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Committee Meeting: 8/24/2022

Board Meeting: 8/25/2022
Austin, Texas

Janiece Longoria, Chairman
R. Steven Hicks
Jodie Lee Jiles
Stuart W. Stedman
Kelcy L. Warren
Rad Weaver

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Convene	<i>Chairman Longoria 2:15 p.m</i>		
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	Committee Meeting	Board Meeting	Page
7. U. T. System Board of Regents: Approval of amendments to the Investment Policy Statements for the Permanent University Fund, the General Endowment Fund, the Permanent Health Fund, the Long Term Fund, the Intermediate Term Fund, the Liquidity Policy, and the Derivative Investment Policy	Action <i>Mr. Britt Harris</i> <i>Mr. Rich Hall</i>	Action	94
8. U. T. System Board of Regents: Approval of proposed amendments to the Master Investment Management Services Agreement (IMSA) with The University of Texas/TexasA&M Investment Management Company (UTIMCO)	Action <i>Mr. Pruitt</i> <i>Mr. Britt Harris</i> <i>Mr. Rich Hall</i>	Action	159
9. U. T. System Board of Regents: Approval of the Annual Budget for Fiscal Year 2023, 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. Britt Harris</i> <i>Mr. Rich Hall</i> <i>Ms. Joan Moeller</i>	Action	177
10. U. T. System Board of Regents: The University of Texas/Texas A&M Investment Management Company (UTIMCO) Update	Report/Discussion <i>Mr. Britt Harris</i> <i>Mr. Rich Hall</i>	Not on Agenda	198
Adjourn	3:00 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 proposed Consent Agenda items assigned to this Committee are [Items 5 - 6](#).

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

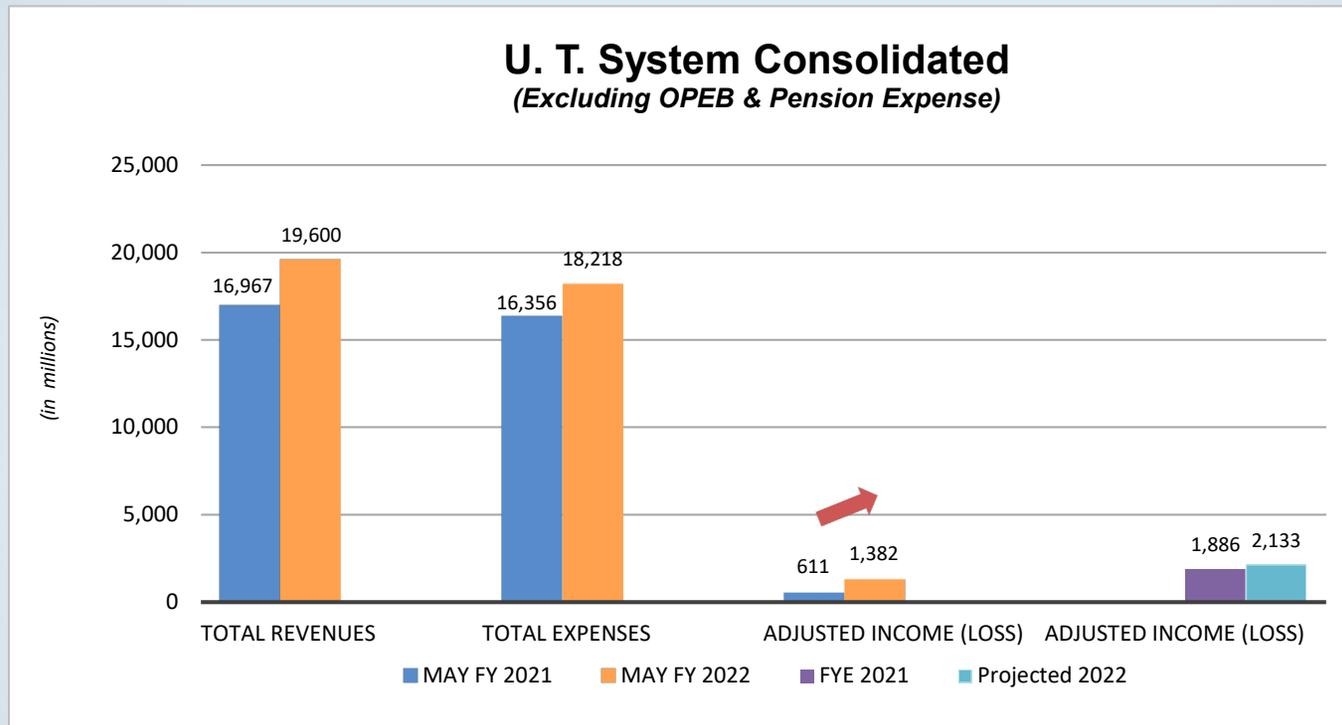
U. T. System Board of Regents Meeting
Finance and Planning Committee
August 2022



THE UNIVERSITY of TEXAS SYSTEM
THIRTEEN INSTITUTIONS. UNLIMITED POSSIBILITIES.

U. T. System Consolidated Landscape

For the Period Ending May 31, 2022 and Projected Fiscal Year-End

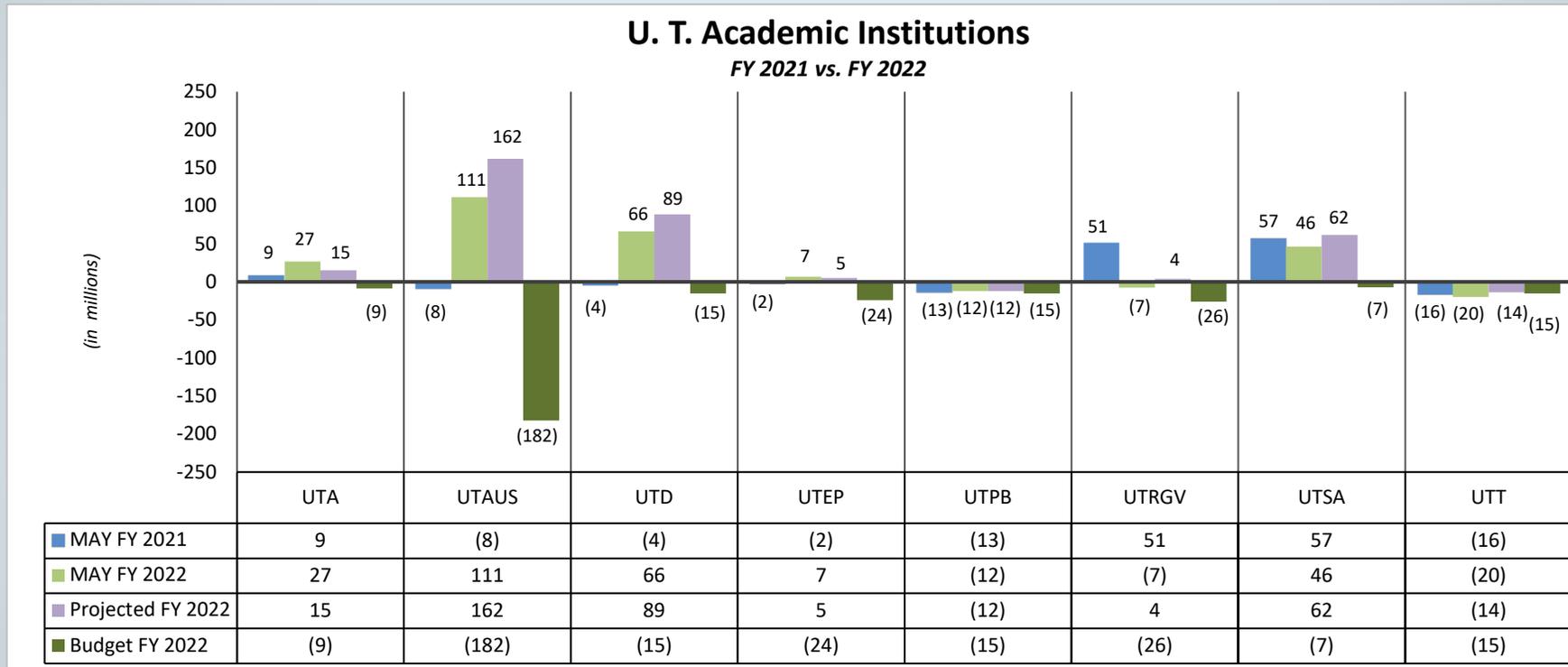


Source: May 2022 Monthly Financial Report



Academic Adjusted Income (Loss) Comparison

For the Period Ending May 31, 2022 and Projected Fiscal Year-End



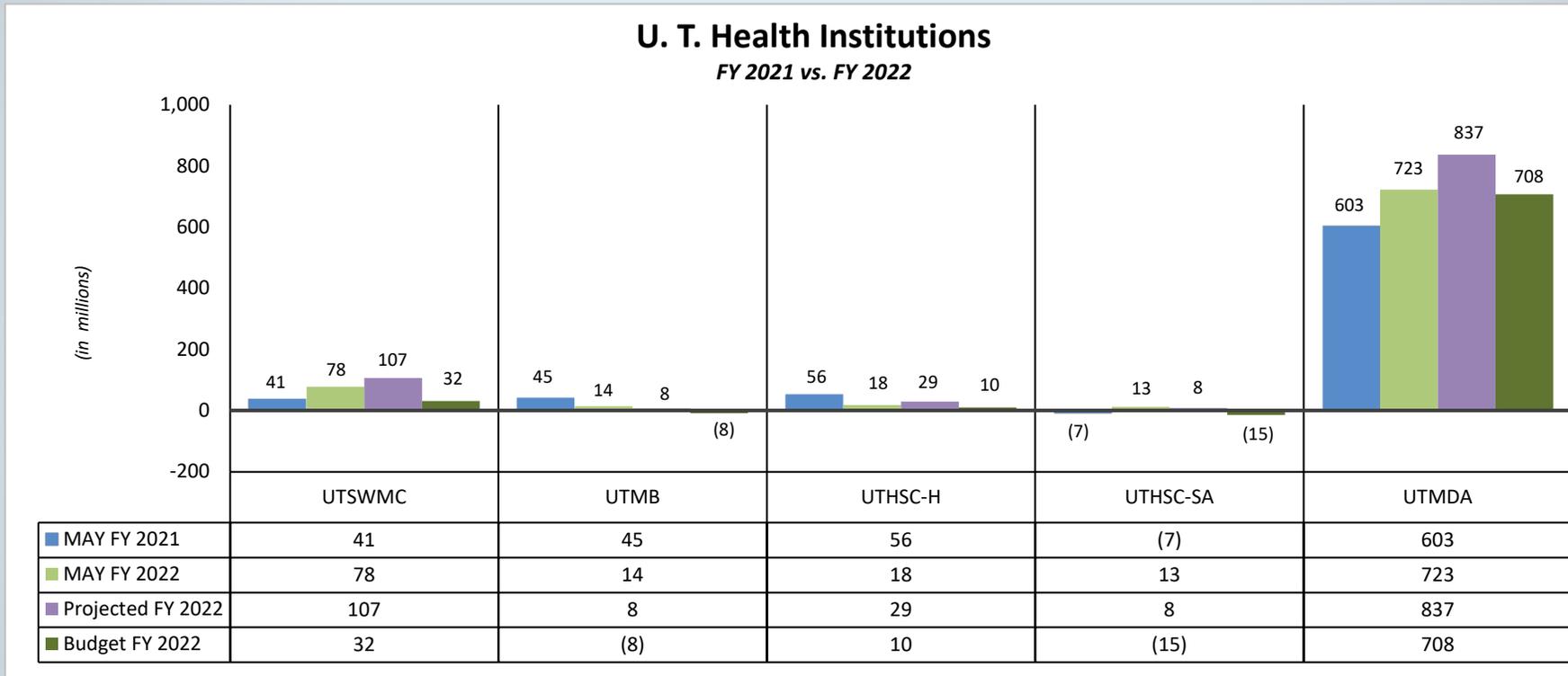
Source: May 2022 Monthly Financial Report



THE UNIVERSITY of TEXAS SYSTEM
THIRTEEN INSTITUTIONS. UNLIMITED POSSIBILITIES.

Health Adjusted Income (Loss) Comparison

For the Period Ending May 31, 2022 and Projected Fiscal Year-End



Source: May 2022 Monthly Financial Report



THE UNIVERSITY of TEXAS SYSTEM
THIRTEEN INSTITUTIONS. UNLIMITED POSSIBILITIES.

Systemwide Operations Financial Summary

	FY 2022 Budget	FYTD Actual (May 2022)	% of Budget
U. T. System Administration (AUF)	\$ 55,405,440	\$ 39,815,054	72%
Direct Campus Support (AUF)	41,459,566	27,908,815	67%
Other Operations Funded with AUF Reserves	50,000	46,724	93%
Service Departments and Other Non-AUF*	58,719,378	35,428,063	60%
Total – U. T. System Administration and Campus Support	\$ 155,634,384	\$ 103,198,656	66%

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



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

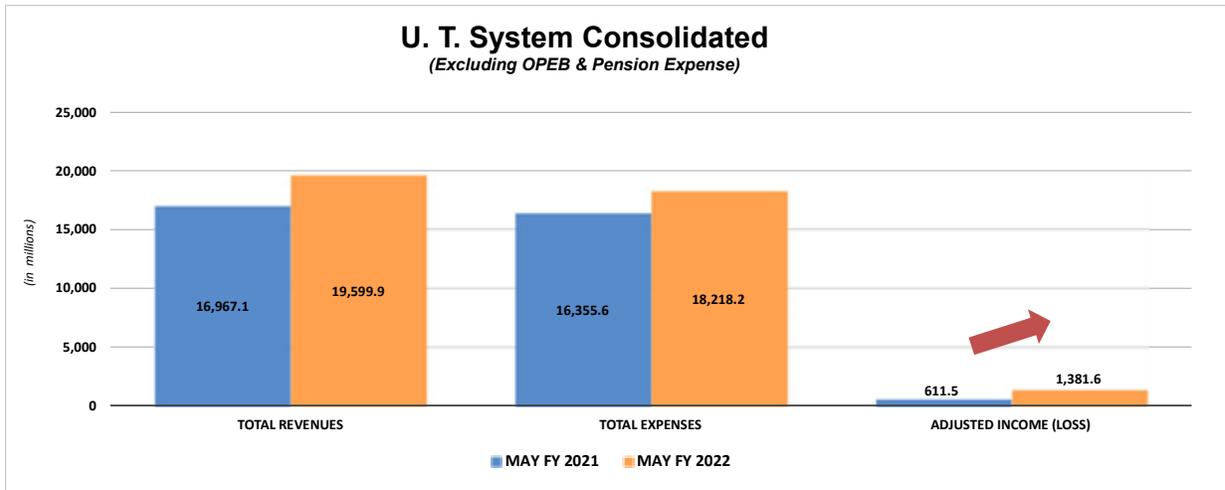
MONTHLY FINANCIAL REPORT
(unaudited)

**May 2022
FY 2022**



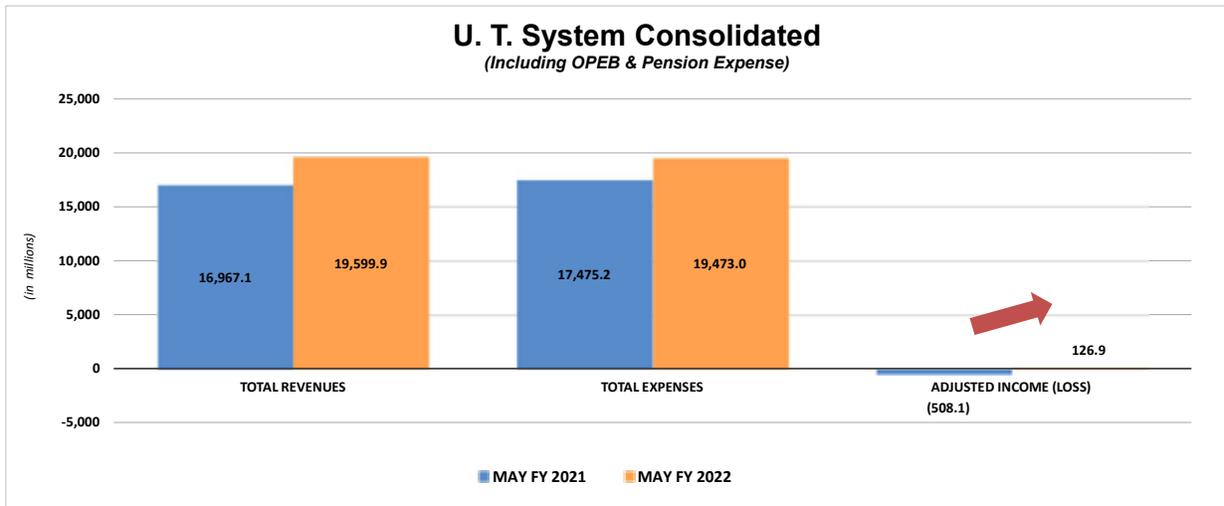
210 West Seventh Street
Austin, Texas 78701
512.499.4527
www.utsystem.edu/cont

Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending May 31, 2022

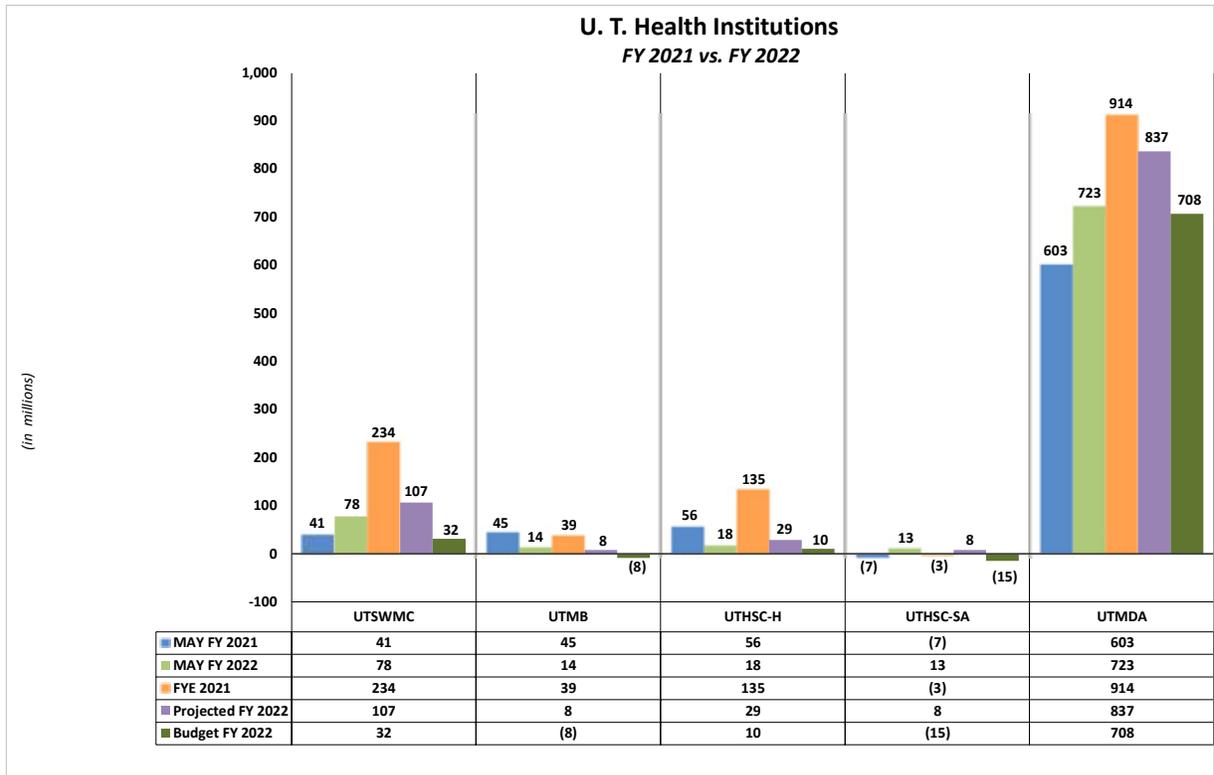
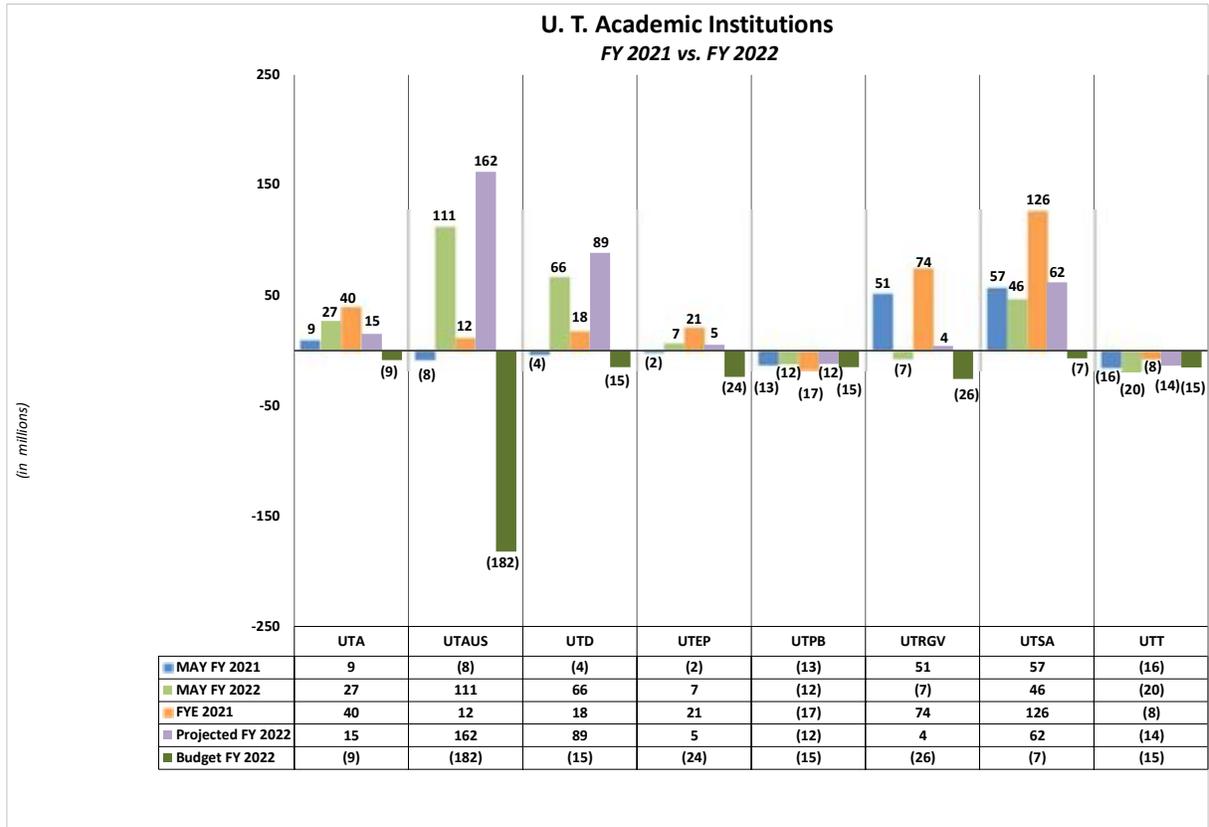


Excluding other postemployment benefits (OPEB) and pension expense, *U. T. System Consolidated* shows year-to-date adjusted income of \$1,381.6 million, an increase in adjusted income of \$770.1 million (126%) from the prior year. The increase was primarily due to increases in net investment income and clinical revenues.

(in millions)	May YTD FY 2021	May YTD FY 2022	Variance	Annual Projected FY 2022
Clinical Revenues	\$ 7,366.6	8,220.0	853.3	11,017.7
Sponsored Programs/Nonexchange Sponsored Programs	3,742.9	4,063.5	320.6	5,488.2
State Appropriations	1,632.3	1,766.9	134.6	2,350.1
Net Tuition and Fees	1,479.8	1,574.0	94.2	2,115.6
Auxiliary Revenues/Sales & Services of Educational Activities	775.9	1,044.6	268.7	1,171.3
Net Investment Income	1,150.7	2,027.9	877.2	2,668.4
Other Operating Revenues/Gift Contributions for Operations	818.9	902.9	84.1	1,219.7
Total Revenues	16,967.1	19,599.9	2,632.7	26,031.0
Salaries and Wages/Payroll Related Costs	9,967.9	10,730.3	762.4	13,919.0
Materials and Supplies/Cost of Goods Sold	2,159.8	2,495.9	336.1	3,319.5
Depreciation and Amortization	1,221.5	1,317.5	96.0	1,763.3
Other Contracted Services/Professional Fees & Services	1,064.4	1,297.3	232.9	1,709.1
All Other Operating Expenses	1,942.0	2,377.2	435.2	3,186.9
Total Expenses (Excluding OPEB & Pension Exp)	\$ 16,355.6	18,218.2	1,862.6	23,897.8
Adjusted Income (Loss) Excluding OPEB & Pension Exp	611.5	1,381.6	770.1	2,133.2
OPEB Expense	514.8	747.0	232.1	996.0
Pension Expense	604.8	507.8	(97.0)	677.1
Adjusted Income (Loss)	(508.1)	126.9	635.0	460.2
Adjusted Income (Loss) Excluding Depr & Amort Exp	713.4	1,444.4	731.0	2,223.4



**Monthly Financial Report
Comparison of Adjusted Income (Loss)
For the Period Ending May 31, 2022**



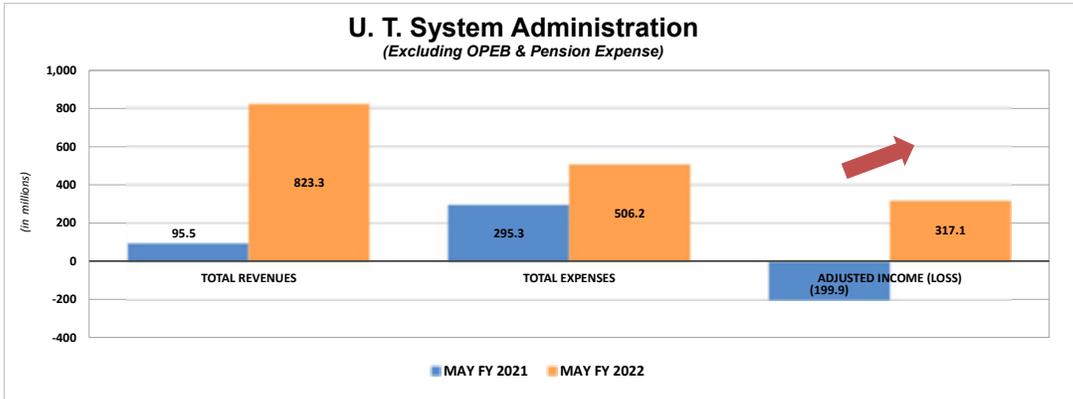
Monthly Financial Report
Comparison of Adjusted Income (Loss)
For the Period Ending May 31, 2022

Executive Summary of Adjusted Income (Loss)*

	May FYTD 2021 (millions)	May FYTD 2022 (millions)	Variance %	Comments
U. T. System Administration (excluding OPEB & Pension Expense)	\$ (199.9)	317.1	259%	Increase in Net Investment Income Projected income of \$832.8 million for the FY
U. T. Arlington	9.1	26.9	196%	Increases in Other Operating Revenues, Auxiliary Revenues Projected income of \$15.1 million for the FY
U. T. Austin	(8.5)	111.4	1,415%	Increases in Auxiliary Revenues/Sales & Services of Educational Activities Projected income of \$162.0 million for the FY
U. T. Dallas	(3.8)	66.5	1,841%	Increases in Net Tuition and Fees, Auxiliary Revenues/Sales & Services of Educational Activities Projected income of \$88.6 million for the FY
U. T. El Paso	(1.9)	6.6	447%	Increase in Auxiliary Revenues Projected income of \$5.3 million for the FY
U. T. Permian Basin	(13.2)	(12.1)	9%	Increase in Gift Contributions for Operations Projected loss of (\$12.1) million for the FY
U. T. Rio Grande Valley	51.4	(7.4)	-114%	Decrease in Gift Contributions for Operations Increase in Salaries & Wages/Payroll Related Costs Projected income of \$4.3 million for the FY
U. T. San Antonio	56.8	46.4	-18%	Increase in Salaries & Wages/Payroll Related Costs Projected income of \$61.8 million for the FY
U. T. Tyler	(15.7)	(19.8)	-26%	Increase in Salaries & Wages/Payroll Related Costs Projected loss of (\$13.7) million for the FY
Southwestern	40.7	77.8	91%	Increase in Clinical Revenues Projected income of \$106.5 million for the FY
UTMB	44.7	14.4	-68%	Increases in Salaries & Wages/Payroll Related Costs, Other Contracted Services Projected income of \$8.0 million for the FY
UTHSC-Houston	56.5	18.2	-68%	Increase in Salaries & Wages/Payroll Related Costs Projected income of \$29.2 million for the FY
UTHSC-San Antonio	(7.2)	12.6	274%	Increases in Clinical Revenues, Sales & Services of Educational Activities Projected income of \$8.1 million for the FY
M. D. Anderson	602.7	723.1	20%	Increase in Clinical Revenues Projected income of \$837.3 million for the FY
Total Adjusted Income (Loss)	\$ 611.5	1,381.6	126%	

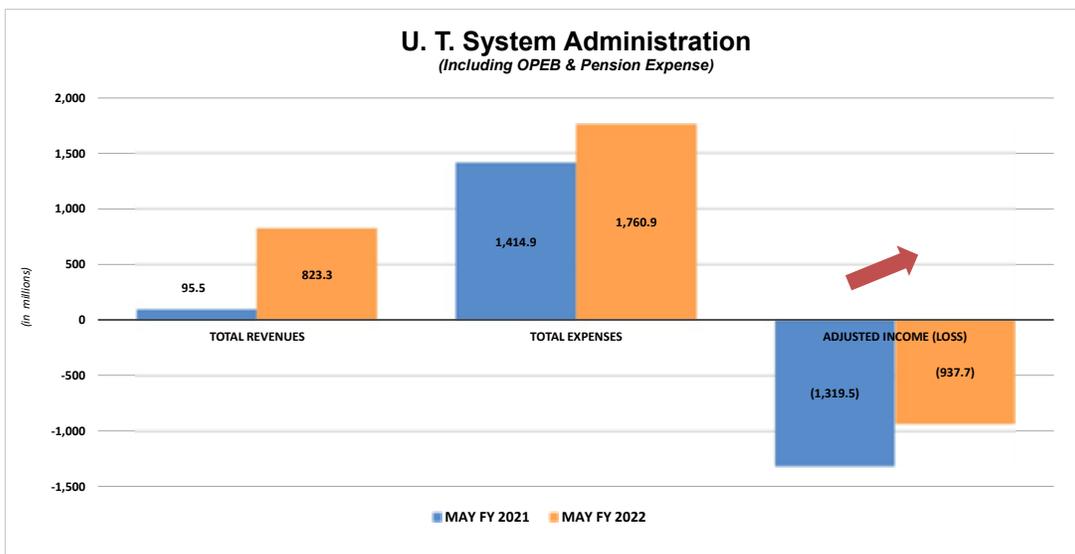
* For additional details on the variances, please see pages 4 through 18.

Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending May 31, 2022

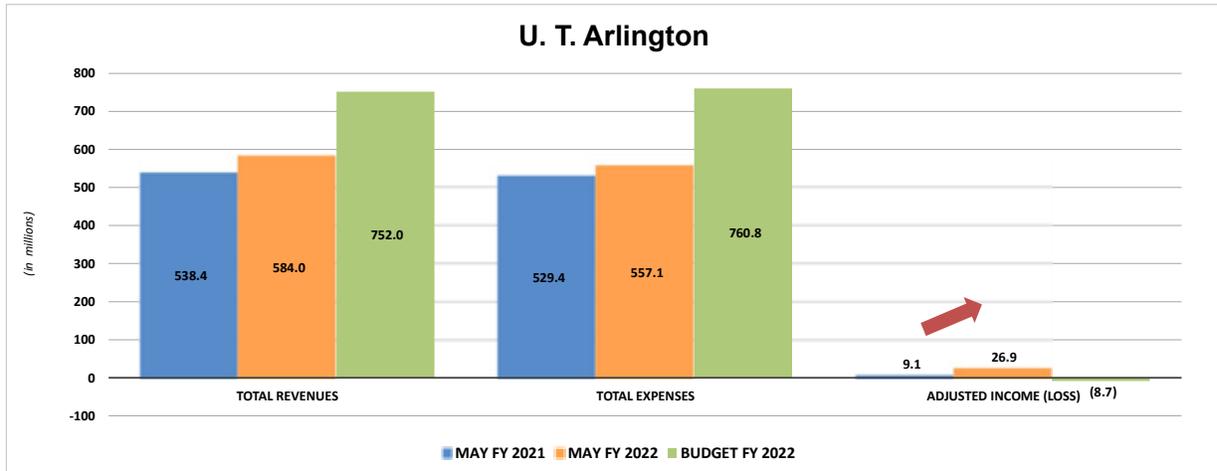


Excluding OPEB and pension expense, *U. T. System Administration* reported year-to-date adjusted income of \$317.1 million, an increase of \$517.0 million (259%) from the prior year. The increase was primarily attributable to an increase in net investment income due to increases in oil and gas royalties and mineral lease bonuses, as well as an increase in investment income in the Permanent University Fund. The most current projection, excluding OPEB and pension expense, reflects income of \$832.8 million for the year.

(in millions)	May YTD FY 2021	May YTD FY 2022	Variance	Annual Projected FY 2022
Sponsored Programs/Nonexchange Sponsored Programs	\$ 42.0	35.2	(6.8)	50.6
State Appropriations	3.9	5.5	1.6	7.3
Auxiliary Revenues/Sales & Services of Educational Activities	7.0	10.1	3.1	13.5
Net Investment Income/Available University Fund (AUF)	15.4	749.8	734.4	999.7
Other Operating Revenues/Gift Contributions for Operations	27.2	22.7	(4.6)	30.1
Total Revenues	95.5	823.3	727.8	1,101.2
Salaries and Wages/Payroll Related Costs	39.3	42.2	2.9	(329.0)
Materials and Supplies/Cost of Goods Sold	12.0	19.5	7.5	9.2
Depreciation and Amortization	11.7	12.7	1.0	16.8
Other Contracted Services/Professional Fees & Services	34.7	45.8	11.1	58.3
All Other Operating Expenses	197.7	386.0	188.3	513.2
Total Expenses (Excluding OPEB & Pension Exp)	\$ 295.3	506.2	210.8	268.4
Adjusted Income (Loss) Excluding OPEB & Pension Exp	(199.9)	317.1	517.0	832.8
OPEB Expense	514.8	747.0	232.1	996.0
Pension Expense	604.8	507.8	(97.0)	677.1
Adjusted Income (Loss)	(1,319.5)	(937.7)	381.8	(840.3)
Adjusted Income (Loss) Excluding Depr & Amort Exp	(1,307.8)	(925.0)	382.8	(823.5)

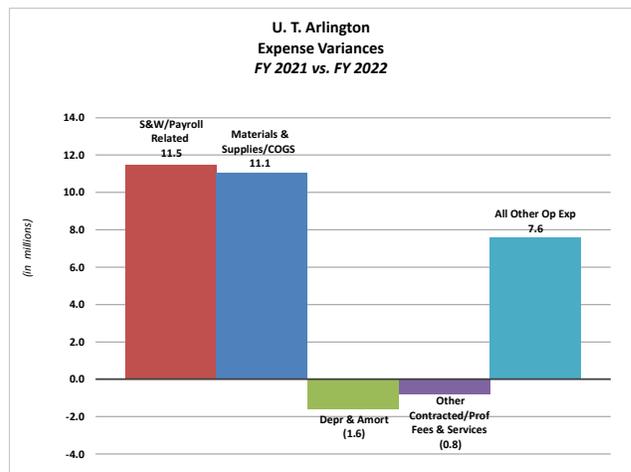
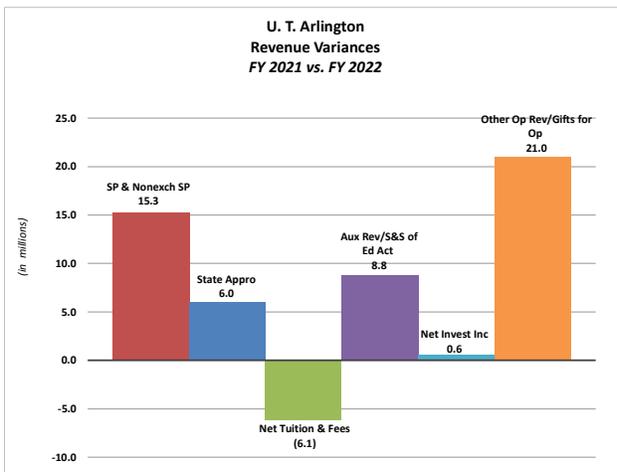


Monthly Financial Report Comparison of Operating Results, Margin, Projected Year-End and Budget For the Period Ending May 31, 2022

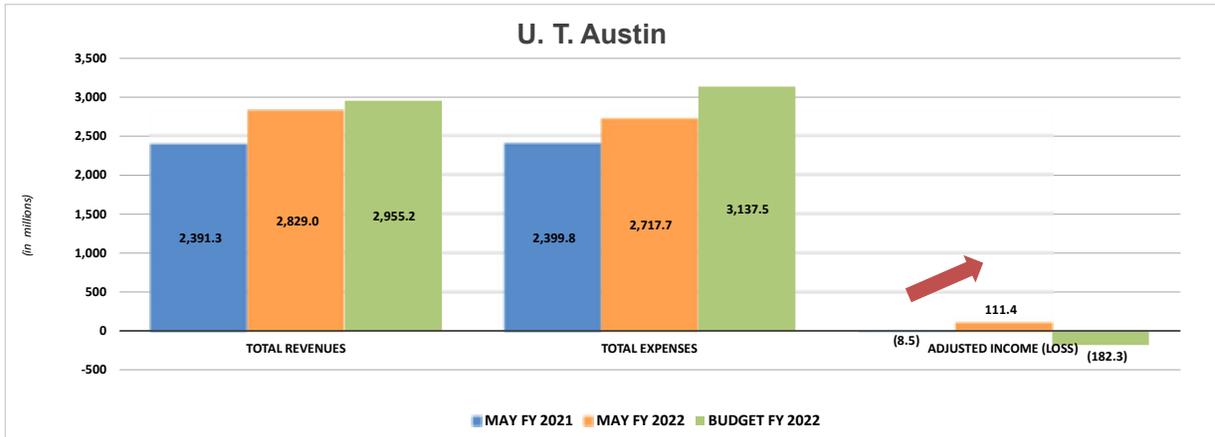


U. T. Arlington reported year-to-date adjusted income of \$26.9 million, an increase in adjusted income of \$17.8 million (196%) from the prior year. The increase was primarily attributable to the following: an increase in other operating revenues primarily due to alternative loans and revenue from the financial aid program Post-9/11 G.I. Bill benefits, which were not included in the MFR in the prior year; and an increase in auxiliary enterprises revenues attributable to an increase in on-campus activities. The most current projection received from *U. T. Arlington* reflects income of \$15.1 million for the year.

(in millions)	May YTD FY 2021	May YTD FY 2022	Variance	Annual Projected FY 2022	FY 2022 Budget
Sponsored Programs/Nonexchange Sponsored Programs	\$ 110.8	126.0	15.3	155.7	
State Appropriations	96.0	102.0	6.0	148.9	
Net Tuition and Fees	255.1	248.9	(6.1)	352.9	
Auxiliary Revenues/Sales & Services of Educational Activities	41.5	50.3	8.8	74.7	
Net Investment Income	24.1	24.7	0.6	33.7	
Other Operating Revenues/Gift Contributions for Operations	10.9	32.0	21.0	32.5	
Total Revenues	538.4	584.0	45.5	798.3	752.0
Salaries and Wages/Payroll Related Costs	318.5	330.0	11.5	444.7	
Materials and Supplies/Cost of Goods Sold	27.1	38.2	11.1	49.6	
Depreciation and Amortization	43.7	42.1	(1.6)	58.9	
Other Contracted Services/Professional Fees & Services	58.7	57.9	(0.8)	78.2	
All Other Operating Expenses	81.3	88.9	7.6	151.8	
Total Expenses	\$ 529.4	557.1	27.7	783.2	760.8
Adjusted Income (Loss)	9.1	26.9	17.8	15.1	(8.7)
Adjusted Income (Loss) Excluding Depr & Amort Exp	52.8	69.0	16.2	74.0	50.1

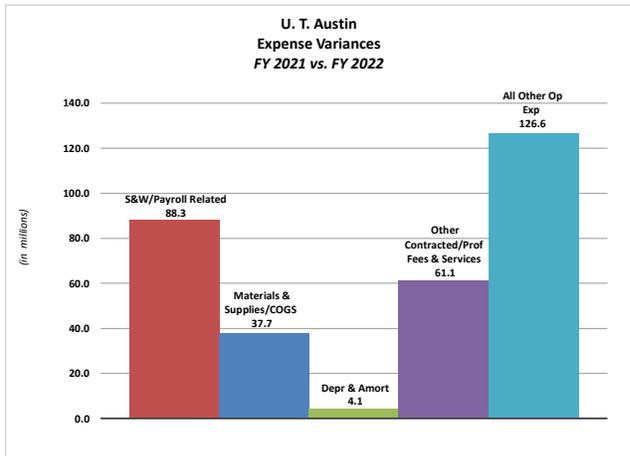
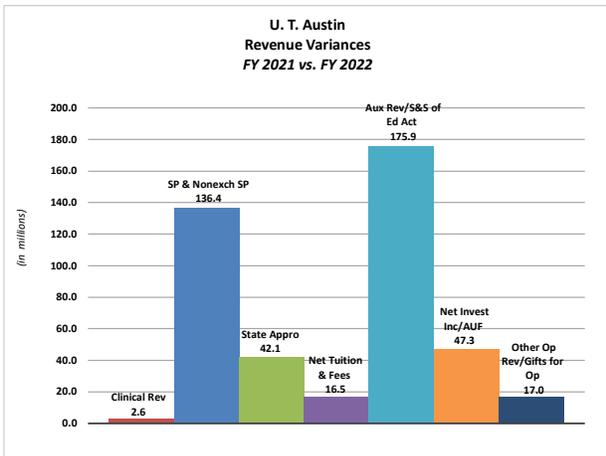


Monthly Financial Report Comparison of Operating Results, Margin, Projected Year-End and Budget For the Period Ending May 31, 2022

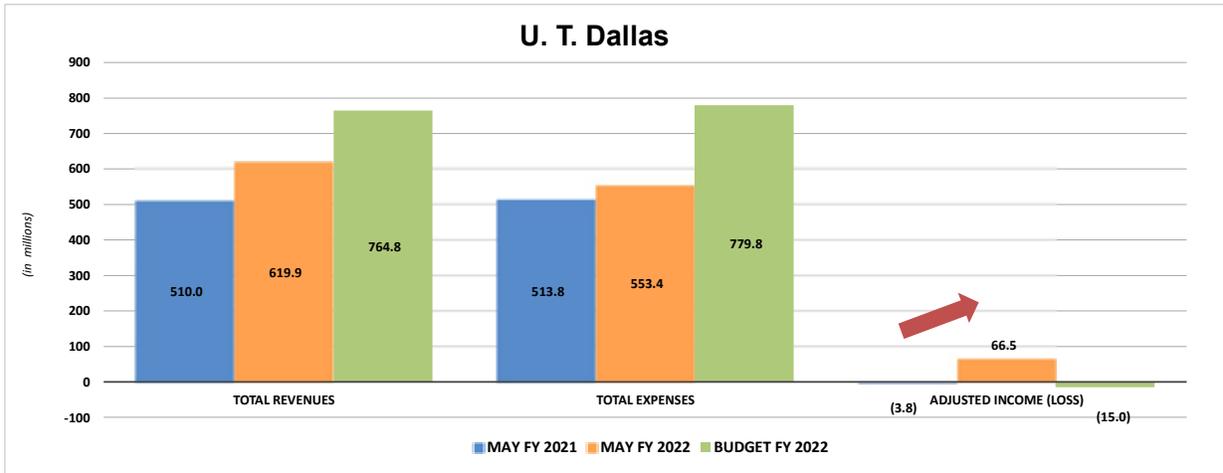


U. T. Austin reported year-to-date adjusted income of \$111.4 million, an increase of \$119.8 million (1,415%) from the prior year. The increase was primarily due to an increase in auxiliary enterprises and sales and services of educational activities revenues attributable to an increase in on-campus activities. The most current projection received from U. T. Austin reflects income of \$162.0 million for the year.

(in millions)	May YTD FY 2021	May YTD FY 2022	Variance	Annual Projected FY 2022	FY 2022 Budget
Clinical Revenues	\$ 7.8	10.3	2.6	14.3	
Sponsored Programs/Nonexchange Sponsored Programs	591.2	727.6	136.4	1,032.3	
State Appropriations	237.8	279.9	42.1	368.4	
Net Tuition and Fees	389.3	405.8	16.5	541.0	
Auxiliary Revenues/Sales & Services of Educational Activities	458.3	634.2	175.9	617.8	
Net Investment Income/Available University Fund (AUF)	562.4	609.7	47.3	810.9	
Other Operating Revenues/Gift Contributions for Operations	144.6	161.6	17.0	238.5	
Total Revenues	2,391.3	2,829.0	437.7	3,623.2	2,955.2
Salaries and Wages/Payroll Related Costs	1,470.9	1,559.1	88.3	2,011.3	
Materials and Supplies/Cost of Goods Sold	101.3	139.0	37.7	160.3	
Depreciation and Amortization	275.3	279.4	4.1	372.6	
Other Contracted Services/Professional Fees & Services	128.0	189.1	61.1	229.3	
All Other Operating Expenses	424.4	551.0	126.6	687.7	
Total Expenses	\$ 2,399.8	2,717.7	317.9	3,461.2	3,137.5
Adjusted Income (Loss)	(8.5)	111.4	119.8	162.0	(182.3)
Adjusted Income (Loss) Excluding Depr & Amort Exp	266.8	390.7	124.0	534.6	198.4

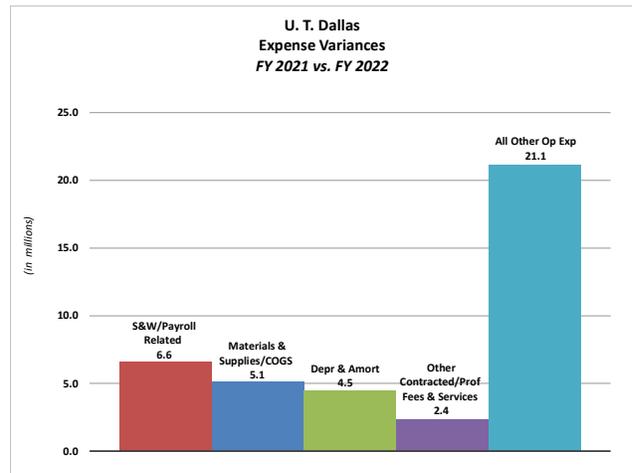
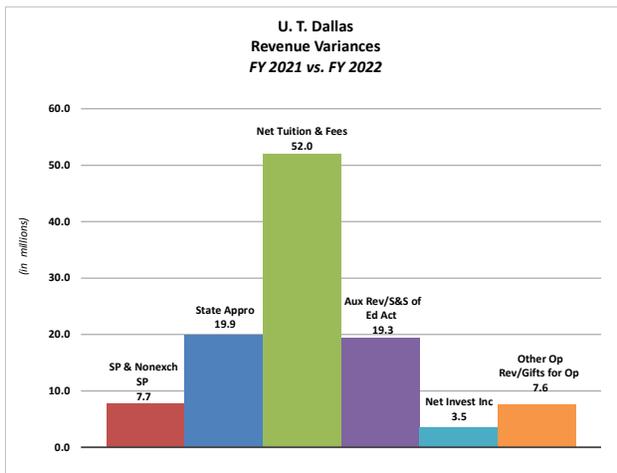


Monthly Financial Report Comparison of Operating Results, Margin, Projected Year-End and Budget For the Period Ending May 31, 2022

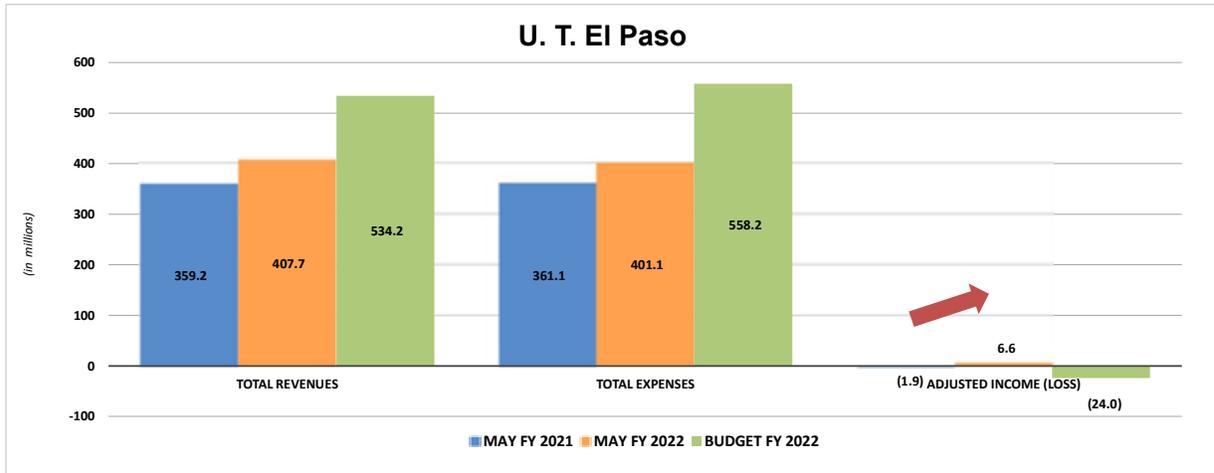


U. T. Dallas reported year-to-date adjusted income of \$66.5 million, an increase of \$70.3 million (1,841%) from the prior year. The increase was primarily attributable to the following: an increase in net student tuition and fees due to increased enrollment; and an increase in auxiliary enterprises and sales and services of educational activities revenues primarily attributable to an increase in on-campus activities. The most current projection received from U. T. Dallas reflects income of \$88.6 million for the year.

(in millions)	May YTD FY 2021	May YTD FY 2022	Variance	Annual Projected FY 2022	FY 2022 Budget
Sponsored Programs/Nonexchange Sponsored Programs	\$ 117.7	125.3	7.7	167.1	
State Appropriations	83.6	103.5	19.9	138.0	
Net Tuition and Fees	222.2	274.2	52.0	365.5	
Auxiliary Revenues/Sales & Services of Educational Activities	45.6	64.9	19.3	86.5	
Net Investment Income	27.5	31.0	3.5	41.3	
Other Operating Revenues/Gift Contributions for Operations	13.5	21.1	7.6	28.1	
Total Revenues	510.0	619.9	110.0	826.6	764.8
Salaries and Wages/Payroll Related Costs	301.5	308.1	6.6	410.7	
Materials and Supplies/Cost of Goods Sold	20.2	25.3	5.1	33.8	
Depreciation and Amortization	64.9	69.4	4.5	92.5	
Other Contracted Services/Professional Fees & Services	25.6	27.9	2.4	37.3	
All Other Operating Expenses	101.6	122.7	21.1	163.6	
Total Expenses	\$ 513.8	553.4	39.7	737.9	779.8
Adjusted Income (Loss)	(3.8)	66.5	70.3	88.6	(15.0)
Adjusted Income (Loss) Excluding Depr & Amort Exp	61.1	135.9	74.8	181.2	76.8

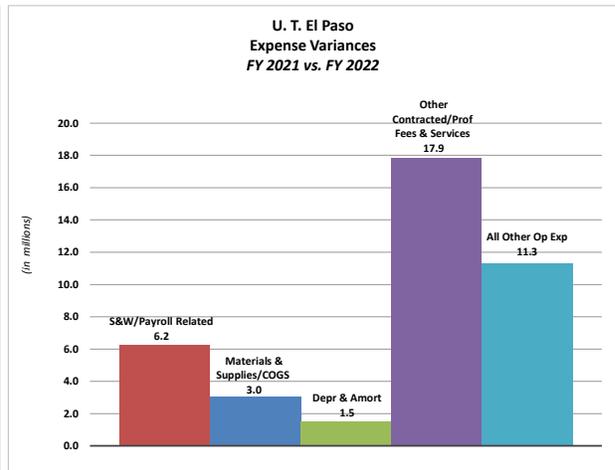
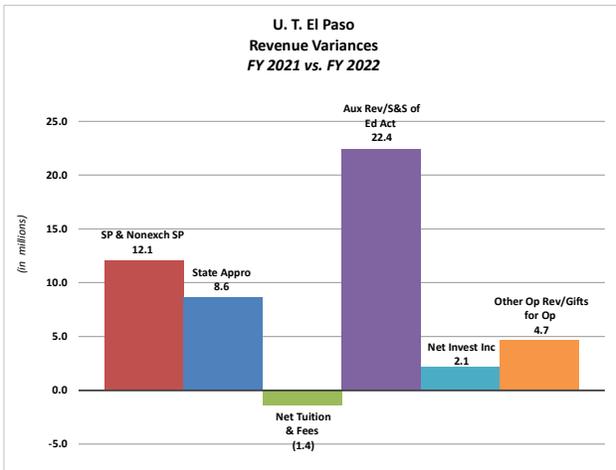


Monthly Financial Report Comparison of Operating Results, Margin, Projected Year-End and Budget For the Period Ending May 31, 2022

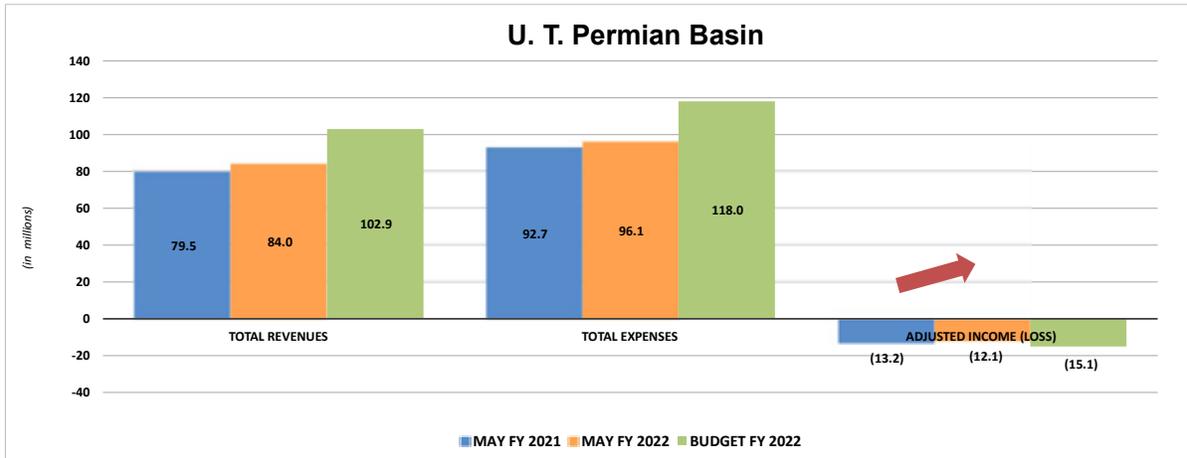


U. T. El Paso reported year-to-date adjusted income of \$6.6 million, an increase of \$8.5 million (447%) from the prior year. The increase was primarily due to an increase in auxiliary enterprises revenues as a result of an increase in on-campus activities. The most current projection received from U. T. El Paso reflects income of \$5.3 million for the year.

(in millions)	May YTD FY 2021	May YTD FY 2022	Variance	Annual Projected FY 2022	FY 2022 Budget
Sponsored Programs/Nonexchange Sponsored Programs	\$ 134.8	146.9	12.1	197.3	
State Appropriations	74.5	83.1	8.6	107.1	
Net Tuition and Fees	116.4	115.0	(1.4)	148.9	
Auxiliary Revenues/Sales & Services of Educational Activities	14.8	37.2	22.4	43.8	
Net Investment Income	13.0	15.1	2.1	19.1	
Other Operating Revenues/Gift Contributions for Operations	5.8	10.5	4.7	11.0	
Total Revenues	359.2	407.7	48.5	527.2	534.2
Salaries and Wages/Payroll Related Costs	209.1	215.4	6.2	268.9	
Materials and Supplies/Cost of Goods Sold	16.0	19.1	3.0	25.6	
Depreciation and Amortization	24.3	25.9	1.5	34.6	
Other Contracted Services/Professional Fees & Services	13.2	31.1	17.9	33.2	
All Other Operating Expenses	98.4	109.7	11.3	159.7	
Total Expenses	\$ 361.1	401.1	40.0	521.9	558.2
Adjusted Income (Loss)	(1.9)	6.6	8.5	5.3	(24.0)
Adjusted Income (Loss) Excluding Depr & Amort Exp	22.4	32.5	10.0	39.8	10.8

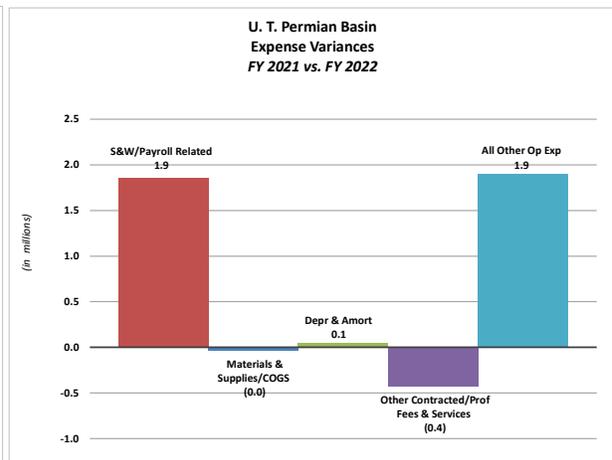
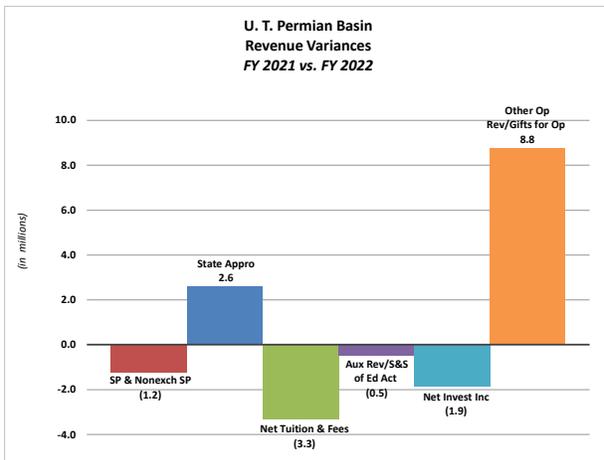


Monthly Financial Report Comparison of Operating Results, Margin, Projected Year-End and Budget For the Period Ending May 31, 2022

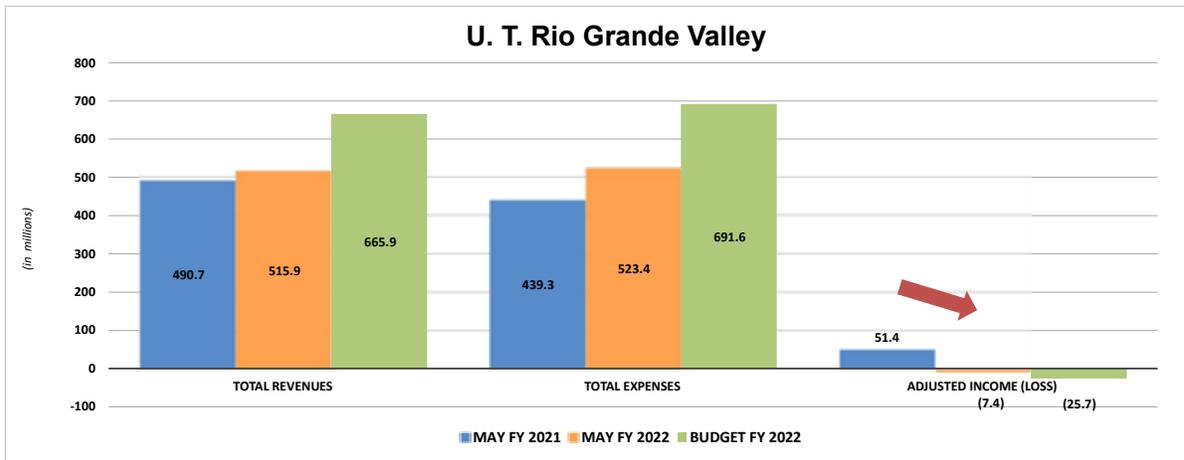


U. T. Permian Basin incurred a year-to-date adjusted loss of \$12.1 million, a decrease in adjusted loss of \$1.1 million (9%) from the prior year. The decrease was primarily attributable to an increase in gift contributions for operations due to a \$10.7 million gift received from Permian Strategic Partnership (PSP). The most current projection received from U. T. Permian Basin reflects a loss of \$12.1 million for the year.

