

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

Charter of the Audit and Ethics Committee

Background

The Board of Directors (the "Board") of The University of Texas/Texas A&M Investment Management Company (the "Corporation") established an Audit and Ethics Committee (the "Committee") on February 22, 1996. On July 15, 1996, the Board adopted certain resolutions regarding, among other things, the Corporation's Audit and Ethics Committee Mandate (the "Mandate"). The Mandate was superseded by this Charter. This Charter adopted by the Board on February 21, 2019, supersedes the Charter adopted by the Board on February 20, 2014.

Purpose

The primary purpose of the Committee is to assist the Board in monitoring the ethics programs and the audit, financial and compliance functions of the Corporation and the investment funds managed on behalf of The University of Texas System Board of Regents (the "UT Board") to assure the balance, transparency and integrity of published financial information. Specifically, the Committee is to assist the Board in monitoring:

- the integrity of the financial reporting process, the system of internal controls, the audit process, and the process for monitoring compliance with laws and regulations;
- the independence and performance of the Chief Compliance Officer;
- the independence and performance of the Corporation's independent auditors;
- the independence and performance of the independent auditors selected by the UT Board to audit the investment funds managed by the Corporation on their behalf;
- internal audit functions performed by the UT System Audit Office;
- independent audit functions performed by the Texas State Auditor's Office;
- the Corporation's audit policies, ethics programs, and adherence to regulatory requirements;
- the Corporation's enterprise risk management; and
- the Corporation's fraud prevention and detection system.

The Committee is responsible for maintaining free and open communication as well as effective working relationships among the Committee members, the Chief Compliance

Officer, independent external auditors, UT System Audit Office, the Texas State Auditor's Office, and management of the Corporation. To perform his or her role effectively, each Committee member will need to develop and maintain his or her skills and knowledge, including an understanding of the Committee's responsibilities and of the Corporation's activities, operations and risks.

The Committee will take all appropriate actions to set the overall tone at the Corporation for quality financial reporting, sound risk practices, and ethical behavior.

Scope

This Audit Charter sets forth the Committee's monitoring responsibilities with respect to the Corporation and the investment funds subject to the Master Investment Management Services Agreement by and between the UT Board and the Corporation effective November 13, 2008, and any subsequent amendments. As such, the role and purpose of the Committee includes monitoring the functions and processes for both the Corporation and the investment funds managed on behalf of the UT Board.

Composition

The Committee shall be composed of at least three members of the Board; such members to be appointed from time to time by a majority vote of the Board at a meeting at which a quorum is present and approved by the UT Board as required by Section 66.08 (c)(3) of the *Texas Education Code*. Individuals who are not members of the Board may be appointed to the Committee; provided however, a majority of the Committee members shall be members of the Board of Directors. Members of the Committee must meet the independence and financial literacy requirements as defined below. A member may be removed with or without cause at any time by a vote of a majority of the Board.

Independence Requirements

The Board shall determine that all members of the Committee are independent. A person is "independent" who has no relationship with the Corporation which would interfere with his or her exercise of independence from management. In addition, Committee members would not be "independent" if during the three years prior to their appointment or at any time during their service on the Committee, they accepted, directly or indirectly, any consulting, advisory, or other compensatory fee from the Corporation apart from travel and expense reimbursements they may receive as members of the Board and its Committees.

Financial Literacy

The Board, based on its business judgment, shall determine that each member of the Committee is financially literate.

Financial Management Expertise

The Board, based on its business judgment, shall determine that at least one member of the Committee is a “financial expert.” A financial expert possesses the following attributes:

- an understanding of generally accepted accounting principles (GAAP) and financial statements;
- an ability to assess the application of GAAP in connection with accounting for estimates, accruals and reserves;
- an understanding of audit committee functions;
- experience preparing, auditing, analyzing or evaluating financial statements, or experience actively supervising persons engaged in such activities; and
- an understanding of internal controls and procedures for financial reporting.

Meetings; Quorum; Etc.

The Corporation's Bylaws state that any committee created by the Board or the Bylaws shall (i) have a chairman designated by the Board, (ii) fix its own rules or procedures, (iii) meet at such times and at such place or places as may be provided by such rules or by resolution of such committee or resolution of the Board, and (iv) keep regular minutes of its meetings and cause such minutes to be recorded in books kept for that purpose in the principal office of the Corporation, and report the same to the Board at its next regular meeting. At every meeting of any such committee, the presence of a majority of all the members thereof shall constitute a quorum, and the affirmative vote of a majority of the members present shall be necessary for the adoption by it of any action, unless otherwise expressly provided in the committee's rules or procedures or the Bylaws of the Corporation or by the Board. The Board may designate one or more Directors as alternate members of any committee, who may replace any absent or disqualified member of such committee. In the absence or disqualification of a member of a committee, the member or members present at any meeting of the committee and not disqualified from voting, whether or not constituting a quorum, may unanimously appoint the designated alternate Director to act at the meeting in the place of the absent or disqualified member.

