



The University of Texas Investment Management Company

UTIMCO Update

Mr. Bruce Zimmerman
CEO and Chief Investment Officer

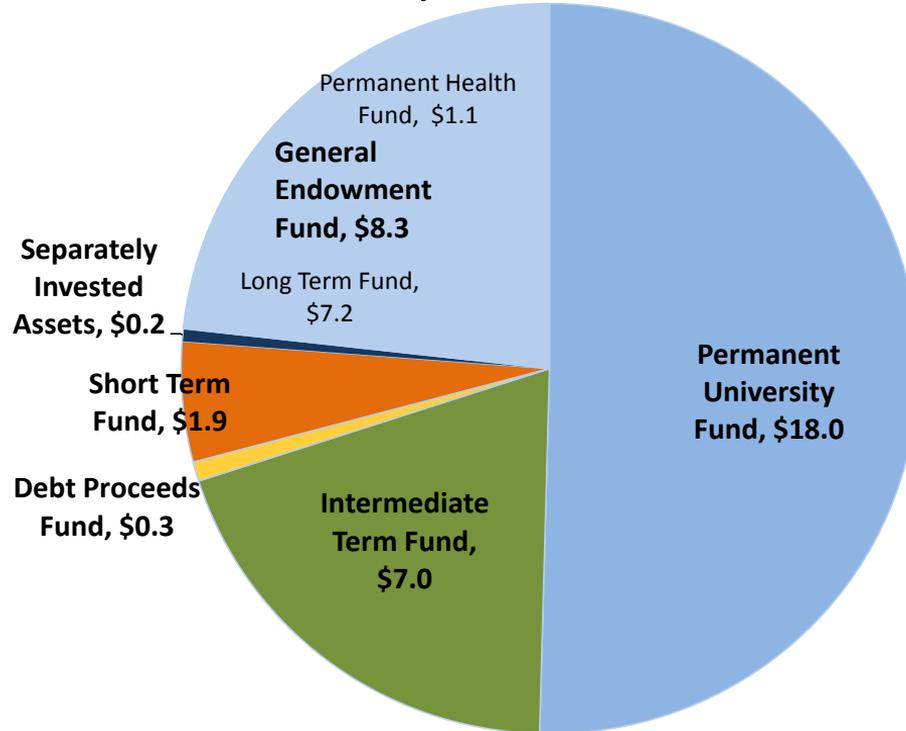
U. T. System Board of Regents' Meeting
Finance and Planning Committee
May 2015

