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Committee Meeting: 8/23/2023

Board Meeting: 8/24/2023
Austin, Texas

Janiece Longoria, Chairman
Robert P. Gauntt
Jodie Lee Jiles
Stuart W. Stedman
Kelcy L. Warren
Rad Weaver

| | Committee Meeting | Board Meeting | Page |
|--|---|----------------------|-------------|
| Convene | <i>2:45 p.m.</i> <i>Chairman</i> | | |
| 1. U. T. System Board of Regents: Discussion and appropriate action regarding Consent Agenda items, if any, assigned for Committee consideration | Discussion | Action | 49 |
| 2. U. T. System: Financial Status Presentation and Monthly Financial Report | Report/Discussion <i>Mr. Pruitt</i> | Not on Agenda | 50 |
| 3. U. T. System Board of Regents: Equipment financing authorization for Fiscal Year 2024 and resolution regarding parity debt | Action <i>Mr. Pruitt</i> | Action | 79 |
| 4. 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 | Action <i>Mr. Pruitt</i> | Action | 81 |
| 5. 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 | Action <i>Mr. Pruitt</i> | Action | 83 |
| 6. U. T. System Board of Regents: Adoption of resolutions authorizing certain bond enhancement agreements for Revenue Financing System debt and Permanent University Fund debt and ratification of Regents' Rule 70202, as amended, in its entirety | Action <i>Mr. Pruitt</i> | Action | 85 |

- | | | | | |
|-----|---|---|---|------------|
| 7. | 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 | Action <i>Mr. Pruitt</i> | Action | 92 |
| 8. | U. T. System Board of Regents: Approval of amendments to the Investment Policy Statements for the Permanent University Fund, the General Endowment Fund, the Intermediate Term Fund, the Permanent Health Fund, the Long Term Fund, and the Liquidity Policy | Action <i>Mr. Hall</i> | Action | 95 |
| 9. | U. T. System Board of Regents: Approval to amend The University of Texas/Texas A&M Investment Management Company (UTIMCO) Code of Ethics | Action <i>Mr. Pruitt</i> <i>Mr. Hall</i> | Action <i>Mr. Pruitt</i> <i>Mr. Hall</i> | 155 |
| 10. | U. T. System Board of Regents: Approval of the Annual Budget for Fiscal Year 2024, 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) | Action <i>Mr. Pruitt</i> <i>Mr. Hall</i> | Action | 179 |
| 11. | U. T. System Board of Regents: The University of Texas/Texas A&M Investment Management Company (UTIMCO) Update | Report/Discussion <i>Mr. Hall</i> | Not on Agenda | 194 |

Adjourn

3:30 p.m.

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

RECOMMENDATION

The Board will be asked to approve the Consent Agenda beginning on [Page 352](#).

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

REPORT

Mr. Jonathan Pruitt, 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 and Projected Fiscal Year-End

Jonathan Pruitt

Executive Vice Chancellor for Business Affairs

U. T. System Board of Regents Meeting

Finance and Planning Committee

August 2023



THE UNIVERSITY of TEXAS SYSTEM
THIRTEEN INSTITUTIONS. UNLIMITED POSSIBILITIES.

U. T. System Consolidated Summary

Fiscal Year Summary
Period Ending May 31, 2023



Revenues
\$21,057.9 M



Expenses
\$19,898.7 M



Adjusted Income
\$1,159.2 M



FYE Projection
\$1,823.4 M

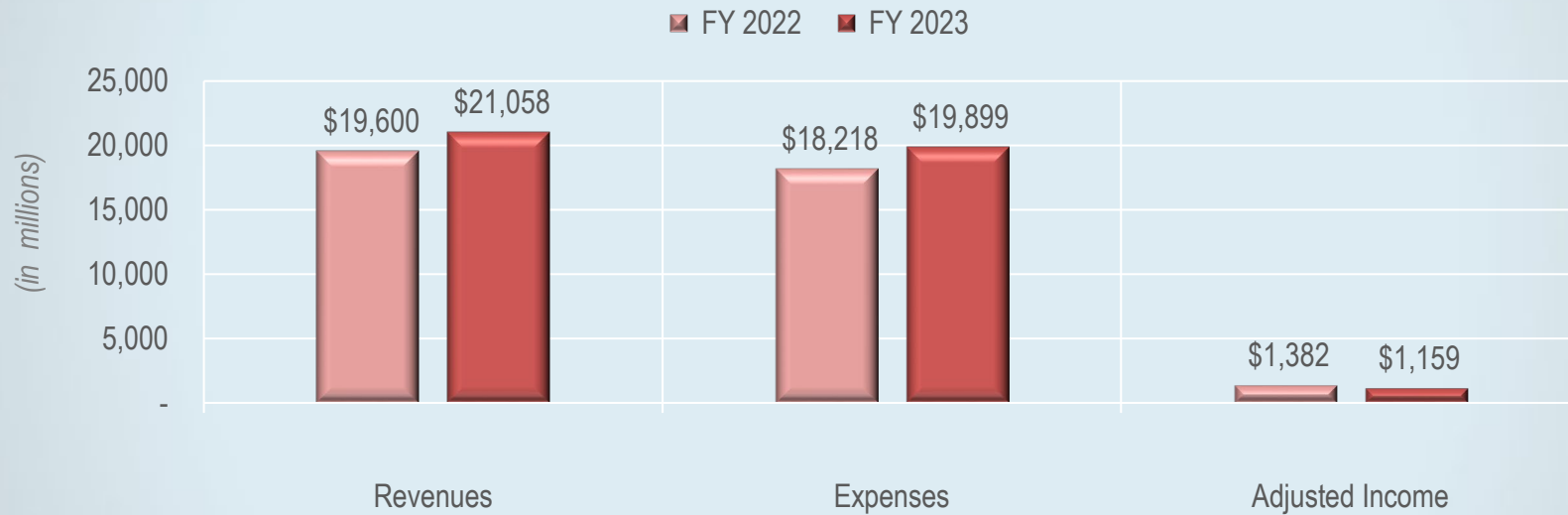


THE UNIVERSITY of TEXAS SYSTEM
THIRTEEN INSTITUTIONS. UNLIMITED POSSIBILITIES.

Excludes OPEB & Pension Expenses

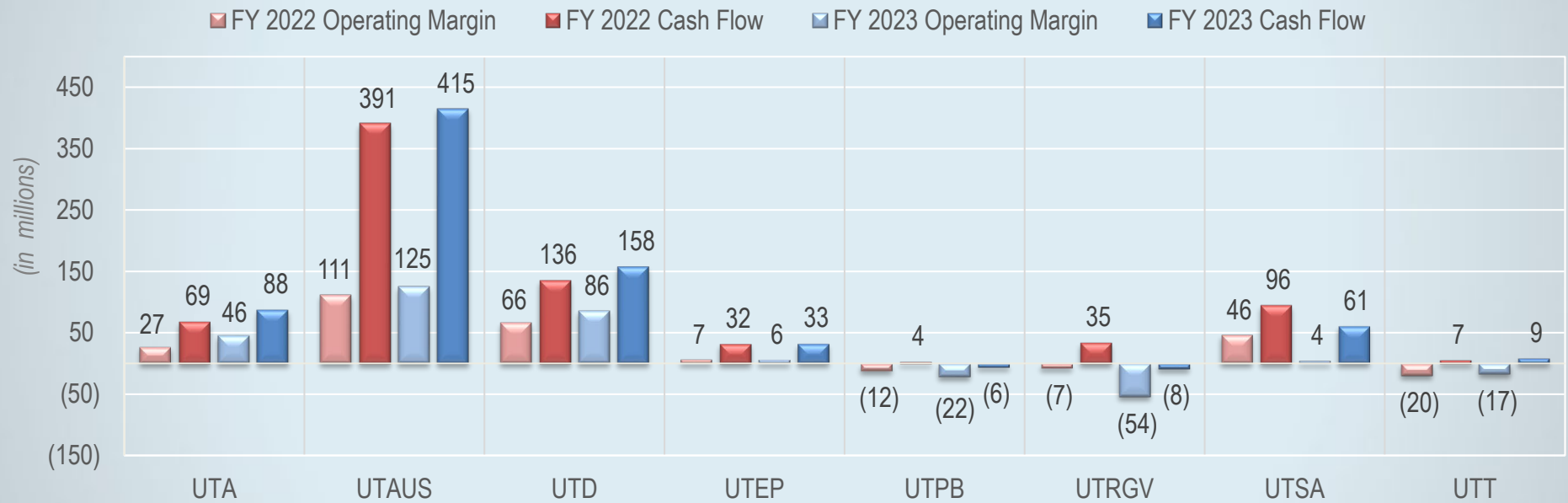
U. T. System Consolidated Revenue & Expenses

Year-Over-Year Comparison (May)



Adjusted Income – Academic Institutions

Year-Over-Year Comparison (May)

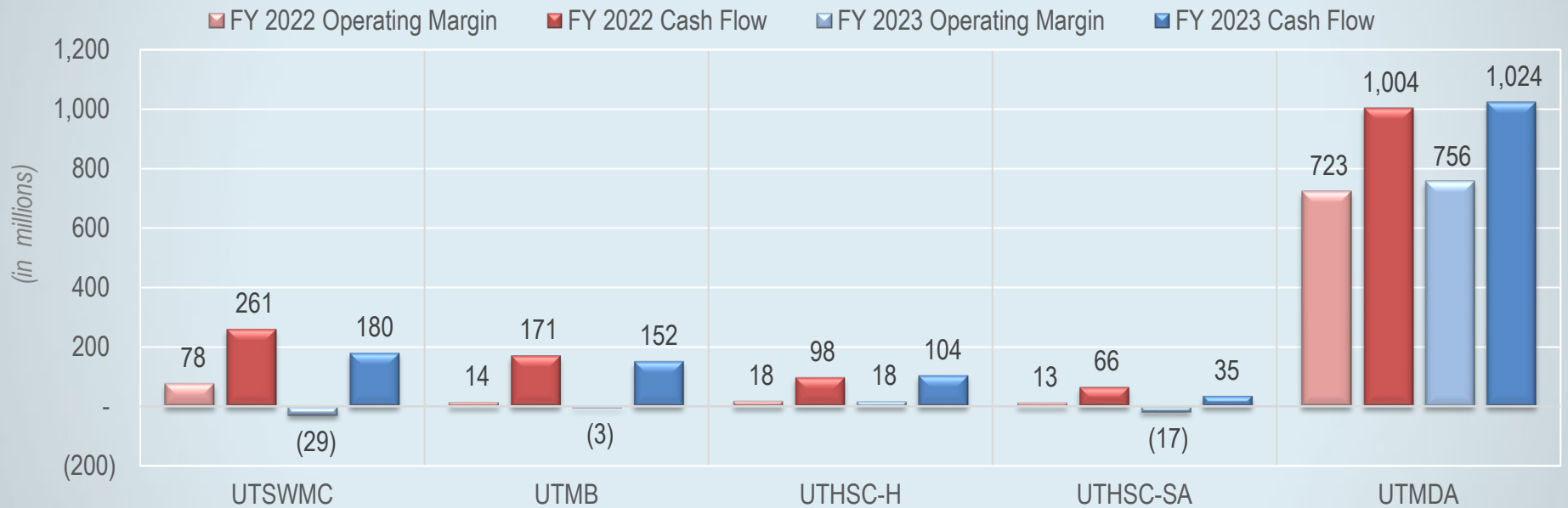


THE UNIVERSITY of TEXAS SYSTEM
THIRTEEN INSTITUTIONS. UNLIMITED POSSIBILITIES.

Operating Margin – with depreciation
Cash Flow – without depreciation

Adjusted Income – Health Institutions

Year-Over-Year Comparison (May)



THE UNIVERSITY of TEXAS SYSTEM
THIRTEEN INSTITUTIONS. UNLIMITED POSSIBILITIES.

Operating Margin – with depreciation
Cash Flow – without depreciation

Budget to Actuals – Academic Institutions

FY 2023
May

| | Budget (\$ Millions) | | | | Actuals (\$ Millions) | | | | |
|-------------------------|----------------------|------------------|------------------|--------------|-----------------------|------------------|------------------|--------------|----------|
| | Revenues | Expenses | Operating Margin | Margin Ratio | Revenues | Expenses | Operating Margin | Margin Ratio | |
| U. T. Arlington | \$782.7 | \$796.4 | (\$13.7) | -1.7% | \$635.9 | \$590.1 | \$45.9 | 7.2% | ▲ |
| U. T. Austin | \$2,972.8 | \$3,066.3 | (\$93.5) | -3.1% | \$3,085.3 | \$2,959.9 | \$125.4 | 4.1% | ▲ |
| U. T. Dallas | \$792.4 | \$797.2 | (\$4.8) | -0.6% | \$662.5 | \$576.3 | \$86.1 | 13.0% | ▲ |
| U. T. El Paso | \$531.0 | \$542.4 | (\$11.5) | -2.2% | \$395.0 | \$388.7 | \$6.4 | 1.6% | ▲ |
| U. T. Permian Basin | \$94.1 | \$110.5 | (\$16.4) | -17.5% | \$73.7 | \$95.5 | (\$21.7) | -29.5% | ▼ |
| U. T. Rio Grande Valley | \$632.5 | \$681.0 | (\$48.5) | -7.7% | \$482.7 | \$536.7 | (\$54.0) | -11.2% | ▼ |
| U. T. San Antonio | \$684.9 | \$720.8 | (\$35.9) | -5.2% | \$556.0 | \$551.6 | \$4.5 | 0.8% | ▲ |
| U. T. Tyler | \$535.9 | \$550.6 | (\$14.8) | -2.8% | \$406.5 | \$423.8 | (\$17.3) | -4.3% | ▼ |
| Total | \$7,026.1 | \$7,265.2 | (\$239.1) | -3.4% | \$6,297.7 | \$6,122.5 | \$175.2 | 2.8% | ▲ |



Budget to Actuals – Health Institutions

FY 2023
May

| | Budget (\$ Millions) | | | | Actuals (\$ Millions) | | | | |
|---|----------------------|-------------------|------------------|--------------|-----------------------|-------------------|------------------|--------------|----------|
| | Revenues | Expenses | Operating Margin | Margin Ratio | Revenues | Expenses | Operating Margin | Margin Ratio | |
| U. T. Southwestern Medical Center | \$4,580.3 | \$4,510.5 | \$69.7 | 1.5% | \$3,572.7 | \$3,601.7 | (\$29.0) | -0.8% | ▼ |
| U. T. Medical Branch - Galveston | \$2,734.9 | \$2,753.0 | (\$18.1) | -0.7% | \$2,166.8 | \$2,170.1 | (\$3.3) | -0.2% | ▼ |
| U. T. Health Science Center - Houston | \$2,258.1 | \$2,254.8 | \$3.3 | 0.1% | \$1,736.5 | \$1,718.0 | \$18.5 | 1.1% | ▲ |
| U. T. Health Science Center - San Antonio | \$1,205.4 | \$1,223.4 | (\$18.0) | -1.5% | \$947.0 | \$964.4 | (\$17.4) | -1.8% | ▼ |
| U. T. M. D. Anderson Cancer Center | \$7,101.4 | \$6,300.0 | \$801.4 | 11.3% | \$5,463.3 | \$4,706.8 | \$756.5 | 13.8% | ▲ |
| Total | \$17,880.1 | \$17,041.8 | \$838.3 | 4.7% | \$13,886.3 | \$13,161.0 | \$725.3 | 5.2% | ▲ |

Financial Summary

Systemwide Operations May 2023

| | Budget | Actuals | % of Budget |
|-------------------------------------|----------------------|----------------------|-------------|
| U. T. System Administration (AUF) | \$60,998,033 | \$42,696,540 | 70% |
| Direct Campus Support (AUF) | \$61,700,000 | \$34,350,343 | 56% |
| Service Departments & Other Non-AUF | \$62,805,782 | \$38,507,703 | 61% |
| Total | \$185,503,815 | \$115,554,586 | 62% |



THE UNIVERSITY OF TEXAS SYSTEM OFFICE OF BUDGET AND PLANNING

MONTHLY FINANCIAL REPORT *(unaudited)*

May 2023
FY 2023

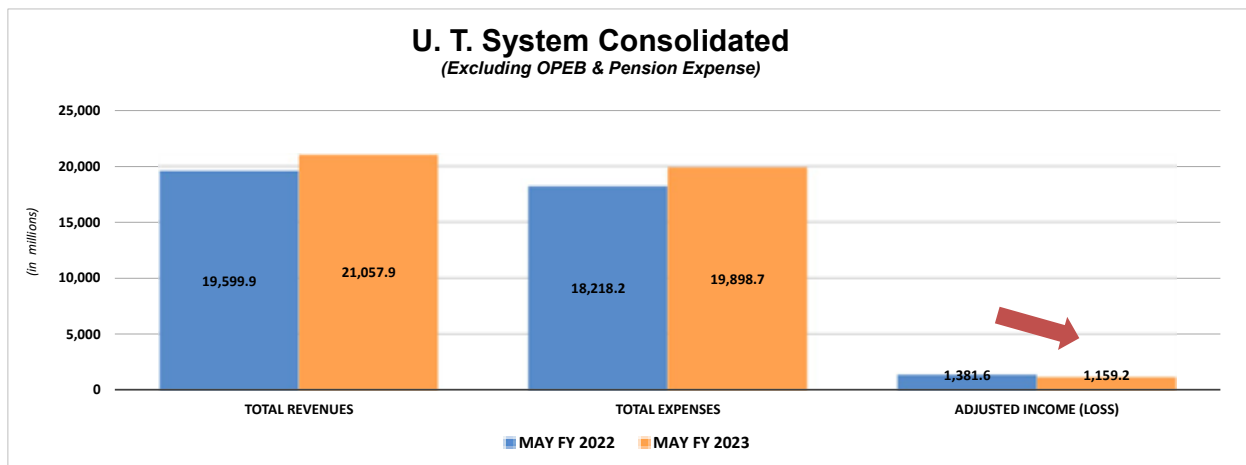


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www.utsystem.edu/offices/budget-and-planning

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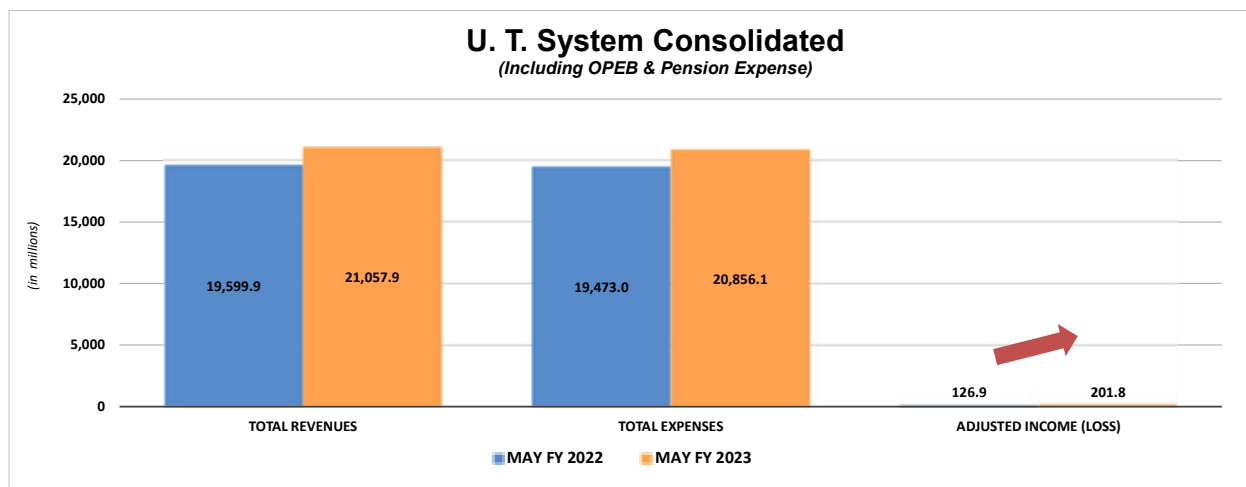
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|--|----|
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Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending May 31, 2023

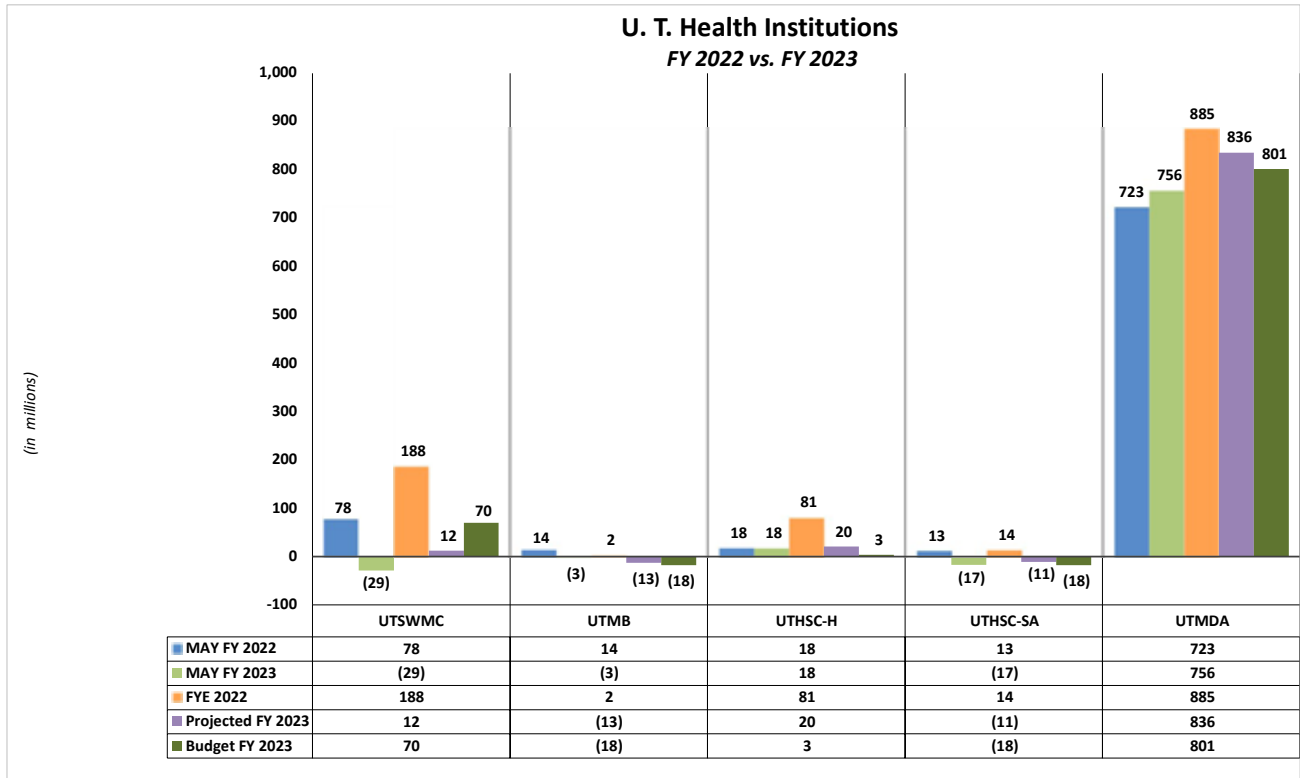
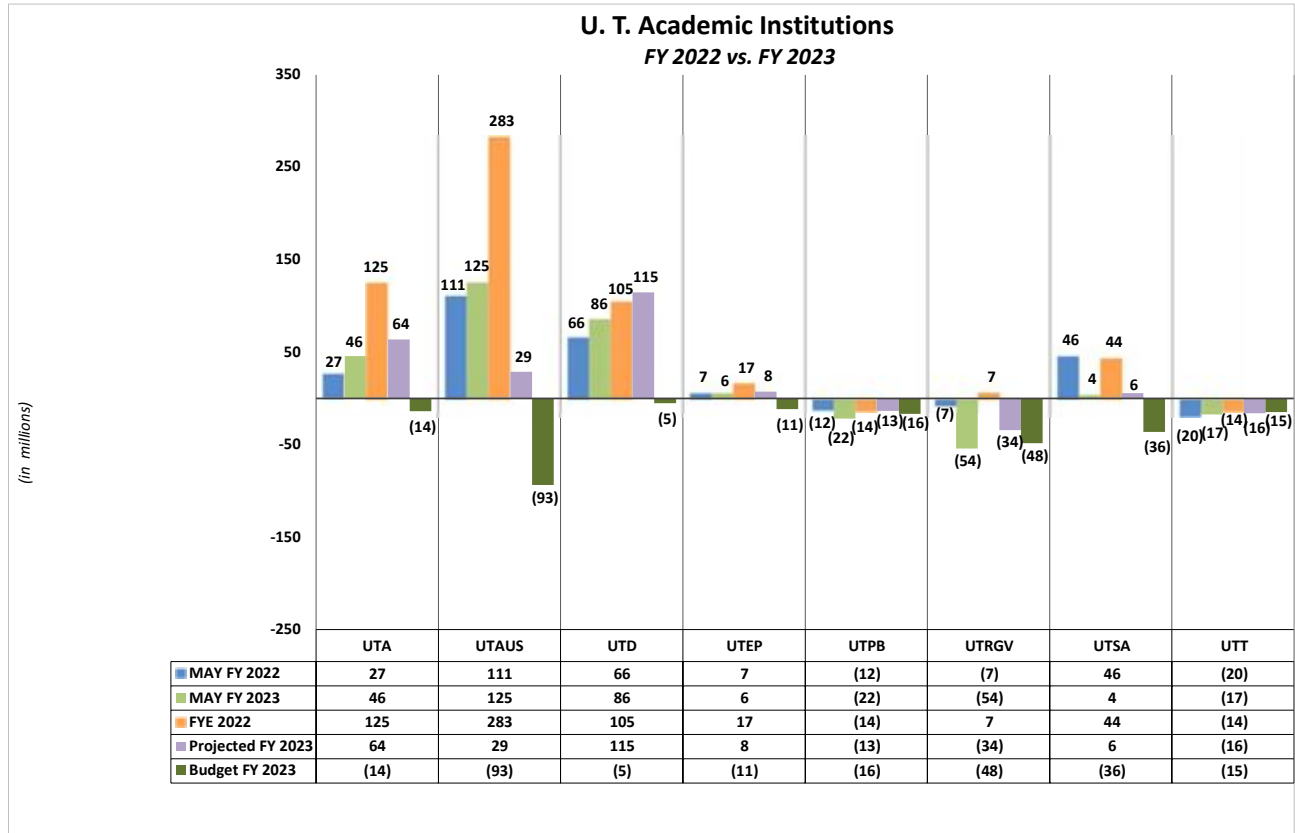


Excluding other postemployment benefits (OPEB) and pension expense, *U. T. System Consolidated* shows year-to-date adjusted income of \$1,159.2 million, a decrease in adjusted income of \$222.4 million (16%) from the prior year. The decrease was primarily due to an increase in salaries and wages and payroll related costs across most of the institutions as a result of increases in faculty and staff positions and merit increases.

| (in millions) | May YTD FY 2022 | May YTD FY 2023 | Variance | Annual Projected FY 2023 |
|--|--------------------|--------------------|----------------|--------------------------------|
| Clinical Revenues | \$ 8,220.0 | 9,035.9 | 815.9 | 12,095.8 |
| Sponsored Programs/Nonexchange Sponsored Programs | 4,063.5 | 4,114.1 | 50.6 | 5,682.1 |
| State Appropriations | 1,766.9 | 1,792.5 | 25.5 | 2,383.2 |
| Net Tuition and Fees | 1,574.0 | 1,655.9 | 81.9 | 2,195.5 |
| Auxiliary Revenues/Sales & Services of Educational Activities | 1,044.6 | 1,098.0 | 53.4 | 1,243.7 |
| Net Investment Income | 2,027.9 | 2,339.2 | 311.3 | 2,939.9 |
| Other Operating Revenues/Gift Contributions for Operations | 902.9 | 1,022.4 | 119.4 | 1,319.0 |
| Total Revenues | 19,599.9 | 21,057.9 | 1,458.0 | 27,859.2 |
| Salaries and Wages/Payroll Related Costs | 10,730.3 | 11,806.3 | 1,075.9 | 14,994.8 |
| Materials and Supplies/Cost of Goods Sold | 2,495.9 | 2,817.9 | 322.0 | 3,857.1 |
| Depreciation and Amortization | 1,317.5 | 1,363.4 | 45.9 | 1,838.6 |
| Other Contracted Services/Professional Fees & Services | 1,297.3 | 1,384.7 | 87.4 | 1,864.0 |
| All Other Operating Expenses | 2,377.2 | 2,526.4 | 149.2 | 3,481.3 |
| Total Expenses (Excluding OPEB & Pension Exp) | \$ 18,218.2 | 19,898.7 | 1,680.5 | 26,035.7 |
| Adjusted Income (Loss) Excluding OPEB & Pension Exp | 1,381.6 | 1,159.2 | (222.4) | 1,823.4 |
| OPEB Expense | 747.0 | 862.9 | 115.9 | 1,150.5 |
| Pension Expense | 507.8 | 94.5 | (413.3) | 126.0 |
| Adjusted Income (Loss) | 126.9 | 201.8 | 74.9 | 546.9 |
| Adjusted Income (Loss) Excluding Depr & Amort Exp | 1,444.4 | 1,565.2 | 120.8 | 2,385.5 |



**Monthly Financial Report
Comparison of Adjusted Income (Loss)
For the Period Ending May 31, 2023**



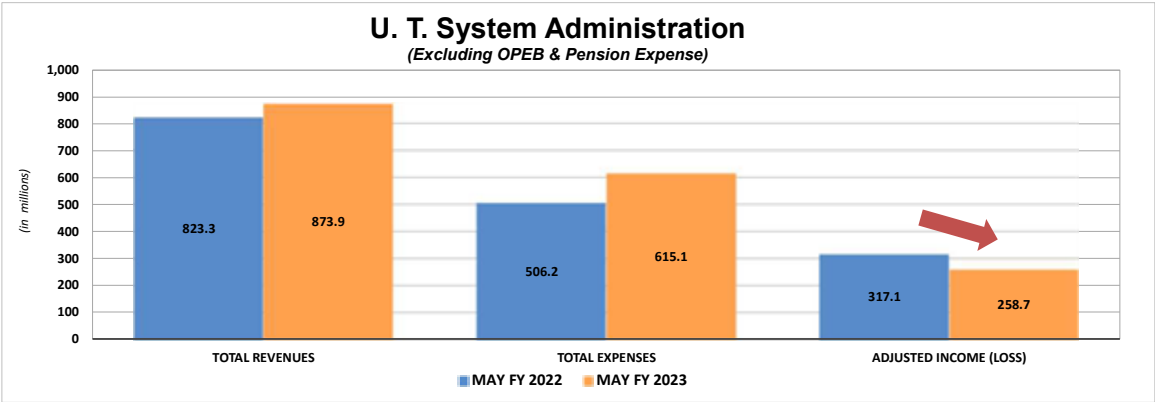
**Monthly Financial Report
Comparison of Adjusted Income (Loss)
For the Period Ending May 31, 2023**

Executive Summary of Adjusted Income (Loss)*

| | May FYTD 2022 (millions) | May FYTD 2023 (millions) | Variance % | Comments |
|---|-----------------------------------|-----------------------------------|-------------|---|
| U. T. System Administration (excluding OPEB & Pension Expense) | \$ 317.1 | 258.7 | -18% | Increase in Other Operating Expenses (Claims & Losses, Insurance Costs/Premiums) Projected income of \$822.0 million for the FY |
| U. T. Arlington | 26.9 | 45.9 | 71% | Increase in Net Tuition and Fees Projected income of \$63.9 million for the FY |
| U. T. Austin | 111.4 | 125.4 | 13% | Increase in Net Investment Income Projected income of \$28.8 million for the FY |
| U. T. Dallas | 66.5 | 86.1 | 30% | Increase in Net Tuition and Fees Projected income of \$114.9 million for the FY |
| U. T. El Paso | 6.6 | 6.4 | -4% | Increase in Salaries & Wages/Payroll Related Costs Projected income of \$7.5 million for the FY |
| U. T. Permian Basin | (12.1) | (21.7) | -80% | Decrease in Gift Contributions for Operations Increases in Materials & Supplies, Other Operating Expenses (Travel) Projected loss of (\$13.4) million for the FY |
| U. T. Rio Grande Valley | (7.4) | (54.0) | -625% | Increase in Salaries & Wages/Payroll Related Costs, Depreciation & Amortization, Other Contracted Services Decrease in Clinical Revenues Projected loss of (\$34.3) million for the FY |
| U. T. San Antonio | 46.4 | 4.5 | -90% | Increase in Salaries & Wages/Payroll Related Costs Decrease in Gift Contributions for Operations Projected income of \$5.8 million for the FY |
| U. T. Tyler | (19.8) | (17.3) | 13% | Increase in Clinical Revenues Projected loss of (\$15.8) million for the FY |
| Southwestern | 77.8 | (29.0) | -137% | Increase in Salaries & Wages/Payroll Related Costs Projected income of \$12.0 million for the FY |
| UTMB | 14.4 | (3.3) | -123% | Increase in Salaries & Wages/Payroll Related Costs Projected loss of (\$12.9) million for the FY |
| UTHSC-Houston | 18.2 | 18.5 | 2% | Increase in Clinical Revenues Projected income of \$20.3 million for the FY |
| UTHSC-San Antonio | 12.6 | (17.4) | -238% | Increase in Salaries & Wages/Payroll Related Costs Projected loss of (\$11.1) million for the FY |
| M. D. Anderson | 723.1 | 756.5 | 5% | Increase in Clinical Revenues Projected income of \$835.7 million for the FY |
| Total Adjusted Income (Loss) | \$ 1,381.6 | 1,159.2 | -16% | |

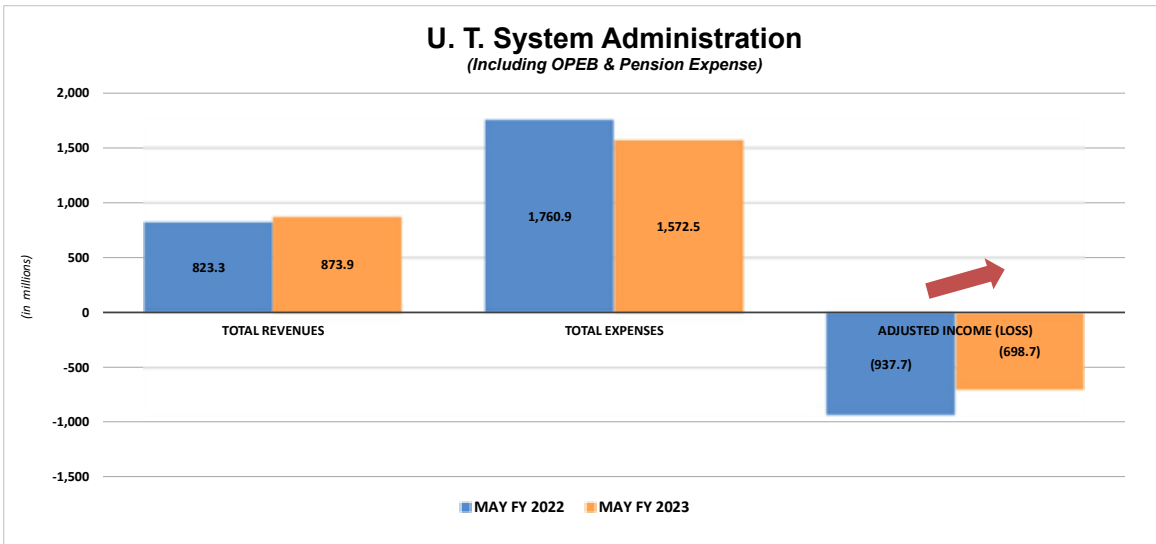
* For additional details on the variances, please see pages 4 through 18.

