

**UTIMCO BOARD OF DIRECTORS  
ANNUAL MEETING AGENDA  
May 18, 2018**

UTIMCO  
210 West 7<sup>th</sup> Street, Suite 1700  
Austin, Texas

Time	Item #	Agenda Item
Begin	End	
		<b>OPEN MEETING:</b>
9:30 a.m.	9:35 a.m.	1 <a href="#">Call to Order of the Annual Meeting/Discussion and Appropriate Action Related to Minutes of the February 28, 2018 Meeting*</a>
9:35 a.m.	9:45 a.m.	2 <a href="#">Discussion and Appropriate Action Related to Corporate Resolutions:</a> - Resolution of Appreciation* - Election of Corporate Officers* - Committee Assignments*,**
9:45 a.m.	10:30 a.m.	3 <a href="#">Update from President of Yardeni Research, Inc.</a>
10:30 a.m.	10:45 a.m.	4 <a href="#">Performance and Market Update</a>
10:45 a.m.	11:00 a.m.	5 <a href="#">Update on 1<sup>st</sup> Quarter Priorities</a>
11:00 a.m.	11:45 a.m.	6 <a href="#">Hedge Funds Presentation</a>
11:45 a.m.	11:55 a.m.	7 <a href="#">Report from Risk Committee</a>
11:55 a.m.	12:05 p.m.	8 <a href="#">Report from Audit and Ethics Committee</a>
12:05 p.m.		<b>Adjourn</b>

\* Action by resolution required

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

By: The University of Texas/Texas A&M Investment Management Company

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

<b>Next Scheduled Meeting: July 26, 2018</b>
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**RESOLUTION RELATED TO MINUTES**

RESOLVED, that the minutes of the Meeting of the Board of Directors held on **February 28, 2018**, 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 **February 28, 2018**, in person at the corporate headquarters located at 210 West 7<sup>th</sup> Street, Suite 1700 in Austin, 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  
J. Kyle Bass  
Robert Gauntt  
Janet Handley  
R. Steven Hicks  
Ray Nixon  
Ray Rothrock  
James C. "Rad" Weaver

thus constituting a majority and quorum of the Board. Employees of the Corporation attending the meeting were Britt Harris, President, CEO and Chief Investment Officer; Joan Moeller, Secretary and Treasurer; Cecilia Gonzalez, Corporate Counsel and Chief Compliance Officer; Rich Hall, Deputy Chief Investment Officer; Scott Slayton, Managing Director; Uzi Yoeli, Managing Director; Russell Kampfe, Managing Director; Susan Chen, Managing Director; Ryan Ruebsahm, Managing Director; Eddie Lewis, Managing Director; Pat Pace, Senior Director; Directors Richard Rincon, Billy Prather, Suneel Kaji; and other team members. Other attendees were Student Regent Jaciel Castro of The University of Texas System ("UT System") Board of Regents; Harvey Schwartz, President and Co-COO of Goldman Sachs; Robert Cowley and Jason Bell of Deloitte and Touche LLP; Keith Brown of the McCombs School of Business at UT Austin; Jerry Turner of Orrick, Herrington & Sutcliffe LLP; Roger Starkey, Barry McBee, and Karen Adler of UT System; and David Rejino of The Texas A&M University System. Chairman Hildebrand called the meeting to order at 9:01 a.m. Copies of materials supporting the Board meeting agenda were previously furnished to each member of the Board.

Before beginning the Board Meeting, Mr. Harris recognized Melynda Shepherd and David Gahagan for all their hard work on the move to our new headquarters in the UT System Building. This is the inaugural Board of Directors meeting in the new headquarters.

**Minutes**

The first item to come before the Board was approval of the Minutes of the Board of Directors Meeting held on November 29, 2017. 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 November 29, 2017, be, and are hereby, approved.

### **Corporate Resolutions**

Chairman Hildebrand recommended approval of a resolution appointing Rich Hall and Scott Slayton as corporate officers to the offices of Deputy Chief Investment Officer and Managing Director, respectively. Upon motion duly made and seconded, the following resolution was unanimously adopted by the Board:

RESOLVED, that Rich Hall and Scott Slayton are hereby appointed to the offices of Deputy Chief Investment Officer and Managing Director, respectively, of the Corporation to serve until the next Annual Meeting of the Corporation or until his resignation or removal.

Chairman Hildebrand recommended Board approval of the resolution to designate the Annual Meeting of the UTIMCO Board of Directors. Upon motion duly made and seconded, the following resolution was unanimously adopted by the Board:

RESOLVED, that the Annual Meeting of the Board of Directors will be held on May 17, 2018, in Austin, Texas.

### **Conversation with President and Co-COO of Goldman Sachs**

Chairman Hildebrand introduced Mr. Harvey Schwartz, President and Co-COO of Goldman Sachs, and invited him to share with UTIMCO and the Board his thoughts on the current market situation. Mr. Harris addressed various prepared questions with Mr. Schwartz, including the market, economic, and political environment, central banking and international indicators, current and evolving regulations in the United States and FinTech, technology related to the financial sector. Mr. Harris and Mr. Schwartz answered the Directors' questions. Chairman Hildebrand thanked Mr. Schwartz for his presentation.

### **Performance and Market Update**

Chairman Hildebrand asked Mr. Slayton to give the UTIMCO Performance and Market Update. Mr. Harris provided a brief introduction of Mr. Slayton to the Board. Mr. Slayton reflected on the 2017 market environment and returns and posited on the future economy, market activities, and expected returns.

Mr. Slayton also discussed 2017 returns for the funds, 14.5% for the Permanent University Fund ("PUF"); 14.5% for the Permanent Health Fund ("PHF") and the Long Term Fund ("LTF"). Total Net Asset Value ("NAV") at the end of 2016 was \$37.7B; NAV at the end of 2017 was \$43.2B, a difference of \$5.5B, which is a very large absolute return. University Lands contributed \$700M to the PUF and the PUF paid out \$900M during the year. Mr. Slayton and Mr. Harris answered the Directors' questions.

## **Total Alignment Presentation**

Chairman Hildebrand asked Mr. Harris and Mr. Hall to present to the Board UTIMCO's Total Alignment plan and top ten priorities for 2018. Mr. Harris explained that the process of creating the significant action plan is to make a strong foundation for UTIMCO in the many years to come. The mantra of UTIMCO is Total Alignment, which means to become re-engaged with our mission, articulate a compelling vision, establish standards for excellence, strategize and prioritize what the environment should look like, and create a sustainable and healthy environment. To accomplish all of this, we must be in alignment with each other, our board, our partners, and our clients. The top ten priorities include the following: total alignment map, address agency priorities, preferred destination for investors/investments, focus on critical processes, align compensation, review underperforming areas, create new products, preferred investment employer, modernize analytical systems, and create great relationships/continually improve. Mr. Harris pointed out that the original mission statement of UTIMCO was excellent, but hard to remember. An employee, Drury Morris created several acronyms to help all UTIMCO employees remember the mission, vision, and cultural values of the organization. Chairman Hildebrand noted that any good organization has to have a noble cause for their employees to be totally engaged in the mission and vision.

Chairman Hildebrand suggested having an outside agency objectively review UTIMCO's culture to evaluate how well the Total Alignment Plan has worked. Mr. Harris and the management team answered the Directors' questions.

At approximately 11:52 a.m. the Board recessed for lunch.

The meeting of the Board reconvened in open session at approximately 12:33 p.m.

## **Private Investments Report**

Chairman Hildebrand asked Dr. Pace, Mr. Prather, Mr. Rincon, and Mr. Kaji to update the Board on the Private Investments Team and their current work. The presentation covered three of the five sectors in the Private Markets portfolio, Natural Resources, Developed Markets, and Emerging Markets.

The Private Investments portfolio is \$7.3 Billion or 25% of the total funds, half of which is in Natural Resources, with the remainder split between traditional markets private equity and emerging markets private equity. All the investments are made by outside managers through a fund or co-investment. Mr. Prather discussed the Natural Resources portfolio, Dr. Pace discussed the Developed Markets portfolio, and Messrs. Rincon and Kaji presented the Emerging Markets portfolio. The presenters answered the Directors' questions.

## **Co-Investment Strategy Report**

Chairman Hildebrand asked Mr. Lewis to introduce the Board to UTIMCO's co-investment strategy for the Private Markets Team. UTIMCO's co-investment strategy involves deepening collaboration and improving relationships with our partners, which is in line with the Total Alignment Plan. Mr. Lewis explained that the first co-investment made by UTIMCO was in 2010, but the co-investment program did not start until 2012. Co-investments to date are 78 with a NAV of \$1.8 billion and 18.4% return. UTIMCO's goal is to become the preferred destination for co-investment opportunities with our premier list partners. Mr. Lewis and Mr. Harris answered the Directors' questions.

### **Audit and Ethics Committee Report**

Chairman Hildebrand asked Director Handley to provide a report on behalf of the Audit and Ethics Committee. Director Handley reported that the Committee met via teleconference on February 21, 2018. At the meeting, the Committee approved the minutes from their previous meeting and approved the Deloitte & Touche LLP's Audit Results and Communications and the audited financial statements for the Corporation for the year ended August 31, 2017, subject to approval by the Board. The Committee made its recommendation to the Compensation Committee related to the Qualitative Performance Goals for the Corporate Counsel and Chief Compliance Officer for the Performance Period ended August 31, 2018. Routine matters of the Committee were also considered, including a report from UT System Audit Office; an update on UTIMCO's compliance, reporting, and audit matters; and a presentation of unaudited financial statements as of November 30, 2017 for the Investment Funds and the Corporation. Director Handley then asked Mr. Cowley, engagement partner from Deloitte and Touche, LLP, to briefly discuss the results of the audit of the Corporation with the Board. After Mr. Cowley's discussion, upon motion duly made and seconded, the following resolution was unanimously adopted by the Board:

RESOLVED, that Deloitte & Touche LLP's Financial Statement Audit Results and Communications for the Corporation for the year ended August 31, 2017, be, and is hereby approved in the form as presented to the Board; and further

RESOLVED, that the annual financial statements and audit report for the Corporation for the fiscal years ended August 31, 2017 and August 31, 2016, be, and are hereby approved in the form as presented to the Board.

### **Risk Committee Report**

Chairman Hildebrand asked Director Bass to provide a report from the Risk Committee. Director Bass reported that the Risk Committee met via teleconference on February 21, 2018. During the meeting the Risk Committee approved the minutes of the November 16, 2017 meeting and discussed the categorization of nine investment mandates. During the meeting Ms. Gonzalez reviewed and discussed compliance reporting and the Committee listened to a market and portfolio risk update from Dr. Yoeli and Mr. Harris.

### **Policy Committee Report**

Chairman Hildebrand asked Director Hicks to provide a report from the Policy Committee. Director Hicks reported that the Committee convened via teleconference on February 21, 2018. During the Policy Committee meeting, the Committee approved the minutes of the August 30, 2017 meeting and considered and approved proposed amendments to the Bylaws of The University of Texas/Texas A&M Investment Management Company, subject to approval by the Board and the Board of Regents of UT System. The proposed amendments are to update the principal place of business of the Corporation now that the move to the UT System building is complete and to Article V, Sections 4 and 5 (page 6) to allow a director to serve up to five full one-year terms as Chairman and Vice Chairman rather than the current three-year limitation on service in these offices. Upon motion duly made and seconded, the following resolution was unanimously adopted by the Board:

RESOLVED, that amendments to the UTIMCO Bylaws, as presented be, and are hereby, approved, subject to approval by the Board of Regents of The University of Texas System.

### **Executive Session**

Prior to going into executive session, Chairman Hildebrand announced that, "The Board of Directors of The University of Texas/Texas A&M 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 to consider individual personnel compensation and evaluation matters, pursuant to Texas Government Code Section 551.074. The date is February 28, 2018, and the time is now 2:32 p.m."

### **Reconvene in Open Session**

The Board reconvened in open session and Chairman Hildebrand announced that, "The Open Session of the Board of Directors of The University of Texas/Texas A&M Investment Management Company is now reconvened. The date is February 28, 2018, and the time is now 2:49 p.m. During the Executive Session, the Board deliberated individual personnel compensation and evaluation matters, but no action was taken nor decisions made, and no vote was called for or had by the Board in Executive Session."

### **Compensation Committee Report**

Chairman Hildebrand asked Mr. Rothrock, Chairman of the Compensation Committee, to provide a report on the Committee's meeting. Mr. Rothrock stated that the Compensation Committee met via teleconference on February 21, 2018. The Committee approved the minutes of the November 29, 2017 meeting and approved adding two new employees in Eligible Positions, Scott Slayton and Steve Muenzen, as Participants in the UTIMCO Compensation Program for the Performance Period ending August 31, 2018, subject to approval by the Board. The Committee also met in Executive Session to discuss, and after executive session approved, the Qualitative Performance Goals for the Participants of the UTIMCO Compensation Program for the Performance Period ended August 31, 2018. Upon motion duly made and seconded, the following resolution was 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 the following individuals, Scott Slayton (Managing Director – Investments) and Steve Muenzen (Analyst – Investments), as Participants in the Plan for the Performance Period ended August 31, 2018; and

WHEREAS, the UTIMCO Board wishes to select Scott Slayton (Managing Director – Investments) and Steve Muenzen (Analyst – Investments) as Participants for the Performance Period ending August 31, 2018.

NOW, THEREFORE, be it:

RESOLVED, that Scott Slayton (Managing Director – Investments) and Steve Muenzen (Analyst – Investments) are hereby designated as “Participants” in the Plan for the Performance Period ended August 31, 2018, effective as of January 29, 2018 and February 26, 2018, respectively.

### **Contracts Update**

Chairman Hildebrand asked Mr. Harris to present the report on all contracts entered into since the last Board meeting. Mr. Harris explained that the Board has delegated to him the authority to execute on the behalf of corporation all contracts, leases, or other commercial arrangements (except investment management agency contracts, partnership agreements, investment consultant agreements and agreements with independent auditors) for a total obligation of \$1 million or less during the contract term; provided that, for purposes of this delegation any contract that does not have a fixed term shall be deemed to have a term of one year; provided further, that notice of any such new contracts, leases, or other commercial arrangements of \$100,000 or more shall be reported to the Board at its next regularly scheduled meeting, and annually, all existing contracts, leases, or other commercial arrangements of \$100,000 or more shall be reported to the Board. Mr. Harris followed by presenting the report on contracts entered into since the last Board meeting and requested the Board to ratify the contract as presented in Executive Session. Mr. Harris also explained that contracts related to the office move would be presented at the next scheduled Board meeting. Upon motion duly made and seconded, the following resolution was unanimously adopted by the Board:

WHEREAS, to meet a pressing need for a Deputy Chief Investment Officer, on behalf of the Corporation, the President, CEO and Chief Investment Officer, with the advice and consent of the Board Chairman, entered into an agreement with Rich Hall to serve as the Corporation’s Deputy Chief Investment Officer; and

WHEREAS, the President, CEO and Chief Investment Officer requests the UTIMCO Board ratify the agreement with Rich Hall dated December 12, 2017, on the terms as presented to the Board in executive session, if the UTIMCO Board deems appropriate.

NOW, THEREFORE, be it:

RESOLVED that the agreement entered into between the Corporation and Rich Hall dated December 12, 2017 (the “Agreement”), for Rich Hall to serve as Deputy Chief Investment Officer is hereby ratified, confirmed, approved and adopted.

FURTHER RESOLVED, that the President, CEO and Chief Investment Officer, and the Secretary of this Corporation be, and each of them hereby is, authorized and empowered (any one of them acting alone) to do or cause to be done all such acts or things and to sign and deliver, or cause to be signed and delivered, all such documents, in the name and on behalf of the Corporation, as such officer of this Corporation may deem necessary, advisable or appropriate to effectuate or carry out the purposes and intent of the foregoing resolution and to perform the obligations of this Corporation under the Agreement.



**Adjourn**

There being no further business to come before the Board, the meeting was adjourned at approximately 2:52 p.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  
May 18, 2018

<b>Agenda Item:</b>	Discussion and Appropriate Action Related to Corporate Resolutions: <ul style="list-style-type: none"><li>- Resolution of Appreciation</li><li>- Election of Corporate Officers</li><li>- Committee Assignments</li></ul>
<b>Developed By:</b>	Gonzalez, Moeller
<b>Presented By:</b>	Hildebrand
<b>Type of Item:</b>	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
<b>Description:</b>	<p>Chairman Hildebrand will present a recommendation for the Corporate Officers. As stated in the Bylaws, a purpose of the Annual Meeting is to elect Officers for the ensuing year. Employees that are designated as Officers by the UTIMCO Board meet the definition of Key Employees in the Corporation's Code of Ethics.</p> <p>Chairman Hildebrand will present a recommendation to the Board to approve a resolution acknowledging the services of Phil Adams as a UTIMCO Board member. Mr. Adams served his three year term. His replacement is Regent Clifton L. Thomas, Jr. who was appointed as a UTIMCO Board member by the Board of Regents of the Texas A&amp;M System on April 19, 2018 to serve a three year term. Chairman Hildebrand is proposing that Director Thomas replace Director Adams on the Audit &amp; Ethics Committee and the Policy Committee. If a change is made in the composition of the Audit and Ethics Committee, Section 66.08 of the <i>Texas Government Code</i> 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.</p>
<b>Recommendation:</b>	Chairman Hildebrand will recommend approval of the election of Corporate Officers, Resolution of Appreciation, and committee assignments.
<b>Reference:</b>	None

## RESOLUTION OF APPRECIATION PHIL ADAMS

**WHEREAS**, in recognition of his substantial background and expertise in business and dedication to higher education in the State of Texas, Phil Adams was appointed by the Board of Regents of The Texas A&M University System to the Board of Directors of The University of Texas /Texas A&M Investment Management Company (“UTIMCO”) on April 1, 2015; and

**WHEREAS**, Mr. Adams is serving his third six-year term as a member of the Board of Regents of The Texas A&M University System, having been appointed in 2015 by Governor Greg Abbott, and first appointed by Governor Rick Perry in 2001 then again in 2009; and

**WHEREAS**, during his tenure on the Board of Regents of The Texas A&M University System he has served in various capacities, including Vice Chairman of the Board from 2011 to 2013, Chairman of the Board from 2013 to 2015, and Chairman of the Committee on Finance, the Committee on Buildings and Physical Plant, and the Committee on Audit; and

**WHEREAS**, during his tenure on the UTIMCO Board, Mr. Adams served as a member of the Audit and Ethics Committee and the Policy Committee; and

**WHEREAS**, Mr. Adams provided invaluable insight and counsel, drawing on his many years of experience in business and insurance as owner and president of Phil Adams Company, service on the board of directors of American Momentum Bank and former service on the board of directors of First American Bank, and memberships in the National Association of Insurance and Financial Advisors and the Philosophical Society of Texas; and

**WHEREAS**, Mr. Adams’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 by his service on the Texas A&M Chancellor’s Century Council and the Mays Business School Development Council; and

**WHEREAS**, Mr. Adams’s unselfish contributions are also evidenced in the civic arena by his service to numerous organizations, including the Texas Public Policy Foundation, the Bryan/College Station Chamber of Commerce, the Central Texas Association of Life Underwriters, and former service as president of the Brazos Valley Estate Council and chairman of the Brazos County Republican party; and

**WHEREAS**, during Mr. Adams’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**, during Mr. Adams’s tenure on the UTIMCO Board, total assets under management by UTIMCO grew by over \$8 billion or over \$7.5 million per day; and

**WHEREAS**, Mr. Adams’s leadership, judgment, and commitment has contributed greatly to UTIMCO’s success.

**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 Phil Adams 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 Phil Adams 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 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 18th day of May 2018.

## RESOLUTION RELATED TO CORPORATION OFFICERS

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
Rich Hall	Deputy Chief Investment Officer
Joan Moeller	Senior Managing Director, Treasurer and Secretary
Mark Warner	Senior Managing Director
Susan Chen	Managing Director
Russ Kampfe	Managing Director
Edward Lewis	Managing Director
Ryan Ruebsahm	Managing Director
Scott Slayton	Managing Director
Uzi Yoeli	Managing Director
Uche Abalogu	Chief Technology Officer

## **RESOLUTION RELATED TO COMMITTEE ASSIGNMENTS**

BE IT RESOLVED, that Director Clifton L Thomas, Jr. 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.

**Agenda Item**  
UTIMCO Board of Directors Meeting  
May 18, 2018

**Agenda Item:** Update from President of Yardeni Research, Inc.

**Developed By:** Slayton

**Presented By:** Yardeni, Slayton

**Type of Item:** Information Item

**Description:** Mr. Slayton will interview Dr. Edward Yardeni, President of Yardeni Research, Inc.

**Reference:** None

# Presentation for UTIMCO May 2018

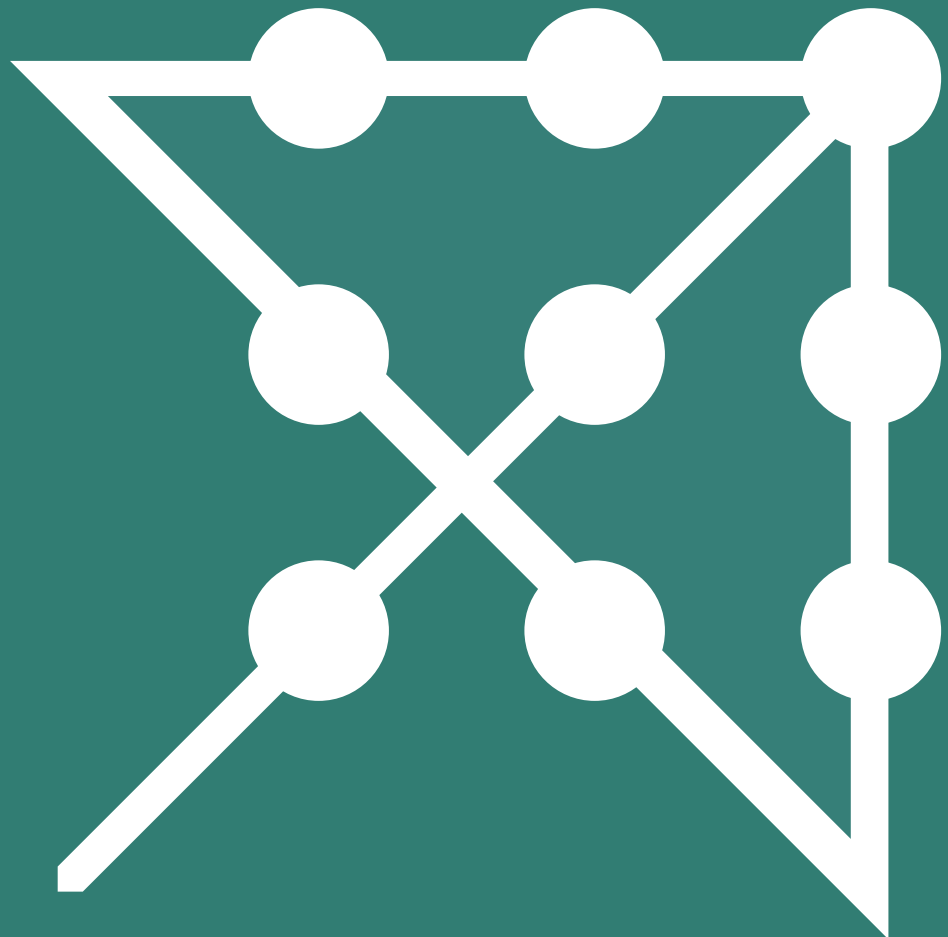
Yardeni Research, Inc.