UTIMCO ASSETS UNDER MANAGEMENT



As of February 28, 2015

\$35.7 Billion



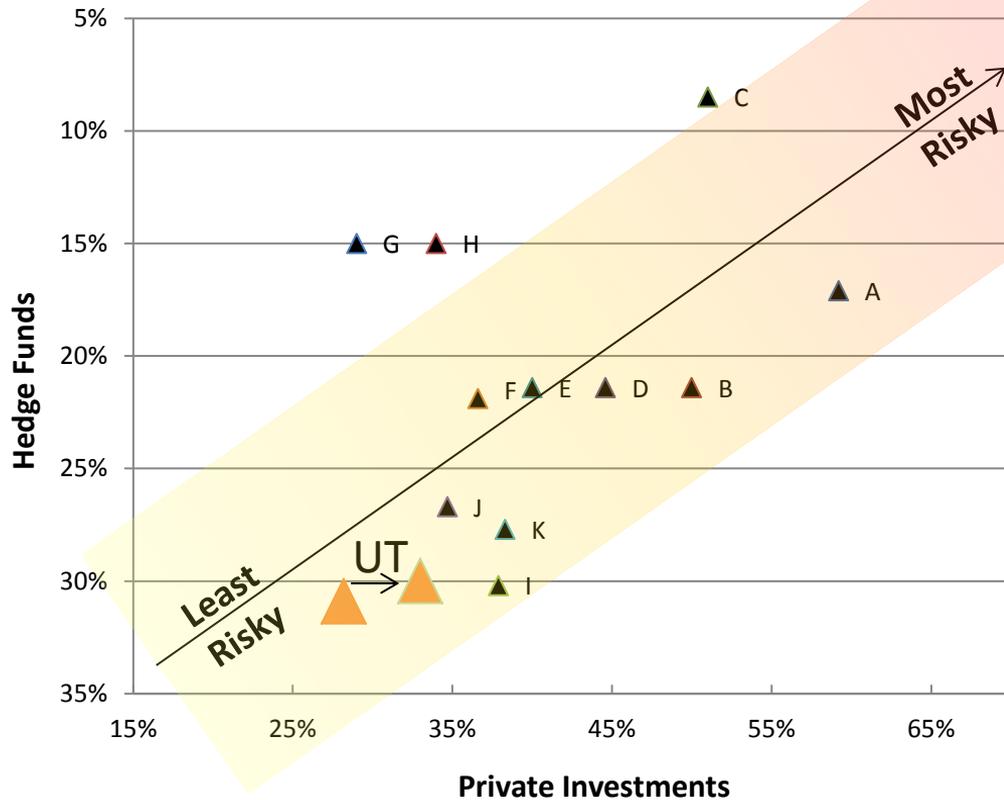
RETURNS



Periods Ended February 28, 2015

Fund	FYTD			
	Six Months Ended	Three Years	Five Years	Ten Years
Permanent University Fund (PUF)	1.06%	8.87%	9.08%	6.79%
General Endowment Fund (GEF)	1.47%	8.97%	9.17%	6.86%
Intermediate Term Fund (ITF)	0.29%	5.59%	6.63%	N/A

QUALITATIVE RISK MEASUREMENT



DETERMINING OPTIMAL ILLIQUIDITY



During a year-long study, staff addressed three issues:

- I. What liquidity needs limit illiquidity exposure?
- II. What returns are required to compensate for illiquidity risk?
- III. What is staff's ability to deploy illiquidity risk and generate sufficient returns?

LIQUIDITY REQUIREMENTS



- Using Liquidity demand and supply curves, Staff analyzed an “extreme stress” scenario in which:
 - Public Equities and Commodities all drop by 50%
 - LCC drops by 20%
 - No recovery
- Private Investments jump immediately from 33% to 40% of total assets, and then continue to grow to 50% over the next two years
- Fully liquid assets drop from 37% to 23%



Sufficient liquidity exists to meet all obligations

If Private Investments were 37.5% of total assets, there would still be sufficient liquidity, although fully liquid assets would trough at 14%

COMPONENTS OF REQUIRED RETURNS



Asset Class	Weighted Average Life	Premium for Locking up Capital	Uncertainty Premium	Call Liquidity Premium	Total Illiquidity Premium	Liquid Alternative	Hurdle
Credit	4.0	3.5%	0.5%	0.4%	4.4%	6.0% - 7.5%	10.5% - 12.0%
Real Estate	3.5	3.2%	0.6%	0.3%	4.1%	7.8% - 9.0%	12.0% - 13.0%
Nat Res	4.4	3.7%	0.6%	0.3%	4.6%	8.0% - 8.1%	12.5% - 13.0%
Buyouts	4.2	3.6%	0.5%	0.7%	4.8%	8.1% - 9.5%	13.0% - 14.5%
Venture	5.0	4.0%	0.8%	0.8%	5.6%	8.1% - 9.5%	14.0% - 15.0%
Emerging	4.9	3.9%	0.7%	0.8%	5.4%	9.5% - 11.0%	15.0% - 16.5%

