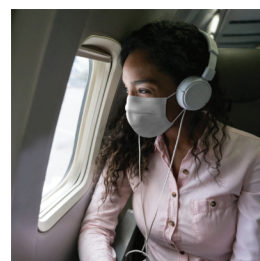
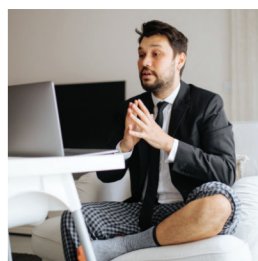


2020

ANNUAL REPORT



A year like no other.



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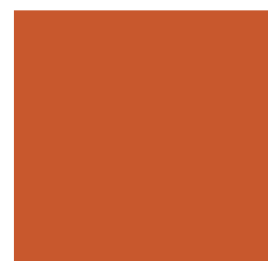
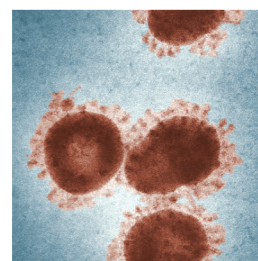


Photo Credit to The University of Texas at Austin

UTIMCO at a Glance

- Created March 1996
- U. T. System Board of Regents has fiduciary responsibility for investment assets that belong to The University of Texas and Texas A&M Systems
- Day-to-day management responsibility for the investment assets is delegated to UTIMCO professionals
- \$52.1 billion in assets under management as of August 31, 2020
- Invested in a diversified portfolio that includes US and global equities, fixed income investments, real estate, private equity, venture capital, foreign currencies, commodities, and hedge funds
- Governed by a nine-member board consisting of:
 - At least three members of the U. T. System Board of Regents,
 - Four members appointed by the U. T. System Board of Regents, three of which must have substantial background and expertise in investments, and
 - Two members appointed by the Texas A&M System Board of Regents, one of which must have a substantial background and expertise in investments



Our Mission

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



Total Endowment Results

For the year ended August 31, 2020, the Permanent University Fund (PUF) and the General Endowment Fund (GEF) returned +9.5%. The value added by the active management decisions of the UTIMCO team was +3.1% over the Endowments' Benchmark Policy Portfolio returns of +6.4%. In dollar terms that equates to approximately \$1.1 billion of value added to the Endowments by UTIMCO's investment strategy.

Over this same period, the total value of the Endowments grew from \$35.5 billion to \$39.6 billion, an increase of \$4.1 billion. Total assets managed by UTIMCO grew by \$4.4 billion to end the year at \$52.1 billion. The Total Endowment assets managed by UTIMCO rank second in size relative to all other endowments in America.

Market Conditions

Fiscal 2020 was an extraordinary year that saw the end of the longest US economic expansion on

record. The economic shutdown resulting from the Covid-19 pandemic resulted in the sharpest and shortest US recession in history. Policy makers engaged in unprecedented monetary and fiscal stimulus, which helped equity markets recover their steep losses and go on to produce well above average returns for the year. The deep recession plus massive policy stimulus suppressed US Treasury bond yields to historic lows and appears to have ushered in a new bear market for the US dollar. In another monumental event for markets, the Federal Reserve decided to abandon its 2% inflation ceiling in favor of a symmetrical target that would allow inflation to run significantly above 2% for an extended period. For the first time since 1980, the Fed will be overtly trying to generate higher inflation to make up for previous shortfalls over the last decade.

UTIMCO's investment performance during the fiscal year was positive, but it followed the same volatile path as the broader financial markets which were heavily impacted by the global pandemic. Fortunately, we were prepared for the volatility with a sound contingency plan, which allowed us to be proactive to begin purchasing stocks in and through the decline during February and March when long-term equity valuations became more attractive and fixed income valuation more expensive. UTIMCO returns went negative on the year in March as



Photo Credit to The University of Texas at Austin



Photo Credit to The University of Texas at Austin



Figure 1

Economic and Financial Condition Indicators¹

	August 31, 2019	August 31, 2020	Total Change
S&P 500			
Price	2,926.5	3,500.3	+19.6%
Price/Earnings Ratio (Forward/Trailing)	16.6/19.3	22.7/ 26.8	+6.1/ +7.5
Volatility	15.4	29.5	14.1%
US UNEMPLOYMENT (%)	3.7	8.4	4.7%
10-YEAR TREASURY-NOTE YIELD (%)	1.5	0.7	-0.8%
NOMINAL GDP GROWTH YEAR OVER YEAR (%)	3.8	-1.8	-5.6%
INFLATION YEAR OVER YEAR (%)	1.7	1.3	-0.4%
FEDERAL FUNDS RATE (%)	2.13	0.09	-2.0%
SIZE OF FEDERAL BALANCE SHEETS (\$, TRILLIONS)	\$3.7	\$7.0	\$3.2

