

**UTIMCO BOARD OF DIRECTORS
MEETING AGENDA
September 20, 2018**

UTIMCO
210 West 7th Street, Suite 1700
Austin, Texas 78701

Time		Item #	Agenda Item
Begin	End		
10:00 a.m.	10:05 a.m.	1	OPEN MEETING: Call to Order of the Meeting/Discussion and Appropriate Action Related to Minutes of July 26, 2018 Meeting*
10:05 a.m.	10:15 a.m.	2	Discussion and Appropriate Action Related to Delegation of Authority Policy and Intermediate Term Fund Investment Policy Statement*,**
10:15 a.m.	10:35 a.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 matters Reconvene into Open Session
10:35 a.m.	11:00 a.m.	3	Discussion and Appropriate Action Related to UTIMCO 2018-2019 Budget*,**
11:00 a.m.			Adjourn

* Action by resolution required

** Resolution requires further approval from the Board of Regents of The University of Texas System

Next Regularly Scheduled Meeting: December 5, 2018

RESOLUTION RELATED TO MINUTES

RESOLVED, that the minutes of the Meeting of the Board of Directors held on **July 26, 2018**, be, and are hereby, approved.

**MINUTES OF MEETING
OF THE BOARD OF DIRECTORS OF
THE UNIVERSITY OF TEXAS/TEXAS A&M INVESTMENT MANAGEMENT COMPANY**

The Board of Directors (the "Board") of The University of Texas/Texas A&M Investment Management Company (the "Corporation") convened in an open meeting on **July 26, 2018**, in person at the corporate headquarters located at 210 West 7th Street, Suite 1700 in Austin, 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
J. Kyle Bass
Robert Gauntt
Janet Handley
R. Steven Hicks
Ray Rothrock
Clifton L. Thomas, Jr.
James C. "Rad" Weaver

thus constituting a majority and quorum of the Board. Director Ray Nixon was not in attendance. Employees of the Corporation attending the meeting were Britt Harris, President, CEO and Chief Investment Officer; Rich Hall, Deputy Chief Investment Officer; Joan Moeller, Secretary and Treasurer; Cecilia Gonzalez, Corporate Counsel and Chief Compliance Officer; Scott Slayton, Managing Director; Uzi Yoeli, Managing Director; Russell Kampfe, Managing Director; Ryan Ruebsahm, Managing Director; Eddie Lewis, Managing Director; Mukund Joshi, Director; and other team members. Other attendees were Mr. John Kukral, President and CEO of Northwood Investors; Keith Brown of the McCombs School of Business at UT Austin; Jerry Kyle of Orrick, Herrington & Sutcliffe LLP; Terry Hull and Karen Adler of The University of Texas System ("UT System"); and Maria L. Robinson and David Rejino of The Texas A&M University System. Chairman Hildebrand called the meeting to order at 8:30 a.m. Copies of materials supporting the Board meeting agenda were previously furnished to each member of the Board.

Chairman Hildebrand began the meeting by welcoming and introducing the newest member of the Board of Directors, Mr. Clifton L. Thomas, Jr.

Minutes

The first item to come before the Board was approval of the Minutes of the Board of Directors Meeting held on May 18, 2018. 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 May 18, 2018, be, and are hereby, approved.

Presentation by President and CEO of Northwood Investors

Chairman Hildebrand asked Mr. Eddie Lewis to introduce Mr. John Kukral, President and CEO of Northwood Investors. Mr. Lewis introduced Mr. Kukral and invited him to share with UTIMCO and the Board his thoughts about the real estate market and the manner in which Northwood operates in that market. Mr. Kukral said the success of Northwood has been due to their diversification in the real estate market, the purchase of and improvements they are willing to make to high quality properties, and their strategy of divesting investments within a short timeframe. Mr. Kukral answered the Directors' questions.

Real Estate Report

Chairman Hildebrand asked Mr. Lewis and Mr. Joshi to present to the Board an update on UTIMCO's Real Estate program. Mr. Lewis provided an overview of Real Estate's performance. UTIMCO's investment in real estate is 7.5% of the endowments. Real Estate is intended to provide better returns in times of market surprise or decline. Mr. Lewis also discussed with the Board the Team's action plan goals both met and planned for the rest of the calendar year of 2018. Mr. Lewis and Mr. Joshi answered the Directors' questions.

Performance and Market Update

Chairman Hildebrand asked Mr. Harris to give the UTIMCO Performance and Market Update. Mr. Harris reviewed the portfolio returns by asset class for the calendar quarter and pointed out that several areas performed ahead of their benchmark, including Real Estate, Natural Resources, and Venture Capital. He also reported that the preliminary returns for the Permanent University Fund ("PUF"), the Permanent Health Fund ("PHF") and the Long Term Fund ("LTF") for the quarter ended June 30, 2018 were 1.40%, 1.38%, and 1.38%, respectively. Total Net Asset Value ("NAV") of the Funds at the end of June 30, 2018 was \$44.6B. Mr. Harris answered the Directors' questions.

Audit and Ethics Committee Report

Chairman Hildebrand asked Director Handley to provide a report on behalf of the Audit and Ethics Committee. Director Handley reported that the Committee met via teleconference on July 19, 2018. At the meeting, the Committee considered three action items. The Committee approved the minutes from the May 10, 2018 meeting; Deloitte & Touche LLP was hired as the auditor for the corporation for the fiscal year ending August 31, 2018, pending approval from the Board; and approved the base salary for the Corporate Counsel and Chief Compliance Officer for the 2018-2019 fiscal year. Routine matters of the Committee were also considered, including an update on UTIMCO's compliance matters for the three months ended May 31, 2018; and a presentation of the unaudited financial statements as of May 31, 2018 for the Investment Funds and the Corporation. Ms. Gonzalez also reported that there were no contracts, leases, or other commercial arrangements of \$100,000 or more entered into during the quarter that needed to be reported. Ms. Gonzalez also reported on the UTIMCO Director Co-Investment Log. Ms. Moeller presented the capital budget versus actual for FY 18 as of May 31, 2018, for the leasehold improvements and furniture, fixtures and equipment related to the new office space. Director Handley recommended approval by the Board of the resolution related to the engagement of Deloitte and Touche LLP as the auditor for the corporation for the fiscal year

ending August 31, 2018. 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, 2018.

