

**UTIMCO BOARD OF DIRECTORS  
MEETING AGENDA  
September 11, 2017**

UTIMCO  
401 Congress Avenue, Suite 2800  
Austin, Texas 78701

Time		Item #	Agenda Item
Begin	End		
			<b>OPEN MEETING:</b>
10:00 a.m.	10:05 a.m.	1	Call to Order of the Meeting/ Approval of the Minutes of the July 25, 2017 Meeting*
10:05 a.m.	10:10 a.m.	2	Presentation and Approval of Corporate Resolutions: - Election of UTIMCO Officers* - Committee Assignments* - Resolutions of Appreciation*
10:10 a.m.	10:40 a.m.	3	UTIMCO Performance Report and Market Update
10:40 a.m.	11:45 a.m.	4	Global Outlook
11:45 a.m.	12:15 p.m.		<b>Lunch</b>
12:15 p.m.	1:00 p.m.	5	Current Initiatives and Top Priorities
1:00 p.m.	1:15 p.m.	6	Report from Policy Committee - Approval of the Investment and Liquidity Policy Recommendations*,**
1:15 p.m.	1:30 p.m.	7	Report from Compensation Committee <b>Recess to Executive Session, if required:</b> Pursuant to section 551.074, <i>Texas Government Code</i> , the Board of Directors may convene in Executive Session to deliberate individual personnel matters. <b>Reconvene into Open Session</b>
1:30 p.m.	1:35 p.m.	8	Report from Audit and Ethics Committee
1:35 p.m.	2:00 p.m.	9	Presentation and Approval of the UTIMCO 2017-2018 Budget*,**

\* Action by resolution required

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

<b>Next Regularly Scheduled Meeting: October 12, 2017</b>
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**RESOLUTION RELATED TO MINUTES**

RESOLVED, that the minutes of the Meeting of the Board of Directors held on **July 25, 2017**, be, and are hereby, approved.

**MINUTES OF MEETING  
OF THE BOARD OF DIRECTORS OF  
THE UNIVERSITY OF TEXAS/TEXAS A&M INVESTMENT MANAGEMENT COMPANY**

The Board of Directors (the "Board") of The University of Texas/Texas A&M Investment Management Company (the "Corporation") convened in an open meeting on **July 25, 2017**, by means of conference telephone enabling all persons participating in the meeting to hear each other, at the offices of the Corporation, Suite 2800, 401 Congress Avenue, Austin, Texas, said meeting having been called by the Chairman, Jeffery D. Hildebrand, 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:

Jeffery D. Hildebrand  
Phil Adams  
Kyle Bass  
Janet Handley  
R. Steven Hicks  
H. Lee S. Hobson  
Ray Nixon  
Ray Rothrock  
Rad Weaver

thus constituting a majority and quorum of the Board. Employees of the Corporation attending the meeting were Mark Warner, Interim CEO and Chief Investment Officer; Joan Moeller, Secretary and Treasurer; Cecilia Gonzalez, Corporate Counsel and Chief Compliance Officer; and other staff members. Other attendees were Keith Brown of the McCombs School of Business at UT Austin; Bob Jewell of Andrews Kurth Kenyon LLP; Evan Fitzmaurice and Jenny LaCoste-Caputo of UT System; and David Rejino of The Texas A&M University System. Chairman Hildebrand called the meeting to order at 11:02 a.m. Copies of materials supporting the Board meeting agenda were previously furnished to each member of the Board.

**Approval of Minutes**

The first item to come before the Board was approval of the Minutes of the Board of Directors Meetings held on April 20, 2017 and June 16, 2017. Upon motion duly made and seconded, the following resolution was unanimously adopted by the Board:

RESOLVED, that the minutes of the Meetings of the Board of Directors held on  
April 20, 2017 and June 16, 2017, be, and are hereby, approved.

**Audit and Ethics Committee Assignments**

Chairman Hildebrand recommended approval of the new assignments for the Audit and Ethics Committee. Upon motion duly made and seconded, the following resolutions were unanimously adopted:

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

Janet Handley  
Phil Adams  
Rad Weaver

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 Janet Handley is hereby designated the Chair of the Audit and Ethics Committee and shall preside at its meetings.

### **Corporate Auditor**

Chairman Hildebrand asked Ms. Moeller to make her recommendation for the Corporate Auditor. Ms. Moeller explained that Deloitte & Touche LLP was selected as the auditor for the eleventh year. Chairman Hildebrand requested Board approval for the hiring of Deloitte & Touche LLP as the independent auditor of the Corporation for the year ended August 31, 2017. Director Bass left the meeting during the Corporate Auditor discussion. Upon motion duly made and seconded, the following resolution was unanimously adopted by all Directors present:

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, 2017.

### **Proposed UTIMCO 2017-2018 Capital Budget**

Chairman Hildebrand asked Mr. Warner to review the proposed UTIMCO 2017-2018 Capital Budget. Mr. Warner reviewed the capital expenditures budget, the majority of which relates to the new office space and timing of the move, which requires purchase commitments be made beginning in early September 2017. Mr. Warner further explained that the annual operating budget will be reviewed at a later date, per Chairman Hildebrand's request. Mr. Warner answered the Directors' questions. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the UTIMCO Capital Budget of \$5,000,000 and the Allocation Schedule; as provided to the Board for the period beginning September 1, 2017 through August 31, 2018, be, and are hereby, approved, subject to approval by the Board of Regents of The University of Texas System.

### **Other**

Chairman Hildebrand and the Directors expressed their sincerest gratitude to Mr. Warner for his excellent leadership as Interim Chief Executive Officer and Chief Investment Officer.

**Adjourn**

There being no further business to come before the Board, the meeting was adjourned at approximately 11:15 a.m.

Secretary: \_\_\_\_\_  
Joan Moeller

Approved: \_\_\_\_\_ Date: \_\_\_\_\_  
Jeffery D. Hildebrand  
Chairman, Board of Directors of  
The University of Texas/Texas A&M Investment Management Company

**Agenda Item**  
UTIMCO Board of Directors Meeting  
September 11, 2017

**Agenda Item:** Presentation and Approval of Corporate Resolutions:  
- Election of UTIMCO Officers  
- Committee Assignments  
- Resolutions of Appreciation

**Developed By:** Gonzalez, Moeller

**Presented By:** Hildebrand

**Type of Item:** Action required by UTIMCO Board

**Description:** Chairman Hildebrand will present a recommendation for the Corporate Officers. As stated in the Bylaws, Officers for the ensuing year are to be elected at the Annual Meeting. The agenda item was postponed at the Annual Meeting in April by the Chairman to a future meeting. Employees that are designated as Officers by the UTIMCO Board meet the definition of Key Employees in the Corporation's Code of Ethics.

Chairman Hildebrand will propose new Board committee assignments except for the Audit & Ethics Committee. The Audit & Ethics Committee assignments were approved by the Board at its July 25, 2017 meeting. Chairman Hildebrand will also present recommendations to the Board to approve resolutions acknowledging Mark Warner's tenure as UTIMCO's Interim CEO and Chief Investment Officer and Lee Hobson's and David Beck's service as UTIMCO Directors.

**Recommendation:** Chairman Hildebrand will recommend approval of the election of Corporate Officers, approval of committee assignments, and resolutions of appreciation.

**Reference:** None

<b>RESOLUTION RELATED TO CORPORATION OFFICERS</b>
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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>
_____	Chairman
_____	Vice-Chairman
_____	Vice-Chairman for Policy
Britt Harris	President, Chief Executive Officer and Chief Investment Officer
Mark Warner	Senior Managing Director
Joan Moeller	Senior Managing Director, Treasurer and Secretary
Ryan Ruebsahm	Managing Director
Susan Chen	Managing Director
Russ Kampfe	Managing Director
Uzi Yoeli	Managing Director
Edward Lewis	Managing Director
Uche Abalogu	Chief Technology Officer

## RESOLUTION RELATED TO COMMITTEE ASSIGNMENTS

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

Ray Rothrock  
Kyle Bass  
Robert Gauntt  
Ray Nixon

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 Ray Rothrock 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  
Robert Gauntt  
Ray Rothrock  
Rad Weaver

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  
Ray Nixon  
Janet Handley

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.

**RESOLUTION OF APPRECIATION HONORING  
MARK J. WARNER**

**WHEREAS**, due to his substantial background and expertise in business and global investing, Mark J. Warner, Senior Managing Director - Natural Resources & Emerging Markets was appointed as the Interim Chief Executive Officer and Chief Investment Officer of The University of Texas/Texas A&M Investment Management Company (UTIMCO) with all the powers and duties of Chief Executive Officer and Chief Investment Officer of the Corporation for the investment of the funds under the fiduciary care of the Board of Regents of The University of Texas System, for the benefit of The University of Texas System, The Texas A&M University System, and the citizens of the State of Texas; and

**WHEREAS**, as the Interim Chief Executive Officer and Chief Investment Officer, Mr. Warner provided invaluable insight and direction to the Board of Directors and UTIMCO employees, exhibiting the highest standards of integrity, professionalism, and competency; and

**WHEREAS**, Mr. Warner's outstanding leadership, judgment, commitment, and dedicated service as Interim Chief Executive Officer and Chief Investment Officer were exemplary, reflecting his dedication to the success of UTIMCO and The University of Texas and Texas A&M University Systems for the benefit of and education and development of students at all levels.

**NOW, THEREFORE,**

**BE IT RESOLVED**, that the Directors of The University of Texas/Texas A&M Investment Management Company, do hereby express to Mark J. Warner their sincerest appreciation for his leadership, commitment, and service as Interim Chief Executive Officer and Chief Investment Officer; and

**BE IT FURTHER RESOLVED**, that all persons who read this Resolution should know that Mark J. Warner has made a lasting and fundamental contribution to The University of Texas/Texas A&M Investment Management Company, 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 11th day of September, 2017.

## **RESOLUTION OF APPRECIATION H. LEE S. HOBSON**

**WHEREAS**, in recognition of his substantial background and expertise in business and global investing, H. Lee S. Hobson was appointed by the Board of Regents of The University of Texas System to the Board of Directors of The University of Texas /Texas A&M Investment Management Company ("UTIMCO") on May 20, 2014; and

**WHEREAS**, Mr. Hobson served as Chairman of the Compensation Committee and as a member of the Risk Committee; and

**WHEREAS**, during his tenure on the UTIMCO Board, Mr. Hobson provided invaluable insight and counsel, drawing on his many years of business and investment experience as founder and managing partner of Highside Capital Management and former partner at Maverick Capital; and

**WHEREAS**, Mr. Hobson's commitment and service as a Director of UTIMCO were exemplary, reflecting his deep devotion to the education, health and development of children and students of all ages, and further evidenced as a member of the Investment Committee and Investment Management Committee of the Children's Health System of Texas Board, a member of the Teach for America Regional Advisory Board, the Capital for Kids Advisory Board, and the Episcopal School of Dallas Endowment Board of Trustees, as a former member of the Children's Medical Center Foundation Board and Investment Committee, and former chairman of the Episcopal High School Investment Committee in Alexandria Virginia; and

**WHEREAS**, Mr. Hobson's unselfish contributions are also evidenced in the civic and corporate arenas by his service on numerous boards, including the Council on Foreign Relations, the Dallas Committee on Foreign Relations, the Virginia Theological Seminary Board and Investment Committee, the Dallas Museum of Art Board and Investment Committee, and the National Council of the American Enterprise Institute; and

**WHEREAS**, during Mr. Hobson's tenure on the UTIMCO Board, UTIMCO managed the Permanent University Fund for the benefit of The University of Texas and The Texas A&M University Systems 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. Hobson's leadership, judgment, and commitment.

**NOW, THEREFORE,**

**BE IT RESOLVED**, that the Directors of The University of Texas/Texas A&M 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 H. Lee S. Hobson 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 H. Lee S. Hobson 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 11th day of September, 2017.

