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Committee Meeting: 8/18/2021

Board Meeting: 8/19/2021
Austin, Texas

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

	Committee Meeting	Board Meeting	Page
Convene	<i>10:30 a.m</i> <i>Chairman Longoria</i>		
1. U. T. System Board of Regents: Discussion and appropriate action regarding Consent Agenda items, if any, assigned for Committee consideration	Discussion	Action	38
2. U. T. System: Financial Status Presentation and Monthly Financial Report	Report/Discussion <i>Dr. Kelley</i>	Not on Agenda	39
3. U. T. System Board of Regents: Approval of annual distributions from the Permanent Health Fund, the Long Term Fund, and the Intermediate Term Fund	Action <i>Dr. Kelley</i>	Action	64
4. U. T. System Board of Regents: Equipment financing authorization for Fiscal Year 2022 and resolution regarding parity debt	Action <i>Dr. Kelley</i>	Action	67
5. U. T. System Board of Regents: Adoption of a Resolution authorizing the issuance, sale, and delivery of Permanent University Fund Bonds and authorization to complete all related transactions	Action <i>Dr. Kelley</i>	Action	70
6. U. T. System Board of Regents: Adoption of a Supplemental Resolution authorizing the issuance, sale, and delivery of Revenue Financing System Bonds and authorization to complete all related transactions	Action <i>Dr. Kelley</i>	Action	72

	Committee Meeting	Board Meeting	Page
7. U. T. System Board of Regents: a) Adoption of resolutions authorizing certain bond enhancement agreements for Revenue Financing System debt and Permanent University Fund debt, and b) ratification of U. T. System Interest Rate Swap Policy (Regents' Rule 70202)	Action <i>Dr. Kelley</i>	Action	74
8. U. T. System Board of Regents: Approval of amendments to the Investment Policy Statements for the Permanent University Fund, the General Endowment Fund, the Permanent Health Fund, the Long Term Fund, and the Intermediate Term Fund	Action <i>Mr. Britt Harris</i> <i>Mr. Rich Hall</i> <i>Ms. Joan Moeller</i>	Action	82
9. U. T. System Board of Regents: Approval of the Annual Budget for Fiscal Year 2022, including the capital expenditures budget and other external direct charges to the Funds, and the Annual Fee and Allocation Schedule for The University of Texas/Texas A&M Investment Management Company (UTIMCO)	Action <i>Dr. Kelley</i> <i>Mr. Britt Harris</i> <i>Ms. Joan Moeller</i>	Action	118
10. U. T. System Board of Regents: The University of Texas/Texas A&M Investment Management Company (UTIMCO) Update	Report/Discussion <i>Mr. Britt Harris</i>	Not on Agenda	138
11. U. T. System: Approval of a Master Services Agreement and Related Statements of Work with Vizient, Inc.	Action <i>Dr. Kelley</i>	Action	150
Adjourn	<i>11:15 a.m</i>		

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 7 - 14](#).

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

Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, will discuss the Financial Status Presentation, the highlights of which are set forth in the PowerPoint on the following pages and the May Monthly Financial Report, which follows the PowerPoint. The monthly financial report represents the consolidated and individual operating detail of the U. T. institutions.

U. T. System

Fiscal Year-to-Date Actuals and Projected Fiscal Year-End

Dr. Scott Kelley
Executive Vice Chancellor for Business Affairs

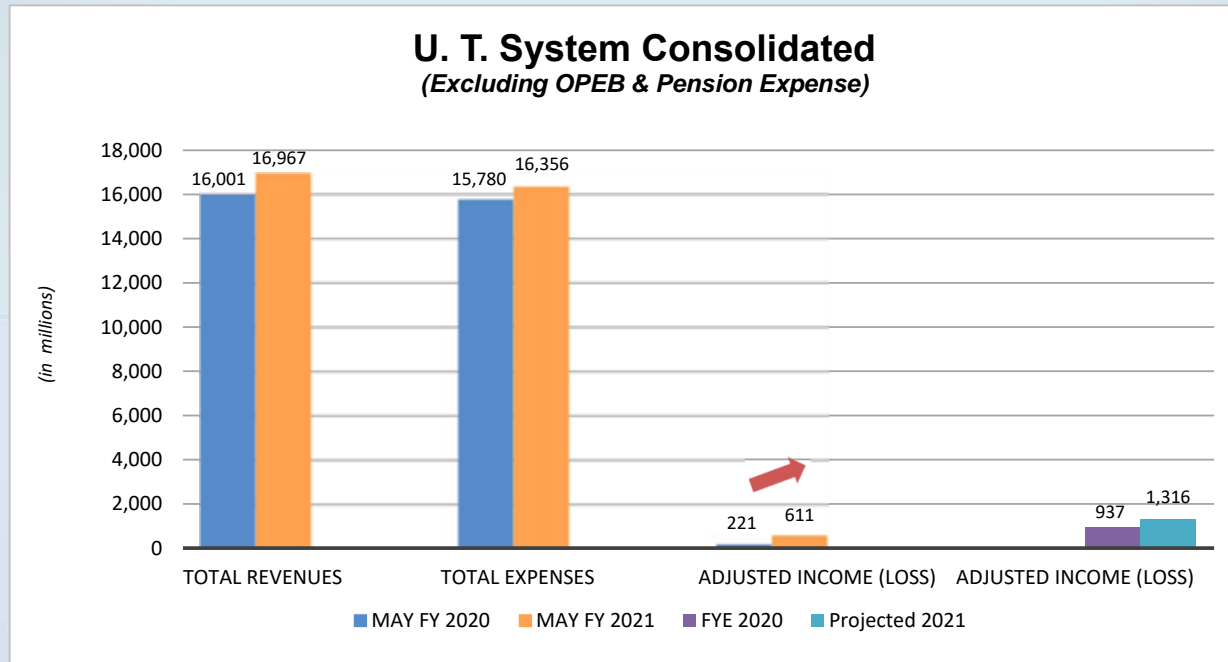
U. T. System Board of Regents Meeting
Finance and Planning Committee
August 2021