Functions, Duties and Responsibilities

Review Financial Statements for Quality Considerations

The Committee has the following duties and responsibilities with respect to the financial statements of the Corporation and the investment funds managed on behalf of the UT Board:

- review the annual audited financial statements with management and the independent auditor, including significant issues regarding adequacy of internal controls and accounting principles and practices;
- review an analysis prepared by management and the independent auditor of significant financial reporting issues, if any, made in connection with the preparation of the financial statements;

- discuss with the independent auditor the matters required to be communicated by AU-C Section 260, *The Auditor's Communication With Those Charged With Governance*, as amended, relating to an audit of financial statements;
- discuss with the independent auditor any fraud of which the independent auditor becomes aware that involves senior management and/or which causes a material misstatement of the financial statements; and
- periodically discuss with the independent auditor the auditor's independence.

Monitor Management's Handling of Internal Controls

The Committee has the following duties and responsibilities with respect to its monitoring of the integrity of the financial reporting process and internal controls of the Corporation and the investment funds managed on behalf of the UT Board:

- review with the independent auditor all significant deficiencies and material weaknesses identified during the audit as required by AU-C Section 265, *Communicating Internal Control Related Matters Identified in an Audit*, as amended.
- review with the independent auditor any problems or difficulties the auditor may have encountered during its audit and any management letter provided by the auditor and the Corporation's response to that letter, such review to include:
 - any restrictions on the scope of activities or access to required information; and
 - any changes required in the planned scope of the audit;
- obtain reports from management and UT System Audit Office with respect to the Corporation's policies and procedures regarding compliance with applicable laws and regulations;
- when considered necessary, meet with the independent auditor and the senior personnel of the UT System Audit Office without management participation;
- meet periodically with management to review the major financial risk exposures and the steps management has taken to monitor and control such exposures;
- review significant changes to internal controls and accounting principles and practices as suggested by the independent auditor, internal auditors or management;

- review the significant reports to management prepared by the UT System Audit Office and management's responses; and
- review with the Corporation's legal counsel or other appropriate persons legal matters that may have a material impact on the financial statements, the Corporation's compliance policies and any material reports or inquiries received from regulators or governmental agencies.

Manage the Relationship with the External Auditors

The external auditors for the Permanent University Fund are selected by the UT Board. These auditors have a dual reporting responsibility, reporting to both the Audit, Compliance, and Risk Management Committee of the UT Board and to the Committee. The external auditors for the Corporation are selected by, and report to, the Board. By agreement between the UT Board and the Board, the external auditors for the other investment funds managed by the Corporation on behalf of the UT Board will be selected by the UT Board and will have a dual reporting responsibility, reporting to both the Audit, Compliance, and Risk Management Committee of the UT Board and to the Committee. The Committee may approve additional audit and non-audit services provided by the external auditor related to the Corporation and investment funds as long as the work does not impair auditor independence.

The Committee has the following specific duties and responsibilities with respect to the Corporation's independent auditors:

- recommend to the Board the appointment of the independent auditor, which firm is ultimately accountable to the Committee and the Board.
- approve the fee arrangement of the independent auditor;
- after interviewing employees of the Corporation, evaluate together with the Board the performance of the independent auditor and, if so determined by the Committee, recommend that the Board replace the independent auditor; and
- if determined by the Committee to be necessary or advisable, recommend that the Board take appropriate action to satisfy itself of the independence of the auditor.

Auditor Independence

In connection with the selection of external auditors, the Committee shall determine that:

- the public accounting firm engaged to perform the annual audit does not provide non-audit services to the Corporation contemporaneously with the audit (other than the agreed upon procedures required for compliance with the terms of the UTIMCO Compensation Program);

- the lead audit partner and the concurring (quality review) partner rotate off of the audit every 7 years, unless the Committee adopts a resolution affirmatively determining that such rotation is not required; and
- the CEO, Controller, CFO, Chief Accounting Officer, or person in an equivalent position shall not have been employed by the public accounting firm during the 1 year period preceding the audit.

Work with the Internal Audit Function

The Corporation utilizes the UT System Audit Office to perform internal audit functions hereunder with respect to the Corporation and investment funds and report directly to the Committee. The Committee has the following duties and responsibilities with respect to internal audit:

- review the independence, qualifications, activities, resources and structure of the internal audit function;
- review significant findings and recommendations made by the internal auditor and management's response and proposed implementation plan;
- review the proposed internal audit plan for the coming year to determine that it addresses key areas of risk and that there is appropriate coordination with the external auditor;
- review completed internal audits and the status of management's implementation of related recommendations; and
- receive a progress report on the internal audit plan with explanations for any deviations from the original plan.

Monitor Ethics Program

The Committee is responsible for overseeing codes of conduct/conflicts of interest and a system of addressing complaints. The Committee has the following duties and responsibilities in monitoring the ethics program:

- periodically review the Code of Ethics policy of the Corporation and recommend any proposed changes to the Policy Committee for concurrence and submission to the Board for approval;
- periodically review the process for communicating to employees and for monitoring compliance with the Code of Ethics;

- periodically evaluate and review the Corporation's compliance process;
- follow the UT System compliance guideline as outlined in *Regents' Rule* 20401 and UTS 119; and
- review procedures for the receipt, retention and treatment of complaints about accounting, internal accounting controls or auditing matters.