## **RESOLUTION OF APPRECIATION DAVID J. BECK**

**WHEREAS**, in recognition of his substantial background and expertise in law and business, David J. Beck was appointed by Governor Greg Abbott to the Board of Regents of The University of Texas System in January 2015, and was appointed by the Board of Regents to the Board of Directors of The University of Texas/Texas A&M Investment Management Company ("UTIMCO") in May 2015; and

**WHEREAS**, Mr. Beck, a founding partner of Beck Redden LLP, and a former senior partner of Fulbright & Jaworski L.L.P., has provided invaluable insight and counsel, drawing on his immense experience as one of the preeminent trial lawyers in the United States, including serving two terms on the Judicial Conference Standing Committee on Rules of Practice and Procedure, a committee that makes recommendations to the Supreme Court of the United States on rules affecting the federal courts; and

**WHEREAS**, Mr. Beck's unselfish contributions are also evidenced in the civic and education arenas by his service on various boards, including as president of the State Bar of Texas from 1995-1996, past president of the American College of Trial Lawyers, and past president of the International Association of Defense Counsel; and

**WHEREAS**, during Mr. Beck's tenure on the UTIMCO Board, UTIMCO managed the Permanent University Fund for the benefit of The University of Texas and The Texas A&M University Systems 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. Beck'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 Facilities Planning and Construction Committee; as a member of the Audit, Compliance, and Risk Management, the Finance and Planning, and Health Affairs Committees, service on the Special Advisory Committee of the Brackenridge Tract and as an Athletics Liaison; service as a member of the MD Anderson Board of Visitors and the UT Health Development Board, and former chair of the board of trustees of The University of Texas Law School Foundation; and

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

### **NOW, THEREFORE,**

**BE IT RESOLVED**, that the Directors of The University of Texas/Texas A&M 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 David J. Beck 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 David J. Beck 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 11th day of September, 2017.

**Agenda Item**  
UTIMCO Board of Directors Meeting  
September 11, 2017

**Agenda Item:** UTIMCO Performance Report and Market Update

**Developed By:** Team

**Presented By:** Harris

**Type of Item:** Information Item

**Description:** Mr. Harris will present UTIMCO's performance and provide a market update.

**Reference:** *UTIMCO Performance Report and Market Update* presentation



# UTIMCO Performance Report and Market Update

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**Britt Harris**

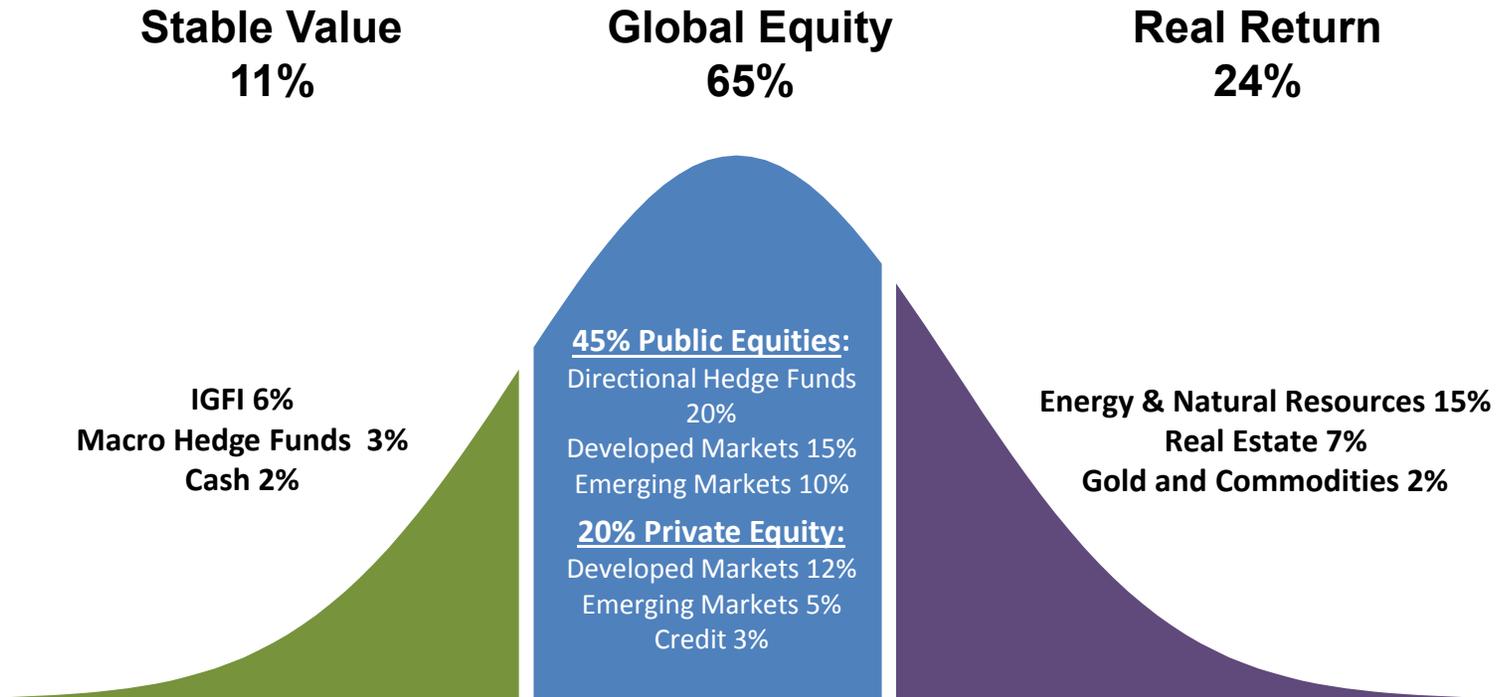
CEO/CIO

September 2017

# Review of Current Environment



As of June 30, 2017



Economic Conditions		
<ul style="list-style-type: none"> <li>•GDP surprises are negative</li> <li>•Inflation surprisingly low with weak demand</li> <li>•Negative earnings surprises</li> <li>•Out of line valuations</li> <li>•Flight to quality</li> </ul>	<ul style="list-style-type: none"> <li>•Positive GDP surprises</li> <li>•Inflation surprises not dramatic</li> <li>•Positive earnings surprises</li> <li>•Reasonable valuations</li> <li>•Political stability</li> </ul>	<ul style="list-style-type: none"> <li>•Real GDP growth too low</li> <li>•Inflation surprises on the high side</li> <li>•Real earnings too low</li> <li>•Commodity-oriented demand exceeds supply by an above normal margin</li> </ul>

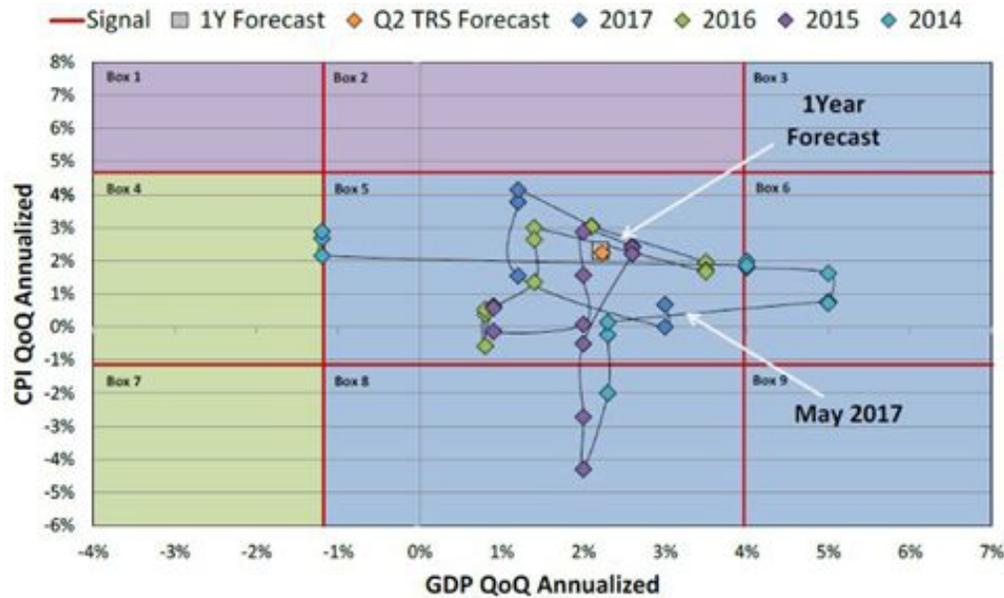
\* Percentages may not add up to 100% due to rounding

# Review of Current Environment



As of May 31, 2017

## US Policy Signal Chart



Region (Box)	Last Move	Equity Return
USA (8 → 5)	Mar-15	13.8%
Europe (8 → 5)	Dec-15	6.9%
Japan (1 → 5)	Sep-14	-9.3%
China (5 → 4)	Mar-17	8.2%
EM x-C (8 → 5)	Dec-16	18.7%

History	Mar-17	Dec-16
USA	Box 5	Box 5
Europe	Box 5	Box 5
Japan	Box 5	Box 5
China	Box 4	Box 5
EM x-C	Box 5	Box 5

# Global Markets, Risk Premiums and Diversification



As of June 30, 2017

	Market Returns					Std Dev		Max Drawdown	Corr vs. S&P500	Sharpe Ratio	
	QTR	YTD	1Y	5Y	10Y	1	10E			5	10
<b>United States</b>											
CPI	0.47	1.46	1.63	1.31	1.63	0.71	1.76	4.43	0.31	1.06	0.60
Cash	0.20	0.31	0.49	0.17	0.58	0.07	1.11	0.01	(0.59)		
Long Treasury (Duration)	3.96	5.41	(7.22)	2.76	7.34	9.67	12.22	15.94	(0.39)	0.25	0.55
Credit (IG)	2.61	4.41	(2.19)	0.15	3.17	5.69	6.49	10.07	(0.08)	(0.00)	0.40
High Yield (Default)	3.19	6.46	11.89	7.13	7.75	4.07	9.62	33.37	0.74	1.21	0.75
US Dollar Index	(4.71)	(6.44)	(0.54)	3.22	1.56	6.53	10.27	17.13	(0.30)	0.46	0.10
S&P 500	3.09	9.34	17.90	14.63	7.18	6.09	17.40	50.95	1.00	1.51	0.38
U.S. Small Cap	3.02	8.93	18.51	14.58	7.26	6.59	17.98	51.20	1.00	1.47	0.37
Private Equity	1.52	3.22	7.57	11.56	9.12	5.10	11.79	23.84	0.75	2.30	0.72
Size	0.38	(1.19)	5.83	(0.22)	1.62	9.32	5.85	14.99	0.05	(0.05)	0.18
Value	(4.44)	(11.61)	4.29	1.02	(1.83)	12.88	8.72	24.71	0.45	0.10	(0.28)
Momentum	1.83	(1.58)	(11.66)	0.50	(1.72)	5.93	23.09	57.53	0.16	0.03	(0.10)
<b>Non-US Equity</b>											
EAFE Developed (USD)	6.12	13.81	20.27	8.69	1.03	7.77	19.99	56.68	0.93	0.73	0.02
Emerging Markets (USD)	6.27	18.43	23.75	3.96	1.91	9.03	18.84	61.59	0.75	0.26	0.07
Global Equity (USD)	4.27	11.48	18.78	10.54	3.71	5.34	18.05	54.92	0.97	1.04	0.17
Europe (USD)	7.37	15.36	21.11	8.82	0.62	9.78	22.80	59.29	0.92	0.67	0.00
Europe (Local)	1.79	7.91	20.22	11.57	2.65	7.84	17.48	50.20	0.94	1.09	0.12
Japan (USD)	5.23	10.11	19.58	9.86	1.42	7.57	14.82	46.23	0.87	0.77	0.06
<b>Diversifiers (Typical)</b>											
Hedge Funds	0.74	2.66	6.28	3.86	(0.04)	1.63	8.59	27.06	0.92	1.06	(0.07)
Real Estate (Private)	1.52	3.22	7.57	11.25	4.69	5.10	16.49	42.48	0.56	2.23	0.25
REITS	1.65	2.66	(1.82)	9.38	5.94	11.16	26.85	67.64	0.73	0.67	0.20
TIPS	(0.40)	0.85	(0.63)	0.27	4.27	2.81	6.51	12.22	(0.11)	0.02	0.57
Infrastructure	(6.35)	(2.66)	0.40	1.77	5.74	10.34	22.84	48.51	0.65	0.09	0.23
<b>Diversifiers (Other)</b>											
Commodities	(3.00)	(5.26)	(6.50)	(9.25)	(6.49)	7.54	24.99	67.02	0.37	(0.76)	(0.28)
Natural Resources	(1.43)	2.88	(1.85)	(2.48)	(2.77)	6.19	24.03	54.23	0.53	(0.23)	(0.14)
Oil	(9.01)	(14.30)	(4.74)	(11.53)	(4.20)	23.49	41.45	75.99	0.10	(0.40)	(0.12)
Energy Equipment & Services	(15.21)	(20.12)	(8.15)	(4.22)	(7.97)	15.74	37.79	67.86	0.87	(0.21)	(0.23)
Mining	(3.52)	4.42	16.04	(6.32)	(4.31)	22.30	31.60	75.11	0.47	(0.23)	(0.15)
Gold	(0.61)	8.20	(6.07)	(4.92)	6.69	12.32	20.12	41.88	(0.17)	(0.32)	0.30

