



TABLE OF CONTENTS FOR FINANCE AND PLANNING COMMITTEE

Committee Meeting: 8/19/2020

Board Meeting: 8/20/2020
Austin, Texas

R. Steven Hicks, Chairman
David J. Beck
Jodie Lee Jiles
Janiece Longoria
Kelcy L. Warren
Rad Weaver

	Committee Meeting	Board Meeting	Page
Convene	<i>9:00 a.m.</i> <i>Chairman Hicks</i>		
1. U. T. System Board of Regents: Discussion and appropriate action regarding Consent Agenda items, if any, assigned for Committee consideration	<i>9:00 a.m.</i> Discussion	Action	34
2. U. T. System: Financial Status Presentation and Monthly Financial Report	<i>9:05 a.m.</i> Report/Discussion <i>Dr. Kelley</i>	Not on Agenda	35
3. U. T. System Board of Regents: Approval of annual distributions from the Permanent University Fund, the Permanent Health Fund, the Long Term Fund, and the Intermediate Term Fund	<i>9:10 a.m.</i> Action <i>Dr. Kelley</i>	Action	62
4. U. T. System Board of Regents: Equipment financing authorization for Fiscal Year 2021 and resolution regarding parity debt	<i>9:12 a.m.</i> Action <i>Dr. Kelley</i>	Action	65
5. U. T. System Board of Regents: Adoption of a Resolution authorizing the issuance, sale, and delivery of Permanent University Fund Bonds and authorization to complete all related transactions	<i>9:14 a.m.</i> Action <i>Dr. Kelley</i>	Action	68
6. U. T. System Board of Regents: Adoption of a Supplemental Resolution authorizing the issuance, sale, and delivery of Revenue Financing System Bonds and authorization to complete all related transactions	<i>9:16 a.m.</i> Action <i>Dr. Kelley</i>	Action	70

	Committee Meeting	Board Meeting	Page
7. U. T. System Board of Regents: Adoption of resolutions authorizing certain bond enhancement agreements for Revenue Financing System debt and Permanent University Fund debt, including ratification of U. T. System Interest Rate Swap Policy (Regents' Rule 70202)	9:18 a.m. Action <i>Dr. Kelley</i>	Action	72
8. U. T. System Board of Regents: The University of Texas/Texas A&M Investment Management Company (UTIMCO) Update	9:20 a.m. Report/Discussion <i>Mr. Britt Harris</i>	Not on Agenda	80
9. U. T. System Board of Regents: Approval of revisions to the amended and restated University of Texas/Texas A&M Investment Management Company (UTIMCO) Compensation Program	9:25 a.m. Action <i>Dr. Kelley</i>	Action	81
10. U. T. System Board of Regents: Approval of the Annual Budget for Fiscal Year 2021, including the capital expenditures budget and other external direct charges to the Funds, and the Annual Fee and Allocation Schedule for The University of Texas/Texas A&M Investment Management Company (UTIMCO)	9:35 a.m. Action <i>Mr. Britt Harris</i> <i>Dr. Kelley</i>	Action	113
Adjourn	9:45 a.m.		

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 3 - 6](#).

2. U. T. System: Financial Status Presentation and Monthly Financial Report

Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, will discuss the Financial Status Presentation, the highlights of which are set forth in the PowerPoint on the following pages and the May Monthly Financial Report, which follows the PowerPoint. The monthly financial report represents the consolidated and individual operating detail of the U. T. institutions.

U. T. System

*Fiscal Year-to-Date Actuals through May 2020
and
Budget to Actual Analysis*

Dr. Scott Kelley
Executive Vice Chancellor for Business Affairs

U. T. System Board of Regents Meeting
Finance and Planning Committee
August 2020

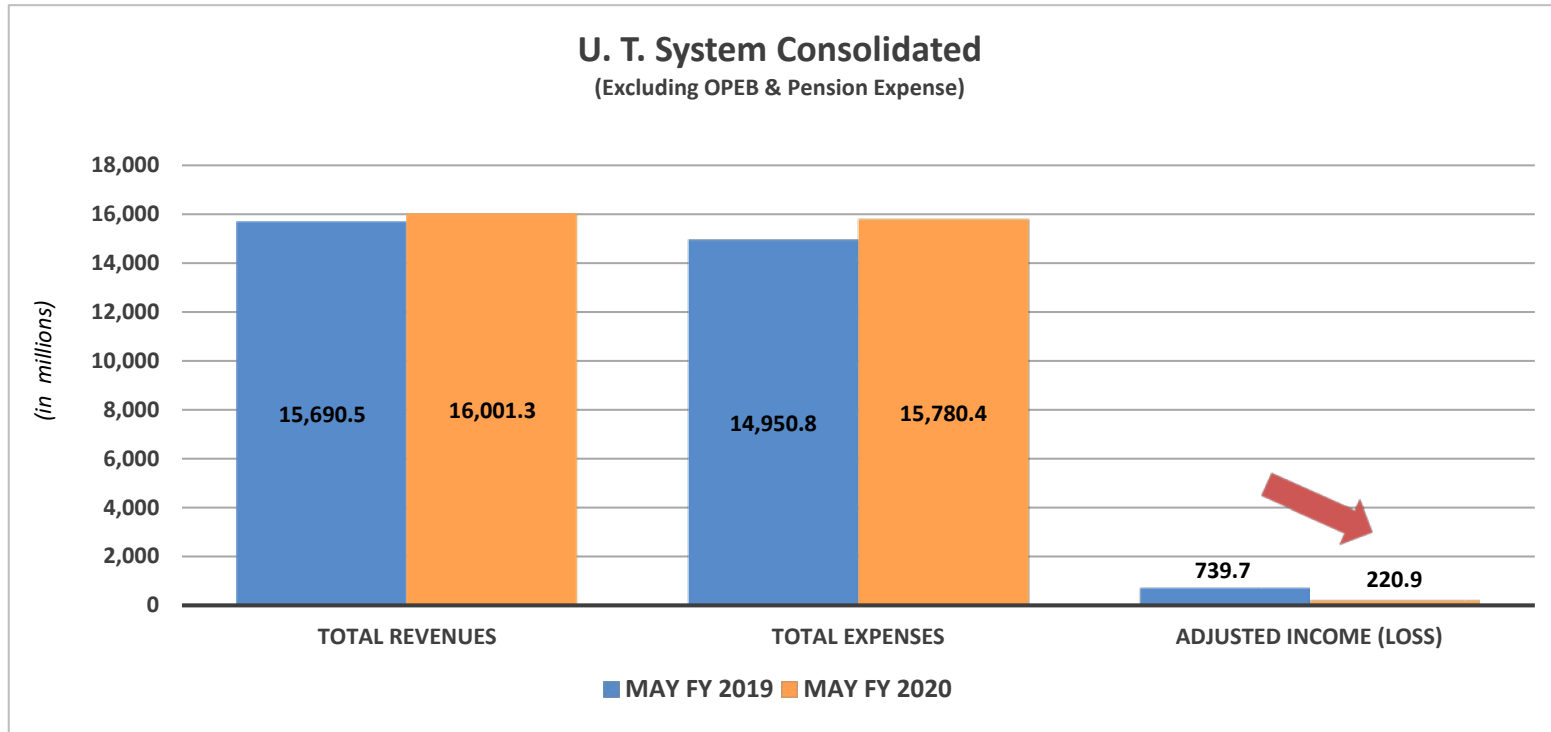


THE UNIVERSITY of TEXAS SYSTEM
FOURTEEN INSTITUTIONS. UNLIMITED POSSIBILITIES.

WWW.UTSYSTEM.EDU

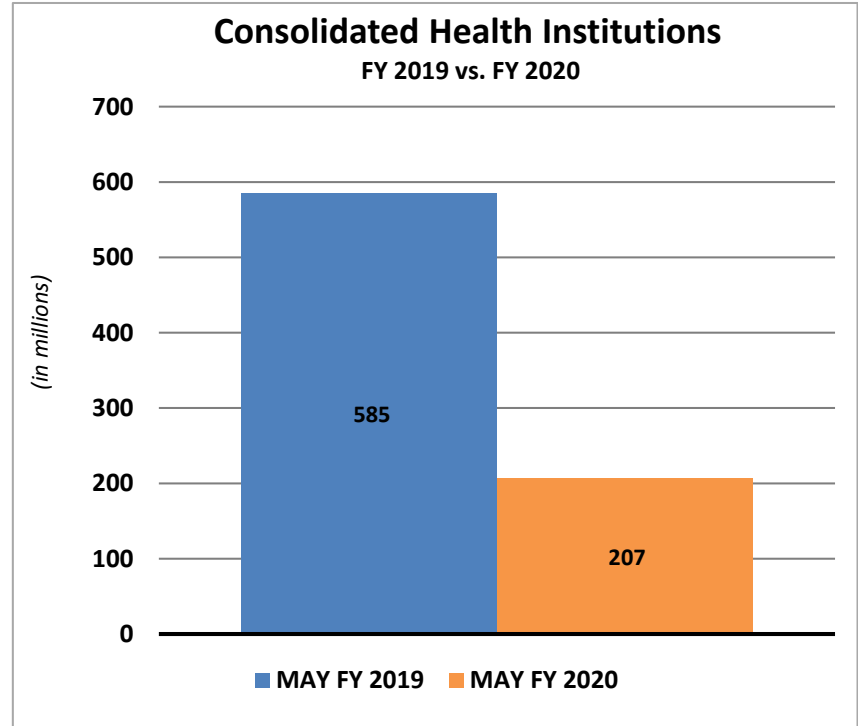
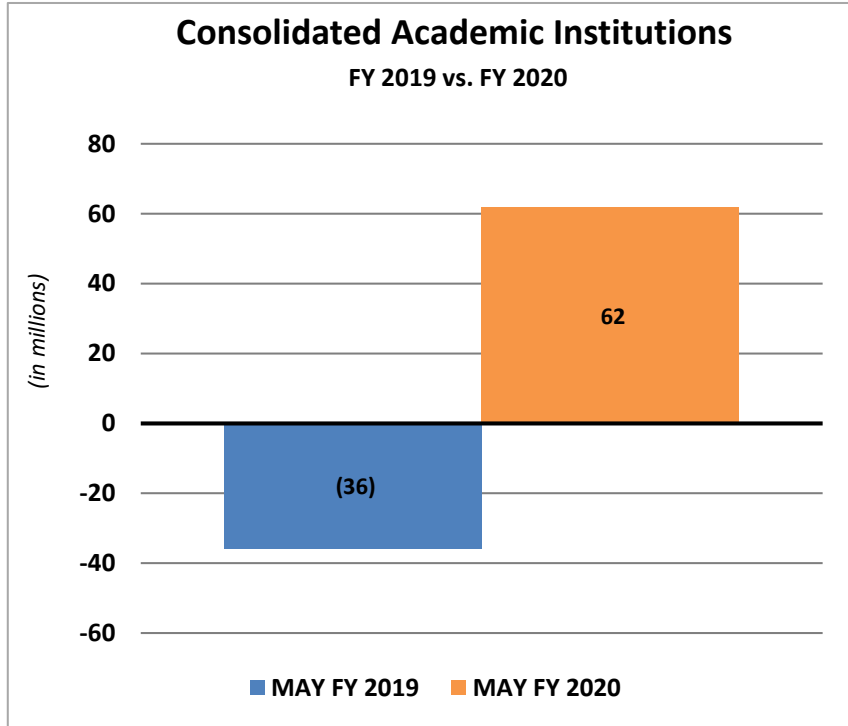
U. T. System Consolidated Landscape

For the Period Ending May 31, 2020

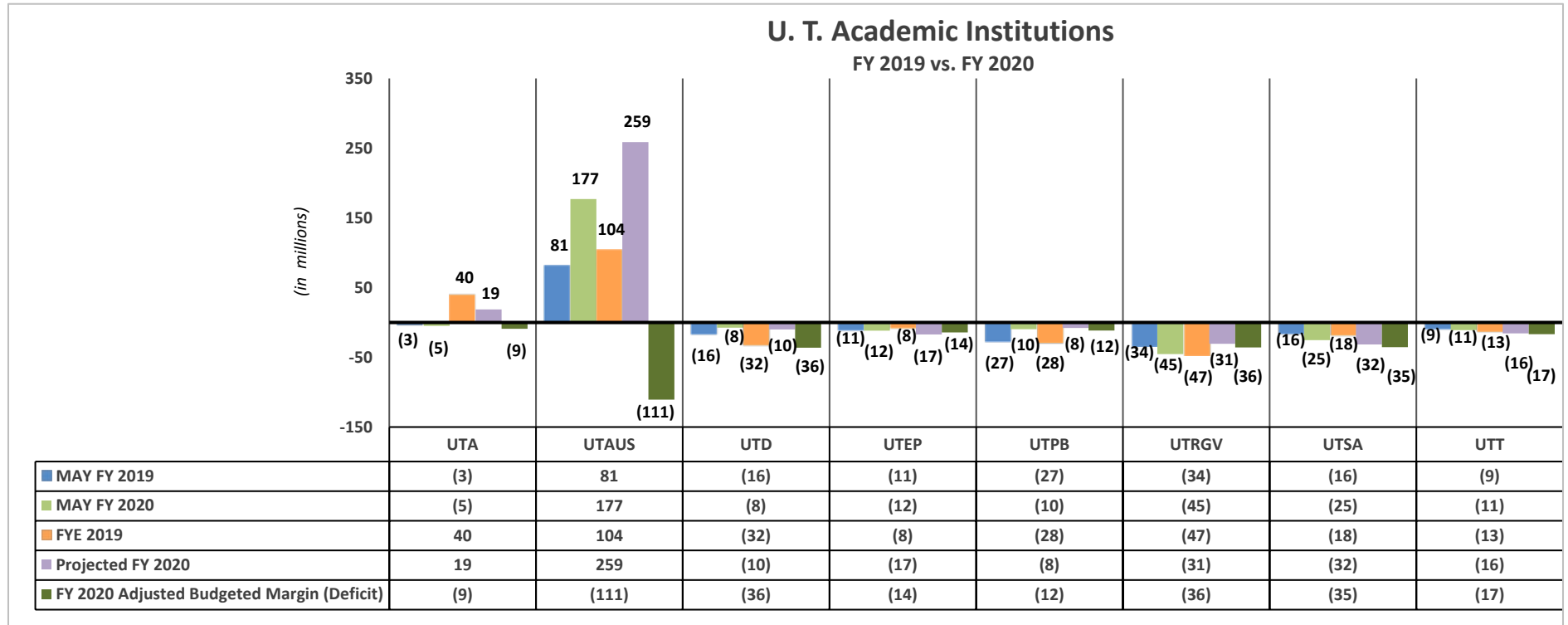


Consolidated Adjusted Income (Loss) Comparison

For the Period Ending May 31, 2020



Academic Adjusted Income (Loss) Comparison For the Period Ending May 31, 2020



Source: May 2020 Monthly Financial Report

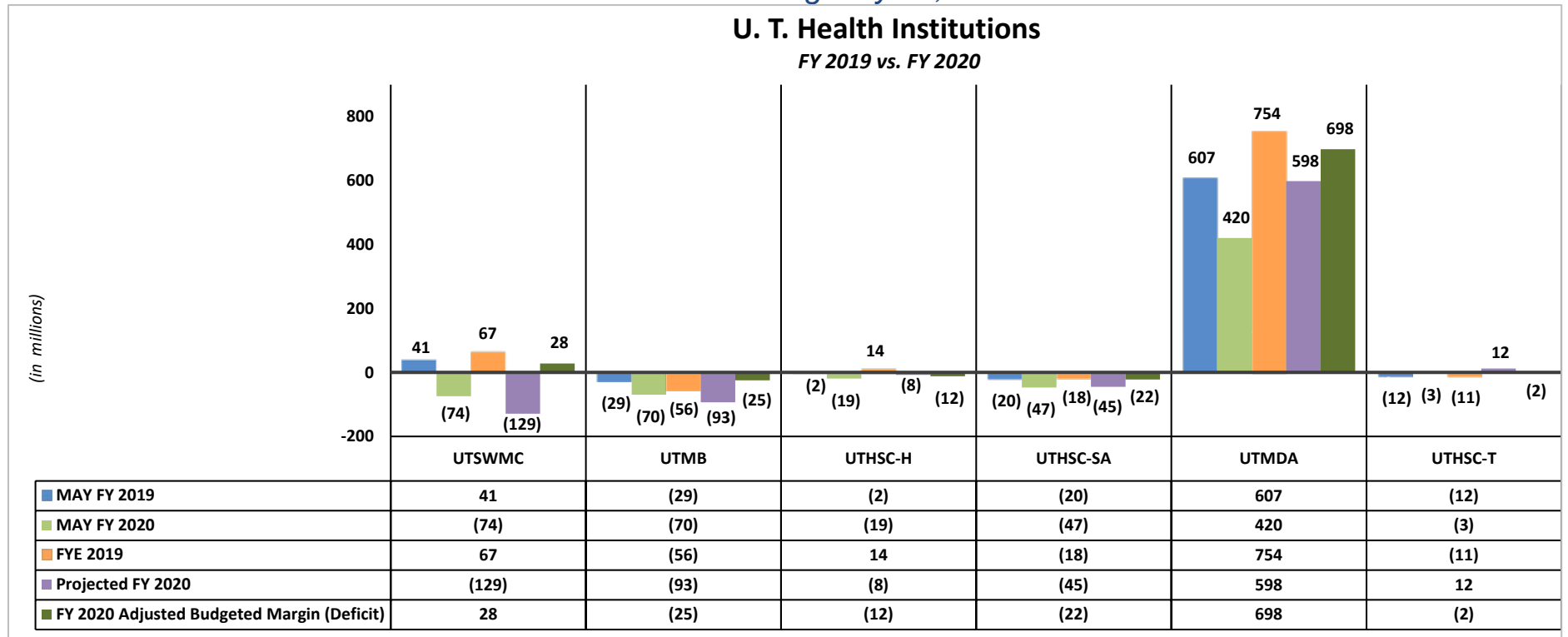


THE UNIVERSITY of TEXAS SYSTEM
FOURTEEN INSTITUTIONS. UNLIMITED POSSIBILITIES.

WWW.UTSYSTEM.EDU

Health Adjusted Income (Loss) Comparison

For the Period Ending May 31, 2020



Systemwide Operations Financial Summary

	FY 2020 Budget	FTEs	FYTD Actual (May 2020)	% of Budget
U. T. System Administration (AUF)	\$ 52,270,219	228.2	\$ 36,981,088	71%
Direct Campus Support (AUF)	42,557,676	113.0	35,630,168	84%
Other Operations Funded with AUF Reserves	520,800	-	1,063,849	204%
Service Departments and Other Non-AUF*	62,652,932	225.4	42,405,870	68%
Total – U. T. System Administration and Campus Support	\$ 158,001,627	566.6	\$ 116,080,974	73%

** The Board of Regents has approved the budget and FTEs related to University Lands. 2/3 of the overall University Lands budget and May YTD actuals are represented in the above amounts. The Board of Regents has also approved the portion (1/3 of the overall University Lands budget) that supports Texas A&M University.*



**THE UNIVERSITY OF TEXAS SYSTEM
OFFICE OF THE CONTROLLER**

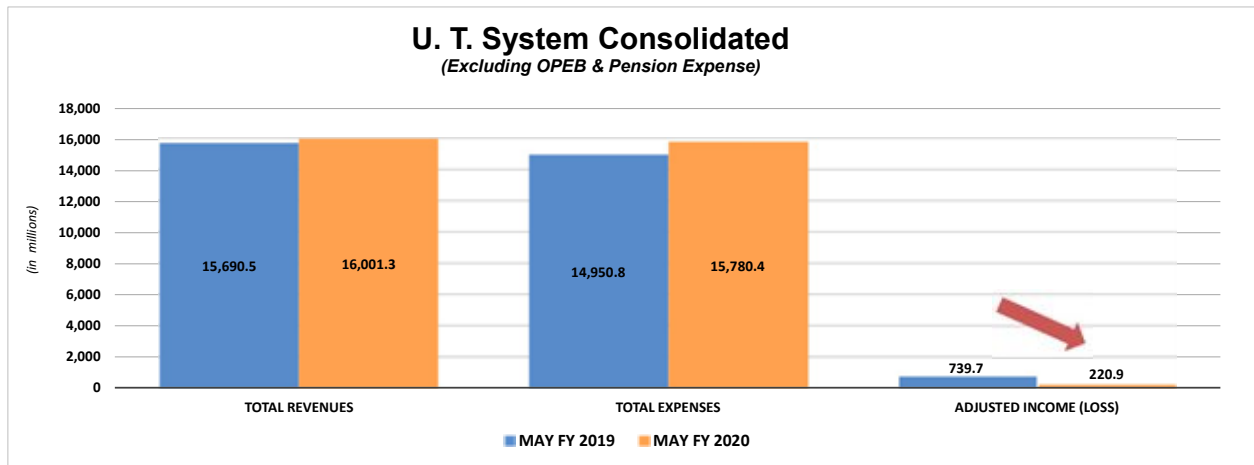
MONTHLY FINANCIAL REPORT
(unaudited)

MAY 2020



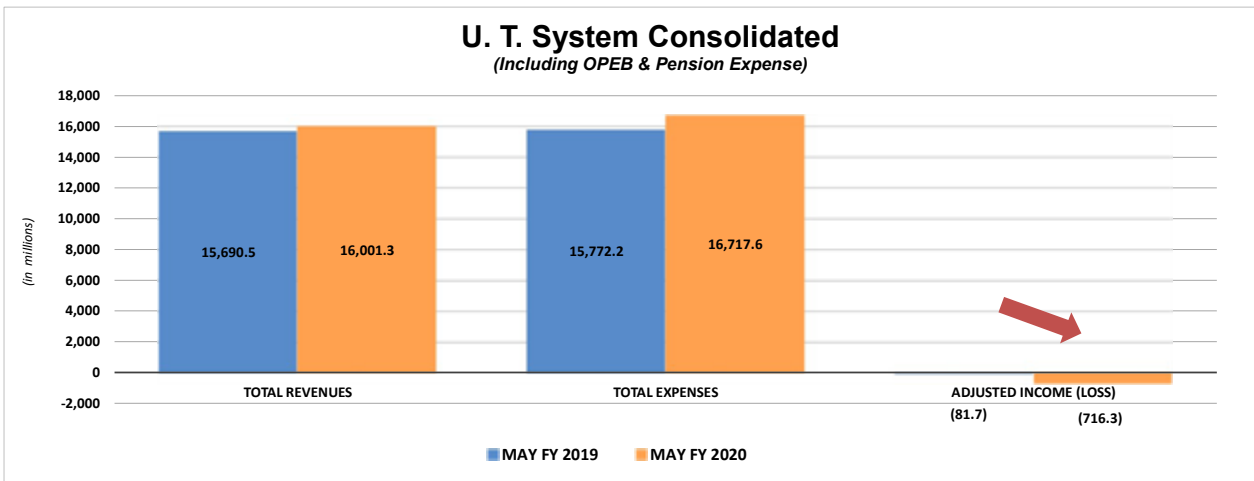
210 West Seventh Street
Austin, Texas 78701
512.499.4527
www.utsystem.edu/cont

Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending May 31, 2020

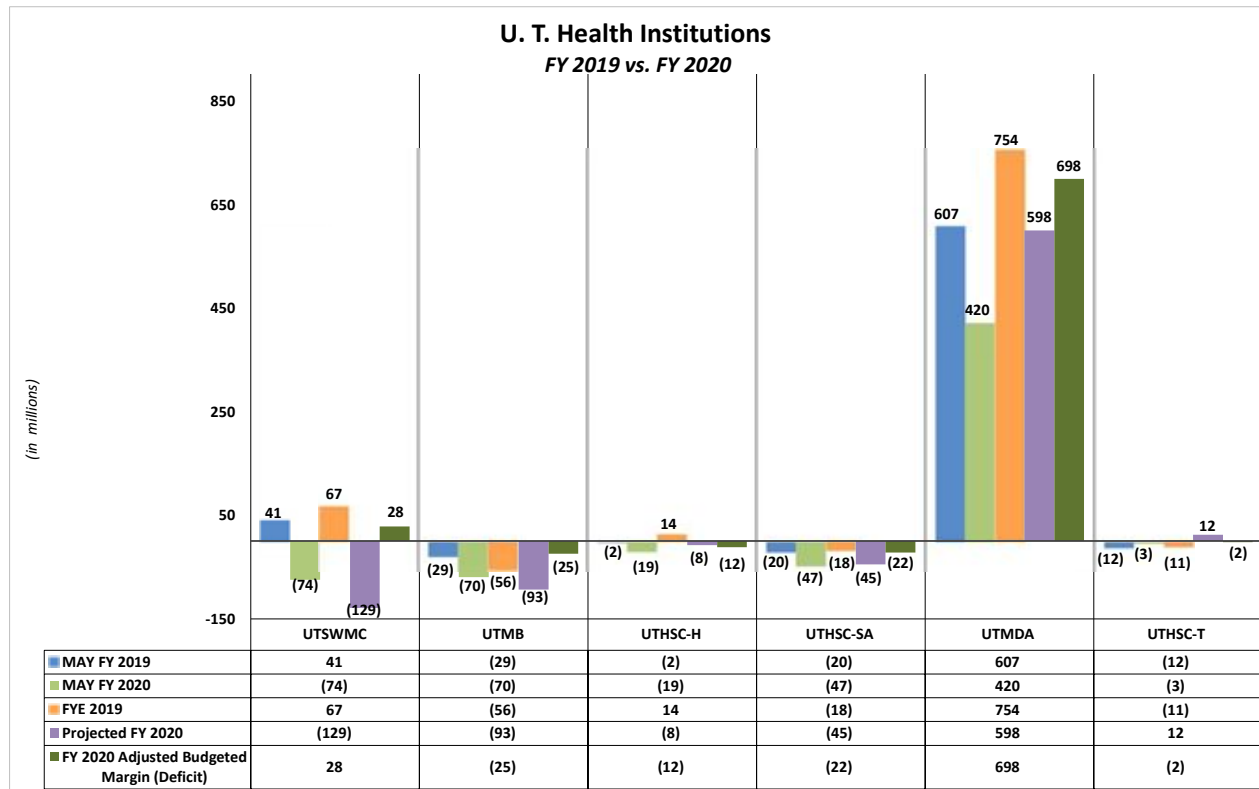
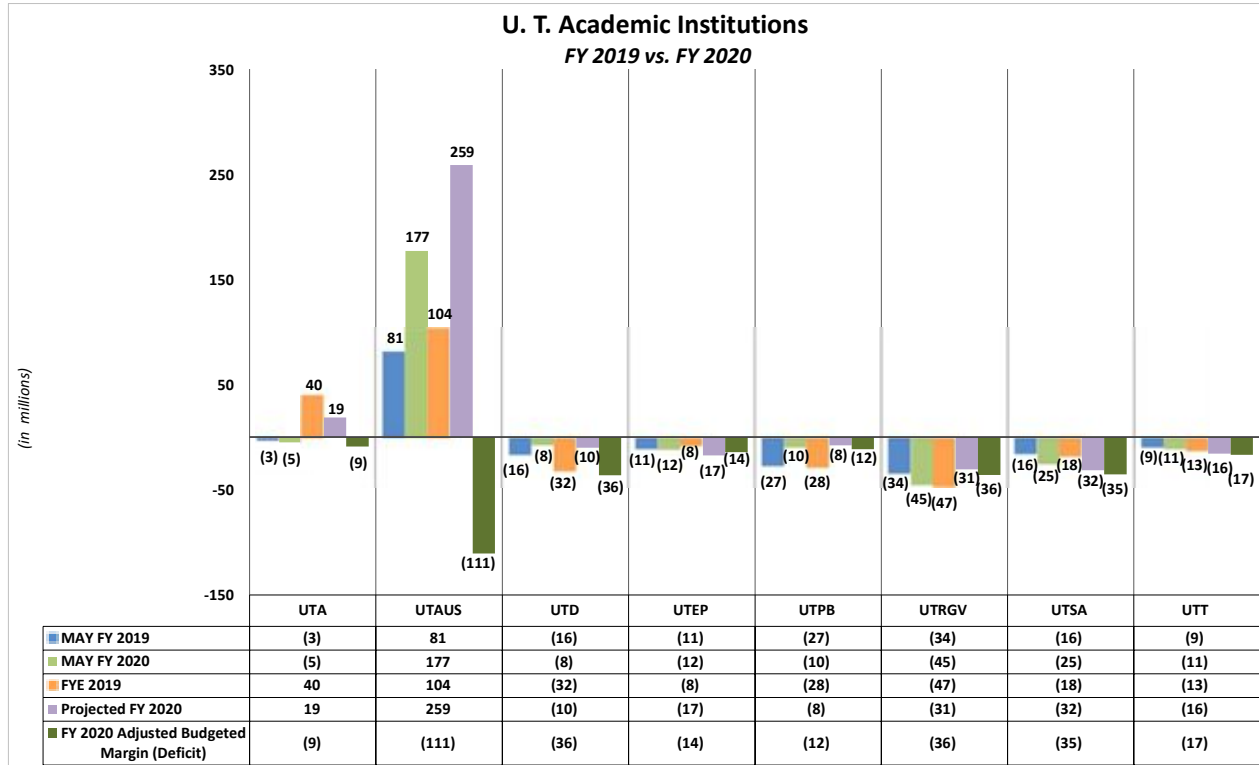


Excluding other postemployment benefits (OPEB) and pension expense, *U. T. System Consolidated* shows year-to-date adjusted income of \$220.9 million, a decrease of \$518.8 million (70%) from the prior year. The decrease was primarily due to the following: an increase in salaries and wages to support faculty and clinical services; a decrease in net investment income; an increase in materials and supplies required for hospital operations; and a decrease in auxiliary, sales and services, and clinical revenues as a result of COVID-19.