Oversee Regulatory Compliance

The Committee is responsible for overseeing the effectiveness of the system for assuring compliance with laws and regulations and has the following duties and responsibilities:

- review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up of any fraudulent acts or non-compliance;
- obtain regular updates from management, the Chief Compliance Officer, and the Corporation's legal counsel regarding compliance matters that may have a material impact on the Corporation's and investment funds' financial statements or compliance policies;
- obtain regular updates from management and the Chief Compliance Officer regarding their consideration of all regulatory compliance matters in connection with the preparation of the financial statements; and
- review the findings of any examinations by regulatory agencies, including the Texas State Auditor's Office.

Oversee the Corporation's Enterprise Risk Management

Without limiting any of the foregoing, the Committee, along with management and other personnel, as directed by the Board, is responsible for the Corporation's enterprise risk management. Enterprise risk management assists management in achieving the Corporation's performance goals and prevents loss of resources; helps ensure effective reporting and compliance with laws and regulations; and helps avoid damage to the Corporation's reputation and associated consequences. Enterprise risk management enables management to effectively deal with uncertainty and associated risk and opportunity, enhancing the capacity to build value. The Committee has the following responsibilities related to enterprise risk management:

- evaluate the overall effectiveness of the Corporation's achievement of its objectives, as set forth in four categories:
 - Strategic – high-level goals, aligned with and supporting its mission;

- Operations – effective and efficient use of its resources;
- Reporting – reliability and timeliness of reporting; and
- Compliance -
 - with applicable laws and regulations;
 - with non-investment Board policies such as the Code of Ethics and Delegation of Authority, and non-investment items in the Board investment policies; and
 - with 1) investment risk management and compliance, 2) integrity of risk management procedures and controls, 3) integrity of risk models and modeling processes, 4) liquidity of the Permanent University Fund, General Endowment Fund, and Intermediate Term Fund; 5) compliance with the Derivative Investment Policy; and 6) the monitoring of manager mandates;
- evaluate whether management is setting the appropriate tone at the top by communicating the importance of enterprise risk; and
- inquire of management, the Chief Compliance Officer, the UT System Audit Office, and the independent external auditor about significant enterprise risks or exposures to the Corporation and how these are being managed.

With respect to 1) investment risk management and compliance, 2) integrity of risk management procedures and controls, 3) integrity of risk models and modeling processes, and 4) liquidity of the Permanent University Fund, General Endowment Fund, and Intermediate Term Fund, 5) compliance with the Derivative Investment Policy; and 6) the monitoring of manager mandates, the Committee may rely on assurances from the Risk Committee in determining compliance.

Oversee Fraud Prevention and Detection

The Committee is responsible for overseeing the effectiveness of the system for the prevention and detection of fraud and has the following duties and responsibilities:

- oversee management's arrangements for the prevention and deterrence of fraud;
- ensure that appropriate action is taken against known perpetrators of fraud; and
- ensure that the entity has appropriate antifraud programs and controls in place to identify potential fraud and ensure that investigations are undertaken if fraud is detected.

Review the Overall Duties and Responsibilities of the Chief Compliance Officer

The Chief Compliance Officer will report functionally to the Committee and administratively to the Senior Managing Director and Chief Operating Officer. The CEO and Chief Investment Officer will nominate the Chief Compliance Officer for hiring by the Committee. The Committee has exclusive dismissal authority. The Chairman of the Committee and the CEO and Chief Investment Officer will determine the Chief Compliance Officer's individual

performance goals. The Committee and the CEO and Chief Investment Officer will determine the achievement of the Chief Compliance Officer's individual performance goals, and will make joint recommendations to the Compensation Committee as to base salary and performance awards for the Chief Compliance Officer. The Chief Compliance Officer will report compliance activities directly to the Committee at its regular meetings and to the chair between meetings. The Chief Compliance Officer will develop an annual plan for review by the Committee. The Senior Managing Director and Chief Operating Officer will direct day-to-day responsibilities of the Chief Compliance Officer with oversight by the Committee.

Other Duties

The Committee has the following additional duties and responsibilities:

- make regular reports (at least twice each calendar year) to the Board regarding the Committee's activities and such other reports as may be requested by the Board;
- periodically review the adequacy of this Charter and recommend any proposed changes to the Board for approval;
- perform such additional special functions, duties or responsibilities related thereto as may from time to time be designated by the Board Chairman;
- evaluate the Committee's own performance, both of individual members and collectively, on a periodic basis; and
- perform any other activities consistent with this Charter, the Corporation's Bylaws, and applicable laws as the Committee or the Board deems necessary or appropriate.

Powers and Limitations

In discharging its responsibilities, the Committee will have unrestricted access to members of management, employees, and relevant information it considers necessary to discharge its duties. The Committee also will have unrestricted access to records, data, and reports. The Committee shall have the authority to retain special legal, accounting or other consultants to advise the Committee. The Committee may request any officer or employee of the Corporation, the Corporation's outside legal counsel or an employee in the UT System Audit Office to attend any meeting of the Committee or to meet with any members of, or consultants to, the Committee.

Approved by the Board of Directors on February 21, 2019.