

**UTIMCO BOARD OF DIRECTORS
MEETING AGENDA
November 18, 2014**

UTIMCO
401 Congress Ave., Ste. 2800
Austin, Texas 78701

Time		Item #	Agenda Item
Begin	End		
10:00 a.m.	10:03 a.m.	1	Call to Order/Discussion and Appropriate Action Related to Minutes of the October 9, 2014 Meeting*
10:03 a.m.	10:35 a.m.	2	Discussion Related to Investment Initiatives
10:35 a.m.	10:50 a.m.	3	Discussion Related to Potential Scenarios
10:50 a.m.	11:15 a.m.	4	UTIMCO Organization Update
11:15 a.m.	11:40 a.m.	5	Educational Program for UTIMCO Directors
11:40 a.m.	12:30 p.m.		Lunch
12:30 p.m.	12:40 p.m.	6	Report from Risk Committee
12:40 p.m.	12:50 p.m.	7	Report from Policy Committee - Discussion and Appropriate Action Related to Proposed Amendments to the Delegation of Authority Policy*
12:50 p.m.	1:00 p.m.	8	Report from Audit and Ethics Committee: - Discussion and Appropriate Action Related to Deloitte & Touche LLP Financial Statement Audit Results and Communications and the Audited Financial Statements of the Permanent University Fund, General Endowment Fund, Permanent Health Fund, Long Term Fund, Intermediate Term Fund, and the Statement of Investment Performance Statistics for the year ended August 31, 2014*
1:00 p.m.	1:25 p.m.	9	Recess to Executive Session Executive Session: The Board of Directors may convene in Executive Session to consider individual personnel compensation matters, including Report of Compensation Committee Regarding Performance Incentive Awards for UTIMCO Compensation Program Participants for the Performance Period ended August 31, 2014, pursuant to Section 551.074, <i>Texas Government Code</i> . Reconvene into Open Session Report from Compensation Committee: - Discussion and Appropriate Action Related to Performance Incentive Awards for UTIMCO Compensation Program Participants for the Performance Period ended August 31, 2014* - Discussion and Appropriate Action Related to Designation of Employee in Eligible Position as a Participant in the UTIMCO Compensation Program for the Performance Period ending August 31, 2015*
1:25 p.m.	1:30 p.m.	10	Report on 2015 Meeting Dates
1:30 p.m.			Adjourn

* Action by resolution required

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

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

Next Scheduled Meeting: TBD

RESOLUTION RELATED TO MINUTES

RESOLVED, that the minutes of the meeting of the Board of Directors held on **October 9, 2014**, be, and are hereby, approved.

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

The Board of Directors (the "Board") of The University of Texas Investment Management Company (the "Corporation") convened in an open meeting on **October 9, 2014**, by means of conference telephone enabling all persons participating in the meeting to hear each other, 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 and broadcast over the Internet. However, due to technical difficulty, the recording is inaudible. Participating in the meeting were the following members of the Board:

Morris E. Foster, Chairman
Ardon E. Moore, Vice Chairman
Kyle Bass
R. Steven Hicks
H. Lee S. Hobson
Robert L. Stillwell
John D. White

thus constituting a majority and quorum of the Board. Chairman Foster called the meeting to order at 9:32 a.m. Directors Francisco Cigarroa and Jeffery Hildebrand did not attend the meeting. Employees of the Corporation attending the meeting were Bruce Zimmerman, CEO and Chief Investment Officer; 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; Susan Chen, Managing Director – Public Markets Investments; Ryan Ruebsahm, Managing Director – Marketable Alternative Investments; Uzi Yoeli, Managing Director - Portfolio Risk Management; Eddie Lewis, Director – Real Estate Investments; Russ Kampfe, Senior Portfolio Manager – Fixed Income Investments; and other staff members. Other attendees were Terry Hull, Moshmee Kalamkar, and Roger Starkey 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 **July 29, 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
July 29, 2014, be, and are hereby, approved.

Corporate Resolutions

Chairman Foster recommended approval of the appointment of Dr. Yoeli as an officer of the Corporation. Upon motion duly made and seconded, the following resolution was unanimously adopted by the Board:

RESOLVED, that Uzi Yoeli is hereby appointed to the office of Managing Director of the Corporation to serve until the next Annual Meeting of the Corporation or until his resignation or removal.

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 assets under management and performance results as of August 31, 2014, the end of the fiscal year. Mr. Zimmerman reported the Corporation had \$34.7 billion of assets under management. Of the \$34.7 billion, \$17.4 billion was in the Permanent University Fund ("PUF"), \$8.3 billion in the General Endowment Fund ("GEF"), \$1.8 billion in the Short Term Fund ("STF"), \$0.1 billion in Separately Invested Funds, \$0.4 billion in the Debt Proceeds Fund, and \$6.7 billion in the Intermediate Term Fund ("ITF"). The net performance for the fiscal year ended August 31, 2014, for the PUF was 15.11% and for the GEF was 14.73%. The ITF's performance was 10.45%. Mr. Zimmerman also presented the *Endowment Dashboard*, a new slide, which provides a one page summary of ten identified risks for the funds. He also reported on peer performance as of June 30, 2014, and market performance. He asked Dr. Yoeli to present the scenario analysis and risk capacity utilization. Mr. Zimmerman continued by reporting on the Funds' volatility/downside risk, active management, value add, endowment insurance hedges, transparency risks and concentration analysis. Mr. Kampfe, Mr. Warner, Mr. Lewis, Ms. Chen, Mr. Ruebsahm and Mr. Eakman each reported on their current portfolios. Mr. Zimmerman gave an update on the ITF and contracts. Mr. Zimmerman and Investment Staff answered the Directors' questions.

Executive Session

Chairman Foster announced, at 10:37 a.m., that, "The Board of Directors of The University of Texas Investment Management Company having been duly convened in Open Session and notice of this meeting having been duly given, I hereby announce the convening of a closed meeting as an Executive Session for the purpose of deliberating individual personnel compensation and evaluation matters, including the CEO and Chief Investment Officer, pursuant to Section 551.074, *Texas Government Code*, and to deliberate the Purchase, Exchange, Lease or Value of Real Property pursuant to 551.072, *Texas Government Code*. The date is October 9, 2014, and the time is now 10:37 a.m." With the exception of Mr. Zimmerman, Mr. Turner and Dr. Brown, all other meeting participants left the meeting at this time. Mr. Zimmerman left the meeting during discussions regarding his compensation matters.

Open Session

The Board reconvened in open session and Chairman Foster announced that "The Open Session of the Board of Directors of The University of Texas Investment Management Company is now reconvened. The date is October 9, 2014, and the time is now 10:42 a.m. During the Executive Session, the Board deliberated individual personnel compensation and evaluation matters, including the CEO and Chief Investment Officer, and the Purchase, Exchange, Lease or Value of Real Property but no actions were taken nor decisions made, and no vote was called for or had by the Board in Executive Session."

Compensation Committee Report

Chairman Foster proposed that the Board accept the Compensation Committee's recommendations regarding approval of the resolutions related to the CEO's Qualitative Performance Goals for the Performance Period ended August 31, 2015 and designation of employees in Eligible Positions as Participants in the Plan for the Performance Period ended August 31, 2015. Upon motion duly made and seconded, the following resolutions were unanimously adopted:

WHEREAS, Section 5.4.(a) of the UTIMCO Compensation Program (the "Plan") provides that the Compensation Committee (the "Committee") of the Board of Directors of UTIMCO (the "Board") will approve the Performance Goals for each Participant (other than for the CEO) each Performance Period; and

WHEREAS, Section 5.4.(c) of the Plan provides that the Board will determine the Performance Goals of the CEO for each Performance Period; and

WHEREAS, the Board has reviewed the CEO's Qualitative Performance Goals for the Performance Period ended August 31, 2015, as prepared by the CEO, and recommended by the Committee and set forth in the document presented to the Board.

NOW, THEREFORE, be it:

RESOLVED, that the Board approves the Qualitative Performance Goals for the CEO for the Performance Period ended August 31, 2015, as set forth in the document presented to the Board.

And,

WHEREAS, Section 5.3.(a) of the UTIMCO Compensation Program (the "Plan") provides that, in order to become a "Participant" in the Plan for a Performance Period, a UTIMCO employee must be (1) employed in a position designated by the Board of Directors of UTIMCO (the "Board") as an "Eligible Position" for that Performance Period and (2) selected by the Board as a Participant for that Performance Period; and

WHEREAS, the Compensation Committee of the Board has recommended the individuals who may become Participants for the Performance Period ended August 31, 2015 set forth on Exhibit 1 attached hereto; and

WHEREAS, the UTIMCO Board has reviewed Exhibit 1 and wishes to select the individuals who may become Participants for the Performance Period ended August 31, 2015.

NOW, THEREFORE, be it:

RESOLVED, that the individuals set forth on Exhibit 1 attached hereto are hereby designated as "Participants" in the Plan for the Performance Period ended August 31, 2015, effective as of September 1, 2014.

Office Lease Extension

Chairman Foster recommended Board approval for the extension of the office lease for the Corporation. Upon motion duly made and seconded, the following resolution was unanimously adopted:

WHEREAS, the Corporation currently leases office space for its executive and administrative offices in the Building commonly known as Frost Bank Tower in Austin, Texas pursuant to an Office Lease with PKY-401 Congress, LLC (as successor in interest to Cousins Properties Texas LP) which expires on August 31, 2016; and

WHEREAS, the Corporation must negotiate and enter into a new lease agreement or extend the current lease agreement to secure office space for its executive and administrative offices on the expiration of the existing lease.

NOW, THEREFORE, BE IT RESOLVED, that, with the consent of Scott Kelley, Executive Vice Chancellor for Business Affairs of The University of Texas System, the CEO and Chief Investment Officer is authorized and directed by the Board of Directors to negotiate and enter into an office lease extension agreement on behalf of the Corporation ("Lease Agreement") on such terms that may be in the best interests of the Corporation as determined by the CEO and Chief Investment Officer and perform such other acts as may be necessary to perform the obligations of the Corporation under the Lease Agreement.

There being no further business to come before the Board, the meeting was adjourned at approximately 10:47 a.m.

Secretary: _____
Joan Moeller

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

Exhibit 1
Designation of Plan Participants in Eligible Positions
for the Performance Period Ended August 31, 2015

ELIGIBLE POSITION	PARTICIPANTS
<i>Investment Professionals</i>	
CEO & Chief Investment Officer	Bruce Zimmerman
Senior Managing Director - Investments	Mark Warner
Managing Director - Private Investments	Lindel D. Eakman
Managing Director - Investments	Mark Shoberg
Managing Director - Investments	Ryan Ruebsahm
Managing Director - Investments	Susan Chen
Managing Director - Risk Management	Uzi Yoeli
Senior Portfolio Manager	Russ Kampfe
Portfolio Manager	Harland Doak
Director - Investments	Courtney Powers
Director - Private Investments	Scott Bigham
Director - Investments	Edward Lewis
Director - Investments	Amanda Hopper
Director - Investments	Spencer Swayze
Senior Associate - Investments	William Prather
Senior Associate - Risk Management	Kate Wagner
Associate - Investments	Mukund Joshi
Associate - Private Investments	Lara Jeremko
Associate - Investments	Drury Morris
Senior Analyst - Investments	Russell Brown
Senior Analyst - Investments	Jena Michels
Analyst - Investments	Rafael Ramirez, Jr.
Analyst - Investments	Spencer Branch
Analyst - Investments	Kyle Burhop
Analyst - Investments	Zoe Gabbard
<i>Operations/Support Professionals</i>	
Senior Managing Director	Joan Moeller
General Counsel and Chief Compliance Officer	Anna Cecilia Gonzalez
Chief Technology Officer	Uche Abalogu
Senior Manager	Gary Hill
Manager	Debbie Childers
Manager	Melynda Shepherd
Senior Financial Analyst	Lara McKinney
Investment Counsel	Jon Ellison
IT Investment Associate	Aman Jain

Agenda Item
UTIMCO Board of Directors Meeting
November 18, 2014

Agenda Item: Discussion Related to Investment Initiatives

Developed By: Staff

Presented By: Staff

Type of Item: Information Item

Description: The investment teams will discuss with the Board various investment initiatives.

Reference: None

Agenda Item
UTIMCO Board of Directors Meeting
November 18, 2014

Agenda Item: Discussion Related to Potential Scenarios

Developed By: Staff

Presented By: Staff

Type of Item: Information Item

Description: The investment teams will discuss with the Board the potential impact of various scenarios.