STAFF'S ABILITY TO GENERATE THE REQUIRED RETURNS

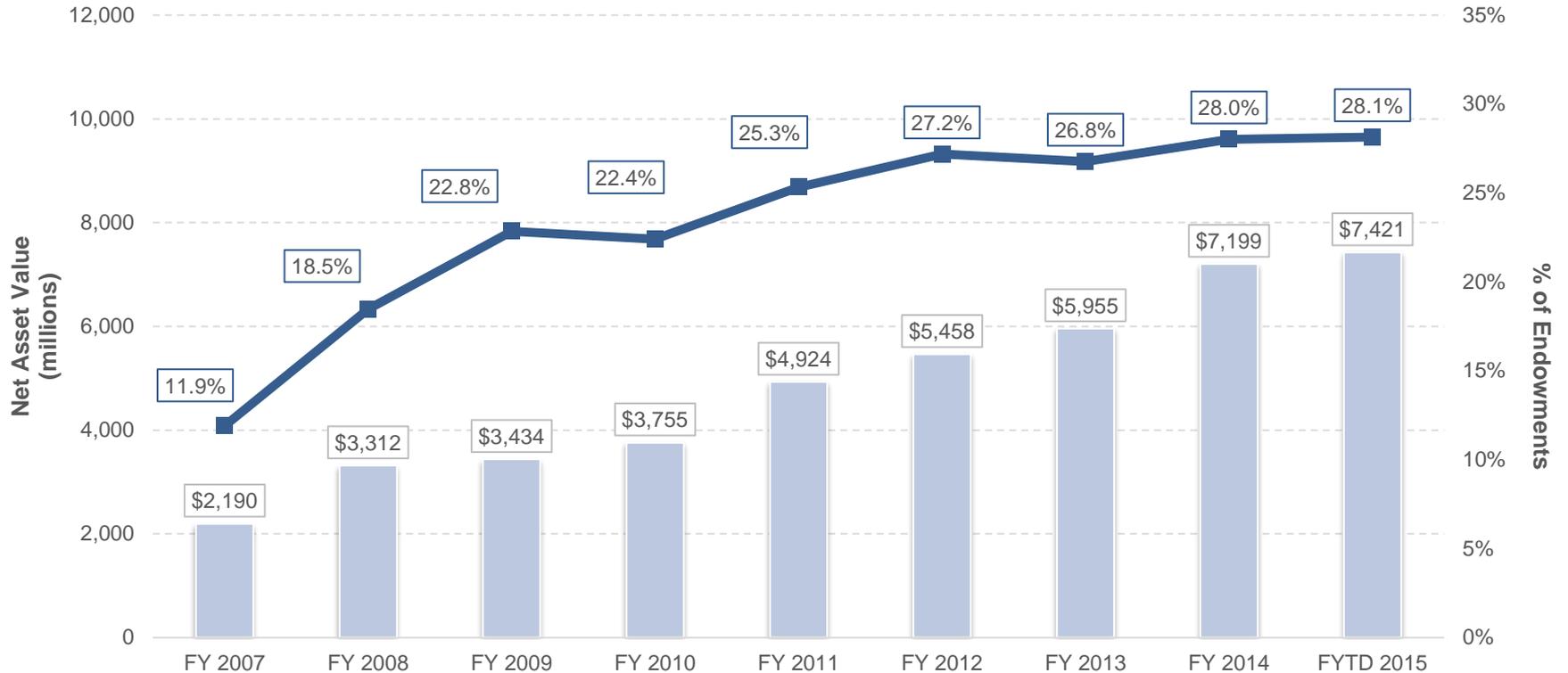


- Historically, UTIMCO's Private Investments have performed at the 56th – 74th percentile, depending on asset class

Asset Class	UTIMCO's since-inception IRR	Vintage year-weighted performance		UTIMCO's Percentile Performance
		Median	75 th percentile	
Credit	10.3%	7.1%	10.4%	74%
Energy	19.8%	10.7%	21.5%	71%
Buyouts	10.4%	8.7%	16.1%	56%
Venture	13.1%	3.1%	15.5%	70%

- UTIMCO's Real Estate and Emerging Markets portfolios are not mature enough to meaningfully determine percentile performance
- Performance in the 65th – 70th percentile is expected to generate the required returns

PRIVATE INVESTMENTS GROWTH

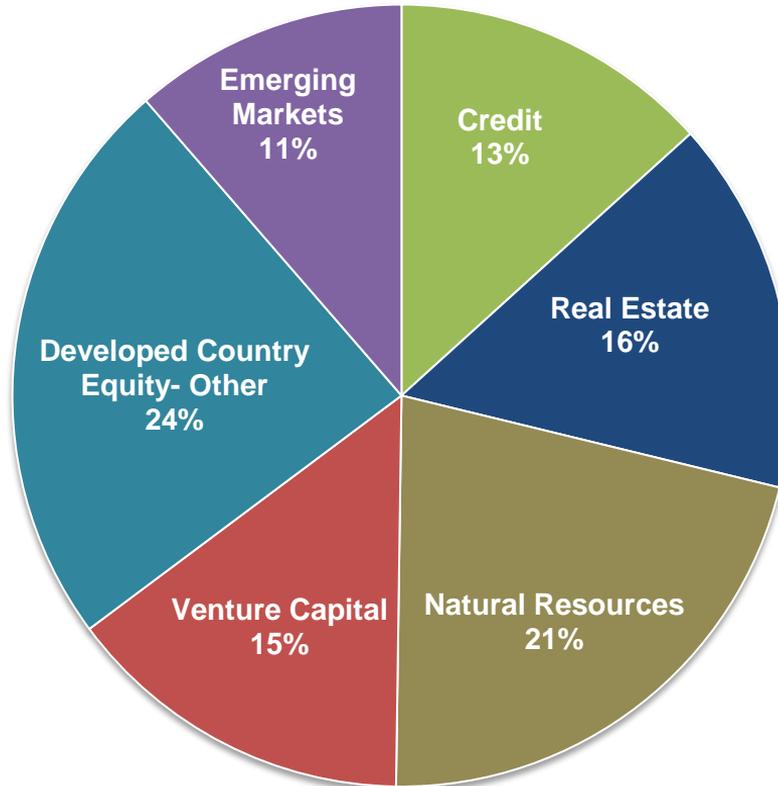


PRIVATE INVESTMENTS OVERVIEW



As of February 28, 2015

Total \$7.4 billion



PRIVATE INVESTMENTS PERFORMANCE



As of February 28, 2015

Time-weighted Returns				
Asset Class	1 Year	3 Years	7 Years	10 Years
Private Investments	13.1%	14.6%	8.9%	12.8%
Cambridge Associates Global Private Equity	8.0%	13.4%	6.8%	13.3%
Value Add	5.1%	1.2%	2.1%	-0.5%