(in millions)	May YTD FY 2019	May YTD FY 2020	Variance	Annual Projected FY 2020
Clinical Revenues	\$ 6,689.7	6,588.3	(101.5)	8,913.7
Sponsored Programs/Nonexchange Sponsored Programs	2,831.1	3,141.1	310.0	4,402.7
State Appropriations	1,590.1	1,689.0	98.9	2,216.5
Net Tuition and Fees	1,390.7	1,456.8	66.1	1,928.8
Auxiliary Revenues/Sales & Services of Educational Activities	1,047.6	926.5	(121.0)	1,087.3
Net Investment Income	1,474.2	1,255.5	(218.7)	1,625.0
Other Operating Revenues/Gift Contributions for Operations	667.1	944.0	277.0	1,171.0
Total Revenues	15,690.5	16,001.3	310.8	21,345.0
Salaries and Wages/Payroll Related Costs	8,877.3	9,584.3	707.0	12,272.7
Materials and Supplies/Cost of Goods Sold	1,916.4	2,042.3	125.9	2,680.4
Depreciation and Amortization	1,116.5	1,158.6	42.1	1,558.7
Other Contracted Services/Professional Fees & Services	1,084.0	1,095.6	11.6	1,478.4
All Other Operating Expenses	1,956.6	1,899.5	(57.0)	2,581.9
Total Expenses (Excluding OPEB & Pension Exp)	\$ 14,950.8	15,780.4	829.6	20,572.0
Adjusted Income (Loss) Excluding OPEB & Pension Exp	739.7	220.9	(518.8)	773.0
OPEB Expense	632.4	498.6	(133.8)	664.8
Pension Expense	189.0	438.6	249.7	584.8
Adjusted Income (Loss)	(81.7)	(716.3)	(634.6)	(476.6)
Adjusted Income (Loss) Excluding Depr & Amort Exp	1,034.8	442.3	(592.5)	1,082.0



**Monthly Financial Report
Comparison of Adjusted Income (Loss)
For the Period Ending May 31, 2020**



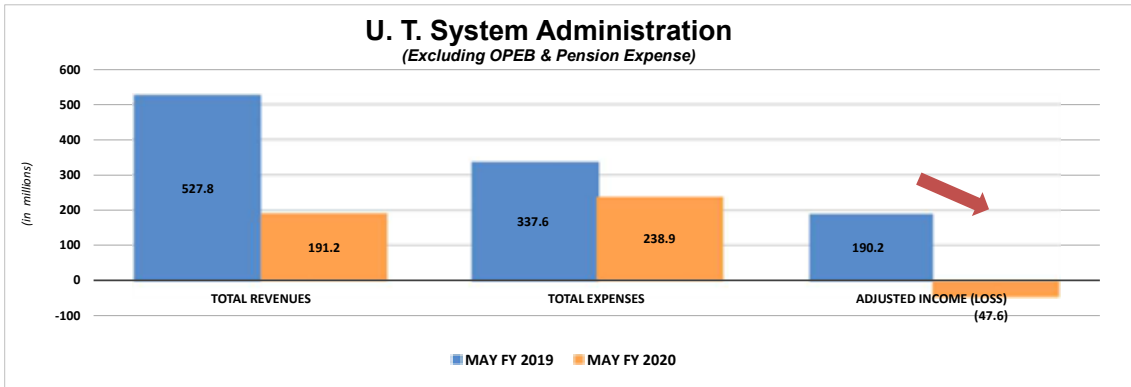
**Monthly Financial Report
Comparison of Adjusted Income (Loss)
For the Period Ending May 31, 2020**

Executive Summary of Adjusted Income (Loss)

	May FYTD 2019 (millions)	May FYTD 2020 (millions)	Variance %	Comments
U. T. System Administration (excluding OPEB & Pension Expense)	\$ 190.2	(47.6)	-125%	Decrease in Net Investment Income Projected income of \$272.8 million for the FY
U. T. Arlington	(3.2)	(4.9)	-54%	Increase in Salaries and Wages, Payroll Related Decrease in Auxiliary and Sales & Services Revenues Projected income of \$18.7 million for the FY
U. T. Austin	81.1	177.1	118%	Increase in Gifts for Operations, Available University Fund (AUF) transfer, Net Investment Income Projected income of \$258.8 million for the FY
U. T. Dallas	(16.5)	(7.5)	54%	Increase in State Appropriations, Net Investment Income Projected loss of (\$10.0) million for the FY
U. T. El Paso	(10.9)	(11.7)	-7%	Increase in Salaries and Wages, Payroll Related Decrease in Auxiliary Revenues Projected loss of (\$17.2) million for the FY
U. T. Permian Basin	(27.0)	(9.5)	65%	Increase in Sponsored Programs, Nonexchange Sponsored Programs, Net Tuition & Fees, prior year understated Projected loss of (\$7.9) million for the FY
U. T. Rio Grande Valley	(34.2)	(45.2)	-32%	Increase in Salaries & Wages, Payroll Related, Depreciation & Amortization Decrease in Sponsored Programs, DSRIP, Auxiliary and Sales & Services Revenues Projected loss of (\$30.5) million for the FY
U. T. San Antonio	(15.7)	(25.4)	-61%	Increase in Salaries & Wages, Payroll Related, Professional Fees & Services Decrease in Auxiliary and Sales & Services Revenues Projected loss of (\$31.5) million for the FY
U. T. Tyler	(9.4)	(11.0)	-17%	Increase in Salaries & Wages, Payroll Related Projected loss of (\$15.6) million for the FY
Southwestern	41.1	(74.5)	-281%	Increase in Salaries & Wages, Payroll Related, Materials & Supplies Clinical revenues negatively impacted by COVID-19 Projected loss of (\$128.9) million for the FY
UTMB	(28.8)	(69.7)	-142%	Increase in Salaries & Wages, Payroll Related, Materials & Supplies, Depreciation & Amortization May results negatively impacted by COVID-19 Projected loss of (\$93.5) million for the FY
UTHSC-Houston	(1.5)	(19.3)	-1,158%	Increase in Salaries & Wages, Payroll Related May results negatively impacted by COVID-19 Projected loss of (\$7.7) million for the FY
UTHSC-San Antonio	(20.2)	(47.2)	-133%	Increase in Salaries & Wages, Payroll Related, Materials & Supplies Decrease in Gifts for Operations, DSRIP Clinical revenues negatively impacted by COVID-19 Projected loss of (\$44.9) million for the FY
M. D. Anderson	606.7	420.5	-31%	Increase in Salaries & Wages, Payroll Related Clinical revenues negatively impacted by COVID-19 Projected income of \$598.2 million for the FY
UTHSC-Tyler	(11.9)	(3.2)	73%	Increase in Clinical Revenues May results negatively impacted by COVID-19 Projected income of \$12.3 million for the FY
Total Adjusted Income (Loss)	\$ 739.7	220.9	-70%	

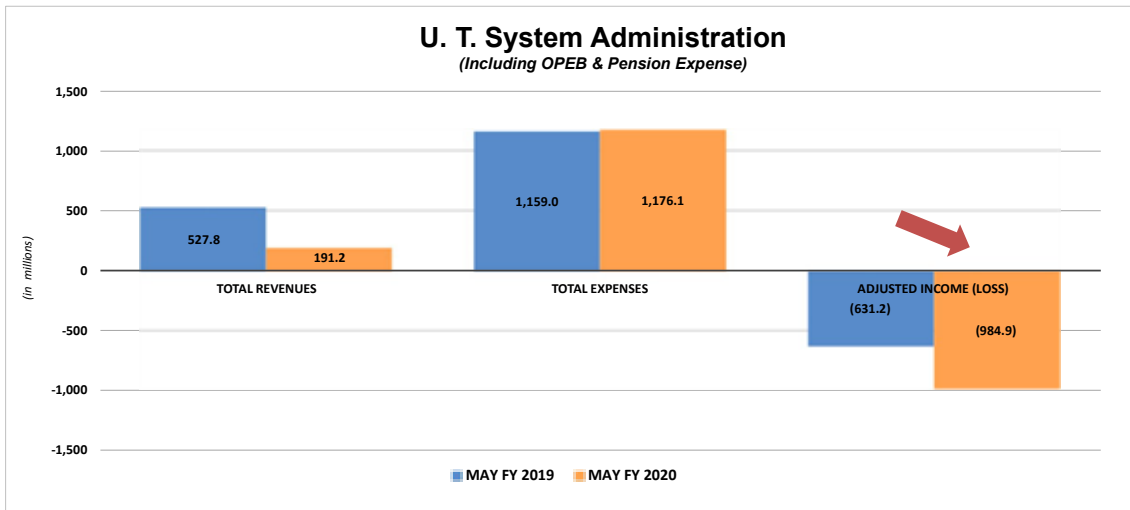
* For additional details on the variances, please see pages 4 through 19.

Monthly Financial Report
Comparison of Operating Results, Margin and Projected Year-End
For the Period Ending May 31, 2020



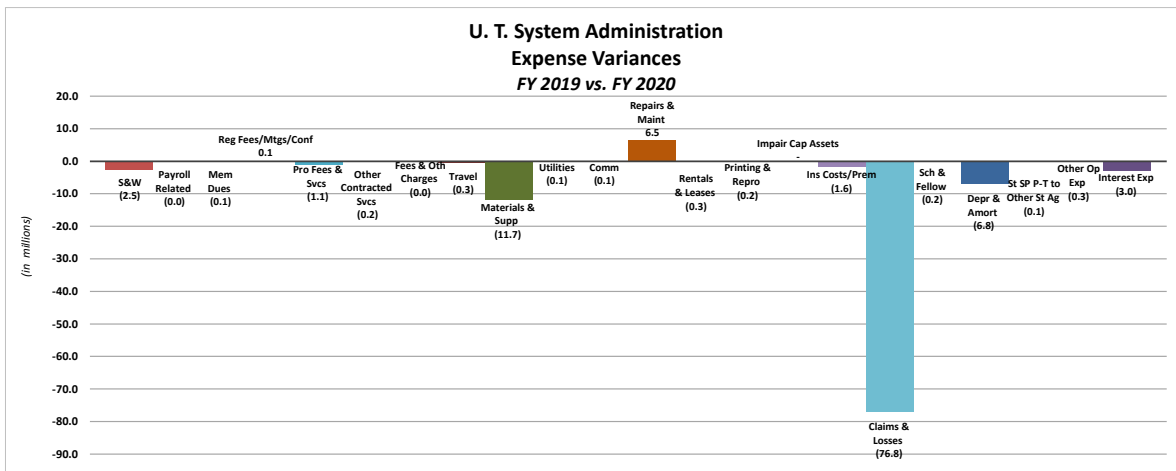
Excluding OPEB and pension expense, *U. T. System Administration* incurred a year-to-date adjusted loss of \$47.6 million, a decrease of \$237.8 million (125%) from the prior year. The decrease was primarily due to a decrease in net investment income as a result of a decrease in Permanent University Fund (PUF) gas and oil royalties, mineral lease bonus sales, PUF and LTF investment income, and Available University Fund (AUF) surface income, as well as increases in the Long Term Fund (LTF) distribution and LTF investment expenses. The most current projection, excluding OPEB and pension expense, reflects income of \$272.8 million for the year.

(in millions)	May YTD FY 2019	May YTD FY 2020	Variance	Annual Projected FY 2020
Sponsored Programs/Nonexchange Sponsored Programs	\$ 33.3	43.1	9.8	66.3
State Appropriations	2.5	2.7	0.2	3.6
Auxiliary Revenues/Sales & Services of Educational Activities	3.8	12.4	8.7	16.6
Net Investment Income/Available University Fund (AUF)	468.5	105.6	(362.9)	140.8
Other Operating Revenues/Gift Contributions for Operations	19.8	27.4	7.6	36.4
Total Revenues	527.8	191.2	(336.6)	263.8
Salaries and Wages/Payroll Related Costs	55.3	52.8	(2.5)	(250.2)
Materials and Supplies/Cost of Goods Sold	25.0	13.3	(11.7)	15.3
Depreciation and Amortization	19.5	12.6	(6.8)	16.7
Other Contracted Services/Professional Fees & Services	29.4	28.1	(1.3)	34.7
All Other Operating Expenses	208.5	132.1	(76.4)	174.5
Total Expenses (Excluding OPEB & Pension Exp)	\$ 337.6	238.9	(98.8)	(9.0)
Adjusted Income (Loss) Excluding OPEB & Pension Exp	190.2	(47.6)	(237.8)	272.8
OPEB Expense	632.4	498.6	(133.8)	664.8
Pension Expense	189.0	438.6	249.7	584.8
Adjusted Income (Loss)	(631.2)	(984.9)	(353.7)	(976.8)
Adjusted Income (Loss) Excluding Depr & Amort Exp	(611.7)	(972.2)	(360.5)	(960.1)



Monthly Financial Report Detailed Expense Break-out for U. T. System Administration For the Period Ending May 31, 2020

(in millions)	May YTD FY 2019	May YTD FY 2020	Actual Year-End FY 2019	Annual Projected FY 2020
Salaries and Wages	\$ 44.5	42.0	57.9	56.0
Payroll Related Costs	10.8	10.8	(306.4)	(306.2) *
Membership Dues	0.5	0.3	0.5	0.5
Registration Fees, Meetings, Conferences	0.3	0.3	0.4	0.4
Professional Fees and Services	9.9	8.9	15.4	11.8
Other Contracted Services	19.4	19.2	25.7	22.9
Fees and Other Charges	0.0	0.0	0.1	0.1
Travel	1.1	0.7	1.5	1.0
Materials and Supplies	25.0	13.3	11.4	15.3
Utilities	0.3	0.2	0.4	0.3
Communications	3.5	3.4	3.6	3.5
Repairs and Maintenance	2.6	9.1	5.8	12.1
Rentals and Leases	2.4	2.1	2.8	2.8
Printing and Reproduction	0.2	0.1	0.3	0.1
Impairment of Capital Assets	-	-	25.8	-
Insurance Costs/Premiums	53.1	51.5	10.5	68.7
Claims and Losses	113.1	36.3	65.5	48.4
Scholarships and Fellowships	0.9	0.7	1.5	0.9
Depreciation and Amortization	19.5	12.6	23.8	16.7
State Sponsored Program Pass-Through to Other State Agencies	3.6	3.5	4.4	4.1
Other Operating Expenses	1.3	1.1	1.7	1.4
Interest Expense	25.7	22.7	31.6	30.3
Total Expenses (Excluding OPEB & Pension Expense)	337.6	238.9	(16.0)	(9.0)
OPEB Expense	632.4	498.6	664.8	664.8
Pension Expense	189.0	438.6	584.8	584.8
Total Expenses (Including OPEB & Pension Expense)	\$ 1,159.0	1,176.1	1,233.7	1,240.6



Brief explanations for U. T. System Administration's largest expense variances are provided below:

***Payroll Related Costs** - the negative payroll related costs at year-end relate to the pension entry to defer pension contributions made after the measurement date for the entire System.

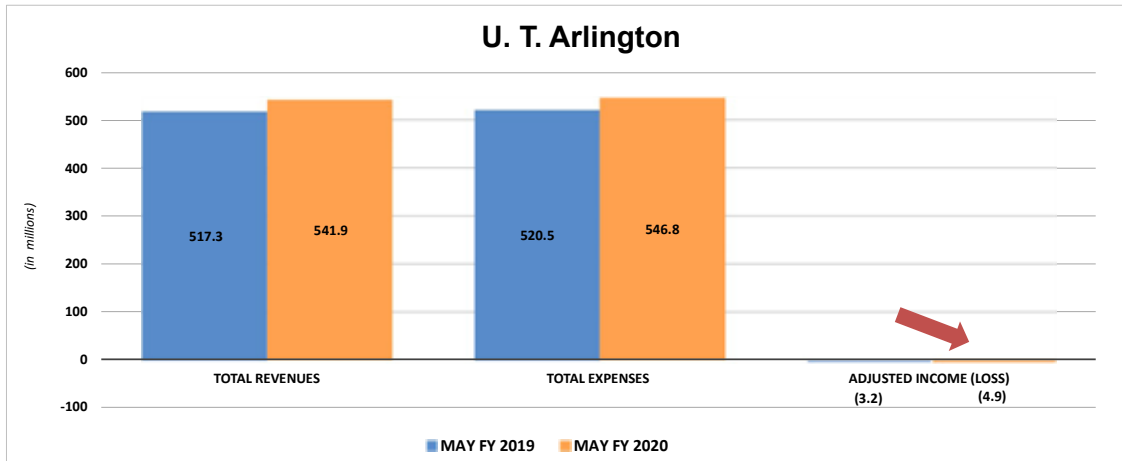
Materials and Supplies – decrease of \$11.7 million due to the timing of Microsoft Agreement revenue received and corresponding service department elimination, as well as Oracle Maintenance Agreement software licenses reclassified to repairs and maintenance. An increase in computer software expenses for Systemwide expenses partially offset the decrease.

Repairs and Maintenance – increase of \$6.5 million due to an increase in expenses related to the new Office of Employee Benefits Eligibility System, timing of annual Systemwide IT Assessment, and Oracle Maintenance Agreement software licenses reclassified from materials and supplies to repairs and maintenance.

Claims and Losses – decrease of \$76.8 million as a result of the service department elimination.

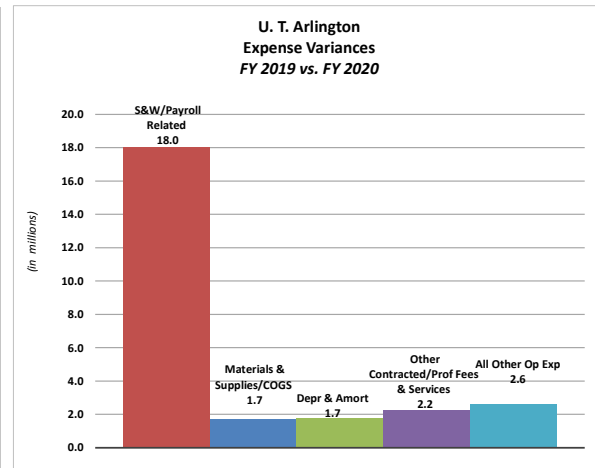
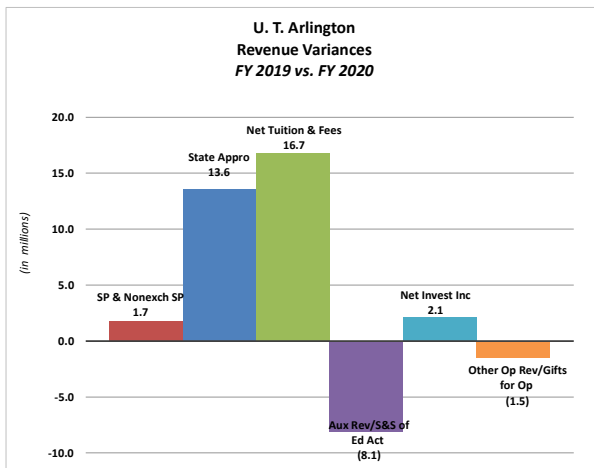
Depreciation and Amortization – decrease of \$6.8 million due to PeopleSoft being fully depreciated in April 2019 and TEx 2.0 being written off in July 2019.

Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending May 31, 2020

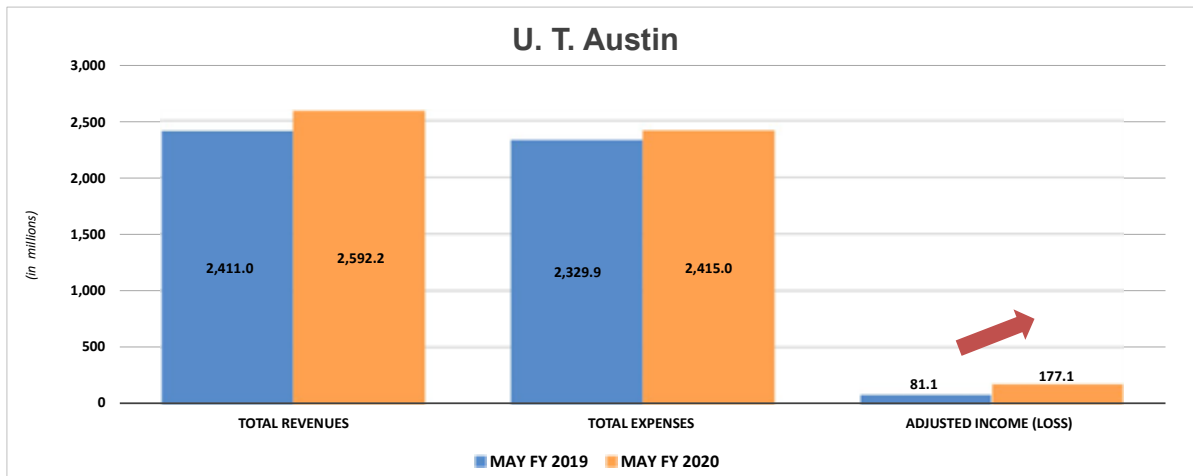


U. T. Arlington incurred a year-to-date adjusted loss of \$4.9 million, a decrease of \$1.7 million (54%) from the prior year. The decrease was primarily attributable to the following: an increase in salaries and wages and payroll related costs due to merit increases; and a decrease in auxiliary and sales and services revenues as a result of COVID-19. *U. T. Arlington* estimated a total of \$8.0 million of nonmandatory student fees for housing, meal plans, and student parking would be refunded in 2020 due to COVID-19. For the period ending May 31, 2020, *U. T. Arlington* refunded \$6.7 million of those fees. The most current projection received from *U. T. Arlington* reflects income of \$18.7 million for the year.

(in millions)	May YTD FY 2019	May YTD FY 2020	Variance	Annual Projected FY 2020
Sponsored Programs/Nonexchange Sponsored Programs	\$ 105.9	107.7	1.7	150.6
State Appropriations	89.9	103.5	13.6	136.8
Net Tuition and Fees	237.3	254.0	16.7	336.7
Auxiliary Revenues/Sales & Services of Educational Activities	53.7	45.7	(8.1)	75.7
Net Investment Income	17.1	19.3	2.1	21.2
Other Operating Revenues/Gift Contributions for Operations	13.3	11.8	(1.5)	18.4
Total Revenues	517.3	541.9	24.6	739.4
Salaries and Wages/Payroll Related Costs	293.6	311.6	18.0	402.7
Materials and Supplies/Cost of Goods Sold	25.0	26.7	1.7	35.6
Depreciation and Amortization	41.2	43.0	1.7	57.9
Other Contracted Services/Professional Fees & Services	66.7	69.0	2.2	93.1
All Other Operating Expenses	94.0	96.6	2.6	131.4
Total Expenses	\$ 520.5	546.8	26.3	720.7
Adjusted Income (Loss)	(3.2)	(4.9)	(1.7)	18.7
Adjusted Income (Loss) Excluding Depr & Amort Exp	38.0	38.1	0.0	76.6

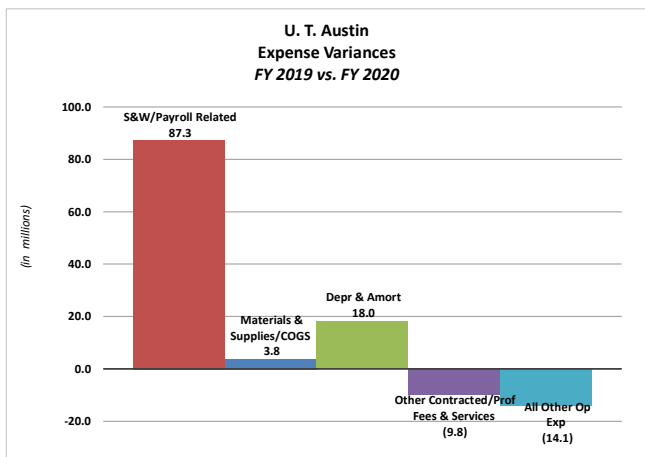
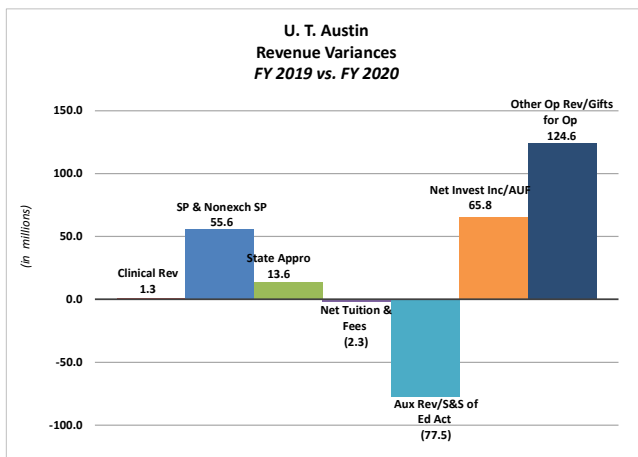


Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending May 31, 2020

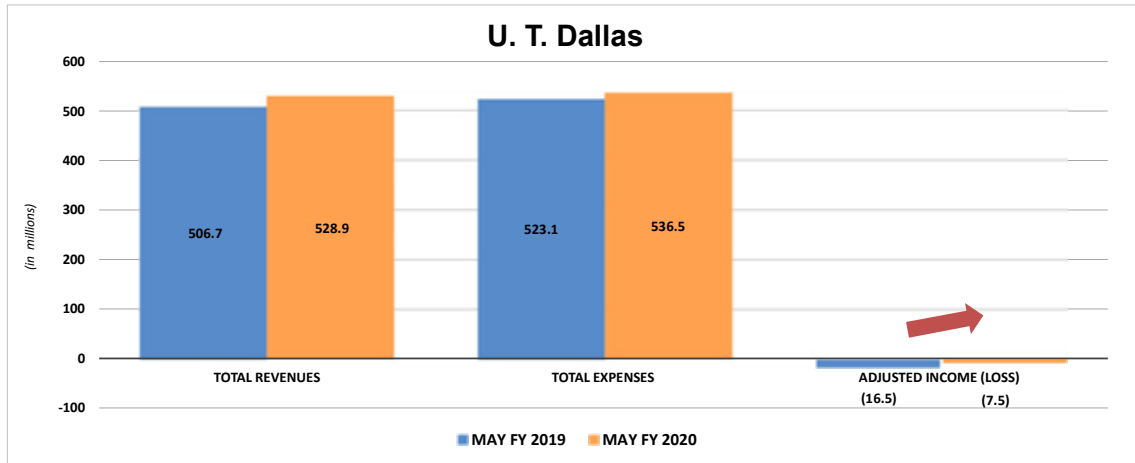


U. T. Austin reported year-to-date adjusted income of \$177.1 million, an increase of \$96.0 million (118%) from the prior year. The increase was primarily due to the following: an increase in gift contributions for operations as a result of a \$130 million gift from the Moody Foundation; an increase in the amount of the transfer from the Available University Fund; and an increase in net investment income. *U. T. Austin* estimated a total of \$26.1 million of nonmandatory student fees for housing, meal plans, and student parking would be refunded in 2020 due to COVID-19. For the period ending May 31, 2020, *U. T. Austin* refunded \$23.3 million of those fees. The most current projection received from *U. T. Austin* reflects income of \$258.8 million for the year.

(in millions)	May YTD FY 2019	May YTD FY 2020	Variance	Annual Projected FY 2020
Clinical Revenues	\$ 4.2	5.5	1.3	7.9
Sponsored Programs/Nonexchange Sponsored Programs	477.6	533.2	55.6	769.5
State Appropriations	252.4	266.0	13.6	354.6
Net Tuition and Fees	390.0	387.8	(2.3)	517.0
Auxiliary Revenues/Sales & Services of Educational Activities	634.4	557.0	(77.5)	591.4
Net Investment Income/Available University Fund (AUF)	509.2	574.9	65.8	757.7
Other Operating Revenues/Gift Contributions for Operations	143.3	267.8	124.6	321.7
Total Revenues	2,411.0	2,592.2	181.2	3,319.8
Salaries and Wages/Payroll Related Costs	1,345.4	1,432.7	87.3	1,782.6
Materials and Supplies/Cost of Goods Sold	122.9	126.6	3.8	141.3
Depreciation and Amortization	235.5	253.5	18.0	338.0
Other Contracted Services/Professional Fees & Services	153.5	143.6	(9.8)	201.3
All Other Operating Expenses	472.7	458.6	(14.1)	597.8
Total Expenses	\$ 2,329.9	2,415.0	85.2	3,061.0
Adjusted Income (Loss)	81.1	177.1	96.0	258.8
Adjusted Income (Loss) Excluding Depr & Amort Exp	316.6	430.6	114.0	596.8

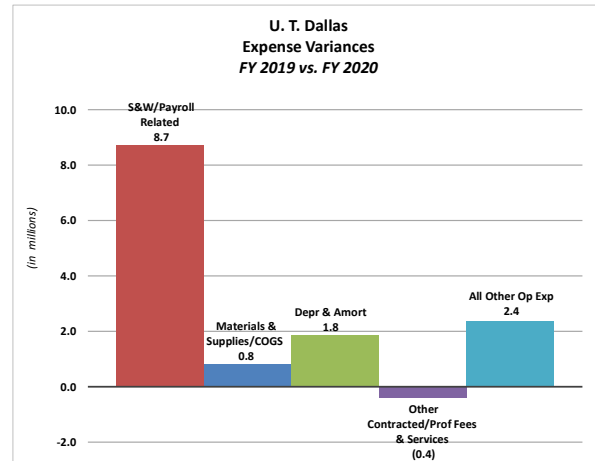
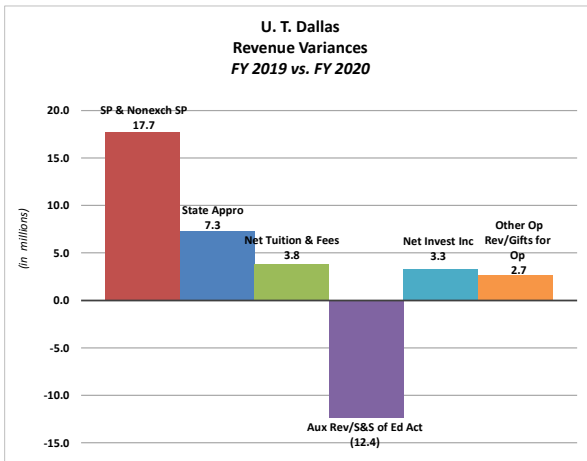


Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending May 31, 2020

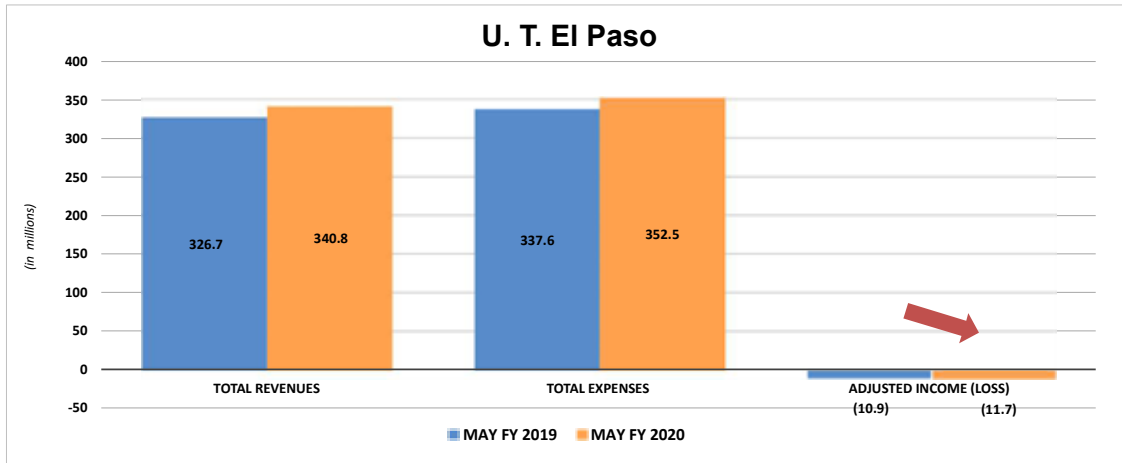


U. T. Dallas incurred a year-to-date adjusted loss of \$7.5 million, a decrease in adjusted loss of \$9.0 million (54%) from the prior year. The decrease was primarily attributable to an increase in state appropriations due to additional General Revenue funds awarded by the state, and an increase in investment income from the Crow investments. *U. T. Dallas* estimated a total of \$8.5 million of nonmandatory student fees for housing, meal plans, and student parking would be refunded in 2020 as a result of COVID-19. For the period ending May 31, 2020, *U. T. Dallas* refunded \$7.6 million of those fees. The most current projection received from *U. T. Dallas* reflects a loss of \$10.0 million for the year.