(in millions)	May YTD FY 2021	May YTD FY 2022	Variance	Annual Projected FY 2022	FY 2022 Budget
Sponsored Programs/Nonexchange Sponsored Programs	\$ 20.9	19.7	(1.2)	28.0	
State Appropriations	16.2	18.8	2.6	25.1	
Net Tuition and Fees	27.6	24.3	(3.3)	32.3	
Auxiliary Revenues/Sales & Services of Educational Activities	5.6	5.1	(0.5)	7.8	
Net Investment Income	4.5	2.7	(1.9)	3.4	
Other Operating Revenues/Gift Contributions for Operations	4.8	13.5	8.8	15.3	
Total Revenues	79.5	84.0	4.5	111.9	102.9
Salaries and Wages/Payroll Related Costs	45.0	46.8	1.9	58.5	
Materials and Supplies/Cost of Goods Sold	4.6	4.6	(0.0)	6.5	
Depreciation and Amortization	15.6	15.6	0.1	20.8	
Other Contracted Services/Professional Fees & Services	8.9	8.5	(0.4)	10.6	
All Other Operating Expenses	18.6	20.5	1.9	27.6	
Total Expenses	\$ 92.7	96.1	3.3	124.0	118.0
Adjusted Income (Loss)	(13.2)	(12.1)	1.1	(12.1)	(15.1)
Adjusted Income (Loss) Excluding Depr & Amort Exp	2.4	3.6	1.2	8.7	5.7

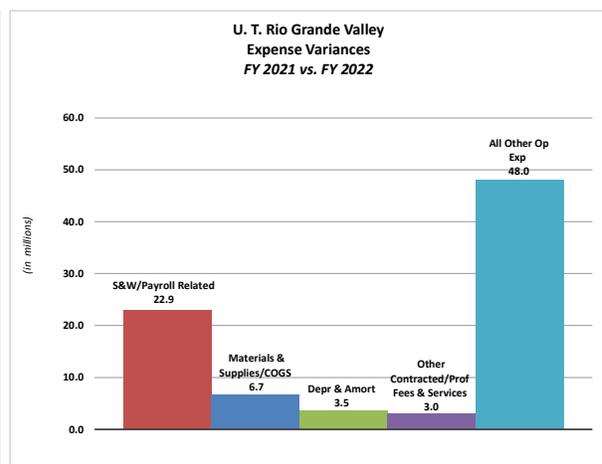
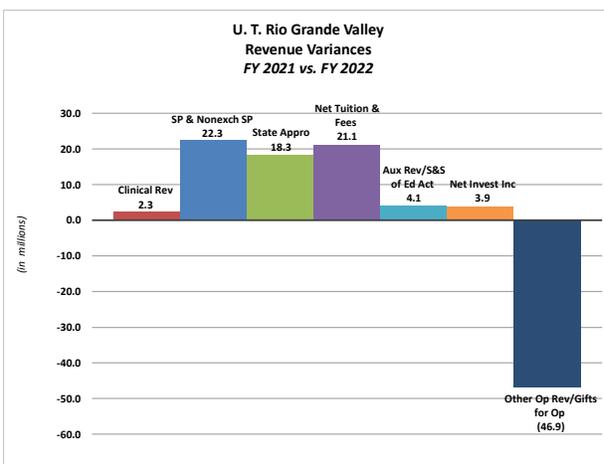


Monthly Financial Report Comparison of Operating Results, Margin, Projected Year-End and Budget For the Period Ending May 31, 2022

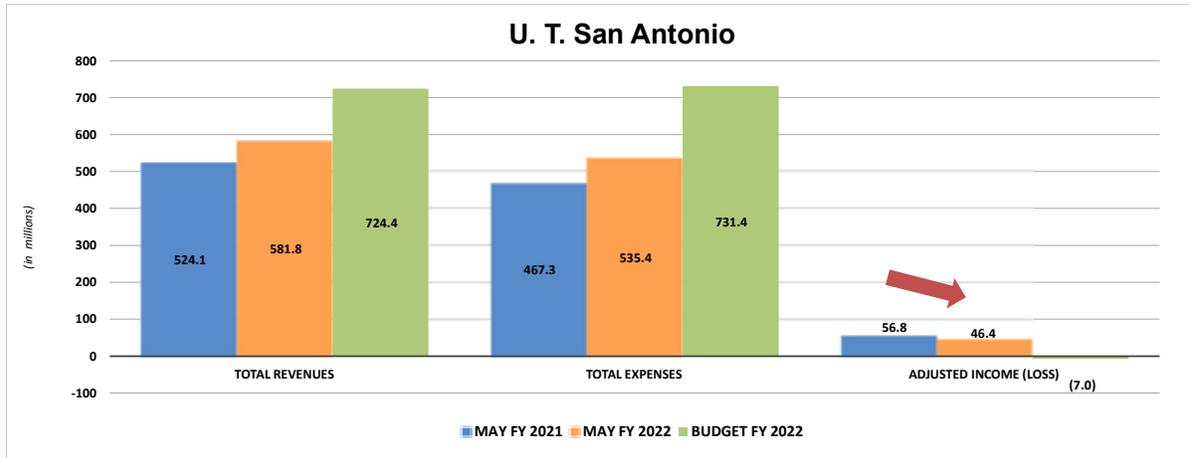


U. T. Rio Grande Valley incurred a year-to-date adjusted loss of \$7.4 million, a decrease of \$58.8 million (114%) from the prior year. The decrease was primarily due to the following: a decrease in gift contributions for operations attributable to a \$40 million philanthropic gift received in 2021 with no such comparable gift in 2022; and an increase in salaries and wages and payroll related costs due to an increase in faculty and staff positions. The most current projection received from U. T. Rio Grande Valley reflects income of \$4.3 million for the year.

(in millions)	May YTD FY 2021	May YTD FY 2022	Variance	Annual Projected FY 2022	FY 2022 Budget
Clinical Revenues	\$ 12.5	14.8	2.3	19.6	
Sponsored Programs/Nonexchange Sponsored Programs	202.5	224.8	22.3	312.8	
State Appropriations	114.6	132.9	18.3	162.4	
Net Tuition and Fees	89.2	110.3	21.1	147.1	
Auxiliary Revenues/Sales & Services of Educational Activities	8.2	12.3	4.1	17.3	
Net Investment Income	6.8	10.7	3.9	14.1	
Other Operating Revenues/Gift Contributions for Operations	56.9	10.1	(46.9)	22.5	
Total Revenues	490.7	515.9	25.2	695.7	665.9
Salaries and Wages/Payroll Related Costs	297.1	320.0	22.9	405.4	
Materials and Supplies/Cost of Goods Sold	17.5	24.2	6.7	33.0	
Depreciation and Amortization	38.9	42.4	3.5	58.9	
Other Contracted Services/Professional Fees & Services	13.8	16.8	3.0	24.4	
All Other Operating Expenses	72.0	120.0	48.0	169.7	
Total Expenses	\$ 439.3	523.4	84.1	691.4	691.6
Adjusted Income (Loss)	51.4	(7.4)	(58.8)	4.3	(25.7)
Adjusted Income (Loss) Excluding Depr & Amort Exp	90.3	34.9	(55.4)	63.1	33.6

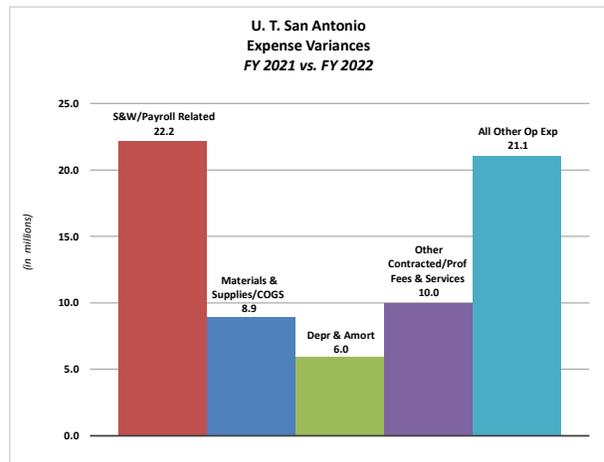
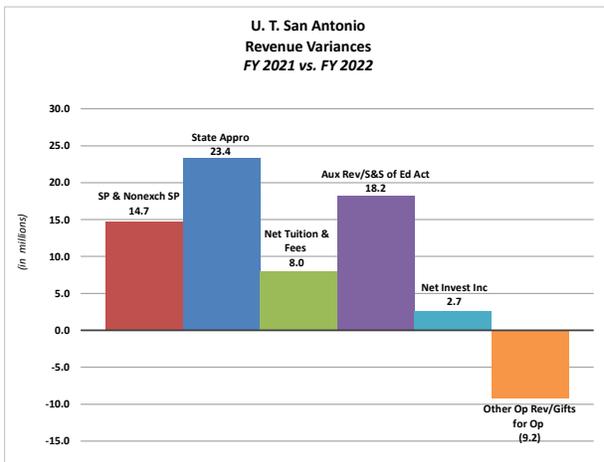


Monthly Financial Report Comparison of Operating Results, Margin, Projected Year-End and Budget For the Period Ending May 31, 2022

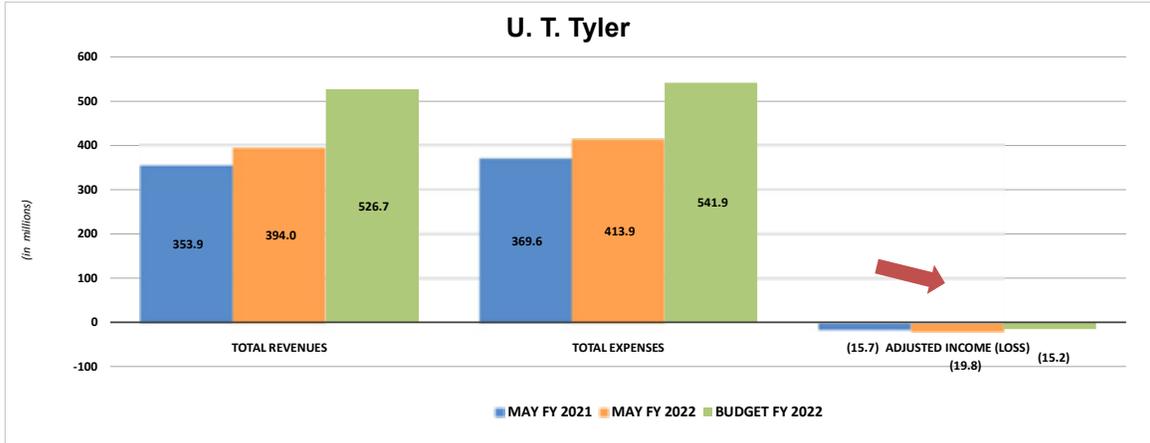


U. T. San Antonio reported year-to-date adjusted income of \$46.4 million, a decrease in adjusted income of \$10.4 million (18%) from the prior year. The decrease was primarily attributable to an increase in salaries and wages and payroll related costs as a result of an increase in annual merit increases combined with an increase in faculty and staff positions as hiring has returned to pre-pandemic levels. The most current projection received from U. T. San Antonio reflects income of \$61.8 million for the year.

(in millions)	May YTD FY 2021	May YTD FY 2022	Variance	Annual Projected FY 2022	FY 2022 Budget
Sponsored Programs/Nonexchange Sponsored Programs	\$ 159.1	173.7	14.7	232.0	
State Appropriations	90.9	114.3	23.4	152.4	
Net Tuition and Fees	186.1	194.1	8.0	258.8	
Auxiliary Revenues/Sales & Services of Educational Activities	27.0	45.2	18.2	60.2	
Net Investment Income	15.7	18.4	2.7	24.5	
Other Operating Revenues/Gift Contributions for Operations	45.3	36.2	(9.2)	47.8	
Total Revenues	524.1	581.8	57.8	775.8	724.4
Salaries and Wages/Payroll Related Costs	262.3	284.5	22.2	379.3	
Materials and Supplies/Cost of Goods Sold	21.2	30.1	8.9	40.1	
Depreciation and Amortization	43.2	49.2	6.0	65.6	
Other Contracted Services/Professional Fees & Services	18.3	28.3	10.0	37.7	
All Other Operating Expenses	122.4	143.4	21.1	191.3	
Total Expenses	\$ 467.3	535.4	68.1	713.9	731.4
Adjusted Income (Loss)	56.8	46.4	(10.4)	61.8	(7.0)
Adjusted Income (Loss) Excluding Depr & Amort Exp	100.0	95.6	(4.4)	127.5	53.3

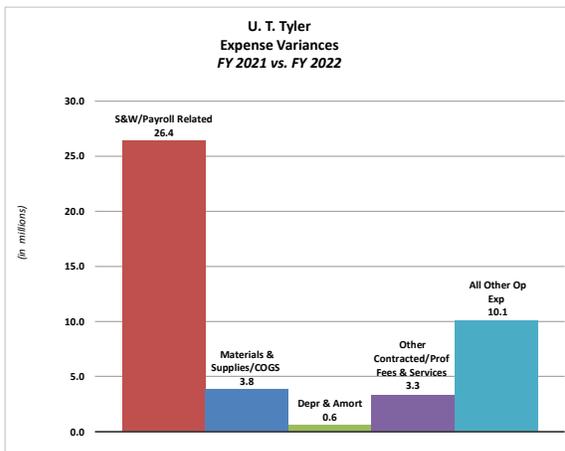
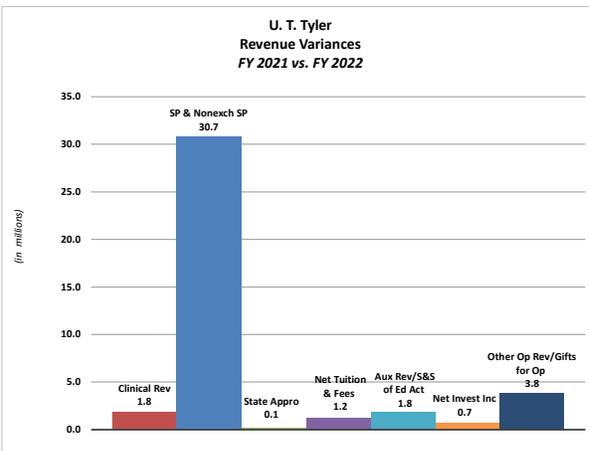


Monthly Financial Report Comparison of Operating Results, Margin, Projected Year-End and Budget For the Period Ending May 31, 2022



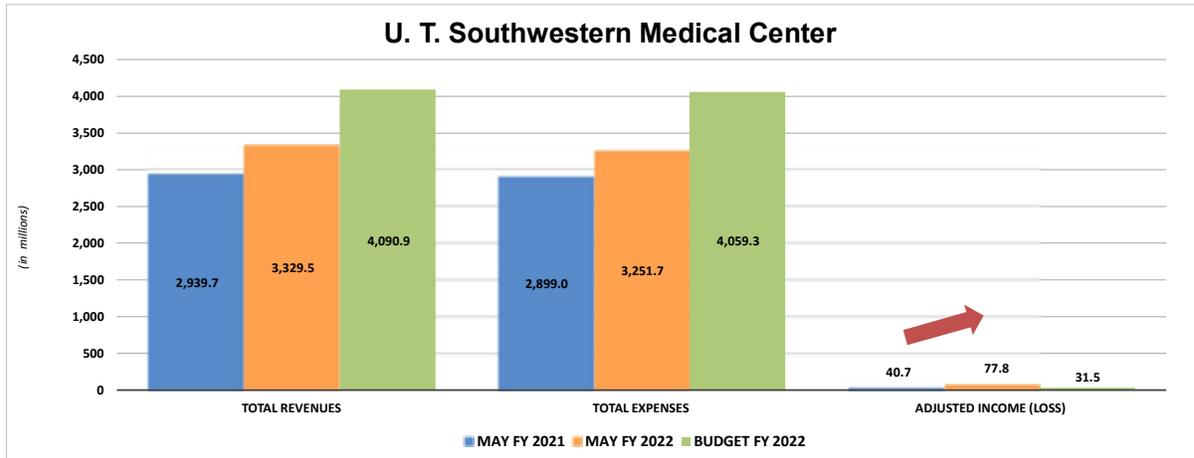
U. T. Tyler incurred a year-to-date adjusted loss of \$19.8 million, an increase in adjusted loss of \$4.1 million (26%) from the prior year. The increase was primarily due to an increase in salaries and wages and payroll related costs attributable to increases in faculty and staff positions as a result of growth in the physician master services agreement with UT Health East Texas (UTHET). The most current projection received from U. T. Tyler reflects a loss of \$13.7 million for the year.

(in millions)	May YTD FY 2021	May YTD FY 2022	Variance	Annual Projected FY 2022	FY 2022 Budget
Clinical Revenues	\$ 128.6	130.4	1.8	174.6	
Sponsored Programs/Nonexchange Sponsored Programs	68.0	98.7	30.7	134.7	
State Appropriations	64.5	64.6	0.1	88.8	
Net Tuition and Fees	45.1	46.3	1.2	59.7	
Auxiliary Revenues/Sales & Services of Educational Activities	23.1	24.9	1.8	30.4	
Net Investment Income	7.6	8.2	0.7	11.4	
Other Operating Revenues/Gift Contributions for Operations	17.0	20.8 *	3.8	29.1 *	
Total Revenues	353.9	394.0	40.1	528.7	526.7
Salaries and Wages/Payroll Related Costs	219.3	245.7	26.4	318.7	
Materials and Supplies/Cost of Goods Sold	54.2	58.0	3.8	77.4	
Depreciation and Amortization	25.7	26.3	0.6	34.5	
Other Contracted Services/Professional Fees & Services	37.5	40.9	3.3	54.1	
All Other Operating Expenses	33.0	43.1	10.1	57.7	
Total Expenses	\$ 369.6	413.9	44.2	542.4	541.9
Adjusted Income (Loss)	(15.7)	(19.8)	(4.1)	(13.7)	(15.2)
Adjusted Income (Loss) Excluding Depr & Amort Exp	10.0	6.5	(3.5)	20.8	22.3



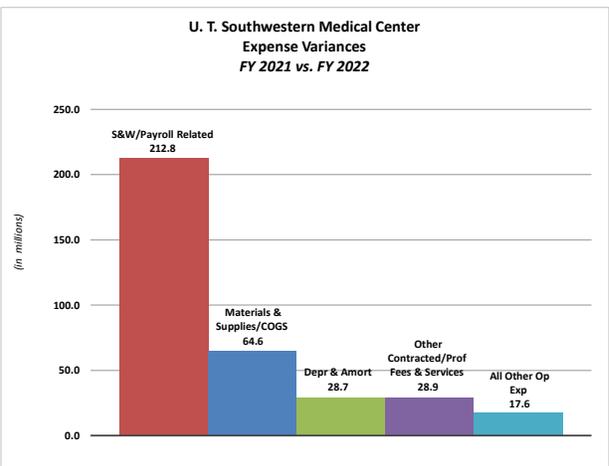
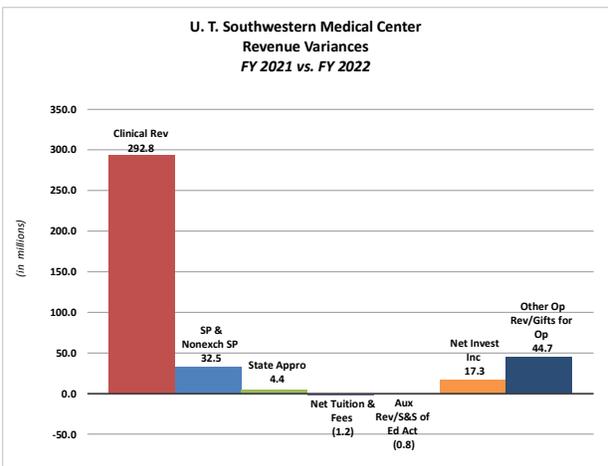
*Other Operating Income includes 30% of UTHET's net adjusted loss which was \$1.2 million through May. The projected loss of \$13.7 million includes \$4.1 million of UTHET's net adjusted income for the year.

Monthly Financial Report Comparison of Operating Results, Margin, Projected Year-End and Budget For the Period Ending May 31, 2022

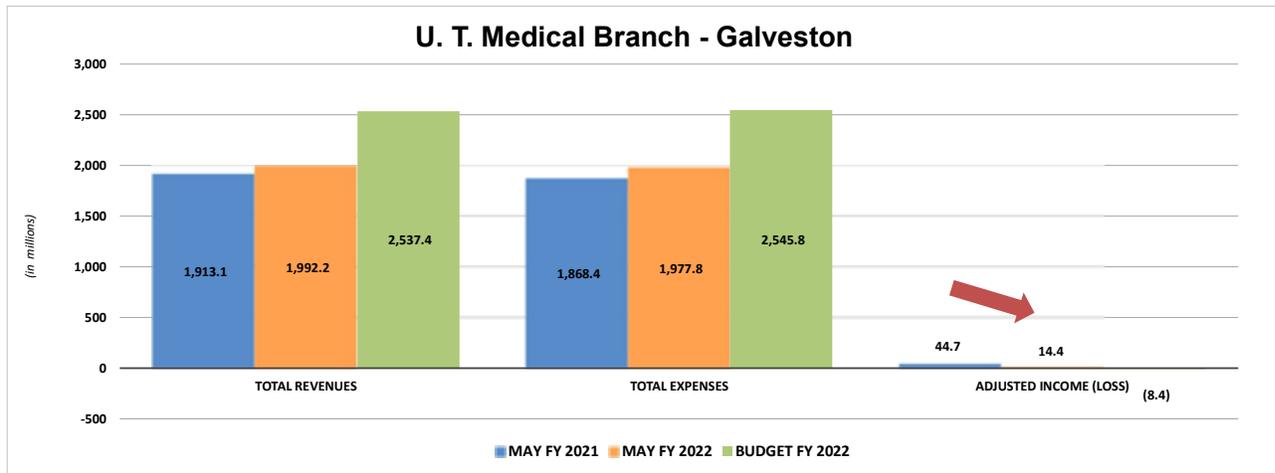


U. T. Southwestern Medical Center reported year-to-date adjusted income of \$77.8 million, an increase in adjusted income of \$37.2 million (91%) from the prior year. The increase was primarily due to an increase in clinical revenues as a result of increased inpatient and outpatient visits, as well as increased surgical volumes and admissions. The most current projection received from U. T. Southwestern Medical Center reflects income of \$106.5 million for the year.

(in millions)	May YTD FY 2021	May YTD FY 2022	Variance	Annual Projected FY 2022	FY 2022 Budget
Clinical Revenues	\$ 1,865.1	2,157.9	292.8	2,877.2	
Sponsored Programs/Nonexchange Sponsored Programs	604.0	636.5	32.5	842.0	
State Appropriations	135.9	140.3	4.4	190.1	
Net Tuition and Fees	19.6	18.4	(1.2)	24.6	
Auxiliary Revenues/Sales & Services of Educational Activities	29.2	28.4	(0.8)	37.9	
Net Investment Income	108.3	125.6	17.3	164.0	
Other Operating Revenues/Gift Contributions for Operations	177.6	222.4	44.7	283.4	
Total Revenues	2,939.7	3,329.5	389.9	4,419.1	4,090.9
Salaries and Wages/Payroll Related Costs	1,812.3	2,025.1	212.8	2,683.1	
Materials and Supplies/Cost of Goods Sold	564.0	628.6	64.6	838.1	
Depreciation and Amortization	154.3	183.0	28.7	248.0	
Other Contracted Services/Professional Fees & Services	166.7	195.6	28.9	260.8	
All Other Operating Expenses	201.8	219.4	17.6	282.5	
Total Expenses	\$ 2,899.0	3,251.7	352.7	4,312.6	4,059.3
Adjusted Income (Loss)	40.7	77.8	37.2	106.5	31.5
Adjusted Income (Loss) Excluding Depr & Amort Exp	195.0	260.9	65.9	354.5	279.0

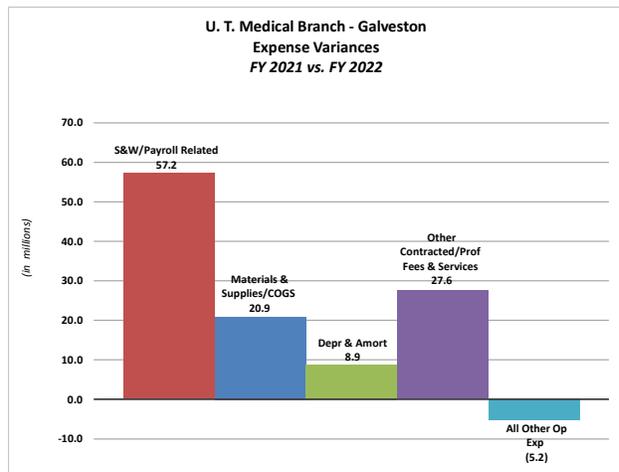
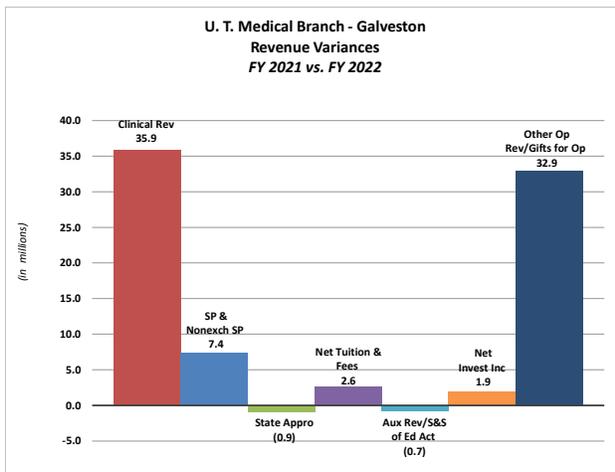


Monthly Financial Report Comparison of Operating Results, Margin, Projected Year-End and Budget For the Period Ending May 31, 2022

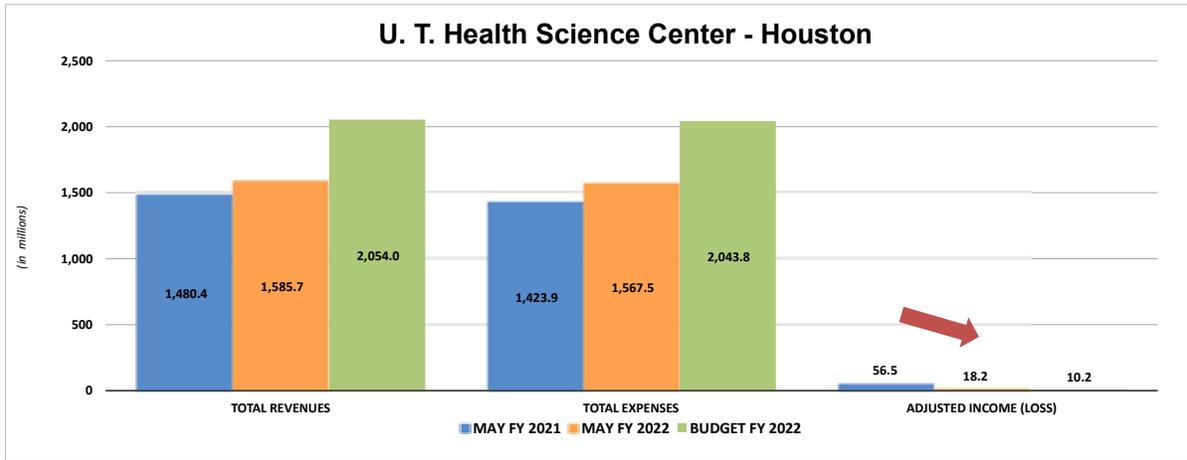


U. T. Medical Branch - Galveston reported year-to-date adjusted income of \$14.4 million, a decrease in adjusted income of \$30.2 million (68%) from the prior year. The decrease was primarily attributable to labor costs. Increased staffing needs due to the COVID-19 surge combined with a tight labor market resulted in an increased utilization of contract labor. The most current projection received from *U. T. Medical Branch - Galveston* reflects income of \$8.0 million for the year.

(in millions)	May YTD FY 2021	May YTD FY 2022	Variance	Annual Projected FY 2022	FY 2022 Budget
Clinical Revenues	\$ 1,286.0	1,321.9	35.9	1,794.5	
Sponsored Programs/Nonexchange Sponsored Programs	176.4	183.8	7.4	225.4	
State Appropriations	270.5	269.6	(0.9)	358.1	
Net Tuition and Fees	37.0	39.6	2.6	52.0	
Auxiliary Revenues/Sales & Services of Educational Activities	20.0	19.2	(0.7)	31.5	
Net Investment Income	50.1	52.0	1.9	67.3	
Other Operating Revenues/Gift Contributions for Operations	73.1	106.1	32.9	131.4	
Total Revenues	1,913.1	1,992.2	79.1	2,660.1	2,537.4
Salaries and Wages/Payroll Related Costs	1,130.0	1,187.2	57.2	1,593.0	
Materials and Supplies/Cost of Goods Sold	265.8	286.7	20.9	384.7	
Depreciation and Amortization	148.1	156.9	8.9	211.2	
Other Contracted Services/Professional Fees & Services	146.3	173.8	27.6	231.8	
All Other Operating Expenses	178.4	173.1	(5.2)	231.4	
Total Expenses	\$ 1,868.4	1,977.8	109.3	2,652.2	2,545.8
Adjusted Income (Loss)	44.7	14.4	(30.2)	8.0	(8.4)
Adjusted Income (Loss) Excluding Depr & Amort Exp	192.8	171.4	(21.4)	219.2	207.9

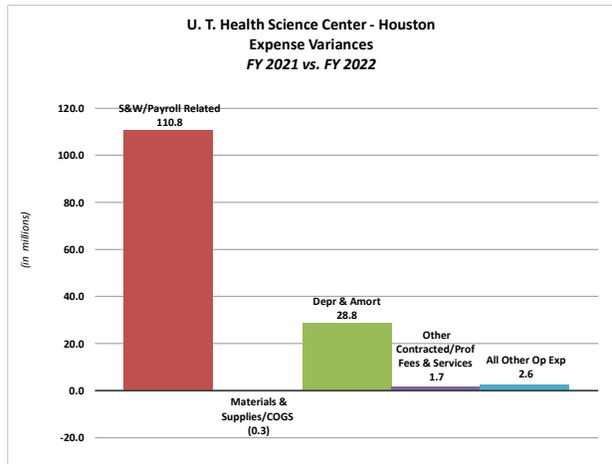
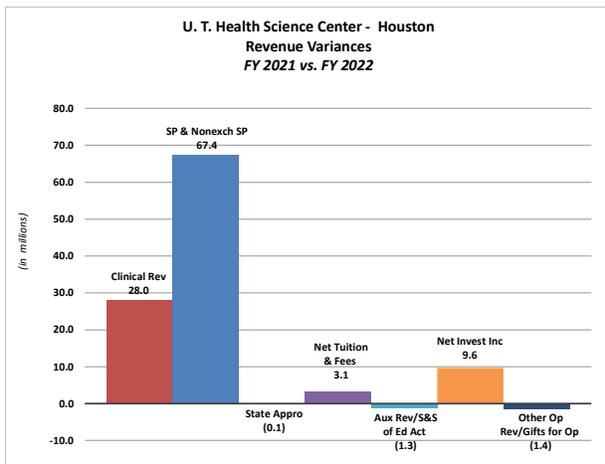


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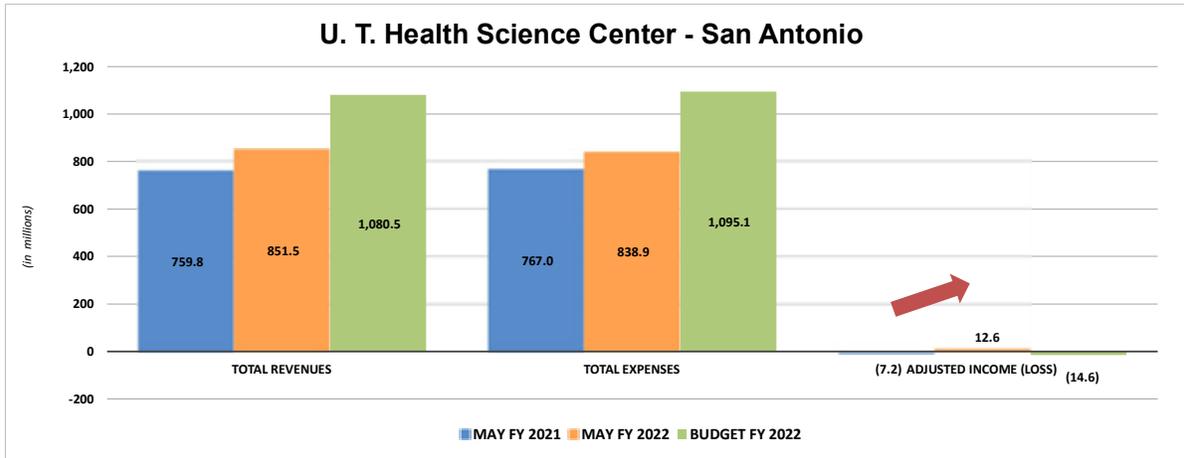


U. T. Health Science Center - Houston reported year-to-date adjusted income of \$18.2 million, a decrease in adjusted income of \$38.3 million (68%) from the prior year. The decrease was primarily due to an increase in salaries and wages and payroll related costs attributable to increases in staff and faculty positions, as well as clinical staff market adjustments. The most current projection received from U. T. Health Science Center - Houston reflects income of \$29.2 million for the year.