Risk Committee Report

Chairman Hildebrand asked Director Bass to provide a report from the Risk Committee. Director Bass reported that the Risk Committee met via teleconference on July 19, 2018. During the meeting the Risk Committee approved the minutes of the May 10, 2018 meeting and the categorization of nine investment mandates. The Committee also briefly discussed the development of a compliance program to avoid investments that engage in business activities that present a risk for U. S. Secondary Sanctions under the Office of Foreign Asset Control ("OFAC"). During the meeting Ms. Gonzalez reported on quarterly compliance matters.

Policy Committee Report

Chairman Hildebrand asked Director Hicks to provide a report from the Policy Committee. Director Hicks reported that the Committee convened via teleconference on July 19, 2018, jointly with the Risk Committee and separately. At the separate meeting, the Committee approved the minutes of the February 21, 2018 meeting. During the joint meeting, the Committees listened to a presentation from Mr. Rich Hall regarding the proposed amendments to the Investment Policy Statements, Liquidity Policy, Derivative Investment Policy, and the Delegation of Authority Policy. Mr. Hall also explained the Team's reasons for proposing to eliminate the Mandate Categorization Procedure.

Mr. Hall and Mr. Harris answered the Directors' questions regarding the proposed amendments. On behalf of the Policy Committee, Director Hicks presented the following resolution for Board 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 Liquidity Policy and 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

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

FURTHER RESOLVED that the Mandate Categorization Procedure is no longer applicable and deleted in its entirety.

Executive Session

Prior to going into executive session, Chairman Hildebrand announced that, "The Board of Directors of The University of Texas/Texas A&M Investment Management Company having been duly convened in Open Session and notice of this meeting having been duly given, I hereby announce the convening of a closed meeting as an Executive Session to consider individual personnel compensation matters, including the CEO and Chief Investment Officer, pursuant to Texas Government Code Section 551.074. The date is July 26, 2018, and the time is now 10:45 a.m."

Reconvene in 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/Texas A&M Investment Management Company is now reconvened. The date is July 26, 2018, and the time is now 11:17 a.m. During the Executive Session, the Board deliberated individual personnel compensation matters, including the CEO and Chief Investment Officer, 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 Director Rothrock, Chairman of the Compensation Committee, to provide a report on the Committee's meeting. Director Rothrock stated that the Compensation Committee met via teleconference on July 19, 2018. The Committee approved the minutes of the February 21, 2018 meeting. After meeting in executive session, the Committee approved the base salaries for the UTIMCO Officers and other UTIMCO Compensation Program Participants, excluding the CEO, for the 2018-2019 fiscal year in the amount of \$11,073,000, and made a recommendation for the CEO's base salary for the 2018-2019 fiscal year, subject to approval by the Board. The Committee also considered the amendments to the UTIMCO Compensation Program, Amended and Restated effective July 1, 2018, but did not take action. Director Rothrock recommended two resolutions for Board approval. Upon motion duly made and seconded, the following resolutions were 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 2018-2019 in the amount of \$792,000.

And

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, the Compensation Committee of the Board (the "Committee") has reviewed the proposed amendments to the Plan incorporated into an Amended and Restated Plan, effective July 1, 2018 (the "Amended and Restated Plan"), in the form previously provided to the Board but deferred to the Board on action on the Amended and Restated Plan; and

WHEREAS, the Board has reviewed the Amended and Restated Plan.

NOW, THEREFORE, be it:

RESOLVED, that the Board hereby approves and adopts the Amended and Restated Plan, effective as of July 1, 2018, subject to the approval of the Board of Regents of The University of Texas System.

Corporation Budget

Chairman Hildebrand deferred discussion and action on the corporation's budget for the next fiscal year.

Adjourn

There being no further business to come before the Board, the meeting was adjourned at approximately 11:26 a.m.

Secretary: _____
Joan Moeller

Approved: _____ Date: _____
Jeffery D. Hildebrand
Chairman, Board of Directors of
The University of Texas/Texas A&M Investment Management Company

Agenda Item
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- Agenda Item:** Discussion and Appropriate Action Related to Delegation of Authority Policy and Intermediate Term Fund Investment Policy Statement
- Developed By:** Team
- Presented By:** Harris, Hall
- Type of Item:** Action item; Action required by UTIMCO Board and by the UT System Board of Regents
- Description:** The Investment Team is requesting amendments to the Intermediate Term Fund (ITF) Investment Policy Statement to correct errors to the policy statement approved by the UTIMCO Board on July 26, 2018, and the UT System Board of Regents on August 10, 2018. The Investment Team is also requesting amendments to the Delegation of Authority Policy that was effective July 26, 2018, consistent with the strategic asset allocation and continuing transfer of ITF dollars to the Long Term Fund (LTF).
- Discussion:** Mr. Harris and Mr. Hall will present the proposed amendments to the policies.

Investment Policies

The ITF Investment Policy Statement is being amended to correct an error in Exhibit A, Asset Class Targets, Ranges, and Performance Objectives. The minimum and maximum ranges for Total Stable Value were reported as 13.0% and 23.0%, respectively. The correct amounts are 36.0% and 52.0%, respectively. In addition, the minimum range for Total Global Equity is being changed from 47.5% to 45.0%, the maximum range for Cash in Stable Value is being increased from 5.0% to 8.0%. These changes are needed to support the continuing transfer of ITF dollars to the LTF. No other changes to the ITF Investment Policy Statement are being proposed.

In addition, the Delegation of Authority Policy (effective July 26, 2018) is being submitted for approval of amendments.

Delegation of Authority Policy

On Page 5, the *Terms Applicable to All Internal and External Managers*: a Director may require a complete review prior to execution of an investment if the Total Assets managed by an internal or external manager exceed 3.0% of Applicable Assets in any one of the Global Equity, Stable Value, or Real Return portfolios (4.0% for managers limited to Fixed Income mandates) or 6.0% of Applicable Assets in the aggregate for all Public and Private Investments. Due to expected transfers from the ITF to the Long Term Fund and the rebalance from Directional Hedge Funds to Stable Value Hedge Funds, the Total Assets managed by the Internal Fixed Income Team due to the shift into one or more of cash, treasuries, and fixed income, may

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cause the Internal Fixed Income Team to exceed the 4.0% limit to their Fixed Income mandate.