THE UNIVERSITY of TEXAS SYSTEM
THIRTEEN INSTITUTIONS. UNLIMITED POSSIBILITIES.

U. T. System Consolidated Landscape

For the Period Ending May 31, 2021 and Projected Fiscal Year-End



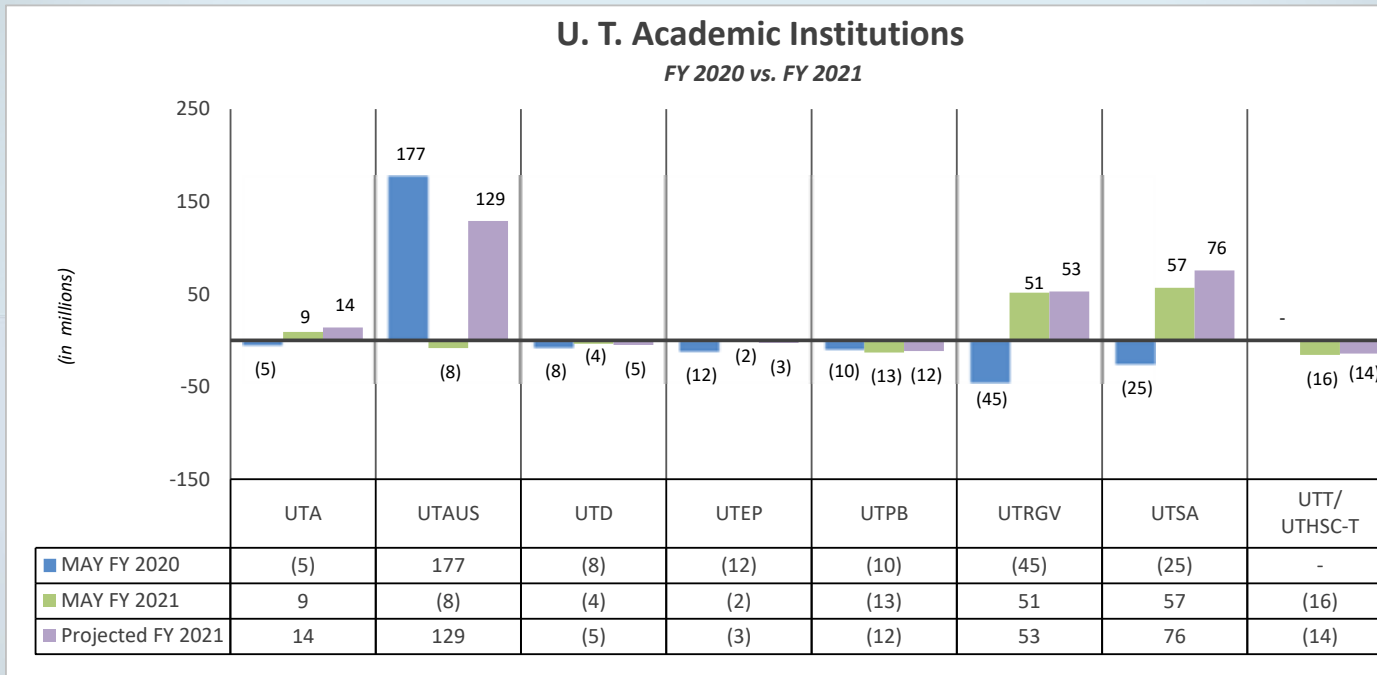
Source: May 2021 Monthly Financial Report



THE UNIVERSITY of TEXAS SYSTEM
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Academic Adjusted Income (Loss) Comparison