(in millions)	May YTD FY 2021	May YTD FY 2022	Variance	Annual Projected FY 2022	FY 2022 Budget
Clinical Revenues	\$ 386.2	414.2	28.0	555.4	
Sponsored Programs/Nonexchange Sponsored Programs	731.6	799.0	67.4	1,060.4	
State Appropriations	162.5	162.4	(0.1)	221.6	
Net Tuition and Fees	53.1	56.2	3.1	76.3	
Auxiliary Revenues/Sales & Services of Educational Activities	53.8	52.5	(1.3)	72.1	
Net Investment Income	53.4	63.0	9.6	81.5	
Other Operating Revenues/Gift Contributions for Operations	39.7	38.3	(1.4)	70.5	
Total Revenues	1,480.4	1,585.7	105.3	2,137.8	2,054.0
Salaries and Wages/Payroll Related Costs	1,099.0	1,209.8	110.8	1,613.1	
Materials and Supplies/Cost of Goods Sold	79.0	78.7	(0.3)	109.3	
Depreciation and Amortization	51.3	80.2	28.8	106.9	
Other Contracted Services/Professional Fees & Services	87.5	89.2	1.7	126.4	
All Other Operating Expenses	107.0	109.6	2.6	152.9	
Total Expenses	\$ 1,423.9	1,567.5	143.6	2,108.6	2,043.8
Adjusted Income (Loss)	56.5	18.2	(38.3)	29.2	10.2
Adjusted Income (Loss) Excluding Depr & Amort Exp	107.8	98.3	(9.5)	136.1	89.4

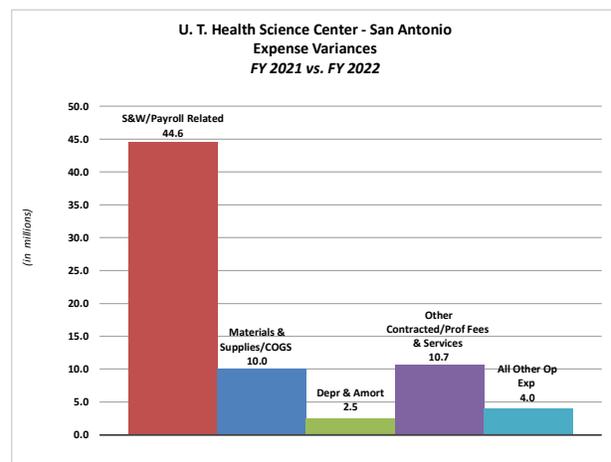
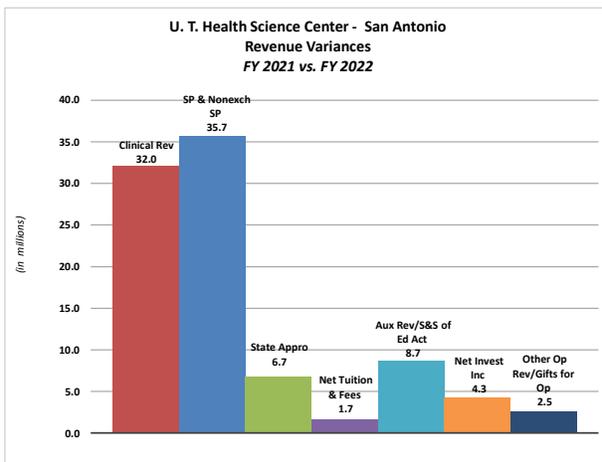


Monthly Financial Report Comparison of Operating Results, Margin, Projected Year-End and Budget For the Period Ending May 31, 2022

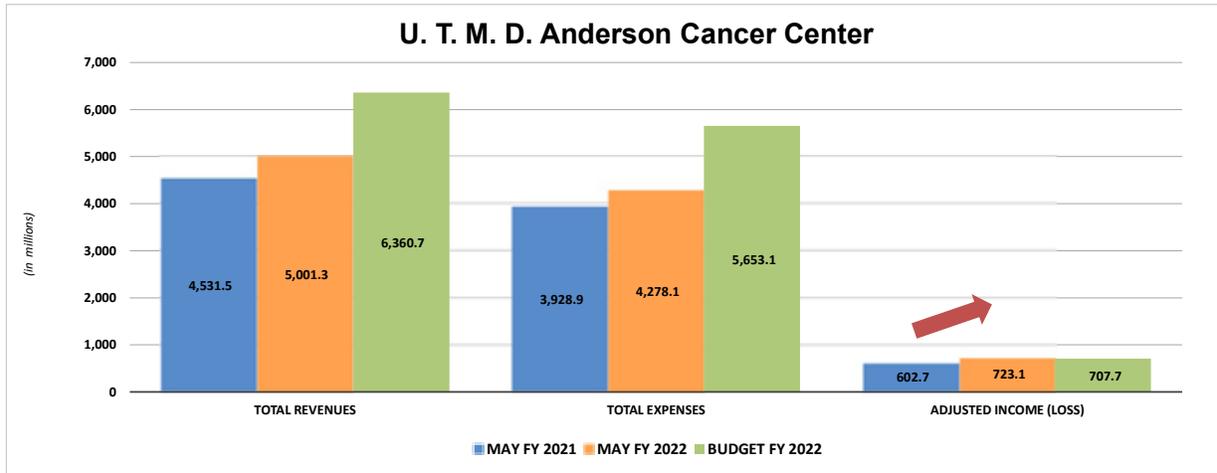


U. T. Health Science Center - San Antonio reported year-to-date adjusted income of \$12.6 million, an increase of \$19.8 million (274%) from the prior year. The increase was primarily attributable to the following: an increase in clinical revenues as a result of increased volume and clinical productivity at all UT Health Physicians sites; and an increase in sales and services of educational activities due to the resumption of continuing education and public outreach activities. The most current projection received from U. T. Health Science Center – San Antonio reflects income of \$8.1 million for the year, which represents a \$22.7 million improvement over the planned \$14.6 million operating deficit.

(in millions)	May YTD FY 2021	May YTD FY 2022	Variance	Annual Projected FY 2022	FY 2022 Budget
Clinical Revenues	\$ 221.5	253.6	32.0	349.9	
Sponsored Programs/Nonexchange Sponsored Programs	296.1	331.8	35.7	451.0	
State Appropriations	125.8	132.5	6.7	172.1	
Net Tuition and Fees	37.5	39.2	1.7	54.6	
Auxiliary Revenues/Sales & Services of Educational Activities	24.5	33.2	8.7	41.0	
Net Investment Income	39.4	43.7	4.3	50.6	
Other Operating Revenues/Gift Contributions for Operations	15.0	17.6	2.5	31.6	
Total Revenues	759.8	851.5	91.7	1,150.8	1,080.5
Salaries and Wages/Payroll Related Costs	517.5	562.1	44.6	768.3	
Materials and Supplies/Cost of Goods Sold	82.6	92.6	10.0	129.8	
Depreciation and Amortization	50.6	53.2	2.5	68.7	
Other Contracted Services/Professional Fees & Services	51.6	62.3	10.7	80.5	
All Other Operating Expenses	64.7	68.7	4.0	95.3	
Total Expenses	\$ 767.0	838.9	71.9	1,142.7	1,095.1
Adjusted Income (Loss)	(7.2)	12.6	19.8	8.1	(14.6)
Adjusted Income (Loss) Excluding Depr & Amort Exp	43.4	65.7	22.3	76.8	56.3

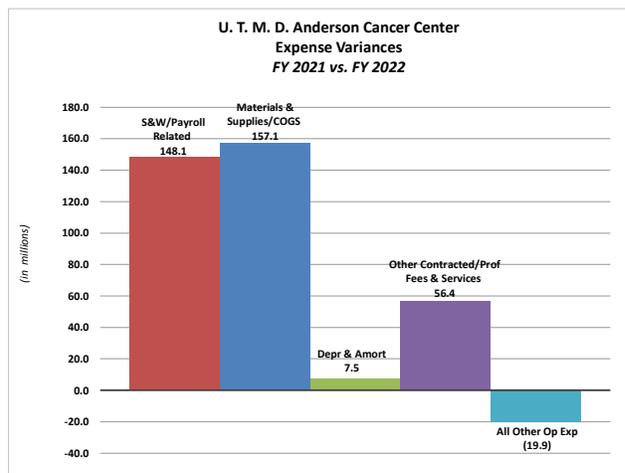
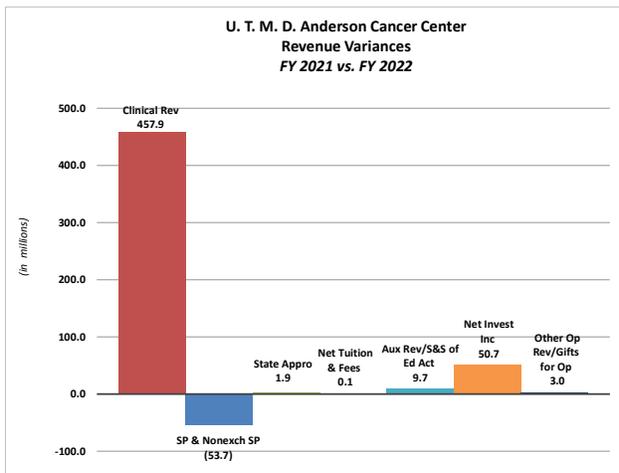


Monthly Financial Report Comparison of Operating Results, Margin, Projected Year-End and Budget For the Period Ending May 31, 2022



U. T. M. D. Anderson Cancer Center reported year-to-date adjusted income of \$723.1 million, an increase in adjusted income of \$120.5 million (20%) 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 \$837.3 million for the year.

(in millions)	May YTD FY 2021	May YTD FY 2022	Variance	Annual Projected FY 2022	FY 2022 Budget
Clinical Revenues	\$ 3,458.9	3,916.8	457.9	5,232.1	
Sponsored Programs/Nonexchange Sponsored Programs	488.0	434.3	(53.7)	599.0	
State Appropriations	155.6	157.5	1.9	210.0	
Net Tuition and Fees	1.8	1.8	0.1	1.9	
Auxiliary Revenues/Sales & Services of Educational Activities	17.3	27.0	9.7	36.6	
Net Investment Income	222.6	273.3	50.7	347.0	
Other Operating Revenues/Gift Contributions for Operations	187.4	190.4	3.0	248.0	
Total Revenues	4,531.5	5,001.3	469.8	6,674.6	6,360.7
Salaries and Wages/Payroll Related Costs	2,246.2	2,394.4	148.1	3,293.0	
Materials and Supplies/Cost of Goods Sold	894.3	1,051.4	157.1	1,422.2	
Depreciation and Amortization	273.8	281.3	7.5	373.2	
Other Contracted Services/Professional Fees & Services	273.8	330.1	56.4	446.6	
All Other Operating Expenses	240.7	220.9	(19.9)	302.4	
Total Expenses	\$ 3,928.9	4,278.1	349.3	5,837.3	5,653.1
Adjusted Income (Loss)	602.7	723.1	120.5	837.3	707.7
Adjusted Income (Loss) Excluding Depr & Amort Exp	876.5	1,004.4	128.0	1,210.5	1,112.5



3. U. T. System Board of Regents: Equipment financing authorization for Fiscal Year 2023 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 \$266,908,000 of Revenue Financing System Equipment Financing for FY 2023 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 \$266,908,000 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 \$266,908,000 for equipment financing for Fiscal Year 2023. On August 19, 2021, the U. T. System Board of Regents approved a total of \$227,834,000 of equipment financing for Fiscal Year 2022. Through July 31, 2022, \$50,411,000 of equipment financing has been utilized for Fiscal Year 2022.

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 2023

Institution	\$ Amount of Request	Description of Expected Capital Equipment	Spendable Cash & Investments to Total Debt *	Unrestricted Cash & Investments to Total Debt *
U. T. Dallas	6,000,000	General purpose equipment supporting University's instruction, research, and business operations	1.8x	
U. T. El Paso	400,000	Vehicle purchases	2.8x	
U. T. Rio Grande Valley	7,000,000	Campus PC and IT replacement; instruction and research activities; security-related equipment	8.6x	
U. T. San Antonio	13,525,000	Boiler; campus deferred maintenance; research; TV facility for athletic and academic buildings	2.3x	
U. T. Tyler	24,983,000	Clinical, laboratory, and IT equipment	1.9x	
U. T. Southwestern Medical Center	30,000,000	Information resources projects; clinical and hospital equipment		0.6x
U. T. Medical Branch - Galveston	50,000,000	Clinical, research, and facility-related equipment; IT infrastructure		1.0x
U. T. Health Science Center - Houston	10,000,000	Research and clinical equipment		6.9x
U. T. Health Science Center - San Antonio	45,000,000	Clinical transformation and research related to primary care, cancer, longevity, and aging studies		3.5x
U. T. M. D. Anderson Cancer Center	80,000,000	Medical, diagnostic, and research equipment; vehicles; information systems and information technology		9.8x

Total	\$266,908,000
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* Spendable Cash & Investments to Total Debt ratios and Unrestricted Cash & Investments to Total Debt ratios are based on FY2021 Analysis of Financial Condition (February 2022). The calculation excludes TRB debt service.

U. T. System Office of Finance, June 27, 2022

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 \$750 million to be used to refund certain outstanding PUF Bonds, to refund PUF Commercial Paper Notes, to provide new money to fund construction and acquisition costs, and to pay the costs of issuance; and
- b. authorize appropriate officers and employees of U. T. System as set forth in the Resolution to take any and all actions necessary to carry out the intentions of the U. T. System Board of Regents within the limitations and procedures specified therein; to make certain covenants and agreements in connection therewith; and to resolve other matters incident and related to the issuance, sale, security, and delivery of such bonds.

BACKGROUND INFORMATION

On August 19, 2021, the Board of Regents adopted a resolution authorizing the issuance of PUF Bonds in an amount not to exceed \$750 million for Fiscal Year 2022. Adoption of this Resolution would provide \$750 million of authorization for similar purposes for Fiscal Year 2023. 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-2022-08-24>.

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 \$850 million to be used to refund certain outstanding RFS Bonds, to refund RFS Commercial Paper Notes, to provide new money to fund construction and acquisition costs of projects in the Capital Improvement Program, and to pay the costs of issuance; and
- b. authorize appropriate officers and employees of U. T. System as set forth in the Supplemental Resolution to take any and all actions necessary to carry out the intentions of the U. T. System Board of Regents within the limitations and procedures specified therein; to make certain covenants and agreements in connection therewith; and to resolve other matters incident and related to the issuance, sale, security, and delivery of such RFS Bonds.

BACKGROUND INFORMATION

On August 19, 2021, the Board of Regents adopted the 36th Supplemental Resolution authorizing the issuance of additional RFS Bonds in an amount not to exceed \$850 million. Adoption of this 37th Supplemental Resolution would provide authority to finance additional projects approved by the Board of Regents under the same provisions as the prior resolution.

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

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

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

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

Note: The proposed Resolution is available online at <https://utsystem.edu/board-of-regents/meetings/board-meeting-2022-08-24>.

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

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. System Board of Regents 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 the U. T. System Interest Rate Swap Policy as set forth in Regents Rule 70202 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.

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

On August 19, 2021, the Board approved bond enhancement agreement resolutions for FY 2022. Approval of this item would authorize the execution of bond enhancement agreement transactions related to RFS and PUF debt in accordance with the U. T. System Interest Rate Swap Policy for FY 2023 and will ratify the existing U. T. System Interest Rate Swap Policy, set out on the following pages and included as Exhibit B to both resolutions, as required by *Texas Government Code* Section 1371.056. The determination to utilize bond enhancement agreements will be made based on market conditions at the time of pricing the related debt issuance. The Chancellor and the Chairman of the Board's Finance and Planning Committee will be informed in advance of any proposed transactions to be undertaken pursuant to the resolutions.

Note: The proposed Resolutions are available online at <https://utsystem.edu/board-of-regents/meetings/board-meeting-2022-08-24>.

**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

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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

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

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

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

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

3. Definitions

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

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

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

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

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

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

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

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

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

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

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

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

4. Relevant Federal and State Statutes

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

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

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

5. Relevant System Policies, Procedures, and Forms

None

6. Who Should Know

Administrators

7. System Administration Office(s) Responsible for Rule

Office of Business Affairs

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

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8. Dates Approved or Amended

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

9. Contact Information

Questions or comments regarding this Rule should be directed to:

- bor@utsystem.edu

7. **U. T. System Board of Regents: Approval of amendments to the Investment Policy Statements for the Permanent University Fund, the General Endowment Fund, the Permanent Health Fund, the Long Term Fund, the Intermediate Term Fund, the Liquidity Policy, and the Derivative Investment 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, the Liquidity Policy, and the Derivative Investment 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](#)
- g. [Derivative Investment 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, the Liquidity Policy, and the Derivative Investment Policy were approved by the UTIMCO Board on June 10, 2022.

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

- Clarify that Portable Alpha strategies are permitted. These strategies are commonplace in the investment management industry and are already in use by UTIMCO. This clarification eliminates any ambiguity about their use. Portable Alpha strategies obtain the desired market exposure to a specific benchmark through cash funded and/or derivative investments and use an overlay portfolio of other assets to generate returns in excess of the benchmark.
- Add an Innovation and Disruption portfolio where UTIMCO can make and house investments in emerging asset types that are innovative and/or disruptive and which currently may have no clear categorization within the asset class descriptions currently specified in the Investment Policies. Investments in the Innovation and Disruption Portfolio will be benchmarked against the Total Endowment Benchmark before returns for the Innovation and Disruption Portfolio.
- Other minor edits and cleanups.

Exhibits to the PUF, GEF, PHF and LTF were amended to add the Hedge Fund Research Indices Macro benchmark to the blend of benchmarks for the Strategic Partnerships. This change is proposed to allow the addition of a Macro Hedge Fund manager to the Strategic Partnership portfolio.

The ITF Investment Policy Statement includes the same changes as the PUF and GEF except the Innovation and Disruption portfolio will not be included.

Exhibits A to the PUF, GEF, and ITF, and Exhibits B of the PHF and LTF Investment Policy Statements are also being amended to reflect changes to the asset allocation framework and to set forth revised Asset Class targets and ranges effective September 1, 2022.

Recommended changes to the Liquidity Policy are non-substantive. References to the "Risk Committee" are changed to the "Investment Risk Committee" to reflect the name change of that committee.

Recommended changes to the Derivative Investment Policy are non-substantive. Non-operative term "Investment Type" is removed from the definitions, and a typographical clarification is recommended to reflect that externally managed accounts may include both an agency agreement and a limited liability entity (rather than "or").

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

**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.

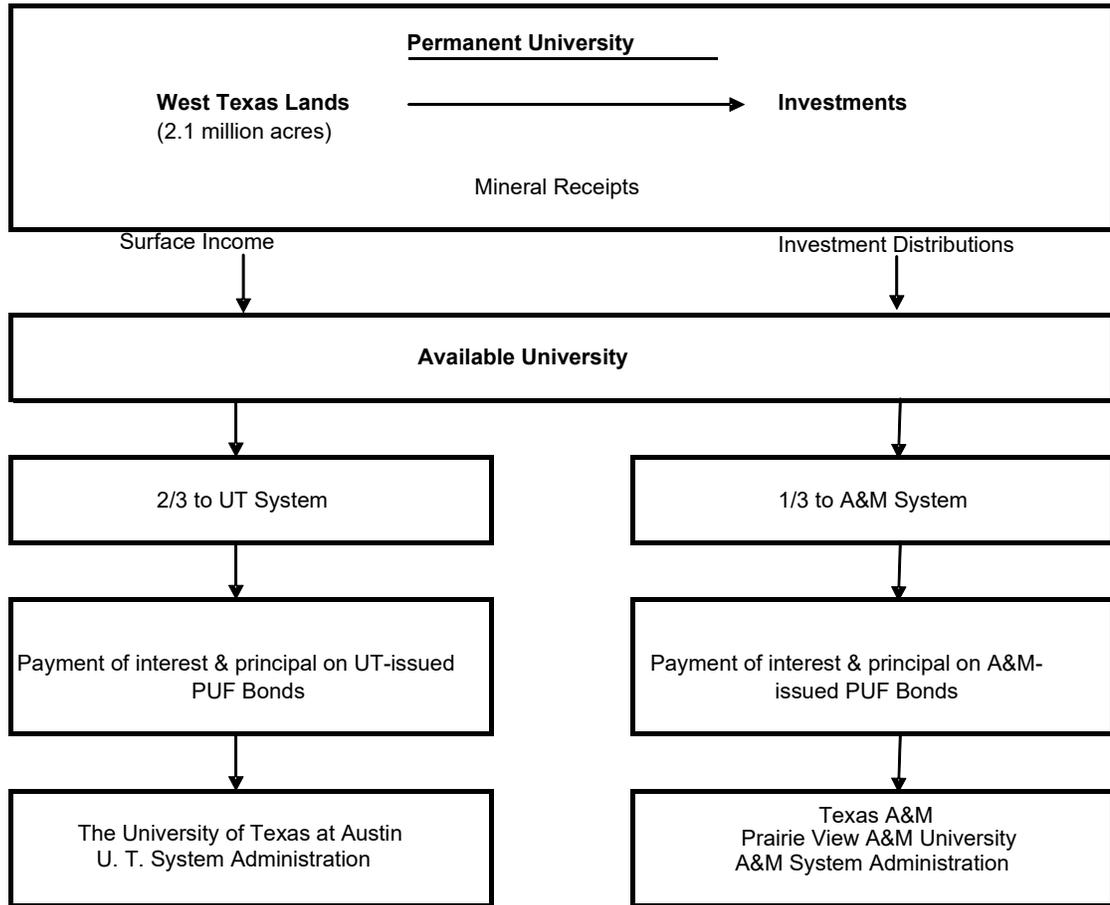
Second, AUF receipts are expended to fund a) excellence programs specifically at U. T. Austin, Texas A&M University and Prairie View A&M University and b) the administration of the university Systems.

UTIMCO [09/04/202409/01/2022](#)

Permanent University Fund Investment Policy Statement (continued)

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 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

Permanent University Fund Investment Policy Statement (continued)

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 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.

Permanent University Fund Investment Policy Statement (continued)

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 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

Permanent University Fund Investment Policy Statement (continued)

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 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 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. 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. In addition, derivative applications that serve as a fixed income substitute may be classified as Long Treasuries.

Permanent University Fund Investment Policy Statement (continued)

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, and have an absolute return orientation. Strategies may include but are not limited to market-neutral equity, multi-strategy, re-insurance, risk premia, trend following, senior secured lending 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 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 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

Permanent University Fund Investment Policy Statement (continued)

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 ~~(RMZ)~~Gross Total Return (RMSG) Index 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 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

Permanent University Fund Investment Policy Statement (continued)

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.
- 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.

Permanent University Fund Investment Policy Statement (continued)

- 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.

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.

Permanent University Fund Investment Policy Statement (continued)

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. ~~Valuation of alternative assets shall be determined in accordance with the UTIMCO Valuation Criteria for Alternative Assets as approved by the UTIMCO Board and then in effect.~~

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

Securities Lending

Permanent University Fund Investment Policy Statement (continued)

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, ~~2021~~2022.

**EXHIBIT A
ASSET CLASS TARGETS, RANGES, AND PERFORMANCE OBJECTIVES
EFFECTIVE SEPTEMBER 1, 2024²**

Asset Class	Min v Target ⁽¹⁾	Target ⁽²⁾⁽³⁾	Max v Target ⁽¹⁾	Benchmark
Global Equity:				
Developed Public Equity	-5.0%	23.6%	+5.0%	MSCI World Index with Net Dividends
Emerging Markets Public Equity	-5.0%	7.0%	+5.0%	MSCI Emerging Markets Index with Net Dividends
<i>Total Public Equity</i>	-5.0%	30.6%	+5.0%	
Directional Hedge Funds	-5.0%	6.5% 5.0%	+5.0%	HFRI Fund of Funds Composite
Private Equity ⁽³⁾	14.2% 15.0%	24.2% 25.0%	34.2% 35.0%	Blended Cambridge Buyouts, Emerging Markets Private Equity and Venture Capital, Credit Opportunities, and Venture Capital
Total Global Equity	-7.0%	64.3% 60.6%	+7.0%	
Stable Value:				
Investment Grade Fixed Income	-5.0%	4.5% 0.0%	+5.0%	Bloomberg Global Aggregate Index - Hedged
Long Treasuries	-5.0%	2.2% 4.4%	+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%	6.7% 4.4%	+5.0%	
Cash	-5.0%	1.0%	+5.0%	3 month T-Bills
Stable Value Hedge Funds	-5.0%	9.2% 10.0%	+5.0%	HFRI Fund of Funds Conservative
Total Stable Value	-10.0%	46.9% 15.4%	+6.0%	
Real Return:				
Inflation Linked Bonds	-5.0%	2.0%	+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%	4.5% 3.0%	9.5% 8.0%	Cambridge Natural Resources
Infrastructure ⁽³⁾	0.0%	3.0% 5.0%	8.0% 10.0%	Cambridge Infrastructure
Real Estate ⁽³⁾	2.3% 4.0%	7.3% 9.0%	12.3% 14.0%	Blended MSCI US REIT Gross Total Return Index (RMSG) and Cambridge Total Real Estate
Total Real Return	-6.0%	46.8% 19.0%	+6.0%	
Strategic Partnerships	-5.0%	5.0%	+5.0%	Blended Bloomberg Global Aggregate Index - Hedged, Bloomberg US Treasury Long Index, MSCI US with Net Dividends, MSCI World Index with Net Dividends, and 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%		

The total Asset Class exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed 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)	3.22% 3.43%
Expected 10-Year Annual Real Return (Policy Portfolio Total)	4.57% 4.78%
One Year Downside Volatility	9.35% 9.62%
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.

**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 investment.

General Endowment Fund Investment Policy Statement (continued)

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 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 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. 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. In addition, derivative

General Endowment Fund Investment Policy Statement (continued)

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, and have an absolute return orientation. Strategies may include but are not limited to market-neutral equity, multi-strategy, re-insurance, risk premia, trend following, senior secured lending 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 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 in ownership of companies or assets that provide an essential service that contributes to the economic or social productivity of an organization, community,

General Endowment Fund Investment Policy Statement (continued)

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 ~~(RMZ)~~Gross Total Return (RMSG) Index 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 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

General Endowment Fund Investment Policy Statement (continued)

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.
- 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.

General Endowment Fund Investment Policy Statement (continued)

- 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

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
UTIMCO [09/04/202409/01/2022](#)

General Endowment Fund Investment Policy Statement (continued)

end close shall normally be completed within seven business days but determination may be longer under certain circumstances. ~~Valuation of alternative assets shall be determined in accordance with the UTIMCO Valuation Criteria for Alternative Assets as approved by the UTIMCO Board and then in effect.~~

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 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.

General Endowment Fund Investment Policy Statement (continued)

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, ~~2021~~2022.

**EXHIBIT A
ASSET CLASS TARGETS, RANGES, AND PERFORMANCE OBJECTIVES
EFFECTIVE SEPTEMBER 1, 2024²**

Asset Class	Min v Target ⁽¹⁾	Target ⁽²⁾⁽³⁾	Max v Target ⁽¹⁾	Benchmark
Global Equity:				
Developed Public Equity	-5.0%	23.6%	+5.0%	MSCI World Index with Net Dividends
Emerging Markets Public Equity	-5.0%	7.0%	+5.0%	MSCI Emerging Markets Index with Net Dividends
<i>Total Public Equity</i>	-5.0%	30.6%	+5.0%	
Directional Hedge Funds	-5.0%	6.5% 5.0%	+5.0%	HFRI Fund of Funds Composite
Private Equity ⁽³⁾	14.2% 15.0%	24.2% 25.0%	34.2% 35.0%	Blended Cambridge Buyouts, Emerging Markets Private Equity and Venture Capital, Credit Opportunities, and Venture Capital
Total Global Equity	-7.0%	64.3% 60.6%	+7.0%	
Stable Value:				
Investment Grade Fixed Income	-5.0%	4.5% 0.0%	+5.0%	Bloomberg Global Aggregate Index - Hedged
Long Treasuries	-5.0%	2.2% 4.4%	+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%	6.7% 4.4%	+5.0%	
Cash	-5.0%	1.0%	+5.0%	3 month T-Bills
Stable Value Hedge Funds	-5.0%	9.2% 10.0%	+5.0%	HFRI Fund of Funds Conservative
Total Stable Value	-10.0%	46.9% 15.4%	+6.0%	
Real Return:				
Inflation Linked Bonds	-5.0%	2.0%	+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%	4.5% 3.0%	9.5% 8.0%	Cambridge Natural Resources
Infrastructure ⁽³⁾	0.0%	3.0% 5.0%	8.0% 10.0%	Cambridge Infrastructure
Real Estate ⁽³⁾	2.3% 4.0%	7.3% 9.0%	12.3% 14.0%	Blended MSCI US REIT Gross Total Return Index (RMSG) and Cambridge Total Real Estate
Total Real Return	-6.0%	46.8% 19.0%	+6.0%	
Strategic Partnerships	-5.0%	5.0%	+5.0%	Blended Bloomberg Global Aggregate Index - Hedged, Bloomberg US Treasury Long Index, MSCI US with Net Dividends, MSCI World Index with Net Dividends, and 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%		

The total Asset Class exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed 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)	3.22% 3.43%
Expected 10-Year Annual Real Return (Policy Portfolio Total)	4.57% 4.78%
One Year Downside Volatility	9.35% 9.62%
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.

**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

Intermediate Term Fund Investment Policy Statement (continued)

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 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 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 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. 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. 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

Intermediate Term Fund Investment Policy Statement (continued)

little to no market sensitivity, as defined by beta to Developed Public Equity, and have an absolute return orientation. Strategies may include but are not limited to market-neutral equity, multi-strategy, re-insurance, risk premia, trend following, senior secured lending 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 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 ~~(RMZ)~~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, ~~2021~~2022.

**EXHIBIT A
ASSET CLASS TARGETS, RANGES, AND PERFORMANCE OBJECTIVES
EFFECTIVE SEPTEMBER 1, 2024²**

Asset Class	Min v Target ⁽¹⁾	Target ⁽²⁾	Max v Target ⁽¹⁾	Benchmark
Global Equity:				
Developed Public Equity	-5.0%	40.0% 11.5%	+5.0%	MSCI World Index with Net Dividends MSCI Emerging Markets Index with Net Dividends
Emerging Markets Public Equity	-5.0%	3.2% 3.5%	+5.0%	
<i>Total Public Equity</i>	-5.0%	44.0% 15.0%	+5.0%	HFRI Fund of Funds Composite
Directional Hedge Funds	-5.0%	38.0% 35.0%	+5.0%	
Total Global Equity	-7.0%	52.0% 50.0%	+7.0%	
Stable Value:				
Investment Grade Fixed Income	-5.0%	16.0% 6.0%	+5.0%	Bloomberg Global Aggregate Index - Hedged Bloomberg US Treasury: Long Index
Long Treasuries	-5.0%	4.0% 7.0%	+5.0%	
<i>Total Fixed Income</i>	-5.0%	20.0% 13.0%	+5.0%	3 month T-bills HFRI Fund of Funds Conservative
Cash	-5.0%	2.0%	+5.0%	
Stable Value Hedge Funds	-5.0%	16.0% 25.0%	+5.0%	
Total Stable Value	-10.0%	38.0% 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%	MSCI US REIT Gross Total Return Index (RMSG)
Public Real Estate	-5.0%	2.5%	+5.0%	
Total Real Return	-6.0%	10.0%	+6.0%	
Total All Asset Classes		100.0%		

The total Asset Class exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed 100% 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)	0.12% 0.16%
Expected 10-Year Annual Real Return (Policy Portfolio Total Return)	2.54% 2.73%
One Year Downside Volatility	4.47% 4.56%
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, ~~2021~~2022.

