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FOR
FINANCE AND PLANNING COMMITTEE**

Committee Meeting: 11/14/2013

Board Meeting: 11/14/2013
Austin, Texas

Jeffery D. Hildebrand, Chairman
Alex M. Cranberg
Wallace L. Hall, Jr.
Brenda Pejovich
Wm. Eugene Powell

	Committee Meeting	Board Meeting	Page
Convene	9:15 a.m. <i>Chairman Hildebrand</i>		
1. U. T. System Board of Regents: Discussion and appropriate action regarding Consent Agenda items, if any, referred for Committee consideration	9:15 a.m. Action	Action	39
2. U. T. System: Key Financial Indicators Report	9:16 a.m. Report/Discussion <i>Dr. Kelley</i>	Not on Agenda	40
3. U. T. System Board of Regents: The University of Texas Investment Management Company (UTIMCO) Performance Summary Report and Investment Reports for the fiscal year and quarter ended August 31, 2013	9:22 a.m. Report/Discussion <i>Mr. Zimmerman</i>	Report	49
4. U. T. System Board of Regents: Approval of revisions to the amended and restated University of Texas Investment Management Company (UTIMCO) Compensation Program	9:28 a.m. Action <i>Dr. Kelley</i>	Action	55
5. U. T. System Board of Regents: Approval of the Annual Budget for FY 2014, including the capital expenditures budget, invoiced external investment manager fees, and other external direct charges to the Funds, and the Annual Fee and Allocation Schedule for The University of Texas Investment Management Company (UTIMCO)	9:35 a.m. Action <i>Dr. Kelley</i>	Action	59
6. U. T. System Board of Regents: Report on the Opportune LLP External Review and Assessment of University Lands, recommendations from the University Lands Advisory Committee, and approval of an additional \$1,350,000 of Permanent University Funds	9:41 a.m. Action <i>Dr. Kelley</i> <i>Mr. Jim Benson,</i> <i>University Lands</i>	Action	75
Adjourn	10:00 a.m.		

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

RECOMMENDATION

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

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

REPORT

Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, will discuss the Key Financial Indicators Report, as set forth on Pages 47 - 54. The report represents the consolidated and individual operating detail of the U. T. System institutions.

The Key Financial Indicators Report compares the Systemwide quarterly results of operations, key revenues and expenses, reserves, and key financial ratios in a graphical presentation from Fiscal Year 2009 through July 2013. Ratios requiring balance sheet data are provided for Fiscal Year 2008 through Fiscal Year 2012.


















THE UNIVERSITY OF TEXAS SYSTEM



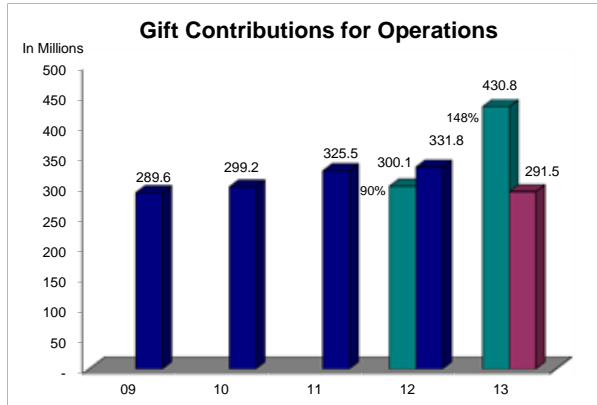
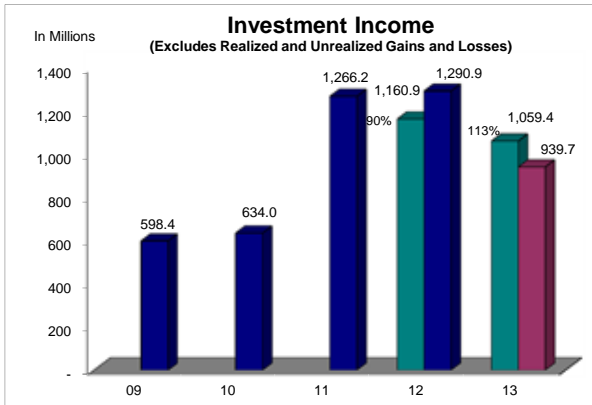
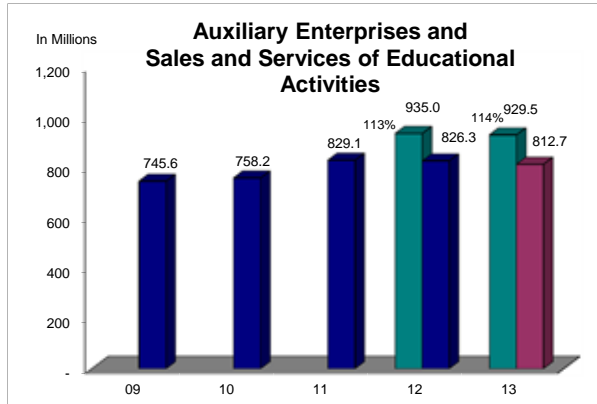
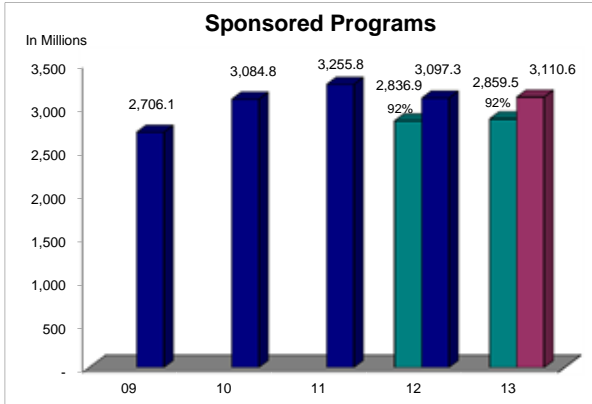
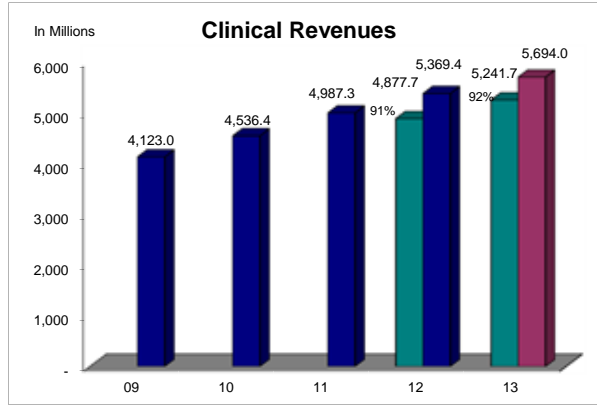
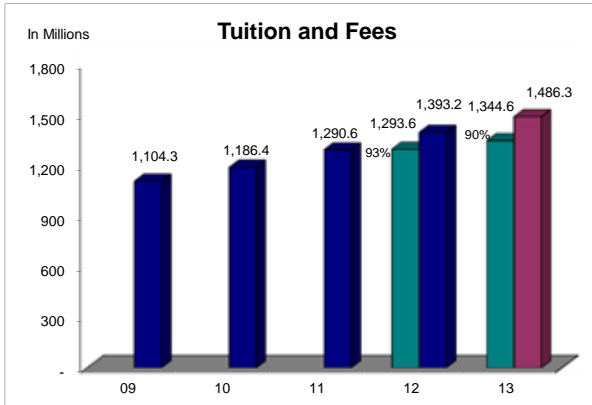
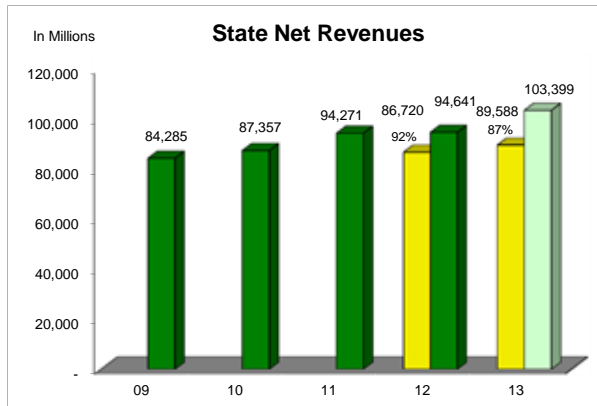
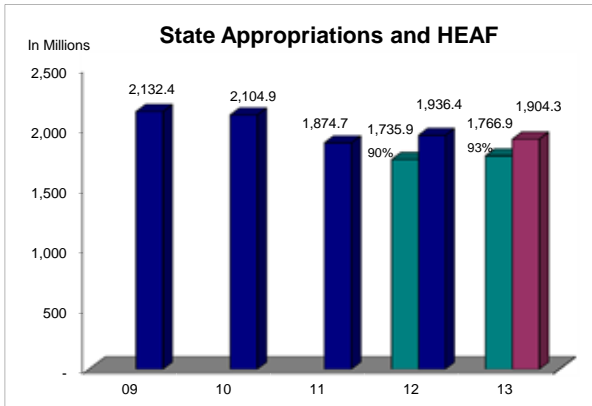
KEY FINANCIAL INDICATORS REPORT

JULY 2013

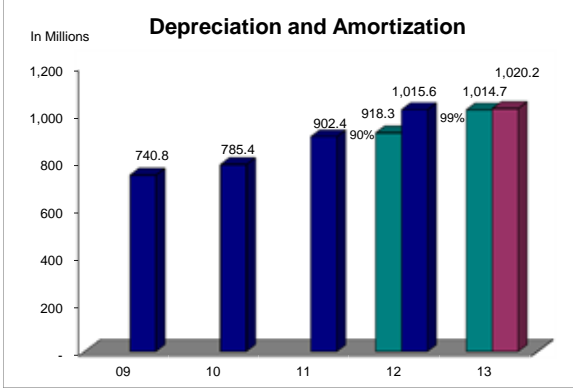
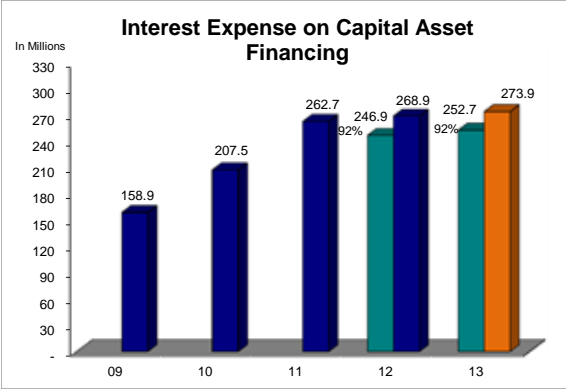
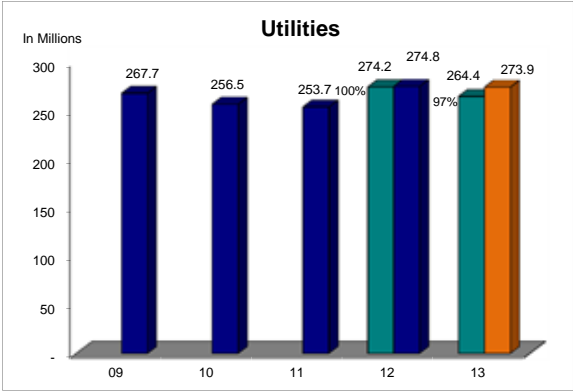
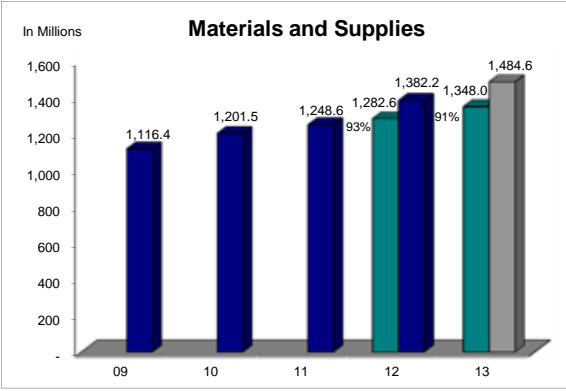
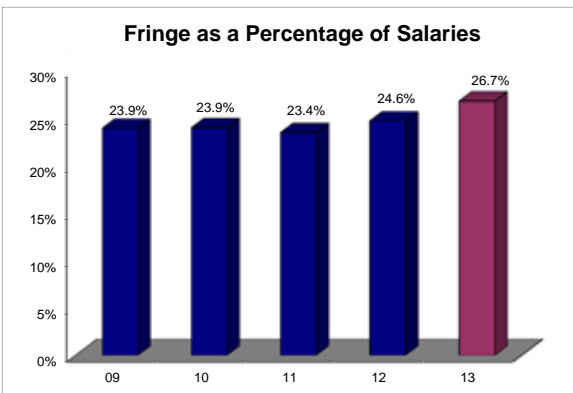
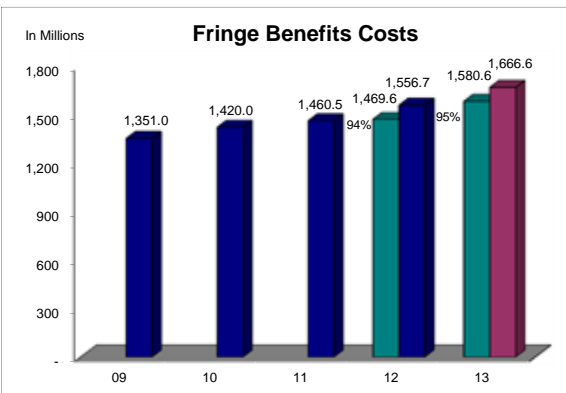
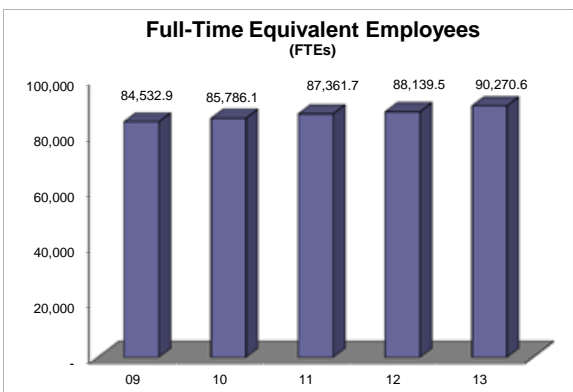
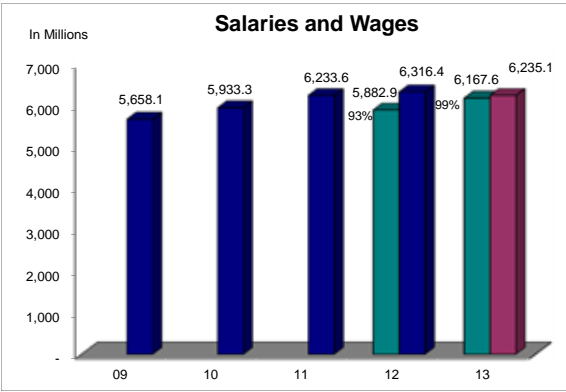
KEY

