

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



Presentation Materials

Board of Directors Meeting

March 20, 2024

**UTIMCO BOARD OF DIRECTORS
MEETING AGENDA**

March 20, 2024

UTIMCO

210 West 7th 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 7, 2023 Meeting*
9:05 a.m.	9:10 a.m.	2	Discussion and Appropriate Action Related to Corporate Resolutions: - Designation of Annual Meeting of the UTIMCO Board* - Risk System Agreements*
9:10 a.m.	9:20 a.m.	3	CEO Update
9:20 a.m.	9:50 a.m.	4	Strategic Plan Update
9:50 a.m.	10:15 a.m.	5	Public Equity Presentation
10:15 a.m.	10:40 a.m.	6	Hedge Funds Presentation
10:40 a.m.	10:55 a.m.	7	Human Resources Presentation
10:55 a.m.	11:00 a.m.	8	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, 2023*
11:00 a.m.	11:05 a.m.	9	Report from Investment Risk Committee
11:05 a.m.	11:10 a.m.	10	Report from Cyber Risk Committee
11:10 a.m.	11:55 a.m.		Recess to Executive Session Pursuant to Section 551.074 <i>Texas Government Code</i> , the Board of Directors may convene in Executive Session to deliberate individual personnel matters. Reconvene into Open Session
11:55 a.m.	12:00 p.m.	11	Report from Compensation Committee
12:00 p.m.			Adjourn followed by Lunch

* 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.

Next Scheduled Meeting: June 20, 2024 (Annual Meeting)

RESOLUTION RELATED TO MINUTES

RESOLVED, that the minutes of the Meeting of the Board of Directors held on **December 7, 2023**, 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 (“UTIMCO” or the “Corporation”) convened in an open meeting on **December 7, 2023**, in person and by means of video and telephone conference enabling all persons participating in the meeting to hear each other, at the offices of the Corporation located at 210 West 7th Street, Suite 1700, Austin, Texas, said meeting having been called by the Chairman, James C. “Rad” Weaver (“Chairman”), with notice provided to each member in accordance with the Corporation’s 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:

James C. “Rad” Weaver
Ray Rothrock
James B. Milliken
Howard Berk
Jay Graham
Janet Handley
Jodie L. Jiles
Janiece Longoria
Ray Nixon

thus constituting a majority and quorum of the Board. Chairman Weaver called the meeting to order at 9:21 a.m. Employees of the Corporation attending the meeting were Richard Hall, President, CEO and CIO; Joan Moeller, Secretary and Treasurer; Carolina de Onís, General Counsel and Chief Compliance Officer; Alison Rogers-McCoy, Managing Director and Chief Human Resources Officer; and other team members. Other attendees included Jerry Kyle of Orrick, Herrington, & Sutcliffe LLP; Robert Cowley and Adrian Kusuma of Deloitte & Touche LLP; and Keith Brown of the McCombs School of Business at UT Austin. 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 28, 2023. Upon motion duly made and seconded, the following resolution was unanimously approved by the Board:

RESOLVED, that the minutes of the Meeting of the Board of Directors held on September 28, 2023, be, and are hereby, approved.

Corporate Resolutions

Election of Corporate Officer

Chairman Weaver asked Mr. Hall to present a recommendation for the appointment of Alison Rogers-McCoy to the office of Managing Director of the Corporation. Before introducing Ms. Rogers-McCoy to the Board, Mr. Hall took the opportunity to recognize and thank Ms. Ashley Fleming for her hard work as interim head of Human Resources. Mr. Hall then introduced Ms. Rogers-McCoy to the Board, including highlighting her career prior to joining UTIMCO. Ms. Rogers-McCoy then shared her excitement to join the team. Upon motion duly made and seconded, the following resolution was unanimously approved by the Board:

RESOLVED, that Alison Rogers-McCoy is hereby appointed to the office of Managing Director of the Corporation to serve until the next Annual Meeting of the Corporation or until her resignation or removal.

Designation of Plan Administrative Committee Member

Chairman Weaver recommended that Ms. Rogers-McCoy be designated as a member of the Plan Administrative Committee. Upon motion duly made and seconded, the following resolution was unanimously approved by the Board:

RESOLVED, that Alison Rogers-McCoy, Managing Director, be designated as a member of the Plan Administrative Committee, responsible for general administration of both the 403(b) Tax Sheltered Annuity Plan and 457(b) Deferred Compensation Plan of the Corporation.

UTIMCO Performance and Market Update

Chairman Weaver asked Mr. Hall to present the Corporation's performance and market update. Mr. Hall focused his discussion on three main takeaways – the portfolio is performing as expected, there are conflicting signals and forecasts about the direction of the economy, the business cycle, and the markets, and that as a result, the portfolio is neutrally positioned. Mr. Hall began by providing a detailed portfolio update, noting that as of September 30, 2023, the Corporation had approximately \$70 billion of assets under management. Mr. Hall then discussed UTIMCO returns and alpha for 1, 3, 5, and 10-year time horizons, including total net returns and outperformance versus benchmark. Mr. Hall continued by discussing returns and alpha attribution for the Endowments and ITF on a 1 and 3-year basis, as well as the return attribution and alpha attribution by asset class, respectively. He discussed portfolio positioning, including asset allocation over time. Mr. Hall presented a detailed analysis of the Stable Value, Global Equity, and Real Return portfolios, as well as their performance expectations, potential catalysts driving performance, as well as areas for concern. Mr. Hall then turned the conversation to a discussion of the broader markets, and any potential portfolio impacts, including a review of equity outcomes by style and size, the JP Morgan long-term capital market assumptions, the UTIMCO Strategic Partner Outlook, and the potential impact of a recession. Mr. Hall wrapped up his presentation by recognizing the uncertain market outlook, with a meaningful potential for a recession ahead, but highlighted that the portfolio is in a good position, the teams have a playbook for any potential upheavals, and UTIMCO has the liquidity to make distributions. He then answered questions from the Board.

Report from Audit and Ethics Committee

Chairman Weaver asked Director Jiles to provide a report on behalf of the Audit and Ethics Committee. Director Jiles reported that the Committee met via teleconference on November 30, 2023. At the meeting, the Committee considered four action items: the minutes of its September 21, 2023 meeting were approved as drafted; Deloitte & Touche LLP's Financial Statement Audit Results and Communications Letter for the Investment Funds for the fiscal year ended August 31, 2023, were approved; subject to further approval by the Board, the separate annual financial statements and audit reports for the PUF, GEF, PHF, LTF, and ITF for the fiscal years ended August 31, 2023 and August 31, 2022, and the Statement of Investment Performance Statistics for the aforementioned funds for the fiscal year ended August 31, 2023 were approved; subject to further approval by the Board, and the Committee made its recommendations to the Compensation Committee related to the General Counsel and Chief Compliance Officer's Performance Award for the Performance Period ended June 30, 2023.

Director Jiles asked Mr. Robert Cowley, engagement partner from the independent accounting firm of Deloitte & Touche LLP, to provide a brief report to the Board on the audits of the Investment Funds. Mr. Cowley confirmed the completion of the audits of the Funds. Mr. Cowley confirmed that Deloitte & Touche LLP issued unqualified opinions on the Funds' August 31, 2023 Financial Statements and the Statement of Investment Performance Statistics, and that accounting principles utilized by management are of good quality, are acceptable, and have been consistently applied under accounting principles generally accepted in the United States. There were no changes in any of the accounting policies in the last year. Mr. Cowley stated that the Funds' Financial Statements and disclosures were complete in all material respects and there were no material weaknesses regarding internal controls found during their audit procedures. He was very complimentary of the Corporation's employees, indicating that UTIMCO staff was very cooperative and helpful throughout the audit process. Finally, Mr. Cowley noted that this is his tenth year as UTIMCO's audit engagement partner, and under Deloitte rotation policy rules, Mr. Tom Wagner will take over as the Deloitte & Touche, LLP audit engagement partner for the audit of both the Funds and UTIMCO as the management company. After Mr. Cowley's presentation, Director Jiles reported that 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. He requested approval, on behalf of the Audit and Ethics Committee, of a resolution related to the audits of the Investment Funds for Fiscal Year 2023. Upon motion duly made and seconded, the following resolutions were unanimously approved by the Board:

RESOLVED, that Deloitte & Touche LLP's Financial Statement Audit Results and Communications Letter on the Investment Funds Under Fiduciary Responsibility of The University of Texas System Board of Regents for the year ended August 31, 2023, 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, 2023, and August 31, 2022, and the Statement of Investment Performance Statistics for the year ended August 31, 2023, be, and are hereby approved in the form as presented to the Board.

Report from Investment Risk Committee

Chairman Weaver asked Director Longoria to provide a report from the Investment Risk Committee. Director Longoria reported that the Investment Risk Committee met via teleconference on November 30, 2023. The Committee approved the minutes of its September 21, 2023 meeting. The Committee also received a report on compliance matters for the quarter ended August 31, 2023, and a market and portfolio risk update.

Report from Cyber Risk Committee

Chairman Weaver asked Director Rothrock to provide a report from the Cyber Risk Committee. Director Rothrock reported that the Cyber Risk Committee met via teleconference on November 30, 2023. The Committee approved the minutes of its September 21, 2023 meeting. The Committee also met in Executive Session to receive an update on computer security assessments related to information resources technology.

Executive Session

Prior to going into Executive Session, Chairman Weaver announced that, "The Board of Directors of The University of Texas/Texas A&M Investment Management Company having been duly convened in Open Session and notice of this meeting having been duly given, I hereby announce the convening of a closed meeting as an Executive Session to deliberate individual personnel compensation matters, pursuant to *Texas Government Code* Section 551.074, and to consult with legal counsel regarding legal matters, pursuant to *Texas Government Code* Section 551.071. The date is December 7, 2023, and the time is now 10:22 a.m." With the exception of Mr. Hall, Ms. Moeller, Dr. Brown, and Mr. Kyle, all others left the meeting at this time.

Reconvene in Open Session

The Board reconvened in Open Session and Chairman Weaver announced that, "The Open Session of the Board of Directors of The University of Texas/Texas A&M Investment Management Company is now reconvened. The date is December 7, 2023, and the time is now 10:57 a.m. During the Executive Session, the Board deliberated individual compensation matters, and consulted with legal counsel regarding legal matters, but no action was taken, nor decisions made, and no vote was called for or had by the Board in Executive Session."

Report from Compensation Committee

Chairman Weaver asked Director Nixon to provide a report from the Compensation Committee. Director Nixon stated that the Compensation Committee met via teleconference on November 30, 2023 and again in person on December 7, 2023. At its meeting on November 30, 2023, the Committee approved the minutes of its June 8, 2023 meeting. The Committee also met in Executive Session to discuss Performance Awards for the former CEO and other UTIMCO Compensation Program Participants for the Performance Period ended June 30, 2023, but no action was taken at that meeting.

At its December 7, 2023 meeting, the Committee approved the minutes of its November 30, 2023 meeting, convened in Executive Session to discuss the Performance Awards for the former CEO and other Plan Participants, for the Performance Period ended June 30, 2023, and approved these Performance Awards,

subject to approval by the Board. Director Nixon then recommended two resolutions for approval by the Board. The first resolution related to the Performance Award for the former CEO for the Performance Period ended June 30, 2023, and the second resolution related to the Performance Awards for all other Plan Participants for the Performance Period ended June 30, 2023. Upon motion duly made and seconded, the following resolutions were unanimously approved 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 former CEO's Performance Award for the Performance Period ended June 30, 2023, and submitted its recommendation to the Board for approval; and

WHEREAS, the Board has reviewed the Compensation Committee's recommendation of the former CEO's Performance Award for the Performance Period ended June 30, 2023.

NOW, THEREFORE, be it:

RESOLVED, that the Board approves the Performance Award for Britt Harris, UTIMCO's former CEO, for the Performance Period ended June 30, 2023, in the amount of \$2,167,359.

And,

WHEREAS, Section 2.0 of the UTIMCO Compensation Program (the "Plan") specifies that an objective of the Plan is to motivate key investment employees to focus on maximizing real, long-term returns for all funds managed by UTIMCO while assuming appropriate levels of risk; and

WHEREAS, Section 5.8(a)(1)(a)(iv) provides that quantitative performance is measured relative to the appropriate benchmark based on three-year historical performance; Section 5.8(a)(2)(c) provides that peer group performance is measured based on three-year historical performance; and Section 5.8(b)(2) provides that qualitative performance is measured as part of each Participant's annual performance appraisal; and

WHEREAS, Section 5.5.(d) of 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, 2023, 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 three-year quantitative Performance Standards and their one-year qualitative Performance Standards for the Performance Period ended June 30, 2023, 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 former CEO) for the Performance Period ended June 30, 2023, in the total aggregate amount of \$15,486,289 and be it

FURTHER RESOLVED, that of the Performance Awards for all Participants (excluding the former CEO) for the Performance Period ended June 30, 2023, 29% (\$4,525,497) will be deferred pursuant to the Plan.

Prior to adjourning, Mr. Hall thanked Joanna Barrett, Cosette Johnson, Margie Verdin, Eric Miller, and Nathan Stewart for their hard work coordinating the logistics of the Board meetings.

Director Longoria expressed her appreciation for Mr. Hall and the smooth transition into the CEO role at UTIMCO.

Chairman Weaver extended his thank you to the Board for their commitment and dedication.

Adjourn

There being no further business to come before the Board, the meeting was adjourned at approximately 11:02 a.m.

Secretary: _____
Joan Moeller

Approved: _____ Date: _____

James C. "Rad" Weaver
Chairman, Board of Directors of
The University of Texas/Texas A&M Investment Management Company

Agenda Item
UTIMCO Board of Directors Meeting
March 20, 2024

Agenda Item: Discussion and Appropriate Action Related to Corporate Resolutions: (1) Designation of Annual Meeting of the UTIMCO Board; and (2) Risk System Agreements

Developed By: Moeller, de Onís

Presented By: Weaver, Hall

Type of Item: Action required by UTIMCO Board

Description: Chairman Weaver will designate the annual meeting of the Board of Directors of the Corporation. The annual meeting will be held on June 20, 2024.

The Investment Risk team has negotiated an extension of the Risk System built by MSCI Barra through three inter-related agreements with RiskMetrics Solutions and Barra, LLC, affiliates of MSCI Barra, spanning a contract term of three years. The three inter-related contracts that have been negotiated together to support the Risk System are Risk Manager, Hedge Platform, and Barra Portfolio Manager. The inter-related agreements have a collective obligation of approximately \$2.8 million over the contracts' three-year terms. Mr. Hall is requesting that the UTIMCO Board approve the agreements with RiskMetrics Solutions and Barra, LLC in accordance with the UTIMCO Delegation of Authority, which requires obligations of \$1 million or more during the contract term to be approved by the Board.

Recommendation: Chairman Weaver will recommend approval of the designation of the annual meeting and Mr. Hall will request Board approval of the Risk System Agreements.

Reference: None

RESOLUTION RELATED TO ANNUAL MEETING

RESOLVED, that the Annual Meeting of the Board of Directors will be held on June 20, 2024, in Austin, Texas.

RESOLUTION RELATED TO RISK SYSTEM AGREEMENTS

WHEREAS, the Delegation of Authority delegates to The University of Texas/Texas A&M Investment Management Company (“UTIMCO” or “Corporation”) Chief Executive Officer (“CEO”) the authority to execute on behalf of UTIMCO all contracts, leases, or other commercial arrangements (except investment management agency contracts, partnership agreements, investment consultant agreements and agreements with independent auditors) for a total of \$1 million or less during the contract term; and

WHEREAS, RiskMetrics Solutions and Barra, LLC, both affiliates of MSCI Barra, have each previously provided risk services to UTIMCO under contracts for a total cost of less than \$1 million for the contract term; and

WHEREAS, UTIMCO is negotiating three inter-related agreements, each having a 3-year contract term, with RiskMetrics Solutions and Barra LLC, affiliates of MSCI Barra, (the “Risk System Agreements”) that will collectively exceed the delegated authority of \$1 million during the contract term and reported same to the Audit and Ethics Committee.

NOW, THEREFORE, be it:

RESOLVED, that the UTIMCO Board authorizes UTIMCO’s CEO to negotiate and enter into the Risk System Agreements with RiskMetrics Solutions and Barra LLC, affiliates of MSCI Barra, for a 3-year contract term with a collective obligation of approximately \$2.8 million, on such terms that may be in the best interests of UTIMCO as determined by the CEO or his designees; and

FURTHER RESOLVED, that the CEO or his designees are authorized by the UTIMCO Board to negotiate and enter into on behalf of the Corporation any modifications of and documents ancillary to the Risk System Agreements and to take whatever action as may be necessary or in the best interests of the Corporation that the CEO or his designees 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 Risk System Agreements, including any instruments referred to therein and/or executed in connection therewith.

Agenda Item
UTIMCO Board of Directors Meeting
March 20, 2024

Agenda Item: CEO Update

Developed By: Hall

Presented By: Hall

Type of Item: Information Item

Description: Mr. Hall will provide a portfolio update and a market outlook.

Reference: *CEO Update* presentation



Board of Directors Meeting

CEO Update

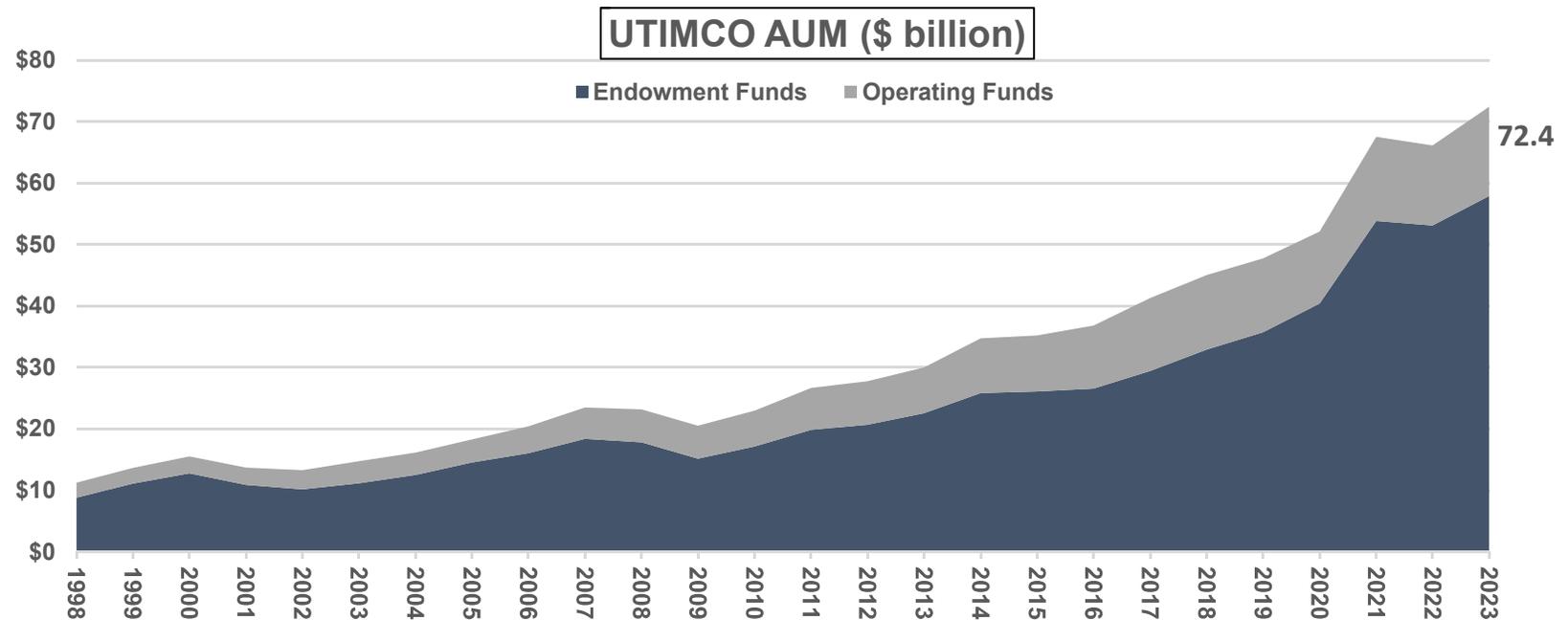
Richard Hall, CEO & CIO

March 20, 2024



Endowment & ITF Increase in Value

Endowments returned \$3.9 billion last year while distributing \$2.2 billion



12-Month Change in AUM

	\$ Billion
Beginning Net Asset Value (NAV)	66.1
Contributions	4.1
Net Investment Income	4.7
Distributions	-2.5
Ending Net Asset Value	72.4

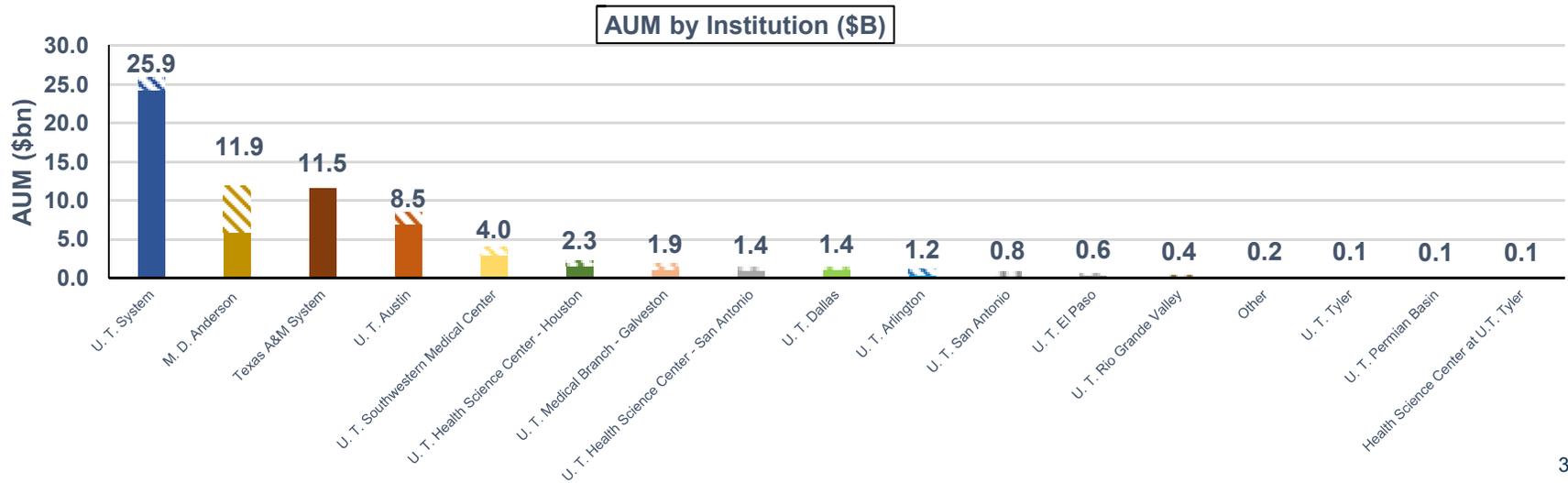
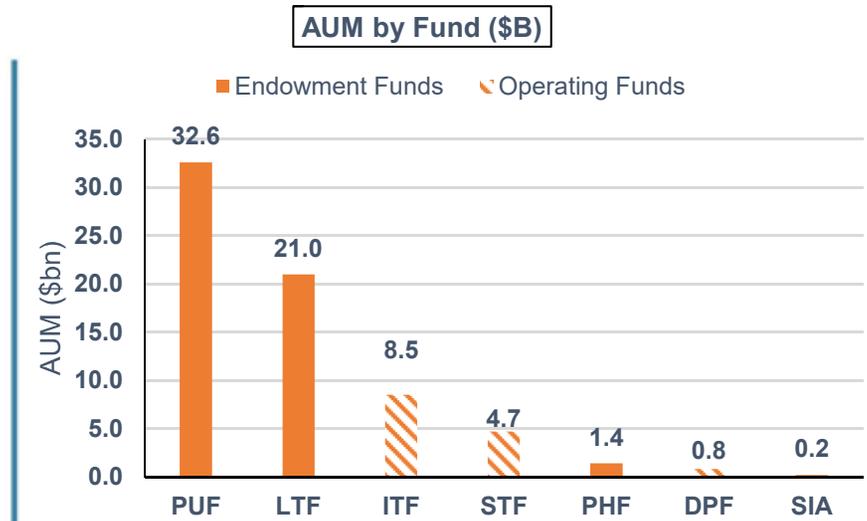
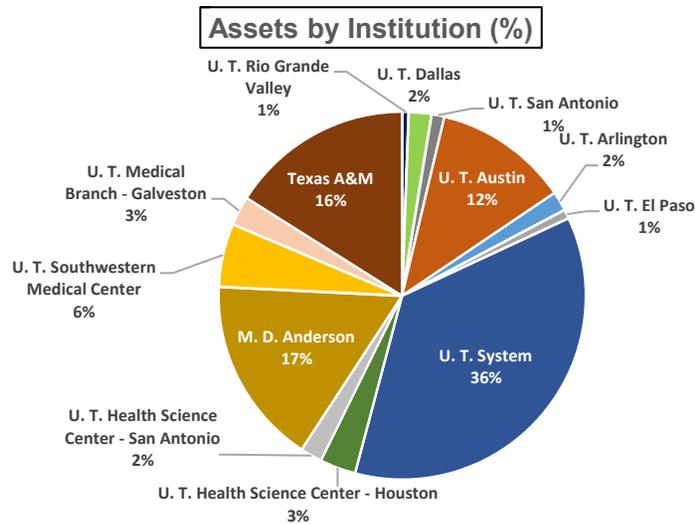
3-Year Change in AUM

	\$ Billion
Beginning Net Asset Value	57.5
Contributions	13.0
Net Investment Income	8.7
Distributions	-6.8
Ending Net Asset Value	72.4



Institution and Fund Assets

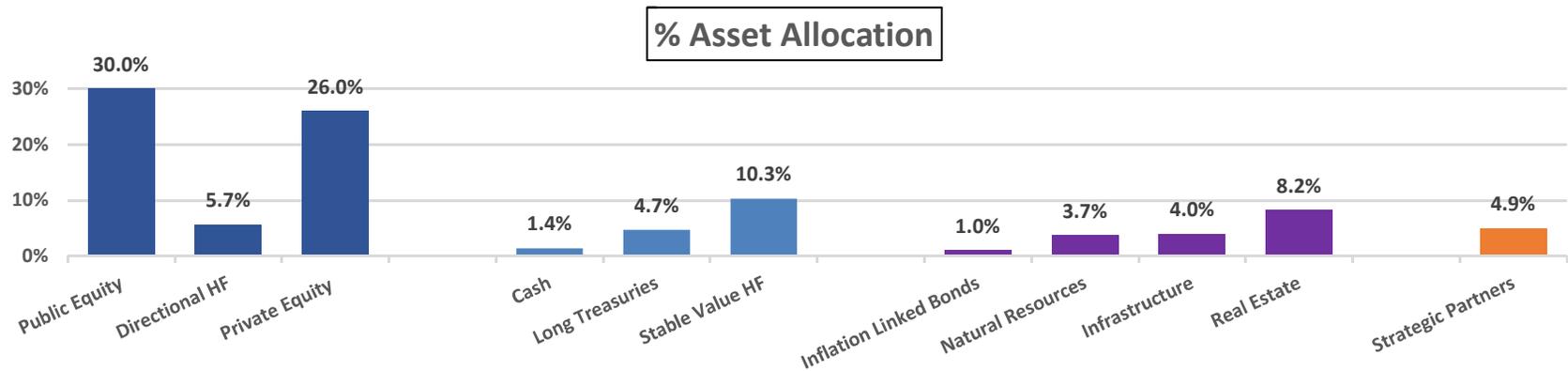
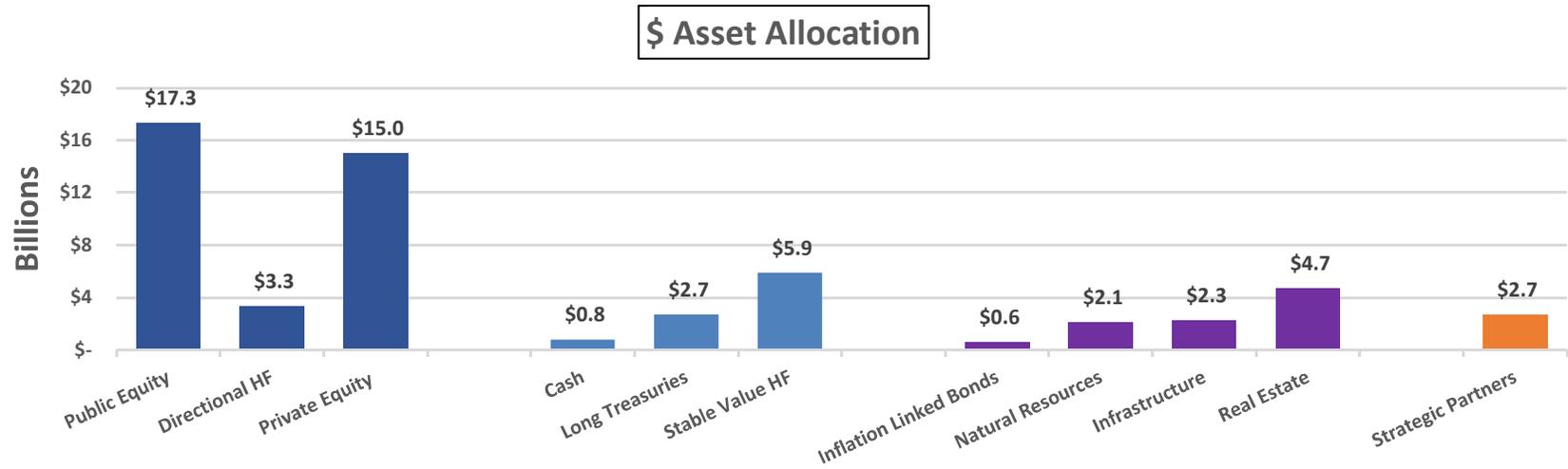
As of December 31, 2023