(\*) With Energy/Eq. Services, the 10Y columns are only for 9 years

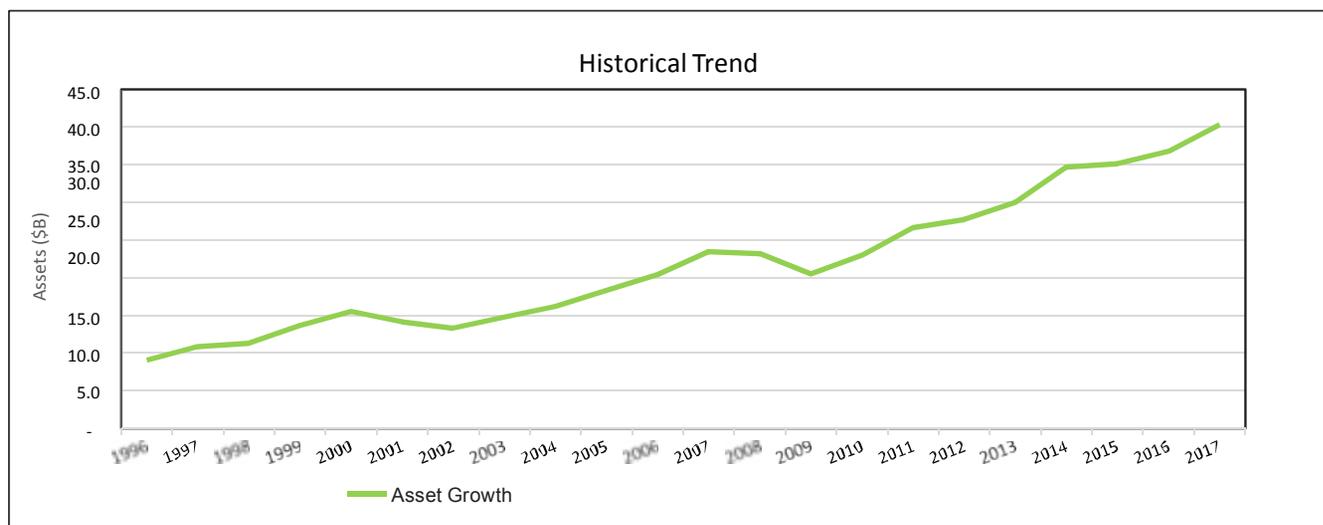
(\*\*) Private Market assets are based on independent and/or manager valuations

# Overview of Funds

Periods Ending June 30, 2017



Endowment Funds	\$B	Returns						Alpha			
		QTR	YTD	1Y	5Y	10Y	QTR	YTD	1Y	5Y	10Y
PUF	\$ 19.5	2.80	7.12	13.39	7.90	4.87	0.58	1.22	4.38	1.20	1.80
PHF	\$ 1.1	2.90	7.29	13.62	8.00	4.91	0.68	1.39	4.61	1.30	1.84
LTF	\$ 8.1	2.90	7.30	13.65	8.00	4.92	0.68	1.39	4.61	1.30	1.84
Other	\$ 0.1	-	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>\$ 28.8</b>										
<b>Operating Funds</b>											
ITF	\$ 8.6	2.28	5.97	8.01	4.72	3.74	0.21	0.70	2.58	1.28	1.96
Debt Proceeds	\$ 0.8	0.27	0.49	0.84	0.30		0.07	0.18	0.35	0.13	
STF	\$ 2.1	0.24	0.42	0.65	0.22	0.77	0.04	0.11	0.16	0.05	0.19
<b>TOTAL</b>	<b>\$ 11.6</b>										
<b>All Assets</b>											
	\$ 40.4										
March 2017	\$ 39.7										
December 2016	\$ 37.7										
September 2016	\$ 37.1										
June 2016	\$ 35.5										



# UTIMCO Competitive Rank versus Peers (PUF)



	UTIMCO Return	Rank versus Peers		
		All Funds	All >\$1 B	E/F >\$1 B
<b>1 Year</b>	13.4%	25	26	44
<b>3 Years</b>	4.9%	62	70	71
<b>5 Years</b>	7.9%	68	73	80
<b>7 Years</b>	8.2%	76	81	75
<b>10 Years</b>	4.9%	66	71	68
<b>Number of funds</b>		615	253	53

Source: Trust Universe Comparison Service

# Performance Attribution – PUF

12 Months Ending June 30, 2017



	Asset Allocation			Return			Alpha Attribution			
	UTIMCO	Neutral	Diff	UTIMCO	Benchmark	Diff	SS	TAA	Other	Total
<b>Equity</b>										
Developed Equity	42.1%	46.2%	-4.1%	15.4%	10.7%	4.7%	2.1%	-0.1%	-0.1%	1.9%
Emerging Equity	<u>15.8%</u>	<u>15.5%</u>	<u>0.3%</u>	<u>16.2%</u>	<u>17.4%</u>	<u>-1.2%</u>	<u>-0.1%</u>	<u>-0.1%</u>	<u>0.0%</u>	<u>-0.2%</u>
TOTAL EQUITY	57.9%	61.7%	-3.8%	15.6%	12.3%	3.3%	2.0%	-0.2%	-0.1%	1.7%
<b>Bonds</b>										
Fixed Income - Investment Grade	10.6%	9.1%	1.5%	2.2%	-0.1%	2.3%	0.2%	-0.1%	0.0%	0.1%
Fixed Income - Credit	<u>7.3%</u>	<u>7.6%</u>	<u>-0.3%</u>	12.7%	6.9%	5.8%	<u>0.5%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.5%</u>
TOTAL FIXED INCOME	17.9%	16.7%	1.2%				0.7%	-0.1%	0.0%	0.6%
<b>Other</b>										
Natural Resources	16.4%	13.6%	2.8%	14.3%	3.7%	10.6%	1.4%	-0.1%	0.3%	1.6%
Real Estate	<u>7.8%</u>	<u>8.0%</u>	<u>-0.2%</u>	11.9%	5.7%	6.2%	<u>0.5%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.5%</u>
TOTAL OTHER	24.2%	21.6%	2.6%				1.9%	-0.1%	0.3%	2.1%
<b>TOTAL</b>	100.0%	100.0%	0.0%	13.4%	9.0%	4.4%	4.6%	-0.3%	0.1%	4.4%
MCC	37.5%	39.6%	-2.1%	13.5%	12.0%	1.5%	1.0%	-0.3%	-0.2%	0.5%
LCC	24.9%	27.6%	-2.7%	8.9%	6.3%	2.6%	0.8%	0.1%	-0.1%	0.8%
Private	<u>37.6%</u>	<u>32.8%</u>	<u>4.8%</u>	<u>16.5%</u>	<u>7.6%</u>	<u>8.9%</u>	<u>2.8%</u>	<u>-0.1%</u>	<u>0.4%</u>	<u>3.1%</u>
<b>TOTAL</b>	100.0%	100.0%	0.0%	13.4%	9.0%	4.4%	4.6%	-0.3%	0.1%	4.4%

# UTIMCO Investment Income and Contributions



## UTIMCO Investment Income (Distributions)

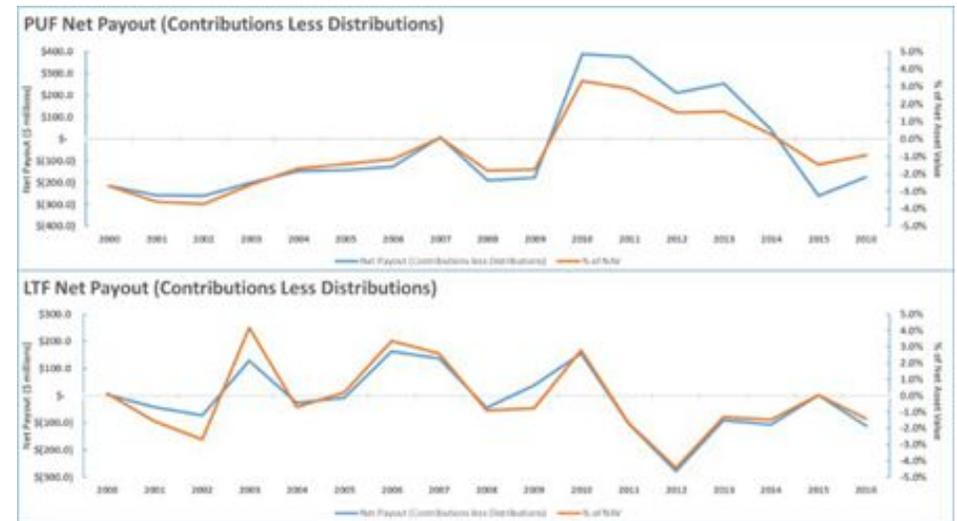
		Distribution Rate		AUM \$ MN		Historical Distribution Rate			Contributions		
		\$ MN	Actual	Target	2016	2015	Median	Highest %	Lowest %	\$ MN	% of AUM
PUF:	UT	\$ 515.3	5.00%	4.75%	\$ 11,920.1	\$11,660.0	4.75%	7.00%	3.94%	\$ 341.5	2.90%
	A&M	257.6	5.00%	4.75%	5,960.1	5,830.0	4.75%	7.00%	3.94%	170.8	2.90%
	<b>Total</b>	<b>772.9</b>	<b>5.00%</b>	<b>4.75%</b>	<b>17,880.2</b>	<b>17,490.0</b>	<b>4.75%</b>	<b>7.00%</b>	<b>3.94%</b>	<b>\$ 512.3</b>	<b>2.90%</b>
	LTF	361.6	5.00%	4.75%	7,434.8	7,161.6	4.73%	5.61%	4.37%	365.5	5.01%
	PHF	49.7	4.74%	4.75%	1,065.7	1,075.70	4.61%	5.05%	4.03%	-	0.00%
	<b>Total</b>	<b>\$ 1,184.2</b>		<b>4.75%</b>	<b>\$ 26,380.7</b>	<b>\$25,727.3</b>				<b>\$ 877.8</b>	

## Projected 2017 UTIMCO Investment Income (Distributions)

		Distribution Rate		AUM \$ MN	
		\$ MN	Actual	Target	2017
PUF:	UT	\$ 559.6	5.00%	4.75%	\$ 12,988.5
	A&M	279.8	5.00%	4.75%	6,494.3
	<b>Total</b>	<b>839.4</b>	<b>5.00%</b>	<b>4.75%</b>	<b>19,482.8</b>
	LTF	381.9	4.94%	4.75%	8,098.6
	PHF	50.2	4.57%	4.75%	1,126.5
	<b>Total</b>	<b>\$ 1,271.5</b>		<b>4.75%</b>	<b>\$ 28,707.9</b>

## Contributions

	\$ MN			% of NAV		Year End Price	
	Ulandco Funding	Priv Endwmt/ Fdtn Contrib	Total	PUF	LTF	Oil	Gas
	PUF	LTF	Total	PUF	LTF	Oil	Gas
2017 (Est)	\$ 665	\$ 272	\$ 937	3.56%	3.50%	\$48.97	\$2.63
2016	\$ 512	\$ 365	\$ 877	2.90%	5.01%	\$44.60	\$2.75
2015	\$ 807	\$ 235	\$ 1,042	4.63%	3.27%	\$51.20	\$2.54
2014	\$ 1,130	\$ 233	\$ 1,363	7.01%	3.43%	\$87.66	\$3.96
2013	\$ 856	\$ 35	\$ 891	6.05%	0.57%	\$107.70	\$3.52
2012	\$ 954	\$ 195	\$ 1,149	7.30%	3.20%	\$95.07	\$2.65
2011	\$ 896	\$ 438	\$ 1,334	7.65%	7.84%	\$88.16	\$3.89
Total	\$ 5,820	\$ 1,773	\$ 7,593				

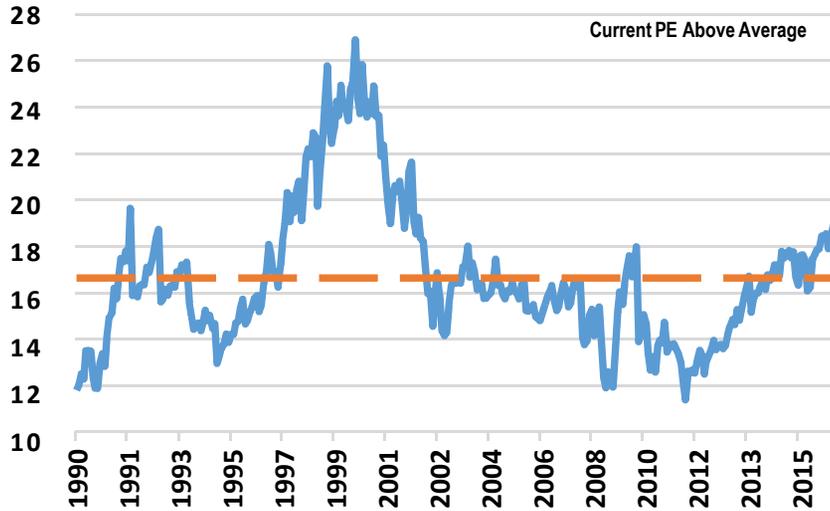


- Historical distribution rates based on ratios since the inception of UTIMCO in 1996 for PUF and LTF. PHF based on ratios since the fund's inception in 1999.
- PUF distribution rate is based on the percentage amount approved by the Board of Regents at the date of determination of the next fiscal year distribution. (Usually approved at the May BOR meeting based on February twelve quarter average NAV) Prior to 1999 the PUF was not a total return fund, and paid out net investment income. The 3.94% minimum was based on the payout of net investment income for fiscal year 1999, the final year prior to the change of the PUF to total return.
- LTF and PHF rates are based on twelve quarter NAV averages as of August 31, and will correspond to ratios from audited financial statements.

