

**UTIMCO BOARD OF DIRECTORS  
MEETING AGENDA  
February 21, 2019  
UTIMCO  
210 West 7<sup>th</sup> Street, Suite 1700  
Austin, Texas 78701**

Time	Item #	Agenda Item
<b>Begin</b> 9:00 a.m.	<b>End</b> 9:05 a.m.	1
		Call to Order of the Meeting/Discussion and Appropriate Action Related to Minutes of the December 6, 2018 Meeting*
9:05 a.m.	9:15 a.m.	2
		Discussion and Appropriate Action Related to Corporate Resolutions: - Resolution of Appreciation* - Designation of Annual Meeting of the UTIMCO Board*
9:15 a.m.	9:35 a.m.	3
		2018 Market Review and 2019 Outlook
9:35 a.m.	9:55 a.m.	4
		Performance and Market Update
9:55 a.m.	10:15 a.m.	5
		Review of 2018 and 2019 Priorities
10:15 a.m.	10:30 a.m.	6
		Primer on Strategic Partnerships
10:30 a.m.	10:50 a.m.	7
		Public Equity Presentation
10:50 a.m.	11:10 a.m.	8
		Hedge Funds Presentation
11:10 a.m.	11:25 a.m.	9
		Report from Risk Committee: - Discussion and Appropriate Action Related to Proposed Amendments to the Charter of the Risk Committee*
11:25 a.m.	11:40 a.m.	10
		Report from Audit and Ethics Committee: - Discussion and Appropriate Action Related to the Deloitte & Touche LLP Financial Statement Audit Results and Communications and the Audited Financial Statements of the Corporation and the Permanent University Fund, General Endowment Fund, Permanent Health Fund, Long Term Fund, Intermediate Term Fund and the Statement of Investment Performance Statistics for the year ended August 31, 2018* - Discussion and Appropriate Action Related to Proposed Amendments to the Charter of the Audit and Ethics Committee*
11:40 a.m.	11:50 a.m.	11
		Report from Policy Committee: - Discussion and Appropriate Action Related to Proposed Amendments to the Master Investment Management Services Agreement with UTIMCO*,** - Discussion and Appropriate Action Related to Proposed Amendments to the Charter of the Policy Committee*
11:50 a.m.	12:00 p.m.	12
		Report from Compensation Committee: - Discussion and Appropriate Action Related to Proposed Amendments to the Charter of the Compensation Committee*
12:00 p.m.	12:05 p.m.	13
		Discussion and Appropriate Action Related to Employee's Service as a Director on an UTIMCO Investee Company*
12:05 p.m.		
		<b>Adjourn followed by Lunch</b>

\* Action by resolution required

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

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

<b>Next Scheduled Meeting: June 27, 2019</b>
--

**RESOLUTION RELATED TO MINUTES**

RESOLVED, that the minutes of the Meeting of the Board of Directors held on **December 6, 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 **December 6, 2018**, by telephone 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  
J. Kyle Bass  
Robert Gauntt  
Janet Handley  
R. Steven Hicks  
Ray Nixon  
Ray Rothrock  
Clifton L. Thomas, Jr.  
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; Rich Hall, Deputy Chief Investment Officer; Joan Moeller, Secretary and Treasurer; Cecilia Gonzalez, Corporate Counsel and Chief Compliance Officer; and other team members. Other attendees were Keith Brown of the McCombs School of Business at UT Austin; Jerry Turner and Jerry Kyle of Orrick, Herrington & Sutcliffe LLP; and Karen Adler of The University of Texas System ("UT System"). Chairman Hildebrand called the meeting to order at 9:02 a.m. Copies of materials supporting the Board meeting agenda were previously furnished to each member of the Board.

Chairman Hildebrand noted that, out of respect for and to honor President George H. W. Bush, whose funeral services were to be held later in the day, the meeting of the Board would be abbreviated. He stated that the only items on the original posted agenda to be considered by the Board would be the minutes of the September 20, 2018 meeting and the report from the Compensation Committee. All other items were deferred to the next meeting of the Board.

**Minutes**

The first item to come before the Board was approval of the Minutes of the Board of Directors Meeting held on September 20, 2018. 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 September 20, 2018, be, and are hereby, approved.

## **Compensation Committee Report**

Chairman Hildebrand asked Director Rothrock to provide a report from the Compensation Committee. Director Rothrock stated that the Compensation Committee (the "Committee") met on November 29, 2018 and again on December 6, 2018. The Committee considered six action items at these meetings, three requiring further approval by the Board. However, due to the short nature of this meeting, only two were presented for approval by the Board.

The Committee approved the minutes of its July 19, 2018 and November 29, 2018 meetings, approved amendments to the Charter of the Compensation Committee, subject to approval by the Board at a later meeting, approved a resolution selecting Mercer as its compensation consultant for FY 19, including authorizing Director Rothrock to negotiate an engagement agreement with Mercer, and the Committee approved the CEO's performance standards for the Performance Period ending June 30, 2019, subject to approval by the Board. The Committee also met in Executive Session to discuss the performance awards for UTIMCO officers and other Compensation Program (the "Plan") Participants for the Performance Period ended August 31, 2018.

Following the executive session at the meeting held earlier in the day, the Committee approved the Performance Awards for the Plan Participants for the Performance Period ended August 31, 2018, subject to approval by the Board.

Director Rothrock recommended two resolutions for approval by the Board. The first resolution related to the Performance Awards for the Plan Participants for the Performance Period ended August 31, 2018, and the second resolution related to the CEO's performance standards for the Performance Period ending June 30, 2019. Upon motion duly made and seconded, the following resolutions were unanimously adopted by the Board:

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

WHEREAS, in accordance with Section 5.5.(d) of the Plan, the Compensation Committee has determined the level of achievement by each Participant in the Plan during the Performance Period ended August 31, 2018, of his or her Performance Goals for such Performance Period; and

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

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

WHEREAS, the Compensation Committee has reviewed the Performance Awards for all Participants who have met or exceeded their performance benchmarks for the Performance Period ended August 31, 2018, made changes it deemed appropriate, approved such Performance Awards, and recommended that the Board approve the same.

NOW, THEREFORE, be it:

RESOLVED, that the Board approves the Performance Awards for all Participants (excluding the CEO) for the Performance Period ended August 31, 2018, in the total aggregate amount of \$7,980,711 and be it

FURTHER RESOLVED, that of the Performance Awards for all Participants (excluding the CEO) for the Performance Period ended August 31, 2018, 26.8% (\$2,140,943) will be deferred pursuant to the Plan.

And,

WHEREAS, Section 5.4(b) of the UTIMCO Compensation Program (the "Plan") provides that the Board will determine the Performance Goals of the CEO for each Performance Period; and

WHEREAS, the Board has reviewed the CEO's Qualitative Performance Standards for the Performance Period ended June 30, 2019, as prepared by the CEO, and recommended by the Compensation Committee and set forth in the document presented to the Board.

NOW, THEREFORE, be it:

RESOLVED, that the Board approves the Qualitative Performance Standards for the CEO for the Performance Period ended June 30, 2019, as set forth in the document presented to the Board.

**Adjourn**

There being no further business to come before the Board, the meeting was adjourned at approximately 9:08 a.m.

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

Approved: \_\_\_\_\_ Date: \_\_\_\_\_

Jeffery D. Hildebrand  
Chairman, Board of Directors of  
The University of Texas/Texas A&M Investment Management Company

**Agenda Item**  
UTIMCO Board of Directors Meeting  
February 21, 2019

**Agenda Item:** Discussion and Appropriate Action Related to Corporate Resolutions: Resolution of Appreciation and Designation of Annual Meeting of the UTIMCO Board

**Developed By:** Moeller, Gonzalez

**Presented By:** Hildebrand

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

**Description:** Chairman Hildebrand will present a recommendation to the Board to approve a resolution acknowledging the services of J. Kyle Bass as a UTIMCO Board member. Mr. Bass has served as Director for nine years and is completing his final three year term.

Chairman Hildebrand will designate the annual meeting of the Board of Directors of the Corporation. The annual meeting will be held on June 27, 2019.

**Recommendation:** Chairman Hildebrand will recommend approval of the resolution of appreciation and designation of the annual meeting.

**Reference:** None

**RESOLUTION RELATED TO ANNUAL MEETING**

RESOLVED, that the Annual Meeting of the Board of Directors will be held on June 27, 2019, in Austin, Texas.



**Agenda Item**  
UTIMCO Board of Directors Meeting  
February 21, 2019

**Agenda Item:** 2018 Market Review and 2019 Outlook

**Developed By:** Slayton

**Presented By:** Slayton

**Type of Item:** Information Item

**Description:** Mr. Slayton will review the 2018 market and provide a 2019 outlook.

**Reference:** *2018 Market Review and 2019 Outlook* presentation



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

---

## **2018 Market Review and 2019 Outlook**

**Scott T. Slayton, CFA**

**February 2019**



# 2018 Financial Market Review

---

# The Key Drivers of 2018 Performance

---



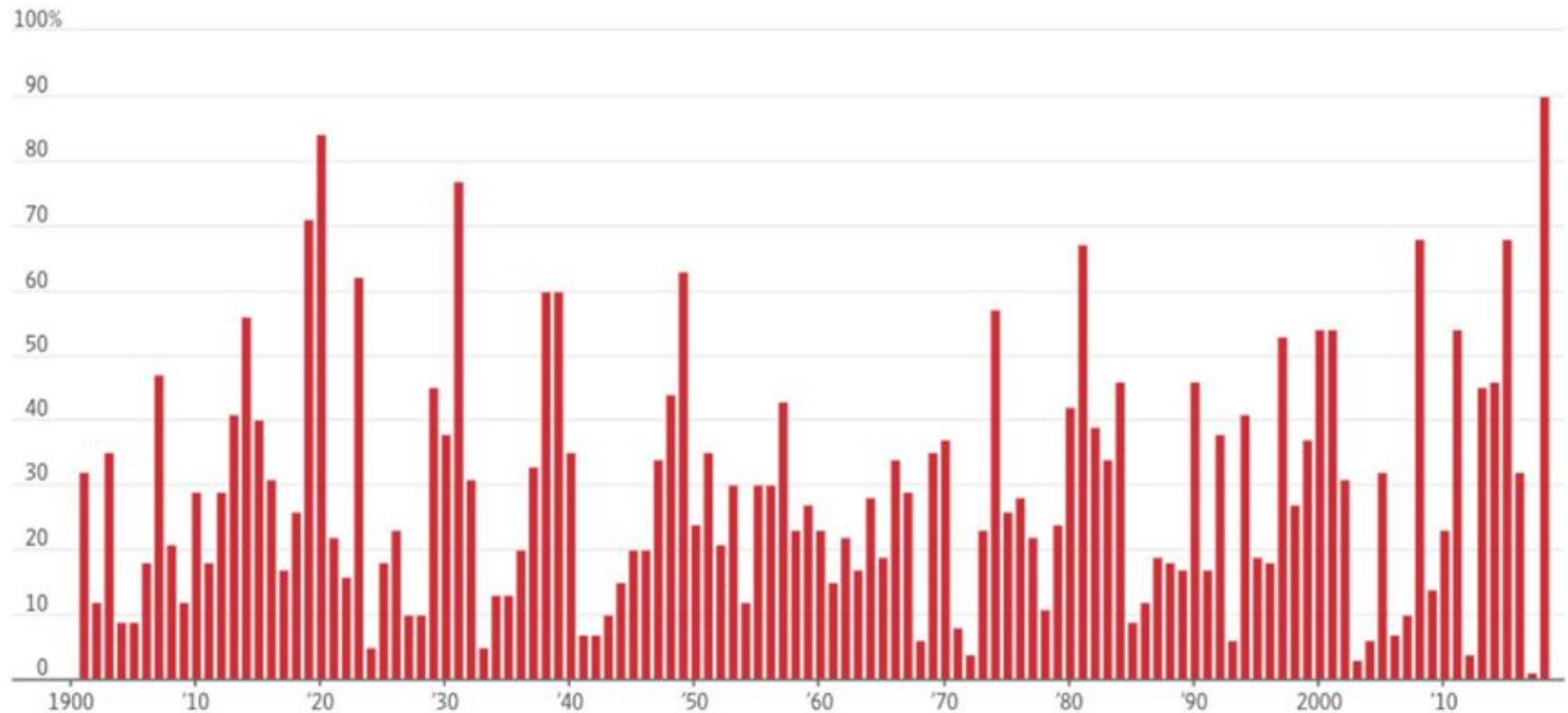
- Lower Financial Liquidity: Rate hikes + QT + Strong dollar = Toxic shock
- New Fed Chair learning to communicate and listen to financial markets
- US/China trade conflict escalation
- Synchronous global growth slowdown in second half of 2018
- Housing, autos and semiconductors all experienced cyclical downturns
- “Peak Tech” may have occurred with parabolic rise in FAANG stocks
- Credit market deterioration spilled into equities
- Inflation remained docile and near Fed target levels
- Oil prices collapsed by -42%
- SPX experienced weakest December since 1931, down -9.2%
- Price volatility exploded in Feb and came roaring back again in 4Q18

# The Year Almost Nobody Made Money



## Under Pressure

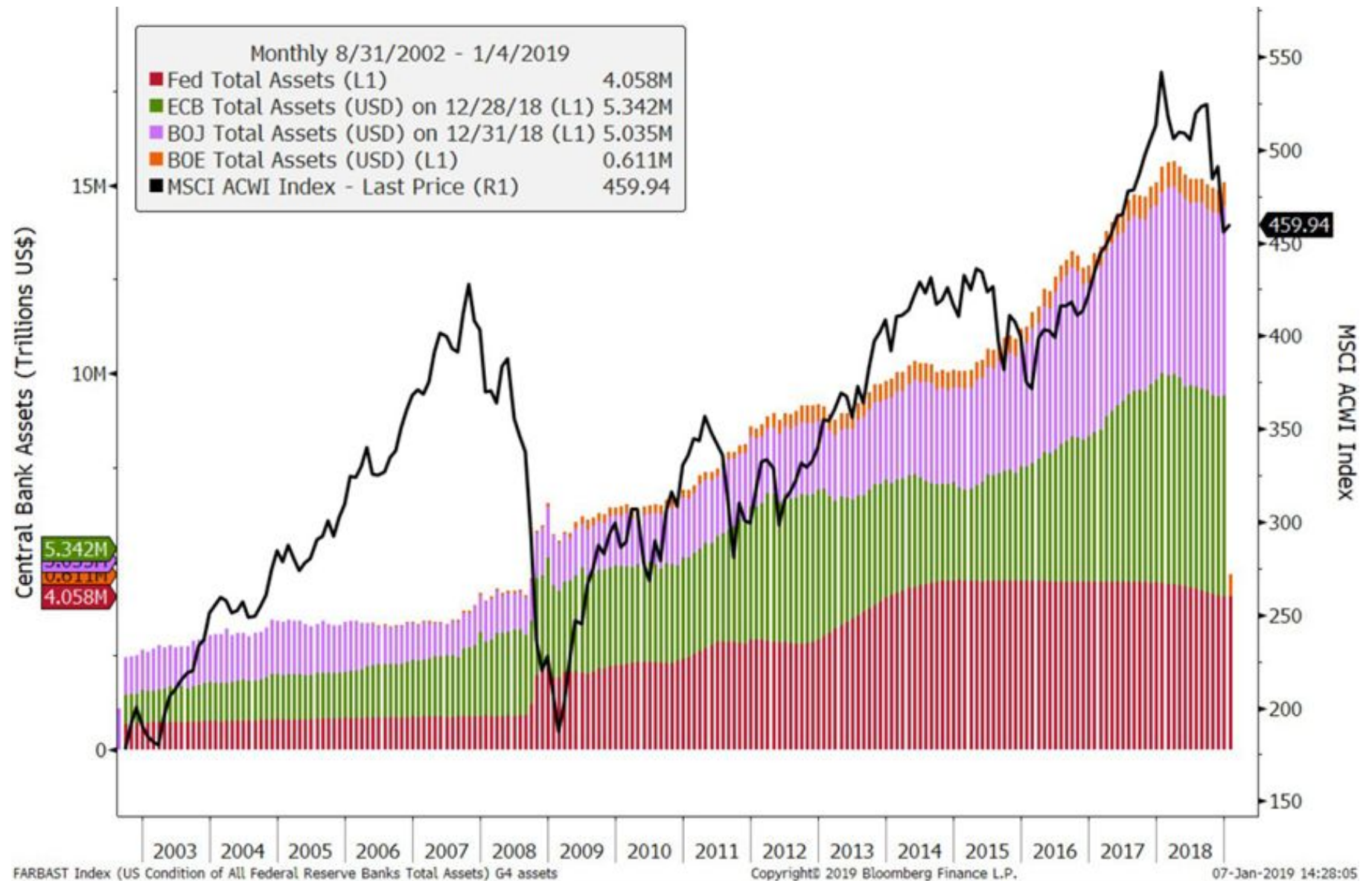
A record share of asset classes have posted negative total returns this year, according to Deutsche Bank data going back to 1901.



Note: Returns are in U.S. dollars. Data for 2018 are as of mid-November.

Sources: Deutsche Bank; Bloomberg Finance LP; GFD

# ACWI Peaked with Global CB Assets



Source: DoubleLine

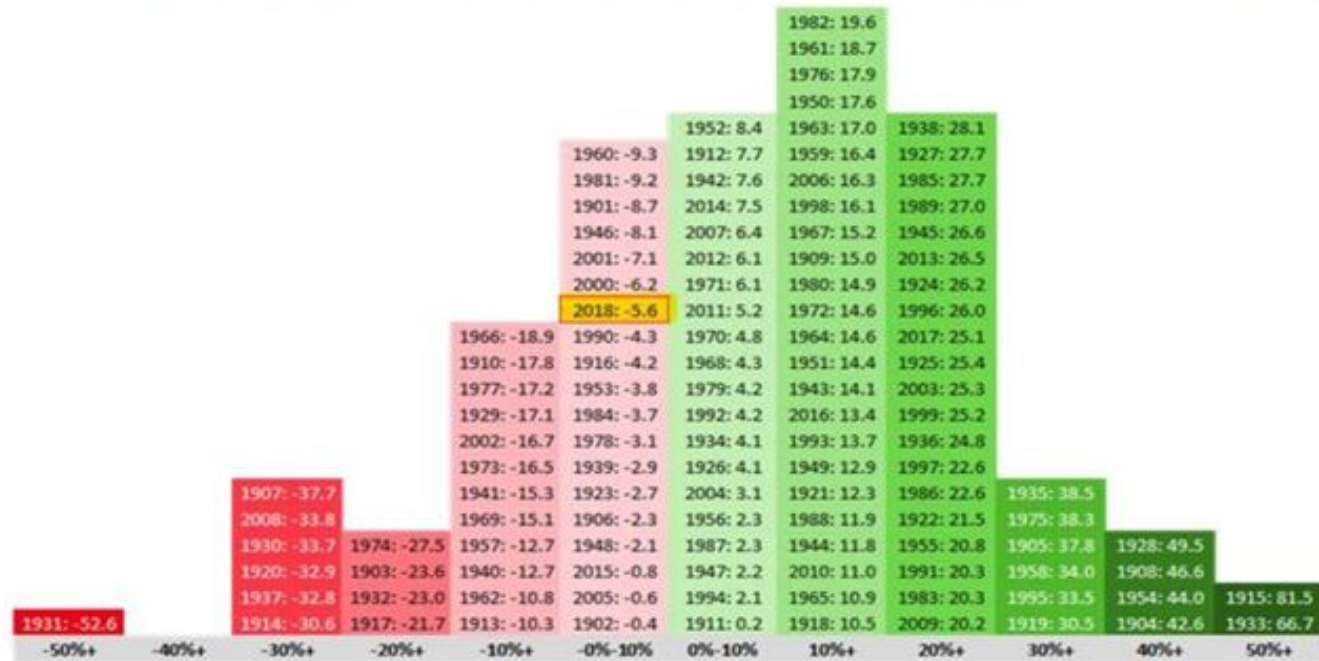
# “Peak Tech” as FAANG Went Parabolic



Source: Bloomberg, UTIMCO



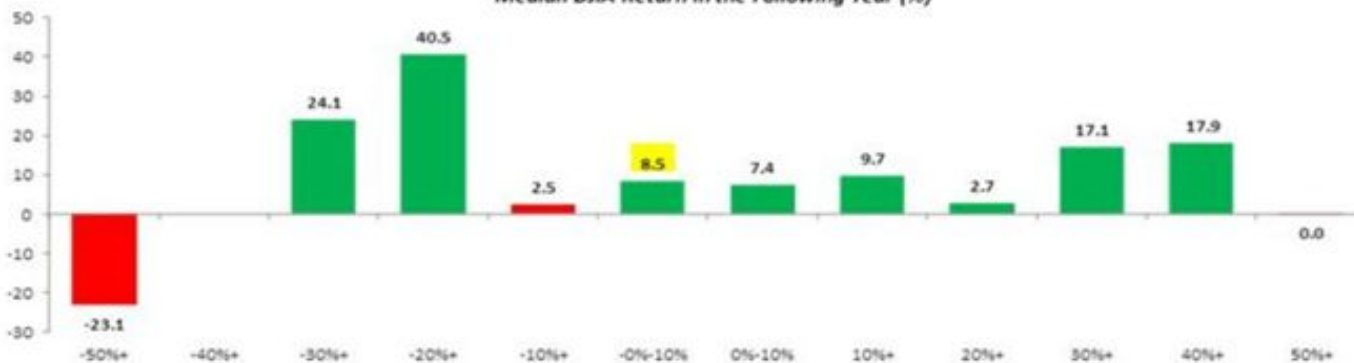
DJIA: Annual Returns & Average Return in the Following Year: 1900 - 2018



Average DJIA Return in the Following Year (%)



Median DJIA Return in the Following Year (%)







# 2019 Financial Market Outlook

---

# Indicator Library-Bullish Fixed Income



Equity		Fixed Income		Credit		Commodities		US Dollar	
<b>Overall</b>	<b>N</b>	<b>Overall</b>	<b>+</b>	<b>Overall:</b>	<b>-</b>	<b>Overall</b>	<b>-</b>	<b>Overall</b>	<b>-</b>
Equity Data Library	▲	Fixed Income Data Library	▲	Credit Data Library	▲	Commodities Data Library	▲	Currencies Data Library	▲
Environmental Model	●	Bond Bear Market Indicators	◆	MS Credit Cycle	◆	Composite Model	◆	USD Advance / Decline	◆
Equity Risk Process	●	ECRI Indicators	●	Bubble Monitor	▲	- Internal	◆	SLJ View	●
Bear Market Indicators	▲	Technical View	▲	Money Markets Monitor	▲	- External	◆	MS USD Scorecard	▲
- UTIMCO	▲	Yield Curve Trend	●	Credit Check	▲	Bubble Monitor	●	Technical View	▲
- NDR	◆	Risk Grow Indicator	●	AGMR TAA	▲	China Compendium	◆		
- GS	◆	Macroeconomic Dashboard	●			Boom Bust Barometer	▲		
Major Trend Index	◆	AGMR TAA	◆			ECRI GIGLU	●		
Bubble Monitor	▲					Main Street Meter	●		
MS CMTI	●					AGMR TAA	◆		
AGMR TAA	●								

## Asset Class Data Library

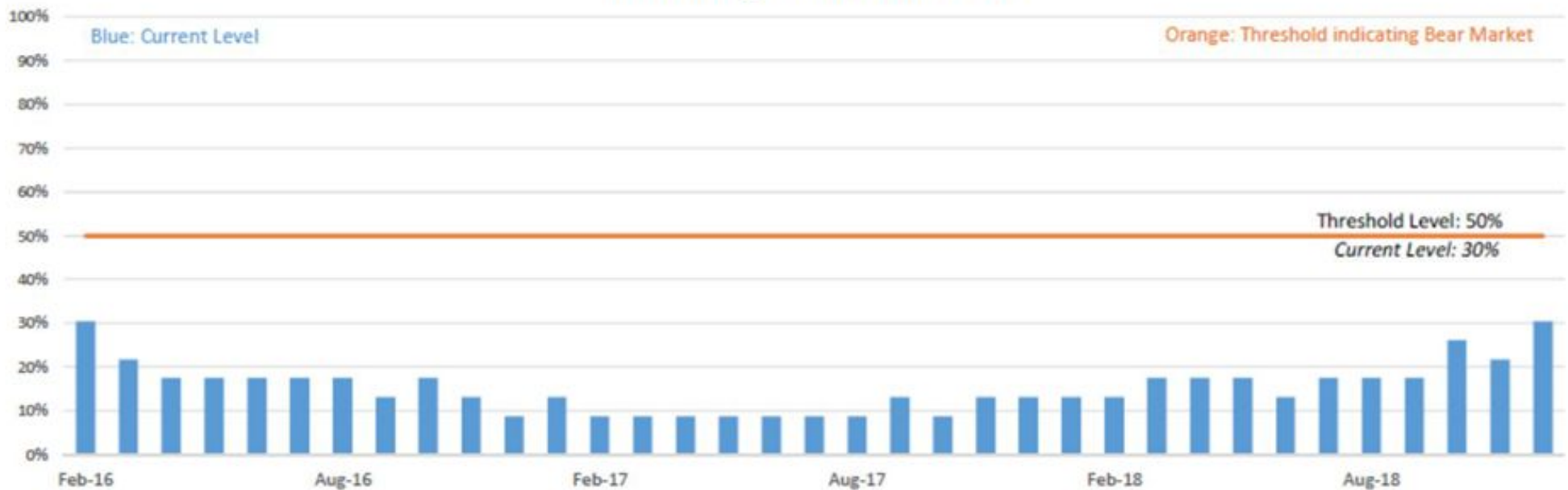
ECRI Leading Economic Indicators	Equity Weekly (KS)	FX Tracker (KS)	NDR Commodity Dashboard
Macroeconomic Dashboard	Macro Packet (KS)	US Rates Tracker (KS)	Credit Compilation
Environment Signal			China Compendium
Sharpe Ratio Indicators			IDS

Source: UTIMCO

# Bear Market Indicators

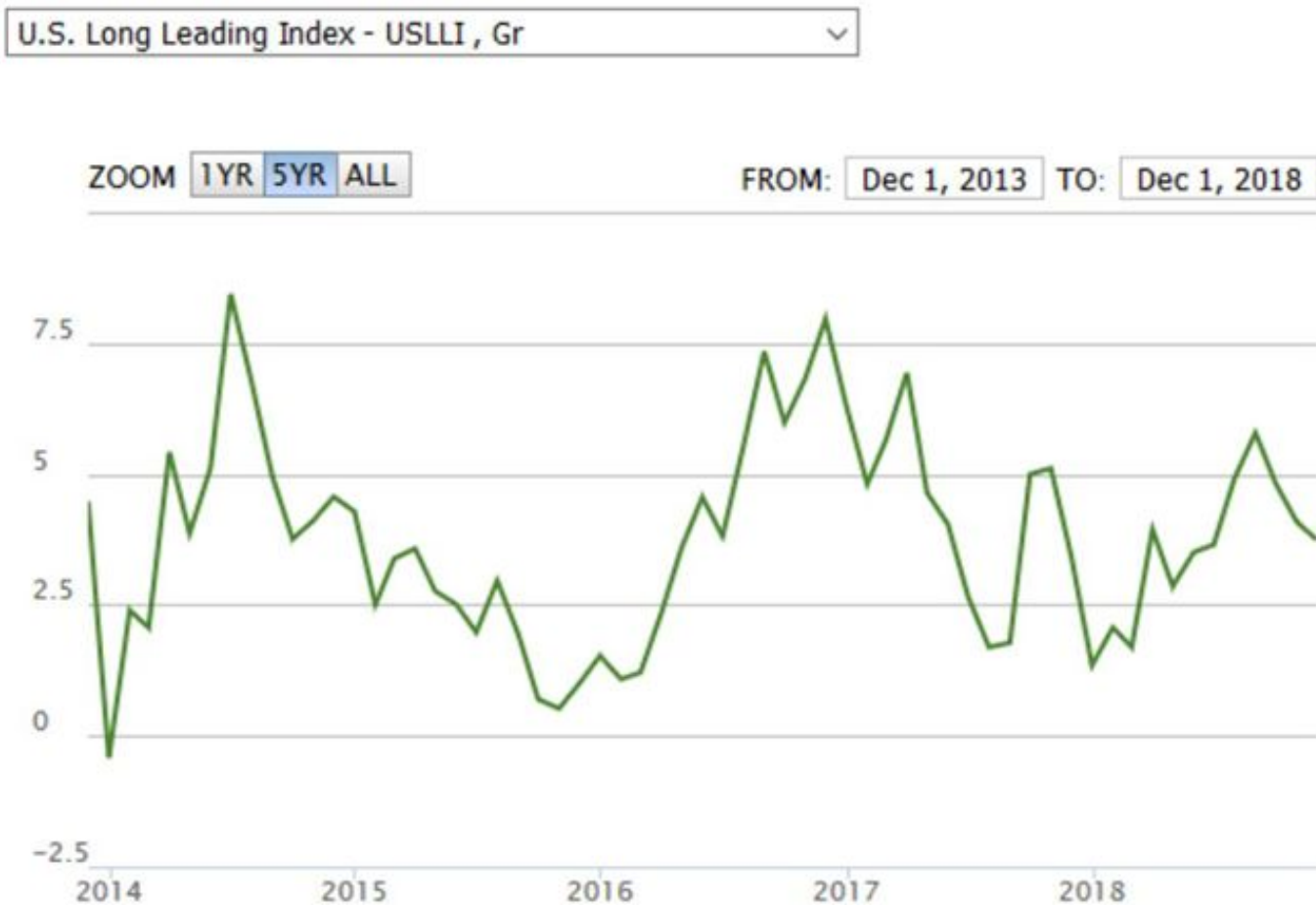


## Percentage of Indicators On



Source: UTIMCO

# ECRI-US Long Leading Index (GR)



Source: ECRI

# ECRI-US Future Inflation Gauge



U.S. Future Inflation Gauge (Monthly) - USFIGM

ZOOM 1YR 5YR ALL

FROM: Jan 1, 2018 TO: Jan 1, 2019

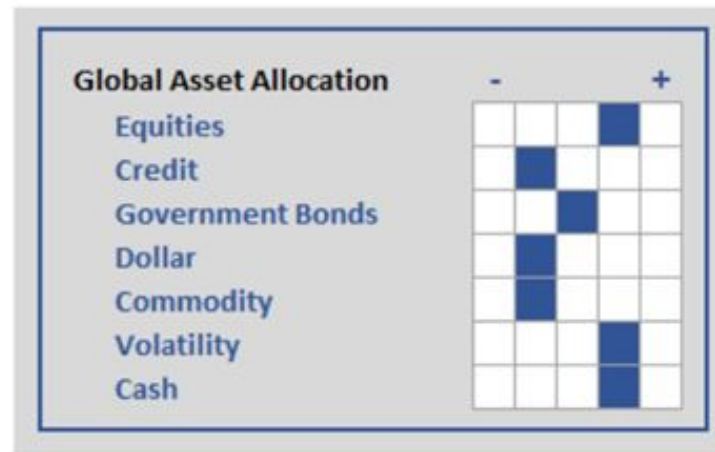


Source: ECRI

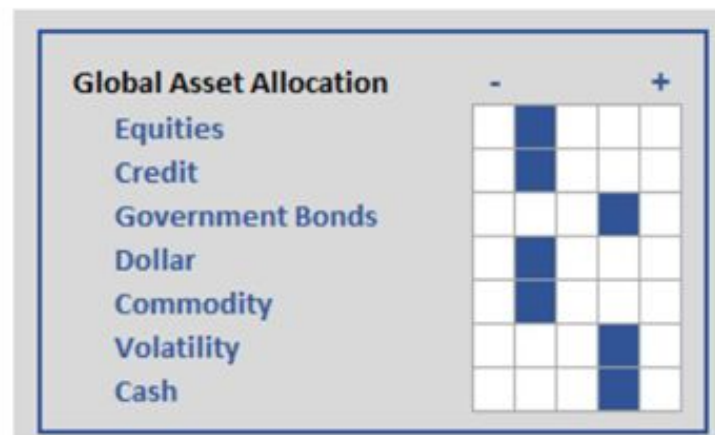
# A Tale of Two Halves



## TAA View for Full Year 2019



## TAA View on 1/22 (Three Month View)



Source: UTIMCO Macro Research



# Business Cycle Scorecard-Firmly in Late Cycle



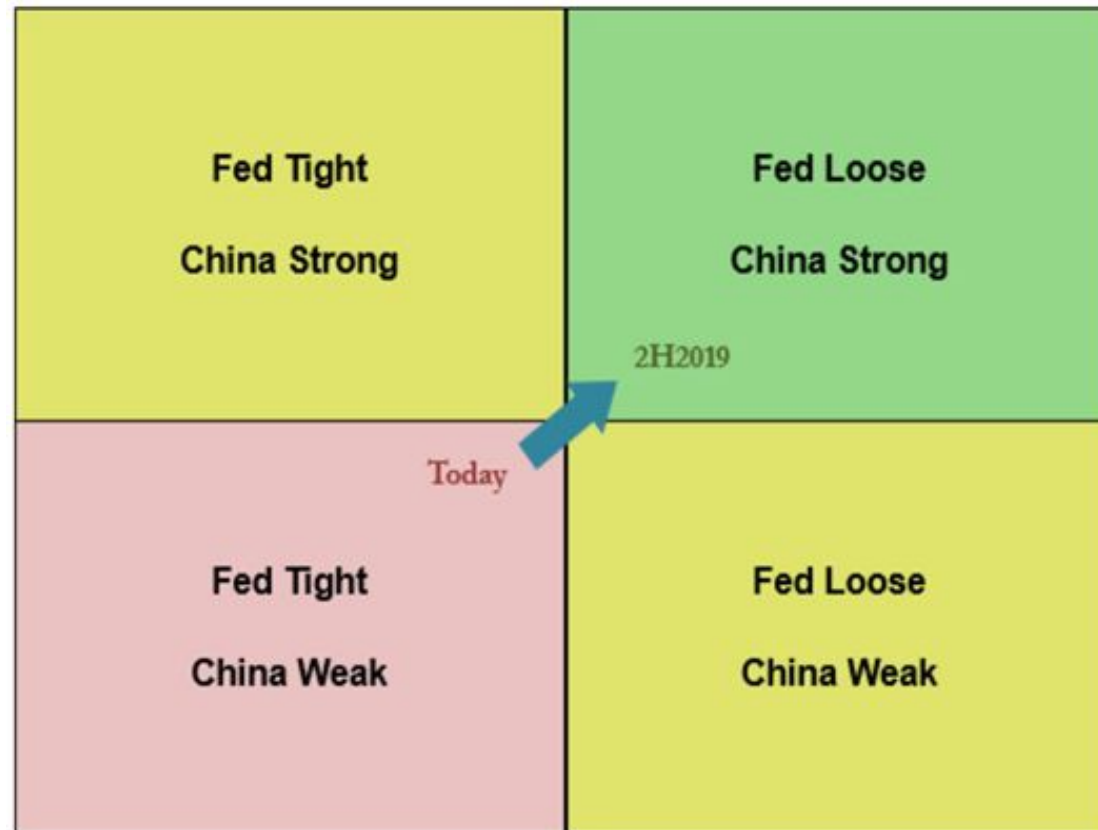
		Early Cycle	Mid Cycle	Late Cycle	Recession
Economic Metrics	Overall economic output	Below potential, rising	Near potential, rising	Above potential, rising	Contracting
	Consumption	Low, lagging income	Recovering	High, ahead of income	Falling
	Capital investment	Low as % of GDP	Rising moderate as % of GDP	High as % of GDP	Falling
	Residential investment	Low as % of GDP	Rising moderate as % of GDP	High as % of GDP	Contracting
	Vehicle Sales	Low	Moderate, rising	Peaking/high	Past peak, falling
	Price inflation	Below central bank target, stable	Below CB target, rising	At/Above CB target	Falling
	Wage inflation	Low, stable	Moderate, rising	High	Falling
	Private credit formation	Low, start to rise	Rising in line with output	Rising faster than output	Falling
	ISM new orders	Improving	Mid 50s/moderate	Past peak, falling	Below 50/falling
	Personal saving rate	High relative to income	Starting to decline	Low relative to income	Rising vs. income (excl. deep recession)
	Unemployment	Well above NAIRU	Above NAIRU	Around or below NAIRU	Rising sharply
	Unemployment claims	Past peak	Falling sharply	Trending lower	Rising sharply
	Consumer confidence	Low	Moderate	Exuberant	Falling
Asset market metrics	EPS revision ratios	Downgrade cycle, improving trend	Upgrade cycle, improving trend	Second derivative falling	Downgrade cycle, falling trend
	Corporate margins	High	High/Peaking	Declining	Low
	Credit spreads	Wide, contracting	Tight, stable	Past cyclical trough	Wide, unstable
	Aggressive issuance	Low as share of total	Moderate as share of total	High as share of total	Nonexistent
	M&A activity	Low	Moderate	High	Nonexistent
	Yield curve	Rates low, curve steep	Rates rising, curve flattening	Rates high, curve flat	Rates falling, curve steepening
	Volatility	Vol high, skew falling	Vol low, skew low	Vol starting to rise, skew rising	Vol high, skew high

Source: UTIMCO Macro Research

As of 9/30/2018

As of 1/31/2019

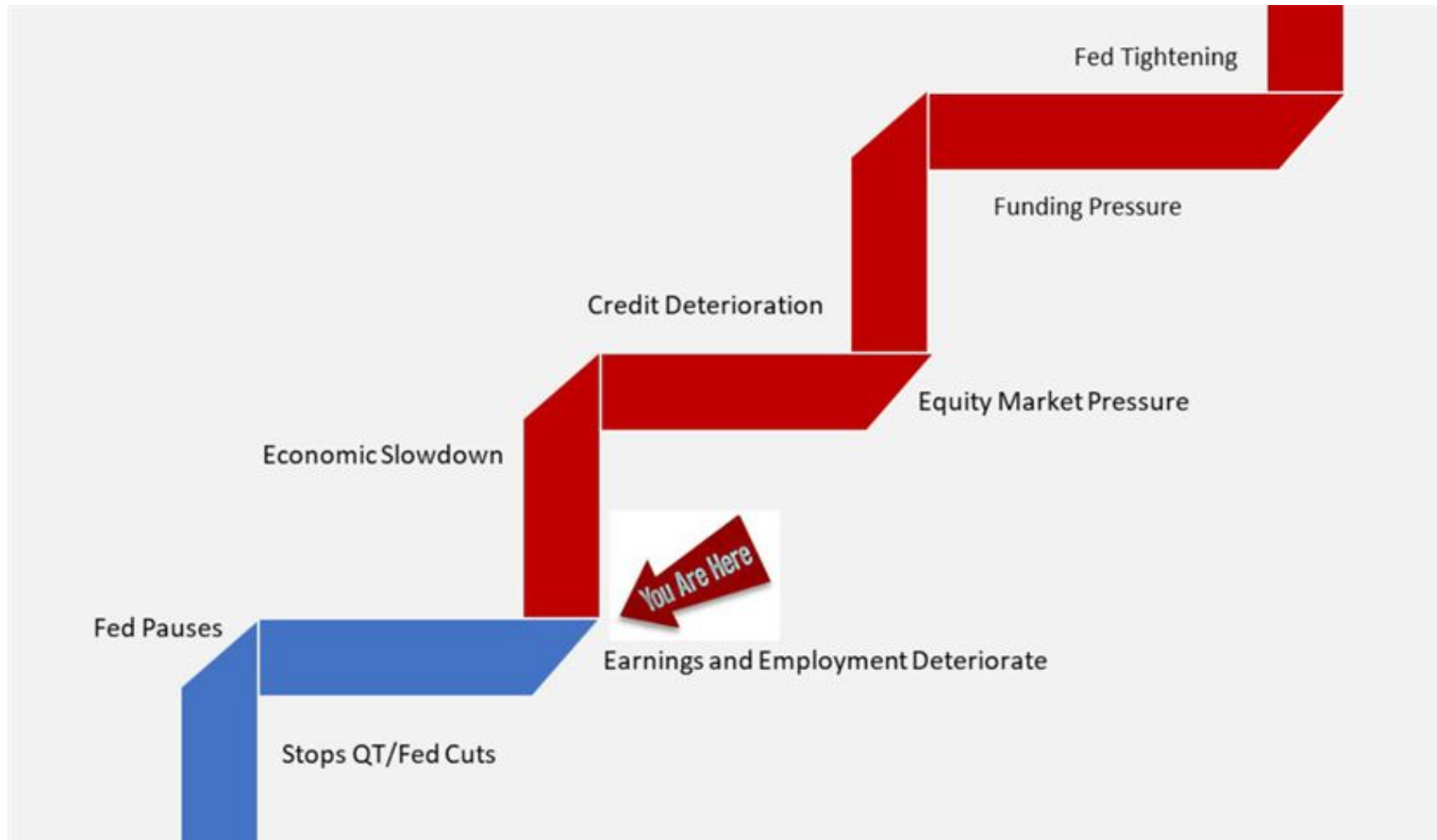
# China/Fed 2x2 Matrix-A Better 2H19



Source: Eurizon SLJ, UTIMCO



# The Path to an Easier Fed



Source: UTIMCO

# Early in a New High Volatility Regime



Source: Bloomberg, UTIMCO



# Concluding Thoughts

---

# Conclusions

---



1. 2018 was an unusually tumultuous year, which paused the Fed, reduced equity/credit valuation, and sets up a more prosperous pre-election year
2. Our leading indicators point to further global growth slowdown ahead
3. US and global inflation has peaked and is heading lower
4. We believe international equities will outperform US equities
5. A US earnings recession is possible-we project 0-3% EPS growth in '19
6. "Peak tech" in 2018 leads to underperformance in 2019
7. We are early in a new global easing cycle led by the Fed and China--this is positive for liquidity and financial asset prices
8. Be prepared for higher volatility across assets (late cycle)