Positioning

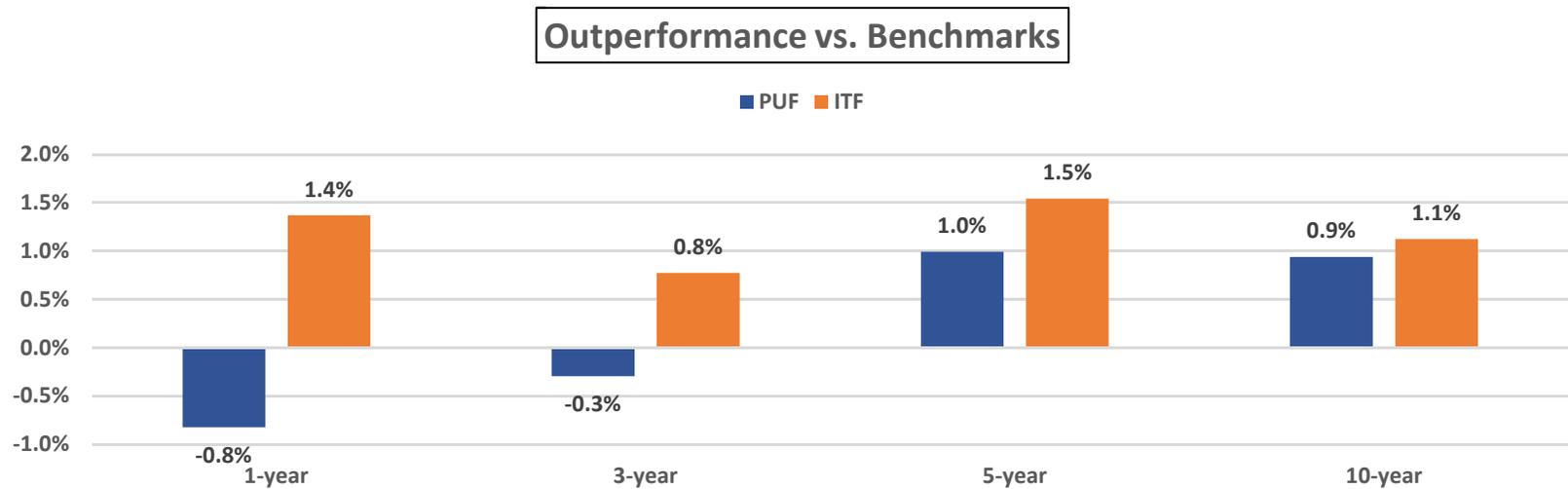
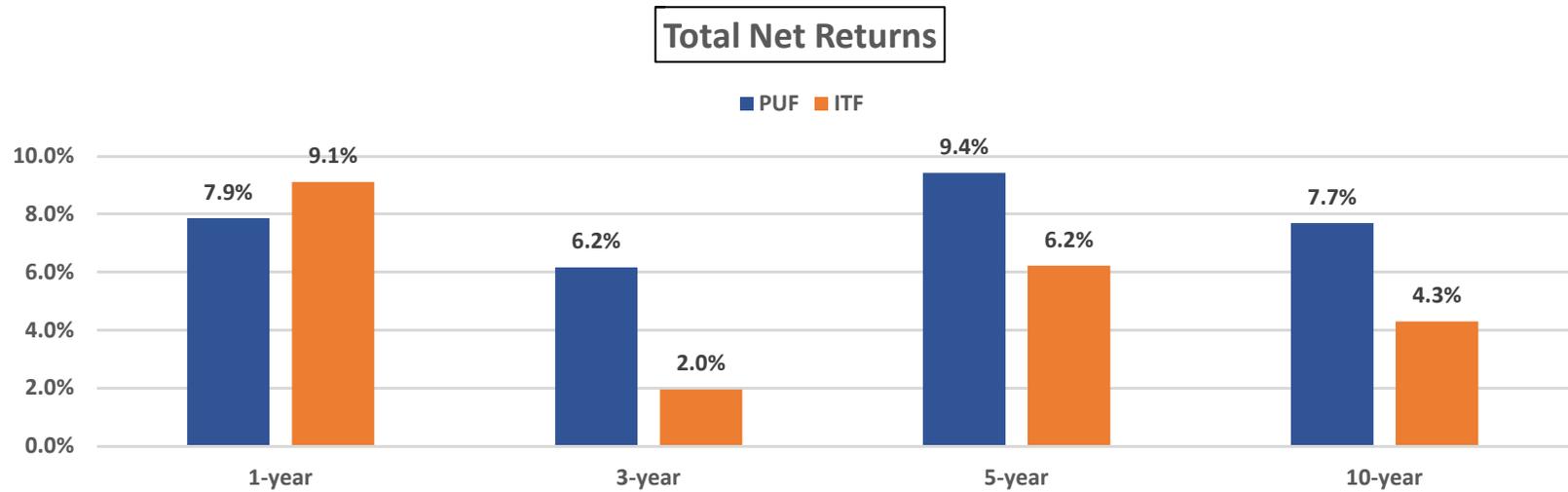
Asset allocation as of Dec 31, 2023





Performance

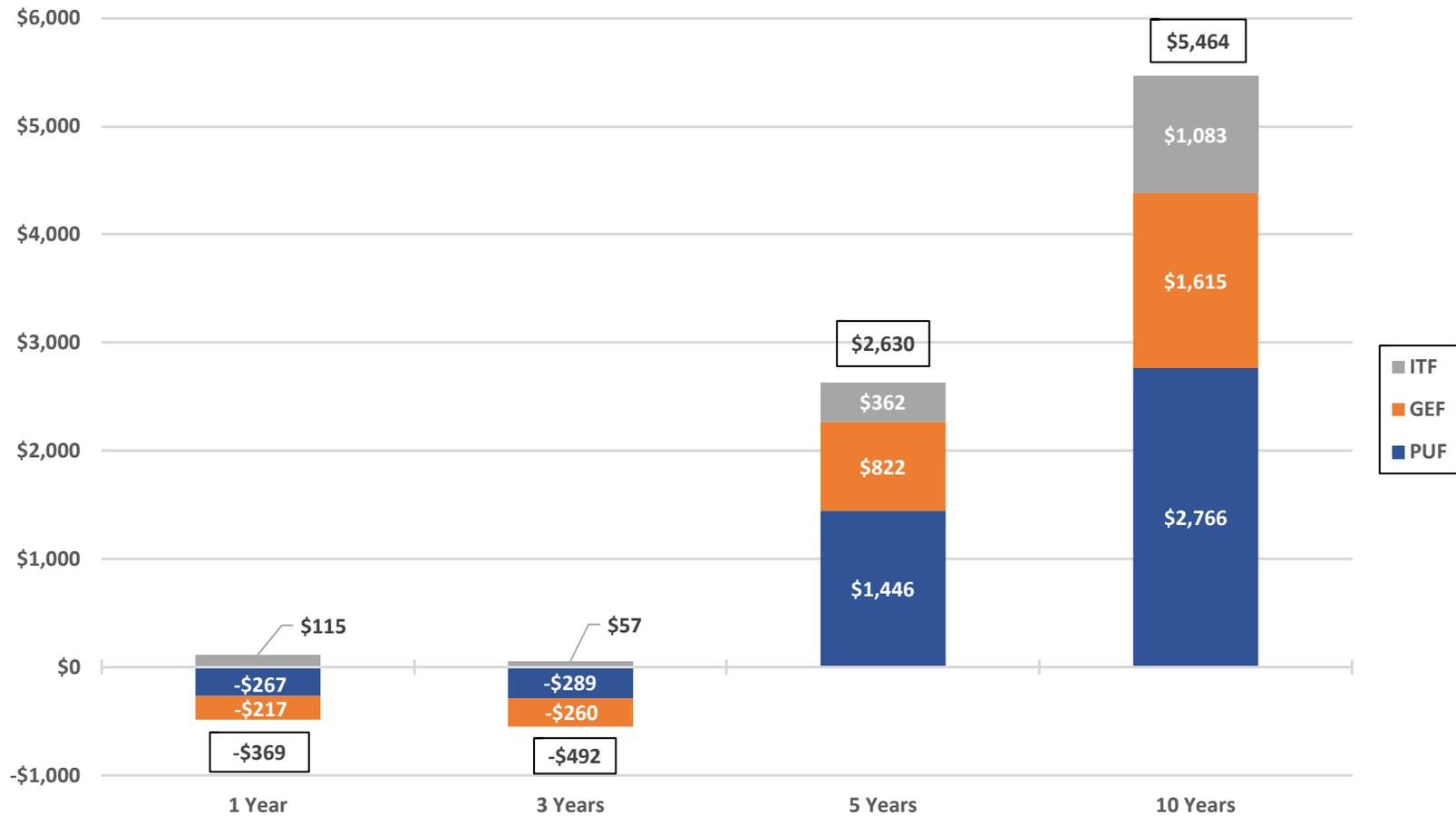
Absolute and relative historical performance as of Dec 31, 2023





Performance

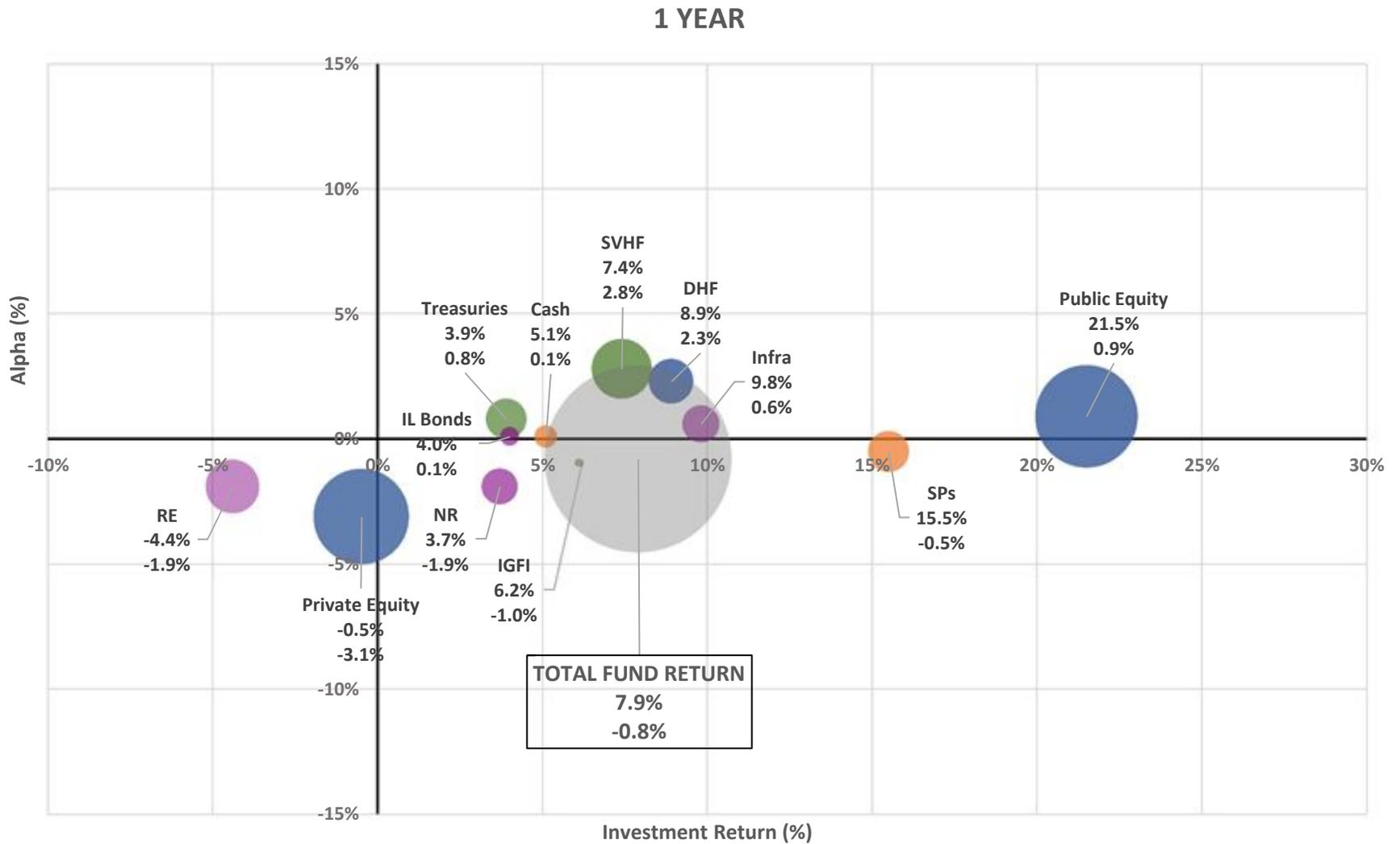
DVA as of December 31, 2023





Performance

Detailed CY 2023 Performance



Agenda Item
UTIMCO Board of Directors Meeting
March 20, 2024

Agenda Item: Strategic Plan Update

Developed By: Hall, Chen

Presented By: Hall, Chen

Type of Item: Information Item

Description: Mr. Hall and Ms. Chen will provide a preview of the 5-year Strategic Plan.

Reference: *5-Year Strategic Plan Preview* presentation



Board of Directors Meeting

5-Year Strategic Plan Preview

Richard Hall, CEO & CIO

Susan Chen, Senior Managing Director

March 20, 2024



Executive Summary

2019 Strategic Plan set a clear roadmap for foundation-building and growth

- The **2019 Plan** was approved in June 2019 and implemented in FY2020
 - FY2024 will be the final year of the Plan
- The 2019 Plan focused on systematically addressing key issues:
 - **Build staff levels** needed to manage an **increasingly large and complex portfolio**
 - Establish **succession plan** and **bench strength** (*focus: investments*)
 - Adopting a **long-term organization structure** and **clear career paths** to help **retain top talent**
 - **Alleviate prolonged under-investment in support & control** functions (*focus: Information Services and operations*)
 - **Remain cost-effective** relative to peers and industry norms
- UTIMCO remains **on track to meet original budget and personnel projections** through FY2024
- **Results from 2019 Plan**
 - **AUM** grew to **\$75B** (\$10B higher than original projection for end of FY2024)
 - **Fund count** grew to **612** (8% lower than original projection)
 - Achieved **effective succession** in key positions (**CTO** 2020 and 2022; **General Counsel** 2022; **CIO / CEO** 2023)
 - Bolstered **senior talent bench** (4 promotions to SMD; 6 promotions to MD)
 - Improved **internal alignment** (merged Information Services & Security; merged and expanded Legal & Compliance; restructured investment team into 4 Portfolio Managers reporting to CIO)
 - **Increased and upgraded team** (original projection of 99 → 132 FTEs by end of FY2024, currently 129)



Executive Summary

2024 Strategic Plan will establish priorities and success metrics for the next 5 years

- Significant **changes since 2019 Strategic Plan**
 - **UTIMCO:**
 - Asset size (starting point \$75B vs. \$48B)
 - Personnel (starting point 129 FTEs vs. 99 FTEs)
 - Board (4 of 9 new members since 2019)
 - Client institutions (numerous research, scholarship and medical initiatives; SFASU)
 - **Environment:**
 - Macro conditions - interest rates; inflation; geopolitics; COVID pandemic and aftermath/recovery
 - Asset class dynamics
 - Austin and investment industry labor markets
 - Technology
- We propose **five strategic initiatives in 2025-29**, to continue positioning UTIMCO and our clients for long-term success:
 - **Talent** retention and succession planning
 - **Technology** enhancement (**infrastructure**) and **new tool adoption** (automation, AI)
 - **Data** innovation and governance
 - **Scalable** investment strategy design
 - **Leverage** and **liquidity optimization**
- Our **preliminary estimate of resources** required to execute these initiatives is:
 - **In line with** budget projections from the **2019 Strategic Plan** of ~12bps of AUM by end of FY2024
 - Well **below peer budgets** (median of 15bps*)

* Source: Investment Office Oversight Costs Survey, Cambridge Associates, April 2023.



UTIMCO's Mission, Vision and Values

The North Star

**Our Mission is
To be
GREAT**

Grow Endowment for
Research
Education
Advancements in the world
Treatment of Patients

**Our Vision is
to have an
IMPACT**

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

- Eradicate poverty through education
- Enhance society through research
- Cure and care for cancer patients and others who are suffering from debilitating diseases
- **To provide a place where great people flourish, grow and excel**

**Our Values are
to do what is
RIGHT**

Responsible and
Accountable
Integrity
Great Alignment
**High Performance
Transparent and Open**



Strategic Plan Process

*Prepare UTIMCO for the future
Fulfill UTIMCO's mission, vision and values*

- Reflect on how UTIMCO, the market environment, and the investment industry have evolved over the past 5 years
- Assess what we can predict and what we can control
- Determine key strategic initiatives for the next 5 years
- Estimate the resources required to execute on those initiatives
- Benchmark UTIMCO's strategy, policies, structure and resources vs. peers



Establish a long-term strategic plan that is fully supported by UTIMCO's Board of Directors and the UT System Board of Regents



“Strategy for the Strategy”

What’s not going to change?



“I very frequently get the question: 'What's going to change in the next 10 years?' And that is a very interesting question; it's a very common one.

I almost never get the question: 'What's not going to change in the next 10 years?' And I submit to you that **that second question is actually the more important of the two—because you can build a business strategy around the things that are stable in time.** ... [I]n our retail business, we know that customers want low prices, and I know that's going to be true 10 years from now. They want fast delivery; they want vast selection.

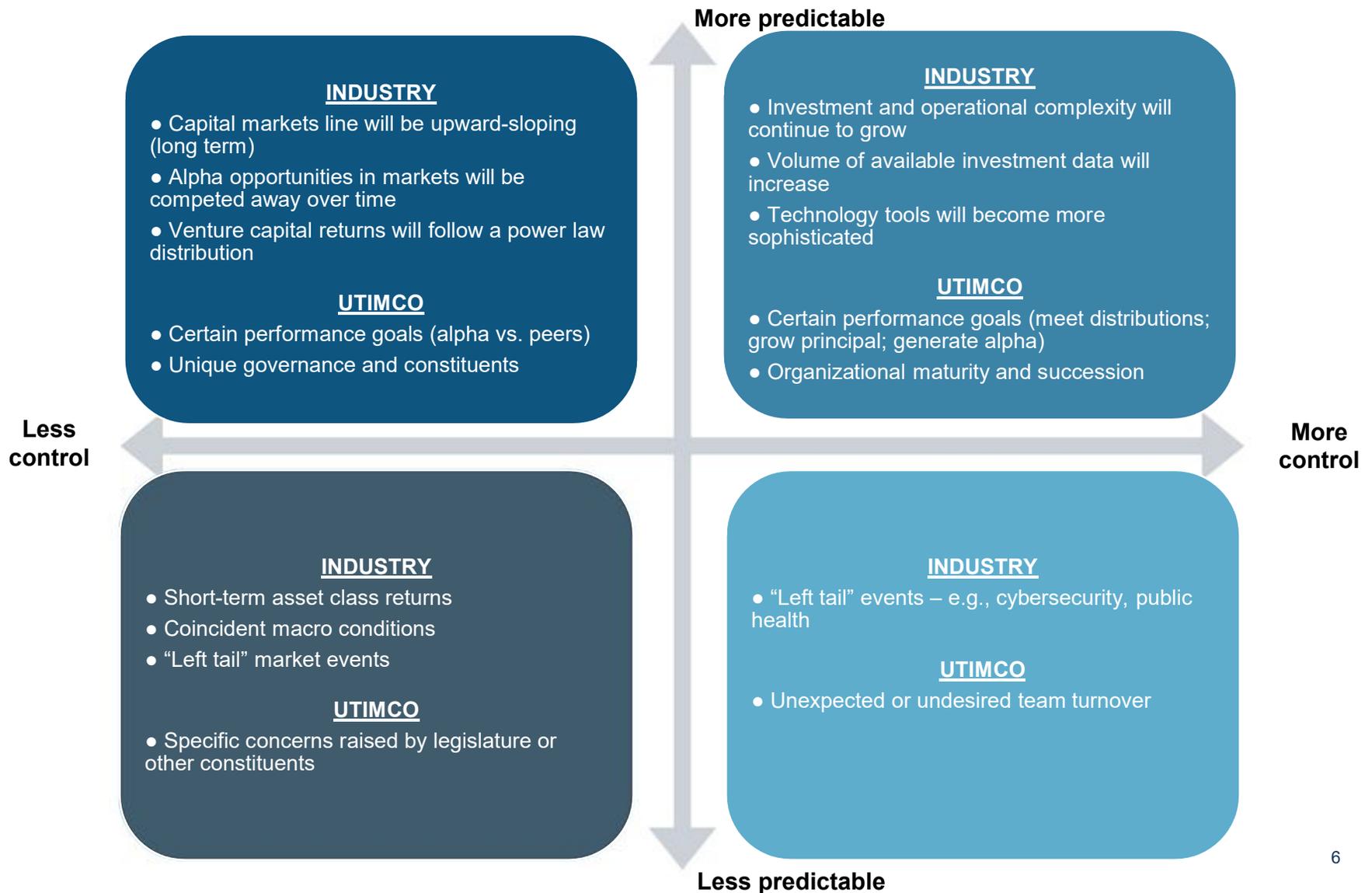
It's impossible to imagine a future 10 years from now where a customer comes up and says, 'Jeff I love Amazon; I just wish the prices were a little higher,' [or] 'I love Amazon; I just wish you'd deliver a little more slowly.' Impossible. And so the effort we put into those things, spinning those things up, we know the energy we put into it today will still be paying off dividends for our customers 10 years from now. **When you have something that you know is true, even over the long term, you can afford to put a lot of energy into it.”**

– Jeff Bezos



Focus on What We Can Predict...

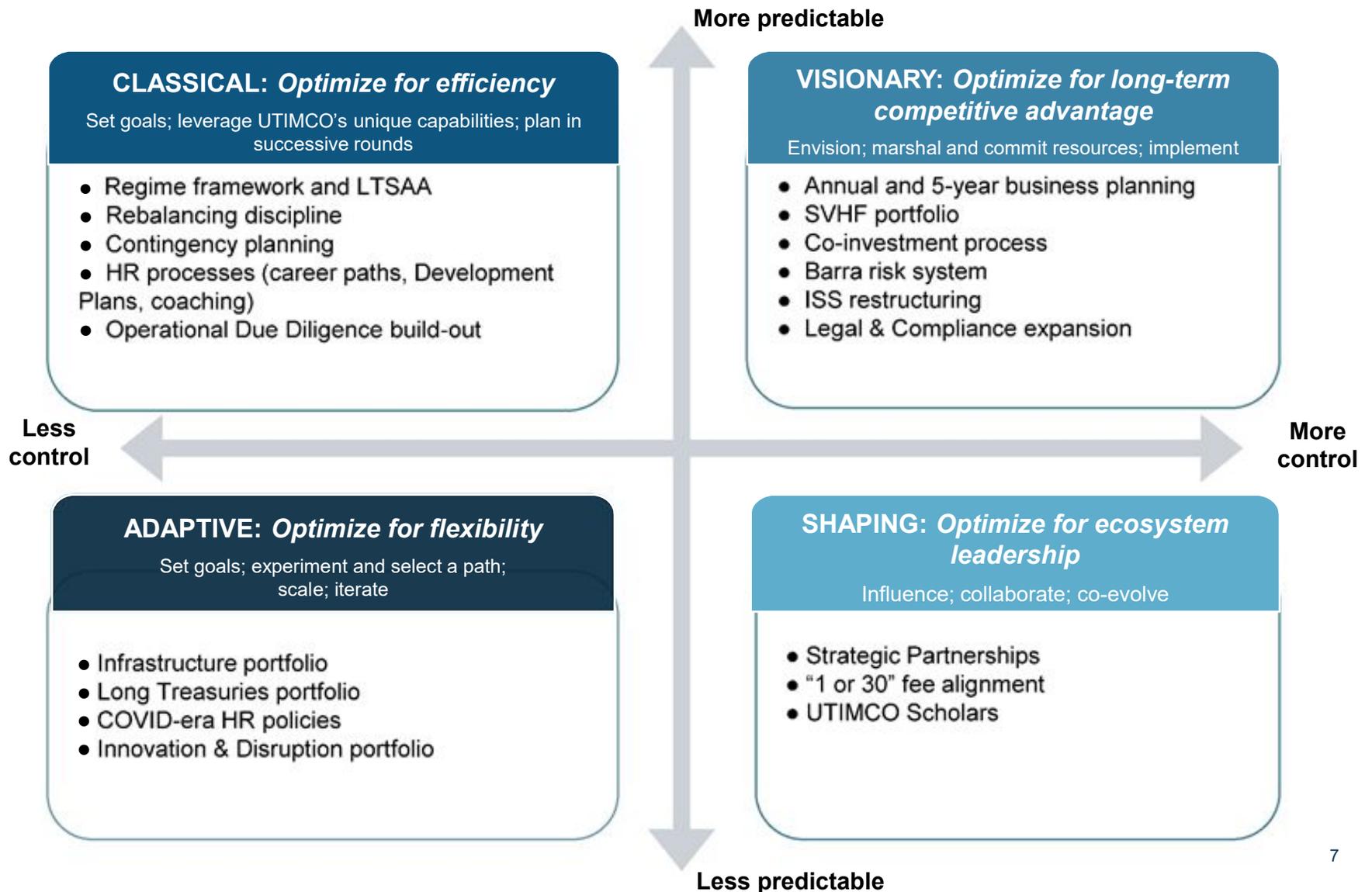
...and plan according to our level of control





Different Environments, Different Optimizations

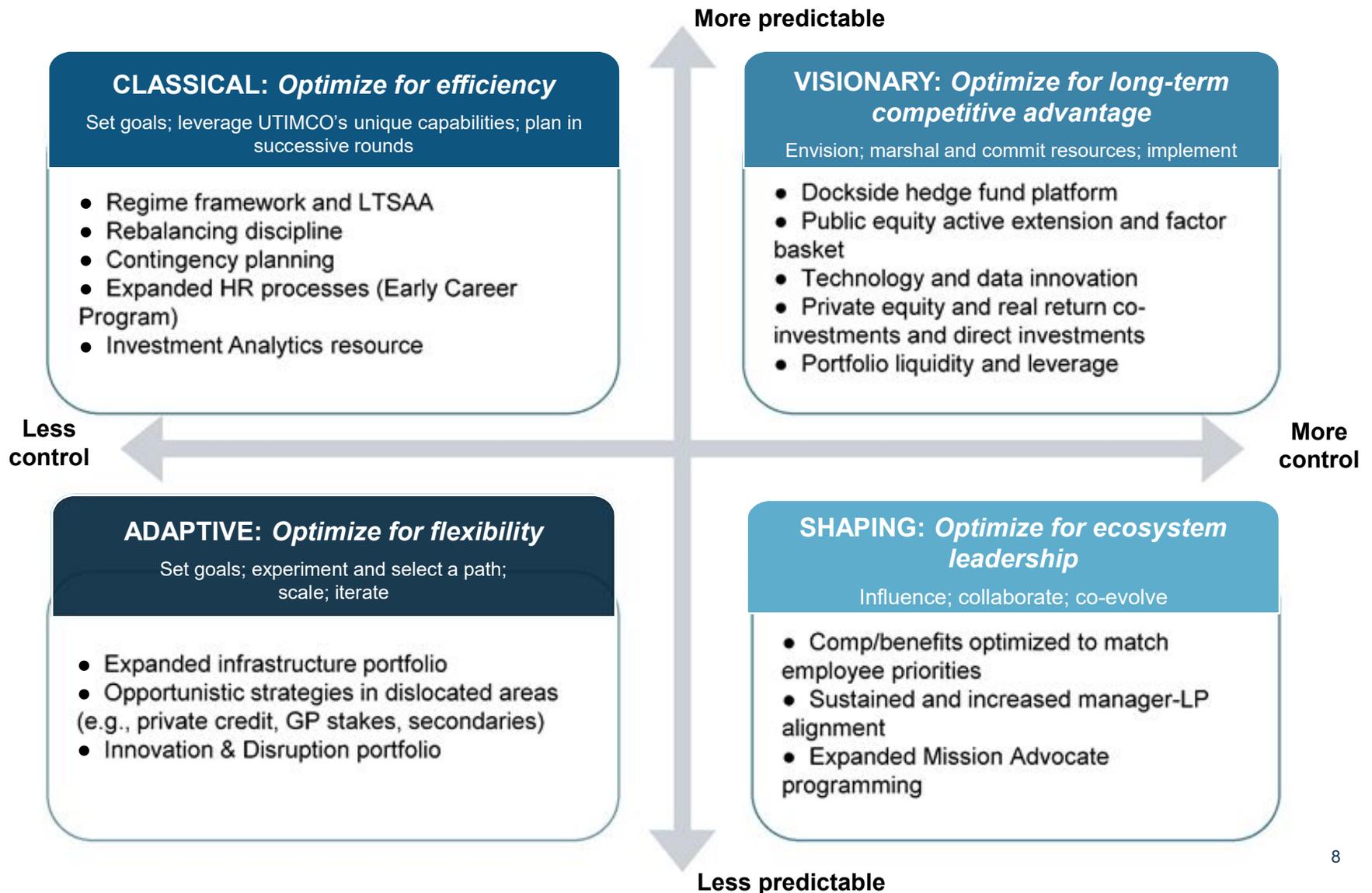
Examples from 2019-2023





New Environments, New Optimizations

Preview of 2025-2029





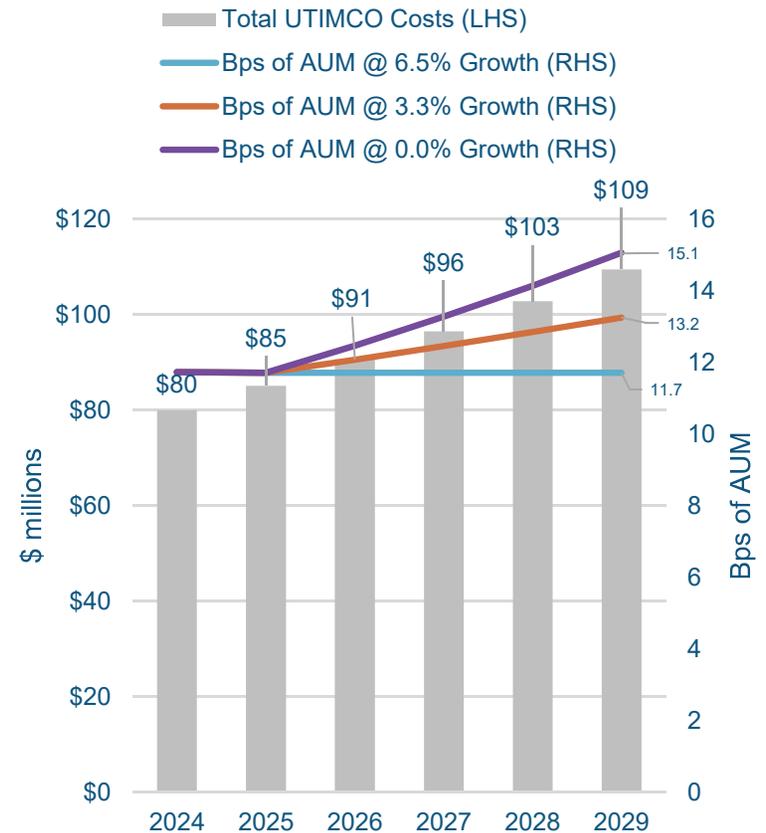
Preliminary 5-Year Budget Estimate

UTIMCO expects to remain lean and efficient

Historical Costs, 2019-23



Projected Costs, 2025-29



6.5% annual growth results in estimated FY2029 AUM of \$93.5B.



