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Committee Meeting: 11/14/2012

Paul L. Foster, Chairman
Printice L. Gary, Vice Chairman
Alex M. Cranberg
Wallace L. Hall, Jr.
Brenda Pejovich

Board Meeting: 11/15/2012
Tyler, Texas

	Committee Meeting	Board Meeting	Page
Convene	11:30 a.m. <i>Chairman Foster</i>		
1. U. T. System Board of Regents: Review of Consent Agenda items, if any, referred for Committee consideration	11:30 a.m. Action	Action	67
2. U. T. System: Key Financial Indicators Report	11:35 a.m. Report/Discussion <i>Dr. Kelley</i>	Not on Agenda	68
3. U. T. System Board of Regents: The University of Texas Investment Management Company (UTIMCO) Performance Summary Report and Investment Reports for the fiscal year and quarter ended August 31, 2012	11:45 a.m. Report/Discussion <i>Mr. Zimmerman</i>	Report	77
Adjourn	12:00 p.m.		

1. **U. T. System Board of Regents: Review of Consent Agenda items, if any, referred for Committee consideration**

(The proposed Consent Agenda is at the back of the book.)

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

REPORT

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

The Key Financial Indicators Report compares the Systemwide quarterly results of operations, key revenues and expenses, reserves, and key financial ratios in a graphical presentation from Fiscal Year 2008 through July 2012. Ratios requiring balance sheet data are provided for Fiscal Year 2007 through Fiscal Year 2011.

THE UNIVERSITY OF TEXAS SYSTEM



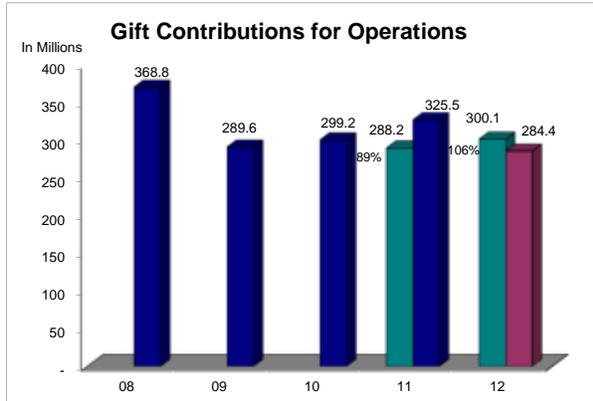
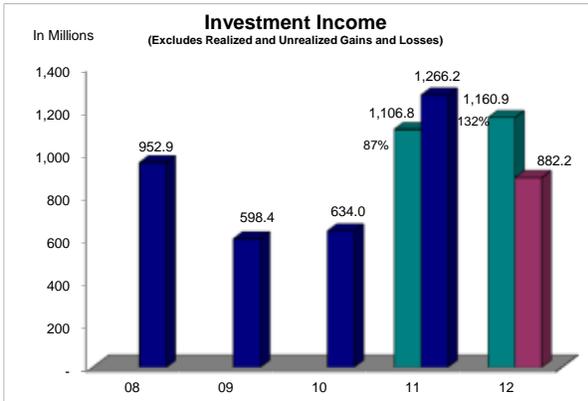
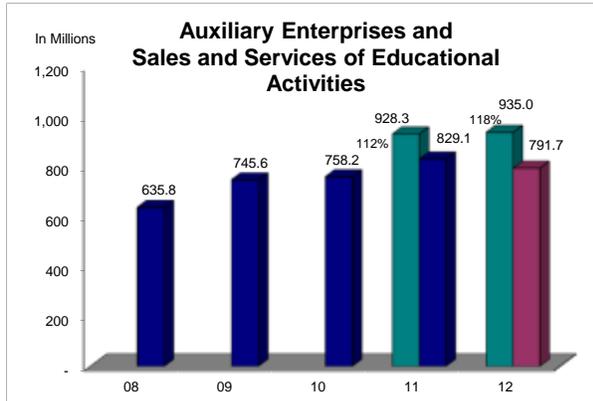
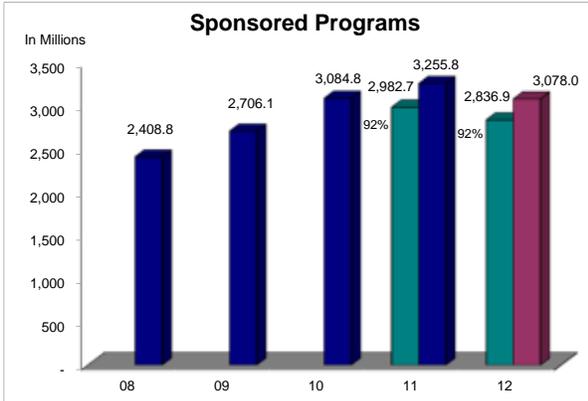
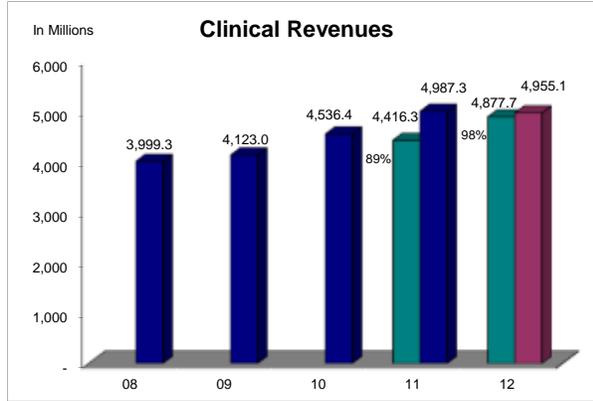
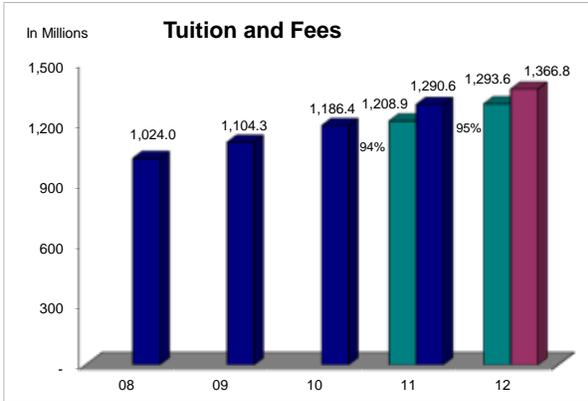
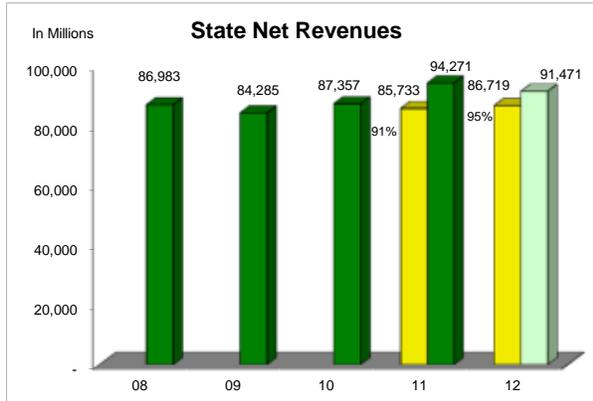
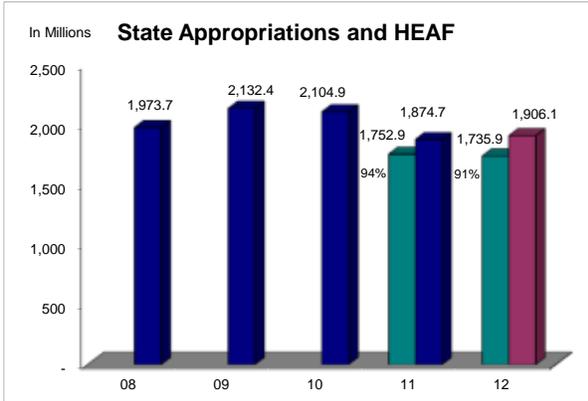
KEY FINANCIAL INDICATORS REPORT