**Monthly Financial Report
Comparison of Operating Results, Margin and Projected Year-End
For the Period Ending May 31, 2023**



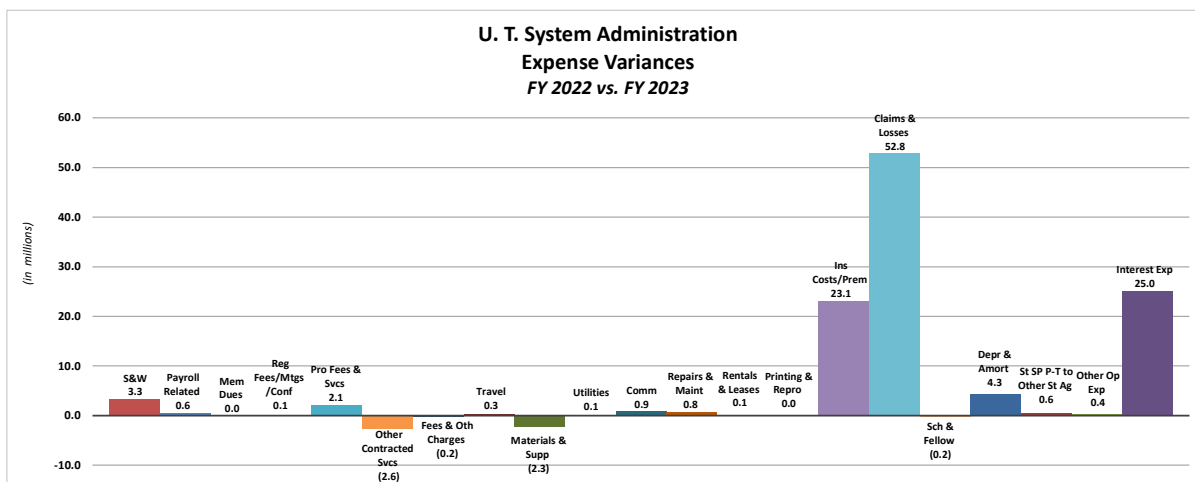
Excluding OPEB and pension expense, *U. T. System Administration* reported year-to-date adjusted income of \$258.7 million, a decrease in adjusted income of \$58.4 million (18%) from the prior year. The decrease was primarily attributable to an increase in other operating expenses as a result of an increase in claims and losses for the medical self-insurance plan, as well as increases in insurance costs/premiums for Comprehensive Property Protection Plan (CPPP) Wind & Flood, CPPP Fire and All Other Perils (AOP), Rolling Owner Controlled Insurance Program (ROCIP), and the medical self-insurance plan. The most current projection, excluding OPEB and pension expense, reflects income of \$822.0 million for the year.

| <i>(in millions)</i> | May YTD FY 2022 | May YTD FY 2023 | Variance | Annual Projected FY 2023 |
|--|--------------------|--------------------|---------------|--------------------------------|
| Sponsored Programs/Nonexchange Sponsored Programs | \$ 35.2 | 30.8 | (4.4) | 47.7 |
| State Appropriations | 5.5 | 5.5 | 0.0 | 7.3 |
| Auxiliary Revenues/Sales & Services of Educational Activities | 10.1 | 13.5 | 3.4 | 18.0 |
| Net Investment Income/Available University Fund (AUF) | 749.8 | 794.8 | 45.1 | 1,059.8 |
| Other Operating Revenues/Gift Contributions for Operations | 22.7 | 29.2 | 6.5 | 38.8 |
| Total Revenues | 823.3 | 873.9 | 50.6 | 1,171.6 |
| Salaries and Wages/Payroll Related Costs | 42.2 | 46.1 | 3.9 | (382.4) |
| Materials and Supplies/Cost of Goods Sold | 19.5 | 17.1 | (2.3) | 2.5 |
| Depreciation and Amortization | 12.7 | 17.0 | 4.3 | 22.4 |
| Other Contracted Services/Professional Fees & Services | 45.8 | 45.2 | (0.5) | 56.0 |
| All Other Operating Expenses | 386.0 | 489.7 | 103.6 | 651.1 |
| Total Expenses (Excluding OPEB & Pension Exp) | \$ 506.2 | 615.1 | 109.0 | 349.6 |
| Adjusted Income (Loss) Excluding OPEB & Pension Exp | 317.1 | 258.7 | (58.4) | 822.0 |
| OPEB Expense | 747.0 | 862.9 | 115.9 | 1,150.5 |
| Pension Expense | 507.8 | 94.5 | (413.3) | 126.0 |
| Adjusted Income (Loss) | (937.7) | (698.7) | 239.0 | (454.6) |
| Adjusted Income (Loss) Excluding Depr & Amort Exp | (925.0) | (681.7) | 243.3 | (432.1) |



Monthly Financial Report Detailed Expense Break-out for U. T. System Administration For the Period Ending May 31, 2023

| <i>(in millions)</i> | May YTD FY 2022 | May YTD FY 2023 | Actual Year-End FY 2022 | Annual Projected FY 2023 |
|--|--------------------|--------------------|-------------------------------|--------------------------------|
| Salaries and Wages | \$ 33.3 | 36.7 | 46.3 | 48.9 |
| Payroll Related Costs | 8.9 | 9.5 | (431.7) | (431.2) * |
| Membership Dues | 0.3 | 0.3 | 0.3 | 0.5 |
| Registration Fees, Meetings, Conferences | 0.1 | 0.2 | 0.2 | 0.2 |
| Professional Fees and Services | 3.3 | 5.4 | 6.5 | 7.2 |
| Other Contracted Services | 42.5 | 39.9 | 49.6 | 48.8 |
| Fees and Other Charges | 0.6 | 0.4 | 0.7 | 0.5 |
| Travel | 0.3 | 0.5 | 0.5 | 0.7 |
| Materials and Supplies | 19.5 | 17.1 | 7.9 | 2.5 |
| Utilities | 0.2 | 0.3 | 0.3 | 0.4 |
| Communications | 3.4 | 4.3 | 3.7 | 4.6 |
| Repairs and Maintenance | 11.7 | 12.5 | 7.9 | 16.6 |
| Rentals and Leases | 0.1 | 0.2 | 0.3 | 0.3 |
| Printing and Reproduction | 0.1 | 0.1 | 0.1 | 0.1 |
| Insurance Costs/Premiums | 79.8 | 102.9 | 18.4 | 137.2 |
| Claims and Losses | 267.2 | 320.0 | 273.1 | 426.6 |
| Scholarships and Fellowships | 0.3 | 0.1 | 0.7 | 0.1 |
| Depreciation and Amortization | 12.7 | 17.0 | 21.6 | 22.4 |
| State Sponsored Program Pass-Through to Other State Agencies | 4.1 | 4.7 | 5.0 | 5.5 |
| Other Operating Expenses | 1.1 | 1.5 | 1.4 | 2.0 |
| Interest Expense | 16.8 | 41.7 | 45.0 | 55.6 |
| Total Expenses (Excluding OPEB & Pension Expense) | 506.2 | 615.1 | 57.9 | 349.6 |
| OPEB Expense | 747.0 | 862.9 | 1,150.5 | 1,150.5 |
| Pension Expense | 507.8 | 94.5 | 126.0 | 126.0 |
| Total Expenses (Including OPEB & Pension Expense) | \$ 1,760.9 | 1,572.5 | 1,334.4 | 1,626.2 |



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

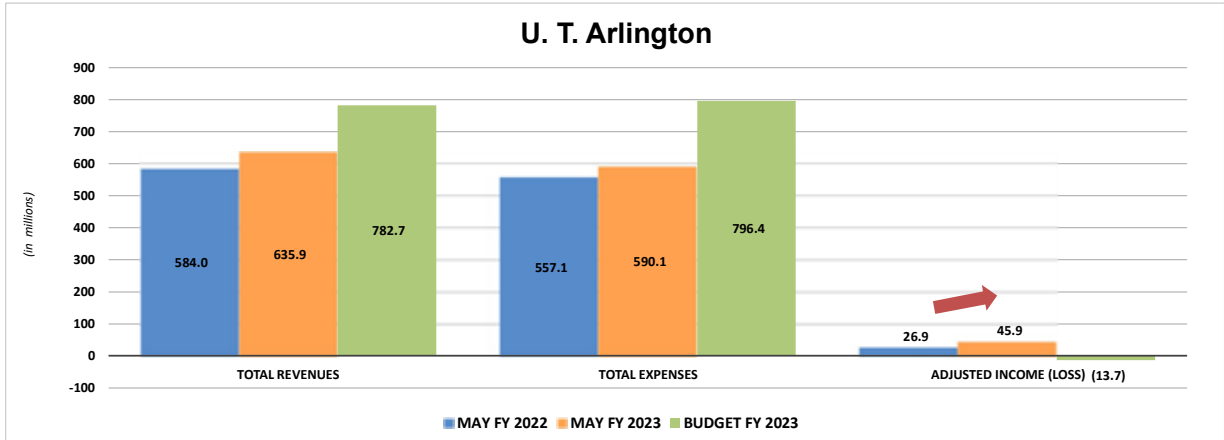
***Payroll Related Costs** - the negative payroll related costs at year-end relate to the pension entry to defer pension contributions made after the measurement date for the entire System.

Insurance Costs/Premiums - increase of \$23.1 million primarily a result of increases in insurance premiums in CPPP Wind & Flood, CPPP Fire and All Other Perils (AOP), ROCIP, and the medical self-insurance plan. Reimbursement for CPPP Wind & Flood and CPPP Fire and AOP insurance costs/premiums expected in the fourth quarter of fiscal year 2023.

Claims and Losses - increase of \$52.8 million primarily due to the medical self-insurance plan.

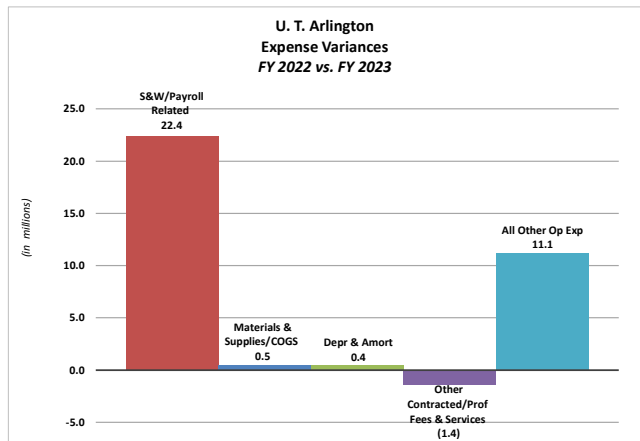
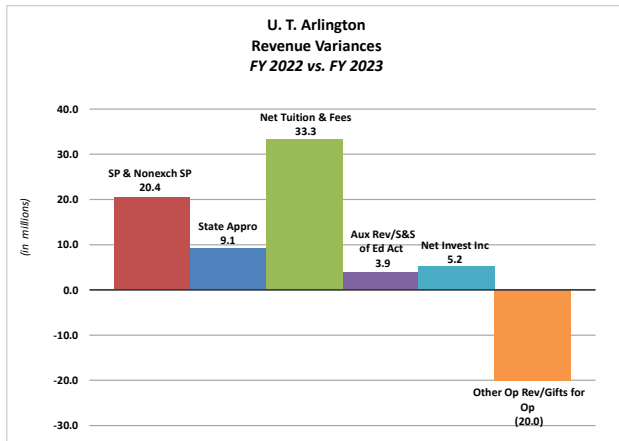
Interest Expense - increase of \$25.0 million largely attributable to an increase in Permanent University Fund interest expense.

Monthly Financial Report Comparison of Operating Results, Margin, Projected Year-End and Budget For the Period Ending May 31, 2023

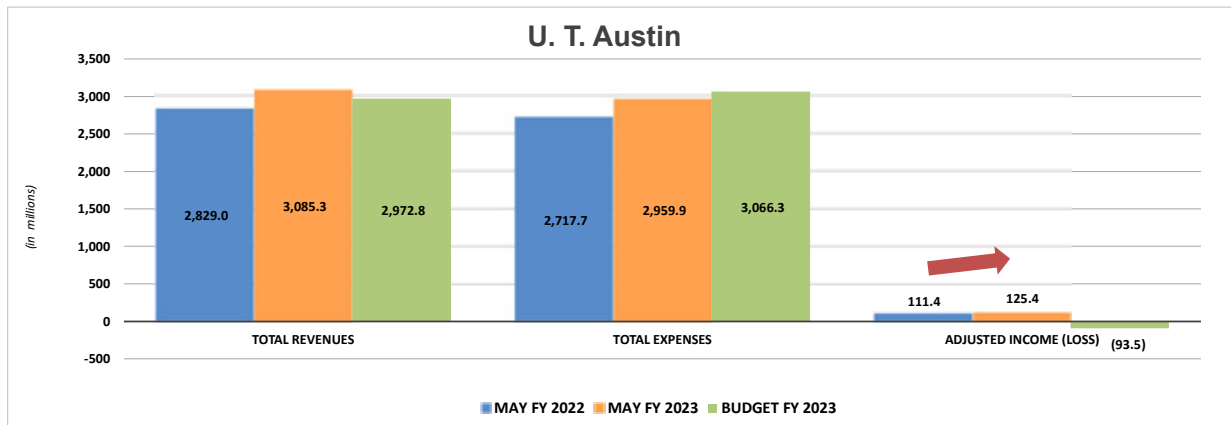


U. T. Arlington reported year-to-date adjusted income of \$45.9 million, an increase in adjusted income of \$19.0 million (71%) from the prior year. The increase was primarily attributable to an increase in net student tuition and fees as a result of an increase in semester credit hours. The most current projection received from *U. T. Arlington* reflects income of \$63.9 million for the year.

| (in millions) | May YTD FY 2022 | May YTD FY 2023 | Variance | Annual Projected FY 2023 | FY 2023 Budget |
|---|--------------------|--------------------|-------------|--------------------------------|-------------------|
| Sponsored Programs/Nonexchange Sponsored Programs | \$ 126.0 | 146.5 | 20.4 | 204.1 | |
| State Appropriations | 102.0 | 111.2 | 9.1 | 161.1 | |
| Net Tuition and Fees | 248.9 | 282.2 | 33.3 | 376.3 | |
| Auxiliary Revenues/Sales & Services of Educational Activities | 50.3 | 54.2 | 3.9 | 71.4 | |
| Net Investment Income | 24.7 | 29.9 | 5.2 | 34.9 | |
| Other Operating Revenues/Gift Contributions for Operations | 32.0 | 12.0 | (20.0) | 15.9 | |
| Total Revenues | 584.0 | 635.9 | 52.0 | 863.7 | 782.7 |
| Salaries and Wages/Payroll Related Costs | 330.0 | 352.3 | 22.4 | 463.2 | |
| Materials and Supplies/Cost of Goods Sold | 38.2 | 38.7 | 0.5 | 48.4 | |
| Depreciation and Amortization | 42.1 | 42.5 | 0.4 | 56.7 | |
| Other Contracted Services/Professional Fees & Services | 57.9 | 56.5 | (1.4) | 73.6 | |
| All Other Operating Expenses | 88.9 | 100.0 | 11.1 | 158.0 | |
| Total Expenses | \$ 557.1 | 590.1 | 33.0 | 799.8 | 796.4 |
| Adjusted Income (Loss) | 26.9 | 45.9 | 19.0 | 63.9 | (13.7) |
| Adjusted Income (Loss) Excluding Depr & Amort Exp | 69.0 | 88.4 | 19.4 | 120.5 | 43.0 |

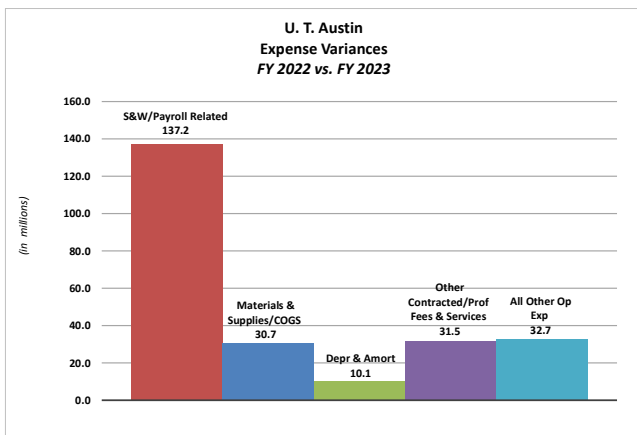
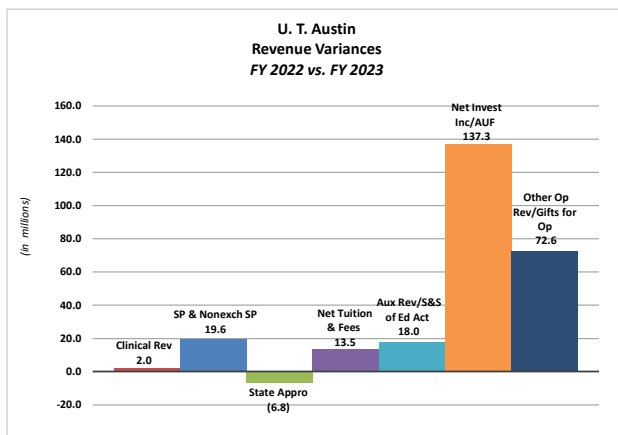


Monthly Financial Report Comparison of Operating Results, Margin, Projected Year-End and Budget For the Period Ending May 31, 2023

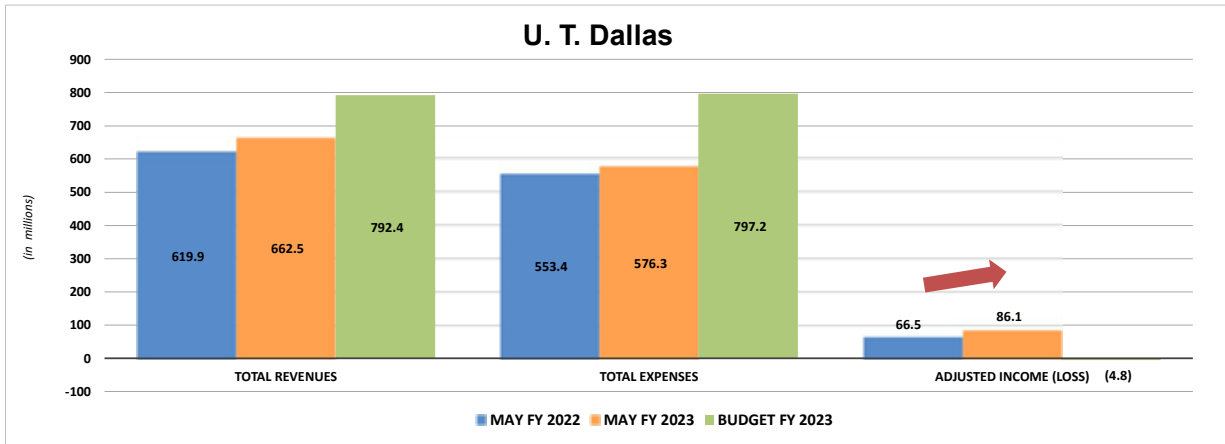


U. T. Austin reported year-to-date adjusted income of \$125.4 million, an increase in adjusted income of \$14.0 million (13%) from the prior year. The increase was primarily due to an increase in net investment income attributable to COVID-19 technology royalties received from the National Institute of Health. The most current projection received from *U. T. Austin* reflects income of \$28.8 million for the year.

| (in millions) | May YTD FY 2022 | May YTD FY 2023 | Variance | Annual Projected FY 2023 | FY 2023 Budget |
|---|--------------------|--------------------|--------------|--------------------------------|-------------------|
| Clinical Revenues | \$ 10.3 | 12.3 | 2.0 | 16.9 | |
| Sponsored Programs/Nonexchange Sponsored Programs | 727.6 | 747.2 | 19.6 | 1,107.4 | |
| State Appropriations | 279.9 | 273.1 | (6.8) | 359.6 | |
| Net Tuition and Fees | 405.8 | 419.3 | 13.5 | 559.0 | |
| Auxiliary Revenues/Sales & Services of Educational Activities | 634.2 | 652.2 | 18.0 | 657.9 | |
| Net Investment Income/Available University Fund (AUF) | 609.7 | 747.1 | 137.3 | 904.9 | |
| Other Operating Revenues/Gift Contributions for Operations | 161.6 | 234.2 | 72.6 | 298.5 | |
| Total Revenues | 2,829.0 | 3,085.3 | 256.3 | 3,904.2 | 2,972.8 |
| Salaries and Wages/Payroll Related Costs | 1,559.1 | 1,696.3 | 137.2 | 2,150.7 | |
| Materials and Supplies/Cost of Goods Sold | 139.0 | 169.8 | 30.7 | 210.0 | |
| Depreciation and Amortization | 279.4 | 289.5 | 10.1 | 386.0 | |
| Other Contracted Services/Professional Fees & Services | 189.1 | 220.6 | 31.5 | 299.6 | |
| All Other Operating Expenses | 551.0 | 583.7 | 32.7 | 829.1 | |
| Total Expenses | \$ 2,717.7 | 2,959.9 | 242.2 | 3,875.4 | 3,066.3 |
| Adjusted Income (Loss) | 111.4 | 125.4 | 14.0 | 28.8 | (93.5) |
| Adjusted Income (Loss) Excluding Depr & Amort Exp | 390.7 | 414.9 | 24.2 | 414.8 | 286.5 |

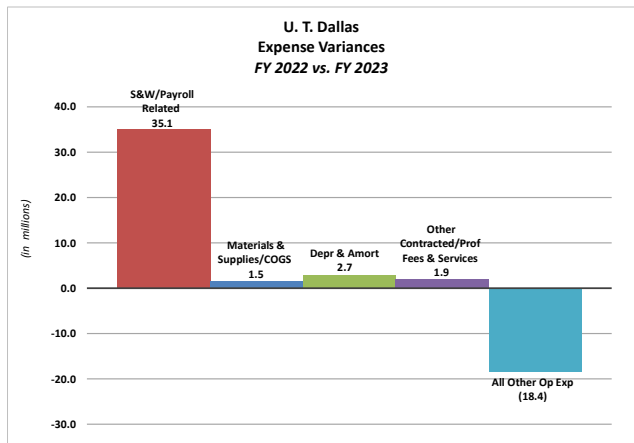
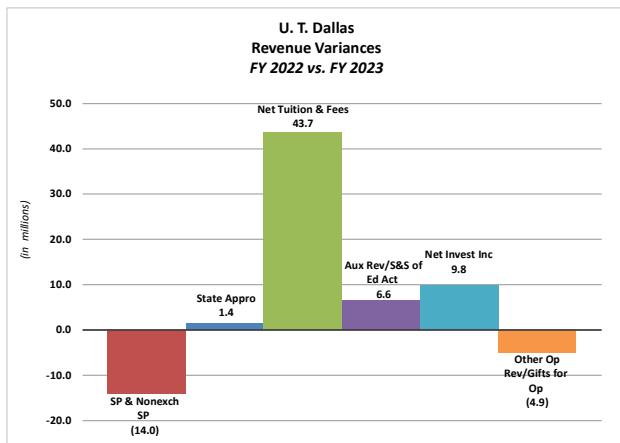


Monthly Financial Report Comparison of Operating Results, Margin, Projected Year-End and Budget For the Period Ending May 31, 2023

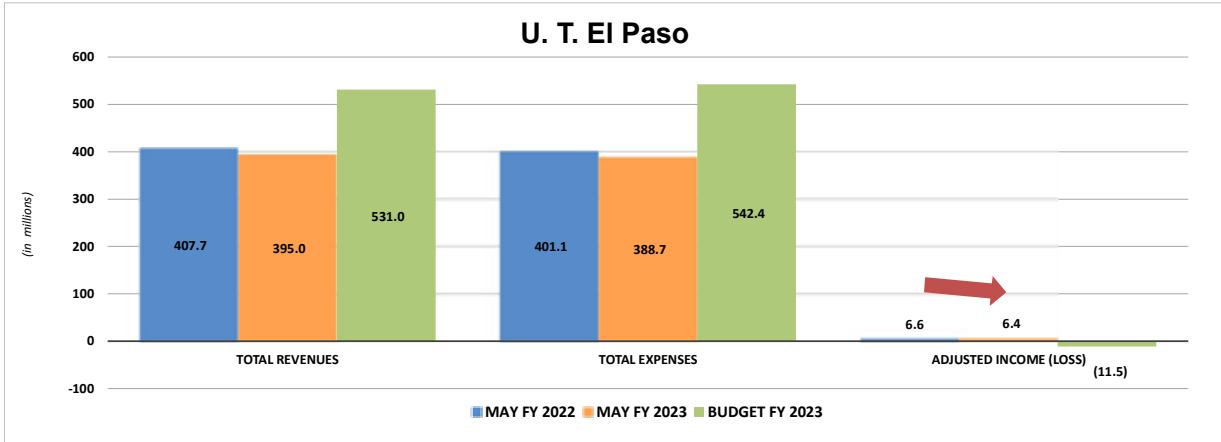


U. T. Dallas reported year-to-date adjusted income of \$86.1 million, an increase in adjusted income of \$19.7 million (30%) from the prior year. The increase was primarily attributable to an increase in net student tuition and fees due to increased enrollment of undergraduate and graduate students. The most current projection received from *U. T. Dallas* reflects income of \$114.9 million for the year.

| (in millions) | May YTD FY 2022 | May YTD FY 2023 | Variance | Annual Projected FY 2023 | FY 2023 Budget |
|---|--------------------|--------------------|-------------|--------------------------------|-------------------|
| Sponsored Programs/Nonexchange Sponsored Programs | \$ 125.3 | 111.3 | (14.0) | 148.5 | |
| State Appropriations | 103.5 | 104.9 | 1.4 | 139.9 | |
| Net Tuition and Fees | 274.2 | 317.8 | 43.7 | 423.8 | |
| Auxiliary Revenues/Sales & Services of Educational Activities | 64.9 | 71.4 | 6.6 | 95.3 | |
| Net Investment Income | 31.0 | 40.8 | 9.8 | 54.4 | |
| Other Operating Revenues/Gift Contributions for Operations | 21.1 | 16.2 | (4.9) | 21.6 | |
| Total Revenues | 619.9 | 662.5 | 42.6 | 883.3 | 792.4 |
| Salaries and Wages/Payroll Related Costs | 308.1 | 343.2 | 35.1 | 457.5 | |
| Materials and Supplies/Cost of Goods Sold | 25.3 | 26.8 | 1.5 | 35.8 | |
| Depreciation and Amortization | 69.4 | 72.1 | 2.7 | 96.2 | |
| Other Contracted Services/Professional Fees & Services | 27.9 | 29.9 | 1.9 | 39.8 | |
| All Other Operating Expenses | 122.7 | 104.3 | (18.4) | 139.1 | |
| Total Expenses | \$ 553.4 | 576.3 | 22.9 | 768.5 | 797.2 |
| Adjusted Income (Loss) | 66.5 | 86.1 | 19.7 | 114.9 | (4.8) |
| Adjusted Income (Loss) Excluding Depr & Amort Exp | 135.9 | 158.3 | 22.4 | 211.0 | 83.4 |

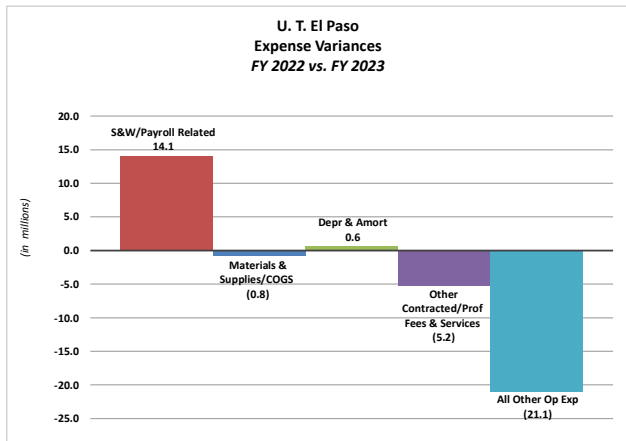
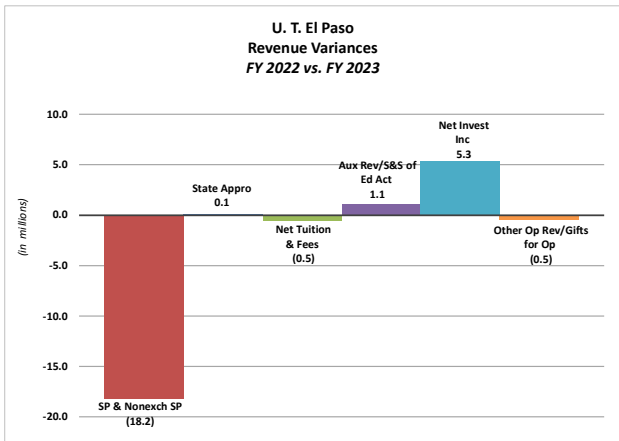


Monthly Financial Report Comparison of Operating Results, Margin, Projected Year-End and Budget For the Period Ending May 31, 2023

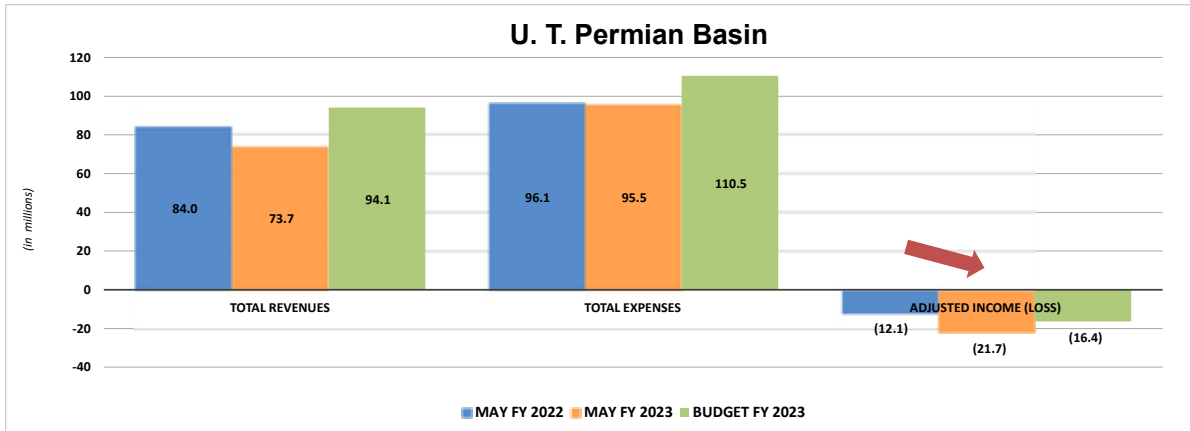


U. T. El Paso reported year-to-date adjusted income of \$6.4 million, a decrease in adjusted income of \$0.2 million (4%) from the prior year. The decrease was primarily due to an increase in salaries and wages and payroll related costs due to merit increases. The most current projection received from U. T. El Paso reflects income of \$7.5 million for the year.

| (in millions) | May YTD FY 2022 | May YTD FY 2023 | Variance | Annual Projected FY 2023 | FY 2023 Budget |
|---|--------------------|--------------------|---------------|--------------------------------|-------------------|
| Sponsored Programs/Nonexchange Sponsored Programs | \$ 146.9 | 128.7 | (18.2) | 194.8 | |
| State Appropriations | 83.1 | 83.2 | 0.1 | 107.5 | |
| Net Tuition and Fees | 115.0 | 114.5 | (0.5) | 146.0 | |
| Auxiliary Revenues/Sales & Services of Educational Activities | 37.2 | 38.3 | 1.1 | 52.7 | |
| Net Investment Income | 15.1 | 20.5 | 5.3 | 25.8 | |
| Other Operating Revenues/Gift Contributions for Operations | 10.5 | 10.0 | (0.5) | 10.3 | |
| Total Revenues | 407.7 | 395.0 | (12.7) | 537.0 | 531.0 |
| Salaries and Wages/Payroll Related Costs | 215.4 | 229.5 | 14.1 | 284.0 | |
| Materials and Supplies/Cost of Goods Sold | 19.1 | 18.2 | (0.8) | 28.0 | |
| Depreciation and Amortization | 25.9 | 26.5 | 0.6 | 35.4 | |
| Other Contracted Services/Professional Fees & Services | 31.1 | 25.8 | (5.2) | 32.0 | |
| All Other Operating Expenses | 109.7 | 88.7 | (21.1) | 150.2 | |
| Total Expenses | \$ 401.1 | 388.7 | (12.4) | 529.5 | 542.4 |
| Adjusted Income (Loss) | 6.6 | 6.4 | (0.2) | 7.5 | (11.5) |
| Adjusted Income (Loss) Excluding Depr & Amort Exp | 32.5 | 32.9 | 0.4 | 42.9 | 23.6 |

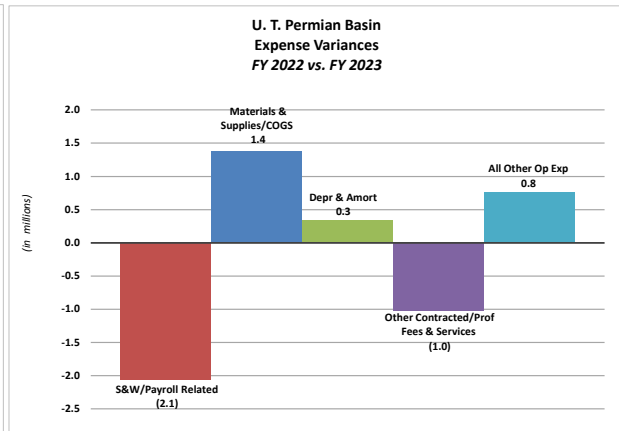
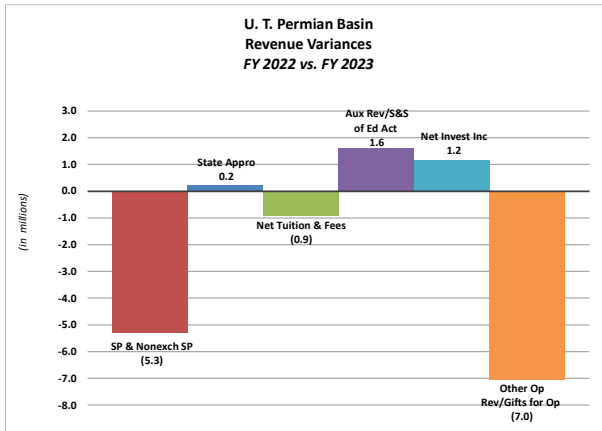


Monthly Financial Report Comparison of Operating Results, Margin, Projected Year-End and Budget For the Period Ending May 31, 2023

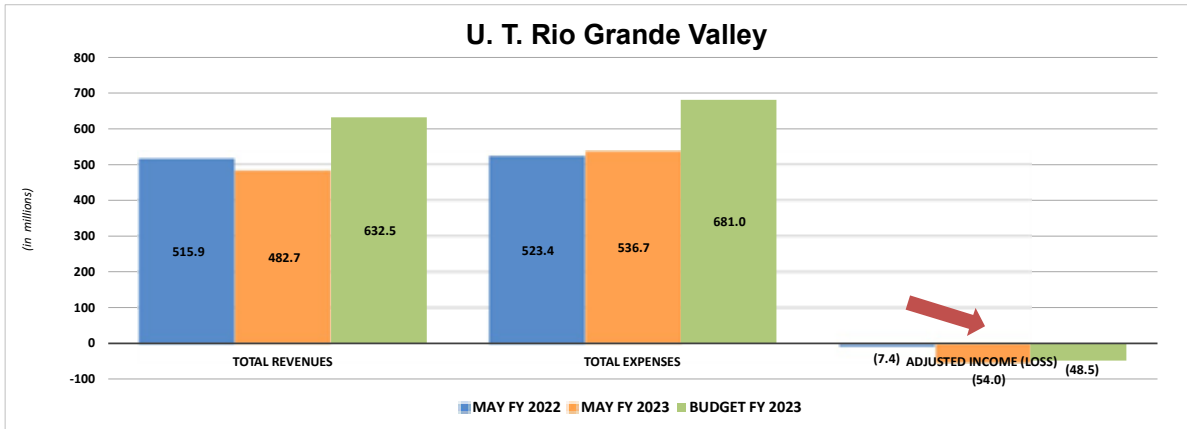


U. T. Permian Basin incurred a year-to-date adjusted loss of \$21.7 million, an increase in adjusted loss of \$9.7 million (80%) from the prior year. The increase was primarily attributable to the following: a decrease in gift contributions for operations as a result of a \$10.7 million gift received in 2022 with no such comparable gift received in the current fiscal year; an increase in materials and supplies due to an increase in furnishings and equipment due to several building and office remodeling projects on campus, as well as an increase in computer software expenses; and an increase in other operating expenses primarily attributable to an increase in travel expenses as restrictions due to COVID-19 are eased. The most current projection received from *U. T. Permian Basin* reflects a loss of \$13.4 million for the year.

| (in millions) | May YTD FY 2022 | May YTD FY 2023 | Variance | Annual Projected FY 2023 | FY 2023 Budget |
|---|--------------------|--------------------|---------------|--------------------------------|-------------------|
| Sponsored Programs/Nonexchange Sponsored Programs | \$ 19.7 | 14.4 | (5.3) | 24.7 | |
| State Appropriations | 18.8 | 19.0 | 0.2 | 25.4 | |
| Net Tuition and Fees | 24.3 | 23.4 | (0.9) | 31.1 | |
| Auxiliary Revenues/Sales & Services of Educational Activities | 5.1 | 6.7 | 1.6 | 8.9 | |
| Net Investment Income | 2.7 | 3.8 | 1.2 | 4.5 | |
| Other Operating Revenues/Gift Contributions for Operations | 13.5 | 6.5 | (7.0) | 15.5 | |
| Total Revenues | 84.0 | 73.7 | (10.3) | 110.1 | 94.1 |
| Salaries and Wages/Payroll Related Costs | 46.8 | 44.8 | (2.1) | 55.4 | |
| Materials and Supplies/Cost of Goods Sold | 4.6 | 5.9 | 1.4 | 6.5 | |
| Depreciation and Amortization | 15.6 | 16.0 | 0.3 | 21.3 | |
| Other Contracted Services/Professional Fees & Services | 8.5 | 7.5 | (1.0) | 11.8 | |
| All Other Operating Expenses | 20.5 | 21.3 | 0.8 | 28.5 | |
| Total Expenses | \$ 96.1 | 95.5 | (0.6) | 123.5 | 110.5 |
| Adjusted Income (Loss) | (12.1) | (21.7) | (9.7) | (13.4) | (16.4) |
| Adjusted Income (Loss) Excluding Depr & Amort Exp | 3.6 | (5.8) | (9.3) | 7.9 | 4.8 |

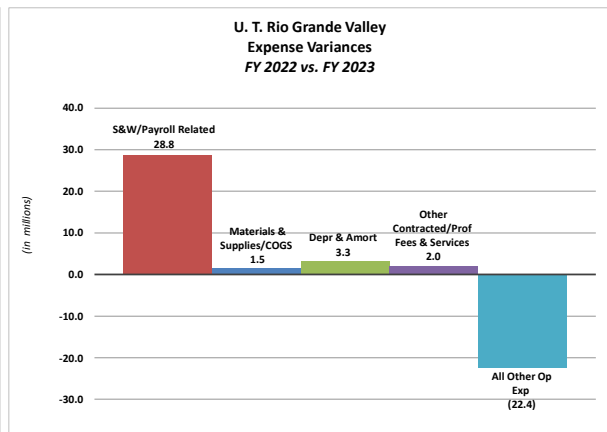
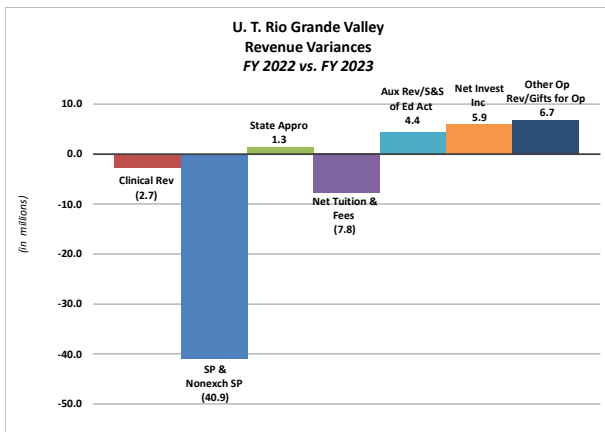


Monthly Financial Report Comparison of Operating Results, Margin, Projected Year-End and Budget For the Period Ending May 31, 2023

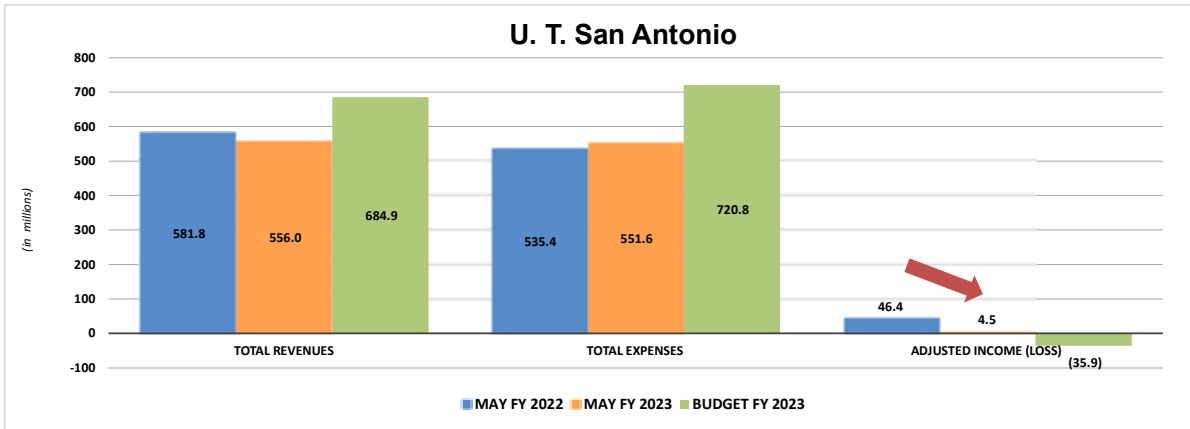


U. T. Rio Grande Valley incurred a year-to-date adjusted loss of \$54.0 million, an increase in adjusted loss of \$46.6 million (625%) from the prior year. The increase was primarily due to the following: an increase in salaries and wages and payroll related costs as a result of an increase in faculty and staff positions and annual merit increases; an increase in depreciation and amortization expense due to new buildings placed into service; a decrease in clinical revenues attributable to a decrease in patient volume due to the economic downturn; and an increase in other contracted services as a result of increases in transportation services, Student Accessibility Services, and Accelerated Program marketing expenses. The most current projection received from U. T. Rio Grande Valley reflects a loss of \$34.3 million for the year.

| (in millions) | May YTD FY 2022 | May YTD FY 2023 | Variance | Annual Projected FY 2023 | FY 2023 Budget |
|---|--------------------|--------------------|---------------|--------------------------------|-------------------|
| Clinical Revenues | \$ 14.8 | 12.1 | (2.7) | 17.2 | |
| Sponsored Programs/Nonexchange Sponsored Programs | 224.8 | 183.9 | (40.9) | 270.5 | |
| State Appropriations | 132.9 | 134.2 | 1.3 | 163.5 | |
| Net Tuition and Fees | 110.3 | 102.5 | (7.8) | 136.9 | |
| Auxiliary Revenues/Sales & Services of Educational Activities | 12.3 | 16.7 | 4.4 | 20.6 | |
| Net Investment Income | 10.7 | 16.6 | 5.9 | 21.4 | |
| Other Operating Revenues/Gift Contributions for Operations | 10.1 | 16.7 | 6.7 | 19.9 | |
| Total Revenues | 515.9 | 482.7 | (33.2) | 650.0 | 632.5 |
| Salaries and Wages/Payroll Related Costs | 320.0 | 348.8 | 28.8 | 431.2 | |
| Materials and Supplies/Cost of Goods Sold | 24.2 | 25.7 | 1.5 | 32.2 | |
| Depreciation and Amortization | 42.4 | 45.7 | 3.3 | 62.5 | |
| Other Contracted Services/Professional Fees & Services | 16.8 | 18.8 | 2.0 | 22.6 | |
| All Other Operating Expenses | 120.0 | 97.6 | (22.4) | 135.8 | |
| Total Expenses | \$ 523.4 | 536.7 | 13.3 | 684.3 | 681.0 |
| Adjusted Income (Loss) | (7.4) | (54.0) | (46.6) | (34.3) | (48.5) |
| Adjusted Income (Loss) Excluding Depr & Amort Exp | 34.9 | (8.3) | (43.2) | 28.2 | 13.5 |