Wrap Up

Seeking alignment on key priorities; will present final 5-year plan in June

- **Goal** – achieve **alignment on key elements** of next 5-year Strategic Plan
 - Continue to invest in **talent** – our primary competitive advantage
 - Push forward on **technology** and **data**
 - **Resource allocation during 2020-2024** (set in motion by 2019 plan) have moved UTIMCO out of “**technology deficit**”
 - However, UTIMCO needs to **continue investing in technology and data** to stay competitive
 - Pursue **investment strategy enhancements** to capture **current and new alpha** opportunities
 - Remain **cost-effective**
- **Next Steps**
 - Fine tune long-term budget forecast
 - Team growth and retention
 - Technology and other infrastructure investments, including temporary staff augmentation
 - Resources to support investment strategy enhancements
 - Present **new 5-year plan** and request **approval of FY2025 budget** at **June Board meeting**

Agenda Item
UTIMCO Board of Directors Meeting
March 20, 2024

Agenda Item: Public Equity Presentation

Developed By: Team

Presented By: Chen, Hopper, Brown, Standley

Type of Item: Information Item

Description: Ms. Chen, Ms. Hopper, and Mr. Brown will present on the Public Equity portfolio and Mr. Standley will present on the Strategic Partnerships and Tactical Asset Allocation portfolio (“SPTAA”).

Reference: *Public Equity and SPTAA presentation*



Board of Directors Meeting

Public Equity and SPTAA

Susan Chen, Senior Managing Director
Amanda Hopper, Managing Director
Ken Standley, Senior Director
Russ Brown, Director

March 20, 2024



Team

	<p>Susan Chen Senior Managing Director MBA, JD, Harvard University</p>
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Public Equity

Strategic Partnerships / TAA

	<p>Amanda Hopper <i>PM, Developed Markets</i> Managing Director MBA, U. Chicago</p>
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	<p>Drury Morris, CFA, CAIA <i>PM, Developed Markets</i> Senior Director BA, Rhodes College</p>
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	<p>Russ Brown, CFA, CPA <i>PM, Emerging Markets</i> Director MPA, UT Austin</p>
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	<p>Ken Standley, CFA, CAIA <i>PM, Strategic Partnerships/TAA</i> Senior Director BA, George Washington Univ.</p>
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	<p>David Huang, CFA Director MS, NYU</p>
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	<p>Andres Delgado, CMT, CFA, FRM Associate Director BBA, Texas State University</p>
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	<p>Patrick Zerda, CFA Director <i>SP/TAA, Trading *</i> MPA, UT Austin</p>
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	<p>Fernanda Rice Senior Analyst MBA, UT Permian Basin</p>
---	--

	<p>Christian Taylor Senior Data Analyst * BA, Stanford University</p>
--	--

	<p>Kayla Young Senior Analyst BA, Cornell University</p>
--	---

	<p>Sam Gujrathi Analyst MS, Columbia University</p>
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	<p>Jorge Gutiérrez Analyst MA, UT Austin</p>
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	<p>Alexander Law Senior Analyst MS, Baylor University</p>
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	<p>Brendan Pellegrino Analyst MS, Emory University</p>
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	<p>Kathy Simons Team Coordinator Texas A&M</p>
---	---

	<p>Jenna Hudson Team Coordinator * BA, UT Austin</p>
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* Shared with other teams
- - - - : New in 2023



Performance

As of December 31, 2023

Performance Summary - December 2023

	Assets (M)	UTIMCO Performance				Alpha vs. Benchmark			
		Dec-23	1y	3y	5y	10y	1y	3y	5y
Total Developed Markets	14,316	23.8%	3.8%	12.7%	8.8%	0.0%	(3.4%)	(0.1%)	0.2%
Tracking Error						1.9%	3.1%	3.8%	3.6%
Information Ratio						0.02	(1.10)	(0.03)	0.05
Total Emerging Markets	4,419	14.3%	(6.3%)	6.5%	5.4%	3.8%	(1.4%)	2.7%	2.7%
Tracking Error						3.6%	5.0%	4.9%	5.0%
Information Ratio						1.05	(0.29)	0.55	0.61
Total Public Equity	18,735	21.5%	1.3%	11.1%	7.9%	0.9%	(3.0%)	0.7%	1.0%

	Assets (M)	UTIMCO Performance		Alpha vs. Benchmark	
Total Strategic Partnerships	2,779	15.5%	2.4%	(0.5%)	0.9%
Tracking Error				1.6%	2.1%
Information Ratio				(0.32)	0.41
Tactical Asset Allocation	2,735			(0.1%)	(0.0%)
Tracking Error				0.1%	0.1%
Information Ratio				(1.45)	(0.17)

The Developed Markets Benchmark is MSCI World.

The Emerging Markets Benchmark is: MSCI EM from 12/31/22 to 8/31/23; 67% MSCI EM with All China shares + 33% MSCI EM ex China starting 9/1/23.

The Strategic Partnerships Benchmark is: Blended Bloomberg US Treasury: Long Index, MSCI World Index with Net Dividends, MSCI Emerging Markets Index with Net Dividends, and HFRI Macro.

Tactical Asset Allocation assets represent gross notional exposure.

All returns are for the PUF, returns for periods longer than 1 year are annualized.



Public Equity



Executive Summary

Role of Public Equity

- **AUM and Weight** in Endowments/ITF
 - ~\$18.7 billion at end of 2023
 - ~30% of Endowments and ~15% of ITF
 - ~49% of “Global Equity” Regime assets, which perform best during periods of positive GDP growth and moderate inflation
- **Long-Term Strategic Weight**
 - Reduced from 35% to 27% in Endowments as part of 2023 LTSAA review
 - Moved 5pts to Private Equity
 - Moved 3pts to Stable Value assets

Market Environment in 2023

- **Equity index returns** were broadly positive:
 - MSCI World returned +23.8%
 - MSCI EM returned +9.8%
- **Macro backdrop stabilized:**
 - Inflation declined from mid-2022 peak
 - Moderate nominal GDP growth
 - Interest rates unchanged starting mid-2023

2024 Portfolio Priorities

- **Take active risk in well-compensated areas**
 - Increase and optimize exposure to quantitative and active extension strategies
 - Continue factor framework and risk budgeting
 - Continue to optimize Portable Alpha

Portfolio Performance*

- **Alpha recovered in 2023**
 - Total Public Equity: +0.94%
 - Developed Markets: +0.03%
 - Emerging Markets: +3.80%
- **Long-term alpha remains positive:**
 - 5y alpha: +0.68% Total
 - -0.10% in DM, +2.68% in EM
 - 10y alpha: +0.98% Total
 - +0.18% in DM, +2.65% in EM

* PUF returns and alpha, annualized for periods greater than 1 year.

Developed Markets





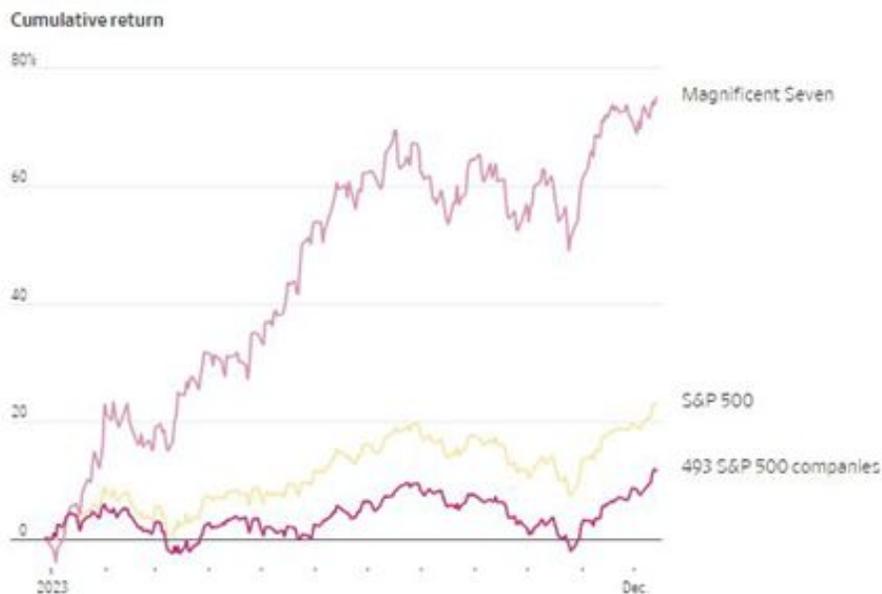
“Magnificent 7” Drove Market Returns

THE WALL STREET JOURNAL

FINANCE | STOCKS

It’s the Magnificent Seven’s Market. The Other Stocks Are Just Living in It.

Big tech stocks have jumped 75% in 2023—and now make up about 30% of the S&P 500



Source: Dow Jones Market Data; FactSet

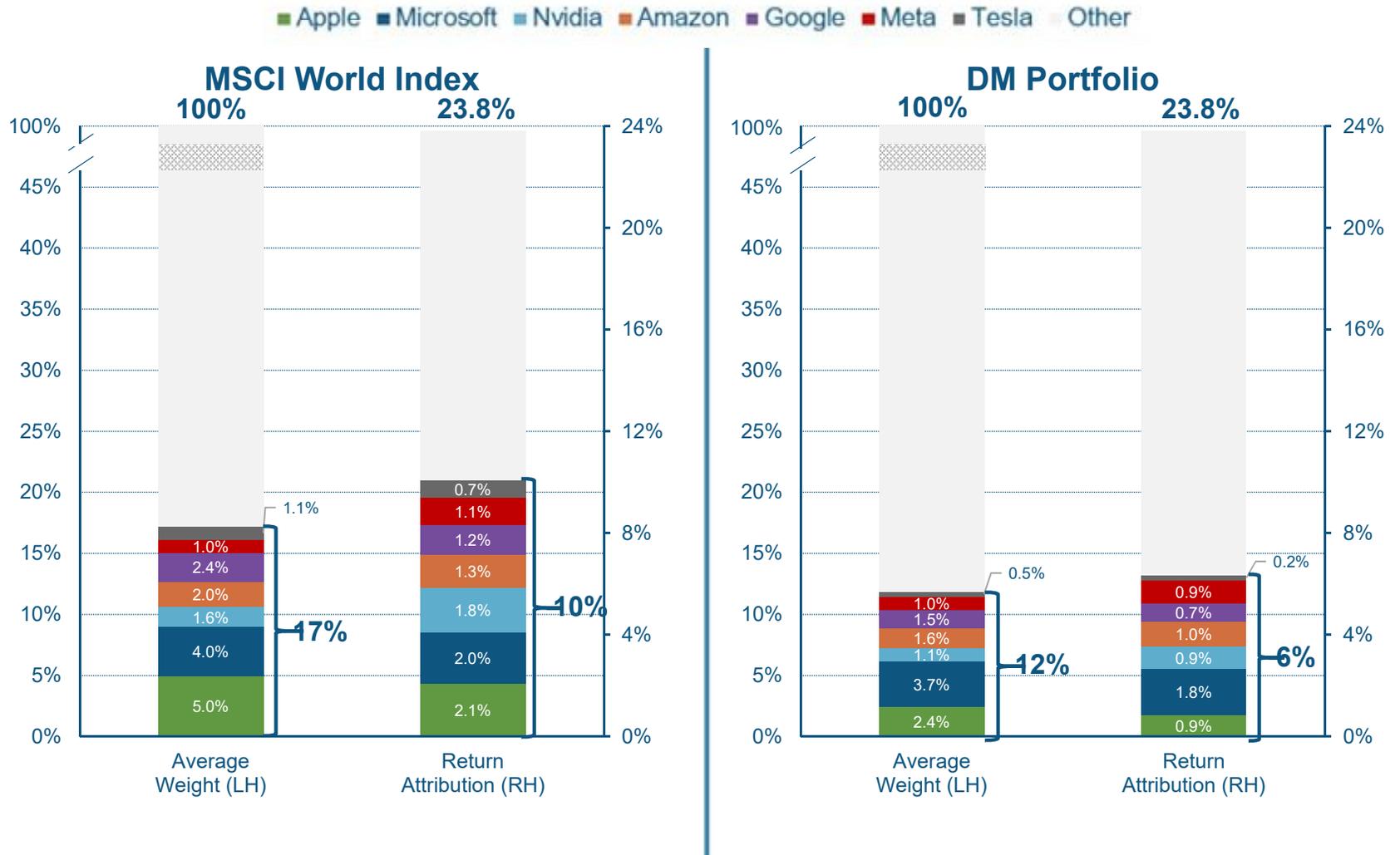
By [Hardika Singh](#) [Follow](#)

Dec. 17, 2023 7:00 am ET



MSCI World Index vs. UTIMCO DM Portfolio

DM Portfolio has lower weight to “Mag 7” and more broad-based return drivers



Source: BPM; Barra Global Equity Market Long Term Risk Model.

Note: Return contribution figures above may differ from individual stocks' CY 2023 returns multiplied by average portfolio or active weights due to timing fluctuations over the year.

Underneath the Surface

MSCI World Index: **+23.8%**
Propelled by "Magnificent 7"



UTIMCO DM Portfolio: **+23.8%**
Propelled by "Secret 20"





DM Portfolio Return Bridge - 2023



Source: BPM; Barra Global Equity Market Long Term Risk Model.

Note: Return contribution figures above may differ from individual stocks' CY 2023 returns multiplied by average portfolio or active weights due to timing fluctuations over the year.



DM Portfolio Active Return Drivers

TEN OF THE “SECRET TWENTY”

Asset Name	CY23 Return	Average Portfolio Weight	Average Benchmark Weight	Average Active Weight	Total Return Contribution	Active Return Contribution ↓	No. DM Managers who Owned
 Salesforce	98.5%	0.8%	0.4%	0.4%	0.6%	0.3%	3
 Fiserv	31.4%	0.9%	0.1%	0.8%	0.3%	0.3%	2
 VISA	26.3%	1.9%	0.7%	1.2%	0.4%	0.3%	9
 Seagen	78.0%	0.4%	0.0%	0.4%	0.2%	0.2%	1
 INDITEX	70.2%	0.4%	0.1%	0.3%	0.2%	0.2%	2
 Adobe	77.3%	0.7%	0.4%	0.3%	0.4%	0.2%	3
 Flutter	32.8%	0.4%	0.1%	0.3%	0.2%	0.2%	3
 RYANAIR	61.4%	0.3%	0.0%	0.3%	0.2%	0.2%	1
 JSR Corporation	46.1%	0.3%	0.0%	0.3%	0.2%	0.2%	3
 BOOKING HOLDINGS	76.0%	0.5%	0.2%	0.3%	0.3%	0.2%	2
Total					3.1%	2.4%	

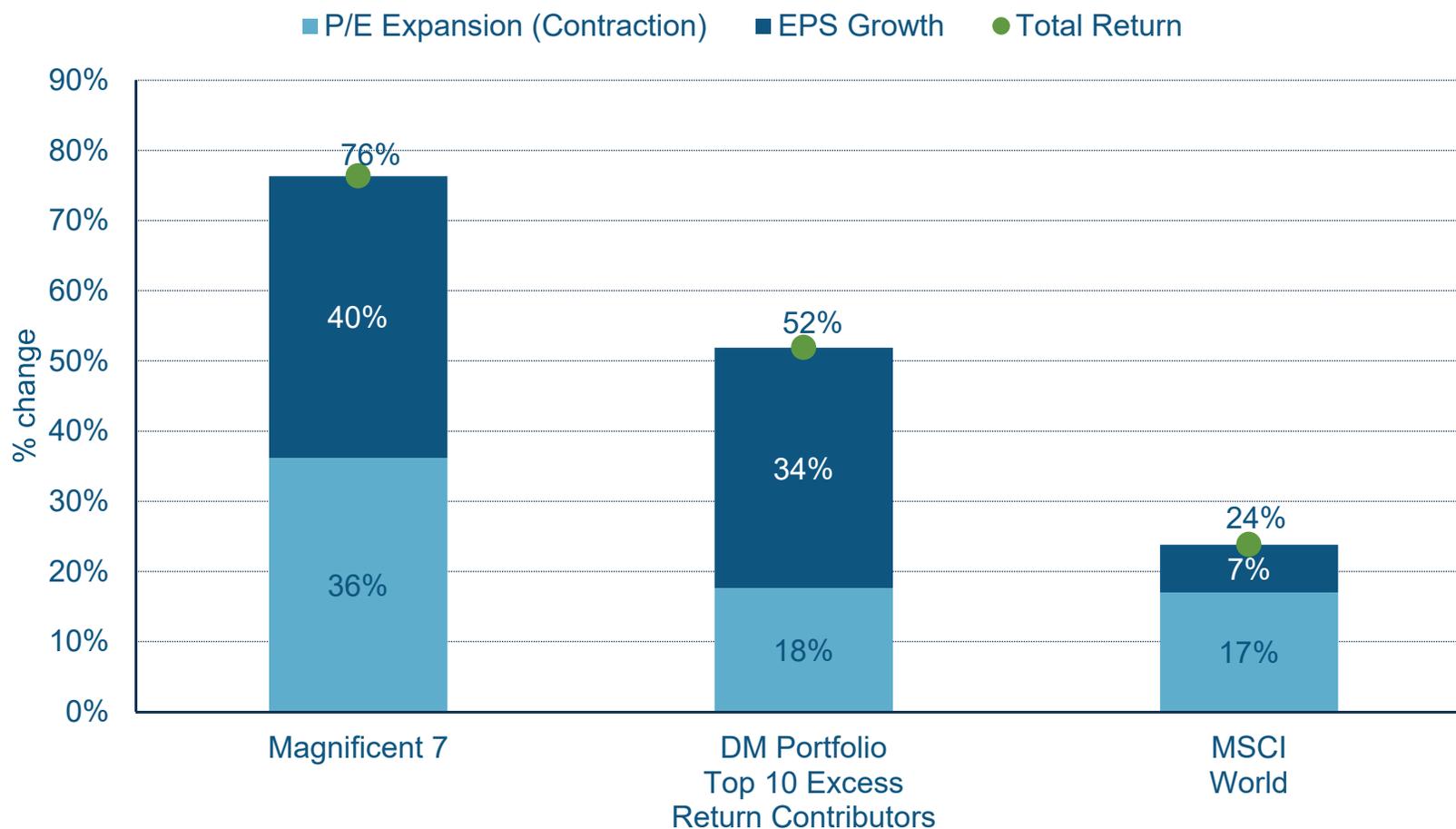
Source: BPM; Barra Global Equity Market Long Term Risk Model.

Note: Return contribution figures above may differ from individual stocks' CY 2023 returns multiplied by average portfolio or active weights due to timing fluctuations over the year.



Index “Mag 7” vs. DM Portfolio Return Drivers

2023 MULTIPLE EXPANSION VS. EPS GROWTH

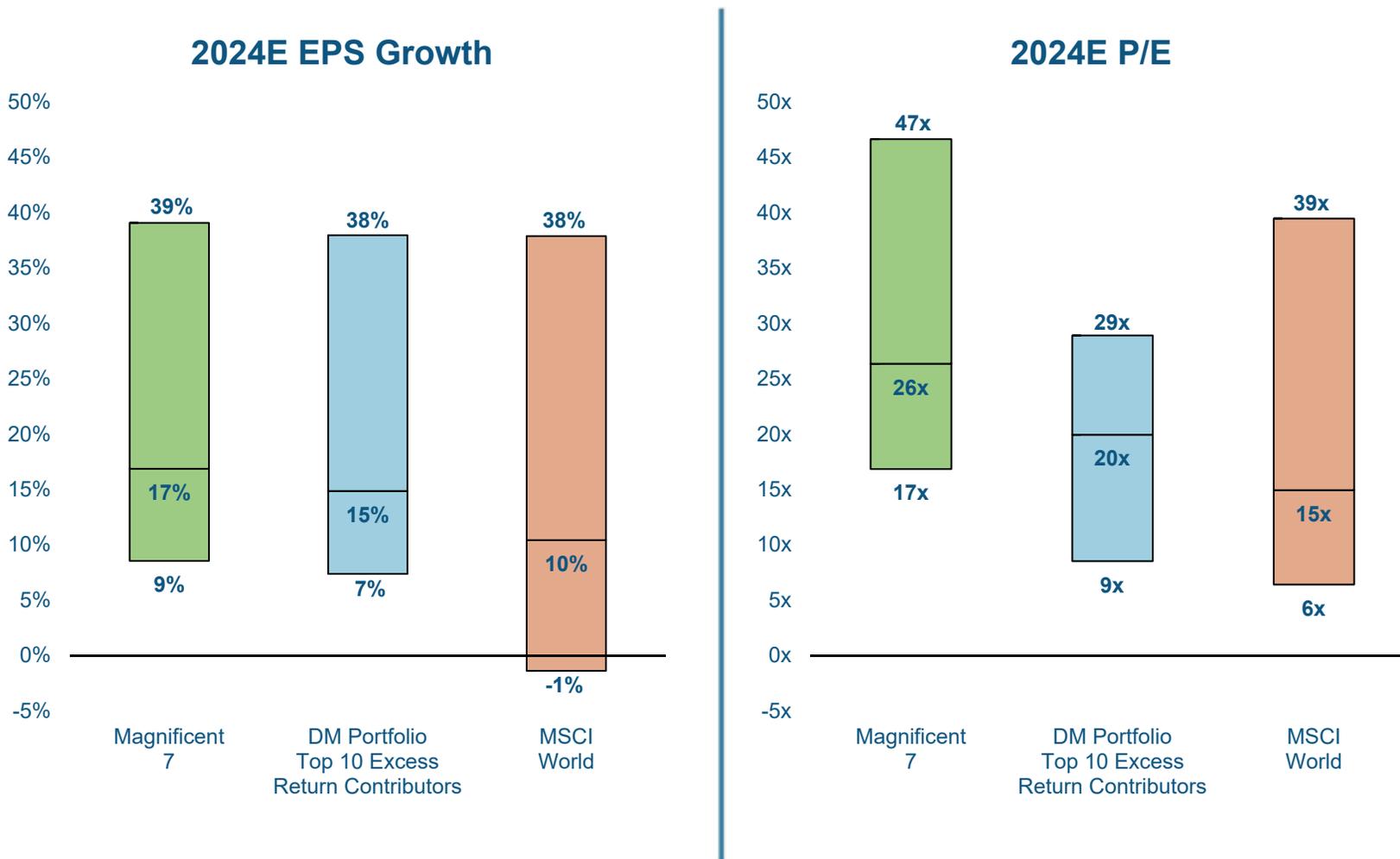


Note: DM Portfolio Top 10 Excess Return Contributors excludes Seagen, which was acquired by Pfizer on 12/15/23.



Index “Mag 7” vs. DM Portfolio Return Drivers

2024 OUTLOOK



Source: Bloomberg

Notes: DM Portfolio Top 10 Excess Return Contributors excludes Seagen, which was acquired by Pfizer on 12/15/23. MSCI World calculations use the 95th, 50th, and 5th percentile to exclude outliers.

DM Return Driver Example:

VISA everywhere
you want to be



- **Visa** owns and operates a payments network that seeks to be “the best way to pay and be paid.”
- The network spans 200 countries and territories, 14,500 financial institutions, 130 million merchant locations and 4.3 billion payment credentials.
- In 2023, Visa enabled \$15 trillion of volume across 276 billion transactions.



UTIMCO Investment:

- Average portfolio exposure in 2023
 - Absolute weight: 1.87% (~\$260 million)
 - Active weight: **+1.18%** (~\$165 million)
- Owned across nine managers (five fundamental, four quantitative)
- Stock appreciated **+48%** from fall 2022 to end of 2023

Investment Thesis:

- Stock declined **29%** peak-to-trough, from mid 2021 to fall 2022. Investor concern re: disruption from fintech startups led to valuation compression.
- Visa should benefit from (1) continued secular migration to electronic payments, (2) expansion from consumer to commercial flows, and (3) post-COVID recovery in cross-border travel
- Ubiquitous merchant acceptance and multi-year relationships with thousands of financial institutions create a strong competitive moat

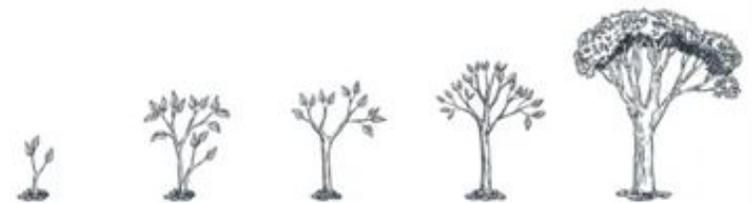
Different This Time?

Maybe

- Mega-cap technology incumbents benefit from **scale economies and network effects**
- **Artificial intelligence**
- **Balance sheet flywheel**
 - Largest companies now have **enormous war chests**
 - In current environment, they now
 - Have **lower borrowing rates** than new entrants
 - Earn **higher interest on cash held**
 - Generate **higher ROEs on investments**
- **Industrial-era antitrust policy** has not caught up with power of modern companies

Maybe Not

- **“Trees don’t grow to the sky”**: hard for large companies to compound—at same rate for same length of time—as smaller companies
- **“Innovator’s dilemma”**: challenging for incumbents to disrupt existing, profitable business segments in pursuit of promising future areas
- **Prior generations** of incumbents have always turned over



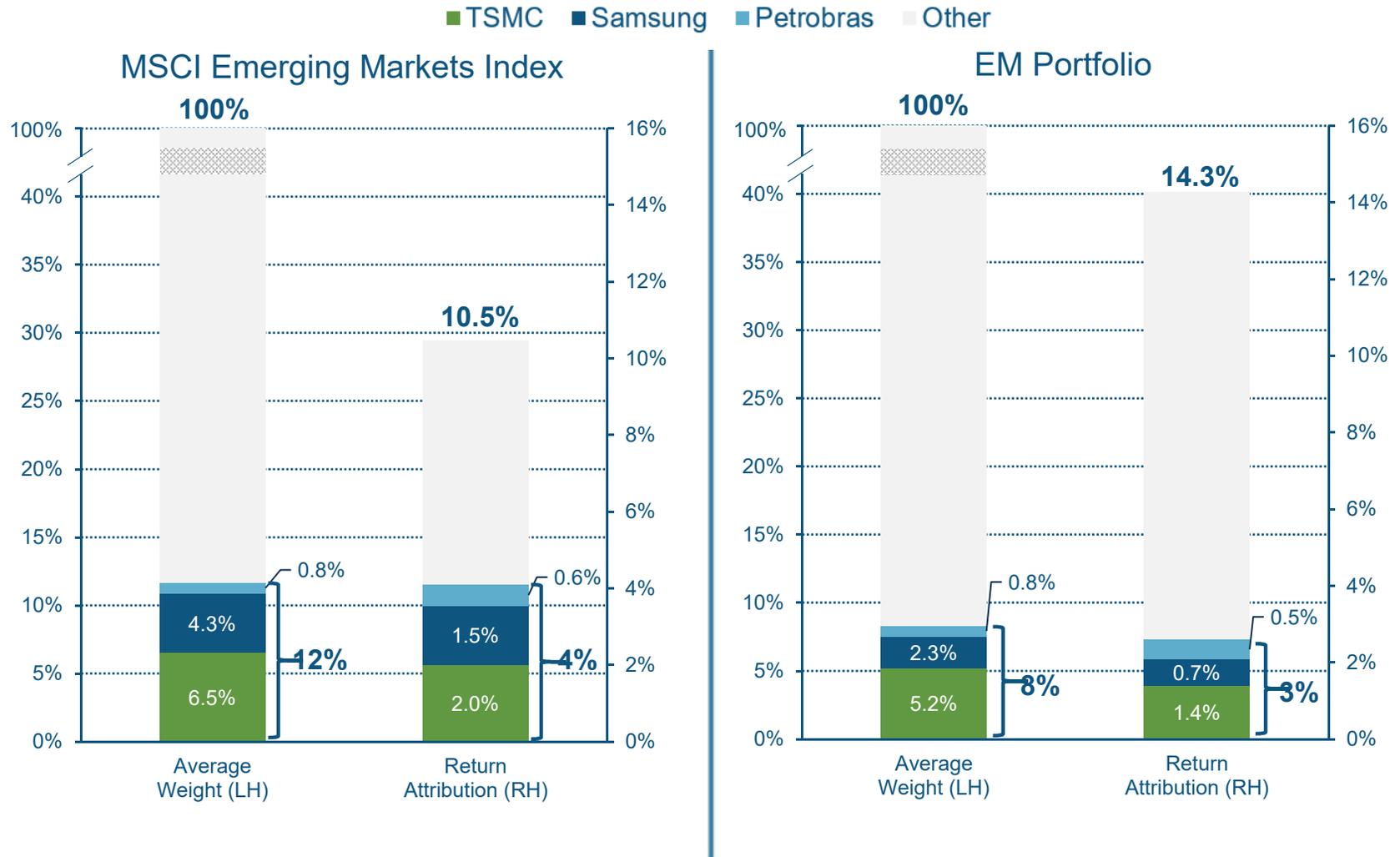
Emerging Markets





MSCI EM vs. UTIMCO EM Portfolio

EM Portfolio has lower weight to “Top 3” and more broad-based return drivers

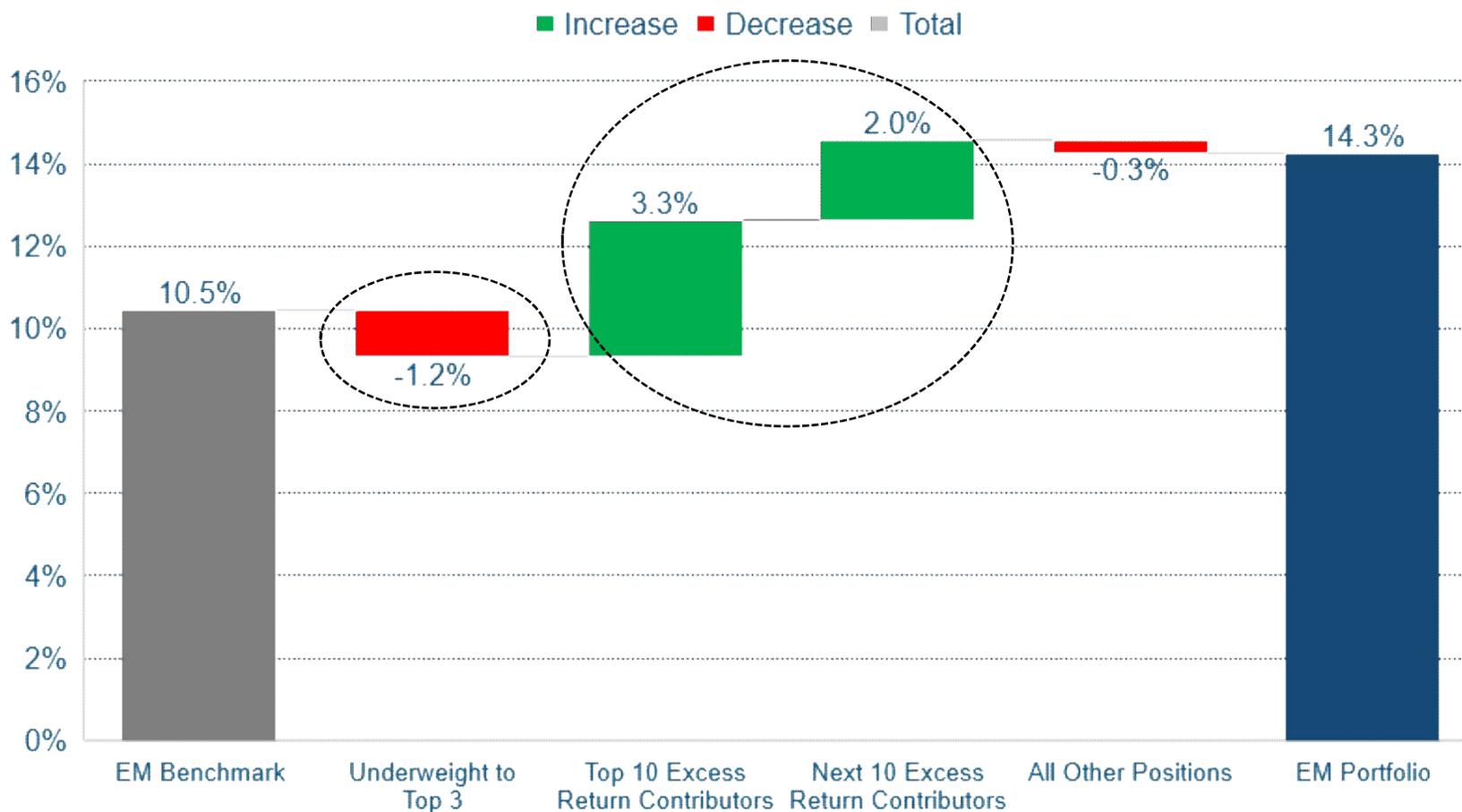


Source: BPM; Barra Emerging Markets Equity Market Risk Model.

