

**The University of Texas System**  
**Investment Performance Reporting Error Correction Policy**

**Approved by BOR: July 8, 2005**

**Approved by UTIMCO Board: June 16, 2005**

**Purpose**

The purpose of this Investment Performance Reporting Error Correction Policy (“Error Correction Policy”) is to ensure continued consistency and accuracy of reported performance data by providing guidance to handle all types of errors in presentation of investment performance statistics. The performance data subject to this policy are relied upon by UTIMCO directors and advisors, The University of Texas System Board of Regents (“U. T. System Board”), System Administration staff, development officers, donors, legislators, consultants, third party verifiers, auditors, members of the public, and other consumers of investment performance information for funds under the management and control of the U. T. System Board. This Error Correction Policy addresses situations where errors are discovered and the process for documenting and correcting errors.

**Scope**

This policy applies to all types of errors in presentation of actual and benchmark investment performance reporting for fund portfolios (endowment and operating), asset classes, and third party investment manager portfolios. It defines:

1. Situations in which investment performance data (including benchmarks) reported by UTIMCO must be retroactively changed;
2. How such restatement should be documented; and
3. When and for whom restated numbers should be republished.

A determination that a chosen externally published benchmark for a given asset class, portfolio, fund, or composite in the investment performance presentation is inappropriate, inconsistent with investment goals and policies, or no longer suitable for any reason, as opposed to misstated, miscalculated, or presented incorrectly, does not constitute an “error” for purposes of this policy.

The U. T. System Board will make the final determination as to whether or not a proposed restatement and republication should be made in cases where a benchmark is replaced for reasons other than an actual error.

**Types of Errors in Presentation of Investment Performance Data**

Presentation errors that must be corrected and that could result in restatement and republication of investment performance data include, but are not limited to, the following types:

- Reconciliation errors
- Calculation errors
- Valuation errors
- Benchmark reporting presentation errors
- Other types of errors.

***Reconciliation errors*** (differences) between UTIMCO’s records and raw data from an outside source, such as a third party investment manager or custodian, can result in an erroneous

## **The University of Texas System Investment Performance Reporting Error Correction Policy**

calculation of a rate of return and/or risk statistics. Errors can be caused by, but are not limited to:

- Missed trades, processed against the wrong account or not correctly registered on one or more systems.
- Mishandling of corporate actions, missed completely or simply not processed correctly.
- Missed cash flows.
- Differences in carrying values for securities that aren't actively traded or for which manual prices are entered.
- Exchange rate discrepancies.

**Calculation errors** are defined as inaccuracies in numerical calculations resulting from a mathematical, accounting, statistical, or software error.

**Valuation errors** can result from pricing problems for securities that are not actively traded or for which market prices are not available.

**Benchmark reporting presentation errors** may result when index returns (customized or externally published) are weighted incorrectly for policy portfolios.

**Other types of errors** in presentation of investment performance statistics include, but are not limited to, incorrect allocation of portfolios to composites/funds, misstated composite dispersion, or other disclosures and/or presentation statistics.

### **Definitions**

**Restatement** shall be defined as the correction of data presented in monthly and/or quarterly investment performance reports, accompanied by a detailed footnote explaining the date, the reasons for, and the impact of the change.

**Republishing** is defined as making best efforts to redistribute corrected data to parties who may have relied upon the incorrect information, including but not limited to UTIMCO directors and advisors, U. T. System Board and staff, development officers, donors, legislators, consultants, third party verifiers, auditors, and members of the public. A disclosure, including the date, reasons for, and impact of the change, must be provided to attempt to ensure that relevant parties fully understand the change.

**Risk statistics** include, but are not limited to, standard deviation of returns and downside risk measures for asset classes, portfolios, and/or funds.

**Materiality:** Materiality in terms of the size and impact of an error will vary for different asset types (e.g., equities, fixed income, emerging markets), reporting periods (e.g., monthly, quarterly, or annual returns), and qualitative circumstances. Assessing materiality of an error in performance measurement requires that management, their custodians, consultants, independent verifiers, and auditors consider not only the size of the misstatement but also the qualitative significance of the information to the investment performance report taken as a whole.

## **The University of Texas System Investment Performance Reporting Error Correction Policy**

Situations may arise where a reasonable person would conclude that a matter is material even though it is quantitatively small relative to the financial statements or investment performance reporting taken as a whole. Examples of considerations that may make a relatively “small” investment performance reporting error material include but are not limited to the following:

- If the error arises from an estimate, what degree of imprecision is inherent in the estimate?
- Does the misstatement hide a failure to meet goals or expectations for the enterprise?
- Does the misstatement mask a change in earnings or other trends?
- Does the error change a loss into income, or vice versa?
- Does the error concern a component, fund, asset class, or other portion of the business that has been identified as playing a significant role in operations?
- Does the error affect compliance with investment policy statements, regulatory or other contractual requirements?
- Does the error have the effect of increasing management compensation – e.g., by satisfying requirements for the award of bonuses or other forms of incentive compensation?
- Does the error involve concealment of an unlawful transaction?

***Aggregating and Netting Errors:*** In determining whether multiple errors cause the investment performance to be materially misstated, errors should be evaluated both individually and in the aggregate in light of quantitative and qualitative factors to judge whether they materially misstate the investment performance overall.

### **The Error Correction Process**

The Error Correction Process strives to provide simple, unambiguous steps to correct and document errors, and to disseminate the corrected information to all interested parties. The process includes the following steps:

1. ***Report the error immediately to the UTIMCO Chief Compliance Officer***, together with the calculation of its impact.
2. ***Determine if the error is material:*** The Chief Compliance Officer will be responsible to recalculate the investment performance presentation and risk statistics to estimate the impact of the error and to gather all relevant facts and circumstances that could influence the determination of materiality.
3. ***Document the original figure, corrected figure, and action taken.*** UTIMCO staff must disclose the date, the reasons for, and the impact of any change to attempt to ensure that relevant parties who may have relied on the investment performance reporting fully understand it. Potentially relevant parties who require disclosure of corrected performance data include but are not limited to UTIMCO directors and advisors, U. T. System Board and staff, development officers, donors, legislators, consultants, third party verifiers, auditors, and members of the public.

**The University of Texas System**  
**Investment Performance Reporting Error Correction Policy**

4. ***Restate and republish the affected data.*** When an error, as defined above, is discovered in the presentation of Actual Investment Performance Data and/or Benchmark Investment Performance Data for an individual portfolio, an asset class, or at the total fund level, the data will be restated and republished immediately to all parties who may have relied upon the incorrect information, unless all three of the following circumstances apply:

- a. A correction will have little or no impact on previously reported numbers because the error is calculated to be “immaterial” based on both quantitative measures and qualitative facts and circumstances as described above; and
- b. The error will be captured and corrected in an immediately subsequent reporting period; and
- c. Risk statistics derived from investment performance returns will not be materially impacted.

5. ***Benchmark Change:*** In the event of a benchmark change, if a custom benchmark or combination of multiple benchmarks is used, staff must also provide written disclosure to all relevant parties, describing the benchmark creation and re-balancing process.