

**UTIMCO BOARD OF DIRECTORS
MEETING AGENDA
October 15, 2015**

UTIMCO
401 Congress Avenue, Suite 2800
Austin, Texas 78701

Time		Item #	Agenda Item
Begin	End		
			OPEN MEETING:
10:00 a.m.	10:05 a.m.	1	Call to Order of the Meeting/Discussion and Appropriate Action related to Minutes of April 22, 2015 Meeting*
10:05 a.m.	10:10 a.m.	2	Discussion and Appropriate Action Related to UTIMCO Board Committee Assignments* ,**
10:10 a.m.	11:10 a.m.	3	Endowment and Operating Funds Update
11:10 a.m.	11:30 a.m.	4	UTIMCO Organization Update
11:30 a.m.	12:00 p.m.	5	Update on Investment Initiatives
12:00 p.m.	12:30 p.m.		Lunch
12:30 p.m.	12:40 p.m.	6	Report from Audit and Ethics Committee - Discussion and Appropriate Action Related to Corporate Auditor*
12:40 p.m.	12:50 p.m.	7	Report from Risk Committee
12:50 p.m.	1:10 p.m.	8	Report from Policy Committee: - Investment Strategy Review for Fiscal Year 2016 - Discussion and Appropriate Action Related to the Investment Policy Statements* ,** - Discussion and Appropriate Action Related to the Derivative Investment Policy * ,** - Discussion and Appropriate Action Related to the Liquidity Policy * ,**
1:10 p.m.	1:30 p.m.	9	Executive Session Pursuant to Section 551.074 <i>Texas Government Code</i> , the Board of Directors may convene in Executive Session to deliberate individual personnel matters, including the CEO and Chief Investment Officer Reconvene into Open Session Report from Compensation Committee - Discussion and Appropriate Action Related to the CEO's Base Salary for 2015-2016 Fiscal Year* - Discussion and Appropriate Action Related to the UTIMCO Compensation Program, Amended and Restated effective September 1, 2015* ,**
1:30 p.m.	1:55 p.m.	10	Discussion and Appropriate Action Related to UTIMCO 2015-2016 Budget* ,**
1:55 p.m.	2:00 p.m.	11	Discussion and Appropriate Action Related to Employee's Service as a Director on an UTIMCO Investee Company*
2:00 p.m.			Adjourn

* Action by resolution required

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

Next Regularly Scheduled Meeting: November 18, 2015
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RESOLUTION RELATED TO MINUTES

RESOLVED, that the minutes of the meeting of the Board of Directors held on **April 22, 2015**, be, and are hereby, approved.

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

The Board of Directors (the "Board") of The University of Texas Investment Management Company (the "Corporation") convened in an open meeting on **April 22, 2015**, at the offices of the Corporation, Suite 2800, 401 Congress Avenue, Austin, Texas, said meeting having been called by the Vice Chairman, Ardon Moore, 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. Participating in the meeting were the following members of the Board:

Ardon E. Moore, Vice Chairman
Phil Adams
Kyle Bass
R. Steven Hicks
Jeffery D. Hildebrand
John D. White

Director Adams joined the meeting by conference telephone enabling all persons participating in the meeting to hear each other, thus constituting a majority and quorum of the Board. Vice Chairman for Policy William McRaven and Director Lee Hobson did not attend the meeting. Vice Chairman Moore called the meeting to order at 10:05 a.m., welcoming the newest Board member, Phil Adams. 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; Mark Warner, Senior Managing Director - Natural Resources and Emerging Markets Investments; Lindel Eakman, Managing Director – Private Markets Investments; Susan Chen, Managing Director – Public Markets Investments; Ryan Ruebsahm, Managing Director – Marketable Alternative Investments; Uzi Yoeli, Managing Director - Portfolio Risk Management; Russ Kampfe, Sr. Portfolio Manager – Fixed Income Investments; Scott Bigham, Director – Private Markets Investments; Eddie Lewis, Director – Real Estate Investments, Pat Pace, Director – Private Markets Investments; Uche Abalogu, Chief Technology Officer; and other staff members. Other attendees were Jim Phillips, Roger Starkey, Allen Hah and Terry Hull of the UT System Administration; Keith Brown of the McCombs School of Business at UT Austin; and Jerry Turner of Andrews Kurth LLP. Copies of materials supporting the Board meeting agenda were previously furnished to each member of the Board.

Minutes

The first item to come before the Board was approval of the minutes of the Board of Directors Meeting held on February 5, 2015. Upon motion duly made and seconded, the following resolution was unanimously adopted by the Board:

RESOLVED, that the minutes of the meeting of the Board of Directors held on **February 5, 2015**, be, and are hereby, approved.

Corporate Resolutions

Vice Chairman Moore nominated Director Hildebrand as Chairman and recommended approval of the corporate resolution designating officers for the Corporation. Upon motion duly made and seconded, the following resolution was unanimously adopted by the Board:

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

<u>Name</u>	<u>Office or Offices</u>
Jeffery D. Hildebrand	Chairman
Ardon E. Moore	Vice-Chairman
William H. McRaven	Vice-Chairman for Policy
Bruce Zimmerman	Chief Executive Officer and Chief Investment Officer
Joan Moeller	Senior Managing Director, Treasurer and Secretary
Mark Warner	Senior Managing Director
Lindel Eakman	Managing Director
Mark Shoberg	Managing Director
Ryan Ruebsahm	Managing Director
Susan Chen	Managing Director
Uzi Yoeli	Managing Director
Uche Abalogu	Chief Technology Officer
Christy Wallace	Assistant Secretary

At this point, Mr. Hildebrand assumed control of the meeting as Chairman. Chairman Hildebrand thanked the Board and said it was an honor to serve as Chairman and was pleased to be a part of this organization. He continued the meeting by presenting Resolutions of Appreciation to Morris Foster and Robert Stillwell for their service as members of the Board. Upon motion duly made and seconded, the following resolutions were unanimously adopted:

Director Morris E. Foster's Resolution of Appreciation:

WHEREAS, in recognition of his substantial background and expertise in business, Morris E. Foster was appointed by Governor Rick Perry to the Board of Regents of The Texas A&M University System in 2007, served as its Chairman from 2009-2011, and was reappointed in 2013 for another six-year term; and

WHEREAS, during his tenure Mr. Foster was appointed by The Texas A&M University System Board to the Board of Directors of The University of Texas Investment Management Company ("UTIMCO") in 2012; and

WHEREAS, Mr. Foster served as a Member of the Board's Policy and Risk Committees, and was elected Chairman of the Board in 2013 until his term ended on April 1, 2015; and

WHEREAS, during his tenure on the UTIMCO Board, Mr. Foster provided invaluable insight and counsel, drawing on his immense experience in business,

engineering, and the oil and gas industry, presently as Chairman of Stagecoach Properties, Inc., and formerly as the President of ExxonMobil Production Company, Vice President, Exxon Mobil Corporation, and President of ExxonMobil Development Company, and prior to the merger of Exxon and Mobil, as President of Exxon Upstream Development Company; and

WHEREAS, Mr. Foster's commitment and service as a Director of UTIMCO were exemplary, reflecting his deep devotion to the education and development of students at all levels, and further evidenced by his induction into Texas A&M University's Academy of Distinguished Graduates in 1993, and his work with The Texas A&M University System, including serving as Chairman of the Board of Regents, a member of the Committee on Buildings and Physical Plant, special liaison to the Development Foundations of A&M System Members, and a member of the Committee on Finance; and

WHEREAS, Mr. Foster's unselfish contributions are also evidenced in the civic and corporate arenas by his service on numerous boards, including First State Bank of Central Texas, Tidewater, Inc., Scott & White Medical Institute, United Way of the Texas Gulf Coast, Greater Houston Partnership, and as a member of the American Petroleum Institute, the Society of Petroleum Engineers, and the Texas Oil & Gas Association; and

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

WHEREAS, much of the credit for UTIMCO's success is directly attributable to Mr. Foster's leadership, judgment, and commitment.

Now, therefore,

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

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

students and faculty of The University of Texas System and The Texas A&M University System.

PASSED AND ADOPTED this 22nd day of April 2015.

And Director Robert L. Stillwell's Resolution of Appreciation:

WHEREAS, in recognition of his substantial background and expertise in law and business, Robert L. Stillwell was appointed by Governor Rick Perry to the Board of Regents of The University of Texas System in 2009, and was appointed by the Board of Regents to the Board of Directors of The University of Texas Investment Management Company ("UTIMCO") in 2013; and

WHEREAS, Mr. Stillwell has provided invaluable insight and counsel, drawing on his immense experience as a principal with TBP Investments Management, as director of Pioneer Corporation, as an original director of Mesa Petroleum Co.; and a retired partner at the law firm of Baker Botts L.L.P.; and

WHEREAS, Mr. Stillwell's unselfish contributions are also evidenced in the civic and education arenas by his service on the boards of EXCO Resources, Inc. and Warren Equipment Company, membership in the State Bar of Texas and the Houston Bar Association, and as trustee of the T. Boone Pickens Foundation helping direct \$700 million of educational, scientific, and health care gifts to nonprofit organizations, including gifts to U.T.M.D. Anderson Cancer Center, U.T. Southwestern Medical Center and U.T. Dallas; and

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

WHEREAS, Mr. Stillwell's commitment and service as a Board Member of UTIMCO were exemplary, reflecting his deep devotion to the education and development of students at all levels, and further evidenced by his work with the Board of Regents of The University of Texas System, including service as Chairman of the Health Affairs Committee; a member of the Academic Affairs, Audit, Compliance, and Management Review, and Facilities Planning and Construction Committees; service as a Regental Representative to the M. D. Anderson Services Corporation Board of Directors; an Athletics Liaison; previous service as a member of the Task Force on University Excellence and Productivity, and service on the Longhorn Foundation Advisory Council Executive Committee at The University of Texas at Austin; and

WHEREAS, Mr. Stillwell has provided outstanding leadership and judgment to UTIMCO through his dedicated service as Chair of the Board's Policy Committee and a member of the Audit and Ethics Committee.

NOW THEREFORE,

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

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

PASSED AND ADOPTED this 22 day of April, 2015.

Various Directors also expressed their appreciation to Morris Foster and Robert Stillwell for their dedicated service to the Board. Chairman Hildebrand then recommended approval of new committee assignments. Upon motion duly made and seconded, the following resolution was unanimously adopted by the Board:

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

John D. White
Phil Adams
H. Lee S. Hobson

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

FURTHER RESOLVED, that John D. White is hereby designated the Chair of the Audit and Ethics Committee and shall preside at its meetings.

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

H. Lee. S. Hobson
Kyle Bass
R. Steven Hicks
Ardon E. Moore

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

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

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

Kyle Bass
H. Lee S. Hobson
Ardon E. Moore
John D. White

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

FURTHER RESOLVED, that Kyle Bass is hereby designated the Chair of the Risk Committee and shall preside at its meetings.

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

R. Steven Hicks
Phil Adams
John D. White

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

FURTHER RESOLVED, that R. Steven Hicks is hereby designated the Chair of the Policy Committee and shall preside at its meetings.

Mr. Zimmerman noted that the UT System Board would be appointing a new Board member soon and that individual would be added to serve on committees at that time.

Endowment and Operating Funds Update

Chairman Hildebrand asked Mr. Zimmerman to present the Corporation's endowment and operating funds update. Mr. Zimmerman presented the *Endowment Dashboard*, which provides a one page summary of ten identified risks for the funds, including underperformance risk, market and scenario analysis, volatility/downside risk and downside risk attribution, active management, value add, endowment insurance hedges, transparency risks and concentration analysis. He also presented the Corporation's assets under management and performance results as of February 28, 2015. Mr. Zimmerman reported the Corporation had \$35.7 billion of assets under management: \$18.0 billion in the Permanent University Fund ("PUF"), \$8.3 billion in the General Endowment Fund ("GEF"), \$1.9 billion in the Short Term Fund ("STF"), \$0.2

billion in Separately Invested Funds, \$0.3 billion in the Debt Proceeds Fund, and \$7.0 billion in the Intermediate Term Fund ("ITF"). The net performance for the six months ended February 28, 2015, for the PUF was 1.06% and for the GEF was 1.47%. The ITF's performance was 0.29%. Mr. Zimmerman, Ms. Chen, Dr. Yoeli, Mr. Warner, Mr. Ruebsahm, Mr. Kampfe and Mr. Lewis discussed in detail each of the risks identified on the *Endowment Dashboard* and reported on their respective portfolios. Mr. Zimmerman also gave an update on co-investments, the ITF and contracts. Mr. Zimmerman and Investment Staff answered the Directors' questions.

Permanent Loss of Capital

Mr. Zimmerman began discussion of the Permanent Loss of Capital presentation. In the spirit of transparency and also as an educational process, Staff reviewed the Corporation's 19-year investment history as it related to permanent loss of capital. Mr. Zimmerman summarized all investments' risk of loss of capital, and reported realized and anticipated losses for the 19 years. Out of \$59.9 billion of investment decisions, there was a total loss of 2.5% in 19 years. Mr. Zimmerman then asked Ms. Chen, Mr. Ruebsahm, Mr. Powers, and Mr. Bigham to discuss permanent loss of capital in their respective portfolios. Mr. Zimmerman and Staff answered the Directors' questions.

At approximately 12:00 p.m. the Board recessed for lunch.

The meeting of the Board reconvened in open session at 12:30 p.m.

Organization Update

Chairman Hildebrand asked Mr. Zimmerman to give an organization update to the Board. Mr. Zimmerman gave an update on the Corporation's staffing, asking new employees to introduce themselves to the Board, and presented the actual to budget expenses for the first six months of Fiscal Year 2015. He asked Mr. Ruebsahm to give a presentation of the junior staffing program, and asked Mr. Abalogu to report on updates in the information technology area. Mr. Zimmerman and Staff answered the Directors' questions.

Compensation Committee Report

Chairman Hildebrand asked Mr. Bass to provide a report on the Compensation Committee in the absence of Mr. Hobson, Chairman of the Compensation Committee. Mr. Bass stated that the Committee had met on April 13, 2015. The Committee approved minutes from their previous meeting. They also discussed and approved the Designation of a new employee and a promoted employee in Eligible Positions as Participants in the UTIMCO Compensation Program for the Performance Period ending August 31, 2015, subject to approval by the Board, and the Qualitative Performance Goals for two new Participants in the UTIMCO Compensation Program for the Performance Period ending August 31, 2015. The Committee also discussed and approved Committee Chair Hobson to engage a consultant to inform and advise the Committee regarding compensation matters for the 2015-2016 performance period. Chairman Hildebrand recommended that the Board accept the Compensation Committee's recommendations. Upon motion duly made and seconded, the following resolutions were unanimously adopted by the Board:

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 Patrick Pace (Director – Private Investments) to become a Participant for the 2014/2015 Performance Period; and

WHEREAS, the UTIMCO Board wishes to select Patrick Pace (Director – Private Investments) as a Participant for the 2014/2015 Performance Period.

NOW, THEREFORE, be it:

RESOLVED, that, Patrick Pace (Director – Private Investments) be designated as a "Participant" in the Plan for the 2014/2015 Performance Period, effective as of January 5, 2015.

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 "UTIMCO Board") as an "Eligible Position" for that Performance Period and (2) selected by the UTIMCO Board as eligible to participate for that Performance Period; and

WHEREAS, the Compensation Committee of the Board of Directors of UTIMCO (the "Committee") has previously determined that the position of Director, Investments is an Eligible Position in the Plan; and

WHEREAS, the position of Director, Investments, includes the position of Director – Natural Resources Investments; and

WHEREAS, William Prather, currently designated in the Plan in the Eligible Position of Senior Associate, Investments has been promoted to Director – Natural Resources Investments, and

WHEREAS, the Committee approved the designation of William Prather in the Eligible Position of Director, Investments for the 2014/2015 Performance Period, effective as of March 1, 2015, and the weighting of Mr. Prather's Incentive Award Opportunity and Percentage of Award Deferred for the 2014/2015 Performance Period, based on the time spent by Mr. Prather in each Eligible Position for the Performance Period ended August 31, 2015, and has recommended that the UTIMCO Board approve same.

NOW, THEREFORE, be it:

RESOLVED, that the Board approves the designation of William Prather in the Eligible Position of Director, Investments for the 2014/2015 Performance Period, effective as of March 1, 2015; and

FURTHER RESOLVED, that the Board approves the weighting of Mr. Prather's Incentive Award Opportunity and Percentage of Award Deferred for the 2014/2015 Performance Period, based on the time spent by Mr. Prather in each Eligible Position for the Performance Period ended August 31, 2015.

Audit and Ethics Committee Report

Chairman Hildebrand asked Mr. White to provide a report on behalf of the Audit and Ethics Committee. Mr. White reported that the Committee met on April 13, 2015. At that meeting, the Committee approved minutes from their previous meeting, heard an update on compliance for the period ending February 28, 2015, from Ms. Gonzalez, and Ms. Moeller presented the separate unaudited financial statements as of February 28, 2015, for the PUF, GEF, the Permanent Health Fund, The University of Texas System Long Term Fund, and ITF. There were no action items related to the Audit and Ethics Committee report.

Risk Committee Report

Chairman Hildebrand asked Mr. Bass to provide a report from the Risk Committee. Mr. Bass reported that the Committee convened on April 13, 2015 and minutes were approved from the previous meeting. He stated that the Risk Committee approved 14 new investment mandate categorizations prepared by Staff for the period beginning January 21, 2015 and ending March 31, 2015. The Committee heard a report from Ms. Gonzalez on compliance items for the quarter ending February 28, 2015. There were no action items related to the Risk Committee report.

Prior to adjourning the meeting, Chairman Hildebrand expressed his pleasure and honor to be named Chairman of the Board.

There being no further business to come before the Board, the meeting was adjourned at approximately 12:59 p.m.

Secretary: _____
Joan Moeller

Approved: _____ Date: _____
Jeffery D. Hildebrand
Chairman, Board of Directors of
The University of Texas Investment Management Company

Agenda Item
UTIMCO Board of Directors Meeting
October 15, 2015

Agenda Item: Discussion and Appropriate Action Related to UTIMCO Board Committee Assignments

Developed By: Zimmerman, Gonzalez, Moeller

Presented By: Hildebrand

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

Description: Chairman Hildebrand will propose new Board committee assignments since the Board of Regents of The University of Texas System has appointed David J. Beck to the UTIMCO Board effective May 14, 2015. If a change is made in the composition of the Audit and Ethics Committee, Section 66.08 of the *Texas Government Code* requires that the U. T. System Board of Regents approve the appointment of the members of the Audit and Ethics Committee of the UTIMCO Board.

Recommendation: Chairman Hildebrand will recommend approval of the committee assignments.

Reference: None

RESOLUTION RELATED TO COMMITTEE ASSIGNMENTS

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



UTIMCO Board

Endowment and Operating Funds Update

October 15, 2015

Endowment Dashboard

August 31, 2015



Underperformance

<u>FY2015</u>	<u>3-years</u>	<u>5-years</u>	<u>10-years</u>
0.6%	7.9%	8.3%	6.2%



Market

<u>Beta</u>		
<u>U.S. Equity</u>	<u>Rates</u>	<u>Currency</u>
0.567	(0.309)	(0.156)



Scenarios

	<u>US Liquidity</u>	<u>China</u>	<u>Japan</u>	<u>50% Oil</u>
Expected	<u>Squeeze</u>	<u>Slowdown</u>	<u>Implosion</u>	<u>Drop</u>
Returns:	-21.6%	-18.7%	-15.6%	1.8%



Downside Volatility

	<u>1 stdev</u>	<u>2 stdev</u>
Expected returns	-2.2%	-11.1%
VIX:	28.4%	



Active Management

Waiting for June 30th
Private Investment benchmark update



Transparency

<u>Full but</u>			
<u>Full</u>	<u>Lagged</u>	<u>Partial</u>	<u>None</u>
32%	33%	31.5%	3.5%



Concentration

<u>US</u>	<u>Manager</u>		<u>Securities (Top 10)</u>	
	<u>Top 10</u>	<u>Top 20</u>	<u>Bonds</u>	<u>Stocks</u>
54%	25%	42%	5.1%	5.5%



Illiquidity

	<u>90 day</u>	<u>1 year</u>	<u>Unfunded</u>
	<u>liquidity</u>	<u>liquidity</u>	<u>Commitments</u>
Endowments	36%	61%	25%
ITF	59%	89%	



Leverage

	<u>LCC</u>	<u>LCC ex-FI</u>	<u>Endowments</u>
Gross	1.95	1.65	1.00
Net	0.52	0.60	1.00



Permanent Loss of Capital

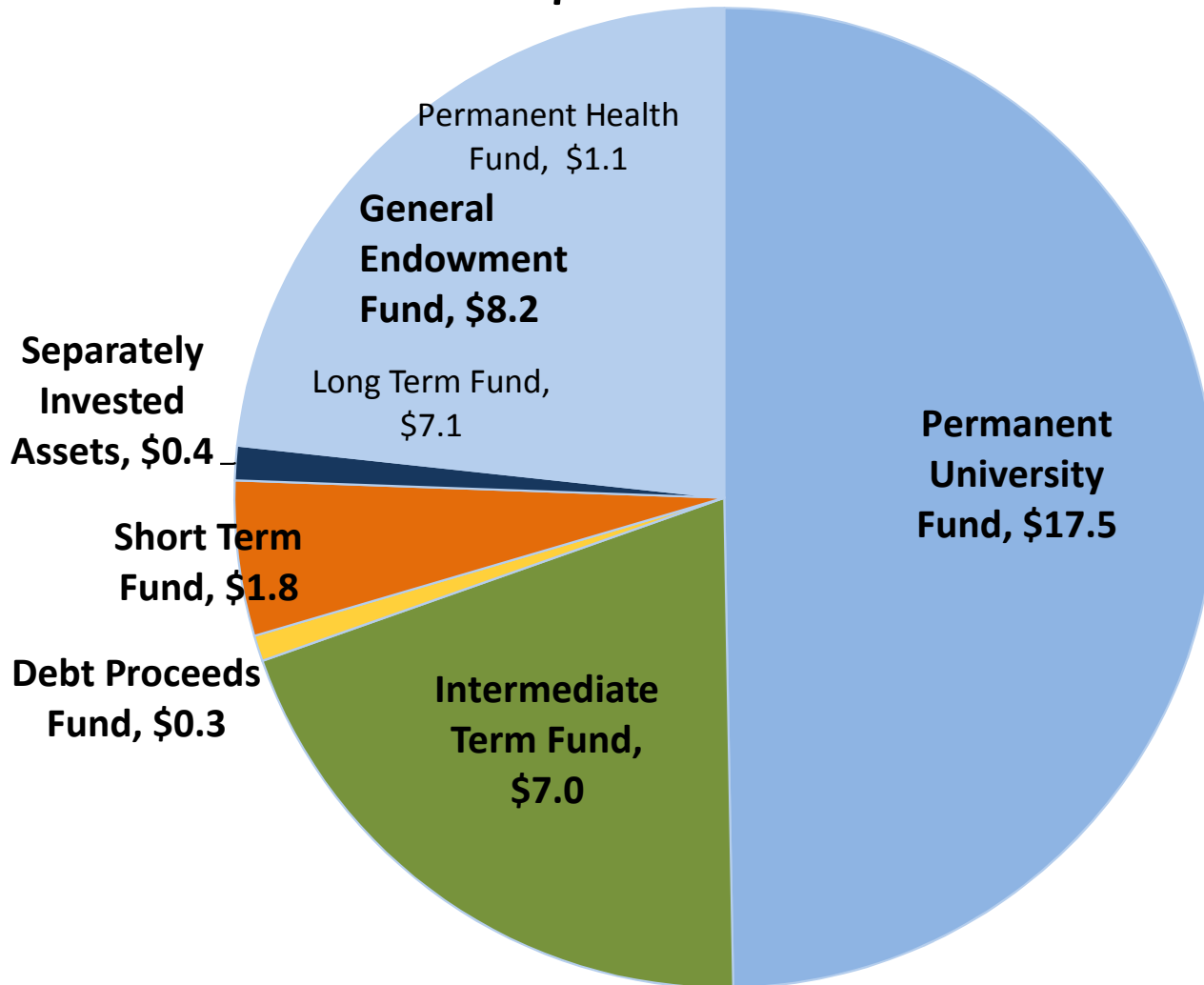
	<u>Invested</u>	<u>Realized</u>	<u>Anticipated/</u>		
			<u>Unrealized</u>	<u>Total Loss</u>	
	<u>Capital (\$B)</u>	<u>Loss (\$M)</u>	<u>Loss (\$M)</u>	<u>(\$M)</u>	<u>Annualized</u>
					<u>Loss (%)</u>
MCC	\$33.7	\$622	-	\$622	0.34%
LCC	13.2	240	198	438	0.51%
PI	<u>14.5</u>	<u>327</u>	<u>202</u>	<u>529</u>	<u>0.95%</u>
Total	<u>\$61.4</u>	<u>\$1,189</u>	<u>\$400</u>	<u>\$1,589</u>	<u>0.49%</u>

UTIMCO Assets Under Management

August 31, 2015



\$35.2 Billion





Returns/ Underperformance Risk

Returns



Periods Ended August 31, 2015

Fund	FY	Three Years	Five Years	Ten Years
Permanent University Fund (PUF)	0.43%	7.94%	8.27%	6.13%
General Endowment Fund (GEF)	1.08%	8.12%	8.41%	6.24%
Intermediate Term Fund (ITF)	-3.28%	3.92%	5.16%	N/A

FY2015 Returns

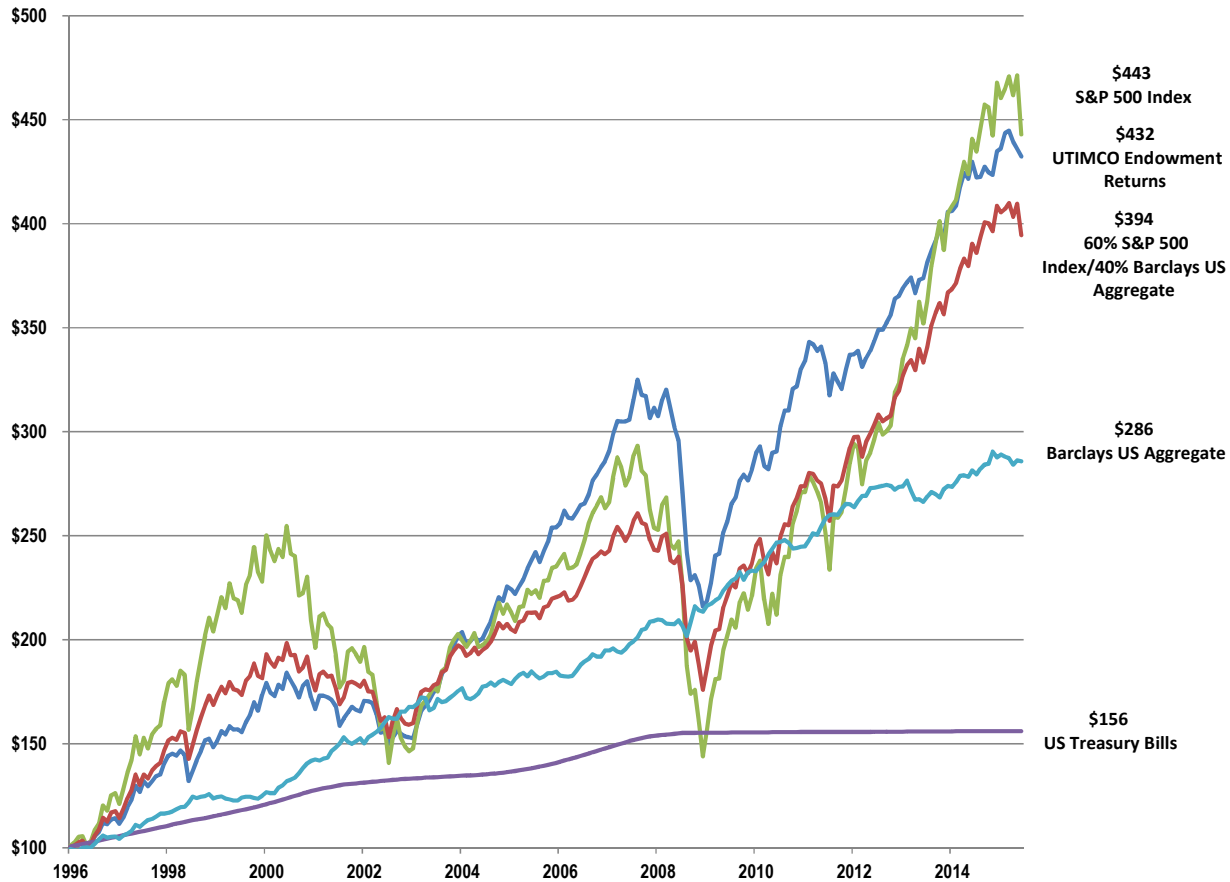


MCC

LCC

Private Investments

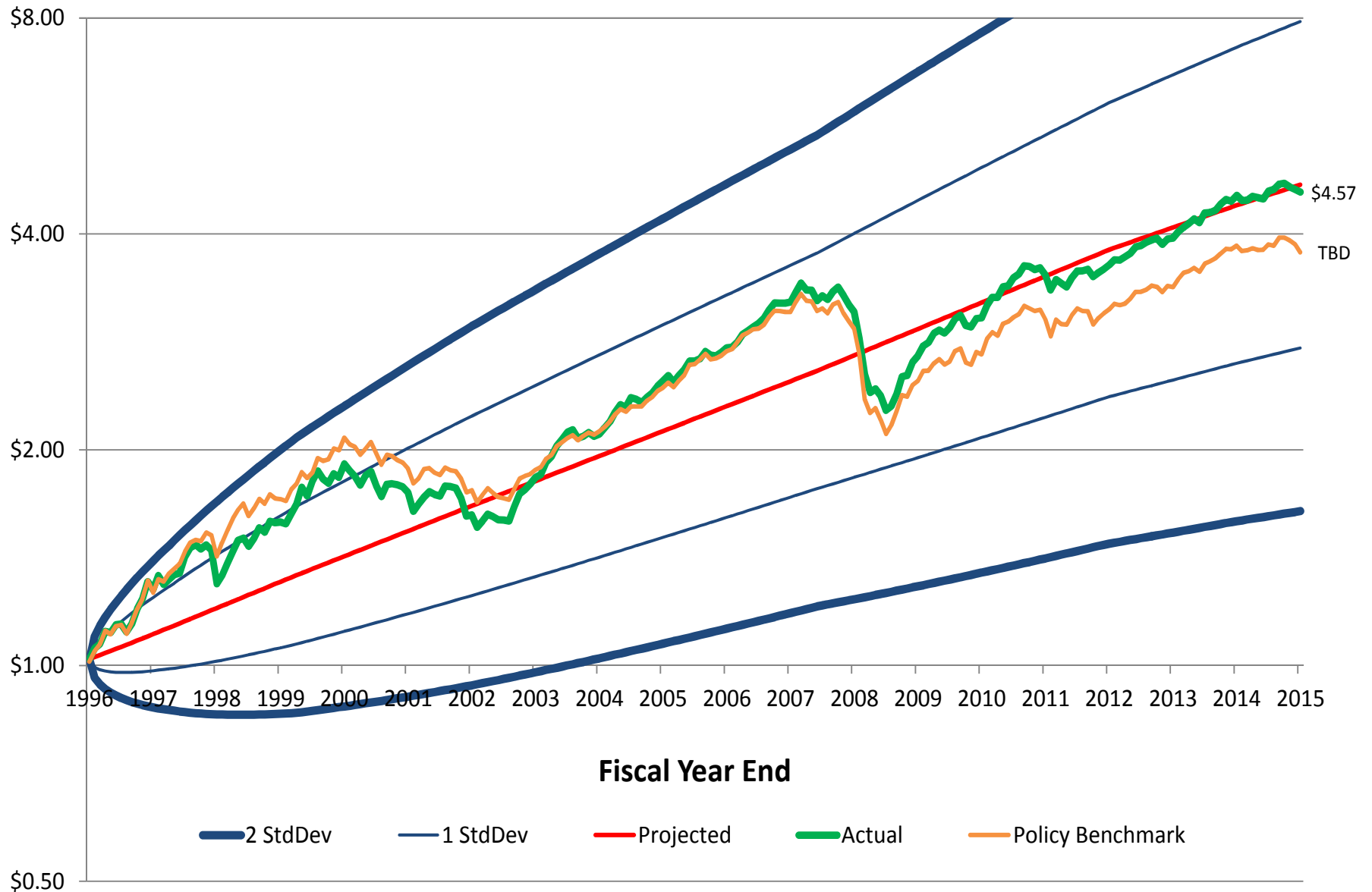
Returns vs. Market



Trailing Annualized Returns Period Ending August 31, 2015

	One Year	Three Years	Five Years	Seven Years	Ten Years
UT Endowments	0.60%	7.96%	8.28%	5.57%	6.14%
60% Stocks / 40% Bonds	1.06%	9.16%	10.75%	7.37%	6.36%
Stocks	0.48%	14.31%	15.87%	8.69%	7.15%
Bonds	1.56%	1.53%	2.98%	4.54%	4.46%
Treasury Bills	0.02%	0.06%	0.06%	0.09%	1.22%

Returns vs Projected Returns





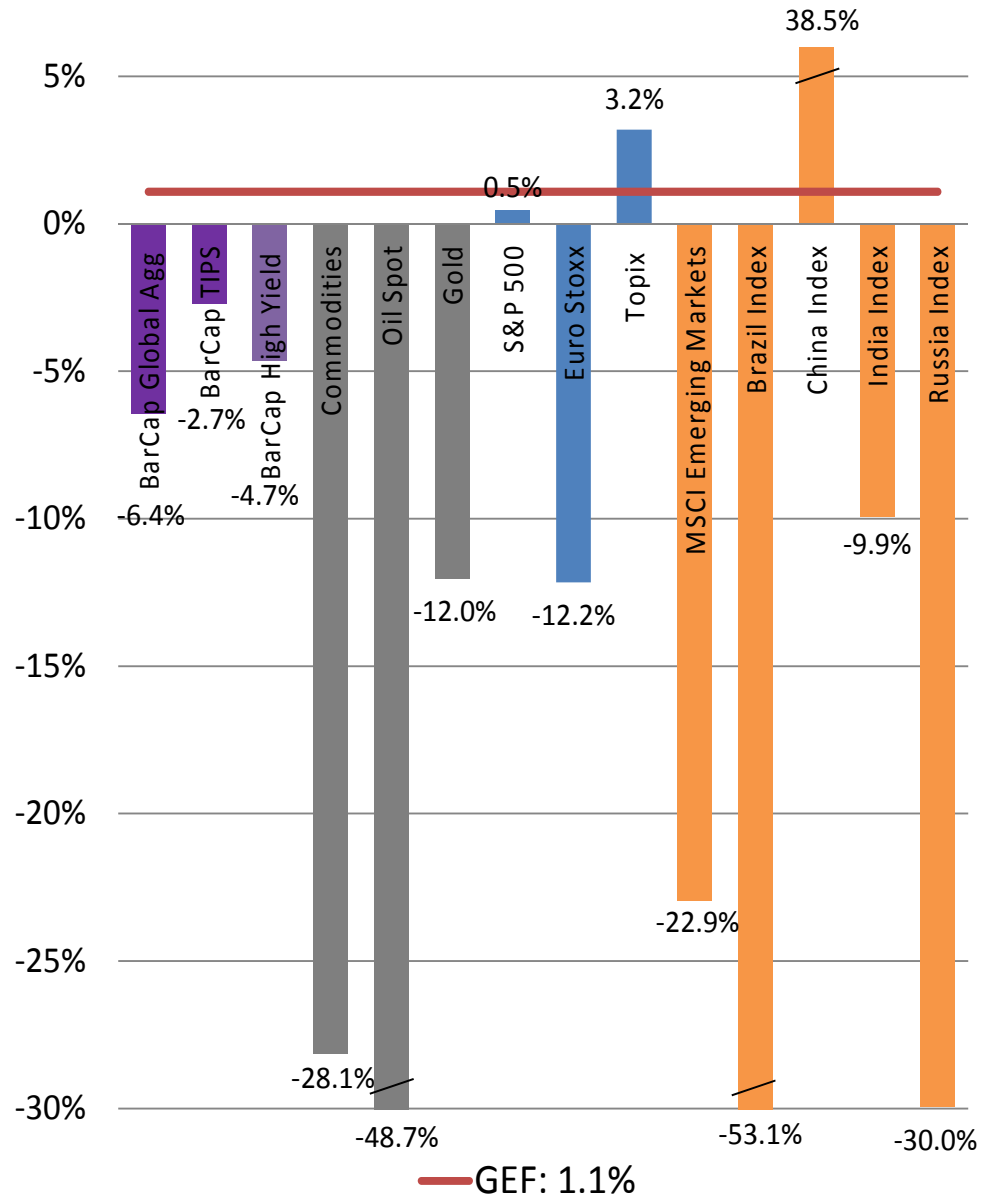
Market

Market Performance During FY2015

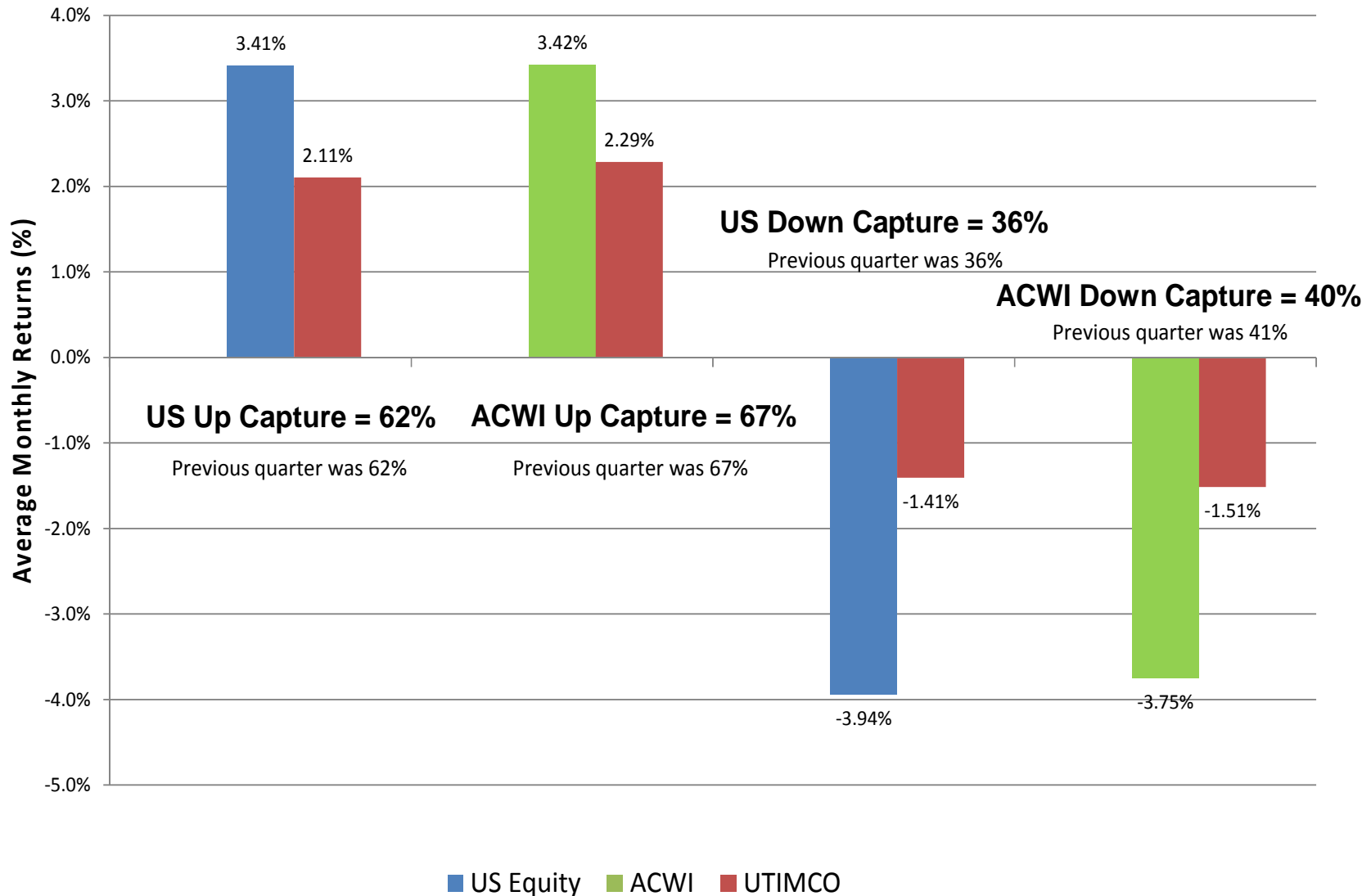


Sensitivity Analysis (beta)

All Equities	0.641
U.S. Equities	0.567
Interest Rates	(0.309)
Currencies	(0.156)



Up-Down Capture vs U.S. & World Equities



Data from 8/1996 till 8/2015. US equity had 91 down months and 138 up months; ACWI had 95 down months and 134 up months



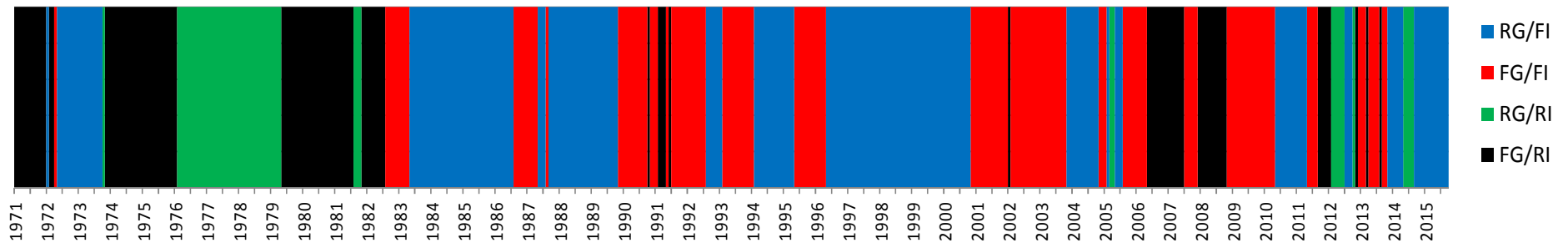
Scenario

Scenario Analysis

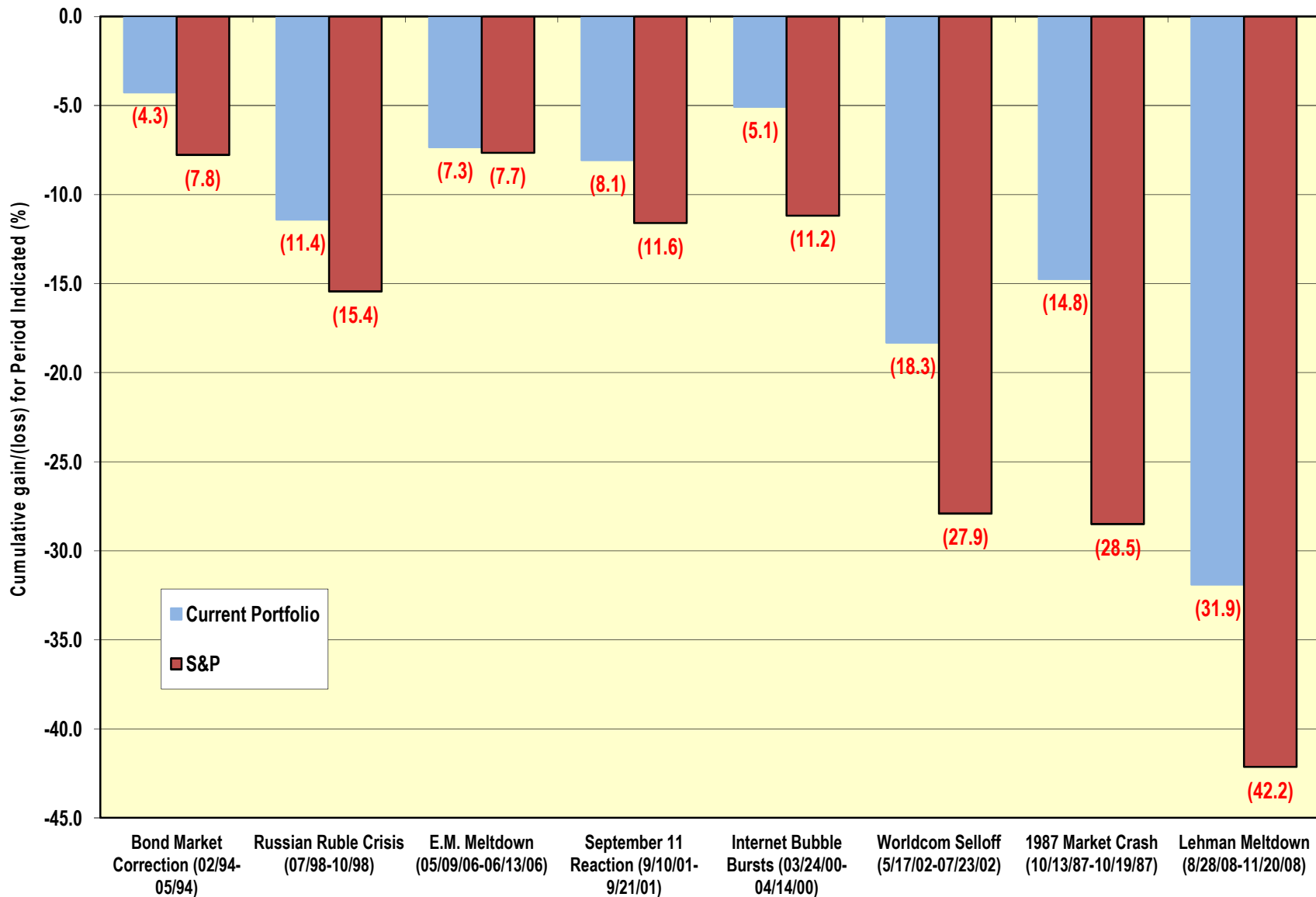


	Scenario							
	US Liquidity Squeeze	EM Slowdown (Esp China)	Eurozone Breakup	Japan Implosion	Currency Debasing	Eurozone Lost Decade	Mideast War / Oil shock	Oil supply shock (50%)
Expected Policy Returns (nominal)	(22.6%)	(21.3%)	(17.8%)	(18.1%)	(15.3%)	(4.1%)	(3.2%)	0.8%
Gain from tactical positions	(0.8%)	(0.5%)	(0.5%)	(0.3%)	(1.1%)	(0.3%)	(0.1%)	0.0%
Gain from current hedges	0.0%	0.0%	0.0%	0.3%	0.2%	0.0%	0.0%	0.0%
Gain from manager's alpha	1.8%	3.0%	2.8%	2.5%	2.1%	2.3%	1.3%	1.0%
Estimated Endowment Returns	(21.6%)	(18.8%)	(15.5%)	(15.6%)	(14.1%)	(2.1%)	(2.0%)	1.8%

