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Committee Meeting: 11/14/2018

Board Meeting: 11/15/2018
Richardson, Texas

Jeffery D. Hildebrand, *Chairman*
David J. Beck
Kevin P. Eltife
Paul L. Foster
Janiece Longoria
Rad Weaver

	Committee Meeting	Board Meeting	Page
Convene	11:00 a.m. <i>Chairman Hildebrand</i>		
1. U. T. System Board of Regents: Discussion and appropriate action regarding Consent Agenda items, if any, assigned for Committee consideration	11:00 a.m. Discussion	Action	68
2. U. T. System: Key Financial Indicators Report	11:05 a.m. Report/Discussion <i>Dr. Kelley</i>	Not on Agenda	69
3. U. T. System Board of Regents: Approval of the Annual Budget for FY 2019, 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)	11:15 a.m. Action <i>Mr. Harris</i>	Action	78
4. U. T. System Board of Regents: Update on University Lands	11:30 a.m. Report/Discussion <i>Mr. Houser</i>	Not on Agenda	96
5. U. T. System Board of Regents: Approval of an Incentive Compensation Plan for University Lands Employees	11:45 a.m. Action <i>Dr. Kelley</i> <i>Mr. Houser</i>	Action	111
6. U. T. System Board of Regents: Adoption of Resolution amending the Permanent University Fund Commercial Paper Note Program	11:55 a.m. Action <i>Dr. Kelley</i>	Action	123
Adjourn	12:00 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 6 - 16](#).

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

REPORT

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

The Key Financial Indicators Report compares the Systemwide results of operations and key revenues and expenses in a graphical presentation.

THE UNIVERSITY OF TEXAS SYSTEM

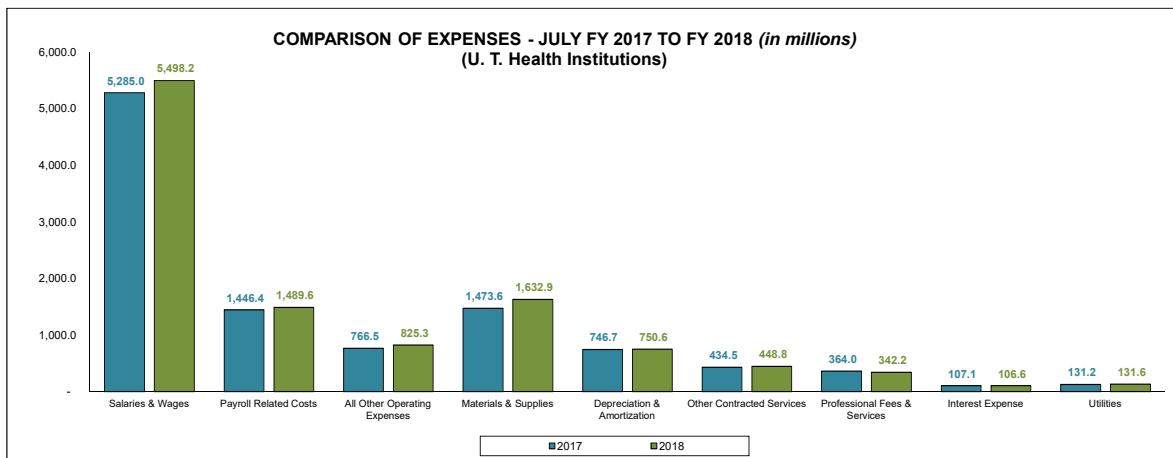
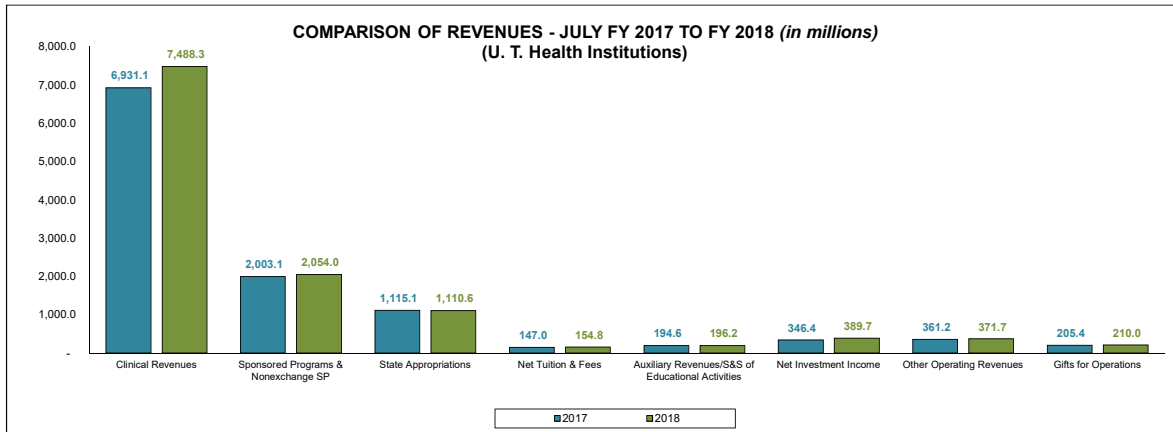


KEY FINANCIAL INDICATORS REPORT

U. T. SYSTEM BOARD OF REGENTS' MEETING FINANCE AND PLANNING COMMITTEE NOVEMBER 2018

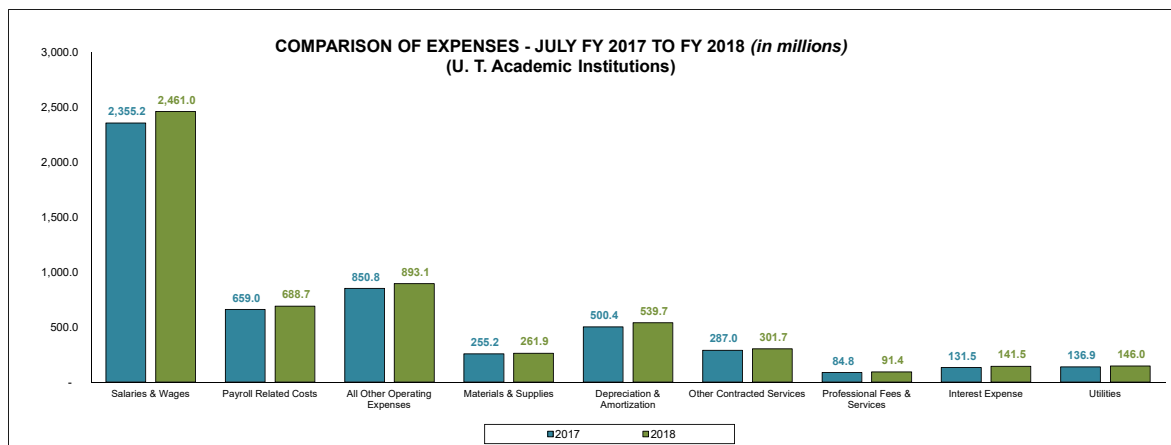
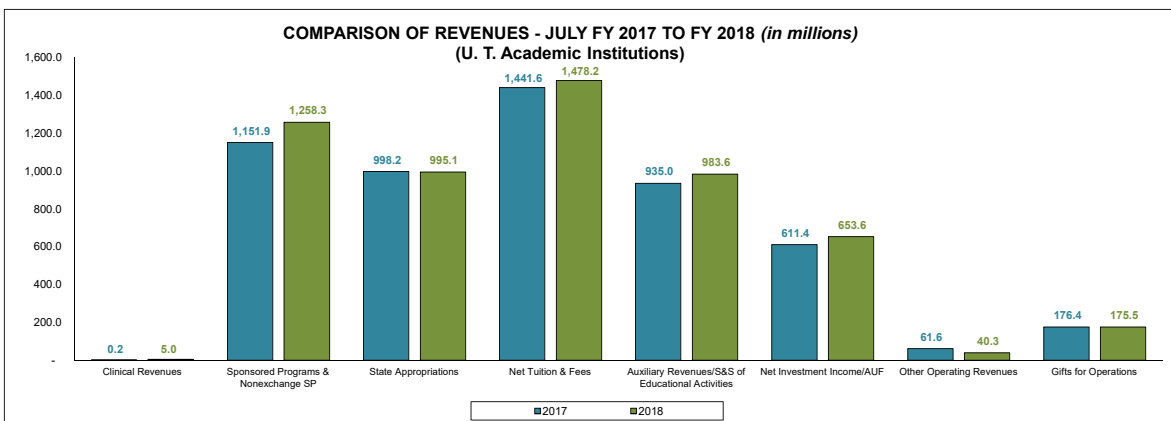
**KEY INDICATORS OF FINANCIAL RESULTS
YEAR-TO-DATE 2017 AND 2018 FROM JULY MONTHLY FINANCIAL REPORT,
ACTUAL YEAR-END FROM 2017 ANNUAL FINANCIAL REPORT
AND PROJECTED 2018 YEAR-END**

<i>(in millions)</i>	U. T. Health Institutions			
	July	July	Actual Year-	Projected
	FY 2017	FY 2018	End 2017	FY 2018
Clinical Revenues	\$ 6,931.1	7,488.3	7,595.7	8,171.2
Sponsored Programs	2,003.1	2,054.0	2,189.8	2,256.4
State Appropriations	1,115.1	1,110.6	1,225.0	1,210.2
Net Tuition and Fees	147.0	154.8	162.9	167.7
Auxiliary Revenues/Sales & Services of Educational Activities	194.6	196.2	201.4	217.1
Net Investment Income	346.4	389.7	411.8	469.1
Other Operating Revenues	361.2	371.7	431.5	420.0
Gift Contributions for Operations	205.4	210.0	237.4	224.7
Total Revenues	11,303.8	11,975.2	12,455.4	13,136.4
Salaries and Wages	5,285.0	5,498.2	5,775.7	6,003.2
Payroll Related Costs	1,446.4	1,489.6	1,551.8	1,614.6
All Other Operating Expenses	766.5	825.3	891.9	926.3
Materials and Supplies	1,473.6	1,632.9	1,595.7	1,776.8
Depreciation and Amortization	746.7	750.6	824.2	824.8
Other Contracted Services	434.5	448.8	559.4	563.1
Professional Fees and Services	364.0	342.2	378.8	338.7
Interest Exp. on Cap. Asset Financing	107.1	106.6	111.7	116.6
Utilities	131.2	131.6	144.8	146.3
Total Expenses	\$ 10,754.9	11,225.9	11,834.1	12,310.5
Adjusted Income (Loss)	548.9	749.3	621.4	825.9



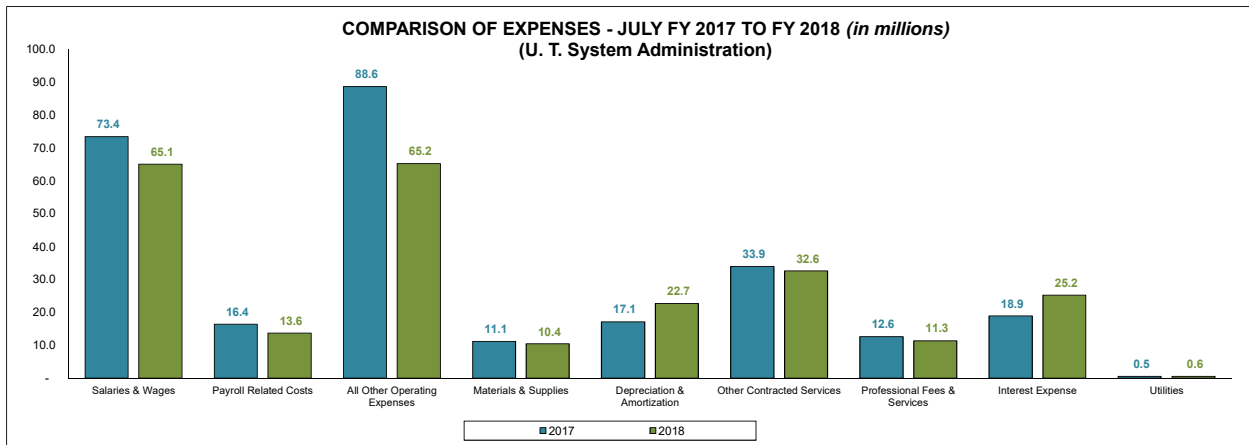
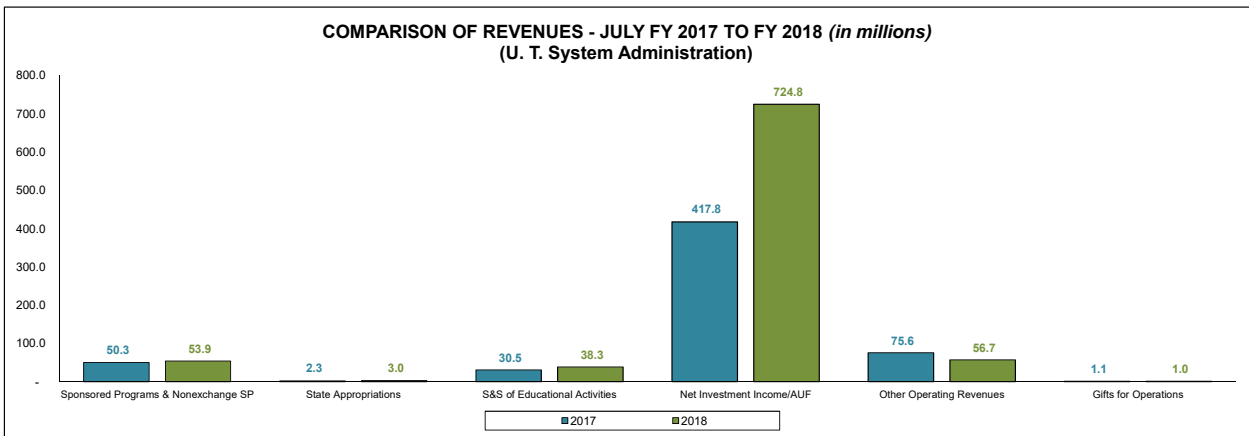
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AND PROJECTED 2018 YEAR-END

<i>(in millions)</i>	U. T. Academic Institutions			
	July FY 2017	July FY 2018	Actual Year- End 2017	Projected FY 2018
Clinical Revenues	\$ 0.2	5.0	2.9	5.8
Sponsored Programs	1,151.9	1,258.3	1,405.7	1,444.1
State Appropriations	998.2	995.1	1,082.8	1,085.7
Net Tuition and Fees	1,441.6	1,478.2	1,555.5	1,613.0
Auxiliary Revenues/Sales & Services of Educational Activities	935.0	983.6	826.4	881.3
Net Investment Income/Available University Fund (AUF)	611.4	653.6	673.1	723.1
Other Operating Revenues	61.6	40.3	67.0	43.1
Gift Contributions for Operations	176.4	175.5	207.0	215.4
Total Revenues	5,376.2	5,589.4	5,820.3	6,011.4
Salaries and Wages	2,355.2	2,461.0	2,492.1	2,618.9
Payroll Related Costs	659.0	688.7	702.9	744.4
All Other Operating Expenses	850.8	893.1	970.5	1,014.3
Materials and Supplies	255.2	261.9	273.1	281.5
Depreciation and Amortization	500.4	539.7	551.9	592.2
Other Contracted Services	287.0	301.7	321.5	327.1
Professional Fees and Services	84.8	91.4	92.6	100.2
Interest Exp. on Cap. Asset Financing	131.5	141.5	126.2	154.4
Utilities	136.9	146.0	130.7	138.3
Total Expenses	\$ 5,260.7	5,525.1	5,661.4	5,971.2
Adjusted Income (Loss)	115.5	64.4	158.9	40.2



