

**UTIMCO BOARD OF DIRECTORS
SPECIAL CALLED
MEETING AGENDA**

November 4, 2013

UTIMCO
401 Congress Avenue, Suite 2800
Austin, Texas 78701

Time	Item #	Agenda Item
Begin	End	
2:15 p.m.	2:20 p.m.	1
		OPEN MEETING: Call to Order/Discussion and Appropriate Action Related to Minutes of October 10, 2013 Meeting*
2:20 p.m.	3:15 p.m.	
		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 compensation and evaluation matters, including the CEO and Chief Investment Officer. Reconvene into Open Session
3:15 p.m.	3:30 p.m.	2
		Report from Compensation Committee: - Discussion and Appropriate Action Related to the CEO's Base Salary for 2013-2014 Fiscal Year* - Discussion and Appropriate Action Related to CEO's Qualitative Performance Goals for the Performance Period ended August 31, 2014* - Discussion and Appropriate Action Related to Appendices C and D of the UTIMCO Compensation Program, effective September 1, 2013*,** - Discussion and Appropriate Action Related to Designation of Employees in Eligible Positions as Participants in the UTIMCO Compensation Program for the Performance Period ended August 31, 2014*
3:30 p.m.	4:00 p.m.	3
		Discussion and Appropriate Action Related to UTIMCO 2013-14 Budget*,**
4:00 p.m.		
		Adjourn

* 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 Regularly Scheduled Meeting: December 3, 2013

RESOLUTION RELATED TO MINUTES

RESOLVED, that the minutes of the meeting of the Board of Directors held on **October 10, 2013**, be, and are hereby, approved.

**MINUTES OF MEETING OF THE
BOARD OF DIRECTORS OF
THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY**

The Board of Directors (the "Board") of The University of Texas Investment Management Company (the "Corporation") convened in an open meeting on **October 10, 2013**, by means of conference telephone enabling all persons participating in the meeting to hear each other, at the offices of the Corporation, Suite 2800, 401 Congress Avenue, Austin, Texas, said meeting having been called by the Vice Chairman, Ardon Moore, with notice provided to each member in accordance with the Bylaws. The audio portion of the meeting was electronically recorded. Participating in the meeting were the following members of the Board:

Ardon E. Moore, Vice Chairman
Morris E. Foster
R. Steven Hicks
Charles W. Tate
James P. Wilson

thus constituting a majority and quorum of the Board. Vice Chairman Moore called the meeting to order at 3:00 p.m. Vice Chairman for Policy Francisco Cigarroa, and Directors Kyle Bass and Jeffery D. Hildebrand did not attend the meeting. Employees of the Corporation attending the meeting were Bruce Zimmerman, CEO and Chief Investment Officer; Joan Moeller, Secretary and Treasurer; Christy Wallace, Assistant Secretary; Cecilia Gonzalez, internal General Counsel and Chief Compliance Officer; Uzi Yoeli, Senior Director - Portfolio Risk Management; Uche Abalogu, Chief Technology Officer; and other Staff members. Other attendees were Keith Brown of the McCombs School of Business at UT Austin; Jerry Turner of Andrews Kurth LLP; Terry Hull, Mike Peppers, Moshmee Kalamkar, Jim Phillips, and Guillermo Garcia of The University of Texas System ("UT System") Administration. Copies of materials supporting the Board meeting agenda were previously furnished to each Director. At the meeting, Vice Chairman Moore announced the newest Board member, Jeffery D. Hildebrand.

Minutes

The first item to come before the Board was approval of the minutes of the Board of Directors Meeting held on July 22, 2013. Upon motion duly made and seconded, the following resolution was unanimously adopted by the Board:

RESOLVED, that the minutes of the meeting of the Board of Directors held on
July 22, 2013, be, and are hereby, approved.

Corporate Resolutions

Vice Chairman Moore recommended the first action item related to corporate resolutions, which was the election of a new UTIMCO Chairman. With the former Chairman Paul Foster's election as Chairman of the

UT System Board of Regents and his subsequent replacement on the UTIMCO Board, the Board was required to elect a new UTIMCO Chairman. Vice Chairman Moore was pleased to nominate Morris Foster as the new UTIMCO Chairman. After asking for other nominations, and hearing none, upon motion duly made and seconded, the following resolution was unanimously adopted by the Board:

RESOLVED, that Morris E. Foster is hereby appointed to the office of Chairman of the Corporation, to serve until the next Annual Meeting of the Corporation or until his or her earlier death, resignation or removal.