(in millions)	May YTD FY 2019	May YTD FY 2020	Variance	Annual Projected FY 2020
Sponsored Programs/Nonexchange Sponsored Programs	\$ 81.0	98.7	17.7	131.6
State Appropriations	85.8	93.1	7.3	124.1
Net Tuition and Fees	231.0	234.9	3.8	313.1
Auxiliary Revenues/Sales & Services of Educational Activities	72.4	59.9	(12.4)	79.9
Net Investment Income	24.0	27.3	3.3	36.4
Other Operating Revenues/Gift Contributions for Operations	12.4	15.1	2.7	20.1
Total Revenues	506.7	528.9	22.3	705.2
Salaries and Wages/Payroll Related Costs	299.6	308.3	8.7	411.1
Materials and Supplies/Cost of Goods Sold	24.2	25.0	0.8	33.4
Depreciation and Amortization	61.5	63.3	1.8	84.4
Other Contracted Services/Professional Fees & Services	25.6	25.2	(0.4)	33.7
All Other Operating Expenses	112.2	114.5	2.4	152.7
Total Expenses	\$ 523.1	536.5	13.3	715.3
Adjusted Income (Loss)	(16.5)	(7.5)	9.0	(10.0)
Adjusted Income (Loss) Excluding Depr & Amort Exp	45.0	55.8	10.8	74.4

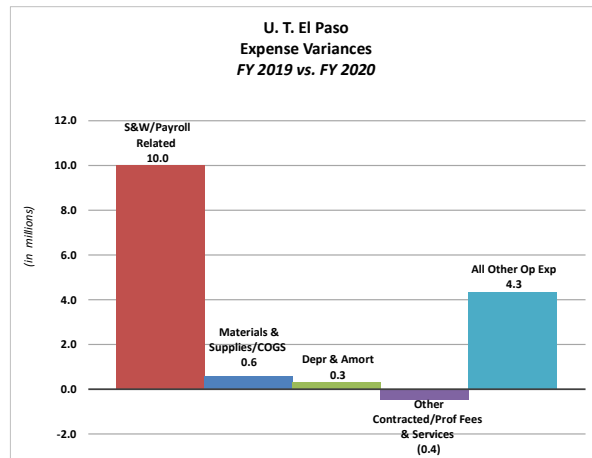
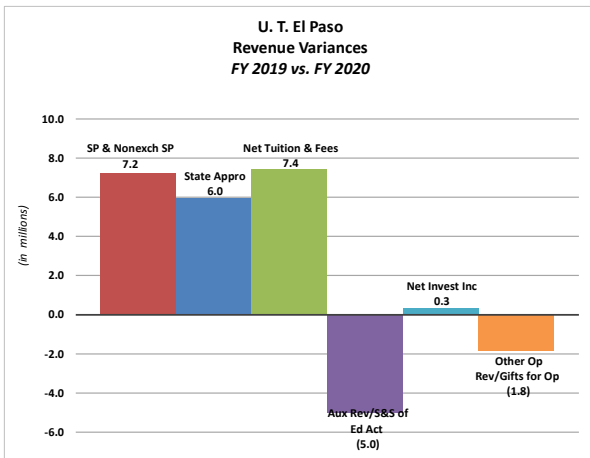


Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending May 31, 2020

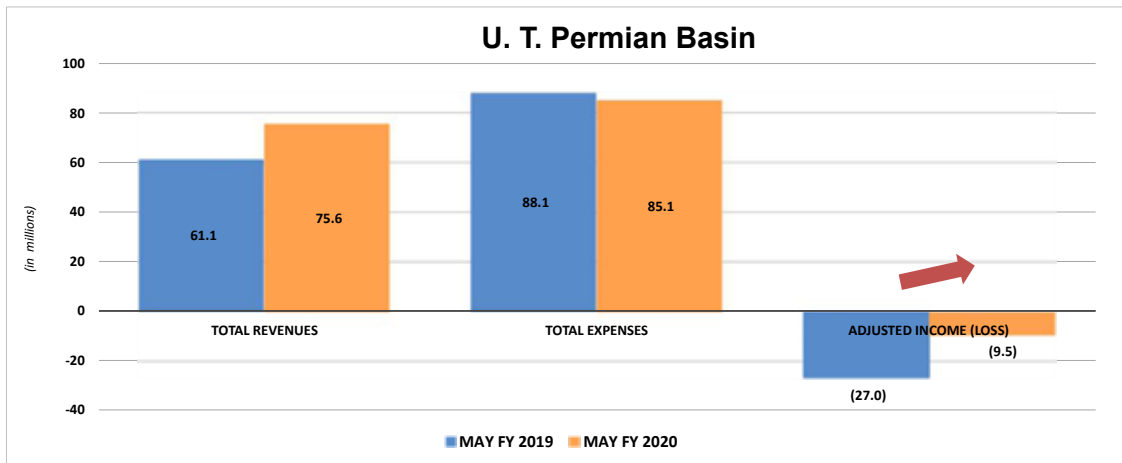


U. T. El Paso incurred a year-to-date adjusted loss of \$11.7 million, an increase in adjusted loss of \$0.8 million (7%) from the prior year. The increase was primarily due to the following: an increase in salaries and wages and payroll related costs attributable to increased faculty levels and merit increases for faculty and staff; and a decrease in auxiliary revenues due to COVID-19, as well as a decrease in football and basketball game guarantees for non-conference away games and a decrease in Conference USA income. *U. T. El Paso* estimated a total of \$1.3 million of nonmandatory student fees for housing, meal plans, and student parking would be refunded in 2020 due to COVID-19. For the period ending May 31, 2020, *U. T. El Paso* refunded \$0.8 million of those fees. The most current projection received from *U. T. El Paso* reflects a loss of \$17.2 million for the year.

(in millions)	May YTD FY 2019	May YTD FY 2020	Variance	Annual Projected FY 2020
Sponsored Programs/Nonexchange Sponsored Programs	\$ 93.2	100.4	7.2	156.8
State Appropriations	74.2	80.2	6.0	102.5
Net Tuition and Fees	107.9	115.3	7.4	146.3
Auxiliary Revenues/Sales & Services of Educational Activities	34.9	29.8	(5.0)	39.0
Net Investment Income	12.4	12.7	0.3	16.4
Other Operating Revenues/Gift Contributions for Operations	4.2	2.3	(1.8)	4.9
Total Revenues	326.7	340.8	14.1	465.8
Salaries and Wages/Payroll Related Costs	196.9	206.9	10.0	263.3
Materials and Supplies/Cost of Goods Sold	13.7	14.3	0.6	22.5
Depreciation and Amortization	22.5	22.8	0.3	32.2
Other Contracted Services/Professional Fees & Services	24.7	24.2	(0.4)	33.2
All Other Operating Expenses	79.9	84.3	4.3	131.7
Total Expenses	\$ 337.6	352.5	14.8	483.0
Adjusted Income (Loss)	(10.9)	(11.7)	(0.8)	(17.2)
Adjusted Income (Loss) Excluding Depr & Amort Exp	11.6	11.1	(0.4)	15.0

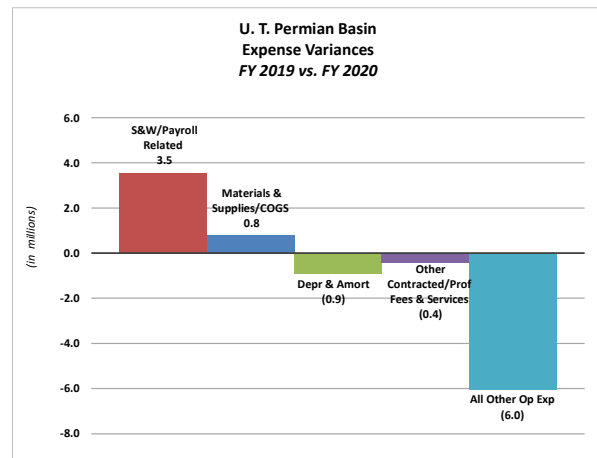
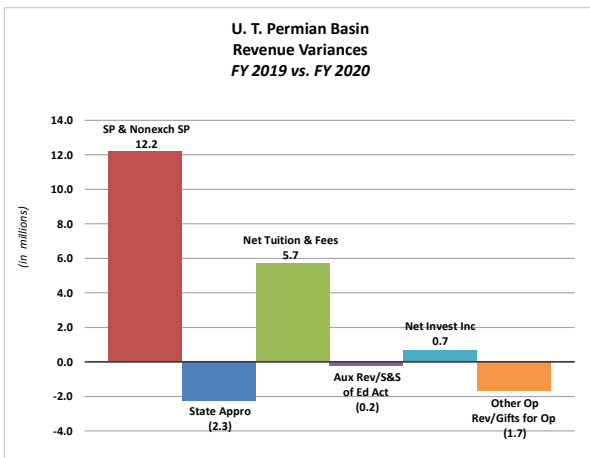


Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending May 31, 2020

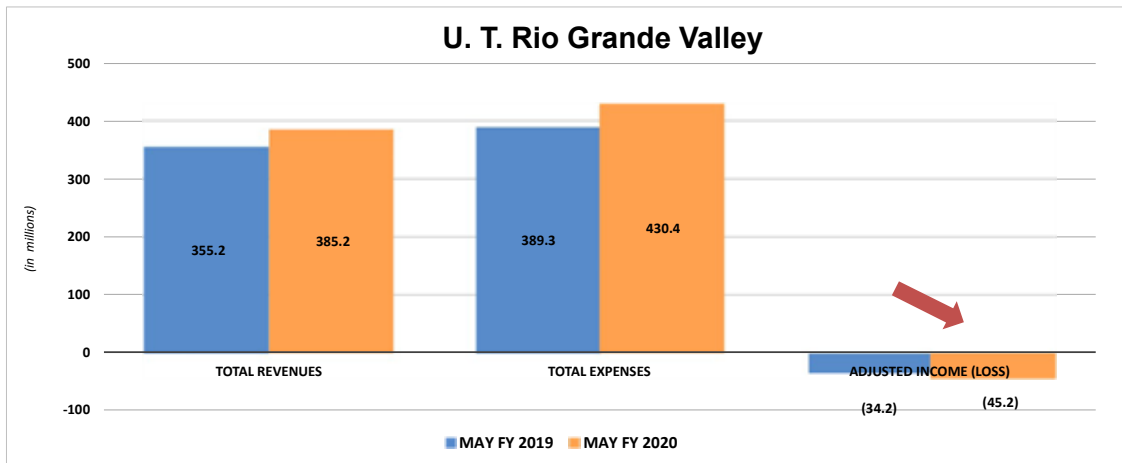


U. T. Permian Basin incurred a year-to-date adjusted loss of \$9.5 million, a decrease in adjusted loss of \$17.5 million (65%) from the prior year. The decrease was primarily attributable to the following: an increase in sponsored programs and nonexchange sponsored programs due to continued efforts to process grant billings and Pell financial aid drawdowns on a timely basis as compared to the prior; and an increase in net student tuition and fees as a result of the understatement of prior year revenue. *U. T. Permian Basin* estimated a total of \$1.2 million of nonmandatory student fees for housing, meal plans, and student parking would be refunded in 2020 as a result of COVID-19. For the period ending May 31, 2020, *U. T. Permian Basin* refunded \$1.1 million of those fees. The most current projection received from *U. T. Permian Basin* reflects a loss of \$7.9 million for the year.

(in millions)	May YTD FY 2019	May YTD FY 2020	Variance	Annual Projected FY 2020
Sponsored Programs/Nonexchange Sponsored Programs	\$ 12.3	24.5	12.2	32.7
State Appropriations	18.7	16.4	(2.3)	20.2
Net Tuition and Fees	18.2	23.9	5.7	28.1
Auxiliary Revenues/Sales & Services of Educational Activities	4.9	4.7	(0.2)	5.7
Net Investment Income	1.4	2.1	0.7	2.7
Other Operating Revenues/Gift Contributions for Operations	5.6	4.0	(1.7)	5.3
Total Revenues	61.1	75.6	14.4	94.8
Salaries and Wages/Payroll Related Costs	38.2	41.8	3.5	46.1
Materials and Supplies/Cost of Goods Sold	4.1	4.9	0.8	6.5
Depreciation and Amortization	14.8	13.9	(0.9)	18.5
Other Contracted Services/Professional Fees & Services	9.8	9.4	(0.4)	12.5
All Other Operating Expenses	21.3	15.2	(6.0)	19.1
Total Expenses	\$ 88.1	85.1	(3.0)	102.7
Adjusted Income (Loss)	(27.0)	(9.5)	17.5	(7.9)
Adjusted Income (Loss) Excluding Depr & Amort Exp	(12.2)	4.4	16.6	10.6

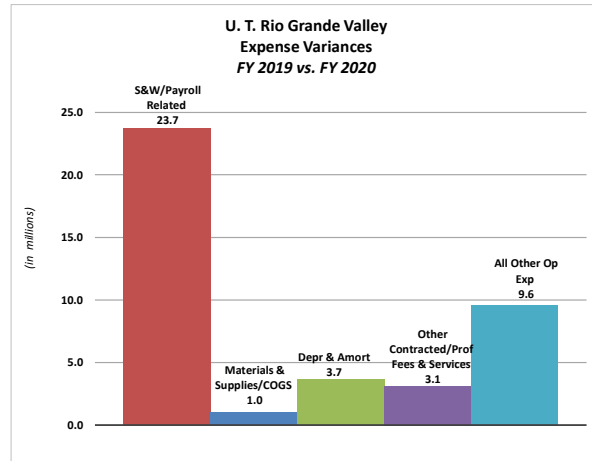
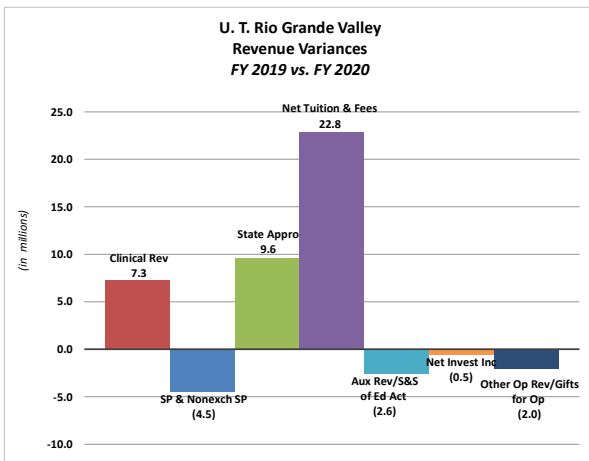


Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending May 31, 2020

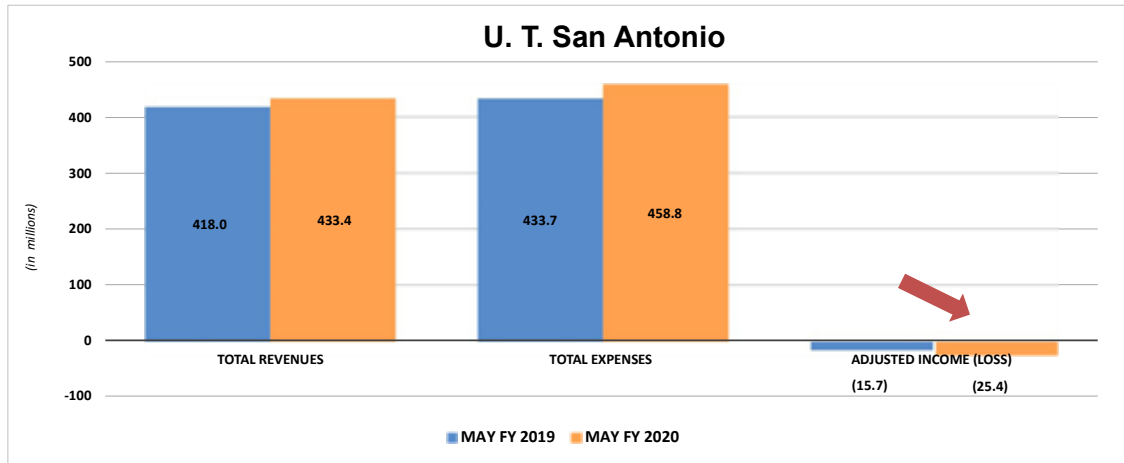


U. T. Rio Grande Valley incurred a year-to-date adjusted loss of \$45.2 million, an increase in adjusted loss of \$11.0 million (32%) from the prior year. The increase was primarily due to the following: an increase in salaries and wages and payroll related costs as a result of increases in staff and faculty positions; a decrease in sponsored programs due to decreased hospital contract revenue as a result of ongoing negotiations; an increase in depreciation and amortization expense attributable to new buildings placed into service; a decrease in auxiliary and sales and services revenues as a result of COVID-19; and a decrease in other operating revenues primarily due to a decline in Delivery System Reform Incentive Payment (DSRIP) revenues. *U. T. Rio Grande Valley* estimated a total of \$1.7 million of nonmandatory student fees for housing, meal plans, and student parking would be refunded in 2020 as a result of COVID-19. For the period ending May 31, 2020, *U. T. Rio Grande Valley* refunded \$1.6 million of those fees. The most current projection received from *U. T. Rio Grande Valley* reflects a loss of \$30.5 million for the year.

(in millions)	May YTD FY 2019	May YTD FY 2020	Variance	Annual Projected FY 2020
Clinical Revenues	\$ 2.0	9.3	7.3	13.7
Sponsored Programs/Nonexchange Sponsored Programs	144.1	139.6	(4.5)	226.9
State Appropriations	104.8	114.4	9.6	140.3
Net Tuition and Fees	72.3	95.2	22.8	126.9
Auxiliary Revenues/Sales & Services of Educational Activities	13.7	11.2	(2.6)	13.0
Net Investment Income	7.1	6.6	(0.5)	8.5
Other Operating Revenues/Gift Contributions for Operations	11.1	9.1	(2.0)	21.6
Total Revenues	355.2	385.2	30.0	550.8
Salaries and Wages/Payroll Related Costs	253.7	277.4	23.7	354.5
Materials and Supplies/Cost of Goods Sold	14.1	15.1	1.0	19.7
Depreciation and Amortization	34.3	37.9	3.7	52.3
Other Contracted Services/Professional Fees & Services	12.0	15.1	3.1	20.5
All Other Operating Expenses	75.4	85.0	9.6	134.4
Total Expenses	\$ 389.3	430.4	41.1	581.3
Adjusted Income (Loss)	(34.2)	(45.2)	(11.0)	(30.5)
Adjusted Income (Loss) Excluding Depr & Amort Exp	0.1	(7.3)	(7.4)	21.8

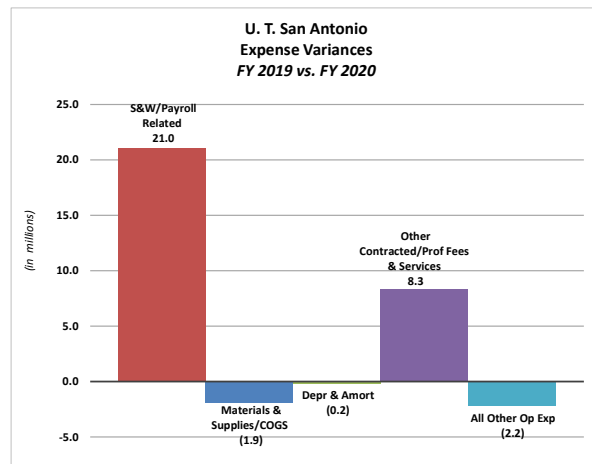
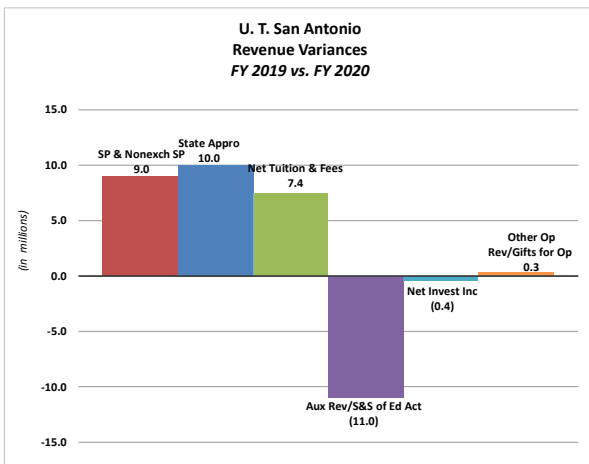


Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending May 31, 2020

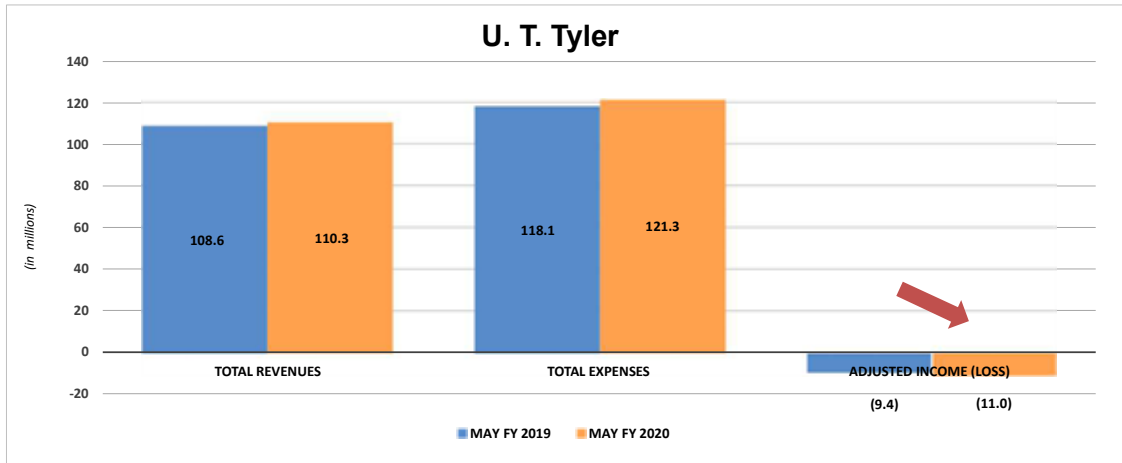


U. T. San Antonio incurred a year-to-date adjusted loss of \$25.4 million, an increase in adjusted loss of \$9.7 million (61%) from the prior year. The increase was primarily attributable to the following: an increase in salaries and wages and payroll related costs due to merit increases and increases in faculty positions; a decrease in auxiliary and sales and services revenues as a result of COVID-19; and an increase in professional fees and services attributable to various strategic initiatives. *U. T. San Antonio* estimated a total of \$10.0 million of nonmandatory student fees for housing, meal plans, and student parking would be refunded in 2020 as a result of COVID-19. For the period ending May 31, 2020, *U. T. San Antonio* refunded \$9.4 million of those fees. The most current projection received from *U. T. San Antonio* reflects a loss of \$31.5 million for the year.

(in millions)	May YTD FY 2019	May YTD FY 2020	Variance	Annual Projected FY 2020
Sponsored Programs/Nonexchange Sponsored Programs	\$ 103.4	112.4	9.0	149.8
State Appropriations	87.3	97.4	10.0	129.8
Net Tuition and Fees	156.7	164.2	7.4	218.9
Auxiliary Revenues/Sales & Services of Educational Activities	45.9	35.0	(11.0)	46.6
Net Investment Income	16.8	16.4	(0.4)	21.9
Other Operating Revenues/Gift Contributions for Operations	7.8	8.1	0.3	11.4
Total Revenues	418.0	433.4	15.4	578.5
Salaries and Wages/Payroll Related Costs	248.1	269.1	21.0	358.8
Materials and Supplies/Cost of Goods Sold	21.7	19.8	(1.9)	26.4
Depreciation and Amortization	37.3	37.1	(0.2)	49.5
Other Contracted Services/Professional Fees & Services	23.1	31.4	8.3	39.4
All Other Operating Expenses	103.6	101.4	(2.2)	135.9
Total Expenses	\$ 433.7	458.8	25.0	610.0
Adjusted Income (Loss)	(15.7)	(25.4)	(9.7)	(31.5)
Adjusted Income (Loss) Excluding Depr & Amort Exp	21.6	11.7	(9.9)	17.9

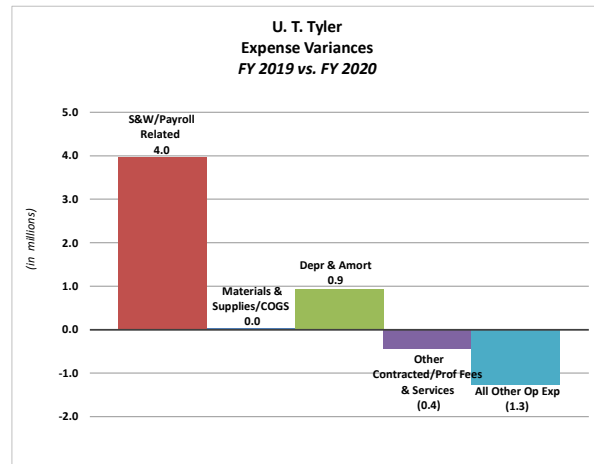
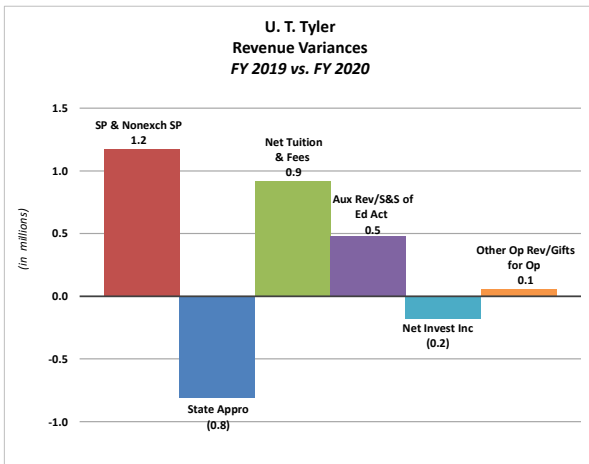


Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending May 31, 2020

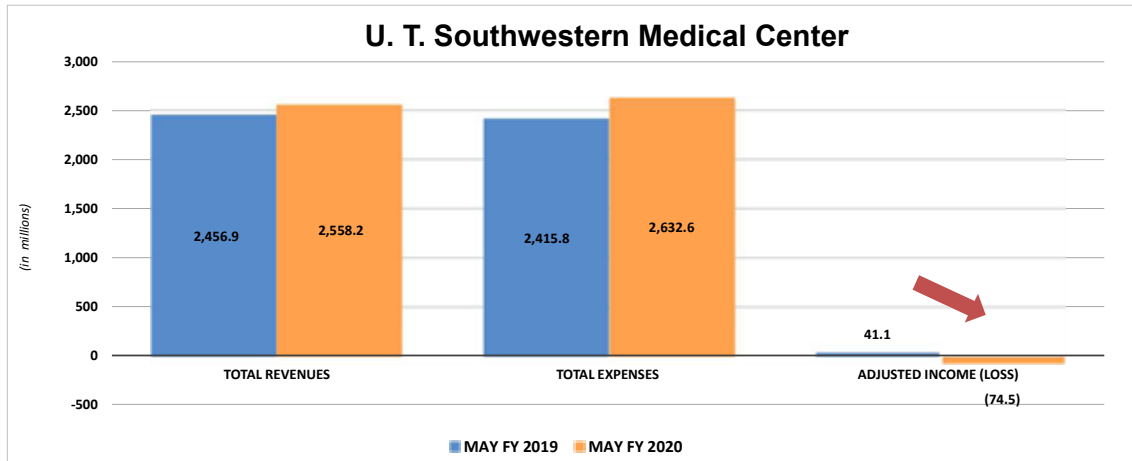


U. T. Tyler incurred a year-to-date adjusted loss of \$11.0 million, an increase in adjusted loss of \$1.6 million (17%) from the prior year. The increase was primarily due to an increase in salaries and wages and payroll related costs as a result of increased faculty levels due to new and growing academic programs such as Pharmacy. *U. T. Tyler* estimated a total of \$3.0 million of nonmandatory student fees for housing, meal plans, and student parking would be refunded in 2020 as a result of COVID-19. For the period ending May 31, 2020, *U. T. Tyler* refunded \$1.3 million of those fees. The most current projection received from *U. T. Tyler* reflects a loss of \$15.6 million for the year.

(in millions)	May YTD FY 2019	May YTD FY 2020	Variance	Annual Projected FY 2020
Sponsored Programs/Nonexchange Sponsored Programs	\$ 17.5	18.7	1.2	26.8
State Appropriations	25.7	24.9	(0.8)	33.2
Net Tuition and Fees	40.8	41.7	0.9	56.4
Auxiliary Revenues/Sales & Services of Educational Activities	18.6	19.1	0.5	20.6
Net Investment Income	4.8	4.6	(0.2)	6.8
Other Operating Revenues/Gift Contributions for Operations	1.2	1.2	0.1	2.8
Total Revenues	108.6	110.3	1.6	146.5
Salaries and Wages/Payroll Related Costs	70.8	74.8	4.0	94.0
Materials and Supplies/Cost of Goods Sold	6.9	7.0	0.0	10.1
Depreciation and Amortization	12.0	12.9	0.9	17.1
Other Contracted Services/Professional Fees & Services	8.4	8.0	(0.4)	12.5
All Other Operating Expenses	20.0	18.7	(1.3)	28.5
Total Expenses	\$ 118.1	121.3	3.2	162.1
Adjusted Income (Loss)	(9.4)	(11.0)	(1.6)	(15.6)
Adjusted Income (Loss) Excluding Depr & Amort Exp	2.5	1.9	(0.7)	1.5

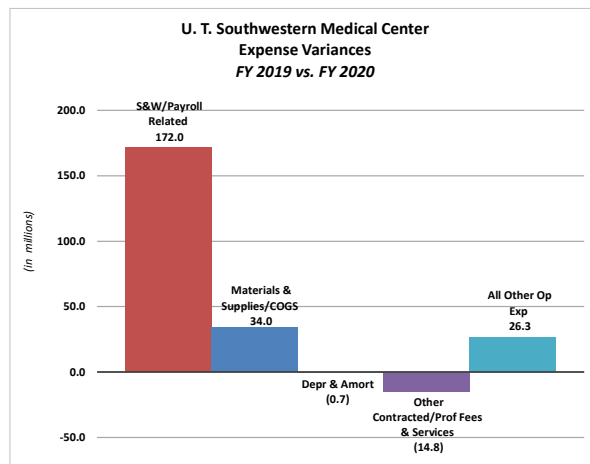
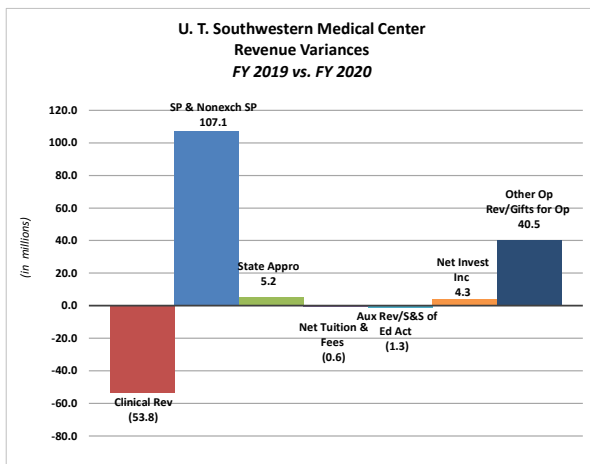


Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending May 31, 2020

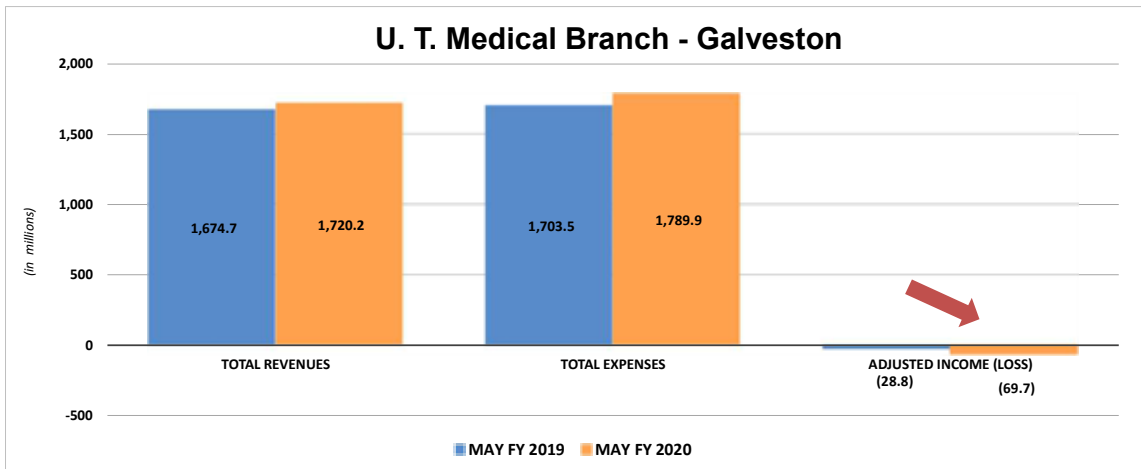


U. T. Southwestern Medical Center incurred a year-to-date adjusted loss of \$74.5 million, a decrease of \$115.6 million (281%) from the prior year. The decrease was primarily attributable to the following: an increase in salaries and wages and payroll related costs as a result of growth in both the hospitals and clinical operations, as well as merit increases; a decrease in clinical revenues due to COVID-19 restrictions on patient visits partially offset by \$34.6 million of CARES Act Relief Funds in nonexchange sponsored programs; and an increase in materials and supplies primarily due to increased drugs and medical supplies driven by patient volumes and patient acuity. The most current projection received from U. T. Southwestern Medical Center reflects a loss of \$128.9 million for the year.