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, 2024²**

Asset Class	Min v Target ⁽¹⁾	Target ⁽²⁾⁽³⁾	Max v Target ⁽¹⁾	Benchmark
Global Equity:				
Developed Public Equity	-5.0%	23.6%	+5.0%	MSCI World Index with Net Dividends
Emerging Markets Public Equity	-5.0%	7.0%	+5.0%	MSCI Emerging Markets Index with Net Dividends
<i>Total Public Equity</i>	-5.0%	30.6%	+5.0%	
Directional Hedge Funds	-5.0%	6.5% 5.0%	+5.0%	HFRI Fund of Funds Composite
Private Equity ⁽³⁾	14.2% 15.0%	24.2% 25.0%	34.2% 35.0%	Blended Cambridge Buyouts, Emerging Markets Private Equity and Venture Capital, Credit Opportunities, and Venture Capital
Total Global Equity	-7.0%	61.3% 60.6%	+7.0%	
Stable Value:				
Investment Grade Fixed Income	-5.0%	4.5% 0.0%	+5.0%	Bloomberg Global Aggregate Index - Hedged
Long Treasuries	-5.0%	2.2% 4.4%	+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%	6.7% 4.4%	+5.0%	
Cash	-5.0%	1.0%	+5.0%	3 month T-Bills
Stable Value Hedge Funds	-5.0%	9.2% 10.0%	+5.0%	HFRI Fund of Funds Conservative
Total Stable Value	-10.0%	16.0% 15.4%	+6.0%	
Real Return:				
Inflation Linked Bonds	-5.0%	2.0%	+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%	4.5% 3.0%	9.5% 8.0%	Cambridge Natural Resources
Infrastructure ⁽³⁾	0.0%	3.0% 5.0%	8.0% 10.0%	Cambridge Infrastructure
Real Estate ⁽³⁾	2.3% 4.0%	7.3% 9.0%	12.3% 14.0%	Blended MSCI US REIT Gross Total Return Index (RMSG) and Cambridge Total Real Estate
Total Real Return	-6.0%	16.8% 19.0%	+6.0%	
Strategic Partnerships	-5.0%	5.0%	+5.0%	Blended Bloomberg Global Aggregate Index - Hedged, Bloomberg US Treasury Long Index, MSCI US with Net Dividends , MSCI World Index with Net Dividends, and 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%		

The total Asset Class exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed 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)	3.22% 3.43%
Expected 10-Year Annual Real Return (Policy Portfolio Total)	4.57% 4.78%
One Year Downside Volatility	9.35% 9.62%
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.

**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, ~~2021~~2022.

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, 2024²**

Asset Class	Min v Target ⁽¹⁾	Target ⁽²⁾⁽³⁾	Max v Target ⁽¹⁾	Benchmark
Global Equity:				
Developed Public Equity	-5.0%	23.6%	+5.0%	MSCI World Index with Net Dividends
Emerging Markets Public Equity	-5.0%	7.0%	+5.0%	MSCI Emerging Markets Index with Net Dividends
<i>Total Public Equity</i>	-5.0%	30.6%	+5.0%	
Directional Hedge Funds	-5.0%	6.5% 5.0%	+5.0%	HFRI Fund of Funds Composite
Private Equity ⁽³⁾	14.2% 15.0%	24.2% 25.0%	34.2% 35.0%	Blended Cambridge Buyouts, Emerging Markets Private Equity and Venture Capital, Credit Opportunities, and Venture Capital
Total Global Equity	-7.0%	61.3% 60.6%	+7.0%	
Stable Value:				
Investment Grade Fixed Income	-5.0%	4.5% 0.0%	+5.0%	Bloomberg Global Aggregate Index - Hedged
Long Treasuries	-5.0%	2.2% 4.4%	+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%	6.7% 4.4%	+5.0%	
Cash	-5.0%	1.0%	+5.0%	3 month T-Bills
Stable Value Hedge Funds	-5.0%	9.2% 10.0%	+5.0%	HFRI Fund of Funds Conservative
Total Stable Value	-10.0%	16.9% 15.4%	+6.0%	
Real Return:				
Inflation Linked Bonds	-5.0%	2.0%	+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%	4.5% 3.0%	9.5% 8.0%	Cambridge Natural Resources
Infrastructure ⁽³⁾	0.0%	3.0% 5.0%	8.0% 10.0%	Cambridge Infrastructure
Real Estate ⁽³⁾	2.3% 4.0%	7.3% 9.0%	12.3% 14.0%	Blended MSCI US REIT Gross Total Return Index (RMSG) and Cambridge Total Real Estate
Total Real Return	-6.0%	16.8% 19.0%	+6.0%	
Strategic Partnerships	-5.0%	5.0%	+5.0%	Blended Bloomberg Global Aggregate Index - Hedged, Bloomberg US Treasury Long Index, MSCI US with Net Dividends , MSCI World Index with Net Dividends, and 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%		

The total Asset Class exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed 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)	3.22% 3.43%
Expected 10-Year Annual Real Return (Policy Portfolio Total)	4.57% 4.78%
One Year Downside Volatility	9.35% 9.62%
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.

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

Effective Date of Policy: ~~March 1, 2020~~[TBD]

Date Approved by U. T. System Board of Regents: ~~February 27, 2020~~[TBD]

Date Approved by UTIMCO Board: ~~December 5, 2019~~

[TBD]Supersedes: Liquidity Policy ~~dated August 10, 2018~~effective March 1, 2020

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

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

Liquidity Risk Measurement-The Liquidity Profile:

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

- **Liquid:** Investments that could be converted to Cash within a period of 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~~ 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% of the total portfolio for the Endowment Funds. Any **illiquid** investment made that would cause illiquidity to exceed 70% 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% of the total portfolio for the ITF. Any **illiquid** investment that would cause illiquidity to exceed 55% 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.

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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:

	<u>Beg March 1, 2020[TBD]</u>
Unfunded Commitment as a percent of the highest total Net Asset Value of the Endowment Funds over a trailing 24-month period:	30.0%

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.

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

Effective Date of Policy: ~~March 1, 2020~~[TBD]

Date Approved by U. T. System Board of Regents: ~~February 27, 2020~~[TBD]

Date Approved by UTIMCO Board: ~~December 5, 2019~~[TBD]

Supersedes: Derivative Investment Policy ~~approved August 10, 2018~~ effective March 1, 2020

Purpose:

The purpose of this Derivative Investment Policy (the “Policy”) is to set forth the applications, documentation and limitations for investment in Derivative Investments in the Permanent University Fund (PUF), the General Endowment Fund (GEF), the Intermediate Term Fund (ITF), and the Separately Invested Funds (SIF), hereinafter referred to as the Funds. The Board of Regents approved investment policy guidelines for the Funds allow for investment in Derivative Investments provided that they are in compliance with the Policy. This Policy supplements the Investment Policy Statements for the Funds.

Objective:

The objective of investing in Derivative Investments is to facilitate risk management and provide efficiency in the implementation of various investment strategies for the Funds. Derivative Investments can provide the Funds with more economical means to improve the Funds’ risk/return profile.

Scope:

This Policy applies to all Derivatives Investments in the Funds that are executed by UTIMCO and by external managers operating under an Agency Agreement. This Policy does not apply to external managers operating under limited partnership agreements, offshore corporations, or through other Limited Liability Entities that limit the liability exposure of the Funds’ investments. Derivative policies for external managers are established on a case-by-case basis with each external manager, as described below.

This Policy applies to both Exchange Traded Derivatives and Over the Counter (OTC) Derivatives. This Policy shall not be construed to apply to commingled funds to which UTIMCO does not have full transparency and control of the underlying assets. These commingled investment vehicles are governed by separate investment policy statements.

External Managers:

External managers are selected to manage the Funds’ assets under ~~either~~ an Agency Agreement and/or through a Limited Liability Entity. An external manager operating under an Agency Agreement may engage in Derivative Investments only if (i) such manager has been approved to use Derivative Investments by UTIMCO and (ii) the Derivative Investments are consistent with the overall investment objectives of the related account and in compliance with this Policy. The use of Derivative Investments by an external manager operating under an Agency Agreement shall be approved by UTIMCO only for external managers that (i) demonstrate investment expertise in their use, (ii) have appropriate risk management and valuation policies and procedures, (iii) have the legal and investment expertise to limit the downside effects of the proposed derivatives and (iv) effectively monitor and control their use.

While this Policy does not specifically include external managers operating through a Limited Liability Entity, it is noted that selecting and monitoring external managers through a Limited Liability Entity requires a clear understanding of the external managers’ use of Derivative Investments, particularly as it relates to various risk controls and leverage. The permitted uses of Derivative Investments and leverage must be fully documented in the limited liability agreements with these managers.

Definition of Derivatives:

Derivatives are financial instruments whose value is derived, in whole or part, from the value of one or more underlying securities or assets, or index of securities or assets (such as bonds, stocks, commodities, and currencies). For the purposes of this Policy, derivatives shall include Derivative Investments as defined in Exhibit A. If it is unclear whether a particular financial instrument meets the definition of Derivative Investment, the Managing Director - Risk Management and Chief Compliance Officer, in consultation with the Chief Investment Officer (“CIO”) or Deputy Chief Investment Officer (“Deputy CIO”), will determine whether the financial instrument is a Derivative

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

Investment. The CIO or Deputy CIO will report such determinations to the Chairman of the [Investment](#) Risk Committee.

Permitted Derivative Applications:

The primary intent of derivatives should be to hedge risk in portfolios or to implement investment strategies more effectively and at a lower cost than would be possible in the Cash Market.

Permitted Derivative Applications are Derivative Investments used:

- To implement investment strategies in a low cost and efficient manner;
- To alter the Funds' market (systematic) exposure without trading the underlying Cash Market securities through purchases or short sales, or both, of appropriate derivatives;
- To construct portfolios with risk and return characteristics that could not be created with Cash Market securities;
- To hedge and control risks; or
- To facilitate transition trading.

UTIMCO may not enter into any Derivative Investment that is not a Permitted Derivative Application. To the extent a new Derivative Investment recommended by UTIMCO or for the engagement of an external manager operating under an Agency Agreement that has been approved by UTIMCO is a Permitted Derivative Application but is not of the types set forth on Exhibit B, any Director may require a complete review of the new Derivative Investment prior to implementation. Notwithstanding the foregoing, UTIMCO's CIO or Deputy CIO, the Managing Director - Risk Management, or Chief Compliance Officer may determine that presentation and approval of the proposed Derivative Investment at [an Investment](#) Risk Committee meeting is warranted before engaging in the Derivative Investment.

Risk and Investment Policy Controls:

Prior to the implementation of one or more similar Derivative Investments, UTIMCO will model the impact of the derivative on the Funds' projected downside volatility, and exposure to the respective Asset Class to ensure that the Funds remain within the permissible ranges as set forth in the Funds' Investment Policy Statements.

Documentation and Controls:

Prior to the implementation of one or more similar Derivative Investments by UTIMCO, UTIMCO shall document the purpose, valuation method, methods for calculating delta, delta-adjusted exposure, Asset Class exposure, the effect on portfolio leverage (if applicable), risks (including, but not limited to modeling, pricing, liquidity and Counterparty risks), the expected increase or reduction in risk resulting from the Derivative Investments, and the procedures in place to monitor and manage the derivative exposure. For any short exposure, UTIMCO shall also document the basis risk and appropriate stop-loss procedures. UTIMCO shall establish appropriate risk management procedures and the appropriate frequency to monitor the risk of (i) internally managed Derivative Investments and (ii) externally managed accounts operating under Agency Agreements that permit derivatives. Internal control procedures to properly account and value the Funds' exposure to the Derivative Investment shall be fully documented.

Additional Risk Mitigants

Leverage: Leverage is inherent in many Derivative Investments. In Cash Markets, in most cases, the cash outlay is equal to the market exposure acquired. By contrast, Derivative Investments offer the possibility of establishing – for the same cash outlay – substantially larger market exposure. Therefore, risk management and control processes must focus on the total risk assumed in a Derivative Investment. Exhibits A of the Fund's Investment Policy Statements provide a limitation on the amount of uncollateralized derivative exposure that can be utilized by the Funds whereby, the total Asset Class exposure, including the amount of derivatives exposure not collateralized by cash, may not exceed 105% (100% in the ITF) of the Asset Class exposure excluding the amount of derivative exposure not collateralized by cash.

Counterparty Risks: Rigorous Counterparty selection criteria shall be required to minimize Counterparty risk for Over the Counter (OTC) Derivatives. In order to be eligible as a Counterparty to an OTC derivative transaction with

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

the Funds, whether the trade is initiated by UTIMCO, by an external manager under Agency Agreement, or by a Limited Liability Entity where UTIMCO has full transparency and control of the underlying assets, the Counterparty must have a credit rating of at least A- (Standard and Poor's) or A3 (Moody's), unless an exception is approved by the Managing Director - Risk Management and by the CIO or Deputy CIO. All OTC derivatives, with the exception of Derivative Investments where ISDA is not available or the market standard (e.g., Bona Fide Spot Foreign Exchange Transactions, participation notes (P-notes) and low exercise purchase options (LEPOs)), must be subject to established ISDA Netting Agreements and have full documentation of all legal obligations of the Funds. In limited circumstances, the August 2012 DF Protocol Agreement, as published on August 13, 2012 (the "August Protocol Agreement") and the 2002 ISDA Master Agreement with a Schedule (an "ISDA March 2013 DF Protocol Master Agreement"), developed in connection with ISDA's Dodd-Frank Documentation Initiative to implement and comply with the regulatory requirements imposed under Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act, may be used in place of an ISDA Netting Agreement or on a temporary basis until an ISDA Netting Agreement with the Counterparty has been executed. In the event a Counterparty is downgraded below the minimum credit rating requirement, UTIMCO will take appropriate action to protect the interests of the Funds.

The net market value, net of collateral postings, of all OTC derivatives for any individual Counterparty may not exceed 30bps of the total market value of the Funds.

Risk Management and Compliance:

To ensure compliance with all terms and limitations of this Policy, all internally managed and externally managed Derivative Investments in accounts under Agency Agreements will be marked to market by the Funds' custodian and reviewed periodically, but no less frequently than monthly, for accuracy by the UTIMCO Managing Director - Risk Management. In addition, data from the external risk model will be reviewed for accuracy and completeness by the UTIMCO Managing Director - Risk Management.

Compliance with this Policy will be monitored by the UTIMCO Chief Compliance Officer using data provided by the custodian and the external risk model.

Any instances of noncompliance with this Policy will be reported immediately to the UTIMCO Chief Compliance Officer and to the UTIMCO CIO or Deputy CIO, who will determine the appropriate remedy and report promptly to the Chairs of the [Investment](#) Risk Committee, the Audit & Ethics Committee, and the UTIMCO Board Chairman. The UTIMCO Board Chairman may waive immediate remedial action in appropriate circumstances.

Reporting:

On a quarterly basis, UTIMCO shall provide a comprehensive report to UTIMCO's Board and the [Investment](#) Risk Committee. This report shall include all outstanding Derivative Investments, by type, entered into during the period being reported for both internal managers and external managers operating under Agency Agreements. Asset allocation as provided in the Funds' Investment Policy Statements shall incorporate the impact of uncollateralized derivative exposure associated with Derivative Investments. For risk reporting purposes, the models used to calculate the expected profit or loss in each scenario will include the effect of delta sensitivity and other derivative sensitivity parameters as appropriate. Risk calculations will take into account leverage, correlation, and exposure parameters such as beta for equities and duration for fixed income. The UTIMCO Managing Director - Risk Management will calculate risk attribution - i.e., how much of the overall risk is attributed to each Asset Class, including the full effect on risk of the Derivative Investments in each. The UTIMCO Managing Director - Risk Management will calculate risk attribution for each Derivative Investment.

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Derivative Investment Policy**

**Derivative Investment Policy Exhibit A
Glossary of Terms**

Agency Agreement – A form of legal agreement that typically grants limited investment discretion to an external investment manager to act as the investment agent of the Funds but does not limit the liability of the Funds for actions taken by that agent.

Basket – A group of securities and a weighting scheme, or a proprietary index. Baskets are typically defined to achieve a certain investment goal, within certain limitations. For example, a Basket could replicate an emerging market index, excluding certain companies that UTIMCO is not permitted to hold.

Bona Fide Spot Foreign Exchange Transaction – An agreement, contract or transaction for the purchase or sale of an amount of foreign currency equal to the price of a foreign security with respect to which (i) the security and related foreign currency transactions are executed contemporaneously in order to effect delivery by the relevant securities settlement deadline and (ii) actual delivery of the foreign security and foreign currency occurs by such deadline (such transaction, a “Securities Conversion Transaction”). For Securities Conversion Transactions, the Commodity Futures Trading Commission (CFTC) will consider the relevant foreign exchange spot market settlement deadline to be the same as the securities settlement deadline. A Bona Fide Spot Foreign Exchange Transaction generally settles via actual delivery of the relevant currencies within a few business days; however, settlement may take longer due to differences in international market conditions.

Cash Market - The physical market for a commodity or financial instrument.

Counterparty - The entity with which a Derivative Investment is transacted, and which is not a national or international exchange.

Derivative Investment – A financial instrument whose value is derived, in whole or part, from the value of one or more underlying securities or assets, or index of securities or assets. A Derivative Investment can be either an Exchange Traded Derivative or an Over the Counter (OTC) Derivative. For the purpose of this Policy, Derivative Investments will include:

- All Over the Counter (OTC) Derivatives, with the exception of Bona Fide Spot Foreign Exchange Transactions, mortgage-backed securities, asset-backed securities, and collateralized mortgage obligations.
- As for Exchange Traded Derivatives, the definition will only include Futures Contracts, listed Options, and cleared Swaps; in particular, the definition will not include exchange traded funds (“ETFs”) and depository receipts (“DRs”).

Exchange Traded Derivatives - A Derivative Investment traded on an established national or international exchange. These derivatives “settle” daily in that cash exchanges are made between the exchange and parties to the contracts consistent with the change in price of the instrument. Fulfillment of the contract is guaranteed by the exchange on which the derivatives are traded. Examples include S&P 500 Futures Contracts and Goldman Sachs Commodities Index Futures Contracts.

Forward Contract - A non-standardized contract for the physical or electronic (through a bookkeeping entry) delivery of a commodity or financial instrument at a specified price at some point in the future. The most typical Forward Contract is a forward foreign currency contract, which involves the contemplated exchange of two currencies.

Futures Contract - A standardized contract for either the physical delivery of a commodity or instrument at a specified price at some point in the future, or a financial settlement derived from the change in market price of the commodity or financial instrument during the term of the contract.

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ISDA Netting Agreement - The International Swaps and Derivatives Association (ISDA) is the global trade association representing participants in the privately negotiated derivatives industry, covering swaps and options across all asset classes. ISDA has produced generally accepted “Master Agreements,” a 1992 Master Agreement and a 2002 Master Agreement, that are used by most counterparties in OTC derivatives. Netting agreements are terms within the applicable Master Agreement that deal with the calculation of exposure for each Counterparty. These netting agreements require that exposures between counterparties will be “netted” so that payables and receivables under all existing derivatives between two Counterparties are offset in determining the net exposure between the two Counterparties.

Limited Liability Entity – A legal entity created to define how assets contributed to the entity by external partners to the agreement will be managed by the manager of the entity. These entities are typically limited liability partnerships, corporations, or other such entities that limit the liability of external investors to the current value of the external investors’ investment in the entity.

Long Exposure to an Asset Class – The Net Asset Value of the Asset Class ~~and Investment Type~~ as defined in the Funds’ Investment Policy Statement.

Option - A derivative that conveys the right but not the obligation to buy or deliver the subject financial instrument at a specified price, at a specified future date.

Over the Counter (OTC) Derivatives - A derivative which results from direct negotiation between two entities, a buyer/seller and a Counterparty. The terms of such derivatives are non-standard and are the result of specific negotiations. Settlement occurs at the negotiated termination date, although the terms may include interim cash payments under certain conditions. Examples include currency swaps and Forward Contracts, interest rate swaps, and collars.

Replicating Derivatives – Derivatives that are intended to replicate the return characteristics of an underlying index or any other Cash Market security.

Swap - A contract whereby the parties agree to exchange cash flows of defined investment assets in amounts and times specified by the contract.

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

**Derivative Investment Policy Exhibit B
Delegated Derivative Investments**

Subject to the limitations contained in the Derivative Investment Policy, the UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer the authority to enter into the following Derivative Investments:

Delegated Derivative Investments:

1. Replicating Derivatives - Derivative Investments that replicate the return characteristics of a long exposure to an underlying index, Basket or commodity. These investments are generally Futures Contracts and swaps on a passive index, Basket or commodity.
2. Derivative Investments that upon their expiration would not exceed the loss of a similar investment in the cash market equivalent being referred to in the derivative contract. These investments may include swaps whereby the holder of the instrument will forgo potential upside return in exchange for downside protection or receive a multiple of a referenced return should the return of the underlying referenced cash market equivalent be within a certain range and may also include the selling of put options.
3. Derivative Investments that reduce exposure to an Asset Class or hedge against risk, and limit maximum loss to the premium paid for the Derivative Investment, i.e., purchase options. The aggregate prorated annual premium of all Derivative Investments under this provision shall be as set forth in the respective Fund's Investment Policy Statement.
4. Futures Contracts and Forward Contracts on foreign currency if used (i) by an external fixed income manager within its investment guidelines, (ii) for hedging purposes by an external equities manager within its investment guidelines, or (iii) to hedge existing or prospective foreign currency risk or to gain long exposure to a foreign currency by UTIMCO.
5. Derivative Investments used to manage bond duration or hedge equity exposure to countries, sectors or capitalization factors, or individual stock(s) swaps within the portfolio only if subsequent to the investment the portfolio would not be net short to any one of those factors. An example of such a hedge is selling Futures Contracts or call options on a country or sector index, provided the manager is exposed to that country or sector.
6. Derivative Investments used to gain Long Exposure to an Asset Class and limit maximum loss to the premium paid for the Derivative Investment.

The delegated authority set forth above should not be construed to permit UTIMCO to enter into Derivative Investments that are unhedged and have the potential for unlimited loss.

Modeling: Each Delegated Derivative Investment must be such that it can be decomposed into one or more components, and each said component can be modeled using a model such as the CDS valuation model, Black-Scholes model, including modifications for foreign currency ("Quanto"), allowing both normal and log-normal distributions (the Black model), and modifications to handle dividends or other model approved by the Policy Committee.

Leverage: Each Delegated Derivative Investment must be modeled on a fully collateralized basis. During the course of the investment, cash collateral backing a Derivative Investment may be utilized to invest in other investments thereby creating leverage at the Fund level. This is only allowed if within the Funds' Investment Policy Statements.



Investment Policies

Mr. Britt Harris, President and CEO
Mr. Rich Hall, Chief Investment Officer
August 24, 2022



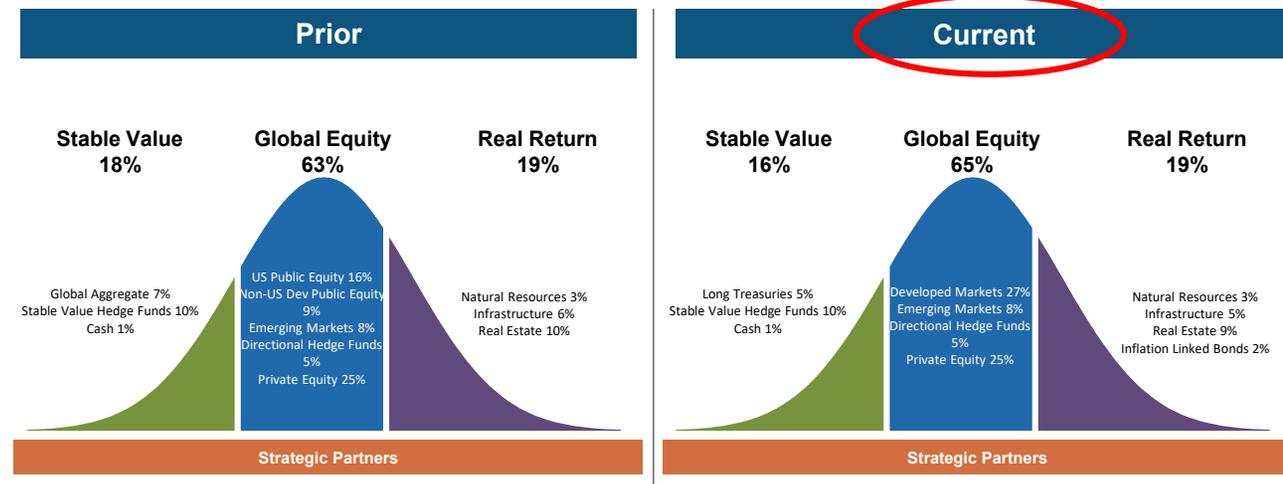
Policy Review

Policies Requiring Board of Regents Approval

- **Investment Policy Statements**
 - Reviewed and approved annually by UTIMCO Board and Board of Regents
 - Continuing transition to Strategic Asset Allocation approved in 2021
- **Investment Management Services Agreement (IMSA)**
 - Clarification to Custodian definition allowing custodian to hold assets other than securities
 - Clarification that third-party indemnification provision applies when UTIMCO acts as Agent for Board of Regents
 - Clarification to Notice provision adding General Counsel as notice recipient
- **Liquidity Policy**
 - Administrative change to a reference to a UTIMCO Board Committee to reflect name change
- **Derivative Investment Policy**
 - Clarification to definition of "Long Exposure to an Asset Class" removes outdated reference to "Investment Type"
 - Clarification that External Managers may involve both an agency agreement and a limited liability entity



Current Endowment Strategic Asset Allocation

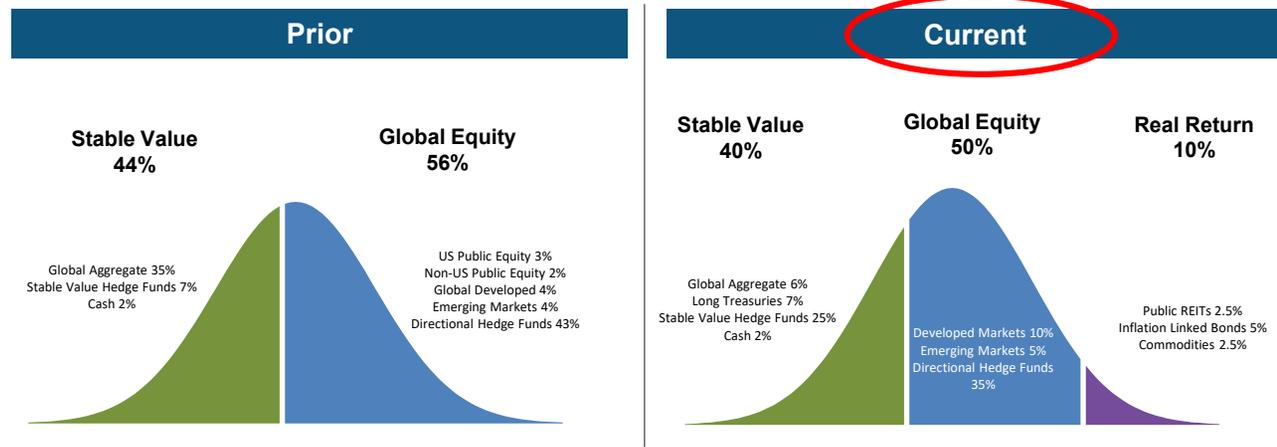


SAA Changes

Asset Class	Benchmark
US Public Equity	Combine to Global Developed, benchmarked to MSCI World
Non-US Public Equity	Combine to Global Developed, benchmarked to MSCI World
Long Treasuries	Bloomberg US Treasury: Long Index
Real Estate	Blended MSCI US REIT Index (RMZ) and Cambridge Total Real Estate



Current ITF Strategic Asset Allocation



SAA Changes

Asset Class	Benchmark
US Public Equity	Combine to Global Developed,
Non-US Public Equity	benchmarked to MSCI World
Long Treasuries	Bloomberg US Treasury: Long Index
Public Real Estate	MSCI US REIT Index (RMZ)
Commodities	Bloomberg Commodity TRI
Inflation Linked Bonds	Bloomberg Global Inflation Linked: US TIPS Index



FY2023 Proposed Targets and Ranges

EXHIBIT A
ASSET CLASS TARGETS, RANGES, AND PERFORMANCE OBJECTIVES
EFFECTIVE SEPTEMBER 1, 2021²

Asset Class	Min v Target ⁽¹⁾	Target ⁽²⁾⁽³⁾	Max v Target ⁽¹⁾	Benchmark			
Global Equity:							
Developed Public Equity	-5.0%	23.6%	+5.0%	MSCI World Index with Net Dividends			
Emerging Markets Public Equity	-5.0%	7.0%	+5.0%	MSCI Emerging Markets Index with Net Dividends			
<i>Total Public Equity</i>	-5.0%	30.6%	+5.0%				
Directional Hedge Funds	-5.0%	6.6%	5.0%	HFRI Fund of Funds Composite			
Private Equity ⁽³⁾	14.2%	15.0%	24.2%	25.0%	34.2%	35.0%	Blended Cambridge Buyouts, Emerging Markets Private Equity and Venture Capital, Credit Opportunities, and Venture Capital
Total Global Equity	-7.0%	61.3%	60.6%	+7.0%			
Stable Value:							
Investment Grade Fixed Income	-5.0%	4.6%	0.0%	+5.0%	Bloomberg Global Aggregate Index - Hedged		
Long Treasuries	-5.0%	2.2%	4.4%	+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%	6.7%	4.4%	+5.0%			
Cash	-5.0%	1.0%	+5.0%	3 month T-Bills			
Stable Value Hedge Funds	-5.0%	9.2%	10.0%	+5.0%	HFRI Fund of Funds Conservative		
Total Stable Value	-10.0%	16.6%	15.4%	+6.0%			
Real Return:							
Inflation Linked Bonds	-5.0%	2.0%	+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%	4.5%	3.0%	9.5%	8.0%	Cambridge Natural Resources	
Infrastructure ⁽³⁾	0.0%	8.6%	5.0%	8.6%	10.0%	Cambridge Infrastructure	
Real Estate ⁽³⁾	2.3%	4.0%	7.3%	9.0%	12.3%	14.0%	Blended MSCI US REIT Gross Total Return Index (RMSG) and Cambridge Total Real Estate
Total Real Return	-6.0%	16.6%	19.0%	+6.0%			
Strategic Partnerships	-5.0%	5.0%	+5.0%	Blended Bloomberg Global Aggregate Index - Hedged, Bloomberg US Treasury Long Index, MSCI US with Net Dividends, MSCI World Index with Net Dividends, and 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%					

EXHIBIT A
ASSET CLASS TARGETS, RANGES, AND PERFORMANCE OBJECTIVES
EFFECTIVE SEPTEMBER 1, 2021²

Asset Class	Min v Target ⁽¹⁾	Target ⁽²⁾	Max v Target ⁽¹⁾	Benchmark	
Global Equity:					
Developed Public Equity	-5.0%	10.8%	11.5%	+5.0%	MSCI World Index with Net Dividends
Emerging Markets Public Equity	-5.0%	3.2%	3.5%	+5.0%	MSCI Emerging Markets Index with Net Dividends
<i>Total Public Equity</i>	-5.0%	14.0%	15.0%	+5.0%	
Directional Hedge Funds	-5.0%	38.0%	35.0%	+5.0%	HFRI Fund of Funds Composite
Total Global Equity	-7.0%	62.0%	50.0%	+7.0%	
Stable Value:					
Investment Grade Fixed Income	-5.0%	16.0%	6.0%	+5.0%	Bloomberg Global Aggregate Index - Hedged
Long Treasuries	-5.0%	4.0%	7.0%	+5.0%	Bloomberg US Treasury Long Index
<i>Total Fixed Income</i>	-5.0%	20.0%	13.0%	+5.0%	
Cash	-5.0%	2.0%	+5.0%	3 month T-bills	
Stable Value Hedge Funds	-5.0%	16.0%	25.0%	+5.0%	HFRI Fund of Funds Conservative
Total Stable Value	-10.0%	38.0%	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%			

8. **U. T. System Board of Regents: Approval of proposed amendments to the Master Investment Management Services Agreement (IMSA) with The University of Texas/TexasA&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 amendments to the Master Investment Management Services Agreement (IMSA) effective August 25, 2022, as set forth on the following pages in congressional style.

