Types</b>			
More Correlated & Constrained	<del>50.0%</del> 45.0%	55.0%	65.0%
Less Correlated & Constrained	35.0%	45.0%	<del>50.0%</del> 55.0%

\*The total Asset Class & Investment Type exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed 100% of the Asset Class & Investment Type exposures excluding the amount of derivatives exposure not collateralized by Cash.

POLICY BENCHMARK (reset monthly)	FYE <del>2014</del> 2015
Barclays Capital Global Aggregate Index	30.0%
FTSE EPRA/NAREIT Developed Index Net TRI USD	3.0%
<del>50%</del> 33.4% Bloomberg <del>Dow Jones</del> -UBS Commodity Total Return Index, and <del>50%</del> 33.3% MSCI World Natural Resources Index and 33.3% Gold Spot price (XAU)	7.0%
MSCI World Index with net dividends	9.0%
MSCI Emerging Markets with net dividends	6.0%
Hedge Fund Research Indices Fund of Funds Composite Index	45.0%

POLICY/TARGET RETURN/RISKS	FYE <del>2014</del> 2015
Expected Annual Return (Benchmarks)**	<del>6.03%</del> 5.28%
One Year Downside Deviation	<del>5.65%</del> 5.96%
Risk Bounds	
Lower: 1 Year Downside Deviation	70%
Upper: 1 Year Downside Deviation	115%

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



EXHIBIT A - INTERMEDIATE TERM FUND


(continued)

ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES

EFFECTIVE DATE SEPTEMBER 1, 2013 2014

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE 2014 2015

FYE 2014 2015		More Correlated & Constrained	Less Correlated & Constrained	Total
Fixed Income	Investment Grade	Barclays Capital Global Aggregate Index (30.0%)	4.5%	34.5%
	Credit-Related	(0.0%)	7.5%	7.5%
Real Assets	Real Estate	FTSE EPRA/NAREIT Developed Index Net TRI USD (3.0%)	1.0%	4.0%
	Natural Resources	50 33.4% <del>Dow Jones-UBS Bloomberg</del> Commodity Total Return Index, and 50 33.3% MSCI World Natural Resources Index and 33.3% Gold Spot price (XAU) (7.0%)	0.0%	7.0%
Equity	Developed Country	MSCI World Index with Net Dividends (9.0%)	29.0%	38.0%
	Emerging Markets	MSCI EM Index with Net Dividends (6.0%)	3.0%	9.0%
<b>Total</b>		<b>55.0%</b>	<b>45.0%</b>	<b>100.0%</b>

 Hedge Fund Research Indices Fund of Funds Composite Index

# The University of Texas Investment Management Company

## Liquidity Policy

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Effective Date of Policy: ~~August 22, 2013~~ August 21, 2014

Date Approved by U. T. System Board of Regents: ~~August 22, 2013~~ August 21, 2014

Date Approved by UTIMCO Board: ~~July 22, 2013~~ July 29, 2014

Original Effective Date of Policy: August 7, 2003

Supersedes: Liquidity Policy dated ~~August 23, 2012~~ August 22, 2013

### Purpose:

The purpose of this Liquidity Policy is to establish limits on the overall liquidity profile of investments in (1) the Permanent University Fund (PUF) and the General Endowment Fund (GEF), hereinafter collectively referred to as the Endowment Funds and, (2) the Intermediate Term Fund (ITF). For the purposes of this policy, “liquidity” is defined as a measure of the ability of an investment position to be converted into Cash. The established liquidity profile limits will act in conjunction with, but do not supersede, the Investment Policies adopted by the U. T. System Board of Regents.

### Objective:

The objective of this Liquidity Policy is to control the element of total risk exposure of the Endowment Funds and the ITF stemming from the uncertainties associated with the ability to convert longer term investments to Cash to meet immediate needs or to change investment strategy, and the potential cost of that conversion.

### Scope:

This Liquidity Policy applies to all PUF, GEF, and ITF investments made by The University of Texas Investment Management Company (UTIMCO), both by internal and by external managers. Policy implementation will be managed at the aggregate UTIMCO level and will not be a responsibility of individual internal or external managers managing a portion of the aggregate assets.

### Definition of Liquidity Risk:

“Liquidity risk” is defined as that element of total risk resulting from the uncertainty associated with both the cost and time period necessary to convert existing investment positions to Cash. Liquidity risk also entails obligations relating to the unfunded portions of capital commitments. Liquidity risk can result in lower than expected returns and reduced opportunity to make changes in investment positions to respond to changes in capital market conditions.

~~Modern finance theory asserts that liquidity risk is a systematic risk factor that is incorporated into asset prices such that future longer term returns will be higher for assets with higher liquidity risk, although that may not be the case in the short term.~~

### Definition of Cash:

Cash is defined as short term (generally securities with time to maturity or mandatory purchase or redemption of three months or less), highly liquid investments that are readily convertible to known amounts and which are subject to a relatively small risk of changes in value. Holdings may include:

- the existing Dreyfus Institutional Preferred Money Market Fund mandate and any other UTIMCO Board approved SEC Rule 2a-7 money market fund rated AAAM by Standard & Poor’s or the equivalent by a Nationally Recognized Statistical Rating Organization (NRSRO),
- securities of the U.S. Treasury and U.S. Agencies and their instrumentalities with maturities of 397 days or less,
- separately managed accounts with investment guidelines equivalent to, or more stringent than, unaffiliated liquid investment funds rated AAAM by Standard & Poor’s Corporation or the equivalent by a NRSRO,
- the Custodian’s late deposit interest bearing liquid investment fund,
- municipal short term securities,
- commercial paper rated in the two highest quality classes by Moody’s Investor Service, Inc. (P1 or P2) or Standard & Poor’s Corporation (A1 or A2 or the equivalent),

## The University of Texas Investment Management Company Liquidity Policy

- negotiable certificates of deposit with a bank that is associated with a holding company whose short-term rating meets the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps, and
- repurchase agreements and reverse repurchase agreements transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve as a Primary Dealer in U.S. Treasury securities and rated A-1 or P-1 or the equivalent.

### Liquidity Risk Measurement-The Liquidity Profile:

For the purposes of this Liquidity Policy, potential liquidity risk will be monitored by measuring the aggregate liquidity profile of the Endowment Funds and ITF. All individual investments within the Endowment Funds and ITF will be segregated into two categories:

- **Liquid:** Investments that could be converted to Cash within a period of 90 days or less in an orderly market at a discount of 10% or less.
- **Illiquid:** Investments that could be converted to Cash in an orderly market over a period of more than 90 days or in a shorter period of time by accepting a discount of more than 10%.

UTIMCO staff will report individual investments within the Endowment Funds and ITF categorized as follows:

- **Cash:** Short term (generally securities with time to maturity or mandatory purchase or redemption of three months or less), highly liquid investments that are readily convertible to known amounts and which are subject to a relatively small risk of changes in value.
- **Liquid (Weekly):** Investments that could be converted to Cash within a period of one day to less than 7 days in an orderly market at a discount of 5% or less.
- **Liquid (Quarterly):** Investments that could be converted to Cash within a period of 90 days or less in an orderly market at a discount of 10% or less.
- **Liquid (Annual):** Investments that could be converted to Cash within a period of one day to less than 365 days in an orderly market at a discount of 10% or less.

The measurements necessary to segregate all existing investments into one of the two categories assume normally functioning capital markets and cash market transactions. In addition, swaps, derivatives, or other third party arrangements to alter the status of an investment classified as illiquid may be considered, with the prior approval of the UTIMCO Board or the Risk Committee, in determining the appropriate liquidity category for each investment.

The result of this liquidity risk measurement process will be a liquidity profile for the Endowment Funds and the ITF which indicates the percentage of the total portfolio assets within each liquidity category. This Liquidity Policy defines the acceptable range of percentage of total assets within each liquidity category, specifies “trigger zones” requiring special review by UTIMCO staff and special action by the UTIMCO Board or the Risk Committee, and specifies the method of monitoring and presenting actual versus policy liquidity profiles.