(in millions)	May YTD FY 2019	May YTD FY 2020	Variance	Annual Projected FY 2020
Clinical Revenues	\$ 1,618.3	1,564.5	(53.8)	2,098.9
Sponsored Programs/Nonexchange Sponsored Programs	442.2	549.3	107.1	713.8
State Appropriations	131.0	136.3	5.2	182.5
Net Tuition and Fees	20.3	19.6	(0.6)	26.7
Auxiliary Revenues/Sales & Services of Educational Activities	25.1	23.8	(1.3)	36.6
Net Investment Income	97.5	101.8	4.3	130.3
Other Operating Revenues/Gift Contributions for Operations	122.4	162.9	40.5	222.2
Total Revenues	2,456.9	2,558.2	101.3	3,411.2
Salaries and Wages/Payroll Related Costs	1,500.0	1,672.0	172.0	2,255.3
Materials and Supplies/Cost of Goods Sold	455.5	489.5	34.0	653.5
Depreciation and Amortization	135.9	135.2	(0.7)	183.6
Other Contracted Services/Professional Fees & Services	173.9	159.1	(14.8)	204.4
All Other Operating Expenses	150.5	176.8	26.3	243.3
Total Expenses	\$ 2,415.8	2,632.6	216.9	3,540.1
Adjusted Income (Loss)	41.1	(74.5)	(115.6)	(128.9)
Adjusted Income (Loss) Excluding Depr & Amort Exp	177.0	60.7	(116.3)	54.8

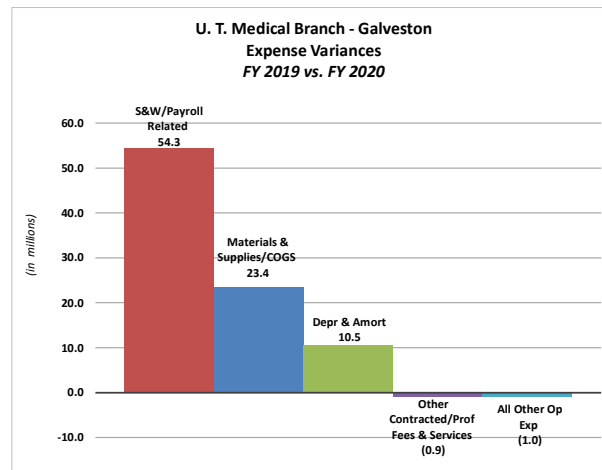
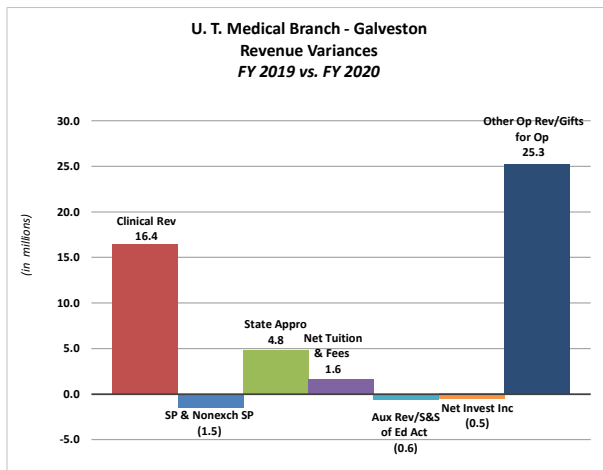


Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending May 31, 2020

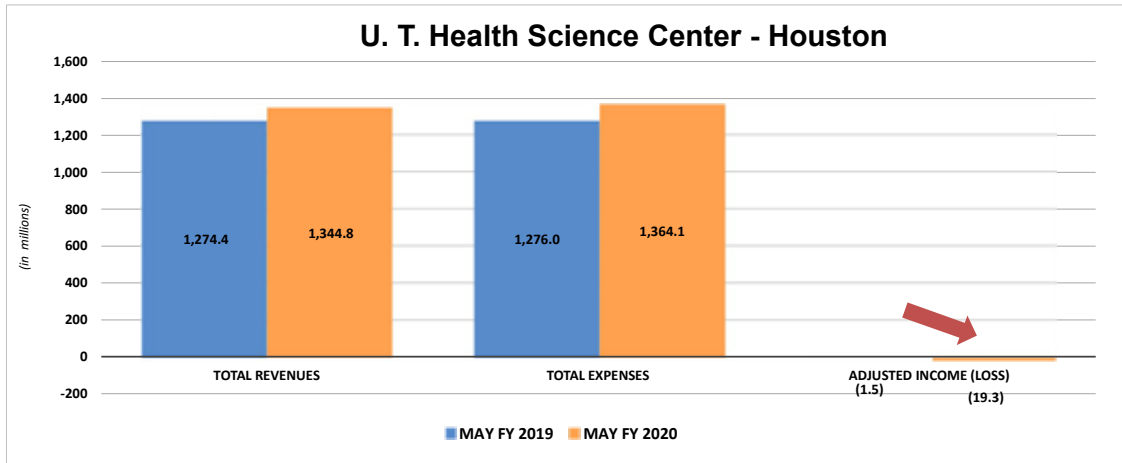


U. T. Medical Branch - Galveston incurred a year-to-date adjusted loss of \$69.7 million, an increase in adjusted loss of \$40.9 million (142%) from the prior year. Part of this increase was planned for the current fiscal year with the addition of the Clear Lake Campus, which increased clinical revenues. The increased revenues were offset primarily by the following: an increase in salaries and wages and payroll related costs as a result of increases in staff and faculty positions associated with the opening of the Clear Lake Campus and merit increases; an increase in materials and supplies due to the Clear Lake Campus expenses, an increase in Correctional Managed Care expenses related to pharmaceuticals, and an increase in medical supplies in preparation for COVID-19; and an increase in depreciation and amortization expense as a result of various projects placed into service including the Clear Lake Campus. For the period ending May 31, 2020, *U. T. Medical Branch - Galveston* reported \$12.4 million of CARES Act Relief Funds in other operating revenues. While *U. T. Medical Branch - Galveston* is showing improvement in clinical revenues, May results were negatively impacted by COVID-19. The most current projection received from *U. T. Medical Branch - Galveston* reflects a loss of \$93.5 million for the year.

(in millions)	May YTD FY 2019	May YTD FY 2020	Variance	Annual Projected FY 2020
Clinical Revenues	\$ 1,108.3	1,124.7	16.4	1,502.4
Sponsored Programs/Nonexchange Sponsored Programs	149.0	147.6	(1.5)	203.7
State Appropriations	265.8	270.6	4.8	361.9
Net Tuition and Fees	32.5	34.1	1.6	45.6
Auxiliary Revenues/Sales & Services of Educational Activities	21.8	21.2	(0.6)	29.7
Net Investment Income	49.6	49.1	(0.5)	63.1
Other Operating Revenues/Gift Contributions for Operations	47.6	72.9	25.3	103.0
Total Revenues	1,674.7	1,720.2	45.5	2,309.3
Salaries and Wages/Payroll Related Costs	1,038.6	1,093.0	54.3	1,437.3
Materials and Supplies/Cost of Goods Sold	208.6	232.1	23.4	304.2
Depreciation and Amortization	133.3	143.8	10.5	194.6
Other Contracted Services/Professional Fees & Services	151.7	150.8	(0.9)	220.2
All Other Operating Expenses	171.2	170.2	(1.0)	246.5
Total Expenses	\$ 1,703.5	1,789.9	86.3	2,402.7
Adjusted Income (Loss)	(28.8)	(69.7)	(40.9)	(93.5)
Adjusted Income (Loss) Excluding Depr & Amort Exp	104.5	74.1	(30.4)	101.1

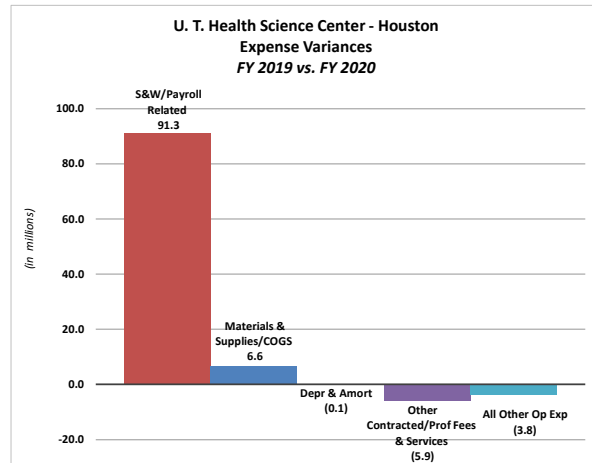
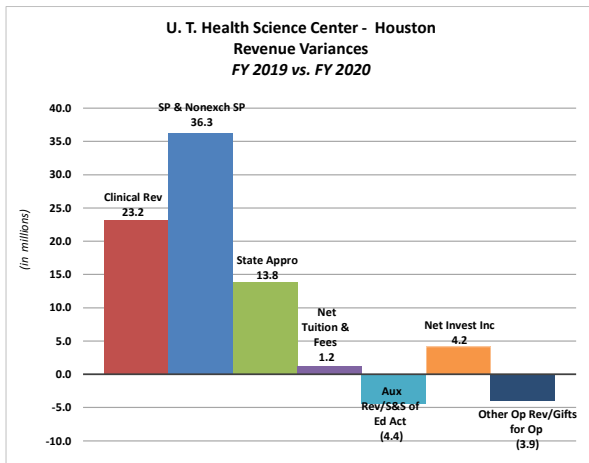


Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending May 31, 2020

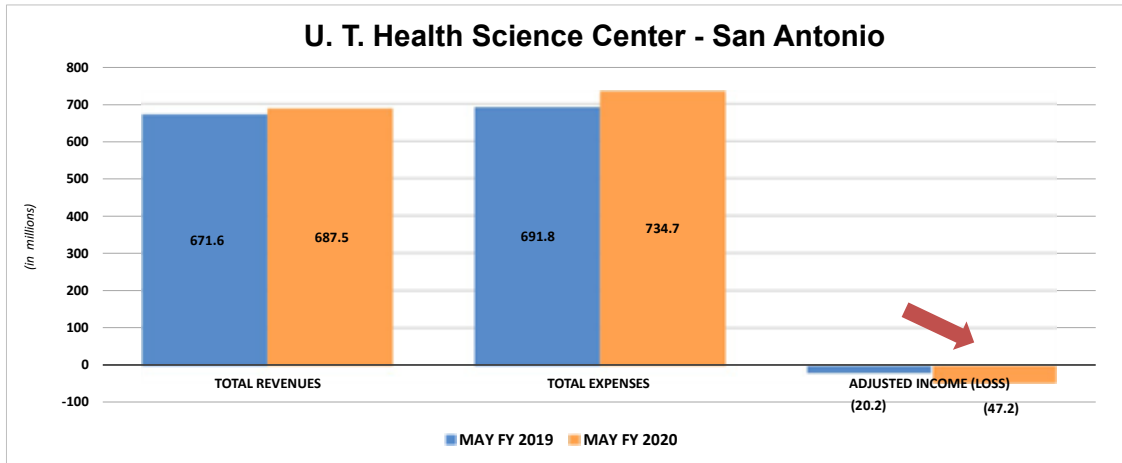


U. T. Health Science Center - Houston incurred a year-to-date adjusted loss of \$19.3 million, an increase in adjusted loss of \$17.8 million (1,158%) from the prior year. The increase was primarily attributable to an increase in salaries and wages and payroll related costs due to increases in staff and faculty positions. For the period ending May 31, 2020, *U. T. Health Science Center - Houston* reported \$4.4 million of CARES Act Relief Funds primarily in other operating revenues. While *U. T. Health Science Center - Houston* is showing improvement in clinical revenues, May results were negatively impacted by COVID-19. The most current projection received from *U. T. Health Science Center - Houston* reflects a loss of \$7.7 million for the year.

(in millions)	May YTD FY 2019	May YTD FY 2020	Variance	Annual Projected FY 2020
Clinical Revenues	\$ 340.7	363.9	23.2	492.1
Sponsored Programs/Nonexchange Sponsored Programs	596.4	632.7	36.3	855.4
State Appropriations	148.5	162.3	13.8	197.9
Net Tuition and Fees	45.9	47.2	1.2	61.3
Auxiliary Revenues/Sales & Services of Educational Activities	53.7	49.4	(4.4)	60.5
Net Investment Income	41.0	45.2	4.2	57.6
Other Operating Revenues/Gift Contributions for Operations	48.1	44.2	(3.9)	73.8
Total Revenues	1,274.4	1,344.8	70.4	1,798.6
Salaries and Wages/Payroll Related Costs	939.5	1,030.8	91.3	1,377.6
Materials and Supplies/Cost of Goods Sold	66.9	73.6	6.6	92.9
Depreciation and Amortization	50.3	50.3	(0.1)	67.0
Other Contracted Services/Professional Fees & Services	101.7	95.8	(5.9)	128.6
All Other Operating Expenses	117.4	113.6	(3.8)	140.2
Total Expenses	\$ 1,276.0	1,364.1	88.2	1,806.3
Adjusted Income (Loss)	(1.5)	(19.3)	(17.8)	(7.7)
Adjusted Income (Loss) Excluding Depr & Amort Exp	48.8	31.0	(17.8)	59.2

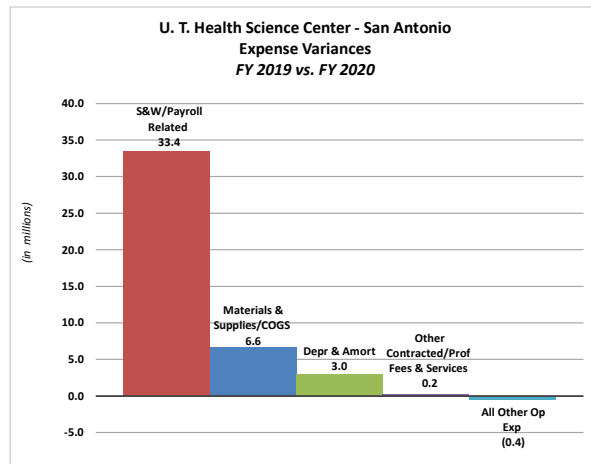
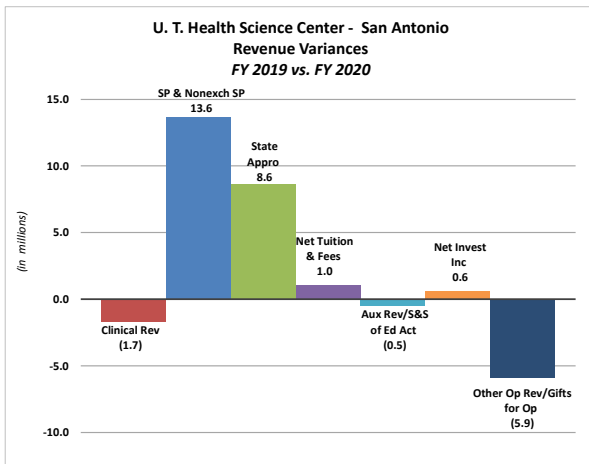


Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending May 31, 2020

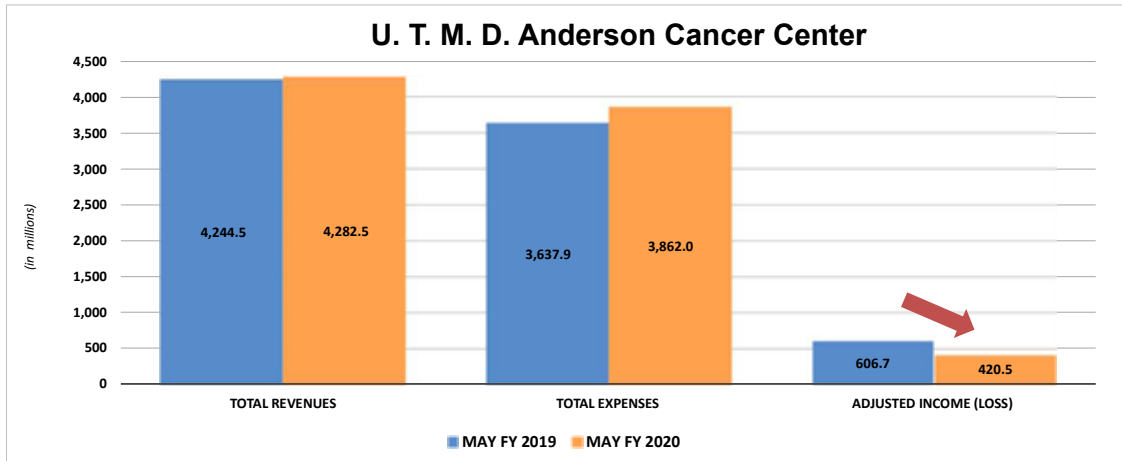


U. T. Health Science Center - San Antonio incurred a year-to-date adjusted loss of \$47.2 million, an increase in adjusted loss of \$26.9 million (133%) from the prior year. The increase was primarily due to the following: an increase in salaries and wages and payroll related costs attributable to increased clinical faculty and staff positions as a result of growth associated with expanded clinical facilities; an increase in materials and supplies due to an increase in drug supply purchases related to the Cancer Center pharmacy and U. T. Health Physicians; a decrease in gift contributions for operations attributable to a decline in pledges as compared to the prior year; a decrease in other operating revenues as a result of a decline in Delivery System Reform Incentive Payment (DSRIP) revenues; and a decrease in clinical revenues due to COVID-19 restrictions on patient visits partially offset by \$3.1 million of CARES Act Relief Funds in sponsored programs. The most current projection received from U. T. Health Science Center - San Antonio reflects a loss of \$44.9 million for the year.

(in millions)	May YTD FY 2019	May YTD FY 2020	Variance	Annual Projected FY 2020
Clinical Revenues	\$ 175.5	173.8	(1.7)	236.8
Sponsored Programs/Nonexchange Sponsored Programs	259.1	272.8	13.6	348.4
State Appropriations	118.4	127.0	8.6	169.3
Net Tuition and Fees	35.7	36.8	1.0	49.5
Auxiliary Revenues/Sales & Services of Educational Activities	24.4	23.9	(0.5)	30.8
Net Investment Income	34.4	35.0	0.6	41.6
Other Operating Revenues/Gift Contributions for Operations	24.1	18.3	(5.9)	36.3
Total Revenues	671.6	687.5	15.9	912.7
Salaries and Wages/Payroll Related Costs	463.1	496.5	33.4	655.6
Materials and Supplies/Cost of Goods Sold	66.4	73.0	6.6	93.2
Depreciation and Amortization	42.8	45.8	3.0	61.0
Other Contracted Services/Professional Fees & Services	43.9	44.1	0.2	53.7
All Other Operating Expenses	75.7	75.3	(0.4)	94.1
Total Expenses	\$ 691.8	734.7	42.8	957.6
Adjusted Income (Loss)	(20.2)	(47.2)	(26.9)	(44.9)
Adjusted Income (Loss) Excluding Depr & Amort Exp	22.5	(1.4)	(23.9)	16.1

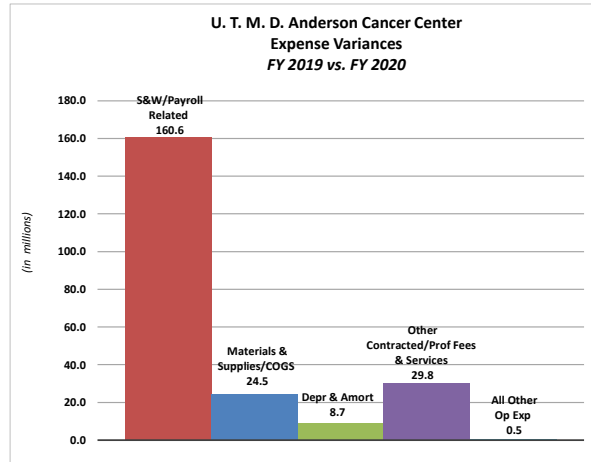
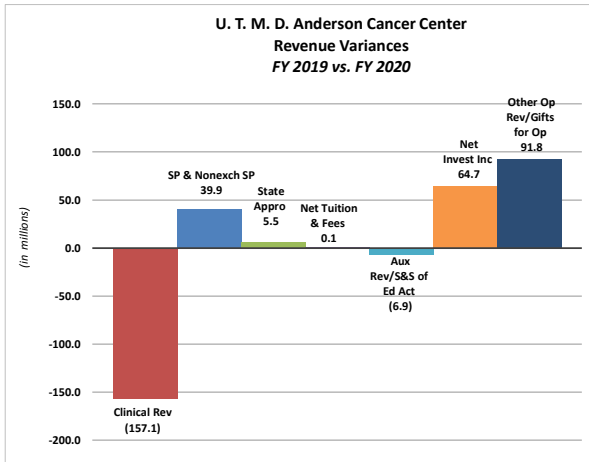


Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending May 31, 2020

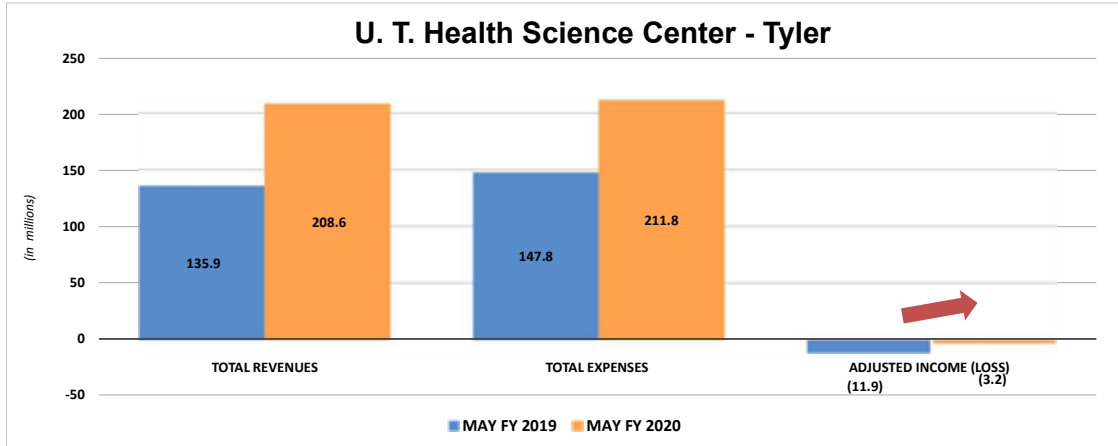


U. T. M. D. Anderson Cancer Center reported year-to-date adjusted income of \$420.5 million, a decrease of \$186.2 million (31%) from the prior year. The decrease was primarily attributable to the following: an increase in salaries and wages and payroll related costs due to increases in staff and faculty positions; and a decrease in clinical revenues due to COVID-19 restrictions on patient visits partially offset by \$83.5 million of CARES Act Relief Funds in other operating revenues. The most current projection received from U. T. M. D. Anderson Cancer Center reflects income of \$598.2 million for the year.

(in millions)	May YTD FY 2019	May YTD FY 2020	Variance	Annual Projected FY 2020
Clinical Revenues	\$ 3,395.2	3,238.1	(157.1)	4,417.7
Sponsored Programs/Nonexchange Sponsored Programs	292.8	332.7	39.9	533.2
State Appropriations	148.6	154.1	5.5	206.2
Net Tuition and Fees	1.8	1.9	0.1	1.9
Auxiliary Revenues/Sales & Services of Educational Activities	37.0	30.1	(6.9)	36.6
Net Investment Income	187.5	252.2	64.7	316.4
Other Operating Revenues/Gift Contributions for Operations	181.5	273.3	91.8	242.2
Total Revenues	4,244.5	4,282.5	38.0	5,754.3
Salaries and Wages/Payroll Related Costs	2,042.6	2,203.2	160.6	2,932.6
Materials and Supplies/Cost of Goods Sold	845.3	869.8	24.5	1,159.2
Depreciation and Amortization	264.9	273.7	8.7	368.7
Other Contracted Services/Professional Fees & Services	241.7	271.4	29.8	361.8
All Other Operating Expenses	243.3	243.9	0.5	333.7
Total Expenses	\$ 3,637.9	3,862.0	224.2	5,156.0
Adjusted Income (Loss)	606.7	420.5	(186.2)	598.2
Adjusted Income (Loss) Excluding Depr & Amort Exp	871.6	694.2	(177.4)	966.9

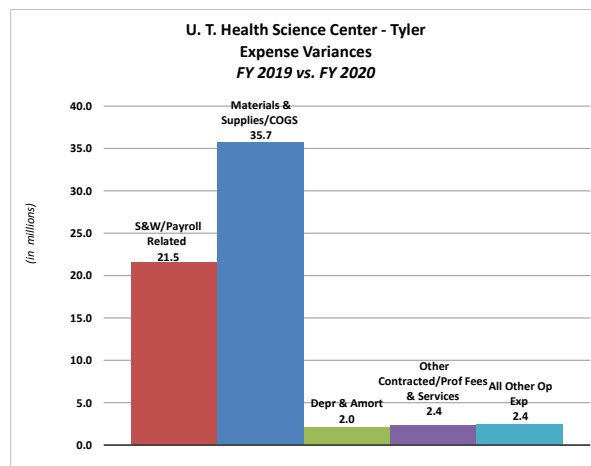
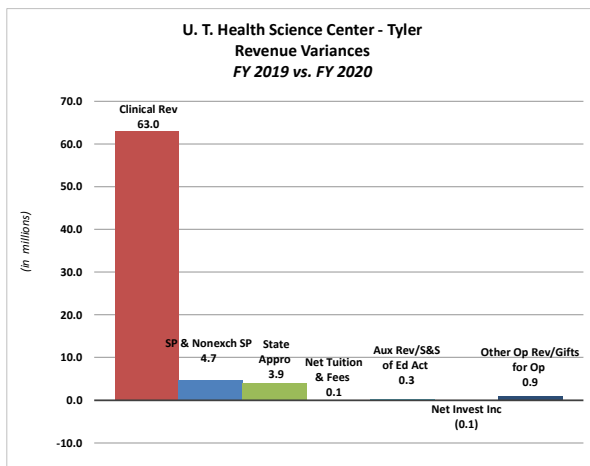


Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending May 31, 2020



U. T. Health Science Center - Tyler incurred a year-to-date adjusted loss of \$3.2 million, a decrease in adjusted loss of \$8.7 million (73%) from the prior year. The decrease was primarily due to an increase in clinical revenues related to the acquisition of the Hope Oncology practice. For the period ending May 31, 2020, *U. T. Health Science Center - Tyler* reported \$1.9 million of CARES Act Relief Funds in nonexchange sponsored programs. While *U. T. Health Science Center - Tyler* is showing improvement in clinical revenues, May results were negatively impacted by COVID-19. The most current projection received from *U. T. Health Science Center - Tyler* reflects income of \$12.3 million for the year due to a recently executed major gift pledge agreement.

(in millions)	May YTD FY 2019	May YTD FY 2020	Variance	Annual Projected FY 2020
Clinical Revenues	\$ 45.5	108.5	63.0	144.3
Sponsored Programs/Nonexchange Sponsored Programs	23.1	27.8	4.7	37.1
State Appropriations	36.3	40.2	3.9	53.6
Net Tuition and Fees	0.2	0.3	0.1	0.4
Auxiliary Revenues/Sales & Services of Educational Activities	3.2	3.4	0.3	4.5
Net Investment Income	2.9	2.7	(0.1)	3.6
Other Operating Revenues/Gift Contributions for Operations	24.8	25.7 *	0.9	50.9 *
Total Revenues	135.9	208.6	72.7	294.4
Salaries and Wages/Payroll Related Costs	92.0	113.5	21.5	151.4
Materials and Supplies/Cost of Goods Sold	15.9	51.6	35.7	66.7
Depreciation and Amortization	10.8	12.8	2.0	17.1
Other Contracted Services/Professional Fees & Services	18.0	20.3	2.4	28.9
All Other Operating Expenses	11.1	13.5	2.4	18.1
Total Expenses	\$ 147.8	211.8	64.0	282.1
Adjusted Income (Loss)	(11.9)	(3.2)	8.7	12.3
Adjusted Income (Loss) Excluding Depr & Amort Exp	(1.0)	9.7	10.7	29.4



*Other Operating Income includes 30% of UT Health East Texas' (UTHET's) net adjusted income which was \$5.0 million through May. The projected income of \$12.3 million includes \$6.7 million of UTHET's net adjusted income for the year.

3. U. T. System Board of Regents: Approval of annual distributions from the Permanent University Fund, the Permanent Health Fund, the Long Term Fund, and the Intermediate Term Fund

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Business Affairs in the recommendation that

- a. the Fiscal Year 2021 distribution from the Permanent University Fund (PUF) to the Available University Fund (AUF) be increased from \$1,061,390,000 to \$1,112,265,000 effective September 1, 2020;
- b. the distribution rate for the Permanent Health Fund (PHF) be increased from \$0.0641 per unit to \$0.0655 per unit for Fiscal Year 2021 (effective with November 30, 2020 distribution);
- c. the distribution rate for the U. T. System Long Term Fund (LTF) be increased from \$0.3574 per unit to \$0.3578 per unit for Fiscal Year 2021 (effective with November 30, 2020 distribution); and
- d. the distribution rate for the U. T. System Intermediate Term Fund (ITF) remain at 3.0% per annum (paid monthly) for Fiscal Year 2021.

BACKGROUND INFORMATION

Article VII, Section 18 of the Texas Constitution requires that the amount of distributions to the AUF be determined by the Board of Regents of The University Texas System (Board of Regents) in a manner intended to provide the AUF with a stable and predictable stream of annual distributions and to maintain over time the purchasing power of PUF investments and annual distributions to the AUF. The recommendation will increase PUF distributions by the average rate of inflation for the trailing 12 quarters plus 2.65%.