BACKGROUND INFORMATION

The proposed amendments were approved by the UTIMCO Board at their meeting on June 10, 2022.

The current IMSA was approved by the U. T. System Board of Regents and made effective February 27, 2019. Proposed amendments to the IMSA include:

- *Definitions*; Clarify that the Custodian may hold assets other than securities
- *Contracts with Third Parties*; Clarify that the limitations on indemnification in third-party contracts apply to UTIMCO as agent and investment manager for the U. T. System Board of Regents
- *Notice*; Provide that notices to UTIMCO should be sent to the attention of the CEO and the General Counsel of UTIMCO

Approved ~~[TBD]February 27, 2019~~

MASTER INVESTMENT MANAGEMENT SERVICES AGREEMENT WITH UTIMCO

This Investment Management Services Agreement (this “Agreement”) by and between the Board of Regents (the “U. T. Board”) of The University of Texas System (the “U. T. System”) and The University of Texas/Texas A&M Investment Management Company (“UTIMCO”), a Texas nonprofit corporation, is effective ~~[TBD]February 27, 2019~~ (the “Effective Date”), and supersedes all earlier agreements by and between the U. T. Board and UTIMCO regarding the subject matter hereof.

RECITALS

WHEREAS, the U. T. Board, pursuant to the Constitution and statutes of the State of Texas, is responsible for the investment of the Permanent University Fund, the local and institutional assets of the U. T. System and the assets of various trusts and foundations for which it serves as trustee, all of which assets are under the control and management of the U. T. Board;

WHEREAS, Section 66.08, *Texas Education Code*, as amended, authorizes the U. T. Board, subject to certain conditions, to enter into a contract with a nonprofit corporation for the corporation to invest assets under the control and management of the U. T. Board, as designated by the U. T. Board;

WHEREAS, UTIMCO has been organized under the laws of the State of Texas, including the Texas Business Organizations Code, for the express purpose of investing assets under the control and management of the U. T. Board, as designated by the U. T. Board, in accordance with the laws of the State of Texas;

WHEREAS, the U. T. Board desires to continue an Agreement with UTIMCO for UTIMCO to invest certain designated assets under the control and management of the U. T. Board;

WHEREAS, UTIMCO desires to enter into this Agreement with the U. T. Board and to invest certain designated assets under the control and management of the U. T. Board; and

WHEREAS, all conditions precedent to the execution and delivery of this Agreement have been fully satisfied and fulfilled, including, without limitations, the conditions established by Section 66.08, *Texas Education Code*, as amended.

NOW THEREFORE, for and in consideration of the premises and the mutual promises contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

Approved ~~[TBD]~~ February 27, 2019

AGREEMENT

Section 1. Definitions.

- (a) **Affiliate** shall mean an entity directly or indirectly controlling, controlled by, or under common control with UTIMCO, including an entity with whom UTIMCO has an express or implied agreement regarding the direct or indirect purchase of investments by each from the other.
- (b) **Cash Reserves** shall mean cash on hand plus investments, plus prepaid expenses, less accounts payable, less other liabilities.
- (c) **Claims** shall mean all claims, lawsuits, causes of action and other legal actions and proceedings of whatever nature brought against (whether by way of direct action, counter claim, cross action, or impleader) any Indemnified Party and all requests or demands for indemnification made by any third party upon any Indemnified Party, even if groundless, false or fraudulent, so long as the claim, lawsuit, cause of action, other legal action or proceeding, request or demand is alleged or determined, directly or indirectly, to arise out of, result from, relate to or be based upon, in whole or in part, the duties, activities, acts or omissions of any person arising under this Agreement.
- (d) **Custodian** or **Custodians** shall mean a commercial bank, trust company or other entity selected by UTIMCO to hold and safe-keep securities or other assets representing investment assets of any Fund and to perform the other functions listed in Section 5 hereof.
- (e) **Delegated Assets** shall mean those assets under the control and management of the U. T. Board that are invested in the Funds managed by UTIMCO hereunder; pursuant to the corresponding Investment Policies as such assets may be directed for investment by the U. T. Board or its designees from time to time pursuant to its Investment Policies or otherwise. The Delegated Assets may include, without limitation, the following funds or categories of assets:
 - (i) The Permanent University Fund established pursuant to Article VII, Section 11 of the Texas Constitution (the “Permanent University Fund” or “PUF”); provided that, for purposes of this Agreement and the delegation of investment management responsibilities hereunder, the PUF excludes the approximately 2.1 million acres of land located in 19 Texas counties, primarily in West Texas, and constituting a part of the PUF (the “PUF Lands”), as to which the U. T. Board retains complete investment management authority and responsibility;
 - (ii) Any and all funds or assets under the control and management of the U. T. Board as owner, administrator, contractual investment manager, or otherwise, including without limitation endowment funds and operating assets, other than the Permanent University Fund, the Permanent Health Fund and the U. T. Board Trust Accounts (collectively, “U. T. System Funds”);

Approved ~~[TBD]~~ February 27, 2019

- (iii) The assets of charitable remainder trusts, foundations and other separately invested assets for which the U. T. Board serves as trustee on behalf of itself and other co-beneficiaries (“U. T. Board Trust Accounts”);
 - (iv) The permanent assets for health-related institutions established pursuant to Chapter 63, *Texas Education Code*, for which the U. T. Board is an administrator (collectively, the “Permanent Health Fund” or “PHF”);
 - (v) U. T. System Funds or U. T. Board Trust Accounts which, by election of the U. T. Board or by requirement of the trust indenture or donative instrument, are invested separately and apart from other U. T. System Funds and the PUF (collectively, “Separately Invested Funds” or “SIFs”); and
 - (vi) Institutional assets of third-party non-profit charitable foundations or tax-exempt charitable organizations to the extent dedicated to the support of the educational purposes of the U. T. System and under the control and management of the U. T. Board by contract (collectively, “Foundation Funds”).
- (f) **Funds** shall mean the separate investments or pools of assets in which the Delegated Assets are to be invested pursuant to the corresponding Investment Policies, as specified in Schedule A hereto and in the corresponding Investment Policies, each of which may be amended by the U. T. Board from time to time as provided for herein.
- (g) **Indemnified Parties** shall mean UTIMCO and any of its officers, directors, employees and agents.
- (h) **Investment Policies** shall mean the written investment policies determined and approved by the U. T. Board relating to the Funds, and all generally applicable written investment-related policies determined and approved by the U. T. Board that govern the management of investments for some or all Funds, such as the policies regarding asset allocation, and the policies on Derivative Investment, Liquidity, and Error Correction, but excluding internal UTIMCO operational guidelines as to which approval of the U. T. Board is not required, which include the Valuation Criteria for Alternative Assets, Calculating Liquidity Procedure, Soft Dollar Policy and Procedures, Securities Lending Policy, and the Proxy Voting Policy (the Proxy Voting Policy being governed by the provisions of the individual Investment Policies related to proxy voting).
- (i) **Losses** shall mean losses, costs, damages, expenses, judgments and liabilities of whatever nature (including, but not limited to, attorneys’, accountants’ and other professionals’ fees, litigation and court costs and expenses, amounts paid in settlement, amounts paid to discharge judgments and amounts payable by an Indemnified Party to any other person under any arrangement providing for indemnification of that person) directly or indirectly resulting from, arising out of or relating to one or more Claims.
- (j) **Surplus Cash Reserves** shall mean Cash Reserves on the last day of the fiscal year in excess of twenty-five percent (25%) of the upcoming fiscal year’s operating and capital budgets approved by the U. T. Board.

Approved ~~[TBD]~~ February 27, 2019

Section 2. Delegation of Investment Authority; Retention of Policy Setting Authority.

(a) General

The U. T. Board retains ultimate fiduciary responsibility and authority for all matters related to the investment of the Delegated Assets. Pursuant to that responsibility and authority, the U. T. Board hereby appoints UTIMCO as its investment manager with complete authority to act for the Board in the investment of the Funds, subject, however, to such limitations and restrictions as are set forth in the Investment Policies. UTIMCO shall furnish the U. T. Board with continuous investment management services and shall invest and reinvest the assets of the Funds in such ways and at such times as are consistent with the Investment Policies and Section 4 hereof. UTIMCO shall be responsible for overall management of the U. T. Board's investment affairs as set forth in this Agreement and shall manage each Fund as a discretionary account.

(b) Policy Matters

The U. T. Board, as ultimate fiduciary for the Funds, retains policy setting authority. Unless otherwise provided in writing by the U. T. Board, UTIMCO shall look to the Chancellor or Chancellor's designee to provide primary oversight and management concerning relations with the media, legal issues that implicate policies of the U. T. Board other than the Investment Policies, public disclosure of information and intergovernmental relations. Except for the forgoing matters, the UTIMCO Board of Directors and the CEO of UTIMCO shall be responsible for making all decisions necessary to implement the Investment Policies. The CEO of UTIMCO shall confer with the Chancellor or Chancellor's designee on the above-mentioned matters where the Chancellor has primary oversight and management and on other matters that may implicate broader policies of the U. T. Board.

(c) Meetings and Agendas

- (i) The UTIMCO CEO shall consult with the Chairman of the UTIMCO Board and the Chancellor, when the Chancellor is serving as the Vice Chairman for Policy, on the draft agenda for meetings of the UTIMCO Board at least three (3) weeks prior to each regular UTIMCO Board meeting.
- (ii) UTIMCO shall participate in an annual joint meeting of the UTIMCO Board of Directors and the U. T. Board as referenced in Art. III, § 7 of the UTIMCO Bylaws.

Section 3. Description of Investment Management Services.

During the term of this Agreement, UTIMCO shall provide the following services in conjunction with the investment of the Funds:

(a) Investment Policies:

UTIMCO shall review current Investment Policies for each Fund at least annually. Such review shall include long-term investment return expectations and expected risk levels, strategic asset allocation targets and ranges, expected returns for each Asset Class and fund, designated performance benchmarks for each Asset Class and such other matters as the U. T. Board or its staff designees may request. After UTIMCO completes its assessment, it shall forward any recommended changes to U. T. System staff for review and appropriate

Approved ~~[TBD]~~ February 27, 2019

action, following the established schedule for the submission of proposed agenda topics for meetings of the U. T. Board.

(b) Investment Management:

UTIMCO shall oversee the investment management process pursuant to the Investment Policies. Such oversight shall include without limitation the development of an investment outlook based on global economic and capital market forecasts, the rebalancing of allocations to each Asset Class within ranges in response to changes in the investment outlook, and the selection of a combination of portfolio managers to construct portfolios designed to generate the expected returns of each Asset Class.

(c) Investment Performance:

UTIMCO shall monitor and report on investment performance for each of the Funds. With respect to all Funds other than the SIFs, such responsibilities shall include the calculation and evaluation of investment returns for each Asset Class and individual Fund portfolio against approved benchmarks over various periods of time, and the periodic review of performance benchmarks. With respect to all Funds, such responsibilities shall also include the reporting of investment performance of such specific Funds as may be requested by the U. T. Board, and the reporting to regulatory agencies and others regarding investments under management to the extent required by applicable law.

(d) Operations:

UTIMCO shall execute such operational responsibilities as the purchase and sale of investments, the settlement of all trades (to the extent such trades are not settled by the Custodian or brokers), the accounting for all transactions at the portfolio level in accordance with generally accepted accounting principles, the preparation and delivery of periodic financial reports on all Funds, and the maintenance of complete books and records (internally or through contract with the designated Custodian for the assets under management) reflecting transactions and balances of the Funds.

(e) Maintenance of and Access to Books and Records:

UTIMCO shall maintain the books and records for each Fund on the basis of a fiscal year ending August 31st (or such other fiscal year as the U. T. Board may establish from time to time), and shall keep full separate records of all transactions with respect to each Fund.

The books and records of the Funds and any and all records concerning UTIMCO and UTIMCO's operations shall be available during normal business hours for inspection by authorized representatives of U. T. System. UTIMCO shall provide full audit access to any and all information concerning the operations of UTIMCO, including information necessary to review UTIMCO expenditures for compliance with the approved budget, to auditors representing the U. T. Board and/or the State Auditor.

(f) Reporting:

In connection with the annual audited financial statements of UTIMCO, effective with the August 31, 2004 financial statements, UTIMCO shall provide all compliance-related information, reports and certifications, and shall cause the CEO and the chief financial officer of UTIMCO to provide such certifications, as may be specified by the U. T. Board

Approved ~~[TBD]~~ February 27, 2019

and U. T. System compliance policies and procedures adopted or approved by the U. T. Board. UTIMCO will follow the U. T. System compliance guidelines as outlined in *Regents' Rule* 20401 and UTS 119, as it may be amended from time to time, including providing the U. T. Board or its designees with quarterly compliance reports.

(g) Disclosure of Information:

The U. T. Board is committed to a policy of full and fair disclosure to the public. As part of that commitment with respect to private investments in the Funds, UTIMCO shall disclose to the public with respect to such private investments all information required to be disclosed pursuant to Section 552.0225 of the *Texas Government Code* regarding "Right of Access to Investment Information" ("private investment information"). UTIMCO shall make no private investment with an entity unless the U. T. Board and UTIMCO have clear and unequivocal authority to disclose to the public the private investment information, described immediately above, relating to such investment.

Before UTIMCO declines to disclose any information it has collected, assembled or maintained in its role as investment manager for the U. T. Board that is requested under the Texas Public Information Act, the Public Information Coordinator of UTIMCO shall notify the U. T. System Vice Chancellor and General Counsel and solicit his or her input to the process. UTIMCO shall disclose the information unless (i) it is confidential and excepted as provided in Section 552.143 of the *Texas Government Code* regarding "Confidentiality of Certain Investment Information," or (ii) as to any other information, the Vice Chancellor and General Counsel, after consultation with the Chancellor, approves a Public Information Act request to the Attorney General of Texas. In addition, the U. T. Board reserves the right and authority, in its sole discretion, to disclose, or direct the disclosure of, any information at any time, to the extent such disclosure would not result in a violation of applicable law or breach or result in a default under any agreement binding upon UTIMCO or the U. T. Board.

In addition to and not in lieu of the foregoing, UTIMCO will comply with the provisions of Section 12 below regarding confidentiality provisions of contracts with third parties.

(h) Other Services:

UTIMCO shall perform other investment management services, including without limitation:

- (i) attending meetings of the U. T. Board and making such reports as the U. T. Board may request from time to time;
- (ii) rendering services to managers of private equity investments in which UTIMCO has decided to invest;
- (iii) attending meetings of governing bodies of companies in which assets of Funds have been invested pursuant to this Agreement;
- (iv) voting of securities (or proxies with respect thereto) held as investments of the Funds in accordance with the Investment Policies and the UTIMCO Proxy Voting Policy and any other relevant written policies or rules of the U. T. Board;

Approved ~~[TBD]~~ February 27, 2019

- (v) providing U. T. System institutions with annual endowment reports reflecting, among other things, changes in the investment value of such institution's endowment and distributions made to such institution to support the activities for which the endowment was established;
- (vi) providing charitable trust administration services such as portfolio management, annual tax return preparation, annual trust reporting to donors and remittance of quarterly distributions; providing annual reporting of investment transactions and balances and distributing assets to authorized beneficiaries;
- (vii) effecting distributions directly or through the Custodian to U. T. System institutions or other named beneficiaries from the Funds;
- (viii) supporting and maintaining online information systems for endowment funds;
- (ix) providing training and education to members of the UTIMCO Board of Directors as may be determined in consultation with U. T. System staff to assure that all duties required of directors under the Texas Business Organizations Code and that matters related to legal and fiduciary responsibilities of the directors, including current regulations for determining reasonable compensation, are outlined and discussed fully;
- (x) maintaining a log of (1) all agreements or transactions between UTIMCO or a "UTIMCO entity" and a "Director entity" or an "Employee entity", and (2) all investments in the private investments of a business entity in which a "Director" or "Employee" then owns a private investment, or is then co-investing, in the same business entity, provided that all quoted terms above shall have the meanings assigned to them in UTIMCO's Code of Ethics, which annually shall be reviewed by the UTIMCO Board of Directors and reported to the U. T. Board;
- (xi) reporting to the U. T. Board annually on compliance with the UTIMCO Code of Ethics and any recommended changes to the UTIMCO Code of Ethics following review by the UTIMCO Board of Directors; and
- (xii) any other services necessary to provide investment management of the Funds.

Section 4. Investment Manager as Fiduciary.

UTIMCO acknowledges that it acts as a fiduciary in its management of the investments of the Funds pursuant to the Investment Policies and applicable law. The U. T. Board recognizes that all individual investment transactions involve a variety of significant potential risks, including, without limitation, market risk, liquidity risk, credit risk, cash flow risk, operational risk and counterparty risk, although taken as a whole these transactions are also expected to manage risk. The U. T. Board agrees that (i) UTIMCO will not be liable for any losses incurred in the Funds as a result of investments made pursuant to the Investment Policies and applicable law, and (ii) UTIMCO will not be liable for actions of co-fiduciaries. The U. T. Board also acknowledges that UTIMCO shall not be liable for, and, to the fullest extent authorized by the Constitution and laws of the State of Texas, agrees to hold UTIMCO harmless from the consequences of, any action

Approved ~~[TBD]February 27, 2019~~

taken or omitted to be taken by the U. T. System or any of its employees or agents prior to March 1, 1996.

Section 5. Custody of Assets.

UTIMCO shall select one or more Custodians, each of which shall be approved by the U. T. Board, which shall also enter into or approve each agreement with the Custodian(s).

UTIMCO shall use the Custodian(s) for safekeeping, settlement of security purchases, sales, collection of income and other duties, as may be more fully described in the relevant agreement(s) between the Custodian(s) and the U. T. Board or UTIMCO (as agent of the U. T. Board). In addition, UTIMCO may from time to time use a brokerage firm to settle security sales on behalf of the U. T. Board and may invest in a regulated mutual fund, externally managed commingled funds, or other investments in which assets are held outside of the bank custody relationship. Any physical certificates not held in safekeeping with a Custodian shall be held in safekeeping at a local bank as designated by UTIMCO.

Section 6. Use of Unaffiliated Investment Managers.

UTIMCO shall be entitled to use unaffiliated investment advisors to invest all or part of the Funds and to perform other duties, subject to any restrictions in the relevant Investment Policies.

Section 7. Investment Management Fees; Direct Expenses.

For services performed hereunder, UTIMCO shall be compensated in the amounts and in the manner set forth below:

(a) Annual Budget and Management Fee:

(i) Budget Approval Policy

UTIMCO shall submit to the U. T. Board its proposed annual budget for the following fiscal year (an “Annual Budget”) within the time frame specified by the U. T. Board for other annual budget submissions. The Annual Budget shall include all estimated expenses associated with the management of the Funds. The Annual Budget shall also include an annual UTIMCO management fee (an “Annual UTIMCO Management Fee”) which shall include all reasonable operating expenses associated with the general management of the Funds, including, without limitation, salaries, benefits and performance compensation of portfolio management and support personnel, expenses for consulting services, office space lease expenses, office furniture and equipment expenses, professional, legal, payroll, and other general services expenses, travel, insurance, capital expenditures, and other miscellaneous expenses incurred by UTIMCO in connection with the performance of its obligations hereunder. In addition to its Annual Budget, UTIMCO shall annually submit its capital expenditures budget approved by the UTIMCO Board of Directors to the U. T. Board for approval.

Approved ~~[TBD]~~ February 27, 2019

- (ii) Allocation Formula

At the same time that UTIMCO submits its Annual Budget, it shall also submit to the U. T. Board an allocation formula for charging the Annual Budget to the Funds. Items proposed in the Annual Budget and the allocation formula may be approved, disapproved, or approved with modification by the U. T. Board. Any such Budget item or formula allocation that is disapproved or approved with modification may be promptly reviewed and revised by UTIMCO and resubmitted to the U. T. Board for additional consideration.
 - (iii) Charging of Funds for Management Fee

On or before the first day of each fiscal quarter, UTIMCO shall be entitled to charge each Fund with its allocable share (determined in accordance with the allocation formula then in effect) of one-fourth of the amount of the Annual UTIMCO Management Fee to pay UTIMCO's operating expenses for the succeeding fiscal quarter. UTIMCO may, with the approval of the U. T. Board, revise the Annual UTIMCO Management Fee and allocation formula at any time during a fiscal year. Any statements for partial quarters at the beginning or end of this Agreement shall be prorated to reflect the actual time services were rendered during such partial quarters.
 - (iv) Payment of Third Party Vendors

UTIMCO is hereby authorized to pay from each Fund direct expenses incurred for portfolio management, Custodian, auditing, and other services which are performed by external vendors specifically for each Fund.
- (b) **Cash Reserves:**

Within 90 days after the end of each fiscal year, UTIMCO will distribute back to the Funds which generated the surplus that portion of the Surplus Cash Reserves as may be directed by the U. T. Board, in its sole discretion, from time to time. Such distribution back to the Funds shall be in the same proportion that the Funds contributed to the Cash Reserves.
- (c) **UTIMCO Management Service on Outside Boards:**

Members of UTIMCO management, with the approval of the UTIMCO Board, may serve as directors of companies in which UTIMCO has directly invested Fund assets. In such event, any and all compensation paid to UTIMCO management for their services as directors shall be endorsed over to UTIMCO and considered a part of UTIMCO's fee income and reflected in the Budget. Furthermore, UTIMCO Board approval of UTIMCO management's services as directors of investee companies shall be conditioned upon the extension of UTIMCO's Directors and Officers Insurance Policy coverage to UTIMCO management's services as directors of investee companies.
- (d) **Fees for Services Rendered:**

Members of UTIMCO management may perform services for which UTIMCO receives a fee ("Service Fees") from investment promoters or investee companies in consideration of the UTIMCO staff's private investment activities and/or investment origination activities. Such Service Fees shall be considered additional fee income to UTIMCO. UTIMCO may also receive commitment fees, standby fees and other similar fees ("Capital Fees") accruing

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or inuring to the capital invested on behalf of the Funds managed by UTIMCO. Such Capital Fees shall be credited to the Funds from which such investments are funded.

(e) **Miscellaneous Fees:**

UTIMCO management may perform specialized services for assets that are separately invested for which UTIMCO receives a fee from the Fund. These fees primarily relate to maintenance of computer programs for the SIFs. Such Miscellaneous Fees shall be considered additional fee income to UTIMCO and reflected in the Budget.

Section 8. Brokerage Commissions.

The U. T. Board acknowledges and agrees that the investment management fees provided for in Section 7 are in addition to any compensation that may be due to a broker or dealer in effecting and executing transactions on behalf of UTIMCO. UTIMCO is hereby authorized and empowered, with full discretion, to issue instructions in accordance with the Investment Policies to such unaffiliated brokerage firms as may be selected by UTIMCO for the execution of orders for the purchase, sale, exchange and general investment of the Funds; provided that UTIMCO shall not select a brokerage firm that is an Affiliate of UTIMCO or any of its officers, directors or employees. All orders for Fund transactions shall be placed in such markets and through such brokers as UTIMCO determines will offer the most favorable price, execution and commission cost of each order. The U. T. Board acknowledges and agrees that UTIMCO may, from time to time in accordance with applicable law and UTIMCO's Soft Dollar Policy and Procedures, pay commissions to brokers that are higher than those that might be obtainable elsewhere in order to obtain from such brokers research and other services expected to enhance the long-term value of the Funds.

Section 9. Valuation of Fund Assets.

The valuation of each Fund shall be determined in accordance with the Investment Policies approved by the U. T. Board for such Fund.

Section 10. Representations and Warranties of Parties.

- (a) The U. T. Board represents and warrants that:
- (i) The execution, delivery and performance by the U. T. Board of this Agreement have been duly authorized, and this Agreement constitutes a valid and binding agreement of the U. T. Board.
 - (ii) There is no action, suit or proceeding pending or, to the knowledge of the U. T. Board, threatened against or affecting the U. T. Board or the U. T. System, or relating to this Agreement, in any court or before or by any governmental department, agency or instrumentality which, if adversely determined, would materially affect the ability or authority of the U. T. Board to enter into, and perform its obligations under, this Agreement, or which in any manner questions the validity or enforceability of this Agreement.
 - (iii) The U. T. Board has approved:
 - (A) the Articles of Incorporation and Bylaws of UTIMCO;

Approved ~~[TBD]~~ February 27, 2019

- (B) the Investment Policies;
 - (C) the Audit and Ethics Committee of UTIMCO; and
 - (D) the Code of Ethics of UTIMCO.
- (b) UTIMCO represents and warrants that:
- (i) The execution, delivery and performance by UTIMCO of this Agreement have been duly authorized and this Agreement constitutes a valid and binding agreement of UTIMCO.
 - (ii) There is no action, suit or proceeding pending or, to the knowledge of UTIMCO, threatened against or affecting UTIMCO, or relating to this Agreement in any court or before or by any governmental department, agency or instrumentality which, if adversely determined, would materially affect the ability or authority of UTIMCO to enter into, and to perform its obligations under, this Agreement, or which in any manner questions the validity or enforceability of this Agreement.
- (c) Investment Company Act and State Securities Act:
The parties to this Agreement acknowledge and agree that UTIMCO is not currently required to, and shall not engage in any activities that would require it to, register as an “investment company” under Title 15 *United States Code* Section 80a-8 (the Investment Company Act of 1940), as amended, and Tex. Rev. Civ. Stat. Ann. art. 581-1 *et seq.* (The Securities Act).

Section 11. Compliance with Bylaws, Policies, Regulations and Financial Disclosure Requirements.

In the performance of this Agreement, UTIMCO shall abide by, and cause its directors, officers, and employees to abide by, the following policies:

- (A) UTIMCO Code of Ethics as approved by the U. T. Board;
- (B) UTIMCO Bylaws as approved by the U. T. Board;
- (C) All UTIMCO policies;
- (D) Applicable portions of the U. T. Board’s *Regents’ Rules and Regulations*; and
- (E) All U. T. Board-approved Investment Policies, resolutions, and applicable law.

Financial advisors and service providers as defined in *Texas Government Code* Section 2263.002 shall comply with the disclosure requirements contained in *Texas Government Code* Section 2263.005, in addition to any obligations regarding disclosure of private investment information and the like as contemplated by Section 3(g) of this Agreement.

Section 12. Contracts with Third Parties.

UTIMCO covenants and agrees that each agreement, contract, or understanding it enters into with any third party will comply with all applicable law (including without limitation *Texas Government Code* Sections 2263.002 and 2263.005 as referenced in Section 11 above), and will not contain any term or provision limiting the ability of UTIMCO, the U. T. Board, the U. T. System, or any of its institutions to comply with any provision of applicable law, including without

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limitation any covenant regarding non-disclosure of confidential information or similar subject matter that would purport to limit the ability of UTIMCO or the U. T. Board to comply with any provision of the Texas Public Information Act or other law regarding public disclosure; provided that any contract provision regarding non-disclosure of confidential information must be approved by the Vice Chancellor and General Counsel of the U. T. System or his/her designee.

UTIMCO further covenants and agrees that it will not enter into any contracts as agent and investment manager for the U.T. Board indemnifying or holding harmless any third party to a greater extent than the scope of the indemnification of the Indemnified Parties by the U. T. Board without the prior consent and approval of the Vice Chancellor and General Counsel of the U. T. System.

Section 13. UTIMCO's Open Meeting Policy.

Except as otherwise provided in Section 66.08, *Texas Education Code*, UTIMCO shall comply with all applicable provisions of the Texas Open Meetings Act, Chapter 551 of the *Texas Government Code*.

Section 14. Prohibition Against Service to Other Clients.

In accordance with Section 66.08, *Texas Education Code*, UTIMCO shall not engage in any business other than managing the Funds under this Agreement.

Section 15. Termination.

The U. T. Board may terminate this Agreement at any time by written notice to UTIMCO, effective immediately upon receipt of such notice by UTIMCO, subject to reasonable allowance for settlement of pending trades. UTIMCO may terminate this Agreement upon ninety (90) days' written notice to the U. T. Board. There shall be no penalty for termination; however, UTIMCO shall be entitled to all management fees, compensation, and benefits earned prior to the effective date of termination, subject to UTIMCO's Articles of Incorporation and Bylaws and applicable law.

Section 16. Amendments.

No amendment hereto shall be effective unless executed by duly authorized representatives of each party in the same manner as this Agreement.

Section 17. Notices.

All notices or communications hereunder shall be in writing and shall not be effective until hand delivered, sent by overnight delivery, or sent by United States Certified or Registered Mail, postage prepaid, to the other party at the following addresses which may be changed by notice sent in the manner required by this paragraph:

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To U. T. Board:

Board of Regents of The University of Texas System
Attn: General Counsel to the Board of Regents
210 West Seventh Street
Austin, Texas 78701
Tel. (512) 499-4402
Fax. (512) 499-4425

To UTIMCO:

The University of Texas/Texas A&M Investment Management Company
Attn: CEO of UTIMCO
General Counsel of UTIMCO President, CEO and Chief Investment
Officer
210 West Seventh Street, Suite 1700
Austin, Texas 78701
Tel. (512) 225-1600
Fax. (512) 225-1668

Section 18. Non-Assignability.

This Agreement is personal to the parties hereto, and no assignment of this Agreement by UTIMCO, whether by contract, merger, consolidation, or operation of law, shall be made other than with the prior written consent of the U. T. Board and in compliance with applicable law.

Section 19. No Waiver of Breach.

A waiver of a breach of any provision of this Agreement shall not constitute a waiver of any subsequent breach of that provision or a breach of any provision hereof. Failure of either party to enforce at any time or from time to time any provision of this Agreement shall not be construed as a waiver thereof.

Section 20. Indemnification.

(a) Agreements to Indemnify:

To the fullest extent authorized by the Constitution and laws of the State of Texas, the U. T. Board shall indemnify and hold harmless each of the Indemnified Parties against any and all Losses, including Losses resulting from the negligence of the Indemnified Party claiming indemnification; provided, however, the U. T. Board shall not be obligated to indemnify an Indemnified Party against Losses to the extent such Losses are caused by (i) an act or omission that involves intentional misconduct or a knowing violation of law by the Indemnified Party claiming indemnification, (ii) a transaction from which the Indemnified Party claiming indemnification received an improper benefit, (iii) an act or omission for which the liability of the Indemnified Party claiming indemnification is expressly provided by an applicable statute, or (iv) an act or omission constituting gross negligence by the Indemnified Party claiming indemnification; provided further that

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indemnification payments by the U. T. Board shall be paid from the same sources as the Annual Fee pursuant to Section 7.