Vice Chairman Moore congratulated Chairman Foster and turned the meeting over to him. Chairman Foster said he was very honored to be the new Chairman. He said there was one change to the meeting and asked to strike the Briefing Session from the agenda. He then recommended approval of the resolution related to committee assignments. Upon motion duly made and seconded, the following resolution was unanimously adopted:

BE IT RESOLVED, that the following Directors of the Corporation are hereby designated as the Audit and Ethics Committee of the Board of Directors:

James P. Wilson
R. Steven Hicks
Jeffery D. Hildebrand
Charles W. Tate

subject to approval by the Board of Regents of The University of Texas System at a future meeting, to serve until the expiration of their term, or until their successor has been chosen and qualified, or until their earlier death, resignation or removal; and

FURTHER RESOLVED, that James P. Wilson is hereby designated the Chair of the Audit and Ethics Committee and shall preside at its meetings.

BE IT RESOLVED, that the following Directors of the Corporation are hereby designated as the Compensation Committee of the Board of Directors:

Kyle Bass
Jeffery D. Hildebrand
Ardon E. Moore
James P. Wilson

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

FURTHER RESOLVED, that Kyle Bass is hereby designated the Chair of the Compensation Committee and shall preside at its meetings.

BE IT RESOLVED, that the following Directors of the Corporation are hereby designated as the Risk Committee of the Board of Directors:

Charles W. Tate
Kyle Bass
Alex M. Cranberg¹
Ardon E. Moore

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

FURTHER RESOLVED, that Charles W. Tate is hereby designated the Chair of the Risk Committee and shall preside at its meetings.

BE IT RESOLVED, that the following Directors of the Corporation are hereby designated as the Policy Committee of the Board of Directors:

Alex M. Cranberg¹
R. Steven Hicks
Jeffery D. Hildebrand
James P. Wilson

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

FURTHER RESOLVED, that Alex M. Cranberg¹ is hereby designated the Chair of the Policy Committee and shall preside at its meetings.

Chairman Foster then recognized Paul Foster for his outstanding leadership, commitment, and service to the Corporation as former Chairman of the Board of Directors. Chairman Foster recommended approval of the Resolution of Appreciation. Upon motion duly made and seconded, the following resolution was unanimously adopted:

WHEREAS, in recognition of his substantial background and expertise in business and investments, Paul L. Foster was appointed by Governor Rick Perry to a six-year term to The University of Texas System Board of Regents in 2007, and was reappointed to the Board in 2013 for another six-year term; and

WHEREAS, Mr. Foster was appointed by the Board of Regents to the Board of Directors of The University of Texas Investment Management Company ("UTIMCO") in 2007, and was reappointed by the Board of Regents to serve additional terms on the UTIMCO Board until 2013; and

¹ After the meeting on October 10th, the Board was notified that Regent Alex Cranberg had given formal notice of resignation from the Board effective October 9, 2013. As such, Regent Cranberg did not commence service on the Board and his appointments to the Risk and Policy Committees were ineffective.

WHEREAS, Mr. Foster served as Chairman of the Board's Audit and Ethics Committee, and Member of the Policy Committee and Risk Committee, and was elected Chairman in 2010; and

WHEREAS, Mr. Foster served as Chairman until September 2013; and

WHEREAS, during his tenure on the UTIMCO Board, Mr. Foster provided invaluable insight and counsel, drawing on his immense business experience as Executive Chairman of Western Refining, Inc., an independent oil refiner and marketer, headquartered in El Paso, Texas; and

WHEREAS, Mr. Foster's commitment and service as a Director of UTIMCO were exemplary, reflecting his deep devotion to the education and development of students at all levels, and further evidenced by his work with The University of Texas System, including serving as Chairman and Vice Chairman of the Board of Regents, Chairman of the Finance and Planning Committee, Vice Chairman of the Audit, Compliance, and Management Review Committee, and as a member of the Academic Affairs and Health Affairs Committees; and

WHEREAS, Mr. Foster's unselfish contributions are also evidenced in the civic and corporate arena, by his service on numerous boards, including the Advisory Board of the Hankamer School of Business at Baylor University, the Governor's Business Council, World Presidents' Organization, the Texas Economic Development Corporation, member, former executive committee member and former chair of the El Paso Regional Economic Development Corporation, former chairman of the El Paso Chapter of the American Red Cross, member of the Greater El Paso Chamber of Commerce, the Executive Committee of the Paso del Norte organization, the Bank of the West Board and Chairman of the Nomination and Governance Committee, National Petroleum Club, Business Advisory Council of The University of Texas at El Paso, and a former member of the Young Presidents' Organization and the Texas Higher Education Coordinating Board; and

WHEREAS, during Mr. Foster's tenure on the UTIMCO Board, UTIMCO managed the Permanent University Fund and other investments of The University of Texas System with the highest standards of integrity, professionalism, and competency, earning wide praise and recognition from UTIMCO's investment beneficiaries, namely The University of Texas System and The Texas A&M University System, as well as the alumni and patrons of such Systems, the State's legislative leaders, the national credit rating agencies, capital markets, and investment community generally; and

WHEREAS, much of the credit for UTIMCO's success is directly attributable to Mr. Foster's leadership, judgment, and commitment. NOW, THEREFORE,

BE IT RESOLVED, that the Directors of The University of Texas Investment Management Company, on behalf of the grateful people of the State of Texas, particularly the Boards of Regents and Administrators of The University of Texas System and The Texas A&M University System, do hereby express to Paul L.