Minor editorial changes

Recommendation: Mr. Harris will request the UTIMCO Board to take appropriate action related to the proposed amendments to the ITF Investment Policy Statement retroactive to the fiscal year beginning September 1, 2018. The Committee will also request the UTIMCO Board to take appropriate action related to the proposed amendments to the Delegation of Authority Policy, effective September 20, 2018.

Reference: Exhibit A of the ITF Investment Policy Statement, effective September 1, 2018
Delegation of Authority Policy, effective September 20, 2018

RESOLUTION RELATED TO INVESTMENT POLICIES
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RESOLVED, that amendments to the Investment Policy Statement of the Intermediate Term Fund, as presented be, and is hereby approved, subject to approval by the Board of Regents of The University of Texas System; and

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

EXHIBIT A
ASSET CLASS TARGETS, RANGES, AND PERFORMANCE OBJECTIVES
EFFECTIVE SEPTEMBER 1, 2018

Asset Class	FYE 2019			Benchmark
	Min	Target	Max	
Global Equity:				
U.S. Public Equity	0.7%	5.7%	10.7%	MSCI U.S. with Net Dividends
Non-U.S. Developed Public Equity	0.0%	3.4%	8.4%	MSCI EAFE and Canada with Net Dividends
Global Developed Public Equity	1.6%	6.6%	11.6%	MSCI World Index with Net Dividends
<i>Total Developed Public Equity</i>	7.5%	15.7%	22.5%	
Emerging Markets Public Equity	2.1%	7.1%	12.1%	MSCI Emerging Markets Index with Net Dividends
<i>Total Public Equity</i>	15.8%	22.8%	29.8%	
Directional Hedge Funds	25.0%	31.6%	38.0%	HFRI Fund of Funds Composite
Total Global Equity	47.5 45.0%	54.4%	62.0%	
Stable Value:				
Investment Grade Fixed Income	20.0%	28.7%	35.0%	Bloomberg Barclays Global Aggregate Index - Hedged
Cash	0.0%	3.0%	5.0 8.0%	3 month Tbills
Stable Value Hedge Funds	5.0%	10.2%	15.0%	HFRI Fund of Funds Conservative
Total Stable Value	13.0 36.0%	41.9%	23.0 52.0%	
Real Return:				
Inflation Linked Bonds	0.0%	0.0%	5.0%	Bloomberg Barclays Global Inflation Linked TR Index
Gold	0.0%	2.4%	7.5%	Gold Spot Price (XAU)
Commodities	0.0%	1.2%	6.0%	Bloomberg Commodity TRI
<i>Total Commodities</i>	0.0%	3.6%	8.5%	
Public Real Estate	0.0%	0.1%	5.0%	FTSE EPRA/NAREIT Developed Index Net TRIUSD
Total Real Return	0.0%	3.7%	10.0%	
Total All Asset Classes		100.0%		

The total Asset Class exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed 100% of the Asset Class exposure excluding the amount of derivatives exposure not collateralized by Cash.

POLICY/TARGET RETURN/RISKS	FYE 2019
(Benchmark)	2.10%
One Year Downside Volatility	5.36%
Risk Bounds	
Lower: 1 Year Downside Volatility	75.00%
Upper: 1 Year Downside Volatility	115.00%

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

Effective Date of Policy: ~~July 26~~September 20, 2018

Date Approved by UTIMCO Board: ~~July 26~~September 20, 2018

Supersedes: Delegation of Authority Policy approved by the UTIMCO Board on ~~July 21, 2016~~July 26, 2018

Purpose:

The purpose of the Delegation of Authority Policy is to provide a clear delineation of responsibilities of the UTIMCO Board of Directors and the UTIMCO employees. Section 66.08(d) of the *Texas Education Code* provides that UTIMCO's duties to the U. T. System Board of Regents with respect to the management of investment funds shall be governed by a contract between the two parties. UTIMCO provides various investment management services to the U. T. System Board as more fully described in the Investment Management Services Agreement by and between the U. T. System Board and UTIMCO. The UTIMCO Board is responsible for management and investment oversight of UTIMCO. The UTIMCO Board recommends amendments to the Investment Policies for approval by the U. T. System Board. The UTIMCO Board is responsible for overseeing the investment process to execute the established Investment Policies. However, to enhance the competitiveness of the investment process, improve management and operational efficiency, and define and concentrate accountability for performance, certain duties and responsibilities are delegated by the UTIMCO Board to UTIMCO Management. This Policy Statement defines the delegation of authority in the two primary areas of UTIMCO operations:

- (1) Management, Operations, and Finance; and
- (2) Investments.

Objective:

By clearly defining the scope of delegated authority to UTIMCO Management, this Policy Statement enhances operational efficiency and timeliness in decision making, thereby enhancing competitiveness.

Scope:

This Policy applies to all matters under UTIMCO control. The only delegations of authority granted by the UTIMCO Board are enumerated in this Policy, and any authority not specifically granted in this Policy is retained by the UTIMCO Board acting as agent for the U. T. System Board, provided that nothing contained in this Policy Statement is intended to, or shall, limit any delegation of authority otherwise set forth in the UTIMCO Bylaws, the Investment Management Services Agreement, any Committee Charter, any Investment Policy, or any formal policy adopted by the UTIMCO Board.

Authority Delegated to UTIMCO Management:

The primary functions of the UTIMCO Board are to formulate, revise, oversee, implement, and conduct ongoing oversight of the policies it has established for UTIMCO. The duties and responsibilities of the UTIMCO Board are enumerated in the UTIMCO Bylaws, Articles of Incorporation, Committee Charters, Investment Management Services Agreement, and UTIMCO policies. To execute its responsibilities more efficiently, the UTIMCO Board has delegated the authority to implement UTIMCO policies to UTIMCO Management in two primary areas: (i) Management, Operational, and Financial Authority; and (ii) Investment Authority.

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Management, Operational, and Financial Authority: Final authority for the functions listed below rests with the UTIMCO Board:

- Administration, Accounting and Financial Management;
- Systems Technology Management;
- Personnel Management;
- Compliance;
- Client Relations and Reporting; and
- Public Relations.

However, the UTIMCO Board hereby delegates authority to UTIMCO Management in each functional area as specified below:

Administration, Accounting, and Financial Management: The UTIMCO Board hereby delegates all day-to-day operational decisions to UTIMCO Management. This delegation includes, but is not limited to, all administrative decisions regarding the management of endowment and operating funds as well as all administrative and financial decisions associated with the operation of the UTIMCO organization. This delegation includes the authority to execute all contracts and agreements, subject to the limitations defined below.