Strategy

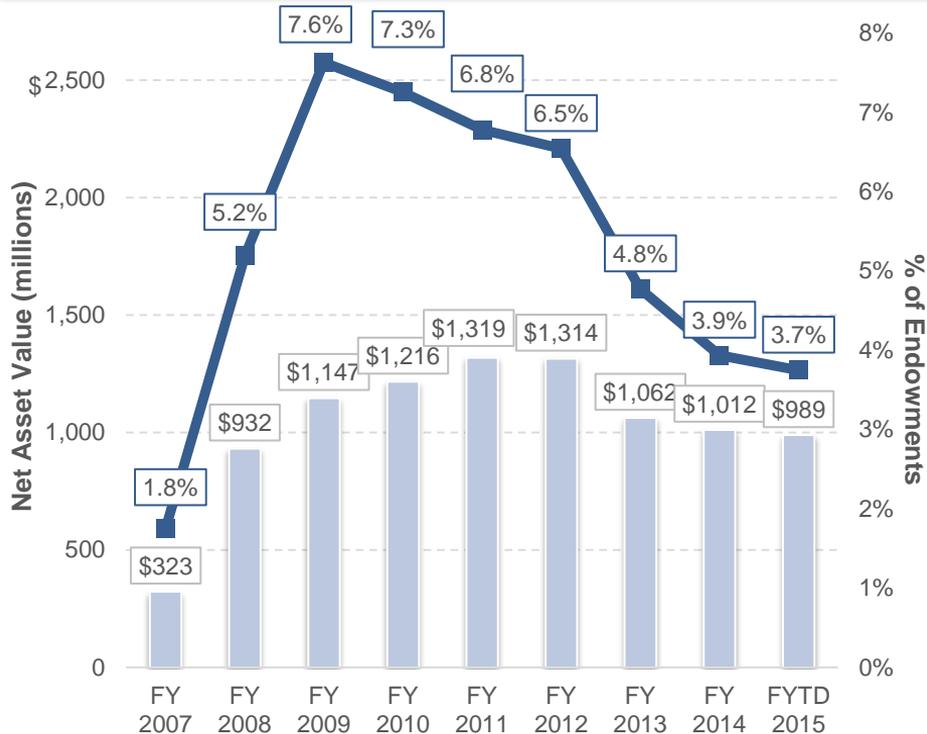
- Optimize portfolio returns through increased deployment of illiquid capacity
- Target specific sectors, themes, and geographies alongside strategic partners

CREDIT OVERVIEW



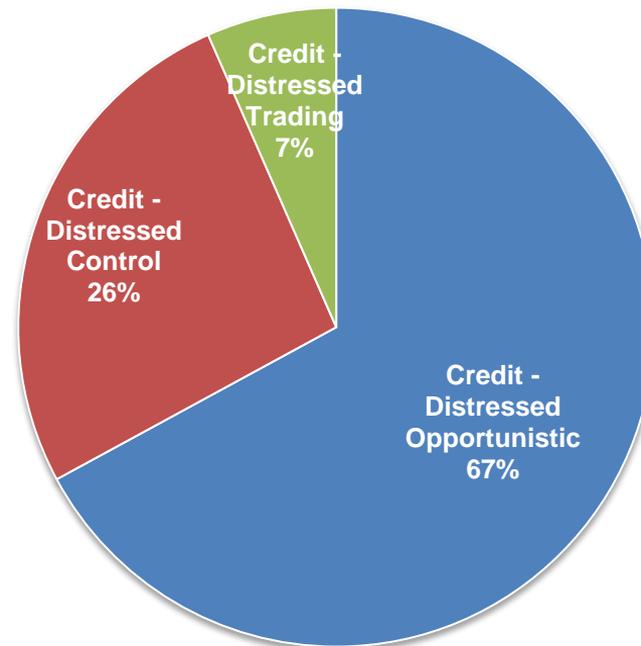
As of February 28, 2015

NAV & Percent of Endowments



Diversification

Total \$989 million



CREDIT PERFORMANCE



As of February 28, 2015

Time-weighted Returns				
Asset Class	1 Year	3 Years	7 Years	10 Years
Credit-Related Fixed Income	9.9%	14.8%	9.7%	n/a
MCC - Fixed Income Credit Related	6.0%	7.6%	n/a	n/a
Premium Over Liquid Alternative	3.8%	7.3%	n/a	n/a
Cambridge Associates Distressed Securities	7.2%	13.8%	8.3%	10.9%
Value Add	2.7%	1.0%	1.5%	n/a