**Agenda Item**  
UTIMCO Board of Directors Meeting  
February 21, 2019

**Agenda Item:** Performance and Market Update

**Developed By:** Harris

**Presented By:** Harris

**Type of Item:** Information Item

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

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



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

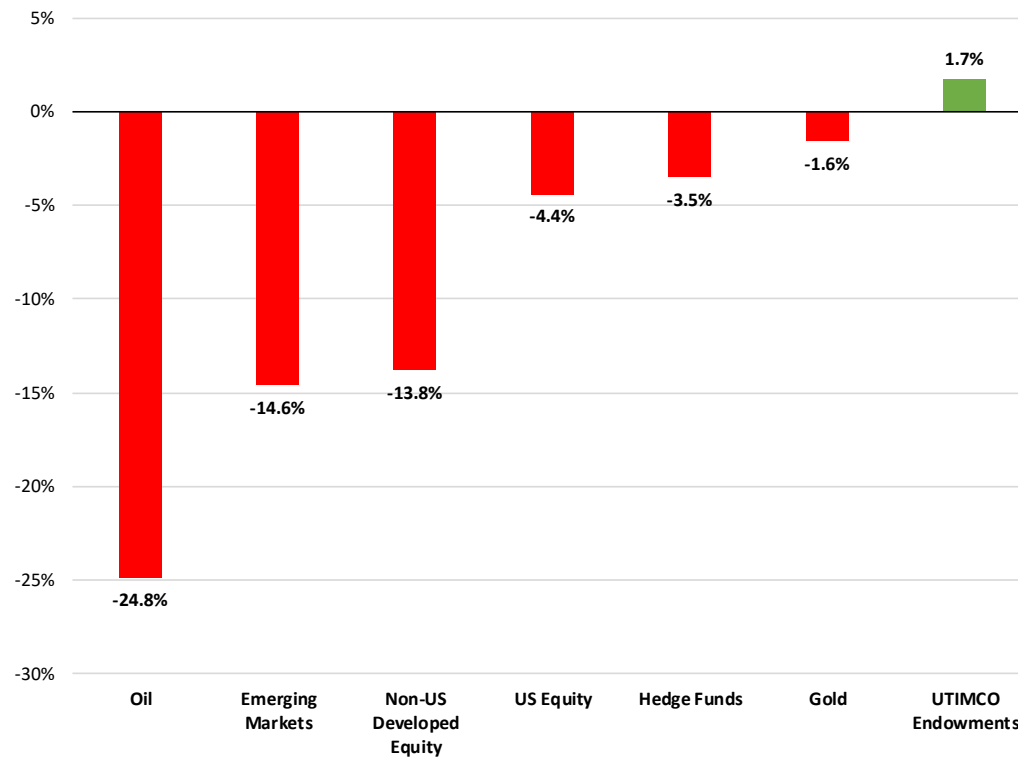
---

## **Performance and Market Update**

**Britt Harris**

**President, CEO and Chief Investment Officer**

# Review of 2018



Source: Leuthold

# 2018 Endowment Returns & Diversification



	Returns	Allocation
<b>Positive</b>		
Real Estate	21.4%	7.8%
Infrastructure	21.3%	2.1%
Private Equity	15.1%	21.3%
Natural Resources	7.8%	9.2%
Stable Value Hedge Funds	5.3%	4.8%
Cash	1.9%	1.9%
		<u>47.1%</u>
<b>Negative</b>		
Fixed Income	-1.4%	9.7%
Directional Hedge Funds	-1.6%	14.0%
Gold	-1.7%	1.7%
Credit Related Fixed Income	-5.9%	0.1%
Global Developed Equity	-7.3%	7.9%
US Public Equity	-9.9%	6.0%
Emerging Markets Public Equity	-13.3%	10.2%
Non-US Developed Public Equity	-15.3%	3.5%
		<u>52.9%</u>
<b>TOTAL UTIMCO</b>	<b>1.7%</b>	



# Overview of Funds

Periods Ending December 31, 2018



Endowment Funds	\$B	Returns					Alpha				
		QTR	1Y	3Y	5Y	10Y	QTR	1Y	3Y	5Y	10Y
PUF	\$ 21.5	(3.40)	1.68	7.63	5.99	8.70	(0.27)	0.11	0.66	0.89	1.45
PHF	\$ 1.1	(3.36)	1.87	7.87	6.13	8.75	(0.23)	0.30	0.90	1.03	1.50
LTF	\$ 9.8	(3.37)	1.87	7.87	6.14	8.76	(0.24)	0.30	0.90	1.04	1.51
Other	\$ 0.2	-	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>\$ 32.6</b>										

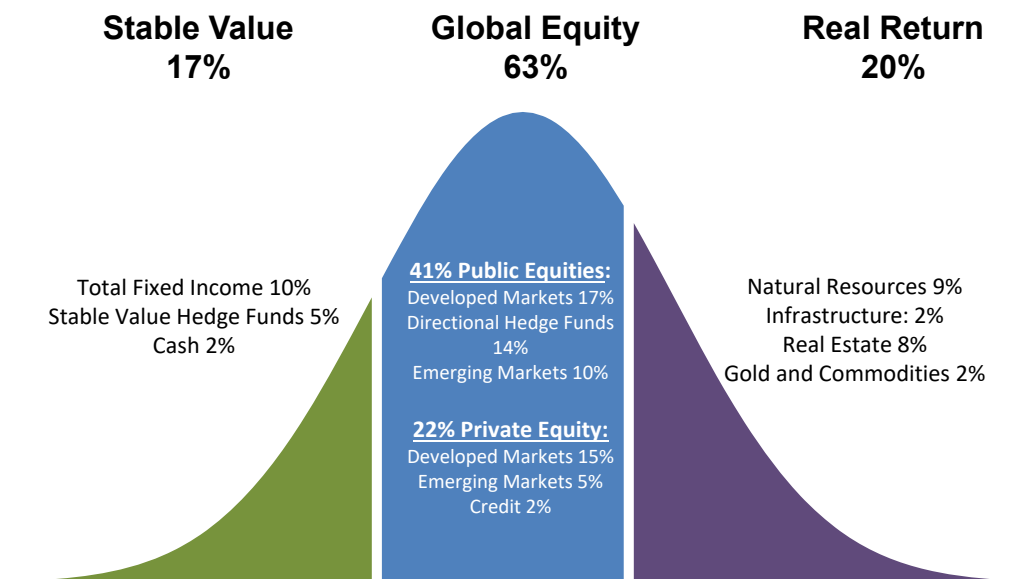
Operating Funds		QTR	1Y	3Y	5Y	10Y	QTR	1Y	3Y	5Y	10Y
ITF	\$ 9.2	(3.89)	(3.25)	4.00	2.42	6.16	0.46	0.96	0.56	0.72	1.54
Debt Proceeds	\$ 0.4	0.59	2.01	1.23	0.79	N/A	0.03	0.14	0.21	0.16	N/A
STF	\$ 1.8	0.58	1.95	1.12	0.70	0.47	0.02	0.08	0.10	0.07	0.09
<b>TOTAL</b>	<b>\$ 11.4</b>										

All Assets	\$	Increase	Income & Distributions (\$M) Projected				
			8/31/2019	8/31/2018	8/31/2017	8/31/2016	
September 2018	\$ 45.4	\$ 0.8	PUF Land Contributions	\$ 953	\$ 1,032	\$ 689	\$ 512
June 2018	\$ 44.6	\$ 0.3	PUF Distribution	(1,014)	(887)	(839)	(773)
March 2018	\$ 44.3	\$ 1.1	Net Payout (\$M)	\$ (61)	\$ 145	\$ (150)	\$ (261)
December 2017	\$ 43.2						



# Investment Policy and Current Environment

As of December 31, 2018



Benchmark Returns <sup>1</sup>			
Time Horizon	Stable Value	Global Equity	Real Return
1 Year	-1.3%	-1.1%	11.5%
3 Year	2.6%	6.6%	10.3%
5 Year	1.5%	5.2%	6.8%
7 Year	1.9%	7.0%	7.2%
10 Year	3.3%	7.5%	8.6%

Correlations <sup>1</sup>			
Environment	Stable Value	Global Equity	Real Return
<b>Stable Value</b>	1.00	-0.14	-0.32
<b>Global Equity</b>		1.00	0.64
<b>Real Return</b>			1.00

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

<b>1 Year</b>	<b>0.1%</b>	<b>(1.5%)</b>	<b>12.4%</b>
<b>3 Years</b>	<b>2.5%</b>	<b>6.7%</b>	<b>14.1%</b>
<b>10 Years</b>	<b>4.1%</b>	<b>9.3%</b>	<b>7.5%</b>

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

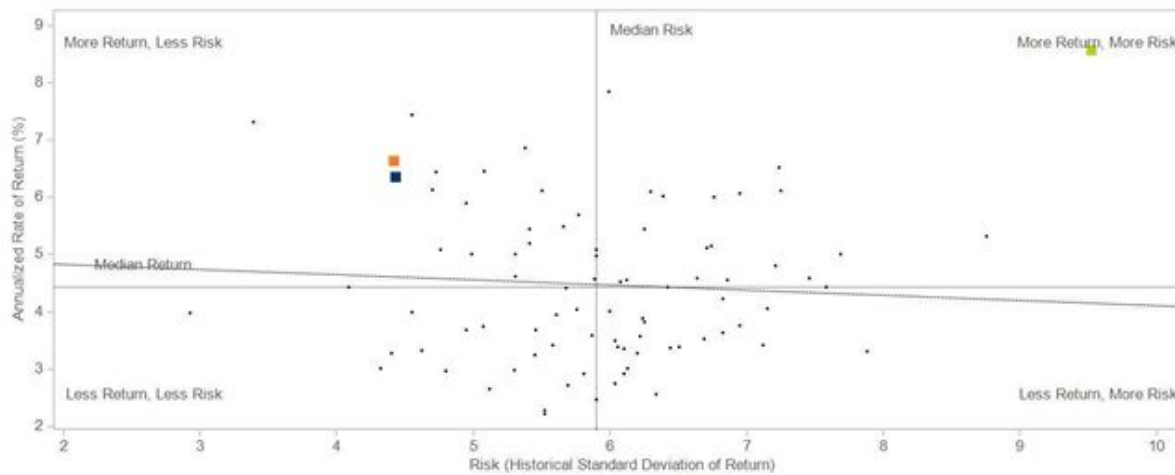
\* Percentages may not add up due to rounding

# Risk / Return

PERIOD ENDING DECEMBER 31, 2018



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



Alpha: 5.01  
Beta: -0.09  
R-Squared: 0.01

	Risk Value	Risk Rank	Return Value	Return Rank
GEF TOTAL FUND	4.45	93	6.57	9
PUF TOTAL FUND	4.46	92	6.28	13
S&P 500	9.55	1	8.50	3
Median	5.90		4.43	

Source: Wilshire Trust Universe Comparison Services



# Special Awards

---

- Top Hedge Fund Team (Ryan & Team)
- Institutional Investor Next Generation CIO (Rich)
- Trusted Insight Top 30 University Endowment Rising Stars (Susan)
- InvestHedge Hall of Fame (Britt)

# UTIMCO Risk Overview

Periods Ending December 31, 2018



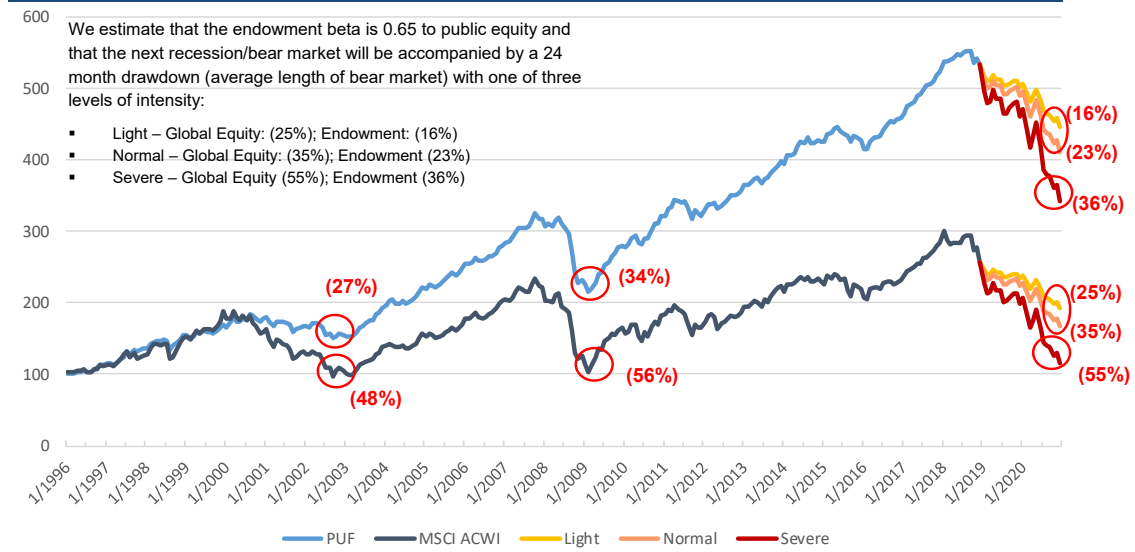
Current Cycle				Average Bull
Stage	Start Date	End Date	Length (yrs)	Length
Expansion	3/2009	12/2018	9.8	4.6

Returns over Current Cycle			
Asset Class	Cumulative	Annualized	1-yr Vol
<b>UTIMCO</b>	<b>146%</b>	<b>9.6%</b>	<b>4.7%</b>
Policy	119%	8.3%	5.2%
S&P 500	319%	15.7%	14.7%
EM (USD)	145%	9.5%	14.8%
Natural Resources	3%	0.3%	9.4%
Long Treasury	58%	4.7%	9.6%
Credit	180%	11.0%	3.9%
Hedge Funds	35%	3.1%	4.5%

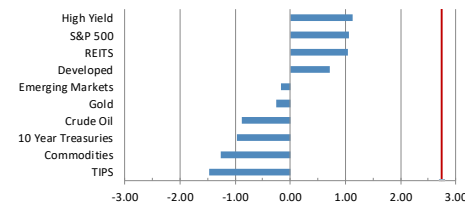
Metrics over Expansion			
Metric	3/2009	12/2015	12/2018
S&P P/E (T)	11.1	18.8	16.8
EM P/E (T)	8.1	15.6	11.6
S&P Implied Vol	49.7	18.2	25.4
2-yr UST YTM	1.0	1.0	2.5
10-yr UST YTM	2.9	2.3	2.7
Brent Oil	44.1	37.3	53.8
Natural Gas	3.9	2.3	2.9
Gold	918.0	1,060.2	1,281.3
<b>Fed Balance Sheet (\$B)</b>			
US	1,902	4,487	4,076
ECB	1,460	2,549	4,072

UTIMCO Metrics	TE	IR	Sharpe
UTIMCO 3-Yr	1.8%	0.42	1.61
UTIMCO 5-Yr	2.0%	0.48	1.20

## Historical and Projected PUF Drawdowns



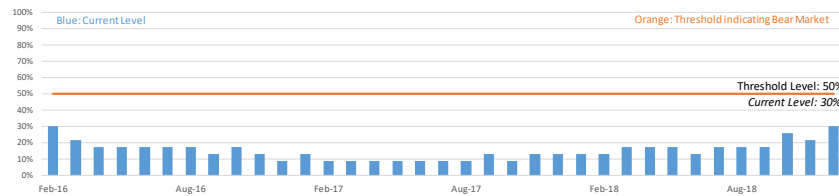
## Bubble Level Monitor



## Probability of Recession in the Next Year

Country	6/2017	12/2017	6/2018	12/2018
US	20%	15%	15%	20%
UK	25%	20%	20%	20%
Japan	20%	20%	20%	32%
Eurozone	10%	10%	14%	17%

## Percentage of Bear Market Indicators On



Source: Bridgewater Associates, LP, Bloomberg

Historical Geopolitical Shocks	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%
Iranian Hostage Crisis	11/1979	6	-3%	3.0%	4.4%	-0.4%	6%
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>12</b>	<b>-12%</b>	<b>-0.1%</b>	<b>3.5%</b>	<b>0.8%</b>	<b>29%</b>

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

# Outlook for 2019: Market Analysts' Estimates



Firm	2019 Year-End Target as of Dec. '18	% From Current S&P 500 Level
Deutsche Bank	3,250	30.52
Canaccord	3,200	28.51
UBS	3,200	28.51
Bank of Montreal	3,150	26.51
HSBC	3,150	26.51
Citigroup	3,100	24.50
JPMorgan	3,100	24.50
Wells Fargo	3,079	23.65
Barclays	3,000	20.48
BTIG	3,000	20.48
Goldman Sachs	3,000	20.48
Scotiabank	3,000	20.48
Bernstein	2,950	18.47
Credit Suisse	2,925	17.47
Bank of America	2,900	16.47
Jefferies	2,900	16.47
RBC	2,900	16.47
Evercore ISI	2,900	16.47
Stifel Nicolaus	2,750	10.44
Morgan Stanley	2,750	10.44
<b>Average</b>	<b>3,010</b>	<b>20.89</b>

Source: Bespoke Investment Group



# Summary

---

- Global Financial Markets in 2018
  - Modest U.S. decline; greater non-U.S. decreases
  - Earnings were strong but multiples contracted
- Portfolio posted a Modest Positive Return of 1.7%
  - 47% of the Portfolio was up
  - Led by Alternative Investments
  - Current marks may be delayed
- AUM Ended 2018 at \$44 Billion
  - Up \$800 million
  - Now Second Largest Endowment
- 2019 Outlook Unclear
  - Analyst estimates are strong
- Organizational Health is good
  - Several awards in 2018
- 2018 Priorities Largely Met
  - 2019 Priorities Underway



# APPENDIX

---



# Global Markets, Risk Premiums and Diversification



As of December 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	(0.32)	(0.48)	1.91	1.91	2.03	1.51	1.80	0.98	1.26	2.93	0.11	0.87	1.13
Cash	0.18	0.56	1.87	1.87	1.02	0.63	0.37	0.11	0.17	0.01	(0.11)		
Long Treasury (Duration)	5.47	4.19	(1.84)	(1.84)	2.58	5.93	4.09	10.07	12.11	15.94	(0.35)	0.53	0.31
Credit (IG)	1.44	1.74	(0.19)	(0.19)	3.05	1.28	2.59	3.17	5.45	7.67	0.28	0.15	0.41
High Yield (Default)	(0.75)	(3.49)	(4.06)	(4.06)	6.58	3.33	11.06	4.05	8.92	9.63	0.65	0.50	1.20
US Dollar Index	(1.13)	1.09	4.40	4.40	(0.84)	3.74	1.69	5.55	8.20	17.13	(0.50)	0.46	0.16
S&P 500	(9.03)	(13.52)	(4.38)	(4.38)	9.26	8.49	13.12	15.33	13.74	23.24	1.00	0.72	0.93
U.S. Small Cap	(9.31)	(14.30)	(5.24)	(5.24)	8.97	7.91	13.18	15.52	14.18	23.02	1.00	0.65	0.90
Private Equity <sup>1</sup>	1.02	2.93	13.48	13.48	9.94	11.07	9.97	4.91	9.56	21.76	0.75	1.87	1.00
Size	(2.42)	(7.32)	(1.30)	(1.30)	0.52	(1.95)	0.99	10.15	8.28	15.51	0.29	(0.29)	0.07
Value	(1.32)	2.62	(8.72)	(8.72)	(0.39)	(2.66)	(2.06)	6.86	9.30	25.71	0.36	(0.40)	(0.26)
Momentum	1.93	(0.95)	12.41	12.41	(0.89)	3.74	(3.68)	9.48	16.31	57.28	(0.32)	0.28	(0.25)
<b>Non-US Equity</b>													
EAFE Developed (USD)	(4.85)	(12.54)	(13.79)	(13.79)	2.87	0.53	6.32	12.43	16.33	22.83	0.87	(0.01)	0.36
Emerging Markets (USD)	(2.66)	(7.47)	(14.58)	(14.58)	9.25	1.65	8.02	15.45	19.41	30.63	0.76	0.07	0.39
Global Equity (USD)	(7.04)	(12.75)	(9.42)	(9.42)	6.60	4.26	9.46	13.47	14.74	20.47	0.96	0.33	0.62
Europe (USD)	(4.62)	(12.72)	(14.86)	(14.86)	2.10	(0.61)	6.15	13.39	18.17	26.61	0.85	(0.10)	0.32
Europe (Local)	(5.33)	(11.24)	(10.59)	(10.59)	2.72	3.54	7.54	10.80	13.12	20.09	0.83	0.27	0.55
Japan (USD)	(6.66)	(14.20)	(12.58)	(12.58)	3.76	3.40	5.58	12.69	14.33	19.53	0.68	0.23	0.36
<b>Diversifiers (Typical)</b>													
Hedge Funds	(1.69)	(4.89)	(3.69)	(3.69)	1.46	1.44	3.15	4.24	4.17	8.19	0.74	0.22	0.67
Real Estate (Private) <sup>1</sup>	(0.87)	(0.05)	9.97	9.97	8.77	9.53	11.46	5.41	4.13	27.71	0.45	1.77	2.69
REITS	(8.18)	(6.72)	(4.57)	(4.57)	2.88	7.80	12.17	16.25	22.85	42.02	0.69	0.51	0.52
TIPS	0.55	(0.42)	(1.26)	(1.26)	2.11	1.69	3.64	2.85	5.07	9.20	0.06	0.30	0.64
Infrastructure	(9.36)	(17.30)	(12.42)	(12.42)	(1.06)	(7.31)	9.58	22.38	18.91	48.51	0.57	(0.42)	0.49
<b>Diversifiers (Other)</b>													
Commodities	(6.89)	(9.41)	(11.25)	(11.25)	0.30	(8.80)	(3.78)	9.40	14.41	56.57	0.55	(0.78)	(0.29)
Natural Resources	(4.30)	(14.82)	(12.72)	(12.72)	2.36	(5.18)	0.25	15.17	15.52	41.76	0.69	(0.46)	(0.01)
Oil	(10.84)	(38.01)	(24.84)	(24.84)	7.03	(14.33)	0.18	33.14	30.67	70.49	0.42	(0.47)	(0.01)
Energy Equipment & Services	(16.79)	(37.52)	(40.00)	(40.00)	(14.05)	(17.08)	(6.97)	28.89	27.54	67.83	0.67	(0.72)	(0.27)
Mining	3.27	(4.94)	(11.29)	(11.29)	24.04	(1.38)	3.75	15.60	28.46	75.11	0.54	(0.07)	0.12
Gold	5.08	7.69	(1.56)	(1.56)	6.52	1.31	3.81	8.67	17.30	41.88	(0.04)	0.05	0.20

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

# 2018 UTIMCO Performance (PUF)



Periods Ending December 2018	Based on account level information				Return			Alpha		
	\$	% of Fund	Neutral Weight	Over / (Under)	1 Yr	3 Yr	5 Yr	1 Yr	3 Yr	5 Yr
US Public Equity	1,286.8	6.0%	7.0%	-1.0%	(9.9%)	4.0%	3.6%	(4.8%)	(4.5%)	(4.0%)
Non-US Developed Public Equity	744.7	3.5%	4.0%	-0.5%	(15.3%)	4.2%	4.9%	(1.2%)	1.1%	4.5%
Global Developed Equity	1,690.2	7.9%	8.0%	-0.1%	(7.3%)	6.4%	6.4%	1.5%	0.1%	1.8%
<b>Total Developed Public Equity</b>	<b>3,721.6</b>	<b>17.3%</b>	<b>19.0%</b>	<b>(1.7%)</b>	<b>(10.0%)</b>	<b>5.1%</b>	<b>5.0%</b>	<b>(1.3%)</b>	<b>(1.2%)</b>	<b>0.4%</b>
Emerging Markets Public Equity	2,193.3	10.2%	10.0%	0.2%	(13.3%)	7.5%	4.3%	1.3%	(1.8%)	2.6%
<b>Total Public Equity</b>	<b>5,915.0</b>	<b>27.5%</b>	<b>29.0%</b>	<b>(1.5%)</b>	<b>(11.2%)</b>	<b>6.1%</b>	<b>4.8%</b>	<b>(0.5%)</b>	<b>(1.5%)</b>	<b>1.3%</b>
Directional Hedge	3,005.3	14.0%	12.0%	2.0%	(1.6%)	3.0%	2.9%	2.3%	1.6%	1.5%
<b>Total Private Equity</b>	<b>4,577.9</b>	<b>21.3%</b>	<b>22.0%</b>	<b>(0.7%)</b>	<b>15.1%</b>	<b>11.8%</b>	<b>11.9%</b>	<b>(1.3%)</b>	<b>0.9%</b>	<b>0.2%</b>
<b>Total Global Equity</b>	<b>13,498.2</b>	<b>62.7%</b>	<b>63.0%</b>	<b>(0.3%)</b>	<b>(1.3%)</b>	<b>6.3%</b>	<b>5.8%</b>	<b>(0.8%)</b>	<b>(0.4%)</b>	<b>0.5%</b>
<b>Total Fixed Income</b>	<b>2,085.5</b>	<b>9.7%</b>	<b>9.5%</b>	<b>0.2%</b>	<b>(1.4%)</b>	<b>3.3%</b>	<b>1.7%</b>	<b>(1.2%)</b>	<b>0.3%</b>	<b>0.4%</b>
Credit Related Fixed Income	20.4	0.1%	0.0%	0.1%	(5.9%)	6.4%	5.0%	(1.8%)	(0.2%)	1.7%
Cash (Dreyfus return)	407.6	1.9%	1.0%	0.9%	1.9%	1.1%	0.7%	0.1%	0.1%	0.1%
Stable Value Hedge	1,038.7	4.8%	7.0%	(2.2%)	5.3%	4.4%	3.3%	6.8%	2.2%	1.4%
<b>Total Stable Value</b>	<b>3,540.4</b>	<b>16.5%</b>	<b>17.5%</b>	<b>(1.0%)</b>	<b>0.3%</b>	<b>2.4%</b>	<b>1.1%</b>	<b>1.0%</b>	<b>(0.4%)</b>	<b>(0.5%)</b>
Gold	355.5	1.7%	1.5%	0.2%	(1.7%)	6.4%	1.3%	(0.1%)	(0.1%)	0.1%
<b>Total Private Natural Resources</b>	<b>1,971.0</b>	<b>9.2%</b>	<b>8.0%</b>	<b>1.2%</b>	<b>7.8%</b>	<b>13.8%</b>	<b>9.5%</b>	<b>(5.7%)</b>	<b>3.8%</b>	<b>(1.6%)</b>
<b>Total Infrastructure</b>	<b>456.4</b>	<b>2.1%</b>	<b>2.0%</b>	<b>0.1%</b>	<b>21.3%</b>	<b>16.8%</b>	<b>16.0%</b>	<b>6.0%</b>	<b>6.3%</b>	<b>4.5%</b>
<b>Total Real Estate</b>	<b>1,682.4</b>	<b>7.8%</b>	<b>8.0%</b>	<b>(0.1%)</b>	<b>21.4%</b>	<b>15.1%</b>	<b>14.4%</b>	<b>8.2%</b>	<b>5.3%</b>	<b>4.3%</b>
<b>Total Real Return</b>	<b>4,465.4</b>	<b>20.8%</b>	<b>19.5%</b>	<b>1.3%</b>	<b>12.5%</b>	<b>14.1%</b>	<b>7.5%</b>	<b>1.0%</b>	<b>3.8%</b>	<b>0.9%</b>
Tactical Asset Allocation	15.1	0.1%	0.0%	0.1%	-	-	-	-	-	-
<b>Total PUF (net)</b>	<b>21,519.1</b>	<b>100.0%</b>	<b>100.0%</b>	<b>-</b>	<b>1.7%</b>	<b>7.6%</b>	<b>6.0%</b>	<b>(0.3%)</b>	<b>0.5%</b>	<b>0.8%</b>

**Agenda Item**  
UTIMCO Board of Directors Meeting  
February 21, 2019

**Agenda Item:** Review of 2018 and 2019 Priorities

**Developed By:** Hall

**Presented By:** Hall

**Type of Item:** Information Item

**Description:** Mr. Hall will review UTIMCO's 2018 priorities and present UTIMCO's priorities for 2019.

**Reference:** *2018 and 2019 UTIMCO Priorities* presentation



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

---

## 2018 and 2019 UTIMCO Priorities

Richard Hall  
Deputy CIO



# A look back at 2018...

---



# UTIMCO Top 10 Priorities for 2018

---

*What we said we would focus on at the February 2018 Board Meeting*

1. Total Alignment Map
2. Address agency priorities
3. Preferred Destination for investors/investments
4. Focus on critical processes
5. Align compensation
6. Review underperforming areas
7. Create new products
8. Preferred investment employer
9. Modernize analytical systems
10. Create great relationships/continually improve



# Scorecard vs. 2018 Priorities

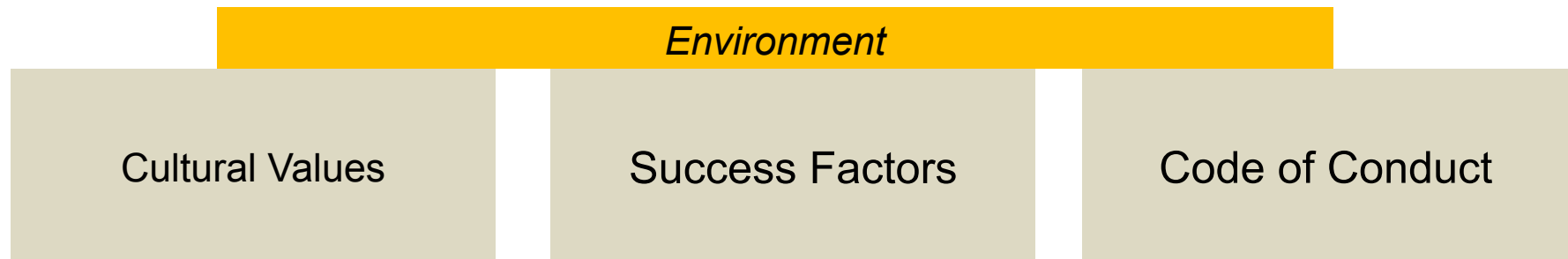
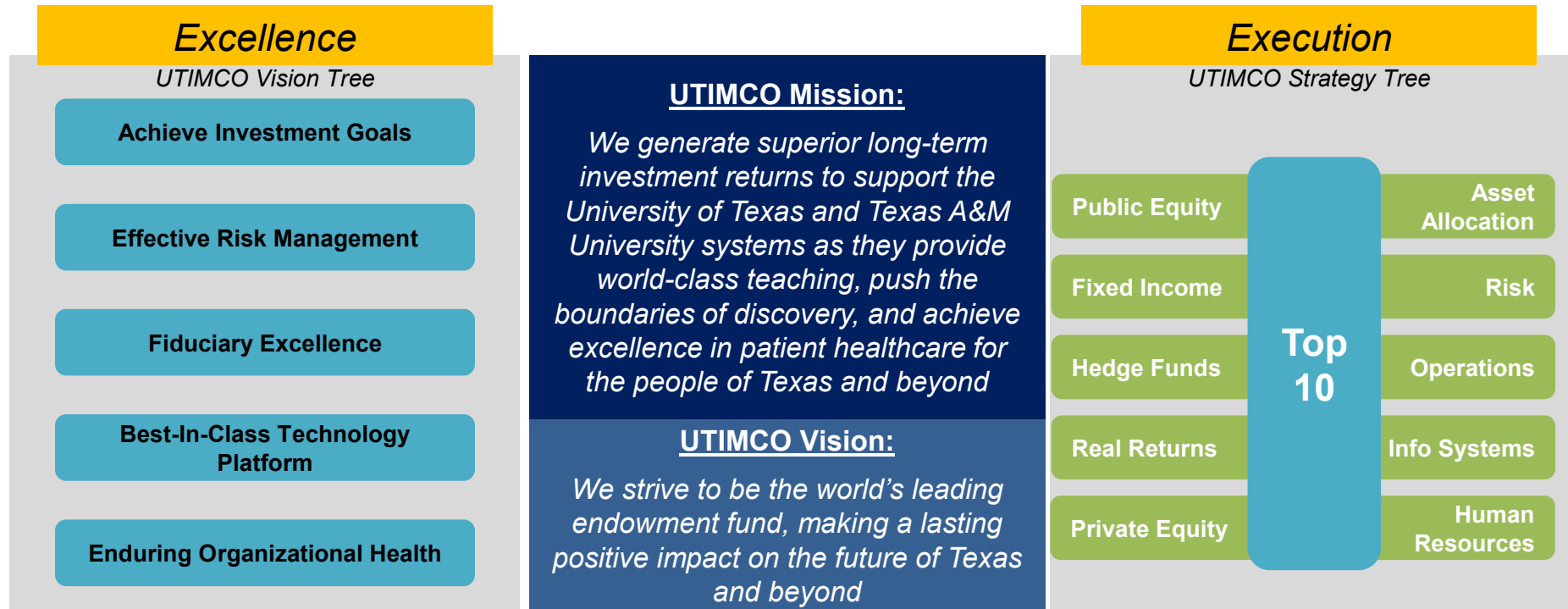
*What we accomplished in 2018*

Priority	Status
Total Alignment Map	Mission, Vision, Values, Success Factors, Code of Conduct
Address Agency Priorities	New SAA, Revised Policies, Gold, ITF size
Preferred Destination for Investments	Premier lists, Strategic Partnerships, Co-investments
Focus on critical processes	Mapped critical processes, identified areas for improvement
Align compensation	“1 or 30” externally, revised performance pay internally
Review underperforming areas	New approach to PE, US Equity
Create new products	Tactical Asset Allocation, Risk monitors, Capital Allocation
Preferred investment employer	22 new hires, 360-reviews
Create great relationships	Great alignment with UT System and our board



# Total Alignment Map

*Deep dive into our most important priority*







**Looking ahead at 2019...**

---



# 2019 Priorities

---

- Stay focused on key dimensions and metrics from Total Alignment Map
- Continue to build and strengthen UTIMCO Culture
- Further development and refining of key operating and investment processes
- Five-year strategic plan
  - People
  - Technology
- Review of BNY Mellon Custodial Relationship
- ITF asset allocation review
- Strategic Partnerships – public and private
- Monitoring transition to long-term strategic asset allocation
- Continue with long-term initiatives laid out last year



# The Pillars of UTIMCO Culture

MISSION	VISION	VALUES
<b><u>G</u>row Endowment</b>	<b><u>I</u>ncubate to have</b>	<b><u>R</u>esponsible &amp; Accountable</b>
<b><u>R</u>esearch</b>	<b><u>M</u>eaningful</b>	<b><u>I</u>ntegrity</b>
<b><u>E</u>ducation</b>	<b><u>P</u>ermanent</b>	<b><u>G</u>reat Alignment</b>
<b><u>A</u>dvance Society</b>	<b><u>A</u>ffirmative</b>	<b><u>H</u>igh Performance</b>
<b><u>T</u>reatment of Patients</b>	<b><u>C</u>ontribution to</b>	<b><u>T</u>ransparent &amp; Open</b>
	<b><u>T</u>exas and beyond</b>	

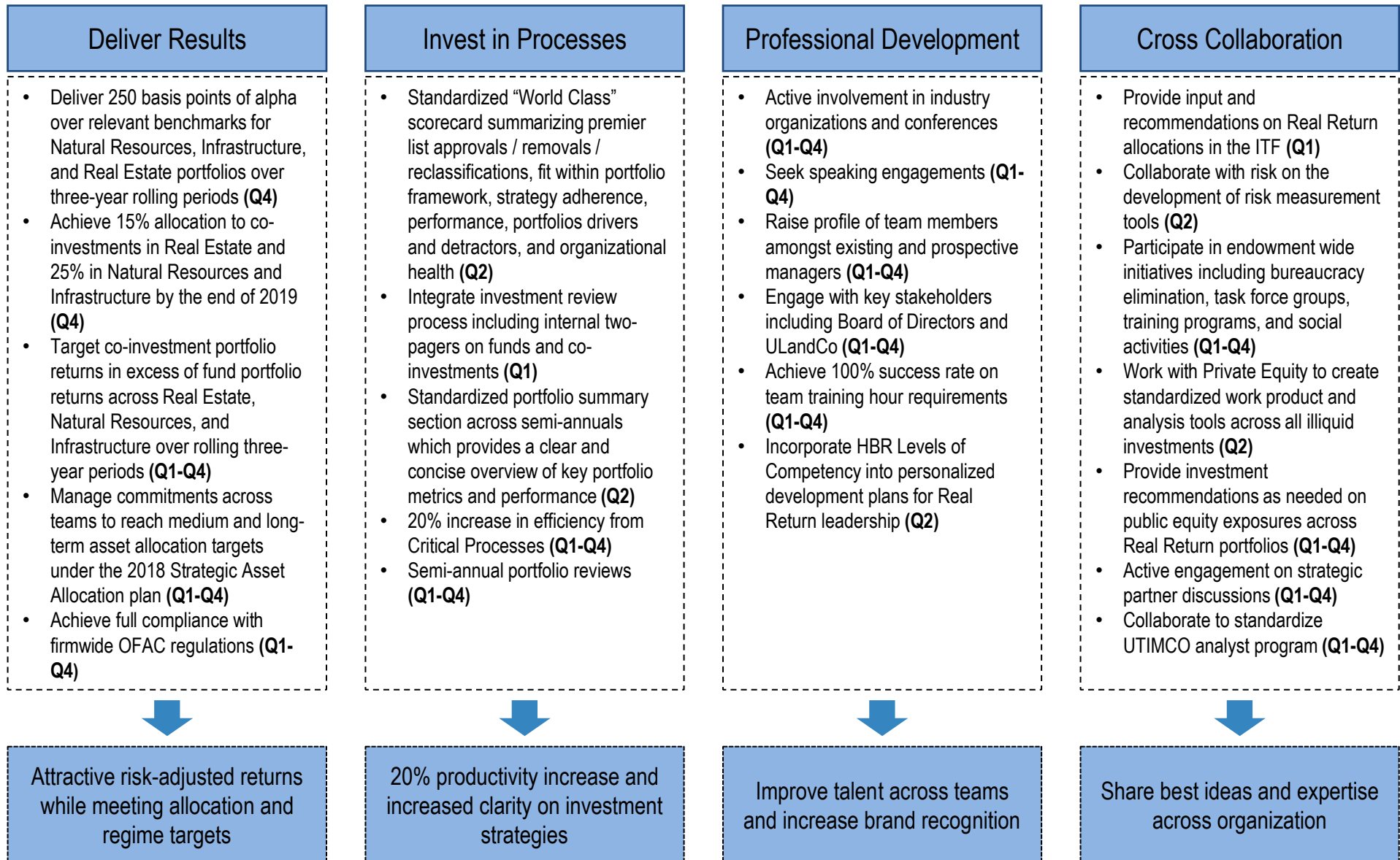


# Appendix: Action Plans

---



# 2019 Real Return Action Plan





# 2019 Public Equity Total Alignment Plan Update

Critical Processes	Premier List	Risk Monitoring and Tactical Allocation	Human Capital
<p><u>Goal: Improve key processes for manager monitoring, portfolio construction, and new fund investments</u></p> <ul style="list-style-type: none"> <li>Accomplish investment objectives <b>(Q4 2019)</b></li> <li>Shift selected quantitative analyses to Caissa (e.g. exposures, attribution, holdings overlap) <b>(Q2 2019)</b></li> <li>Begin process of shifting trend files to Caissa <b>(Q1 2019)</b></li> <li>Evaluate and select vendor for manager- and portfolio-level factor analysis <b>(Q1 2019)</b></li> <li>Streamline manager relationship coverage <b>(Q1 2019)</b></li> <li>Collaborate with other investment teams to agree on common criteria for “world class” manager and standardize investment memo <b>(Q1 2019)</b></li> <li>Update portfolio exposure and attribution reports to reflect 2019 Strategic Asset Allocation <b>(Q1 2019)</b></li> <li>Implement OFAC compliance procedure <b>(Q1 2019)</b></li> </ul> <p><b>Metrics:</b> reduced execution time for quantitative analyses; reduced duplicative time in manager meetings; new portfolio reports</p>	<p><u>Goal: Work with PL managers to create strong alignment with UTIMCO</u></p> <ul style="list-style-type: none"> <li>Continue focus on US public equity sub-portfolio <b>(Q1-4 2019)</b> <ul style="list-style-type: none"> <li>Deepen quantitative and qualitative diligence of unfunded Premier List managers</li> <li>Deepen evaluation of role for quantitative managers</li> </ul> </li> <li>Maintain Premier List <b>(Q1-4 2019)</b> <ul style="list-style-type: none"> <li>Deepen quantitative and qualitative diligence of unfunded Premier List managers</li> <li>Continue market mapping of strategies and managers</li> </ul> </li> <li>Continue enhancing relationships with funded Premier List managers <b>(Q1-4 2019)</b></li> <li>Collaborate on evaluation and selection of Strategic Partners <b>(Q3 2019)</b></li> </ul> <p><b>Metrics:</b> updated PL; deeper knowledge of unfunded PL managers; possible addition of quantitative managers to PL; selection of Strategic Partners</p>	<p><u>Goal: Minimize risks and exploit opportunities associated with portfolio exposures</u></p> <ul style="list-style-type: none"> <li>Operate within objectives and limits for public equity exposures. Follow decision process around exposure positioning. <b>(Q1-4 2019)</b></li> <li>Continue collaborating with Global Allocation Strategist, Risk and other teams to identify and communicate Endowment-wide allocation signals. <b>(Q1-4 2019)</b></li> <li>Design/execute 2020 Best Ideas Survey. <b>(Q4 2019)</b></li> <li>Implement formal 2x / year portfolio review. <b>(Q1-4 2019)</b></li> </ul> <p><b>Metrics:</b> public equity exposure positioning log; Best Ideas Survey</p>	<p><u>Goal: Promote employee and team fulfillment</u></p> <ul style="list-style-type: none"> <li>Pursue individual growth objectives and personal development plans based on CY 2018 year-end discussions <b>(Q4 2019)</b></li> <li>Complete annual training <b>(Q4 2019)</b></li> <li>Promote UTIMCO cultural values (RIGHT) <b>(Q1-4 2019)</b></li> <li>Integrate new analyst and ITC <b>(Q1-4 2019)</b></li> <li>Develop 5-year resource plan and associated budget needs <b>(Q2 2019)</b></li> <li>Collaborate with HR and other investment teams on standardization of UTIMCO analyst program <b>(Q4 2019)</b></li> </ul> <p><b>Metrics:</b> progress on personal development plans; 5-year resource plan</p>
<p>20% YoY improvement in efficiency and quality (increased satisfaction for UTIMCO and partners)</p>	<ul style="list-style-type: none"> <li>Increased exposure to optimal market areas and managers</li> <li>Increased importance of UTIMCO to best managers</li> <li>Lower blended fees</li> </ul>	<p>Improved tactical allocation alpha</p>	<p>Increased employee satisfaction and retention</p>

