

**UTIMCO BOARD OF DIRECTORS  
MEETING AGENDA  
March 24, 2020  
UTIMCO  
210 West 7<sup>th</sup> Street, Suite 1700  
Austin, Texas 78701**

Time		Item #	Agenda Item
Begin	End		
9:00 a.m.	9:05 a.m.	1	Call to Order of the Meeting/Discussion and Appropriate Action Related to Minutes of the December 5, 2019 Meeting*
9:05 a.m.	9:15 a.m.	2	Discussion and Appropriate Action Related to Corporate Resolutions: -- Designation of Annual Meeting of the UTIMCO Board* -- Consideration of Renaming Cybersecurity Committee* -- Election of Corporate Officer* -- CEO's Recommendation Regarding Employee Authorization*
9:15 a.m.	10:00 a.m.	3	2019 Market Review and UTIMCO Performance and Market Update
10:00 a.m.	10:30 a.m.	4	Review and Primer of Relationship between UTIMCO and University Lands
10:30 a.m.	10:45 a.m.	5	Public Equity Presentation
10:45 a.m.	11:00 a.m.	6	Hedge Funds Presentation
11:00 a.m.	11:40 a.m.		<b>Convene into Executive Session</b> The Board may convene in Executive Session to receive an update on computer security assessments related to information resources technology, including security assessments, pursuant to Sections 551.076 and 551.089, <i>Texas Government Code</i> . Pursuant to 551.072, <i>Texas Government Code</i> , the Board of Directors may convene in Executive Session to deliberate the purchase, exchange, lease or value of real property. Pursuant to Section 551.074 <i>Texas Government Code</i> , the Board of Directors may convene in Executive Session to deliberate individual personnel compensation matters.
11:40 a.m.	11:50 a.m.	7	Discussion and Appropriate Action Related to: - Office Lease* - Capital Budget*
11:50 a.m.	12:00 p.m.	8	Report from Cybersecurity Committee - Discussion and Appropriate Action Related to the Charter of the Cybersecurity Committee*
12:00 p.m.	12:10 p.m.	9	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 for the year ended August 31, 2019*
12:10 p.m.	12:20 p.m.	10	Report from Risk Committee - Discussion and Appropriate Action Related to Proposed Amendments to the Charter of the Risk Committee*
12:20 p.m.	12:25 p.m.	11	Report from Compensation Committee
12:25 p.m.	12:30 p.m.	12	Report from Policy Committee

\* 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 11, 2020 (Annual Meeting)</b>
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**RESOLUTION RELATED TO MINUTES**

RESOLVED, that the minutes of the Meeting of the Board of Directors held on **December 5, 2019**, 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 5, 2019**, 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  
Ray Rothrock  
Robert Gauntt  
Janet Handley  
R. Steven Hicks  
Janiece Longoria  
Ray Nixon  
Clifton L. Thomas, Jr.

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; Ken Standley, Chief of Staff; Michael Dean, Senior Director – Human Resources; and other team members. Other attendees were Keith Brown of the McCombs School of Business at UT Austin; Jerry Kyle of Orrick, Herrington & Sutcliffe LLP; Allen Hah, Eric Polonski, and Karen Adler of The University of Texas System ("UT System"); David Rejino and David Verghese of The Texas A&M University System; Larry Fink, Joud Abdel Majeid, Phil Green, and Scott Hasley of BlackRock; Mary Erdoes, Patrik Jakobson, Doug Fleming, and Mike Smith of J.P. Morgan Asset Management; and Robert Cowley of Deloitte & Touche LLP. Chairman Hildebrand called the meeting to order at 9:08 a.m. Copies of materials supporting the Board meeting agenda were previously furnished to each member of the Board.

**Minutes**

The first item to come before the Board was approval of the Minutes of the Board of Directors Meeting held on September 26, 2019. 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 26, 2019, be, and are hereby, approved.

## **Corporate Resolutions**

Chairman Hildebrand presented a recommendation for the establishment of a Cybersecurity Committee of the Board to provide oversight and monitor security of information services systems of the Corporation and related committee assignments. Chairman Hildebrand also recommended that Director Janet Handley be appointed to the Compensation Committee. Upon motion duly made and seconded, the following resolutions were unanimously adopted by the Board:

RESOLVED, that the Directors of the Corporation hereby establish a Cybersecurity Committee of the Board to provide oversight and monitoring of the security of the Corporation's information services systems, with the powers and duties consistent with the Corporation's Bylaws and any Cybersecurity Committee charter adopted by the Board; and

FURTHER RESOLVED, that the following Directors of the Corporation are hereby designated as the Cybersecurity Committee of the Board of Directors:

Robert Gauntt  
Janiece Longoria  
Ray Rothrock

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

FURTHER RESOLVED, that Ray Rothrock is hereby designated the Chair of the Cybersecurity Committee and shall preside at its meetings.

And,

BE IT RESOLVED, that Director Janet Handley is hereby designated as a member of the Compensation Committee of the Board of Directors, to serve until the expiration of her term, or until her successor has been chosen and qualified, or until her death, resignation, or removal.

## **Performance Report and Market Update**

Chairman Hildebrand asked Mr. Harris to present the Corporation's performance report and market update. Mr. Harris discussed four benchmark performance timelines: the first nine months of 2019 and the twelve months, three years, and ten years ending September 30, 2019. Mr. Harris reported the Corporation had \$48.4 billion of assets under management, specifically: \$22.8 billion in the Permanent University Fund ("PUF"), \$12.2 billion in the Long Term Fund ("LTF") and \$1.2 billion in the Permanent Health Fund ("PHF"); \$9.1 billion in the Intermediate Term Fund ("ITF"), \$2.3 billion in the Short Term Fund ("STF"), \$0.5 billion in the Debt Proceeds Fund, and \$0.3 billion in Other funds. Mr. Harris noted that this is the longest expansion we have ever experienced, but also said it was the slowest. He spoke about market performance and the economic downturn faced ten years ago. Mr. Harris discussed UTIMCO performance versus peer groups, pointing out that the Real Estate portfolio ranked top among their peer group and the Public Equity portfolio

made substantial improvements to their portfolio since he joined UTIMCO. He then answered questions from the Board.

### **Hiring of Strategic Partners**

Chairman Hildebrand asked Ken Standley to introduce the representatives from BlackRock and J.P. Morgan Asset Management. Mr. Standley gave a brief introduction of the teams and asked the CEOs from each company to discuss their companies. Mr. Larry Fink, Chairman and CEO of BlackRock, and Ms. Mary Erdoes, CEO, Asset & Wealth Management of J.P. Morgan Asset Management, presented the merits of a Strategic Partnership with their respective organizations. Mr. Standley then presented a summary of the proposed Public Strategic Partnerships with BlackRock and J.P. Morgan Asset Management.

Mr. Harris and the Team requested approval from the Board to proceed with the proposed Public Strategic Partnerships program. Upon motion duly made and seconded, the following resolutions were unanimously adopted by the Board:

RESOLVED that the Board approves the creation of a Public Strategic Partnership Program with \$1 Billion allocated to BlackRock and \$1 Billion to J.P. Morgan Asset Management (“Public Strategic Partners”) and directs staff to negotiate and enter into an Investment Advisory Agreement with the Public Strategic Partners (the “Agreement”).

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

### **Operations Presentation**

Chairman Hildebrand invited Joan Moeller to describe the Operations Team and its responsibilities. Ms. Moeller introduced the five divisions of her team: Operations, Accounting and Reporting, Corporate Accounting, Security, Corporate Legal and Compliance, and Information Services. She described functions of each of the teams and discussed how important their work was to UTIMCO’s success.

### **Human Resources Presentation**

Chairman Hildebrand asked Mr. Harris to introduce Michael Dean. After introduction, Mr. Dean introduced the Human Resources Team and discussed the Corporation’s strategy and talent management plans for the next year. He gave a personnel update. Finally, Mr. Dean introduced the leadership development program to be implemented in February.

### **Report from Policy Committee**

Chairman Hildebrand asked Director Hicks to provide a report from the Policy Committee. Director Hicks reported that the Policy Committee met on November 21, 2019. Two members of the Risk Committee participated in the meetings. The first Committee meeting agenda included discussion and appropriate action related to proposed amendments to the Investment Policy Statements, Liquidity Policy, Derivative Investment Policy, and the Delegation of Authority Policy. The Committee also heard from Mr. Harris and Russ Kampfe, Managing Director – Fixed Income related to a change in an investment guideline that removes the prohibition against investing in negative yielding bonds under certain conditions. The Committee supported the change in the investment guideline but it did not require Committee approval. The Committee's second meeting agenda included approval of minutes of the June 20, 2019 meeting and the June 20, 2019 joint meeting of the Policy and Risk Committees. Director Hicks requested approval, on behalf of the Policy Committee, of a resolution related to the proposed amendments to the amendments to the Investment Policy Statements. Upon motion duly made and seconded, the following resolutions were unanimously adopted by the Board:

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

FURTHER RESOLVED, that amendments to the Delegation of Authority Policy as presented be, and are hereby approved.

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

Chairman Hildebrand asked Director Handley to provide a report on behalf of the Audit and Ethics Committee. Director Handley reported that the Committee met via teleconference on November 21, 2019. At the meeting, the Committee considered four action items: the minutes of its September 19, 2019 meeting were approved as drafted; Deloitte & Touche LLP's Audit Results and Communications for the PUF, The University of Texas General Endowment Fund ("GEF"), PHF, LTF, ITF (collectively, the "Investment Funds") for the fiscal year ended August 31, 2019, were approved; and the audit reports for the Investment Funds and the Statement of Investment Performance Statistics for the fiscal year ended August 31, 2019 were approved. The Committee also 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 and made its recommendation to the Compensation Committee related to the Corporate Counsel and Chief Compliance Officer's Performance Award for the Performance Period ended June 30, 2019. The Committee also received an update on UTIMCO's compliance, reporting and audit matters, a report on new contracts, and the annual report of all contracts over \$250,000.

Director Handley asked Mr. Cowley of Deloitte & Touche LLP to provide a brief report to the Board on the audits of the Investment Funds. After Mr. Cowley's presentation, Director Handley requested approval, on behalf of the Audit and Ethics Committee, of a resolution related to the audits of the Investment Funds for

Fiscal Year 2019. Upon motion duly made and seconded, the following resolutions were unanimously adopted by the Board:

RESOLVED, that Deloitte & Touche LLP's Financial Statement Audit Results and Communications on the Investment Funds Under Fiduciary Responsibility of The University of Texas System Board of Regents for the year ended August 31, 2019, be, and is hereby approved in the form as presented to the Board; and

FURTHER RESOLVED, that the separate annual financial statements and audit reports for 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, 2019, and August 31, 2018, and the Statement of Investment Performance Statistics for the year ended August 31, 2019, be, and are hereby approved in the form as presented to the Board.

### **Report from Risk Committee**

Chairman Hildebrand asked Director Gauntt to provide a report from the Risk Committee. Director Gauntt reported that the Risk Committee met via teleconference on November 21, 2019. The Committee approved the minutes of its September 19, 2019 meeting. The Committee also received a report on compliance matters for the quarter ended August 31, 2019; a market and portfolio risk update; and discussed the Office of Foreign Asset Control (OFAC) compliance procedure put in place in 2018. The Committee members agreed with the Team the formal procedure was no longer necessary because of the measures in place at the Corporation, its custodian, and the external managers.

### **Report from Compensation Committee**

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 21, 2019, November 25, 2019, and December 5, 2019. At its meetings on November 21, 2019 and November 25, 2019, the Committee approved the minutes of its June 19, 2019 and November 21, 2019, meetings, respectively, and met in executive session to discuss the Performance Awards for the CEO and other Compensation Program Participants (the "Plan") for the Performance Period ended June 30, 2019.

At its December 5<sup>th</sup> meeting, the Committee approved the minutes of its November 25, 2019 meeting, convened in executive session to discuss the Performance Awards for Plan Participants, including the CEO, for the Performance Period ended June 30, 2019, and approved these Performance Awards, subject to approval by the Board.

Director Rothrock recommended two resolutions for approval by the Board. The first resolution related to the Performance Award for the CEO for the Performance Period ended June 30, 2019, and the second resolution related to the Performance Awards for all other Plan Participants for the Performance Period ended 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 Board will approve the Performance Award of the CEO based upon a determination of the level of achievement of the CEO with respect to his or her Performance Standards for such Performance Period; and

WHEREAS, the Compensation Committee has reviewed and approved the CEO's Performance Award for the Performance Period ended June 30, 2019, and submitted its recommendation to the Board for approval; and

WHEREAS, the Board has reviewed the Compensation Committee's recommendation of the CEO's Performance Award for the Performance Period ended June 30, 2019.

NOW, THEREFORE, be it:

RESOLVED, that the Board approves the CEO's Performance Award for the Performance Period ended June 30, 2019, in the amount of \$1,657,840 and be it

FURTHER RESOLVED, that of the CEO's \$1,657,840 Performance Award for the Performance Period ended June 30, 2019, 50% (\$828,920) will be deferred pursuant to the Plan.

And,

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 Standards 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 June 30, 2019, of his or her Performance Standards 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 Standards 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 June 30, 2019, 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 June 30, 2019, in the total aggregate amount of \$10,930,592 and be it

FURTHER RESOLVED, that of the Performance Awards for all Participants (excluding the CEO) for the Performance Period ended June 30, 2019, 27.8% (\$3,028,749) will be deferred pursuant to the Plan.

**Adjourn**

There being no further business to come before the Board, the meeting was adjourned at approximately 11:37 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  
March 24, 2020

<b>Agenda Item:</b>	Discussion and Appropriate Action Related to Corporate Resolutions: <ul style="list-style-type: none"><li>- Designation of Annual Meeting of the UTIMCO Board</li><li>- Consideration of Renaming Cybersecurity Committee</li><li>- Election of Corporate Officer</li><li>- CEO's Recommendation Regarding Employee Authorization</li></ul>
<b>Developed By:</b>	Moeller, Gonzalez
<b>Presented By:</b>	Hildebrand, Harris
<b>Type of Item:</b>	Action required by UTIMCO Board
<b>Description:</b>	<p>Chairman Hildebrand will designate the annual meeting of the Board of Directors of the Corporation. The annual meeting will be held on June 11, 2020.</p> <p>Chairman Hildebrand will request the name of the Cybersecurity Committee to be changed to the Cyber Risk Committee.</p> <p>Chairman Hildebrand will request that Michael Sjolander be appointed an officer of the Corporation. Mr. Sjolander was hired as UTIMCO's Chief Technology Officer (CTO), effective March 2, 2020 and the CTO is a Managing Director position. Managing Directors are considered officers of the Corporation.</p> <p>Mr. Harris will bring forth to the UTIMCO Board a recommendation to consider and approve authorization for Richard Hall, Deputy Chief Investment Officer, and/or Joan Moeller, Secretary, Treasurer, Senior Managing Director and Chief Operating Officer, to act pursuant to the UTIMCO Delegation of Authority Policy if he is absent due to an extended leave of absence, incapacity or an unforeseeable emergency for so long as the global COVID-19 pandemic is ongoing.</p>
<b>Recommendation:</b>	Chairman Hildebrand will recommend approval of the designation of the annual meeting, renaming of the Cybersecurity Committee to the Cyber Risk Committee and election of the Corporate Officer. Mr. Harris recommends that the Board authorize Richard Hall, Deputy Chief Investment Officer, and/or Joan Moeller, Secretary, Treasurer, Senior Managing Director and Chief Operating Officer, to act in Mr. Harris's absence due to an extended leave of absence, incapacity or an unforeseeable emergency for so long as the global COVID-19 pandemic is ongoing.
<b>Reference:</b>	None

**RESOLUTION RELATED TO ANNUAL MEETING**

RESOLVED, that the Annual Meeting of the Board of Directors will be held on **June 11, 2020** in Austin, Texas.

**RESOLUTION RELATED TO RENAMING CYBERSECURITY  
COMMITTEE**

RESOLVED, that the Directors of the Corporation hereby rename the Cybersecurity Committee to the Cyber Risk Committee.

<b>RESOLUTION RELATED TO CORPORATION OFFICER</b>
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RESOLVED, that Michael Sjolander is hereby appointed to the office of Managing Director of the Corporation to serve until the next Annual Meeting of the Corporation or until his resignation or removal.

## **RESOLUTION RELATED TO EMPLOYEE AUTHORIZATION**

RESOLVED, that, subject to the control of the Board of Directors of the Corporation, Richard Hall, Deputy Chief Investment Officer, and/or Joan Moeller, Secretary, Treasurer, Senior Managing Director and Chief Operating Officer, shall have all the powers and duties of Chief Executive Officer and Chief Investment Officer of the Corporation, including the powers and duties of President of the Corporation set forth in Article V, Section 7 of the Corporation's Bylaws and such additional powers and duties as have been or may hereafter be assigned to him or her in those capacities by the Board of Directors of the Corporation, and shall be authorized to act for Mr. Harris when he is absent due to an extended leave of absence, incapacity or an unforeseeable emergency as determined by the Chairman of the Board of Directors of the Corporation, in his sole discretion, for such time as the global COVID-19 pandemic is ongoing.

**Agenda Item**  
UTIMCO Board of Directors Meeting  
March 24, 2020

**Agenda Item:** 2019 Market Review and UTIMCO Performance and Market Update

**Developed By:** Hall

**Presented By:** Hall

**Type of Item:** Information Item

**Description:** Rich Hall will review the 2019 market and UTIMCO's performance and market update.

**Reference:** *Market Update* presentation



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

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## Market Update

March 2020

**Rich Hall**

Deputy Chief Investment Officer



A long time ago in a market far, far  
away.....

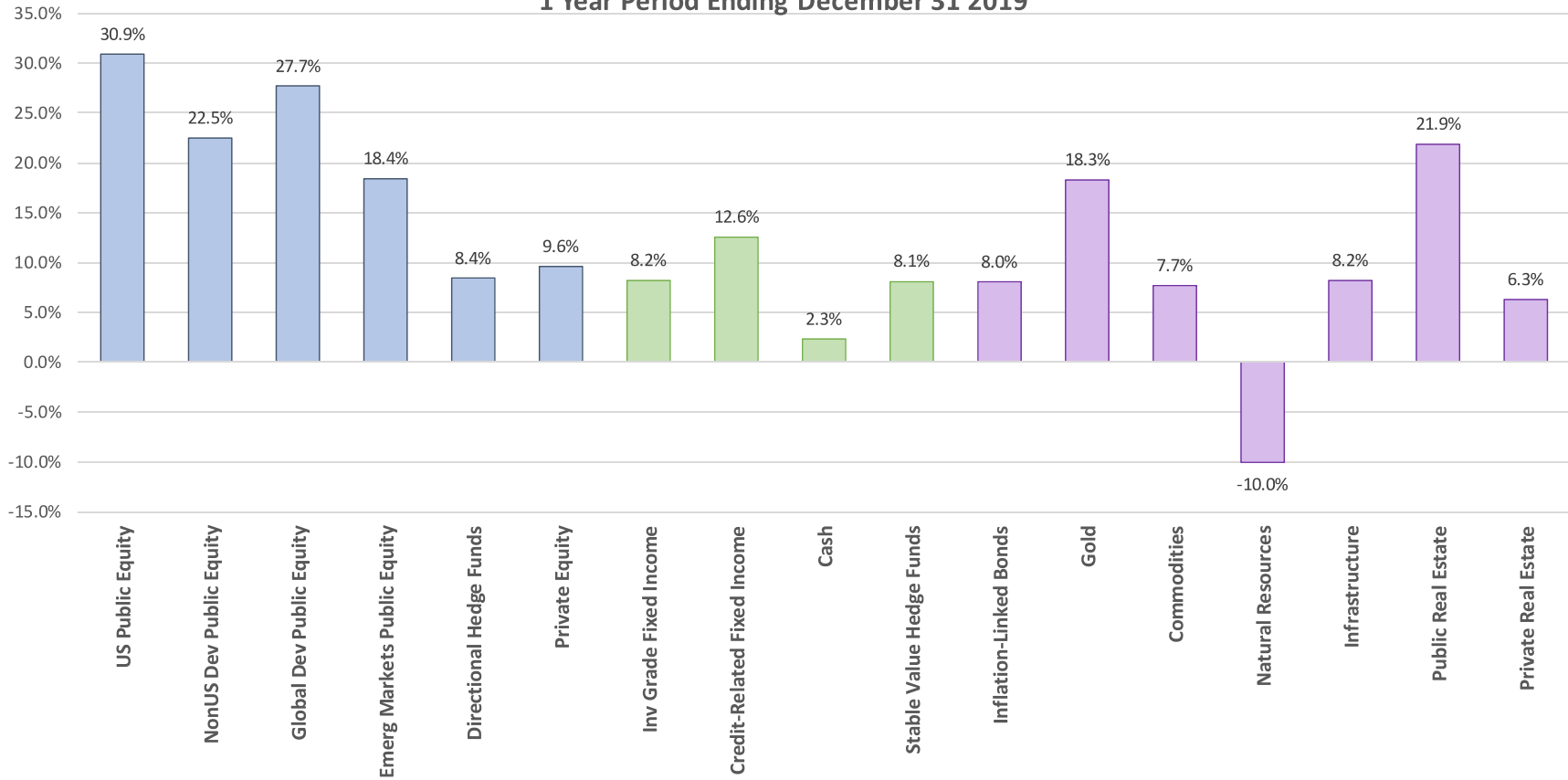
*Before the March OPEC  
meeting, the Iowa Caucuses,  
and during a time before the  
world knew of the 2019  
Novel Coronavirus, financial  
markets were calmer, quieter  
and behaving well...*