Reference: None

Agenda Item
UTIMCO Board of Directors Meeting
November 18, 2014

Agenda Item: UTIMCO Organization Update

Developed By: Staff

Presented By: Zimmerman, Staff

Type of Item: Information Item

Description: Bruce Zimmerman and Staff will provide an update on UTIMCO's staffing, FY 2014 Open Record Requests, information technology, and offsite "next steps".

Reference: *UTIMCO Organization Update* presentation



The University of Texas Investment Management Company

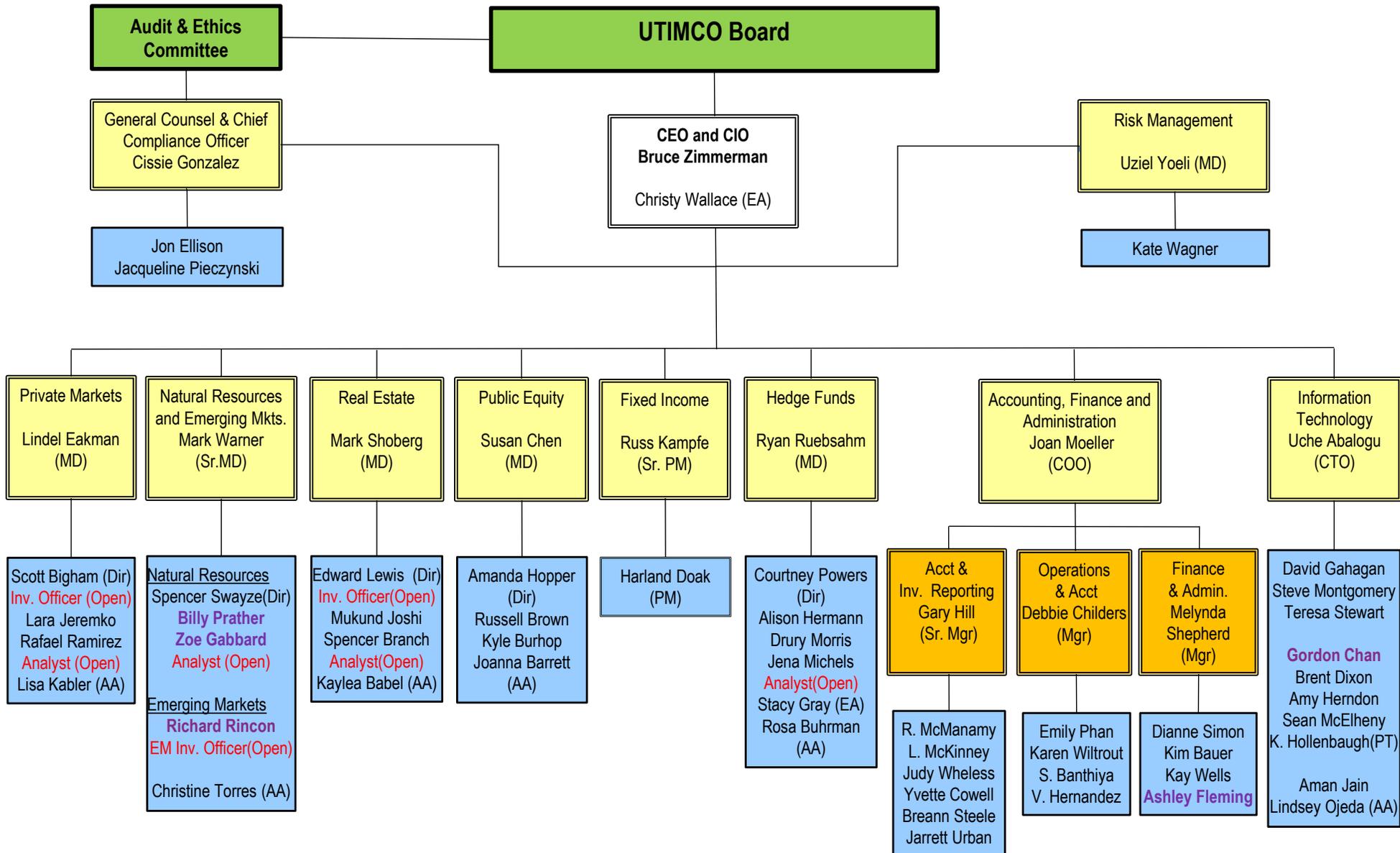
UTIMCO ORGANIZATION UPDATE
November 18, 2014

UTIMCO UPDATE



- Staffing
- Open Record Requests
- Information Technology
- Offsite “Next Steps”

UTIMCO ORGANIZATIONAL STRUCTURE



FY 2014 OPEN RECORDS REQUESTS

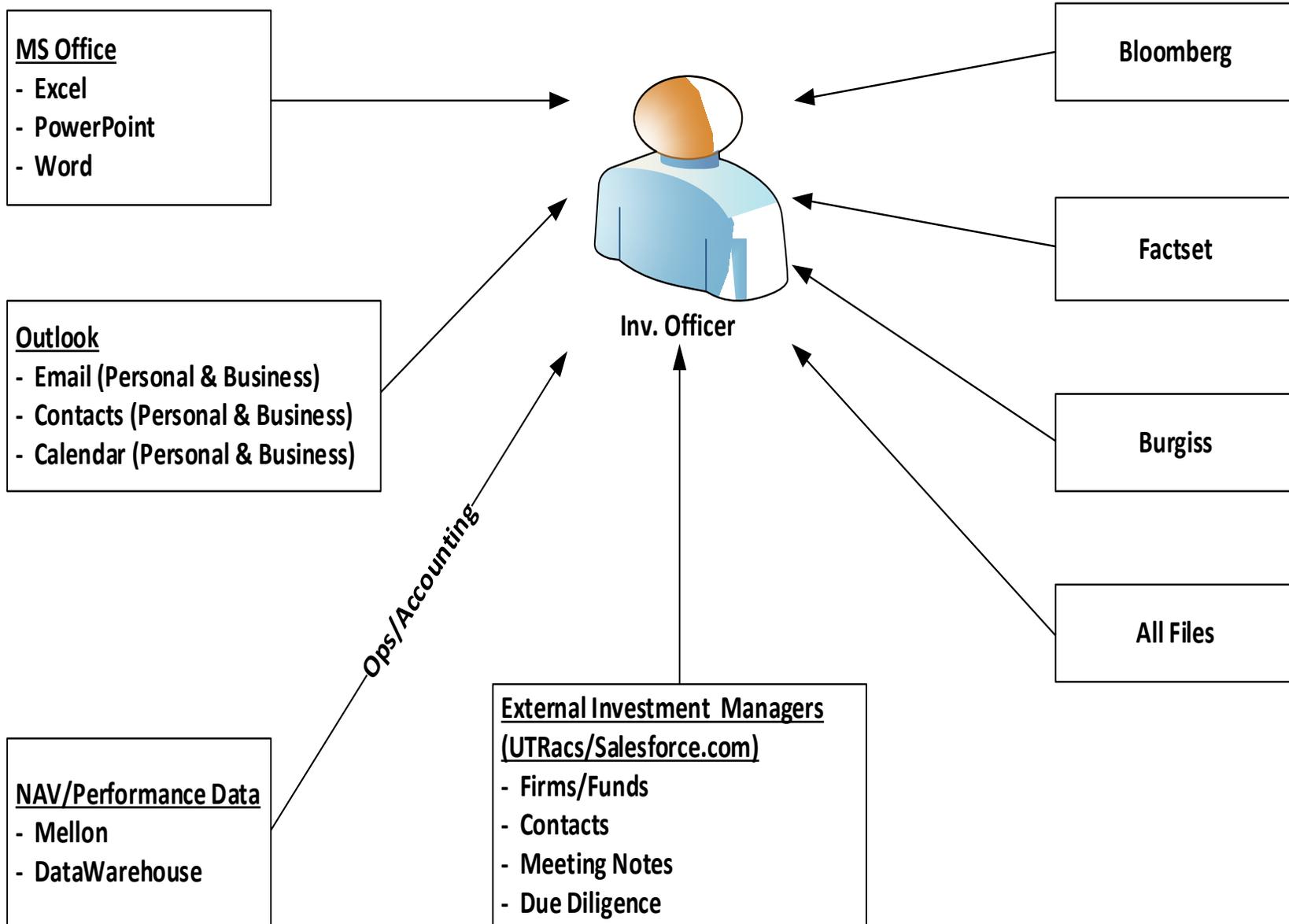


- Total of 145 Requests:
 - 2 were spam
 - 3 were withdrawn
 - 100 were standard private investments information requests
 - 40 others

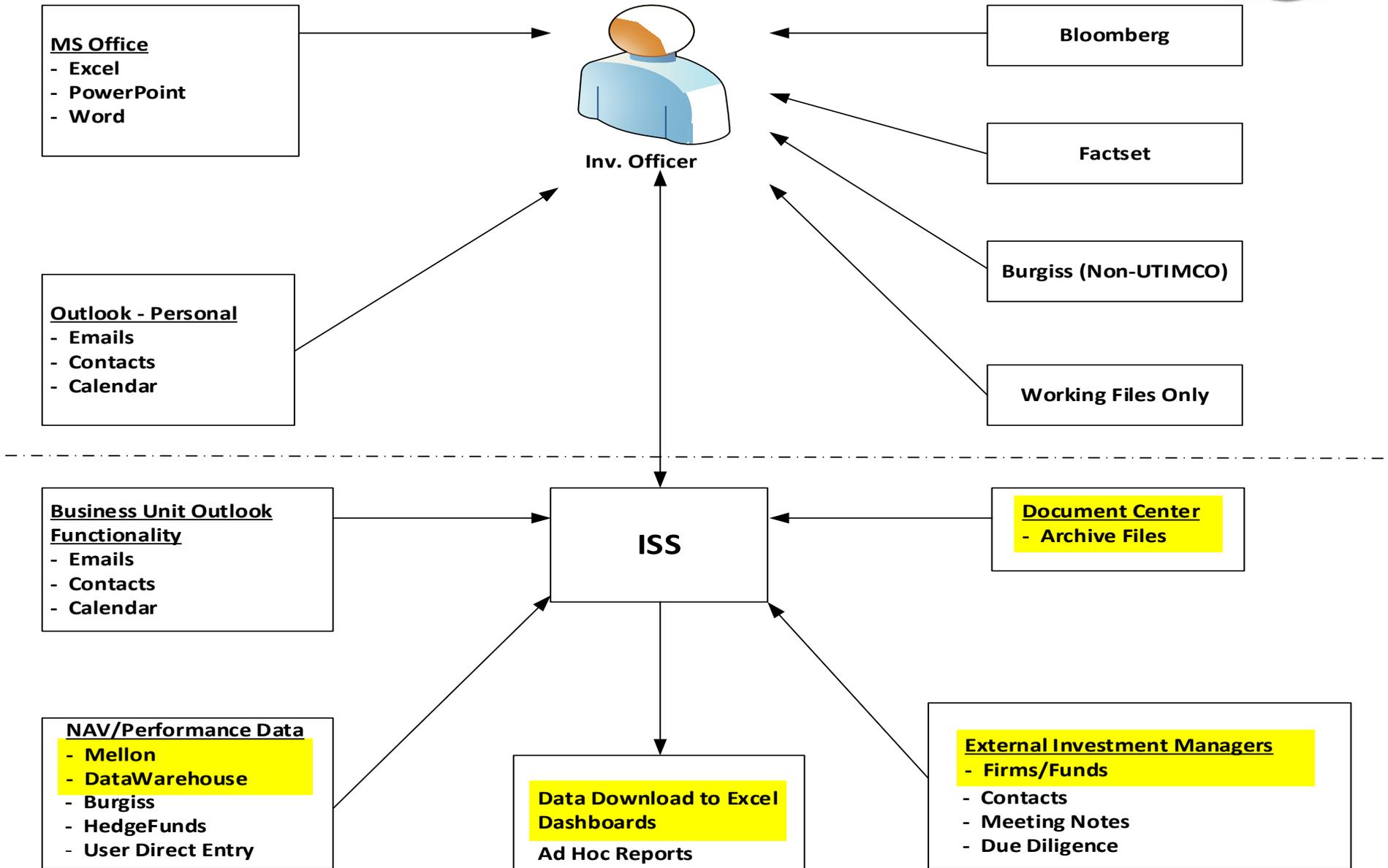
- Just over 8,000 pages of information were sent to requestors
 - 1 request was 2,670 pages
 - 100 requests were for the standard private investments information ranging from 43-46 pages each
 - 40 requests ranged from 1-262 pages for an average of 22.4 pages

