



2023 Annual Report

INVESTING IN TOMORROW TODAY

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

UTIMCO AT A GLANCE

CREATED MARCH 1996

UT 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.

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 UT System Board of Regents,
- Four members appointed by the UT System Board of Regents, three of which must have a 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.

21
OUR WORK IMPACTS
21 INSTITUTIONS ACROSS TWO
OF OUR NATION'S LARGEST
UNIVERSITY SYSTEMS

\$70.1
BILLION
IN ASSETS
as of August 31, 2023



**LETTER FROM THE
PRESIDENT, CEO
AND CIO**



MARKET CONDITIONS AND FUTURE OUTLOOK

The Fiscal Year that ended on August 31, 2023 was, in many ways, a mirror image of Fiscal Year 2022. The pace of inflation moderated, the Federal Reserve slowed the pace of interest rate hikes, the US Dollar lost value relative to other currencies, the economy continued to grow and major equity indices rose in value. So far, the 2020's have been characterized by higher volatility in markets, and we should be prepared for this to continue.

Ongoing normalization in global supply chains and a downward move in prices for goods and commodities contributed to slowing inflation with the US Consumer Price Index (CPI) moving from an annual rate of 8.3% last fall to 3.7% by August 2023. Even Core CPI (ex-food and

energy), the preferred measure for central banks, dropped from 6.3% to 4.3%.

Monetary policies continued to tighten, both explicitly and implicitly, with the US Federal Funds Rate reaching 5.3% by the end of August, its highest level since 2001. Tighter monetary conditions have also helped slow the rate of inflation and allowed the Federal Reserve and other Central Banks to indicate that policy rates should be approaching a more stable period after their rapid rise of the last eighteen months. This backdrop made earning positive returns on bond investments difficult with the dollar-hedged Global Aggregate Bond Index gaining only 0.6% and the Bloomberg Long Treasuries Index declining -9.7%.

Equity markets appreciated a moderation in the pace and magnitude of rate hikes over the course of the year as well as continued strength in the US economy. Price-to-Earnings (P/E) valuation multiples stabilized along with earnings. This cushioning effect allowed the S&P 500 to rise 14% and the Morgan Stanley Capital International (MSCI) All Country World Index to gain 11.9%. Technology companies very narrowly led the market, especially those with an emphasis on Artificial Intelligence products.

The Permanent University Fund (PUF) and the UT System General Endowment Fund (GEF) (the "Endowments") returned 4.7% and 4.6%, respectively, for Fiscal Year 2023, largely recovering from the decline of Fiscal 2022. UTIMCO's investments in Public Equities, Strategic Partners and Private Infrastructure were positive contributors to our returns. Over the year, the total value of the Endowments grew from \$52.2 billion to \$55.5 billion, an increase of \$3.3 billion, and total assets managed by UTIMCO grew by \$4.9 billion to end the year at \$70.1 billion.

We expect this economic and market cycle will continue to be challenging for investors. Among the forecasts we monitor, even the more positive projections of future economic growth see a higher-than-normal probability of recession and the shortest economic cycle since the early 1980's. Flat earnings growth, a US Dollar at historically high valuation suppressing global competitiveness, the highest interest rates in a generation, and constricting credit growth within the banking system are all headwinds to investment returns. Perhaps the Federal Reserve can thread the needle and lead the economy to a soft landing and the kind of elongated expansion that markets have enjoyed for the past 40 years, but, either way, UTIMCO will be paying close attention in order to be prepared for all types of markets.

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

Sincerely,

Richard Hall

Richard Hall
President, CEO and CIO

Figure 1

ECONOMIC AND FINANCIAL CONDITION INDICATORS ¹			
	August 31, 2022	August 31, 2023	Total Change
INFLATION (CONSUMER PRICE INDEX) YEAR OVER YEAR (%)	8.3	3.7	-4.6%
NOMINAL GDP GROWTH YEAR OVER YEAR (%)	9.1	5.9	-3.2%
FEDERAL FUNDS RATE (%)	2.3	5.3	3.0%
10-YEAR TREASURY-NOTE YIELD (%)	3.2	4.1	0.9%
S&P 500			
PRICE	3,955.0	4,507.7	14.0%
PRICE/EARNINGS RATIO (FORWARD)	16.9	19.1	2.2
US UNEMPLOYMENT (%)	3.7	3.8	0.1%
SIZE OF FEDERAL BALANCE SHEETS (\$, TRILLIONS)	\$8.8	\$8.1	-\$0.7

¹ Source: Bloomberg

INVESTMENT PHILOSOPHY - CREATING LONG-TERM RETURNS

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. To achieve these goals over time, we invest the assets in four primary portfolios.

