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Committee Meeting: 11/8/2017

Board Meeting: 11/9/2017
Austin, Texas

Jeffery D. Hildebrand, Chairman
David J. Beck
Kevin P. Eltife
Paul L. Foster
Janiece Longoria
Rad Weaver

	Committee Meeting	Board Meeting	Page
Convene	<i>3:45 p.m.</i> <i>Chairman Hildebrand</i>		
1. U. T. System Board of Regents: Discussion and appropriate action regarding Consent Agenda items, if any, assigned for Committee consideration	<i>3:45 p.m.</i> Discussion	Action	112
2. U. T. System: Key Financial Indicators Report	<i>3:50 p.m.</i> Report/Discussion <i>Dr. Kelley</i>	Not on Agenda	113
3. U. T. System Board of Regents: Approval of amendments to the Investment Policy Statements for the Permanent University Fund, the General Endowment Fund, the Permanent Health Fund, the Long Term Fund, the Intermediate Term Fund, and the Liquidity Policy	<i>4:00 p.m.</i> Action <i>Dr. Kelley</i>	Action	122
4. U. T. System Board of Regents: Approval of the Annual Budget for FY 2018 and the Annual Fee and Allocation Schedule for The University of Texas/Texas A&M Investment Management Company (UTIMCO)	<i>4:05 p.m.</i> Action <i>Mr. Harris</i>	Action	132
5. U. T. System Board of Regents: The University of Texas/Texas A&M Investment Management Company (UTIMCO) Update	<i>4:10 p.m.</i> Report/Discussion <i>Mr. Harris</i>	Report	147
Adjourn	<i>4:30 p.m.</i>		

1. **U. T. System Board of Regents: Discussion and appropriate action regarding Consent Agenda items, if any, assigned for Committee consideration**

RECOMMENDATION

The proposed Consent Agenda items assigned to this Committee are [Items 12 - 25](#).

2. U. T. System: Key Financial Indicators Report

REPORT

Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, will discuss the Key Financial Indicators Report as set forth on the following pages. The report represents the consolidated and individual operating detail of the U. T. System institutions.

The Key Financial Indicators Report compares the Systemwide results of operations and key revenues and expenses in a graphical presentation.

THE UNIVERSITY OF TEXAS SYSTEM

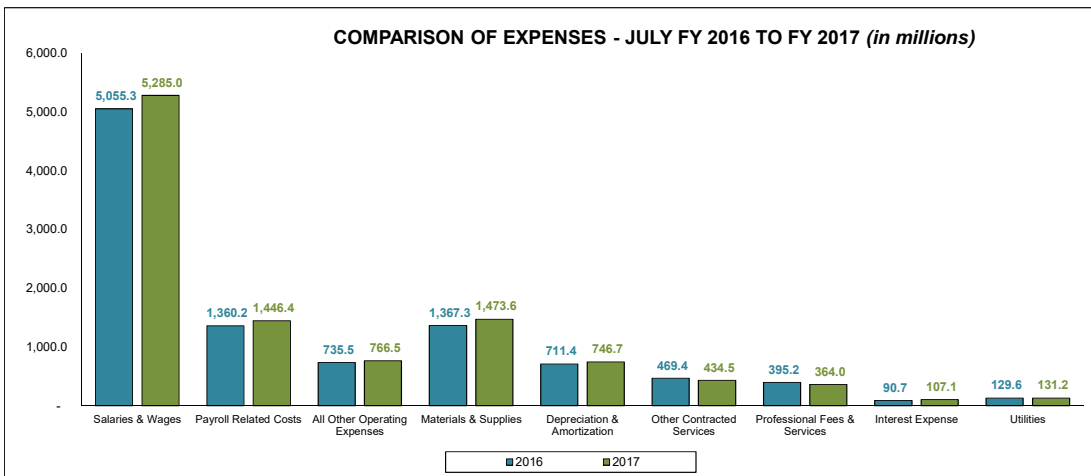
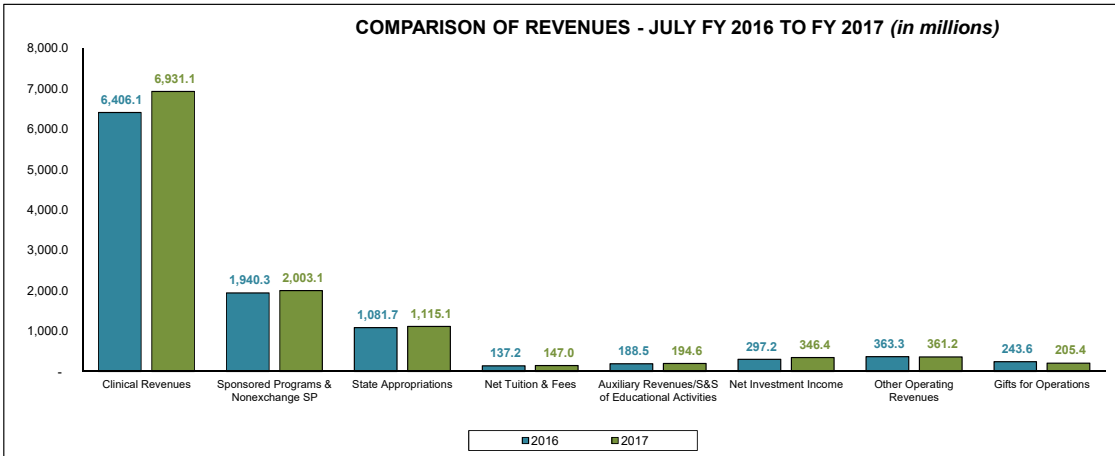


KEY FINANCIAL INDICATORS REPORT

**U. T. SYSTEM BOARD OF REGENTS' MEETING
FINANCE AND PLANNING COMMITTEE
NOVEMBER 8, 2017**

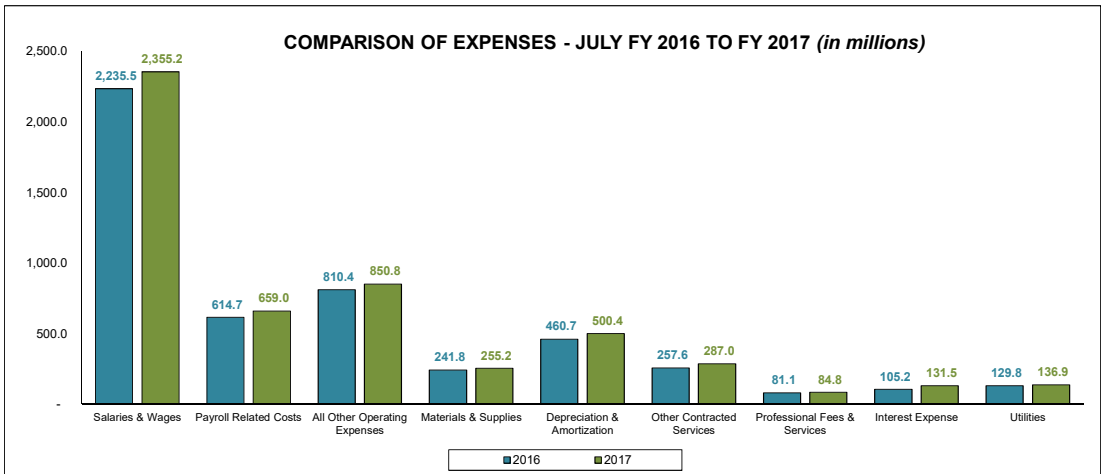
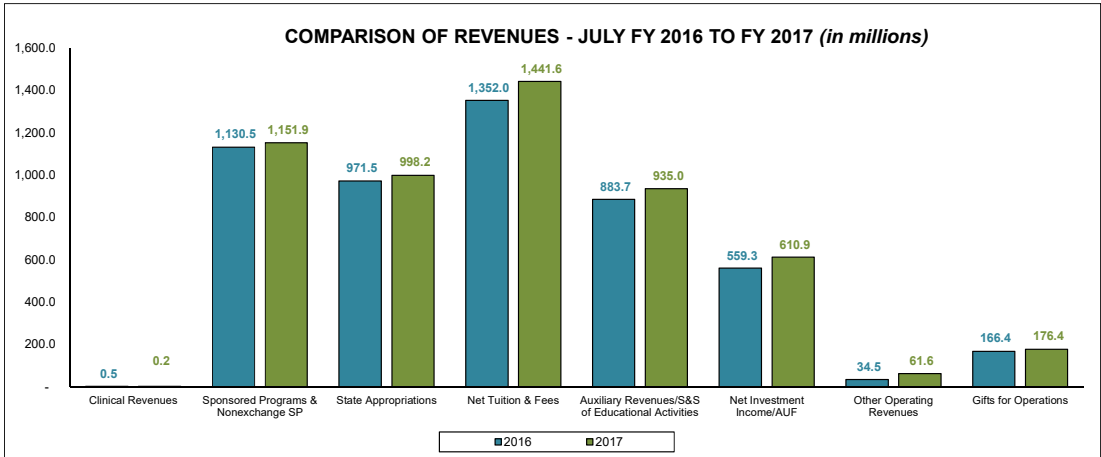
KEY INDICATORS OF FINANCIAL RESULTS YEAR-TO-DATE 2016 AND 2017 FROM JULY MONTHLY FINANCIAL REPORT AND PROJECTED 2017 YEAR-END

<i>(in millions)</i>	U. T. Health Institutions		
	July FY 2016	July FY 2017	Projected FY 2017
Clinical Revenues	\$ 6,406.1	6,931.1	7,594.6
Sponsored Programs	1,940.3	2,003.1	2,188.2
State Appropriations	1,081.7	1,115.1	1,209.9
Net Tuition and Fees	137.2	147.0	157.7
Auxiliary Revenues/Sales & Services of Educational Activities	188.5	194.6	214.9
Net Investment Income	297.2	346.4	359.7
Other Operating Revenues	363.3	361.2	424.6
Gift Contributions for Operations	243.6	205.4	253.0
Total Revenues	10,658.0	11,303.8	12,402.7
Salaries and Wages	5,055.3	5,285.0	5,784.5
Payroll Related Costs	1,360.2	1,446.4	1,569.5
All Other Operating Expenses	735.5	766.5	833.4
Materials and Supplies	1,367.3	1,473.6	1,609.0
Depreciation and Amortization	711.4	746.7	826.1
Other Contracted Services	469.4	434.5	480.7
Professional Fees and Services	395.2	364.0	403.3
Interest Exp. on Cap. Asset Financing	90.7	107.1	117.3
Utilities	129.6	131.2	143.4
Total Expenses	\$ 10,314.5	10,754.9	11,767.2
Adjusted Income (Loss)	343.5	548.9	635.5



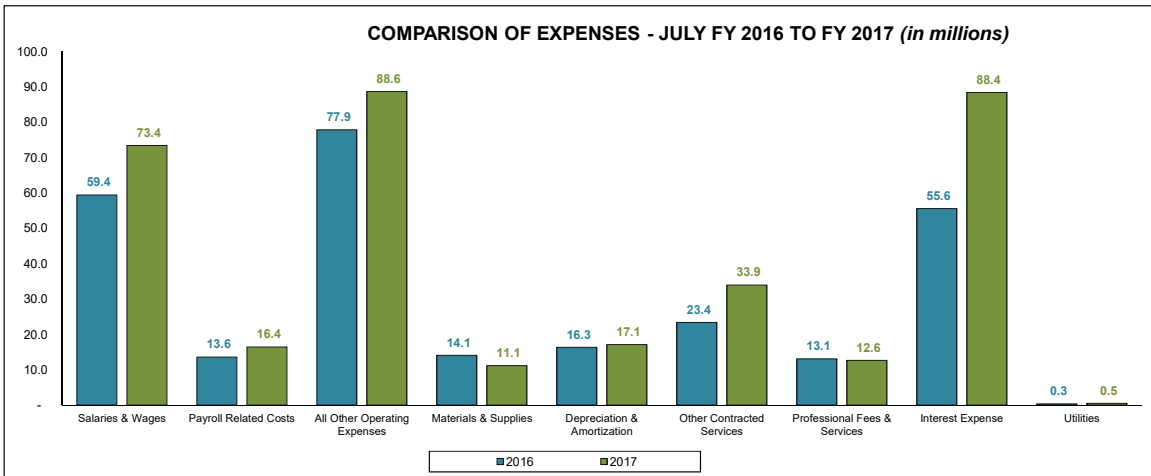
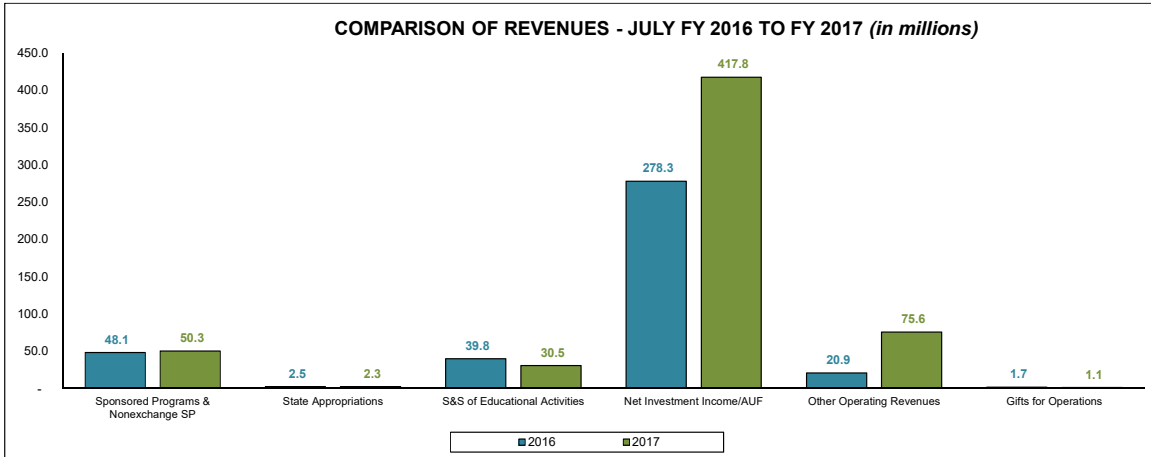
KEY INDICATORS OF FINANCIAL RESULTS YEAR-TO-DATE 2016 AND 2017 FROM JULY MONTHLY FINANCIAL REPORT AND PROJECTED 2017 YEAR-END