### Liquidity Policy Profile:

The current Liquidity Policy Profile ranges and trigger zones for each of the Endowment Funds are defined by the table below:

	<del>FY 09</del>	<del>FY 1014+</del>
Liquidity above trigger zone:	<del>35.0%</del>	<del>30.0%</del>
Liquidity within trigger zone:	<del>30.0% - 35.0%</del>	<del>25.0% - 30.0%</del>
Liquidity below trigger zone:	<del>&lt;30.0%</del>	<del>&lt;25.0%</del>

## The University of Texas Investment Management Company Liquidity Policy

~~The allowable range for **illiquid** investments is 0% to 75% of the total portfolio for the Endowment Funds; i.e., investments for the Endowment Funds that maintain liquidity above the trigger zone do not require any action by the Risk Committee. However, any **illiquid** investments made in the 70% to 75% trigger zone require prior approval by the Risk Committee. No investment may be made for the Endowment Funds which would cause illiquidity to be greater than 75%. Investments that maintain liquidity below the trigger zone do not require any action by the UTIMCO Board or the Risk Committee. Liquidity within the trigger zone requires special action by the UTIMCO Board or the Risk Committee. For example, the allowable range for **illiquid** investments in FY 09 is up to 70.0% of the total portfolio. However, any **illiquid** investments made in the 65.0% to 70.0% trigger zone require prior approval by the Risk Committee or the UTIMCO Board. Risk Committee review of new investments in the illiquid trigger zone will supplement, rather than replace, the procedures established by the UTIMCO Board for the approval of new investments.~~

The current Liquidity Policy Profile ranges and trigger zones for the ITF are defined by the table below:

	<del>FY 09-11</del>	<del>FY 12-13</del>	<del>FY 14+</del>
Liquidity above trigger zone:	<del>65%</del>	<del>55%</del>	<del>50%</del>
Liquidity within trigger zone:	<del>55%-65%</del>	<del>50%-55%</del>	<del>45%-50%</del>
Liquidity below trigger zone:	<del>&lt;55%</del>	<del>&lt;50%</del>	<del>&lt;45%</del>

~~The allowable range for **illiquid** investments is 0% to 55% of the total portfolio for the ITF; i.e., investments for the ITF that maintain liquidity above the trigger zone do not require any action by the Risk Committee. However, any **illiquid** investments made in the 50% to 55% trigger zone require prior approval by the Risk Committee ~~or the UTIMCO Board.~~ No investment may be made for the ITF which would cause illiquidity to be greater than 55%. Risk Committee review of new investments in the illiquid trigger zone will supplement, rather than replace, the procedures established by the UTIMCO Board for the approval of new investments.~~

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

### Unfunded Commitments:

As used herein, “unfunded commitments” refers to capital that has been legally committed from an Endowment Fund and has not yet been called but may still be called by the general partner or investment manager. The Maximum Permitted Amount of unfunded commitments for each Endowment Fund is:

Unfunded Commitment as a percent of total invested assets:	<del>FY 09</del>	<del>FY 1014+</del>
	<del>27.5%</del>	<del>30.0%</del>

No new commitments may be made for an Endowment Fund without approval from the Risk Committee if the actual amount of unfunded commitments for such Endowment Fund exceeds, or, as a result of such commitment, would exceed the Maximum Permitted Amount.

### Documentation and Controls:

Managing Directors responsible for each asset class are responsible for determining the liquidity category for each investment in that asset class as well as the amount of unfunded commitments for each Endowment Fund. The determination of liquidity will include underlying security trading volumes, notice periods, redemption dates, lock-up periods, and “soft” and “hard” gates. These classifications will be reviewed by the Risk Manager and the Chief Compliance Officer, and must receive final approval from the Chief Investment Officer. Classifications and weights within each liquidity category will be updated and reported on a monthly basis. All new investments considered will

## The University of Texas Investment Management Company Liquidity Policy

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be categorized by liquidity category, and a statement regarding the effect on overall liquidity and the amount of unfunded commitments for each Endowment Fund of the addition of a new investment must be an element of the due diligence process and will be a part of the recommendation report to the UTIMCO Board.

As additional safeguards, trigger zones have been established as indicated above to trigger required review and action by the UTIMCO Board or the Risk Committee in the event any investment action would cause the actual investment position in illiquid investments to enter the designated trigger zone, or in the event market actions caused the actual investment position in illiquid investments to move into trigger zones. In addition, any proposed investment actions which would increase the actual investment position in illiquid investments in any of the PUF, the GEF, or the ITF by 10% or more of the total asset value of such fund would also require review and action by the UTIMCO Board or the Risk Committee prior to the change. Any actual positions in any trigger zones or outside the policy ranges will be communicated to the Chief Investment Officer immediately. The Chief Investment Officer will then determine the process to be used to eliminate the exception and report promptly to the UTIMCO Board and the Risk Committee the circumstances of the deviation from Policy and the remedy to the situation. Furthermore, as indicated above, no new commitments may be made for an Endowment Fund without approval from the Risk Committee if the actual amount of unfunded commitments for such Endowment Fund exceeds, or, as a result of such new commitment, would exceed, the Maximum Permitted Amount.

### **Reporting:**

The actual liquidity profiles of the Endowment Funds and the ITF, including a detailed analysis of liquidity by category, and the status of unfunded commitments for each Endowment Fund, and compliance with this Liquidity Policy will be reported to the UTIMCO Board on at least a quarterly basis. Any exception to this Liquidity Policy and actions taken to remedy the exception will be reported promptly.

## The University of Texas Investment Management Company Derivative Investment Policy

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Effective Date of Policy: ~~August 22, 2013~~ August 21, 2014  
Date Approved by U. T. System Board of Regents: ~~August 22, 2013~~ August 21, 2014  
Date Approved by UTIMCO Board: ~~July 22, 2013~~ July 29, 2014  
Supersedes: Derivative Investment Policy approved ~~August 23, 2012~~ August 22, 2013

### **Purpose:**

The purpose of the Derivative Investment Policy is to set forth the applications, documentation and limitations for investment in derivatives in the Permanent University Fund (PUF), the General Endowment Fund (GEF), the Intermediate Term Fund (ITF), and the Separately Invested Funds (SIF), hereinafter referred to as the Funds. The Board of Regents approved investment policy guidelines for the Funds to allow for investment in derivatives provided that their use is in compliance with UTIMCO's Board approved Derivative Investment Policy. This Derivative Investment Policy supplements the Investment Policy Statements for the Funds.

### **Objective:**

The objective of investing in derivatives is to facilitate risk management and provide efficiency in the implementation of various investment strategies for the Funds. Derivatives can provide the Funds with more economical means to improve the Funds' risk/return profile.

### **Scope:**

This Policy applies to all derivatives in the Funds executed by UTIMCO staff and by external managers operating under an Agency Agreement. This Policy does not apply to external managers operating under limited partnership agreements, offshore corporations, or other Limited Liability Entities that limit the liability exposure of the Funds' investments. Derivative policies for external managers are established on a case-by-case basis with each external manager, as described below.

This Policy applies to both ~~exchange-Exchange traded-Traded derivatives-Derivatives~~ and ~~over-Over~~ the ~~counter~~ Counter (OTC) derivatives. This Policy shall not be construed to apply to index or other common or commingled funds that are not controlled by UTIMCO. These commingled investment vehicles are governed by separate investment policy statements.

### **External Managers:**

External managers are selected to manage the Funds' assets under either an Agency Agreement or through a Limited Liability Entity. An external manager operating under an Agency Agreement may engage in derivative investments only if (i) such manager has been approved to use derivatives by the UTIMCO Chief Investment Officer and (ii) the investments are consistent with the overall investment objectives of the account and in compliance with this Policy. The use of derivatives by an external manager operating under an Agency Agreement shall be approved by the UTIMCO Chief Investment Officer only for external managers that (i) demonstrate investment expertise in their use, (ii) have appropriate risk management and valuation policies and procedures, and (iii) effectively monitor and control their use.

While this Policy does not specifically include external managers operating through a Limited Liability Entity, it is noted that selecting and monitoring external managers through a Limited Liability Entity requires a clear understanding of the external managers' use of derivatives, particularly as it relates to various risk controls and leverage. The permitted uses of derivatives and leverage must be fully documented in the limited liability agreements with these managers.