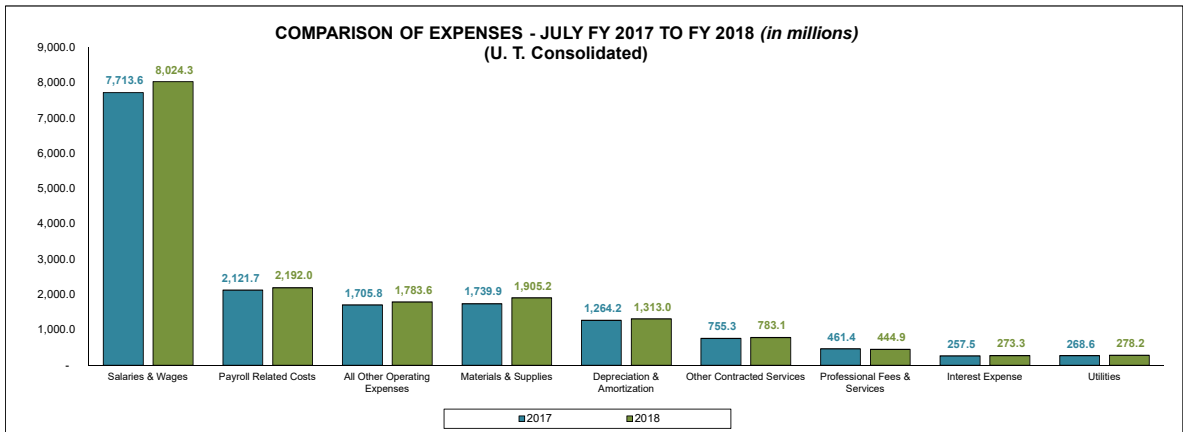
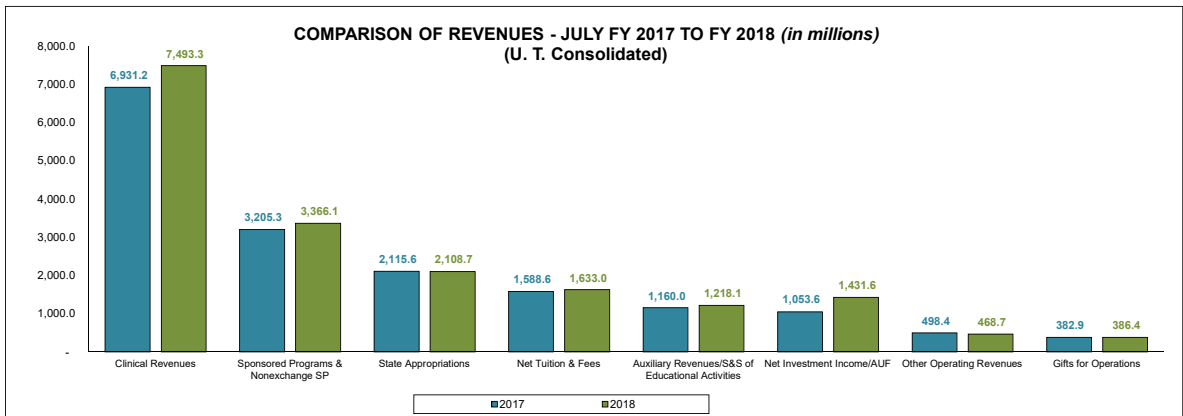
KEY INDICATORS OF FINANCIAL RESULTS YEAR-TO-DATE 2017 AND 2018 FROM JULY MONTHLY FINANCIAL REPORT, ACTUAL YEAR-END FROM 2017 ANNUAL FINANCIAL REPORT AND PROJECTED 2018 YEAR-END

(in millions)	U. T. System Administration			
	July FY 2017	July FY 2018	Actual Year- End 2017	Projected FY 2018
Sponsored Programs	\$ 50.3	53.9	49.0	55.7
State Appropriations	2.3	3.0	9.1	3.3
Sales & Services of Educational Activities	30.5	38.3	42.2	41.8
Net Investment Income/AUF	417.8	724.8	598.0	733.8
Other Operating Revenues	75.6	56.7	86.1	61.8
Gift Contributions for Operations	1.1	1.0	2.2	1.0
Total Revenues	577.7	877.7	786.6	897.5
Salaries and Wages	73.4	65.1	75.2	71.0
Payroll Related Costs	16.4	13.6	(245.7)	14.9
All Other Operating Expenses	88.6	65.2	8.6	71.0
Materials and Supplies	11.1	10.4	16.4	11.4
Depreciation and Amortization	17.1	22.7	19.7	24.7
Other Contracted Services	33.9	32.6	41.3	35.5
Professional Fees and Services	12.6	11.3	15.9	12.4
Interest Exp. on Cap. Asset Financing	18.9	25.2	24.6	27.5
Utilities	0.5	0.6	0.7	0.6
Total Expenses	\$ 272.6	246.7	(43.3)	268.9
Adjusted Income (Loss) - Excluding Other Postemployment Benefits (OPEB), Pension Expense, & Elimination of AUF Transfer to U. T. Austin	305.0	631.1	829.9	628.5
OPEB Expense	648.1	1,001.7	934.2	1,092.7
Pension Expense	229.5	231.0	367.7	252.0
Elimination of AUF Transfer to U. T. Austin	322.0	336.4	339.8	367.0
Adjusted Income (Loss)	(894.6)	(938.0)	(811.9)	(1,083.2)

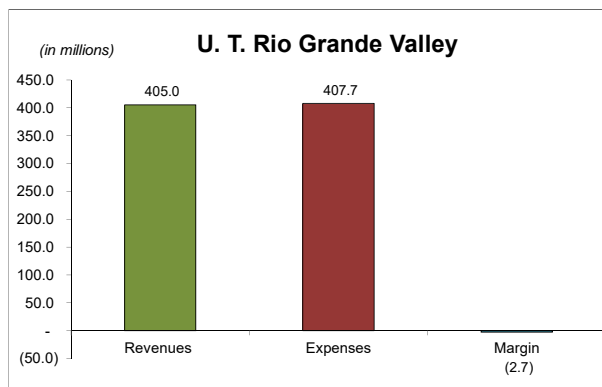
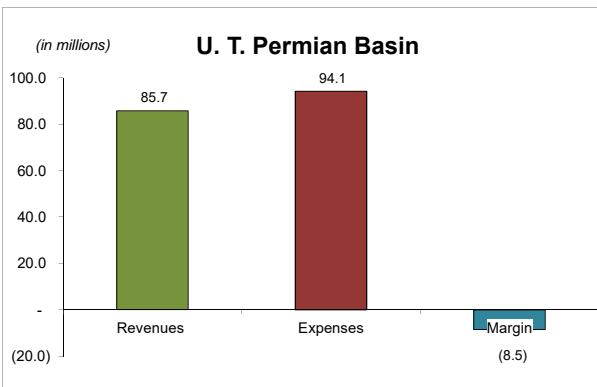
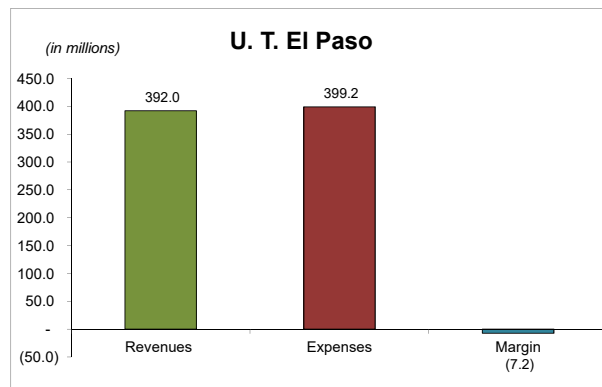
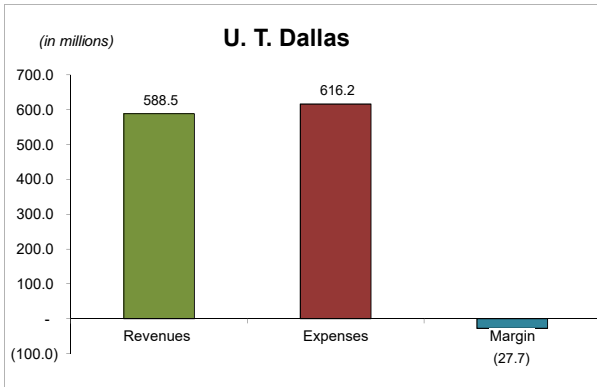
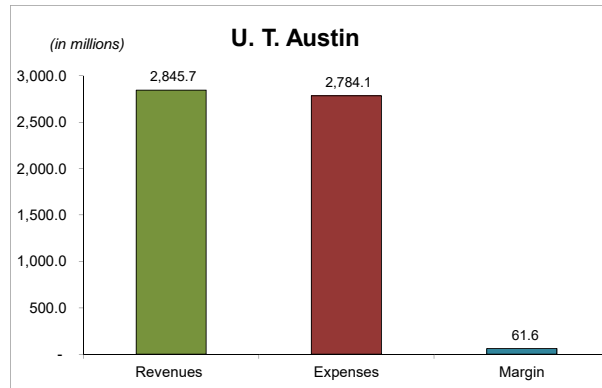
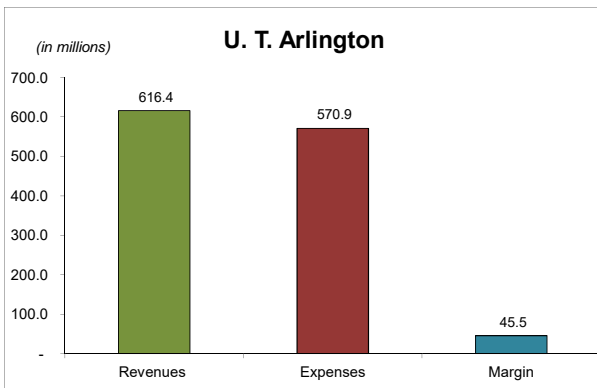
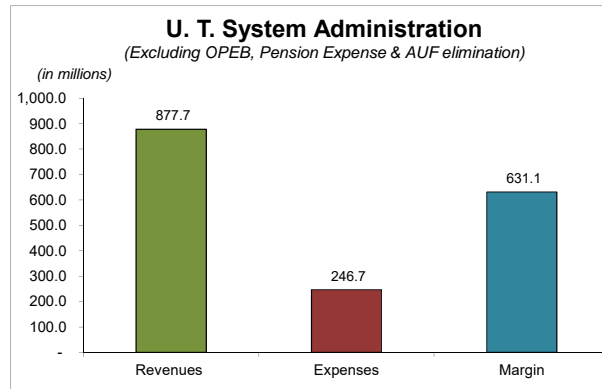
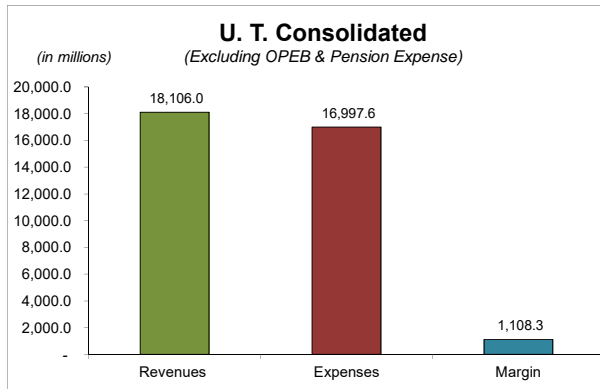


**KEY INDICATORS OF FINANCIAL RESULTS
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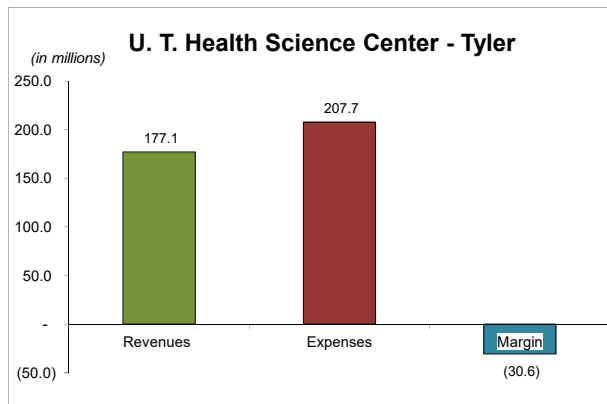
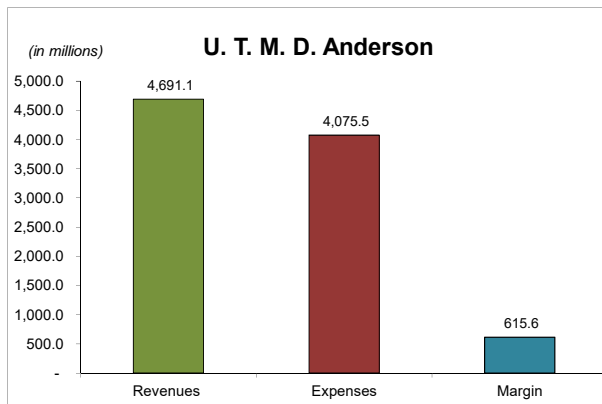
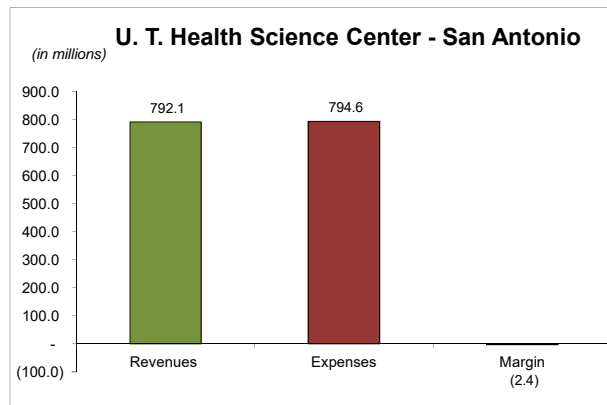
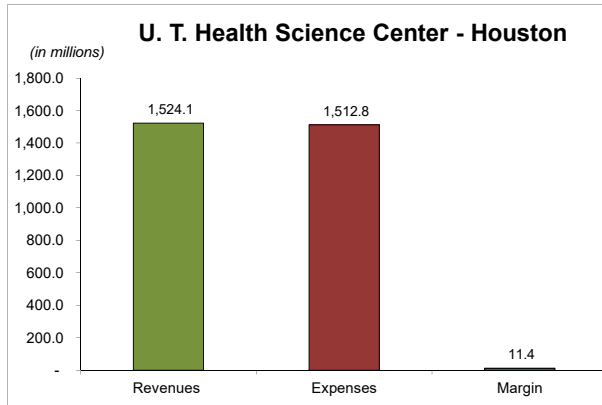
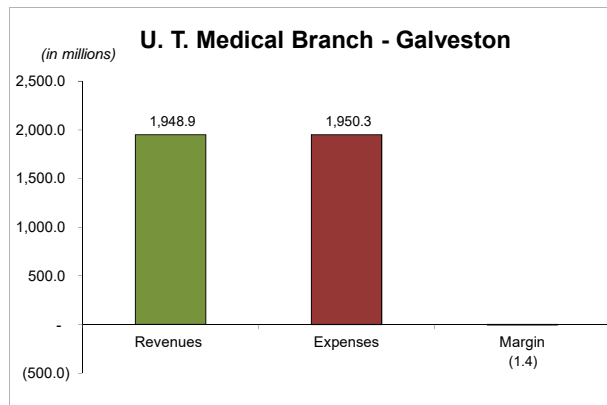
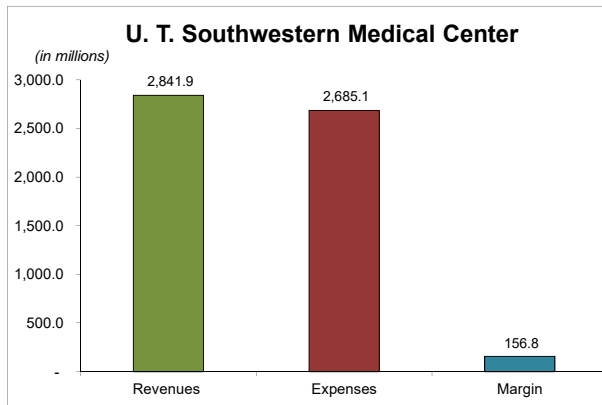
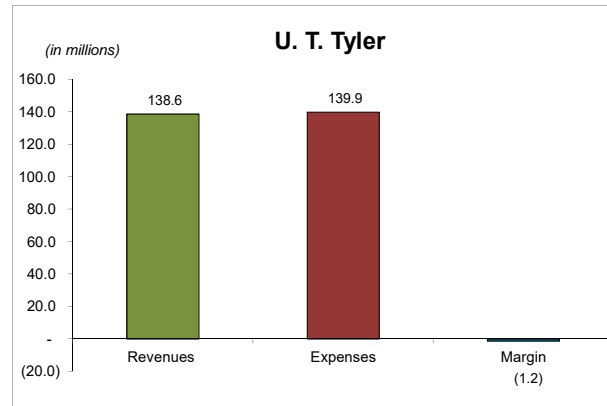
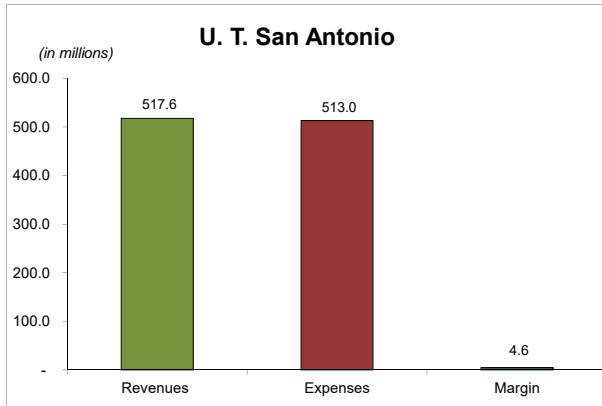
<i>(in millions)</i>	U. T. Consolidated			
	July FY 2017	July FY 2018	Actual Year- End 2017	Projected FY 2018
Clinical Revenues	\$ 6,931.2	7,493.3	7,598.6	8,177.0
Sponsored Programs	3,205.3	3,366.1	3,644.5	3,756.2
State Appropriations	2,115.6	2,108.7	2,316.8	2,299.2
Net Tuition and Fees	1,588.6	1,633.0	1,718.4	1,780.7
Auxiliary Revenues/Sales & Services of Educational Activities	1,160.0	1,218.1	1,070.0	1,140.2
Net Investment Income/AUF	1,053.6	1,431.6	1,343.1	1,559.0
Other Operating Revenues	498.4	468.7	584.6	525.0
Gift Contributions for Operations	382.9	386.4	446.6	441.1
Total Revenues	16,935.7	18,106.0	18,722.5	19,678.2
Salaries and Wages	7,713.6	8,024.3	8,343.0	8,693.1
Payroll Related Costs	2,121.7	2,192.0	2,009.0	2,373.9
All Other Operating Expenses	1,705.8	1,783.6	1,871.0	2,011.5
Materials and Supplies	1,739.9	1,905.2	1,885.2	2,069.7
Depreciation and Amortization	1,264.2	1,313.0	1,395.8	1,441.7
Other Contracted Services	755.3	783.1	922.2	925.7
Professional Fees and Services	461.4	444.9	487.3	451.3
Interest Exp. on Cap. Asset Financing	257.5	273.3	262.6	298.5
Utilities	268.6	278.2	276.2	285.2
Total Expenses	\$ 16,288.2	16,997.6	17,452.2	18,550.6
Adjusted Income (Loss) - Excluding OPEB & Pension Exp.	647.5	1,108.3	1,270.4	1,127.6
OPEB Expense	648.1	1,001.7	934.2	1,092.7
Pension Expense	229.5	231.0	367.7	252.0
Adjusted Income (Loss)	(230.1)	(124.3)	(31.6)	(217.1)