JULY 2012

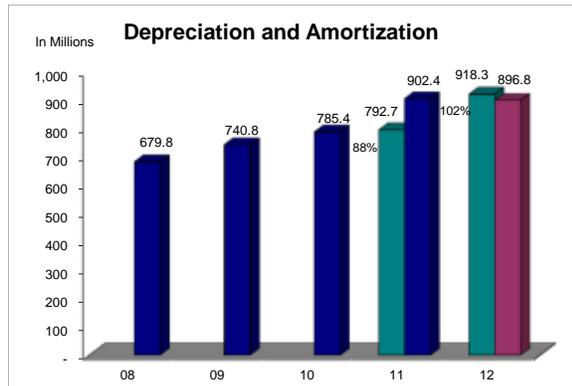
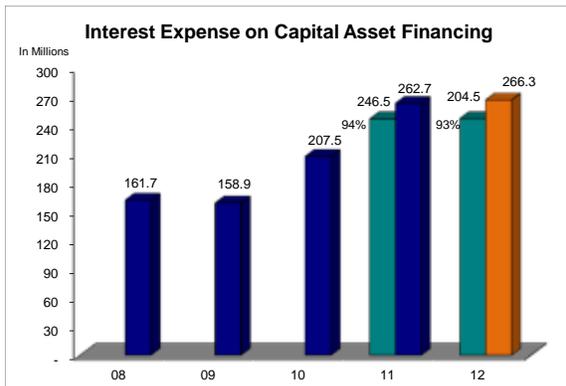
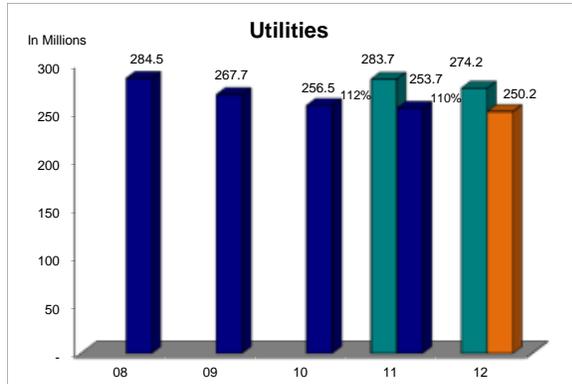
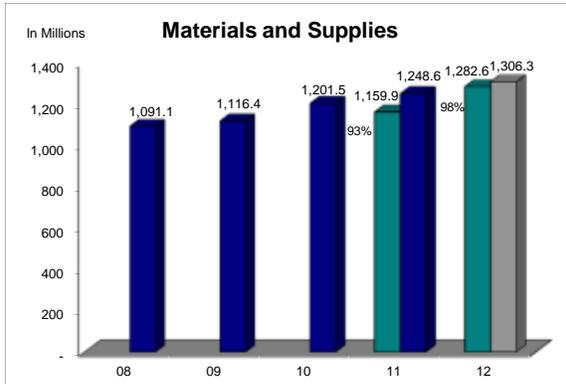
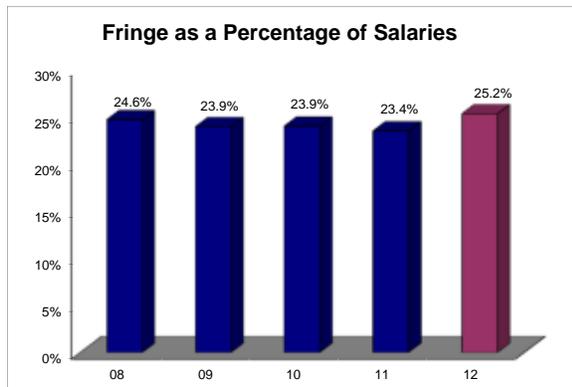
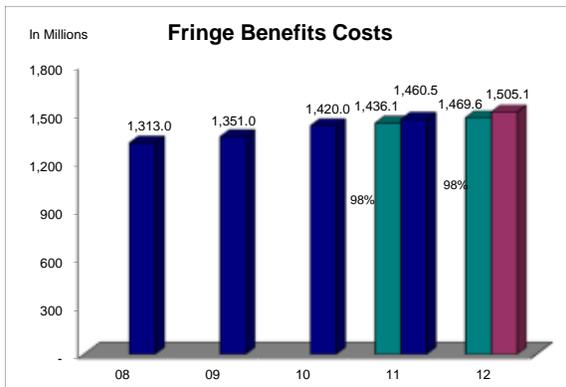
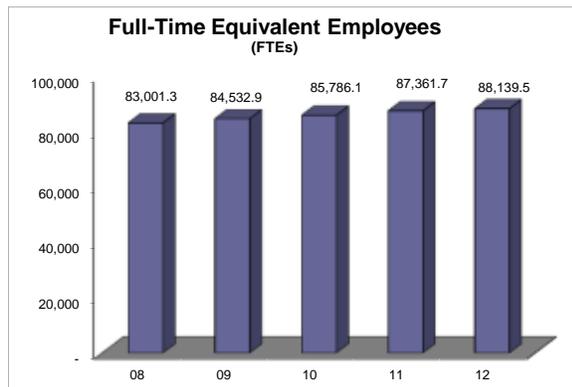
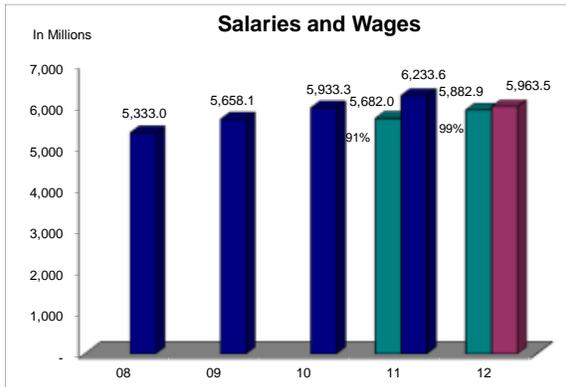
KEY

-  **Actual Annual Amounts**
(SOURCE: Annual Financial Reports)
-  **Adjustment to Actual Annual Amounts to exclude the Increase in Net OPEB Obligation**
(SOURCE: Annual Financial Reports)
-  **Budget amounts**
(SOURCE: Operating Budget Summary)
-  **Projected Amounts based on the average change of the previous three years of data**
-  **Monthly Financial Report Year-to-Date Amounts**
-  **Annual State Net Revenue Collections**
(SOURCE: Texas Revenue History by Source and Texas Net Revenue by Source, State Comptroller's Office)
-  **Year-to-Date State Net Revenue Collections**
(SOURCE: State Comptroller's Office)
-  **Estimated State Revenue Collections**
(SOURCE: Biennial Revenue Estimate, State Comptroller's Office)
-  **Annual and Quarterly Average of FTEs**
(SOURCE: State Auditor's Office Quarterly FTE Report)
-  **Year-to-Date Margin**
(SOURCE: Monthly Financial Report)
-  **Projected Amounts based on Monthly Financial Report**
-  **Year-to-Date Margin**
(SOURCE: Monthly Financial Report)
-  **Target Normalized Rates**
-  **Aaa Median**
(SOURCE: Moody's)
-  **A2 Median**
(SOURCE: Moody's)
-  **Good Facilities Condition Index (Below 5%)**
-  **Fair Facilities Condition Index (5% - 10%)**