Strategy

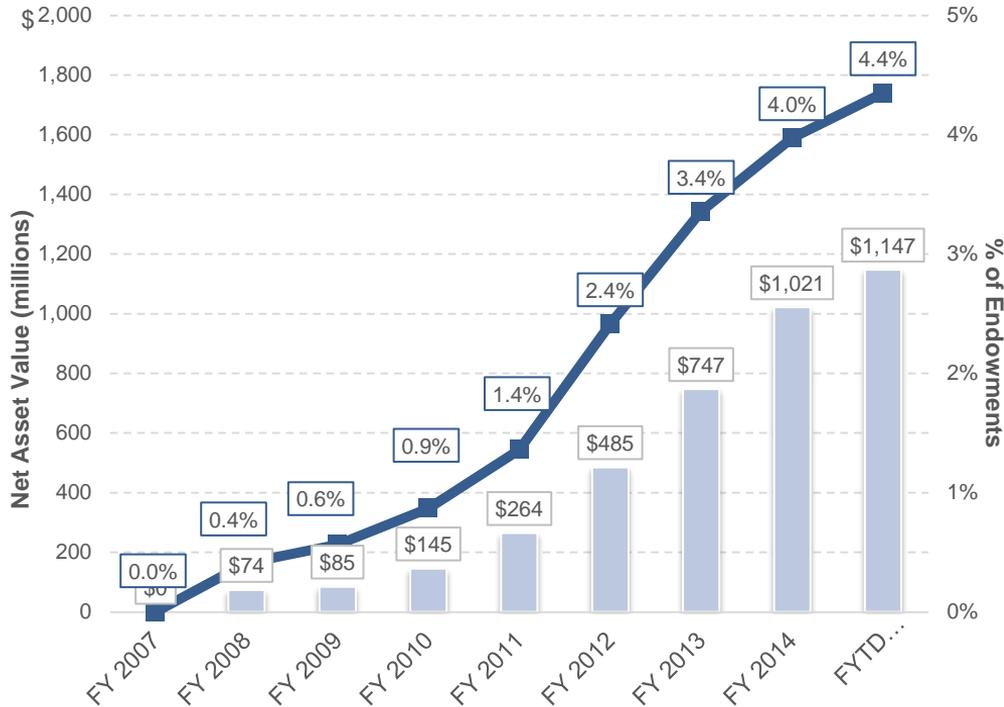
- Focus on private credit platforms with global sourcing capabilities and flexible mandates
- Pursue illiquid credit strategies which have an equity-like return target with debt-like risk
- Focus mainly on distressed credit opportunities and creating new lending platforms



REAL ESTATE OVERVIEW

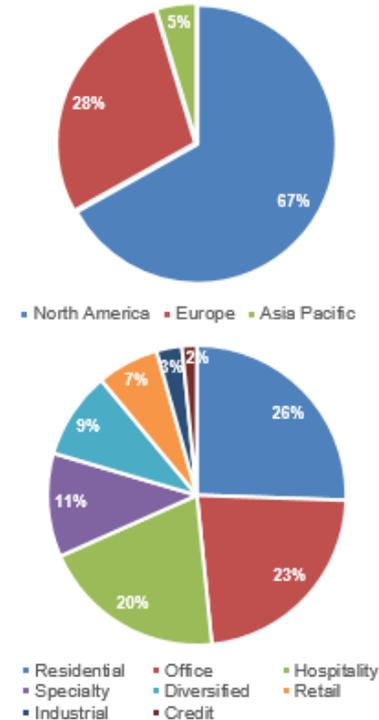
As of February 28, 2015

NAV & Percent of Endowments



Diversification

Total \$1.1 billion



REAL ESTATE PERFORMANCE



As of February 28, 2015

Time-Weighted Returns				
Asset Class	1 Year	3 Years	7 Years	10 Years
Private Real Estate	17.2%	11.1%	n/a	n/a
MCC Real Estate	10.9%	11.4%	4.9%	7.1%
Premium Over Liquid Alternative	6.2%	-0.3%	n/a	n/a
Cambridge Associates All Real Estate	10.4%	11.5%	-1.8%	6.6%
Value Add	6.8%	-0.4%	n/a	n/a