Systems Technology Management: The UTIMCO Board hereby delegates all decisions regarding the operation and management of all systems technology assets to UTIMCO Management. This delegation includes the authority to execute all contracts and agreements, subject to the limitations defined below.

Personnel Management: The UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer all personnel management decisions regarding positions included in approved UTIMCO operating budgets, and grants authority to the Chief Executive Officer to add non-budgeted personnel as necessary, subject to review in the following budget cycle, provided that the addition of any non-budgeted personnel shall be promptly reported to the UTIMCO Board. All compensation decisions for officers of UTIMCO are excluded from this delegation.

Compliance: The UTIMCO Board hereby delegates all compliance operations to UTIMCO Management, while retaining all oversight functions as specified in UTIMCO policies.

Client Relations and Reporting: The UTIMCO Board hereby delegates all client relations and reporting decisions to UTIMCO Management.

Public Relations: The UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer, in conjunction with The University of Texas System Offices of Public Affairs and Governmental Relations, all decisions regarding public relations matters, except for those matters that are reserved to the UTIMCO Vice Chairman for Policy.

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In addition, to facilitate the execution of the authority granted above, the UTIMCO Board hereby delegates the following specific duties and responsibilities to UTIMCO Management:

- *Contracts:* The UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer the authority to execute on the 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 obligation of \$1 million or less during the contract term; provided that, for purposes of this delegation any contract that does not have a fixed term shall be deemed to have a term of one year; provided further, that notice of any such new contracts, leases, or other commercial arrangements of \$250,000 or more shall be reported to the UTIMCO Board at its next regularly scheduled meeting, and annually, all existing contracts, leases, or other commercial arrangements of \$250,000 or more shall be reported to the UTIMCO Board.
- *Fiduciary Counsel: Management of UTIMCO's Fiduciary Counsel:* The UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer the authority to direct the day-to-day work product of the UTIMCO Fiduciary Counsel, provided that the UTIMCO Fiduciary Counsel shall continue to have primary reporting responsibility to the UTIMCO Board.

Investment Authority: The UTIMCO Board hereby delegates the following specific duties and responsibilities to UTIMCO Management:

- *Tactical Asset Allocation:* Without limitations of timing, procedures, or vehicles utilized, decisions regarding tactical asset allocation within the ranges established in Investment Policies, including rebalancing portfolio weights to Policy Target Weights or actively deviating from Policy Weights as market conditions dictate, are hereby delegated to the UTIMCO Chief Executive Officer, as long as any decisions do not violate established Investment Policies. Short sales of securities (including exchange traded funds, and individual common stocks and bonds) and equity indices or short positions established through Delegated Derivative Investments as defined in the Derivative Investment Policy to offset existing long positions for risk control purposes may also be utilized as a vehicle in tactical asset allocation. Prior to implementation of any short security sale strategy and throughout the duration of the strategy, risk analyses shall be performed to verify the expected risk reducing impact of the proposed strategy and that the strategy does not result in the risk position of the total Funds being outside the policy risk range.
- *Risk Management:* The UTIMCO Board hereby delegates all decisions regarding the design and operation of any risk management system to UTIMCO Management.
- *Allocation of Investment Funds to New Managers and Mandates:* The UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer the authority to commit UT System funds to a new relationship with an internal or external investment manager during the first six months of the relationship or to new mandates with external investment managers already under existing relationships with UTIMCO, and the accompanying authority to negotiate and execute agency, partnership or subscription agreements as necessary, provided that any Director may require a complete review by the UTIMCO Board of the investment prior to the execution of the investment if the investment exceeds any of the following thresholds:
 - New Fund Investments: 1.0% of Applicable Assets (as defined below).

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- New Co-investments to a direct ~~Public~~public or ~~Private Investment~~private investment alongside an existing external manager: 0.66% of Applicable Assets.
- *Changing Allocations of Investment Funds to Existing Managers and Mandates:* Subsequent to the first six months of the UTIMCO relationship with a new manager, the UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer the authority to increase investments or commitments to existing internal or external investment managers and mandates, and the accompanying authority to renegotiate existing agency, partnership or subscription agreements as necessary, provided that any Director may require a complete review by the UTIMCO Board of the investment prior to the execution of the investment if the investment exceeds any of the following thresholds:
 - Subsequent Fund Investments: 1.0% of Applicable Assets.
 - Subsequent Co-investments to a direct ~~Public~~public or ~~Private Investment~~private investment alongside an existing external manager: 0.66% of Applicable Assets.
- *Small Co-investments:* Notwithstanding the above, with respect to Co-investments of \$30 Million or less, each Managing Director of an investment portfolio is authorized to commit UT System funds to a new co-investment alongside an existing manager during the first six months of the relationship and to a subsequent co-investment to an existing manager or mandate, and the accompanying authority to negotiate and execute agency, partnership or subscription agreements. Prior to committing to such a Co-investment, the Managing Director will present the Co-investment to the internal Co-investment Committee for approval. All Co-investments made pursuant to this section must be reported to the Internal Investment Committee at a regular meeting.
- *Terms Applicable to All Internal and External Managers:*
 - Any Director may require a complete review by the UTIMCO Board of an investment prior to the execution of the investment if, as a result of the investment:
 - Total Assets managed by the internal or external manager exceed 50% of the Total Assets managed by the manager in that investment strategy;
 - Total Assets managed by the internal or external manager exceed 3.0% of Applicable Assets in any one of the Global Equity, Stable Value, or Real Return portfolios (~~4.06.0~~4.06.0% for managers limited to Fixed Income mandates); or
 - Total Assets managed by the internal or external manager exceed 6.0% of Applicable Assets in the aggregate for all ~~Public~~public and ~~Private Investments~~private investments. For purposes of this provision, if Total Assets managed by the internal or external manager includes an allocation to ~~Private Investments~~private investments and ~~Public Investments~~public investments, Applicable Assets will include the total combined NAV of the Endowments plus the ITF.
 - If any UTIMCO Director requires a complete review of the investment prior to the execution of the investment, the UTIMCO Director will submit a written request to the UTIMCO Chief Executive Officer and the UTIMCO Chief Executive Officer shall make a presentation to highlight the attributes and risks of the proposed investment at the next UTIMCO Board meeting. Subsequent to hearing the presentation, the UTIMCO Board shall vote on whether or not to approve such investment.
 - “Applicable Assets” is defined as follows:

