• Created March 1996

• UT System Board of Regents has fiduciary responsibility for investment assets that belong to The University of Texas and Texas A&M Systems

• Day-to-day management responsibility for the investment assets is delegated to UTIMCO

• $65.3 billion in assets under management as of August 31, 2022

• Invested in a diversified portfolio that includes US and global equities, fixed income investments, real estate, private equity, venture capital, foreign currencies, commodities, and hedge funds

• Governed by a nine-member board consisting of:
  
  At least three members of the UT System Board of Regents,
  
  Four members appointed by the UT System Board of Regents, three of which must have substantial background and expertise in investments, and
  
  Two members appointed by the Texas A&M System Board of Regents, one of which must have a substantial background and expertise in investments.

Our Mission

UTIMCO generates superior long-term investment returns to support The University of Texas and Texas A&M University Systems as they provide world-class teaching, push the boundaries of discovery, and achieve excellence in patient healthcare for the people of Texas and beyond.
Market Conditions

Fiscal 2022 was an extremely challenging environment marked by tectonic shifts throughout macroeconomic conditions, geopolitical orders, and financial markets. In the closing of our 2021 Annual Report, we cautioned about high valuations, slowing growth, rapidly increasing inflation, and the potential for the Federal Reserve to start raising rates and shrinking its balance sheet. These concerns proved to be accurate and well-founded.

A perfect storm of excess demand fueled by historically easy monetary and fiscal policy, supply chain snarls, and the shock to global energy prices resulting from aggressive Economic, Social and Governance policies in much of Europe, Japan and a few US states, made worse by Russia’s invasion of Ukraine led to generationally high inflation. At the end of August 2022, headline inflation as measured by the Consumer Price Index (CPI) was growing at an annual rate of 8.3%, near the highest level seen in the past 40 years. Beyond being high, inflation also was widespread with price increases playing out across both the goods and services sectors of the economy.

The shift to tighter monetary policy began in late 2021 as the Federal Reserve (the “Fed”) responded to this record high inflation with aggressive tightening of monetary policy by raising the Federal Funds (“Fed Funds”) rate well in excess of its historical norms. In December 2021 and January 2022, the Fed Funds target rate was 0.25% and the market was pricing in just three hikes by December. By the end of August, the Fed had already increased the Fed Funds target rate to 2.5% and expected another six hikes by the end of August, among its worst starts to a year since the Great Depression.

Fixed income—traditionally looked to as ballast in challenging equity environments—suffered its worst performance in a century as rising interest rates punished bond returns. The dollar-hedged Global Aggregate Bond Index lost -9% and the Bloomberg Long Treasuries Index declined -22%.

As a result of the breakdown in diversification between stocks and bonds, balanced portfolios predictably struggled. The US passive 60/40 portfolio of stocks and bonds lost -15% between the end of December and August, among its worst starts to a year since the Great Depression.

The Permanent University Fund (PUF) and the General Endowment Fund (GEF) (the “Endowments”) outperformed a passive stock and bond portfolio with a return of -6.2% for Fiscal Year 2022. UTIMCO’s diversifying investments in Hedge Funds, Real Return, Private Equity and other alternatives helped generate this outperformance of nearly +600 basis points versus a passive 60/40 index.

Real GDP growth fell from an above trend 5.0% in 2021 to 1.5%, reducing year/year growth by 3.1% ($565 million off of 2021 results).