Strategy

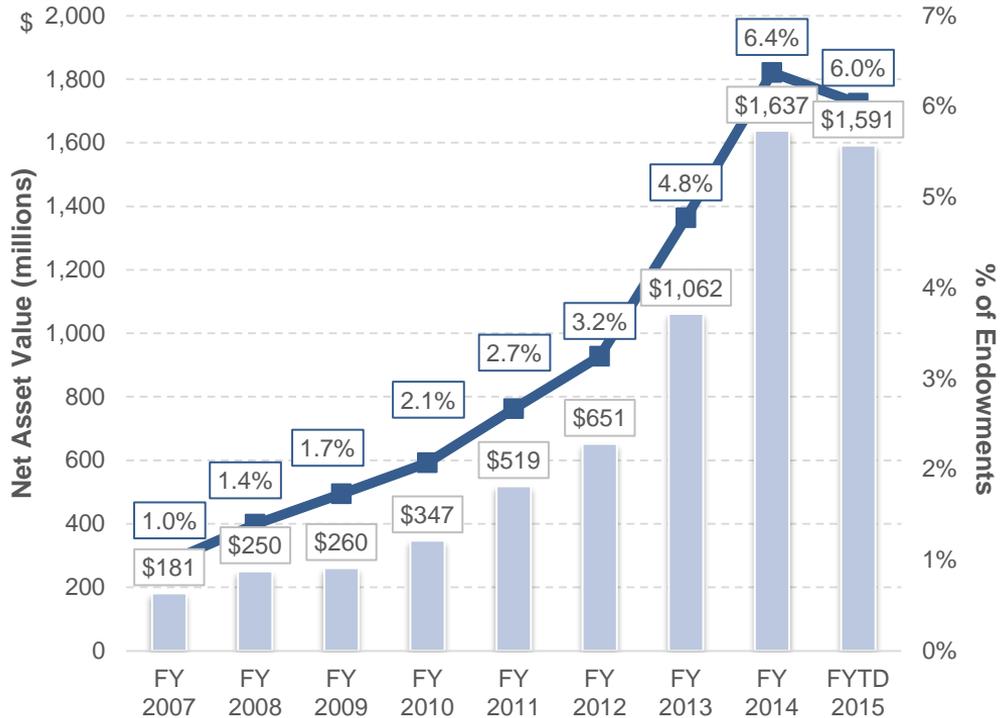
- Best ideas driven across property types
- Global with a primary focus on developed markets
- Opportunistic managers with flexible mandates
- Niche strategies targeting secular trends



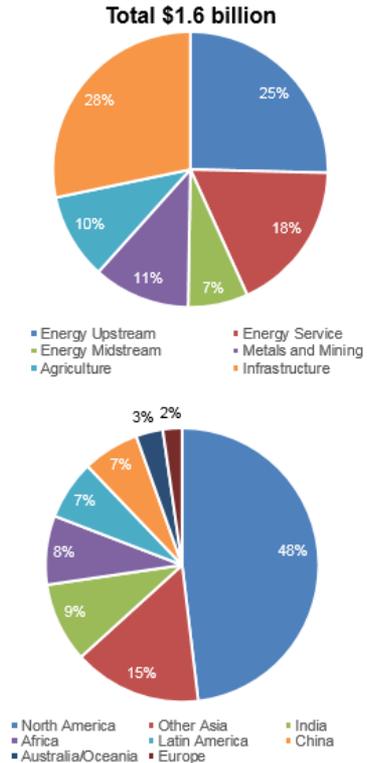
NATURAL RESOURCES OVERVIEW

As of February 28, 2015

NAV & Percent of Endowments



Diversification



NATURAL RESOURCES PERFORMANCE



As of February 28, 2015

Time-Weighted Returns				
Asset Class	1 Year	3 Years	7 Years	10 Years
Natural Resources Private Investments	9.7%	17.4%	16.7%	n/a
MCC Natural Resources Equities	-22.2%	-6.7%	-4.9%	0.7%
Premium Over Liquid Alternative	31.9%	24.0%	21.6%	n/a
Cambridge Natural Resources	9.2%	8.0%	7.6%	16.3%
Value Add	0.5%	9.3%	9.2%	n/a

Strategy

- Find best in class emerging teams
- Create a unique, strategic partnership that is scalable