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- For ~~Public Investments~~public investments: Total combined NAV of the Endowments and ITF determined as of the most recent quarter-end close of books; and
- For ~~Private Investments~~private investments: Total combined NAV of the Endowments determined as of the most recent quarter-end close of books.
 - “Total Assets” shall be defined as NAV plus unfunded commitments.
 - Prior to a new relationship with an internal or external investment manager or to a new mandate with an existing external investment manager, the UTIMCO Chief Compliance Officer will send each UTIMCO Board member a description of the proposed investment and a Certificate of Compliance for the investment.
 - Passive exposure, either by an individual internal or external manager, is limited only as required to maintain the Policy Portfolio within the Asset Class ranges.
 - The UTIMCO Chief Executive Officer will periodically report to the UTIMCO Board regarding all decisions made under this delegated authority.
- *Manager Monitoring and Termination*: The UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer all decisions regarding monitoring and termination of existing internal or external investment managers.
- Notwithstanding, on a quarterly basis, manager mandates (excluding passive exposure) shall be aggregated across all Funds, Asset Classes and any mandate resulting in six percent (6%) or more exposure relative to the total Funds (excluding the ITF for Private InvestmentsEquity) will be reported to the Risk Committee at its next meeting. The UTIMCO Chief Executive Officer will be required to make a presentation and prepare a recommendation to the Risk Committee regarding an appropriate course of action for any manager mandate resulting in six percent (6%) or more exposure relative to the total Funds (excluding the ITF for the Private InvestmentsEquity). Such presentation and recommendation will include information regarding the manager mandate, including original amount of investment, historical performance, market and economic outlook, and appropriate sizing, with timelines for completion of any recommended action. After discussion and review by the Risk Committee, the Risk Committee may approve the recommendation of the UTIMCO Chief Executive Officer, determine a different appropriate level of exposure or request additional information to be presented at a subsequent meeting before action may be taken by the UTIMCO Chief Executive Officer. The UTIMCO Chief Executive Officer will be responsible for implementing any Risk Committee approved action.
- *Investment in Derivative Investments*: The UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer, the Deputy CIO, the Managing Director – Risk Management, and the Managing Director – Global Asset Allocation the authority to enter into the Derivative Investments of the types set forth in Exhibit B of the Derivative Investment Policy and as authorized by the Funds’ Investment Policy Statements, provided that the Managing Director – Risk Management, and the Managing Director – Global Asset Allocation may not enter into any Derivative Investment he or she has recommended. Any Director may require a complete review of any new Derivative Investment recommended by UTIMCO employees or for the engagement of an external manager operating under an Agency Agreement that has been approved by UTIMCO’s Chief Investment Officer if the new Derivative Investment is not of the types authorized in Exhibit B of the Derivative Investment Policy.

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- *Internal Investment Management:* The UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer all decisions associated with the direct management of assets by UTIMCO employees subject to the same limitations applicable to Co-investments to a direct ~~Public~~public or ~~Private Investment~~private investment, excepting Fixed Income Investments.
- *Management of the UTIMCO Board's External Investment Consultant(s):* The UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer the authority to direct the day-to-day work product of the UTIMCO Board's external investment consultant(s), provided that the UTIMCO Board's external investment consultant(s) shall continue to have primary reporting responsibility to the UTIMCO Board.

Documentation, Controls, and Reporting:

All UTIMCO Management decisions made under this Delegation of Authority Policy will be monitored by UTIMCO's Chief Compliance Officer. Any exceptions to this Policy will be reported to UTIMCO's Chief Executive Officer immediately. The UTIMCO Chief Executive Officer will develop a remedy to the exception, if possible, and report the exception and the remedy to the UTIMCO Chairman immediately. Additionally, the UTIMCO Chief Executive Officer will report any exceptions to this Policy to the UTIMCO Board at its next regularly scheduled meeting, unless the UTIMCO Chairman instructs otherwise.

Agenda Item
UTIMCO Board of Directors Meeting
September 20, 2018

- Agenda Item:** Discussion and Appropriate Action Related to UTIMCO 2018-2019 Budget
- Developed By:** Harris, Moeller, Bauer
- Presented By:** Harris
- 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. 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. Harris will present the UTIMCO Proposed FY2019 Budget presentation.
- Recommendation:** Mr. Harris recommends that the UTIMCO Proposed 2018-2019 Annual Budget, Management Fee Request, and Allocation Schedule be approved as presented.
- Reference:** *UTIMCO Proposed FY2019 Budget* presentation

RESOLUTION RELATED TO BUDGET

RESOLVED, that the UTIMCO Management Fee of \$43,789,012 and the Other Direct Fund Costs of \$11,525,174, resulting in Total Fees of \$55,314,186, Capital Budget of \$263,000 and the Allocation Schedule; as provided to the Board for the period beginning September 1, 2018 through August 31, 2019, be, and are hereby, approved, subject to approval by the Board of Regents of The University of Texas System.



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

UTIMCO FY2019 Budget

Britt Harris

*President, CEO and Chief
Investment Officer*

September 2018

AGENDA



- Performance Report
- Action Items
 1. Approve UTIMCO Services and Direct Costs Operating Budget
 2. Approve UTIMCO Capital Budget
 3. Approve UTIMCO Annual Fee & Allocation Schedule
- Appendix

OVERVIEW OF FUNDS

PERIODS ENDING JUNE 30, 2018



Overview of Funds Periods Ending June 2018 Preliminary

Endowment Funds	\$B	Returns							Alpha						Fiscal YTD		
		1 Mth	QTR	YTD	1Y	3Y	5Y	10Y	1 Mth	QTR	YTD	1Y	3Y	5Y	10Y	8 mth	Alpha
PUF	\$ 21.5	(0.34)	1.40	4.42	11.27	7.52	8.28	5.79	0.97	2.03	2.12	1.59	1.50	1.38	1.68	8.29	2.11
PHF	\$ 1.2	(0.38)	1.38	4.55	11.57	7.73	8.44	5.84	0.93	2.01	2.25	1.89	1.71	1.54	1.73	8.77	2.59
LTF	\$ 9.2	(0.38)	1.38	4.55	11.58	7.74	8.45	5.84	0.93	2.01	2.25	1.90	1.72	1.55	1.73	8.78	2.60
Other	\$ 0.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	\$ 32.2																