Note: Return contribution figures above may differ from individual stocks' CY 2023 returns multiplied by average portfolio or active weights due to timing fluctuations over the year.



EM Portfolio Return Bridge - 2023



Source: BPM; Barra Emerging Markets Equity Market Risk Model.

The Emerging Markets Benchmark is: MSCI EM from 12/31/22 to 8/31/23; 67% MSCI EM with All China shares + 33% MSCI EM ex China starting 9/1/23.

Return contribution figures above may differ from individual stocks' CY 2023 returns multiplied by average portfolio or active weights due to timing fluctuations over the year.



EM Portfolio Active Return Drivers

TOP 10 EXCESS RETURN CONTRIBUTORS

Asset Name	CY23 Return	Average Portfolio Weight	Average Benchmark Weight	Average Active Weight	Total Return Contribution	Active Return Contribution ↓	No. of EM Managers who Owned
Pinduoduo Inc.	79.4%	1.1%	0.5%	0.5%	0.7%	0.6%	5
amazon	80.9%	0.4%	0.0%	0.4%	0.3%	0.4%	3
Meituan	-53.2%	0.4%	1.0%	-0.6%	-0.3%	0.4%	4
Evolution	24.9%	0.9%	0.0%	0.9%	0.3%	0.4%	1
TATA COMMUNICATIONS	39.9%	0.7%	0.0%	0.7%	0.2%	0.3%	5
廣達電腦 Guanta Computer	234.9%	0.4%	0.2%	0.2%	0.4%	0.3%	3
bilibili	-50.0%	-0.3%	0.0%	-0.4%	0.2%	0.3%	4
ultrapower	98.6%	0.2%	0.0%	0.2%	0.2%	0.2%	1
ASML	107.5%	0.3%	0.0%	0.3%	0.2%	0.2%	2
alchip	319.9%	0.2%	0.0%	0.2%	0.2%	0.2%	3
Total					2.5%	3.3%	

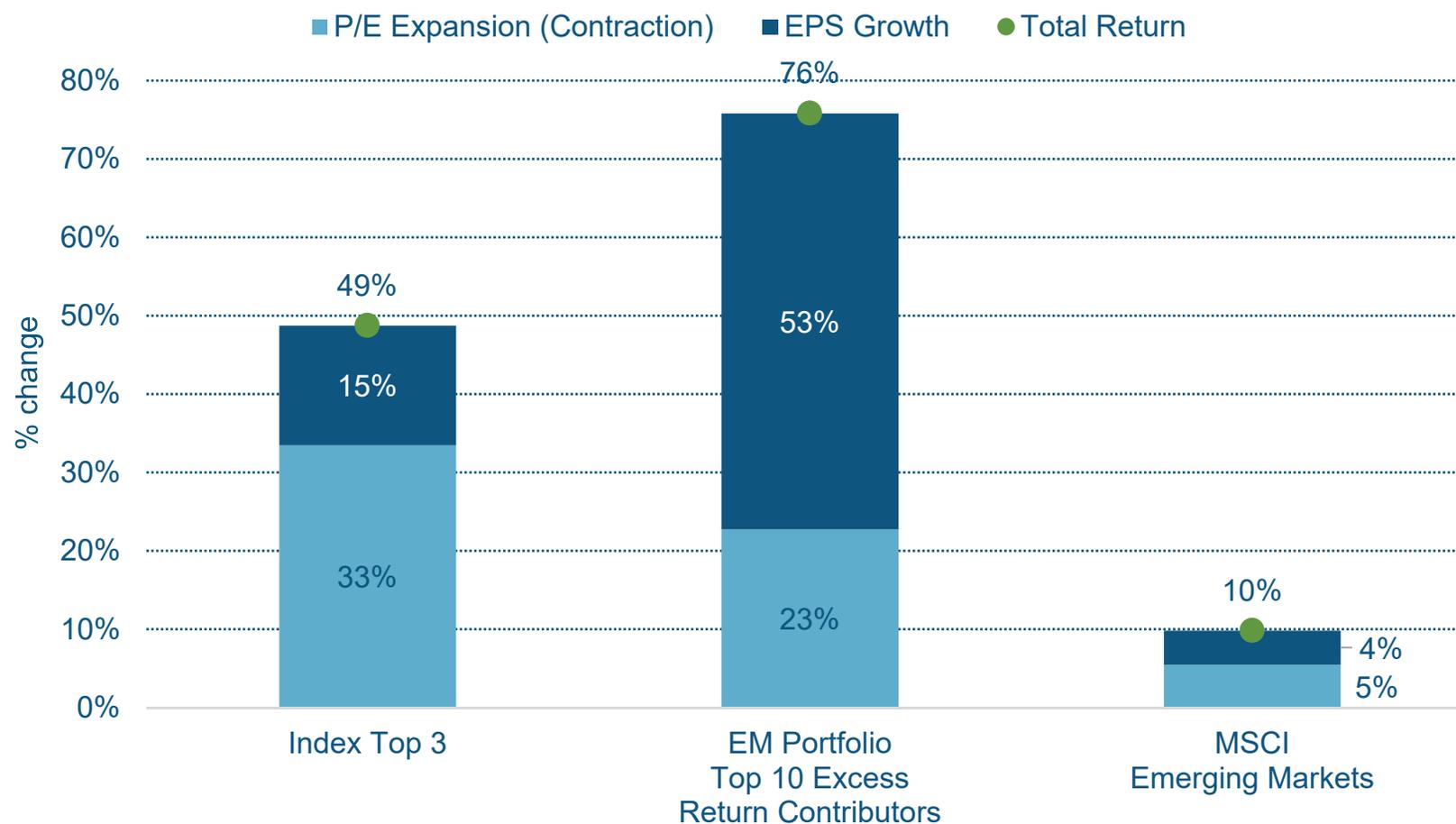
Source: BPM; Barra Emerging Markets Equity Market Risk Model.

Note: Return contribution figures above may differ from individual stocks' CY 2023 returns multiplied by average portfolio or active weights due to timing fluctuations over the year.



Index Top 3 vs. EM Portfolio Return Drivers

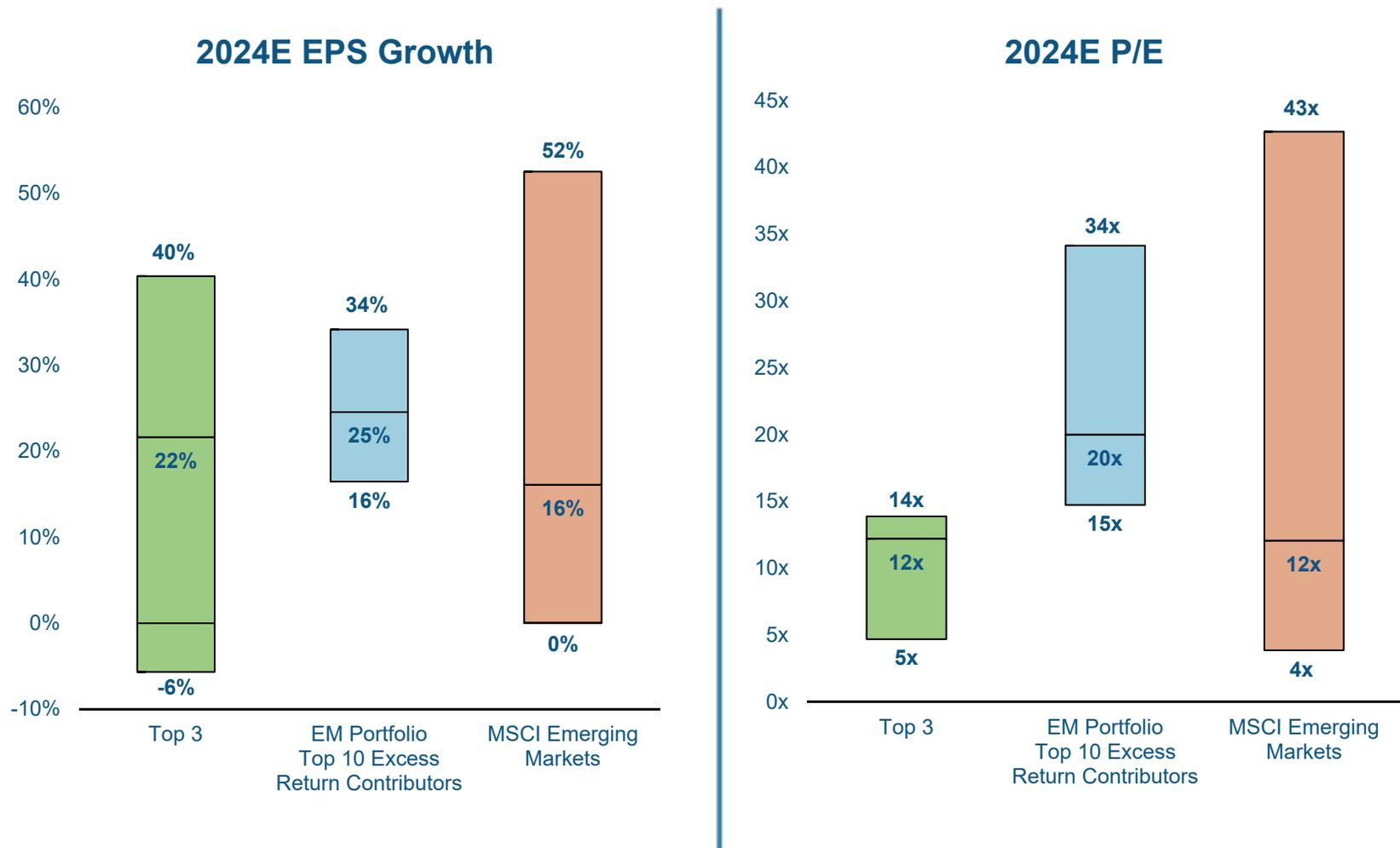
2023 MULTIPLE EXPANSION VS. EPS GROWTH





Index Top 3 vs. EM Portfolio Return Drivers

2024 OUTLOOK



Source: Bloomberg

Notes: EM Portfolio Top 10 Excess Return Contributors exclude Bilibili and Meituan, which contributed as active underweights. MSCI EM calculations use the 95th, 50th, and 5th percentile to exclude outliers.



Strategic Partnerships / TAA



Executive Summary

Role of Strategic Partnerships / TAA

- **AUM and Weight** in Endowments
 - ~\$2.8 billion at end of 2023
 - ~5% of Endowments
 - **Multi-asset portfolio**, generating Top-down alpha via *tactical asset allocation* and *security selection*
- **Tactical Asset Allocation Overlay**
 - **Rules-based, systematic strategy** managed as an overlay on the Total Endowments
 - Currently at 2/3rds of its targeted size
 - Current signal is overweight equities, underweight fixed income

Macro Environment in 2023

- **Inflation decelerated** as pandemic-related distortions abated; Core PCE declined from peak of +5.6% in 2022 to +2.9% YoY by December 2023
- **Growth outpaced nearly all forecasts** as the consumer remained robust
- **The Fed began its pivot to easing** at the December FOMC meeting following an aggressive tightening
- **Markets enthusiastically priced in a soft-landing** and return to pre-Covid environment

2024 Priorities

- **Continue seeking and allocating to diversifying top-down alpha streams**
 - Evaluating adding additional macro managers
 - Underwriting and stress-testing incremental changes to Systematic TAA process
- Manage knowledge-sharing relationships with Strategic Partners, including **Summits** and **Research Projects**

Portfolio Performance*

- **Strong Total Returns in Calendar Year 2023 with flat alpha**
 - +15.5% Total Returns
 - -0.5% Excess Returns
 - TAA: -12 bps of Endowment Alpha
- **Strategic Partners outperforming expectations since inception**
 - ITD Strategic Partners Alpha: +2.6%
 - Total Returns: +12%

* PUF returns and alpha, annualized for periods greater than 1 year.



Strategic Partners and TAA Performance

Performance Summary – December 31, 2023

	Exposure		UTIMCO Performance ²			Alpha vs Benchmark ³		
	Size (\$m) ¹	% Endowment	1y	3y	ITD	1y	3y	ITD
Strategic Partnerships	\$2,492	4.3%	17.9%	3.4%	11.5%	(0.3%)	1.3%	2.6%
JP Morgan	\$1,205	2.1%	17.4%	2.1%	10.9%	(0.9%)	0.1%	1.9%
BlackRock	\$1,286	2.2%	18.5%	4.5%	12.1%	0.2%	2.4%	3.1%
Bridgewater	\$287	0.5%	(2.2%)	-	(5.9%)	(1.9%)	-	(5.6%)
Total Strategic Partnerships	\$2,779	4.8%	15.5%	2.4%	10.7%	(0.5%)	0.9%	2.2%
TAA	\$2,735	-	-	-	-	(0.1%)	-	(0.0%)

¹ SPs: NAV; TAA: current gross notional (2/3 of full size)

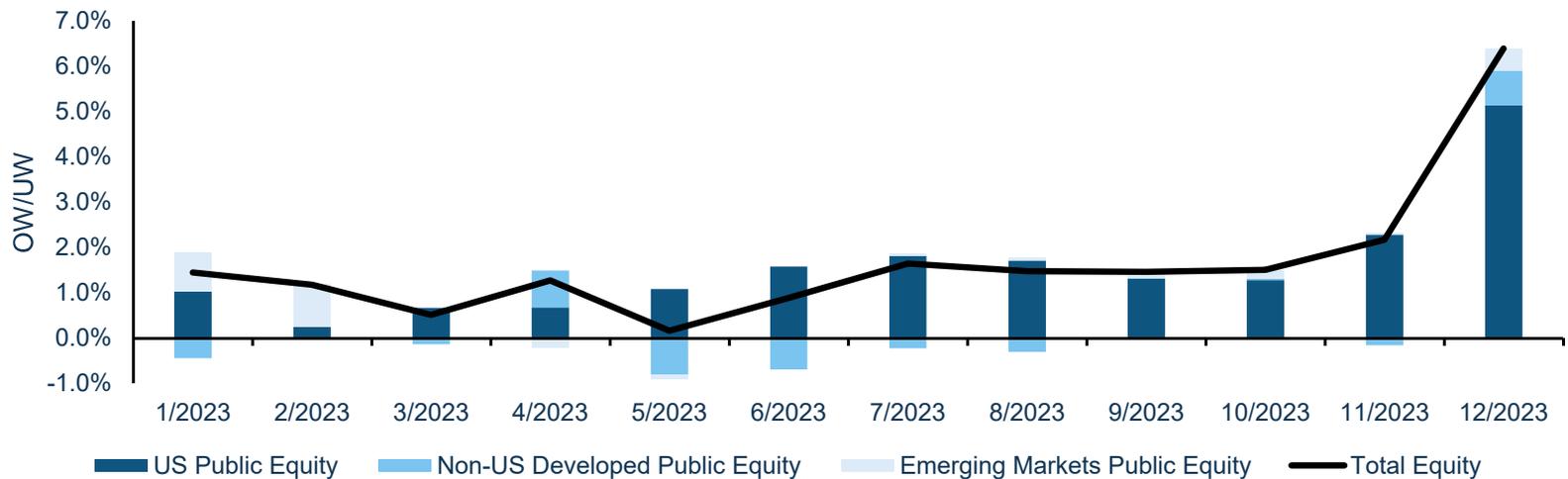
² JP Morgan and BlackRock's ITD is 4/30/2020. Bridgewater's ITD is 9/30/2022. TAA's ITD is 5/31/2021

³TAA Performance expressed in terms of percent contribution to Total Endowment Alpha

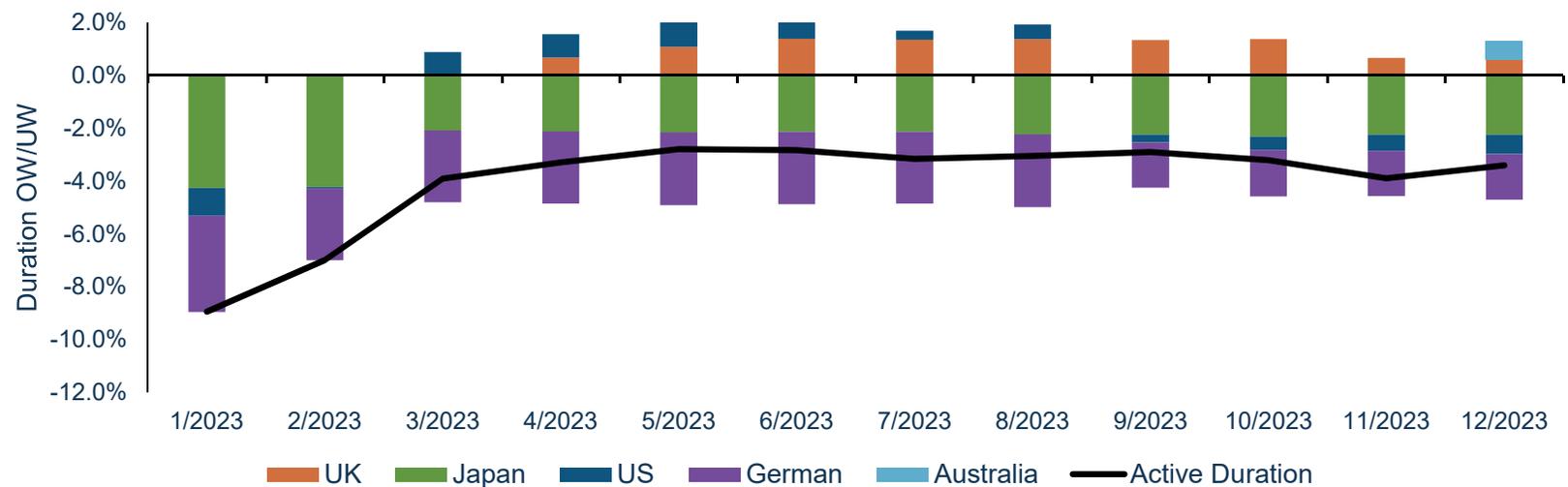


Historical Strategic Partners Tactical Positioning

Equity positioning shifted to “risk-on” in Q4



Reduced Fixed Income Underweight Post-SVB Failure



Note: Charts shows month-end exposures; intra-month exposures may vary.



Conclusion



Conclusion

Public Equity

- **Public equity markets** were **positive in 2023** across most countries, sectors and factors
 - Strong economic growth, moderating inflation, and stabilizing interest rates provided a **supportive macro backdrop** for equities
- **Narrow market leadership** echoes prior market cycles; we will **navigate without trying to predict** how long current environment could continue
- **Alpha recovered** in 2023 (**+94bps** for Total Public Equity) with **broad-based return drivers**
- **Portfolio priorities in 2024: take active risk where it is well-compensated**
 - Increase and optimize exposure to quantitative and active extension strategies
 - Continue factor framework and risk budgeting
 - Continue to optimize Portable Alpha

Strategic Partnerships / Tactical Asset Allocation

- Inflation decelerated; growth surprised to upside; markets priced in a **soft landing**
- **Strong total returns** with **flat alpha in 2023**; since-inception results are outperforming expectations
- **Priorities in 2024:**
 - **Evaluate** diversifying, top-down **alpha streams**
 - **Continue** investment and organizational **knowledge-sharing**



Appendix

Appendix – Public Equity





Echoes of the Past

“Nifty Fifty” (1960s & 1970s)

	1972 P/E		1972 P/E
Polaroid	90.7	Chesebrough-Ponds	41.0
McDonald’s	85.7	Minnesota Mining (3M)	40.8
MGIC Investment	83.3	American Express	39.0
Walt Disney	81.6	American Home Products	38.9
Baxter Travenol	78.5	Schlitz Brewing	38.7
Intl Flavors & Fragrances	75.8	Halliburton	38.3
Avon Products	65.4	IBM	37.4
Emery Air Freight	62.1	Lubrizol	36.9
Johnson & Johnson	61.9	J.C. Penny	34.1
Digital Equipment	60.0	Squibb	33.9
Kresge (Kmart)	54.3	Procter & Gamble	32.0
Simplicity Pattern	53.1	Anheuser-Busch	31.9
AMP	51.8	Sears Roebuck	30.8
Black & Decker	50.5	Heublein	30.1
Schering	50.4	PepsiCo	29.3
American Hospitality Supply	50.0	Pfizer	29.0
Schlumberger	49.5	Bristol-Myers	27.6
Burroughs	48.8	General Electric	26.1
Xerox	48.8	Revlon	26.1
Eastman Kodak	48.2	Phillip Morris	25.9
Coca-Cola	47.6	Gillette	25.9
Texas Instruments	43.6	Louisiana Land & Exploration	25.6
Eli Lilly	46.0	Dow Chemical	25.5
Merck	45.9	First National City	22.4
Upjohn	41.1	ITT	16.3

Sources: Morgan Guaranty Trust, Journal Record, CNBC

“Four Horsemen” (2000)

THE JOURNAL RECORD

High-flying Nasdaq very much in style

Nasdaq, home to the **four horsemen of high-tech—Cisco Systems, Microsoft, Intel, and Oracle**—has eclipsed the Dow Jones Industrial Average as the index to watch for this nation of investors, online traders, and tech junkies.

“FANG / FAANG” (2013 / 2017)



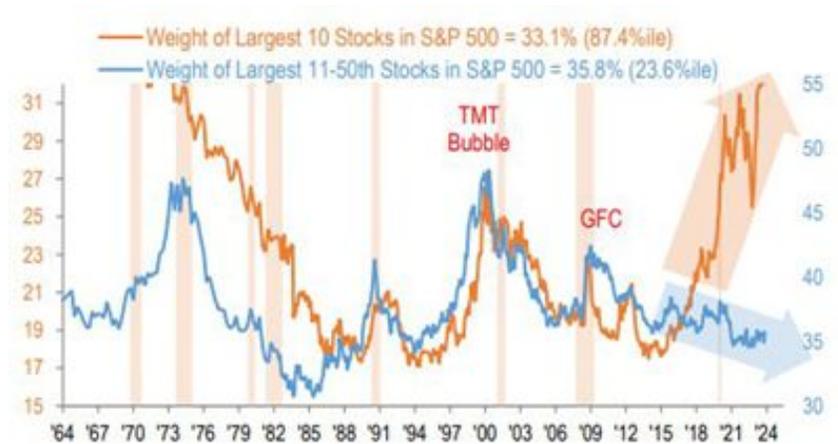


Extreme Concentration

S&P 500 Index at Peak Concentration in 50 Years



Peak Concentration Driven by Top 10 Stocks



S&P 500 Index Median Stock vs. Top 7 Stock

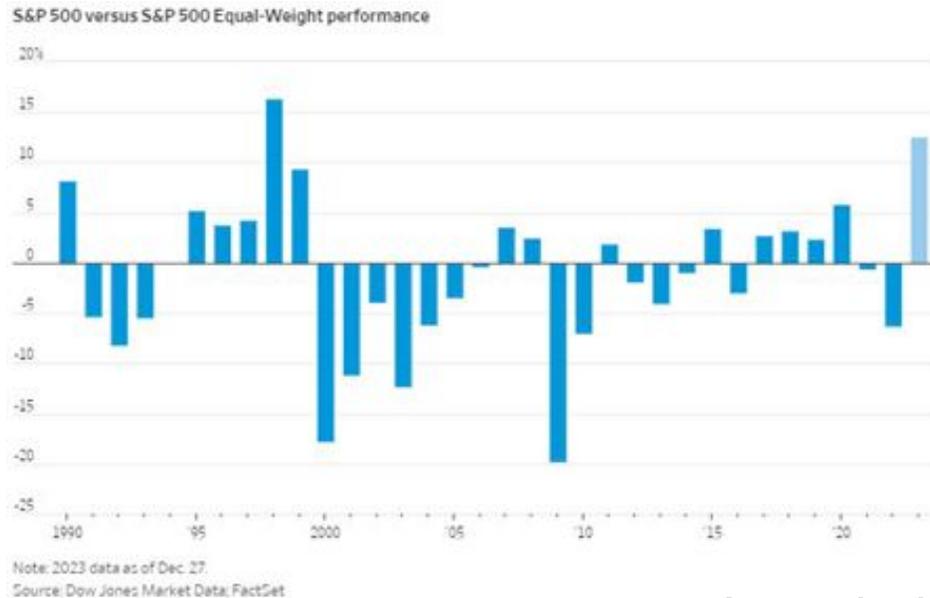


Source: JP Morgan, Bank of America



Challenge for Active Management

In 2023, S&P 500 > S&P 500 Equal-Weight by Widest Margin since 1998



Average Institutional Investor is Underweight Magnificent 7



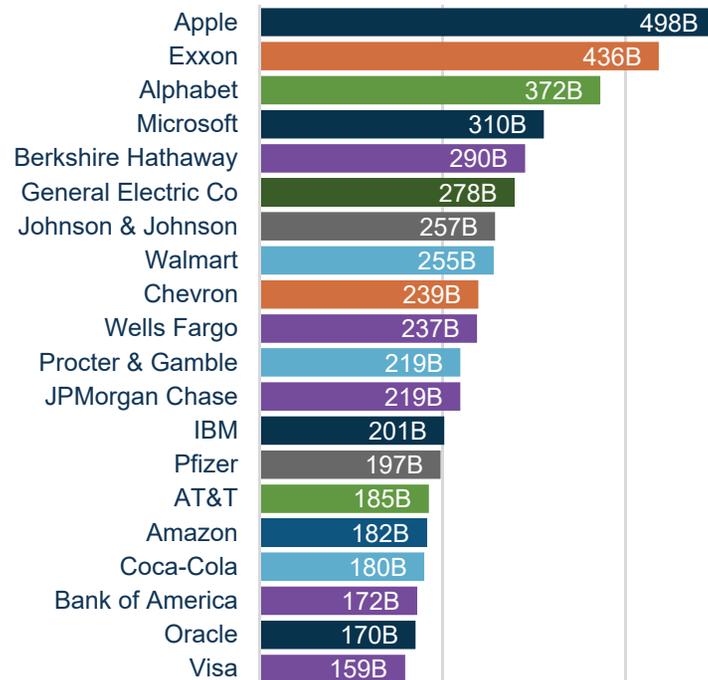
Sources: Wall Street Journal, JP Morgan



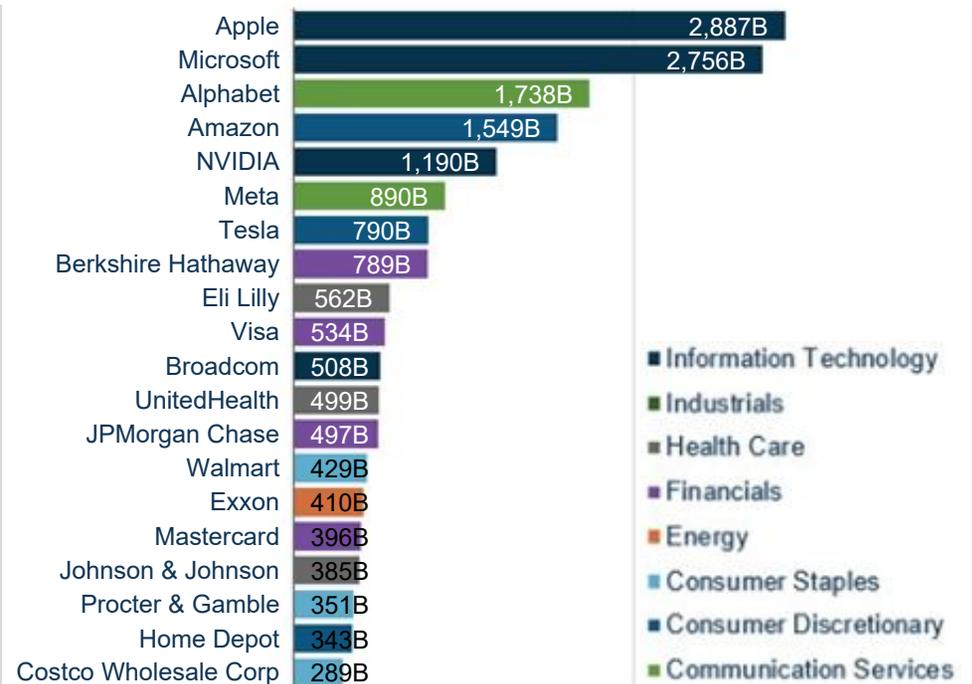
Evolution within Top of the Index

Top 20 S&P 500 Companies, 2014 → 2024

Top 20 S&P 500 Companies in 2014



Top 20 S&P 500 Companies in 2024

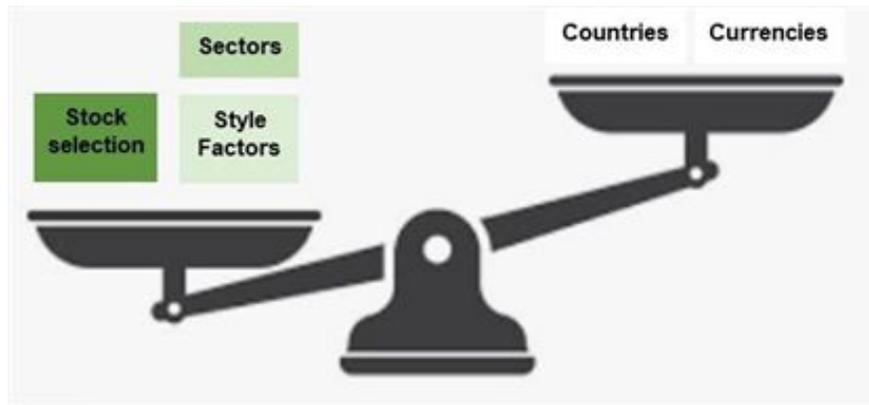


- **Three of top 5 stayed** in top 5: Apple, Microsoft, Alphabet
- **Four companies dropped** several places, e.g., Exxon from #2 to #15
- **Nine of top 20 fell out** entirely: Chevron, Wells Fargo, GE, IBM, Pfizer, Coca-Cola, Oracle, Citigroup, Verizon
- **Four new companies entered** top 10 (from below top 20): Nvidia, Meta/Facebook, Tesla and Eli Lilly
- **Additional five new companies entered top 20**: Broadcom, United Health, Mastercard, Home Depot and Costco