Foster their sincerest appreciation for his leadership and service that contributed immeasurably to UTIMCO's success; and

BE IT FURTHER RESOLVED, that all persons who read this Resolution should know that Mr. Foster has made a lasting and fundamental contribution to improve the manner in which public university endowments are invested and managed in the State of Texas, to the benefit of all of the citizens of the State, particularly the students and faculty of The University of Texas System and The Texas A&M University System.

PASSED AND ADOPTED this 10th day of October, 2013.

Organization Update

Chairman Foster asked Mr. Zimmerman to provide an organization update to the Board. Mr. Zimmerman gave an update on the Corporation's staffing. He then asked Mr. Abalogu to present an update on the technology infrastructure platform and application development. Mr. Abalogu presented strengths of the current platform, explained UT System integration/leveraging, existing and select applications, challenges and opportunities with the infrastructure, and provided an update of the infrastructure including remote access, separate technology sites, storage, servers and data back-up. He also provided information on the document management system, investment support system and contract with GlobeArc LLC. The Corporation had entered into a contract with GlobeArc LLC to jointly extend and re-develop their flagship product to the Corporation's specifications to meet a pressing need for an investment support system for the Corporation's investment professionals. Mr. Zimmerman summarized the terms of the contract and asked the Board to ratify the contract entered into between the Corporation and GlobeArc LLC. Mr. Zimmerman and Mr. Abalogu answered the Directors' questions. Upon motion duly made and seconded, the following resolution was unanimously adopted:

WHEREAS, the Delegation of Authority delegates to the UTIMCO Chief Executive Officer 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, to meet a pressing need for an investment support system for UTIMCO's investment professionals, UTIMCO staff entered into a contract with GlobeArc LLC to serve as an information technology consultant and system developer of the investment support system, and

WHEREAS, after entering into the contract, UTIMCO staff realized it had exceeded its delegated authority to enter into the contract because the value of the contract exceeds \$1 million during the contract term of three years; and

WHEREAS, Staff requests the UTIMCO Board ratify the contract with GlobeArc LLC dated April 23, 2013, if the UTIMCO Board deems appropriate.

NOW, THEREFORE, be it:

RESOLVED that the contract entered into between the Corporation and GlobeArc LLC dated April 23, 2013 (the "Agreement"), for GlobeArc LLC to serve as an information technology consultant and developer for the Corporation is hereby ratified, confirmed, approved and adopted.

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

Endowment and Operating Funds Update

Chairman Foster asked Mr. Zimmerman to present the Corporation's endowment and operating funds update. Mr. Zimmerman presented the Corporation's Performance Summary as of August 31, 2013. Mr. Zimmerman reported the Corporation had \$30.0 billion of assets under management at the end of August 31, 2013. Of the \$30.0 billion, \$14.9 billion was in the Permanent University Fund ("PUF"), \$7.4 billion in the General Endowment Fund ("GEF"), \$1.6 billion in the Short Term Fund ("STF"), \$0.3 billion in the Debt Proceeds Fund, and \$5.5 billion in the Intermediate Term Fund ("ITF"). Mr. Zimmerman presented actual versus benchmark results, tactical asset allocation, and value-add analysis. The net performance for the fiscal year ended August 31, 2013, for the PUF was 8.79% and for the GEF was 8.99%, versus benchmark returns of 7.47% for each fund. The ITF's performance was 5.03% versus its benchmark return of 2.70% for the fiscal year ended August 31, 2013. Performance for the STF was 0.11% versus a benchmark return of 0.11% for the fiscal year ended August 31, 2013. Mr. Zimmerman reviewed the risk section of the Funds Update providing risk analytics for the period ending August 31, 2013, beginning with the current risk environment, including 4-way risk decomposition, up/down capture, risk contributions and correlations. Mr. Zimmerman reviewed the Funds' asset class and investment type targets, tactical asset allocation, ranges and performance objectives. Mr. Zimmerman reported on investment activity as of August 31, 2013, including manager exposure and leverage. He also reported on derivatives and counterparties, and gave an update on liquidity, contracts and the ITF. Mr. Zimmerman answered the Directors' questions.

There being no further business to come before the Board, the meeting was adjourned at approximately 4:01 p.m.