<i>(in millions)</i>	U. T. Academic Institutions		
	July	July	Projected
	FY 2016	FY 2017	FY 2017
Clinical Revenues	\$ 0.5	0.2	0.3
Sponsored Programs	1,130.5	1,151.9	1,385.1
State Appropriations	971.5	998.2	1,085.7
Net Tuition and Fees	1,352.0	1,441.6	1,575.5
Auxiliary Revenues/Sales & Services of Educational Activities	883.7	935.0	824.7
Net Investment Income/Available University Fund (AUF)	559.3	610.9	683.0
Other Operating Revenues	34.5	61.6	65.3
Gift Contributions for Operations	166.4	176.4	201.4
Total Revenues	5,098.3	5,375.7	5,821.1
Salaries and Wages	2,235.5	2,355.2	2,506.1
Payroll Related Costs	614.7	659.0	696.3
All Other Operating Expenses	810.4	850.8	959.7
Materials and Supplies	241.8	255.2	262.0
Depreciation and Amortization	460.7	500.4	550.1
Other Contracted Services	257.6	287.0	305.0
Professional Fees and Services	81.1	84.8	95.3
Interest Exp. on Cap. Asset Financing	105.2	131.5	143.8
Utilities	129.8	136.9	134.5
Total Expenses	\$ 4,936.8	5,260.7	5,652.7
Adjusted Income (Loss)	161.5	115.0	168.3



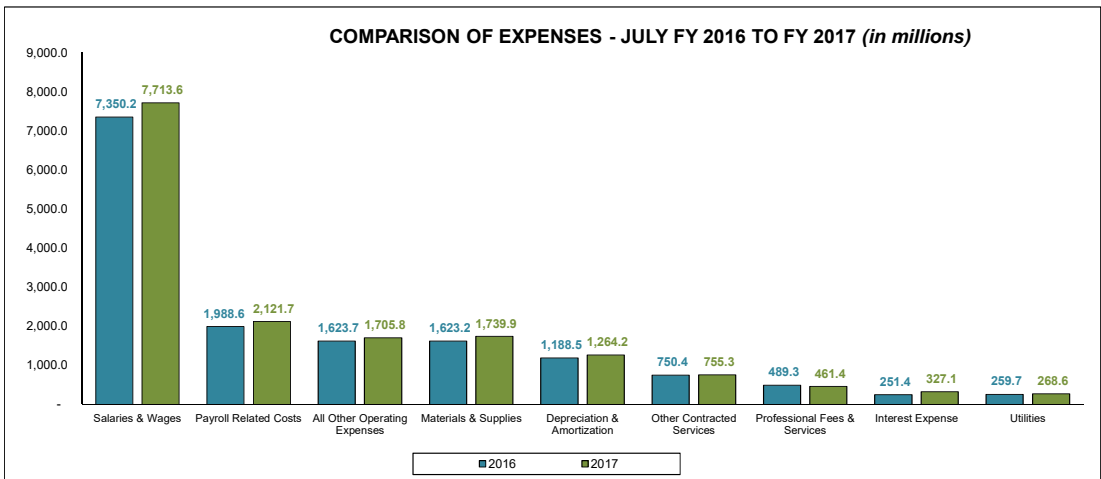
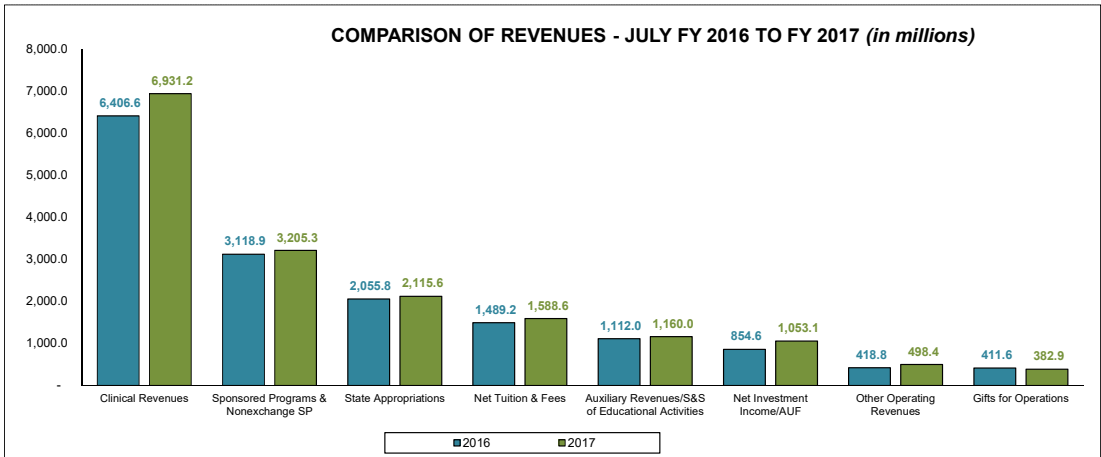
KEY INDICATORS OF FINANCIAL RESULTS YEAR-TO-DATE 2016 AND 2017 FROM JULY MONTHLY FINANCIAL REPORT AND PROJECTED 2017 YEAR-END

(in millions)	U. T. System Administration		
	July FY 2016	July FY 2017	Projected FY 2017
Sponsored Programs	\$ 48.1	50.3	52.2
State Appropriations	2.5	2.3	2.5
Sales & Services of Educational Activities	39.8	30.5	33.3
Net Investment Income/AUF	278.3	417.8	427.1
Other Operating Revenues	20.9	75.6	82.4
Gift Contributions for Operations	1.7	1.1	1.1
Total Revenues	391.4	577.7	598.7
Salaries and Wages	59.4	73.4	80.1
Payroll Related Costs	13.6	16.4	17.9
All Other Operating Expenses	77.9	88.6	95.6
Materials and Supplies	14.1	11.1	12.2
Depreciation and Amortization	16.3	17.1	18.8
Other Contracted Services	23.4	33.9	37.0
Professional Fees and Services	13.1	12.6	13.8
Interest Exp. on Cap. Asset Financing	55.6	88.4	96.5
Utilities	0.3	0.5	0.6
Total Expenses	\$ 273.7	342.2	372.3
Adjusted Income (Loss) - Excluding Other Postemployment Benefits (OPEB), Pension Expense, & Elimination of AUF Transfer to U. T. Austin	117.7	235.5	226.4
Increase in Net OPEB Obligation	611.3	648.1	707.0
Pension Expense	195.2	229.5	367.7
Elimination of AUF Transfer to U. T. Austin	280.2	322.0	351.2
Adjusted Income (Loss)	(969.0)	(964.1)	(1,199.5)

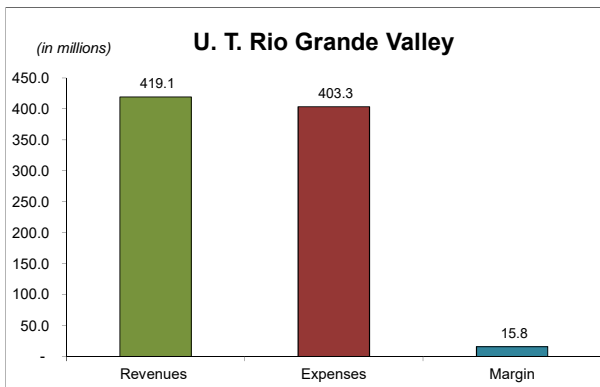
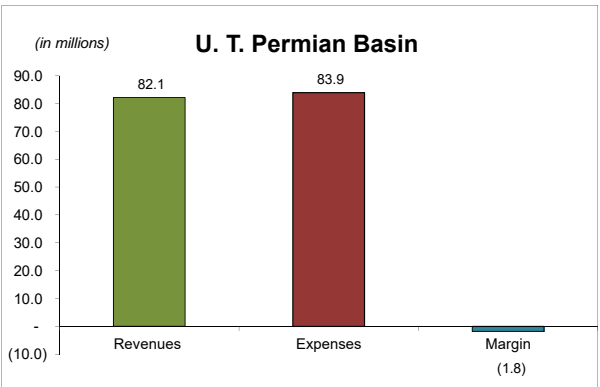
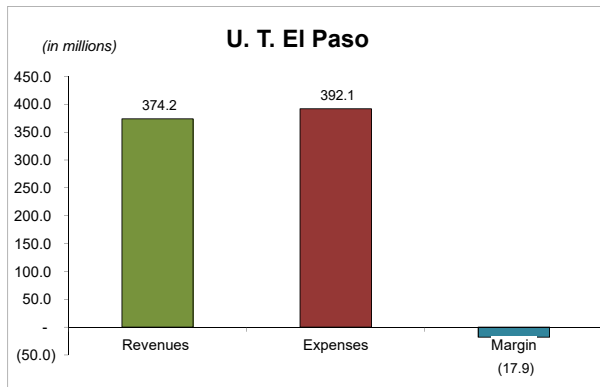
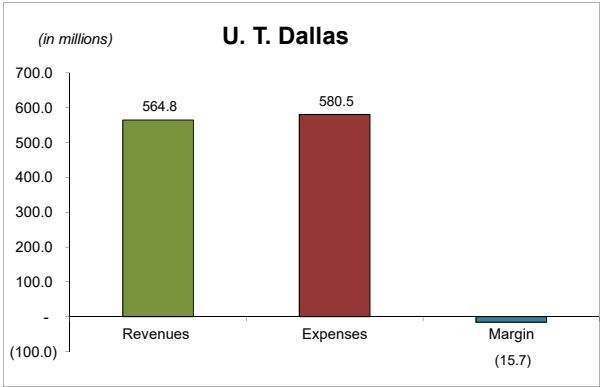
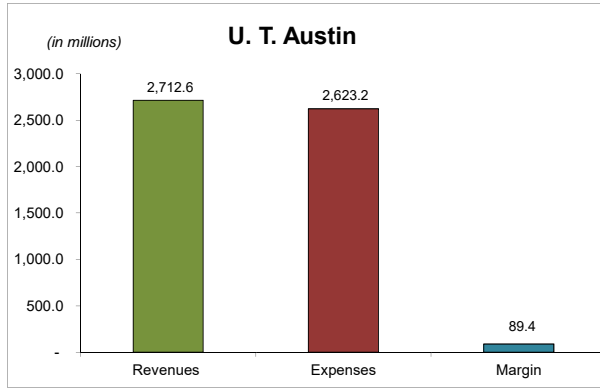
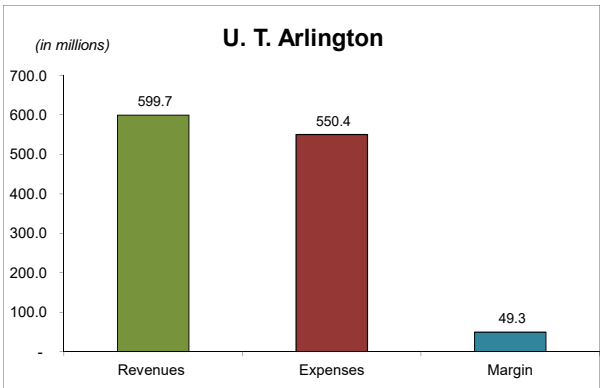
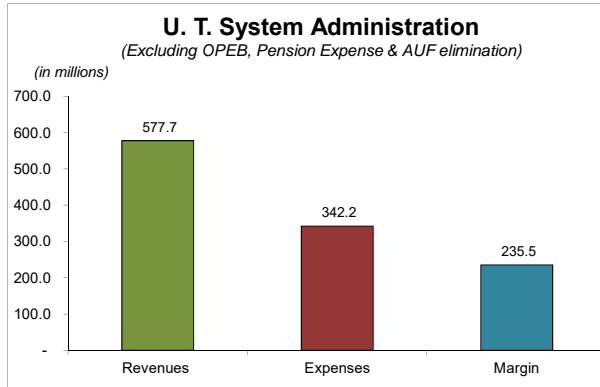
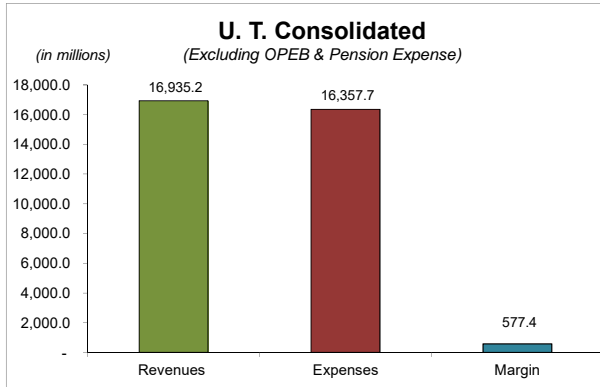