- 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 economic conditions, moderate inflation, and rising profits. Global Equity includes investments in public equities, private investments, venture capital and directional hedge funds.
- A Stable Value portfolio provides diversification against deflationary conditions (e.g., typical recessions) which see slowing Gross Domestic Product growth and falling profits that generally result in a decline in equity values. These are periods that generally suffer from suddenly

falling demand, leaving excess supply. Stable Value includes investments in global fixed income, long treasuries, stable value hedge funds and cash.

- A Real Return portfolio provides diversification against the wealth-eroding effects on asset values that result from periods where inflation exceeds expectations. Unexpected inflation typically stems from insufficient supply to accommodate positive demand. Real Return includes investments in inflation linked bonds, natural resources, infrastructure, and real estate.
- Strategic Partnerships are large, liquid, multi-asset class investment mandates that are intended to generate market beating returns via tactical allocation and security selection.

Our current allocations are very close to the target levels specified in our long-term Strategic Asset Allocation which was comprehensively reviewed during the first half of 2023.

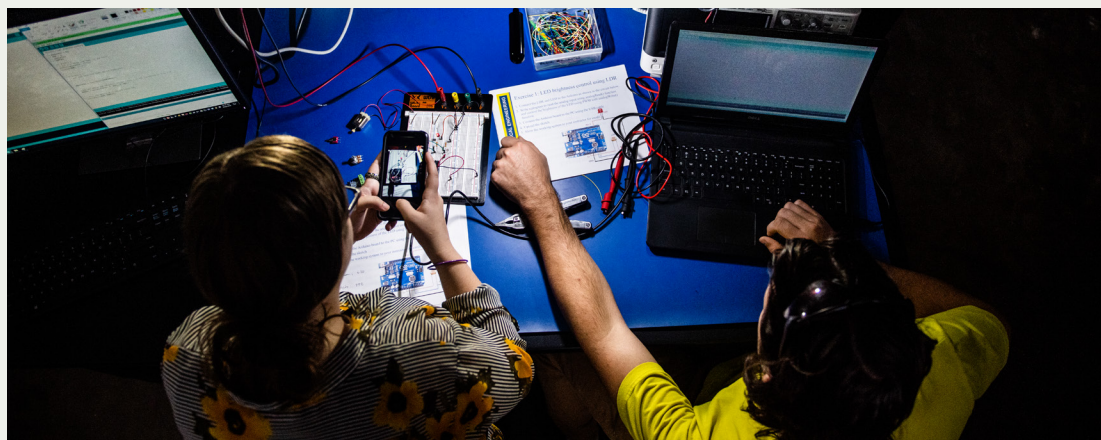
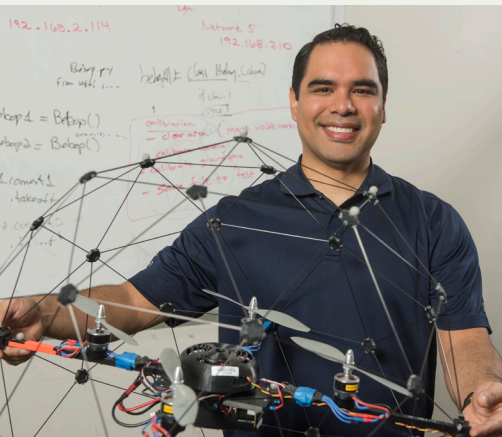
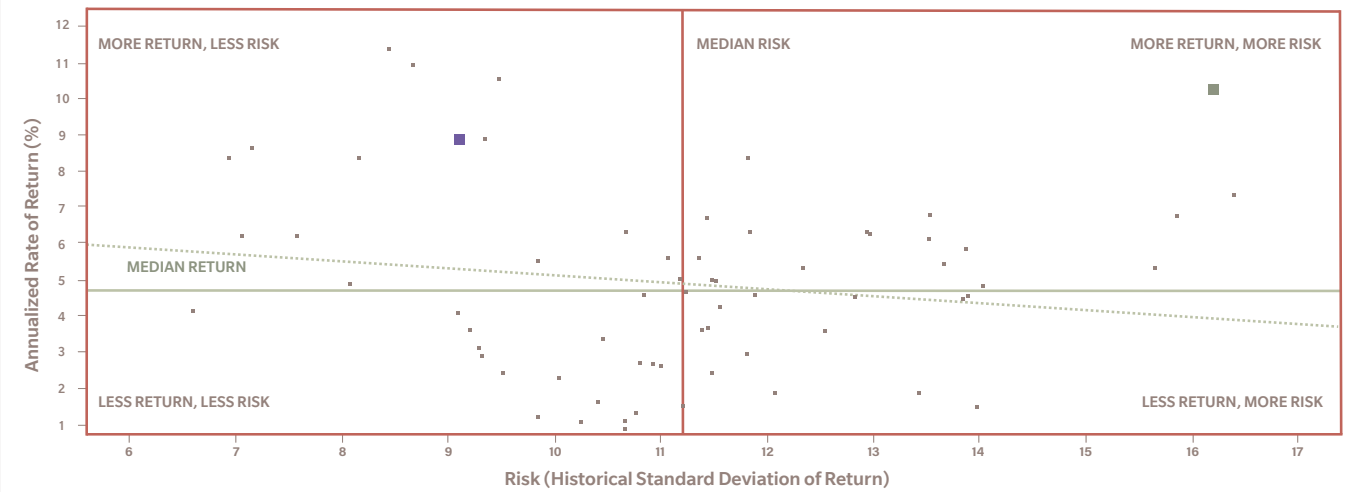