The Constitution further limits the Board of Regents' discretion to set annual PUF distributions to the satisfaction of three tests:

- 1. The amount of PUF distributions to the AUF in a fiscal year must be not less than the amount needed to pay the principal and interest due and owing in that fiscal year on PUF bonds and notes. The proposed distribution of \$1,112,265,000 is substantially greater than PUF bond debt service of \$424,000,000 projected for Fiscal Year 2021.

<u>System</u>	<u>Debt Service</u>
U. T.	\$ 257,800,000
TAMU	166,200,000
Total:	\$ 424,000,000

Sources: U. T. System Office of Finance
 Texas A&M University System Office of
 Treasury Services

2. The Board of Regents may not increase annual PUF distributions to the AUF (except as necessary to pay PUF debt service) if the purchasing power of PUF investments for any rolling 10-year period has not been preserved. As the schedule below indicates, the average annual increase in the rate of growth of the value of PUF investments (net of expenses, inflation, and distributions) for the trailing 10-year period ended February 28, 2020, was 6.51%, which indicates that the purchasing power test was met.

Average Annual	Percent
Rate of Total Return, Net of Investment Manager Fees	7.89%
Mineral Interest Receipts	5.33%
Expense Rate	(0.20%) ⁽¹⁾
Inflation Rate	(1.79%)
Distribution Rate	(4.72%)
Net Real Return	6.51%

(1) The expense rate as shown is a 10-year annualized average and includes PUF Land Expenses and PUF investment management costs other than investment manager fees. Investment management fees are a reduction to the Rate of Total Return.

3. The annual distribution from the PUF to the AUF during any fiscal year made by the Board of Regents may not exceed an amount equal to 7% of the average net fair market value of PUF investment assets as determined by the Board of Regents (except as necessary to pay PUF bond debt service). The annual distribution rate calculated using the trailing 20-quarter average value of the PUF is within the 7% maximum allowable distribution rate.

Value of PUF Investments (1)	Proposed Distribution	Proposed Distribution as a % of Value of PUF Investments	Maximum Allowed Rate
\$20,209,897,470	\$ 1,112,265,000	5.50%	7.00%

(1) Source: UTIMCO

The spending policy objectives of the PHF and LTF are to:

- a. provide a predictable stable stream of distributions over time;
- b. ensure that the inflation-adjusted value of the distributions is maintained over the long term; and
- c. ensure that the inflation-adjusted value of the assets of the PHF and the LTF, as appropriate after distributions, is maintained over the long term.

The increase in the consumer price index for the prior three years as of November 30, 2019, was 2.14%. The recommended 2.14% increase in the PHF distribution rate of \$0.0641 to \$0.0655 per unit will increase the distributions by the average rate of inflation for the trailing 12 quarters. The PHF's distribution rate calculated using the prior 12-quarter average value of the PHF is 4.57%.

On November 14, 2019, the Board of Regents authorized a maximum 0.80% allocation (80 basis points) from the market value of the LTF to provide additional funding for development operations at U. T. institutions to substantially increase philanthropic revenue. The proposed LTF distribution rate of \$0.3578 per unit or 4.70% of the market value of the LTF plus the 0.80% development allocation will result in a total LTF spending rate of 5.50% of the prior 12-quarter average value of the LTF.

The distribution rate for the ITF was originally set at 3.0% per annum for Fiscal Year 2007 by the U. T. Board on May 11, 2006, and has continued at that rate for each succeeding fiscal year. The recommendation for Fiscal Year 2021 is to continue a distribution rate of 3.0%.

4. U. T. System Board of Regents: Equipment financing authorization for Fiscal Year 2021 and resolution regarding parity debt

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. System Board of Regents

- a. approve an aggregate amount of \$204,750,000 of Revenue Financing System Equipment Financing for FY 2021 as allocated to those U. T. System institutions listed in the table at the end of this item; and
- b. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that
 - parity debt shall be issued to pay the cost of equipment including costs incurred prior to the issuance of such parity debt;
 - sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. System Board of Regents relating to the Financing System;
 - the U. T. System institutions, which are “Members” as such term is used in the Master Resolution, possess the financial capacity to satisfy their direct obligation as defined in the Master Resolution relating to the issuance by the U. T. System Board of Regents of tax-exempt parity debt in the aggregate amount of \$204,750,000 for the purchase of equipment; and
 - this resolution satisfies the official intent requirements set forth in Section 1.150-2 of Title 26 of the *Code of Federal Regulations* that evidences the Board's intention to reimburse project expenditures with bond proceeds.

BACKGROUND INFORMATION

On April 14, 1994, the U. T. System Board of Regents approved the use of Revenue Financing System debt for equipment purchases in accordance with the Guidelines Governing Administration of the Revenue Financing System. Equipment financing is used for the purchase of equipment in lieu of more costly vendor financing. The guidelines specify that the equipment to be financed must have a useful life of at least three years. The debt is amortized four times a year with full amortization period not to exceed 10 years.

This agenda item requests approval of an aggregate amount of \$204,750,000 for equipment financing for Fiscal Year 2021. On August 15, 2019, the U. T. System Board of Regents approved a total of \$247,565,000 of equipment financing for Fiscal Year 2020. Through July 31, 2020, \$120,145,000 of equipment financing has been utilized for Fiscal Year 2020.

Further details on the equipment to be financed and leverage ratios for individual institutions may be found on the following page.

U. T. SYSTEM EQUIPMENT FINANCING - INSTITUTION REQUESTS
FY 2021

Institution	\$ Amount of Request	Description of Expected Capital Equipment	Spendable Cash & Investments to Total Debt ⁽¹⁾⁽²⁾
U. T. Arlington	\$920,000	Police vehicles, Baseball and softball scoreboards	2.6x
U. T. Dallas	10,000,000	General purpose equipment supporting University's instruction, research & business operations	1.1x
U. T. El Paso	200,000	Facilities Services, Purchasing, Environmental Health & Safety and equipment for the Indio Ranch Research facility	1.9x
U. T. Rio Grande Valley	2,000,000	Network upgrades	4.4x
U. T. San Antonio	6,480,000	Public Safety vehicles, Equipment for Athletic and Academic buildings, Modular student success center	2.0x
U. T. Southwestern Medical Center	30,000,000	Information resources projects; clinical and hospital equipment	1.1x
U. T. Medical Branch - Galveston	30,000,000	Clinical, IT infrastructure, research-related, and facility-related equipment	0.7x
U. T. Health Science Center - Houston	10,000,000	Research and clinical equipment, IT infrastructure	4.6x
U. T. Health Science Center - San Antonio	20,000,000	Clinical transformation and research equipment related to primary care, cancer, longevity and aging studies	3.2x
U. T. M. D. Anderson Cancer Center	70,000,000	Medical, diagnostic, research, vehicles, information systems and IT infrastructure	6.0x
U. T. Health Science Center - Tyler	25,150,000	Clinical/Laboratory and IT equipment	-0.5x
Total	\$204,750,000		

(1) Ratios are based on FY2019 Analysis of Financial Condition (Feb 2020) and exclude TRB debt service.

(2) For the health-related institutions, the ratio reflected is Unrestricted Cash & Investments to Total Debt instead of Spendable Cash & Investments to Total Debt.

U. T. System Office of Finance, July 10, 2020

5. U. T. System Board of Regents: Adoption of a Resolution authorizing the issuance, sale, and delivery of Permanent University Fund Bonds and authorization to complete all related transactions

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. System Board of Regents

- a. adopt a Resolution, substantially in the form previously approved by the U. T. System Board of Regents, authorizing the issuance, sale, and delivery of Board of Regents of The University of Texas System Permanent University Fund (PUF) Bonds in one or more installments in an aggregate principal amount not to exceed \$750 million to be used to refund certain outstanding PUF Bonds, to refund PUF Commercial Paper Notes, to provide new money to fund construction and acquisition costs, and to pay the costs of issuance; and
- b. authorize appropriate officers and employees of U. T. System as set forth in the Resolution to take any and all actions necessary to carry out the intentions of the U. T. System Board of Regents within the limitations and procedures specified therein; to make certain covenants and agreements in connection therewith; and to resolve other matters incident and related to the issuance, sale, security, and delivery of such bonds.

BACKGROUND INFORMATION

On August 15, 2019, the Board of Regents adopted a resolution authorizing the issuance of PUF Bonds in an amount not to exceed \$600 million for Fiscal Year 2020. Adoption of this Resolution would provide \$750 million of authorization for similar purposes for Fiscal Year 2021. Approval of this item does not allocate additional PUF debt for capital projects.

Adoption of this Resolution would authorize the advance or current refunding of a portion of certain outstanding PUF Bonds provided that an advance refunding exceeds a minimum 3% present value debt service savings threshold. An advance refunding involves issuing bonds to refund outstanding bonds more than 90 days in advance of the call date, whereas a current refunding involves issuing bonds to refund outstanding bonds within 90 days of the call date. Refunding bonds are issued at lower interest rates thereby producing debt service savings. Adoption of this Resolution would provide the flexibility to select the particular bonds to be refunded depending on market conditions at the time of pricing. The Resolution provides that additional PUF Bonds may be refunded if such refunding is determined to be in the best interest of the U. T. System.

The Resolution would also authorize the current refunding of all or a portion of the PUF Commercial Paper Notes. The PUF Commercial Paper Note program is used to provide interim financing for PUF projects approved by the Board. Adoption of the Resolution would permit the interim financing provided through the Notes to be replaced with long-term financing. The Resolution would also authorize the issuance of bonds to provide new money to fund the capital costs of eligible projects.

The Resolution would also authorize the appropriate officers and employees of the U. T. System to refund outstanding PUF Bonds pursuant to a tender program and to use lawfully available funds to defease outstanding PUF Bonds when economically advantageous.

The proposed Resolution has been reviewed by outside bond counsel and the U. T. System Office of General Counsel.

Note: The proposed Resolution is available online at <https://utsystem.edu/board-of-regents/meetings/board-meeting-2020-08-19>.

6. U. T. System Board of Regents: Adoption of a Supplemental Resolution authorizing the issuance, sale, and delivery of Revenue Financing System Bonds and authorization to complete all related transactions

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. System Board of Regents

- a. adopt a Supplemental Resolution, substantially in the form previously approved by the U. T. System Board of Regents, authorizing the issuance, sale, and delivery of Board of Regents of The University of Texas System Revenue Financing System (RFS) Bonds in one or more installments in an aggregate principal amount not to exceed \$850 million to be used to refund certain outstanding RFS Bonds, to refund RFS Commercial Paper Notes, to provide new money to fund construction and acquisition costs of projects in the Capital Improvement Program, and to pay the costs of issuance; and
- b. authorize appropriate officers and employees of U. T. System as set forth in the Supplemental Resolution to take any and all actions necessary to carry out the intentions of the U. T. System Board of Regents within the limitations and procedures specified therein; to make certain covenants and agreements in connection therewith; and to resolve other matters incident and related to the issuance, sale, security, and delivery of such RFS Bonds.

BACKGROUND INFORMATION

On August 15, 2019, the Board of Regents adopted the 34th Supplemental Resolution authorizing the issuance of additional RFS Bonds in an amount not to exceed \$750 million. Adoption of this 35th Supplemental Resolution would provide authority to finance additional projects approved by the Board of Regents under the same provisions as the prior resolution.

Adoption of the Supplemental Resolution would authorize the advance or current refunding of a portion of certain outstanding RFS Bonds provided that an advance refunding exceeds a minimum 3% present value debt service savings threshold. An advance refunding involves issuing bonds to refund outstanding bonds more than 90 days in advance of the call date whereas a current refunding involves issuing bonds to refund outstanding bonds within 90 days of the call date. Refunding bonds are issued at lower interest rates thereby producing debt service savings. Adoption of this Supplemental Resolution will provide the flexibility to select the particular bonds to be refunded depending on market conditions at the time of pricing.

The Supplemental Resolution would also authorize the current refunding of all or a portion of the RFS Commercial Paper Notes. The RFS Commercial Paper Note program is used to provide interim financing for RFS projects approved by the Board. Adoption of the Supplemental Resolution will permit the interim financing provided through the Notes to be replaced with long-term financing. The Supplemental Resolution would also authorize the issuance of bonds to provide new money to fund the capital costs of eligible projects.

The Supplemental Resolution would also authorize the appropriate officers and employees of the U. T. System to refund outstanding RFS Bonds pursuant to a tender program and to use lawfully available funds to defease outstanding RFS Bonds when economically advantageous.

The proposed Supplemental Resolution has been reviewed by outside bond counsel and the U. T. System Office of General Counsel.

Note: The proposed Resolution is available online at <https://utsystem.edu/board-of-regents/meetings/board-meeting-2020-08-19>.

7. **U. T. System Board of Regents: Adoption of resolutions authorizing certain bond enhancement agreements for Revenue Financing System debt and Permanent University Fund debt, including ratification of U. T. System Interest Rate Swap Policy (Regents' Rule 70202)**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. System Board of Regents adopt resolutions substantially in the form previously approved by the U. T. System Board of Regents (the Resolutions) authorizing appropriate officers of the U. T. System to enter into bond enhancement agreements related to its Revenue Financing System (RFS) and Permanent University Fund (PUF) debt programs in accordance with the U. T. System Interest Rate Swap Policy and to take any and all actions necessary to carry out the intentions of the U. T. System Board of Regents.

BACKGROUND INFORMATION

Texas Education Code Section 65.461 provides specific authority to the U. T. System Board of Regents to enter into "bond enhancement agreements," which include interest rate swaps and related agreements in connection with administration of the U. T. System's RFS and PUF debt programs.

The U. T. System Interest Rate Swap Policy was approved by the Board of Regents as a Regental Policy on February 13, 2003, and was incorporated into the Regents' *Rules and Regulations*, Rule 70202, on December 10, 2004. The Rule was subsequently amended on August 23, 2007. Section 1371.056(l) of the *Texas Government Code* requires that while an interest rate management agreement transaction is outstanding, the governing body of the issuer shall review and ratify or modify its related risk management policy at least biennially.

On August 15, 2019, the Board approved bond enhancement agreement resolutions for FY 2020. Approval of this item would authorize the execution of bond enhancement agreement transactions related to RFS and PUF debt in accordance with the U. T. System Interest Rate Swap Policy for FY 2021 and will ratify the existing U. T. System Interest Rate Swap Policy, set out on the following pages and included as Exhibit B to both resolutions, as required by *Texas Government Code* Section 1371.056. The determination to utilize bond enhancement agreements will be made based on market conditions at the time of pricing the related debt issuance. The Chancellor and the Chairman of the Board's Finance and Planning Committee will be informed in advance of any proposed transactions to be undertaken pursuant to the resolutions.

Note: The proposed Resolutions are available online at <https://utsystem.edu/board-of-regents/meetings/board-meeting-2020-08-19>.

**The University of Texas System
Rules and Regulations of the Board of Regents**

Rule: 70202

1. Title

Interest Rate Swap Policy

2. Rule and Regulation

- Sec. 1 Authority. *Texas Education Code*, [Chapter 55](#), including Section [55.13](#), *Texas Education Code*, [Chapter 65](#), including Section [65.461](#), and *Texas Government Code*, [Chapter 1371](#), including Section [1371.056](#), authorize the Board of Regents (Board) of The University of Texas System (U. T. System) to enter into interest rate management agreements and bond enhancement agreements (collectively “swaps”).
- Sec. 2 Purpose. This policy will govern the use of swaps in connection with the U. T. System’s management of its debt programs, including the Permanent University Fund and Revenue Financing System debt programs. By using swaps in a prudent manner, the U. T. System can increase the U. T. System’s financial flexibility, provide opportunities for interest rate savings, allow the U. T. System to actively manage asset and liability interest rate risk, take advantage of market opportunities to lower the overall cost of debt, balance interest rate risk, or hedge other exposures. The use of swaps must be tied directly to U. T. System debt instruments. The U. T. System shall not enter into swaps for speculative purposes.
- Sec. 3 Legality/Approval. Prior to entering into a swap, the U. T. System must receive approval from the Board of Regents (which may include a delegation of authority to an Authorized Representative to enter into one or more swaps) and any required approvals from the Texas Attorney General and the Texas Bond Review Board. The U. T. System will also secure an opinion acceptable to the Authorized Representative from legal counsel that the swap is a legal, valid, and binding obligation of the U. T. System and that entering into the swap complies with applicable State and federal laws.
- Sec. 4 Form of Agreements. Each interest rate swap shall contain terms and conditions as set forth in the International Swaps and Derivatives Association, Inc. (ISDA) Master Agreement, as amended, and such other terms and conditions including schedules, credit support annexes, and confirmations as deemed necessary by an Authorized Representative.

**The University of Texas System
Rules and Regulations of the Board of Regents**

Rule: 70202

- Sec. 5 Methods of Procuring Swaps. Swaps can be procured via competitive bids or on a negotiated basis with counterparties or its credit support providers having credit ratings of 'A' or 'A2' or better from Standard & Poor's or Moody's, respectively.
- 5.1 Competitive. The competitive bid should include a minimum of three firms. An Authorized Representative may allow a firm or firms not submitting the bid that produces the lowest cost to match the lowest bid and be awarded a specified percentage of the notional amount of the swap.
- 5.2 Negotiated. An Authorized Representative may procure swaps by negotiated methods in the following situations:
- (a) A determination is made by an Authorized Representative that due to the complexity of a particular swap, a negotiated bid would result in the most favorable pricing;
 - (b) A determination is made by an Authorized Representative that, in light of the facts and circumstances, a negotiated bid will promote the U. T. System's interests by encouraging and rewarding innovation; or
 - (c) A determination is made by an Authorized Representative that a competitive bid would likely create market pricing effects that would be detrimental to the interests of the U. T. System.
- Sec. 6 Counterparty Risk. Counterparty risk is the risk of a failure by one of the U. T. System's swap counterparties to perform as required under a swap. To mitigate this risk, the U. T. System will 1) diversify its exposure among highly rated swap counterparties satisfying the rating criteria set forth in Section 5 above; 2) require collateralization as set forth below; and 3) include an optional termination event if the counterparty (or its credit support provider, if applicable) is downgraded below a second (lower) threshold.
- 6.1 Value Owed by Counterparty. To limit and diversify the U. T. System's counterparty risk and to monitor credit exposure to each counterparty, the U. T. System may not enter into a swap with an otherwise qualified counterparty

**The University of Texas System
Rules and Regulations of the Board of Regents**

Rule: 70202

unless the cumulative mark-to-market value owed by the counterparty (and its credit support provider, if applicable) to the U. T. System shall be less than or equal to the applicable threshold amount set forth in Section 6.3 below.

6.2 Calculation of Value Owed. The value owed shall be the sum of all mark-to-market values between the subject counterparty and the U. T. System regardless of the type of swap, net of collateral posted by the counterparty. Collateral will consist of cash, U.S. Treasury securities, and Federal Agency securities guaranteed unconditionally by the full faith and credit of the U.S. Government. Collateral shall be deposited with a third party trustee acceptable to U. T. System or as mutually agreed upon between U. T. System and each counterparty.

6.3 Threshold Amounts Based on Credit Rating. Specific threshold amounts by counterparty are based on the cumulative mark-to-market value of the swap(s) and the credit rating of the counterparty or its credit support provider. The threshold amounts are as follows:

(a) AAA / Aaa	\$30 million
(b) AA+ / Aa1	\$25 million
(c) AA / Aa2	\$20 million
(d) AA- / Aa3	\$15 million
(e) A+ / A1	\$10 million
(f) A / A2	\$ 5 million

6.4 Downgraded Rating. If the credit rating of a counterparty or its credit support provider is downgraded such that the cumulative mark-to-market value of all swaps between such counterparty and the U. T. System exceeds the maximum permitted by this policy, the counterparty must post collateral or provide other credit enhancement that is satisfactory to the U. T. System and ensures compliance with this policy.

Sec. 7 Termination Risk. The U. T. System shall consider the merits of including a provision that permits optional termination at any time over the term of the swap (elective termination right). In general, exercising the right to optionally terminate a swap should produce a benefit to the U. T. System, either through

**The University of Texas System
Rules and Regulations of the Board of Regents**

Rule: 70202

receipt of a payment from a termination, or if a termination payment is made by the U. T. System, a conversion to a more beneficial debt instrument or credit relationship. It is possible that a termination payment by the U. T. System may be required in the event of termination of a swap due to a counterparty default or following a decrease in credit rating.

- Sec. 8 Amortization Risk. The amortization schedules of the debt and associated swap should be closely matched for the duration of the swap. Mismatched amortization schedules can result in a less than satisfactory hedge and create unnecessary risk. In no circumstance may (i) the notional amount of a swap exceed the principal amount of the related debt at any time, or (ii) the term of a swap extend beyond the final maturity date of the related debt instrument, or in the case of a refunding transaction, beyond the final maturity date of the refunding bonds.
- Sec. 9 Basis Risk. Basis risk arises as a result of movement in the underlying variable rate indices that may not be in tandem, creating a cost differential that could result in a net cash outflow from the U. T. System. Basis risk can also result from the use of floating, but different, indices. To mitigate basis risk, any index used as part of a swap shall be a recognized market index, including but not limited to the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index or the London Interbank Offered Rate (LIBOR).
- Sec. 10 Tax Risk. Tax risk is the risk that tax laws will change, resulting in a change in the marginal tax rates on swaps and their underlying assets. Tax risk is present in all tax-exempt debt issuances. The U. T. System Office of Finance will continually monitor and evaluate tax risk.
- Sec. 11 Interest Rate Risk. Interest rate risk is the risk that costs associated with variable rate exposure increase as a result of changes in market interest rates. Additional interest rate risk can be created by entering into certain types of swaps. The U. T. System Office of Finance will incorporate the impact of each swap on the overall debt portfolio.
- Sec. 12 Reporting.
- 12.1 The U. T. System Office of Finance staff will report to the Board within 30 days of completion of any swap transaction.

**The University of Texas System
Rules and Regulations of the Board of Regents**

Rule: 70202

12.2 The Annual Financial Report prepared by the U. T. System and presented to the Board of Regents will discuss the status of all swaps. The report shall include a list of all swaps with notional value and interest rates, a list of counterparties (and credit support providers, if applicable) and their respective credit ratings, and other key terms.

Sec. 13 Qualified Independent Representative. In connection with Commodities Futures Trading Commission Rule 23.450(b)(1), an Authorized Representative will select a qualified independent representative (QIR) to advise the U. T. System Office of Finance on derivative transactions, and U. T. System Office of Finance staff will monitor the performance of such QIR on an ongoing basis. The U. T. System Office of Finance will consult with the QIR prior to entering into or modifying any derivative transactions.

3. Definitions

Authorized Representative – includes the Executive Vice Chancellor for Business Affairs, the Vice Chancellor and General Counsel, the Associate Vice Chancellor for Finance, and the Assistant Vice Chancellor for Finance.

Counterparty – a participant in a swap who exchanges payments based on interest rates or other criteria with another counterparty.

Counterparty Long-Term Debt Rating – lowest prevailing rating from Standard & Poor's / Moody's.

Hedge – a transaction entered into to reduce exposure to market fluctuations.

Interest Rate Swap – a swap in which two parties agree to exchange future net cash flows based on predetermined interest rates or indices calculated on an agreed notional amount. An interest rate swap is not a debt instrument and there is no exchange of principal.

ISDA Master Agreement – the International Swaps and Derivatives Association, Inc. (ISDA), is the global trade association for the derivatives industry. The ISDA Master Agreement is the basic governing document that serves as a framework for all interest rate swaps and certain other

**The University of Texas System
Rules and Regulations of the Board of Regents**

Rule: 70202

types of swaps between two counterparties. It is a standard form used throughout the industry. It is typically negotiated once, prior to the first swap transaction, and remains in force for all subsequent swap transactions.

London Interbank Offered Rate (LIBOR) – the rate of interest at which banks borrow funds from other banks in the London interbank market. It is a commonly used benchmark for swaps.

Mark-to-Market – calculation of the value of a financial instrument (like an interest rate swap) based on the current market rates or prices of the underlying indices.

Maximum cumulative mark-to-market – value of swaps owed to the U. T. System by counterparty (net of collateral posted).

Notional Amount – the size of the swap and the dollar amount used to calculate interest payments.

SIFMA Index – the principal benchmark for floating rate payments for tax-exempt issuers [formerly known as the Bond Market Association (BMA) Municipal Swap index]. The index is a national rate based on a market basket of high-grade, seven-day, tax-exempt variable rate bond issues.

4. Relevant Federal and State Statutes

Texas Education Code, [Chapter 55](#) – Financing Permanent Improvements

Texas Education Code, [Chapter 65](#) – Administration of The University of Texas System

Texas Government Code, [Chapter 1371](#) – Obligations for Certain Public Improvements

5. Relevant System Policies, Procedures, and Forms

None

6. Who Should Know

Administrators

7. System Administration Office(s) Responsible for Rule

Office of Business Affairs

**The University of Texas System
Rules and Regulations of the Board of Regents**

Rule: 70202

8. Dates Approved or Amended

Editorial amendment to Number 3 made July 24, 2012
Editorial amendments made June 30, 2011
August 23, 2007
December 10, 2004

9. Contact Information

Questions or comments regarding this Rule should be directed to:

- bor@utsystem.edu

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

Mr. Britt Harris, President, Chief Executive Officer, and Chief Investment Officer, will provide an update on The University of Texas/Texas A&M Investment Management Company (UTIMCO).

9. U. T. System Board of Regents: Approval of revisions to the amended and restated The University of Texas/Texas A&M Investment Management Company (UTIMCO) Compensation Program

RECOMMENDATION

The Chancellor and the Executive Vice Chancellor for Business Affairs concur in the recommendation of The University of Texas/Texas A&M Investment Management Company Board of Directors (UTIMCO Board) that the U. T. System Board of Regents (U. T. System Board) approve the amended and restated UTIMCO Compensation Program (Plan) effective July 1, 2020, as set forth in congressional style on the following pages. The Plan was approved by the UTIMCO Board on June 11, 2020, and amends and restates the UTIMCO Compensation Program that was approved by the U. T. System Board on September 6, 2018 (Prior Plan).

BACKGROUND INFORMATION

The Plan consists of two elements: base salary and an annual performance plan. The UTIMCO Board has the discretion to interpret, adopt such rules and regulations it deems necessary to carry out the Plan, and amend the Plan.

The proposed changes are as follows:

- a) Section 1 has been changed to reflect a new effective date of July 1, 2020.
- b) Section 5.8 has been changed to remove language which is no longer necessary as it related to the prior plan amendments that changed the Performance Period end dates from August 31st to June 30th.
- c) Section 5.8 also has language added to clarify the original intent that the Peer Group performance is to be measured on a three-year historical performance consistent with the Entity Quantitative Performance three-year historical performance measurement.
- d) Section 7.3 has been changed to update the title of Senior Managing Director.
- e) Appendix A has been updated to change the Total Endowment Assets (TEA) Entity Maximum Performance Standard from 250 basis points (bps) to 200 bps.
- f) Table 1 has been changed to (1) increase the Quantitative Weightings and decrease the Qualitative Weightings for several Eligible Positions; (2) add President to CEO & Chief Investment Officer Eligible Position; (3) move Investment Counsel Eligible Positions to Support and Control Professionals; (4) change Senior Managing Director Eligible Position to Chief Operating Officer; and (5) add four additional Eligible Positions; Chief Investment Officer, General Counsel, Senior Director - Compliance, and Director - Compliance as Eligible Positions in the Plan.

- g) Table 2 has been changed to (1) remove a descriptor from Peer Group since Peer Group is defined in Section 8, Definitions of Terms; (2) decrease the Maximum Performance Standard for the TEA Entity to 200 bps from 250 bps; and (3) add Infrastructure and Strategic Partnerships as Asset Classes consistent with the Investment Policy Statements Strategic Asset Allocation.
- h) Table 3 has been changed to align the Eligible Positions with Table 1 by (1) adding President to CEO & Chief Investment Officer Eligible Position; (2) moving Investment Counsel Eligible Positions to Support and Control Professionals; (3) changing Senior Managing Director Eligible Position to Chief Operating Officer; and (4) adding additional Eligible Positions of Chief Investment Officer and General Counsel.



UTIMCO COMPENSATION PROGRAM

**Amended and Restated
Effective July 1, ~~2020~~2018**

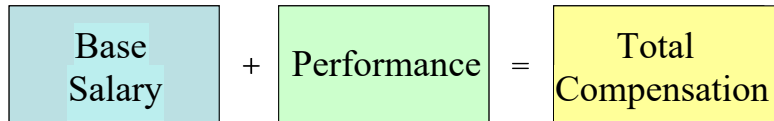
(Tables updated as of July 1, 2019)

TABLE OF CONTENTS

1. Compensation Program Structure and Effective Date	1
2. Compensation Program Objectives	1
3. Total Compensation Program Philosophy.....	2
4. Base Salary Administration.....	2
4.1 Salary Structure	2
4.2 Salary Adjustments	3
5. Performance Plan	3
5.1 Purpose of the Performance Plan	3
5.2 Performance Period.....	3
5.3 Eligibility and Participation	4
5.4 Performance Standards.....	4
5.5 Award Opportunity Levels and Performance Awards	5
5.6 Form and Timing of Payouts of Performance Awards	6
5.7 Nonvested Deferred Awards	7
5.8 Performance Measurement Standards.....	8
5.9 Modifications of Measurement Period for Measuring Entity and Asset Class Performance	10
5.10 Termination Provisions	11
5.11 Eligibility for Retirement	12
5.12 Extraordinary Circumstances	13
5.13 Recovery of Performance Awards	14
6. Compensation Program Authority and Responsibility.....	15
6.1 Board as Plan Administrator	15
6.2 Powers of Board.....	15
7. Compensation Program Interpretation	15
7.1 Board Discretion	15
7.2 Duration, Amendment, and Termination	16
7.3 Recordkeeping and Reporting.....	16
7.4 Continued Employment.....	16
7.5 Non-transferability of Awards	16
7.6 Unfunded Liability	17
7.7 Compliance with State and Federal Law.....	17
7.8 Federal, State, and Local Tax and Other Deductions.....	17
7.9 Prior Plan.....	17
8. Definition of Terms.....	19
Appendix A	A-1
Table 1	B-1
Table 2	C-1
Table 3	D-1

1. COMPENSATION PROGRAM STRUCTURE AND EFFECTIVE DATE

The UTIMCO Compensation Program (“Compensation Program” or “Plan”) consists of two elements: base salary and an annual performance plan (the “Performance Plan”):



The base salary portion of the Compensation Program sets forth a structure and guidelines for establishing and adjusting the salaries of key investment and operations employees. The Performance Plan portion of the Compensation Program sets forth the criteria for calculating and receiving annual performance awards for key investment and operations employees who are eligible Participants in the Performance Plan. Provisions of the Compensation Program relating solely to the base salary portion of the Compensation Program are described in Section 4. Provisions of the Compensation Program relating solely to the Performance Plan portion of the Compensation Program are described in Section 5. Sections 1, 2, 3, 6, 7, and 8 of the Compensation Program relate to both the base salary portion and the Performance Plan portion except where otherwise specified in any such Section.

Effective Date: Except as provided in Section 7.9, this document, with an “Effective Date” of July 1, ~~2020~~²⁰¹⁸, supersedes the UTIMCO Compensation Program that was effective ~~July 1, 2018~~^{September 1, 2015}.

2. COMPENSATION PROGRAM OBJECTIVES

UTIMCO’s Compensation Program serves a number of objectives:

- To attract and retain key investment and operations employees of outstanding competence and ability.
- To encourage key investment employees to develop a strong commitment to the performance of the assets for which UTIMCO has been delegated investment responsibility.
- To motivate key investment employees to focus on maximizing real, long-term returns for all funds managed by UTIMCO while assuming appropriate levels of risk.
- To facilitate teamwork so that members of UTIMCO operate as a cohesive group.