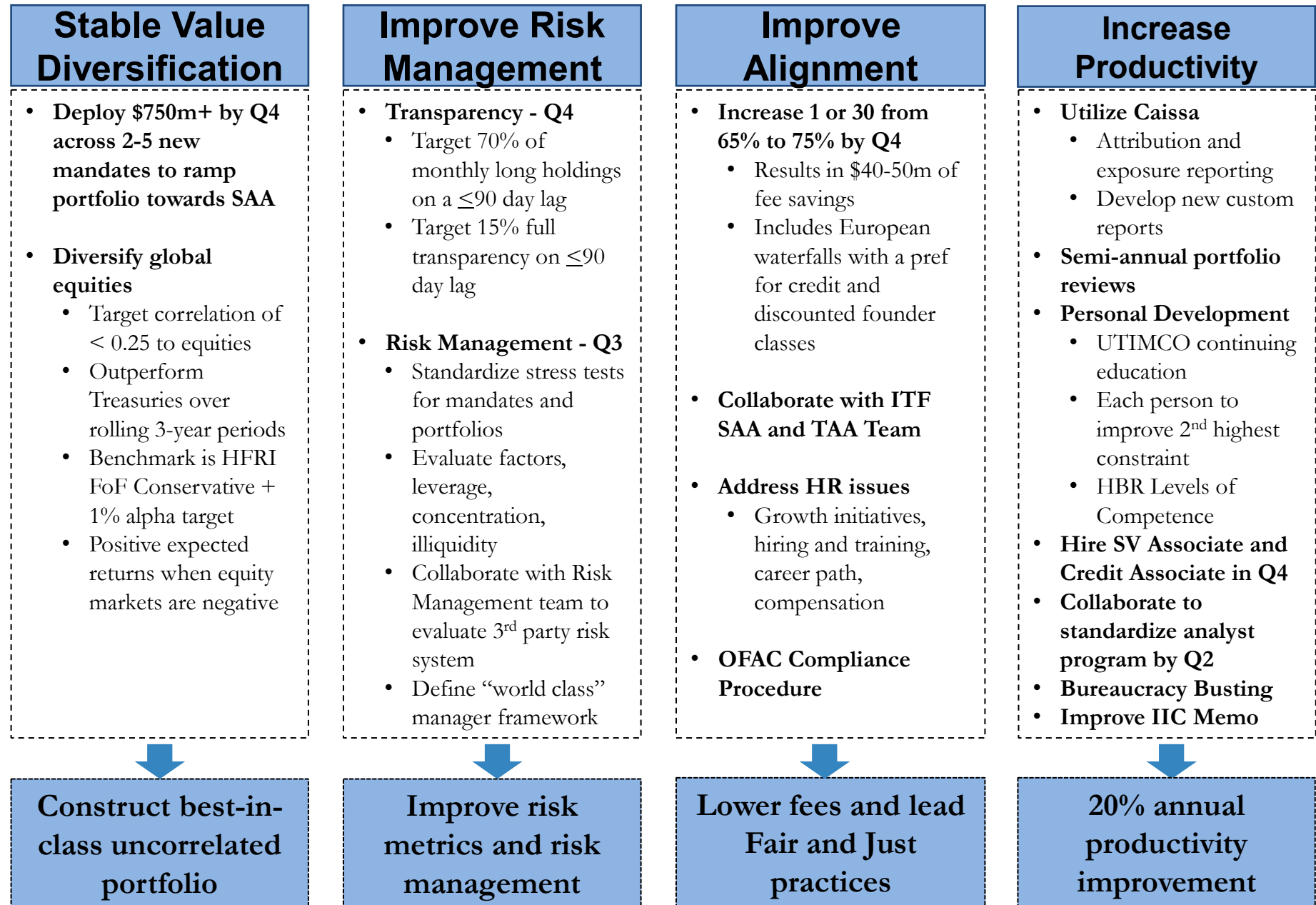


# 2019 Private Equity Action Plan

Partnerships	Portfolio Construction & Alignment	Processes	Human Capital
<ul style="list-style-type: none"> <li>Streamline Premier List, including development of forward pipeline of potential Premier List partners who will be coming to market and deepen current relationships to increase co-investment deal flow</li> <li>Complete market mapping of areas where new Premier List partners will need to be added as a result of portfolio construction process</li> <li>Deepen relationships with UT and Texas A&amp;M               <ul style="list-style-type: none"> <li>A) Healthcare</li> <li>B) Leverage IP “know how” with university patent offices</li> </ul> </li> <li>Engage in Strategic Partner process to help identify best multi-asset class partners</li> <li>Execute mini strategic partnership within portfolio</li> </ul> <p><b>Deadline:</b> Q4 2019</p>	<ul style="list-style-type: none"> <li>Achieve at least 250 bps of alpha above new PE benchmark</li> <li>Develop portfolio construction and risk management framework (in collaboration with Risk Team)</li> <li>Development of PE commitment model, including capital allocation framework among sub-strategies</li> <li>Drive more proactive co-investment penetration (target 20-25% of capital deployment in high quality co-investments)</li> <li>Evaluate secondary market to accelerate rebalancing of portfolio</li> <li>Review portfolio in-depth twice during year</li> </ul> <p><b>Deadline:</b> Q4 2019</p>	<ul style="list-style-type: none"> <li>Establish selection criteria and decision-making processes for:               <ul style="list-style-type: none"> <li>A) Premier List additions</li> <li>B) Fund Investments</li> <li>C) Co-Investments</li> </ul> </li> <li>Implement and refine PATS model in collaboration with Real Return team</li> <li>Establish regular pipeline review process to engage team across sub-strategies</li> <li>Enhanced liquidity tracking for commitment model</li> <li>Maintain LT valuation dashboards and active liquidity tracking across portfolio</li> <li>Finish implementation of iLevel and integrate into portfolio monitoring</li> <li>Collaborate across teams to improve firm-wide templates for presentations and memos</li> <li>Support OFAC implementation</li> </ul> <p><b>Deadline:</b> Q1 2019</p>	<ul style="list-style-type: none"> <li>Hire for open Associate position and establish hiring plans for 1-year and 5-year time horizons</li> <li>Establish personal development goals and career paths for each team member</li> <li>Ensure completion of annual training requirement</li> <li>Raise profile among existing managers and global PE community</li> <li>Participate in industry speaking events, conferences, and lecture opportunities</li> <li>Solidify team structure / coverage / domain expertise</li> <li>Ensure proper succession planning in coordination with HR</li> <li>Collaborate to standardize UTIMCO Analyst program</li> </ul> <p><b>Deadline:</b> Q2 2019</p>
<p>More efficient use of time</p>	<p>Deliver risk-adjusted performance while investing in line with SAA</p>	<p>Improved productivity and transparency</p>	<p>Improved teams &amp; retention; Brand strength</p>



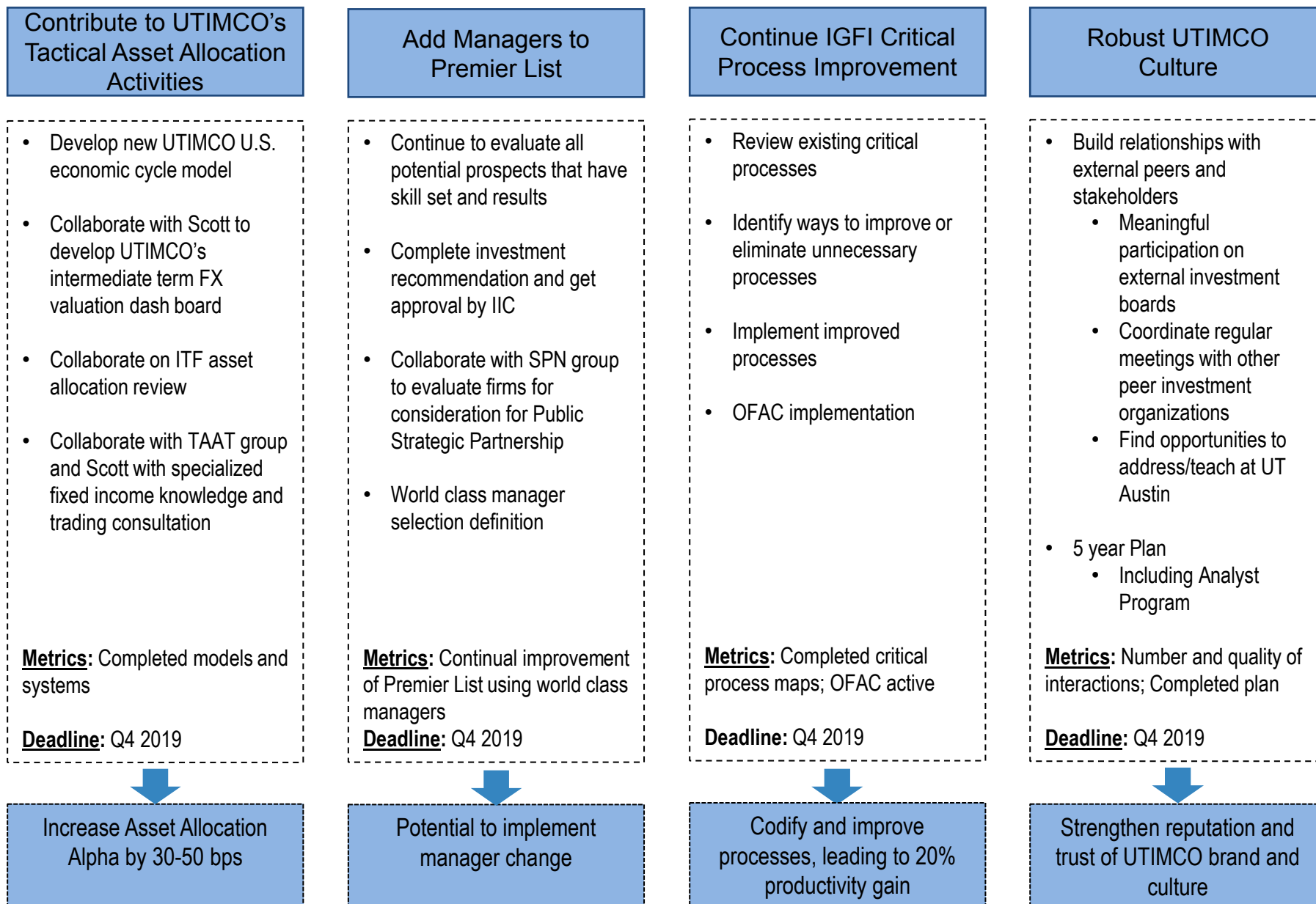
# 2019 Hedge Funds Action Plans





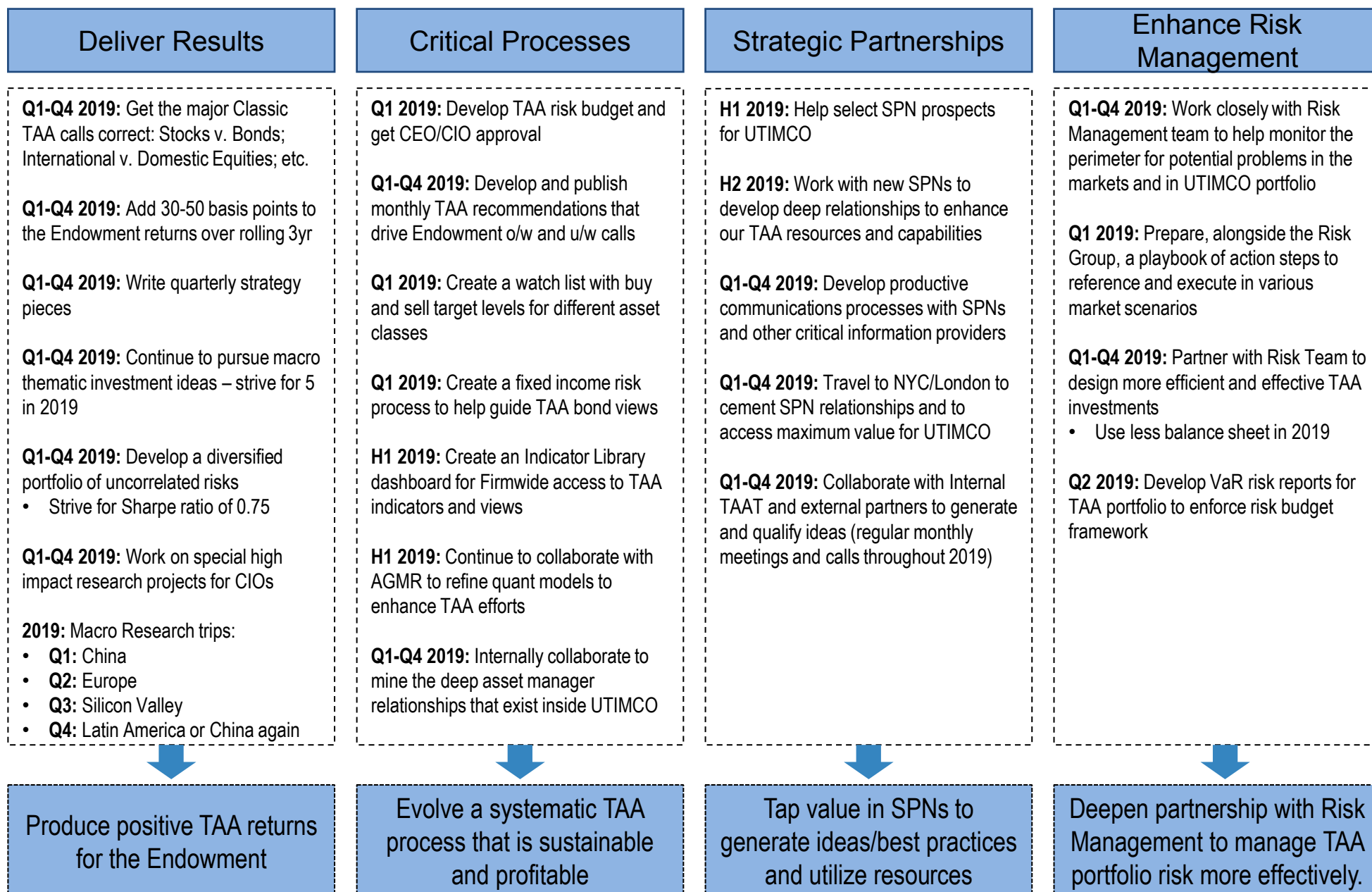


# 2019 Fixed Income Total Alignment





# 2019 Tactical Asset Allocation Action Plan





# 2019 Risk Management Action Plan

## Private Investments

- **Q2-4 2019:** Model individual funds:
  - Model beta of Private Investment funds and how it interacts with leverage
  - Model effects of concentration, vintage year, prior rank, and potential currency effects on dispersion of potential outcomes
  - How/what to monitor in individual funds
  - Develop early warning system to alert if re-underwriting is warranted
- **Q2 2019:** Research, enhance and develop tools to improve Portfolio Construction of Private Investments:
  - Factor balance (e.g., sector, region)
  - Sizing methodology
  - Role of co-investments as it varies across the cycle; role of co-investments as tactical overweights
- **Q4 2019:** SAA fine tuning:
  - Role of Strategic Partners and of mega-buyouts, and implications for the rest of the portfolio
  - Should we hedge currency exposures?
- **Q1-4 2019** – Enhance and maintain commitment model.



Improve portfolio construction and better understanding of risks in Private Investments

## Practical Neutral

- **Q1 2019:** Minimize unintended asset allocation tracking error:
  - Construct tools and heuristics to address AA TE
  - Codify into rules
  - Develop and socialize a process for actively managing these risks
- **Q2 2019:** Develop a more granular mapping/modeling of Private Investments to improve PN management:
  - Analyze country, sector, and factor exposures of available benchmarks
  - Prepare various public market proxies for each asset class



Eliminate underperformance generated from Policy deviation

## Endowment-Wide

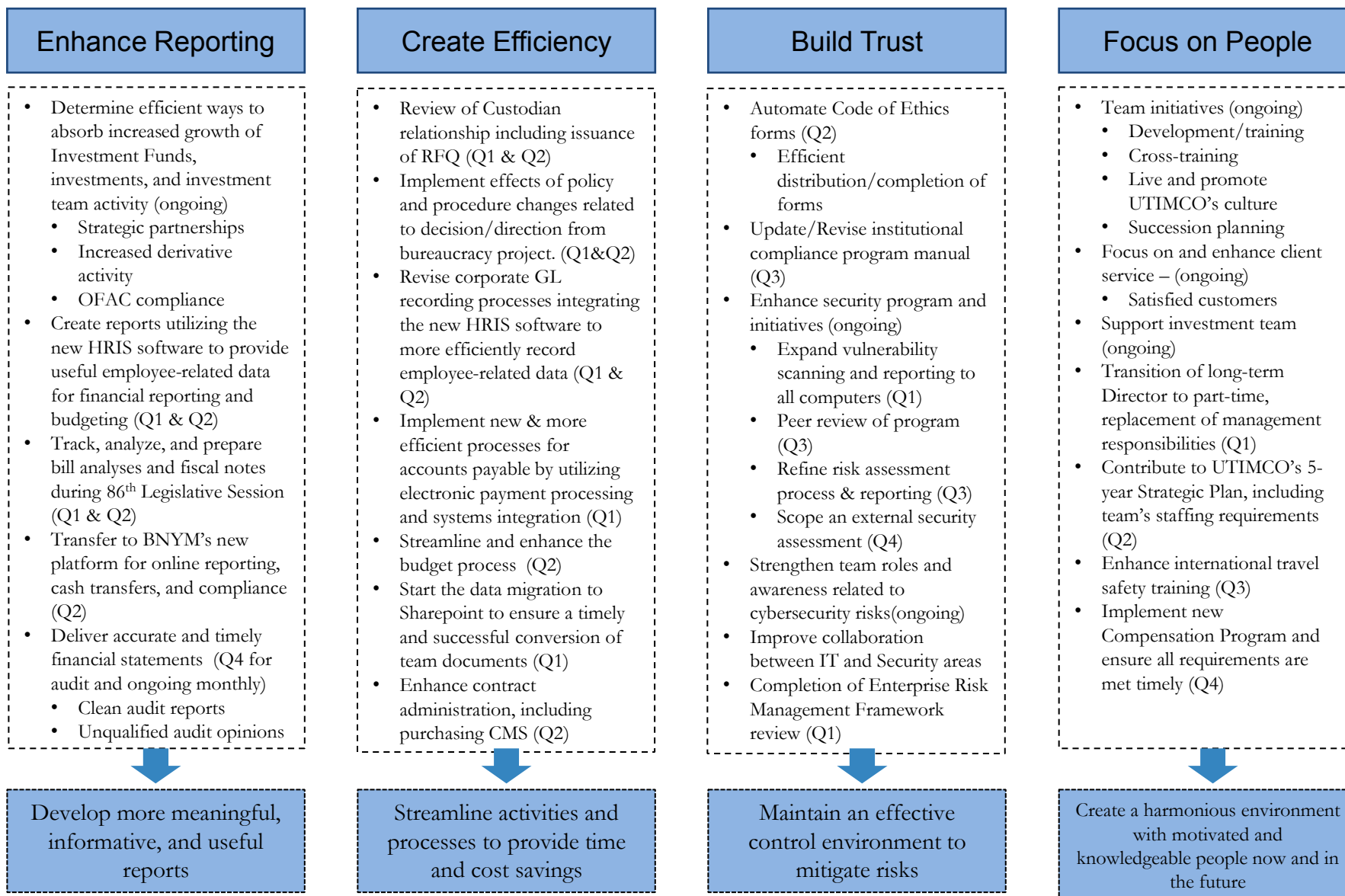
- **Q1-4 2019:** Help manage the ITF→LTF flows.
- **Q1 2019:** Develop a dynamic Risk Dashboard that summarizes key metrics and risk thresholds by manager and portfolio.
- **Q1 2019:** Prepare, alongside the TAA group, a playbook of action steps to reference and execute upon various market scenarios.
- **Q1 2019:** Revise ITF SAA.
- **Q1-4 2019:** Participate in the selection, structuring, and sizing of Strategic Partners
- **Q4 2019:** Review available Risk systems and UTIMCO needs across groups; have a very good understanding of what can and cannot be done with iLevel and Caïssa; recommend a system or systems to Management.



Enhance “one boat” mentality through firm-wide initiatives

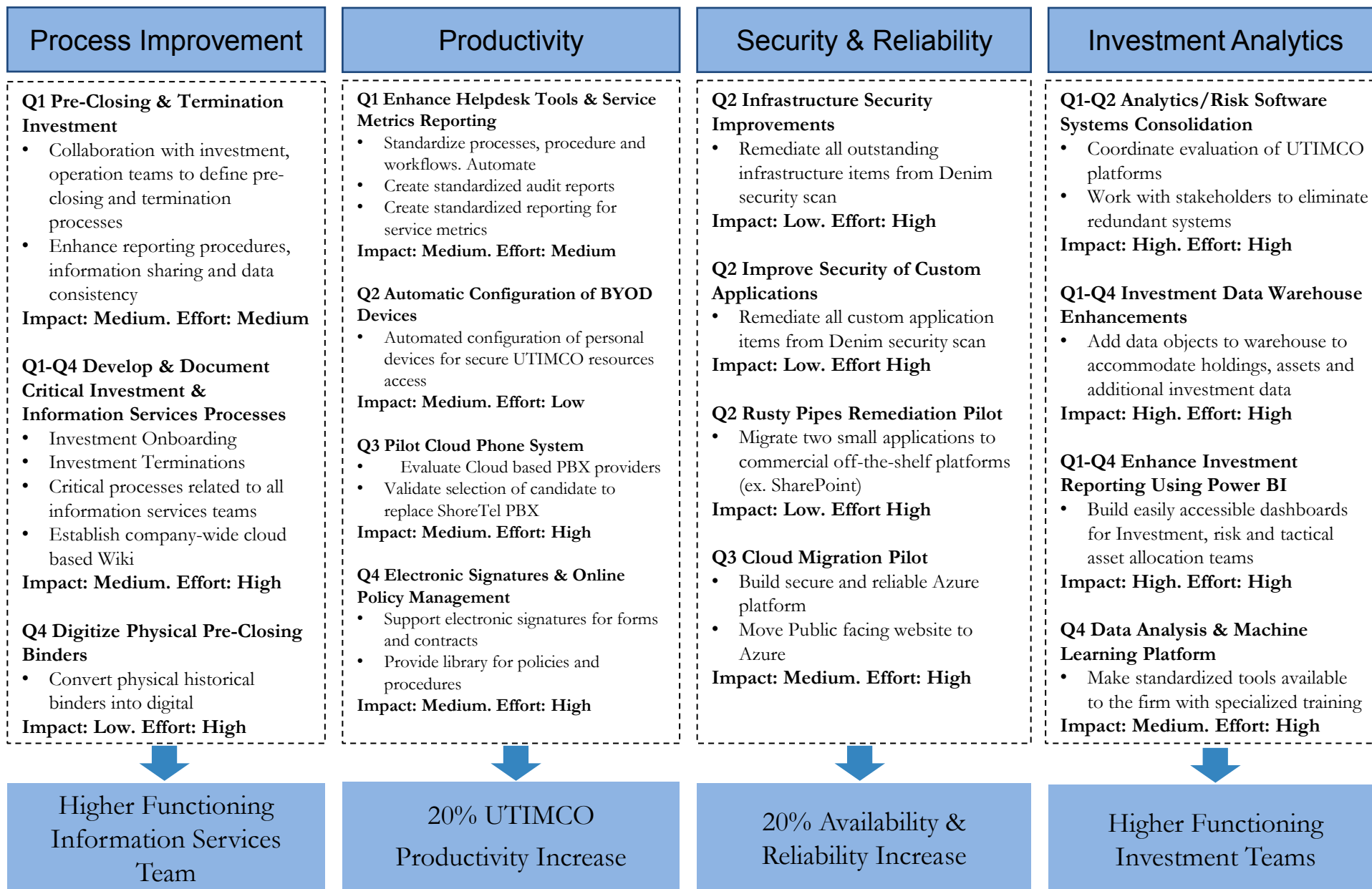


# 2019 Operations Action Plan



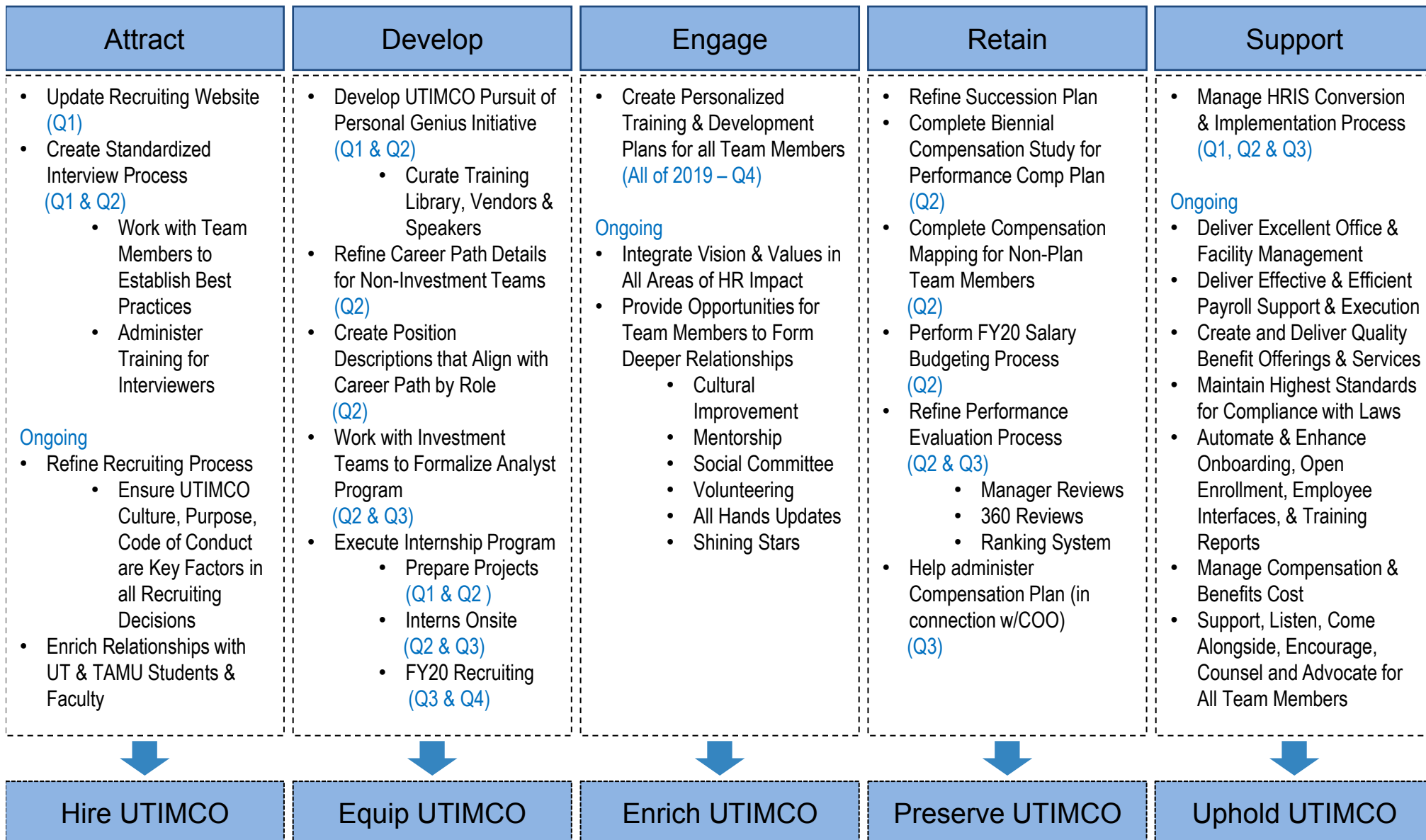


# 2019 Information Services Action Plans





# 2019 Human Resources Action Plan



**Agenda Item**  
UTIMCO Board of Directors Meeting  
February 21, 2019

**Agenda Item:** Primer on Strategic Partnerships

**Developed By:** Standley

**Presented By:** Standley

**Type of Item:** Information Item

**Description:** Mr. Standley will introduce Strategic Partnerships and discuss UTIMCO's selection process.

**Reference:** *Primer on Strategic Partnerships* presentation



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

---

## Primer on Strategic Partnerships

*Ken Standley, Chief of Staff*



# Agenda

---



- Overview of Strategic Partnerships
- Selecting Strategic Partners
  - Criteria
  - Process
- Expected Flows and Mandates
- Team
- Summary

# Overview of Strategic Partnerships



## Goals of Strategic Partnerships

- **Investment Alpha:** achieve UTIMCO objectives and add value
- **Organizational Alpha:** training, resources, deliver full value of the firm
- **Relationship Alpha:** “positive peer pressure”, mutual commitment

### *Public*

- Targeting 2-4 partners with \$500 M – 1.5 Bn per partner
- Public multi-asset portfolios with value-added through strategy selection and tactical asset allocation
- Performance-based fees

### *Private*

- Targeting 2-4 partners with \$1 – 2 Bn per partner
- Private Equity, Real Estate, Natural Resources, Credit
- Fee-advantaged investment in funds, access to co-investment

# Criteria for Selecting a Strategic Partner

---



1. Delivers Full Range of Valuable Investment Products and Services
2. Customize Products and Services to Specific UTIMCO Requirements
3. Operate Globally With a Sustainable Business Model
4. Produce Proprietary and Value-Added Investment Research
5. Share Significant Resources When Appropriate
6. Share Our Long-Term Compensation Philosophy
7. Senior Management Makes a Full Commitment to the Partnership



# Selection Process

## Phase 1 *Screen*

- Articulate investment objectives and specify mandate
- Construct DDQ
- Go out to broad set of prospective Strategic Partners
- Systematically score responses across 7 key criteria

**Publics:** Underway

**Privates:** Underway

## Phase 2 *Deep DD*

- Conduct in-depth due diligence on focal points
- **Publics:** TAA, Research, Risk Management
- **Privates:** Process, Alignment, Terms, Strategy, Coinvestments

**Publics:** Q1-Q2

**Privates:** Q2-Q3

## Phase 3 *Final Selection*

- Deliver proposed terms to finalists
- Negotiate and agree to terms
- Bring to UTIMCO board for final approval

**Publics:** June - Sep

**Privates:** Dec - Feb

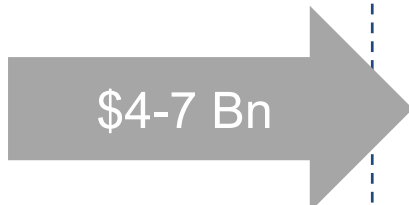
# Expected Flows and Mandates



Inflows

Endowments

Strategic Partnerships



**Public Markets**

Public Equity	33%
Directional HF	5%
Stable Value HF	10%
Fixed Income	7%
Cash	1%

**Private Markets**

Private Equity	25%
Real Estate	10%
Natural Resources	5%
Infrastructure	4%

**Public Strategic Partners**

Funded from mix of Public Market Assets (TBD)

**Prospective Investment Objectives**

- Relative Returns: Add alpha over a benchmark
- Total Returns: CPI + 3-5%
- Subject to agreed upon risk limits

**Private Strategic Partners**

May span private markets or target specific areas

**Prospective Investment Objectives**

- Maximize total returns across private markets
- Specific hurdles and fee structures (TBD)

# Public SPN Team



Amanda Hopper  
*Public Equity*



Courtney Powers  
*Hedge Funds*



Ken Standley  
*Chief of Staff*



Rich Hall  
*Deputy CIO*



Russ Kampfe  
*Fixed Income*



Ryan Ruebsahm  
*Hedge Funds*



Scott Slayton  
*Tactical Asset  
Allocation*



Susan Chen  
*Public Equity*



Uzi Yoeli  
*Risk  
Management*



Will Mirshak  
*Private Equity*

# Private SPN Team



Billy Prather  
*Natural Resources*



Brad Thawley  
*Private Equity*



Conrad Shang  
*Private Equity*



Eddie Lewis  
*Real Return*



Ken Standley  
*Chief of Staff*



Mukund Joshi  
*Real Estate*



Pat Pace  
*Private Equity*



Rich Hall  
*Deputy CIO*



Richard Rincon  
*Private Equity*



Will Mirshak  
*Private Equity*

# Summary

---



- UTIMCO will be seeking board approval for Strategic Partners
  - 2-4 Public Partners with \$500 MM – 1.5 Bn each
  - 2-4 Private Partners with \$1 – 2 Bn each
  
- Strategic Partnerships deliver value across dimensions and are designed to help UTIMCO accomplish investment and organizational objectives
  
- Funding for these mandates will be largely supported by expected inflows to the Endowments and will facilitate our transition to new Strategic weights
  
- Details on specific performance targets, fees, and more will be shared with the board as the process progresses



**Agenda Item**  
UTIMCO Board of Directors Meeting  
February 21, 2019

**Agenda Item:** Public Equity Presentation

**Developed By:** Chen, Hopper

**Presented By:** Chen, Hopper

**Type of Item:** Information Item

**Description:** Ms. Chen and Ms. Hopper will present on the Public Equity portfolio.

**Reference:** *Public Equity Review* Presentation



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

---

## Public Equity Review

Susan Chen  
Managing Director

Amanda Hopper  
Senior Director

February 2019

# Summary

---



## **Role in Endowment and Team**

- Total Public Equity is ~\$10.8 billion
  - ~\$7 billion in Developed Markets\* and ~\$3.8 billion in Emerging Markets
  - ~26% of total Endowment and ITF assets as of December 2018
- Managed by six-person investment team, with average of eleven years of experience and six years at UTIMCO

## **Market Conditions**

- In Developed Markets, performance has been strongest over the long-term in the US; across growth, quality and momentum factors; and in the Information Technology and Consumer Discretionary sectors.
- In Emerging Markets, performance has been strongest over the long-term in Asia; across growth stocks; and in the Information Technology and Consumer Discretionary sectors.

## **UTIMCO Performance**

- Relative performance has been strong across all areas on a 5-year basis, with the exception of the US sub-portfolio.
- Performance was weaker in the most recent 1-year period for the US and non-US sub-portfolios.
- We are actively addressing underperformance in the US sub-portfolio by reducing concentration at both the manager and sub-portfolio level. We have terminated two managers, hired two managers, restructured fees with certain managers to improve alignment, and are exploring a role for quantitative managers.

## **UTIMCO Portfolio and Manager Framework**

- We maintain exposure to geographies, sectors and investment styles within pre-defined ranges.
- Elucidation of manager evaluation framework has helped highlight tradeoffs and best practices.

## **Top Priorities**

- We continue to focus on the US sub-portfolio through Premier List development and adjustments to portfolio construction.
- We continue to focus on improving key processes, risk management and personnel development.

*\* Developed Markets includes US, non-US developed and global equities.*

# Team



**Susan Chen**  
**Managing Director**  
MBA;JD, Harvard  
*Prior: Highbridge Capital*



**Amanda Hopper**  
**Sr. Director**  
MBA, University of Chicago  
*Prior: TRS*



**Andres Delgado, CFA, FRM**  
**Senior Analyst**  
BBA, Texas State University  
*Prior: Goldman Sachs*



**Russ Brown, CFA, CPA**  
**Associate Director**  
MS, UT Austin  
*Prior: Holtzman Partners*



**RJ Dymke**  
**Analyst**  
BBA, Texas State University  
*Prior: Sage Advisory*



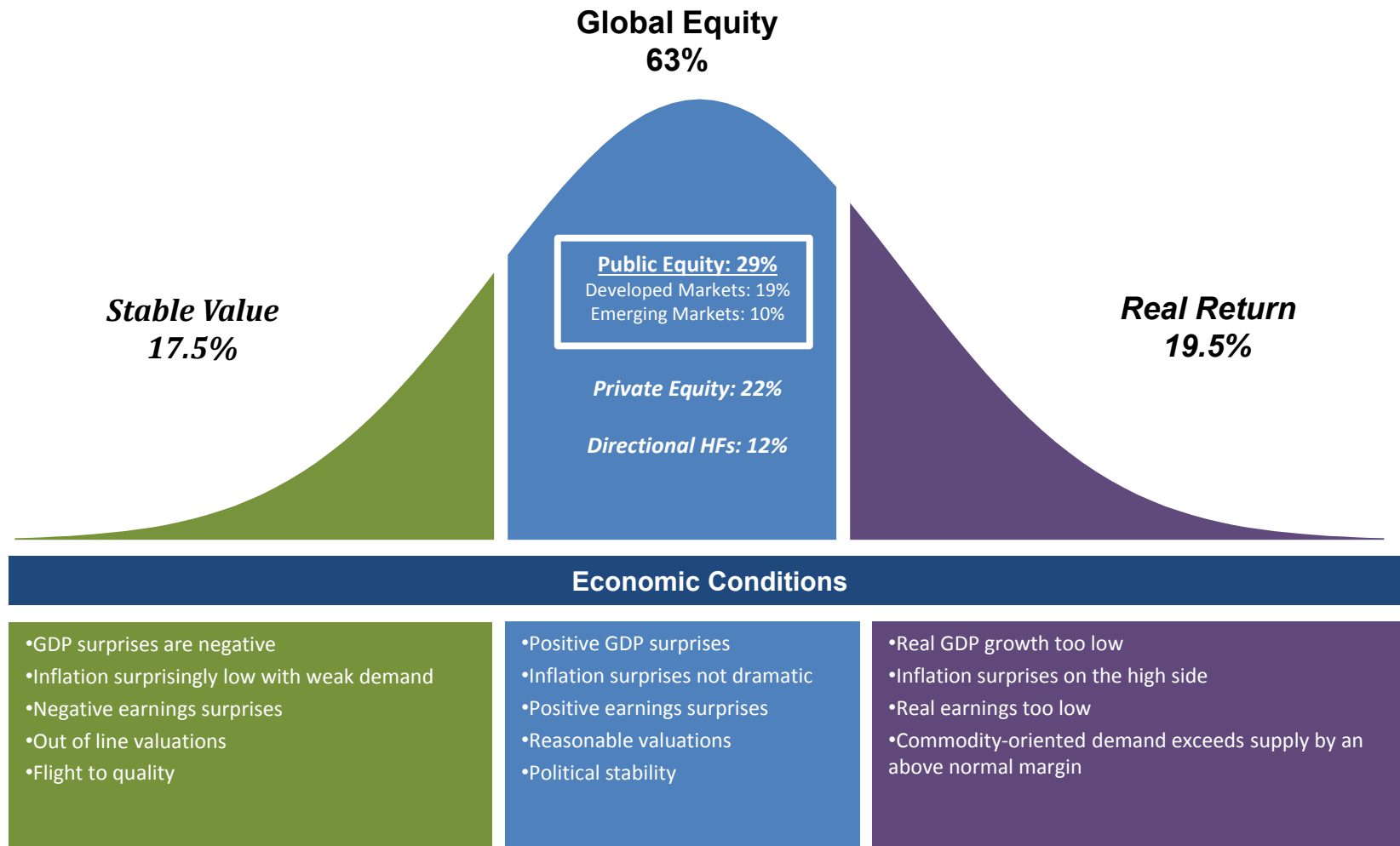
**Kyle Burhop, CFA**  
**Associate**  
BS, Virginia Tech  
*Prior: Morgan Stanley*



**Kathy Simons**  
**Team Coordinator**  
Texas A&M

**Experience Summary:**  
3 CFA Charter Holders  
3 Master Degrees  
1 CPA  
1 FRM

# Role in Endowment



Above figures reflect FY 2019 Policy weights in Endowments (PUF/GEF).  
 Long-term strategic asset allocation weights for Public Equity, Private Equity and Directional HF are 33%, 25% and 5%, respectively.

# Executive Summary



## Purpose and Philosophy

- Provide exposure to the free cash flow generation and equity appreciation of global public companies
- Generate positive returns during “Global Equity Regimes” and generate alpha through active management
- Serve as a source of liquidity for (1) distributions to UTIMCO clients and (2) capital calls to fund private investments
- Maintain balanced exposures to geographies, sectors, and investment styles
- Take advantage of market opportunities and dislocations

## Alpha and Risk Targets

Developed Markets Portfolio					
	Active				Exposure Ranges
	Alpha	Risk	TE	IR	
Factor	0.20%	19%	0.65%	0.31	< 25% active risk
Sector	0.60%	21%	0.75%	0.80	+/- 15% vs. Benchmark
Country	0.10%	9%	0.30%	0.33	+/- 7.5% vs. Benchmark
Currency	0.00%	4%	0.15%	0.00	+/- 7.5% vs. Benchmark
Idiosyncratic	0.85%	47%	1.65%	0.52	
<b>TOTAL</b>	<b>1.75%</b>	<b>100%</b>	<b>3.50%</b>	<b>0.50</b>	
Emerging Markets Portfolio					
	Active				Exposure Ranges
	Alpha	Risk	TE	IR	
Factor	0.25%	17%	0.75%	0.33	< 25% active risk
Sector	0.00%	28%	1.25%	0.00	+/- 15% vs. Benchmark
Country / Exchange	0.75%	27%	1.20%	0.63	+/- 10% vs. Benchmark
Currency	0.00%	7%	0.30%	0.00	+/- 10% vs. Benchmark
Idiosyncratic	1.25%	22%	1.00%	1.25	
<b>TOTAL</b>	<b>2.25%</b>	<b>100%</b>	<b>4.50%</b>	<b>0.50</b>	

## Exposure

		Public Equity						Total UTIMCO
		U.S.	Non-U.S. DM	Global DM	Total DM	EM	Total	
AUM	PUF	\$1,287	\$745	\$1,690	\$3,722	\$2,193	\$5,915	\$21,523
	GEF	\$655	\$377	\$858	\$1,891	\$1,112	\$3,003	\$10,963
	ITF	\$473	\$287	\$607	\$1,367	\$559	\$1,926	\$9,183
	Total	\$2,415	\$1,409	\$3,155	\$6,979	\$3,864	\$10,843	\$41,669
% of Total Fund	PUF	6.0%	3.5%	7.9%	17.3%	10.2%	27.5%	100.0%
	GEF	6.0%	3.4%	7.8%	17.2%	10.1%	27.4%	100.0%
	ITF	5.2%	3.1%	6.6%	14.9%	6.1%	21.0%	100.0%
FY 2019 Policy Target	PUF	7.0%	4.0%	8.0%	19.0%	10.0%	29.0%	100.0%
	GEF	7.0%	4.0%	8.0%	19.0%	10.0%	29.0%	100.0%
	ITF	5.7%	3.4%	6.6%	15.7%	7.1%	22.8%	100.0%

Note: AUM is in millions and as of December 31, 2018

## Performance

	Performance			vs. Benchmark		
	1y	3y	5y	1y	3y	5y
US Public Equity	(9.9%)	4.0%	3.6%	(5.5%)	(5.3%)	(4.8%)
Non-US Developed Equity	(15.3%)	4.2%	4.9%	(1.5%)	1.3%	4.3%
Global Developed Equity	(7.3%)	6.4%	6.4%	1.5%	0.1%	1.8%
<b>Total Developed Public Equity</b>	<b>(10.0%)</b>	<b>5.1%</b>	<b>5.0%</b>	<b>(1.3%)</b>	<b>(1.2%)</b>	<b>0.4%</b>
Tracking Error	3.3%	3.2%	3.5%	-	-	-
Information Ratio	(0.21)	(0.35)	0.22	-	-	-
<b>Total Emerging Markets Equity (PUF)</b>	<b>(13.3%)</b>	<b>7.5%</b>	<b>4.3%</b>	<b>1.3%</b>	<b>(1.8%)</b>	<b>2.6%</b>
Tracking Error	5.3%	4.6%	5.2%	-	-	-
Information Ratio	0.10	(0.29)	0.54	-	-	-
<b>Total Emerging Markets Equity (GEF)</b>	<b>(14.3%)</b>	<b>9.4%</b>	<b>5.2%</b>	<b>0.3%</b>	<b>0.1%</b>	<b>3.5%</b>
Tracking Error	5.6%	5.7%	5.7%	-	-	-
Information Ratio	0.02	0.17	0.65	-	-	-
<b>TOTAL PUBLIC EQUITY (PUF/GEF)</b>	<b>(11.3%)</b>	<b>6.4%</b>	<b>4.9%</b>	<b>(0.6%)</b>	<b>(1.2%)</b>	<b>1.4%</b>

Note: Performance as of December 31, 2018. Returns data for periods longer than 1 year are annualized.