*March 14, 2018*

**Dr. Edward Yardeni**

516-972-7683  
eyardeni@yardeni.com

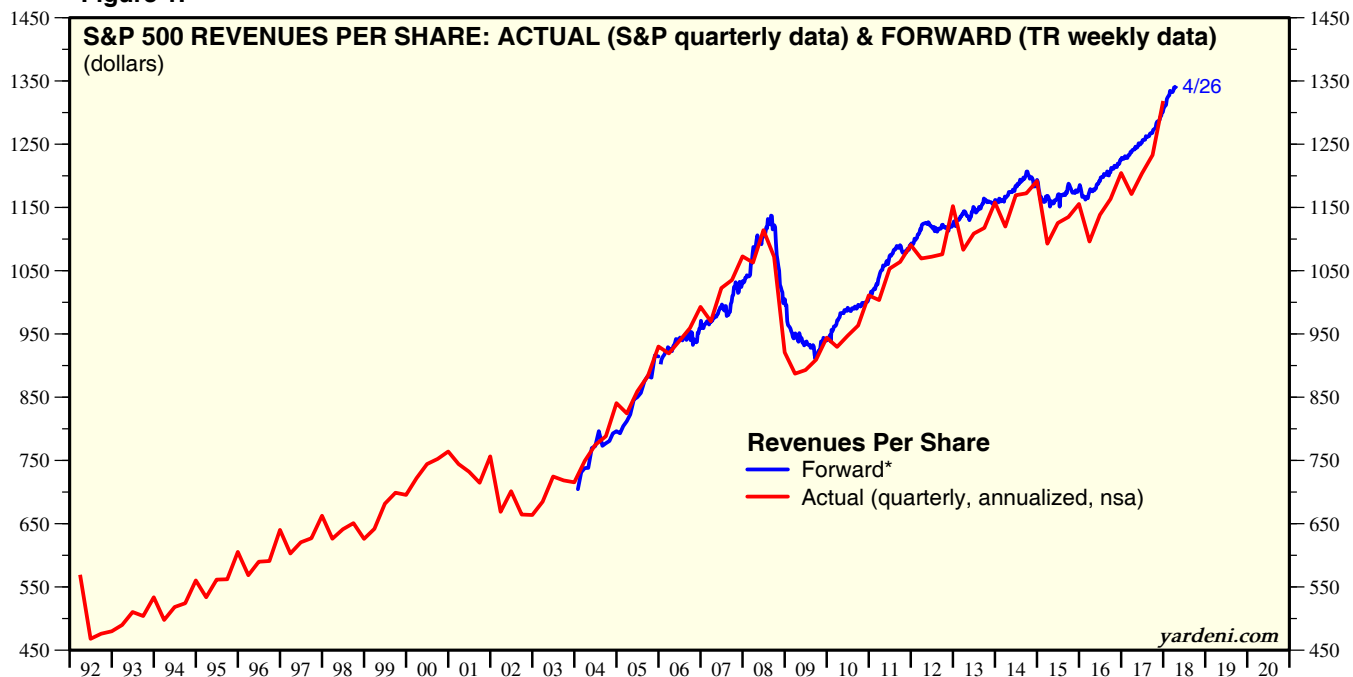
Please visit our sites at  
[www.yardeni.com](http://www.yardeni.com)  
[blog.yardeni.com](http://blog.yardeni.com)



*thinking outside the box*

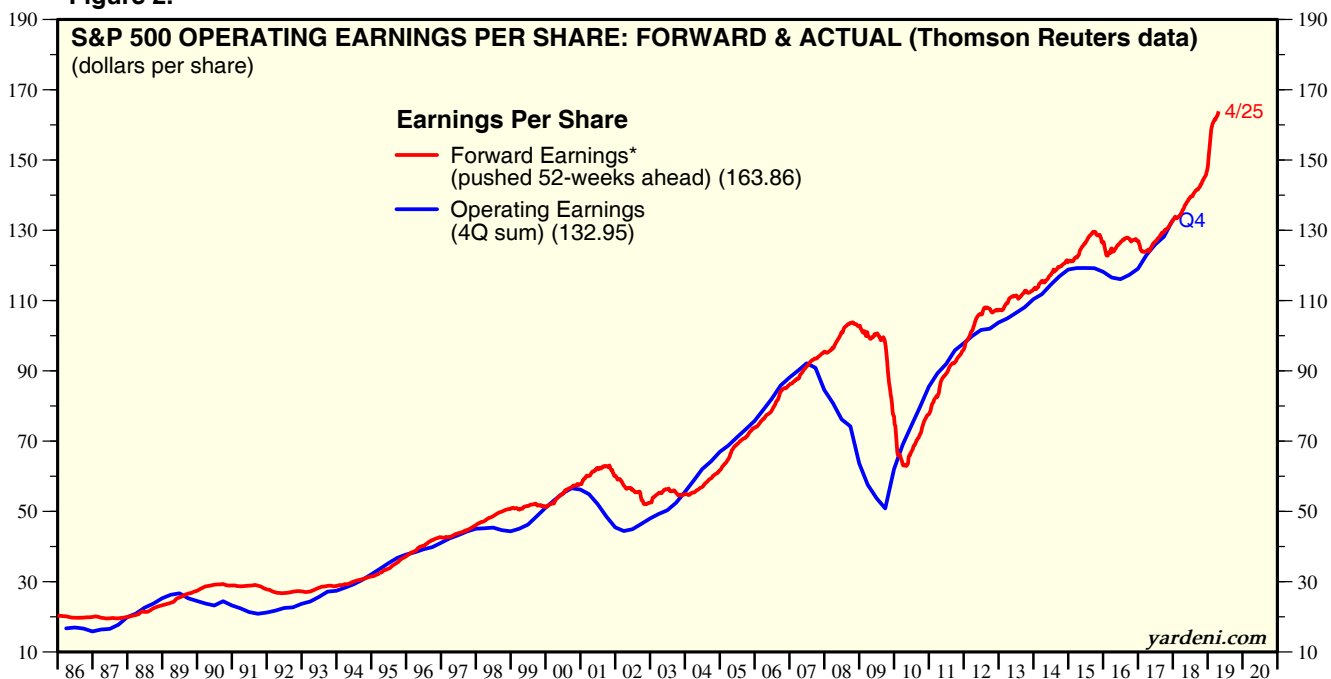


**Figure 1.**



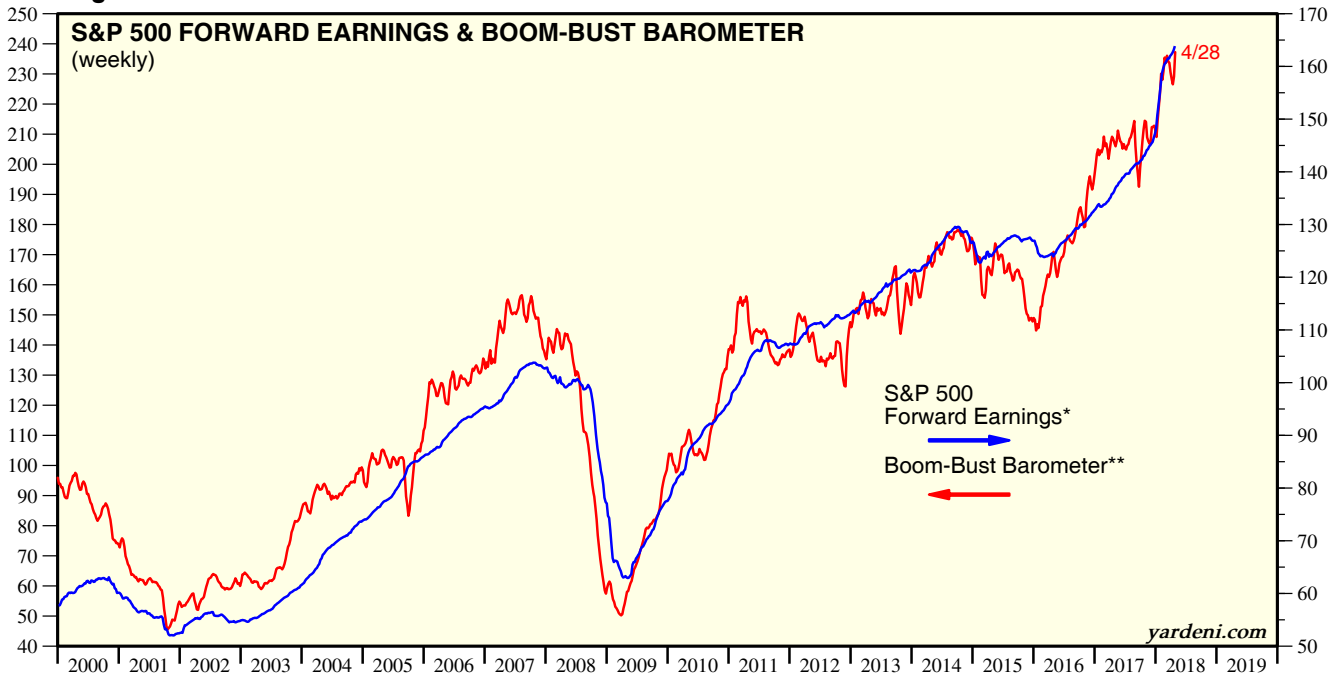
\* Time-weighted average of consensus estimates for current year and next year. Monthly through December 2005, then weekly.  
Source: Standard & Poor's (for actual revenues) and Thomson Reuters I/B/E/S (for forward revenues).

**Figure 2.**



\* Time-weighted average of consensus estimates for current year and next year. Monthly through December 2005, then weekly.  
Source: Standard & Poor's until Q4-1993, then Thomson Reuters I/B/E/S.

**Figure 3.**

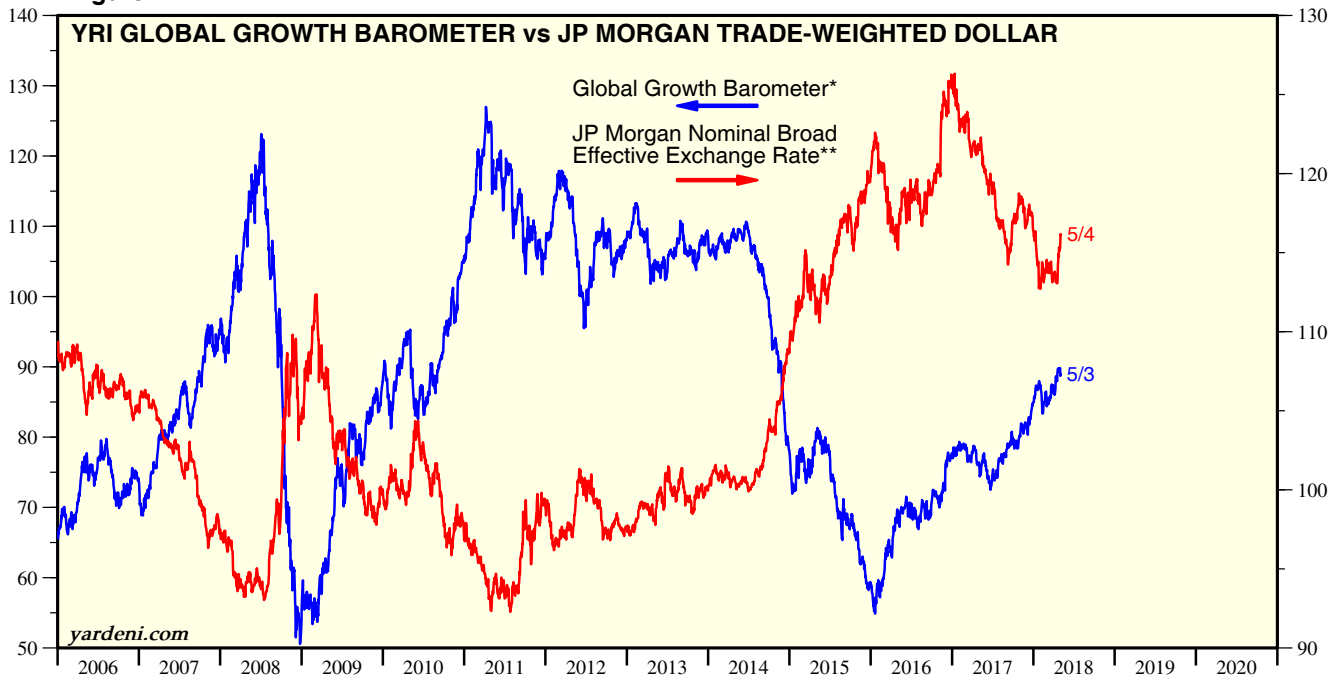


\* Time-weighted average of consensus estimates for the current year and next year.

\*\* CRB raw industrials spot price index (weekly average) divided by weekly initial unemployment claims, showing four-week moving average.

Source: Commodity Research Bureau, Bureau of Labor Statistics, and Thomson Reuters I/B/E/S.

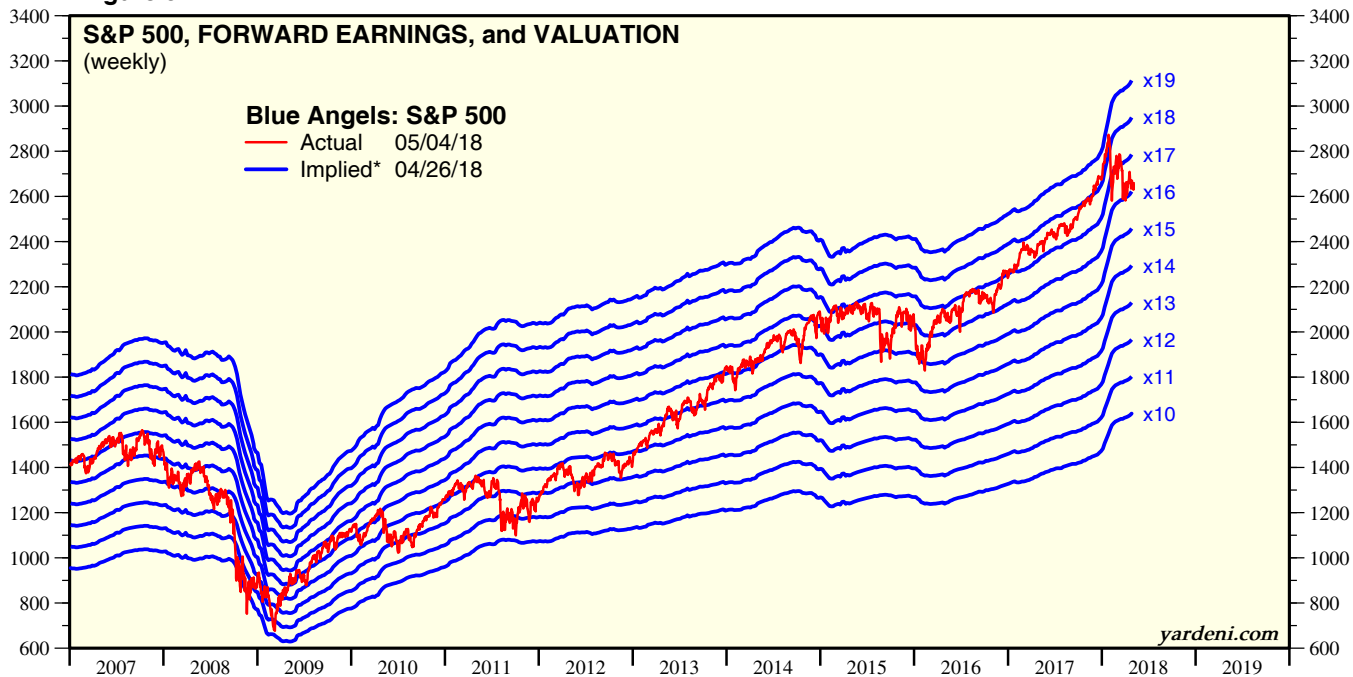
**Figure 4.**



\* Average of nearby price of Brent crude oil and CRB raw industrials spot price index times 2 and divided by 10.

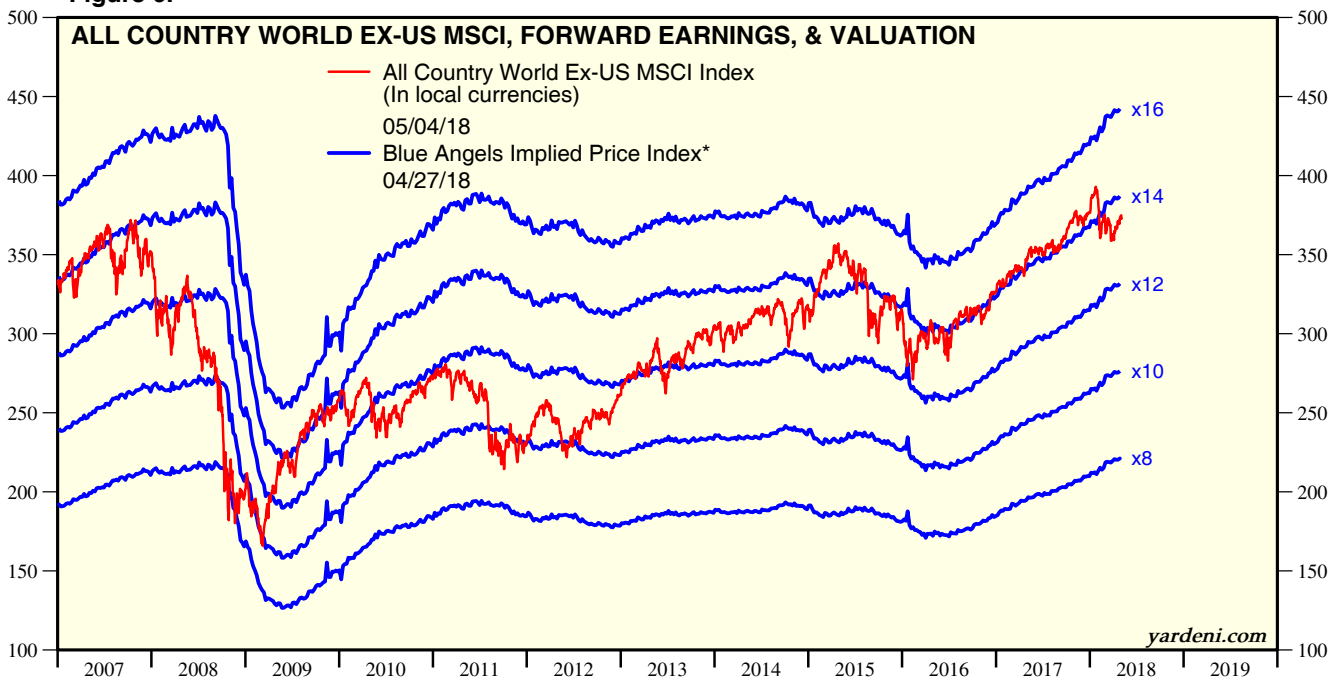
\*\* Argentina, Australia, Brazil, Bulgaria, Canada, Chile, China, Colombia, Croatia, Czech Republic, Denmark, Ecuador, Egypt, France, Germany, Hong Kong, Hungary, Japan, India, Indonesia, Israel, Italy, Korea, Kuwait, Malaysia, Mexico, Morocco, New Zealand, Nigeria, Norway, Pakistan, Panama, Peru, Philippines, Poland, Romania, Russia Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Taiwan, Thailand, Turkey, United Kingdom, Ukraine, Uruguay, Venezuela, Vietnam, and United States. Source: The Commodity Research Bureau and JP Morgan Stanley Capital International.

**Figure 5.**



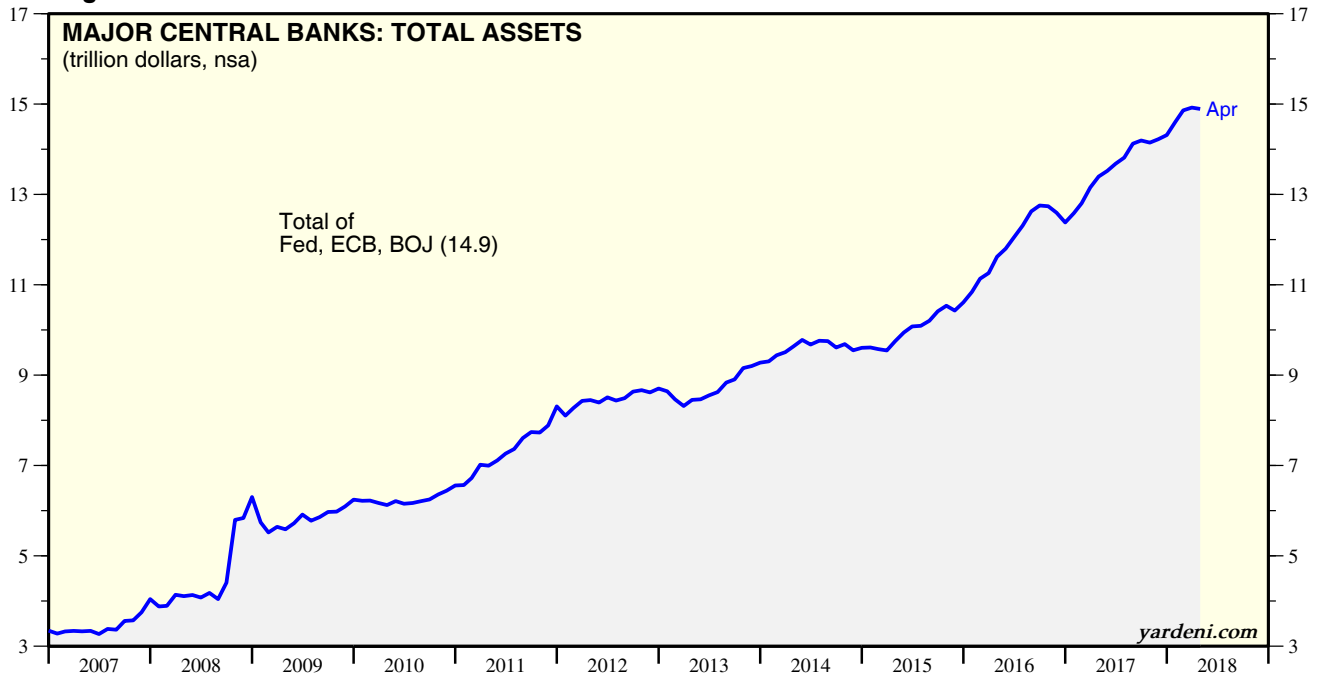
\* Implied price index calculated using forward earnings times forward P/Es. Weekly data start January 2007.  
Source: Standard & Poor's and Thomson Reuters I/B/E/S.

**Figure 6.**



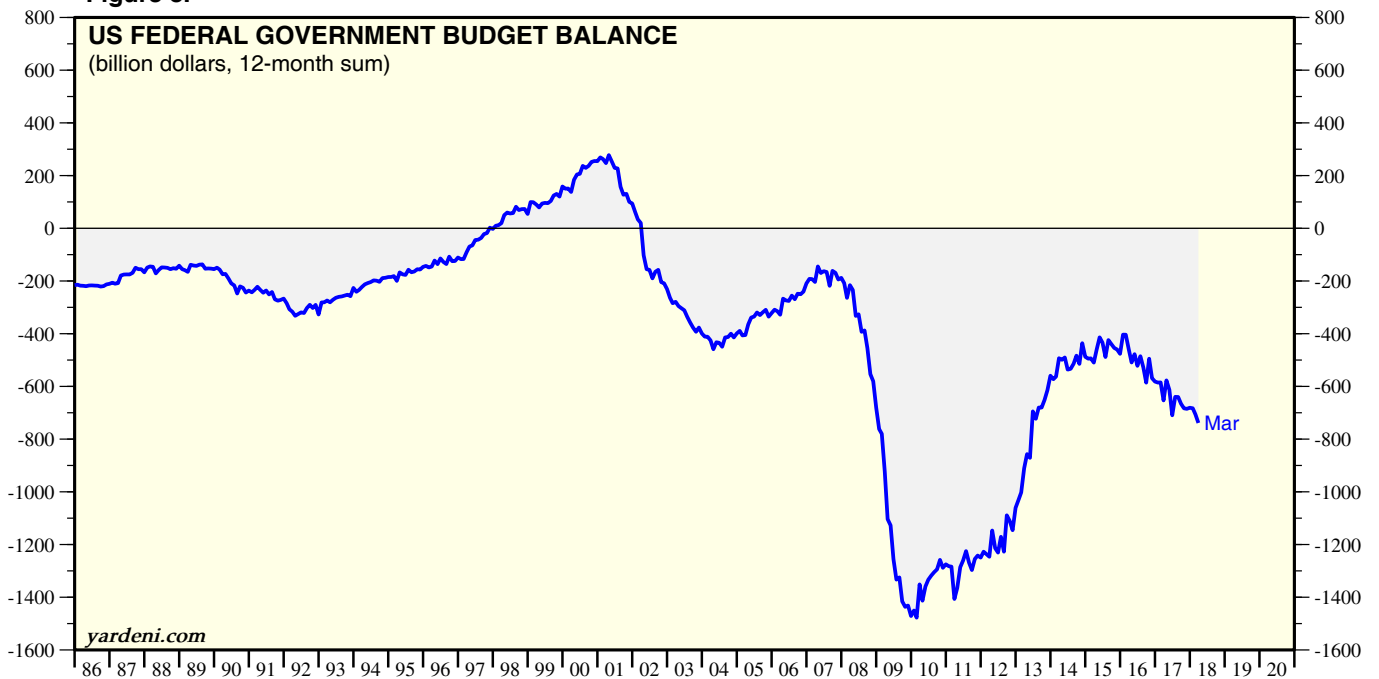
\* Implied price index calculated using forward earnings times forward P/Es. Monthly through December 2005, weekly thereafter.  
Source: MSCI and Thomson Reuters I/B/E/S.