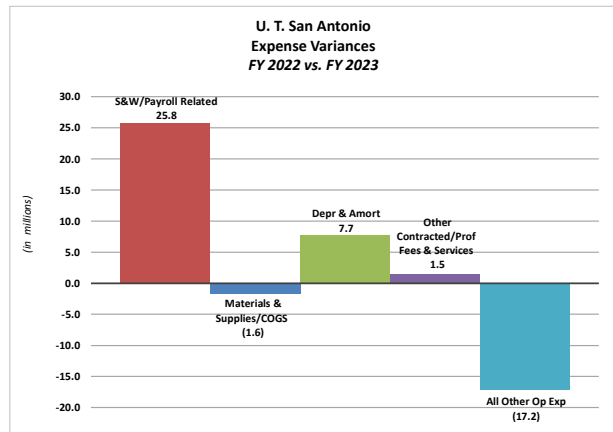
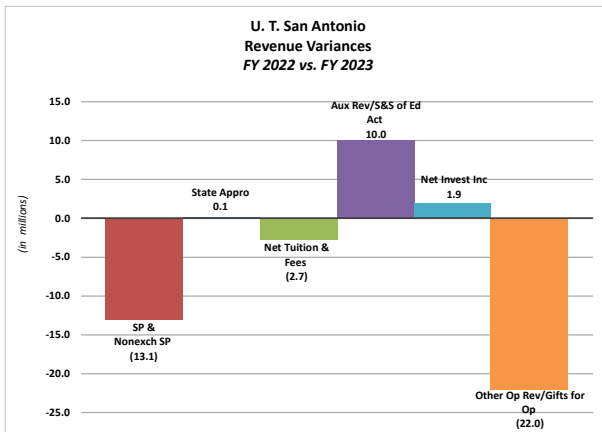


**Monthly Financial Report
Comparison of Operating Results, Margin, Projected Year-End and Budget
For the Period Ending May 31, 2023**

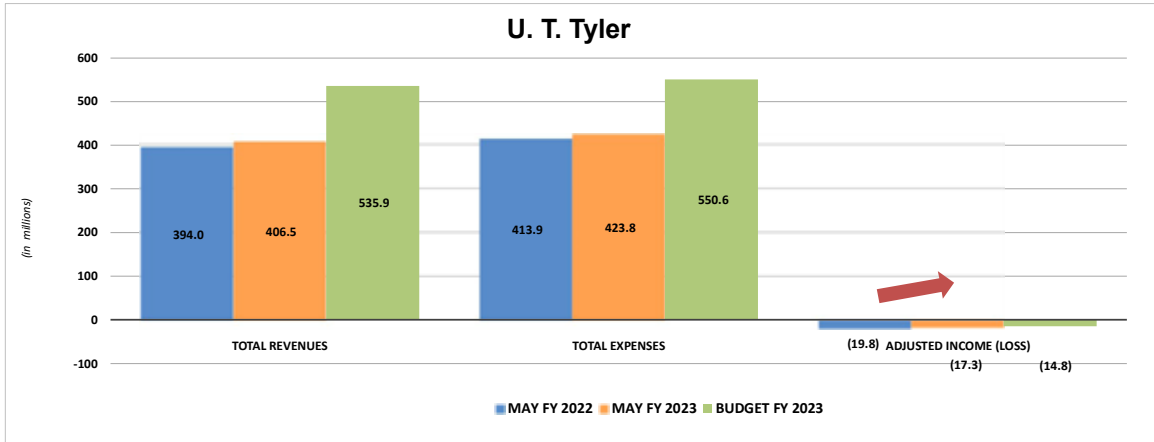


U. T. San Antonio reported year-to-date adjusted income of \$4.5 million, a decrease in adjusted income of \$41.9 million (90%) from the prior year. The decrease was primarily attributable to the following: an increase in salaries and wages and payroll related costs due to the university implementing its strategic compensation plan last year, as well as an increase in annual merit increases; and a decrease in gift contributions for operations as a result of a \$20 million gift received in 2022 with no such comparable gift received in the current fiscal year. The most current projection received from U. T. San Antonio reflects income of \$5.8 million for the year.

| (in millions) | May YTD FY 2022 | May YTD FY 2023 | Variance | Annual Projected FY 2023 | FY 2023 Budget |
|---|--------------------|--------------------|---------------|--------------------------------|-------------------|
| Sponsored Programs/Nonexchange Sponsored Programs | \$ 173.7 | 160.7 | (13.1) | 214.2 | |
| State Appropriations | 114.3 | 114.4 | 0.1 | 152.5 | |
| Net Tuition and Fees | 194.1 | 191.4 | (2.7) | 255.2 | |
| Auxiliary Revenues/Sales & Services of Educational Activities | 45.2 | 55.2 | 10.0 | 73.6 | |
| Net Investment Income | 18.4 | 20.3 | 1.9 | 27.1 | |
| Other Operating Revenues/Gift Contributions for Operations | 36.2 | 14.1 | (22.0) | 18.3 | |
| Total Revenues | 581.8 | 556.0 | (25.8) | 740.9 | 684.9 |
| Salaries and Wages/Payroll Related Costs | 284.5 | 310.3 | 25.8 | 413.7 | |
| Materials and Supplies/Cost of Goods Sold | 30.1 | 28.4 | (1.6) | 37.9 | |
| Depreciation and Amortization | 49.2 | 56.9 | 7.7 | 75.9 | |
| Other Contracted Services/Professional Fees & Services | 28.3 | 29.7 | 1.5 | 39.6 | |
| All Other Operating Expenses | 143.4 | 126.2 | (17.2) | 167.9 | |
| Total Expenses | \$ 535.4 | 551.6 | 16.1 | 735.1 | 720.8 |
| Adjusted Income (Loss) | 46.4 | 4.5 | (41.9) | 5.8 | (35.9) |
| Adjusted Income (Loss) Excluding Depr & Amort Exp | 95.6 | 61.4 | (34.2) | 81.7 | 36.8 |

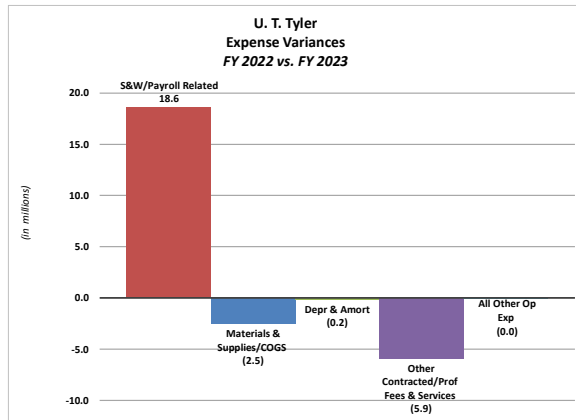
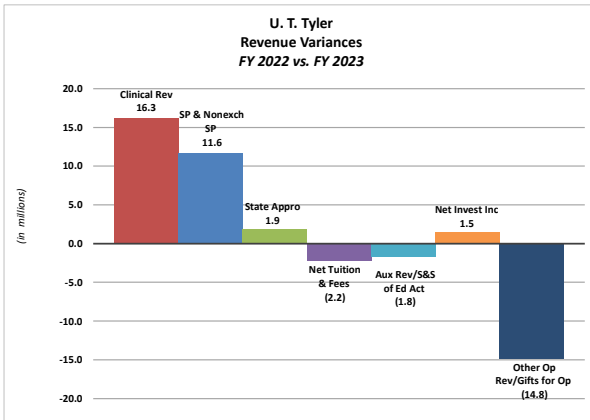


Monthly Financial Report
Comparison of Operating Results, Margin, Projected Year-End and Budget
For the Period Ending May 31, 2023



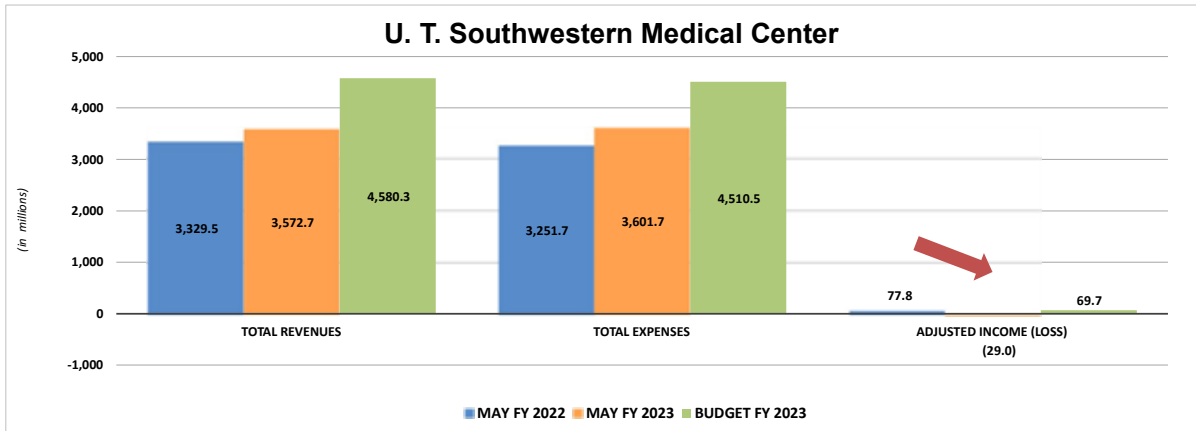
U. T. Tyler incurred a year-to-date adjusted loss of \$17.3 million, a decrease in adjusted loss of \$2.5 million (13%) from the prior year. The decrease was primarily due to an increase in clinical revenues attributable to an increase in outpatient visits, as well as growth in retail pharmacy volumes. The most current projection received from *U. T. Tyler* reflects a loss of \$15.8 million for the year.

| (in millions) | May YTD FY 2022 | May YTD FY 2023 | Variance | Annual Projected FY 2023 | FY 2023 Budget |
|---|--------------------|--------------------|-------------|--------------------------------|-------------------|
| Clinical Revenues | \$ 130.4 | 146.7 | 16.3 | 192.4 | |
| Sponsored Programs/Nonexchange Sponsored Programs | 98.7 | 110.3 | 11.6 | 147.1 | |
| State Appropriations | 64.6 | 66.6 | 1.9 | 90.8 | |
| Net Tuition and Fees | 46.3 | 44.1 | (2.2) | 57.9 | |
| Auxiliary Revenues/Sales & Services of Educational Activities | 24.9 | 23.2 | (1.8) | 29.4 | |
| Net Investment Income | 8.2 | 9.7 | 1.5 | 13.6 | |
| Other Operating Revenues/Gift Contributions for Operations | 20.8 | 6.0 * | (14.8) | 12.6 * | |
| Total Revenues | 394.0 | 406.5 | 12.5 | 543.9 | 535.9 |
| Salaries and Wages/Payroll Related Costs | 245.7 | 264.2 | 18.6 | 346.4 | |
| Materials and Supplies/Cost of Goods Sold | 58.0 | 55.5 | (2.5) | 73.4 | |
| Depreciation and Amortization | 26.3 | 26.2 | (0.2) | 36.5 | |
| Other Contracted Services/Professional Fees & Services | 40.9 | 34.9 | (5.9) | 47.1 | |
| All Other Operating Expenses | 43.1 | 43.0 | (0.0) | 56.2 | |
| Total Expenses | 413.9 | 423.8 | 10.0 | 559.7 | 550.6 |
| Adjusted Income (Loss) | (19.8) | (17.3) | 2.5 | (15.8) | (14.8) |
| Adjusted Income (Loss) Excluding Depr & Amort Exp | 6.5 | 8.8 | 2.3 | 20.7 | 21.7 |



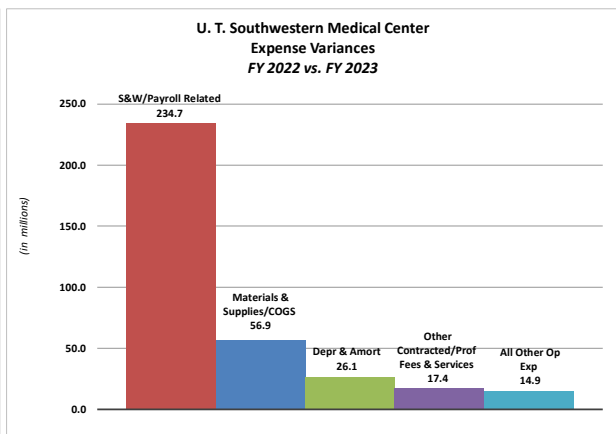
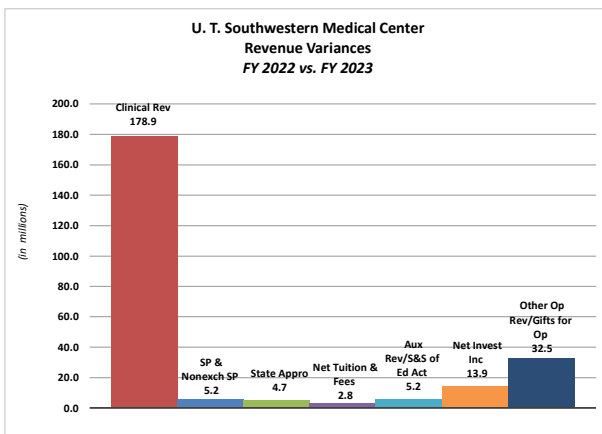
*Other Operating Income includes 30% of UTHET's net adjusted loss which was \$4.3 million through May. The projected loss of \$15.8 million includes less than \$0.1 million of UTHET's net adjusted income for the year.

**Monthly Financial Report
Comparison of Operating Results, Margin, Projected Year-End and Budget
For the Period Ending May 31, 2023**

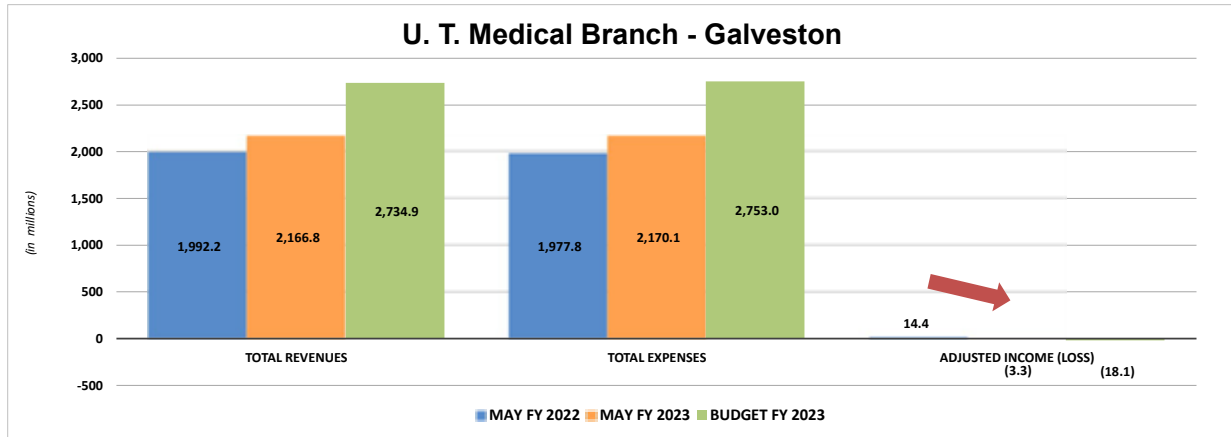


U. T. Southwestern Medical Center incurred a year-to-date adjusted loss of \$29.0 million, a decrease of \$106.8 million (137%) from the prior year. The decrease was primarily due to an increase in salaries and wages and payroll related costs as a result of increases in staff and faculty positions associated with growth in both the hospitals and clinical operations. The most current projection received from U. T. Southwestern Medical Center reflects income of \$12.0 million for the year primarily due to an anticipated increase in patient care revenues in the back half of the fiscal year and an anticipated increase in other operating revenues related to the timing of revenue recognition to offset operating expenses associated with the decant and demolition of the Paul M. Bass Administrative and Clinical Center.

| (in millions) | May YTD FY 2022 | May YTD FY 2023 | Variance | Annual Projected FY 2023 | FY 2023 Budget |
|---|-------------------|-----------------|----------------|--------------------------|----------------|
| Clinical Revenues | \$ 2,157.9 | 2,336.8 | 178.9 | 3,135.7 | |
| Sponsored Programs/Nonexchange Sponsored Programs | 636.5 | 641.7 | 5.2 | 837.1 | |
| State Appropriations | 140.3 | 145.0 | 4.7 | 195.7 | |
| Net Tuition and Fees | 18.4 | 21.2 | 2.8 | 28.3 | |
| Auxiliary Revenues/Sales & Services of Educational Activities | 28.4 | 33.7 | 5.2 | 45.3 | |
| Net Investment Income | 125.6 | 139.5 | 13.9 | 185.7 | |
| Other Operating Revenues/Gift Contributions for Operations | 222.4 | 254.8 | 32.5 | 303.2 | |
| Total Revenues | 3,329.5 | 3,572.7 | 243.2 | 4,730.9 | 4,580.3 |
| Salaries and Wages/Payroll Related Costs | 2,025.1 | 2,259.8 | 234.7 | 3,010.5 | |
| Materials and Supplies/Cost of Goods Sold | 628.6 | 685.5 | 56.9 | 895.4 | |
| Depreciation and Amortization | 183.0 | 209.1 | 26.1 | 277.8 | |
| Other Contracted Services/Professional Fees & Services | 195.6 | 213.0 | 17.4 | 267.7 | |
| All Other Operating Expenses | 219.4 | 234.3 | 14.9 | 267.4 | |
| Total Expenses | \$ 3,251.7 | 3,601.7 | 350.0 | 4,718.9 | 4,510.5 |
| Adjusted Income (Loss) | 77.8 | (29.0) | (106.8) | 12.0 | 69.7 |
| Adjusted Income (Loss) Excluding Depr & Amort Exp | 260.9 | 180.1 | (80.7) | 289.8 | 337.0 |

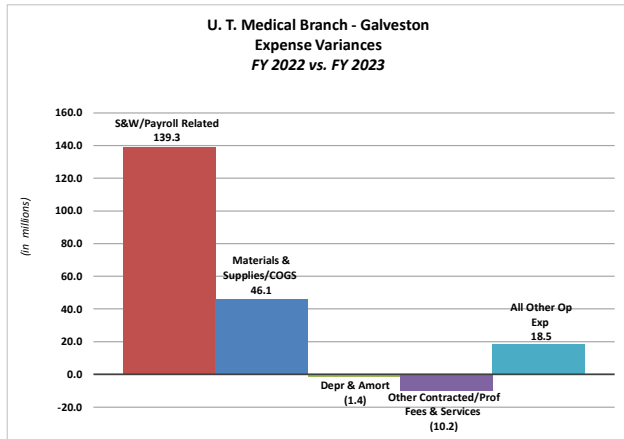
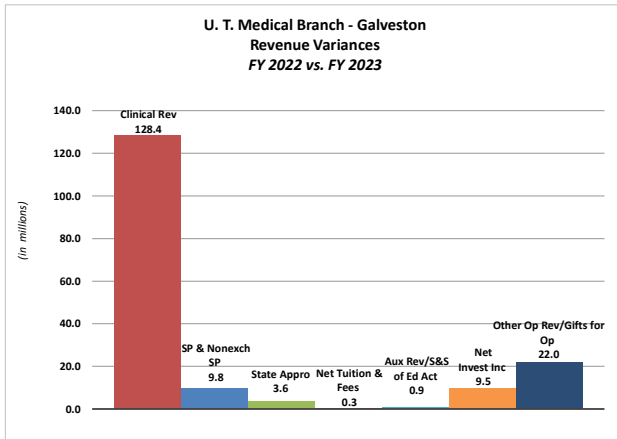


Monthly Financial Report Comparison of Operating Results, Margin, Projected Year-End and Budget For the Period Ending May 31, 2023

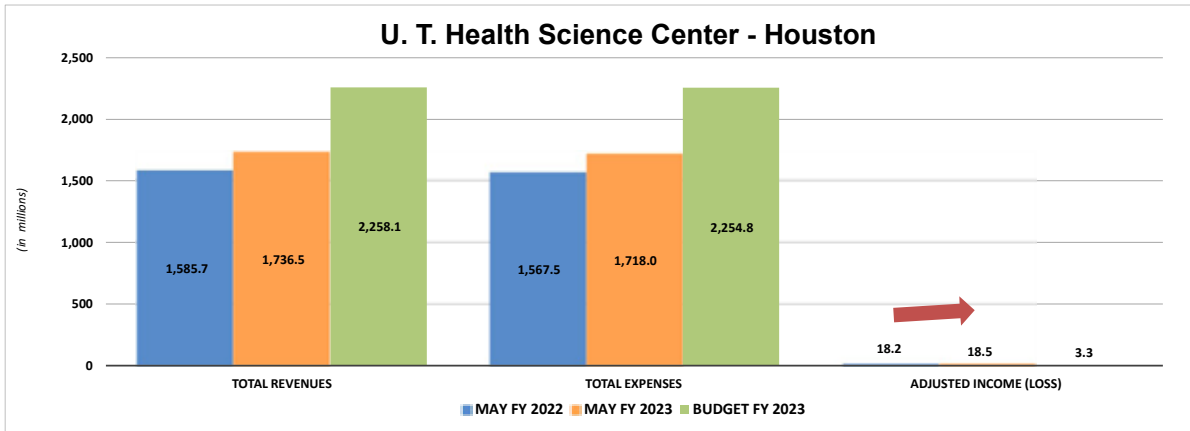


U. T. Medical Branch - Galveston incurred a year-to-date adjusted loss of \$3.3 million, a decrease of \$17.7 million (123%) from the prior year. The decrease was primarily attributable to an increase in salaries and wages and payroll related costs as a result of increases in staff and faculty positions due to increased clinical volumes, as well as merit and market increases. The most current projection received from U. T. Medical Branch - Galveston reflects a loss of \$12.9 million for the year.

| (in millions) | May YTD FY 2022 | May YTD FY 2023 | Variance | Annual Projected FY 2023 | FY 2023 Budget |
|---|--------------------|--------------------|---------------|--------------------------------|-------------------|
| Clinical Revenues | \$ 1,321.9 | 1,450.3 | 128.4 | 1,938.6 | |
| Sponsored Programs/Nonexchange Sponsored Programs | 183.8 | 193.6 | 9.8 | 266.6 | |
| State Appropriations | 269.6 | 273.2 | 3.6 | 363.5 | |
| Net Tuition and Fees | 39.6 | 39.9 | 0.3 | 52.1 | |
| Auxiliary Revenues/Sales & Services of Educational Activities | 19.2 | 20.2 | 0.9 | 26.9 | |
| Net Investment Income | 52.0 | 61.5 | 9.5 | 77.3 | |
| Other Operating Revenues/Gift Contributions for Operations | 106.1 | 128.0 | 22.0 | 169.5 | |
| Total Revenues | 1,992.2 | 2,166.8 | 174.6 | 2,894.6 | 2,734.9 |
| Salaries and Wages/Payroll Related Costs | 1,187.2 | 1,326.5 | 139.3 | 1,773.6 | |
| Materials and Supplies/Cost of Goods Sold | 286.7 | 332.8 | 46.1 | 436.6 | |
| Depreciation and Amortization | 156.9 | 155.6 | (1.4) | 223.6 | |
| Other Contracted Services/Professional Fees & Services | 173.8 | 163.6 | (10.2) | 218.2 | |
| All Other Operating Expenses | 173.1 | 191.6 | 18.5 | 255.7 | |
| Total Expenses | \$ 1,977.8 | 2,170.1 | 192.3 | 2,907.6 | 2,753.0 |
| Adjusted Income (Loss) | 14.4 | (3.3) | (17.7) | (12.9) | (18.1) |
| Adjusted Income (Loss) Excluding Depr & Amort Exp | 171.4 | 152.3 | (19.1) | 210.7 | 207.5 |

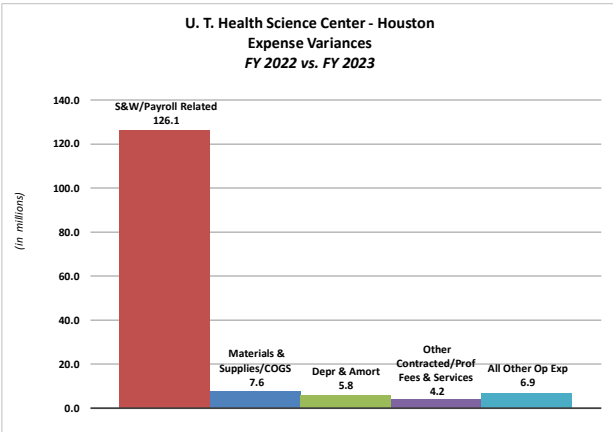
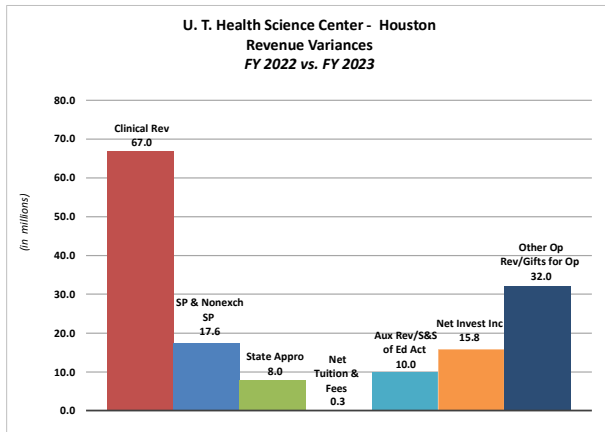


**Monthly Financial Report
Comparison of Operating Results, Margin, Projected Year-End and Budget
For the Period Ending May 31, 2023**

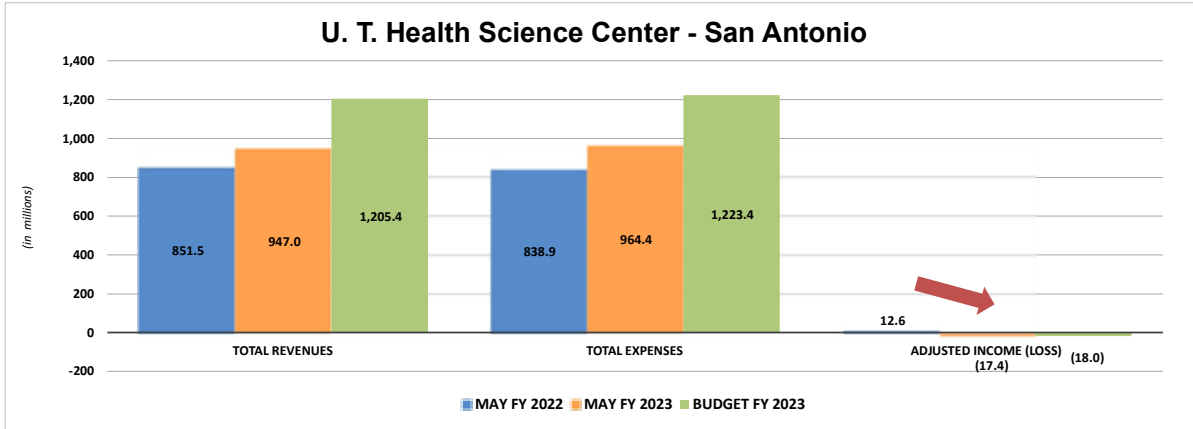


U. T. Health Science Center - Houston reported year-to-date adjusted income of \$18.5 million, an increase in adjusted income of \$0.3 million (2%) from the prior year. The increase was primarily due to an increase in clinical revenues attributable to increased clinical productivity, as well as increased funding from Health and Human Services related to the new Dunn Center Building. The most current projection received from *U. T. Health Science Center - Houston* reflects income of \$20.3 million for the year.

| (in millions) | May YTD FY 2022 | May YTD FY 2023 | Variance | Annual Projected FY 2023 | FY 2023 Budget |
|---|--------------------|--------------------|--------------|--------------------------------|-------------------|
| Clinical Revenues | \$ 414.2 | 481.2 | 67.0 | 636.1 | |
| Sponsored Programs/Nonexchange Sponsored Programs | 799.0 | 816.6 | 17.6 | 1,104.8 | |
| State Appropriations | 162.4 | 170.4 | 8.0 | 225.9 | |
| Net Tuition and Fees | 56.2 | 56.5 | 0.3 | 70.3 | |
| Auxiliary Revenues/Sales & Services of Educational Activities | 52.5 | 62.5 | 10.0 | 78.0 | |
| Net Investment Income | 63.0 | 78.9 | 15.8 | 94.0 | |
| Other Operating Revenues/Gift Contributions for Operations | 38.3 | 70.3 | 32.0 | 98.3 | |
| Total Revenues | 1,585.7 | 1,736.5 | 150.8 | 2,307.4 | 2,258.1 |
| Salaries and Wages/Payroll Related Costs | 1,209.8 | 1,336.0 | 126.1 | 1,765.7 | |
| Materials and Supplies/Cost of Goods Sold | 78.7 | 86.3 | 7.6 | 115.0 | |
| Depreciation and Amortization | 80.2 | 85.9 | 5.8 | 118.6 | |
| Other Contracted Services/Professional Fees & Services | 89.2 | 93.3 | 4.2 | 128.5 | |
| All Other Operating Expenses | 109.6 | 116.5 | 6.9 | 159.3 | |
| Total Expenses | \$ 1,567.5 | 1,718.0 | 150.5 | 2,287.1 | 2,254.8 |
| Adjusted Income (Loss) | 18.2 | 18.5 | 0.3 | 20.3 | 3.3 |
| Adjusted Income (Loss) Excluding Depr & Amort Exp | 98.3 | 104.4 | 6.1 | 138.9 | 80.7 |

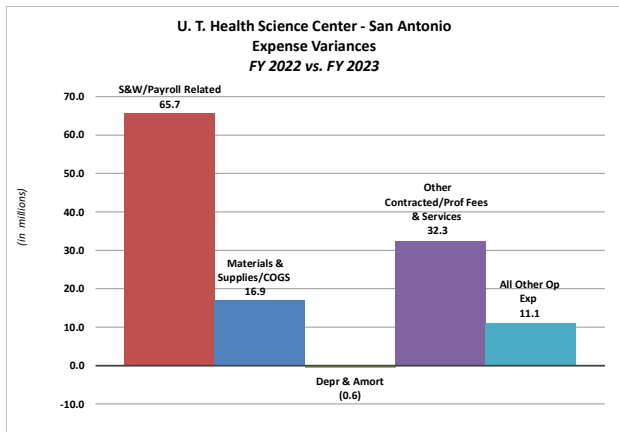
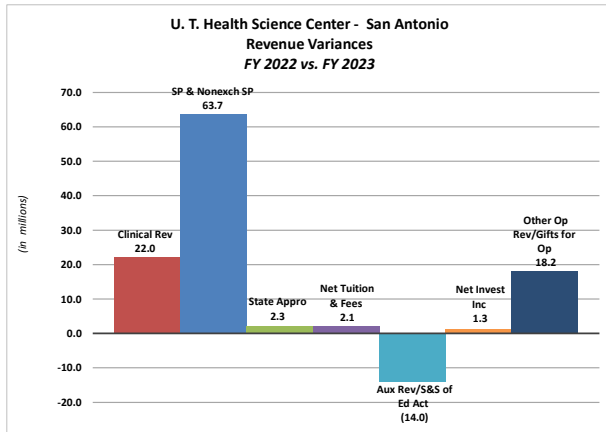


Monthly Financial Report
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For the Period Ending May 31, 2023

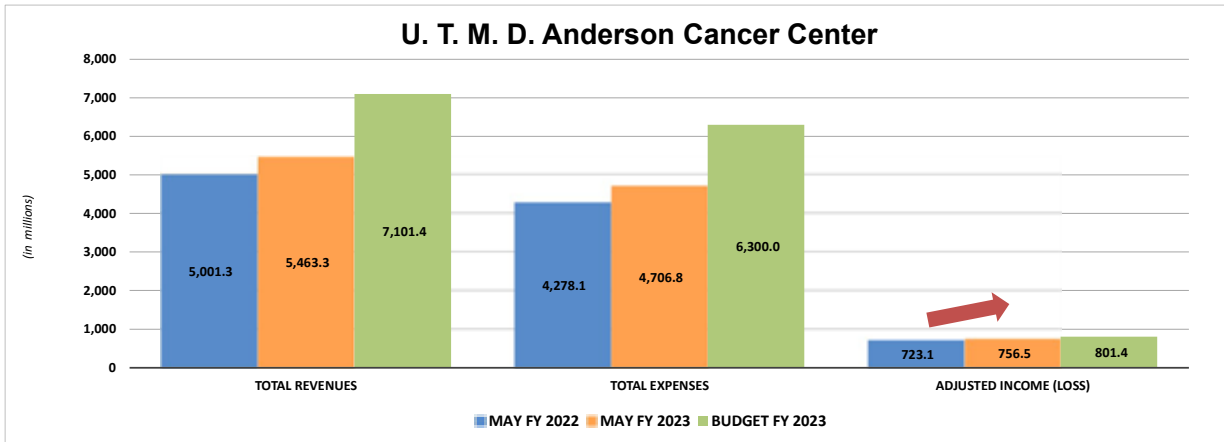


U. T. Health Science Center - San Antonio incurred a year-to-date adjusted loss of \$17.4 million, a decrease of \$30.0 million (238%) from the prior year. The decrease was primarily attributable to an increase in salaries and wages and payroll related costs as a result of an increase in clinical faculty and staff positions associated with planned clinical volume and research growth. The most current projection received from U. T. Health Science Center – San Antonio reflects a loss of \$11.1 million for the year, which represents a \$6.9 million improvement over the planned \$18.0 million operating deficit.

| (in millions) | May YTD FY 2022 | May YTD FY 2023 | Variance | Annual Projected FY 2023 | FY 2023 Budget |
|---|-----------------|-----------------|---------------|--------------------------|----------------|
| Clinical Revenues | \$ 253.6 | 275.6 | 22.0 | 377.5 | |
| Sponsored Programs/Nonexchange Sponsored Programs | 331.8 | 395.5 | 63.7 | 542.0 | |
| State Appropriations | 132.5 | 134.8 | 2.3 | 180.6 | |
| Net Tuition and Fees | 39.2 | 41.3 | 2.1 | 56.5 | |
| Auxiliary Revenues/Sales & Services of Educational Activities | 33.2 | 19.2 | (14.0) | 26.4 | |
| Net Investment Income | 43.7 | 44.9 | 1.3 | 54.3 | |
| Other Operating Revenues/Gift Contributions for Operations | 17.6 | 35.7 | 18.2 | 47.5 | |
| Total Revenues | 851.5 | 947.0 | 95.6 | 1,284.9 | 1,205.4 |
| Salaries and Wages/Payroll Related Costs | 562.1 | 627.8 | 65.7 | 844.4 | |
| Materials and Supplies/Cost of Goods Sold | 92.6 | 109.6 | 16.9 | 147.8 | |
| Depreciation and Amortization | 53.2 | 52.6 | (0.6) | 70.8 | |
| Other Contracted Services/Professional Fees & Services | 62.3 | 94.7 | 32.3 | 112.3 | |
| All Other Operating Expenses | 68.7 | 79.8 | 11.1 | 120.6 | |
| Total Expenses | \$ 838.9 | 964.4 | 125.5 | 1,295.9 | 1,223.4 |
| Adjusted Income (Loss) | 12.6 | (17.4) | (30.0) | (11.1) | (18.0) |
| Adjusted Income (Loss) Excluding Depr & Amort Exp | 65.7 | 35.1 | (30.6) | 59.7 | 51.8 |

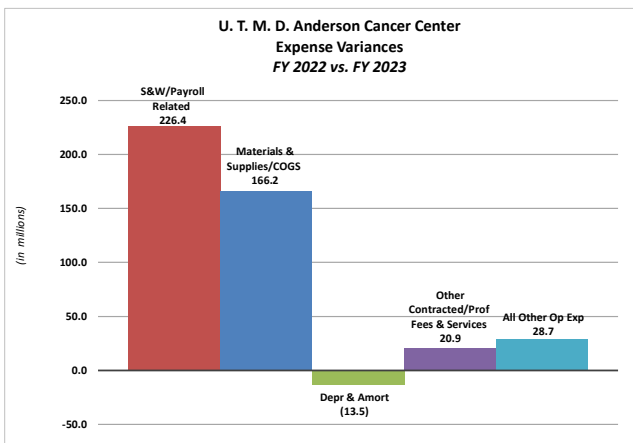
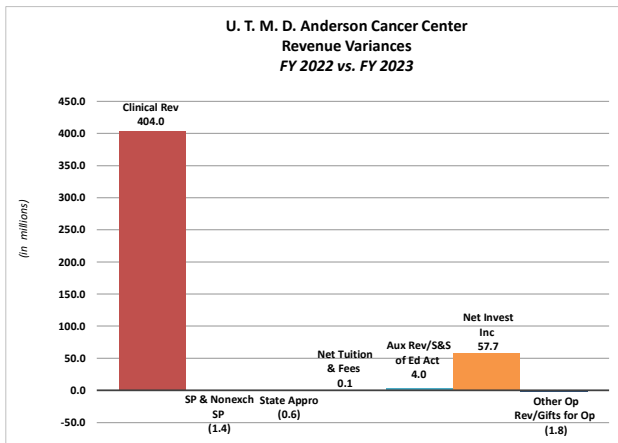


Monthly Financial Report Comparison of Operating Results, Margin, Projected Year-End and Budget For the Period Ending May 31, 2023



U. T. M. D. Anderson Cancer Center reported year-to-date adjusted income of \$756.5 million, an increase in adjusted income of \$33.4 million (5%) from the prior year. The increase was primarily due to an increase in clinical revenues attributable to increased volume and clinical productivity. The most current projection received from U. T. M. D. Anderson Cancer Center reflects income of \$835.7 million for the year.

| (in millions) | May YTD FY 2022 | May YTD FY 2023 | Variance | Annual Projected FY 2023 | FY 2023 Budget |
|---|--------------------|--------------------|--------------|--------------------------------|-------------------|
| Clinical Revenues | \$ 3,916.8 | 4,320.8 | 404.0 | 5,781.3 | |
| Sponsored Programs/Nonexchange Sponsored Programs | 434.3 | 432.9 | (1.4) | 572.8 | |
| State Appropriations | 157.5 | 157.0 | (0.6) | 209.9 | |
| Net Tuition and Fees | 1.8 | 1.9 | 0.1 | 2.0 | |
| Auxiliary Revenues/Sales & Services of Educational Activities | 27.0 | 31.1 | 4.0 | 39.1 | |
| Net Investment Income | 273.3 | 331.0 | 57.7 | 382.3 | |
| Other Operating Revenues/Gift Contributions for Operations | 190.4 | 188.7 | (1.8) | 249.2 | |
| Total Revenues | 5,001.3 | 5,463.3 | 462.1 | 7,236.7 | 7,101.4 |
| Salaries and Wages/Payroll Related Costs | 2,394.4 | 2,620.7 | 226.4 | 3,380.7 | |
| Materials and Supplies/Cost of Goods Sold | 1,051.4 | 1,217.6 | 166.2 | 1,787.5 | |
| Depreciation and Amortization | 281.3 | 267.9 | (13.5) | 354.9 | |
| Other Contracted Services/Professional Fees & Services | 330.1 | 351.1 | 20.9 | 515.4 | |
| All Other Operating Expenses | 220.9 | 249.6 | 28.7 | 362.5 | |
| Total Expenses | \$ 4,278.1 | 4,706.8 | 428.7 | 6,401.0 | 6,300.0 |
| Adjusted Income (Loss) | 723.1 | 756.5 | 33.4 | 835.7 | 801.4 |
| Adjusted Income (Loss) Excluding Depr & Amort Exp | 1,004.4 | 1,024.3 | 19.9 | 1,190.7 | 1,168.8 |



3. U. T. System Board of Regents: Equipment financing authorization for Fiscal Year 2024 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 \$319,781,000 of Revenue Financing System Equipment Financing for FY 2024 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 \$319,781,000 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 \$319,781,000 for equipment financing for Fiscal Year 2024. On August 25, 2022, the U. T. System Board of Regents approved a total of \$266,908,000 of equipment financing for Fiscal Year 2023. Through July 31, 2023, \$54,921,000 of equipment financing has been utilized for Fiscal Year 2023.