- Approximate person hours: 232

INFORMATION TECHNOLOGY PRE - ISS



INFORMATION TECHNOLOGY POST - ISS





Q1 2015 Progress Report

- Investment Support System Project Updates
 - First Release of Portfolio Dashboard; Enhancements Continue
 - Relationship Management Functionality Build In Progress: First Release Expected in December
 - Legacy Data Transformation & Migration in Parallel

- New Hire: Gordon Chan Added, Senior Developer

OFFSITE “NEXT STEPS”



Action Item

Responsibility

- | | |
|---|-----------------------------|
| 1) Emerging Markets: staffing and strategy | Lindel Eakman/Mark Warner |
| 2) Junior Staff: hiring, training, management | Mark Shoberg/Ryan Ruebsahm |
| 3) Senior Staff: development, retention, succession | Mark Shoberg/Joan Moeller |
| 4) Meeting Schedules | Ryan Ruebsahm |
| 5) Portfolio Level Analytics: What/Who | Susan Chen/Uzi Yoeli |
| 6) New Office | Melynda Shepherd |
| 7) Determine Future Investing Model | Bruce Zimmerman/Cathy Iberg |
| ➤ Types of investments | |
| ➤ Investment organization and staffing | |
| 8) Next “Big Ask” | Bruce Zimmerman/Cathy Iberg |

Agenda Item
UTIMCO Board of Directors Meeting
November 18, 2014

Agenda Item: Educational Program for UTIMCO Directors

Developed By: Turner

Presented By: Turner

Type of Item: Information item

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

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

Recommendation: None

Reference: *Educational Program for UTIMCO Directors* presentation

Educational Program for UTIMCO Directors



THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

November 18, 2014

Director Training Required

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

Master Investment Management
Services Agreement (IMSA)

An “Effective Board”

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

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

Fiduciary Obligations of Nonprofit Directors

- Directors of for-profit vs. nonprofit corporations have differing stakeholder focus for their fiduciary obligations
 - Directors of for-profits have a primary fiduciary duty to **owners**

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

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

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

Understanding Investment Objectives is Key

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

Understanding Mission is Key

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

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

Current Mission Statement

Overview of Standards of Conduct for UTIMCO Directors

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

General Standard under Texas Corporate Law

Section 22.221, Texas Business Organizations Code, provides

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

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

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

Standards under UT Board of Regents' Investment Policies

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

Standards under Texas UPMIFA

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

§163.004(b), Texas UPMIFA

Standards under UTIMCO Code of Ethics

General Standards

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

Standards under UTIMCO Code of Ethics (cont'd)

UTIMCO Prohibited Transactions

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

Standards under UTIMCO Code of Ethics (cont'd)

Director Prohibited Transactions

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

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

Standards under UTIMCO Code of Ethics (cont'd)

Restriction on Investments in Publicly Traded Securities

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

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

Standards under UTIMCO Code of Ethics (cont'd)

Conflicts of Interest

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

Overview of Fiduciary Duties

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

Overview of Fiduciary Duties (cont'd)

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

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

Fiduciary Duty of Care

- Duty of Care
 - Directors should discharge their duties with such care as ordinarily prudent person under similar circumstances
 - Directors should keep themselves informed about the affairs of the corporation and seek out and use reasonably available information when making decisions
 - Directors may, in **good faith** and with **ordinary care**, rely on reports of other persons as to matters the director reasonably believes are within the person's professional or expert competence
 - Directors should prepare for and participate in board and committee meetings

Fiduciary Duty of Loyalty

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

Fiduciary Duty of Obedience

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

Specific Duty to Determine Reasonable Compensation

Executive Compensation

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

Overview of Immunity Theories

- Immunity Theories under Texas Law
 - Sovereign Immunity
 - Official Immunity
 - Charitable Immunity
 - Corporate Director's Immunity
- Immunity Theories under Federal Law
 - Qualified Immunity
 - Volunteer's Immunity

Sovereign Immunity under Texas Law

- Protects the State, its agencies and officials from lawsuits for damages in order to protect the public's funds from being wasted in litigation rather than intended use
- Extends to any entity the Legislature has granted the “nature, purposes, and powers” of an “arm of State government”
- UTIMCO and its directors *may* be entitled to sovereign immunity
 - UTIMCO is subject to Section 66.08, Texas Education Code
 - UTIMCO serves a wholly public purpose
 - UTIMCO invests and is supported by public funds
 - *TRST Corpus, Inc. v. Financial Center, Inc.*, 9 S.W.3d, 316 (Tex. App. – Houston [14th Dist.] 1999, no pet.), holding that TRST, a title-holding subsidiary of TRS, “is entitled to assert sovereign immunity . . . to the extent that TRS may assert sovereign immunity. . . .”

Official Immunity under Texas Law

- Protects governmental employees, and private individuals performing governmental functions, from lawsuits against them in their individual capacities arising from
 - performance of **discretionary duties**
 - in **good faith**
 - when acting **within scope of authority**
- No protection for “ministerial acts” requiring strict adherence to orders or performance of duties over which there is no discretion
- “**Good faith**” determined by “objective legal reasonableness” test – would a prudent official, under a similar situation, have believed the acts were justified

Charitable Immunity under Texas Law

- Protects “volunteers” (including volunteer directors) of 501(c)(3) tax-exempt organizations for “educational purposes” from lawsuit for actions performed in the **scope** and **course** of their duties (Texas Charitable Immunity and Liability Act)
 - “Volunteer” defined as a “person rendering services for or on behalf of a charitable organization who does **not** receive compensation in excess of reimbursement for expenses incurred”
- No protection for conduct that is intentional, willfully negligent, or done with conscious indifference or reckless disregard for safety of others
- Does not apply to governmental units – alternate theory of immunity where sovereign immunity and official immunity not available

Corporate Director's Immunity under Texas Law

- Consistent with Section 7.001, Texas Business Organizations Code, UTIMCO's Articles of Incorporation provide that Directors are **not** liable to UTIMCO for monetary damages for any act or omission in the Director's capacity as a Director, except for liability for
 - breach of the Duty of Loyalty
 - bad faith involving breach of duty, intentional misconduct or knowing violation of law
 - a transaction in which Director receives an improper benefit
 - actions where Directory liability is expressly provided by applicable law

Qualified Immunity under Federal Law

- Protects governmental officials from lawsuits as long as conduct does not violate clearly established statutory or constitutional right of which a reasonable person would have known
- Protection applies even if governmental official's act is a mistake of law, a mistake of fact, or both

Volunteer's Immunity under Federal law

- Protects volunteers (including volunteer directors) of 501(c)(3) tax-exempt organizations organized for “educational purposes” from harm caused by act or omission of the volunteer acting on behalf of the organization
 - “Volunteer” defined as someone who performs services for a nonprofit organization or governmental entity and does not receive compensation or anything of value in lieu of compensation over \$500 per year
 - “Harm” defined to include physical, nonphysical, economic and noneconomic losses
- No protection for harm caused by willful or criminal misconduct, gross negligence, reckless misconduct, or a conscious flagrant indifference to the rights and safety of harmed individual

Overview of Claims for Indemnification

- Chapter 104, Texas Civil Practices and Remedies Code
- UTIMCO's Articles of Incorporation
- IMSA with UT Board of Regents

Indemnification Under Chapter 104, Texas Civil Practices and Remedies Code

- Provides State indemnification of person serving on the governing board of a corporation at the request and on behalf of an institution of higher education so long as damages are based on act or omission within the **scope of indemnitee's office** and if
 - damages do not result from willful or wrongful act or act of gross negligence by indemnitee, or
 - in the case of damages resulting from deprivation of legal rights, privileges or immunities, the court or jury does not find that the indemnitee acted in **bad faith**, with conscious indifference or reckless disregard, or
 - Attorney General determines that indemnification is in best interest of the State
- Chapter 104 does not waive immunity

Indemnification under Chapter 104 (cont'd)

- State liability on indemnification capped at \$100,000 to single person indemnified and \$300,000 for a single occurrence
- D&O policy applicable to damages covered by Chapter 104 must have deductible equal to foregoing limits of liability
- State is not liable for indemnification to extent damages are recoverable under contract of insurance and are in excess of deductible amount
- Attorney General required to defend an indemnified party

Indemnification Under UTIMCO's Articles

- “To the fullest extent required or permitted by applicable law,” Directors are indemnified by UTIMCO; indemnification stated to “include, without limitation, advancing reasonable expenses”
- Chapter 8, Business Organizations Code, limits indemnification to situations where director
 - acted in **good faith**
 - reasonably believed conduct was in best interest of corporation (if conduct was in official capacity) or was not opposed to corporation’s best interest (if conduct outside of official capacity), and
 - in case of criminal proceeding, did not have reasonable cause to believe conduct was unlawful

Indemnification under IMSA

- “To the fullest extent authorized by the Constitution and laws of the State of Texas,” Directors indemnified and held harmless by UT Board of Regents for “Losses” (including, among others, attorney fees, litigation and court costs and settlement amounts) resulting from negligence of Directors
- No indemnification for
 - intentional misconduct or knowing violation of law
 - transaction in which Director received improper benefit
 - conduct where Director liability expressly provided by statute
 - gross negligence

Overview of Certain Common Law Defenses

- *Business Judgment Rule*
- Disclosed Principal

Business Judgment Rule Defense

- *Business Judgment Rule* is a defense to accusations of breach of the **Duty of Care** (*Gearhart*)
 - Under the *Business Judgment Rule*, a court will defer to the judgment of a director, if that director acts on an informed basis, in **good faith**, with the care of an ordinary prudent person in a like position, and in a manner believed to be in the best interests of the corporation
- Case law indicates that *Business Judgment Rule* protects all but fraudulent or *ultra vires* conduct; however, some cases in banking context indicate that gross negligence not protected

Disclosed Principal Defense

- Texas case law provides that an agent is not liable in contract actions where the principal is disclosed
- Texas Attorney General has stated “UTIMCO and the Board of Regents . . . have a common purpose and objective such that an agency-type relationship is created”
- Defense provides limited relief – does not protect against tort liability

UT's Insurance Coverage

- UT has established a Self-Insurance Plan and maintains D&O insurance to protect its **governmental officials**, including Regents, in the event of liability claims
- UT lawyers have advised that under UT's Self-Insurance Plan
 - UT Regents are insured for service on UTIMCO Board
 - Coverage is in excess of any insurance in force with UTIMCO (*i.e.*, secondary) and any indemnification provided by UTIMCO
 - UTIMCO and its non-Regental Directors are not covered
 - UT is not authorized by law to extend its Plan coverage to UTIMCO and its non-Regental Directors
- UT lawyers have also advised that under UT's AIG policy
 - UT Regents are insured for service on UTIMCO Board
 - UTIMCO and its non-Regental Directors are not covered
- UT is not authorized by law to purchase insurance covering UTIMCO and its non-Regental Directors

Open Meetings Act

- The Texas Open Meetings Act (“TOMA”) was adopted to help make governmental decision-making accessible to the public.
- TOMA requires meetings of governmental bodies to be open to the public, except for expressly authorized closed sessions. Meetings must be preceded by public notice of the time, place and subject matter of the meeting.
- “There is a broad scope to the coverage of the Open Meetings Act and a narrowness to its few exceptions.” *Acker v. Texas Water Comm’n*, 790 S.W.2d 299, 300 (Tex. 1990).

Open Meetings Act – *Meetings*

- Generally, a governmental body must hold a meeting to exercise its powers.
- TOMA applies when:
 1. *a deliberative session among a quorum of a governmental body occurs during which public business or public policy is discussed or formal action is taken,*

or
 2. *a gathering of a quorum of a governmental body occurs at which the governmental body receives information from or provides information to staff or a third party about public business or public policy.*
- However, a social gathering, convention, workshop, ceremonial event, or press conference attended by a quorum, where formal action is not taken and any discussion of public business is merely incidental, is not a “meeting” under TOMA.