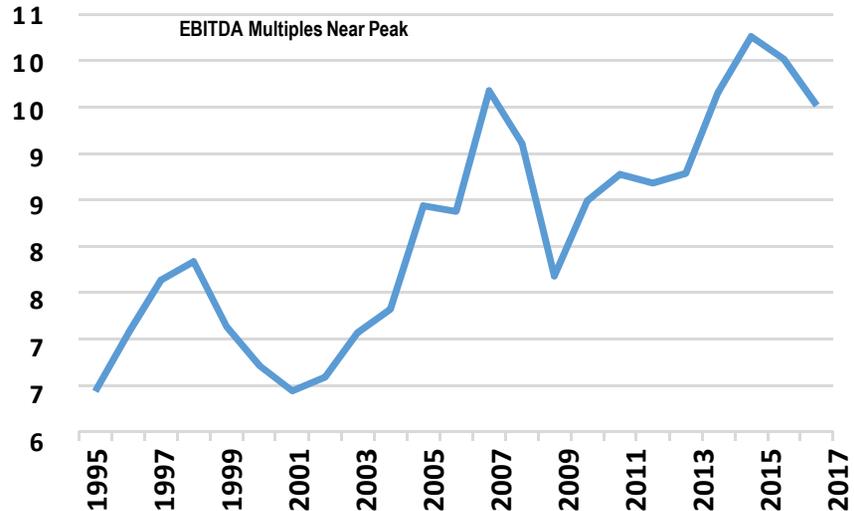
# Review of Current Environment



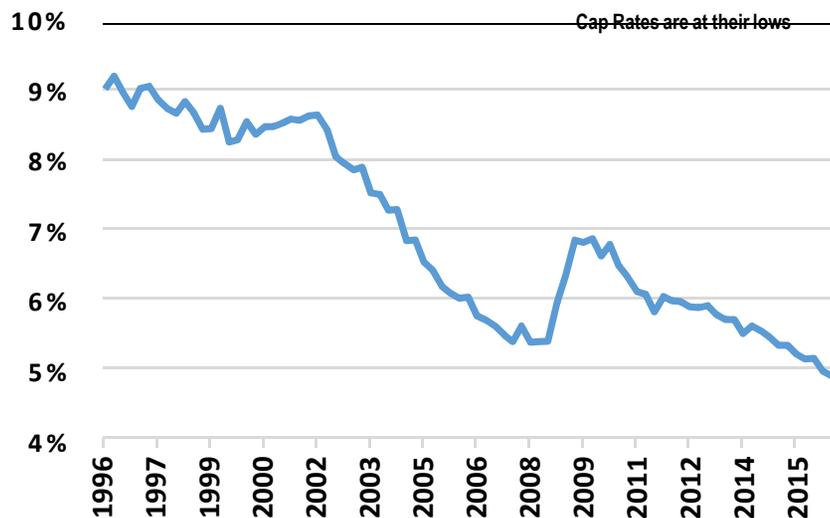
## US Stock Market



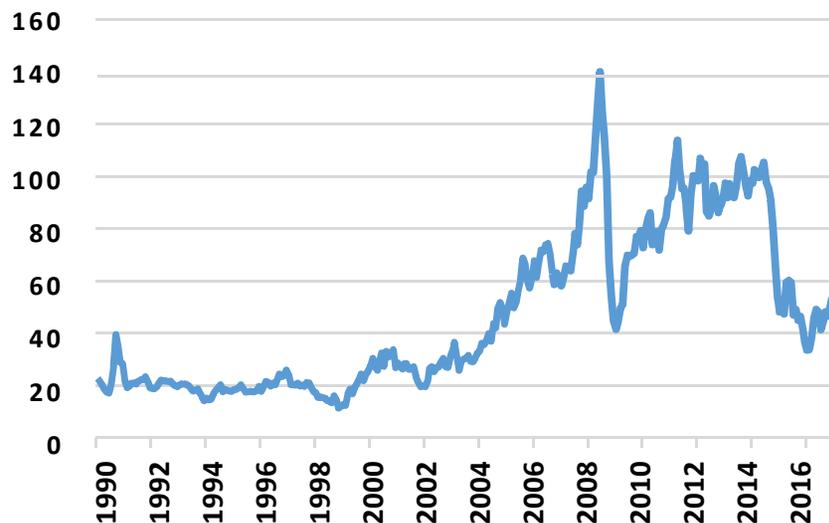
## Private Equity



## Real Estate Cap Rates



## Energy Markets

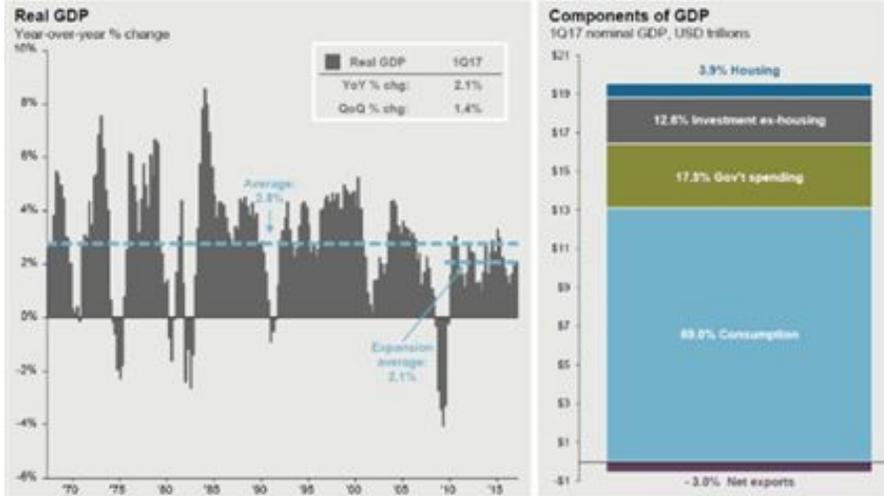


# Cycle Disruptors

June 30, 2017



## Recession?



## S&P 500 Panic Attacks



## Commodity Spike?



## Speculative Valuation?



# Review of Current Environment



As of June 30, 2017

## S&P 500 Index Historical Bull and Bear Markets

S&P 500 Bull Markets: 1928 - 2016					
Start Year	End Year	S&P 500 Price		Change (%) <sup>1</sup>	Calendar Years
		Start	Finish		
1926	1929	13	32	152	3.1
1935	1937	8	19	130	2.0
1942	1946	7	19	157	4.1
1960	1961	52	72	38	1.1
1962	1968	53	108	101	6.1
1970	1973	69	119	72	2.6
1978	1980	87	141	62	2.7
1982	1987	102	333	225	5.0
1990	2000	295	1527	417	9.5
2002	2007	777	1553	100	5.0
2009	2017	677	2423	258	8.3

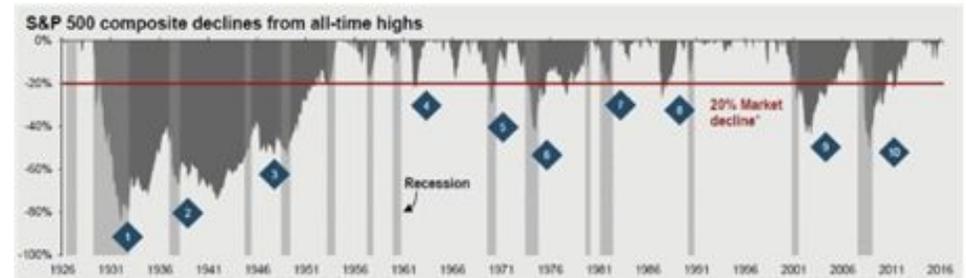
<b>Average</b>		<b>156</b>	<b>4.5</b>
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S&P 500 Bear Markets: 1928 - 2017					
Start Year	End Year	S&P 500 Price		Change (%) <sup>1</sup>	Calendar Years
		Start	Finish		
1929	1932	32	4	-86	2.7
1937	1942	19	7	-60	5.1
1946	1949	19	14	-29	3.0
1961	1962	72	52	-28	0.5
1968	1970	108	69	-36	1.5
1973	1974	119	62	-48	1.7
1980	1982	141	102	-27	1.7
1987	1987	333	224	-33	0.3
2000	2002	1527	777	-49	2.5
2007	2009	1553	677	-56	1.4

<b>Average</b>		<b>-45</b>	<b>2.1</b>
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<sup>1</sup> Change column only reflects percentage change in price for the S&P 500 index and does not include dividends

## S&P Historical Drawdowns



Market Corrections	Bear markets			Macro environment				Bull markets		
	Market peak	Bear return*	Duration (months) <sup>1</sup>	Recession	Commodity spike	Aggressive Fed	Extreme valuations	Bull begin date	Bull return	Duration (months)
1 Crash of 1929 - Excessive leverage, irrational exuberance	Sep 1929	-86%	32	★			★	Jul 1929	152%	37
2 1937 Fed Tightening - Premature policy tightening	Mar 1937	-60%	61	★				Mar 1936	129%	23
3 Post WWII Crash - Post-war demobilization, recession fears	May 1946	-30%	36	★			★	Apr 1942	158%	49
4 Flash Crash of 1962 - Flash crash, Cuban Missile Crisis	Dec 1961	-28%	6				★	Oct 1960	39%	13
5 Tech Crash of 1970 - Economic overheating, civil unrest	Nov 1968	-36%	17	★	★		★	Oct 1962	102%	73
6 Stagflation - OPEC oil embargo	Jan 1973	-48%	20	★	★			May 1970	74%	31
7 Volcker Tightening - Whip Inflation Now	Nov 1980	-27%	20	★	★	★		Mar 1978	62%	32
8 1987 Crash - Program trading, overheating markets	Aug 1987	-34%	3				★	Aug 1982	229%	60
9 Tech Bubble - Extreme valuations, com boom/bust	Mar 2000	-49%	30	★			★	Oct 1990	417%	113
10 Global Financial Crisis - Leverage/housing, Lehman collapse	Oct 2007	-57%	17	★	★	★		Oct 2002	101%	60
Current Cycle								Mar 2009	250%	99
<b>Averages</b>		<b>-45%</b>	<b>24</b>						<b>156%</b>	<b>54</b>

# UTIMCO Risk Overview



As of June 30, 2017

Current Cycle: Expansion			Average Bull Length
Start Date	End Date	Length (yrs)	Length
3/2009	6/2017	8.3	4.5