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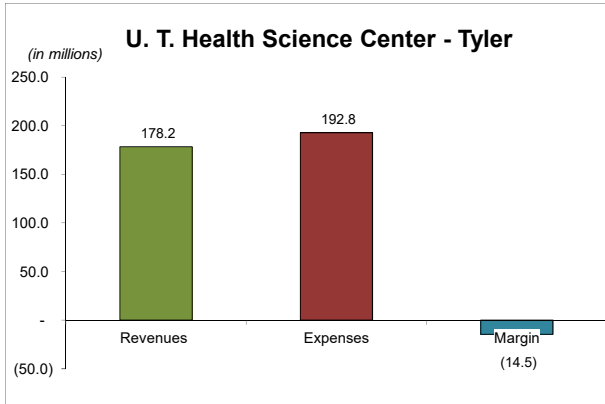
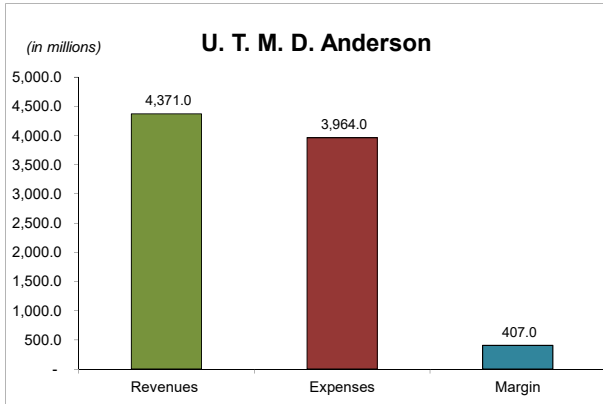
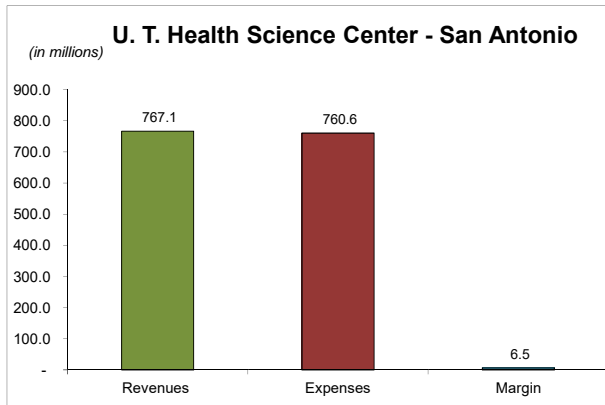
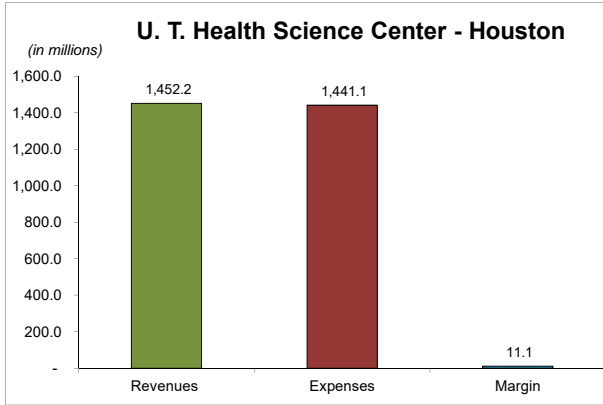
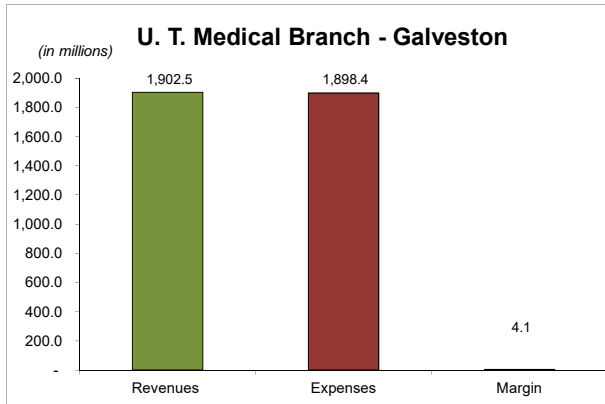
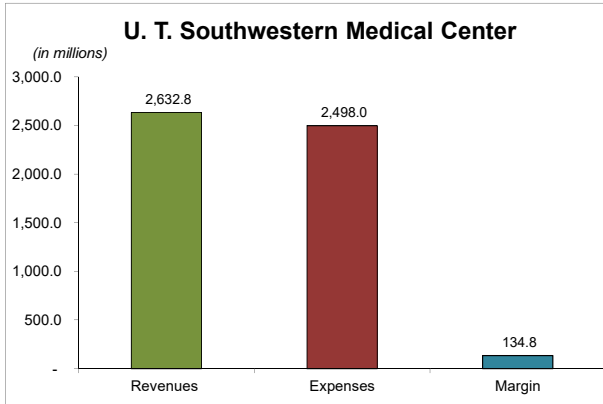
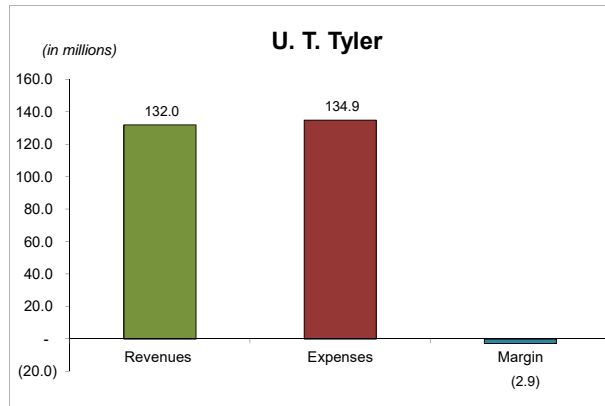
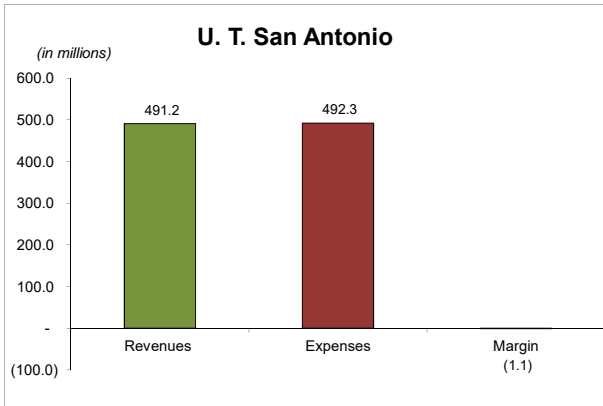
<i>(in millions)</i>	U. T. Consolidated		
	July FY 2016	July FY 2017	Projected FY 2017
Clinical Revenues	\$ 6,406.6	6,931.2	7,594.9
Sponsored Programs	3,118.9	3,205.3	3,625.6
State Appropriations	2,055.8	2,115.6	2,298.1
Net Tuition and Fees	1,489.2	1,588.6	1,733.3
Auxiliary Revenues/Sales & Services of Educational Activities	1,112.0	1,160.0	1,072.9
Net Investment Income/AUF	854.6	1,053.1	1,118.6
Other Operating Revenues	418.8	498.4	572.4
Gift Contributions for Operations	411.6	382.9	455.5
Total Revenues	15,867.5	16,935.2	18,471.3
Salaries and Wages	7,350.2	7,713.6	8,370.6
Payroll Related Costs	1,988.6	2,121.7	2,283.8
All Other Operating Expenses	1,623.7	1,705.8	1,888.7
Materials and Supplies	1,623.2	1,739.9	1,883.1
Depreciation and Amortization	1,188.5	1,264.2	1,395.0
Other Contracted Services	750.4	755.3	822.7
Professional Fees and Services	489.3	461.4	512.3
Interest Exp. on Cap. Asset Financing	251.4	327.1	357.6
Utilities	259.7	268.6	278.4
Total Expenses	\$ 15,525.0	16,357.7	17,792.3
Adjusted Income (Loss) - Excluding OPEB & Pension Exp.	342.4	577.4	679.0
Increase in Net OPEB Obligation	611.3	648.1	707.0
Pension Expense	195.2	229.5	367.7
Adjusted Income (Loss)	(464.0)	(300.1)	(395.7)



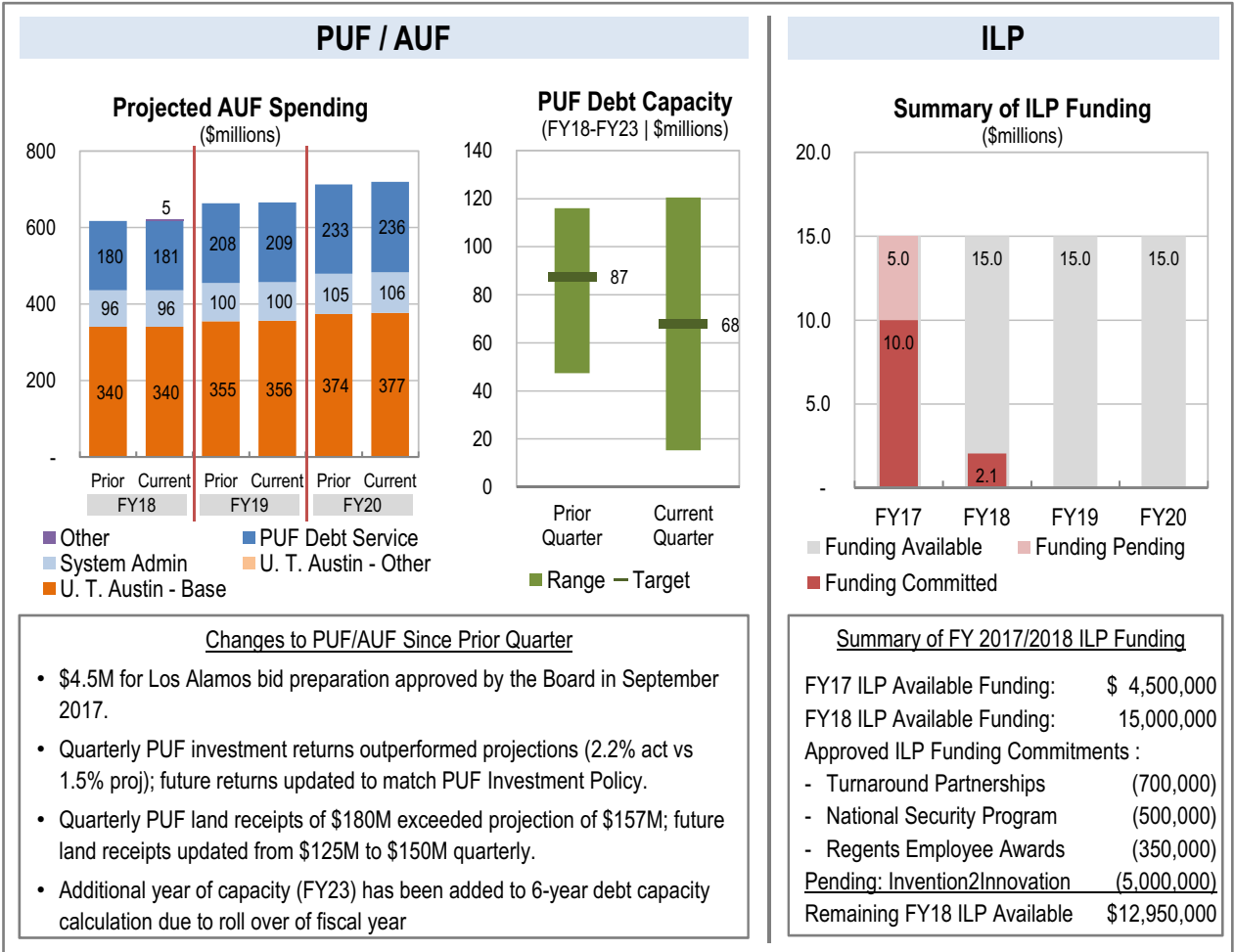
**KEY INDICATORS OF FINANCIAL RESULTS
YEAR-TO-DATE 2017 FROM JULY MONTHLY FINANCIAL REPORT**



**KEY INDICATORS OF FINANCIAL RESULTS
YEAR-TO-DATE 2017 FROM JULY MONTHLY FINANCIAL REPORT**



PUF / AUF / ILP Update For Quarter Ending August 31, 2017



PUF - Permanent University Fund
 AUF - Available University Fund
 ILP - Internal Lending Program

3. U. T. System Board of Regents: Approval of amendments to the Investment Policy Statements for the Permanent University Fund, the General Endowment Fund, the Permanent Health Fund, the Long Term Fund, the Intermediate Term Fund, and the Liquidity Policy

RECOMMENDATION

The Chancellor, the Deputy Chancellor, and the Executive Vice Chancellor for Business Affairs concur in the recommendation of the Board of Directors of The University of Texas/Texas A&M Investment Management Company (UTIMCO) that the U. T. System Board of Regents approve the proposed amendments to the following Investment Policy Statements, including asset allocation, as set forth in congressional style on the referenced pages, to be effective December 1, 2017. Proposed amendments to the Liquidity Policy, as set forth in congressional style on the referenced pages, are to be effective November 9, 2017.

- a. Permanent University Fund (PUF) (see [Pages 124 - 125](#))
- b. General Endowment Fund (GEF) (see [Pages 124 - 125](#))
- c. Permanent Health Fund (PHF) (see [Pages 124 - 125](#))
- d. Long Term Fund (LTF) (see [Pages 124 - 125](#))
- e. Intermediate Term Fund (ITF) (see [Pages 126 - 127](#))
- f. Liquidity Policy (see [Pages 128 - 131](#))

BACKGROUND INFORMATION

The Master Investment Management Services Agreement (IMSA) between the U. T. System Board of Regents and UTIMCO requires that UTIMCO review the current Investment Polices for each Fund at least annually. The review includes distribution (spending) guidelines; long-term investment return expectations and expected risk levels; Asset Class and Investment Type allocation targets and ranges for each eligible Asset Class and Investment Type; expected returns for each Asset Class, Investment Type, and Fund; designated performance benchmarks for each Asset Class and/or Investment Type; and such other matters as the U. T. System Board or its staff designees may request.

The amended PUF, GEF, PHF, LTF, and ITF Investment Policy Statements and the Liquidity Policy were approved by the UTIMCO Board on September 11, 2017.

Exhibits to the Investment Policy Statements for the PUF, GEF, PHF, LTF (see Attachment 1) and ITF (see Attachment 2) have been amended to reflect the following changes:

- Revise Policy Portfolio Asset Class and Investment Type Targets and Ranges for Fiscal Year Ending (FYE) 2018

- Revise Policy Benchmarks and Expected 10-year Annual Real Return (Benchmark) target and the One-Year Downside Volatility for FYE 2018 to reflect revised Asset Class and Investment Type targets for FYE 2018

All amended Investment Policy Statements will be effective December 1, 2017.