# Benchmark Performance

Year Ending December 31, 2019

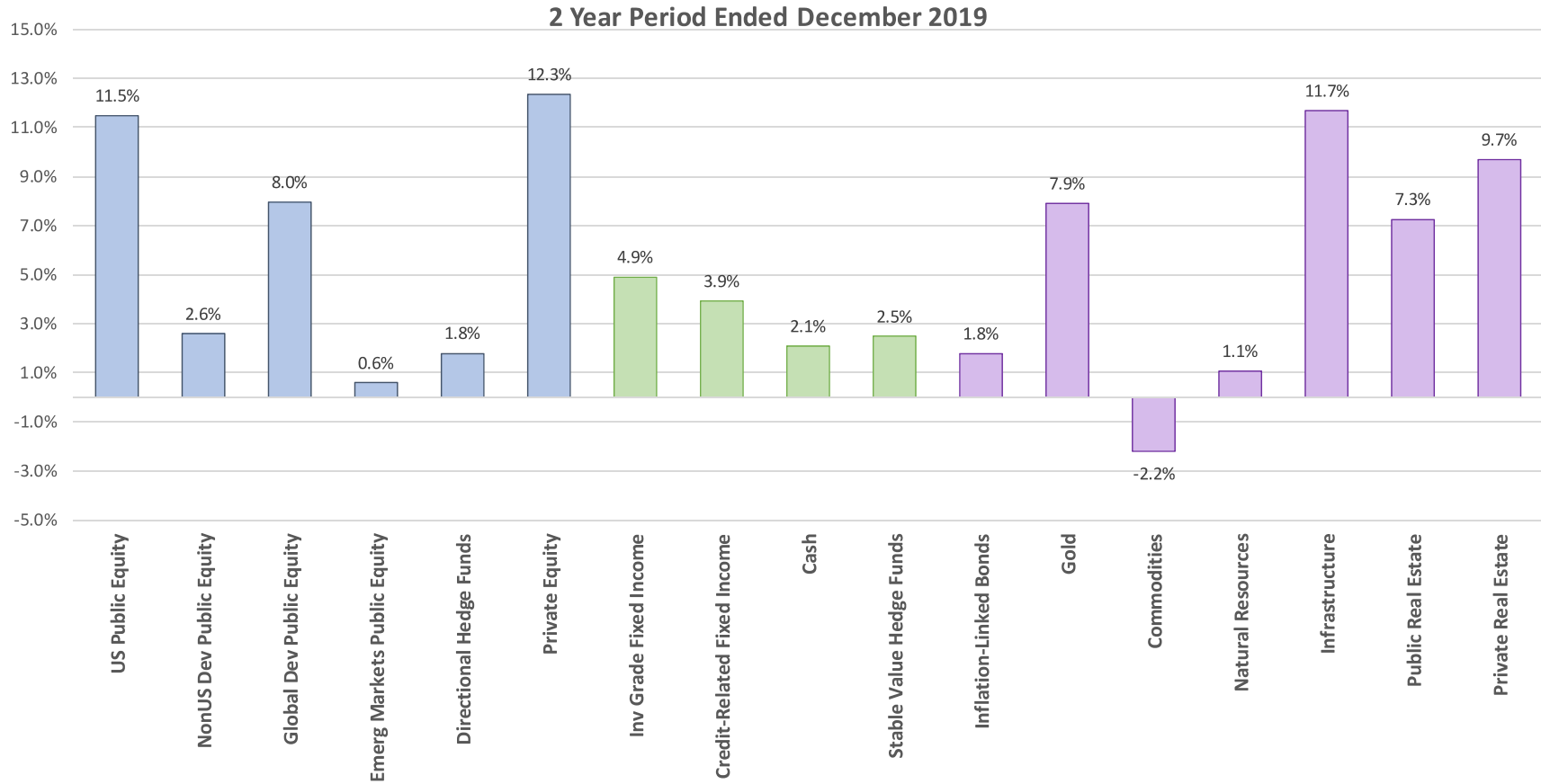


1 Year Period Ending December 31 2019



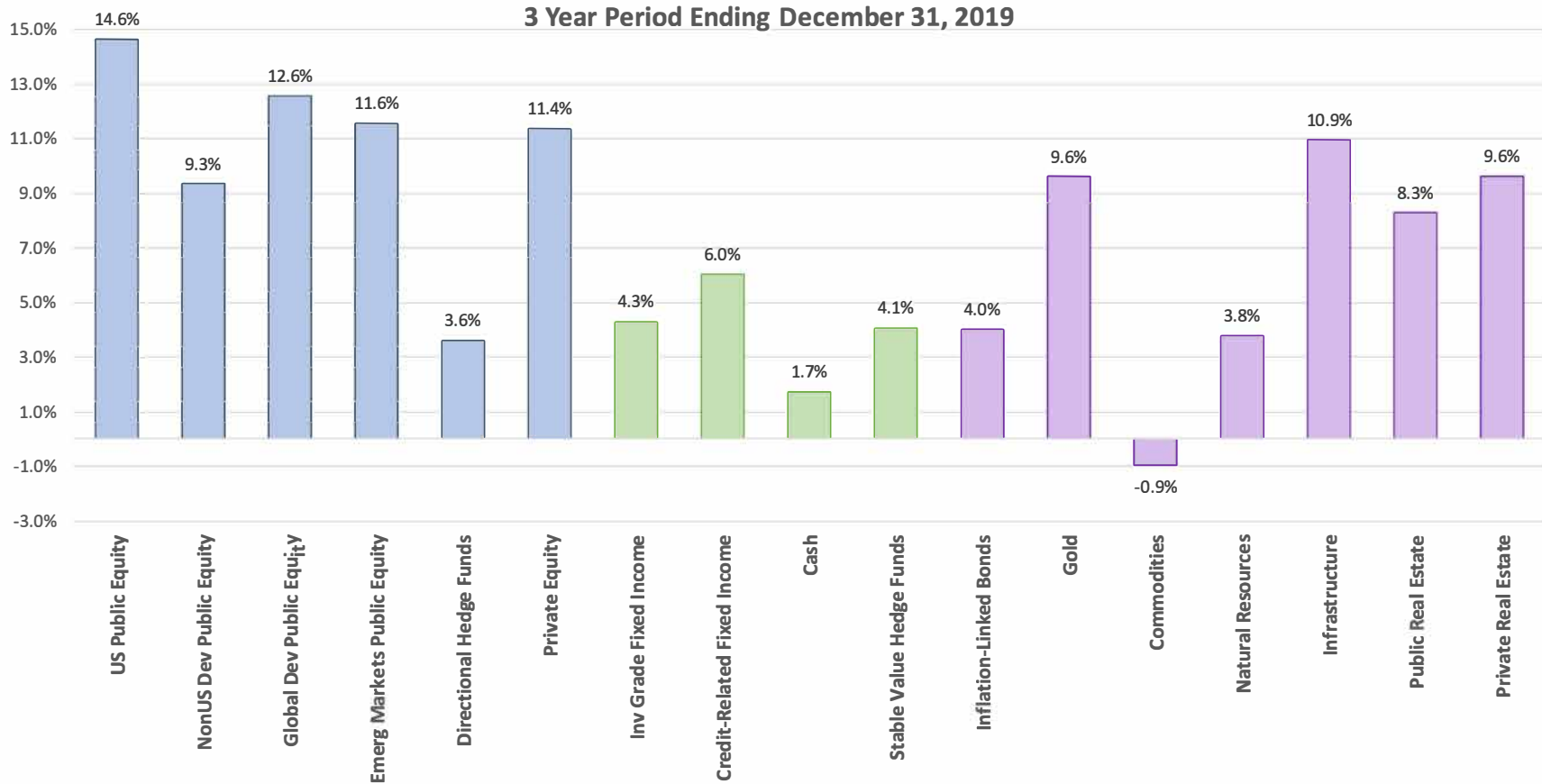
# Benchmark Performance

Two Years Ending December 31, 2019



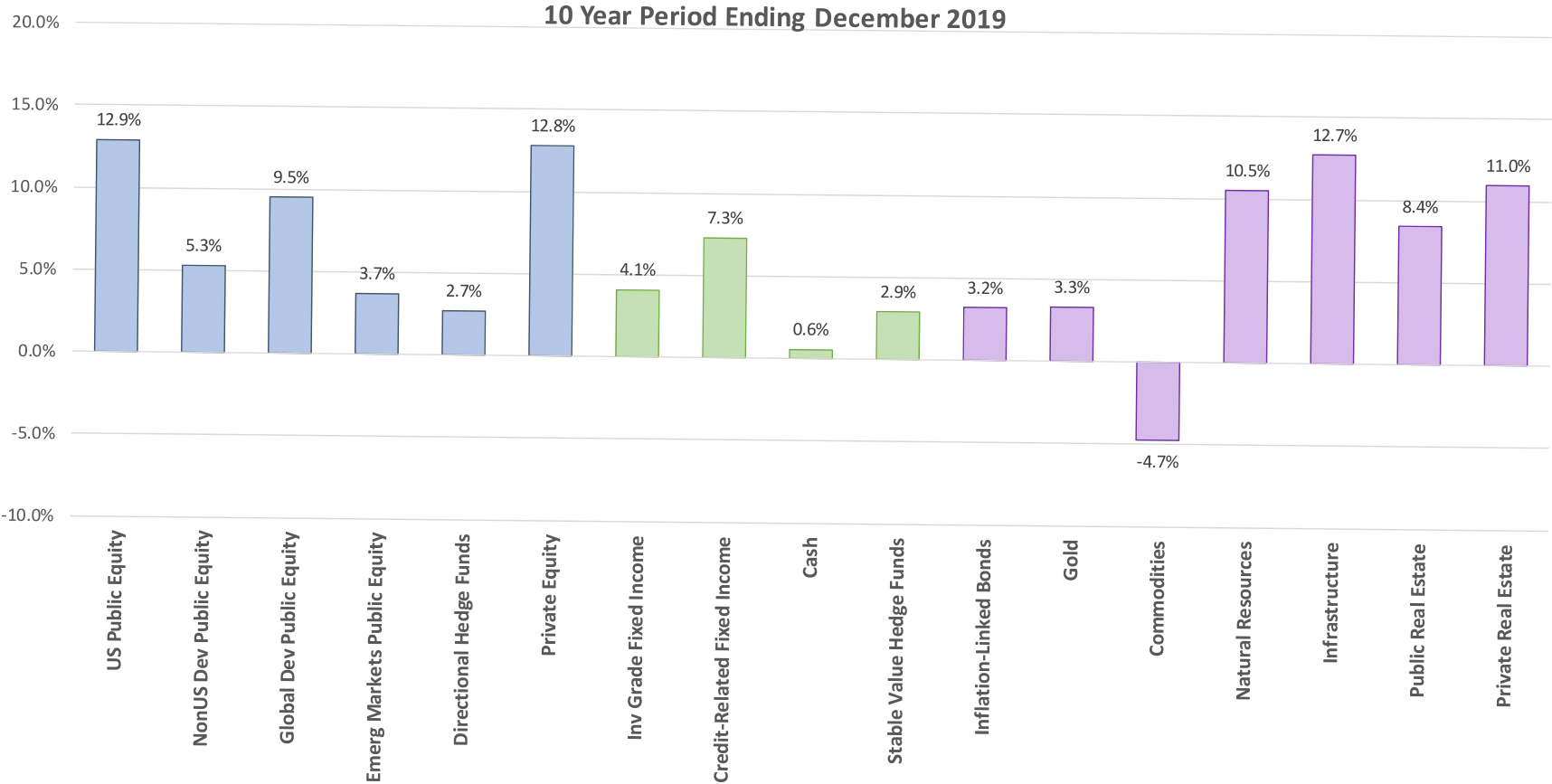
# Benchmark Performance

Three Years Ending December 31, 2019



# Benchmark Performance

Ten Years Ending December 31, 2019

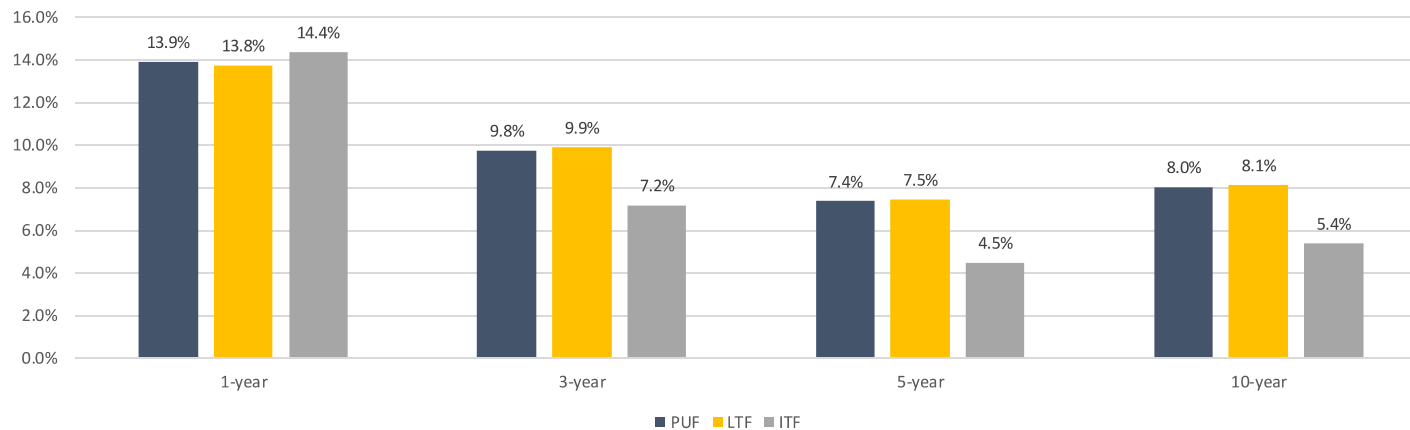


# Overview of Funds

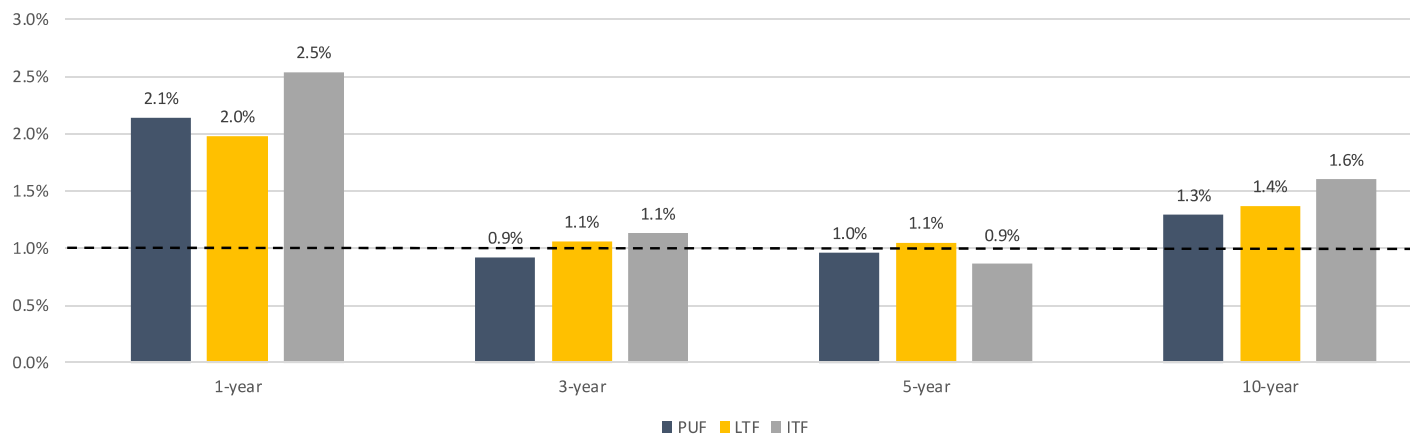
Period Ending December 31, 2019



Total Net Returns

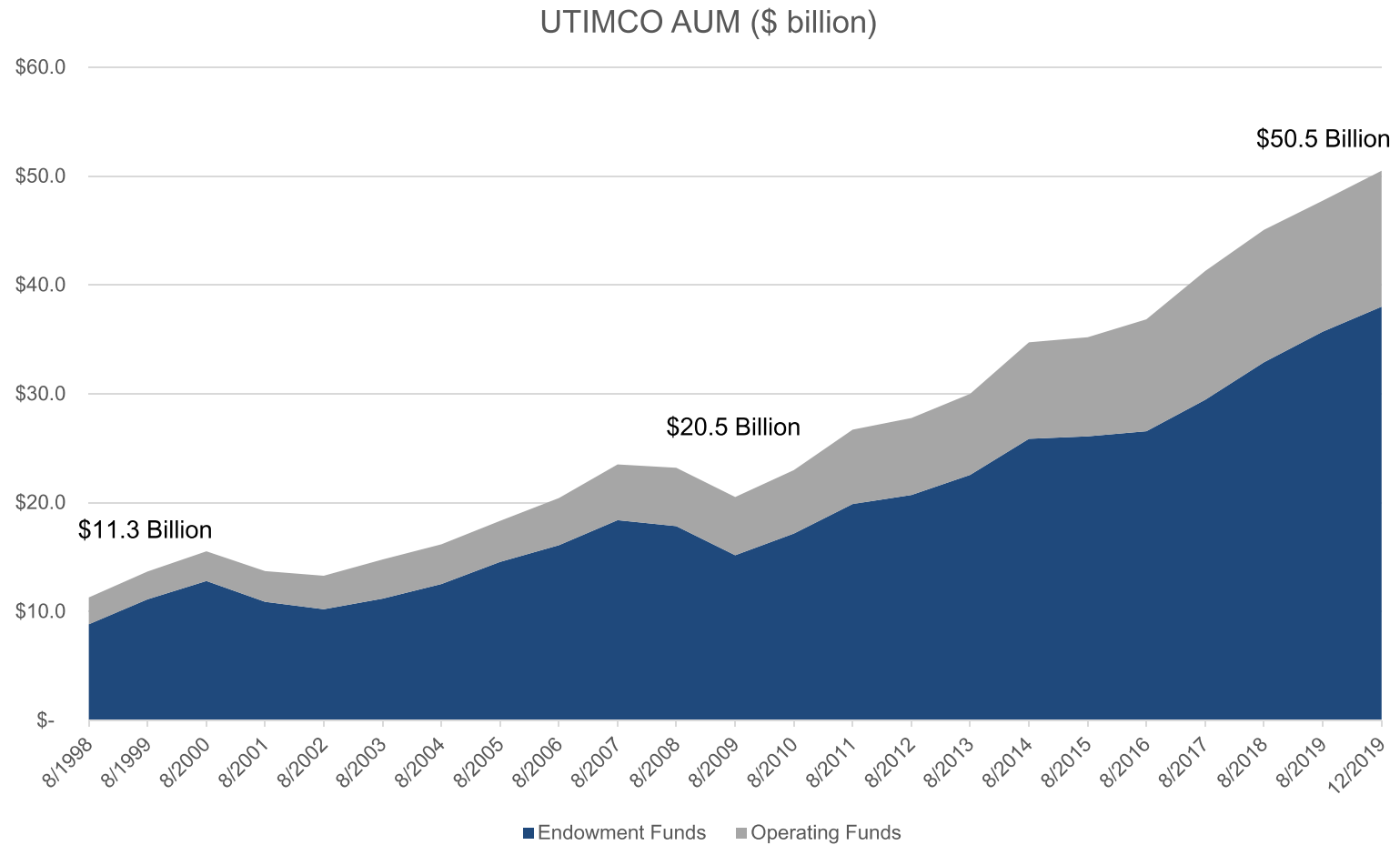


Outperformance vs. Benchmarks



# Overview of Funds

Period Ending December 31, 2019

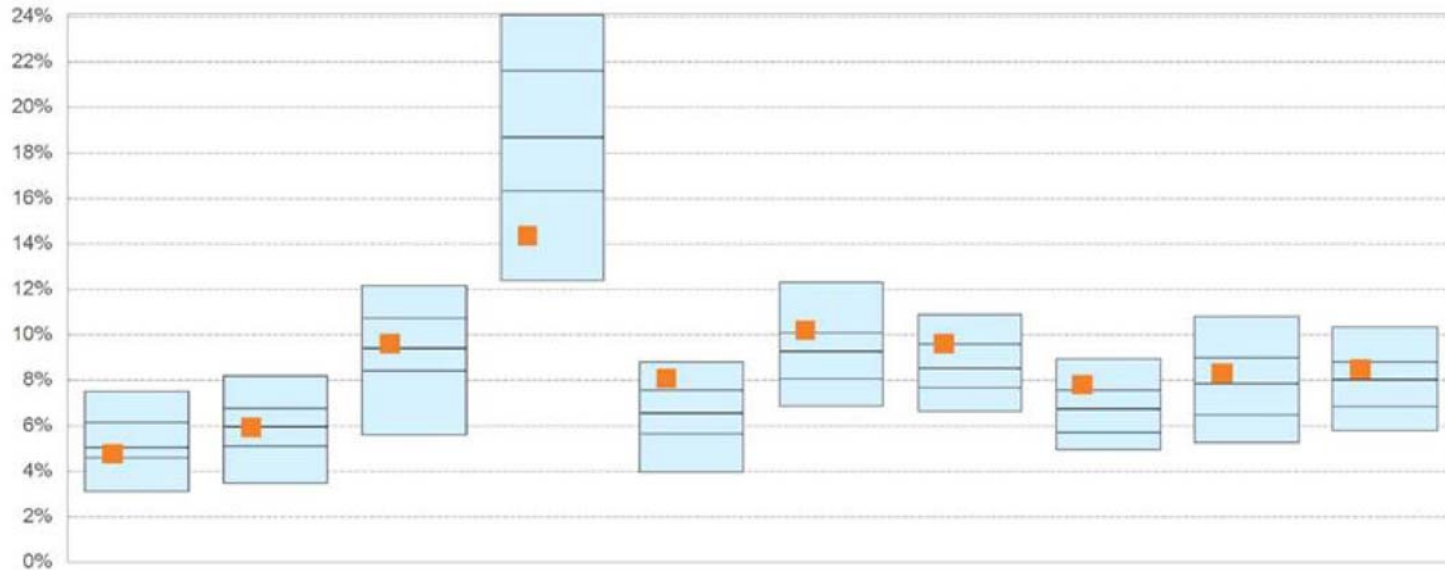


# Performance Comparison

Cumulative Periods Ending December 31, 2019



## Total Returns of Master Trusts – Foundation & Endowment



Percentile Rankings	1 Qtr	2 Qtrs	3 Qtrs	1 Year	2 Years	3 Years	4 Years	5 Years	7 Years	10 Years
5th	7.52	8.19	12.15	24.08	8.82	12.32	10.88	8.95	10.82	10.33
25th	6.14	6.76	10.72	21.63	7.56	10.08	9.60	7.58	8.99	8.81
50th	5.06	5.97	9.42	18.68	6.57	9.27	8.54	6.74	7.86	8.04
75th	4.58	5.11	8.43	16.33	5.65	8.06	7.67	5.71	6.49	6.84
95th	3.10	3.47	5.60	12.40	3.96	6.86	6.63	4.95	5.25	5.78
No. Of Obs	75	75	75	75	73	71	71	71	68	55
PUF TOTAL FUND	4.61 (69)	5.79 (62)	9.45 (46)	14.21 (84)	7.93 (18)	10.07 (27)	9.47 (27)	7.65 (23)	8.16 (41)	8.35 (35)

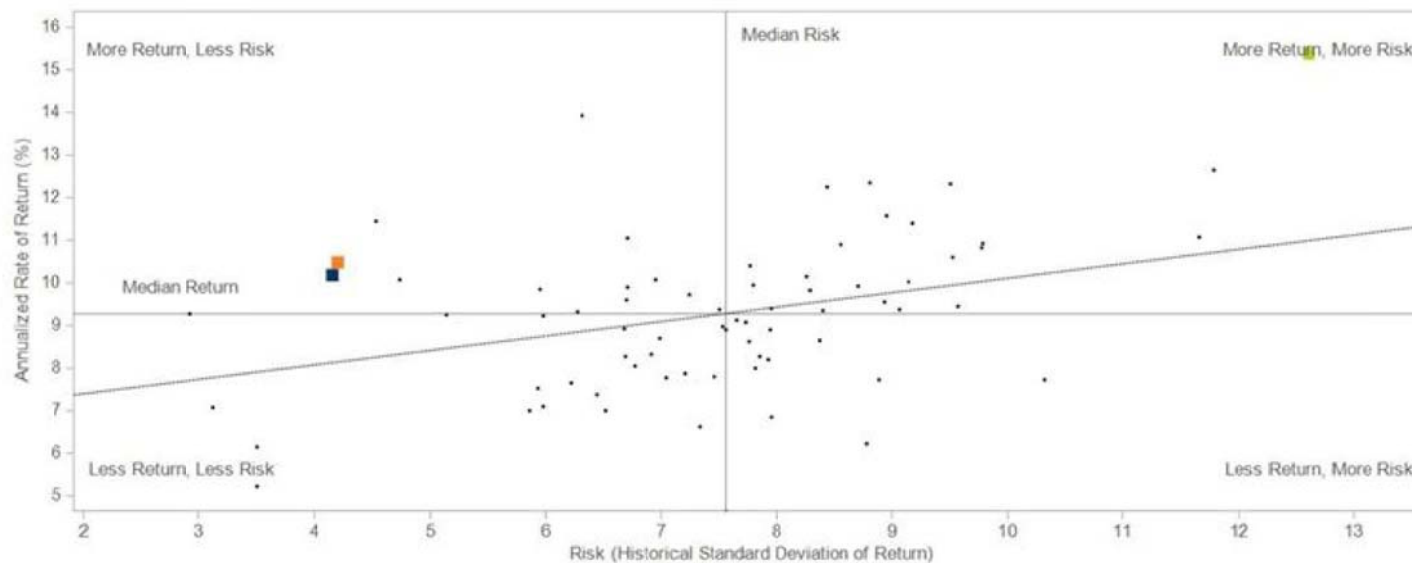


# Risk/Return

Three Years Ending December 31, 2019



## Risk vs Total Returns of Master Trusts – Foundation & Endowment



Alpha: 6.71  
Beta: 0.34  
R-Squared: 0.14

	Risk Value	Risk Rank	Return Value	Return Rank
GEF TOTAL FUND	4.25	93	10.37	22
PUF TOTAL FUND	4.20	95	10.07	27
S&P 500	12.65	1	15.27	1
Median	7.56		9.27	

# UTIMCO Performance versus Peers

Five Years Ending December 31, 2019



	UTIMCO Performance	Percentile Rank
Venture Capital	17.45	1st
Private Real Estate Portfolios	14.96	1st
US Private Equity Portfolios	11.04	34th
Global Equity Portfolios	9.28	36th
Non US Equity Portfolios	8.83	24th
US Equity Portfolios	7.11	85th
Emerging Markets	9.16	14th
Hedge Fund Portfolios	4.44	56th
Private Natural Resources	3.06	N/A
Global Fixed Income (Unhedged)	2.92	50th

Note: Peer universe is approximately 250 institutions.

Source: Wilshire Trust Universe Comparison Service® (TUCS®)

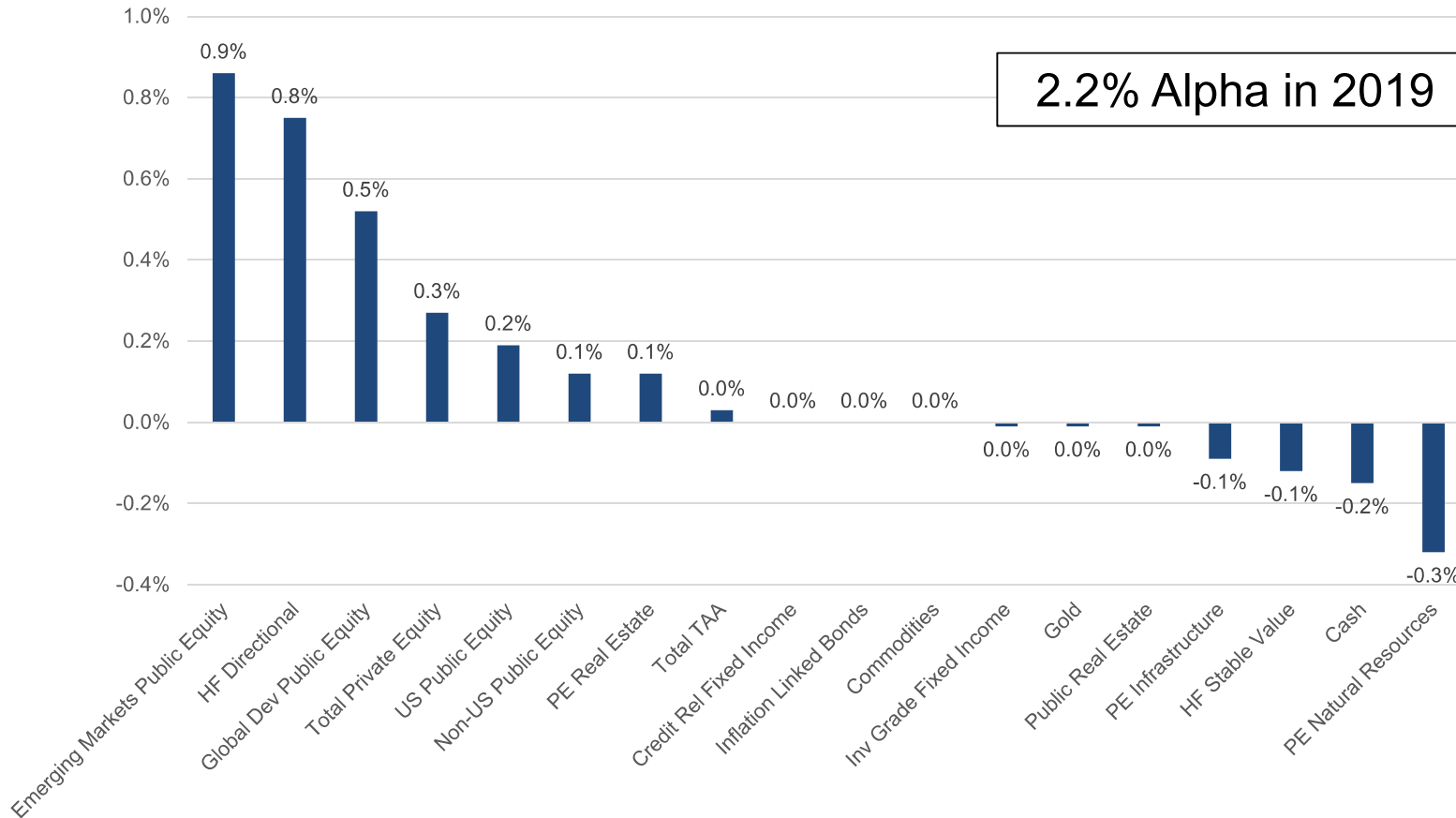
11

# Explanation of PUF One-Year Alpha

Periods Ending December 31, 2019



1-Year Alpha Attribution

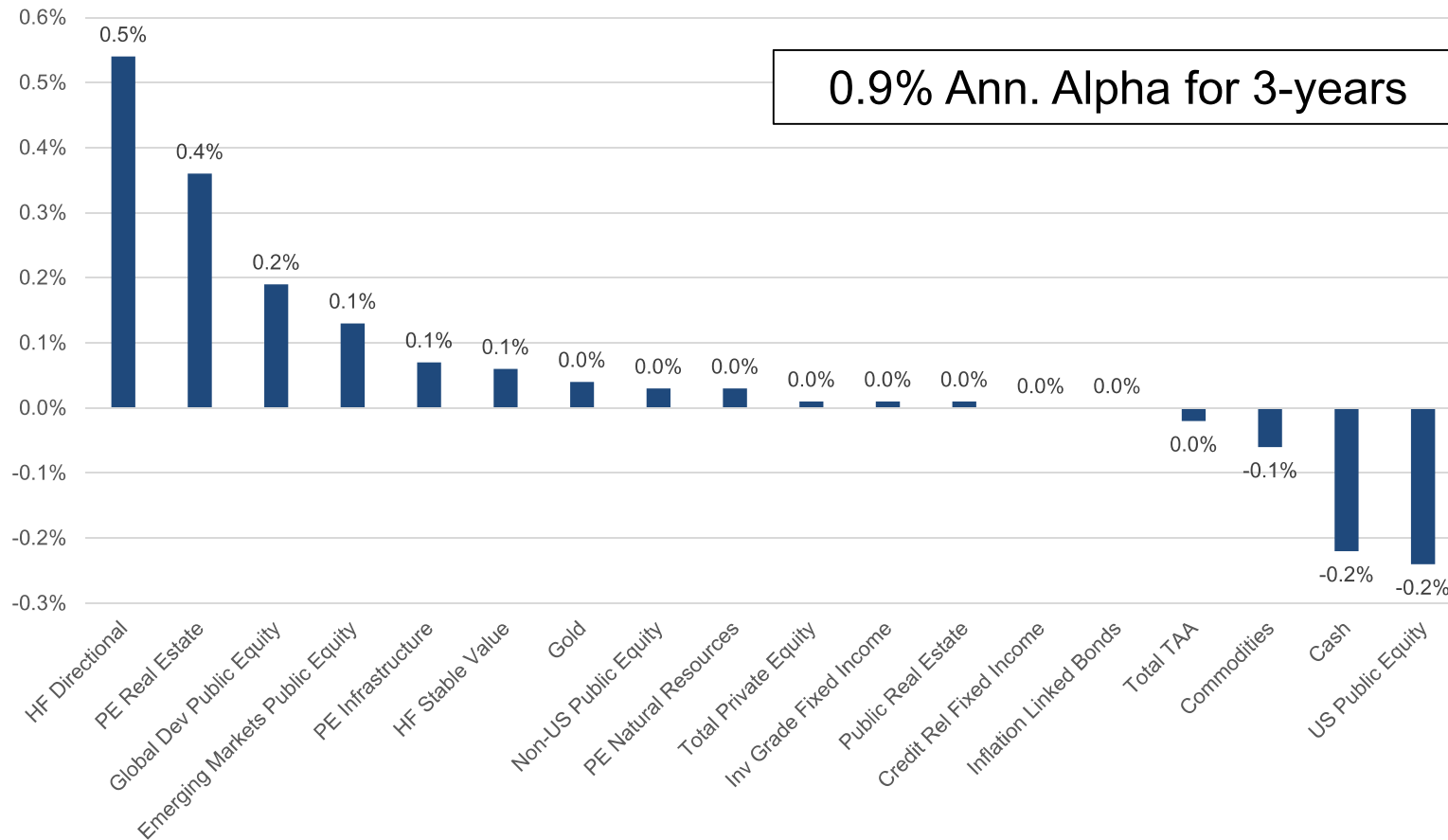


# Explanation of PUF Three-Year Alpha

Periods Ending December 31, 2019

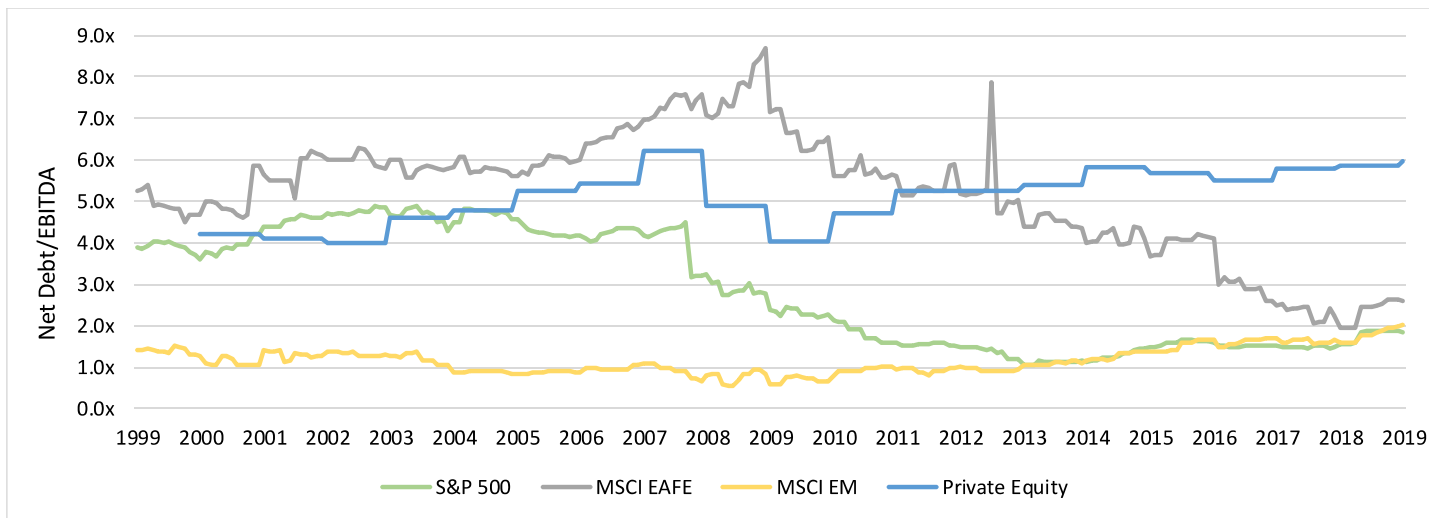
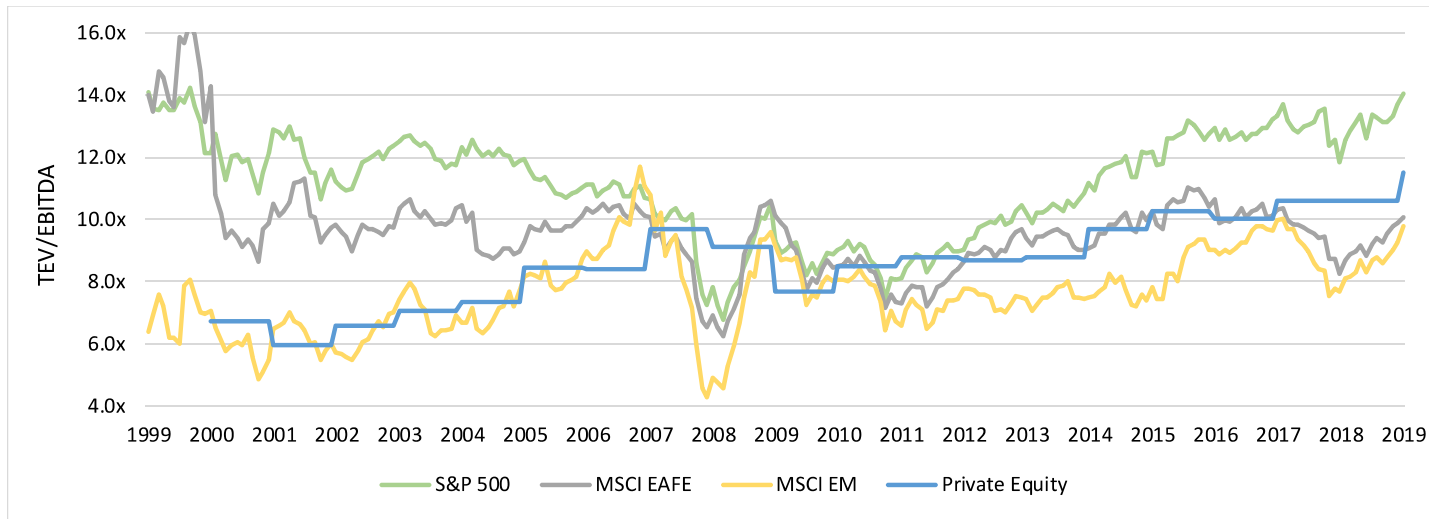