3. TOTAL COMPENSATION PROGRAM PHILOSOPHY¹

UTIMCO aspires to attract and retain high caliber employees from nationally recognized peer institutions and the investment management community in general. UTIMCO strives to provide a total compensation program that is competitive nationally, with the elements of compensation evaluated relative to comparably sized university endowments, foundations, and for-profit investment management firms with a similar investment philosophy (e.g., externally managed funds).

UTIMCO's total Compensation Program is positioned against the competitive market as follows:

- Base salaries are targeted at the market median (e.g., 50th percentile).
- Target total compensation (salary plus target Award Opportunity) is positioned at the market median.
- Maximum total compensation (salary plus maximum Award Opportunity) is targeted at the market 75th percentile if individual performance is outstanding.

Although base salaries, as well as target and maximum total compensation, have a targeted positioning relative to market, an individual employee's actual total compensation may vary from the targeted positioning based on the individual's experience, education, knowledge, skills, and performance as well as UTIMCO's investment performance as described in this document. Except as provided in Sections 5.8 and 5.9 for purposes of determining the length of historical performance, base salaries and Award Opportunities (as well as the actual Performance Awards) are not determined based on seniority at UTIMCO.

4. BASE SALARY ADMINISTRATION

4.1. *Salary Structure*

- (a) Base salaries are administered through a Salary Structure as set forth in this Section 4.1. Each employment position has its own salary range, with the midpoint set approximately equal to the market median base salary for employment positions with similar job content and level of responsibility.
- (b) The salary range midpoints will be determined by the Compensation Committee based on consultation with an outside compensation consultant and with UTIMCO management. Salary range midpoints for key management, investment, and operations positions will be updated at least every three years based on a salary benchmarking study conducted by a qualified compensation consultant selected by the Compensation Committee. In years in which the Compensation Committee does not commission a formal salary survey, the

¹ This explanation of UTIMCO's "Total Compensation Program Philosophy" is not intended to modify any of the substantive provisions of this document.

base salary midpoints may be adjusted at the Compensation Committee's discretion based on expected annual salary structure adjustments as reported in one or more published compensation planning surveys.

4.2. *Salary Adjustments*

- (a) The base salary of the CEO is determined by the Board. The base salary of the Chief Compliance Officer ("CCO") will be determined by the Compensation Committee based on the joint recommendation of the Audit and Ethics Committee and the CEO and the base salaries of the other key investment and operations employees are determined by the Compensation Committee. Base salaries will be set within the salary range for each employment position. An individual's base salary within the range may be higher or lower than the salary range midpoint based on his or her level of experience, education, knowledge, skills, and performance. On an exception basis, the Board may set individual base salaries outside of the salary range if an individual either substantially exceeds or does not meet all of the market criteria for a particular position.
- (b) Individuals may receive an annual adjustment (increase or decrease) of their base salaries at the discretion of the Compensation Committee or, in the case of the CEO, at the discretion of the Board. Base salary adjustments, if any, will be determined based on each individual employee's experience, education, knowledge, skills, and performance; provided that, in the case of the CCO, any such adjustment shall be based on the joint recommendation of the Audit and Ethics Committee and the CEO. Employees are not guaranteed an annual salary increase.

5. PERFORMANCE PLAN

5.1. *Purpose of the Performance Plan*

The purpose of the Performance Plan is to provide annual Performance Awards to eligible Participants based on specific objective criteria relative to UTIMCO's and each Participant's performance. The primary objectives of the Performance Plan are outlined in Section 2.

5.2. *Performance Period*

- (a) For purposes of the Performance Plan, the "Performance Period" begins on July 1 of each year and ends the following June 30.
- (b) Except as otherwise provided under Sections 5.8 and 5.9, performance for each year in the historical performance period will be measured between July 1 and the following June 30 of the applicable year for gauging achievement of the Quantitative Performance Standard.

5.3. *Eligibility and Participation*

- (a) As further described in (b), each employee of UTIMCO who holds an “Eligible Position” will be a “Participant” in the Performance Plan for a Performance Period. “Eligible Positions” for a Performance Period include senior management, investment employees, and other key positions as designated by the CEO and approved by the Board as Eligible Positions for that Performance Period. An employment position that is an Eligible Position in one Performance Period is not automatically an Eligible Position in any subsequent Performance Period. The Board in its discretion may also designate the employment position of a newly hired or promoted employee as an “Eligible Position” during a Performance Period. A list of Eligible Positions for each Performance Period is set forth in Table 1. Table 1 will be revised and attached each Performance Period when necessary to set forth the Eligible Positions for that Performance Period.
- (b) An employee in an Eligible Position will become a Participant on the later of (i) the date he or she is employed in an Eligible Position or (ii) the first day of the Performance Period if the employee is employed on that date. The preceding notwithstanding, an employee may not commence participation in the Performance Plan and first become a Participant during the last six months of any Performance Period.
- (c) An employee will cease to be a Participant in the Performance Plan on the earliest to occur of: (i) the date such employee is no longer employed in an Eligible Position; (ii) the date of Termination of such employee’s employment with UTIMCO for any reason (including Voluntary Termination and Involuntary Termination, death, and Disability); (iii) the date of termination of the Performance Plan; (iv) the date such employee commences a leave of absence; or (v) the date such employee begins participation in any other UTIMCO performance program.
- (d) Except as provided in Sections 5.10(b) and (c), only individuals who are Participants on the last day of a Performance Period are eligible to receive Performance Awards under the Performance Plan for that Performance Period.

5.4. *Performance Standards*

- (a) There are two categories of Performance Standards:
 - (1) Quantitative Performance (measured as described in Section 5.8(a))
 - (2) Qualitative Performance (measured as described in Section 5.8(b))

Except for the CEO and CCO, Qualitative Performance Standards will be defined jointly by each Participant and his or her supervisor, subject to approval by the CEO. If the position of the CCO is determined to be an Eligible Position, the Qualitative Performance Standards of the employee holding the

position of CCO will be determined jointly by the Chairman of the Audit and Ethics Committee and the CEO. References to the CCO hereafter assume that the position of CCO has been determined to be an Eligible Position and the employee holding the position of CCO has been determined to be a Participant in the Performance Incentive Plan for the Performance Period. If the position of CCO has not been determined to be an Eligible Position for the Performance Period the provisions hereafter specific to the CCO have no force and effect.

- (b) The CEO's Performance Standards will be determined and approved by the Board.
- (c) Each Performance Standard for each Eligible Position is assigned a weight for the Performance Period. The Chairman of the Audit and Ethics Committee and the CEO will jointly recommend to the Compensation Committee the weightings of the Performance Standards for the CCO. The weightings for each Eligible Position are set forth in Table 1. Table 1 will be revised and attached each Performance Period when necessary to set forth the weightings for the Eligible Positions for that Performance Period as soon as administratively practicable after such weightings are approved by the Compensation Committee for such Performance Period. The weightings for the Performance Standards for each Performance Period are subject to approval by the Board.

5.5. Award Opportunity Levels and Performance Awards

- (a) Each Eligible Position is assigned an "Award Opportunity" for each Performance Standard for the Participants in that Eligible Position and each Award Opportunity is expressed as a percentage of base salary earned during the Performance Period. The Award Opportunities include a threshold and maximum award for achieving commensurate levels of performance of the respective Performance Standard.
- (b) Award Opportunities for each Performance Period are set forth in Table 1. Table 1 will be revised and attached each Performance Period when necessary to set forth the Award Opportunities for that Performance Period as soon as administratively practicable after approval of the Award Opportunities by the Board for such Performance Period.
- (c) Actual "Performance Awards" are the amounts that are actually awarded to Participants for the respective Performance Period. Actual Performance Awards will range from zero (if a Participant performs at or below threshold on all Performance Standards) to the maximum Award Opportunity (if a Participant performs at or above maximum on all Performance Standards) depending on performance relative to objectives. Awards are capped at maximum levels regardless of whether a Participant exceeds the stated maximum Performance Standards.

- (d) Following the end of each Performance Period, the Compensation Committee will review the actual performance of each Participant against the Performance Standards of the respective Participant and determine the Participant's level of achievement of his or her Performance Standards. The Compensation Committee may seek and rely on the independent confirmation of the level of Performance Standard achievement from an external investment consultant to evaluate Entity Performance, Asset Class Performance, and Peer Group Performance. The CEO will submit a written report to the Compensation Committee, which documents the Participant's performance relative to the Participant's Performance Standards set at the beginning of the Performance Period, and upon which the Compensation Committee may rely in evaluating the Participant's performance. The Audit and Ethics Committee and the CEO will jointly determine the CCO's level of achievement relative to the CCO's Performance Standards. The Board will determine the CEO's level of achievement relative to the CEO's Performance Standards.
- (e) Performance Awards will be calculated for each Participant based on the percentage achieved of each Performance Standard, taking into account the weightings for the Participant's Quantitative Performance and Qualitative Performance Standards and each Participant's Award Opportunity. The methodology for calculating Award Opportunities and Performance Awards is presented on Appendix A. Performance Awards will be interpolated in a linear fashion between threshold and maximum.
- (f) Within 180 days following the end of a Performance Period, and after review by the external auditor, the Compensation Committee will review all Performance Award calculations, and make any changes it deems appropriate. The Compensation Committee will submit its recommendations to the Board for approval. Subject to the provisions of Section 7.1, the Board will approve Performance Awards.
- (g) Following the approval of a Performance Award by the Board, each Participant will be notified as to the amount, if any, of his or her Performance Award as well as the terms, provisions, conditions, and limitations of the Nonvested Deferred Award portion of such Performance Award.

5.6. Form and Timing of Payouts of Performance Awards

Except as provided in Sections 5.11, 5.12, and 5.13, approved Performance Awards will be paid as follows:

- (a) Subject to the Applicable Deferral Percentage of an Eligible Position as documented in Table 1, the Performance Award will be paid to the Participant ("Paid Performance Award") within 180 days of the completion of the Performance Period on a date selected in the discretion of UTIMCO and in no event later than the last day of the calendar year in which the Performance Period ends, and

- (b) An amount of the Performance Award for an Eligible Position equal to the Applicable Deferral Percentage set forth on Table 1 will be treated as a “Nonvested Deferred Award” subject to the terms of Section 5.7 and paid in accordance with that Section. Table 1 will be revised and attached, as necessary, for each Performance Period to set forth any Applicable Deferral Percentage for each Eligible Position as soon as administratively practicable after approval of the deferral percentages by the Board for such Performance Period.

5.7. *Nonvested Deferred Awards*

- (a) For each Performance Period, a hypothetical account on UTIMCO’s books (“Nonvested Deferred Award Account”) will be established for each Participant. As of the date that the corresponding Paid Performance Award is paid to the Participant, each Participant’s Nonvested Deferred Award for a Performance Period will be credited to his or her Nonvested Deferred Award Account established for that Performance Period; provided, however, that, in the case of any Participant whose Nonvested Deferred Award has been forfeited pursuant to Section 5.10(a) or Section 5.13 on the date such Nonvested Deferred Award would be so credited to his or her Nonvested Deferred Award Account, such Nonvested Deferred Award will not be credited to such Participant’s Nonvested Deferred Award Account. The Nonvested Deferred Award Accounts will be credited (or debited) monthly with an amount equal to the net investment returns of the Total Endowment Assets (“Net Returns”) for the month multiplied by the balance of the respective Participant’s Nonvested Deferred Award Account(s) as of the last day of the month. When the Nonvested Deferred Award is initially credited to the Nonvested Deferred Award Account, the Nonvested Deferred Award Account will be credited (or debited) with Net Returns for the month of the initial credit of a Nonvested Deferred Award, but the Net Returns will be prorated to reflect the number of days of the month during which the amounts were credited to the Nonvested Deferred Award Account. Participants are not entitled to their Nonvested Deferred Award Accounts unless and until they become vested in those accounts in accordance with Section 5.7(b).
- (b) Unless a Participant’s Nonvested Deferred Award has been forfeited pursuant to Section 5.10(a) or Section 5.13, such Participant will become vested in, and entitled to payment of, his or her Nonvested Deferred Award Account for each respective Performance Period according to the following schedule:
 - (1) On the first anniversary of the last day of the Performance Period for which the Nonvested Deferred Award was earned, one half of the amount then credited to the Participant’s Nonvested Deferred Award Account for that Performance Period will be vested and paid to the Participant.
 - (2) On the second anniversary of the end of the Performance Period for which the Nonvested Deferred Award was earned, the remaining amount

then credited to the Participant's Nonvested Deferred Award Account for that Performance Period will be vested and paid to the Participant.

- (3) Nonvested Deferred Award Accounts payable under the above paragraphs of this Section 5.7(b) will be paid on a date selected in the discretion of UTIMCO after the applicable portion of any such Nonvested Deferred Award Account becomes vested and in no event later than the last day of the calendar year in which the applicable portion of such Nonvested Deferred Award Account becomes vested.

5.8. Performance Measurement Standards

- (a) Quantitative Performance is comprised of two categories: (i) performance measured against predetermined benchmarks and applicable excess return targets ("Benchmark Performance"), and (ii) performance measured against a predetermined Peer Group ("Peer Group Performance"). Due to the delay in availability of final performance data for private assets, calculation and payment of Performance Awards will be delayed until after such time that performance measurement for these investment areas are available.

- (1) Benchmark Performance is comprised of Entity Performance and Asset Class Performance:

- a. Entity Performance for purposes of the Performance Plan is determined based on the performance of the Total Endowment Assets ("TEA") and the Intermediate Term Fund ("ITF") as stated in Table 1.

- i. The performance of the TEA is measured based on the TEA's performance relative to the TEA Policy Portfolio Return (TEA benchmark).

- ii. The performance of the ITF will be measured based on the performance of the ITF relative to the ITF Policy Portfolio Return (ITF benchmark).

- iii. Performance standards related to the TEA and ITF for each Performance Period beginning after June 30, ~~2020~~²⁰¹⁸, will be updated as necessary and set forth on a revised table for each such Performance Period in Table 2 as soon as administratively practicable after such standards are determined. Performance of the TEA and ITF is measured net of fees, meaning performance is measured after factoring in all administrative and other fees incurred for managing the TEA and ITF.

- iv. Entity Performance will be measured relative to the appropriate benchmark based on three-year historical performance.

- b. Asset Class Performance is the performance of specific asset classes within the TEA and the ITF (such as U.S. public equity, private equity, etc.). Except as provided in Section 5.9, Asset Class Performance will be measured relative to the appropriate benchmark based on three-year historical performance. Performance standards for each asset class will vary depending on the ability to outperform the respective benchmark. The benchmarks for each asset class, as well as threshold and maximum performance standards in effect during the three-year historical period, culminating with the current Performance Period, are set forth on Table 2. Table 2 will be revised and attached, as necessary, for subsequent Performance Periods to reflect new benchmarks, as well as threshold and maximum performance standards, in effect during the three-year historical period, culminating with the subsequent Performance Period, in which event, such revised Table 2 will be attached as soon as administratively practicable after the change in such benchmarks and standards necessitating such change are set.

~~i. For purposes of measuring Asset Class Performance for the Performance Periods beginning July 1, 2016, 2017, and 2018, the three year historical performance asset class benchmark will be the applicable benchmark set forth in Exhibit A of the respective Investment Policy Statement in effect as of September 1, 2018.~~

(2) Peer Group Performance:

- a. The Peer Group will be as defined in Section 8.24.
- b. Peer Group performance will be measured based on the TEA's performance relative to the Peer Group.

c. Peer Group performance will be measured based on three-year historical performance.

~~e.d.~~ Cambridge Associates will determine the performance of the Peer Group annually for the Performance Period. Cambridge Associates will calculate a percentile rank for the performance of the TEA relative to the Peer Group, with the 1st percentile representing the highest rank and the 100th percentile representing the lowest rank.

(b) Qualitative Performance

- (1) The level of a Participant's Qualitative Performance will be measured by the CEO (in the case of the CCO, jointly by the Audit and Ethics Committee and the CEO), subject to approval by the Compensation Committee, based on the level of attainment (below threshold, threshold or maximum) of the Participant's Qualitative Performance Standards for the Performance Period. In the case of the CEO, the level

of the CEO's Qualitative Performance will be measured by the Compensation Committee subject to review and approval by the Board.

- (2) The Qualitative Performance Standard will be measured systematically as part of each Participant's annual performance appraisal process aimed at evaluating, using predetermined standard criteria established before the beginning of each Performance Period, each Participant's adherence to UTIMCO's cultural values, and may include multi-rater feedback regarding a variety of contributions and behaviors needed for organizational success such as interpersonal relationship skills, accountability, effective teamwork, etc.
- (3) For purposes of determining the level of attainment of each Participant's Qualitative Performance Standard for the Performance Period, the Participant will receive 0% (threshold level) if he or she fails to complete any of his or her Qualitative Performance Standards for that Performance Period and the maximum level if he or she successfully completes 100% of his or her Qualitative Performance Standards for that Performance Period (with interpolation for levels of attainment between threshold and maximum).

5.9. *Modifications of Measurement Period for Measuring Entity and Asset Class Performance*

- (a) For purposes of measuring Quantitative Performance, the three-year historical performance cycle will not be utilized for any specific asset class (or subset of an asset class) until that asset class (or subset of that asset class) has three years of historical performance as part of the Performance Plan and, until that time, the actual years (full and partial) of historical performance of that asset class (or subset of that asset class) while part of the Performance Plan will be used as the measurement period.
- (b) For purposes of measuring Quantitative Performance of an asset class (or subset of an asset class) that is removed from the Performance Plan prior to completion of the then in-progress three-year historical performance cycle, the three-year historical performance cycle will not be utilized for that removed asset class (or subset of an asset class), but instead the actual number of full months that the removed asset class was part of the Performance Plan during the then in-progress three-year historical performance cycle will be used as the measurement period.
- (c) For purposes of measuring Asset Class Performance for a particular Participant of an asset class (or subset of an asset class) that is removed from or added to the Participant's responsibility during the then in-progress three-year historical performance cycle, the three-year historical performance cycle will not be utilized for that removed or added asset class (or subset of an asset class), but instead the actual number of full months that the removed or added asset class was part of the Participant's responsibility during the then in-progress three-

year historical performance cycle will be used as the measurement period for evaluating the Asset Class Performance with respect to such Participant.

5.10. Termination Provisions

- (a) Except as otherwise provided in this Section 5.10, any Participant who ceases to be a Participant (either because of Termination of employment with UTIMCO or for any other reason stated in Section 5.3(c)) prior to the end of a Performance Period will not be eligible to receive payment of any Performance Award for that or any subsequent Performance Periods. In addition, a Participant will forfeit any Nonvested Deferred Awards at such Participant's Voluntary Termination or Involuntary Termination for Cause. Further, upon Involuntary Termination for reasons other than Cause, the amount in the Nonvested Deferred Award Accounts of such terminated individual will vest immediately and be paid on a date selected by UTIMCO and in no event later than the last day of the calendar year in which such Termination occurs.
- (b) If a Participant ceases to be a Participant in the Performance Plan under Section 5.3(c) prior to the end of a Performance Period because his or her employment position is no longer an Eligible Position (but such employee continues to be employed with UTIMCO), such Participant's Performance Award for the current Performance Period, if any, will be calculated on a prorated basis from the first day of the Performance Period to the Performance Measurement Date immediately preceding or, if applicable, coinciding with the date the Participant ceases to be in an Eligible Position, and such individual will not be entitled to any Performance Awards for any Performance Period thereafter (unless he or she again becomes a Participant in accordance with Sections 5.3(a) and (b)). All Nonvested Deferred Awards of such individual continue to vest and be paid subject to the provisions of Section 5.7(b).
- (c) If a Participant ceases to be a Participant in the Performance Plan under Section 5.3(c) prior to the end of a Performance Period because his or her employment with UTIMCO terminates due to death or Disability, the Participant's Performance Award for the Performance Period in which Termination occurs, in lieu of any other Performance Award under the Performance Plan, will be calculated on a prorated basis from the first day of the Performance Period to the Performance Measurement Date immediately preceding or, if applicable, coinciding with the date of the Participant's death or Disability, and such individual will not be entitled to any Performance Awards for any Performance Period thereafter (unless he or she again becomes a Participant in accordance with Sections 5.3(a) and (b)). All Nonvested Deferred Award Accounts of such terminated individual will vest immediately and be paid on a date selected in the discretion of UTIMCO and in no event later than the last day of the calendar year in which such termination occurs. Payments under this provision will be made to the estate or designated beneficiaries of the deceased Participant or to the disabled Participant, as applicable.

- (d) If a Participant ceases to be a Participant in the Performance Plan under Section 5.3(c) prior to the end of a Performance Period because he or she commences a leave of absence, such Participant's Performance Award for the current Performance Period, if any, will be calculated on a prorated basis from the first day of the Performance Period to the Performance Measurement Date immediately preceding or coinciding with the date the Participant commences such leave of absence, and such individual will not be entitled to any Performance Awards for any Performance Period thereafter (unless he or she again becomes a Participant in accordance with Sections 5.3(a) and (b)). All Nonvested Deferred Awards of such individual continue to vest and be paid subject to the provisions of Section 5.7(b).
- (e) In the case of any Participant who ceases to be a Participant in the Performance Plan prior to the end of Performance Period and is entitled to a Performance Award or a prorated Performance Award under this Section 5.10, such Performance Award will be calculated at the time and in the manner provided in Section 5.5 and Appendix A and paid in accordance with Section 5.6 and will not be calculated or paid prior to such time.

5.11. Eligibility for Retirement

A participant is eligible for retirement on the last day of the month in which the sum of the Participant's age and years of service, including months of age and months of service credit, equals or exceeds the number 75.

In the case of any Participant who is eligible for retirement, any Performance Incentive Award to which the Participant becomes entitled, as well as any remaining Nonvested Deferred Award, will vest immediately and be includible in the Participant's gross income for Federal income tax purposes in the calendar year in which vesting occurs without regard to when payment is made to the Participant. The vested Performance Incentive Award and any remaining Nonvested Deferred Award will be paid to the participant on a date selected by UTIMCO and in no event later than the last day of the calendar year unless the Participant has agreed to a Voluntary Deferral of all or a portion of his Performance Incentive Award that would otherwise have been deferred had the Participant not been eligible for retirement ("Amount Voluntarily Deferred"). If the Participant has agreed to a Voluntary Deferral of such amount of his Performance Incentive Award,

- (a) the Amount Voluntarily Deferred (1) will be credited to a hypothetical account established in the Participant's name on UTIMCO's books ("Amount Voluntarily Deferred Account") and (2) will be credited (or debited) monthly with an amount equal to the Net Returns for the month multiplied by the balance in the Participant's Amount Voluntarily Deferred Account as of the last day of the month, provided that when the Amount Voluntarily Deferred is initially credited to the Participant's Amount Voluntarily Deferred Account, the Participant's Amount Voluntarily Deferred Account will be credited (or debited) with Net Returns for the month of the initial credit, but the Net Returns will be prorated to reflect the number of days of the month during

which the amounts were credited to the Participant's Amount Voluntarily Deferred Account;

- (b) except as provided in clause (c) below, the amount credited to the Participant's Amount Voluntarily Deferred Account shall be paid to the Participant only on the following dates and in the following amounts:
 - (1) On the first anniversary of the last day of the Performance Period for which the Amount Voluntarily Deferred was earned, one half of the amount then credited to the Participant's Amount Voluntarily Deferred Account for that Performance Period will be paid to the Participant;
 - (2) On the second anniversary of the end of the Performance Period for which the Amount Voluntarily Deferred was earned, the remaining amount then credited to the Participant's Amount Voluntarily Deferred Account for that Performance Period will be paid to the Participant;
 - (3) Amount Voluntarily Deferred Accounts payable under the above paragraphs of this Section 5.11(b) will be paid on a date selected in the discretion of UTIMCO and in no event later than the last day of the calendar year in which the applicable portion of such Amount Voluntarily Deferred Account becomes due and payable; and
- (c) any net credits or debits to the Participant's Amount Voluntarily Deferred Account pursuant to clause (a)(2) above will be includible in the Participant's gross income and taxable to the Participant as ordinary income for Federal income tax purposes, and will be subject to Federal employment taxes and wage withholding during the year in which such amounts are paid pursuant to clauses (a) or (b) above.

5.12. Extraordinary Circumstances

Notwithstanding anything in this Plan to the contrary, the timing and amount of Performance Awards of each Participant holding an Eligible Position listed on Table 3 (each, an "Affected Participant"), are subject to automatic adjustment as follows:

- (a) If the Net Returns of the Total Endowment Assets during the Performance Period for which Performance Awards are being determined are negative at the end of such Performance Period, (i) an amount otherwise equal to the Paid Performance Award attributable to such Performance Period for each Affected Participant will be treated as an "Extraordinary Nonvested Deferral Award" for such Affected Participant that is subject to forfeiture in the same manner and for the same reasons as Nonvested Deferral Awards pursuant to Section 5.10(a), (ii) a separate hypothetical account for such Affected Participant will be established on UTIMCO's books ("Extraordinary Nonvested Deferral Award Account"), which will be (1) credited with such Affected Participant's Extraordinary Nonvested Deferral Award and (2) credited (or debited) monthly with Net Returns of the Total Endowment Assets on the same dates and in the same manner as applies to Nonvested Deferral Award Accounts pursuant to

Section 5.7(a), and (iii) unless such Affected Participant's Extraordinary Nonvested Deferral Award has been forfeited pursuant to Section 5.10(a) or Section 5.13, such Affected Participant will become vested in, and entitled to payment of, the amount of his or her Extraordinary Nonvested Deferral Award Account on the first anniversary of the last day of such Performance Period; provided that upon the death, Disability or Involuntary Termination of an Affected Participant for reasons other than Cause, the amount in the Extraordinary Nonvested Deferral Award Account of such Affected Participant will vest immediately and be paid (to the Affected Participant or, in the case of death, to the estate or designated beneficiaries of the deceased Affected Participant) on a date selected by UTIMCO and in no event later than the last day of the calendar year in which such Termination occurs; provided, further, that nothing in this clause (a) shall affect the vesting and payment of Nonvested Deferral Awards to any Affected Participant nor shall it affect the vesting and payment of Performance Awards to a Participant that has satisfied the requirements for Eligibility for Retirement;

- (b) Table 3 will be revised and attached, as necessary, for each Performance Period to identify the Eligible Positions whose Performance Awards are subject to automatic adjustment as to timing and amount pursuant to clause (a) above as soon as administratively practicable after approval by the Board.

5.13. Recovery of Performance Awards

Notwithstanding anything in this Plan to the contrary, if the Board (in its sole discretion, but acting in good faith) determines (a) that a Participant has engaged in willful misconduct that materially disrupts, damages, impairs or interferes with the business, reputation or employee relations of UTIMCO or The University of Texas System, such Participant will not be entitled to any Performance Awards for the Performance Periods during which the Board determines such misconduct occurred, or (b) that a Participant has engaged in fraudulent misconduct that caused or contributed to a restatement of the investment results upon which such Participant's Performance Awards were determined by knowingly falsifying any financial or other certification, knowingly providing false information relied upon by others in a financial or other certification, or engaging in other fraudulent activity, or knowingly failing to report any such fraudulent misconduct by others in accordance with UTIMCO's Employee Handbook, such Participant will not be entitled to any Performance Awards for the Performance Periods for which investment results were so restated. To the extent a Participant has been awarded Performance Awards to which he or she is not entitled as a result of clause (a) or (b) above, Performance Awards shall be recovered by UTIMCO pursuant to the following remedies in the order listed: first, such Participant's Nonvested Deferred Awards and Extraordinary Nonvested Deferred Awards will be automatically forfeited; second, any Paid Performance Award not then paid to such Participant will be withheld and automatically forfeited; and third, such Participant must return to UTIMCO the remaining excess amount. Recovery of Performance Awards to which a Participant is not entitled pursuant to this Section 5.13 does not constitute a settlement of other claims that UTIMCO may have against such Participant, including as a result of the

conduct giving rise to such recovery. Further, the remedies set forth above are in addition to, and not in lieu of, any actions imposed by law enforcement agencies, regulators or other authorities.

6. COMPENSATION PROGRAM AUTHORITY AND RESPONSIBILITY

6.1. Board as Plan Administrator

Except as otherwise specifically provided in this Compensation Program with respect to powers, duties, and obligations of the Compensation Committee, the Compensation Program will be administered by the Board.

6.2. Powers of Board

The Board has all powers specifically vested herein and all powers necessary or advisable to administer the Compensation Program as it determines in its discretion, including, without limitation, the authority to:

- (1) Establish the conditions for the determination and payment of compensation by establishing the provisions of the Performance Plan.
- (2) Determine the Eligible Positions in the Performance Plan.
- (3) Delegate to any other person, committee, or entity any of its ministerial powers and/or duties under the Compensation Program as long as any such delegation is in writing and complies with the UTIMCO Bylaws.

7. COMPENSATION PROGRAM INTERPRETATION

7.1. Board Discretion

- (a) Consistent with the provisions of the Compensation Program, the Board has the discretion to interpret the Compensation Program and may from time to time adopt such rules and regulations that it may deem advisable to carry out the Compensation Program. All decisions made by the Board in selecting the Participants approved to receive Performance Awards, including the amount thereof, and in construing the provisions of the Compensation Program, including without limitation the terms of any Performance Awards, are final and binding on all Participants.
- (b) Notwithstanding any provision of the Compensation Program to the contrary and subject to the requirement that the approval of Performance Awards that will result in an increase of 5% or more in the total Performance Awards calculated using the methodology set out on Appendix A must have the prior approval of the U. T. System Board of Regents, the Board has the discretion and authority to make changes in the terms of the Compensation Program in determining a Participant's eligibility for, or amount of, a Performance Award

for any Performance Period whenever it considers that circumstances have occurred during the Performance Period so as to make such changes appropriate in the opinion of the Board, provided, however, that any such change will not deprive or eliminate an award of a Participant after it has become vested and that such circumstances are recorded in the minutes of a meeting of the Board.

7.2. *Duration, Amendment, and Termination*

The Board has the right in its discretion to amend the Compensation Program or any portion thereof from time to time, to suspend it for a specified period, or to terminate it entirely or any portion thereof. However, if the Performance Plan is suspended or terminated during a Performance Period, Participants will receive a prorated Performance Award based on performance achieved and base salary earned through the Performance Measurement Date immediately preceding such suspension or termination. The Compensation Program will be in effect until suspension or termination by the Board; provided, however, that if the Board so determines at the time of any suspension or termination of the Performance Plan, Nonvested Deferred Awards credited to Participants' Nonvested Deferred Award Account(s) as of the effective date of such suspension or termination will continue to be administered under the terms of the Performance Plan after any suspension or termination, except as the Board otherwise determines in its discretion at the time of such suspension or termination.

7.3. *Recordkeeping and Reporting*

- (a) All records for the Compensation Program will be maintained by the Senior Managing Director ~~and Chief Operating Officer of Accounting, Finance, and Administration at UTIMCO~~. Relative performance data and calculations will be reviewed by UTIMCO's external auditor before Performance Awards are finalized and approved by the Board.
- (b) UTIMCO will provide all Participants with a comprehensive report of the current value of their respective Nonvested Deferred Award and Extraordinary Nonvested Deferred Award Account balances, including a complete vesting status of those balances, on at least a quarterly basis.