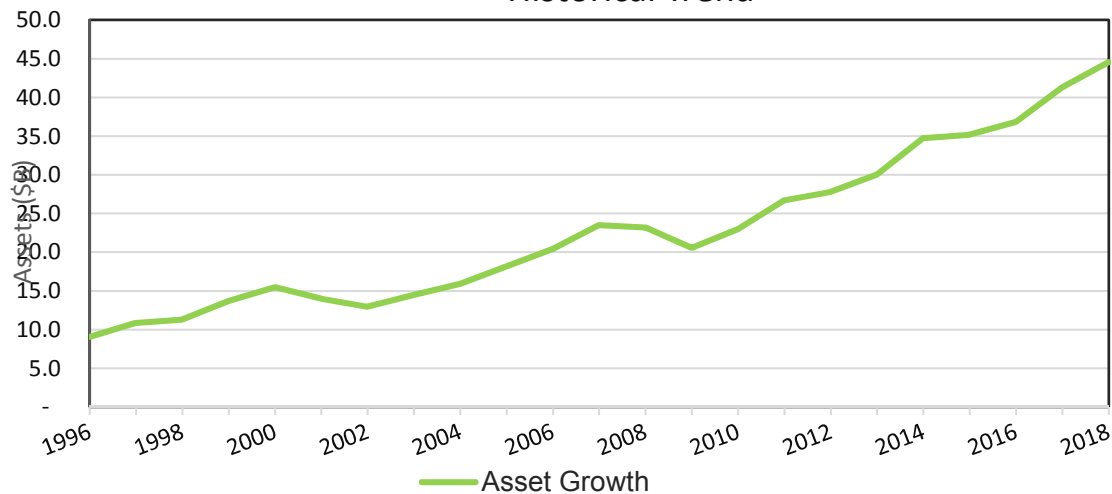
Operating Funds	\$	Returns							Alpha						Fiscal YTD		
		1 Mth	QTR	YTD	1Y	3Y	5Y	10Y	1 Mth	QTR	YTD	1Y	3Y	5Y	10Y	8 mth	Alpha
ITF	\$ 9.9	(0.52)	(0.61)	0.62	5.65	3.88	4.52	3.93	0.26	0.51	1.13	0.40	0.53	0.89	1.57	3.00	0.68
Debt Proceeds	\$ 0.5	0.17	0.51	0.89	1.52	0.89	0.57	N/A	0.00	0.06	0.08	0.16	0.21	N/A	1.31	0.13	
STF	\$ 2.0	0.16	0.47	0.84	1.44	0.76	0.48	0.48	(0.01)	0.02	0.03	0.08	0.08	0.06	0.13	1.25	0.07
TOTAL	\$ 12.4																

	\$	Increase
All Assets	\$ 44.6	\$ 0.3
March 2017	\$ 44.3	\$ 1.1
December 2017	\$ 43.2	\$ 1.8
September 2017	\$ 41.4	\$ 1.0
June 2017	\$ 40.4	

Income & Distributions (\$M)

	Projected 8/31/2018	8/31/2017	8/31/2016
PUF Land Contributions	\$ 960	\$ 689	\$ 512
PUF Distribution	\$ (887)	\$ (839)	\$ (773)
Net Payout (\$M)	\$ 73	\$ (150)	\$ (261)

Historical Trend



UTIMCO Budget 2018 Review/ 2019 Proposal



FY18 Budget vs FY18 Forecast					
	FY 2018		Difference		Notes
	Budget	Forecast	\$	%	
Total	\$ 45.9	\$ 47.7	\$ 1.8	3.9%	
Employee	27.0	27.5	0.5	1.9%	Slightly over budget due to the addition of non-budgeted positions for the new investment groups
Other UTIMCO	10.1	9.2	(0.9)	-8.9%	Below budget due to reduced depreciation costs related to the capital expenditure savings; budgeted online data services deferred; travel costs down due to organizational changes
Total UTIMCO Services	37.1	36.7	(0.4)	-1.1%	
Other Fund Costs	8.8	11.0	2.2	25.0%	Over budget due to increased custodian costs related to considerable asset base appreciation especially in the emerging markets

FY18 Budget vs FY19 Budget					
	FY 2018	FY 2019	Difference		Notes
	Budget	Budget	\$	%	
Total	\$ 45.9	\$ 55.3	\$ 9.4	20.6%	
Employee	27.0	32.7	5.7	21.0%	Increase due to addition of 4 new employees <u>\$0.6M</u> ; Twenty promotions including career path adjustments <u>\$0.77M</u> ; effects of annualizing the costs of the FY 2018 partial-year hires and creating the new investment groups <u>\$3.95M</u> ; Performance Plan vesting <u>\$0.53M</u> ; Normal increases <u>\$1.48M</u> and the savings from the removal of a senior investment position <u>(\$1.68M)</u>
Other UTIMCO	10.1	10.9	0.8	8.1%	Increase due to lease and depreciation expense related to the move; travel and online data costs related to addition of 4 new employees
Additional One-Time Requests	-	0.2	0.2	-	Contractors to assist with backlog of IT projects
Total UTIMCO Services	37.1	43.8	6.7	18.0%	
Other Fund Costs	8.8	11.5	2.7	31.3%	Increase in custodian related costs due to considerable asset base appreciation especially in the emerging markets
Sec. Lending Offset	(4.7)	(4.7)	-	-	
Net Budget Total	\$ 41.2	\$ 50.6	\$ 9.4	22.8%	

Proposed FY 2019 Budget Summary



Actual FY18	Baseline Increase	Incremental Budget 5.7%	Proposed FY19
\$37.10M	\$4.33M	\$2.35M	\$43.78M
	New capabilities/ Senior Investors: <ul style="list-style-type: none"> • CEO • Asset Allocation • Stable Value Hedge Funds • Deputy CIO (full year) • Strategic Partnership 	Results: <ul style="list-style-type: none"> • Changes to current employee compensation • 4 Additional employees • Contractors to help IT improve cyber security and address infrastructure system issues and backlog items 	

Three Factors Driving Incremental Increase



Current Employee Compensation: \$ 1.1M

- In July, the Compensation Committee approved a **4.8% increase** for the total salaries of all Performance Plan participants. Total normal increases and promotions are **\$2.25M**.
- Additionally, per the terms of our Performance Plan, UTIMCO has several long-tenured employees whose performance compensation is no longer subject to deferral. This creates an estimated increase of **\$0.53M** of which \$0.25M will be recurring annually.
- The departure and removal of a senior investment position resulted in a savings of **\$1.68M**

4 New Employees: \$ 0.6M

- Two are in support functions (one in operations and one in human resources). These areas are very thinly staffed relative to the increased size and needs of the UTIMCO operation.
- One is a junior level investment analyst needed because of the growing size and complexity of our investment operations.
- One is an investment attorney to handle investment legal work in a cost beneficial way relative to outside counsel.