¹ Source: Bloomberg



the markets declined precipitously. However, like the market for risk assets, our performance rallied strongly in the spring and summer to finish up +9.5% with an unusually high value added of +3.1%. Our “strong hands” and longer-term approach were especially valuable in fiscal 2020. UTIMCO’s balanced strategic asset allocation provided ballast during the downturn and positioned the Endowments to meaningfully participate as markets rallied on economic recovery and a hoped-for medical solution to the health crisis.

Asset Allocation

The Endowments’ goals are to produce attractive long-term returns within a sound and well diversified asset allocation structure that is professionally and prudently implemented. In order to achieve these goals over time, four complementary investment portfolios are simultaneously maintained.

- A Global Equity portfolio designed to capture the increase in the value of companies driven by the revenue growth and improved corporate profits that generally accompany periods of positive Gross Domestic Product (GDP) growth and moderate inflation.
- A Stable Value portfolio intended to provide diversification against deflationary conditions (e.g., typical recessions) which see slowing GDP growth and falling profits that generally result in a decline in equity values.
- A Real Return portfolio intended to provide diversification against the wealth-eroding effects on asset values that result from periods where inflation exceeds expectations.
- Strategic Partnerships are large, liquid, multi-asset class investment mandates that are intended to generate market beating returns via tactical allocation and security selection.

Set out in Figure 2 on the next page is the Endowments’ current asset allocation to the various components of each of the four strategies.



Photo Credit to The University of Texas at Austin



Figure 2

Endowments Asset Allocation

as of August 31,

	2020		2019	
GLOBAL EQUITY				
Public Equity	\$12,311	31.1%	\$10,831	30.5%
Directional Hedge Funds	4,090	10.3%	4,221	11.9%
Private Equity	8,881	22.5%	7,531	21.2%
TOTAL GLOBAL EQUITY	25,282	63.9%	22,583	63.6%
STABLE VALUE				
Global Fixed Income	3,077	7.8%	3,267	9.2%
Stable Value Hedge Funds	3,461	8.7%	2,621	7.4%
Cash and Other Assets/Liabilities	220	0.6%	397	1.1%
TOTAL STABLE VALUE	6,758	17.1%	6,285	17.7%
REAL RETURN				
Inflation Linked Bonds	498	1.3%	-	0.0%
Gold and Commodities	50	0.1%	491	1.4%
Natural Resources	2,357	6.0%	2,522	7.1%
Infrastructure	1,067	2.7%	800	2.3%
Real Estate	2,561	6.4%	2,791	7.9%
TOTAL REAL RETURN	6,533	16.5%	6,604	18.7%
STRATEGIC PARTNERSHIPS	981	2.5%	-	0.0%
TOTAL ENDOWMENTS	\$39,554	100.0%	\$35,472	100.0%

Investment Philosophy—Creating Long-Term Returns

The Endowments are managed as long-term investment funds with a time horizon exceeding that of most other investors. They have consistent sources of funding with relatively low and reasonably predictable short-term distribution requirements. As a result, the Endowments can assume significant equity risk as well as higher levels of illiquidity than the typical investor. These two factors alone should typically produce higher long-term returns relative to most other funds. When combined with effective risk systems and risk management, attractive and consistent results have been achieved.

In addition, other factors are key to creating superior risk-adjusted long-term returns.

The Risk-Free Rate

The returns available to an investor without taking incremental risk have declined meaningfully over the past 20+ years. Using the ten-year US Treasury Bond as a proxy, this rate dropped from 5.7% in August 2000 to 0.9% today. When taking

inflation into account, the deterioration is even more pronounced as the real, inflation-adjusted 10-year rate has dropped from 2.3% in 2000 to -0.3% in 2020. Assuming that most endowment investors are trying to earn returns of 5% in excess of inflation, risk-free longer term government bonds are simply no longer helpful in achieving an investor's return goals but can still have low correlation to equities in recessions, providing diversification.