7.4. *Continued Employment*

Nothing in the adoption of the Compensation Program or the awarding of Performance Awards will confer on any employee the right to continued employment with UTIMCO or affect in any way the right of UTIMCO to terminate his or her employment at any time.

7.5. *Non-transferability of Awards*

Except for the rights of the estate or designated beneficiaries of Participants to receive payments, as set forth herein, Performance Awards under the Performance

Plan, including both the Paid Performance Award portion and the Nonvested Deferred Award portion, are non-assignable and non-transferable and are not subject to anticipation, adjustment, alienation, encumbrance, garnishment, attachment, or levy of any kind. The preceding notwithstanding, the Compensation Program will pay any portion of a Performance Award that is or becomes vested in accordance with an order that meets the requirements of a “qualified domestic relations order” as set forth in Section 414(p) of the *Internal Revenue Code* and Section 206(d) of ERISA.

7.6. *Unfunded Liability*

- (a) Neither the establishment of the Compensation Program, the award of any Performance Awards, nor the creation of Nonvested Deferred Awards Accounts will be deemed to create a trust. The Compensation Program will constitute an unfunded, unsecured liability of UTIMCO to make payments in accordance with the provisions of the Compensation Program. Any amounts set aside by UTIMCO to assist it in the payment of Performance Awards or other benefits under the Compensation Program, including without limitation, amounts set aside to pay for Nonvested Deferred Awards, will be the assets of UTIMCO, and no Participant will have any security or other interest in any assets of UTIMCO or the U. T. System Board of Regents by reason of the Compensation Program.
- (b) Nothing contained in the Compensation Program will be deemed to give any Participant, or any personal representative or beneficiary, any interest or title to any specific property of UTIMCO or any right against UTIMCO other than as set forth in the Compensation Program.

7.7. *Compliance with State and Federal Law*

No portion of the Compensation Program will be effective at any time when such portion violates an applicable state or federal law, regulation, or governmental order or directive.

7.8. *Federal, State, and Local Tax and Other Deductions*

All Performance Awards under the Compensation Program will be subject to any deductions (1) for tax and withholding required by federal, state, or local law at the time such tax and withholding is due (irrespective of whether such Performance Award is deferred and not payable at such time) and (2) for any and all amounts owed by the Participant to UTIMCO at the time of payment of the Performance Award. UTIMCO will not be obligated to advise an employee of the existence of the tax or the amount that UTIMCO will be required to withhold.

7.9. *Prior Plan*

- (a) Except as provided in the following paragraphs of this Section 7.9, this Compensation Program supersedes any prior version of the Compensation Program (“Prior Plan”).

- (b) All nonvested deferred awards under a Prior Plan will retain the vesting schedule in effect under the Prior Plan at the time such awards were allocated to the respective Participant's account. In all other respects, as of the Effective Date, those nonvested deferred amounts will (1) be credited or debited with the Net Returns over the remaining deferral period in accordance with Section 5.7(a), and (2) be subject to the terms and conditions for Nonvested Deferred Awards under the Performance Plan as set forth in this restated document.

8. DEFINITION OF TERMS

- 8.1. **Affected Participant** is defined in Section 5.12.
- 8.2. **Applicable Deferral Percentage** means, as to each Eligible Position, the percentage set forth opposite such Eligible Position under the heading “Percentage of Award Deferred” on Table 1.
- 8.3. **Asset Class Performance** is the performance of specific asset classes within the Total Endowment Assets and the Intermediate Term Fund (such as U.S. public equity, private equity, etc.).
- 8.4. **Award Opportunity** is defined in Section 5.5(a).
- 8.5. **Board** is the UTIMCO Board of Directors.
- 8.6. **Cause** means, as to any employee, that such employee has committed (as determined by UTIMCO in its sole discretion) any of the following: (1) a violation of any securities law or any other law, rule or regulation; (2) willful conduct that reflects negatively on the public image of UTIMCO or the U. T. System; or (3) a breach of UTIMCO’s Code of Ethics.
- 8.7. **Compensation Committee** is the Compensation Committee of the UTIMCO Board of Directors.
- 8.8. **Compensation Program** is defined in Section 1.
- 8.9. **Disability** means a condition whereby a Participant either (i) is unable to engage in any substantial gainful activity by reason of a medically determinable physical or mental impairment that is expected either to result in death or to last for a continuous period of not less than 12 months or (ii) is, by reason of a medically determinable physical or mental impairment that is expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three months under a disability plan maintained or contributed to by UTIMCO for the benefit of eligible employees.
- 8.10. **Effective Date** is defined in Section 1.
- 8.11. **Eligible for Retirement** is defined in Section 5.11.
- 8.12. **Eligible Position** is defined in Section 5.3(a).
- 8.13. **Entity Performance** represents the performance of the Total Endowment Assets and the Intermediate Term Fund (based on the measurement standards set forth in Section 5.8(a)).
- 8.14. **Extraordinary Nonvested Deferral Award** is defined in Section 5.12.
- 8.15. **Extraordinary Nonvested Deferral Award Account** is defined in Section 5.12.

8.16. Intermediate Term Fund or ITF is The University of Texas System (“U. T. System”) Intermediate Term Fund established by the U. T. System Board of Regents as a pooled fund for the collective investment of operating funds and other intermediate and long-term funds held by the U. T. System institutions and U. T. System Administration. Performance of the Intermediate Term Fund is measured net of fees, meaning performance is measured after factoring in all administrative and other fees incurred for managing the Intermediate Term Fund.

8.17. Intermediate Term Fund Policy Portfolio Return is the benchmark return for the Intermediate Term Fund policy portfolio and is calculated by summing the neutrally weighted index returns (percentage weight for each asset class multiplied by the benchmark return for the asset class) for the various asset classes in the Intermediate Term Fund policy portfolio for the Performance Period.

8.18. Involuntary Termination means, as to any person the Termination of such person’s employment with UTIMCO wholly initiated by UTIMCO and not due to such person’s implicit or explicit request, at a time when such person is otherwise willing and able to continue to perform services for UTIMCO.

8.19. Net Returns is the investment performance return of the Total Endowment Assets, net of fees. Net of fees factors in all administrative and other fees for managing the Total Endowment Assets. The net investment return will be calculated as follows:

$$\frac{\text{Permanent University Fund Beginning Net Asset Value}}{\text{Total Endowment Beginning Net Asset Value}} \times \text{Permanent University Fund Net Investment Return}$$

Plus

$$\frac{\text{General Endowment Fund Beginning Net Asset Value}}{\text{Total Endowment Beginning Net Asset Value}} \times \text{General Endowment Fund Net Investment Return}$$

8.20. Nonvested Deferred Award is defined in Section 5.6(b).

8.21. Nonvested Deferred Award Account is defined in Section 5.7(a).

8.22. Paid Performance Award is defined in Section 5.6(a).

8.23. Participant is defined in Section 5.3(a).

8.24. Peer Group is a peer group of endowment funds that is comprised of the top 20 largest endowment funds by market value, as of the last day of the Performance Period as determined by Cambridge Associates; provided, however, that the Total Endowment Assets are excluded from the Peer Group and further provided, that if Cambridge Associates is unable to obtain peer performance for a top 20 largest endowment fund(s) by October 31st following the end of the Performance Period, that endowment fund(s) shall be excluded from the Peer Group for the Performance Period.

8.25. Performance Standards are defined in Section 5.4.

8.26. Performance Award is the component of a Participant’s total compensation that is based on specific performance standards and awarded as current income or deferred at the end of a Performance Period in accordance with Section 5 and Appendix A.

- 8.27. Performance Plan** is as defined in Section 1 and described more fully in Section 5.
- 8.28. Performance Measurement Date** is the close of the last business day of the month.
- 8.29. Performance Period** is defined in Section 5.2.
- 8.30. Prior Plan** is defined in Section 7.9.
- 8.31. Salary Structure** is described in Section 4.1.
- 8.32. Termination** means, as to any person, a complete severance of the relationship of employer and employee between UTIMCO and such person.
- 8.33. Total Endowment Assets or TEA** means the combination of the Permanent University Fund and the General Endowment Fund, but does not include any other endowment funds monitored by UTIMCO such as the Separately Invested Fund. Performance of the Total Endowment Assets is measured net of fees, meaning performance is measured after factoring in all administrative and other fees incurred for managing the Total Endowment Assets.
- 8.34. Total Endowment Assets Policy Portfolio Return** is the benchmark return for the Total Endowment Assets policy portfolio and is calculated by summing the neutrally weighted index returns (percentage weight for each asset class multiplied by the benchmark return for the asset class) for the various asset classes in the Total Endowment Assets policy portfolio for the Performance Period.
- 8.35. Voluntary Terminations** means, as to any person, the Termination of such person's employment with UTIMCO not resulting from an Involuntary Termination or by reason of Death or disability.

Performance Incentive Award Methodology

Appendix A

**Performance Award Methodology
(for Performance Periods beginning on or after July 1, ~~2020~~2018)**

I. Determine “Award Opportunities” for Each Participant²

- Step 1. Identify the weights to be allocated to each of the two Performance Standards for each Participant’s Eligible Position. The weights vary for each Eligible Position and are set forth in Table 1 for the applicable Performance Period. The total of the weights ascribed to the two Performance Standards (Quantitative and Qualitative) must add up to 100% for each Participant. For example, Table 1 may reflect for a Performance Period for the CEO that the weight allocated to the Quantitative Performance Standard is 80%, and the weight allocated to the Qualitative Performance Standard is 20%.
- Step 2. Identify the weights to be allocated to the various components of Quantitative Performance for each Participant’s Eligible Position as set forth on Table 1: Benchmark Performance, i.e., Entity and Asset Class Performance, and Peer Performance. Entity Performance consists of both TEA and ITF Performance. For example, Table 1 may reflect for a Performance Period for the CEO that the weight allocated to the TEA Performance is 51.2%, the weight allocated to ITF Performance is 12.8%, the weight allocated to Asset Class Performance is 0%, and the weight allocated to Peer Performance is 16%.
- Step 3. Identify the percentage of base salary for the Participant’s Eligible Position that determines the Performance Award for achievement of the Threshold and Maximum levels of the Performance Standards. The percentages vary for each Eligible Position and are set forth in Table 1 for the applicable Performance Period. For example, Table 1 may show that for a Performance Period the applicable percentages for determining the Performance Award for the CEO are 0% of his or her base salary for achievement of Threshold level performance of both Performance Standards and 450% of his or her base salary for achievement of Maximum level performance of both Performance Standards.
- Step 4. Calculate the dollar amount of the potential Threshold and Maximum awards (the “Award Opportunities”) for each Participant by multiplying the Participant’s base salary for the Performance Period by the applicable percentage (from Step #2 above). For example, assuming the CEO has a base salary of \$750,000 for a Performance Period, based on the assumed

² These Award Opportunities represent amounts that each Participant will be awarded if he or she achieves his or her Performance Standards at varying levels and are calculated at the beginning of each Performance Period or, if later, the date such Participant commences participation in the Performance Plan.

percentages set forth in Step #2 above, the CEO will be eligible for a total award of \$0 if he or she achieves Threshold level performance of both Performance Standards and \$3,375,000 (450% of his or her base salary) if he or she achieves Maximum level performance of both Performance Standards.

Step 5. Because a Participant may achieve different levels of performance for the various components of the different Performance Standards and be eligible for different levels of awards for that achievement (e.g., he or she may achieve Threshold performance in the TEA Performance Standard and be eligible to receive a Threshold award for that Standard and achieve Maximum performance in the Qualitative Performance Standard and be eligible to receive a Maximum award for that Performance Standard), it is necessary to determine the Award Opportunity of the Threshold and Maximum award for each of the various components of the Performance Standards. This is done by multiplying the dollar amount of the Threshold and Maximum awards for the performance of the various components of the Performance Standards calculated in Step #3 above for the Participant by the weight allocated for that Participant to the particular component of the Performance Standard.

Step 6. After Steps #4 and #5 above are performed for each of the two levels of performance for each of the components of the Performance Standards, there will be up to 10 different Award Opportunities for each Participant. For example, for the CEO (based on an assumed base salary of \$750,000, the assumed weights for the Performance Standards set forth in Step #1 above, and the assumed percentages of base salary for the awards set forth in Step #2 above), the 10 different Award Opportunities for achievement of the Performance Standards for the Performance Period are as follows:

Award Opportunities for CEO
(based on assumed base salary of \$750,000)

Performance Standard	Weight	Threshold Level Award	Maximum Level Award
Entity (TEA v. TEA Policy Portfolio Return)	51.2%	\$0	\$1,728,000
Entity (ITF v. ITF Policy Portfolio Return)	12.8%	\$0	\$432,000
Asset Class	0%	\$0	\$0
Peer Group	16%	\$0	\$540,000
Qualitative	20%	\$0	\$675,000
Total	100%	\$0 (0% of salary)	\$3,375,000 (450% of salary)

II. Calculate Performance Award for Each Participant

- Step 7. Identify the achievement percentiles or achieved basis points that divide the Threshold and Maximum levels for each Performance Standard. These divisions for the level of achievement of the various components of the Qualitative Performance Standard are set forth in Table 2 for the applicable Performance Period. The measurement for the level of achievement (i.e., Threshold or Maximum) for the Qualitative Performance Standard is initially determined each Performance Period by the CEO, (in the case of the CCO, jointly by the Audit and Ethics Committee and the CEO), and then is approved (or adjusted) by the Compensation Committee as it deems appropriate in its discretion. The Compensation Committee will determine the CEO's level of achievement relative to the CEO's Performance Standards and make its recommendation to the Board, which is then approved (or adjusted) by the Board as it deems appropriate in its discretion.
- Step 8. Determine the percentile or basis points achieved for each component of the Performance Standards for each Participant using the standards set forth in Sections 5.5 and 5.8 of the Compensation Program, as modified in Section 5.9.
- Step 9. Calculate the amount of each Participant's award attributable to each component of the Performance Standards by identifying the Award Opportunity amount for each component of the Performance Standards (e.g., as assumed and set forth for the CEO in the table in Step #6 above) commensurate with the Participant's level of achievement for that component of the Performance Standard (determined in Steps #7 and #8 above). An award for achievement percentiles in between the stated Threshold and Maximum levels is determined by linear interpolation. For example, if +~~120450~~ bps of the TEA benchmark portion of the TEA portion of the Entity Performance Standard has been achieved, that +~~120450~~ bps is between the Threshold (+0 bps) and the Maximum (+~~200250~~ bps) levels, so to determine the amount of the award attributable to +~~120450~~ bps of achievement of the TEA benchmark portion of the Total Endowment Assets portion of the Entity Performance Standard, perform the following steps: (i) divide ~~120450~~ (the attained level of achievement) by ~~200250~~ (the Maximum level) to determine the percentage actually achieved (~~120450/200250~~ = 0.60); and (ii) multiply the percentage of achievement in the preceding Step (i) by the Maximum Award Level of the CEO of \$1,728,000 as assumed in the above table in Step 6 to calculate the actual award earned of \$1,036,800 (~~\$1,728,000~~ x 0.60) for the TEA portion of the Entity Performance Standard.
- Step 10. No award is given for an achievement percentile at or below Threshold, and no award above the Maximum award is given for an achievement percentile above the Maximum level.
- Step 11. Subject to any applicable adjustment in Step #12 below, add the awards determined in Step #9 above for each component of the Performance

Standards (as modified by Step #10) together to determine the total amount of the Participant's Performance Award for the Performance Period.

- Step 12. In the case of any Participant who becomes a Participant in the Performance Plan after the first day of the applicable Performance Period but within the first six months, such Participant's Performance Award (determined in Step #12) will be prorated to reflect the actual portion of the Performance Period in which he or she was a Participant. In the case of a Participant who ceases to be a Participant prior to the end of a Performance Period, his or her entitlement to any Performance Award is determined under Section 5.10 and, in the case of such entitlement, such Participant's Performance Award, if any, will be prorated and adjusted as provided in Section 5.10.

Table 1
Eligible Positions, Weightings, Award Opportunities, and Percentage of Award Deferred for each Eligible Position
(for the Performance Periods Beginning After June 30, ~~2020~~2019)

Eligible Position	Weighting		Quantitative Weightings				Award Opportunity (% of Base Salary)		Percentage of Award Deferred
			Benchmark Performance			Peer Group			
	Quantitative	Qualitative	Entity		Asset Class				
			TEA	ITF		Threshold	Maximum		
Investment Professionals									
<u>CEO, Chief Investment Officer & President</u>	80%	20%	51.2%	12.8%	0.0%	16.0%	0%	450%	50%
<u>Chief Investment Officer</u>	80%	20%	51.2%	12.8%	0.0%	16.0%	0%	450%	50%
Deputy Chief Investment Officer	80%	20%	51.2%	12.8%	0.0%	16.0%	0%	450%	50%
Senior Managing Director - Investments	80% 70%	20% 30%	35.8% 31.4%	9.0% 7.8%	19.2% 16.8%	16.0% 14.0%	0%	300%	45%
Managing Director - Investments	80% 65%	20% 35%	35.8% 29.1%	9.0% 7.3%	19.2% 15.6%	16.0% 13.0%	0%	250%	40%
Managing Director - Fixed Income	80% 65%	20% 35%	35.8% 29.1%	9.0% 7.3%	19.2% 15.6%	16.0% 13.0%	0%	200%	40%
Managing Director - TAA	80% 65%	20% 35%	51.2% 41.6%	12.8% 10.4%	0.0%	16.0% 13.0%	0%	250%	40%
Managing Director - Risk Management	80% 65%	20% 35%	51.2% 41.6%	12.8% 10.4%	0.0%	16.0% 13.0%	0%	200%	40%
Senior Director - Investments	75% 60%	25% 40%	33.6% 26.9%	8.4% 6.7%	18.0% 14.4%	15.0% 12.0%	0%	185%	35%
Senior Director - TAA	75% 60%	25% 40%	48.0% 38.4%	12.0% 9.6%	0.0%	15.0% 12.0%	0%	185%	35%
Senior Director - Risk Management	75% 60%	25% 40%	48.0% 38.4%	12.0% 9.6%	0.0%	15.0% 12.0%	0%	185%	35%
<u>Senior Investment Counsel</u>	50%	50%	32.0%	8.0%	0.0%	10.0%	0%	80%	25%
Director - Investments	70% 50%	30% 50%	31.4% 22.4%	7.8% 5.6%	16.8% 12%	14.0% 10.0%	0%	175%	30%
Director - TAA	70% 50%	30% 50%	44.8% 32.0%	11.2% 8.0%	0.0%	14.0% 10.0%	0%	175%	30%
Director - Risk Management	70% 50%	30% 50%	44.8% 32.0%	11.2% 8.0%	0.0%	14.0% 10.0%	0%	175%	30%
Director - Chief of Staff	70% 50%	30% 50%	44.8% 32.0%	11.2% 8.0%	0.0%	14.0% 10.0%	0%	175%	30%
<u>Investment Counsel</u>	40%	60%	25.6%	6.4%	0.0%	8.0%	0%	60%	25%
Associate Director - Investments	60% 40%	40% 60%	26.9% 17.9%	6.7% 4.5%	14.4% 9.6%	12.0% 8.0%	0%	155%	20%
Associate Director - TAA	60% 40%	40% 60%	38.4% 25.6%	9.6% 6.4%	0.0%	12.0% 8.0%	0%	155%	20%
Associate Director - Risk Management	60% 40%	40% 60%	38.4% 25.6%	9.6% 6.4%	0.0%	12.0% 8.0%	0%	155%	20%
Associate - Investments	40% 35%	60% 65%	17.9% 15.7%	4.5% 3.9%	9.6% 8.4%	8.0% 7.0%	0%	145%	15%
Associate - TAA	40% 35%	60% 65%	25.6% 22.4%	6.4% 5.6%	0.0%	8.0% 7.0%	0%	145%	15%
Associate - Risk Management	40% 35%	60% 65%	25.6% 22.4%	6.4% 5.6%	0.0%	8.0% 7.0%	0%	145%	15%
Senior Analyst - Investments	30%	70%	13.4%	3.4%	7.2%	6.0%	0%	110%	0%
Senior Analyst - TAA	30%	70%	19.2%	4.8%	0.0%	6.0%	0%	110%	0%
Senior Analyst - Risk Management	30%	70%	19.2%	4.8%	0.0%	6.0%	0%	110%	0%
Analyst - Investments	30% 20%	70% 80%	13.4% 9.0%	3.4% 2.2%	7.2% 4.8%	6.0% 4.0%	0%	75%	0%
Analyst - TAA	30% 20%	70% 80%	19.2% 12.8%	4.8% 3.2%	0.0%	6.0% 4.0%	0%	75%	0%
Analyst - Risk Management	30% 20%	70% 80%	19.2% 12.8%	4.8% 3.2%	0.0%	6.0% 4.0%	0%	75%	0%
Support and Control Professionals									
<u>Chief Operating Officer</u> <u>Senior Managing Director</u>	35% 20%	65% 80%	22.4% 12.8%	5.6% 3.2%	0.0%	7.0% 4.0%	0%	90%	40%
<u>General Counsel (pending Chief Compliance Officer)</u>	35%	65%	22.4%	5.6%	0.0%	7.0%	0%	75%	30%
Chief Technology Officer	35% 20%	65% 80%	22.4% 12.8%	5.6% 3.2%	0.0%	7.0% 4.0%	0%	75% 70%	30%
Corporate Counsel & Chief Compliance Officer	0%	100%	0.0%	0.0%	0.0%	0.0%	0%	70%	30%
Managing Director	35% 20%	65% 80%	22.4% 12.8%	5.6% 3.2%	0.0%	7.0% 4.0%	0%	70%	30%
<u>Senior Investment Counsel</u>	35%	65%	22.4%	5.6%	0.0%	7.0%	0%	70%	30%
Senior Director	35% 20%	65% 80%	22.4% 12.8%	5.6% 3.2%	0.0%	7.0% 4.0%	0%	60%	25%
<u>Senior Director - Compliance</u>	0%	100%	0.0%	0.0%	0.0%	0.0%	0%	60%	25%
Director	35% 20%	65% 80%	22.4% 12.8%	5.6% 3.2%	0.0%	7.0% 4.0%	0%	60%	25%
<u>Director- Compliance</u>	0%	100%	0.0%	0.0%	0.0%	0.0%	0%	60%	25%
Director - Security; Information <u>Services</u> <u>Technology</u>	35% 20%	65% 80%	22.4% 12.8%	5.6% 3.2%	0.0%	7.0% 4.0%	0%	50%	20%

TABLE 2

**Benchmarks for Entity and Asset Class and
Threshold and Maximum Performance Standards
(For Performance Periods beginning on or after July 1, ~~2020~~2018)**

Entity and Asset Class	Benchmark	Performance Standards	
		Threshold	Maximum
Entity: Peer Group (Total Endowment Funds)	Peer Group (Endowments w/ > \$1 B assets)	50th %ile	25th %ile
Entity: Benchmark (Total Endowment Funds)	Policy Portfolio	+0 bps	+ 200 250 bps
Entity: Benchmark (Intermediate Term Fund)	Policy Portfolio	+0 bps	+150 bps
Public Equity	(1)	+0 bps	+150 bps
Hedge Funds	(1)	+0 bps	+300 bps
Private Equity	(1)	+0 bps	+250 bps
Fixed Income	(1)	+0 bps	+50 bps
Natural Resources	(1)	+0 bps	+250 bps
<u>Infrastructure</u>	<u>(1)</u>	<u>+0 bps</u>	<u>+250 bps</u>
Real Estate	(1)	+0 bps	+250 bps
<u>Strategic Partnerships</u>	<u>(1)</u>	<u>+0 bps</u>	<u>+130 bps</u>

(1) Benchmark will be based on the appropriate benchmark in the respective Investment Policy Statement(s) in effect during each Performance Period.

TABLE 3

**Eligible Positions of Affected Participants
(For Performance Periods beginning on or after July 1, ~~2020~~2019)**

Eligible Positions of Affected Participants
<p style="text-align: center;"><i>Investment Professionals</i></p> <p>CEO, & Chief Investment Officer & <u>President</u> <u>Chief Investment Officer</u> Deputy Chief Investment Officer Senior Managing Director Managing Director Senior Director <u>Senior Investment Counsel</u> Director <u>Investment Counsel</u> Associate Director</p> <p style="text-align: center;"><i>Support and Control Professionals</i></p> <p><u>Chief Operating Officer</u>Senior Managing Director <u>General Counsel (pending Chief Compliance Officer)</u> Chief Technology Officer Corporate Counsel & Chief Compliance Officer Managing Director <u>Senior Investment Counsel</u> Senior Director Director</p>

10. **U. T. System Board of Regents: Approval of the Annual Budget for Fiscal Year 2021, including the capital expenditures budget and other external direct charges to the Funds, and the Annual Fee and Allocation Schedule for The University of Texas/Texas A&M Investment Management Company (UTIMCO)**

RECOMMENDATION

The 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, 2021, as set forth below, which includes the capital expenditures budget and other external direct charges to the Funds, and the Annual Fee and Allocation Schedule as set forth following the proposed budget.

BACKGROUND INFORMATION

The proposed Total Budgeted Costs consist of \$55.6 million (11.5% increase over FY 2020 budget) for UTIMCO services and \$7.2 million (1.5% increase from FY 2020 budget) for Fund Direct Costs (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 proposed Total Budgeted Costs was approved by the UTIMCO Board on June 11, 2020.

The 11.5% increase in UTIMCO services is due primarily to the addition of employees as a part of the strategic plan that was adopted in Fiscal Year 2019, and investments in investment technology upgrades that are being made in response to a cybersecurity audit conducted earlier this year.

The proposed capital expenditures budget is \$1.2 million.

U. T. System Office of Business Affairs will not direct UTIMCO to return any surplus cash reserves to the U. T. funds per the Master Investment Management Services Agreement (IMSA) between the U. T. System Board of Regents and UTIMCO as there are no reserves available for distribution.

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 following the proposed Budget and the Fee and Allocation Schedule.



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

FY21 UTIMCO Budget

Mr. Britt Harris

President, CEO and Chief Investment Officer

Mr. Rich Hall

Deputy Chief Investment Officer

U. T. System Board of Regents' Meeting

Finance and Planning Committee

August 2020



FY21 Budget vs. Strategic Plan

- \$62.8M vs. \$64.2M projected in Strategic Plan, 2.1% below forecast
- 13.1 basis points (bps) of current Assets Under Management (AUM) compares favorably vs. peers at 13 – 20 bps
- UTIMCO Services Costs of \$55.6M vs. \$56.1M Strategic Plan, 0.9% below forecast
 - Salaries below forecast by \$2.1M or 10% below forecast
 - Performance Compensation below forecast by \$1.4M or 7.2%
 - Data & Subscriptions above forecast by \$615k or 17%
 - Other Costs above forecast by \$1.8M or 90%, principally driven by non-recurring IT Security Projects
- Direct Fund Costs below forecast by \$863K or 11%



FY21 Summary Budget

	FY 2020		FY 2021			FY 2021 Budget Proposed v FY21 Projected in Strategic Plan	
	Budget as Presented	Budget (Fully Annualized)	Budget	% of Total Budget	Projected in Strategic Plan	\$	%
UTIMCO Personnel Costs:							
Salaries (1)	17,889,310	18,749,060	18,774,406	30%	20,865,994	(2,091,588)	-10.0%
Performance Compensation (2)	15,592,053	16,131,000	17,650,561	28%	19,009,610	(1,359,049)	-7.1%
Benefits & Taxes (3)	4,736,765	4,916,000	5,060,218	8%	4,882,643	177,575	3.6%
Total UTIMCO Personnel Costs	\$ 38,218,128	\$ 39,796,060	\$ 41,485,185	66%	\$ 44,758,247	\$ (3,273,062)	-7.3%
Other UTIMCO Costs:							
Data & Subscriptions (4)	3,712,008	3,712,008	4,153,165	7%	3,538,060	615,105	17.4%
Travel	1,272,936	1,272,936	954,702	2%	1,302,607	(347,905)	-26.7%
Lease	2,663,724	2,663,724	3,222,992	5%	2,750,000	472,992	17.2%
Depreciation	1,675,000	1,675,000	1,900,000	3%	1,700,000	200,000	11.8%
Other Costs (5)	2,326,900	2,326,900	3,894,168	6%	2,045,549	1,848,619	90.4%
Total Other UTIMCO Costs:	\$ 11,650,568	\$ 11,650,568	\$ 14,125,027	22%	\$ 11,336,216	\$ 2,788,811	24.6%
Total UTIMCO Services Costs:	\$ 49,868,696	\$ 51,446,628	\$ 55,610,211	89%	\$ 56,094,463	\$ (484,252)	-0.9%
Bps of AUM	11.60	11.96	11.59		10.39		
Direct Fund Costs:							
Custodian Fees	4,100,000	4,100,000	4,201,000	7%	4,950,000	(749,000)	-15.1%
Other (6)	3,001,269	3,001,269	3,007,101	5%	3,121,320	(114,219)	-3.7%
Total Direct Fund Costs	\$ 7,101,269	\$ 7,101,269	\$ 7,208,101	11%	\$ 8,071,320	\$ (863,219)	-10.7%
Bps of AUM	1.7	1.7	1.5		1.5		
Grand Total UTIMCO Budget:	\$ 56,969,965	\$ 58,547,897	\$ 62,818,312		\$ 64,165,783	\$ (1,347,471)	-2.1%
Bps of AUM	13.25	13.62	13.09		11.88		
AUM projected (\$ billion)	\$43	\$43	\$48		\$54		
UTIMCO Headcount	107.5	115	115		123		

NOTES:

- (1) FY21 Salary budget lower vs. Strategic Plan due to deferral of 8 FTE
- (2) FY21 Performance Compensation estimated at 70% of maximum, consistent with history. Increases due to vesting of CEO and CCO as well as deferral period being reduced from three to two years
- (3) Benefit & Taxes increase due 21% excise tax on highly compensated individuals
- (4) Data & Subscription increase driven by Bloomberg, eFront, S&P Ratings, Gartner, Patch Management, Diligence Vault
- (5) Other costs include: Hiring, Recruiting & Relocation (\$426k); Consulting Services for IT Security & Risk System (\$1.6 mil); Leadership Development Program & UTIMCO Learning Institute (\$425k); IT Service Agreements (\$488k)
- (6) Other Direct Costs include: Barra Risk System (\$700k), Fund Auditors (\$816k), Legal Fees (\$225k), Tax Consultants (\$155k)



Annual Fee and Allocation Schedule

UTIMCO Management Fee and Direct Budgeted Investment Expenses Annual Fee and Allocation Schedule For the fiscal year ending August 31, 2021

<u>Proposed Budget</u>	<u>Fund Name</u>						Separate Funds 	Debt Proceeds 	Total
	PUF	PHF	LTF	GEF	ITF	STF			
<u>Market Value 4/30/20 (\$ millions)</u>	22,561			13,818	8,630	2,738	158	263	48,168
<u>UTIMCO Management Fee</u>									
Dollars	27,874,913			17,072,628	10,662,670				55,610,211
Basis Points	12.4			12.4	12.4				11.6
<u>Direct Expenses to the Fund, excluding UT System Direct Expenses to the Fund</u>									
Dollars	3,523,335	24,745	27,745	2,232,447	1,399,829				7,208,101
Basis Points	1.6	0.2	0.0	1.6	1.6				1.5

Appendix





Strategic Plan: Projected Budget

Despite increases, UTIMCO budget stays at 10bps of AUM – the low end of peers. If AUM growth is cut in half, UTIMCO budget becomes 13 bps.