Figure 2

TRUST UNIVERSE COMPARISON SERVICE RISK VS TOTAL RETURNS OF MASTER TRUSTS - FOUNDATION & ENDOWMENT

3 Years Ending September 30, 2023



Alpha: 7.12
Beta: -0.19
R-Squared: 0.03

	Risk Value	Risk Rank	Return Value	Return Rank
GEF TOTAL FUND	9.14	84	8.79	8
S&P 500	16.25	2	10.15	4
MEDIAN	11.24		4.81	

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

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, professional investment personnel dedicated to integrity and transparency. The objective of our risk management processes is not to avoid all risk, but rather to navigate through

various market environments effectively by assuring that UTIMCO is properly compensated for any risk taken and is always a "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.

For the three years ended September 2023, both the PUF and each of UT System's donors earned a return that outperformed 92% of other foundations and endowments according to Trust Universe Comparison Service. Just as importantly, these higher returns have been achieved while taking less risk than 84% of comparable funds.

TOTAL ENDOWMENT RESULTS

Even though the investment markets were volatile and challenging during the fiscal year ended August 31, 2023, the Endowments rebounded from a difficult fiscal year 2022 to generate a healthy return of +4.7%. For that same period, the Endowment's Benchmark Policy Portfolio return ("Policy Return") was also +4.7%.

Endowment funds are intended to provide support to their designated beneficiaries in perpetuity, so they are invested with longer-term investment horizons in mind. In the short-term, financial markets can significantly fluctuate year over year, so as a better measure of the Endowments' performance it is important to evaluate investment returns over longer periods of time as shown in Figure 3 below. The annualized net investment return for the ten-year period ending August 31, 2023, was +8.1% compared to a Policy Return of +7.2%. Active management decisions over that period added +0.9% annually to the Endowments.

The investment returns of the Endowments are net of all investment costs incurred in UTIMCO's day-to-day management of the assets including the UTIMCO management fee, external manager fees and custody fees. UTIMCO's management fee has averaged approximately ten basis points since its inception.

Ten years ago, the Endowments had a value of \$22.2 billion. Since then, they have grown by \$33.3 billion, and ended Fiscal Year 2023 at \$55.5 billion, representing a 150% increase in the resources available to the university systems we serve. This growth is after all distributions to the beneficiaries of the Endowments,

which totaled \$15.7 billion during that same ten-year period.

