

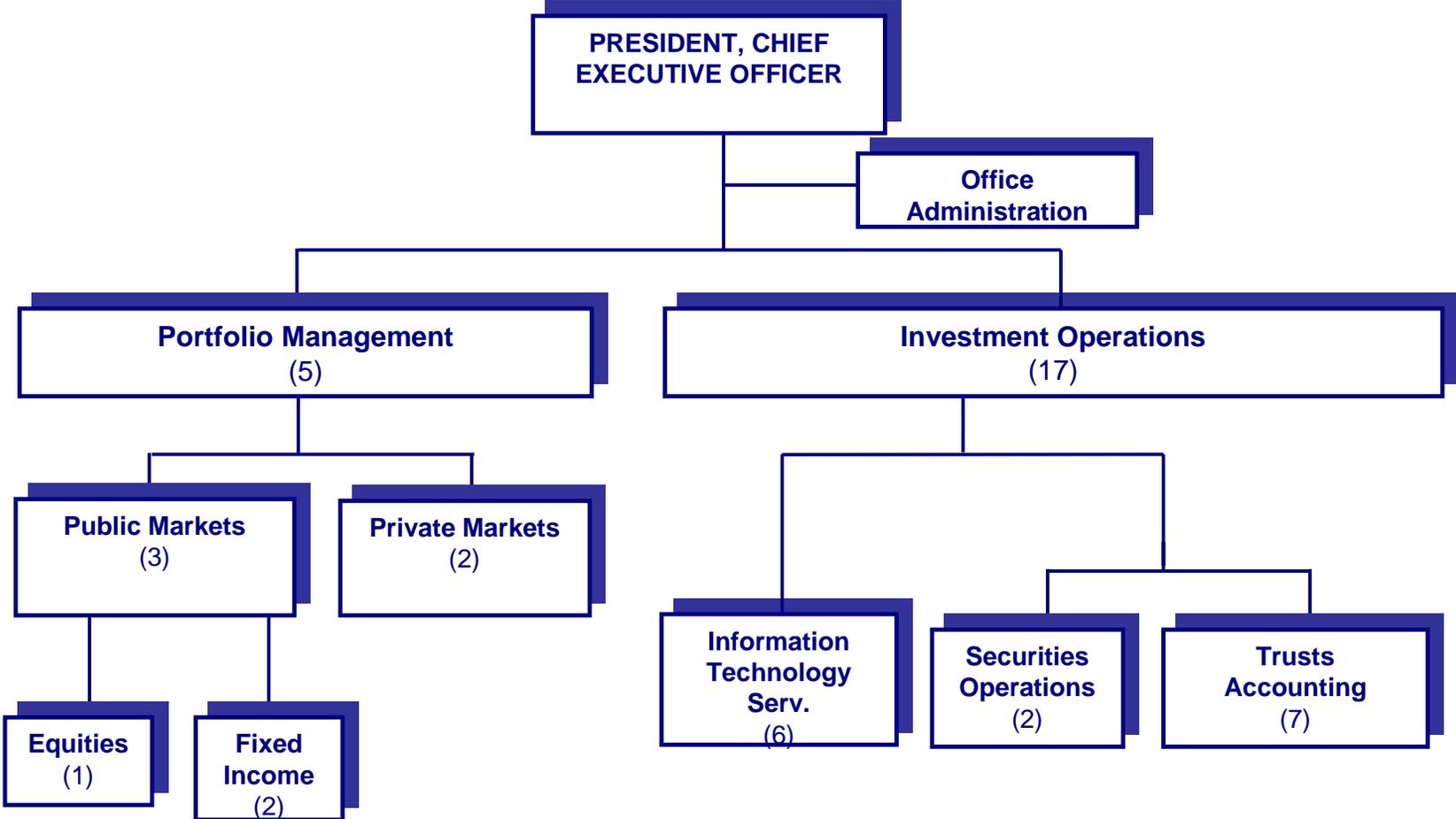
# UTIMCO Organization and Budget

Presentation to the Board of Regents  
University of Texas System



November 2002

# UTIMCO at Year End 2001

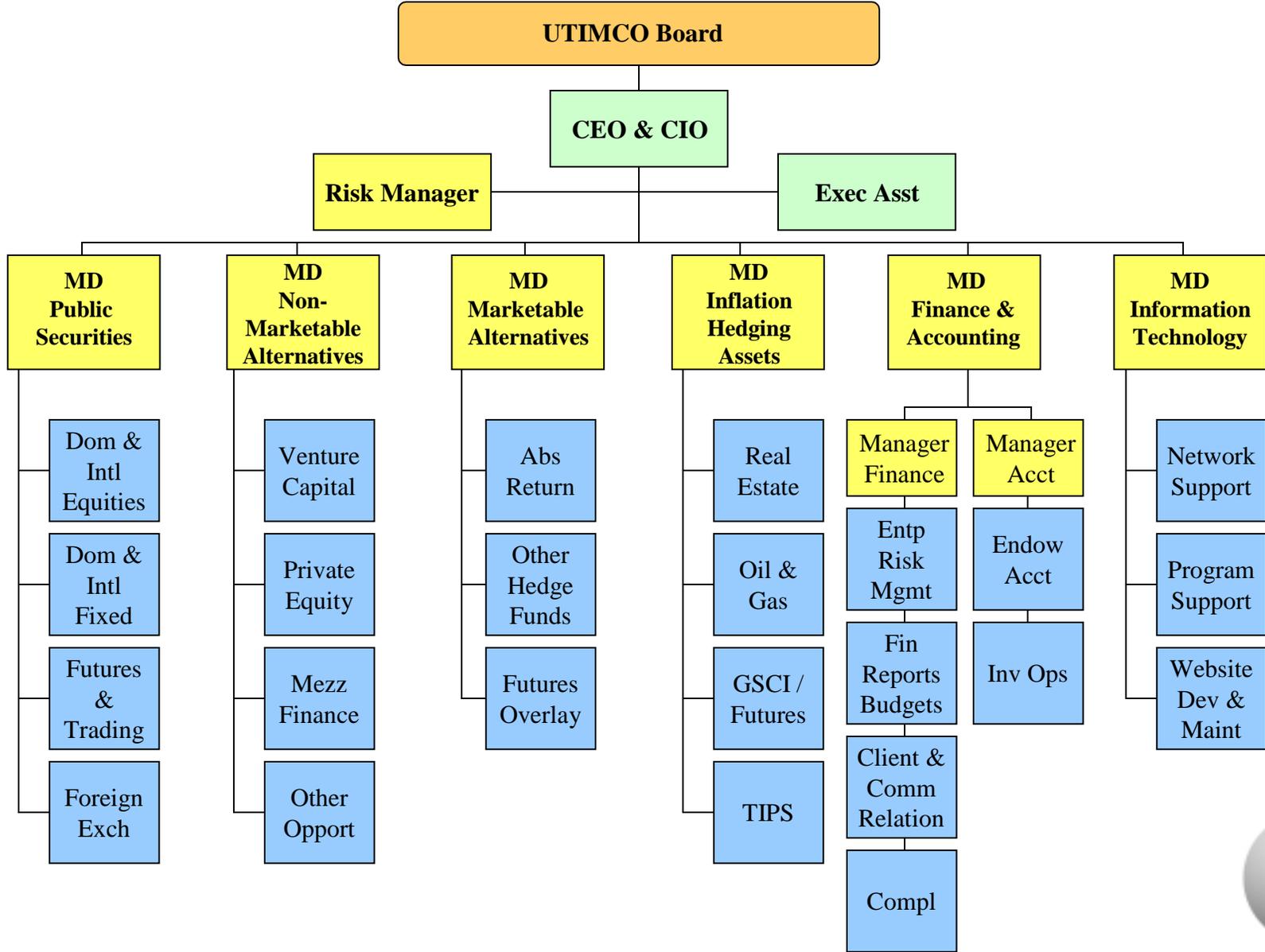


## Why a New Staff Structure Was Needed

- ◆ UTIMCO has a sophisticated, rich asset mix that requires a high degree of expertise to maintain,
- ◆ The prior structure was very solid in accounting and operations, but investment staffing was very thin,
- ◆ Cambridge was filling a void in the private equity area, but fees were set to exceed \$3 million just to maintain the existing private capital program,
- ◆ With difficult markets looming which will demand superior skills to reach desired return objectives,
- ◆ A high quality, specialized investment staff structure is essential to future success.