The Liquidity Policy will be amended to change the period for determining whether an investment is liquid from 90 days or less to 120 days or less. Also, the requirement to report liquidity quarterly will be deleted since 120 days is the new measurement period.

The Short Term Fund Investment Policy Statement, Separately Invested Funds Investment Policy Statement, and the Derivative Investment Policy were reviewed but no changes were made.

ATTACHMENT 1
EXHIBIT A for PUF and GEF, EXHIBIT B for PHF and LTF
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES
EFFECTIVE ~~SEPTEMBER 1, 2016~~ DECEMBER 1, 2017

POLICY PORTFOLIO	FYE 2017 2018		
	Min	Target	Max
Asset Classes			
Investment Grade Fixed Income	3.0%	9.5%	25.0%
Credit-Related Fixed Income	0.0%	7.5%	30.0%
Real Estate	0.0%	7.0%	12.5%
Natural Resources	2.5%	11.5 14.5%	20.0%
Developed Country Equity	30.0%	48.5 44.5%	65.0%
Emerging Markets Equity	8.0%	16.0 17.0%	25.0%
Investment Types			
More Correlated & Constrained	30.0%	39.0%	60.0%
Less Correlated & Constrained	20.0 15.0%	25.0 21.0%	37.5%
Private Investments	20.0%	36.0 40.0%	45.0 50.0%

The total Asset Class & Investment Type exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed 105% of the Asset Class & Investment Type exposures excluding the amount of derivatives exposure not collateralized by Cash.

POLICY BENCHMARK (reset monthly)	FYE 2017 2018
Barclays Capital Global Aggregate Index	7.5%
FTSE EPRA/NAREIT Developed Index Net TRI USD	0.0%
0.0% Bloomberg Commodity Total Return Index, 0.0% MSCI World Natural Resources Index and 100.0% Gold Spot price (XAU) *	2.5%
MSCI World Index with net dividends	19.0%
MSCI Emerging Markets with net dividends	10.0%
Hedge Fund Research Indices Fund of Funds Composite Index	25.0 21.0%
Custom Cambridge Fund of Funds Benchmark	36.0 40.0%



POLICY/TARGET RETURN/RISKS	FYE 2017 2018
Expected 10-Year Annual Real Return (Benchmark)	3.95 3.93%
One Year Downside Volatility	10.44 11.23%
Risk Bounds	
Lower: 1 Year Downside Volatility	75.00%
Upper: 1 Year Downside Volatility	115.00%

* ~~Bloomberg Commodity Total Return Index and MSCI World Natural Resources Index will be phased out monthly during FY 2017.~~

ATTACHMENT 1
EXHIBIT A for PUF and GEF, EXHIBIT B for PHF and LTF
(continued)
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE ~~SEPTEMBER 1, 2016~~ **DECEMBER 1, 2017**

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE 20172018

FYE 20172018		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	Investment Grade	Barclays Capital Global Aggregate Index (7.5%)	2.0%	0.0%	9.5%
	Credit-Related	(0.0%)	4.0%	3.5%	7.5%
Real Assets	Real Estate	FTSE EPRA/NAREIT Developed Index Net TRI USD (0.0%)	0.0%	7.0%	7.0%
	Natural Resources	0.0% Bloomberg Commodity Total Return Index, 0.0% MSCI World Natural Resources Index and 100.0% Gold Spot price (XAU) (2.5%) *	0.0%	9.0 12.0%	11.5 14.5%
Equity	Developed Country	MSCI World Index with Net Dividends (19.0%)	17.0 13.0%	12.5%	48.5 44.5%
	Emerging Markets	MSCI EM Index with Net Dividends (10.0%)	2.0%	4.0 5.0%	16.0 17.0%
Total		39.0%	25.0 21.0%	36.0 40.0%	100.0%

 Hedge Fund Research Indices Fund of Funds Composite Index
 Custom Cambridge Fund of Funds Benchmark

* ~~Bloomberg Commodity Total Return Index and MSCI World Natural Resources Index will be phased out monthly during FY 2017.~~

Investment Policy/Benchmarks are indicated in Black/Bold
Reportable Targets are indicated in Gray

ATTACHMENT 2
EXHIBIT A - INTERMEDIATE TERM FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE ~~SEPTEMBER 1, 2016~~ DECEMBER 1, 2017

POLICY PORTFOLIO	FYE 2017 2018		
	Min	Target	Max
Asset Classes			
Investment Grade Fixed Income	20.0%	34.5%	50.0%
Credit-Related Fixed Income	0.0%	7.5%	12.0%
Real Estate	0.0%	0.0%	10.0%
Natural Resources	0.0%	2.5%	10.0%
Developed Country Equity	20.0%	44.0%	60.0%
Emerging Markets Equity	2.5%	11.5%	20.0%
Investment Types			
More Correlated & Constrained	45.0%	55.0%	65.0%
Less Correlated & Constrained	35.0%	45.0%	55.0%

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

POLICY BENCHMARK (reset monthly)	FYE 2017 2018
Barclays Capital Global Aggregate Index	30.0%
FTSE EPRA/NAREIT Developed Index Net TRI USD	0.0%
0.0% Bloomberg Commodity Total Return Index, 0.0% MSCI World Natural Resources Index and 100.0% Gold Spot price (XAU) *	2.5%
MSCI World Index with net dividends	15.0%
MSCI Emerging Markets with net dividends	7.5%
Hedge Fund Research Indices Fund of Funds Composite Index	45.0%


POLICY/TARGET RETURN/RISKS	FYE 2017 2018
Expected 10-Year Annual Real Return (Benchmark)	1.62.03%
One Year Downside Volatility	6.445.98%
Risk Bounds	
Lower: 1 Year Downside Volatility	70.00%
Upper: 1 Year Downside Volatility	115.00%

~~* Bloomberg Commodity Total Return Index and MSCI World Natural Resources Index will be phased out monthly during FY 2017.~~

ATTACHMENT 2
EXHIBIT A - INTERMEDIATE TERM FUND
(continued)
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE ~~SEPTEMBER 1, 2016~~ DECEMBER 1, 2017

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE ~~2017~~2018

FYE 2017 2018		More Correlated & Constrained	Less Correlated & Constrained	Total
Fixed Income	Investment Grade	Barclays Capital Global Aggregate Index (30.0%)	4.5%	34.5%
	Credit-Related	(0.0%)	7.5%	7.5%
Real Assets	Real Estate	FTSE EPRA/NAREIT Developed Index Net TRI USD (0.0%)	0.0%	0.0%
	Natural Resources	0.0% Bloomberg Commodity Total Return Index, 0.0% MSCI World Natural Resources Index and 100% Gold Spot price (XAU) (2.5%)*	0.0%	2.5%
Equity	Developed Country	MSCI World Index with Net Dividends (15.0%)	29.0%	44.0%
	Emerging Markets	MSCI EM Index with Net Dividends (7.5%)	4.0%	11.5%
Total		55.0%	45.0%	100.0%

 Hedge Fund Research Indices Fund of Funds Composite Index

* Bloomberg Commodity Total Return Index and MSCI World Natural Resources Index will be phased out monthly during FY 2017.

Investment Policy/Benchmarks are indicated in Black/Bold
Reportable Targets are indicated in Gray

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

Effective Date of Policy: ~~November 5, 2015~~November 9, 2017
Date Approved by U. T. System Board of Regents: ~~November 5, 2015~~November 9, 2017
Date Approved by UTIMCO Board: ~~October 15, 2015~~September 11, 2017
Original Effective Date of Policy: August 7, 2003
Supersedes: Liquidity Policy dated ~~August 21, 2014~~November 5, 2015

Purpose:

The purpose of this Liquidity Policy is to establish limits on the overall liquidity profile of investments in (1) the Permanent University Fund (PUF) and the General Endowment Fund (GEF), hereinafter collectively referred to as the Endowment Funds and, (2) the Intermediate Term Fund (ITF). For the purposes of this policy, "liquidity" is defined as a measure of the ability of an investment position to be converted into Cash. The established liquidity profile limits will act in conjunction with, but do not supersede, the Investment Policies adopted by the U. T. System Board of Regents.

Objective:

The objective of this Liquidity Policy is to control the element of total risk exposure of the Endowment Funds and the ITF stemming from the uncertainties associated with the ability to convert longer term investments to Cash to meet immediate needs or to change investment strategy, and the potential cost of that conversion.

Scope:

This Liquidity Policy applies to all PUF, GEF, and ITF investments made by The University of Texas/Texas A&M Investment Management Company (UTIMCO), both by internal and by external managers. Policy implementation will be managed at the aggregate UTIMCO level and will not be a responsibility of individual internal or external managers managing a portion of the aggregate assets.

Definition of Liquidity Risk:

"Liquidity risk" is defined as that element of total risk resulting from the uncertainty associated with both the cost and time period necessary to convert existing investment positions to Cash. Liquidity risk also entails obligations relating to the unfunded portions of capital commitments. Liquidity risk can result in lower than expected returns and reduced opportunity to make changes in investment positions to respond to changes in capital market conditions.

Definition of Cash:

Cash is defined as short term (generally securities with time to maturity or mandatory purchase or redemption of three months or less), highly liquid investments that are readily convertible to known amounts and which are subject to a relatively small risk of changes in value. Holdings may include:

- the existing Dreyfus Institutional Preferred Money Market Fund mandate and any other UTIMCO Board approved SEC Rule 2a-7 money market fund rated AAAM by Standard & Poor's or the equivalent by a Nationally Recognized Statistical Rating Organization (NRSRO),
- securities of the U.S. Treasury and U.S. Agencies and their instrumentalities with maturities of 397 days or less,
- separately managed accounts with investment guidelines equivalent to, or more stringent than, unaffiliated liquid investment funds rated AAAM by Standard & Poor's Corporation or the equivalent by a NRSRO,
- the Custodian's late deposit interest bearing liquid investment fund,
- municipal short term securities,
- commercial paper rated in the two highest quality classes by Moody's Investor Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2 or the equivalent),
- negotiable certificates of deposit with a bank that is associated with a holding company whose short-term rating meets the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps, and

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

- repurchase agreements and reverse repurchase agreements transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve as a Primary Dealer in U.S. Treasury securities and rated A-1 or P-1 or the equivalent.

Liquidity Risk Measurement-The Liquidity Profile:

For the purposes of this Liquidity Policy, potential liquidity risk will be monitored by measuring the aggregate liquidity profile of the Endowment Funds and ITF. All individual investments within the Endowment Funds and ITF will be segregated into two categories:

- **Liquid:** Investments that could be converted to Cash within a period of ~~90-120~~ days or less in an orderly market at a discount of 10% or less.
- **Illiquid:** Investments that could be converted to Cash in an orderly market over a period of more than ~~90-120~~ days or in a shorter period of time by accepting a discount of more than 10%.

The UTIMCO staff Team will report individual investments within the Endowment Funds and ITF categorized as follows:

- Cash: Short term (generally securities with time to maturity or mandatory purchase or redemption of three months or less), highly liquid investments that are readily convertible to known amounts and which are subject to a relatively small risk of changes in value.
- Liquid (Weekly): Investments that could be converted to Cash within a period of one day to less than 7 days in an orderly market at a discount of 5% or less.
- ~~Liquid (Quarterly): Investments that could be converted to Cash within a period of 90 days or less in an orderly market at a discount of 10% or less.~~
- Liquid (Annual): Investments that could be converted to Cash within a period of one day to less than 365 days in an orderly market at a discount of 10% or less.

The measurements necessary to segregate all existing investments into one of the two categories assume normally functioning capital markets and cash market transactions. In addition, swaps, derivatives, or other third party arrangements to alter the status of an investment classified as illiquid may be considered, with the prior approval of the UTIMCO Board or the Risk Committee, in determining the appropriate liquidity category for each investment.

The result of this liquidity risk measurement process will be a liquidity profile for the Endowment Funds and the ITF which indicates the percentage of the total portfolio assets within each liquidity category. This Liquidity Policy defines the acceptable range of percentage of total assets within each liquidity category, specifies “trigger zones” requiring special review by the UTIMCO staff Team and special action by the UTIMCO Board or the Risk Committee, and specifies the method of monitoring and presenting actual versus policy liquidity profiles.

Liquidity Policy Profile:

The current Liquidity Policy Profile ranges and trigger zones for each of the Endowment Funds are defined by the table below:

Liquidity above trigger zone:	<u>FY 14+</u> 30.0%
Liquidity within trigger zone:	25.0%-30.0%
Liquidity below trigger zone:	<25.0%

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The permitted maximum for **illiquid** investments is 75% of the total portfolio for the Endowment Funds. Investments for the Endowment Funds that maintain liquidity above the trigger zone do not require any action by the Risk Committee. Any **illiquid** investments made in the 70% to 75% trigger zone require prior approval by the Risk Committee. No investment may be made for the Endowment Funds which would cause illiquidity to be greater than 75%.

The current Liquidity Policy Profile ranges and trigger zones for the ITF are defined by the table below:

Liquidity above trigger zone:	<u>FY 14+</u> 50%
Liquidity within trigger zone:	45%-50%
Liquidity below trigger zone:	<45%

The permitted maximum for **illiquid** investments is 55% of the total portfolio for the ITF. Investments for the ITF that maintain liquidity above the trigger zone do not require any action by the Risk Committee. Any **illiquid** investments made in the 50% to 55% trigger zone require prior approval by the Risk Committee. No investment may be made for the ITF which would cause illiquidity to be greater than 55%.

Risk Committee review of new investments in the illiquid trigger zone will supplement, rather than replace, the procedures established by the UTIMCO Board for the approval of new investments.

Unfunded Commitments:

As used herein, “unfunded commitments” refers to capital that has been legally committed from an Endowment Fund and has not yet been called but may still be called by the general partner or investment manager. The Maximum Permitted Amount of unfunded commitments for each Endowment Fund is:

Unfunded Commitment as a percent of total invested assets:	<u>FY 14+</u> 30.0%
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No new commitments may be made for an Endowment Fund without approval from the Risk Committee if the actual amount of unfunded commitments for such Endowment Fund exceeds, or, as a result of such commitment, would exceed the Maximum Permitted Amount.