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 2024

| Institution | \$ Amount of Request | Description of Expected Capital Equipment | Spendable Cash & Inv. to Total Debt * | Unrestricted Cash & Inv. to Total Debt * |
|---|----------------------|--|---------------------------------------|--|
| U. T. Austin | 18,300,000 | TV production equipment | 3.0x | |
| U. T. Dallas | 4,000,000 | General purpose equipment supporting instruction, research, and business operations | 1.9x | |
| U. T. El Paso | 400,000 | Vehicle purchases | 2.7x | |
| U. T. Rio Grande Valley | 6,000,000 | Campus PC and IT replacement; instruction and research equipment; security-related equipment | 5.5x | |
| U.T. San Antonio | 13,304,000 | Boiler, modular, athletic, and technology equipment; Bueno Vista Theater equipment; faculty start-up lab equipment | 2.3x | |
| U. T. Tyler | 12,777,000 | Academic, clinical, laboratory, research, and IT equipment | 1.6x | |
| U. T. Southwestern Medical Center | 30,000,000 | Information resources projects; clinical and hospital equipment | | 0.7x |
| U. T. Medical Branch - Galveston | 50,000,000 | Clinical, research, and facility-related equipment; IT infrastructure | | 0.8x |
| U. T. Health Science Center - Houston | 35,000,000 | Imaging and ambulatory surgical center equipment | | 3.8x |
| U. T. Health Science Center - San Antonio | 70,000,000 | Electronic medical records system; outpatient surgical equipment; research lab equipment | | 2.7x |
| U. T. M. D. Anderson Cancer Center | 80,000,000 | Medical, diagnostic, and research equipment; vehicles; information technology systems | | 8.5x |

| | |
|--------------|----------------------|
| Total | \$319,781,000 |
|--------------|----------------------|

* Spendable Cash & Inv. to Total Debt ratios and Unrestricted Cash & Inv. to Total Debt ratios are based on FY2022 Analysis of Financial Condition (February 2023). The calculation excludes TRB debt service.

U. T. System Office of Finance, June 29, 2023

4. 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 \$975 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 25, 2022, the Board of Regents adopted a resolution authorizing the issuance of PUF Bonds in an amount not to exceed \$750 million for Fiscal Year 2023. Adoption of this Resolution would provide \$975 million of authorization for similar purposes for Fiscal Year 2024. 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-2023-08-23>.

5. 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 \$975 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 25, 2022, the Board of Regents adopted the 37th Supplemental Resolution authorizing the issuance of additional RFS Bonds in an amount not to exceed \$850 million. Adoption of this 38th Supplemental Resolution would provide \$975 million of 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.

Approval of the Supplemental Resolution would also designate Stephen F. Austin State University, a member of The University of Texas System, as a Member of the Revenue Financing System effective September 1, 2023 in accordance with the RFS Master Resolution and provides, in accordance with Senate Bill 1055, that the U. T. System Board of Regents becomes the successor to the obligations of the prior Stephen F. Austin State University previously incurred and outstanding as of September 1, 2023.

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-2023-08-23>.

6. U. T. System Board of Regents: Adoption of resolutions authorizing certain bond enhancement agreements for Revenue Financing System debt and Permanent University Fund debt and ratification of Regents' Rule 70202, as amended, in its entirety

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 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; and
- b. ratify Regents' Rule 70202, as amended and attached on the following pages.

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.

On August 25, 2022, the Board approved bond enhancement agreement resolutions for FY2023. 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 FY2024. 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.

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. Rule 70202, as will be included as Exhibit B to both resolutions, will be the subject of minor revision via a separate agenda item to be considered by the Board of Regents prior to this committee meeting.

Note: The proposed Resolutions are available online at <https://utsystem.edu/board-of-regents/meetings/board-meeting-2023-08-23>.

**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, the Effective Federal Funds Rate (EFFR), or the Secured Overnight Financing Rate (SOFR).
- 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.

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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.
- 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 CFTC 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.

Effective Federal Funds Rate (EFFR) – The effective federal funds rate is calculated and published by the New York Federal Reserve Bank based on domestic unsecured borrowings in U.S. dollars by depository institutions. It is a commonly used benchmark for swaps.

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

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

Rule: 70202

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 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.

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. The index is a national rate based on a market basket of high-grade, seven-day, tax-exempt variable rate bond issues.

Secured Overnight Financing Rate (SOFR) - the Secured Overnight Financing Rate (SOFR) is a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities. It is a commonly used benchmark for swaps to replace LIBOR.

7. 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 2024 distribution from the Permanent University Fund (PUF) to the Available University Fund (AUF) be \$1,407,795,000 effective September 1, 2023;
- b. the distribution rate for the Permanent Health Fund (PHF) be increased from \$0.0689 per unit to \$0.0724 per unit for Fiscal Year 2024 (effective with November 30, 2023 distribution);
- c. the distribution rate for the U. T. System Long Term Fund (LTF) be increased from \$0.3763 per unit to \$0.3951 per unit for Fiscal Year 2024 (effective with November 30, 2023 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 2024.

BACKGROUND INFORMATION

Article VII, Section 18 of the Texas Constitution requires that distributions to the AUF be determined by the 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 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 \$1,407,795,000 is substantially greater than PUF bond debt service of \$522,000,000 projected for Fiscal Year 2024.

| System | Debt Service |
|---------------|-----------------------|
| U. T. | \$ 313,700,000 |
| TAMU | 208,300,000 |
| Total: | <u>\$ 522,000,000</u> |

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, 2023, was 5.54%, which indicates that the purchasing power test was met.

| Average Annual | Percent |
|--|------------------------|
| Rate of Total Return, Net of Investment Manager Fees | 8.09% |
| Mineral Interest Receipts | 4.83% |
| Expense Rate | (0.20%) ⁽¹⁾ |
| Inflation Rate | (2.63%) |
| Distribution Rate | (4.55%) |
| Net Real Return | 5.54% |

(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 |
|--|------------------------------|---|-----------------------------|
| \$26,721,088,387 | \$ 1,407,795,000 | 5.27% | 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, 2022, was 5.00%. The recommended 5.00% increase in the PHF distribution rate of \$0.0689 to \$0.0724 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 4.17%.

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 \$0.3951 per unit or 4.39% of the market value of the LTF plus the 0.80% development allocation will result in a total LTF spending rate of 5.19% 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. System Board on May 11, 2006, and has continued at that rate for each succeeding fiscal year. The recommendation for Fiscal Year 2024 is to continue a distribution rate of 3.0%.

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

RECOMMENDATION

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

- a. [Permanent University Fund \(PUF\)](#)
- b. [General Endowment Fund \(GEF\)](#)
- c. [Intermediate Term Fund \(ITF\)](#)
- d. [Permanent Health Fund \(PHF\)](#)
- e. [Long Term Fund \(LTF\)](#)
- f. [Liquidity Policy](#)

A PowerPoint Presentation setting out UTIMCO's Strategic Asset Allocation follows the Investment Policy Statements.

BACKGROUND INFORMATION

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

The amended PUF, GEF, PHF, LTF and ITF Investment Policy Statements, and the Liquidity Policy were approved by the UTIMCO Board on June 15, 2023.

The PUF, GEF and ITF Investment Policy Statements have been amended to reflect the following changes:

- Add detail to the non-exclusive lists of strategies that may be employed by Hedge Funds.
- Clarify that Fixed Income strategies may utilize Exchange Traded Funds.

Exhibits A of the PUF, GEF, and ITF, and Exhibits B of the PHF and LTF Investment Policy Statements have been amended to set forth the revised Asset Class targets and ranges, for each of the respective funds, for the fiscal year beginning September 1, 2023. The benchmarks applicable to Emerging Markets Public Equity and Natural Resources have been modified. In addition, the Expected 10-Year Annual Real Returns and the One Year Downside Volatility have been updated. Finally, permissible Asset Class exposure has been increased from 105% to 110% (leverage of 10%) for the PUF and GEF. For the ITF, permissible Asset Class exposure has been increased from 100% to 105% (leverage of 5%).

Recommended changes to the Liquidity Policy:

- Raise maximum permitted illiquidity by 5%, from 70% to 75% in the Endowment Funds (PUF and GEF) and from 55% to 60% in the ITF.
- Increase Unfunded Commitments as a percent of the highest total Net Asset Value of the Endowment Funds over a trailing 24-month period from 30% to 35%.

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



Investment Policies

Mr. Rich Hall, President, Chief Executive Officer and Chief Investment Officer
U. T. System Board of Regents Meeting
Finance and Planning Committee
August 2023

Strategic Asset Allocation (SAA) – Endowments



Increase UT and A&M System Resources With Improved Expected Returns and Similar Risk

| Asset Class | Past/Current | | Proposed | Diff | |
|--------------------------------|--------------|-------------|-------------|--------------|--------------|
| | 2018 | 2021 | L-T Target | vs 2018 | vs 2021 |
| Total Public Equity | 33% | 35% | 27% | (-6%) | (-8%) |
| Developed Market Public Equity | 25% | 27% | 21% | (-4%) | (-6%) |
| Emerging Market Public Equity | 8% | 8% | 6% | (-2%) | (-2%) |
| Directional Hedge Funds | 5% | 5% | 6% | +1% | +1% |
| Private Equity | 25% | 25% | 30% | +5% | +5% |
| Private Credit | - | - | - | - | - |
| Total Global Equity | 63% | 65% | 63% | - | (-2%) |
| Global Aggregate Bonds | 7% | - | - | (-7%) | - |
| Long Treasuries | - | 5% | 6% | +6% | +1% |
| Cash | 1% | 1% | 2% | +1% | +1% |
| Stable Value Hedge Funds | 10% | 10% | 11% | +1% | +1% |
| Total Stable Value | 18% | 16% | 19% | +1% | +3% |
| Private Real Estate | 10% | 9% | 9% | (-1%) | - |
| Natural Resources | 5% | 3% | - | (-5%) | (-3%) |
| Infrastructure | 4% | 5% | 9% | +5% | +4% |
| TIPS | - | 2% | - | - | (-2%) |
| Commodities | - | - | - | - | - |
| Public Real Estate | - | - | - | - | - |
| Total Real Return | 19% | 19% | 18% | (-1%) | (-1%) |
| TOTAL | 100% | 100% | 100% | | |

| Headline Portfolio Stats | | | | | |
|--------------------------|--------|--------|--------|----------|----------|
| Expected Return | 7.45% | 6.80% | 8.83% | +1.38% | +2.03% |
| Beta | 6.45% | 5.40% | 7.59% | +1.14% | +2.19% |
| Alpha | 1.00% | 1.40% | 1.24% | +0.24% | (-0.16%) |
| Volatility | 15.79% | 12.00% | 12.34% | (-3.45%) | +0.34% |
| Sharpe | 0.47 | 0.48 | 0.45 | (-0.02) | (-0.03) |

Long-Term expected returns increased 1.4% - 2.0% from 2018 and 2021

- Strong Beta contribution meets 7.5% return Target
- Shift in Capital Market Assumptions Line a key driver of uplift

Very minor changes to risk-level and allocations across regimes

- +35 bps in Expected Risk level
- More Stable Value (+3%); Less Global Equity (-2%) and Real Return (-1%)

Incremental changes within regimes

- More Private Equity, Less Public Equity
- More Infrastructure, Less NR + TIPS
- More Cash + Fixed Income

SAA – Endowments (cont.)



Key Elements of the SAA recommendation

- Increase private investments from 42% to 48% (5% Private Equity, 1% Real Return)
- Reduce Public Equity from 35% to 27% and increase Private Equity from 25% to 30%
 - Increases expected returns: Private Equity 10% + 20% vol, vs. Public 7.5% - 9.8% w/ 16% - 21% vol
 - Leverages unique cash flow attributes of the endowments, particularly the PUF
 - Retains prudent levels of liquidity, even in market drawdowns of 50%
 - Requires adjustments to Liquidity Policy and Unfunded Commitment limits
- Public Equity reduction also reduces uncompensated currency risks
 - Fundamental drivers of expected equity returns are relatively equal across geographies
 - Currency return is frequently the differentiator in relative performance across markets
 - Acknowledges heightened equity risk driven by geopolitical factors
- Enable growth of Portable Alpha strategies in Public Equities
 - Combines UTIMCO's best alpha-strategies, Stable Value Hedge Funds, with higher returning Public Equities as replacement for some Long-Only equity strategies
 - Requires increased leverage utilization



SAA – Endowments (cont.)

Key Elements of the SAA recommendation

- Increase Stable Value Assets from 16% to 19% (Cash, Treasuries, Stable Value Hedge Funds)
 - Additional ballast to the endowments in recessions
 - Increases overall liquidity profile to offset growth in illiquidity
- Shift Real Return Portfolio composition to focus on Real Estate (9%) and Infrastructure (9%)
 - On a look-through basis, University Lands ~14% of institutional assets, providing significant inflation protection to UT System when it matters the most
 - Recognizing this existing exposure, allows endowments to shift Natural Resources portfolio to more opportunistic strategy
 - Benefit from high risk adjusted returns of Real Estate and Infrastructure to protect portfolio against inflation across the cycle

Policy Changes



Proposed Policy Changes

- Liquidity – facilitates increase in private investments and portable alpha
 - \$21 billion of assets that are liquid within 120 days
 - 8x expected annual liquidity needs
 - Endowments: Increase to 75% of assets with liquidity longer than 120-day (currently 70%)
 - ITF: Increase to 60% of assets with liquidity longer than 120-day (currently 55%)
 - Increase Maximum unfunded commitments to 35% of Net Asset Value (currently 30%)
- Leverage – facilitates expansion of portable alpha programs:
 - Increase endowment leverage limit to 10% (currently 5%)
 - Increase ITF to 5% leverage
- Benchmarks – Improve alignment with strategy
 - Public Emerging Markets – adopt blended 33% Morgan Stanley Capital International (MSCI) ex-China + 67% MSCI EM w/ China All Share (currently MSCI Emerging Markets Index)
 - Natural Resources – Cambridge Associates Natural Resources Net Asset Value weighted by component



FY 2023 Proposed Targets and Ranges

EXHIBIT A
ASSET CLASS TARGETS, RANGES, AND PERFORMANCE OBJECTIVES
EFFECTIVE SEPTEMBER 1, 2022-2023

| Asset Class | Min v Target ⁽¹⁾ | Target ⁽²⁾⁽³⁾ | Max v Target ⁽¹⁾ | Benchmark |
|------------------------------------|-----------------------------|--------------------------|-----------------------------|---|
| Global Equity: | | | | |
| Developed Public Equity | -5.0% | 23.6% 20.0% | +5% +15.0% | MSCI World Index with Net Dividends |
| Emerging Markets Public Equity | -5.0% | 7.0% 6.4% | -5.0% | MSCI Emerging Markets with Net Dividends Blended 67% MSCI Emerging Markets with China All Shares and 33% MSCI Emerging Markets ex-China |
| Total Public Equity | -5.0% | 20.6% 26.4% | +6% +15.0% | |
| Directional Hedge Funds | -5.0% | 6.0% 6.0% | +5.0% | HFRI Fund of Funds Composite |
| Private Equity ⁽²⁾ | | 16.0% 17.5% | 26.0% 27.5% | Blended Cambridge Buyouts, Emerging Markets Private Equity and Venture Capital, Credit Opportunities, and Venture Capital |
| Total Global Equity | -7.0% | 60.6% 59.9% | +7.0% +15% | |
| Stable Value: | | | | |
| Investment Grade Fixed Income | -5.0% | 0.0% | +5.0% | Bloomberg Global Aggregate Index - Hedged |
| Long Treasuries | -5.0% | 4.4% 5.1% | +5.0% | Bloomberg US Treasury Long Index |
| Credit-Related Fixed Income | -5.0% | 0.0% | +5.0% | Bloomberg Capital Global High Yield Index |
| Total Fixed Income | -5.0% | 4.4% 5.1% | +5.0% | |
| Cash | -5.0% | 4.0% 2.0% | +5.0% | 3 month T-Bills |
| Stable Value Hedge Funds | -5.0% | 10.0% 10.5% | +5.0% | HFRI Fund of Funds Conservative |
| Total Stable Value | -10.0% | 15.4% 17.6% | +8.0% | |
| Real Return: | | | | |
| Inflation Linked Bonds | -5.0% | 2.0% 0.0% | +5.0% | Bloomberg Global Inflation-Linked U.S. TIPS Index |
| Gold | -5.0% | 0.0% | +5.0% | Gold Spot Price (XAU) |
| Commodities | -5.0% | 0.0% | +5.0% | Bloomberg Commodity TRI |
| Total Commodities | -5.0% | 0.0% | +5.0% | |
| Natural Resources ⁽²⁾ | 0.0% | 3.0% 3.3% | 8.0% | Cambridge Natural Resources Blended Cambridge PE Energy and Upstream & Royalty, PE Energy (Mining), and Timber |
| Infrastructure ⁽²⁾ | 0.0% | 6.0% 4.5% | 10.0% | Cambridge Infrastructure |
| Real Estate ⁽²⁾ | 4.0% 5.0% | 9.0% 9.7% | 14.0% 15.0% | Blended MSCI US REIT Gross Total Return Index (RMSG) and Cambridge Total Real Estate |
| Total Real Return | -8.0% | 19.0% 17.5% | +8.0% | |
| Strategic Partnerships | -5.0% | 5.0% | +5.0% | Blended Bloomberg US Treasury Long Index, MSCI World Index with Net Dividends, MSCI Emerging Markets Index with Net Dividends, and HFRI Macro |
| Innovation & Disruption | 0.0% | 0.0% | 5.0% | Aggregate Policy Portfolio Benchmark before returns from Innovation & Disruption portfolio |
| Total All Asset Classes | | 100.0% | 110.0% | |

The total Asset Class exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed 100% 110% of the Asset Class exposure excluding the amount of derivatives exposure not collateralized by Cash.

EXHIBIT A
ASSET CLASS TARGETS, RANGES, AND PERFORMANCE OBJECTIVES
EFFECTIVE SEPTEMBER 1, 2022-2023

| Asset Class | Min v Target ⁽¹⁾ | Target ⁽²⁾ | Max v Target ⁽¹⁾ | Benchmark |
|--------------------------------|-----------------------------|-----------------------|-----------------------------|---|
| Global Equity: | | | | |
| Developed Public Equity | -5.0% | 11.5% | +5.0% | MSCI World Index with Net Dividends |
| Emerging Markets Public Equity | -5.0% | 3.5% | +5.0% | MSCI Emerging Markets Index with Net Dividends Blended 67% MSCI Emerging Markets with China All Shares and 33% MSCI Emerging Markets ex-China |
| Total Public Equity | -5.0% | 15.0% | +5.0% | |
| Directional Hedge Funds | -5.0% | 35.0% | +5.0% | HFRI Fund of Funds Composite |
| Total Global Equity | -7.0% | 50.0% | +7.0% | |
| Stable Value: | | | | |
| Investment Grade Fixed Income | -5.0% | 6.0% | +5.0% | Bloomberg Global Aggregate Index - Hedged |
| Long Treasuries | -5.0% | 7.0% | +5.0% | Bloomberg US Treasury Long Index |
| Total Fixed Income | -5.0% | 13.0% | +5.0% | |
| Cash | -5.0% | 2.0% | +5.0% | 3 month T-bills |
| Stable Value Hedge Funds | -5.0% | 25.0% | +5.0% | HFRI Fund of Funds Conservative |
| Total Stable Value | -10.0% | 40.0% | +8.0% | |
| Real Return: | | | | |
| Inflation Linked Bonds | -5.0% | 5.0% | +5.0% | Bloomberg Global Inflation-Linked U.S. TIPS Index |
| Gold | -5.0% | 0.0% | +5.0% | Gold Spot Price (XAU) |
| Commodities | -5.0% | 2.5% | +5.0% | Bloomberg Commodity TRI |
| Total Commodities | -5.0% | 2.5% | +5.0% | |
| Public Real Estate | -5.0% | 2.5% | +5.0% | MSCI US REIT Gross Total Return Index (RMSG) |
| Total Real Return | -8.0% | 10.0% | +8.0% | |
| Total All Asset Classes | | 100.0% | 105.0% | |

The total Asset Class exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed 100% 105% of the Asset Class exposure excluding the amount of derivatives exposure not collateralized by Cash.

**THE UNIVERSITY OF TEXAS SYSTEM
PERMANENT UNIVERSITY FUND
INVESTMENT POLICY STATEMENT**

Purpose

The Permanent University Fund (the “PUF”) is a public endowment contributing to the support of eligible institutions of The University of Texas System and The Texas A&M University System as provided in Article VII, Section 18 of the *Texas Constitution*.

PUF Organization

The PUF was established in the *Texas Constitution* of 1876 through the appropriation of land grants previously given to The University of Texas at Austin plus one million acres. The land grants to the PUF were completed in 1883 with the contribution of an additional one million acres of land. Today, the PUF contains 2,109,190 acres of land (the “PUF Lands”) located in 19 counties primarily in West Texas.

The 2.1 million acres comprising the PUF Lands produce two streams of income: a) mineral income, primarily in the form of oil and gas royalties and b) surface income, primarily from surface leases and easements. Under the Texas Constitution, mineral income, as a non-renewable source of income, remains a non-distributable part of PUF corpus, and is invested pursuant to this Policy Statement. Surface income, as a renewable source of income, is distributed to the Available University Fund (the “AUF”), as received. The Constitution also requires that all surface income and investment distributions paid to the AUF be expended for certain authorized purposes.

The expenditure of the AUF is subject to a prescribed order of priority:

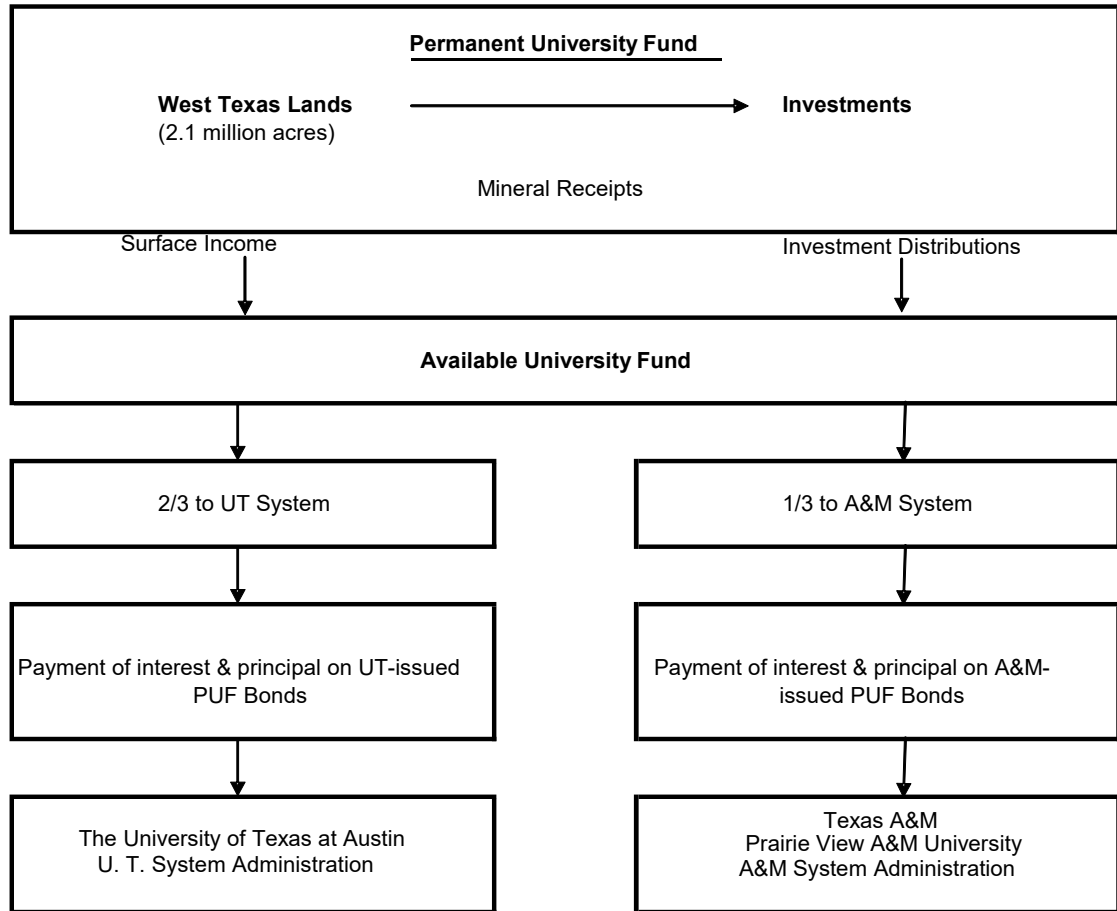
First, following a 2/3rds and 1/3rd allocation of AUF receipts to the U. T. System and the A&M System, respectively, AUF receipts are expended for debt service on PUF bonds. Article VII of the *Texas Constitution* authorizes the U. T. System Board of Regents (the “Board of Regents”) and the Texas A&M University System Board of Regents (the “TAMUS Board”) to issue bonds payable from their respective interests in AUF receipts to finance permanent improvements and to refinance outstanding PUF obligations. The Constitution limits the amount of bonds and notes secured by each System’s interest in divisible PUF income to 20% and 10% of the book value of PUF investment securities, respectively. Bond resolutions adopted by both Boards also prohibit the issuance of additional PUF parity obligations unless the interest of the related System in AUF receipts during the preceding fiscal year covers projected debt service on all PUF Bonds of that System by at least 1.5 times.

Permanent University Fund Investment Policy Statement (continued)

Second, AUF receipts are expended to fund a) excellence programs specifically at U. T. Austin, Texas A&M University and Prairie View A&M University and b) the administration of the university Systems.

The payment of surface income and investment distributions from the PUF to the AUF and the associated expenditures is depicted below in Exhibit 1:

Exhibit 1



PUF Management

Article VII, Section 11b of the *Texas Constitution* assigns fiduciary responsibility for managing and investing the PUF to the Board of Regents. Article VII, Section 11b authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the PUF in any kind of investments and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any

Permanent University Fund Investment Policy Statement (continued)

kind of investment that prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment.

Ultimate fiduciary responsibility for the PUF rests with the Board of Regents. Section 66.08 of the *Texas Education Code*, as amended, authorizes the Board of Regents, subject to certain conditions to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board of Regents.

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas/Texas A&M Investment Management Company (“UTIMCO”), the PUF shall be managed by UTIMCO, which shall a) recommend investment policy for the PUF, b) recommend specific Asset Class allocation targets, ranges and performance benchmarks consistent with PUF objectives, and c) monitor PUF performance against PUF objectives. UTIMCO shall invest the PUF’s assets in conformity with this Policy Statement. All changes to this Policy Statement or the exhibits to this Policy Statement, including changes to Asset Class allocation targets, ranges, and performance benchmarks, are subject to approval by the Board of Regents.

UTIMCO may select and terminate unaffiliated investment managers subject to the Delegation of Authority Policy approved by the UTIMCO Board. Managers shall be monitored for performance and adherence to investment disciplines.

PUF Administration

UTIMCO shall employ an administrative staff to ensure that all transaction and accounting records are complete and prepared on a timely basis. Internal controls shall be emphasized so as to provide for responsible separation of duties and adequacy of an audit trail. Custody of PUF assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

PUF Investment Objectives

The PUF and the General Endowment Fund (the “GEF”) are managed similarly for efficient investment purposes. The primary investment objective of the PUF shall be to maximize investment returns within the risk parameters specified in this Policy Statement without regard to the distribution rate. Investment returns are expressed net of all investment-related expenses. Additional expenses include U.T. System administrative fees charged to the fund.

Investments must be prudently diversified, and within the approved Policy Downside Volatility Bounds, as defined in Exhibit A, and measured at least monthly by

Permanent University Fund Investment Policy Statement (continued)

UTIMCO's risk model. Liquidity of the PUF will be governed by the Liquidity Policy, overseen by the Investment Risk Committee of the UTIMCO Board.

PUF return, Asset Class allocations, and downside volatility targets are subject to adjustment from time to time by the Board of Regents.

Asset Class Allocation and Policy

Asset Class allocation is the primary determinant of the volatility of investment return and, subject to the Asset Class allocation ranges specified in Exhibit A, is the responsibility of UTIMCO. UTIMCO is responsible for measuring actual Asset Class allocation at least monthly (incorporating the impact of derivative positions covered under the Derivative Investment Policy), and for reporting the actual portfolio Asset Class allocation to the UTIMCO Board and the Board of Regents at least quarterly. While specific Asset Class allocation positions may be changed within the ranges specified in Exhibit A based on the economic and investment outlook from time to time, the range limits cannot be intentionally breached without prior approval of the Board of Regents.

In the event that actual portfolio positions in Asset Classes or the Portfolio Projected Downside Volatility move outside the ranges indicated in Exhibit A due to market forces that shift relative valuations, UTIMCO staff will immediately report this situation to the UTIMCO Board Chairman and take steps to rebalance portfolio positions back within the policy ranges in an orderly manner as soon as practicable. Extenuating circumstances that could cause immediate rebalancing to be irrational and detrimental to the interest of the PUF asset values could warrant requesting approval of the UTIMCO Board Chairman to waive immediate remedial action.

Portable alpha strategies are permitted within and across regimes and generally involve the use of leverage. Each Asset Class may include investments that collectively target a combined market sensitivity (defined by beta to the relevant benchmark for the particular Asset Class) of approximately 1.0. For example, portable alpha strategies may include, but are not limited to, the use of fixed income or hedge fund overlays within an equity portfolio to target a combined market sensitivity of approximately 1.0.

Within the general investment regimes of Global Equity, Stable Value, and Real Return, PUF assets shall be allocated among the following broad Asset Classes based upon their individual return/risk characteristics and relationships to other Asset Classes:

Global Equity:

Developed Public Equity – Developed Public Equity invests primarily in the equity securities of companies that are domiciled in the developed countries (including the U.S.) that are part of the MSCI World Index. These securities are traded in public markets (on an exchange, over the counter, or issued in an

Permanent University Fund Investment Policy Statement (continued)

underwritten initial public offering (“IPO”)) or are restricted but expected to become public or otherwise freely marketable within three years after the initial investment. Developed Public Equity includes common stocks, depositary receipts, preferred stocks, exchange traded funds, and derivatives based on common stocks or equity indices (including convertibles, warrants, rights, options, and futures).

Emerging Markets Public Equity – Emerging Markets Public Equity invests primarily in the equity securities of companies that are domiciled in (i) the emerging countries that are part of the MSCI Emerging Markets Index or (ii) countries that have yet to reach MSCI Emerging Markets Index qualification status. These securities are traded in public markets (on an exchange, over the counter, or issued in an underwritten initial public offering (“IPO”)) or are restricted but expected to become public or otherwise freely marketable within three years after the initial investment. Emerging Markets Public Equity includes common stocks, depositary receipts, preferred stocks, exchange traded funds, and derivatives based on common stocks or equity indices (including convertibles, warrants, rights, options, and futures).

Directional Hedge Funds – Directional Hedge Funds invest long and short in equities, fixed income, commodities, currencies and other global market instruments including derivatives. Directional Hedge Funds exhibit ~~some~~ moderate market sensitivity as defined by beta to public equities. Strategies may include but are not limited to long/short equity, multi-strategy, event-driven, ~~distressed and stressed credit~~ credit (loans, bonds, asset-backed securities, direct lending and distressed) and global macro.

Private Equity – Private Equity investments are made directly, through private limited partnerships, joint ventures or other special purpose vehicles and result in controlling or minority ownership interests in private or publicly-traded companies. These investments are acquired by purchasing publicly-traded or privately-issued common and preferred stocks, convertible securities, warrants, rights, options or debt obligations of private or publicly-traded companies. Private Equity investments often have transfer restrictions and are not as liquid as publicly-traded securities. Private Equity investments are often classified by strategy including: buyouts, venture capital and private credit.

Stable Value:

Investment Grade Fixed Income – Investment Grade Fixed Income represents ownership of fixed income instruments across all maturities, U.S. and non-U.S., that are rated investment grade. These include debt issued by the Sovereign Governments, various government enterprises and agencies, and corporations. The principal securities include bonds, notes, bills ~~and~~ mortgage and asset-backed securities and ETFs. In addition, derivative applications that serve as a fixed income substitute may be classified as Investment Grade Fixed Income.

Permanent University Fund Investment Policy Statement (continued)

Long Treasuries – Long Treasuries represents ownership of fixed income instruments across long-dated maturities issued by the U.S. government. The principal securities may include bonds, notes ~~and~~, bills ~~and~~ ETFs. In addition, derivative applications that serve as a fixed income substitute may be classified as Long Treasuries.

Credit-Related Fixed Income – Credit-Related Fixed Income represents ownership of fixed income instruments across all maturities, including real and nominal, U.S. and non-U.S., that are rated below investment grade.

Stable Value Hedge Funds – Stable Value Hedge Funds invest long and short in equities, fixed income, commodities, currencies and other global market instruments including derivatives. Stable Value Hedge Fund investments exhibit little to no market sensitivity, as defined by beta to ~~Developed~~–public Equity equities, and have an absolute return orientation. Strategies may include but are not limited to market-neutral equity, multi-strategy, re-insurance, risk premia, relative value, trend following, ~~senior secured~~direct lending, specialty credit and global macro.

Cash – Cash has the same meaning as given to the term “Cash” in the Liquidity Policy and includes, for example, cash in any currencies and other overnight funds that have not been allocated to a specific Asset Class.

Real Return:

Inflation Linked Bonds – Inflation Linked Bonds include fixed income investments issued by both U.S. and Non-U.S. Governments where the principal value of the bond has been indexed to some rate of inflation, as well as ETFs and derivatives referencing Inflation Linked Bonds or directly linked to inflation rates, including but not limited to inflation swaps. Inflation Linked Bonds are intended to provide some degree of inflation protection.

Commodities – Commodities investments represent ownership of fungible goods such as metals, grains, foods and energy products or any other investment defined by regulators as a commodity. These investments can be made through actual physical ownership of the goods, or through financial ownership of the underlying goods achieved through the purchase of derivatives based on commodities or commodities indices.

Natural Resources – Natural Resources investments are made directly, through private limited partnerships, joint ventures or other special purpose vehicles and result in a controlling or minority ownership interest in a company involved in the production of natural resources including, but not limited to: energy, precious metals, metals, minerals, agriculture, livestock, and timber. Some Natural Resource investments may have transfer restrictions and may not be as liquid as publicly-traded securities.

Permanent University Fund Investment Policy Statement (continued)

Infrastructure – Infrastructure investments are made directly, through private limited partnerships, joint ventures or other special purpose vehicles and result in ownership of companies or assets that provide an essential service that contributes to the economic or social productivity of an organization, community, or society at large with real assets in the water, transportation, energy, communication or social sectors. Investments generally have structure features that include a monopolistic or oligopolistic market position with high barriers to entry; a low elasticity of demand due to their essential functions; stable, predictable, and long-term revenue contracts; or inflation protection through inflation adjustment mechanisms in underlying contracts. Some Infrastructure investments may have transfer restrictions and may not be as liquid as publicly-traded securities.

Real Estate – Real Estate investments may be public, made principally in companies that are part of the MSCI US REIT Gross Total Return Index (RMSG) and that own or manage equity or debt interests in portfolios of real estate. Public Real Estate investments generally trade in public markets (on an exchange, over the counter, or issued in an underwritten initial public offering) or are restricted but expected to become public or otherwise freely marketable within three years after the initial investment. Real Estate investments may also be private. Private Real Estate investments may have transfer restrictions and may not be as liquid as publicly-traded securities. Real Estate investments may be made by purchasing or selling: physical real estate; privately issued securities such as interests in private limited partnerships, joint ventures or other special purpose vehicles (which in each case could result in a controlling or minority ownership interest in a real estate focused company); common or preferred stocks; depositary receipts; exchange traded funds; secured or subordinated debt; mortgage-related investments; real estate investment trusts (“REITs”) or any other instrument commonly used by institutional investors and derivatives based on any of the foregoing. Real Estate investments are often classified by strategy including: core, core-plus, value-added, opportunistic and special situations.

Strategic Partnerships:

Strategic Partnerships are multi-asset investment portfolios designed to generate investment returns through a combination of security selection and tactical asset allocation. Strategic Partnerships may invest long or short in equities, fixed income, commodities, currencies, funds, and other global market instruments, including derivatives. Strategies utilized by Strategic Partnerships may involve the use of leverage to enhance the portfolio’s risk-adjusted returns.

Innovation and Disruption:

The Innovation and Disruption portfolio comprises investments in emerging asset types or industries that are innovative or disruptive. Innovation and Disruption investments have the potential to become large and institutional

Permanent University Fund Investment Policy Statement (continued)

markets over time. This portfolio provides a nimble and timely means to identify and invest in these opportunities with the primary objectives of developing a deeper understanding of the assets and benefitting from the returns earned by early movers. To manage the risk of this portfolio, UTIMCO will develop and maintain portfolio guidelines that determine the investment selection process and limit the maximum size of the portfolio and the maximum size of individual investments. Over time, UTIMCO will assess if these investments should become larger and more permanent elements of funds managed by UTIMCO, either as part of an existing or a newly defined Asset Class.

All mandates will be categorized at inception and on an ongoing basis by Asset Class.

Performance Measurement

The investment performance of the PUF will be measured by the PUF's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board and compared against the stated Policy Benchmarks of the PUF, as indicated in Exhibit A (incorporating the impact of internal derivative positions) and reported to the UTIMCO Board and the Board of Regents at least quarterly. The Policy Portfolio benchmark will be maintained by UTIMCO and will comprise a blend of Asset Class indices weighted to reflect PUF's Asset Class allocation policy targets as defined in Exhibit A. Monthly performance data and net asset values will be available on the UTIMCO website within a reasonable time after each month end.

Investment Guidelines

The PUF must be invested at all times in strict compliance with applicable law.

Investment guidelines include the following:

General

- Investment guidelines for index, commingled funds, limited partnerships, and corporate vehicles managed externally shall be governed by the terms and conditions of the respective investment management contracts, partnership agreements or corporate documents.
- Investment guidelines of all other externally managed accounts as well as internally invested funds must be reviewed and approved by UTIMCO's Chief Investment Officer prior to investment of PUF assets in such investments.
- No securities may be purchased or held which would jeopardize the PUF's tax-exempt status.

Permanent University Fund Investment Policy Statement (continued)

- No internal investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No internal investment strategy or program employing short sales may be made unless specifically authorized in the Delegation of Authority Policy, the Derivative Investment Policy or by the UTIMCO Board.
- The PUF's investments in warrants shall not exceed more than 5% of the PUF's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.
- The PUF may utilize derivatives only in accordance with the Derivative Investment Policy. The aggregate prorated annual premium of Derivative Investments utilized to reduce exposure to an Asset Class or hedge against risk shall not exceed 75 basis points of PUF value.

Investment Grade and Credit-Related Fixed Income

Not more than 5% of the market value of fixed income securities may be invested in corporate and municipal bonds of a single issuer.

Public Real Estate, and Public Equity

- Not more than 25% of the market value of equity securities may be invested in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at cost.
- Not more than 5% of the market value of equity securities may be invested in the securities of one corporation at cost.

Stable Value

- Not more than 7.5% of the market value of equity and fixed income securities taken together may be invested in one corporation at cost.

PUF Distributions

The PUF shall balance the needs and interests of present beneficiaries with those of the future. PUF spending policy objectives shall be to:

- provide a predictable, stable stream of distributions over time;
- ensure that the inflation adjusted value of distributions is maintained over the long term; and
- ensure that the inflation adjusted value of PUF assets after distributions is maintained over rolling 10-year periods.

Permanent University Fund Investment Policy Statement (continued)

The goal is for the PUF's average spending rate over time not to exceed the PUF's average annual investment return after inflation and expenses in order to preserve the purchasing power of PUF distributions and underlying assets.

Annually, the Board of Regents will approve a distribution amount to the AUF pursuant to Regents' Rule 80303, Section 2.2.

Following approval of the distribution amount, distributions from the PUF to the AUF will be made at the discretion of UTIMCO management in consultation with the U. T. System Office of Finance and The Texas A&M University System Office of Treasury Services.