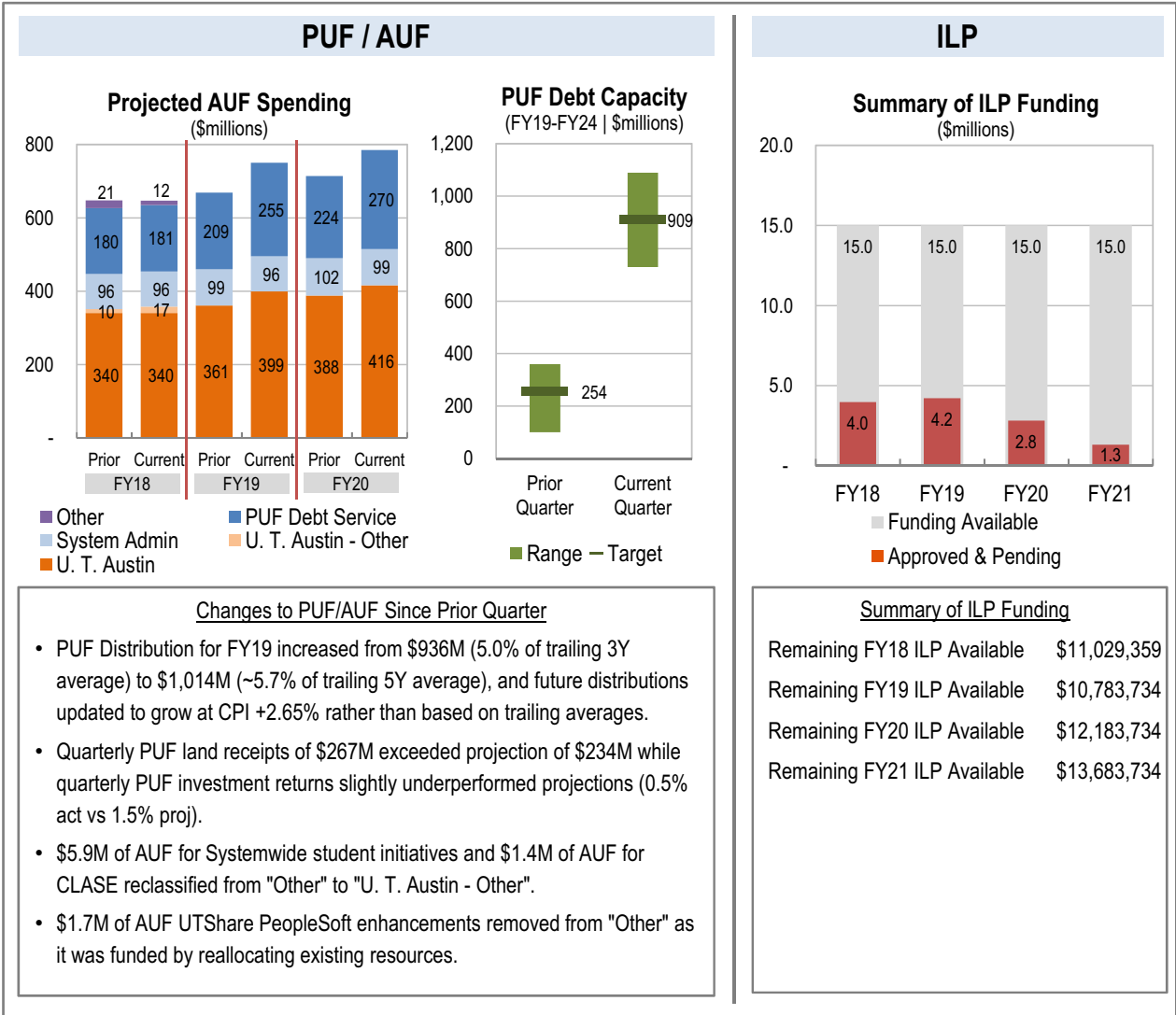
**KEY INDICATORS OF FINANCIAL RESULTS
YEAR-TO-DATE 2018 FROM JULY MONTHLY FINANCIAL REPORT**



**KEY INDICATORS OF FINANCIAL RESULTS
YEAR-TO-DATE 2018 FROM JULY MONTHLY FINANCIAL REPORT**



PUF / AUF / ILP Update For Quarter Ending August 31, 2018



PUF - Permanent University Fund
 AUF - Available University Fund
 ILP - Internal Lending Program

3. **U. T. System Board of Regents: Approval of the Annual Budget for FY 2019, 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, 2019, as set forth in the PowerPoint presentation on the following pages, which includes the capital expenditures budget and other external direct charges to the Funds on [Page 82](#), and the Annual Fee and Allocation Schedule on [Page 85](#).

BACKGROUND INFORMATION

The proposed Total Budgeted Costs consist of \$43.8 million for UTIMCO services (18.0% increase over FY 2018 budget) and \$11.5 million (31.3% increase from FY 2018 budget) for Fund Direct Costs (external non-investment manager services such as custodial, legal, audit, and consulting services), for a total of \$55.3 million. These Total Budgeted Costs represent only a portion of total investment costs as they exclude external manager fees. The proposed Total Budgeted Costs was approved by the UTIMCO Board on September 20, 2018.

The 18.0% increase in UTIMCO services is mostly attributable to the creation of new investment groups and an increase in depreciation and lease expenses related to the office move to the U. T. System Building in 2017. The 31.3% increase in Fund Direct Costs is mostly attributable to an increase in custodian-related costs due to considerable asset base appreciation, especially in the emerging markets.

The proposed capital expenditures budget totaling \$.3 million is included in the total Annual Budget. The proposed Annual Fee and Allocation Schedule shows the allocation of the proposed budgeted expenses among U. T. System funds in total.

UTIMCO projects that there will be no surplus cash reserves available to be distributed back to U. T. System per the Master Investment Management Services Agreement (IMSA) between the U. T. System Board of Regents and UTIMCO.

The U. T. System Office of Business Affairs has prepared a memorandum for the purpose of reviewing budgeted expenses, which is included as a part of this Agenda Item on [Pages 86 - 95](#).



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

UTIMCO Budget

Mr. Britt Harris

President, CEO and Chief Investment Officer

U. T. System Board of Regents' Meeting

Finance and Planning Committee

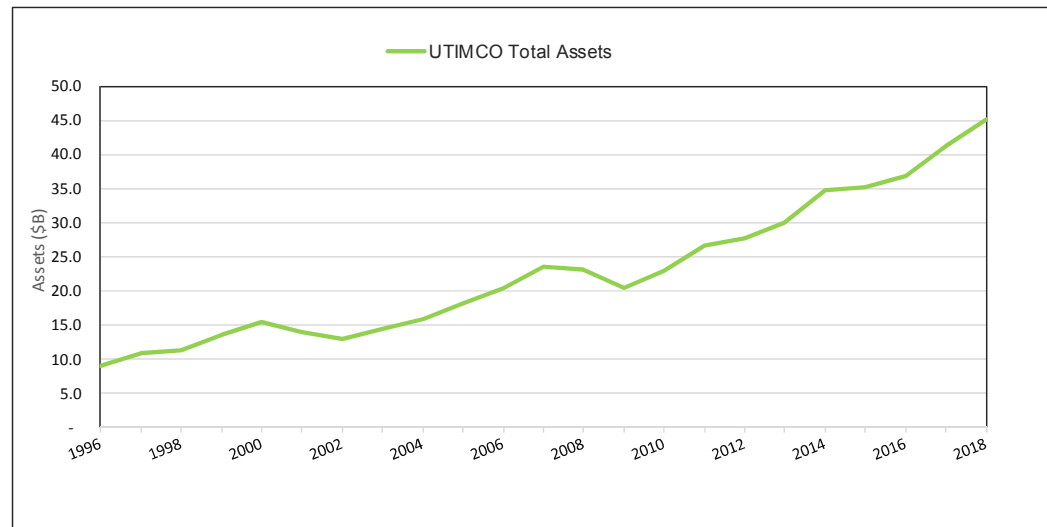
November 2018



UTIMCO Asset Growth

As of Aug 31, 2018, \$ in Mill

	1 Year	3 Year
Total Asset Growth	+\$3,774	+\$9,870
UTIMCO Value-Added	+\$354	+\$966

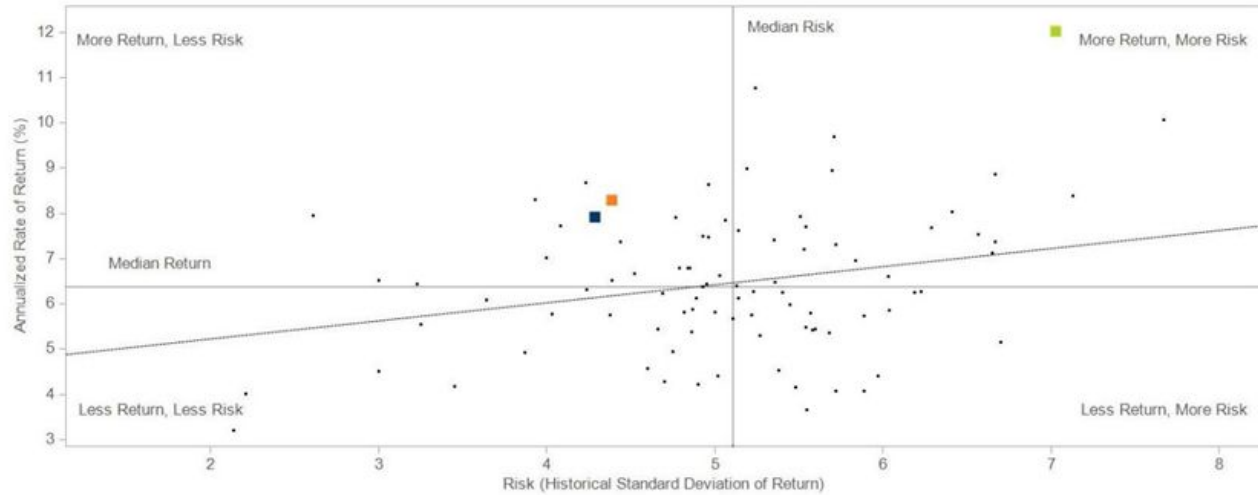


Source: UTIMCO



Risk vs. Total Returns

Three Years Ending June 30, 2018



Alpha: 4.43
Beta: 0.4
R-Squared: 0.07

	Risk Value	Risk Rank	Return Value	Return Rank
GEF TOTAL FUND	4.41	79	8.19	13
PUF TOTAL FUND	4.31	82	7.82	19
S&P 500	7.05	3	11.93	1
Median	5.11		6.37	

Source: Wilshire Trust Universe Comparison Service



UTIMCO Annual Budget

\$ in thousands	FY 2018	FY 2019	FY 2019 Budget v FY 2018 Budget	
	Budget	Budget	\$	%
Salaries, Benefits & Taxes	\$17,680	\$19,760	\$2,080	11.8%
Incentive Compensation	9,316	12,908	3,592	38.6%
Total Compensation	26,996	32,668	5,672	21.0%
Other Expenses	10,106	11,121	1,015	10.0%
Total UTIMCO Services	\$37,102	\$43,789	\$6,687	18.0%
Other Direct Costs to Funds	\$8,777	\$11,525	\$2,748	31.3%