### **Definition of Derivatives:**

Derivatives are financial instruments whose value is derived, in whole or part, from the value of any one or more underlying securities or assets, or index of securities or assets (such as bonds, stocks, commodities, and currencies). For the purposes of this Policy, derivatives shall include Derivative Investments but shall not include a broader range of securities, ~~including such as~~ mortgage backed securities, structured notes (including participation notes), convertible bonds, exchange traded funds (ETFs), and Bona Fide Spot Foreign Exchange Transactions. Derivatives may be

## The University of Texas Investment Management Company Derivative Investment Policy

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purchased through a national or international exchange or through an OTC direct arrangement with a ~~counterparty~~Counterparty. Refer to the attached Exhibit A for a glossary of terms. If it is unclear whether a particular financial instrument meets the definition of Derivative Investment, the Risk Manager and Chief Compliance Officer, in consultation with the Chief Investment Officer, will determine whether the financial instrument is a Derivative Investment. The Chief Investment Officer will report such determinations to the Chairman of the Risk Committee.

### Permitted Derivative Applications:

The primary intent of derivatives should be to hedge risk in portfolios or to implement investment strategies more effectively and at a lower cost than would be possible in the Cash ~~market~~Market.

Permitted Derivative Applications are Derivative Investments used:

- To implement investment strategies in a low cost and efficient manner;
- To alter the Funds' market (systematic) exposure without trading the underlying Cash ~~market~~Market securities through purchases or short sales, or both, of appropriate derivatives;
- To construct portfolios with risk and return characteristics that could not be created with Cash ~~market~~Market securities;
- To hedge and control risks; or
- To facilitate transition trading.

UTIMCO staff may not enter into any Derivative Investment that is not a Permitted Derivative Application. To the extent that a Derivative Investment is a Permitted Derivative Application but is not within the delegated authority as set forth on Exhibit B, the UTIMCO Board will be provided with an "Option to Review" following the process outlined in Exhibit A to the Delegation of Authority Policy. This "Option to Review" applies to any new Derivative Investment recommended by UTIMCO staff and approved by UTIMCO's Chief Investment Officer that is not within the delegated authority set forth on Exhibit B or the engagement of an external manager operating under an Agency Agreement that seeks to engage in a Derivative Investment that is not within the delegated authority set forth on Exhibit B. ~~Notwithstanding, with respect to any Derivative Investment the foregoing,~~ UTIMCO's Chief Investment Officer, the Risk Manager, or Chief Compliance Officer may determine that presentation and approval of the proposed Derivative Investment at a ~~UTIMCO Board meeting~~Risk Committee meeting is warranted before engaging in the Derivative Investment.

### Risk and Investment Policy Controls:

Following the implementation of any Derivative Investment, the Funds' projected downside deviation and risk bounds, and projected exposure to Asset Class and Investment Type, must be within the permissible ranges as set forth in the Funds' Investment Policy Statements.

### Documentation and Controls:

Prior to the implementation of a new Derivative Investment by UTIMCO staff, UTIMCO staff shall document the purpose, valuation method, methods for calculating delta, delta-adjusted exposure, Asset Class and Investment Type exposure, the effect on portfolio leverage (if applicable), risks (including, but not limited to modeling, pricing, liquidity and ~~counterparty~~Counterparty risks), the expected increase or reduction in risk resulting from the Derivative Investments, and the procedures in place to monitor and manage the derivative exposure. For any short exposure, UTIMCO staff shall also document the basis risk and appropriate stop-loss procedures. UTIMCO shall establish appropriate risk management procedures to monitor daily the risk of (i) internally managed Derivative Investments and ~~of(ii)~~ externally managed accounts operating under ~~an~~ Agency Agreements that ~~utilize~~permit derivatives. Internal control procedures to properly account and value the Funds' exposure to the Derivative Investment shall be fully documented.

### Additional Limitations:

**Leverage:** Leverage is inherent in many derivatives ~~since only a small cash deposit is required to establish a much larger economic impact position. Thus, relative to the Cash markets, where in most cases the cash outlay is equal to the asset acquired, Derivative Investments offer the possibility of establishing substantially larger market risk exposures~~



## The University of Texas Investment Management Company Derivative Investment Policy

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~~with the same amount of cash as a traditional Cash market portfolio. In Cash Markets, in most cases, the cash outlay is equal to the market exposure acquired. By contrast, Derivative Investments offer the possibility of establishing – for the same cash outlay – substantially larger market exposure.~~ Therefore, risk management and control processes must focus on the total risk assumed in a Derivative Investment. Exhibits A of the Fund's Investment Policy Statements provide a limitation on the amount of uncollateralized derivative exposure that can be utilized by the Funds whereby, the total Asset Class and Investment Type exposure, including the amount of derivatives exposure not collateralized by cash, may not exceed 105% (100% in the ITF) of the Asset Class and Investment Type exposures excluding the amount of derivatives exposure not collateralized by cash.

**Counterparty Risks:** ~~In order to limit the financial risks associated with Derivative Investments, rigorous~~ **Rigorous** ~~counterparty~~ **Counterparty** selection criteria and netting agreements shall be required to minimize ~~counterparty~~ **Counterparty** risk for ~~over-Over~~ the ~~counter-Counter~~ (OTC) derivatives. Any ~~counterparty~~ **Counterparty** in an OTC derivative transaction with the Funds must have a credit rating of at least A- (Standard and Poor's) or A3 (Moody's). All OTC derivatives, with the exception of Bona Fide Spot Foreign Exchange Transactions, must be subject to established ISDA Netting Agreements and have full documentation of all legal obligations of the Funds. In the event a ~~counterparty~~ **Counterparty** is downgraded below the minimum credit rating requirements stated above, UTIMCO staff will take appropriate action to protect the interests of the Funds, including availing itself of all potential remedies contained in the ISDA agreements. ~~The net market value, net of collateral postings, of all OTC derivatives for any individual counterparty~~ **Counterparty** may not exceed 1% of the total market value of the Funds.

### **Risk Management and Compliance:**

To ensure compliance with all terms and limitations of this Policy, all internally managed and externally managed Derivative Investments in accounts under Agency Agreements will be marked to market on a daily basis by the Funds' custodian and reviewed periodically, but no less frequently than monthly, for accuracy by the UTIMCO Risk Manager. In addition, data from the external risk model will be reviewed for accuracy and completeness by the UTIMCO Risk Manager.

Compliance with this Policy will be monitored by the UTIMCO Chief Compliance Officer using data provided by the custodian and the external risk model.

Any instances of noncompliance with this Policy will be reported immediately to the UTIMCO Chief Compliance Officer and the UTIMCO Chief Investment Officer, who will determine the appropriate remedy and report promptly to the Chairs of the Risk Committee, the Audit & Ethics Committee, and the UTIMCO Board Chairman. The UTIMCO Board Chairman may waive immediate remedial action in appropriate circumstances.

### **Reporting:**

On a quarterly basis, UTIMCO shall provide a comprehensive report to UTIMCO's Board and the Risk Committee. This report shall include all outstanding Derivative Investments, by type, entered into during the period being reported for both internal managers and external managers operating under Agency Agreements. Asset allocation as provided in the Funds' Investment Policy Statements shall incorporate the impact of uncollateralized derivative exposure associated with derivatives. For risk reporting purposes, the models used to calculate the expected profit or loss in each scenario will include the effect of delta sensitivity and other derivative sensitivity parameters as appropriate. Risk calculations will take into account leverage, correlation, and exposure parameters such as beta for equities and duration for fixed income. The UTIMCO Risk Manager will calculate risk attribution - i.e., how much of the overall risk is attributed to each Asset Class and Investment Type, including the full effect on risk of the derivatives in each. The UTIMCO Risk Manager will calculate risk attribution for each Derivative Investment.



# The University of Texas Investment Management Company

## Derivative Investment Policy

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### Derivative Investment Policy Exhibit A

#### Glossary of Terms

**Agency Agreement** – A form of legal agreement that typically grants limited investment discretion to an external investment manager to act as the investment agent of the Funds but does not limit the liability of the Funds for actions taken by that agent.

**Basket** – A group of securities and a weighting scheme, or a proprietary index. Baskets are typically defined to achieve a certain investment goal, within certain limitations. For example, a Basket could replicate an emerging market index, excluding certain companies that UTIMCO is not permitted to hold.

**Bona Fide Spot Foreign Exchange Transaction** – Generally, a foreign exchange transaction that settles via an actual delivery of the relevant currencies within two business days (T+2). In addition, an agreement, contract or transaction for the purchase or sale of an amount of foreign currency equal to the price of a foreign security with respect to which (i) the security and related foreign currency transactions are executed contemporaneously in order to effect delivery by the relevant securities settlement deadline and (ii) actual delivery of the foreign security and foreign currency occurs by such deadline (such transaction, a “Securities Conversion Transaction”). For Securities Conversion Transactions, the Commodity Futures Trading Commission (CFTC) will consider the relevant foreign exchange spot market settlement deadline to be the same as the securities settlement deadline.

