

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

**August 23, 2016**

UTIMCO  
401 Congress Avenue, Suite 2800  
Austin, Texas 78701

Time		Item #	Agenda Item
Begin	End		
3:30 p.m.	3:33 p.m.	1	<b>OPEN MEETING:</b> Call to Order/Discussion and Appropriate Action Related to Minutes of Meeting held July 21, 2016*
3:33 p.m.	3:40 p.m.	2	Discussion and Appropriate Action Related to Dreyfus Institutional Preferred Government Money Market Fund*
3:40 p.m.	3:45 p.m.	3	Discussion and Appropriate Action Related to CEO's Recommendation Regarding Staff Authorization*
3:45 p.m.	4:00 p.m.	4	<b>Recess for Briefing Session pursuant to Texas Education Code Section 66.08(h)(2) related to Private Investment</b> <b>Reconvene into Open Session</b> Discussion and Appropriate Action Related to Private Investment*
4:00 p.m.			<b>Adjourn</b>

\* Action by resolution required

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: October 13, 2016**

**RESOLUTION RELATED TO MINUTES**

RESOLVED, that the minutes of the Meeting of the Board of Directors held on **July 21, 2016**, 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 **July 21, 2016**, at the offices of the Corporation, Suite 2800, 401 Congress Avenue, Austin, Texas, said meeting having been called by the Chairman, Jeffery D. Hildebrand, with notice provided to each member in accordance with the 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:

Jeffery D. Hildebrand, Chairman  
William H. McRaven, Vice President for Policy  
Phil Adams  
Kyle Bass  
David J. Beck  
R. Steven Hicks  
H. Lee S. Hobson  
Ray Nixon  
Ray Rothrock

Directors Hicks, Hobson and Bass participated by means of conference telephone, enabling all persons participating in the meeting to hear each other, thus constituting a majority and quorum of the Board. Chairman Hildebrand called the meeting to order at 11:03 a.m. Employees of the Corporation attending the meeting were Bruce Zimmerman, CEO and Chief Investment Officer; Joan Moeller, Secretary and Treasurer; Cecilia Gonzalez, Corporate Counsel and Chief Compliance Officer; Mark Warner, Senior Managing Director - Natural Resources, Emerging Markets & Lower/Middle Markets; Uzi Yoeli, Managing Director - Risk Management; Russ Kampfe, Managing Director - Fixed Income; Ryan Ruebsahm, Managing Director - LCC; Susan Chen, Managing Director - MCC; Eddie Lewis, Senior Director – Real Estate; Gary Hill, Senior Manager – Investment Reporting; Uche Abalogu, Chief Technology Officer; Billy Prather, Director – Natural Resources; and other staff members. Other attendees were Terry Hull, Jim Phillips, Roger Starkey, Allen Hah, and Eric Polonski of UT System Administration; Maria Robinson and David Rejino of The Texas A&M University System; Keith Brown of the McCombs School of Business at UT Austin; and Bob Jewell of Andrews Kurth LLP. Copies of materials supporting the Board meeting agenda were previously furnished to each member of the Board.

Chairman Hildebrand invited the two newest members of the Board, Ray Rothrock and Ray Nixon, to introduce themselves, since this was their first time attending a Board meeting in person.

**Minutes**

The first action item to come before the Board was approval of the minutes of the Board of Directors Meetings held on May 5, 2016. Upon motion duly made and seconded, the following resolution was unanimously adopted by the Board:

RESOLVED, that the minutes of the Annual Meeting of the Board of Directors held on May 5, 2016, be, and are hereby, approved.

## **Board Committee Assignments**

Chairman Hildebrand recommended approval of the UTIMCO Board Committee assignments for Director Ray Nixon. Upon motion duly made and seconded, the following resolution was unanimously adopted by the Board:

RESOLVED, that Director Ray Nixon is hereby designated as a member of the Policy, Risk and Compensation Committees of the Board of Directors, to serve until the expiration of his term, or until his successor have been chosen and qualified, or until his death, resignation, or removal.