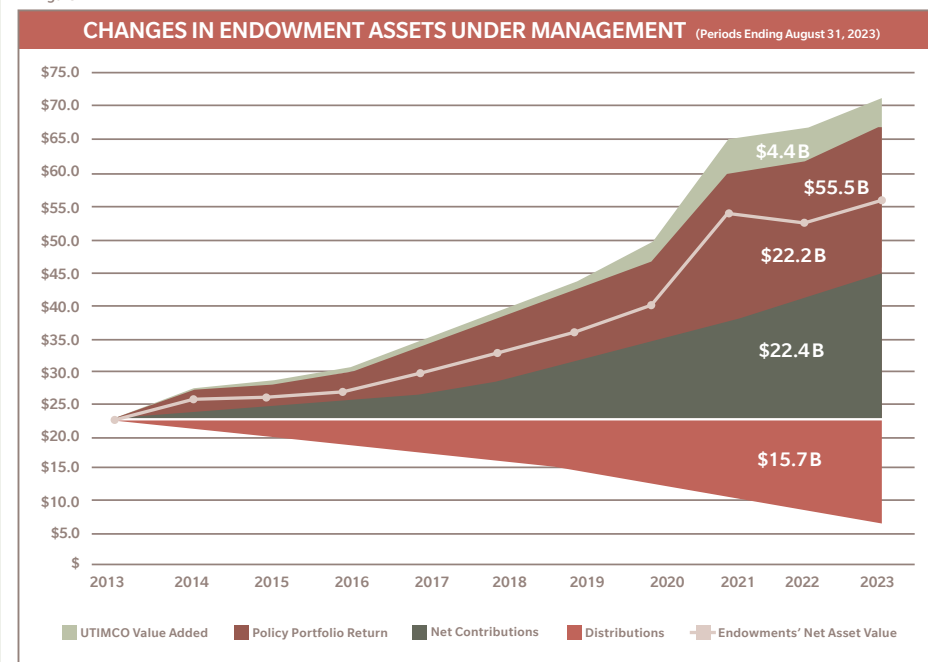
Distributions have increased at an annualized rate of 8.9% over the last ten years to \$2.1 billion last year, which is \$895 million higher than they were ten years ago.

The Total Endowment assets managed by UTIMCO continue to rank second in size relative to all other endowments in America.

Figure 3

	Policy Weight	ONE YEAR		THREE YEARS		FIVE YEARS		TEN YEARS	
		Return	Benchmark	Return	Benchmark	Return	Benchmark	Return	Benchmark
GLOBAL EQUITY	61.8%	6.7%	6.3%	10.5%	9.7%	10.3%	9.0%	9.7%	8.5
STABLE VALUE	15.3%	0.7%	0.9%	2.0%	1.0%	3.3%	2.3%	2.3%	2.3
REAL RETURN	17.9%	1.5%	1.4%	11.9%	12.5%	5.9%	6.1%	6.6%	6.6
STRATEGIC PARTNERS	5.0%	8.6%	8.5%	4.6%	3.1%	N/A	N/A	N/A	N/A
Total Endowments	100%	4.7%	4.7%	8.9%	8.5%	8.1%	7.2%	8.1%	7.1%
Excess Return		0.0%		0.4%		0.9%		1.0%	
Sharpe Ratio		0.1	0.1	0.9	0.9	0.8	0.7	1.1	1.0
Dollar Value Added (In Billions)		\$0.0		\$0.6		\$2.1		\$4.4	

Figure 4



INVESTING IN TOMORROW TODAY

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.

WHO BENEFITS FROM THE ENDOWMENTS

15 ACADEMIC INSTITUTIONS | 6 HEALTHCARE INSTITUTIONS
400,000 TOTAL STUDENTS

World-Class Education

- UTIMCO serves over 400,000 students across 15 academic institutions
- 100,000+ first generation college students
- 107,000 Pell Grant Recipients, representing 37% of undergraduates

Research & Discovery

- Over \$4.5B in research expenditures annually
- A new invention every 10 hours
- Five new patents every week
- A new company formed every eight days

Healthcare

- Care for over 2.7 million patients each year
- Life-changing and life-saving research
- 6 health institutions, training the next generation of practitioners
- MD Anderson is ranked #1 for cancer care in the United States