Economic Environment



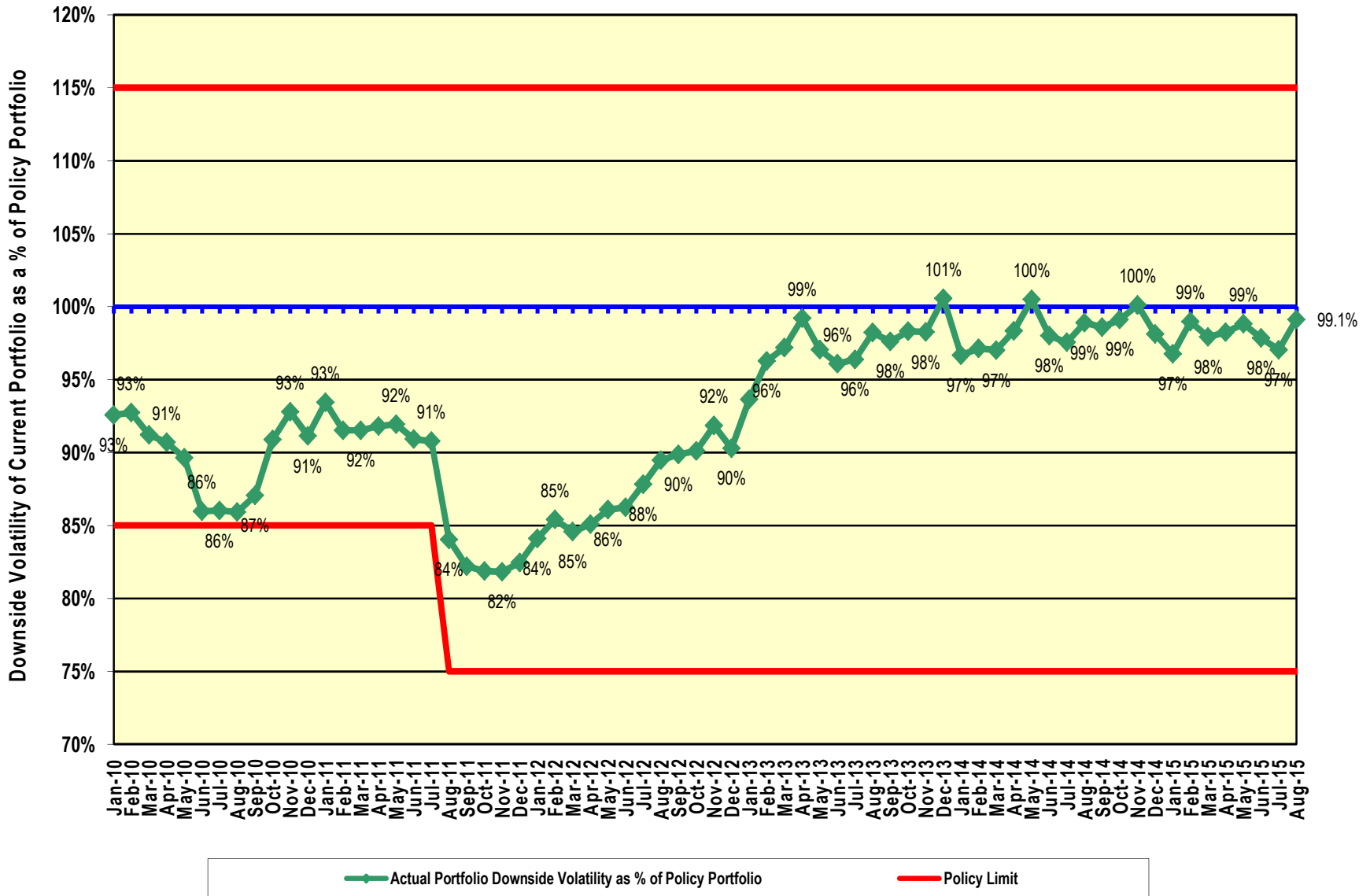
Hypothetical Performance of Current GEF Portfolio in Selected Market Stress Environments



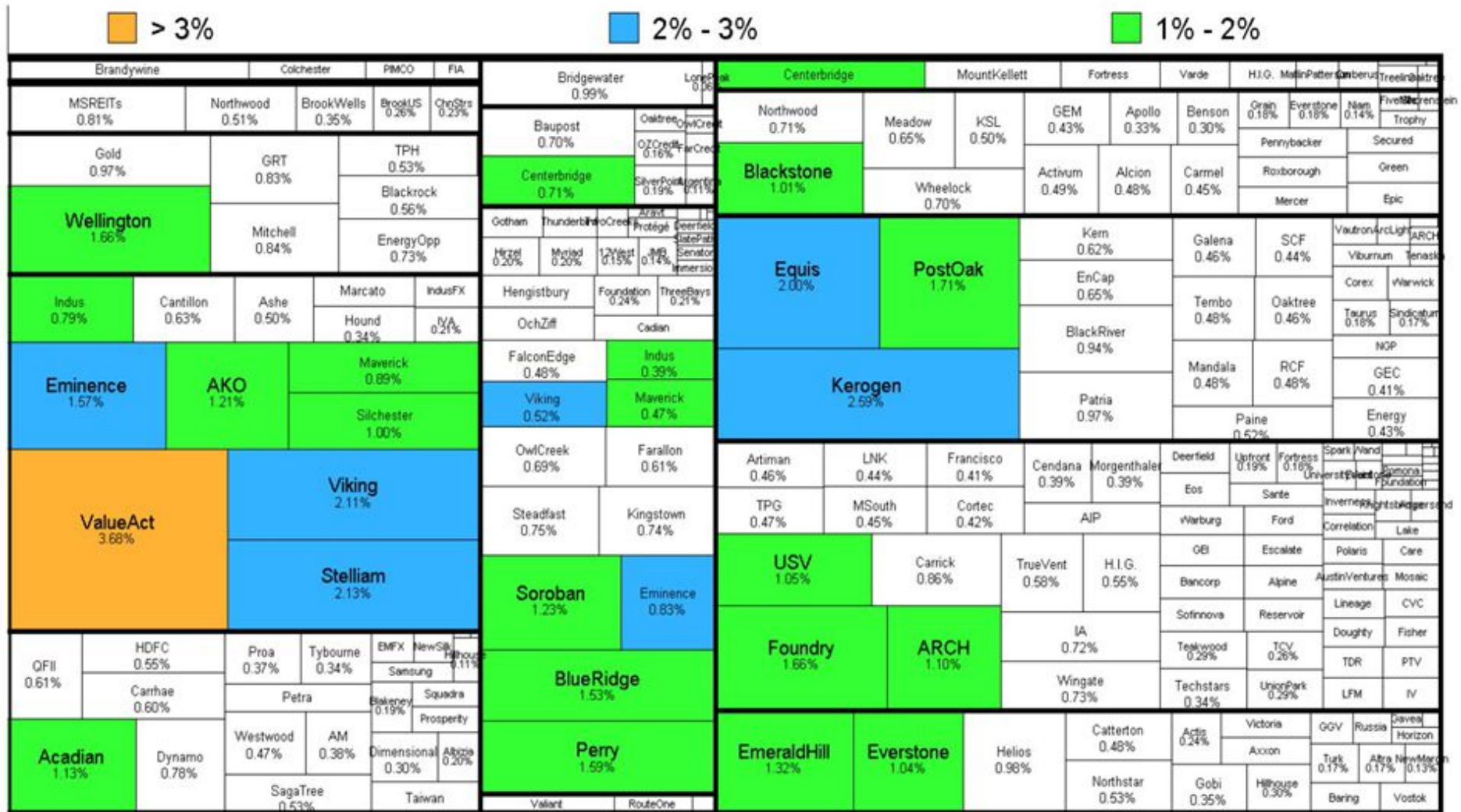


Downside Volatility

Downside Volatility Utilization of GEF



Downside Volatility Attribution



MCC

LCC

Private Investments



Active Management

Active Management Value Add

Periods Ending August 31, 2015 (\$ in Millions)



Periods Ending August 31, 2015

	One Year	Three Years	Five Years
<u>Value Add</u> ⁽¹⁾			
Basis Points	236	147	140
\$	\$550	\$1,096	\$1,667

⁽¹⁾ Excludes Private Investments

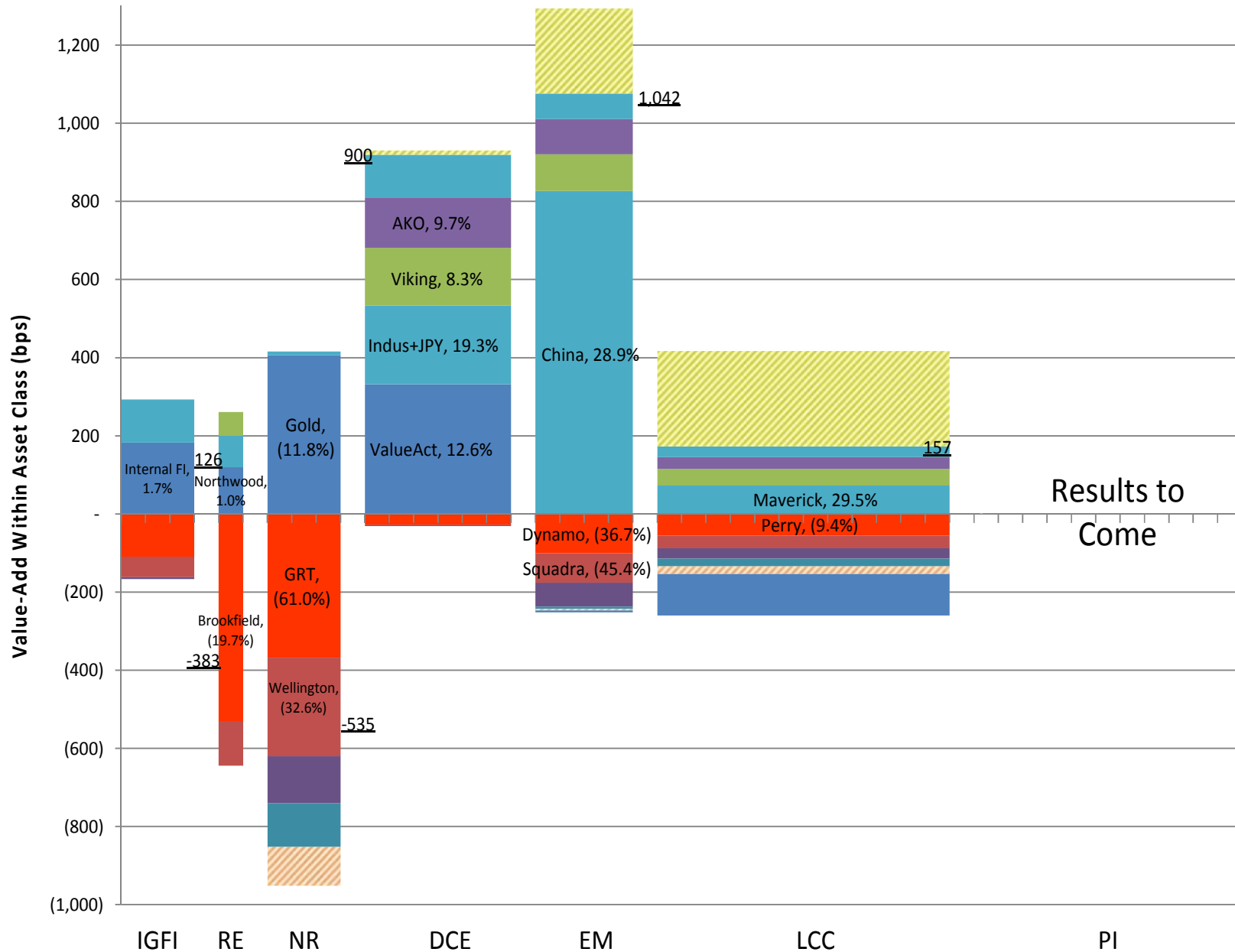
Active Management Value Add Attribution

Periods Ending August 31, 2015



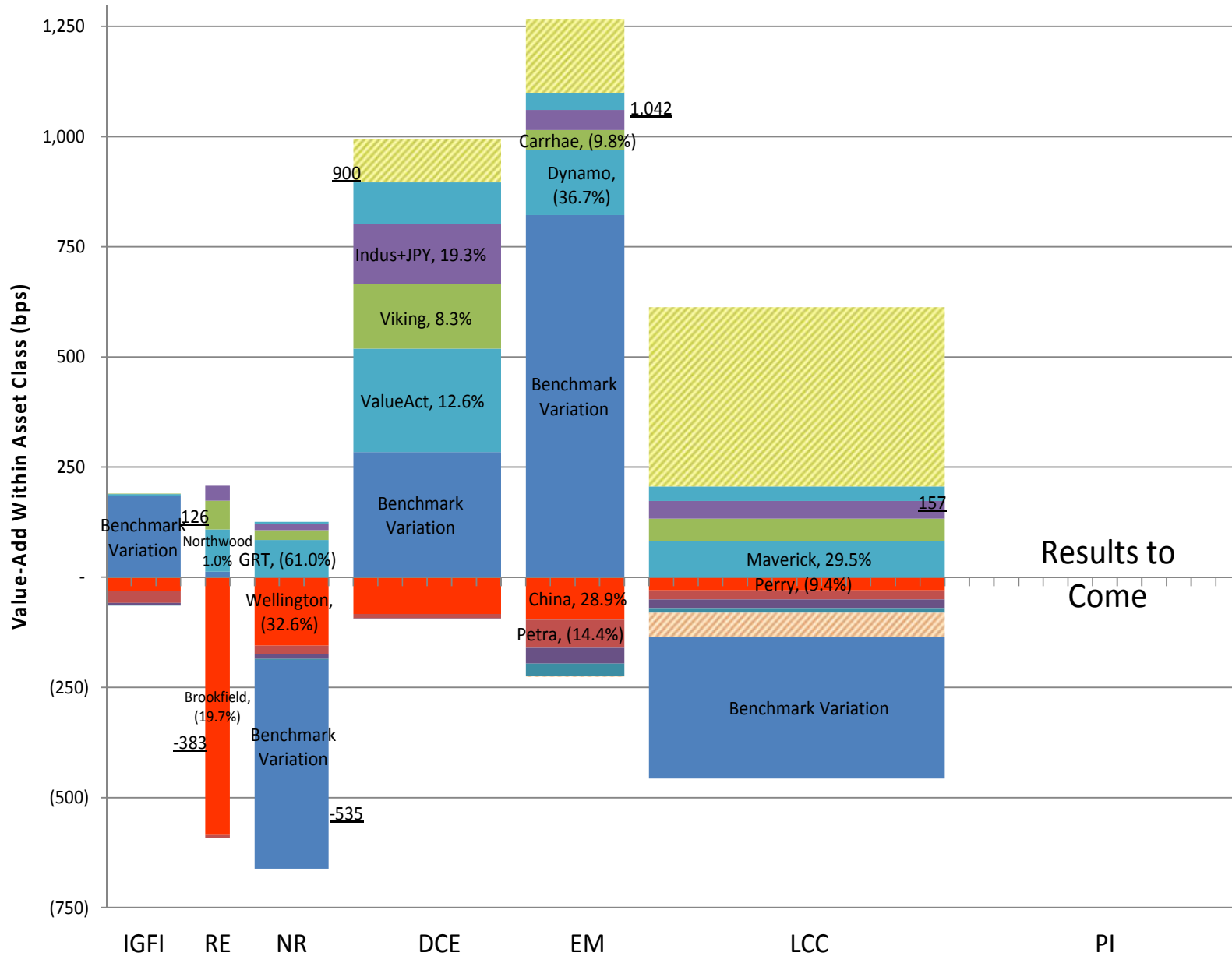
	Fiscal Year	Three Years	Five Years
External Manager			
MCC	1.97%	1.38%	1.01%
LCC	0.49%	0.91%	1.23%
Private Markets	TBD	TBD	TBD
Total External Manager	TBD	TBD	TBD
Tactical Allocation:			
Gold	0.00%	-0.62%	-0.26%
Other	-0.19%	-0.16%	-0.34%
Total Tactical Allocation	-0.19%	-0.78%	-0.60%
Insurance Hedges	0.09%	-0.04%	-0.24%
Total Value Add	TBD	TBD	TBD

Value-Add Breakdown for FY2015



Results to
Come

Value-Add Breakdown for FY2015



Current Tactical Allocation



Overweights

- Private Investments

PUF

2.1%

2.1%

GEF

2.3%

2.3%

Underweights

- MCC IGFI
- MCC RE
- MCC NR
- MCC DCE
- MCC EM
- LCC

PUF

(0.3%)

(0.2%)

(1.2%)

(0.2%)

(0.1%)

(0.1%)

(2.1%)

GEF

(0.6%)

(0.1%)

(1.1%)

(0.2%)

(0.2%)

(0.1%)

(2.3%)

Current Tactical Allocation



Overweights

- MCC+PI DCE
- MCC+PI EM

PUF

1.2%

0.1%

1.3%

GEF

1.3%

-

1.3%

Underweights

- MCC+PI FI
- MCC+PI RE
- MCC+PI NR
- LCC

PUF

(0.1%)

(0.8%)

(0.3%)

(0.1%)

(1.3%)

GEF

(0.4%)

(0.7%)

(0.1%)

(0.1%)

(1.3%)

Endowment Insurance Hedges

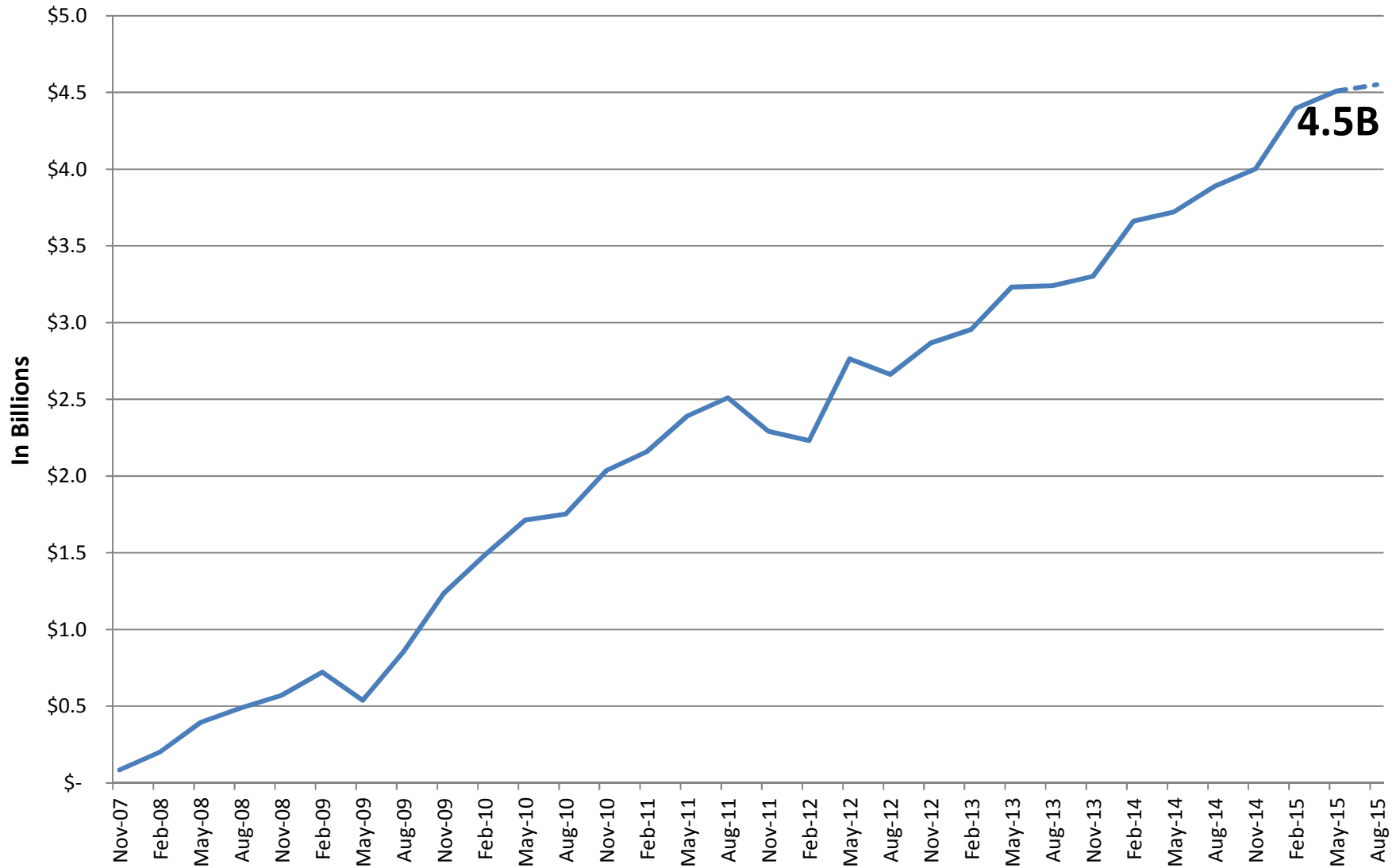


Exposures as of August 31, 2015

<u>Event</u>	<u>Hedge</u>	<u>Total</u> <u>Cost</u> ⁽¹⁾	<u>bps</u> <u>Cost/Year</u>	<u>Notional</u> <u>(\$ millions)</u>	<u>Realized</u>		<u>P/L</u>
					<u>Profit</u> <u>(\$ millions)</u>	<u>MTM</u> <u>(\$ millions)</u>	
U.S. Inflation							
	CMS Options	(\$46)	4.7	\$8,043		\$0	(\$46)
Fitbit IPO Hedge							
	Fitbit Hedge	(0)	0.1	(116)		16	16
Sovereign Default							
	JPY Rate Options and Swaptions	(10)	3.1	891	23.3	0	14
	TOTAL	(\$55)	7.9bps		23.3	16.4	(\$16)

(1) Maximum Loss for Options

Cumulative Value Add





Transparency

Transparency Summary



	MCC			TOTAL	LCC	Privates	TOTAL
	Fixed Income	Real Assets	Equities				
Full & Timely	100%	95%	76%	85%			33%
Full but lagged			7%	4%		100%	32%
Partial		5%	10%	7%	95%		32%
No Transparency			7%	4%	5%		3%



Concentration

Combined PUF and GEF Exposure

As of August 31, 2015 (in millions)



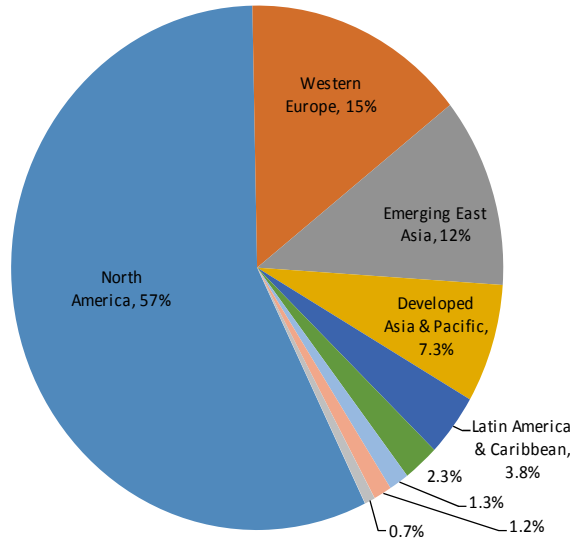
Asset Group	Asset Class	More Correlated and Constrained		Less Correlated and Constrained		Private Investments		Total	
Fixed Income	Investment Grade	\$ 1,558	6.1%	\$ 415	1.6%	\$ -	0.0%	\$ 1,973	7.7%
	Credit-Related	26	0.1%	1,113	4.3%	958	3.7%	2,097	8.1%
Fixed Income Total		1,584	6.2%	1,528	5.9%	958	3.7%	4,070	15.8%
Real Assets	Real Estate	\$ 597	2.3%	\$ 2	0.0%	\$ 1,261	4.9%	1,860	7.2%
	Natural Resources	1,635	6.4%	2	0.0%	1,911	7.4%	3,548	13.8%
Real Assets Total		2,232	8.7%	4	0.0%	3,172	12.3%	5,408	21.0%
Equity	Developed Country	\$ 3,518	13.8%	\$ 5,747	22.3%	\$ 3,192	12.4%	12,457	48.5%
	Emerging Markets	2,405	9.3%	428	1.7%	959	3.7%	3,792	14.7%
Equity Total		5,923	23.1%	6,175	24.0%	4,151	16.1%	16,249	63.2%
Total		\$ 9,739	38.0%	\$ 7,707	29.9%	\$ 8,281	32.1%	\$ 25,727	100.0%

Geographic Exposure

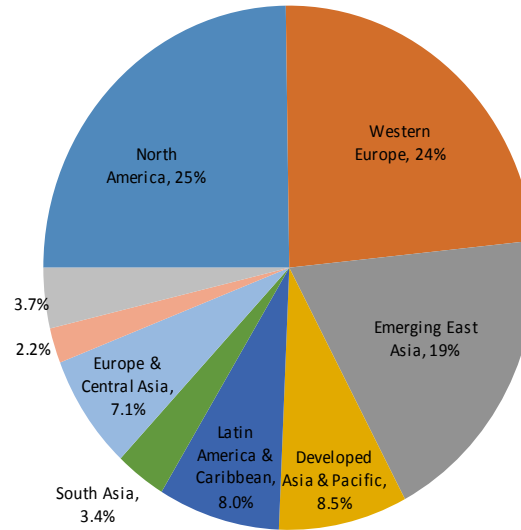
As of August 31, 2015



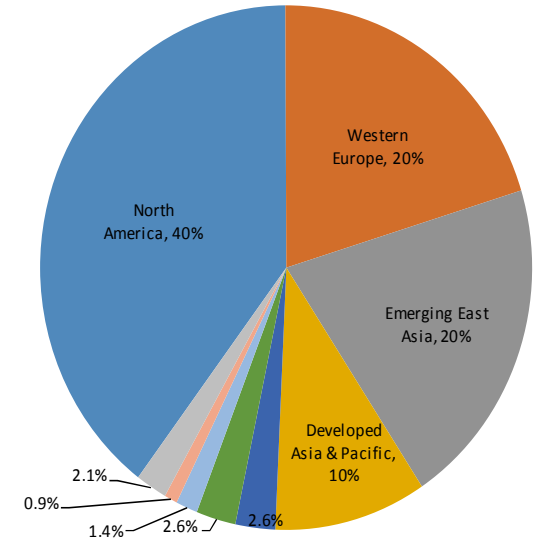
TOTAL Endowment



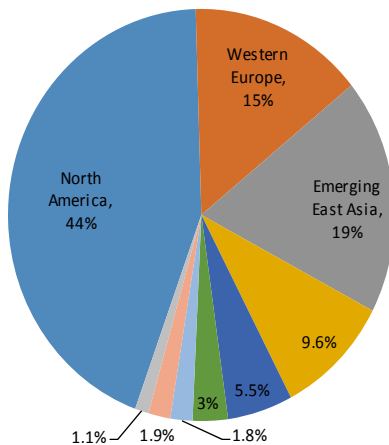
GDP



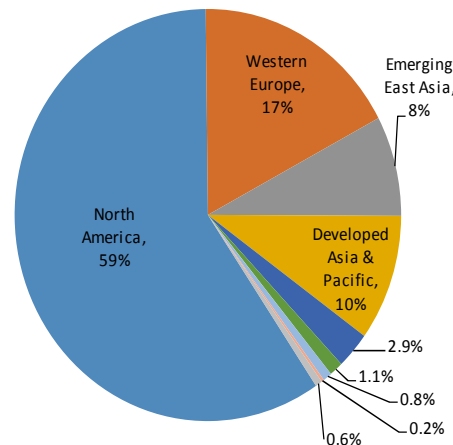
Global Mkt Cap



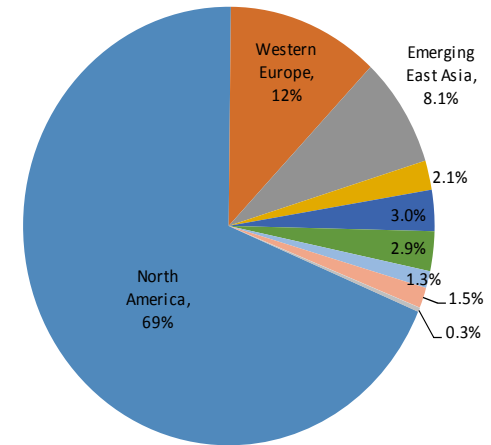
MCC



LCC



PI



■ Developed Asia & Pacific
 ■ Latin America & Caribbean
 ■ South Asia
 ■ Europe & Central Asia
 ■ Sub-Saharan Africa
 ■ Middle East & North Africa

Largest Country Exposures

As of August 31, 2015



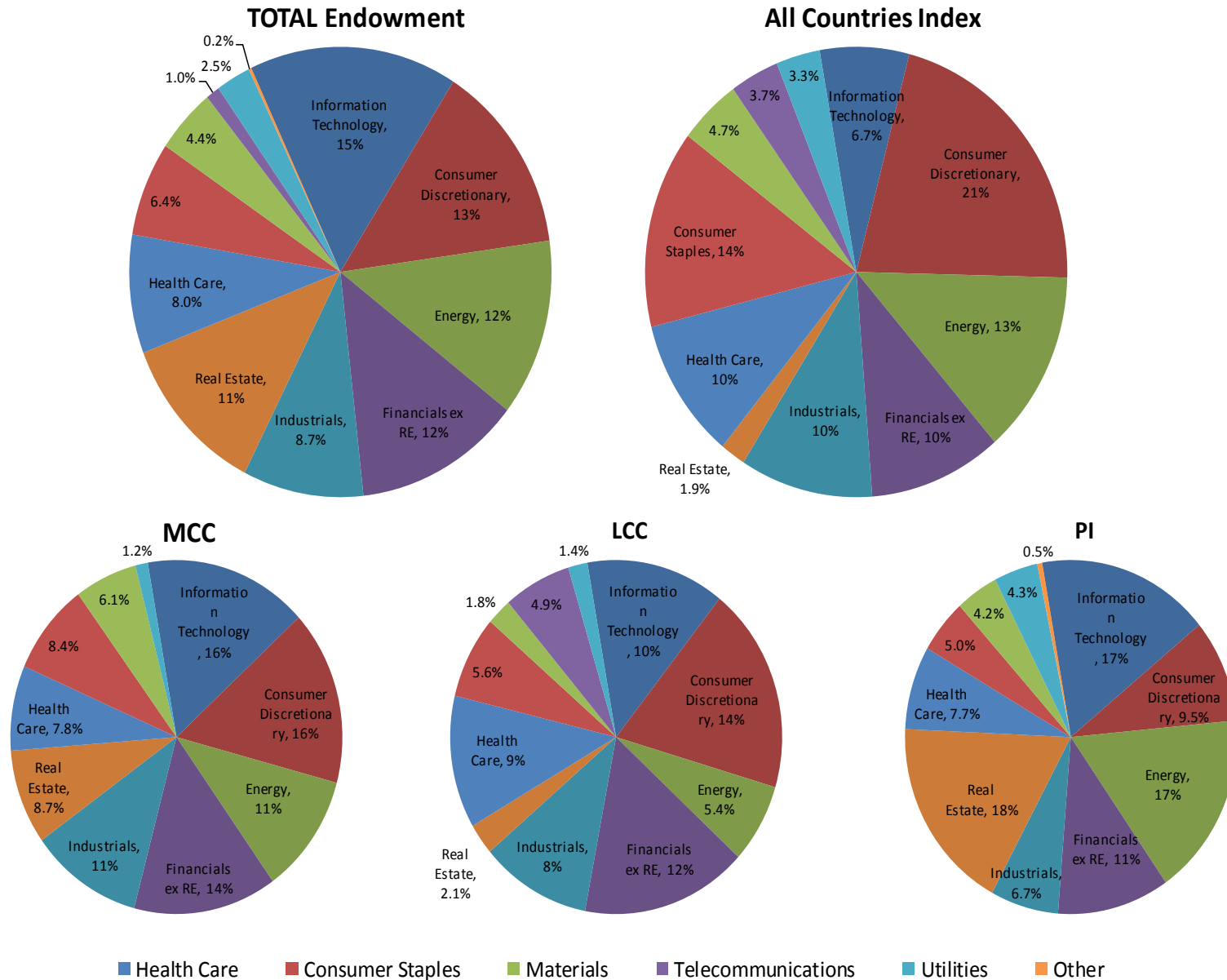
	MCC	LCC	PI	TOTAL	GDP	Global Mkt Cap
1) United States	42.4%	58.1%	64.3%	54.5%	22.5%	36.9%
2) China	8.1%	5.2%	5.3%	6.3%	13.4%	8.5%
3) Japan	6.7%	8.3%	0.4%	5.2%	5.9%	7.5%
4) United Kingdom	4.4%	2.7%	5.7%	4.3%	3.8%	5.6%
5) Canada	1.7%	1.1%	4.2%	2.3%	2.3%	2.8%
6) India	2.8%	1.1%	2.5%	2.2%	2.7%	2.5%
7) South Korea	4.1%	1.4%	0.0%	1.9%	1.8%	2.0%
8) Brazil	2.7%	0.6%	1.9%	1.8%	3.0%	0.8%
9) Hong Kong	1.8%	1.3%	0.9%	1.3%	0.4%	6.4%
10) Australia	1.2%	1.4%	1.2%	1.3%	1.9%	1.7%
11) France	2.3%	0.6%	0.7%	1.2%	3.6%	3.1%
12) Mexico	2.3%	0.3%	0.0%	0.9%	1.7%	0.7%
13) Germany	0.7%	0.7%	1.2%	0.9%	5.0%	2.8%
14) Italy	1.2%	0.3%	0.4%	0.6%	2.8%	1.0%
15) Spain	0.8%	0.0%	1.1%	0.6%	1.8%	1.1%
16) Switzerland	1.4%	0.4%	0.1%	0.6%	0.9%	2.5%
17) Singapore	1.0%	0.3%	0.5%	0.6%	0.4%	0.7%
18) Indonesia	0.8%	0.0%	0.9%	0.6%	1.1%	0.5%
19) Netherlands	0.9%	0.0%	0.8%	0.6%	1.1%	0.6%
20) Taiwan	1.2%	0.0%	0.0%	0.5%	0.5%	1.4%
21) Russia	0.8%	0.2%	0.3%	0.4%	2.4%	0.6%

Sector Exposure – β adjusted

As of August 31, 2015

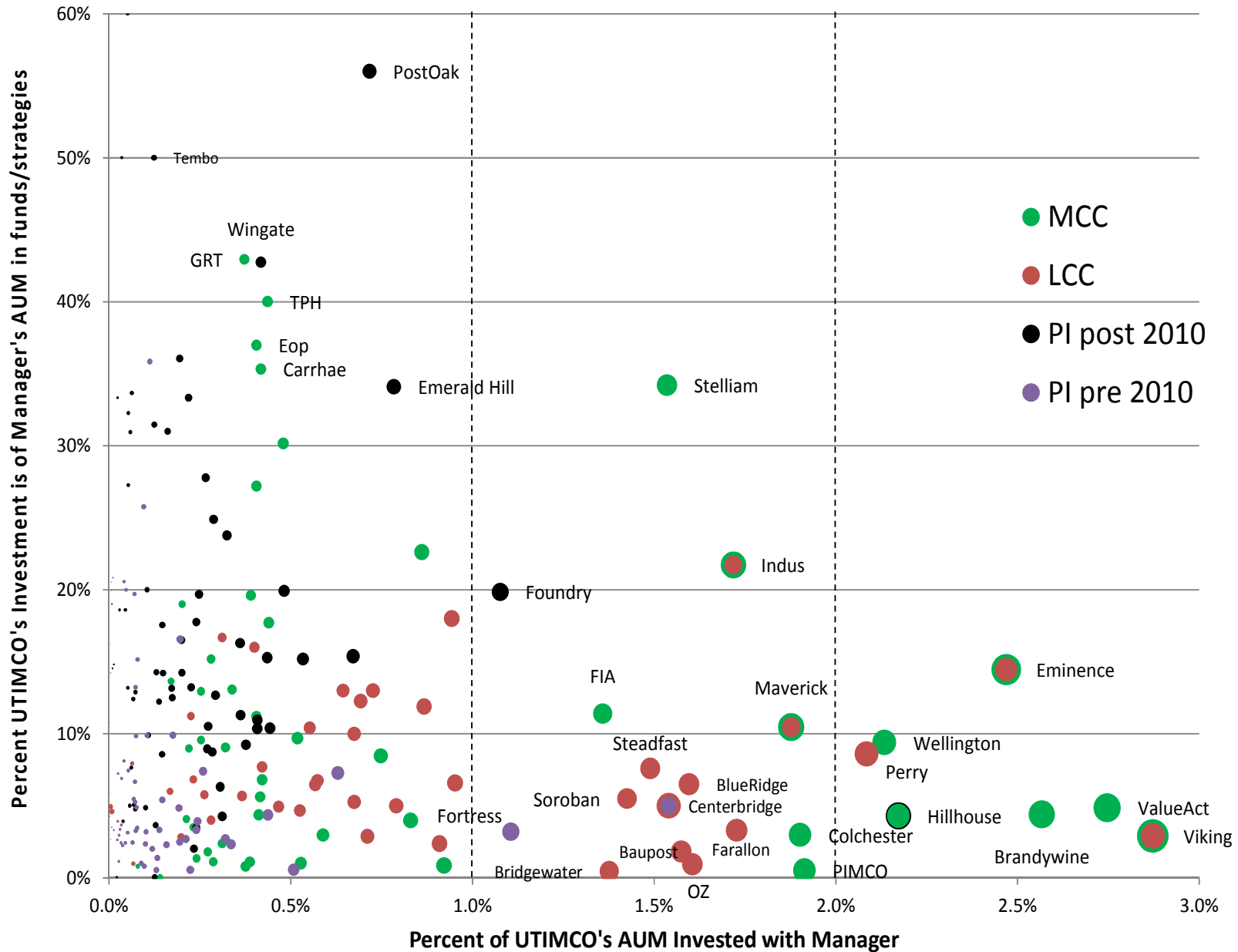


Endowments, excluding Fixed Income and NR commodities



Concentration Analysis

As of August 31, 2015



Position Level Concentration



Top Ten Fixed Income and Equity

Fixed Income	\$ (M)	% of AUM
U.S. Government	\$477	1.44%
Argentinian Debt	202	0.61%
Mexican Sovereign	194	0.58%
Japanese Sovereign	174	0.52%
Australian Sovereign	152	0.46%
Italian Sovereign	119	0.36%
New Zealand Sovereign	107	0.32%
Brazilian Sovereign	102	0.31%
Lehman Debt	75	0.23%
Malaysian Sovereign	<u>59</u>	<u>0.18%</u>
TOTAL	<u>\$1,661</u>	<u>5.00%</u>

Equity	\$ (M)	% of AUM
Allergan	\$272	0.82%
Valeant Pharma	230	0.69%
Recent IPO	199	0.61%
Microsoft	184	0.55%
JD.com	177	0.53%
Cheniere Energy	154	0.46%
Samsung	153	0.46%
Time Warner Cable	150	0.45%
Google	147	0.44%
Williams Cos.	<u>144</u>	<u>0.43%</u>
TOTAL	<u>\$1,810</u>	<u>5.52%</u>



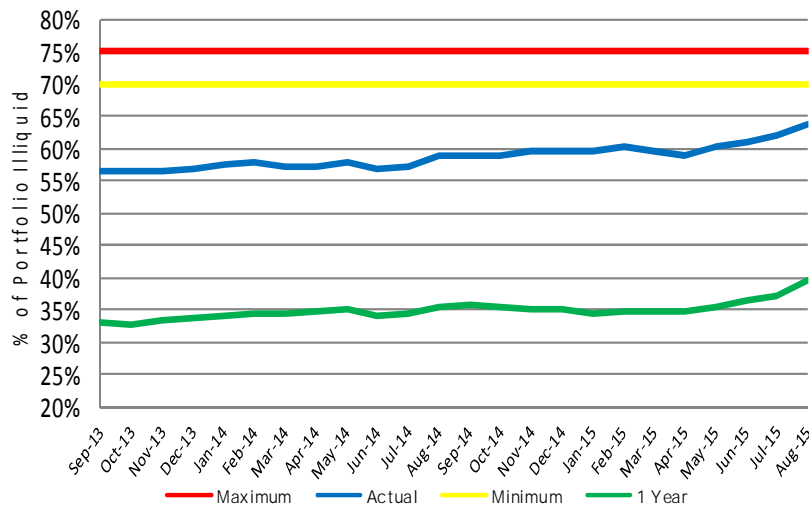
Illiquidity

Endowment Fund Liquidity

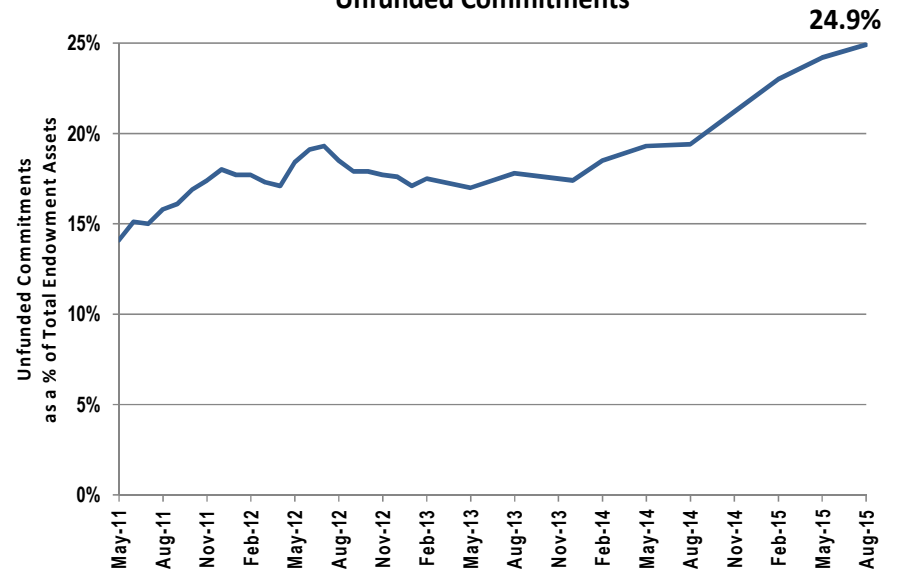
As of August 31, 2015



Actual Illiquidity vs. Trigger Zones



Unfunded Commitments



Three Month Liquidity \$ 9,328 million One Year Liquidity \$ 15,581 million



Leverage

Non-Insurance Related Internal Derivatives

As of August 31, 2015
(in millions)