## **Endowment and Operating Funds Update**

Chairman Hildebrand asked Mr. Zimmerman to present the Corporation's endowment and operating funds update. Mr. Zimmerman spoke about the performance summary for the endowments and the Intermediate Term Fund ("ITF") for the period ending May 31, 2016. He presented the endowment dashboard, including underperformance, market performance, scenarios, downside volatility, active management, transparency, concentration, illiquidity, leverage and permanent loss of capital. The net performance for the nine months ended May 31, 2016, for the PUF was -0.10% and for the GEF was -0.08%. The ITF's net performance was 0.18%. Mr. Zimmerman also reported on UTIMCO Assets under Management as of May 31, 2016, reporting that the Corporation had \$35.5 billion of assets under management: \$17.4 billion in the Permanent University Fund ("PUF"), \$8.2 billion in the General Endowment Fund ("GEF"), \$1.8 billion in the Short Term Fund ("STF"), \$0.2 billion in the Separately Invested Funds, \$0.4 billion in the Debt Proceeds Fund, and \$7.5 billion in the ITF. He then gave a detailed report of each line item in the combined PUF and GEF Exposure. Mr. Kampfe, Mr. Prather, Mr. Warner, Mr. Ruebsahm, Mr. Lewis, and Ms. Chen, reported on their respective portfolios. Mr. Zimmerman and staff answered all questions from the Directors.

## **Operations, Accounting and Reporting Overview**

Mr. Zimmerman moved to the Operations, Accounting and Reporting ("OAR") Overview. Mr. Zimmerman introduced Ms. Moeller and Mr. Hill, who presented an overview of the team's critical activities related to the Investment Funds and individual endowments, including the support provided to the UT and A&M Systems, internal investment staff, and other key interfaces. Ms. Moeller and Mr. Hill discussed the support and control provided by OAR for a myriad of activities critical to the UT and A&M Systems, including contributions and disbursements for the Investment Funds; funding, redemptions, distributions and fees of external investment management partners; internal trading; securities; accounting for the Investment Funds; accounting and reporting for individual endowments; general reporting; operational due diligence; and the Separately Invested Funds. The OAR staff was introduced to the Directors and Ms. Moeller thanked her staff for everything they do on a daily basis. Ms. Moeller and Mr. Hill answered the Directors' questions. Chairman Hildebrand commented that the efficiency slide was the most impressive and expressed thanks and appreciation for OAR staff's work.

## **UTIMCO Organization Update**

Mr. Zimmerman provided a brief update on UTIMCO's staffing. Mr. Abalogu provided an update on information technology and discussed the progress made on ongoing initiatives, including the Investment Support System initiative, Office 365 & productivity enhancement tools, email system migration to the cloud, and technology design and engineering for the new office space. Also noted was the score of 99% received by the Information Technology Team on the UT System-wide security assessment scorecard. Mr. Gahagan, Chief Information Security Officer, was introduced to the Directors.

At 12:51 p.m. the Board recessed for lunch.

The meeting of the Board reconvened in open session at 1:25 p.m.

## **Audit and Ethics Committee Report**

Chairman Hildebrand asked Mr. Beck to give an update for the Audit and Ethics Committee. Director Beck reported that the Audit and Ethics Committee had considered three action items at its meeting, minutes from the April 26<sup>th</sup> meeting, the appointment of Deloitte & Touche, LLP as the external auditor for the Corporation, subject to approval from the Board, and the base salary, performance incentive plan participation, and FY17 performance goals for the Corporate Counsel and Chief Compliance Officer. He also reported that Mike Peppers with the UT System Audit Office briefed the committee on the recommendations made by the UT System Audit Office resulting from the separately managed accounts audit, all but one which had been implemented. Director Beck reported that Ms. Gonzalez gave her report on compliance matters for the quarter ending May 31, 2016, the annual financial advisor and service provider disclosure statements, and the director co-investment log. He also reported that Ms. Moeller had reported on the unaudited financial statements for the quarter ended May 31, 2016, for the PUF, GEF, PHF, LTF, ITF and UTIMCO. On behalf of the Audit and Ethics Committee, the following resolution was recommended for approval. Upon motion duly made and seconded, the following resolution was unanimously adopted by the Board:

RESOLVED, that the firm of Deloitte & Touche LLP be, and is hereby, engaged as the independent auditor of the Corporation for the year ended August 31, 2016.