Figure 7.



Source: Haver Analytics.

Figure 8.



Source: US Treasury Department.

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**Agenda Item**  
UTIMCO Board of Directors Meeting  
May 18, 2018

**Agenda Item:** Performance and Market Update

**Developed By:** Harris, Standley

**Presented By:** Harris

**Type of Item:** Information Item

**Description:** Mr. Harris will present on performance and provide a market update.

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



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

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## UTIMCO Performance and Market Update

**Britt Harris**

*President, CEO and Chief  
Investment Officer*

# Overview of Funds

Periods Ending March 31, 2018



## Overview of Funds Periods Ending March 2018

Endowment Funds	\$B	Returns							Alpha						Fiscal YTD		
		1 Mth	QTR	YTD	1Y	3Y	5Y	10Y	1 Mth	QTR	YTD	1Y	3Y	5Y	10Y	7 mth	Alpha
PUF	\$ 21.3	0.24	2.98	2.98	12.81	7.27	7.84	5.78	0.21	0.03	0.03	(0.02)	0.42	0.97	1.61	6.79	(0.07)
PHF	\$ 1.2	0.30	3.13	3.13	13.24	7.48	7.99	5.80	0.27	0.18	0.18	0.41	0.63	1.12	1.63	7.29	0.43
LTF	\$ 8.9	0.30	3.13	3.13	13.25	7.49	8.00	5.81	0.27	0.18	0.18	0.42	0.64	1.13	1.64	7.29	0.43
Other	\$ 0.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>\$ 31.5</b>																

Operating Funds	\$	1 Mth	QTR	YTD	1Y	3Y	5Y	10Y	1 Mth	QTR	YTD	1Y	3Y	5Y	10Y	7 mth	Alpha
ITF	\$ 10.0	(0.04)	1.23	1.23	8.72	3.89	4.26	4.03	0.29	0.61	0.61	0.07	0.22	0.88	1.67	3.63	0.15
Debt Proceeds	\$ 0.6	0.13	0.38	0.38	1.28	0.73	0.48	N/A	(0.01)	0.03	0.03	0.17	0.20	0.14	N/A	0.80	0.07
STF	\$ 2.2	0.14	0.37	0.37	1.21	0.61	0.40	0.50	0.00	0.02	0.02	0.10	0.08	0.06	0.16	0.78	0.05
<b>TOTAL</b>	<b>\$ 12.8</b>																

All Assets	\$
December 2017	\$ 43.2
September 2017	\$ 41.4
June 2017	\$ 40.4
March 2017	\$ 39.7

Income & Distributions (\$M)	Projected 8/31/2018	8/31/2017	8/31/2016
PUF Land Contributions	\$ 960	\$ 688	\$ 512
PUF Distribution	\$ (887)	\$ (839)	\$ (773)
Net Payout (\$M)	\$ 73	\$ (151)	\$ (261)





# Global Markets, Risk Premiums and Diversification

Periods Ending March 31, 2018



	Market Returns							Std Dev		Max Drawdown	Corr vs. S&P500	Sharpe Ratio	
	MTD	QTR	YTD	1Y	3Y	5Y	10Y	1	10E			5	10
<b>United States</b>													
CPI	0.23	1.23	1.23	2.36	1.86	1.40	1.57	0.80	1.39	4.43	0.14	1.08	0.89
Cash	0.14	0.35	0.35	1.11	0.53	0.34	0.34	0.08	0.17	0.01	(0.26)		
Long Treasury (Duration)	3.03	(3.29)	(3.29)	3.51	0.35	3.29	5.78	7.69	11.98	15.94	(0.29)	0.29	0.45
Credit (IG)	1.06	1.36	1.36	6.98	3.14	1.49	2.19	3.18	5.68	10.07	0.34	0.25	0.33
High Yield (Default)	(0.14)	(0.36)	(0.36)	6.65	6.72	5.31	8.27	2.95	11.21	33.37	0.75	0.88	0.71
US Dollar Index	(0.71)	(2.33)	(2.33)	(10.34)	(2.93)	1.63	2.28	5.42	8.75	17.13	(0.53)	0.19	0.22
S&P 500	(2.54)	(0.76)	(0.76)	13.99	10.78	13.31	9.49	8.47	14.98	46.41	1.00	1.31	0.61
U.S. Small Cap	(2.01)	(0.64)	(0.64)	13.81	10.22	13.03	9.62	7.97	15.48	46.97	1.00	1.27	0.60
Private Equity <sup>1</sup>	1.57	6.91	6.91	15.11	11.01	12.47	9.03	5.86	9.04	23.84	0.40	2.27	0.96
Size <sup>2</sup>	0.39	(3.72)	(2.57)	(2.98)	(1.26)	(1.11)	1.68	7.55	8.02	15.37	0.26	(0.17)	0.17
Value <sup>2</sup>	(1.09)	(2.18)	(2.38)	(8.51)	0.23	(1.24)	(1.35)	6.60	9.64	25.02	0.31	(0.19)	(0.18)
Momentum <sup>2</sup>	4.09	6.76	8.38	16.47	4.15	4.25	(2.12)	7.82	17.31	57.39	(0.37)	0.36	(0.14)
<b>Non-US Equity</b>													
EAFE Developed (USD)	(1.80)	(1.53)	(1.53)	14.80	5.55	6.50	2.74	8.88	18.24	52.74	0.89	0.52	0.13
Emerging Markets (USD)	(1.86)	1.42	1.42	24.93	8.81	4.99	3.02	11.91	22.47	57.97	0.80	0.31	0.12
Global Equity (USD)	(2.14)	(0.96)	(0.96)	14.85	8.12	9.20	5.57	8.55	16.59	50.97	0.96	0.86	0.32
Europe (USD)	(1.20)	(1.98)	(1.98)	14.49	4.79	6.37	2.06	10.86	20.03	55.38	0.89	0.46	0.09
Europe (Local)	(1.92)	(4.35)	(4.35)	2.00	2.91	7.67	4.62	7.17	14.55	43.36	0.87	0.70	0.29
Japan (USD)	(1.97)	0.98	0.98	20.04	8.72	9.25	4.33	7.29	15.58	42.93	0.72	0.72	0.26
<b>Diversifiers (Typical)</b>													
Hedge Funds	(0.37)	0.71	0.71	5.92	1.97	3.45	1.58	3.16	5.06	20.11	0.74	0.92	0.25
Real Estate (Private) <sup>1</sup>	2.14	10.24	10.24	19.74	12.24	13.32	5.20	8.34	15.81	42.48	(0.09)	1.93	0.31
REITS	3.90	(8.09)	(8.09)	(4.38)	0.87	5.86	6.32	10.71	25.23	62.89	0.73	0.38	0.24
TIPS	1.05	(0.79)	(0.79)	0.92	1.30	0.05	2.93	2.68	5.98	12.22	0.23	(0.06)	0.43
Infrastructure	(6.94)	(11.12)	(11.12)	(20.07)	(11.24)	(5.85)	5.60	15.81	19.30	48.51	0.54	(0.35)	0.27
<b>Diversifiers (Other)</b>													
Commodities	(0.62)	(0.40)	(0.40)	3.71	(3.21)	(8.32)	(7.71)	5.65	17.44	67.02	0.53	(0.73)	(0.46)
Natural Resources	0.50	1.68	1.68	5.29	1.08	(2.23)	(3.26)	7.68	18.09	54.23	0.67	(0.22)	(0.20)
Oil	5.35	7.48	7.48	28.34	10.91	(7.76)	(4.38)	19.91	32.18	75.99	0.47	(0.27)	(0.15)
Energy Equipment & Services <sup>3</sup>	0.26	(3.27)	(3.27)	(13.92)	(6.00)	(6.79)	4.08	26.13	30.00	67.86	0.70	(0.32)	0.12
Mining	(3.69)	(3.42)	(3.42)	18.03	9.53	(2.04)	(4.18)	19.79	32.59	75.11	0.63	(0.08)	(0.14)
Gold	0.54	1.74	1.74	6.11	3.85	(3.66)	3.75	7.79	18.56	41.88	0.06	(0.25)	0.18

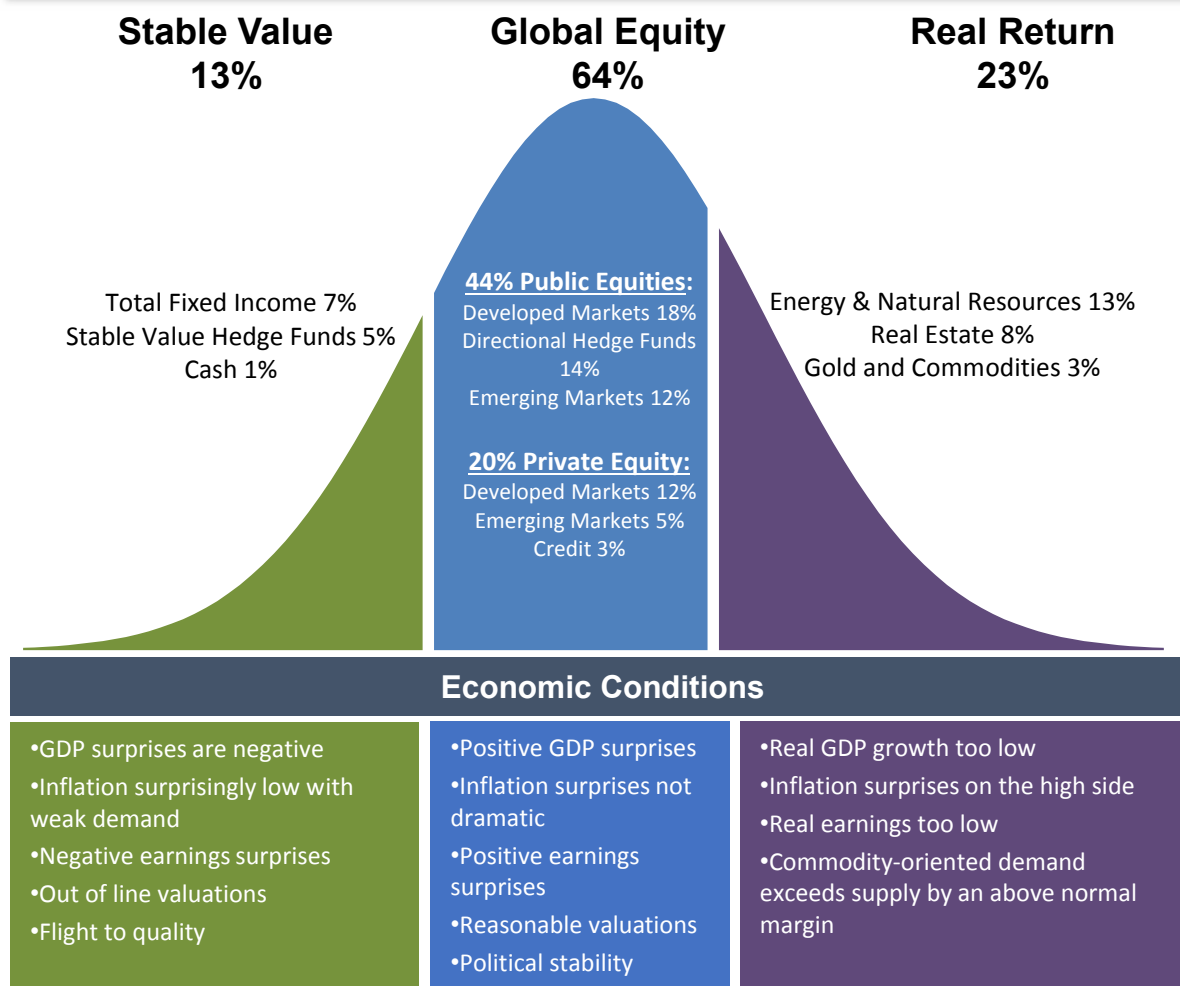
<sup>1</sup> Private Market assets are based on independent and/or manager valuations

<sup>2</sup> As of February 28, 2018

<sup>3</sup> 10Y columns are only for 9 years

# Review of Current Environment

Periods Ending March 31, 2018



## Benchmark Returns<sup>1</sup>

Time Horizon	Stable Value	Global Equity	Real Return
1 Year	5.2%	15.4%	16.9%
3 Year	2.4%	8.2%	7.6%
5 Year	1.9%	8.7%	5.7%
7 Year	2.0%	7.3%	6.6%
10 Year	2.0%	5.7%	4.7%

## Correlations<sup>1</sup>

Environment	Stable Value	Global Equity	Real Return
<b>Stable Value</b>	1.00	0.62	0.44
<b>Global Equity</b>		1.00	0.67
<b>Real Return</b>			1.00

## UTIMCO Regime Portfolio Returns

<b>1 Quarter</b>	<b>2.0%</b>	<b>1.7%</b>	<b>7.2%</b>
<b>1 Year</b>	<b>5.7%</b>	<b>12.7%</b>	<b>17.3%</b>
<b>3 Year</b>	<b>1.5%</b>	<b>7.3%</b>	<b>9.3%</b>

<sup>1</sup> Returns and Correlations reflect quarterly benchmark returns and not actual UTIMCO returns (return data from 2008 – 2018)

<sup>2</sup> Reflects actual returns earned in the Permanent University Fund by regime portfolio, periods greater than one year are annualized

# Q1 Performance In Focus



Asset Class	Total Allocation, \$ (GEF+PUF+ITF)	% of Fund			Total Return			
		PUF	GEF	ITF	Q1	1 Year	3 Year	5 Year
Real Estate	2,373.1	7.5%	7.5%	0.1%	10.2%	23.6%	13.6%	13.7%
Natural Resources	4,194.6	13.1%	12.9%	0.0%	6.5%	16.0%	7.7%	4.6%
Private Credit	773.1	2.5%	2.4%	0.0%	5.6%	14.1%	9.9%	11.0%
Venture Capital	1,718.2	5.5%	5.4%	0.0%	5.2%	19.2%	11.0%	18.3%
EM Private Equity	1,589.0	5.1%	5.0%	0.0%	3.6%	14.6%	9.3%	6.6%
EM Public Equity	4,435.1	11.8%	11.8%	7.4%	3.0%	23.8%	10.4%	8.1%
Developed Private Equity	2,016.2	6.4%	6.4%	0.0%	2.6%	7.4%	15.4%	14.6%
Stable Value Hedge Funds	2,412.0	4.5%	4.5%	10.1%	2.3%	6.3%	2.4%	3.8%
Fixed Income	5,350.3	7.5%	7.4%	30.1%	2.2%	8.0%	3.2%	2.2%
Gold	1,023.6	2.5%	2.5%	2.5%	1.8%	6.1%	3.9%	-3.5%
Directional Hedge Funds	7,652.1	14.2%	14.2%	32.1%	1.3%	7.4%	3.4%	5.9%
Global Developed Equity	2,666.9	6.8%	6.8%	5.3%	0.8%	16.0%	9.3%	12.3%
Cash (Dreyfus return)	752.0	1.2%	2.0%	2.9%	0.4%	1.2%	0.6%	0.4%
Other	(43.1)	0.0%	-0.1%	-0.3%	0.0%	0.0%	0.0%	0.0%
Credit Related Fixed Income	33.1	0.1%	0.1%	0.0%	-1.2%	5.2%	7.6%	5.8%
US Public Equity	2,739.5	7.0%	6.9%	5.5%	-1.4%	6.1%	3.2%	9.7%
Non-US Developed Public Equity	1,665.5	4.3%	4.2%	3.3%	-2.8%	15.0%	7.8%	11.0%
<b>Total PUF, GEF and ITF</b>	<b>41,351.2</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>3.0%</b>	<b>12.8%</b>	<b>7.3%</b>	<b>7.8%</b>

# Real Estate Performance Highlights



## Investment Performance

Real Estate generated a **10.2%** return in Q1 2018 with strong contribution from the United States and European portfolios

- United States – **15.7%** quarterly gain – primarily driven by UTIMCO’s portfolio diversification investment in a communications manager
- Europe – **9.4%** quarterly gain – driven by a partial realization and mark-up of a co-investment in a German residential platform

## U.S. Communications-Related Real Assets

- In 2016, UTIMCO invested in a communications-related fund focused on assets such as wireless spectrum, communication towers, and small cell deployments
- The fund participated in the FCC Broadcast TV Incentive Auction (also known as the 600 MHz Auction) to acquire wireless spectrum across the U.S. at material discounts to intrinsic value
- After completion of the auction, the fund engaged a third-party valuation firm to conduct a fair market assessment of the holdings, which valued the licenses at a 2.2x MOIC with further value uplift expected from leasing revenue and annual growth



## German Residential Co-Investment

- In 2014, UTIMCO co-invested in a privately held German residential development company to access the competitive residential sector
- Over a 3.5 year hold period, the residential company increased the development pipeline and improved unit sales while reducing costs in unprofitable locations – generating 3x growth in enterprise value
- In February 2018, UTIMCO partially realized its co-investment as the company became the first listed German residential development platform – resulting in a realized 1.5x MOIC through share issuance while retaining 53% of the investment with an expected net realized return in excess of 3.0x by the end of 2018



# Natural Resources Performance Highlights



## Investment Performance

The Natural Resources Portfolio and the Natural Resources Private Portfolio generated a 6.5% and 8.4% return, respectively, in Q1 2018 with strong contribution from the Infrastructure and Energy Midstream sub-strategies

- Infrastructure – 22.8% quarterly return – driven by the sale and related mark-up of a portfolio of Asian renewable energy assets
- Energy Midstream – 11.2% quarterly return – broad based strength with a significant distribution driven by the dividend recap of a domestic midstream asset owned by the endowments

## Infrastructure: Asian Renewable Energy Portfolio

- In January 2018, the endowments received ~\$366 million in aggregate proceeds related to the sale of Asian renewable energy generation assets owned across three funds and one co-investment
- The sale represents a 2.3X net MOIC and 33% net IRR across the portfolio and a 3.1X net MOIC and 70% net IRR on the co-investment
- The assets include solar generation facilities in Japan, Thailand and the Philippines, and wind assets in India and the Philippines



## Energy Midstream: Domestic Midstream Asset

- In March 2018, the endowments received ~\$127 million in aggregate proceeds following a leveraged recapitalization of a domestic midstream asset
- The distribution accounted for about 2.8X original invested capital, with NAV of \$231 million (post distribution), and Total Value to Paid In of 7.8X



# Venture Capital Performance Highlights



## Investment Performance

Venture Capital generated a 5.2% return in Q1 2018 with strong contribution from the healthcare portfolio

- Healthcare – driven by a realization of an investment in a therapeutic company, and a partial realization and mark-up of an investment in a medical device company

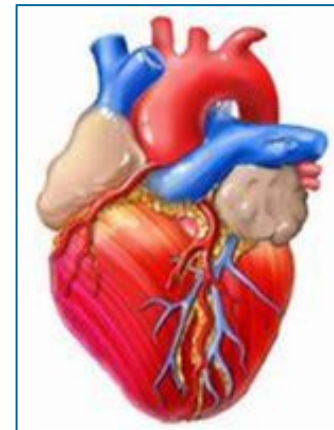
## Healthcare Venture - Biotechnology

- In 2007, UTIMCO invested in a healthcare venture fund focused on investments in innovations of life sciences, physical sciences and IT, with a particular interest in areas of convergence
- The fund invested in a therapeutic company developing cancer immunotherapy treatments in the CAR T arena
- In January 2018, a leading, global biopharmaceutical company agreed to acquire the therapeutic company in a cash transaction leading to an ultimate realization of 21.5x gross MOIC



## Healthcare Venture - Medical Device

- In 2011, UTIMCO invested in a healthcare venture fund focused on investing in companies with true clinical innovations, manageable development pathways, and the potential to take cost out of the healthcare system
- The fund was the founding and sole institutional investor in a company developing percutaneous solutions for mitral valve repair
- In January 2018, UTIMCO partially realized its investment as the company signed an acquisition agreement with a leading medical device company – resulting in a realized 3.3x gross MOIC with an expected realized return in excess of 23.0x once conditions are met





# UTIMCO Risk Overview

Periods Ending March 31, 2018



Current Cycle				Average Bull
Stage	Start Date	End Date	Length (yrs)	Length
Expansion	3/2009	3/2018	9.1	4.6

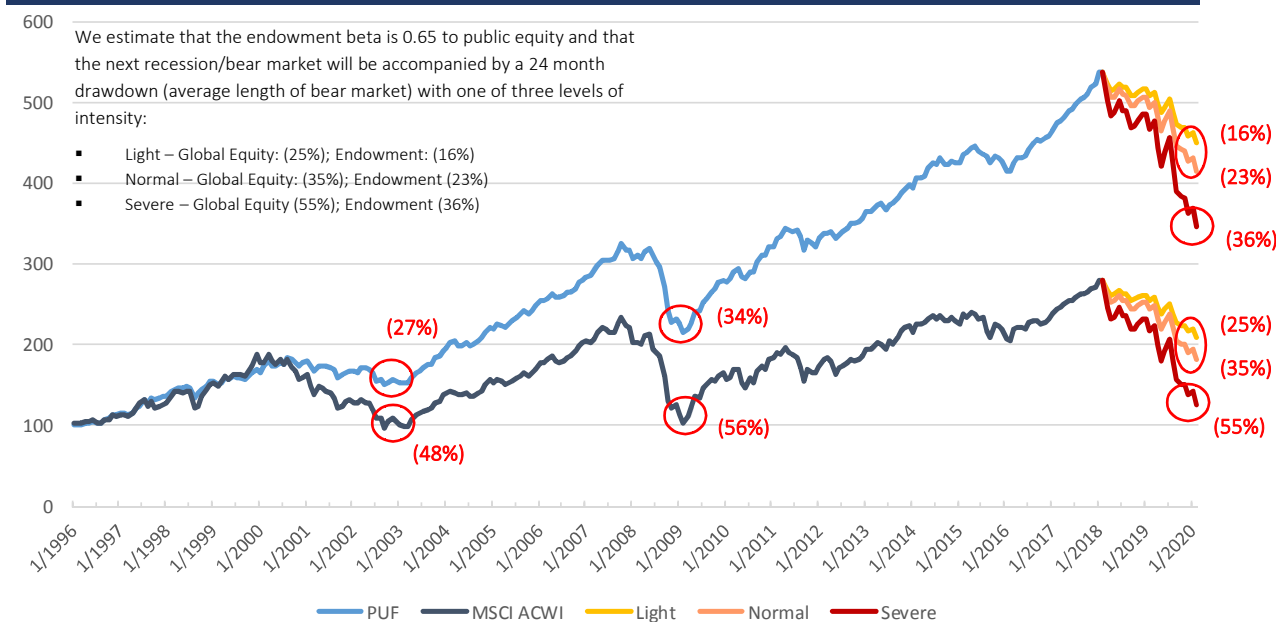
Returns over Current Cycle			
Asset Class	Cumulative	Annualized	1-yr Vol
<b>UTIMCO</b>	<b>149%</b>	<b>10.7%</b>	<b>2.6%</b>
Policy	121%	9.2%	3.1%
S&P 500	346%	18.1%	7.3%
EM (USD)	196%	12.8%	10.7%
Natural Resources	34%	3.3%	7.4%
Long Treasury	58%	5.2%	6.8%
Credit	191%	12.6%	2.8%
Hedge Funds	43%	4.1%	2.9%