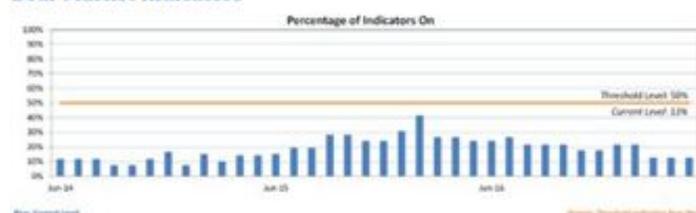
Returns over Expansion			
Asset Class	Cumulative	Annualized	1-yr Vol
<b>UTIMCO</b>	<b>127%</b>	<b>10%</b>	<b>3%</b>
Policy	101%	9%	3%
S&P 500	294%	18%	6%
EM (USD)	147%	11%	9%
Natural Resources	26%	3%	6%
Long Treasury	63%	6%	9%
Credit	181%	13%	4%
Hedge Funds	35%	4%	2%

Metrics over Expansion			
Metric	3/2009	6/2014	6/2017
S&P P/E (T)	11.1	17.6	20.9
EM P/E (T)	8.1	12.9	15.0
S&P Implied Vol	49.7	11.6	11.2
2-yr UST YTM	1.0	0.5	1.4
10-yr UST YTM	2.9	2.5	2.3
Brent Oil	44.1	112.4	47.9
Natural Gas	3.9	4.5	3.0
Gold	918.0	1,322.0	1,242.3
<b>Fed Balance Sheet (\$B)</b>			
US	1,902	4,368	4,463
ECB	2,683	2,683	2,683

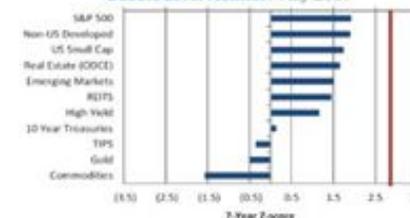
UTIMCO Metrics	TE	IR	Sharpe
UTIMCO 3-Yr	2.2%	0.68	1.04
UTIMCO 5-Yr	2.0%	0.64	1.79

Historical Geopolitical Events		Max Drawdown	Length to Recovery
Event	Date		
JFK assassination	11/1963	(2.8)	1 Day
Cuban Missile Crisis	10/1962	(4.8)	1 Week
9/11 Terrorist Attacks	9/2011	(11.6)	1 Month

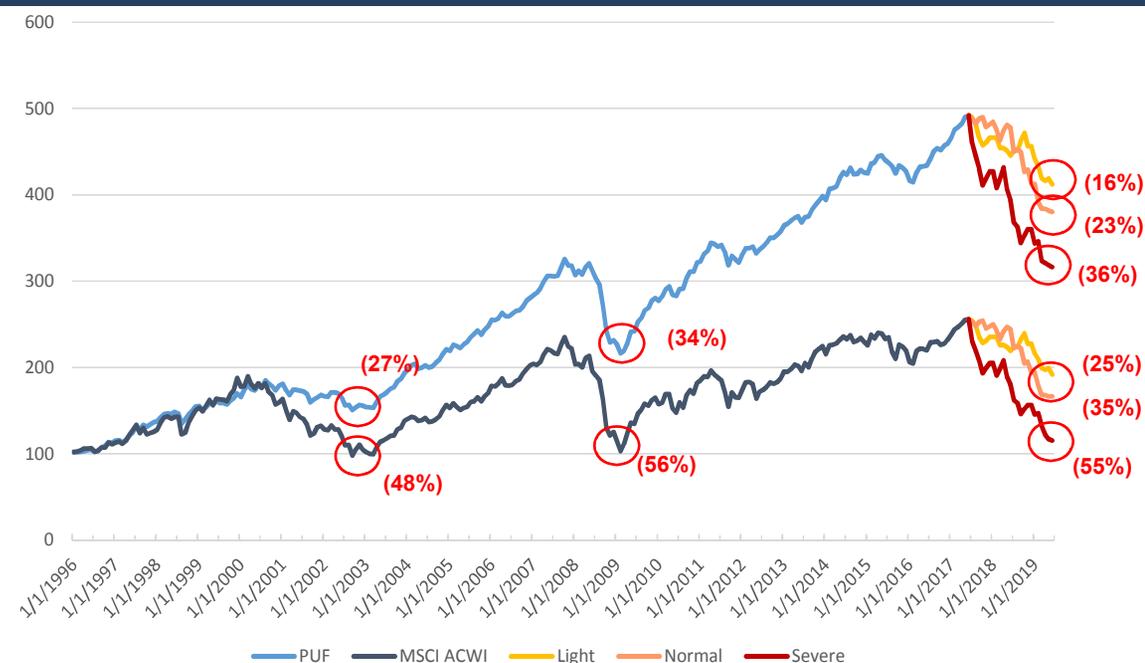
## Bear Market Indicators



## Bubble Level Monitor: May 2017



## Historical and Projected PUF Drawdowns



We estimate that the endowment beta is 0.65 to public equity and that the next recession/bear market will be accompanied by a 24 month drawdown (average length of bear market) with one of three levels of intensity:

- Light – Global Equity: (25%); Endowment: (16%)
- Normal – Global Equity: (35%); Endowment (23%)
- Severe – Global Equity (55%); Endowment (36%)

Probability of Recession in the Next Year				
Country	12/2015	6/2016	12/2016	6/2017
US	15%	20%	20%	20%
UK	13%	18%	25%	25%
Japan	30%	30%	20%	20%
Eurozone	15%	13%	15%	10%

Source: S&P Capital IQ, Bloomberg

# Endowment Risk Dashboard

June 30, 2017



## Market Betas

<u>U.S. Equity</u>	<u>Rates</u>	<u>Currency</u>
0.626	(0.305)	(0.165)



## Tracking Error

<u>1-year</u>	<u>3-years</u>	<u>10-years</u>
2.0%	2.2%	2.5%



## Scenarios

Expected Returns:	China Hard Landing	US Liquidity Squeeze	Japan Implosion	50% Oil Drop
	-22.9%	-21.4%	-16.5%	1.1%



## Concentration

	<u>Manager</u>		<u>Securities (Top 10)</u>	
<u>US</u>	<u>Top 10</u>	<u>Top 20</u>	<u>Bonds</u>	<u>Stocks</u>
54%	24%	40%	5.0%	5.3%



## Illiquidity

	<u>90 day liquidity</u>	<u>1 year liquidity</u>	<u>Unfunded Commitments</u>
Endowments	34.4%	53.4%	19.5%
ITF	59.2%	88.8%	



## Leverage

	<u>LCC</u>	<u>LCC ex-FI</u>	<u>Endowments</u>
Gross	2.06	1.63	1.00
Net	0.26	0.58	1.00

## Active Management

	1-year	3-years	10-years
<u>Value-Add</u>			
bps	456	154	185
\$	\$1,165M	\$1,0261M	\$4,755M
<u>Return/Volatility</u>			
Sharpe	5.02	1.04	0.54
IR	2.25	0.68	0.75

## Permanent Loss of Capital

	Invested Capital (\$B)	Realized Loss (\$M)	Anticipated/Unrealized Loss (\$M)	Total Loss (\$M)	Annualized Loss (%)
MCC	\$33.7	\$622	-	\$622	0.29%
LCC	13.2	240	198	438	0.51%
PI	14.5	327	202	529	0.81%
Total	<u>\$61.4</u>	<u>\$1,189</u>	<u>\$400</u>	<u>\$1,589</u>	<u>0.44%</u>

# Long-Term Focus



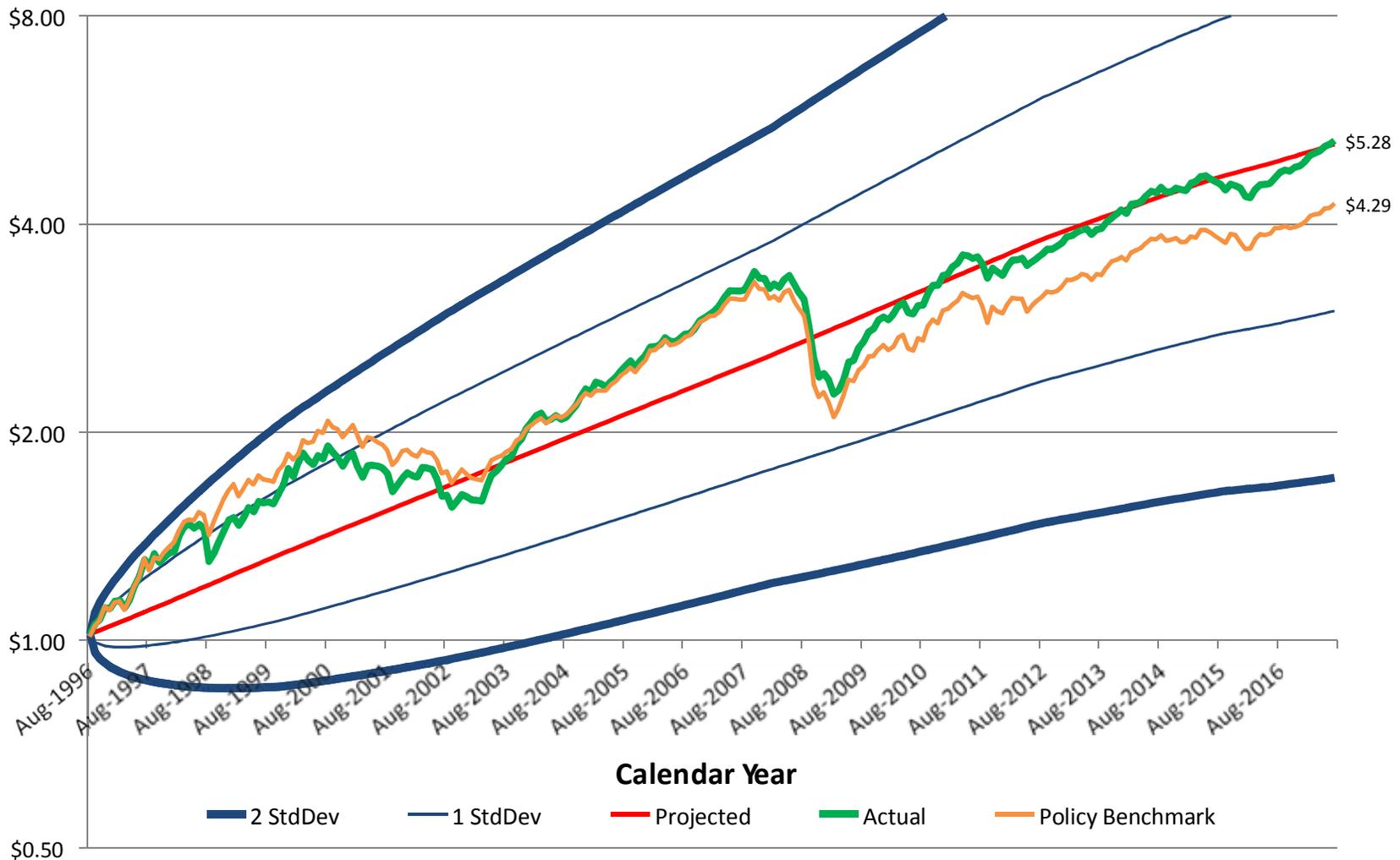
As of June 30, 2017

## UTIMCO Realized Volatility



UTIMCO Realized Volatility Time Period	1-Year	3-Years	5-Years	10-Years
FYE 1996	4%	5%	5%	-
FYE 2000	9%	10%	9%	-
FYE 2005	5%	6%	8%	9%
FYE 2010	6%	12%	10%	9%
FYE 2015	4%	4%	6%	8%
FYTD 2017	2%	5%	4%	8%

# Long-Term Focus

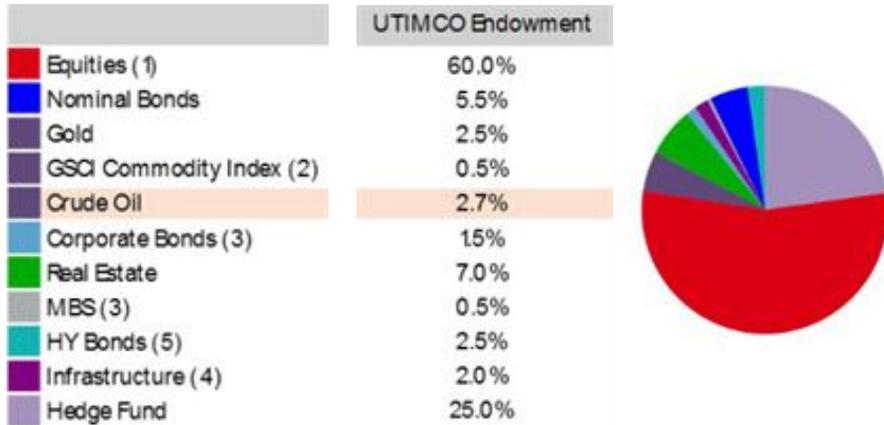


- The Policy portfolio is currently  $\frac{1}{3}$  standard deviation below from expectations – in three out of four cases it would have been further away from the red line