Open Meetings Act - *Meetings*

- A “meeting” occurs where a quorum deliberates:
 - *In-person;*
 - *By telephone;*
 - *By videoconference.*
- A meeting inappropriately occurs when less than a quorum meets in a manner intended to avoid TOMA’s requirements—a “walking quorum.”
- Example: In 2002 three Texas Education Agency board members indicted for allegedly holding closed committee meeting at Katz’s Deli. Committee was responsible for hiring managers to oversee \$17.5B education trust fund.

Open Meetings Act – *Electronic Mail*

- Although TOMA applies to a “verbal exchange” involving a quorum of a governmental body, the Texas Attorney General has construed the statute to encompass unspoken communications, such as email. Tex. Att’y Gen. Op. Nos. GA-0896 (2011), JC-0307 (2000).
- 2013 amendment to TOMA governing permissible use of electronic message boards supports the AG’s interpretation.
 - New section 551.006 exempts communications between members and staff about public business if the communication is written and posted to an online message board that is accessible to the public and no formal action is taken. 551.006 intended to provide framework for permissible use of Facebook, Twitter, and other social media, which are being more frequently used by state agencies.
- **Thus, email exchanges among a quorum of UTIMCO’s board regarding public business may constitute an impermissible meeting.**

Open Meetings Act – *Permissible Closed Meetings*

Investment Related Closed Meeting With Staff or Third Parties

- Discussions between the UTIMCO board and staff or a third party **relating to an investment or a potential investment** by UTIMCO in:
 - (A) a private business entity, **if disclosure would give advantage to a competitor**; or
 - (B) a business entity whose securities are publicly traded, if the investment or potential investment is not required to be registered under the Securities Exchange Act of 1934 (15 U.S.C. Section 78a et seq.), and its subsequent amendments, **if disclosure would give advantage to a competitor.**
- **During an investment-related briefing, members of the board may not deliberate public business or agency policy that affects public business.**

See Tex. Educ. Code § 66.08(h)(2)(A) and Tex. Gov't Code § 551.075.

Open Meetings Act – *Permissible Closed Meetings*

Legal

- Consultations with counsel regarding pending or contemplated litigation, or on a matter in which the attorney's ethical duties clearly conflict with TOMA.

Other

- Certain Deliberations regarding:
 - potential real estate investments;
 - individual personnel matters; and
 - security devices or audits.
- **Discussion at a closed meeting, *i.e.*, an “executive session” must be confined to the duly noticed topic.**
- A final action, decision, or vote on a matter deliberated in executive session may only be made in an open meeting held in compliance with TOMA's notice provisions.

Open Meetings Act – *Notice*

TOMA requires that the public receive advance written notice of all meetings, whether open or closed.

Section 551.041 provides:

“A governmental body shall give written notice of the date, hour, place, and subject of each meeting held by the governmental body.”

- The notice must be sufficient to apprise the general public of the subjects to be considered during the meeting.
- Vague descriptions such as “litigation” or “personnel matters” are insufficient.

Open Meetings Act – *Broadcast and Posting*

- TOMA requires that all regularly scheduled meetings of the UTIMCO board, other than any portions of the meeting closed to the public as authorized by law, be broadcast over the Internet
 - The broadcast must be recorded and the recording must be publicly available in an online archive located on UTIMCO's Internet website
- TOMA also requires posting on UTIMCO's Internet website, in advance of the meeting, of any written agenda and related supplemental written materials provided to the UTIMCO board members in advance of the meeting for use during the meeting
 - Posting does not apply to written materials that the general counsel or other appropriate attorney for UTIMCO certifies are confidential or may be withheld from public disclosure under Chapter 552, Texas Public Information Act

See Tex. Gov't Code § 551.1281

Open Meetings Act – *Remedies and Penalties*

Tex. Gov't Code § 551.141

“An action taken by a governmental body in violation of this chapter is voidable.”

Tex. Gov't Code § 551.143

“(a) A member or group of members of a governmental body commits an offense if the member or group of members knowingly conspires to circumvent this chapter by meeting in numbers less than a quorum for the purpose of secret deliberations in violation of this chapter.

- (b) An offense under Subsection (a) is a misdemeanor punishable by:
- (1) a fine of not less than \$100 or more than \$500;
 - (2) confinement in the county jail for not less than one month or more than six months; or
 - (3) both the fine and confinement.”

Open Meetings Act – *Remedies and Penalties*

Tex. Gov't Code § 551.144

“(a) A member of a governmental body commits an offense if a closed meeting is not permitted under this chapter and the member knowingly:

- (1) calls or aids in calling or organizing the closed meeting, whether it is a special or called closed meeting;
- (2) closes or aids in closing the meeting to the public, if it is a regular meeting; or
- (3) participates in the closed meeting, whether it is a regular, special, or called meeting.

(b) An offense under Subsection (a) is a misdemeanor punishable by:

- (1) a fine of not less than \$100 or more than \$500;
- (2) confinement in the county jail for not less than one month or more than six months; or
- (3) both the fine and confinement.”

Public Information Act

The purpose of the Texas Public Information Act (TPIA) is to maintain the people's control "over the instruments they have created." Tex. Gov't Code § 552.001(b). The Act requires the attorney general to construe the Act liberally in favor of open government.

The Texas Attorney General has previously ruled that UTIMCO is subject to the TPIA.

Public Information Act

“Public Information” is information that is written, produced, collected, assembled, or maintained under a law or ordinance or in connection with the transaction of official business:

- (1) by a governmental body;
- (2) for a governmental body and the governmental body:
 - (A) owns the information;
 - (B) has a right of access to the information; or
 - (C) spends or contributes public money for the purpose of writing, producing, collecting, assembling, or maintaining the information; or
- (3) by an individual officer or employee of a governmental body in the officer’s or employee’s official capacity and the information pertains to official business of the governmental body.

See Tex. Gov’t Code § 552.002.

Public Information Act

The definition of “public information” is very broad.

- “Public information” includes all types of written or recorded information, including email, text messages, and other electronic communications.
- Communications from personal or non-UTIMCO business email accounts and from personal electronic devices are not exempt from the definition of public information.
- Information held by third parties is subject to the TPIA if created or held at the governmental body’s direction.

Public Information Act - *Disclosure*

All public information must be disclosed unless it falls within an exception under the TPIA.

While information held by or on behalf of UTIMCO is generally subject to disclosure, the Attorney General has previously ruled that the following categories of information could be withheld:

- Commercially available publications;
- Meeting minutes and memos relating to specific investments, where disclosure would have advantaged a competitor;
- A legal memorandum reflecting counsel's advice to UTIMCO;
- Personal financial information of non-Regental directors;
- Information that would reveal a person's family status.

Public Information Act - *Emails*

Lessons Concerning Use of Emails

- It is almost never a good idea for a Director to send an email concerning public business or public policy to a quorum of the Board or Committee of the Board.
 - Emails should not be forwarded from one Director to another in a manner that may create a “walking quorum.”
- When a Director receives an email concerning public business or public policy that was sent to a quorum of the Board or Committee of the Board, it is almost never a good idea for the Director to hit “Reply All.”
- When composing an email concerning public business or public policy or otherwise relating to UTIMCO, a Director should ask himself how comfortable he would be if his email was copied to an Investigative Newspaper Reporter.

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Agenda Item
UTIMCO Board of Directors Meeting
November 18, 2014

Agenda Item:	Report from Risk Committee
Developed By:	Staff
Presented By:	Bass
Type of Item:	Information item
Description:	The Risk Committee (“Committee”) will meet on November 18, 2014. The Committee’s agenda includes (1) discussion and appropriate action related to minutes; (2) discussion and appropriate action related to categorization of investment mandates; (3) and review and discussion of compliance reporting.
Discussion	<p>The Committee will review and may approve the twenty-four (24) new mandate categorizations prepared by Staff for the period beginning July 10, 2014, and ending October 24, 2014. In addition, the Committee may approve the re-categorization of one existing mandate, Route One Offshore Fund, Ltd. Staff will review the <i>Mandate Categorization Update</i> presentation with the Committee. 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 and annual compliance reporting.</p>
Recommendation:	None
Reference:	None

Agenda Item
UTIMCO Board of Directors Meeting
November 18, 2014

Agenda Item: Report from Policy Committee; Discussion and Appropriate Action Related to Proposed Amendments to the Delegation of Authority Policy

Developed By: Staff

Presented By: Hildebrand, Zimmerman

Type of Item: Action item; Action required by UTIMCO Board

Description: The Policy Committee (“Committee”) met on November 3, 2014. The Committee’s agenda included: 1) discussion and appropriate action related to minutes of the July 29, 2014 meeting and the July 29, 2014 joint meeting of the Policy and Risk Committees; and 2) discussion and appropriate action related to proposed amendments to the Delegation of Authority Policy.

Discussion: Mr. Zimmerman presented to the Committee the *Delegation of Authority and Concentration Analysis* presentation. Mr. Zimmerman will also make this presentation to the UTIMCO Board.

Following is a brief summary of the proposed changes to the Delegation of Authority Policy, effective November 18, 2014:

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:

Agenda Item
 UTIMCO Board of Directors Meeting
 November 18, 2014

	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	1.0%
LCC	250	1.0%	125	0.75%
Private Investment	125	0.75%	175***	0.50%
Co-Investment	50	0.30%	50	0.30%

*During the first six months of the investment

**Every 12 months after the first six months of the investment

***Maximum during the life of the Private 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 Delegation of Authority Policy.

Reference: Delegation of Authority Policy, effective November 18, 2014
Delegation of Authority and Concentration Analysis presentation

RESOLUTION RELATED TO DELEGATION OF AUTHORITY POLICY

RESOLVED, that amendments to the Delegation of Authority Policy, as presented be, and are hereby, approved.

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

Effective Date of Policy: ~~July 22, 2013~~ November 18, 2014

Date Approved by UTIMCO Board: ~~July 22, 2013~~ November 18, 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**

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

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**

- 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 0.30% 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 1.0% 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 .75% 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 0.50% of Applicable Assets in each subsequent 12-month period.
 - ~~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 0.30% of Applicable Assets in each subsequent 12-month period.
 - *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 determined as of the most recent quarter-end close of books; and
 - For Private Investments: Total combined NAV of the Endowments determined as of the most recent quarter-end close of books.
 - 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.

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

- 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 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

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

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**

**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**

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.



Delegation of Authority and Concentration Analysis

Delegation of Authority: Process



- The UTIMCO Board has delegated certain investment authority to the CEO
 - Dollar limits
 - Percentage of manager limits
- If a proposed investment exceeds stated authority, the Board must be given an option to review the investment
- Option to Review process
 - Includes Staff's full Investment Memo
 - Board may:
 - 1) Decline to review investment
 - 2) Decline to review investment but require a discussion of the investment at the next Board meeting
 - 3) Require a review by the full Board before investment may be made and vote on the investment at the next Board meeting
- All investments require Board Certificates of Compliance, which include a description of the intended investment