VENTURE CAPITAL OVERVIEW



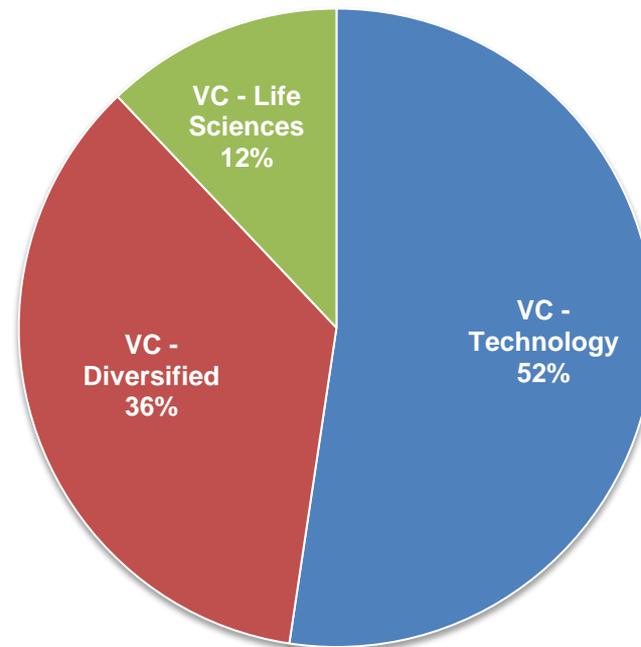
As of February 28, 2015

NAV & Percent of Endowments



Diversification

Total \$1.1 billion



VENTURE CAPITAL PERFORMANCE



As of February 28, 2015

Time-weighted Returns				
Asset Class	1 Year	3 Years	7 Years	10 Years
Developed Country Equity (VC)	32.9%	23.3%	18.8%	n/a
MCC Developed Country Equity	14.3%	18.7%	6.9%	6.8%
Premium Over Liquid Alternative	18.6%	4.6%	11.9%	n/a
Cambridge Associates U.S. Venture Capital	13.4%	15.8%	8.1%	9.6%
Value Add	19.5%	7.6%	10.7%	n/a

Strategy

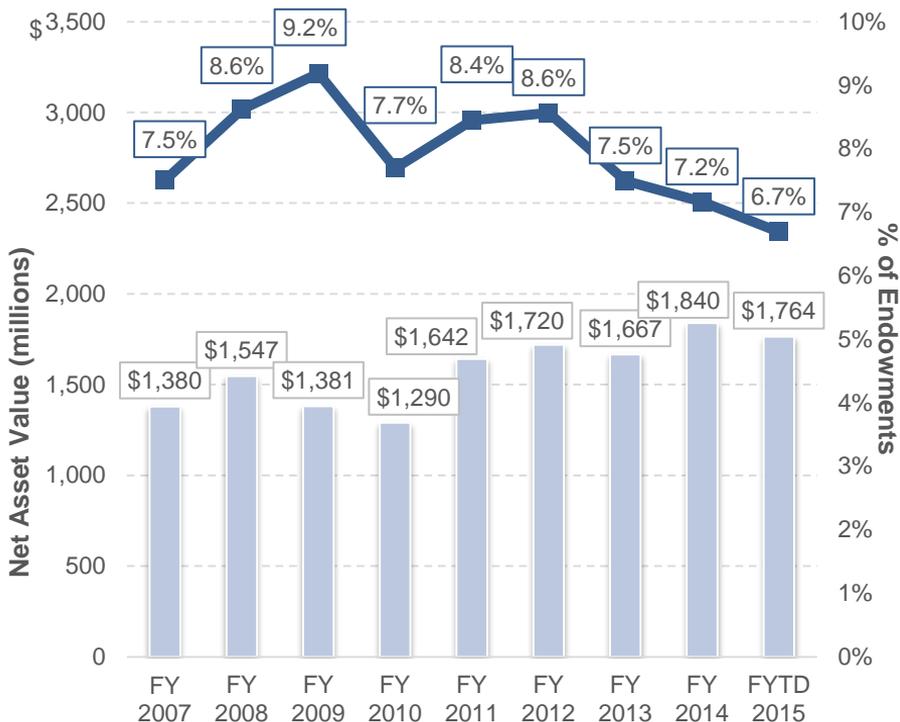
- Leverage UTIMCO brand as partner of choice for emerging early stage technology investors
- Scale the portfolio with existing general partners, selectively adding new exposure

DEVELOPED COUNTRY EQUITY OVERVIEW



As of February 28, 2015

NAV & Percent of Endowments



Diversification

Total \$1.8 billion



DEVELOPED COUNTRY EQUITY PERFORMANCE



As of February 28, 2015

Time-weighted Returns				
Asset Class	1 Year	3 Years	7 Years	10 Years
Developed Country Equity- Other	8.5%	13.5%	5.7%	n/a
MCC Developed Country Equity	14.3%	18.7%	6.9%	6.8%
Premium Over Liquid Alternative	-5.9%	-5.3%	-1.2%	n/a
Cambridge Associates U.S. Private Equity	12.5%	15.7%	8.9%	13.7%
Value Add	-4.1%	-2.2%	-3.2%	n/a