Metrics over Expansion			
Metric	3/2009	3/2015	3/2018
S&P P/E (T)	11.1	18.6	21.3
EM P/E (T)	8.1	13.7	15.3
S&P Implied Vol	49.7	15.3	20.0
2-yr UST YTM	1.0	0.6	2.3
10-yr UST YTM	2.9	1.9	2.7
Brent Oil	44.1	55.1	70.3
Natural Gas	3.9	2.6	2.7
Gold	918.0	1,183.1	1,322.8

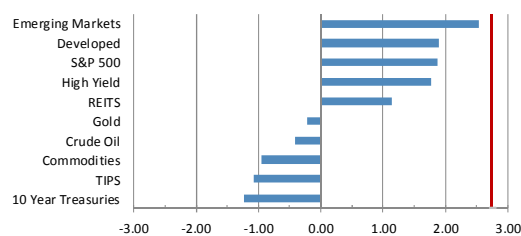
Fed Balance Sheet (\$B)			
	3/2009	3/2015	3/2018
US	1,902	4,481	4,392
ECB	1,460	2,097	3,675

UTIMCO Metrics	TE	IR	Sharpe
UTIMCO 3-Yr	2.1%	0.26	1.60
UTIMCO 5-Yr	2.0%	0.53	1.72

## Historical and Projected PUF Drawdowns



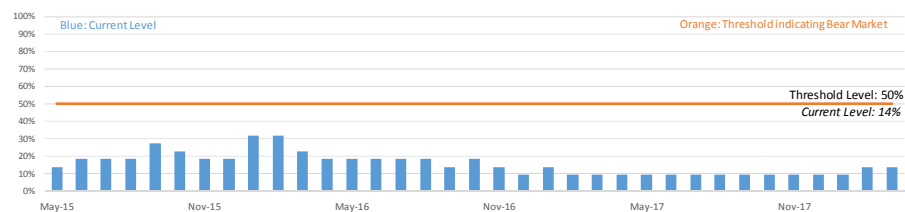
## Bubble Level Monitor



## Probability of Recession in the Next Year

Country	9/2016	3/2017	9/2017	3/2018
US	20%	15%	15%	15%
UK	35%	20%	25%	20%
Japan	28%	20%	20%	20%
Eurozone	10%	15%	10%	8%

## Percentage of Bear Market Indicators On



Source: Bridgewater Associates, LP, Bloomberg

Historical Geopolitical Shocks Event	Date of Shock	Days of Equity	US Equity Prices	Treasury Returns	Gold Price*	Real USD	Oil Price*
Nazis Invade France	5/1940	8	-25%	-1.4%	0.0%	1.7%	-
Pearl Harbor	12/1941	17	-10%	-1.4%	3.0%	0.3%	-
North Korea Invades South Korea	6/1950	14	-13%	-0.4%	7.0%	-0.1%	-
Cuban Missile Crisis	10/1962	1	-3%	-0.2%	-	0.0%	-
Arab Oil Embargo	10/1973	27	-17%	1.4%	-7.9%	6.7%	69%
Iraq Invades Kuwait	8/1990	16	-14%	-3.1%	11.0%	-1.5%	46%
September 11	9/2011	9	-12%	1.2%	7.0%	-0.1%	-6%
<b>Average</b>	-	<b>13</b>	<b>-13%</b>	<b>-0.6%</b>	<b>3.3%</b>	<b>1.0%</b>	<b>36%</b>

\*Excludes gold when it was pegged and oil when it was carefully managed

# Bull Market in the DJIA: 1900 to present

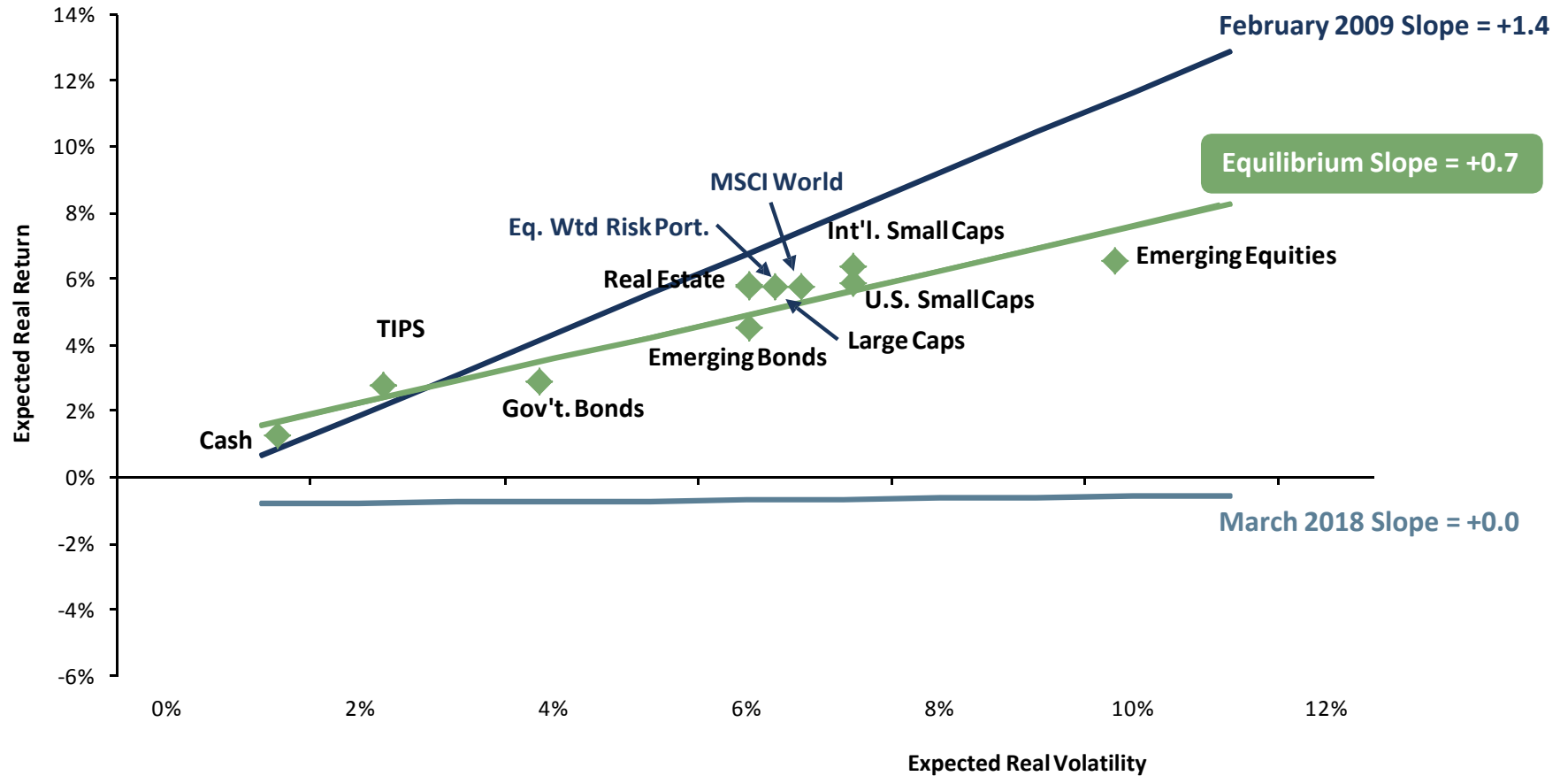


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Dates	Gain (%)	Duration (Mos.)
August 24, 1921 - August 30, 1929	495.2 %	96
July 8, 1932 - March 10, 1937	371.6	56
→ <b>March 9, 2009 - January 26, 2018</b>	<b>306.5</b> ←	<b>107</b>
October 11, 1990 - July 17, 1998	294.8	93
August 12, 1982 - August 25, 1987	250.4	60
June 13, 1949 - April 6, 1956	222.4	82
November 9, 1903 - January 19, 1906	144.3	26
April 28, 1942 - May 29, 1946	128.7	49
July 30, 1914 - November 21, 1916	110.5	28
October 9, 2002 - October 9, 2007	94.4	60
November 15, 1907 - November 19, 1909	89.6	24
June 26, 1962 - February 9, 1966	85.7	44
December 19, 1917 - November 3, 1919	81.4	22
December 6, 1974 - September 21, 1976	75.7	21
October 22, 1957 - December 13, 1961	75.1	52
October 19, 1987 - July 16, 1990	72.5	33
May 26, 1970 - January 11, 1973	66.6	32
March 31, 1938 - November 12, 1938	60.1	7
August 31, 1998 - January 14, 2000	55.5	16
September 24, 1900 - June 17, 1901	47.8	9
February 28, 1978 - April 27, 1981	38.0	38
October 7, 1966 - December 3, 1968	32.4	26
September 25, 1911 - September 30, 1912	29.1	12
<b>AVERAGE</b>	<b>140.4 %</b>	<b>43</b>
<b>MEDIAN</b>	<b>85.7 %</b>	<b>33</b>

Source: Leuthold



# Asset Class Volatility/Return Trade-Off



Source:GMO

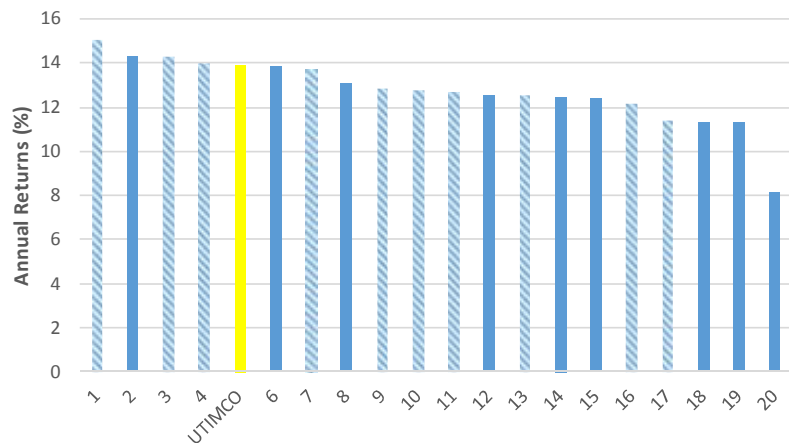
The return and volatility numbers pictured above for the equilibrium slope (green) represent a theoretical world wherein major asset classes are all priced at their fair value, or what we sometimes call "equilibrium". It does not represent a specific moment in time. The slopes for February 2009 and March 2018 are based on GMO's 7-Year Asset Class Forecasts and expected real volatilities for major asset classes at that point in time.

The expectations provided above are based upon the reasonable beliefs of the Asset Allocation team and are not a guarantee. Expectations speak only as of the date they are made, and GMO assumes no duty to and does not undertake to update such expectations. Expectations are subject to numerous assumptions, risks, and uncertainties, which change over time. Actual results may differ materially from those anticipated in the expectations above.

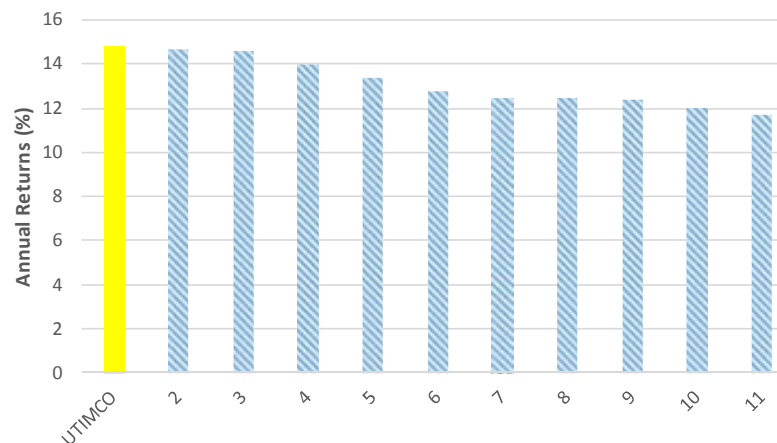
# UTIMCO Return Comparison



June 30, 2017



December 31, 2017



■ UTIMCO ■ Institutions that have reported CY 17 returns

## UTIMCO outperformed large private endowments

Period Ending June 30, 2017	Endowment Size (\$, Bn)	1-Y Return	UTIMCO Outperformance
<b>UTIMCO</b>	29.0	13.4%	
<b>Stanford</b>	24.8	13.1%	+0.3%
<b>Princeton</b>	23.8	12.5%	+0.9%
<b>Yale</b>	27.2	11.3%	+2.1%
<b>Harvard</b>	37.1	8.1%	+5.3%

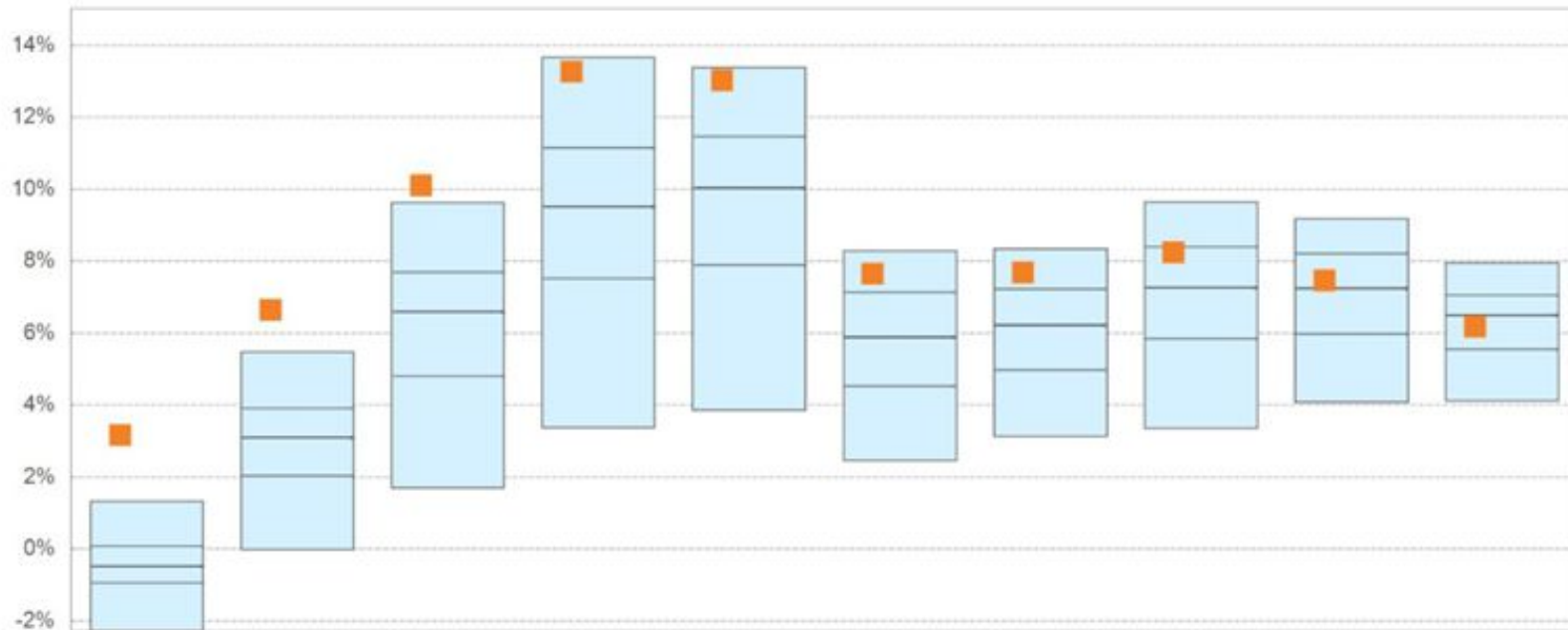
Source: FundFire, as of June 30, 2017

# Performance Comparison

Cumulative Periods Ending: March 31, 2018



Total Returns of Master Trusts - All Plans



Percentile Rankings	1 Qtr	2 Qtrs	3 Qtrs	1 Year	2 Years	3 Years	4 Years	5 Years	7 Years	10 Years
5th	1.33	5.48	9.63	13.66	13.39	8.29	8.34	9.64	9.18	7.95
25th	0.08	3.92	7.69	11.15	11.46	7.13	7.23	8.40	8.21	7.06
50th	-0.47	3.10	6.59	9.51	10.03	5.89	6.22	7.26	7.24	6.50
75th	-0.95	2.03	4.80	7.53	7.90	4.53	4.98	5.85	5.98	5.55
95th	-2.28	-0.02	1.70	3.38	3.85	2.47	3.13	3.35	4.09	4.12

No. Of Obs	538	527	517	517	517	510	503	486	445	361
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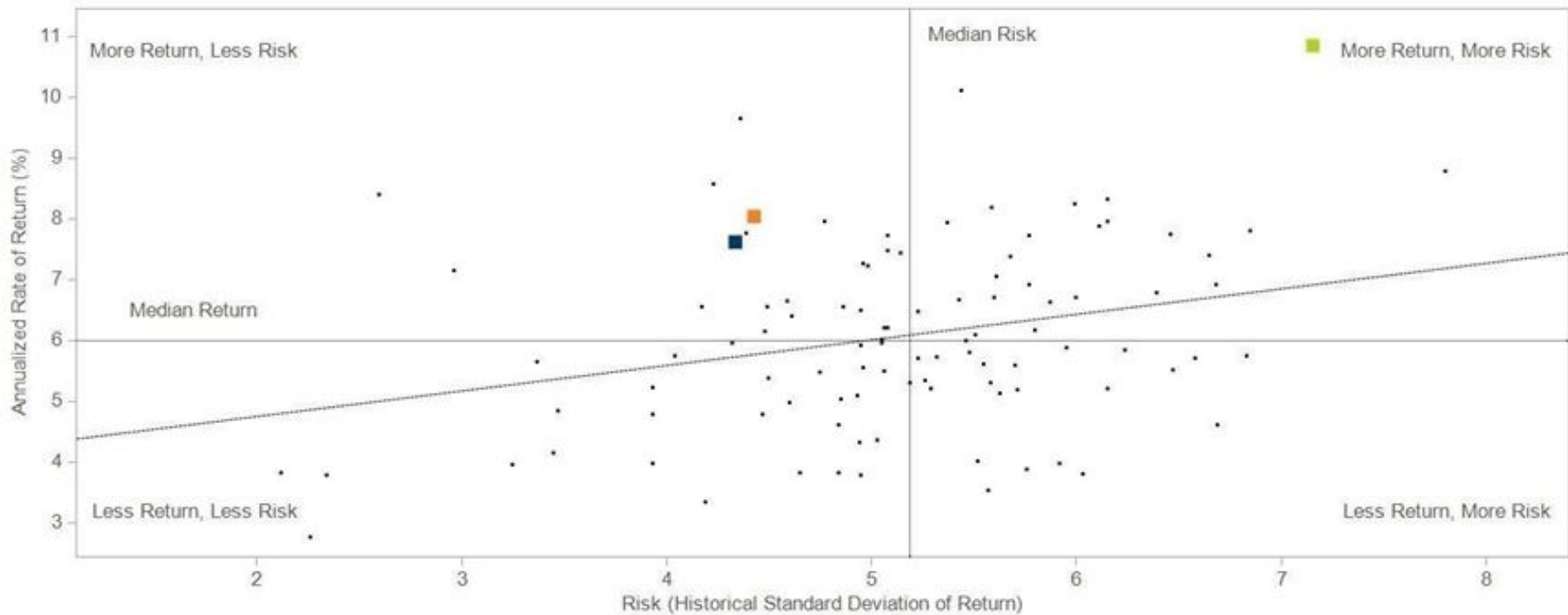
■ PUF TOTAL FUND	3.05 (1)	6.53 (1)	10.00 (3)	13.15 (6)	12.92 (7)	7.55 (17)	7.57 (16)	8.13 (32)	7.36 (48)	6.08 (62)
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# Risk / Return

Period Ending March 31, 2018



**For past 3 years, PUF and GEF have generated more returns for less risk**



Alpha: 3.93  
Beta: 0.42  
R-Squared: 0.08

	Risk Value	Risk Rank	Return Value	Return Rank
GEF TOTAL FUND	4.45	81	7.97	12
PUF TOTAL FUND	4.36	84	7.55	21
S&P 500	7.18	2	10.78	1
Median	5.19		6.01	

# Total Alignment Map



## Excellence

UTIMCO Vision Tree

Achieve Investment Goals

Effective Risk Management

Fiduciary Excellence

Best-In-Class Technology Platform

Enduring Organizational Health

### UTIMCO Mission:

*We generate superior long-term investment returns to support The University of Texas and Texas A&M University Systems as they provide world-class teaching, push the boundaries of discovery, and achieve excellence in patient healthcare for the people of Texas and beyond*

### UTIMCO Vision:

*We strive to be the world's leading endowment fund, making a lasting positive impact on the future of Texas and beyond*

## Execution

UTIMCO Strategy Tree

Public Equity/  
VC

Asset  
Allocation

Fixed Income

Risk  
Management

Hedge Funds/  
Credit

Operations

Real Estate

Info Systems

Private  
Investments

Human  
Resources

Top  
10

## Environment

Cultural Values

Success Factors

Code of Conduct



**UTIMCO Vision:**

*We strive to be the world's leading endowment fund, making a lasting positive impact on the future of Texas and beyond*

**Our Vision is to have an IMPACT**

Invest to have  
**Meaningful  
Permanent  
Affirmative  
Contribution to  
Texas and beyond**

- Eradicate poverty through education
- Enhance society through research
- Cure and care for cancer patients and others who are suffering from debilitating diseases

# UTIMCO Nominated For Top Endowment

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***Endowment of the Year***

*The J. Paul Getty Trust*

*Northwestern University*

*Penn State Office of Investment Management*

*Texas Tech University System*

*University of Texas Investment Management Co. (UTIMCO)*

**Agenda Item**  
UTIMCO Board of Directors Meeting  
May 18, 2018

**Agenda Item:** Update on 1<sup>st</sup> Quarter Priorities

**Developed By:** Hall

**Presented By:** Hall

**Type of Item:** Information Item

**Description:** Mr. Hall will present an update on the status of business unit annual action plans that were priorities for the first quarter of 2018.