Total Developed Public Equity represents PUF/GEF.

# Market Conditions



## Performance as of December 31, 2018:

	Developed Markets				
	1-Year	3-Year	5-Year	7-Year	10-Year
<b>Factors</b>					
MSCI World <u>Growth</u>	(6.4)	7.5	6.5	10.7	11.5
MSCI World Value	(10.1)	6.3	3.8	8.7	9.1
Growth vs Value	3.7	1.1	2.7	2.0	2.4
MSCI World <u>Quality</u>	(5.5)	7.6	7.0	10.5	11.8
MSCI World	(8.2)	6.9	5.2	9.7	10.3
Excess Return	2.7	0.6	1.8	0.8	1.5
MSCI World <u>Momentum</u>	(2.4)	10.7	8.5	11.5	10.9
MSCI World	(8.2)	6.9	5.2	9.7	10.3
Excess Return	5.8	3.8	3.3	1.8	0.6
<b>Size</b>					
MSCI World Large Cap	(7.2)	7.3	5.4	9.8	10.1
MSCI World Mid Cap	(12.9)	5.2	4.2	9.2	11.1
MSCI World Small Cap	(13.5)	6.5	4.5	10.0	12.6
<b>Sectors</b>					
<u>MSCI World</u>					
Communication Services	(9.1)	1.2	1.2	6.1	7.0
Consumer Discretionary	(5.1)	6.9	6.2	13.1	14.8
Consumer Staples	(9.5)	2.9	4.8	8.4	10.4
Energy	(15.1)	4.7	(4.5)	(0.4)	3.4
Financials	(16.4)	5.3	3.4	10.2	8.4
Healthcare	3.0	5.1	8.1	13.3	12.5
Industrials	(14.1)	7.1	4.0	9.5	10.6
Information Technology	(2.3)	14.9	13.2	15.5	16.3
Materials	(16.6)	9.9	1.5	3.3	7.2
Real Estate	(5.6)	4.2	5.6	8.5	10.4
Utilities	3.1	8.2	6.8	7.2	5.5
<b>Geographies</b>					
North America	(5.2)	9.0	7.8	11.9	12.7
Europe	(14.3)	2.7	(0.0)	6.0	6.7
Asia Pacific	(11.5)	5.1	3.4	7.1	7.4

	Emerging Markets				
	1-Year	3-Year	5-Year	7-Year	10-Year
<b>Factors</b>					
MSCI EM <u>Growth</u>	(18.1)	9.1	2.9	4.8	9.2
MSCI EM Value	(10.5)	9.9	0.9	2.1	7.4
Growth vs Value	(7.6)	(0.8)	2.0	2.7	1.8
MSCI EM <u>Quality</u>	(16.2)	6.4	1.9	2.9	8.2
MSCI EM	(14.4)	9.6	2.0	3.6	8.4
Excess Return	(1.9)	(3.2)	(0.1)	(0.6)	(0.2)
MSCI EM <u>Momentum</u>	(14.9)	9.7	-	-	-
MSCI EM	(14.4)	9.6	-	-	-
Excess Return	(0.5)	0.1	-	-	-
<b>Size</b>					
MSCI EM Large Cap	(14.6)	10.0	2.1	3.6	8.3
MSCI EM Mid Cap	(13.0)	7.3	0.9	3.1	8.5
MSCI EM Small Cap	(18.5)	3.9	1.1	4.0	10.1
<b>Sectors</b>					
<u>MSCI EM</u>					
Communication Services	(14.5)	0.9	(3.9)	(1.1)	2.6
Consumer Discretionary	(32.4)	(1.4)	(3.4)	0.5	10.4
Consumer Staples	(13.6)	3.0	(1.1)	2.0	9.9
Energy	5.3	20.6	1.4	0.4	5.6
Financials	(8.4)	11.4	3.6	5.4	8.9
Healthcare	(20.8)	(0.9)	2.0	7.0	8.4
Industrials	(12.6)	2.8	(2.5)	0.3	4.1
Information Technology	(19.1)	15.5	9.6	12.9	17.1
Materials	(11.1)	16.3	(0.0)	(1.2)	5.6
Real Estate	(17.1)	6.4	1.6	4.9	4.8
Utilities	(3.6)	5.1	(0.9)	(0.1)	3.9
<b>Geographies</b>					
Asia	(15.3)	8.9	4.2	6.2	10.1
Latin America	(6.2)	15.2	(1.4)	(1.8)	5.3
EMEA	(18.7)	4.6	(6.0)	(3.3)	5.4

Communication Services sector expanded September 2018 to include companies previously classified in Consumer Discretionary and Information Technology.



## Developed Markets

### **What Hasn't Worked**

- The US sub-portfolio generated negative alpha over the most recent 1y, 3y and 5y periods. The largest detractors were three concentrated managers that were significant weights in the sub-portfolio.

### **What Has Worked**

- The Non-US sub-portfolio generated positive alpha over the most recent 3y and 5y periods. The largest contributors were a quality-focused Europe manager and a value-focused EAFE manager.
- The Global sub-portfolio generated positive alpha over the most recent 1y, 3y and 5y periods. Drivers included an overweight to the US and strong performance by a few global managers.

### **Recent Changes and Rationale**

- We terminated two US managers over concerns around process and team, in addition to performance.
- We renegotiated terms with certain managers to improve UTIMCO's alpha capture.
- In the US sub-portfolio, we added two new managers and continue to reduce concentration at both the manager and sub-portfolio level.

## Emerging Markets

### **What Hasn't Worked**

- One global manager's small-cap tilt detracted from performance.
- Among regional managers, several managers contributed positive alpha over the most recent 1y, 3y and 5y periods. However, in the most recent 3y time period, this was offset by several detractors.

### **What Has Worked**

- The total Emerging Markets portfolio generated positive alpha over the most recent 1y and 5y periods.
- One global manager was a significant contributor.
- Among regional managers, Brazil exposure and strong stock selection by Asia-focused managers contributed to performance.

### **Recent Changes and Rationale**

- We terminated a few regional managers due to concerns around process and team, as well as performance.
- We are adding to global emerging markets ("GEM") managers and trimming regional managers.



# UTIMCO Manager Framework



<b>MANAGER ATTRIBUTES</b>	
<b>Performance</b>	<b>Strategy &amp; Process</b>
Historical excess return	Depth of research
Historical information ratio	Knowledge of portfolio cos
Up / down capture ratio	Strategy size consistent with capacity
Breadth of performance drivers	Adherence to stated strategy
Performance drivers	Buy and sell discipline
Track record	
<b>Alignment</b>	<b>Team</b>
High water mark and/or multi-yr perf period	Team quality
LP Alpha Capture	PM experience
Fees paid if manager generates zero gross O/P	Other investment team experience
Incentive fee paid on outperformance over index	Team size
Control	Operations
Transparency	Team turnover
Liquidity	Team comp - individual vs. team, horizon
Team's investment in strategy	Team comp - spread of equity incentives
Manager ownership of firm	
Access to CIO and investment team	
Existing/former investor references	
Key person	
<b>TIMING / FIT</b>	
<b>Environment &amp; Timing</b>	
Asset class BM valuation	
Manager BM valuation	
Manager's performance vs. expectations	
<b>Role in Portfolio</b>	
Correlation of excess returns w/existing portfolio	Sector complement
Average correlation to existing managers	Environmental complement
Geographic complement	Holdings overlap w/existing managers

# UTIMCO Manager Framework – Premier List



## Developed Markets Premier List

EXPOSURE	(\$M)	(%)
Platinum / Gold	\$3,668	63%
Silver / Bronze	\$1,763	30%
Other	\$384	7%

Data as of 1/4/2019.

Active/Funded	20
Unfunded Prospects	23
<b>Total PL Relationships</b>	<b>43</b>

## Emerging Markets Premier List

EXPOSURE	(\$M)	(%)
Platinum / Gold	\$2,017	52%
Silver / Bronze	\$1,849	48%
Other	\$0	0%

Data as of 1/4/2019.

Active/Funded	17
Unfunded Prospects	24
<b>Total PL Relationships</b>	<b>41</b>

# 2018 Results vs. Top Priorities



Critical Process	Premier List	Risk Monitoring and Tactical Allocation	Human Capital and Constituents
<ul style="list-style-type: none"> <li>Document key processes for fund investments and portfolio construction.</li> <li>For all current managers, identify funded “diversifying” and unfunded “comparison” manager.</li> <li>Identify ways to improve the efficiency and quality of key processes, and eliminate duplicative or unnecessary processes.</li> <li>Implement improved processes.</li> <li>Review compensation for all relationships &gt; 50bps that are not performance-based with low fulcrum rate.</li> </ul>	<ul style="list-style-type: none"> <li>Finalize initial Premier List.</li> <li>Identify areas of growth for key managers to create stronger alignment with UTIMCO.</li> <li>Develop market maps to identify key strategies and managers to evaluate and add to Premier List. Determine target areas to reduce/add exposure.</li> <li>Review US Public Equity performance.</li> <li>Identify 2-3 potential multi-asset class Strategic Partners.</li> </ul>	<ul style="list-style-type: none"> <li>Establish objectives and limits for public equity exposures (country, sector, currency, factors). Formalize decision process around exposure positioning.</li> <li>Collaborate with Global Allocation Strategist, Risk and other teams to (a) identify, communicate, and formalize decisions around Endowment-wide allocation signals and (b) design/execute 2019 Best Ideas Survey.</li> </ul>	<ul style="list-style-type: none"> <li>Determine growth initiatives and associated hiring and training needs.</li> <li>Produce standardized career path document and communicate path to firm.</li> <li>Work with team members to establish individual growth objectives and plans.</li> <li>Evaluate transfer of deal legal to Operations.</li> </ul>
<p><b>Metrics:</b> initial map and target map w/time estimates, bureaucracy list</p> <p><b>Deadline:</b> Q1 2018</p>	<p><b>Metrics:</b> initial PL, market maps/white papers, key lists of managers to track</p> <p><b>Deadline:</b> Q2 2018</p>	<p><b>Metrics:</b> public equities exposure policy, signal library</p> <p><b>Deadline:</b> Q4 2018</p>	<p><b>Metrics:</b> formal career path document, individual development plans</p> <p><b>Deadline:</b> Q3 2018</p>
<p>20% YoY improvement in efficiency and quality (increased satisfaction for UTIMCO and partners)</p>	<p>Increased exposure to optimal market areas and managers; Increased importance of UTIMCO to best managers; Lower blended fees</p>	<p>Improved tactical alloc. alpha Improved understanding of fund performance and visibility on co-investment opportunities</p>	<p>Increased employee satisfaction and retention</p>
<p><b>Completed Initiatives</b></p>	<p><b>Continuing in 2019</b></p>		

# 2019 Top Priorities



Critical Processes	Premier List	Risk Monitoring and Tactical Allocation	Human Capital
<p><u>Goal: Improve key processes for manager monitoring, portfolio construction, and new fund investments</u></p> <ul style="list-style-type: none"> <li>Accomplish investment objectives (Q4 2019)</li> <li>Shift selected quantitative analyses to Caissa (e.g. exposures, attribution, holdings overlap) (Q2 2019)</li> <li>Begin process of shifting trend files to Caissa (Q1 2019)</li> <li>Evaluate and select vendor for manager- and portfolio-level factor analysis (Q1 2019)</li> <li>Streamline manager relationship coverage (Q1 2019)</li> <li>Collaborate with other investment teams to agree on common criteria for “world class” manager and standardize investment memo (Q1 2019)</li> <li>Update portfolio exposure and attribution reports to reflect 2019 Strategic Asset Allocation (Q1 2019)</li> <li>Implement OFAC compliance procedure (Q1 2019)</li> </ul> <p><b>Metrics:</b> reduced execution time for quantitative analyses; reduced duplicative time in manager meetings; new portfolio reports</p>	<p><u>Goal: Work with PL managers to create strong alignment with UTIMCO</u></p> <ul style="list-style-type: none"> <li>Continue focus on US public equity sub-portfolio (Q1-4 2019)                             <ul style="list-style-type: none"> <li>Deepen quantitative and qualitative diligence of unfunded Premier List managers</li> <li>Deepen evaluation of role for quantitative managers</li> </ul> </li> <li>Maintain Premier List (Q1-4 2019)                             <ul style="list-style-type: none"> <li>Deepen quantitative and qualitative diligence of unfunded Premier List managers</li> <li>Continue market mapping of strategies and managers</li> </ul> </li> <li>Continue enhancing relationships with funded Premier List managers (Q1-4 2019)</li> <li>Collaborate on evaluation and selection of Strategic Partners (Q3 2019)</li> </ul> <p><b>Metrics:</b> updated PL; deeper knowledge of unfunded PL managers; possible addition of quantitative managers to PL; selection of Strategic Partners</p>	<p><u>Goal: Minimize risks and exploit opportunities associated with portfolio exposures</u></p> <ul style="list-style-type: none"> <li>Operate within objectives and limits for public equity exposures. Follow decision process around exposure positioning. (Q1-4 2019)</li> <li>Continue collaborating with Global Allocation Strategist, Risk and other teams to identify and communicate Endowment-wide allocation signals. (Q1-4 2019)</li> <li>Design/execute 2020 Best Ideas Survey. (Q4 2019)</li> <li>Implement formal 2x / year portfolio review. (Q1-4 2019)</li> </ul> <p><b>Metrics:</b> public equity exposure positioning log; Best Ideas Survey</p>	<p><u>Goal: Promote employee and team fulfillment</u></p> <ul style="list-style-type: none"> <li>Pursue individual growth objectives and personal development plans based on CY 2018 year-end discussions (Q4 2019)</li> <li>Complete annual training (Q4 2019)</li> <li>Promote UTIMCO cultural values (RIGHT) (Q1-4 2019)</li> <li>Integrate new analyst and ITC (Q1-4 2019)</li> <li>Develop 5-year resource plan and associated budget needs (Q2 2019)</li> <li>Collaborate with HR and other investment teams on standardization of UTIMCO analyst program (Q4 2019)</li> </ul> <p><b>Metrics:</b> progress on personal development plans; 5-year resource plan</p>
<p>20% YoY improvement in efficiency and quality (increased satisfaction for UTIMCO and partners)</p>	<ul style="list-style-type: none"> <li>Increased exposure to optimal market areas and managers</li> <li>Increased importance of UTIMCO to best managers</li> <li>Lower blended fees</li> </ul>	<p>Improved tactical allocation alpha</p>	<p>Increased employee satisfaction and retention</p>

**Agenda Item**  
UTIMCO Board of Directors Meeting  
February 21, 2019

**Agenda Item:** Hedge Funds Presentation

**Developed By:** Hedge Funds Team

**Presented By:** Ruebsahm, Powers, Caruso

**Type of Item:** Information Item

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

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



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

---

## Hedge Funds Review

Ryan Ruebsahm  
Managing Director

Courtney Powers  
Senior Director

Tony Caruso  
Director

February 2019



# I. UTIMCO Strategies Review

---

# Hedge Funds - Team



- Team with an average of 12 years of investment experience and 6 years at UTIMCO:



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



**Courtney Powers**  
**Senior Director**  
MBA, UT Austin



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

**Experience Summary:**  
2 CFA Charter Holders  
4 Master Degrees



**Drury Morris, CFA**  
**Director**  
BA, Rhodes College



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



**Tony Caruso, CFA**  
**Director**  
MBA, University of Chicago



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



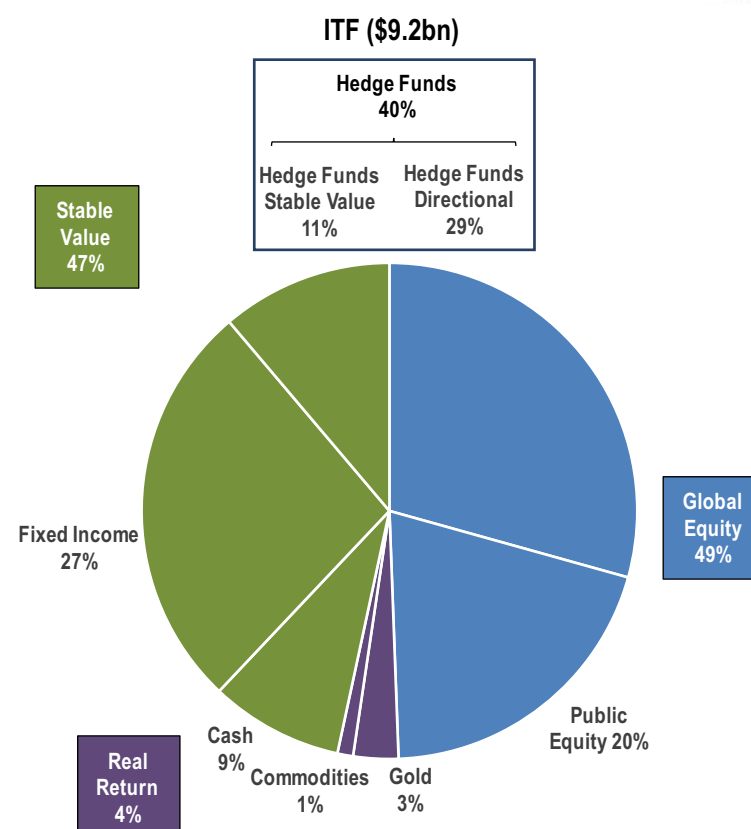
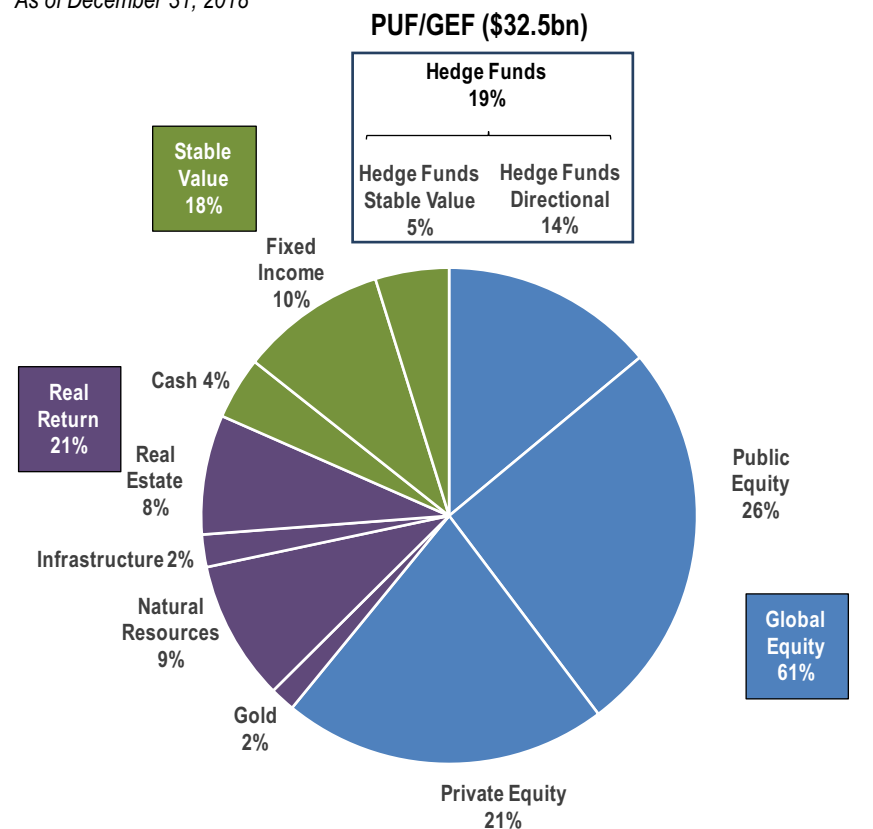
**Jena Michels**  
**Associate Director**  
MS, University of Arizona





# Hedge Funds: \$10bn; 19% PUF/GEF; 40% ITF

As of December 31, 2018



Directional HF					
Asset Class	NAV	Return	Alpha	St. Dev.	Sharpe
<b>HF Directional</b>	<b>\$7,238</b>				
1 Quarter		-5.2%	0.4%	4.8%	-
1 Year		-1.6%	2.8%	4.9%	-0.7
2.5 Years <sup>1</sup>		4.8%	2.3%	3.9%	1.1
5 Years		2.9%	1.6%	4.7%	0.5

Stable Value HF					
Asset Class	NAV	Return	Alpha	St. Dev.	Sharpe
<b>HF Stable Value</b>	<b>\$2,592</b>				
1 Quarter		2.3%	7.1%	6.1%	-
1 Year		5.3%	8.2%	4.4%	0.8
2.5 Years <sup>1</sup>		6.4%	3.3%	4.0%	1.3

Charts reflect the Pure View Exposure framework and exclude strategies with less than 1% weightings.

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.

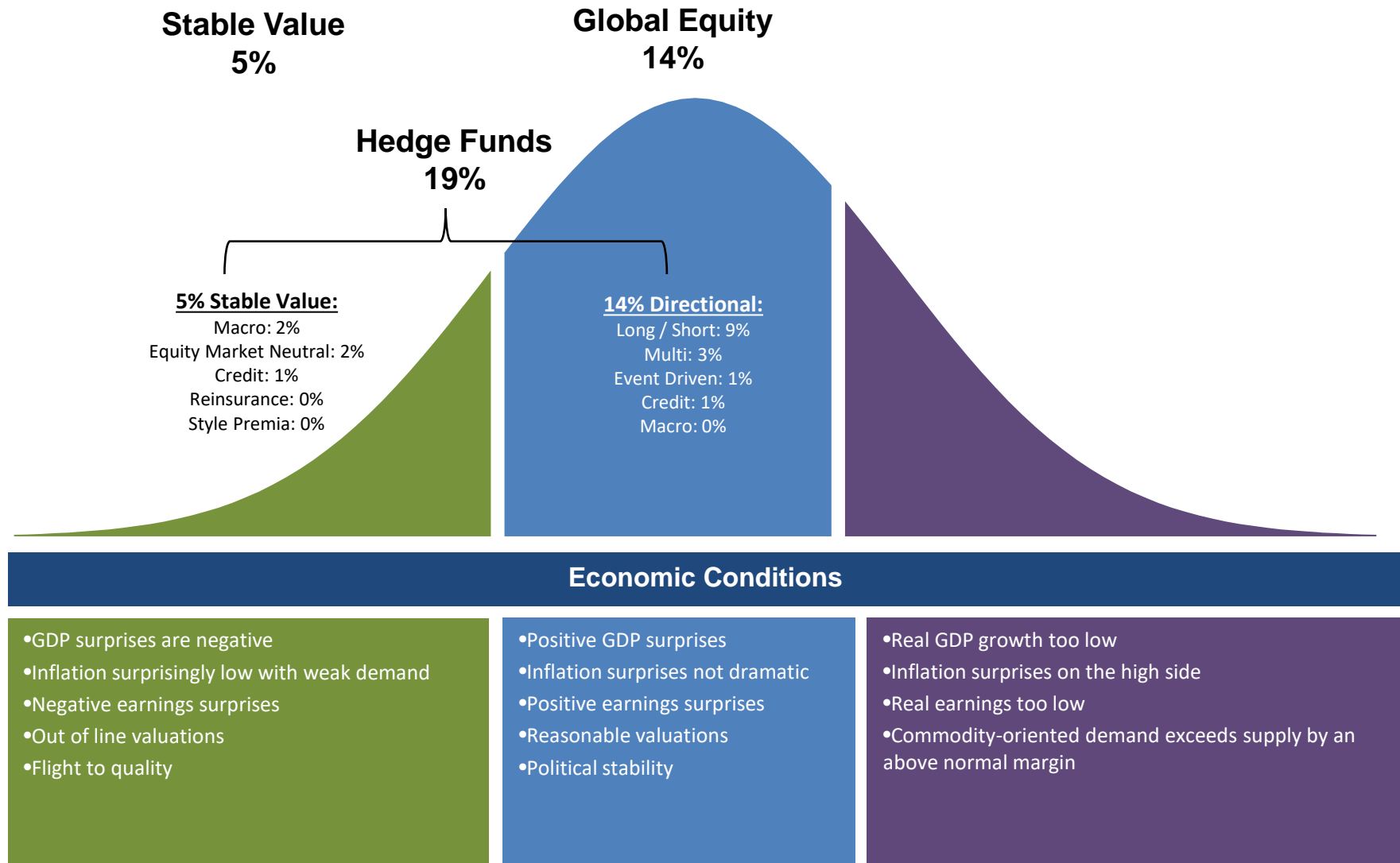
Alpha is reflective of excess return over each strategy's respective policy benchmark.

<sup>1</sup> All periods prior to May 2016 predominantly reflect performance of the largest relationship rather than a diversified portfolio.

# Two New Portfolios With Clear Objectives



As of December 31, 2018



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

# New Objectives



Directional Portfolio Objectives	Status	Details – 5 Years
<b>Hedge Fund Types</b> Focus on equity and market sensitive hedge funds	✓ -	<ul style="list-style-type: none"> <li>Return: 2.9%<sup>1</sup></li> <li>Correlation to MSCI AC World: 0.8</li> <li>Sharpe Ratio: 0.5</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: 10.9%</li> </ul>
<b>Market Regime Performance</b> Expected to outperform equities when markets are down, but will underperform strong markets	✓	<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: 1.9%</li> <li>5 year ann. return of 2.9% vs. MSCI AC World 4.3%</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>2.9% return vs. Treasuries 2.3%</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 1.6% over last 5 years</li> <li>Tracking Error: 2.0%</li> </ul>

Stable Value Portfolio Objectives	Status	Details – 2.5 Years
<b>Hedge Fund Types</b> Focus on absolute return hedge funds	✓	<ul style="list-style-type: none"> <li>Return: 6.4%<sup>1</sup></li> <li>Stable Value HF Volatility: 4.0%</li> <li>Sharpe Ratio: 1.3</li> </ul>
<b>Market Sensitivity and Risk</b> Core strategies have low to negative market sensitivity	✓	<ul style="list-style-type: none"> <li>Correlation to MSCI AC World: -0.1</li> <li>Beta to MSCI AC World: 0.0</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>86% hit rate vs. equity in equity down months, outperforming by an average of 4.1%</li> <li>Positive returns in 43% of 7 down equity months</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>6.4% return vs. Treasuries 0.4%</li> <li>4.0% volatility vs. Treasuries 3.5%</li> <li>Current 10-year Treasury Yield to Maturity: 2.7%</li> </ul>
<b>Performance versus Benchmark</b> HFRI Fund of Funds Conservative benchmark	✓	<ul style="list-style-type: none"> <li>Ann. Outperformance of 3.3% over last 2.5 years</li> <li>Tracking Error: 4.5%</li> </ul>

(1) Dates: Directional HF returns and details reflective of trailing five year period (January 2014 through December 2018). Stable Value HF returns and details reflective of trailing 2.5 year period (May 2016 through December 2018). All periods prior to May 2016 predominantly reflect performance of the largest relationship rather than a diversified portfolio.

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



# Performance by Strategy

As of December 31, 2018

Directional HF					
Asset Class	NAV	Return	Alpha	St. Dev.	Sharpe
<b>HF Directional</b>	<b>\$7,238</b>				
1 Quarter		-5.2%	0.4%	4.8%	-
1 Year		-1.6%	2.8%	4.9%	-0.7
5 Years		2.9%	1.6%	4.7%	0.5

Stable Value HF					
Asset Class	NAV	Return	Alpha	St. Dev.	Sharpe
<b>HF Stable Value</b>	<b>\$2,592</b>				
1 Quarter		2.3%	7.1%	6.1%	-
1 Year		5.3%	8.2%	4.4%	0.8
2.5 Years <sup>1</sup>		6.4%	3.3%	4.0%	1.3

Directional HF Strategies					
Asset Class	NAV	Return	Alpha	St. Dev.	Sharpe
<b>Long/Short Equity</b>	<b>\$4,581</b>				
1 Quarter		-5.6%	2.7%	7.2%	-
1 Year		-2.3%	4.6%	6.0%	-0.7
5 Years		3.5%	1.2%	5.9%	0.5
<b>Multi-Strategy</b>	<b>\$1,417</b>				
1 Quarter		-4.1%	0.9%	3.1%	-
1 Year		1.4%	5.8%	4.9%	-0.1
5 Years		1.6%	0.4%	4.2%	0.2
<b>Event-Driven</b>	<b>\$454</b>				
1 Quarter		-10.5%	-5.5%	4.9%	-
1 Year		-11.3%	-8.9%	7.0%	-1.9
5 Years		-1.0%	-3.5%	7.5%	-0.2
<b>Credit</b>	<b>\$748</b>				
1 Quarter		-2.4%	3.2%	3.3%	-
1 Year		3.4%	5.0%	3.4%	0.4
5 Years		5.2%	3.4%	4.0%	1.1
<b>Macro</b>	<b>\$37</b>				
1 Quarter		8.0%	9.9%	11.3%	-
1 Year		14.0%	17.6%	9.9%	1.2
5 Years		-	-	-	-

Stable Value HF Strategies					
Asset Class	NAV	Return	Alpha	St. Dev.	Sharpe
<b>Macro</b>	<b>\$1,167</b>				
1 Quarter		6.1%	7.9%	10.5%	-
1 Year		7.9%	11.5%	7.2%	0.8
2.5 Years <sup>1</sup>		7.6%	8.3%	7.2%	0.9
<b>Equity Market Neutral</b>	<b>\$869</b>				
1 Quarter		-0.5%	1.4%	5.5%	-
1 Year		5.2%	6.2%	3.9%	0.8
2.5 Years <sup>1</sup>		3.5%	1.1%	3.7%	0.6
<b>Credit</b>	<b>\$265</b>				
1 Quarter		1.8%	7.4%	1.1%	-
1 Year		12.2%	13.8%	2.1%	5.0
2.5 Years <sup>1</sup>		16.7%	9.9%	3.0%	5.2
<b>Reinsurance</b>	<b>\$150</b>				
<b>Style Premia</b>	<b>\$140</b>				

Alpha is reflective of excess return over each strategy's respective policy/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.

<sup>1</sup>All periods prior to May 2016 predominantly reflect performance of the largest relationship rather than a diversified portfolio.

# Flows by Strategy

As of December 31, 2018



Directional HF					
Asset Class	CY 2018 Cash Flows			CY 2019 Capital Plan	
	12/31/17 NAV	Net Cash Flows	12/31/18 NAV	Net Cash Flows	Pro Forma 1/31/20 NAV
HF Directional	\$8,336	(\$972)	\$7,238	(\$1,205)	\$6,033
Long/Short Equity	\$5,045	(\$361)	\$4,581	(\$1,150)	\$3,432
Multi-Strategy	\$1,502	(\$77)	\$1,417	(\$28)	\$1,389
Credit	\$673	\$55	\$748	\$76	\$824
Event-Driven	\$735	(\$220)	\$454	(\$240)	\$214
Macro	\$382	(\$368)	\$37	\$137	\$174

Stable Value HF					
Asset Class	CY 2018 Cash Flows			CY 2019 Capital Plan	
	12/31/17 NAV	Net Cash Flows	12/31/18 NAV	Net Cash Flows	Pro Forma 1/31/20 NAV
HF Stable Value	\$1,973	\$483	\$2,592	\$1,542	\$4,134
Macro	\$1,027	\$56	\$1,167	(\$23)	\$1,144
Equity Market Neutral	\$827	-	\$869	\$30	\$899
Credit	\$118	\$127	\$265	\$167	\$432
Reinsurance	-	\$150	\$150	\$280	\$430
Relative Value Multi-Strat	-	-	-	\$1,088	\$1,088
Style Premia	-	\$150	\$140	\$0	\$140



## II. Industry Background

---



# Hedge Fund Landscape

- From 2004-2018, large cap equity returned 7.8% and outperformed hedge funds, which returned 4.5% (2.7% - 5.5% range) and global bonds of 3.3%
- Over the same period, our Hedge Fund portfolio returned 6.3% with a volatility of 5.4%

															2004 - 2018	
2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Ann.	Vol.
Event Driven 15.6%	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%	Relative Value -0.2%	Large Cap 7.8%	Large Cap 14.5%
Large Cap 10.9%	HFRI FW Comp. 9.3%	Event Driven 15.3%	Equity L/S 10.5%	Global Bond 4.8%	Relative Value 25.8%	Event Driven 11.9%	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%	Market Neutral -1.0%	Event Driven 5.5%	Equity L/S 9.3%
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%	Global Bond -1.2%	Relative Value 5.4%	Event Driven 7.9%
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%	Event Driven -2.3%	HFRI FW Comp. 4.5%	HFRI FW Comp. 6.9%
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%	Macro -3.6%	Equity L/S 4.3%	Global Bond 5.9%
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 5.1%	Large Cap -4.4%	Global Bond 3.3%	Relative Value 5.9%
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%	HFRI FW Comp. -4.5%	Macro 3.0%	Macro 4.5%
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 -3.6%	Macro 1.0%	Macro 2.2%	Equity L/S -6.9%	Market Neutral 2.7%	Market Neutral 3.2%



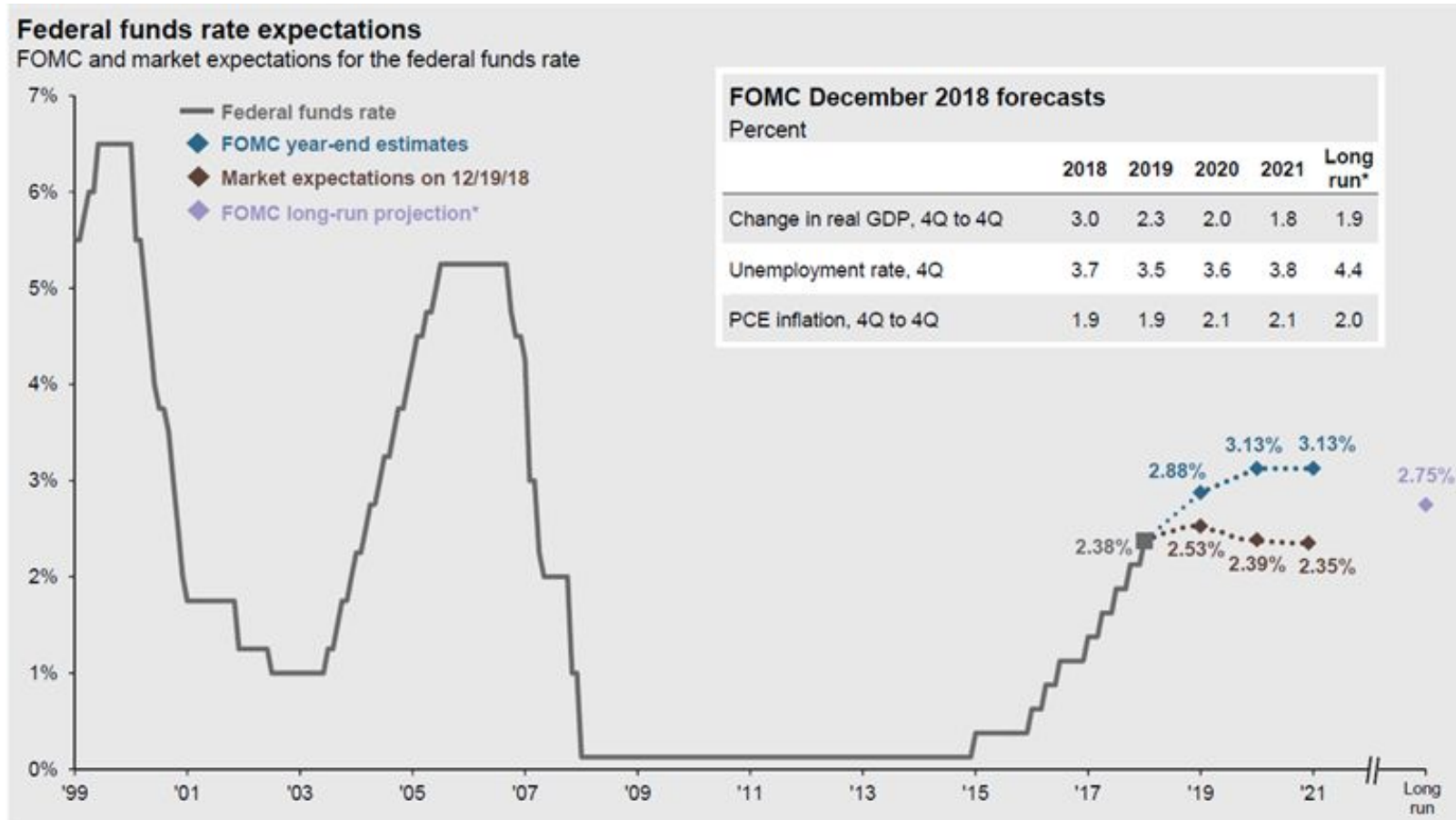
Source: JP Morgan.  
Guide to the Markets – U.S. Data as of December 31, 2018



# Importance of Fed Funds Rate



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



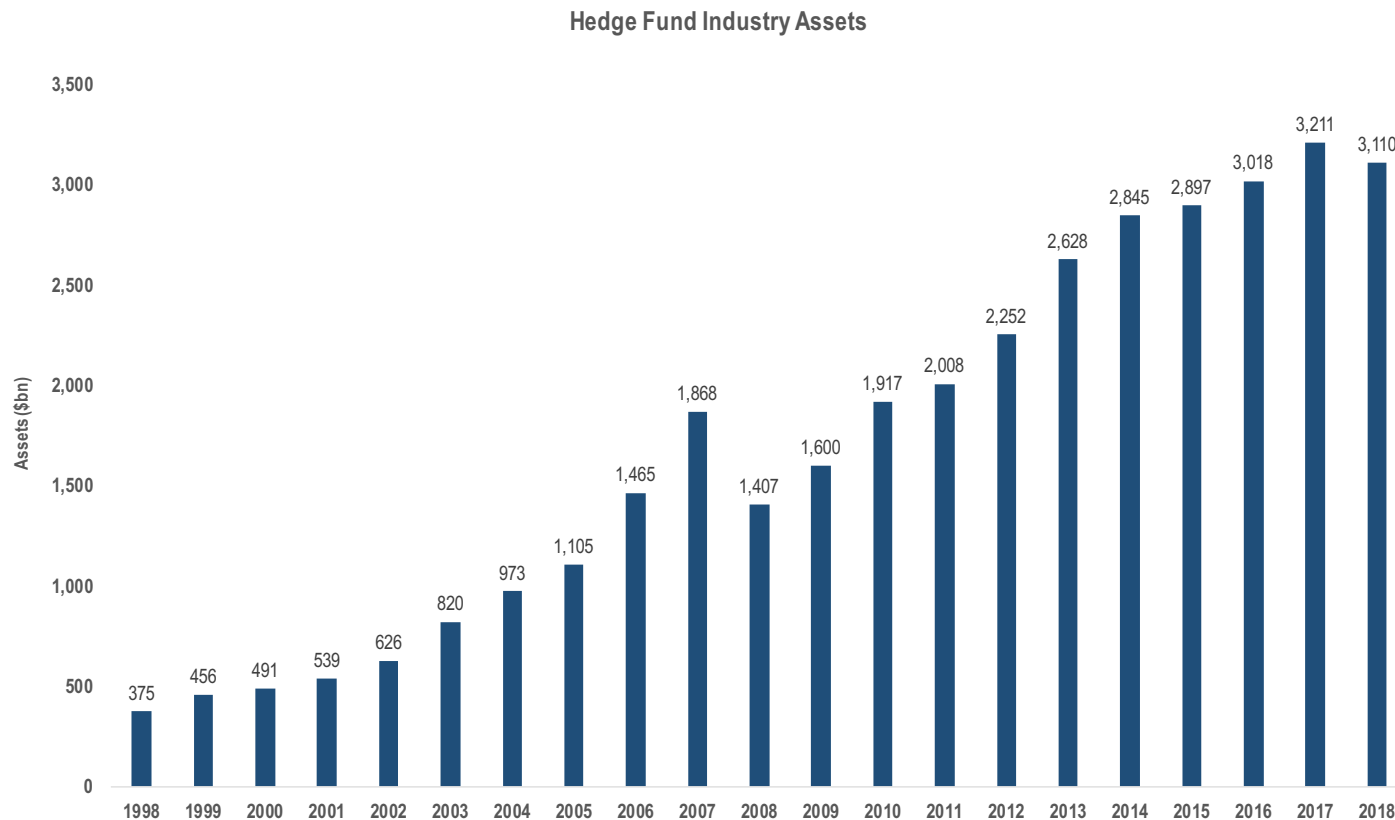
Source: JP Morgan  
Guide to the Markets – U.S. Data as of December 31, 2018



# Industry Growth



- Industry size of \$3.1 trillion compares to \$10.4 trillion in actively-managed U.S. mutual and exchange-traded funds and \$26.7 trillion Wilshire 5000 total market capitalization
- 2018 was first year since 2008 where industry experienced annual decline in AUM (\$101bn)
- Despite underperformance, the industry has doubled since the Global Financial Crisis

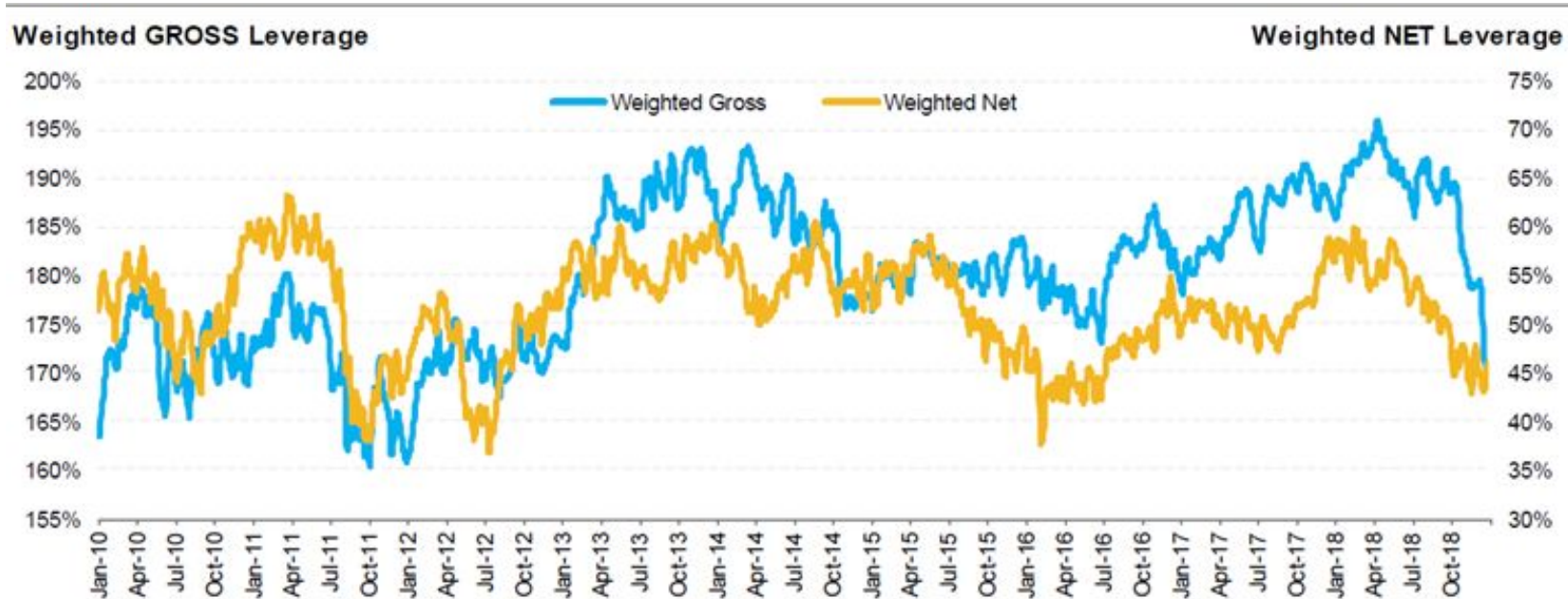


Sources: HFR, Morningstar, Wilshire Associates.