Documentation and Controls:

Managing Directors responsible for each asset class are responsible for determining the liquidity category for each investment in that asset class as well as the amount of unfunded commitments for each Endowment Fund. The determination of liquidity will include underlying security trading volumes, notice periods, redemption dates, lock-up periods, and “soft” and “hard” gates. These classifications will be reviewed by the Risk Manager and the Chief Compliance Officer, and must receive final approval from the Chief Investment Officer. Classifications and weights within each liquidity category will be updated and reported on a monthly basis. All new investments considered will be categorized by liquidity category, and a statement regarding the effect on overall liquidity and the amount of unfunded commitments for each Endowment Fund of the addition of a new investment must be an element of the due diligence process and will be a part of the recommendation report to the UTIMCO Board.

As additional safeguards, trigger zones have been established as indicated above to trigger required review and action by the UTIMCO Board or the Risk Committee in the event any investment action would cause the actual investment position in illiquid investments to enter the designated trigger zone, or in the event market actions caused the actual investment position in illiquid investments to move into trigger zones. In addition, any proposed investment actions which would increase the actual investment position in illiquid investments in any of the PUF, the GEF, or the ITF by 10% or more of the total asset value of such fund would also require review and action by the UTIMCO Board or the

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

Risk Committee prior to the change. Any actual positions in any trigger zones or outside the policy ranges will be communicated to the Chief Investment Officer immediately. The Chief Investment Officer will then determine the process to be used to eliminate the exception and report promptly to the UTIMCO Board and the Risk Committee the circumstances of the deviation from Policy and the remedy to the situation. Furthermore, as indicated above, no new commitments may be made for an Endowment Fund without approval from the Risk Committee if the actual amount of unfunded commitments for such Endowment Fund exceeds, or, as a result of such new commitment, would exceed, the Maximum Permitted Amount.

Reporting:

The actual liquidity profiles of the Endowment Funds and the ITF, including a detailed analysis of liquidity by category, and the status of unfunded commitments for each Endowment Fund, and compliance with this Liquidity Policy will be reported to the UTIMCO Board on at least a quarterly basis. Any exception to this Liquidity Policy and actions taken to remedy the exception will be reported promptly.

4. U. T. System Board of Regents: Approval of the Annual Budget for FY 2018 and the Annual Fee and Allocation Schedule for The University of Texas/Texas A&M Investment Management Company (UTIMCO)

RECOMMENDATION

The Chancellor, the Deputy Chancellor, and the Executive Vice Chancellor for Business Affairs concur in the recommendation of The University of Texas/Texas A&M Investment Management Company (UTIMCO) Board of Directors that the U. T. System Board of Regents approve the proposed Annual Budget for the year ending August 31, 2018, as set forth on [Page 134](#), and the Annual Fee and Allocation Schedule as set forth on [Page 135](#).

BACKGROUND INFORMATION

The proposed Total Budgeted Costs consist of \$37.1 million for UTIMCO services (14.9% increase over FY 2017 budget) and \$8.8 million (.3% increase from FY 2017 budget) for external non-investment manager services such as custodial, legal, audit, and consulting services. These Total Budgeted Costs represent only a portion of total investment costs as they exclude external manager fees.

The 14.9% increase in UTIMCO services is mostly attributable to an increase in employee-related expenses due to salary adjustments and six new full-time equivalent (FTE) employees, and higher expenses due to relocation to larger office space. The UTIMCO Compensation Program states that compensation will be at the peer median. The purpose is to attract and retain top investment professionals. Over the previous few years, 27 employees have chosen to leave UTIMCO. The UTIMCO Board of Directors conducted an independent analysis of current compensation relative to other large endowments and found that UTIMCO compensation was more than 10% below the peer average, which partially explains the extensive list of departures.

The size and complexity of assets managed has grown extensively over the past few years. The endowments' performance ranked in the first quartile versus all other plans and in the second quartile versus other large endowments. The value added over the year (above benchmark) was \$1,165 million for the endowments and \$1,367 million in total across all funds. In addition, recent results have ranked in the top quartile when adjusted for risk.

The proposed Total Budgeted Costs was approved by the UTIMCO Board on September 11, 2017.

The proposed Annual Fee and Allocation Schedule shows the allocation of the proposed budgeted expenses among U. T. System funds in total.

In accordance with the Master Investment Management Services Agreement (IMSA) between the U. T. System Board of Regents and UTIMCO, UTIMCO will retain cash reserves on hand at August 31, 2017. The U. T. System Office of Business Affairs and UTIMCO expect that a portion of the cash reserves will be utilized in FY 2018 in connection with the new lease space in the new U. T. System office building.

The U. T. System Office of Business Affairs has prepared a memorandum for the purpose of reviewing budgeted expenses, which is included as a part of this Agenda Item on [Pages 136 - 146](#).

UTIMCO ANNUAL BUDGET

\$ in thousands	FY 2017	FY 2018	FY 2018 Budget v FY 2017 Budget	
	Budget	Budget	\$	%
Salaries, Benefits & Taxes	\$15,274	\$17,574	\$2,300	15.1%
Incentive Compensation	9,006	9,316	310	3.4%
Total Compensation	24,280	26,890	2,610	10.7%
Other Expenses	8,015	10,212	2,197	27.4%
Total UTIMCO Services	\$32,295	\$37,102	\$4,807	14.9%
Other Direct Costs to Funds	\$8,747	\$8,777	\$30	0.3%

Prepared by: UTIMCO
Date: September 29, 2017

UTIMCO Management Fee and Direct Budgeted Investment Expenses
Annual Fee and Allocation Schedule
For the fiscal year ending August 31, 2018

<u>Proposed Budget</u>	Fund Name						Separate Funds	Debt Proceeds	Total
	PUF	PHF	LTF	GEF	ITF	STF			
Market Value 6/30/17 (\$ millions)	19,467	1,124	8,088	PEF LTF	8,595	2,146	108	848	40,376
UTIMCO Management Fee									
Dollars	19,377,327	1,118,822	8,050,743		8,555,408		0	0	37,102,301
Basis Points	10.0	10.0	10.0	0	10.0	0	0	0	9.2
Direct Expenses to the Fund, excluding UT System Direct Expenses to the Fund									
Dollars	3,473,564	25,842	28,192	2,756,805	2,492,745		0	0	8,777,148
Basis Points	1.8	0.2	0.0	3.0	2.9	0	0	0	2.2

Fiscal Year 2018

**Review of UTIMCO Services Budget and
Other Direct Costs to Funds
Excluding External Investment Manager Fees**

**The University of Texas System
Office of Finance**

Presented by:

**Terry Hull – Associate Vice Chancellor for Finance
Allen Hah – Assistant Vice Chancellor for Finance**

October 9, 2017

Based on UTIMCO Board approval on September 11, 2017

Fiscal Year 2018
Review of UTIMCO Services Budget and
Other Direct Costs to Funds
Excluding External Investment Manager Fees

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Executive Summary

This report reviews the UTIMCO Services budget and other budgeted investment management expenses (“Direct Costs to Funds”) for fiscal year 2018 that the UTIMCO Board approved on September 11, 2017 and the U. T. System Board of Regents will consider at its November 8-9, 2017 meeting. The “UTIMCO Services Budget” includes corporate expenses paid directly by UTIMCO, and the “Direct Costs to Funds” budget includes costs related to custody, consulting, corporate legal, audit, and risk measurement. The proposed budget for FY18 is:

	FY18 (\$ millions)
UTIMCO Services Budget	37.1
Direct Costs to Funds: Other Costs	8.8
Total Budgeted Costs (excludes external manager fees)	<u>\$ 45.9</u>

The Total Budgeted Costs excludes external manager fees that are paid by the funds and netted from asset values as well as external investment manager fees paid directly by UTIMCO. The total investment costs for UTIMCO managed funds, comprising Investment Manager Fees paid directly and fees netted against asset values, are reviewed in a separate report.

Highlights:

- **Total Budgeted Costs for FY18:** The FY18 budget is \$45.9 million, an 11.8% increase from the FY17 budget.
- **Total Forecast Costs for FY17:** Total costs for FY17 are forecast at \$41.1 million, which is in-line with the FY17 budget.
- **The UTIMCO Services Budget:** The FY18 budget includes \$37.1 million for the “operating” budget of UTIMCO, a 14.9% increase from the FY17 budget. The increase is mostly attributable to the increased employee-related expenses due to salary adjustments and 6 new FTEs; higher expenses due to the relocation to larger office space; and reclassification of an online analytics tool from the Direct Costs to Funds to the Services Budget.
- **The Total Direct Costs to Funds budget:** The FY18 budget of \$8.8 million for direct fund costs is up a modest 0.3% from the FY17 budget.
- **Personnel-Related Expenses:** Employee-related expenses represent approximately 73% of the UTIMCO Services Budget. Aggregate salaries including performance compensation for FY18 are budgeted to be up 10.8% from the FY17 budget due primarily the increased compensation for staff and 6 new FTEs.
- **UTIMCO Reserves:** There are no cash reserves available to be distributed at fiscal year-end 2017 due to the need for funds for the build-out of UTIMCO space in the U.T. System building.

Budget Analysis and Trends

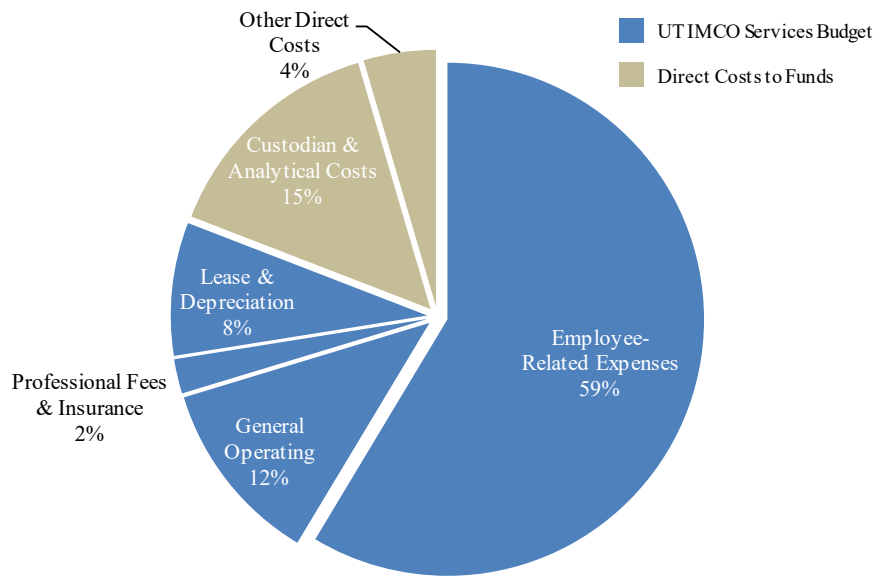
UTIMCO proposes Total Budgeted Costs for FY18 of \$45.9 million. Table 1 shows the Total Budgeted Costs (Direct Costs to Funds and UTIMCO Services Budget) as a percent of average Assets Under Management (“AUM”) since FY13.

Table 1: Total Budgeted Costs Trend FY13-FY18
(\$ millions)

	FY13	FY14	FY15	FY16	Forecast FY17	Budget FY18
Average Total AUM¹	28,886	32,363	34,957	36,016	39,034	41,741
% Change in AUM	6%	12%	8%	3%	8%	7%
Direct Costs to Funds	7.2	7.1	8.1	8.2	8.0	8.8
% Change in Direct Costs to Funds	-2.2%	-1.6%	14.0%	1.7%	-2.7%	10.2%
Direct Costs to Funds % of AUM	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%
UTIMCO Services Budget	26.2	24.1	25.0	26.8	33.1	37.1
% Change in UTIMCO Services Budget	64.6%	-8.2%	3.6%	7.6%	23.3%	12.1%
UTIMCO Services Budget % of AUM	0.09%	0.07%	0.07%	0.07%	0.08%	0.09%
Total Budgeted Costs	33.4	31.2	33.0	35.0	41.1	45.9
% Change in Total Budgeted Costs	43.5%	-6.8%	6.0%	6.1%	17.2%	11.8%
Total Budgeted Costs % of AUM	0.12%	0.10%	0.09%	0.10%	0.11%	0.11%

¹ FY18 Average Total AUM assumes projected FY17 balances based on moderate returns, projected West Texas Land and gift income, and projected distributions.

FY 18 Total Budgeted Costs
\$45.9 million



The UTIMCO Services Budget (blue shade in the pie chart above) represents 81% of the total budget, with employee-related expenses being the largest component at 59%. Direct Costs to Funds include Custodian & Analytical Costs (15%) and Other Direct Costs (4%).

Management fees and performance fees paid to external investment managers, which are either paid directly by UTIMCO or netted against asset values by the external managers, are not included in these amounts. UTIMCO retains external managers for approximately 92% of the AUM, with UTIMCO staff directly managing approximately 8% of assets as well as an internal derivatives portfolio.

Table 2 compares the Total Budgeted Costs for FY17 and FY18. Refer to Exhibits A and B for a detailed budget comparison for FY17-FY18 and budget trend for FY13-FY18.