Total Endowment Results

Looking back to the fiscal year that ended August 31, 2021, the Endowments generated a very strong return of +31.6%. For that period, the value added from the active management decisions of the UTIMCO team was 4.3% over the Endowments’ Benchmark Policy Portfolio (“Policy Return”) return of +27.3%. An exceptional year like fiscal year 2021 is often followed by a year of weaker investment returns as some of the excess returns that may have been pulled forward are given back to the market. The -6.2% return for the year ended August 31, 2022, generated by the Endowments is a prime example of a weak market year following a very strong year. This return lagged the Endowments’ Benchmark Policy Portfolio return of -4.3% by -1.9%. Over this same period, the total value of the Endowments fell from $53.5 billion to $52.2 billion, a decrease of $1.3 billion. Total assets managed by UTIMCO fell by $2.2 billion to end the year at $65.3 billion; however, over the last 10 years assets under management have increased by $37 billion. The decline in market values this year did not impact the normal distributions from the endowments which grew to $2.0 billion in fiscal year 2022, which increased at an annual rate of 9.8% over the last five years and are now $654 million higher than they were five years ago.

Economic and Financial Condition Indicators

<table>
<thead>
<tr>
<th>Economic and Financial Condition Indicators1</th>
<th>August 31, 2021</th>
<th>August 31, 2022</th>
<th>Total Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflation (Consumer Price Index) Year over Year (%)</td>
<td>5.3</td>
<td>8.3</td>
<td>3.0%</td>
</tr>
<tr>
<td>Nominal GDP Growth Year over Year (%)</td>
<td>10.2</td>
<td>9.6</td>
<td>-0.6%</td>
</tr>
<tr>
<td>Federal Funds Rate (%)</td>
<td>0.1</td>
<td>2.3</td>
<td>2.2%</td>
</tr>
<tr>
<td>10-Year Treasury-Note Yield (%)</td>
<td>1.3</td>
<td>3.2</td>
<td>1.9%</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>4,522.7</td>
<td>3,955.0</td>
<td>-12.6%</td>
</tr>
<tr>
<td>P/E Ratio (Forward)</td>
<td>21.2</td>
<td>16.7</td>
<td>-4.5</td>
</tr>
<tr>
<td>US Unemployment (%)</td>
<td>3.2</td>
<td>3.7</td>
<td>1.5%</td>
</tr>
<tr>
<td>Size of Federal Balance Sheets ($, Trillions)</td>
<td>$8.3</td>
<td>$8.8</td>
<td>$0.5</td>
</tr>
</tbody>
</table>

Endowment funds are intended to provide support to their designated beneficiaries in perpetuity, so they are invested with longer-term investment horizons in mind. In the short-term, financial markets can significantly fluctuate year over year, so as a better measure of the Endowments’ performance it is important to focus on investment returns of ten-years or longer. The annualized net investment return for the ten-year period ending August 31, 2022, was +8.5% compared to a Policy Return of +7.4%. Active management decisions over that period added +1.1% annually to the Endowments. During that same time frame the Endowments grew by $31.6 billion from $20.6 billion to $52.2 billion. This growth is after all distributions to the beneficiaries of the Endowments, which totaled $14.5 billion during that same ten-year time period. The distribution methodologies of the Endowments provide for stable year over year increases to the amounts available to beneficiaries even in difficult years such as fiscal year 2022 during which $2 billion was distributed.

The Total Endowment assets managed by UTIMCO continue to rank second in size relative to all other endowments in America.
Asset Allocation

The Endowments’ goals are to produce attractive long-term returns within a sound and well diversified asset allocation structure that is professionally and prudently implemented. In order to achieve these goals over time, we invest the assets in four primary portfolios.

- **A Global Equity portfolio** designed to capture the increase in the value of companies driven by the revenue growth and improved corporate profits that generally accompany periods of positive economic conditions, moderate inflation and rising profits.

- **A Stable Value portfolio** provides diversification against deflationary conditions (e.g., typical recessions) which see slowing GDP growth and falling profits that generally result in a meaningful decline in equity values. These are periods that generally suffer from suddenly falling demand, leaving excess supply.

- **A Real Return portfolio** provides diversification against the wealth-eroding effects on asset values that result from periods where inflation exceeds expectations. Unexpected inflation typically stems from insufficient supply to accommodate positive demand.