FISCAL YEAR
2023

**Endowment
Distributions Totaled**

**\$2.1 BILLION
TO SUPPORT**

THE UNIVERSITY OF TEXAS SYSTEM

- 9 Academic Institutions
- 5 Health Institutions

THE TEXAS A&M UNIVERSITY SYSTEM

- 6 Academic Institutions
- 1 Health Institution
- 6 Agencies

INVESTING IN TOMORROW TODAY

EMPOWERING TOMORROW'S LEADERS THROUGH UT'S PROMISE PLUS PROGRAM ENDOWMENT

The Board of Regents of the University of Texas System has championed a groundbreaking initiative — a remarkable \$300 million endowment — to empower undergraduates across UT institutions in their pursuit of higher education. This visionary endowment fuels the Promise Plus program, a beacon of hope designed to extend critical financial aid to deserving students attending eight UT academic institutions: UT Arlington, UT Dallas, UT El Paso, UT Permian Basin, UT Rio Grande Valley, UT San Antonio, UT Tyler, and Stephen F. Austin State University. Crafted through prudent investments by financial officers at The University of Texas System (UT System) and bolstered by the prosperous returns managed by UTIMCO.

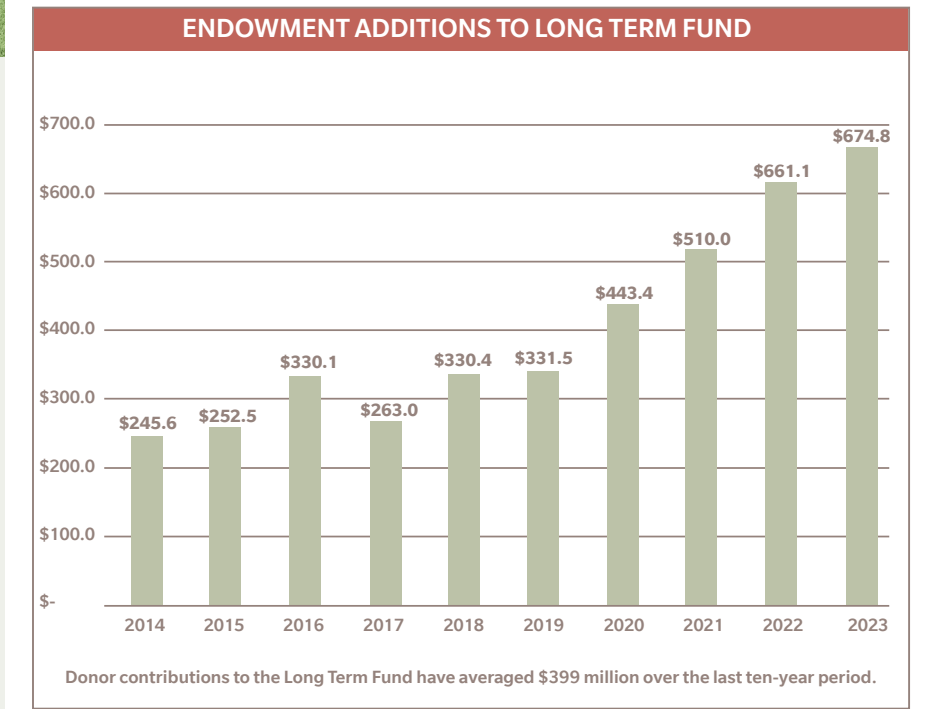
At present, each academic institution within the UT System offers programs covering 100 percent of tuition and mandatory fees based on family income ranging from \$65,000 to \$125,000 across the various institutions. The endowment distributions ensure that every participating institution receives a minimum of \$1 million annually, dedicated

to providing essential tuition relief to eligible students. This endowment resides in the UT System Long Term Fund (LTF), poised for steady growth, thereby amplifying annual allocations to institutions, and expanding opportunities for deserving students. The forward-looking vision and commitment of the Board of Regents of the UT System involves leveraging the Promise Plus program's generous funding to elevate income thresholds, ensuring wider access to financial aid as the endowment prospers. This approach promises enduring support for an increasing number of students, securing their tuition costs for years to come.

The advent of the Promise Plus program underscores the UT System's unwavering commitment to innovatively enhancing the affordability of higher education for Texans. By alleviating the financial burden associated with attending a UT System institution, this initiative ensures that a top-tier education remains within reach, reinforcing the UT System's position as a national leader in accessible, high-quality education.