# 2018 Decline in Industry Leverage



US Equity L/S Weighted Leverage (based on 5-day averages)



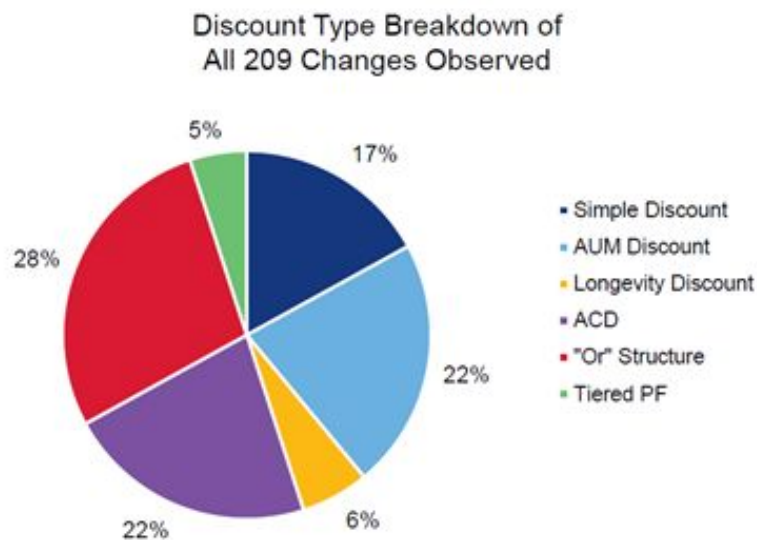
Source: Morgan Stanley – Prime Brokerage Strategic Content Group. “Hedge Fund Update”. Data as of December 31, 2018.  
 Note: Weighted version uses weights of: Tercile 1 = 70%, Tercile 2 = 20%, Tercile 3 = 10%.

# Industry Fee Pressure



- Albourne has observed 209 changes in hedge fund fee structures over the past two years

- Level of fees
  - Simple discounts
  - AUM-based discounts
  - Aggregate Consultant Discounts
  - Longevity discounts
- Shape of fees
  - Tiered performance fees
  - "Or" structures
  - Hurdles



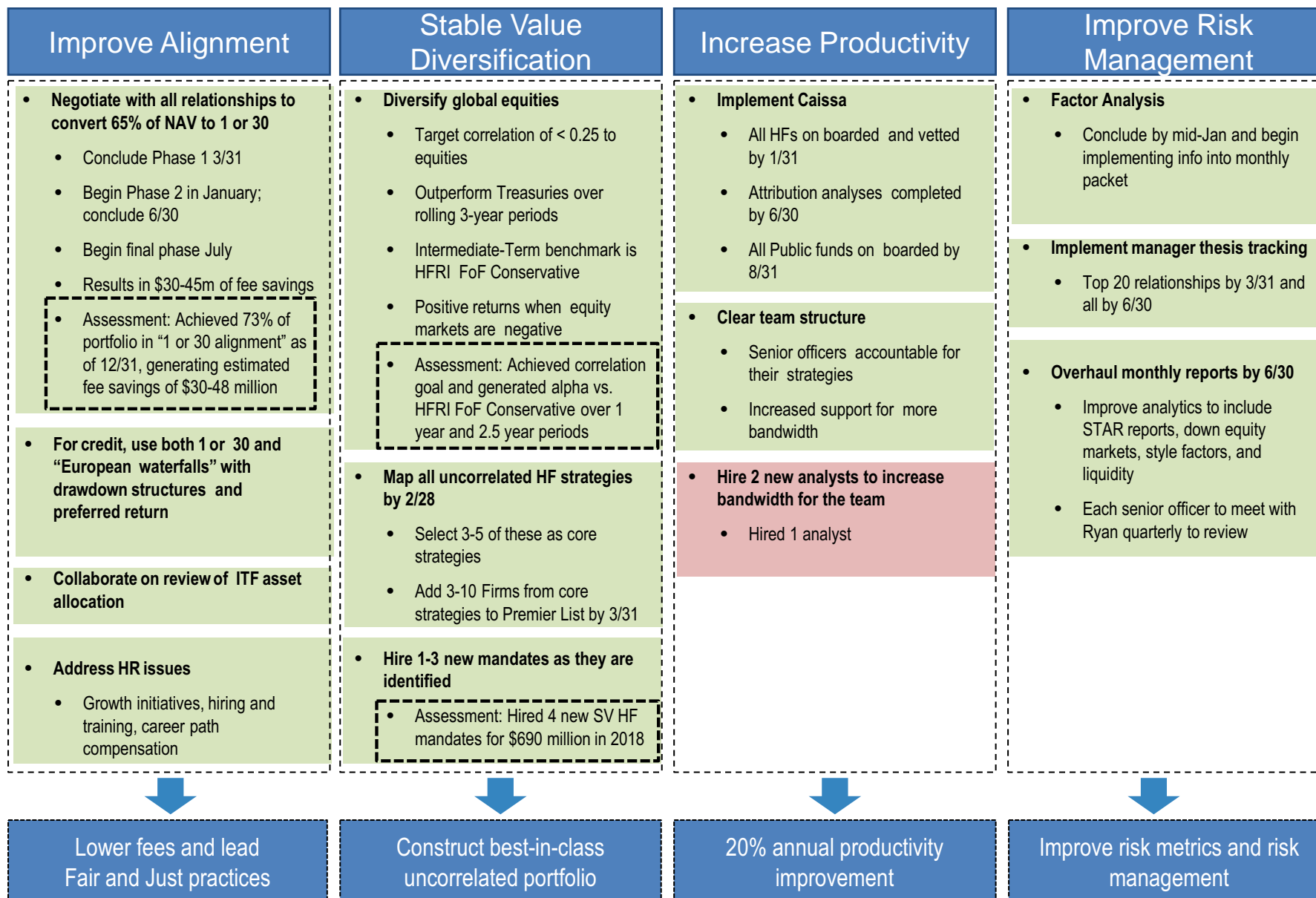
Source: Albourne  
 Fee trends are reflective of two-year period ending July 31, 2018.



## III. New Initiatives

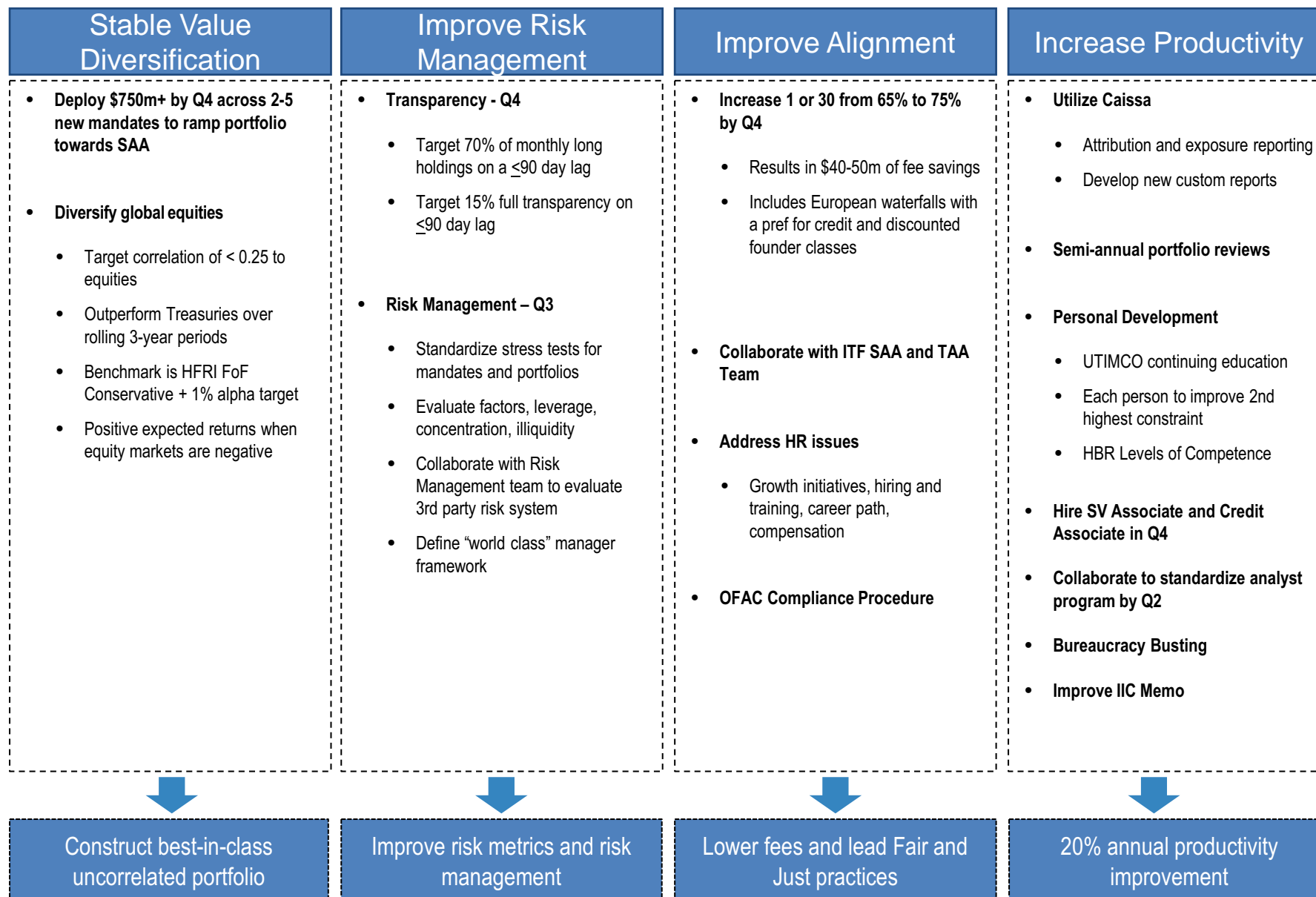
---

# Hedge Funds – 2018 Total Alignment



Completed 2018 Initiatives
  Incomplete 2018 Initiatives

# Hedge Funds – 2019 Total Alignment



# Fee Alignment Update

---



- Achieved 73% of portfolio in alignment, generating estimated fee savings of \$30-48 million
  
- \$7.5 billion across 24 partners

# Summary

---



- The Hedge Fund portfolio has been split into two strategies, Directional and Stable Value, to align with the economic regime investment framework implemented last year
- The Directional HF portfolio has generated a 5-year annualized return of 2.9%, which beat bonds by 60bps but underperformed global equities by 1.4%. Annualized alpha relative to the HFRI Fund of Funds Composite policy benchmark was 1.6%
- The Stable Value HF portfolio recorded a 6.4% annualized return over the past 2.5 years and generated 3.3% alpha against the HFRI Fund of Funds Conservative policy benchmark
- 2018 capital activity saw -\$1.0bn from Directional HF and \$485m to Stable Value HF
- 2019 capital plan is to deploy \$1.5bn across 7 Stable Value HF mandates, and reduce Directional HF by -\$1.2bn
- Risk is being monitored and managed well
- Completing action plan
- Significant improvement in fee alignment with partners
- Forward expectations of returns from beta are reduced, raising the importance of alpha going forward



**Agenda Item**  
UTIMCO Board of Directors Meeting  
February 21, 2019

**Agenda Item:** Report from Risk Committee: Discussion and Appropriate Action Related to Proposed Amendments to the Charter of the Risk Committee

**Developed By:** Gonzalez, Moeller

**Presented By:** Bass

**Type of Item:** Information item; Action required by UTIMCO Board related to Charter of the Risk Committee

**Description:** The Risk Committee (“Committee”) met on November 29, 2018 and will meet on February 19, 2019. The Committee’s agenda for its November 29, 2018 meeting included (1) discussion and appropriate action related to the approval of minutes of its July 19, 2018 meeting and joint meeting of the Policy and Risk Committees; (2) discussion and appropriate action related to proposed amendments to the Charter of the Committee; (3) market and portfolio risk update; (4) review and discussion of compliance reporting; and (5) discussion of the Office of Foreign Asset Control (OFAC) compliance procedure. Except for the proposed amendments to the Charter of the Risk Committee, action items were approved and other reports discussed.

The Committee reviewed the quarterly compliance reporting and heard updates on the market and portfolio risk.

The Team adopted an OFAC Compliance Procedure on October 10, 2018, to formalize its program with respect to compliance with U.S. Primary and Secondary Sanctions. Rich Hall provided a brief overview and discussion of the procedure, including operational processes, which ensure compliance with the procedure.

The Committee’s agenda for its February 19, 2019 meeting includes (1) discussion and appropriate action related to the approval of minutes of its November 29, 2018 meeting; (2) discussion and appropriate action related to proposed amendments to the Charter of the Risk Committee; (3) review and discussion of compliance reporting; and (4) market and portfolio risk update.

The purpose of the Charter of the Committee (the “Charter”) is to outline the duties and responsibilities of the Committee. In accordance with the Charter of the Committee, the Committee will periodically review and reassess the adequacy of the Charter and recommend any proposed changes to the UTIMCO Board for approval. The current Charter was approved by the UTIMCO Board on February 20, 2014.

**Discussion** The Committee is expected to review and approve the proposed changes to its Charter. The following changes to the Charter were proposed by the Team:

**Agenda Item**  
UTIMCO Board of Directors Meeting  
February 21, 2019

- Page 1; *Purpose*, removed this language as the Mandate Categorization Procedure was eliminated effective July 26, 2018
- Page 1; *Purpose*, added “the monitoring of economic and trade sanctions compliance” as an oversight and monitoring responsibility of the Committee
- Page 3; *Liquidity*, changed language in this section to be consistent with the Liquidity Policy
- Page 4; *Categorization of Investment Mandates*, removed this language as the Mandate Categorization Procedure was eliminated effective July 26, 2018
- Page 4; *Monitoring of Manager Mandates*, modified this language consistent with the changes to the terms and terminology in the Delegation of Authority Policy
- Page 4; *Monitoring of Economic and Trade Sanctions Compliance*, added language to require Committee to monitor compliance with economic and trade sanctions
- Other minor editorial changes

The Committee will take appropriate action regarding the minutes of its November 29, 2018 meeting, review the quarterly compliance reporting and hear an update on the market and portfolio risk.

**Recommendation:** The Committee will recommend that the UTIMCO Board take appropriate action related to the proposed amendments to the Charter.

**Reference:** Charter of the Risk Committee

**RESOLUTION RELATED TO THE  
CHARTER OF THE RISK COMMITTEE**

RESOLVED, that the amendments to the Charter of the Risk Committee, as recommended be, and are hereby approved, in the form submitted to the Corporation's Board of Directors.

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

## Charter of the Risk Committee

### Background

The Board of Directors (the "Board") of The University of Texas/Texas A&M Investment Management Company (the "Corporation") established a Liquidity Committee on November 20, 2003. The name of the Liquidity Committee was changed to the Risk Committee (the "Committee") on May 19, 2005 to reflect the expanded responsibilities of the Committee. This Charter adopted by the Board on ~~February 20, 2014~~February 21, 2019, supersedes the Charter adopted by the Board on ~~April 14, 2011~~February 20, 2014. ~~Editorial amendment to change name of corporation effective May 10, 2017.~~

### Purpose

The primary purpose of the Committee is to provide oversight and monitor

- 1) investment risk management and compliance;
- 2) the integrity of risk management procedures and controls;
- 3) the integrity of risk models and modeling processes;
- 4) liquidity of the Permanent University Fund (PUF), the General Endowment Fund (GEF), and the Intermediate Term Fund (ITF) (individually referred to as the "Fund" and collectively, the "Funds");
- 5) compliance with the Derivative Investment Policy;
- ~~6) the categorization of investment mandates; and~~
- ~~7) the monitoring of manager mandates; and~~
- 7) the monitoring of economic and trade sanctions compliance.

### Composition

The Committee shall be composed of at least three members of the Board appointed from time to time by a majority vote of the Board at a meeting at which a quorum is present. Individuals who are not members of the Board may be appointed to the Committee; provided however, a majority of the Committee members shall be members of the Board of Directors. A member may be removed with or without cause at any time by a majority vote of the Board.

### Meetings; Quorum; Etc.

The Corporation's Bylaws state that any committee created by the Board or the Bylaws, including the Committee, shall (i) have a chairman designated by the Board, (ii) fix its own rules or procedures, (iii) meet at such times and at such place or places as may be provided by such rules or by resolution of the Committee or resolution of the Board, and (iv) keep regular minutes of its meetings and cause such minutes to be recorded in books kept for that purpose in the principal office of the Corporation, and report the same to the Board at

its next regular meeting. At every meeting of the Committee, the presence of a majority of all the members thereof shall constitute a quorum, and the affirmative vote of a majority of the members present shall be necessary for the adoption by it of any action, unless otherwise expressly provided in the Committee's rules or procedures or the Bylaws of the Corporation or by the Board. The Board may designate one or more Directors as alternate members of the Committee, who may replace any absent or disqualified member of the Committee. In the absence or disqualification of a member of the Committee, the member or members present at any meeting of the Committee and not disqualified from voting, whether or not constituting a quorum, may unanimously appoint the designated alternate Director to act at the meeting in the place of the absent or disqualified member.

## Duties and Responsibilities

The Committee will provide assurances to the Audit and Ethics Committee on a periodic basis regarding the following items so the Audit and Ethics Committee may evaluate them as a part of the Audit and Ethics Committee's evaluation of the Corporation's overall enterprise risk management.

*Investment Risk Management and Compliance:* The Committee has the following duties and responsibilities related to the oversight and monitoring of investment and compliance risk:

- The Committee will monitor actual risk levels in the PUF, GEF, and ITF to assess whether current risk levels are within the bounds established by the Investment Policies adopted by the UT Board of Regents;
- The Committee will monitor trends and changes in actual risk levels in the PUF, GEF, and ITF and report any significant changes to the Board; and
- The Committee will monitor the compliance processes related to the Derivative Investment Policy, risk targets, asset class ~~and investment type~~ targets and ranges, and investment related restrictions in the Investment Policy statements.

*Integrity of risk management procedures and controls:* The Committee has the following duties and responsibilities related to the oversight and monitoring of the risk management procedures and controls:

- The Committee will understand and review how the information provided by the ~~Managing Director - Risk Manager~~ is reported to the Chief Compliance Officer; and
- The Committee will monitor the reports provided by the ~~Managing Director - Risk Manager~~ to the Chief Compliance Officer.

*Integrity of risk models and modeling processes:* The Committee has the following duties and responsibilities related to the oversight and monitoring of the risk models and modeling processes:

- The Committee will monitor the investment risk models, tools, and processes used by Corporation ~~staff employees~~; and
- The Committee will review and understand the data used in the risk models.

*Liquidity:* The Committee has the following duties and responsibilities related to the oversight and monitoring of liquidity:

- The Committee (or the Board), after consultation with The University of Texas System Office of Business Affairs, must review and approve any new investment that would cause the allocation for illiquid investments in the PUF, GEF, or ITF to move within the trigger zone exceed the permitted maximum specified in the Liquidity Policy for the respective Fund's total portfolio.
- The Committee (or the Board), after consultation with The University of Texas System Office of Business Affairs, must review and approve, before any such action or actions are taken, any proposed changes in allocations among existing investments that would cause the allocation for illiquid investments in the PUF, GEF, or ITF to move within the trigger zone exceed the permitted maximum specified in the Liquidity Policy for the respective Fund's total portfolio.
- The Committee (or the Board) must review and approve, before any such action or actions are taken, any proposed investment action or actions that would increase the actual investment position in illiquid investments in the PUF, GEF, or ITF by 10% or more of a respective Fund's total asset value.
- The Committee must review and approve, before any such action or actions are taken, any new commitments for the PUF or GEF, if the actual amount of such Fund's unfunded commitments, as defined in the Liquidity Policy, exceeds or, as a result of the commitment, would exceed the Maximum Permitted Amount specified in the Liquidity Policy.
- In the event that market actions cause actual investment positions in illiquid investments to move into the trigger zone exceed the permitted maximum illiquidity levels specified in the Liquidity Policy for the PUF, GEF, or ITF, the Committee (or the Board) must review and approve the Chief Investment Officer's proposed remedy or strategy for complying with the required allocation range for liquid and illiquid investments eliminating the exception or deviating from the Liquidity Policy before any such actions are taken.
- The Committee (or the Board) must approve the use of swaps, derivatives, or other third party arrangements to alter the liquidity status of any investment classified as illiquid.

Committee review of new investments in the trigger zone above the permitted maximums will supplement, rather than replace, the procedures established by the Board for the approval of new investments.

*Compliance with the Derivative Investment Policy:* The Committee has the following duties and responsibilities related to compliance with the Derivative Investment Policy:

- The Committee will review the comprehensive report of all outstanding derivative investments, by type, entered into during the period being reported, for both internal managers and external managers operating under agency agreements.

~~Categorization of Investment Mandates: The Committee has the following duties and responsibilities related to the categorization of investment mandates:~~

- ~~• The Committee will review and approve or re-categorize new mandates as prepared by staff.~~
- ~~• The Committee will review and approve or re-categorize any recommended re-categorization of an existing mandate proposed by staff.~~

*Monitoring of Manager Mandates:* The Committee has the following duties and responsibilities related to the monitoring of internal and external investment mandates:

- The Committee will review manager mandates (excluding passive exposure), aggregated across ~~investment types~~ all Funds and Assets Classes, resulting in ~~three six~~ three percent (~~36~~%) or more exposure relative to the total Funds (excluding the ITF for Private ~~Investments Equity~~) on a quarterly basis;
- The Committee will review and approve ~~staff~~ the CEO's recommendation regarding an appropriate course of action for any manager mandate resulting in ~~five six~~ five percent (~~56~~%) or more exposure relative to the total Funds (excluding the ITF for ~~the~~ Private Investments Equity) or determine a different appropriate level of exposure.

*Monitoring of Economic and Trade Sanctions Compliance:* The Committee has the following duties and responsibilities related to the monitoring of economic and trade sanctions compliance:

- The Committee will monitor compliance with economic and trade sanctions; and
- The Committee will receive periodic reports from the Chief Compliance Officer regarding the Office of Foreign Assets Control (OFAC) Compliance Procedure.

## Other Duties

In addition to its duties and responsibilities outlined above, the Committee shall perform such additional special functions, duties or responsibilities related thereto as may from time to time be designated to it by the Board Chairman. In discharging its responsibilities, the Committee may obtain advice and assistance from Board consultants, U.T. System ~~staff~~ employees, and other individuals as it deems necessary.

The Committee will evaluate the Committee's performance on a periodic basis, periodically review the adequacy of this Charter and submit this Charter to the Board for its approval; and perform any other activities consistent with this Charter, the Corporation's Bylaws, and applicable laws as the Committee or the Board deems necessary or appropriate.

Approved by the Board of Directors on ~~February 20, 2014~~ February 21, 2019. ~~Editorial amendment to change name of corporation effective May 10, 2017.~~

**Agenda Item**  
UTIMCO Board of Directors Meeting  
February 21, 2018

**Agenda Item:** Report from Audit and Ethics Committee: Discussion and Appropriate Action Related to the Deloitte & Touche LLP Financial Statement Audit Results and Communications and the Audited Financial Statements of the Corporation and the Permanent University Fund, General Endowment Fund, Permanent Health Fund, Long Term Fund, Intermediate Term Fund, and the Statement of Investment Performance Statistics for the year ended August 31, 2018; and Discussion and Appropriate Action Related to Proposed Amendments to the Charter of the Audit and Ethics Committee

**Developed By:** Moeller, Hill, Gonzalez

**Presented By:** Handley

**Type of Item:** Action item; Action required by UTIMCO Board related to year end audits and the Charter of the Audit and Ethics Committee; Information item on other items

**Description:** The Audit and Ethics Committee (“Committee”) met on November 29, 2018 and on February 14, 2019. The Committee’s agenda on November 29, 2018 included the following: (1) discussion and appropriate action related to minutes of its July 19, 2018 meeting; (2) discussion and appropriate action related to Deloitte & Touche LLP’s Audit Results and Communications; (3) discussion and appropriate action related to the audit reports of the Permanent University Fund (“PUF”), The University of Texas General Endowment Fund (“GEF”), the Permanent Health Fund (“PHF”), The University of Texas System Long Term Fund (“LTF”), The University of Texas System Intermediate Term Fund (“ITF”) (collectively, the “Investment Funds”), and the Statement of Investment Performance Statistics for the year ended August 31, 2018; (4) an update on UTIMCO’s compliance, reporting and audit matters; (5) discussion and appropriate action related to amendments to the Charter of the Audit and Ethics Committee; and (6) discussion and appropriate action related to the Corporate Counsel and Chief Compliance Officer’s Performance Award for the Performance Period ended August 31, 2018. The Committee convened in Executive Session for the purpose of deliberating individual personnel evaluation matters and individual compensation matters related to the Corporate Counsel and Chief Compliance Officer.

The Committee’s February 14, 2019 agenda included the following: (1) discussion and appropriate action related to minutes of its November 29, 2018 meeting; (2) discussion and appropriate action related to Financial Statement Audit Results and Communications and audited financial statements for the Corporation; (3) report from UT System Audit Office; (4) an update on UTIMCO’s compliance, reporting and audit matters; and (5) presentation of unaudited financial statements as of November 30, 2018 for the PUF, GEF, PHF, LTF, ITF and UTIMCO.



**Agenda Item**  
UTIMCO Board of Directors Meeting  
February 21, 2018

**Discussion:**

(1) The financial statements for the Investment Funds and the Corporation were audited by Deloitte & Touche LLP. Robert Cowley, engagement partner, presented to the Committee at its November 29<sup>th</sup> meeting Deloitte & Touche LLP's Financial Statement Audit Results and Communications (the "Letter") for the Investment Funds. Included in these Board materials are the Letter and Management's Representation Letter to Deloitte confirming in writing Management's responsibilities and representations with regard to these audits. Because of the voluminous nature of the audited financial statements of the Investment Funds, they are not included in the Board book. However, the complete audited financial statements are available on UTIMCO's website, [www.utimco.org](http://www.utimco.org). At its February 14<sup>th</sup> meeting, Mr. Cowley presented to the Committee, Deloitte & Touche LLP's Audit Results and Communications and answered questions related to the Corporation's financial statements. A copy of the Audit Results and Communications and the audited financial statements of the Corporation are included in these materials. Deloitte & Touche LLP issued unqualified opinions on the August 31, 2018 and 2017 financial statements for each of the Investment Funds and the Corporation.

(2) The purpose of the Charter of the Audit Committee ("Charter") is to outline the duties and responsibilities of the Committee. In accordance with the Charter, the Committee will periodically review and reassess the adequacy of the Charter and recommend any proposed changes to the UTIMCO Board for approval. The current Charter was approved by the UTIMCO Board on February 20, 2014. The Committee reviewed and approved the proposed changes to the Charter at the November 29, 2018. The following changes to the Charter were proposed by the Team:

- Page 1, *Purpose*, added language to assign monitoring responsibility to the Committee for the Corporation's fraud prevention and detection system
- Page 7; *Monitor Ethics Program*, added language related to the responsibility to periodically review the process for communicating to employees and for monitoring compliance with the Code of Ethics
- Page 8; *Oversee the Corporation's Enterprise Risk Management*, deleted reference to the categorization of investment mandates as the Mandate Categorization Procedure was eliminated effective July 26, 2018
- Page 8; *Oversee Fraud Prevention and Detection*, added language to assign responsibility to the Committee for the effectiveness of the Corporation's system for the prevention and detection of fraud
- Page 9; *Review the Overall Duties and Responsibilities of the Chief Compliance Officer*, changed language regarding reporting line for the Chief Compliance Officer (CCO) from the CEO and Chief Investment Officer to the Senior Managing Director and Chief Operating Officer
- Page 9; *Review the Overall Duties and Responsibilities of the Chief Compliance Officer*, added language consistent with the UTIMCO Compensation Program regarding determination of the CCO's individual performance goals and achievement of those goals

**Agenda Item**  
UTIMCO Board of Directors Meeting  
February 21, 2018

- Other minor editorial changes

(3) J. Michael Peppers, Chief Audit Executive and Eric Polonski, Director of Audits of the UT System Audit Office reviewed the Travel and Business Entertainment Expenses Audit Report FY 2018 at the February 14, 2019 meeting.

(4) At the November 29, 2018 meeting, the Committee took action related to the performance award for the performance period ending August 31, 2018, for the Corporate Counsel and Chief Compliance Officer. The Charter and the UTIMCO Compensation Program require that the Committee and CEO make a joint recommendation to the Compensation Committee related to the performance award for the Corporate Counsel and Chief Compliance Officer.

(5) The Delegation of Authority requires that new contracts, leases, and other arrangements of \$250,000 or more be reported to the UTIMCO Board at its next scheduled meeting, and, annually, all existing contracts, leases, and other arrangements of \$250,000 or more must be reported to the UTIMCO Board. The report is included in this section. Ms. Gonzalez provided an update of the Contract Report at both meetings.

(6) Routine activities of the Committee at both meetings included reviewing the unaudited financial statements for the Investment Funds and the Corporation and the compliance reports.

**Recommendation:** The Committee will recommend that the UTIMCO Board (1) approve the Deloitte & Touche LLP Financial Statement Audit Results and Communications and the audited financial statements of the Corporation and the PUF, GEF, PHF, LTF, ITF, and the Statement of Investment Performance Statistics for the year ended August 31, 2018; and (2) approve the proposed amendments to the Charter.

**Reference:** Deloitte & Touche LLP's Financial Statement Audit Results and Communications for the Investment Funds  
Deloitte & Touche LLP's Financial Statement Audit Results and Communications for the Corporation  
Audited Financial Statements and Audit Report for the Corporation  
Charter of the Audit and Ethics Committee  
Contract Report  
Institutional Compliance Program Quarterly Report and FY19 Updated Action Plan

## **RESOLUTIONS RELATED TO AUDITS FOR FISCAL YEAR 2018**

RESOLVED, that Deloitte & Touche LLP's Financial Statement Audit Results and Communications on the Corporation and the Investment Funds Under Fiduciary Responsibility of The University of Texas System Board of Regents for the year ended August 31, 2018, be, and are hereby approved in the form as presented to the Board; and

FURTHER RESOLVED, that the separate annual financial statements and audit reports for the Corporation and the Permanent University Fund, the Permanent Health Fund, The University of Texas System Long Term Fund, The University of Texas System General Endowment Fund, and The University of Texas System Intermediate Term Fund each for the fiscal years ended August 31, 2018, and August 31, 2017, and the Statement of Investment Performance Statistics for the year ended August 31, 2018, be, and are hereby approved in the form as presented to the Board.

**RESOLUTION RELATED TO THE  
CHARTER OF THE AUDIT AND ETHICS COMMITTEE**

RESOLVED, that the amendments to the Charter of the Audit and Ethics Committee, as recommended be, and are hereby approved, in the form submitted to the Corporation's Board of Directors.

**INVESTMENT FUNDS  
AUDIT REPORT**



**Deloitte & Touche LLP**  
500 West 2nd Street  
Suite 1600  
Austin, TX 78701  
USA  
Tel: +1 512 691 2300  
Fax: +1 512 708 1035  
www.deloitte.com

October 29, 2018

Mr. Britt Harris  
President, CEO and Chief Investment Officer  
The University of Texas/Texas A&M Investment Management Company

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

The Audit and Ethics Committee of the Board of Directors of  
The University of Texas/Texas A&M Investment Management Company

210 West 7<sup>th</sup> Street, Suite 1700  
Austin, TX 78701

Dear Mr. Harris, Members of the Audit, Compliance and Risk Management Committee of the Board of Regents of The University of Texas System as well as Members of the Audit and Ethics Committee of the Board of Directors of The University of Texas/Texas A&M Investment Management Company (the "Board"):

We have performed audits of the financial statements of the Permanent University Fund, The University of Texas System General Endowment Fund, the Permanent Health Fund, The University of Texas System Long Term Fund, and The University of Texas System Intermediate Term Fund (collectively, the "Funds") as of and for the year ended August 31, 2018 (the "financial statements"), in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our reports thereon dated October 29, 2018.

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

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

Yours truly,

## **Our Responsibility under Generally Accepted Auditing Standards**

Our responsibility under generally accepted auditing standards has been described in the contract dated June 30, 2016 (Exhibit-A, Section-C) and amended May 25, 2018. As described in Exhibit-A, Section-C, and in line with Exhibit-B, Section-B within the amendment, the objective of a financial statement audit conducted in accordance with generally accepted auditing standards is to express an opinion on the fairness of the presentation of the Funds' financial statements for the year ended August 31, 2018, in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects. Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Board are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audits of the financial statements do not relieve management or the Board of their responsibilities.

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

## **Significant Accounting Policies**

The Funds' significant accounting policies are set forth in the notes to the Funds' 2018 financial statements. We have evaluated the significant qualitative aspects of the Funds' accounting practices, including accounting policies, accounting estimates and financial statement disclosures and concluded that the policies are appropriate, adequately disclosed, and consistently applied by management.

## **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the Funds' 2018 financial statements include valuation of certain investments which are specifically the Funds' investments in hedge funds, private investments, and private placements whose fair values have been estimated by management using the practical expedient.

Management's estimates are based on financial information from the underlying funds provided at various interim dates during the year, other information from the underlying funds, as well as information from other relevant sources. This valuation process is reasonable based on the requirements of generally accepted accounting principles when applying the practical expedient for investments in entities that report a net asset value, or its equivalent. We understand that management has provided you with details regarding the process used in formulating these estimates.

Although management believes the accounting estimates reflected in the Funds' 2018 financial statements are reasonable, there can be no assurances that the Funds could ultimately realize these values.

### Uncorrected Misstatements

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

### Material Corrected Misstatements

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

### Other Information in the Annual Report to Shareholders

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

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

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

### Disagreements with Management

We have not had any disagreements with management related to matters that are material to the Funds' 2018.

### Our Views about Significant Matters That Were the Subject of Consultation with Other Accountants

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2018.



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

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

### Other Significant Findings or Issues Arising From the Audits Discussed, or Subject of Correspondence, with Management

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

### Significant Difficulties Encountered in Performing the Audits

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

### Management's Representations

We have made specific inquiries of the Funds' management about the representations embodied in the financial statements. In addition, we have requested that management provide to us the written representations the Funds are required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Appendix A, a copy of the representation letter we obtained from management.

### Emphasis-of-Matter Paragraphs

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

1. As discussed in Note 1, the financial statements of the Funds are intended only to present the fiduciary net position of the Funds as of August 31, 2018 and 2017, and the changes in its fiduciary net position for the years then ended in conformity with accounting principles generally accepted in the United States and do not purport to, and do not, present the consolidated net position of The University of Texas System, as of August 31, 2018 or 2017, or the changes in its consolidated net positions for the years then ended – **Applicable to all Funds**
2. Also, the financial statements of the PUF includes only the investment related assets and liabilities and changes therein which are being managed by The University of Texas/Texas A&M Investment Management Company and does not include the 2.1 million acres of land discussed in Note 1. – **Applicable to PUF only**

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

### Other-Matter Paragraphs

We included the following other matter in our opinion on the financial statements for all the Funds:

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, as indicated, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

\* \* \* \* \*



210 West 7th St.  
Suite 1700  
Austin, TX 78701

P 512.225.1600  
F 512.225.1660

UTIMCO.org

October 29, 2018

Deloitte & Touche LLP  
500 West 2<sup>nd</sup> Street, Suite 1600  
Austin, TX 78701

We are providing this letter in connection with your audits of the financial statements of the entities listed in Appendix A (the "Funds") which comprise the statements of fiduciary net position as of August 31, 2018 and August 31, 2017, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position and the changes in the fiduciary net position of the Funds in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB).

We are also providing this letter in conjunction with your audits of the detailed schedules of investment securities of the Permanent University Fund (the "PUF") as of August 31, 2018 and the statement of investment performance statistics for the Funds for the year ended August 31, 2018.

We confirm that we are responsible for the following:

- a. The preparation and fair presentation in the financial statements of financial position and changes in fiduciary net position are in accordance with GAAP
- b. The investment performance statistics of the Funds have been computed net of investment management fees using the Modified Dietz Method. The formula for the Modified Dietz Method is shown in Appendix B.
- c. The preparation and fair presentation of the supplemental schedules accompanying the basic financial statements that are presented for the purpose of additional analysis of the basic financial statements

THE UNIVERSITY OF TEXAS/TEXAS A&M  
INVESTMENT MANAGEMENT COMPANY



d. The design, implementation, and maintenance of internal control:

- Relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
- To prevent and detect fraud

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

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

1. The financial statements referred to above are fairly presented in accordance with GAAP.
2. The Funds have made available to you:
  - a. All relevant information and access as agreed in the terms of the contract entered into by The University of Texas System, dated June 30, 2016 and amended May 25, 2018.
  - b. All financial records and related data
  - c. All minutes of the meetings of directors/trustees and committees of directors/trustees; or summaries of actions of recent meetings for which minutes have not yet been prepared.
  - d. Information relating to the Funds' compliance with all statutes, laws, or regulations that have a direct effect on our financial statements
  - e. All new or revised governance documents and agreements.
3. There have been no communications with regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.
4. The Funds have disclosed to you the results of management's risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud.



5. We have no knowledge of any fraud or suspected fraud affecting the Funds involving:
  - a. Management
  - b. Employees of The University of Texas/Texas A&M Investment Management Company (“UTIMCO”), the Funds’ investment manager, who have significant roles in the Funds’ internal control over financial reporting
  - c. Others where the fraud could have a material effect on the financial statements.
6. We have no knowledge of any allegations of fraud or suspected fraud affecting the Funds’ financial statements communicated by UTIMCO employees, former UTIMCO employees, analysts, regulators, or others.
7. There are no unasserted claims or assessments that we are aware of or that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards (“GASB Codification”) Section C50, *Claims and Judgments*.
8. All investments during the period were made in accordance with the Funds’ respective investment policies.
9. Significant assumptions used by us in making accounting estimates are reasonable.
10. We have complied with all applicable provisions of the Foreign Corrupt Practices Act.

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

11. There are no transactions that have not been properly recorded and reflected in the financial statements.
12. The Funds have no plans or intentions that may affect the carrying value or classification of assets and liabilities.
13. We have disclosed to you any change in the Funds’ internal control over financial reporting that occurred during the Funds’ 2018 fiscal year that has materially affected, or is reasonably likely to materially affect, the Funds’ internal control over financial reporting.





14. The Funds have identified all derivative instruments as defined by GASB Codification Section D40, *Derivative Instruments*, and appropriately recorded and disclosed such derivatives in accordance with GASB Codification Section D40.
15. With regard to the fair value measurements and disclosures of certain assets and liabilities, we believe that:
  - a. Portfolio securities are stated at fair value as determined in accordance with the valuation method set forth in the Funds' respective investment policies
  - b. The measurement methods, including the related assumptions, used in determining fair value were appropriate, consistent with market participant assumptions where available without undue cost and effort, and were consistently applied in accordance with GAAP
  - c. The completeness and adequacy of the disclosures related to fair values are in accordance with GAAP
  - d. No events have occurred subsequent to August 31, 2018 that require adjustment to the fair value measurements and disclosures included in the financial statements.
16. Private investment funds are fair valued by management. The fair values of these investments are estimated by management using the individual private investment fund's capital account balance at the closest available reporting period, as communicated by the investment fund's general partner or investment manager, adjusted for contributions and withdrawals subsequent to the latest available reporting period as well as consideration of any other information which has been provided. In rare cases the private market funds are valued at cost but only when management considers it to be the best approximation of fair value. We have considered any information communicated by an individual investment fund's general partner or investment manager necessary through October 29, 2018, and no adjustments were considered necessary to the valuation reported as of August 31, 2018.
17. The following, to the extent applicable, have been appropriately identified, properly accounted for, and disclosed in the financial statements:
  - a. Related parties and all the related-party relationships and transactions of which the Funds are aware, including fees, commissions, sales, purchases, loans, transfers, leasing arrangements, side agreements, and guarantees (written or oral)
  - b. Restricted securities that may not be publicly sold without registration under the federal Securities Act of 1933
  - c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line-of-credit, or similar arrangements



- d. All derivative financial instruments (e.g., futures, options, swaps), including bank loan commitments and other outstanding commitments to purchase or sell securities under forward placement and standby commitments
  - e. Financial instruments with significant individual or group concentration of credit risk, whether from an individual counterparty or group of counterparties
  - f. The amounts receivable from or payable to related parties
  - g. Guarantees, whether written or oral, under which the Funds are contingently liable (e.g., shortfall agreements)
  - h. Financial support that the Funds have provided during the period presented to an investee, whether contractually required to do so or not, as well as financial support that the Funds have not yet provided but is contractually required to provide to an investee.
18. In preparing the financial statements in accordance with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
- a. It is reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.
  - b. The effect of the change would be material to the financial statements.
19. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:
- a. The concentration exists at the date of the financial statements
  - b. The concentration makes the Funds vulnerable to the risk of a near-term severe impact
  - c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.
20. There are no:
- a. Instances of identified or suspected noncompliance with laws or regulations whose effects should be considered when preparing the financial statements



- b. Known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and that have not been disclosed to you and accounted for and disclosed in accordance with GAAP
  - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed under GASB Codification Section C50, *Claims and Judgment*
21. The Funds have satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral, except for those disclosed in the financial statements.
22. The Funds have complied with all aspects of contractual agreements that may affect the financial statements.
23. Regarding the required supplementary information of the Funds, i.e. the Management's Discussion and Analysis (the "MD&A"):
- a. We confirm that we are responsible for the MD&A
  - b. The MD&A is measured and presented in accordance with GASB
  - c. The methods of presentation of the MD&A have not changed from those used in the prior period.
24. Regarding the required supplemental schedule of the PUF, i.e. the Schedule of Changes in Cost of Investments and Investment Income:
- a. We confirm that we are responsible for the Schedule of Changes in Cost of Investments and Investment Income of the PUF
  - b. The Schedule of Changes in Cost of Investments and Investment Income of the PUF is measured and presented in accordance with Section 66.05 of the Texas Education Code
  - c. The methods of presentation of the Schedule of Changes in Cost of Investments and Investment Income of the PUF have not changed from those used in the prior period.
25. Regarding the supplementary information for the Funds, i.e. the Financial Highlights, as applicable:
- a. We are responsible for preparation and fair presentation of the supplementary information
  - b. We believe the supplementary information, including its form and content, is fairly presented





- c. The methods of presentation of the Financial Highlights, as applicable, have not changed from those used in the prior periods, except for the presentation of “Administrative Expenses per Unit” for the LTF.
26. Regarding the required supplemental schedule of the PUF, i.e. the Detail Schedules of Investment Securities:
  - a. We confirm that we are responsible for the Detail Schedules of Investment Securities of the PUF
  - b. The Detail Schedules of Investment Securities of the PUF is prepared in accordance with Section 66.05 of the Texas Education Code
  - c. The Detail Schedules of Investment Securities take into consideration the provisions of Government Code Section 552.143(c) which identifies the names of certain direct investments held by the PUF as confidential.
  - d. The methods of presentation of the Detailed Schedules of Investment Securities of the PUF have not changed from those used in the prior period.
27. UTIMCO as investment manager of the Funds under the control and management of The University of Texas System Board of Regents (“UT Board”), entered into a security purchase agreement with the UT Board. The agreement committed the Funds to purchase UT System notes and bonds outstanding up to \$3,404,360,000. The PUF also has an agreement with the Texas A&M University System Board of Regents which commits the PUF to acquire up to \$125,000,000 of Texas A&M System flexible rate notes in the event of a failed remarketing of such notes. No UT System notes and bonds or Texas A&M System flexible rate notes have been or are expected to be purchased by the Funds under their required purchase commitment.
28. None of the entities which have borrowed from the Funds, subject to their securities lending programs, have defaulted during the year ended August 31, 2018.
29. In conjunction with the Funds’ investments in the private investment and hedge fund pools, there are no instances where the Funds would be required to assume additional commitment responsibility should other limited partners or shareholders default on their own commitments.
30. As of August 31, 2018, the Funds do not have any deposits or investments that are exposed to custodial credit risk.
31. No events have occurred after August 31, 2018, but before October 29, 2018, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.