**Cash ~~market~~ Market** - The physical market for a commodity or financial instrument.

**Counterparty** - The offsetting party in an exchange agreement.

**Derivative Investment** – An investment in a ~~futures-Futures contract~~Contract, ~~forward-Forward contract~~Contract, swap, and all forms of options.

**Exchange ~~traded-Traded derivatives-Derivatives~~** - A Derivative Investment traded on an established national or international exchange. These derivatives “settle” daily in that cash exchanges are made between the exchange and parties to the contracts consistent with the change in price of the instrument. Fulfillment of the contract is guaranteed by the exchange on which the derivatives are traded. Examples include S&P 500 ~~futures-Futures contracts~~Contracts and Goldman Sachs Commodities Index ~~futures-Futures contracts~~Contracts.

**Forward ~~contract-Contract~~** - A nonstandardized contract for the physical or electronic (through a bookkeeping entry) delivery of a commodity or financial instrument at a specified price at some point in the future. The most typical Forward ~~contract-Contract~~ is a forward foreign currency contract, which involves the contemplated exchange of two currencies.

**Futures ~~contract-Contract~~** - A standardized contract for either the physical delivery of a commodity or instrument at a specified price at some point in the future, or a financial settlement derived from the change in market price of the commodity or financial instrument during the term of the contract.

**ISDA Netting Agreement** - The International Swaps and Derivatives Association (ISDA) is the global trade association representing participants in the privately negotiated derivatives industry, covering swaps and options across all asset classes. ISDA has produced generally accepted “Master Agreements,” a 1992 Master Agreement and a 2002 Master Agreement, that are used by most counterparties in OTC derivatives. Netting agreements are terms within the applicable Master Agreement that deal with the calculation of exposure for each ~~counterparty-Counterparty~~. These netting agreements require that exposures between counterparties will be “netted” so that payables and receivables under all existing derivatives between two ~~counterparties-Counterparties~~ are offset in determining the net exposure between the two ~~counterparties-Counterparties~~.

## The University of Texas Investment Management Company Derivative Investment Policy

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**Limited Liability Entity** – A legal entity created to define how assets contributed to the entity by external partners to the agreement will be managed by the manager of the entity. These entities are typically limited liability partnerships, corporations, or other such entities that limit the liability of external investors to the current value of the external investors' investment in the entity.

**Long ~~exposure~~-Exposure to an Asset Class** – The Net Asset Value of the Asset Class and Investment Type as defined in the Funds' Investment Policy Statement.

**Option** - A derivative that conveys the right but not the obligation to buy or deliver the subject financial instrument at a specified price, at a specified future date.

**Over the ~~counter~~-Counter (OTC) derivatives** - A derivative which results from direct negotiation between a buyer and a ~~counterparty~~Counterparty. The terms of such derivatives are nonstandard and are the result of specific negotiations. Settlement occurs at the negotiated termination date, although the terms may include interim cash payments under certain conditions. Examples include currency swaps and ~~forward~~-Forward contractsContracts, interest rate swaps, and collars.

**Replicating Derivatives** – Derivatives that are intended to replicate the return characteristics of an underlying index or any other Cash ~~market~~Market security.

**Swap** - A contract whereby the parties agree to exchange cash flows of defined investment assets in amounts and times specified by the contract.

## The University of Texas Investment Management Company Derivative Investment Policy

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### Derivative Investment Policy Exhibit B Delegated Derivative Investments

Subject to the limitations contained in the Derivative Investment Policy, the UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer the authority to enter into the following Derivative Investments:

Delegated Derivative Investments:

1. Replicating Derivatives - Derivative Investments that replicate the return characteristics of a long exposure to an underlying index, Basket or commodity. These investments are generally ~~futures-Futures~~ contracts ~~Contracts~~ and swaps on a passive index, Basket or commodity.
2. Derivative Investments that upon their expiration would not exceed the loss of a similar investment in the cash index being referred to in the derivative contract. These investments may include swaps whereby the holder of the instrument will forgo potential upside return in exchange for downside protection or receive a multiple of a referenced return should the return of the underlying referenced index be within a certain range and may also include the selling of put options.
3. Derivative Investments that reduce ~~long-Long exposure-Exposure~~ to an Asset Class or hedge against risk, and limit maximum loss to the premium paid for the Derivative Investment, i.e., purchase options. The aggregate prorated annual premium of all Derivative Investments under this provision shall be as set forth in the respective Fund's Investment Policy Statement.
4. Futures ~~contracts-Contracts~~ and ~~forward-Forward~~ contracts-Contracts on foreign currency if used (i) by an external fixed income manager within its investment guidelines, (ii) for hedging purposes by an external equities manager within its investment guidelines, or (iii) to hedge existing or prospective foreign currency risk by UTIMCO staff.
5. Derivative Investments used to manage bond duration or hedge equity exposure to countries, sectors or capitalization factors, or individual stock(s) swaps within the portfolio only if subsequent to the investment the portfolio would not be net short to any one of those factors. An example of such a hedge is selling ~~futures~~ Futures ~~contracts-Contracts~~ or call options on a country or sector index, provided the manager is exposed to that country or sector.
6. Derivative Investments used to gain ~~long-Long exposure-Exposure~~ to an Asset Class and limit maximum loss to the premium paid for the Derivative Investment.

The delegated authority set forth above should not be construed to permit UTIMCO staff to enter into Derivative Investments that are unhedged or 'naked' short positions containing unlimited loss.

**Modeling:** Each Delegated Derivative Investment must be such that it can be decomposed into one or more components, and each said component can be modeled using a model such as the CDS valuation model, Black-Scholes model, including modifications for foreign currency ("Quanto"), allowing both normal and log-normal distributions (the Black model), and modifications to handle dividends or other model approved by the Policy Committee.

**Leverage:** Each Delegated Derivative Investment must be modeled on a fully collateralized basis. During the course of the investment, cash collateral backing a Derivative Investment may be utilized to invest in other investments thereby creating leverage at the Fund level. This is only allowed if within the Funds' Investment Policy Statements.

**The University of Texas Investment Management Company  
Delegation of Authority Policy**

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Effective Date of Policy: ~~July 22, 2013~~ July 29, 2014

Date Approved by UTIMCO Board: ~~July 22, 2013~~ July 29, 2014

Supersedes: Delegation of Authority Policy approved by the UTIMCO Board on ~~July 11, 2012~~ July 22, 2013

**Purpose:**

The purpose of the Delegation of Authority Policy is to provide a clear delineation of responsibilities of the UTIMCO Board of Directors and the UTIMCO staff. Section 66.08(d) of the *Texas Education Code* provides that UTIMCO's duties to the U. T. System Board of Regents with respect to the management of investment funds shall be governed by a contract between the two parties. UTIMCO provides various investment management services to the U. T. System Board as more fully described in the Investment Management Services Agreement by and between the U. T. System Board and UTIMCO. The UTIMCO Board is responsible for management and investment oversight of UTIMCO. The UTIMCO Board recommends amendments to the Investment Policies for approval by the U. T. System Board. The UTIMCO Board is responsible for overseeing the investment process to execute the established Investment Policies. However, to enhance the competitiveness of the investment process, improve management and operational efficiency, and define and concentrate accountability for performance, certain duties, and responsibilities are delegated by the UTIMCO Board to UTIMCO Management. This Policy Statement defines the delegation of authority in the two primary areas of UTIMCO operations:

- (1) Management, Operations, and Finance; and
- (2) Investments.

**Objective:**

By clearly defining the scope of delegated authority to UTIMCO Management, this Policy Statement enhances operational efficiency and timeliness in decision making, thereby enhancing competitiveness.

**Scope:**

This Policy applies to all matters under UTIMCO control. The only delegations of authority granted by the UTIMCO Board are enumerated in this Policy, and any authority not specifically granted in this Policy is retained by the UTIMCO Board acting as agent for the U. T. System Board, provided that nothing contained in this Policy Statement is intended to, or shall, limit any delegation of authority otherwise set forth in the UTIMCO Bylaws, the Investment Management Services Agreement, any Committee Charter, any Investment Policy, or any formal policy adopted by the UTIMCO Board.