Table 2: FY17 Forecast and FY18 Budget Overview
(\$ millions)

	FY17 Forecast				FY18 Budget			
	\$ Budget	\$ Projected	\$ Change vs FY17 Budget	% Change vs FY17 Budget	\$ Budget	\$ Change vs FY17 Projected	% Change vs FY17 Projected	% Change vs FY17 Budget
UTIMCO Services	32.3	33.1	0.8	2.5%	37.1	4.0	12.1%	14.9%
Direct Costs to Funds	8.7	8.0	-0.7	-8.9%	8.8	0.8	10.2%	0.3%
Total Budgeted Costs	41.0	41.1	0.1	0.2%	45.9	4.8	11.8%	11.8%

UTIMCO Services Budget

For FY18, total personnel-related expenses including employee benefits account for 73% of the UTIMCO Services budget (or 59% of Total Budgeted Costs). Trends in staffing and total compensation in relation to assets under management are shown in Table 3 and Table 3a below. Table 3a adjusts for a one-time deferral of incentive compensation, decreasing FY13 performance compensation by \$3.6 million and increasing FY12 performance compensation by the same amount. Highlights from these tables include:

- Staffing increased 13 positions during FY 2017 and is budgeted to increase by an additional 6 positions in FY 2018 to a total of budgeted 89 positions for FY 2018.
- With the additional staffing, average AUM per employee has decreased from \$515 million in FY 2016 to approximately \$470 million for both FY 2017 and FY 2018.
- Total Compensation has grown by 6.7% annually from FY 2013 to FY 2017. Total Compensation for FY 2018 is budgeted 11.6% above FY 2017 projected levels, which would equate to a 7.6% growth rate on an average annual basis over the last five years.
- Since FY 2013, Total Compensation per employee has decreased 2.5% (annualized) from \$284k to \$257k forecast in FY 2017 (after adjusting for one-time deferral of incentive compensation).

Table 3: UTIMCO Compensation and Headcount FY13-FY18

	FY13	FY14	FY15	FY16	Forecast FY17	% Change Since FY13 (annual)	Budget FY18	% Change From FY17
Employees (as of year end)	58	64	72	70	83	9.4%	89	7.2%
Average Total AUM (\$ millions)	28,886	32,363	34,957	36,016	39,034	7.8%	41,741	6.9%
Average AUM/Employee (\$ millions)	498	506	486	515	470	-1.4%	469	-0.3%
Salaries (\$ millions)	7.6	8.7	9.4	10.4	10.9	9.4%	14.5	33.2%
Performance Compensation (\$ millions)	12.5	9.4	8.5	7.2	10.4	-4.4%	9.3	-10.8%
Total Compensation (\$ millions)	20.1	18.1	17.9	17.6	21.3	1.5%	23.8	11.6%
Total Compensation per Employee (\$)	346,573	283,135	248,920	251,857	256,789	-7.2%	267,303	4.1%
Perf. Comp. as % of Salaries	165%	109%	91%	70%	96%		64%	
Perf. Comp. as % of Total Compensation	62%	52%	48%	41%	49%		39%	

Table 3a: UTIMCO Compensation and Headcount FY13-FY18

(Adjusted for Extraordinary Event Impacting FY12 – FY13)

	FY13	FY14	FY15	FY16	Forecast FY17	% Change Since FY13 (annual)	Budget FY18	% Change From FY17
Employees (as of year end)	58	64	72	70	83	9.4%	89	7.2%
Average Total AUM (\$ millions)	28,886	32,363	34,957	36,016	39,034	7.8%	41,741	6.9%
Average AUM/Employee (\$ millions)	498	506	486	515	470	-1.4%	469	-0.3%
Salaries (\$)	7.6	8.7	9.4	10.4	10.9	9.4%	14.5	33.2%
Performance Compensation (\$)	8.9	9.4	8.5	7.2	10.4	4.1%	9.3	-10.8%
Total Compensation (\$)	16.5	18.1	17.9	17.6	21.3	6.7%	23.8	11.6%
Total Compensation per Employee (\$)	283,947	283,135	248,920	251,857	256,789	-2.5%	267,303	4.1%
Perf. Comp. as % of Salaries	117%	109%	91%	70%	96%		64%	
Perf. Comp. as % of Total Compensation	54%	52%	48%	41%	49%		39%	

Staffing: The FY17 budget was based on staffing of 85 employees; actual FY17 staffing is forecast at 83 employees due to unfilled and vacated positions. UTIMCO plans to add six additional positions for FY18 including new positions of Deputy CIO and Chief of Staff.

Personnel-Related Expenses:

- **Salaries** are forecast to be \$10.9 million in FY17, which is 11.5% below the FY17 budget of \$12.4 million due to unfilled and vacated positions. Salaries are budgeted at \$14.5 million in FY18, an increase of 17.9% compared to the FY17 budget. Most of the increase comes from an 8.5% increase for existing staff, excluding promotions, and 6 new employees (a Deputy CIO, Chief of Staff, Associate-Risk Management, Data Management, Help Desk, and Investment Team Coordinator). Budgeted salaries for FY18 are based on 89 positions, up from 83 employees as of August 31, 2017.

- **Performance Compensation** for FY17 is projected to be \$1.3 million over budget, or 15.6%, higher than budgeted due to the departure of the prior CEO. Performance Compensation is typically budgeted at 70% of maximum compensation
- **Employee Benefits** are budgeted to increase 20.3% from \$1.9 million in FY17 to \$2.3 million in FY18, reflecting increases in 403(b) contributions and employee insurance costs.

Investment staff compensation increases in recent years are a result of a peer benchmarking study conducted in 2013, in 2015, and again in 2017 that detailed UTIMCO's staff compensation to be lower than the compensation plans' objective of paying staff at median levels compared to peers. The FY18 budget includes increases to meet these objectives as a result of the 2017 peer study.

Lease Expenses: Lease expenses are budgeted to increase 18% compared to FY17 forecasted amounts, due primarily to UTIMCO leasing 75% more space to accommodate future growth. UTIMCO has leased 56,825sf in the UT System (UTS) building compared to 32,480sf currently leased in Frost Tower. UTIMCO is scheduled to move into the UTS building in February 2018. Although the move to the UTS building will result in significant savings to UTIMCO on a per square foot basis due to both reduced base rent rates (\$35/sf currently in Frost vs. \$34/sf in UTS building) and property tax savings (\$26/sf operating expenses currently in Frost vs. \$11/sf in UTS building), overall lease expenses will be higher due to the additional space leased by UTIMCO. Lease expenses increased 76% in FY17 compared to FY16 due primarily to higher property lease expenses associated with the expiration of the prior lease. The city of Austin has seen tremendous growth since UTIMCO's original lease was executed, and rent rates have increased accordingly.

Table 4: UTIMCO Lease Expenses FY13-FY18

	FY13	FY14	FY15	FY16	Forecast FY17	Budget FY18
Property Lease	\$518,373	\$518,373	\$518,373	\$518,373	\$1,136,800	\$1,695,429
Operating Lease	554,516	606,703	632,036	661,948	860,630	812,982
Parking Expenses	124,666	146,272	149,819	154,348	168,571	191,475
Other Expenses	7,966	8,102	7,050	9,497	12,918	12,000
Amortization (Deferred Rent Credit)	(170,344)	(170,344)	(170,344)	(170,344)	(108,267)	(262,644)
Total Lease Expenses (net)	\$1,035,177	\$1,109,106	\$1,136,934	\$1,173,822	\$2,070,652	\$2,449,242

Other General Operating Expenses (non-employee) including depreciation, office expenses, insurance, travel and accounting fees are forecast to be \$6.8 million, which is \$0.9 million or 15% higher than the FY17 budget of \$5.8 million. The increase is due to depreciation expense related to the write-off of the internally developed software. Depreciation expense in total was \$2.5 million versus the \$1.2 million budgeted.

Excluding depreciation, general operating expenses for FY18 are budgeted to increase \$1.8 million, or 40.8%, from \$4.3 million to \$6.1 million. The increase is primarily attributable to:

- reclassification of \$0.4 million of an online analytics tool from the Direct Costs to Funds budget to the UTIMCO Services Budget as the tool is being utilized differently than in prior years;
- increase of \$0.3 million for travel expense due to the addition of new employees and more international travel.
- increase of \$0.5 million for contract services (movers and the relocation of the IT server room) and maintenance agreements for new IT equipment purchases, both of which are primarily related to the move to the UTS building;
- addition of \$0.3 million for new subscriptions; and

- increase of miscellaneous expenses (computer services, online data services, hardware, printing) due to the addition of users.

Direct Costs to Funds

Direct Costs to Funds for FY18 are budgeted at \$8.8 million, a 0.3% increase from FY17 budget.

Custodian and Performance Measurement Costs: Custodian and performance measurement costs for FY17 are forecast at \$5.7 million, 3.7% lower than budgeted, and are budgeted 11.4% higher for FY18 at \$6.4 million due to appreciation in asset base and additional services.

Consultant Fees, Legal Fees, Auditing, Risk Measurement, Analytical Tools and Other: These expenses are budgeted \$0.4 million lower at \$2.4 million for FY18, almost entirely due to the reclassification of an analytical tool expense to the UTIMCO Services budget.

UTIMCO Capital Expenditures

The trend for Capital Expenditures for FY13-FY18 is summarized in Table 5 below. Capital expenditures were minimal in FY17 given the pending move to the UTS Building in FY18. For FY18, capital expenditures are budgeted at \$14.8 million, of which two-thirds or \$9.8 million is related to building out shell space in the UTS building net of a \$2,841,250 TI allowance. Total buildout costs of \$12,611,000 were included in the total UTS Building cost previously approved by the Board of Regents. The \$5 million balance of FY18 capital expenditures relates to new technology, video conferencing, furniture and fixtures required in the UTS Building, which expenditures were previously approved by the Board of Regents on August 24, 2017.

Table 5: UTIMCO Capital Expenditures FY13-FY18

	FY13	FY14	FY15	FY16	Forecast FY17	Budget FY18
Ongoing: Technology and Software Upgrades	\$89,146	\$46,623	\$107,810	\$179,345	\$56,488	\$53,000
Ongoing: Office Equipment and Fixtures	105,290	-	107,135	4,241	5,374	180,000
Expansion: Technology Initiatives / Video Conferencing	612,482	1,035,190	1,076,643	91,580	-	1,617,000
Expansion: Leasehold Buildout *	-	-	150,085	-	-	9,769,750
Expansion: Furniture and Fixtures	-	-	150,085	-	-	3,150,000
Total Capital Expenditures (net)	\$806,918	\$1,081,813	\$1,591,758	\$275,166	\$61,862	\$14,769,750

* FY2018 Budget reflects buildout costs net of a \$2,841,250 TI allowance. Total buildout costs of \$12,611,000 were included in the total project cost of the U. T. System Building previously approved by the Board of Regents.

EXHIBIT A

Total Budgeted Costs FY17-FY18

	FY17		Change from FY17 Budget		FY18		Change from FY17 Forecast		Change from FY17 Budget
	Budget	Forecast	\$	%	Budget	\$	%	%	
UTIMCO Services									
Salaries	12,273,516	10,868,000	-1,405,516	-11.5%	14,474,000	3,606,000	33.2%	17.9%	
Performance Compensation + Earnings	9,006,036	10,445,529	1,439,493	16.0%	9,316,000	-1,129,529	-10.8%	3.4%	
Total Compensation	21,279,552	21,313,528	33,976	0.2%	23,790,000	2,476,472	11.6%	11.8%	
Total Payroll taxes	835,764	786,847	-48,917	-5.9%	846,369	59,522	7.6%	1.3%	
403(b) Contributions	937,548	749,856	-187,692	-20.0%	964,036	214,181	28.6%	2.8%	
Insurance & Cell Phone	1,226,988	1,123,757	-103,231	-8.4%	1,289,582	165,825	14.8%	5.1%	
Employee Benefits	2,164,536	1,873,613	-290,923	-13.4%	2,253,619	380,006	20.3%	4.1%	
Recruiting and Relocation Expenses	132,000	163,109	31,109	23.6%	101,000	-62,109	-38.1%	-23.5%	
Employee Education	78,672	87,272	8,600	10.9%	151,747	64,475	73.9%	92.9%	
Other Employee Related Expenses	210,672	250,380	39,708	18.8%	252,747	2,367	0.9%	20.0%	
Total Employee Related Expenses	24,490,524	24,224,368	-266,156	-1.1%	27,142,735	2,918,366	12.0%	10.8%	
On-Line Data & Contract Services	2,175,324	2,081,817	-93,507	-4.3%	3,243,335	1,161,518	55.8%	49.1%	
Travel & Meetings, Including BOD	1,057,704	736,976	-320,728	-30.3%	1,083,076	346,100	47.0%	2.4%	
Phone and Telecommunications	40,440	40,406	-34	-0.1%	44,412	4,006	9.9%	9.8%	
Computer & Office Supplies	59,664	56,959	-2,705	-4.5%	99,948	42,989	75.5%	67.5%	
Repairs/Maintenance	341,964	264,652	-77,312	-22.6%	584,586	319,934	120.9%	70.9%	
Other Office Expenses	121,972	128,104	6,132	5.0%	158,172	30,068	23.5%	29.7%	
Total Office Expense	564,040	490,121	-73,919	-13.1%	887,118	396,997	81.0%	57.3%	
Total Lease Expense	1,931,820	2,070,652	138,832	7.2%	2,449,242	378,590	18.3%	26.8%	
Board, Comp., & Hiring Consultants	466,500	583,382	116,882	25.1%	429,000	-154,382	-26.5%	-8.0%	
Legal Expenses	165,000	204,696	39,696	24.1%	200,004	-4,692	-2.3%	21.2%	
Accounting fees	60,600	56,350	-4,250	-7.0%	60,600	4,250	7.5%	0.0%	
Total Professional Fees	692,100	844,429	152,329	22.0%	689,604	-154,825	-18.3%	-0.4%	
Total Insurance	212,880	187,927	-24,953	-11.7%	207,192	19,265	10.3%	-2.7%	
Depreciation of Equipment	1,170,900	2,453,239	1,282,339	109.5%	1,400,000	-1,053,239	-42.9%	19.6%	
Total Non-Employee Related Expenses	7,804,768	8,865,160	1,060,392	13.6%	9,959,567	1,094,407	12.3%	27.6%	
Total UTIMCO Services	32,295,292	33,089,529	794,237	2.5%	37,102,301	4,012,773	12.1%	14.9%	
Direct Costs to Funds									
Custodian Fees and Other Direct Costs	5,932,770	5,710,604	-222,166	-3.7%	6,361,445	650,841	11.4%	7.2%	
Analytical Tools	423,922	404,560	-19,362	-4.6%	0	-404,560	-100.0%	-100.0%	
Risk Measurement	323,000	291,501	-31,499	-9.8%	324,000	32,499	11.1%	0.3%	
Custodian and Analytical Costs	6,679,692	6,406,666	-273,026	-4.1%	6,685,445	278,779	4.4%	0.1%	
Consultant Fees	566,125	353,750	-212,375	-37.5%	527,500	173,750	49.1%	-6.8%	
Auditing	770,000	770,000	0	0.0%	790,000	20,000	2.6%	2.6%	
Legal Fees	250,000	82,492	-167,508	-67.0%	250,000	167,508	203.1%	0.0%	
Background Searches & Other	480,836	351,313	-129,523	-26.9%	524,203	172,890	49.2%	9.0%	
Other Direct Costs Total	2,066,961	1,557,555	-509,406	-24.6%	2,091,703	534,148	34.3%	1.2%	
Total Direct Costs to Funds	8,746,653	7,964,221	-782,432	-8.9%	8,777,148	812,927	10.2%	0.3%	
Total Budgeted Costs	41,041,945	41,053,749	11,804	0.0%	45,879,449	4,825,700	11.8%	11.8%	