<u>Manager</u>	<u>Derivative Strategy</u>	<u>Net Notional Value (\$ millions)</u>	<u>Activity from previous report (5/31/2015) (\$ millions)</u>
<u>Natural Resources</u>			
Gold Futures	Purchased futures to gain exposure to gold markets.	67	(3)
<u>Developed Country Equity</u>			
Japan Forw ards	Sale of Japanese Yen forw ards to hedge the currency exposure in the MCC accounts	5	319
<u>Emerging Markets Equity</u>			
Emerging Markets FX Overlay	Currency forw ards to align the Asset Class FX exposure closer to the benchmark	(6)	(178)
Korean Sw ap	Long sw ap on MSCI Korea index to increase exposure to Korea	-	(34)
MSCI Taiw an Sw ap	Long MSCI Sw ap to increase exposure to Taiw an	40	(1)

External Manager Agency Account Derivatives

As of August 31, 2015
(in millions)



Manager	Derivative Strategy	Net Notional Value (\$ millions)
<u>Investment Grade Fixed Income</u>		
Brandywine	Currency forwards used to hedge foreign currency exposure	(6)
Colchester	Currency forwards used to hedge foreign currency exposure	10
First International Advisors	Currency forwards used to hedge foreign currency exposure	12
PIMCO Global Bonds	Currency forwards used to underwrite the US dollar	6
	Long US and Non-US futures used to overweight duration in Eurozone	248
	Long futures used to overweight front end of US and UK yield curves	(13)
	Receive Interest rate swaps used to overweight duration in the Eurozone and underwrite intermediate portion of the Japanese yield curve	247
	Pay Interest rate swaps used to overweight duration in the Eurozone and underwrite intermediate portion of the Japanese yield curve	(496)
	Interest rate swaps used to overweight front end of US and UK yield curves	(207)
	Short/Written credit default swaps used to overweight credit risk	222
	Long/Purchased credit default swaps used to underwrite credit risk	(13)
	Written options used to increase portfolio yield	(83)
	Purchased options used to increase portfolio yield	25
<u>Natural Resources</u>		
Wellington Commodities SPV	Exchange-traded commodity futures, options and/or swaps	308
Wellington Select Commodities SPV	Exchange-traded commodity futures, options and/or swaps	413
<u>Developed Equity</u>		
Cantillon	Currency forward contracts for hedging purposes or to provide efficient investment exposure.	-
International Value Advisors	Currency forward contracts for hedging purposes or to provide efficient investment exposure.	-

OTC Derivative Counterparty Report

As of August 31, 2015

(in millions)



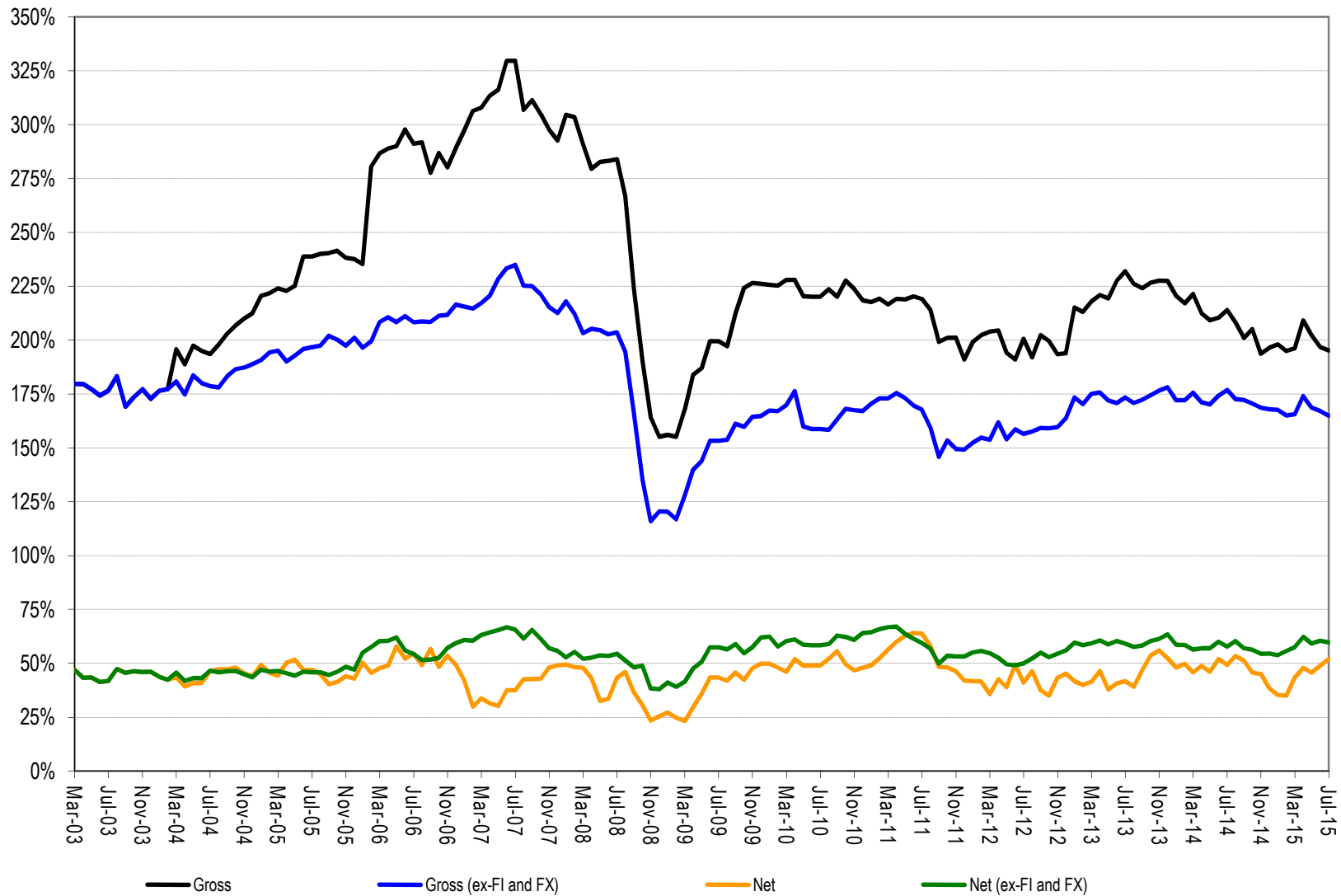
Counterparty	S & P / Moody Counterparty Rating	\$ millions						Percentage of Total Funds
		Mark-to-Market Owed by Broker	Mark-to-Market Owed by UTIMCO	Total Mark-to-Market	(Held)/Posted Collateral	Total Mark-to-Market net of Collateral		
BANK OF AMERICA	A-	\$ 32.4	\$ (29.6)	\$ 2.8	\$ (2.2)	\$ 0.6	0.00%	
MORGAN STANLEY	A-	29.9	(16.3)	13.6	(14.7)	(1.1)	0.00%	
CITIBANK NY	A-	28.7	(28.3)	0.4	(7.7)	(7.3)	-0.02%	
BNP PARIBAS	A+	24.0	(23.3)	0.7	(0.3)	0.4	0.00%	
GOLDMAN SACHS	A-	19.0	(25.4)	(6.4)	11.0	4.6	0.01%	
DEUTSCHE BANK AG	A	16.9	(15.5)	1.4	0.1	1.5	0.00%	
MACQUARIE BANK LTD, SYDNEY	A3	15.1	(15.2)	(0.1)	0.4	0.3	0.00%	
BANK OF NEW YORK	A+	13.6	(2.3)	11.3	0.2	11.5	0.04%	
BARCLAYS	A-	10.7	(11.5)	(0.8)	(0.5)	(1.3)	0.00%	
CITIBANK NA, LONDON	A-	10.6	(1.0)	9.6	-	9.6	0.03%	
UNION BANK SWITZERLAND SECS, LONDON	A	5.4	(3.3)	2.1	(1.5)	0.6	0.00%	
CREDIT SUISSE FIRST	A	1.9	(1.9)	-	5.2	5.2	0.02%	
CHASE MANHATTAN	A	1.1	(0.3)	0.8	-	0.8	0.00%	
UBS AG, STAMFORD	A	1.1	(0.2)	0.9	(0.8)	0.1	0.00%	
J P MORGAN, CHASE	A+	1.0	(0.3)	0.7	(2.3)	(1.6)	0.00%	
MELLON BANK	A+	1.0	-	1.0	-	1.0	0.00%	
HSBC BK USA, NEW YORK	A	0.9	(5.9)	(5.0)	4.6	(0.4)	0.00%	
CS FIRST BOSTON GBL FOREIGN EXCH	A	0.4	-	0.4	-	0.4	0.00%	
STANDARD & CHARTERED BK, LONDON	A-	0.1	(0.7)	(0.6)	0.5	(0.1)	0.00%	
NATIONAL AUSTRALIA BANK LIMITED	AA-	-	-	-	-	-	0.00%	
ROYAL BANK OF SCOTLAND PLC	A	-	-	-	-	-	0.00%	
UBS A G, ZURICH	A	-	-	-	-	-	0.00%	
SOCIETE GENERALE, PARIS	A	-	-	-	-	-	0.00%	
Grand Total		\$ 213.8	\$ (181.0)	\$ 32.8	\$ (8.0)	\$ 24.8	0.08%	

LCC Leverage

Estimated as of July 31, 2015



Total Portfolio Exposures





Permanent Loss of Capital

Permanent Loss of Capital

As of August 31, 2015



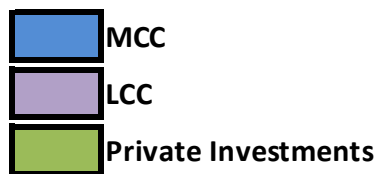
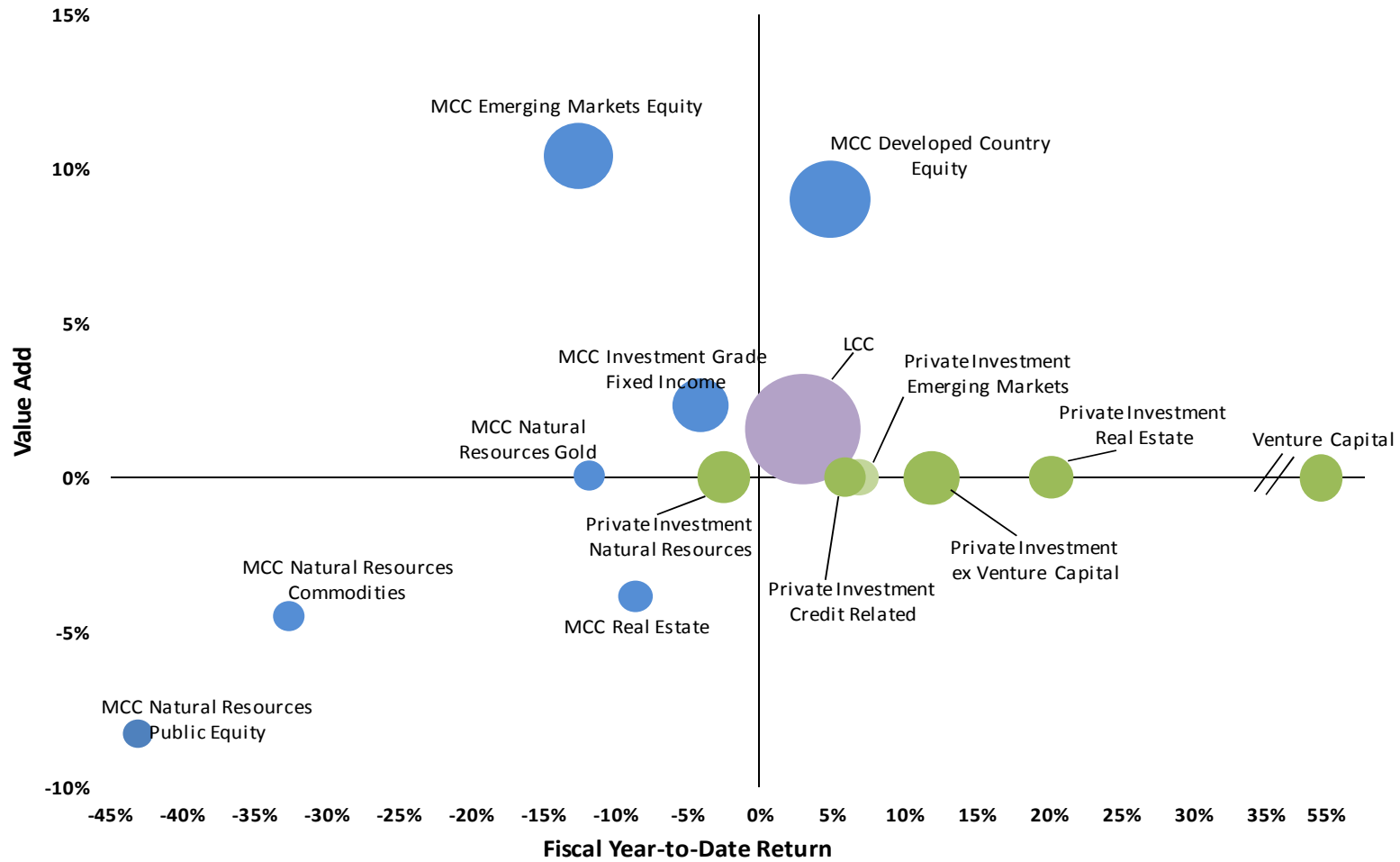
	Total Investments Made	Total Dollars Invested (in Billions)	Investments Made Generating Losses	Dollars Invested in Those Generating Losses (in Billions)	Realized Losses (in Millions)	Unrealized Losses (in Millions)	Total Losses (in Millions)	Annualized Total Losses as Percentage of Invested Capital
Cumulative through August 31, 2015								
More Correlated and Constrained	152	\$33.7	29	\$6.4	-\$622	\$0	-\$622	0.34%
Less Correlated and Constrained	105	13.2	20	1.4	-\$240	-\$198	-\$438	0.51%
Private Investments	506	14.5	96	1.9	-\$327	-202	-529	0.95%
Total	763	\$61.4	145	\$9.7	-\$1,189	-\$400	-\$1,589	0.48%



Portfolio Reviews

Returns and Value Add

Year Ended August 31, 2015



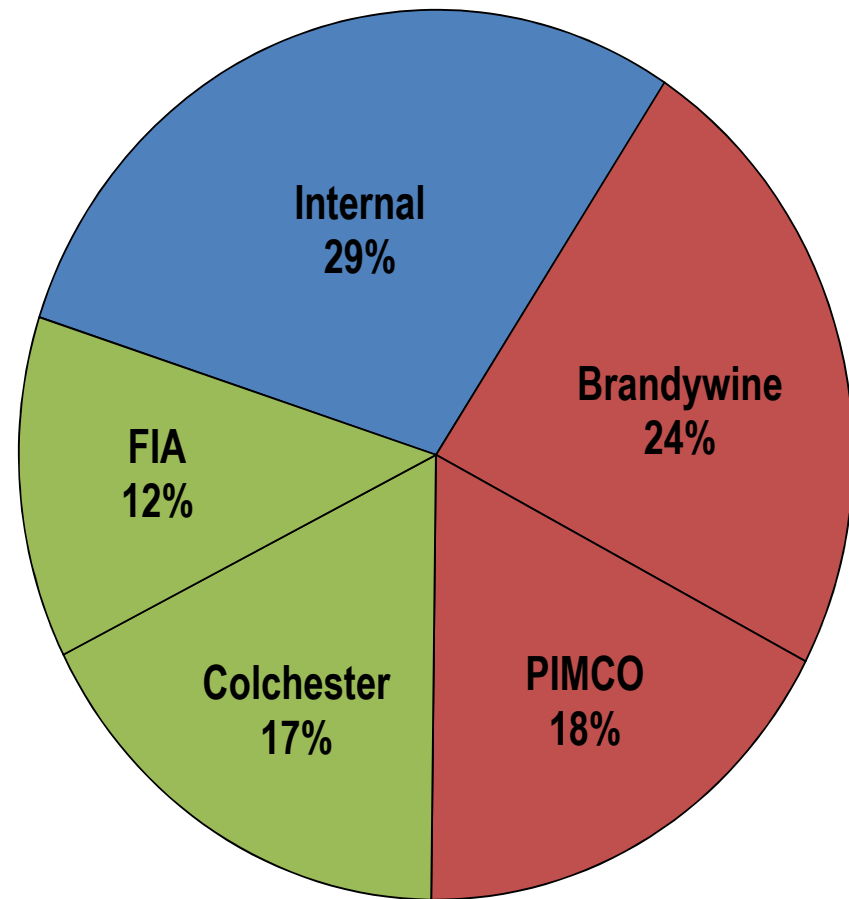
MCC Investment Grade Fixed Income



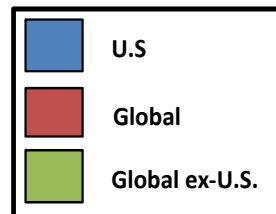
MCC Investment Grade Fixed Income			
	1 Year	3 Years	5 Years
Portfolio Return	(6.3%)	(0.1%)	2.7%
Benchmark Return	<u>(6.4%)</u>	<u>(1.4%)</u>	<u>1.2%</u>
Value Add	+0.1%	+1.2%	+1.5%
Portfolio Volatility	3.4%	3.9%	4.2%
Benchmark Volatility	3.5%	3.9%	4.6%
Portfolio Sharpe Ratio	(1.9)	(0.0)	0.6
Portfolio Information Ratio	0.1	0.8	0.9

As of 8/31/2015 - Statistics for periods longer than a year are annualized

\$3.6 Billion



Capital Movement (FY15)	
Subscriptions	
Colchester	\$ 149
Internal	108
FIA	89
Brandywine	84
PIMCO	39
Total	\$ 470
Redemptions	
Total	\$ 0
Net Activity	\$ 470



Liquidity
Within 90 days
100%

MCC Investment Grade Fixed Income



Overview		
	UTIMCO	BC Gbl Agg
Total Portfolio Size	\$3.6B	\$43.1T
Modified Duration	6.7	6.6
Yield to Maturity	2.7%	1.7%
Average Agency Rating	A1	AA3

Geographical Exposure			
	UTIMCO	BC Gbl Agg	O/U
United States	45.6%	33.8%	11.8%
Canada	0.8%	3.7%	-2.8%
Europe	22.8%	34.7%	-11.9%
Asian-Pac Aggregate	17.3%	23.9%	-6.6%
Emerging Markets	13.4%	3.9%	9.5%

Currency Exposure			
	UTIMCO	BC Gbl Agg	O/U
United States Dollar	52.8%	44.7%	8.1%
Euro	14.3%	24.4%	-10.1%
Japanese Yen	10.4%	15.9%	-5.5%
UK Pound Sterling	3.1%	6.3%	-3.2%
Emerging Markets	13.9%	2.5%	11.4%
Other	5.6%	6.2%	-0.7%

Sector Exposure			
	UTIMCO	BC Gbl Agg	O/U
Treasuries & Sovereign	74.5%	62.2%	12.3%
Government Related	3.0%	10.1%	-7.1%
Corporates	19.0%	17.2%	1.8%
Securitized	2.9%	10.5%	-7.6%
Cash & Cash Equivalents	0.6%	0.0%	0.6%

As of 8/31/2015

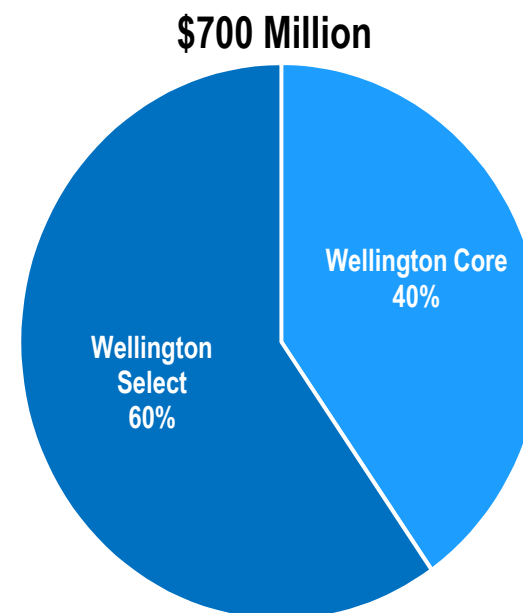
MCC Natural Resources Commodities



Natural Resources Commodity Portfolio Characteristics			
	1 Year	3 Years	5 Years
Commodities Return (Ex-Gold)	(32.6%)	(15.9%)	(6.7%)
Benchmark Return	(28.1%)	(14.6%)	(7.0%)
Value Add	(4.5%)	(1.3%)	0.3%
Portfolio Volatility	16.0%	12.7%	15.0%
Benchmark Volatility	15.3%	12.2%	15.4%
Portfolio Sharpe Ratio	(2.2)	(1.5)	(0.6)
Portfolio Information Ratio	(1.1)	(0.5)	0.1

As of 08/31/2015

Statistics for periods longer than a year are annualized



Capital Movement (FYTD 15) (\$ millions)			
	Redemptions	Additions	Net
Wellington Select	\$0	\$146	\$146
Wellington Core	<u>0</u>	<u>97</u>	<u>97</u>
Total	<u>\$0</u>	<u>\$243</u>	<u>\$243</u>

Liquidity
Within 90 days
100%

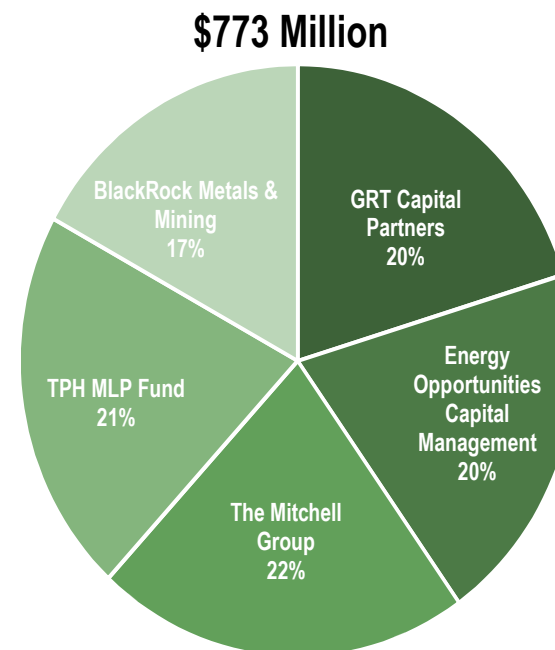
MCC Natural Resources Equities



Natural Resources Equity Portfolio Characteristics			
	1 Year	3 Years	5 Years
Equity Return	(43.1%)	(8.9%)	(2.8%)
Benchmark Return	(34.8%)	(6.5%)	(0.6%)
Value Add	(8.3%)	(2.4%)	(2.2%)
Portfolio Volatility	23.7%	19.3%	22.7%
Benchmark Volatility	17.6%	15.4%	19.0%
Portfolio Sharpe Ratio	(1.9)	(0.6)	(0.3)
Portfolio Information Ratio	(0.8)	(0.3)	(0.3)

As of 08/31/2015

Statistics for periods longer than a year are annualized



Capital Movement (FYTD 15) (\$ millions)			
	Redemptions	Additions	Net
EOCM	(\$12)	\$15	\$3
GRT	(14)	25	11
TMG	(9)	20	11
BRMM	0	27	27
TPH	<u>0</u>	<u>10</u>	<u>10</u>
Total	<u>(\$35)</u>	<u>\$97</u>	<u>\$62</u>

Liquidity
Within 90 days
100%

MCC Real Estate

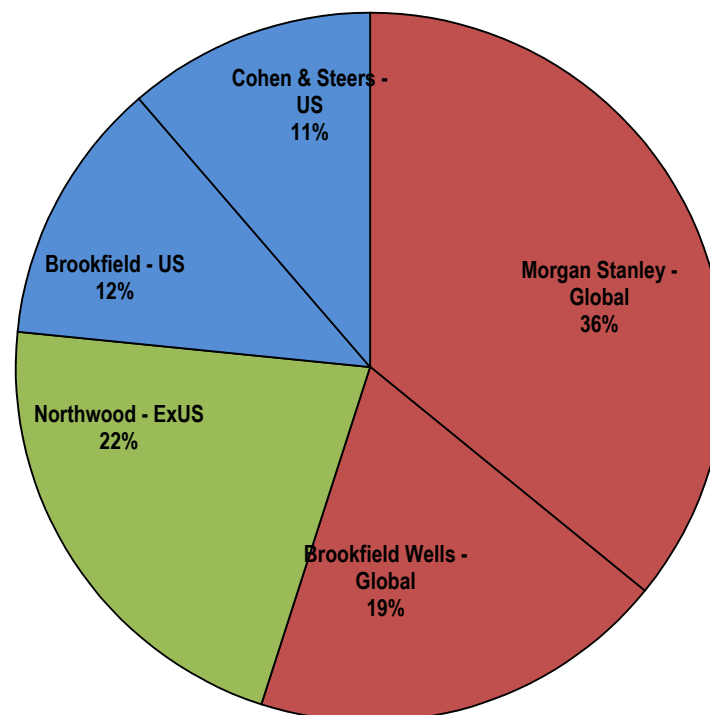


MCC Real Estate Portfolio Characteristics			
	1 Year	3 Years	5 Years
Portfolio Return (Ex Hedges)	-8.6%	5.8%	7.8%
Benchmark Return	<u>-4.8%</u>	<u>6.4%</u>	<u>9.2%</u>
Value Add	-3.8%	-0.6%	-1.4%
Portfolio Volatility	11.9%	11.1%	15.7%
Benchmark Volatility	13.8%	12.1%	15.3%
Portfolio Sharpe Ratio	-0.8	0.5	0.5
Portfolio Information Ratio	-1.0	-0.2	-0.5

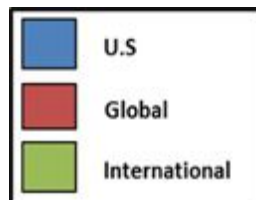
As of 08/31/2015

Statistics for periods longer than a year are annualized

\$786 Million



Capital Movement (FY15)	
Subscriptions	
Northwood Ex-US	\$ 165
Total	\$ 165
Redemptions	
Total	\$ 165
Net Activity	\$ -



Liquidity
Within 90 days
100%

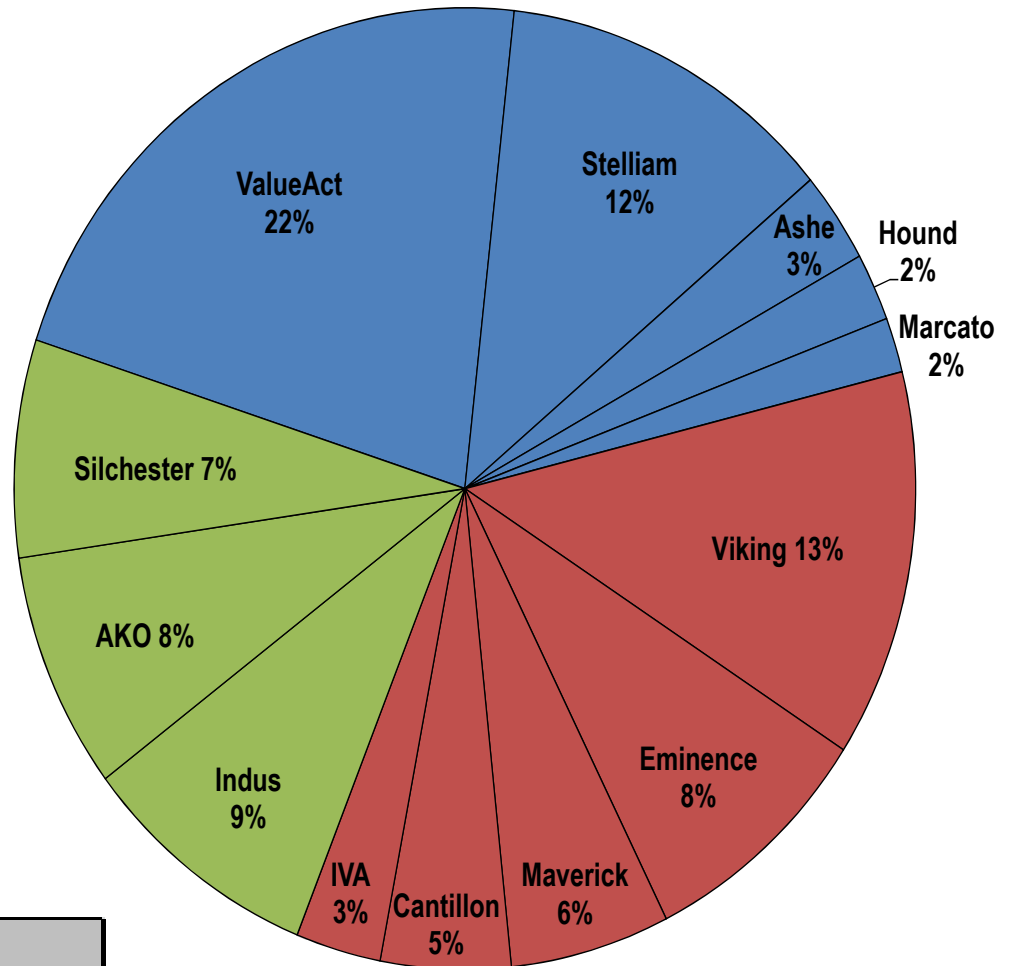
MCC Public Equity – Developed Markets



MCC Developed Country Equity			
	1 Year	3 Years	5 Years
Portfolio Return	4.9%	16.8%	15.5%
Benchmark Return	(4.1%)	10.9%	11.1%
Value Add	+9.0%	+5.9%	+4.4%
Portfolio Volatility	11.1%	9.0%	11.7%
Benchmark Volatility	11.0%	9.8%	13.2%
Portfolio Sharpe Ratio	0.4	1.9	1.3
Portfolio Information Ratio	3.8	1.8	1.3

As of 8/31/2015 - Statistics for periods longer than a year are annualized

\$4.1 Billion



Capital Movement (FY15)	
Subscriptions	
Hound	\$ 100
Ashe Co-Invest	25
Total	\$ 125
Redemptions	
Total	\$ 739
Net Activity	\$ (614)

■	U.S.
■	Global
■	Non-US

Liquidity	
Within 90 days	Within One Year
63%	95%

MCC Public Equity – Emerging Markets



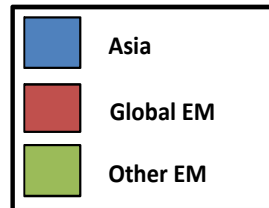
MCC Emerging Markets Equity			
	1 Year	3 Years	5 Years
Portfolio Return	(12.5%)	3.2%	3.1%
Benchmark Return	(22.9%)	(2.4%)	(0.9%)
Value Add	+10.4%	+5.6%	+4.0%
Portfolio Volatility	15.1%	12.8%	16.1%
Benchmark Volatility	16.6%	14.1%	18.4%
Portfolio Sharpe Ratio	(0.8)	0.2	0.2
Portfolio Information Ratio	1.6	1.2	0.9

As of 8/31/2015 - Statistics for periods longer than a year are annualized

Capital Movement (FY15)

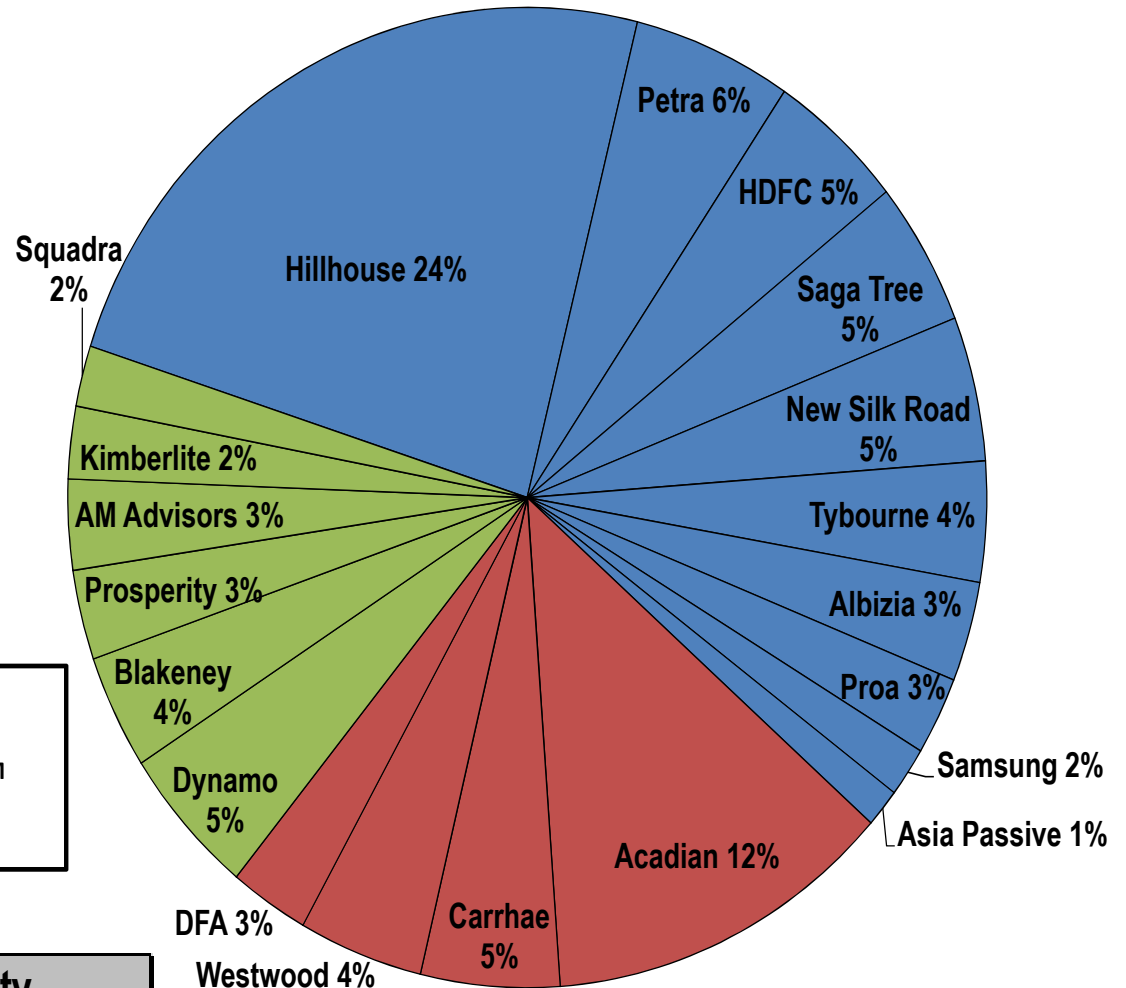
Subscriptions	
Acadian	\$ 200
Petra	87
Westwood	85
Saga Tree	75
Kimberlite	70
Other	189
Total	\$ 706

Redemptions	
Total	\$ 467
Net Activity	\$ 239



Liquidity	
Within 90 days	Within One Year
57%	95%

\$2.8 Billion



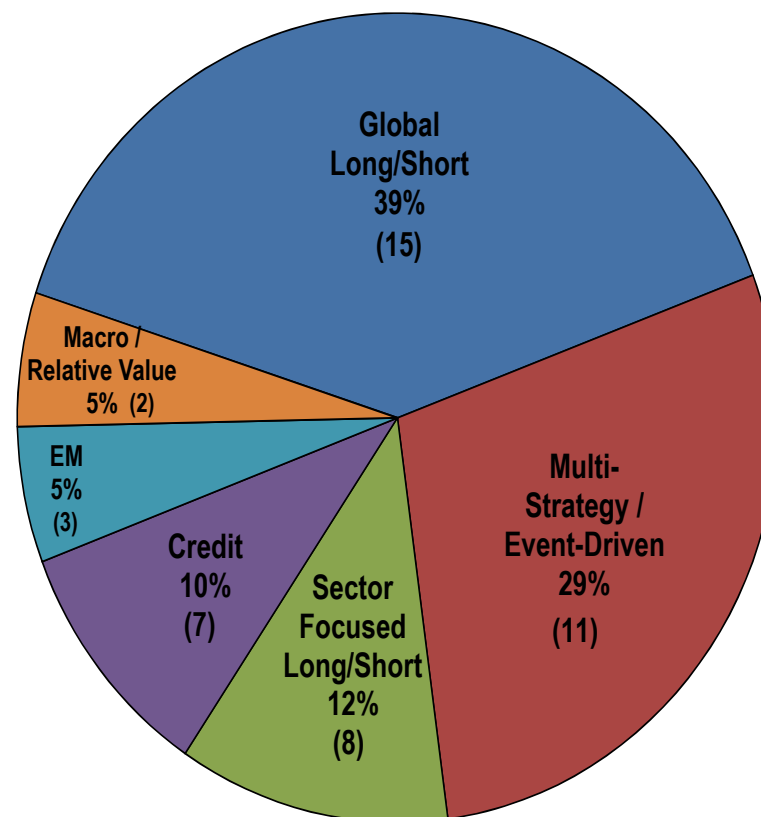
Less Correlated & Constrained



LCC Portfolio Characteristics			
	1 Year	3 Year	5 Year
LCC Return	3.0%	8.3%	7.8%
Benchmark Return	<u>1.5%</u>	<u>5.1%</u>	<u>3.5%</u>
Value Add	1.6%	3.2%	4.3%
LCC Volatility	4.0%	4.2%	4.6%
Benchmark Volatility	3.7%	3.5%	4.1%
Sharpe Ratio	0.7	1.9	1.7
Information Ratio	0.8	1.8	2.5

As of 8/31/2015 - Statistics for periods longer than a year are annualized.

Strategy Allocation (\$11.0 Billion)



FY Capital Activity	
Subscriptions	
Thunderbird	\$215
Immersion	120
Gotham DN	115
Two Creeks	100
Owl Creek AR	75
Route One	75
Kingstown	70
Myriad	65
Three Bays	65
Other (12)	<u>372</u>
Total	<u>\$1,272</u>
Redemptions	
Total	\$1,235
Net Activity	\$36

Concentration	
Top 10	46%
Top 20	73%
Top 30	90%

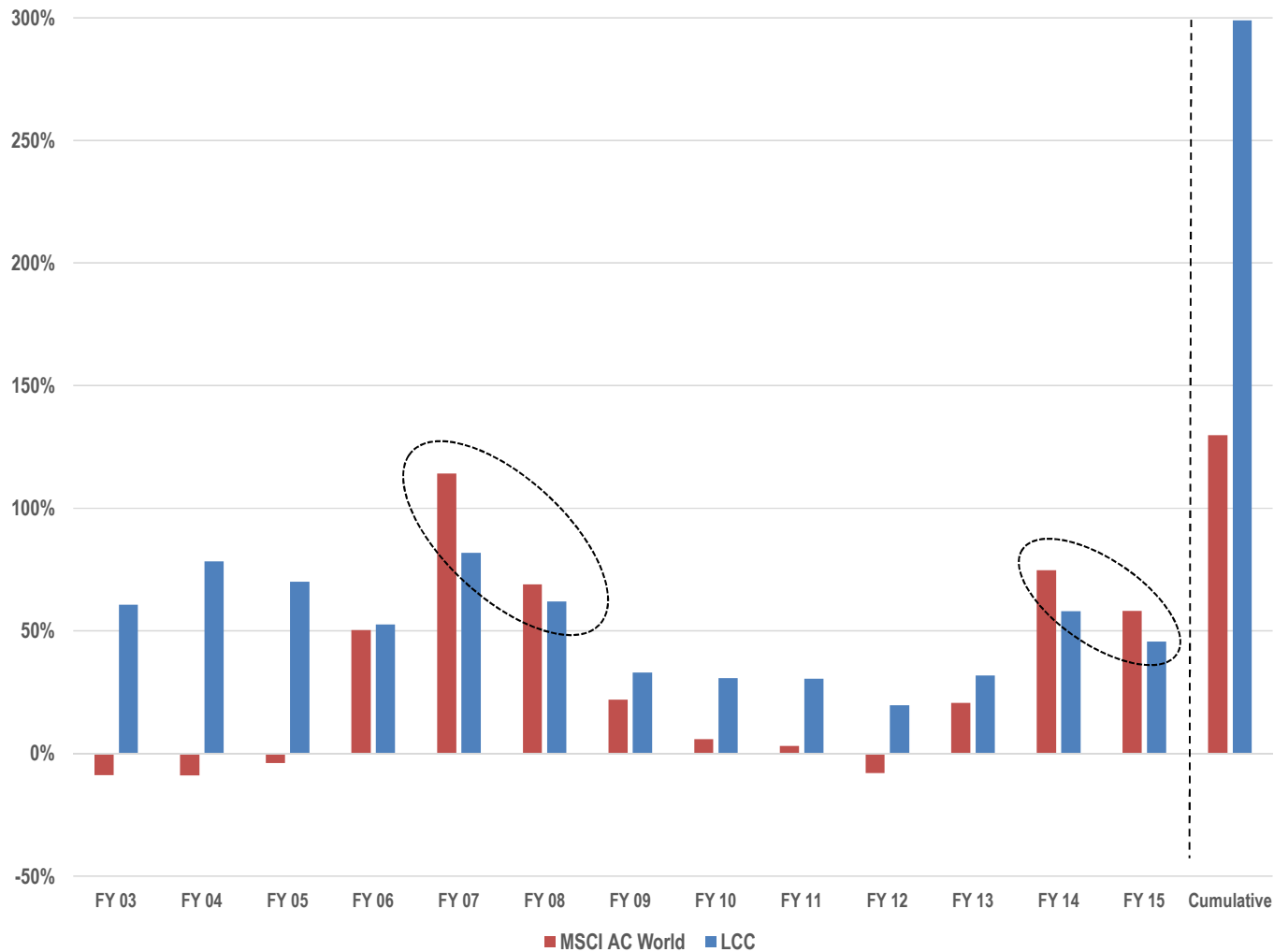
Liquidity	
<u>90 days</u>	<u>1 year</u>
21%	70%

Look-Thru Leverage			
	% of Capital	Gross	Net
Core Strategies	95%	165%	60%
FI & FX	5%	812%	-106%
Total LCC	100%	195%	52%

Rolling 5-Year Cumulative Returns



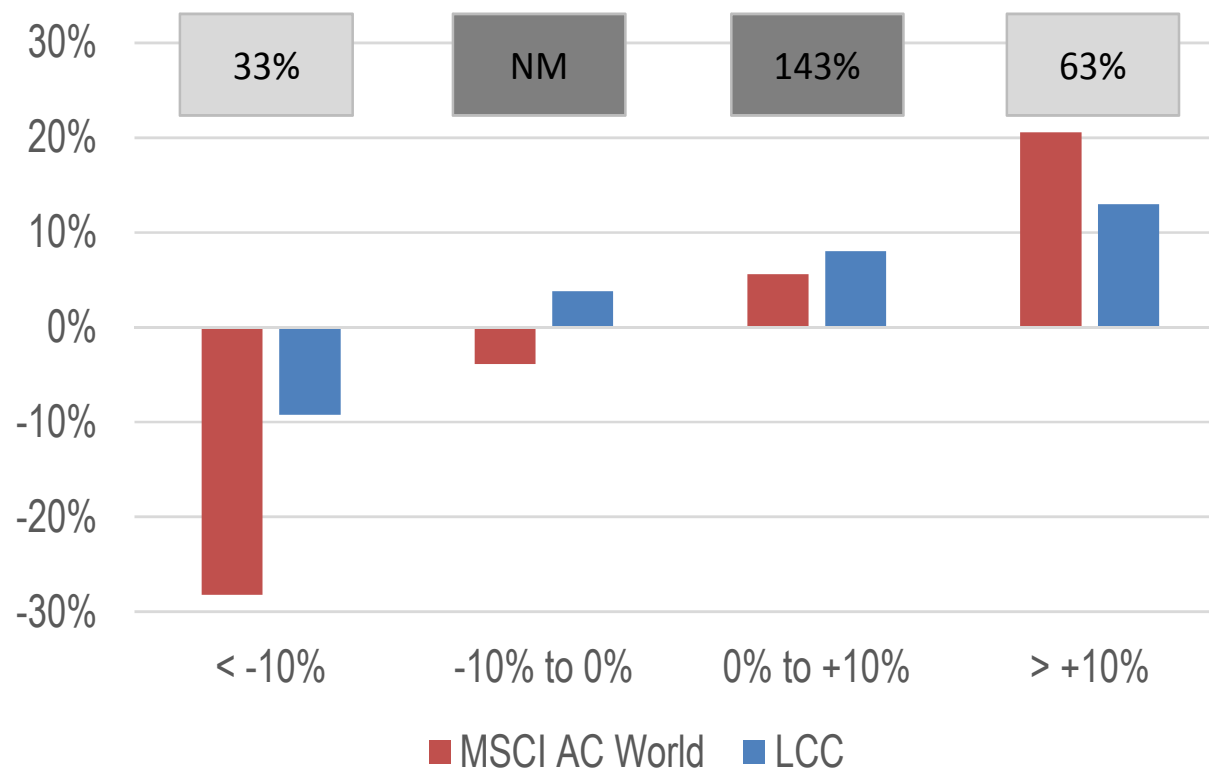
- Consistently keep pace with global equities, except for “bull market” peaks
- \$1 investment made in August 1998 is now worth \$3.9 versus \$2.1 if invested in global equities