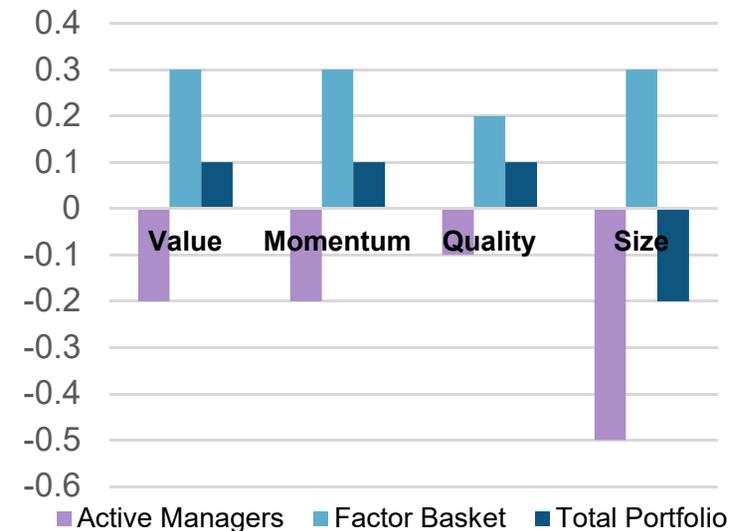
Source: Bloomberg, as of 1/02/2014 and 1/02/2024

Navigating a Narrowly-Led Market

Balanced Portfolio Driven by Stock Selection



Factor Basket = “Better Passive”



- Maintain **balanced portfolio** through **factor framework** and **risk budgeting**
- Prioritize **active risk from stock selection** (vs. factor or industry positioning)
- Deploy **factor basket** / completion portfolio as **“better passive”**



Developed Markets Portfolio

PERFORMANCE ATTRIBUTION - 2023

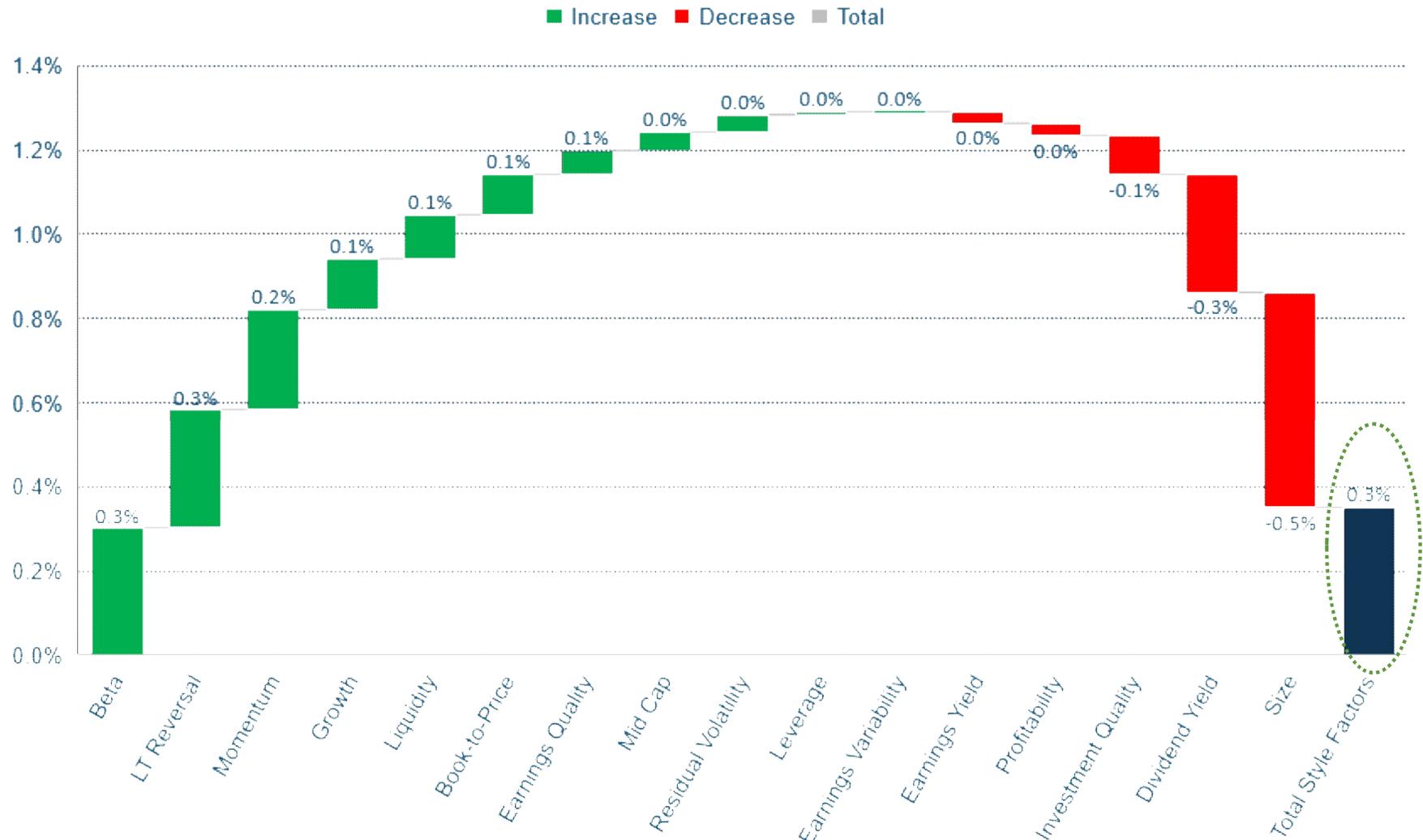


Source: BPM; Barra Global Equity Market Risk Model.



Developed Markets Portfolio

STYLE FACTOR ATTRIBUTION - 2023

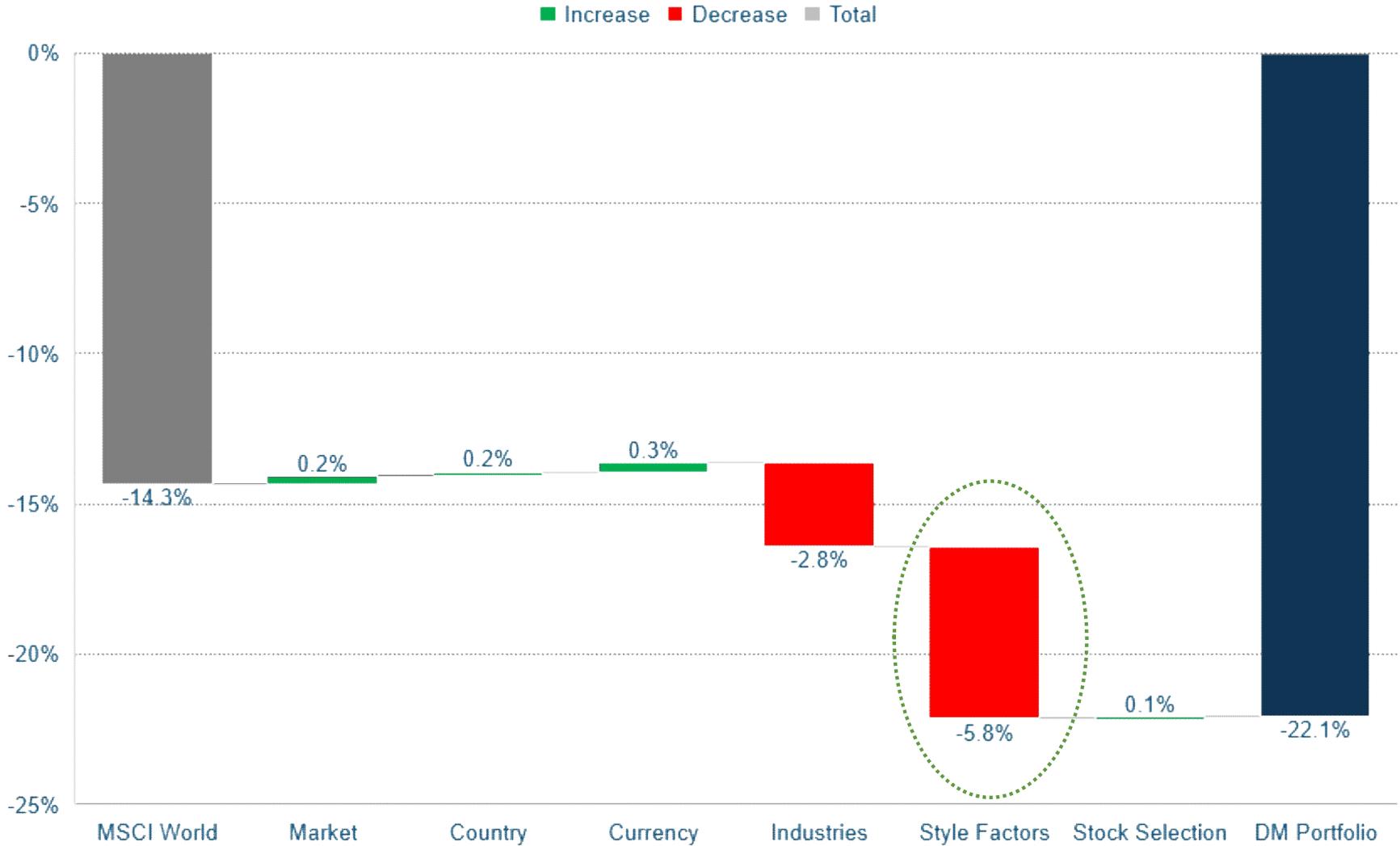


Source: BPM; Barra Global Equity Market Risk Model.



Developed Markets Portfolio

PERFORMANCE ATTRIBUTION - FLASHBACK TO 12M ENDED JUNE 2022

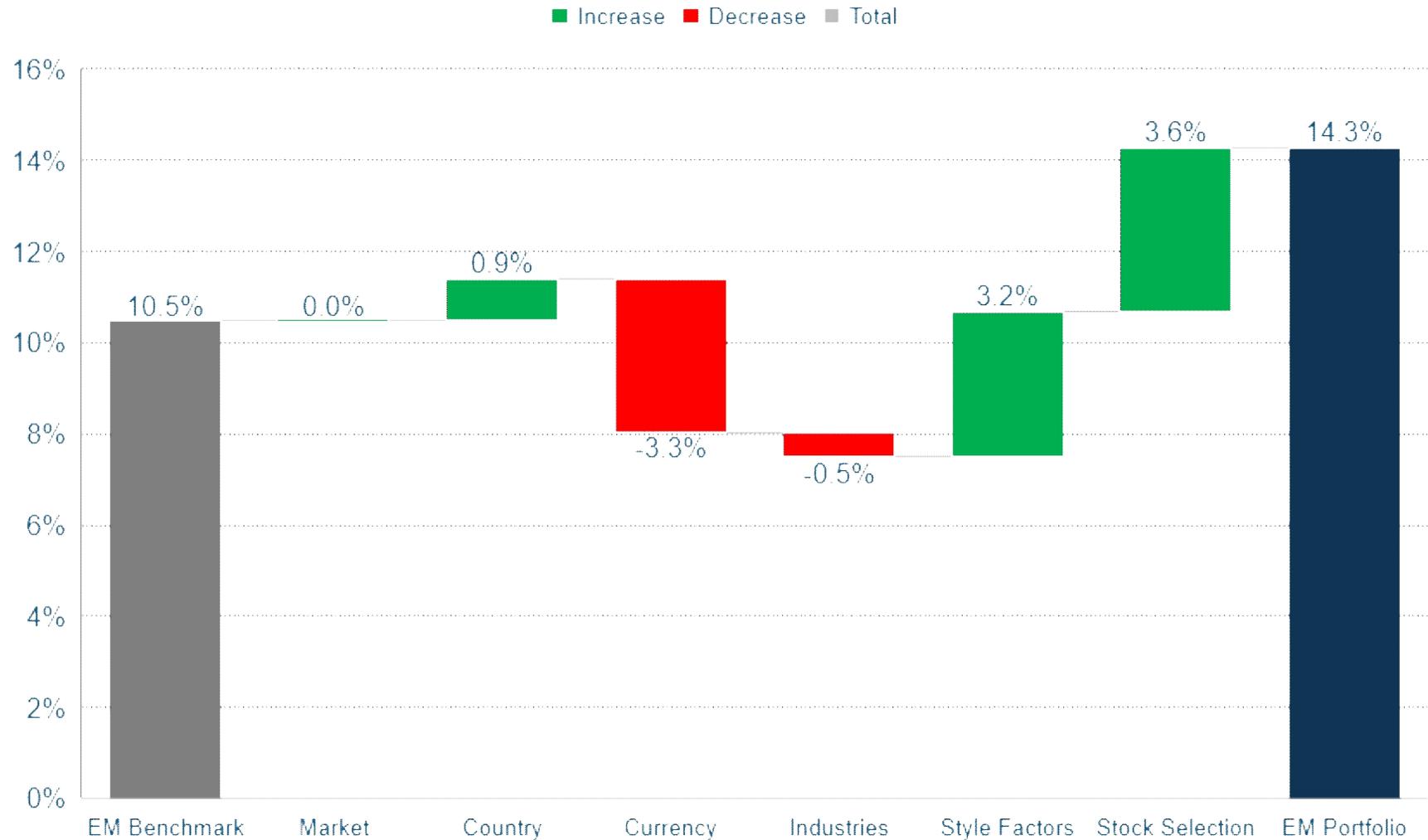


Source: BPM; Barra Global Equity Market Risk Model.



Emerging Markets Portfolio

PERFORMANCE ATTRIBUTION - 2023



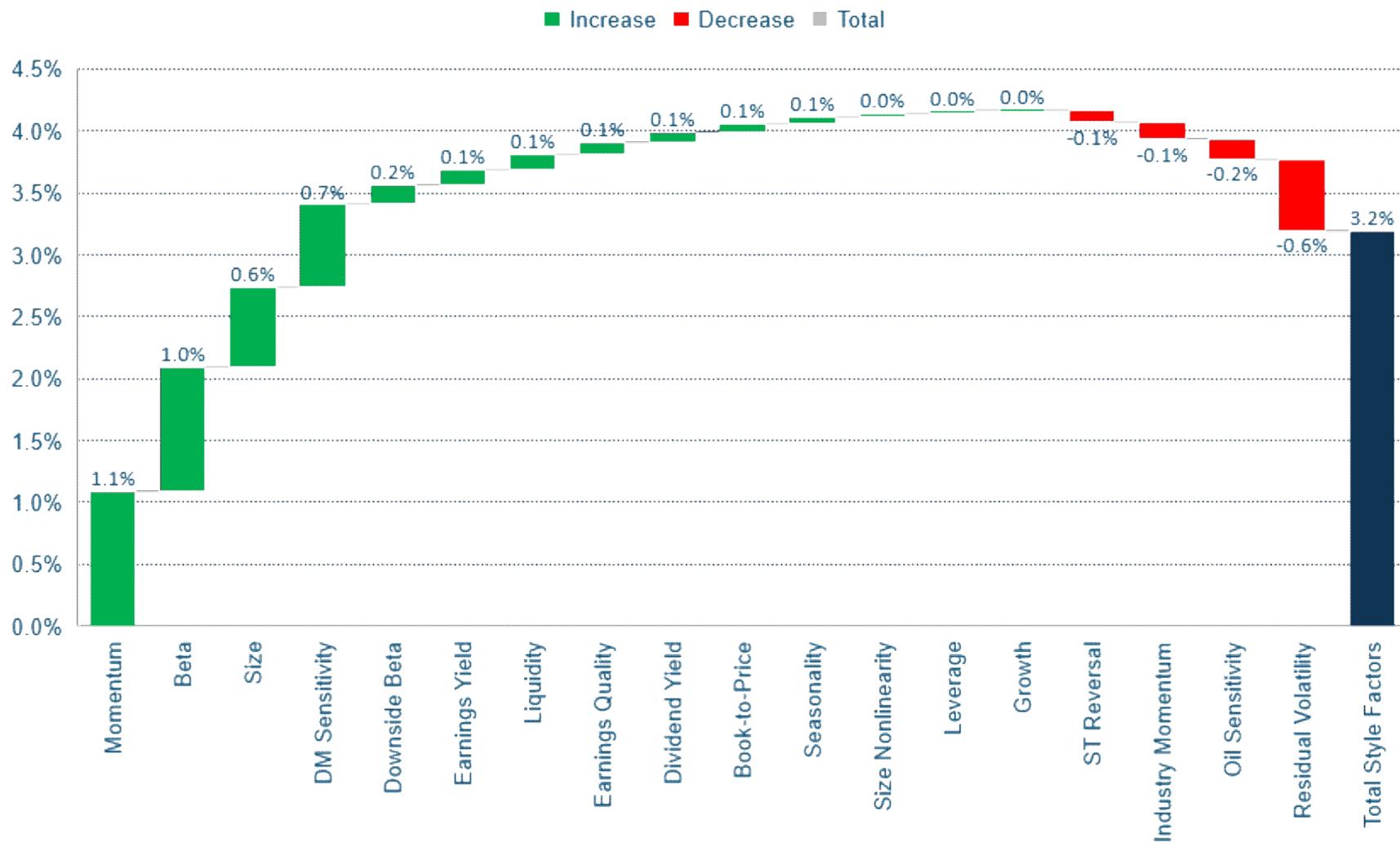
Source: BPM; Barra Emerging Markets Equity Market Risk Model.

The Emerging Markets Benchmark is: MSCI EM from 12/31/22 to 8/31/23; 67% MSCI EM with All China shares + 33% MSCI EM ex China starting 9/1/23.



Emerging Markets Portfolio

STYLE FACTOR ATTRIBUTION - 2023



Source: BPM; Barra Emerging Markets Equity Market Risk Model.



2024 Priorities

Performance & Portfolio

- Continue **alpha recovery** in Developed Markets portfolio
- Increase and **optimize quantitative** and **active extension strategies**
- Continue expanding and optimizing **Portable Alpha** in collaboration with HF Team
- Take **active risk** in areas where doing so is **well-compensated**

Talent Development

- Contribute meaningfully to **Data Program** initiatives
- Participate actively in **Citizen Developer** program
- Recruit and onboard **one new Analyst**
- Execute **Individual Development Plans**

Firm & Client Initiatives

- **Mentor and supervise students** in UTIMCO Scholars, Growing Investment Leaders, and student fund programs
- Continue involvement in **firm events and programming** (e.g., Early Career Program, Learning Institute, YOU-TIMCO, AI Working Group)



2024 Action Plan

Performance and Portfolio					
Action	Metric	Timing	Action	Metric	Timing
Accomplish investment objectives	Generate 75 bps alpha vs. market benchmarks and top quartile vs. peers (over 1y period)	Q4 2024	Continue Portable Alpha strategies using hedge funds	Increase Specialty Credit pillar (to ~20%) Expand off-balance sheet program (external HF manager manages beta)	Q2 2024
Adjust Investment Policies and Derivative Policy to facilitate expansion of portfolio tools	Develop Policy recommendations for June 2024	Q2 2024	Continue Portable Alpha strategies using equity funds	Identify attractive equity universes (high, stable and persistent alpha) Deploy PA tools in selected attractive equity universes (swap to Policy beta)	Q4 2024
Continue quant / active extension strategies	Optimize AE strategies (universe and signal breadth, gross exposure, signal quality)	Q2 2024	Continue factor basket	Research and implement enhancements (e.g., custom universes, capital-efficient implementation)	Q2 2024

Talent Development		
Action	Metric	Timing
Contribute to implementation of investment data enhancements	Participate in Data Program initiatives (ELT, Working Group, Data Council) Participate in Citizen Developers program	Q4 2024
Recruit and integrate 1 new Analyst	Hire and successfully onboard strong candidate	Q3 2024
Execute Individual Development Plans	Each team member to successfully complete objectives	Q4 2024

Firm and Client Initiatives		
Action	Metric	Timing
Lead UTIMCO brand-building activities	Serve as student fund and FAP mentors Present to student groups	Q2 2024
Continue building connectivity with UT and TAMU students	Supervise GIL projects; mentor GIL and Scholars	Q3 2024
Support firm initiatives	Participate in firm events and programming Participate in AI Working Group	Q4 2024

Appendix – SPTAA



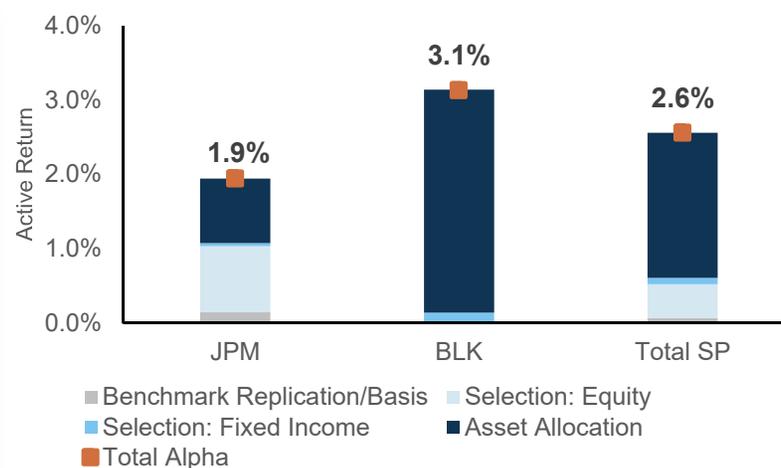


SPs ITD Performance and Attribution

Annualized Performance and Attribution as of December 31, 2023

Performance	JPM	BLK	Total SP
Total Return	10.9%	12.1%	11.5%
Benchmark	9.0%	9.0%	9.0%
Total Alpha	1.9%	3.1%	2.6%

Alpha Attribution	JPM	BLK	Total SP
Security Selection	0.9%	0.1%	0.5%
Selection: Equity	0.9%	0.0%	0.5%
Selection: Fixed Income	0.0%	0.1%	0.1%
Asset Allocation	0.9%	3.0%	2.0%
Benchmark Replication/Basis	0.1%	0.0%	0.1%
Total Alpha	1.9%	3.1%	2.6%



	Type ¹	Asset	Contribution to Total
JPM Top Alpha Contributors			
JPM Global Select	SS	EQ	0.5%
Duration	AA	FI	0.5%
Credit OW	AA	FI	0.4%
BLK Top Alpha Contributors			
Global Market Strategies Fund ²	AA	Multi	1.1%
US FI	AA	FI	0.6%
EUR FI	AA	FI	0.5%

Contribution to Return: ITD Expected vs. Actual Sources

	Expectations		Actual	
	AA	SS	AA	SS
JP Morgan	54%	46%	45%	55%
BlackRock	79%	21%	95%	5%
Total	67%	34%	70%	30%

¹ Security Selection (SS) or Asset Allocation (AA)

² Global Market Strategies is a predominantly systematic global macro fund strategy that allocates relative value positions across interest rate swaps, sovereign bonds, equities, and FX



Systematic TAA Process + Positioning

Signals

Strategic Partners

Advisory Portfolios

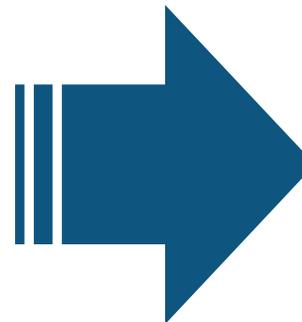
UTIMCO Models

Technicals

Optimization and Scaling

TAA Risk Target

Signal conviction

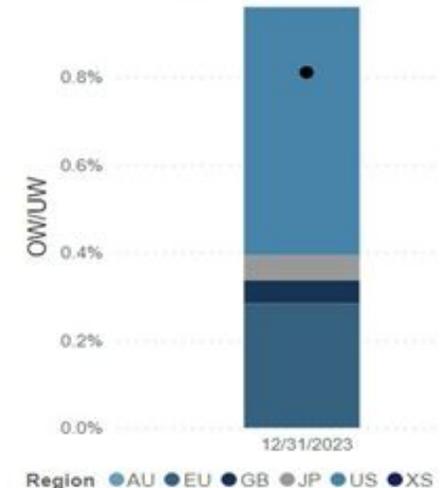


Policy and Risk Limits

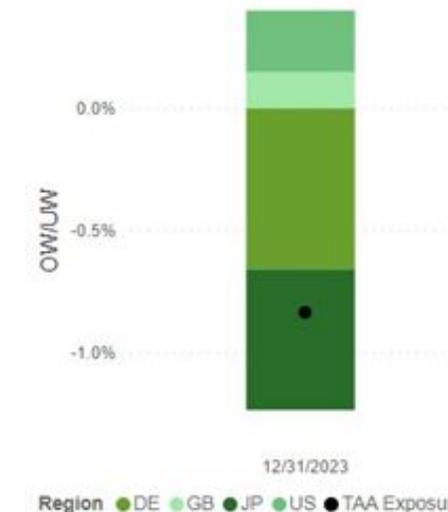
Leverage constraints

Asset Allocation Positioning

Equity Exposure



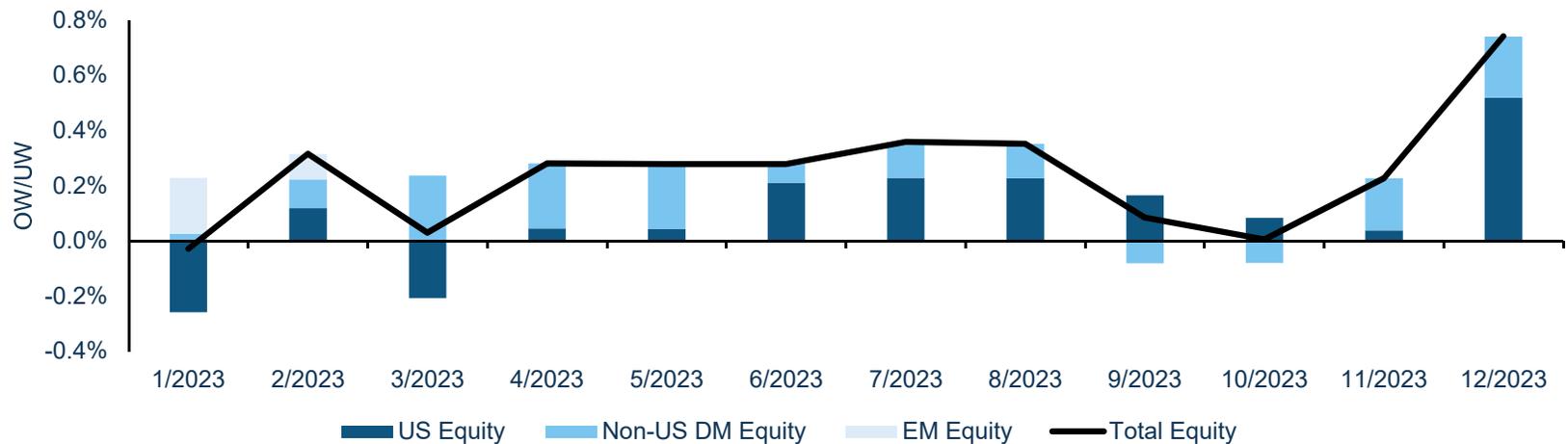
Fixed Income Exposure



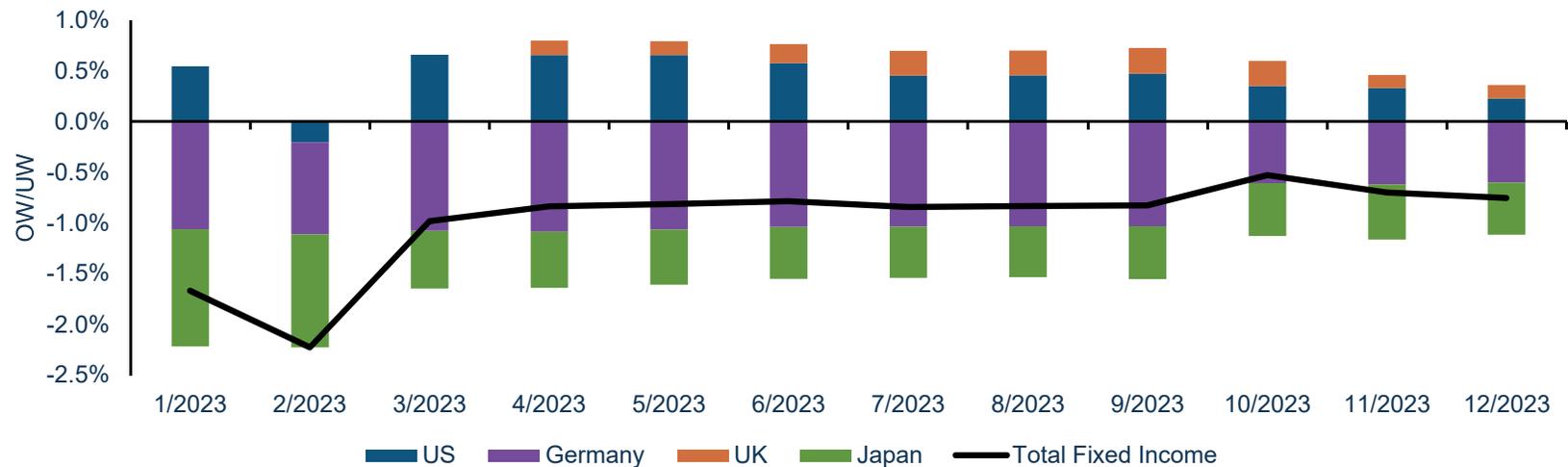


Systematic TAA Using UTIMCO Risk Bands

Endowments Overweight US and Non-US Equities



Strategy Remains Underweight European and Japanese Bond Markets



Note: Charts shows month-end exposures; intra-month exposures may vary.