Secretary: _____
Joan Moeller

Approved: _____ Date: _____
Morris E. Foster
Chairman, Board of Directors of
The University of Texas Investment Management Company

Agenda Item
UTIMCO Board of Directors Meeting
November 4, 2013

Agenda Item: Report from Compensation Committee, including (1) Discussion and Appropriate Action Related to CEO's Base Salary for 2013-2014 Fiscal Year; (2) Discussion and Appropriate Action Related to CEO's Qualitative Performance Goals for the Performance Period ended August 31, 2014; (3) Discussion and Appropriate Action related to Appendices C and D of the UTIMCO Compensation Program, effective September 1, 2013; and (4) Discussion and Appropriate Action Related to Designation of Employees in Eligible Positions as Participants in the UTIMCO Compensation Program for the Performance Period ended August 31, 2014

Developed By: Zimmerman, Moeller, Gonzalez

Presented By: Bass

Type of Item: Action item; Action required by UTIMCO Board; further action required by the UT System Board of Regents related to the Appendices of the UTIMCO Compensation Program (the "Plan")

Description: The Compensation Committee (the "Committee") met on August 28, 2013, and will meet on October 29, 2013 and November 4, 2013. At its meeting on August 28, 2013, the Committee met in Executive Session for the purpose of deliberating individual personnel compensation matters but did not take any action, votes or make any decisions.

The Committee's agenda for its October 29, 2013 meeting includes (1) discussion and appropriate action related to minutes of its July 17, 2013 and August 28, 2013 meetings; (2) discussion related to base salaries for the UTIMCO Officers and other Plan Participants for 2013-2014 fiscal year; (3) discussion and appropriate action related to the designation of employees in Eligible Positions as Participants in the Plan for the Performance Period ended August 31, 2014; (4) discussion and appropriate action related to Qualitative Performance Goals for the Participants of the Plan for the Performance Period ended August 31, 2014; (5) discussion related to Appendices C and D of the Plan, effective September 1, 2013; and (6) discussion and appropriate action related to engaging UTIMCO's external auditor for agreed upon procedures services. At its meeting on November 4, 2013, the Committee's agenda will include (1) discussion and appropriate action related to base salaries for the UTIMCO Officers and other Plan Participants for 2013-2014 fiscal year; and (2) discussion and appropriate action related to Appendices C and D of the Plan, effective September 1, 2013. The Committee also will meet in Executive Session for the purpose of deliberating individual personnel compensation and evaluation matters at both meetings.

Discussion: **(1) Base Salaries.** The Committee will report on its action related to the base salaries for all UTIMCO officers and Plan Participants (other than the CEO) for the

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2013-14 Fiscal Year. The Committee will request that the Board take appropriate action related to the CEO's base salary. Mercer was hired by the Committee to perform a salary benchmarking study, including salary midpoints and salary ranges, to assist UTIMCO in developing a total compensation program that is competitive nationally.

(2) Qualitative Performance Goals. The Committee will report on its actions related to the Participants' Qualitative Performance Goals for the Performance Period ended August 31, 2014. Qualitative performance goals may be established in one or more of the following areas: leadership, implementation of operational goals, management of key strategic projects, effective utilization of human and financial resources, and UTIMCO's investment performance relative to the Peer Group.

Section 5.4 of the Plan requires that the CEO's performance goals be determined and approved by the UTIMCO Board. The Committee presents and recommends the approval of the CEO's goals to the UTIMCO Board. There are three categories of performance goals in the Plan: (1) entity performance; (2) asset class performance; and (3) qualitative performance. The Committee will request that the Board take appropriate action related to the CEO's Qualitative Performance Goals. The CEO's Qualitative Performance Goals will be reviewed in Executive Session with the UTIMCO Board. The entity and asset class performance goals are included in the Plan in Table 2 of Appendix D of the Plan and the Committee will request Board approval of Appendix D.

(3) Appendices C and D of the Plan. The Committee will report on its actions related to Appendices C and D. Appendix C, Table 1 sets forth the Eligible Positions, Weightings, Incentive Award Opportunities, and Percentage of Award Deferred for Each Eligible Position. The Target Incentive Award Opportunities have been adjusted for certain Eligible Positions. Appendix C, Table 1 is included as part of the executive session materials.

Appendix D, Table 2, sets forth two of the Performance Goals categories referenced in Section 5.4(b) of the Plan for the Plan Participants: the Entity Performance and the Asset Class/Investment Type Performance Goals, including the benchmarks for Asset Class/Investment Type and the Threshold, Target, and Maximum Performance Standards for the Total Endowment Funds, Intermediate Term Fund, and the Asset Class/Investment Type. Staff is recommending increases to the Target and Maximum Performance Standards as follows:

Entity - Total Endowment Fund:	Target from 75 bps to 100 bps Maximum from 225bps to 250 bps
Private Investments (excludes RE):	Target from 100 bps to 150 bps Maximum from 350 bps to 450 bps

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Private Investments RE: Target from 100 bps to 150bps
Maximum from 325 bps to 450 bps

Also, Staff is changing the Policy Portfolio Weights of the Asset Classes/ Investment Types to correspond with changes in the Exhibits of the Investment Policy Statements for the Permanent University Fund, General Endowment Fund, and Intermediate Term Fund which were approved by the UTIMCO Board in July 2013 and the Board of Regents in August 2013.