Creating "Alpha" (Returns that Exceed Passive Benchmarks)

To consistently generate investment returns above well-known market indices that serve as passive benchmarks requires both skill and the assumption that markets are not completely efficient, or that their efficiency varies over time and across market cycles. Over the past one and five-year periods UTIMCO's portfolios have produced the results shown in Figure 4 versus relevant benchmarks for each asset class.

Aligning Costs

UTIMCO presents the investment returns of the Endowments net of all investment costs incurred in UTIMCO's day-to-day management of the assets under their fiduciary responsibility. This includes but is not limited to, the UTIMCO management fee, external manager fees and custody fees. UTIMCO's management fee has averaged approximately ten basis points since its inception.

Figure 3

Annualized Returns

(Periods Ending August 31, 2020)

	TEN YEARS		TWENTY YEARS	
	Endowments	Policy Benchmark	Endowments	Policy Benchmark
Return	8.04%	6.86%	6.33%	4.76%
Volatility	5.81%	6.13%	7.60%	7.69%
Sharpe Ratio ¹	1.28	1.02	0.62	0.41
UTIMCO Excess Return	1.18%		1.57%	
UTIMCO Value Added (in billions)	\$4.1		\$10.4	

¹Sharpe Ratio is the average return earned in excess of the risk free rate per unit of volatility or total risk.

To achieve cost alignment, UTIMCO seeks to negotiate fees with external managers that are below market and where the manager's incentives are aligned with the generation of superior financial returns for the UT and Texas A&M Systems. Recently, UTIMCO has been collaborating with its key investor relationships to assure that the

Endowments receive either a high return or a substantial portion of any excess return over a properly constructed passive benchmark. Attractive co-investment opportunities are also developed with key investment relationships which add to returns and reduce costs.

Figure 4

Investments Returns by Portfolio

	ONE YEAR			FIVE YEARS		
	Return	Benchmark	Over/(Under)	Return	Benchmark	Over/(Under)
GLOBAL EQUITY						
Public Equity	20.6%	16.2%	4.4%	10.7%	10.0%	0.7%
Directional Hedge Funds	7.6%	5.1%	2.5%	5.0%	2.8%	2.2%
Private Equity	11.3%	8.7%	2.6%	10.9%	9.5%	1.4%
TOTAL GLOBAL EQUITY	15.0%	12.2%	2.8%	9.0%	8.2%	0.8%
STABLE VALUE						
Global Fixed Income	6.4%	3.3%	3.1%	4.6%	4.2%	0.4%
Stable Value Hedge Funds	5.6%	0.5%	5.1%	4.7%	2.3%	2.4%
TOTAL STABLE VALUE	5.9%	1.9%	4.0%	4.6%	3.4%	1.2%
REAL RETURN						
Natural Resources	(18.2%)	(23.6%)	5.4%	0.7%	(1.3%)	2.0%
Infrastructure	(1.3%)	3.3%	(4.6%)	10.4%	8.0%	2.4%
Real Estate	(0.3%)	(2.0%)	1.7%	10.5%	6.7%	3.8%
TOTAL REAL RETURN	(6.1%)	(8.7%)	2.6%	5.8%	3.7%	2.1%
TOTAL ENDOWMENTS	9.5%	6.4%	3.1%	7.8%	6.8%	1.0%

Investment Philosophy–Risk Management

Managing risk is central to the execution of any investment process and is a priority for the UTIMCO team. This is done primarily by focusing on longer-term outcomes rather than short-term results; prudent and effective diversification; a series of risk systems that monitor economic and market conditions; and professional collaboration with both the UTIMCO Board of Directors and a global network of investment organizations. Most importantly, UTIMCO maintains an organization of high character and professional investment personnel dedicated to integrity and transparency.

The objective of our risk management processes is not to avoid all risk, but rather to manage through various environments effectively by assuring that UTIMCO is properly compensated for any risk taken and is always the “strong hand” in the market. This allows us to not only weather the inevitable and unpredictable financial storms, but also to take advantage of the unique investment opportunities that those “bad times” often produce.

Markets gyrate through repeating but difficult-to-anticipate patterns as they work their way through both short and longer-term cycles. Short-term cycles are driven primarily by business conditions and are comprised of corrections, recoveries, and expansions. At this time, equity markets are generally in expansion having reclaimed their previous peaks. Longer-term cycles are generally driven by debt levels. The amount of debt in the

economy has risen substantially over the past several decades and is likely to be less of a stimulus to economic activity going forward. In fact, at some point, deleveraging is likely, although the pace has, so far, been slow. Should interest rates rise meaningfully, deleveraging would likely be accelerated, and economic conditions would likely deteriorate.