(b) Reimbursement:

Each Indemnified Party shall reimburse the U. T. Board for payments made by the U. T. Board pursuant to this Section to the extent of any proceeds, net of all expenses of collection, actually received by it from any insurance with respect to any Loss. At the request and expense of the U. T. Board, each Indemnified Party shall have the duty to claim any such insurance proceeds and such Indemnified Party shall assign its rights to such proceeds, to the extent of such required reimbursement, to the U. T. Board.

(c) Notice:

In case any Claim shall be brought or, to the knowledge of any Indemnified Party, threatened against any Indemnified Party in respect of which indemnity may be sought against the U. T. Board, such Indemnified Party shall promptly notify the U. T. Board in writing; provided, however, that any failure so to notify shall not relieve the U. T. Board of its obligations under this Section.

(d) Defense:

The U. T. Board shall have the right to assume the investigation and defense of all Claims, including the employment of counsel and the payment of all expenses. Each Indemnified Party shall have the right to employ separate counsel in any such action and participate in the investigation and defense thereof, but the fees and expenses of such counsel shall be paid by such Indemnified Party unless (i) the employment of such counsel has been specifically authorized by the U. T. Board, in writing, (ii) the U. T. Board has failed to assume the defense and to employ counsel following due notice, or (iii) the named parties to any such action (including any impleaded parties) include both an Indemnified Party and the U. T. Board, and such Indemnified Party shall have been advised by counsel that there may be one or more legal defenses available to it which are different from or additional to those available to the U. T. Board (in which case, if such Indemnified Party notifies the U. T. Board in writing that it elects to employ separate counsel at the U. T. Board's expense, the U. T. Board shall not have the right to assume the defense of the action on behalf of such Indemnified Party; provided, however, that the U. T. Board shall not, in connection with any one action or separate but substantially similar or related actions in the same jurisdiction arising out of the same general allegation or circumstances, be liable for the reasonable fees and expenses of more than one separate firm of attorneys for the Indemnified Parties, which firm shall be designated in writing by such Indemnified Parties).

(e) Cooperation; Settlement:

Each Indemnified Party shall use reasonable efforts to cooperate with the U. T. Board in the defense of any action or Claim. The U. T. Board shall not be liable for any settlement of any action or Claim without its consent but, if any such action or Claim is settled with the consent of the U. T. Board or there be final judgment for the plaintiff in any such action or with respect to any such Claim, the U. T. Board shall indemnify and hold harmless the Indemnified Parties from and against any Loss by reason of such settlement or judgment as provided in Subsection (a) of this Section.

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(f) Survival; Right to Enforce:

The provisions of this Section shall survive the termination of this Agreement, and the obligations of the U. T. Board hereunder shall apply to Losses or Claims whether asserted prior to or after the termination of this Agreement. In the event of failure by the U. T. Board to observe the covenants, conditions and agreements contained in this Section, any Indemnified Party may take any action at law or in equity to collect amounts then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the U. T. Board under this Section.

Section 21. Claims By and Against Managed Assets.

UTIMCO is authorized and empowered to seek, demand, collect, recover, and receive any and all sums of money, debts, dues, rights, property, effects, or demands due, payable, or belonging, or that may become due, payable, or belonging to the U. T. Board or any Fund from any person or persons as a result of any investment transaction and to execute any and all necessary or proper receipts, releases, and discharges therefor, and any other instruments as may be necessary or appropriate from time to time relating to the handling, management, control, and disposition of any investment.

The authority granted in this Section does not include the authority to institute litigation on behalf of the U. T. Board, any Fund, or any associated assets, or to settle contested claims or litigation that may result in receipt of less than full value for the claim or the payment of damages or awards. The settlement of any contested claim or litigation for less than full value requires the prior approval of the U. T. System Vice Chancellor and General Counsel and appropriate U. T. System officials, as set out in the Regents' *Rules and Regulations*.

Section 22. Communications.

UTIMCO and the U. T. System will assure that communications are clear and timely. UTIMCO will provide notice of actions taken in meetings of the UTIMCO Board and committees to members of the U. T. Board through the Office of the Board of Regents. U. T. will provide notice of actions taken by the U. T. Board related to UTIMCO issues to members of the UTIMCO Board of Directors through the CEO of UTIMCO.

Section 23. Authority to Purchase, Exchange, and Sell Securities.

UTIMCO may purchase, exchange, and sell, for and on behalf of the Permanent University Fund or the U. T. Board, any and all securities of any description whatever and from any source, including gifts and bequests, registered in the name of the U. T. Board, or in any other form of registration of such securities held for the account of the U. T. Board in whatever manner, including all fiduciary capacities and including those registered in the names of trusts or foundations managed and controlled by said U. T. Board. In addition, external investment managers appointed by UTIMCO may purchase, sell, or exchange securities, pursuant to written agreement with UTIMCO.

Approved ~~[TBD]~~ February 27, 2019

Section 24. Authority to Assign and Transfer Securities.

UTIMCO may assign and transfer any and all securities of any description whatever and from any source, including gifts and bequests, and execute any and all documents necessary to the consummation of any sale, assignment, or transfer of any securities registered in the name of the U. T. Board, or in any other form of registration of such securities held for the account of the U. T. Board in whatever manner, including all fiduciary capacities and including those registered in the names of trusts or foundations managed and controlled by said U. T. Board. In addition, Custodian banks appointed by UTIMCO may assign and transfer securities and execute any and all documents necessary to the consummation of any sale, assignment, or transfer of any security owned by the U. T. Board.

Section 25. No Third Party Beneficiaries.

UTIMCO and the U. T. Board each agree that there are no third party beneficiaries of this Agreement.

Section 26. Governing Law.

This Agreement and all matters arising under or related to it shall be governed by the Constitution and laws of the State of Texas. Venue for any action brought by any party hereto concerning the subject matter of this Investment Management Services Agreement shall be in Travis County, Texas.

BOARD OF REGENTS OF THE
UNIVERSITY OF TEXAS SYSTEM

Date: _____

By _____
Chairman

THE UNIVERSITY OF TEXAS/TEXAS A&M
INVESTMENT MANAGEMENT COMPANY

Date: _____

By _____
Chairman

Approved ~~[TBD]~~ February 27, 2019

Schedule A

Funds

This Schedule A setting forth the Funds managed by UTIMCO pursuant to this Agreement as fiduciary on behalf of the U. T. Board, in which the Delegated Assets are to be invested as directed by the U. T. Board pursuant to its Investment Policies, may be amended from time to time by the U. T. Board in consultation with UTIMCO to add or remove Funds, change fund allocations, reflect revisions to the corresponding Investment Policies, or otherwise. The Funds covered under this Agreement as of the Effective Date of this Agreement, and the corresponding Investment Policies, are as follows:

- a. **Permanent University Fund**: The PUF (as defined in Section 1(e)(i)) will be separately invested in accordance with the PUF Investment Policy Statement.
- b. **Permanent Health Fund**: The PHF (as defined in Section 1(e)(iv)) will be separately invested in accordance with the PHF Investment Policy Statement.
- c. **Separately Invested Funds**: The SIFs (as defined in Section 1(e)(v)) will be separately invested in accordance with the SIF Investment Policy Statement.
- d. **Long Term Fund (“LTF”)**: The long-term pooled investment fund previously established by the U. T. Board for the collective investment of all endowment and other long-term funds of institutions of the U. T. System, with investments made in accordance with the LTF Investment Policy Statement.
- e. **General Endowment Fund (“GEF”)**: The pooled fund for the collective investment of long-term funds under the control and management of the U. T. Board. The PUF, PHF, LTF or other long-term funds may invest in the GEF as authorized by the U. T. Board in each Fund’s investment policy statement, and the GEF funds will be invested in accordance with the GEF Investment Policy Statement.
- f. **Short Term Fund (“STF”)**: Selected U. T. System Funds designated from time to time by the U. T. Board or its U. T. System staff designees will be invested in the STF, which is the money market mutual fund or funds approved by UTIMCO from time to time as an investment for U. T. System Funds, in accordance with the STF Investment Policy Statement.
- g. **Intermediate Term Fund (“ITF”)**: The ITF was established by the U. T. Board as a pooled fund for the collective investment of operating assets and other intermediate and long-term assets held by U. T. System institutions and U. T. System administration. The ITF will be invested in accordance with the ITF Investment Policy Statement.
- h. **Debt Proceeds Fund (“DPF”)**: The DPF was established in February 2011 to permit debt proceeds held by the U. T. System to earn a higher investment return, while maintaining adequate protection of principal and liquidity, until the proceeds are expended for various capital projects across the U. T. System institutions.

9. U. T. System Board of Regents: Approval of the Annual Budget for Fiscal Year 2023, 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, 2023, 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 \$67.9 million (12.0% increase over FY 2022 budget) for UTIMCO services and \$8.4 million (4.6% increase from FY 2022 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 10, 2022.

The 12.0% increase in UTIMCO services is due primarily to the increase in headcount, promotions, market adjustments, and routine raises.

The proposed capital expenditures budget is \$645,000.

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 2023 Budget

Mr. Britt Harris, CEO and President
Mr. Rich Hall, Chief Investment Officer
Ms. Joan Moeller, Chief Operations Officer
U. T. System Board of Regents Meeting
Finance and Planning Committee
August 2022

Strategic Plan, Budget & Compensation Frameworks



Strategic Plan

- Manage to five-year strategic plan, which forecasts Assets Under Management (AUM), required staffing and budget
- Updated and reviewed at least annually by UTIMCO Board of Directors

Budget

- Budget and staffing follows strategic plan if AUM is in line with forecast
- Budget and staffing are revised if AUM is below projections (e.g. paused hiring, senior promotions, and raises for FY21 due to the impacts of the COVID pandemic)
- Current budget equates to 11 basis points of AUM, which is 40% below peer average

Compensation

- Personnel costs are ~70% of UTIMCO's budget
- UTIMCO's compensation framework is designed to attract and retain talented professionals in a nationally competitive market
- Base salaries targeted at market median and total compensation potential at 75th percentile when outstanding performance is achieved, based on independent Mercer compensation study
- Performance is measured over three-year periods to ensure a long-term investment mindset
- Portion of total performance award is deferred: deferral amount increases with seniority
- Most awards are completely deferred during periods of negative absolute returns, regardless of alpha

FY23 Summary Budget vs. Strategic Plan



	FY 2023			FY 2023 Proposed Budget v FY23 Projected in Original 2019 Strategic Plan	
	Proposed Budget	% of Total Budget	Projected in Original 2019 Strategic Plan		
				\$	%
UTIMCO Personnel Costs:					
Salaries (1)	23,484,680	31%	24,252,130	(767,450)	-3.2%
Performance Compensation (1)	21,617,598	28%	22,588,370	(970,772)	-4.3%
Benefits & Taxes (2)	7,575,060	10%	5,674,998	1,900,062	33.5%
Total UTIMCO Personnel Costs	\$ 52,677,338	69%	\$ 52,515,498	\$ 161,840	0.3%
Other UTIMCO Costs:					
Data & Subscriptions (3)	4,654,544	6%	3,900,711	753,833	19.3%
Travel	1,172,500	2%	1,446,436	(273,936)	-18.9%
Lease (4)	3,310,667	4%	2,850,000	460,667	16.2%
Depreciation (4)	2,000,000	3%	1,600,000	400,000	25.0%
Other Costs (5)	4,115,815	5%	2,161,089	1,954,726	90.5%
Total Other UTIMCO Costs:	\$ 15,253,526	20%	\$ 11,958,237	\$ 3,295,289	27.6%
Total UTIMCO Services Costs:	\$ 67,930,864	89%	\$ 64,473,735	\$ 3,457,129	5.4%
Bps of AUM	9.99		10.51		
Direct Fund Costs:					
Custodian Fees	4,934,000	6%	5,989,500	(1,055,500)	-17.6%
Other (6)	3,494,764	5%	3,376,019	118,745	3.5%
Total Direct Fund Costs	\$ 8,428,764	11%	\$ 9,365,519	\$ (936,755)	-10.0%
Grand Total UTIMCO Budget:	\$ 76,359,628		\$ 73,839,255	\$ 2,520,373	3.4%
Bps of AUM	11.23		12.04		
AUM projected (\$ billion)	\$68		\$61		
UTIMCO Headcount	132		130		

Proposed budget of \$76.4 million is **aligned with strategic plan**

Total cost at 11bps of AUM is in line with strategic plan and **40% below peers (average of 18bps)**

Due to strong returns, AUM of **\$68 billion is well ahead of the projected AUM that was expected in 2019**

NOTES:

- (1) FY23 Budgeted Salaries are 3.2% lower and Performance Compensation is 4.3% lower than the Original 2019 Strategic Plan.
- (2) FY23 Budgeted Benefits and Taxes are 33.5% higher compared to the Original 2019 Strategic Plan primarily because of the addition of the IRS excise taxes of 21% over \$1M in individual compensation (\$1.3M). Employee development costs are also higher as a result of the leadership development and learning institute programs (\$300k).
- (3) FY23 Budgeted Data & Subscriptions are 19.3% higher than the Original 2019 Strategic Plan primarily because of the shift in FY22 to subscription-based information technology arrangements.
- (4) FY23 Budgeted Lease and Depreciation costs are higher than the Original 2019 Strategic Plan because they include the 2020 lease expansion and remodel costs.
- (5) Other Costs include: Hiring, Recruiting & Relocation (\$1.1mil), Consulting Services for IT (\$1.2mil), IT Service Agreements (\$311k), Professional Services & Corporate Insurance (\$715k)
- (6) Other Direct Costs include: Risk Measurement (\$840k), Fund Auditors (\$822k), Legal Fees (\$876k), Tax Consultants (\$230k), Background Searches (\$234k), Performance Attribution Costs-MSCI (\$141k), Consultants (\$321k)

Note: Detail on FY 2023 Budget vs. FY 2022 budget and the 2019 Five-year Strategic Plan has been provided in the appendix

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, 2023

<u>Proposed Budget</u>	<u>Fund Name</u>						<u>Separate Funds</u>	<u>Debt Proceeds</u>	<u>Total</u>
	PUF	PHF	LTF	GEF	ITF	STF			
<u>Market Value 4/30/22 (\$ millions)</u>	31,533			21,987	9,171	2,942	200	59	65,892
<u>UTIMCO Management Fee</u>									
Dollars	34,168,604			23,824,726	9,937,534				67,930,864
Basis Points	10.8			10.8	10.8				10.3
<u>Direct Expenses to the Fund, excluding UT System Direct Expenses to the Fund</u>									
Dollars	4,160,916	24,018	27,019	2,951,336	1,265,475				8,428,764
Basis Points	1.3	0.2	0.0	1.3	1.4				1.3

Appendix





FY23 Budget vs. FY 2022 Budget

	FY 2022	FY 2023		FY 2023 Budget Proposed v FY 2022 Budget		
	Budget	Proposed Budget	% of Total Budget	Projected in Original 2019 Strategic Plan	\$	%
UTIMCO Personnel Costs:						
Salaries	20,552,099	23,484,680	31%	24,252,130	2,932,581	14.3%
Performance Compensation	18,981,580	21,617,598	28%	22,588,370	2,636,018	13.9%
Benefits & Taxes	6,064,557	7,575,060	10%	5,674,998	1,510,503	24.9%
Total UTIMCO Personnel Costs (1)	\$ 45,598,236	\$ 52,677,338	69%	\$ 52,515,498	\$ 7,079,102	15.5%
Other UTIMCO Costs:						
Data & Subscriptions	4,706,004	4,654,544	6%	3,900,711	(51,460)	-1.1%
Travel	1,108,004	1,172,500	2%	1,446,436	64,496	5.8%
Lease	3,322,198	3,310,667	4%	2,850,000	(11,531)	-0.3%
Depreciation	2,100,000	2,000,000	3%	1,600,000	(100,000)	-4.8%
Other Costs (2)	3,796,632	4,115,815	5%	2,161,089	319,183	8.4%
Total Other UTIMCO Costs:	\$ 15,032,838	\$ 15,253,526	20%	\$ 11,958,237	\$ 220,688	1.5%
Total UTIMCO Services Costs:	\$ 60,631,074	\$ 67,930,864	89%	\$ 64,473,735	\$ 7,299,790	12.0%
Bps of AUM	9.19	9.99		10.51		
Direct Fund Costs:						
Custodian Fees	4,278,000	4,934,000	6%	5,989,500	656,000	15.3%
Other (3)	3,780,631	3,494,764	5%	3,376,019	(285,867)	-7.6%
Total Direct Fund Costs	\$ 8,058,631	\$ 8,428,764	11%	\$ 9,365,519	\$ 370,133	4.6%
Grand Total UTIMCO Budget:	\$ 68,689,705	\$ 76,359,628		\$ 73,839,255	\$ 7,669,923	11.2%
Bps of AUM	10.41	11.23		12.04		
AUM projected (\$ billion)	\$66	\$68		\$61		
UTIMCO Headcount	123	132		130		

NOTES:

- (1) FY23 Budgeted Personnel Costs increased from the FY22 Budget due to the increases in headcount (9 FTE), promotions, and routine raises. In addition, taxes also increased due to the IRS excise taxes of 21% over \$1M in individual compensation.
- (2) Budgeted Other Costs increased slightly by 1.5% from FY22 to FY23 primarily as a result of an increase in Hiring, Relocation, and Legal expenses offset by a decrease in IT Contract Services and Depreciation expense.
- (3) Other Direct Costs include: Risk Measurement (\$840k), Fund Auditors (\$822k), Legal Fees (\$876k), Tax Consultants (\$230k), Background Searches (\$234k), Performance Attribution Costs-MSCI (\$141k), Consultants (\$321k)

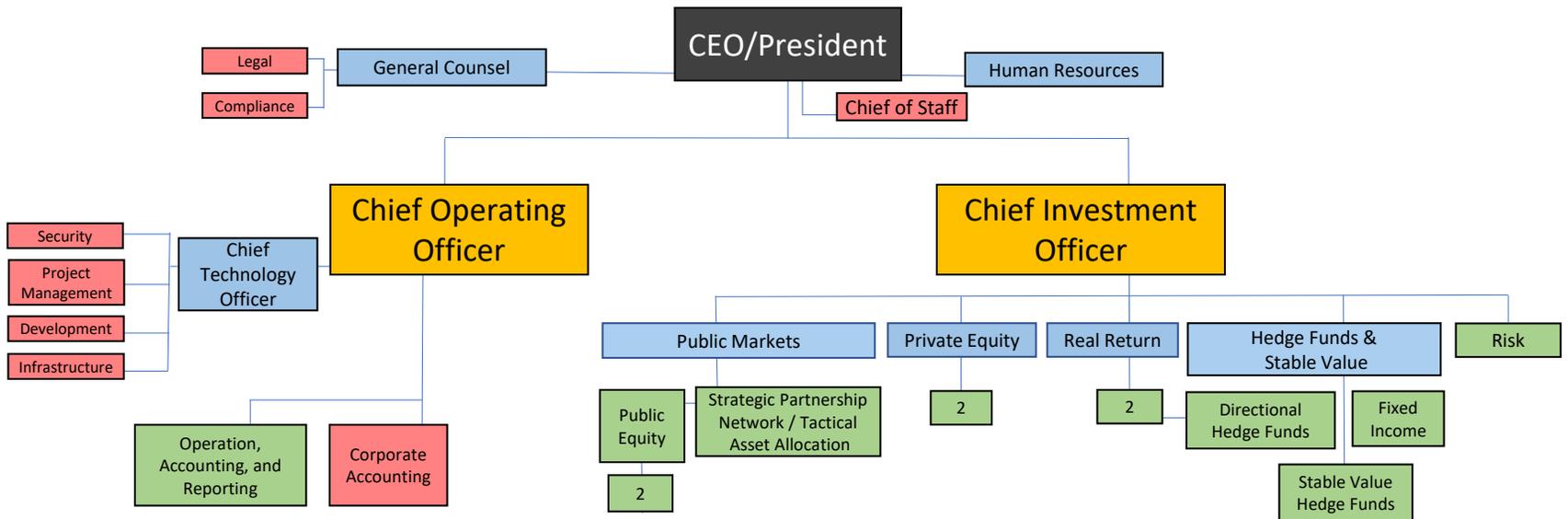
5-Year Strategic Plan – 2019



Plan approved by UTIMCO Board in 2019

	UTIMCO Projected Budget					
	2019	2020	2021	2022	2023	2024
UTIMCO Personnel Costs:						
Base Salary	15,876,073	18,748,097	20,883,879	22,379,064	24,252,130	26,017,209
Performance Comp	12,907,738	16,017,576	19,056,289	20,630,884	22,588,370	24,593,696
Benefits and Taxes	3,884,425	4,387,055	4,886,828	5,236,701	5,674,998	6,088,027
Total UTIMCO Personnel Costs	\$ 32,668,236	\$ 39,152,727	\$ 44,826,995	\$ 48,246,648	\$ 52,515,498	\$ 56,698,932
<i>Y-O-Y Increase (%)</i>		20%	14%	8%	9%	8%
<i>Total UTIMCO FTE</i>	99	115	123	127	130	132
Other UTIMCO Costs:						
Data & Subscriptions	3,209,125	3,369,581	3,538,060	3,714,963	3,900,711	4,095,747
Travel	1,242,016	1,188,180	1,302,607	1,378,592	1,446,436	1,505,407
Lease	2,630,324	2,700,000	2,750,000	2,800,000	2,850,000	2,900,000
Depreciation	1,600,000	1,675,000	1,700,000	1,700,000	1,600,000	1,500,000
Other Costs	2,439,310	2,190,535	2,045,549	2,096,062	2,161,089	2,204,641
- Contract Svcs & Maint	900,296	1,000,000	820,000	840,000	860,000	880,000
- Hiring, Relo, Mercer Comp	543,000	300,000	308,000	315,000	323,000	331,000
- Legal	215,004	90,000	97,000	100,000	116,000	110,000
- Other / Miscellaneous	781,010	800,535	820,549	841,062	862,089	883,641
Total Other UTIMCO Costs	11,120,775	11,123,297	11,336,216	11,689,618	11,958,237	12,205,795
Total UTIMCO COSTS	\$ 43,789,012	\$ 50,276,024	\$ 56,163,211	\$ 59,936,266	\$ 64,473,735	\$ 68,904,727
<i>Y-O-Y Increase (%)</i>		15%	12%	7%	8%	7%
<i>Bps of AUM</i>	9.80	9.87	10.45	10.45	10.51	10.52
Fund Costs						
Custodian Fees	8,947,724	4,501,000	4,950,000	5,445,000	5,989,500	6,588,450
Other	2,577,450	3,001,269	3,121,320	3,246,173	3,376,019	3,511,060
Total Fund Costs	\$ 11,525,174	\$ 7,502,269	\$ 8,071,320	\$ 8,691,173	\$ 9,365,519	\$ 10,099,510
<i>Y-O-Y Increase (%)</i>		-35%	8%	8%	8%	8%
<i>Bps of AUM</i>	2.44	1.47	1.50	1.52	1.53	1.54
Grand Total UTIMCO Budget	\$ 55,314,186	\$ 57,778,293	\$ 64,234,531	\$ 68,627,439	\$ 73,839,255	\$ 79,004,237
<i>Y-O-Y Increase (%)</i>		4%	11%	7%	8%	7%
<i>Bps of AUM</i>	12.24	11.35	11.95	11.97	12.04	12.06
Projected AUM (\$B)	\$47	\$51	\$54	\$57	\$61	\$65

UTIMCO Organization Structure



	Color 1:	CEO/President
	Color 2:	Chief Operating Officer, Chief Investment Officer
Senior Managing Director	Color 3:	General Counsel, Human Resources, Chief Technology Officer, Public Markets, Private Equity, Real Return, Hedge Funds & Stable Values
Managing Director	Color 4:	Operations, Accounting, and Reporting, Public Equity (2), Strategic Partnership Network/Tactical Asset Allocation, Private Equity (2), Real Return (2), Directional Hedge Funds, Stable Value Hedge Funds, Fixed Income, Risk
Senior Director	Color 5:	Legal, Compliance, Security, Project Management, Development, Infrastructure, Corporate Accounting, Chief of Staff

UTIMCO Compensation Plan Detail



- **Salary + Total Cash Compensation**
 - Based on Mercer Study
 - Salary at market median
 - Total Cash Comp Max at 75th percentile
- **Quantitative Component**
 - Alpha based on rolling three years
 - Endowment
 - Intermediate Term Fund
 - Individual Asset Classes
 - Peer Group
- **Qualitative Component**
 - 360 Review Ranking
 - Manager scores for proficiency
 - Contribution to group Action Plans
 - Training Requirements
- **Quant / Qual split based on title**
 - More senior = more Quant
- **Benchmarks upgraded**
 - Approved by Board in 2018
 - Transparent and appropriate
- **Performance Plan Year**
 - July 1 – June 30
 - Allows accurate Peer Comparison
- **Award deferral**
 - Increases by seniority – 50% at highest level
 - Deferred amount paid over two years
- **Most awards deferred during periods of negative absolute returns, regardless of alpha generated**

Fiscal Year 2023

**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 20, 2022

Based on UTIMCO Board approval on June 10, 2022

Fiscal Year 2023
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 2023 that the UTIMCO Board approved on June 10, 2022 and the U. T. System Board of Regents will consider at its August 24-25, 2022 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 FY23 is:

	FY23 (\$ millions)
UTIMCO Services Budget	67.9
Direct Costs to Funds Budget	8.4
Total Budgeted Costs	<u>\$ 76.4</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 FY23 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 FY22 and FY23 budget approximates the original plan in total although UTIMCO is ahead of the original plan on Assets Under Management (“AUM”).
- **Total Forecast Costs for FY22:** Total costs for FY22 are forecast at \$66.4 million, which is 3.4% lower than what was budgeted. The decrease is due primarily to savings in contract services related to cybersecurity that was able to be performed in-house, reduced travel expenses, and staff vacancies.
- **Total Budgeted Costs for FY23:** The FY23 budget is \$76.4 million, an 11.2% increase from FY22:
 - **The UTIMCO Services Budget:** The FY23 budget includes \$67.9 million for the “operating” budget of UTIMCO, a 12.0% increase from the FY22 budget. The increase is due primarily to the addition of 9 employees as a part of the strategic plan that was adopted in FY19 and the increase in expenses associated with higher turnover in existing staffing.
 - **The Total Direct Costs to Funds Budget:** The FY23 budget of \$8.4 million for direct fund costs is 4.6% higher than the FY22 budget due primarily to higher custodian fees associated with new regulatory requirements and increased legal expenses, offset by savings in the risk measurement software expenses due to the transition to the Barra risk system.
- **UTIMCO Reserves:** There are no reserves available to be distributed at fiscal year-end 2022 as the reserve balances are at the levels needed to cover appropriate levels of the budget and capital expenditures.
- **UTIMCO Costs Compared to Peers:** UTIMCO’s total costs as a percentage of AUM are forecast to be 10 bps in FY22, 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 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

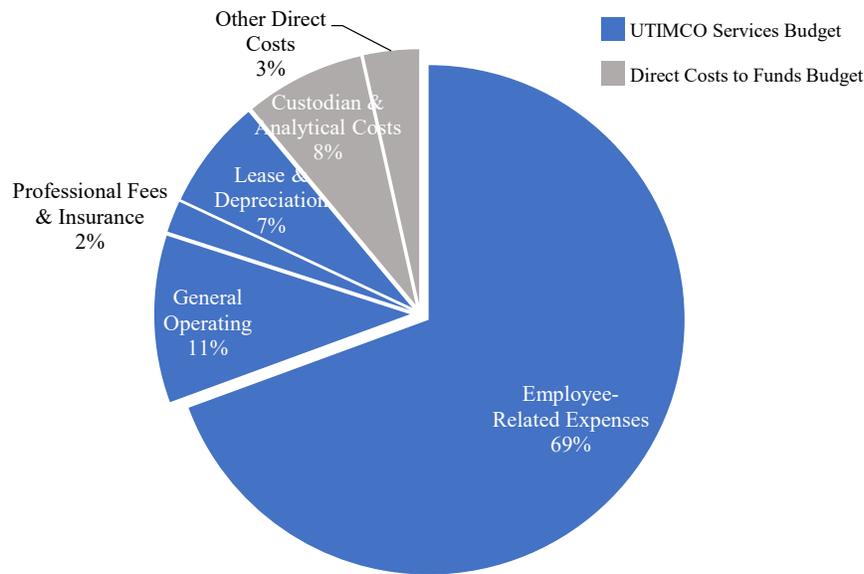
UTIMCO proposes Total Budgeted Costs for FY23 of \$76.4 million. Table 1 shows the Total Budgeted Costs (Direct Costs to Funds and UTIMCO Services Budget) as a percent of average AUM for FY23 and the Total Actual and Forecast Costs as a percent of average AUM from FY18 to FY22.

Table 1: Total Actual Costs Trend FY18-FY22 and Total Budgeted Costs FY23
(\$ millions)

	FY18	FY19	FY20	FY21	Forecast FY22	Budget FY23
Average Total AUM¹	43,173	46,400	49,906	59,803	67,176	68,122
% Change in AUM	11%	7%	8%	20%	12%	1%
Direct Costs to Funds	10.6	7.5	6.7	7.6	7.8	8.4
% Change in Direct Costs to Funds	27.1%	-29.0%	-11.7%	14.4%	2.1%	8.2%
Direct Costs to Funds % of AUM	0.02%	0.02%	0.01%	0.01%	0.01%	0.01%
UTIMCO Services	36.1	41.8	47.3	55.7	58.6	67.9
% Change in UTIMCO Services	8.7%	15.8%	13.2%	17.7%	5.2%	16.0%
UTIMCO Services % of AUM	0.08%	0.09%	0.09%	0.09%	0.09%	0.10%
Total Costs	46.7	49.3	54.0	63.3	66.4	76.4
% Change in Total Costs	12.4%	5.6%	9.4%	17.3%	4.9%	15.1%
Total Costs % of AUM	0.11%	0.11%	0.11%	0.11%	0.10%	0.11%

¹ FY22 and FY23 Average Total AUM assumes projected balances based on moderate returns, projected West Texas Land and gift income, and projected distributions.

FY23 Total Budgeted Costs \$76.4 million



The UTIMCO Services Budget (blue shade in the pie chart above) represents 89% of the total budget, with employee-related expenses being the largest component at 78% of the Services Budget. Direct Costs to Funds include Custodian & Analytical Costs (8%) and Other Direct Costs (3%).

Management fees and performance fees paid to external investment managers, which are either paid directly by UTIMCO or netted against asset values by the external managers, are not included in these amounts. UTIMCO retains external managers for approximately 91% of the AUM, with UTIMCO staff directly managing approximately 9% of assets as well as an internal derivatives portfolio.

Table 2 compares the Total Budgeted Costs for FY22 and FY23. Refer to Exhibits A and B at the end of this memo for a detailed budget comparison for FY22-FY23 and actual trend history for FY18-FY22.

Table 2: FY22 Forecast and FY23 Budget Overview
(\$ millions)

	FY22 Forecast				FY23 Budget			
	\$ Budget	\$ Projected	\$ Change vs FY22 Budget	% Change vs FY22 Budget	\$ Budget	\$ Change vs FY22 Projected	% Change vs FY22 Projected	% Change vs FY22 Budget
UTIMCO Services	60.6	58.6	-2.0	-3.4%	67.9	9.3	16.0%	12.0%
Direct Costs to Funds	8.1	7.8	-0.3	-3.4%	8.4	0.6	8.2%	4.6%
Total Budgeted Costs	68.7	66.4	-2.3	-3.4%	76.4	10.0	15.1%	11.2%

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 by FY24.

The original plan was to reach 130 employees by the end of FY23. 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 FY23 projects 132 employees, which is 9 FTE higher than FY22.