(4) Designation of Employees in Eligible Positions. Approval is required by the UTIMCO Board related to the designation of Employees in Eligible Positions as Participants in the Plan for the Performance Period ended August 31, 2014. Eligible Positions, as defined in Section 5.3. of the Plan include senior management, investment staff, and other key positions as designated by the CEO and approved by the UTIMCO Board. Section 5.3. of the Plan provides that in order for an employee of UTIMCO to become a Participant in the Plan for a Performance Period, the employee must be (1) employed by UTIMCO in an employment position that is designated as an Eligible Position for the Performance Period and (2) be selected by the UTIMCO Board as eligible to participate in the performance incentive award opportunity available under the Plan. An employment position that is an Eligible Position in one Performance Period is not automatically an Eligible Position in any subsequent Performance Period. Similarly, an employee eligible to participate in one Performance Period is not automatically eligible to participate in any subsequent Performance Period. The UTIMCO Board in its discretion may also designate the employment position of a newly hired or promoted employee as an Eligible Position. The designation of Employees in Eligible Positions as Participants in the Plan for the Performance Period ended August 31, 2014, is included in Exhibit 1 as part of the Executive Session materials.

Recommendation: The Committee will request appropriate action from the Board related to (1) the CEO's Base Salary for 2013-14 Fiscal Year; (2) the CEO's Qualitative Performance Goals for the Performance Period ended August 31, 2014; (3) changes to Appendices C and D of the Plan, effective September 1, 2013; and (4) designation of employees in Eligible Positions as participants

Reference: Appendix D, Table 2
Compensation materials, including Appendix C, Table 1, provided for executive session

**RESOLUTION REGARDING CORPORATIONS'S CEO'S BASE
SALARY**

RESOLVED, that the Board of Directors of UTIMCO hereby approves the Base Salary of the Corporation's CEO for the Fiscal Year 2013-2014 in the amount of \$_____.

**RESOLUTION RELATED TO THE CEO'S QUALITATIVE PERFORMANCE
GOALS FOR THE PERFORMANCE PERIOD ENDED AUGUST 31, 2014**

WHEREAS, Section 5.4.(a) of the UTIMCO Compensation Program (the "Plan") provides that the Compensation Committee (the "Committee") of the Board of Directors of UTIMCO (the "Board") will approve the Performance Goals for each Participant (other than for the CEO) each Performance Period; and

WHEREAS, Section 5.4.(c) of the Plan provides that the Board will determine the Performance Goals of the CEO for each Performance Period; and

WHEREAS, the Board has reviewed the CEO's Qualitative Performance Goals for the Performance Period ended August 31, 2014, as prepared by the CEO, and recommended by the Committee and set forth in the document presented to the Board.

NOW, THEREFORE, be it:

RESOLVED, that the Board approves the Qualitative Performance Goals for the CEO for the Performance Period ended August 31, 2014, as set forth in the document presented to the Board.

**RESOLUTION RELATED TO AMENDMENTS TO
UTIMCO COMPENSATION PROGRAM APPENDICES**

WHEREAS, Section 7.2. of the UTIMCO Compensation Program (the “Plan”) provides that UTIMCO, by action of its Board of Directors (the “Board”), has the right in its discretion to amend the Plan or any portion thereof from time to time; and

WHEREAS, Section 5.3.(a) of the Plan requires Table 1 to be revised, as necessary, for subsequent Performance Periods to set forth any changes or additions to the Eligible Positions, the weightings for the Eligible Positions, the Incentive Award Opportunities, and any Applicable Deferral Percentage for each Eligible Position, for that Performance Period as soon as administratively practicable after confirmation of such Eligible Positions by the Board for such Performance Period and to be attached as Appendix C to the Plan; and

WHEREAS, Section 5.8.(b)(1) of the Plan requires Table 2 to be revised, as necessary, for subsequent Performance Periods to reflect new benchmarks, as well as threshold, target, and maximum performance standards, in effect during the three-year rolling historical period, culminating with the subsequent Performance Period and to be attached as Appendix D to the Plan; and

WHEREAS, the Board has reviewed the revised Tables 1 and 2, and approves the amendments as recommended by the Compensation Committee.

NOW, THEREFORE, be it:

RESOLVED, the updated and amended Tables 1 and 2, copies of which are attached hereto, are hereby adopted and approved to replace the current Appendices C and D, respectively, effective as of September 1, 2013.