Systematic TAA Performance Summary

Performance Summary – December 31, 2023

	TAA PnL (\$m)		TAA PnL (Endowment Bps)	
	<u>1y</u>	<u>ITD</u>	<u>1y</u>	<u>ITD</u>
US Equity	(-18.7)	(-8.2)	(-3.4)	(-1.5)
Non-US DM Equity	+10.6	(-13.8)	+1.9	(-2.6)
EM Equity	(-3.0)	(-6.8)	(-0.6)	(-1.3)
Total Equity	(-11.2)	(-28.8)	(-2.0)	(-5.4)
Total Fixed Income	(-52.4)	+35.4	(-9.6)	+6.6
FX (Dollar View)	(-2.6)	(-17.1)	(-0.5)	(-3.2)
Total Systematic TAA	(-66.2)	(-10.4)	(-12.1)	(-1.9)

	Positioning / Active Views			
	<u>TAA</u>	<u>JPM</u>	<u>BLK</u>	<u>BW</u>
US Equity	●	●	●	◆
Non-US DM Equity	●	●	●	●
EM Equity	●	●	▲	●
Total Equity	●	●	●	◆
Total Fixed Income	◆	●	◆	◆
FX (Dollar View)	◆	▲	◆	●
Total Systematic TAA				

TAA's ITD is 5/31/2021

Agenda Item
UTIMCO Board of Directors Meeting
March 20, 2024

Agenda Item: Hedge Funds Presentation

Developed By: Team

Presented By: Ruebsahm, Powers, Caruso, Kampfe

Type of Item: Information Item

Description: Mr. Ruebsahm, Mr. Powers and Mr. Caruso will review the Hedge Fund portfolios and performance. Mr. Kampfe will review the Fixed Income portfolio.

Reference: *Hedge Funds & Fixed Income Performance* presentation



Board of Directors Meeting

Hedge Funds and Fixed Income Performance

Ryan Ruebsahm, Senior Managing Director
Courtney Powers, Managing Director
Tony Caruso, Managing Director
Russell Kampfe, Managing Director

March 20, 2024



Hedge Funds & Fixed Income Team

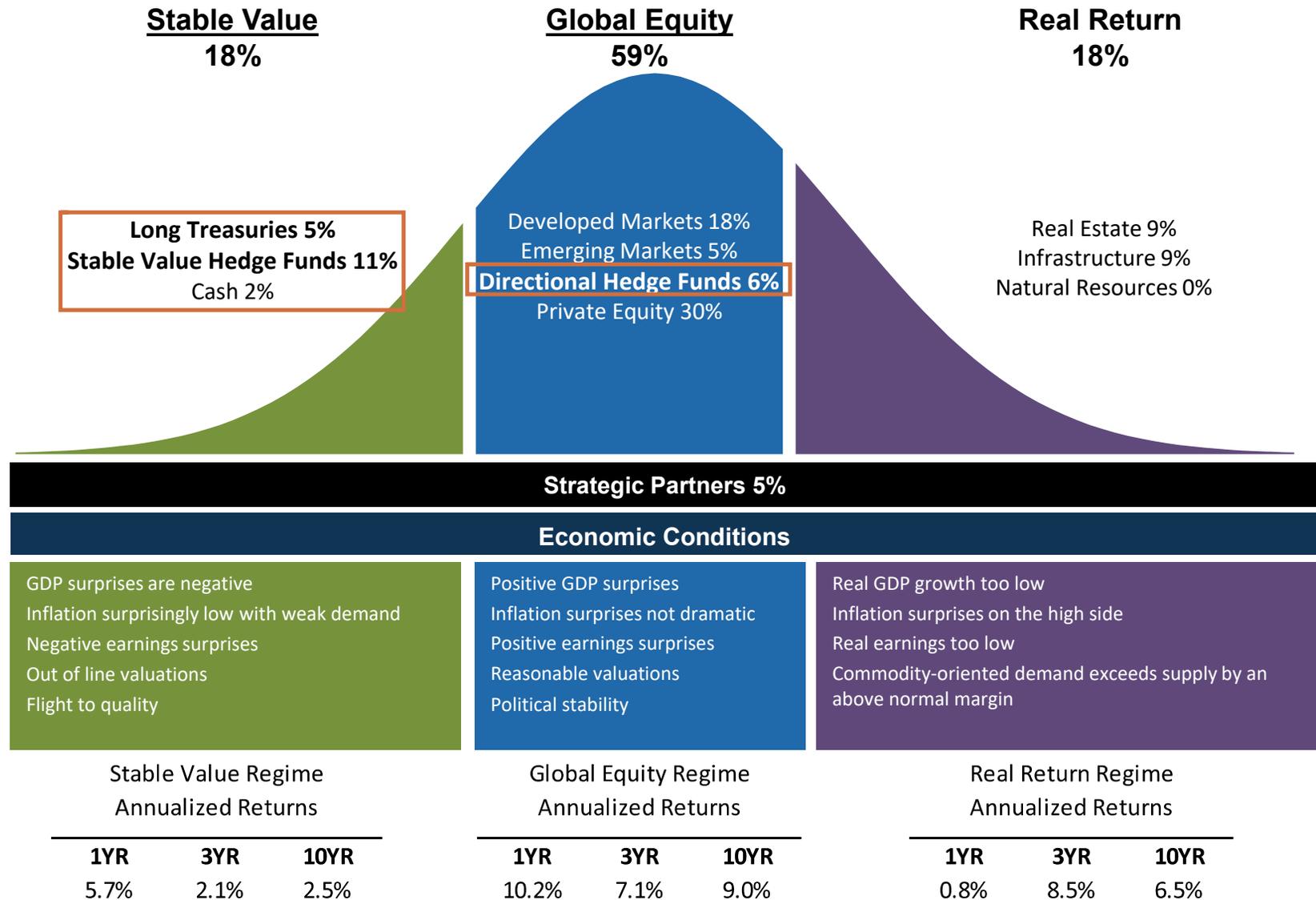
- 6 MBAs, 4 CFAs
- Average tenure at UTIMCO: 10 years

		18		Ryan Ruebsahm Senior Managing Director <i>MBA, UT Austin</i>					
6			Tony Caruso, CFA Managing Director <i>MBA, University of Chicago</i>	36		Russell Kampfe Managing Director <i>MBA, UT Austin</i>			
					17		Courtney Powers Managing Director <i>MBA, UT Austin</i>		
4			Jared Brimberry Director <i>BBA, Baylor University</i>	23		Harland Doak, CFA Senior Director <i>MBA, St. Edward's University</i>	10		Kyle Burhop, CFA Director <i>BS, Virginia Tech</i>
7			Jim Ricker Associate Director <i>BA, Hamilton College</i>	4		Melanie Spencer, CFA Associate <i>MBA, UT Austin</i>	3		Will Haynes Senior Analyst <i>MSF, UT Austin</i>
1			Angelica Blesa Senior Analyst <i>BBA, UT Austin</i>	7		Lori Shaver Executive Assistant <i>BS, Sam Houston State</i>	2		Christian Taylor Senior Analyst <i>BA, Stanford University</i>



UTIMCO Diversification Framework

LTSAA Policy Weights



Stable Value
18%

Long Treasuries 5%
Stable Value Hedge Funds 11%
Cash 2%

Global Equity
59%

Developed Markets 18%
Emerging Markets 5%
Directional Hedge Funds 6%
Private Equity 30%

Real Return
18%

Real Estate 9%
Infrastructure 9%
Natural Resources 0%

Strategic Partners 5%

Economic Conditions

GDP surprises are negative
Inflation surprisingly low with weak demand
Negative earnings surprises
Out of line valuations
Flight to quality

Positive GDP surprises
Inflation surprises not dramatic
Positive earnings surprises
Reasonable valuations
Political stability

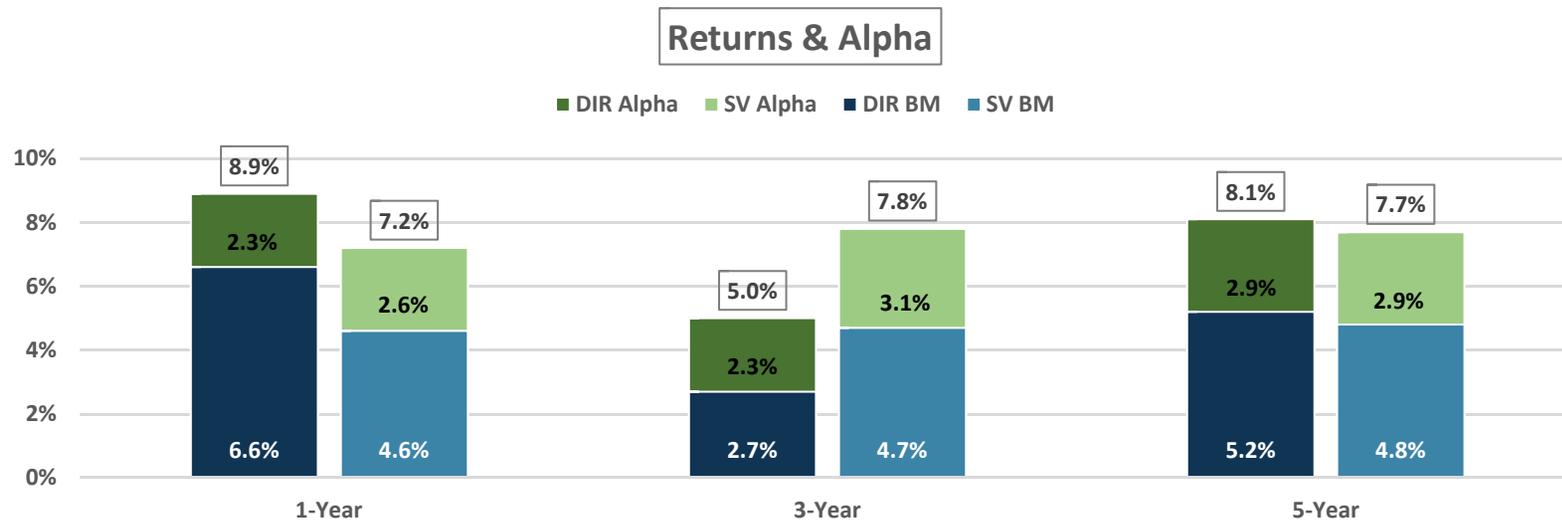
Real GDP growth too low
Inflation surprises on the high side
Real earnings too low
Commodity-oriented demand exceeds supply by an above normal margin

Returns through December 2023



Hedge Funds Executive Summary

- **Consistent Performance, Exceeding Objectives**



- **Meaningful contributions in 2023:**

- Met performance and diversification objectives, while staying within risk parameters
- Collaborated with Public Equity team to prudently ramp Portable Alpha portfolio
- Successfully transitioned Fixed Income Overlay
- Continued refining risk reports using MSCI Barra and Power BI

- **High impact initiatives in 2024:**

- Increasing Specialty Credit
- Continue to grow Dockside Managed Account Platform for equity market neutral managers
- Further grow and optimize Portable Alpha



Directional Hedge Funds

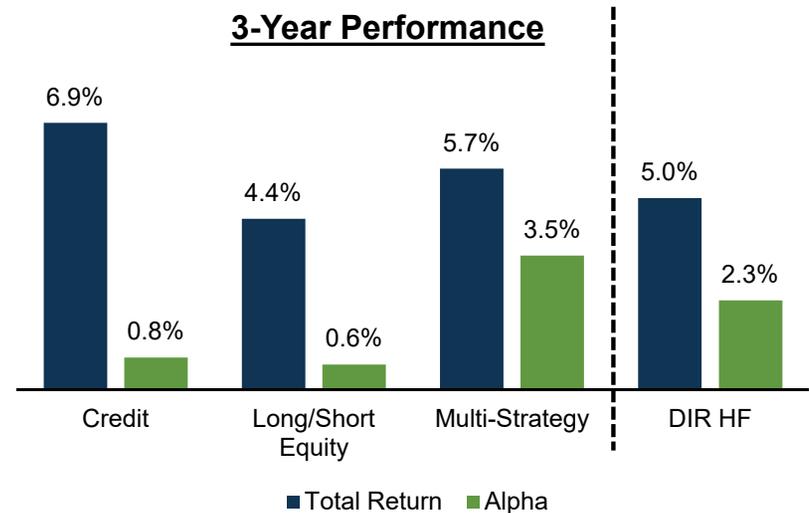
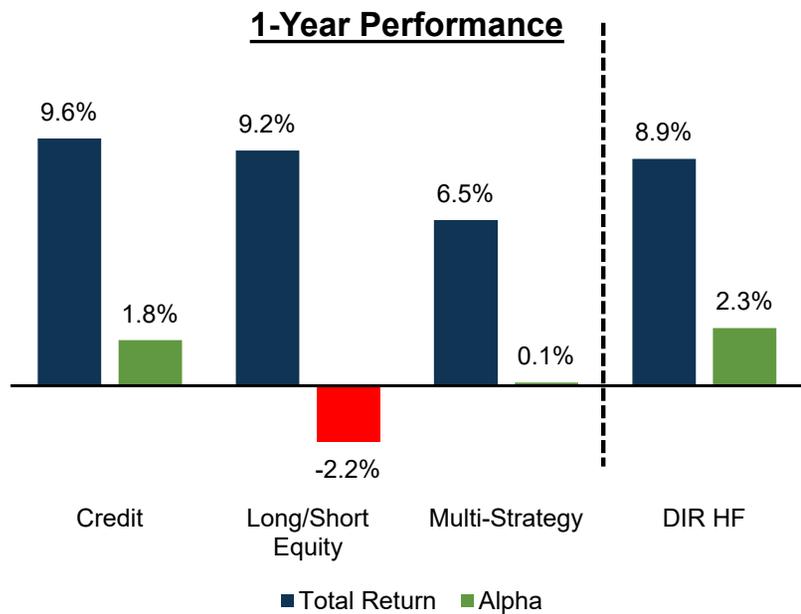
As of December 31, 2023

Asset Allocation

- \$6.5B
- 6% of PUF/GEF; 35% of ITF

Performance

- 2% alpha on 1yr and 3yr
- All strategies performing over 3yr
- Credit strongest strategy on 1yr and 3yr



Alpha is reflective of excess return over each strategy's respective strategy benchmark. DIR HF alpha relative to the HFRI Fund of Funds Composite Policy.

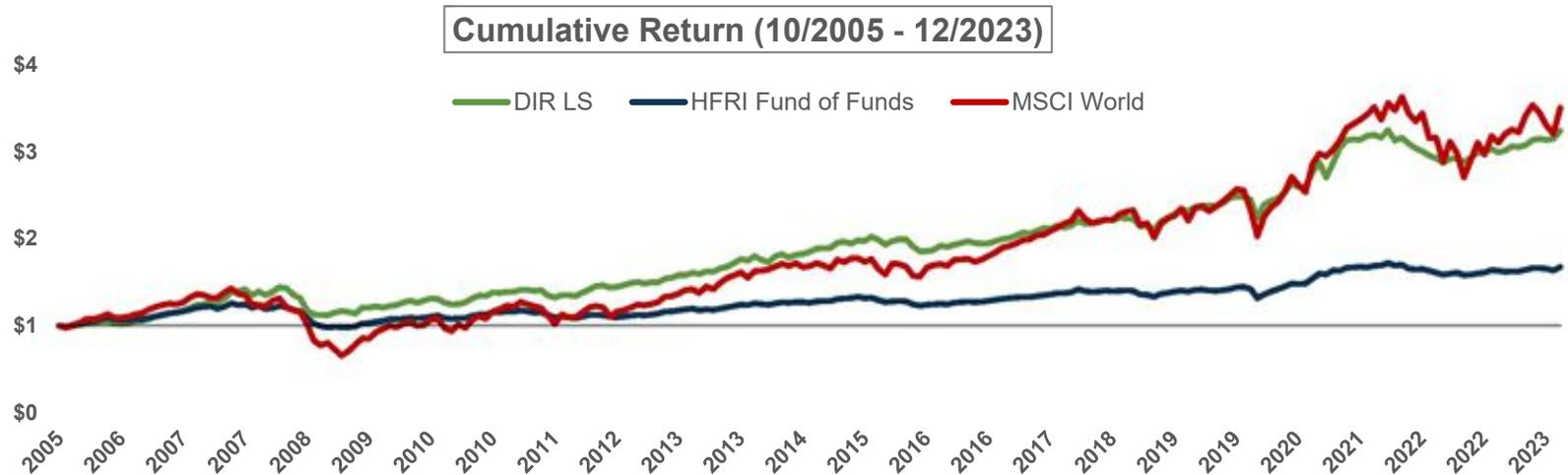


Long/Short Equity Strategy Overview

Compelling long-term returns, both absolute and risk-adjusted

Full Period (10/2005-12/2023)			
	DIR LS	HFRI FOF	MSCI World
Cash	1%	1%	1%
Beta	2%	2%	6%
Alpha	3%	0%	-
Ann. Return	7%	3%	7%
<i>Volatility</i>	8%	5%	16%

Full Period (10/2005-12/2023)		
	DIR LS	MSCI World
% up months	66%	62%
% down months	34%	38%
Avg. return (Equities Up)	1.6%	3.5%
Avg. return (Equities Down)	-1.1%	-3.8%
Skew (Avg. Up / Avg. Down)	1.4	0.9





Stable Value Hedge Funds

As of December 31, 2023

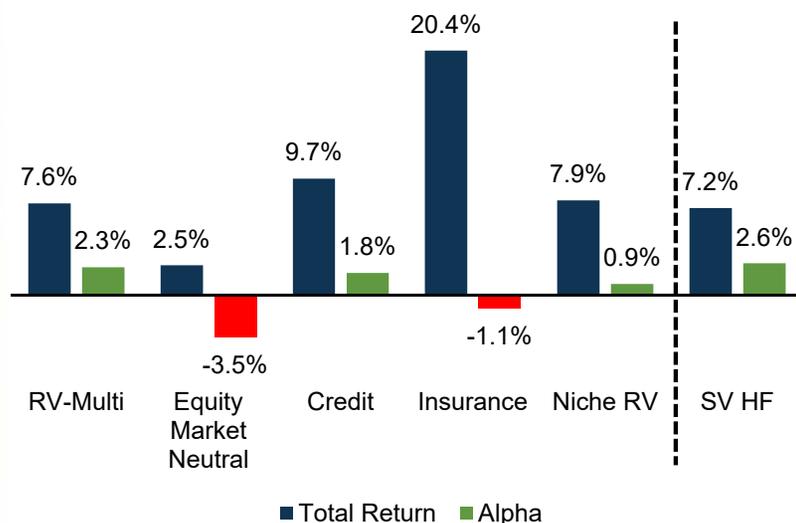
Asset Allocation

- **\$8.2B** (up from \$6.5B a year ago)
- **10% of PUF/GEF; 25% of ITF**

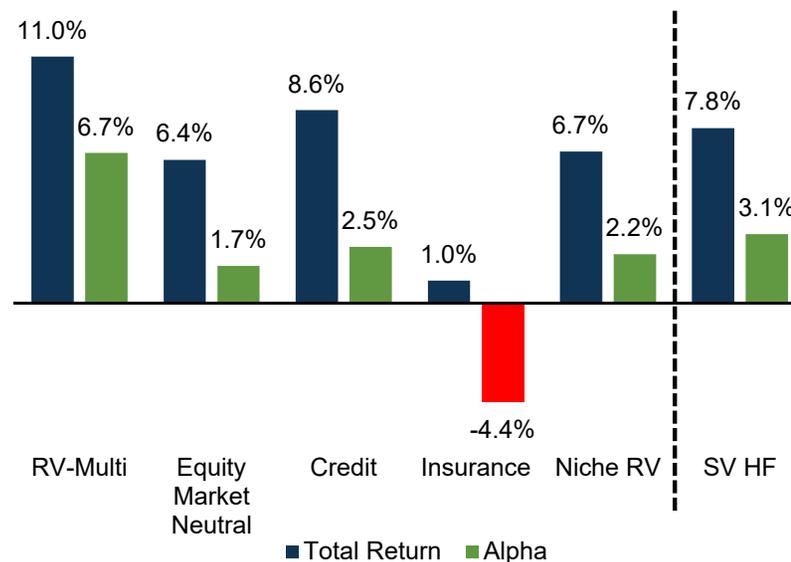
Performance

- **1yr Alpha +2.6%; 3yr Alpha +3.1%**
- **Excellent 3yr Sharpe Ratio of 2.5**
- Strong performance over 3yr from most strategies
- Insurance strongest strategy in 2023

1-Year Performance



3-Year Performance



Alpha is reflective of excess return over each strategy's respective strategy benchmark. SV HF alpha relative to the HFRI Fund of Funds Conservative Policy.



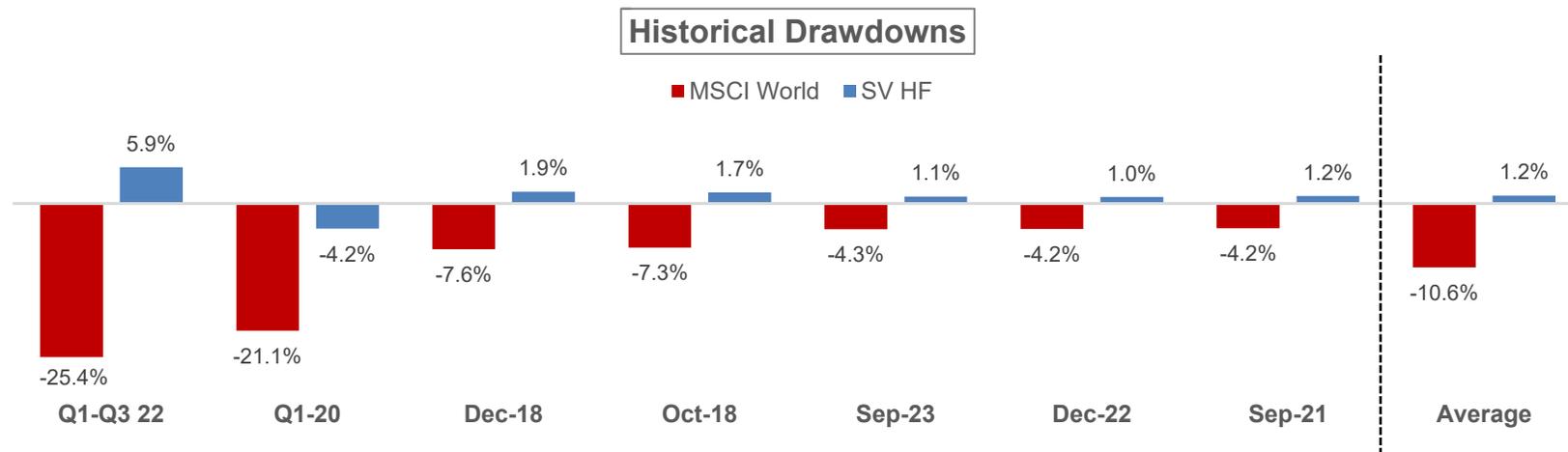
Stable Value Hedge Funds

Significant diversification benefits to the total portfolio

- **Uncorrelated returns** to the rest of the Endowment
- Represents 12% of UTIMCO NAV but **contributes only 2% of total risk**
- **Capital has been preserved** during seven equity sell-offs since 2018 inception

SV HF - CORRELATION TO STRATEGY POLICY BENCHMARKS (SI)	
Global Fixed Income	0.0
Internal Fixed Income	0.0
Emerging Markets Public Equity	0.3
Total Developed Public Equity	0.3

SV HF - CORRELATION TO DIR HF (SI)	
Directional Hedge	0.4



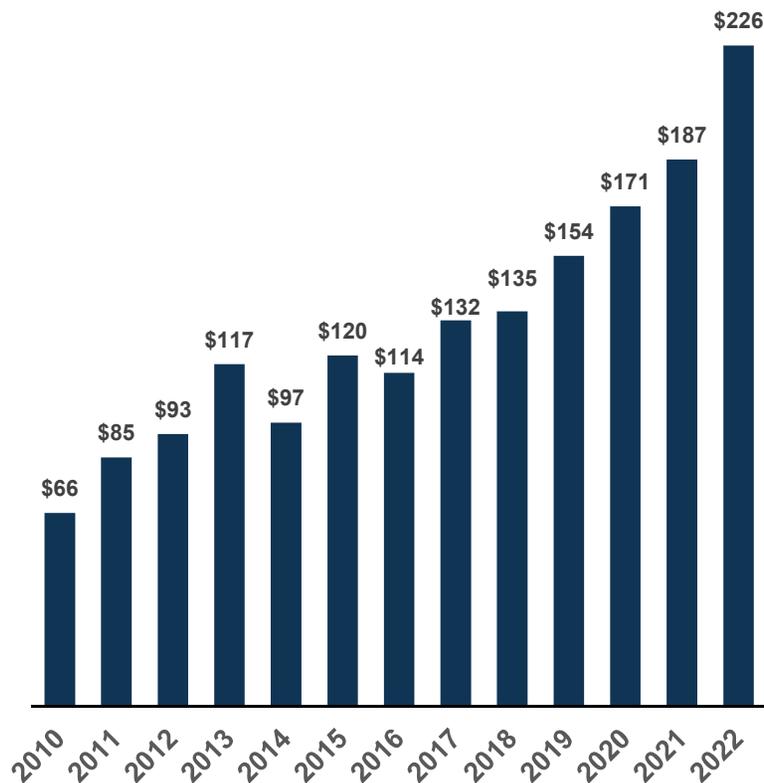
Correlations calculated based on weekly data for the period September 2018 - December 2023.



Managed Account Initiative

Optimal structure for equity market neutral managers with very low beta

HF AUM in SMAs (\$B)



Source: HFM Annual Managed Account Platform provider survey, Goldman Sachs 2020 & 2023 SMA Surveys, Goldman Sachs Estimates, as of year-end

Expected Benefits:

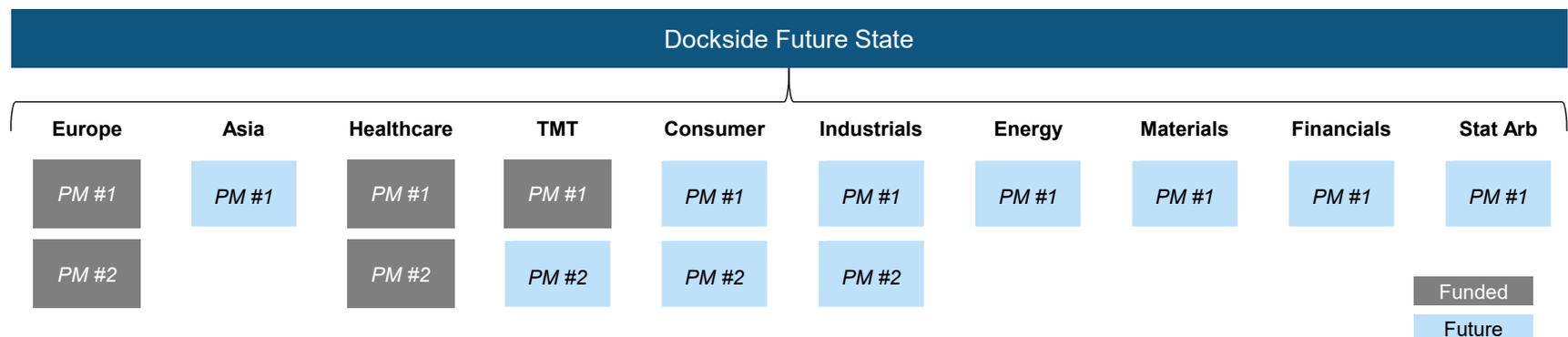
- ✓ **Cash efficiency**
- ✓ **Better control, transparency, and liquidity**
- ✓ **Better ability to customize risk guidelines**
- ✓ **Structural cost reductions and lower operational risk**
- ✓ **Early talent sourcing**
- ✓ **More flexibility to negotiate fees/terms** (management fee that is not a profit center, standard performance fee over SOFR hurdle)



Partnership with Dockside

Optimal structure, alignment, and risk management to partner with Dockside

- We have **partnered with one of our hedge fund managers (Walleye) to help launch a managed account platform business called Dockside**
 - Separate business unit that is walled off from Walleye’s investment team but leverages the firm’s robust infrastructure, back-office, and technology
- Dockside is the best partner for UTIMCO due to:
 - **Fiduciary duty as General Partner of a fund of one** that contains our SMAs
 - **Superior risk monitoring technology**
 - **Favorable financing costs**
 - Opportunity to **strategically invest at founder economics** with a partner we know and trust
- Since launch, we have onboarded **4 managed accounts and plan to scale to 10-12 by 2025**
 - Risk parameters are **beta and factor neutral, with gross exposure ranging between 150-300%**
 - Hope to scale to \$500M-\$750M over time





Summary

Strong team, performance, and risk management

- **Both portfolios and our team are performing well**
 - Directional HF generated return of 8.9% and alpha of 2.3%
 - Stable Value HF generated return of 7.2% and alpha of 2.6%
- **Risk is being monitored and managed well**, with 100% participation on RiskMetrics
- We are **executing our Action Plan** that is meaningful to firmwide initiatives



Fixed Income Review

Russell Kampfe, Managing Director



Executive Summary

Objectives

- Provide liquidity and meaningful diversification to Global Equity portfolio during deflationary and inflationary economic regimes from holdings of Long Treasuries, Investment Grade Fixed Income, and TIPS
- Generate 50 bps of alpha in active strategies (Long Treasuries and IGFI)

Strategies

- Long Treasuries – Actively managed with portable alpha strategies versus Long Treasury index
- IGFI – Actively managed versus Global Aggregate Index
- TIPS – Passively managed

Liquidity

- Multi-Billion Dollar liquidity at any time
- **By end of FY '24, reduce TIPS from \$1B to \$0.4B and increase Long Treasuries from \$3.4B to \$3.6B**

Performance of Active Strategies

As of 12/31/2023	LT	IGFI			
	1 YR	1 YR	3 YR	5 YR	10 YR
Returns (ann.)	3.9%	7.1%	-2.0%	2.1%	1.9%
Alpha	+0.8%	-0.1%	+0.1%	+0.7%	+0.6%
Tracking Error	2.5%	2.5%	1.7%	1.9%	1.8%
Information Ratio	0.3	0.0	0.1	0.4	0.3

Allocation of Active Strategies

\$ in millions	PUF	GEF	ITF	Total
Investment Grade Fixed Income	0	0	538	538
Long Treasuries	1,629	1,104	632	3,366
Total Fixed Income	1,254	863	1,169	3,903
UTIMCO	34,452	23,364	9,047	64,239
% of Total Fund	4.7%	4.7%	12.9%	5.8%
2024 Policy Target	5.1%	5.1%	13.0%	6.2%

- **Generated 80bps of alpha in 2023**, primarily from the Portable Alpha strategy

Priorities

- Implement new 2023 Strategic Asset Allocation (the 2021 SAA transition was completed without issue on 8/1/23)
- Build upon current MSCI Barra use with stress tests on IGFI and Long Treasury portfolios, as well as the external managers



Appendix



Directional HF – Execution Update

- **Met or exceeded all objectives over the last 3 years**
- Finalizing diligence on three high-performing managers across specialty credit and long/short equity
- **Continuing to optimize the portfolio** to increase alpha and reduce volatility

Directional Portfolio Objectives	Status	Details – 3 Years
Hedge Fund Types Focus on equity and market sensitive hedge funds	✓	<ul style="list-style-type: none"> • Return: 5.0%¹ • Sharpe Ratio: 0.5
Market Sensitivity and Risk Core strategies have moderate market sensitivity (beta) and lower risk (volatility) than equities	✓	<ul style="list-style-type: none"> • Correlation to MSCI World: 0.5⁴ • Beta to MSCI World: 0.2⁴ • Directional HF Volatility of 6.1% vs MSCI World 17.0%
Market Regime Performance Expected to outperform equities when markets are down, but will underperform strong markets	✓	<ul style="list-style-type: none"> • 87% hit rate vs. equity in equity down months • Average monthly excess return over equities in down months: +3.3% • 3-year ann. return of 5.0% vs. MSCI World 7.3%
Performance vs. US Treasuries Expected to outperform US Treasuries ² over the long term	✓+	<ul style="list-style-type: none"> • 5.0% return vs. Treasuries -4.3% (current 10Y YTM 4.1%) • 6.1% volatility vs. Treasuries 6.4%
Performance vs. Benchmark HFRI Fund of Funds Composite benchmark	✓	<ul style="list-style-type: none"> • Ann. outperformance of 2.3% over last 3 years³ • Tracking Error: 4.0%³

(1) Directional HF returns and details reflective of trailing three-year period (January 2021 through December 2023).