3-Year Alpha Attribution





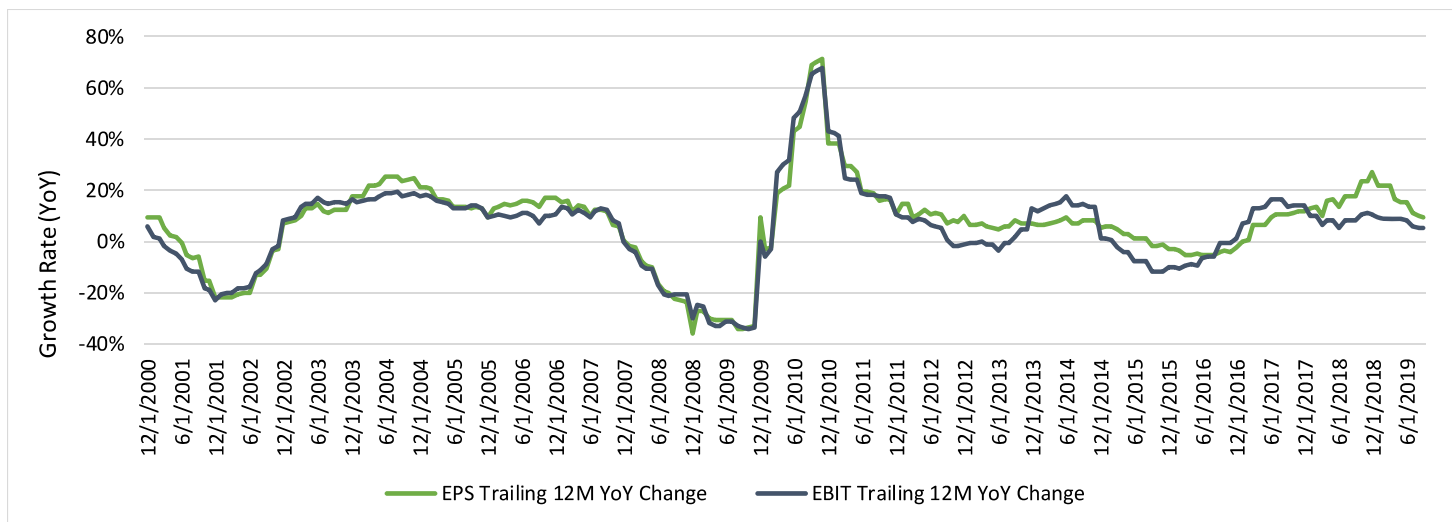
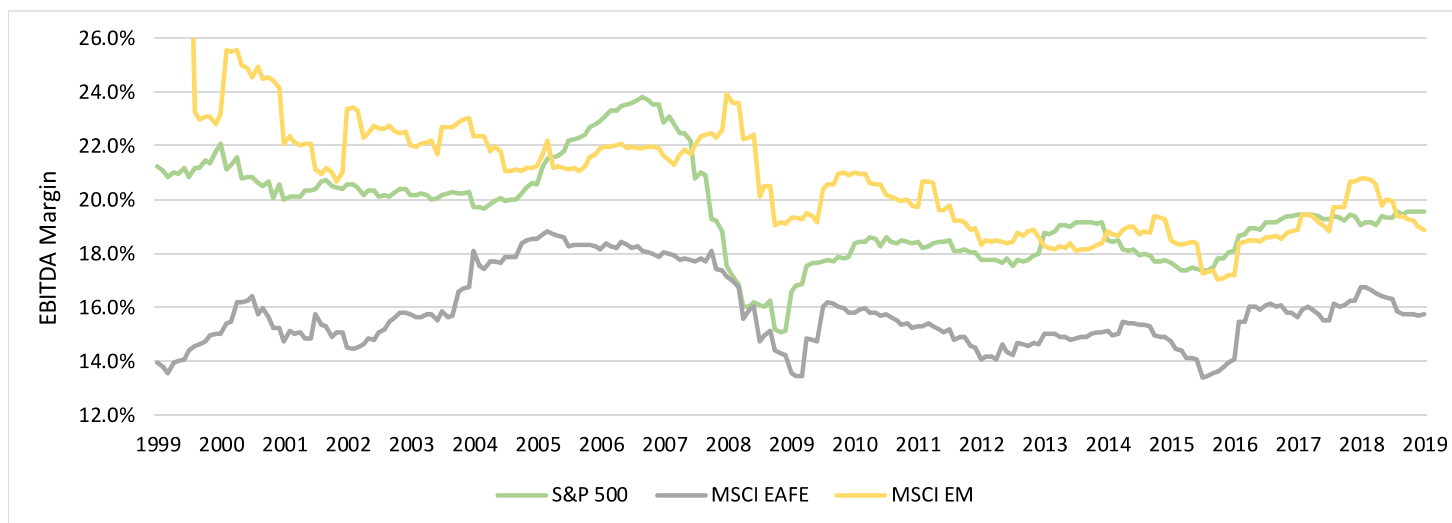
# Valuation: Equities



Data Source(s): Bloomberg, S&P LCD LBO Q4 2019 Report



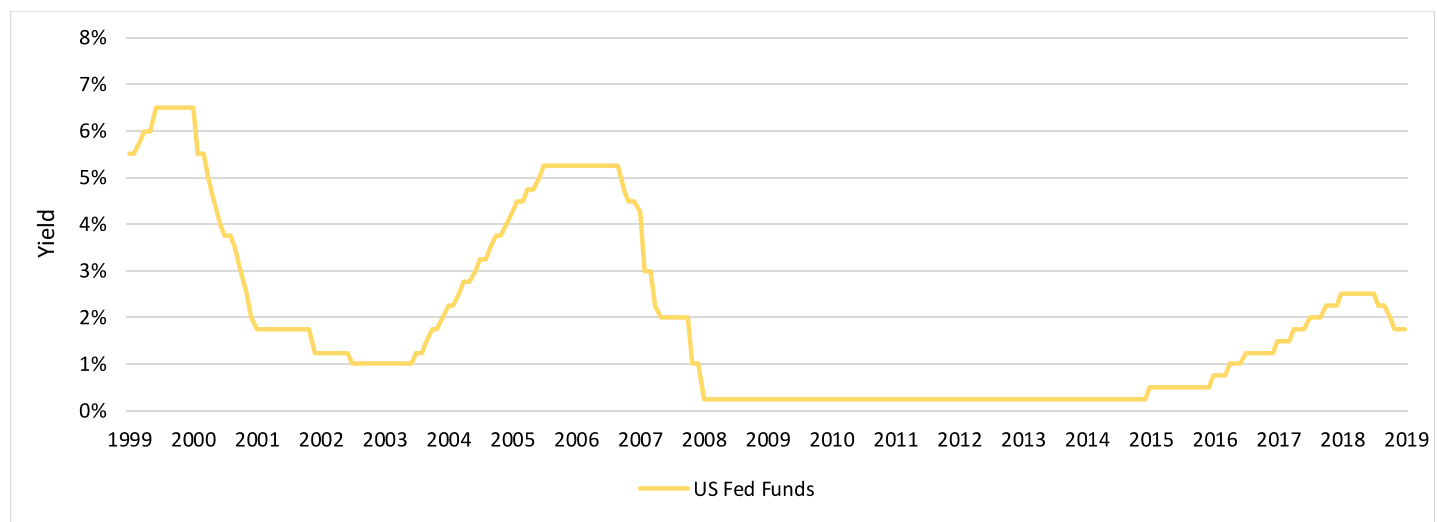
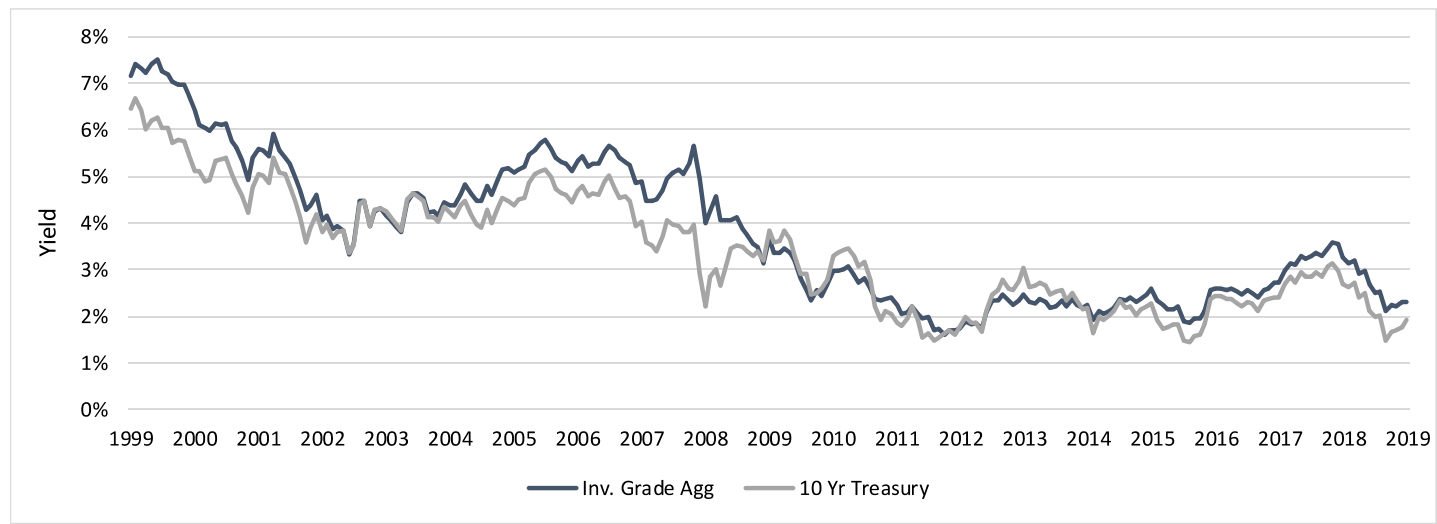
# Valuation: Equities



Data Source(s): Bloomberg



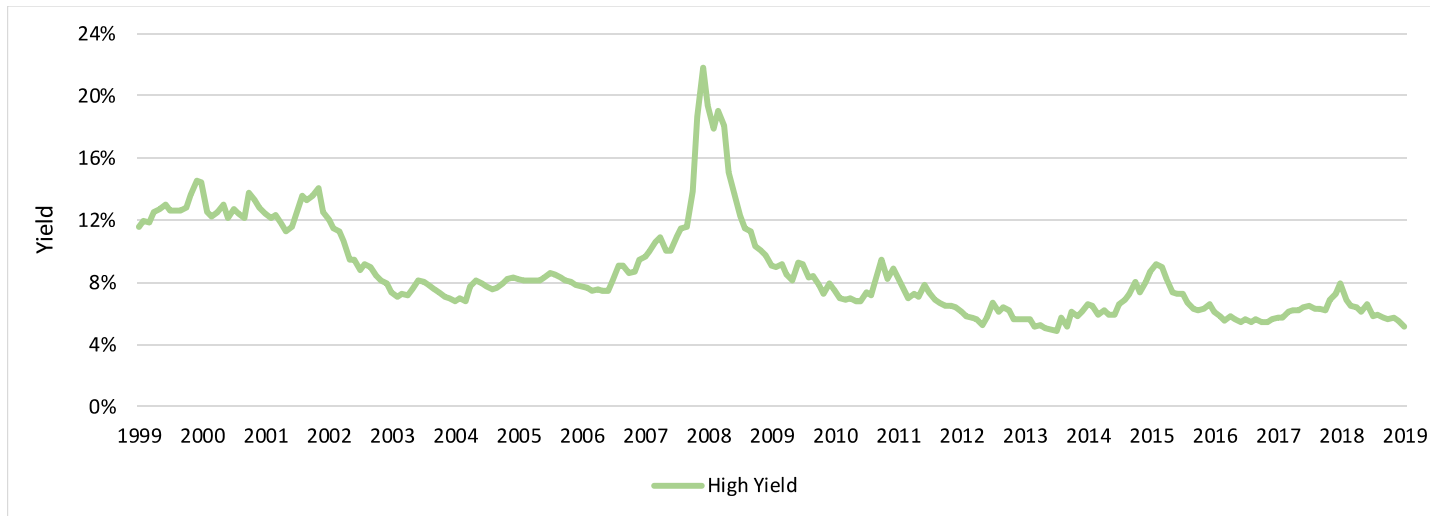
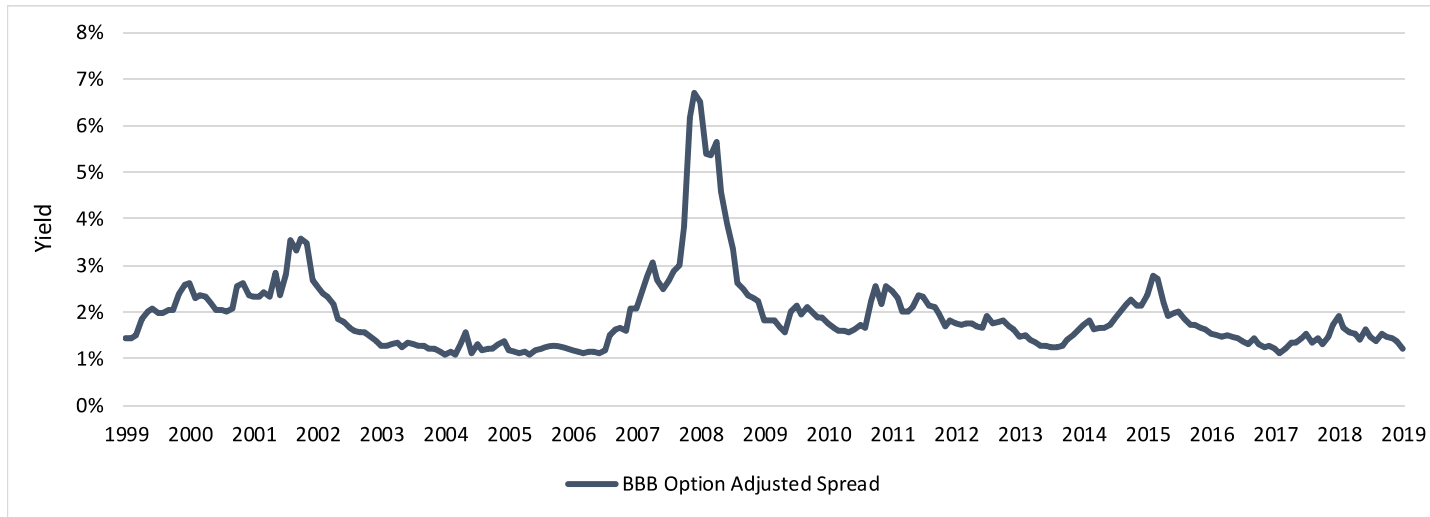
# Valuation: Fixed Income



Data Source(s): Bloomberg



# Valuation: Fixed Income

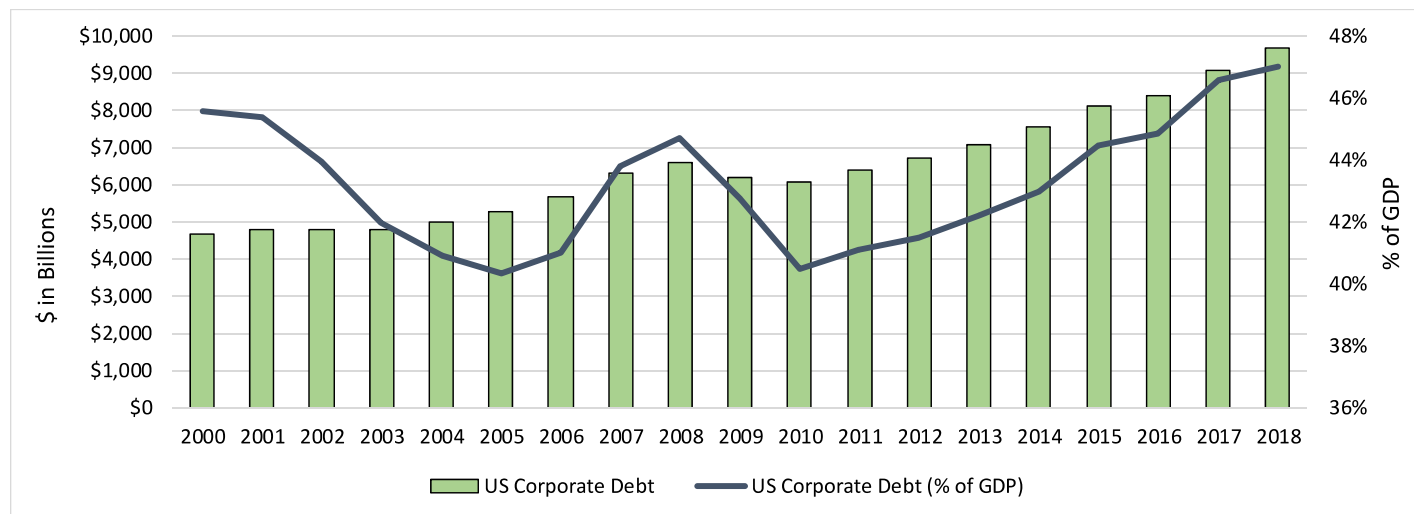
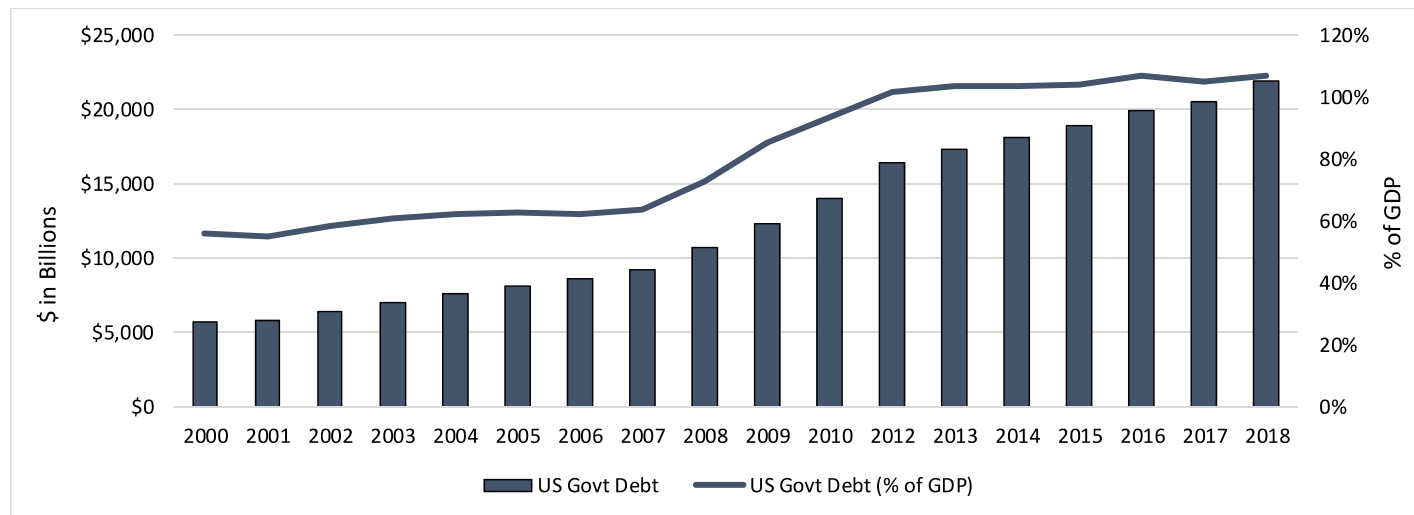


Data Source(s): Bloomberg



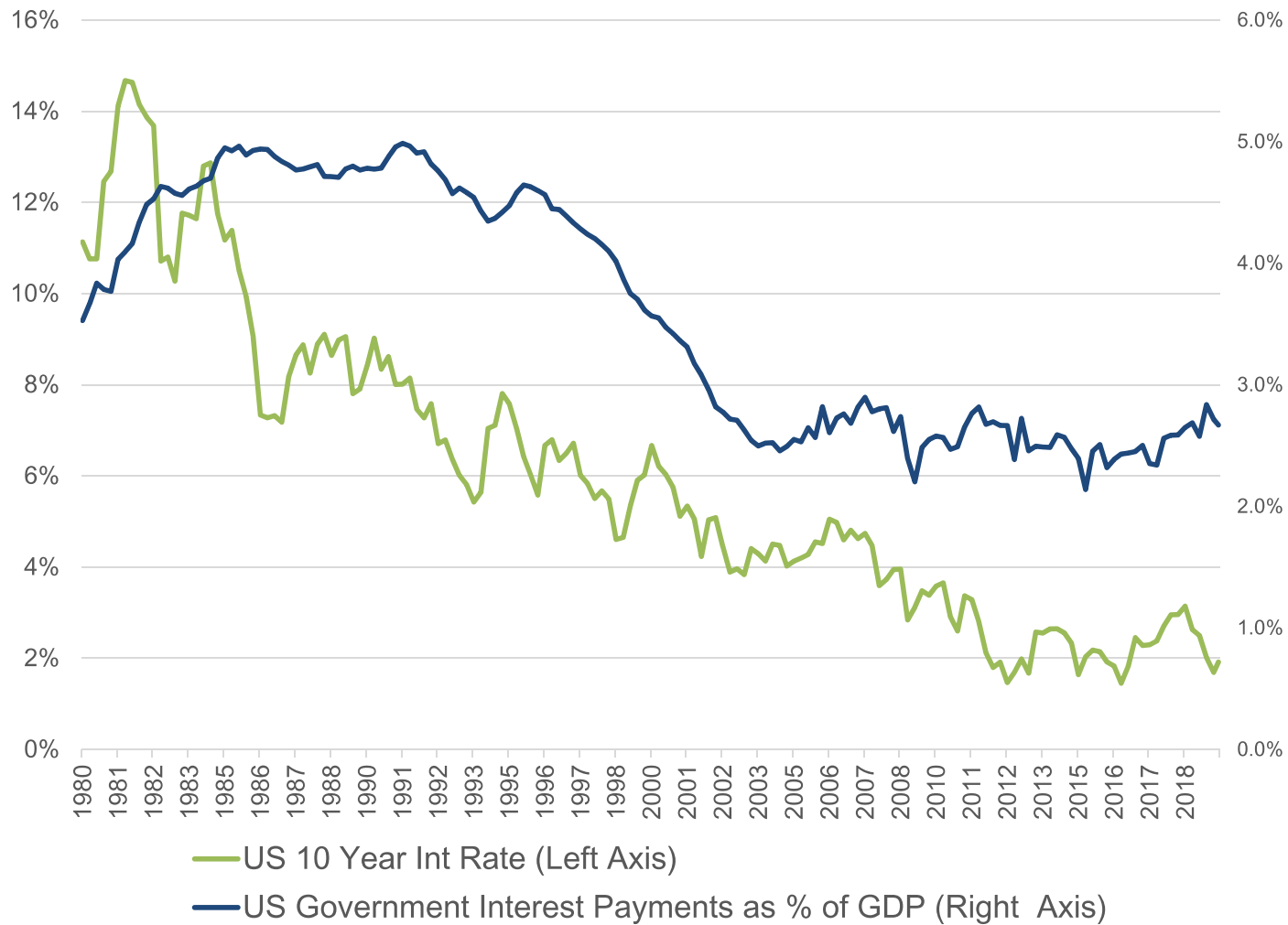


# Debt Levels



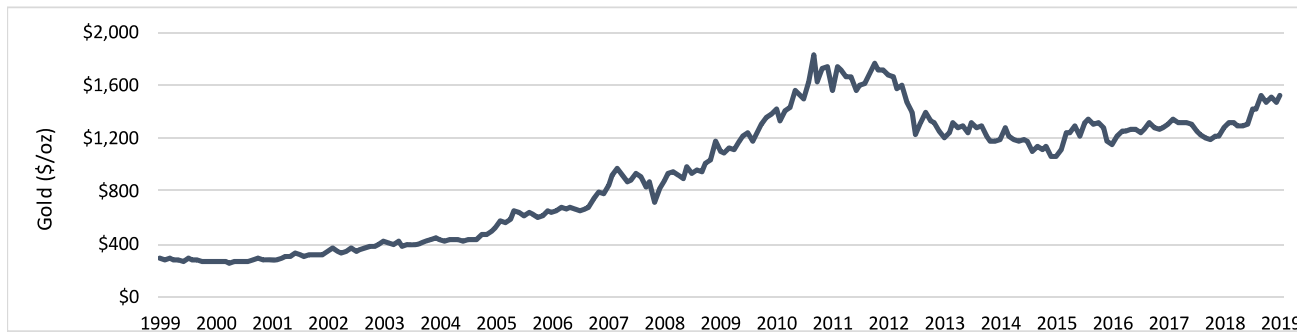
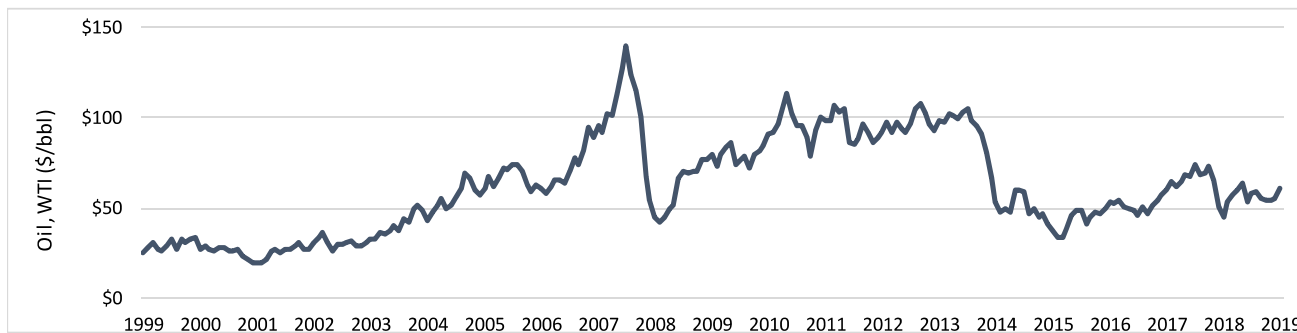
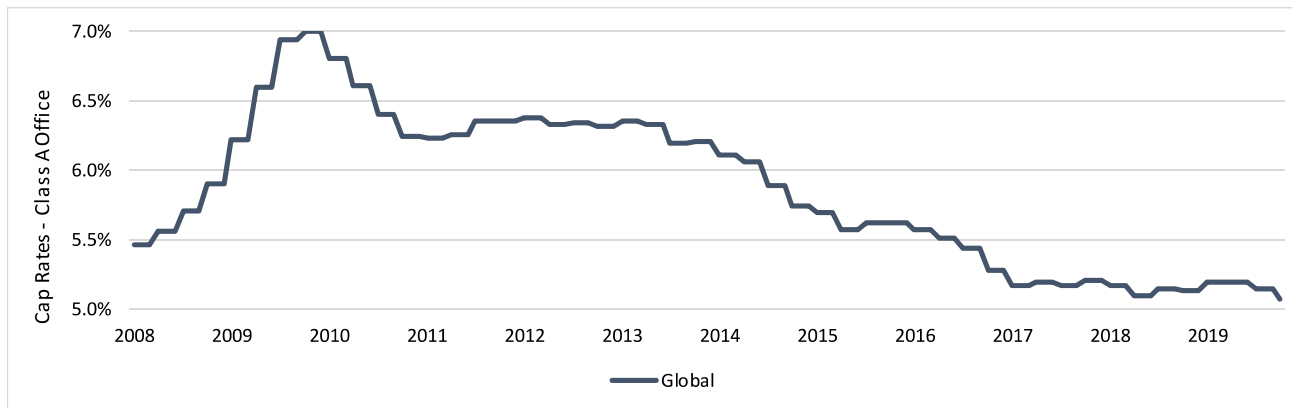
Data Source(s): Bloomberg

# Debt Service





# Valuation: Real Estate and Commodities



Data Source(s): Bloomberg, RCA Trend Tracker

**Agenda Item**  
UTIMCO Board of Directors Meeting  
March 24, 2020

**Agenda Item:** Review and Primer of Relationship between UTIMCO and University Lands

**Developed By:** Harris, Houser

**Presented By:** Harris, Houser

**Type of Item:** Information Item

**Description:** Mr. Harris and Mr. Houser will provide a review and primer of the relationship between UTIMCO and University Lands.