# The New Organizational Structure at UTIMCO



# The Costs of the New Organizational Structure

Budget Item	2001-2002 Fiscal Year		2002-2003 Fiscal Year		Percent Change
	Budgeted Amount	Percent of Total Budget	Budgeted Amount	Percent of Total Budget	2002-2003 Budget vs 2001-2002 Budget
<b>Salaries</b>	\$2,703,427	8.5%	\$3,854,426	11.6%	42.6%
<b>Incentive Compensation</b>	1,086,879	3.4%	2,100,684	6.3%	93.3%
<b>Payroll Taxes and Employee Benefits</b>	561,544	1.8%	794,929	2.4%	41.6%
<b>Total Compensation Costs</b>	\$4,351,850	13.6%	\$6,750,039	20.3%	55.1%
<b>Operating Costs</b>	1,242,492	3.9%	1,657,800	5.0%	33.4%
<b>Lease Expenses</b>	613,000	1.9%	623,010	1.9%	1.6%
<b>Professional Fees</b>	310,000	1.0%	360,000	1.1%	16.1%
<b>Insurance Costs</b>	180,935	0.6%	211,653	0.6%	17.0%
<b>Total Operating &amp; Other Expenses</b>	\$2,346,427	7.3%	\$2,852,463	8.6%	21.6%
<b>Total UTIMCO Expenses</b>	\$6,698,277	21.0%	\$9,602,502	28.8%	43.4%
<b>External Management Fees</b>	\$20,188,427	63.2%	\$20,116,031	60.4%	-0.4%
<b>Custodial and Analytical Costs</b>	1,902,243	6.0%	1,883,863	5.7%	-1.0%
<b>Consulting, Auditing and Other costs</b>	3,179,901	9.9%	1,717,637	5.2%	-46.0%
<b>Total Direct non-UTIMCO Costs</b>	\$25,270,571	79.0%	\$23,717,531	71.2%	-6.1%
<b>Total Budget</b>	\$31,968,848	100.0%	\$33,320,033	100.0%	4.2%

- ◆ The one-time increases associated with rebuilding the investment staff are large,
- ◆ However, most of the compensation increase is offset by a lower fee to outside consults who had been engaged to manage the investment program,
- ◆ The more specialized management structure should more than pay for itself with increased investment value-added.



## How Do UTIMCO Costs Compare?

	UTIMCO (2)	Cambridge Group Mean (3)	UTIMCO versus Cambridge Mean
<b>Internal Investment Supervision (1)</b>	0.045%	0.045%	0.000%
<b>External Investment Supervision</b>			
Performance Measurement and Subscriptions	0.005%		
Consulting Expenses (Private Equity)	0.010%		
<b>Total External Supervision</b>	0.015%	0.010%	0.005%
<b>Custodian Fees and Other Direct Investment Costs</b>	0.011%	0.018%	-0.007%
<b>Total Investment Costs</b>	<b>0.071%</b>	<b>0.073%</b>	<b>(0.002%)</b>
<b>Legal Expenses</b>	0.003%	0.002%	0.001%
<b>Accounting, Auditing, IT, and Administration</b>			
Direct	0.003%		
Indirect (Accounting & IT Expenses)	0.026%		
<b>Total Accounting, Auditing, IT, Administration</b>	0.029%	0.008%	0.021%
<b>Total Non-Investment Costs</b>	<b>0.032%</b>	<b>0.010%</b>	<b>0.022%</b>
<b>Total Costs</b>	<b>0.103%</b>	<b>0.083%</b>	<b>0.020%</b>

(1) For appropriate comparison to Cambridge Mean, investment supervision costs include salary, benefits and overhead costs for CEO, Managing Directors, analysts, and Risk Manager. It excludes internal portfolio managers for equity and fixed income.

(2) UTIMCO cost figures are based on FY03 budget using 6/30/99 and 6/30/00 market values to facilitate comparisons to Cambridge Mean.

(3) Cambridge Mean based on data from 15 endowments with assets of \$500 million or more. Based on average endowment assets at 6/30/99 and 6/30/00. The report from Cambridge was issued 7/31/01.

- ◆ Even with the added costs of the new, specialized organizational structure, UTIMCO's investment costs are below the mean,
- ◆ The expenses of the sophisticated accounting and communication capabilities in place at UTIMCO drive our total costs above mean.