Attractive Skew



- Average LCC returns in different market environments over 153 rolling 12 month periods demonstrates attractive skew
- Best up/down capture in muted markets of +/- 10%

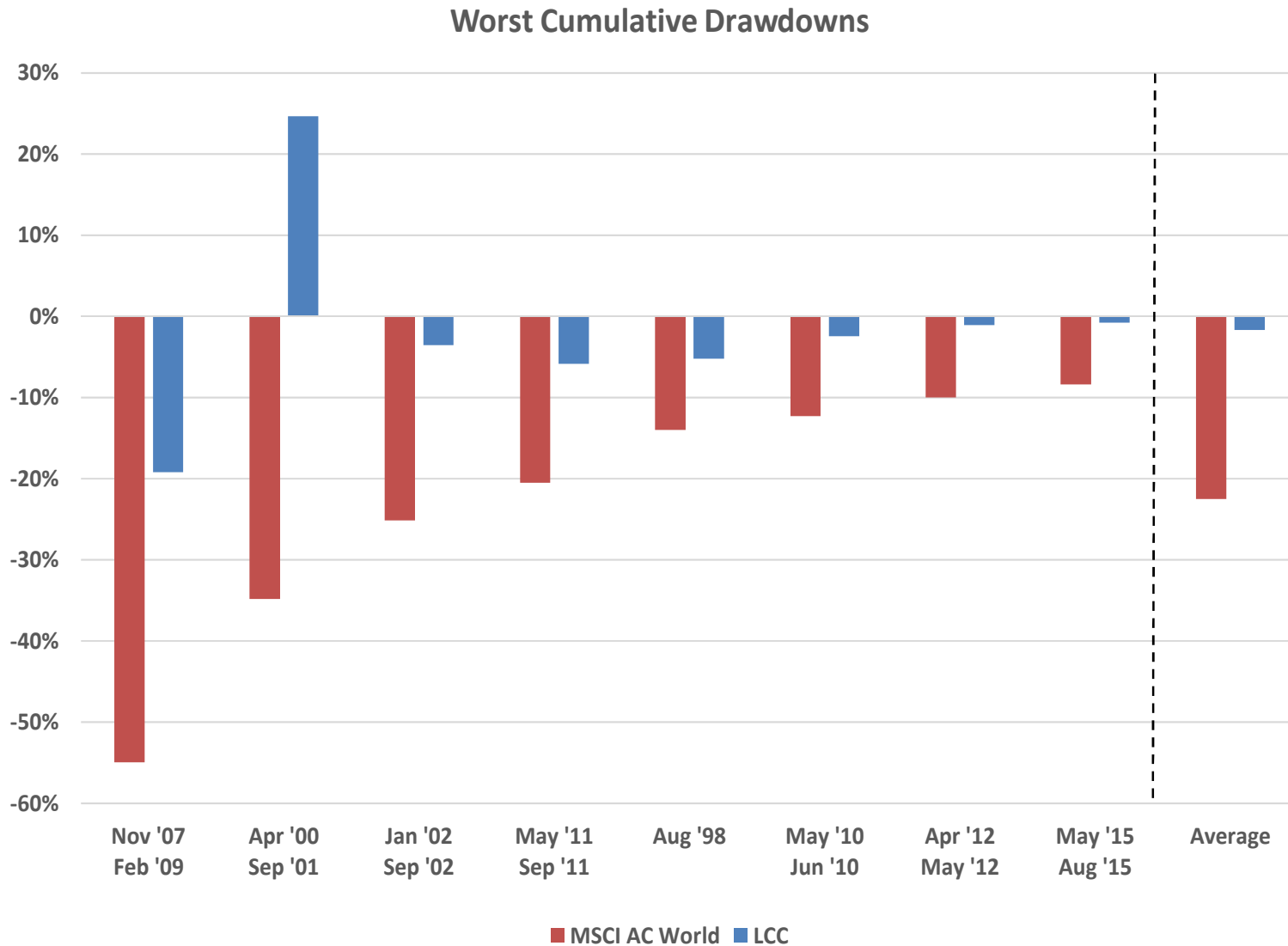


NM = Not Meaningful

Capital Preservation



- Based on the eight worst sell-offs of global equities since August 1998, LCC portfolio experienced only 10% of the “down capture” on average



Long Time Horizon with Continuous Improvement



- Eight year weighted average tenure with our partners
 - 40% of portfolio invested with 12 partners for over a decade
- Over the last decade, subscriptions have averaged \$1 billion and redemptions averaged \$700 million
 - Redemptions have averaged 10% per year, largely used to upgrade the portfolio or rebalance across the Endowments
 - Portfolio turnover has averaged 13% (ranging 7-22%)
- Half of the \$11 billion NAV is profit and half contributed capital

Private Investments Portfolio Rollforward

Year Ended August 31, 2015



\$ in millions	Beg FY 9/1/14			Calls	Distributions	Change in Valuation	%	FY'15 New Commitments		End 8/31/15	
	NAV	Unfunded	# Funds					# Funds	\$ Committed	NAV	Unfunded
Credit-Related Fixed Income	\$1,012	\$256	34	\$143	\$252	\$55	5.9%	6	\$290	\$958	\$383
Real Estate	1,028	1,075	40	471	450	212	20.2%	13	811	1,261	1,440
Natural Resources	1,637	1,563	56	602	291	(37)	-2.5%	15	996	1,911	1,966
Venture	941	448	54	169	255	474	53.5%	7	309	1,329	587
Other Developed Country Equity	<u>1,840</u>	<u>840</u>	<u>92</u>	<u>240</u>	<u>421</u>	<u>204</u>	<u>11.9%</u>	<u>7</u>	<u>425</u>	<u>1,863</u>	<u>1,011</u>
Total Developed Country Equity	2,781	1,288	146	409	676	678	26.2%	14	734	3,192	1,598
Emerging Markets Equity	<u>748</u>	<u>590</u>	<u>26</u>	<u>206</u>	<u>53</u>	<u>58</u>	6.9%	<u>5</u>	<u>315</u>	<u>959</u>	<u>701</u>
TOTAL	<u>\$7,206</u>	<u>\$4,772</u>	<u>302</u>	<u>\$1,831</u>	<u>\$1,722</u>	<u>\$966</u>	13.4%	<u>53</u>	<u>\$3,146</u>	<u>\$8,281</u>	<u>\$6,088</u>
% of Endowment (PUF+ GEF)	28%	19%								32%	24%

Co-Investment Pipeline and Portfolio



Private Investments												
	MCC		LCC		Real Estate		Natural Resources		Private Markets		Total	
<u>FY 2015</u>	#	\$	#	\$	#	\$	#	\$	#	\$	#	\$
<u>Pipeline:</u>												
Reviewed	4	\$165	4	\$300	7	\$121	63	\$1,730	9	\$158	87	\$2,474
Interest	2	65	4	300	5	111	18	505	8	150	37	1,131
Committed	1	25	1	75	2	34	8	215	2	35	14	384
In Process	1	40	0	0	2	22	3	100	0	0	6	162
<u>Since Inception</u>	#	\$	#	\$	#	\$	#	\$	#	\$	#	\$
<u>Pipeline:</u>												
Reviewed	6	\$265	7	\$550	38	\$720	113	\$3,081	39	\$945	203	\$5,561
Interest	2	65	7	550	22	412	48	1,356	30	707	109	3,090
Committed	1	25	1	75	12	170	23	611	13	208	50	1,089
In Process	1	40	0	0	2	22	3	100	0	0	6	162
<u>Portfolio Returns (Since Inception):</u>												
Invested	1	\$25	1	\$75	12	\$145	24	\$437	13	\$171	51	\$853
Realized Proceeds	0	0	0	0	5	31	2	162	2	3	9	196
Total Value		22		77		154		488		240		981
Multiple		0.88x		1.03x		1.28x		1.49x		1.42x		1.38x
IRR		-6.4%*		3%		12%		34%		17%		23%

* Return (not annualized) for 80-day holding period.

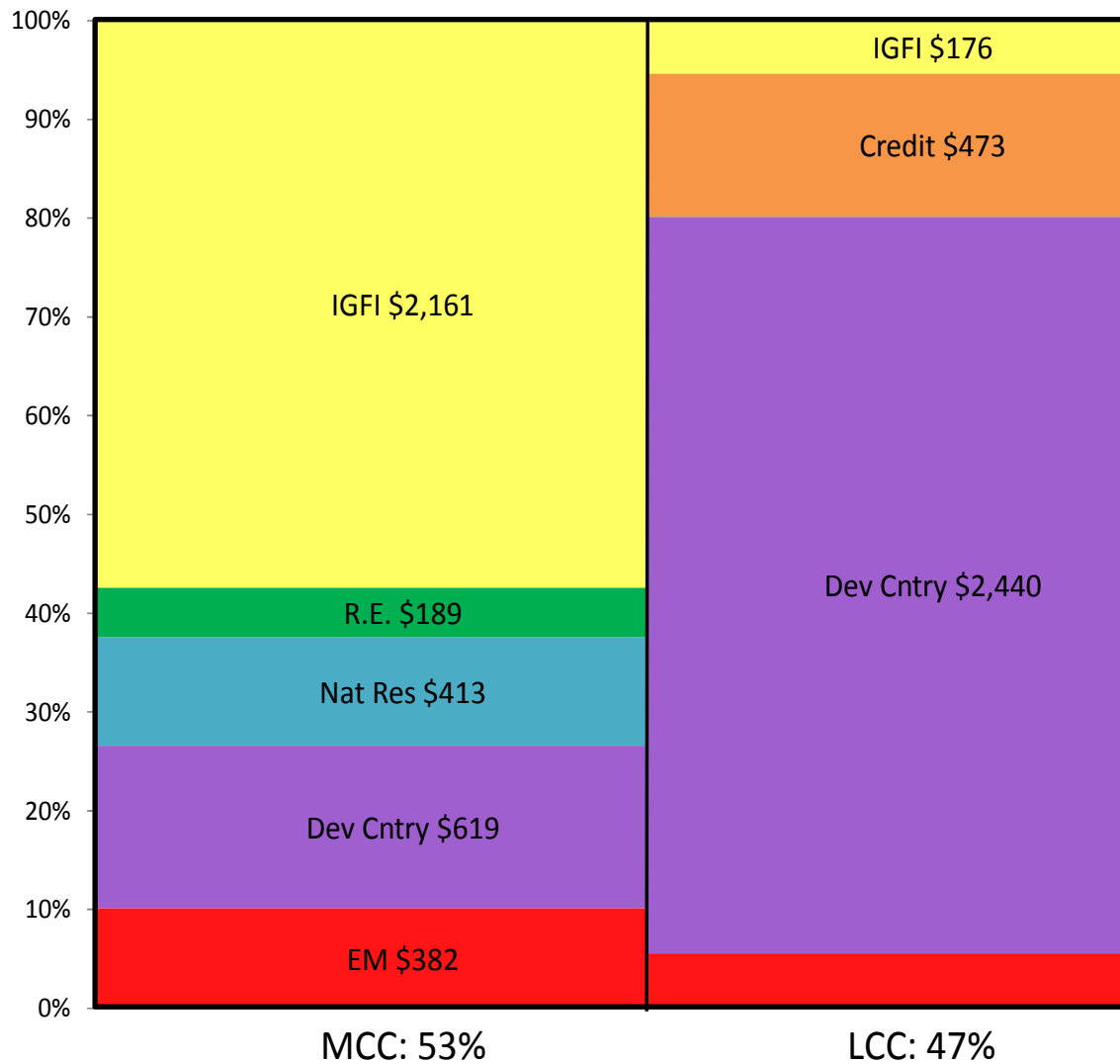


ITF

ITF



ITF NAV: \$7,037M



Downside Volatility (trailing three years)	
Actual	% of Policy
3.71%	98.9%

Liquidity	
Three months	One Year
59.3%	88.6%

Insurance Hedges NAV	
CMS Caps	\$6K
JPY FX rate	\$6K



Contracts Update

Contracts Update



**Annual Reporting of
Existing Contracts, Leases and Other Commercial Arrangements
September 30, 2015**

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

Agreement	Purpose	Contract Term	Annual Amount
Albourne America LLC	Advisor to Marketable Alternative staff	Renews monthly via invoice	\$240,000
Bloomberg	Portfolio Order Management System	Renews quarterly via invoice	\$160,000
Bloomberg	All-in-one investment platform for trading, analysis and information	Each user agreement automatically renews every 2 years	\$358,155
Burgiss Group	Private Informant & Private Q - enhance Private I with benchmarking support and transparency	1/1/2015 - 1/1/2016	\$126,800
CreditSights	Provides suite of BondScore credit scoring models, fundamental credit research, and an efficient screening and credit risk surveillance tool	9/1/2014 - 9/1/2015	\$50,000
Factset Research Systems	Analytical tool for performance	Renews monthly via invoice	\$392,142
Interactive Data - Bond Edge	Global provider of financial market data, analytics and related services. Provides fixed-income portfolio analytics.	Three year contract: 9/22/2013 - 9/21/2016	\$93,684
International Fund Services	Risk System	Renews Quarterly; Qtrly fees increased as accounts are added	\$292,000
Mercer	Compensation Benchmarking and Incentive Plan Review	Expires 12/31/2015	\$45,000 - \$55,000
Nunnally & Company	Executive coaching and consulting	Nine month agreement (ending 11/2015)	\$70,825
Burgiss Group*	Private i - Portfolio management system for Private Markets	4/12/2015 - 4/11/2016	\$61,500
Rand Construction*	Construction work on UTIMCO office space	Ended March 2015	\$119,863
Nunnally & Company*	Executive coaching and consulting	Nine month agreement (ending 6/2016)	\$82,325
Heidrick & Struggles*	Conduct search for Investment Professionals	Earlier of completion of services or six months (2/2016)	\$100,000 retainer

* New Contracts, Leases and Other Commercial Agreements for the period of March 21, 2015 through September 30, 2015.

Agenda Item
UTIMCO Board of Directors Meeting
October 15, 2015

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, budget vs. forecast, information technology, portfolio monitoring and new investment identification, and travel.

Reference: *UTIMCO Organization Update* presentation



The University of Texas Investment Management Company

UTIMCO ORGANIZATION UPDATE
October 15, 2015

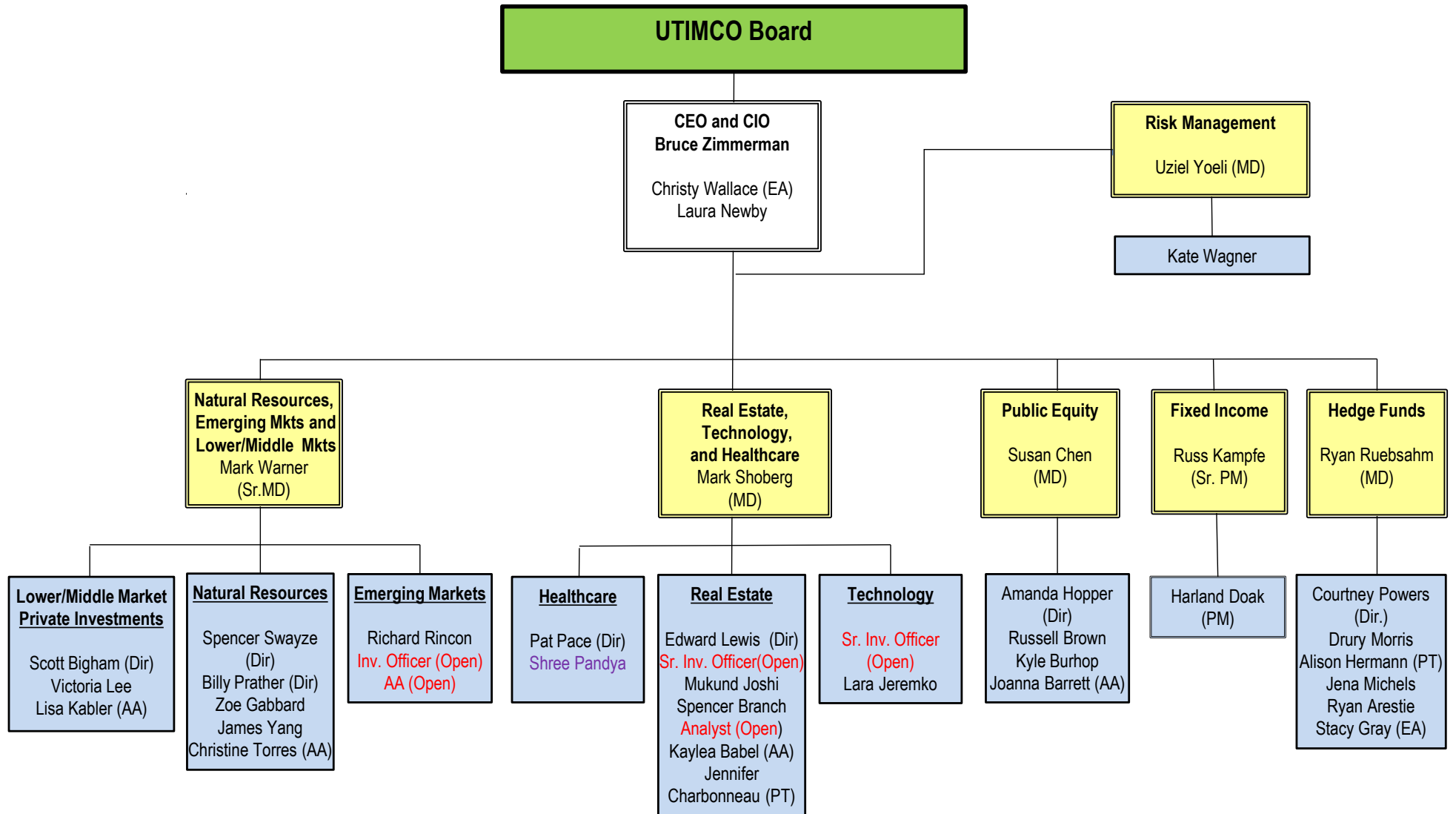
UTIMCO UPDATE



- Staffing
- Budget vs Forecast
- Information Technology Update
- Portfolio Monitoring and New Investment Identification
- Travel

UTIMCO ORGANIZATIONAL STRUCTURE

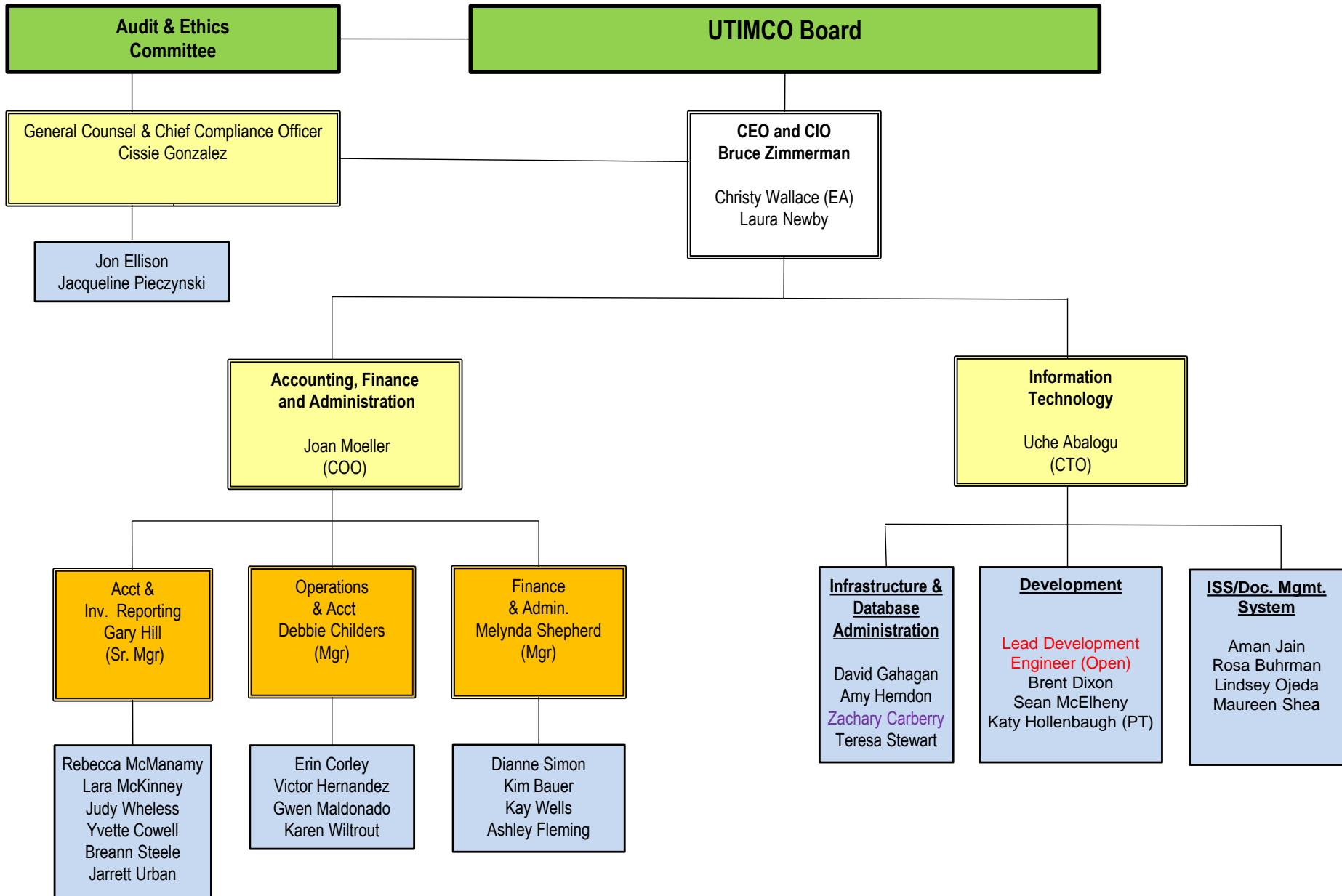
Investments



October 2015

UTIMCO ORGANIZATIONAL STRUCTURE

Support & Control



BUDGET V. FORECAST



(\$ in thousands)	FY 2015		Better/(Worse)	
	Budget	Actual / Forecast ¹	\$	%
Salaries	\$9,504	\$9,395	\$110	1.2%
Incentive Compensation	8,518	8,639	(121)	-1.4%
Benefits & Taxes	2,440	2,243	197	8.1%
Total Compensation	20,463	20,277	186	0.9%
Depreciation	650	1,122	(472)	-72.6%
Other UTIMCO	4,316	4,389	(73)	-1.7%
Total UTIMCO	\$25,428	\$25,788	(\$359)	-1.4%
Total Direct Costs	\$7,422	\$8,053	(\$631)	-8.5%

¹ Incentive Compensation, Benefits & Taxes, Depreciation still to be finalized

INFORMATION TECHNOLOGY UPDATE



- **Business as Usual: “Trains running on time”**
- **Investment Support System (ISS)**

Document Management System (DM)

- **Functionality**
 - Firmwide Consistency
 - “Google” Like Search
- **Status**
 - Technology Platform 85% Complete
 - People & Process Enhancement

Data Management System

- **Functionality**
 - Direct Link to Primary Data for Investment Officers
 - Firmwide Views
- **Status**
 - Technology Platform Development Ongoing
 - Firmwide Dashboard Available
 - Excel Tool, Investment Data Mart (IDM) Available

Relationship Management System

- **Functionality**
 - Contacts, Meetings & Notes etc.
 - Integrated with other Information
- **Status**
 - Mapped for Firmwide Consistency
 - Still relying on Salesforce (UTRacs)
 - Technology Platform 30% Complete

DOCUMENT MANAGEMENT PRIMARY OBJECTIVES



- I. Institutionalize document management across teams
- II. Reduce workload on investment and support staff
- III. Provide ongoing user input to the IT group and training for the users

OBJECTIVE I: INSTITUTIONALIZE



- Adhere to document naming convention
- Tag documents in as detailed a way as possible
- Rework inbound document flow to reduce redundancy and improve efficiency
- Adopt time objectives
- Document processes

OBJECTIVE II: REDUCE WORKLOAD



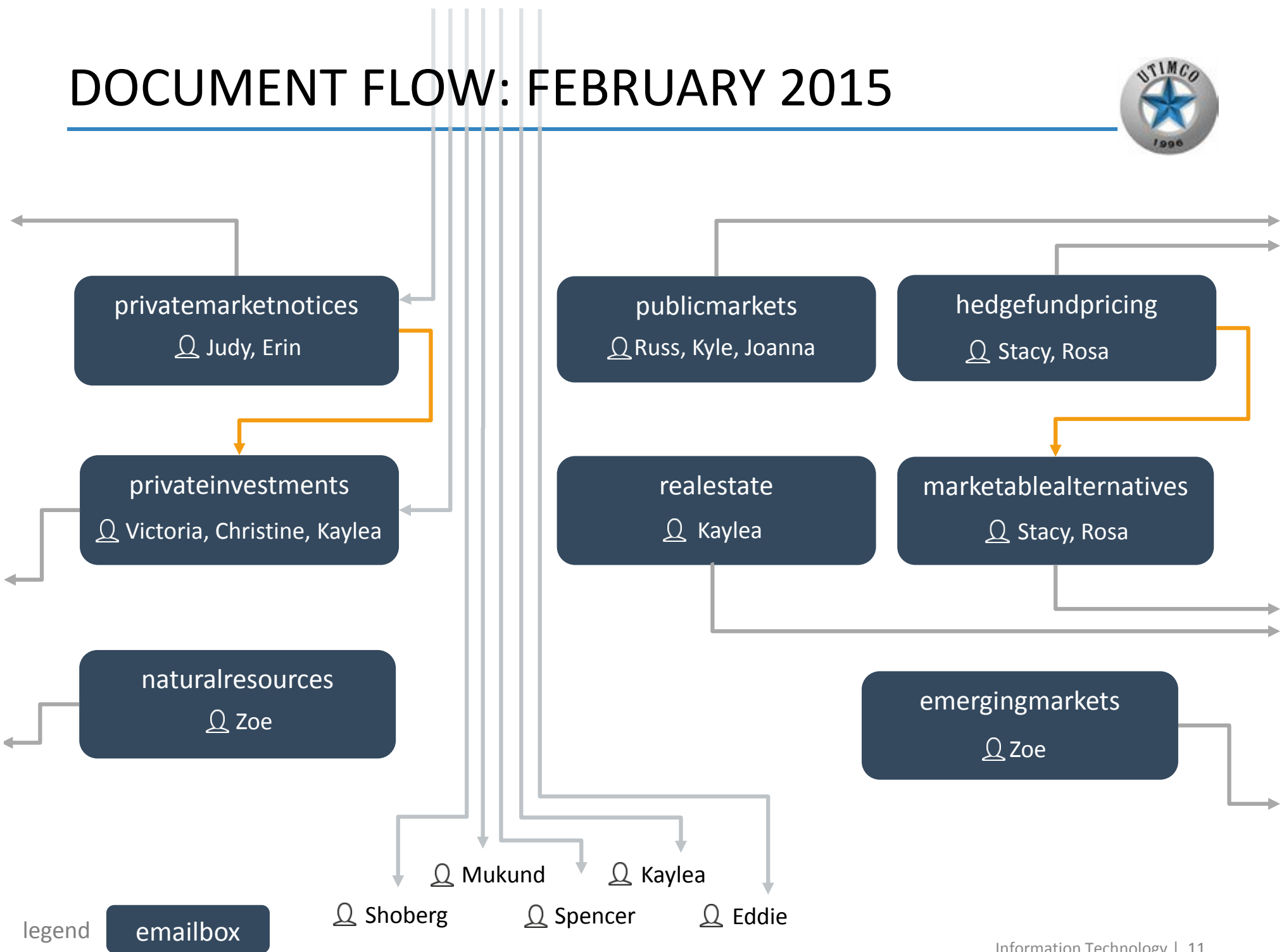
- Onboarded *backlogged* physical and digital documents into ISS
- Aggregating *pre-closing* documents and creating investment “binders”.
- Loading the *daily* document flow

OBJECTIVE III: IT INPUT AND USER TRAINING

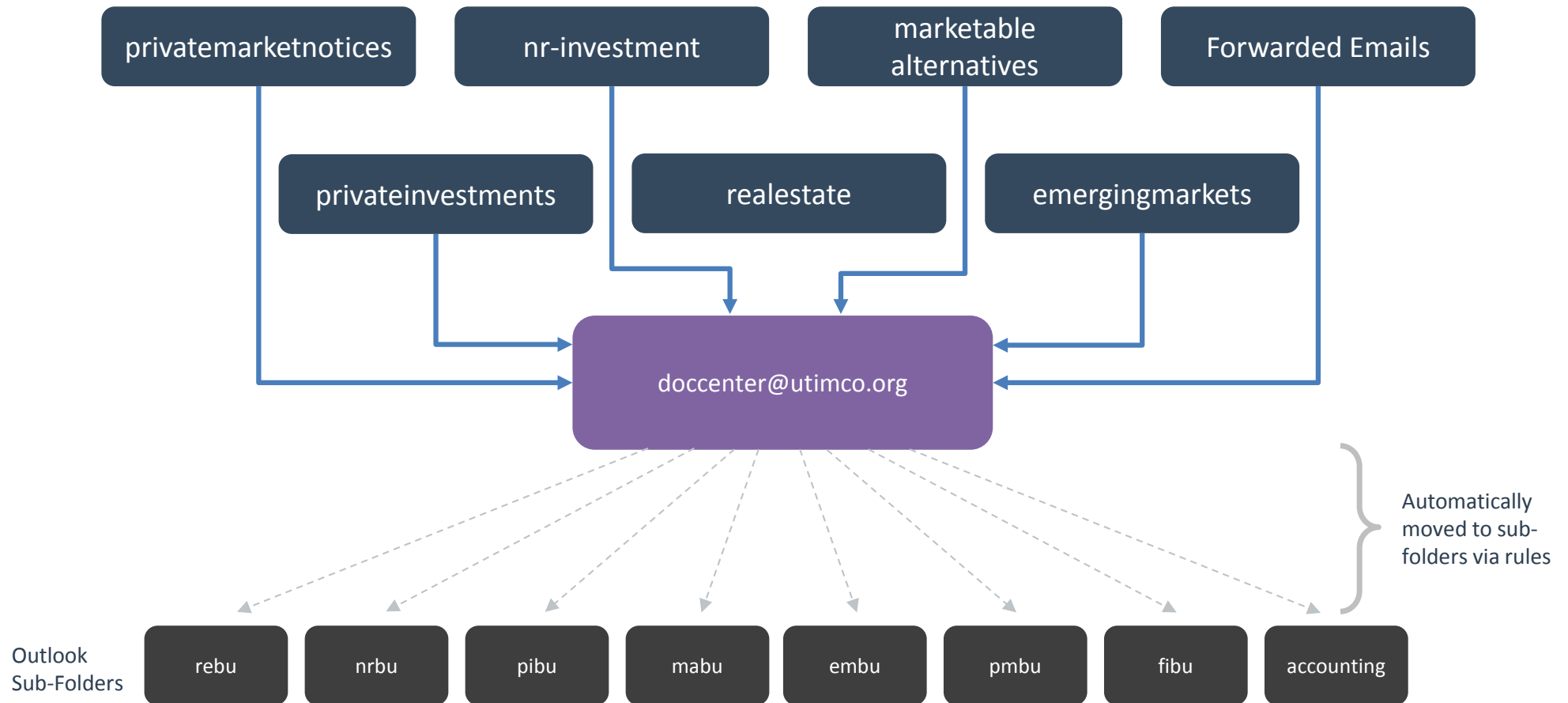


- Work closely with IT to adopt new features with the best business value-to-cost ratio
- Developed and implemented Firm and Investment “short name” best practices
- Became the “go-to” source for ISS related training and questions

DOCUMENT FLOW: FEBRUARY 2015



DOCUMENT FLOW: JULY 2015

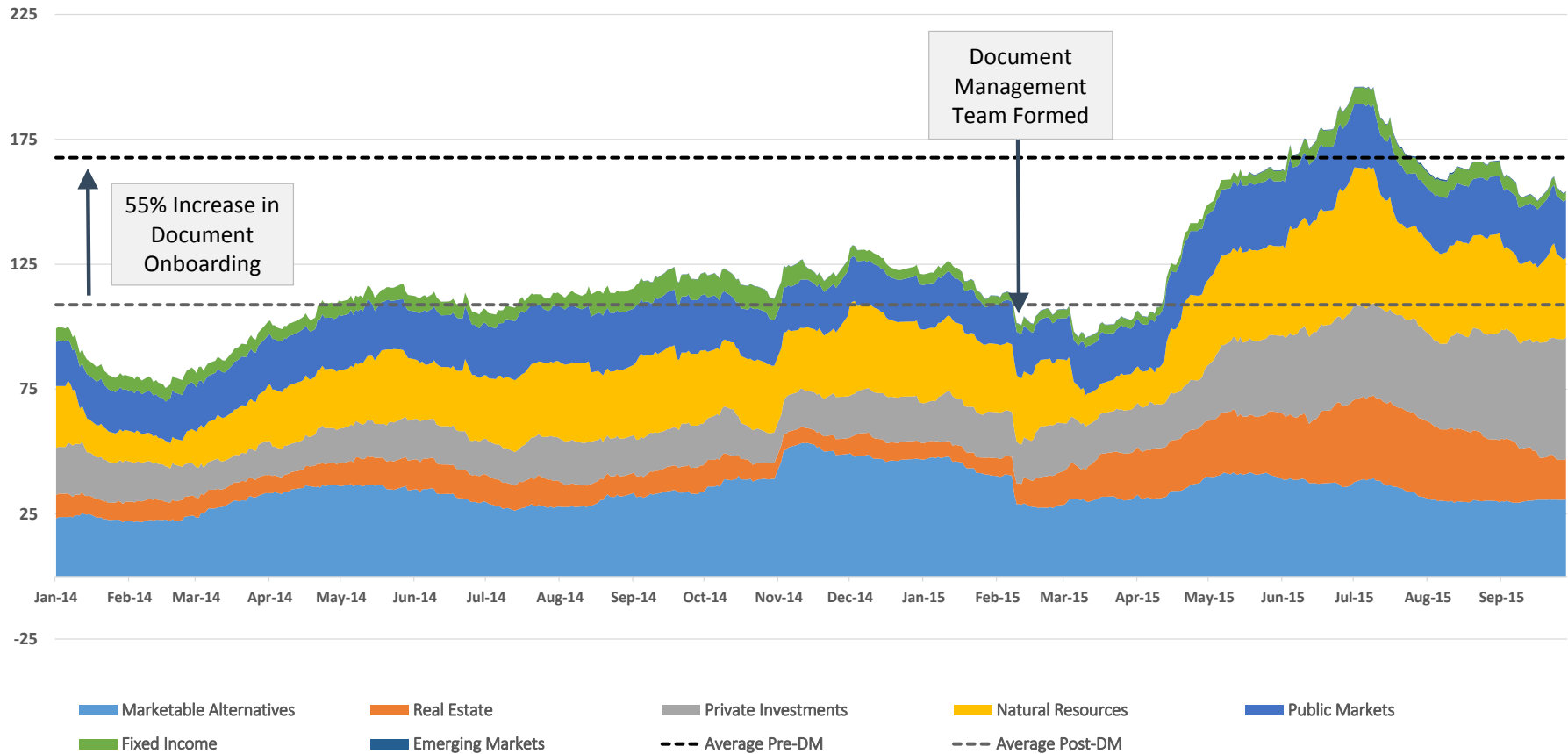


legend **emailbox**

DOCUMENT UPLOAD RATE



Rolling 3 Month Average Daily Document Uploads



PORTFOLIO MONITORING AND NEW INVESTMENT IDENTIFICATION



	Meetings with Existing Partners	Meetings with Prospective Partners	Meetings Total
MCC - IGFI	33	43	76
MCC - Public Equity	264	322	586
LCC	239	157	396
RE	233	185	418
NR & EM	661	661	1322
Private Investments	<u>360</u>	<u>208</u>	<u>568</u>
Total	<u>1,790</u>	<u>1,576</u>	<u>3,366</u>

- **Attended over 60 annual meetings**
- **Participated in over 70 conferences**
- **Each Portfolio had a semi-annual review**

TRAVEL



<u>City</u>	<u>Days</u>	<u>Trips</u>	<u>City</u>	<u>Days</u>	<u>Trips</u>	<u>City</u>	<u>Days</u>	<u>Trips</u>
US								
New York	219	65	Philadelphia	9	4	Phoenix	3	1
San Francisco	80	26	Boulder	8	3	Fort Lauderdale	2	1
Houston	49	26	Atlanta	6	3	Las Vegas	2	1
Los Angeles	32	11	San Diego	6	2	Miami	2	1
Chicago	30	10	Newport Coast	6	1	Oklahoma City	2	1
Dallas	25	17	LaRue	5	2	Omaha	2	1
Boston	25	9	Palo Alto	4	1	Raleigh	2	1
Washington, D.C.	13	5	Camilla	3	1	Scottsdale	2	1
West Palm Beach	10	3	Denver	3	1	College Station	1	1
Aspen	10	2	Park City	3	1	El Paso	1	1
						Salt Lake City	1	1
Total US	566	204						
NON US								
London	67	14	Tokyo	9	3	Nice	4	1
Mumbai	27	5	Calgary	8	3	Shanghai	4	1
Sao Paulo	25	6	Geneva	8	3	Vietnam	4	1
Singapore	18	4	Stavanger	8	3	Frankfurt	3	1
Mexico	17	6	Jakarta	7	2	Istanbul	3	1
Hong Kong	17	5	Lagos	6	1	Montreal	3	1
Bogota	14	4	Grand Cayman	5	1	Alberdeen	2	1
Vancouver	12	3	Delhi	4	2	Lima	2	1
Dubai	12	2	Berlin	4	1	Toronto	1	1
Rio de Janeiro	11	4	Cape Town	4	1	Zacatecas	1	1
Total NON US	310	83						

Agenda Item
UTIMCO Board of Directors Meeting
October 15, 2015

Agenda Item: Update on 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
October 15, 2015

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

Developed By: Zimmerman, Gonzalez, Moeller

Presented By: White

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

Description: The Audit and Ethics Committee (“Committee”) met on July 14, 2015. The Committee’s agenda included the following: (1) discussion and appropriate action related to minutes; (2) discussion and appropriate action related to engaging corporate external auditor; (3) report from UT System Audit Office (4) update on compliance, reporting, and audit issues; (5) presentation of unaudited financial statements for the nine months ended May 31, 2015 for the Funds and the Corporation; and (6) discussion and appropriate action related to base salary, performance incentive plan participation, and performance goals for the General Counsel and Chief Compliance Officer for the 2015-16 fiscal year.

Discussion: The Committee will report on its action related to the hiring of Deloitte and Touche LLP as the corporate auditor and will request that the Board take appropriate action related to hiring Deloitte and Touch LLP as the corporate auditor. If approved by the Board, FY 2015 will be the ninth year that Deloitte serves as the Corporation’s independent auditor. Estimated fees for the 2015 audit services remain the same as FY 2014 and are \$39,000 plus out-of-pocket expenses.

UT System Audit Office will review their Report on the Chief Executive Officer & Chief Investment Officer’s Expenses Audit Fiscal Year 2015. The Committee will report on its action related to the FY 2015 audit plan.

The Committee will report on its action related to the General Counsel and Chief Compliance Officer’s base salary, performance incentive plan participation, and performance goals for the 2015-2016 fiscal year and performance period.

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

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

Reference: Draft Deloitte & Touche LLP Engagement Letter

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

RESOLVED, that the firm of Deloitte & Touche LLP be, and is hereby, engaged as the independent auditor of the Corporation for the year ended August 31, 2015.

June 26, 2015

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

Dear Ms. Moeller:

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

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

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

Audit of Financial Statements

Our engagement is to perform an audit in accordance with auditing standards generally accepted in the United States of America (“generally accepted auditing standards”). The objective of an audit conducted in accordance with generally accepted auditing standards is to express an opinion on whether the Company’s financial statements for the year ending August 31, 2015, are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”).

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

D&T Reports

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

Management's Responsibilities

Appendix B describes management's responsibilities.

Responsibility of the Audit and Ethics Committee

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

Communications with the Audit and Ethics Committee

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

Fees

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

Invoice Date	Amount
August 21, 2015	\$10,000
November 13, 2015	29,000

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

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

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

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

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

* * * * *

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

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

The University of Texas Investment Management Company
June 26, 2015
Page 4

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

Yours truly,

Deloitte & Touche LLP

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

By: _____

Title: _____

Date: _____

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

APPENDIX A

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

This Appendix A is part of the engagement letter dated June 26, 2015 between Deloitte & Touche LLP and The University of Texas Investment Management Company.

Auditor's Responsibilities

Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Audit and Ethics Committee are presented fairly, in all material respects, in accordance with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Audit and Ethics Committee of their responsibilities.

Scope of an Audit

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether caused by fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

MANAGEMENT'S RESPONSIBILITIES

This Appendix B is part of the engagement letter dated June 26, 2015 between Deloitte & Touche LLP and The University of Texas Investment Management Company.

Financial Statements

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

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

Management's Representations

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

Independence Matters

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

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

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

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

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

APPENDIX C

COMMUNICATIONS WITH THE AUDIT AND ETHICS COMMITTEE

This Appendix C is part of the engagement letter dated June 26, 2015, between Deloitte & Touche LLP and The University of Texas Investment Management Company.

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

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

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

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

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

Texas State Auditor's Office

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

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

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

GENERAL BUSINESS TERMS

This Appendix D is part of the engagement letter to which these terms are attached (the engagement letter, including its appendices, the “engagement letter”) dated June 26, 2015, between Deloitte & Touche LLP and The University of Texas Investment Management Company.

1. **Independent Contractor.** D&T is an independent contractor and D&T is not, and will not be considered to be, an agent, partner, fiduciary, or representative of the Company or the Audit and Ethics Committee.
2. **Survival.** The agreements and undertakings of the Company and the Audit and Ethics Committee contained in the engagement letter will survive the completion or termination of this engagement.
3. **Assignment and Subcontracting.** Except as provided below, no party may assign any of its rights or obligations (including, without limitation, interests or claims) relating to this engagement without the prior written consent of the other parties. The Company hereby consents to D&T subcontracting a portion of its services under this engagement to any affiliate or related entity, whether located within or outside of the United States. Professional services performed hereunder by any of D&T’s affiliates or related entities shall be invoiced as professional fees, and any related expenses shall be invoiced as expenses, unless otherwise agreed.
4. **Severability.** If any term of the engagement letter is unenforceable, such term shall not affect the other terms, but such unenforceable term shall be deemed modified to the extent necessary to render it enforceable, preserving to the fullest extent permissible the intent of the parties set forth herein.
5. **Force Majeure.** No party shall be deemed to be in breach of the engagement letter as a result of any delays or non-performance directly or indirectly resulting from circumstances or causes beyond its reasonable control, including, without limitation, fire, epidemic or other casualty, act of God, strike or labor dispute, war or other violence, or any law, order or requirement of any governmental agency or authority.
6. **Confidentiality.** To the extent that, in connection with this engagement, D&T comes into possession of any confidential information of the Company, D&T shall not disclose such information to any third party without the Company’s consent, using at least the same degree of care as it employs in maintaining in confidence its own confidential information of a similar nature, but in no event less than a reasonable degree of care. The Company hereby consents to D&T disclosing such information (1) as may be required by law or regulation, or to respond to governmental inquiries, or in accordance with applicable professional standards or rules, or in connection with litigation or arbitration pertaining hereto; (2) to the extent such information (i) is or becomes publicly available other than as the result of a disclosure in breach hereof, (ii) becomes available to D&T on a nonconfidential basis from a source that D&T believes is not prohibited from disclosing such information to D&T, (iii) is already known by D&T without any obligation of confidentiality with respect thereto, or (iv) is developed by D&T independently of any disclosures made to D&T hereunder; or (3) to contractors providing administrative, infrastructure, and other support services to D&T and subcontractors providing services in connection with this engagement, in each case, whether located within or outside of the United States, provided that such contractors and subcontractors have agreed to be bound by confidentiality obligations similar to those in this paragraph.
7. **Dispute Resolution.** Any controversy or claim between the parties arising out of or relating to the engagement letter or this engagement (a “Dispute”) shall be resolved by mediation or binding arbitration as set forth in the Dispute Resolution Provision attached hereto as Appendix E and made a part hereof.
8. **Governing Law.** This engagement letter, together with the appendices, and all of the rights and obligations of the parties hereto and all of the terms and conditions hereof shall be construed, interpreted and applied in accordance with and governed by and enforced under the laws of the State of Texas.