For FY23, total personnel-related expenses including employee benefits account for 78% of the UTIMCO Services Budget (or 69% 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:

- Salaries and Performance Compensation are increasing by 15.2% as a result of hiring additional employees, promotions, and base salary raises, in line with the 2019 Strategic Plan.

- Although AUM is projected to decline slightly at the end of FY22 as a result of challenging market conditions during the fiscal year, the strong performance during FY21 still results in a slight increase in average AUM, which continues a longer-term trend of increasing average AUM per Employee.
- Total Compensation has grown by 12.9% annually from FY18 to FY22 primarily because of increased headcount and promotions. Total Compensation for FY23 is budgeted at 15.2% over FY22 projected levels, which would equate to a 13.4% growth rate on an average annual basis over a five-year period.
- Since FY18, Salaries per employee have increased 3.3% (annualized) from \$145k to \$166k forecast in FY22. Total Compensation per employee has increased 5.6% (annualized) from \$256k to \$318k forecast in FY22, which was lower than the \$321k budgeted for FY22. 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.

Table 3: UTIMCO Compensation and Headcount FY18-FY23 (excluding benefits)

	FY18	FY19	FY20	FY21	Forecast FY22	% Change Since FY18 (annual)	Budget FY23	% Change From FY22
Employees (as of year end)	94	95	110	115	123	7.0%	132	7.3%
Average Total AUM (\$ millions)	43,173	46,400	49,906	59,803	67,176	11.7%	68,122	1.4%
Average AUM/Employee (\$ millions)	459	488	454	520	546	4.4%	516	-5.5%
Salaries (\$ millions)	13.7	16.2	17.0	18.2	20.4	10.5%	23.5	15.3%
Performance Compensation (\$ millions)	10.4	11.3	15.2	20.0	18.8	15.9%	21.6	15.2%
Total Compensation (\$ millions)	24.1	27.5	32.2	38.2	39.1	12.9%	45.1	15.2%
Total Compensation per Employee (\$)	256,204	289,541	292,288	332,006	318,177	5.6%	341,684	7.4%
Perf. Comp. as % of Salaries	76%	69%	89%	110%	92%		92%	
Perf. Comp. as % of Total Compensation	43%	41%	47%	52%	48%		48%	

Lease and Depreciation Expenses: Lease expenses are budgeted to be flat compared to FY22 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 FY18-FY23.

Table 4: UTIMCO Lease Expenses FY18-FY23

	Actual				Forecast FY22	Budget FY23
	FY18	FY19	FY20	FY21		
Property Lease	\$1,762,827	\$2,047,589	\$2,230,214	\$2,595,464	2,137,569	\$2,137,569
Operating Lease	523,826	475,606	582,545	699,171	663,353	708,000
Parking Expenses	197,847	214,830	219,266	247,900	261,025	285,000
Lease Interest Expense	-	-	-	-	201,907	180,099
Other Expenses	4,716	-	-	-	-	-
Amortization (Deferred Rent Credit)	(208,054)	(263,864)	(287,791)	(335,643)	-	-
Total Lease Expenses (net)	\$2,281,162	\$2,474,161	\$2,744,234	\$3,206,892	\$3,263,854	\$3,310,668

Depreciation Expense is budgeted to be flat at \$2.1 million compared to the FY22 forecasted amount as the buildout of expanded lease space, furniture, and new equipment to support additional employees has been completed.

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 \$7.3 million in FY22, which is \$2.1 million or 23% lower than the FY22 budget of \$9.4 million. The decrease is primarily due to the completion of a data classification project that was recommended by a cybersecurity audit well under budget as most of the work was able to be completed using UTIMCO resources. Additionally, travel and meeting expenses were lower than budgeted as well as subscriptions expenses coming in lower than expected.

The FY23 budget of \$9.6 million is 2% higher than what was budgeted in FY22. There is a sharp increase in hiring consultant expenses due to higher turnover in staffing given the challenging job market and 9 positions to be filled. This increase is largely offset by reductions in contract services since projects recommended from the cybersecurity audit were one-time in nature.

Although subscriptions expense is expected to be higher than it has been historically, this increase is due to the adoption of Subscription-Based Information Technology (SBIT), which essentially shifts capital costs to operating expenses, and there is an expectation that contract expenses related to the implementation of SBIT will result in higher one-time expenses for the next couple years.

Direct Costs to Funds

Direct Costs to Funds for FY23 are budgeted at \$8.4 million, a 4.8% increase from the FY22 budget. This is primarily due to higher custodian fees payable to BNY Mellon and increased legal fees.

Effective this September, UTIMCO is expected to be subject to the Uncleared Margin Rules subset of the Dodd-Frank Act due to the size of the average AUM of the funds managed by UTIMCO. This results in higher fees and collateral requirements based on complicated calculations, and BNY Mellon is being engaged to handle these new aspects. Additionally, UTIMCO's General Counsel is adding new outside counsel to accommodate the higher number and level of complexity of deals being executed. UTIMCO plans 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 FY18-FY23 is summarized in Table 5 below. Capital expenditures in FY22 are substantially lower than FY21 due to the completion of the build-out of newly leased space. Technology related expenses are budgeted higher than normal in FY23 due to the upgrading and replacing of equipment that is part of the typical 3-5 year cycle. Much of the equipment was new with the move in 2018 and needs to be upgraded.

Table 5: UTIMCO Capital Expenditures FY18-FY23

	FY18	Actual			Forecast FY22	Budget FY23
		FY19	FY20	FY21		
Ongoing: Technology and Software Upgrades	\$17,758	\$115,487	\$200,000	\$119,000	\$25,000	\$535,000
Ongoing: Office Equipment and Fixtures	77,585	-	113,000	89,000	109,000	110,000
Expansion: Technology Initiatives / Video Conferencing	1,238,149	-	-	-	-	-
Expansion: Leasehold Buildout (net of TI allowance)	6,498,972	-	-	2,352,000	-	-
Expansion: Furniture and Fixtures	2,669,179	65,573	-	423,000	2,730	-
Total Capital Expenditures (net)	\$10,501,643	\$181,060	\$313,000	\$2,983,000	\$136,730	\$645,000

EXHIBIT A

Total Budgeted Costs FY22-FY23

	FY22		Change from FY22 Budget		FY23		Change from FY22 Forecast		Change from FY22 Budget
	Budget	Forecast	\$	%	Budget	\$	%	%	
UTIMCO Services									
Salaries	20,552,099	20,365,536	-186,563	-0.9%	23,484,680	3,119,144	15.3%	14.3%	
Performance Compensation + Earnings	18,981,580	18,770,267	-211,313	-1.1%	21,617,598	2,847,331	15.2%	13.9%	
Total Compensation	39,533,679	39,135,803	-397,876	-1.0%	45,102,278	5,966,475	15.2%	14.1%	
Total Payroll taxes	2,107,447	2,723,880	616,433	29.3%	3,026,743	302,863	11.1%	43.6%	
403(b) Contributions	1,533,929	1,515,339	-18,590	-1.2%	1,767,930	252,592	16.7%	15.3%	
Insurance, Cell Phone, Learning	1,921,150	1,923,507	2,357	0.1%	2,128,331	204,824	10.6%	10.8%	
Employee Benefits	3,455,079	3,438,846	-16,233	-0.5%	3,896,261	457,415	13.3%	12.8%	
Recruiting and Relocation Expenses	130,000	262,613	132,613	102.0%	309,012	46,399	17.7%	137.7%	
Employee Education	538,632	431,705	-106,927	-19.9%	689,228	257,523	59.7%	28.0%	
Other Employee Related Expenses	668,632	694,319	25,687	3.8%	998,240	303,921	43.8%	49.3%	
Total Employee Related Expenses	45,764,836	45,992,847	228,011	0.5%	53,023,522	7,030,675	15.3%	15.9%	
On-Line Data & Subscriptions	4,706,004	4,157,664	-548,340	-11.7%	4,654,544	496,880	12.0%	-1.1%	
Contract Services & Maintenance	2,461,212	1,382,326	-1,078,886	-43.8%	1,806,658	424,332	30.7%	-26.6%	
Travel & Meetings, Including BOD	1,177,024	524,886	-652,138	-55.4%	1,312,524	787,638	150.1%	11.5%	
Phone and Telecommunications	2,964	2,056	-908	-30.6%	2,964	908	44.2%	0.0%	
Computer & Office Supplies	65,856	46,863	-18,993	-28.8%	68,256	21,393	45.7%	3.6%	
Other Office Expenses	206,796	190,415	-16,381	-7.9%	220,348	29,933	15.7%	6.6%	
Total Office Expense	275,616	239,333	-36,283	-13.2%	291,568	52,235	21.8%	5.8%	
Total Lease Expense	3,322,198	3,263,854	-58,343	-1.8%	3,310,668	46,813	1.4%	-0.3%	
Board, Comp., & Hiring Consultants	336,000	492,044	156,044	46.4%	846,012	353,968	71.9%	151.8%	
Legal Expenses	150,000	180,455	30,455	20.3%	328,548	148,093	82.1%	119.0%	
Accounting fees	104,856	108,351	3,495	3.3%	110,004	1,653	1.5%	4.9%	
Total Professional Fees	590,856	780,850	189,994	32.2%	1,284,564	503,714	64.5%	117.4%	
Total Insurance	233,328	231,414	-1,914	-0.8%	246,816	15,402	6.7%	5.8%	
Depreciation of Equipment	2,100,000	2,010,000	-90,000	-4.3%	2,000,000	-10,000	-0.5%	-4.8%	
Total Non-Employee Related Expenses	14,866,238	12,590,328	-2,275,910	-15.3%	14,907,342	2,317,014	18.4%	0.3%	
Total UTIMCO Services	60,631,074	58,583,175	-2,047,899	-3.4%	67,930,864	9,347,689	16.0%	12.0%	
Direct Costs to Funds									
Custodian Fees and Other Direct Costs	4,278,000	4,194,286	-83,714	-2.0%	4,934,000	739,714	17.6%	15.3%	
Analytical Tools	154,500	0	-154,500	-100.0%	0	0	0.0%	-100.0%	
Risk Measurement	1,065,225	1,176,850	111,625	10.5%	840,006	-336,844	-28.6%	-21.1%	
Custodian and Analytical Costs	5,497,725	5,371,136	-126,589	-2.3%	5,774,006	402,870	7.5%	5.0%	
Consultant Fees	307,500	300,500	-7,000	-2.3%	320,500	20,000	6.7%	4.2%	
Auditing	908,156	811,904	-96,252	-10.6%	821,658	9,754	1.2%	-9.5%	
Legal Fees	715,000	639,286	-75,714	-10.6%	876,000	236,714	37.0%	22.5%	
Background Searches & Other	630,250	663,978	33,728	5.4%	636,600	-27,378	-4.1%	1.0%	
Other Direct Costs Total	2,560,906	2,415,668	-145,238	-5.7%	2,654,758	239,090	9.9%	3.7%	
Total Direct Costs to Funds	8,058,631	7,786,804	-271,827	-3.4%	8,428,764	641,960	8.2%	4.6%	
Total Budgeted Costs	68,689,705	66,369,979	-2,319,726	-3.4%	76,359,628	9,989,649	15.1%	11.2%	

Fiscal Year 2023 Review of UTIMCO Services Budget and Other Direct Costs to Funds
 Prepared by the U. T. System Office of Finance
 July 20, 2022

EXHIBIT B

Total Actual Costs FY18-FY22 and FY23 Budget

	FY18	FY19	FY20	FY21	FY22	FY23
	Actual	Actual	Actual	Actual	Forecast	Budget
UTIMCO Services						
Salaries	13,667,683	16,235,197	16,966,760	18,193,968	20,365,536	23,484,680
Performance Compensation + Earnings	10,415,478	11,271,195	15,184,901	19,986,731	18,770,267	21,617,598
Total Compensation	24,083,161	27,506,392	32,151,661	38,180,699	39,135,803	45,102,278
Total Payroll taxes	955,790	1,455,958	1,387,881	2,073,547	2,723,880	3,026,743
403(b) Contributions	941,512	1,112,464	1,200,281	1,290,358	1,515,339	1,767,930
Insurance & Cell Phone	1,234,563	1,369,599	1,525,319	1,648,511	1,923,507	2,128,331
Employee Benefits	2,176,075	2,482,063	2,725,600	2,938,869	3,438,846	3,896,261
Recruiting and Relocation Expenses	181,230	81,607	146,509	59,510	262,613	309,012
Employee Education	90,110	112,955	72,321	356,740	405,700	652,056
Other Employee-Related Expenses	271,340	194,562	218,829	416,250	668,313	961,068
Total Employee Related Expenses	27,486,366	31,638,975	36,483,972	43,609,365	45,966,841	52,986,350
On-Line Data & Subscriptions	2,688,550	3,246,582	3,606,892	4,036,934	4,157,664	4,654,544
Contract Services & Maintenance	813,342	748,427	862,160	1,444,467	1,382,326	1,806,658
Travel & Meetings, Including BOD	792,548	946,860	583,265	63,459	524,886	1,312,524
Phone and Telecommunications	46,616	41,428	44,331	36,497	2,056	2,964
Computer & Office Supplies	165,639	75,955	44,192	65,632	46,863	68,256
Other Office Expenses	149,779	152,749	193,206	226,842	216,420	257,520
Total Office Expense	362,034	270,132	281,729	328,971	265,339	328,740
Total Lease Expense	2,281,161	2,474,161	2,744,234	3,206,892	3,263,854	3,310,668
Board, Compensation, & Hiring Consultants	328,063	350,898	600,516	616,000	492,044	846,012
Legal Expenses	75,414	176,226	171,519	262,928	180,455	328,548
Accounting fees	58,910	63,420	101,590	96,155	108,351	110,004
Total Professional Fees	462,386	590,544	873,625	975,083	780,850	1,284,564
Total Insurance	195,114	202,752	208,714	219,659	231,414	246,816
Depreciation of Equipment	1,015,435	1,669,890	1,646,105	1,776,348	2,010,000	2,000,000
Total Non-Employee Related Expenses	8,610,569	10,149,348	10,806,723	12,051,813	12,616,334	14,944,514
Total UTIMCO Services	36,096,935	41,788,323	47,290,695	55,661,178	58,583,175	67,930,864
Direct Costs to Funds						
Custodian Fees and Other Direct Costs	8,501,722	4,868,268	4,047,237	4,157,665	4,194,286	4,934,000
Analytical Tools	0	0	154,500	154,500	0	0
Risk Measurement	297,499	292,000	654,340	1,286,353	1,176,850	840,006
Custodian and Analytical Costs	8,799,221	5,160,268	4,856,077	5,598,518	5,371,136	5,774,006
Consultant Fees	470,000	481,496	297,500	297,500	300,500	320,500
Auditing	790,000	811,750	828,919	1,053,346	811,904	821,658
Legal Fees	152,895	304,048	188,455	303,577	639,286	876,000
Background Searches & Other	425,515	792,168	494,394	374,699	663,978	636,600
Other Direct Costs Total	1,838,410	2,389,462	1,809,268	2,029,122	2,415,668	2,654,758
Total Direct Costs to Funds	10,637,631	7,549,730	6,665,345	7,627,640	7,786,804	8,428,764
Total Budgeted Costs	46,734,566	49,338,053	53,956,040	63,288,818	66,369,979	76,359,628

EXHIBIT C
UTIMCO Reserve Analysis for August 31, 2022

<u>Projected Cash Reserves at August 31, 2022</u>		
Cash		\$ 35,495,000
Prepaid Expenses		1,100,000
Less: Accounts Payable (Includes incentive compensation & earnings payable)		(19,250,000)
Projected Cash Reserves at August 31, 2022		\$ 17,345,000
FY23 Proposed Operating Budget	\$67,930,864	
Applicable Percentage	25%	16,982,716
Capital Budget Expenditures		645,000
Depreciation Expense		(2,000,000)
Required Cash Reserves at August 31, 2022		\$ 15,627,716
Balance Available for Distribution		\$ 1,717,284
Recommended Distribution		\$ -

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

Mr. Britt Harris, President and CEO, and Mr. Rich Hall, 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.



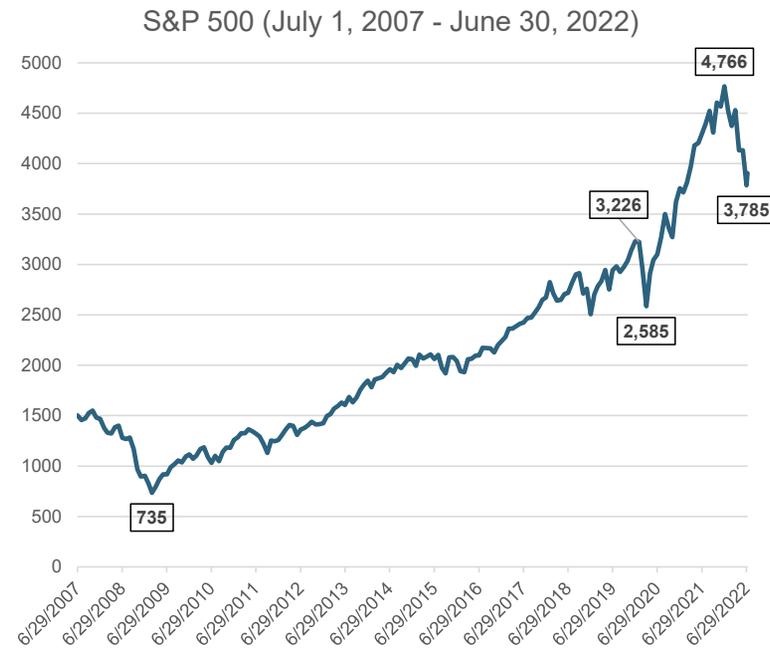
UTIMCO Update

Mr. Britt Harris, President and CEO
Mr. Rich Hall, Chief Investment Officer
August 24, 2022



Market Performance

US and Global Equity Markets are down >20% and in “Bear Markets”



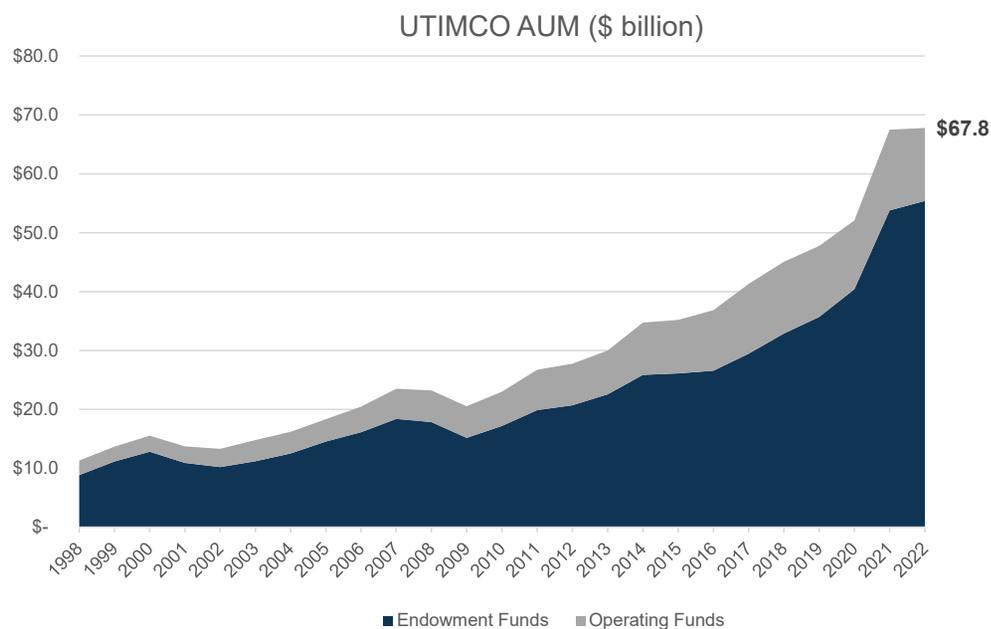
Source: Bloomberg

- Equity and bond markets have declined this year
- Fiscal and monetary stimulus triggered inflation
- Inflation is higher and more persistent than expected
- Central banks are raising rates rapidly
- Valuation multiples responded in line with expectations
- Markets now pricing potential for recession
- Recession-driven earnings declines could push market lower
- Bear markets are painful, but they pass



Growth in Assets Under Management (AUM)

Total Assets through March 31, 2022



3 Month Change in AUM

	\$ Billion
Beginning Net Asset Value (NAV)	69.2
Contributions	1.0
Net Investment Income	-1.5
Distributions	-0.9
Ending Net Asset Value	67.8

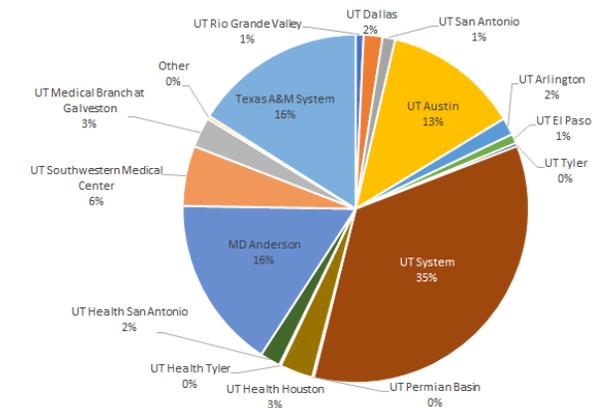
3 Year Change in AUM

	\$ Billion
Beginning Net Asset Value	45.3
Contributions	9.9
Net Investment Income	18.9
Distributions	-6.3
Ending Net Asset Value	67.8

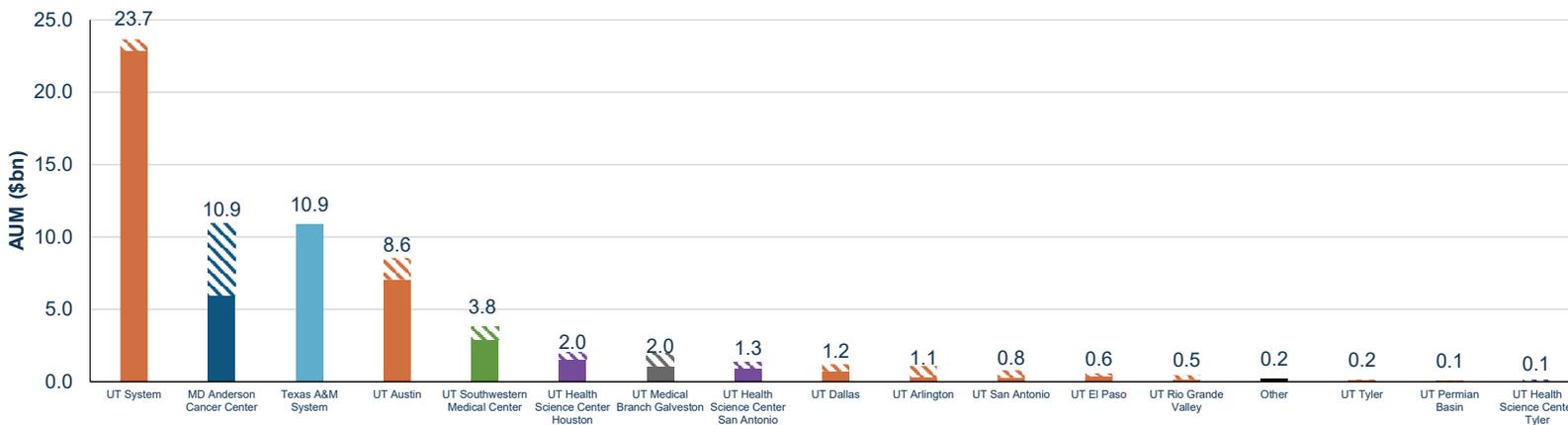
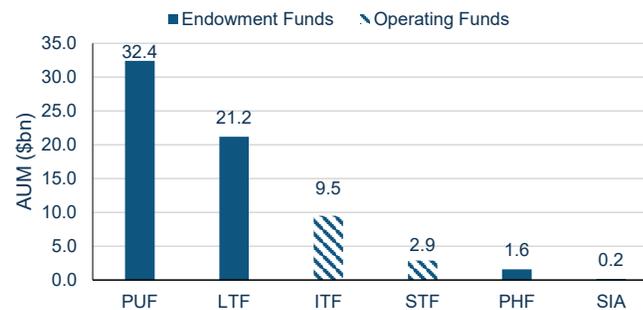


AUM by Institution

As of March 31, 2022



AUM by Fund





Performance Summary

AUM, Returns and Alpha as of March 31, 2022

Endowment Returns

	1-Year	5-Years	10-Years
Investment Return %	12.4	11.6	9.5
Policy Portfolio	9.3	10.3	8.1
Value Add %	+3.0	+1.3	+1.4
Total Investment Return (\$ thousands)	\$5,958	\$23,417	\$31,506
Value Add (\$ thousands)	\$1,431	\$3,063	\$6,193

Assets Under Management (\$ billions)

	1-Year	5-Years	10-Years
Endowments			
Beginning NAV	\$47.5	\$28.5	\$20.1
Contributions	4.0	14.1	19.3
Net Investment Return	5.8	21.5	29.7
Distributions	-1.9	-8.7	-13.7
Ending NAV	55.4	55.4	55.4
AUM Growth \$	\$7.9	\$26.9	\$35.3
Est. AUM Per Student (\$ thousands)	152	90	70
Operating Funds			
Beginning NAV	\$12.6	\$11.1	\$7.3
Contributions	0.2	\$0.9	4.4
Net Investment Return	0.1	\$2.8	\$4.0
Distributions	-0.5	-\$2.4	-3.3
Ending NAV	12.4	12.4	12.4
AUM Growth \$	-\$0.2	\$1	\$5
Total UTIMCO			
Beginning NAV	\$60.1	\$39.6	\$27.4
Ending NAV	\$67.8	\$67.8	\$67.8
AUM Growth \$	\$7.7	\$28.2	\$40.4



Performance vs. Peers

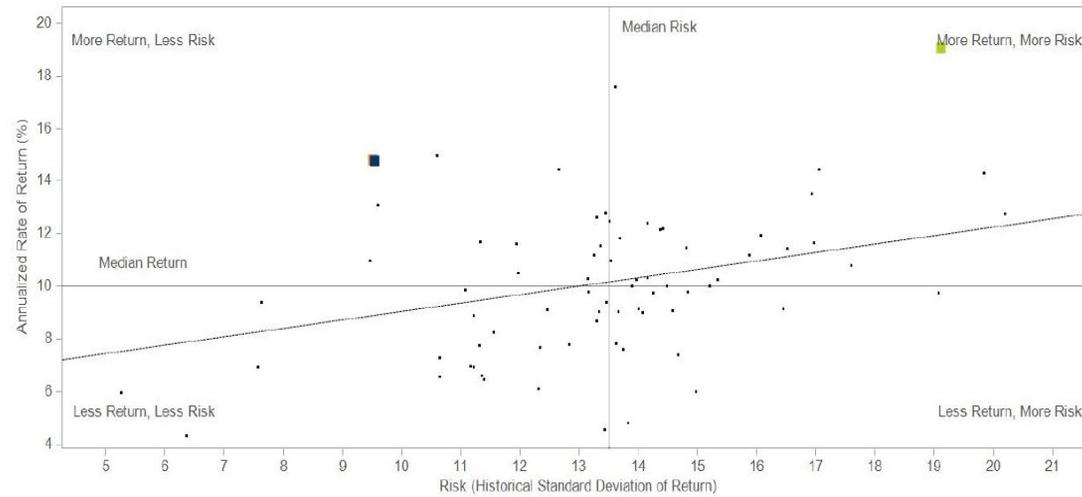
Trust Universe Comparison Service Horizon Returns as of March 31, 2022





Performance vs. Peers

Trust Universe Comparison Service Risk-Return as of March 31, 2022



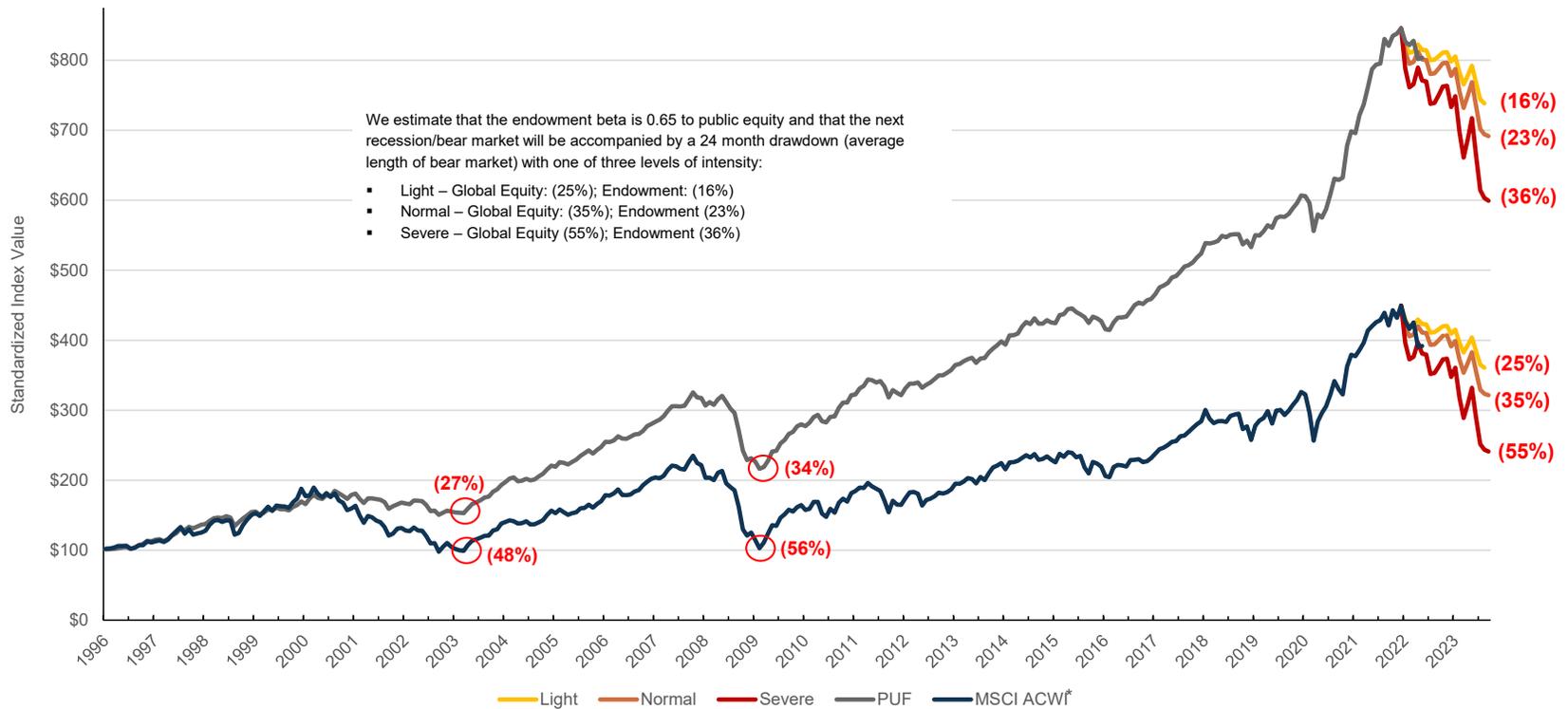
	Risk Value	Risk Rank	Return Value	Return Rank
GEF TOTAL FUND	9.58	93	14.66	5
PUF TOTAL FUND	9.60	92	14.64	6
S&P 500	19.17	3	18.92	1
Median	13.51		10.00	

Note: three-year risk and return metrics



Where do we go from here?

Bear markets imply potential endowment declines between \$9B - \$19B



*MSCI ACWI = Morgan Stanley Capital International All Country World Index