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

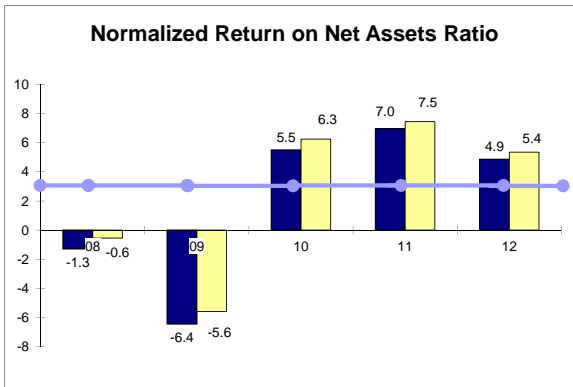
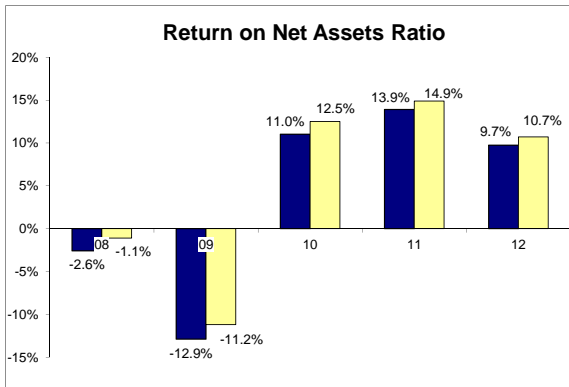
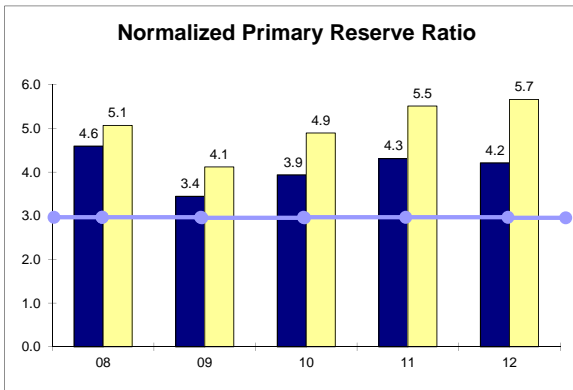
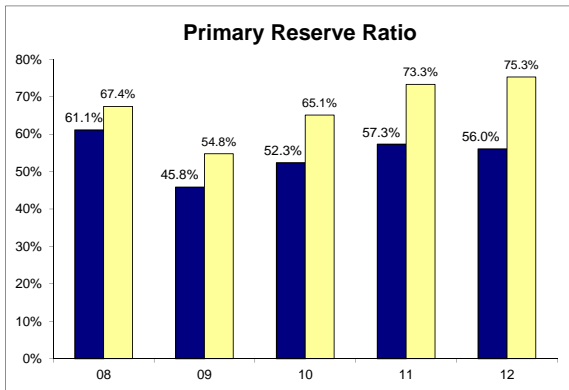
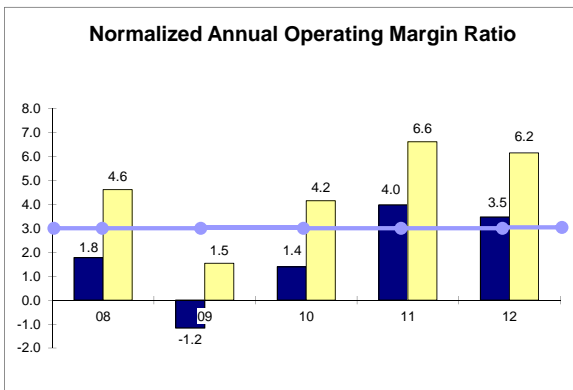
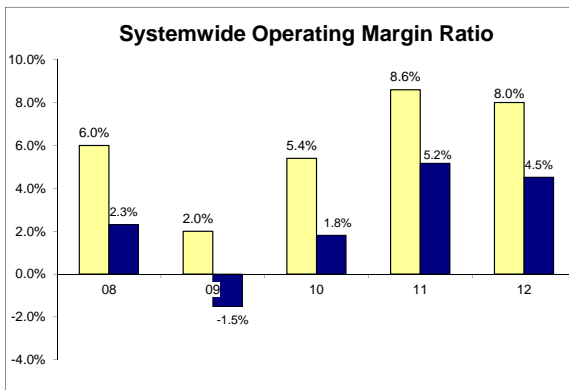
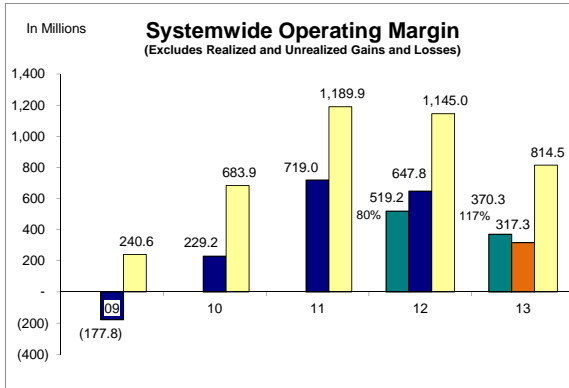
**KEY INDICATORS OF REVENUES
ACTUAL 2009 THROUGH 2012
PROJECTED 2013
YEAR-TO-DATE 2012 AND 2013 FROM JULY MONTHLY FINANCIAL REPORT**



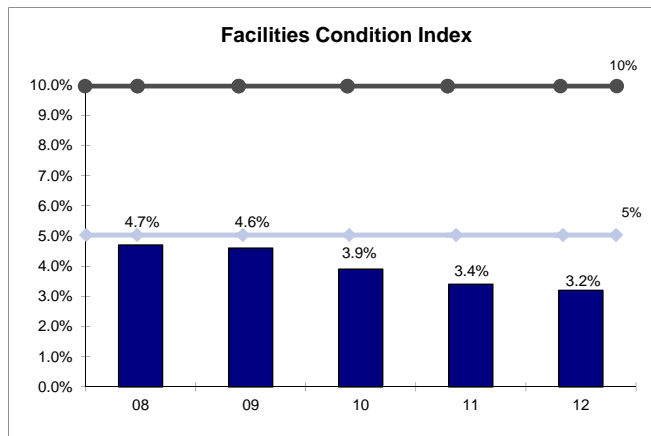
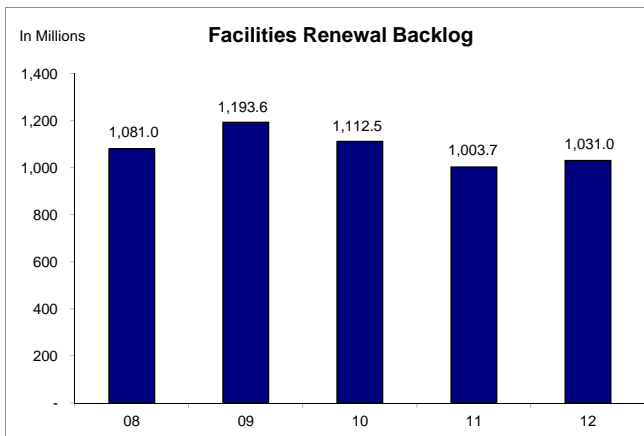
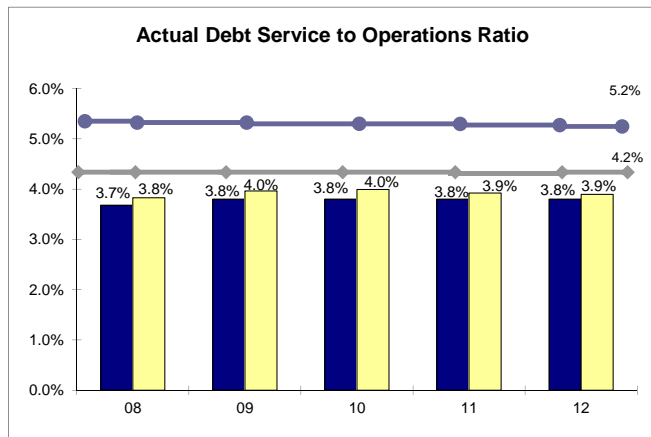
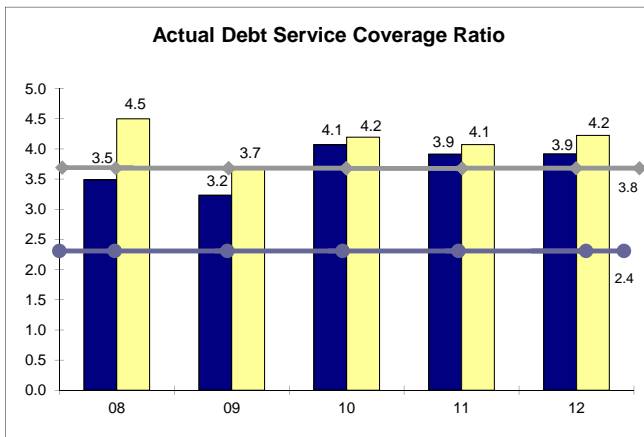
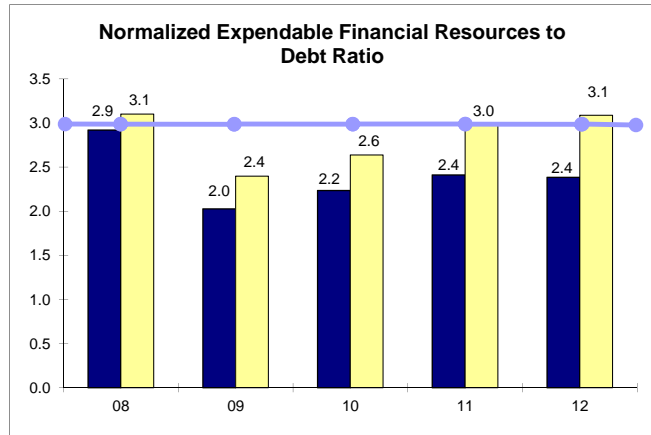
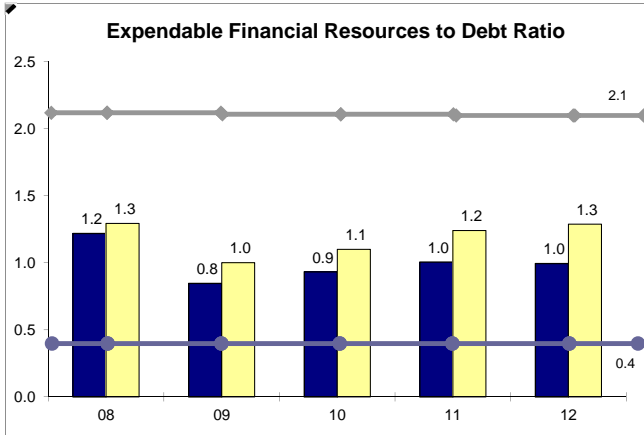
KEY INDICATORS OF EXPENSES
ACTUAL 2009 THROUGH 2012
PROJECTED 2013
YEAR-TO-DATE 2012 AND 2013 FROM JULY MONTHLY FINANCIAL REPORT



