

MINUTES OF THE JOINT MEETING OF  
THE UNIVERSITY OF TEXAS SYSTEM BOARD OF REGENTS  
AND  
THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

July 14, 2010

Austin, Texas

Note: These minutes were approved by  
The University of Texas System Board of Regents  
at its meeting held on August 12, 2010

MEETING NO. 1,060

WEDNESDAY, JULY 14, 2010.--The members of the Board of Regents of The University of Texas System convened this meeting at 12:40 p.m. on Wednesday, July 14, 2010, in the Board Meeting Room, Ninth Floor, Ashbel Smith Hall, 201 West Seventh Street, Austin, Texas, with the following participation:

ATTENDANCE.--

Present

Chairman McHugh, presiding  
Vice Chairman Foster  
Vice Chairman Longoria  
Regent Dannenbaum  
Regent Gary  
Regent Hicks  
Regent Pejovich  
Regent Powell  
Regent Stillwell  
Regent Kalkwarf, Student Regent, nonvoting

In accordance with a notice being duly posted with the Secretary of State and there being a quorum present, Chairman McHugh called the meeting to order.

WELCOME TO NEW REGENTS PEJOVICH AND KALKWARF.--Chairman McHugh welcomed Regent Brenda Pejovich and Student Regent Kyle J. Kalkwarf to their first Board meeting. (See Page 20 for the official welcome to these new Regents.)

CONVENE JOINT MEETING: BOARD OF REGENTS AND THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY (UTIMCO) BOARD OF DIRECTORS.--At 12:41 p.m., in accordance with a notice being duly posted with the Secretary of State and there being a quorum of both Boards present, Chairman McHugh convened the annual joint meeting of The University of Texas System Board of Regents and The University of Texas Investment Management Company (UTIMCO) Board of Directors. She then called on Vice Chairman Foster who is also Chairman of the Board of Directors of UTIMCO to chair the meeting.

1. U. T. System Board of Regents: Introductions

Vice Chairman Foster introduced University of Texas System and University of Texas Investment Management Company (UTIMCO) Regents, Directors, staff, and consultants in attendance at the meeting who work on UTIMCO-related matters. He also introduced Texas A&M University System Regent Phil Adams, Chairman of the Board of Regents' Committee on Finance, and Mr. Gregory R. Anderson, Chief Investment Officer and Treasurer at Texas A&M University.

2. U. T. System Board of Regents: Briefing on fiduciary responsibilities of The University of Texas Investment Management Company (UTIMCO) Directors

Mr. Barry Burgdorf, Vice Chancellor and General Counsel, provided an annual briefing on fiduciary responsibilities of The University of Texas Investment Management Company (UTIMCO) directors. The Board of Regents' Expectations of UTIMCO Directors on Pages 3 - 7 was provided as background information.

3. U. T. System Board of Regents: Discussion of U. T. System financial resources

Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, discussed the importance of investment assets in the context of The University of Texas System's overall financial resources. His presentation provided an overview of the U. T. System's assets, liabilities, revenues, and expenditures, and the role that assets managed by The University of Texas Investment Management Company (UTIMCO) play in supporting the financial condition of the U. T. System.

Dr. Kelley reminded both Boards of the critical nature of the assets that are being managed by UTIMCO and of the importance of the investment performance of those assets to the overall financial condition and picture of the U. T. System. He noted the investment distributions, which amount to approximately 6%, support marginal programs that are some of the most effective and most important programs in the U. T. System. In addition, he said the large assets strengthen the balance sheet and provide access to low-cost debt, provide liquidity, and provide overall strength to each institution. Further, Dr. Kelley said the realized and unrealized gains, or the nonoperating revenue increases or decreases, are particularly important because the operations for campuses are largely budgeted at almost a breakeven standpoint. He said extraordinary gains provide a significant impact to the overall strength of the institution and the ability to move forward, and losses have a converse effect.

Dr. Kelley said the liquidity exposure that UTIMCO provides is valuable to find low-cost debt, to enter into the variable rate debt market, and to be able to time an entrance into the market in terms of the acquisition of long-term debt to hedge the U. T. System's positions. He noted that at one point, purchasing liquidity outside was prohibitively expensive and having access through the assets at UTIMCO has been particularly helpful.

4. U. T. System Board of Regents: Governance of The University of Texas Investment Management Company (UTIMCO)

Vice Chairman Foster outlined The University of Texas Investment Management Company (UTIMCO) Board Committee structure. Four Board committees assume primary responsibility for overseeing certain aspects of UTIMCO operations. The chairs of the following UTIMCO Board committees described the roles of their committees since the last joint meeting on July 9, 2009:

- Audit and Ethics Committee: Chairman Paul L. Foster
- Risk Committee: Chairman Charles W. Tate

- Policy Committee: Chairman Janiece Longoria
- Compensation Committee: Chairman J. Philip Ferguson

5. U. T. System Board of Regents: Report on investment objectives and performance for The University of Texas Investment Management Company (UTIMCO)

Mr. Bruce Myers, Cambridge Associates, reported on the investment objectives and performance of funds managed by The University of Texas Investment Management Company (UTIMCO), including objectives, performance, policy portfolios, benchmark, and asset allocation.