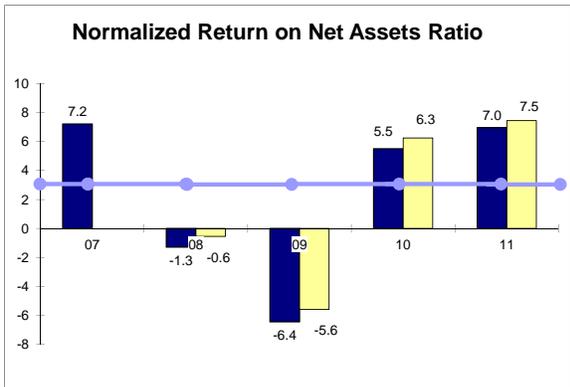
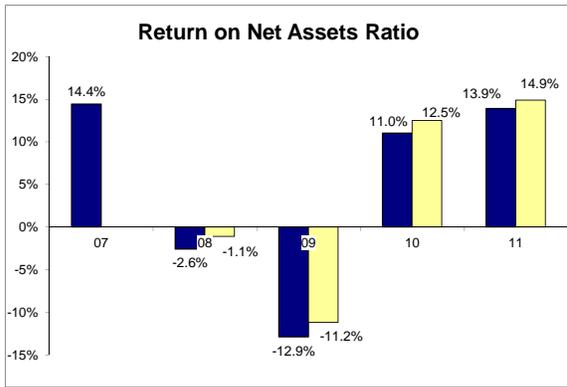
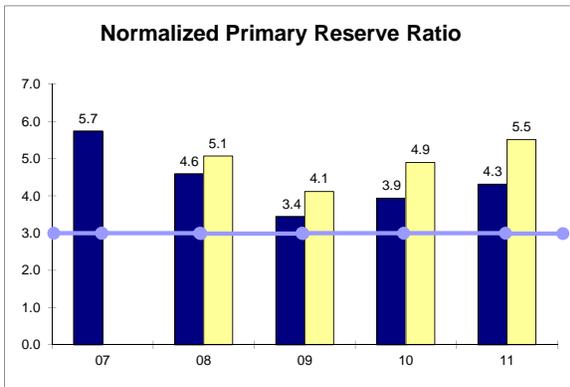
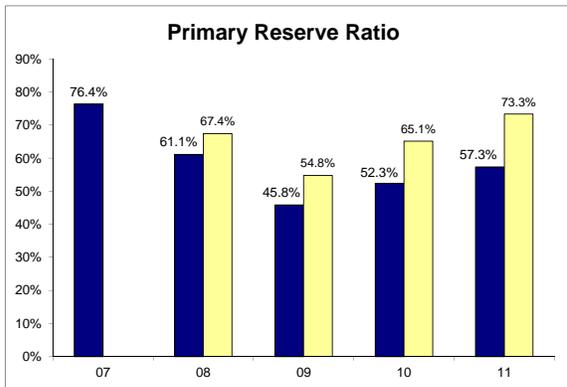
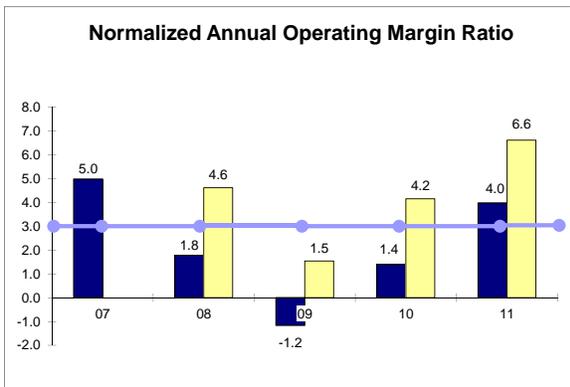
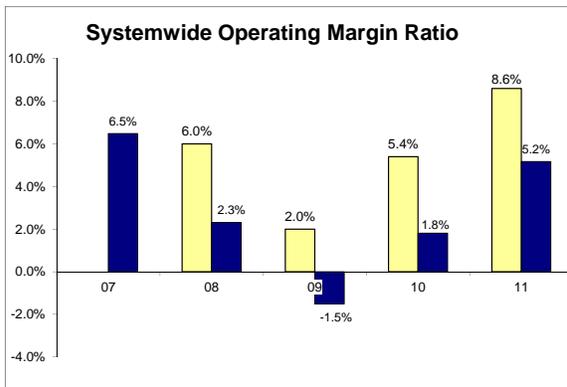
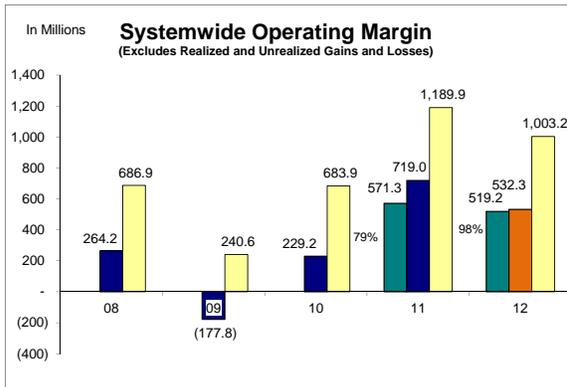
**KEY INDICATORS OF REVENUES
ACTUAL 2008 THROUGH 2011
PROJECTED 2012
YEAR-TO-DATE 2011 AND 2012 FROM JULY MONTHLY FINANCIAL REPORT**