PUF Accounting

The fiscal year of the PUF shall begin on September 1st and end on August 31st. Market value of the PUF shall be maintained on an accrual basis in compliance with Generally Accepted Accounting Principles ("GAAP"), Governmental Accounting Standards Board Statements, industry guidelines, or state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO's Chief Investment Officer and reported to the UTIMCO Board. Assets deemed to be "other than temporarily impaired" as defined by GAAP shall be written off and reported to UTIMCO's Chief Investment Officer and the UTIMCO Board when material. The PUF's financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

Valuation of Assets

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all PUF net assets. Valuation of PUF assets shall be based on the books and records of the custodian for the valuation date. The final determination of PUF net assets for a month end close shall normally be completed within seven business days but determination may be longer under certain circumstances.

The fair market value of the PUF's net assets shall include all related receivables and payables of the PUF on the valuation. Such valuation shall be final and conclusive.

Compliance

Compliance with this Policy will be monitored by UTIMCO's Chief Compliance Officer. UTIMCO's Chief Executive Officer, the UTIMCO Board, and the UTIMCO Audit & Ethics Committee will receive regular reports on UTIMCO's compliance with this Policy. All material instances of noncompliance, as determined by UTIMCO's Chief Compliance Officer and the Chair of the UTIMCO Audit & Ethics Committee, will require an action plan proposed by UTIMCO's Chief Executive Officer and

Permanent University Fund Investment Policy Statement (continued)

approved by the Chairman of the UTIMCO Board with timelines for bringing the non-compliant activity within this Policy.

Securities Lending

The PUF may participate in a securities lending contract with a bank or nonbank security lending agent for purposes of realizing additional income. Loans of securities by the PUF shall be collateralized by cash, letters of credit or securities issued or guaranteed by the U.S. Government or its agencies. The collateral will equal at least 100% of the current market value of the loaned securities. The contract shall state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and collateral, acceptable investment of collateral and indemnification provisions. The contract may include other provisions as appropriate.

The securities lending program will be evaluated from time to time as deemed necessary by the UTIMCO Board. Monthly reports issued by the lending agent shall be reviewed by UTIMCO staff to ensure compliance with contract provisions.

Investor Responsibility

As a shareholder, the PUF has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies in a manner consistent with the unique role and mission of higher education as well as for the economic benefit of the PUF. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the PUF solely in the interest of the U. T. System and the A&M System, in compliance with the Proxy Voting Policy then in effect, and shall not invest the PUF so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

The Board of Regents reserves the right to amend this Policy Statement as it deems necessary or advisable.

Effective Date

The effective date of this Policy shall be September 1, ~~2022~~2023.

EXHIBIT A
ASSET CLASS TARGETS, RANGES, AND PERFORMANCE OBJECTIVES
EFFECTIVE SEPTEMBER 1, 2022 2023

| Asset Class | Min v Target ⁽¹⁾ | Target ⁽²⁾⁽³⁾ | Max v Target ⁽¹⁾ | Benchmark |
|------------------------------------|-----------------------------|--------------------------|-----------------------------|---|
| Global Equity: | | | | |
| Developed Public Equity | -5.0% | 23.6% 20.0% | +5% +15.0% | MSCI World Index with Net Dividends MSCI Emerging Markets with Net Dividends Blended 67% MSCI Emerging Markets with China All Shares and 33% MSCI Emerging Markets ex-China |
| Emerging Markets Public Equity | -5.0% | 7.0% 6.4% | +5.0% | |
| <i>Total Public Equity</i> | -5.0% | 30.6% 26.4% | +5% +15.0% | HFRI Fund of Funds Composite Blended Cambridge Buyouts, Emerging Markets Private Equity and Venture Capital, Credit Opportunities, and Venture Capital |
| Directional Hedge Funds | -5.0% | 5.0% 6.0% | +5.0% | |
| Private Equity ⁽³⁾ | 15.0% 17.5% | 25.0% 27.5% | 35.0% 37.5% | |
| Total Global Equity | -7.0% | 60.6% 59.9% | +7.0% +15% | |
| Stable Value: | | | | |
| Investment Grade Fixed Income | -5.0% | 0.0% | +5.0% | Bloomberg Global Aggregate Index - Hedged Bloomberg US Treasury Long Index |
| Long T reasuries | -5.0% | 4.4% 5.1% | +5.0% | |
| Credit-Related Fixed Income | -5.0% | 0.0% | +5.0% | Bloomberg Capital Global High Yield Index 3 month T-Bills |
| <i>Total Fixed Income</i> | -5.0% | 4.4% 5.1% | +5.0% | |
| Cash | -5.0% | 4.0% 2.0% | +5.0% | HFRI Fund of Funds Conservative |
| Stable Value Hedge Funds | -5.0% | 10.0% 10.5% | +5.0% | |
| Total Stable Value | -10.0% | 15.4% 17.6% | +6.0% | |
| Real Return: | | | | |
| Inflation Linked Bonds | -5.0% | 2.0% 0.0% | +5.0% | Bloomberg Global Inflation-Linked: U.S. TIPS Index Gold Spot Price (XAU) |
| Gold | -5.0% | 0.0% | +5.0% | |
| Commodities | -5.0% | 0.0% | +5.0% | Bloomberg Commodity TRI Cambridge Natural Resources Blended Cambridge PE Energy and Upstream & Royalty, PE Energy (Mining), and Timber |
| <i>Total Commodities</i> | -5.0% | 0.0% | +5.0% | |
| Natural Resources ⁽³⁾ | 0.0% | 3.0% 3.3% | 8.0% | Cambridge Infrastructure Blended MSCI US REIT Gross Total Return Index (RMSG) and Cambridge Total Real Estate |
| Infrastructure ⁽³⁾ | 0.0% | 5.0% 4.5% | 10.0% | |
| Real Estate ⁽³⁾ | 4.0% 5.0% | 9.0% 9.7% | 14.0% 15.0% | |
| Total Real Return | -6.0% | 19.0% 17.5% | +6.0% | |
| Strategic Partnerships | -5.0% | 5.0% | +5.0% | Blended Bloomberg US Treasury Long Index, MSCI World Index with Net Dividends, MSCI Emerging Markets Index with Net Dividends, and HFRI Macro |
| Innovation & Disruption | 0.0% | 0.0% | 5.0% | Aggregate Policy Portfolio Benchmark before returns from Innovation & Disruption portfolio |
| Total All Asset Classes | | 100.0% | 110.0% | |

The total Asset Class exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed ~~105%~~ 110% of the Asset Class exposure excluding the amount of derivatives exposure not collateralized by Cash.

| POLICY/TARGET RETURN/RISKS⁽²⁾ | |
|---|------------------------|
| Expected 10-Year Annual Real Return (Policy Portfolio Beta) | 3.43% 5.19% |
| Expected 10-Year Annual Real Return (Policy Portfolio Total Return) | 4.78% 6.43% |
| One Year Downside Volatility | 9.62% 8.24% |
| Risk Bounds | |
| Lower: 1 Year Downside Volatility | 75.00% |
| Upper: 1 Year Downside Volatility | 115.00% |

(1) When preceded by a "-" or "+", in relation to the Asset Class Target; with the exception of Cash, "Min" will not be below zero

(2) Asset Class Targets and Policy/Target Return/Risks reset monthly

(3) The Adjusted Target weight of each of Private Equity, Real Estate, Natural Resources and Infrastructure, will be set each month as the average ending actual weight of the combined PUF and GEF from the prior month. Any difference in the calculated Private Equity, Real Estate, Natural Resources, and Infrastructure Adjusted Target weights from the original Target weights derived from this table will be offset using ~~other asset classes with 80% Developed Public Equity and 20% to blend of Total Fixed Income components~~ 100% Developed Public Equity.

**THE UNIVERSITY OF TEXAS SYSTEM
GENERAL ENDOWMENT FUND
INVESTMENT POLICY STATEMENT**

Purpose

The General Endowment Fund (the "GEF"), established by the Board of Regents of The University of Texas System (the "Board of Regents") March 1, 2001, is a pooled fund for the collective investment of certain long-term funds under the control and management of the Board of Regents. The GEF provides for greater diversification of investments than would be possible if each account were managed separately.

GEF Organization

The GEF functions like a mutual fund in which each eligible fund purchases and redeems GEF units as provided herein. The ownership of GEF assets shall at all times be vested in the Board of Regents. Such assets shall be deemed to be held by the Board of Regents, as a fiduciary, regardless of the name in which the assets may be registered.

GEF Management

Article VII, Section 11b of the Texas Constitution authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (the "PUF") in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment. Pursuant to Section 51.0031(c) of the *Texas Education Code*, the Board of Regents has elected the PUF prudent investor standard to govern its management of the GEF.

Ultimate fiduciary responsibility for the GEF rests with the Board of Regents. Section 66.08, *Texas Education Code*, as amended, authorizes the Board of Regents, subject to certain conditions, to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board of Regents.

General Endowment Fund Investment Policy Statement (continued)

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas/Texas A&M Investment Management Company (“UTIMCO”), the GEF shall be managed by UTIMCO, which shall a) recommend investment policy for the GEF, b) recommend specific Asset Class allocation targets, ranges, and performance benchmarks consistent with GEF objectives, and c) monitor GEF performance against GEF objectives. UTIMCO shall invest the GEF assets in conformity with this Policy Statement. All changes to this Policy Statement or the exhibits to this Policy Statement, including changes to Asset Class allocation targets, ranges and performance benchmarks, are subject to approval by the Board of Regents.

UTIMCO may select and terminate unaffiliated investment managers subject to the Delegation of Authority Policy approved by the UTIMCO Board. Managers shall be monitored for performance and adherence to investment disciplines.

GEF Administration

UTIMCO shall employ an administrative staff to ensure that all transaction and accounting records are complete and prepared on a timely basis. Internal controls shall be emphasized so as to provide for responsible separation of duties and adequacy of an audit trail. Custody of GEF assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

Funds Eligible to Purchase GEF Units

No fund shall be eligible to purchase units of the GEF unless it is under the sole control, with full discretion as to investments, of the Board of Regents.

Any fund whose governing instrument contains provisions which conflict with this Policy Statement, whether initially or as a result of amendments to either document, shall not be eligible to purchase or hold units of the GEF.

Currently, the Long Term Fund (the “LTF”) and the Permanent Health Fund (the “PHF”) purchase units in the GEF.

GEF Investment Objectives

The GEF and the PUF are managed similarly for efficient investment purposes. The primary investment objective of the GEF shall be to maximize investment returns within the risk parameters specified in this Policy Statement without regard to the distribution rate. Investment returns are expressed net of all investment-related expenses.

Investments must be prudently diversified, and within the approved Policy Downside Volatility Bounds, as defined in Exhibit A, and measured at least monthly by UTIMCO’s risk model. Liquidity of the GEF will be governed by the Liquidity Policy, overseen by the Investment Risk Committee of the UTIMCO Board.

General Endowment Fund Investment Policy Statement (continued)

GEF return, Asset Class allocations, and downside volatility targets are subject to adjustment from time to time by the Board of Regents.

Asset Class Allocation and Policy

Asset Class allocation is the primary determinant of the volatility of investment return and, subject to the Asset Class allocation ranges specified in Exhibit A, is the responsibility of UTIMCO. UTIMCO is responsible for measuring actual Asset Class allocation at least monthly (incorporating the impact of derivative positions covered under the Derivative Investment Policy), and for reporting the actual portfolio Asset Class allocation to the UTIMCO Board and the Board of Regents at least quarterly. While specific Asset Class allocation positions may be changed within the ranges specified in Exhibit A based on the economic and investment outlook from time to time, the range limits cannot be intentionally breached without prior approval of the Board of Regents.

In the event that actual portfolio positions in Asset Classes or the Portfolio Projected Downside Volatility move outside the ranges indicated in Exhibit A due to market forces that shift relative valuations, UTIMCO staff will immediately report this situation to the UTIMCO Board Chairman and take steps to rebalance portfolio positions back within the policy ranges in an orderly manner as soon as practicable. Extenuating circumstances that could cause immediate rebalancing to be irrational and detrimental to the interest of the GEF asset values could warrant requesting approval of the UTIMCO Board Chairman to waive immediate remedial action.

Portable alpha strategies are permitted within and across regimes and generally involve the use of leverage. Each Asset Class may include investments that collectively target a combined market sensitivity (defined by beta to the relevant benchmark for the particular Asset Class) of approximately 1.0. For example, portable alpha strategies may include, but are not limited to, the use of fixed income or hedge fund overlays within an equity portfolio to target a combined market sensitivity of approximately 1.0.

Within the general investment regimes of Global Equity, Stable Value, and Real Return, GEF assets shall be allocated among the following broad Asset Classes based upon their individual return/risk characteristics and relationships to other Asset Classes:

Global Equity:

Developed Public Equity – Developed Public Equity invests primarily in the equity securities of companies that are domiciled in the developed countries (including the U.S.) that are part of the MSCI World Index. These securities are traded in public markets (on an exchange, over the counter, or issued in an underwritten initial public offering (“IPO”)) or are restricted but expected to become public or otherwise freely marketable within three years after the initial

General Endowment Fund Investment Policy Statement (continued)

investment. Developed Public Equity includes common stocks, depositary receipts, preferred stocks, exchange traded funds, and derivatives based on common stocks or equity indices (including convertibles, warrants, rights, options, and futures).

Emerging Markets Public Equity – Emerging Markets Public Equity invests primarily in the equity securities of companies that are domiciled in (i) the emerging countries that are part of the MSCI Emerging Markets Index or (ii) countries that have yet to reach MSCI Emerging Markets Index qualification status. These securities are traded in public markets (on an exchange, over the counter, or issued in an underwritten initial public offering (“IPO”)) or are restricted but expected to become public or otherwise freely marketable within three years after the initial investment. Emerging Markets Public Equity includes common stocks, depositary receipts, preferred stocks, exchange traded funds, and derivatives based on common stocks or equity indices (including convertibles, warrants, rights, options, and futures).

Directional Hedge Funds – Directional Hedge Funds invest long and short in equities, fixed income, commodities, currencies and other global market instruments including derivatives. Directional Hedge Funds exhibit ~~some~~moderate market sensitivity as defined by beta to public equities. Strategies may include but are not limited to long/short equity, multi-strategy, event-driven, ~~distressed and stressed credit~~credit (loans, bonds, asset-backed securities, direct lending and distressed) and global macro.

Private Equity – Private Equity investments are made directly, through private limited partnerships, joint ventures or other special purpose vehicles and result in controlling or minority ownership interests in private or publicly-traded companies. These investments are acquired by purchasing publicly-traded or privately-issued common and preferred stocks, convertible securities, warrants, rights, options or debt obligations of private or publicly-traded companies. Private Equity investments often have transfer restrictions and are not as liquid as publicly-traded securities. Private Equity investments are often classified by strategy including: buyouts, venture capital and private credit.

Stable Value:

Investment Grade Fixed Income – Investment Grade Fixed Income represents ownership of fixed income instruments across all maturities, U.S. and non-U.S., that are rated investment grade. These include debt issued by the Sovereign Governments, various government enterprises and agencies, and corporations. The principal securities include bonds, notes, bills ~~and~~, mortgage and asset-backed securities and ETFs. In addition, derivative applications that serve as a fixed income substitute may be classified as Investment Grade Fixed Income.

Long Treasuries – Long Treasuries represents ownership of fixed income instruments across long-dated maturities issued by the U.S. government. The

General Endowment Fund Investment Policy Statement (continued)

principal securities may include bonds, notes ~~and~~, bills and ETFs. In addition, derivative applications that serve as a fixed income substitute may be classified as Long Treasuries.

Credit-Related Fixed Income – Credit-Related Fixed Income represents ownership of fixed income instruments across all maturities, including real and nominal, U.S. and non-U.S., that are rated below investment grade.

Stable Value Hedge Funds – Stable Value Hedge Funds invest long and short in equities, fixed income, commodities, currencies and other global market instruments including derivatives. Stable Value Hedge Fund investments exhibit little to no market sensitivity, as defined by beta to ~~Developed~~—public Equity equities, and have an absolute return orientation. Strategies may include but are not limited to market-neutral equity, multi-strategy, re-insurance, risk premia, relative value, trend following, ~~senior-secured~~direct lending, specialty credit and global macro.

Cash – Cash has the same meaning as given to the term “Cash” in the Liquidity Policy and includes, for example, cash in any currencies and other overnight funds that have not been allocated to a specific asset class.

Real Return:

Inflation Linked Bonds – Inflation Linked Bonds include fixed income investments issued by both U.S. and Non-U.S. Governments where the principal value of the bond has been indexed to some rate of inflation, as well as ETFs and derivatives referencing Inflation Linked Bonds or directly linked to inflation rates, including but not limited to inflation swaps. Inflation Linked Bonds are intended to provide some degree of inflation protection .

Commodities – Commodities investments represent ownership of fungible goods such as metals, grains, foods and energy products or any other investment defined by regulators as a commodity. These investments can be made through actual physical ownership of the goods, or through financial ownership of the underlying goods achieved through the purchase of derivatives based on commodities or commodities indices.

Natural Resources – Natural Resources investments are made directly, through private limited partnerships, joint ventures or other special purpose vehicles and result in a controlling or minority ownership interest in a company involved in the production of natural resources including, but not limited to: energy, precious metals, metals, minerals, agriculture, livestock, and timber. Some Natural Resource investments may have transfer restrictions and may not be as liquid as publicly-traded securities.

Infrastructure – Infrastructure investments are made directly, through private limited partnerships, joint ventures or other special purpose vehicles and result

General Endowment Fund Investment Policy Statement (continued)

in ownership of companies or assets that provide an essential service that contributes to the economic or social productivity of an organization, community, or society at large with real assets in the water, transportation, energy, communication or social sectors. Investments generally have structure features that include a monopolistic or oligopolistic market position with high barriers to entry; a low elasticity of demand due to their essential functions; stable, predictable, and long-term revenue contracts; or inflation protection through inflation adjustment mechanisms in underlying contracts. Some Infrastructure investments may have transfer restrictions and may not be as liquid as publicly-traded securities.

Real Estate – Real Estate investments may be public, made principally in companies that are part of the MSCI US REIT Gross Total Return Index (RMSG) and that own or manage equity or debt interests in portfolios of real estate. Public Real Estate investments generally trade in public markets (on an exchange, over the counter, or issued in an underwritten initial public offering) or are restricted but expected to become public or otherwise freely marketable within three years after the initial investment. Real Estate investments may also be private. Private Real Estate investments may have transfer restrictions and may not be as liquid as publicly-traded securities. Real Estate investments may be made by purchasing or selling: physical real estate; privately issued securities such as interests in private limited partnerships, joint ventures or other special purpose vehicles (which in each case could result in a controlling or minority ownership interest in a real estate focused company); common or preferred stocks; depositary receipts; exchange traded funds; secured or subordinated debt; mortgage-related investments; real estate investment trusts (“REITs”) or any other instrument commonly used by institutional investors and derivatives based on any of the foregoing. Real Estate investments are often classified by strategy including: core, core-plus, value-added, opportunistic and special situations.

Strategic Partnerships:

Strategic Partnerships are multi-asset investment portfolios designed to generate investment returns through a combination of security selection and tactical asset allocation. Strategic Partnerships may invest long or short in equities, fixed income, commodities, currencies, funds, and other global market instruments, including derivatives. Strategies utilized by Strategic Partnerships may involve the use of leverage to enhance the portfolio’s risk-adjusted returns.

Innovation and Disruption:

The Innovation and Disruption portfolio comprises investments in emerging asset types or industries that are innovative or disruptive. Innovation and Disruption investments have the potential to become large and institutional markets over time. This portfolio provides a nimble and timely means to identify and invest in these opportunities with the primary objectives of developing a

General Endowment Fund Investment Policy Statement (continued)

deeper understanding of the assets and benefitting from the returns earned by early movers. To manage the risk of this portfolio, UTIMCO will develop and maintain portfolio guidelines that determine the investment selection process and limit the maximum size of the portfolio and the maximum size of individual investments. Over time, UTIMCO will assess if these investments should become larger and more permanent elements of funds managed by UTIMCO, either as part of an existing or a newly defined Asset Class.

All mandates will be categorized at inception and on an ongoing basis by Asset Class.

Performance Measurement

The investment performance of the GEF will be measured by the GEF's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, and compared against the stated Policy Benchmarks of the GEF, as indicated in Exhibit A (incorporating the impact of internal derivative positions) and reported to the UTIMCO Board and the Board of Regents at least quarterly. The Policy Portfolio benchmark will be maintained by UTIMCO and will comprise a blend of Asset Class indices weighted to reflect GEF's Asset Class allocation policy targets as defined in Exhibit A. Monthly performance data and net asset values will be available on the UTIMCO website within a reasonable time after each month end.

Investment Guidelines

The GEF must be invested at all times in strict compliance with applicable law.

Investment guidelines include the following:

General

- Investment guidelines for index, commingled funds, limited partnerships, and corporate vehicles managed externally shall be governed by the terms and conditions of the respective investment management contracts, partnership agreements or corporate documents.
- Investment guidelines of all other externally managed accounts as well as internally invested funds must be reviewed and approved by UTIMCO's Chief Investment Officer prior to investment of GEF assets in such investments.
- No securities may be purchased or held which would jeopardize the GEF's tax-exempt status.
- No internal investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.

General Endowment Fund Investment Policy Statement (continued)

- No internal investment strategy or program employing short sales may be made unless specifically authorized in the Delegation of Authority Policy, the Derivative Investment Policy or by the UTIMCO Board.
- The GEF's investments in warrants shall not exceed more than 5% of the GEF's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.
- The GEF may utilize derivatives only in accordance with the Derivative Investment Policy. The aggregate prorated annual premium of Derivative Investments utilized to reduce exposure to an Asset Class or hedge against risk shall not exceed 75 basis points of GEF value.

Investment Grade and Credit-Related Fixed Income

Not more than 5% of the market value of fixed income securities may be invested in corporate and municipal bonds of a single issuer.

Public Real Estate, and Public Equity

- Not more than 25% of the market value of equity securities may be invested in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at cost.
- Not more than 5% of the market value of equity securities may be invested in the securities of one corporation at cost.

Stable Value

- Not more than 7.5% of the market value of equity and fixed income securities taken together may be invested in one corporation at cost.

GEF Accounting

The fiscal year of the GEF shall begin on September 1st and end on August 31st. Market value of the GEF shall be maintained on an accrual basis in compliance with Generally Accepted Accounting Principles ("GAAP"), Governmental Accounting Standards Board Statements, industry guidelines, or state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO's Chief Investment Officer and reported to the UTIMCO Board. Assets deemed to be "other than temporarily impaired" as defined by GAAP shall be written off and reported to UTIMCO's Chief Investment Officer and the UTIMCO Board when material. The GEF's financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

Valuation of Assets

General Endowment Fund Investment Policy Statement (continued)

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all GEF net assets and the net asset value per unit of the GEF. Valuation of GEF assets shall be based on the books and records of the custodian for the valuation date. The final determination of GEF net assets for a month end close shall normally be completed within seven business days but determination may be longer under certain circumstances.

The fair market value of the GEF's net assets shall include all related receivables and payables of the GEF on the valuation date and the value of each unit thereof shall be its proportionate part of such net value. Such valuation shall be final and conclusive.

Compliance

Compliance with this Policy will be monitored by UTIMCO's Chief Compliance Officer. UTIMCO's Chief Executive Officer, the UTIMCO Board, and the UTIMCO Audit & Ethics Committee will receive regular reports on UTIMCO's compliance with this Policy. All material instances of noncompliance, as determined by UTIMCO's Chief Compliance Officer and the Chair of the UTIMCO Audit & Ethics Committee, will require an action plan proposed by UTIMCO's Chief Executive Officer and approved by the Chairman of the UTIMCO Board with timelines for bringing the non-compliant activity within this Policy.

Purchase of GEF Units

Purchase of GEF units may be made on any quarterly purchase date (September 1, December 1, March 1, and June 1 of each fiscal year or the first business day subsequent thereto) upon payment of cash to the GEF or contribution of assets approved by UTIMCO's Chief Investment Officer, at the net asset value per unit of the GEF as of the most recent quarterly valuation date. Each fund whose monies are invested in the GEF shall own an undivided interest in the GEF in the proportion that the number of units invested therein bears to the total number of all units comprising the GEF.

Redemption of GEF Units

Redemption of GEF units shall be paid in cash as soon as practicable after the quarterly valuation date of the GEF. Withdrawals from the GEF shall be at the market value price per unit determined at the time of the withdrawal.

Securities Lending

The GEF may participate in a securities lending contract with a bank or nonbank security lending agent for purposes of realizing additional income. Loans of securities by the GEF shall be collateralized by cash, letters of credit, or securities issued or guaranteed by the U.S. Government or its agencies. The collateral will equal at least 100% of the current market value of the loaned securities. The

General Endowment Fund Investment Policy Statement (continued)

contract shall state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and collateral, acceptable investment of collateral and indemnification provisions. The contract may include other provisions as appropriate.

The securities lending program will be evaluated from time to time as deemed necessary by the UTIMCO Board. Monthly reports issued by the lending agent shall be reviewed by UTIMCO staff to ensure compliance with contract provisions.

Investor Responsibility

As a shareholder, the GEF has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies in a manner consistent with the unique role and mission of higher education as well as for the economic benefit of the GEF. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the GEF solely in the interest of GEF unit holders, in compliance with the Proxy Voting Policy then in effect, and shall not invest the GEF so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

The Board of Regents reserves the right to amend this Policy Statement as it deems necessary or advisable.

Effective Date

The effective date of this Policy shall be September 1, ~~2022~~2023.

EXHIBIT A
ASSET CLASS TARGETS, RANGES, AND PERFORMANCE OBJECTIVES
EFFECTIVE SEPTEMBER 1, 2022 2023

| Asset Class | Min v Target ⁽¹⁾ | Target ⁽²⁾⁽³⁾ | Max v Target ⁽¹⁾ | Benchmark |
|------------------------------------|-----------------------------|-------------------------------|------------------------------|---|
| Global Equity: | | | | |
| Developed Public Equity | -5.0% | 23.6% 20.0% | +5% +15.0% | MSCI World Index with Net Dividends MSCI Emerging Markets with Net Dividends Blended 67% MSCI Emerging Markets with China All Shares and 33% MSCI Emerging Markets ex-China |
| Emerging Markets Public Equity | -5.0% | 7.0% 6.4% | +5.0% | |
| <i>Total Public Equity</i> | -5.0% | 30.6% 26.4% | +5% +15.0% | |
| Directional Hedge Funds | -5.0% | 5.0% 6.0% | +5.0% | HFRI Fund of Funds Composite Blended Cambridge Buyouts, Emerging Markets Private Equity and Venture Capital, Credit Opportunities, and Venture Capital |
| Private Equity ⁽³⁾ | 15.0% 17.5% | 25.0% 27.5% | 35.0% 37.5% | |
| Total Global Equity | -7.0% | 60.6% 59.9% | +7.0% +15% | |
| Stable Value: | | | | |
| Investment Grade Fixed Income | -5.0% | 0.0% | +5.0% | Bloomberg Global Aggregate Index - Hedged Bloomberg US Treasury Long Index |
| Long T reasuries | -5.0% | 4.4% 5.1% | +5.0% | |
| Credit-Related Fixed Income | -5.0% | 0.0% | +5.0% | Bloomberg Capital Global High Yield Index 3 month T-Bills |
| <i>Total Fixed Income</i> | -5.0% | 4.4% 5.1% | +5.0% | |
| Cash | -5.0% | 4.0% 2.0% | +5.0% | HFRI Fund of Funds Conservative |
| Stable Value Hedge Funds | -5.0% | 10.0% 10.5% | +5.0% | |
| Total Stable Value | -10.0% | 15.4% 17.6% | +6.0% | |
| Real Return: | | | | |
| Inflation Linked Bonds | -5.0% | 2.0% 0.0% | +5.0% | Bloomberg Global Inflation-Linked: U.S. TIPS Index Gold Spot Price (XAU) |
| Gold | -5.0% | 0.0% | +5.0% | |
| Commodities | -5.0% | 0.0% | +5.0% | Bloomberg Commodity TRI Cambridge Natural Resources Blended Cambridge PE Energy and Upstream & Royalty, PE Energy (Mining), and Timber |
| <i>Total Commodities</i> | -5.0% | 0.0% | +5.0% | |
| Natural Resources ⁽³⁾ | 0.0% | 3.0% 3.3% | 8.0% | Cambridge Infrastructure Blended MSCI US REIT Gross Total Return Index (RMSG) and Cambridge Total Real Estate |
| Infrastructure ⁽³⁾ | 0.0% | 5.0% 4.5% | 10.0% | |
| Real Estate ⁽³⁾ | 4.0% 5.0% | 9.0% 9.7% | 14.0% 15.0% | |
| Total Real Return | -6.0% | 19.0% 17.5% | +6.0% | |
| Strategic Partnerships | -5.0% | 5.0% | +5.0% | Blended Bloomberg US Treasury Long Index, MSCI World Index with Net Dividends, MSCI Emerging Markets Index with Net Dividends, and HFRI Macro |
| Innovation & Disruption | 0.0% | 0.0% | 5.0% | Aggregate Policy Portfolio Benchmark before returns from Innovation & Disruption portfolio |
| Total All Asset Classes | | 100.0% | 110.0% | |

The total Asset Class exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed ~~105%~~ 110% of the Asset Class exposure excluding the amount of derivatives exposure not collateralized by Cash.

| POLICY/TARGET RETURN/RISKS⁽²⁾ | |
|---|------------------------|
| Expected 10-Year Annual Real Return (Policy Portfolio Beta) | 3.43% 5.19% |
| Expected 10-Year Annual Real Return (Policy Portfolio Total Return) | 4.78% 6.43% |
| One Year Downside Volatility | 9.62% 8.24% |
| Risk Bounds | |
| Lower: 1 Year Downside Volatility | 75.00% |
| Upper: 1 Year Downside Volatility | 115.00% |

(1) When preceded by a "-" or "+", in relation to the Asset Class Target; with the exception of Cash, "Min" will not be below zero

(2) Asset Class Targets and Policy/Target Return/Risks reset monthly

(3) The Adjusted Target weight of each of Private Equity, Real Estate, Natural Resources and Infrastructure, will be set each month as the average ending actual weight of the combined PUF and GEF from the prior month. Any difference in the calculated Private Equity, Real Estate, Natural Resources, and Infrastructure Adjusted Target weights from the original Target weights derived from this table will be offset using ~~other asset classes with 80% Developed Public Equity and 20% to blend of Total Fixed Income components~~ 100% Developed Public Equity.

THE UNIVERSITY OF TEXAS SYSTEM INTERMEDIATE TERM FUND INVESTMENT POLICY STATEMENT

Purpose

The University of Texas System Intermediate Term Fund (the "ITF") was established by the Board of Regents of The University of Texas System (the "Board of Regents") as a pooled fund for the collective investment of operating funds and other intermediate and long-term funds held by U. T. System institutions and U. T. System Administration.

ITF Organization

The ITF functions as a mutual fund in which each eligible account purchases and redeems ITF units as provided herein. The ownership of ITF assets shall at all times be vested in the Board of Regents. Such assets shall be deemed to be held by the Board of Regents, as a fiduciary, regardless of the name in which the assets may be registered.

ITF Management

Article VII, Section 11b of the Texas Constitution authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (the "PUF") in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment. Pursuant to Section 51.0031(c) of the *Texas Education Code*, the Board of Regents has elected the PUF prudent investor standard to govern its management of the ITF.

Ultimate fiduciary responsibility for the ITF rests with the Board of Regents. Section 66.08, *Texas Education Code*, as amended, authorizes the Board of Regents, subject to certain conditions, to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board of Regents.

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas/Texas A&M Investment Management Company ("UTIMCO"), the ITF shall be managed by UTIMCO, which shall a) recommend investment policy for the ITF, b) recommend specific Asset Class allocation targets, ranges, and performance benchmarks consistent with ITF objectives, and c) monitor ITF performance against ITF objectives. UTIMCO shall invest the ITF assets in

Intermediate Term Fund Investment Policy Statement (continued)

conformity with this Policy Statement. All changes to this Policy Statement or the exhibits to this Policy Statement, including changes to Asset Class allocation targets, ranges and performance benchmarks, are subject to approval by the Board of Regents.

UTIMCO may select and terminate unaffiliated investment managers subject to the Delegation of Authority Policy approved by the UTIMCO Board. Managers shall be monitored for performance and adherence to investment disciplines.

ITF Administration

UTIMCO shall employ an administrative staff to ensure that all transaction and accounting records are complete and prepared on a timely basis. Internal controls shall be emphasized so as to provide for responsible separation of duties and adequacy of an audit trail. Custody of ITF assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

Funds Eligible to Purchase ITF Units

No account shall be eligible to purchase units of the ITF unless it is under the sole control, with full discretion as to investments, by the Board of Regents. Any account whose governing instrument contains provisions which conflict with this Policy Statement, whether initially or as a result of amendments to either document, shall not be eligible to purchase or hold units of the ITF.

ITF Investment Objectives

The ITF consists of intermediate and long-term funds held by the U. T. System Board of Regents, as a fiduciary, for the benefit of U. T. System institutions, U. T. System Administration, and other affiliated funds. ITF assets are pooled for efficient investment purposes and managed by UTIMCO over the intermediate to longer term.

The primary investment objective of the ITF is to maximize investment returns within the risk parameters specified in this Policy Statement without regard to the distribution rate.

The secondary investment objective is to preserve the purchasing power of ITF assets by earning a compound annualized return over rolling five-year periods, net of all direct and allocated expenses, of at least inflation as measured by the Consumer Price Index (CPI-U) plus 3% and to generate average annual returns net of all investment-related expenses, in excess of the approved Policy Portfolio over rolling five-year periods. Investment returns are expressed net of all investment-related expenses. Additional expenses include U. T. System administrative fees charged to the fund.

Investments must be prudently diversified, and within the approved Policy Downside Volatility Bounds, as defined in Exhibit A, and measured at least monthly by UTIMCO's risk model. Liquidity of the ITF will be governed by the Liquidity Policy, overseen by the Investment Risk Committee of the UTIMCO Board.

Intermediate Term Fund Investment Policy Statement (continued)

ITF return, Asset Class allocations, and downside volatility targets are subject to adjustment from time to time by the Board of Regents.

Asset Class Allocation and Policy

Asset Class allocation is the primary determinant of the volatility of investment return and, subject to the Asset Class allocation ranges specified in Exhibit A, is the responsibility of UTIMCO. The Asset Class allocation is designed to accommodate the intermediate investment horizon of the ITF assets with enhanced returns at moderate managed risk levels. UTIMCO is responsible for measuring actual Asset Class allocation at least monthly (incorporating the impact of derivative positions covered under the Derivative Investment Policy), and for reporting the actual portfolio Asset Class allocation to the UTIMCO Board and the Board of Regents at least quarterly. While specific Asset Class allocation positions may be changed within the ranges specified in Exhibit A based on the economic and investment outlook from time to time, the range limits cannot be intentionally breached without prior approval of the Board of Regents.

In the event that actual portfolio positions in Asset Class or the Projected Downside Volatility move outside the ranges indicated in Exhibit A due to market forces that shift relative valuations, UTIMCO staff will immediately report this situation to the UTIMCO Board Chairman and take steps to rebalance portfolio positions back within the policy ranges in an orderly manner as soon as practicable. Extenuating circumstances that could cause immediate rebalancing to be irrational and detrimental to the interest of the ITF asset values could warrant requesting approval of the UTIMCO Board Chairman to waive remedial action.

Portable alpha strategies are permitted within and across regimes and generally involve the use of leverage at the underlying strategy level. The ITF will offset that leverage with Cash holdings. Each Asset Class may include investments that collectively target a combined market sensitivity (defined by beta to the relevant benchmark for the particular Asset Class) of approximately 1.0. For example, portable alpha strategies may include, but are not limited to, the use of fixed income or hedge fund overlays within an equity portfolio to target a combined market sensitivity of approximately 1.0.

Within the general investment regimes of Global Equity, Stable Value, and Real Return, ITF assets shall be allocated among the following broad Asset Classes based upon their individual return/risk characteristics and relationships to other Asset Classes:

Global Equity:

Developed Public Equity – Developed Public Equity invests primarily in the equity securities of companies that are domiciled in the developed countries (including the U.S.) that are part of the MSCI World Index. These securities are traded in public markets (on an exchange, over the counter, or issued in an underwritten initial

Intermediate Term Fund Investment Policy Statement (continued)

public offering (“IPO”)) or are restricted but expected to become public or otherwise freely marketable within three years after the initial investment. Developed Public Equity includes common stocks, depositary receipts, preferred stocks, exchange traded funds, and derivatives based on common stocks or equity indices (including convertibles, warrants, rights, options, and futures).

Emerging Markets Public Equity – Emerging Markets Public Equity invests primarily in the equity securities of companies that are domiciled in (i) the emerging countries that are part of the MSCI Emerging Markets Index or (ii) countries that have yet to reach MSCI Emerging Markets Index qualification status. These securities are traded in public markets (on an exchange, over the counter, or issued in an underwritten initial public offering (“IPO”)) or are restricted but expected to become public or otherwise freely marketable within three years after the initial investment. Emerging Markets Public Equity includes common stocks, depositary receipts, preferred stocks, exchange traded funds, and derivatives based on common stocks or equity indices (including convertibles, warrants, rights, options, and futures).

Directional Hedge Funds – Directional Hedge Funds invest long and short in equities, fixed income, commodities, currencies and other global market instruments including derivatives. Directional Hedge Funds exhibit ~~some~~ moderate market sensitivity as defined by beta to public equities. Strategies may include but are not limited to long/short equity, multi-strategy, event-driven, ~~distressed and stressed credit~~ (loans, bonds, asset-backed securities, direct lending and distressed) and global macro.

Stable Value:

Investment Grade Fixed Income – Investment Grade Fixed Income represents ownership of fixed income instruments across all maturities, U.S. and non-U.S., that are rated investment grade. These include debt issued by the Sovereign Governments, various government enterprises and agencies, and corporations. The principal securities include bonds, notes, bills ~~and~~, mortgage and asset-backed securities ~~and~~ ETFs. In addition, derivative applications that serve as a fixed income substitute may be classified as Investment Grade Fixed Income.

Long Treasuries – Long Treasuries represents ownership of fixed income instruments across long-dated maturities issued by the U.S. government. The principal securities may include bonds, notes ~~and~~, bills ~~and~~ ETFs. In addition, derivative applications that serve as a fixed income substitute may be classified as Long Treasuries.

Stable Value Hedge Funds – Stable Value Hedge Funds invest long and short in equities, fixed income, commodities, currencies and other global market instruments including derivatives. Stable Value Hedge Fund investments exhibit little to no market sensitivity, as defined by beta to ~~Developed~~ public ~~Equity~~ equities, and have an absolute return orientation. Strategies may include but are not limited

Intermediate Term Fund Investment Policy Statement (continued)

to market-neutral equity, multi-strategy, re-insurance, risk premia, relative value, trend following, ~~senior secured~~direct lending, specialty credit and global macro.

Cash – Cash has the same meaning as given to the term “Cash” in the Liquidity Policy and includes, for example, cash in any currencies and other overnight funds that have not been allocated to a specific Asset Class.

Real Return:

Inflation Linked Bonds – Inflation Linked Bonds include fixed income investments issued by both U.S. and Non-U.S. Governments where the principal value of the bond has been indexed to some rate of inflation, as well as ETFs and derivatives referencing Inflation Linked Bonds or directly linked to inflation rates, including but not limited to inflation swaps. Inflation Linked Bonds are intended to provide some degree of inflation protection.

Commodities – Commodities investments represent ownership of fungible goods such as metals, grains, foods and energy products or any other investment defined by regulators as a commodity. These investments can be made through actual physical ownership of the goods, or through financial ownership of the underlying goods achieved through the purchase of derivatives based on commodities or commodities indices.

Public Real Estate – Public Real Estate invests principally in companies that are part of the MSCI US REIT Gross Total Return Index (RMSG) and that own or manage equity or debt interests in portfolios of real estate or real assets. These securities are traded in public markets (on an exchange, over the counter, or issued in an underwritten initial public offering) or are restricted but expected to become public or otherwise freely marketable within three years after the initial investment. Public Real Estate includes common stocks, depositary receipts, preferred stocks, exchange traded funds, and derivatives based on common stocks or equity indices (including convertibles, warrants, rights, options, and futures).