**Reference:** *University Lands* presentations



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

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## University Lands

March 2020

**Britt Harris**

CEO, President and Chief Investment Officer

# Overview



## UTIMCO

- \$50 Billion AUM
- 10% annualized return (Mar-09 to Dec-19)
- \$33 Billion in AUM growth (Mar-09 to Dec-19)
- Requires private sector professionals
- Annual Budget: \$57.0 Million
- Budget Source: Investment funds
- Currently 100 professionals
- UTIMCO employees
- Separate company
- Independent Board of Directors
- Delegated authority given to UTIMCO to manage day-to-day responsibilities
- Co-located in UT System facility
- Budget and Compensation approved by UTIMCO's Board
- Total budget approved by UT Regents

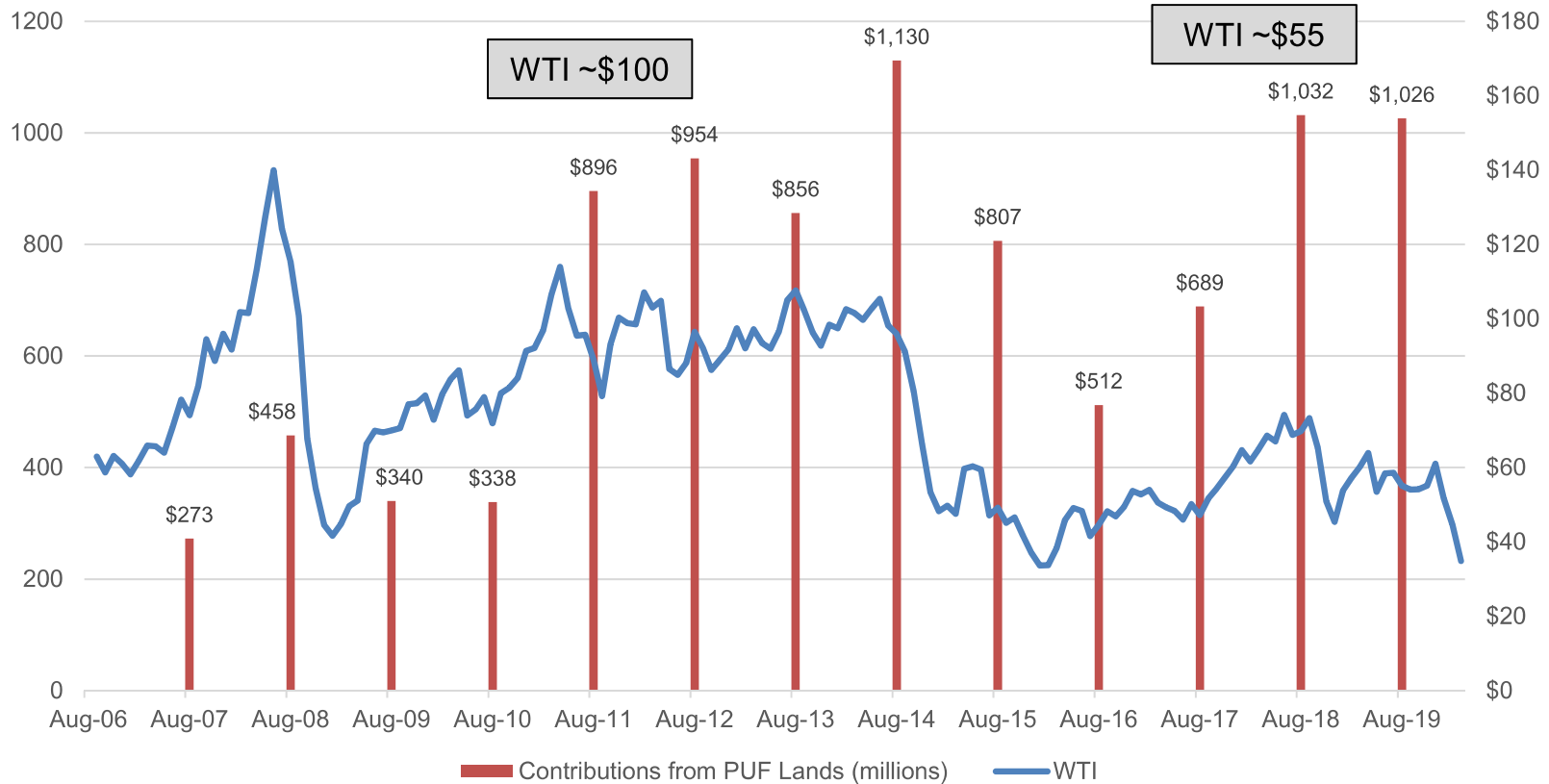
## University Lands

- \$20 Billion maximum estimated value
- \$1.0 Billion recent annual distributions
- 2.1 Million acres (10MBOE to 19MBOE)
- Requires private sector professionals
- Annual Budget: ~\$25 million
- Budget Source: PUF funds
- Currently 67 professionals
- UT System employees
- Unit of Business Affairs
- Advisory Board without delegated authority
- Professional management since 2016
  
- Located in Houston
- Budget and Compensation managed through UT Business Affairs (except CEO)
- Approved by UT Regents

# PUF Distributions



Contributions from PUF Lands by Fiscal Year vs WTI



FY 2011-2014	
Average Distribution	\$959
Univ. Lands Avg. Prod.	10 MMBOE
WTI Avg Price	\$95
WTI High	\$113
WTI Low	\$73

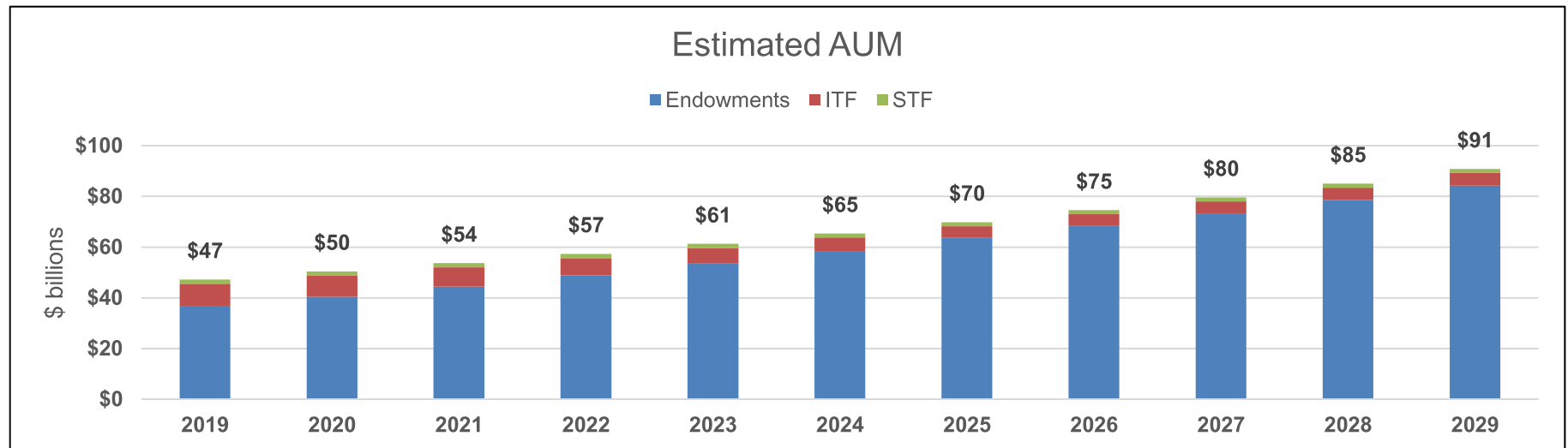
FY 2015-2019	
Average Distribution	\$813
Univ. Lands Avg. Prod.	19 MMBOE
WTI Avg Price	\$54
WTI High	\$96
WTI Low	\$26

Futures Markets	12/31/2019	3/10/2020	Change
Dec-20	\$56.4	\$38.7	-32%
Dec-21	\$53.1	\$43.2	-19%
Dec-22	\$51.6	\$45.8	-11%
Dec-23	\$51.3	\$47.3	-8%
Dec-24	\$51.8	\$48.1	-7%
Dec-25	\$52.4	\$48.5	-7%



# UTIMCO Strategic Plan (Under Current Review)

## Expected AUM Growth



### Key drivers and assumptions:

- Total AUM expected to grow by \$44 billion from \$47 to \$91 billion over 10 years
  - \$16B transferred from ITF
  - \$3B new inflows from institutions
  - \$11B royalties from University Lands (under current review)
  - \$42B investment returns (assumed at 7.3% annually)
  - \$(24B) total distributions (average 4.5% of beginning NAV)
- 94% total increase over next 10 years at 6.8% CAGR





# Getting to \$11B (Under Current Review)

	Reduced Mgmt.	Existing Mgmt.	Proposed Mgmt.
Oil Price Average	\$57.2	\$57.2	\$57.2
Gas Price Average	\$2.3	\$2.3	\$2.3
Net PUF Revenue (\$ billion)	\$6.8	\$9.2	\$11.1
2019 Production MMBOE (Actual)	23.5	23.5	23.5
2029 Production MMBOE (Expected)	16.4	23.0	30.0
2019 to 2029 Growth	-30%	-2%	28%
Annual Growth	-3.5%	-0.2%	2.5%

Note: Oil Price and Gas Price Assumptions used in this analysis are under current review

Futures Markets	Oil
Dec-20	\$38.7
Dec-21	\$43.2
Dec-22	\$45.8
Dec-23	\$47.3
Dec-24	\$48.1
Dec-25	\$48.5

EIA 2050 Baseline:
\$100 (1.6% annualized growth)

Source: Futures prices as of 3/10/20, Bloomberg

# Change in Market Share



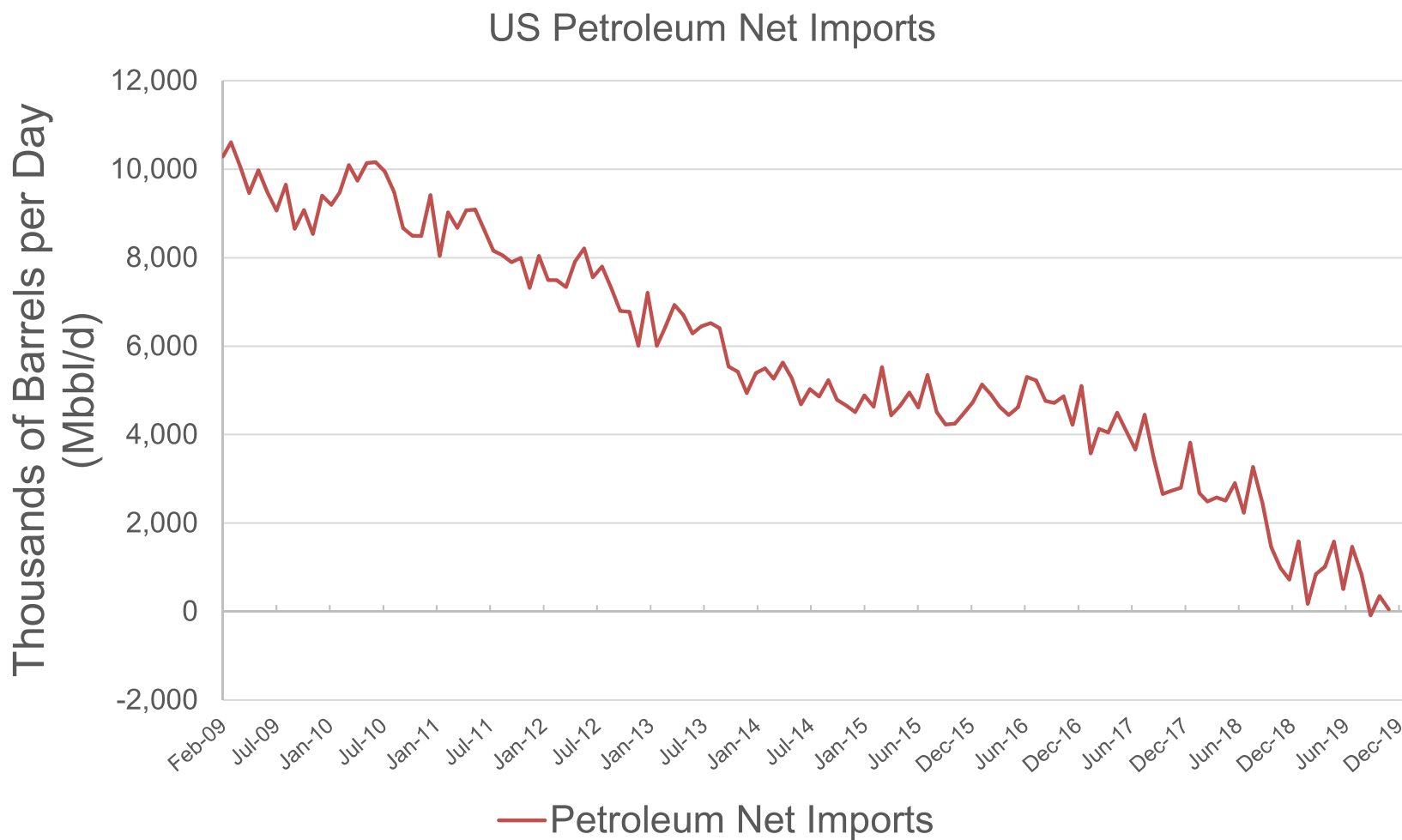
## Crude Oil, NGLs and Other Liquids (MMbbl/d)

	2010	2019
Global	89	102
US	10	20
Texas	1	6

## Percent of Global Production

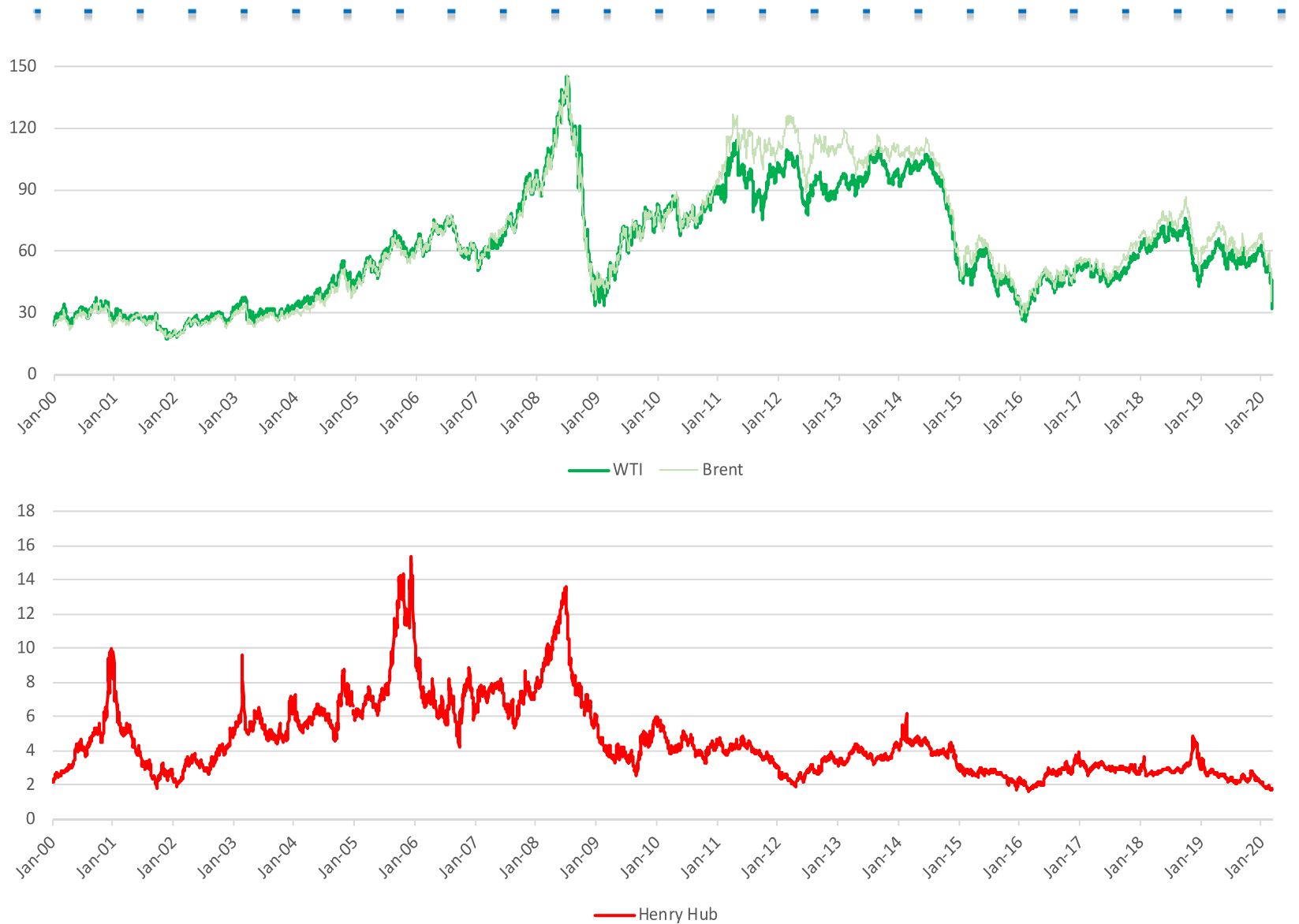
US	11%	20%
Texas	1%	5%

# US Net Imports



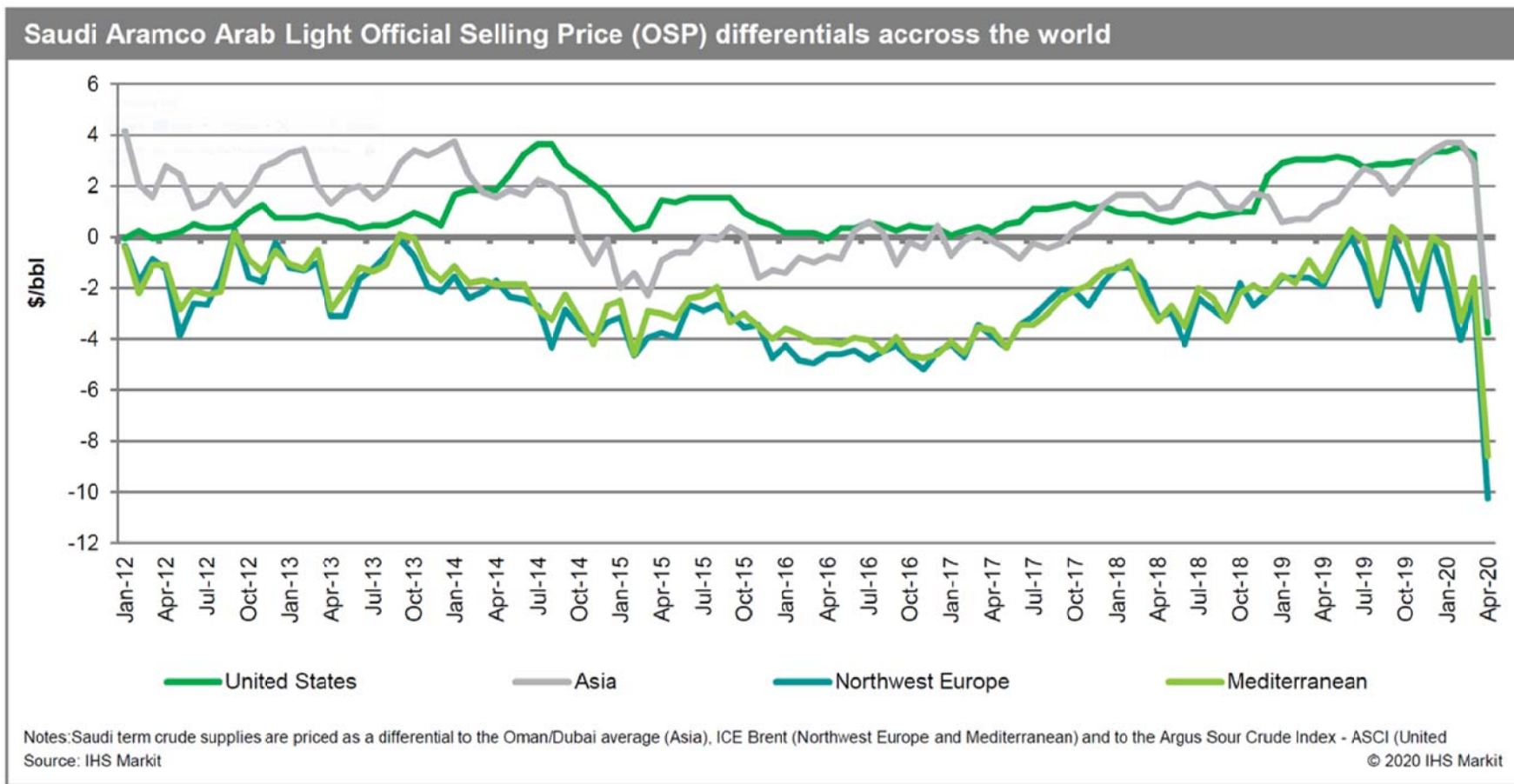
Source: U.S. Energy Information Administration (EIA)

# Energy Markets

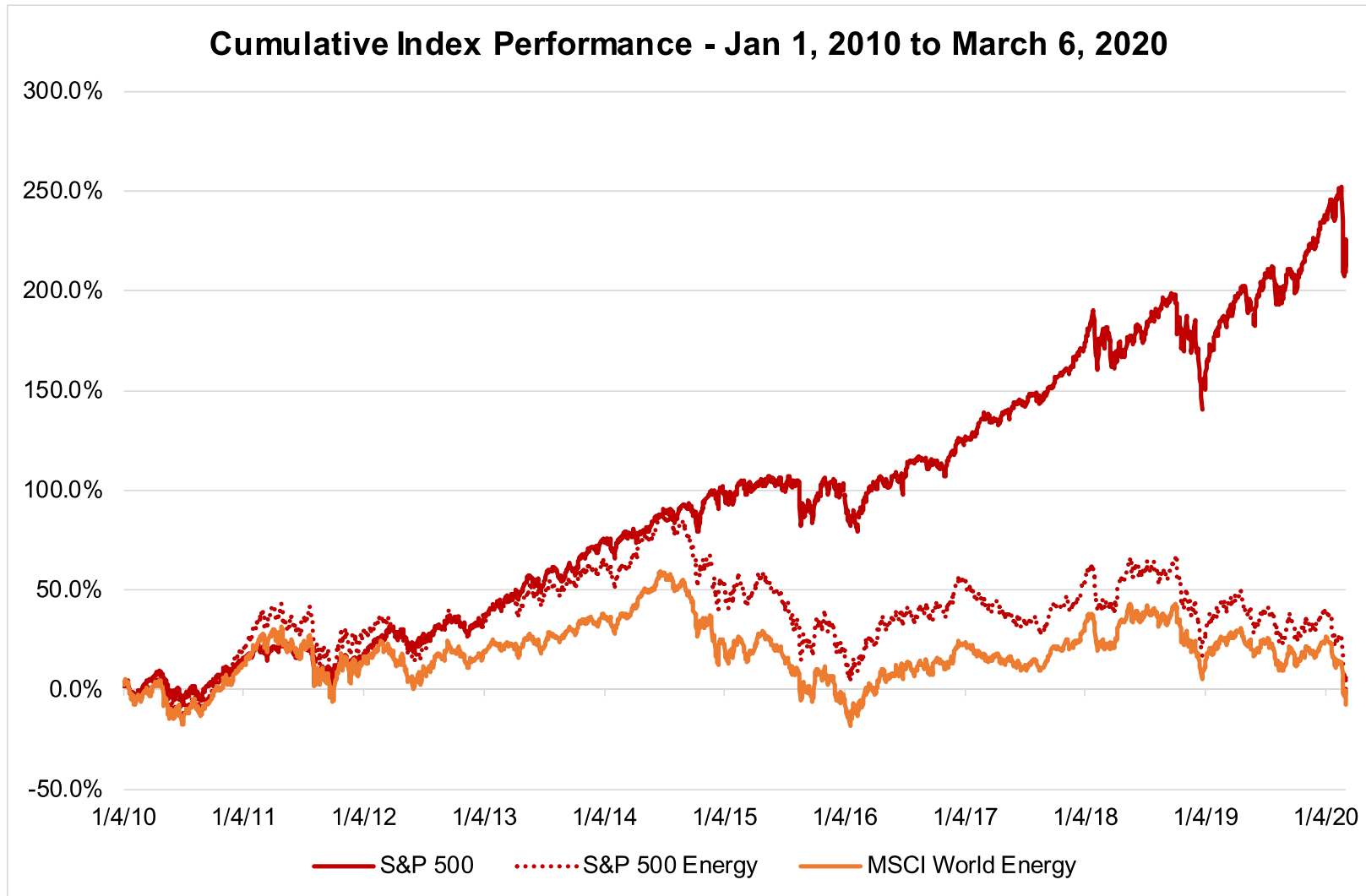


Source: Bloomberg

# Energy Markets

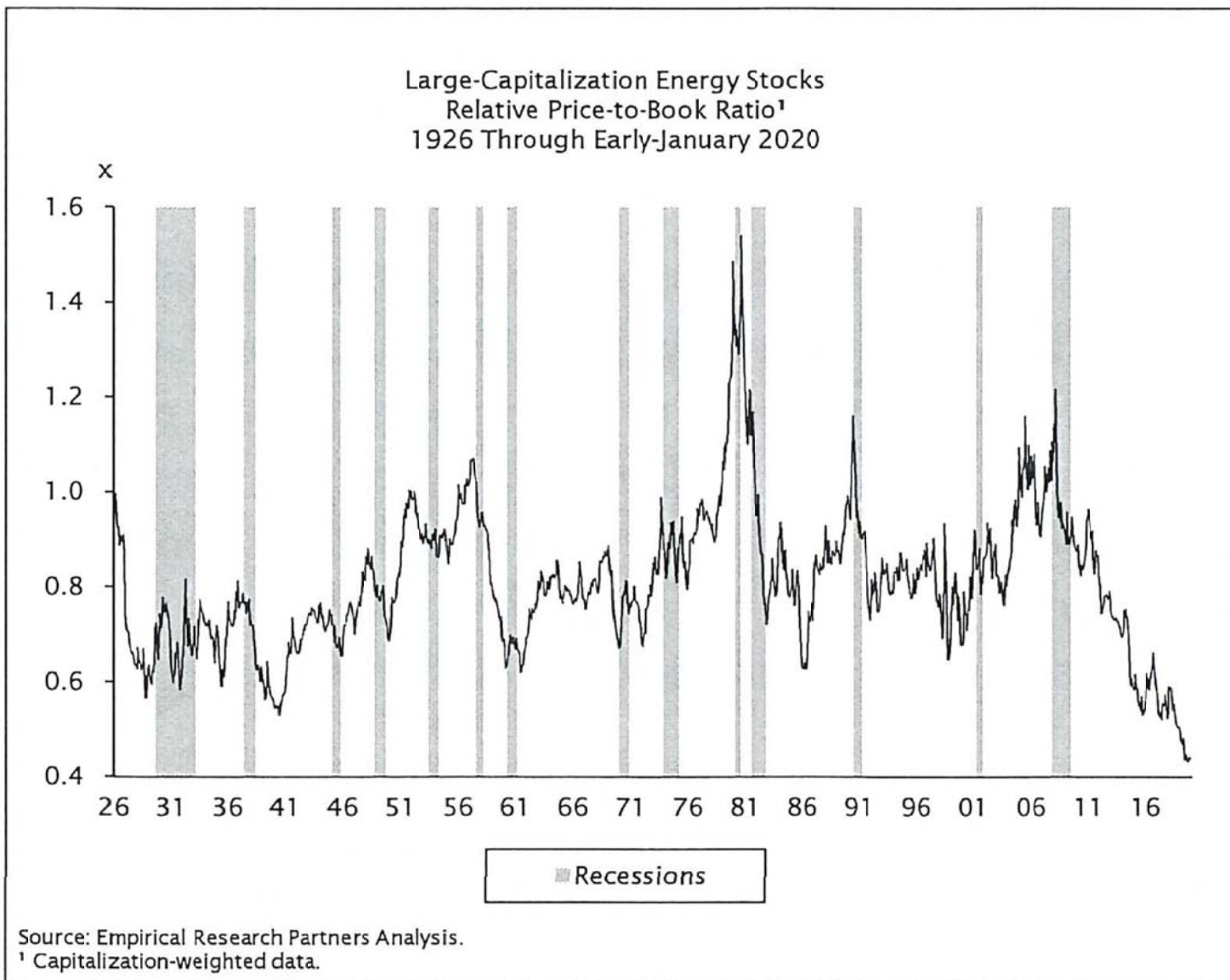


# Energy Markets



Source: Bloomberg

# Energy Markets

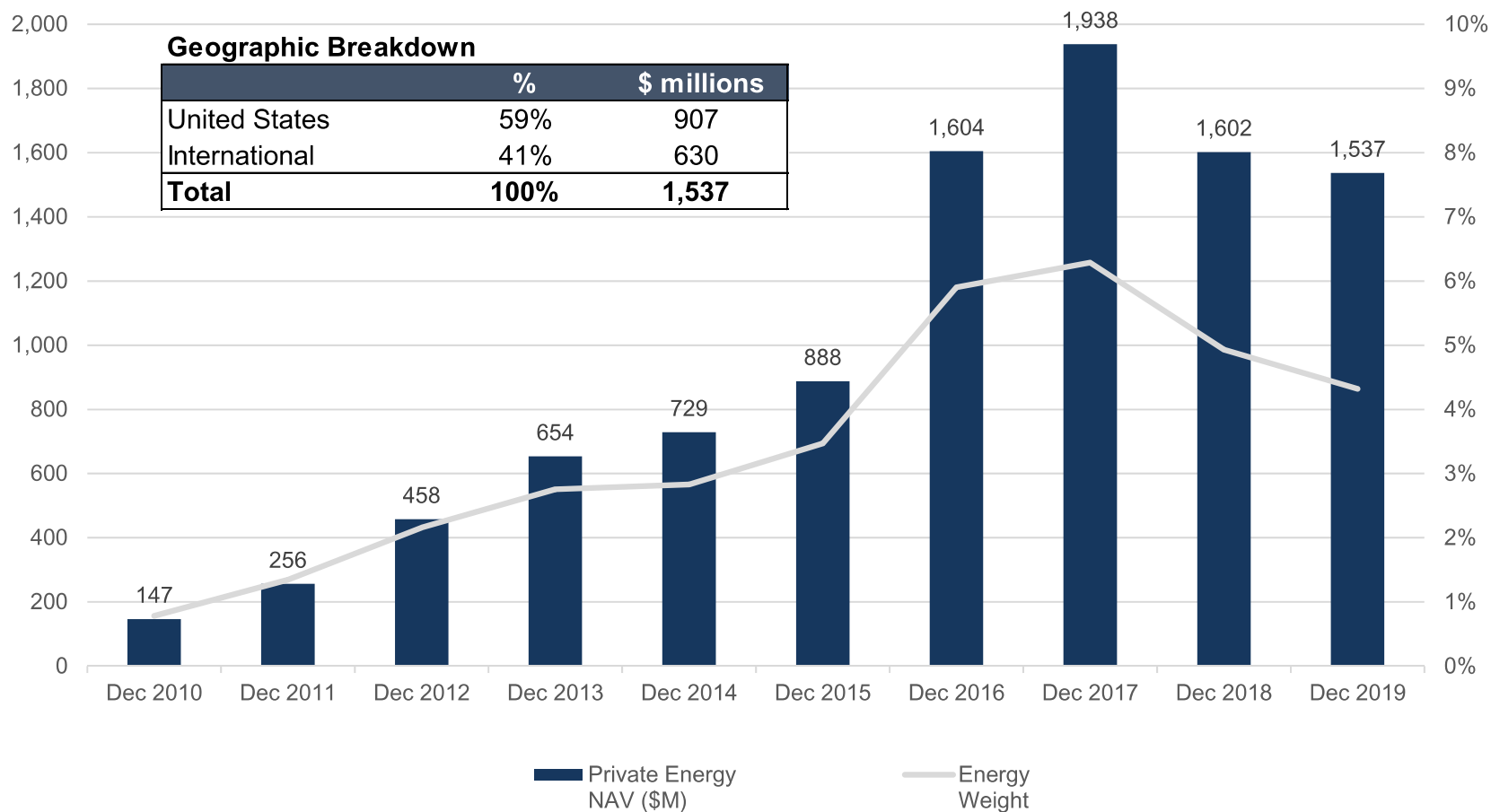


Source: Empirical Research Partners

# UTIMCO Private Energy Exposure



UTIMCO Private Energy Exposure





# UTIMCO Private Energy Exposure

Returns as of December 31, 2019



## Energy Upstream

Period	Energy Upstream	NR Benchmark	Alpha
1 Year	-21.8%	-10.0%	-11.8%
3 Year	2.2%	3.8%	-1.6%
10 Year	12.3%	10.5%	1.8%

## Energy Midstream

Period	Energy Midstream	NR Benchmark	Alpha
1 Year	18.4%	-10.0%	28.4%
3 Year	23.1%	3.8%	19.3%
10 Year	-	-	-