**RESOLUTION RELATED TO
2013/2014 PARTICIPANTS IN
UTIMCO COMPENSATION PROGRAM**

WHEREAS, Section 5.3.(a) of the UTIMCO Compensation Program (the “Plan”) provides that, in order to become a “Participant” in the Plan for a Performance Period, a UTIMCO employee must be (1) employed in a position designated by the Board of Directors of UTIMCO (the “Board”) as an “Eligible Position” for that Performance Period and (2) selected by the Board as a Participant for that Performance Period; and

WHEREAS, the Compensation Committee of the Board has recommended the individuals who may become Participants for the Performance Period ended August 31, 2014 set forth on Exhibit 1 attached hereto; and

WHEREAS, the UTIMCO Board has reviewed Exhibit 1 and wishes to select the individuals who may become Participants for the Performance Period ended August 31, 2014.

NOW, THEREFORE, be it:

RESOLVED, that, the individuals set forth on Exhibit 1 attached hereto are hereby designated as “Participants” in the Plan for the Performance Period ended August 31, 2014, effective as of September 1, 2013.

Appendix D, Table 2
Benchmarks for Entities and Asset/Class Investment Type
Threshold, Target, and Maximum Performance Standards
(9/1/123 through 8/31/134)

Asset Class/Investment Type	Benchmark	Policy Portfolio Weights		Performance Standards		
		Total Endowment Assets	ITF	Threshold	Target	Maximum
		(% of Portfolio)	(% of Portfolio)			
Entity: Benchmark (Total Endowment Funds)	Policy Portfolio	n/a	n/a	+0 bps	+75 +100 bps	+225 +250 bps
Entity: Benchmark (Intermediate Term Fund)	Policy Portfolio	n/a	n/a	+0 bps	+50 bps	+150 bps
Investment Grade Fixed Income	Barclays Capital Global Aggregate Index	7.5%	35.0% 30.0%	+0 bps	+25 bps	+62.5 bps
Real Estate	FTSE EPRA/NAREIT Developed Index NET TRI USD	2.5%	5.0% 3.0%	+0 bps	+62.5 bps	+150 bps
Natural Resources	50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index	7.5%	7.5% 7.0%	+0 bps	+62.5 bps	+150 bps
Developed Country Equity	MSCI World Index with net dividends	15.0% 14.0%	10.0% 9.0%	+0 bps	+62.5 bps	+150 bps
Emerging Markets Equity	MSCI Emerging Markets with net dividends	12.0% 10.0%	7.5% 6.0%	+0 bps	+62.5 bps	+150 bps
Hedge Funds (Less Correlated & Constrained Investments)	Hedge Fund Research Indices Fund of Funds Composite Index	30.0%	35.0% 45.0%	+0 bps	+75 bps	+250 bps
Private Investments (excludes Real Estate)	Venture Economics Custom Index	21.5% 23.3%	0%	+0 bps	+100 +150 bps	+350 +450 bps
Private Investments Real Estate	NACREIF Custom Index	4.0% 5.2%	0%	+0 bps	+100 +150 bps	+325 +450 bps
Specific asset class benchmarks:						
Credit-Related Fixed Income	Barclays Capital Global High Yield Index			+0 bps	+37.5 bps	+100 bps
Internal Investment Grade Fixed Income	US Barclays Capital Aggregate			+0 bps	+25 bps	+50 bps

Agenda Item
UTIMCO Board of Directors Meeting
November 4, 2013

- Agenda Item:** Discussion and Appropriate Action Related to UTIMCO 2013-14 Budget
- Developed By:** Zimmerman, Moeller, Shepherd
- Presented By:** Zimmerman
- Type of Item:** Action Item; Action required by UTIMCO Board; further action required by Board of Regents of The University of Texas System (“U.T. Board”)
- Description:** The Master Investment Management Services Agreement with UTIMCO (“IMSA”) sets forth the annual budget and management fee requirements. UTIMCO submits to the U.T. Board its proposed annual budget for the following fiscal year within the time frame specified by the U.T. Board for other annual budget submissions. The annual budget includes all estimated expenses associated with the management of the Investment Funds. The annual budget also includes an annual UTIMCO management fee which includes all operating expenses associated with the general management of the funds, including, without limitation, reasonable salaries, benefits and performance compensation of portfolio management and support personnel, expenses for consulting services, office space lease expenses, office furniture and equipment expenses, professional, legal, payroll, and other general services, travel, insurance, capital expenditures, and other miscellaneous expenses incurred by UTIMCO in connection with the performance of its obligations under the IMSA. At the same time UTIMCO submits its annual budget, it submits to the U.T. Board an allocation formula for charging the annual budget to the Investment Funds. In addition to the annual budget, UTIMCO submits its capital expenditures budget.
- During the preparation of the annual budget, a reserve analysis is also prepared. Within 90 days after the end of each fiscal year in the event that there is a surplus, UTIMCO distributes that portion of the cash reserves as may be directed by the U.T. Board back to the Funds which generated the surplus.
- Discussion:** Mr. Zimmerman will present the UTIMCO FY14 Budget presentation, including the reserve analysis.
- Recommendation:** UTIMCO staff recommends that the UTIMCO 2013-2014 Annual Budget, Capital Budget, Management Fee Request, and Allocation Schedule be approved as presented.
- Reference:** *UTIMCO FY14 Budget* presentation

RESOLUTION RELATED TO BUDGET

RESOLVED, that the UTIMCO Management Fee of \$24,469,511 and the Other Direct Fund Costs of \$7,744,969, resulting in Total Fees of \$32,214,480, Capital Budget of \$1,034,900 and the Allocation Schedule; as provided to the Board for the period beginning September 1, 2013 through August 31, 2014, be, and are hereby, approved, subject to approval by the Board of Regents of The University of Texas System.



THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

UTIMCO FY 14 Budget



FY 2013 Budget vs. FY 2013 Forecast

(thousands \$)	2013 Forecast	2013 Budget	Fav / (Unf)	Notes
Total UTIMCO	\$25,680	\$24,126	(\$1,554)	
Incentive Compensation	<u>11,965</u>	<u>9,836</u>	<u>(2,129)</u>	▪ FY12 \$2.2MM favorable to budget due to top office deferral
Expenses Excluding Incentive Compensation	13,715	14,290	575	
Salaries, Benefits, Taxes	9,553	10,013	460	▪ Open positions
Lease and Depreciation	1,554	1,587	33	▪ Timing of IT additions offset by higher than expected lease operating expenses
Online Data, Contract Svcs, Subscriptions	1,165	1,238	73	▪ Private I rampup slower than expected; security review deferred to FY 14
Travel, Meetings	537	622	85	
Corporate Legal	88	174	86	▪ No legislative session issues
Hiring and Relocation	100	30	(70)	▪ Search firm for Ag position
Office Expenses	371	334	(37)	▪ Retirement plan administration changes
Other	347	292	(55)	▪ Compensation study



FY 2014 Budget vs. FY 2013 Forecast

(thousands \$)	2013 Forecast	2014 Budget	Inc / (Dec)
Total UTIMCO	\$25,680	\$24,470	(\$1,210)
Incentive Compensation	<u>11,965</u>	<u>8,519</u>	<u>(3,446)</u>
Expenses Excluding Incentive Compensation	13,715	15,951	2,236
Salaries, Benefits, Taxes	9,553	11,306	1,753
Lease and Depreciation	1,554	1,658	104
Online Data, Contract Svcs, Subscriptions	1,165	1,334	169
Travel, Meetings	537	676	139
Corporate Legal	88	140	52
Hiring and Relocation	100	78	(22)
Office Expenses	371	455	84
Other	347	304	(43)



Salaries, Benefits and Taxes

Salaries, Benefits & Taxes	2013 Forecast	2014 Budget	Incr \$	Incr %
(\$ in thousands)				
Salaries	\$7,588	\$8,919	\$1,331	18%
Benefits	1,268	1,587	319	25%
Taxes	642	725	83	13%
Dues, Memberships	55	75	20	36%
Total Costs	<u>\$9,553</u>	<u>\$11,306</u>	<u>\$1,753</u>	<u>18%</u>

Salaries	\$ Change	% Increase
FY 13 Forecast	<u>\$7,588</u>	
FY 13 Run Rate	\$ 7,772	
Open/New Positions	469	
Plan Participant Increases	457	9.6%
Plan Participant Promotions	138	17.2%
Non-plan Staff Increases	<u>83</u>	4.5%
Budget	<u>\$ 8,919</u>	



Staff Adds

Open Positions	\$198
Natural Resources Senior Associate	
Compliance Specialist	
New Positions	271
IT DB Administrator	
IT Jr Programmer	
Investment Filing Clerk	
Real Estate Senior Associate*	
Hedge Fund Analyst*	
Total Staff Adds	<u><u>\$469</u></u>

* Partial year



Incentive Compensation

(thousands \$)	2013 Forecast	2014 Budget	Inc / (Dec)	
<u>Excluding Retirees:</u>				
Award	\$3,999	\$5,070	\$1,071	<ul style="list-style-type: none"> Budgeted at 70% of maximum, net of award deferrals; increase reflects 2nd year of target increases plus salary increases
Vesting of Deferrals	1,946	2,155	209	<ul style="list-style-type: none"> Cumulative effect of staff tenure and strong performance
Earnings	353	183	(170)	<ul style="list-style-type: none"> Earnings budgeted on smaller deferral
Extraordinary Circumstances Deferral	3,044	-	(3,044)	<ul style="list-style-type: none"> Extraordinary circumstances no longer applicable
Total Excluding Retirees	9,342	7,408	(1,934)	
<u>Retirees Only:</u>				
Award	894	1,046	152	<ul style="list-style-type: none"> Budgeted at 70% of maximum
Vesting of Deferrals	1,046	-	(1,046)	<ul style="list-style-type: none"> All remaining deferrals from 2010, 2011 and 2012 vest
Earnings	94	65	(29)	
Extraordinary Circumstances Deferral	589	-	(589)	<ul style="list-style-type: none"> Extraordinary circumstances no longer applicable
Total Retirees	2,623	1,111	(1,512)	
Total Incentive Compensation	<u>\$11,965</u>	<u>\$8,519</u>	<u>(\$3,446)</u>	