All mandates will be categorized at inception and on an ongoing basis by Asset Class.

Intermediate Term Fund Investment Policy Statement (continued)

Performance Measurement

The investment performance of the ITF will be measured by the ITF's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, compared against the stated Policy Benchmarks of the ITF, as indicated in Exhibit A (incorporating the impact of internal derivative positions) and reported to the UTIMCO Board and the Board of Regents at least quarterly. The Policy Portfolio benchmark will be maintained by UTIMCO and will comprise a blend of Asset Class indices reported by the independent custodian and weighted to reflect ITF's approved Asset Class allocation policy targets as defined in Exhibit A. Monthly performance data and net asset values will be available on the UTIMCO website within a reasonable time after each month end.

Investment Guidelines

The ITF must be invested at all times in strict compliance with applicable law. Investment guidelines include the following:

General

- Investment guidelines for index, commingled funds, limited partnerships, and corporate vehicles managed externally shall be governed by the terms and conditions of the respective investment management contracts, partnership agreements or corporate documents.
- Investment guidelines of all other externally managed accounts as well as internally invested funds must be reviewed and approved by UTIMCO's Chief Investment Officer prior to investment of ITF assets in such investments.
- No securities may be purchased or held which would jeopardize the ITF's tax-exempt status.
- No internal investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No internal investment strategy or program employing short sales may be made unless specifically authorized in the Delegation of Authority Policy, the Derivative Investment Policy or by the UTIMCO Board.
- The ITF's investments in warrants shall not exceed more than 5% of the ITF's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.
- The ITF may utilize derivatives only in accordance with the Derivative Investment Policy. The aggregate prorated annual premium of Derivative Investments utilized to reduce exposure to an Asset Class or hedge against risk shall not exceed 50 basis points of ITF value.

Intermediate Term Fund Investment Policy Statement (continued)

Investment Grade Fixed Income

Not more than 5% of the market value of fixed income securities may be invested in corporate and municipal bonds of a single issuer.

Public Real Estate and Public Equity

- Not more than 25% of the market value of equity securities may be invested in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at cost.
- Not more than 5% of the market value of equity securities may be invested in the securities of one corporation at cost.

Stable Value

- Not more than 7.5% of the market value of equity and fixed income securities taken together may be invested in one corporation at cost.

ITF Accounting

The fiscal year of the ITF shall begin on September 1st and end on August 31st. Market value of the ITF shall be maintained on an accrual basis in compliance with Generally Accepted Accounting Principles ("GAAP"), Governmental Accounting Standards Board Statements, industry guidelines, or state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO's Chief Investment Officer and reported to the UTIMCO Board. Assets deemed to be "other than temporarily impaired" as defined by GAAP shall be written off and reported to UTIMCO's Chief Investment Officer and the UTIMCO Board when material. The ITF's financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

Valuation of ITF Assets

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all ITF net assets and the net asset value per unit of the ITF. The final determination of ITF net assets for a month end close shall normally be completed within seven business days but determination may be longer under certain circumstances. Valuation of ITF assets shall be based on the books and records of the custodian for the valuation date.

The fair market value of the ITF's net assets shall include all related receivables and payables of the ITF on the valuation date and the value of each unit thereof shall be its proportionate part of such net value. Such valuation shall be final and conclusive.

Compliance

Intermediate Term Fund Investment Policy Statement (continued)

Compliance with this Policy will be monitored by UTIMCO's Chief Compliance Officer. UTIMCO's Chief Executive Officer, the UTIMCO Board, and the UTIMCO Audit & Ethics Committee will receive regular reports on UTIMCO's compliance with this Policy. All material instances of noncompliance, as determined by UTIMCO's Chief Compliance Officer and the Chair of the UTIMCO Audit & Ethics Committee, will require an action plan proposed by UTIMCO's Chief Executive Officer and approved by the Chairman of the UTIMCO Board with timelines for bringing the noncompliant activity within this Policy.

ITF Distributions

The ITF shall provide monthly distributions to the unit holders. The Board of Regents will approve an annual distribution amount. Distributions from the ITF to the unit holders shall be made monthly on the first business day of each month. To calculate the monthly distribution, the distribution rate (% divided by 12) will be multiplied by each unit holder's account, determined as follows:

- Net asset value of each unit holder's account on the last business day of the second prior month;
- Plus value of each unit holder's net purchase/redemption amount on the first business day of the prior month;
- Less the distribution amount paid to each unit holder's account on the first business day of the prior month.

Purchase and Redemption of ITF Units

The ITF participants may purchase units on the first business day of each month upon payment of cash or reinvestment of distributions to the ITF, at the net asset value per unit of the ITF as of the prior month ending valuation date. Such purchase commitments are binding. The ITF participants may redeem ITF units on a monthly basis. The unit redemption shall be paid in cash as soon as practicable after the month end valuation date of the ITF. Redemptions from the ITF shall be at the market price per unit determined at the time of the redemption. Such redemption commitments are binding.

Participants of the ITF are required to provide notification of purchases and redemptions based on specific notification requirements as set forth in The University of Texas System Allocation Policy for Non-Endowment Funds.

Intermediate Term Fund Investment Policy Statement (continued)

Securities Lending

The ITF may participate in a securities lending contract with a bank or non-bank security lending agent for purposes of realizing additional income. Loans of securities by the ITF shall be collateralized by cash, letters of credit, or securities issued or guaranteed by the U.S. Government or its agencies. The collateral will equal at least 100% of the current market value of the loaned securities. The contract shall state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and collateral, acceptable investment of collateral and indemnification provisions. The contract may include other provisions as appropriate.

The securities lending program will be evaluated from time to time as deemed necessary by the UTIMCO Board. Monthly reports issued by the lending agent shall be reviewed by UTIMCO staff to ensure compliance with contract provisions.

Investor Responsibility

As a shareholder, the ITF has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies in a manner consistent with the unique role and mission of higher education as well as for the economic benefit of the ITF. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the ITF solely in the interest of ITF unitholders, in compliance with the Proxy Voting Policy then in effect, and shall not invest the ITF so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

The Board of Regents reserves the right to amend the Investment Policy Statement as it deems necessary or advisable.

Effective Date

The effective date of this Policy shall be September 1, ~~2022~~2023.

**EXHIBIT A
ASSET CLASS TARGETS, RANGES, AND PERFORMANCE OBJECTIVES
EFFECTIVE SEPTEMBER 1, 2022-2023**

| Asset Class | Min v Target ⁽¹⁾ | Target ⁽²⁾ | Max v Target ⁽¹⁾ | Benchmark |
|--------------------------------|-----------------------------|-----------------------|-----------------------------|---|
| Global Equity: | | | | |
| Developed Public Equity | -5.0% | 11.5% | +5.0% | MSCI World Index with Net Dividends MSCI Emerging Markets Index with Net Dividends Blended 67% MSCI Emerging Markets with China All Shares and 33% MSCI Emerging Markets ex-China |
| Emerging Markets Public Equity | -5.0% | 3.5% | +5.0% | |
| <i>Total Public Equity</i> | -5.0% | 15.0% | +5.0% | |
| Directional Hedge Funds | -5.0% | 35.0% | +5.0% | HFRI Fund of Funds Composite |
| Total Global Equity | -7.0% | 50.0% | +7.0% | |
| Stable Value: | | | | |
| Investment Grade Fixed Income | -5.0% | 6.0% | +5.0% | Bloomberg Global Aggregate Index - Hedged Bloomberg US Treasury Long Index |
| Long Treasuries | -5.0% | 7.0% | +5.0% | |
| <i>Total Fixed Income</i> | -5.0% | 13.0% | +5.0% | |
| Cash | -5.0% | 2.0% | +5.0% | 3 month T-bills |
| Stable Value Hedge Funds | -5.0% | 25.0% | +5.0% | HFRI Fund of Funds Conservative |
| Total Stable Value | -10.0% | 40.0% | +6.0% | |
| Real Return: | | | | |
| Inflation Linked Bonds | -5.0% | 5.0% | +5.0% | Bloomberg Global Inflation-Linked: U.S. TIPS Index |
| Gold | -5.0% | 0.0% | +5.0% | Gold Spot Price (XAU) |
| Commodities | -5.0% | 2.5% | +5.0% | Bloomberg Commodity TRI |
| <i>Total Commodities</i> | -5.0% | 2.5% | +5.0% | |
| Public Real Estate | -5.0% | 2.5% | +5.0% | MSCI US REIT Gross Total Return Index (RMSG) |
| Total Real Return | -6.0% | 10.0% | +6.0% | |
| Total All Asset Classes | | 100.0% | 105.0% | |

The total Asset Class exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed ~~100%~~ 105% of the Asset Class exposure excluding the amount of derivatives exposure not collateralized by Cash.

| POLICY/TARGET RETURN/RISKS⁽²⁾ | |
|---|------------------------|
| Expected 10-Year Annual Real Return (Policy Portfolio Beta) | 0.16% 2.30% |
| Expected 10-Year Annual Real Return (Policy Portfolio Total Return) | 2.73% 4.30% |
| One Year Downside Volatility | 4.56% 3.80% |
| Risk Bounds | |
| Lower: 1 Year Downside Volatility | 75.00% |
| Upper: 1 Year Downside Volatility | 115.00% |

(1) In relation to the Asset Class Target; with the exception of Cash, "Min" will not be below zero

(2) Asset Class Targets and Policy/Target Return/Risks reset monthly

**THE UNIVERSITY OF TEXAS SYSTEM
PERMANENT HEALTH FUND
INVESTMENT POLICY STATEMENT**

Purpose

The Permanent Health Fund (the “PHF”), established by the Board of Regents of The University of Texas System (the “Board of Regents”), is a pooled fund for the collective investment of certain permanent funds for health-related institutions of higher education created, effective August 30, 1999, by Chapter 63 of the *Texas Education Code*. The permanent health funds which have assets in the PHF are:

- A. The Permanent Health Fund for Higher Education (the “PHFHE”), the distributions from which are to fund programs that benefit medical research, health education, or treatment programs at 10 health-related institutions of higher education; and
- B. Eight of the thirteen separate Permanent Funds for Health Related Institutions (the “PFHRIs”), the distributions from which are to fund research and other programs at health-related institutions of higher education that benefit public health. The PFHRIs invested in the PHF are:

- U. T. Health Science Center - San Antonio
- U. T. M. D. Anderson Cancer Center
- U. T. Southwestern Medical Center
- U. T. Medical Branch - Galveston
- U. T. Health Science Center - Houston
- U. T. Health Science Center - Tyler
- U. T. El Paso
- Regional Academic Health Center

The PHF provides for greater diversification of investments than would be possible if each account were managed separately.

PHF Organization

The PHF functions like a mutual fund in which each eligible fund purchases and redeems PHF units as provided herein.

Permanent Health Fund Investment Policy Statement (continued)

PHF Management

Chapter 63 of the *Texas Education Code* designates: a) the Board of Regents as the administrator for the PHFHE and b) the governing board of an institution for which a PFHRI fund is established as the administrator for its own PFHRI, or if the governing board so elects, the Comptroller of Public Accounts (State Comptroller). It permits the State Comptroller, in turn, to contract with the governing board of any institution that is eligible to receive a grant under Chapter 63. Pursuant to the foregoing and an Investment Management Services Agreement between the Board of Regents and the State Comptroller, the Board of Regents is the administrator responsible for managing the PHF. Chapter 63 further states that the Board of Regents may manage and invest the PHF in the same manner as the Board of Regents manages and invests other permanent endowments. It also requires that the administrator invest the funds in a manner that preserves the purchasing power of the funds' assets and distributions. It further requires that the administrator make distributions in a manner consistent with the administrator's policies and procedures for making distributions to the beneficiaries of its own endowments in the case of the PHFHE or the funds themselves in the case of the PFHRI funds.

Article VII, Section 11b of the Texas Constitution authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (the "PUF") in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment. Pursuant to Chapter 63 of the *Texas Education Code*, the Board of Regents has elected the PUF prudent investor standard to govern its management of the PHF.

Ultimate fiduciary responsibility for the PHF rests with the Board of Regents. Section 66.08, *Texas Education Code*, as amended, authorizes the Board of Regents, subject to certain conditions, to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board of Regents.

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas/Texas A&M Investment Management Company ("UTIMCO"), the PHF shall be managed by UTIMCO which shall: a) recommend investment policy for the PHF; b) recommend specific Asset Class allocation targets, ranges, and performance benchmarks consistent with PHF objectives; and c) monitor PHF performance against PHF objectives. UTIMCO shall invest the PHF assets in conformity with this Policy Statement. All changes to this Policy Statement or the exhibits to this Policy Statement, including changes to Asset

Permanent Health Fund Investment Policy Statement (continued)

Class allocation targets, ranges and performance benchmarks, are subject to approval by the Board of Regents.

PHF Administration

UTIMCO shall employ an administrative staff to ensure that all transaction and accounting records are complete and prepared on a timely basis. Internal controls shall be emphasized so as to provide for responsible separation of duties and adequacy of an audit trail. Custody of PHF assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

Funds Eligible to Purchase PHF Units

No fund shall be eligible to purchase units of the PHF unless it is a permanent health fund established pursuant to Chapter 63 of the *Texas Education Code*, under the control, with full discretion as to investments, of the Board of Regents.

Any fund whose governing instrument contains provisions which conflict with this Policy Statement, whether initially or as a result of amendments to either document, shall not be eligible to purchase or hold units of the PHF.

PHF Investment Objectives

The primary investment objective shall be to maximize investment returns within the risk parameters specified in this Policy Statement without regard to the distribution rate. Investment returns are expressed net of all investment-related expenses. Additional expenses include U. T. System administrative fees charged to the fund. The PHF's success in meeting its objectives depends upon its ability to generate high returns in periods of low inflation that will offset lower returns generated in years when the capital markets underperform the rate of inflation.

Asset Allocation and Policy

PHF assets shall be allocated among the following investments:

- A. Cash and Cash Equivalents - Cash and Cash Equivalents has the same meaning as given to the term "Cash" in the Liquidity Policy.
- B. U. T. System General Endowment Fund (GEF) - See Exhibit B for the current GEF allocation, which is subject to changes by the Board of Regents. Upon any change to the GEF asset allocation, Exhibit B shall be revised accordingly.

In the event that actual Cash and Cash Equivalents positions move outside the range indicated in Exhibit A due to market forces that shift relative valuations, UTIMCO staff will immediately report this situation to the UTIMCO Board Chairman

Permanent Health Fund Investment Policy Statement (continued)

and take steps to rebalance the Cash and Cash Equivalents positions back within the policy range in an orderly manner as soon as practicable. Extenuating circumstances that could cause immediate rebalancing to be irrational and detrimental to the interest of the PHF asset values could warrant requesting approval of the UTIMCO Board Chairman to waive immediate remedial action.

Performance Measurement

The investment performance of the PHF will be measured by the PHF's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, and compared against the stated Policy Benchmarks of the PHF, as indicated in Exhibits A and B (incorporating the impact of internal derivative positions) and reported to the UTIMCO Board and the Board of Regents at least quarterly. Monthly performance data and net asset values will be available on the UTIMCO website within a reasonable time after each month end.

Investment Guidelines

The PHF must be invested at all times in strict compliance with applicable law. Investment guidelines for the U. T. System GEF shall be as stated in the GEF Investment Policy Statement.

PHF Distributions

The PHF shall balance the needs and interests of present beneficiaries with those of the future. PHF spending policy objectives shall be to:

- A. provide a predictable, stable stream of distributions over time;
- B. ensure that the inflation adjusted value of distributions is maintained over the long term; and
- C. ensure that the inflation adjusted value of PHF assets after distributions is maintained over the long term.

The goal is for the PHF's average spending rate over time not to exceed the PHF's average annual investment return after inflation and expense ratio in order to preserve the purchasing power of PHF distributions and underlying assets.

The Board of Regents will designate a per unit distribution amount annually.

Distributions from the PHF to the unit holders shall be made quarterly as soon as practicable on or after the last business day of November, February, May, and August of each fiscal year.

Permanent Health Fund Investment Policy Statement (continued)

PHF Accounting

The fiscal year of the PHF shall begin on September 1st and end on August 31st. Market value of the PHF shall be maintained on an accrual basis in compliance with Generally Accepted Accounting Principles (“GAAP”), Governmental Accounting Standards Board Statements, industry guidelines, or state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO’s Chief Investment Officer and reported to the UTIMCO Board. Assets deemed to be “other than temporarily impaired” as defined by GAAP shall be written off and reported to UTIMCO’s Chief Investment Officer and the UTIMCO Board when material. The PHF’s financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

Valuation of Assets

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all PHF net assets and the net asset value per unit of the PHF. Valuation of PHF assets shall be based on the books and records of the custodian for the valuation date. The final determination of PHF net assets for a month end close shall normally be completed within eight business days but determination may be longer under certain circumstances.

The fair market value of the PHF’s net assets shall include all related receivables and payables of the PHF on the valuation date and the value of each unit thereof shall be its proportionate part of such net value. Such valuation shall be final and conclusive.

Compliance

Compliance with this Policy will be monitored by UTIMCO’s Chief Compliance Officer. UTIMCO’s Chief Executive Officer, the UTIMCO Board, and the UTIMCO Audit & Ethics Committee will receive regular reports on UTIMCO’s compliance with this Policy. All material instances of noncompliance, as determined by UTIMCO’s Chief Compliance Officer and the Chair of the UTIMCO Audit & Ethics Committee, will require an action plan proposed by UTIMCO’s Chief Executive Officer and approved by the Chairman of the UTIMCO Board with timelines for bringing the non-compliant activity within this Policy.

Permanent Health Fund Investment Policy Statement (continued)

Purchase of PHF Units

Purchase of PHF units may be made on any quarterly purchase date (September 1, December 1, March 1, and June 1 of each fiscal year or the first business day subsequent thereto) upon payment of cash to the PHF or contribution of assets approved by UTIMCO's Chief Investment Officer, at the net asset value per unit of the PHF as of the most recent quarterly valuation date.

Each fund whose monies are invested in the PHF shall own an undivided interest in the PHF in the proportion that the number of units invested therein bears to the total number of all units comprising the PHF.

Redemption of PHF Units

Redemption of PHF units shall be paid in cash as soon as practicable after the quarterly valuation date of the PHF. If the withdrawal is greater than \$10 million, advance notice of 60 business days shall be required prior to the quarterly valuation date. If the withdrawal is for less than \$10 million, advance notice of five business days shall be required prior to the quarterly valuation date. If the aggregate amount of redemptions requested on any redemption date is equal to or greater than 5% of the PHF's net asset value, the Board of Regents may redeem the requested units in installments and on a pro rata basis over a reasonable period of time that takes into consideration the time frame to liquidate illiquid investments and the best interests of all PHF unit holders. Withdrawals from the PHF shall be at the market value price per unit determined for the period of the withdrawal.

Investor Responsibility

As a shareholder, the PHF has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies in a manner consistent with the unique role and mission of higher education as well as for the economic benefit of the PHF. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the PHF solely in the interest of PHF unit holders, in compliance with the Proxy Voting Policy then in effect, and shall not invest the PHF so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

The Board of Regents reserves the right to amend the Investment Policy Statement as it deems necessary or advisable.

Effective Date

The effective date of this Policy shall be September 1, 20222023.

Permanent Health Fund Investment Policy Statement (continued)

EXHIBIT A

PHF ASSET ALLOCATION

**POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE SEPTEMBER 1, 2008**

| | Neutral Allocation | Range | Benchmark Return |
|----------------------------|---------------------------|--------------|----------------------------|
| GEF Commingled Fund | 100.0% | 95% - 100% | Endowment Policy Portfolio |
| Cash and Cash Equivalents | 0.0% | -1% - 5% | 90 day T-Bills |
| Unencumbered Cash | | | |
| Temporary Cash Imbalance* | | | |
| Net non-trading receivable | | | |

The endowment policy portfolio is the sum of the neutrally weighted benchmark returns for the GEF.

*3 trading days or less

**EXHIBIT B - GENERAL ENDOWMENT FUND
ASSET CLASS TARGETS, RANGES, AND PERFORMANCE OBJECTIVES
EFFECTIVE SEPTEMBER 1, 2022-2023**

| Asset Class | Min v Target ⁽¹⁾ | Target ⁽²⁾⁽³⁾ | Max v Target ⁽¹⁾ | Benchmark |
|------------------------------------|-----------------------------|-------------------------------|------------------------------|---|
| Global Equity: | | | | |
| Developed Public Equity | -5.0% | 23.6% 20.0% | +5% +15.0% | MSCI World Index with Net Dividends MSCI Emerging Markets with Net Dividends Blended 67% MSCI Emerging Markets with China All Shares and 33% MSCI Emerging Markets ex-China |
| Emerging Markets Public Equity | -5.0% | 7.0% 6.4% | +5.0% | |
| <i>Total Public Equity</i> | -5.0% | 30.6% 26.4% | +5% +15.0% | HFRI Fund of Funds Composite Blended Cambridge Buyouts, Emerging Markets Private Equity and Venture Capital, Credit Opportunities, and Venture Capital |
| Directional Hedge Funds | -5.0% | 5.0% 6.0% | +5.0% | |
| Private Equity ⁽³⁾ | 15.0% 17.5% | 25.0% 27.5% | 35.0% 37.5% | |
| Total Global Equity | -7.0% | 60.6% 59.9% | +7.0% +15% | |
| Stable Value: | | | | |
| Investment Grade Fixed Income | -5.0% | 0.0% | +5.0% | Bloomberg Global Aggregate Index - Hedged |
| Long T reasuries | -5.0% | 4.4% 5.1% | +5.0% | Bloomberg US Treasury: Long Index |
| Credit-Related Fixed Income | -5.0% | 0.0% | +5.0% | Bloomberg Capital Global High Yield Index |
| <i>Total Fixed Income</i> | -5.0% | 4.4% 5.1% | +5.0% | |
| Cash | -5.0% | 1.0% 2.0% | +5.0% | 3 month T-Bills |
| Stable Value Hedge Funds | -5.0% | 10.0% 10.5% | +5.0% | HFRI Fund of Funds Conservative |
| Total Stable Value | -10.0% | 15.4% 17.6% | +6.0% | |
| Real Return: | | | | |
| Inflation Linked Bonds | -5.0% | 2.0% 0.0% | +5.0% | Bloomberg Global Inflation-Linked: U.S. TIPS Index |
| Gold | -5.0% | 0.0% | +5.0% | Gold Spot Price (XAU) |
| Commodities | -5.0% | 0.0% | +5.0% | Bloomberg Commodity TRI |
| <i>Total Commodities</i> | -5.0% | 0.0% | +5.0% | |
| Natural Resources ⁽³⁾ | 0.0% | 3.0% 3.3% | 8.0% | Cambridge Natural Resources Blended Cambridge PE Energy and Upstream & Royalty, PE Energy (Mining), and Timber |
| Infrastructure ⁽³⁾ | 0.0% | 5.0% 4.5% | 10.0% | Cambridge Infrastructure |
| Real Estate ⁽³⁾ | 4.0% 5.0% | 9.0% 9.7% | 14.0% 15.0% | Blended MSCI US REIT Gross Total Return Index (RMSG) and Cambridge Total Real Estate |
| Total Real Return | -6.0% | 19.0% 17.5% | +6.0% | |
| Strategic Partnerships | -5.0% | 5.0% | +5.0% | Blended Bloomberg US Treasury: Long Index, MSCI World Index with Net Dividends, MSCI Emerging Markets Index with Net Dividends, and HFRI Macro |
| Innovation & Disruption | 0.0% | 0.0% | 5.0% | Aggregate Policy Portfolio Benchmark before returns from Innovation & Disruption portfolio |
| Total All Asset Classes | | 100.0% | 110.0% | |

The total Asset Class exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed ~~405%~~ 110% of the Asset Class exposure excluding the amount of derivatives exposure not collateralized by Cash.

| POLICY/TARGET RETURN/RISKS ⁽²⁾ | |
|---|------------------------|
| Expected 10-Year Annual Real Return (Policy Portfolio Beta) | 3.43% 5.19% |
| Expected 10-Year Annual Real Return (Policy Portfolio Total Return) | 4.78% 6.43% |
| One Year Downside Volatility | 9.62% 8.24% |
| Risk Bounds | |
| Lower: 1 Year Downside Volatility | 75.00% |
| Upper: 1 Year Downside Volatility | 115.00% |

(1) When preceded by a "+-" or "+", in relation to the Asset Class Target, with the exception of Cash, "Min" will not be below zero
(2) Asset Class Targets and Policy/Target Return/Risks reset monthly

(3) The Adjusted Target weight of each of Private Equity, Real Estate, Natural Resources and Infrastructure, will be set each month as the average ending actual weight of the combined PUF and GEF from the prior month. Any difference in the calculated Private Equity, Real Estate, Natural Resources, and Infrastructure Adjusted Target weights from the original Target weights derived from this table will be offset using ~~other asset classes with 80%~~ ~~Developed Public Equity and 20% to blend of Total Fixed Income components-100% Developed Public Equity.~~

**THE UNIVERSITY OF TEXAS SYSTEM
LONG TERM FUND
INVESTMENT POLICY STATEMENT**

Purpose

The Long Term Fund (the "LTF"), succeeded the Common Trust Fund in February 1995, and was established by the Board of Regents of The University of Texas System (the "Board of Regents") as a pooled fund for the collective investment of private endowments and other long-term funds supporting various programs of The University of Texas System. The LTF provides for greater diversification of investments than would be possible if each account were managed separately.

LTF Organization

The LTF functions like a mutual fund in which each eligible account purchases and redeems LTF units as provided herein. The ownership of LTF assets shall at all times be vested in the Board of Regents. Such assets shall be deemed to be held by the Board of Regents, as a fiduciary, regardless of the name in which the assets may be registered.

LTF Management

Article VII, Section 11b of the Texas Constitution authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (the "PUF") in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment. Pursuant to Section 51.0031(c) of the *Texas Education Code*, the Board of Regents has elected the PUF prudent investor standard to govern its management of the LTF.

Ultimate fiduciary responsibility for the LTF rests with the Board of Regents. Section 66.08, *Texas Education Code*, as amended, authorizes the Board of Regents, subject to certain conditions, to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board of Regents.

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas/Texas A&M Investment Management

Long Term Fund Investment Policy Statement (continued)

Company (“UTIMCO”), the LTF shall be managed by UTIMCO, which shall a) recommend investment policy for the LTF, b) recommend specific Asset Class allocation targets, ranges, and performance benchmarks consistent with LTF objectives, and c) monitor LTF performance against LTF objectives. UTIMCO shall invest the LTF assets in conformity with this Policy Statement. All changes to this Policy Statement or the exhibits to this Policy Statement, including changes to Asset Class allocation targets, ranges and performance benchmarks, are subject to approval by the Board of Regents.

LTF Administration

UTIMCO shall employ an administrative staff to ensure that all transaction and accounting records are complete and prepared on a timely basis. Internal controls shall be emphasized so as to provide for responsible separation of duties and adequacy of an audit trail. Custody of LTF assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

Funds Eligible to Purchase LTF Units

No account shall be eligible to purchase units of the LTF unless it is under the sole control, with full discretion as to investments, of the Board of Regents.

Any account whose governing instrument contains provisions which conflict with this Policy Statement, whether initially or as a result of amendments to either document, shall not be eligible to purchase or hold units of the LTF.

LTF Investment Objectives

The primary investment objective shall be to maximize investment returns within the risk parameters specified in this Policy Statement without regard to the distribution rate. Investment returns are expressed net of all investment-related expenses. Additional expenses include U. T. System administrative fees charged to the fund. The LTF’s success in meeting its objectives depends upon its ability to generate high returns in periods of low inflation that will offset lower returns generated in years when the capital markets underperform the rate of inflation.

Asset Allocation and Policy

LTF assets shall be allocated among the following investments.

- A. Cash and Cash Equivalents – Cash and Cash Equivalents has the same meaning as given to the term “Cash” in the Liquidity Policy.
- B. U. T. System General Endowment Fund (GEF) - See Exhibit B for the current GEF allocation, which is subject to changes by the Board of

Long Term Fund Investment Policy Statement (continued)

Regents. Upon any change to the GEF asset allocation, Exhibit B shall be revised accordingly.

In the event that actual Cash and Cash Equivalents positions move outside the range indicated in Exhibit A due to market forces that shift relative valuations, UTIMCO staff will immediately report this situation to the UTIMCO Board Chairman and take steps to rebalance Cash and Cash Equivalents positions back within the policy range in an orderly manner as soon as practicable. Extenuating circumstances that could cause immediate rebalancing to be irrational and detrimental to the interest of the LTF asset values could warrant requesting approval of the UTIMCO Board Chairman to waive immediate remedial action.

Performance Measurement

The investment performance of the LTF will be measured by the LTF's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, and compared against the stated Policy Benchmarks of the PHF, as indicated in Exhibits A and B (incorporating the impact of internal derivative positions) and reported to the UTIMCO Board and the Board of Regents at least quarterly. Monthly performance data and net asset values will be available on the UTIMCO website within a reasonable time after each month end.

Investment Guidelines

The LTF must be invested at all times in strict compliance with applicable law. Investment guidelines for the U. T. System GEF shall be as stated in the GEF Investment Policy Statement.

LTF Distributions

The LTF shall balance the needs and interests of present beneficiaries with those of the future. LTF spending policy objectives shall be to:

- A. provide a predictable, stable stream of distributions over time;
- B. ensure that the inflation adjusted value of distributions is maintained over the long term; and
- C. ensure that the inflation adjusted value of LTF assets after distributions is maintained over the long term.

The goal is for the LTF's average spending rate over time not to exceed the LTF's average annual investment return after inflation and expense ratio in order to preserve the purchasing power of LTF distributions and underlying assets.

Long Term Fund Investment Policy Statement (continued)

Generally, pursuant to the Uniform Prudent Management of Institutional Funds Act, Chapter 163, *Texas Property Code*, as amended, (“Act”), subject to the intent of a donor in a gift instrument, the Board of Regents may appropriate for expenditure or accumulate so much of the LTF as it determines is prudent for the uses, benefits, purposes, and duration for which the LTF is established. Notwithstanding the preceding sentence, the Board of Regents may not appropriate for expenditure in any year an amount greater than nine percent (9%) of the LTF, calculated on the basis of market values determined at least quarterly and averaged over a period of not less than three years immediately preceding the year in which the appropriation for expenditure was made.

The Board of Regents will annually approve a per unit distribution amount.

Distributions from the LTF to the unit holders shall be made quarterly as soon as practicable on or after the last business day of November, February, May, and August of each fiscal year.

LTF Accounting

The fiscal year of the LTF shall begin on September 1st and end on August 31st. Market value of the LTF shall be maintained on an accrual basis in compliance with Generally Accepted Accounting Principles (“GAAP”), Governmental Accounting Standards Board Statements, industry guidelines, or state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO’s Chief Investment Officer and reported to the UTIMCO Board. Assets deemed to be “other than temporarily impaired” as defined by GAAP shall be written off and reported to UTIMCO’s Chief Investment Officer and the UTIMCO Board when material. The LTF’s financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

Valuation of Assets

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all LTF net assets and the net asset value per unit of the LTF. Valuation of LTF assets shall be based on the books and records of the custodian for the valuation date. The final determination of LTF net assets for a month end close shall normally be completed within eight business days but determination may be longer under certain circumstances.

The fair market value of the LTF’s net assets shall include all related receivables and payables of the LTF on the valuation date and the value of each unit thereof shall be its proportionate part of such net value. Such valuation shall be final and conclusive.

Long Term Fund Investment Policy Statement (continued)

Compliance

Compliance with this Policy will be monitored by UTIMCO's Chief Compliance Officer. UTIMCO's Chief Executive Officer, the UTIMCO Board, and the UTIMCO Audit & Ethics Committee will receive regular reports on UTIMCO's compliance with this Policy. All material instances of noncompliance, as determined by UTIMCO's Chief Compliance Officer and the Chair of the UTIMCO Audit & Ethics Committee, will require an action plan proposed by UTIMCO's Chief Executive Officer and approved by the Chairman of the UTIMCO Board with timelines for bringing the non-compliant activity within this Policy.

Purchase of LTF Units

Purchase of LTF units may be made on any quarterly purchase date (September 1, December 1, March 1, and June 1 of each fiscal year or the first business day subsequent thereto) upon payment of cash to the LTF or contribution of assets approved by UTIMCO's Chief Investment Officer, at the net asset value per unit of the LTF as of the most recent quarterly valuation date.

Each account whose monies are invested in the LTF shall own an undivided interest in the LTF in the proportion that the number of units invested therein bears to the total number of all units comprising the LTF.

Redemption of LTF Units

Redemption of LTF units shall be paid in cash as soon as practicable after the quarterly valuation date of the LTF. If the withdrawal is greater than \$25 million, advance notice of 60 business days shall be required prior to the quarterly valuation date. If the withdrawal is for less than \$25 million, advance notice of five business days shall be required prior to the quarterly valuation date. If the aggregate amount of redemptions requested on any redemption date is equal to or greater than 5% of the LTF's net asset value, the Board of Regents may redeem the requested units in installments and on a pro rata basis over a reasonable period of time that takes into consideration the time frame to liquidate illiquid investments and the best interests of all LTF unit holders. Withdrawals from the LTF shall be at the market value price per unit determined for the period of the withdrawal except as follows: withdrawals to correct administrative errors shall be calculated at the per unit value at the time the error occurred. To be considered an administrative error, the contribution shall have been invested in the LTF for a period less than or equal to one year determined from the date of the contribution to the LTF. Transfer of units between endowment unit holders shall not be considered redemption of units subject to this provision.

Long Term Fund Investment Policy Statement (continued)

Investor Responsibility

As a shareholder, the LTF has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies in a manner consistent with the unique role and mission of higher education as well as for the economic benefit of the LTF. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the LTF solely in the interest of LTF unit holders, in compliance with the Proxy Voting Policy then in effect, and shall not invest the LTF so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

The Board of Regents reserves the right to amend the Investment Policy Statement as it deems necessary or advisable.

Effective Date

| The effective date of this Policy shall be September 1, ~~2022~~2023.

Long Term Fund Investment Policy Statement (continued)

EXHIBIT A

LTF ASSET ALLOCATION

**POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE SEPTEMBER 1, 2008**

| | Neutral Allocation | Range | Benchmark Return |
|----------------------------|---------------------------|--------------|----------------------------|
| GEF Commingled Fund | 100.0% | 95% - 100% | Endowment Policy Portfolio |
| Cash and Cash Equivalents | 0.0% | -1% - 5% | 90 day T-Bills |
| Unencumbered Cash | | | |
| Temporary Cash Imbalance* | | | |
| Net non-trading receivable | | | |

The endowment policy portfolio is the sum of the neutrally weighted benchmark returns for the GEF.

*3 trading days or less

**EXHIBIT B - GENERAL ENDOWMENT FUND
ASSET CLASS TARGETS, RANGES, AND PERFORMANCE OBJECTIVES
EFFECTIVE SEPTEMBER 1, 2022-2023**

| Asset Class | Min v Target ⁽¹⁾ | Target ⁽²⁾⁽³⁾ | Max v Target ⁽¹⁾ | Benchmark |
|------------------------------------|-----------------------------|--------------------------|-----------------------------|--|
| Global Equity: | | | | |
| Developed Public Equity | -5.0% | 23.6% 20.0% | +5% +15.0% | MSCI World Index with Net Dividends |
| Emerging Markets Public Equity | -5.0% | 7.0% 6.4% | +5.0% | MSCI Emerging Markets with Net Dividends Blended 67% MSCI Emerging Markets with China All Shares and 33% MSCI Emerging Markets ex-China |
| <i>Total Public Equity</i> | -5.0% | 30.6% 26.4% | +5% +15.0% | |
| Directional Hedge Funds | -5.0% | 5.0% 6.0% | +5.0% | HFRI Fund of Funds Composite |
| Private Equity ⁽³⁾ | 15.0% 17.5% | 25.0% 27.5% | 35.0% 37.5% | Blended Cambridge Buyouts, Emerging Markets Private Equity and Venture Capital, Credit Opportunities, and Venture Capital |
| Total Global Equity | -7.0% | 60.6% 59.9% | +7.0% +15% | |
| Stable Value: | | | | |
| Investment Grade Fixed Income | -5.0% | 0.0% | +5.0% | Bloomberg Global Aggregate Index - Hedged |
| Long T reasuries | -5.0% | 4.4% 5.1% | +5.0% | Bloomberg US Treasury: Long Index |
| Credit-Related Fixed Income | -5.0% | 0.0% | +5.0% | Bloomberg Capital Global High Yield Index |
| <i>Total Fixed Income</i> | -5.0% | 4.4% 5.1% | +5.0% | |
| Cash | -5.0% | 1.0% 2.0% | +5.0% | 3 month T-Bills |
| Stable Value Hedge Funds | -5.0% | 10.0% 10.5% | +5.0% | HFRI Fund of Funds Conservative |
| Total Stable Value | -10.0% | 15.4% 17.6% | +6.0% | |
| Real Return: | | | | |
| Inflation Linked Bonds | -5.0% | 2.0% 0.0% | +5.0% | Bloomberg Global Inflation-Linked: U.S. TIPS Index |
| Gold | -5.0% | 0.0% | +5.0% | Gold Spot Price (XAU) |
| Commodities | -5.0% | 0.0% | +5.0% | Bloomberg Commodity TRI |
| <i>Total Commodities</i> | -5.0% | 0.0% | +5.0% | |
| Natural Resources ⁽³⁾ | 0.0% | 3.0% 3.3% | 8.0% | Cambridge Natural Resources Blended Cambridge PE Energy and Upstream & Royalty, PE Energy (Mining), and Timber |
| Infrastructure ⁽³⁾ | 0.0% | 5.0% 4.5% | 10.0% | Cambridge Infrastructure |
| Real Estate ⁽³⁾ | 4.0% 5.0% | 9.0% 9.7% | 14.0% 15.0% | Blended MSCI US REIT Gross Total Return Index (RMSG) and Cambridge Total Real Estate |
| Total Real Return | -6.0% | 19.0% 17.5% | +6.0% | |
| Strategic Partnerships | -5.0% | 5.0% | +5.0% | Blended Bloomberg US Treasury: Long Index, MSCI World Index with Net Dividends, MSCI Emerging Markets Index with Net Dividends, and HFRI Macro |
| Innovation & Disruption | 0.0% | 0.0% | 5.0% | Aggregate Policy Portfolio Benchmark before returns from Innovation & Disruption portfolio |
| Total All Asset Classes | | 100.0% | 110.0% | |

The total Asset Class exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed ~~405%~~ 110% of the Asset Class exposure excluding the amount of derivatives exposure not collateralized by Cash.

| POLICY/TARGET RETURN/RISKS ⁽²⁾ | |
|---|------------------------|
| Expected 10-Year Annual Real Return (Policy Portfolio Beta) | 3.43% 5.19% |
| Expected 10-Year Annual Real Return (Policy Portfolio Total Return) | 4.78% 6.43% |
| One Year Downside Volatility | 9.62% 8.24% |
| Risk Bounds | |
| Lower: 1 Year Downside Volatility | 75.00% |
| Upper: 1 Year Downside Volatility | 115.00% |

(1) When preceded by a "+" or "-", in relation to the Asset Class Target, with the exception of Cash, "Min" will not be below zero
(2) Asset Class Targets and Policy/Target Return/Risks reset monthly

(3) The Adjusted Target weight of each of Private Equity, Real Estate, Natural Resources and Infrastructure, will be set each month as the average ending actual weight of the combined PUF and GEF from the prior month. Any difference in the calculated Private Equity, Real Estate, Natural Resources, and Infrastructure Adjusted Target weights from the original Target weights derived from this table will be offset using ~~other asset classes with 80%~~ ~~Developed Public Equity and 20% to blend of Total Fixed Income components-100% Developed Public Equity.~~

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

Effective Date of Policy: August ~~25~~24, ~~2022~~2023

Date Approved by U. T. System Board of Regents: August ~~25~~24, ~~2022~~2023

Date Approved by UTIMCO Board: June ~~10~~15, ~~2022~~2023

Supersedes: Liquidity Policy effective ~~March~~ ~~1~~August 25, ~~2020~~2022

Purpose:

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

Objective:

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

Scope:

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

Definition of Liquidity Risk:

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

Definition of Cash:

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

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

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

Liquidity Risk Measurement-The Liquidity Profile:

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

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

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

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

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

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

Liquidity Policy Profile:

The permitted maximum for **illiquid** investments for each of the Endowment Funds is ~~70~~75% of the total portfolio for the Endowment Funds. Any **illiquid** investment made that would cause illiquidity to exceed ~~70~~75% requires prior approval by the Investment Risk Committee after consultation with The University of Texas System Office of Business Affairs.