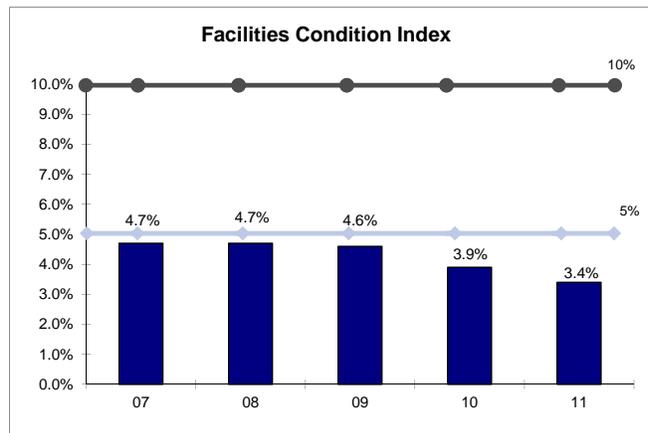
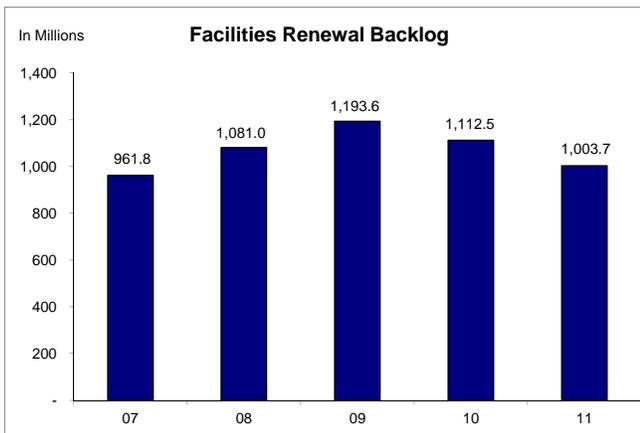
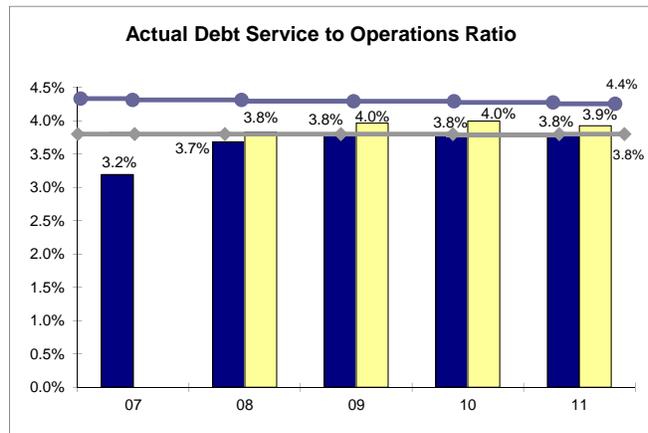
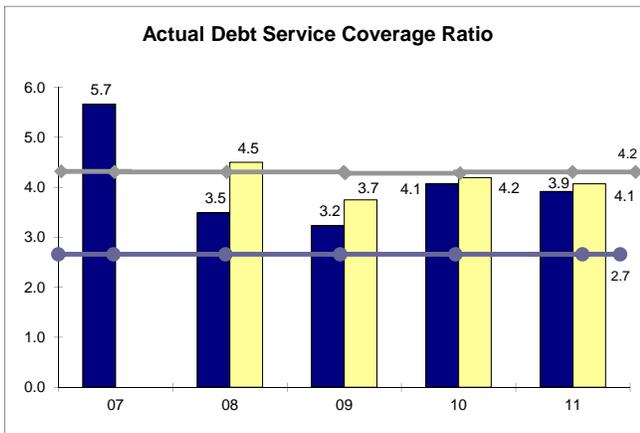
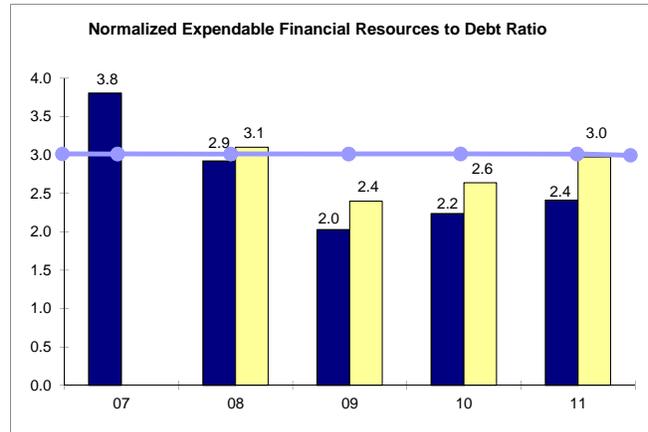
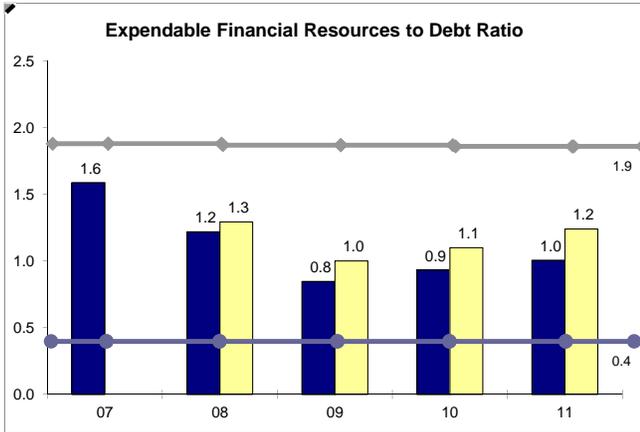
KEY INDICATORS OF EXPENSES
ACTUAL 2008 THROUGH 2011
PROJECTED 2012
YEAR-TO-DATE 2011 AND 2012 FROM JULY MONTHLY FINANCIAL REPORT



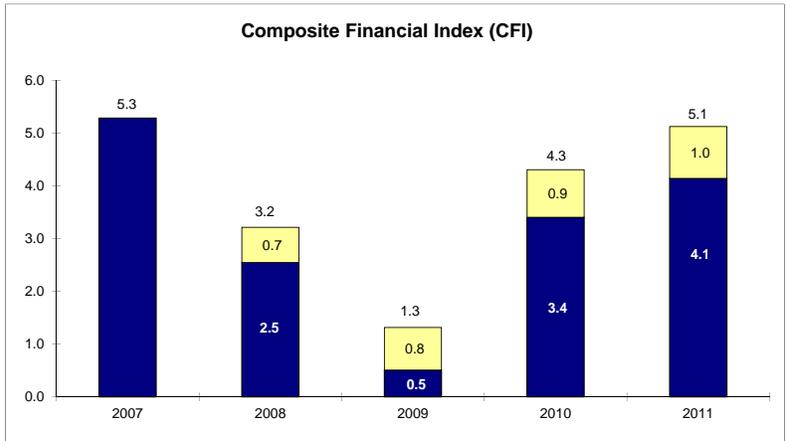
KEY INDICATORS OF RESERVES
ACTUAL 2007 THROUGH 2011
PROJECTED 2012
YEAR-TO-DATE 2011 AND 2012 FROM JULY MONTHLY FINANCIAL REPORT