DISPUTE RESOLUTION PROVISION

This Appendix E is part of the engagement letter dated June 26, 2015, between Deloitte & Touche LLP and The University of Texas Investment Management Company.

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

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

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

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

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

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

Agenda Item
UTIMCO Board of Directors Meeting
October 15, 2015

Agenda Item:	Report from Risk Committee
Developed By:	Staff
Presented By:	Bass
Type of Item:	Information item
Description:	<p>The Risk Committee (“Committee”) met separately on July 14, 2015 and will meet jointly with the Policy Committee on October 15, 2015. The Committee’s agenda for the July 14th meeting included (1) discussion and appropriate action related to the minutes; (2) discussion and appropriate action related to categorization of new investment mandates; (3) review and discussion of compliance reporting; and (4) review and discussion of performance and risk reporting. The joint meeting agenda includes discussion and appropriate action related to proposed amendments to the investment policies.</p>
Discussion	<p>The Committee reviewed and took appropriate action related to 18 mandate categorizations prepared by staff for the period beginning April 1, 2015, and ending June 30, 2015. The Committee will report to the UTIMCO Board the results of its review of the Investment Mandate Categorizations.</p> <p>The Committee reviewed the May quarterly compliance reporting.</p> <p>The Committee also will have a joint meeting with the Policy Committee to discuss staff’s recommended amendments to the Investment Policy Statements of the Permanent University Fund, General Endowment Fund, Intermediate Term Fund, Permanent Health Fund, Long Term Fund, and Separately Invested Funds. The Committee also will discuss Staff’s recommended amendments to the Liquidity Policy and Derivative Investment Policy. The discussion of the Investment Policies is covered in the Report from the Policy Committee in Tab 8.</p>
Recommendation:	None
Reference:	None

Agenda Item
UTIMCO Board of Directors Meeting
October 15, 2015

Agenda Item: Report from Policy Committee: (1) Investment Strategy Review for Fiscal Year 2016; (2) Discussion and Appropriate Action Related to the Investment Policy Statements; (3) Discussion and Appropriate Action Related to Derivative Investment Policy; and (4) Discussion and Appropriate Action Related to Liquidity Policy

Developed By: Staff

Presented By: Hicks, Zimmerman

Type of Item: Action item; Action required by UTIMCO Board and by the UT System Board of Regents

Description: The Policy Committee (“Committee”) will meet jointly with the Risk Committee on October 15, 2015, followed by a separate meeting. The Committee’s agenda for the joint meeting includes discussion and appropriate action related to proposed amendments to the Investment Policy Statements, Derivative Investment Policy and Liquidity Policy. The separate meeting agenda includes discussion and appropriate action related to minutes of the November 3, 2014 meeting.

The Investment Management Services Agreement (IMSA) requires that UTIMCO review the current Investment Policies for each Fund at least annually. The review includes long-term investment return expectations and expected risk levels, Asset Class and Investment Type allocation targets and ranges for each eligible Asset Class and Investment Type, expected returns for each Asset Class, Investment Type, and Fund, designated performance benchmarks for each Asset Class and/or Investment Type and such other matters as the UT System Board of Regents or its staff designees may request. The Investment Policies, including Exhibits, listed below are enclosed for the approval of the Risk Committee and the Policy Committee with further approval of the UTIMCO Board and the UT System Board of Regents required.

Discussion: Mr. Zimmerman will present the *Investment Strategy Review for Fiscal Year 2016*. The investment policy review and recommendation will provide a comprehensive analysis of the portfolio’s positioning, return/risk assumptions, and the current and future economic environment considerations used in determining whether to recommend any changes to the Asset Class and Investment Type targets and ranges for FY 2016.

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

Investment Policies

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

Agenda Item
UTIMCO Board of Directors Meeting
October 15, 2015

amended to reflect the proposed changes. Additional amendments to the PUF, GEF, ITF, PHF, and LTF Investment Policy Statements are also being submitted for approval. The amendments to the PUF, GEF, ITF, PHF, and LTF are effective December 1, 2015. Staff reviewed and is recommending changes to the Separately Invested Funds (SIF) Investment Policy Statement. Staff has also reviewed but is not recommending any changes to the Short Term Funds (STF) Investment Policy Statement. The STF Investment Policy Statement was last amended by the Board of Regents in August 2012.

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

- Derivative Investment Policy (effective November 5, 2015)
- Liquidity Policy (effective November 5, 2015)

Exhibits A of the PUF and GEF, and Exhibits B in the PHF and LTF Investment Policy Statements, have been amended to set forth the revised Policy Portfolio Asset Class and Investment Type Targets and Ranges for FY 2016. Exhibits A of the PUF, GEF, and Exhibits B in the PHF and LTF Investment Policy Statements, have also been amended to set forth the Target Distribution Rates for the respective Fund as determined by the UT Board of Regents. Exhibits A of the PUF, GEF, and ITF, and Exhibits B in the PHF and LTF Investment Policy Statements, have also been amended to set forth the revised Expected Annual Real Return (Benchmark) target for FY 2016. In addition, the one year downside volatility has been adjusted based on the change in the Expected Annual Real Return (Benchmark) target. The footnote related to the Expected Annual Return (Benchmark) has been deleted.

PUF Investment Policy Statement

Page 4, PUF Investment Objectives; changed language related to the annual PUF distribution amount to clarify the investment objective and state that it will be determined by the Board of Regents.

Page 7, Investment Guidelines; added language to clarify that concentration limits in Investment Guidelines are limited to More Correlated & Constrained Investments.

Page 8, PUF Distributions; deleted quotation from Texas Constitution.

Page 8, PUF Distributions; changed language to clarify the timing of distributions from the PUF to the Available University Fund (AUF).

Page 8, Valuation of Assets; changed language regarding timing for valuation of assets to seven business days following month end consistent with current practice.

General; all references to risk terminology related to “risk” and “downside deviation” changed to “downside volatility” to be more specific.

Minor editorial changes.

Agenda Item
UTIMCO Board of Directors Meeting
October 15, 2015

GEF Investment Policy Statement

Page 2, GEF Investment Objectives; changed language related to the investment objective and the target distribution rate that is determined by the Board of Regents.

Page 6, Investment Guidelines; added language to clarify that concentration limits in Investment Guidelines are limited to More Correlated & Constrained Investments.

Page 6, Valuation of Assets; changed language regarding timing for valuation of assets to seven business days following month end consistent with current practice.

General; all references to risk terminology related to “risk” and “downside deviation” changed to “downside volatility” to be more specific.

Minor editorial changes.

PHF Investment Policy Statement

Page 3, PHF Investment Objectives; changed language related to the investment objective and the target distribution rate that is determined by the Board of Regents.

Page 6, Valuation of Assets; changed language regarding timing for valuation of assets to eight business days following month end consistent with current practice.

LTF Investment Policy Statement

Page 2, LTF Investment Objectives; changed language related to the investment objective and the target distribution rate that is determined by the Board of Regents.

Page 6, Valuation of Assets; changed language regarding timing for valuation of assets to eight business days following month end consistent with current practice.

Minor editorial changes.

ITF Investment Policy Statement

Page 2, ITF Investment Objectives; added language to clarify that investment returns are net of all investment related expenses.

Page 2, ITF Investment Objectives; added language related to additional expenses charged to the fund.

Page 6, Investment Guidelines; added language to clarify that concentration limits in Investment Guidelines are limited to More Correlated & Constrained Investments.

Page 6, Valuation of Assets; changed language regarding timing for valuation of assets to seven business days following month end consistent with current practice.

General; all references to risk terminology related to “risk” and “downside deviation” changed to “downside volatility” to be more specific.

Minor editorial changes.

SIF Investment Policy Statement

Agenda Item
UTIMCO Board of Directors Meeting
October 15, 2015

Page 5, Investment Grade Fixed Income; deleted section and incorporated into Credit-Related Fixed Income section consistent with other investment policies.

Derivative Investment Policy

Changes to the Derivative Investment Policy are as follows:

Page 2, Risk and Investment Policy Controls; reference to “downside deviation and risk” changed to “downside volatility” to be more specific.

Page 3, Counterparty Risks, added language to allow for limited use of agreements developed by ISDA in connection with ISDA’s Dodd-Frank Documentation Initiative to implement and comply with the regulatory requirements imposed under Title VII of the Dodd–Frank Wall Street Reform and Consumer Protection Act.

Page 6, Exhibit B; references to “cash index” and “index” have been changed to “cash market equivalent” to clarify that limited-loss derivatives are allowed on individual stocks

Liquidity Policy

Changes to the Liquidity Policy are as follows:

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

Recommendation: The Committee will request the UTIMCO Board to take appropriate action related to the proposed amendments to the Investment Policy Statements for the PUF, GEF, PHF, LTF, ITF and SIF for the fiscal year beginning December 1, 2015. The Committee will also request the UTIMCO Board take appropriate action related to the proposed amendments to the Liquidity Policy and Derivative Investment Policy, effective November 5, 2015.

Reference: *Investment Strategy Review for Fiscal Year 2016* presentation
Investment Policy Statements for the PUF, GEF, PHF, LTF and ITF, effective December 1, 2015, including Exhibits
Derivative Investment Policy, effective November 5, 2015
Liquidity Policy, effective November 5, 2015

RESOLUTION RELATED TO INVESTMENT POLICIES

RESOLVED, that amendments to the Investment Policy Statements of the Permanent University Fund, General Endowment Fund, Permanent Health Fund, Long Term Fund, Intermediate Term Fund, and Separately Invested Funds and amendments to the Derivative Investment Policy and Liquidity Policy, as presented be, and are hereby approved, subject to approval by the Board of Regents of The University of Texas System.



Investment Strategy Review For Fiscal Year 2016

Agenda



- I. Summary
- II. Policy Portfolio Role
- III. Investment Strategy Framework
 - Bonds to 60/40
 - Endowment Model
 - Risk Parity and Economic Environments
- IV. UTIMCO History
 - Initiatives since 2007
 - Current Portfolio
 - Five Year Plan
- V. Annual Policy Review
 - Quantitative Model Methodology
 - Return Projections: Headwinds
 - Efficient Frontier: Unconstrained
 - Private Commitments
 - Insurance / Tail Risk Hedging
- VI. Recommendation

Summary



- Staff recommends slight changes to the FY2016 Policy Portfolio compared to FY2015
 - As anticipated, the Private Investment target is increased as part of the longer-term investment strategy
 - The increase is funded through reductions in the Less Correlated & Constrained area
- We expect the FY2016 Policy Portfolio to generate lower real returns than we projected for the FY2015 Policy Portfolio (3.9% and 4.3%, respectively), primarily because of lower asset class return projections.
 - Through July FYTD, the FY2015 Policy Portfolio has produced a real return of **(0.6%)**.
- No change is being recommended for the ITF Policy Portfolio; however, because of lower asset class return projections, Staff projects lower returns in FY2016 than we projected for FY2015 (2.0% and 2.8%, respectively).
 - Through July FYTD, the FY2015 Policy Portfolio has produced a real return of **(3.1%)**.
- Minimal changes to various Investment Policy details are recommended by Staff



II. Policy Portfolio Role

Investment Policy Targets – August 2015



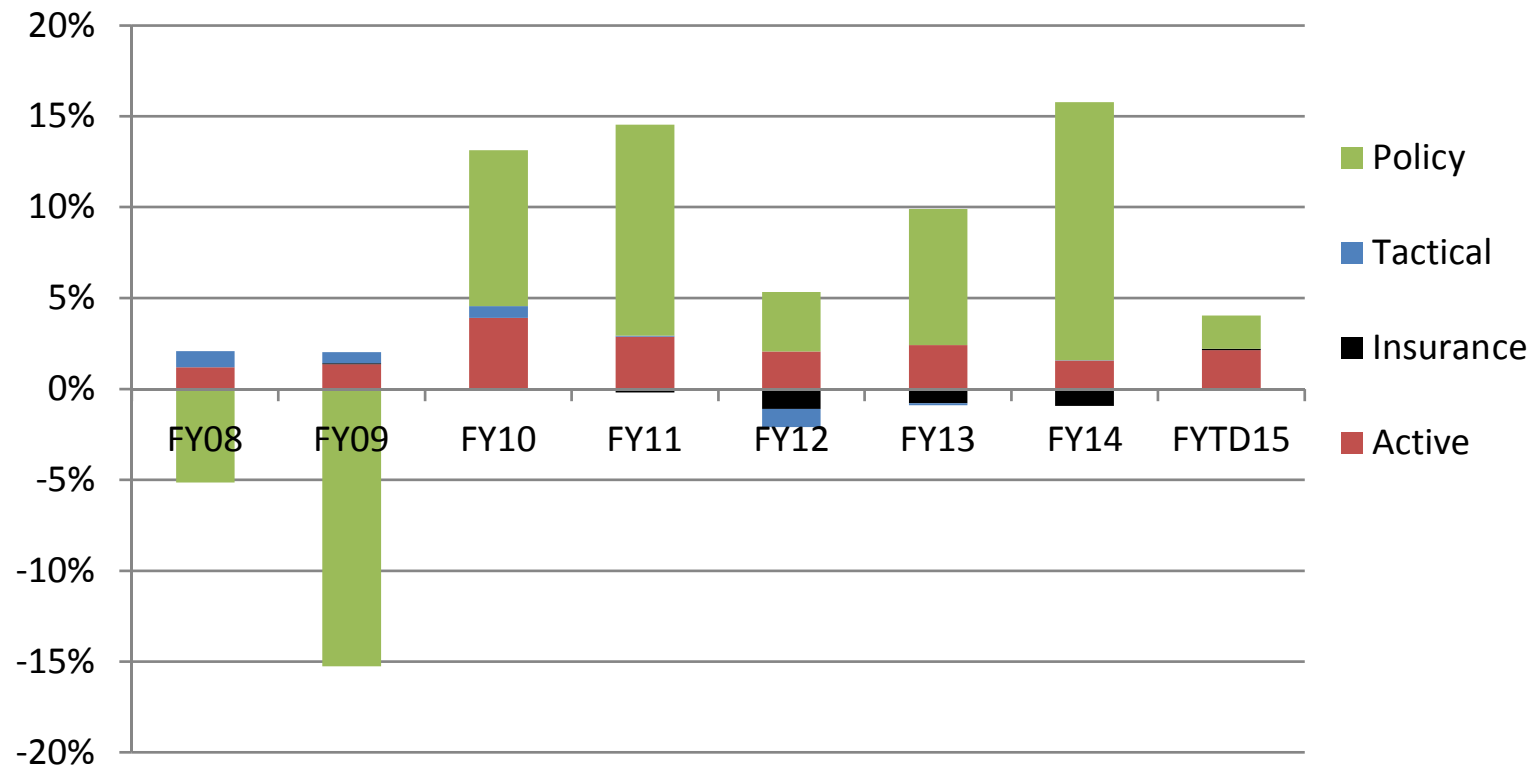
Endowment Policy Targets

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

Role of a Policy Portfolio



- Client/Board fiduciary responsibility to control investments through a Policy Portfolio
- The Policy Portfolio is responsible for 74% of annual returns on average.

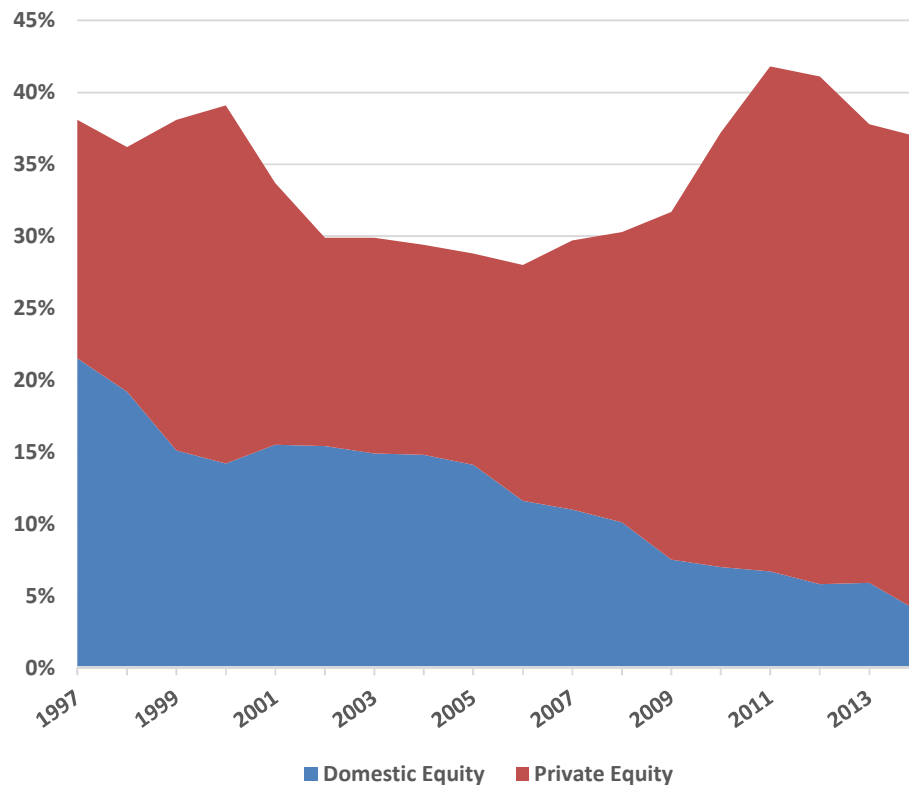


Peer “Best Practices”: Long-Term Focus

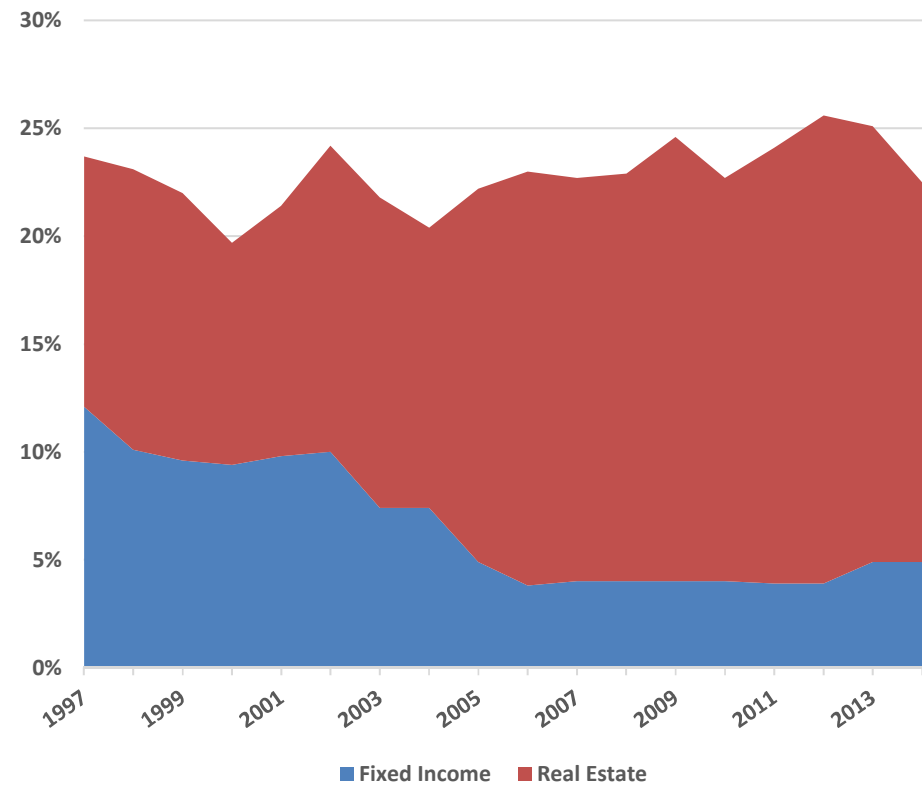


- To underscore the long-term nature of strategic asset allocation, analysis of Yale’s asset allocation shows the gradual nature of investment shifts as practiced by a premier institutional investor over the past two decades.
- Over the last 18 years, Yale gradually increased private equity exposure from 17% to 35% while decreasing public equity exposure.
- Similarly, Yale gradually increased real estate exposure from 12% to 20% while reducing fixed income exposure.

Yale: Private Equity & Domestic Public Equity



Yale: Real Estate & Fixed Income

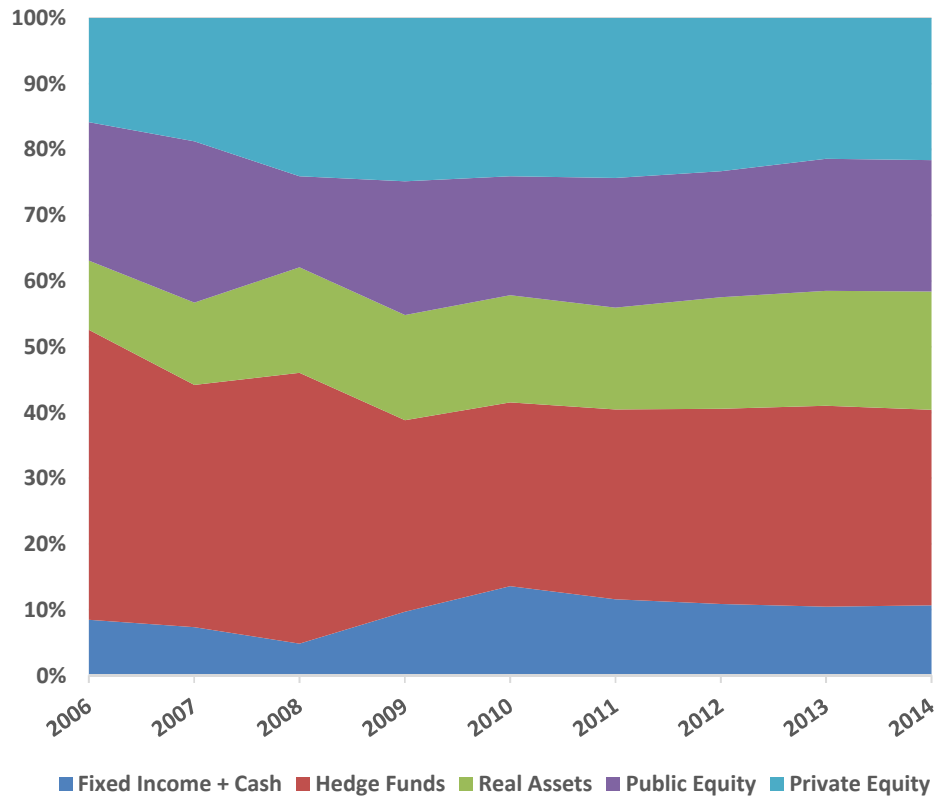


Peer “Best Practices”: Long-Term Focus

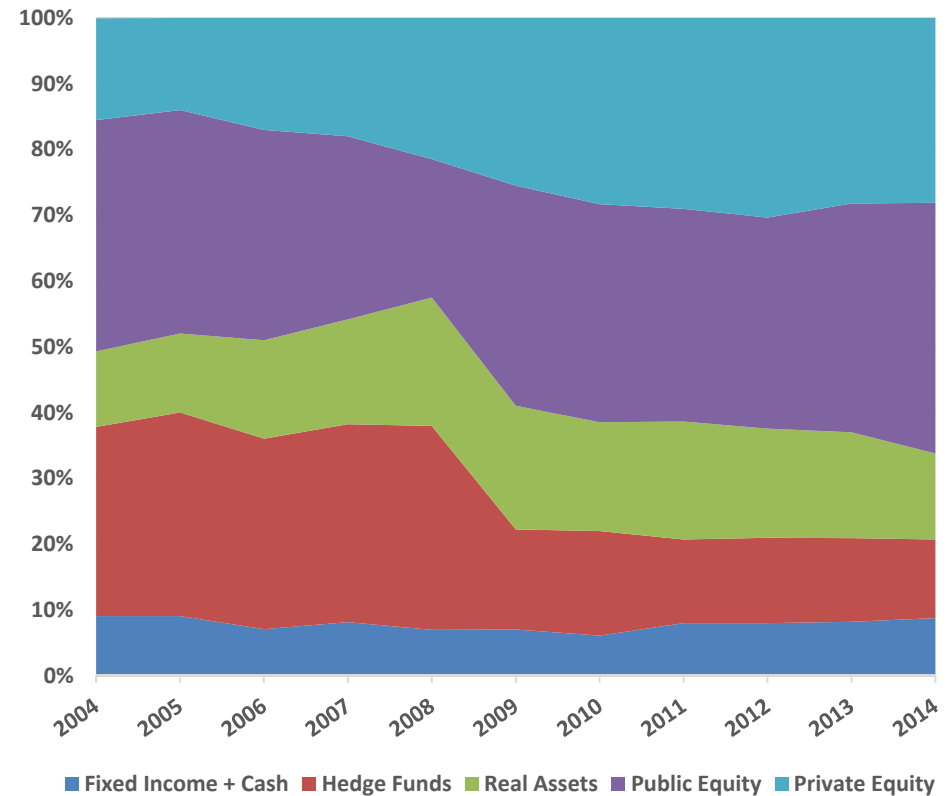


- Other high performing institutions, such as Columbia and Notre Dame, have also exhibited steady asset allocations.
- Both institutions have reduced hedge funds and increased private investments over the past decade.
- Notre Dame dramatically reduced its hedge fund portfolio in 2008 and redeployed capital to public equity and then private equity.

Columbia Asset Allocation



Notre Dame Asset Allocation





III. Investment Strategy Framework

Three Primary Schools of Thought



“60 / 40” Approach

- Pre-1950's: Institutions were invested 100% in domestic bonds
- 1960's & 1970's: Institutions transitioned to a 60% US stocks / 40% US bonds portfolio
- 1980's & 1990's: Non-U.S. stocks and bonds became increasingly common, still at the “60/40” allocation

“Endowment Model” Approach

- David Swensen joined Yale in 1985 and published a book on the “Endowment Model.” Key tenets include:
 - Equities are preferable to asset classes with lower expected returns; volatility is of minor consequence
 - Private/illiquid investments tend to have a return premium, and an endowment can bear the illiquidity risk
 - Active management can add value if a skilled and sufficiently resourced investment staff can partner with the best external managers.

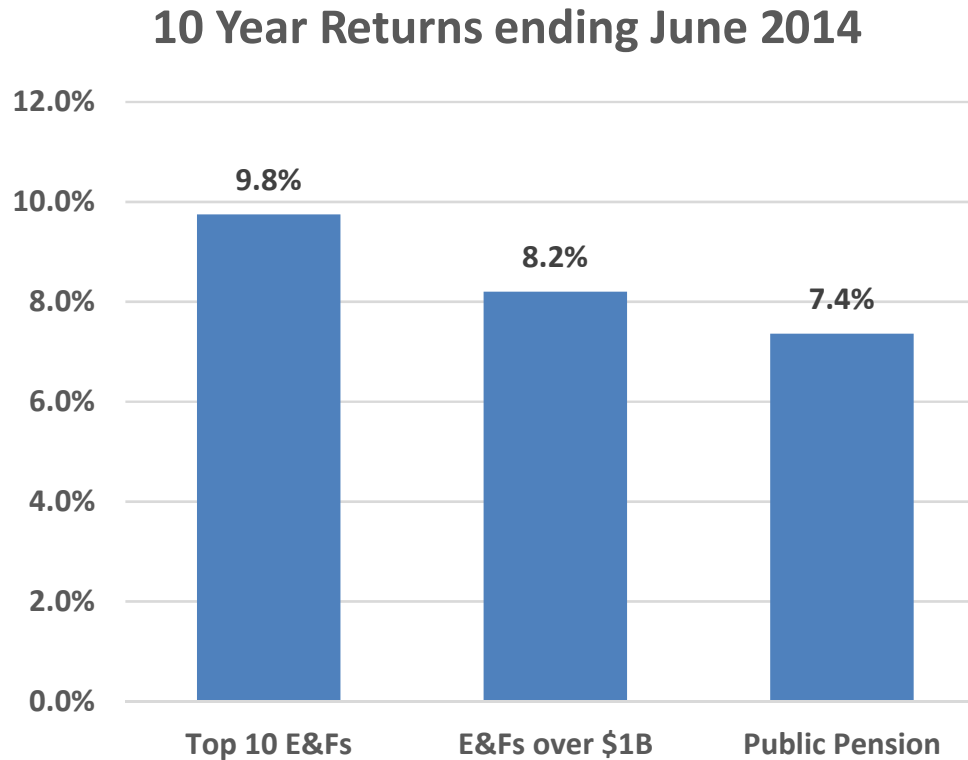
“Risk Parity” Approach

- Pioneered by Bridgewater in 1996. Key principles include:
 - Different asset classes perform differently in different economic environments
 - Predicting future economic environments is difficult
 - Pricing/value is “impossible” to assess
 - Solve for volatility-adjusted return and construct portfolio of passive, uncorrelated assets with balanced equity risk

The Endowment Model



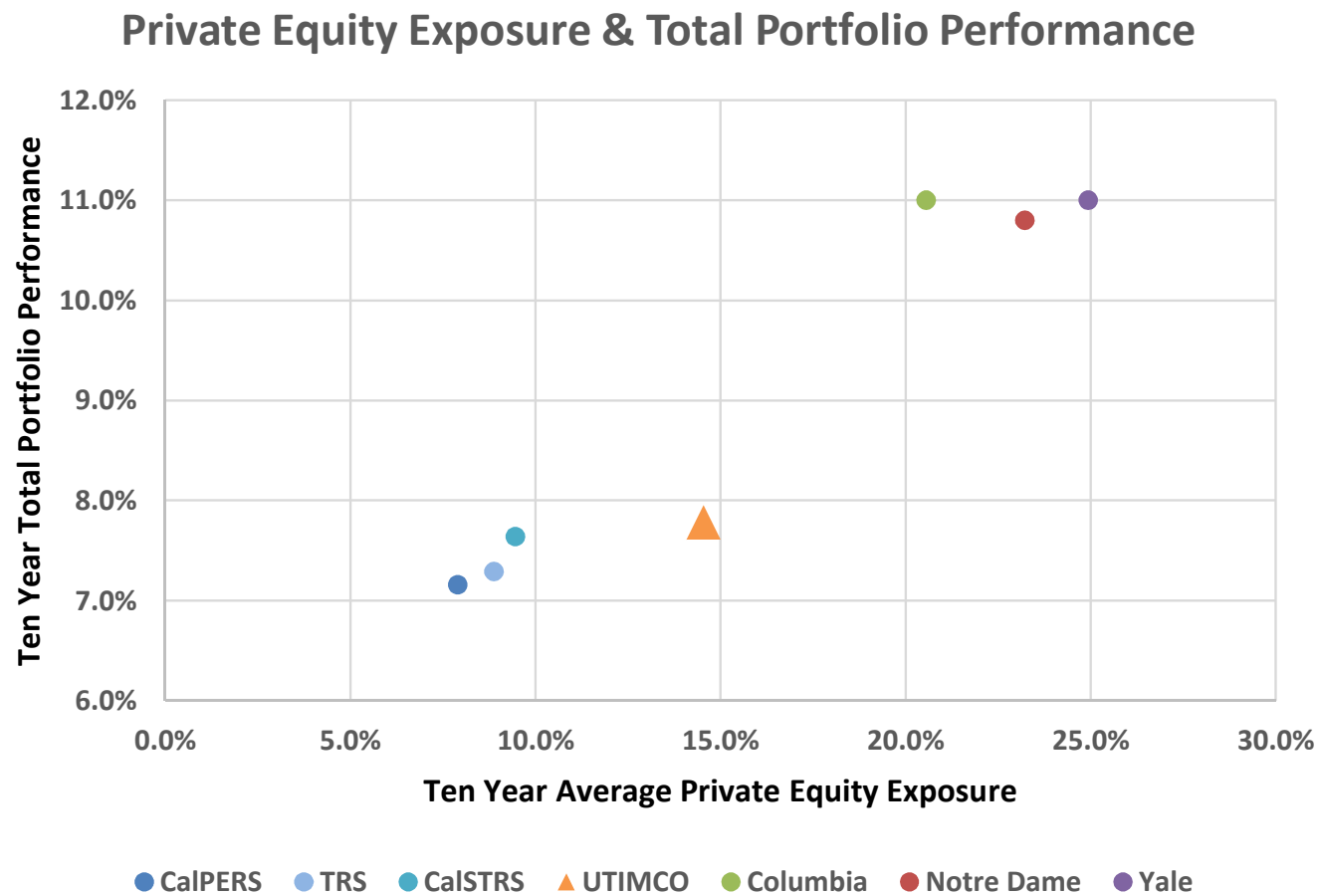
The endowment model has generated superior returns vs the public pension model, which calls for more exposure to traditional asset classes such as US public equities and fixed income.



Private Equity Impact on Performance



Over the last ten years ending June 2014, there is a strong correlation between average exposure to private equity and investment performance.

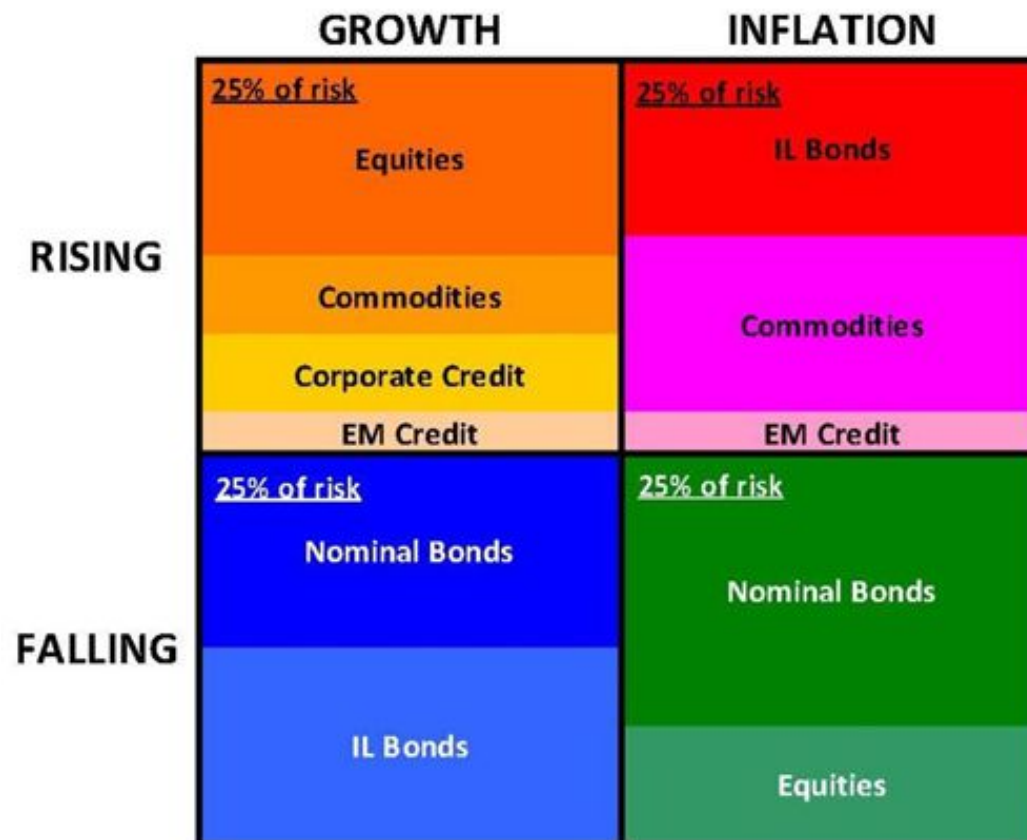


Risk Parity Approach



Implementation pioneered by Bridgewater in 1996. Key principles:

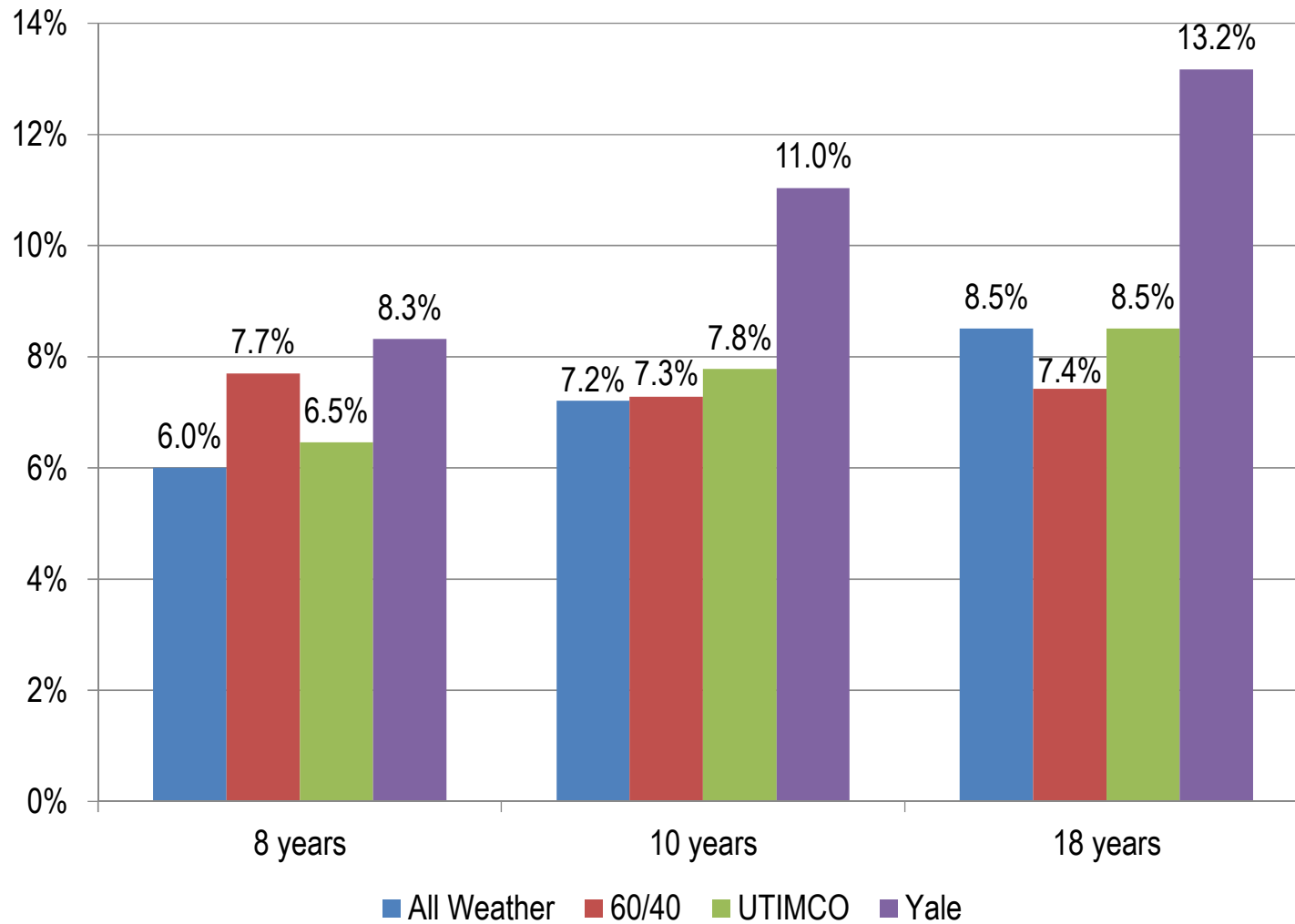
- Different asset classes perform differently in different economic environments
- Bonds are levered to reach equity-like risk levels
- Solve for volatility-adjusted return and construct a portfolio of passive, uncorrelated assets for each scenario
- Predicting future economic environments is difficult, and pricing/value is “impossible” to assess, so weight each scenario by 25%.