For the Period Ending May 31, 2021 and Projected Fiscal Year-End



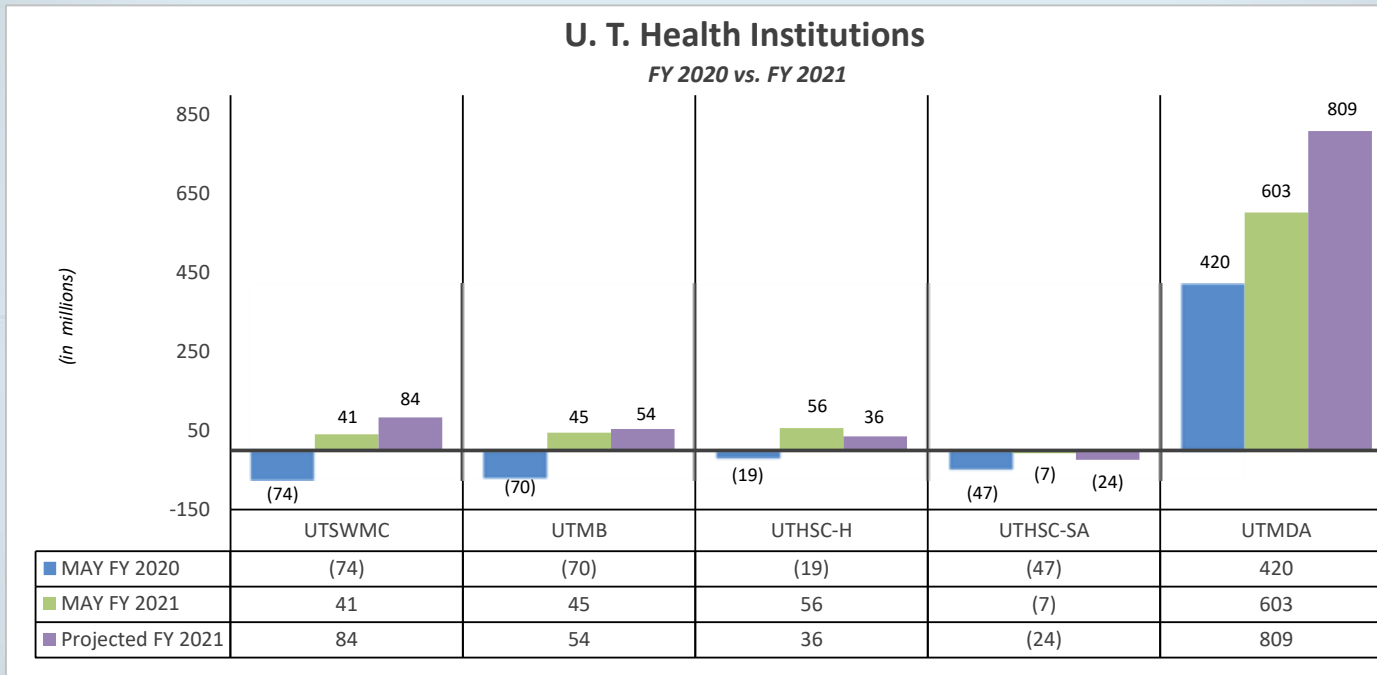
Source: May 2021 Monthly Financial Report



THE UNIVERSITY of TEXAS SYSTEM
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Health Adjusted Income (Loss) Comparison

For the Period Ending May 31, 2021 and Projected Fiscal Year-End



Source: May 2021 Monthly Financial Report



THE UNIVERSITY of TEXAS SYSTEM
THIRTEEN INSTITUTIONS. UNLIMITED POSSIBILITIES.

Systemwide Operations Financial Summary

	FY 2021 Budget	FYTD Actual (May 2021)	% of Budget
U. T. System Administration (AUF)	\$ 50,540,434	\$ 35,466,550	70%
Direct Campus Support (AUF)	41,459,566	30,103,457	73%
Other Operations Funded with AUF Reserves	300,000	711,298	237%
Service Departments and Other Non-AUF*	59,911,237	37,865,197	63%
Total – U. T. System Administration and Campus Support	\$ 152,211,237	\$ 104,146,502	68%

** The Board of Regents has approved the budget related to University Lands. 2/3 of the overall University Lands budget and May YTD actuals are represented in the above amounts. The Board of Regents has also approved the portion (1/3 of the overall University Lands budget) that supports Texas A&M University.*



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

MONTHLY FINANCIAL REPORT

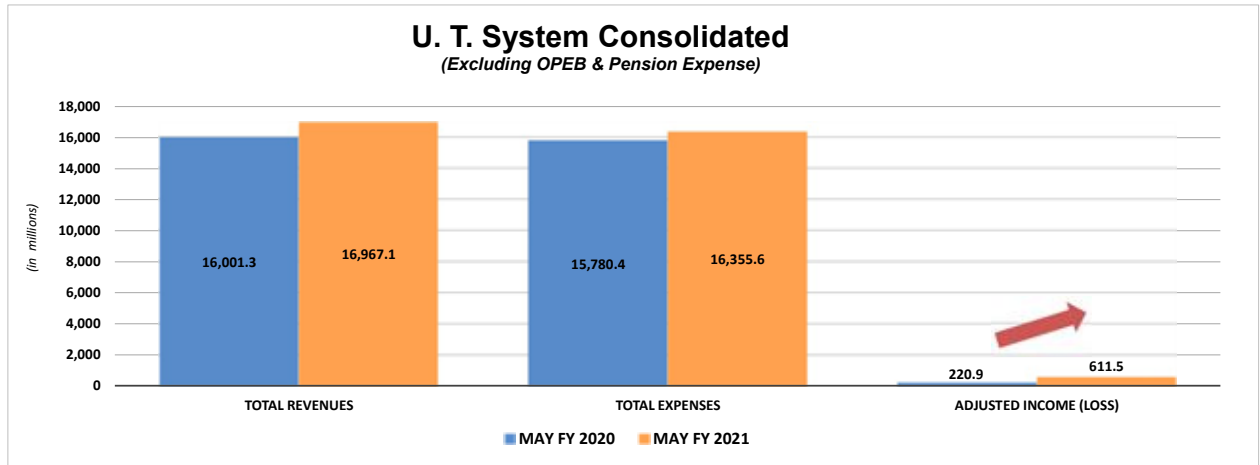
(unaudited)