EXHIBIT B

Total Budgeted Costs FY13-FY18

	FY13	FY14	FY15	FY16	FY17	FY18
	Actual	Actual	Actual	Actual	Forecast	Budget
UTIMCO Services						
Salaries	7,587,688	8,670,689	9,394,865	10,394,021	10,868,000	14,474,000
Performance Compensation + Earnings	12,513,544	9,449,922	8,527,380	7,235,982	10,445,529	9,316,000
Total Compensation	20,101,232	18,120,611	17,922,244	17,630,003	21,313,528	23,790,000
Total Payroll taxes	641,091	674,824	690,884	701,081	786,847	846,369
403(b) Contributions	566,262	650,111	696,658	748,756	749,856	964,036
Insurance & Cell Phone	701,259	853,864	861,002	891,694	1,123,757	1,289,582
Employee Benefits	1,267,521	1,503,975	1,557,659	1,640,450	1,873,613	2,253,619
Recruiting and Relocation Expenses	25,979	39,886	65,609	86,701	163,109	101,000
Employee Education	55,349	43,996	62,452	170,253	87,272	151,747
Other Employee-Related Expenses	81,328	83,883	128,061	256,954	250,380	252,747
Total Employee Related Expenses	22,091,173	20,383,292	20,298,848	20,228,487	24,224,368	27,142,735
On-Line Data & Contract Services	1,164,419	1,097,399	1,272,828	1,584,073	2,081,817	3,243,335
Travel & Meetings, Including BOD	536,748	531,618	706,348	669,207	736,976	1,083,076
Phone and Telecommunications	36,781	51,757	44,263	38,233	40,406	44,412
Computer & Office Supplies	50,392	41,156	57,751	53,082	56,959	99,948
Repairs/Maintenance	191,971	253,734	262,642	276,195	264,652	584,586
Other Office Expenses	92,250	114,622	110,075	153,912	128,104	158,172
Total Office Expense	371,394	461,269	474,732	521,422	490,121	887,118
Total Lease Expense	1,035,176	1,109,105	1,136,934	1,173,823	2,070,652	2,449,242
Board, Compensation, & Hiring Consultants	165,341	285,917	295,519	609,327	583,382	429,000
Legal Expenses	88,279	77,795	100,462	145,157	204,696	200,004
Accounting fees	49,268	51,934	60,045	53,520	56,350	60,600
Total Professional Fees	302,888	415,646	456,027	808,005	844,429	689,604
Total Insurance	207,103	219,163	213,576	204,428	187,927	207,192
Depreciation of Equipment	518,707	676,524	1,129,717	1,657,536	2,453,239	1,400,000
Total Non-Employee Related Expenses	4,136,434	4,510,724	5,390,160	6,618,494	8,865,160	9,959,567
Total UTIMCO Services	26,227,607	24,894,016	25,689,009	26,846,981	33,089,529	37,102,301
Direct Costs to Funds						
Custodian Fees and Other Direct Costs	4,561,845	4,796,883	5,766,874	5,686,948	5,710,604	6,361,445
Analytical Tools	390,371	395,504	395,581	412,156	404,560	0
Risk Measurement	292,000	292,000	292,000	292,000	291,501	324,000
Custodian and Analytical Costs	5,244,216	5,484,387	6,454,455	6,391,103	6,406,666	6,685,445
Consultant Fees	403,304	353,500	292,193	359,041	353,750	527,500
Auditing	465,410	526,865	718,663	789,873	770,000	790,000
Legal Fees	659,516	272,735	229,987	156,126	82,492	250,000
Background Searches & Other	406,479	427,044	357,264	489,539	351,313	524,203
Other Direct Costs Total	1,934,709	1,580,144	1,598,107	1,794,579	1,557,555	2,091,703
Total Direct Costs to Funds	7,178,925	7,064,531	8,052,562	8,185,683	7,964,221	8,777,148
Total Budgeted Costs	33,406,532	31,958,547	33,741,571	35,032,664	41,053,749	45,879,449

EXHIBIT C
UTIMCO Reserve Analysis for August 31, 2017

<u>Cash Reserves at August 31, 2017</u>		
Cash		\$ 18,724,958
Prepaid Expenses		770,000
Less: Accounts Payable (Includes incentive compensation & earnings payable)		(9,000,000)
Cash Reserves at August 31, 2017		\$ 10,494,958
FY18 Proposed Operating Budget	37,102,301	
Applicable Percentage	25%	9,275,575
FY18 Proposed Capital Expenditures	14,769,750	14,769,750
Required Cash Reserves at August 31, 2017		\$ 24,045,325
Balance Available for Distribution		\$ -
Recommended Distribution		\$ -

5. **U. T. System Board of Regents: The University of Texas/Texas A&M Investment Management Company (UTIMCO) Update**

REPORT

Mr. Britt Harris, President, Chief Executive Officer and Chief Investment Officer, will present an update on The University of Texas/Texas A&M Investment Management Company (UTIMCO) using the PowerPoint presentation set forth on the following pages.



The University of Texas Investment Management Company

UTIMCO Update

Mr. Britt Harris
President, CEO and Chief Investment Officer

U. T. System Board of Regents' Meeting
Finance and Planning Committee
November 2017



UTIMCO Report

Period Ending September 30, 2017 (Preliminary)

Endowment Funds	\$B	Return (1Yr)	Alpha (1Yr)	Peer Rank ¹
PUF	\$20.0	11.8%	2.0%	25 th percentile
PHF	\$1.2	12.1%	2.3%	
LTF	\$8.3	12.1%	2.3%	
Other	\$0.1	-	-	
TOTAL	\$29.6			
Operating Funds				
ITF	\$9.2	8.0%	2.6%	
Debt Proceeds	\$0.8	0.8%	0.4%	
STF	\$1.8	0.7%	0.2%	
TOTAL	\$11.8			
Total All Assets 9/30/2017				
Total All Assets 9/30/2017	\$41.4			
Total All Assets 9/30/2016	\$37.1			
Total All Assets 9/30/2015	\$34.4			
Budget				
2017 Actual	\$41.1			
2017 Budget	\$41.0			
Income & Distributions (\$M)				
	Projected	8/31/2017	8/31/2016	
University Lands Income	\$655	\$665	\$512	
UTIMCO Distribution	(\$887)	(\$839)	(\$773)	
Net Payout (\$M)	(\$232)	(\$174)	(\$261)	
Student Impact				
	6/30/2017	FTE	Value per	
	Endowment	Enrollment	Student	
UT System	\$26.5	174,263	\$152,069	

¹ Peer Rank as of June 30, 2017



UTIMCO: Return Comparison

UTIMCO outperformed large private endowments

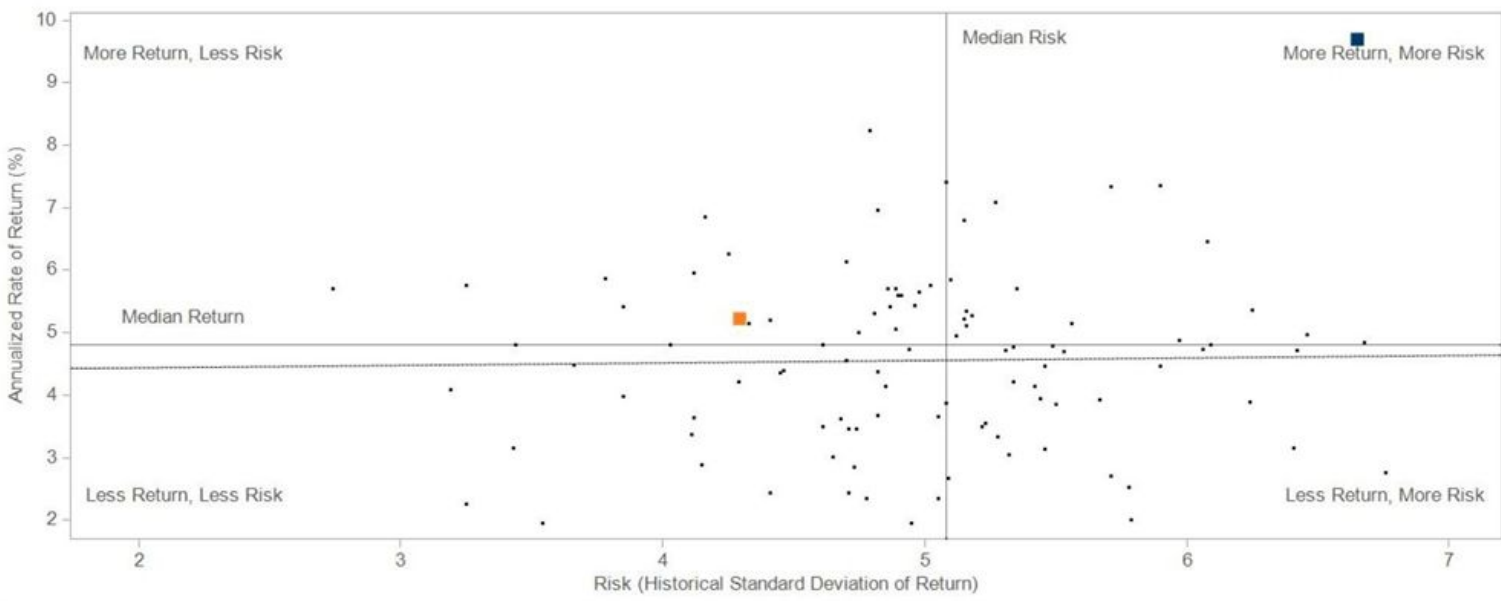
	<i>Endowment Size (\$, Bn)</i>	<i>1-Y Return</i>	<i>UTIMCO Outperformance</i>
<i>Harvard</i>	37.1	8.1%	+5.3%
<i>Yale</i>	27.2	11.3%	+2.1%
<i>Stanford</i>	24.8	13.1%	+0.3%
<i>Princeton</i>	23.8	12.5%	+0.9%
UTIMCO	29.0	13.4%	

Source: FundFire, as of June 30, 2017



Risk/Return

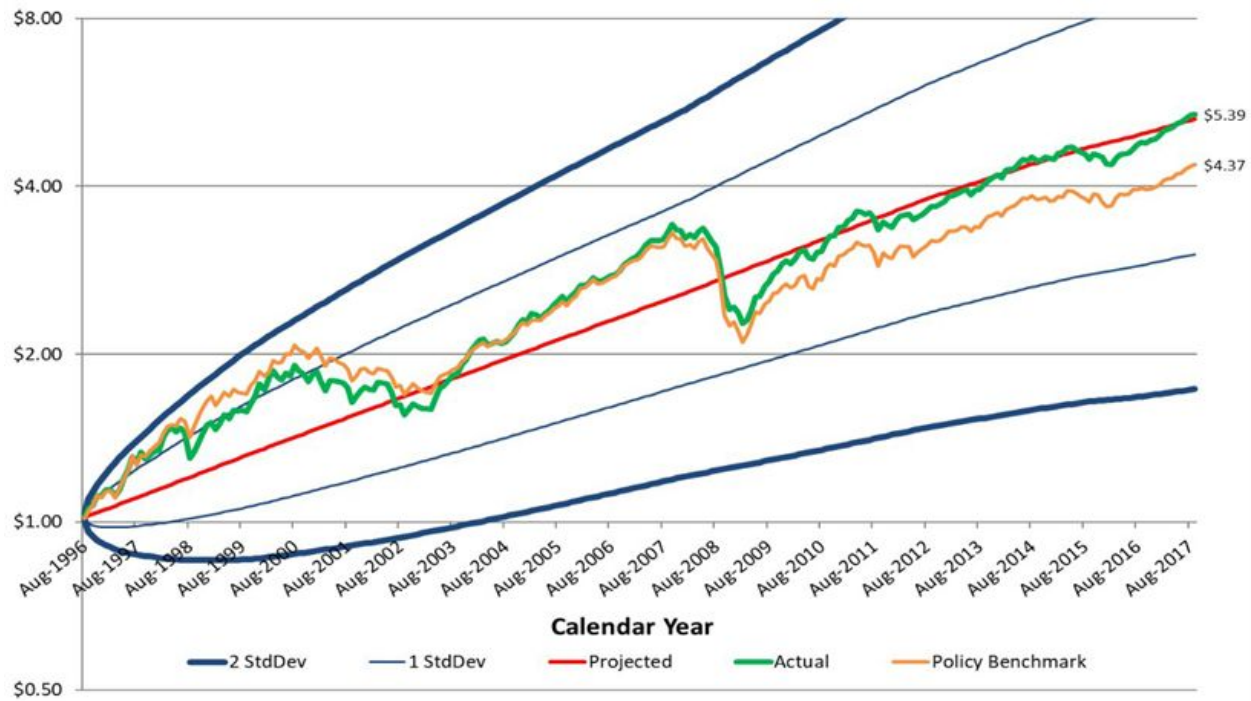
For past three years, PUF has generated more returns for less risk