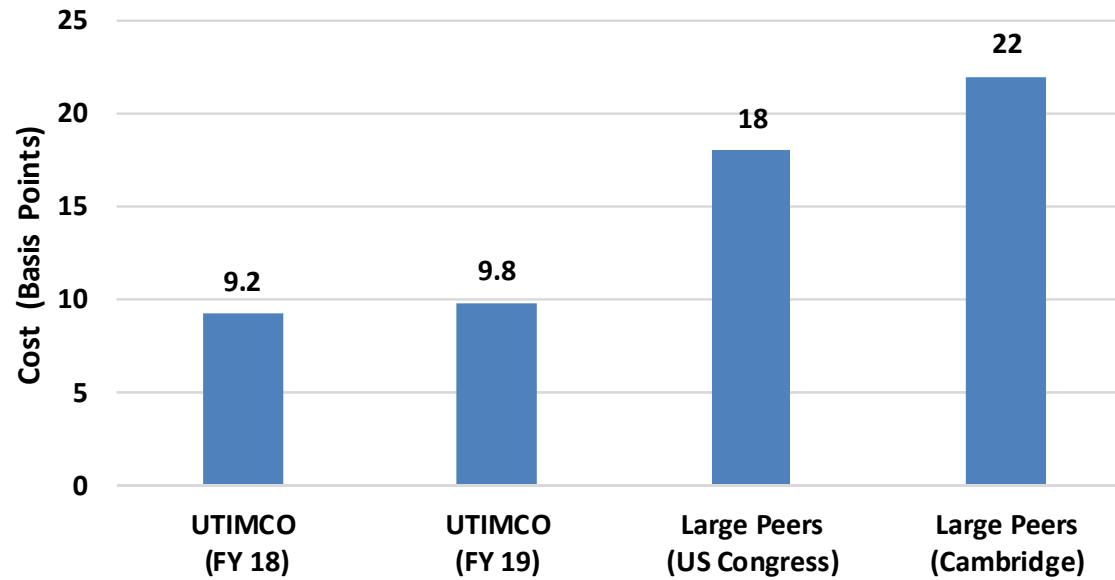


Summary of FY 2019 Budget

Actual FY18	Baseline Increase	Incremental Budget 5.7%	Approved FY19
\$37.1 M	\$4.3 M	\$2.4 M	\$43.8 M
	New capabilities/ Senior Investors: <ul style="list-style-type: none"> • CEO • Asset Allocation • Stable Value Hedge Funds • Deputy CIO • Strategic Partnership 	Results: <ul style="list-style-type: none"> • Changes to current employee compensation • 4 Additional employees • Contractors to help IT improve cyber security and address infrastructure system issues 	



UTIMCO Services Budget In Context



Source: Cambridge Associates, UTIMCO

UTIMCO Annual Fee and Allocation Schedule



UTIMCO Management Fee and Direct Budgeted Investment Expenses

For the fiscal year ending August 31, 2019

<u>Proposed Budget</u>	<u>Fund Name</u>						Separate Funds 	Debt Proceeds 	Total
	PUF	PHF	LTF	GEF	ITF	STF			
<u>Market Value 6/30/18 (\$ millions)</u>	21,519			10,416	9,944	1,861	309	515	44,564
<u>UTIMCO Management Fee</u>									
Dollars	22,500,436			10,891,051	10,397,525				43,789,012
Basis Points	10.5			10.5	10.5				9.8
<u>Direct Expenses to the Fund, excluding UT System Direct Expenses to the Fund</u>									
Dollars	5,708,565	26,478	28,828	3,001,345	2,759,958				11,525,174
Basis Points	2.7	0.2	0.0	2.9	2.8				2.6

Fiscal Year 2019

**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**

October 9, 2018

Based on UTIMCO Board approval on September 20, 2018

**Fiscal Year 2019
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 2019 that the UTIMCO Board approved on September 20, 2018 and the U. T. System Board of Regents will consider at its November 14-15, 2018 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 Funds related legal and audit costs. The proposed budget for FY19 is:

	FY19 (\$ millions)
UTIMCO Services Budget	43.8
Direct Costs to Funds Budget	11.5
Total Budgeted Costs	<u>\$ 55.3</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:

- **Total Budgeted Costs for FY19:** The FY19 budget is \$55.3 million, a 20.6% increase from the FY18 budget.
- **Total Forecast Costs for FY18:** Total costs for FY18 are forecast at \$47.7 million, which is 4.0% higher than what was budgeted.
- **The UTIMCO Services Budget:** The FY19 budget includes \$43.8 million for the “operating” budget of UTIMCO, an 18.0% increase from the FY18 budget. The increase is primarily due to the creation of new investment groups and additional support (6 net FTEs created during FY18 and 4 new FTEs budgeted for FY19) and an increase in depreciation and lease expense resulting from the office move.
- **The Total Direct Costs to Funds Budget:** The FY19 budget of \$11.5 million for direct fund costs is up \$2.7 million, a 31.3% increase from the FY18 budget. The increase is primarily due to increases in custodian related costs because of considerable asset base appreciation, especially in the emerging markets.
- **UTIMCO Reserves:** There are no reserves available to be distributed at fiscal year-end 2018 as the reserve balances are at the recommended levels to cover appropriate levels of the budget and capital expenditures.

Budget Analysis and Trends

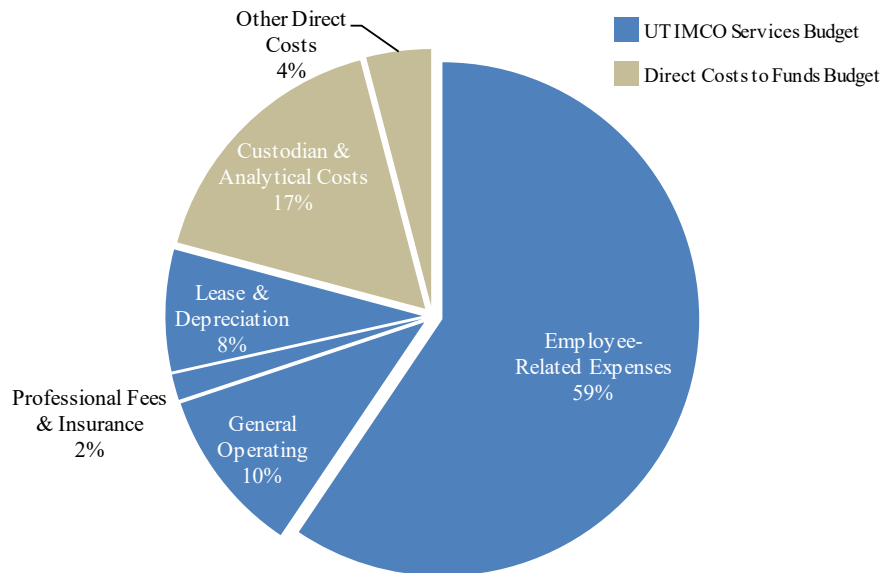
UTIMCO proposes Total Budgeted Costs for FY19 of \$55.3 million. Table 1 shows the Total Budgeted Costs (Direct Costs to Funds and UTIMCO Services Budget) as a percent of average Assets Under Management (“AUM”) for FY19 and the Total Actual Costs as a percent of average AUM from FY14 to FY18.

Table 1: Total Actual Costs Trend FY14-FY18 and Total Budgeted Costs FY19
(\$ millions)

	Actual				Forecast	Budget
	FY14	FY15	FY16	FY17	FY18	FY19
Average Total AUM ¹	32,363	34,957	36,016	39,063	43,173	45,511
% Change in AUM	12%	8%	3%	8%	11%	5%
Direct Costs to Funds	7.1	8.1	8.2	8.4	11.0	11.5
% Change in Direct Costs to Funds	-1.6%	14.0%	1.7%	2.2%	31.5%	4.7%
Direct Costs to Funds % of AUM	0.02%	0.02%	0.02%	0.02%	0.03%	0.03%
UTIMCO Services	24.9	25.7	26.8	33.2	36.7	43.8
% Change in UTIMCO Services	-5.1%	3.2%	4.5%	23.6%	10.5%	19.3%
UTIMCO Services % of AUM	0.08%	0.07%	0.07%	0.08%	0.08%	0.10%
Total Costs	32.0	33.7	35.0	41.6	47.7	55.3
% Change in Total Costs	-4.3%	5.6%	3.8%	18.6%	14.8%	16.0%
Total Costs % of AUM	0.10%	0.10%	0.10%	0.11%	0.11%	0.12%

¹ FY18 and FY19 Average Total AUM assumes projected balances based on moderate returns, projected West Texas Land and gift income, and projected distributions.

FY 19 Total Budgeted Costs \$55.3 million



The UTIMCO Services Budget (blue shade in the pie chart above) represents 79% of the total budget, with employee-related expenses being the largest component at 59%. Direct Costs to Funds include Custodian & Analytical Costs (17%) and Other Direct Costs (4%).

Management fees and performance fees paid to external investment managers, which are either paid directly by UTIMCO or netted against asset values by the external managers, are not included in these amounts. UTIMCO retains external managers for approximately 90% of the AUM, with UTIMCO staff directly managing approximately 10% of assets as well as an internal derivatives portfolio.

Table 2 compares the Total Budgeted Costs for FY18 and FY19. Refer to Exhibits A and B at the end of this memo for a detailed budget comparison for FY18-FY19 and actual trend history for FY14-FY18.

Table 2: FY18 Forecast and FY19 Budget Overview
(\$ millions)

	FY18 Forecast				FY19 Budget			
	\$ Budget	\$ Projected	\$ Change vs FY18 Budget	% Change vs FY18 Budget	\$ Budget	\$ Change vs FY18 Projected	% Change vs FY18 Projected	% Change vs FY18 Budget
UTIMCO Services	37.1	36.7	-0.4	-1.1%	43.8	7.1	19.3%	18.0%
Direct Costs to Funds	8.8	11.0	2.2	25.4%	11.5	0.5	4.7%	31.3%
Total Budgeted Costs	45.9	47.7	1.8	3.9%	55.3	7.6	16.0%	20.6%

UTIMCO Services Budget

For FY19, total personnel-related expenses including employee benefits account for 75% of the UTIMCO Services Budget (or 59% 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:

- Staffing increased 6 budgeted positions to 89 positions during FY18. Actual positions at the end of FY18 were 94, and the FY19 budget includes an additional 4 positions for a total of 98 budgeted positions by the fiscal year-end.
 - There were 6 additional positions created that were not budgeted in FY18 because of the creation of new investment groups (2 FTEs for Tactical Asset Allocation and a Stable Value Hedge Funds director), and the addition of 3 positions to support existing operations (a help desk technician for Information Services, an administrative assistant in the CEO office, and a Natural Resources analyst).
 - There was one position removed during FY18 due to the departure of a senior investment managing director.
 - There are an additional 4 positions included in FY19 (an investment counsel position, a Public Equity analyst, an HR generalist, and an Operations specialist).
- With the additional staffing, average AUM per employee in FY19 has decreased to \$464 million, which is the lowest it has been over the past 5 years, when it has ranged from \$471 to \$515 million.
- Total Compensation has grown by 7.6% annually from FY14 to FY18 primarily because of the addition of new positions. Total Compensation for FY19 is budgeted 18.6% above FY18 projected levels, which would equate to a 12.5% growth rate on an average annual basis over a five-year period.

- Since FY14, Total Compensation per employee has decreased 2.3% (annualized) from \$283k to \$258k forecast in FY18 but is budgeted to be at \$294k in FY19.

Table 3: UTIMCO Compensation and Headcount FY14-FY19 (excluding benefits)

	Actual				Forecast FY18	% Change Since FY14 (annual)	Budget FY19	% Change From FY18
	FY14	FY15	FY16	FY17				
Employees (as of year end)	64	72	70	83	94	10.1%	98	4.3%
Average Total AUM (\$ millions)	32,363	34,957	36,016	39,063	43,173	7.5%	45,511	5.4%
Average AUM/Employee (\$ millions)	506	486	515	471	459	-2.4%	464	1.1%
Salaries (\$ millions)	8.7	9.4	10.4	10.9	13.5	11.6%	15.9	18.0%
Performance Compensation (\$ millions)	9.4	8.5	7.2	10.3	10.8	3.4%	12.9	19.3%
Total Compensation (\$ millions)	18.1	17.9	17.6	21.2	24.3	7.6%	28.8	18.6%
Total Compensation per Employee (\$)	283,135	248,920	251,857	255,552	258,289	-2.3%	293,712	13.7%
Perf. Comp. as % of Salaries	109%	91%	70%	94%	80%		81%	
Perf. Comp. as % of Total Compensation	52%	48%	41%	49%	45%		45%	

Investment staff compensation increases in recent years are a result of peer benchmarking studies conducted in 2013, 2015, and again in 2017 that detailed UTIMCO's staff compensation to be lower than the compensation plans' objective of paying staff at median levels compared to peers. The FY18 budget included the increases to meet these objectives. The FY19 budget includes increases related to the creation of the new investment groups, new positions, promotions and normal salary increases.

Lease and Depreciation Expenses: Lease expenses are budgeted to increase 12% compared to FY18 forecasted amounts, due primarily to the impact of a full-year's lease taking effect in FY19. UTIMCO moved into the new building in February 2018, leasing 68% more space than was being leased in the Frost Tower to accommodate future growth. Although the move to the UTS building resulted in significant savings on a per square foot basis due to both reduced operating expenses and property tax savings, overall lease expenses were higher in FY18 compared to FY17 due to the additional space leased. The City of Austin has seen tremendous growth since UTIMCO's original lease was executed and rent rates have increased accordingly. Table 4 shows the lease expense trends from FY14-FY19.

Depreciation Expense is budgeted to increase 50% to \$1.6 million compared to the FY18 forecasted amount of \$1.1 million because of new equipment, furniture, and leasehold improvement purchases related to the office move.

Table 4: UTIMCO Lease Expenses FY14-FY19

	Actual				Forecast FY18	Budget FY19
	FY14	FY15	FY16	FY17		
Property Lease	\$518,373	\$518,373	\$518,373	\$1,136,800	\$1,762,827	\$2,047,589
Operating Lease	606,703	632,036	661,948	860,630	587,718	624,000
Parking Expenses	146,272	149,819	154,348	169,335	196,818	216,600
Other Expenses	8,102	7,050	9,497	14,150	5,416	6,000
Amortization (Deferred Rent Credit)	(170,344)	(170,344)	(170,344)	(108,267)	(208,054)	(263,865)
Total Lease Expenses (net)	\$1,109,106	\$1,136,934	\$1,173,822	\$2,072,648	\$2,344,725	\$2,630,324

Other General Operating Expenses, Professional Fees, and Insurance (non-employee): includes office expenses, insurance, travel, professional fees, contract services and maintenance costs and are forecast to be \$5.5 million, which is \$0.63 million or 10% lower than the FY18 budget of \$6.1 million. The decrease is due to lower than expected costs for online data providers and subscriptions as well as lower than expected travel expenses.

General operating expenses for FY19 are budgeted to increase by \$0.57 million, or 9%, from \$6.1 million to \$6.7 million. The increase is primarily attributable to

- several new online data providers and subscription additions along with additional license purchases due to new hires (\$338k);
- an increase in travel costs due to the new hires and more international travel (\$172k).
- an increase in other contract services for contractors to assist with IT projects (\$200k) partially offset by a decrease due to the removal of moving costs incurred in FY18 (\$135k).

Direct Costs to Funds

Direct Costs to Funds for FY19 are budgeted at \$11.5 million, a \$2.7 million or 31.3% increase from the FY18 budget. This is primarily because of increases in custodian related costs due to considerable asset base appreciation, especially in the emerging markets (\$2.6 million).

UTIMCO Capital Expenditures

The trend for Capital Expenditures for FY14-FY19 is summarized in Table 5 below. Capital expenditures were high but below budget in FY18 due to the move to the UTS Building. For FY19, capital expenditures are budgeted to return to historically low levels due to reduced costs associated with a new building.