MAY 2021



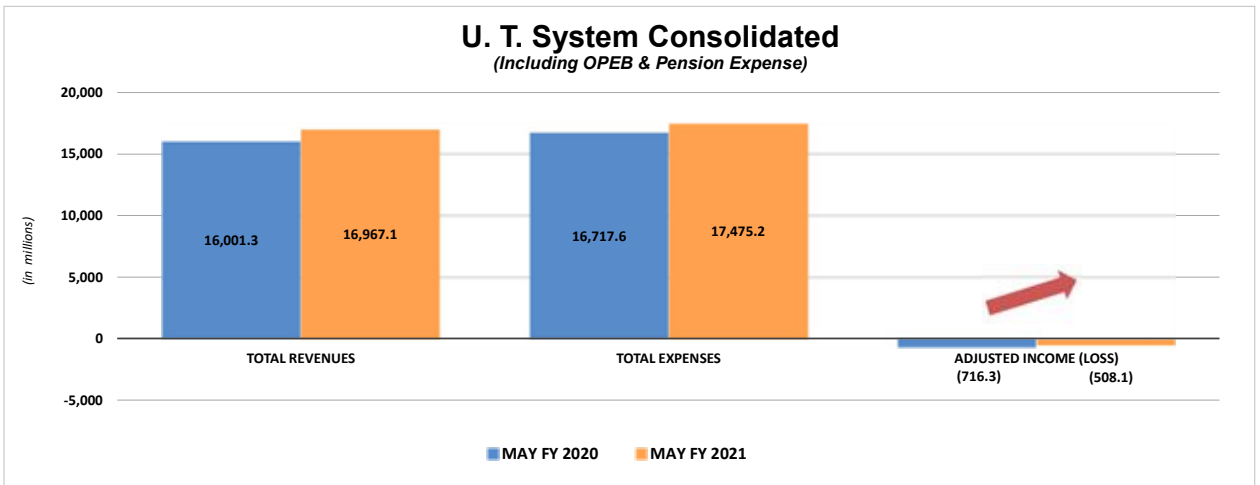
210 West Seventh Street
Austin, Texas 78701
512.499.4527
www.utsystem.edu/cont

Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending May 31, 2021

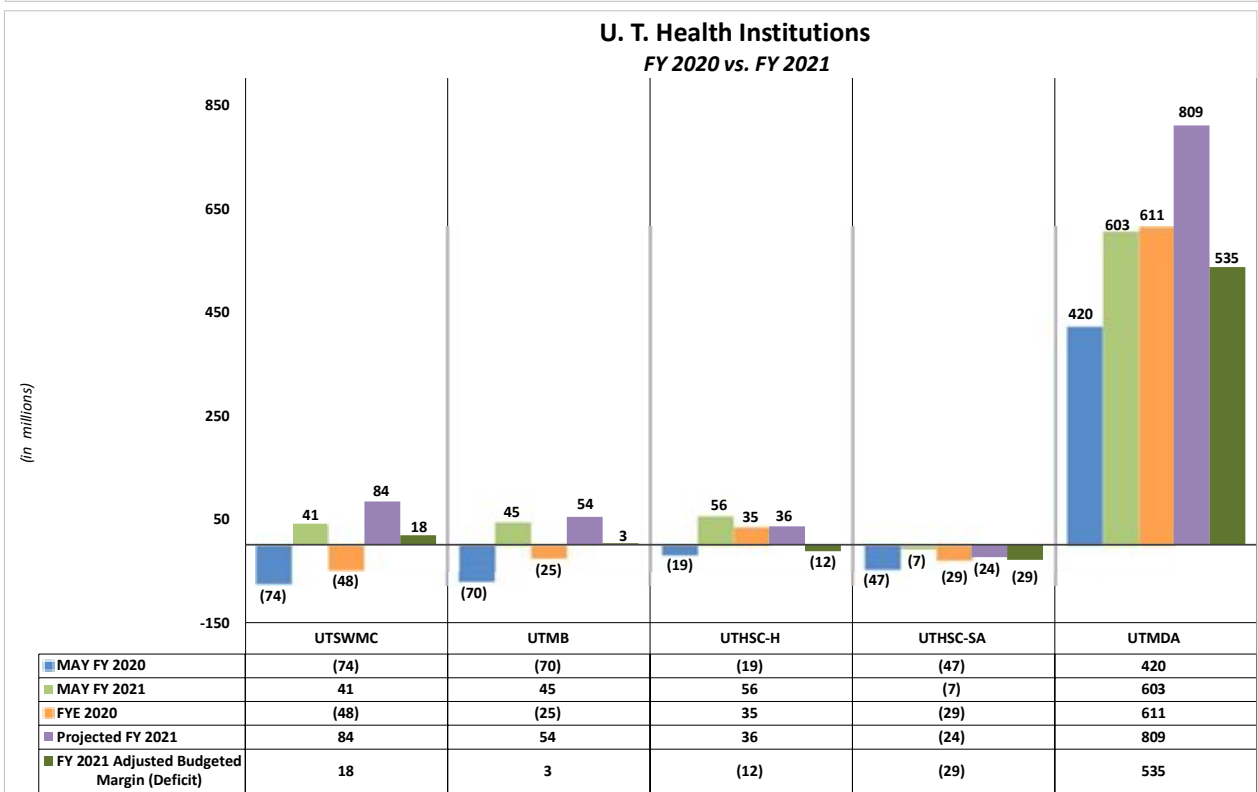
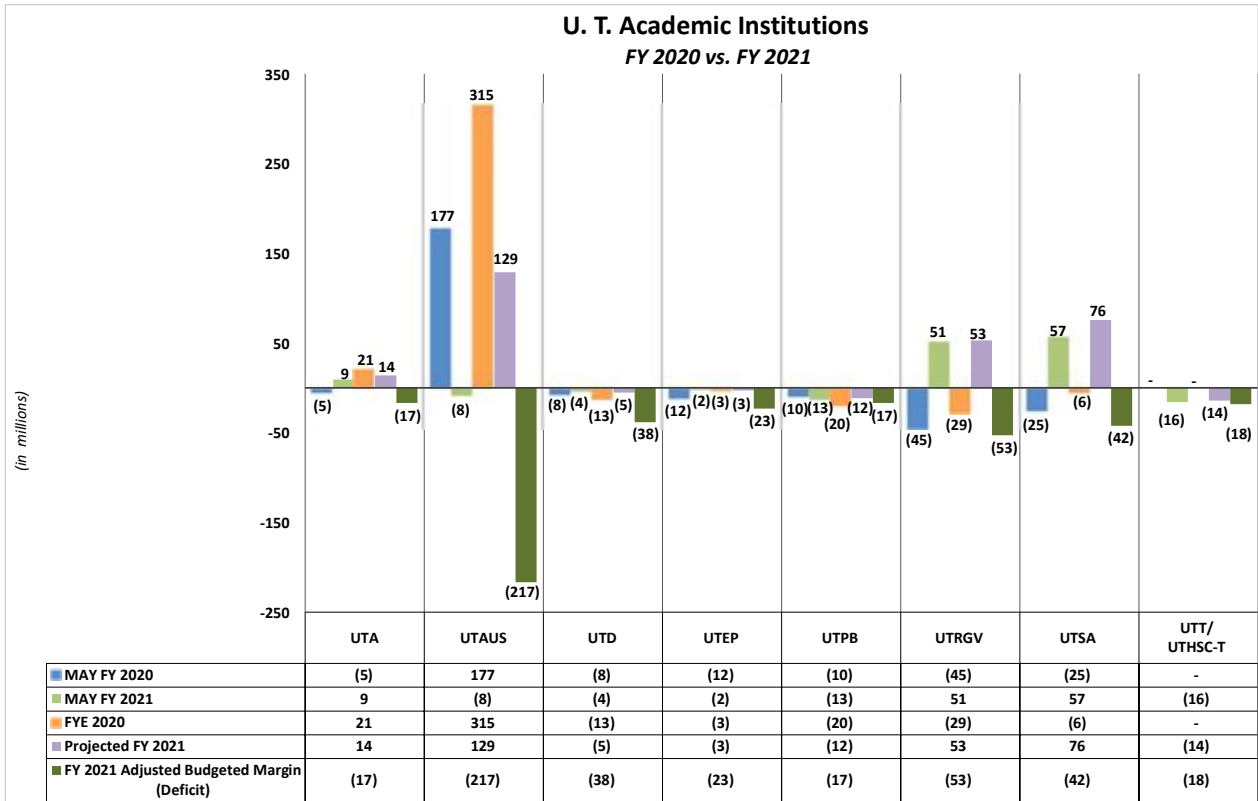


Excluding other postemployment benefits (OPEB) and pension expense, *U. T. System Consolidated* shows year-to-date adjusted income of \$611.5 million, an increase of \$390.6 million (177%) from the prior year. The increase was primarily due to an increase in clinical revenues.