One-time Contractor Services for Information Systems team: \$ 0.2M

- UTIMCO has many mission-critical and client-facing applications that are more than a decade old. They must be replaced with commercial software or rewritten. This presents an ongoing business risk and security risk.
- UTIMCO also has a backlog of infrastructure projects that have accumulated over several years which should be addressed to improve security and productivity.

CAPITAL BUDGET FY 2018 AND FY 2019



(\$ in thousands)	FY 2018		FY 2019	FY 2019 Budget v FY 2018 Budget		Description
	Budget	Forecast	Budget	\$	%	
Server Room/Telecom/AV Equipment	\$ 1,569	\$ 1,307	\$ 123	\$ (1,446)	-92.2%	Virtual Desktop Project Hardware (VDI); Wireless Conference Phones for Large Offices
Computer Equipment & Software Licenses	101	40	40	(61)	-60.4%	Laptops/Docks and Related Accessories
Furniture, Equipment & Copiers	3,330	2,728	50	(3,280)	-98.5%	Miscellaneous
Leasehold	12,611	9,226	50	(12,561)	-99.6%	Reconfiguring interior offices
Total Capital Budget	\$ 17,611	\$13,301	\$ 263	(\$17,348)	-98.5%	

ANNUAL FEE & ALLOCATION SCHEDULE



**UTIMCO Management Fee and Direct Budgeted Investment Expenses
Annual Fee and Allocation Schedule
For the fiscal year ending August 31, 2019**

<u>Proposed Budget</u>	<u>Fund Name</u>						<u>Separate Funds</u>	<u>Debt Proceeds</u>	<u>Total</u>
	PUF	PHF	LTF	GEF	ITF	STF			
<u>Market Value 6/30/18 (\$ millions)</u>	21,519			10,416	9,944	1,861	309	515	44,564
<u>UTIMCO Management Fee</u>									
Dollars	22,500,436			10,891,051	10,397,525			43,789,012	
Basis Points	10.5			10.5	10.5			9.8	
<u>Direct Expenses to the Fund, excluding UT System Direct Expenses to the Fund</u>									
Dollars	5,708,565	26,478	28,828	3,001,345	2,759,958			11,525,174	
Basis Points	2.7	0.2	0.0	2.9	2.8			2.6	

UTIMCO EXPENSES VS. PEERS



- At just 9.8 basis points, UTIMCO's service budget is well below our peer average
 - In an anonymized survey conducted by Cambridge Associates from May 2018, **9 of our top 20 peers reported average expenses of 22 basis points**
 - Data from a 2016 congressional inquiry into large endowments indicates that **our largest peers on average charge between 12 and 18 basis points**

University / College	Assets (\$ Billions)	Internal Costs (\$ Million)	Internal Costs (bps)	FTEs (#)
Yale	26.8	36.0	13.4	49
Stanford	26.0	39.1	15.0	70*
Princeton	22.3	21.0	9.4	42
Duke	16.6	11.0	6.6	48
MIT	13.5	18.2	13.5	53
Columbia	9.2	45.5	49.5	21
Average	19.1	28.5	17.9	47
Avg. Ex-Columbia	21.0	25.1	11.6	52



APPENDIX

UTIMCO Budget 2018 Review/ 2019 Proposal



	Overall	Employee	Non- Employee	AUM	Basis Points	Comments
FY18 UTIMCO Services Budget	\$ 37.10	\$ 27.00	\$ 10.10	41,285	9.0	
New Investment Groups Added FY18	3.95	3.95	-			Creation of CEO office, TAA capability, and Stable Value Hedge Fund position; CEO and Deputy CIO entering Performance Plan; Upgrade to Investment support
New Office Expense (Lease and Depreciation)	0.38	-	0.38			Increased monthly rent for new office space and increased depreciation expense related to new furniture, equipment and leasehold improvements
Baseline	41.43	30.95	10.48			
Changes-Employee (includes Salaries, Performance Compensation and Benefits)						
Performance Plan Vesting	0.53	0.53	-			Performance Compensation of long-tenured employees (3) no longer subject to deferral
Normal Increases	1.48	1.48	-			
Promotions	0.77	0.77	-			20 - Normal Promotions (12); Fulfilling Past Promises (6); Catch-Up Promotions (2)
New Positions	0.60	0.60	-			4 - Operations; Human Resources; Investment Analyst; Investment Attorney
Departure and Removal of Senior Investment Position	(1.68)	(1.68)	-			Senior Managing Director position eliminated
	1.70	1.70	-			
Changes-Non-Employee						
Travel/Training	0.23	0.06	0.17			Increase due to new investment groups and more international travel
Data/Subscriptions/Services	0.22	-	0.22			
Consulting/Contract Labor	0.20	-	0.20			Contractors to assist Information Services improve cyber security and address backlog of projects
	0.65	0.06	0.59			

FY19 UTIMCO Services Budget	\$ 43.78	\$ 32.71	\$ 11.07	44,564	9.8
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Increase from Baseline (above)	5.7%
Increase from Prior Year Budget	18.0%

TOTAL COMPENSATION



(\$ in thousands)	FY 2018		FY 2019	FY 2019 Budget v FY 2018 Budget	
	Budget	Forecast	Budget	\$	%
Salaries	\$14,474	\$13,459	\$15,876	\$1,402	9.7%
Performance Compensation	9,316	10,820	12,908	3,592	38.6%
Benefits & Taxes	3,206	3,262	3,884	678	21.1%
Total Compensation	\$26,996	\$27,541	\$32,668	\$5,672	21.0%

Increase in Total Compensation is primarily the result of:

- The addition of 4 new employees - \$0.6M
- Twenty promotions including career path adjustments - \$0.77M
- The effects of annualizing the costs of the FY 2018 partial-year hires and creating the new investment groups - \$3.95M
- Performance Plan Vesting - \$0.53M
- Normal Increases - \$1.48M
- The savings from the removal of a senior investment position - (\$1.68M)