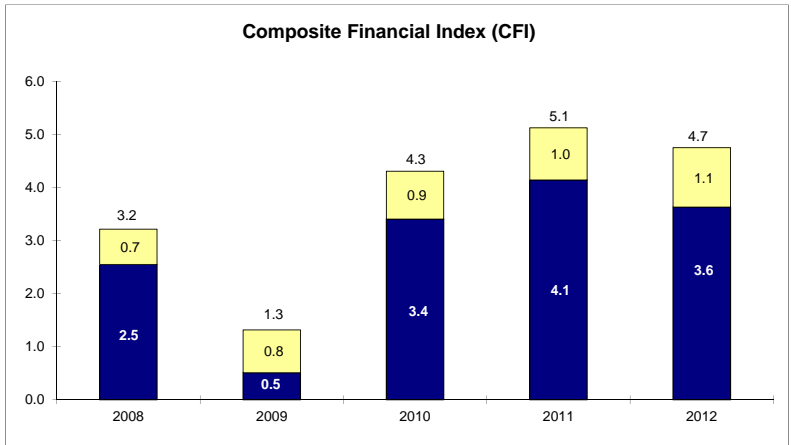
KEY INDICATORS OF RESERVES
ACTUAL 2008 THROUGH 2012
PROJECTED 2013
YEAR-TO-DATE 2012 AND 2013 FROM JULY MONTHLY FINANCIAL REPORT



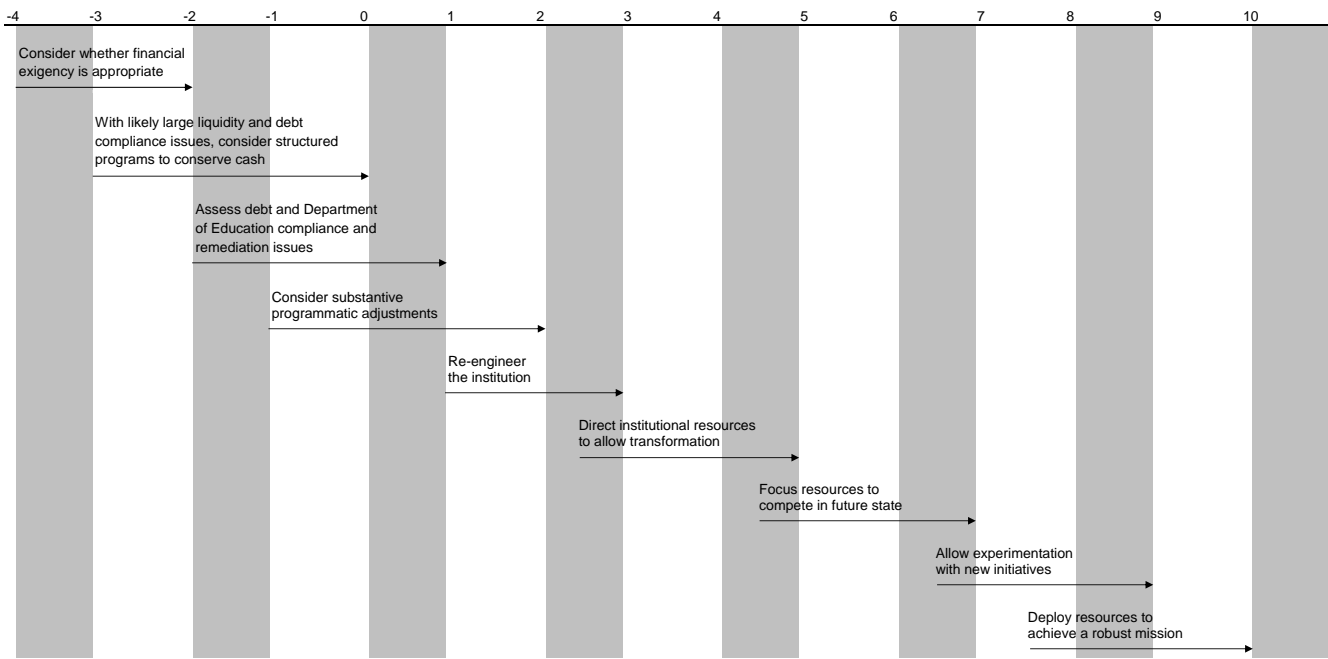
KEY INDICATORS OF CAPITAL NEEDS AND CAPACITY 2008 THROUGH 2012



**KEY INDICATORS OF FINANCIAL HEALTH
2008 THROUGH 2012**

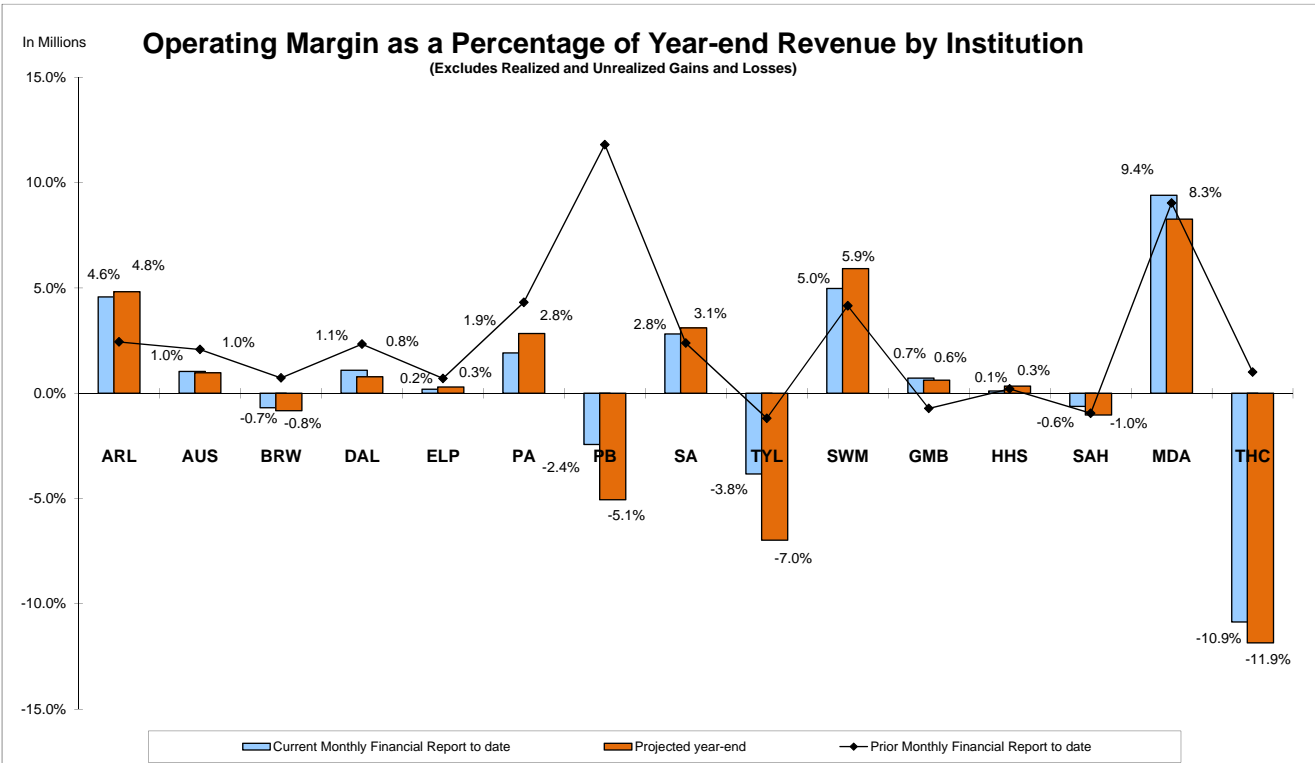
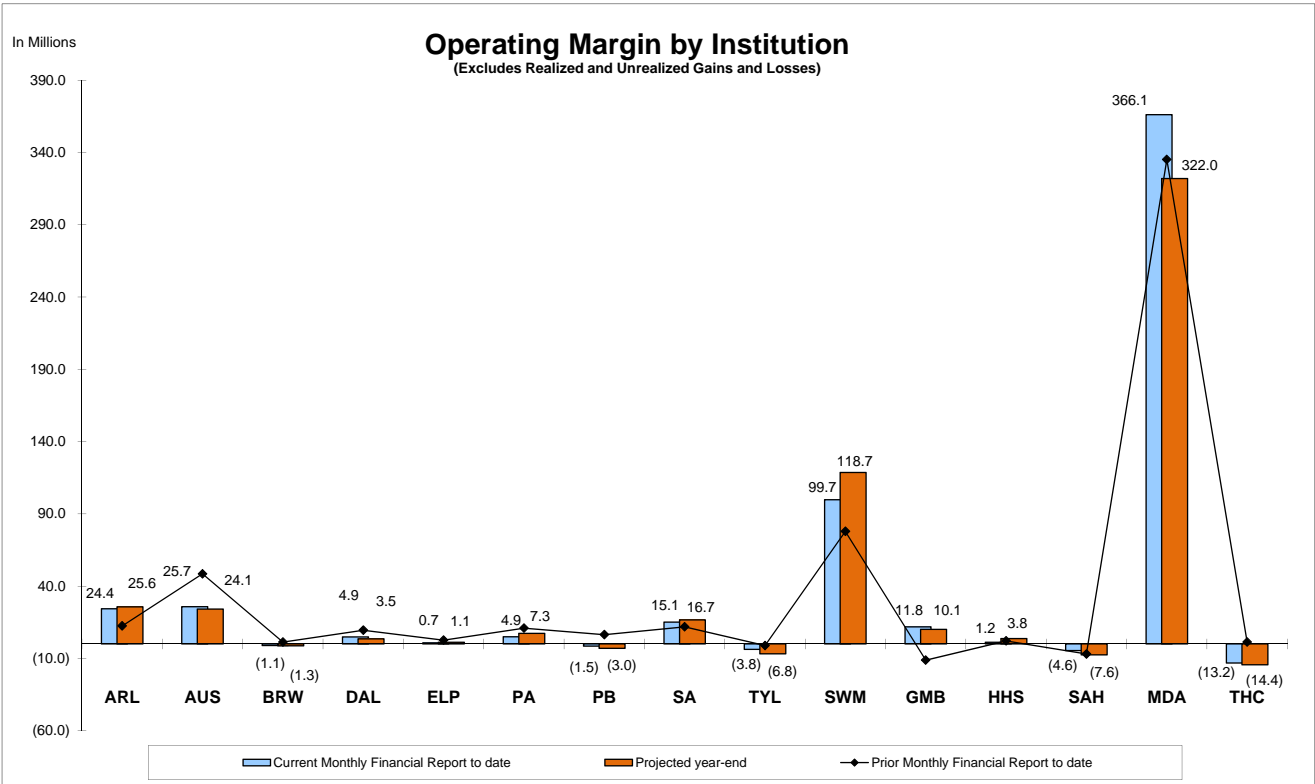


Scale for Charting CFI Performance



Source: Strategic Financial Analysis for Higher Education, Seventh Edition

KEY INDICATORS OF RESERVES YEAR-TO-DATE 2012 AND 2013 FROM JULY MONTHLY FINANCIAL REPORT PROJECTED 2013 YEAR-END MARGIN



3. **U. T. System Board of Regents: The University of Texas Investment Management Company (UTIMCO) Performance Summary Report and Investment Reports for the fiscal year and quarter ended August 31, 2013**

REPORT

The August 31, 2013 UTIMCO Performance Summary Report is attached on Page 50.

The Investment Reports for the fiscal year and quarter ended August 31, 2013, are set forth on Pages 51 - 54.

Item I on Page 51 reports activity for the Permanent University Fund (PUF) investments. The PUF's net investment return for the fiscal year was 8.79% versus its composite benchmark return of 7.47%. The PUF's net asset value increased by \$1,383 million since the beginning of the year to \$14,853 million. The increase was due to \$857 million PUF Lands receipts, plus a net investment return of \$1,170 million, less the annual distribution to the Available University Fund (AUF) of \$644 million.

Item II on Page 52 reports activity for the General Endowment Fund (GEF) investments. The GEF's net investment return for the fiscal year was 8.99% versus its composite benchmark return of 7.47%. The GEF's net asset value increased by \$291 million during the fiscal year to \$7,396 million.

Item III on Page 53 reports activity for the Intermediate Term Fund (ITF). The ITF's net investment return for the fiscal year was 5.03% versus its composite benchmark return of 2.70%. The net asset value increased during the fiscal year to \$5,520 million due to net investment return of \$249 million, plus net contributions of \$536 million, less distributions of \$158 million.

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

Item IV on Page 54 presents book and market values of cash, debt, equity, and other securities held in funds outside of internal investment pools. Total cash and equivalents, consisting primarily of institutional operating funds held in the Dreyfus and Fidelity money market fund, decreased by \$39 million to \$1,985 million during the three months since the last reporting period. Market values for the remaining asset types were debt securities: \$21 million versus \$22 million at the beginning of the period; equities: \$66 million versus \$73 million at the beginning of the period; and other investments: \$142 million versus \$5 million at the beginning of the period.