Table 5: UTIMCO Capital Expenditures FY14-FY19

	Actual				Forecast FY18	Budget FY19
	FY14	FY15	FY16	FY17		
Ongoing: Technology and Software Upgrades	\$46,623	\$107,810	\$179,345	\$56,488	\$17,758	\$40,000
Ongoing: Office Equipment and Fixtures	-	107,135	4,241	5,374	77,585	-
Expansion: Technology Initiatives / Video Conferencing	1,035,190	1,076,643	91,580	-	1,238,149	123,000
Expansion: Leasehold Buildout (net of TI allowance in FY18)	-	150,085	-	-	6,498,972	50,000
Expansion: Furniture and Fixtures	-	-	-	-	2,669,179	50,000
Total Capital Expenditures (net)	\$1,081,813	\$1,441,673	\$275,166	\$61,862	\$10,501,643	\$263,000

EXHIBIT A

Total Budgeted Costs FY18-FY19

	FY18		Change from FY18 Budget		FY19		Change from FY18 Forecast		Change from FY18 Budget	
	Budget	Forecast	\$	%	Budget	\$	%	%		
UTIMCO Services										
Salaries	14,474,000	13,459,359	-1,014,641	-7.0%	15,876,073	2,416,714	18.0%	9.7%		
Performance Compensation + Earnings	9,316,000	10,819,849	1,503,849	16.1%	12,907,738	2,087,889	19.3%	38.6%		
Total Compensation	23,790,000	24,279,208	489,208	2.1%	28,783,811	4,504,603	18.6%	21.0%		
Total Payroll taxes	846,369	1,029,484	183,115	21.6%	1,101,784	72,300	7.0%	30.2%		
403(b) Contributions	964,036	925,972	-38,064	-3.9%	1,193,023	267,051	28.8%	23.8%		
Insurance & Cell Phone	1,289,582	1,231,896	-57,686	-4.5%	1,425,603	193,707	15.7%	10.5%		
Employee Benefits	2,253,618	2,157,868	-95,750	-4.2%	2,618,626	460,758	21.4%	16.2%		
Recruiting and Relocation Expenses	101,000	235,985	134,985	133.6%	162,000	-73,985	-31.4%	60.4%		
Employee Education	151,747	100,769	-50,978	-33.6%	215,706	114,937	114.1%	42.1%		
Other Employee Related Expenses	252,747	336,754	84,007	33.2%	377,706	40,952	12.2%	49.4%		
Total Employee Related Expenses	27,142,734	27,803,314	660,580	2.4%	32,881,927	5,078,613	18.3%	21.1%		
On-Line Data & Subscriptions	2,941,043	2,707,036	-234,007	-8.0%	3,279,505	572,469	21.1%	11.5%		
Contract Services & Maintenance	837,882	792,885	-44,997	-5.4%	900,296	107,411	13.5%	7.4%		
Travel & Meetings, Including BOD	1,129,072	948,981	-180,091	-16.0%	1,313,020	364,039	38.4%	16.3%		
Phone and Telecommunications	44,412	48,239	3,827	8.6%	56,412	8,173	16.9%	27.0%		
Computer & Office Supplies	103,596	154,714	51,118	49.3%	69,176	-85,538	-55.3%	-33.2%		
Other Office Expenses	157,524	147,938	-9,586	-6.1%	156,228	8,290	5.6%	-0.8%		
Total Office Expense	305,532	350,891	45,359	14.8%	281,816	-69,075	-19.7%	-7.8%		
Total Lease Expense	2,449,242	2,344,725	-104,517	-4.3%	2,630,324	285,599	12.2%	7.4%		
Board, Comp., & Hiring Consultants	429,000	325,900	-103,100	-24.0%	411,000	85,100	26.1%	-4.2%		
Legal Expenses	200,004	102,572	-97,432	-48.7%	215,004	112,432	109.6%	7.5%		
Accounting fees	60,600	58,625	-1,975	-3.3%	60,600	1,975	3.4%	0.0%		
Total Professional Fees	689,604	487,097	-202,507	-29.4%	686,604	199,507	41.0%	-0.4%		
Total Insurance	207,192	191,883	-15,309	-7.4%	215,520	23,637	12.3%	4.0%		
Depreciation of Equipment	1,400,000	1,067,131	-332,869	-23.8%	1,600,000	532,869	49.9%	14.3%		
Total Non-Employee Related Expenses	9,959,567	8,890,629	-1,068,938	-10.7%	10,907,085	2,016,456	22.7%	9.5%		
Total UTIMCO Services	37,102,301	36,693,943	-408,358	-1.1%	43,789,012	7,095,069	19.3%	18.0%		
Direct Costs to Funds										
Custodian Fees and Other Direct Costs	6,361,445	8,832,035	2,470,590	38.8%	8,947,724	115,690	1.3%	40.7%		
Risk Measurement	324,001	312,499	-11,501	-3.5%	324,000	11,501	3.7%	-0.0%		
Custodian and Analytical Costs	6,685,445	9,144,534	2,459,089	36.8%	9,271,724	127,190	1.4%	38.7%		
Consultant Fees	527,500	477,500	-50,000	-9.5%	527,500	50,000	10.5%	0.0%		
Auditing	790,000	790,000	0	0.0%	811,750	21,750	2.8%	2.8%		
Legal Fees	250,000	103,931	-146,069	-58.4%	250,000	146,069	140.5%	0.0%		
Background Searches & Other	524,203	487,597	-36,606	-7.0%	664,200	176,603	36.2%	26.7%		
Other Direct Costs Total	2,091,703	1,859,028	-232,675	-11.1%	2,253,450	394,422	21.2%	7.7%		
Total Direct Costs to Funds	8,777,148	11,003,562	2,226,414	25.4%	11,525,174	521,612	4.7%	31.3%		
Total Budgeted Costs	45,879,449	47,697,505	1,818,056	4.0%	55,314,186	7,616,681	16.0%	20.6%		

EXHIBIT B

Total Actual Costs FY14-FY18

	FY14	FY15	FY16	FY17	FY18	FY19
	Actual	Actual	Actual	Actual	Forecast	Budget
UTIMCO Services						
Salaries	8,670,689	9,394,865	10,394,021	10,919,643	13,459,359	15,876,073
Performance Compensation + Earnings	9,449,922	8,527,380	7,235,982	10,291,209	10,819,849	12,907,738
Total Compensation	18,120,611	17,922,244	17,630,003	21,210,852	24,279,208	28,783,811
Total Payroll taxes	674,824	690,884	701,081	843,661	1,029,484	1,101,784
403(b) Contributions	650,111	696,658	748,756	749,882	925,972	1,193,023
Insurance & Cell Phone	853,864	861,002	891,694	1,126,193	1,231,896	1,425,603
Employee Benefits	1,503,975	1,557,659	1,640,450	1,876,075	2,157,868	2,618,626
Recruiting and Relocation Expenses	39,886	65,609	86,701	161,814	235,985	162,000
Employee Education	43,996	62,452	170,253	82,904	100,769	215,706
Other Employee-Related Expenses	83,883	128,061	256,954	244,718	336,754	377,706
Total Employee Related Expenses	20,383,292	20,298,848	20,228,487	24,175,306	27,803,314	32,881,927
On-Line Data & Subscriptions	1,053,346	1,118,283	1,285,682	1,935,118	2,707,036	3,279,505
Contract Services & Maintenance	295,933	414,417	572,156	425,494	792,885	900,296
Travel & Meetings, Including BOD	531,618	706,348	669,207	688,498	948,981	1,313,020
Phone and Telecommunications	51,757	44,263	38,233	40,540	48,239	56,412
Computer & Office Supplies	46,945	62,271	57,638	60,836	154,714	69,176
Other Office Expenses	110,688	108,060	151,632	147,974	147,938	156,228
Total Office Expense	209,389	214,595	247,503	249,349	350,891	281,816
Total Lease Expense	1,109,105	1,136,934	1,173,823	2,072,648	2,344,725	2,630,324
Board, Compensation, & Hiring Consultants	285,917	295,519	609,327	762,181	325,900	411,000
Legal Expenses	77,795	100,462	145,157	188,846	102,572	215,004
Accounting fees	51,934	60,045	53,520	56,950	58,625	60,600
Total Professional Fees	415,646	456,027	808,005	1,007,977	487,097	686,604
Total Insurance	219,163	213,576	204,428	187,348	191,883	215,520
Depreciation of Equipment	676,524	1,129,717	1,657,536	2,453,498	1,067,131	1,600,000
Total Non-Employee Related Expenses	4,510,724	5,389,895	6,618,339	9,019,930	8,890,629	10,907,085
Total UTIMCO Services	24,894,016	25,688,744	26,846,826	33,195,236	36,693,943	43,789,012
Direct Costs to Funds						
Custodian Fees and Other Direct Costs	4,796,883	5,766,874	5,686,948	6,221,234	8,832,035	8,947,724
Analytical Tools	395,504	395,581	412,156	399,568	0	0
Risk Measurement	292,000	292,000	292,000	286,501	312,499	324,000
Custodian and Analytical Costs	5,484,387	6,454,455	6,391,103	6,907,303	9,144,534	9,271,724
Consultant Fees	353,500	292,193	359,041	320,000	477,500	527,500
Auditing	526,865	718,663	789,873	770,000	790,000	811,750
Legal Fees	272,735	229,987	156,126	83,715	103,931	250,000
Background Searches & Other	427,044	357,264	489,539	287,165	487,597	664,200
Other Direct Costs Total	1,580,144	1,598,107	1,794,579	1,460,880	1,859,028	2,253,450
Total Direct Costs to Funds	7,064,531	8,052,562	8,185,683	8,368,183	11,003,562	11,525,174
Total Budgeted Costs	31,958,547	33,741,306	35,032,509	41,563,419	47,697,505	55,314,186

EXHIBIT C
UTIMCO Reserve Analysis for August 31, 2018

<u>Cash Reserves at August 31, 2018</u>		
Cash		\$ 20,112,598
Prepaid Expenses		1,500,000
Less: Accounts Payable (Includes incentive compensation & earnings payable)		<u>(12,000,000)</u>
Cash Reserves at August 31, 2017		<u>\$ 9,612,598</u>
FY19 Proposed Operating Budget	43,789,012	
Applicable Percentage	25%	10,947,253
FY19 Proposed Capital Expenditures	263,000	<u>263,000</u>
Required Cash Reserves at August 31, 2018		<u>\$ 11,210,253</u>
Balance Available for Distribution		\$ -
Recommended Distribution		\$ -

4. **U. T. System Board of Regents: Update on University Lands**

REPORT

Mr. Mark Houser, Chief Executive Officer - University Lands, will report on matters related to University Lands using the PowerPoint presentation set forth on the following pages.



University Lands Update

Mr. Mark Houser, Chief Executive Officer – University Lands

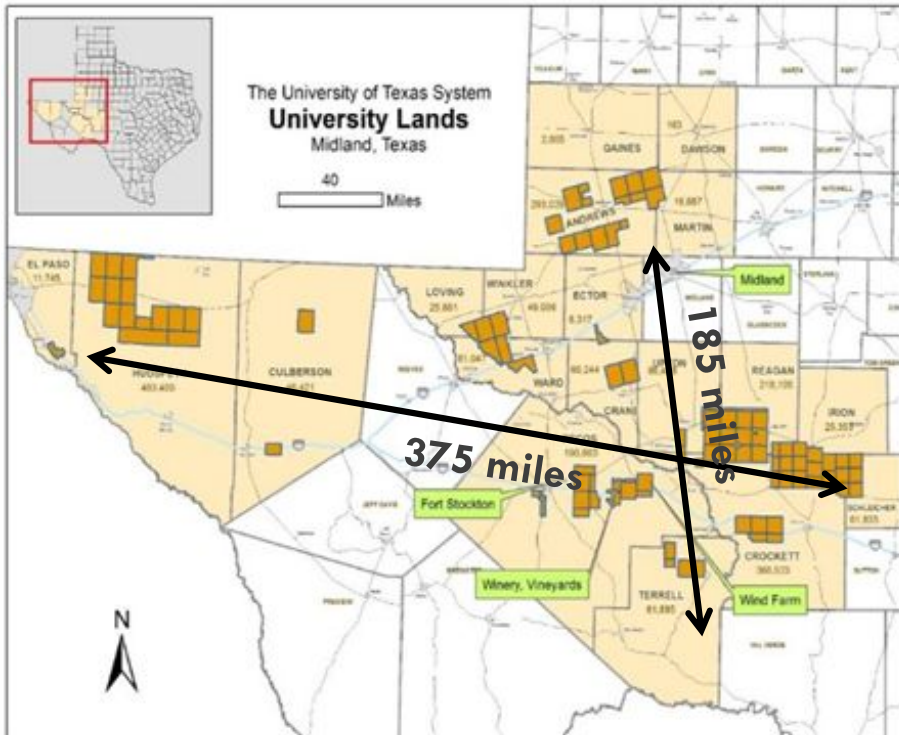
U. T. System Board of Regents' Meeting
Finance and Planning Committee
November 2018



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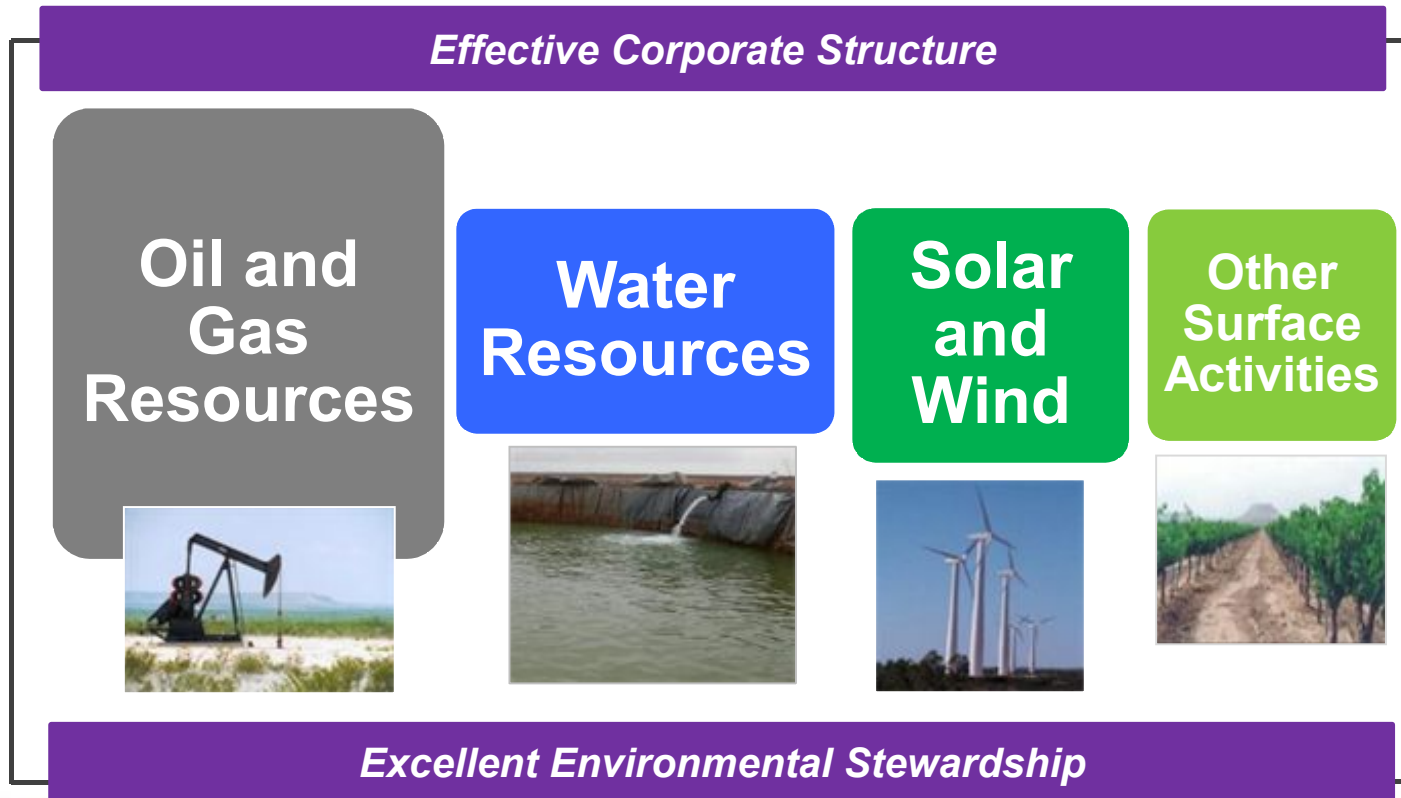
University Lands (UL): 20-Year Vision