## **Risk Committee Report**

Chairman Hildebrand asked Mr. Bass to provide a report from the Risk Committee. Mr. Bass reported that the Risk Committee had considered two action items at its meeting. The minutes from the previous April 26, 2016 meeting were approved as drafted. He stated that the Risk Committee approved 14 new investment mandate categorizations prepared by staff for the period beginning April 2 through July 1, 2016. Director Bass also addressed an investigation performed by staff on a non-US manager related to allegations of an ethical lapse and lack of credibility. The investigation was concluded and staff determined the manager was in compliance but staff will continue to monitor the manager. The second item related to a derivative investment transaction executed by an employee who was not on the list of authorized traders. Ms. Gonzalez was instructed to provide a list of authorized traders to all counterparties. There were no action items related to the Risk Committee report.

## **Policy Committee Report**

Chairman Hildebrand asked Mr. Hicks to provide a report on behalf of the Policy Committee, which met jointly with the Risk Committee on July 12, 2016. Mr. Hicks reported that the Committees considered and approved proposed amendments to the Investment Policy Statements, Liquidity Policy, Derivative Investment Policy and the Delegation of Authority Policy, subject to approval by the Board. A discussion regarding the proposed changes to the Liquidity Policy that began at the joint Policy and Risk Committee meeting continued. Mr. Zimmerman answered the questions from the Directors. After discussion, the Directors determined that no changes should be made to the Liquidity Policy. On behalf of the Policy Committee, the following resolution was recommended for approval. Upon motion duly made and seconded, the following resolution was unanimously adopted by the Board:

RESOLVED, that amendments to the Investment Policy Statements of the Permanent University Fund, General Endowment Fund, Permanent Health Fund, Long Term Fund, and Intermediate Term Fund, and amendments to the Derivative Investment Policy, as presented be, and are hereby approved, subject to approval by the Board of Regents of The University of Texas System; and

FUTHER RESOLVED, that amendments to the Delegation of Authority Policy as presented be, and are hereby approved.

## **Executive Session**

Chairman Hildebrand announced, at 1:43 p.m., that, "The Board of Directors of The University of Texas 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 consider individual personnel compensation matters, including the CEO and Chief Investment Officer, pursuant to Section 551.074, *Texas Government Code*. The date is July 21, 2016, and the time is now 1:43 p.m. With the exception of Mr. Zimmerman and Mr. Jewel, all other meeting participants left the meeting at this time. Mr. Zimmerman left the meeting during discussions regarding his compensation matters.

## **Open Session**

The Board reconvened in open session and Chairman Hildebrand announced that "The Open Session of the Board of Directors of The University of Texas Investment Management Company is now reconvened. The date is July 21, 2016, and the time is now 2:24 p.m. During the Executive Session, the Board deliberated individual personnel compensation matters but no action was taken nor decisions made, and no vote was called for or had by the Board in Executive Session."

## **Compensation Committee Report**

Chairman Hildebrand asked Mr. Hobson to provide a report on behalf of the Compensation Committee. Mr. Hobson stated that the Committee had met on July 12, 2016, via teleconference and all members of the committee were present, including Chairman Hildebrand and Ray Nixon. The Committee considered three

action items: approval of the minutes of the April 26, 2016 meeting; base salaries for the UTIMCO officers and other plan participants, excluding the CEO and CIO, for 2016-2017 fiscal year; and the base salary of the CEO and CIO for the 2016-2017 fiscal year, subject to approval by the Board. On behalf of the Compensation Committee, the following resolution was recommended for approval. Upon motion duly made and seconded, the following resolution was unanimously adopted by the Board:

RESOLVED, that the Board of Directors of UTIMCO hereby approves the Base Salary of the Corporation's CEO for the Fiscal Year 2016-2017 in the amount of \$772,500.