UTIMCO Performance Summary

August 31, 2013

	Net Asset Value 8/31/2013 (in Millions)	Periods Ended August 31, 2013 (Returns for Periods Longer Than One Year are Annualized)							
		Short Term		Year to Date		Historic Returns			
		1 Mo	3 Mos	Fiscal	Calendar	1 Yr	3 Yrs	5 Yrs	10 Yrs
ENDOWMENT FUNDS									
Permanent University Fund	\$ 14,853	0.19%	(0.08%)	8.79%	4.87%	8.79%	8.77%	4.83%	7.90%
General Endowment Fund		0.24	(0.04)	8.99	4.99	8.99	8.89	4.84	7.98
Permanent Health Fund	1,015	0.22	(0.01)	8.88	4.94	8.88	8.81	4.76	7.89
Long Term Fund	6,380	0.22	(0.01)	8.88	4.94	8.88	8.82	4.76	7.89
Separately Invested Funds	301	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Endowment Funds	22,549								
OPERATING FUNDS									
Intermediate Term Fund	5,520	(0.40)	(0.96)	5.03	1.96	5.03	6.37	4.43	N/A
Debt Proceeds Fund	308	0.01	0.03	0.14	0.08	0.14	N/A	N/A	N/A
Short Term Fund	1,625	0.01	0.02	0.11	0.06	0.11	0.16	0.38	1.92
Total Operating Funds	7,453								
Total Investments	\$ 30,002								
VALUE ADDED (1) (Percent)									
Permanent University Fund		0.55%	(0.01%)	1.32%	1.06%	1.32%	1.25%	2.11%	1.84%
General Endowment Fund		0.60	0.03	1.52	1.18	1.52	1.37	2.12	1.92
Intermediate Term Fund		0.45	0.31	2.33	2.01	2.33	2.17	2.34	N/A
Debt Proceeds Fund		0.01	0.01	0.03	0.03	0.03	N/A	N/A	N/A
Short Term Fund		0.01	-	-	0.01	-	0.06	0.16	0.21
VALUE ADDED (1) (\$ IN MILLIONS)									
Permanent University Fund	\$ 82	\$ (2)	\$ 178	\$ 148	\$ 178	\$ 493	\$ 1,372	\$ 2,285	
General Endowment Fund	45	2	108	86	108	295	767	1,310	
Intermediate Term Fund	25	18	119	106	119	313	546	N/A	
Total Value Added	\$ 152	\$ 18	\$ 405	\$ 340	\$ 405	\$ 1,101	\$ 2,685	\$ 3,595	

Footnote available upon request.

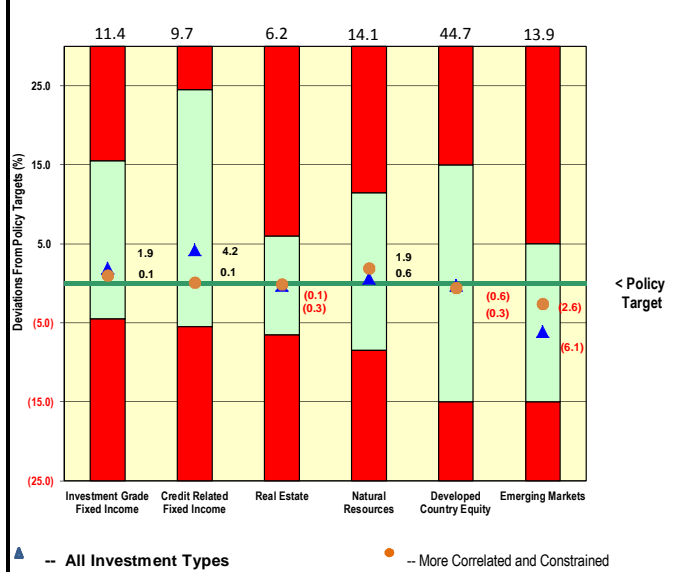
I. PERMANENT UNIVERSITY FUND Investment Reports for Periods Ended August 31, 2013

Prepared in accordance with Texas Education Code Sec. 51.0032

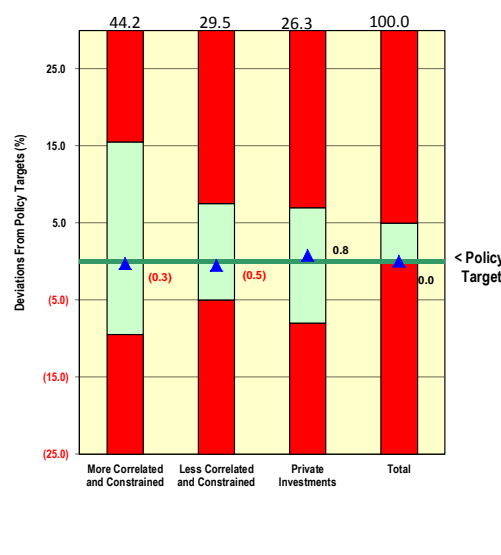
Summary of Capital Flows				
(\$ millions)	Fiscal Year Ended August 31, 2012	Quarter Ended August 31, 2013	Fiscal Year Ended August 31, 2013	
Beginning Net Assets	\$ 12,688	\$ 14,631	\$ 13,470	
PUF Lands Receipts	955	226	857	
Investment Return (Net of Expenses)	403	(4)	1,170	
Distributions to AUF	(576)	-	(644)	
Ending Net Assets	<u>\$ 13,470</u>	<u>\$ 14,853</u>	<u>\$ 14,853</u>	

	Fiscal Year to Date				
	Returns		Value Added		
	Portfolio	Policy Benchmark	From Asset Allocation	From Security Selection	Total
More Correlated and Constrained:					
Investment Grade	-1.16%	-3.43%	-0.22%	0.18%	-0.04%
Credit-Related	1.88%	8.53%	0.00%	0.00%	0.00%
Real Estate	4.41%	5.89%	0.00%	-0.06%	-0.06%
Natural Resources	-11.00%	-3.46%	-0.32%	-0.61%	-0.93%
Developed Country	24.61%	17.63%	-0.32%	0.94%	0.62%
Emerging Markets	0.82%	0.54%	0.10%	0.03%	0.13%
Total More Correlated and Constrained	4.51%	5.08%	-0.76%	0.48%	-0.28%
Less Correlated and Constrained	11.45%	6.12%	0.50%	1.07%	1.57%
Private Investments	13.27%	13.22%	0.49%	-0.46%	0.03%
Total	8.79%	7.47%	0.23%	1.09%	1.32%

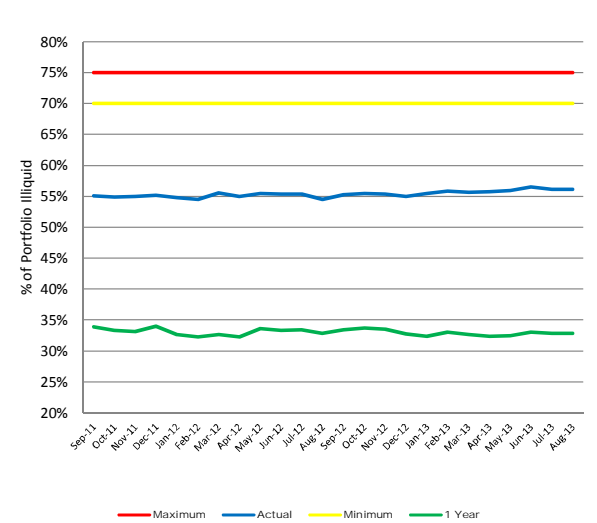
Deviations From Asset Class Policy Targets Within Tactical Policy Ranges for PUF



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



Permanent University Fund
Actual Illiquidity vs. Trigger Zones

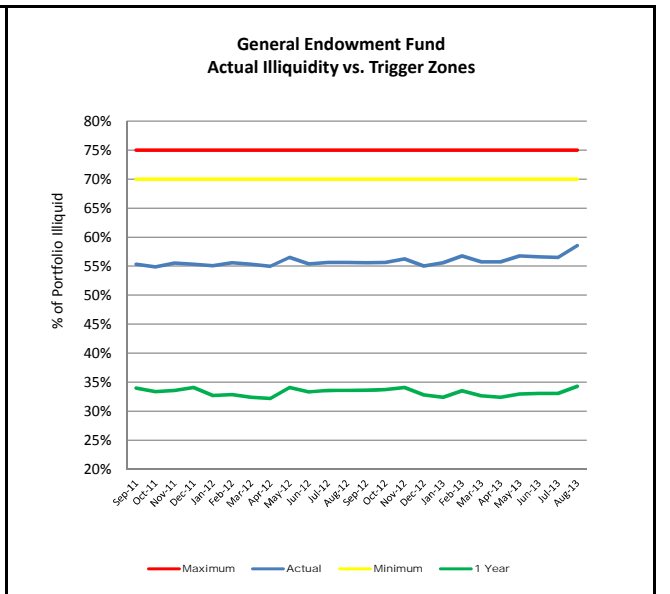
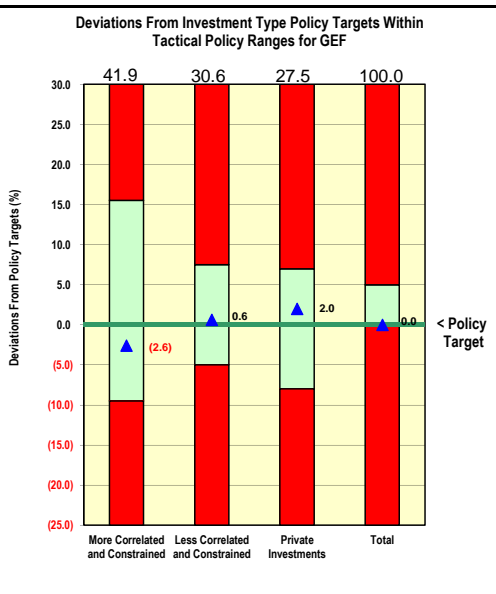
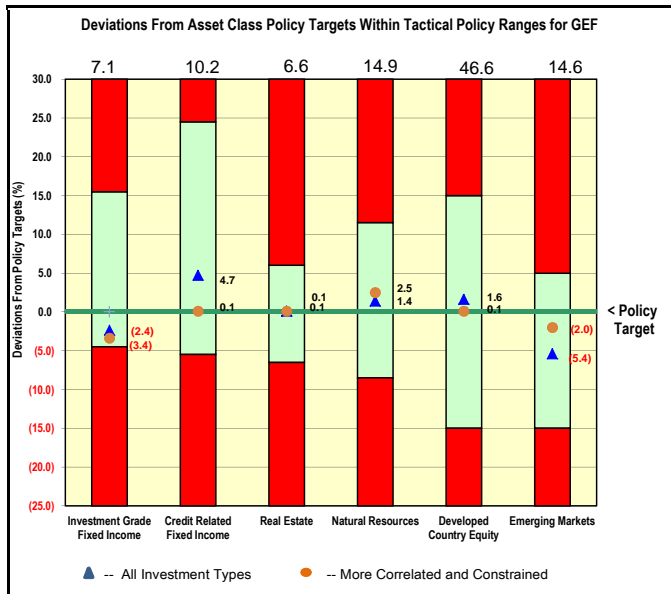


II. GENERAL ENDOWMENT FUND Investment Reports for Periods Ended August 31, 2013

Prepared in accordance with Texas Education Code Sec. 51.0032

Summary of Capital Flows			
(\$ millions)	Fiscal Year Ended August 31, 2012	Quarter Ended August 31, 2013	Fiscal Year Ended August 31, 2013
Beginning Net Assets	\$ 7,049	\$ 7,589	\$ 7,105
Contributions	194	39	166
Withdrawals	(17)	(143)	(152)
Distributions	(344)	(90)	(360)
Investment Return (Net of Expenses)	223	1	637
Ending Net Assets	<u>\$ 7,105</u>	<u>\$ 7,396</u>	<u>\$ 7,396</u>

	Fiscal Year to Date				
	Returns		Value Added		
	Portfolio	Policy Benchmark	From Asset Allocation	From Security Selection	Total
More Correlated and Constrained:					
Investment Grade	-0.32%	-3.43%	-0.12%	0.26%	0.14%
Credit-Related	1.88%	8.53%	0.00%	0.00%	0.00%
Real Estate	4.42%	5.89%	0.01%	-0.06%	-0.05%
Natural Resources	-10.99%	-3.46%	-0.34%	-0.61%	-0.95%
Developed Country	24.60%	17.63%	-0.31%	0.93%	0.62%
Emerging Markets	1.28%	0.54%	0.08%	0.09%	0.17%
Total More Correlated and Constrained	4.94%	5.08%	-0.68%	0.61%	-0.07%
Less Correlated and Constrained	11.45%	6.12%	0.48%	1.06%	1.54%
Private Investments	13.27%	13.22%	0.51%	-0.46%	0.05%
Total	8.99%	7.47%	0.31%	1.21%	1.52%