Strategy

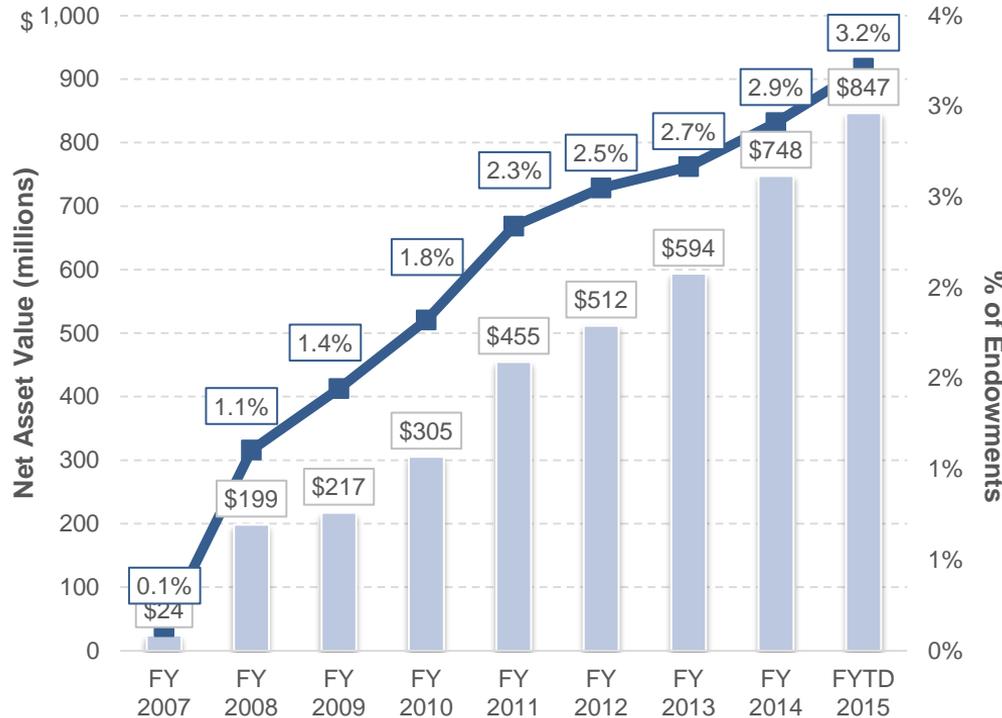
- Establish long-term partnerships with lower-middle market buyout and growth managers
- Attempt to be a large partner within a small fund and upsize exposure through co-investments
- Develop a reputation as a go-to source of capital for spin-out and SBIC managers



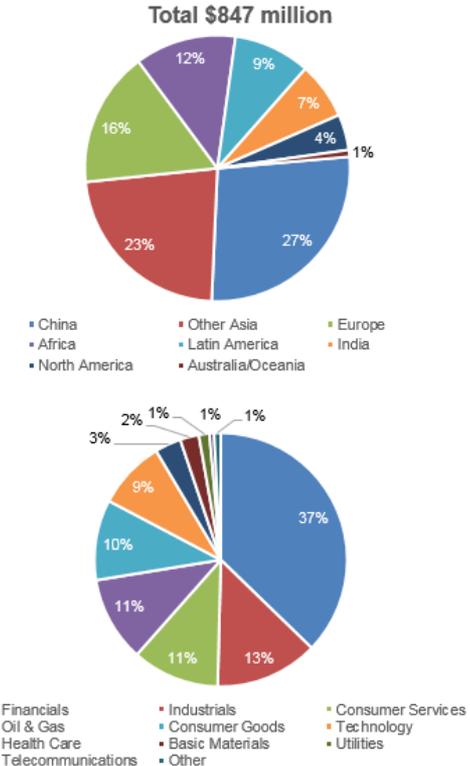
EMERGING MARKETS OVERVIEW

As of February 28, 2015

NAV & Percent of Endowments



Diversification



EMERGING MARKETS PERFORMANCE



As of February 28, 2015

Time-Weighted Returns				
Asset Class	1 Year	3 Years	7 Years	10 Years
Emerging Markets Private Investments	5.0%	3.1%	2.8%	n/a
MCC Emerging Markets Equity	13.2%	4.1%	0.3%	7.0%
Premium Over Liquid Alternative	-8.2%	-1.0%	2.5%	n/a
Cambridge Emerging Markets	10.9%	11.4%	6.6%	13.5%
Value Add	-5.9%	-8.2%	-3.7%	n/a

Strategy

- Partner with limited pool of lower middle market growth equity and buyout managers in key geographic markets with whom we can:
 - Build deep, strategic relationships
 - Drive partnership terms
 - Access co-investments