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

(3) Outperformance calculated relative to the DIR HF policy benchmark. Tracking Error calculated relative to the DIR HF reported benchmark.

(4) Beta and Correlation statistics based upon manager weekly data.



Stable Value HF – Execution Update

- Scaled from **\$6.5B to \$8.2B in 2023** while preserving attractive return and risk characteristics
- **Met or exceeded all objectives over the last 3 years:**
 - **Outperformed FoF Conservative benchmark by 3.1%** over last 3 years

Stable Value Portfolio Objectives	Status	Details – 3 Years
Hedge Fund Types Focus on absolute return hedge funds	✓+	<ul style="list-style-type: none"> • Return: 7.8%¹ • Sharpe Ratio: 2.5
Market Sensitivity and Risk Core strategies have low to negative market sensitivity	✓+	<ul style="list-style-type: none"> • Stable Value HF Volatility: 2.1% • Beta to MSCI World: 0.0⁴ • Correlation to MSCI World: 0.0⁴
Market Regime Performance Expected to have positive returns when markets are down	✓+	<ul style="list-style-type: none"> • 100% hit rate vs. equity in equity down months • Average monthly excess return over equities in down months: +5.0% • Positive absolute returns in 14 of 15 down equity months
Performance vs. US Treasuries Expected to outperform US Treasuries ² over the long term	✓+	<ul style="list-style-type: none"> • 7.8% return vs. Treasuries -4.3%² (current 10Y YTM 4.1%) • 2.1% volatility vs. Treasuries 6.4%
Performance vs. Benchmark HFRI Fund of Funds Conservative benchmark	✓+	<ul style="list-style-type: none"> • Ann. outperformance of 3.1% over last 3 years³ • Tracking Error: 2.4%³

(1) Stable Value HF returns and details reflective of trailing three-year period (January 2021 through December 2023).

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

(3) Outperformance calculated relative to the SV HF policy benchmark. Tracking Error calculated relative to the SV HF reported benchmark.

(4) Beta and Correlation statistics based upon manager weekly data.



Long Treasury Portfolio

One Year Ending December 31, 2023

	Portfolio Return	BM Return	Excess Return
Long Treasury	3.9%	3.1%	+0.8%

- **LT Performance:**

- **Contributors**

- O/W IG Corporates
 - U/W European Duration
 - O/W select EM bonds including Colombia, Mexico and Brazil
 - O/W Colombian peso

- **Detractors**

- U/W long end of the US Treasury curve
 - U/W Japanese Duration
 - O/W Emerging Market

- **Geographical Exposure:** Overweight Emerging Markets by 3%. Underweight Europe and Asia Pacific by 1% each

- **Sector:** Underweight Treasuries and Sovereign by 5% and overweight Securitized by 4%

- **Currency:** Underweight USD and Euro by 4% each. Overweight Emerging Markets and Other by 4% and 2% respectively. Overweight Yen by 2%

Portfolio Characteristics				
	12/31/2023		12/31/2022	
	UTIMCO	LT Benchmark	UTIMCO	LT Benchmark
Total Portfolio Size	\$2.5B	\$2T	\$1.3B	\$2T
Modified Duration	16.5	15.7	17.4	16.1
Yield to Maturity	4.8%	4.1%	4.9%	4.1%
Net Leverage	-6%	0%	-3%	0%

Geographical Exposure			
	12/31/2023		
	LT	LT Benchmark	O/U
United States	100%	100%	0%
Canada	0%	0%	0%
Europe	-1%	0%	-1%
Asian-Pac Aggregate	-1%	0%	-1%
Emerging Markets	3%	0%	3%

Sector Exposure			
	12/31/2023		
	LT	LT Benchmark	O/U
Treasuries & Sovereign	95%	100%	-5%
Government Related	0%	0%	0%
Corporates	1%	0%	1%
Securitized	4%	0%	4%
Cash & Cash Equivalents	0%	0%	0%

Currency Exposure			
	12/31/2023		
	LT	LT Benchmark	O/U
United States Dollar	96%	100%	-4%
Euro	-4%	0%	-4%
Japanese Yen	2%	0%	2%
UK Pound Sterling	0%	0%	0%
Emerging Markets	4%	0%	4%
Other	2%	0%	2%



2024 Action Plan

<p>Strategy</p> <ul style="list-style-type: none"> •Deliver Excellent Investment Returns While Growing Both SV/DIR: Preserve capital and deliver alpha targets in all three portfolios while responsibly growing both DIR/SV portfolios 	<p>Metrics</p> <p>DIR/SV 1%+ alpha vs. policy benchmarks & Outperform UST LT/IGFI 50bps+ of alpha</p>
<ul style="list-style-type: none"> •Expand Specialty Credit: Take advantage of specialty credit opportunities to increase to high end of the range in both DIR and SV 	<p>Grow allocation to 16% of SV and 20% of DIR</p>
<ul style="list-style-type: none"> •Source DIR L/S Equity: As DIR HF increases in size, return to sourcing L/S equity managers 	<p>Maintain at 65% of DIR, as portfolio grows (reduce to 55-60% to fund distressed in future)</p>
<ul style="list-style-type: none"> •Build out Dockside: continue to onboard managers to grow Dockside to full scale of \$500-750M by 2025 	<p>2-4 new fundings</p>
<ul style="list-style-type: none"> •Evaluate Growth Opportunities w/ Existing Managers: monitor and grow best toehold allocations made in 2023 	<p>Grow allocations as conviction increases</p>
<ul style="list-style-type: none"> •Optimize Portable Alpha: optimize PA to be more robust and similar to SV 	<p>Increase RV MS allocation and EMN allocation, build out to ~15 relationships</p>
<p>Firm</p> <ul style="list-style-type: none"> •Develop and Support our Team: continue training and developing our team. Assign projects to team members based on learning (stretch/growth) vs. only efficiency. Increase collaboration by working in teams of 3 on underwriting vs. 2 •Build the Brand: Find meaningful ways to highlight and promote UTIMCO culture outside of UTIMCO and participate in firmwide initiatives •Ownership: Act as a stakeholder in UTIMCO's success, demonstrate initiative, foster innovation, and treat our client's resources as if they were our own 	<p>IDPs, increased junior team travel</p> <p>Scholars, Mission Advocate, GIL, UT Investment Fund</p> <p>All Hands updates, team discussions</p>
<p>Systems</p> <ul style="list-style-type: none"> •Continual Improvement of Processes: Find ways to improve productivity and reduce chance for error 	<p>Refine and enhance capital plans, manager/PM reviews, and analytics</p> <p>Work with Data team to build in existing IDM capabilities in v1.0 into new v2.0</p>

Key Strategic Priority

Agenda Item
UTIMCO Board of Directors Meeting
March 20, 2024

Agenda Item: Human Resources Presentation

Developed By: Human Resources Team

Presented By: Rogers-McCoy

Type of Item: Information Item

Description: Ms. Rogers-McCoy will report on 2024 HR initiatives and 2023 accomplishments.

Reference: *Human Resources Update* presentation



Board of Directors Meeting

Human Resources Update

Alison Rogers-McCoy, Managing Director, Chief HR Officer

March 20, 2024



Agenda



The HR Team



By The Numbers



Investing in our People



Trends in the Marketplace



Refining our Focus and Key Priorities in 2024



The HR Team



Alison Rogers-McCoy *Managing Director (2023)*
BA Journalism – Fordham University, MA – Columbia University
Brandywine Global, MassMutual, Aetna, AMEX, Cigna



Ashley Fleming SHRM-CP, *HR Director (2011)*
BA Sociology – University of Texas, MA – St. Edward's
Live Oak-Gottesman, Byram Industries



Alexa Piggott SHRM-CP, *HR Associate Director (2021)*
BS Communication Studies – University of Texas
RunTitle Inc.



Ti Le SHRM-CP, *HR Senior Analyst (2021)*
BS Applied Learning and Development – University of Texas
The University of Texas at Austin, Epic Movement, Austin ISD



UTIMCO by the Numbers

122 full time employees from **96** in 2019

- 42% Investment Teams
- 58% Operations/Infrastructure

65.6% of all employees are new within last 5 years

3 New Teams

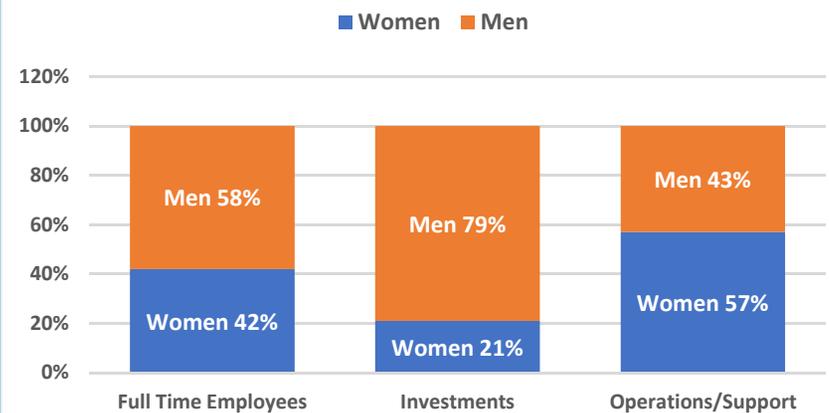
- Strategic Partnerships
- Project Management Office
- Data, Innovation and Governance

40 average age

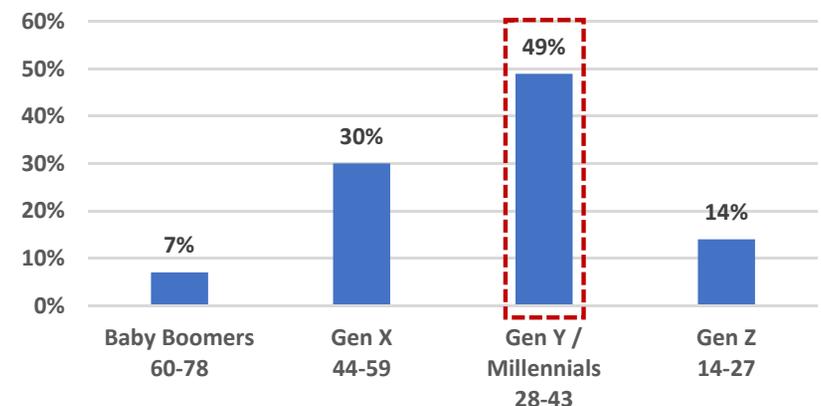
6 years average tenure

10% annual average turnover

UTIMCO Employees by Teams - 122 FTE



Employees by Generation





Investing in and recognizing our people

In 2023...

172 learning hours and **70+** different learning opportunities offered by HR.

- Bespoke programs based on need
- Manager Lunch & Learns
- Cohort Programs
 - Early Career Program **NEW!**
 - Leadership Development Program
- Leadership Coaching
- Mentoring Program
- Percipio AI enabled LMS offers courses based on learner's role, skill needs, interests and behavior

\$4,100 average annual Learning & Development spend per employee*

Employee educational reimbursement program **NEW!**

100% of our employees use our medical benefits; and **54%** elect family coverage

\$31,000 average annual benefit spend per employee**

20% annual promotion rate***

100 employees recognized through different UTIMCO programs

*average annual spend per employee \$1,400 *Training Magazine's* 2022 Training Industry Report

**includes 403b contributions, medical, dental, vision, life, disability, AD&D

***5 year average

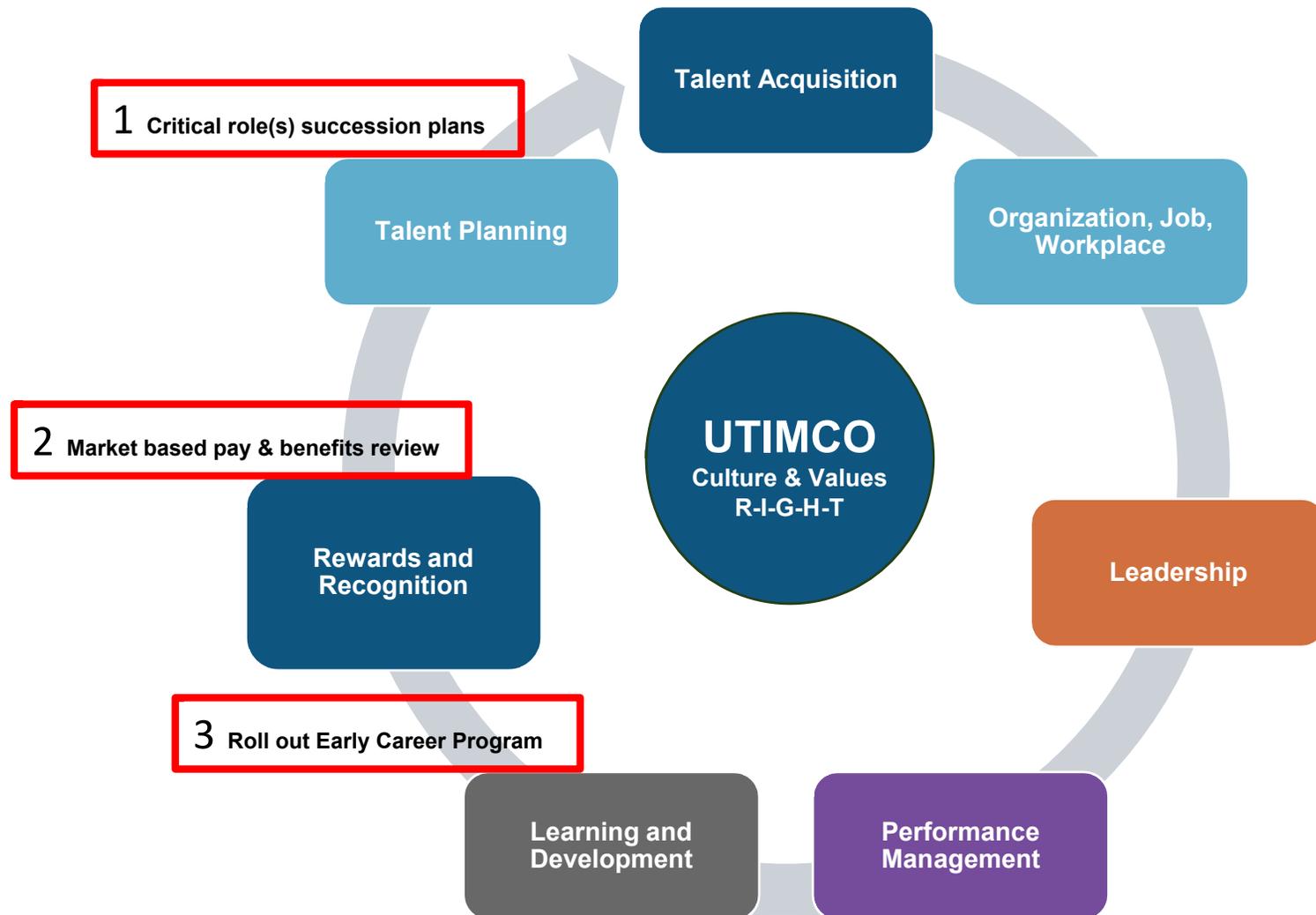
HR Trends

- Optimizing Benefit Offerings
- Performance Management Redesign
- Future of Work – Continued Skills Development and Continuous Learning
- Evolving Hybrid Work Models
- AI





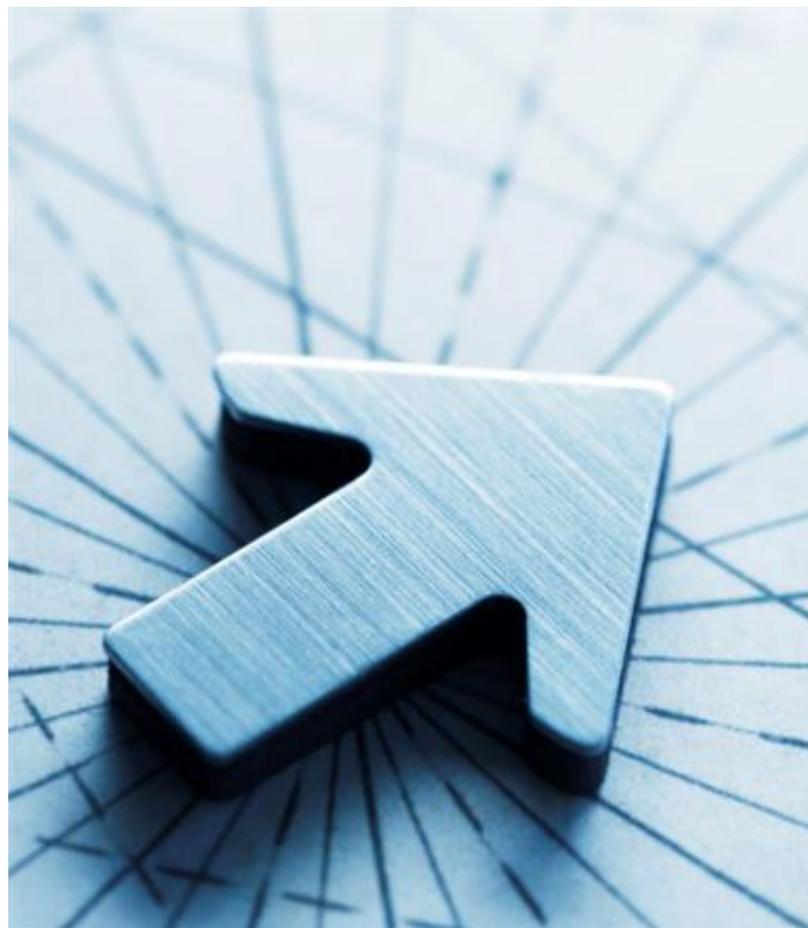
Refining Our Focus





Key Priorities in 2024

- ❑ Kick off disciplined succession initiative in Q1
- ❑ Conduct market-based pay review and consider incremental changes to retain critical talent Q2.
- ❑ Continue best in class learning and development offerings including Early Career Program roll out Q1-Q4.
- ❑ Conduct employee benefit survey Q4; optimize benefit design based on changing demographics for 2025



Agenda Item
UTIMCO Board of Directors Meeting
March 20, 2024

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, 2023
Developed By:	Moeller, de Onís
Presented By:	Jiles
Type of Item:	Action required by UTIMCO Board related to Audit; Information item on other items
Description:	<p>The Audit and Ethics Committee (the “Committee”) met on March 12, 2024. The Committee’s agenda included (1) discussion and appropriate action related to the approval of minutes of November 30, 2023 meeting; (2) discussion and appropriate action related to financial statement audit results and communications and audited financial statements for the Corporation; (3) an update on UTIMCO’s compliance, reporting, and audit matters; and (4) a presentation of unaudited financial for the Investment Funds and the Corporation.</p>
Discussion:	<p>The UTIMCO financial statements were audited by Deloitte & Touche LLP. Deloitte & Touche LLP issued an unqualified opinion on the August 31, 2023 and 2022 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 Letter and the audited financial statements are included.</p> <p>Routine activities of the Committee included a report from Ms. de Onís related to the quarterly compliance reports for the quarter ended December 31, 2023 and an introduction to the inaugural Enterprise Risk Management Report.</p> <p>The Committee also was provided 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.</p>
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 Financial Statement Audit Results and Communications, and the audited financial statements and audit report for the Corporation.
Reference:	Deloitte & Touche LLP’s Audit Results and Communications Letter Audited Financial Statements and Audit Report for the Corporation Contract Report

**RESOLUTIONS RELATED TO AUDIT OF THE CORPORATION FOR
FISCAL YEAR 2023**

RESOLVED, that Deloitte & Touche LLP Financial Statement Audit Results and Communications for the Corporation for the year ended August 31, 2023, 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, 2023 and August 31, 2022, be, and are hereby approved in the form as presented to the Board.



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

Results of the Audit



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

January 31, 2024

Mr. Rich Hall

President, Chief Executive Officer, and Chief Investment Officer of
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 7th Street, Suite 1700
Austin, TX 78701

Dear Mr. Hall 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, 2023 (the "financial statements"), 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 31, 2024.

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: The 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 May 24, 2023, a copy of which has been provided to you. As described in that letter, 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 Audit and Ethics Committee are prepared, in all material respects, in accordance with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”). The audit of the financial statements does not relieve management or Audit and Ethics Committee of their responsibilities. We considered internal control relevant to the Company’s preparation 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.

Significant Accounting Policies

The Company’s significant accounting policies are set forth in Note 2 to the Company’s 2023 financial statements.

We are aware of the following change in previously adopted significant accounting policies or their application during the year ended August 31, 2023:

- The implementation and retroactive restatement of all the years presented related to Government Auditing Standards Board (GASB) Statement No. 96, Subscription-Based Information Technology Arrangements.

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 2023 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, 2023, we are not aware of any significant changes in accounting estimates or in management’s judgments relating to such estimates.

The basis for our conclusions as to the reasonableness of these estimates when considered in the context of the financial statements taken as a whole, as expressed in our auditors’ report on the financial statements, is our development of an independent expectation of the estimates to corroborate management’s estimates or our understanding and testing of the process used by management to develop the 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.

Other Information Included in the Annual Report

When audited financial statements are included in documents containing other information such as the Management Discussion & Analysis (the “MD&A”), we read such other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. We have read the other information in the MD&A and have compared selected amounts or other items in the other information with such amounts or other items in the financial statements. While reading the other information, we remained alert for indications that (1) a material inconsistency exists between the other information and our knowledge obtained in the audit and (2) a material misstatement of fact exists or the other information is otherwise misleading. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to communicate the matter to you, request that the correction be made, and, if not corrected, describe it in our report. We did not note any uncorrected material misstatements of the other information.

Disagreements with Management

We have not had any disagreements with management related to matters that are material to the Company’s 2023 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 2023.

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.

Emphasis of Matter

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

As discussed in Note 2, UTIMCO restated its ending financial statements as of and for the year ended August 31, 2022 to reflect the effects of the adoption of Governmental Accounting Standards Board Statement No. 96, Subscription-Based Information Technology Arrangements. Our opinion is not modified with respect to this matter.

Required Supplementary Information

We included the following required supplementary information 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 page 4 through 10 of the financial statements be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Appendix A – Management Representation Letter



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

January 31, 2024

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

We are providing this letter in connection with your audits of the financial statements of The University of Texas/Texas A&M Investment Management Company (the "Company"), which comprise the statements of net position as of August 31, 2023 and 2022, and the related statements of revenues, expenses and changes in net position, and cash flows, and the related notes to the financial statements (the "financial statements"), for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, 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.

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3. The Company has made available to you:
 - 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
 - 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. The methods, significant assumptions, and the data used by us in making the accounting estimates and the related disclosures are appropriate to achieve recognition, measurement, or disclosure that is in accordance with GAAP.
9. There are no unasserted claims or assessments that we are aware of or that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification Section C50, *Claims and Judgments*.

Except where otherwise stated below, immaterial matters less than \$140,000 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.

10. There are no transactions that have not been properly recorded and reflected in the financial statements.
11. The Company has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
12. 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.

13. In preparing the financial statements in accordance with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
 - a. It is reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.
 - b. The effect of the change would be material to the financial statements.
14. There are no:
 - a. Instances of identified or suspected noncompliance with laws and 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.
15. 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.
16. The Company has complied with all aspects of contractual agreements that may affect the financial statements.
17. The performance incentive awards approved for the year ended August 31, 2023 and approved on December 7, 2023, totaled \$17,653,648.
18. Upon adoption of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*, the Company has evaluated its arrangements and has properly classified, recognized, and reported all arrangements in accordance with the recognition, measurement, financial reporting, and disclosure requirements set forth in the standard.
19. 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.
20. No events have occurred after August 31, 2023 but before January 31, 2024, the date the financial statements were issued, that require consideration as adjustments to, or disclosures in, the financial statements.

DocuSigned by:
Richard Hall
B61773DA6D6549D...

Richard Hall

President, Chief Executive Officer, and Chief Investment Officer

DocuSigned by:
Joan Moeller
4E3664642B9242B...

Joan Moeller

Senior Managing Director and Chief Operating Officer

DocuSigned by:
Kim Bauer
402D9E3D61D6436...

Kim Bauer

Senior Director – Corporate Accounting

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

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT**

Years ended August 31, 2023 and 2022

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

Financial Statements

Years Ended August 31, 2023 and 2022

Contents

Independent Auditor’s Report	1
Management’s Discussion and Analysis (unaudited)	4
Audited Financial Statements	
Statements of Net Position	11
Statements of Revenues, Expenses and Changes in Net Position	12
Statements of Cash Flows	13
Notes to Financial Statements	15

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of The University of Texas/Texas A&M Investment Management Company ("UTIMCO"), as of and for the years ended August 31, 2023 and 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of UTIMCO as of August 31, 2023 and 2022, and the respective changes in net position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of UTIMCO, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 2, UTIMCO restated its ending financial statements as of and for the year ended August 31, 2022 to reflect the effects of the adoption of Governmental Accounting Standards Board Statement No. 96, Subscription-Based Information Technology Arrangements. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about UTIMCO's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about UTIMCO's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America, require that the management's discussion and analysis on pages 4 through 10 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Deloitte & Touche LLP

January 31, 2024

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 years ended August 31, 2023 and 2022. 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 \$70 billion as of August 31, 2023. 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 approximately \$1.1 million from \$27.0 million to \$28.1 million, or approximately 4.1%, for the year ended August 31, 2023. Net position increased approximately \$2.1 million from \$24.9 million to \$27.0 million for the year ended August 31, 2022.

The increase in net position in FY 2023 was primarily the result of \$2.1 million of interest income earned during the year and several operating expenses that were less than budgeted, including salaries, excise taxes, contract services, consultants, and employee development costs. The increase was offset by the performance compensation expense being significantly over budget by \$4.3 million due to the extraordinary deferral of the FY 2022 performance awards to FY 2023. The extraordinary deferral provision of the UTIMCO Compensation Program (the Plan) was triggered in FY 2022 which resulted in awards that would have normally been earned in FY 2022, being deferred to June 30, 2023. The expense for these FY 2022 extraordinary deferrals was offset by the FY 2023 Plan performance awards being under budget.

The increase in net position in FY 2022 was primarily the result of the extraordinary deferral provision of the Plan offset by a \$6,000,000 rebate to the investment assets that are under the fiduciary care of the UT Board (“Investment Funds”) as required by the Master Investment Management Services Agreement (“IMSA”) between UTIMCO and the UT System Board of Regents.

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>2023</u>	<u>2022</u>	<u>2021</u>
Assets			
Current Assets			
Cash and cash equivalents	\$ 41,798,526	\$ 34,166,841	\$ 36,376,444
Prepaid expenses and other assets	1,783,699	1,326,728	1,448,217
Total Current Assets	<u>43,582,225</u>	<u>35,493,569</u>	<u>37,824,661</u>
Non-Current Assets			
Assets of the 457(b) deferred compensation plan	3,993,773	3,373,186	3,562,712
Capital assets, net of accumulated depreciation	7,299,734	8,787,083	10,682,056
Right-of-use asset - building lease, net of accumulated amortization	14,579,093	16,747,595	18,916,097
Right-of-use asset - SBITA, net of accumulated amortization	602,247	1,479,956	-
Total Non-Current Assets	<u>26,474,847</u>	<u>30,387,820</u>	<u>33,160,865</u>
Total Assets	<u>\$ 70,057,072</u>	<u>\$ 65,881,389</u>	<u>\$ 70,985,526</u>
Liabilities and Net Position			
Current Liabilities	\$ 22,451,460	\$ 17,350,245	\$ 22,494,009
Non-Current Liabilities	19,544,814	21,564,895	23,622,829
Total Liabilities	<u>41,996,274</u>	<u>38,915,140</u>	<u>46,116,838</u>
Net Position	<u>28,060,798</u>	<u>26,966,249</u>	<u>24,868,688</u>
Total Liabilities and Net Position	<u>\$ 70,057,072</u>	<u>\$ 65,881,389</u>	<u>\$ 70,985,526</u>

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

- Net position increased in FY 2023 by \$1,094,549 and increased by \$2,097,561 in FY 2022. The increase in net position in FY 2023 was primarily due to \$2.1 million of interest income and other expenses that were under budget including salaries, excise taxes, contract services, consultants, and employee development costs. These increases were offset by the FY 2022 extraordinary deferral provision of the Plan that was triggered which resulted in awards that would have normally been earned in FY 2022, being deferred to June 30, 2023.