Other UTIMCO Expenses

(thousands \$)	2013 Forecast	2014 Budget	Inc / (Dec)	Description
Lease and Depreciation	\$1,554	\$1,658	\$104	▪ IT adds (\$81), lease operating expenses (\$35)
Online Data, Contract Svcs, Subscriptions	1,165	1,334	169	▪ Disaster recovery, security review
Travel, Meetings	537	676	139	▪ Ag & RE Assoc new positions; Increased CEO travel
Corporate Legal	88	140	52	▪ Dodd Frank & ISDA
Hiring and Relocation	100	78	(22)	▪ Search firm in FY 2013
Office Expenses	371	455	84	▪ Technology related maintenance agreements
Other	347	304	(43)	▪ Comp study in FY 2013
Total	<u>\$4,162</u>	<u>\$4,645</u>	<u>\$483</u>	



Direct Costs

(thousands \$)	2013 Forecast	2014 Budget	Inc / (Dec)	Description
Custodian Fees	\$4,161	\$4,736	\$575	▪ Emerging markets separate accounts
Performance, Analytical and Risk Measurement	1,084	1,235	151	▪ Additional analytics on direct & underlying holdings
Consultant Fees	403	351	(52)	▪ Fort Sheridan fee reduction
Legal and Background Checks	967	837	(130)	
Auditing & Foreign Tax Consultants	548	582	34	
Other	16	4	(12)	
Total	<u>\$7,179</u>	<u>\$7,745</u>	<u>\$566</u>	



Capital Budget

(thousands \$)	<u>FY 13 Forecast</u>	<u>FY 13 Budget</u>	<u>FY 14 Budget</u>	<u>FY 14 Budget vs. FY 13 Forecast</u>
New Technology Initiatives	\$581	\$1,100	\$948	\$367
Computer Servers/Software	66	50	26	(40)
Staff Equipment	18	40	41	23
Software Licenses	5	20	20	15
Video Conferencing	32	50	-	(32)
Phone System	86	70	-	(86)
Equipment & Copiers	19	20	-	(19)
Total Capital Budget	<u><u>\$807</u></u>	<u><u>\$1,350</u></u>	<u><u>\$1,035</u></u>	<u><u>\$228</u></u>



Annual Fee & Allocation Schedule

UTIMCO Management Fee and Direct Budgeted Investment Expenses
Annual Fee and Allocation Schedule
 For the fiscal year ending August 31, 2014

<u>Proposed Budget</u>	<u>Fund Name</u>						<u>Separate Funds</u>	<u>Total</u>
	PUF	PHF	LTF	GEF	ITF	STF		
<u>Market Value 2/28/13 (\$ millions)</u>	14,242	1,015	6,420	PHF LTF 7,435 (2)	5,243	1,626	653	29,199
<u>UTIMCO Management Fee</u>								
Dollars (thousands)	12,302	1,063	6,915		4,190			24,470
Basis Points	8.6	10.5	10.8	0	8.0	0	0	8.4
<u>Direct Expenses to the Fund, excluding UT System Direct Expenses to the Fund</u>								
Dollars (thousands)	3,529	19	21	2,152	2,024			7,745
Basis Points	2.5	0.2	0.0	2.9	3.9	0	0	2.7
<u>UT System Direct Expenses to the Fund</u>								
Dollars (thousands)								
UT System Fees for Endowment Admin & Mgmt	0	0	13,139	0	0	0	0	13,139
UT System Oversight Fees	157	12	73	0	58	0	0	300
UT System PUF Lands	8,970	0	0	0	0	0	0	8,970
Total Dollars	9,127	12	13,212	0	58	0	0	22,409
Total Basis Points	6.4	0.1	20.6	0	0.1	0	0	7.7

(1) Income is net of fees

(2) Pooled Fund for the collective investment of the PHF and LTF



Reserve Analysis

Projected Cash Reserves at August 31, 2013:

Cash		\$10,234,124
Prepaid Expenses		589,180
Less: Accounts Payable, Accrued Liabilities		(5,955,913)
	(Includes awards & earnings payable)	
		<hr/>
Expected Cash Reserves at August 31, 2013		<u>\$ 4,867,391</u>
2014 Proposed Operating Budget	24,469,511	
Applicable Percentage	25%	6,117,378
2014 Proposed Capital Expenditures	1,034,900	1,034,900
		<hr/>
Required Cash Reserves at August 31, 2013		<u>\$ 7,152,278</u>
Balance Available for Distribution		<u>\$ (2,284,887)</u>

Conclusion: No Rebate Required Back to the UT System Investment Funds