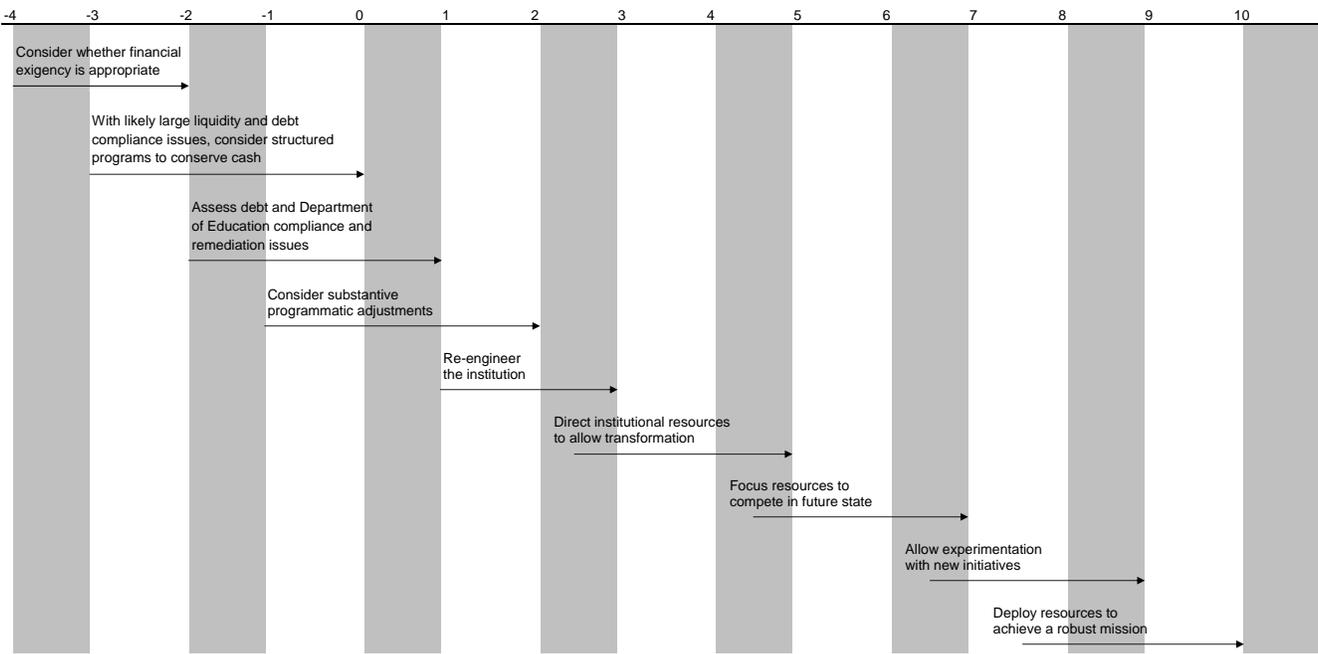
KEY INDICATORS OF CAPITAL NEEDS AND CAPACITY 2007 THROUGH 2011



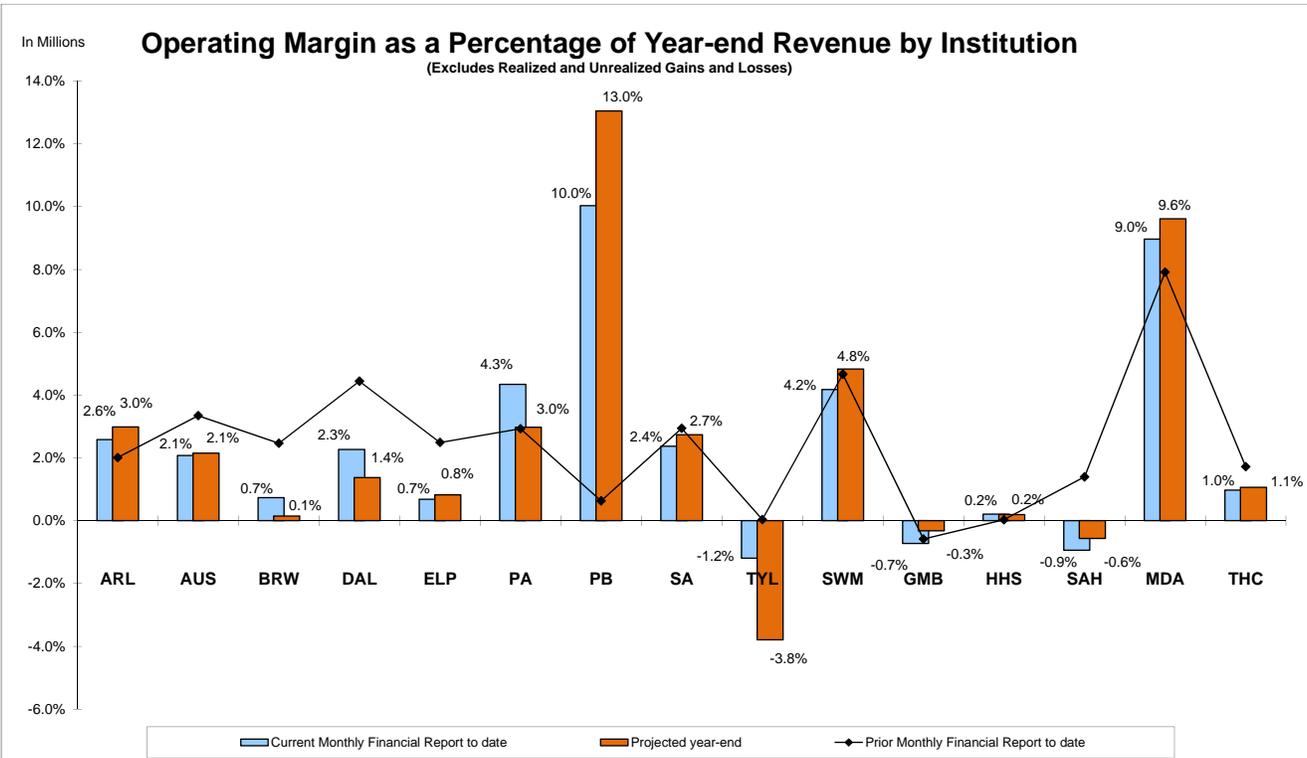
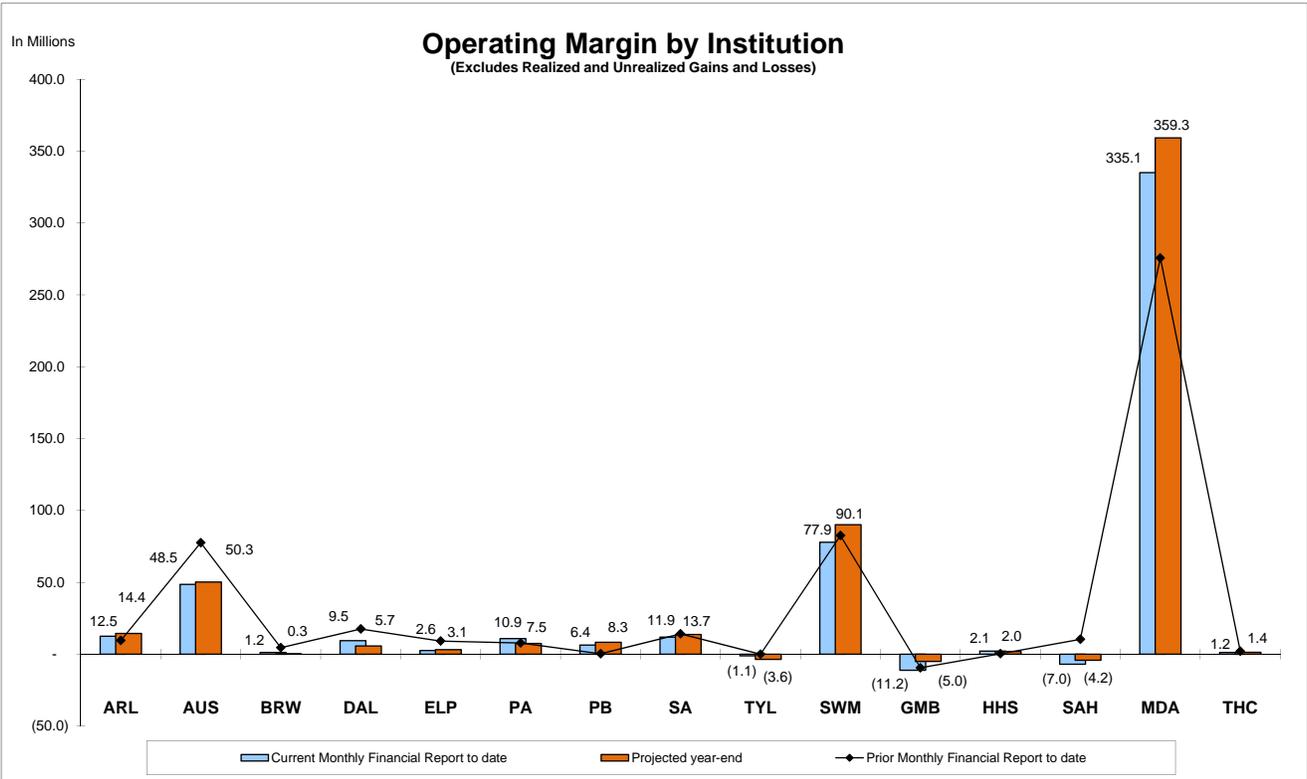
**KEY INDICATORS OF FINANCIAL HEALTH
2007 THROUGH 2011**



Scale for Charting CFI Performance



**KEY INDICATORS OF RESERVES
YEAR-TO-DATE 2011 AND 2012 FROM JULY MONTHLY FINANCIAL REPORT
PROJECTED 2012 YEAR-END MARGIN**



3. **U. T. System Board of Regents: The University of Texas Investment Management Company (UTIMCO) Performance Summary Report and Investment Reports for the fiscal year and quarter ended August 31, 2012**

REPORT

The August 31, 2012 UTIMCO Performance Summary Report is attached on [Page 78](#).

The Investment Reports for the fiscal year and quarter ended August 31, 2012, are set forth on [Pages 79 - 82](#).