**Proposed UTIMCO FY2017 Budget**

Chairman Hildebrand asked Mr. Zimmerman to review the proposed budget for FY2017. Mr. Zimmerman recognized and thanked Ms. Kim Bauer, Senior Accountant, for preparing the budget. Mr. Zimmerman compared FY2017 Budget vs. FY2016 Budget, reviewed salaries, incentive compensation and other Corporation expenses. He also explained direct costs, capital budget, the annual fee and allocation schedule and reserve analysis. With respect to the reserve analysis, Mr. Zimmerman explained that staff recommended that no cash be returned to the Investment Funds due to future cash needs related to the new office space. Chairman Hildebrand requested staff to provide additional information regarding the Corporation's budget as compared to other endowments and staffing changes. Mr. Zimmerman answered the Directors' questions. There being no further discussion, upon motion duly made and seconded, the following resolution was unanimously adopted by the Board:

RESOLVED, that the UTIMCO Management Fee of \$32,295,292 and the Other Direct Fund Costs of \$8,746,653, resulting in Total Fees of \$41,041,945, Capital Budget of \$100,000 and the Allocation Schedule; as provided to the Board for the period beginning September 1, 2016 through August 31, 2017, be, and are hereby, approved, subject to approval by the Board of Regents of The University of Texas System.

There being no further business to come before the Board, the meeting was adjourned at approximately 2:43 p.m.

Secretary: \_\_\_\_\_  
Joan Moeller

Approved: \_\_\_\_\_ Date: \_\_\_\_\_  
Jeffery D. Hildebrand  
Chairman, Board of Directors of  
The University of Texas Investment Management Company

**Agenda Item**  
UTIMCO Board of Directors Meeting  
August 23, 2016

**Agenda Item:** Discussion and Appropriate Action Related to Dreyfus Institutional Preferred Government Money Market Fund

**Developed By:** Staff

**Presented By:** Kampfe

**Type of Item:** Action item

**Description:** Staff is requesting that the UTIMCO Board approve the Dreyfus Institutional Preferred Government Money Market Fund (the "Government Fund"), a stable-NAV fund managed by the Dreyfus Corporation, as a Cash and Cash Equivalent holding of the Short Term Fund ("STF"). The Liquidity Policy requires staff to obtain UTIMCO Board approval to utilize any SEC Rule 2a-7 money market fund rated AAAM by Standard & Poor's or the equivalent by a Nationally Recognized Statistical Rating Organization (NRSRO) for cash holdings. The STF is the pooled fund for the collective investment of operating funds and other short and intermediate term funds. Currently, the STF is invested in the Dreyfus Institutional Preferred Money Market Fund.

**Discussion:** In July 2014, the Securities and Exchange Commission adopted amendments to the rules that govern money market funds. The new rules require a floating net asset value (NAV) for institutional prime money market funds, which allows the daily share prices of these funds to fluctuate along with changes in the market-based value of fund assets; the new rules also provide the boards of these money market funds tools – liquidity fees and redemption gates - to address runs on the fund. The final rules provided a two-year transition period. The new rules become effective October 14, 2016. At its May 5, 2016 meeting, the Board approved changes to the STF Investment Policy Statement to accommodate changes in the SEC rules governing money market funds, including allowing for floating NAV funds. In order to mitigate the impact of the SEC rule changes on UT institutions, UT System has requested that the STF maintain a portion of its investments in a government money market fund that has a constant NAV, is not subject to redemption fees and gates, and provides additional diversification and a later trading window. Therefore, Staff has selected Dreyfus Institutional Preferred Government Money Market Fund as this government fund.