**Authority Delegated to UTIMCO Management:**

The primary functions of the UTIMCO Board are to formulate, revise, implement, and conduct ongoing oversight of the policies it has established for UTIMCO. The duties and responsibilities of the UTIMCO Board are enumerated in the UTIMCO Bylaws, Articles of Incorporation, Committee Charters, Investment Management Services Agreement, and UTIMCO policies. To execute its responsibilities more efficiently, the UTIMCO Board has delegated the authority to implement UTIMCO policies to UTIMCO Management in two primary areas: (i) Management, Operational, and Financial Authority; and (ii) Investment Authority.

**The University of Texas Investment Management Company  
Delegation of Authority Policy**

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**Management, Operational, and Financial Authority:** Final authority for the functions listed below rests with the UTIMCO Board:

- Administration, Accounting and Financial Management;
- Systems Technology Management;
- Personnel Management;
- Compliance;
- Client Relations and Reporting; and
- Public Relations.

However, the UTIMCO Board hereby delegates authority to UTIMCO Management in each functional area as specified below:

*Administration, Accounting, and Financial Management:* The UTIMCO Board hereby delegates all day-to-day operational decisions to UTIMCO Management. This delegation includes, but is not limited to, all administrative decisions regarding the management of endowment and operating funds as well as all administrative and financial decisions associated with the operation of the UTIMCO organization. This delegation includes the authority to execute all contracts and agreements, subject to the limitations defined below.

*Systems Technology Management:* The UTIMCO Board hereby delegates all decisions regarding the operation and management of all systems technology assets to UTIMCO Management. This delegation includes the authority to execute all contracts and agreements, subject to the limitations defined below.

*Personnel Management:* The UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer all personnel management decisions regarding positions included in approved UTIMCO operating budgets, and grants authority to the Chief Executive Officer to add non-budgeted personnel as necessary ~~on an emergency basis~~, subject to review in the following budget cycle, provided that the addition of any non-budgeted personnel shall be promptly reported to the UTIMCO Board. All compensation decisions for officers of UTIMCO are excluded from this delegation.

*Compliance:* The UTIMCO Board hereby delegates all compliance operations to UTIMCO Management, while retaining all oversight functions as specified in UTIMCO policies.

*Client Relations and Reporting:* The UTIMCO Board hereby delegates all client relations and reporting decisions to UTIMCO Management.

*Public Relations:* The UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer, in conjunction with The University of Texas System Offices of Public Affairs and Governmental Relations, all decisions regarding public relations matters, except for those matters that are reserved to the UTIMCO Vice Chairman for Policy.

## The University of Texas Investment Management Company Delegation of Authority Policy

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In addition, to facilitate the execution of the authority granted above, the UTIMCO Board hereby delegates the following specific duties and responsibilities to UTIMCO Management:

- *Contracts:* The UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer the authority to execute on the behalf of UTIMCO all contracts, leases, or other commercial arrangements (except investment management agency contracts, partnership agreements, investment consultant agreements and agreements with independent auditors) for a total obligation of \$1 million or less during the contract term; provided that, for purposes of this delegation any contract that does not have a fixed term shall be deemed to have a term of one year; provided, further, that notice of any such new contracts, leases, or other commercial arrangements of \$50,000 or more shall be reported to the UTIMCO Board at its next regularly scheduled meeting, and annually, all existing contracts, leases, or other commercial arrangements of \$50,000 or more shall be reported to the UTIMCO Board.
- *~~Outside General~~Fiduciary Counsel:* Management of UTIMCO's External-Fiduciary Counsel: The UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer the authority to direct the day-to-day work product of the UTIMCO external-fiduciary counsel, provided that the UTIMCO external-fiduciary counsel shall continue to have primary reporting responsibility to the UTIMCO Board.

**Investment Authority:** The UTIMCO Board hereby delegates the following specific duties and responsibilities to UTIMCO Management:

- *Tactical Asset Allocation:* Without limitations of timing, procedures, or vehicles utilized, decisions regarding tactical asset allocation within the ranges established in Investment Policies, including rebalancing portfolio weights to Policy Target Weights or actively deviating from Policy Weights as market conditions dictate, are hereby delegated to the UTIMCO Chief Executive Officer, as long as any decisions do not violate established Investment Policies. Short sales of securities (including exchange traded funds, and individual common stocks and bonds, but excluding derivative instruments) and equity indices or short positions established through Delegated Derivative Investments as defined in the Derivative Investment Policy to offset existing long positions for risk control purposes may also be utilized as a vehicle in tactical asset allocation. Prior to implementation of any short security sale strategy and throughout the duration of the strategy, risk analyses shall be performed to verify the expected risk reducing impact of the proposed strategy and that the strategy does not result in the risk position of the total Funds being outside the policy risk range.
- *Risk Management:* The UTIMCO Board hereby delegates all decisions regarding the design and operation of any risk management system to UTIMCO Management.
- *Allocation of Investment Funds to New Managers and Mandates:* The UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer the authority to commit UT System funds to a new relationships with an internal or external investment managers during the first six months of the relationship or to new mandates with external investment managers already under existing relationships with UTIMCO, and the accompanying authority to negotiate and execute agency, partnership or subscription agreements as necessary, subject only to the following limitations:

**The University of Texas Investment Management Company  
Delegation of Authority Policy**

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- More Correlated & Constrained (MCC) Investments: ~~Any new commitments exceeding (i) \$500 million to an individual internal or external manager; (ii) 20% of the total assets managed by an individual external manager; or (iii) 20% of the total assets managed under a new investment strategy by an individual external manager, must follow the process outlined in Appendix A~~New commitments may not exceed 1.5% of Applicable Assets (as defined below).
- Less Correlated & Constrained (LCC) Investments: ~~Any new commitments exceeding (i) \$250 million; (ii) 20% of the total assets managed by an external manager; or (iii) 20% of the total assets managed under a new investment strategy by an individual external manager, must follow the process outlined in Appendix A~~New commitments may not exceed 1.0% of Applicable Assets.
- Private Investments: ~~Any new commitments exceeding (i) \$125 million; or (ii) 20% of the total assets managed by an external manager; or (iii) 20% of the total assets managed under a new investment strategy by an individual external manager; must follow the process outlined in Appendix A. All new commitments to direct Private Investments not qualifying as a Co-investment must follow the process outlined in Appendix A~~New commitments may not exceed 0.75% of Applicable Assets.
  - Co-investments: ~~Any new commitment to a direct Private Investment with an existing external manager, exceeding (i) \$50 million; (ii) 20% of the total assets managed by an external manager; (iii) 20% of the total assets managed under a new investment strategy by an individual external manager; or (iv) 20% of the total assets of the Private Investment portfolio in the aggregate; must follow the process outlined in Appendix A~~New commitments to a direct Private Investment with an existing external manager may not exceed 0.25% of Applicable Assets.
- *Changing Allocations of Investment Funds to Existing Managers and Mandates:* Subsequent to the first six months of the UTIMCO relationship with a new manager, the UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer the authority to increase investments or commitments to existing internal or external investment managers and mandates, and the accompanying authority to renegotiate existing agency, partnership or subscription agreements as necessary, subject only to the following limitations:
  - More Correlated & Constrained (MCC) Investments: ~~Any increases that (i) exceed \$250 million to existing funds under management by any individual internal or external manager; or (ii) increase the total assets managed to more than (a) 20% of the total assets managed by an individual external manager; or (b) 20% of the total assets managed under a new investment strategy by an individual external manager, must follow the process outlined in Appendix A~~Total increases may not exceed 1.5% of Applicable Assets in each subsequent 12-month period.
  - Less Correlated & Constrained (LCC) Investments: ~~Any increases that (i) exceed \$125 million to existing funds under management; or (ii) increase the total assets managed to more than (a) 20% of the assets managed by an external manager; or (b) 20% of the total assets managed under a new investment strategy by an individual external manager, must follow the process outlined in Appendix A~~Total



The University of Texas Investment Management Company  
Delegation of Authority Policy