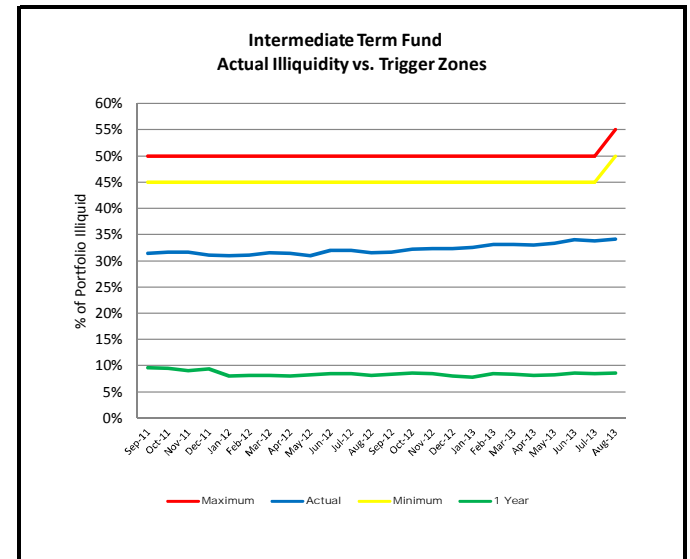
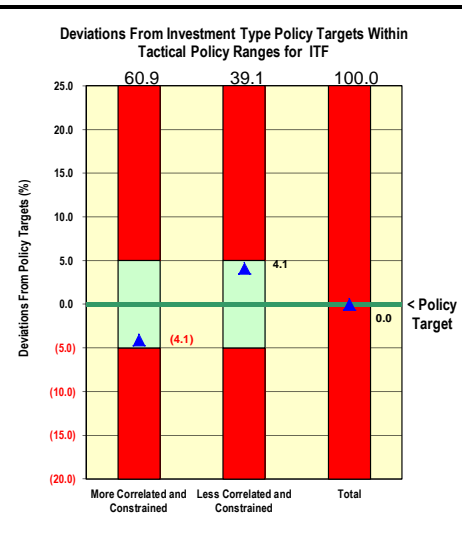
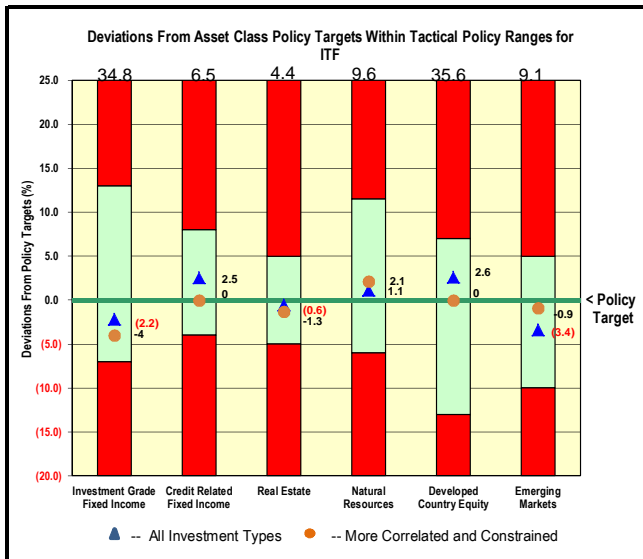


III. INTERMEDIATE TERM FUND Investment Reports for Periods Ended August 31, 2013

Prepared in accordance with Texas Education Code Sec. 51.0032

Summary of Capital Flows			
(\$ millions)	Fiscal Year Ended August 31, 2012	Quarter Ended August 31, 2013	Fiscal Year Ended August 31, 2013
Beginning Net Assets	\$ 4,662	\$ 5,414	\$ 4,893
Contributions	420	261	694
Withdrawals	(183)	(64)	(158)
Distributions	(142)	(41)	(158)
Investment Return (Net of Expenses)	136	(50)	249
Ending Net Assets	<u>\$ 4,893</u>	<u>\$ 5,520</u>	<u>\$ 5,520</u>

	Returns		Fiscal Year to Date		
	Portfolio	Policy Benchmark	From Asset Allocation	From Security Selection	Total
More Correlated and Constrained:					
Investment Grade	-1.60%	-3.43%	0.13%	0.63%	0.76%
Credit-Related	0.00%	0.00%	0.00%	0.00%	0.00%
Real Estate	4.62%	5.89%	-0.13%	-0.06%	-0.19%
Natural Resources	-8.41%	-3.46%	-0.43%	-0.38%	-0.81%
Developed Country	25.18%	17.63%	-0.25%	0.66%	0.41%
Emerging Markets	3.11%	0.54%	0.00%	0.20%	0.20%
Total More Correlated and Constrained	1.32%	0.87%	-0.68%	1.05%	0.37%
Less Correlated and Constrained	11.41%	6.12%	0.75%	1.21%	1.96%
Private Investments	0.00%	0.00%	0.00%	0.00%	0.00%
Total	5.03%	2.70%	0.07%	2.26%	2.33%



IV. SEPARATELY INVESTED ASSETS
Summary Investment Report at August 31, 2013
 Report prepared in accordance with *Texas Education Code Sec. 51.0032*

ASSET TYPES	(\$ thousands)															
	FUND TYPE															
	CURRENT PURPOSE DESIGNATED		RESTRICTED		ENDOWMENT & SIMILAR FUNDS		ANNUITY & LIFE INCOME FUNDS		AGENCY FUNDS		TOTAL EXCLUDING OPERATING FUNDS		OPERATING FUNDS (DEBT PROCEEDS AND SHORT TERM FUND)		TOTAL	
BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	
Cash & Equivalents:																
Beginning value 05/31/13	-	-	3,334	3,334	38,945	38,945	1,482	1,482	1,866	1,866	45,627	45,627	1,977,955	1,977,955	2,023,582	2,023,582
Increase/(Decrease)	-	-	(1,612)	(1,612)	7,546	7,546	1,080	1,080	(1,191)	(1,191)	5,823	5,823	(44,542)	(44,542)	(38,719)	(38,719)
Ending value 08/31/13	-	-	1,722	1,722	46,491	46,491	2,562	2,562	675	675	51,450	51,450	1,933,413	1,933,413	1,984,863	1,984,863
Debt Securities:																
Beginning value 05/31/13	-	-	45	45	12,163	13,063	8,859	9,224	-	-	21,067	22,332	-	-	21,067	22,332
Increase/(Decrease)	-	-	13	12	67	(460)	(92)	(446)	-	-	(12)	(894)	-	-	(12)	(894)
Ending value 08/31/13	-	-	58	57	12,230	12,603	8,767	8,778	-	-	21,055	21,438	-	-	21,055	21,438
Equity Securities:																
Beginning value 05/31/13	1,161	4,750	12,496	12,491	36,334	40,223	13,700	15,300	-	-	63,691	72,764	-	-	63,691	72,764
Increase/(Decrease)	-	499	(11,000)	(10,624)	3,927	4,486	(1,166)	(1,615)	-	-	(8,239)	(7,254)	-	-	(8,239)	(7,254)
Ending value 08/31/13	1,161	5,249	1,496	1,867	40,261	44,709	12,534	13,685	-	-	55,452	65,510	-	-	55,452	65,510
Other:																
Beginning value 05/31/13	-	-	393	393	12	12	486	133	4,545	4,545	5,436	5,083	-	-	5,436	5,083
Increase/(Decrease)	-	-	4,854	4,854	(6)	(6)	7	-	132,501	132,501	137,356	137,349	-	-	137,356	137,349
Ending value 08/31/13	-	-	5,247	5,247	6	6	493	133	137,046	137,046	142,792	142,432	-	-	142,792	142,432
Total Assets:																
Beginning value 05/31/13	1,161	4,750	16,268	16,263	87,454	92,243	24,527	26,139	6,411	6,411	135,821	145,806	1,977,955	1,977,955	2,113,776	2,123,761
Increase/(Decrease)	-	499	(7,745)	(7,370)	11,534	11,566	(171)	(981)	131,310	131,310	134,928	135,024	(44,542)	(44,542)	90,386	90,482
Ending value 08/31/13	1,161	5,249	8,523	8,893	98,988	103,809	24,356	25,158	137,721	137,721	270,749	280,830	1,933,413	1,933,413	2,204,162	2,214,243

Details of individual assets by account furnished upon request.

4. **U. T. System Board of Regents: Approval of revisions to the amended and restated University of Texas Investment Management Company (UTIMCO) Compensation Program**

RECOMMENDATION

The University of Texas Investment Management Company Board of Directors (UTIMCO Board) recommends that the U. T. System Board of Regents (U. T. System Board) approve revisions to Appendices C and D of the amended and restated UTIMCO Compensation Program effective September 1, 2012 (Plan), as set forth in congressional style on Pages 57 - 58.

Revisions to Appendices C and D were approved by the UTIMCO Board on November 4, 2013. The revisions to the amended and restated Plan are to be effective as of September 1, 2013.

BACKGROUND INFORMATION

The Plan consists of two elements: base salary and an annual incentive plan. The UTIMCO Board has the discretion to interpret the compensation program and may from time to time adopt such rules and regulations that it may deem necessary to carry out the Compensation Program and may also amend the Compensation Program.

The proposed changes are as follows:

Appendix C, Table 1

Section 5.3.(a) of the Plan requires Table 1 to be revised, as necessary, for subsequent Performance Periods to set forth any changes or additions to the Eligible Positions, the weightings for the Eligible Positions, the Incentive Award Opportunities, and any Applicable Deferral Percentage for each Eligible Position for that Performance Period as soon as administratively practicable after confirmation of such Eligible Positions by the Board for such Performance Period and to be attached as Appendix C to the Plan. Appendix C includes proposed amendments to reflect an additional Eligible Position, a description change for an Eligible Position and increases to the Target Incentive Award Opportunities for certain Eligible Positions. The proposed revised Appendix C is shown on Page 57.

Appendix D, Table 2

Section 5.8.(b)(1) of the Plan requires Table 2 to be revised, as necessary, for subsequent Performance Periods to reflect new benchmarks, as well as threshold, target, and maximum performance standards in effect during the three-year rolling historical period, culminating with the subsequent Performance Period. Proposed amendments to Appendix D include updating the Policy Portfolio Weights for the Total Endowment Assets and the Intermediate Term Fund (ITF) to be consistent with changes to the Investment Policy Statements previously approved by the U. T. System Board on August 22, 2013. In addition, increases to the Target and Maximum Performance Standards have been proposed as follows:

Entity - Total Endowment Funds:	Target from 75 bps to 100 bps
	Maximum from 225 bps to 250 bps

Private Investments (excludes Real Estate):	Target from 100 bps to 150 bps
	Maximum from 350 bps to 450 bps
Private Investments Real Estate:	Target from 100 bps to 150 bps
	Maximum from 325 bps to 450 bps

The proposed revised Appendix D is shown on Page 58.

Appendix C, Table 1

Eligible Positions, Weightings, Incentive Award Opportunities, and Percentage of Award Deferred for each Eligible Position
(for the Performance Periods Beginning After August 31, 2013)

Eligible Position	Weighting							Percentage of Award Deferred
	Entity	Asset Class/ Investment Type	Qualitative (Individual)	Incentive Award Opportunity (% of Salary)				
				<Threshold	Threshold	Target	Maximum	
<i>Investment Professionals</i>								
CEO & Chief Investment Officer	60%	0%	40%	0%	0%	100% 125%	340%	50%
President & Deputy CIO	40%	40%	20%	0%	0%	95% 115%	300%	50%
Managing Director - Investments	30%	40%	30%	0%	0%	85% 100%	240%	40%
Managing Director - Private Investments	30%	30%	40%	0%	0%	85% 100%	240%	40%
Senior Director - Investments	25%	35%	40%	0%	0%	60% 70%	185%	35%
Senior Portfolio Manager	20%	40%	40%	0%	0%	60% 70%	185%	35%
Senior Director - Risk Management	30%	0%	70%	0%	0%	50% 55%	170%	35%
Portfolio Manager	20%	40%	40%	0%	0%	50% 80%	170%	30%
Director - Investments	20%	40%	40%	0%	0%	50% 60%	170%	30%
Director - Private Investments	20%	30%	50%	0%	0%	50% 60%	170%	30%
Director - Risk Management	30%	0%	70%	0%	0%	40% 50%	150%	30%
Senior Associate - Investments	15%	35%	50%	0%	0%	40% 50%	150%	20%
Senior Associate - Private Investments	15%	25%	60%	0%	0%	40% 50%	150%	20%
Senior Associate - Risk Management	30%	0%	70%	0%	0%	40% 45%	140%	20%
Associate - Investments	15%	30%	55%	0%	0%	35%	135%	15%
Associate - Private Investments	15%	20%	65%	0%	0%	35%	135%	15%
Associate - Risk Management	30%	0%	70%	0%	0%	35%	120%	15%
Senior Analyst - Investments	10%	20%	70%	0%	0%	30%	100%	0%
Analyst - Investments	10%	20%	70%	0%	0%	25%	75%	0%
Analyst - Risk Management	30%	0%	70%	0%	0%	25%	75%	0%
<i>Operations/Support Professionals</i>								
Senior Managing Director	20%	0%	80%	0%	0%	60% 65%	150%	40%
Chief Technology Officer	20%	0%	80%	0%	0%	50% 55%	100%	30%
General Counsel & Chief Compliance Officer	0%	0%	100%	0%	0%	50%	120%	30%
Senior Manager	20%	0%	80%	0%	0%	40% 50%	90%	25%
Manager	20%	0%	80%	0%	0%	40% 50%	80%	25%
Deal Attorney Investment Counsel	20%	0%	80%	0%	0%	40%	80%	25%
Senior Financial Analyst	20%	0%	80%	0%	0%	30% 40%	60%	20%
IT Investment Associate	20%	0%	80%	0%	0%	35%	100%	20%