## Private Energy Co-Investments

Period	IRR
1 Year	18.9%
3 Year	-7.7%
10 Year	9.6%

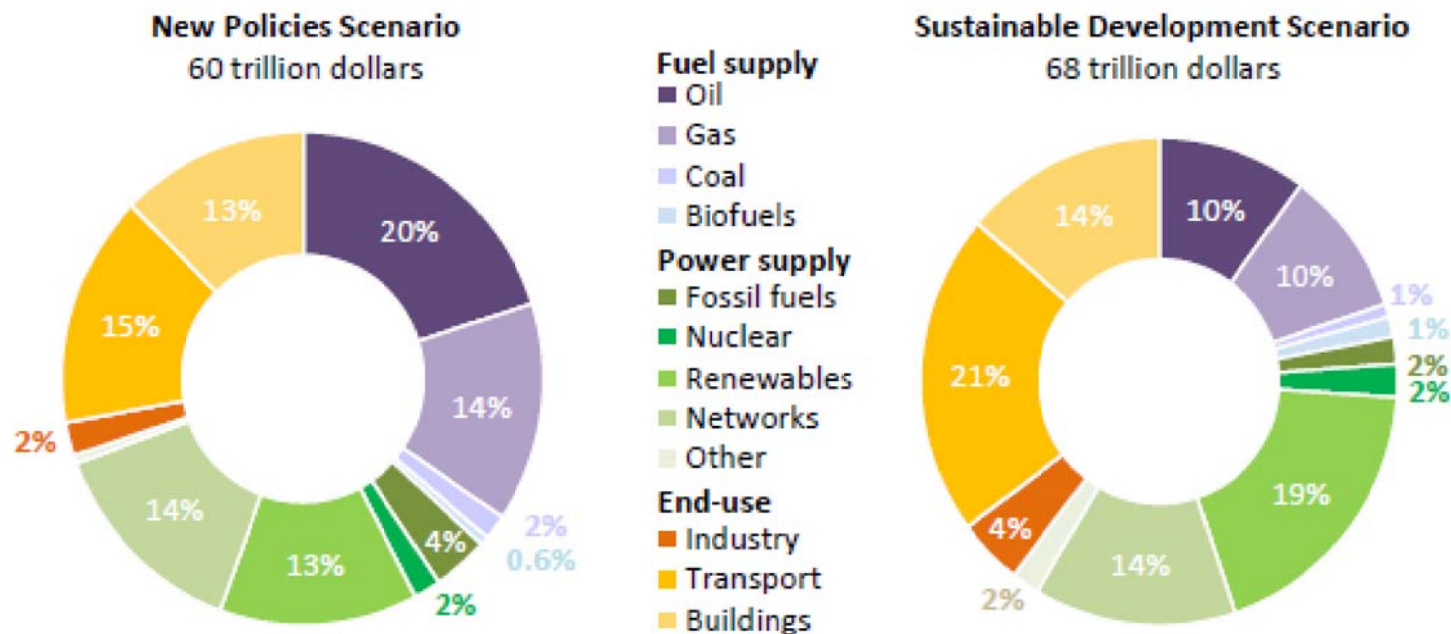
## NAV and Unfunded \$ Million

	Energy Upstream	Energy Midstream	Total	Energy Co-Investments
NAV	1,179	358	1,537	497
Unfunded	196	145	340	130
<b>Total</b>	<b>1,375</b>	<b>503</b>	<b>1,877</b>	<b>627</b>

# Energy Sector Investment



**Figure 1.8** ▷ Cumulative investment needs by sector in the New Policies and Sustainable Development scenarios, 2018-2040



*Total investment in the Sustainable Development Scenario is only about 15% higher than in the New Policies Scenario, but there is a marked difference in capital allocation*

Source: International Energy Agency World Energy Outlook 2018

# UNIVERSITY LANDS

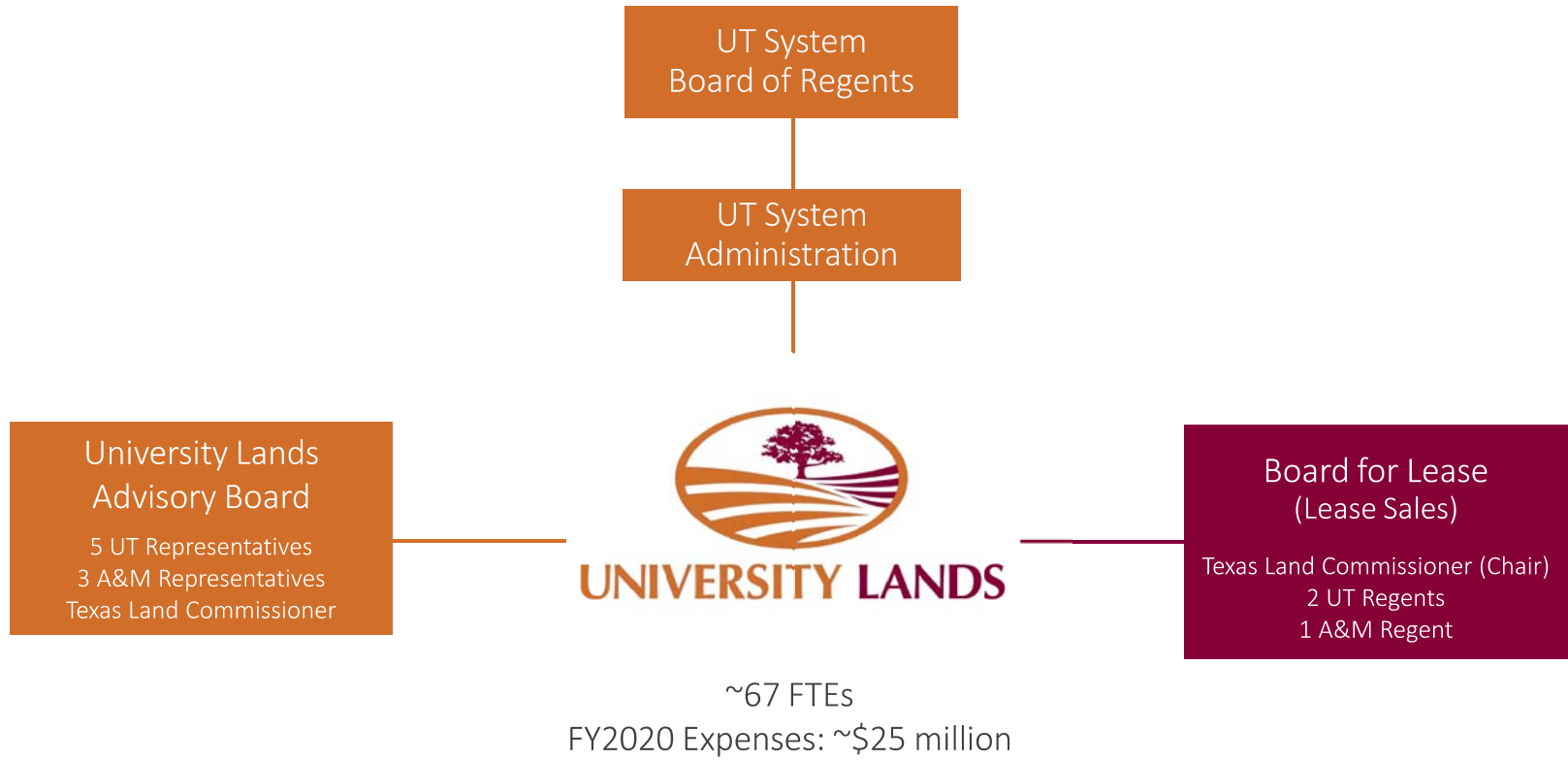
## UTIMCO Board of Directors Meeting

Mark Houser, CEO

Austin, TX | March 24, 2020

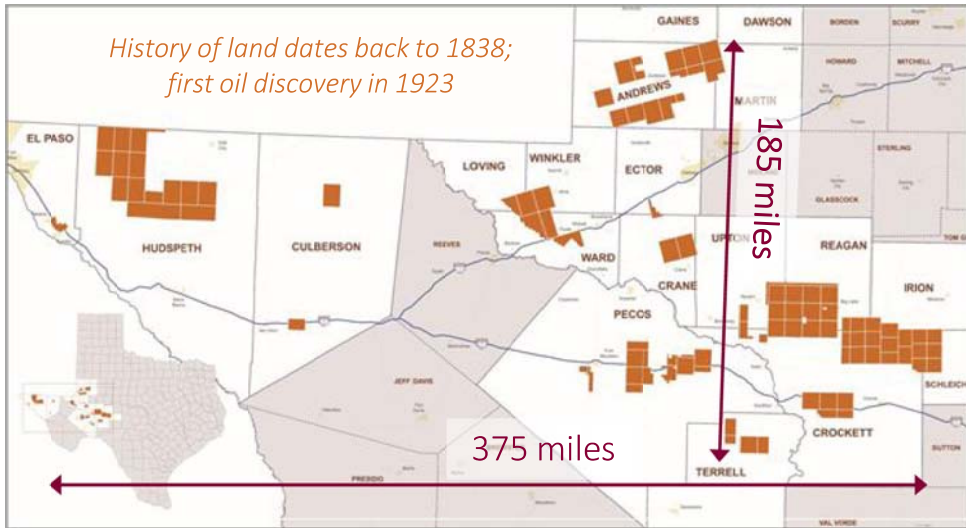


# Governance



# About University Lands & The PUF Lands

University Lands (UL) manages the surface and mineral interests of 2.1 million acres of land across nineteen counties in West Texas for the benefit of the Permanent University Fund (PUF).



**SURFACE ACTIVITY**

- Pipelines and power lines
- Renewables – wind and solar
- Environmental programs
- Grazing and ranching
- Groundwater sales
- Commercial

20,000 Wells drilled to-date	2 Billion BOE Net Reserves
9,000 Wells currently producing	250,000 BOE Gross Daily Production
250+ Operators	60% Oil Production
>25,000 Identified locations	20% Avg. Mineral Royalty
4,000 Leases	90% “Modern” Wells Drilled since 2011

# Strong Ranching Heritage Balanced with Evolving Energy Development

*“Texas holds embedded in its earth rocks and minerals which now lie idle because unknown, resources of incalculable industrial utility, of wealth and power. Smite the earth, smite the rocks with the rod of knowledge and fountains of unstinted wealth will gush forth.”*

Ashbel Smith, M.D. - First U. T. Board of Regents Chairman at the dedication of the University of Texas, 1881



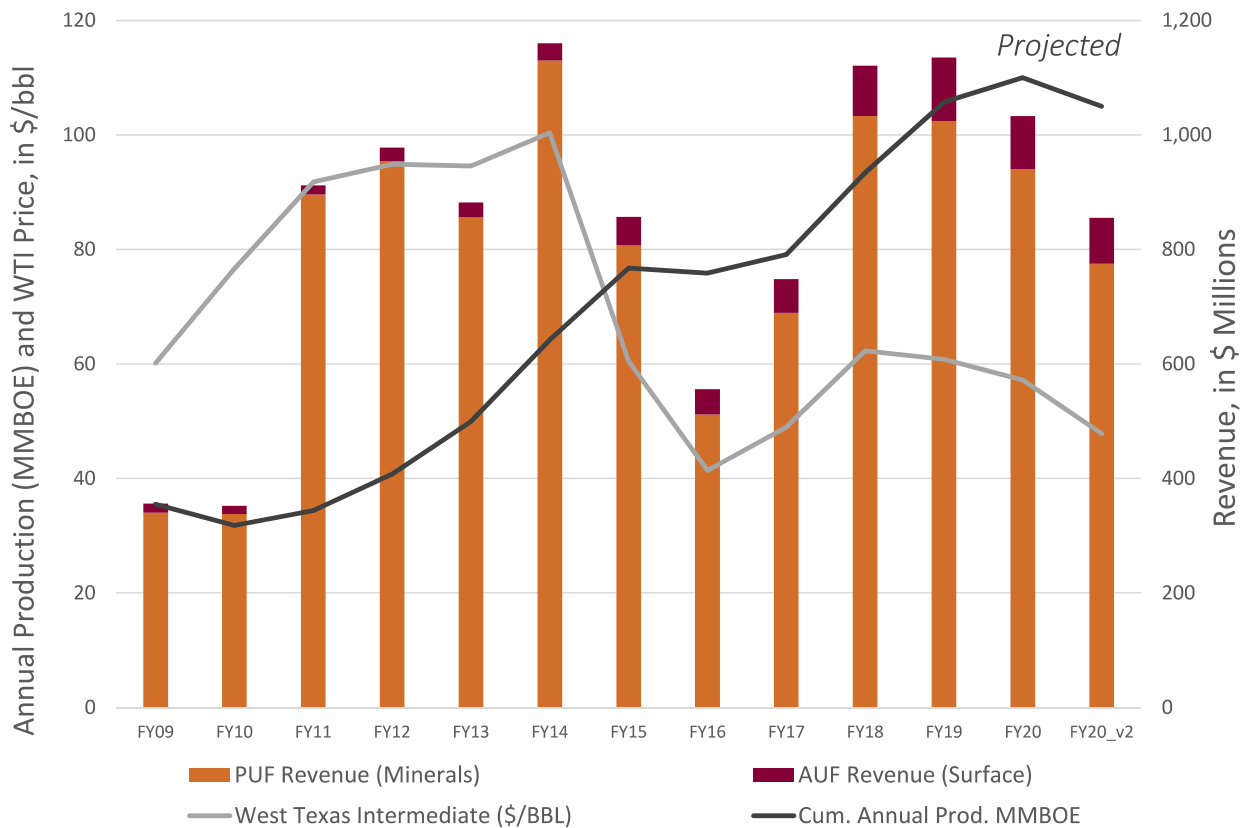
UNIVERSITY LANDS | FUNDING THE UNIVERSITY OF TEXAS AND TEXAS A&M UNIVERSITY SYSTEMS SINCE 1839

# Strategic Priorities (2015 - Present)

*University Lands strives to be the best land management organization in the U.S.*



# Revenue, Production vs. WTI Oil Price



PUF Revenues are generated primarily from oil and gas royalties, which average 20%.

AUF Revenues are generated from surface activities such as grazing, water, wind, solar, and a vineyard. Unlike PUF funds, AUF funds are immediately available to UTS /TAMUS in the year generated.

UL Annual Expenses: ~\$25 million \$18 million in G&A and \$7 million in operational investments and infrastructure



# UTIMCO Strategic Plan

## Growth & Complexity: AUM Growth

Long-term AUM growth expected to continue driven by University Lands and ITF transfers





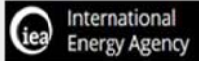


### Key drivers and assumptions:

- Total AUM expected to grow by \$44 billion from \$37 to \$91 billion over 10 years
  - \$16B transferred from ITF
  - \$3B new inflows from institutions
  - **\$11B royalties from University Lands**
  - \$42B investment returns (assumed at 7.3% annually)
  - \$(24B) total distributions (average 4.5% of beginning NAV)
- 94% total increase over next 10 years at 6.8% CAGR

- \$11B from UL in 10 years
- Similar to UTIMCO, UL has its work cut out for it heading into the 2020s:
  - Increasing asset and workload complexity, growth
  - Succession planning, retention and staffing challenges
  - External Risks & Challenges: market, capital, regulatory, environmental
- Maturity/stage of our businesses is different, but both require more expertise and more people

# Oil & Gas Share of Global Energy

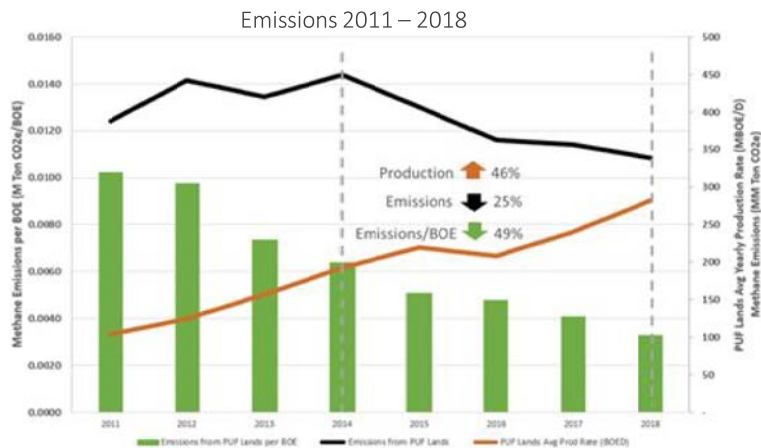
	2016	2025	2040/2050*
	55%	56%	51%
	55%	54%	55%
	55%	56%	55%*
	56%	56%	50%*
	54%	55%	48%

- Oil, gas still in demand beyond 2040
  - More US exports needed
  - Natural gas share increases as oil declines

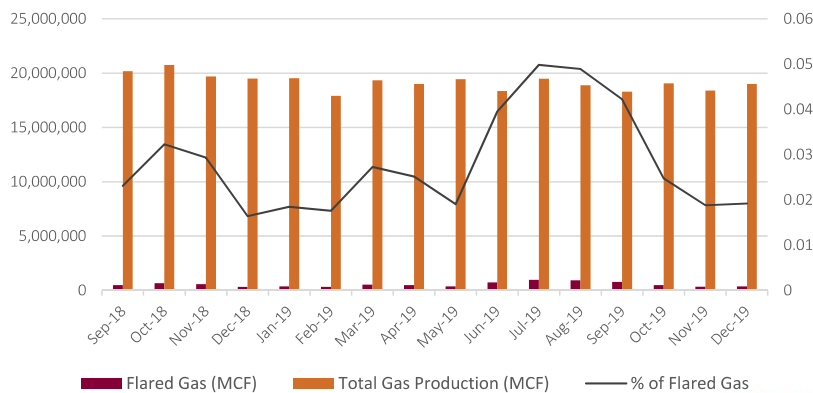
- Global and national environmental and regulatory pressures increase towards Paris Accord objectives
- Increased environmental stewardship is vital to industry's long-term viability

- Consolidation of the E&P space continues and creates difficulty in access to capital
- Cost of capital on the rise; OPEC tensions reveal fragility of U.S. shale

# Environmental Stewardship is Priority



Flared Gas as % of Total Gas Production Sept 2018 – Dec 2019



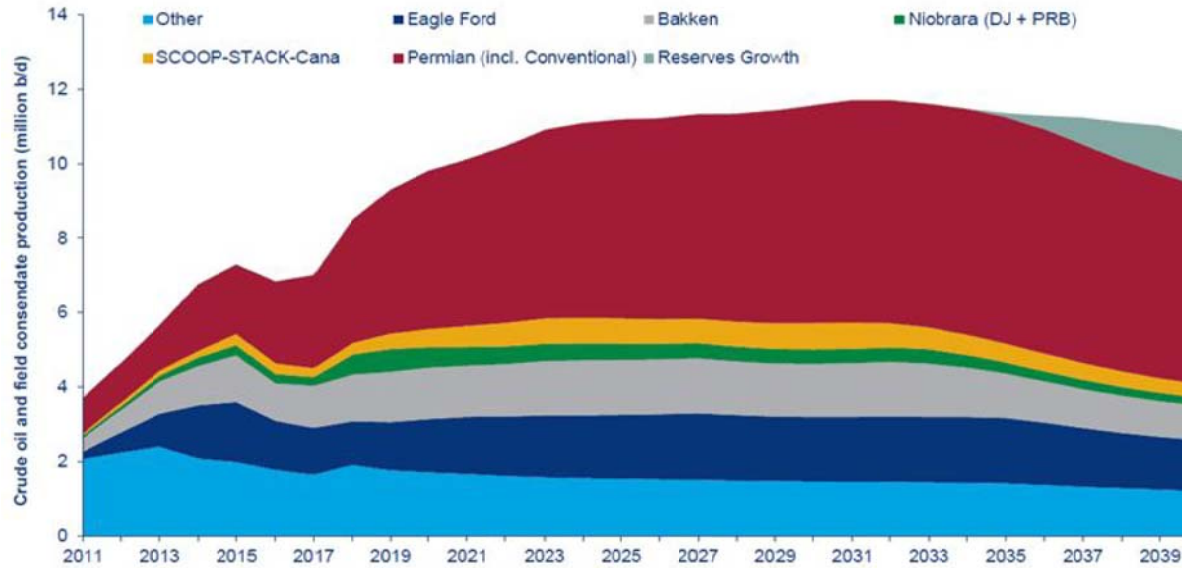
- ESG is a top concern for the investment community, the public, operators, and University Lands (UL)
- As the mineral owner, UL requires operators comply with all laws and regulations and goes beyond the law in several areas (inspections, flared gas royalty)
- Since 2018, UL has launched multiple new initiatives focused on air emissions since 2018 (inspections, partnerships, cost-share program, new lease language)
- Flaring also of concern, especially in 2019, when pipeline construction couldn't keep pace with surging production
- With a long-term perspective (we're playing the long-term game here; no exit plan in sight!), it's important to the long-term viability of UL – and the PUF – that operators maintain their license to operate
- At UL, we know that this will require continued improvements in environmental performance, and we're committed to doing our part to move the industry forward
- A formal UL Sustainability Policy is forthcoming

# Permian Basin Production Outlook

## US Lower 48 crude oil: Permian growth drives production

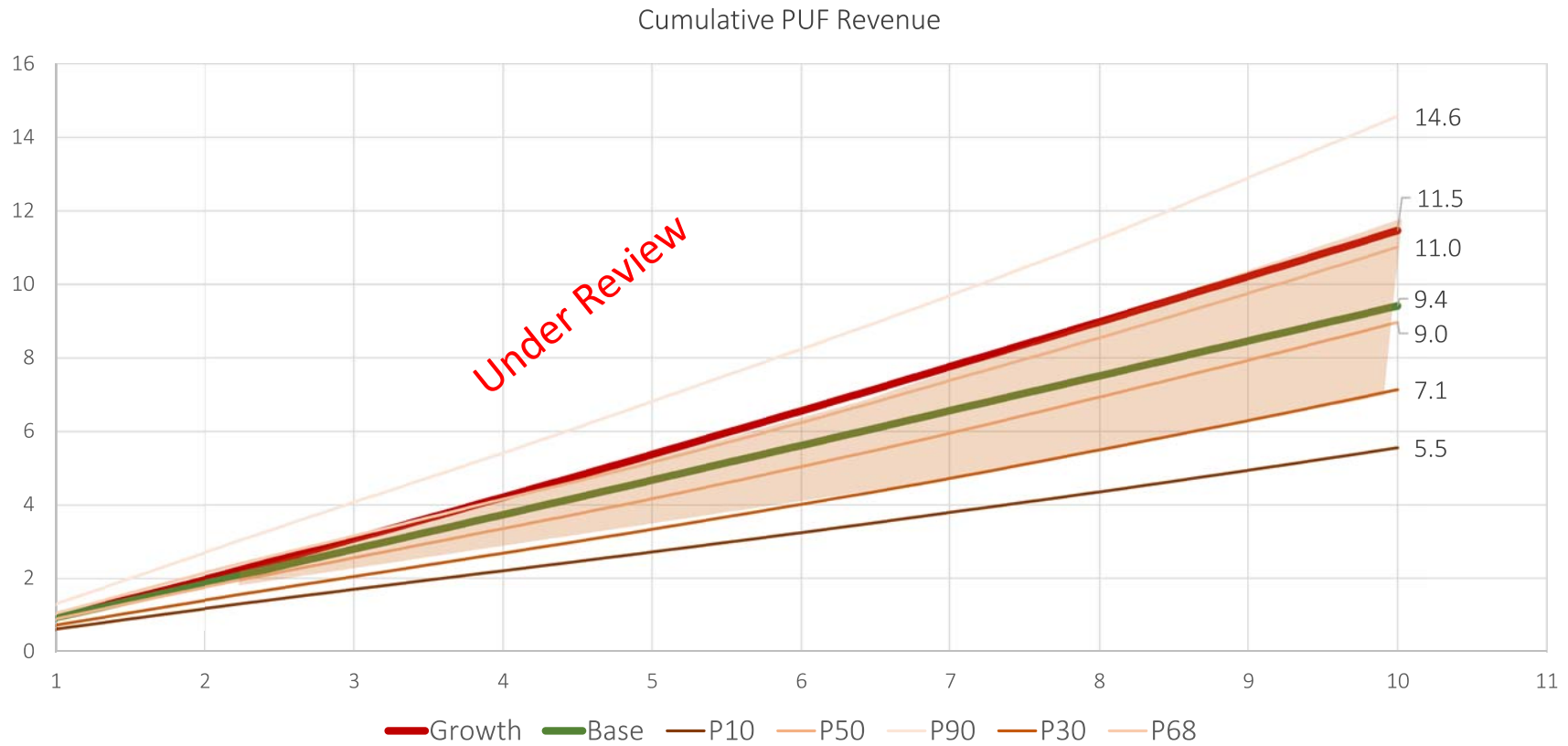
Peak production only changed slightly, but production stable into the 2030s

US Lower 48 crude and condensate production

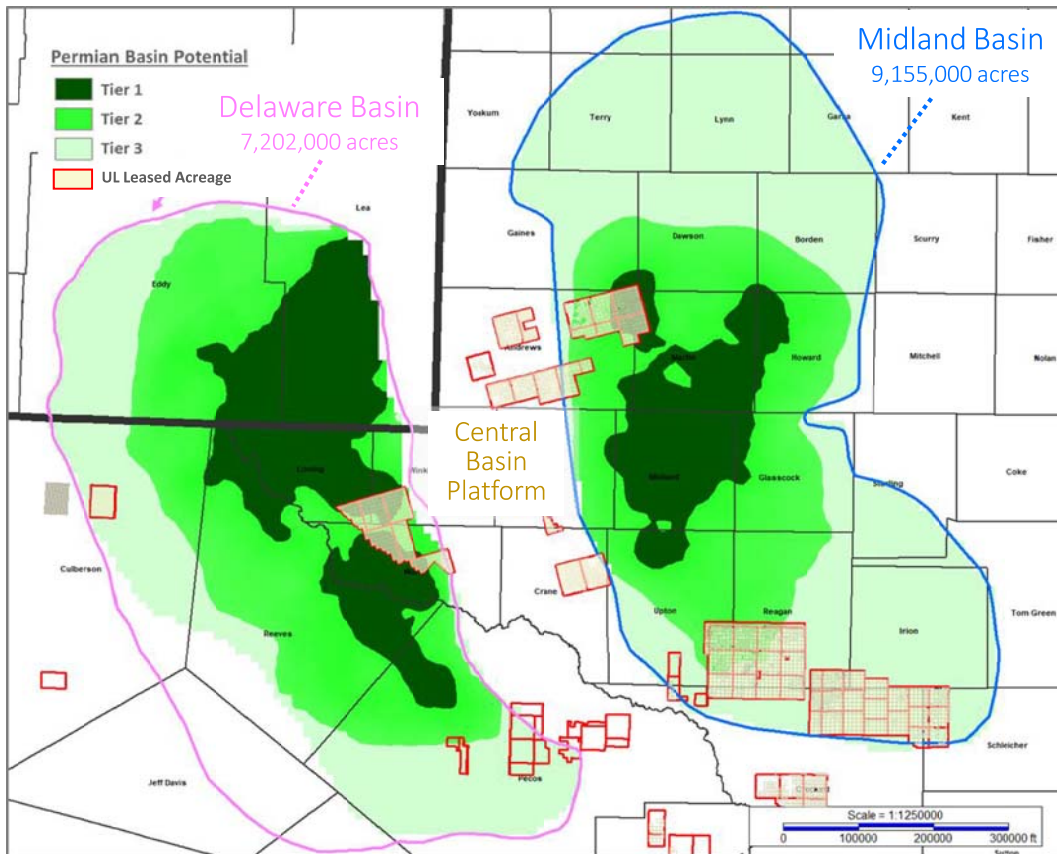


Source: Wood Mackenzie

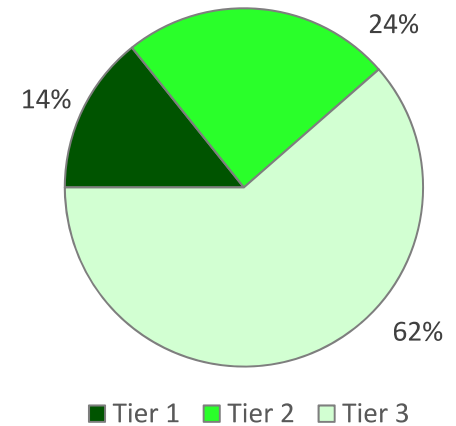
# 10-Year Royalty Revenue – Probabilistic Model



# Putting PUF Lands into Perspective: Growth is Not a Given



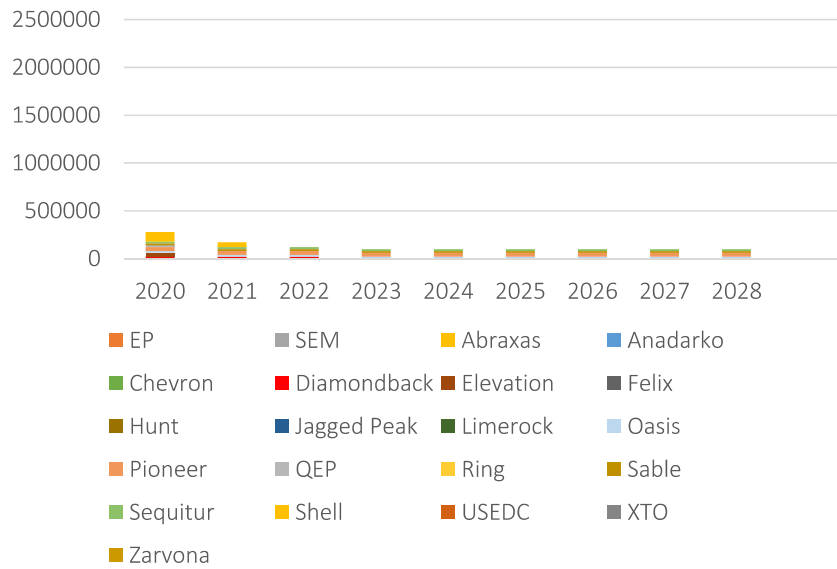
University Lands Acreage Potential



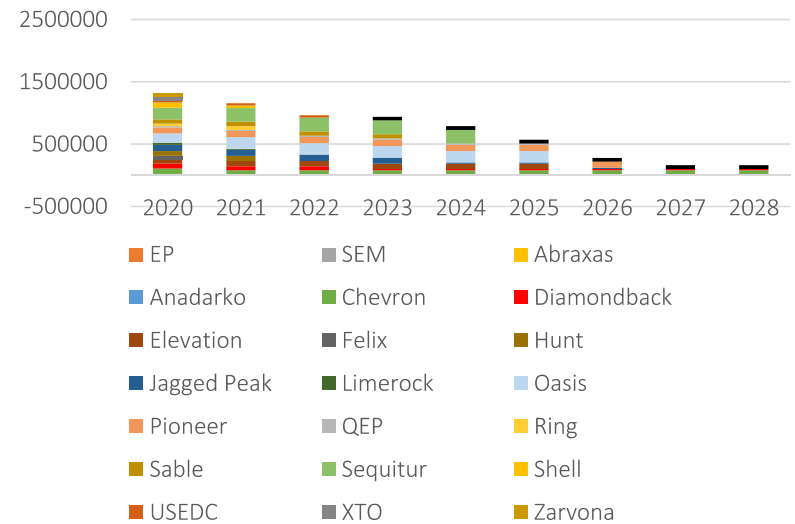
PUF Acreage  
 9% of Midland Basin  
 825,200 acres  
 4% of Delaware Basin  
 270,800 acres