- increases may not exceed 1.0% of Applicable Assets in each subsequent 12-month period.
- ~~Private Investments: Any increase that increases the total assets managed to more than (a) \$175 million with an individual manager in a single investment vehicle; (b) 20% of the total assets managed by an external manager; or (c) 20% of the total assets managed under an investment strategy by an individual external manager; must follow the process outlined in Appendix A~~Total increases may not exceed 0.75% of Applicable Assets.
    - ~~Co-investments: Any increase to a direct Private Investment with an existing external manager, exceeding (i) \$50 million; (ii) 20% of the total assets managed by an external manager; (iii) 20% of the total assets managed under a new investment strategy by an individual external manager; or (iv) 20% of the total assets of the Private Investment portfolio in the aggregate; must follow the process outlined in Appendix A~~Total increases to a direct Private Investment with an existing external manager may not exceed 0.25% of Applicable Assets during the life of the Co-investment.
  - *Terms Applicable to All Internal and External Managers:*
    - Applicable Assets is defined as follows:
      - For MCC and LCC Investments: Total combined NAV of the Endowments and ITF; and
      - For Private Investments: Total combined NAV of the Endowments.
    - No commitment or increase shall be permitted which increases the Total Assets managed by an internal or external manager to more than 50% of the Total Assets managed by the manager in that investment strategy.
    - ~~No commitment or increase shall be permitted which causes the Total Assets managed by an internal or external manager to exceed \$750 million~~3.0% of Applicable Assets in the aggregate for all Investment Types except for managers limited to MCC Investment Grade Fixed Income mandates, which may not exceed ~~\$1.1 billion~~4.0%. For purposes of this provision, if Total Assets managed by the internal or external manager includes an allocation to Private Investments and MCC and/or LCC Investments, Applicable Assets will include the total combined NAV of the Endowments plus the ITF.
    - For purposes of the above thresholds, "Total Assets" shall be defined as NAV plus unfunded commitments.
    - Any increases that exceed ~~these amounts~~the above thresholds must follow the process outlined in Appendix A.
    - Prior to a new relationship with an internal or external investment manager or to a new mandate with an existing external investment manager, the Staff will send each Board member a description of the proposed investment and a Certificate of Compliance for the investment.
    - Passive exposure, either by an individual internal or external manager, is limited only as required to maintain the Policy Portfolio within the Asset Class and Investment Type ranges.



**The University of Texas Investment Management Company  
Delegation of Authority Policy**

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- The UTIMCO Chief Executive Officer will report to the UTIMCO Board at its regularly scheduled Board meetings regarding all decisions made under this delegated authority.
- *Manager Monitoring and Termination:* The UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer all decisions regarding monitoring and termination of existing internal or external investment managers.
- Notwithstanding, on a quarterly basis, manager mandates (excluding passive exposure) shall be aggregated across all Funds, asset classes and investment types and any mandate resulting in three percent (3%) or more exposure relative to the total Funds (excluding the ITF for Private Investments) will be reported to the Risk Committee at its next meeting. UTIMCO staff will be required to make a presentation and prepare a recommendation to the Risk Committee 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). Such presentation and recommendation will include information regarding the manager mandate, including original amount of investment, historical performance, market and economic outlook, and appropriate sizing, with timelines for completion of any recommended action. After discussion and review by the Risk Committee, the Risk Committee may approve the recommendation of UTIMCO staff, determine a different appropriate level of exposure or request additional information to be presented at a subsequent meeting before action may be taken by UTIMCO staff. UTIMCO staff will be responsible for implementing any Risk Committee approved action.
- *Investment in Derivative Investments:* The UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer the authority to enter into the Derivative Investments of the types set forth in Exhibit B of the Derivative Investment Policy and as authorized by the Funds' Investment Policy Statements. Any new derivative investment recommended by UTIMCO staff or for the engagement of an external manager operating under an Agency Agreement that has been approved by UTIMCO's Chief Investment Officer but is not within the delegated authority set forth in Exhibit B of the Derivative Investment Policy must follow the process outlined in Appendix A.
- *Internal Investment Management:* The UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer all decisions associated with the direct management of assets by UTIMCO Staff.
- *Management of the UTIMCO Board's External Investment Consultant(s):* The UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer the authority to direct the day-to-day work product of the UTIMCO Board's external investment consultant(s), provided that the UTIMCO Board's external investment consultant(s) shall continue to have primary reporting responsibility to the UTIMCO Board.

**Documentation, Controls, and Reporting:**

All UTIMCO Management decisions made under this Delegation of Authority Policy will be monitored by UTIMCO's Chief Compliance Officer. Any exceptions to this Policy will be reported to UTIMCO's Chief Executive Officer immediately. The UTIMCO Chief Executive Officer will develop a remedy to the exception, if possible, and report the exception and the remedy to the UTIMCO Chairman immediately. Additionally, the UTIMCO Chief Executive Officer will report any exceptions to this Policy to the UTIMCO Board at its next regularly scheduled meeting, unless the UTIMCO Chairman instructs otherwise.

**The University of Texas Investment Management Company  
Delegation of Authority Policy**

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**Appendix A  
UTIMCO Board Option to Review Proposed Investments**

In instances where a proposed investment exceeds the stated Investment Authority of the UTIMCO Chief Executive Officer, the Staff must follow the procedures listed below to provide the UTIMCO Board the opportunity to review an investment proposal at a UTIMCO Board meeting:

1. Option to Review Investment Proposal

a. For new commitments, Staff will send each UTIMCO Director an investment recommendation, a Certificate of Compliance if one has not previously been provided to each UTIMCO Director, and an Option to Review Investment Proposal, ~~and, if required by the UTIMCO Chief Executive Officer, a due diligence report provided by the external consultant.~~ Staff will provide a UTIMCO Director a complete due diligence report upon request.

b. For additional commitments to existing managers and partnerships, Staff will send each UTIMCO Director an executive summary of the proposed investment, and an Option to Review Investment Proposal, ~~and, if required by the UTIMCO Chief Executive Officer, a due diligence report provided by the external consultant.~~ Staff will provide a UTIMCO Director a complete due diligence report upon request.

c. For new Derivative Investments, Staff will send to each UTIMCO Director detailed documentation describing the proposed trade and an Option to Review Investment Proposal.

2. Option to Review Investment Proposal Form

The Option to Review Investment Proposal Form will require a UTIMCO Director to choose one of the following alternatives:

~~(i) I require a complete review of the investment at a subsequent Board meeting prior to the execution of the investment;~~

~~(ii) I do not require a complete review of the investment at a subsequent Board meeting prior to the execution of the investment; or~~

(iii) I do not require a complete review of the investment at a subsequent Board meeting prior to the execution of the investment but request that UTIMCO Staff make a presentation regarding the proposed investment at a future UTIMCO Board meeting; or

(iii) I require a complete review of the investment at a subsequent Board meeting prior to the execution of the investment;

**The University of Texas Investment Management Company  
Delegation of Authority Policy**

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3. If any UTIMCO Director requires a complete review of the investment prior to the execution of the investment, the Staff shall make a presentation to highlight the attributes and risks of the proposed investment at the next UTIMCO Board meeting. Subsequent to hearing the presentation, the Board shall vote on whether or not to approve such investment.

**Agenda Item**  
UTIMCO Board of Directors Meeting  
July 29, 2014

**Agenda Item:** Report from Compensation Committee, including (1) Discussion and Appropriate Action Related to CEO's Base Salary for 2014-2015 Fiscal Year; (2) Discussion and Appropriate Action Related to Appendices of the UTIMCO Compensation Program, Amended and Restated effective September 1, 2013; and (3) Discussion and Appropriate Action Related to 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

**Description:** The Compensation Committee (the "Committee") will meet on July 23, 2014 and July 29, 2014. The Committee's agenda for its July 23, 2014 meeting includes (1) discussion and appropriate action related to minutes of its February 20, 2014 meeting and the February 20, 2014 Joint Meeting of the Policy and Compensation Committees; (2) discussion related to base salaries for the UTIMCO Officers and other UTIMCO Compensation Program ("Plan") Participants for 2014-2015 fiscal year; (3) discussion related to Appendices of the Plan; and (4) discussion and appropriate action related to proposed amendments to the Charter of the Compensation Committee. At its meeting on July 29, 2014, the Committee's agenda will include (1) discussion and appropriate action related to base salaries for the UTIMCO Officers and other Plan Participants for 2014-2015 fiscal year; and (2) discussion and appropriate action related to Appendices of the Plan. The Committee also will meet in Executive Session for the purpose of deliberating individual personnel compensation and evaluation matters at both meetings.

**Discussion:** **(1) Base Salaries.** The Committee will report on its action related to the base salaries for all UTIMCO officers and Plan Participants (other than the CEO) for the 2014-15 Fiscal Year. The Committee will request that the Board take appropriate action related to the CEO's base salary.