Summary of Options to Review FY2012-2014



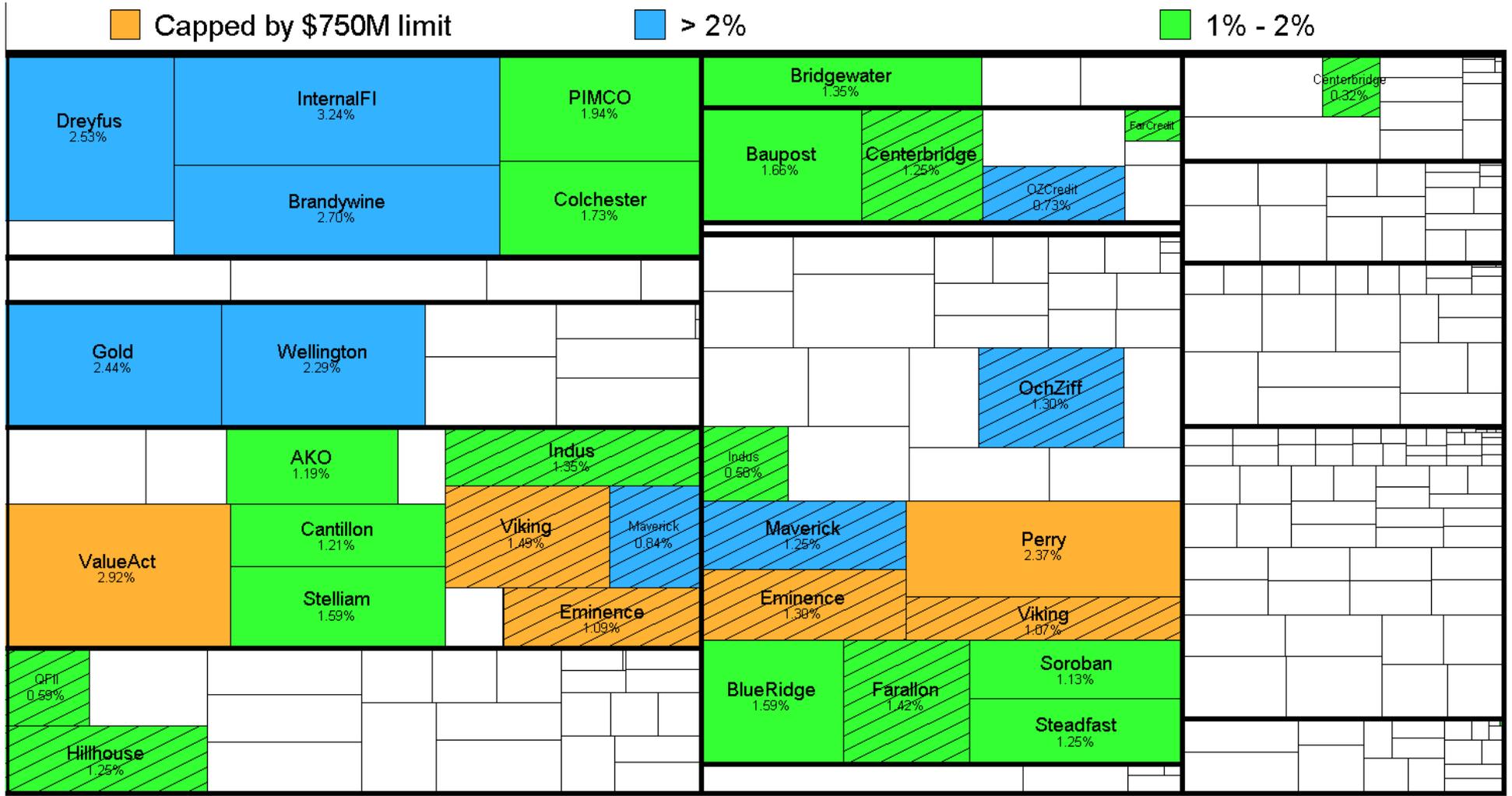
	MCC	LCC	PI	TOTAL
2012	2	2	6	10
2013	1	0	5	6
2014	<u>5</u>	<u>0</u>	<u>12</u>	<u>17</u>
Total Options to Review	8	2	23	33*
Investments made at Limit	<u>2</u>	<u>1</u>	<u>12</u>	<u>15**</u>
Options + Limit	10	3	35	48
Total Investments	24	25	110	158

**All approved; 30 of 33 triggered "percentage" limit*

***All triggered "by dollar" limit*

- Managers currently over or near the \$750M limit:
 - ValueAct
 - Viking
 - Eminence
 - Perry
 - Wellington

UTIMCO's Largest Concentrations



As of 7/31/2014

UTIMCO's Largest Concentrations



	# of relationships	\$ (M)	% of UTIMCO
> 3%	1	\$1,040	3.24%
2%-3%	10	7,811	24.3%
1%-2%	14	6,931	21.6%
<1%	213	16,327	50.8%
Total	238	\$32,109	100%

More than 2%

- Internal Fixed Income
- ValueAct
- Brandywine
- Dreyfus
- Viking
- Gold
- Eminence
- Perry
- Wellington
- Maverick
- Och Ziff

1% - 2%

- Indus
- PIMCO
- Hillhouse
- Colchester
- Baupost
- BlueRidge
- Stelliam
- Farallon
- Centerbridge
- Bridgewater
- Steadfast
- Cantillon
- AKO
- Soroban

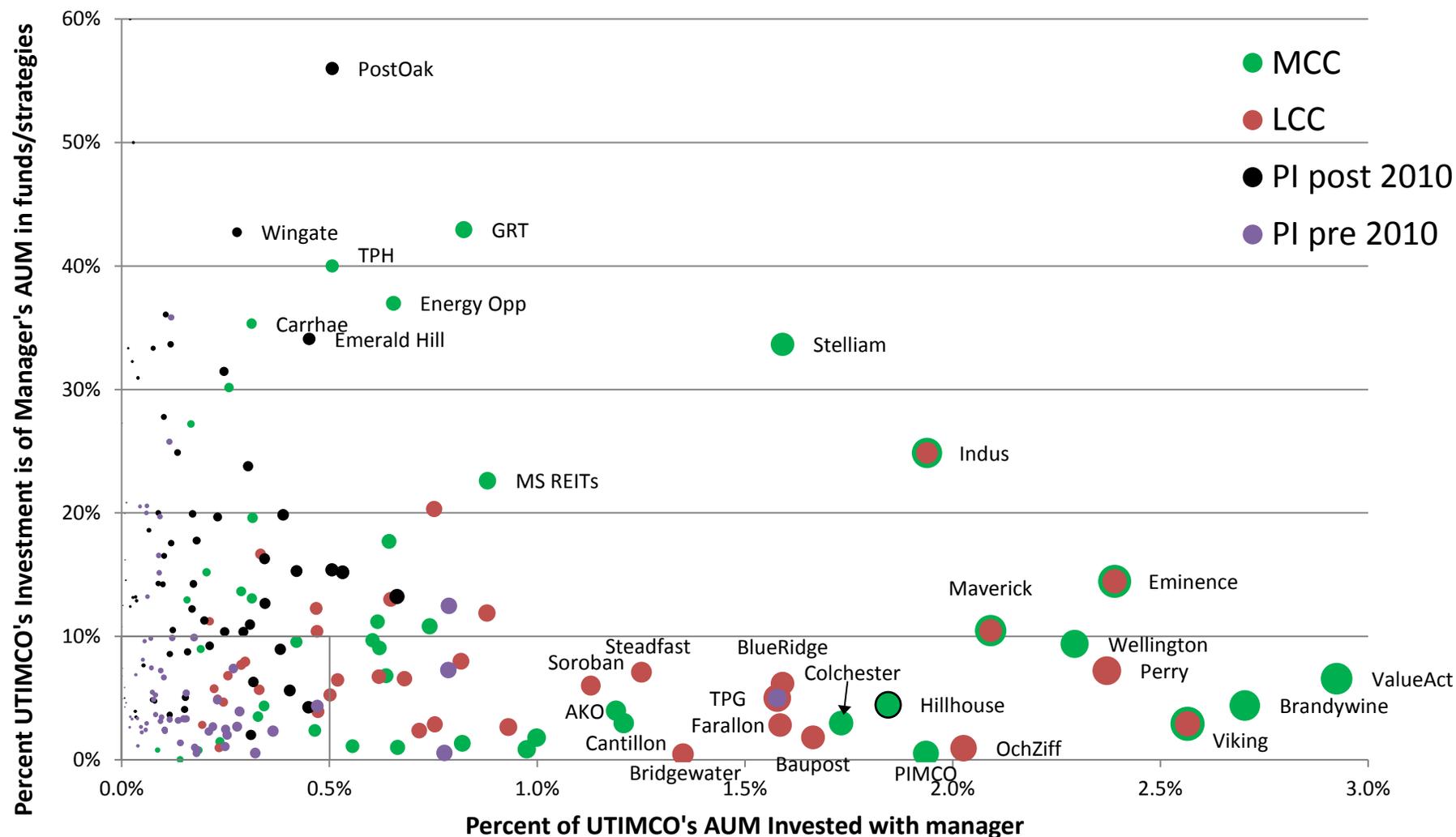
UTIMCO's Importance to its Managers



	TOTAL UTIMCO		
	Number	\$ (M)	% of UTIMCO
More than 20%	38	\$5,316	16.5%
10% - 20%	56	4,712	14.7%
Less than 10%	<u>162</u>	<u>22,079</u>	<u>68.8%</u>
TOTAL	<u>256</u>	<u>\$32,107</u>	<u>100.0%</u>

	MCC			LCC			Privates		
	Number	\$ (M)	% of MCC	Number	\$ (M)	% of LCC	Number	\$ (M)	% of PI
More than 20%	12	\$3,761	25.2%	3	\$626	6.1%	23	\$929	13.4%
10% - 20%	8	1,052	7.1%	8	1,309	12.7%	40	2,351	34.0%
Less than 10%	<u>40</u>	<u>10,085</u>	<u>67.7%</u>	<u>43</u>	<u>8,354</u>	<u>81.2%</u>	<u>79</u>	<u>3,640</u>	<u>52.6%</u>
TOTAL	<u>60</u>	<u>14,898</u>	<u>100.0%</u>	<u>54</u>	<u>10,289</u>	<u>100.0%</u>	<u>142</u>	<u>6,921</u>	<u>100.0%</u>

Concentration Analysis



New Investments



	Current	Proposed
MCC	\$500M	1.50% (\$483M)
LCC	\$250M	1.00% (\$322M)
Private Investments	\$125M	0.75% (\$191M)
Private Co-Investments	\$50M	0.30% (\$77M)

Increase to Existing Investments

(Each 12 Months after the first six months)



	Current	Proposed
MCC	\$250M	1.00% (\$322M)
LCC	\$125M	0.75% (\$191M)
Private Investments	\$50M	0.50% (\$128M)
Private Co-Investments	\$50M	0.30% (\$77M)

Total Limits



	Current	Proposed
MCC Investment Grade Fixed Income	\$1.1B	4.00% (\$1.3B)
All Other	\$750M	3.00% (\$960M)
Report to the Risk Committee/Board	≥3%	≥3%
Plan Presented to Risk Committee/Board	≥5%	≥5%

Percent of Total Assets Managed by the Manager in that Strategy



Current	Proposed
20%	50%

Agenda Item
UTIMCO Board of Directors Meeting
November 18, 2014

Agenda Item: Report from Audit and Ethics Committee; Discussion and Appropriate Action Related to Deloitte and Touche LLP Financial Statement Audit Results and Communications and the Audited Financial Statements of the Permanent University Fund, General Endowment Fund, Permanent Health Fund, Long Term Fund, Intermediate Term Fund, and the Statement of Investment Performance Statistics for the year ended August 31, 2014

Developed By: Moeller, Hill, Gonzalez

Presented By: White

Type of Item: Action required by UTIMCO Board related to year end audits; Information item on other items

Description: The Audit and Ethics Committee (“Committee”) met on November 4, 2014. The Committee’s agenda included the following: (1) discussion and appropriate action related to minutes; (2) discussion and appropriate action related to Deloitte & Touche LLP’s Audit Results and Communications; (3) discussion and appropriate action related to the audit reports of the Permanent University Fund (“PUF”), General Endowment Fund (“GEF”), Permanent Health Fund (“PHF”), Long Term Fund (“LTF”), Intermediate Term Fund (“ITF”), and the Statement of Investment Performance Statistics for the year ended August 31, 2014; (4) update on UTIMCO’s compliance, reporting and audit matters; and (5) discussion and appropriate action related to the General Counsel and Chief Compliance Officer’s Performance Incentive Award for the Performance Period ended August 31, 2014. The Committee also convened in Executive Session for the purpose of deliberating individual personnel compensation matters related to the General Counsel and Chief Compliance Officer’s Performance Incentive Award as a Participant in the UTIMCO Compensation Program for the Performance Period ended August 31, 2014 and for the purpose of receiving advice of counsel.

Discussion: The financial statements were audited by Deloitte & Touche LLP. Robert Cowley, engagement partner, presented to the Committee Deloitte & Touche LLP’s Financial Statement Audit Results and Communications letter (the “Letter”) and answered questions related to the financial statements. Included in these materials are the Letter and Management’s Representation Letter to Deloitte confirming in writing Management’s responsibilities and representations with regard to these audits. Because of the voluminous nature of the audited financial statements, they are not included in the Board book. However, the complete audited financial statements are available on UTIMCO’s website, www.utimco.org.

As required by the Charter of the Audit and Ethics Committee, the Committee discussed and took action related to the CEO’s recommendation of the performance incentive award for the performance period ending August 31, 2014 for the General

Agenda Item
UTIMCO Board of Directors Meeting
November 18, 2014

Counsel and Chief Compliance Officer and together will make a recommendation to the Compensation Committee.

Routine activities of the Committee included a report from Ms. Gonzalez related to the quarterly and annual compliance reports. Ms. Gonzalez also reviewed the 2014 assessment and evaluation of the UTIMCO Fraud Prevention and Detection Program.