**Reference:** *Annual Action Plan Status Update* presentation





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

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## 2018 Action Plan Update

Rich Hall

*Deputy Chief Investment Officer*

# Q1 Action Plans



## UTIMCO

- **Culture + Total Alignment**
  - CEO engagement with small groups
  - Implementing supporting processes
    - 360 reviews, scorecards, compensation plan, succession plans
  - Management team offsite set for September
  
- **Human Resources:**
  - New HR Information System
  - Career Path development in final stages
  - First draft of succession planning
  - Implementing 360 Reviews
  
- **Bureaucracy Busting:**
  - Strong participation, constructive suggestions
  - Director group reviewed and prioritized
  - COO and Legal reviewing

## Investments

- **Strategic Asset Allocation**
  - Stable Value, Global Equity, Real Return framework
  - Capital Market Assumptions
  - Preliminary analysis underway
  
- **ITF Transfers**
  - Starting in June
  
- **Tactical Allocation Process**
  - Framework and process developed
  - 1.5% overweight to commodities
  
- **Premier Lists**
  - Initial lists from Groups + CEO + DCIO
  - Reviews in August and December
  
- **Strategic Partnerships**
  - Initial candidates identified
  - Starting outreach to assess interest and alignment
  
- **Critical Processes at Team Level**

# Q1 Action Plans



## Investment Groups

- **Hedge Funds**
  - Progressing with 1/30 fee conversions
  - Evaluating expansion of Stable Value manager group
  
- **Private Investments**
  - Portfolio strategy extensions
  
- **Public Equity**
  - Fee negotiations ongoing
  - Ongoing review of portfolio allocations, manager positioning and diversification
  
- **Real Estate**
  - Identified 2-3 scalable relationships
  - Actively negotiating co-investment vehicles
  - Portfolio strategy diversification – expansion from Opportunistic / Value-add to include lower risk

## Risk Management

- **Strategic Asset Allocation**
  - Leading analytical effort
  - Collaboration on development of process and inputs
  
- **Automated manager risk tracking system**
  
- **Completed cross asset class risk scorecards for all managers**
  
- **ITF transfer analysis**
  
- **PUF distribution analysis**

# Q1 Action Plans

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- Operation, Accounting & Reporting; Legal & Compliance; Corporate Accounting:
  - Completion of new performance and analytics reports
  - Continued mapping of Critical Processes
  - Transitioned cash flow processing to BNY Mellon
  - Completed annual Code of Ethics training for all employees
  
- Information Technology
  - Completed transition of all IT systems to new building
  - Continued implementation of Caissa and iLevel systems for investment teams
  - Separated roles of Chief Information Security Officer and Head of Infrastructure

# Q2 Priorities

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- Complete Strategic Asset Allocation
  - Draft revisions to Investment Policies
  - Finalize recommendations on PUF distribution policy
  - Complete implementation of 360 review system and individual scorecards
  - Act on priority bureaucracy busting initiatives
- Phase II of HF and Public Equity Fee Alignment initiative
  - Complete evaluation of potential secondary sale
  - Advance Strategic Partnership discussions with select candidates
  - Review Enterprise Risk Management Framework and Fraud Programs

# Intermediate Term Fund Transfers

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- Long Term Fund (LTF) delivered about 150bps of excess annual excess returns relative to Intermediate Term Funds over the last 10 years
  
- Member institutions expressed interest in moving a portion of ITF holdings into higher-returning LTF endowment structure
  
- Transfers likely to begin in June 2018 at the rate of \$250 million per quarter
  
- UTIMCO facilitating transfers by:
  - Increasing private market capital commitments to prevent dilution of existing investors
  - Expecting annual commitments of ~\$3 billion through 2020, normalizing to lower levels after that
  - Deployed into existing manager relationships and new Strategic Partnerships



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**Agenda Item**  
UTIMCO Board of Directors Meeting  
May 18, 2018

**Agenda Item:** Hedge Funds Presentation

**Developed By:** Hedge Funds Team

**Presented By:** Ruebsahm, Powers

**Type of Item:** Information Item

**Description:** Mr. Ruebsahm will lead the presentation on Hedge Funds, with Mr. Powers leading a discussion on the market environment and hedge fund industry landscape.

**Reference:** *Hedge Funds Review* presentation





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

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## Hedge Funds Review

Ryan Ruebsahm  
Managing Director

Courtney Powers  
Senior Director

May 2018

# Table of Contents

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- I. Overview of Hedge Fund Role and Results
- II. Role of Hedge Funds
- III. Case Study: Hedge Funds with Long-Oriented Role and Results
- IV. Industry Background, Trends and Current Valuation
- V. UTIMCO Strategies Review
- VI. New Initiatives



# I. Overview of Hedge Fund Role and Results

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# Hedge Funds and Credit - Team

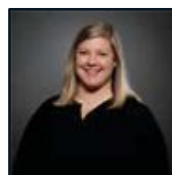
- Team with an average of 10 years of investment experience and 6 years at UTIMCO:



**Ryan Ruebsahm**  
**Managing Director**  
MBA, UT Austin



**Courtney Powers**  
**Sr. Director**  
MBA, UT Austin  
*Coverage: Long/Short Equity*



**Jena Michels**  
**Associate**  
MS, University of Arizona

**Experience Summary:**  
1 CFA Charter Holder  
4 Master Degrees



**Drury Morris, CFA**  
**Associate Director**  
BA, Rhodes College  
*Coverage: Multi/Event + Macro*



**Jim Ricker**  
**Analyst**  
BA, Hamilton College



**Will Mirshak**  
**Associate Director**  
MBA, University of Chicago  
*Coverage: Credit*



**Andres Garcia**  
**Analyst**  
BBA, UT Austin

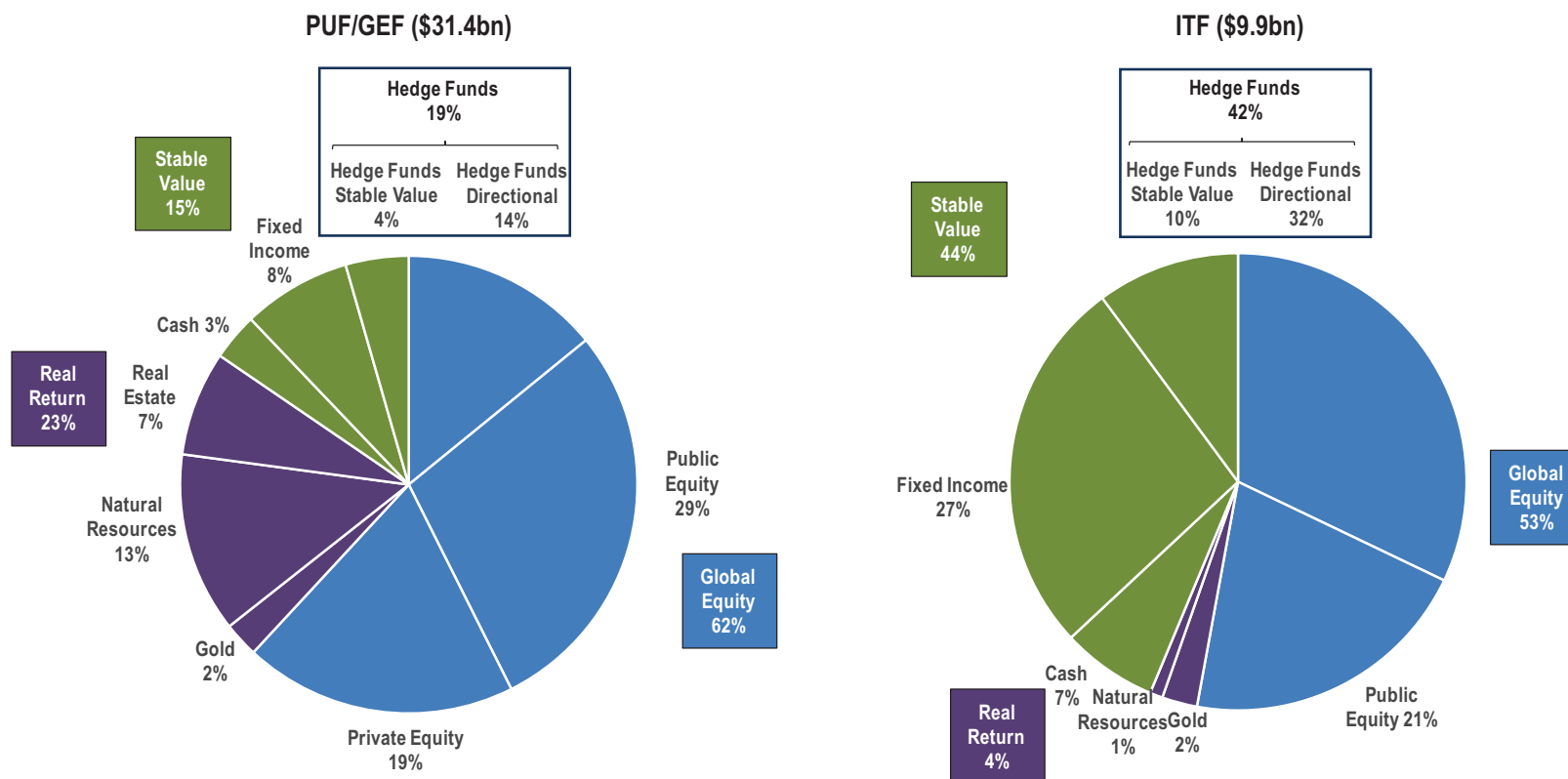


**Lori Shaver**  
**Executive Assistant**  
BS, Sam Houston State



# Hedge Funds: \$10bn; 19% PUF/GEF; 42% ITF

As of March 31, 2018



Hedge Funds and Developed Markets Public Equity - Historical Performance						
Asset Class	NAV	Weight (%)	Return	Alpha	St. Dev.	Sharpe
Hedge Funds	\$10,064	24.3%				
1 Quarter			1.5%	1.0%	4.8%	-
1 Year			7.3%	1.4%	3.0%	2.1
5 Years			5.6%	2.2%	4.4%	1.2
10 Years			5.1%	4.1%	5.9%	0.8

Charts reflect the Pure View Exposure framework. ITF chart applies "Other Assets/Liabilities" exposure to Fixed Income strategy, as it primarily represents derivative holdings. Sharpe Ratio is a risk-adjusted measure of performance that is calculated as the ratio of a portfolio's return in excess of the risk-free rate and the portfolio's volatility.



## II. Role of Hedge Funds

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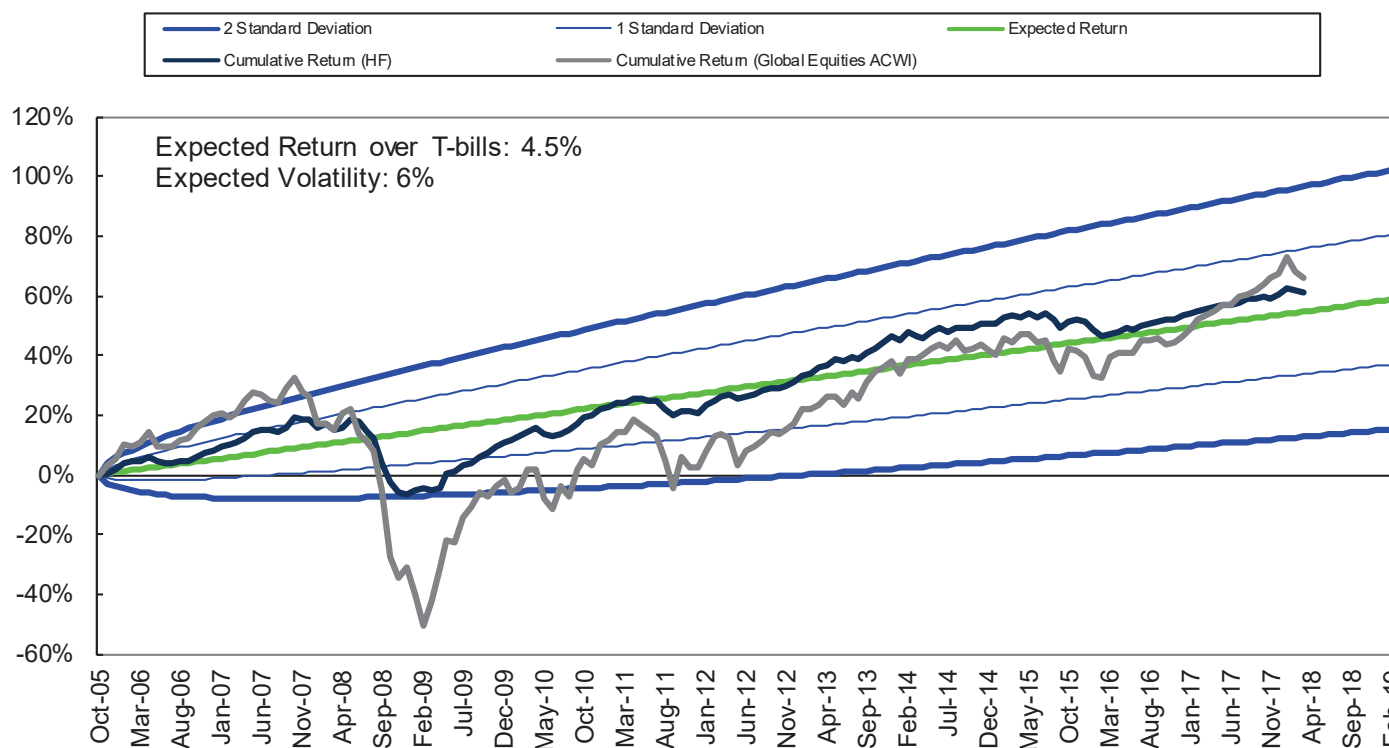


# 1) Historical Performance vs. Objectives

As of March 31, 2018

- Achieved objective of “equity-like” returns and “bond-like” risk
  - Exceeded performance objective of T-bills + 4.5%
  - Achieved risk objective of 6% vs. global equities of 16% and global bonds of 6%

Performance Cone Chart - Hedge Funds



Cone chart is calculated using logarithmic portfolio and benchmark returns.

Hedge Funds | 7



## 2) Diversification

- Correlation of 0.7 to Global Equity regime and 0.2 to Stable Value regime over last 10 years
- Hedge Funds serve as a risk reducer with a capital allocation of 20% but a risk contribution of 11%
- In 2008-2009, drawdown less than half of equities and better than industry

### Correlations<sup>(1)</sup>

Correlations for the Period Ending March 2018		
Regime	5 years Hedge Funds	10 Years Hedge Funds
Stable Value	-0.06	0.19
Global Equity	0.73	0.73
Real Return	0.28	0.65

Correlations for the Period Ending March 2018		
Asset Class	5 years Hedge Funds	9 Years Hedge Funds
Public Equity	0.63	0.73
Developed Country	0.86	0.83
Emerging Markets	0.52	0.65
Total Fixed Income	0.04	0.23
Private Equity and Venture	0.46	0.54
Private Natural Resources	0.61	0.24
Private Real Estate	-0.25	-0.01

### Risk Impact <sup>(2)</sup>

Portfolio	Contribution to Risk	% of PUF and GEF
Hedge Funds	10.8%	20.4%

### Downside Risk (Last 10 Years)

Portfolio	Max Drawdown
S&P 500	48.5%
Hedge Funds	21.5%
HFRI FoF	25.7%

<sup>1</sup>Correlations reflect monthly returns over the last 5 and 9 years for public portfolios and trailing 1-year returns calculated on a rolling quarterly basis for analyses against private portfolios. As Private Equity data is available starting in 2008, the analyses are calculated on a 9 year lookback basis.

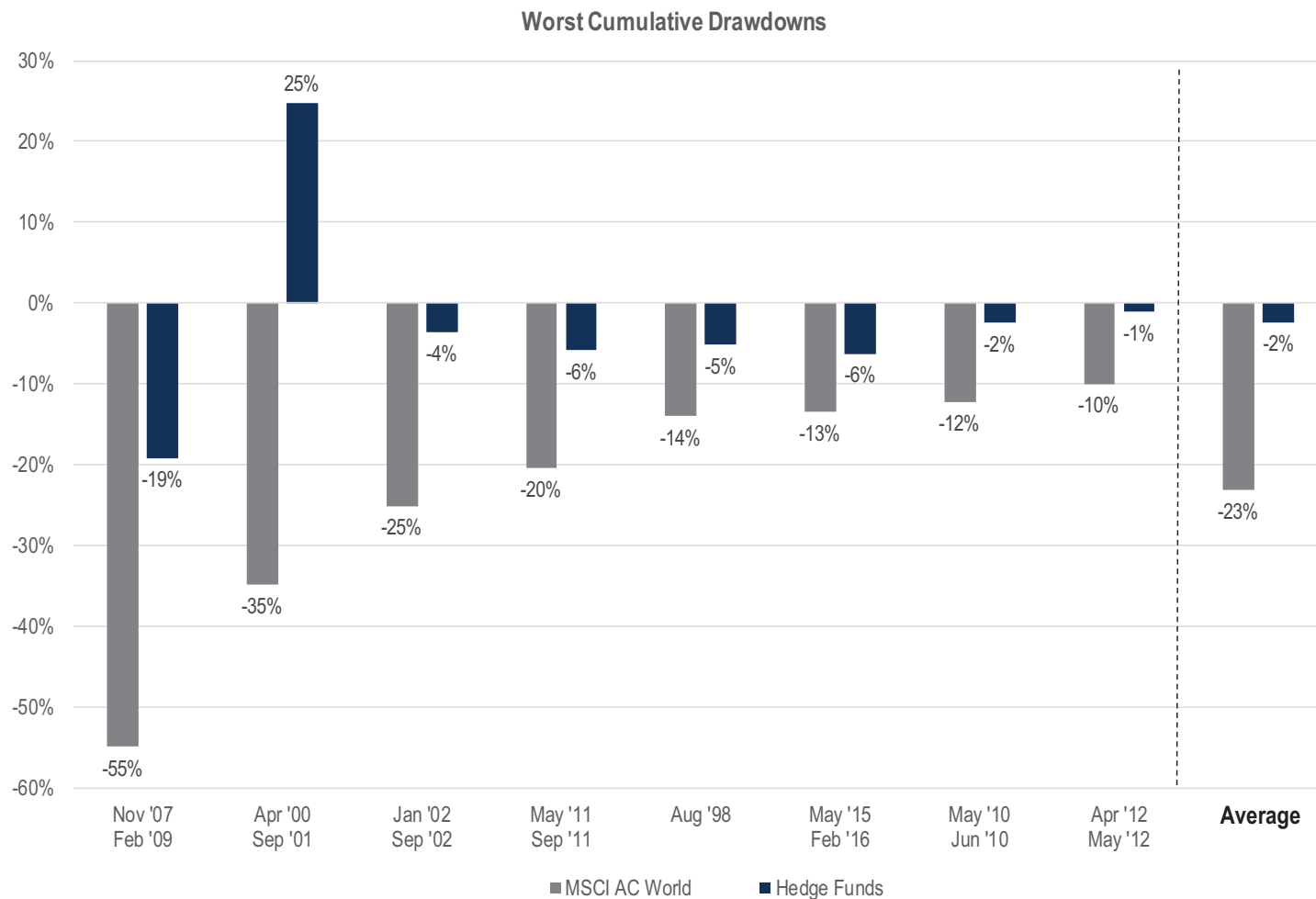
<sup>2</sup>Contribution to risk reflects the % of downside impact generated by each portfolio during a below target endowment return scenario, calculated based on rolling three day volatility and correlation data over the past three years. Analysis as of December 31, 2017.





### 3) Capital Preservation

- Based on the eight worst sell-offs since 1998, Hedge Funds have experienced only 10% of the downside of equities



## 4) Value Add Through Effective Management



As of March 31, 2018

### Alpha Generation

Hedge Fund Returns and Alpha Generation			
	1 Year	5 Year	10 Year
Hedge Funds	7.3%	5.6%	5.1%
HFRI Fund of Funds	5.9%	3.4%	1.0%
<b>Alpha</b>	<b>1.4%</b>	<b>2.2%</b>	<b>4.1%</b>
TUCS Median	5.4%	5.0%	3.8%
<b>Alpha</b>	<b>1.9%</b>	<b>0.6%</b>	<b>1.3%</b>

As of December 31, 2017

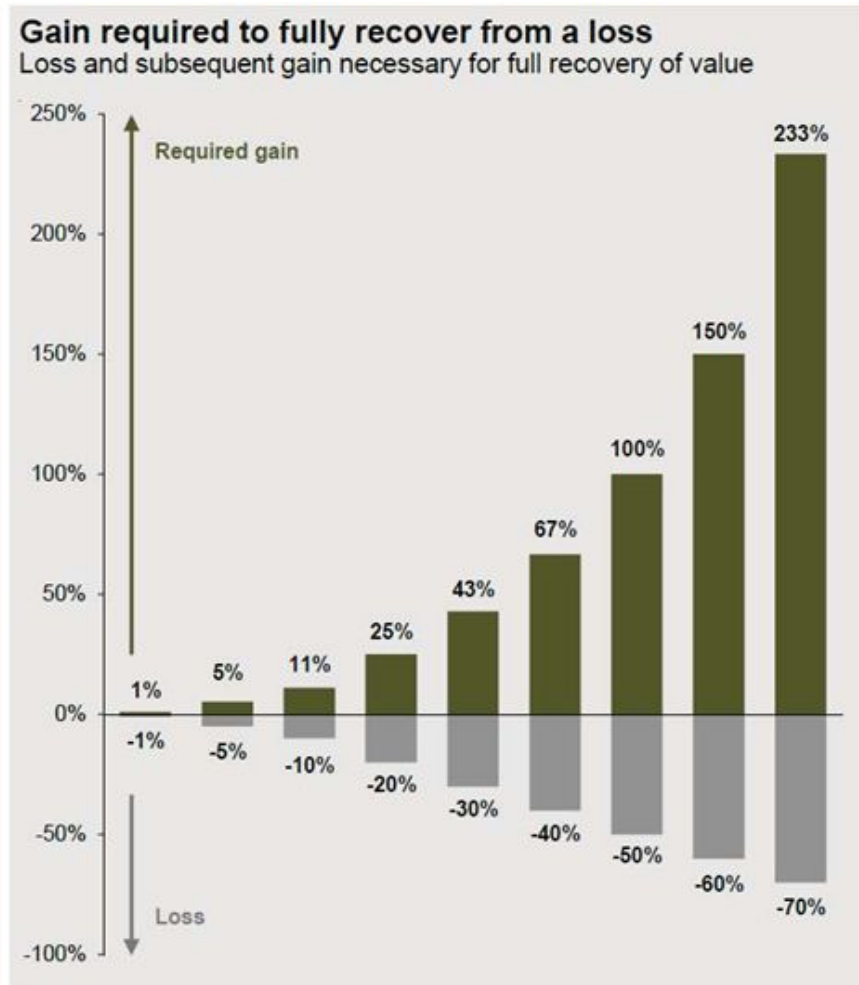
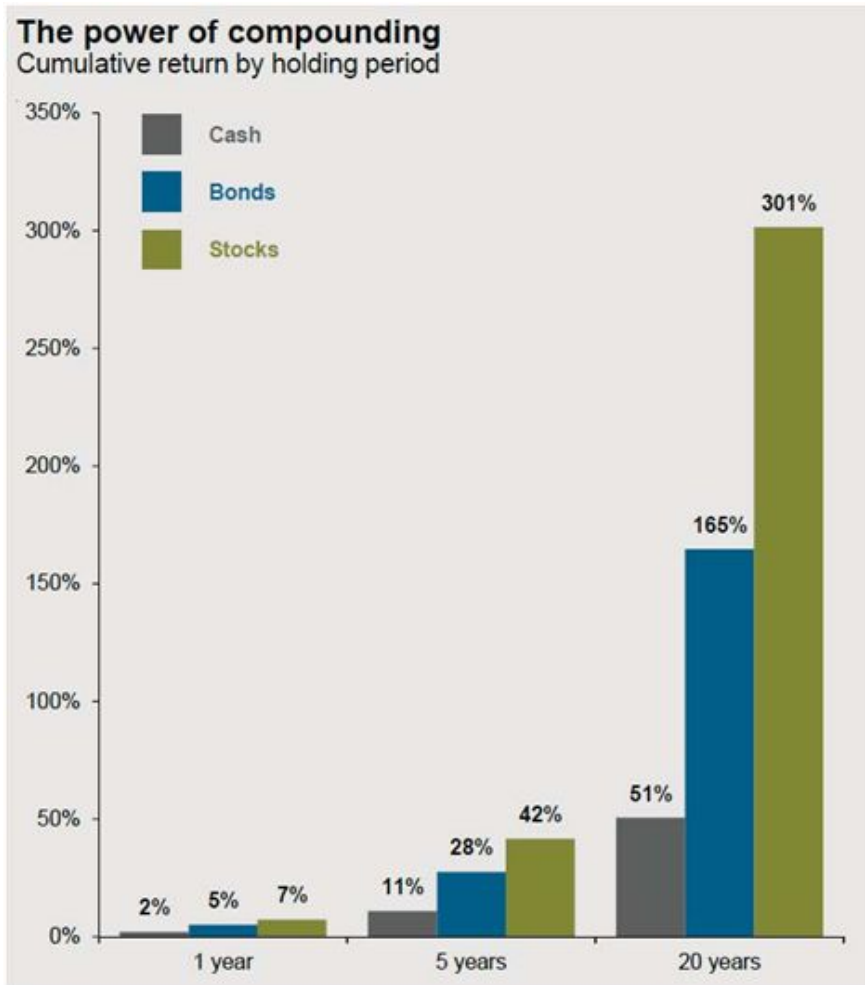
### Risk Management

Leverage			
	% of Capital	Gross	Net
Core Strategies	91%	182%	62%
FI & FX	9%	662%	-267%
<b>Total HF</b>	<b>100%</b>	<b>225%</b>	<b>32%</b>

Concentration <sup>(1)</sup>	
Position	% of Capital
Largest	2%
Top 10	10%

<sup>1</sup>Concentration reflects Largest and Top 10 Equity Positions using managers' 13F filings as of December 31, 2017.