In March of 2020, the US stock market experienced one of the sharpest bear markets ever – a 34% decline in just 23 trading days. The decline was pricing in the large, expected decline in economic activity as a result of Covid-19. As it turned out, GDP did decline by 7.9% in the April to June quarter, which is 34.1% on an annualized basis. Interestingly, this bear market was the shortest ever, and by August of 2020 the equity markets had fully recovered and were setting new highs. UTIMCO had a plan for such a bear market and was a buyer of equities at the trough. At the present time, valuations are above historical norms while other conditions remain generally benign. Whenever the next “bear market” occurs, the Endowments will likely decline in a range between -16% and -36%, with a baseline outcome of approximately -23%.

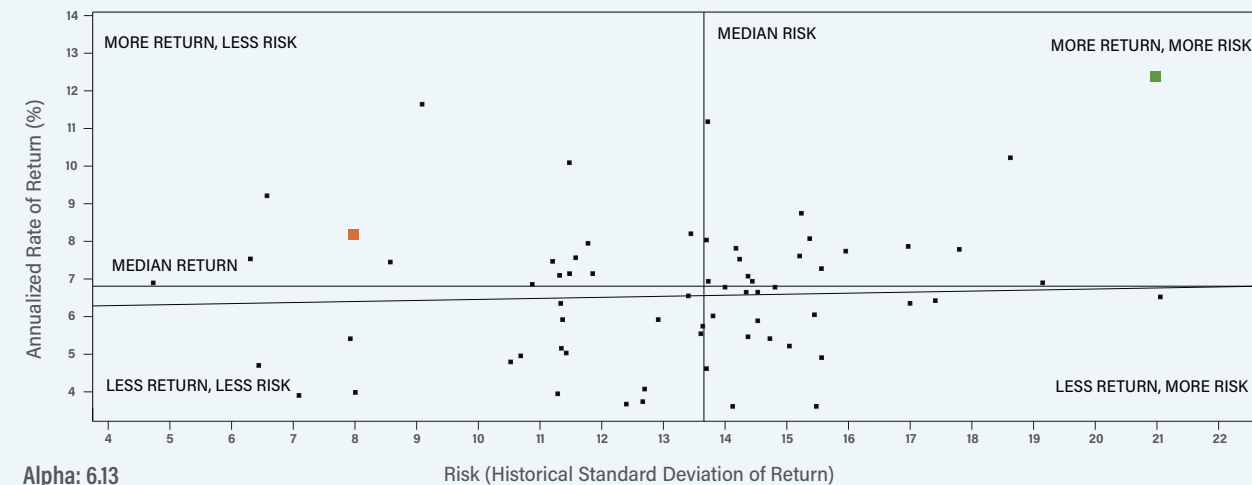
Over the past three years, UTIMCO has taken less risk than 90% of other similar funds while producing a three-year return exceeding the peer median and a passive benchmark.



Figure 5

Trust Universe Comparison Service Risk vs Total Returns of Master Trusts – Foundation & Endowment

3 Years Ending September 30, 2020



Alpha: 6.13
Beta: 0.03
R-Squared: 0

	Risk Value	Risk Rank	Return Value	Return Rank
■ GEF TOTAL FUND	8.03	90	7.97	14
■ S&P 500	21.03	1	12.28	1
MEDIAN	13.65		6.73	

Future Outlook

Short-term investment returns are largely driven by variations in economic conditions relative to what markets are currently pricing in. Today, financial markets are anticipating a full recovery in the global economy and persistent low interest rates. As a result, the value of investment assets has increased significantly and are well ahead of a true recovery in the economy. Valuations are relatively high across most markets which generally is an indicator of muted future investment returns. Based on these conditions, we expect that endowments will grow more slowly over the next several years, with a reasonable baseline for expected investment returns in the 4% to 7% range. Whatever the future holds, UTIMCO will continue to apply sound investment practices, maintain a resilient and

diversified portfolio, and strive to generate returns above and beyond those delivered by the markets.

Thank you for your continued dedication to the important work that these endowments support.

Sincerely yours,

Britt Harris
President, CEO and Chief Investment Officer

UTIMCO Board of Directors



Jeffery D. Hildebrand
Chairman



Ray Rothrock
Vice Chairman



R. Steven Hicks
Vice Chairman for Policy



Janiece Longoria



Robert Gauntt



Janet Handley



Ray Nixon



Clifton L. Thomas, Jr.