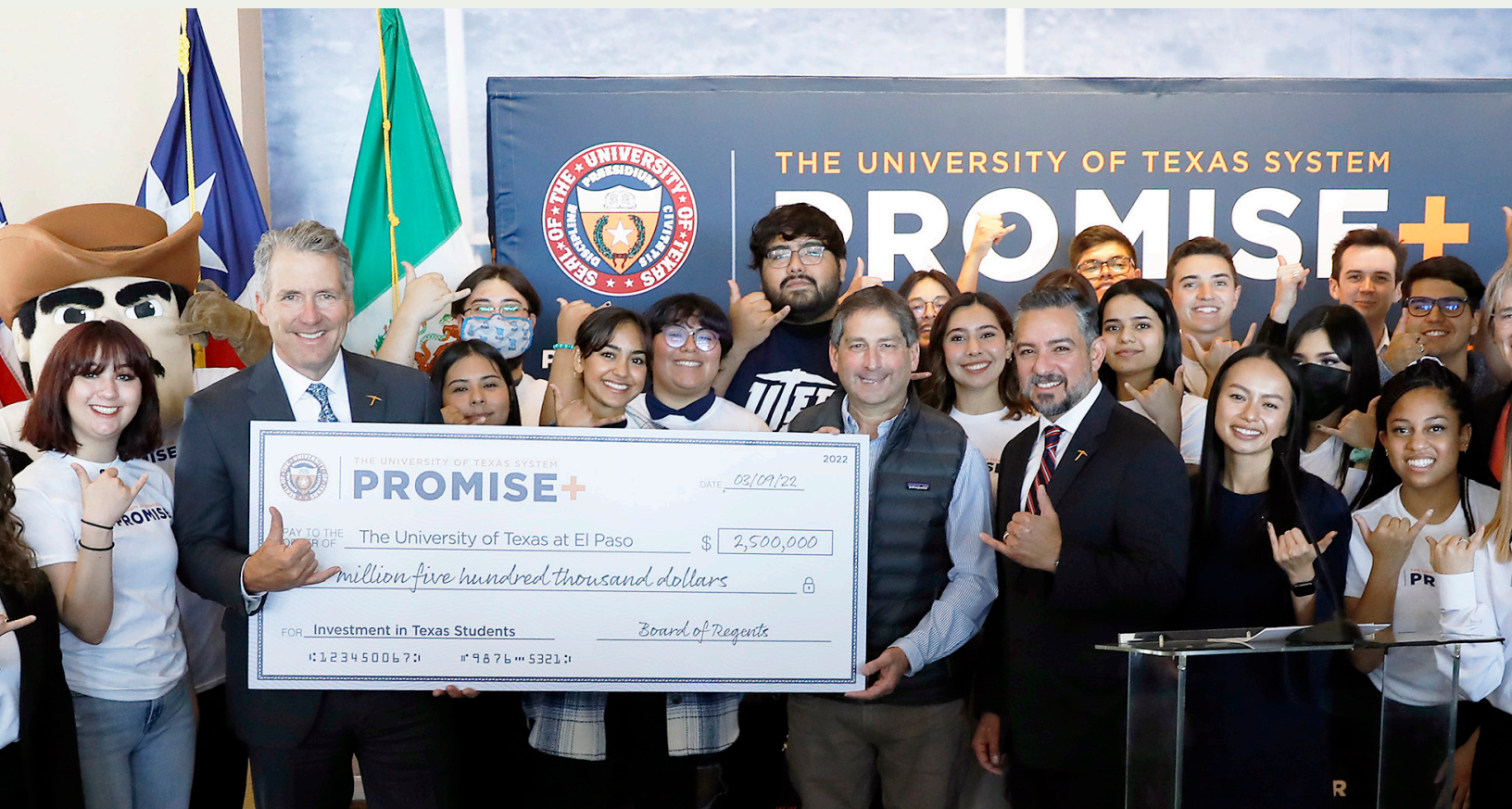
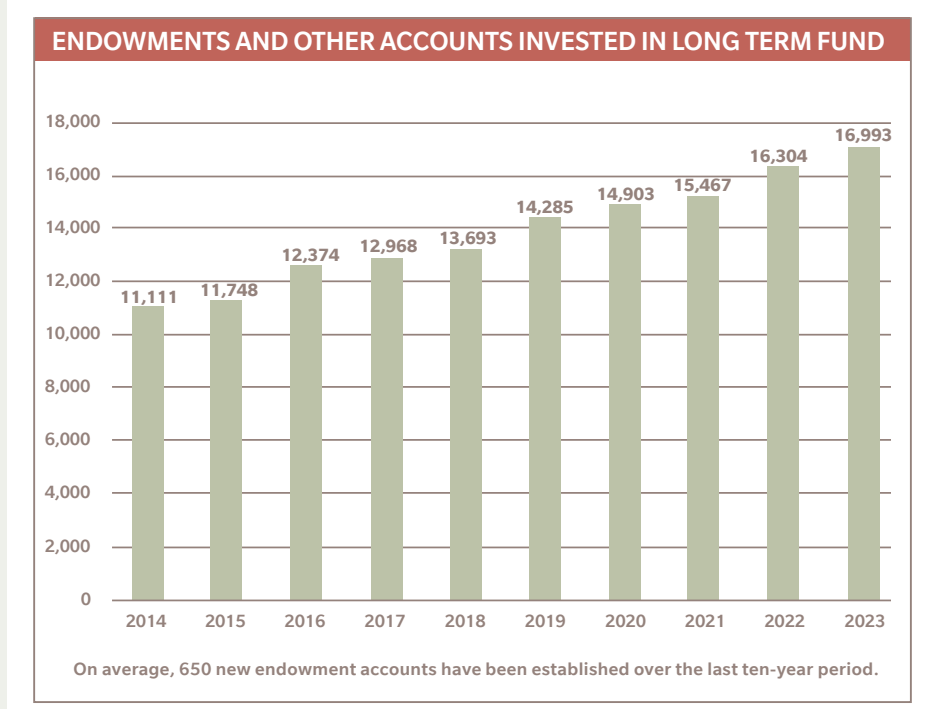
Figure 5