	Risk Value	Risk Rank	Return Value	Return Rank
PUF TOTAL FUND	4.31	81	5.15	39
S&P 500	6.67	4	9.61	1
Median	5.08		4.80	



Projected Long-Term Return





PUF Historical Performance

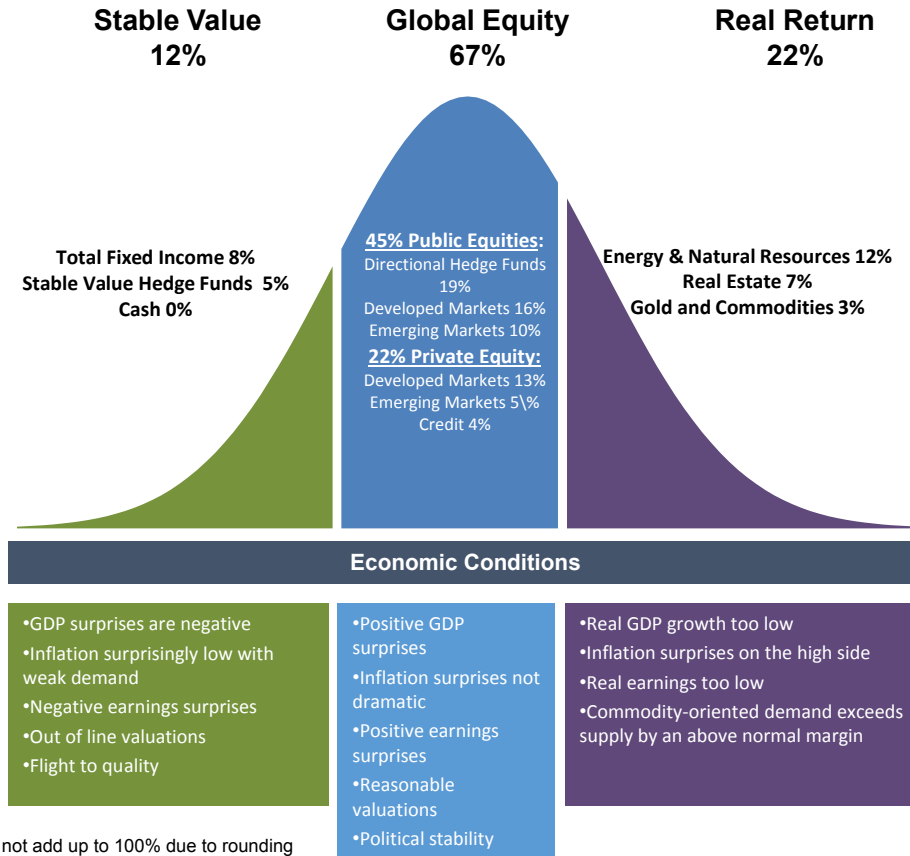
	AUM (\$, Bn)					
	<i>Start</i>	<i>End</i>	<i>Change</i>	<i>Return</i>	<i>Volatility</i>	<i>Sharpe Ratio</i>
<i>1996 - Present</i>	5.3	20.0	+14.7	7.8%	9.4%	0.6
<i>Q2 2009 - Present</i>	8.3	20.0	+11.7	10.4%	6.8%	1.5

AUM = Assets Under Management

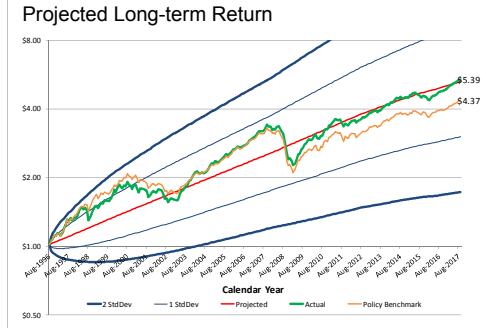
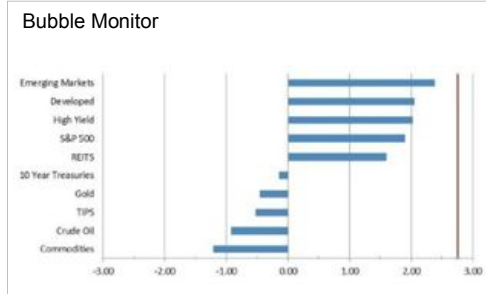


Review of Current Environment

As of August 31, 2017



* Percentages may not add up to 100% due to rounding





Global Markets, Risk Premiums and Diversification

Periods Ending June 30, 2017

	Market Returns					Std Dev		Max Drawdown	Corr vs. S&P500	Sharpe Ratio	
	QTR	YTD	1Y	5Y	10Y	1Y	10Y			5Y	10Y
United States											
CPI	0.47	1.46	1.63	1.31	1.63	0.71	1.76	4.43	0.31		
Cash	0.20	0.31	0.49	0.17	0.58	0.07	1.11	0.01	(0.59)		
Long Treasury (Duration)	3.96	5.41	(7.22)	2.76	7.34	9.67	12.22	15.94	(0.39)	0.25	0.55
Credit (IG)	2.61	4.41	(2.19)	0.15	3.17	5.69	6.49	10.07	(0.08)	(0.00)	0.40
High Yield (Default)	3.19	6.46	11.89	7.13	7.75	4.07	9.62	33.37	0.74	1.21	0.75
US Dollar Index	(4.71)	(6.44)	(0.54)	3.22	1.56	6.53	10.27	17.13	(0.30)	0.46	0.10
S&P 500	3.09	9.34	17.90	14.63	7.18	6.09	17.40	50.95	1.00	1.51	0.38
U.S. Small Cap	3.02	8.93	18.51	14.58	7.26	6.59	17.98	51.20	1.00	1.47	0.37
Private Equity	1.52	3.22	7.57	11.56	9.12	5.10	11.79	23.84	0.75	2.30	0.72
Size	0.38	(1.19)	5.83	(0.22)	1.62	9.32	5.85	14.99	0.05	(0.05)	0.18
Value	(4.44)	(11.61)	4.29	1.02	(1.83)	12.88	8.72	24.71	0.45	0.10	(0.28)
Momentum	1.83	(1.58)	(11.66)	0.50	(1.72)	5.93	23.09	57.53	0.16	0.03	(0.10)
Non-US Equity											
EAFE Developed (USD)	6.12	13.81	20.27	8.69	1.03	7.77	19.99	56.68	0.93	0.73	0.02
Emerging Markets (USD)	6.27	18.43	23.75	3.96	1.91	9.03	18.84	61.59	0.75	0.26	0.07
Global Equity (USD)	4.27	11.48	18.78	10.54	3.71	5.34	18.05	54.92	0.97	1.04	0.17
Europe (USD)	7.37	15.36	21.11	8.82	0.62	9.78	22.80	59.29	0.92	0.67	0.00
Europe (Local)	1.79	7.91	20.22	11.57	2.65	7.84	17.48	50.20	0.94	1.09	0.12
Japan (USD)	5.23	10.11	19.58	9.86	1.42	7.57	14.82	46.23	0.87	0.77	0.06
Diversifiers (Typical)											
Hedge Funds	0.62	3.01	6.28	3.83	0.85	1.75	7.47	22.20	0.72	1.12	0.04
Real Estate (Private)	1.52	3.22	7.57	11.25	4.69	5.10	16.49	42.48	0.56	2.23	0.25
REITS	1.65	2.66	(1.82)	9.38	5.94	11.16	26.85	67.64	0.73	0.67	0.20
TIPS	(0.40)	0.85	(0.63)	0.27	4.27	2.81	6.51	12.22	(0.11)	0.02	0.57
Infrastructure	(6.35)	(2.66)	0.40	1.77	5.74	10.34	22.84	48.51	0.65	0.09	0.23
Diversifiers (Other)											
Commodities	(3.00)	(5.26)	(6.50)	(9.25)	(6.49)	7.54	24.99	67.02	0.37	(0.76)	(0.28)
Natural Resources	(1.43)	2.88	(1.85)	(2.48)	(2.77)	6.19	24.03	54.23	0.53	(0.23)	(0.14)
Oil	(9.01)	(14.30)	(4.74)	(11.53)	(4.20)	23.49	41.45	75.99	0.10	(0.40)	(0.12)
Energy Equipment & Services	(15.21)	(20.12)	(8.15)	(4.22)	(7.97)	15.74	37.79	67.86	0.87	(0.21)	(0.23)
Mining	(3.52)	4.42	16.04	(6.32)	(4.31)	22.30	31.60	75.11	0.47	(0.23)	(0.15)
Gold	(0.61)	8.20	(6.07)	(4.92)	6.69	12.32	20.12	41.88	(0.17)	(0.32)	0.30



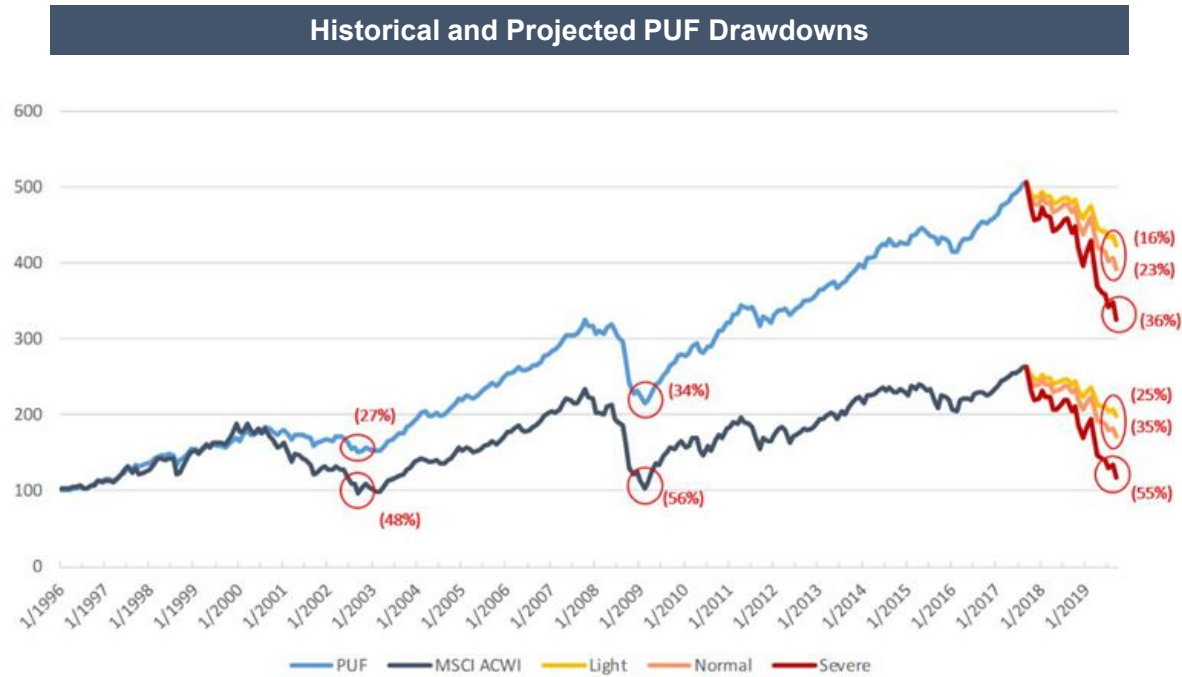
Long-Term Projected Nominal Returns

External Research Return Assumptions									
	GMO	Black-rock	Bridge-water	JPM	UBS	PIMCO	Average ex. UTIMCO	UTIMCO	Average w/ UTIMCO
MCC ex. FI									
DCE	0.6	6.3	2.7	6.8	8.2	4.9	4.9	6.0	5.1
EM	6.0	5.7	7.8	9.3	10.0	7.3	7.7	6.5	7.5
Total Public Equity	2.5	6.1	4.5	7.7	8.9	5.8	5.9	6.2	5.9
RE	-	-	-	-	-	-	-	-	-
NR Equities	-	-	-	-	-	-	-	-	-
Gold/Commodities	-	3.3	5.9	3.8	6.4	2.2	4.3	-	4.3
Total Public Real Assets	-	-	-	-	-	-	-	-	-
Total MCC ex. FI	-	-	-	-	-	-	-	-	-
Equity Diversifiers									
Hedge Funds	-	3.6	-	3.5	6.2	-	4.4	2.2	3.9
Fixed Income	0.9	3.0	2.7	3.0	3.9	3.0	2.8	3.0	2.8
Private Credit	-	4.7	4.6	5.8	5.6	4.1	5.0	7.5	5.4
Total Equity Diversifiers	-	3.6	-	3.6	5.7	-	4.1	2.8	3.8
Privates ex. Credit									
DCE ex. VC	-	6.6	7.4	8.0	11.8	-	8.5	9.5	8.7
VC	-	-	-	-	-	-	-	9.5	-
RE	-	4.1	6.1	5.5	8.5	5.7	6.0	9.5	6.6
NR	-	-	-	-	-	-	-	7.0	-
EM	-	-	-	-	-	-	-	9.0	-
Total Privates ex. Credit	-	-	-	-	-	-	-	9.3	-

Risk Premiums			
Asset Class	Expected Return	Expected Risk	Sharpe Ratio
CPI	2.0	-	-
Cash	2.0	0.3	-
US Bonds	2.7	4.5	0.2
Non-US Bonds	2.2	6.7	0.0
EM Debt	4.4	9.5	0.3
High Yield	5.5	10.7	0.3
US Equities	4.5	17.6	0.1
Non US Equities	5.4	18.5	0.2
EM Equities	7.5	23.9	0.2
Private Equity	8.7	23.7	0.3
Hedge Funds	3.9	6.7	0.3
Real Estate	6.6	15.8	0.3
Commodities	4.3	18.9	0.1



Next Recession/Bear Market



We estimate that the endowment beta is 0.65 to public equity and that the next recession/bear market will be accompanied by a 24 month drawdown (average length of bear market) with one of three levels of intensity:

- Light – Global Equity: (25%); Endowment: (16%)
- Normal – Global Equity: (35%); Endowment (23%)
- Severe – Global Equity (55%); Endowment (36%)