OTHER UTIMCO EXPENSES



(\$ in thousands)	FY 2018		FY 2019	FY 2019 Budget v FY 2018 Budget		Description
	Budget	Forecast	Budget	\$	%	
Lease	\$2,449	\$2,345	\$2,630	\$181	7.4%	Increased monthly rent at the new office (UTS Building)
Depreciation	1,400	1,067	1,600	200	14.3%	Increased depreciation expense related to the new capital expenditures for furniture, equipment and leasehold improvements
Online Data & Subscriptions	2,941	2,707	3,280	339	11.5%	Several new online data providers and subscriptions added and additional license purchases for existing services due to new hires
Travel	1,070	879	1,242	172	16.1%	Increase in travel costs due to new hires and more international travel
Contract Svcs & Maint Agrmnts	838	793	701	(137)	-16.3%	Decrease in contract services due to the removal of prior year moving costs
Hiring, Relo & Comp Consultants	500	532	543	43	8.6%	Slight increase related to new hires
Legal	200	103	215	15	7.5%	Slight increase relating to HR attorney expenses
Other	708	727	710	2	0.3%	
Total Other UTIMCO	\$10,106	\$9,153	\$10,921	\$815	8.1%	

DIRECT COSTS



(\$ in thousands)	FY 2018		FY 2019	FY 2019 Budget v FY 2018 Budget		Description
	Budget	Forecast	Budget	\$	%	
Custodian Fees & Performance Measurement	\$6,361	\$8,832	\$8,948	\$2,587	40.7%	Increase in custodian related costs due to considerable asset base appreciation especially in the emerging markets
Risk Measurement	324	312	324	-	-	
Consultant Fees	528	478	528	-	-	
Legal and Background Checks	550	484	738	188	34.2%	More background checks anticipated
Auditing & Foreign Tax Consultants	983	889	957	(26)	-2.6%	
Other	31	9	30	(1)	-3.2%	
Total	\$8,777	\$11,004	\$11,525	\$2,748	31.3%	

CASH RESERVES



Projected Cash Reserves at August 31, 2018:

Cash	\$	20,112,598
Prepaid Expenses		1,500,000
Less: Accounts Payable, Accrued Liabilities (Includes awards & earnings payable)		(12,000,000)

Expected Cash Reserves at August 31, 2018 **\$ 9,612,598**

2019 Proposed Operating Budget	43,789,012	
Applicable Percentage	25%	10,947,253

Required Cash Reserves at August 31, 2018 **\$ 10,947,253**

Balance Available for Capital Expenditures **\$ (1,334,655)**

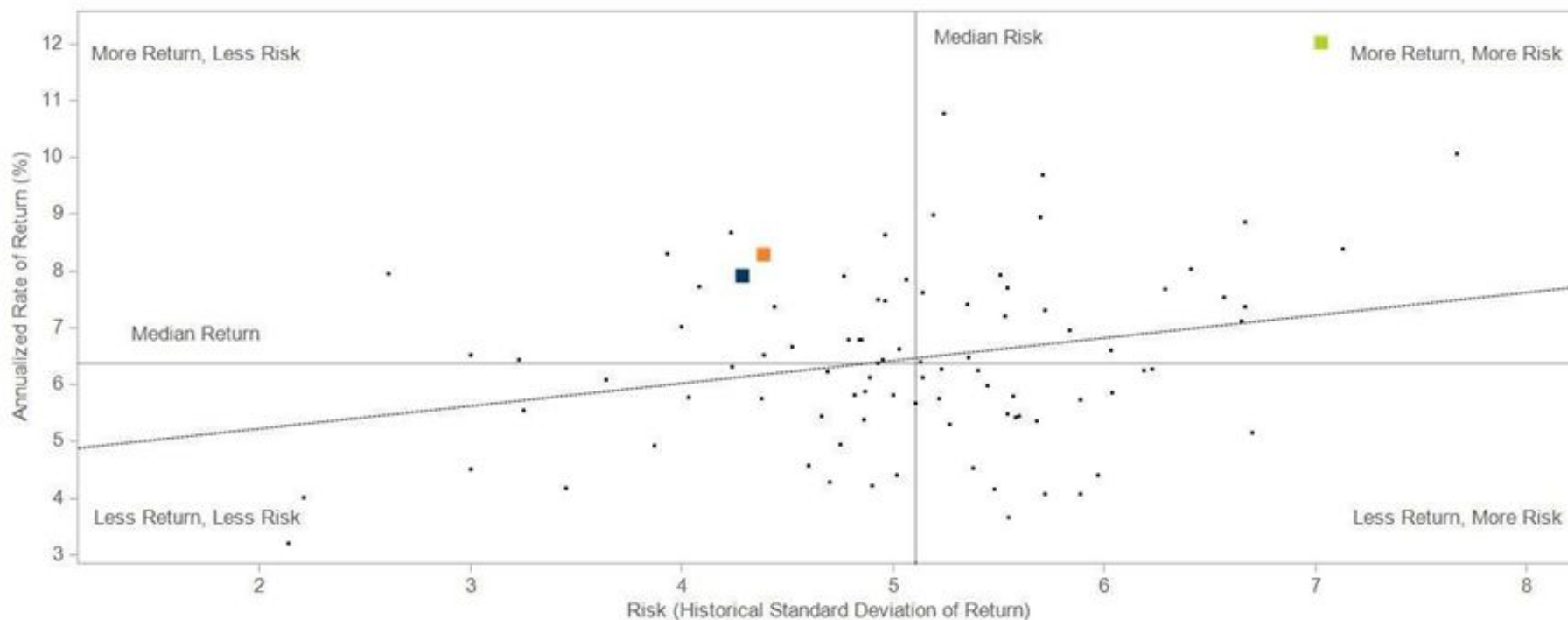
Conclusion: No Rebate Recommended Back to the UT System Investment Funds

Risk / Return

Period Ending June 30, 2018



For past 3 years, PUF and GEF have generated more returns for less risk



	Risk Value	Risk Rank	Return Value	Return Rank
GEF TOTAL FUND	4.41	79	8.19	13
PUF TOTAL FUND	4.31	82	7.82	19
S&P 500	7.05	3	11.93	1
Median	5.11		6.37	