

**MINUTES OF MEETING OF THE  
AUDIT AND ETHICS COMMITTEE OF THE  
BOARD OF DIRECTORS OF  
THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY**

A meeting of the Audit and Ethics Committee (the "Committee") of The University of Texas Investment Management Company (the "Corporation") convened in open session on **January 31, 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 Committee Chair, David J. Beck, with notice provided to each member in accordance with the Corporation's Bylaws. The audio portion of the meeting was electronically recorded. Participating in the meeting were the following members of the Committee:

David J. Beck, Chair  
Phil Adams  
R. Steven Hicks

thus constituting a majority and quorum of the Committee. Employees of the Corporation attending the meeting were Mark Warner, Interim CEO and Chief Investment Officer; Joan Moeller, Treasurer and Secretary; Cecilia Gonzalez, Corporate Counsel and Chief Compliance Officer; Uzi Yoeli, Managing Director – Risk Management; Russ Kampfe, Managing Director – Fixed Income; Eddie Lewis, Senior Director – Real Estate; Amanda Hopper, Senior Director – MCC; Gary Hill, Senior Manager - Investment Reporting; and other staff members. Other attendees were Michael Peppers, Eric Polonski, and Roger Starkey of The University of Texas System ("UT System") Administration; Jerry Turner and Bob Jewell of Andrews Kurth Kenyon LLP; David Rejino of The Texas A&M University System; Hillary Eckford of the Texas State Auditor's Office; and Robert Cowley and Christee Sneed of Deloitte & Touche LLP. Committee Chair ("Chairman") Beck called the meeting to order at 8:03 a.m. Copies of materials supporting the Committee meeting agenda were previously furnished to each Committee member.

**Approval of Minutes**

The first matter to come before the Committee was the approval of the minutes of the Audit and Ethics Committee meeting held on November 17, 2016. Upon motion duly made and seconded, the following resolution was unanimously adopted by the Committee:

RESOLVED, that the minutes of the Meeting of the Audit and Ethics Committee of the Board of Directors held on November 17, 2016, be, and are hereby, approved.

**Audit Results and Communications and Audited Financial Statements for the Corporation**

Chairman Beck asked Mr. Robert Cowley, engagement partner from the independent accounting firm of Deloitte & Touche LLP, to present the audit results and communications for the FY 2016 audit of the Corporation. Mr. Cowley confirmed that Deloitte & Touche LLP issued an unqualified opinion on the August 31, 2016 and 2015 Financial Statements, and that the accounting principles utilized by management are of good quality, are acceptable, and have been consistently applied under accounting principles generally accepted in the United States. Mr. Cowley noted one significant change to the Accounting Policies, which was the adoption of GASB Statement No. 72, *Fair Value Measurement and Application*. Mr. Cowley noted

that the adoption of GASB Statement No. 72 has no effect on the financial position or results for the Corporation. Mr. Cowley stated that the Corporation's Financial Statements and disclosures were complete in all material respects and there were no material weaknesses regarding internal controls found during their audit procedures. Mr. Cowley reported that there were no concerns regarding management. He also stated they had no difficulties to report and was very complimentary of the Corporation's staff, and the cooperation that Deloitte & Touche LLP had received throughout the audit process. Ms. Moeller and Mr. Cowley answered the Committee Members' questions. Chairman Beck called for approval of the audit results and communications for the Corporation for the fiscal year ended August 31, 2016, and the audited financial statements and audit report for the Corporation for the fiscal years ended August 31, 2016 and August 31, 2015. Upon motion duly made and adopted, the following resolution was approved unanimously:

RESOLVED, that Deloitte & Touche LLP's Financial Statement Audit Results and Communications on the Corporation for the year ended August 31, 2016, be, and is hereby approved in the form as presented to the Audit and Ethics Committee, subject to approval by the Corporation's Board.

And

RESOLVED, that the annual financial statements and audit report for the Corporation for the years ended August 31, 2016, and August 31, 2015, be, and are hereby approved in the form as presented to the Audit and Ethics Committee, subject to approval by the Corporation's Board.

#### UT System Audit Office Report

Chairman Beck asked Mr. Peppers, Chief Audit Executive of the UT System Audit Office, to provide an update on the Travel and Expense Audit Report for FY 2016. Mr. Peppers discussed the audit objectives. Mr. Peppers explained that the audit results system-wide had not been significant and as such the Board of Regents had decided that a bi-annual review is adequate. The next anticipated audit would be FY 2018. Mr. Polonski, Associate Director of Audits of the UT System Audit Office, then discussed the audit results, including UTIMCO's implementation of a Business-Related Entertainment Expenses Guidelines, expense monitoring activities, and staff training. The Audit Office recommended that UTIMCO clearly document the business purpose for entertainment or recreation, that additional approval by the Corporation's Chief Compliance Officer be obtained in certain circumstances, and that adequate supporting documentation for travel and entertainment expenses be maintained. Finally, Mr. Polonski noted that all recommendations from the previous audit had been implemented. Mr. Warner, Mr. Peppers and Mr. Polonski answered the Committee Members' questions.

#### Update on Compliance, Reporting and Audit Matters

Chairman Beck asked Ms. Gonzalez to provide an update on compliance and reporting matters. Ms. Gonzalez discussed the Investment Policies Compliance Report for the Quarter Ended November 30, 2016, noting that UTIMCO is in compliance with all of the Board of Regents investment policies and guidelines, custodian compliance with security lending guidelines, compliance with the liquidity policy, and compliance with the Code of Ethics and Delegation of Authority. Ms. Gonzalez presented to the Committee the Institutional Compliance Program Report for the Quarter Ended November 30, 2016. She reported on two minor compliance violations regarding unencrypted personal information being sent over the internet by an employee and one employee using unapproved software. These violations were addressed and resolved. Ms. Gonzalez continued her report on compliance matters, including the status of employee training, pre-

clearance of trades, staff outside employment approvals, and the Corporation's Compliance Hotline activity. Ms. Gonzalez then updated the Board on the status of the Institutional Compliance Action Plan for Fiscal Year 2017.