James Conrad Weaver

Jeffery D. Hildebrand **Former Member and Vice Chairman:** Board of Regents, The University of Texas System / **Founder and Chairman:** Hilcorp Energy Company / **Recipient:** 2005 Distinguished Engineering Graduate Award, The University of Texas at Austin; 2013 Petroleum & Geosystems Engineering Distinguished Alumnus Award, The University of Texas at Austin; Texas Oil & Gas Association Distinguished Service Award / **Board Member:** Central Houston, Inc.; Houston Livestock Show and Rodeo; Houston Police Foundation; The Hildebrand Foundation; Caesar Kleberg Wildlife Research Institute; Central Houston Civic Improvement; Rice University's Baker Institute for Public Policy; Texas State Parks and Wildlife Commission / **Commissioner:** Texas Parks & Wildlife Commission

Ray Rothrock **Chair:** UTIMCO Compensation Committee; UTIMCO Cyber Risk Committee / **Member:** UTIMCO Risk Committee; Forbes Midas List; Corporation for the Massachusetts Institute of Technology, Nuclear Threat Initiative / **Executive Chairman:** RedSeal, Inc. / **Partner Emeritus:** Venrock / **Recipient:** 2016 Texas A&M University Distinguished Alumnus Award / **Past Chairman:** National Venture Capital Association / **Board Member:** Check Point Software Technology (NASDAQ: CHKP); Roku (NASDAQ: ROKU); Several Private Companies including Team8, Shape Security, CTERA, Unbound Tech, and Tri Alpha Energy; BreakThrough Institute; Nuclear Threat Initiative; Carnegie Institute of Science; Computer History Museum / **Speaker:** Cyber Security, Venture Capital, Nuclear Energy, Climate Change & Energy Policy in general / **Co-Executive Producer:** Pandora's Promise and Chasing the Moon Documentaries / **Advisor:** Nuclear Energy Advisory Committee (DOE)

R. Steven Hicks **Chair:** UTIMCO Policy Committee / **Chairman:** Board of Regents, The University of Texas System - Finance and Planning and Committee / **Member:** Board of Regents, The University of Texas System; Board of Regents, The University of Texas System - Academic Affairs Committee; Board of Regents, The University of Texas System - Facilities Planning and Construction Committee; Board of Regents, The University of Texas System - Health Affairs Committee / **Former Vice Chairman:** Board of Regents, The University of Texas System / **Executive Chairman:** Capstar Partners, LLC

Janiece Longoria **Member:** UTIMCO Risk Committee; UTIMCO Cyber Risk Committee; Board of Regents, The University of Texas System - Academic Affairs Committee; Board of Regents, The University of Texas System - Finance and Planning Committee; System Review and Structure Task Force; Board of Regents, The University of Texas System - Audit, Compliance, and Risk Management Committee / **Vice Chairman:** Board of Regents, The University of Texas System / **Chairman:** Board of Regents, The University of Texas System - Health Affairs Committee / **Board Member:** Federal Reserve Bank of Dallas, Houston Division; Superior Energy Services, Inc.; M.D. Anderson Services Corporation / **Founder:** Center for Women in Law at The University of Texas School of Law / **Recipient:** The University of Texas Distinguished Alumnus Award; The University of Texas President's Citation Award; The University of Texas School of Law Distinguished Alumnus Award; Houston Port Bureau Maritime Person of the Year for 2017 / **Chairman:** Port Houston, 2013 to January 31, 2019 / **Commissioner:** Port Houston, 2002 to January 31, 2019

Robert Gauntt **Chair:** UTIMCO Risk Committee / **Member:** UTIMCO Compensation Committee; UTIMCO Cyber Risk Committee; The University of Texas Chancellor's Council Executive Committee; The University of Texas at Austin McCombs School of Business Advisory Board; Ascend Mission Academy - Mozambique; RBI Austin / **Founding Partner:** Avalon Advisors, LLC (2001-2018); Capital Creek Partners (2019-Present) / **Former Chairman:** Investment Committee and Risk Management Committee of the Teacher Retirement System of Texas Board of Trustees / **Former Member:** Houston Council on Alcohol and Drugs; Texas Growth Fund Board; Endowment Committee at River Oaks Baptist School and Pro-Vision School Houston; Greater Houston Church Board and Inner City Youth Board / **Letterman:** The University of Texas at Austin - 1983 NCAA Division I National Championship Baseball Team