- **Strategic Partnerships** are large, liquid, multi-asset class investment mandates that are intended to generate market beating returns via tactical allocation and security selection.

Set out in Figure 4 is the Endowments’ current asset allocation to the various components of each of the four strategies. Our current allocations are very close to the target levels specified in our long-term Strategic Asset Allocation which was comprehensively reviewed during fiscal year 2021.

### Figure 3: Annualized Returns (Periods Ended August 31, 2022)

<table>
<thead>
<tr>
<th></th>
<th>Ten Years</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Endowments Policy</td>
<td>Return</td>
<td>Volatility</td>
<td>Sharpe Ratio</td>
<td>UTIMCO Excess Return</td>
<td>UTIMCO Value Added (in billions)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>8.5%</td>
<td>6.1%</td>
<td>1.3</td>
<td>1.1%</td>
<td>$5.1</td>
<td>$13.2</td>
<td></td>
</tr>
<tr>
<td>Benchmark</td>
<td>7.4%</td>
<td>6.0%</td>
<td>1.1</td>
<td>1.7%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>8.4%</td>
<td>7.4%</td>
<td>1.1</td>
<td>1.1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>6.7%</td>
<td>7.7%</td>
<td>0.7</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1Source: Sharpe Ratio is the average return earned in excess of the risk free rate per unit of volatility or total risk.

### Figure 4: Endowments Asset Allocation as of August 31, 2022 ($ in millions)

<table>
<thead>
<tr>
<th></th>
<th>2022</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Global Equity</td>
<td>$31,781</td>
<td>60.8%</td>
</tr>
<tr>
<td>Global Equity</td>
<td>$13,788</td>
<td>26.4%</td>
</tr>
<tr>
<td>Public Equity</td>
<td>$3,447</td>
<td>6.6%</td>
</tr>
<tr>
<td>Directional Hedge Funds</td>
<td>$14,546</td>
<td>27.8%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>$5,288</td>
<td>10.1%</td>
</tr>
<tr>
<td>Stable Value</td>
<td>$2,239</td>
<td>4.3%</td>
</tr>
<tr>
<td>Global Fixed Income</td>
<td>$673</td>
<td>1.3%</td>
</tr>
<tr>
<td>Long Treasuries</td>
<td>$5,288</td>
<td>10.1%</td>
</tr>
<tr>
<td>Stable Value Hedge Funds</td>
<td>$880</td>
<td>1.7%</td>
</tr>
<tr>
<td>Cash and Other Assets/Liabilities</td>
<td>$880</td>
<td>1.7%</td>
</tr>
<tr>
<td>Total Stable Value</td>
<td>$9,080</td>
<td>17.4%</td>
</tr>
<tr>
<td>Real Return</td>
<td>$1,052</td>
<td>2.1%</td>
</tr>
<tr>
<td>Inflation Linked Bonds</td>
<td>$2,472</td>
<td>4.7%</td>
</tr>
<tr>
<td>Natural Resources</td>
<td>$1,606</td>
<td>3.1%</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>$4,152</td>
<td>7.9%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>$3,222</td>
<td>6.0%</td>
</tr>
<tr>
<td>Total Real Return</td>
<td>$9,080</td>
<td>17.4%</td>
</tr>
<tr>
<td>Strategic Partnerships</td>
<td>$2,091</td>
<td>4.0%</td>
</tr>
<tr>
<td>Total Endowments</td>
<td>$52,234</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

### Investment Philosophy—Creating Long-Term Returns

#### Aligning Costs

UTIMCO presents the investment returns of the Endowments net of all investment costs incurred in UTIMCO’s day-to-day management of the assets. This includes, but is not limited to, the UTIMCO management fee, external manager fees and custody fees. UTIMCO’s management fee has averaged approximately ten basis points since its inception.