- Oil and gas production will be predominant revenue source
 - Drilling inventory of 50+ years at normalized rates
 - Assuming ***consistent and increasing development activity*** and continued technical momentum, production levels could increase 50-100% over the next 10-15 years
 - Technology advancements will continue in all areas of operating activity, including environmental performance
 - While increasing modestly in market share, other energy sources will not satisfy long-term worldwide energy demand
- Water resources will be a significant contributor to infrastructure improvement and development in West Texas
- Renewable energy will be developed across University Lands acreage



UL: Economic Development Opportunities



UL: Overarching Strategy

- Create a more commercial, forward-looking organization
- Increase technical knowledge of the resources
- Work with operators to promote continuous development through commodity swings by diversifying, incentivizing and enforcing contractual rights
- Better integrate water and renewable energy into business model
- Collaborate with operators and regulatory bodies to enhance environmental stewardship
- Assess internal organizational structure and statutory framework to determine best structure for land management, stewardship and value-creation



Accomplishments/Progress on Key FY2018 Initiatives

- Ended FY2018 on track with majority of organizational goals accomplished, including strong revenue, production and reserves performance, and expenses on target with budget
- Multiple transactions executed to ensure continued development in economics-challenged Southern Midland Basin, as well as high-performing Delaware Basin
- Multiple initiatives implemented to expand water management business line
- Renewables business continues with four solar leases and two wind leases now active
- Expansion of environmental stewardship initiatives with launch of cost-share program, new environment-focused employee and new thermal imaging camera
- Expansion of internal oil and gas product marketing and pricing expertise
- University Lands Advisory Board membership expanded to a “5 / 3 / 1” makeup



FY2018: Key Agreement Negotiations

- Recent lease sale generates revenue and promotes continued development
 - \$138 million in lease sale bonuses and revenue from contracts for development in FY2018
 - ~\$34 million in early FY2019
 - Requirements for significant drilling increases under new form agreement
- Working to ensure contractual obligations are being fulfilled by operators
 - Enforcing our statutory and contractual rights on offset wells:
 - Protects against drainage and promotes full-field development
 - Requiring operators to re-start activity in dormant areas by drilling protection wells or satisfying the drilling requirement through payment of compensatory royalty
 - Negotiations due to favorable assignment language has resulted in improved agreements on three large acreage positions, resulting in an increase of 3-4 million lateral feet over next 5+ years (300 - 400 wells)
 - Development and use of production sharing agreements (PSAs) replace pooled unit agreements
 - PSA is an updated agreement with modern terms in line with current state of the industry and our goals to fully develop PUF Lands
 - 52 agreements signed with 53 well drilling commitments
 - 31 wells already drilled in FY2019

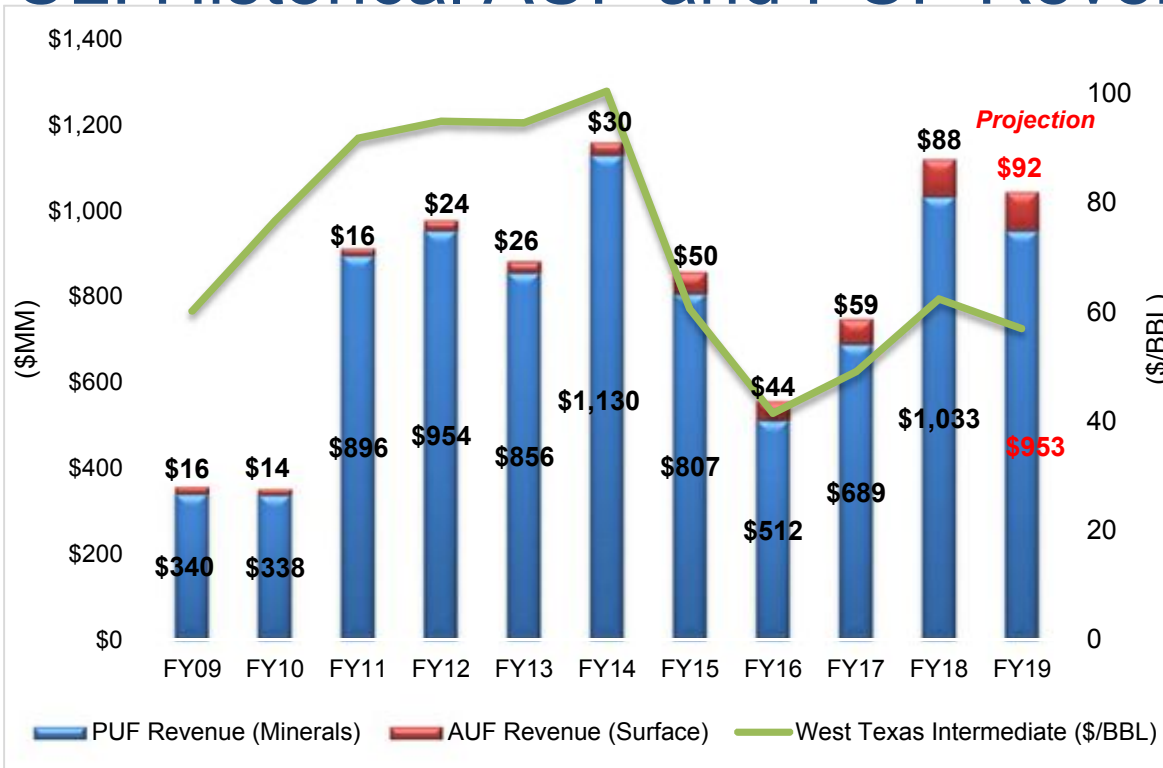


Environmental Stewardship Update

- UL invited to share “best environmental practices” of U.S. operators to Environmental Defense Fund-sponsored workshop in China in June 2018
 - ~300 attendees, including Chinese government officials and oil and gas companies
- New infrared imaging camera for use during inspections
 - Resulting imagery is qualitative, not quantitative
- New Environmental Stewardship Initiatives Program
- Alignment with and promotion of The Environmental Partnership initiative
- Increased focus on specific operator performance
- Exploring initiatives that reduce truck traffic and promote shared infrastructure across operators



UL: Historical AUF and PUF Revenue vs. Oil Price



	Pre-University Lands Advisory Board 2009 - 2013	Post-University Lands Advisory Board 2014 - 2018	% Change
AUF Revenue	96	271	182%
PUF Revenue	3,384	4,171	23%
Total Revenue	3,480	4,443	28%
WTI, \$/Barrel	85	63	-26%



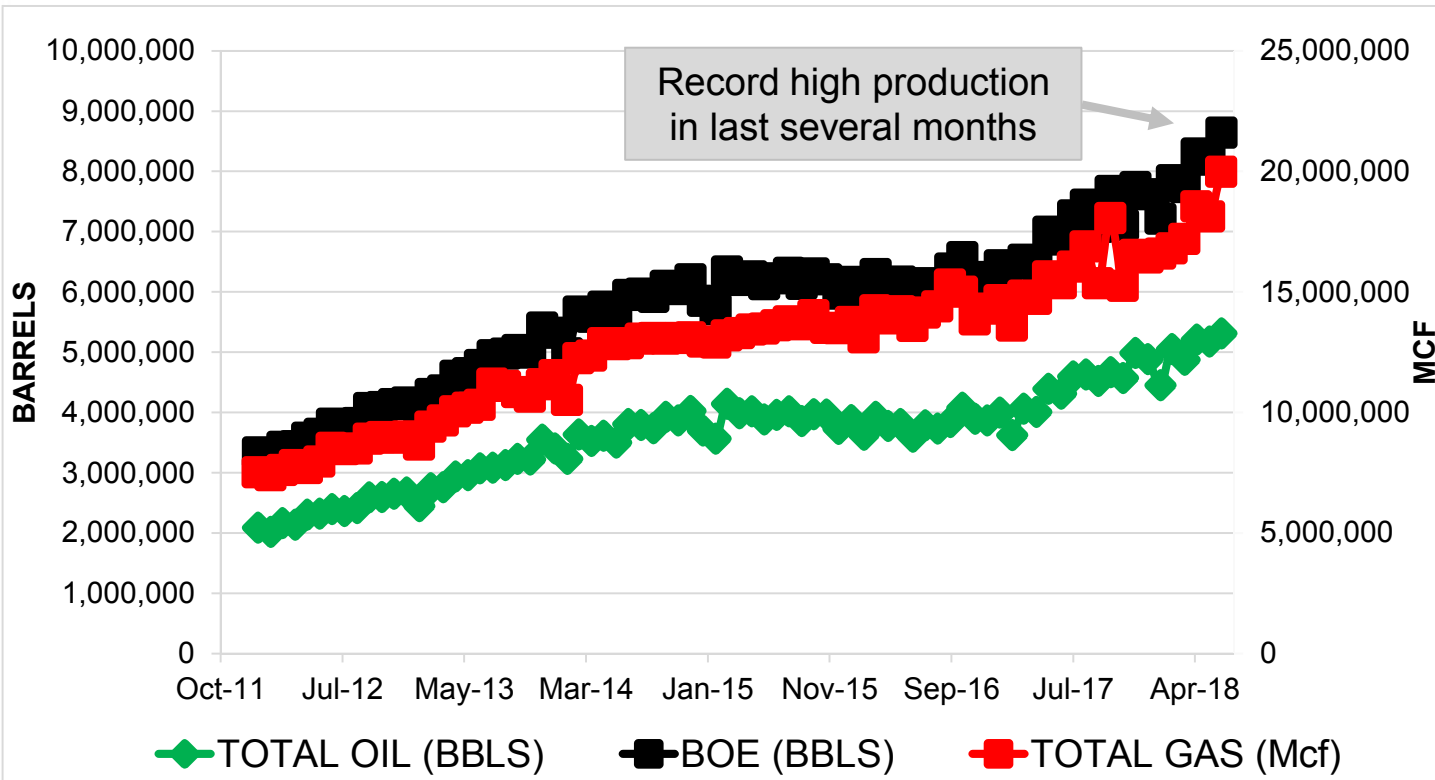
FY2019 Pro-Forma Net Revenue Projections

\$ Millions	2017 Actuals	2018			2019 Budget
		Budget	Actuals	Variance	
Annual Volumes					
Oil (MMbbl)	10,300	10,800	12,620	17%	13,539
Gas + NGLs (MMCF)	40,000	48,000	39,702	-17%	47,013
Million Barrels of Oil Equivalent (MBOE)	16,967	18,800	19,237	2%	21,375
West Texas Intermediate (WTI)	\$49.04	\$50.00	\$62.45	25%	\$66.30
Avg. Oil Price Received	\$44.85	\$47.00	\$58.00	23%	\$56.91
Avg. Gas Price Received (including NGLs)	\$3.52	\$2.90	\$3.65	26%	\$3.03
PUE					
Oil Revenue	462	508	717	41%	771
Gas Revenue	141	139	178	28%	142
Water, Caliche, Damages	2.0				
Bonuses	84	120	138	15%	40
	\$689	\$767	\$1,033	35%	\$953
AUF					
Water, Caliche, Damages	17	20	26	30%	30
Grazing	4	5	6	20%	6
Easements & Salt Water Disposal	33	35	54	54%	53
Interest, Penalty, Assignment Fees	5	5	2	-66%	3
	\$59	\$65	\$88	35%	\$92
Total Revenue	\$748	\$832	\$1,121	35%	\$1,045
General & Administrative + Operating Costs	20.8	24.8	24.7	0%	24.5
\$/Barrel of Oil Equivalent	1.23	1.32	1.28	-3%	1.15
Net Revenue	\$728	\$807	\$1,096	36%	\$1,020

- Overall, FY2018 was the second highest revenue year ever for University Lands, behind FY2014 when oil averaged >\$100/bbl
- Unit Expenses at \$1.28/BOE are significantly below industry peers
- For FY2019, we're projecting ~10% increases in oil and gas production and WTI growth to ~\$66/bbl, but with a ~\$57 "received price" due to expected increase in differentials
 - Differential due to lack of takeaway pipeline capacity, which is expected to be resolved by late 2019
- Most significant impact to year-over-year revenue is lower expectations for FY2019 lease sale revenue



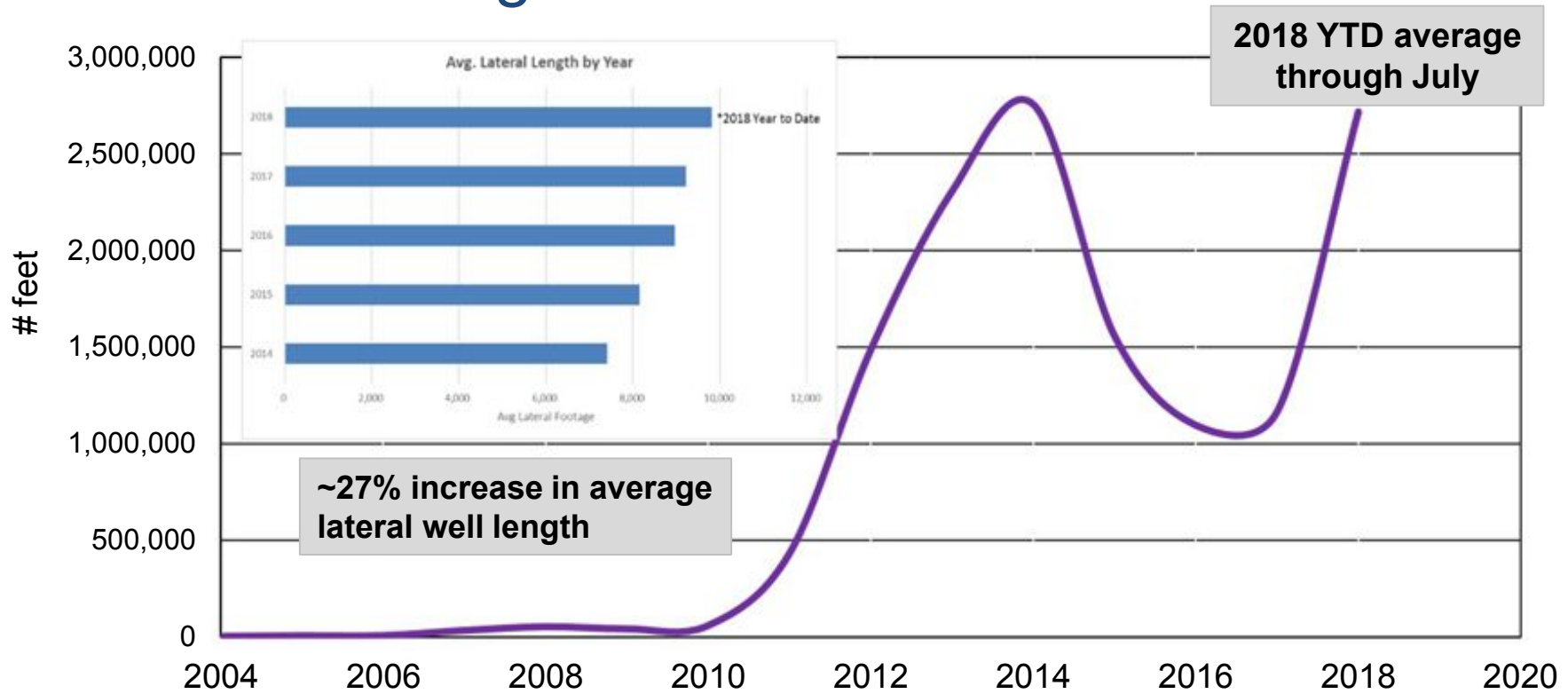
PUF Lands Gross Monthly Production (2012 - July 2018)



- Record oil production of 5.3 million barrels in July 2018
- July 2018 production +21% over July 2017