# Increasing Long-Term Drilling Commitments is Key

Old Agreement Footage Requirements



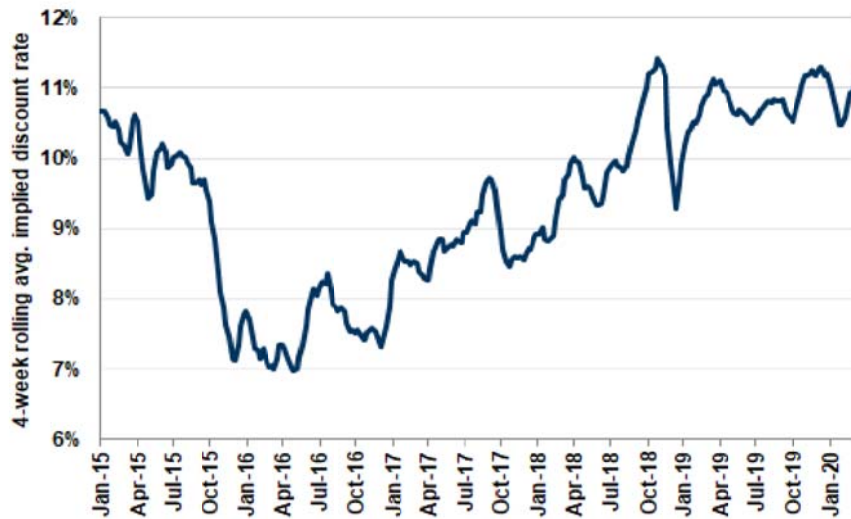
New Agreement Footage Requirements



# Market Extremely Challenging for E&P Activity

**Exhibit 6 : The cost of capital for US E&Ps has been rising**

4-week rolling avg. implied discount rate for E&Ps

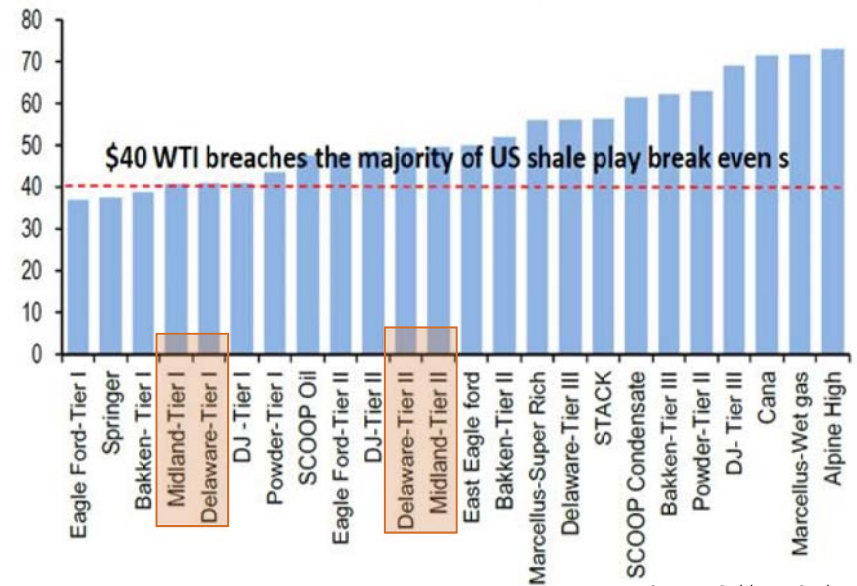


Source: FactSet, Company data, Goldman Sachs Global Investment Research

## OIL (WTI) PRICE COMMODITY

▼ 33.31 USD -1.54 (-4.42%)

**Chart 3: L48 unconventional Shale play break-even necessary to achieve a 10% full cycle IRR**



Source: Goldman Sachs



# 10-Year Production and Revenue Scenarios



## Proposed Management

Average Oil Price: \$57.16  
 2025 Oil Price: \$57.04  
 Net PUF Income: \$11.1B

## Disruption with Full Recovery

Average Oil Price: \$62.62  
 2025 Oil Price: \$65  
 Net PUF Income: \$11B

## Disruption with Partial Recovery

Average Oil Price: \$53.93  
 2025 Oil Price: \$57  
 Net PUF Income: \$8.6B

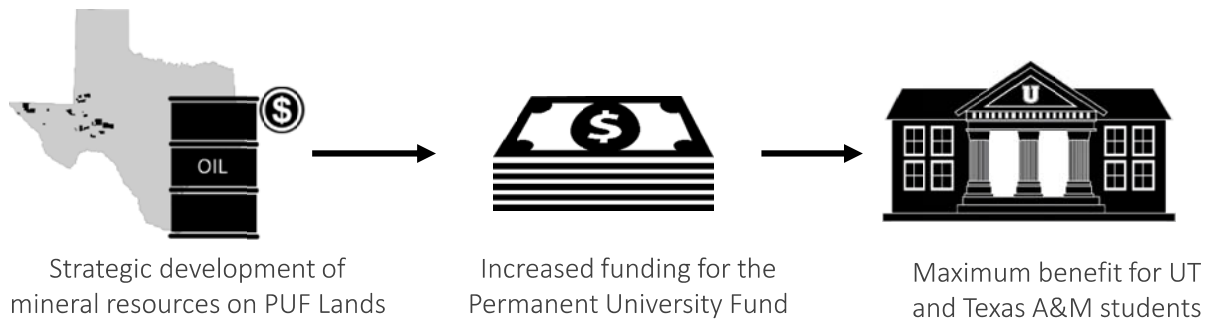
## Lower for Longer

Average Oil Price: \$46.20  
 2025 Oil Price: \$45  
 Net PUF Income: \$6.1B

# Takeaways

- The oil and gas/energy market is always changing, and we have limited control
- As a mineral owner, our position/business is not like that of an E&P but is largely dependent on their success
  - The market is challenged, and we expect it to remain challenged for the next ~12 months
  - We are willing to be patient over the next several months in terms of development activity
  - 2020/2021 will see some “weeding out” of operators with irreparable balance sheets. Those left standing will be the future of U.S. E&Ps
- In the long-term, the world needs oil, it demands oil. Even if we see slight annual declines, there are still large volumes needed to meet demand
- The Permian remains one of the lowest cost basins worldwide, and environmental practices in the United States and Permian are some of the best worldwide and continue to improve
- Key to UL Success – Continued long-term oil and gas development
  - Promoting “firm but fair” agreements that are attractive investments to operators, and also promote long-term development, stewardship
  - Continue prudent growth in renewable energy development
- Ironically, in many functions, down markets require more work at UL – agreements to be re-negotiated, amended or terminated; complicated royalty schemes to be administered; increased legal support for bankruptcy claims; etc.
  - Based on strategic discussions with ULAB, we plan to prudently increasing headcount over the next 6-18 months
- Be ready...no matter what!

# Thank You!



**Agenda Item**  
UTIMCO Board of Directors Meeting  
March 24, 2020

**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

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## Public Equity Review

Susan Chen  
Managing Director

Amanda Hopper  
Senior Director

March 2020

# Executive Summary



## Role

(as of December 2019; amounts in \$ billions)

	<u>Endowments</u>	<u>ITF</u>	<u>Total</u>
Developed Markets	\$8.4	\$1.2	\$9.6
Emerging Markets	\$4.0	\$0.6	\$4.6
Total Public Equity	\$12.4	\$1.8	\$14.2
% of Global Equity	50.6%	35.3%	48.0%
% of Total Assets	32.7%	19.7%	30.0%

## Team

- Eight-person team; investment professionals with an average of 12 years of experience and seven years at UTIMCO
- Investment Performance Accountant (shared resource with Hedge Funds and Operations)
- Additional Analyst in 2020

## Market Returns

- Exceptionally strong returns globally in 2019, led by US

## UTIMCO Performance

	<u>2019 Return</u>	<u>Alpha</u>	<u>Benchmark</u>
Developed Markets	+32.5%	+4.8%	Blend of MSCI US, MSCI EAFE and Canada, MSCI World
Emerging Markets	+27.6%	+9.2%	MSCI Emerging Markets

## Improvement in US Equity Results

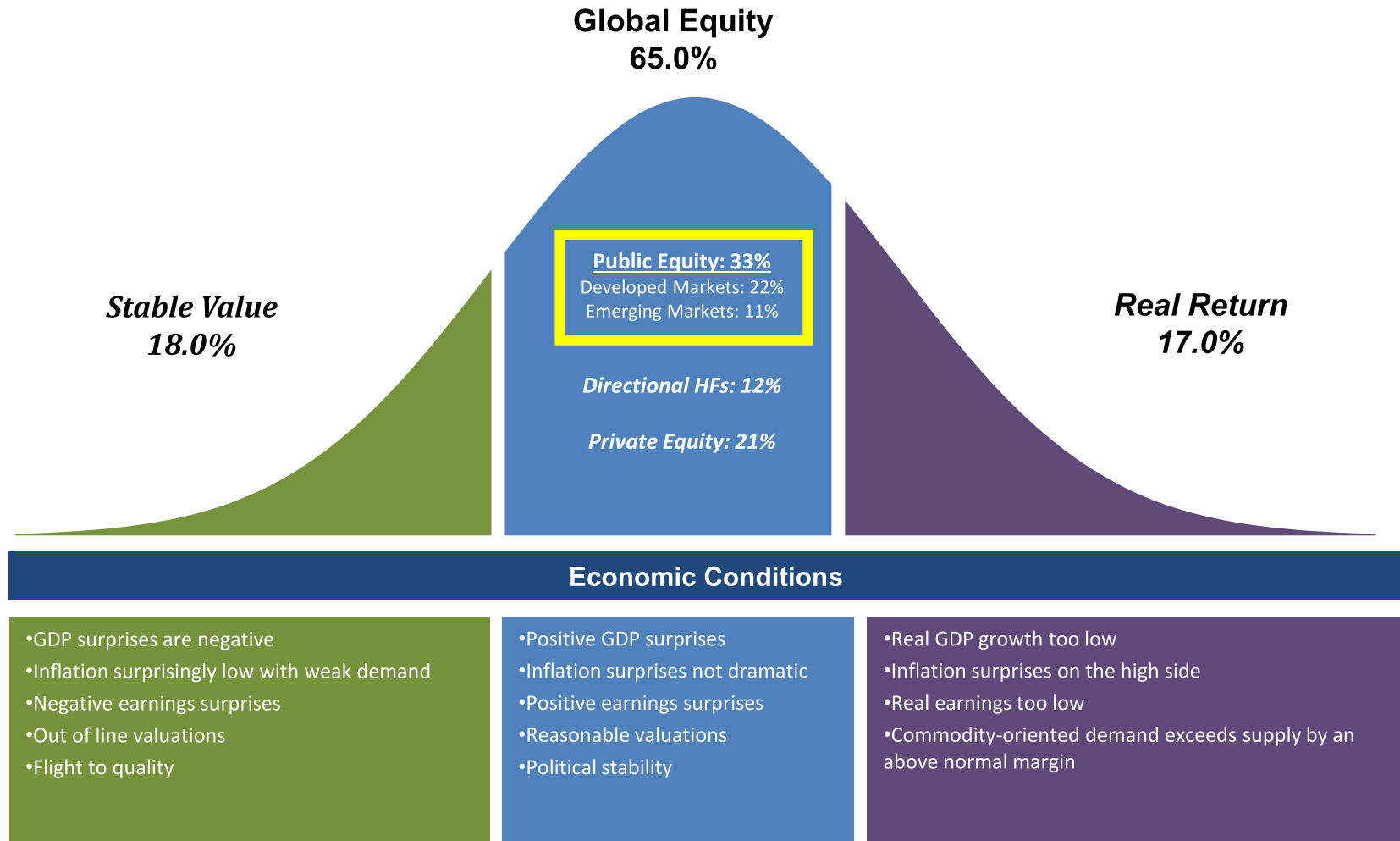
- Calendar 2019 return of +34.1%, representing +3.3% alpha over MSCI US benchmark

## Top Priorities in 2020

- Achieve investment objectives (150bps alpha and top quartile vs. peers)
- Continue focus on US portfolio improvement
- Fully deploy new analytical tools
- Continue improving processes (manager selection, monitoring, portfolio construction and risk management)
- Continue professional development (individual and team)

*The Developed Markets portfolio generally encompasses equities in countries that are part of the MSCI World index, including the US, developed Europe and Japan. The Emerging Markets portfolio generally encompasses equities in countries that are part of the MSCI Emerging Markets index, including China, South Korea, Taiwan, India and Brazil.*

# Role in Endowment



Strategy weights are reflective of actual Endowment allocations (PUF + GEF) as of December 2019.

FY 2020 Policy weights for the Endowments are 63% Global Equity (22% Developed Markets, 9% Emerging Markets, 11% Directional HF, 21% Private Equity), 19% Real Return and 18% Stable Value.

FY 2020 Policy weights for ITF are 56% Global Equity (9% Developed Markets, 4% Emerging Markets, 43% Directional HF) and 44% Stable Value.

Long-term strategic asset allocation weights for Public Equity, Directional HF and Private Equity in the Endowments are 33%, 5% and 25%, respectively.

# Team



**Susan Chen**  
**Managing Director**  
MBA;JD, Harvard  
*Joined UTIMCO Sept. 2008*  
*Prior: Highbridge Capital*



**Amanda Hopper**  
**Senior Director**  
MBA, University of Chicago  
*Joined UTIMCO July 2008*  
*Prior: TRS*



**Russ Brown, CFA, CPA**  
**Associate Director**  
MS, UT Austin  
*Joined UTIMCO Nov. 2012*  
*Prior: Holtzman Partners*



**Kyle Burhop, CFA**  
**Associate Director**  
BS, Virginia Tech  
*Joined UTIMCO Jan. 2014*  
*Prior: Morgan Stanley*



**Andres Delgado, CFA, FRM**  
**Senior Analyst**  
BBA, Texas State University  
*Joined UTIMCO Jan. 2017*  
*Prior: Goldman Sachs*



**RJ Dymke, CFA**  
**Analyst**  
BBA, Texas State University  
*Joined UTIMCO Nov. 2018*  
*Prior: Sage Advisory*



**Victoria Salinger,**  
**Investment Performance**  
**Accountant**  
MPA, UT Austin  
*Prior: Pennybacker Company*  
*\* Shared resource with Hedge Funds & OAR.*



**Kathy Simons**  
**Team Coordinator**  
Texas A&M  
*Joined UTIMCO May 2018*

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

Team expects to hire additional Analyst in 2020.



# Purpose, Philosophy, and Targets



## Purpose

- Provide exposure to free cash flow generation and equity appreciation of global public companies.
- Generate strong positive returns during “Global Equity Regimes” (moderate growth and benign inflation).
- Serve as a source of liquidity for (1) distributions to UTIMCO clients and (2) capital calls to fund private investments.

## Philosophy

- Maintain balanced exposures to geographies, sectors, and investment styles
- Take advantage of market opportunities and dislocations

## Performance and Risk Targets (rolling 3-year)

	<b>Alpha</b>	<b>Tracking Error</b>
<b>Developed Markets</b>		
US	1.0%	
Non-US	1.5%	
Global	<u>1.8%</u>	
<b>Total (weighted avg.)</b>	<b>1.5%</b>	<b>3.5%</b>
<b>Emerging Markets</b>	<b>2.3%</b>	<b>4.5%</b>

# Market Returns



## Performance as of December 31, 2019:

Developed Markets					
Annualized Returns (in USD)					
1-Year	3-Year	5-Year	7-Year	10-Year	

### Factors

MSCI World <u>Growth</u>	34.2	17.3	11.5	12.9	11.5
MSCI World Value	22.8	9.2	7.2	9.5	8.7
Growth vs Value	11.4	8.1	4.3	3.4	2.8
MSCI World <u>Quality</u>	36.1	17.4	11.9	13.5	12.1
MSCI World	28.4	13.2	9.4	11.2	10.1
Excess Return	7.6	4.2	2.5	2.2	2.0
MSCI World <u>Momentum</u>	28.3	18.4	12.7	13.7	12.4
MSCI World	28.4	13.2	9.4	11.2	10.1
Excess Return	(0.2)	5.2	3.3	2.5	2.3

### Size

MSCI World Large Cap	28.5	13.6	9.6	11.4	10.1
MSCI World Small Cap	26.8	10.6	9.0	11.2	11.1
Large Cap vs. Small Cap	1.7	3.1	0.6	0.2	(1.0)

### Sectors

MSCI World					
Information Technology	48.1	26.2	18.8	19.9	16.0
Industrials	28.5	11.6	9.2	11.0	10.7
Communication Services	27.9	7.5	6.6	8.7	8.2
Consumer Discretionary	27.2	14.5	10.5	13.3	13.6
Financials	26.5	9.3	7.5	9.7	8.0
Materials	24.0	10.3	7.0	4.8	4.3
Real Estate	23.9	10.6	7.2	7.8	9.5
Healthcare	23.9	15.4	9.0	14.0	12.9
Utilities	23.8	13.6	8.2	10.1	7.1
Consumer Staples	23.6	9.7	7.6	9.6	10.5
Energy	12.6	0.4	0.1	0.9	2.2

### Geographies

North America	31.5	14.9	11.2	13.9	12.9
Europe	24.4	10.4	5.6	6.6	5.8
Asia Pacific	20.0	10.0	7.6	7.7	6.9

Communication Services sector created September 2018.

Emerging Markets					
Annualized Returns (in USD)					
1-Year	3-Year	5-Year	7-Year	10-Year	

### Factors

MSCI EM <u>Growth</u>	25.3	14.7	7.6	5.4	5.4
MSCI EM Value	12.2	9.0	4.1	1.6	2.5
Growth vs Value	13.1	5.7	3.6	3.7	2.9
MSCI EM <u>Quality</u>	20.0	10.6	4.9	3.9	4.3
MSCI EM	18.6	11.9	6.0	3.6	4.0
Excess Return	1.4	(1.3)	(1.1)	0.3	0.2
MSCI EM <u>Momentum</u>	23.0	16.0	-	-	-
MSCI EM	18.6	11.9	-	-	-
Excess Return	4.4	4.1	-	-	-

### Size

MSCI EM Large Cap	19.5	12.1	6.2	3.8	4.2
MSCI EM Small Cap	11.6	6.9	3.2	2.6	3.2
Large Cap vs. Small Cap	7.9	5.2	3.0	1.2	1.0

### Sectors

MSCI EM					
Information Technology	42.1	22.8	15.4	14.4	12.7
Consumer Discretionary	35.1	8.7	2.9	2.7	5.3
Real Estate	23.9	15.5	6.8	1.8	2.3
Energy	20.5	15.6	12.0	2.1	1.1
Financials	12.8	11.3	5.0	3.8	3.9
Communication Services	11.4	3.8	(1.5)	(1.5)	1.3
Consumer Staples	10.7	6.4	2.0	0.2	5.3
Utilities	8.0	6.8	0.0	0.0	0.2
Industrials	6.9	5.8	(0.6)	(1.0)	0.0
Materials	6.3	8.3	5.7	(1.7)	(1.3)
Healthcare	3.7	3.0	(0.9)	3.2	5.1

### Geographies

Asia	19.3	13.2	6.9	6.0	6.1
Latin America	17.8	11.1	4.5	(0.7)	(0.4)
EMEA	11.2	3.0	(0.2)	(4.0)	1.6

# UTIMCO Performance



	Alpha								
	Performance			vs. Benchmark			vs. TUCS Median		
	1y	3y	5y	1y	3y	5y	1y	3y	5y
US Public Equity	34.1%	11.1%	7.1%	3.3%	(3.5%)	(3.9%)	5.5%	(1.6%)	(3.1%)
Non-US Developed Equity	26.3%	10.7%	8.4%	3.8%	1.3%	3.0%	3.9%	1.3%	2.2%
Global Developed Equity	33.9%	15.6%	10.8%	6.3%	3.0%	2.1%	8.4%	3.8%	2.8%
Total Developed Public Equity <sup>1</sup>	32.5%	12.9%	8.9%	4.8%	0.3%	0.2%	7.2%	1.4%	1.0%
Tracking Error	3.3%	3.0%	3.4%						
Information Ratio	1.47	0.12	0.05						
Total Emerging Markets Equity <sup>2</sup>	27.7%	14.8%	9.3%	9.3%	3.2%	3.7%	7.5%	5.1%	4.9%
Tracking Error	4.2%	4.9%	5.3%						
Information Ratio	2.22	0.65	0.71						
<b>Total Public Equity</b>	<b>30.7%</b>	<b>13.5%</b>	<b>9.0%</b>	<b>6.2%</b>	<b>1.1%</b>	<b>1.3%</b>			

Note: Performance as of December 31, 2019; Returns data for periods longer than 1 year are annualized.

<sup>1</sup> All data for the Developed Public Equity portfolios (US, Non-US, Global, and Total) are for the PUF (GEF returns for some time periods are slightly different).

<sup>2</sup> Data for the EM Equity portfolio is for the GEF. PUF Public EM Equity portfolio generated 13.7% and 8.5% annualized over the past 3y and 5y periods, respectively. This represents alpha of 2.1% and 2.8% annualized over the past 3y and 5y periods, respectively.

<sup>3</sup> Data for the Total Public Equity portfolio represent blended PUF/GEF returns.

# UTIMCO Performance Attribution



## Developed Markets

### What has worked

- Total Developed Markets portfolio generated **+4.8% alpha** in calendar 2019.
- Managers that outperformed their manager-specific benchmark for the year comprised 75% of the total portfolio average NAV.
- Sector allocation contributed approximately +90bps to alpha, primarily due to the Energy underweight.

### What hasn't worked

- While the DM Equity portfolio had a very strong year in 2019, strategies that underperformed comprised 14% of the portfolio NAV.
- Country allocation detracted approximately -40bps from alpha, primarily from an overweight to EM countries.

## Emerging Markets

### What has worked

- Total Emerging Markets portfolio generated **+9.3% alpha** in calendar 2019.
- Managers with outperformance vs. their manager-specific benchmark for the year comprised 60% of the EM portfolio average NAV.
- Sector allocation contributed about +10bps to alpha, primarily from the Consumer Discretionary overweight and Financials underweight.
- Country allocation also contributed +10bps to alpha, due to the Brazil overweight, and underweights to S. Africa, Malaysia and Chile.

### What hasn't worked

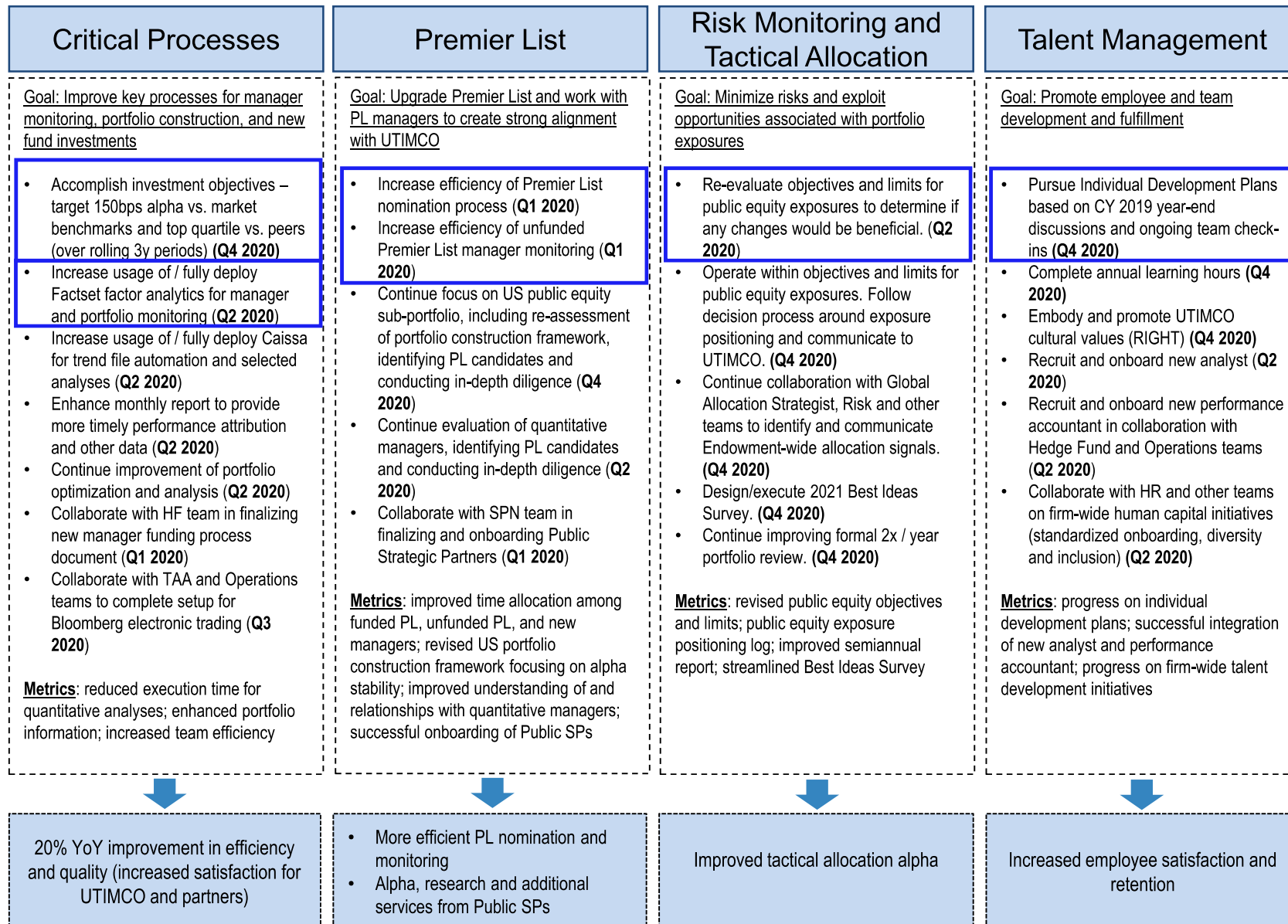
- While the EM Equity portfolio had a very strong year in 2019, strategies that underperformed their benchmarks comprised about 40% of the portfolio.



# 2019 Results vs. Top Priorities

Critical Processes	Premier List	Risk Monitoring and Tactical Allocation	Human Capital and Constituents
<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>Implement formal 2x / year portfolio review (Q1-4 2019)</li> <li>Design/execute 2020 Best Ideas Survey (Q4 2019)</li> <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> </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>
<p><b>Completed Initiatives</b></p>	<p><b>Continuing in 2020</b></p>	<p><b>Initiatives with Mixed Results</b></p>	

# 2020 Top Priorities



# 2020 Top Priorities - Highlights



## **Critical Processes**

- Accomplish investment objectives:
  - 150bps alpha over rolling 3-year periods
  - Top quartile vs. peers
- Fully deploy new analytical tools for manager and portfolio monitoring

## **Premier List**

- Increase efficiency of Premier List nomination process, as well as unfunded Premier List manager monitoring

## **Risk Monitoring and Tactical Allocation**

- Re-evaluate objectives and limits for Public Equity exposures; determine if any changes would be beneficial

## **Talent Management**

- Pursue Individual Development Plans based on calendar 2019 year-end discussions and ongoing team check-ins

# Conclusion



- UTIMCO's Public Equity portfolio is ~\$14 billion and represents 30% of Total Assets.
- 2019 was a great year for public equity markets AND for UTIMCO's alpha.
- The changes to the US Public Equity portfolio are generating positive early results.
- We are prepared for 2020.



**Agenda Item**  
UTIMCO Board of Directors Meeting  
March 24, 2020

**Agenda Item:** Hedge Funds Presentation

**Developed By:** Hedge Funds Team

**Presented By:** Ruebsahm

**Type of Item:** Information Item

**Description:** Mr. Ruebsahm will lead the presentation on Hedge Fund portfolios and performance.

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



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

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## Hedge Funds Review

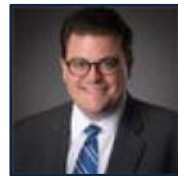
Ryan Ruebsahm  
Managing Director

March 2020

# Hedge Funds Team



- Team with an average of 13 years of investment experience and 6 years at UTIMCO:



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



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



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

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



**Jared Brimberry**  
**Associate Director**  
BBA, Baylor University



**Jim Ricker**  
**Associate**  
BA, Hamilton College



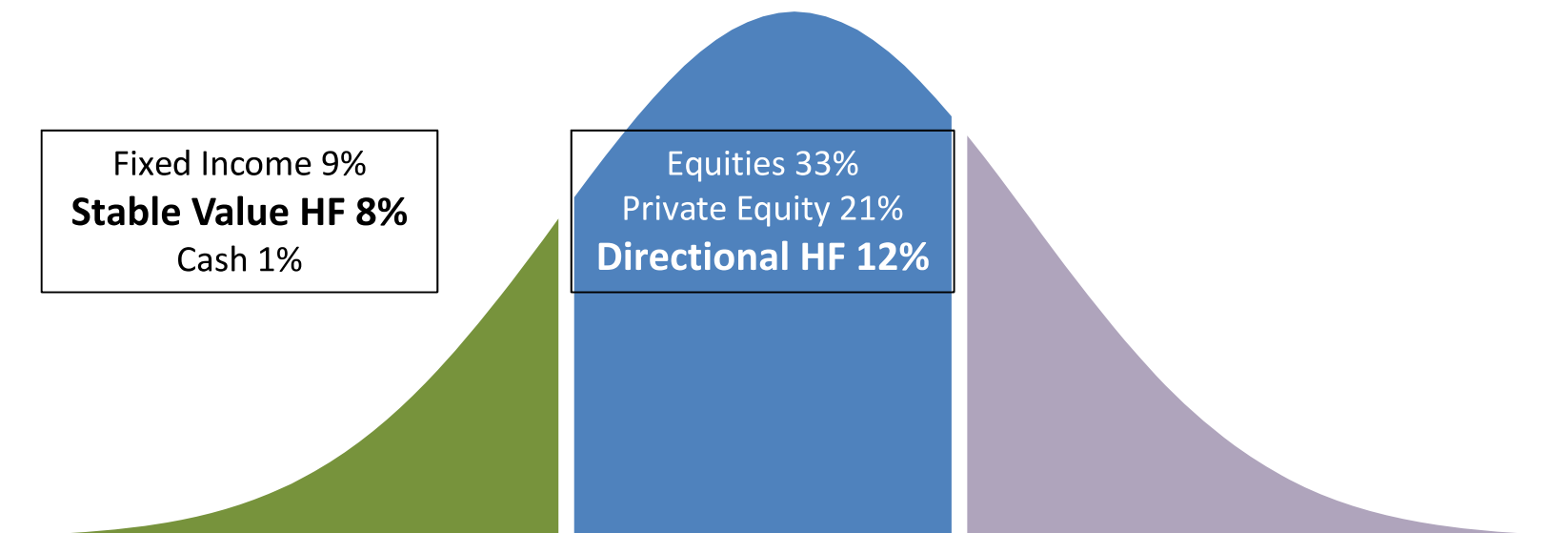
**Andres Garcia**  
**Senior Analyst**  
BBA, UT Austin



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



# Two Hedge Fund Portfolios Serving Different Roles



Economic Environment		
Deflationary	Growth	Real Return
<ul style="list-style-type: none"> <li>•GDP surprises are negative</li> <li>•Inflation 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>

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



# Directional Hedge Funds – Portfolio Objectives

- Exceeded 3-year performance objectives within the Global Equity Regime

Directional Portfolio Objectives	Status	Details – 3 Years
<b>Hedge Fund Types</b> Focus on equity and market sensitive hedge funds	✓	<ul style="list-style-type: none"> <li>• <b>Return: 7.1%</b><sup>1</sup></li> <li>• <b>Directional HF Volatility: 4.4%</b></li> <li>• Sharpe Ratio: 1.2</li> </ul>
<b>Market Sensitivity and Risk</b> Core strategies have moderate market sensitivity (beta) and lower risk (volatility) than equities	✓	<ul style="list-style-type: none"> <li>• Correlation to MSCI AC World: 0.8</li> <li>• <b>Beta to MSCI AC World: 0.3</b></li> <li>• <b>MSCI AC World Volatility: 11.4%</b></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>• <b>100% hit rate vs. equity in equity down months</b></li> <li>• Average monthly excess return over equities in down months: 3.1%</li> <li>• 3-year ann. return of 7.1% vs. MSCI AC World 12.4%</li> </ul>
<b>Performance vs. US Treasuries</b> Expected to outperform US Treasuries <sup>2</sup> over the long term	✓	<ul style="list-style-type: none"> <li>• <b>7.1% return vs. Treasuries 3.3% (current 10-year YTM 0.6%)</b></li> <li>• 4.4% volatility vs. Treasuries 3.3%</li> </ul>
<b>Performance vs. Benchmark</b> HFRI Fund of Funds Composite benchmark	✓	<ul style="list-style-type: none"> <li>• <b>Ann. Outperformance of 3.5% over last 3 years</b></li> <li>• Tracking Error: 1.6%</li> </ul>

(1) Dates: Directional HF returns and details reflective of trailing three-year period (January 2017 through December 2019).