To achieve cost alignment, UTIMCO seeks to negotiate fees with external managers that are below market and where the manager’s incentives are aligned with the generation of superior financial returns for the UT and Texas A&M Systems. Recently, UTIMCO has been collaborating with its key investor relationships to assure that the Endowments receive either a high return or a substantial portion of any excess return over a properly constructed passive benchmark. Attractive co-investment opportunities are also developed with key investment relationships which add to returns and reduce costs.
The last twelve months have been challenging for the Endowments and for UTIMCO alpha production. We do not expect the next 12 months to be much easier. The increase in interest rates has been the primary catalyst for a reduction of valuation multiples and negative returns in the equity and bond markets so far in 2022. With few signs of inflation abating, concerns are increasing that the Fed’s actions will trigger an economic recession, driving corporate earnings lower and further punishing valuations of equity and fixed income holdings. Additionally, the US Dollar has dramatically strengthened relative to other currencies in 2022, and this has further tightened monetary conditions for the global economy by increasing the cost of servicing US Dollar debt and the likelihood of a more global recession.

Tremendous uncertainty remains around the future path of growth and inflation. Nobody knows precisely when or how the existing bear market will come to an end. However, our focus on long-term investment results, a unique diversification framework, and excellence in risk management will allow us to remain the “strong hand” and play offense in an environment of outsized reward for prudent risk.

Thank you for your continuing dedication to the important work that these Endowments support.

Sincerely Yours,
Britt Harris
President and CEO

Managing risk is central to the execution of any investment process and is a priority for the UTIMCO team. This is done primarily by focusing on longer-term outcomes rather than short-term results; prudent and effective diversification; a series of risk systems that monitor economic and market conditions; and professional collaboration with both the UTIMCO Board of Directors and a global network of investment organizations. Most importantly, UTIMCO maintains an organization of high character and professional investment personnel dedicated to integrity and transparency. The objective of our risk management processes is not to avoid all risk, but rather to manage through various environments effectively by assuring that UTIMCO is properly compensated for any risk taken and is always the “strong hand” in the market. This allows us not only to weather the inevitable and unpredictable financial storms, but also to take advantage of the unique investment opportunities that those “bad times” often produce. In a year when both equity and bond markets posted negative returns, various diversifying assets in our Stable Value and Real Return portfolios generated strong positive performance that led to the Endowments outperforming a passive 60/40 portfolio of public stocks and bonds.

For the three years ended September 2022, both the PUF and each of the System’s donors earned a return that outperformed 98% of other foundations and endowments according to Trust Universe Comparison Service. Just as importantly, these higher returns have been achieved while taking less risk than 89% of comparable funds.

Figure 5
Trust Universe Comparison Service
Risk vs Total Returns of Master Trusts - Foundation and Endowment
3 years ending September 30, 2022

Source: Wilshire Trust Universe Comparison Service® (TUCS®)
Leadership Team

Britt Harris
President and CEO

Rich Hall
Chief Investment Officer

Joan Moeller
Senior Managing Director and Chief Operating Officer

Fiduciary Counsel, Orrick Herrington & Sutcliffe LLP
Independent Auditors, Deloitte & Touche LLP

Tony Caruso
Managing Director
– Hedge Fund Investments

Susan Chen
Senior Managing Director
– Public Equity

Carolina De Onís
Managing Director and General Counsel

Gus Deering
Managing Director
– Chief Technology Officer

Gary Hill
Managing Director – Operations, Accounting, and Reporting

Amanda Hopper
Managing Director
– Public Equity

Mukund Joshi
Managing Director
– Real Return

J. Russell Kampfe
Managing Director
– Fixed Income

Edward Lewis
Senior Managing Director
– Real Return

Patrick Pace
Managing Director
– Private Equity

Courtney Powers
Managing Director
– Hedge Funds

Ryan Ruebsahm
Senior Managing Director
– Hedge Funds

Michael Sjolander
Managing Director

Adam Wright
Chief of Staff

Uziel Yoeli
Managing Director
– Risk Management