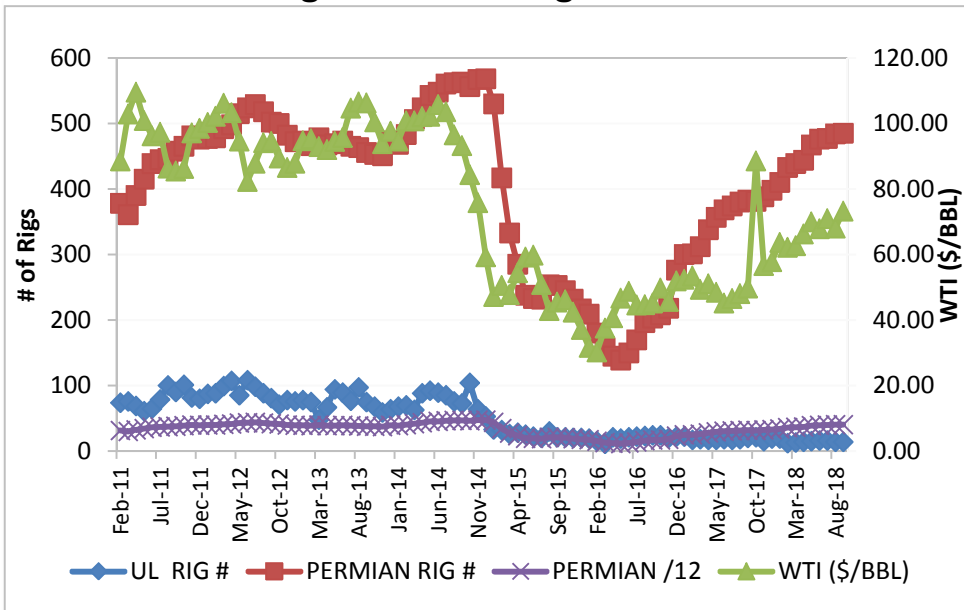


Horizontal Footage Drilled Per Year



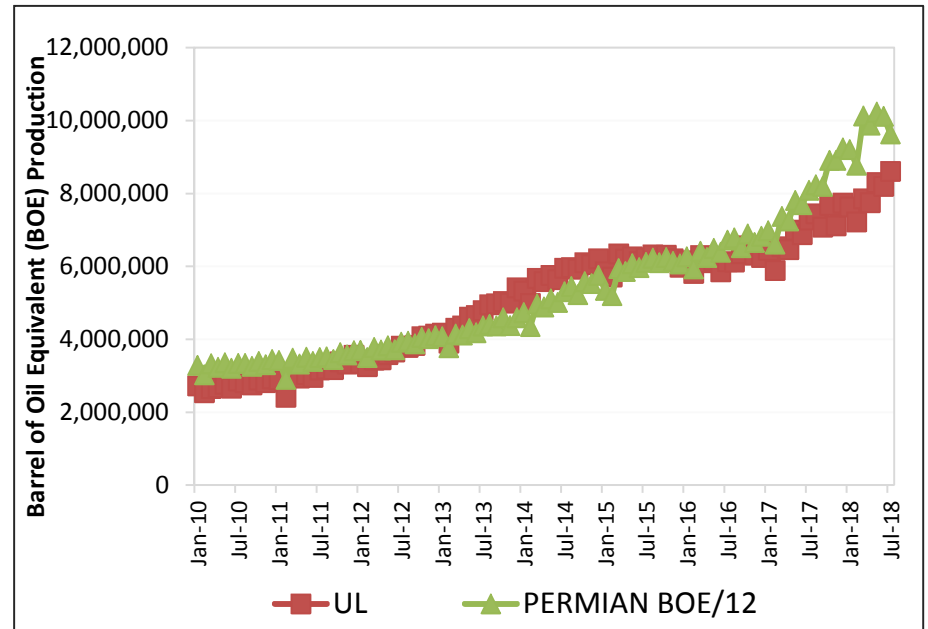
Strong Correlations Between Permian Basin and PUF Lands

Permian Rig Count vs. Rig Count on PUF Lands



Sources: Baker Hughes, EIA, University Lands

Permian Production vs. PUF Lands Production



Sources: DrillingInfo, University Lands

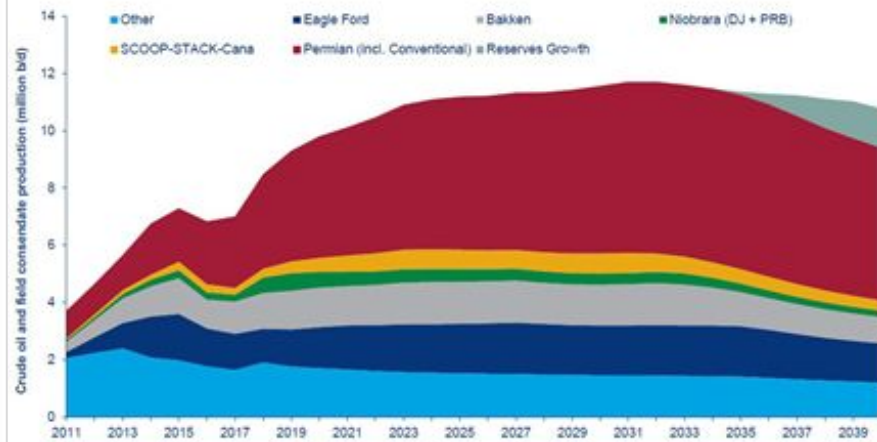


Permian Basin: Projections for Growth Remain

US Lower 48 crude oil: Permian growth drives production

Peak production only changed slightly, but production stable into the 2030s

US Lower 48 crude and condensate production

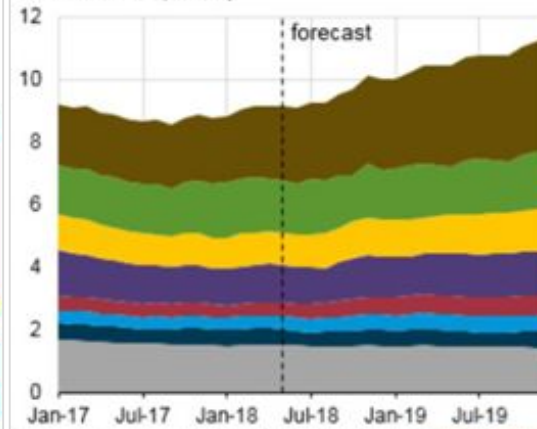


Source: Wood Mackenzie

Permian region is expected to drive U.S. crude oil production growth through 2019

Monthly U.S. crude oil production (Jan 2017-Dec 2019)

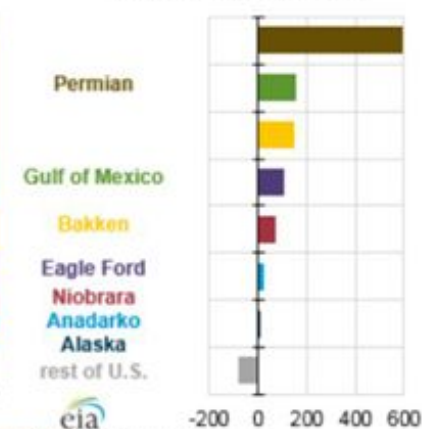
million barrels per day



Source: U.S. Energy Information Administration, *Short-Term Energy Outlook*, August 2018

Projected change 2018-2019

thousand barrels per day



UL: Key FY2019 Organizational Goals

1. Meet or exceed projected production and revenue goals within budgeted expense levels
2. Capitalize on emergence of growth of water use in oil and gas development
3. Improve internal ability to put data to use to capture dollars
4. Execute contractual rights related to lease compliance and enforcement
5. Promote development in economics-challenged Southern Midland Basin
6. Continue to increase focus on emissions and environment and work to better tell UL's stewardship story
7. Make decision on path forward for ULandCo concept
8. Continue alignment with UTIMCO where synergies exist



5. U. T. System Board of Regents: Approval of an Incentive Compensation Plan for University Lands Employees

RECOMMENDATION

The Chancellor and the Executive Vice Chancellor for Business Affairs recommend approval of an Incentive Compensation Plan (Plan) for University Lands Employees as set forth on the following pages.

BACKGROUND INFORMATION

Section III.C. of the Employment Agreement between The University of Texas System and Mark Allen Houser, approved by the Board of Regents on March 19, 2018, states Mr. Houser will work with the University Lands Advisory Board (ULAB) and U. T. System staff to obtain Board of Regents' approval of an Incentive Compensation Plan for University Lands Employees. The attached Plan has been reviewed and endorsed by the ULAB. Additionally, University Lands employee compensation has been independently reviewed by Mercer (US) Inc.

The methodology for the Plan payout is two-fold. It is based on the following:

Eligibility

Award Opportunity (% of Salary)

Employee Group	Number of Employees*	Minimum	Target	Maximum
CEO	1	0%	100%	200%
Executive	3	0%	75%	150%
Management	9	0%	30%	60%
Professional	14	0%	15%	30%
Team**	~40	0%	5%	10%

* Numbers include open positions.

**Team includes all remaining employees, who are eligible to receive awards based on CEO recommendation.

Quantitative vs. Qualitative Performance

The following proportions will be used in determining the breakdown between quantitative and qualitative performance.

Employee Group	Quantitative	Qualitative
CEO	80%	20%
Executive	70%	30%
Management	50%	50%
Professional	40%	60%
Team**	80%	20%

The quantitative component is based on following four value-added measures:

1. Production -- Barrels of Oil Equivalent (BOE) (30%);
2. Proved Reserves (30%);
3. Costs (General and Administrative) per BOE (15%); and
4. Revenue Generated (25%)
 - i) PUF (10%); and
 - ii) AUF (15%).

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· THE UNIVERSITY OF TEXAS SYSTEM
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INCENTIVE COMPENSATION PLAN

FOR
UNIVERSITY LANDS EMPLOYEES

EFFECTIVE UPON APPROVAL BY THE
U. T. SYSTEM BOARD OF REGENTS

INCENTIVE COMPENSATION PLAN FOR UNIVERSITY LANDS EMPLOYEES

I. BACKGROUND

The Incentive Compensation Plan for University Lands Employees (UL Incentive Plan) is designed to provide structure for the annual review and consideration of incentive reward for University Lands employees based upon predetermined performance goals. This plan is consistent with the strategy endorsed by the U. T. System Board of Regents originally in 2013 which recommended several changes in the management of University Lands, including “funding a competitive compensation plan” to attract and retain individuals to assist in maximizing the long-term value of the Permanent University Fund (PUF) Lands.

The UL Incentive Plan was developed over the past three years, with its current form endorsed by the University Lands Advisory Board (ULAB) in October 2018. This plan served as guidance for determining the incentive compensation for the Chief Executive Officer (CEO) of University Lands for Fiscal Years 2016 and 2017 and to determine the merit payments granted to University Lands employees for their performance in Fiscal Years 2016 and 2017.

II. UL INCENTIVE PLAN OBJECTIVES

The UL Incentive Plan supports the strategy implemented by the U. T. System Board of Regents with respect to changes implemented with the University Lands organization in the following ways:

- Supports the strategic mission of University Lands to maximize the value of the PUF Lands over the long-term by setting annual performance objectives aligned with the strategic goals recommended by the ULAB and supported by the U. T. System Board of Regents.
- Provides a mechanism to enhance the ability of University Lands to attract and retain high quality professionals in the energy sector with competitive compensation in a structure that is generally consistent with other companies also seeking their services.
- Focuses the attention and efforts of key employees on the issues that are most important to the mission of University Lands by placing a significant, meaningful portion of the employee’s compensation “at risk” based on attainment of specific goals.

In addition, the plan is designed to be reasonably consistent with UTIMCO’s incentive plan.

III. THE PLAN DESIGN

Eligibility

All University Lands employees who are in good standing will be eligible to participate in the UL Incentive Plan. Those eligible for the four upper-tier levels of the five-tier plan will be presented by the CEO of University Lands to the ULAB for review, and if there are no objections, the recommended awards will be brought forward to the Chancellor, or the Chancellor's designee for approval. Awards for eligible participants at the fifth-tier "Team" level will be determined and approved by the CEO of University Lands.

Generally, employees who are newly-hired or promoted into an Eligible Position on or before March 1 of a given year may participate on a prorated basis. The Chancellor, or the Chancellor's designee, has discretionary authority to designate the employment position of a newly-hired or promoted employee as eligible to participate in the full UL Incentive Plan for any performance period or remainder of a performance period.

An employee will cease to be a Participant in the UL Incentive Plan on the earliest to occur of:

- the date such employee is no longer employed in an Eligible Position;
- the date of termination of the UL Incentive Plan;
- the date such employee commences a leave of absence;
- any date designated by the Chancellor, or the Chancellor's designee as the date on which said employee is no longer a Participant.

Setting Performance Goals

Performance goals for the upcoming fiscal year will typically be finalized by August 31 of the current fiscal year and will be based on key performance measures. Individual performance goals for newly-eligible Participant levels will normally be finalized within 60 days of eligibility. The performance period for Participants will be from September 1 through August 31 of each fiscal year.

Performance goals for University Lands will be established annually by the CEO and the ULAB with final approval by the Chancellor, or the Chancellor's designee. Performance goals should be realistic, but aggressive, and should address the highest-level issues of greatest priority in advancing the long-term value of the PUF Lands. The goals will be easily measurable and focused on key value drivers within the energy industry. Presently, quantitative measures such as oil and gas production growth, proved reserves and/or proved reserves value growth, AUF and PUF revenue growth and cost efficiency are considered key industry drivers. Additionally, individual qualitative measures will be developed for each plan participant, consistent with each individual's contribution and each team's contribution to the overall strategic and budgetary objectives.

Assessing goal attainment

Assessing attainment of team and individual performance goals will include holistic consideration of the degree to which an individual effectively executed their duties and addressed issues of greatest priority,

and, as appropriate, may include quantitative and qualitative goals. Performance metrics will be benchmarked and reviewed against a combination of industry performance metrics in the greater Permian Basin. The assessments will typically be completed for the prior fiscal year in October of the following fiscal year by the ULAB and the Executive Vice Chancellor for Business Affairs, with input from the CEO. Recommendations for total incentive-based compensation for University Lands, excluding the CEO's incentive-based compensation award which is determined separately under the terms of the CEO's employment contract, will typically be considered by the Chancellor, or the Chancellor's designee, as soon as reasonably possible after review and recommendation by the ULAB. Upon approval by the Chancellor, or the Chancellor's designee, payments will be made to University Lands employees by November 1 if possible, but in any event, no later than November 30 of each year consistent with IRS rules.

As a guide, three levels will be used to assess performance for eligible Participants in the UL Incentive Plan based on performance goals established for University Lands by the ULAB:

1. **Target** – Participant fully met established objectives
2. **Maximum** – Participant significantly exceeded some or all Target objectives
3. **Minimum** – Participant performed below Target because the Participant did not meet some or all established objectives

Primary assessors of performance goal attainment and corresponding award levels for Participants in the UL Incentive Plan will be the Executive Vice Chancellor for Business Affairs with input from the ULAB. The Chancellor will conduct a final review of the assessments and is authorized to approve the UL Incentive Plan awards each year.

Incentive Award Specifics

University Lands will target total direct compensation for Participants in the UL Incentive Plan at the market median for oil and gas industry professionals, with potential upside to the 75th percentile if performance is outstanding. A specific group of peer companies will be identified and reviewed at least bi-annually by a third-party consultant with expertise in oil and gas industry compensation to ensure this objective is met.

All employees are eligible for participation in the UL Incentive Plan at five levels. Specific recommendations will be made each year by the CEO of University Lands and with input from the ULAB for Levels 1 – 4. The targets and ranges for all five levels of employees eligible for the UL Incentive Plan are listed in **Table A**. As stated above, the Chancellor, or the Chancellor's designee, will have discretionary authority to approve incentive compensation awards based on the recommendation of the ULAB.

The incentive award covered within this UL Incentive Plan is a percentage of a Participant's base salary as highlighted below.