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



# Directional Hedge Funds – 2019 Results

As of December 31, 2019

## Asset Allocation

- \$7.6bn
- 12% of PUF/GEF; 35% of ITF
- \$500 million net redemptions

	PUF/GEF	ITF	PUF/GEF/ITF
NAV	\$37,856	\$9,305	\$47,161
Public Equity	12,388	1,830	14,218
Private Equity	7,787	-	7,787
<b>Directional Hedge Funds</b>	<b>\$4,368</b>	<b>\$3,280</b>	<b>\$7,648</b>
Global Regime AUM	24,543	5,110	29,653
Global Equity Regime % of Total Fund	65%	55%	63%
<b>Directional Hedge Funds % of Total Funds</b>	<b>12%</b>	<b>35%</b>	<b>16%</b>
Directional Hedge Funds % of Regime	18%	64%	26%

## Performance

- +14.3%, driven by long/short equity +18.2%
- 1yr alpha 6.0%; 3yr alpha 3.5%
- All strategies generated alpha except Event-Driven 3yr
- High Sharpe Ratio of 2.5

		Return	Alpha	Volatility	Sharpe
<b>Directional HF</b> \$7,648	1yr	14.3%	6.0%	4.8%	2.5
	3yr	7.1%	3.5%	4.4%	1.2
<b>Long/Short Equity</b> \$4,796 % Dir HF Weight 63%	1yr	18.2%	4.5%	5.1%	3.1
	3yr	8.5%	2.3%	5.3%	1.3
<b>Multi-Strategy</b> \$1,387 % Dir HF Weight 18%	1yr	8.5%	9.6%	3.6%	1.7
	3yr	5.3%	5.5%	3.6%	1.0
<b>Credit</b> \$912 % Dir HF Weight 12%	1yr	6.3%	3.8%	4.1%	0.6
	3yr	6.8%	4.5%	3.8%	1.1
<b>Event-Driven</b> \$553 % Dir HF Weight 7%	1yr	12.0%	4.5%	15.4%	0.6
	3yr	3.2%	-1.0%	10.4%	0.2

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 strategy benchmark.



# Stable Value Hedge Funds – Portfolio Objectives

- Achieved all but one of the 3-year performance objectives within the Stable Value Regime during the initial buildout phase

Stable Value Portfolio Objectives	Status	Details – 3 Years
<b>Hedge Fund Types</b> Focus on absolute return hedge funds	✓	<ul style="list-style-type: none"> <li>• <b>Return: 4.9%<sup>1</sup></b></li> <li>• <b>Stable Value HF Volatility: 3.2%</b></li> <li>• Sharpe Ratio: 1.0</li> </ul>
<b>Market Sensitivity and Risk</b> Core strategies have low to negative market sensitivity	✓	<ul style="list-style-type: none"> <li>• <b>Beta to S&amp;P 500: 0.0</b></li> <li>• Correlation to S&amp;P 500: 0.1</li> </ul>
<b>Market Regime Performance</b> Expected to have positive returns when markets are down	✓	<ul style="list-style-type: none"> <li>• <b>100% hit rate vs. equity in equity down months</b></li> <li>• Average monthly excess return over equities in down months: 5.4%</li> <li>• <b>Positive absolute returns in 50% of 6 down equity months</b></li> </ul>
<b>Performance vs. US Treasuries</b> Expected to outperform US Treasuries <sup>2</sup> over the long term	✓	<ul style="list-style-type: none"> <li>• <b>4.9% return vs. Treasuries 3.3%<sup>2</sup> (current 10-year YTM 0.6%)</b></li> <li>• 3.2% volatility vs. Treasuries 3.3%</li> </ul>
<b>Performance vs. Benchmark</b> HFRI Fund of Funds Conservative benchmark	✓-	<ul style="list-style-type: none"> <li>• <b>Ann. Outperformance of 0.8% over last 3 years</b></li> <li>• Tracking Error: 4.2%</li> </ul>

(1) Dates: Stable Value HF returns and details reflective of trailing 3-year period (January 2017 through December 2019).

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

# Stable Value Hedge Funds – 2019 Results



As of December 31, 2019

## Asset Allocation

- \$4.2bn
- \$1.4b of net investments
- 8% of PUF/GEF; 10% of ITF

	PUF/GEF	ITF	PUF/GEF/ITF
NAV	\$37,856	\$9,305	\$47,161
Cash	210	177	387
Fixed Income	3,294	2,853	6,148
<b>Stable Value Hedge Funds</b>	<b>\$3,213</b>	<b>\$965</b>	<b>\$4,178</b>
Stable Value Regime AUM	\$6,717	\$3,996	\$10,713
Stable Value Regime % of Total Fund	18%	43%	23%
<b>Stable Value Hedge Funds % of Total Fund</b>	<b>8%</b>	<b>10%</b>	<b>9%</b>
Stable Value Hedge Funds % of Regime	48%	24%	39%

## Performance

- 1 yr Alpha -2.5% due to Macro underperformance
- 3 yr Alpha of +80bps, just below 100bps target
- Equity Market Neutral, Specialty Credit and Insurance strong performers +10%
- High Sharpe Ratio of 1.4

		Return	Alpha	Volatility	Sharpe
<b>Stable Value Hedge Funds</b> \$4,178	1yr	5.6%	-2.5%	2.4%	1.4
	3yr	4.9%	0.8%	3.2%	1.0
<b>Equity Market Neutral</b> \$1,269 % SVHF Weight 30%	1yr	11.2%	9.0%	2.4%	3.7
	3yr	8.0%	6.0%	2.9%	2.2
<b>Macro</b> \$1,087 % SVHF Weight 26%	1yr	-1.6%	-7.8%	8.6%	-0.5
	3yr	1.3%	0.0%	6.9%	0.0
<b>RV- Multi</b> \$721 % SVHF Weight 17%	1yr	-	-	-	-
	3yr	-	-	-	-
<b>Insurance</b> \$417 % SVHF Weight 10%	1yr	10.1%	7.5%	1.3%	6.1
	3yr	-	-	-	-
<b>Specialty Credit</b> \$407 % SVHF Weight 10%	1yr	11.5%	9.0%	1.2%	8.0
	3yr	14.4%	12.0%	1.9%	6.5
<b>Niche RV</b> \$150 % SVHF Weight 4%	1yr	-	-	-	-
	3yr	-	-	-	-
<b>Alternative Beta</b> \$127 % SVHF Weight 3%	1yr	-9.0%	-17.1%	6.1%	-2.7
	3yr	-	-	-	-

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 strategy benchmark.

Return data is not provided for RV – Multi (1, 3yr), Insurance (3yr), Niche RV (1, 3yr) and Alternative Beta (3yr) as strategy track records are shorter than relevant periods Hedge Funds | 7





# Stable Value Hedge Funds – Diversification Benefits

- Uncorrelated returns to the rest of the Endowment
- Represent 8% of Endowment NAV but contribute less than 1% of total risk
- Early “proof of concept” by being flat to up during three severe equity sell-offs

SV HF - Correlation to UTIMCO Strategies	
Global Fixed Income	0.00
Internal Fixed Income	-0.27
Emerging Markets Public Equity	0.16
Directional Hedge	0.03
Total Developed Public Equity	-0.08
S&P 500	0.09

SV HF - Correlation to Cambridge Private Benchmarks	
Venture Capital	-0.01
Private Emerging Markets	-0.06
Private Equity	-0.32
Private Credit	-0.44
Total Private Real Estate	0.02
Total Infrastructure	-0.27
Total Private Natural Resources	-0.30

Period	S&P 500	Stable Value HF
Oct 2018	-6.8%	1.7%
Dec 2018	-9.0%	1.9%
Feb 2020*	-8.2%	-0.6%
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CY 2018	-4.4%	5.3%
CY 2019	31.5%	5.6%

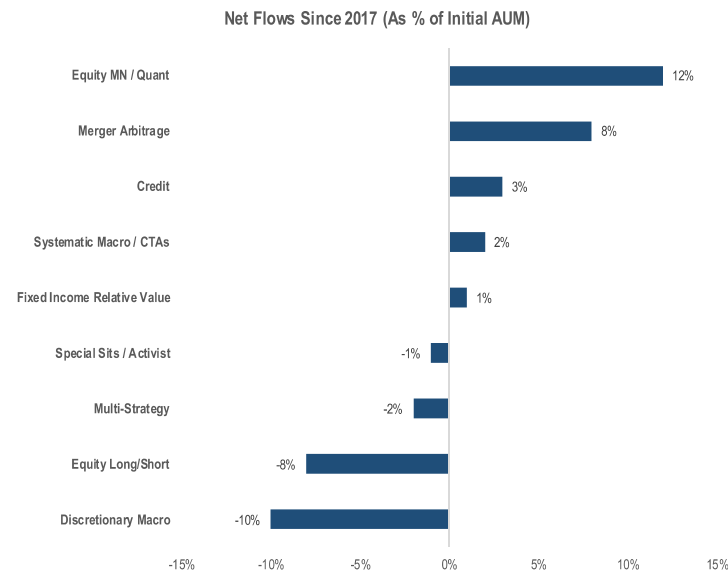
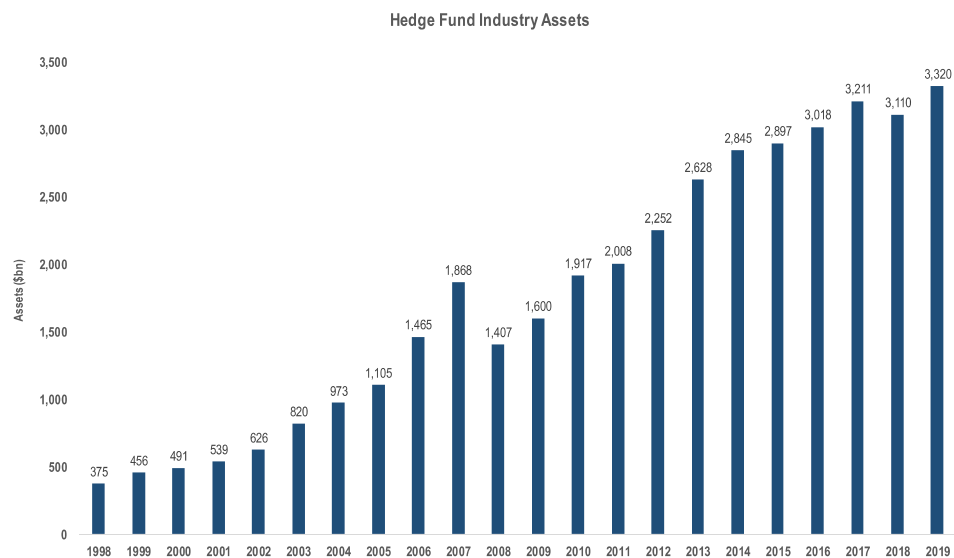
Correlations calculated for the period January 2017-December 2019. Correlations to private strategies are based upon Cambridge benchmark quarterly returns and are updated through September 2019.

\*Feb 2020 HF portfolio return is a preliminary estimate



# Industry Update

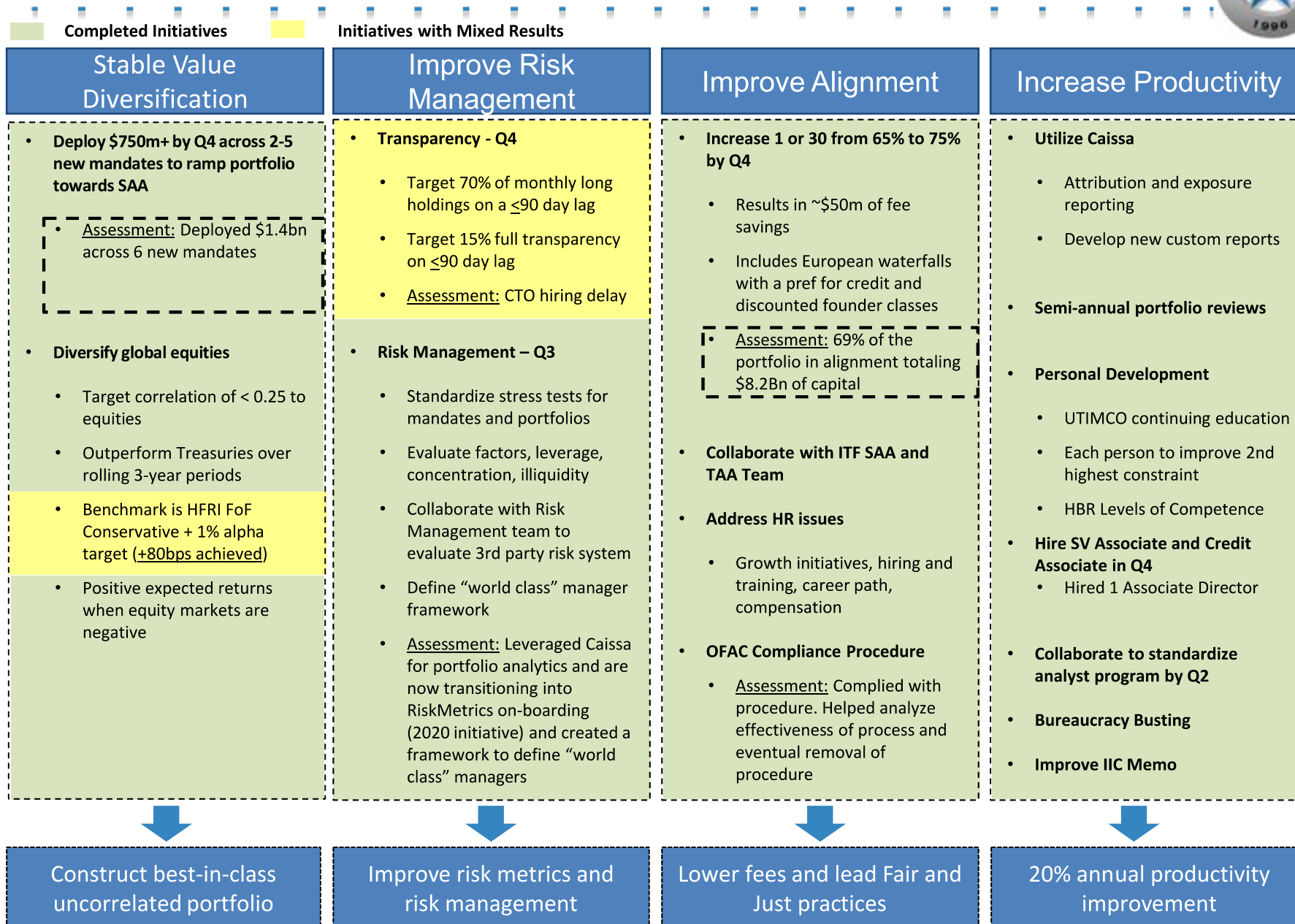
- \$3.3 trillion compared to \$12.3 trillion in actively-managed U.S. mutual and exchange-traded funds and \$33.8 trillion Wilshire 5000 total market capitalization
- 2019 ended at record levels, but only up 2x since 2008 vs. S&P 500 up 4x
- Over the last three years, investors have added to equity market neutral and quant strategies and redeemed from discretionary macro managers and equity long/short



Sources: HFR, Morningstar, Wilshire Associates, Barclays



# Hedge Funds – 2019 Total Alignment



# Hedge Funds – 2020 Total Alignment



Improve Performance			Improve Risk Management			Increase Alignment			Total Alignment and Culture		
Action	Metric	Timing	Action	Metric	Timing	Action	Metric	Timing	Action	Metric	Timing
Stable Value HF Growth	(i) Deploy \$700m+ to reach 10% SAA target. (ii) Fund 2-4 new SV mandates	Aug-20	Implement MSCI RiskMetrics	(i) Onboard 65% of portfolio reporting to platform; (ii) proxy the balance	Sep-20	Increase 1 or 30 aligned fees	Increase from 69% to 75%	Dec-20	Complete Semi-Annual Review and Business Plan with buy-in from Leadership Team	Semi-Annual / Business Plan	Feb-20 / Aug-20
Diversify Global Equity Regime	(i) SV portfolio correlation $\leq$ 0.25; (ii) Positive SV expected returns when equity markets down	Dec-20	Obtain increased transparency from managers	(i) 70% of monthly long holdings; (ii) 15% full transparency on $\leq$ 90 day lag	Sep-20	Work with Equities team to underwrite long-only funds of quantitative HF firms	At least one meaningful new mandate	Jun-20	Talent Management	Execute IDPs, LDP and Leadership Team's Action Plan	Dec-20
Deliver Alpha (Directional and Stable Value)	(i) Generate minimum of 1% combined Alpha vs. policy benchmarks; (ii) Outperform UST	Jun-20	New "bullets to the brain" report	Factors, leverage, concentration & illiquidity	Dec-20	Work with Ken to finalize Strategic Partnerships	2 SPNs funded	Apr-20	Hire Senior Analyst and Associate Director	First day of employment	Mar-20
Construct best-in-class Hedge Fund portfolios			Improve risk metrics and risk management			Lower fees, improve returns, and lead fair and just best practices			15% annual productivity improvement		

# Summary



- Hedge Funds have been split into two separate portfolios with different objectives (Directional and Stable Value), aligned with the economic regime framework implemented two years ago
- Directional HF generated strong returns of 14.3% and alpha of 6.0%
- Stable Value HF generated returns of 5.6% but negative alpha of -2.5%, which is being corrected
- Both portfolios are preserving capital as expected
- Risk is being monitored and managed well, which will increase further with RiskMetrics
- Executing on action plan
- Significant fee alignment with 69% of portfolio (\$8.2bn) aligned
- Forward expectations of returns from equity beta are reduced, raising the importance of alpha generation going forward

**Agenda Item**  
UTIMCO Board of Directors Meeting  
March 24, 2020

**Agenda Item:** Discussion and Appropriate Action Related to Office Lease and Capital Budget

**Developed By:** Hall, Dean

**Presented By:** Harris

**Type of Item:** Action Item

**Description:** Mr. Harris will discuss the proposed amendment to the lease agreement with the Board of Regents of The University of Texas System (“Regents”) for additional office space and adjustment in the term of the current lease. Pursuant to the Delegation of Authority Policy and Master Investment Management Services Agreement, respectively, because the proposed office lease imposes a total obligation on the Corporation in excess of \$1 million and the Regents approve the Corporation’s annual budget, which includes office space lease expenses, the Board must approve the contract or provide specific delegated authority to the CEO to negotiate the lease on behalf of the Corporation. Mr. Harris will present the proposed lease agreement in executive session.

Mr. Harris will also present the proposed capital budget for the Board’s consideration and approval.

**Recommendation:** Mr. Harris requests appropriate action related to the office lease and capital budget.

**Reference:** Executive session materials

## **RESOLUTION RELATED TO LEASE AGREEMENT**

WHEREAS, The University of Texas/Texas A&M Investment Management Company (the "Corporation") currently leases office space for its executive and administrative offices in The University of Texas System ("UTS") building in Austin, Texas pursuant to an Office Lease with the Board of Regents of UTS ("Lease Agreement"); and

WHEREAS, the Corporation wishes to enter into an amended Lease Agreement to secure additional office space in the UTS building and extend its current lease term for its executive and administrative offices.

NOW, THEREFORE, BE IT:

RESOLVED, that the CEO of the Corporation is authorized and directed by the Board of Directors of the Corporation to negotiate and enter into an amended Lease Agreement ("Amended Lease Agreement") on behalf of the Corporation and any documents ancillary to the Lease Agreement on such terms as may be necessary or in the best interests of the Corporation and to take whatever action as such officer of the Corporation may deem necessary, advisable or appropriate to effectuate or carry out the purposes and intent of this Resolution and to perform the obligations of the Corporation under the Amended Lease Agreement and any instruments referred to therein and/or executed in connection therewith.

**RESOLUTION RELATED TO BUDGET  
FOR LEASEHOLD IMPROVEMENTS, FURNITURE AND EQUIPMENT**

RESOLVED, that the Capital Budget of \$\_\_\_\_\_ for Leasehold Improvements, Furniture, and Equipment related to the Corporation's office space located in The University of Texas System building, be, and is hereby, approved.



**Agenda Item**  
UTIMCO Board of Directors Meeting  
March 24, 2020

- Agenda Item:** Report from Cybersecurity Committee: Discussion and Appropriate Action Related to the Charter of the Cybersecurity Committee
- Developed By:** Moeller, Gonzalez
- Presented By:** Rothrock
- Type of Item:** Action Item; Action required by the UTIMCO Board
- Description:** The Cybersecurity Committee (the “Committee”) met on March 5, 2020. The Committee’s agenda included discussion and appropriate action related to the Charter of the Cybersecurity Committee. The Committee also met in Executive Session to receive an update on computer security assessments related to information resources technology, including security assessments.
- Discussion:** With the UTIMCO Board expected to approve the renaming of the Cybersecurity Committee to the Cyber Risk Committee earlier at this March 24<sup>th</sup> Board meeting in Tab 2, the proposed Charter and resolution uses the new name of the Committee as the Cyber Risk Committee. The purpose of the Charter of the Cyber Risk Committee (the “Charter”) is to outline the duties and responsibilities of the Committee. The Committee was established by the UTIMCO Board at its December 5, 2019 meeting. The Committee reviewed and approved the Charter. The Charter has been drafted consistent with the format used for the other UTIMCO Committee charters.
- Recommendation:** The Committee will recommend that the Board approve the proposed Charter.
- Reference:** Charter of the Cyber Risk Committee

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

RESOLVED, that the Charter of the Cyber Risk Committee, as recommended be, and is 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 ~~Cybersecurity~~ Risk Committee

### Background

The Board of Directors (the "Board") of The University of Texas/Texas A&M Investment Management Company (the "Corporation") established Cybersecurity Committee on December 5, 2019. The Cybersecurity Committee was renamed the Cyber Risk Committee at the Board's March 24, 2020 meeting. This Charter was adopted by the Board on March 24, 2020.

### Purpose

The primary purpose of the Committee is to receive regular reports and updates from management regarding the security, confidentiality, availability, and integrity of information services systems of the Corporation, and to periodically report those matters to the Board so that the Board can discharge its oversight responsibility.

### 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 periodic updates to the Board of Directors regarding the following items so that the Board of Directors may consider them in its evaluation of the Corporation's overall cybersecurity program.

*Security of Information Services Systems:* The Committee has the following duties and responsibilities related to the Corporation's overall cybersecurity program:

- Review management's implementation of cybersecurity programs, policies and procedures and management's actions to safeguard the effectiveness of such programs and policies and the integrity of the Corporation's electronic systems and facilities and (b) prevent, detect and respond to cyber-attacks or information or data breaches involving the Corporation's electronic information, intellectual property and data;
- Receive reports regarding the effectiveness of the security of information services systems, including privacy, network security and data security;
- Review the Corporation's management of risks related to its information services systems and processes, including privacy, network security and data security, and any audits of such systems and processes; and to consult with the Audit Committee as appropriate;
- Receive information from the Chief Information Security Officer and Chief Technology Officer regarding matters related to the management of cybersecurity risks, activities and developments;
- Review management's crisis preparedness and incident response plans (including policies and procedures regarding public disclosure of any such incidents) and the Corporation's disaster recovery capabilities; and
- Review significant cybersecurity investments and expenditures the Corporation proposes to make to manage or mitigate cybersecurity risks and make recommendations, where appropriate.

## **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 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.

## **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 Information Security 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 March 24, 2020.

**Agenda Item**  
UTIMCO Board of Directors Meeting  
March 24, 2020

- 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 for the year ended August 31, 2019
- Developed By:** Moeller, Gonzalez
- Presented By:** Handley
- Type of Item:** Action required by UTIMCO Board related to Audit; Information item on other items
- Description:** The Audit and Ethics Committee (the "Committee") met on March 5, 2020. The Committee's agenda included (1) discussion and appropriate action related to the approval of minutes of November 21, 2019 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; (5) discussion of Committee's self-assessment; and (6) a presentation of unaudited financial statements as of November 30, 2019 for the Investment Funds and the Corporation.
- Discussion:** The UTIMCO financial statements were audited by Deloitte & Touche LLP. Deloitte & Touche LLP issued an unqualified opinion on the August 31, 2019 and 2018 financial statements. Robert Cowley, the engagement partner, presented to the Committee the Deloitte & Touche LLP's Audit Results and Communications letter and answered questions related to the financial statements. A copy of the Audit Results and Communications and the audited financial statements are included.
- Eric Polonski, Director of Audits of the UT System Audit Office, reviewed the UTIMCO Risk Management Consulting Report. The agreed upon procedures engagement related to the Risk Team's monitoring plan and activities used to monitor key risks identified for Investment Risk Management as part of the Institutional Compliance Program.
- Cissie Gonzalez shared the results of the self-assessment questionnaire with the Committee. The UTIMCO Audit Charter requires the Audit and Ethics Committee to evaluate the Committee's performance, both of the individual members and collectively, on a regular basis. The last self-assessment was performed in June 2013.
- Routine activities of the Committee included a report from Ms. Gonzalez related to the quarterly compliance reports. The Committee reviewed the unaudited financial statements for the first quarter for the Funds and UTIMCO Corporation. The Committee also reviewed the Contracts Report. In accordance with the Delegation of Authority Policy, UTIMCO reports any new contracts, leases or other commercial arrangements of \$250,000 or more to the UTIMCO Board at its next regularly scheduled meeting, and annually, all existing contracts, leases, or other commercial arrangements of \$250,000 or more. There were no new contracts reported for the period.

**Agenda Item**

UTIMCO Board of Directors Meeting  
March 24, 2020

**Recommendation:** The Committee will request the UTIMCO Board take appropriate action based on the Committee's action from its meeting related to approval of Deloitte and Touche LLP's Financial Statement Audit Results and Communications, and the audited financial statements and audit report for the Corporation.

**Reference:** Audit Results and Communications  
Audited Financial Statements and Audit Report for the Corporation  
Quarterly Compliance Reports

**RESOLUTIONS RELATED TO AUDIT OF THE CORPORATION FOR  
FISCAL YEAR 2019**

RESOLVED, that Deloitte & Touche LLP's Financial Statement Audit Results and Communications for the Corporation for the year ended August 31, 2019, be, and is hereby approved in the form as presented to the Board; and further

RESOLVED, that the annual financial statements and audit report for the Corporation for the fiscal years ended August 31, 2019 and August 31, 2018, be, and are hereby approved in the form as presented to the Board.





**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

January 20, 2020

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, 2019, 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 20, 2020.

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 June 20, 2019, 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, 2019, 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 2019 financial statements. We are not aware of any significant changes in previously adopted accounting policies or their application during the year ended August 31, 2019.

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 2019 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, 2019, 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 2019 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 2019.

## **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 20, 2020

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, 2019 and 2018, 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 revenues, 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:

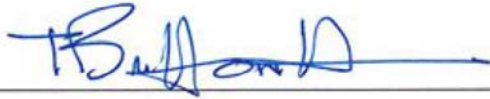
210 West 7th Street, Suite 1700, Austin, TX 78701 | P 512.225.1600 | F 512.225.1660 | UTIMCO.org

- a. All financial records and related data.
  - 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 \$87,000 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:

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 awards approved for the year ended August 31, 2019 and approved on December 5, 2019, totaled \$12,588,432.
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, 2019 but before January 20, 2020, the date the financial statements were issued that require consideration as adjustments to, or disclosures in, the financial statements.



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Britt Harris  
President, Chief Executive Officer and Chief Investment  
Officer



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Joan Moeller  
Senior Managing Director and Chief Operating Officer



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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, 2019 and 2018

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

Financial Statements

Years Ended August 31, 2019 and 2018

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## **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, 2019 and 2018, 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 audit opinion.

### **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, 2019 and 2018, 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 20, 2020

## **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, 2019. 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 \$47 billion as of August 31, 2019. 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 \$2.6 million from \$19.5 million to \$22.1 million, or approximately 13%, for the year ended August 31, 2019. This is compared to an increase of approximately \$9.7 million from \$9.8 million to \$19.5 million, or approximately 99%, for the year ended August 31, 2018. The increase in net position in FY19 was primarily because the UTIMCO Performance Program's (the Plan) awards earned were less than budgeted. 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.

### **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>2019</u>	<u>2018</u>	<u>2017</u>
<b>Assets</b>			
Current Assets			
Cash and cash equivalents	\$26,027,943	\$20,112,563	\$18,724,958
Prepaid expenses and other assets	1,448,125	1,596,896	2,421,973
Total Current Assets	<u>27,476,068</u>	<u>21,709,459</u>	<u>21,146,931</u>
Non-Current Assets			
Assets of the 457(b) deferred compensation plan	2,417,291	2,196,619	1,788,893
Capital assets, net of accumulated depreciation	10,976,414	12,465,244	297,558
Total Non-Current Assets	<u>13,393,705</u>	<u>14,661,863</u>	<u>2,086,451</u>
<b>Total Assets</b>	<u>\$40,869,773</u>	<u>\$36,371,322</u>	<u>\$23,233,382</u>
<b>Liabilities and Net Position</b>			
Current Liabilities	\$13,365,081	\$11,503,831	\$11,664,000
Non-Current Liabilities	5,461,995	5,398,029	1,788,893
Total Liabilities	<u>18,827,076</u>	<u>16,901,860</u>	<u>13,452,893</u>
Net Position	<u>22,042,697</u>	<u>19,469,462</u>	<u>9,780,489</u>
<b>Total Liabilities and Net Position</b>	<u>\$40,869,773</u>	<u>\$36,371,322</u>	<u>\$23,233,382</u>

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

- Net position increased in FY 2019 by \$2,573,235 and increased in FY 2018 by \$9,688,973. The increase in net position for FY 2019 was primarily the result of lower than budgeted performance compensation, hiring expenses, travel, and contract services and unbudgeted interest income. Hiring expenses and travel expenses were less than budgeted because of the timing of new hires and unfilled vacancies. Contract services were less than budgeted because projects were postponed with the departure of the Chief Technology Officer. The increase in 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. Additionally, operating expenses including salaries, travel, online data, lease, maintenance contracts, and depreciation expense were less

than budgeted. 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.