Ms. Gonzalez also reported on compliance violations by an external manager of the Derivative Investment Policy ("Policy") and the external manager's investment guidelines. Mr. Warner, Ms. Gonzalez, and Ms. Hopper then discussed the details of the compliance violations. This manager invested in a security, not required to be traded under an ISDA in the local market, but which was not excepted from being traded under an ISDA in the Policy as currently drafted. The violation was initially flagged in January 2016 but staff was told that the security traded was a participatory note, which is excepted from the Policy so no further follow-up was performed by staff. When an accounting staff member flagged the violation again in November 2016, the situation was investigated and staff began to formulate a remedy. Mr. Warner explained that staff's proposed remedy was to formally request from the Board of Directors Chairman a temporary waiver for this manager to continue using this security to access the regional market. Staff also plans to recommend an amendment to the Policy to address these and similar types of instruments which are not required to be traded under ISDAs. Ms. Hopper went on to explain that the manager had been further instructed to exit current positions with Deutsche Bank because the bank is rated below the Policy requirement of an A- rating or above. Additional investment guidelines will be incorporated into UTIMCO's Investment Advisory Agreement with this manager to further address counterparty risk. Ms. Gonzalez and Mr. Warner answered the Committee Members' questions.

#### Unaudited Financial Statements

Chairman Beck asked Ms. Moeller to present the separate unaudited financial statements for the Permanent University Fund ("PUF"), the General Endowment Fund ("GEF"), Permanent University Fund ("PHF"), Long Term Fund ("LTF"), and the Intermediate Term Fund ("ITF") for the three months ended November 30, 2016. Ms. Moeller provided highlights of the statements, with no new items or significant changes reported.

Ms. Moeller then discussed the Corporation's unaudited financial statements for the three months ended November 30, 2016 and 2015. Ms. Moeller highlighted three areas including cash and cash equivalents, an operating loss representing the vested award payout of the former CEO and Chief Investment Officer, and the depreciation of an IT asset, which will ultimately be fully depreciated and removed from the UTIMCO balance sheet. Mr. Warner and Ms. Moeller answered the Committee Members' questions.

#### Executive Session

Chairman Beck announced that, "The Audit and Ethics Committee of the Board of Directors of The University of Texas Investment Management Company having been duly convened in Open Session and notice of this meeting having been duly given, I hereby announce the convening of a closed meeting as an Executive Session of the Committee, for the purpose of deliberating individual personnel compensation and evaluation matters related to the Corporate Counsel and Chief Compliance Officer. This Executive Session meeting of the Committee is authorized by Texas Government Code Section 551.074 (Personnel Matters). The date is January 31, 2017, and the time is now 8:55 a.m." With the exception of Mr. Turner, Mr. Warner and Ms. Moeller, all other staff members left the meeting.

## Open Session

The Committee reconvened in open session and Chairman Beck announced that, "The Open Session of the Audit and Ethics Committee of the Board of Directors of The University of Texas Investment Management Company is now reconvened. The date is January 31, 2017, and the time is now 9:07 a.m. During the Executive Session, the Committee deliberated individual personnel compensation and evaluation matters related to the Corporate Counsel and Chief Compliance Officer, but no action was taken nor decisions made, and no vote was called for or had by the Committee in Executive Session."

## Incentive Award Opportunities for the Eligible Position of Corporate Counsel and Chief Compliance Officer

Chairman Beck recommended that the Audit and Ethics Committee and the Interim CEO jointly recommend to the Compensation Committee, subject to approval by the UTIMCO Board, the incentive award opportunities for the eligible position of Corporate Counsel and Chief Compliance Officer. By motion duly made and seconded, the following resolution was unanimously adopted:

WHEREAS, the UTIMCO Board has established a UTIMCO Compensation Program (the "Plan") for certain employees of the Corporation; and

WHEREAS, the Plan requires Table 1 of the Plan to be revised, as necessary, for subsequent Performance Periods to set forth any changes or additions to the Eligible Positions, the weightings for the Eligible Positions, the Incentive Award Opportunities, and any Applicable Deferral Percentage for each Eligible Position, for that Performance Period as soon as administratively practicable after confirmation of such Eligible Positions by the Board for such Performance Period and to be attached as Appendix C to the Plan; provided that, in the case of the Chief Compliance Officer, any such adjustment shall be based on the joint recommendation of the Committee and the CEO; and

WHEREAS, subject to the concurrence of the Compensation Committee and approval by the UTIMCO Board, the Audit and Ethics Committee has reviewed and approves the Incentive Award Opportunities for the Eligible Position of Corporate Counsel and Chief Compliance Officer as presented by the Interim CEO to the Audit and Ethics Committee.

NOW, THEREFORE, be it:

RESOLVED, that the Committee and the Interim CEO hereby jointly recommend to the Compensation Committee that the Incentive Award Opportunities for the Eligible Position of Corporate Counsel and Chief Compliance Officer as presented to the Committee in Appendix C, Table 1, be approved by the Compensation Committee, effective September 1, 2016.

Adjourn

There being no further business to come before the Committee, the meeting was adjourned at approximately 9:09 a.m.

Secretary: Joan Moeller  
Joan Moeller

Approved: David J. Beck  
David J. Beck, Chair  
Audit and Ethics Committee of the Board of Directors of  
The University of Texas Investment Management Company

Date: June 7, 2017