UTIMCO Returns Relative to the Three “Schools of Thought”



Performance ending June 30, 2014



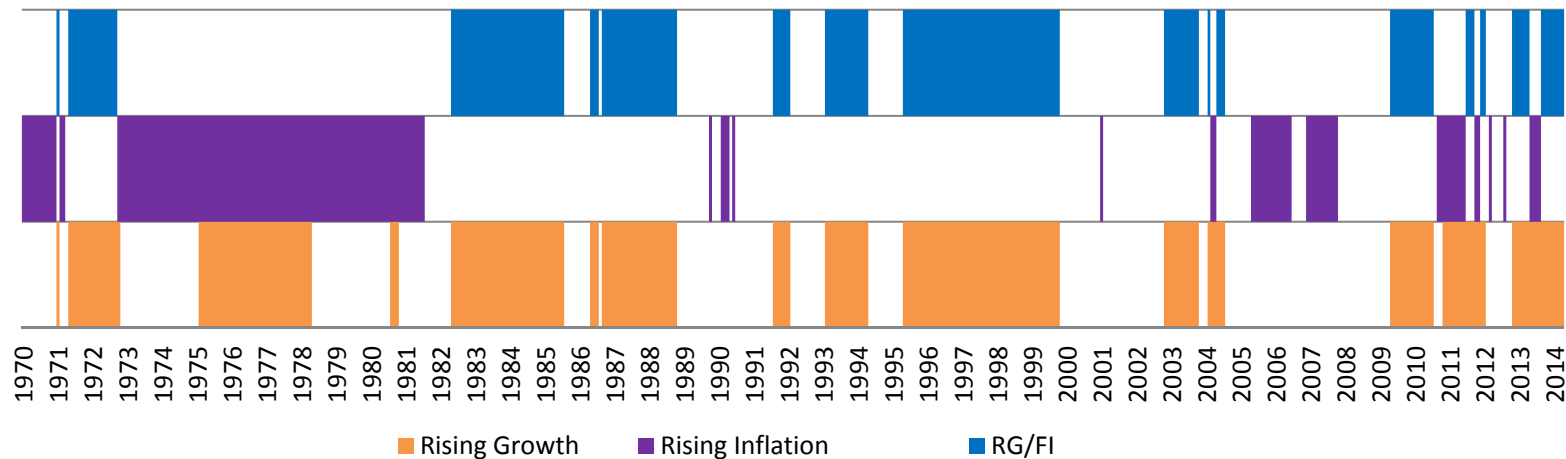
Ideal Portfolio Depends on Environment



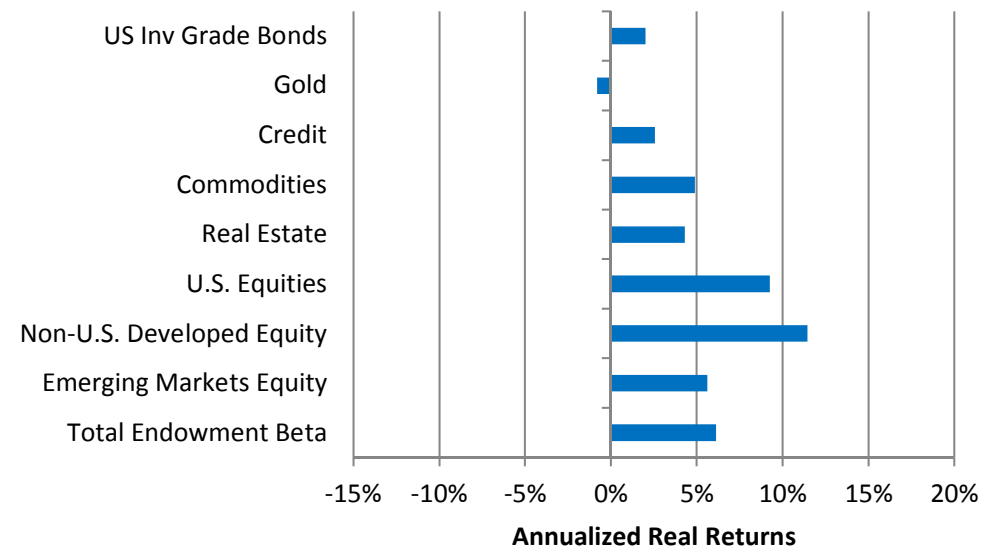
- UTIMCO did a lot of work in 2008 analyzing the ideal unlevered portfolio in varying economic environments
- Staff updated this analysis to review economic environments from 1970-2014:

<u>Economic Environment</u>	<u>% of Time, 1970-2014</u>
Rising Growth, Falling Inflation	40%
Falling Growth, Falling Inflation	28%
Rising Growth, Rising Inflation	11%
Falling Growth, Rising Inflation	21%

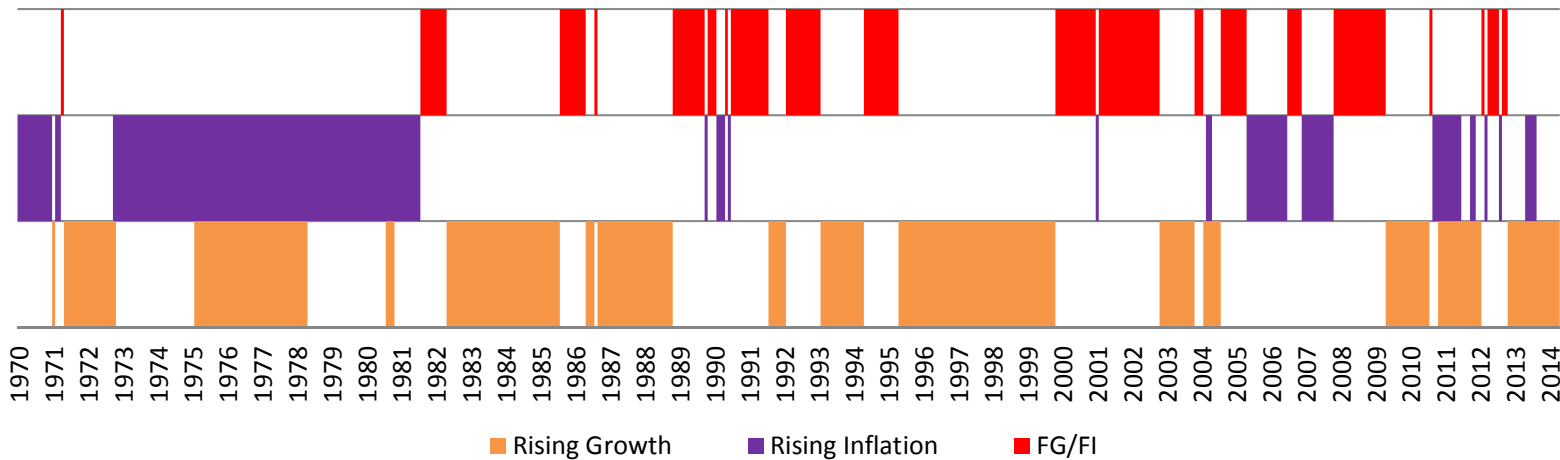
Rising Growth with Falling Inflation (RG/FI)



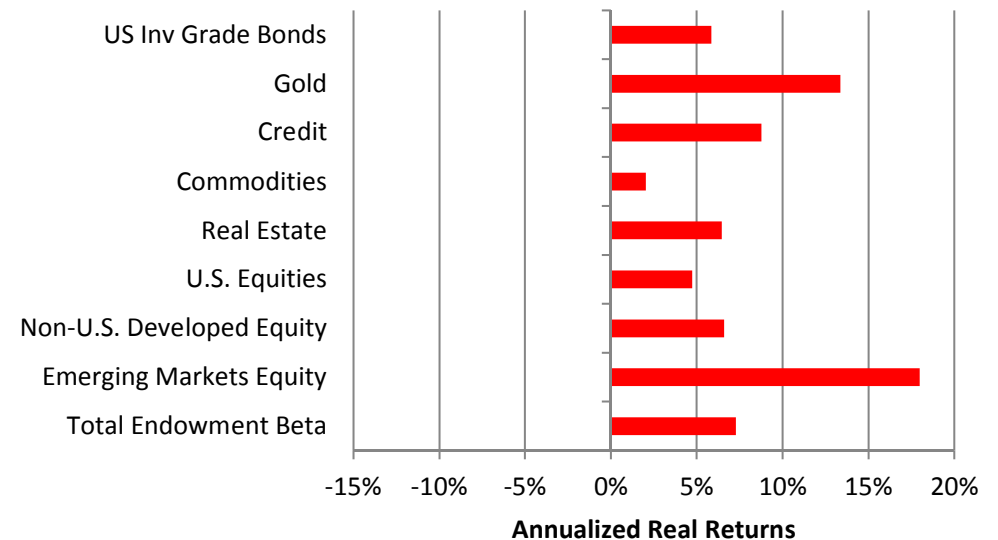
- RG/FI was the most common combination, occurring 40% of the time during the time period sampled
- Endowment beta real return would have been 6.1% on average in those periods
- All asset classes had positive real returns, with equity being the best asset class



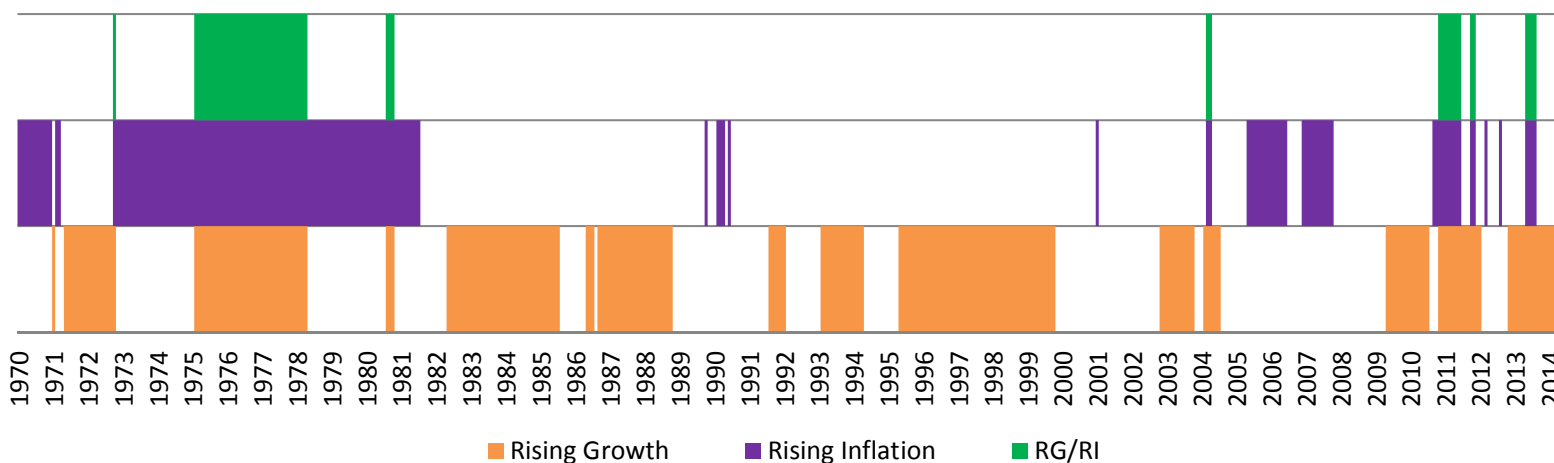
Falling Growth with Falling Inflation (FG/FI)



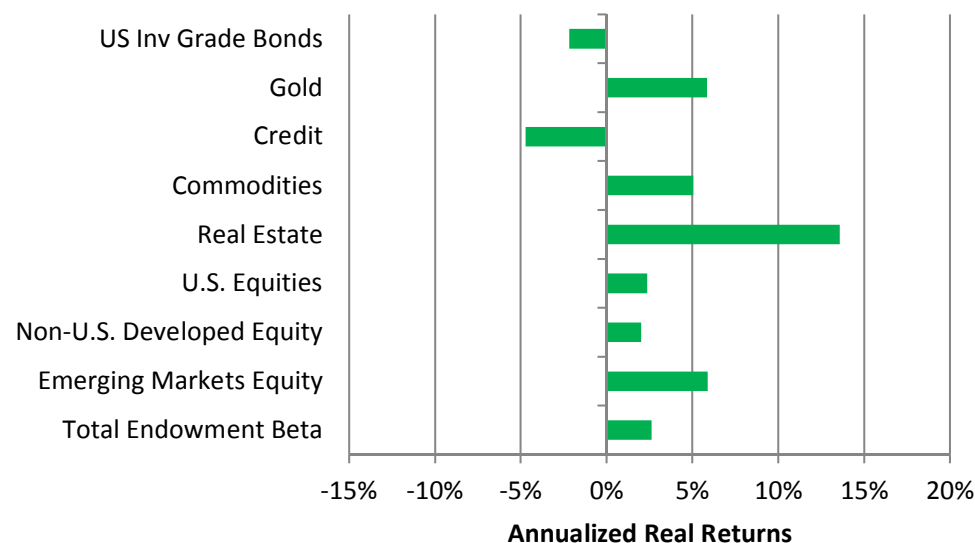
- FG/FI occurred 28% of the time period measured
- Endowment beta real returns would have been 7.3%
- Based on history, FG/FI is the best investment environment, and all asset classes had positive real returns



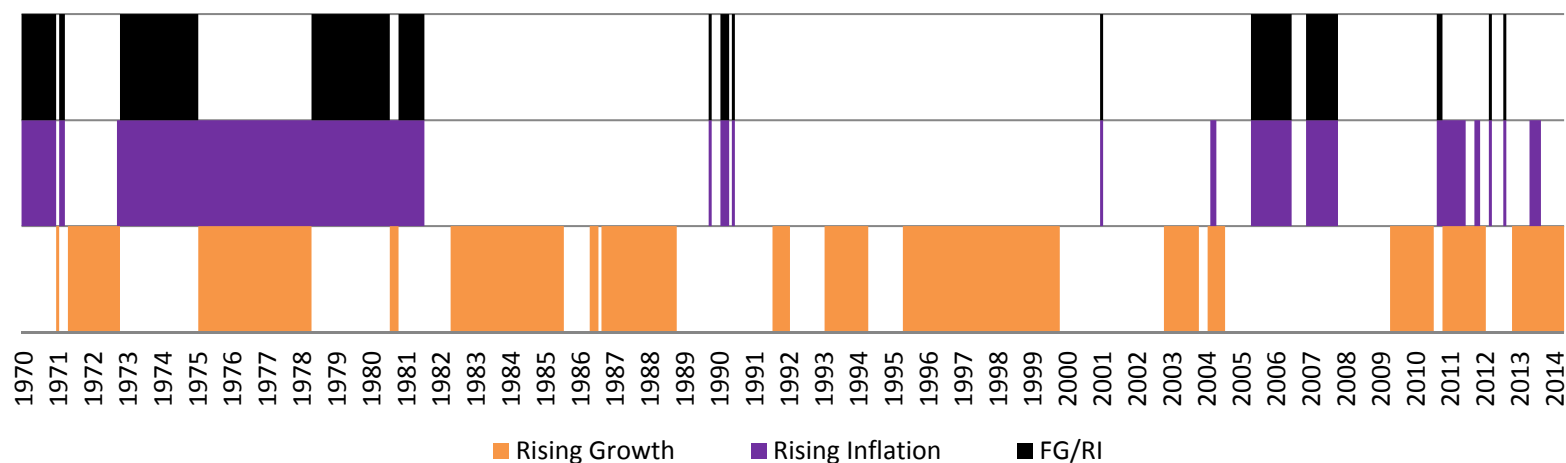
Rising Growth with Rising Inflation (RG/RI)



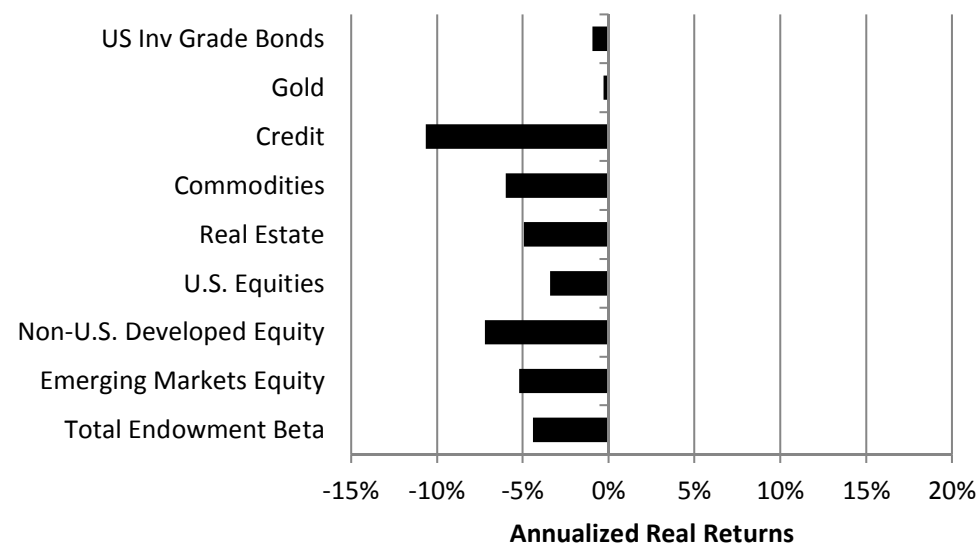
- RG/RI was the least common combination, occurring 11% of the time
- Based on history, endowment beta real returns would have been 2.6%
- Real Assets seem to be the best asset class in this environment



Falling Growth with Rising Inflation (FG/RI)



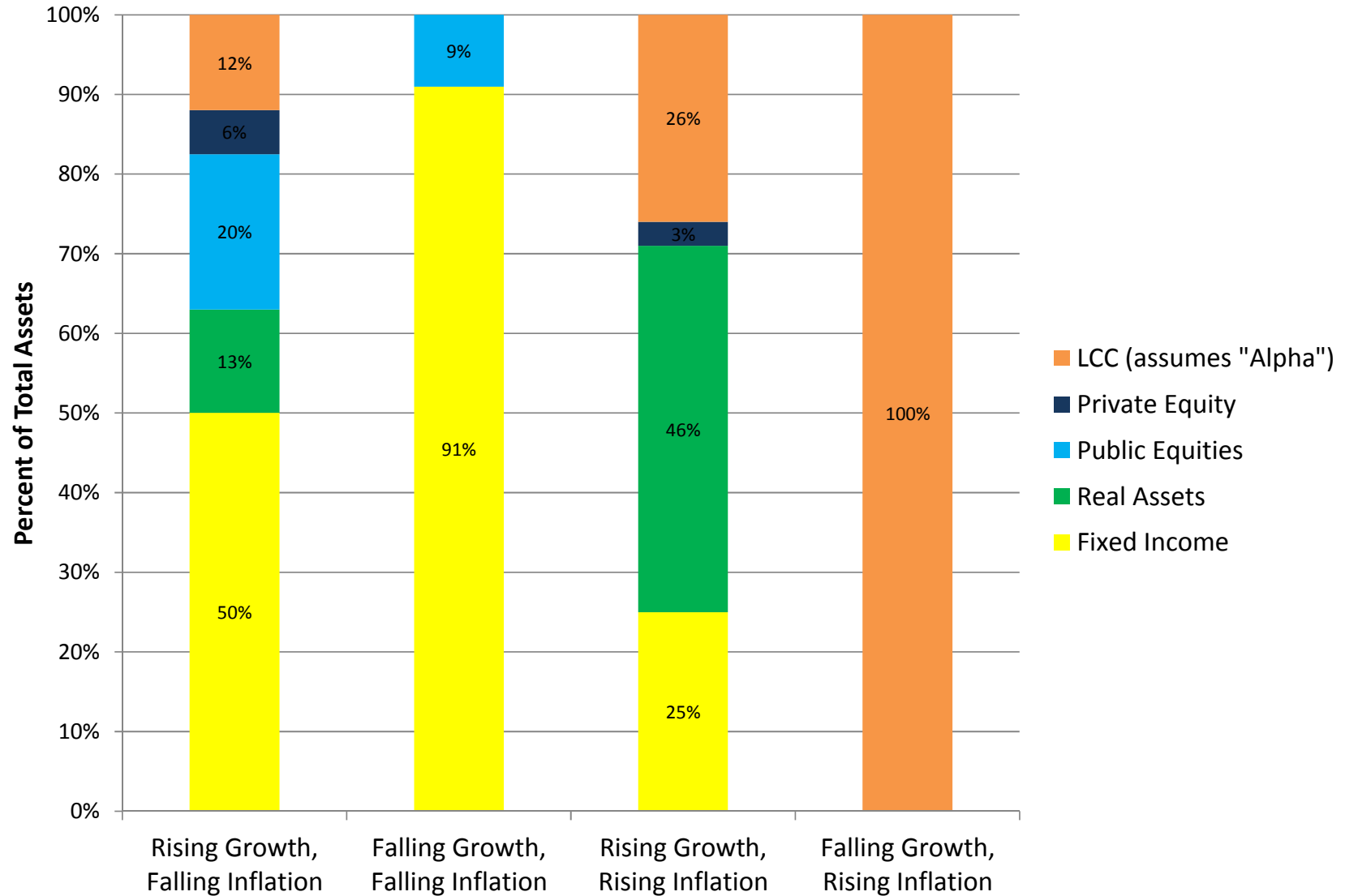
- FG/RI occurred 21% of the time period measured
- Endowment beta real returns would have been negative (4.4%) on average in those periods
- Based on history, no asset class had positive real returns – the best places to “hide” were gold and high-quality fixed income, both with slightly negative real returns



Efficient Portfolios Vary Depending on the Macro-Economic Environment



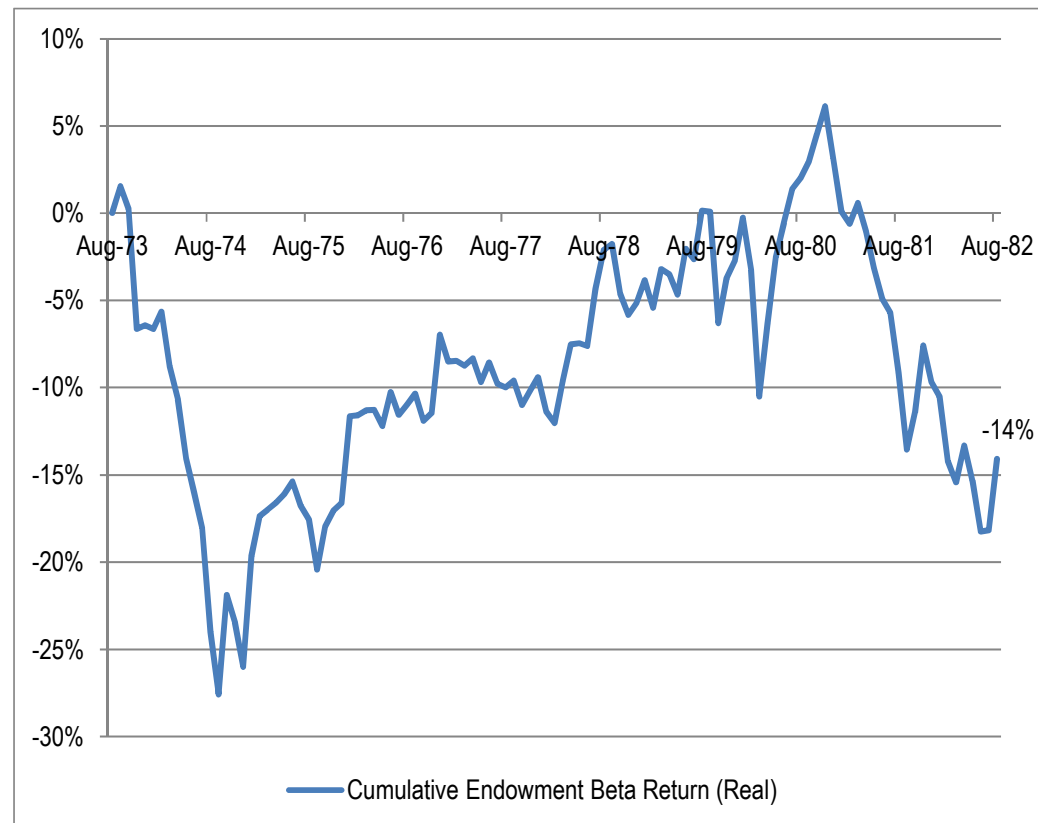
5% Real Return - Efficient Frontier Portfolio



Long Bear Market Scenario (9/73-8/82)



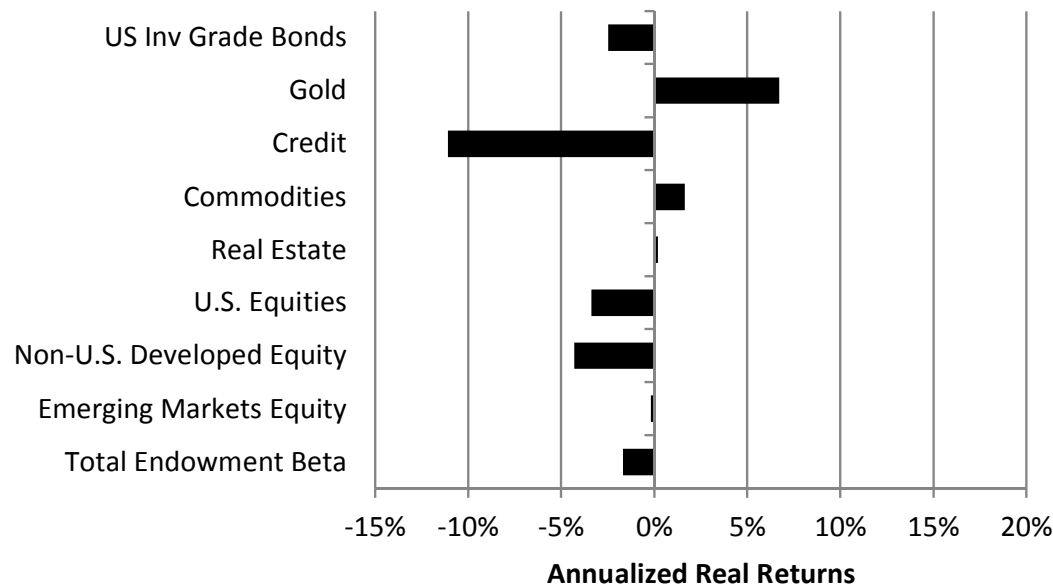
- During this nine-year period, U.S. equities averaged a loss of (3.4%) a year (real), and the Endowments would have averaged a (1.7%) a year (real) policy portfolio loss.
- The endowment's real return over the decade would not have been a “steady ride”.
- This period included real annual returns ranging from 13% to (29%), and suffered (19%) and (29%) drawdowns.



Long Bear Market Scenario (9/73-8/82)



- This nine-year period was a bear market for fixed income, real estate, and equities. Commodities and gold returns were positive.
- Given the defensive nature of our managers (higher value add in down markets), the (1.7%) real market returns should result in roughly break-even overall endowment returns.
- However, a 4.5% annual distribution during a nine-year period of zero real returns would have resulted in a fund 34% below its starting value.



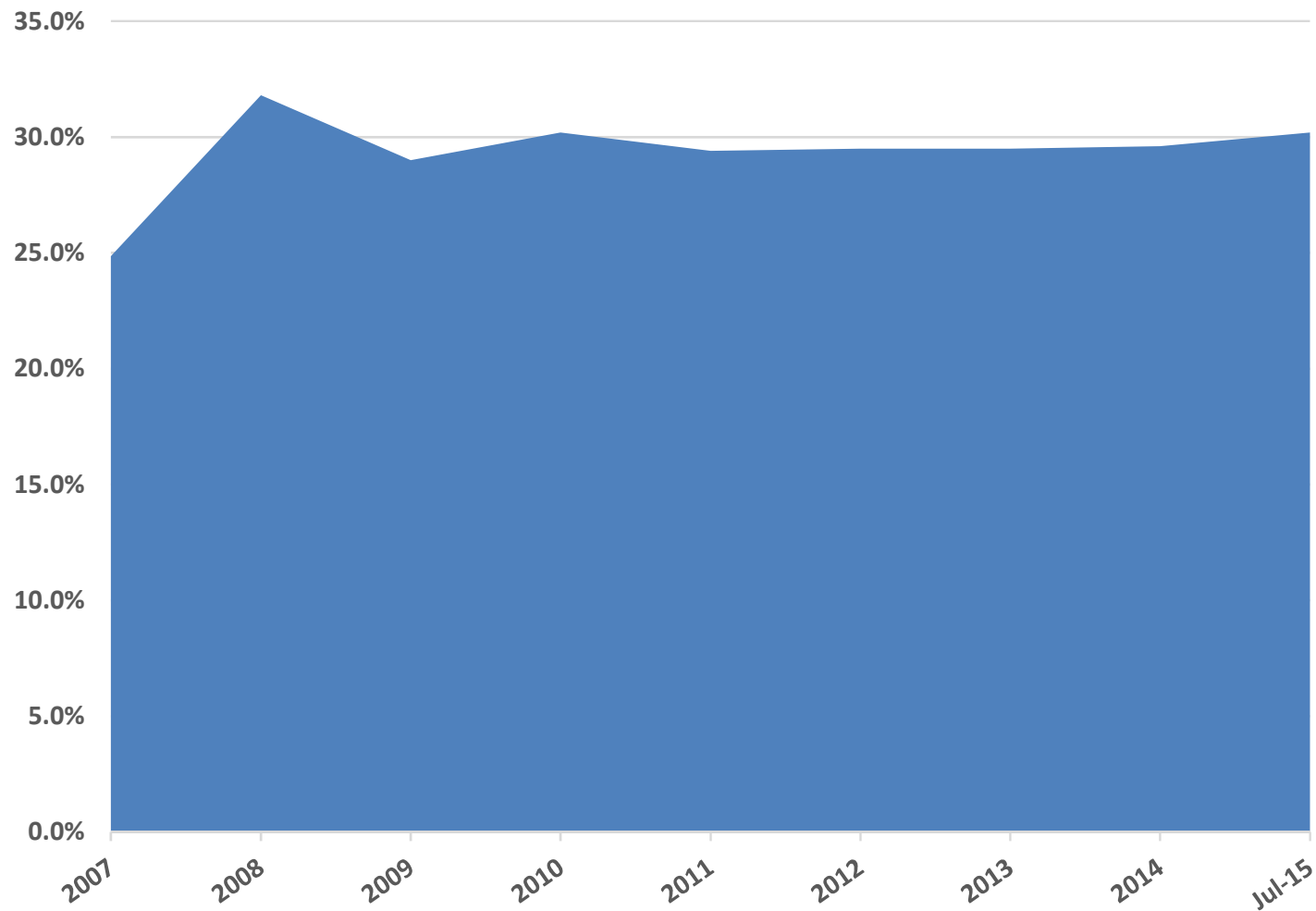


III. UTIMCO History

Initiatives Since 2007: LCC



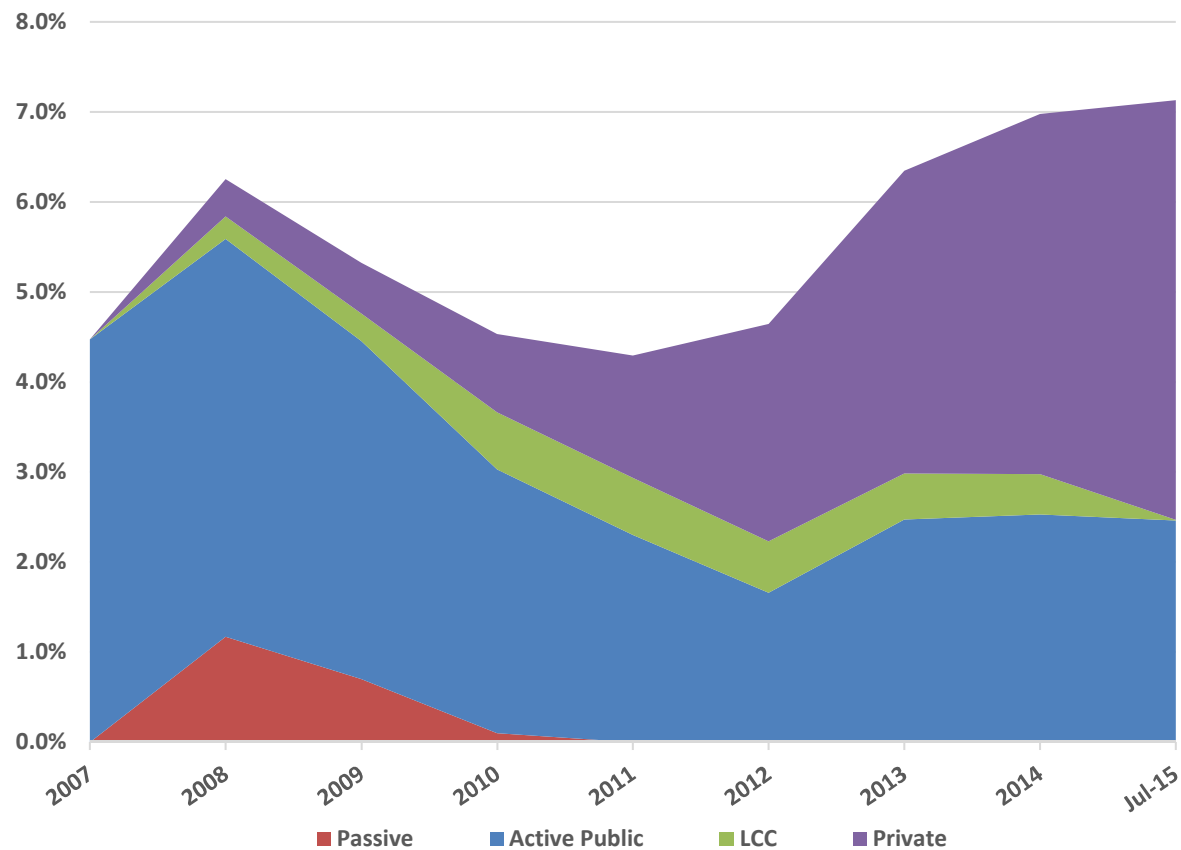
- LCC exposure remained steady at 25-30% of total assets.



Initiatives Since 2007: Real Estate



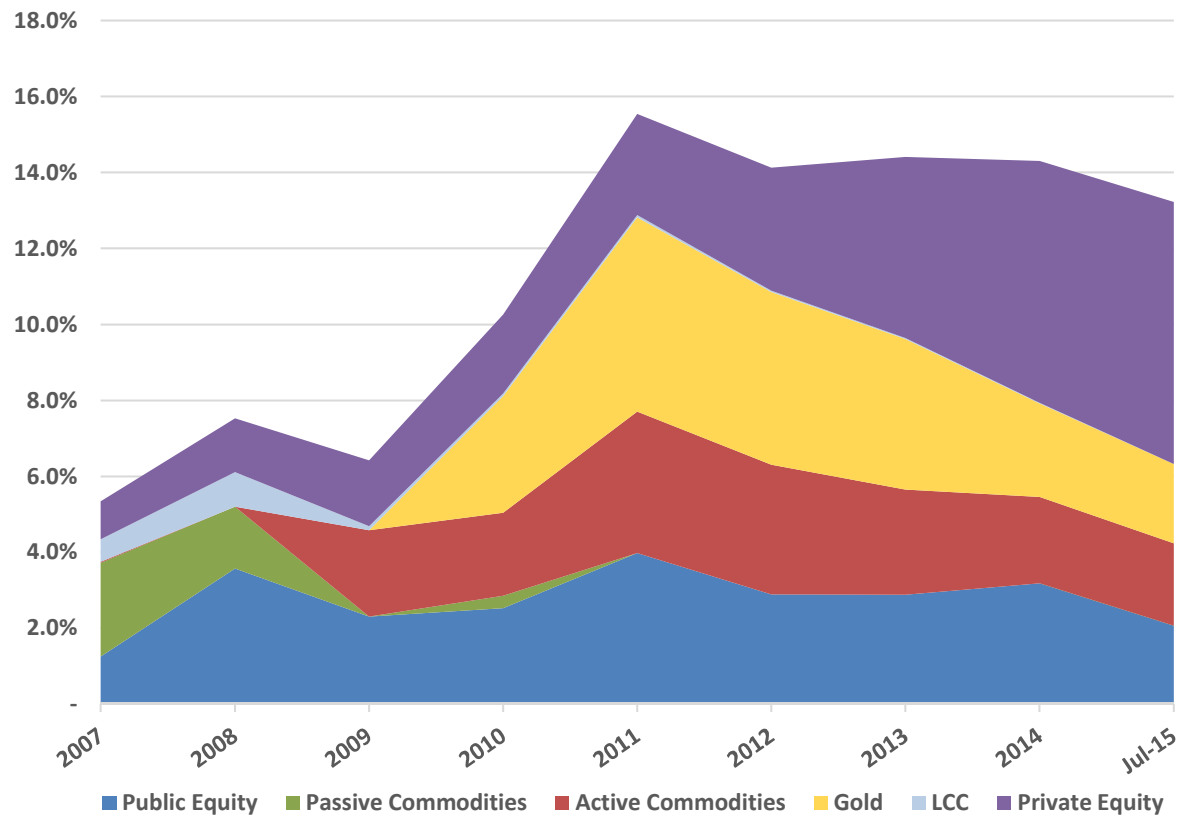
- Overall exposure has increased from 4.5% to 7.1%.
- Public equities came down from 4.5% to 2.5%; passive exposure was eliminated.
- Private Real Estate exposure grew from 0% to 4.7%.



Initiatives Since 2007: Natural Resources



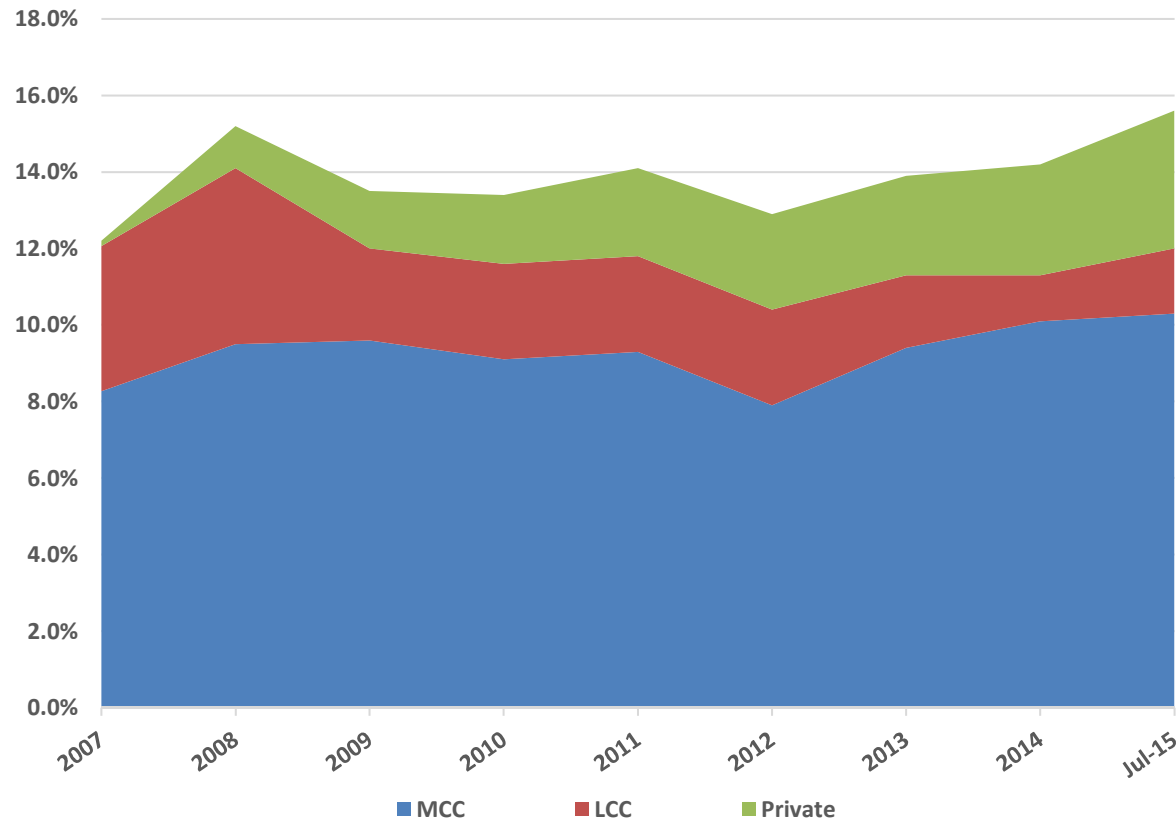
- Natural resources exposure more than doubled from 5.3% to 13.2%.
- Natural resources-related public equities increased from 1.2% to 2.1%.
- Commodities exposure remained around 2.5%, but transitioned from 100% passive to 100% active.
- A gold position was brought into the portfolio and now stands at 2.1%.
- Natural Resources-related private equity increased from 1.0% to 6.9%.



Initiatives Since 2007: Emerging Markets



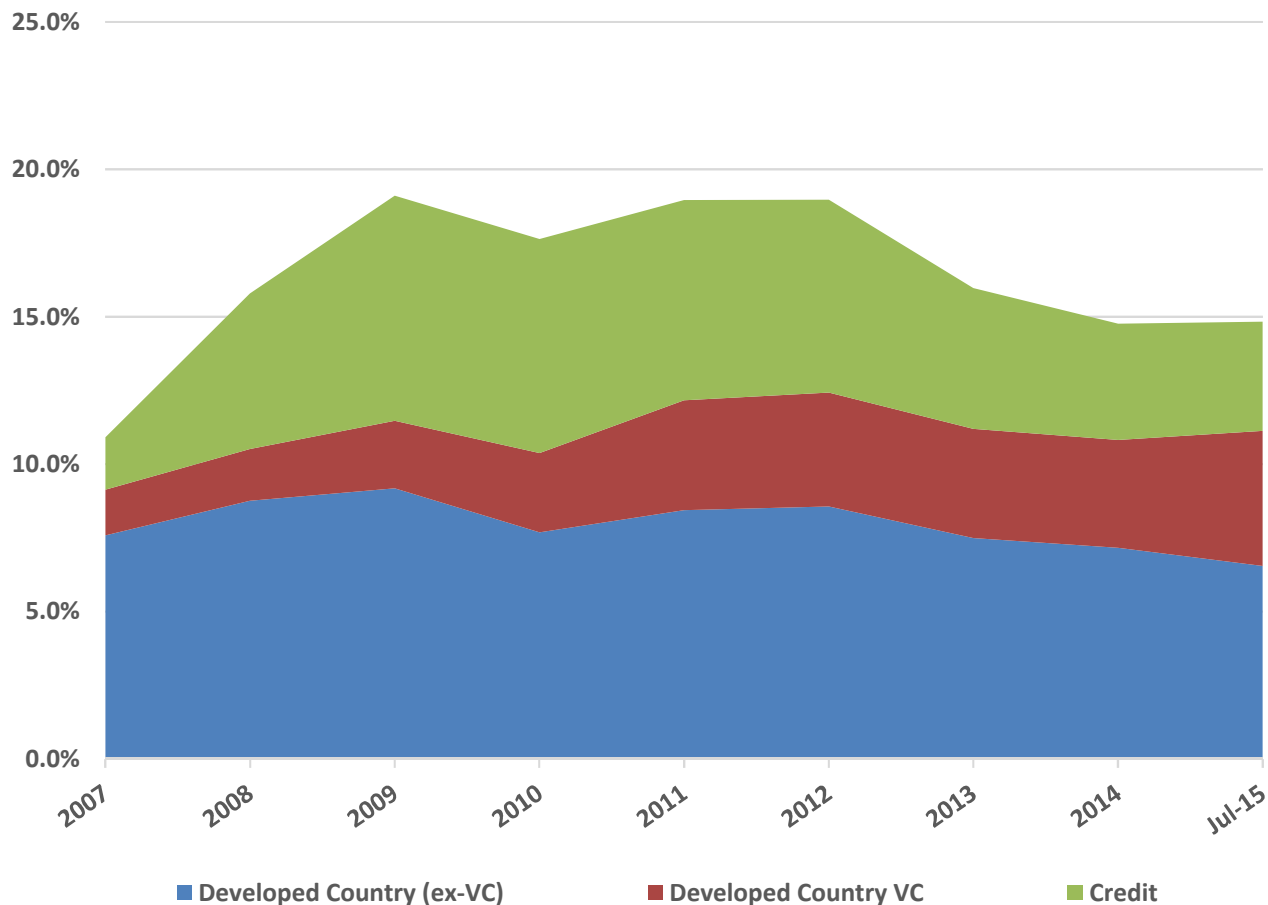
- Emerging Market exposure increased from 12.2% to 15.6%.
- In MCC, exposure has increased slightly from 8.3% to 10.3%.
- LCC declined from 3.8% to 1.7%
- Private Equity exposure grew from 0.1% to 3.6%.



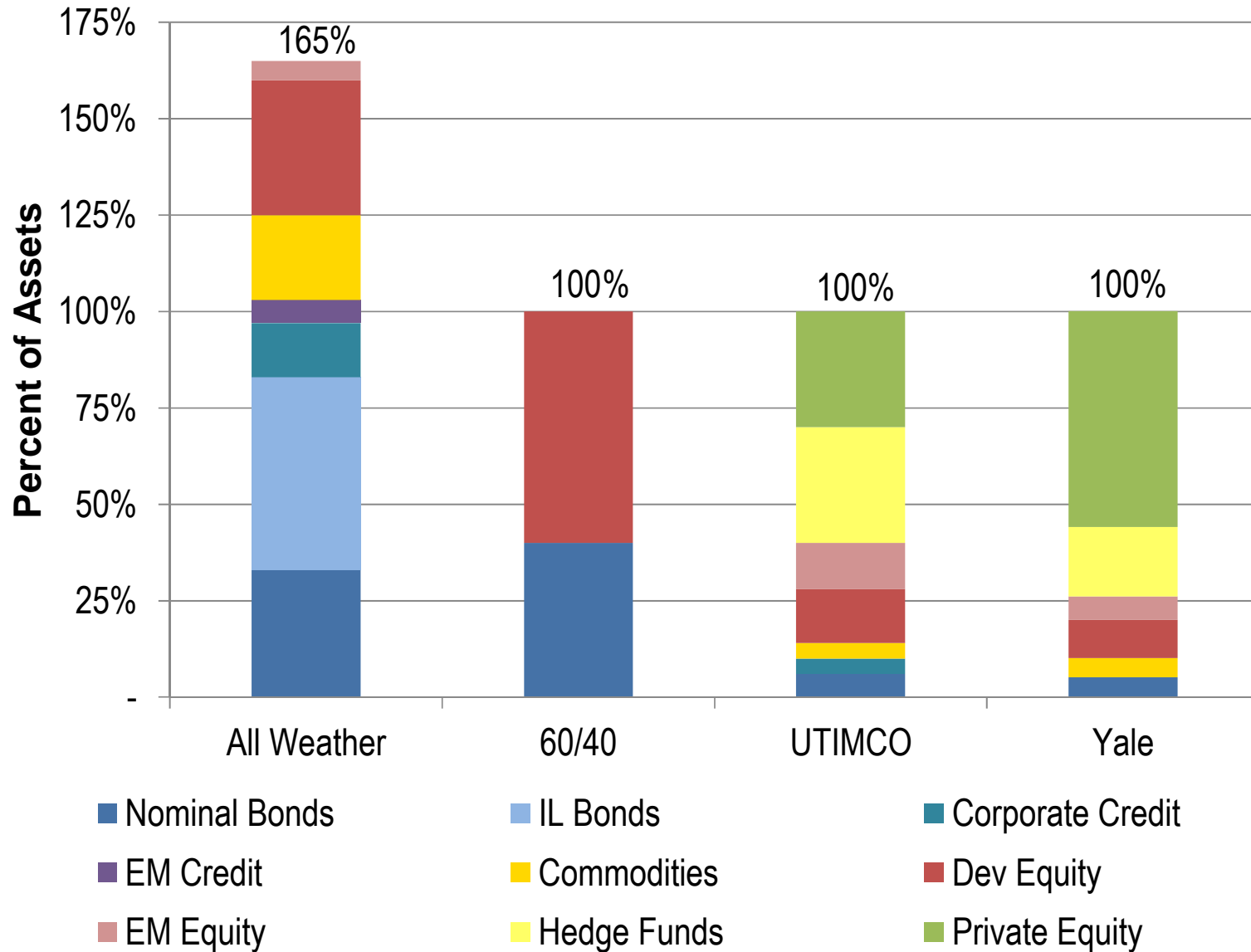
Initiatives Since 2007: Other Private Investments



- Other private investments exposure increased from 11% to 15%.
- The increase was due to Venture Capital (structural) and Credit (cyclical).