Recommendation: The Committee will recommend that the UTIMCO Board take appropriate action related to the Deloitte & Touche LLP Financial Statement Audit Results and Communications and the audited financial statements of the PUF, GEF, PHF, LTF, ITF, and the Statement of Investment Performance Statistics for the year ended August 31, 2014.

Reference: Deloitte & Touche LLP's Financial Statement Audit Results and Communications
Management's Representation Letter
Institutional Compliance Program Annual Report and Action Plans

**RESOLUTIONS RELATED TO AUDITS OF THE INVESTMENT FUNDS
FOR FISCAL YEAR 2014**

RESOLVED, that Deloitte & Touche LLP's Financial Statement Audit Results and Communications on the Investment Funds Under Fiduciary Responsibility of The University of Texas System Board of Regents for the year ended August 31, 2014, be, and is hereby approved in the form as presented to the Board; and

FURTHER RESOLVED, that the separate annual financial statements and audit reports for the Permanent University Fund, the Permanent Health Fund, The University of Texas System Long Term Fund, The University of Texas System General Endowment Fund, and The University of Texas System Intermediate Term Fund each for the fiscal years ended August 31, 2014, and August 31, 2013, and the Statement of Investment Performance Statistics for the year ended August 31, 2014, be, and are hereby approved in the form as presented to the Board.

October 31, 2014

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

The Audit, Compliance and Management Review Committee of
The Board of Regents of The University of Texas System

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

Dear Mr. Zimmerman, Members of The Audit, Compliance and Management Review Committee of The Board of Regents of The University of Texas System as well as Members of The Audit and Ethics Committee of the Board of Directors of The University of Texas Investment Management Company (the “Board”):

We have performed the audits of the financial statements of the Permanent University Fund, The University of Texas System General Endowment Fund, the Permanent Health Fund, The University of Texas System Long Term Fund, and The University of Texas System Intermediate Term Fund (collectively, the “Funds”) as of and for the year ended August 31, 2014, in accordance with auditing standards generally accepted in the United States of America (“Auditing Standards”) and have issued our reports thereon dated October 31, 2014.

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

Our Responsibility under Generally Accepted Auditing Standards

Our responsibility under generally accepted auditing standards has been described in the contract dated February 18, 2011 (Exhibit-A, section B) and in the most recent amendment, the eighth amendment, dated February 28, 2014. As described in Exhibit A-2 – Section B, the objective of a financial statement audit carried out in accordance with the Auditing Standards is to express an opinion on whether the Funds’ financial statements for the year ended August 31, 2014, are presented fairly in all material respects, in accordance with the accounting principles generally accepted in the United States of America (“US GAAP”). 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 Board are presented fairly, in all material respects, in conformity with US GAAP. The audits of the financial statements do not relieve management or the Board of their responsibilities.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether caused by fraud or error. In making those risk assessments, we considered internal control over financial reporting relevant to the Funds' preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Funds' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Funds' internal control over financial reporting. Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the Funds' financial statements include valuation of certain investments which are specifically the Funds' investments in hedge funds, private investments, and private placements recorded at amounts included in the table below which have been estimated by management in the absence of readily determinable fair values, as of August 31, 2014.

Fund	Value of Investments in the Absence of Readily Determinable Fair Values	Percentage of Total Assets
Permanent University Fund	\$12,742,901,418	70.9%
The University of Texas System General Endowment Fund	\$6,035,938,660	69.9%
The University of Texas System Intermediate Term Fund	\$3,610,823,529	50.0%

Although management believes the accounting estimates reflected in the Funds' 2014 financial statements are reasonable, there can be no assurances that the Funds could ultimately realize these values. The basis for our conclusions as to the reasonableness of these estimates when considered in the context of the financial statements taken as a whole, as expressed in our auditors' reports on the financial statements, is our understanding and testing of the process used by management to develop the estimates.

Management uses a process to estimate the fair value of these entities which includes, but is not limited to, consideration of financial information from the underlying funds provided at various interim dates during the year, other information from the underlying funds, as well as information from other relevant sources. This valuation process is reasonable based on the requirements of the AICPA Practice Aid for Auditors Alternative Investments — Audit Considerations and investment management industry general practices.

We are not aware of any significant changes in accounting estimates or changes in management's judgments relating to such estimates during the year ended August 31, 2014.

Uncorrected Misstatements

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

Material Corrected Misstatements

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

Significant Accounting Policies

The Funds' significant accounting policies are set forth in the footnotes to the Funds' 2014 financial statements. During the year ended August 31, 2014, there were no significant changes in previously adopted accounting policies or their application.

Other Information in the Annual Report

The audited financial statements include documents containing the following other information:

- Management Discussion & Analysis — *All Funds*
- Supplemental Schedules
 - Comparison Summary of Investments — *PUF, GEF, and ITF*
 - Schedule of Changes in Cost of Investments and Investment Income — *PUF only*
 - Financial Highlights — *GEF, ITF, LTF, and PHF*

We read such other information and considered whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. We have read the other information in the Funds' financial statements and have inquired as to the methods of measurement and presentation of such information. We did not note any material inconsistencies or obtain knowledge of a material misstatement of fact in the other information.

Disagreements with Management

We have not had any disagreements with management related to matters that are material to the Funds' 2014 financial statements.

Our Views about Significant Matters that were the Subject of Consultation with Other Accountants

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2014.

Significant Findings or Issues Discussed, or Subject of Correspondence, with Management prior to Our Initial Engagement or Retention

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

Other Significant Findings or Issues Arising from the Audit Discussed, or Subject of Correspondence, with Management

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

Significant Difficulties Encountered in Performing the Audits

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

Management's Representations

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

Emphasis-Of-Matter Or Other-Matter Paragraphs

We included the following emphasis-of-matter in our opinion on the financial statements:

1. As discussed in Note 1, the financial statements of the Funds are intended only to present the fiduciary net position of the Funds as of August 31, 2014 and 2013, and the changes in its fiduciary net position for the years then ended in conformity with accounting principles generally accepted in the United States and do not purport to, and do not, present the financial position of UTIMCO or The University of Texas System, as of August 31, 2014 or 2013, or the changes in their fiduciary net positions for the years then ended — ***Applicable to all Funds***
2. As also discussed in Note 1, the financial statements of the PUF include only the investment related assets and liabilities and changes therein which are being managed by UTIMCO and do not include the PUF's 2.1 million acres of land. This report, therefore, is not intended to be a complete presentation of the PUF's assets, liabilities, additions, and deductions — ***Applicable to PUF only***
3. As discussed in Note 2, the financial statements include investments (refer to the table on page 2 for the market value of investments by Fund) as of August 31, 2014 and 2013, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on procedures performed by management which use information provided by the Fund managers or the general partners — ***Applicable all Funds***

Our opinions are not modified with respect to the above matters.

* * * * *

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

Yours truly,

Deloitte & Touche LLP

October 31, 2014



October 31, 2014

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

We are providing this letter in connection with your audits of the statements of fiduciary net position as of August 31, 2014 and August 31, 2013, of the entities (the "Funds") listed in Appendix A, and statements of changes in fiduciary net position for the Funds for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position and the changes in the fiduciary net position of the Funds in conformity with accounting principles generally accepted in the United States of America (GAAP), as promulgated by the Governmental Accounting Standards Board (GASB).

We are also providing this letter in conjunction with your audits of the detailed schedules of investment securities of the Permanent University Fund (the "PUF") as of August 31, 2014 and the statement of investment performance statistics for the Funds for the year ended August 31, 2014.

We confirm that we are responsible for the following:

- a. The fair presentation in the financial statements of financial position, changes in fiduciary net position, detailed schedules of investment securities of the PUF, in conformity with GAAP
- b. The investment performance statistics of the Funds have been computed net of investment management fees using the Modified Dietz Method. The formula for the Modified Dietz Method is shown in Appendix B
- c. The fair presentation of the supplemental schedules accompanying the basic financial statements that are presented for the purpose of additional analysis of the basic financial statements
- d. The design, implementation, and maintenance of programs and controls to prevent and detect fraud
- e. Establishing and maintaining effective internal control over financial reporting.

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

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

1. The financial statements referred to above are fairly presented in conformity with GAAP.

2. The Funds have provided to you:
 - a. All relevant information and access as agreed in the terms of the contract entered into by The University of Texas System, as amended on February 28, 2014
 - b. Financial records and related data
 - c. Minutes of the meetings of directors/trustees, and committees of directors/trustees; or summaries of actions of recent meetings for which minutes have not yet been prepared
 - d. Information relating to the Funds' compliance with all statutes, laws, or regulations that have a direct effect on our financial statements
 - e. All new or revised governance documents and agreements.
3. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.
4. The Funds have provided to you the results of management's risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud.
5. We have no knowledge of any fraud or suspected fraud affecting the Funds involving:
 - a. Management
 - b. Employees of The University of Texas Investment Management Company ("UTIMCO"), the Funds' investment manager, who have significant roles in the Funds' internal control over financial reporting
 - c. Others if the fraud could have a material effect on the financial statements.
6. We have no knowledge of any allegations of fraud or suspected fraud affecting the Funds received in communications from UTIMCO employees, former UTIMCO employees, analysts, regulators, or others.
7. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Statement No. 10 (paragraph 53) *Accounting and Financial Reporting, for Risk Financing and Related Insurance Issues*.
8. All investments during the period were made in accordance with the investment policies.
9. Significant assumptions used by us in making accounting estimates are reasonable.

Except for the statement of investment performance statistics and where otherwise stated below, matters less than the materiality limits indicated in Appendix A for each Fund collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. These amounts are not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

10. There are no transactions that have not been properly recorded in the accounting records underlying the financial statements.

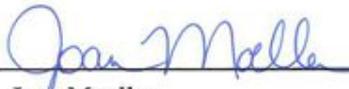
11. The Funds have no plans or intentions that may affect the carrying value or classification of their assets and liabilities.
12. We have disclosed to you any change in the Funds' internal control over financial reporting that occurred during the Funds' most recent fiscal year that has materially affected, or is reasonably likely to materially affect, the Funds' internal control over financial reporting.
13. With regard to the fair value measurements and disclosures of certain assets, liabilities, we believe that:
 - a. Portfolio securities are stated at fair value as determined in accordance with the valuation method set forth in the Funds' respective investment policies
 - b. The measurement methods, including the related assumptions, used in determining fair value were appropriate, consistent with market participant assumptions where available without undue cost and effort, and were consistently applied in accordance with GAAP
 - c. The completeness and adequacy of the disclosures related to fair values are in conformity with GAAP
 - d. No events have occurred subsequent to August 31, 2014 that require adjustment to the fair value measurements and disclosures included in the financial statements.
14. Private investment funds are fair valued by management. The fair values of these investments are estimated by management using the individual private investment fund's capital account balance at the closest available reporting period, as communicated by the investment fund's general partner or investment manager, adjusted for contributions and withdrawals subsequent to the latest available reporting period as well as consideration of any other information which has been provided. In rare cases the private market funds are valued at cost but only when management considers it to be the best approximation of fair value.
15. The following, to the extent applicable, have been appropriately identified, properly accounted for, and disclosed in the financial statements:
 - a. Related parties and all the related-party relationships and transactions of which the Funds are aware, including fees, commissions, sales, purchases, loans, transfers, leasing arrangements, side agreements, and guarantees (written or oral)
 - b. Restricted securities that may not be publicly sold without registration under the federal Securities Act of 1933
 - c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line-of-credit, or similar arrangements
 - d. All derivative financial instruments (e.g., futures, options, swaps), including bank loan commitments and other outstanding commitments to purchase or sell securities under forward placement and standby commitments
 - e. Financial instruments with significant individual or group concentration of credit risk, whether from an individual counterparty or group of counterparties

- f. The amounts receivable from or payable to related parties
 - g. Guarantees, whether written or oral, under which the Funds are contingently liable (e.g., shortfall agreements).
16. In preparing the financial statements in conformity with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
- a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events
 - b. The effect of the change would be material to the financial statements.
17. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:
- a. The concentration exists at the date of the financial statements
 - b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact
 - c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.
18. There are no:
- a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency
 - b. Known actual or possible litigation and claims whose effects should be considered and accounted for and disclosed in the financial statements and that have not been disclosed to the auditor
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed under GASB Statement No. 10 (paragraph 53), *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*.
19. The Funds have satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral, except for those disclosed in the financial statements.
20. The Funds have complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance.
21. Regarding the required supplementary information of the Funds, i.e. the Management's Discussion and Analysis (the "MD&A"):
- a. We confirm that we are responsible for the MD&A
 - b. The MD&A is measured and presented in accordance with GASB