	UTIMCO Projected Budget					
	2019	2020	2021	2022	2023	2024
UTIMCO Personnel Costs:						
Base Salary	15,876,073	18,486,875	20,865,994	22,438,163	24,232,971	25,997,380
Performance Comp	12,907,738	15,879,005	19,009,610	20,590,720	22,538,366	24,541,942
Benefits and Taxes	3,884,425	4,325,929	4,882,643	5,250,530	5,670,515	6,083,387
Total UTIMCO Personnel Costs	\$ 32,668,236	\$ 38,691,808	\$ 44,758,246	\$ 48,279,413	\$ 52,441,853	\$ 56,622,709
Other UTIMCO Costs:						
Data & Subscriptions	3,209,125	3,369,581	3,538,060	3,714,963	3,900,711	4,095,747
Travel	1,242,016	1,177,848	1,302,607	1,389,447	1,446,436	1,505,407
Lease	2,630,324	2,700,000	2,750,000	2,800,000	2,850,000	2,900,000
Depreciation	1,600,000	1,675,000	1,700,000	1,700,000	1,600,000	1,500,000
Other Costs	2,439,310	2,190,535	2,045,549	2,096,062	2,161,089	2,204,641
Total Other UTIMCO Costs	11,120,775	11,112,965	11,336,216	11,700,473	11,958,237	12,205,795
Total UTIMCO COSTS	\$ 43,789,012	\$ 49,804,773	\$ 56,094,462	\$ 59,979,886	\$ 64,400,089	\$ 68,828,503
Y-O-Y Increase (%)		14%	13%	7%	7%	7%
Bps of AUM	9.80	9.87	10.45	10.45	10.51	10.52
Fund Costs						
Custodian Fees	8,947,724	4,501,000	4,950,000	5,445,000	5,989,500	6,588,450
Other	2,577,450	3,001,269	3,121,320	3,246,173	3,376,019	3,511,060
Total Fund Costs	\$ 11,525,174	\$ 7,502,269	\$ 8,071,320	\$ 8,691,173	\$ 9,365,519	\$ 10,099,510
Y-O-Y Increase (%)		-35%	8%	8%	8%	8%
Bps of AUM	2.44	1.49	1.50	1.51	1.53	1.54
Grand Total UTIMCO Budget	\$ 55,314,186	\$ 57,307,042	\$ 64,165,782	\$ 68,671,059	\$ 73,765,609	\$ 78,928,014
Y-O-Y Increase (%)		4%	12%	7%	7%	7%
Bps of AUM	12.24	11.35	11.95	11.97	12.04	12.06



Strategic Plan: Cost Benchmarking vs Peers

UTIMCO costs compare favorably to large peers and independent fund of funds

	UTIMCO	Cambridge Assoc > \$3B Universe	Peers				Financial Services Industry Comps		
			Peer A	Peer B	Peer C	Peer D	Firm A	Firm B	Firm C
Current AUM (\$ billion)	\$ 45		\$ 43	\$ 31	\$ 27	\$ 25	\$ 30	\$ 20	\$ 60
Budget Year			2018	2018	2018	2018	2018	2018	2018
Budget Year AUM (\$ billion)			\$ 43	\$ 31	\$ 27	\$ 25	\$ 30	\$ 20	\$ 60
Budget (\$ million)	\$44		\$ 75	\$ 37	\$ 41	\$ 43	\$ 45	\$ 41	\$ 230
Budget (bps of AUM)	9.7	18.0	17.5	12.0	15.0	17.5	15.0	20.3	38.3
Investment Professionals	43		36	22	23	39	50	40	145
Operations Professionals	45		54	25	27	25	65	53	157
IT Professionals	11		29	2	5	3	15	13	40
Total FTE	99		119	49	55	67	130	106	342
AUM / FTE (\$ million)	\$ 454.55		\$ 361.34	\$ 624.49	\$ 490.91	\$ 373.13	\$ 230.77	\$ 188.68	\$ 175.44
AUM / Investor (\$ billion)	\$ 1.05		\$ 1.19	\$ 1.39	\$ 1.17	\$ 0.64	\$ 0.60	\$ 0.50	\$ 0.41
Budget / FTE (\$ million)	\$0.44		\$0.63	\$0.75	\$0.74	\$0.64	\$0.35	\$0.38	\$0.67
Ops + IT / Investor FTE	1.3x		2.3x	1.2x	1.4x	0.7x	1.6x	1.7x	1.4x



Budget Detail: 2021 vs. 2020

	FY 2021 Budget Proposed v FY20 Budget (Fully Annualized)		FY 2021 Budget Proposed v FY 2020 Budget as Presented	
	\$	%	\$	%
UTIMCO Personnel Costs:				
Salaries (1)	25,346	0.1%	885,096	4.9%
Performance Compensation (2)	1,519,561	9.4%	2,058,508	13.2%
Benefits & Taxes (3)	144,218	2.9%	323,453	6.8%
Total UTIMCO Personnel Costs	\$ 1,689,125	4.2%	\$ 3,267,057	8.5%
Other UTIMCO Costs:				
Data & Subscriptions (4)	441,157	11.9%	441,157	11.9%
Travel	(318,234)	-25.0%	(318,234)	-25.0%
Lease	559,268	21.0%	559,268	21.0%
Depreciation	225,000	13.4%	225,000	13.4%
Other Costs (5)	1,567,268	67.4%	1,567,268	67.4%
Total Other UTIMCO Costs:	\$ 2,474,459	21.2%	\$ 2,474,459	21.2%
Total UTIMCO Services Costs:	\$ 4,163,583	8.1%	\$ 5,741,515	11.5%
Bps of AUM				
Direct Fund Costs:				
Custodian Fees	101,000	2.5%	101,000	2.5%
Other (6)	5,832	0.2%	5,832	0.2%
Total Direct Fund Costs	\$ 106,832	1.5%	\$ 106,832	1.5%
Bps of AUM				
Grand Total UTIMCO Budget:	\$ 4,270,415	7.3%	\$ 5,848,347	10.3%
Bps of AUM				

Fiscal Year 2021

**Review of UTIMCO Services Budget and
Other Direct Costs to Funds Budget
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**

July 16, 2020

Based on UTIMCO Board approval on June 11, 2020

Fiscal Year 2021
Review of UTIMCO Services Budget and
Other Direct Costs to Funds Budget
Excluding External Investment Manager Fees

Table of Contents

	Page
Contents	
Executive Summary	1
Budget Analysis and Trends	2
Table 1: Total Actual Costs Trend FY16-FY20 and Total Budgeted Costs FY21.....	2
Table 2: FY20 Forecast and FY21 Budget Overview	3
UTIMCO Services Budget.....	3
Table 3: UTIMCO Compensation and Headcount FY16-FY21.....	4
Table 4: UTIMCO Lease Expenses FY16-FY21	5
Direct Costs to Funds.....	5
UTIMCO Capital Expenditures	5
Table 5: UTIMCO Capital Expenditures FY16-FY21	6
EXHIBIT A.....	7
Total Budgeted Costs FY20-FY21	7
EXHIBIT B.....	8
Total Actual Costs FY16-FY20 and FY21 Budget.....	8
EXHIBIT C.....	9
UTIMCO Reserve Analysis for August 31, 2020.....	9

Executive Summary

This report reviews the UTIMCO Services Budget and other budgeted investment management expenses (“Direct Costs to Funds”) for fiscal year 2021 that the UTIMCO Board approved on June 11, 2020 and the U. T. System Board of Regents will consider at its August 19-20, 2020 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, risk measurement, and legal and audit costs related to funds. The proposed budget for FY21 is:

	FY21 (\$ millions)
UTIMCO Services Budget	55.6
Direct Costs to Funds Budget	7.2
Total Budgeted Costs	<u>\$ 62.8</u>

The Total Budgeted Costs exclude 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:

- **COVID-19 global pandemic:** Growth in the UTIMCO budget for FY21 largely reflects the implementation of a five-year strategic growth plan that was approved in June 2019. As a result of the significant market volatility and risk of substantial economic pressure caused by the COVID-19 pandemic, salary growth is largely flat on an annualized basis and promotions have been slowed for FY21. Growth plans for FY21 have been delayed with slower employee growth budgeted.
- **Total Forecast Costs for FY20:** Total costs for FY20 are forecast at \$54.2 million, which is 4.9% lower than what was budgeted. This decrease is due primarily to the slower than expected hiring of employees during the current fiscal year.
- **Total Budgeted Costs for FY21:** The FY21 budget is \$62.8 million, a 10.3% increase from the FY20:
 - **The UTIMCO Services Budget:** The FY21 budget includes \$55.6 million for the “operating” budget of UTIMCO, an 11.5% increase from the FY20 budget. The increase is due primarily to the addition of employees as a part of the strategic plan that was adopted in FY19, although future plans have slowed. Additionally, investments in IT upgrades are being made in response to a cybersecurity audit conducted earlier this year. Lease expenses are also increasing due to the additional space that UTIMCO has leased in the UT System Building.
 - **The Total Direct Costs to Funds Budget:** The FY21 budget of \$7.2 million for direct fund costs is 1.5% higher than the FY20 budget, although this remains below historical averages due to a new, lower-cost fee structure that was negotiated with the Funds’ custodian bank last year.
- **UTIMCO Reserves:** There are no reserves available to be distributed at fiscal year-end 2020 as the reserve balances are at the levels needed to cover appropriate levels of the budget and capital expenditures.
- **UTIMCO Costs Compared to Peers:** UTIMCO’s total costs as a percentage of Assets Under Management (“AUM”) are forecast to be 13bps in FY21. While they have been increasing over the last several years, UTIMCO’s total costs as a percentage of AUM remain below industry averages and are favorable compared to peers, based on numerous benchmarking studies.

Budget Analysis and Trends

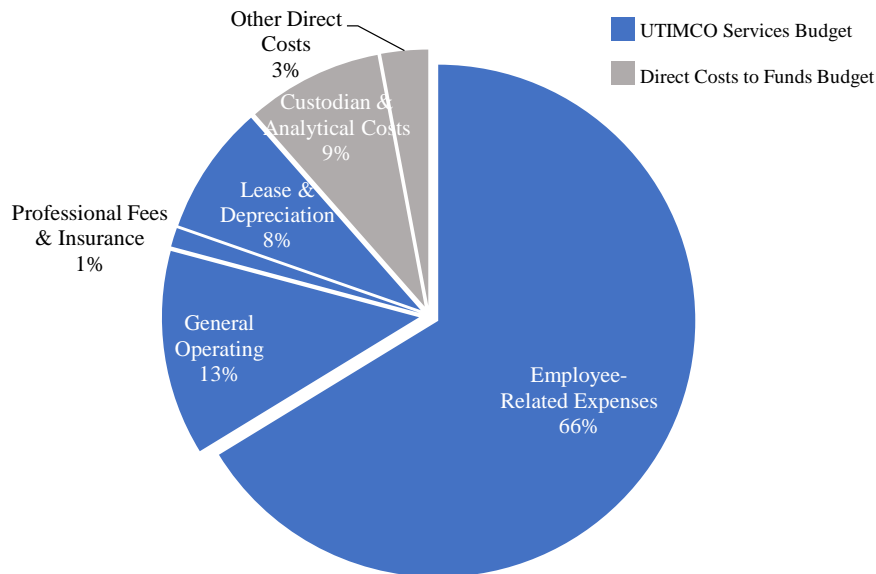
UTIMCO proposes Total Budgeted Costs for FY21 of \$62.8 million. Table 1 shows the Total Budgeted Costs (Direct Costs to Funds and UTIMCO Services Budget) as a percent of average Assets Under Management (“AUM”) for FY21 and the Total Actual and Forecast Costs as a percent of average AUM from FY16 to FY20.

Table 1: Total Actual Costs Trend FY16-FY20 and Total Budgeted Costs FY21
(\$ millions)

	FY16	FY17	FY18	FY19	Forecast FY20	Budget FY21
Average Total AUM ¹	36,016	39,063	43,173	46,372	48,275	49,839
% Change in AUM	3%	8%	11%	7%	4%	3%
Direct Costs to Funds	8.2	8.4	10.6	7.5	6.6	7.2
% Change in Direct Costs to Funds	1.7%	2.2%	27.1%	-29.0%	-12.0%	8.6%
Direct Costs to Funds % of AUM	0.02%	0.02%	0.02%	0.02%	0.01%	0.01%
UTIMCO Services	26.8	33.2	36.1	41.8	47.5	55.6
% Change in UTIMCO Services	4.5%	23.6%	8.7%	15.8%	13.7%	17.0%
UTIMCO Services % of AUM	0.07%	0.08%	0.08%	0.09%	0.10%	0.11%
Total Costs	35.0	41.6	46.7	49.3	54.2	62.8
% Change in Total Costs	3.8%	18.6%	12.4%	5.6%	9.8%	16.0%
Total Costs % of AUM	0.10%	0.11%	0.11%	0.11%	0.11%	0.13%

¹ FY20 and FY21 Average Total AUM assumes projected balances based on moderate returns, projected West Texas Land and gift income, and projected distributions.

FY21 Total Budgeted Costs \$62.8 million



The UTIMCO Services Budget (blue shade in the pie chart above) represents 88% of the total budget, with employee-related expenses being the largest component at 75% of the Services Budget. Direct Costs to Funds include Custodian & Analytical Costs (9%) and Other Direct Costs (3%).

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 93% of the AUM, with UTIMCO staff directly managing approximately 7% of assets as well as an internal derivatives portfolio.

Table 2 compares the Total Budgeted Costs for FY20 and FY21. Refer to Exhibits A and B at the end of this memo for a detailed budget comparison for FY20-FY21 and actual trend history for FY16-FY20.

Table 2: FY20 Forecast and FY21 Budget Overview
(\$ millions)

	FY20 Forecast				FY21 Budget			
	\$ Budget	\$ Projected	\$ Change vs FY20 Budget	% Change vs FY20 Budget	\$ Budget	\$ Change vs FY20 Projected	% Change vs FY20 Projected	% Change vs FY20 Budget
UTIMCO Services	49.9	47.5	-2.4	-4.7%	55.6	8.1	17.0%	11.5%
Direct Costs to Funds	7.1	6.6	-0.5	-6.5%	7.2	0.6	8.6%	1.5%
Total Budgeted Costs	57.0	54.2	-2.9	-4.9%	62.8	8.7	16.0%	10.3%

UTIMCO Services Budget

Last year, UTIMCO conducted a comprehensive review of relevant peer and industry benchmarks to determine appropriate resource levels needed to maintain strong fiduciary stewardship of U. T. and Texas A&M assets. These findings provided the basis for a long-term strategic plan that was supported by UTIMCO's Board of Directors on July 27, 2019, and the U. T. System Board of Regents approved the FY20 budget as presented at the August 2019 Board meeting. The plan called for increased resources because of expected growth in AUM, complexity, succession planning, and oversight responsibilities, and it was expected that the plan would result in an increase of 33 employees by FY24.

The original plan was to reach 115 employees by the end of FY20 and 123 employees by the end of FY21. However, the outbreak of the 2019 Novel Coronavirus Disease ("COVID-19") pandemic significantly affected travel, commerce, and financial markets globally. Increased volatility in financial markets and commodity prices has altered the strategic plan by slowing the projected growth in employees and promotions, and the FY21 budget reflects that deferral. Additionally, the FY20 forecast is lower than the FY20 budget, primarily due to slower hiring over the course of the year.

For FY21, total personnel-related expenses including employee benefits account for 75% of the UTIMCO Services Budget (or 66% of Total Budgeted Costs). Trends in staffing and total compensation in relation to assets under management are shown in Table 3. Highlights from these tables include:

- Although Salaries are projected to be 11.4% higher in FY21, this is not the result of hiring additional employees or providing significant salary increases during the coming fiscal year. It is primarily the fully-annualized continuing cost of employees who are now on UTIMCO's payroll. Relative to \$18.75 million of annual run rate employee salaries at August 2020, salary growth is expected to be 0% for

next year. The plan for more hiring in FY21 has been paused with no raises budgeted for senior directors and above, a pause in senior level promotions, and 0-2% raises for analysts/associates. The raises are mostly offset with eliminated and downgraded positions.

- Performance Compensation is higher primarily for two reasons:
 1. The CEO has crossed the vesting threshold and is no longer required to defer a portion of performance compensation, thereby accelerating any performance awards to the current fiscal year rather than deferring 50% of the award which would be paid over the subsequent two fiscal years.
 2. Two years ago, the performance compensation deferral for employees was changed to occur over a two-year period instead of three.
- Actual performance compensation may be lower than budgeted in FY21 because of trailing three-year average calculations which may yield lower than expected value-add due to the financial challenges posed by the pandemic and dropping 2017, a high performing year, from the performance calculation time horizon.
- With the additional staffing, average AUM per employee is expected to decline in FY20 and FY21 compared to the prior five-year period.
- Total Compensation has grown by 16.3% annually from FY16 to FY20 primarily because of the addition of new positions. Total Compensation for FY21 is budgeted 12.9% above FY20 projected levels, which would equate to a 15.6% growth rate on an average annual basis over a five-year period. However, relative to an annualized run rate for employee salaries in place as of August 2020, the projected salary increase in FY21 is approximately 0%.
- Since FY16, Total Compensation per employee has increased 3.2% (annualized) from \$252k to \$285k forecast in FY20 and is budgeted to be at \$317k in FY21.

Table 3: UTIMCO Compensation and Headcount FY16-FY21 (excluding benefits)

	Actual				Forecast FY20	% Change Since FY16 (annual)	Budget FY21	% Change From FY20
	FY16	FY17	FY18	FY19				
Employees (as of year end)	70	83	94	95	113	12.7%	115	1.8%
Average Total AUM (\$ millions)	36,016	39,063	43,173	46,372	48,275	7.6%	49,839	3.2%
Average AUM/Employee (\$ millions)	515	471	459	488	427	-4.5%	433	1.4%
Salaries (\$ millions)	10.4	10.9	13.7	16.2	16.9	12.8%	18.8	11.4%
Performance Compensation (\$ millions)	7.2	10.3	10.4	11.3	15.4	20.8%	17.7	14.6%
Total Compensation (\$ millions)	17.6	21.2	24.1	27.5	32.3	16.3%	36.4	12.9%
Total Compensation per Employee (\$)	251,857	255,552	256,204	289,541	285,464	3.2%	316,739	11.0%
Perf. Comp. as % of Salaries	70%	94%	76%	69%	91%		94%	
Perf. Comp. as % of Total Compensation	41%	49%	43%	41%	48%		48%	

Lease and Depreciation Expenses: Lease expenses are budgeted to increase 23.2% compared to FY20 forecasted amounts due primarily to leasing additional office space in the UT System Building to accommodate the growth in employees anticipated by the strategic plan. The build-out of the space is currently in progress and is estimated to be completed by the end of the 2020 calendar year. Table 4 shows the lease expense trends from FY16-FY21.

Table 4: UTIMCO Lease Expenses FY16-FY21

	Actual				Forecast FY20	Budget FY21
	FY16	FY17	FY18	FY19		
Property Lease	\$518,373	\$1,136,800	\$1,762,827	2,047,589	2,047,589	\$2,595,464
Operating Lease	661,948	860,630	523,826	475,606	599,852	699,171
Parking Expenses	154,348	169,335	197,847	214,830	210,438	264,000
Other Expenses	9,497	14,150	4,716	0	0	0
Amortization (Deferred Rent Credit)	(170,344)	(108,267)	(208,054)	(263,864)	(241,876)	(335,643)
Total Lease Expenses (net)	\$1,173,822	\$2,072,648	\$2,281,162	\$2,474,161	\$2,616,003	\$3,222,992

Depreciation Expense is budgeted to increase 13% to \$1.9 million compared to the FY20 forecasted amount of \$1.7 million due to the buildout of expanded lease space, furniture, and new equipment to support additional employees.

Other General Operating Expenses, Professional Fees, and Insurance (non-employee): Office expenses, insurance, travel, professional fees, contract services and maintenance costs fall in this category and are forecast to be \$6.4 million in FY20, which is \$0.67 million or 9% lower than the FY20 budget of \$7.1 million. The decrease is due primarily to lower travel and meeting expenses as a result of the global pandemic.

General operating expenses for FY21 are budgeted to increase by \$1.8 million to \$8.9 million, or 25%, from \$7.1 million in FY20. The increase is primarily attributable to increased contract services for IT security and resilience projects costs related to staffing increases. A cybersecurity audit conducted by an outside consultant recommended five priority projects, two of which are planned for FY21 and three of which will be addressed in FY22. The FY21 projects are related to the design of the information security program and business continuity / disaster recovery system enhancements.

Direct Costs to Funds

Direct Costs to Funds for FY21 are budgeted at \$7.2 million, a 1.5% increase from the FY20 budget. UTIMCO continues to benefit from a new fee structure associated with custodian costs that resulted from the operation team's custodian review process conducted in early FY19.

UTIMCO Capital Expenditures

The trend for Capital Expenditures for FY16-FY21 is summarized in Table 5 below. Capital expenditures in FY20 and FY21 are primarily for the build-out of newly leased space to accommodate new hires associated with the strategic plan and for ongoing technology upgrades.

Table 5: UTIMCO Capital Expenditures FY16-FY21

	FY16	Actual			Forecast FY20	Budget FY21
		FY17	FY18	FY19		
Ongoing: Technology and Software Upgrades	\$179,345	\$56,488	\$17,758	\$115,487	\$368,000	\$500,000
Ongoing: Office Equipment and Fixtures	4,241	5,374	77,585	-	-	-
Expansion: Technology Initiatives / Video Conferencing	91,580	-	1,238,149	-	-	400,000
Expansion: Leasehold Buildout (net of TI allowance)	-	-	6,498,972	-	2,195,000	300,000
Expansion: Furniture and Fixtures	-	-	2,669,179	65,573	675,000	-
Total Capital Expenditures (net)	\$275,166	\$61,862	\$10,501,643	\$181,060	\$3,238,000	\$1,200,000

EXHIBIT A

Total Budgeted Costs FY20-FY21

	FY20		Change from FY20 Budget		FY21		Change from FY20 Forecast		Change from FY20 Budget
	Budget	Forecast	\$	%	Budget	\$	%	%	
UTIMCO Services									
Salaries	17,889,310	16,850,977	-1,038,333	-5.8%	18,774,406	1,923,429	11.4%	4.9%	
Performance Compensation + Earnings	15,592,053	15,406,440	-185,613	-1.2%	17,650,561	2,244,121	14.6%	13.2%	
Total Compensation	33,481,363	32,257,417	-1,223,946	-3.7%	36,424,967	4,167,550	12.9%	8.8%	
Total Payroll taxes	1,587,600	1,536,176	-51,424	-3.2%	1,756,264	220,088	14.3%	10.6%	
403(b) Contributions	1,345,928	1,211,633	-134,295	-10.0%	1,417,359	205,725	17.0%	5.3%	
Insurance & Cell Phone	1,603,236	1,533,487	-69,750	-4.4%	1,714,096	180,609	11.8%	6.9%	
Employee Benefits	2,949,165	2,745,120	-204,045	-6.9%	3,131,454	386,335	14.1%	6.2%	
Recruiting and Relocation Expenses	162,000	118,349	-43,651	-26.9%	100,000	-18,349	-15.5%	-38.3%	
Employee Education	239,835	127,668	-112,167	-46.8%	204,744	77,076	60.4%	-14.6%	
Other Employee Related Expenses	401,835	246,017	-155,818	-38.8%	304,744	58,727	23.9%	-24.2%	
Total Employee Related Expenses	38,419,963	36,784,730	-1,635,233	-4.3%	41,617,429	4,832,699	13.1%	8.3%	
On-Line Data & Subscriptions	3,712,008	3,546,943	-165,065	-4.4%	4,153,165	606,222	17.1%	11.9%	
Contract Services & Maintenance	954,801	1,023,791	68,990	7.2%	2,652,612	1,628,821	159.1%	177.8%	
Travel & Meetings, Including BOD	1,333,956	757,392	-576,564	-43.2%	1,015,722	258,330	34.1%	-23.9%	
Phone and Telecommunications	41,244	47,750	6,506	15.8%	55,488	7,738	16.2%	34.5%	
Computer & Office Supplies	66,368	50,704	-15,664	-23.6%	60,360	9,656	19.0%	-9.1%	
Other Office Expenses	167,072	163,876	-3,196	-1.9%	181,536	17,660	10.8%	8.7%	
Total Office Expense	274,684	262,330	-12,354	-4.5%	297,384	35,054	13.4%	8.3%	
Total Lease Expense	2,663,724	2,616,003	-47,721	-1.8%	3,222,992	606,989	23.2%	21.0%	
Board, Comp., & Hiring Consultants	342,000	389,425	47,425	13.9%	305,600	-83,825	-21.5%	-10.6%	
Legal Expenses	215,004	156,440	-58,564	-27.2%	125,004	-31,436	-20.1%	-41.9%	
Accounting fees	65,600	100,000	34,400	52.4%	104,604	4,604	4.6%	59.5%	
Total Professional Fees	622,604	645,865	23,261	3.7%	535,208	-110,657	-17.1%	-14.0%	
Total Insurance	211,956	203,201	-8,755	-4.1%	215,700	12,499	6.2%	1.8%	
Depreciation of Equipment	1,675,000	1,675,000	0	0.0%	1,900,000	225,000	13.4%	13.4%	
Total Non-Employee Related Expenses	11,448,733	10,730,525	-718,208	-6.3%	13,992,783	3,262,257	30.4%	22.2%	
Total UTIMCO Services	49,868,696	47,515,255	-2,353,441	-4.7%	55,610,211	8,094,956	17.0%	11.5%	
Direct Costs to Funds									
Custodian Fees and Other Direct Costs	4,100,000	4,043,253	-56,747	-1.4%	4,201,000	157,747	3.9%	2.5%	
Analytical Tools	154,500	154,500	0	0.0%	159,135	4,635	3.0%	3.0%	
Risk Measurement	665,500	588,869	-76,631	-11.5%	998,500	409,631	69.6%	50.0%	
Custodian and Analytical Costs	4,920,000	4,786,622	-133,378	-2.7%	5,358,635	572,013	12.0%	8.9%	
Consultant Fees	307,500	307,500	0	0.0%	307,500	0	0.0%	0.0%	
Auditing	828,919	828,919	0	0.0%	846,516	17,597	2.1%	2.1%	
Legal Fees	300,000	203,292	-96,708	-32.2%	225,000	21,708	10.7%	-25.0%	
Background Searches & Other	744,850	513,996	-230,854	-31.0%	470,450	-43,546	-8.5%	-36.8%	
Other Direct Costs Total	2,181,269	1,853,707	-327,562	-15.0%	1,849,466	-4,241	-0.2%	-15.2%	
Total Direct Costs to Funds	7,101,269	6,640,329	-460,940	-6.5%	7,208,101	567,772	8.6%	1.5%	
Total Budgeted Costs	56,969,965	54,155,584	-2,814,381	-4.9%	62,818,312	8,662,728	16.0%	10.3%	

EXHIBIT B

Total Actual Costs FY16-FY20 and FY21 Budget

	FY16	FY17	FY18	FY19	FY20	FY21
	Actual	Actual	Actual	Actual	Forecast	Budget
UTIMCO Services						
Salaries	10,394,021	10,919,643	13,667,683	16,235,197	16,850,977	18,774,406
Performance Compensation + Earnings	7,235,982	10,291,209	10,415,478	11,271,195	15,406,440	17,650,561
Total Compensation	17,630,003	21,210,852	24,083,161	27,506,392	32,257,417	36,424,967
Total Payroll taxes	701,081	843,661	955,790	1,455,958	1,536,176	1,756,264
403(b) Contributions	748,756	749,882	941,512	1,112,464	1,211,633	1,417,359
Insurance & Cell Phone	891,694	1,126,193	1,234,563	1,369,599	1,533,487	1,714,096
Employee Benefits	1,640,450	1,876,075	2,176,075	2,482,063	2,745,120	3,131,454
Recruiting and Relocation Expenses	86,701	161,814	181,230	81,607	118,349	100,000
Employee Education	170,253	82,904	90,110	112,955	127,668	204,744
Other Employee-Related Expenses	256,954	244,718	271,340	194,562	246,017	304,744
Total Employee Related Expenses	20,228,487	24,175,306	27,486,366	31,638,975	36,784,730	41,617,429
On-Line Data & Subscriptions	1,285,682	1,935,118	2,688,550	3,246,582	3,546,943	4,153,165
Contract Services & Maintenance	572,156	425,494	813,342	748,427	1,023,791	2,652,612
Travel & Meetings, Including BOD	669,207	688,498	792,548	946,860	757,392	1,015,722
Phone and Telecommunications	38,233	40,540	46,616	41,428	47,750	55,488
Computer & Office Supplies	57,638	60,836	165,639	75,955	50,704	60,360
Other Office Expenses	151,632	147,974	149,779	152,749	163,876	181,536
Total Office Expense	247,503	249,349	362,034	270,132	262,330	297,384
Total Lease Expense	1,173,823	2,072,648	2,281,161	2,474,161	2,616,003	3,222,992
Board, Compensation, & Hiring Consultants	609,327	762,181	328,063	350,898	389,425	305,600
Legal Expenses	145,157	188,846	75,414	176,226	156,440	125,004
Accounting fees	53,520	56,950	58,910	63,420	100,000	104,604
Total Professional Fees	808,005	1,007,977	462,386	590,544	645,865	535,208
Total Insurance	204,428	187,348	195,114	202,752	203,201	215,700
Depreciation of Equipment	1,657,536	2,453,498	1,015,435	1,669,890	1,675,000	1,900,000
Total Non-Employee Related Expenses	6,618,339	9,019,930	8,610,569	10,149,348	10,730,525	13,992,783
Total UTIMCO Services	26,846,826	33,195,236	36,096,935	41,788,323	47,515,255	55,610,211
Direct Costs to Funds						
Custodian Fees and Other Direct Costs	5,686,948	6,221,234	8,501,722	4,868,268	4,043,253	4,201,000
Analytical Tools	412,156	399,568	0	0	154,500	159,135
Risk Measurement	292,000	286,501	297,499	292,000	588,869	998,500
Custodian and Analytical Costs	6,391,103	6,907,303	8,799,221	5,160,268	4,786,622	5,358,635
Consultant Fees	359,041	320,000	470,000	481,496	307,500	307,500
Auditing	789,873	770,000	790,000	811,750	828,919	846,516
Legal Fees	156,126	83,715	152,895	304,048	203,292	225,000
Background Searches & Other	489,539	287,165	425,515	792,168	513,996	470,450
Other Direct Costs Total	1,794,579	1,460,880	1,838,410	2,389,462	1,853,707	1,849,466
Total Direct Costs to Funds	8,185,683	8,368,183	10,637,631	7,549,730	6,640,329	7,208,101
Total Budgeted Costs	35,032,509	41,563,419	46,734,566	49,338,053	54,155,584	62,818,312

EXHIBIT C
UTIMCO Reserve Analysis for August 31, 2020

<u>Projected Cash Reserves at August 31, 2020</u>		
Cash		\$ 27,500,000
Prepaid Expenses		1,350,000
Less: Accounts Payable (Includes incentive compensation & earnings payable)		(13,500,000)
Projected Cash Reserves at August 31, 2020		\$ 12,480,000
FY21 Proposed Operating Budget	55,610,211	
Applicable Percentage	25%	13,902,553
Capital Budget Expenditures		1,200,000
Depreciation Expense		(1,900,000)
Required Cash Reserves at August 31, 2020		\$ 13,202,553
Balance Available for Distribution		\$ (722,553)
Recommended Distribution		\$ -