Appendix D, Table 2
Benchmarks for Entities and Asset/Class Investment Type
Threshold, Target, and Maximum Performance Standards
(9/1/123 through 8/31/134)

Asset Class/Investment Type	Benchmark	Policy Portfolio Weights		Performance Standards		
		Total Endowment Assets	IIF	Threshold	Target	Maximum
		(% of Portfolio)	(% of Portfolio)			
Entity: Benchmark (Total Endowment Funds)	Policy Portfolio	n/a	n/a	+0 bps	+75 +100 bps	+225 +250 bps
Entity: Benchmark (Intermediate Term Fund)	Policy Portfolio	n/a	n/a	+0 bps	+50 bps	+150 bps
Investment Grade Fixed Income	Barclays Capital Global Aggregate Index	7.5%	35.0% 30.0%	+0 bps	+25 bps	+62.5 bps
Real Estate	FTSE EPRA/NAREIT Developed Index NET TRI USD	2.5%	5.0% 3.0%	+0 bps	+62.5 bps	+150 bps
Natural Resources	50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index	7.5%	7.5% 7.0%	+0 bps	+62.5 bps	+150 bps
Developed Country Equity	MSCI World Index with net dividends	15.0% 14.0%	10.0% 9.0%	+0 bps	+62.5 bps	+150 bps
Emerging Markets Equity	MSCI Emerging Markets with net dividends	12.0% 10.0%	7.5% 6.0%	+0 bps	+62.5 bps	+150 bps
Hedge Funds (Less Correlated & Constrained Investments)	Hedge Fund Research Indices Fund of Funds Composite Index	30.0%	35.0% 45.0%	+0 bps	+75 bps	+250 bps
Private Investments (excludes Real Estate)	Venture Economics Custom Index	21.5% 23.3%	0%	+0 bps	+100 +150 bps	+350 +450 bps
Private Investments Real Estate	NACREIF Custom Index	4.0% 5.2%	0%	+0 bps	+100 +150 bps	+325 +450 bps
Specific asset class benchmarks:						
Credit-Related Fixed Income	Barclays Capital Global High Yield Index			+0 bps	+37.5 bps	+100 bps
Internal Investment Grade Fixed Income	US Barclays Capital Aggregate			+0 bps	+25 bps	+50 bps

5. **U. T. System Board of Regents: Approval of the Annual Budget for FY 2014, 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 Investment Management Company (UTIMCO)**

RECOMMENDATION

The University of Texas Investment Management Company (UTIMCO) Board of Directors recommends that the U. T. System Board of Regents approve the proposed Annual Budget for the fiscal year ending August 31, 2014, as set forth on Pages 60 - 61, which includes the capital expenditures budget and other external direct charges to the Funds, and the Annual Fee and Allocation Schedule as set forth on Page 62.

BACKGROUND INFORMATION

The proposed Total Budgeted Costs consist of \$24.5 million for UTIMCO services, and \$7.7 million for external non-investment manager services such as custodial, legal, audit, and consulting services. These Total Budgeted Costs represent only a portion of total investment costs as they exclude external manager fees. UTIMCO provides a comprehensive analysis annually to the U. T. System Office of Finance of all fees paid to external investment managers. The proposed Total Budgeted Costs were approved by the UTIMCO Board on November 4, 2013.

The proposed Annual Fee and Allocation Schedule shows the allocation of the proposed budgeted expenses among U. T. System funds in total. UTIMCO expenses are 8.4 bps of assets under management. The fees are to be paid quarterly.

The proposed capital expenditures budget totaling \$1.0 million is included in the total Annual Budget.

UTIMCO projects that there will be no cash reserves available to be distributed back to the U. T. System funds per the Master Investment Management Services Agreement (IMSA) between the U. T. System Board of Regents and UTIMCO. The U. T. System Office of Business Affairs has prepared a memorandum for the purpose of reviewing budgeted expenses, which is included as a part of this Agenda Item on Pages 63 - 74.

UTIMCO ANNUAL BUDGET

\$ in thousands	FY 2013		FY 2014
	Budget	Projected	Budget
Salaries, Benefits & Taxes	\$10,013	\$9,553	\$11,306
Incentive Compensation, excluding one-time events*	7,136	7,786	8,519
Total Compensation	17,149	17,339	19,825
Other Expenses	4,277	4,162	4,645
Total UTIMCO Excluding One-time Events	21,426	21,501	24,470
One-time Events*	2,700	4,179	-
Total UTIMCO	<u>\$24,126</u>	<u>\$25,680</u>	<u>\$24,470</u>
Other Investment-related Expenses Charged to the Funds	\$7,139	\$7,179	\$7,745
* <i>Deferred Compensation from 2012 and Retirement Vesting</i>			

Prepared by: UTIMCO
Date: November 4, 2013

\$ in thousands	
<u>Salaries, Benefits and Taxes</u>	<u>\$ Change</u>
FY 2013 Projected	<u>\$9,553</u>
Increase due to:	
Current Run Rate	\$9,851
New Positions	595
Promotions	175
Existing Staff	<u>685</u>
FY 2014 Budget	<u><u>\$11,306</u></u>

Prepared by: UTIMCO

UTIMCO Management Fee and Direct Budgeted Investment Expenses
 Annual Fee and Allocation Schedule
 For the fiscal year ending August 31, 2014

<u>Proposed Budget</u>	<u>Fund Name</u>						<u>Separate Funds</u>	<u>Total</u>
	PUF	PHF	LTF	GEF	ITF	STF		
Market Value 2/28/13 (\$ millions)	14,242	1,015	6,420	PHF LTF 7,435 (1)	5,243	1,626	653	29,199
UTIMCO Management Fee								
Dollars (thousands)	12,302	1,063	6,915		4,190			24,470
Basis Points	8.6	10.5	10.8	0	8.0	0	0	8.4
Direct Expenses to the Fund								
Dollars (thousands)	3,529	19	21	2,152	2,024			7,745
Basis Points	2.5	0.2	0.0	2.9	3.9	0	0	2.7

(1) Pooled Fund for the collective investment of the PHF and LTF

Prepared by: UTIMCO
 Date: November 4, 2013

Fiscal Year 2014

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

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

Presented by:

Terry Hull – Associate Vice Chancellor for Finance

Allen Hah – Assistant Vice Chancellor for Finance

November 4, 2013

Based on UTIMCO Board approval on November 4, 2013

**Fiscal Year 2014
Review of UTIMCO Services Budget and
Other Direct Costs to Funds
Excluding External Investment Manager Fees**

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Executive Summary

This report reviews the UTIMCO Services budget and other budgeted investment management expenses (“Direct Costs to Funds”) for fiscal year 2014 that the UTIMCO Board approved on November 4, 2013 and the U. T. System Board of Regents will consider at its November 14, 2013 meeting. The UTIMCO Services budget includes corporate expenses paid directly by UTIMCO. The Direct Costs to Funds budget includes costs related to custody, consulting, corporate legal, audit, and risk measurement. The proposed budget for FY14 is:

	FY14 (\$ millions)
• UTIMCO Services Budget	24.5
• Direct Costs to Funds: Other Costs	<u>7.7</u>
Total Budgeted Costs excluding external manager fees	<u>\$ 32.2</u>

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

Highlights:

- **Total Budgeted Costs for FY14:** The FY14 budget is \$32.2 million, a 3.0% increase from the FY13 budget. Budgeted costs in FY13 were adjusted to account for performance compensation that was deferred from FY12 into FY13 in accordance with extraordinary event provisions of the UTIMCO Compensation Program.
- **Total Forecasted Costs for FY13:** Total forecasted costs for FY13 are projected at \$32.9 million or 5% over the FY13 budget. The increase is due primarily to forecasted incentive compensation exceeding budgeted amounts (due to extraordinary event and one-time accounting adjustments), partially offset from actual savings in unfilled budgeted positions.
- **The Total Direct Costs to Funds budget (excluding external investment manager fees):** The FY14 budget of \$7.7 million for direct fund costs is up 8.5% from the FY13 budget. The increase is due to higher budgeted custodian fees related to additional separately managed accounts. These expenses were netted against the net asset values in fund investments and thus represent a change in how they are accounted for and not an increase in actual expenses.
- **The UTIMCO Services Budget: The FY14 budget is \$24.5 million** for the “operating” budget of UTIMCO, a 1.4% increase from the FY13 budget. The increase in the UTIMCO Services Budget is attributable to increases in non-employee related expenses as budgeted employee-related expenses are roughly unchanged given the impact of one-time events included in the FY13 UTIMCO Services budget.
- **Compensation: Compensation-related expenses represent approximately 81% of the UTIMCO Services Budget.** Aggregate salaries, including benefits and taxes, for FY14 are budgeted to be up 13% from the FY13 budget. Budgeted salaries for FY14 include an 8% increase for existing staff (excluding promotions) and two open positions and five new positions. Budgeted performance compensation for FY 14 reflects a decrease due in part to the inclusion of \$2.7 million in the FY13 budget for FY12 performance compensation deferred into FY13 due to negative endowment returns for the performance period ending June 30, 2012.
- **UTIMCO Reserves:** UTIMCO staff projects that UTIMCO will have no cash reserves available to be distributed at fiscal year-end 2013. We concur with UTIMCO staff in recommending that no distribution of reserves be made at this time.

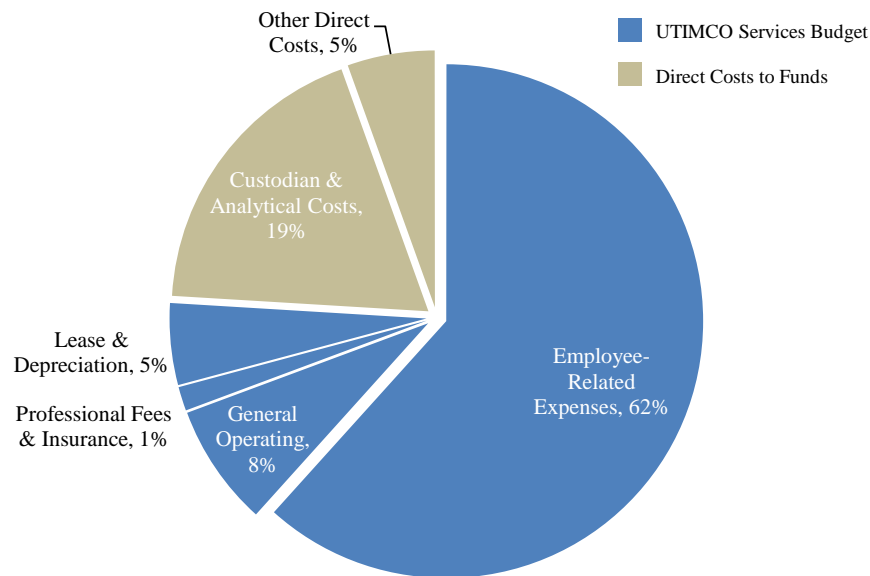
Budget Analysis and Trends

UTIMCO proposes Total Budgeted Costs for FY14 of \$32.2 million. Table 1 shows the Total Budgeted Costs (Direct Costs to Funds and UTIMCO Services Budget excluding external manager fees) as a percent of average Assets Under Management (“AUM”) since FY09.

Table 1: Total Budgeted Costs Trend FY09-FY14
(\$ millions)

	FY09	FY10	FY11	FY12	Projected FY13	Budget FY14
Average Total AUM	21,864	21,750	24,840	27,235	28,886	28,886
% Change in AUM	0%	-1%	14%	10%	6%	0%
Direct Costs to Funds	5.0	5.7	7.8	7.3	7.2	7.7
% Change in Direct Costs to Funds	-19.0%	13.2%	36.1%	-5.4%	-2.2%	7.9%
Direct Costs to Funds % of AUM	0.02%	0.03%	0.03%	0.03%	0.02%	0.03%
UTIMCO Services Budget	15.1	16.6	18.2	15.9	25.7	24.5
% Change in UTIMCO Services Budget	8.9%	9.5%	9.7%	-12.3%	61.2%	-5.0%
UTIMCO Services Budget % of AUM	0.07%	0.08%	0.07%	0.06%	0.09%	0.08%
Total Budgeted Costs	20.2	22.3	25.9	23.3	32.9	32.2
% Change in Total Budgeted Costs	0.3%	10.5%	16.5%	-10.2%	41.2%	-2.0%
Total Budgeted Costs % of AUM	0.09%	0.10%	0.10%	0.09%	0.11%	0.11%

FY 14 Total Budgeted Costs
(Excluding external manager fees)
\$32.2 million



The pie chart above shows the breakdown of Total Budgeted Costs. The UTIMCO Services Budget represents 76% of the total budget, with employee-related expenses being the largest component at 62%. Direct Costs to Funds include Custodian & Analytical Costs (19%) and Other Direct Costs (6%).