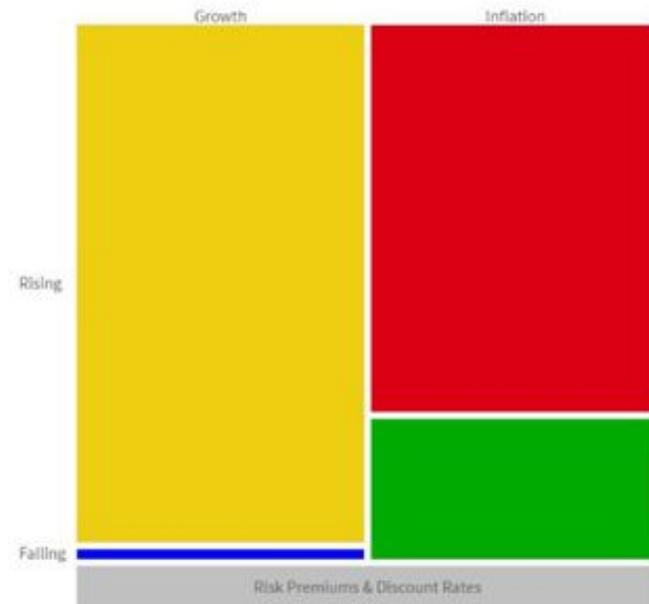
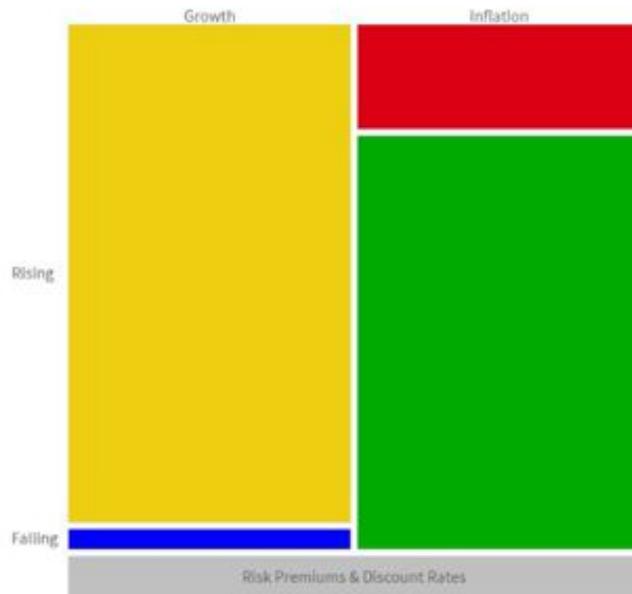
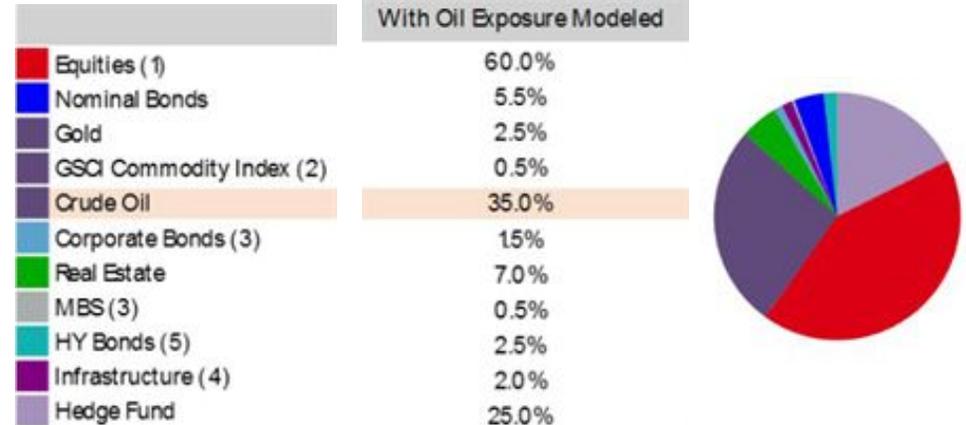
# Special Report



## Without ULANDCO



## With ULANDCO (~\$10Bn Oil Exposure)



# Conclusions

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## **Total Assets: \$40.4 Billion**

- Up \$4.9 Billion over past year

## **Performance Results Were Strong**

- Endowment return: 13.4%
- Alpha: 4.4% (\$1.4 Billion value add across funds)
- First quartile versus all funds

## **Market Conditions**

- Extended cycle
- Valuations stretched
- Economic conditions generally favorable

## **Risk Well Monitored**

- Recession outlook low
- Commodity spike seems unlikely
- Central Banks in play
- “Events” abound

## **UTIMCO Objective**

- Large, liquid, long-term investor
- Strong hands



# Appendix

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# PUF



		Returns					Alpha				
		QTR	YTD	1Y	5Y	10Y	QTR	YTD	1Y	5Y	10Y
<b>Total Correlated / Constrained</b>	\$ 7,265 (37.3%)	2.92	9.31	13.46	5.18	2.13	(0.87)	(1.12)	1.50	(0.10)	
<b>Less Correlated/Constrained</b>	\$ 4,555 (23.4%)	1.43	3.88	8.87	6.53	4.93	0.69	1.22	2.59	2.66	4.97
- Hedge Funds											
<b>Private Investments</b>	\$ 7,647 (39.3%)	3.51	6.99	16.45	12.99	9.93	1.99	3.77	8.88	1.47	1.15
<b>Total PUF</b>	\$ 19,467 100%	2.80	7.12	13.39	7.90	4.87	0.59	1.22	4.38	1.20	1.80

<b>Correlated/Constrained</b>		Returns					Alpha				
		QTR	YTD	1Y	5Y	10Y	QTR	YTD	1Y	5Y	10Y
<b>U.S. Public Equity</b>	\$ 1,040 (5.3%)	1.63	7.30	22.93	13.77	5.45	(1.38)	(1.63)	4.42	(0.82)	(1.81)
Large-cap	\$ 671	1.37	7.24	24.84	13.66	0.62	(1.72)	(2.10)	6.94	(0.97)	(6.56)
Small-cap	\$ 369	2.08	7.41	20.60	13.54	10.82	(0.46)	(0.26)	2.34	(1.72)	2.10

		Returns					Alpha				
		QTR	YTD	1Y	5Y	10Y	QTR	YTD	1Y	5Y	10Y
<b>Non-US Developed Equity</b>	\$ 1,844 (9.5%)	5.53	13.55	22.75	13.81	3.95	(0.59)	(0.26)	2.48	5.12	2.93

		Returns					Alpha				
		QTR	YTD	1Y	5Y	10Y	QTR	YTD	1Y	5Y	10Y
<b>Emerging Markets</b>	\$ 1,978 (10.2%)	5.93	16.97	21.41	7.39	2.79	(0.34)	(1.46)	(2.34)	3.44	0.87

# PUF



		Returns					Alpha				
		QTR	YTD	1Y	5Y	10Y	QTR	YTD	1Y	5Y	10Y
<b>Natural Resources</b>	\$ 839	(4.80)	(0.34)	1.09	(6.26)	(2.61)	(3.36)	(3.21)	2.94	(3.78)	(0.82)
	(4.3%)										
Gold	\$ 443	(0.61)	8.20	(6.15)	(4.93)	-	0.02	0.45	(0.05)	(0.02)	-
Equities	\$ 370	(8.88)	(7.27)	5.04	(2.60)	(2.99)	(4.56)	(0.22)	2.69	(1.48)	(0.92)
Commodities	\$ 26	(4.85)	(8.34)	(7.66)	(10.18)	-	Closed				

	\$B	Returns					Alpha				
		QTR	YTD	1Y	5Y	10Y	QTR	YTD	1Y	5Y	10Y
<b>Fixed Income</b>	\$ 1,528	1.97	3.74	(0.97)	0.11	2.21	(0.63)	(0.67)	1.21	(0.67)	(1.15)
	(7.8%)										
Internal	\$ 283	1.38	2.14	(0.07)	2.31	5.11					
External (Active)	\$ 871										
Liquidity	\$ 374										

		Returns					Alpha				
		QTR	YTD	1Y	5Y	10Y	QTR	YTD	1Y	5Y	10Y
<b>Less Correlated / Constrained</b>	\$ 4,555	1.43	3.88	8.87	6.53	4.93	0.69	1.22	2.59	2.66	4.97
	(23.4%)										
Equity Developed	\$ 2,985	2.07	4.42	7.70	6.96	-	1.33	1.76	1.42	3.10	-
FI Credit	\$ 668	1.36	3.66	12.52	7.77	-	0.61	1.00	6.24	3.91	-
FI IG	\$ 550	(2.40)	(2.66)	11.83	3.07	-	(3.14)	(5.31)	5.54	(0.80)	-
Equity Emerging	\$ 352	2.62	10.99	9.65	6.59	-	1.88	8.34	3.37	2.73	-

		Returns					Alpha				
		QTR	YTD	1Y	5Y	10Y	QTR	YTD	1Y	5Y	10Y
<b>Private Markets</b>	\$ 7,647	3.51	6.99	16.45	12.99	9.93	1.99	3.77	8.88	1.47	1.15
Developed Equity	\$ 2,376	2.42	3.68	18.25	16.30	-	0.90	0.46	10.69	4.78	-
Natural Resources	\$ 2,307	4.42	11.91	20.69	8.57	-	2.90	8.69	13.13	(2.95)	-
Real Estate	\$ 1,372	4.30	7.64	13.03	14.59	-	2.78	4.42	5.46	3.35	-
Emerging Equity	\$ 981	2.22	4.12	9.35	4.77	-	0.70	0.90	1.78	(6.75)	-
Credit Related	\$ 611	4.60	6.18	12.86	12.08	-	3.08	2.96	5.29	0.56	-

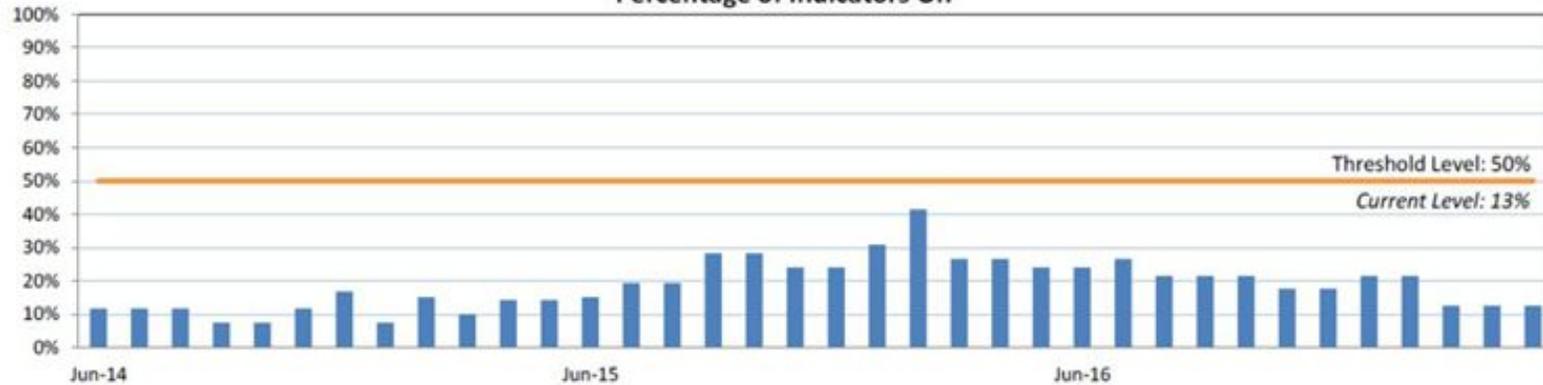
# Review of Current Environment



As of May 31, 2017

## Bear Market Indicators

Percentage of Indicators On



Blue: Current Level

Type	Provider	Indicator	On/Off	New?	Indicator Level		Last 16 Months
					Current	Threshold	
Inflation	Super	5yr Breakeven Inflation < 1.25%	Off		1.78%	1.25%	
	BCA	10yr Breakeven Inflation > 3%	Off		2.1%	3.0%	
	Omega, ISI	YoY Inflation > 12m Moving Avg **	Off		1.90%	2.2%	
	Comerstone	YoY CPI Energy > 20%	Off		9.2%	20.0%	
	Comerstone	YoY PCE Deflator < 4%	Off		1.70%	4.0%	
Employment	Omega, Husman, RBC	Employment Growth < 0%	Off		1.2%	0.0%	
	Comerstone, ISI, RBC	YoY Avg Hourly Earnings > 4%	Off		2.50%	4.0%	
	Comerstone	YoY NonFinc Labor Costs > 3.5%	Off		2.5%	3.5%	
Husman	Consumer Confidence Spread < -20%	Off		-2.94%	-0.20		
Growth	Omega	Inventory/Sales > Long Term Avg	On		46.0%	41.4%	
	Omega, ISI	YoY Leading Economic Indicator < 0%	Off		3.20%	0.0%	
	Fed	Fed Recession Probability > 10%	Off		0.5%	10.0%	
	Comerstone, RBC	Residential Construction (% of GDP) > 5%	Off		3.84%	5.0%	
	Comerstone	Total Investment (% of GDP) > 18.5%	Off		16.2%	18.5%	
	Omega, Comerstone	YoY Profit/Employee < -10%	Off		11.25%	-10.0%	
RBC, Husman	Factory Utilization < 0%	Off		19.4%	0.0%		