*[Handwritten signature of Britt Harris]*

---

Britt Harris

Chief Executive Officer and Chief Investment officer

*[Handwritten signature of Joan Moeller]*

---

Joan Moeller

Senior Managing Director – Accounting, Finance, &  
Administration

*[Handwritten signature of Gary Hill]*

---

Gary Hill

Senior Director - Accounting



APPENDIX A

Entity Name	Materiality Limit
Permanent University Fund ("PUF")	\$ 9,687,000
The University of Texas System General Endowment Fund ("GEF")	9,687,000
The University of Texas System Long Term Fund ("LTF")	9,687,000
Permanent Health Fund ("PHF")	2,350,000
The University of Texas System Intermediate Term Fund ("ITF")	9,687,000



## APPENDIX B

### FORMULA FOR MODIFIED DIETZ METHOD

---

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

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

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

where

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

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

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

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

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

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

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

where

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

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

## **CORPORATION AUDIT REPORT**



**Deloitte & Touche LLP**  
500 West 2nd Street  
Suite 1600  
Austin, TX 78701  
USA  
Tel: +1 512 691 2300  
Fax: +1 512 708 1035  
[www.deloitte.com](http://www.deloitte.com)

January 29, 2019

Mr. Britt Harris  
President, CEO and Chief Investment Officer  
The University of Texas/ Texas A&M Investment Management Company

The Audit and Ethics Committee of the Board of Directors of  
The University of Texas/ Texas A&M Investment Management Company

210 West 7<sup>th</sup> Street, Suite 1700  
Austin, TX 78701

Dear Mr. Harris and Members of the Audit and Ethics Committee of the Board of Directors of The University of Texas/ Texas A&M Investment Management Company (the "Audit and Ethics Committee"):

We have performed an audit of the financial statements of The University of Texas/ Texas A&M Investment Management Company (the "Company") as of and for the year ended August 31, 2018, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated January 29, 2019.

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

This report is intended solely for the information and use of management, the Audit and Ethics Committee, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Yours truly,

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

## **OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS**

Our responsibility under generally accepted auditing standards has been described in our engagement letter dated July 5, 2018, a copy of which has been provided to you. As described in that letter, the objective of a financial statement audit conducted in accordance with generally accepted auditing standards is to express an opinion on the fairness of the presentation of the Company's financial statements for the year ended August 31, 2018, in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects. Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Audit and Ethics Committee are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Audit and Ethics Committee of their responsibilities.

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

## **SIGNIFICANT ACCOUNTING POLICIES**

The Company's significant accounting policies are set forth in Note 2 to the Company's 2018 financial statements. We are not aware of any significant changes in previously adopted accounting policies or their application during the year ended August 31, 2018.

We have evaluated the significant qualitative aspects of the Company's accounting practices, including accounting policies, accounting estimates and financial statement disclosures and concluded that the policies are appropriate, adequately disclosed, and consistently applied by management.

## **ACCOUNTING ESTIMATES**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the Company's 2018 financial statements include the recoverability of long-term assets such as property and equipment and liabilities, as well as those related to accrued compensation and other compensation related accounts. During the year ended August 31, 2018, we are

not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

#### **UNCORRECTED MISSTATEMENTS**

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

#### **MATERIAL CORRECTED MISSTATEMENTS**

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

#### **DISAGREEMENTS WITH MANAGEMENT**

We have not had any disagreements with management related to matters that are material to the Company's 2018 financial statements.

#### **OUR VIEWS ABOUT SIGNIFICANT MATTERS THAT WERE THE SUBJECT OF CONSULTATION WITH OTHER ACCOUNTANTS**

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during fiscal year 2018.

#### **SIGNIFICANT FINDINGS OR ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT PRIOR TO OUR INITIAL ENGAGEMENT OR RETENTION**

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

#### **OTHER SIGNIFICANT FINDINGS OR ISSUES ARISING FROM THE AUDIT DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT**

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



## **SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT**

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

## **MANAGEMENT'S REPRESENTATIONS**

We have made specific inquiries of the Company's management about the representations embodied in the financial statements. In addition, we have requested that management provide to us the written representations the Company is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Appendix A, a copy of the representation letter we obtained from management.

## **OTHER-MATTER PARAGRAPH**

We included the following other matter in our opinion on the financial statements:

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

\*\*\*\*\*



THE UNIVERSITY OF TEXAS/TEXAS A&M  
INVESTMENT MANAGEMENT COMPANY

January 29, 2019

Deloitte & Touche LLP  
500 West 2<sup>nd</sup> Street - Suite 1600  
Austin, TX 78701

We are providing this letter in connection with your audits of the statements of net position of The University of Texas/Texas A&M Investment Management Company (the "Company") as of August 31, 2018 and 2017, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial net position, results of operations, and cash flows of the Company in accordance with accounting principles generally accepted in the United States of America (GAAP).

We confirm that we are responsible for the following:

- a. The preparation and fair presentation in the statements of net position, statements of revenue, expenses and changes in net position, and cash flows in accordance with GAAP.
- b. The design, implementation, and maintenance of internal control:
  - Relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
  - To prevent and detect fraud.

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

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

1. The financial statements referred to above are fairly presented in accordance with GAAP.
2. The Company has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.
3. The Company has made available to you:
  - a. All financial records and related data.

210 West 7th Street, Suite 1700, Austin, TX 78701 | P 512.225.1600 | F 512.225.1660 | UTIMCO.org

- b. All minutes of the meetings of stockholders, directors, and committees of directors or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 4. There have been no communications with regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.
- 5. The Company has disclosed to you the results of management's risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 6. We have no knowledge of any fraud or suspected fraud affecting the Company involving:
  - a. Management
  - b. Employees who have significant roles in the Company's internal control over financial reporting
  - c. Others, where the fraud could have a material effect on the financial statements.
- 7. We have no knowledge of any allegations of fraud or suspected fraud affecting the Company's financial statements communicated by employees, former employees, regulators, or others.
- 8. Significant assumptions used by us in making accounting estimates are reasonable.

Except where otherwise stated below, immaterial matters less than \$90,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to, or disclosure in, the financial statements.

- 9. There are no transactions that have not been properly recorded and reflected in the financial statements.
- 10. The Company has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
- 11. Regarding related parties:
  - a. We have disclosed to you the identity of the Company's related parties and all the related-party relationships and transactions of which we are aware.
  - b. To the extent applicable, related parties and all the related-party relationships and transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral) have been appropriately identified, properly accounted for, and disclosed in the financial statements.
- 12. In preparing the financial statements in accordance with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
  - a. It is reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.

b. The effect of the change would be material to the financial statements.

13. There are no:

- a. Instances of identified or suspected noncompliance with laws or regulations whose effects should be considered when preparing the financial statements.
- b. Known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and that have not been disclosed to you and accounted for and disclosed in accordance with GAAP.

14. The Company has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral.

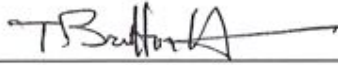
15. The Company has complied with all aspects of contractual agreements that may affect the financial statements.

16. The performance incentive awards approved for the year ended August 31, 2018 and approved on December 6, 2018, totaled \$7,980,711.

17. Regarding required supplementary information:

- a. We confirm that we are responsible for the required supplementary information
- b. The required supplementary information is measured and presented in accordance with the Governmental Accounting Standards Board
- c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.

18. No events have occurred after August 31, 2018 but before January 29, 2019, the date the financial statements were issued that require consideration as adjustments to, or disclosures in, the financial statements.



---

Britt Harris  
President, Chief Executive Officer and Chief Investment  
Officer



---

Joan Moeller  
Senior Managing Director and Chief Operating Officer



---

Kim Bauer  
Director – Corporate Accounting

**THE UNIVERSITY OF TEXAS/TEXAS A&M INVESTMENT  
MANAGEMENT COMPANY**

**FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITORS' REPORT**

Years ended August 31, 2018 and 2017

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

Financial Statements

Years Ended August 31, 2018 and 2017

**Contents**

Independent Auditors' Report ..... 1

Management's Discussion and Analysis (unaudited) ..... 3

Audited Financial Statements

Statements of Net Position ..... 9

Statements of Revenues, Expenses and Changes in Net Position ..... 10

Statements of Cash Flows ..... 11

Notes to Financial Statements ..... 13



## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
The University of Texas/Texas A&M Investment Management Company

### **Report on the Financial Statements**

We have audited the accompanying financial statements of The University of Texas/Texas A&M Investment Management Company ("UTIMCO"), which comprise the statements of net position as of August 31, 2018 and 2017, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to UTIMCO's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of UTIMCO's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audits.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The University of Texas/Texas A&M Investment Management Company as of August 31, 2018 and 2017, and the results of its changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



**Other Matters**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Deloitte & Touche LLP*

January 29, 2019

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (Unaudited)**

Our discussion and analysis of the financial performance for The University of Texas/Texas A&M Investment Management Company (UTIMCO) provides an overview of its activities for the year ended August 31, 2018. This discussion was prepared by UTIMCO management and should be read in conjunction with the UTIMCO financial statements and notes. UTIMCO is a 501(c) (3) investment management corporation whose sole purpose is the management of investment assets that are under the fiduciary care of the Board of Regents of The University of Texas System (UT Board).

Created in March 1996, UTIMCO is the first external investment corporation formed by a public university system. It invests endowment and operating funds in excess of \$45 billion as of August 31, 2018. UTIMCO is governed by a nine-member Board of Directors consisting of at least three members of the UT Board and four other members appointed by the UT Board, and two members appointed by The Texas A&M University System Board of Regents (A&M Board). At least three members appointed by the UT Board and at least one member appointed by the A&M Board must have substantial background and expertise in investments. The UTIMCO Board and the UT Board have entered into an Investment Management Services Agreement delegating investment management responsibility for most investments to UTIMCO.

The purpose of the MD&A is to provide an objective and easily readable analysis of the UTIMCO financial statements based upon currently known facts, decisions or conditions.

### **Financial Highlights**

Net position increased by approximately \$9.7 million from \$9.8 million to \$19.5 million, or approximately 99%, for the year ended August 31, 2018. This is compared to a decrease of approximately \$0.7 million from \$10.5 million to \$9.8 million, or approximately 7%, for the year ended August 31, 2017. The increase in net position for FY 2018 was primarily the result of additional management fee revenue of \$8.4 million to provide funding for leasehold improvements and other capital asset purchases related to the new office space. The decrease in net position for FY 2017 was primarily the result of an increase in depreciation expense due to the accelerating of depreciation related to the Investment Support System that was developed internally in partnership with a contracted software development firm that was removed from service.

### **Use of Financial Statements and Notes**

UTIMCO financial statements are prepared in accordance with standards issued by the Governmental Accounting Standards Board (GASB). Three financial statements are typically required under GASB: the Statements of Net Position; the Statements of Revenues, Expenses and Changes in Net Position; and the Statements of Cash Flows.

The notes to the financial statements contain supplemental information that is essential for the fair presentation of the financial statements.

## Statements of Net Position

The Statements of Net Position present assets, liabilities, and the net position of UTIMCO as of the end of the fiscal years. These statements have been prepared using the accrual basis of accounting.

The following summarizes the Statements of Net Position:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>Assets</b>			
Current Assets			
Cash and cash equivalents	\$20,112,563	\$18,724,958	\$15,627,261
Prepaid expenses and other assets	1,596,896	2,421,973	944,958
Total Current Assets	<u>21,709,459</u>	<u>21,146,931</u>	<u>16,572,219</u>
Non-Current Assets			
Assets of the 457(b) deferred compensation plan	2,196,619	1,788,893	1,470,030
Capital assets, net of accumulated depreciation	12,465,244	297,558	2,690,841
Total Non-Current Assets	<u>14,661,863</u>	<u>2,086,451</u>	<u>4,160,871</u>
<b>Total Assets</b>	<u>\$36,371,322</u>	<u>\$23,233,382</u>	<u>\$20,733,090</u>
<b>Liabilities and Net Position</b>			
Current Liabilities	\$11,503,831	\$11,664,000	\$ 8,743,616
Non-Current Liabilities	5,398,029	1,788,893	1,470,030
Total Liabilities	<u>16,901,860</u>	<u>13,452,893</u>	<u>10,213,646</u>
Net Position	<u>19,469,462</u>	<u>9,780,489</u>	<u>10,519,444</u>
<b>Total Liabilities and Net Position</b>	<u>\$36,371,322</u>	<u>\$23,233,382</u>	<u>\$20,733,090</u>

The changes in the Statements of Net Position components are primarily the result of the following:

- Net position increased in FY 2018 by \$9,688,973 and decreased in FY 2017 by \$738,955. The increase in net position for FY 2018 was primarily the result of additional management fee revenue of \$8,400,000 to provide funding for the leasehold improvements and other capital asset purchases related to the new office space. In addition, operating expenses including salaries, travel, online data, lease, maintenance contracts, and depreciation expense were less than budgeted by approximately \$1.6 million. Salaries, travel and online data expenses were less than budgeted because of the timing of new hires. Lease expense was less than budgeted because the final rentable square footage of the new office space was slightly reduced. Maintenance contracts and depreciation expense associated with the capital asset purchases were less than budgeted because the final actual capital asset costs

were less than originally estimated. The decrease in net position for FY 2017 was primarily the result of the additional depreciation expense incurred related to the Investment Support System.

- Cash & cash equivalents increased between FY 2017 and FY 2018 by \$1,387,605 and increased between FY 2016 and FY 2017 by \$3,097,697. The increase in cash & cash equivalents for FY 2018 was the result of salaries, travel, online data, lease and maintenance expenses that were less than budgeted as described above. The increase in cash & cash equivalents for FY 2017 was the result of several budgeted positions remaining unfilled during the year and the deferral of capital purchases due to the move to new office space in February 2018.
- Prepaid expenses and other assets decreased by \$825,077 in FY 2018 and increased by \$1,477,015 in FY 2017. The decrease in FY 2018 was primarily the result of transferring the prior year deposits and costs incurred for the furniture, equipment and leasehold improvements related to the new office space into service in the current year. The increase in FY 2017 was primarily the result of incurring costs and making deposits on the assets described above.
- Non-current assets increased by \$12,575,412 in FY 2018 and decreased by \$2,074,420 in FY 2017. The increase in FY 2018 was a result of capitalizing the furniture, equipment and leasehold improvement purchases related to the move to the new office space combined with an increase in the assets of the 457(b) deferred compensation plan. The decrease in FY 2017 was primarily a result of depreciating capital assets related to the Investment Support System offset by an increase in the assets of the 457(b) deferred compensation plan.
- Current liabilities decreased slightly by \$160,169 in FY 2018 and increased by \$2,920,384 in FY 2017. The increase in FY 2017 was the result of an increase in accounts payable related to the leasehold improvement costs for the new office space and an increase in the performance compensation liability.
- Non-current liabilities increased by \$3,609,136 in FY 2018 and by \$318,863 in FY 2017. The increase in FY 2018 was the result of an increase in the unamortized rent liability related to the new office lease and an increase in the liabilities of the 457(b) deferred compensation plan. The increase in FY 2017 was the result of an increase in the liabilities of the 457(b) deferred compensation plan.

## Statements of Revenues, Expenses and Changes in Net Position

The Statements of Revenues, Expenses and Changes in Net Position are based upon the financial activities of the organization. The purpose of these statements is to present details comprising the revenues, expenses, and changes to net position for the years reported. The following table summarizes the Statements of Revenues, Expenses and Changes in Net Position:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>Revenue</b>			
Management fees and advisory board fees	\$45,509,801	\$32,307,792	\$31,527,266
Net non-operating revenues	<u>276,107</u>	<u>147,225</u>	<u>32,062</u>
<b>Total Revenue</b>	45,785,908	32,455,017	31,559,328
<b>Expenses</b>			
Salaries, benefits & payroll taxes	16,799,548	13,639,378	12,735,551
Performance compensation	10,415,478	10,291,209	7,235,982
General operating	4,927,813	3,541,914	3,028,224
Depreciation	1,015,435	2,453,498	1,657,536
Lease	2,281,161	2,072,648	1,173,823
Other	<u>657,500</u>	<u>1,195,325</u>	<u>1,012,433</u>
<b>Total Expenses</b>	<u>36,096,935</u>	<u>33,193,972</u>	<u>26,843,549</u>
<b>Net Position, beginning of year</b>	<u>9,780,489</u>	<u>10,519,444</u>	<u>5,803,665</u>
<b>Net Position, end of year</b>	<u><u>\$19,469,462</u></u>	<u><u>\$9,780,489</u></u>	<u><u>\$10,519,444</u></u>

The changes in the Statements of Revenues, Expenses and Changes in Net Position are primarily the result of the following:

- Management fees revenue for each year presented are based upon the operating budget and management fee approved in advance each year by both the UTIMCO Board and the UT Board. The revenue fluctuations are the direct result of these approved budgets. In FY 2018, UTIMCO received an additional management fee of \$8,400,000 to provide funding for the leasehold improvements and other capital asset purchases related to the new office space.
- Total Expenses increased by \$2,902,963 in FY 2018 and by \$6,350,423 in FY 2017. The increases in both FY 2018 and FY 2017 were primarily the result of an increase in employee compensation, employee benefits and payroll taxes. In FY 2017 and FY 2018, these employee-related expenses increased mainly because numerous open and new positions were filled. In addition, Total Expenses increased in FY17 due to costs associated with the departure and subsequent hire of the Chief Executive Officer and Chief Investment Officer.

- Various other expenses also contributed to the total expense increases in FY 2018 and FY 2017. Specifically, lease expense, online data, maintenance agreements, and contract services were significant components of the increase in FY 2018 offset by a decrease in depreciation expense related to the removal of the Investment Support System. Online data costs and depreciation expense related to the removal of the Investment Support System were significant contributors to the increase in FY 2017.

## Statements of Cash Flows

The Statements of Cash Flows are presented to identify the cash flows from operating, financing and investing activities. The following table summarizes the Statements of Cash Flows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>Cash flows from Operating Activities</b>			
Proceeds from management fees and advisory board fees	\$45,509,801	\$32,307,792	\$31,527,266
Payments to and for employees	(25,782,382)	(22,599,764)	(20,224,285)
Other payments	(5,432,800)	(6,697,341)	(5,767,515)
<b>Net cash provided by Operating Activities</b>	<b>14,294,619</b>	<b>3,010,687</b>	<b>5,535,466</b>
<b>Cash flows from Capital and Related Financing Activities</b>			
Purchase of capital assets, net	(13,228,243)	(61,862)	(275,166)
Proceeds from sale of assets	4,960	-	-
<b>Net cash used for Capital and Related Financing Activities</b>	<b>(13,223,283)</b>	<b>(61,862)</b>	<b>(275,166)</b>
<b>Cash flows from Investing Activities</b>			
Interest	316,269	148,872	35,494
<b>Net cash provided by Investing Activities</b>	<b>316,269</b>	<b>148,872</b>	<b>35,494</b>
<b>Net Change in cash &amp; cash equivalents</b>	<b>1,387,605</b>	<b>3,097,697</b>	<b>5,295,794</b>
<b>Cash &amp; cash equivalents, beginning of year</b>	<b>18,724,958</b>	<b>15,627,261</b>	<b>10,331,467</b>
<b>Cash &amp; cash equivalents, end of year</b>	<b><u>\$20,112,563</u></b>	<b><u>\$18,724,958</u></b>	<b><u>\$15,627,261</u></b>

The changes in the Statements of Cash Flows are primarily the result of the following:

- Receipt of management fees increased in FY 2018 and FY 2017 as a result of the increase in UTIMCO's operating budget. The increase in FY 2018 also includes the additional \$8,400,000 to fund the leasehold improvements and capital asset purchases. The UTIMCO budget is approved in advance each year by both the UTIMCO board and the UT Board and the management fee fluctuates as the direct result of the approved budget.

- Payments to and for employees increased in fiscal years 2018 and 2017 mainly as a result of the increase in salaries and other personnel expenses that are directly related to compensation.
- Purchases of capital assets increased in FY 2018 as a result of expenditures for the furniture, equipment and leasehold improvements related to the move to the new office space. They decreased in FY 2017 as a result of ceasing the development of the Investment Support System. Additionally, capital asset purchases in FY 2017 were limited in anticipation of the FY 2018 move to the new office space.

### **Contacting UTIMCO**

The above financial highlights are designed to provide a general overview of the UTIMCO corporate results and insight into the following financial statements. Additional information may be found on our website and inquiries may be directed to UTIMCO via [www.utimco.org](http://www.utimco.org).

**THE UNIVERSITY OF TEXAS/TEXAS A&M INVESTMENT MANAGEMENT COMPANY**  
***Financial Statements***

---

**Statements of Net Position**

*August 31, 2018 and 2017*

	<u>2018</u>	<u>2017</u>
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 20,112,563	\$ 18,724,958
Prepaid expenses and other assets	1,596,896	2,421,973
Total Current Assets	<u>21,709,459</u>	<u>21,146,931</u>
Non-Current Assets		
Assets of the 457(b) deferred compensation plan	2,196,619	1,788,893
Capital assets, net of accumulated depreciation of \$1,719,078 and \$5,778,073, respectively	12,465,244	297,558
Total Non-Current Assets	<u>14,661,863</u>	<u>2,086,451</u>
<b>Total Assets</b>	<u><u>\$ 36,371,322</u></u>	<u><u>\$ 23,233,382</u></u>
<b>Liabilities and Net Position</b>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 11,401,657	\$ 11,609,867
Current portion - unamortized rent	102,174	54,133
Total Current Liabilities	<u>11,503,831</u>	<u>11,664,000</u>
Non-Current Liabilities		
457(b) deferred compensation plan obligations	2,196,619	1,788,893
Long-term portion - unamortized rent	3,201,410	-
Total Non-Current Liabilities	<u>5,398,029</u>	<u>1,788,893</u>
Total Liabilities	<u>16,901,860</u>	<u>13,452,893</u>
Net Position		
Net investment in capital assets	12,465,244	297,558
Unrestricted	7,004,218	9,482,931
Total Net Position	<u>19,469,462</u>	<u>9,780,489</u>
<b>Total Liabilities and Net Position</b>	<u><u>\$ 36,371,322</u></u>	<u><u>\$ 23,233,382</u></u>

*The accompanying notes are an integral part of these financial statements.*



**THE UNIVERSITY OF TEXAS/TEXAS A&M INVESTMENT MANAGEMENT COMPANY**  
***Financial Statements***

**Statements of Revenues, Expenses and Changes in Net Position**

*For the year ended August 31, 2018 and 2017*

	<u>2018</u>	<u>2017</u>
<b>Operating Revenues</b>		
Management Fees	\$ 45,509,801	\$ 32,302,792
Advisory Board Fees	-	5,000
Total Operating Revenues	<u>45,509,801</u>	<u>32,307,792</u>
<b>Operating Expenses</b>		
Salaries	13,667,683	10,919,642
Performance Compensation	10,415,478	10,291,209
Employee Benefits	2,176,075	1,876,075
Payroll Taxes	955,790	843,661
General Operating	4,927,813	3,541,914
Depreciation	1,015,435	2,453,498
Lease	2,281,161	2,072,648
Professional Fees	462,386	1,007,977
Insurance	195,114	187,348
Total Operating Expenses	<u>36,096,935</u>	<u>33,193,972</u>
<b>Operating Income/(Loss)</b>	9,412,866	(886,180)
<b>Non-Operating Revenues</b>		
Interest	316,269	148,872
Loss on Disposal of Equipment	(40,162)	(1,647)
<b>Net Non-Operating Revenues</b>	<u>276,107</u>	<u>147,225</u>
<b>Increase/(decrease) in Net Position</b>	9,688,973	(738,955)
<b>Net Position at beginning of year</b>	9,780,489	10,519,444
<b>Net Position at end of year</b>	<u>\$ 19,469,462</u>	<u>\$ 9,780,489</u>

*The accompanying notes are an integral part of these financial statements.*

THE UNIVERSITY OF TEXAS/TEXAS A&M INVESTMENT MANAGEMENT COMPANY  
**Financial Statements**

---

**Statements of Cash Flows**

*For the year ended August 31, 2018 and 2017*

	<u>2018</u>	<u>2017</u>
<b>Cash flows from Operating Activities:</b>		
Proceeds from management fees and advisory board fees	\$ 45,509,801	\$ 32,307,792
Payments to suppliers for goods and services	(6,401,090)	(4,678,827)
Payments for facility	(1,758,310)	(2,018,514)
Reimbursement for tenant improvements	2,726,600	-
Payments to employees	(22,567,937)	(20,136,259)
Payments for employees	(3,214,445)	(2,463,505)
<b>Net Cash provided by Operating Activities</b>	<u>14,294,619</u>	<u>3,010,687</u>
<b>Cash flows from Capital and Related Financing Activities:</b>		
Purchases of capital assets	(13,228,243)	(61,862)
Proceeds from sale of assets	4,960	-
<b>Net cash used in Capital and Related Financing Activities</b>	<u>(13,223,283)</u>	<u>(61,862)</u>
<b>Cash flows from Investing Activities</b>		
Interest	316,269	148,872
<b>Net cash provided by Investing Activities</b>	<u>316,269</u>	<u>148,872</u>
<b>Net increase in cash and cash equivalents</b>	1,387,605	3,097,697
<b>Cash and cash equivalents at beginning of year</b>	<u>18,724,958</u>	<u>15,627,261</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 20,112,563</u>	<u>\$ 18,724,958</u>

*The accompanying notes are an integral part of these financial statements.*

THE UNIVERSITY OF TEXAS/TEXAS A&M INVESTMENT MANAGEMENT COMPANY  
**Financial Statements**

---

**Statements of Cash Flows, Continued**

*For the year ended August 31, 2018 and 2017*

**Reconciliation of operating income/(loss) to net cash provided by  
Operating Activities:**

	<u>2018</u>	<u>2017</u>
<b>Operating Income/(Loss)</b>	\$ 9,412,866	\$ (886,180)
<b>Adjustments to reconcile operating income/(loss) to net cash  provided by Operating Activities</b>		
Depreciation	1,015,435	2,453,498
Changes in assets and liabilities:		
Decrease/(increase) in prepaid expenses and other assets	825,077	(1,477,015)
(Increase) in assets of 457(b) deferred compensation plan	(407,726)	(318,863)
(Decrease)/increase in accounts payable and accrued expenses	(208,210)	2,866,251
Increase in liabilities of 457(b) deferred compensation plan	407,726	318,863
Increase in unamortized rent	3,249,451	54,133
<b>Net cash provided by Operating Activities</b>	<u>\$ 14,294,619</u>	<u>\$ 3,010,687</u>

*The accompanying notes are an integral part of these financial statements.*

**THE UNIVERSITY OF TEXAS/TEXAS A&M INVESTMENT MANAGEMENT COMPANY**  
***Notes to Financial Statements***

---

**Note 1 - Organization**

The University of Texas/Texas A&M Investment Management Company (UTIMCO) is a not-for-profit corporation organized to invest funds that are under the control and management of the Board of Regents of The UT Board. UTIMCO commenced business on March 1, 1996. The financial statements of UTIMCO have been prepared on the accrual basis of accounting. The significant accounting policies are described in Note 2. Effective May 10, 2017, the organization's name was changed from The University of Texas Investment Management Company to The University of Texas/Texas A&M Investment Management Company.

**Note 2 - Significant Accounting Policies**

*Basis of Accounting*

The financial statements of UTIMCO are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

*Cash and cash equivalents*

For purposes of the statements of cash flows, UTIMCO considers highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. UTIMCO invests excess cash in an interest-bearing money market account.

*Prepaid expenses and other assets*

Prepaid expenses consist of expenses paid in advance for insurance and various services. The prepaid expenses will be ratably expensed over the period to which they relate. As of August 31, 2017, other assets included deposits and costs incurred for the furniture, equipment and leasehold improvements related to UTIMCO's future office space as discussed in Note 3 (d).

*Capital assets, net of accumulated depreciation*

Net capital assets consist of office furniture, office equipment, software, and leasehold improvements and are stated at net book value. UTIMCO capitalizes assets whose cost exceeds \$500. Depreciation is computed using the straight-line method over the useful lives of the assets. Estimated useful lives range from three to seven years for office furniture, equipment and software, and for the lease term for leasehold improvements. In FY 2018, UTIMCO capitalized \$13,228,243 in costs related to the procurement of furniture, equipment and leasehold improvements related to the new office space. As discussed in Note 6, UTIMCO's prior lease expired February 28, 2018. Consequently, office furniture and equipment, software and leasehold improvement costs relating to the prior office space in the amount of \$5,119,552 and with a carrying value of \$40,162 were written off during the period ended August 31, 2018.

In FY 2017, the costs related to the development of the Investment Support System were depreciated over the useful life of the asset which was accelerated because it was determined that the software could not provide the functionality as originally intended and it was fully removed from service effective July 31, 2017. Consequently, an additional \$1,292,811 was

**THE UNIVERSITY OF TEXAS/TEXAS A&M INVESTMENT MANAGEMENT COMPANY**  
**Notes to Financial Statements**

---

included in depreciation expense for the period ended August 31, 2017. The Investment Support System's capitalized costs of \$3,935,123 were removed from service for the period ended August 31, 2017.

The following is a schedule of the capital assets at August 31, 2018 and 2017:

	<b>Balance</b>			
	<b>8/31/2017</b>	<b>Additions</b>	<b>Deletions</b>	<b>8/31/2018</b>
Office furniture	\$ 943,869	\$ 2,648,234	\$ (842,593)	\$ 2,749,510
Office equipment	1,345,017	1,354,437	(741,101)	1,958,353
Software	480,001	-	(229,114)	250,887
Leasehold improvements	3,306,744	9,225,572	(3,306,744)	9,225,572
Total property and equipment	6,075,631	13,228,243	(5,119,552)	14,184,322
Less accumulated depreciation	(5,778,073)	(1,015,435)	5,074,430	(1,719,078)
Net Capital Assets	<u>\$ 297,558</u>	<u>\$12,212,808</u>	<u>\$ (45,122)</u>	<u>\$12,465,244</u>

	<b>Balance</b>			
	<b>8/31/2016</b>	<b>Additions</b>	<b>Deletions</b>	<b>8/31/2017</b>
Office furniture	\$ 939,823	\$ 4,046	\$ -	\$ 943,869
Office equipment	1,404,724	57,816	(117,523)	1,345,017
Software	4,433,312	-	(3,953,311)	480,001
Leasehold improvements	3,306,744	-	-	3,306,744
Total property and equipment	10,084,603	61,862	(4,070,834)	6,075,631
Less accumulated depreciation	(7,393,762)	(2,453,498)	4,069,187	(5,778,073)
Net Capital Assets	<u>\$2,690,841</u>	<u>\$ (2,391,636)</u>	<u>\$ (1,647)</u>	<u>\$ 297,558</u>

*Income taxes*

The exclusive purposes for which UTIMCO is organized and is to be operated are charitable and educational within the meaning of section 501(c)(3) of the Internal Revenue Service Code, and therefore, UTIMCO is not subject to federal income taxes on normal operations. UTIMCO may, however, incur federal income taxes on unrelated business income.

*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**THE UNIVERSITY OF TEXAS/TEXAS A&M INVESTMENT MANAGEMENT COMPANY**  
***Notes to Financial Statements***

---

*Fair Value Measurement*

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Generally accepted accounting principles provide a hierarchy that prioritizes the inputs of fair value measurements based on the extent to which inputs to valuation techniques are observable in the marketplace. The hierarchy assigns a higher priority to observable inputs that reflect verifiable information obtained from independent sources, and a lower priority to unobservable inputs that would reflect management's assumptions about how market participants would value an asset or liability based on the best information available. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs.

The three levels of the hierarchy of inputs used to measure fair value are as follows:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that are available at the measurement date.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – Unobservable inputs for the asset or liability.

*Subsequent Events*

These financial statements considered subsequent events through January 29, 2019, the date the financial statements were available to be issued.

**Note 3 - Related Party Transactions**

- a) Pursuant to a Master Investment Management Services Agreement with UTIMCO, the UT Board has appointed UTIMCO as its investment manager with complete authority to act for the UT Board in the investment of all funds. The amount of the management fees for the period ended August 31, 2018 was \$45,502,301. This includes \$37,102,301 for ordinary operating costs and \$8,400,000 for leasehold improvements and capital expenditures. The amount of management fees for the period ending August 31, 2017 was \$32,295,292. This represents fees for the following:

	<u>2018</u>	<u>2017</u>
Permanent University Fund	\$ 23,764,375	\$ 17,618,775
The University of Texas System Long Term Fund	9,873,440	7,905,499
Permanent Health Fund	1,372,125	1,291,263
The University of Texas System Intermediate Term Fund	<u>10,492,361</u>	<u>5,479,755</u>
	<u>\$ 45,502,301</u>	<u>\$ 32,295,292</u>

- b) UTIMCO contracts for internet, mainframe connection, technology services, and various other expenses with The University of Texas System, The University of Texas at Austin, and The University of Texas at Arlington. The total for these services for the periods ended August 31, 2018 and 2017 were \$139,763 and \$40,249 respectively.
- c) UTIMCO entered into a new 124-month lease agreement on July 31, 2017 and subsequent amendment on June 1, 2018 for its current office space and parking with The University of Texas System that commenced on February 1, 2018. The minimum rental commitment is \$154,507 per month for the first year with the first four months abated and escalates annually by \$4,544 per month. A tenant improvement allowance of \$2,726,600 was applied towards the tenant construction costs. Additional lease details are discussed in Note 6 below.
- d) In connection with the construction of the current office space as noted in c) above, UTIMCO incurred leasehold improvement costs of \$7,513,297 and \$1,367,186 as of August 31, 2018 and August 31, 2017, respectively. These costs were paid directly to the contractors by The University of Texas System. As of August 31, 2018, UTIMCO fully reimbursed UT System through cash disbursements of \$6,153,883 for leasehold improvement costs which was net of the total cost of \$8,880,483 and the \$2,726,600 tenant improvement allowance.

#### **Note 4 – Deposits and Investments**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, UTIMCO will not be able to recover its deposits. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, UTIMCO will not be able to recover the value of its investment or collateral securities that are in the possession of another party. UTIMCO does not have a deposit policy for custodial credit risk. The FDIC insures deposits up to \$250,000. As of August 31, 2018, and 2017, there were no uninsured deposits. Additionally, UTIMCO does not have any investments that are exposed to custodial credit risk. The UTIMCO operating funds are invested in an institutional preferred money market account. The current fair value of the assets of the account is categorized as Level 1 of the fair value hierarchy as defined in GASB No. 72. The money market account balances as of August 31, 2018 and 2017 were \$19,942,663, and \$18,664,093 respectively.

#### **Note 5 – Elective Deferral Plans**

Effective March 1, 1996, UTIMCO established a tax-sheltered annuity arrangement, the UTIMCO 403(b) Tax Sheltered Annuity Plan, which provides retirement benefits for its employees by contributing to a custodial account invested in mutual funds. The employer matches 8.5% of gross compensation on behalf of an employee. Employees are required to contribute 6.5% of their total gross compensation to receive the company match. Employer contributions for the periods ended August 31, 2018 and 2017 were \$941,512 and \$749,882, respectively.

**THE UNIVERSITY OF TEXAS/TEXAS A&M INVESTMENT MANAGEMENT COMPANY**  
***Notes to Financial Statements***

---

Effective December 1, 2007, UTIMCO adopted a compensation plan under Internal Revenue Code Section 457(b). The 457(b) plan is an unfunded deferred compensation plan that is established and maintained for a select group of management employees. Participants are determined by the Administrative Plan Committee. Participants are permitted to make tax-deferred contributions to the 457(b) plan, but until the plan benefits are paid out, these contributions remain part of UTIMCO's general assets and can be used to satisfy claims of the general unsecured creditors of UTIMCO. The assets and obligations of the 457(b) plan are reported on the Statements of Net Position at current fair values. The assets of the 457(b) plan are invested in publicly traded mutual funds and are categorized as Level 1 of the fair value hierarchy as defined in GASB No. 72.

Effective May 1, 2011, UTIMCO established a health savings account arrangement, which is a tax-exempt trust or custodial account with a qualified trustee used to pay or reimburse certain medical expenses. Employer contributions for the period ended August 31, 2018 and 2017 were \$247,234, and \$208,961, respectively.

**Note 6 – Lease Expense**

Effective September 1, 2005, UTIMCO entered into an eleven-year lease for its former office space and parking with a third party. UTIMCO extended the lease on November 14, 2014 for an additional eighteen months that expired on February 28, 2018. Under the terms of the original lease, the lease expense and building operating expenses for the first 14 months were provided by the landlord as a lease incentive, except for specific electricity costs incurred by UTIMCO. Under the terms of the extension, an additional tenant allowance of \$162,400 was provided. UTIMCO used the allowance towards the payment of base rent in lieu of applying it towards construction related expenses as provided for in the lease. The lease expense incentives were recorded as an unamortized rent liability as detailed in Note 7.

UTIMCO entered into a 124-month lease agreement, as amended, with The University of Texas System effective February 1, 2018, for its current office space as discussed in Note 3 c) above. Under the terms of the lease, base rent and operating expense rent for the first four months of the term were abated. The lease also provided for an additional allowance of \$2,726,600 that was applied towards the tenant construction costs. The lease agreement also contains a rent escalation clause providing for scheduled rent increases annually. The lease expense incentives were recorded as an unamortized rent liability as detailed in Note 7.

The net lease expense related to the lease incentives and amortization of the tenant allowances for the periods ended August 31, 2018 and 2017 were \$1,554,772 and \$1,028,533, respectively. For the periods ended August 31, 2018 and 2017, related operating expenses were \$528,542 and \$874,780, respectively. Parking expense was \$197,847 and \$169,335, respectively, for the periods ended August 31, 2018 and 2017.

The minimum rental commitment for UTIMCO's current office space beginning February 1, 2018 and expiring May 31, 2028 is \$154,507 per month for the first year with the first four months abated and escalates annually by \$4,544 per month.



**THE UNIVERSITY OF TEXAS/TEXAS A&M INVESTMENT MANAGEMENT COMPANY**  
***Notes to Financial Statements***

---

The following is a schedule by years of the future minimum lease payments under the lease terms:

Years ending August 31,	
2019	\$ 1,885,898
2020	1,940,430
2021	1,994,962
2022	2,049,494
2023	2,104,027
Thereafter	<u>10,720,083</u>
	<u>\$ 20,694,894</u>

**Note 7 – Unamortized Rent**

Under the terms of the former office lease eighteen-month extension effective September 1, 2016, UTIMCO was provided with an additional allowance of \$162,400 in connection with this extension. UTIMCO used the allowance towards the payment of base rent in lieu of applying it towards construction related expenses as provided for in the lease. For the period ended August 31, 2017, unamortized rent relating to the eighteen-month extension was \$54,133.

Under the terms of the current office lease, as amended, that commenced on February 1, 2018, UTIMCO was provided with four months of abated rent and a tenant improvement allowance of \$2,726,600 that was applied towards construction expenses. For the period ended August 31, 2018, unamortized rent relating to the new lease agreement was \$3,303,584.

## **CHARTER OF THE AUDIT AND ETHICS COMMITTEE**

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

## Charter of the Audit and Ethics Committee

### Background

The Board of Directors (the "Board") of The University of Texas/Texas A&M Investment Management Company (the "Corporation") established an Audit and Ethics Committee (the "Committee") on February 22, 1996. On July 15, 1996, the Board adopted certain resolutions regarding, among other things, the Corporation's Audit and Ethics Committee Mandate (the "Mandate"). The Mandate was superseded by this Charter. This Charter adopted by the Board on ~~February 20, 2014~~December 6, 2018, supersedes the Charter adopted by the Board on ~~April 14, 2014~~February 20, 2014. ~~Editorial amendment to change name of corporation effective May 10, 2017.~~

### Purpose

The primary purpose of the Committee is to assist the Board in monitoring the ethics programs and the audit, financial and compliance functions of the Corporation and the investment funds managed on behalf of The University of Texas System Board of Regents (the "UT Board") to assure the balance, transparency and integrity of published financial information. Specifically, the Committee is to assist the Board in monitoring:

- the integrity of the financial reporting process, the system of internal controls, the audit process, and the process for monitoring compliance with laws and regulations;
- the independence and performance of the Chief Compliance Officer;
- the independence and performance of the Corporation's independent auditors;
- the independence and performance of the independent auditors selected by the UT Board to audit the investment funds managed by the Corporation on their behalf;
- internal audit functions performed by the UT System Audit Office;
- independent audit functions performed by the Texas State Auditor's Office;
- the Corporation's audit policies, ethics programs, and adherence to regulatory requirements; ~~and~~
- the Corporation's enterprise risk management; and
- the Corporation's fraud prevention and detection system.

The Committee is responsible for maintaining free and open communication as well as effective working relationships among the Committee members, the Chief Compliance Officer, independent external auditors, UT System Audit Office, the Texas State Auditor's Office, and management of the Corporation. To perform his or her role effectively, each Committee member will need to develop and maintain his or her skills and knowledge, including an understanding of the Committee's responsibilities and of the Corporation's activities, operations and risks.