LTF GROWTH

The LTF is a pooled investment fund established for the collective investment of approximately 17,000 privately raised endowments and other long-term funds established to benefit the 15 institutions of the UT System. The LTF is invested in the GEF.

Figure 6



AUDIT AND ETHICS COMMITTEE

Jodie Lee Jiles, Chair
Howard Berk
Jay Graham
James B. Milliken

COMPENSATION COMMITTEE

Ray Nixon, Chair
Janet Handley
Janiece Longoria
Ray Rothrock

POLICY COMMITTEE

Janet Handley, Chair
Howard Berk
James B. Milliken
Ray Nixon

INVESTMENT RISK COMMITTEE

Janiece Longoria, Chair
Janet Handley
Jodie Lee Jiles
Ray Rothrock

CYBER RISK COMMITTEE

Ray Rothrock, Chair
Jay Graham
Jodie Lee Jiles
James B. Milliken



JAMES C. "RAD" WEAVER
Chairman



RAY ROTHROCK
Vice Chairman



JAMES B. MILLIKEN
Vice Chairman for Policy



HOWARD BERK



JAY GRAHAM



JANET HANDLEY



JODIE LEE JILES



JANIECE LONGORIA



RAY NIXON

LEADERSHIP TEAM



RICHARD HALL
President, CEO, and CIO



JOAN MOELLER
Senior Managing Director and COO



MUKUND JOSHI
Managing Director -
Real Return



J. RUSSELL KAMPFE
Managing Director -
Fixed Income



EDWARD LEWIS
Senior Managing Director -
Real Return



TONY CARUSO
Managing Director -
Hedge Funds



SUSAN CHEN
Senior Managing Director -
Public Equity



CAROLINA DE ONIS
Managing Director -
Chief Compliance Officer and General Counsel



PATRICK PACE
Managing Director -
Private Equity



COURTNEY POWERS
Managing Director -
Hedge Funds



RYAN RUEBSAHM
Senior Managing Director -
Hedge Funds



GUS DEERING
Managing Director -
Chief Technology Officer



GARY HILL
Managing Director -
Operations, Accounting and Reporting



AMANDA HOPPER
Managing Director -
Public Equity



CRAIG THOMAS
Managing Director -
Private Equity



ADAM WRIGHT
Chief of Staff



UZIEL YOELI
Managing Director -
Risk Management

INVESTING IN TOMORROW TODAY



THE UNIVERSITY OF TEXAS/TEXAS A&M
Investment Management Company