# The Importance of Staying Invested and Limiting Losses



Source: JP Morgan  
 Cumulative returns are calculated using historical data. Stock returns are based on the S&P 500, bonds returns are based on the Bloomberg Barclays U.S. Aggregate Index and cash returns are based on 3-month U.S. Treasury bills.  
 Guide to the Markets – U.S. Data are as of March 31, 2018



# S&P 500 Index at Inflection Points



Source: J.P. Morgan  
Guide to the Markets – U.S. Data as of March 31, 2018.



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## **III. Case Study: Hedge Funds with Long-Oriented Role and Results**

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# Case Study: Hedge Funds and Developed Public Equity



- We created a Composite merging the returns of the Hedge Fund and Developed Markets Public Equity portfolios and compared it to the MSCI World Index.
- Observations for Asset Allocation review this summer:
  - 0.5 beta over the last 5 and 10 years
  - -0.1% below Global Public Equity benchmark with half of the risk over the last 10 years
    - -2.1% over the last 5 years with half of the risk
  - Generated alpha of 2.4% - 3.0% relative to the risk taken over the last 5 and 10 years
  - Given the defensive posture, a clear skew in hit rate to down markets
  - Higher Sharpe Ratio of 0.7 vs 0.3 for MSCI World over 10 years and 1.2 vs. 0.9 over 5 years
  - Average excess return of 2.2% in down markets and -1.5% in up markets

Hedge Funds and Developed Markets Public Equity - Return Summary									
Asset Class	Return	Excess Return (MSCI World)	Beta	Alpha	Standard Deviation	Sharpe Ratio	Tracking Error	Hit Rate (Up)	Hit Rate (Down)
HF + Public Equity									
5 Years	7.6%	-2.1%	0.5	2.4%	5.9%	1.2	5.7%	29.3%	89.5%
10 Years	5.8%	-0.1%	0.5	3.0%	8.3%	0.7	9.6%	24.0%	88.9%
MSCI World									
5 Years	9.7%	-	-	-	10.2%	0.9	-	-	-
10 Years	5.9%	-	-	-	16.3%	0.3	-	-	-



## **IV. Industry Background**

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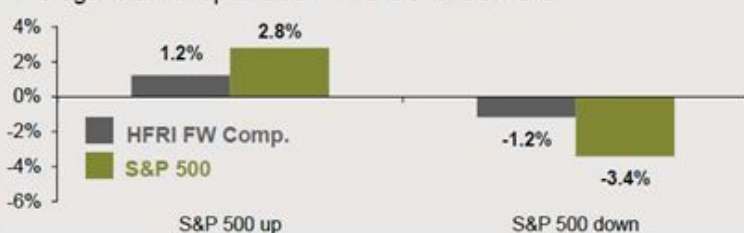
# Hedge Fund Landscape

- From 2003-2017, large cap equity returned 9.9% and outperformed hedge funds, which returned 6.1% (3.0% - 7.2% range) and global bonds of 4.2%
- Over the same period, our Hedge Fund portfolio returned 7.4% with a volatility of 5.4%

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	YTD	2003 - 2017	
																Ann.	Vol.
Large Cap 28.7%	Event Driven 15.0%	Equity L/S 10.6%	Large Cap 15.8%	Macro 11.1%	Macro 4.8%	Large Cap 26.5%	Large Cap 15.1%	Global Bond 5.6%	Large Cap 16.0%	Large Cap 32.4%	Large Cap 13.7%	Market Neutral 4.3%	Large Cap 12.0%	Large Cap 21.8%	Large Cap 1.8%	Large Cap 9.9%	Large Cap 14.5%
Event Driven 25.3%	Large Cap 10.9%	HFRI FW Comp. 9.3%	Event Driven 15.3%	Equity L/S 10.5%	Global Bond 4.8%	Relative Value 25.0%	Event Driven 11.0%	Large Cap 2.1%	Relative Value 10.6%	Equity L/S 14.3%	Macro 5.6%	Large Cap 1.4%	Event Driven 10.6%	Equity L/S 13.3%	Equity L/S 1.1%	Event Driven 7.2%	Equity L/S 9.3%
Macro 21.4%	Global Bond 9.3%	Event Driven 7.3%	HFRI FW Comp. 12.9%	HFRI FW Comp. 10.0%	Market Neutral -5.9%	Event Driven 25.0%	Relative Value 11.4%	Relative Value 0.1%	Event Driven 8.9%	Event Driven 12.5%	Relative Value 4.0%	Relative Value -0.3%	Relative Value 7.7%	HFRI FW Comp. 8.6%	Relative Value 1.0%	HFRI FW Comp. 6.1%	Event Driven 8.1%
Equity L/S 20.5%	HFRI FW Comp. 9.0%	Macro 6.8%	Relative Value 12.4%	Global Bond 9.5%	Relative Value -18.0%	Equity L/S 24.6%	Equity L/S 10.5%	Market Neutral -2.1%	Equity L/S 7.4%	HFRI FW Comp. 9.1%	Market Neutral 3.1%	Equity L/S -1.0%	Equity L/S 5.5%	Event Driven 7.6%	Market Neutral 0.7%	Equity L/S 6.1%	HFRI FW Comp. 7.0%
HFRI FW Comp. 19.5%	Equity L/S 7.7%	Market Neutral 6.2%	Equity L/S 11.7%	Relative Value 8.9%	HFRI FW Comp. -19.0%	HFRI FW Comp. 20.0%	HFRI FW Comp. 10.2%	Event Driven -3.3%	HFRI FW Comp. 6.4%	Relative Value 7.1%	HFRI FW Comp. 3.0%	HFRI FW Comp. -1.1%	HFRI FW Comp. 5.4%	Global Bond 7.4%	Event Driven 0.7%	Relative Value 6.0%	Global Bond 5.9%
Global Bond 12.5%	Relative Value 5.6%	Relative Value 6.0%	Macro 8.2%	Event Driven 6.6%	Event Driven -21.8%	Global Bond 6.9%	Macro 8.1%	Macro -4.2%	Global Bond 4.3%	Market Neutral 6.5%	Equity L/S 1.8%	Macro -1.3%	Market Neutral 2.2%	Relative Value 5.2%	HFRI FW Comp. 0.6%	Macro 4.6%	Relative Value 5.8%
Relative Value 9.7%	Macro 4.6%	Large Cap 4.9%	Market Neutral 7.3%	Large Cap 5.5%	Equity L/S -26.7%	Macro 4.3%	Global Bond 5.5%	HFRI FW Comp. -5.3%	Market Neutral 3.0%	Macro -0.4%	Event Driven 1.1%	Global Bond -3.2%	Global Bond 2.1%	Market Neutral 4.9%	Global Bond 0.3%	Global Bond 4.2%	Macro 4.9%
Market Neutral 2.4%	Market Neutral 4.1%	Global Bond -4.5%	Global Bond 6.6%	Market Neutral 5.3%	Large Cap -37.0%	Market Neutral 1.4%	Market Neutral 2.9%	Equity L/S -8.4%	Macro -0.1%	Global Bond -2.6%	Global Bond 0.6%	Event Driven -3.0%	Macro 1.0%	Macro 2.2%	Macro -1.1%	Market Neutral 3.0%	Market Neutral 3.1%

**Hedge fund returns in different market environments**

Average return in up and down months for S&P 500



**Hedge fund returns in different market environments**

Average return in up and down months for Bloomberg Barclays Agg.



Source: JP Morgan.

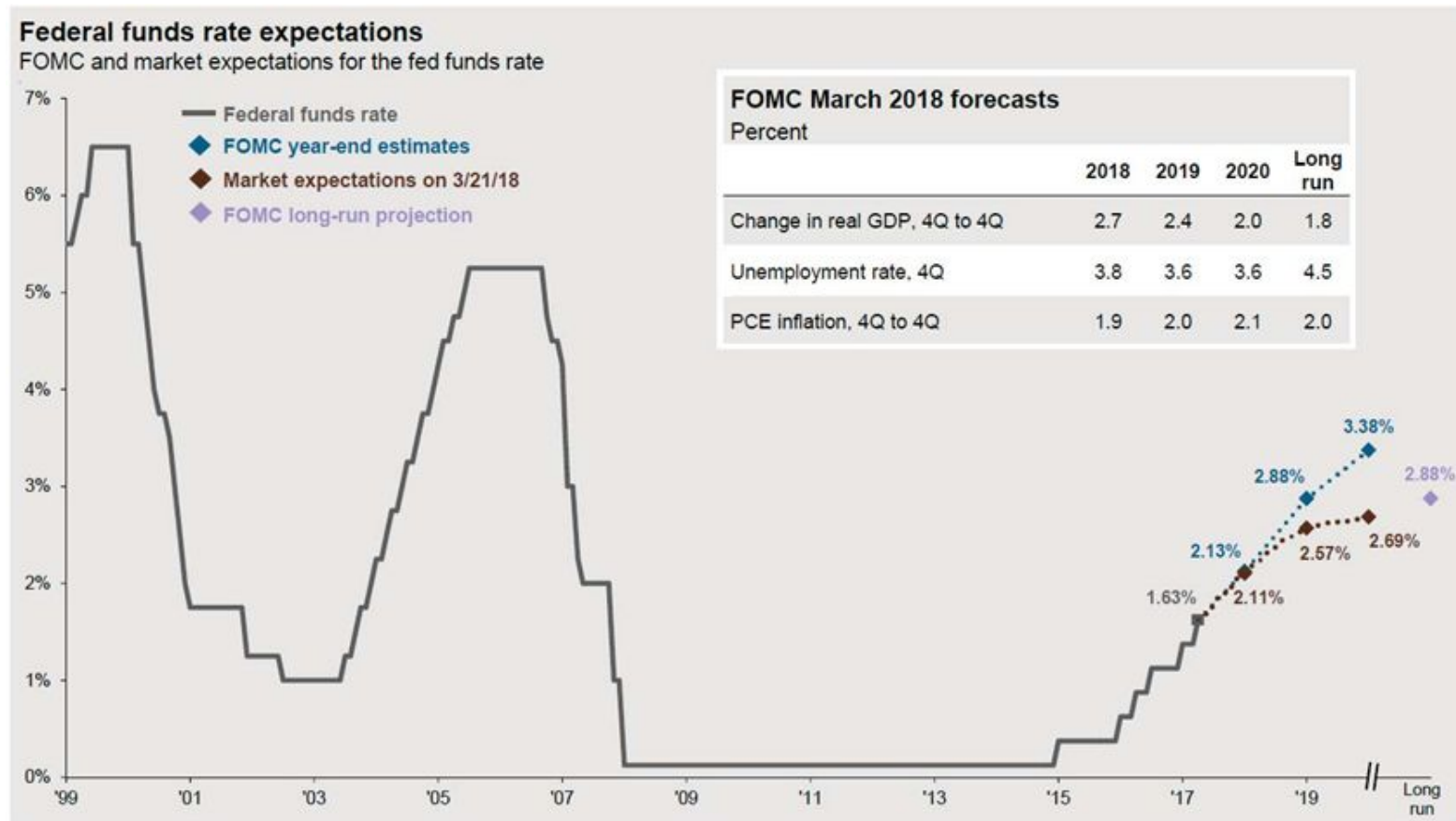
Guide to the Markets – U.S. Data as of February 28, 2018





# Importance of Fed Funds Rate

- Lower hedge fund returns have been driven by lower rates, which are now rising



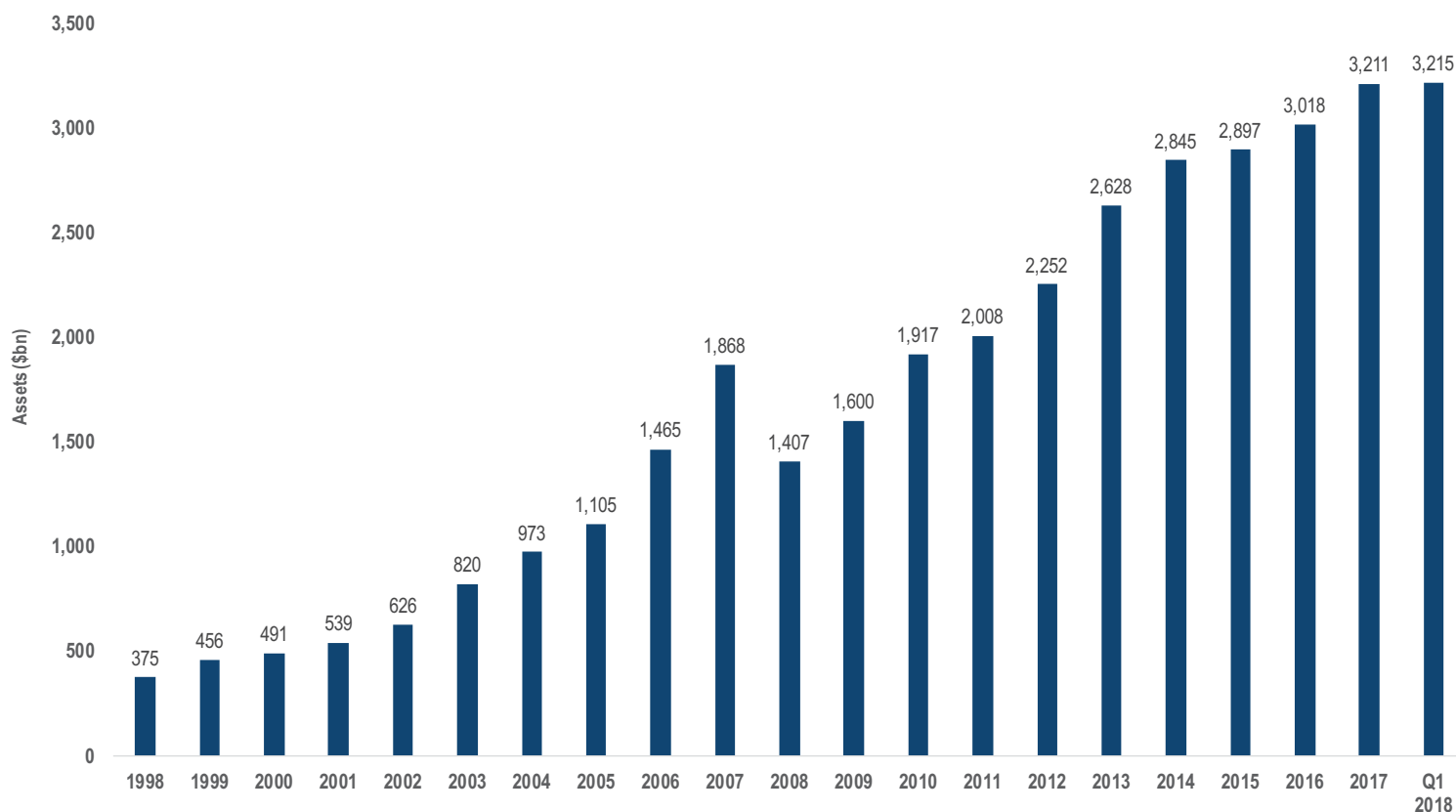
Source: JP Morgan  
Guide to the Markets – U.S. Data as of March 31, 2018



# Industry Growth

- Industry size of \$3.2 trillion compares to \$11.4 trillion in actively-managed U.S. mutual and exchange-traded funds and \$28.8 trillion Wilshire 5000 total market capitalization
- Despite underperformance, the industry has doubled since the Global Financial Crisis

Hedge Fund Industry Assets

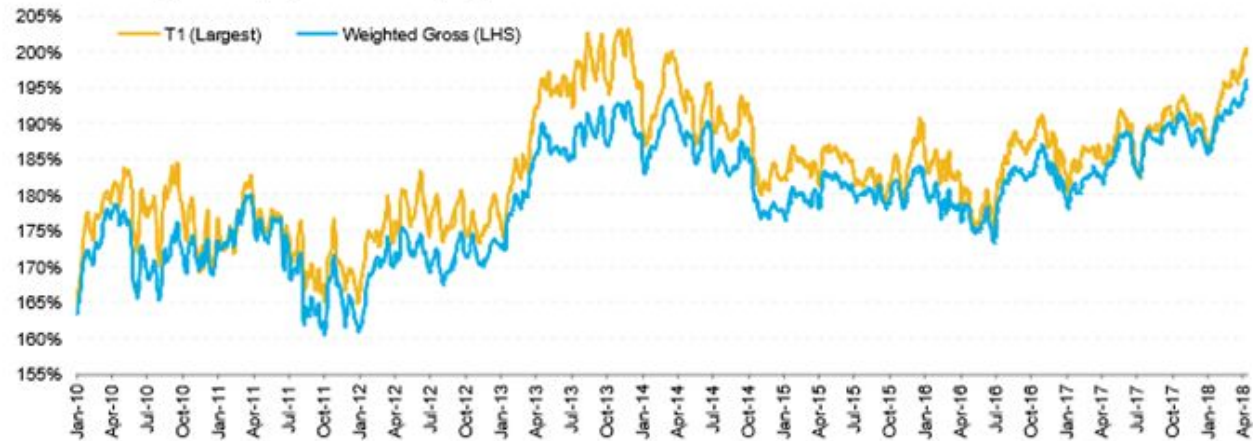


Sources: HFR, Morningstar, Wilshire Associates.

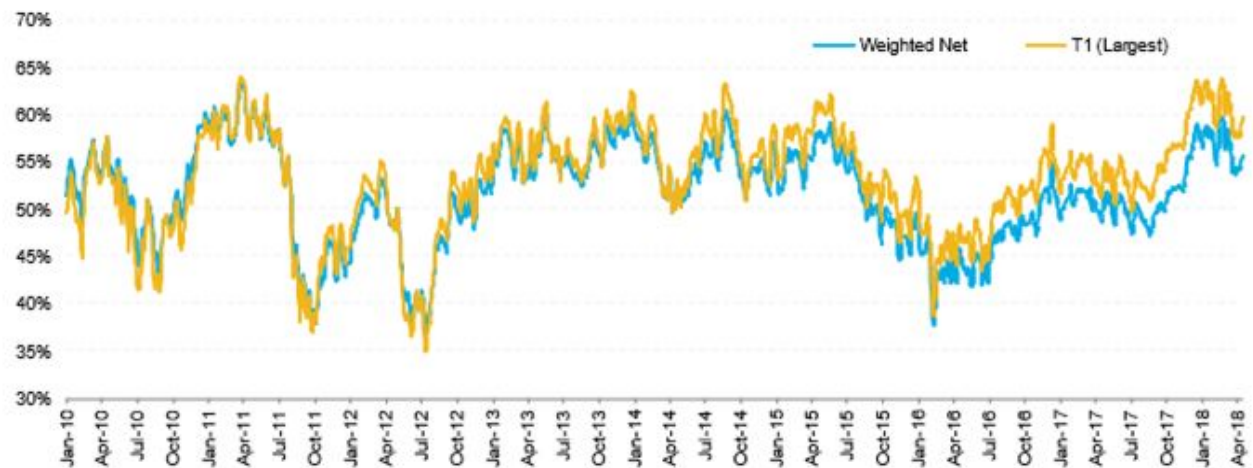


# Industry Leverage Back to Highs

GROSS Leverage: US Equity L/S Delta Adj. by AUM Terciles



NET Leverage: US Equity L/S Delta Adj. by AUM Terciles

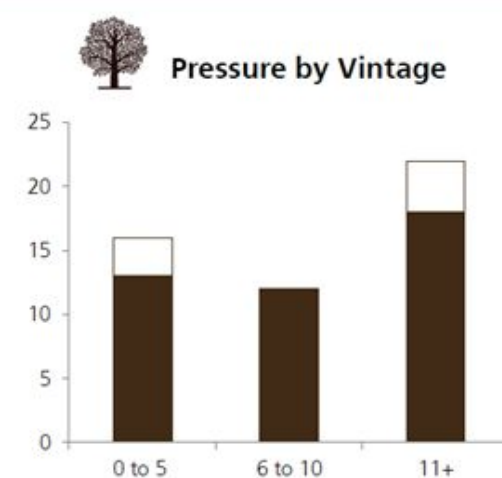
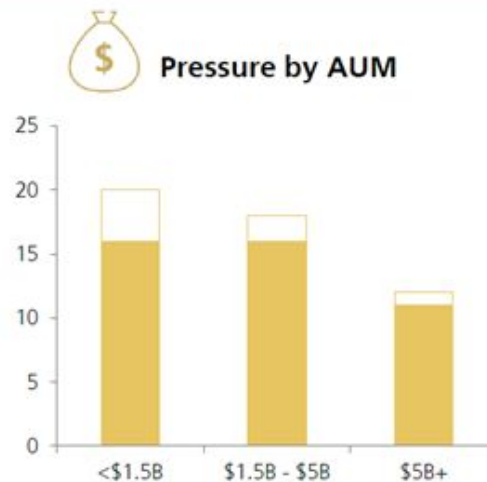
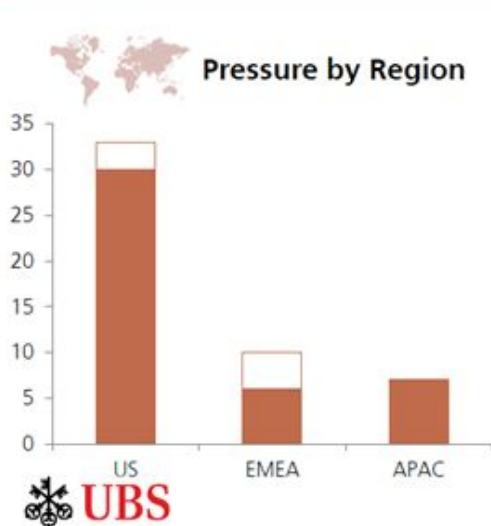
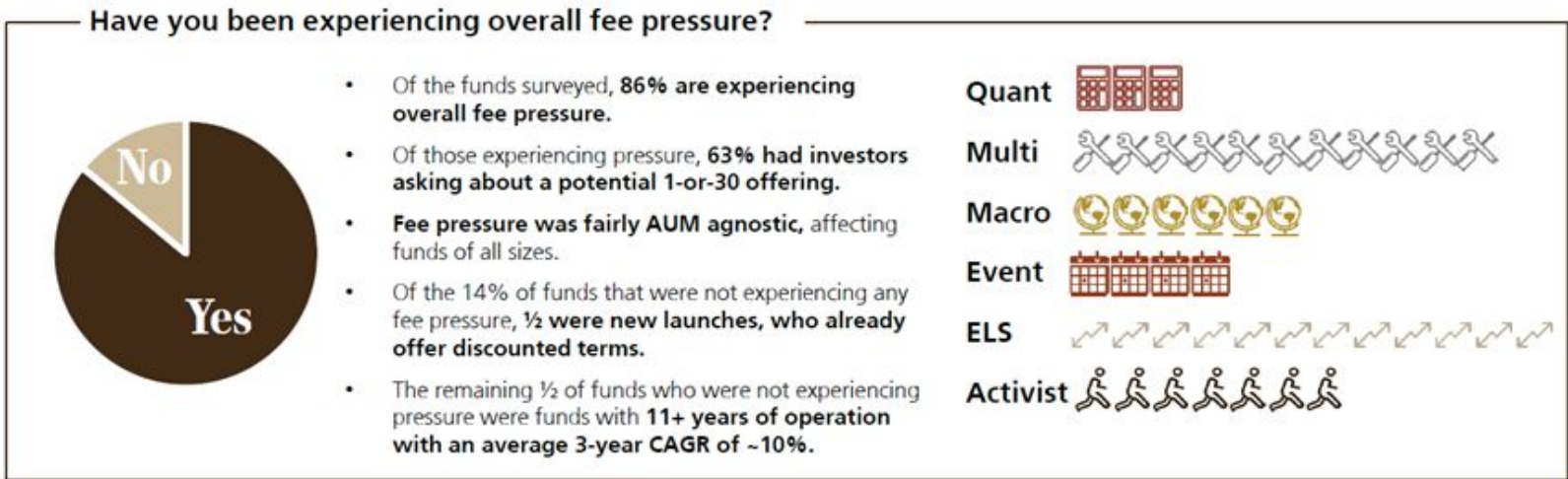


Source: Morgan Stanley – Prime Brokerage Strategic Content Group. “Hedge Fund Positioning Update”. Data as of April 17, 2018.  
Note: Weighted version uses weights of: Tercile 1 = 70%, Tercile 2 = 20%, Tercile 3 = 10%.