(in millions)	May YTD FY 2020	May YTD FY 2021	Variance	Annual Projected FY 2021
Clinical Revenues	\$ 6,588.3	7,366.6	778.4	9,938.0
Sponsored Programs/Nonexchange Sponsored Programs	3,141.1	3,742.9	601.7	5,279.7
State Appropriations	1,689.0	1,632.3	(56.7)	2,070.9
Net Tuition and Fees	1,456.8	1,479.8	23.0	1,956.9
Auxiliary Revenues/Sales & Services of Educational Activities	926.5	775.9	(150.6)	887.3
Net Investment Income	1,255.5	1,150.7	(104.8)	1,559.0
Other Operating Revenues/Gift Contributions for Operations	944.0	818.9	(125.2)	1,117.6
Total Revenues	16,001.3	16,967.1	965.8	22,809.5
Salaries and Wages/Payroll Related Costs	9,584.3	9,967.9	383.5	12,862.3
Materials and Supplies/Cost of Goods Sold	2,042.3	2,159.8	117.5	2,855.4
Depreciation and Amortization	1,158.6	1,221.5	62.9	1,642.5
Other Contracted Services/Professional Fees & Services	1,095.6	1,064.4	(31.2)	1,424.6
All Other Operating Expenses	1,899.5	1,942.0	42.4	2,708.5
Total Expenses (Excluding OPEB & Pension Exp)	\$ 15,780.4	16,355.6	575.2	21,493.4
Adjusted Income (Loss) Excluding OPEB & Pension Exp	220.9	611.5	390.6	1,316.1
OPEB Expense	498.6	514.8	16.2	686.4
Pension Expense	438.6	604.8	166.1	806.3
Adjusted Income (Loss)	(716.3)	(508.1)	208.2	(176.7)
Adjusted Income (Loss) Excluding Depr & Amort Exp	442.3	713.4	271.1	1,465.8



**Monthly Financial Report
Comparison of Adjusted Income (Loss)
For the Period Ending May 31, 2021**



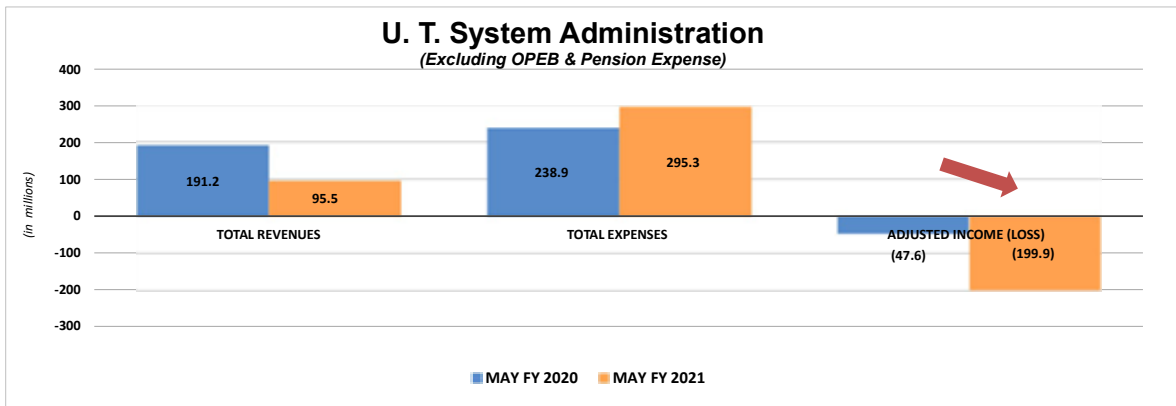
Executive Summary of Adjusted Income (Loss)*

	May FYTD 2020 (millions)	May FYTD 2021 (millions)	Variance %	Comments
U. T. System Administration (excluding OPEB & Pension Expense)	\$ (47.6)	(199.9)	-320%	Decrease in Net Investment Income Increases in Other Operating Expenses (Claims & Losses, Insurance Costs/Premiums) Projected income of \$120.3 million for the FY
U. T. Arlington	(4.9)	9.1	285%	Decreases in Other Operating Expenses (Travel, Repairs & Maintenance, Other), Other Contracted Services/Professional Fees & Services Projected income of \$13.9 million for the FY
U. T. Austin	177.1	(8.5)	-105%	Decreases in Gift Contributions for Operations, Auxiliary and Sales & Services of Educational Activities Revenues Projected income of \$128.9 million for the FY
U. T. Dallas	(7.5)	(3.8)	49%	Decreases in Other Operating Expenses (Repairs & Maintenance, Travel, Rentals & Leases), Salaries & Wages, Materials & Supplies Projected loss of (\$5.1) million for the FY
U. T. El Paso	(11.7)	(1.9)	84%	Decrease in Other Contracted Services/Professional Fees & Services Increase in Gift Contributions for Operations Projected loss of (\$2.8) million for the FY
U. T. Permian Basin	(9.5)	(13.2)	-39%	Increases in Salaries & Wages, Depreciation & Amortization Projected loss of (\$11.6) million for the FY
U. T. Rio Grande Valley	(45.2)	51.4	214%	Increases in Other Operating Revenues/Gift Contributions for Operations, Sponsored Programs, Clinical Revenues Projected income of \$52.7 million for the FY
U. T. San Antonio	(25.4)	56.8	324%	Increases in Gifts for Operations, Net Tuition & Fees Decreases in Salaries & Wages, Professional Fees & Services Projected income of \$75.6 million for the FY
U. T. Tyler**	(11.0)	0.0	N/A	U. T. Tyler and UTHSC-Tyler combined effective January 1, 2021, and are now presented as a combined entity in the MFR.
U. T. Tyler Combined	0.0	(15.7)	N/A	Projected loss of (\$14.3) million for the FY
Southwestern	(74.5)	40.7	155%	Increase in Clinical Revenues Projected income of \$83.6 million for the FY
UTMB	(69.7)	44.7	164%	Increase in Clinical Revenues Projected income of \$54.1 million for the FY
UTHSC-Houston	(19.3)	56.5	393%	Increases in Sponsored Programs, Clinical Revenues Projected income of \$35.6 million for the FY
UTHSC-San Antonio	(47.2)	(7.2)	85%	Increase in Clinical Revenues Decrease in Other Operating Expenses (Registration Fees, Meetings, Conferences, Travel, and Other) Projected loss of (\$23.8) million for the FY
M. D. Anderson	420.5	602.7	43%	Increase in Clinical Revenues Projected income of \$809.0 million for the FY
UTHSC-Tyler**	(3.2)	0.0	N/A	U. T. Tyler and UTHSC-Tyler combined effective January 1, 2021, and are now presented as a combined entity in the MFR.
Total Adjusted Income (Loss)	\$ 220.9	611.5	177%	