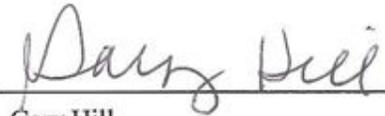
- c. The methods of presentation of the MD&A have not changed from those used in the prior period.
- 22. Regarding the required supplemental schedule of the PUF, i.e. the Schedule of Changes in Cost of Investments and Investment Income:
 - a. We confirm that we are responsible for the Schedule of Changes in Cost of Investments and Investment Income of the PUF
 - b. The Schedule of Changes in Cost of Investments and Investment Income of the PUF is measured and presented in accordance with Section 66.05 of the Texas Education Code
 - c. The methods of presentation of the Schedule of Changes in Cost of Investments and Investment Income of the PUF have not changed from those used in the prior period.
- 23. Regarding the supplementary information for the Funds, i.e. the Comparison Summary of Investments and the Financial Highlights, as applicable:
 - a. We confirm we are responsible for the fair presentation of the supplementary information
 - b. We believe the supplementary information, including its form and content, is fairly presented
 - c. The methods of presentation of the supplementary information have not changed from those used in the prior periods.
- 24. UTIMCO as investment manager of the Funds under the control and management of The University of Texas System Board of Regents ("UT Board"), entered into a security purchase agreement with the UT Board. The agreement committed the Funds to purchase UT System notes and bonds outstanding up to \$2,397,830,000. The PUF also has an agreement with the Texas A&M University (TAMU) System Board of Regents which commits the PUF to acquire up to \$125,000,000 of Texas A&M System flexible rate notes in the event of a failed remarketing of such notes. No UT System notes and bonds or Texas A&M System flexible rate notes have been or are expected to be purchased by the Funds under their required purchase commitment.
- 25. None of the entities which have borrowed from the Funds, subject to their securities lending programs, have defaulted during the year ended August 31, 2014.
- 26. In conjunction with the Funds' investments in the private investment and hedge fund pools, there are no instances where the Funds would be required to assume additional commitment responsibility should other limited partners or shareholders default on their own commitments.
- 27. As of August 31, 2014, the Funds do not have any deposits or investments that are exposed to custodial credit risk.
- 28. We have complied with all applicable provisions of the Foreign Corrupt Practices Act.
- 29. No events have occurred after August 31, 2014, but before October 31, 2014, the date the financial statements were available to be issued, that require consideration as adjustments to or disclosures in the financial statements.



Bruce Zimmerman
Chief Executive Officer and Chief Investment Officer



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



Gary Hill
Senior Manager – Investment Reporting

APPENDIX A

Entity Name	Materiality Limit
Permanent University Fund ("PUF")	\$ 33,000,000
The University of Texas System General Endowment Fund ("GEF")	16,000,000
The University of Texas System Long Term Fund ("LTF")	14,000,000
Permanent Health Fund ("PHF")	2,200,000
The University of Texas System Intermediate Term Fund ("ITF")	13,000,000

FORMULA FOR MODIFIED DIETZ METHOD

The formula for estimating the time-weighted rate of return using the Modified Dietz Method, R_{DIETZ} , is:

$$R_{DIETZ} = \frac{\text{Gross of Fees}}{MVB + FW} = \frac{MVE - MVB - F}{MVB + FW}$$

$$R_{DIETZ (net)} = \frac{\text{Net of Fees}}{MVB + FW} = \frac{MVE - MVB - F - FEES}{MVB + FW}$$

where

MVB is the fair value at the beginning of the period, including accrued income from the previous period;

MVE is the fair value at the end of the period, including accrued income for the period;

F is the sum of the cash flows within the period (contributions to the portfolio are positive flows, and withdrawals or distributions are negative flows);

FW is the sum of each cash flow, F_i , multiplied by its weight, W_i ; and

$FEES$ is the sum of investment management fees paid during the period.

W_i is the proportion of the total number of days in the period that the cash flow F_i has been in (or out of) the portfolio. The formula for W_i is:

$$W_i = \frac{CD - D_i}{CD}$$

where

CD is the total number of days in the period; and

D_i is the number of days since the beginning of the period in which cash flow F_i occurred.

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

Section I – Organizational Matters

- Four meetings of the Ethics and Compliance Committee were held during the year: September 20, 2013, December 16, 2013, March 21, 2014, and June 17, 2014.
- The University of Texas System Regent Jeffery Hildebrand was appointed to the UTIMCO Board by the Board of Regents of The University of Texas System (Regents) on September 12, 2013.
- The University of Texas System Regent Robert L. Stillwell was appointed to the UTIMCO Board by the Regents on November 14, 2013.
- 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 262 meetings/calls with potential managers. Serious due diligence was initiated on seven managers. Seven managers were hired during the year. Ongoing review of active external managers included 253 meetings/calls. Additional efforts included monthly performance tracking, reviews and analyses by the team, two semi-annual portfolio review meetings, two QFII Compliance calls, and participation in five annual meetings.

Marketable Alternative Investments: The Marketable Alternative Investments group participated in 231 meetings/calls with potential managers. Serious due diligence was initiated on 11 managers. Nine managers were hired during the year. Ongoing review of active external managers was conducted in the form of 283 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 25 potential managers. Seventeen commitments were made during the year. The Private Markets group also participated in 422 meetings with active external managers and 228 meetings with potential managers, including site visits, conference calls, and Advisory Board and Annual meetings. Additional efforts included participation in 15 ILPA meetings.

Natural Resources: The Natural Resources group participated in 284 meetings/calls with potential managers. Serious due diligence was initiated on 15 managers. Thirteen managers were hired during the year. Ongoing review

of active external managers included 451 meetings/calls. Additional efforts included participation in ten annual meetings with active managers.

Real Estate: The Real Estate group participated in 236 meetings/calls with potential managers. Serious due diligence was initiated on six managers during the year. Twelve managers were hired. Ongoing review of active external managers included 278 meetings/calls. Additional efforts included participation in seven annual meetings.

Specialized Training: Staff attended 60 industry-related conferences/functions during the year.

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 year, 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, including trend analysis of risk exposure and attribution, as well as analysis of managers’ portfolio-level risk and performance.
- Risk Team participated in 4 due-diligence calls with the Public Markets Group and reviewed 3 additional due-diligence questionnaires.
- Risk Team met with several peers regarding liquidity “best practices.”
- Risk Team assisted in the development and implementation of the new Private Investment benchmark.
- Risk Team reviewed current status and future projects with the members of the IFS team.
- Risk Team developed an analysis of the commodity allocation of the Natural Resources MCC portfolio, which was presented and discussed in several forums.
- Risk Team investigated new ways to better convey the risk attributes of the Portfolio; to that end met with members of the Risk Committee, solicited sample reports from members of the Risk Management Working Group of peers and worked on calculated risk-adjusted returns when compared to peers.
- Risk Team presented several reports on additional aspects of risk, such as country, sector and concentration. Risk team is reviewing additional tools and metrics to convey the various aspects of risk of the portfolio. In particular, Risk Team is reviewing tools and metrics to convey various aspects of risk in Private Investments.
- Risk Team reviewed 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 support other ISDA-related issues. Risk Team monitors UTIMCO Counterparties for any negative news and/or potential downgrades and continues to support investment staff in understanding the risks inherent in managers operating under agency agreements.
- Risk Team continued to monitor the current macro environment. Risk Team took a fresh look at the future scenarios with high risk, and is working with the Portfolio Positioning Task Force to better understand the impact of each such scenario, and to address such scenarios.
- All internal derivatives were reviewed and analyzed in detail prior to initiation. The insurance budget is continuously tracked.
- Derivative positions are monitored on a daily basis. External managers that may use derivatives are monitored daily for spikes in returns or in volatility. Effects of derivatives on the overall portfolio are

monitored monthly. Fixed income duration and tracking error is being monitored on an ongoing basis. Managers' use of margin and leverage is monitored on an ongoing basis. New proxies for the risk in Private Investments were implemented. Risk Team confirmed each month downside risk and VaR calculations.

- Risk Team prepared projections on portfolio risk, country exposure, liquidity, and asset allocations; updated projections on a weekly basis.

Specialized Training: Risk Team chaired one conference and participated in two other conferences during the year.

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 portion of larger AFR audit completed.
- 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 anti-virus/anti-malware solution largely complete.
- 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.
- Classic VPN was phased out and replaced with Citrix and Remote Desktop.
- Exchange upgraded to 2013. Exchange disaster recovery pressed into service due to server failure and worked as designed.

- 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 and security review of data vendor websites from all business units was completed. Results emailed to CCO and Jon Ellison. Jon continues to review the associated legal agreements.
- Continuing to monitor and address policy violations for unauthorized software downloads, sharing of credentials, and use of network resources.
- No malware infections during the year. IT continues to looking for a better desktop AV/AM tool.
- Secunia patch management was implemented to update Java, Flash, and other third-party software.
- Security reviews performed on SQL Sentry Plan Explorer Pro, Plugin for SSMS, and Plugin for Visual Studio.
- ARDC Disaster recovery site brought online. Services were transitioned to active/active or active/passive as required to support them in a disaster recovery scenario. IT continues to explore ways to leverage this new asset.
- ShoreTel disaster recovery pressed into service due to server failure and worked as designed.
- Continuing rollout of Splunk for infrastructure monitoring and alerting. Currently monitoring all servers plus network infrastructure and Ironport devices.
- Review of ISS screens, system components, configurations and scripts continues.
- Four cloud service installations were detected; user were unaware the service was installed. Services were removed.
- One cloud based software application, Pivotal Tracker, was purchased without prior security review. Security review was completed after purchase and CISO determined controls were adequate for public information but not for sensitive or confidential information. Intended use is limited to basic tracking of ISS bugs; as such security was determined to be adequate.
- New reporting schedule for UT System Security Requirements put in place.
- RSA Archer Risk Assessment Tool roll-out is coming from UT System. Training is being scheduled for this fall.
- Full re-write of UTS165, UT's master security policy, which may impact UTIMCO, is in process.
- Two-factor authentication will be required for any public facing external access by August 2015.
- Review of ISS screens, system components, configurations and scripts continues. A security review of ISS turned up some issues that GlobeArc is working to resolve.

Specialized Training: CISO, IT Developer, and Infrastructure Engineer attended several Microsoft TechEd Conferences, training on SharePoint, Citrix, and Juniper. CISO also attended teleconference meetings of the Chief Information Security Officers Council, UT Security meetings, UT INFOSEC groups, and audit kick off meeting. CISO met with Dell Computers on new technologies and security features built into new hardware currently in prototype phase.

High-Risk Area #4: Investment Compliance

Responsible Party: Manager - Portfolio Accounting and Operations

Key "A" risk(s) identified:

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

Key Monitoring Activities:

- Twenty-nine annual compliance statements were sent to external managers. All were returned with no non-compliance issues noted.
- Verified that investments are in compliance with rules and guidelines in policies, rules and regulations utilizing custodian's software and in-house developed databases and reports.

- Work continues to verify that custodian software queries and database queries are working properly for manager compliance. Mellon made one visit during the year.
- 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: Chief Compliance Officer

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 Regents on September 12, 2013 and another director was appointed on November 14, 2013. One Director was appointed by the Texas A&M University System Board of Regents effective April 1, 2014. One Director was appointed by The University of Texas System Board of Regents on May 20, 2014. All directors timely filed all financial disclosure and ethics compliance statements.
- Annual employee training was held on April 15th and an additional training session was held on April 30th for those that were not able to attend the annual session. One training session was held on July 28th for an employee on leave during the annual training sessions. Four training sessions were held during the year for new hires. All new employees received training within a reasonable time after hire.
- All employees turned in their financial disclosure and ethics compliance statements timely. Financial disclosure and ethics compliance statements for two recent new hires were not due until after the end of the year.
- 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. Updated restricted lists were sent to all required managers for all securities required to be added to the restricted list during the year.
- On a daily basis, accounting staff reviewed security holdings of internal and external managers for compliance with the restricted list. No exceptions noted.
- Effective April 1, 2013, a new procedure regarding the periodic review of public resources for comparison with financial disclosure statement information provided by Directors and Key Employees was adopted, which requires review of these statements within 90 days after the deadline for filing the statements. The review was completed as required.
- No securities transactions requiring preclearance occurred during the year. All transactional disclosures forms were turned in within the required ten days.
- CEO approval was given to six employees for outside employment during the year. The required communication regarding outside employment from the CEO was timely sent to three members of the Audit

and Ethics Committee. An email was sent to the chairman of the Audit and Ethics Committee when it was discovered he was inadvertently omitted from the original email.