Based on historical cash flows, the UT System is requesting that Staff initially transfer \$500 million to the Government Fund from the Dreyfus Institutional Preferred Money Market Fund, and rebalance daily to retain the \$500 million target balance. The target balance in the Government Fund may be reviewed and adjusted periodically. The balance of the STF would remain invested in other SEC Rule 2a-7 money market funds rated AAAM by Standard & Poor's or the



equivalent by a Nationally Recognized Statistical Rating Organization (NRSRO) for cash holdings approved by the UTIMCO Board including the Dreyfus Institutional Preferred Money Market Fund. All accounts (member institutions) would execute STF-related transactions in the Government Fund and would be credited with the Government Fund rate on the institution's entire STF balance (Government Fund balance plus the account's share invested in institutional prime funds) on a daily basis, payable monthly. The member institutions would not incur any gains or losses in the STF. The UT System plans to absorb the floating NAV risk versus having UT institutions generate realized and unrealized gains and losses on STF transactions. The UT System would manage the System's overall liquidity and would receive the incremental returns on the portion of the STF invested in floating NAV funds in exchange for absorbing the floating NAV risk.

Mr. Kampfe will provide background on its selection process with the UTIMCO Board and discuss criteria considered in Staff's recommendation to select the Government Fund.

**Recommendation:** UTIMCO staff recommends that the UTIMCO Board approve Dreyfus Institutional Preferred Government Money Market Fund as a cash account for the STF.

**Reference:** None

# Dreyfus Institutional Preferred Government Money Market Fund

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- UT System required an SEC regulated 2(a)7 fixed NAV money market fund for transactional purposes
  - Low fee structure in a commoditized product
  - Strong performance track record
  - Broad, deep and stable research and investment team
  - Operationally advantaged with existing structure with UTIMCO, UT System and Component Institutions
  - BNY Mellon ownership connects them with one of the world's largest custodians/money movers

**RESOLUTION RELATED TO DREYFUS INSTITUTIONAL PREFERRED  
GOVERNMENT MONEY MARKET FUND**

RESOLVED that the Dreyfus Institutional Preferred Government Money Market Fund be, and is hereby approved, as a cash account for The University of Texas System Short Term Fund.

**Agenda Item**  
UTIMCO Board of Directors Meeting  
August 23, 2016

**Agenda Item:** Discussion and Appropriate Action Related to CEO's Recommendation Regarding Staff Authorization

**Developed By:** Zimmerman

**Presented By:** Zimmerman

**Type of Item:** Action item

**Description:** Mr. Zimmerman will bring forth to the UTIMCO Board a recommendation to consider and approve authorization for Mark Warner, Senior Managing Director – Natural Resources, Emerging Markets and Lower/Middle Markets to act for Mr. Zimmerman when he is absent due to an extended leave of absence, incapacity or an unforeseeable emergency.

**Discussion:** Mr. Zimmerman will discuss the reasons for his recommendation regarding authorization for Mark Warner, Senior Managing Director – Natural Resources, Emerging Markets and Lower/Middle Markets to act in absence of CEO. Mr. Zimmerman will be out of the office and may be unreachable during the period from September 18-30, 2016.

**Recommendation:** Mr. Zimmerman recommends that the Board authorize Mark Warner, Senior Managing Director – Natural Resources, Emerging Markets and Lower/Middle Markets to act in Mr. Zimmerman's absence due to an extended leave of absence, incapacity or an unforeseeable emergency.

**Reference:** None

## **RESOLUTION RELATED TO STAFF AUTHORIZATION**

RESOLVED, that, subject to the control of the Board of Directors of the Corporation, Mark Warner, Senior Managing Director – Natural Resources, Emerging Markets, and Lower/Middle Markets, shall have all the powers and duties of Chief Executive Officer and Chief Investment Officer of the Corporation, including the powers and duties of President of the Corporation set forth in Article V, Section 7 of the Corporation's Bylaws and such additional powers and duties as have been or may hereafter be assigned to him in those capacities by the Board of Directors of the Corporation, and shall be authorized to act for Mr. Zimmerman when he is absent due to an extended leave of absence, incapacity or an unforeseeable emergency as determined by the Chairman of the Board of Directors of the Corporation, in his sole discretion.