The increase in net position in FY 2022 was primarily the result of the extraordinary deferral provision in the Plan that resulted in the deferral of awards to June 2023. Other expenses that were under budget included salaries, travel, online data and subscriptions, and contract services. This was offset by the \$6,000,000 rebate to the Investment Funds in addition to payroll and excise taxes, relocation, and hiring expenses that were higher than budgeted.

- Cash & cash equivalents increased between FY 2022 and FY 2023 by \$7,631,685 and decreased between FY 2021 and FY 2022 by \$2,209,603. The increase for FY 2023 is primarily because of the timing of the payments of the performance compensation awards. Other contributing factors in FY 2023 include interest income receipts and operating expenses that were less than budgeted. The decrease for FY 2022 is primarily the result of the rebate to the Investment Funds as well as expenses that were less than budgeted. This was offset by the timing of the payments of the performance compensation awards.
- Prepaid expenses and other assets increased by \$456,971 in FY 2023 and decreased in FY 2022 by \$121,489. The increase in FY 2023 was primarily due to the addition of new prepaid subscriptions and online data services. The decrease in FY 2022 was primarily from the adoption of GASB 96 that resulted in several prepaid software subscriptions being reclassified as right-of-use intangible capital assets.
- Non-current assets decreased in FY 2023 by \$3,912,973 and decreased in FY 2022 by \$2,773,045. The decrease in FY 2023 was primarily the result of a decrease in net capital assets from depreciation and a decrease in the net building lease and subscription right-of-use assets from amortization offset by an increase in the assets of the 457(b) deferred compensation plan. The decrease in FY 2022 was the result of a decrease in net capital assets from depreciation and a decrease in the net building lease right-of-use asset from amortization offset by the addition of a new right-of-use asset for software subscriptions related to the adoption of GASB 96.
- Current liabilities increased in FY 2023 by \$5,101,215 and decreased in FY 2022 by \$5,143,764. The increase in FY 2023 was primarily the result of the performance compensation liability for the FY 2023 Plan performance awards compared to FY 2022 which did not include a performance compensation liability due to the extraordinary deferral provision of the performance compensation plan. This was offset by a decrease in the current portion of the subscription liability related to GASB 96. The decrease in FY 2022 was primarily the result of a decrease in the performance compensation liability due to the extraordinary deferral provision of

the performance compensation plan offset by the addition of the current portion of the subscription liability related to GASB 96.

- Non-current liabilities decreased in FY 2023 by \$2,020,081 and decreased in FY 2022 by \$2,057,934. The decrease in FY 2023 is the primarily the result of a reduction of the non-current portion of the building lease and subscription liabilities offset by an increase in the liabilities of the 457(b) deferred compensation plan. The decrease in FY 2022 was primarily the result of a reduction of the non-current portion of the building lease liability offset by the addition of the non-current portion of the subscription liability related to GASB 96.

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>2023</u>	<u>2022</u>	<u>2021</u>
Revenue			
Management fees and advisory board fees	\$ 67,943,364	\$ 60,648,574	\$ 55,617,711
Net non-operating revenues/(expenses)	<u>1,953,672</u>	<u>(6,308)</u>	<u>(207,640)</u>
Total Revenue	69,897,036	60,642,266	55,410,071
Expenses			
Salaries, benefits & payroll taxes	28,514,730	26,212,465	23,206,384
Performance compensation	25,966,115	12,873,958	19,986,731
General operating	7,375,006	6,477,602	6,290,081
Depreciation and amortization	4,917,524	4,995,745	3,944,850
Lease	1,012,572	899,153	914,670
Other	<u>1,016,540</u>	<u>1,085,782</u>	<u>1,194,742</u>
Total Expenses	<u>68,802,487</u>	<u>52,544,705</u>	<u>55,537,458</u>
Other Changes in Net Position			
Rebate of management fees to Investment Funds	<u>-</u>	<u>(6,000,000)</u>	<u>-</u>
Net Position, beginning of year	<u>26,966,249</u>	<u>24,868,688</u>	<u>24,996,075</u>
Net Position, end of year	<u>\$ 28,060,798</u>	<u>\$ 26,966,249</u>	<u>\$ 24,868,688</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 2022, UTIMCO rebated \$6,000,000 back to the Investment Funds as required by the IMSA.
- Total Expenses increased in FY 2023 by \$16,257,782 and decreased in FY 2022 by \$2,992,753. The increase in FY 2023 is primarily the result of the increase in performance compensation related to the extraordinary deferral provision of the performance compensation plan as well as an increase other employee-related expenses including salaries and employee benefits. The decrease in FY 2022 was primarily the result of the decrease in performance compensation related to the extraordinary deferral provision of the performance compensation plan. This was offset by an increase in other employee-related expenses including salaries, employee benefits, payroll and excise taxes, and employee development. In both FY 2023 and FY 2022, these employee-related expenses increased mainly because of normal raises and promotions.
- General Operating expenses contributed to the changes in Total Expenses in FY 2023 and FY 2022. In both FY 2023 and FY 2022, travel expense increased over FY 2021 as travel returned to more normal levels after the pandemic. In FY 2023, other contributing factors include increases in subscriptions and online data services. In FY 2022, other contributing factors included increases in subscriptions, contract services and employee development.

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>2023</u>	<u>2022</u>	<u>2021</u>
Cash flows from Operating Activities			
Proceeds from management fees and advisory board fees	\$ 67,943,364	\$ 60,648,574	\$ 55,617,711
Payments to and for employees	(49,216,662)	(45,247,001)	(38,677,343)
Other payments	<u>(12,664,725)</u>	<u>(11,498,738)</u>	<u>(9,969,624)</u>
Net cash provided by Operating Activities	6,061,977	3,902,835	6,970,744
Cash flows from Noncapital Financing Activities:			
Rebate of management fees to Investment Funds	<u>-</u>	<u>(6,000,000)</u>	<u>-</u>
Net Cash used in Noncapital Financing Activities	-	(6,000,000)	-
Cash flows from Capital and Related Financing Activities			
Purchase of capital assets, net	(383,964)	(123,580)	(2,809,995)
Proceeds from sale of assets	-	16,300	-
Interest expense	<u>(188,285)</u>	<u>(208,368)</u>	<u>(225,652)</u>
Net cash used for Capital and Related Financing Activities	(572,249)	(315,648)	(3,035,647)
Cash flows from Investing Activities			
Interest income	<u>2,141,957</u>	<u>203,210</u>	<u>19,457</u>
Net cash provided by Investing Activities	2,141,957	203,210	19,457
Net Change in cash & cash equivalents	7,631,685	(2,209,603)	3,954,554
Cash & cash equivalents, beginning of year	<u>34,166,841</u>	<u>36,376,444</u>	<u>32,421,890</u>
Cash & cash equivalents, end of year	<u>\$ 41,798,526</u>	<u>\$ 34,166,841</u>	<u>\$ 36,376,444</u>

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

- Proceeds from management fees increased in FY 2023 and FY 2022. The increases in both years were mainly due to an increase in employee-related expenses. 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. In FY 2022, UTIMCO rebated \$6,000,000 back to the Investment Funds as required by the IMSA.

- Payments to and for employees increased in fiscal years 2023 and 2022 mainly because of the increase in salaries and other personnel expenses that are directly related to compensation. These expenses increased as a result of normal raises and promotions.
- Purchases of capital assets increased slightly in FY 2023 for technology equipment additions and upgrades and decreased in FY 2022 because of the office space remodel and expansion that was completed in FY 2021.
- Other payments increased in FY 2023 primarily because of increased operating expenses including travel, subscriptions, and online data services and increased in FY 2022 primarily because of increased operating expenses including travel and meetings, employee development and contract services.

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.

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

Financial Statements

Statements of Net Position

August 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 41,798,526	\$ 34,166,841
Prepaid expenses and other assets	1,783,699	1,326,728
Total Current Assets	<u>43,582,225</u>	<u>35,493,569</u>
Non-Current Assets		
Assets of the 457(b) deferred compensation plan	3,993,773	3,373,186
Capital assets, net of accumulated depreciation of \$9,929,683 and \$8,091,887, respectively	7,299,734	8,787,083
Right-of-use asset - building lease, net of accumulated amortization of \$6,505,506 and \$4,337,004, respectively	14,579,093	16,747,595
Right-of-use asset - SBITA, net of accumulated amortization of \$1,703,849 and \$826,140, respectively	602,247	1,479,956
Total Non-Current Assets	<u>26,474,847</u>	<u>30,387,820</u>
Total Assets	<u><u>\$ 70,057,072</u></u>	<u><u>\$ 65,881,389</u></u>
Liabilities and Net Position		
Current Liabilities		
Accounts payable and accrued expenses	\$ 19,810,792	\$ 14,143,842
Current portion - lease liability - building	2,406,811	2,320,315
Current portion - subscription liability - SBITA	233,857	886,088
Total Current Liabilities	<u>22,451,460</u>	<u>17,350,245</u>
Non-Current Liabilities		
457(b) deferred compensation plan obligations	3,993,773	3,373,186
Long-term portion - lease liability - building	15,332,991	17,739,802
Long-term portion - subscription liability - SBITA	218,050	451,907
Total Non-Current Liabilities	<u>19,544,814</u>	<u>21,564,895</u>
Total Liabilities	41,996,274	38,915,140
Net Position		
Net investment in capital assets	22,481,074	27,014,634
Unrestricted	5,579,724	(48,385)
Total Net Position	<u>28,060,798</u>	<u>26,966,249</u>
Total Liabilities and Net Position	<u><u>\$ 70,057,072</u></u>	<u><u>\$ 65,881,389</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 years ended August 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating Revenues		
Management Fees	\$ 67,938,364	\$ 60,638,574
Advisory Board Fees	5,000	10,000
Total Operating Revenues	67,943,364	60,648,574
Operating Expenses		
Salaries	22,331,375	20,289,489
Performance Compensation	25,966,115	12,873,958
Employee Benefits	3,629,675	3,361,180
Payroll Taxes	2,553,680	2,561,796
General Operating	7,375,006	6,477,602
Depreciation	1,871,313	2,001,103
Amortization - Right-of-Use Asset - building lease	2,168,502	2,168,502
Amortization - Right-of-Use Asset - SBITA	877,709	826,140
Lease Operating and Parking	1,012,572	899,153
Professional Fees	785,186	854,352
Insurance	231,354	231,430
Total Operating Expenses	68,802,487	52,544,705
Operating Income/(Loss)	(859,123)	8,103,869
Non-Operating Revenues/(Expenses)		
Interest Income	2,141,957	203,210
Interest Expense - Building Lease	(182,277)	(204,378)
Interest Expense - SBITA	(6,008)	(3,990)
Loss on Disposal of Equipment	-	(1,150)
Net Non-Operating Revenues/(Expenses)	1,953,672	(6,308)
Income Before Other Changes in Net Position	1,094,549	8,097,561
Other Changes in Net Position		
Rebate of management fees to Investment Funds	-	(6,000,000)
Increase in Net Position	1,094,549	2,097,561
Net Position at beginning of year	26,966,249	24,868,688
Net Position at end of year	<u>\$ 28,060,798</u>	<u>\$ 26,966,249</u>

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

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

Financial Statements

Statements of Cash Flows

For the years ended August 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from Operating Activities:		
Proceeds from management fees and advisory board fees	\$ 67,943,364	\$ 60,648,574
Payments to suppliers for goods and services	(9,331,838)	(8,364,931)
Payments for facility	(3,332,887)	(3,133,807)
Payments to employees	(42,776,619)	(39,699,865)
Payments for employees	(6,440,043)	(5,547,136)
Net Cash provided by Operating Activities	<u>6,061,977</u>	<u>3,902,835</u>
Cash flows from Noncapital Financing Activities:		
Rebate of management fees to Investment Funds	-	(6,000,000)
Net Cash used in Noncapital Financing Activities	<u>-</u>	<u>(6,000,000)</u>
Cash flows from Capital and Related Financing Activities:		
Purchases of capital assets	(383,964)	(123,580)
Proceeds from sale of assets	-	16,300
Interest expense - building lease	(182,277)	(204,378)
Interest expense - SBITA	(6,008)	(3,990)
Net Cash used in Capital and Related Financing Activities	<u>(572,249)</u>	<u>(315,648)</u>
Cash flows from Investing Activities:		
Interest income	2,141,957	203,210
Net Cash provided by Investing Activities	<u>2,141,957</u>	<u>203,210</u>
Net increase/(decrease) in cash and cash equivalents:	7,631,685	(2,209,603)
Cash and cash equivalents at beginning of year	<u>34,166,841</u>	<u>36,376,444</u>
Cash and cash equivalents at end of year	<u>\$ 41,798,526</u>	<u>\$ 34,166,841</u>

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

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

Financial Statements

Statements of Cash Flows, Continued

For the years ended August 31, 2023 and 2022

Reconciliation of operating income to net cash provided by Operating Activities:

	<u>2023</u>	<u>2022</u>
Operating Income/(Loss):	\$ (859,123)	\$ 8,103,869
Adjustments to reconcile operating income to net cash provided by Operating Activities		
Depreciation and amortization	4,917,524	4,995,745
Changes in assets and liabilities:		
(Increase)/decrease in prepaid expenses and other assets	(456,971)	121,489
(Increase)/decrease in assets of 457(b) deferred compensation plan	(620,587)	189,526
Increase/(decrease) in accounts payable and accrued expenses	5,666,950	(6,115,513)
Increase/(decrease) in liabilities of 457(b) deferred compensation plan	620,587	(189,526)
Decrease in lease liability-building	(2,320,315)	(2,234,654)
Decrease in subscription liability-SBITA	(886,088)	(968,101)
Net cash provided by Operating Activities	<u>\$ 6,061,977</u>	<u>\$ 3,902,835</u>

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

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

Note 1 - Organization

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

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.

GASB Statement Implemented in Fiscal Year 2023

GASB Statement No. 96, Subscription-Based Information Technology Arrangements “SBITA” (“GASB 96”) effective 2023, establishes a model for SBITA accounting based on the principle that SBITA are financings of the right-to-use an underlying subscription asset. Under GASB 96, a lessee is required to recognize a subscription liability and an intangible right-of-use subscription asset. Limited exceptions to the single approach guidance are provided for short-term arrangements, defined as lasting a maximum of twelve months at inception, including any options to extend. Changes adopted to conform to the provisions of GASB 96 were applied retroactively by restating the financial statements for the earliest period presented, August 31, 2022.

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

The cumulative effect of implementing GASB 96 on UTIMCO's financial statements for the year ending August 31, 2022 was as follows:

	As Reported in Fiscal Year 2022	GASB Statement No. 96 Restatement	Restated Fiscal Year 2022
Assets			
Total Current Assets	\$ 35,654,460	\$ (160,891)	\$ 35,493,569
Total Non-Current Assets	28,907,864	1,479,956	30,387,820
Total Assets	\$ 64,562,324	\$ 1,319,065	\$ 65,881,389
Liabilities and Net Position			
Total Current Liabilities	16,462,266	887,979	17,350,245
Total Non-Current Liabilities	21,112,988	451,907	21,564,895
Total Liabilities	37,575,254	1,339,886	38,915,140
Net Position			
Net investment in capital assets	25,534,678	1,479,956	27,014,634
Unrestricted	1,452,392	(1,500,777)	(48,385)
Total Net Position	26,987,070	(20,821)	26,966,249
Total Liabilities and Net Position	\$ 64,562,324	\$ 1,319,065	\$ 65,881,389
Operating Revenues and Expenses			
	As Reported in Fiscal Year 2022	GASB Statement No. 96 Restatement	Restated Fiscal Year 2022
Total Operating Revenues	\$ 60,648,574	\$ -	\$ 60,648,574
Total Operating Expenses	52,527,874	16,831	52,544,705
Operating Income	8,120,700	(16,831)	8,103,869
Net Non-Operating Revenues/(Expenses)	(2,318)	(3,990)	(6,308)
Income Before Other Changes in Net Position	8,118,382	(20,821)	8,097,561
Other Changes in Net Position			
Rebate of management fees to Investment Funds	(6,000,000)	-	(6,000,000)
Increase/(decrease) in Net Position	2,118,382	(20,821)	2,097,561
Net Position at beginning of year	24,868,688	-	24,868,688
Net Position at end of year	\$ 26,987,070	\$ (20,821)	\$ 26,966,249
Cash and Cash Equivalents			
	As Reported in Fiscal Year 2022	GASB Statement No. 96 Restatement	Restated Fiscal Year 2022
Net Cash provided by Operating Activities	\$ 3,898,845	\$ 3,990	\$ 3,902,835
Net Cash used in Noncapital Financing Activities	(6,000,000)	-	(6,000,000)
Net Cash used in Capital and Related Financing Activities	(311,658)	(3,990)	(315,648)
Net Cash provided by Investing Activities	203,210	-	203,210
Net change in cash and cash equivalents	(2,209,603)	-	(2,209,603)
Cash and cash equivalents at beginning of year	36,376,444	-	36,376,444
Cash and cash equivalents at end of year	\$ 34,166,841	\$ -	\$ 34,166,841

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

Subscription liability

Subscription liabilities on the statement of net position represents UTIMCO's obligation to make subscription payments arising from subscription arrangements other than short term arrangements. Subscription liabilities are recognized at the subscription commencement date based on the present value of future subscription payments over the remaining term. Short term arrangements, those with a maximum period of 12 months, are expensed as incurred. For the years ended August 31, 2023 and 2022, UTIMCO recorded subscription liabilities for several information technology arrangements. Additional SBITA details are discussed in Note 7 below.

GASB Statement Implemented in Fiscal Year 2022

GASB Statement No. 87, Leases ("GASB 87"), effective 2022, established a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. Under GASB 87, a lessee is required to recognize a lease liability and an intangible right-of-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. Limited exceptions to the single approach guidance are provided for short-term leases, defined as lasting a maximum of twelve months at inception, including any options to extend, financed purchases, leases of assets that are investments, and certain regulated leases.

Lease liability

Lease liabilities on the statement of net position represents UTIMCO's obligation to make lease payments arising from leases other than short term leases. Lease liabilities are recognized at the lease commencement date based on the present value of future lease payments over the remaining lease term. Short term leases, those with a maximum period of 12 months, are expensed as incurred. For the years ended August 31, 2023 and 2022, UTIMCO has one lease liability that is for the building lease for office space and parking. Additional lease details are discussed in Note 6 below.

Capital and Intangible assets, net of accumulated depreciation and amortization

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.

Right-of-Use (ROU) intangible assets are recognized at the lease or SBITA commencement date and represent UTIMCO's right-to-use an underlying asset for the lease or agreement term. ROU assets are measured at the initial value of the lease or subscription liability plus any payments made to the lessor or vendor at or before commencement and initial direct costs. Amortization expense for ROU intangible assets is computed using the straight-line method over the shorter of the lease or agreement term or estimated useful lives of the assets.

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

The following is a schedule of the depreciable capital assets as of August 31, 2023 and 2022:

	Balance			Balance
	8/31/2022	Additions	Deletions	8/31/2023
Office furniture	\$ 3,179,321	\$ -	\$ -	\$ 3,179,321
Office equipment	2,146,612	383,964	-	2,530,576
Software	181,316		(33,517)	147,799
Leasehold improvements	11,371,721	-	-	11,371,721
Total property and equipment	16,878,970	383,964	(33,517)	17,229,417
Less accumulated depreciation	(8,091,887)	(1,871,313)	33,517	(9,929,683)
Net Capital Assets	<u>\$ 8,787,083</u>	<u>\$ (1,487,349)</u>	<u>\$ -</u>	<u>\$ 7,299,734</u>

	Balance			Balance
	8/31/2021	Additions	Deletions	8/31/2022
Office furniture	\$ 3,176,591	\$ 2,730	\$ -	\$ 3,179,321
Office equipment	2,612,407	120,850	(586,645)	2,146,612
Software	198,884	-	(17,568)	181,316
Leasehold improvements	11,371,721	-	-	11,371,721
Total property and equipment	17,359,603	123,580	(604,213)	16,878,970
Less accumulated depreciation	(6,677,547)	(2,001,103)	586,763	(8,091,887)
Net Capital Assets	<u>\$ 10,682,056</u>	<u>\$ (1,877,523)</u>	<u>\$ (17,450)</u>	<u>\$ 8,787,083</u>

The following is a schedule of the amortizable intangible asset as of August 31, 2023 and 2022:

	Balance	FY 2023 YTD	Balance
	8/31/2022	Activity	8/31/2023
Right-of-use asset, building lease	\$ 21,084,599	\$ -	\$ 21,084,599
Less accumulated amortization	(4,337,004)	(2,168,502)	(6,505,506)
Net ROU Asset, building lease	<u>\$ 16,747,595</u>	<u>\$ (2,168,502)</u>	<u>\$ 14,579,093</u>

Right-of-use asset, SBITA	\$ 2,306,096	\$ -	\$ 2,306,096
Less accumulated amortization	(826,140)	(877,709)	(1,703,849)
Net ROU Asset, SBITA	<u>\$ 1,479,956</u>	<u>\$ (877,709)</u>	<u>\$ 602,247</u>

	Balance	FY 2022 YTD	Balance
	8/31/2021	Activity	08/31/2022
Right-of-use asset, building lease	\$ 21,084,599	\$ -	\$ 21,084,599
Less accumulated amortization	(2,168,502)	(2,168,502)	(4,337,004)
Net ROU Asset, building lease	<u>\$ 18,916,097</u>	<u>\$ (2,168,502)</u>	<u>\$ 16,747,595</u>

Right-of-use asset, SBITA*	\$ 2,306,096	\$ -	\$ 2,306,096
Less accumulated amortization	-	(826,140)	(826,140)
Net ROU Asset, SBITA	<u>\$ 2,306,096</u>	<u>\$ (826,140)</u>	<u>\$ 1,479,956</u>

*GASB 96 Implementation 9/1/21

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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.

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.

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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 years ended August 31, 2023 and 2022 were \$67,930,864 and \$60,631,074, respectively. This represents fees for the following:

	<u>2023</u>	<u>2022</u>
Permanent University Fund	\$ 34,168,604	\$ 30,238,367
The University of Texas System General Endowment Fund	23,824,726	20,057,046
The University of Texas System Intermediate Term Fund	<u>9,937,534</u>	<u>10,335,661</u>
	<u>\$ 67,930,864</u>	<u>\$ 60,631,074</u>

On January 10, 2022, UTIMCO rebated \$6,000,000 back to the Investment Funds as required by the Master Investment Management Services Agreement between UTIMCO and the UT System Board of Regents. The rebate is detailed below:

Permanent University Fund	\$ 2,992,363
The University of Texas System General Endowment Fund	1,984,829
The University of Texas System Intermediate Term Fund	<u>1,022,808</u>
	<u>\$ 6,000,000</u>

- b) UTIMCO contracts for internet, mainframe connection, technology services, and various other expenses with The University of Texas System and The University of Texas at Austin. The total for these services for the years ended August 31, 2023 and 2022 were \$144,659 and \$147,808, respectively.
- c) UTIMCO entered into a 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. Effective May 1, 2020, the lease was amended to include additional space and extends the lease through May 21, 2030. The minimum rental commitment for UTIMCO's office space as amended effective May 1, 2020 and expiring May 21, 2030 was \$192,166 per month for the first nine months and escalates annually as of February 1, 2021 per a predetermined escalation clause in the lease. As of August 31, 2023, the monthly rent payment was \$208,056. 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, 2023 and 2022, 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 described above. The money market account balances as of August 31, 2023 and 2022 were \$41,615,068 and \$33,992,247, 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 years ended August 31, 2023 and 2022 were \$1,659,557 and \$1,470,167, 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 Plan Administrative Committee. Participants are permitted to make tax-deferred contributions to the 457(b) deferred compensation 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 described above.

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 years ended August 31, 2023 and 2022 were \$335,670 and \$319,628, respectively.

Note 6 – Lease

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. Effective May 1, 2020, the lease was amended and extended through May 21, 2030. The lease amendment includes additional space and base rent and operating expense adjustments. The lease also includes a rent escalation clause providing for scheduled rent

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increases annually.

As a result of implementing GASB 87 in FY 2022 and restatement for FY 2021, the future fixed lease payments at September 1, 2020 were recorded as a lease liability and intangible right-of-use lease asset. For the years ended August 31, 2023 and 2022, the building lease liability was \$17,739,802 and \$20,060,117, respectively. The reduction in the lease liability is the result of monthly payments made for rent and reserved parking per the lease agreement and are recorded as a combination of a reduction in the lease liability and interest expense as shown in the table below.

	<u>Lease Liability</u>	<u>Interest Expense</u>
Balance at 8/31/2022	\$ 20,060,117	\$ -
Less YTD payments (\$2,502,592)	<u>(2,320,315)</u>	<u>(182,277)</u>
Balance at 8/31/2023	<u>\$ 17,739,802</u>	<u>\$ (182,277)</u>
Balance at 8/31/2021	\$ 22,294,771	\$ -
Less YTD payments (\$2,439,032)	<u>(2,234,654)</u>	<u>(204,378)</u>
Balance at 8/31/2022	<u>\$ 20,060,117</u>	<u>\$ (204,378)</u>

Also, as a result of implementing GASB 87, lease expense includes only variable lease expenses. The variable lease expenses include lease operating expenses and non-reserved parking. For the years ended August 31, 2023 and 2022, related lease operating expenses were \$749,997 and \$663,353, respectively and parking expense was \$262,575 and \$235,800, respectively.

The principal and interest expense for the next five years and beyond are projected below for the building lease obligations:

Lease Principal and Interest - Office Space Rent and Reserved Parking

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 2,406,811	\$ 159,342	\$ 2,566,153
2025	2,488,941	135,582	2,624,523
2026	2,568,134	111,052	2,679,186
2027	2,653,306	85,734	2,739,040
2028	2,723,477	59,644	2,783,121
2029-2030	<u>4,899,133</u>	<u>39,275</u>	<u>4,938,408</u>
Total Requirements	<u>\$ 17,739,802</u>	<u>\$ 590,629</u>	<u>\$ 18,330,431</u>

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Note 7 – SBITA

UTIMCO entered into various SBITAs that convey the control of the right to use vendor-provided software to UTIMCO. Some of these agreements contain provisions for payments that are partially or completely variable and therefore not included in the measurement of the ROU subscription assets or subscription liabilities. These variable payments are derived from occasional changes to the number of purchased licenses or to the use of the IT asset. As a result of implementing GASB 96 in FY 2023 and restatement for FY 2022, the future fixed subscription payments for the capitalized arrangements in scope at or after September 1, 2021 were recorded as a subscription liability and intangible right-of-use subscription asset. Subscription related operating expenses were reversed in FY 2022 and amortization of the right-of-use subscription asset and interest expense were recorded. For the years ended August 31, 2023 and 2022, the subscription liability was \$451,907 and \$1,337,995, respectively. The reduction in the subscription liability is the result of monthly, quarterly, or annual payments made for SBITA per the individual agreements and are recorded as a combination of a reduction in the subscription liability and interest expense as shown in the table below.

	<u>Subscription Liability</u>	<u>Interest Expense</u>
Balance at 8/31/2022	\$ 1,337,995	\$ -
Less YTD payments (\$892,096)	<u>(886,088)</u>	<u>(6,008)</u>
Balance at 8/31/2023	<u>\$ 451,907</u>	<u>\$ (6,008)</u>
Implementation FY 2022	\$ 2,306,096	\$ -
Less YTD payments (\$972,091)	<u>(968,101)</u>	<u>(3,990)</u>
Balance at 8/31/2022	<u>\$ 1,337,995</u>	<u>\$ (3,990)</u>

Also, as a result of implementing GASB 96, subscription related operating expenses for the capitalized subscriptions now includes only variable expenses and other non-capitalized expenses. These expenses include administrative training, support, and additional user fees related to changes in the number of purchased licenses. For the years ended August 31, 2023 and 2022, the subscription related operating expenses were \$32,951 and \$41,138, respectively.

The principal and interest expense for the next five years and beyond are projected below for the SBITA obligations:

SBITA Principal and Interest

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 233,858	\$ 4,481	\$ 238,339
2025	84,308	2,659	86,967
2026	87,264	1,443	88,707
2027	46,477	258	46,735
2028+	-	-	-
Total Requirements	<u>\$ 451,907</u>	<u>\$ 8,841</u>	<u>\$ 460,748</u>

Note 8 – Advisory Board Fees

UTIMCO occasionally receives a fee on behalf of an employee who served as an advisory board member for a private equity investment. For the years ended August 31, 2023 and 2022, advisory board fees were \$5,000 and \$10,000, respectively.

CONTRACT REPORT

New Contracts, Leases, and Other Commercial Arrangements
 (Total Obligation per Agreement greater than \$250,000)
 November 14, 2023 through February 20, 2024

Agreement	Purpose	Contract Term	Annual Amount
eFront Financial Solutions (annual renewal)	eFront Financial Solutions is a software provider for the alternative investments and risk management areas of the financial services industry	1/1/2024 - 12/31/2024	\$305,848

Agenda Item
UTIMCO Board of Directors Meeting
March 20, 2024

Agenda Item: Report from Investment Risk Committee

Developed By: Moeller, de Onís

Presented By: Longoria

Type of Item: Information item

Description: The Investment Risk Committee (“Committee”) met on March 12, 2024. The Committee’s agenda included (1) discussion and appropriate action related to the approval of minutes of its November 30, 2023 meeting; (2) review and discussion of compliance reporting; and (3) a market and portfolio risk update.

Discussion Ms. de Onís reviewed the quarterly compliance reporting with the Committee and Dr. Yoeli presented an update on the market and portfolio risk.

Recommendation: None

Reference: None

Agenda Item
UTIMCO Board of Directors Meeting
March 20, 2024

Agenda Item: Report from Cyber Risk Committee

Developed By: Moeller

Presented By: Rothrock

Type of Item: Information Item

Description: The Cyber Risk Committee (the “Committee”) met on March 12, 2024. The Committee’s agenda included discussion and appropriate action related to the approval of minutes of November 30, 2023 meeting. The Committee also met in Executive Session to receive an update on computer security assessments related to information resources technology.

Recommendation: None

Reference: None

Agenda Item
UTIMCO Board of Directors Meeting
March 20, 2024

Agenda Item: Report from Compensation Committee

Developed By: Moeller

Presented By: Handley

Type of Item: Information Item

Description: The Compensation Committee (the "Committee") met on March 12, 2024. The Committee's agenda included discussion and appropriate action related to approval of the minutes of its December 7, 2023 meeting. The Committee also met in Executive Session for the purpose of deliberating individual personnel compensation and evaluation matters.

Recommendation: None

Reference: None