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

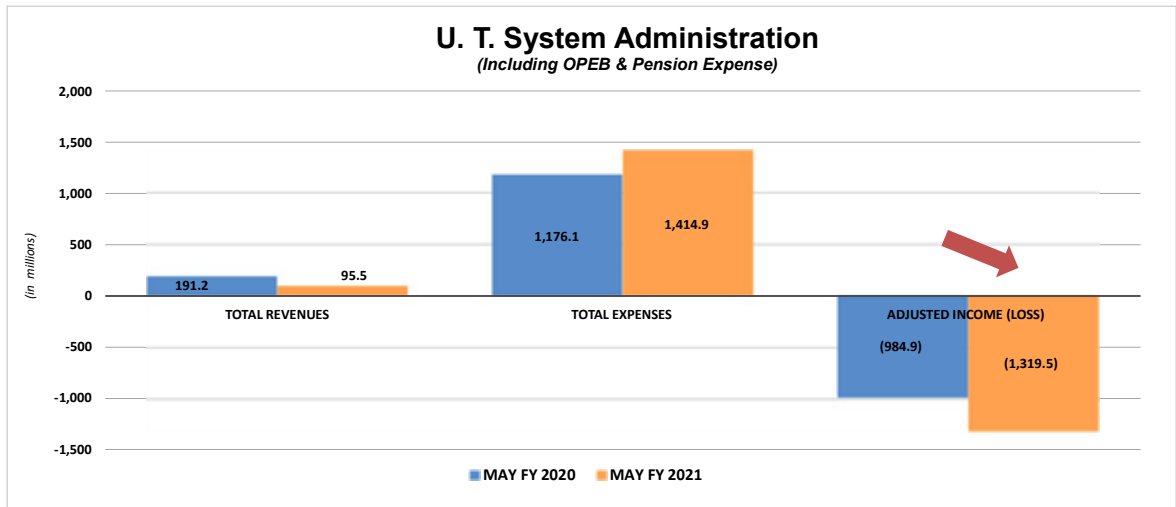
**U. T. Tyler and UTHSC-Tyler are shown separately for prior year purposes only.

Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending May 31, 2021



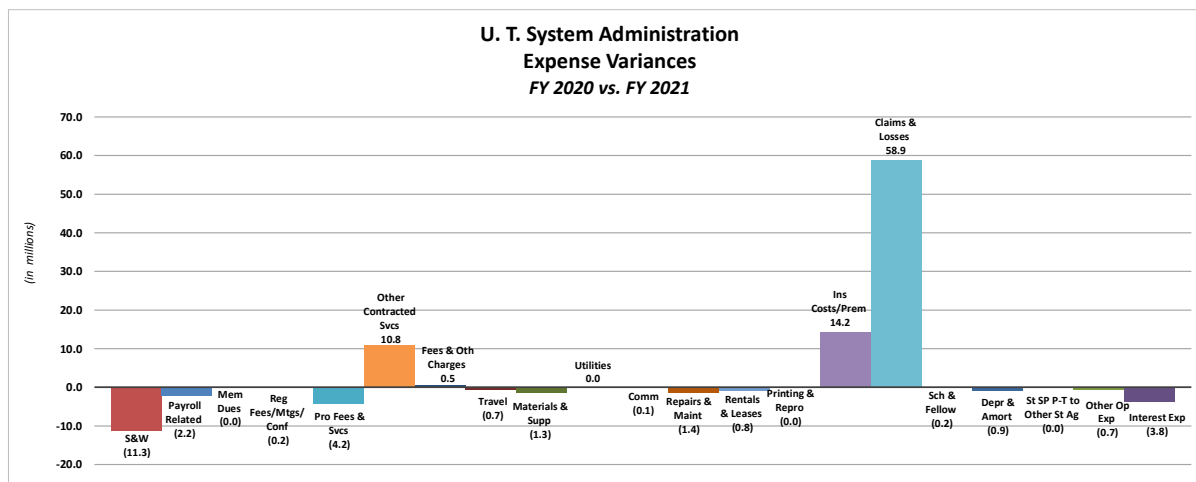
Excluding OPEB and pension expense, *U. T. System Administration* incurred a year-to-date adjusted loss of \$199.9 million, an increase in adjusted loss of \$152.2 million (320%) from the prior year. The increase was primarily attributable to the following: a decrease in net investment income as a result of increases in the Long-Term Fund (LTF) distribution, as well as PUF and LTF investment expenses, combined with decreases in LTF investment income and Available University Fund (AUF) surface income. An increase in investment income in the Internal Lending Program (ILP) attributable to *U. T. System Administration's* optional termination of its existing municipal market data (MMD) basis swaps with Deutsche Bank, as well as an increase in gas royalties, partially offset the overall decrease in net investment income. Also contributing to the increase in adjusted loss was an increase in other operating expenses due to an increase in claims and losses, and insurance costs/premiums for the medical self-insurance plan, Comprehensive Property Protection Plan (CPPP) Wind & Flood and CPPP Fire and All Other Perils (AOP). The most current projection, excluding OPEB and pension expense, reflects income of \$120.3 million for the year.