The Committee will take all appropriate actions to set the overall tone at the Corporation for quality financial reporting, sound risk practices, and ethical behavior.

### **Scope**

This Audit Charter sets forth the Committee's monitoring responsibilities with respect to the Corporation and the investment funds subject to the Master Investment Management Services Agreement by and between the UT Board and the Corporation effective November 13, 2008, and any subsequent amendments. As such, the role and purpose of the Committee includes monitoring the functions and processes for both the Corporation and the investment funds managed on behalf of the UT Board.

### **Composition**

The Committee shall be composed of at least three members of the Board; such members to be appointed from time to time by a majority vote of the Board at a meeting ~~at~~ which a quorum is present and approved by the UT Board as required by Section 66.08 (c)(3) of the *Texas Education Code*. Individuals who are not members of the Board may be appointed to the Committee; provided however, a majority of the Committee members shall be members of the Board of Directors. Members of the Committee must meet the independence and financial literacy requirements as defined below. A member may be removed with or without cause at any time by a vote of a majority of the Board.

### **Independence Requirements**

The Board shall determine that all members of the Committee are independent. A person is "independent" who has no relationship with the Corporation which would interfere with his or her exercise of independence from management. In addition, Committee members would not be "independent" if during the three years prior to their appointment or at any time during their service on the Committee, they accepted, directly or indirectly, any consulting, advisory, or other compensatory fee from the Corporation apart from travel and expense reimbursements they may receive as members of the Board and its Committees.

### **Financial Literacy**

The Board, based on its business judgment, shall determine that each member of the Committee is financially literate.

## **Financial Management Expertise**

The Board, based on its business judgment, shall determine that at least one member of the Committee is a “financial expert.” A financial expert possesses the following attributes:

- an understanding of generally accepted accounting principles (GAAP) and financial statements;
- an ability to assess the application of GAAP in connection with accounting for estimates, accruals and reserves;
- an understanding of audit committee functions;
- experience preparing, auditing, analyzing or evaluating financial statements, or experience actively supervising persons engaged in such activities; and
- an understanding of internal controls and procedures for financial reporting.

## **Meetings; Quorum; Etc.**

The Corporation's Bylaws state that any committee created by the Board or the Bylaws shall (i) have a chairman designated by the Board, (ii) fix its own rules or procedures, (iii) meet at such times and at such place or places as may be provided by such rules or by resolution of such committee or resolution of the Board, and (iv) keep regular minutes of its meetings and cause such minutes to be recorded in books kept for that purpose in the principal office of the Corporation, and report the same to the Board at its next regular meeting. At every meeting of any such committee, the presence of a majority of all the members thereof shall constitute a quorum, and the affirmative vote of a majority of the members present shall be necessary for the adoption by it of any action, unless otherwise expressly provided in the committee's rules or procedures or the Bylaws of the Corporation or by the Board. The Board may designate one or more Directors as alternate members of any committee, who may replace any absent or disqualified member of such committee. In the absence or disqualification of a member of a committee, the member or members present at any meeting of the committee and not disqualified from voting, whether or not constituting a quorum, may unanimously appoint the designated alternate Director to act at the meeting in the place of the absent or disqualified member.

## **Functions, Duties and Responsibilities**

### ***Review Financial Statements for Quality Considerations***

The Committee has the following duties and responsibilities with respect to the financial statements of the Corporation and the investment funds managed on behalf of the UT Board:

- review the annual audited financial statements with management and the independent auditor, including significant issues regarding adequacy of internal controls and accounting principles and practices;

- review an analysis prepared by management and the independent auditor of significant financial reporting issues, if any, made in connection with the preparation of the financial statements;
- discuss with the independent auditor the matters required to be communicated by AU-C Section 380260, *The Auditor's Communication ~~with~~ With Those Charged ~~with~~ With Governance*, as amended, relating to an audit of financial statements;
- discuss with the independent auditor any fraud of which the independent auditor becomes aware that involves senior management and/or which causes a material misstatement of the financial statements; and
- periodically discuss with the independent auditor the auditor's independence.

### ***Monitor Management's Handling of Internal Controls***

The Committee has the following duties and responsibilities with respect to its monitoring of the integrity of the financial reporting process and internal controls of the Corporation and the investment funds managed on behalf of the UT Board:

- review with the independent auditor all significant deficiencies and material weaknesses identified during the audit as required by AU-C Section 325265, *Communicating Internal Control ~~related~~ Related Matters Identified in an Audit*, as amended.
- review with the independent auditor any problems or difficulties the auditor may have encountered during its audit and any management letter provided by the auditor and the Corporation's response to that letter, such review to include:
  - any restrictions on the scope of activities or access to required information; and
  - any changes required in the planned scope of the audit;
- obtain reports from management and UT System Audit Office with respect to the Corporation's policies and procedures regarding compliance with applicable laws and regulations;
- when considered necessary, meet with the independent auditor and the senior personnel of the UT System Audit Office without management participation;
- meet periodically with management to review the major financial risk exposures and the steps management has taken to monitor and control such exposures;

- review significant changes to internal controls and accounting principles and practices as suggested by the independent auditor, internal auditors or management;
- review the significant reports to management prepared by the UT System Audit Office and management's responses; and
- review with the Corporation's legal counsel or other appropriate persons legal matters that may have a material impact on the financial statements, the Corporation's compliance policies and any material reports or inquiries received from regulators or governmental agencies.

### ***Manage the Relationship with the External Auditors***

The external auditors for the Permanent University Fund are selected by the UT Board. These auditors have a dual reporting responsibility, reporting to both the Audit, Compliance, and Risk Management ~~Review~~ Committee of the UT Board and to the Committee. The external auditors for the Corporation are selected by, and report to, the Board. By agreement between the UT Board and the Board, the external auditors for the other investment funds managed by the Corporation on behalf of the UT Board will be selected by the UT Board and will have a dual reporting responsibility, reporting to both the Audit, Compliance, and Risk Management ~~Review~~ Committee of the UT Board and to the Committee. The Committee may approve additional audit and non-audit services provided by the external auditor related to the Corporation and investment funds as long as the work does not impair auditor independence.

The Committee has the following specific duties and responsibilities with respect to the Corporation's independent auditors:

- recommend to the Board the appointment of the independent auditor, which firm is ultimately accountable to the Committee and the Board.
- approve the fee arrangement of the independent auditor;
- after interviewing members-employees of the Corporation's ~~staff~~, evaluate together with the Board the performance of the independent auditor and, if so determined by the Committee, recommend that the Board replace the independent auditor; and
- if determined by the Committee to be necessary or advisable, recommend that the Board take appropriate action to satisfy itself of the independence of the auditor.

### ***Auditor Independence***

In connection with the selection of external auditors, the Committee shall determine that:

- the public accounting firm engaged to perform the annual audit does not provide non-audit services to the Corporation contemporaneously with the audit (other than the agreed upon procedures required for compliance with the terms of the UTIMCO Compensation Program);
- the lead audit partner and the concurring (quality review) partner rotate off of the audit every 7 years, unless the Committee adopts a resolution affirmatively determining that such rotation is not required; and
- the CEO, Controller, CFO, Chief Accounting Officer, or person in an equivalent position shall not have been employed by the public accounting firm during the 1 year period preceding the audit.

### ***Work with the Internal Audit Function***

The Corporation utilizes the UT System Audit Office to perform internal audit functions hereunder with respect to the Corporation and investment funds and report directly to the Committee. The Committee has the following duties and responsibilities with respect to internal audit:

- review the independence, qualifications, activities, resources and structure of the internal audit function;
- review significant findings and recommendations made by the internal auditor and management's response and proposed implementation plan;
- review the proposed internal audit plan for the coming year to determine that it addresses key areas of risk and that there is appropriate coordination with the external auditor;
- review completed internal audits and the status of management's implementation of related recommendations; and
- receive a progress report on the internal audit plan with explanations for any deviations from the original plan.

### ***Monitor Ethics Program***

The Committee is responsible for overseeing codes of conduct/conflicts of interest and a system of addressing complaints. The Committee has the following duties and responsibilities in monitoring the ethics program:



- periodically review the Code of Ethics policy of the Corporation and recommend any proposed changes to the Policy Committee for concurrence and submission to the Board for approval;
- periodically review the process for communicating to employees and for monitoring compliance with the Code of Ethics;
- periodically evaluate and review the Corporation's compliance process;
- follow the UT System compliance guideline as outlined in ~~the Action Plan to Enhance Institutional Compliance~~Regents' Rule 20401 and UTS 119; and
- review procedures for the receipt, retention and treatment of complaints about accounting, internal accounting controls or auditing matters.

### **Oversee Regulatory Compliance**

The Committee is responsible for overseeing the effectiveness of the system for assuring compliance with laws and regulations and has the following duties and responsibilities:

- review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up of any fraudulent acts or non-compliance;
- obtain regular updates from management, the Chief Compliance Officer, and the Corporation's legal counsel regarding compliance matters that may have a material impact on the Corporation's and investment funds' financial statements or compliance policies;
- obtain regular updates from management and the Chief Compliance Officer regarding their consideration of all regulatory compliance matters in connection with the preparation of the financial statements; and
- review the findings of any examinations by regulatory agencies, including the Texas State Auditor's Office.

### **Oversee the Corporation's Enterprise Risk Management**

Without limiting any of the foregoing, the Committee, along with management and other personnel, as directed by the Board, is responsible for the Corporation's enterprise risk management. Enterprise risk management assists management in achieving the Corporation's performance goals and prevents loss of resources; helps ensure effective reporting and compliance with laws and regulations; and helps avoid damage to the Corporation's reputation and associated consequences. Enterprise risk management

enables management to effectively deal with uncertainty and associated risk and opportunity, enhancing the capacity to build value. The Committee has the following responsibilities related to enterprise risk management:

- evaluate the overall effectiveness of the Corporation's achievement of its objectives, as set forth in four categories:
  - Strategic – high-level goals, aligned with and supporting its mission;
  - Operations – effective and efficient use of its resources;
  - Reporting – reliability and timeliness of reporting; and
  - Compliance -
    - with applicable laws and regulations;
    - with non-investment Board policies such as the Code of Ethics and Delegation of Authority, and non-investment items in the Board investment policies; and
    - with 1) investment risk management and compliance, 2) integrity of risk management procedures and controls, 3) integrity of risk models and modeling processes, 4) liquidity of the Permanent University Fund, General Endowment Fund, and Intermediate Term Fund; 5) compliance with the Derivative Investment Policy; ~~6) the categorization of investment mandates;~~ and ~~7) the~~ monitoring of manager mandates;
- evaluate whether management is setting the appropriate tone at the top by communicating the importance of enterprise risk; and
- inquire of management, the Chief Compliance Officer, the UT System Audit Office, and the independent external auditor about significant enterprise risks or exposures to the Corporation and how these are being managed.

With respect to 1) investment risk management and compliance, 2) integrity of risk management procedures and controls, 3) integrity of risk models and modeling processes, and 4) liquidity of the Permanent University Fund, General Endowment Fund, and Intermediate Term Fund, 5) compliance with the Derivative Investment Policy; ~~6) the categorization of investment mandates;~~ and ~~7) the~~ monitoring of manager mandates, the Committee may rely on assurances from the Risk Committee in determining compliance.

### **Oversee Fraud Prevention and Detection**

The Committee is responsible for overseeing the effectiveness of the system for the prevention and detection of fraud and has the following duties and responsibilities:

- oversee management's arrangements for the prevention and deterrence of fraud;
- ensure that appropriate action is taken against known perpetrators of fraud; and
- ensure that the entity has appropriate antifraud programs and controls in place to identify potential fraud and ensure that investigations are undertaken if fraud is detected.

### ***Review the Overall Duties and Responsibilities of the Chief Compliance Officer***

The Chief Compliance Officer will report functionally to the Committee and administratively to the ~~CEO and Chief Investment Officer~~Senior Managing Director and Chief Operating Officer. The CEO and Chief Investment Officer will nominate the Chief Compliance Officer for hiring by the Committee. The Committee has exclusive dismissal authority. The Chairman of the Committee and the CEO and Chief Investment Officer will determine the Chief Compliance Officer's individual performance goals. The Committee and the CEO and Chief Investment Officer will ~~approve-determine~~ the achievement of the Chief Compliance Officer's individual performance goals ~~and achievement of the goals~~, and will make joint recommendations to the Compensation Committee as to base salary and performance ~~incentive~~ awards for the Chief Compliance Officer. The Chief Compliance Officer will report compliance activities directly to the Committee at its regular meetings and to the chair between meetings. The Chief Compliance Officer will develop an annual plan for review by the Committee. The ~~CEO and Chief Investment Officer~~Senior Managing Director and Chief Operating Officer will direct day-to-day responsibilities of the Chief Compliance Officer with oversight by the Committee.

### ***Other Duties***

The Committee has the following additional duties and responsibilities:

- make regular reports (at least twice each calendar year) to the Board regarding the Committee's activities and such other reports as may be requested by the Board;
- periodically review the adequacy of this Charter and recommend any proposed changes to the Board for approval;
- perform such additional special functions, duties or responsibilities related thereto as may from time to time be designated by the Board Chairman;
- evaluate the Committee's own performance, both of individual members and collectively, on a periodic basis; and
- perform any other activities consistent with this Charter, the Corporation's Bylaws, and applicable laws as the Committee or the Board deems necessary or appropriate.

### **Powers and Limitations**

In discharging its responsibilities, the Committee will have unrestricted access to members of management, employees, and relevant information it considers necessary to discharge its duties. The Committee also will have unrestricted access to records, data, and reports.

The Committee shall have the authority to retain special legal, accounting or other consultants to advise the Committee. The Committee may request any officer or employee of the Corporation, the Corporation's outside legal counsel or an employee in the UT System Audit Office to attend any meeting of the Committee or to meet with any members of, or consultants to, the Committee.

Approved by the Board of Directors on ~~February 20, 2014~~December 6, 2018. ~~Editorial amendment to change name of corporation effective May 10, 2017.~~

## **CONTRACT REPORT**

**New Contracts, Leases, and Other Commercial Arrangements**  
 (Total Obligation per Agreement greater than \$250,000)  
 November 27, 2018 through February 4, 2019

Agreement	Purpose	Contract Term	Annual Amount
Dynamo Software	Portfolio and relationship management system with full mobile access for travelers	11/15/2018 - 11/14/2019	\$409,020

**QUARTERLY REPORT**  
**INSTITUTIONAL COMPLIANCE PROGRAM**

**The University of Texas/Texas A&M Investment Management Company  
Institutional Compliance Program Report  
for the Quarter Ended November 30, 2018**

**Section I – Organizational Matters**

- One meeting of the Ethics and Compliance Committee was held during the quarter: November 12, 2018.
- Mark Warner, Senior Managing Director, resigned August 2018, effective September 7, 2018.
- Amended Intermediate Term Fund Investment Policy Statement, retroactive to September 1, 2018, to was approved by the Board of Regents of The University of Texas System on November 15, 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 – Public Equity; Managing Director – Hedge Funds; Managing Director – Real Return; Managing Director - Fixed Income; Senior Director – Private Equity

**Key “A” risk(s) identified:**

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

**Key Monitoring Activities:**

**Public Equity:** The Public Equity Team participated in 46 meetings/calls with potential managers. Serious due diligence was initiated on four mandates. No new mandates were completed. Ongoing review of active external managers included 83 meetings/calls. Additional efforts included monthly performance tracking, reviews and analyses by the team and participation in five annual meetings.

**Fixed Income:** The Fixed Income Team participated in three meetings/calls with potential managers. Ongoing review of active external managers included nine meetings/calls. No serious due diligence was initiated on any mandates. No new mandate was completed.

**Hedge Funds:** The Hedge Funds Team participated in 66 meetings/calls with potential managers. Serious due diligence was initiated on three new mandates. No new mandates were completed. Ongoing review of active external managers was conducted in the form of 72 meetings/calls/site visits. Additional efforts included monthly performance tracking, reviews and analyses by the team.

**Private Credit:** The Private Credit Team participated in 12 meetings/calls with potential managers. Serious due diligence was initiated on one mandate. No new mandates were completed. No addition to an existing mandate was completed. Ongoing review of active external managers included 10 meetings/calls.

**Private Equity:** The Private Equity Team participated in 31 meetings/calls with potential managers. Serious due diligence was initiated on three new mandates. No serious due diligence was initiated on existing mandates. One new mandate was completed. There were no additions to existing mandates.



Ongoing review of active external managers included 13 meetings/calls. Additional efforts included participation in one annual meeting.

**Healthcare:** The Healthcare Team participated in one meeting/call with potential managers. Serious due diligence was initiated on two new mandates. No serious due diligence was initiated on existing mandates. Two new mandates were completed. There were no additions to existing mandates. Ongoing review of active external managers included four meetings/calls.

**Technology:** The Technology Team participated in 18 meetings/calls with potential managers. Serious due diligence was not initiated on any new mandate. Two new mandates were completed. No addition to an existing mandate was completed. Ongoing review of active external managers included 14 meetings/calls. Additional efforts included participation in four annual meetings.

**Natural Resources:** The Natural Resources Team participated in 87 meetings/calls with potential managers. Serious due diligence was initiated on 4 new mandates. Two new mandates were completed. There was an addition to an existing mandate. Ongoing review of active external managers included 124 meetings/calls. Additional efforts included participation in six annual meetings.

**Emerging Markets:** The Emerging Markets Team participated in 32 meetings/calls with potential managers. Serious due diligence was initiated on two new mandates. One new mandate was completed. There were no additions to existing mandates. Ongoing review of active external managers included 17 meetings/calls. Additional efforts included 5 annual meetings.

**Real Estate:** The Real Estate Team participated in 36 meetings/calls with potential managers. Serious due diligence was initiated on two new mandates. Two new mandates were completed. There were no additions to existing mandates. Ongoing review of active external managers included 43 meetings/calls. Additional efforts included participation in 9 annual meetings.

**Specialized Training:** The Investment Team attended 26 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 continues 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. In particular, the Risk Team worked with the Tactical Asset Allocation Team to improve the signals that drive the bear market monitor, to reduce the number of false positives and false negatives, to make this monitor more a forecasting tool, and to make this monitor more actionable.
- Risk Team reviewed three due-diligence questionnaires during the quarter.

- Risk Team continued to support the ITF→LTF transfers, with \$1.1bn being transferred so far. While these transfers were expected to create a dip in the allocation to Private Investments in the first couple of years, the Endowments were able to achieve a 40.7% exposure to Private Investments as of 11/30/2018, vs a target allocation of 40%.
- Risk Team worked to address the reporting requirements and the effects of the new Strategic Asset Allocation. In particular, the team analyzed the higher Risk Utilization that has been observed with the new Policy Portfolio and is working with the Investment Teams to address some pockets of risk.
- All investments presented to Investment Committee submitted a Risk scorecard that was reviewed by Risk Management for consistency and accuracy.
- The monthly CUSUM report is now automated. All managers flagged were reviewed by the Investment Teams, and the results of these reviews were shared with Risk Management.
- During the quarter, 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. Risk Team 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 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.

**Organizational Update:** Tim Jones joined as Director of Risk Management on October 1, 2018.

**Specialized Training:** Risk Team participated in one conference during the quarter.

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

**Responsible Party:** Chief Information Security Officer (CISO)

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

- *Organization could fail to adequately secure networks and data to prevent abuse, destruction, and/or theft.*

**Key Monitoring Activities:**

- CISO identified the installation of software by the Information Services Team that had not been submitted for legal or security review. The software remained in use at the end of the reporting period. The CISO is working with the Information Services team to resolve this item. An alternate tool, previously approved, was not used.
- Software compliance checks were completed identifying a lack of an accurate and complete software inventory. The CISO continues to monitor for policy violations for use of unauthorized software, sharing of credentials, and use of network resources. The CISO has

added this as a high risk, high priority item to track the status of completing an accurate software inventory by the Information Services team.

- Splunk monitoring rebuild continues. Progress has been made, but transition to the UT System Shared Splunk instance is planned for Q1 2019 which will provide better visibility across systems and reduce maintenance workloads on the UTIMCO Information Services team. The CISO continues to monitor this as a high risk, high priority item for the Information Services team to complete.
- The vulnerability previously discovered in UTIMCO's guest wireless network was resolved as of the end of the reporting period, however, items related to client isolation remain unresolved.
- CISO found incomplete hardware inventory and ip address assignment documentation and requested an accurate and complete hardware inventory from Information Services. Completion of the inventory by Information Services Team has been postponed to 12/31/18.
- Windows 2008 servers remain in production environments even though Windows 2008 no longer receives mainstream support from Microsoft; 12 are currently registered in the directory, down from 22 in the prior reporting period. The 09/28/2018 deadline for completion of this project by the Information Services Team has been extended.
- Multiple alerts were sent to the firm covering various topics including viruses, malware, phishing scams, securely sending credit card and social security numbers and updates for mobile devices.
- Windows 2012 servers (51) have been identified as nearing end of mainstream support, down from 52 in the prior reporting period. Mainstream support for Windows 2012 servers ended on 10/9/2018. The 09/30/18 deadline for completion of this project by the Information Services Team has been extended.
- Significant progress has been made with respect to the elimination of Outlook PST files. The 8/31/18 deadline has been extended to 12/31/18; work appears on track to meet the 12/31/18 deadline.
- The Nightly shutdown policy was eliminated to allow users to leave their computers and monitors turned on at all times. The change was approved by Deputy CIO Hall.
- Employee security training was completed for new team members.
- Monitoring and blocking of unencrypted electronic transmissions of social security numbers and credit card numbers is ongoing. No violations noted.

**Specialized Training:** CISO attended teleconference UT Security meetings. CISO met with Denim Group and Sirius Computing to review new technologies, security standards, and security.

**Responsible Party:** Chief Technology Officer

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

- *Organization could fail to manage computer software and hardware resulting in internal and external users unable to perform necessary job duties.*

**Key Monitoring Activities:**

- Manage Engine Infrastructure Management suite selected to enhance systems management capabilities.
- Assessment and migration of Investment Teams files to the cloud for the Unified File Storage project in progress.
- Remediation of finding in Denim security assessment for new UTIMCO space, including external penetration tests, Wi-Fi, new UTIMCO website setup and updated scans on

institutional applications access is ongoing and expected to continue through the second quarter.

- Information Services Team continues to work with CISO on prioritizing and resolving security risks identified by CISO.
- User workstations were patched for updated security with operating system and 3rd party software updates.
- Servers were patched for updated security with operating system and 3rd party software updates.
- Decommission of 2008 Servers is in progress.
- Several new UTIMCO employees went through infrastructure onboarding training.

**Organizational Update:** Eddy Gilbert joined the infrastructure team as a temp-to-hire engineer.

**Specialized Training:** Information Services Team participated in Manage Engine initial training, Microsoft Advanced SharePoint training. Information Services Team met with Comm3, Strategic SAAS, Sequel Data Systems, PC Connections, Dell and Manage Engine for architecture reviews, training and project implementation.

**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.
- Information regarding the categorization of mandates is included in the Certificates of Compliance mailouts and Monthly Transparency report sent to UTIMCO Directors and the investment memos reviewed by the Internal Investment Committee.
- 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 Directors were required to submit compliance statements during the quarter.
- Three full time employees, one temporary worker converted to a full-time employee, and one temporary worker, were hired during the quarter. New hire compliance statements were received timely from all employees and the temporary worker.
- One new hire ethics and compliance training session was 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. No review was required during the 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 to prevent the violation of UTIMCO Code of Ethics and Texas Education Code Section 66.08. No new security was added to the list. No new manager operating under an agency agreement was hired during the quarter.
- Daily, 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 46 employee securities transactions during the quarter, three required preclearance. All were precleared as required. No transactional disclosure forms were filed late during the quarter.
- One employee requested CEO approval for outside employment during the quarter.
- 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 15 expense reports tested during the quarter, three included third party paid expenses and all were preapproved as required. None of the expense reports tested included a sponsored entertainment event.
- Effective September 1, 2017, employees must submit sponsored entertainment requests for approval to the CCO. During the quarter, eight employees requested and received approval for sponsored entertainment events; two employees did not receive approval when required.

**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 Team. 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:** *Opportunity for enhancement*

**Assurance Activities Conducted:** CCO continues to meet with CISO regarding information technology and security practices. Due to the separation of CISO role from Information Services team, the Security and Information Services teams continue to work together to define and separate duties, promptly address issues as they arise, and continue transition to the new organizational structure. CISO has identified several areas of vulnerability and required improvement in UTIMCO's information resources. The Security and Information Services teams plan to resume biweekly meetings to track and monitor the status of these needed improvements and will continue to work together on these matters.

**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**

One training session was held during the quarter.

**Section V – Action Plan Activities**

See updated Institutional Compliance Action Plan Fiscal Year 2019.

**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	0	0.00%
Total	0	100.00%

All calls are accepted by the hotline and reported to the UTIMCO Compliance Office. All reports are handled by a 5-person team comprised of the Corporate Counsel and Chief Compliance Officer, the Compliance Specialist, the Senior Director – Human Resources, the Executive Assistant to the President, 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 2019**

#	ACTION ITEM	TARGET COMPLETION DATE	STATUS
<b><i>A. RISK ASSESSMENT</i></b>			
1.	Complete 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	12/31/2018; revised to 03/31/19	<i>ERM, risk assessments and updated monitoring plans in progress (holdover from FY 2018)</i>  <i>Update to Fraud Program nearing completion; work continues on ERM</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	12/31/2018; revised to 03/31/19	<i>Monitoring plans revisions in progress (holdover from FY 2018)</i>
3.	Continual enhancement of compliance monitoring and reporting	Ongoing	<i>Ongoing</i>
<b><i>C. COMPLIANCE TRAINING / AWARENESS</i></b>			
4.	Increase personal training and awareness related to cybersecurity risks	Ongoing	<i>Ongoing</i>
5.	Provide new employee and annual Code of Ethics training and information to improve employee awareness of compliance program	04/30/2019	<i>Training session held 11/06/18</i>
6.	Identify and network with similarly situated compliance professionals	Ongoing	<i>Council of Public Funds Compliance Officers 11/27/18; Meeting with Travis County Compliance Officer 12/03/18</i>
<b><i>D. REPORTING</i></b>			
7.	Work with Information Technology Team to automate Code of Ethics forms	06/30/2019	<i>No activity</i>
8.	Conduct quarterly meetings with the internal ethics and compliance committee	Ongoing	<i>Quarterly meeting held 11/12/18</i>
9.	Provide quarterly/annual reports to the Audit and Ethics Committee and System-wide compliance office	Ongoing	<i>Quarterly reporting to A&amp;E and Risk Committees: 11/29/18; Quarterly reporting to Systemwide Compliance: 01/16/19</i>

Updated 01/22/19



#	ACTION ITEM	TARGET COMPLETION DATE	STATUS
<b><i>E. OTHER / GENERAL COMPLIANCE</i></b>			
10.	Update/Revise Institutional Compliance Program Manual	09/30/2019	<i>No activity</i>
11.	Continual update of compilation of all laws and regulations applicable to UTIMCO and to the extent necessary, modify compliance processes and reporting	Ongoing	<i>Ongoing</i>
12.	Update Business Continuity Plan due to move to new office space	11/30/2018	<i>IT disaster recovery plan received however it still has open items; once finalized it will be incorporated into BCP document (holdover from FY 2018)</i>
13.	Supervise and manage work of Compliance Specialist	Ongoing	<i>Ongoing</i>
14.	UT Systemwide Compliance Office activities participation: annual compliance officers' forum and other activities	Ongoing	<i>No activity</i>
15.	Hotline reporting	Ongoing	<i>No activity</i>

Updated 01/22/19

**Agenda Item**  
UTIMCO Board of Directors Meeting  
February 21, 2019

**Agenda Item:** Report from Policy Committee: Discussion and Appropriate Action Related to Proposed Amendments to the Master Investment Management Services Agreement with UTIMCO; and Discussion and Appropriate Action Related to Proposed Amendments to the Charter of the Policy Committee

**Developed By:** Gonzalez, Moeller

**Presented By:** Hicks

**Type of Item:** Action item; Action required by UTIMCO Board and by Board of Regents of The University of Texas System related to Master Investment Management Services Agreement with UTIMCO (“IMSA”)

**Description:** The Policy Committee (“Committee”) met on November 29, 2018. The Committee’s agenda included: (1) approval of minutes of the July 19, 2018 meeting and the July 19, 2018 Joint Meeting of the Policy and Risk Committees; (2) discussion and appropriate action related to proposed amendments to the IMSA; and (3) discussion and appropriate action related to proposed amendments to the Charter of the Policy Committee.

The IMSA is the contract between the Board of Regents of The University of Texas System (“UT Board”) and the UTIMCO Board. Ultimate responsibility for the accounts under UTIMCO’s management rests with the UT Board. Section 66.08, *Texas Education Code*, authorizes the UT Board, subject to certain conditions, to enter into a contract with a nonprofit corporation to invest funds under the control and management of the UT Board. The current IMSA was effective November 13, 2008.

The purpose of the Charter of the Committee (the “Charter”) is to outline the duties and responsibilities of the Committee. In accordance with the Charter of the Committee, the Committee will periodically review and reassess the adequacy of the Charter and recommend any proposed changes to the UTIMCO Board for approval. The current Charter was approved by the UTIMCO Board on February 20, 2014.

**Discussion:** The Committee reviewed and approved the proposed changes to the IMSA. The Team and UT System staff have reviewed the IMSA and submitted to the Committee the following changes to the IMSA:

- Changed document to reflect current name of UTIMCO
- Page 1, paragraph 4, *Recitals*; changed to reflect incorporation of the Texas Non-Profit Corporation Act into the Texas Business Organizations Code
- Section 1(h), *Investment Policies*; removed reference to UTIMCO Mandate Categorization Procedure as it was eliminated effective July 26, 2018

## Agenda Item

UTIMCO Board of Directors Meeting  
February 21, 2019

- Section 2(b), *Policy Matters*; added Chancellor's designee as an additional person to whom UTIMCO may look on various policy matters
- Section 2(c); *Meetings and Agendas*; changed to only require the UTIMCO CEO to consult with the Chancellor on the draft agenda for UTIMCO Board meetings when the Chancellor is serving as the Vice Chairman for Policy
- Section 3(a); *Investment Policies*; deleted references to distribution (spending) guidelines as UTIMCO no longer performs this function
- Section 3(f); *Reporting*; updated references to compliance guidelines
- Section 3(g); *Disclosure of Information*; changed language to permit UTIMCO's Public Information Coordinator rather than CEO to work with the UT System Vice Chancellor and General Counsel on Texas Public Information Act matters
- Section 3(h)(ix); *Other Services*; changed to reflect incorporation of the Texas Non-Profit Corporation Act into the Texas Business Organizations Code
- Section 17; *Notices*; updated Board of Regents' and UTIMCO's addresses
- Schedule A; *Funds*; added definition of Debt Proceeds Fund
- Deleted references to Investment Type throughout the document consistent with current Investment Policy Statements
- Minor editorial changes
- New effective date for the IMSA will be February 27, 2019

The Committee reviewed and approved the proposed changes to the Charter. The following changes to the Charter were proposed by the Team:

- Page 2; *Duties and Responsibilities*, correction to language related to the review and approval of amendments to the UTIMCO Travel Guidelines as no UTIMCO Board approval is required
- Page 2; *Duties and Responsibilities*, removed language regarding approval of distribution (spending) guidelines consistent with the Investment Policy Statements as this is no longer a responsibility of the UTIMCO Board
- Page 3; *Duties and Responsibilities*, removed language regarding recommendations concerning the annual distribution amount and payout rates of the funds consistent with the Investment Policy Statements as this is no longer a responsibility of the UTIMCO Board
- Other minor editorial changes

**Recommendation:** The Policy Committee recommends approval by the UTIMCO Board of the proposed amendments to the IMSA, effective February 27, 2019, subject to approval by the Board of Regents of The University of Texas System; and the proposed amendments to the Charter.

**Reference:** Master Investment Management Services Agreement with UTIMCO  
Charter of the Policy Committee

**BOARD RESOLUTION RELATED TO  
MASTER INVESTMENT MANAGEMENT SERVICES  
AGREEMENT WITH UTIMCO**

RESOLVED, that the Master Investment Management Services Agreement with UTIMCO (“IMSA”) be, and is hereby, approved in the form submitted to the Corporation’s Board, subject to approval by the Board of Regents of The University of Texas System.

**RESOLUTION RELATED TO THE  
CHARTER OF THE POLICY COMMITTEE**

RESOLVED, that the amendments to the Charter of the Policy Committee, as recommended be, and are hereby approved, in the form submitted to the Corporation's Board of Directors.

Approved ~~November 13, 2008~~February 27, 2019

## MASTER INVESTMENT MANAGEMENT SERVICES AGREEMENT WITH UTIMCO

This Investment Management Services Agreement (this “Agreement”) by and between the Board of Regents (the “U. T. Board”) of The University of Texas System (the “U. T. System”) and The University of Texas/Texas A&M Investment Management Company (“UTIMCO”), a Texas nonprofit corporation, is effective ~~November 13, 2008~~February 27, 2019 (the “Effective Date”), and supersedes all earlier agreements by and between the U. T. Board and UTIMCO regarding the subject matter hereof.

### RECITALS

WHEREAS, the U. T. Board, pursuant to the Constitution and statutes of the State of Texas, is responsible for the investment of the Permanent University Fund, the local and institutional assets of the U. T. System and the assets of various trusts and foundations for which it serves as trustee, all of which assets are under the control and management of the U. T. Board;

WHEREAS, Section 66.08, *Texas Education Code*, as amended, authorizes the U. T. Board, subject to certain conditions, to enter into a contract with a nonprofit corporation for the corporation to invest assets under the control and management of the U. T. Board, as designated by the U. T. Board;

WHEREAS, UTIMCO has been organized under the laws of the State of Texas, including the ~~Texas Non-Profit Corporation Act, Tex. Rev. Civ. Stat. Ann. art. 1396-1.01 et seq.~~Texas Business Organizations Code, for the express purpose of investing assets under the control and management of the U. T. Board, as designated by the U. T. Board, in accordance with the laws of the State of Texas;

WHEREAS, the U. T. Board desires to continue an Agreement with UTIMCO for UTIMCO to invest certain designated assets under the control and management of the U. T. Board;

WHEREAS, UTIMCO desires to enter into this Agreement with the U. T. Board and to invest certain designated assets under the control and management of the U. T. Board; and

WHEREAS, all conditions precedent to the execution and delivery of this Agreement have been fully satisfied and fulfilled, including, without limitations, the conditions established by Section 66.08, *Texas Education Code*, as amended.

NOW THEREFORE, for and in consideration of the premises and the mutual promises contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

## AGREEMENT

### Section 1. Definitions.

- (a) **Affiliate** shall mean an entity directly or indirectly controlling, controlled by, or under common control with UTIMCO, including an entity with whom UTIMCO has an express or implied agreement regarding the direct or indirect purchase of investments by each from the other.
- (b) **Cash Reserves** shall mean cash on hand plus investments, plus prepaid expenses, less accounts payable, less other liabilities.
- (c) **Claims** shall mean all claims, lawsuits, causes of action and other legal actions and proceedings of whatever nature brought against (whether by way of direct action, counter claim, cross action, or impleader) any Indemnified Party and all requests or demands for indemnification made by any third party upon any Indemnified Party, even if groundless, false or fraudulent, so long as the claim, lawsuit, cause of action, other legal action or proceeding, request or demand is alleged or determined, directly or indirectly, to arise out of, result from, relate to or be based upon, in whole or in part, the duties, activities, acts or omissions of any person arising under this Agreement.
- (d) **Custodian** or **Custodians** shall mean a commercial bank, trust company or other entity selected by UTIMCO to hold and safe-keep ~~physical~~ securities representing investment assets of any Fund and to perform the other functions listed in Section 5 hereof.
- (e) **Delegated Assets** shall mean those assets under the control and management of the U. T. Board that are invested in the Funds managed by UTIMCO hereunder; pursuant to the corresponding Investment Policies as such assets may be directed for investment by the U. T. Board or its designees from time to time pursuant to its Investment Policies or otherwise. The Delegated Assets may include, without limitation, the following funds or categories of assets:
  - (i) The Permanent University Fund established pursuant to Article VII, Section 11 of the Texas Constitution (the “Permanent University Fund” or “PUF”); provided that, for purposes of this Agreement and the delegation of investment management responsibilities hereunder, the PUF excludes the approximately 2.1 million acres of land located in 19 Texas counties, primarily in West Texas, and constituting a part of the PUF (the “PUF Lands”), as to which the U. T. Board retains complete investment management authority and responsibility;
  - (ii) Any and all funds or assets under the control and management of the U. T. Board as owner, administrator, contractual investment manager, or otherwise, including without limitation endowment funds and operating assets, other than the Permanent University Fund, the Permanent Health Fund and the U. T. Board Trust Accounts (collectively, “U. T. System Funds”);

- (iii) The assets of charitable remainder trusts, foundations and other separately invested assets for which the U. T. Board serves as trustee on behalf of itself and other co-beneficiaries (“U. T. Board Trust Accounts”);
  - (iv) The permanent assets for health-related institutions established pursuant to Chapter 63, *Texas Education Code*, for which the U. T. Board is an administrator (collectively, the “Permanent Health Fund” or “PHF”);
  - (v) U. T. System Funds or U. T. Board Trust Accounts which, by election of the U. T. Board or by requirement of the trust indenture or donative instrument, are invested separately and apart from other U. T. System Funds and the PUF (collectively, “Separately Invested Funds” or “SIFs”); and
  - (vi) Institutional assets of third-party non-profit charitable foundations or tax-exempt charitable organizations to the extent dedicated to the support of the educational purposes of the U. T. System and under the control and management of the U. T. Board by contract (collectively, “Foundation Funds”).
- (f) **Funds** shall mean the separate investments or pools of assets in which the Delegated Assets are to be invested pursuant to the corresponding Investment Policies, as specified in Schedule A hereto and in the corresponding Investment Policies, each of which may be amended by the U. T. Board from time to time as provided for herein.
- (g) **Indemnified Parties** shall mean UTIMCO and any of its officers, directors, employees and agents.
- (h) **Investment Policies** shall mean the written investment policies determined and approved by the U. T. Board relating to the Funds, and all generally applicable written investment-related policies determined and approved by the U. T. Board that govern the management of investments for some or all Funds, such as the policies regarding asset allocation, and the policies on Derivative Investment, Liquidity, and Error Correction, but excluding internal UTIMCO operational guidelines as to which approval of the U. T. Board is not required, which include the ~~UTIMCO Mandate Categorization Procedure~~, Valuation Criteria for Alternative Assets, Calculating Liquidity Procedure, Soft Dollar Policy and Procedures, Securities Lending Policy, and the Proxy Voting Policy (the Proxy Voting Policy being governed by the provisions of the individual Investment Policies related to proxy voting).
- (i) **Losses** shall mean losses, costs, damages, expenses, judgments and liabilities of whatever nature (including, but not limited to, attorneys’, accountants’ and other professionals’ fees, litigation and court costs and expenses, amounts paid in settlement, amounts paid to discharge judgments and amounts payable by an Indemnified Party to any other person under any arrangement providing for indemnification of that person) directly or indirectly resulting from, arising out of or relating to one or more Claims.



- (j) **Surplus Cash Reserves** shall mean Cash Reserves on the last day of the fiscal year in excess of twenty-five percent (25%) of the upcoming fiscal year's operating and capital budgets approved by the U. T. Board.

**Section 2. Delegation of Investment Authority; Retention of Policy Setting Authority.**

(a) **General**

The U. T. Board retains ultimate fiduciary responsibility and authority for all matters related to the investment of the Delegated Assets. Pursuant to that responsibility and authority, the U. T. Board hereby appoints UTIMCO as its investment manager with complete authority to act for the Board in the investment of the Funds, subject, however, to such limitations and restrictions as are set forth in the Investment Policies. UTIMCO shall furnish the U. T. Board with continuous investment management services and shall invest and reinvest the assets of the Funds in such ways and at such times as are consistent with the Investment Policies and Section 4 hereof. UTIMCO shall be responsible for overall management of the U. T. Board's investment affairs as set forth in this Agreement and shall manage each Fund as a discretionary account.

(b) **Policy Matters**

The U. T. Board, as ultimate fiduciary for the Funds, retains policy setting authority. Unless otherwise provided in writing by the U. T. Board, UTIMCO shall look to the Chancellor or Chancellor's designee to provide primary oversight and management concerning relations with the media, legal issues that implicate policies of the U. T. Board other than the Investment Policies, public disclosure of information and intergovernmental relations. Except for the forgoing matters, the UTIMCO Board of Directors and the CEO of UTIMCO shall be responsible for making all decisions necessary to implement the Investment Policies. The CEO of UTIMCO shall confer with the Chancellor or Chancellor's designee on the above-mentioned matters where the Chancellor has primary oversight and management and on other matters that may implicate broader policies of the U. T. Board.

(c) **Meetings and Agendas**

- (i) The UTIMCO CEO shall consult with the Chairman of the UTIMCO Board and the Chancellor, ~~as when the Chancellor is serving as the~~ Vice Chairman for Policy, on the draft agenda for meetings of the UTIMCO Board at least three (3) weeks prior to each regular UTIMCO Board meeting.
- (ii) UTIMCO shall participate in an annual joint meeting of the UTIMCO Board of Directors and the U. T. Board as referenced in Art. III, § 7 of the UTIMCO Bylaws.

**Section 3. Description of Investment Management Services.**

During the term of this Agreement, UTIMCO shall provide the following services in conjunction with the investment of the Funds:

(a) **Investment Policies:**

UTIMCO shall review current Investment Policies for each Fund at least annually. Such review shall include ~~distribution (spending) guidelines,~~ long-term investment return

expectations and expected risk levels, ~~Asset Class and Investment Type~~ strategic asset allocation targets and ranges, expected returns for each Asset Class and ~~Investment Type~~ and fund, designated performance benchmarks for each Asset Class ~~and Investment Type~~ and such other matters as the U. T. Board or its staff designees may request. After UTIMCO completes its assessment, it shall forward any recommended changes to U. T. System staff for review and appropriate action, following the established schedule for the submission of proposed agenda topics for meetings of the U. T. Board.

(b) **Investment Management:**

UTIMCO shall oversee the investment management process pursuant to the Investment Policies. Such oversight shall include without limitation the development of an investment outlook based on global economic and capital market forecasts, the rebalancing of allocations to each Asset Class ~~and Investment Type~~ within ranges in response to changes in the investment outlook, and the selection of a combination of portfolio managers to construct portfolios designed to generate the expected returns of each Asset Class ~~and Investment Type~~.

(c) **Investment Performance:**

UTIMCO shall monitor and report on investment performance for each of the Funds. With respect to all Funds other than the SIFs, such responsibilities shall include the calculation and evaluation of investment returns for each Asset Class ~~and Investment Type~~ and individual Fund portfolio against approved benchmarks over various periods of time, and the periodic review of performance benchmarks. With respect to all Funds, such responsibilities shall also include the reporting of investment performance of such specific Funds as may be requested by the U. T. Board, and the reporting to regulatory agencies and others regarding investments under management to the extent required by applicable law.