The permitted maximum for **illiquid** investments for the ITF is ~~55~~60% of the total portfolio for the ITF. Any **illiquid** investment that would cause illiquidity to exceed ~~55~~60% requires prior approval by the Investment Risk Committee after consultation with The University of Texas System Office of Business Affairs.

Investment Risk Committee review of new investments above the permitted maximums will supplement, rather than replace, the procedures established by the UTIMCO Board for the approval of new investments.

Unfunded Commitments:

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

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

~~2020~~2023

Beg ~~March~~September 1,

Unfunded Commitment as a percent of the highest total Net Asset Value of the Endowment Funds over a trailing 24-month period:

~~30.0~~35.0%

No new commitments may be made for an Endowment Fund without approval from the Investment Risk Committee if the actual amount of unfunded commitments for such Endowment Fund exceeds, or, as a result of such commitment, would exceed the Maximum Permitted Amount.

Documentation and Controls:

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

As additional safeguards, maximum illiquidity levels have been established as indicated above to require review and action by the UTIMCO Board or the Investment Risk Committee in the event any investment action would cause the actual investment position in illiquid investments to exceed the permitted maximum illiquidity levels, or in the event market actions caused the actual investment position in illiquid investments to exceed the maximum illiquidity levels. In addition, any proposed investment actions which would increase the actual investment position in illiquid investments in any of the PUF, the GEF, or the ITF by 10% or more of the total asset value of such fund would also require review and action by the UTIMCO Board or the Investment Risk Committee prior to the change. Any actual positions outside the policy ranges will be communicated to the Chief Investment Officer immediately. The Chief Investment Officer will then determine the process to be used to eliminate the exception and report promptly to the UTIMCO Board and the Investment Risk Committee the circumstances of the deviation from Policy and the remedy to the situation. Furthermore, as indicated above, no new commitments may be made for an Endowment Fund without approval from the Investment Risk Committee if the actual amount of unfunded commitments for such Endowment Fund exceeds, or, as a result of such new commitment, would exceed, the Maximum Permitted Amount.

Reporting:

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

9. U. T. System Board of Regents: Approval to amend The University of Texas/Texas A&M Investment Management Company (UTIMCO) Code of Ethics

RECOMMENDATION

The Chancellor, the Executive Vice Chancellor for Business Affairs, and the Vice Chancellor and General Counsel concur in the recommendation of the Board of Directors of The University of Texas/Texas A&M Investment Management Company (UTIMCO) that the U. T. System Board of Regents approve amendments to the UTIMCO Code of Ethics as set forth below.

BACKGROUND INFORMATION

Texas Education Code Section 66.08 requires that the U. T. System Board of Regents approve the UTIMCO Code of Ethics (Code) and any changes thereto. The Code was last amended on December 6, 2012. The recommended changes have been reviewed by fiduciary counsel and U. T. System staff. The changes to the Code were approved on June 15, 2023, by the UTIMCO Board.

The material changes to the Code include the following:

Revising Section 1.02 (Definitions) as follows:

- Revise the definition of General Counsel to conform to the current organizational structure
- Revise the definition of Chief Compliance Officer (CCO) to conform to the Charter of the Audit and Ethics Committee
- Add a new definition of Fiduciary Counsel
- Add a new definition of UTIMCO Contractor and make provisions of the Code applicable to UTIMCO Contractors as if they were UTIMCO employees

Revising Section 1.12 (Nepotism) as follows:

- Revise to prohibit UTIMCO from employing a relative of a Board-appointed consultant rather than all UTIMCO consultants

Revising Section 1.13 (Gifts and Entertainment) as follows:

- Make explicit that cash gifts and equivalents of any value are prohibited
- Allow employees who receive prohibited gifts to donate the gift or its equivalent value to charity instead of returning the gift to the donor
- Allow employees to have travel, lodging and meal expenses paid for by conference sponsors in exchange for speaking at conferences

Revising Section 3.07 (Employee Personal Securities Transactions) as follows:

- Remove outdated personal trading procedures and create a new requirement for UTIMCO to develop and implement a Personal Trading Policy

Revising Section 4.01 (Employee Ethics and Compliance Committee) as follows:

- Create new obligations on and requirements for the CCO and delegate obligations of the Employee Ethics and Compliance Committee to the CCO

Revising Section 4.02 (Financial Disclosure Statements) as follows:

- Add a new requirement that material updates to a financial disclosure statement must be made as soon as practicable, and no later than 90 days after the change occurred

Revising Section 4.04 (Certification of No Pecuniary Interest) as follows:

- Add a requirement that the CCO must provide summary descriptions of each proposed investment to UTIMCO Directors and Key Employees
- Create duty for UTIMCO Directors and Key Employees to alert the CCO of a pecuniary interest relating to the proposed UTIMCO investment
- Create a new obligation on UTIMCO to develop procedures to ensure compliance with these new requirements

Other minor clarifications, formatting, and numbering changes

**THE UNIVERSITY OF TEXAS/TEXAS A&M
INVESTMENT MANAGEMENT COMPANY
CODE OF ETHICS**

Subchapter A. GENERAL PROVISIONS

Sec. 1.01. General Principles. (a) The Board of Regents of The University of Texas System has ultimate fiduciary responsibility for causing the funds within its investment authority to be managed in accordance with applicable law.

(b) The standard mandated by Article VII, Section 11b, of the Texas Constitution concerning the permanent university fund, the standard mandated by the Board of Regents concerning all of the funds within its investment authority under the Investment Management Services Agreement between the Board of Regents and The University of Texas/Texas A&M Investment Management Company (UTIMCO), and the standard mandated by the Board of Regents' Investment Policy Statements require those funds to be invested in such investments that "prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of the assets of the fund rather than a single investment."

(c) Pursuant to the Investment Management Services Agreement, the Board of Regents has appointed UTIMCO as its investment manager with respect to those funds for which the Board of Regents has investment responsibility. In the agreement, UTIMCO has acknowledged that it acts as a fiduciary of the Board of Regents in the discharge of its investment management responsibilities and is obligated to manage the investments of the funds pursuant to policies of the Board of Regents that incorporate and adhere to the prudent investor standard. Accordingly, both the Board of Regents and UTIMCO have fiduciary interests in assuring that the Directors and Employees of UTIMCO possess the requisite knowledge, skill, and experience to manage the funds in accordance with the prudent investor standard described in Subsection (b) of this section and other applicable law.

(d) This Code of Ethics (Code) sets forth the basic principles and guidelines for Directors and Employees of UTIMCO, in addition to and in accordance with the requirements of Section 66.08 of the *Texas Education Code*, the Texas Non-Profit Corporation Act, and other applicable laws.

(e) This Code of Ethics anticipates that many of UTIMCO's Directors and Employees will be active investors, either individually or on behalf of

others, in the same asset categories as the funds managed by UTIMCO on behalf of the Board of Regents. Without seeking to disqualify those Directors and Employees from service to UTIMCO except to the extent necessary or appropriate to avoid conflicts of interest or otherwise conform to applicable law, this Code holds all Directors and Employees to high standards of conduct consistent with their special relationship of trust, confidence, and responsibility to UTIMCO. This Code also recognizes UTIMCO's unique role as the dedicated investment manager of the Board of Regents in investing the funds in furtherance of the education mission of the Board of Regents, the institutions of The University of Texas System, and other beneficiaries of the funds.

(f) In addition to strict compliance with legal requirements, all Directors and Employees are expected to be guided by the basic principles of loyalty, prudence, honesty and fairness in conducting UTIMCO's affairs.

Sec. 1.02. Definitions. In this Code:

- (1) "Audit and Ethics Committee" means the standing Audit and Ethics Committee established by UTIMCO bylaws.
- (2) "Board" means the Board of Directors of UTIMCO.
- (3) "Board of Regents" means the Board of Regents of The University of Texas System.
- (4) "CEO" means the Chief Executive Officer of UTIMCO.
- (5) "Chief Compliance Officer" means the person designated ~~from time to time~~ as the ~~chair of the Employee Ethics and Chief Compliance Officer by the Audit and Ethics Committee of the Board.~~
- (6) "Director" means a member of the Board of Directors of UTIMCO.
- (7) "Director entity" means an investment fund or other entity controlled by a UTIMCO Director.
- (8) "Employee" means a person working for UTIMCO in an employer-employee relationship.
- (9) "Employee entity" means an investment fund or other entity controlled by a UTIMCO Employee.
- (10) "General Counsel" means ~~the lawyer or firm of lawyers designated from time to time as the external General Counsel an Employee of UTIMCO serving in the position as the chief legal adviser~~ of UTIMCO.

(11) “Fiduciary Counsel” means the lawyer or firm of lawyers designated from time to time as the external counsel to the Board.

(12) “Key Employee” means an Employee who has been designated by the Board as an officer of UTIMCO.

(1213) “Pecuniary interest” in a business entity means:

- (A) ownership of five percent or more of the voting stock or shares of the business entity; or
- (B) ownership of five percent or more of the fair market value of the business entity; or
- (C) receipt of more than five percent of the person’s gross income for the preceding calendar year from the business entity; or
- (D) any private investment in the business entity.

(1314) “Personal securities transactions” means:

- (A) transactions for a Director’s or Employee’s own account, including an individual retirement account; or
- (B) transactions for an account, other than an account over which the Director or Employee has no direct or indirect influence or control, in which the Director or Employee, or the Director’s or Employee’s spouse, minor child, or other dependent Relative:
 - (i) is an income or principal beneficiary or other equity owner of the account; or
 - (ii) receives compensation for managing the account for the benefit of persons other than such person or his or her family.

(1415) “Private investment” means any debt obligation or equity interest that is not a publicly traded security, including a “private investment” in a publicly traded company.

(1516) “Publicly traded company” means a business entity with a class of securities that consists of publicly traded securities.

(1617) “Publicly traded securities” means securities of a class that is listed on a national securities exchange or quoted on the NASDAQ national market system in the United States or that is publicly traded on any foreign stock exchange or other foreign market.

(1718) “Relative” means a person related within the third degree by consanguinity or the second degree by affinity determined in accordance with Sections 573.021 – 573.025, *Government Code*. For purposes of this definition:

- (i) examples of a relative within the third degree by consanguinity are a child, grandchild, great-grandchild, parent, grandparent, great-grandparent, brother, sister, uncle, aunt, niece, or nephew;
- (ii) examples of a relative within the second degree by affinity are a spouse, a person related to a spouse within the second degree by consanguinity, or a spouse of such a person;
- (iii) a person adopted into a family is considered a relative on the same basis as a natural born family member; and
- (iv) a person is considered a spouse even if the marriage has been dissolved by death or divorce if there are surviving children of that marriage.

(1819) “UTIMCO” means The University of Texas/Texas A&M Investment Management Company.

(20) “UTIMCO Contractor” means an independent contractor or secondee who:

- (i) works on premises at UTIMCO or has access to UTIMCO information systems for at least eight consecutive weeks, and
- (ii) is performing a function that would normally be performed by an Employee of UTIMCO.

A third-party vendor or consultant to UTIMCO is not considered an “UTIMCO Contractor.” UTIMCO Contractors are subject to the provisions of this Code, except with respect to Section 3.11, as if they were Employees.

(1921) “UTIMCO entity” means an investment fund or other entity controlled by UTIMCO.

Sec. 1.03. Definition of “Control.” (a) For purposes of this Code, UTIMCO or a Director or Employee is presumed to control an investment fund or other entity if UTIMCO’s or the Director’s or Employee’s management role with or investment in the fund or entity enables UTIMCO or the Director or Employee, as appropriate, to direct the operating or financial decisions of the fund or entity. However, the presumption of control by a Director or Employee shall be rebutted if the General Counsel advises the Board that, based upon a review and confirmation of relevant facts provided by the respective Director or Employee, it is the opinion of the General Counsel that the Director or Employee does not have ultimate control of the operating or financial decisions of a particular fund or entity.

(b) Without limiting the provisions of Subsection (a), UTIMCO or a Director or Employee is not presumed to control an investment fund or other entity if UTIMCO or the Director or Employee, as appropriate, does not have a management role, if the terms of the investment do not give UTIMCO or the Director or Employee, as appropriate, the legal right to direct the operating or financial decisions of the fund or entity, and if UTIMCO or the Director or Employee, as appropriate, does not attempt to direct the operating or financial decisions.

Sec. 1.04. Decision-Making Based on Merit. (a) UTIMCO Directors and Employees shall base UTIMCO business transactions on professional integrity and competence, financial merit and benefit to UTIMCO, and, if required or prudent, on a competitive basis.

(b) UTIMCO Directors and Employees may not base any UTIMCO business decisions on family or personal relationships.

Sec. 1.05. Compliance with Law. Directors and Employees shall comply with all applicable laws, and should be specifically knowledgeable of Section 66.08, *Education Code* (Investment Management), Section 39.02, *Penal Code* (Abuse of Official Capacity), and Section 39.06, *Penal Code* (Misuse of Official Information).

Sec. 1.06. Compliance with Professional Standards. Directors and Employees who are members of professional organizations, such as the CFA Institute, shall comply with any standards of conduct adopted by the organizations of which they are members.

Sec. 1.07. Accounting and Operating Controls. Directors and Employees shall observe the accounting and operating controls established by law and UTIMCO policies, including restrictions and prohibitions on the use

of UTIMCO property for personal or other purposes not related to UTIMCO business.

Sec. 1.08. General Standards of Conduct for Directors and Employees.

(a) It is the policy of UTIMCO that a Director or Employee should not:

- (1) accept or solicit any gift, favor, or service that might reasonably tend to influence the Director or Employee in the discharge of his or her duties for UTIMCO or that the Director or Employee knows or should know is being offered with the intent to influence the Director's or Employee's conduct on behalf of UTIMCO;
- (2) accept other employment or engage in a business or professional activity that the Director or Employee might reasonably expect would require or induce the Director or Employee to disclose confidential information acquired by reason of his or her position with UTIMCO;
- (3) accept other employment or compensation that could reasonably be expected to impair the Director's or Employee's independence of judgment in the performance of his or her duties for UTIMCO;
- (4) make personal investments that could reasonably be expected to create a substantial conflict between the Director's or Employee's private interest and the interests of UTIMCO; or
- (5) intentionally or knowingly solicit, accept, or agree to accept any benefit for having exercised the Director's or Employee's authority or performed the Director's or Employee's duties at UTIMCO in favor of another.

Sec. 1.09. Honesty and Loyalty. (a) Directors and Employees shall be honest in the exercise of their duties and may not take actions that will discredit UTIMCO.

(b) Directors and Employees should be loyal to the interests of UTIMCO to the extent that their loyalty is not in conflict with other duties that legally have priority.

Sec. 1.10. Relationship with UTIMCO Not Used for Personal Gain.

(a) Directors and Employees may not use their relationship with UTIMCO to seek or obtain personal gain beyond agreed compensation or any properly authorized expense reimbursement.

(b) This section does not prohibit the use of UTIMCO as a reference or prohibit communicating to others the fact that a relationship with UTIMCO exists as long as no misrepresentation is involved.

Sec. 1.11. Confidential Information. (a) Directors and Employees may not disclose confidential information unless duly authorized personnel determine that the disclosure is either permitted or required by law.

(b) Directors and Employees shall use confidential information for UTIMCO purposes and not for their own personal gain or for the gain of third parties.

(c) Directors and Employees may not copy confidential information, for any reason, except as required to fulfill their duties for UTIMCO.

(d) Employees may not remove confidential information from the premises of UTIMCO, except as required to fulfill their duties for UTIMCO and then only for so long as required to fulfill their duties.

(e) Employees must return to UTIMCO all confidential information in their possession immediately upon request or immediately upon the termination of Employee's employment with UTIMCO, whichever comes first.

Sec. 1.12. Nepotism. (a) UTIMCO may not employ a person who is a Relative of a Director. This subsection does not prohibit the continued employment of a person who has been working for UTIMCO for at least 30 consecutive days before the date of the related Director's appointment.

(b) UTIMCO may not employ a person who is a Relative of a Key Employee, of a Board-appointed consultant, or of any owner, director, or officer of a Board-appointed consultant. This subsection does not prohibit the continued employment of a person who has been working for UTIMCO for at least 30 consecutive days:

(1) before the date of the selection of the Key Employee or Board-appointed consultant; or

(2) before becoming a Relative.

(c) An Employee may not exercise discretionary authority to hire, evaluate, or promote a Relative.

(d) An Employee may not directly or indirectly supervise a Relative. In this subsection, "supervise" means to oversee with the powers of direction and decision-making the implementation of one's own or another's

intentions, and normally involves assigning duties, overseeing and evaluating work, and approving leave.

(e) This section does not prohibit the employment of a Relative of an Employee for a short-term special project as a non-exempt Employee if the Employee seeking to employ a Relative discloses the relationship in advance to the Chief Compliance Officer and obtains prior approval from that officer for the employment.

Sec. 1.13. Gifts and Entertainment. (a) A Director or Employee may not accept a gift that the Director or Employee knows or should know is being offered or given because of the Director's or Employee's position with UTIMCO. This prohibition applies to gifts solicited or accepted for the personal benefit of the Director or Employee as well as to gifts to third parties.

(b) The prohibitions in this Code do not apply to the following gifts if acceptance does not violate a law:

- (1) gifts given on special occasions between Employees and/or Directors;
- (2) books, pamphlets, articles, or other similar materials that contain information directly related to the job duties of a Director or Employee and that are accepted by the Director or Employee on behalf of UTIMCO for use in performing his or her job duties;
- (3) gifts from the Relatives of a Director or Employee that are based solely on a personal relationship between the Director or Employee and his or her Relative;
- (4) business meals and receptions when the donor or a representative of the donor is present;
- (5) ground transportation in connection with business meetings, meals, or receptions;
- (6) fees for seminars or conferences that relate to the Director's or Employee's job duties and that are sponsored by UTIMCO's consultants or agents, prospective consultants or agents, or persons or entities whose interests may be affected by UTIMCO; ~~and~~
- (7) travel, lodging and meal expenses paid by conference sponsors in exchange for speaking at conferences; and

(8) items of nominal intrinsic value, such as modest items of food and refreshment on infrequent occasions, gifts on special occasions, and unsolicited advertising or promotional material such as plaques, certificates, trophies, paperweights, calendars, note pads, and pencils, ~~but excluding cash or negotiable instruments.~~

(c) Gifts of cash, cash equivalents or negotiable instruments of any value are always prohibited.

(d) Attendance of Directors or Employees at seminars, conferences or other sponsored events that involve entertainment or recreation and that are hosted in person and paid for by UTIMCO's consultants or agents, prospective consultants or agents, or persons or entities whose interests may be affected by UTIMCO may in some cases be in the best interest of UTIMCO. An Employee must obtain specific written approval to attend such events from the CEO or Chief Compliance Officer. Approval may be withheld for elaborate entertainment events such as ski trips, hunting trips, or stays at expensive resorts.

(e) A Director or Employee may not accept a gift if the source of the gift is not identified or if the Director or Employee knows or has reason to know that a prohibited gift is being offered through an intermediary.

(f) A Director or Employee who receives a prohibited gift should return the gift to its source or, ~~if that is not possible or feasible,~~ donate the gift or an equivalent value to charity.

Sec. 1.14. Communications with ~~General-Fiduciary~~ Counsel. When the ~~General-Fiduciary~~ Counsel of UTIMCO is a firm of lawyers, one principal within that firm must be identified to receive all written and oral communications made pursuant to this Code.

Subchapter B. CONFLICTS OF INTEREST

Sec. 2.01. Definition of Conflict of Interest. (a) A conflict of interest exists for a Director or Employee when the Director or Employee has a personal or private commercial or business relationship that could reasonably be expected to diminish the Director's or Employee's independence of judgment in the performance of the Director's or Employee's responsibilities to UTIMCO.

(b) For example, a person's independence of judgment is diminished when the person is in a position to take action or not take action with respect to UTIMCO or its business and the act or failure to act is or

reasonably appears to be influenced by considerations of personal gain or benefit rather than motivated by the interests of UTIMCO.

Sec. 2.02. Duty to Avoid Conflicts of Interest. (a) Directors and Employees should avoid personal, employment, or business relationships that create conflicts of interest.

(b) A Director or Employee may not take action personally or on behalf of UTIMCO that will result in a reasonably foreseeable conflict of interest. If a Director or Employee believes that an action is in the best interest of UTIMCO but could foreseeably result in a conflict of interest, the Director must disclose that fact to the General Counsel or the Employee must disclose that fact to the Chief Compliance Officer before taking the action.

Sec. 2.03. Duty to Disclose and Cure Conflicts. A Director or Employee who becomes aware of a conflict of interest has an affirmative duty to disclose and cure the conflict in a manner provided for in this Code.

Sec. 2.04. Curing Conflicts of Interest. (a) A Director or Employee who becomes aware, or reasonably should have become aware, of a conflict of interest shall cure the conflict by promptly eliminating it, except as provided by Subsection (b).

(b) A Director or Employee may cure a conflict by prudently withdrawing from action on a particular matter in which a conflict exists if:

- (1) the Director or Employee may be and is effectively separated from influencing the action taken;
- (2) the action may properly be taken by others;
- (3) the nature of the conflict is not such that the Director or Employee must regularly and consistently withdraw from decisions that are normally the Director's or Employee's responsibility with respect to UTIMCO; and
- (4) the conflict is not a prohibited transaction resulting from a Director or Employee having a pecuniary interest in a business entity as defined in Section 1.02(~~42~~13) of this Code.

(c) A Director or Employee who cannot or does not wish to eliminate or cure a conflict of interest shall terminate his or her relationship with UTIMCO as quickly as responsibly and legally possible.

Sec. 2.05. Disclosing and Refraining from Participation. (a) A Director must disclose any conflicts of interest regarding matters that are before the Board, absent himself or herself from any relevant deliberations, and refrain from voting on the matter.

(b) An Employee must disclose any conflicts of interest and refrain from giving advice or making decisions about matters affected by the conflict unless the Board, after consultation with the General Counsel and/or Fiduciary Counsel, expressly waives the conflict.

Sec. 2.06. Waivers of Conflicts of Interest. (a) The Board shall decide at an official meeting whether to waive any conflict of interest disclosed under Section 2.05(b) of this Code.

(b) To assist it in deciding whether to grant waivers, the Board may develop criteria for determining the kinds of relationships that do not constitute material conflicts.

(c) Any waiver of a conflict of interest, including the reasons supporting the waiver, must be included in the minutes of the meeting.

(d) The Chief Compliance Officer shall maintain records of all waivers granted, including the reasons supporting the waivers.

Sec. 2.07. Procedures for Director's Disclosure of Conflict of Interest. A Director must disclose conflicts of interest in writing to the General Counsel before a UTIMCO Board meeting. If disclosure is made at a Board meeting, the minutes of the meeting must include the disclosure of the conflict.

Sec. 2.08. Procedures for Employee's Disclosure of Conflict of Interest. (a) An Employee must promptly disclose conflicts of interest in writing to the Chief Compliance Officer through the financial disclosure and ethics compliance statement required by Section 4.03 of this Code. The Chief Compliance Officer shall report to the Audit and Ethics Committee regarding the statements the officer receives under this subsection.

(b) If a person with a duty to disclose a conflict has a reasonable cause to believe that disclosure to the Chief Compliance Officer will be ineffective, the person shall disclose the conflict to the Audit and Ethics Committee by filing a written disclosure with the chair of the Committee.

(c) A copy of the disclosure provided to either the Chief Compliance Officer or the Audit and Ethics Committee shall be provided to the Employee's supervisor unless the person with the conflict of interest

believes that the disclosure would be detrimental to the resolution of the conflict.

Sec. 2.09. Procedures for Preventing Conflicts Related to Publicly Traded Companies. UTIMCO and UTIMCO entities shall implement procedures and safeguards to insure that none of the funds for which the Board of Regents has investment responsibility and for which UTIMCO has been appointed as investment manager is invested by UTIMCO or a UTIMCO entity in the publicly traded securities of a publicly traded company in which a Director or Employee has a pecuniary interest.

Sec. 2.10. Exceptions for Minimal Stock Ownership. It is not a conflict of interest solely because a Director or Employee has an investment in the stock of a publicly traded company that is owned, purchased, sold, or otherwise dealt with by UTIMCO if the Director's or Employee's interest in the stock is not more than five percent of any class and if the Director or Employee is not a director or officer of the company.

Sec. 2.11. Referrals. Referral of information from a Director related to investment opportunities outside of a posted open meeting of the Board must be made using the procedures provided by the Regents' *Rules and Regulations*, Rule 70201, Section ~~4213~~.

Subchapter C. PROHIBITED TRANSACTIONS AND INTERESTS

Sec. 3.01. Prohibitions Related to UTIMCO. (a) Except as provided in Sections 3.04 and 3.05, UTIMCO or a UTIMCO entity may not enter into an agreement or transaction with:

- (1) a Director or Employee acting in other than an official capacity on behalf of UTIMCO;
- (2) a Director entity, Employee entity, or other business entity in which a Director or Employee has, or is in the process of acquiring, a pecuniary interest; or
- (3) an investment fund or account managed by a Director, Director entity, Employee, or Employee entity as a fiduciary or agent for compensation, other than funds for which the Board of Regents has investment responsibility and for which UTIMCO has been appointed as investment manager.

(b) UTIMCO or a UTIMCO entity may not enter into an agreement or transaction with a former Director or Employee, an investment fund or other entity controlled by a former Director or Employee, or a business entity in which a former Director or Employee has a pecuniary interest, on

or before the first anniversary of the date the person ceased to be a Director or Employee.

(c) The prohibitions provided by this section apply to the spouse, minor children, or other dependent Relatives of a current or former Director or Employee.

(d) Notwithstanding the prohibitions provided by this section, the CEO, with the approval of the Chairman of the Policy Committee, may waive the application of this section with respect to an agreement or transaction with a business entity in which the spouse, minor child, or other dependent Relative of an Employee has a pecuniary interest as a result of Section 1.02(~~1213~~)(C) of this Code so long as such spouse, minor child, or other dependent Relative is not in a management or executive officer position and does not have control of the operating or financial decisions of the business entity.

Sec. 3.02. Prohibitions Related to Directors. (a) Except as provided in Sections 3.04 and 3.05, a Director or a Director entity may not enter into an agreement or transaction with:

- (1) UTIMCO or an Employee acting in other than an official capacity on behalf of UTIMCO; or
- (2) a UTIMCO entity, Employee entity, or other business entity in which UTIMCO owns, or is in the process of acquiring, a private investment or an Employee has, or is in the process of acquiring, a pecuniary interest.

(b) The prohibitions provided by this section apply to the spouse, minor children, or other dependent Relatives of a Director or Employee.

Sec. 3.03. Prohibitions Related to Employees. (a) Except as provided in Sections 3.04 and 3.05, an Employee or Employee entity may not enter into an agreement or transaction with:

- (1) UTIMCO or a Director acting in other than an official capacity on behalf of UTIMCO; or
- (2) a UTIMCO entity, Director entity, or other business entity in which UTIMCO owns, or is in the process of acquiring, a private investment or a Director has, or is in the process of acquiring, a pecuniary interest.

(b) The prohibitions provided by this section apply to the spouse, minor children, or other dependent Relatives of a Director or Employee.

Sec. 3.04. UTIMCO Investments in Private Investments of Certain Business Entities. UTIMCO or a UTIMCO entity may invest in the private investments of a business entity when a Director or Director entity then owns a private investment in the same business entity if:

- (1) the Director or Director entity acquired the private investment before the date on which the Director assumed a position with UTIMCO;
- (2) the Director's private investment does not constitute a pecuniary interest in a business entity as defined in Section 1.02(~~12~~13)(A)-(C) of this Code; and
- (3) the Board approves the investment by UTIMCO or the UTIMCO entity by a vote of two-thirds of the membership of the Board after a full disclosure in an open meeting of the relevant facts and a finding by the Board that the investment will not benefit the director or director entity financially.

Sec. 3.05. Divestment Not Required For Certain Private Investments. A Director, Director entity, Employee or Employee entity that owns a private investment in a business entity on the date on which the Director or Employee assumes a position with UTIMCO is not required by Section 3.02 or 3.03 of this Code to divest that private investment as long as the private investment does not constitute a pecuniary interest in a business entity as defined in Section 1.02(1~~3~~2)(A)-(C) of this Code. Any transactions concerning the private investment that might occur after that date are subject to this Code.

Sec. 3.06. Director Personal Securities Transactions. (a) A Director or Director entity may buy or sell a publicly traded security of an issuer that is held by UTIMCO but may not engage in a personal securities transaction if the Director has actual knowledge that an internal portfolio manager of UTIMCO has placed a buy/sell order for execution.

(b) The prohibition provided by this section applies to a Director's spouse, minor child, or other dependent Relative.

Sec. 3.07. Employee Personal Securities Transactions. (a) Employees are explicitly prohibited from using, directly or indirectly, advance knowledge of a UTIMCO trading decision to buy or sell a security (front-running) or trading a security when he/she has material, non-public information concerning the security or the issuer of the security (insider trading).

(b) UTIMCO shall develop and implement a Personal Trading Policy that addresses policies, procedures, and standards of conduct applicable to Employees' personal securities transactions. It is a condition of employment that Employees comply with the Personal Trading Policy.

(c) Employees must disclose all accounts where they have the influence or control to trade securities subject the Personal Trading Policy.

(d) Employees have an obligation to obtain approval to trade prior to buying or selling securities subject to the Personal Trading Policy. Trade approval must be requested and obtained in the manner set forth in the Personal Trading Policy. UTIMCO will monitor Employee personal trading activities in disclosed accounts.

~~Employees are prohibited from using advance knowledge of a UTIMCO decision to buy or sell a security for the personal financial gain of the Employee.~~

~~(b) An Employee or Employee entity may engage in a personal securities transaction without obtaining preclearance for the transaction from the Chief Compliance Officer with respect to a security that is not a security of an issuer that is held by UTIMCO and included on the UTIMCO maintained list of securities holdings. The UTIMCO list of securities holdings will be posted on the UTIMCO intranet and updated as securities holdings change. An employee may rely on the posted list when engaging in personal securities transactions.~~

~~(c) Before an Employee or Employee entity may engage in a personal securities transaction with respect to a security of an issuer that is included on the UTIMCO maintained list of securities holdings, the Employee or Employee entity must obtain preclearance for the transaction from the Chief Compliance Officer. Preclearance is effective for one trading day only.~~

~~(d) The Chief Compliance Officer shall verify that no buy/sell order has been placed by a UTIMCO internal manager with respect to the security of an issuer held by and included on the UTIMCO maintained list of securities holdings that is the subject of the Employee's personal securities transaction. If such a buy/sell order has been placed, an Employee or Employee entity may not conduct the personal securities transaction for those securities until at least one trading day after the buy/sell order has been completed or canceled.~~

~~(e) The Chief Compliance Officer shall document preclearances in a personal securities transaction log for each Employee, which will provide a record of all requests and approvals or denials of preclearances.~~

~~(f) An Employee who engages in a personal securities transaction must provide transactional disclosure for each transaction by completing a transactional disclosure form and filing it with the Chief Compliance Officer not~~

~~later than the tenth calendar day after the trade date. The form must contain the:~~

~~(1) name and amount of the security involved;~~

~~(2) date and nature of the transaction;~~

~~(3) price at which the transaction was effected; and~~

~~(4) name of the broker through whom the transaction was effected.~~

~~(g) The preclearance and transactional disclosure requirements apply only to equity or equity related transactions, including stocks, convertibles, preferreds, options on securities, warrants, and rights, etc., for domestic and foreign securities, whether publicly traded or privately placed. The preclearance and transactional disclosure requirements do not apply to bonds other than convertible bonds, mutual funds, co-mingled trust funds, exchange traded funds, interest rate, currency, commodity, and stock index futures, and options on those futures.~~

~~(he) This section applies to an Employee's spouse, minor child, or other dependent Relative.~~

Sec. 3.08. Interest in Brokerage Firm (a) A Director may not direct trades or exercise discretion over the selection of brokerage firms.

(b) An Employee may not have stock or other ownership or profit sharing interest in a brokerage firm selected by the Employee for UTIMCO business if the Employee has the discretion to direct trading and therefore the discretion to select brokerage firms.

(c) The restrictions provided by this section apply to:

(1) stock held for an Employee's own account;

(2) stock or other ownership or profit sharing interests held by an Employee's spouse; and

(3) stock held for an account, other than an account over which the Employee has no direct or indirect influence or control, in which the Employee has a beneficial interest, such as accounts involving the spouse, minor child, or other dependent Relative.

(d) The restrictions provided by this section do not prohibit the ownership of stock in a company that may own stock in a brokerage firm if the brokerage firm is not the dominant or primary business of the parent company.

Sec. 3.09. Employee's Outside Employment or Business Activity. (a) An Employee may not engage in outside employment, business, or other activities that detract from the ability to reasonably fulfill the full-time responsibilities to UTIMCO.

(b) An Employee must obtain advance written approval from the CEO for any outside employment or business, including service as director, officer, or investment consultant or manager for another person or entity. The CEO must obtain advance approval from the Board for any outside employment.

(c) An Employee, with the prior approval of the Board, may serve as a director of a company in which UTIMCO has directly invested its assets. The Board's approval must be conditioned on the extension of UTIMCO's Directors and Officers Insurance Policy coverage to the Employee's service as director of the investee company. All compensation paid to an Employee for service as director of an investee company shall be endorsed to UTIMCO and applied against UTIMCO's fees.

Sec. 3.10. Further Restrictions on Directors and Employees. A Director or Employee may not:

- (1) participate in a matter before UTIMCO that involves a business, contract, property, or investment held by the person if it is reasonably foreseeable that UTIMCO action on the matter would confer a benefit to the person by or through the business, contract, property, or investment;
- (2) recommend or cause discretionary UTIMCO business to be transacted with or for the benefit of a Relative;
- (3) accept offers by reason of the person's position with UTIMCO to trade in any security or other investment on terms more favorable than available to the general investing public;
- (4) borrow from investment managers, outside service providers, professional advisors or consultants, banks, or other financial institutions with which UTIMCO has a business relationship unless the entity is normally engaged in such lending in the usual course of business, in which case the transaction must be on customary terms offered to others under similar circumstances to finance proper and usual activities; or

- (5) represent any person in any action or proceeding before or involving the interests of UTIMCO except as a duly authorized representative or agent of UTIMCO.

Sec. 3.11. Former Directors and Employees. (a) A former Director or Employee may not make any communication to or appearance before a current Director or Employee before the second anniversary, in the case of a former Director, or the first anniversary, in the case of a former Employee, of the date the former Director or Employee ceased to be a Director or Employee if the communication is made:

- (1) with the intent to influence; and
- (2) on behalf of any person in connection with any matter on which the former Director or Employee seeks action by UTIMCO.

(b) State law provides that a former Director who violates subsection (a) commits an offense. An offense under this subsection is a Class A misdemeanor.

(c) A Director or Employee who knowingly communicates with a former Director or Employee in violation of subsection (a) is subject to disciplinary action, including removal from serving as a Director.

(d) A former officer or Employee may not represent any person or receive compensation for services rendered on behalf of any person regarding a particular matter in which the former officer or Employee participated during the period of service or employment with the corporation, either through personal involvement or because the particular matter was within the officer's or Employee's responsibility. In this subsection:

- (1) "Participated" means to have taken action as an officer or Employee through decision, approval, disapproval, recommendation, giving advice, investigation, or similar action.
- (2) "Particular matter" means a specific investigation, application, request for a ruling or determination, rulemaking proceeding, contract, claim, charge, accusation, arrest, or judicial or other proceeding.

(e) State law provides that a former officer or Employee who violates subsection (d) commits an offense. An offense under this subsection is a Class A misdemeanor.

(f) A former Director or Employee may not disclose confidential information without UTIMCO's written consent or except as permitted or required by law.

**Subchapter D. FINANCIAL DISCLOSURE, COMPLIANCE,
AND ENFORCEMENT**

Sec. 4.01. ~~Employee Ethics and Duties of the Chief Compliance Committee Officer.~~ (a) ~~The CEO shall appoint an Employee Ethics and Compliance Committee composed of UTIMCO Chief Compliance Officer shall personnel.;~~

~~(b) The Chief Compliance Officer appointed by the Audit and Ethics Committee shall be the chair of the Employee Ethics and Compliance Committee.~~

~~(c) The Employee Ethics and Compliance Committee shall:~~

~~(1) be a Key Employee of UTIMCO;~~

~~(2) provide regular updates to the Audit and Ethics Committee, the CEO, and other Key Employees of material compliance matters;~~

~~(3) communicate with representatives of the Board of Regents as required by Regents' Rules and Regulations and U.T. System policies;~~

~~(1)(4) provide periodic ethics training for UTIMCO personnel; and~~

~~(25) issue opinions on the proper interpretation of this Code.~~

~~(db) An Employee may file a written request with the Employee Ethics and Chief Compliance Committee Officer for an opinion on the proper interpretation of this Code, and may rely on that opinion with respect to compliance with this Code.~~

Sec. 4.02. Financial Disclosure Statements. (a) Directors and Employees shall file financial disclosure statements with the Chief Compliance Officer.

(b) Directors and Employees shall file the financial disclosure statement not later than the 30th day after the date of appointment or employment, and not later than April 30 of each year thereafter. If the deadline falls on a weekend or holiday, the financial disclosure statement shall be filed on the next business day. The CEO may postpone a filing deadline for not

more than 60 days on the written request of a Director or Employee (other than the CEO), or for an additional period for good cause as determined by the chair of the Board. A CEO's request to postpone his/her filing deadline must be approved by the chair of the Board.

(c) Directors and Employees must provide material updates to their financial disclosure statements as soon as practicable and in any event no later than ninety days after the material change occurred.

(d) UTIMCO must maintain a financial disclosure statement for at least five years after the date it is filed.

(~~e~~) Directors who are required to file disclosure statements with the Texas Ethics Commission shall file those statements in the form prescribed by law.

Sec. 4.03. Ethics Compliance Statements. (a) Directors and Employees, ~~including acting or interim Employees,~~ must file ethics compliance statements with the Chief Compliance Officer.

(b) Directors and Employees shall sign, date, and file the ethics compliance statements not later than the 30th day after the date of appointment or employment. Thereafter, any person who is a Director or Employee on December 31 of any year must file the compliance statement not later than April 30 of the following year. If the deadline falls on a weekend or holiday, the ethics compliance statement shall be filed on the next business day. The CEO may postpone a filing deadline for not more than 60 days on the written request of a Director or Employee (other than the CEO), or for an additional period for good cause as determined by the chair of the Board. A CEO's request to postpone his/her filing deadline must be approved by the chair of the Board.

(c) In the ethics compliance statement, the Director or Employee must acknowledge that he or she has received and read this Code, that he or she will comply with its provisions, and that it is his or her duty to report any act by other Directors or Employees when he or she has knowledge of a violation of this Code. An Employee must also acknowledge that adherence to this Code is a condition of employment. The statement must also disclose any conflicts of interest or violations of the Code of which the Director or Employee is aware.

(d) Key Employees must acknowledge their Key Employee status in the ethics compliance statement.

(e) The ethics compliance statement must include a reminder that a Director or Employee is required to update a statement if a change in circumstances occurs that would require reporting under this Code.

(f) The Chief Compliance Officer shall maintain the Directors' and Employees' signed statements.