In terms of the target return for the Permanent University Fund (PUF) and the General Endowment Fund (GEF), Mr. Myers said the distribution objectives, adjusted for inflation, are set to provide the same level of support over time. When asked by Vice Chairman Foster about the term “purchasing power,” Mr. Myers explained that the term refers to the same amount of support that the PUF and the GEF can give to The University of Texas System and, in the case of the PUF, to The Texas A&M University System today and a year from now.

Mr. Bruce Zimmerman, Chief Executive Officer and Chief Investment Officer, then reported on current UTIMCO performance through the fiscal quarter ending May 31, 2010. To update the performance figures through June 30, 2010, Mr. Zimmerman reported the endowment returns lost some ground in June 2010 to 9.8% from 10.3% at the end of May 2010; the Intermediate Term Fund (ITF) was down slightly from 6.99% to approximately 6.8%; and the staff value add (actual performance versus policy portfolio and benchmarks) was 4.34% greater for the endowments and the ITF, translating into \$813 million. Mr. Zimmerman reported that for the fiscal year ended June 30, 2010, which is the fiscal year for peer comparisons, the endowment returns were at about 16.8%, with staff value add at about 6%, which translates into over \$1 billion.

Director J. Philip Ferguson remarked on this value add for one year compared to compensation for three years, which the UTIMCO Compensation Plan focuses on, of \$1,860 million (see the UTIMCO Performance Summary Report on Page 11). He said the UTIMCO Board’s incentive compensation recommendations will be forthcoming and will include less than 1% of the \$1.8 billion.

The May 31, 2010 UTIMCO Performance Summary Report is set forth on Page 11.

Item I on Page 12 reports activity for the PUF investments. The PUF's net investment return for the quarter was .68% versus its composite benchmark return of negative .47%. The PUF's net asset value increased by \$54 million since the beginning of the quarter to \$10,524 million. This change in net asset value includes contributions from PUF Land receipts, increases due to net investment return, and the third payment of the annual distribution to the Available University Fund (AUF) of \$129 million.

Item II on Page 13 reports activity for the GEF investments. The GEF's net investment return for the quarter was .67% versus its composite benchmark return of negative .47%. The GEF's net asset value increased during the quarter to \$5,873 million.

Item III on Page 14 reports activity for the ITF. The ITF's net investment return for the quarter was negative .37% versus its composite benchmark return of negative 1.65%. The net asset value increased during the quarter to \$4,035 million due to net contributions of \$53 million, investment return of negative \$15 million, and net distributions of \$31 million.

For all funds, all exposures were within their asset class and investment type ranges and liquidity was within policy.

Item IV on Page 15 presents book and market values of cash, debt, equity, and other securities held in funds outside of internal investment pools. Total cash and equivalents, consisting primarily of institutional operating funds held in the Dreyfus money market fund, increased by \$40 million to \$1,874 million during the three months since the last reporting period. Market values for the remaining asset types were debt securities: \$24 million versus \$24 million at the beginning of the period; equities: \$43 million versus \$44 million at the beginning of the period; and other investments: \$2.2 million versus \$1.7 million at the beginning of the period.

6. U. T. System Board of Regents: Update on The University of Texas Investment Management Company (UTIMCO) organization, including investment manager activity and expenses

Mr. Bruce Zimmerman, Chief Executive Officer and Chief Investment Officer of The University of Texas Investment Management Company (UTIMCO), reported on the UTIMCO organization, investment manager activity, technology, audits, and expenses. He noted the organization has been stable over the past year and has passed all audits.

7. U. T. System Board of Regents: Discussion of trends in investment management

Dr. Keith Brown, Advisor to the Chairman of the UTIMCO Board, recipient of a Regents' Outstanding Teaching Award (2009), University Distinguished Teaching Professor and Fayez Sarofim Fellow at the Red McCombs School of Business at The University of Texas at Austin, discussed trends in investment management.

8. U. T. System Board of Regents: Discussion of investment portfolio and strategy

Mr. Bruce Zimmerman, Chief Executive Officer and Chief Investment Officer of The University of Texas Investment Management Company (UTIMCO), reported on the investment portfolio and investment strategy.

ADJOURN JOINT MEETING.--At 2:34 p.m., Vice Chairman Foster thanked members of both Boards for their interest and input, saying he looks forward to next year's meeting and a continued close and productive working relationship throughout the year. The joint meeting adjourned at 2:35 p.m.