Item I on [Page 79](#) reports activity for the Permanent University Fund (PUF) investments. The PUF's net investment return for the fiscal year was 3.21% versus its composite benchmark return of 3.27%. The PUF's net asset value increased by \$782 million since the beginning of the year to \$13,470 million. The increase was due to \$955 million PUF Lands receipts, plus a net investment return of \$403 million, less the annual distribution to the Available University Fund (AUF) of \$576 million.

Item II on [Page 80](#) reports activity for the General Endowment Fund (GEF) investments. The GEF's net investment return for the fiscal year was 3.24% versus its composite benchmark return of 3.27%. The GEF's net asset value increased by \$56 million during the fiscal year to \$7,105 million.

Item III on [Page 81](#) reports activity for the Intermediate Term Fund (ITF). The ITF's net investment return for the fiscal year was 2.87% versus its composite benchmark return of 1.00%. The net asset value increased during the fiscal year to \$4,893 million due to net investment return of \$136 million, plus net contributions of \$237 million, less distributions of \$142 million.

All exposures were within their asset class and investment type ranges. Liquidity was within policy.

Item IV on [Page 82](#) presents book and market values of cash, debt, equity, and other securities held in funds outside of internal investment pools. Total cash and equivalents, consisting primarily of institutional operating funds held in the Dreyfus money market fund, decreased by \$136 million to \$2,215 million during the three months since the last reporting period. Market values for the remaining asset types were debt securities: \$22 million versus \$72 million at the beginning of the period; equities: \$53 million versus \$48 million at the beginning of the period; and other investments: \$12 million versus \$1 million at the beginning of the period.

UTIMCO Performance Summary

August 31, 2012

	Net Asset Value 8/31/2012 (in Millions)	Periods Ended August 31, 2012 (Returns for Periods Longer Than One Year are Annualized)							
		<u>Short Term</u>		<u>Year to Date</u>		<u>Historic Returns</u>			
		1 Mo	3 Mos	Fiscal	Calendar	1 Yr	3 Yrs	5 Yrs	10 Yrs
ENDOWMENT FUNDS									
Permanent University Fund	\$ 13,470	1.37%	3.71%	3.21%	7.18%	3.21%	10.17%	2.38%	8.21%
General Endowment Fund		1.39	3.77	3.24	7.24	3.24	10.22	2.40	8.35
Permanent Health Fund	977	1.38	3.73	3.12	7.17	3.12	10.14	2.34	8.26
Long Term Fund	6,128	1.38	3.73	3.13	7.18	3.13	10.15	2.34	8.27
Separately Invested Funds	132	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Endowment Funds	20,707								
OPERATING FUNDS									
Intermediate Term Fund	4,893	1.34	4.33	2.87	6.33	2.87	8.36	3.26	N/A
Debt Proceeds Fund	672	0.02	0.04	0.15	0.11	0.15	N/A	N/A	N/A
Short Term Fund	1,499	0.01	0.04	0.15	0.11	0.15	0.20	1.14	2.05
Total Operating Funds	7,064								
Total Investments	\$ 27,771								
VALUE ADDED (1) (Percent)									
Permanent University Fund		0.15%	(1.28%)	(0.06%)	1.57%	(0.06%)	2.22%	2.21%	2.23%
General Endowment Fund		0.17	(1.22)	(0.03)	1.63	(0.03)	2.27	2.23	2.37
Intermediate Term Fund		0.39	0.35	1.87	1.95	1.87	3.04	2.57	N/A
Debt Proceeds Fund		0.01	0.01	0.09	0.05	0.09	N/A	N/A	N/A
Short Term Fund		-	0.01	0.09	0.05	0.09	0.08	0.35	0.21
VALUE ADDED (1) (\$ IN MILLIONS)									
Permanent University Fund		\$ 20	\$ (165)	\$ (6)	\$ 194	\$ (6)	\$ 768	\$ 1,343	\$ 2,530
General Endowment Fund		12	(84)	(3)	110	(3)	439	761	1,452
Intermediate Term Fund		19	17	89	91	89	394	557	N/A
Total Value Added		\$ 51	\$ (232)	\$ 80	\$ 395	\$ 80	\$ 1,601	\$ 2,661	\$ 3,982

Footnotes available upon request

UTIMCO 10/1/2012

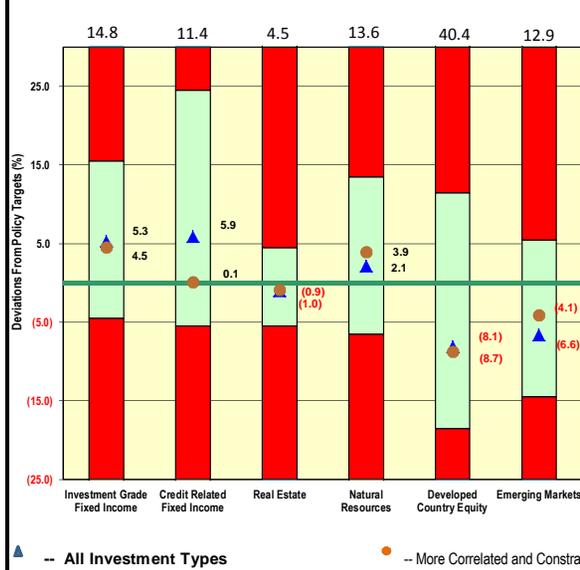
I. PERMANENT UNIVERSITY FUND Investment Reports for Periods Ended August 31, 2012

Prepared in accordance with Texas Education Code Sec. 51.0032

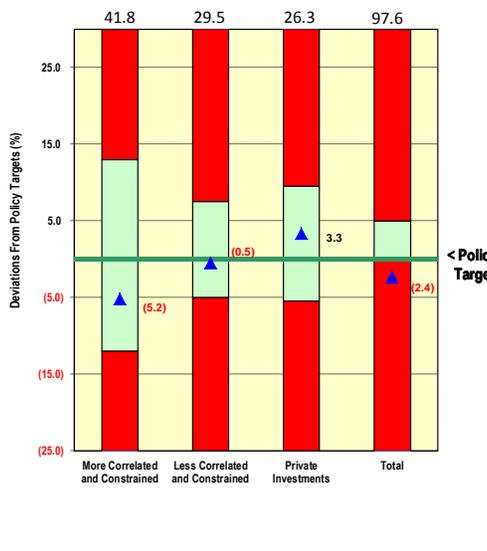
Summary of Capital Flows				
(\$ millions)	Fiscal Year Ended August 31, 2011	Quarter Ended August 31, 2012	Fiscal Year Ended August 31, 2012	
Beginning Net Assets	\$ 10,725	\$ 12,843	\$ 12,688	
PUF Lands Receipts	896	151	955	
Investment Return (Net of Expenses)	1,573	476	403	
Distributions to AUF	(506)	-	(576)	
Ending Net Assets	<u>\$ 12,688</u>	<u>\$ 13,470</u>	<u>\$ 13,470</u>	

	Fiscal Year to Date				
	Returns		Value Added		
	Portfolio	Policy Benchmark	From Asset Allocation	From Security Selection	Total
More Correlated and Constrained:					
Investment Grade	0.64%	1.40%	-0.08%	-0.06%	-0.14%
Credit-Related	16.44%	12.10%	0.00%	0.00%	0.00%
Real Estate	4.33%	11.76%	0.00%	-0.18%	-0.18%
Natural Resources	-8.44%	-7.61%	-0.67%	-0.06%	-0.73%
Developed Country	4.73%	8.12%	-0.14%	-0.74%	-0.88%
Emerging Markets	-3.00%	-5.80%	0.14%	0.25%	0.39%
Total More Correlated and Constrained	-1.01%	1.74%	-0.75%	-0.79%	-1.54%
Less Correlated and Constrained	6.64%	-0.64%	0.33%	1.87%	2.20%
Private Investments	7.05%	10.08%	-0.20%	-0.52%	-0.72%
Total	3.21%	3.27%	-0.62%	0.56%	-0.06%