- Cash & cash equivalents increased between FY 2018 and FY 2019 by \$5,915,380 and increased between FY 2017 and FY 2018 by \$1,387,605. The increase for FY 2019 was primarily the result of operating expenses that were less than budgeted as described above. Other contributing factors include non-budgeted interest income receipts, budgeted depreciation expense that was not offset by capital asset purchases and the timing of payments for operating costs. The increase for FY 2018 was the result of salaries, travel, online data, lease and maintenance expenses that were less than budgeted as described above.
- Prepaid expenses and other assets decreased in FY 2019 by \$148,771 and decreased in FY 2018 by \$825,077. The decrease in FY 2019 was primarily the result of amortizing prepaid expenses for maintenance contracts relating to the office move and the timing of payments for some larger online data services. 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 FY 2018.
- Non-current assets decreased by in FY 2019 by \$1,268,158 and increased in FY 2018 by \$12,575,412. The decrease in FY 2019 was the result of a decrease in net capital assets from depreciation offset by an increase in the assets of the 457(b) deferred compensation plan. 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.
- Current liabilities increased in FY 2019 by \$1,861,250 and decreased slightly in FY 2018 by \$160,169. The increase in FY 2019 was mainly the result of an increase in the performance compensation liability due to additional plan participants.
- Non-current liabilities increased by in FY 2019 by \$63,966 and in FY 2018 by \$3,609,136. The increase in FY 2019 was the result of an increase in the liabilities of the 457(b) deferred compensation plan offset by a decrease in the long-term unamortized rent liability. 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.

## 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>2019</u>	<u>2018</u>	<u>2017</u>
<b>Revenue</b>			
Management fees and advisory board fees	43,801,512	\$45,509,801	\$32,307,792
Net non-operating revenues	<u>560,046</u>	<u>276,107</u>	<u>147,225</u>
<b>Total Revenue</b>	44,361,558	45,785,908	32,455,017
<b>Expenses</b>			
Salaries, benefits & payroll taxes	20,173,218	16,799,548	13,639,378
Performance compensation	11,271,195	10,415,478	10,291,209
General operating	5,406,563	4,927,813	3,541,914
Depreciation	1,669,890	1,015,435	2,453,498
Lease	2,474,161	2,281,161	2,072,648
Other	<u>793,296</u>	<u>657,500</u>	<u>1,195,325</u>
<b>Total Expenses</b>	<u>41,788,323</u>	<u>36,096,935</u>	<u>33,193,972</u>
<b>Net Position, beginning of year</b>	<u>19,469,462</u>	<u>9,780,489</u>	<u>10,519,444</u>
<b>Net Position, end of year</b>	<u><u>\$22,042,697</u></u>	<u><u>\$19,469,462</u></u>	<u><u>\$9,780,489</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 in FY 2019 by \$5,691,388 and in FY 2018 by \$2,902,963. The increases in both FY 2019 and FY 2018 were primarily the result of an increase in salaries, performance compensation, employee benefits, and payroll taxes. In FY 2019 and FY 2018, these employee-related expenses increased mainly because numerous open and new positions were filled.



- Various other expenses also contributed to the total expense increases in FY 2019 and FY 2018. Specifically, lease expense, depreciation and other general operating expenses related to the new office space were significant components of the increase in FY 2019. In FY 2018, lease expense and other operating expenses related to the new office space were the contributing factors offset by a decrease in depreciation expense related to the removal of the Investment Support System 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>2019</u>	<u>2018</u>	<u>2017</u>
<b>Cash flows from Operating Activities</b>			
Proceeds from management fees and advisory board fees	\$43,801,512	\$45,509,801	\$32,307,792
Payments to and for employees	(29,864,326)	(25,782,382)	(22,599,764)
Other payments	(8,400,792)	(5,432,800)	(6,697,341)
<b>Net cash provided by Operating Activities</b>	5,536,394	14,294,619	3,010,687
<b>Cash flows from Capital and Related Financing Activities</b>			
Purchase of capital assets, net	(181,060)	(13,228,243)	(61,862)
Proceeds from sale of assets	-	4,960	-
<b>Net cash used for Capital and Related Financing Activities</b>	(181,060)	(13,223,283)	(61,862)
<b>Cash flows from Investing Activities</b>			
Interest	560,046	316,269	148,872
<b>Net cash provided by Investing Activities</b>	560,046	316,269	148,872
<b>Net Change in cash &amp; cash equivalents</b>	5,915,380	1,387,605	3,097,697
<b>Cash &amp; cash equivalents, beginning of year</b>	<u>20,112,563</u>	<u>18,724,958</u>	<u>15,627,261</u>
<b>Cash &amp; cash equivalents, end of year</b>	<u>\$26,027,943</u>	<u>\$20,112,563</u>	<u>\$18,724,958</u>

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

- Proceeds from management fees decreased in FY 2019 and increased in FY 2018. The decrease in FY 2019 was because FY 2018 included an additional \$8.4 million to fund the leasehold improvements and capital asset purchases for the new office space. Net of the additional \$8.4 million, FY 2019 management fees increased by \$6.7 million mainly due to an increase in employee-related expenses and an increase in operating expenses related to the new office space. 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 2019 and 2018 mainly as a result of the increase in salaries and other personnel expenses that are directly related to compensation. These expenses increased mainly because numerous open and new positions were filled.
- Purchases of capital assets decreased in FY 2019 because the purchases related to the new office space were mostly completed in FY 2018. The increase in FY 2018 was a result of expenditures for the furniture, equipment and leasehold improvements related to the move to the new office space in FY 2018.

### **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***

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**Statements of Net Position**

*August 31, 2019 and 2018*

	<u>2019</u>	<u>2018</u>
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 26,027,943	\$ 20,112,563
Prepaid expenses and other assets	1,448,125	1,596,896
Total Current Assets	<u>27,476,068</u>	<u>21,709,459</u>
Non-Current Assets		
Assets of the 457(b) deferred compensation plan	2,417,291	2,196,619
Capital assets, net of accumulated depreciation of \$3,364,094 and \$1,719,078, respectively	<u>10,976,414</u>	<u>12,465,244</u>
Total Non-Current Assets	<u>13,393,705</u>	<u>14,661,863</u>
<b>Total Assets</b>	<u><u>\$ 40,869,773</u></u>	<u><u>\$ 36,371,322</u></u>
<b>Liabilities and Net Position</b>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 13,208,375	\$ 11,401,657
Current portion - unamortized rent	156,706	102,174
Total Current Liabilities	<u>13,365,081</u>	<u>11,503,831</u>
Non-Current Liabilities		
457(b) deferred compensation plan obligations	2,417,291	2,196,619
Long-term portion - unamortized rent	<u>3,044,704</u>	<u>3,201,410</u>
Total Non-Current Liabilities	<u>5,461,995</u>	<u>5,398,029</u>
Total Liabilities	18,827,076	16,901,860
Net Position		
Net investment in capital assets	10,976,414	12,465,244
Unrestricted	<u>11,066,283</u>	<u>7,004,218</u>
Total Net Position	<u>22,042,697</u>	<u>19,469,462</u>
<b>Total Liabilities and Net Position</b>	<u><u>\$ 40,869,773</u></u>	<u><u>\$ 36,371,322</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, 2019 and 2018*

	<u>2019</u>	<u>2018</u>
<b>Operating Revenues</b>		
Management Fees	\$ 43,796,512	\$ 45,509,801
Advisory Board Fees	5,000	-
Total Operating Revenues	<u>43,801,512</u>	<u>45,509,801</u>
<b>Operating Expenses</b>		
Salaries	16,235,197	13,667,683
Performance Compensation	11,271,195	10,415,478
Employee Benefits	2,482,063	2,176,075
Payroll Taxes	1,455,958	955,790
General Operating	5,406,563	4,927,813
Depreciation	1,669,890	1,015,435
Lease	2,474,161	2,281,161
Professional Fees	590,544	462,386
Insurance	202,752	195,114
Total Operating Expenses	<u>41,788,323</u>	<u>36,096,935</u>
<b>Operating Income</b>	2,013,189	9,412,866
<b>Non-Operating Revenues</b>		
Interest	560,046	316,269
Loss on Disposal of Equipment	-	(40,162)
<b>Net Non-Operating Revenues</b>	<u>560,046</u>	<u>276,107</u>
<b>Increase in Net Position</b>	2,573,235	9,688,973
<b>Net Position at beginning of year</b>	19,469,462	9,780,489
<b>Net Position at end of period</b>	<u>\$ 22,042,697</u>	<u>\$ 19,469,462</u>

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

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

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**Statements of Cash Flows**

*For the year ended August 31, 2019 and 2018*

	<u>2019</u>	<u>2018</u>
<b>Cash flows from Operating Activities:</b>		
Proceeds from management fees and advisory board fees	\$ 43,801,512	\$ 45,509,801
Payments to suppliers for goods and services	(5,824,456)	(6,401,090)
Payments for facility	(2,576,336)	(1,758,310)
Reimbursement for tenant improvement	-	2,726,600
Payments to employees	(26,270,177)	(22,567,937)
Payments for employees	(3,594,149)	(3,214,445)
<b>Net Cash provided by Operating Activities</b>	<u>5,536,394</u>	<u>14,294,619</u>
<b>Cash flows from Capital and Related Financing Activities:</b>		
Purchases of capital assets	(181,060)	(13,228,243)
Proceeds from sale of assets	-	4,960
<b>Net cash used in Capital and Related Financing Activities</b>	<u>(181,060)</u>	<u>(13,223,283)</u>
<b>Cash flows from Investing Activities</b>		
Interest	560,046	316,269
<b>Net cash provided by Investing Activities</b>	<u>560,046</u>	<u>316,269</u>
<b>Net increase in cash and cash equivalents</b>	5,915,380	1,387,605
<b>Cash and cash equivalents at beginning of year</b>	<u>20,112,563</u>	<u>18,724,958</u>
<b>Cash and cash equivalents at end of period</b>	<u>\$ 26,027,943</u>	<u>\$ 20,112,563</u>

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

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

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**Statements of Cash Flows, Continued**

*For the year ended August 31, 2019 and 2018*

**Reconciliation of operating income to net cash provided by**

**Operating Activities:**

	<u>2019</u>	<u>2018</u>
<b>Operating Income</b>	\$ 2,013,189	\$ 9,412,866
<b>Adjustments to reconcile operating income to net cash provided by Operating Activities</b>		
Depreciation	1,669,890	1,015,435
Changes in assets and liabilities:		
Decrease in prepaid expenses and other assets	148,771	825,077
Increase in assets of 457(b) deferred compensation plan	(220,672)	(407,726)
Increase/(decrease) in accounts payable and accrued expenses	1,806,718	(208,210)
Increase in liabilities of 457(b) deferred compensation plan	220,672	407,726
Increase/(decrease) in unamortized rent	(102,174)	3,249,451
<b>Net cash provided by Operating Activities</b>	<u>\$ 5,536,394</u>	<u>\$ 14,294,619</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*

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**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.

**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.

*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 2019, UTIMCO capitalized \$181,060 in costs to replace obsolete computer equipment, acquire new software licenses, and make additional furniture purchases for the new office space. 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 of \$5,119,552 and with a carrying value of \$40,162 were written off during the period ended August 31, 2018.

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

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The following is a schedule of the capital assets at August 31, 2019 and 2018:

	<b>Balance</b>			<b>Balance</b>
	<b>8/31/2018</b>	<b>Additions</b>	<b>Deletions</b>	<b>8/31/2019</b>
Office furniture	\$ 2,749,510	\$ 65,573	\$ -	\$ 2,815,083
Office equipment	1,958,353	83,507	(24,874)	2,016,986
Software	250,887	31,980	-	282,867
Leasehold improvements	9,225,572	-	-	9,225,572
Total property and equipment	14,184,322	181,060	(24,874)	14,340,508
Less accumulated depreciation	(1,719,078)	(1,669,890)	24,874	(3,364,094)
Net Capital Assets	<u>\$12,465,244</u>	<u>\$ (1,488,830)</u>	<u>\$ -</u>	<u>\$ 10,976,414</u>

	<b>Balance</b>			<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>

*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**

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*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.

**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 periods ended August 31, 2019 was \$43,789,012. The amount of the management fees for the period ended August 31, 2018 was \$45,502,301. This included \$37,102,301 for ordinary operating costs and \$8,400,000 for leasehold improvements and capital expenditures. This represents fees for the following:

	<u>2019</u>	<u>2018</u>
Permanent University Fund	\$ 22,500,436	\$ 23,764,375
The University of Texas System General Endowment Fund	10,891,051	-
The University of Texas System Intermediate Term Fund	10,397,525	10,492,361
Permanent Health Fund	-	1,372,125
The University of Texas System Long Term Fund	-	9,873,440
	<u>\$ 43,789,012</u>	<u>\$ 45,502,301</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, 2019 and 2018 were \$82,739 and \$139,763, 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 was \$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.

#### **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, 2019, and 2018, 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, 2019 and 2018 were \$25,866,721 and \$19,942,663, 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, 2019 and 2018 were \$1,112,464 and \$941,512, respectively.

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, 2019 and 2018 were \$291,055 and \$247,234, respectively.

**Note 6 – Lease Expense**

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.

Effective September 1, 2005, UTIMCO entered in to 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 and were fully amortized as of August 31, 2018.

The net lease expense related to the lease incentives and amortization of the tenant allowances for the periods ended August 31, 2019 and 2018 were \$1,783,724 and \$1,554,772, respectively. For the periods ended August 31, 2019 and 2018, related operating expenses were \$475,607 and \$528,542, respectively. Parking expense was \$214,830 and \$197,847, respectively, for the periods ended August 31, 2019 and 2018.

The minimum rental commitment for UTIMCO's current office space beginning February 1, 2018 and expiring May 31, 2028 was \$154,507 per month for the first year with the first four months abated and escalates annually by \$4,544 per month. As of August 31, 2019, the monthly rent payment is \$159,052.

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

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

Years ending August 31,	
2020	\$ 1,940,430
2021	1,994,962
2022	2,049,494
2023	2,104,027
2024	2,158,558
Thereafter	<u>8,561,525</u>
	<u>\$ 18,808,996</u>

**Note 7 – Unamortized Rent**

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 periods ended August 31, 2019 and 2018, unamortized rent relating to the new lease agreement was \$3,201,410 and 3,303,584, respectively.

**Note 8 – Advisory Board Fees**

UTIMCO received a fee on behalf of an employee who served as an advisory board member for a private equity investment. Advisory board fees for the period ended August 31, 2019 were \$5,000. There were no advisory board fees for the period ended August 31, 2018.

## **INSTITUTIONAL COMPLIANCE PROGRAM**

**The University of Texas/Texas A&M Investment Management Company  
Institutional Compliance Program Report  
for the Quarter Ended  
November 30, 2019**

**Section I – Organizational Matters**

- One meeting of the Ethics and Compliance Committee was held during the quarter: October 31, 2019.

**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 - Fixed Income; Managing Director – Hedge Funds; Managing Director – Real Return; Managing 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 44 meetings/calls with potential managers. Serious due diligence was not initiated on any new mandate. No new mandates were completed. Ongoing review of active external managers included 53 meetings/calls. Additional efforts included monthly performance tracking, reviews and analyses by the team and participation in four annual meetings.

**Fixed Income:** The Fixed Income Team participated in 2 meetings/calls with potential managers. Ongoing review of active external managers included 8 meetings/calls. No serious due diligence was initiated on any mandates. No new mandate was completed. There were no additions to existing mandates.

**Hedge Funds:** The Hedge Funds Team participated in 20 meetings/calls with potential managers. Serious due diligence was initiated on one new mandate. Five new mandates were completed. Ongoing review of active external managers was conducted in the form of 58 meetings/calls/site visits. Additional efforts included monthly performance tracking, reviews and analyses by the team.

**Real Return:** The Real Return Team participated in 46 meetings/calls with potential managers. Serious due diligence was initiated on six new mandates. Five new mandates were completed. No addition to an existing mandate was completed. Ongoing review of active external managers included 90 meetings/calls. Additional efforts included participation in 20 annual meetings.

**Private Equity:** The Private Equity Team participated in 117 meetings/calls with potential managers. Serious due diligence was initiated on six new mandates. Eight new mandates were completed. There were no additions to existing mandates. Ongoing review of active external managers included 70 meetings/calls. Additional efforts included participation in 28 annual meetings.

**Specialized Training:** The Investment Team attended 16 industry-related conferences/functions and meetings.

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

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

**Key “A” risk(s) identified:**

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

**Key Monitoring Activities:**

- Risk Team continued to enhance its understanding and reporting of macro risks and market risks. This currently includes tracking and reporting a bubble monitor, a US bear market monitor, a non-US bear market monitor, an environment monitor, and factor data.
- Risk Team evaluated potential unified risk systems, with the goal to have a unified risk language across UTIMCO, be able to aggregate all exposures across the endowment into a single framework, and to offer advanced insights into hedge funds and private markets. The pros and cons of the two leading systems were presented to the CEO and the Leadership Team.
- Risk Team reviewed 14 Risk Scorecards for consistency and accuracy as well as one due-diligence questionnaire during the quarter.
- Risk Team continued to lead the “Practical Neutral” effort, where monthly trades and rebalances are performed in order to have the least amount of unintended off-benchmark exposures.
- Two managers triggered CUSUM this quarter. One was already in the process of being liquidated, and the decision on the other was to hold.
- Risk Team is working with the Tactical Asset Allocation (TAA) team on the more systematic and quantitative aspects of the TAA decision making process.
- The Risk Team is developing a bottom up Risk Dashboard to estimate the absolute and relative risks across the Endowments. As part of this effort, each of the portfolio teams was consulted on their overall portfolio construction and the fit of individual managers.
- Risk Team continued to support the ITF→LTF transfers; this quarter the activity was somewhat muted; it was important to understand if this was just for one quarter, or a long-term change that would require significant changes within UTIMCO; this led to several discussions with UT System and some of the institutions, and our understanding is that this reduced level of flows was just for this quarter.
- Risk Team researched some early warning indicators for private investments, as part of the Private Investments Portfolio Construction Taskforce. The goal is to understand as early as possible if a private investment fund is on track or not.
- 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.

**Internal Audit:** UT Systems' Internal Audit team performed a review of agreed-upon-procedures during the quarter. A preliminary report was issued in December; we will report back on the final report next quarter.

**Specialized Training:** Risk Team participated in four conferences 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:**

- Eight open security items remain at end of this reporting period. Twenty open items were closed as a result of the Sirius project and Information Systems (IS) efforts.
- CISO continues to identify unapproved software installations by the various teams that had not been submitted for legal or security review.
- External vendor super administrator accounts were identified on several network infrastructure devices. The CISO is working with the IS team to remediate these accounts. The proper deprovisioning of accounts continues to be a problem area.
- Two 3rd party business partners, BNY Mellon and SWIFT, have new required security controls UTIMCO must implement to continue and enhance our business relationship. The required changes were due for installation December 9th. If UTIMCO is unable to meet the implementation timeline, next steps forward with these vendors will need to be determined. UTIMCO made commitments to complete this work no later than March 2020.
- CISO identified the continued use of IS administrator credentials for system service accounts. This continues to be a recurring problem. Computer service accounts and user accounts should not be interchanged. Service accounts should have long, complex, difficult to remember passwords. Further allowing user administration accounts elevated permissions to act as a service creates additional risk should the administration account credentials become compromised.
- One Windows 2008 server remains in service. The Development environment continues to contain multiple Windows 2008 servers. As the development environment is high-risk, "wild west", these servers could allow an attacker to easily pivot into the production networks and servers. Windows 2008 is no longer under mainstream support from Microsoft; all support, including security updates, will end January 2020.
- 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.



- CISO identified a lack of adherence to published naming standards, which makes tracking rogue devices more difficult and can lead to missed rogue devices remaining on the network for an extended period. This continues to be a reoccurring problem.
- Inventory maintenance continues to be an issue. Information services is utilizing 3 separate inventory systems. Spot checks of the data shows inventory is not being maintained and updated when changes occur.
- Patching continues to be a concern as timely installation of patches for all systems is not be completed with regularity. Reporting of patch status is also in question.
- There were three laptops containing corporate data taken to China during the reporting period. Upon return, the CISO quarantined the laptops, rescued the needed work files and instructed IS to block these laptops from all firm network access. These laptops have been placed in the high-risk travel pool for future travel to high-risk areas.
- Phishing and spear-phishing attacks continue to be a concern. The ISO team receives weekly notices from other teams about these types of attacks. The ISO performed several phishing campaigns during the reporting period.
- The ISO team identified several personal employee accounts that were leaked or compromised. Alerts were sent to the affected employees as a courtesy.
- Six security assessments were completed during the period.
- The CISO met with several vendors to review new software or systems, including Operational Due Diligence, Legal/Compliance, Accounting and Risk.
- The CISO identified that machines placed in storage were not wiped of user and system data, or removed from Active Directory, but were removed from Manage Engine, which also removed them from monitoring and reporting.
- Accurate time throughout the IT environment continues to be an issue. Without accurate time synced across all systems and devices, correlation of events, incidents including security incidents is impossible.
- The CISO identified that a system administrator account was abandoned and left logged into core infrastructure for over 164 days. Timeouts are not being enforced.
- Multi-factor authentication (MFA) was not enforced on user accounts during the reporting period. This continues to be a recurring issue.

**Specialized Training:** Security team members attended a variety of in person training, web training sessions, podcasts, and books.

**Responsible Party:** Chief Technology Officer (position is currently vacant)

**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:**

- User workstation patching and updates (ongoing).
- Server patching and updates (ongoing).
- Firewall rules audit, modifications and patching (ongoing).
- Switch and router patching and updates (ongoing).
- Citrix Remote Access environment patching (ongoing).
- Network documentation improvements (ongoing).

- Helpdesk process documentation and improvements (ongoing).
- Decommission of Windows Server 2008 servers in progress.
- Laptops deployed to over 50 users to enhance the ability to perform job duties more productively from any location.
- Denim security assessment findings and InfoSec security findings remediation (ongoing).
- File consolidation in progress and ongoing to enhance anytime/anywhere access to UTIMCO data.

**Specialized Training:** Data Management Team attended Caissa Conference.

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

**Responsible Party:** Senior Director - Accounting 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.
- Participation by the Accounting and Operations employees in prospective and active external manager investment due diligence continues.
- Derivative Investment Controls and Processes are being followed and work continues to improve them.
- Testing was performed on all new commitments and funding made to ensure compliance with the Delegation of Authority.

**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.
- Two full-time employees and one temporary worker were hired during the quarter. One temporary worker was converted to a full-time employee. New hire compliance statements

were received timely from the new employees. Temporary worker hired was excused as she was hired only for a two-week engagement.

- One ethics compliance training session was held during the quarter. New hires 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 securities were added to the list in this 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 68 employee securities transactions during the quarter, none required preclearance. Three transactional disclosure forms were filed late.
- 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 16 expense reports tested during the quarter, four included third party paid expenses. Approval was obtained as required for all. 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, 2 employees requested and received approval for sponsored entertainment events.
- No employee requested approval for private air travel.

**Specialized Training:** Compliance Senior Analyst attended SCCE Annual Compliance & Ethics Institute Conference.

### **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. The Risk Team underwent a review by the UT System Audit Office related to the Risk Team's monitoring plan and activities used to monitor key risks

identified for Investment Risk Management as part of the Institutional Compliance Program. Recommendations concerning the review will be issued in February 2020.

**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. Organizational reporting for the Information Services team was restructured after the departure of the CTO and the team now reports to both the Deputy CIO and the Chief Operating Officer. The Security and Information Services teams continue to meet bi-weekly to track and monitor the status of identified areas of vulnerability and required improvement in UTIMCO's information resources. Third-party vendors have been engaged to assist in remediation of required improvements. Ernst & Young, LLP was hired in November to perform an assessment of UTIMCO's cybersecurity posture and benchmark that posture against similarly sized peer group organizations. The CTO search continues.

**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 new hire training session was held during the quarter.

**Section V – Action Plan Activities**

See updated Institutional Compliance Action Plan Fiscal Year 2020.

**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	0.00%

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 Senior Managing Director & COO, the Deputy Chief Investment Officer, the Chief Information Security 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 2020**

#	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	11/30/19	<i>First draft of ERM completed and reviewed by Sr. MD and COO; second draft in progress; draft risk assessments prepared; refinement of risk assessment continues</i>
<b><i>B. MONITORING ACTIVITIES / ASSURANCE</i></b>			
2.	Complete revision of Responsible Party Monitoring Plans for high risk areas	11/30/19	<i>Monitoring plans for investment teams, other than Tactical Asset Allocation (TAA) and Strategic Partners Network (SPN) completed; TAA and SPN in progress</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	04/30/2020	<i>New hire training sessions held on 10/09/19 and 01/07/20</i>
6.	Identify and network with similarly situated compliance professionals	Ongoing	<i>Council of Compliance Officers quarterly call on 11/21/19</i>
<b><i>D. REPORTING</i></b>			
7.	Conduct quarterly meetings with the internal ethics and compliance committee	Ongoing	<i>Quarterly meeting held 10/31/19</i>
8.	Provide quarterly/annual reports to the Audit and Ethics Committee and System-wide compliance office	Ongoing	<i>Report for FQE 05/31/19 presented to A&amp;E Committee on 09/19/19; Annual report presented to A&amp;E Committee on 11/21/19 and sent to UTS on 01/27/20</i>
<b><i>E. OTHER / GENERAL COMPLIANCE</i></b>			

Updated 01/27/2020

#	ACTION ITEM	TARGET COMPLETION DATE	STATUS
9.	Continual update of compilation of all laws and regulations applicable to UTIMCO and to the extent necessary, modify compliance processes and reporting	Ongoing	<i>Updates ongoing</i>
10.	Information Technology update to Business Continuity Plan	03/31/20	<i>No activity</i>
11.	Work with Information Technology Team to automate Code of Ethics forms	08/31/20	<i>No activity</i>
12.	Supervise and manage work of Compliance team; onboard new team members	Ongoing	<i>Ongoing</i>
13.	UT Systemwide Compliance Office activities participation: annual compliance officers' forum and other activities	Ongoing	<i>Quarterly meeting with UTS Compliance Officer on 10/23/19; Fall ICAC meeting held 09/25/19</i>
14.	Hotline reporting	Ongoing	<i>No activity</i>

*Updated 01/27/2020*

**Agenda Item**  
UTIMCO Board of Directors Meeting  
March 24, 2020

<b>Agenda Item:</b>	Report from Risk Committee: Discussion and Appropriate Action Related to Proposed Amendments to the Charter of the Risk Committee
<b>Developed By:</b>	Gonzalez, Moeller
<b>Presented By:</b>	Gauntt
<b>Type of Item:</b>	Information item; Action required by UTIMCO Board related to Charter of the Risk Committee
<b>Description:</b>	<p>The Risk Committee (“Committee”) met on March 5, 2020. The Committee’s agenda included (1) discussion and appropriate action related to the approval of minutes of November 21, 2019 meeting; (2) discussion and appropriate action related to proposed amendments to the Charter of the Committee; (3) discussion of Committee’s self-assessment; (4) review and discussion of compliance reporting; and (5) market and portfolio risk update.</p>
<b>Discussion:</b>	<p>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 21, 2019.</p> <p>The Committee reviewed and approved the proposed changes to its Charter. The changes to the Charter proposed by the Team relates to removing the monitoring of economic and trade sanctions compliance requirement. Because of the measures in place at the Corporation, the Corporation’s custodian, and the external managers, the Team and Committee concluded that the formal procedure was no longer required.</p> <p>Cissie Gonzalez shared the results of the self-assessment questionnaire with the Committee. The UTIMCO Risk Charter requires the Committee to evaluate the Committee’s performance, both of the individual members and collectively, on a regular basis. The last self-assessment was performed in June 2013.</p> <p>The Committee reviewed the quarterly compliance reporting and heard updates on the market and portfolio risk.</p>
<b>Recommendation:</b>	The Committee will recommend that the UTIMCO Board take appropriate action related to the proposed amendments to the Charter.
<b>Reference:</b>	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 21, 2019~~March 24, 2020, supersedes the Charter adopted by the Board on ~~February 20, 2014~~February 21, 2019.

### 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; and
- 6) 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 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 is reported to the Chief Compliance Officer; and
- The Committee will monitor the reports provided by the Managing Director - Risk 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 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 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 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 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 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 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.

*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 all Funds and Assets Classes, resulting in six percent (6%) or

more exposure relative to the total Funds (excluding the ITF for Private Equity) on a quarterly basis;

- The Committee will review and approve the CEO's recommendation regarding an appropriate course of action for any manager mandate resulting in six percent (6%) or more exposure relative to the total Funds (excluding the ITF for Private 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 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 21, 2019~~ March 24, 2020.

**Agenda Item**  
UTIMCO Board of Directors Meeting  
March 24, 2020

**Agenda Item:** Report from Compensation Committee

**Developed By:** Moeller, Gonzalez

**Presented By:** Rothrock

**Type of Item:** Information Item

**Description:** The Compensation Committee (“Committee”) met on March 5, 2020. The Committee’s agenda included (1) discussion and appropriate action related to the approval of minutes of December 5, 2019 meeting; and (2) discussion of Committee’s self-assessment. The Committee also met in Executive Session for the purpose of deliberating individual personnel compensation and evaluation matters.

**Discussion:** Cissie Gonzalez shared the results of the self-assessment questionnaire with the Committee. The UTIMCO Compensation Charter requires the Committee to evaluate the Committee’s performance, both of the individual members and collectively, on a regular basis. The last self-assessment was performed in June 2013.

**Recommendation:** None

**Reference:** None

**Agenda Item**  
UTIMCO Board of Directors Meeting  
March 24, 2020

**Agenda Item:** Report from Policy Committee

**Developed By:** Gonzalez, Moeller

**Presented By:** Hicks

**Type of Item:** Information item

**Description:** The Policy Committee (“Committee”) met on March 5, 2020. The Committee’s agenda included: (1) discussion and appropriate action related to the approval of minutes of November 21, 2019 meetings; and (2) discussion of Committee’s self-assessment.

**Discussion:** Cissie Gonzalez shared the results of the self-assessment questionnaire with the Committee. The UTIMCO Policy Charter requires the Committee to evaluate the Committee’s performance, both of the individual members and collectively, on a regular basis. The last self-assessment was performed in June 2013.

**Recommendation:** None

**Reference:** None