**(2) Appendices of the Plan.** Mr. Zimmerman will report on potential amendments related to Appendices C, D and E of the Plan. Appendix C, Table 1 sets forth the Eligible Positions, Weightings, Incentive Award Opportunities, and Percentage of Award Deferred for Each Eligible Position and will be discussed in executive session.

Appendix D, Table 2, sets forth two of the Performance Goals categories referenced in Section 5.4(b) of the Plan for the Plan Participants: the Entity Performance and the Asset Class/Investment Type Performance Goals, including the benchmarks for Asset Class/Investment Type and the Threshold, Target, and Maximum

**Agenda Item**  
UTIMCO Board of Directors Meeting  
July 29, 2014

Performance Standards for the Total Endowment Funds, Intermediate Term Fund, and each Asset Class/Investment Type. The Benchmark for Natural Resources for the Performance Period of 9/1/2014 through 8/31/2015 has been updated to correspond with the changes to the Exhibit A of the Investment Policy Statements of the Permanent University Fund, General Endowment Fund and Intermediate Term Fund. Staff is requesting UTIMCO Board and U.T. System Board of Regents approval of the changes to the exhibits to the Investment Policy Statements at their respective upcoming meetings and changes to Appendix D are contingent on approval by the U.T. Board of Regents. The name of the Dow Jones-UBS benchmark has been changed to Bloomberg. Bloomberg and UBS entered into a strategic partnership that resulted in Bloomberg assuming responsibility for the governance, calculation, distribution and licensing of UBS's commodity indices, effective July 1, 2014. The benchmark change is a change in name only and does not affect any benchmark performance numbers. The other change to the Natural Resources Benchmark is the composition of the Benchmark as described on Appendix D. The Policy Portfolio Weights of the Asset Classes/Investment Types are also being changed to correspond with changes in the Exhibits of the Investment Policy Statements for the Permanent University Fund and General Endowment Fund.

Appendix E, Table 3 Eligible Positions of Affected Participants will be discussed in executive session.

The Committee will take appropriate action at its meeting on July 29, 2014, and requests that the UTIMCO Board take action related to the proposed amendments to the Appendices of the Plan.

**(3) Charter of the Compensation 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.

**Agenda Item**  
UTIMCO Board of Directors Meeting  
July 29, 2014

- 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.

The Committee will take appropriate action at its meeting on July 23, 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 CEO's Base Salary for 2014-15 Fiscal Year; (2) changes to Appendices C, D and E of the Plan; and (3) proposed amendments to the Charter of the Compensation Committee

**Reference:** Appendix D, Table 2  
Charter of the Compensation Committee  
Compensation materials, including Appendix C and E, provided for executive session

**RESOLUTION REGARDING CEO'S BASE SALARY**

RESOLVED, that the Board of Directors of UTIMCO hereby approves the Base Salary of the Corporation's CEO for the Fiscal Year 2014-2015 in the amount of \$\_\_\_\_\_.

**RESOLUTION RELATED TO AMENDMENTS TO  
UTIMCO COMPENSATION PROGRAM APPENDICES C, D and E**

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, Section 5.3.(a) of the Plan requires Table 1 to be revised each Performance Period when necessary to set forth the Eligible Positions, the weightings for the Eligible Positions, the Incentive Award Opportunities, and any Applicable Deferral Percentage for each Eligible Position, for that Performance Period as soon as administratively practicable after confirmation of such Eligible Positions by the Board for such Performance Period and to be attached as Appendix C to the Plan; and

WHEREAS, Section 5.8.(b)(1) of the Plan requires Table 2 to be revised 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 and to be attached as Appendix D to the Plan; and

WHEREAS, Section 5.12. of the Plan pertaining to certain Eligible Positions listed on Table 3 whose Performance Incentive Awards are subject to automatic adjustment requires Table 3 to be revised when necessary to set forth changes to those Eligible Positions that are Affected Positions, for the Performance Period as soon as administratively practicable after confirmation of such Eligible Positions as Affected Participants by the Board for such Performance Period and to be attached as Appendix E to the Plan; and

WHEREAS, the Board has reviewed the revised Tables 1, 2, and 3, and approves the amendments as recommended by the Compensation Committee.

NOW, THEREFORE, be it:

RESOLVED, the updated and amended Tables 1, 2, and 3 copies of which are attached hereto, are hereby adopted and approved to replace the current Appendix C, D and E, respectively, effective as of September 1, 2014.



**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.

**Appendix D, Table 2**  
**Benchmarks for Entities and Asset/Class Investment Type**  
**Threshold, Target, and Maximum Performance Standards**  
**(9/1/14 through 8/31/15)**

Asset Class/Investment Type	Benchmark	Policy Portfolio Weights		Performance Standards		
		Total Endowment Assets	IFF	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	<del>7.5%</del> 6.5%	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	<del>50% Dow Jones UBS</del> 33.4% Bloomberg Commodity Total Return Index, <del>and 50%</del> 33.3% MSCI World Natural Resources Index and 33.3% Gold spot price (XAU)	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	<del>10.0%</del> 9.5%	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	Custom Cambridge Fund of Funds Benchmark	<del>28.5%</del> 30.0%	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

# 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~~July 29, 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~~July 29, 2014.

**Agenda Item**  
UTIMCO Board of Directors Meeting  
July 29, 2014

- Agenda Item:** Discussion and Appropriate Action Related to UTIMCO 2014-2015 Budget
- Developed By:** Zimmerman, Moeller, Shepherd
- Presented By:** Zimmerman
- Type of Item:** Action Item; Action required by UTIMCO Board; further action required by Board of Regents of The University of Texas System (“U.T. Board”)
- Description:** The Master Investment Management Services Agreement with UTIMCO (“IMSA”) sets forth the annual budget and management fee requirements. UTIMCO submits to the U.T. Board its proposed annual budget for the following fiscal year within the time frame specified by the U.T. Board for other annual budget submissions. The annual budget includes all estimated expenses associated with the management of the Investment Funds. The annual budget also includes an annual UTIMCO management fee which includes all operating expenses associated with the general management of the funds, including, without limitation, reasonable salaries, benefits and performance compensation of portfolio management and support personnel, expenses for consulting services, office space lease expenses, office furniture and equipment expenses, professional, legal, payroll, and other general services, travel, insurance, capital expenditures, and other miscellaneous expenses incurred by UTIMCO in connection with the performance of its obligations under the IMSA. At the same time UTIMCO submits its annual budget, it submits to the U.T. Board an allocation formula for charging the annual budget to the Investment Funds. In addition to the annual budget, UTIMCO submits its capital expenditures budget.
- During the preparation of the annual budget, a reserve analysis is also prepared. Within 90 days after the end of each fiscal year in the event that there is a surplus, UTIMCO distributes that portion of the cash reserves as may be directed by the U.T. Board back to the Funds which generated the surplus.
- Discussion:** Mr. Zimmerman will present the UTIMCO FY15 Budget presentation, including the reserve analysis.
- Recommendation:** UTIMCO staff recommends that the UTIMCO Proposed 2014-2015 Annual Budget, Capital Budget, Management Fee Request, and Allocation Schedule be approved as presented.
- Reference:** *Proposed UTIMCO FY15 Budget presentation*

<b>RESOLUTION RELATED TO BUDGET</b>
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RESOLVED, that the UTIMCO Management Fee of \$25,428,694 and the Other Direct Fund Costs of \$7,421,930, resulting in Total Fees of \$32,850,624, Capital Budget of \$1,372,000 and the Allocation Schedule; as provided to the Board for the period beginning September 1, 2014 through August 31, 2015, be, and are hereby, approved, subject to approval by the Board of Regents of The University of Texas System.