Sec. 4.04. Certification of No Pecuniary Interest. ~~The Chief Compliance Officer will send~~Before the Board enters into an agreement or transaction with a business entity each Director and Key Employee a summary description of a proposed investment in a new business entity that is being considered by the internal investment committee. It is the duty of each Director and Key Employee to disclose to the Chief Compliance Officer if he or she has acquired, or intends to acquire, a pecuniary interest, as defined by Section 1.02(13) of this Code, in the business entity in which UTIMCO will invest. UTIMCO shall develop and implement procedures to ensure compliance with this requirements~~shall certify that he or she does not have a pecuniary interest, as defined by Section 1.02(12) of this Code, in the business entity.~~

Sec. 4.05. Disciplinary Action Disclosure Statements. (a) Directors and Key Employees shall file disciplinary action disclosure statements that disclose any proceedings, actions, or hearings by any professional organization or other entity involving the Director or Key Employee.

(b) Directors and Key Employees must file the disciplinary action disclosure statement with the Chief Compliance Officer not later than April 30 of the first year of designation as a Director or Key Employee and not later than April 30 of each year thereafter. If the deadline falls on a weekend or holiday, the disciplinary action disclosure statement shall be filed on the next business day. The CEO may postpone a filing deadline for not more than 60 days on the written request of a Director or Employee (other than the CEO), or for an additional period for good cause as determined by the chair of the Board. A CEO's request to postpone his/her filing deadline must be approved by the chair of the Board.

(c) A Director or Key Employee must promptly update a statement if any action occurs that would cause a Director's or Employee's answers to change.

Sec. 4.06. Custodian of Records. For open records purposes, the Chief Compliance Officer is the custodian of the disclosure statements required by this Code.

Sec. 4.07. Enforcement. (a) The CEO is responsible for implementing this Code with respect to Employees. The Board shall enforce this Code with respect to Employees through the CEO.

(b) An Employee who violates this Code may be subject to the full range of disciplinary options under UTIMCO personnel policies and practices, including termination.

(c) The Board shall enforce this Code with respect to individual Directors through resolutions of reprimand, censure, or other appropriate parliamentary measures, including requests for resignation.

Sec. 4.08. Duty to Report. (a) A Director who has knowledge of a violation of this Code shall report the violation to the General Counsel.

(b) An Employee who has knowledge of a violation of this Code shall report the violation to the Chief Compliance Officer or to a member of the Audit and Ethics Committee.

(c) Retaliatory action may not be taken against a person who makes a good faith report of a violation involving another person.

Sec. 4.09. Notice to Audit and Ethics Committee. The CEO shall notify the Audit and Ethics Committee in writing not later than February 15 of each year concerning:

- (1) any approval given for outside employment by Employees for the preceding year, including the nature of the employment; and
- (2) any disciplinary action disclosed by Directors or Key Employees.

10. **U. T. System Board of Regents: Approval of the Annual Budget for Fiscal Year 2024, 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, 2024, 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 \$71.7 million (4.0% increase over FY 2023 budget) for UTIMCO Services and \$8.3 million (11.4% increase from FY 2023 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 were approved by the UTIMCO Board on June 15, 2023.

The 4.0% increase in UTIMCO Services is due primarily to the increase in the IRS excise taxes, salaries and payroll taxes related to normal raises and promotions, and data & subscription costs.

The proposed capital expenditures budget is \$225,000.

The proposed Annual Fee and Allocation Schedule shows the allocation of the proposed budgeted expenses among U. T. System funds. The fees are to be paid quarterly.

There are no reserves available for distribution back to the U. T. Funds.

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.



FY 2024 Budget

Mr. Rich Hall, President, Chief Executive Officer and Chief Investment Officer

U. T. System Board of Regents Meeting

Finance and Planning Committee

August 2023



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, 2024

| <u>Proposed Budget</u> | <u>Fund Name</u> | | | | | | Separate Funds | Debt Proceeds | Total |
|--|------------------|--------|--------|------------|------------|-------|-------------------|------------------|-------------------|
| | PUF | PHF | LTF | GEF | ITF | STF | | | |
| <u>Market Value 4/30/23 (\$ millions)</u> | 32,397 | | | 21,967 | 8,965 | 4,265 | 186 | 461 | 68,241 |
| <u>UTIMCO Management Fee</u> | | | | | | | | | |
| Dollars | 36,668,411 | | | 24,863,259 | 10,146,998 | | | | 71,678,668 |
| Basis Points | 11.3 | | | 11.3 | 11.3 | | | | 10.5 |
| <u>Direct Expenses to the Fund, excluding UT System Direct Expenses to the Fund</u> | | | | | | | | | |
| Dollars | 4,155,818 | 26,039 | 29,039 | 2,878,458 | 1,228,445 | | | | 8,317,799 |
| Basis Points | 1.3 | 0.2 | 0.0 | 1.3 | 1.4 | | | | 1.2 |

Appendix





FY 2024 Budget vs. FY 2023 Budget

| | FY 2023 | FY 2024 | | | FY 2024 Budget Proposed v FY 2023 Budget | |
|---|----------------------|----------------------|-------------------|---|---|--------------|
| | Budget | Proposed Budget | % of Total Budget | Projected in Original 2019 Strategic Plan | \$ | % |
| UTIMCO Personnel Costs: | | | | | | |
| Salaries | 23,484,680 | 24,680,045 | 31% | 26,017,209 | 1,195,365 | 5.1% |
| Performance Compensation | 21,617,598 | 21,055,462 | 26% | 24,593,696 | (562,136) | -2.6% |
| Benefits & Taxes | 7,575,060 | 8,710,966 | 11% | 6,088,027 | 1,135,906 | 15.0% |
| Total UTIMCO Personnel Costs (1) | \$ 52,677,338 | \$ 54,446,473 | 68% | \$ 56,698,932 | \$ 1,769,135 | 3.4% |
| Other UTIMCO Costs: | | | | | | |
| Data & Subscriptions | 5,649,394 | 6,946,452 | 9% | 4,095,747 | 1,297,058 | 23.0% |
| Travel | 1,172,500 | 1,330,000 | 2% | 1,505,407 | 157,500 | 13.4% |
| Lease | 3,310,668 | 3,198,408 | 4% | 2,900,000 | (112,260) | -3.4% |
| Depreciation | 2,000,000 | 1,850,000 | 2% | 1,500,000 | (150,000) | -7.5% |
| Other Costs | 4,085,814 | 3,907,336 | 5% | 2,204,641 | (178,478) | -4.4% |
| Total Other UTIMCO Costs: (2) | \$ 16,218,376 | \$ 17,232,196 | 22% | \$ 12,205,795 | \$ 1,013,820 | 6.3% |
| Total UTIMCO Services Costs: | \$ 68,895,714 | \$ 71,678,668 | 90% | \$ 68,904,727 | \$ 2,782,954 | 4.0% |
| Bps of AUM | 10.13 | 9.96 | | 10.52 | | |
| Direct Fund Costs: | | | | | | |
| Custodian Fees | 4,934,000 | 4,984,000 | 6% | 6,588,450 | 50,000 | 1.0% |
| Other (3) | 2,529,914 | 3,333,799 | 4% | 3,511,060 | 803,885 | 31.8% |
| Total Direct Fund Costs | \$ 7,463,914 | \$ 8,317,799 | 10% | \$ 10,099,510 | \$ 853,885 | 11.4% |
| Grand Total UTIMCO Budget: | \$ 76,359,628 | \$ 79,996,467 | | \$ 79,004,237 | \$ 3,636,839 | 4.8% |
| Bps of AUM | 11.23 | 11.11 | | 12.08 | | |
| AUM projected (\$ billion) | \$68 | \$72 | | \$65 | | |
| UTIMCO Headcount | 132 | 133 | | 132 | | |

NOTES:

- FY24 Budgeted Total Personnel Costs increased by 3.4% from the FY23 Budget primarily as the result of an increase in the IRS excise taxes of 21% over \$1M in individual compensation. Additionally, salaries and benefits & taxes costs also increased related to normal raises and promotions.
- Budgeted Other UTIMCO Costs increased by 6.3% from FY23 to FY24 primarily as a result of an increase in Data & Subscriptions and Travel costs offset by a decrease in Lease, Depreciation, and Hiring costs.
- Other Direct Costs include: Fund Auditors/Accounting Fees (\$861k), Legal Fees (\$1.5mil), Tax Consultants (\$75k), Background Searches (\$318k), Performance Attribution Costs (\$90k), Consultants (\$273k)

Fiscal Year 2024

**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 21, 2023

Based on UTIMCO Board approval on June 15, 2023

Fiscal Year 2024
Review of UTIMCO Services Budget and
Other Direct Costs to Funds Budget
(Excluding External Investment Manager Fees)

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Executive Summary

This report reviews the UTIMCO Services Budget and other budgeted investment management expenses (“Direct Costs to Funds”) for fiscal year 2024 that the UTIMCO Board approved on June 15, 2023 and the U. T. System Board of Regents will consider at its August 23-24, 2023 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 FY24 is:

| | FY24 (\$ millions) |
|-------------------------------------|-------------------------------------|
| UTIMCO Services Budget | 71.7 |
| <u>Direct Costs to Funds Budget</u> | <u>8.3</u> |
| Total Budgeted Costs | <u>\$ 80.0</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:

- **Strategic Plan:** Growth in the UTIMCO budget for FY24 largely reflects the implementation of a five-year strategic growth plan that was approved in June 2019. Although growth plans were delayed in FY21 as a result of the COVID-19 pandemic, UTIMCO revised its original plan as markets recovered such that the FY23 and FY24 budget approximates the original plan.
- **Total Forecast Costs for FY23:** Total costs for FY23 are forecast at \$81.5 million, which is \$5.1 million or 6.7% higher than what was budgeted. The increase is due primarily to the deferral of \$7.7 million compensation from FY22 due to negative returns that year.
- **Total Budgeted Costs for FY24:** The FY24 budget is \$80.0 million, a 4.8% increase from FY23:
 - **The UTIMCO Services Budget:** The FY24 budget includes \$71.7 million for the “operating” budget of UTIMCO, a 4.0% increase from the FY23 budget. The increase is due primarily to increases in baseline salaries, promotions, and increased technology and other costs.
 - **The Total Direct Costs to Funds Budget:** The FY24 budget of \$8.3 million for direct fund costs is 11.4% higher than the FY23 budget due primarily to increased legal expenses, background searches, and higher auditing costs.
- **UTIMCO Reserves:** Although there are some reserves available to be distributed at fiscal year-end 2023 as the reserve balances are at the levels needed to cover appropriate levels of the budget and capital expenditures, we do not currently recommend any rebate.
- **UTIMCO Costs Compared to Peers:** UTIMCO’s total costs as a percentage of AUM are forecast to be 11 bps in FY23, which is lower than where it has been over the prior 5-year period due to higher-than-expected returns and resulting increase in AUM while managing the growth from the 2019 Strategic Plan. While total costs have increased over the years, UTIMCO has conducted benchmarking studies showing that total costs as a percentage of AUM remain below industry averages and are favorable compared to peers.

Budget Analysis and Trends

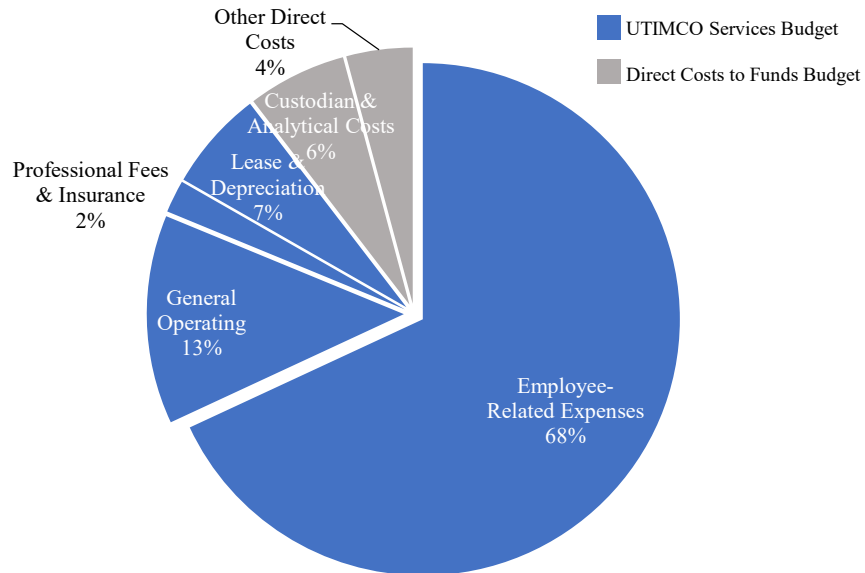
UTIMCO proposes Total Budgeted Costs for FY24 of \$80.0 million. Table 1 shows the Total Budgeted Costs (Direct Costs to Funds and UTIMCO Services Budget) as a percent of average AUM for FY24 and the Total Actual and Forecast Costs as a percent of average AUM from FY19 to FY23.

Table 1: Total Actual Costs Trend FY19-FY23 and Total Budgeted Costs FY24
(\$ millions)

| | FY19 | FY20 | FY21 | FY22 | Forecast FY23 | Budget FY24 |
|--|--------|--------|--------|--------|------------------|----------------|
| Average Total AUM¹ | 46,400 | 49,906 | 59,803 | 66,392 | 67,243 | 70,804 |
| % Change in AUM | 7% | 8% | 20% | 11% | 12% | 7% |
| Direct Costs to Funds | 7.5 | 6.7 | 7.6 | 8.4 | 7.5 | 8.3 |
| % Change in Direct Costs to Funds | -29.0% | -11.7% | 14.4% | 9.6% | -1.4% | -0.5% |
| Direct Costs to Funds % of AUM | 0.02% | 0.01% | 0.01% | 0.01% | 0.01% | 0.01% |
| UTIMCO Services | 41.8 | 47.3 | 55.8 | 52.7 | 73.9 | 71.7 |
| % Change in UTIMCO Services | 15.8% | 13.2% | 17.9% | -5.4% | 32.6% | 35.9% |
| UTIMCO Services % of AUM | 0.09% | 0.09% | 0.09% | 0.08% | 0.11% | 0.10% |
| Total Costs | 49.3 | 54.0 | 63.4 | 61.1 | 81.5 | 80.0 |
| % Change in Total Costs | 5.6% | 9.4% | 17.5% | -3.6% | 28.5% | 30.9% |
| Total Costs % of AUM | 0.11% | 0.11% | 0.11% | 0.09% | 0.12% | 0.11% |

¹ FY23 and FY24 Average Total AUM assumes projected balances based on moderate returns, projected West Texas Land and gift income, and projected distributions.

FY24 Total Budgeted Costs \$80.0 million



The UTIMCO Services Budget (blue shade in the pie chart above) represents 90% of the total budget, with employee-related expenses being the largest component at 76% of the Services Budget. Direct Costs to Funds include Custodian & Analytical Costs (6%) and Other Direct Costs (4%).

Management fees and performance fees paid to external investment managers, which are either paid directly by UTIMCO or netted against asset values by the external managers, are not included in these amounts. UTIMCO retains external managers for approximately 94% of the AUM, with UTIMCO staff directly managing approximately 6% of assets as well as an internal derivatives portfolio.

Table 2 compares the Total Budgeted Costs for FY23 and FY24. Refer to Exhibits A and B at the end of this memo for a detailed budget comparison for FY23-FY24 and actual trend history for FY19-FY23.

Table 2: FY23 Forecast and FY24 Budget Overview
(\$ millions)

| | FY23 Forecast | | | | FY24 Budget | | | |
|------------------------------|---------------|--------------|--------------------------|-------------------------|-------------|-----------------------------|----------------------------|-------------------------|
| | \$ Budget | \$ Projected | \$ Change vs FY23 Budget | % Change vs FY23 Budget | \$ Budget | \$ Change vs FY23 Projected | % Change vs FY23 Projected | % Change vs FY23 Budget |
| UTIMCO Services | 68.9 | 73.9 | 5.0 | 7.3% | 71.7 | -2.2 | -3.0% | 4.0% |
| Direct Costs to Funds | 7.5 | 7.5 | 0.0 | 0.8% | 8.3 | 0.8 | 10.5% | 11.4% |
| Total Budgeted Costs | 76.4 | 81.5 | 5.0 | 6.7% | 80.0 | -1.5 | -1.8% | 4.8% |

UTIMCO Services Budget

In 2019, 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 (“2019 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 (or a total headcount of 132) by FY24.

The COVID-19 pandemic significantly affected travel, commerce, and financial markets globally, which caused UTIMCO to diverge from the 2019 Strategic Plan in FY21 by pausing hiring, promotions and raises, but hiring has since caught up to align closely with the original plan. The current proposed budget for FY24 projects 133 employees, which is consistent with the 2019 Strategic Plan.

For FY24, total personnel-related expenses including employee benefits account for 76% of the UTIMCO Services Budget (or 68% 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:

- The increase in Performance Compensation for FY23 is primarily because of the deferral of compensation from FY22. Negative returns in FY22 triggered the extraordinary deferral provision of the compensation plan, which resulted in \$7.7M of budgeted performance compensation being deferred from FY22 to FY23 and was the main reason FY22 actual expenses were under budget by \$7.9M.

- Total Compensation has increased 10.7% annually over the last five years as a result of hiring additional employees, promotions, and base salary raises, in line with the 2019 Strategic Plan.
- Total Compensation per employee has increased 3.5% (annualized) from \$290k to \$344k budgeted in FY24. UTIMCO staff indicates these increases are in line with market trends among endowment investment management peers as reported by Mercer, an independent compensation consultant, which provides annual guidance to the UTIMCO Board.
- AUM has steadily increased since FY19 due to positive returns and historic levels of PUF lands income, which continues a longer-term trend of increasing average AUM per Employee.

Table 3: UTIMCO Compensation and Headcount FY19-FY24 (excluding benefits)

| | Actual | | | | Forecast FY23 | % Change Since FY19 (annual) | Budget FY24 | % Change From FY23 | % Change Since FY19 (annual) |
|--|---------|---------|---------|---------|------------------|--|----------------|-----------------------------|--|
| | FY19 | FY20 | FY21 | FY22 | | | | | |
| Employees (as of year end) | 95 | 110 | 115 | 123 | 132 | 8.6% | 133 | 0.8% | 7.0% |
| Average Total AUM(\$ millions) | 46,400 | 49,906 | 59,803 | 66,392 | 67,243 | 9.7% | 70,804 | 5.3% | 8.8% |
| Average AUM/Employee (\$ millions) | 488 | 454 | 520 | 540 | 509 | 1.1% | 532 | 4.5% | 1.7% |
| Salaries (\$ millions) | 16.2 | 17.0 | 18.2 | 20.3 | 22.3 | 8.3% | 24.7 | 10.7% | 8.7% |
| Performance Compensation (\$ millions) | 11.3 | 15.2 | 20.0 | 12.9 | 29.2 | 26.9% | 21.1 | -27.9% | 13.3% |
| Total Compensation (\$ millions) | 27.5 | 32.2 | 38.2 | 33.2 | 51.5 | 17.0% | 45.7 | -11.2% | 10.7% |
| Total Compensation per Employee (\$) | 289,541 | 292,288 | 332,006 | 269,622 | 390,148 | 7.7% | 343,876 | -11.9% | 3.5% |
| Perf. Comp. as % of Salaries | 69% | 89% | 110% | 63% | 131% | | 85% | | |
| Perf. Comp. as % of Total Compensation | 41% | 47% | 52% | 39% | 57% | | 46% | | |

Lease and Depreciation Expenses: Lease expenses are budgeted to decline slightly compared to FY23 forecasted amounts due primarily to the implementation of new accounting rules (GASB 87), which eliminates amortizing tenant improvements (deferred rent credit) and is used instead to reduce the beginning lease asset that is depreciated. The new accounting treatment is expected to result in a slight decrease in lease expenses over time as the interest expense portion declines, but higher operating lease expenses are expected to offset that. Lease expenses have increased in recent years due to the build-out of additional space in the UT System building to accommodate the growth from the 2019 Strategic Plan that was completed in late 2020. Table 4 shows the lease expense trends from FY19-FY24.

Table 4: UTIMCO Lease Expenses FY19-FY24

| | Actual | | | | Forecast FY23 | Budget FY24 |
|-------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | FY19 | FY20 | FY21 | FY22 | | |
| Property Lease and Interest Expense | \$1,783,725 | \$1,942,423 | 2,394,153 | 2,372,879 | 2,350,779 | 2,168,502 |
| Operating Lease | 475,606 | 582,545 | 699,171 | 663,353 | 749,997 | 750,906 |
| Parking Expenses | 214,830 | 219,266 | 215,500 | 235,800 | 266,350 | 279,000 |
| Total Lease Expenses (net) | \$2,474,161 | \$2,744,234 | \$3,308,824 | \$3,272,032 | \$3,367,126 | \$3,198,408 |

Depreciation Expense is budgeted to be flat at \$1.9 million compared to the FY23 forecasted amount as the buildout of expanded lease space, furniture, and new equipment to support additional employees has been completed, and there are currently no further plans for significant capital improvements.

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 \$10.2 million in FY23, which is \$0.7 million or 7% lower than the FY23 budget of \$10.9 million. The decrease is primarily due to lower hiring consultant fees paid and lower legal expenses.

The FY24 budget of \$12.1 million is 12% higher than what was budgeted in FY23. Generally, this increase is related to broad-based cost increases linked to recent inflationary trends in the U.S. economy. For UTIMCO specifically, there has been a shift to more subscription-based information technology (“SBIT”), which results in higher operating expenses but reduces both capital expenditures and maintenance costs related to IT hardware and software. Additionally with a larger number of employees, it is necessary to purchase more IT licenses for existing services and risk systems. Finally, airline and hotel related travel costs have risen significantly in the past 12 months.

Direct Costs to Funds

Direct Costs to Funds for FY24 are budgeted at \$8.3 million, an 11.4% increase from the FY23 budget. This is primarily due to higher legal fees. UTIMCO’s General Counsel has been adding new outside counsel to accommodate the higher number and level of complexity of deals being executed, which is part of a larger plan to utilize internal counsel for most corporate legal matters and to shift more of the investment transaction related legal matters to outside counsel.

UTIMCO Capital Expenditures

The trend for Capital Expenditures for FY19-FY24 is summarized in Table 5 below. Capital expenditures in recent years has been substantially lower than FY21 due to the completion of the build-out of newly leased space.

Table 5: UTIMCO Capital Expenditures FY19-FY24

| | Actual | | | | Forecast FY23 | Budget FY24 |
|--|------------------|------------------|--------------------|------------------|------------------|------------------|
| | FY19 | FY20 | FY21 | FY22 | | |
| Ongoing: Technology and Software Upgrades | \$115,487 | \$200,000 | \$119,000 | \$25,000 | \$282,000 | \$100,000 |
| Ongoing: Office Equipment and Fixtures | - | 113,000 | 89,000 | 109,000 | 130,000 | 125,000 |
| Expansion: Technology Initiatives / Video Conferencing | - | - | - | - | - | - |
| Expansion: Leasehold Buildout (net of TI allowance) | - | - | 2,352,000 | - | - | - |
| Expansion: Furniture and Fixtures | 65,573 | - | 423,000 | 2,730 | - | - |
| Total Capital Expenditures (net) | \$181,060 | \$313,000 | \$2,983,000 | \$136,730 | \$412,000 | \$225,000 |

EXHIBIT A

Total Budgeted Costs FY23-FY24

| | FY23 | | Change from FY23 Budget | | FY24 | | Change from FY23 Forecast | | Change from FY23 Budget |
|---|-------------------|-------------------|-------------------------|---------------|-------------------|-------------------|---------------------------|---------------|-------------------------|
| | Budget | Forecast | \$ | % | Budget | \$ | % | % | |
| UTIMCO Services | | | | | | | | | |
| Salaries | 23,484,680 | 22,303,794 | -1,180,886 | -5.0% | 24,680,045 | 2,376,251 | 10.7% | 5.1% | |
| Performance Compensation + Earnings | 21,617,598 | 29,195,702 | 7,578,104 | 35.1% | 21,055,462 | -8,140,240 | -27.9% | -2.6% | |
| Total Compensation | 45,102,278 | 51,499,496 | 6,397,218 | 14.2% | 45,735,507 | -5,763,989 | -11.2% | 1.4% | |
| Total Payroll taxes | 3,026,743 | 2,873,182 | -153,561 | -5.1% | 3,828,386 | 955,204 | 33.2% | 26.5% | |
| 403(b) Contributions | 1,767,930 | 1,664,615 | -103,315 | -5.8% | 1,903,324 | 238,709 | 14.3% | 7.7% | |
| Insurance, Cell Phone, Learning | 2,780,387 | 2,404,511 | -375,876 | -13.5% | 2,979,256 | 574,745 | 23.9% | 7.2% | |
| Employee Benefits | 4,548,317 | 4,069,126 | -479,191 | -10.5% | 4,882,580 | 813,454 | 20.0% | 7.3% | |
| Total Employee Related Expenses | 52,677,338 | 58,441,804 | 5,764,466 | 10.9% | 54,446,473 | -3,995,331 | -6.8% | 3.4% | |
| On-Line Data & Subscriptions | 5,649,394 | 5,826,887 | 177,493 | 3.1% | 6,946,452 | 1,119,565 | 19.2% | 23.0% | |
| Contract Services & Maintenance | 1,806,658 | 1,589,800 | -216,858 | -12.0% | 1,719,732 | 129,932 | 8.2% | -4.8% | |
| Travel & Meetings, Including BOD | 1,312,524 | 1,195,252 | -117,272 | -8.9% | 1,566,544 | 371,292 | 31.1% | 19.4% | |
| Total Office Expense | 298,740 | 265,393 | -33,347 | -11.2% | 309,496 | 44,103 | 16.6% | 3.6% | |
| Total Lease Expense | 3,310,668 | 3,367,126 | 56,458 | 1.7% | 3,198,408 | -168,718 | -5.0% | -3.4% | |
| Compensation & Hiring Consultants | 816,012 | 481,520 | -334,492 | -41.0% | 605,004 | 123,484 | 25.6% | -25.9% | |
| Legal Expenses | 328,548 | 190,198 | -138,350 | -42.1% | 333,528 | 143,330 | 75.4% | 1.5% | |
| Recruiting & Relocation Expense | 309,012 | 242,099 | -66,913 | -21.7% | 310,008 | 67,909 | 28.1% | 0.3% | |
| Accounting fees | 110,004 | 110,782 | 778 | 0.7% | 116,208 | 5,426 | 4.9% | 5.6% | |
| Board Advisors | 30,000 | 30,000 | 0 | 0.0% | 30,000 | 0 | 0.0% | 0.0% | |
| Total Professional Fees | 1,593,576 | 1,054,599 | -538,977 | -33.8% | 1,394,748 | 340,149 | 32.3% | -12.5% | |
| Total Insurance | 246,815 | 235,533 | -11,282 | -4.6% | 246,815 | 11,282 | 4.8% | 0.0% | |
| Depreciation | 2,000,000 | 1,950,000 | -50,000 | -2.5% | 1,850,000 | -100,000 | -5.1% | -7.5% | |
| Total Non-Employee Related Expenses | 16,218,375 | 15,484,590 | -733,785 | -4.5% | 17,232,195 | 1,747,605 | 11.3% | 6.3% | |
| Total UTIMCO Services | 68,895,712 | 73,926,394 | 5,030,682 | 7.3% | 71,678,668 | -2,247,726 | -3.0% | 4.0% | |
| Direct Costs to Funds | | | | | | | | | |
| Custodian Fees and Other Direct Costs | 4,934,000 | 4,934,000 | 0 | 0.0% | 4,984,000 | 50,000 | 1.0% | 1.0% | |
| Risk Measurement | 18,656 | -53,994 | -72,650 | -389.4% | 0 | 53,994 | -100.0% | -100.0% | |
| Custodian and Risk Measurement Costs | 4,952,656 | 4,880,006 | -72,650 | -1.5% | 4,984,000 | 103,994 | 2.1% | 0.6% | |
| Consultant Fees | 268,000 | 282,783 | 14,783 | 5.5% | 273,000 | -9,783 | -3.5% | 1.9% | |
| Auditing | 821,658 | 833,418 | 11,760 | 1.4% | 890,799 | 57,381 | 6.9% | 8.4% | |
| Legal Fees | 876,000 | 1,103,000 | 227,000 | 25.9% | 1,500,000 | 397,000 | 36.0% | 71.2% | |
| Background Searches & Other | 545,600 | 424,927 | -120,673 | -22.1% | 670,000 | 245,073 | 57.7% | 22.8% | |
| Other Direct Costs Total | 2,511,258 | 2,644,128 | 132,870 | 5.3% | 3,333,799 | 689,671 | 26.1% | 32.8% | |
| Total Direct Costs to Funds | 7,463,914 | 7,524,134 | 60,220 | 0.8% | 8,317,799 | 793,665 | 10.5% | 11.4% | |
| Total Budgeted Costs | 76,359,626 | 81,450,528 | 5,090,902 | 6.7% | 79,996,467 | -1,454,061 | -1.8% | 4.8% | |

Fiscal Year 2024 Review of UTIMCO Services Budget and Other Direct Costs to Funds
 Prepared by the U. T. System Office of Finance
 July 21, 2023

EXHIBIT B

Total Actual Costs FY19-FY23 and FY24 Budget

| | FY19 | FY20 | FY21 | FY22 | FY23 | FY24 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | Actual | Actual | Actual | Actual | Forecast | Budget |
| UTIMCO Services | | | | | | |
| Salaries | 16,235,197 | 16,966,760 | 18,193,968 | 20,289,489 | 22,303,794 | 24,680,045 |
| Performance Compensation + Earnings | 11,271,195 | 15,184,901 | 19,986,731 | 12,873,958 | 29,195,702 | 21,055,462 |
| Total Compensation | 27,506,392 | 32,151,661 | 38,180,699 | 33,163,447 | 51,499,496 | 45,735,507 |
| Total Payroll taxes | 1,455,958 | 1,387,881 | 2,073,547 | 2,561,796 | 2,873,182 | 3,828,386 |
| 403(b) Contributions | 1,112,464 | 1,200,281 | 1,290,358 | 1,470,167 | 1,664,615 | 1,903,324 |
| Insurance, Cell Phone, Learning | 1,456,857 | 1,597,639 | 2,005,251 | 2,396,713 | 2,404,511 | 2,979,256 |
| Employee Benefits | 2,569,321 | 2,797,921 | 3,295,609 | 3,866,880 | 4,069,126 | 4,882,580 |
| Total Employee Related Expenses | 31,531,671 | 36,337,463 | 43,549,855 | 39,592,122 | 58,441,804 | 54,446,473 |
| On-Line Data & Subscriptions | 3,246,582 | 3,613,927 | 4,066,592 | 4,170,273 | 5,826,887 | 6,946,452 |
| Contract Services & Maintenance | 748,427 | 862,160 | 1,444,467 | 1,506,143 | 1,589,800 | 1,719,732 |
| Travel & Meetings, Including BOD | 946,860 | 583,265 | 63,459 | 585,888 | 1,195,252 | 1,566,544 |
| Total Office Expense | 295,829 | 274,694 | 299,313 | 271,729 | 265,393 | 309,496 |
| Total Lease Expense | 2,474,161 | 2,744,234 | 3,308,824 | 3,272,032 | 3,367,126 | 3,198,408 |
| Compensation & Hiring Consultants | 320,898 | 570,516 | 586,000 | 532,544 | 481,520 | 605,004 |
| Legal Expenses | 176,226 | 171,519 | 262,928 | 184,607 | 190,198 | 333,528 |
| Recruiting and Relocation Expenses | 81,607 | 146,509 | 59,510 | 247,179 | 242,099 | 310,008 |
| Accounting fees | 63,420 | 101,590 | 96,155 | 107,201 | 110,782 | 116,208 |
| Board Advisors | 30,000 | 30,000 | 30,000 | 30,000 | 30,000 | 30,000 |
| Total Professional Fees | 672,151 | 1,020,133 | 1,034,593 | 1,101,531 | 1,054,599 | 1,394,748 |
| Total Insurance | 202,752 | 208,714 | 219,659 | 231,430 | 235,533 | 246,815 |
| Depreciation | 1,669,890 | 1,646,105 | 1,776,348 | 2,001,103 | 1,950,000 | 1,850,000 |
| Total Non-Employee Related Expenses | 10,256,652 | 10,953,232 | 12,213,255 | 13,140,129 | 15,484,590 | 17,232,195 |
| Total UTIMCO Services | 41,788,323 | 47,290,695 | 55,763,110 | 52,732,251 | 73,926,394 | 71,678,668 |
| Direct Costs to Funds | | | | | | |
| Custodian Fees and Other Direct Costs | 4,868,268 | 4,047,237 | 4,157,665 | 4,201,672 | 4,934,000 | 4,984,000 |
| Risk Measurement | 292,000 | 654,340 | 1,286,353 | 1,079,100 | -53,994 | 0 |
| Custodian and Risk Measurement Costs | 5,160,268 | 4,701,577 | 5,444,018 | 5,280,772 | 4,880,006 | 4,984,000 |
| Consultant Fees | 481,496 | 297,500 | 297,500 | 302,167 | 282,783 | 273,000 |
| Auditing | 811,750 | 828,919 | 1,053,346 | 980,378 | 833,418 | 890,799 |
| Legal Fees | 304,048 | 188,455 | 303,577 | 544,785 | 1,103,000 | 1,500,000 |
| Background Searches & Other | 792,168 | 648,894 | 529,199 | 1,253,754 | 424,927 | 670,000 |
| Other Direct Costs Total | 2,389,462 | 1,963,768 | 2,183,622 | 3,081,084 | 2,644,128 | 3,333,799 |
| Total Direct Costs to Funds | 7,549,730 | 6,665,345 | 7,627,640 | 8,361,856 | 7,524,134 | 8,317,799 |
| Total Budgeted Costs | 49,338,053 | 53,956,040 | 63,390,750 | 61,094,107 | 81,450,528 | 79,996,467 |

EXHIBIT C
UTIMCO Reserve Analysis for August 31, 2023

| | | |
|---|--------------|----------------------|
| Projected Cash Reserves at August 31, 2023 | | |
| Cash | | \$ 37,100,000 |
| Prepaid Expenses | | 1,000,000 |
| Less: Accounts Payable (Includes incentive compensation & earnings payable) | | <u>(20,500,000)</u> |
| Projected Cash Reserves at August 31, 2023 | | <u>\$ 17,600,000</u> |
| | | |
| FY24 Proposed Operating Budget | \$71,678,668 | |
| Applicable Percentage | 25% | 17,919,667 |
| Capital Budget Expenditures | | 225,000 |
| Depreciation Expense | | <u>(1,850,000)</u> |
| Required Cash Reserves at August 31, 2023 | | <u>\$ 16,294,667</u> |
| | | |
| Balance Available for Distribution | | \$ 1,305,333 |
| | | |
| Recommended Distribution | | \$ - |

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

INTRODUCTION

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



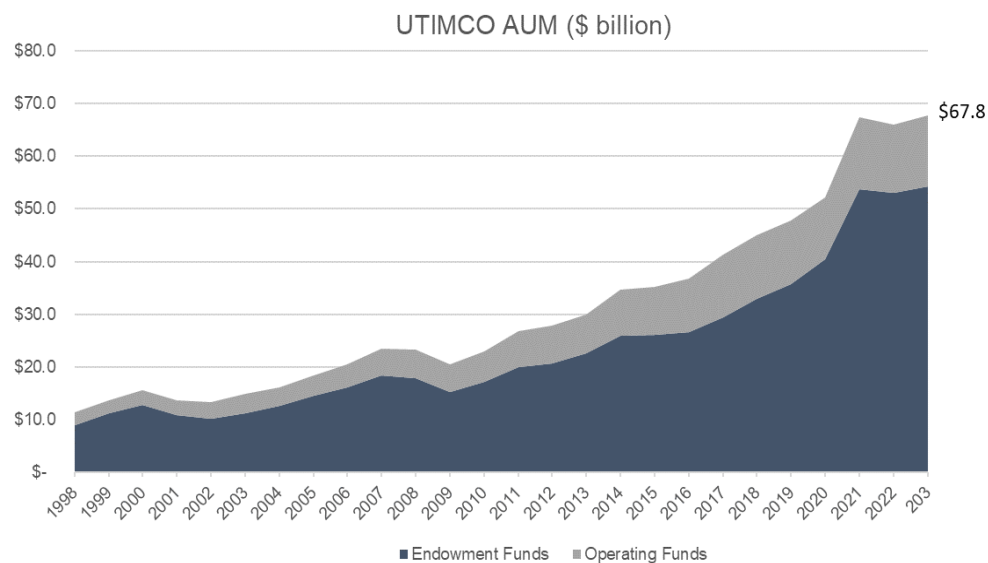
UTIMCO Update

Mr. Rich Hall, President, Chief Executive Officer and Chief Investment Officer
U. T. System Board of Regents Meeting
Finance and Planning Committee
August 2023



Portfolio Performance

Growth in Total Assets Under Management (AUM) through March 31, 2023



3-Month Change in AUM

| | \$ Billion |
|--|-------------|
| Beginning Net Asset Value (NAV) | 66.1 |
| Contributions | 1.1 |
| Net Investment Income | 1.5 |
| Distributions | -0.9 |
| Ending Net Asset Value | 67.8 |

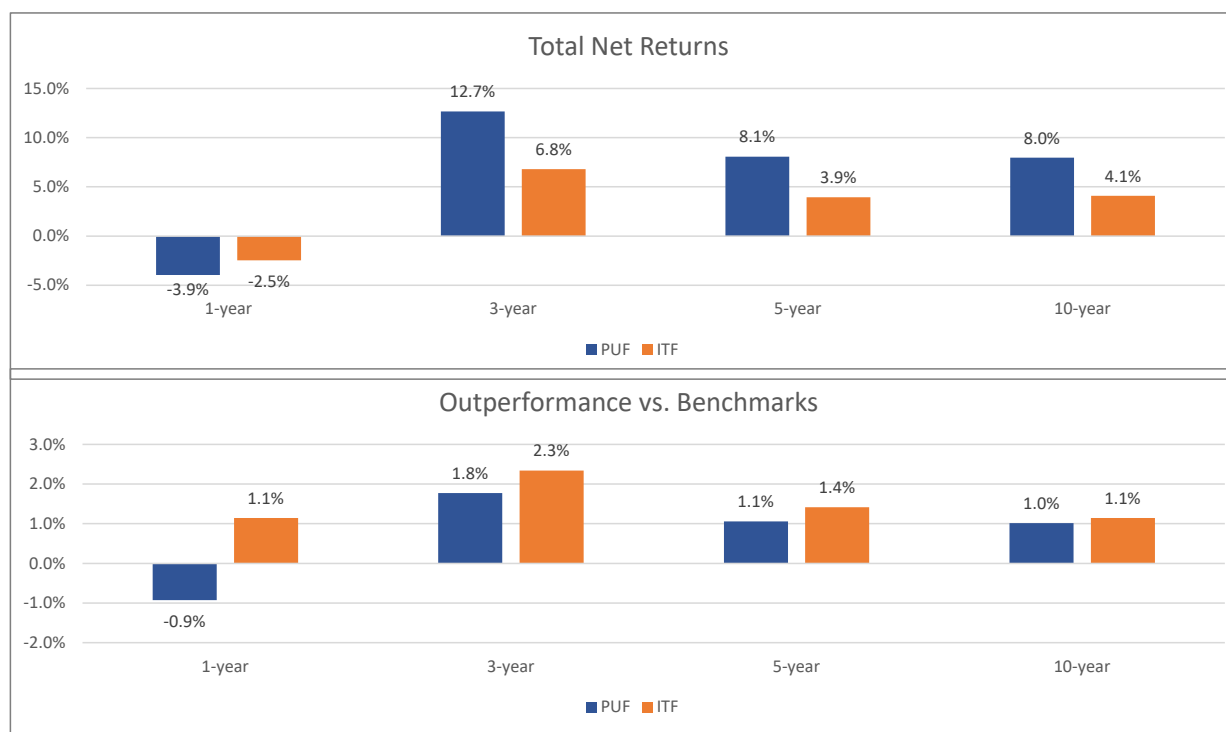
3-Year Change in AUM

| | \$ Billion |
|----------------------------------|-------------|
| Beginning Net Asset Value | 46.0 |
| Contributions | 12.7 |
| Net Investment Income | 15.5 |
| Distributions | -6.4 |
| Ending Net Asset Value | 67.8 |



Portfolio Performance (cont.)

UTIMCO Returns and Alpha as of March 31, 2023





Portfolio Performance (cont.)

AUM, Returns and Alpha as of March 31, 2023