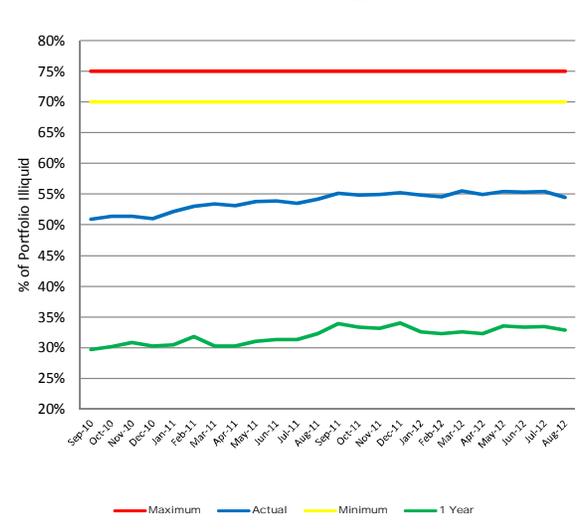
Deviations From Asset Class Policy Targets Within Tactical Policy Ranges for PUF



Deviations From Investment Type Policy Targets Within Tactical Policy Ranges for PUF



Permanent University Fund
Actual Illiquidity vs. Trigger Zones

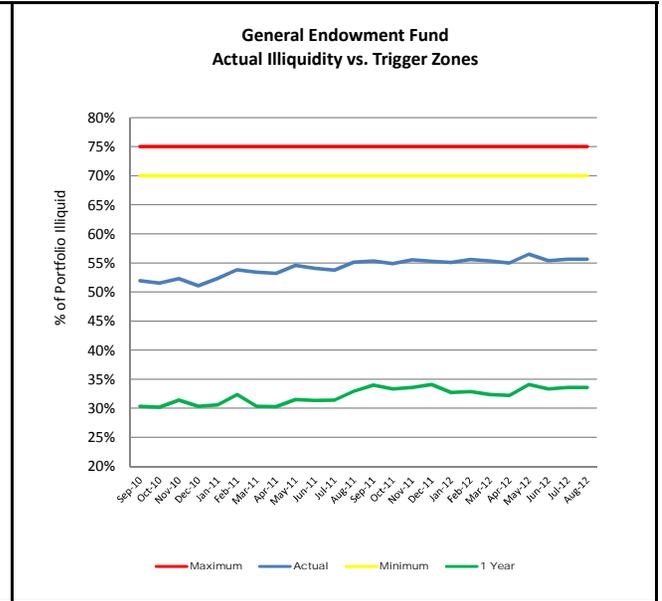
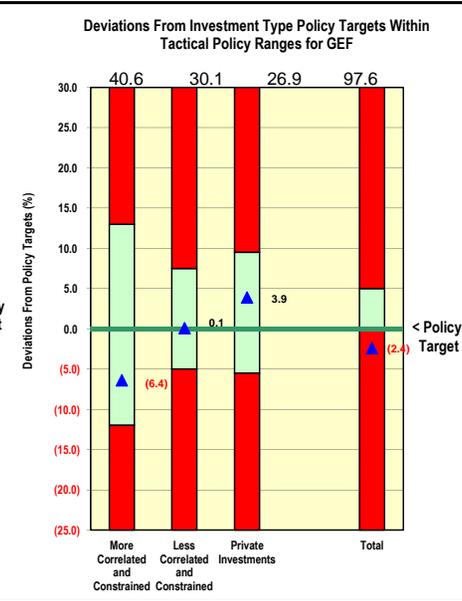
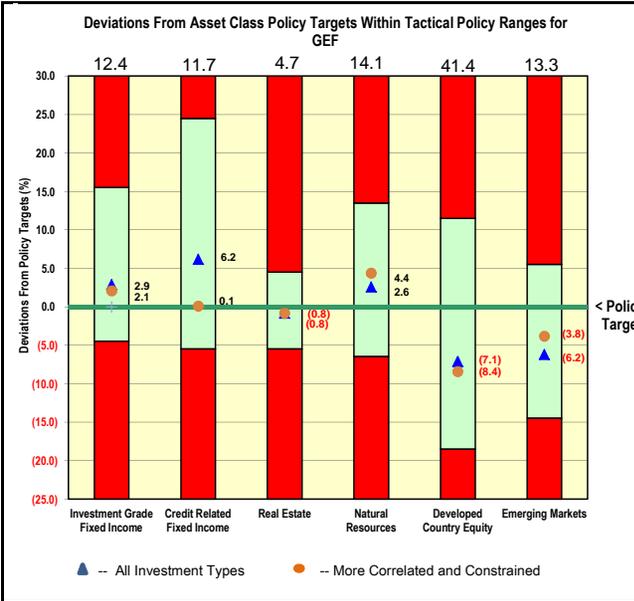


II. GENERAL ENDOWMENT FUND Investment Reports for Periods Ended August 31, 2012

Prepared in accordance with Texas Education Code Sec. 51.0032

Summary of Capital Flows			
(\$ millions)	Fiscal Year Ended August 31, 2011	Quarter Ended August 31, 2012	Fiscal Year Ended August 31, 2012
Beginning Net Assets	\$ 6,035	\$ 6,884	\$ 7,049
Contributions	432	59	194
Withdrawals	(12)	(12)	(17)
Distributions	(327)	(87)	(344)
Investment Return (Net of Expenses)	921	261	223
Ending Net Assets	<u>\$ 7,049</u>	<u>\$ 7,105</u>	<u>\$ 7,105</u>

	Fiscal Year to Date				
	Returns		Value Added		
	Portfolio	Policy Benchmark	From Asset Allocation	From Security Selection	Total
More Correlated and Constrained:					
Investment Grade	1.07%	1.40%	-0.03%	-0.05%	-0.08%
Credit-Related	16.44%	12.10%	0.00%	0.00%	0.00%
Real Estate	4.38%	11.76%	0.01%	-0.18%	-0.17%
Natural Resources	-8.49%	-7.61%	-0.66%	-0.09%	-0.75%
Developed Country	4.95%	8.12%	-0.12%	-0.67%	-0.79%
Emerging Markets	-3.00%	-5.80%	0.13%	0.26%	0.39%
Total More Correlated and Constrained	-0.95%	1.74%	-0.67%	-0.73%	-1.40%
Less Correlated and Constrained	6.64%	-0.64%	0.32%	1.80%	2.12%
Private Investments	7.05%	10.08%	-0.19%	-0.56%	-0.75%
Total	3.24%	3.27%	-0.54%	0.51%	-0.03%