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 90% of the AUM, with UTIMCO staff directly managing approximately 10% of assets as well as an internal derivatives portfolio.

Table 2 compares the Total Budgeted Costs for FY13 and FY14. Refer to Exhibits A and B for a detailed budget comparison for FY13-FY14 and budget trend for FY09-FY14.

Table 2: FY13 Forecast and FY14 Budget Overview
(\$ millions)

	FY13				FY14			
	\$ Budget	\$ Projected	\$ Change vs FY13 Budget	% Change vs FY13 Budget	\$ Budget	\$ Change vs FY13 Projected	% Change vs FY13 Projected	% Change vs FY13 Budget
UTIMCO Services Budget	24.13	25.68	1.55	6.4%	24.47	-1.21	-4.7%	-5.0%
Direct Costs to Funds	7.14	7.18	0.04	0.6%	7.74	0.57	7.9%	7.9%
Total Budgeted Costs	31.26	32.86	1.59	5.1%	32.21	-0.64	-2.0%	-2.1%

FY13 Forecast versus FY13 Budget: UTIMCO staff projects FY13 Total Budgeted Costs will be \$32.9 million, \$1.6 million (5.1%) over the FY13 budget of \$31.3 million. The increase is due primarily to forecasted incentive compensation exceeding budgeted amounts, partially offset from savings in unfilled budgeted positions.

- UTIMCO Services expenses are projected to be over budget by \$1.6 million, due primarily to forecasted incentive compensation exceeding budgeted amounts.
 - Salaries excluding performance compensation awards are projected to be \$389k (4.9%) under budget due to unfilled budgeted positions.
 - Performance compensation is projected to be \$2.1 million (22%) over budget due to the acceleration of performance awards for retirement purposes.
 - Online data service expenses are projected to be \$73k (6%) under budget.
 - Travel & Meetings expenses, including BOD meetings, are projected to be \$85k (14%) under budget.
 - Corporate legal expenses are expected to be \$86k (49%) under budget.
- Direct Costs to Funds are generally in line with FY13 budgeted amounts.
 - Custodian fees are projected to be \$132k (3%) over budget offset by performance measurement expenses that are expected to be \$112k (22%) under budget.
 - Investment legal fees are projected to be \$134k (25%) over budget.
- Capital Expenditures are forecasted at \$543k (40%) under budget. Capital expenses for new technology initiatives originally budgeted for FY13 are now budgeted to occur in FY14.

FY14 Proposed Budget: The proposed \$32.2 million Total Budgeted Costs for FY14 is 3% higher than the approved FY13 budget with \$942k of the increase attributable to the inclusion of new and replacement employees.

- FY14 Direct Costs to Funds of \$7.7 million are budgeted to increase 8.5% versus budgeted costs for FY13 primarily due to higher custodian fees, partially offset by lower budgeted consultant fees.
- UTIMCO Services costs for FY14 are budgeted to be \$24.5 million, an increase of 1.4% over FY13 budgeted costs. Budgeted performance compensation for FY13 included provisions for one-time events related to the implementation of a retirement program and a deferral of FY12 performance compensation from FY12 into FY13. Savings in performance compensation budgeted in FY14 are partially offset by increased salaries and wages.
- Capital Expenditures are budgeted at \$1.03 million in FY14, a decrease of 23% compared to the FY13 budget. UTIMCO continues implementing technology initiatives recommended by its new Chief Technology Officer, primarily related to two key initiatives: a document management system and an investment support system.

Direct Costs to Funds

Direct Costs to Funds for FY14, excluding external manager fees, are projected at \$7.7 million.

Custodian and Analytical Costs: Custodian and analytical costs for FY13 are projected at \$5.2 million, in line with FY13 budgeted amounts. Custodian fees are budgeted to increase \$707k in FY14, primarily due to the use of more separately managed accounts in emerging markets. Aggregate costs for performance measurement, analytical tools and risk measurement are budgeted at \$1.2 million in FY14, unchanged from FY13 budgeted amounts.

Auditing expenses in FY13 of \$465k funded external auditors and U. T. System Audit Office fees and matched FY13 budgeted amounts. Audit expenses are budgeted at \$478k for FY14 reflecting a 3% increase from Deloitte and Touche with no change in U. T. System Audit Office fees.

Other Costs: Foreign tax, legal, and other consultant fees are projected at \$1.47 million in FY13, in line with the FY13 budget of \$1.42 million. For FY14, these costs are budgeted at \$1.3 million, a 9% decline from FY13 budgeted amounts. The decrease is primarily driven by lower costs for consultants (\$68k), background searches (\$34k), and foreign tax consultants (\$37k).

UTIMCO Services Budget

For FY12, total personnel-related expenses including employee benefits account for 78% of the UTIMCO Services budget (55% of Total Budgeted Costs, excluding external manager fees). Trends in staffing and total compensation in relation to assets are shown in Table 3 and Table 3a on the next page. Table 3a adjusts for a one-time deferral of incentive compensation, decreasing FY13 performance compensation by \$3.6 million and increasing FY12 performance compensation by the same amount. Highlights from these tables include:

- Staffing was relatively steady through FY12, but increased to 63 positions in FY13 with 69 positions budgeted for FY14.
- Average AUM per employee has grown approximately 5% annually from FY09 to FY13, but is projected to fall given additional staff.
- Aggregate salaries for FY14 are projected to be 38% above FY09 levels.
- Projected performance compensation for FY14 reflects a 2% increase compared to FY13, after adjusting for the deferral of a significant portion of FY12 performance compensation into FY13.

- Total employee compensation has increased from \$9.7 million in FY09 to \$17.4 million budgeted for FY14.
- Since FY09, total compensation per employee has increased 10% (annualized) to \$252k forecasted in FY13, after adjusting for the impact of the FY12 performance deferral into FY 2013.

Table 3: UTIMCO Compensation and Headcount FY09-FY14

	FY09	FY10	FY11	FY12	Projected FY13	% Change Since FY09 (annual)	Budget FY14	% Change From FY13
Employees (as of year end)	57	57	56	58	63	2.5%	69	9.5%
Average Total AUM (\$ millions)	21,864	21,750	24,840	27,235	28,886	7.2%	28,886	0.0%
Average AUM/Employee (\$ millions)	384	382	444	470	459	4.6%	419	-8.7%
Salaries and Wages (\$ millions)	6.4	6.5	6.4	6.9	7.6	4.2%	8.9	17.5%
Performance Compensation (\$ millions)	3.2	4.5	6.3	3.3	12.0	38.6%	8.5	-28.8%
Total Compensation (\$ millions)	9.7	10.9	12.7	10.2	19.6	19.2%	17.4	-10.8%
Total Compensation per Employee (\$)	169,985	192,012	227,029	175,328	310,352	16.2%	252,719	-18.6%
Perf. Comp. as % of Salaries and Wages	50%	70%	98%	47%	158%		96%	
Perf. Comp. as % of Total Compensation	33%	41%	49%	32%	61%		49%	

Table 3a: UTIMCO Compensation and Headcount FY09-FY14

(Adjusted for Extraordinary Event Impacting FY12 – FY13)

	FY09	FY10	FY11	FY12	Projected FY13	% Change Since FY09 (annual)	Budget FY14	% Change From FY13
Employees (as of year end)	57	57	56	58	63	2.5%	69	9.5%
Average Total AUM (\$ millions)	21,864	21,750	24,840	27,235	28,886	7.2%	28,886	0.0%
Average AUM/Employee (\$ millions)	384	382	444	470	459	4.6%	419	-8.7%
Salaries and Wages (\$)	6.4	6.5	6.4	6.9	7.6	4.2%	8.9	17.5%
Performance Compensation (\$)	3.2	4.5	6.3	6.9	8.4	26.7%	8.5	1.9%
Total Compensation (\$)	9.7	10.9	12.7	13.8	15.9	13.3%	17.4	9.4%
Total Compensation per Employee (\$)	169,985	192,012	227,029	237,954	253,077	10.5%	252,719	-0.1%
Perf. Comp. as % of Salaries and Wages	50%	70%	98%	100%	110%		96%	
Perf. Comp. as % of Total Compensation	33%	41%	49%	50%	52%		49%	

Staffing: The FY13 budget was based on staffing of 66 employees; actual staffing was 63 employees at fiscal year-end 2013. The FY14 budget is based on staffing of 69 employees.

Personnel-related Expenses:

- **Salaries and Wages** are projected to be \$7.6 million in FY13, \$388k (5%) under budget, primarily due to budgeted but unfilled positions. Aggregate salaries and wages are budgeted at \$8.9 million in FY14, an increase of 17.5% compared to the FY13 budget. The FY14 budget reflects an average 8% salary increase for existing staff, excluding promotions. Including promotions, salary increases for

existing staff average 9%. Budgeted salaries for FY14 are based on 69 positions, up from 63 staff at Aug. 31, 2013.

- **Performance Compensation** for FY13 is forecast to be \$2.1 million over budget, or 22%. Negative endowment returns in FY12 resulted in a significant portion of performance compensation being deferred to FY13. Also, the initiation of a new retirement program caused an increase in FY13 performance compensation as vested employee awards were no longer deferred. The FY14 budget of \$8.5 million in performance compensation is 13% lower than budgeted FY13 amounts due not only to the one-time events included in FY13 but also budgeted future performance awards at 70% of maximum.
- **Employee Benefits** are budgeted to increase 23% from \$1.3 million in FY13 to \$1.6 million in FY14. The budget reflects a 15% increase in the cost of medical coverage, a 5% increase in the cost of dental coverage, and additional staff positions. Employee benefit costs for FY13 are expected to come in at budgeted levels.

General Operating Expenses (non-employee) including office expenses, lease expenses, insurance, travel and accounting fees are forecasted to be slightly under budget in FY13 at \$4.1 million versus a budget of \$4.2 million. General operating expenses for FY14 are budgeted to increase 9% to \$4.6 million. The \$365k budgeted increase primarily relates to increased travel (\$55k), disaster recovery and other contract services (\$68k), computer hardware and software maintenance costs (\$80k), and lease expense (\$71k).

Lease Expenses: Lease expenses are budgeted to increase 7% compared to FY13 budgeted amounts, due to higher operating expenses from increased property taxes. Parking expenses are also budgeted to increase due to additional staffing. Lease expenses for FY13 are projected to slightly exceed FY13 budgeted amounts due to increased operating expenses.

Table 4: UTIMCO Lease Expenses FY09-FY14

	FY09	FY10	FY11	FY12	Projected FY13	Budget FY14
Property Lease	\$518,373	\$518,373	\$518,373	\$518,373	\$518,373	\$518,376
Operating Expenses	\$515,848	\$538,894	\$468,651	\$513,894	\$554,516	\$571,644
Parking Expenses	\$96,847	\$107,940	\$111,911	\$114,677	\$124,666	\$129,000
Other Expenses	\$1,461	\$8,969	\$6,900	\$7,334	\$7,966	\$9,000
Amortization (Deferred Rent Credit)	(\$170,344)	(\$170,344)	(\$170,344)	(\$170,344)	(\$170,344)	(\$170,352)
Total Lease Expenses (net)	\$962,185	\$1,003,832	\$935,490	\$983,934	\$1,035,176	\$1,057,668

UTIMCO Capital Expenditures

The trend for Capital Expenditures for FY09-FY14 is summarized in Table 5. The Chief Technology Officer, hired in March 2012, identified several key initiatives including document management, disaster recovery efforts, and upgrading video conferencing and phone systems that significantly increased capital expenditures in FY13 compared to preceding years. Total capital expenditures are forecasted to be \$807k in FY13, which is below the \$1.35 million FY13 budgeted amount. Capex is budgeted at \$1.0 million in FY14, with the majority of expenditures focused on two key initiatives: a document management system and an investment support system. The document management system is intended to standardize file structures, have enhanced security and search functionality, and assist in record retention. The investment

Fiscal Year 2014 Review of UTIMCO Services Budget and Other Direct Costs to Funds

Prepared by the U. T. System Office of Finance

November 4, 2013

support system will provide investment staff with better access to information from differing perspectives and levels of detail, better automation, and the ability to quickly produce cross-portfolio analysis.