UTIMCO Asset Allocation Relative to the Three “Schools of Thought”

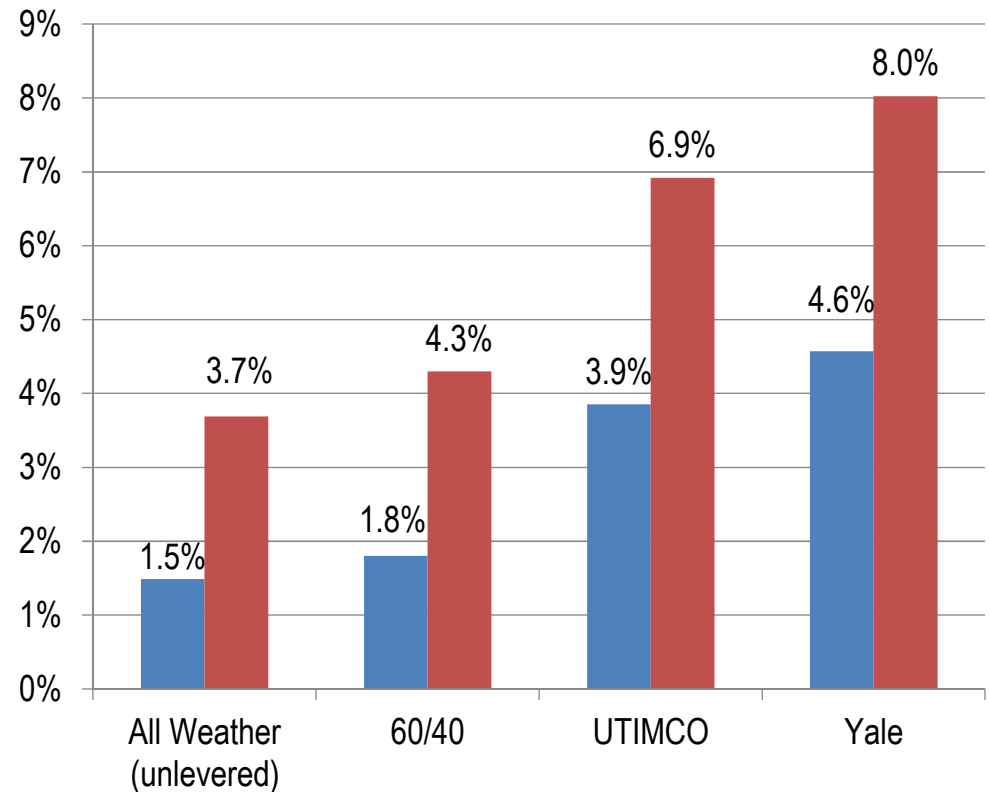


UTIMCO Returns Relative to the Three “Schools of Thought”



	Expected 3y Real Return	Expected LT Real Return
Nominal Bonds	0.75%	2.50%
IL Bonds	0.75%	2.50%
Corporate Credit	2.00%	3.00%
EM Credit	2.00%	5.00%
Commodities	1.50%	4.50%
Hedge Funds	3.25%	6.00%
Dev Equity	2.50%	5.50%
EM Equity	4.00%	7.50%
Private Equity	6.00%	10.00%

Expected Real Returns



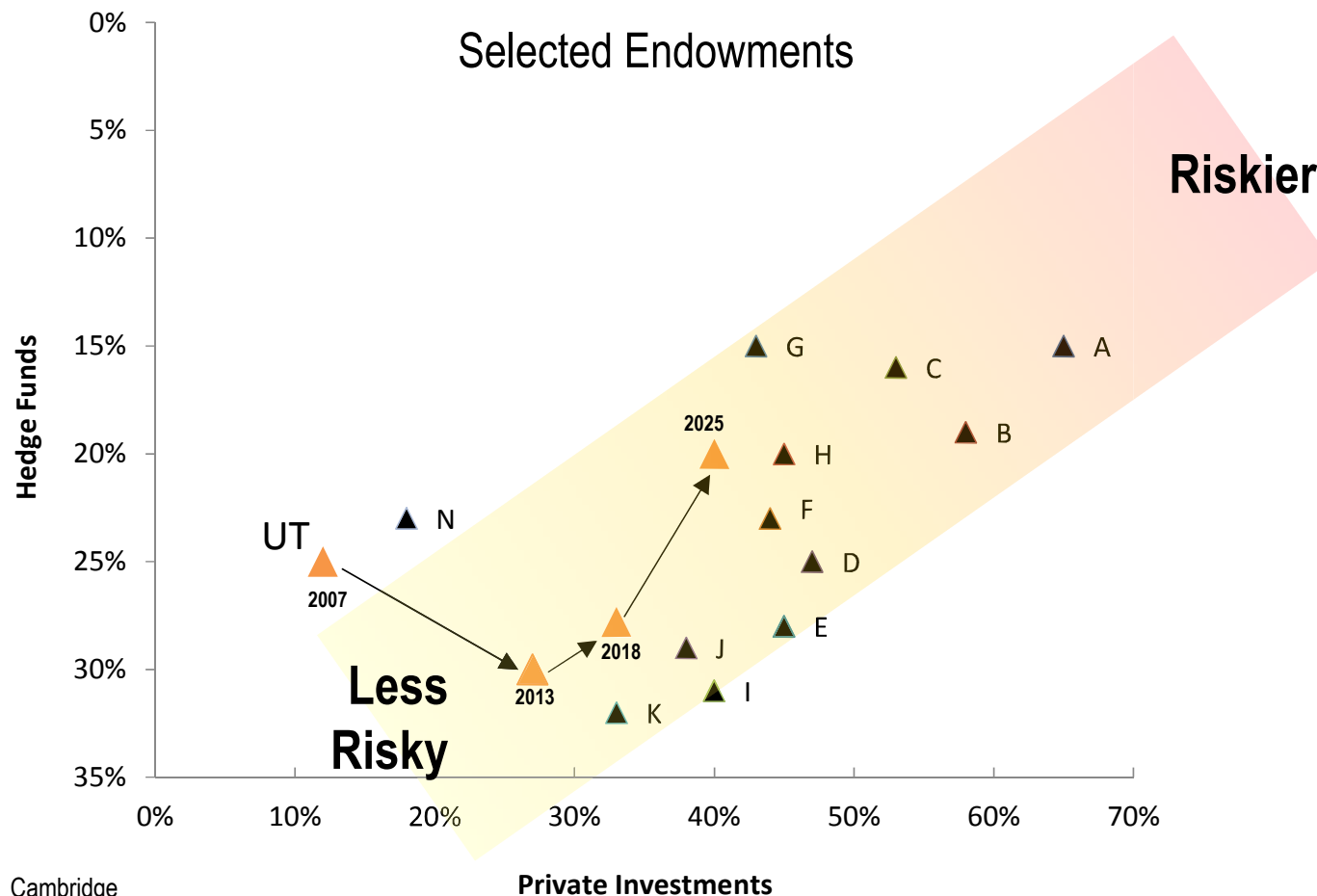
Equity Beta: 0.3 0.6 0.7 0.9
 Downside Volatility: 7.2% 9.7% 9.9% 10.6%

■ 3y Real Return ■ LT Real Return

UTIMCO Relative to Other Large US Endowments



- UTIMCO's Portfolio is one of the, if not the, least risky large U.S. university portfolios
- Increasing Private Investments and decreasing Hedge Fund exposure will position UTIMCO in the middle of the risk spectrum.



Source: Cambridge



IV. Annual Policy Review

Annual Policy Review



- The Investment Management Services Agreement (IMSA) between The University of Texas System Board of Regents (Regents) and The University of Texas Investment Management Company (UTIMCO) requires an annual review of all policies relating to investments (individually, the “Policy” or collectively the “Policies”)
- While a review is mandated, there is no requirement to alter any Policy
- These Policies include:

Investment Policy Statements (7)

- PUF Investment Policy
- GEF Investment Policy
 - PHF Investment Policy
 - LTF Investment Policy
- ITF Investment Policy
- Separately Invested Funds Investment Policy
- STF Investment Policy

Investment-Related Policies (2)

- Liquidity
- Derivative

Process-Related Policies (4)

- Delegation of Authority
- Proxy Voting
- Securities Lending
- Investment Performance Reporting Error Correction

Policy & Procedure (1)

- Soft Dollar

Procedures (2)

- Liquidity Calculation
- Mandate Categorization

Guidelines & Criteria (2)

- Alternative Asset Valuation
- Distributed Securities Liquidation

Policy Review Process



- UTIMCO Staff initiates the annual review of Policies.
- Investment Policy analysis encompasses, and ultimate recommendations are predicated on,:
 - Quantitative analytic models utilizing modern portfolio theory
 - Assessment of peer best practices
 - Review of current investment, portfolio management and economic thinking
 - Historic and current investment strategies, asset allocation and risk tolerance and appetite
 - Judgment predicated on knowledge and experience
- UTIMCO Staff presents its recommendations to the UTIMCO Board Policy Committee for consideration. UTIMCO Staff utilizes a joint Policy Committee/Risk Committee forum in order to enhance the review and discussion of the Staff's recommendations in light of the Risk Committee's expertise in investment matters.
- The Policy Committee, upon consideration and potential modification to Staff recommendations, recommends Policy changes to the UTIMCO Board for its review, discussion and decision-making.
- The UTIMCO Board, upon consideration and potential modification to the Policy Committee recommendations, recommends Policy changes to the Regents.
- The Regents, as the ultimate fiduciary for all assets managed by UTIMCO, upon consideration and potential modification to the UTIMCO Board's recommendations, ultimately determines all Policies.

Quantitative Analytic Models



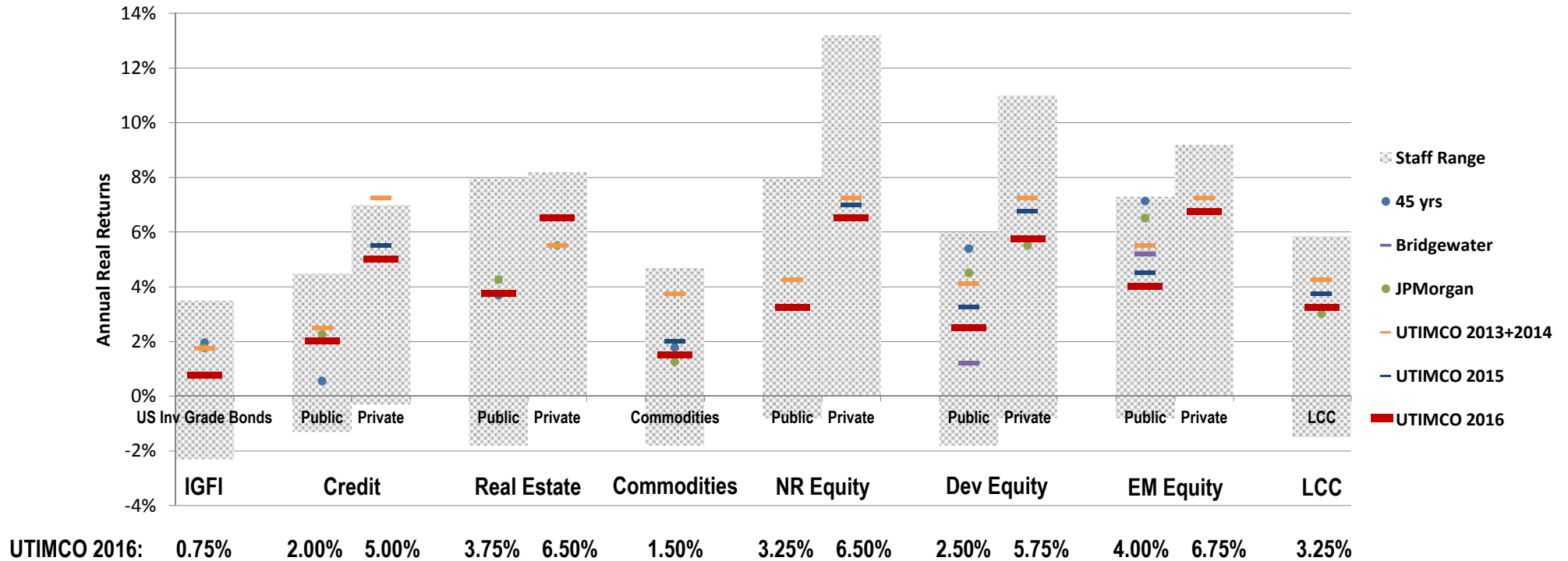
- UTIMCO has utilized quantitative analytic models for a number of years as one input in the development of its Policy recommendations
- These models produce “efficient frontiers” of optimal portfolio construction for any given level of return or volatility objectives
- These models rely on key assumptions about returns, risk as measured by historic volatility, and correlations for various asset classes and investment types
- These models are useful in assessing potential future outcomes but are limited by
 - Their reliance on volatility as a proxy for risk,
 - Their ability to fully capture the limitless factors that will affect future outcomes,
 - Their reliance on the assumptions used in the models which, without question, will not precisely predict an uncertain future, and
 - Their tendency to gravitate to “extreme” asset allocations
- More specifically, flaws in this approach include assumptions that
 - Future return scenarios are of normal distribution,
 - Correlations remain constant,
 - Do not take into account liquidity or leverage risk,
 - Do not take into account pragmatic considerations such as constraints on immediate liquidation of existing positions, or the ability / desirability to immediately gain exposure to certain asset classes / investment types, and
 - Do not take into account current asset price levels

Quantitative Analytic Models (Cont'd)



- Additionally, these models solve for a prescribed objective, whereas in fact, return and risk objectives can vary and be in conflict. Different objectives can include:
 - Meeting a certain return objective (e.g., a 50% probability of returning a 5% real return)
 - Maximizing the probability of meeting a certain minimum return objective (e.g., a 70% probability of returning at least a 5% real return)
 - Maximizing returns while minimizing the probability of a certain downside loss (e.g., no more than a 5% probability of losing 10% or more in any year)
- Staff believes that much of the value of utilizing these models lies in assessing various scenarios in order to ascertain “optimal” portfolio construction under differing environments and assumptions
- As such, Staff modeled a number of scenarios including:
 - Long term return assumptions (including Cambridge, Commonfund, and UTIMCO Staff assumptions)
 - Actual return experience since 1970
 - Shorter-term return assumptions (including JPMorgan and UTIMCO Staff assumptions)

Market Return Projections: (Three-year horizon; Real Returns)



Reasons to be Cautious about Shorter Term Market Returns

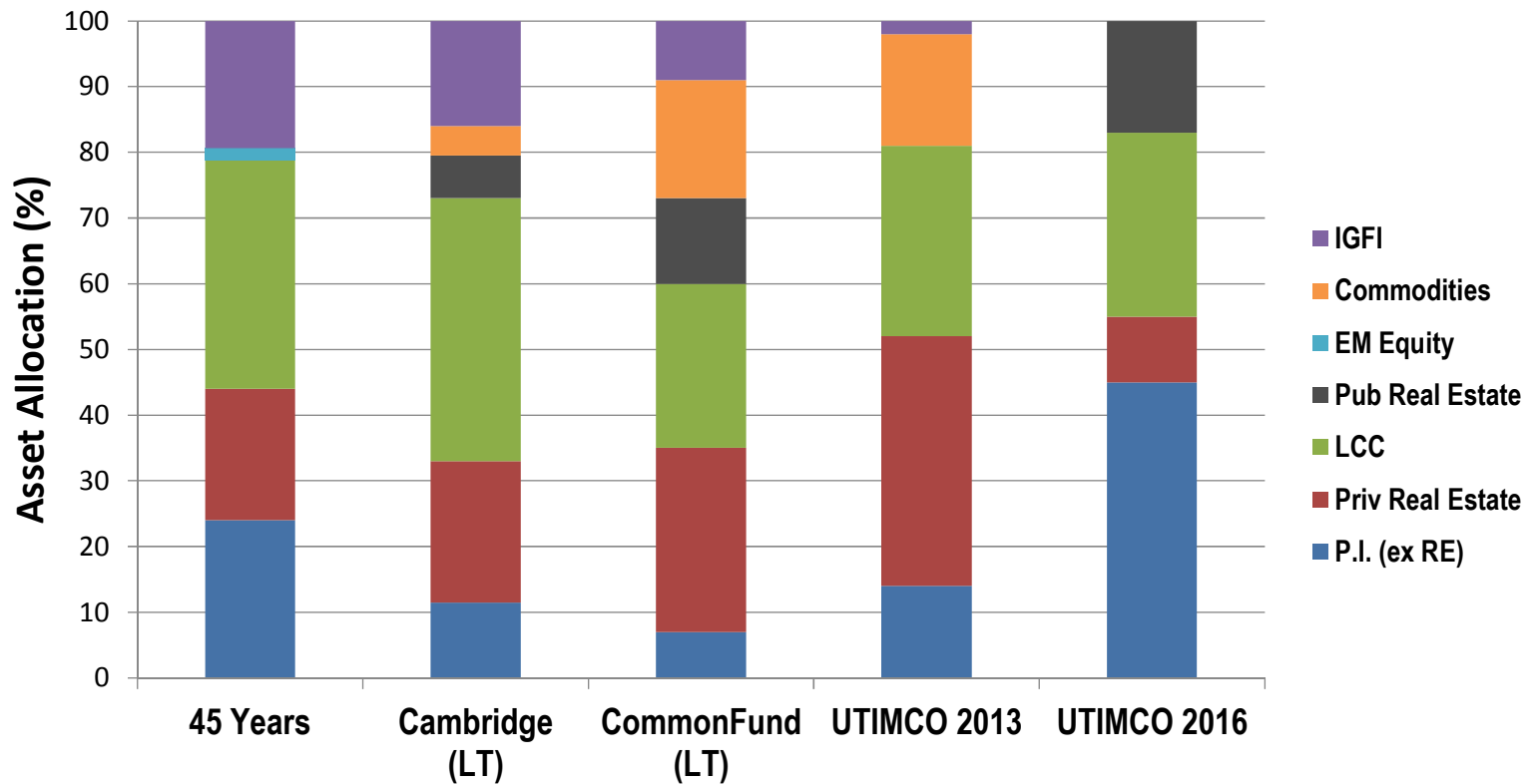


- Concerns
 - Increased leverage in the system has pulled future growth forward; this debt has been used more to finance consumption than investment
 - “Easy money” has increased asset prices
 - Future monetary stimulus will be unable to stimulate credit expansion and economic growth given high debt relative to income levels, low interest rates, and low spreads between cash rates and other asset yields
 - Falling commodity prices are leading to lower fixed investment in key sectors
- Mitigants
 - Household demand is still expanding, supported by strong employment and income growth
 - Reflation is supported by rising wages in global currency terms

Efficient Frontier Portfolios



- Objective: 5% Real Returns, with least Downside Volatility
- No constraints



Downside Volatility 7.6% 7.0% 7.6% 8.0% 10.5%

Unconstrained Efficient Frontier



- Unconstrained portfolios targeting a 5% real return call for
 - 30% – 65% private equity, including private real estate equity
 - 20% – 50% hedge funds
 - 7.5% – 33% real assets
 - No public equity

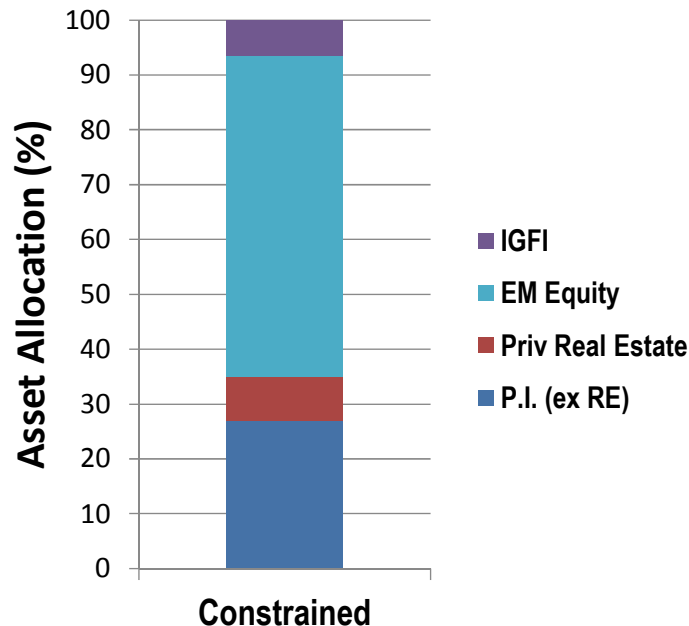
And have a downside volatility of 7-10.5%

- When the objective was to maximize returns and optimization was completely unconstrained, the model chose to allocate all assets to Private Investments
- Efficient frontier optimization tends to choose extreme solutions

Constrained Efficient Frontier



- To create a “constrained” efficient frontier, we imposed the following:
 - Minimum IFGI allocation (6.5%)
 - Maximum Private Equity allocation (35%)
- With constraints, 5% real is not achievable.
- The highest return is 4.9% which is reached by allocating the remaining 58.5% to emerging market equity.



- Given lower expected market returns over the next few years, active management value add or “alpha” will be required to meet a 5% real return.

Private Commitments



- Particularly in an environment of low projected returns, private investments—as the asset class with the highest expected returns—play a major role.
- When modeling asset allocation scenarios, incorporating private investments presents some difficulties, because the following factors that affect NAV are not directly controlled and are, therefore, unpredictable:
 - Capital Calls
 - Distributions
 - Endowments' total value
- We do, however, control private equity commitments, so we focus on this.
- To assist Staff in targeting private equity commitments in the context of a strategic asset allocation, projection models are utilized.

Commitment Model Example



Investment Return Assumptions		
	<u>3 year</u>	<u>10 year</u>
Privates	11.2%	11.9%
MCC	5.2%	6.7%
LCC	6.8%	7.2%

Scenarios					
	<u>Bear</u>	<u>Down</u>	<u>Base</u>	<u>Up</u>	<u>Bull</u>
Calls	16.2%	21.3%	31.7%	42.0%	47.1%
Distributions	4.7%	10.2%	25.7%	41.2%	49.0%
PI Returns	-14.3%	-5.8%	11.2%	28.3%	36.8%

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Net Payout	0.00%	0.20%	0.40%	0.60%	0.80%	1.00%	1.20%	1.40%	1.60%	1.80%	2.00%
Privates Appreciation	9.8%	11.2%	11.2%	11.2%	12.2%	12.2%	12.2%	12.2%	12.2%	12.2%	12.2%
MCC Return	-2.8%	5.2%	5.2%	5.2%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%
LCC Return	4.8%	6.8%	6.8%	6.8%	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%
Endowment Return	3.8%	7.5%	7.6%	7.6%	9.0%	9.0%	9.0%	9.1%	9.1%	9.2%	9.2%

Commitment Model Example



	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Beginning Unfunded	\$4,900	\$6,590	\$6,606	\$6,615	\$6,868	\$7,502	\$8,462	\$9,794	\$10,937	\$11,886	\$12,725
<u>Commitment Targets</u>											
Credit Related	265	200	200	250	300	350	425	475	525	550	550
Real Estate	750	575	575	600	725	850	1,050	1,100	1,125	1,175	1,175
Natural Resources	1,100	750	750	800	875	950	1,125	1,175	1,225	1,275	1,275
Developed Country	450	450	450	500	650	875	1,075	1,150	1,200	1,250	1,250
Developed Country VC	275	275	275	325	425	525	625	650	675	700	700
Emerging Markets	350	250	250	275	325	375	425	450	450	475	475
Total	3,190	2,500	2,500	2,750	3,300	3,925	4,725	5,000	5,200	5,425	5,425
<u>Capital Calls</u>											
Credit Related	\$151	\$291	\$272	\$227	\$258	\$302	\$357	\$418	\$471	\$514	\$538
Real Estate	360	548	556	566	595	653	742	842	923	991	1,046
Natural Resources	459	773	766	769	789	826	890	968	1,037	1,101	1,153
Developed Country	217	381	402	424	469	557	682	811	921	1,012	1,083
Developed Country VC	120	200	219	239	273	324	387	449	503	549	587
Emerging Markets	192	290	277	272	281	304	336	369	396	418	437
Total Capital Calls	\$1,499	\$2,484	\$2,492	\$2,496	\$2,666	\$2,966	\$3,393	\$3,857	\$4,251	\$4,585	\$4,844
<u>Distributions</u>											
Credit Related	\$264	\$405	\$458	\$418	\$388	\$311	\$394	\$435	\$513	\$593	\$673
Real Estate	344	248	337	418	492	567	646	735	837	944	1,054
Natural Resources	302	565	699	801	887	967	1,042	1,123	1,213	1,307	1,403
Developed Country	292	441	474	508	546	593	658	749	861	987	1,120
Developed Country VC	143	447	303	319	340	368	405	452	509	572	639
Emerging Markets	70	186	230	267	300	334	370	409	452	497	542
Total Distributions	\$1,415	\$2,291	\$2,502	\$2,732	\$2,953	\$3,140	\$3,514	\$3,903	\$4,384	\$4,900	\$5,431
Net Cash Flow	(\$84)	(\$192)	\$10	\$235	\$287	\$175	\$121	\$45	\$134	\$315	\$587
Ending Unfunded	\$6,590	\$6,606	\$6,615	\$6,868	\$7,502	\$8,462	\$9,794	\$10,937	\$11,886	\$12,725	\$13,307

Commitment Model Example



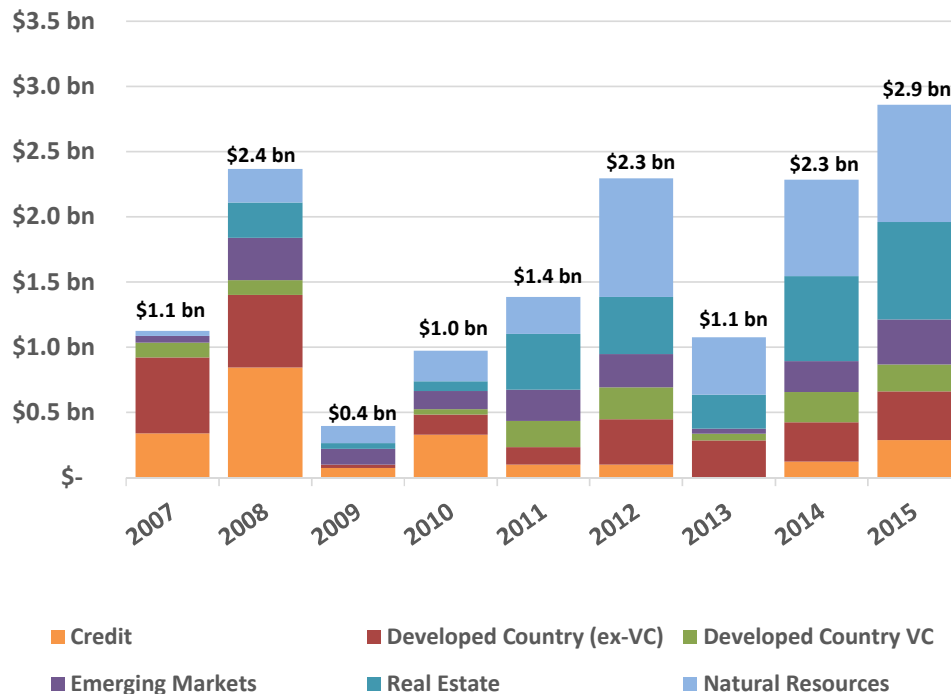
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
NAV:											
Credit Related	949	953	873	778	740	824	889	983	1,064	1,116	1,114
Real Estate	1,186	1,612	1,995	2,340	2,696	3,071	3,496	3,978	4,489	5,013	5,535
Natural Resources	1,785	2,206	2,530	2,785	3,035	3,271	3,525	3,808	4,105	4,407	4,701
Developed Country	1,671	1,796	1,925	2,057	2,236	2,481	2,821	3,246	3,720	4,218	4,715
Developed Country VC	1,525	1,437	1,513	1,601	1,734	1,906	2,129	2,396	2,694	3,011	3,337
Emerging Markets	<u>880</u>	<u>1,089</u>	<u>1,263</u>	<u>1,414</u>	<u>1,573</u>	<u>1,741</u>	<u>1,926</u>	<u>2,128</u>	<u>2,339</u>	<u>2,552</u>	<u>2,764</u>
Total Privates	<u>7,997</u>	<u>9,093</u>	<u>10,099</u>	<u>10,976</u>	<u>12,013</u>	<u>13,294</u>	<u>14,786</u>	<u>16,539</u>	<u>18,411</u>	<u>20,317</u>	<u>22,166</u>
Endowments	26,806	28,756	30,816	32,974	35,672	38,523	41,539	44,728	48,101	51,660	55,405
NAV as % of Endowments:											
Credit Related	3.5%	3.3%	2.8%	2.4%	2.1%	2.1%	2.1%	2.2%	2.2%	2.2%	2.0%
Real Estate	4.4%	5.6%	6.5%	7.1%	7.6%	8.0%	8.4%	8.9%	9.3%	9.7%	10.0%
Natural Resources	6.7%	7.7%	8.2%	8.4%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
Developed Country	6.2%	6.2%	6.2%	6.2%	6.3%	6.4%	6.8%	7.3%	7.7%	8.2%	8.5%
Developed Country VC	5.7%	5.0%	4.9%	4.9%	4.9%	4.9%	5.1%	5.4%	5.6%	5.8%	6.0%
Emerging Markets	<u>3.3%</u>	<u>3.8%</u>	<u>4.1%</u>	<u>4.3%</u>	<u>4.4%</u>	<u>4.5%</u>	<u>4.6%</u>	<u>4.8%</u>	<u>4.9%</u>	<u>4.9%</u>	<u>5.0%</u>
Total Privates	29.8%	31.6%	32.8%	33.3%	33.7%	34.5%	35.6%	37.0%	38.3%	39.3%	40.0%
Total LCC	30.0%	30.0%	29.0%	28.0%	27.0%	26.0%	25.0%	23.0%	22.0%	21.0%	20.0%
Total MCC	40.2%	38.4%	38.2%	38.7%	39.3%	39.5%	39.4%	40.0%	39.7%	39.7%	40.0%

Private Investments: UTIMCO Commitment History

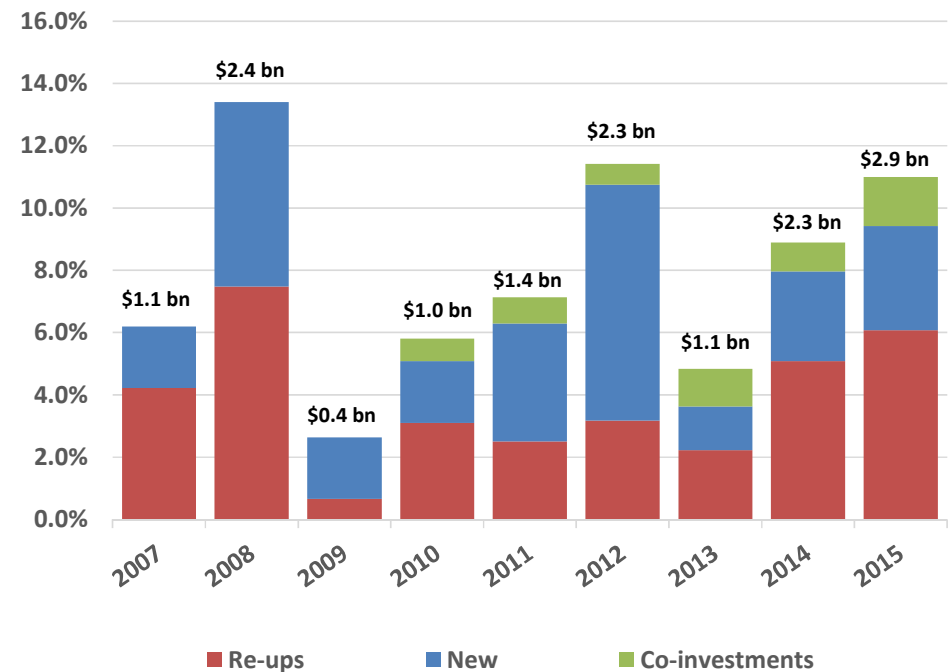


- Over 50% of commitments in recent years have been to Real Estate and Natural Resources investments as we have worked to build up these portfolios, in part to diversify other equity risk.
- In 2014 and YTD 2015 we reached our commitment targets only because many core partners returned to market.
- Co-investments that have a higher return hurdle have also become an increasing part of our strategy over the past several years.

Private Commitments by Asset Class



Private Commitments by Type

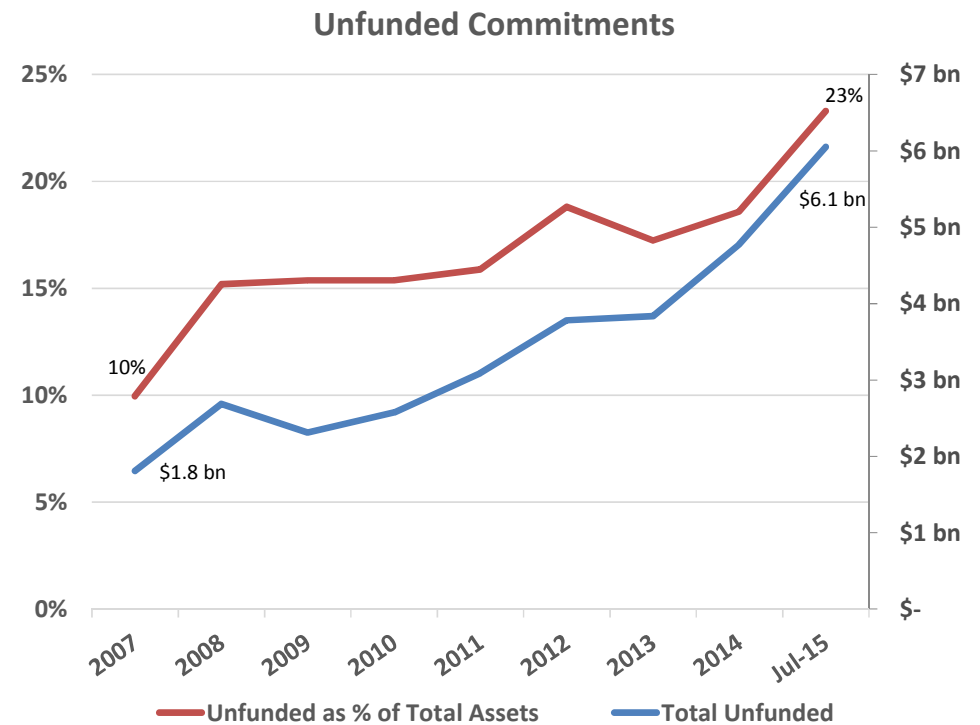
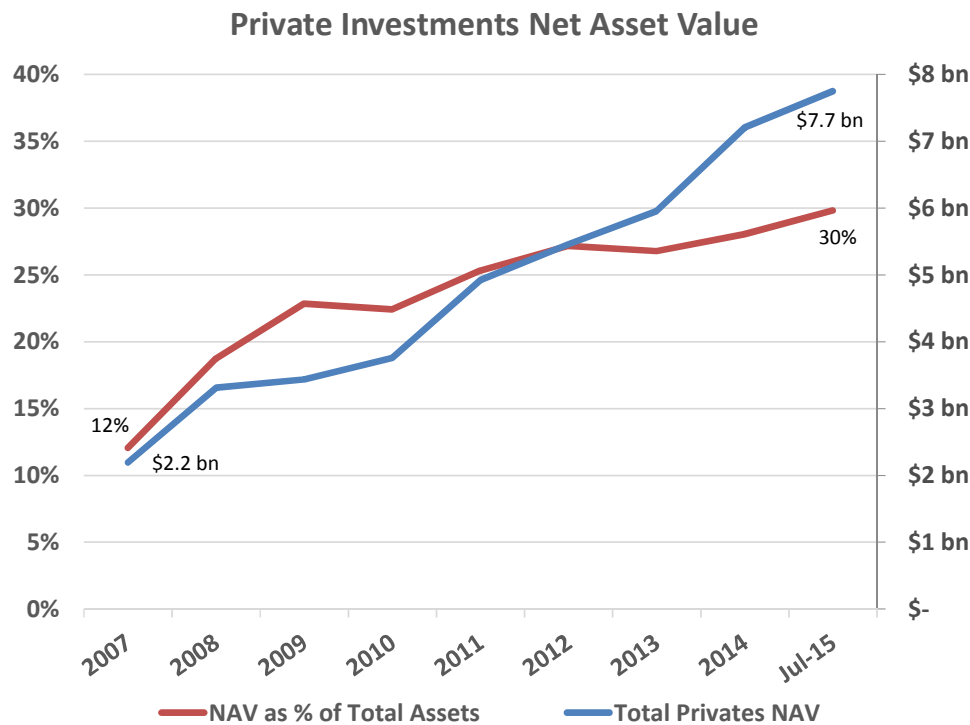


As of 7/31/2015

Private Investments: UTIMCO NAV & Unfunded History



- There has been steady growth in Private Investment net asset values and unfunded commitments.



As of 7/31/2015

UTIMCO Private Investments Commitment Strategy



- Staff believes it learned various lessons from the 2000-2007 private investment cycle and is striving to apply them to the current investment environment.
 - Having a percentage target for Private Investments can lead to pro-cyclical investing, because the denominator for the Endowments grows when markets rally, sometimes making the percentage of Private Investments shrink
 - Near the top of the Private Investment cycle, managers tend to both (a) make large distributions and (b) engage in significant fundraising.
 - Pro-cyclical investment hurts returns, so it is better to invest with a target commitment level (dollar amount) in mind rather than a percentage
 - Focus on making incremental investments related to areas of expertise
- Value-add initiatives in private investments include:
 - Increased focus on co-investment opportunities (at discounted fees) with trusted partners
 - Early sponsorship of new managers/platforms

“Insurance Hedging”



- The objective was to cushion potential fund losses in scenarios of significant downside shock
 - Unlikely to fully protect funds from losses
 - Impossible to completely anticipate potential scenarios
- Since inception of the “Insurance Hedging” program in FY 2009, the program has detracted 295 bps or \$590 million from performance.
- This outcome is as expected, given that no major “tail events” occurred during this time period (i.e., catastrophe insurance carries a negative cost and only pays off in event of a catastrophe)

	Cost of Insurance Hedging							
	2009	2010	2011	2012	2013	2014	FYTD 2015	Since Inception
Basis Points	7	(9)	(20)	(109)	(78)	(95)	9	(296)
\$ millions	12	(14)	(34)	(212)	(157)	(211)	23	(\$593)

as of 7/31/2015

- Staff takes a very cautious approach to hedging for catastrophe risk at this time.

Includes insurance hedges and derivative-based tactical allocation

Value Add or “Alpha”



- The models use market returns, and do not factor in the potential for skill-based added value or “alpha”
- Staff is incented to produce alpha, primarily through manager selection, and has done so over the past eight years

	Compensation Plan Alpha	
	Target (bps)	Max (bps)
<u>MCC</u>		
IGFI	25.0	62.5
Credit	37.5	100.0
Real Estate	62.5	150.0
Nat Resources	62.5	150.0
Dev Equity	62.5	150.0
EM Equity	62.5	150.0
<u>LCC</u>	75.0	250.0
<u>Private Investments</u>	150.0	450.0
Total - Endowments	100.0	250.0
Total - ITF	50.0	150.0

	GEF - Actual Alpha (bps)		
	Active Management	Tactical & Insurance	Total Value Add
FY2008	121	90	211
FY2009	135	85	220
FY2010	390	36	426
FY2011	288	(14)	274
FY2012	217	(220)	(3)
FY2013	201	(49)	152
FY2014	147	(93)	54
FYTD2015	219	(2)	217
Annual Average	215	(21)	194

As of 7/31/2015



V. Recommendations

CIO Proposal for FYE 2016 Endowment Targets



Slight adjustments from FYE 2015 targets.

		MCC	LCC	PI	TOTAL
Fixed Income	Investment Grade	6.5%	2.25%	0.0%	8.75%
	Credit Related	<u>0.0%</u>	<u>4.25%</u>	<u>3.5%</u>	<u>7.75%</u>
	Fixed Income Total	6.5%	6.5%	3.5%	16.5%
Real Assets	Real Estate	2.5%	0.5%	5.5%	8.5%
	Natural Resources	<u>7.5%</u>	<u>0.0%</u>	<u>7.5%</u>	<u>15.0%</u>
	Real Assets Total	10.0%	0.5%	13.0%	23.5%
Equity	Developed Country	14.0%	20.0%	11.0%	45.0%
	Emerging Market	<u>9.5%</u>	<u>2.0%</u>	<u>3.5%</u>	<u>15.0%</u>
	Equity Total	23.5%	22.0%	14.5%	60.0%
TOTAL		<u>40.0%</u>	<u>29.0%</u>	<u>31.0%</u>	<u>100.0%</u>

Figures in red indicate changes from FY 2015 targets

Projected FY 2016 Endowment Returns



	<u>Projected</u>	
	<u>2016</u>	<u>2015</u>
Real Market Return	3.9%	4.3%
Value Add	<u>1.0%</u>	<u>1.0%</u>
Real Return	4.9%	5.3%
Inflation	<u>1.5%</u>	<u>2.5%</u>
Nominal Return	<u><u>6.4%</u></u>	<u><u>7.8%</u></u>
Downside Volatility:	10.0%	9.7%
Liquidity:	37%	39%

CIO Proposal for FYE2016 ITF Targets



No change from FYE 2015 targets.

		MCC	LCC	TOTAL
Fixed Income	Investment Grade	30.0%	4.5%	34.5%
	Credit Related	<u>0.0%</u>	<u>7.5%</u>	<u>7.5%</u>
	Fixed Income Total	30.0%	12.0%	42.0%
Real Assets	Real Estate	3.0%	1.0%	4.0%
	Natural Resources	<u>7.0%</u>	<u>0.0%</u>	<u>7.0%</u>
	Real Assets Total	10.0%	1.0%	11.0%
Equity	Developed Country	9.0%	29.0%	38.0%
	Emerging Market	<u>6.0%</u>	<u>3.0%</u>	<u>9.0%</u>
	Equity Total	15.0%	32.0%	47.0%
TOTAL		<u>55.0%</u>	<u>45.0%</u>	<u>100.0%</u>

Projected FY 2016 ITF Returns



	<u>Projected</u>	
	<u>2016</u>	<u>2015</u>
Real Market Return	2.4%	2.8%
Value Add	<u>0.5%</u>	<u>0.5%</u>
Real Return	2.9%	3.3%
Inflation	<u>1.5%</u>	<u>2.5%</u>
Nominal Return	<u><u>4.4%</u></u>	<u><u>5.8%</u></u>
Downside Volatility:	6.1%	6.0%
Liquidity:	61%	61%

Other Policy Recommendations



PUF, GEF, ITF, PHF and LTF Investment Policies

- Clarify that percentage concentration limits in Investment Guidelines apply to More Correlated & Constrained Investments
- Clarify the timing of distributions from the PUF to AUF
- Change timing for valuation of assets to coincide with the close of books following month end (7-8 days)
- Clarify Investment Objective language

Derivative Investment Policy

- Confirm that managers may be allowed to use 2012 & 2013 Dodd Frank Protocols in place of a customized ISDA in limited circumstances

Separately Invested Funds Policy

- Change Investment Guidelines for Investment Grade and Credit Related Fixed Income to match GEF Investment Policy language

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

Purpose

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

PUF Organization

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

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

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

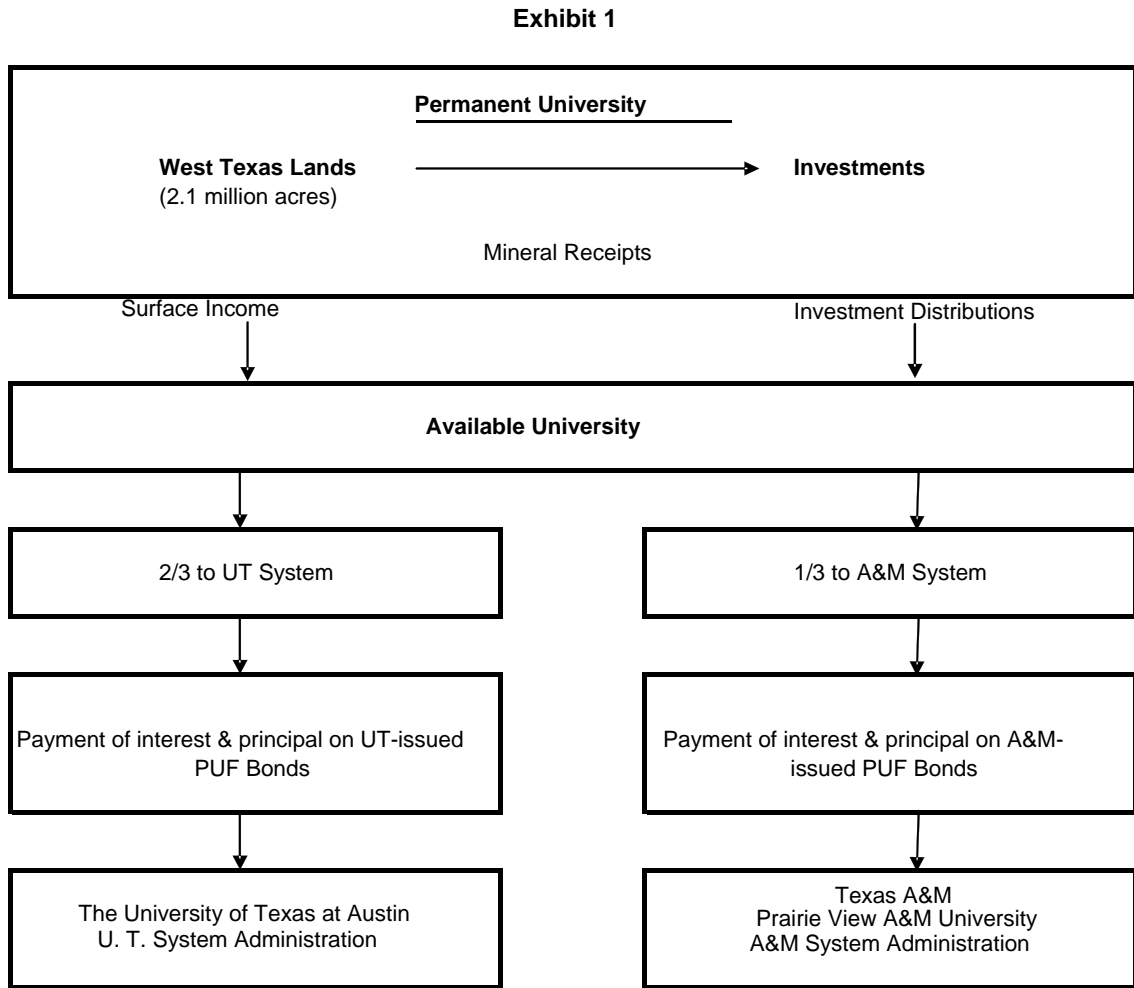
First, following a 2/3rds and 1/3rd allocation of AUF receipts to the U. T. System and the A&M System, respectively, AUF receipts are expended for debt service on PUF bonds. Article VII of the *Texas Constitution* authorizes the U. T. System Board of Regents (the “Board of Regents”) and the Texas A&M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

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

~~UTIMCO-08/21/2014~~

11/05/2015

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



PUF Management

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

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

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

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

PUF Administration

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

PUF Investment Objectives

The PUF and the General Endowment Fund (the “GEF”) are ~~pooled-managed similarly~~ for efficient investment purposes. The primary investment objective ~~for each fund of the PUF~~ shall be to preserve the purchasing power of fund assets and annual distributions by earning an average annual real return ~~after all expenses~~ over rolling ten-year periods or longer at least equal to the target distribution rate ~~of such fund determined by the Board of Regents pursuant to Regents’ Rule 80303, Section 2.2 after all expenses.~~ The current target distribution rate is 4.75%. ~~The target is subject to adjustment from time to time consistent with the primary investment objectives for the funds.~~ Investment returns are expressed net of all investment-related expenses. Additional expenses include U.T. System administrative fees charged to the fund.