- Fifty-five (55) trips containing vendor reimbursed/paid expenses, which required documentation and supervisor approval, had appropriate documentation and approval. Five (5) additional trip occurred that were not preapproved; two of which were not preapproved because the travelers were not aware the manager would cover the expense. Post approval was obtained for all. Twenty-three (23) events that included sponsored entertainment requiring CEO, CCO, or UTIMCO Chairman approval received the requisite approvals. 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: Legal and Compliance Specialist 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 employees were held during the year. One training session for an existing employee returning from leave was held during the year. Four training sessions for new hires were held during the year.

Section V – Action Plan Activities

See updated Institutional Compliance Action Plan Fiscal Year 2014.

Section VI – Confidential Reporting

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

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

All calls are accepted by the hotline and reported to the UTIMCO Compliance Office. All reports are handled by a 5-person team comprised of the General Counsel and Chief Compliance Officer, the Legal and Compliance Specialist, the Manager - Finance & Administration, the Executive Assistant to the CEO and Chief Investment Officer, and David Givens from The University of Texas Systemwide Compliance Office.

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

#	ACTION ITEM	TARGET COMPLETION DATE	STATUS
<i>A. RISK ASSESSMENT</i>			
1.	Review risk assessments to determine if updates are needed and map controls identified in the risk assessment to controls identified in the process documentation where needed	11/30/13	<i>Completed</i>
<i>B. MONITORING ACTIVITIES / ASSURANCE</i>			
2.	Continual enhancement of compliance monitoring and reporting	On-going	<i>Now that Legal and Compliance Specialist is onboard, responsibility for certain compliance processes have changed; monitoring plans are being updated to reflect these changes; Revised monitoring plans for Conflicts of Interest and General Management and Accounting have been completed; Monitoring plans for the Investment groups are in process</i>
3.	Periodic review of Responsible Party Monitoring Plan documentation for high risk areas A	On-going	<i>Fourth quarter FY14 monitoring plan documentation has been reviewed</i>
<i>C. COMPLIANCE TRAINING / AWARENESS</i>			
4.	Provide Code of Ethics training and information to improve staff awareness of compliance program	04/30/14	<i>Two training sessions were held during the quarter for 5 new employees and 1 existing employee who returned from leave</i>
5.	Identify and network with similarly situated compliance professionals	On-going	<i>Participated in Compliance Officer Roundtable monthly meetings</i>
<i>D. REPORTING</i>			
6.	Conduct quarterly meetings with the internal ethics and compliance committee	On-going	<i>Last meeting held on June 17, 2014</i>

Updated 09/17/14

#	ACTION ITEM	TARGET COMPLETION DATE	STATUS
7.	Provide quarterly/annual reports to the Audit and Ethics Committee and System-wide compliance office	On-going	<i>Quarterly report submitted June 17, 2014</i>
<i>E. OTHER / GENERAL COMPLIANCE</i>			
8.	Manage and transition compliance work from Back Office staff to Compliance Office after Legal and Compliance Specialist is hired	08/31/14	<i>Hiring completed; Transition in progress</i>
9.	Update/revise Institutional Compliance Program Manual as needed	08/31/14	<i>Completed</i>
10.	Update/review UTIMCO Fraud Prevention and Detection Program as needed	08/31/14	<i>Completed</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 09/17/14

**The University of Texas Investment Management Company
Institutional Compliance Action Plan
Fiscal Year 2015**

#	ACTION ITEM	TARGET COMPLETION DATE	STATUS
<i>A. RISK ASSESSMENT</i>			
1.	Update risk assessments as needed, including mapping of controls	08/31/15	
<i>B. MONITORING ACTIVITIES / ASSURANCE</i>			
2.	Continual enhancement of compliance monitoring and reporting	On-going	
3.	Periodic review of Responsible Party Monitoring Plan documentation for high risk areas A	On-going	
<i>C. COMPLIANCE TRAINING / AWARENESS</i>			
4.	Provide Code of Ethics training and information to improve staff awareness of compliance program	04/30/15	
5.	Identify and network with similarly situated compliance professionals	On-going	
<i>D. REPORTING</i>			
6.	Conduct quarterly meetings with the internal ethics and compliance committee	On-going	
7.	Provide quarterly/annual reports to the Audit and Ethics Committee and System-wide compliance office	On-going	
<i>E. OTHER / GENERAL COMPLIANCE</i>			
8.	Complete transition of compliance work from Back Office staff to Compliance Office	05/31/15	
9.	Institutional Compliance Program Self-Assessment	12/31/14	
10.	Peer Review of UTIMCO Compliance Program	03/31/15	
11.	Complete second live testing of Business Continuity Plan; update as business processes change	12/31/14	
12.	ICAC activities: ICAC and Standing Committee participation	On-going	
13.	Hotline reporting	On-going	

Agenda Item
UTIMCO Board of Directors Meeting
November 18, 2014

- Agenda Item:** Report from Compensation Committee; Discussion and Appropriate Action Related to Performance Incentive Awards for UTIMCO Compensation Program Participants for the Performance Period ended August 31, 2014 and Discussion and Appropriate Action Related to Designation of Employee in Eligible Position as a Participant in the UTIMCO Compensation Program for the Performance Period ending August 31, 2015
- Developed By:** Zimmerman, Gonzalez, Moeller
- Presented By:** Hobson
- Type of Item:** Action Item; Action Required by UTIMCO Board
- Description:** The Compensation Committee (the “Committee”) met on November 3, 2014 and will meet on November 17, 2014 and November 18, 2014. At its meeting on November 3, 2014, the Committee approved the minutes of its September 26, 2014 meeting and convened in Executive Session to consider the Performance Incentive Awards for the Performance Period ended August 31, 2014. At its meeting on November 17, 2014, the Committee will consider the minutes from the November 3, 2014 meeting and convene in Executive Session to consider the Performance Incentive Awards for the Performance Period ended August 31, 2014.
- At its November 18th meeting, the Committee will (1) discuss and take appropriate action related to the Performance Incentive Awards for the UTIMCO Compensation Program (“Plan”) Participants for the Performance Period ended August 31, 2014; (2) discuss and take appropriate action related to the Qualitative Performance Goals for a Participant of the Plan for the Performance Period ending August 31, 2015; and (3) discuss and take appropriate action related to Designation of Employee in Eligible Position as a Participant in the Plan for the Performance Period ending August 31, 2015. The Committee will also convene in Executive Session for the purpose of deliberating individual personnel compensation and evaluation matters related to the Performance Incentive Awards for the Plan Participants for the Performance Period ended August 31, 2014.
- Discussion:** The Committee will make its recommendation to the UTIMCO Board related to the Performance Incentive Awards under the Plan for all Plan Participants. Performance Incentive Awards in the Plan for the 2013/2014 Performance Period are calculated for each Participant based on the percentage achieved of each Performance Goal, taking into account the weightings for the Participant’s Entity Performance, Asset Class/Investment Type Performance, and Qualitative Performance Goals. Action is required by the UTIMCO Board related to the Performance Incentive Awards.

Agenda Item
UTIMCO Board of Directors Meeting
November 18, 2014

The Committee, at its September 26, 2014 meeting, and the UTIMCO Board, at its October 9, 2014 meeting, approved the Designation of Employees in Eligible Positions in the Plan for the 2014/2015 Performance Period and approved the Qualitative Performance Goals of the Participants. Mr. Zimmerman is requesting that an additional individual be designated in an Eligible Position. Section 5.3 of the Plan provides that the Board may designate a newly hired or promoted employee as eligible to participate in the Plan for a Performance Period (or remainder of a Performance Period) within 30 days of such hire or promotion or, if later, as soon as administratively feasible. Section 5.4 of the Plan requires that the CEO recommend Performance Goals for employees who are hired or promoted during the Performance Period and become Participants at the time those employees are designated as Participants (with such Performance Goals subject to confirmation by the Compensation Committee as soon as administratively feasible after such Performance Goals are recommended). The Committee will take appropriate action at its meeting on November 18, 2014, and requests that the UTIMCO Board take action related to the designation of an additional employee as a Participant in the Plan. The Qualitative Performance Goals do not require Board approval. Mr. Zimmerman is requesting that Richard Rincon be designated in the Eligible Position of Senior Associate – Investments in the Plan effective November 10, 2014, for the 2014/2015 Performance Period.

Recommendation: The Committee will recommend appropriate action related to the 2013/2014 Performance Incentive Awards, including the 2013/2014 Performance Incentive Award proposed for the CEO of UTIMCO, and the designation of an Employee in an Eligible Position as a Participant in the Plan for the 2014/2015 Performance Period.

Reference: Materials provided for Executive Session

**RESOLUTION RELATED TO THE
CEO'S 2013/2014 PERFORMANCE INCENTIVE AWARD**

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

WHEREAS, the Compensation Committee has reviewed and approved the actual performance of the CEO during the 2013/2014 Performance Period and has submitted its recommendation to the Board for approval; and

WHEREAS, the Board has reviewed the actual performance of the CEO during the 2013/2014 Performance Period and has compared such actual performance relative to each Performance Goal category for the CEO against his corresponding Performance Goal for such Performance Period.

NOW, THEREFORE, be it:

RESOLVED, that the Board approves the CEO's Performance Incentive Award for the 2013/2014 Performance Period in the amount of \$_____ and be it

FURTHER RESOLVED, that of the CEO's \$_____ Performance Incentive Award for the 2013/2014 Performance Period, 50% (\$_____) will be deferred pursuant to the Plan.

**RESOLUTION RELATED TO
2013/2014 PERFORMANCE INCENTIVE AWARDS**

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

WHEREAS, in accordance with Section 5.5.(d) of the Plan, the Compensation Committee has determined the level of achievement by each Participant in the Plan during the 2013/2014 Performance Period of his or her Performance Goals for such Performance Period; and

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

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

WHEREAS, the Compensation Committee has reviewed the Performance Incentive Awards for all Participants who have met or exceeded their performance benchmarks for the 2013/2014 Performance Period, made changes it deemed appropriate, approved such Performance Incentive Awards, and recommended that the Board approve the same.

NOW, THEREFORE, be it:

RESOLVED, that the Board approves the Performance Incentive Awards for all Participants for the 2013/2014 Performance Period (excluding the CEO) in the total aggregate amount of \$_____ and be it

FURTHER RESOLVED, that of the Performance Incentive Awards for the 2013/2014 Performance Period (excluding the CEO),____% (\$_____) will be deferred pursuant to the Plan.

**RESOLUTION RELATED TO
2014/2015 PARTICIPANT IN
UTIMCO COMPENSATION PROGRAM**

WHEREAS, Section 5.3.(a) of the UTIMCO Compensation Program (the “Plan”) provides that, in order to become a “Participant” in the Plan for a Performance Period, a UTIMCO employee must be (1) employed in a position designated by the Board of Directors of UTIMCO (the “Board”) as an “Eligible Position” for that Performance Period and (2) selected by the Board as a Participant for that Performance Period; and

WHEREAS, the Compensation Committee of the Board has recommended Richard Rincon (Senior Associate – Investments) to become a Participant for the 2014/2015 Performance Period; and

WHEREAS, the UTIMCO Board wishes to select Richard Rincon (Senior Associate – Investments) as a Participant for the 2014/2015 Performance Period.

NOW, THEREFORE, be it:

RESOLVED, that, Richard Rincon (Senior Associate – Investments) be designated as a “Participant” in the Plan for the 2014/2015 Performance Period, effective as of November 10, 2014.

Agenda Item
UTIMCO Board of Directors Meeting
November 18, 2014

Agenda Item: Report on 2015 Meeting Dates

Developed By: Zimmerman

Presented By: Zimmerman

Type of Item: Information item

Description: This agenda item presents the 2015 UTIMCO Board Meeting schedule and the Committee meetings schedule.

Recommendation: None

Reference: UTIMCO 2015 Meeting Dates to be distributed