(d) **Operations:**

UTIMCO shall execute such operational responsibilities as the purchase and sale of investments, the settlement of all trades (to the extent such trades are not settled by the Custodian or brokers), the accounting for all transactions at the portfolio level in accordance with generally accepted accounting principles, the preparation and delivery of periodic financial reports on all Funds, and the maintenance of complete books and records (internally or through contract with the designated Custodian for the assets under management) reflecting transactions and balances of the Funds.

(e) **Maintenance of and Access to Books and Records:**

UTIMCO shall maintain the books and records for each Fund on the basis of a fiscal year ending August 31st (or such other fiscal year as the U. T. Board may establish from time to time), and shall keep full separate records of all transactions with respect to each Fund.

The books and records of the Funds and any and all records concerning UTIMCO and UTIMCO's operations shall be available during normal business hours for inspection by authorized representatives of U. T. System. UTIMCO shall provide full audit access to any and all information concerning the operations of UTIMCO, including information

necessary to review UTIMCO expenditures for compliance ~~and reasonableness~~ with the approved budget, to auditors representing the U. T. Board and/or the State Auditor.

(f) **Reporting:**

In connection with the annual audited financial statements of UTIMCO, effective with the August 31, 2004 financial statements, UTIMCO shall provide all compliance-related information, reports and certifications, and shall cause the CEO and the chief financial officer of UTIMCO to provide such certifications, as may be specified by the U. T. Board and U. T. System compliance policies and procedures adopted or approved by the U. T. Board. UTIMCO will follow the U. T. System compliance guidelines as outlined in ~~the Action Plan to Enhance Institutional Compliance~~ Regents' Rule 20401 and UTS 119, as it may be amended from time to time, including providing the U. T. Board or its designees with quarterly compliance reports.

(g) **Disclosure of Information:**

The U. T. Board is committed to a policy of full and fair disclosure to the public. As part of that commitment with respect to private investments in the Funds, UTIMCO shall disclose to the public with respect to such private investments all information required to be disclosed pursuant to Section 552.0225 of the *Texas Government Code* regarding "Right of Access to Investment Information" ("private investment information"). UTIMCO shall make no private investment with an entity unless the U. T. Board and UTIMCO have clear and unequivocal authority to disclose to the public the private investment information, described immediately above, relating to such investment.

Before UTIMCO declines to disclose any information it has collected, assembled or maintained in its role as investment manager for the U. T. Board that is requested under the Texas Public Information Act, the ~~CEO~~ Public Information Coordinator of UTIMCO shall notify the U. T. System Vice Chancellor and General Counsel and solicit his or her input to the process. UTIMCO shall disclose the information unless (i) it is confidential and excepted as provided in Section 552.143 of the *Texas Government Code* regarding "Confidentiality of Certain Investment Information," or (ii) as to any other information, the Vice Chancellor and General Counsel, after consultation with the Chancellor, approves a Public Information Act request to the Attorney General of Texas. In addition, the U. T. Board reserves the right and authority, in its sole discretion, to disclose, or direct the disclosure of, any information at any time, to the extent such disclosure would not result in a violation of applicable law or breach or result in a default under any agreement binding upon UTIMCO or the U. T. Board.

In addition to and not in lieu of the foregoing, UTIMCO will comply with the provisions of Section 12 below regarding confidentiality provisions of contracts with third parties.

(h) **Other Services:**

UTIMCO shall perform other investment management services, including without limitation:

- (i) attending meetings of the U. T. Board and making such reports as the U. T. Board may request from time to time;

- (ii) rendering services to managers of private equity investments in which UTIMCO has decided to invest;
- (iii) attending meetings of governing bodies of companies in which assets of Funds have been invested pursuant to this Agreement;
- (iv) voting of securities (or proxies with respect thereto) held as investments of the Funds in accordance with the Investment Policies and the UTIMCO Proxy Voting Policy and any other relevant written policies or rules of the U. T. Board;
- (v) providing U. T. System institutions with annual endowment reports reflecting, among other things, changes in the investment value of such institution's endowment and distributions made to such institution to support the activities for which the endowment was established;
- (vi) providing charitable trust administration services such as portfolio management, annual tax return preparation, annual trust reporting to donors and remittance of quarterly distributions; providing annual reporting of investment transactions and balances and distributing assets to authorized beneficiaries;
- (vii) effecting distributions directly or through the Custodian to U. T. System institutions or other named beneficiaries from the Funds;
- (viii) supporting and maintaining online information systems for endowment funds;
- (ix) providing training and education to members of the UTIMCO Board of Directors as may be determined in consultation with U. T. System staff to assure that all duties required of directors under the Texas ~~Non-Profit Corporation Act~~ Business Organizations Code and that matters related to legal and fiduciary responsibilities of the directors, including current regulations for determining reasonable compensation, are outlined and discussed fully;
- (x) maintaining a log of (1) all agreements or transactions between UTIMCO or a "UTIMCO entity" and a "Director entity" or an "Employee entity", and (2) all investments in the private investments of a business entity in which a "Director" or "Employee" then owns a private investment, or is then co-investing, in the same business entity, provided that all quoted terms above shall have the meanings assigned to them in UTIMCO's Code of Ethics, which annually shall be reviewed by the UTIMCO Board of Directors and reported to the U. T. Board;
- (xi) reporting to the U. T. Board annually on compliance with the UTIMCO Code of Ethics and any recommended changes to the UTIMCO Code of Ethics following review by the UTIMCO Board of Directors; and
- (xii) any other services necessary to provide investment management of the Funds.

**Section 4. Investment Manager as Fiduciary.**

UTIMCO acknowledges that it acts as a fiduciary in its management of the investments of the Funds pursuant to the Investment Policies and applicable law. The U. T. Board recognizes that all individual investment transactions involve a variety of significant potential risks, including, without limitation, market risk, liquidity risk, credit risk, cash flow risk, operational risk and counterparty risk, although taken as a whole these transactions are also expected to manage risk. The U. T. Board agrees that (i) UTIMCO will not be liable for any losses incurred in the Funds as a result of investments made pursuant to the Investment Policies and applicable law, and (ii) UTIMCO will not be liable for actions of co-fiduciaries. The U. T. Board also acknowledges that UTIMCO shall not be liable for, and, to the fullest extent authorized by the Constitution and laws of the State of Texas, agrees to hold UTIMCO harmless from the consequences of, any action taken or omitted to be taken by the U. T. System or any of its employees or agents prior to March 1, 1996.

#### **Section 5. Custody of Assets.**

UTIMCO shall select one or more Custodians, each of which shall be approved by the U. T. Board, which shall also enter into or approve each agreement with the Custodian(s).

UTIMCO shall use the Custodian(s) for safekeeping, settlement of security purchases, sales, collection of income and other duties, as may be more fully described in the relevant agreement(s) between the Custodian(s) and the U. T. Board or UTIMCO (as agent of the U. T. Board). In addition, UTIMCO may from time to time use a brokerage firm to settle security sales on behalf of the U. T. Board and may invest in a regulated mutual fund, externally managed commingled funds, or other investments in which assets are held outside of the bank custody relationship. Any physical certificates not held in safekeeping with a Custodian shall be held in safekeeping at a local bank as designated by UTIMCO.

#### **Section 6. Use of Unaffiliated Investment Managers.**

UTIMCO shall be entitled to use unaffiliated investment advisors to invest all or part of the Funds and to perform other duties, subject to any restrictions in the relevant Investment Policies.

#### **Section 7. Investment Management Fees; Direct Expenses.**

For services performed hereunder, UTIMCO shall be compensated in the amounts and in the manner set forth below:

(a) **Annual Budget and Management Fee:**

(i) Budget Approval Policy

UTIMCO shall submit to the U. T. Board its proposed annual budget for the following fiscal year (an “Annual Budget”) within the time frame specified by the U. T. Board for other annual budget submissions. The Annual Budget shall include all estimated expenses associated with the management of the Funds. The Annual Budget shall also include an annual UTIMCO management fee (an “Annual UTIMCO Management Fee”) which shall include all reasonable operating expenses associated with the general management of the Funds, including, without limitation, ~~reasonable~~ salaries, benefits and performance compensation of portfolio management and support personnel, expenses for consulting services, office space

lease expenses, office furniture and equipment expenses, professional, legal, payroll, and other general services expenses, travel, insurance, capital expenditures, and other miscellaneous expenses incurred by UTIMCO in connection with the performance of its obligations hereunder. In addition to its Annual Budget, UTIMCO shall annually submit its capital expenditures budget approved by the UTIMCO Board of Directors to the U. T. Board for approval.

(ii) Allocation Formula

At the same time that UTIMCO submits its Annual Budget, it shall also submit to the U. T. Board an allocation formula for charging the Annual Budget to the Funds. Items proposed in the Annual Budget and the allocation formula may be approved, disapproved, or approved with modification by the U. T. Board. Any such Budget item or formula allocation that is disapproved or approved with modification may be promptly reviewed and revised by UTIMCO and resubmitted to the U. T. Board for additional consideration.

(iii) Charging of Funds for Management Fee

On or before the first day of each fiscal quarter, UTIMCO shall be entitled to charge each Fund with its allocable share (determined in accordance with the allocation formula then in effect) of one-fourth of the amount of the Annual UTIMCO Management Fee to pay UTIMCO's operating expenses for the succeeding fiscal quarter. UTIMCO may, with the approval of the U. T. Board, revise the Annual UTIMCO Management Fee and allocation formula at any time during a fiscal year. Any statements for partial quarters at the beginning or end of this Agreement shall be prorated to reflect the actual time services were rendered during such partial quarters.

(iv) Payment of Third Party Vendors

UTIMCO is hereby authorized to pay from each Fund direct expenses incurred for portfolio management, Custodian, auditing, and other services which are performed by external vendors specifically for each Fund.

**(b) Cash Reserves:**

Within 90 days after the end of each fiscal year, UTIMCO will distribute back to the Funds which generated the surplus that portion of the Surplus Cash Reserves as may be directed by the U. T. Board, in its sole discretion, from time to time. Such distribution back to the Funds shall be in the same proportion that the Funds contributed to the Cash Reserves.

**(c) UTIMCO Management Service on Outside Boards:**

Members of UTIMCO management, with the approval of the UTIMCO Board, may serve as directors of companies in which UTIMCO has directly invested Fund assets. In such event, any and all compensation paid to UTIMCO management for their services as directors shall be endorsed over to UTIMCO and considered a part of UTIMCO's fee income and reflected in the Budget. Furthermore, UTIMCO Board approval of UTIMCO management's services as directors of investee companies shall be conditioned upon the extension of UTIMCO's Directors and Officers Insurance Policy coverage to UTIMCO management's services as directors of investee companies.



(d) **Fees for Services Rendered:**

Members of UTIMCO management may perform services for which UTIMCO receives a fee (“Service Fees”) from investment promoters or investee companies in consideration of the UTIMCO staff’s private investment activities and/or investment origination activities. Such Service Fees shall be considered additional fee income to UTIMCO. UTIMCO may also receive commitment fees, standby fees and other similar fees (“Capital Fees”) accruing or inuring to the capital invested on behalf of the Funds managed by UTIMCO. Such Capital Fees shall be credited to the Funds from which such investments are funded.

(e) **Miscellaneous Fees:**

UTIMCO management may perform specialized services for assets that are separately invested for which UTIMCO receives a fee from the Fund. These fees primarily relate to maintenance of computer programs for the SIFs. Such Miscellaneous Fees shall be considered additional fee income to UTIMCO and reflected in the Budget.

**Section 8. Brokerage Commissions.**

The U. T. Board acknowledges and agrees that the investment management fees provided for in Section 7 are in addition to any compensation that may be due to a broker or dealer in effecting and executing transactions on behalf of UTIMCO. UTIMCO is hereby authorized and empowered, with full discretion, to issue instructions in accordance with the Investment Policies to such unaffiliated brokerage firms as may be selected by UTIMCO for the execution of orders for the purchase, sale, exchange and general investment of the Funds; provided that UTIMCO shall not select a brokerage firm that is an Affiliate of UTIMCO or any of its officers, directors or employees. All orders for Fund transactions shall be placed in such markets and through such brokers as UTIMCO determines will offer the most favorable price, execution and commission cost of each order. The U. T. Board acknowledges and agrees that UTIMCO may, from time to time in accordance with applicable law and UTIMCO’s Soft Dollar Policy and Procedures, pay commissions to brokers that are higher than those that might be obtainable elsewhere in order to obtain from such brokers research and other services expected to enhance the long-term value of the Funds.

**Section 9. Valuation of Fund Assets.**

The valuation of each Fund shall be determined in accordance with the Investment Policies approved by the U. T. Board for such Fund.

**Section 10. Representations and Warranties of Parties.**

- (a) The U. T. Board represents and warrants that:
- (i) The execution, delivery and performance by the U. T. Board of this Agreement have been duly authorized, and this Agreement constitutes a valid and binding agreement of the U. T. Board.
  - (ii) There is no action, suit or proceeding pending or, to the knowledge of the U. T. Board, threatened against or affecting the U. T. Board or the U. T. System, or relating to this Agreement, in any court or before or by any governmental department, agency or instrumentality which, if adversely determined, would

materially affect the ability or authority of the U. T. Board to enter into, and perform its obligations under, this Agreement, or which in any manner questions the validity or enforceability of this Agreement.

- (iii) The U. T. Board has approved:
  - (A) the Articles of Incorporation and Bylaws of UTIMCO;
  - (B) the Investment Policies;
  - (C) the Audit and Ethics Committee of UTIMCO; and
  - (D) the Code of Ethics of UTIMCO.
  
- (b) UTIMCO represents and warrants that:
  - (i) The execution, delivery and performance by UTIMCO of this Agreement have been duly authorized and this Agreement constitutes a valid and binding agreement of UTIMCO.
  - (ii) There is no action, suit or proceeding pending or, to the knowledge of UTIMCO, threatened against or affecting UTIMCO, or relating to this Agreement in any court or before or by any governmental department, agency or instrumentality which, if adversely determined, would materially affect the ability or authority of UTIMCO to enter into, and to perform its obligations under, this Agreement, or which in any manner questions the validity or enforceability of this Agreement.
  
- (c) Investment Company Act and State Securities Act:

The parties to this Agreement acknowledge and agree that UTIMCO is not currently required to, and shall not engage in any activities that would require it to, register as an “investment company” under Title 15 *United States Code* Section 80a-8 (the Investment Company Act of 1940), as amended, and Tex. Rev. Civ. Stat. Ann. art. 581-1 *et seq.* (The Securities Act).

#### **Section 11. Compliance with Bylaws, Policies, Regulations and Financial Disclosure Requirements.**

In the performance of this Agreement, UTIMCO shall abide by, and cause its directors, officers, and employees to abide by, the following policies:

- (A) UTIMCO Code of Ethics as approved by the U. T. Board;
- (B) UTIMCO Bylaws as approved by the U. T. Board;
- (C) All UTIMCO policies;
- (D) Applicable portions of the U. T. Board’s *Regents’ Rules and Regulations*;  
and
- (E) All U. T. Board-approved Investment Policies, resolutions, and applicable law.

Financial advisors and service providers as defined in *Texas Government Code* Section 2263.002 shall comply with the disclosure requirements contained in *Texas Government Code* Section 2263.005, in addition to any obligations regarding disclosure of private investment information and the like as contemplated by Section 3(g) of this Agreement.

#### **Section 12. Contracts with Third Parties.**



Approved ~~November 13, 2008~~ February 27, 2019

UTIMCO covenants and agrees that each agreement, contract, or understanding it enters into with any third party will comply with all applicable law (including without limitation *Texas Government Code* Sections 2263.002 and 2263.005 as referenced in Section 11 above), and will not contain any term or provision limiting the ability of UTIMCO, the U. T. Board, the U. T. System, or any of its institutions to comply with any provision of applicable law, including without limitation any covenant regarding non-disclosure of confidential information or similar subject matter that would purport to limit the ability of UTIMCO or the U. T. Board to comply with any provision of the Texas Public Information Act or other law regarding public disclosure; provided that any contract provision regarding non-disclosure of confidential information must be approved by the Vice Chancellor and General Counsel of the U. T. System or his/her designee.

UTIMCO further covenants and agrees that it will not enter into any contracts indemnifying or holding harmless any third party to a greater extent than the scope of the indemnification of the Indemnified Parties by the U. T. Board without the prior consent and approval of the Vice Chancellor and General Counsel of the U. T. System.

**Section 13. UTIMCO's Open Meeting Policy.**

Except as otherwise provided in Section 66.08, *Texas Education Code*, UTIMCO shall comply with all applicable provisions of the Texas Open Meetings Act, Chapter 551 of the *Texas Government Code*.

**Section 14. Prohibition Against Service to Other Clients.**

In accordance with Section 66.08, *Texas Education Code*, UTIMCO shall not engage in any business other than managing the Funds under this Agreement.

**Section 15. Termination.**

The U. T. Board may terminate this Agreement at any time by written notice to UTIMCO, effective immediately upon receipt of such notice by UTIMCO, subject to reasonable allowance for settlement of pending trades. UTIMCO may terminate this Agreement upon ninety (90) days' written notice to the U. T. Board. There shall be no penalty for termination; however, UTIMCO shall be entitled to all management fees, compensation, and benefits earned prior to the effective date of termination, subject to UTIMCO's Articles of Incorporation and Bylaws and applicable law.

**Section 16. Amendments.**

No amendment hereto shall be effective unless executed by duly authorized representatives of each party in the same manner as this Agreement.

Approved ~~November 13, 2008~~ February 27, 2019

**Section 17. Notices.**

All notices or communications hereunder shall be in writing and shall not be effective until hand delivered, sent by overnight delivery, or sent by United States Certified or Registered Mail, postage prepaid, to the other party at the following addresses which may be changed by notice sent in the manner required by this paragraph:

To U. T. Board:

Board of Regents of The University of Texas System  
Attn: General Counsel to the Board of Regents  
~~201-210~~ West Seventh Street, ~~Suite 820~~  
Austin, Texas 78701  
Tel. (512) 499-4402  
Fax. (512) 499-4425

To UTIMCO:

The University of Texas/~~Texas A&M~~ Investment Management Company  
Attn: ~~President~~, CEO and Chief Investment Officer  
~~401 Congress Avenue~~ 210 West Seventh Street, Suite ~~2800-1700~~  
Austin, Texas 78701  
Tel. (512) 225-1600  
Fax. (512) 225-~~1660~~1668

**Section 18. Non-Assignability.**

This Agreement is personal to the parties hereto, and no assignment of this Agreement by UTIMCO, whether by contract, merger, consolidation, or operation of law, shall be made other than with the prior written consent of the U. T. Board and in compliance with applicable law.

**Section 19. No Waiver of Breach.**

A waiver of a breach of any provision of this Agreement shall not constitute a waiver of any subsequent breach of that provision or a breach of any provision hereof. Failure of either party to enforce at any time or from time to time any provision of this Agreement shall not be construed as a waiver thereof.

**Section 20. Indemnification.**

(a) **Agreements to Indemnify:**

To the fullest extent authorized by the Constitution and laws of the State of Texas, the U. T. Board shall indemnify and hold harmless each of the Indemnified Parties against any and all Losses, including Losses resulting from the negligence of the Indemnified Party claiming indemnification; provided, however, the U. T. Board shall not be obligated to indemnify an Indemnified Party against Losses to the extent such Losses are caused by (i) an act or omission that involves intentional misconduct or a knowing violation of law by the Indemnified Party claiming indemnification, (ii) a transaction from which the

Indemnified Party claiming indemnification received an improper benefit, (iii) an act or omission for which the liability of the Indemnified Party claiming indemnification is expressly provided by an applicable statute, or (iv) an act or omission constituting gross negligence by the Indemnified Party claiming indemnification; provided further that indemnification payments by the U. T. Board shall be paid from the same sources as the Annual Fee pursuant to Section 7.

(b) **Reimbursement:**

Each Indemnified Party shall reimburse the U. T. Board for payments made by the U. T. Board pursuant to this Section to the extent of any proceeds, net of all expenses of collection, actually received by it from any insurance with respect to any Loss. At the request and expense of the U. T. Board, each Indemnified Party shall have the duty to claim any such insurance proceeds and such Indemnified Party shall assign its rights to such proceeds, to the extent of such required reimbursement, to the U. T. Board.

(c) **Notice:**

In case any Claim shall be brought or, to the knowledge of any Indemnified Party, threatened against any Indemnified Party in respect of which indemnity may be sought against the U. T. Board, such Indemnified Party shall promptly notify the U. T. Board in writing; provided, however, that any failure so to notify shall not relieve the U. T. Board of its obligations under this Section.

(d) **Defense:**

The U. T. Board shall have the right to assume the investigation and defense of all Claims, including the employment of counsel and the payment of all expenses. Each Indemnified Party shall have the right to employ separate counsel in any such action and participate in the investigation and defense thereof, but the fees and expenses of such counsel shall be paid by such Indemnified Party unless (i) the employment of such counsel has been specifically authorized by the U. T. Board, in writing, (ii) the U. T. Board has failed to assume the defense and to employ counsel following due notice, or (iii) the named parties to any such action (including any impleaded parties) include both an Indemnified Party and the U. T. Board, and such Indemnified Party shall have been advised by counsel that there may be one or more legal defenses available to it which are different from or additional to those available to the U. T. Board (in which case, if such Indemnified Party notifies the U. T. Board in writing that it elects to employ separate counsel at the U. T. Board's expense, the U. T. Board shall not have the right to assume the defense of the action on behalf of such Indemnified Party; provided, however, that the U. T. Board shall not, in connection with any one action or separate but substantially similar or related actions in the same jurisdiction arising out of the same general allegation or circumstances, be liable for the reasonable fees and expenses of more than one separate firm of attorneys for the Indemnified Parties, which firm shall be designated in writing by such Indemnified Parties).

(e) **Cooperation; Settlement:**

Each Indemnified Party shall use reasonable efforts to cooperate with the U. T. Board in the defense of any action or Claim. The U. T. Board shall not be liable for any settlement of any action or Claim without its consent but, if any such action or Claim is settled with

the consent of the U. T. Board or there be final judgment for the plaintiff in any such action or with respect to any such Claim, the U. T. Board shall indemnify and hold harmless the Indemnified Parties from and against any Loss by reason of such settlement or judgment as provided in Subsection (a) of this Section.

**(f) Survival; Right to Enforce:**

The provisions of this Section shall survive the termination of this Agreement, and the obligations of the U. T. Board hereunder shall apply to Losses or Claims whether asserted prior to or after the termination of this Agreement. In the event of failure by the U. T. Board to observe the covenants, conditions and agreements contained in this Section, any Indemnified Party may take any action at law or in equity to collect amounts then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the U. T. Board under this Section.

**Section 21. Claims By and Against Managed Assets.**

UTIMCO is authorized and empowered to seek, demand, collect, recover, and receive any and all sums of money, debts, dues, rights, property, effects, or demands due, payable, or belonging, or that may become due, payable, or belonging to the U. T. Board or any Fund from any person or persons as a result of any investment transaction and to execute any and all necessary or proper receipts, releases, and discharges therefor, and any other instruments as may be necessary or appropriate from time to time relating to the handling, management, control, and disposition of any investment.

The authority granted in this Section does not include the authority to institute litigation on behalf of the U. T. Board, any Fund, or any associated assets, or to settle contested claims or litigation that may result in receipt of less than full value for the claim or the payment of damages or awards. The settlement of any contested claim or litigation for less than full value requires the prior approval of the U. T. System Vice Chancellor and General Counsel and appropriate U. T. System officials, as set out in the Regents' *Rules and Regulations*.

**Section 22. Communications.**

UTIMCO and the U. T. System will assure that communications are clear and timely. UTIMCO will provide notice of actions taken in meetings of the UTIMCO Board and committees to members of the U. T. Board through the Office of the Board of Regents. U. T. will provide notice of actions taken by the U. T. Board related to UTIMCO issues to members of the UTIMCO Board of Directors through the CEO of UTIMCO.

**Section 23. Authority to Purchase, Exchange, and Sell Securities.**

UTIMCO may purchase, exchange, and sell, for and on behalf of the Permanent University Fund or the U. T. Board, any and all securities of any description whatever and from any source, including gifts and bequests, registered in the name of the U. T. Board, or in any other form of registration of such securities held for the account of the U. T. Board in whatever manner, including all fiduciary capacities and including those registered in the names of trusts or foundations managed and controlled by said U. T. Board. In addition, external investment

Approved ~~November 13, 2008~~ February 27, 2019

managers appointed by UTIMCO may purchase, sell, or exchange securities, pursuant to written agreement with UTIMCO.

**Section 24. Authority to Assign and Transfer Securities.**

UTIMCO may assign and transfer any and all securities of any description whatever and from any source, including gifts and bequests, and execute any and all documents necessary to the consummation of any sale, assignment, or transfer of any securities registered in the name of the U. T. Board, or in any other form of registration of such securities held for the account of the U. T. Board in whatever manner, including all fiduciary capacities and including those registered in the names of trusts or foundations managed and controlled by said U. T. Board. In addition, Custodian banks appointed by UTIMCO may assign and transfer securities and execute any and all documents necessary to the consummation of any sale, assignment, or transfer of any security owned by the U. T. Board.

**Section 25. No Third Party Beneficiaries.**

UTIMCO and the U. T. Board each agree that there are no third party beneficiaries of this Agreement.

**Section 26. Governing Law.**

This Agreement and all matters arising under or related to it shall be governed by the Constitution and laws of the State of Texas. Venue for any action brought by any party hereto concerning the subject matter of this Investment Management Services Agreement shall be in Travis County, Texas.

BOARD OF REGENTS OF THE  
UNIVERSITY OF TEXAS SYSTEM

Date: \_\_\_\_\_

By \_\_\_\_\_  
Chairman

THE UNIVERSITY OF TEXAS/TEXAS A&M  
INVESTMENT  
\_MANAGEMENT COMPANY

Date: \_\_\_\_\_

By \_\_\_\_\_  
Chairman

## Schedule A

### Funds

This Schedule A setting forth the Funds managed by UTIMCO pursuant to this Agreement as fiduciary on behalf of the U. T. Board, in which the Delegated Assets are to be invested as directed by the U. T. Board pursuant to its Investment Policies, may be amended from time to time by the U. T. Board in consultation with UTIMCO to add or remove Funds, change fund allocations, reflect revisions to the corresponding Investment Policies, or otherwise. The Funds covered under this Agreement as of the Effective Date of this Agreement, and the corresponding Investment Policies, are as follows:

- a. **Permanent University Fund**: The PUF (as defined in Section 1(e)(i)) will be separately invested in accordance with the PUF Investment Policy Statement.
- b. **Permanent Health Fund**: The PHF (as defined in Section 1(e)(iv)) will be separately invested in accordance with the PHF Investment Policy Statement.
- c. **Separately Invested Funds**: The SIFs (as defined in Section 1(e)(v)) will be separately invested in accordance with the SIF Investment Policy Statement.
- d. **Long Term Fund (“LTF”)**: The long-term pooled investment fund previously established by the U. T. Board for the collective investment of all endowment and other long-term funds of institutions of the U. T. System, with investments made in accordance with the LTF Investment Policy Statement.
- e. **General Endowment Fund (“GEF”)**: The pooled fund for the collective investment of long-term funds under the control and management of the U. T. Board. The PUF, PHF, LTF or other long-term funds may invest in the GEF as authorized by the U. T. Board in each Fund’s investment policy statement, and the GEF funds will be invested in accordance with the GEF Investment Policy Statement.
- f. **Short Term Fund (“STF”)**: Selected U. T. System Funds designated from time to time by the U. T. Board or its U. T. System staff designees will be invested in the STF, which is the money market mutual fund or funds approved by UTIMCO from time to time as an investment for U. T. System Funds, in accordance with the STF Investment Policy Statement.
- g. **Intermediate Term Fund (“ITF”)**: The ITF was established by the U. T. Board as a pooled fund for the collective investment of operating assets and other intermediate and long-term assets held by U. T. System institutions and U. T. System administration. The ITF will be invested in accordance with the ITF Investment Policy Statement.
- g-h. **Debt Proceeds Fund (“DPF”)**: The DPF was established in February 2011 to permit debt proceeds held by the U. T. System to earn a higher investment return, while maintaining adequate protection of principal and liquidity, until the proceeds are expended for various capital projects across the U. T. System institutions.

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

## Charter of the Policy Committee

### Background

The Board of Directors (the "Board") of The University of Texas/Texas A&M Investment Management Company (the "Corporation") has established a Policy Committee (the "Committee"). This Charter, adopted by the Board on ~~February 20, 2014~~ December 6, 2018, supersedes the Charter adopted by the Board on ~~April 14, 2011~~ February 20, 2014, and sets forth the responsibilities of the Committee. ~~Editorial amendment to change name of corporation effective May 10, 2017.~~

### Purpose

The primary purpose of the Committee is to provide oversight and to monitor:

1. The development and amendment of UTIMCO Board Policies and Corporate Documents;
2. Recommendations concerning the development and amendment of investment-related policies of The University of Texas System Board of Regents (U.T. Board) related to the management of funds under the control and management of the U.T. Board; and
3. Recommendations concerning the amendment of the Investment Management Services Agreement (the "IMSA"), Code of Ethics, and Bylaws.

Any decisions made by the Committee regarding the above responsibilities will be submitted to the Board for approval.

### Composition

The Committee shall be composed of at least three members of the Board appointed from time to time by a majority vote of the Board at a meeting at which a quorum is present. Individuals who are not members of the Board may be appointed to the Committee; provided however, a majority of the Committee members shall be members of the Board of Directors. A member may be removed with or without cause at any time by a majority vote of the Board.

### Meetings; Quorum; Etc.

The Corporation's Bylaws state that any committee created by the Board or the Bylaws, including the Committee, shall (i) have a chairman designated by the Board, (ii) fix its own rules or procedures, (iii) meet at such times and at such place or places as may be provided by such rules or by resolution of the Committee or resolution of the Board, and (iv) keep regular minutes of its meetings and cause such minutes to be recorded in books kept for that purpose in the principal office of the Corporation, and report the same to the Board at its next regular meeting. At every meeting of the Committee, the presence of a majority of



all the members thereof shall constitute a quorum, and the affirmative vote of a majority of the members present shall be necessary for the adoption by it of any action, unless otherwise expressly provided in the Committee's rules or procedures or the Bylaws of the Corporation or by the Board. The Board may designate one or more Directors as alternate members of the Committee, who may replace any absent or disqualified member of the Committee. In the absence or disqualification of a member of the Committee, the member or members present at any meeting of the Committee and not disqualified from voting, whether or not constituting a quorum, may unanimously appoint the designated alternate Director to act at the meeting in the place of the absent or disqualified member.

## Duties and Responsibilities

### *UTIMCO Board Policies and Corporate Documents*

The Committee has the following duties and responsibilities with respect to its oversight and monitoring of UTIMCO Board Policies and Corporate Documents (excluding the IMSA, Code of Ethics, Bylaws and any other corporate documents requiring U.T. Board approval):

- Review any UTIMCO Board Policies developed by UTIMCO staff/employees and provide guidance and suggested language when necessary;
- Determine which internal policies and procedures should be considered UTIMCO Board Policies;
- Recommend to the Board the approval of any new UTIMCO Board Policies;
- Review suggested amendments to UTIMCO Board Policies and Corporate Documents and provide guidance and suggested language when necessary;
- Review and make recommendations to the Board regarding employee benefit plans for the Corporation, which includes the ability to adopt, amend and terminate such plans; and
- Review and ~~make recommendations to the Board regarding and approve amendments to the~~ UTIMCO Travel Guidelines

### *Investment Policies of the U.T. Board*

The Board has been delegated certain responsibilities by the U.T. Board, including the development and review of investment policies with respect to the investment management of funds under the control and management of the U.T. Board, including asset allocation, ~~distribution (spending) guidelines,~~ long-term investment return expectations and expected risk levels, asset allocation targets and ranges, and other matters as the U.T. Board requests. Upon its review and approval, the Board shall present recommendations concerning the investment policies to the U.T. Board for approval.

The Committee has the following duties and responsibilities with respect to its oversight and monitoring of the investment policies of the U.T. Board related to the investment management of the funds under the control and management of the U.T. Board:

- Review U.T. Board investment policy recommendations developed by UTIMCO staff/employees and provide guidance and suggested language when necessary;
- Recommend to the Board the approval of any new U.T. Board Policies;



- Review suggested amendments to U.T. Board Policies and provide guidance and suggested language when necessary; and
- Recommend to the Board the approval of amended U.T. Board Policies.

~~In addition to its duties and responsibilities with respect to its oversight and monitoring of the investment policies, the Committee, if requested by the Board Chairman, shall provide recommendations concerning the annual distribution amount and payout rates of the fund assets under management.~~

In discharging its responsibilities, the Committee may accept comments and suggestions from Board consultants, U.T. System staffemployees, and other individuals as it deems necessary.

*Amendments of the IMSA, Code of Ethics, Bylaws and other Corporate documents requiring U.T. Board approval*

The Committee has the following duties and responsibilities with respect to its oversight and monitoring of the amendments of the IMSA, Code of Ethics, Bylaws and other Corporate documents requiring U.T. Board approval:

- Review amendments to the IMSA, Code of Ethics, Bylaws and other Corporate documents prepared by UTIMCO staffemployees requiring U.T. Board approval and provide guidance and suggested language when necessary
- Recommend to the Board the approval of such amendments

Upon its review and approval, the Board shall present the amendments to the U.T. Board for approval. In discharging its responsibilities, the Committee may accept comments and suggestions from Board consultants, U.T. System staffemployees, and other individuals as it deems necessary.

## **Other Duties**

In addition to its duties and responsibilities outlined above, the Committee shall perform such additional special functions, duties or responsibilities related thereto as may from time to time be designated to it by the Board Chairman. In discharging its responsibilities, the Committee may obtain advice and assistance from Board consultants, U.T. System staffemployees, and other individuals as it deems necessary.

The Committee will evaluate the Committee's performance on a periodic basis, periodically review the adequacy of this Charter and submit this Charter to the Board for its approval; and perform any other activities consistent with this Charter, the Corporation's Bylaws, and applicable laws as the Committee or the Board deems necessary or appropriate.

Approved by the Board of Directors on ~~February 20, 2014~~December 6, 2018. ~~Editorial amendment to change name of corporation effective May 10, 2017.~~

**Agenda Item**  
UTIMCO Board of Directors Meeting  
February 21, 2019

<b>Agenda Item:</b>	Report from Compensation Committee: Discussion and Appropriate Action Related to Proposed Amendments to the Charter of the Compensation Committee
<b>Developed By:</b>	Moeller, Gonzalez
<b>Presented By:</b>	Rothrock
<b>Type of Item:</b>	Action Item; Action required by the UTIMCO Board
<b>Description:</b>	At its meeting on November 29, 2018, the Compensation Committee (the "Committee"), discussed and approved the proposed amendments to the Charter of the Compensation Committee.
<b>Discussion:</b>	<p>The purpose of the Charter of the Compensation Committee ("Charter") is to outline the duties and responsibilities of the Committee. In accordance with the Charter of the Committee, the Committee will periodically review and reassess the adequacy of the Charter and recommend any proposed changes to the UTIMCO Board for approval. The current Charter was approved by the UTIMCO Board on July 29, 2014.</p> <p>The Committee reviewed and approved the proposed changes to the Charter. The following changes to the Charter were proposed by the Team:</p> <ul style="list-style-type: none"><li>• Page 2; <i>Duties and Responsibilities</i>, changed language to be consistent with the terms and terminology of the UTIMCO Compensation Program as amended and restated, effective July 1, 2018</li><li>• Other minor editorial changes</li></ul>
<b>Recommendation:</b>	The Committee will recommend that the Board approve the proposed amendments to the Charter.
<b>Reference:</b>	Charter of the Compensation Committee

**RESOLUTION RELATED TO THE  
CHARTER OF THE COMPENSATION COMMITTEE**

RESOLVED, that the amendments to the Charter of the Compensation Committee, as recommended be, and are hereby approved, in the form submitted to the Corporation's Board of Directors.

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

## Charter of the Compensation Committee

### Background

The Board of Directors (the "Board") of The University of Texas/Texas A&M Investment Management Company (the "Corporation") established a Compensation Committee (the "Committee") on August 30, 1996. The Committee's responsibilities were enumerated and documented in the August 30, 1996 Board minutes. This Charter, adopted by the Board on ~~July 29, 2014~~ December 6, 2018, supersedes the Charter adopted by the Board on ~~July 11, 2011~~ July 20, 2014. ~~Editorial amendment to change name of corporation effective May 10, 2017.~~

### Purpose

The primary purpose of the Committee is to carry out the responsibilities delegated to it by the Board relating to the review and determination of compensation for officers and employees of the Corporation.

### Composition

The Committee shall be composed of three members of the Board appointed from time to time by a majority vote of the Board at a meeting at which a quorum is present. Individuals who are not members of the Board may be appointed to the Committee; provided however, a majority of the Committee members shall be members of the Board. A member may be removed with or without cause at any time by a majority vote of the Board.

### Meetings; Quorum; Etc.

The Corporation's Bylaws state that any committee created by the Board or the Bylaws, including the Committee, shall (i) have a chairman designated by the Board, (ii) fix its own rules or procedures, (iii) meet at such times and at such place or places as may be provided by such rules or by resolution of such committee or resolution of the Board, and (iv) keep regular minutes of its meetings and cause such minutes to be recorded in books kept for that purpose in the principal office of the Corporation, and report the same to the Board at its next regular meeting. At every meeting of any such committee, the presence of a majority of all the members thereof shall constitute a quorum, and the affirmative vote of a majority of the members present shall be necessary for the adoption by it of any action, unless otherwise expressly provided in the committee's rules or procedures or the Bylaws of the Corporation or by the Board. The Board may designate one or more Directors as alternate members of any committee, who may replace any absent or disqualified member of such committee. In the absence or disqualification of a member of a committee, the member or members present at any meeting of the committee and not disqualified from voting, whether or not constituting a quorum, may unanimously appoint the designated alternate Director to act at the meeting in the place of the absent or disqualified member.

## Duties and Responsibilities

The Committee has the following duties and responsibilities:

- Recommend to the Board the UTIMCO Compensation Program and any amendments thereto
- Review the UTIMCO Compensation Program to determine whether it encourages optimal risk-taking, to review and discuss at least annually the relationship between risk management policies and practices and compensation, and to evaluate compensation policies and practices that could mitigate any such risk
- Select and retain the services of an independent qualified compensation consultant as necessary to assist with the execution of its duties and responsibilities as set forth in this Charter and periodically perform a salary benchmarking study
- Review and approve annually the ~~goals and objectives~~ performance standards applicable to the compensation of the President, Chief Executive Officer and Chief Investment Officer ("CEO"); ~~at least annually~~, determine the CEO's level of achievement ~~in light of those goals and objectives~~ performance standards, and determine and recommend to the Board the base salary and performance ~~incentive~~ award of the ~~Chief Executive Officer and Chief Investment Officer~~ CEO of the Corporation
- Approve the base salaries of all officers (except the ~~Chief Executive Officer and Chief Investment Officer~~ CEO) of the Corporation
- ~~Recommend to the Board the Eligible Employees who are designated as eligible to participate in the performance incentive awards under the Performance Incentive Plan~~
- Determine the ~~Incentive~~ Award Opportunity for each Performance ~~Goal~~ Standard for the Participants in an Eligible Position
- ~~Review and approve annually the goals and objectives applicable to the compensation of the Eligible Employees as recommended by the CEO; at least annually~~ Annually, review the actual performance of each Participant against the performance standards of the respective Participant and determine each Eligible Employees' the Participant's level of achievement ~~in light of those goals and objectives~~ performance standards, and determine and approve the Performance ~~Incentive~~ Plan awards for all Eligible Employees except the ~~Chief Executive Officer and Chief Investment Officer~~ CEO
- Develop and recommend to the Board an officer succession plan (the "Succession Plan"), review the Succession Plan periodically with the CEO, develop and evaluate potential candidates for executive positions and recommend to the Board any changes to, and any candidates for succession under, the Succession Plan
- Provide the Board with full supporting materials for each of the foregoing recommendations in sufficient time to allow such materials to be considered by the Board prior to its full discussion and review of such recommendations.

Determination of performance compensation for employees not included in the Performance ~~Incentive~~ Plan is delegated to Corporation management.

## Other Duties

In addition to its duties and responsibilities outlined above, the Committee shall perform such additional special functions, duties or responsibilities related thereto as may from time to time be designated to it by the Board Chairman. In discharging its responsibilities, the Committee may obtain advice and assistance from Board consultants, U.T. System staff, and other individuals as it deems necessary.

The Committee will evaluate the Committee's performance on a periodic basis, periodically review the adequacy of this Charter and submit this Charter to the Board for its approval; and perform any other activities consistent with this Charter, the Corporation's Bylaws, and applicable laws as the Committee or the Board deems necessary or appropriate.

Approved by the Board of Directors on ~~July 29, 2014~~December 6, 2018. ~~Editorial amendment to change name of corporation effective May 10, 2017.~~

**Agenda Item**  
UTIMCO Board of Directors Meeting  
February 21, 2019

<b>Agenda Item:</b>	Discussion and Appropriate Action Related to Employee's Service as a Director on an UTIMCO Investee Company
<b>Developed By:</b>	Gonzalez, Moeller
<b>Presented By:</b>	Harris
<b>Type of Item:</b>	Action required by UTIMCO Board (the Board)
<b>Description:</b>	<p>Mr. Harris is recommending that William Prather III, Senior Director – Natural Resources and Infrastructure replace Patrick Pace M.D., Senior Director – Private Equity to serve as a Series B/C Manager of the Board of Managers for AgBiome, LLC. UTIMCO has made a co-investment in AgBiome, LLC. In accordance with the UTIMCO Code of Ethics, an employee, with the prior approval of the Board, may serve as a director of a company in which UTIMCO has directly invested its assets. The Board's approval must be conditioned on the extension of UTIMCO's Directors and Officers Insurance Policy coverage to the Employee's service as director of the investee company. All compensation paid to an Employee for service as director of an investee company shall be endorsed to UTIMCO and applied against UTIMCO's fees.</p> <p>Upon approval by this Board, Mr. Prather will replace Dr. Pace effective March 1, 2019, upon written consent of the Board of Managers for AgBiome, LLC whereby the transfer of the Board appointment will be facilitated. Mr. Prather's appointment is for the duration of UTIMCO's investment as long as Mr. Prather remains an employee of UTIMCO. UTIMCO's Directors and Officers Insurance Policy coverage has been extended to cover Mr. Prather's service as a director. There is no compensation associated with this position.</p>
<b>Recommendation:</b>	Mr. Harris will recommend approval of Mr. Prather's service as a Series B/C Manager of the Board of Managers for AgBiome, LLC.
<b>Reference:</b>	None



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

RESOLVED, that the Board of Directors hereby approves William Prather's service as a Series B/C Manager of the Board of Managers for AgBiome, LLC.

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