# Industry Fee Pressure

## 1-or-30 Survey: Overall Fee Pressure



Source: UBS  
Fund survey as of H1 2018



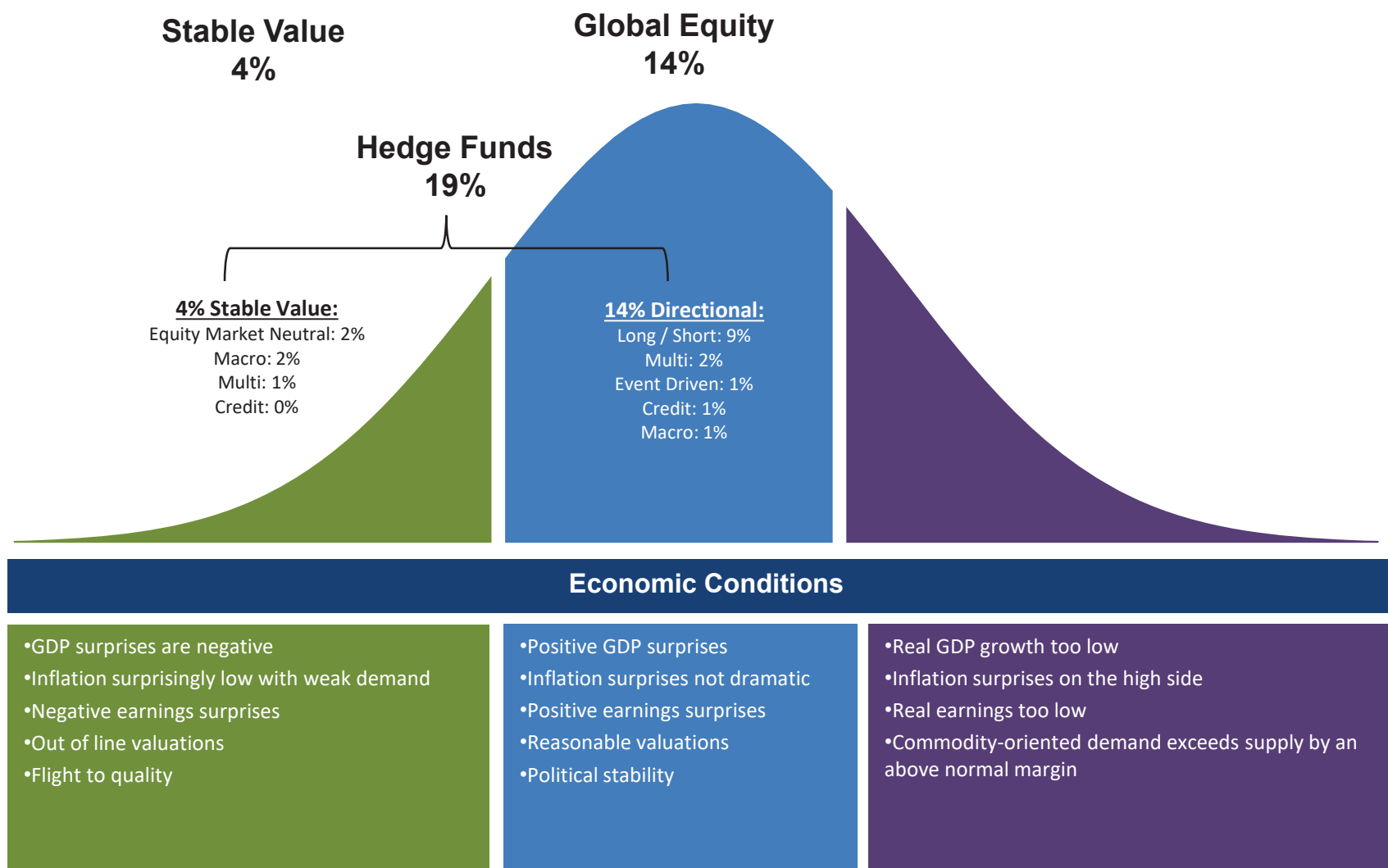
# V. UTIMCO Strategies Review

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# Two New Portfolios With Clear Objectives

As of March 31, 2018



Strategy weights are reflective of Endowment allocations (PUF + GEF).



# New Objectives

Directional Portfolio Objectives	Status	Details
<b>Hedge Fund Types</b> Focus on equity and market sensitive hedge funds	✓	<ul style="list-style-type: none"> <li>Return: 5.9%<sup>1</sup></li> <li>Correlation to MSCI AC World: 0.7</li> <li>Sharpe Ratio: 1.2</li> </ul>
<b>Market Sensitivity and Risk</b> Core strategies have moderate market sensitivity (beta) and lower risk (volatility) than equities	✓	<ul style="list-style-type: none"> <li>Beta to MSCI AC World: 0.3</li> <li>Directional HF Volatility: 4.7%</li> <li>MSCI AC World Volatility: 10.3%</li> </ul>
<b>Market Regime Performance</b> Expected to outperform equities when markets are down, but will underperform strong markets	Mixed	<ul style="list-style-type: none"> <li>86% hit rate vs. equity in equity down months</li> <li>Average monthly excess return over equities in down months: 1.7%</li> <li>5 year ann. return of 5.9% vs. MSCI AC World 9.2%</li> </ul>
<b>Performance versus US Treasuries</b> Expected to outperform US Treasuries <sup>2</sup> over the long term	✓	<ul style="list-style-type: none"> <li>5.9% return vs. Treasuries 0.9%</li> <li>Current 10-year Treasury Yield to Maturity: 2.7%</li> </ul>
<b>Performance versus Benchmark</b> HFRI Fund of Funds Composite benchmark	✓	<ul style="list-style-type: none"> <li>Ann. Outperformance of 2.5% over last 5 years</li> <li>Tracking Error: 2.1%</li> </ul>

Stable Value Portfolio Objectives	Status	Details
<b>Hedge Fund Types</b> Focus on absolute return hedge funds	In-Progress	<ul style="list-style-type: none"> <li>Return: 3.8%<sup>1</sup></li> <li>Stable Value HF Volatility: 4.4%</li> <li>Sharpe Ratio: 0.8</li> </ul>
<b>Market Sensitivity and Risk</b> Core strategies have low to negative market sensitivity	Target 0	<ul style="list-style-type: none"> <li>Correlation to MSCI AC World: 0.5</li> <li>Beta to MSCI AC World: 0.2</li> </ul>
<b>Market Regime Performance</b> Expected to have positive returns when markets are down	Will Improve	<ul style="list-style-type: none"> <li>91% hit rate vs. equity in equity down months, outperforming by an average of 2.0%</li> <li>Positive returns in 38% of 21 down equity months</li> </ul>
<b>Performance versus US Treasuries</b> Expected to outperform US Treasuries <sup>2</sup> over the long term	In-Progress	<ul style="list-style-type: none"> <li>3.8% return vs. Treasuries 0.9%</li> <li>4.4% volatility vs. Treasuries 3.8%</li> <li>Current 10-year Treasury Yield to Maturity: 2.7%</li> </ul>
<b>Performance versus Benchmark</b> HFRI Fund of Funds Conservative benchmark	Will Improve	<ul style="list-style-type: none"> <li>Ann. Outperformance of 0.9% over last 5 years</li> <li>Tracking Error: 3.5%</li> </ul>

(1) Dates: Directional and Stable Value HF returns and details reflective of trailing five year period (April 2013 through March 2018)

(2) Bloomberg Barclays US 5-7 Year Treasury Total Return Index



# Performance by Strategy

As of March 31, 2018

Directional HF					
Asset Class	NAV	Return	Alpha	St. Dev.	Sharpe
<b>HF Directional</b>	<b>\$7,652</b>				
1 Quarter		1.3%	0.8%	4.7%	-
1 Year		7.4%	1.6%	3.2%	2.0
5 Years		5.9%	2.5%	4.7%	1.2

Stable Value HF					
Asset Class	NAV	Return	Alpha	St. Dev.	Sharpe
<b>HF Stable Value</b>	<b>\$2,412</b>				
1 Quarter		2.3%	1.9%	5.5%	-
1 Year		6.3%	3.0%	3.3%	1.6
5 Years		3.8%	0.9%	4.4%	0.8

Directional HF Strategies					
Asset Class	NAV	Return	Alpha	St. Dev.	Sharpe
<b>Long/Short Equity</b>	<b>\$4,799</b>				
1 Quarter		1.3%	0.9%	5.8%	-
1 Year		8.5%	-1.0%	4.3%	1.7
5 Years		6.6%	1.0%	5.7%	1.1
<b>Multi-Strategy</b>	<b>\$1,148</b>				
1 Quarter		1.1%	2.1%	5.9%	-
1 Year		4.6%	4.2%	3.2%	1.1
5 Years		4.3%	1.0%	4.4%	0.9
<b>Event-Driven</b>	<b>\$668</b>				
1 Quarter		-1.2%	-1.4%	1.7%	-
1 Year		5.5%	0.3%	4.6%	1.0
5 Years		5.7%	1.0%	7.7%	0.7
<b>Credit</b>	<b>\$664</b>				
1 Quarter		2.5%	2.3%	3.4%	-
1 Year		11.4%	7.5%	2.5%	4.1
5 Years		7.0%	3.0%	4.0%	1.7
<b>Macro</b>	<b>\$373</b>				
1 Quarter		4.7%	6.2%	1.4%	-
1 Year		-3.1%	-4.0%	5.6%	-0.8
5 Years		-	-	-	-

Stable Value HF Strategies					
Asset Class	NAV	Return	Alpha	St. Dev.	Sharpe
<b>Macro</b>	<b>\$1,073</b>				
1 Quarter		3.0%	4.4%	6.9%	-
1 Year		1.8%	0.9%	5.0%	0.1
5 Years		2.9%	2.0%	7.3%	0.3
<b>Equity Market Neutral</b>	<b>\$848</b>				
1 Quarter		2.5%	1.6%	4.1%	-
1 Year		9.7%	5.2%	2.6%	3.3
5 Years		1.7%	-2.2%	4.0%	0.3
<b>Multi-Strategy</b>	<b>\$361</b>				
1 Quarter		0.0%	1.0%	11.1%	-
1 Year		12.5%	12.1%	6.9%	1.7
5 Years		7.1%	3.9%	4.7%	1.4
<b>Credit</b>	<b>\$131</b>				
1 Quarter		2.5%	2.2%	1.9%	-
1 Year		15.6%	11.7%	1.9%	7.4
5 Years		-	-	-	-

Alpha is reflective of excess return over each strategy's respective HFRI strategy benchmark. Monthly HFRI Indices are updated three times a month. Prior month end data may not be available at the time of issuance of the report. Results reported for the current month and prior three months are estimates and subject to change. All performance prior to that is locked and no longer subject to change. Strategy Sharpe Ratios for 1 Quarter are omitted due to short nature of period.



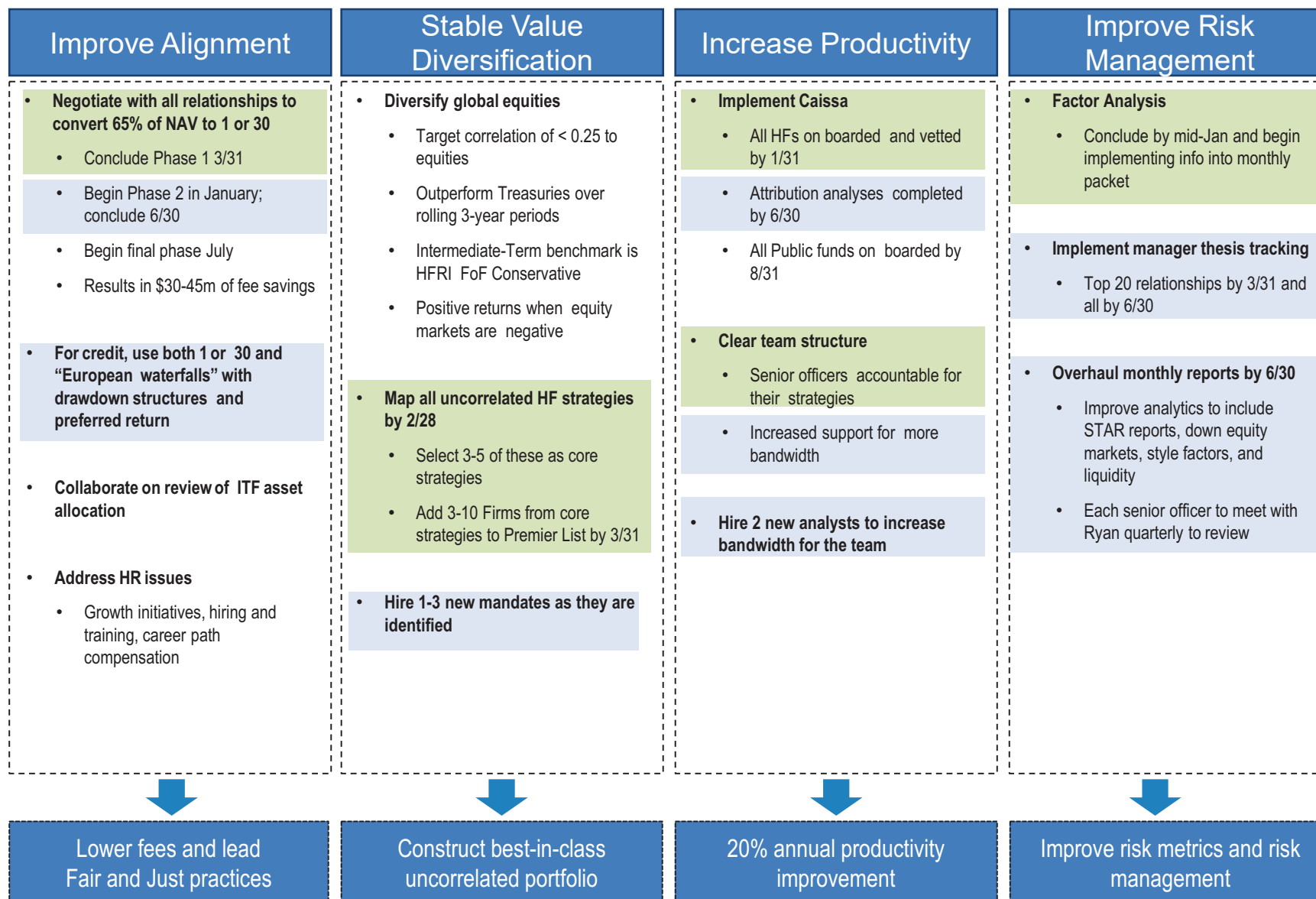


## **VI. New Initiatives**

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# Hedge Funds and Credit – 2018 Total Alignment



Completed Q1 Initiatives

Q2 Initiatives In-Progress



# 1 or 30 Update

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- Significant adoption by our partners in only six months
  
- 16 Relationships representing \$5.3 billion (52%)

# Summary

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- The Hedge Fund portfolio has generated annualized 10 year and 5 year returns of 5.1% and 5.6% respectively, generating alpha against the HFRI Fund of Funds during both periods
- Over time, Hedge Funds and Public Equity composite has produced attractive returns at lower risk
- Diversification has been adequate; particularly in down markets
- Risk is being monitored and managed well
- Results are generally above benchmark and peers
- Splitting fund into two strategies, Directional Hedge Funds and Stable Value Hedge Funds, for better diversification and management
- Completing action plans
- Improving compensation alignment
- Markets are priced for low future beta returns; alpha importance will increase



# Appendix

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# Bull and Bear Charts

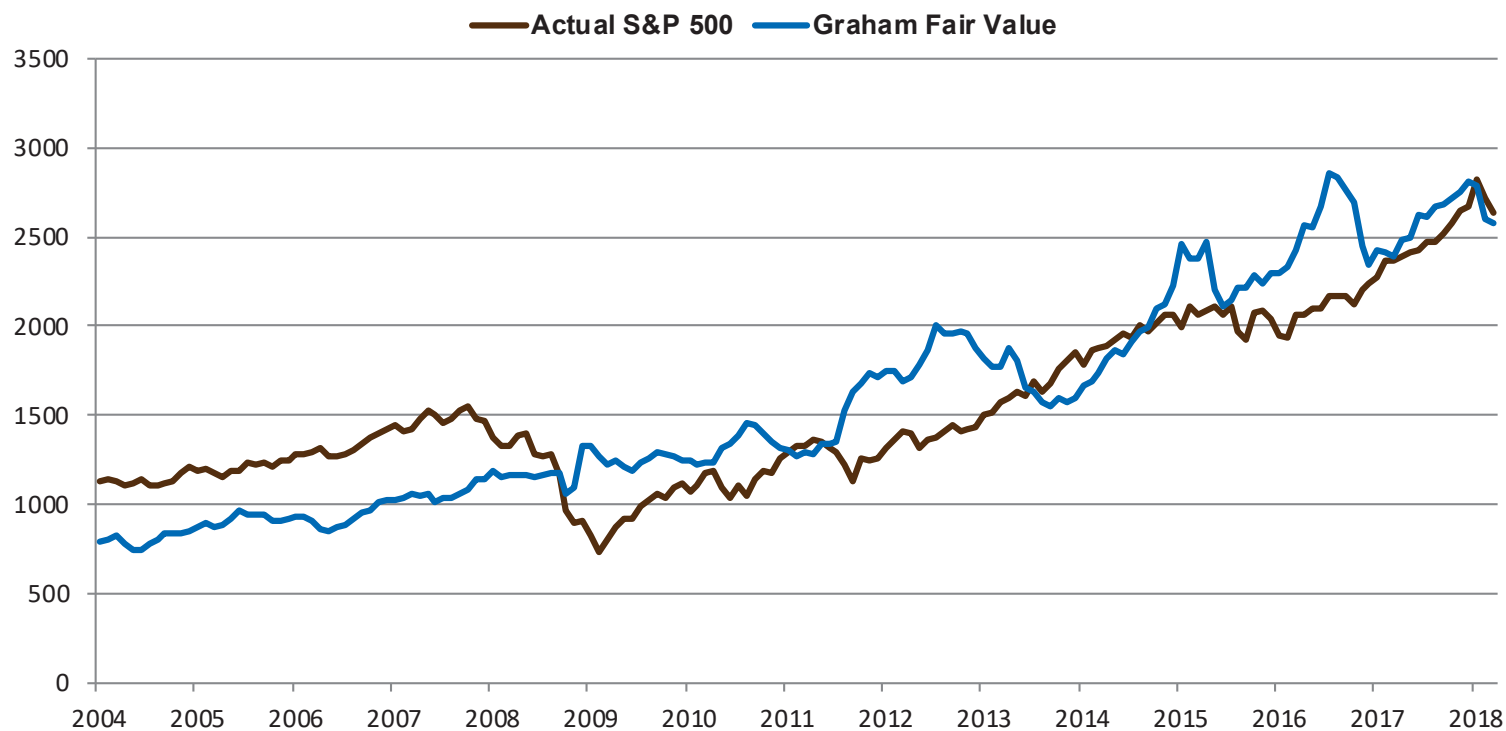
S&P 500 Bull Markets: 1928-2015					
Start Date	End Date	S&P 500 Price		Change (%)	Calendar Days
		Start	Finish		
1/2/1928	4/10/1930	17.66	25.92	46.8	829
3/14/1935	3/10/1937	8.06	18.67	131.6	727
3/31/1938	11/9/1938	8.5	13.79	62.2	223
4/11/1939	10/25/1939	10.42	13.21	26.8	197
4/28/1942	5/29/1946	7.47	19.25	157.7	1492
5/19/1947	6/15/1948	13.77	17.06	23.9	393
6/13/1949	8/2/1956	13.55	49.74	267.1	2607
10/22/1957	12/12/1961	38.98	72.64	86.4	1512
6/26/1962	2/9/1966	52.32	94.06	79.8	1324
10/7/1966	11/29/1968	73.2	108.37	48.0	784
5/26/1970	1/11/1973	69.29	120.24	73.5	961
10/3/1974	11/28/1980	62.28	140.52	125.6	2248
8/12/1982	8/25/1987	102.42	336.77	228.8	1839
12/4/1987	3/24/2000	223.92	1527.46	582.1	4494
7/23/2002	10/9/2007	797.7	1565.15	96.2	1904
3/9/2009	3/30/2018	676.53	2640.87	290.4	2488
<b>Average</b>				<b>145.4</b>	<b>1501.4</b>

S&P 500 Bear Markets: 1928-2015					
Start Date	End Date	S&P 500 Price		Change (%)	Calendar Days
		Start	Finish		
4/9/1930	3/14/1935	25.87	8.06	-68.8	1800
3/9/1937	3/31/1938	18.54	8.5	-54.2	387
11/7/1938	4/11/1939	13.43	10.42	-22.4	155
10/24/1939	4/28/1942	13.02	7.47	-42.6	917
5/28/1946	5/19/1947	19.2	13.77	-28.3	356
6/14/1948	6/13/1949	16.97	13.55	-20.2	364
8/1/1956	10/22/1957	49.42	38.98	-21.1	447
12/11/1961	6/26/1962	72.39	52.32	-27.7	197
2/8/1966	10/7/1966	93.55	73.2	-21.8	241
11/27/1968	5/26/1970	107.76	69.29	-35.7	545
1/10/1973	10/3/1974	119.43	62.28	-47.9	631
11/26/1980	8/12/1982	140.17	102.42	-26.9	624
8/24/1987	12/4/1987	333.33	223.92	-32.8	102
3/23/2000	7/23/2002	1527.35	797.7	-47.8	852
10/8/2007	3/9/2009	1552.58	676.53	-56.4	518
<b>Average</b>				<b>-32.8</b>	<b>542.4</b>

Source: Bespoke, Bloomberg



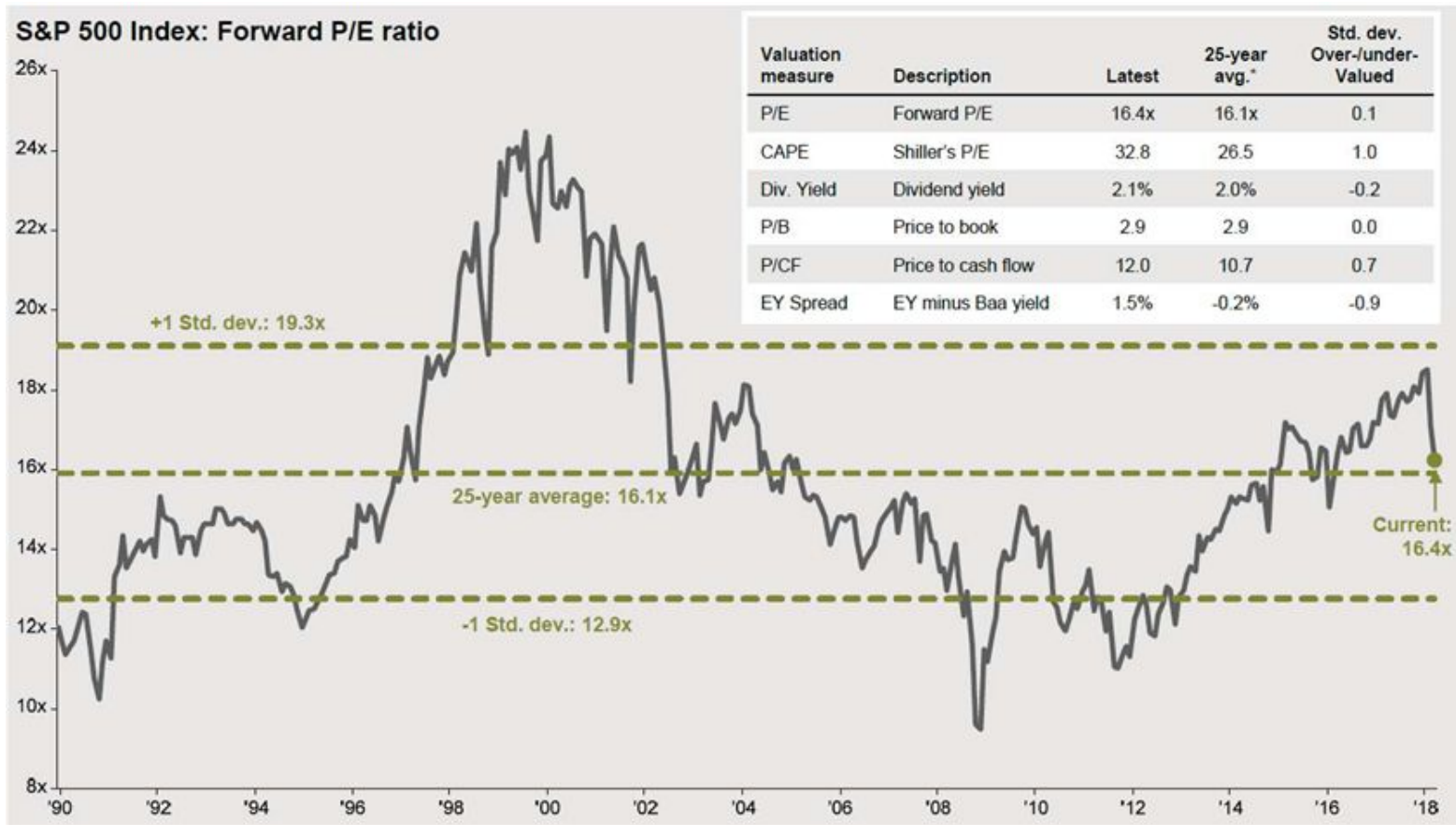
# Ben Graham Valuation of US Equity



	S&P Price	Graham FV	Implied Return	Ann 5-Y
2/29/2008	1331	1149	-13.6%	-2.9%
2/27/2009	735	1272	73.1%	11.6%
3/30/2018	2641	2573	-2.6%	-0.5%



# S&P 500 Valuation Measures



Source: J.P. Morgan  
 Guide to the Markets – U.S. Data as of March 31, 2018





# Yield Spread

- Credit spreads are back near the lows



Note: Shaded areas denote recessions according to the National Bureau of Economic Research.  
Source: Bank of America Merrill Lynch and Federal Reserve Board.