Table A
Award Opportunity (% of Salary)

Employee Group	Number of Employees*	Minimum	Target	Maximum
CEO	1	0%	100%	200%
Executive	3	0%	75%	150%
Management	9	0%	30%	60%
Professional	14	0%	15%	30%
Team**	~40	0%	5%	10%

* Numbers include open positions.

**Team includes all remaining employees, who are eligible to receive awards based on CEO recommendation.

Award opportunity levels, within the total incentive pool award available, will be adjusted to reflect each individual Participant's success in attaining performance goals. Based upon annual performance assessment, the awards will be provided as follows:

1. **If the Participant's performance meets Target**, the Participant will earn 100% of the potential Target award.
2. **If the Participant's performance significantly exceeds Target**, the Participant will earn 200% of the potential Target award.
3. **If the Participant fails to meet Target**, the Participant's award will be a discretionary amount, with the award range to be between 0% and a number below the Participant's Target, taking into account incremental performance measures and goals met if appropriate.

The ranges listed in Table A will be reviewed annually and may be adjusted by up to 33% with the endorsement of the ULAB and with the Chancellor's approval. Increases in target ranges should include a portion of deferred compensation, consistent with the framework of the UTIMCO incentive compensation plan. The Chancellor, or the Chancellor's designee, has full discretion over adjustments to ranges, within the limit noted above, and the total amount of the approved award. For clarification, neither the Chancellor nor U. T. System is obligated to grant awards under the UL Incentive Plan in any given year.

Quantitative and Qualitative Measures

The Plan will also provide for both quantitative and qualitative measures, which helps to recognize both overall performance and individual performance. These proportional measures are highlighted in **Table B**.

**Table B
Proportional Measures**

Employee Group	Quantitative	Qualitative
CEO	80%	20%
Executive Management	70%	30%
Professional	50%	50%
Team**	40%	60%
	80%	20%

Incentive Award Payments

Incentive awards will be considered annually following the performance period, and a recommendation will normally be reviewed for endorsement at the ULAB October meeting, with final approval given by the Chancellor, or the Chancellor’s designee, and payments made as soon as practical thereafter, in compliance with current Internal Revenue Service regulations. Incentive award payments will be made in lump sum.

Calculation of prorated incentive awards, if applicable, will be based on the Participant’s attainment of performance goals and the length of time a Participant was eligible to receive an incentive award during the performance period. Rules for payment of incentive awards upon termination of employment follow.

All incentive awards will be subject to any deductions as noted:

1. for tax withholding required by federal, state, or local law at the time such tax and withholding is due (irrespective of whether such incentive award is deferred and not payable at such time), and
2. for any and all amounts owed by the Participant to The University of Texas System at the time of payment of the incentive award. The University of Texas System will not be obligated to advise an employee of the existence of the tax or the amount that The University of Texas System will be required to withhold.

Payment of Incentive Award upon Termination of Employment

Except as otherwise noted below, any Participant who ceases to be a Participant, either because of termination of employment with The University of Texas System (specifically employed on behalf of University Lands), or for any other reason stated below, prior to the end of a performance period will not be eligible to receive payment of any incentive award for that or any subsequent performance periods.

If a Participant ceases to be a Participant in the UL Incentive Plan prior to the end of the performance period because he or she commences an approved leave of absence or retires, such Participant’s incentive award for the current performance period, if any, will be calculated on a prorated basis from the first day of the performance period to the date coinciding with the date the Participant commence such leave of absence or retirement, and such individual will not be entitled to any incentive awards for any performance period thereafter (unless he or she again become a Participant as previously described)

If a Participant transitions from one level to another during a fiscal year, by default, the award will be calculated by prorating performance and ranges for time spent during the fiscal year in each level. However, calculation for an award in this situation is within the sole discretion of the CEO of University Lands.

The following chart outlines the treatment of the incentive award upon termination of a Participant’s employment:

Termination reason	Forfeit	Prorated	Discretion of Board of Regents
Death		X	
Disability		X	
Retirement		X	
Quit	X		
Termination			X

Annual Due Dates

Annual Due Date	Action
<p>July 31</p> <p>Propose Goals for Upcoming Year to the ULAB</p> <p>Third party assessment of compensation performance</p>	<p>Proposed University Lands goals for upcoming fiscal year are developed by University Lands management and endorsed by the ULAB. Individual goals are developed and reviewed by the CEO. CEO goals are reviewed with both the ULAB and the Executive Vice Chancellor for Business Affairs.</p> <p>Retain third party at least bi-annually to assist the ULAB, CEO and Executive Vice Chancellor for Business Affairs in determining peer group, industry compensation trends, etc.</p>
<p>August 31</p> <p>Goal Review Process and Final Approval</p> <p>Identify Eligible Participants for next year’s plan</p>	<p>Performance goals for University Lands and for individual employees for the upcoming fiscal year are finalized. University Lands goals are reviewed by the ULAB and approved as part of the U. T. System budget process. CEO goals are reviewed and endorsed by the ULAB and the Executive Vice Chancellor for Business Affairs. Eligible employees are identified, and goals are established and reviewed with CEO of University Lands.</p>

<p>September 30</p> <p>Assessment of Prior Year's Goal Attainment</p>	<p>University Lands provides an assessment of performance to third party and appropriate stakeholders.</p> <p>Third party conducts assessment of performance, qualitative and quantitative, through analysis and interview with key stakeholders</p>
<p>Early October</p> <p>Recommended Incentive Payments</p>	<p>The ULAB (including the Executive Vice Chancellor for Business Affairs) receives recommendation from the CEO and/or a third party for the total compensation pool for University Lands employees.</p> <p>The ULAB makes recommendation to the Chancellor for final UL Incentive Pay awards.</p>
<p>Mid-October</p> <p>Incentive Award Recommendations for UL Employees under the UL Incentive Plan (non-CEO)</p>	<p>For the UL Incentive Plan, the Chancellor, or the Chancellor's designee reviews the ULAB's recommendations for UL Incentive Pay Awards, and if approved by the Chancellor, awards are paid as soon as possible following the Chancellor's approval.</p>
<p>November</p> <p>Incentive Award Recommendation for CEO</p>	<p>Based upon the ULAB's recommendation, the Chancellor makes a recommendation to the U. T. System Board of Regents for approval and payment of the University Lands CEO's incentive award. The CEO's award will be paid as soon as possible following the Board of Regents' approval.</p>

IV. UL INCENTIVE PLAN AUTHORITY, RESPONSIBILITY AND INTERPRETATION

Authority

Except as otherwise specifically provided, this Incentive Plan will be administered by the Chancellor, or the Chancellor's designee, upon recommendations from the ULAB.

The U. T. System Board of Regents and the Chancellor have all powers specifically vested herein and all powers necessary or advisable to administer or direct administration of the UL Incentive Plan as the Board and the Chancellor determine in their discretion, including without limitation, the authority to:

1. establish the conditions for the determination and payment of compensation by establishing the provisions of the UL Incentive Plan,
2. select the employees who are eligible to be Participants in the UL Incentive Plan, and

3. designate to any other person, committee, or entity any of its ministerial powers and/or duties under the UL Incentive Plan, as long as any such delegation is in writing and complies with Regents' Rules.

Responsibility/Rights

The Board of Regents has the right in its discretion to amend the UL Incentive Plan or any portion thereof from time to time, to suspend it for a specified period or to terminate it entirely, or any portion thereof.

If the UL Incentive Plan is suspended or terminated during a performance period, Participants are eligible to be considered to receive a prorated incentive award based on performance achieved through the performance measurement date immediately preceding such suspension or termination. The UL Incentive Plan will be in effect until suspension or termination by the Board of Regents.

All records for the UL Incentive Plan will be maintained by the Office of the Chancellor.

Interpretation

Consistent with the provisions of the UL Incentive Plan, the Chancellor, or the Chancellor's designee, or the U. T. System Board of Regents has the discretion to interpret the UL Incentive Plan and may from time to time adopt such rules and regulations that it may deem advisable to carry out the UL Incentive Plan. All decisions made by the Chancellor in selecting the Participants approved to receive incentive awards, including the amount thereof, and in construing the provisions of the UL Incentive Plan, including without limitation the terms of any incentive awards, are final.

ATTACHMENT A

LIST OF POSITIONS IN LEVELS 1-5 FOR FISCAL YEARS 2018 & 19

CEO (Level 1)

Chief Executive Officer of University Lands

Executive Level Positions (Level 2)

Senior Vice President & General Counsel

Senior Vice President, Operations

Vice President, Land ~(67% of target levels)

Management Level Positions (Level 3)

Budget & Revenue Manager

Director, Accounting, Audit and Regulatory

Director, Corporate Strategy & Development

Land Manager*

Engineering Manager

Geoscience Manager

Information Systems Manager

Right of Way Manager

Surface Interests Manager

Professional Level Positions (Level 4)

Assistant to the CEO

Attorney

Landman (2)

Network Infrastructure Supervisor

O&G Operator Technical/Operations Data Management

Oil & Gas Accounting Supervisor

Reservoir Engineer

Senior Engineering Advisor

Senior Engineering Analyst

Senior Geoscience Technician

Senior Landman – Surface

Senior Reservoir Engineer*

Software Development Supervisor

Team Level Positions (Level 5) - Remaining eligible staff (~40)

* Positions currently open and unfilled

6. U. T. System Board of Regents: Adoption of Resolution amending the Permanent University Fund Commercial Paper Note Program

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. System Board of Regents adopt the Resolution set out on the following pages

- a. amending the Resolution adopted by the Board of Regents on August 14, 2008, and amended by the Board of Regents on February 6, 2014, authorizing the issuance, sale, and delivery of the Board of Regents of The University of Texas System Permanent University Fund (PUF) Commercial Paper Notes, Series A, and Taxable Commercial Paper Notes, Series B, to increase the aggregate principal amount of such Commercial Paper Notes that may be outstanding at any time from \$750 million to \$1.25 billion; and
- b. authorizing appropriate officers and employees of the U. T. System as set forth in the Resolution to take any and all actions necessary or desirable to carry out the terms and provisions of the Resolution, the Commercial Paper Notes, and the agreements relating to the Commercial Paper Notes.

BACKGROUND INFORMATION

On August 14, 2008, the Board of Regents approved a resolution authorizing the PUF Commercial Paper Note Program not to exceed \$500 million outstanding at any one time. On February 6, 2014, the Board of Regents adopted a resolution which, among other matters, amended the original resolution to increase the aggregate principal amount of PUF Commercial Paper Notes that may be outstanding thereunder at any time from \$500 million to \$750 million.

Adoption of this Resolution would increase the maximum authorization of the PUF Commercial Paper Note Program from \$750 million to \$1.25 billion. The increase in the PUF Commercial Paper Note Program will provide additional capacity for the U. T. System to provide efficient interim financing and additional timing flexibility in accessing the long-term capital markets.

Liquidity for the Commercial Paper Note Program will continue to be provided by the U. T. System through the existing arrangement with The University of Texas/Texas A&M Investment Management Company (UTIMCO).

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

RESOLUTION AMENDING THAT CERTAIN RESOLUTION ADOPTED BY THE BOARD OF REGENTS ON AUGUST 14, 2008 AUTHORIZING THE ISSUANCE FROM TIME TO TIME OF THE BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM PERMANENT UNIVERSITY FUND COMMERCIAL PAPER NOTES, SERIES A AND TAXABLE COMMERCIAL PAPER NOTES, SERIES B; AND APPROVING AND AUTHORIZING INSTRUMENTS AND PROCEDURES RELATING THERETO

WHEREAS, Section 18 of Article VII of the Constitution of the State of Texas, as amended (the “Constitutional Provision”), authorizes the Board of Regents (the “Board”) of The University of Texas System (the “System”) to issue bonds and notes not to exceed a total amount of 20% of the cost value of investments and other assets of the Permanent University Fund, exclusive of real estate, at the time of issuance thereof and to pledge all or any part of its two-thirds interest in the Available University Fund to secure the payment of the principal of and interest on those bonds and notes, for the purpose of acquiring land, constructing and equipping buildings or other permanent improvements, major repair and rehabilitation of buildings and other permanent improvements, acquiring capital equipment and library books and library materials, and refunding bonds or notes issued under the Constitutional Provision or prior law, at or for the System administration and component institutions of the System as listed in the Constitutional Provision; and

WHEREAS, on August 14, 2008, the Board adopted a resolution (the “Original Resolution”) authorizing the issuance, pursuant to the Constitutional Provision, of its Permanent University Fund Commercial Paper Notes, Series A and its Permanent University Fund Taxable Commercial Paper Notes, Series B (collectively, the “Commercial Paper Notes”), in an aggregate principal amount outstanding at any time not to exceed \$500,000,000, which are secured by a pledge of the Interest of the System in the Available University Fund; and

WHEREAS, on February 6, 2014, the Board adopted a resolution (the “First Amendment”) which, among other matters, amended the Original Resolution to increase the aggregate principal amount of Commercial Paper Notes that may be outstanding thereunder at any time from \$500,000,000 to \$750,000,000; and

WHEREAS, the Original Resolution, as amended by the First Amendment, is referred to herein as the Authorizing Resolution; and

WHEREAS, capitalized terms used in this resolution (this “Resolution”) and not otherwise defined shall have the meaning given to such terms in the Authorizing Resolution; and

WHEREAS, the Board issues Commercial Paper Notes from time to time for its interim financing needs for eligible projects under the Constitutional Provision; and

WHEREAS, the Board desires to amend the Authorizing Resolution for the purpose of increasing the aggregate principal amount of Commercial Paper Notes that may be outstanding at any time from \$750,000,000 to \$1,250,000,000; and

WHEREAS, pursuant to its terms, the Authorizing Resolution may be amended at any time without notice to or the consent of any Holders of the Commercial Paper Notes for the purpose, among others, of increasing the amount of Commercial Paper Notes which may be outstanding thereunder.

NOW, THEREFORE BE IT RESOLVED, that the Authorizing Resolution is hereby amended to increase the aggregate principal amount of Commercial Paper Notes that may be outstanding thereunder at any time from \$750,000,000 to \$1,250,000,000, and, therefore, all references in the Authorizing Resolution to \$750,000,000 are hereby deleted and replaced with \$1,250,000,000; and

BE IT FURTHER RESOLVED, that the Chairman of the Board, the General Counsel to the Board, each Authorized Representative and all other officers, employees, and agents of the Board, and each of them, shall be and they are hereby expressly severally authorized, empowered, and directed from time to time and at any time to do and perform all such acts and things and to execute, acknowledge and deliver, in the name and under the seal and on behalf of the Board, all such agreements, documents and instruments, whether or not herein mentioned, as may be necessary or desirable in order to carry out the terms and provisions of this Resolution, the Commercial Paper Notes, each Dealer Agreement, the Issuing and Paying Agent Agreement, the Trust Agreement, the Offering Memorandum, the Master Notes and any other agreement, document or instrument relating to the Commercial Paper Notes; and

BE IT FURTHER RESOLVED, that each Authorized Representative is hereby severally authorized to approve, subsequent to the date of the adoption of this Resolution, any technical amendments to this Resolution as may be required by any rating agency as a condition to the granting of a rating on the Commercial Paper Notes and as may be required by the office of the Attorney General of the State of Texas as a condition to the approval of this Resolution and any other agreements and proceedings as required in connection therewith; and

BE IT FURTHER RESOLVED, the Board hereby reaffirms the Authorizing Resolution, and the Authorizing Resolution shall remain in full force and effect, as amended by this Resolution; and

BE IT FURTHER RESOLVED, that this Resolution shall become effective upon the approval of this Resolution, and any other agreements and proceedings as may be required in connection therewith, by the Attorney General of the State of Texas.

[Execution Page Follows]

ADOPTED AND APPROVED this the ____ day of _____, 2018.

Chairman
Board of Regents of
The University of Texas System

Attest:

General Counsel to the
Board of Regents of
The University of Texas System

[SEAL]