**Agenda Item**  
UTIMCO Board of Directors Meeting  
August 23, 2016

- Agenda Item:** Discussion and Appropriate Action Related to Private Investment
- Developed By:** Zimmerman, Chen
- Presented By:** Zimmerman
- Type of Item:** Action Item
- Description:** UTIMCO staff is requesting approval to commit \$20 million to Underscore.VC Fund I, LP (f/k/a Assemblies.VC) (the "Fund"). This investment requires a Board vote because a UTIMCO Board member owns an interest in the Fund. As provided in Section 3.04 of the UTIMCO Code of Ethics ("the Code"), UTIMCO is permitted to invest in a business entity in which a Director is invested if the Director acquired his interest prior to the date he joined the board, the interest is less than a pecuniary interest as defined by Section 1.02 (12) (A) – (C) of the Code, and the investment is approved by a two-thirds vote of the membership of the Board after a full disclosure of relevant facts and a finding by the Board that the investment will not benefit the Director financially. "Pecuniary interest" for this purpose is defined as (a) five percent or more of the voting stock or shares of the business entity; (b) five percent or more of the fair market value of the business entity; or (c) the receipt of more than five percent of the director's gross income for the preceding calendar year from the business entity. Director Rothrock must absent himself from any deliberations and refrain from voting on the matter.
- Discussion:** UTIMCO Director Ray Rothrock became a personal investor in the Fund prior to joining the UTIMCO Board. His interest in the Fund is less than a pecuniary interest. Director Rothrock will not participate in any deliberations nor vote on the resolution related to the Fund. Staff supports making the commitment to Underscore.VC Fund I, LP because it will allow UTIMCO to invest with a proven manager that has potential to generate value for the endowments.
- Recommendation:** UTIMCO staff recommends a \$20 million commitment to Underscore.VC Fund I, LP.
- Reference:** UTIMCO Code of Ethics; Presentation for Briefing Session

**RESOLUTION RELATED TO PROPOSED INVESTMENT IN  
UNDERScore.VC FUND I, LP**

WHEREAS, the Corporation's staff has recommended a \$20 million commitment to Underscore.VC Fund I, LP; and

WHEREAS, Director Ray Rothrock has disclosed an interest in the proposed investment, which he acquired before the date he assumed his position on the Board and does not constitute a pecuniary interest as defined by Section 3.01(b) of the UTIMCO Code of Ethics (Code), and pursuant to Section 2.05(a) of the Code must absent himself from any deliberations related to the proposed investment and refrain from voting on the matter; and

WHEREAS, Section 3.04 of the Code provides that the Corporation may not invest in the private investments of a business entity if a director or director entity then owns a private investment in the same business entity unless: (a) the director or director entity acquired the private investment before the date on which the director assumed a position with UTIMCO; (b) the director's private investment does not constitute a pecuniary interest in a business entity as defined by Section 3.01(b) of the Code; and (c) the Board approves the investment by UTIMCO or the UTIMCO entity by a vote of two-thirds of the membership of the Board after a full disclosure in an open meeting of the relevant facts and a finding by the Board that the investment will not benefit the director or director entity financially; and

WHEREAS, Director Rothrock has disclosed his interest in Underscore.VC Fund I, LP (f/k/a Assemblies.VC) and has absented himself from all deliberations related to the proposed investment as required by the Code.

NOW, THEREFORE, BE IT

RESOLVED, that the Board approves the \$20 million commitment to Underscore.VC Fund I, LP for the Permanent University Fund of the State of Texas and the Board of Regents of The University of Texas System General Endowment Fund (the "UT Funds") and directs staff to negotiate and enter into a contract with Underscore.VC Fund I, LP (the "Agreement"), conditioned on the receipt by the Chief Compliance Officer of UTIMCO of a certification of no pecuniary interest, as required by Section 4.04 of the UTIMCO Code of Ethics, from each director and key employee of UTIMCO.

RESOLVED FURTHER , that the Chief Executive Officer, 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, in its capacity as the investment manager of the UT Funds or otherwise, 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 the UT Funds under the Agreement.