# Markets Have Left Low Volatility Behind



**Agenda Item**  
UTIMCO Board of Directors Meeting  
May 18, 2018

<b>Agenda Item:</b>	Report from Risk Committee
<b>Developed By:</b>	Moeller, Gonzalez
<b>Presented By:</b>	Bass
<b>Type of Item:</b>	Information item
<b>Description:</b>	The Risk Committee (“Committee”) met on May 10, 2018. The Committee’s agenda for its meeting included (1) approval of the minutes of the February 21, 2018 meeting; (2) discussion and appropriate action related to the categorization of investment mandates; (3) review and discussion of compliance reporting; and (4) market and portfolio risk update.
<b>Discussion</b>	<p>The Committee reviewed and approved 12 new mandate categorizations and three (3) recategorizations prepared by the Team for the period beginning February 14, 2018 and ending May 2, 2018. The Committee will report to the UTIMCO Board the results of its review of the Investment Mandate Categorizations.</p> <p>The Committee reviewed the performance and risk reporting and the quarterly compliance reporting.</p>
<b>Recommendation:</b>	None
<b>Reference:</b>	None

**Agenda Item**  
UTIMCO Board of Directors Meeting  
May 18, 2018

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

**Developed By:** Moeller, Gonzalez

**Presented By:** Handley

**Type of Item:** Information item

**Description:** The Audit and Ethics Committee (the "Committee") met on May 10, 2018. The Committee's agenda included (1) discussion and appropriate action related to the Committee minutes; (2) report from UT System Audit Office; (3) an update on compliance, reporting, and audit matters; and (4) a presentation of the unaudited financial statements for the six months ended February 28, 2018 for the Investment Funds and the Corporation.

**Discussion:** The Committee reviewed the unaudited financial statements for the second quarter for the Funds and UTIMCO Corporation and the quarterly compliance reports. In addition to the routine update on compliance, reporting, and audit issues, Ms. Gonzalez reported on the annual disclosure statements filed by outside financial advisors and service providers. These Annual statements must be filed with the State Auditor's Office by April 15<sup>th</sup>.

The Committee also reviewed the Contracts Report. In accordance with the Delegation of Authority Policy, UTIMCO reports any new contracts, leases or other commercial arrangements of \$100,000 or more to the UTIMCO Board at its next regularly scheduled meeting, and annually, all existing contracts, leases, or other commercial arrangements of \$100,000 or more. Going forward, UTIMCO will report these contracts as part of the Committee's report. As mentioned at the UTIMCO Board meeting held in February, UTIMCO is also reporting contracts related to the new office and move.

Eric Polonski, Director of Audits of the UT System Audit Office, discussed with the Committee their consulting engagement report on UTIMCO Software Development Life Cycle (SDLC) Review. The Audit Office completed a review of the software development processes that UTIMCO's information technology team (IT) has implemented. The review included an evaluation of the processes surrounding UTIMCO's SDLC, and the design and effectiveness of relevant internal controls.

**Recommendation:** None

**Reference:** Quarterly Compliance Reports  
Contracts Report

**The University of Texas/Texas A&M Investment Management Company  
Institutional Compliance Program Report  
for the Quarter Ended February 28, 2018**

**Section I – Organizational Matters**

- One meeting of the Ethics and Compliance Committee was held during the quarter: January 30, 2018.
- During the quarter, Rich Hall was hired as Deputy Chief Investment Officer and Scott Slayton was hired as Managing Director – Global Asset Allocation. Both were appointed as UTIMCO officers on February 28, 2018.

**Section II - Risk Assessment, Monitoring Activities and Specialized Training (Performed by Responsible Party)**

**High-Risk Area #1: Investment Due Diligence**

**Responsible Party:** Managing Director – LCC; Managing Director - MCC, Technology and Deal Legal; Senior Managing Director - Natural Resources, Emerging Markets & Lower/Middle Markets; Managing Director - Fixed Income; Senior Director –Real Estate.

**Key “A” risk(s) identified:**

- *Organization could fail to adequately conduct due diligence on prospective managers.*
- *Organization could fail to adequately conduct continual review and evaluation of external managers hired to manage UT System investment funds.*

**Key Monitoring Activities:**

**MCC - Public Markets:** The MCC-Public Markets group participated in 20 meetings/calls with potential managers. Serious due diligence was initiated on two new mandates. One new mandate was completed. Ongoing review of active external managers included 50 meetings/calls. Additional efforts included monthly performance tracking, reviews and analyses by the team and one semi-annual portfolio review.

**MCC - Fixed Income:** The MCC-Fixed Income group participated in two meetings/calls with potential managers. Ongoing review of active external managers included five meetings/calls. No serious due diligence was initiated on any mandates. No new mandate nor addition to existing mandate was completed. Additional efforts included four calls with brokers and one semi-annual portfolio review.

**Less Correlated and Constrained:** The Less Correlated and Constrained group participated in 92 meetings/calls with potential managers. No serious due diligence was initiated. No new mandate nor addition to existing mandate was completed. Ongoing review of active external managers was conducted in the form of 112 meetings/calls/site visits. Additional efforts included monthly performance tracking, reviews and analyses by the team and one semi-annual portfolio review.

**Private Credit:** The Private Credit group participated in 23 meetings/calls with potential managers. No serious due diligence was initiated. One new mandate was completed. No addition to an existing mandate was completed. Ongoing review of active external managers included 31 meetings/calls and one semi-annual portfolio review.

**Private Equity:** The Private Equity group participated in 19 meetings/calls with potential managers. Serious due diligence was not initiated on any new or existing mandates. No new mandates nor additions

to existing mandates were completed. Ongoing review of active external managers included 14 meetings/calls. Additional efforts included participation in four annual meetings and one semi-annual portfolio review.

**Healthcare:** The Healthcare group participated in seven meetings/calls with potential managers. No serious due diligence was initiated on any new or existing mandates. No new mandate nor addition to existing mandate was completed. Ongoing review of active external managers included one meeting/call and one semi-annual portfolio review.

**Technology:** The Technology group participated in 28 meetings/calls with potential managers. Serious due diligence was initiated on one new mandates. One new mandate was completed. No addition to an existing mandate was completed. Ongoing review of active external managers included 30 meetings/calls. Additional efforts included participation in one annual meeting and one semi-annual portfolio review.

**Natural Resources:** The Natural Resources group participated in 31 meetings/calls with potential managers. Serious due diligence was initiated on two new mandates. Four new mandates were completed. There were no additions to existing mandates. Ongoing review of active external managers included 77 meetings/calls. Additional efforts included participation in one annual meeting and one semi-annual portfolio review.

**Emerging Markets:** The Emerging Markets group participated in 80 meetings/calls with potential managers. Serious due diligence was not initiated on any new mandate. No new mandate nor addition to existing mandate was completed. Ongoing review of active external managers included 38 meetings/calls. Additional efforts included one semi-annual portfolio review.

**Real Estate:** The Real Estate group participated in 44 meetings/calls with potential managers. No serious due diligence was initiated on any mandate. One new mandate was completed. There was no addition to an existing mandate. Ongoing review of active external managers included 44 meetings/calls. Additional efforts included participation in one annual meeting and one semi-annual portfolio review.

**Specialized Training:** The Investment Team attended 20 industry-related conferences/functions and meetings.

**High-Risk Area #2: Investment Risk Management**

**Responsible Party:** Managing Director - Risk Management

**Key "A" risk(s) identified:**

- *Organization could fail to accurately perform its assessment of risk due to data and investment instrument modeling error.*
- *Organization could fail to respond to risk levels (manage risk budget).*

**Key Monitoring Activities:**

- Risk Team continued to enhance its understanding and reporting of macro risks and market risks. This currently includes tracking and reporting a bubble monitor, a bear market monitor, an environment monitor, and factor data. Additional research was done on asset classes that were signaling "bubble". Risk Team also continued to monitor the probability of a recession in the next year and the potential impact on the UTIMCO portfolio.
- Risk Team reviewed four due-diligence questionnaires.

- Risk Team continued to develop and enhance standard processes for quantifying risks of proposed investments (“Risk scorecard”). All investments presented to Investment Committee submitted a Risk scorecard that was reviewed by Risk Management for consistency and accuracy
- Risk Team continued to work with Information Technology to fully automate the CUSUM signal for manager under-performance. All managers flagged were reviewed by the investment teams, and the results of these reviews were shared with Risk Management.
- Risk Team worked to propose a payout policy for the Permanent University Fund (PUF) that takes into account the future (and significant) inflows from University Lands, as well as the growing needs of future generations. The draft proposal was presented internally and to the University Lands team for comments and additional inputs.
- Risk Team worked to update the commitment targets and other allocations so the investment teams can prudently invest the additional capital that is expected in the Long Term Fund (LTF), as UT System starts transferring \$250mm/quarter from the Intermediate Term Fund (ITF) into the LTF.
- Risk Team reconciled accounting records’ market value with market values modeled by IFS; reconciled month end values from IFS to accounting records and identified reasons for all discrepancies. Compared each month’s downside volatility with both prior month results and with market activity to determine consistency and identified reasons for all changes; performed analysis of managers’ portfolio-level risks and performance.
- Risk Team worked with the LCC team to better understand manager-level and portfolio-level factor / style exposures. This involved conversations with managers on factors, running regressions on historical returns in various time periods, and reviewing the results with the team.
- Risk Team worked with Information Technology to continue the development of systems and processes that will enable UTIMCO to collect and analyze Private Investments data at the holdings level.
- Risk Team continued to monitor sources and uses of cash and the sources and uses of illiquid capital; prepared projections on portfolio downside volatility utilization, country exposure, liquidity, and asset allocations; updated projections on a weekly basis.
- All internal derivatives were reviewed and analyzed in detail prior to initiation.
- External managers that may use derivatives are monitored daily for spikes in returns or in volatility. Effects of derivatives on the overall portfolio are monitored monthly. Fixed income duration and tracking error is being monitored on an ongoing basis. Managers’ use of margin and leverage is monitored on an ongoing basis. Risk Team confirmed each month downside volatility and VaR calculations.

**Specialized Training:** Risk Team participated in two conferences during the quarter.

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

**Responsible Party:** Chief Technology Officer

**Key “A” risk(s) identified:**

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

**Key Monitoring Activities:**

- New employee/intern security training completed.
- Several alerts were sent to employees covering topics such as viruses, malware, phishing scams, securely sending credit card and social security numbers and updates for mobile devices.
- Compliance checks for nightly shutdown/logout are performed. Violations noted and violators notified as necessary.
- Random checks for confidential data storage continue and CISO continues to work with development employees to limit access to source code and follow secure coding practices.
- Random checks for software compliance were completed. CISO continues to monitor and address policy violations for unauthorized software, sharing of credentials, and use of network resources.
- Continued refinement of Splunk for infrastructure monitoring and alerting, began upgrade to Splunk server.
- Construction of new building space continues; CISO has addressed security, infrastructure, and safety concerns.
- No violations for emailing SSN/CCN information. Monitoring and blocking of unencrypted electronic transmissions of social security numbers and credit card numbers is ongoing. Violations are reported to the CCO and staff is reminded to transmit via encrypted means.
- No violations for not completing software/service security and legal review prior to software download/utilization were identified.
- Multiple alerts for mobile device upgrades were sent to employees.

**Specialized Training:** CISO attended teleconference UT Security meetings and on-site CISO Council and InfoSec meetings. CISO met with Dell computer, Microsoft, Sequel Data Systems, M&S Technologies, APC, and Dynamo to review new technologies, security standards, and security.

**High-Risk Area #4: Investment Compliance**

**Responsible Party:** Manager - Portfolio Accounting and Operations and Chief Compliance Officer

**Key “A” risk(s) identified:**

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

**Key Monitoring Activities:**

- Verified that investments are in compliance with rules and guidelines in policies, rules and regulations utilizing custodian’s software and in-house developed databases and reports.



- Review of monthly and quarterly investment compliance reports prepared by employees continues.
- All mandates submitted to the Chief Compliance Officer were reviewed and categorized pursuant to asset class and investment type in accordance with the Mandate Categorization Procedure and approved by the UTIMCO Risk Committee.
- Annual Compliance Statements were sent to 24 managers of separately managed accounts. All but one were returned timely; no noncompliance was noted. The compliance statement received late was due to a change in firm structure and management.
- Continued participation by the Portfolio Accounting and Operations employees in prospective and active external manager investment due diligence.
- Derivative Investment Controls and Processes are being followed and work continues on improving them.

**Specialized Training:** None

**High-Risk Area #5:** Conflicts of Interest

**Responsible Party:** Chief Compliance Officer

**Key "A" risk(s) identified:**

- *Organization could fail to comply with conflicts of interest provisions in Code of Ethics and Texas Education Code section 66.08.*

**Key Monitoring Activities:**

- All Certificates of Compliance were received timely from all Directors and Key Employees for all investment managers hired and funded. No conflicts of interests were noted, i.e. no pecuniary interests were identified.
- No director compliance statements were due this quarter.
- Four full time employees, two temporary employees, and four interns were hired during the quarter. All financial disclosure statements and ethics compliance statements due were received before the required due dates.
- Three ethics and compliance training sessions were held during the quarter. New hires and temporary workers received training within a reasonable time after hire.
- Effective April 1, 2013, a new procedure regarding the periodic review of public resources for comparison with financial disclosure statement information provided by Directors and Key Employees was adopted, which requires review of these statements within 90 days after the deadline for filing the statements. Review was required during the prior quarter for one new director appointed August 24, 2017 and one new employee. Review was not completed timely; however, review was completed in the second quarter.
- List of publicly traded securities of all publicly traded companies in which a Director or employee has a pecuniary interest (the "restricted list") was maintained. Internal managers and external managers operating under agency agreements are provided the restricted list in order to prevent the violation of UTIMCO Code of Ethics and Texas Education Code Section 66.08. No new securities were added to the list. No new manager operating under an agency agreement was hired during the quarter. Consequently, the restricted list was not required to be sent to any manager operating under an agency agreement during the quarter.
- On a daily basis, the Chief Compliance Officer designee reviewed security holdings of internal and external managers operating under agency agreements for compliance with the restricted list. No exceptions were noted.

- Of 49 employee securities transactions during the quarter, none required preclearance. No transactional disclosure forms were filed late.
- Two employees requested CEO approval for outside employment.
- Required annual reporting to the Audit and Ethics Committee for CEO approvals for outside employment and disciplinary action disclosures was completed on February 5, 2018.
- Beginning with the fourth quarter 2015, the Finance and Administration travel review process was modified to require testing of a sample of expense reports only and no longer provide a review of all reimbursement requests. As a result, compliance reporting is now limited to information obtained from the sample tested during each quarter. Of the seven expense reports tested during the quarter, one included third party paid expenses and was preapproved as required. One expense report tested included a sponsored entertainment event and preapproval was obtained as required.
- Effective September 1, 2017, employees must submit sponsored entertainment requests for approval to the CCO. Four employees requested and received approval for sponsored entertainment events during the quarter.
- One employee requested special approval to fly by private plane with an investment manager to attend the manager's quarterly board meeting. The employee is a member of the board of directors. Advance approval from the CCO was obtained as required; however, advance approval from the CEO approval was not obtained. CEO approved post-trip on April 19, 2018.

**Specialized Training:** None

### **Section III – Monitoring and Assurance Activities (Performed by Compliance Office)**

**High-Risk Area #1:** Investment Due Diligence

**Assessment of Control Structure:** *Well controlled*

**Assurance Activities Conducted:** CCO reviewed results of quarterly due diligence monitoring plans for each Investment group. Ongoing due diligence efforts on multiple managers continue.

**Significant Findings:** None.

**High-Risk Area #2:** Investment Risk Management

**Assessment of Control Structure:** *Well controlled*

**Assurance Activities Conducted:** CCO continues to review documentation maintained by the Risk Team evidencing risk monitoring performed by the Risk Team.

**Significant Findings:** None

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

**Assessment of Control Structure:** *Well controlled*

**Assurance Activities Conducted:** CCO continues to meet with CISO regarding information technology and security practices.

**Significant Findings:** None

**High-Risk Area #4:** Investment Compliance

**Assessment of Control Structure:** *Well controlled*

**Assurance Activities Conducted:** CCO continues to review investment and fund compliance reports to determine that policy requirements have been maintained based on the activity performed by employees.

CCO reviewed the documentation and workpapers supporting the various compliance reports prepared by the Responsible Parties.

**Significant Findings:** None

**High-Risk Area #5:** Conflicts of Interest

**Assessment of Control Structure:** *Well controlled*

**Assurance Activities Conducted:** CCO reviewed the completed sign-offs for completeness for all certificates of compliance received. Monitoring for potential conflicts of interest in the areas of personal securities transactions, outside employment and business activities, and manager/third party-paid travel, entertainment and gifts is ongoing.

**Significant Findings:** None

**Section IV – General Compliance Training Activities**

Three training sessions were held during the quarter.

**Section V – Action Plan Activities**

See updated Institutional Compliance Action Plan Fiscal Year 2018.

**Section VI – Confidential Reporting**

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

<b>Type</b>	<b>FYTD Number</b>	<b>% of Total</b>
Employment Related	0	0.00%
Policy Issues	0	0.00%
Hang ups or wrong numbers	1	0.00%
Total	1	00.00%

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

**The University of Texas Investment Management Company  
Institutional Compliance Action Plan  
Fiscal Year 2018**

#	ACTION ITEM	TARGET COMPLETION DATE	STATUS
<b><i>A. RISK ASSESSMENT</i></b>			
1.	Perform detailed review of Enterprise Risk Management Framework; update risk assessments, including mapping of controls in conjunction with updated investment and operations processes under new CEO, if any; prepare new/updated monitoring plans for high risk areas and update Fraud Program as needed	05/31/18	<i>No activity</i>
<b><i>B. MONITORING ACTIVITIES / ASSURANCE</i></b>			
2.	Revise Responsible Party Monitoring Plan documentation for high risk areas A in conjunction with updated investment and operations processes under new CEO, if any	On-going	<i>No activity</i>
3.	Continual enhancement of compliance monitoring and reporting	On-going	<i>Ongoing</i>
<b><i>C. COMPLIANCE TRAINING / AWARENESS</i></b>			
4.	Provide new employee and annual Code of Ethics training and information to improve employee awareness of compliance program	04/30/18	<i>Training session held 10/20/17; 12/04/17; 02/01/18; 02/06/18</i>
5.	Identify and network with similarly situated compliance professionals	On-going	<i>Systemwide Compliance meeting 09/27/17; UT System Legal Conference 09/28-09/29/17; Association of Corporate Counsel (ACC) annual meeting 10/16-17/17; ACC Austin meeting 10/03/17; Council of Public Funds Compliance Officers 11/28/17</i>
<b><i>D. REPORTING</i></b>			
6.	Conduct quarterly meetings with the internal ethics and compliance committee	On-going	<i>Quarterly meeting held 11/01/17; 01/30/18</i>
7.	Provide quarterly/annual reports to the Audit and Ethics Committee and System-wide compliance office	On-going	<i>Quarterly reporting to A&amp;E and Risk Committees: 11/16/17; 02/21/18 Quarterly reporting to Systemwide Compliance: 02/05/18</i>
<b><i>E. OTHER / GENERAL COMPLIANCE</i></b>			

Updated 04/20/18

#	ACTION ITEM	TARGET COMPLETION DATE	STATUS
8.	UT Systemwide Compliance Office Annual Attestation & Effectiveness Reporting	12/05/17	<i>Report submitted 12/04/17</i>
9.	Finalize draft of compilation of all laws and regulations and to the extent necessary, modify compliance processes and reporting	12/31/17	<i>Ongoing</i>
10.	Update Business Continuity Plan due to move to new office space	05/31/18	<i>In progress</i>
11.	Supervise and manage work of Compliance Specialist	08/31/18	<i>Ongoing</i>
12.	UT Systemwide Compliance Office activities participation: annual compliance officers' forum and other activities	On-going	<i>Systemwide Compliance meeting 09/27/17; UT System Legal Conference 09/28-09/29/17; Compliance meeting with Jason King, Associate Systemwide Compliance Officer and Ethics Officer for the U.T. System 10/06/17; Meeting with UT System CISO 10/30/17</i>
13.	Hotline reporting	On-going	<i>1 hang-up/wrong number</i>

Updated 04/20/18

## CONTRACTS REPORT

(Total Obligation per Agreement greater than \$100,000)

### New Contracts, Leases, and Other Commercial Arrangements

February 17, 2018 through April 30, 2018

Agreement	Purpose	Contract Term	Annual Amount
UT Austin	OTS Internet Services (includes one time \$57,205 fee related to the move)	1/1/2018 - 6/30/2018	\$105,590
Steadfast	Corporate insurance (D&O/E&O)	3/1/2018 - 2/28/2019	\$136,500

### New Office and Move Related Contracts

Inception Through April 30, 2018

McCoy-Rockford, Inc	Furniture and Fixtures	One-time	\$1,153,877
Shelton-Keller Group, Inc	Furniture and Fixtures	One-time	\$1,125,214
Workplace Resource	Furniture and Fixtures	One-time	\$143,103
Page Southerland	Furniture Planning Architect	One-time	\$175,000
Kudelski Security, Inc	Firewall / Equipment & Support	One-time	\$585,026
Sequel Data Systems, Inc	Firewall / Equipment & Support	One-time	\$496,636
Onsite AV Service Partners	AV-Video Conferencing Equipment & Support	One-time	\$396,610
Sequel Data Systems, Inc	LHI-APC Datacenter power & cooling/svcs (HVAC) & support	One-time	\$214,349
Sequel Data Systems, Inc	LHI-Structured cabling & WAP install	One-time	\$143,750
Sequel Data Systems, Inc	Vmware - license agreement & support	One-time	\$317,875