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

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

Asset Class and Investment Type Allocation and Policy

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

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

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

Asset Classes:

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

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

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

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

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

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

Investment Types:

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

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

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

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

Performance Measurement

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

Investment Guidelines

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

Investment guidelines include the following:

General

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

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

MCC Investment Grade and Credit-Related Fixed Income

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

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

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

MCC

- Not more than 7.5% of the market value of equity and fixed income securities taken together may be invested in one corporation at cost.

PUF Distributions

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

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

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

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

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

Following approval of the distribution amount, distributions from the PUF to the AUF ~~may be quarterly or annually will be made~~ at the discretion of ~~UTIMCO Management~~management in consultation with the U.T. System Office of Finance and the Texas A&M System Office of Treasury Services.

PUF Accounting

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

Valuation of Assets

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all PUF net assets. Valuation of PUF assets shall be based on the books and records of the custodian for the valuation date. The final determination of PUF net assets for a month end close shall normally be completed

within ~~five~~-~~seven~~ business days but determination may be longer under certain circumstances. Valuation of alternative assets shall be determined in accordance with the UTIMCO Valuation Criteria for Alternative Assets as approved by the UTIMCO Board and then in effect.

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

Compliance

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

Securities Lending

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

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

Investor Responsibility

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

Amendment of Policy Statement

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

Effective Date

The effective date of this Policy shall be ~~September 1, 2014~~ December 1, 2015.

EXHIBIT A

ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES

EFFECTIVE SEPTEMBER 1, 2014 DECEMBER 1, 2015

POLICY PORTFOLIO	FYE 2015 2016		
	Min	Target	Max
Asset Classes			
Investment Grade Fixed Income	3.0%	9.0%	25.0%
Credit-Related Fixed Income	0.0%	8.5%	30.0%
Real Estate	0.0%	8.5%	12.5%
Natural Resources	5.0%	14.0%	25.0%
Developed Country Equity	30.0%	45.0%	60.0%
Emerging Markets Equity	8.0%	15.0%	25.0%
Investment Types			
More Correlated & Constrained	30.0%	40.0%	60.0%
Less Correlated & Constrained	25.0%	30.0% 29.0%	37.5%
Private Investments	20.0%	30.0% 31.0%	35.0% 40.0%

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

POLICY BENCHMARK (reset monthly)	FYE 2015 2016
Barclays Capital Global Aggregate Index	6.5%
FTSE EPRA/NAREIT Developed Index Net TRI USD	2.5%
33.4% Bloomberg Commodity Total Return Index, 33.3% MSCI World Natural Resources Index and 33.3% Gold Spot price (XAU)	7.5%
MSCI World Index with net dividends	14.0%
MSCI Emerging Markets with net dividends	9.5%
Hedge Fund Research Indices Fund of Funds Composite Index	30.0% 29.0%
Custom Cambridge Fund of Funds Benchmark	30.0% 31.0%

POLICY/TARGET RETURN/RISKS/ <u>DISTRIBUTION RATE</u>	FYE 2015 2016
<u>Target Distribution Rate*</u>	<u>5.0%</u>
Expected Annual <u>Real</u> Return (Benchmarks)**	<u>6.82%</u> 3.9%
One Year Downside <u>Deviation Volatility</u>	<u>9.67%</u> 10.0%
Risk Bounds	
Lower: 1 Year Downside <u>Deviation Volatility</u>	75%
Upper: 1 Year Downside <u>Deviation Volatility</u>	115%

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



*Approved by Board of Regents on May 14, 2015.

EXHIBIT A
(continued)

ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE ~~SEPTEMBER 1, 2014~~ DECEMBER 1, 2015

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE ~~2015~~ 2016

FYE 2015 2016		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	Investment Grade	Barclays Capital Global Aggregate Index (6.5%)	2.5% 2.25%	0.0%	9.0% 8.75%
	Credit-Related	0.00%	5% 4.25%	3.5%	8.5% 7.75%
Real Assets	Real Estate	FTSE EPRA/NAREIT Developed Index Net TRI USD (2.5%)	0.5%	5.5%	8.5%
	Natural Resources	33.4% Bloomberg Commodity Total Return Index, 33.3% MSCI World Natural Resources Index and 33.3% Gold Spot price (XAU) (7.5%)	0.0%	6.5% 7.5%	14.0% 15.0%
Equity	Developed Country	MSCI World Index with Net Dividends (14.0%)	20.0%	11.0%	45.0%
	Emerging Markets	MSCI EM Index with Net Dividends (9.5%)	2.0%	3.5%	15.0%
Total		40.0%	30.0% 29.0%	30.0% 31.0%	100.0%

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

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

THE UNIVERSITY OF TEXAS SYSTEM GENERAL ENDOWMENT FUND INVESTMENT POLICY STATEMENT

Purpose

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

GEF Organization

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

GEF Management

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

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

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

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

GEF Administration

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

Funds Eligible to Purchase GEF Units

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

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

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

GEF Investment Objectives

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

UTIMCO ~~08/21/2014~~ 11/05/2015

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

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

Asset Class and Investment Type Allocation and Policy

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

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

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

Asset Classes:

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

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

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

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

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

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

Investment Types:

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

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

| Private Investments (“PI”) – Mandates that invest primarily in non-public securities and typically entail capital commitments, calls and distributions.

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

Performance Measurement

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

Investment Guidelines

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

Investment guidelines include the following:

General

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

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

MCC Investment Grade and Credit-Related Fixed Income

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

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

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

MCC

- Not more than 7.5% of the market value of equity and fixed income securities taken together may be invested in one corporation at cost.

GEF Accounting

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

Valuation of Assets

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

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

Compliance

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

Purchase of GEF Units

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

Redemption of GEF Units

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

Securities Lending

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

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

Investor Responsibility

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

Amendment of Policy Statement

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

Effective Date

The effective date of this Policy shall be ~~September 1, 2014~~December 1, 2015.

EXHIBIT A

ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES

EFFECTIVE ~~SEPTEMBER 1, 2014~~ DECEMBER 1, 2015

POLICY PORTFOLIO	FYE 2015 <u>2016</u>		
	Min	Target	Max
Asset Classes			
Investment Grade Fixed Income	3.0%	9.0%	25.0%
Credit-Related Fixed Income	0.0%	8.5%	30.0%
Real Estate	0.0%	8.5%	12.5%
Natural Resources	5.0%	14.0%	25.0%
Developed Country Equity	30.0%	45.0%	60.0%
Emerging Markets Equity	8.0%	15.0%	25.0%
Investment Types			
More Correlated & Constrained	30.0%	40.0%	60.0%
Less Correlated & Constrained	25.0%	30.0% <u>29.0%</u>	37.5%
Private Investments	20.0%	30.0% <u>31.0%</u>	35.0% <u>40.0%</u>

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

POLICY BENCHMARK (reset monthly)	FYE 2015 <u>2016</u>
Barclays Capital Global Aggregate Index	6.5%
FTSE EPRA/NAREIT Developed Index Net TRI USD	2.5%
33.4% Bloomberg Commodity Total Return Index, 33.3% MSCI World Natural Resources Index and 33.3% Gold Spot price (XAU)	7.5%
MSCI World Index with net dividends	14.0%
MSCI Emerging Markets with net dividends	9.5%
Hedge Fund Research Indices Fund of Funds Composite Index	30.0% <u>29.0%</u>
Custom Cambridge Fund of Funds Benchmark	30.0% <u>31.0%</u>

POLICY/TARGET RETURN/RISKS/ <u>DISTRIBUTION RATE</u>	FYE 2015 <u>2016</u>
<u>PHF Target Distribution Rate*</u>	<u>4.8%</u>
<u>LTF Target Distribution Rate*</u>	<u>5.1%</u>
Expected Annual <u>Real</u> Return (Benchmarks) <u>**</u>	6.82% <u>3.9%</u>
One Year Downside <u>Deviation Volatility</u>	9.67% <u>10.0%</u>
Risk Bounds	
Lower: 1 Year Downside <u>Deviation Volatility</u>	75%
Upper: 1 Year Downside <u>Deviation Volatility</u>	115%

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


*Approved by Board of Regents on May 14, 2015.

EXHIBIT A
(continued)

ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE ~~SEPTEMBER 1, 2014~~ DECEMBER 1, 2015

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE ~~2015~~ 2016

FYE 2015 2016		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	Investment Grade	Barclays Capital Global Aggregate Index (6.5%)	2.5% 2.25%	0.0%	9.0% 8.75%
	Credit-Related	0.00%	5% 4.25%	3.5%	8.5% 7.75%
Real Assets	Real Estate	FTSE EPRA/NAREIT Developed Index Net TRI USD (2.5%)	0.5%	5.5%	8.5%
	Natural Resources	33.4% Bloomberg Commodity Total Return Index, 33.3% MSCI World Natural Resources Index and 33.3% Gold Spot price (XAU) (7.5%)	0.0%	6.5% 7.5%	14.0% 15.0%
Equity	Developed Country	MSCI World Index with Net Dividends (14.0%)	20.0%	11.0%	45.0%
	Emerging Markets	MSCI EM Index with Net Dividends (9.5%)	2.0%	3.5%	15.0%
Total		40.0%	30.0% 29.0%	30.0% 31.0%	100.0%

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

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

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

Purpose

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

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

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

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

PHF Organization

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

PHF Management

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

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

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

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

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

PHF Administration

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

Funds Eligible to Purchase PHF Units

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

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

PHF Investment Objectives

The primary investment objective shall be to preserve the purchasing power of PHF assets and annual distributions by earning an average annual real return after all expenses over rolling ten-year periods or longer at least equal to the target distribution rate, ~~plus the annual expected expense as determined by the Board of Regents. The current target rate is 5.2%. The target is subject to adjustment from time to time consistent with the primary investment objective of the PHF.~~ Investment returns are expressed net of all investment-related expenses. Additional expenses include U.T. System administrative fees charged to the fund. The PHF's success in meeting its objectives depends upon its ability to generate high returns in periods of low inflation that will offset lower returns generated in years when the capital markets underperform the rate of inflation.

Asset Allocation and Policy

PHF assets shall be allocated among the following investments:

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

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

Performance Measurement

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

Investment Guidelines

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

PHF Distributions

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

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

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

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

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

PHF Accounting

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

Valuation of Assets

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

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

Compliance

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

Purchase of PHF Units

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

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

Redemption of PHF Units

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

Investor Responsibility

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

Amendment of Policy Statement

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

Effective Date

The effective date of this Policy shall be ~~September 1, 2014~~December 1, 2015.

EXHIBIT A

PHF ASSET ALLOCATION

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

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

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

*3 trading days or less

EXHIBIT B - GENERAL ENDOWMENT FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES
EFFECTIVE SEPTEMBER 1, 2014 DECEMBER 1, 2015

POLICY PORTFOLIO	FYE 2015 2016		
	Min	Target	Max
Asset Classes			
Investment Grade Fixed Income	3.0%	9.0%	25.0%
Credit-Related Fixed Income	0.0%	8.5%	30.0%
Real Estate	0.0%	8.5%	12.5%
Natural Resources	5.0%	14.0%	25.0%
Developed Country Equity	30.0%	45.0%	60.0%
Emerging Markets Equity	8.0%	15.0%	25.0%
Investment Types			
More Correlated & Constrained	30.0%	40.0%	60.0%
Less Correlated & Constrained	25.0%	30.0% 29.0%	37.5%
Private Investments	20.0%	30.0% 31.0%	35.0% 40.0%

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

POLICY BENCHMARK (reset monthly)	FYE 2015 2016
Barclays Capital Global Aggregate Index	6.5%
FTSE EPRA/NAREIT Developed Index Net TRI USD	2.5%
33.4% Bloomberg Commodity Total Return Index, 33.3% MSCI World Natural Resources Index and 33.3% Gold Spot price (XAU)	7.5%
MSCI World Index with net dividends	14.0%
MSCI Emerging Markets with net dividends	9.5%
Hedge Fund Research Indices Fund of Funds Composite Index	30.0% 29.0%
Custom Cambridge Fund of Funds Benchmark	30.0% 31.0%

POLICY/TARGET RETURN/RISKS/ <u>DISTRIBUTION RATE</u>	FYE 2015 2016
<u>PHF Target Distribution Rate*</u>	<u>4.8%</u>
<u>LTF Target Distribution Rate*</u>	<u>5.1%</u>
Expected Annual <u>Real</u> Return (Benchmarks)**	<u>6.82%</u> 3.9%
One Year Downside <u>Deviation Volatility</u>	<u>9.67%</u> 10.0%
Risk Bounds	
Lower: 1 Year Downside <u>Deviation Volatility</u>	75%
Upper: 1 Year Downside <u>Deviation Volatility</u>	115%

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

*Approved by Board of Regents on May 14, 2015.

EXHIBIT B
(continued)
GENERAL ENDOWMENT FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE ~~SEPTEMBER 1, 2014~~ DECEMBER 1, 2015

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE ~~2015~~ 2016

FYE 2015 2016		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	Investment Grade	Barclays Capital Global Aggregate Index (6.5%)	2.5% 2.25%	0.0%	9.0% 8.75%
	Credit-Related	0.00%	5% 4.25%	3.5%	8.5% 7.75%
Real Assets	Real Estate	FTSE EPRA/NAREIT Developed Index Net TRI USD (2.5%)	0.5%	5.5%	8.5%
	Natural Resources	33.4% Bloomberg Commodity Total Return Index, 33.3% MSCI World Natural Resources Index and 33.3% Gold Spot price (XAU) (7.5%)	0.0%	6.5% 7.5%	14.0% 15.0%
Equity	Developed Country	MSCI World Index with Net Dividends (14.0%)	20.0%	11.0%	45.0%
	Emerging Markets	MSCI EM Index with Net Dividends (9.5%)	2.0%	3.5%	15.0%
Total		40.0%	30.0% 29.0%	30.0% 31.0%	100.0%

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

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

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

Purpose

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

LTF Organization

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

LTF Management

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

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

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

LTF Administration

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

Funds Eligible to Purchase LTF Units

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

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

LTF Investment Objectives

The primary investment objective shall be to preserve the purchasing power of LTF assets and annual distributions by earning an average annual real return after all expenses over rolling ten-year periods or longer at least equal to the target distribution rate, ~~plus the annual expected expense as determined by the Board of Regents. The current target rate is 5.2%. The target is subject to adjustment from time to time consistent with the primary investment objective of the LTF.~~ Investment returns are expressed net of all investment-related expenses. Additional expenses include U.T. System administrative fees charged to the fund. The LTF’s success in meeting its objectives depends upon its ability to generate high returns in periods of low inflation that will offset lower returns generated in years when the capital markets underperform the rate of inflation.

Asset Allocation and Policy

LTF assets shall be allocated among the following investments.

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

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

Performance Measurement

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

Investment Guidelines

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

LTF Distributions

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

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

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

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

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

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

LTF Accounting

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

Valuation of Assets

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

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

Compliance

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

Purchase of LTF Units

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

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

Redemption of LTF Units

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

Investor Responsibility

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

Amendment of Policy Statement

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

Effective Date

The effective date of this Policy shall be ~~September 1, 2014~~December 1, 2015.

EXHIBIT A

LTF ASSET ALLOCATION

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

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

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

*3 trading days or less

EXHIBIT B - GENERAL ENDOWMENT FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES
 EFFECTIVE ~~SEPTEMBER 1, 2014~~ **DECEMBER 1, 2015**

POLICY PORTFOLIO	FYE 2015 2016		
	Min	Target	Max
Asset Classes			
Investment Grade Fixed Income	3.0%	9.0%	25.0%
Credit-Related Fixed Income	0.0%	8.5%	30.0%
Real Estate	0.0%	8.5%	12.5%
Natural Resources	5.0%	14.0%	25.0%
Developed Country Equity	30.0%	45.0%	60.0%
Emerging Markets Equity	8.0%	15.0%	25.0%
Investment Types			
More Correlated & Constrained	30.0%	40.0%	60.0%
Less Correlated & Constrained	25.0%	30.0% 29.0%	37.5%
Private Investments	20.0%	30.0% 31.0%	35.0% 40.0%

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

POLICY BENCHMARK (reset monthly)	FYE 2015 2016
Barclays Capital Global Aggregate Index	6.5%
FTSE EPRA/NAREIT Developed Index Net TRI USD	2.5%
33.4% Bloomberg Commodity Total Return Index, 33.3% MSCI World Natural Resources Index and 33.3% Gold Spot price (XAU)	7.5%
MSCI World Index with net dividends	14.0%
MSCI Emerging Markets with net dividends	9.5%
Hedge Fund Research Indices Fund of Funds Composite Index	30.0% 29.0%
Custom Cambridge Fund of Funds Benchmark	30.0% 31.0%

POLICY/TARGET RETURN/RISKS/DISTRIBUTION RATE	FYE 2015 2016
PHF Target Distribution Rate*	4.8%
LTF Target Distribution Rate*	5.1%
Expected Annual <u>Real</u> Return (Benchmarks)**	6.82% 3.9%
One Year Downside <u>Deviation Volatility</u>	9.67% 10.0%
Risk Bounds	
Lower: 1 Year Downside <u>Deviation Volatility</u>	75%
Upper: 1 Year Downside <u>Deviation Volatility</u>	115%

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

*Approved by Board of Regents on May 14, 2015.

EXHIBIT B
(continued)
GENERAL ENDOWMENT FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE ~~SEPTEMBER 1, 2014~~ DECEMBER 1, 2015

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE ~~2015~~ 2016

FYE 2015 2016		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	Investment Grade	Barclays Capital Global Aggregate Index (6.5%)	2.5% 2.25%	0.0%	9.0% 8.75%
	Credit-Related	0.00%	5% 4.25%	3.5%	8.5% 7.75%
Real Assets	Real Estate	FTSE EPRA/NAREIT Developed Index Net TRI USD (2.5%)	0.5%	5.5%	8.5%
	Natural Resources	33.4% Bloomberg Commodity Total Return Index, 33.3% MSCI World Natural Resources Index and 33.3% Gold Spot price (XAU) (7.5%)	0.0%	6.5% 7.5%	14.0% 15.0%
Equity	Developed Country	MSCI World Index with Net Dividends (14.0%)	20.0%	11.0%	45.0%
	Emerging Markets	MSCI EM Index with Net Dividends (9.5%)	2.0%	3.5%	15.0%
Total		40.0%	30.0% 29.0%	30.0% 31.0%	100.0%

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

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

THE UNIVERSITY OF TEXAS SYSTEM INTERMEDIATE TERM FUND INVESTMENT POLICY STATEMENT

Purpose and Structure

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

ITF Organization

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

ITF Management

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

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

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

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

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

ITF Administration

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

Funds Eligible to Purchase ITF Units

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

ITF Investment Objectives

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

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

The secondary investment objective is to generate average annual returns net of all investment-related expenses, in excess of the approved Policy Portfolio over rolling five-year periods. Investment returns are expressed net of all investment-related expenses. Additional expenses include U.T. System administrative fees charged to the fund.

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

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

Asset Class and Investment Type Allocation and Policy

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

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

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

Asset Classes:

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

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

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

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

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

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

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

Investment Types:

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

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

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

Performance Measurement

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

Investment Guidelines

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

General

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

MCC Investment Grade and Credit-Related Fixed Income

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

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

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

MCC

- Not more than 7.5% of the market value of equity and fixed income securities taken together may be invested in one corporation at cost.

ITF Accounting

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

Valuation of ITF Assets

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

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

Compliance

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

ITF Distributions

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

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

Purchase and Redemption of ITF Units

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

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

Securities Lending

The ITF may participate in a securities lending contract with a bank or non-bank security lending agent for purposes of realizing additional income. Loans of securities by the ITF shall be collateralized by cash, letters of credit, or securities issued or guaranteed by the U.S. Government or its agencies. The collateral will equal at least 100% of the current market value of the loaned securities. The

contract shall state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and collateral, acceptable investment of collateral and indemnification provisions. The contract may include other provisions as appropriate.

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

Investor Responsibility

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

Amendment of Policy Statement

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

Effective Date

The effective date of this Policy shall be ~~September 1, 2014~~ December 1, 2015.

Intermediate Term Fund Investment Policy Statement (continued)

EXHIBIT A - INTERMEDIATE TERM FUND
 ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES
 EFFECTIVE ~~SEPTEMBER 1, 2014~~ DECEMBER 1, 2015

POLICY PORTFOLIO	FYE 2015 <u>2016</u>		
	Min	Target	Max
Asset Classes			
Investment Grade Fixed Income	20.0%	34.5%	50.0%
Credit-Related Fixed Income	0.0%	7.5%	12.0%
Real Estate	0.0%	4.0%	10.0%
Natural Resources	2.5%	7.0%	20.0%
Developed Country Equity	20.0%	38.0%	50.0%
Emerging Markets Equity	2.5%	9.0%	17.5%
Investment Types			
More Correlated & Constrained	45.0%	55.0%	65.0%
Less Correlated & Constrained	35.0%	45.0%	55.0%

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

POLICY BENCHMARK (reset monthly)	FYE 2015 <u>2016</u>
Barclays Capital Global Aggregate Index	30.0%
FTSE EPRA/NAREIT Developed Index Net TRI USD	3.0%
33.4% Bloomberg Commodity Total Return Index, 33.3% MSCI World Natural Resources Index and 33.3% Gold Spot price (XAU)	7.0%
MSCI World Index with net dividends	9.0%
MSCI Emerging Markets with net dividends	6.0%
Hedge Fund Research Indices Fund of Funds Composite Index	45.0%

POLICY/TARGET RETURN/RISKS	FYE 2015 <u>2016</u>
Expected Annual <u>Real</u> Return (Benchmarks)**	5.28% <u>2.4%</u>
One Year Downside <u>Deviation Volatility</u>	5.96% <u>6.1%</u>
Risk Bounds	
Lower: 1 Year Downside <u>Deviation Volatility</u>	70%
Upper: 1 Year Downside <u>Deviation Volatility</u>	115%

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

EXHIBIT A - INTERMEDIATE TERM FUND


(continued)

ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES

EFFECTIVE DATE ~~SEPTEMBER 1, 2014~~ **DECEMBER 1, 2015**

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE ~~2015~~ **2016**

FYE 2015 2016		More Correlated & Constrained	Less Correlated & Constrained	Total
Fixed Income	Investment Grade	Barclays Capital Global Aggregate Index (30.0%)	4.5%	34.5%
	Credit-Related	(0.0%)	7.5%	7.5%
Real Assets	Real Estate	FTSE EPRA/NAREIT Developed Index Net TRI USD (3.0%)	1.0%	4.0%
	Natural Resources	33.4% Bloomberg Commodity Total Return Index, 33.3% MSCI World Natural Resources Index and 33.3% Gold Spot price (XAU) (7.0%)	0.0%	7.0%
Equity	Developed Country	MSCI World Index with Net Dividends (9.0%)	29.0%	38.0%
	Emerging Markets	MSCI EM Index with Net Dividends (6.0%)	3.0%	9.0%
Total		55.0%	45.0%	100.0%

 Hedge Fund Research Indices Fund of Funds Composite Index

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

THE UNIVERSITY OF TEXAS SYSTEM SEPARATELY INVESTED FUNDS INVESTMENT POLICY STATEMENT

Purpose

The Separately Invested Funds (the "Accounts") include the Endowment, Trust, Debt Proceeds, and Other Accounts established in the name of the Board of Regents of The University of Texas System (the "Board of Regents"), and are Accounts which are not solely invested in one of the pooled investment vehicles. These Accounts are not invested in the pooled investment vehicle because: a) they are charitable trusts; b) of investment restrictions incorporated into the trust/endowment document; c) of the inability to sell the gifted investment asset; d) they are assets being migrated upon liquidation into a pooled investment vehicle; e) they are debt proceeds with a short-intermediate investment horizon; or f) they are assets held by The University of Texas Investment Management Company ("UTIMCO") at the request of a University of Texas System institution for which UTIMCO does not have investment discretion (for example, tech stock). This policy covers the Accounts collectively. However, specific guidelines are applied to each individual account. Specific Account restrictions may not fall within the guidelines established in this policy.

Investment Management

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

Ultimate fiduciary responsibility for the Accounts rests with the Board of Regents. Section 66.08, *Texas Education Code*, as amended, authorizes the Board of Regents, subject to certain conditions, to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board of Regents. The applicable trust/endowment document will apply to the management of each trust or endowment. The restrictions set forth in this policy and in any separate writing applicable to the Debt Proceeds Accounts and the Other Accounts will apply to the management of those Accounts.

Pursuant to an Investment Management Services Agreement between the Board of Regents and UTIMCO, the assets for the Accounts shall be managed by UTIMCO, which shall: a) recommend investment policy for the Accounts, b) determine specific Asset Class allocation targets, ranges and performance benchmarks consistent with the Accounts objectives, and if appropriate c) monitor the Accounts' performance against Accounts objectives. UTIMCO shall invest the Accounts' assets in conformity with this Policy Statement.

UTIMCO may select and terminate unaffiliated investment managers subject to any limitations stated herein. Managers shall be monitored for performance and adherence to investment disciplines.

Accounts Administration

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

Investment Objectives

Endowment Accounts - The primary investment objective shall be to invest the Accounts in assets that comply with the terms of the applicable trust/endowment document, taking into consideration the investment time horizon of the Accounts.

Trust Accounts - Trust Accounts are defined as either Foundation Accounts or Charitable Trusts ((Charitable Remainder Unitrusts (CRUT), Charitable Remainder Annuity Trusts (CRAT), Pooled Income Funds (PIF), or Charitable Trusts (CT)). The Board of Regents recognizes that the investment objective of a trust is dependent on the terms and conditions as defined in the trust document of each trust. The conditions that will affect the investment strategy are a) the trust payout provisions; b) the ages of the income beneficiaries; c) the ability to sell the gifted assets that were contributed to the trust; and d) consideration to investment preferences of the income beneficiaries. Taking these conditions into consideration, the fundamental investment objectives of the trust are to generate a low to moderate growth in trust principal and to provide adequate liquidity in order to meet the payout provisions of the trust.

Debt Proceeds Accounts – The primary investment objective shall be safety of principal and maintenance of adequate liquidity sufficient to meet the spend-out schedules of each Account, as provided by the U. T. System Office of Finance. Debt Proceeds Accounts, other than investments in cash as defined in the Liquidity Policy, will be invested in U.S. government obligations, including obligations of an agency or

instrumentality of the United States, taking into consideration the spending needs of the Accounts.

Other Accounts – These are all accounts which are not Endowment Accounts, Trust Accounts, or Debt Proceeds Accounts that hold assets not invested in one of the pooled investment vehicles. These accounts include agency funds, institution current purpose accounts, and tech stock accounts.

Asset Class Allocation

Asset Class allocation is the primary determinant of the volatility of investment return and subject to the Asset Class allocation ranges specified herein, is the responsibility of UTIMCO. Specific Asset Class allocation positions may be changed from time to time based on the economic and investment outlook.

Unless otherwise restricted herein, the Accounts' assets shall be allocated among the following broad Asset Classes based upon their individual return/risk characteristics and relationships to other Asset Classes:

Asset Classes:

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

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

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

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

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

Emerging Markets Equity – Emerging Markets Equity represents ownership in companies domiciled in emerging economies as defined by the composition of the MSCI Emerging Markets Index. In addition, such definition will also include those companies domiciled in economies that have yet to reach MSCI

Emerging Markets Index qualification status (either through financial or qualitative measures).

In addition, life insurance and variable annuities may be acceptable investments.

Asset Class Allocation Policy

The Asset Class allocation policy and ranges for the Endowment and Trust Accounts are dependent on the terms and conditions of the applicable trust/endowment or trust document. The Asset Class allocation policy and ranges for the Debt Proceeds and Other Accounts will be determined by the terms and conditions of any applicable documents. If possible, the Accounts' assets shall be diversified among different types of assets whose returns are not closely correlated in order to enhance the return/risk profile of the Accounts.

The Board of Regents delegates authority to UTIMCO to establish specific Asset Class allocation targets and ranges for each Account. UTIMCO may establish specific Asset Class allocation targets and ranges for or within the Asset Classes listed above as well as the specific performance benchmarks for each Asset Class.

Performance Measurement

The investment performance of the actively managed Accounts, where cost effective, will be calculated and evaluated quarterly.

Investment Guidelines

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

Investment guidelines include the following:

General

- Investment guidelines for index, commingled funds, limited partnerships, and corporate vehicles managed externally shall be governed by the terms and conditions of the respective investment management contracts, partnership agreements or corporate documents.
- Investment guidelines of all other externally managed accounts as well as internally invested funds must be reviewed and approved by UTIMCO's Chief Investment Officer prior to investment of SIF assets in such investments.
- All investments will be U.S. dollar denominated assets unless held by an internal or external portfolio manager with the authority to invest in foreign currency denominated securities.

- No securities may be purchased or held which would jeopardize, if applicable, the Account's tax-exempt status.
- No internal investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No internal investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.

The Account may utilize derivatives only in accordance with the Derivative Investment Policy.

Investment Grade Fixed Income

~~Permissible securities for investment include the securities within the component categories of the Barclays Aggregate Bond Index (BAGG). These component categories include investment grade government and corporate securities, agency mortgage pass-through securities, and asset-backed securities. These sectors are divided into more specific sub-sectors:~~

- ~~1) Government: Treasury and Agency;~~
- ~~2) Corporate: Industrial, Finance, Utility, and Yankee;~~
- ~~3) Mortgage-backed securities: GNMA, FHLMC, and FNMA;~~
- ~~4) Asset-backed securities;~~
- ~~5) Municipal securities; and~~
- ~~6) Commercial Mortgage-backed securities.~~

~~In addition to the permissible securities listed above, the following securities shall be permissible:~~

- ~~a) Floating rate securities with periodic coupon changes in market rates issued by the same entities that are included in the BAGG as issuers of fixed rate securities;~~
 - ~~b) Medium term notes issued by investment grade corporations;~~
 - ~~c) Zero coupon bonds and stripped Treasury and Agency securities created from coupon securities; and~~
 - ~~d) Structured notes issued by BAGG qualified entities.~~
- ~~• U.S. Domestic Bonds must be rated investment grade, Baa3 or better by Moody's Investors Services, BBB by Standard & Poor's Corporation, or BBB or better by Fitch Investors Service at the time of acquisition.~~
 - ~~• Not more than 35% of the Account's fixed income portfolio may be invested in non-U.S. dollar bonds. Not more than 15% of the Account's fixed income portfolio may be invested in bonds denominated in any one currency other than U.S. dollar.~~

- ~~• Non-dollar bond investments shall be restricted to bonds rated equivalent to the same credit standard as the U.S. Fixed Income Portfolio.~~
- ~~• Not more than 7.5% of the Account's fixed income portfolio may be invested in Emerging Market debt.~~
- ~~• International currency exposure may be hedged or unhedged at UTIMCO's discretion or delegated by UTIMCO to an external investment manager.~~
- ~~• Permissible securities for investment include Fixed Income Mutual Funds and Debt Index Funds as approved by UTIMCO's Chief Investment Officer.~~
- ~~• Permissible securities for investment include Fixed Income Variable Annuity Contracts as approved by UTIMCO's Chief Investment Officer.~~

Investment Grade and Credit-Related Fixed Income

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

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

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

The provisions concerning investment in Investment Grade Fixed Income, Credit-Related Fixed Income, and Real Estate, Natural Resources, Developed Country Equity, and Emerging Markets Equity shall not apply to Accounts when expressly prohibited by the terms and conditions of the applicable trust/endowment, trust or other controlling document. To the extent determined practical by the U. T. System Office of Development and Gift Planning Services, donor preferences will be considered in determining whether gifts of securities are held or sold.

Distributions

Distributions of income or amounts from the Accounts shall be made as soon as practicable, either: a) based on the terms of the applicable trust instrument; b) following the fiscal quarter end for endowments; or c) based on specific requirements for other accounts.

Accounting

The fiscal year of the Accounts shall begin on September 1st and end on August 31st. Trusts will also have a tax year end which may be different than August 31st. Market value of the Accounts shall be maintained on an accrual basis in compliance with Generally Accepted Accounting Principles ("GAAP"), Governmental Accounting Standards Board Statements, industry guidelines, or federal income tax laws, whichever is applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO's Chief Investment Officer and reported to the UTIMCO Board. Assets deemed to be "other than temporarily impaired" as defined by GAAP shall be written off and reported to UTIMCO's Chief Investment Officer and the UTIMCO Board when material.

Valuation of Assets

As of the close of business for each month, UTIMCO shall determine the fair market value of all assets in the Accounts. Such valuation of assets shall be based on the bank trust custody agreement in effect or other external source if not held in the bank custody account at the date of valuation. The final determination of the Accounts net assets for a month end close shall normally be completed within ten business days but determination may be longer under certain circumstances.

Compliance

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

Securities Lending

The Accounts may participate in a securities lending contract with a bank or nonbank security lending agent for purposes of realizing additional income. Loans of securities by the Accounts shall be collateralized by cash, letters of credit or securities issued or guaranteed by the U.S. Government or its agencies. The collateral will equal at least

100% of the current market value of the loaned securities. The contract shall state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and collateral, acceptable investment of collateral and indemnification provisions. The contract may include other provisions as appropriate.

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

Investor Responsibility

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

Amendment of Policy Statement

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

Effective Date

The effective date of this policy shall be ~~September 1, 2012~~December 1, 2015.

The University of Texas Investment Management Company Derivative Investment Policy

Effective Date of Policy: ~~August 21, 2014~~November 5, 2015
Date Approved by U. T. System Board of Regents: ~~August 21, 2014~~November 5, 2015
Date Approved by UTIMCO Board: ~~July 29, 2014~~October 15, 2015
Supersedes: Derivative Investment Policy approved ~~August 22, 2013~~August 21, 2014

Purpose:

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

Objective:

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

Scope:

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

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

External Managers:

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

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

Definition of Derivatives:

Derivatives are financial instruments whose value is derived, in whole or part, from the value of any one or more underlying securities or assets, or index of securities or assets (such as bonds, stocks, commodities, and currencies). For the purposes of this Policy, derivatives shall include Derivative Investments but shall not include a broader range of securities, such as mortgage backed securities, structured notes (including participation notes), convertible bonds, exchange traded funds (ETFs), and Bona Fide Spot Foreign Exchange Transactions. Derivatives may be purchased through a national or international exchange or through an OTC direct arrangement with a Counterparty. Refer to the attached Exhibit A for a glossary of terms. If it is unclear whether a particular financial instrument meets the definition of Derivative Investment, the Risk Manager and Chief Compliance Officer, in consultation with the Chief Investment

The University of Texas Investment Management Company Derivative Investment Policy

Officer, will determine whether the financial instrument is a Derivative Investment. The Chief Investment Officer will report such determinations to the Chairman of the Risk Committee.

Permitted Derivative Applications:

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

Permitted Derivative Applications are Derivative Investments used:

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

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

Risk and Investment Policy Controls:

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

Documentation and Controls:

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

Additional Limitations:

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

The University of Texas Investment Management Company Derivative Investment Policy

Counterparty Risks: Rigorous Counterparty selection criteria and netting agreements shall be required to minimize Counterparty risk for Over the Counter (OTC) derivatives. Any Counterparty in an OTC derivative transaction with the Funds must have a credit rating of at least A- (Standard and Poor's) or A3 (Moody's). All OTC derivatives, with the exception of Bona Fide Spot Foreign Exchange Transactions, must be subject to established ISDA Netting Agreements and have full documentation of all legal obligations of the Funds. In limited circumstances, the August 2012 DF Protocol Agreement, as published on August 13, 2012 (the "August Protocol Agreement") and the 2002 ISDA Master Agreement with a Schedule (an "ISDA March 2013 DF Protocol Master Agreement"), developed in connection with ISDA's Dodd-Frank Documentation Initiative to implement and comply with the regulatory requirements imposed under Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act, may be used in place of an ISDA Netting Agreement or on a temporary basis until an ISDA Netting Agreement with the Counterparty has been executed. In the event a Counterparty is downgraded below the minimum credit rating requirements stated above, UTIMCO staff will take appropriate action to protect the interests of the Funds, including availing itself of all potential remedies contained in the ISDA agreements. The net market value, net of collateral postings, of all OTC derivatives for any individual Counterparty may not exceed 1% of the total market value of the Funds.

Risk Management and Compliance:

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

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

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

Reporting:

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

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Derivative Investment Policy

Derivative Investment Policy Exhibit A

Glossary of Terms

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

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

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

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

Counterparty - The offsetting party in an exchange agreement.

Derivative Investment – An investment in a Futures Contract, Forward Contract, swap, and all forms of options.

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

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

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

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

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

The University of Texas Investment Management Company Derivative Investment Policy

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

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

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

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

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

The University of Texas Investment Management Company Derivative Investment Policy

Derivative Investment Policy Exhibit B Delegated Derivative Investments

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

Delegated Derivative Investments:

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

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

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

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

The University of Texas Investment Management Company Liquidity Policy

Effective Date of Policy: ~~August 21, 2014~~ November 5, 2015

Date Approved by U. T. System Board of Regents: ~~August 21, 2014~~ November 5, 2015

Date Approved by UTIMCO Board: ~~July 29, 2014~~ October 15, 2015

Original Effective Date of Policy: August 7, 2003

Supersedes: Liquidity Policy dated ~~August 22, 2013~~ August 21, 2014

Purpose:

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

Objective:

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

Scope:

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

Definition of Liquidity Risk:

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

Definition of Cash:

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

- the existing Dreyfus Institutional Preferred Money Market Fund mandate and any other UTIMCO Board approved SEC Rule 2a-7 money market fund rated AAAM by Standard & Poor’s or the equivalent by a Nationally Recognized Statistical Rating Organization (NRSRO),
- securities of the U.S. Treasury and U.S. Agencies and their instrumentalities with maturities of 397 days or less,
- separately managed accounts with investment guidelines equivalent to, or more stringent than, unaffiliated liquid investment funds rated AAAM by Standard & Poor’s Corporation or the equivalent by a NRSRO,
- the Custodian’s late deposit interest bearing liquid investment fund,
- municipal short term securities,
- commercial paper rated in the two highest quality classes by Moody’s Investor Service, Inc. (P1 or P2) or Standard & Poor’s Corporation (A1 or A2 or the equivalent),
- negotiable certificates of deposit with a bank that is associated with a holding company whose short-term rating meets the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps, and

The University of Texas Investment Management Company Liquidity Policy

- repurchase agreements and reverse repurchase agreements transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve as a Primary Dealer in U.S. Treasury securities and rated A-1 or P-1 or the equivalent.

Liquidity Risk Measurement-The Liquidity Profile:

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

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

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

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

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

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

Liquidity Policy Profile:

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

Liquidity above trigger zone:	<u>FY 14+</u> 30.0%
Liquidity within trigger zone:	25.0%-30.0%
Liquidity below trigger zone:	<25.0%

The ~~allowable range~~permitted maximum for **illiquid** investments is ~~0% to~~ 75% of the total portfolio for the Endowment Funds; ~~i.e., investments~~ Investments for the Endowment Funds that maintain liquidity above the trigger

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zone do not require any action by the Risk Committee. ~~However, any Any illiquid~~ investments made in the 70% to 75% trigger zone require prior approval by the Risk Committee. No investment may be made for the Endowment Funds which would cause illiquidity to be greater than 75%.

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

Liquidity above trigger zone:	<u>FY 14+</u> 50%
Liquidity within trigger zone:	45%-50%
Liquidity below trigger zone:	<45%

The ~~allowable range permitted maximum~~ for **illiquid** investments is ~~0% to~~ 55% of the total portfolio for the ITF; ~~i.e., investments- Investments~~ for the ITF that maintain liquidity above the trigger zone do not require any action by the Risk Committee. ~~However, any Any illiquid~~ investments made in the 50% to 55% trigger zone require prior approval by the Risk Committee. No investment may be made for the ITF which would cause illiquidity to be greater than 55%.

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

Unfunded Commitments:

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

Unfunded Commitment as a percent of total invested assets:	<u>FY 14+</u> 30.0%
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No new commitments may be made for an Endowment Fund without approval from the Risk Committee if the actual amount of unfunded commitments for such Endowment Fund exceeds, or, as a result of such commitment, would exceed the Maximum Permitted Amount.

Documentation and Controls:

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

As additional safeguards, trigger zones have been established as indicated above to trigger required review and action by the UTIMCO Board or the Risk Committee in the event any investment action would cause the actual investment position in illiquid investments to enter the designated trigger zone, or in the event market actions caused the actual investment position in illiquid investments to move into trigger zones. In addition, any proposed investment actions which would increase the actual investment position in illiquid investments in any of the PUF, the GEF, or the ITF by 10% or more of the total asset value of such fund would also require review and action by the UTIMCO Board or the Risk Committee prior to the change. Any actual positions in any trigger zones or outside the policy ranges will be

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communicated to the Chief Investment Officer immediately. The Chief Investment Officer will then determine the process to be used to eliminate the exception and report promptly to the UTIMCO Board and the Risk Committee the circumstances of the deviation from Policy and the remedy to the situation. Furthermore, as indicated above, no new commitments may be made for an Endowment Fund without approval from the Risk Committee if the actual amount of unfunded commitments for such Endowment Fund exceeds, or, as a result of such new commitment, would exceed, the Maximum Permitted Amount.

Reporting:

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

Report from Compensation Committee

Materials to be distributed during the meeting

Discussion and Appropriate Action
Related to UTIMCO 2015-2016
Budget

Materials to be distributed during the meeting

Agenda Item
UTIMCO Board of Directors Meeting
October 15, 2015

Agenda Item: Discussion and Appropriate Action Related to Employee's Service as a Director on an UTIMCO Investee Company

Developed By: Gonzalez, Moeller

Presented By: Zimmerman

Type of Item: Action required by UTIMCO Board (the Board)

Description: Mr. Zimmerman is recommending that Spencer Swayze, Director - Natural Resources Investments, serve as a Series B Manager of the Board of Managers for Agbiome, LLC. UTIMCO has made a co-investment in AgBiome, LLC. In accordance with the UTIMCO Code of Ethics, an employee, with the prior approval of the Board, may serve as a director of a company in which UTIMCO has directly invested its assets. The Board's approval must be conditioned on the extension of UTIMCO's Directors and Officers Insurance Policy coverage to the Employee's service as director of the investee company. All compensation paid to an Employee for service as director of an investee company shall be endorsed to UTIMCO and applied against UTIMCO's fees.

Mr. Swayze's term on the Board of Managers is scheduled to begin on November 1, 2015 through July 1, 2016 and until his successor has been elected. It is expected that Mr. Swayze will be appointed for more than one term. UTIMCO's Directors and Officers Insurance Policy coverage has been extended to cover Mr. Swayze's service as a director. There is no compensation associated with this position.

Recommendation: Mr. Zimmerman will recommend approval of Spencer Swayze's service as a Series B Manager of the Board of Managers for Agbiome, LLC.

Reference: None

**RESOLUTION RELATED TO EMPLOYEE'S SERVICE AS A DIRECTOR
ON AN UTIMCO INVESTEE COMPANY**

RESOLVED, that the Board of Directors hereby approves Spencer Swayze's service as a Series B Manager of the Board of Managers for Agbiome, LLC.

FURTHER RESOLVED, that this board service on an UTIMCO investee company will meet all requirements of the Code of Ethics for the Corporation applicable to board service on an UTIMCO investee company.