Orange: Threshold indicating Bear Market

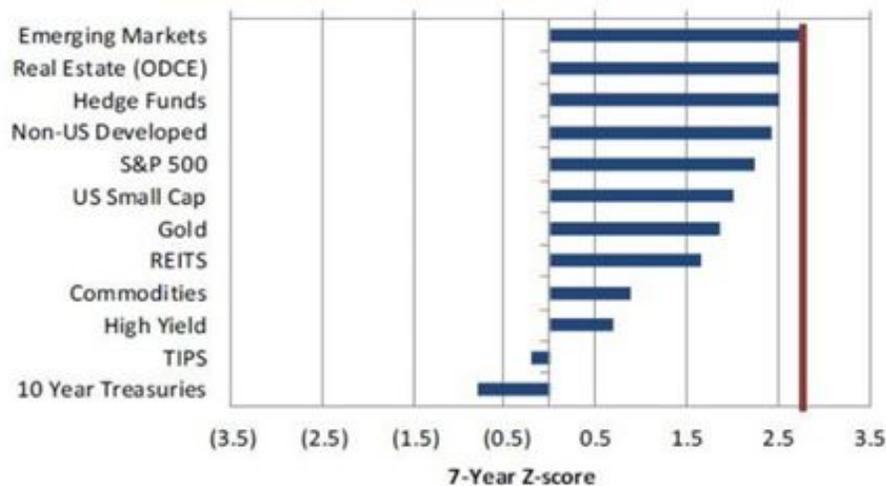
Type	Provider	Indicator	On/Off	New?	Indicator Level		Last 16 Months
					Current	Threshold	
Credit	BCA, ISI, Husman	US High Yield (Yield) > Long Term Avg **	Off		5.48%	10.3%	
	Comerstone	Non Mortgage Delinquency Rate > 1.5%	Off		2.2%	1.5%	
	Husman	Real Rates < 0%	On		-1.23%	0.0%	
Market	Husman	Tightening Monetary Policy	On		0.3%	0.0%	
	Omega, Husman	YoY Equity Markets < -5%	Off		15.01%	-5.0%	
	BCA	Investment Banks < 12m Moving Avg - 1 STD **	Off		36.0%	0.0%	
	BCA	Cons. Discretionary < 12m Moving Avg - 1 STD **	Off		14.89%	0.0%	
Comerstone, ISI	US Dollar 28m Change > 10%	Off		8.4%	10.0%		

\*\* For these indicators, threshold level was unspecified by provider - level shown is FIG defined  
Note: Long Term Avg is an expanding window average

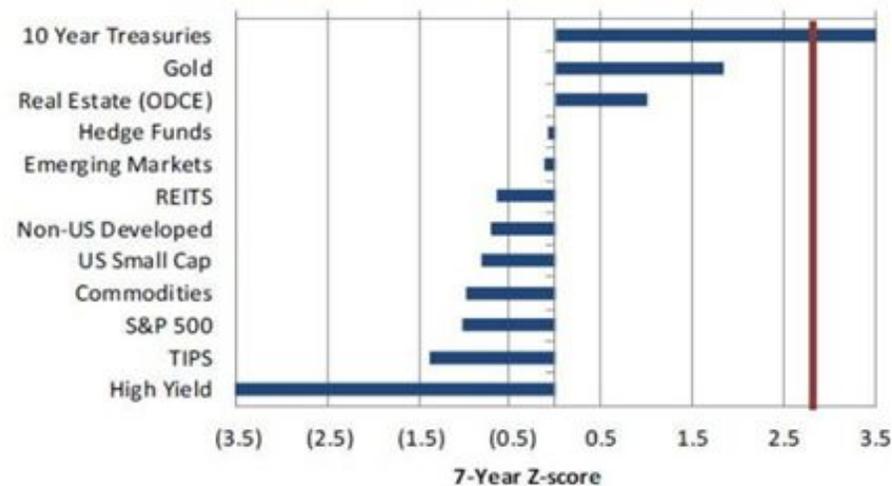
# Review of Current Environment



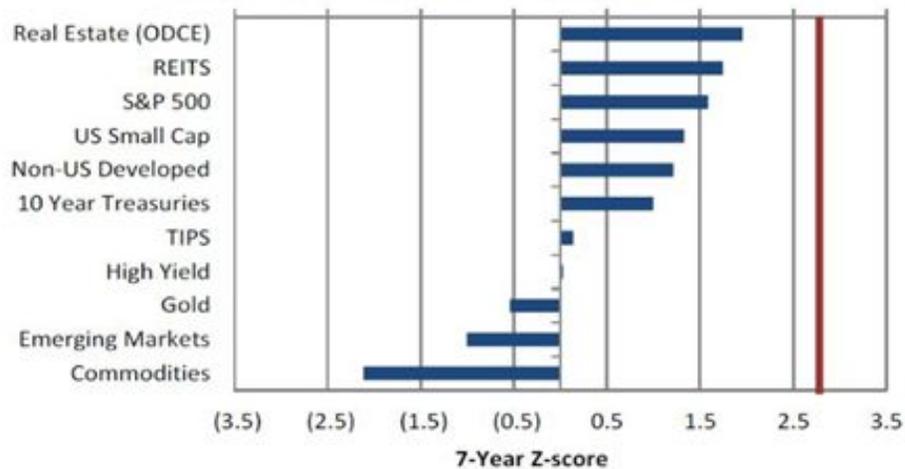
**Bubble Level Monitor: June 2007**



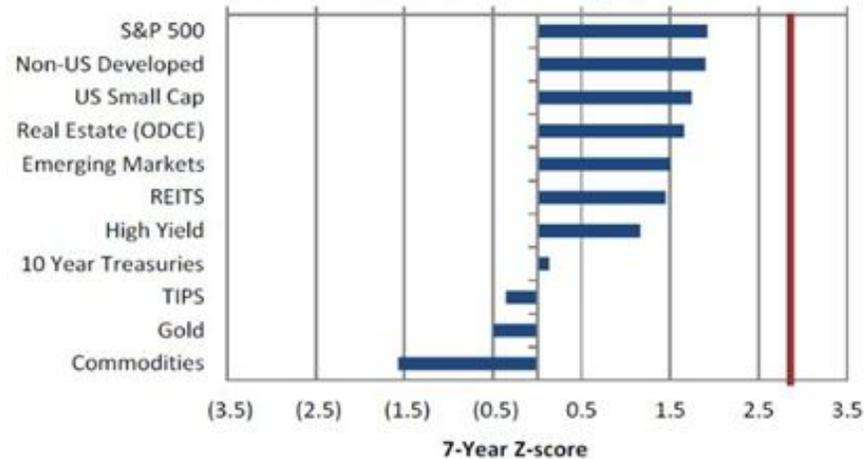
**Bubble Level Monitor: December 2008**



**Bubble Level Monitor: May 2016**



**Bubble Level Monitor: May 2017**



**Agenda Item**  
UTIMCO Board of Directors Meeting  
September 11, 2017

**Agenda Item:** Global Outlook

**Developed By:** Jensen

**Presented By:** Harris, Jensen

**Type of Item:** Information Item

**Description:** Mr. Harris will introduce Greg Jensen, Co-Chief Investment Officer of Bridgewater Associates, LP, and Mr. Jensen will present a global outlook.

**Reference:** None

**Agenda Item**  
UTIMCO Board of Directors Meeting  
September 11, 2017

**Agenda Item:** Current Initiatives and Top Priorities

**Developed By:** Harris

**Presented By:** Harris

**Type of Item:** Information Item

**Description:** Mr. Harris will present his current initiatives and top priorities.

**Reference:** *Current Initiatives and Top Priorities* presentation



# Current Initiatives and Top Priorities

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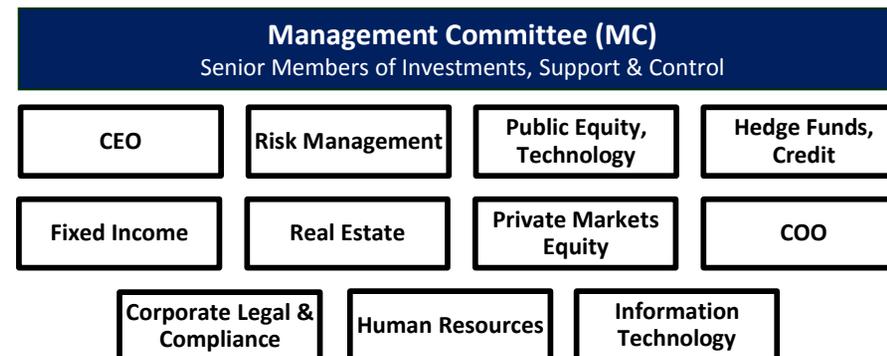
**Britt Harris**

CEO/CIO

September 2017



# Proposed Agency/Management Structure



## Board

- Establish long-term asset allocation policy
- Approve long-term return targets and risk parameters
- Provide appropriate resources, incentives and establish approved processes
- Establish appropriate reporting standards and metrics
- Comply with relevant laws
- Assure professional audit systems

## CEO

- Propose investment/management policies
- Achieve long-term return target within risk parameters
- Implement investments within approved guidelines
- Maximize effectiveness of resources provided
- Deliver transparent reporting
- Comply with relevant laws
- Collaborate with audit process

## Investment Committee

- Approve investments
- Assure UTIMCO processes and standards are followed

## Management Committee

- Manage UTIMCO organization and individual units
- Monitor performance and risk exposures
- Cross communication, evaluation and collaboration on investments and organizational issues
- Assure UTIMCO culture

# Top 10 Priorities

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1. Top 10% Agency Structure
2. Clarified Organizational Purpose
3. Established/Defined Culture
4. Attract/Retain “A Players”
5. Identification/Focus on Critical Processes
6. Establish a stable and effective Premier Supplier Network
7. Identify/Enhance Competitive Advantages
8. Become a Preferred Destination for Attractive Long-Term Investments
9. Professional metrics
10. Excellent Communications and Transparency

**Agenda Item**  
UTIMCO Board of Directors Meeting  
September 11, 2017

- Agenda Item:** Report from Policy Committee: Approval of the Investment and Liquidity Policy Recommendations
- Developed By:** Investment Team
- Presented By:** Hicks, Harris
- Type of Item:** Action item; Action required by UTIMCO Board; further action required Board of Regents of The University of Texas System (“U.T. Board”)
- Description:** The Policy Committee (“Committee”) met on August 30, 2017. The Committee’s agenda included the following: (1) approval of minutes of April 13, 2017 meeting; and (2) discussion and appropriate action related to proposed amendments to the Investment Policy Statements and Liquidity Policy.
- The Investment Management Services Agreement (IMSA) requires that UTIMCO review the current Investment Policies for each Fund at least annually. The review includes distribution (spending) guidelines, long-term investment return expectations and expected risk levels, Asset Class and Investment Type allocation targets and ranges for each eligible Asset Class and Investment Type, expected returns for each Asset Class, Investment Type, and Fund, designated performance benchmarks for each Asset Class and/or Investment Type and such other matters as the UT System Board of Regents or its staff designees may request.
- Discussion:** Director Hicks will review with the UTIMCO Board the action taken by the Policy Committee related to the proposed amendments to Exhibit A of the Investment Policy Statements for the Permanent University Fund (PUF), General Endowment Fund (GEF) and Intermediate Term Fund (ITF) and Exhibit B of the Investment Policy Statements for the Permanent Health Fund (PHF) and Long Term Fund (LTF), effective December 1, 2017. Director Hicks will also review with the UTIMCO Board the action taken by the Policy Committee related to the proposed amendments to the Liquidity Policy, effective November 9, 2017.
- Recommendation:** Director Hicks will request the UTIMCO Board to approve the proposed amendments to the Investment Policy Statements for the PUF, GEF, PHF, LTF and ITF, effective December 1, 2017. Director Hicks will also request the UTIMCO Board to approve the proposed amendments to the Liquidity Policy, effective November 9, 2017.
- Reference:** None

## **RESOLUTION RELATED TO INVESTMENT POLICIES**

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

**Agenda Item**  
UTIMCO Board of Directors Meeting  
September 11, 2017

**Agenda Item:** Report from Compensation Committee

**Developed By:** Moeller

**Presented By:** Rothrock

**Type of Item:** Information item

**Description:** The Compensation Committee (the “Committee”) met on August 31, 2017. The Committee’s agenda included the following: (1) approval of the minutes of February 1, 2017 meeting; and (2) discussion and appropriate action related to base salaries for the UTIMCO Officers and other UTIMCO Compensation Program Participants for 2017-2018 fiscal year. The Committee also met in Executive Session for the purpose of deliberating individual personnel compensation and evaluation matters.