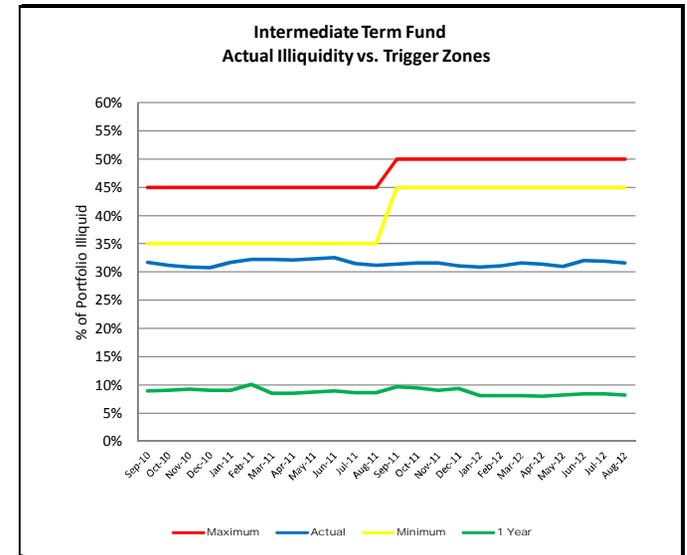
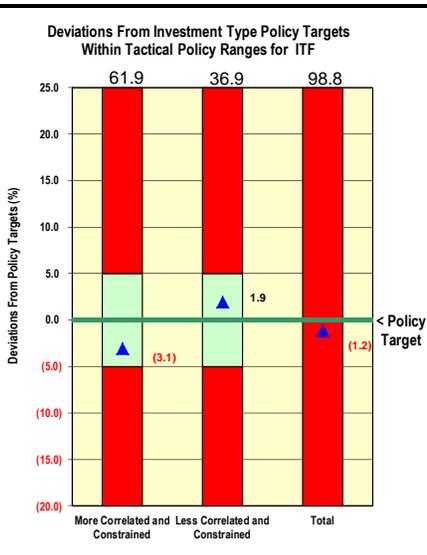
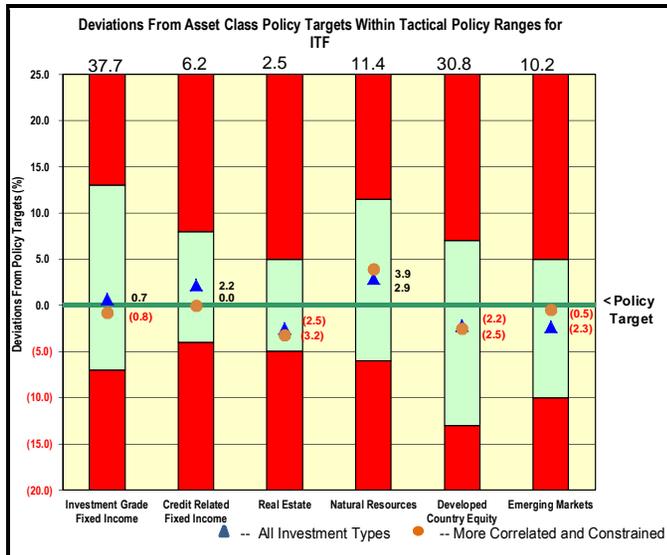


III. INTERMEDIATE TERM FUND Investment Reports for Periods Ended August 31, 2012

Prepared in accordance with Texas Education Code Sec. 51.0032

<u>Summary of Capital Flows</u>			
(\$ millions)	Fiscal Year Ended August 31, 2011	Quarter Ended August 31, 2012	Fiscal Year Ended August 31, 2012
Beginning Net Assets	\$ 4,156	\$ 4,745	\$ 4,662
Contributions	328	24	420
Withdrawals	(168)	(44)	(183)
Distributions	(139)	(36)	(142)
Investment Return (Net of Expenses)	485	204	136
Ending Net Assets	<u>\$ 4,662</u>	<u>\$ 4,893</u>	<u>\$ 4,893</u>

	Returns		Fiscal Year to Date		
	Portfolio	Policy Benchmark	From Asset Allocation	From Security Selection	Total
More Correlated and Constrained:					
Investment Grade	4.04%	1.40%	0.03%	0.90%	0.93%
Credit-Related	0.00%	0.00%	0.00%	0.00%	0.00%
Real Estate	3.21%	11.76%	-0.08%	-0.43%	-0.51%
Natural Resources	-9.09%	-7.61%	-0.60%	-0.14%	-0.74%
Developed Country	5.70%	8.12%	-0.12%	-0.27%	-0.39%
Emerging Markets	-3.26%	-5.80%	-0.02%	0.16%	0.14%
Total More Correlated and Constrained	0.96%	1.80%	-0.79%	0.22%	-0.57%
Less Correlated and Constrained	6.63%	-0.64%	0.27%	2.17%	2.44%
Private Investments	0.00%	0.00%	0.00%	0.00%	0.00%
Total	2.87%	1.00%	-0.52%	2.39%	1.87%



UTIMCO 9/24/2012

IV. SEPARATELY INVESTED ASSETS
Summary Investment Report at August 31, 2012
 Report prepared in accordance with *Texas Education Code Sec. 51.0032*

ASSET TYPES	(\$ thousands)															
	FUND TYPE															
	CURRENT PURPOSE DESIGNATED		RESTRICTED		ENDOWMENT & SIMILAR FUNDS		ANNUITY & LIFE INCOME FUNDS		AGENCY FUNDS		TOTAL EXCLUDING OPERATING FUNDS		OPERATING FUNDS (DEBT PROCEEDS AND SHORT TERM FUND)		TOTAL	
BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	
Cash & Equivalents:																
Beginning value 05/31/12	-	-	2,252	2,252	60,757	60,757	2,464	2,464	3,079	3,079	68,552	68,552	2,282,335	2,282,335	2,350,887	2,350,887
Increase/(Decrease)	-	-	(585)	(585)	(21,491)	(21,491)	(285)	(285)	(1,878)	(1,878)	(24,239)	(24,239)	(111,415)	(111,415)	(135,654)	(135,654)
Ending value 08/31/12	-	-	1,667	1,667	39,266	39,266	2,179	2,179	1,201	1,201	44,313	44,313	2,170,920	2,170,920	2,215,233	2,215,233
Debt Securities:																
Beginning value 05/31/12	-	-	45	45	11,668	12,821	8,610	9,179	-	-	20,323	22,045	49,841	49,507	70,164	71,552
Increase/(Decrease)	-	-	-	-	110	284	-	153	-	-	110	437	(49,841)	(49,507)	(49,731)	(49,070)
Ending value 08/31/12	-	-	45	45	11,778	13,105	8,610	9,332	-	-	20,433	22,482	-	-	20,433	22,482
Equity Securities:																
Beginning value 05/31/12	460	3,086	197	192	29,797	32,079	13,634	13,119	-	-	44,088	48,476	-	-	44,088	48,476
Increase/(Decrease)	1	204	900	1,138	320	2,338	-	1,067	-	-	1,221	4,747	-	-	1,221	4,747
Ending value 08/31/12	461	3,290	1,097	1,330	30,117	34,417	13,634	14,186	-	-	45,309	53,223	-	-	45,309	53,223
Other:																
Beginning value 05/31/12	-	-	262	262	9	9	451	144	200	200	922	615	-	-	922	615
Increase/(Decrease)	-	-	5,425	5,425	1	1	5	-	5,979	5,979	11,410	11,405	-	-	11,410	11,405
Ending value 08/31/12	-	-	5,687	5,687	10	10	456	144	6,179	6,179	12,332	12,020	-	-	12,332	12,020
Total Assets:																
Beginning value 05/31/12	460	3,086	2,756	2,751	102,231	105,666	25,159	24,906	3,279	3,279	133,885	139,688	2,332,176	2,331,842	2,466,061	2,471,530
Increase/(Decrease)	1	204	5,740	5,978	(21,060)	(18,868)	(280)	935	4,101	4,101	(11,498)	(7,650)	(161,256)	(160,922)	(172,754)	(168,572)
Ending value 08/31/12	461	3,290	8,496	8,729	81,171	86,798	24,879	25,841	7,380	7,380	122,387	132,038	2,170,920	2,170,920	2,293,307	2,302,958

Details of individual assets by account furnished upon request.