Table 5: UTIMCO Capital Expenditures FY09-FY14

	FY09	FY10	FY11	FY12	Projected FY13	Budget FY14
Ongoing: Technology and Software Upgrades	\$113,502	\$48,169	\$122,048	\$121,416	\$89,146	\$87,000
Ongoing: Office Equipment and Fixtures	\$22,672	\$32,168	\$43,700	\$20,021	\$105,290	-
Expansion: Software Development Initiative	-	-	-	-	\$580,647	\$948,000
Expansion: Video Conferencing	-	-	-	-	\$31,834	-
Total Capital Expenditures (net)	\$136,174	\$80,337	\$165,748	\$141,437	\$806,917	\$1,035,000

EXHIBIT A

Total Budgeted Costs FY13-FY14

	FY13		Change from FY13 Budget		FY14 Budget	Change from FY13 Projected		Change from FY13 Budget	
	Budget	Projected	\$	%		\$	%	\$	%
UTIMCO Services									
Salaries and Wages + Vacation	7,976,326	7,587,688	-388,639	-4.9%	8,918,824	1,331,136	17.5%	11.8%	
Performance Compensation + Earnings	9,835,675	11,988,497	2,152,822	21.9%	8,518,781	-3,469,716	-28.9%	-13.4%	
Total Compensation	17,812,001	19,576,184	1,764,183	9.9%	17,437,605	-2,138,580	-10.9%	-2.1%	
Total Payroll taxes	691,706	642,043	-49,663	-7.2%	724,097	82,054	12.8%	4.7%	
403(b) Contributions	612,659	566,318	-46,341	-7.6%	688,825	122,507	21.6%	12.4%	
Insurance & Cell Phone	679,817	701,274	21,458	3.2%	898,433	197,158	28.1%	32.2%	
Employee Benefits	1,292,476	1,267,592	-24,883	-1.9%	1,587,258	319,665	25.2%	22.8%	
Recruiting and Relocation Expenses	30,000	25,979	-4,021	-13.4%	33,000	7,021	27.0%	10.0%	
Employee Education	52,464	55,124	2,660	5.1%	75,468	20,344	36.9%	43.8%	
Other Employee Related Expenses	82,464	81,103	-1,361	-1.7%	108,468	27,365	33.7%	31.5%	
Total Employee Related Expenses	19,878,647	21,566,923	1,688,276	8.5%	19,857,427	-1,709,496	-7.9%	-0.1%	
On-Line Data & Contract Services	1,237,932	1,164,734	-73,198	-5.9%	1,333,728	168,994	14.5%	7.7%	
Travel & Meetings, Including BOD	622,000	536,748	-85,252	-13.7%	676,000	139,252	25.9%	8.7%	
Phone and Telecommunications	33,720	36,781	3,061	9.1%	48,636	11,855	32.2%	44.2%	
Computer & Office Supplies	54,600	50,392	-4,208	-7.7%	52,740	2,348	4.7%	-3.4%	
Repairs/Maintenance	174,996	191,971	16,975	9.7%	256,572	64,601	33.7%	46.6%	
Other Office Expenses	70,928	92,250	21,322	30.1%	96,840	4,590	5.0%	36.5%	
Total Office Expense	334,244	371,393	37,149	11.1%	454,788	83,395	22.5%	36.1%	
Total Lease Expense	986,952	1,035,176	48,224	4.9%	1,057,668	22,492	2.2%	7.2%	
Board, Comp., & Hiring Consultants	46,500	165,341	118,841	255.6%	80,100	-85,241	-51.6%	72.3%	
Legal Expenses	174,000	88,279	-85,721	-49.3%	140,400	52,121	59.0%	-19.3%	
Accounting fees	40,500	49,268	8,768	21.6%	52,500	3,232	6.6%	29.6%	
Total Professional Fees	261,000	302,888	41,888	16.0%	273,000	-29,888	-9.9%	4.6%	
Total Insurance	204,900	207,103	2,203	1.1%	216,900	9,797	4.7%	5.9%	
Depreciation of Equipment	600,000	518,707	-81,293	-13.5%	600,000	81,293	15.7%	0.0%	
Total Non-Employee Related Expenses	4,247,028	4,136,750	-110,278	-2.6%	4,612,084	475,334	11.5%	8.6%	
Total UTIMCO Services	24,125,675	25,703,673	1,577,998	6.5%	24,469,511	-1,234,162	-4.8%	1.4%	
Direct Costs to Funds									
Custodian Fees and Other Direct Costs	4,029,043	4,160,625	131,582	3.3%	4,736,135	575,510	13.8%	17.5%	
Performance Measurement	513,087	401,220	-111,867	-21.8%	500,787	99,567	24.8%	-2.4%	
Analytical Tools	391,665	390,371	-1,294	-0.3%	409,559	19,188	4.9%	4.6%	
Risk Measurement	315,500	292,000	-23,500	-7.4%	324,000	32,000	11.0%	2.7%	
Custodian and Analytical Costs	5,249,295	5,244,216	-5,079	-0.1%	5,970,481	726,264	13.8%	13.7%	
Consultant Fees	418,750	403,304	-15,446	-3.7%	351,000	-52,304	-13.0%	-16.2%	
Auditing	465,000	465,410	410	0.1%	477,880	12,470	2.7%	2.8%	
Legal Fees	526,000	659,516	133,516	25.4%	537,500	-122,016	-18.5%	2.2%	
Background Searches & Other	479,725	406,479	-73,246	-15.3%	408,109	1,629	0.4%	-14.9%	
Other Direct Costs Total	1,889,475	1,934,709	45,234	2.4%	1,774,489	-160,220	-8.3%	-6.1%	
Total Direct Costs to Funds	7,138,770	7,178,925	40,155	0.6%	7,744,969	566,044	7.9%	8.5%	
Total Budgeted Costs	31,264,445	32,882,598	-17,577,485	-56.2%	32,214,480	-668,117	-2.0%	3.0%	

EXHIBIT B

Total Budgeted Costs FY09-FY14

	FY09	FY10	FY11	FY12	FY13	FY14
	Actual	Actual	Actual	Actual	Projected	Budget
UTIMCO Services						
Salaries and Wages + Vacation	6,443,360	6,454,270	6,422,656	6,903,383	7,587,688	8,918,824
Performance Compensation + Earnings	3,245,765	4,490,396	6,290,993	3,265,622	11,988,497	8,518,781
Total Compensation	9,689,125	10,944,666	12,713,649	10,169,005	19,576,184	17,437,605
Total Payroll taxes	449,846	479,799	492,963	472,196	642,043	724,097
403(b) Contributions	478,096	487,207	485,227	515,669	566,318	688,825
Insurance & Cell Phone	602,258	617,525	585,957	619,546	701,274	898,433
Employee Benefits	1,080,354	1,104,732	1,071,184	1,135,215	1,267,592	1,587,258
Recruiting and Relocation Expenses	16,697	2,594	15,210	49,522	25,979	33,000
Employee Education	6,230	37,381	30,159	36,287	55,124	75,468
Other Employee-Related Expenses	22,927	39,975	45,369	85,809	81,103	108,468
Total Employee Related Expenses	11,242,252	12,569,172	14,323,165	11,862,225	21,566,923	19,857,427
On-Line Data & Contract Services	894,096	965,058	1,003,058	1,038,036	1,164,734	1,333,728
Travel & Meetings, Including BOD	303,392	479,393	416,713	588,240	536,748	676,000
Phone and Telecommunications	72,014	77,524	69,072	32,976	36,781	48,636
Computer & Office Supplies	93,136	89,027	80,768	49,748	50,392	52,740
Repairs/Maintenance	188,875	181,288	182,535	160,071	191,971	256,572
Other Office Expenses	29,426	60,097	52,400	105,966	92,250	96,840
Total Office Expense	383,451	407,936	384,775	348,762	371,393	454,788
Total Lease Expense	962,184	1,003,831	935,490	983,934	1,035,176	1,057,668
Board, Compensation, & Hiring Consultants	129,650	86,400	44,500	211,000	165,341	80,100
Legal Expenses	337,065	194,930	247,303	106,483	88,279	140,400
Accounting fees	41,035	33,135	38,950	51,975	49,268	52,500
Total Professional Fees	507,750	314,465	330,753	369,458	302,888	273,000
Total Insurance	240,218	248,126	227,326	208,729	207,103	216,900
Depreciation of Equipment	590,929	579,925	552,739	533,872	518,707	600,000
Total Non-Employee Related Expenses	3,882,020	3,998,734	3,850,854	4,071,032	4,136,750	4,612,084
Total UTIMCO Services	15,124,272	16,567,906	18,174,019	15,933,256	25,703,673	24,469,511
Direct Costs to Funds						
Custodian Fees and Other Direct Costs	1,918,015	2,277,038	4,452,927	4,200,390	4,160,625	4,736,135
Performance Measurement	417,322	405,838	408,525	429,584	401,220	500,787
Analytical Tools	347,713	351,642	342,534	358,697	390,371	409,559
Risk Measurement	416,416	377,458	292,000	292,000	292,000	324,000
Custodian and Analytical Costs	3,099,466	3,411,976	5,495,986	5,280,671	5,244,216	5,970,481
Consultant Fees	567,125	485,625	554,891	415,375	403,304	351,000
Auditing	733,097	692,093	677,000	371,779	465,410	477,880
Legal Fees	464,600	973,934	795,933	786,122	659,516	537,500
Background Searches & Other	168,039	134,673	231,403	484,991	406,479	408,109
Other Direct Costs Total	1,932,861	2,286,325	2,259,227	2,058,267	1,934,709	1,774,489
Total Direct Costs to Funds	5,032,327	5,698,301	7,755,213	7,338,938	7,178,925	7,744,969
Total Budgeted Costs	20,156,599	22,266,207	25,929,232	23,272,194	32,882,598	32,214,480

EXHIBIT C
UTIMCO Reserve Analysis for August 31, 2013

Projected Cash Reserves at August 31, 2013		
Cash		10,234,124
Prepaid Expenses		589,180
Less: Accounts Payable (Includes incentive compensation & earnings payable)		<u>(5,955,913)</u>
Expected Cash Reserves at August 31, 2013		<u>\$ 4,867,391</u>
FY14 Proposed Operating Budget	24,469,511	
Applicable Percentage	25%	6,117,378
FY14 Proposed Capital Expenditures	1,034,900	<u>1,034,900</u>
Required Cash Reserves at August 31, 2013		<u>\$ 7,152,278</u>
Balance Available for Distribution		\$ (2,284,887)
Recommended Distribution		\$ -

6. **U. T. System Board of Regents: Report on the Opportune LLP External Review and Assessment of University Lands, recommendations from the University Lands Advisory Committee, and approval of an additional \$1,350,000 of Permanent University Funds**

REPORT AND RECOMMENDATIONS

Executive Vice Chancellor Kelley and Mr. Jim Benson, Executive Director of University Lands, will present the Report on the Opportune LLP External Review and Assessment of University Lands and the recommendations from the University Lands Advisory Committee.

Based on that report and the work of the Committee, the Chancellor, with the concurrence of the Executive Vice Chancellor for Business Affairs, recommends that the Board

- a. adopt a compensation plan for the Office of University Lands to be competitive in the Midland labor market;
- b. authorize the Office of University Lands to increase staffing levels by up to 10 additional full-time employees (FTEs) for specific value-added operations of lease forfeiture and lease termination;
- c. authorize an additional \$1,350,000 of Permanent University Funds (PUF) salary budget to implement the first two recommendations; and
- d. authorize the Chancellor to take any and all actions necessary to carry out the intentions of the U. T. System Board of Regents.

BACKGROUND INFORMATION

In the first quarter of Fiscal Year 2013, the Office of Business Affairs reviewed and summarized University Lands management and in particular, strategies that might increase the value of the PUF. In recent years, the PUF Lands have dramatically increased in value as a result of greater oil and gas production coupled with higher prices for oil and gas. Revenues from oil and gas royalties, lease bonuses, and other sources reached an all-time high of \$954 million in FY 2012. An analysis dated November 19, 2012, prepared by the Office of Business Affairs concluded that the PUF Lands are worth approximately \$7.5 - \$8.0 billion. The PUF Lands are managed by the Office of University Lands, which is staffed by up to 44 professionals based in Midland, Texas. The conclusions of this first quarter review were that to increase the value of the PUF, the value of PUF Lands must be increased. The first step in that process was to conduct an organizational review of the Office of University Lands.

On January 18, 2013, a Request for Proposal (RFP) was issued to solicit respondents to analyze and make recommendations regarding current business practices and processes, additional functions that may add value, staffing levels and compensation, and to prepare a final report. Opportune LLP was awarded the contract effective April 29, 2013.

On July 10, 2013, Chairman Powell and Chancellor Cigarroa announced the appointment of the University Lands Advisory Committee to serve in an advisory role to the U. T. System Board of Regents, the Board for Lease of University Lands, and to U. T. System Administration. The primary benefit of the Advisory Committee is to increase the level of expertise and to suggest value-added recommendations that may be employed in the management of the PUF Lands. The Advisory Committee is made up of industry leaders with expertise in oil and gas, real estate, and finance.

The University Lands Advisory Committee met on July 15, 2013, for a presentation and discussion about the findings made by Opportune during their review and assessment. The draft report was issued by Opportune LLP on August 29, 2013. A second meeting on October 3, 2013, allowed the Advisory Committee to review the Opportune draft reports and identify priorities. The Advisory Committee identified the following two priorities for immediate action:

1. Protect the core business by modifying the compensation plan to be competitive in the Midland, Texas, market. There are currently 10 vacant position on University Lands staff; and
2. Fund additional staff for certain value-added functions including permit lease forfeiture and underperforming lease termination. There are slightly over 50,000 acres of undeveloped permit leases and approximately 130,000 acres of underperforming leases that would easily have an average market value of \$1,000/acre.

The final reports on the Review and Assessment of University Lands are available from the Office of Business Affairs upon request.