**Discussion:** Director Rothrock will report on the Committee’s action related to the base salaries for all UTIMCO officers and Plan Participants (other than the CEO) for the 2017-2018 Fiscal Year.

**Recommendation:** None

**Reference:** None

**Agenda Item**  
UTIMCO Board of Directors Meeting  
September 11, 2017

**Agenda Item:** Report from Audit and Ethics Committee

**Developed By:** Moeller

**Presented By:** Handley

**Type of Item:** Information item

**Description:** The Audit and Ethics Committee ("Committee") met on August 31, 2017. The Committee's agenda included the following: (1) approval of minutes of April 13, 2017 meeting; and (2) discussion and appropriate action related to base salary for the Corporate Counsel and Chief Compliance Officer for the 2017-18 fiscal year.

**Discussion:** The Committee will report on its action related to the Corporate Counsel and Chief Compliance Officer's base salary for the 2017-2018 Fiscal Year.

**Recommendation:** None

**Reference:** None

**Agenda Item**  
UTIMCO Board of Directors Meeting  
September 11, 2017

<b>Agenda Item:</b>	Presentation and Approval of the UTIMCO 2017-2018 Budget
<b>Developed By:</b>	Harris, Moeller, Bauer
<b>Presented By:</b>	Harris
<b>Type of Item:</b>	Action Item; Action required by UTIMCO Board; further action required by Board of Regents of The University of Texas System ("U.T. Board")
<b>Description:</b>	<p>The Master Investment Management Services Agreement with UTIMCO ("IMSA") sets forth the annual budget and management fee requirements. UTIMCO submits to the U.T. Board its proposed annual budget for the following fiscal year within the time frame specified by the U.T. Board for other annual budget submissions. The annual budget includes all estimated expenses associated with the management of the Investment Funds. The annual budget also includes an annual UTIMCO management fee which includes all operating expenses associated with the general management of the Funds, including, without limitation, reasonable salaries, benefits and performance compensation of portfolio management and support personnel, expenses for consulting services, office space lease expenses, office furniture and equipment expenses, professional, legal, payroll, and other general services, travel, insurance, capital expenditures, and other miscellaneous expenses incurred by UTIMCO in connection with the performance of its obligations under the IMSA. At the same time UTIMCO submits its annual budget, it submits to the U.T. Board an allocation formula for charging the annual budget to the Investment Funds. In addition to the annual budget, UTIMCO submits its capital expenditures budget. The UTIMCO Board approved the capital expenditures budget for the 2017-2018 fiscal year at its July 25, 2017 meeting because the majority of the capital expenditures relate to the new office space, and the timing of the move (February 2018) requires that purchase commitments be made beginning early September 2017.</p> <p>During the preparation of the annual budget, a reserve analysis is also prepared. Within 90 days after the end of each fiscal year in the event that there is a surplus, UTIMCO distributes that portion of the cash reserves as may be directed by the U.T. Board back to the Funds which generated the surplus. UTIMCO will use any surplus funds to reimburse UT System for the buildout costs associated with the new lease space in the new UT System office building.</p>
<b>Discussion:</b>	Mr. Harris will present the Proposed UTIMCO FY2018 Budget presentation.
<b>Recommendation:</b>	Mr. Harris recommends that the UTIMCO Proposed 2017-2018 Annual Budget, Management Fee Request, and Allocation Schedule be approved as presented.
<b>Reference:</b>	<i>Proposed UTIMCO FY2018 Budget presentation</i>

<b>RESOLUTION RELATED TO BUDGET</b>
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RESOLVED, that the UTIMCO Management Fee of \$37,102,301 and the Other Direct Fund Costs of \$8,777,148, resulting in Total Fees of \$45,879,449, and the Allocation Schedule; as provided to the Board for the period beginning September 1, 2017 through August 31, 2018, be, and are hereby, approved, subject to approval by the Board of Regents of The University of Texas System.



# **The University of Texas/Texas A&M Investment Management Company**

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**Proposed FY 2018 Budget**  
**September 11, 2017**

# UTIMCO Budget

## 2017 Review/ 2018 Proposal



	FY 2017		Difference		Notes
	Budget	Actual	\$	%	
<b>Total</b>	\$ 41.0	\$ 41.1	\$ 0.1	0.2%	On Budget
Employee	\$ 24.3	\$ 24.0	\$ (0.3)	-1.2%	Slightly below budget due to departure of CEO early in the fiscal year
Other UTIMCO	\$ 8.0	\$ 9.1	\$ 1.1	13.8%	Depreciation Expense related to the disposal of the Internally Developed Investment Software System
Other Fund Costs	\$ 8.7	\$ 8.0	\$ (0.7)	-8.0%	New Hedge Fund Consultant was budgeted but has not been hired yet; Legal and Background Check fees were slightly lower than anticipated.
	FY 2017 Budget	FY 2018 Budget	Difference		Notes
			\$	%	
<b>Total</b>	\$ 41.0	\$ 45.9	\$ 4.9	12.0%	
Employee	\$ 24.3	\$ 26.9	\$ 2.6	10.7%	Filling open positions/Move to Survey Median
Other UTIMCO	\$ 8.0	\$ 10.2	\$ 2.2	27.5%	\$ .9 online data; \$.4 service agreements; \$.5 lease costs; \$.2 depreciation and \$.2 other office expenses
Other Fund Costs	\$ 8.7	\$ 8.8	\$ 0.1	1.1%	Slight increase in custody fees for asset appreciation and additional services offset by Online Analytical Tool now included in Other UTIMCO Services
Sec Lending Income	\$ (4.7)	\$ (4.7)	\$ -	0.0%	
Total Cost Offset	\$ (4.7)	\$ (4.7)	\$ -	0.0%	
<b>Net Budget Total</b>	<b>\$ 36.3</b>	<b>\$ 41.2</b>	<b>\$ 4.9</b>	<b>13.5%</b>	
	<b>FY 2018 Budget</b>				
Move Related Costs	\$ 2.1				
One-Time	0.2				
Move/Ongoing	\$ 1.9				



# APPENDIX

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# FY 2017 BUDGET & FORECAST AND FY 2018 BUDGET



(\$ in thousands)	FY 2017		FY 2018	FY 2018 Budget v FY 2017 Budget	
	Budget	Forecast	Budget	\$	%
Compensation	\$24,280	\$23,974	\$26,890	\$2,610	10.7%
Other	8,015	9,116	10,212	2,197	27.4%
<b>Total UTIMCO Services</b>	<b>\$32,295</b>	<b>\$33,090</b>	<b>\$37,102</b>	<b>\$4,807</b>	<b>14.9%</b>
<b>Total Direct Costs to Funds</b>	<b>\$8,747</b>	<b>\$7,964</b>	<b>\$8,777</b>	<b>\$30</b>	<b>0.3%</b>
<b>Total UTIMCO</b>	<b>\$41,042</b>	<b>\$41,054</b>	<b>\$45,879</b>	<b>\$4,837</b>	<b>11.8%</b>

(\$ in thousands)	FY 2017		FY 2018	FY 2018 Budget v FY 2017 Budget	
	Budget	Forecast	Budget	\$	%
Salaries	\$12,274	\$10,868	\$14,474	\$2,200	17.9%
Performance Compensation	9,006	10,446	9,316	310	3.4%
Benefits & Taxes	3,000	2,660	3,100	100	3.3%
<b>Total Compensation</b>	<b>\$24,280</b>	<b>\$23,974</b>	<b>\$26,890</b>	<b>\$2,610</b>	<b>10.7%</b>

# OTHER UTIMCO EXPENSES



(\$ in thousands)	FY 2017		FY 2018	FY 2018 Budget v FY 2017 Budget		Description
	Budget	Forecast	Budget	\$	%	
Lease	\$1,932	\$2,071	\$2,449	\$517	26.8%	Increased monthly rent at the new office (UTS Building); Paying February rent for both leases
Depreciation	1,171	2,453	1,400	229	19.6%	Depreciation added for Leasehold Improvements and Equipment for new offices; Offset by a decrease in depreciation due to the disposal of the Internally Developed Software
Online Data & Subscriptions	2,000	1,921	2,903	903	45.2%	Online Analytical Tool previously budgeted in Other Fund Costs is now included in UTIMCO Services; New Subscriptions for the CEO and new IT subscriptions related to the move
Travel	1,006	737	1,084	78	7.8%	
Contract Svcs & Maint Agrmnts	514	425	922	408	79.4%	Moving costs; Maintenance agreements on new equipment purchases relating to the move
Hiring, Relo & Comp Cons	568	716	500	(68)	-12.0%	
Legal	165	205	200	35	21.2%	
Other	<u>659</u>	<u>588</u>	<u>754</u>	<u>95</u>	<u>14.4%</u>	
<b>Total Other UTIMCO</b>	<b><u>\$8,015</u></b>	<b><u>\$9,116</u></b>	<b><u>\$10,212</u></b>	<b><u>\$2,197</u></b>	<b><u>27.4%</u></b>	

# DIRECT COSTS



(\$ in thousands)	FY 2017		FY 2018	FY 2018 Budget v FY 2017 Budget		Description
	Budget	Forecast	Budget	\$	%	
Custodian Fees & Performance Measurement	\$5,933	\$5,710	\$6,361	\$428	7.2%	Estimated appreciation in asset base, additional BNYM services, such as TUC's universe
Analytical and Risk Measurement	747	696	324	(423)	-56.6%	Moved analytical expenses to UTIMCO budget
Consultant Fees	566	354	528	(38)	-6.7%	Negotiated lower fee for new hedge fund consultant
Legal and Background Checks	522	275	550	28	5.4%	Anticipated more background checks
Auditing & Foreign Tax Consultants	959	906	983	24	2.5%	Increased D&T fees
Other	20	23	31	11	55.0%	Anticipate more filings for Dodd Frank related legislation
<b>Total</b>	<b>\$8,747</b>	<b>\$7,964</b>	<b>\$8,777</b>	<b>\$30</b>	<b>0.3%</b>	

# ANNUAL FEE & ALLOCATION SCHEDULE



**UTIMCO Management Fee and Direct Budgeted Investment Expenses**  
**Annual Fee and Allocation Schedule**  
 For the fiscal year ending August 31, 2018

<u>Proposed Budget</u>	<u>Fund Name</u>						<u>Separate Funds</u>	<u>Debt Proceeds</u>	<u>Total</u>
	PUF	PHF	LTF	GEF	ITF	STF			
<u>Market Value 6/30/17 (\$ millions)</u>	19,467	1,124	8,088	PHF LTF	8,595	2,146	108	848	40,376
<u>UTIMCO Management Fee</u>									
Dollars	19,377,327	1,118,822	8,050,743		8,555,408				37,102,301
Basis Points	10.0	10.0	10.0	0	10.0	0	0	0	9.2
<u>Direct Expenses to the Fund, excluding UT System Direct Expenses to the Fund</u>									
Dollars	3,473,564	25,842	28,192	2,756,805	2,492,745				8,777,148
Basis Points	1.8	0.2	0.0	3.0	2.9	0	0	0	2.2