Janet Handley **Chair:** UTIMCO Audit and Ethics Committee / **Member:** UTIMCO Policy Committee; UTIMCO Compensation Committee; A&M Legacy Society; Texas Wall Street Women; Greater Texas Foundation - Investment Committee / **Former Vice President for Investments:** Texas A&M Foundation / **Investment Committee Advisor:** Society of Petroleum Engineers / **Former Member:** Venture Capital Advisory Council - Commonfund Capital

Ray Nixon **Member:** UTIMCO Compensation Committee; UTIMCO Policy Committee; The University of Texas at Austin McCombs School of Business Advisory Council; UT Southwestern Foundation Investment Committee / **Chairman:** Nixon Capital; Texas Health Resources Endowment Investment Committee / **Trustee:** UT Southwestern Foundation - Investment Committee / **Inductee:** The University of Texas McCombs School of Business Hall of Fame / **Board Member:** Dallas Seminary Foundation / **Former Board Member:** Salvation Army; East West Ministries; Presbyterian Foundation; Dallas Police & Fire Pension Plan; Susan G. Komen Investments; CFA Society of DFW Strategic Advisory Board; **Co-Chairman:** The University of Texas at Austin McCombs School of Business Capital Campaign

Clifton L. Thomas, Jr. **Member:** UTIMCO Audit and Ethics Committee; UTIMCO Policy Committee; Board of Regents, The Texas A&M University System - Committee on Finance; St. Joseph High School Board of Directors / **Member, Past Chairman and Former Vice Chairman:** Board of Regents, The Texas A&M University System / **Chair:** Board of Regents, The Texas A&M University System - Committee on Academic and Student Affairs / **President, Owner, CEO:** C.L. Thomas, Inc.; Speedy Stop Food Stores; Thomas Fuels / **Owner, Chairman and Board Member:** Pilot Thomas Logistics / **Former Board Member:** Guadalupe-Blanco River Authority; DeTar Hospital System; Wells Fargo Bank

James Conrad "Rad" Weaver **Member:** UTIMCO Audit and Ethics Committee; UTIMCO Risk Committee; Board of Regents, The University of Texas System - Audit, Compliance, and Risk Management Committee; Board of Regents, The University of Texas System - Facilities Planning and Construction Committee; Board of Regents, The University of Texas System - Finance and Planning Committee / **Vice Chairman:** Board of Regents, The University of Texas System / **Chairman:** Board of Regents, The University of Texas System - Academic Affairs Committee; University Lands Advisory Board, Chair / **Chair and CEO:** CW Interests / **Board Member:** Cox Enterprises; KB Homes; Circuit of the Americas; Milestone Brands

UTIMCO Leadership Team



Britt Harris
President, CEO and Chief
Investment Officer



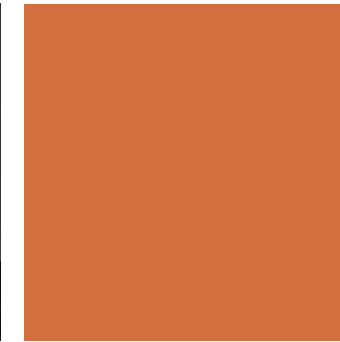
Susan Chen
Managing Director –
Public Equity



Carolina De Onis
Managing Director and
General Counsel



Michael Dean
Managing Director –
Human Resources



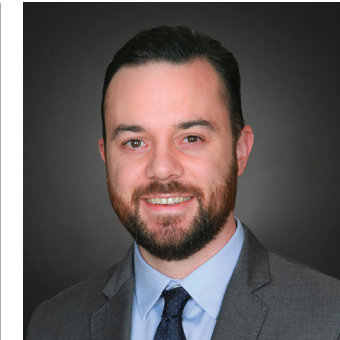
Anna Cecilia Gonzalez
Corporate Counsel and
Chief Compliance Officer



J. Russell Kampfe
Managing Director –
Fixed Income



Edward Lewis
Managing Director –
Real Return



Drury Morris
Chief of Staff



Patrick Pace
Managing Director –
Private Equity



Rich Hall
Deputy Chief Investment
Officer



Joan Moeller
Senior Managing Director
and Chief Operating Officer



Ryan Ruebsahm
Managing Director –
Hedge Funds



Mike Sjolander
Managing Director –
Chief Technology Officer



Scott Slayton
Managing Director –
Tactical Asset Allocation



Uziel Yoeli
Managing Director –
Risk Management