THE UNIVERSITY OF TEXAS  
INVESTMENT MANAGEMENT COMPANY

# UTIMCO

## Proposed FY 15 Budget





# FY 2015 Budget vs. FY 2014 Budget

(\$ in thousands)	FY 2014		FY 2015	FY 2015 Budget v FY 2014 Budget	
	Budget	Forecast	Budget	\$	%
Salaries	\$8,919	\$8,651	\$9,504	\$585	6.6%
Incentive Compensation	8,519	8,632	8,518	(1)	0.0%
Benefits & Taxes	2,311	2,218	2,440	129	5.6%
<b>Total Compensation</b>	<b>19,749</b>	<b>19,501</b>	<b>20,462</b>	<b>713</b>	<b>3.6%</b>
Other UTIMCO	4,721	4,468	4,966	245	5.2%
<b>Total UTIMCO</b>	<b>\$24,470</b>	<b>\$23,969</b>	<b>\$25,428</b>	<b>\$958</b>	<b>3.9%</b>
<b>Total Direct Costs</b>	<b>\$7,745</b>	<b>\$6,914</b>	<b>\$7,422</b>	<b>(\$323)</b>	<b>-4.2%</b>



# Salaries

- **Salary Increases**

Promotions	\$130	17.7%
Rest of Staff	<u>622</u>	<u>8.4%</u>
<b>Total Salary Increases</b>	<b>752</b>	<b>9.1%</b>

- **Staff Additions**

Three 2014 Unfilled Positions (IT Programmer, Sr Associate, LCC Analyst)	326
Two New Director/Sr Associate & Three New Analysts	<u>520</u>
<b>Total Staff Additions</b>	<b>846</b>

- **Staff Turnover/Hring Lag Factor Adjustment** (800)



# Investment Staff Peer Benchmarking

- Based on a detailed bottom-up analysis, UTIMCO's FY 2015 budget includes seven new investment professionals
- Ten of the largest U.S. University endowments were surveyed regarding their staffing levels for externally managed funds
  - Asset size (AUMs) ranged from \$5.3B to \$20.8B in externally managed assets; the five largest had over \$15B of AUMs
  - Investment staff size ranged from 10-22 Full Time Equivalent (FTEs)
  - AUMs per Investments FTE averaged \$868 million; the median was \$820M
  - For the five largest endowments, AUMs per Investment FTE averaged \$930; the median was \$910M
- UTIMCO has 26 investment professionals currently, assuming PI & NR recent departure positions are filled
- An increase of 8 to 13 positions would be required if UTIMCO were to have average staffing levels

AUMs/FTE	Implied UTIMCO Staff	Implied Additional Positions
\$820	39	13
\$868	37	11
\$910	35	9
\$930	34	8



# Incentive Compensation

(\$ in thousands)	FY 2014		FY 2015	FY 2015 Budget v FY 2014 Budget	
	Budget	Forecast	Budget	\$	%
<b>Excluding Retirees:</b>					
Award	\$5,070	\$4,471	\$5,603	\$533	10.5%
Vesting of Deferrals	2,155	2,082	2,071	(84)	-3.9%
Earnings	183	420	176	(7)	-3.8%
<b>Total Excluding Retirees</b>	<b>7,408</b>	<b>6,973</b>	<b>7,850</b>	<b>442</b>	<b>6.0%</b>
<b>Retirees Only:</b>					
Award	1,046	1,332	1,740	694	66.3%
Vesting of Deferrals	-	211	133	133	n/m
Earnings	65	116	95	30	46.2%
<b>Total Retirees</b>	<b>1,111</b>	<b>1,659</b>	<b>1,968</b>	<b>857</b>	<b>77.1%</b>
Staff Turnover/Hiring Lag Adjustment	\$0	\$0	(\$1,300)	(\$1,300)	n/m
<b>Total Incentive Compensation</b>	<b>\$8,519</b>	<b>\$8,632</b>	<b>\$8,518</b>	<b>(\$1)</b>	<b>0.0%</b>



# Other UTIMCO Expenses

(\$ in thousands)	FY 2014		FY 2015	FY 2015 Budget v FY 2014 Budget		Description
	Budget	Forecast	Budget	\$	%	
Lease	\$1,058	\$1,106	\$1,121	\$63	6.0%	Property tax component of operating expenses
Online Data & Subscriptions	1,093	1,031	1,157	64	5.9%	Add'l user licenses & software support
Depreciation	600	635	650	50	8.3%	ISS Project
Travel	676	524	630	(46)	-6.8%	Increase over FY 14 Forecast due to staff additions
Contract Svcs & Maint Agrmnts	492	302	427	(65)	-13.2%	Increases in security review & standard maintenance more than offset by decrease in IT consulting fees
Hiring, Relo & Comp Cons	83	203	239	156	188.0%	New hires
Legal	140	107	140	0	0.0%	
Other	579	560	602	23	4.0%	
<b>Total Other UTIMCO</b>	<b>\$4,721</b>	<b>\$4,468</b>	<b>\$4,966</b>	<b>\$245</b>	<b>5.2%</b>	



# Direct Costs

(\$ in thousands)	FY 2014		FY 2015	FY 2015 Budget v FY 2014 Budget	
	Budget	Forecast	Budget	\$	%
Custodian Fees	\$4,736	\$4,173	\$4,464	(\$272)	-5.7%
Performance, Analytical and Risk Measurement	1,235	1,128	1,190	(45)	-3.6%
Consultant Fees	351	351	353	2	0.6%
Legal and Background Checks	837	589	575	(262)	-31.3%
Auditing & Foreign Tax Consultants	582	656	820	238	40.9%
Other	4	17	20	16	400.0%
<b>Total</b>	<b><u>\$7,745</u></b>	<b><u>\$6,914</u></b>	<b><u>\$7,422</u></b>	<b><u>(\$323)</u></b>	<b><u>-4.2%</u></b>



# Capital Budget

(\$ in thousands)	FY 2014		FY 2015	FY 2015 Budget v FY 2014 Budget	
	Budget	Forecast	Budget	\$	%
Technology Initiatives	\$948	\$1,012	\$1,188	\$240	25%
<u>Business as Usual</u>					
Computer Servers/Software	26	32	25	(1)	-3%
Staff Equipment	41	41	24	(17)	-41%
Software Licenses	20	21	20	-	0%
Equipment & Copiers	-	-	40	40	n/m
Leasehold	-	-	75	75	n/m
	<u>87</u>	<u>94</u>	<u>184</u>	<u>97</u>	<u>111%</u>
<b>Total Capital Budget</b>	<b><u>\$1,035</u></b>	<b><u>\$1,106</u></b>	<b><u>\$1,372</u></b>	<b><u>\$337</u></b>	<b><u>33%</u></b>



# Annual Fee & Allocation Schedule

UTIMCO Management Fee and Direct Budgeted Investment Expenses  
Annual Fee and Allocation Schedule  
For the fiscal year ending August 31, 2015

Proposed Budget	Fund Name						Separate Funds	Total
	PUF	PHF	LTF	GEF	ITF	STF		
<b>Forecasted Market Value 8/31/15 (\$ millions)</b>	18,875	1,133	7,510	PHF LTF 8,643	6,770	1,817	503	36,608
<b>UTIMCO Management Fee</b>								
Dollars (thousands)	13,033	1,065	6,966		4,365			25,429
Basis Points	6.9	9.4	9.3	0	6.4	0	0	6.9
<b>Direct Expenses to the Fund, excluding UT System Direct Expenses to the Fund</b>								
Dollars (thousands)	3,426	24	26	1,974	1,972			7,422
Basis Points	1.8	0.2	0.0	2.3	2.9	0	0	2.0
<b>UT System Direct Expenses to the Fund</b>								
Dollars (thousands)								
UT System Fees for Endowment Admin & Mgmt	0	0	15,093	0	0	0	0	15,093
UT System Oversight Fees	159	11	70	0	60	0	0	300
UT System PUF Lands	9,966	0	0	0	0	0	0	9,966
Total Dollars	10,125	11	15,163	0	60	0	0	25,359
Basis Points	5.4	0.1	20.2	0	0.1	0	0	6.9





# Reserve Analysis

## Projected Cash Reserves at August 31, 2014:

Cash		\$ 11,546,237
Prepaid Expenses		682,877
Less: Accounts Payable, Accrued Liabilities		(5,940,524)
	(Includes awards & earnings payable)	
		<hr/>
<b>Expected Cash Reserves at August 31, 2014</b>		<b><u>\$ 6,288,590</u></b>
2015 Proposed Operating Budget	25,428,694	
Applicable Percentage	25%	6,357,174
2015 Proposed Capital Expenditures	1,372,000	1,372,000
		<hr/>
<b>Required Cash Reserves at August 31, 2014</b>		<b><u>\$ 7,729,174</u></b>
<b>Balance Available for Distribution</b>		<b><u>\$ (1,440,584)</u></b>

**Conclusion: No Rebate Required Back to the UT System Investment Funds**