(in millions)	May YTD FY 2020	May YTD FY 2021	Variance	Annual Projected FY 2021
Sponsored Programs/Nonexchange Sponsored Programs	\$ 43.1	42.0	(1.1)	52.4
State Appropriations	2.7	3.9	1.2	5.2
Auxiliary Revenues/Sales & Services of Educational Activities	12.4	7.0	(5.4)	9.3
Net Investment Income/Available University Fund (AUF)	105.6	15.4	(90.2)	38.4
Other Operating Revenues/Gift Contributions for Operations	27.4	27.2	(0.2)	36.1
Total Revenues	191.2	95.5	(95.8)	141.4
Salaries and Wages/Payroll Related Costs	52.8	39.3	(13.5)	(316.0)
Materials and Supplies/Cost of Goods Sold	13.3	12.0	(1.3)	15.9
Depreciation and Amortization	12.6	11.7	(0.9)	15.5
Other Contracted Services/Professional Fees & Services	28.1	34.7	6.6	43.4
All Other Operating Expenses	132.1	197.7	65.7	262.2
Total Expenses (Excluding OPEB & Pension Exp)	\$ 238.9	295.3	56.5	21.0
Adjusted Income (Loss) Excluding OPEB & Pension Exp	(47.6)	(199.9)	(152.2)	120.3
OPEB Expense	498.6	514.8	16.2	686.4
Pension Expense	438.6	604.8	166.1	806.3
Adjusted Income (Loss)	(984.9)	(1,319.5)	(334.6)	(1,372.5)
Adjusted Income (Loss) Excluding Depr & Amort Exp	(972.2)	(1,307.8)	(335.6)	(1,357.0)



Monthly Financial Report Detailed Expense Break-out for U. T. System Administration For the Period Ending May 31, 2021

<i>(in millions)</i>	May YTD FY 2020	May YTD FY 2021	Actual Year-End FY 2020	Annual Projected FY 2021
Salaries and Wages	\$ 42.0	30.8	51.8	41.0
Payroll Related Costs	10.8	8.6	(355.0)	(357.0) *
Membership Dues	0.3	0.3	0.4	0.5
Registration Fees, Meetings, Conferences	0.3	0.1	0.4	0.1
Professional Fees and Services	8.9	4.6	11.5	6.2
Other Contracted Services	19.2	30.0	28.4	37.2
Fees and Other Charges	0.0	0.5	0.1	0.7
Travel	0.7	0.1	0.7	0.1
Materials and Supplies	13.3	12.0	11.9	15.9
Utilities	0.2	0.2	0.3	0.3
Communications	3.4	3.3	3.4	3.5
Repairs and Maintenance	9.1	7.7	6.3	10.3
Rentals and Leases	2.1	1.3	2.6	1.7
Printing and Reproduction	0.1	0.1	0.1	0.1
Insurance Costs/Premiums	51.5	65.7	7.7	87.6
Claims and Losses	36.3	95.2	32.3	127.0
Scholarships and Fellowships	0.7	0.5	1.0	0.6
Depreciation and Amortization	12.6	11.7	16.9	15.5
State Sponsored Program Pass-Through to Other State Agencies	3.5	3.5	4.5	4.1
Other Operating Expenses	1.1	0.4	1.2	0.5
Interest Expense	22.7	18.9	36.6	25.2
Total Expenses (Excluding OPEB & Pension Expense)	238.9	295.3	(136.8)	21.0
OPEB Expense	498.6	514.8	686.4	686.4
Pension Expense	438.6	604.8	806.3	806.3
Total Expenses (Including OPEB & Pension Expense)	\$ 1,176.1	1,414.9	1,356.0	1,513.8



Brief explanations for U. T. System Administration's largest expense variances are provided below:

Salaries & Wages - decrease of \$11.3 million due to decreases in Shared Information Services (SIS) and the Office of Facilities Planning and Construction, as well as a decrease in the vacation payout as compared to the prior year.

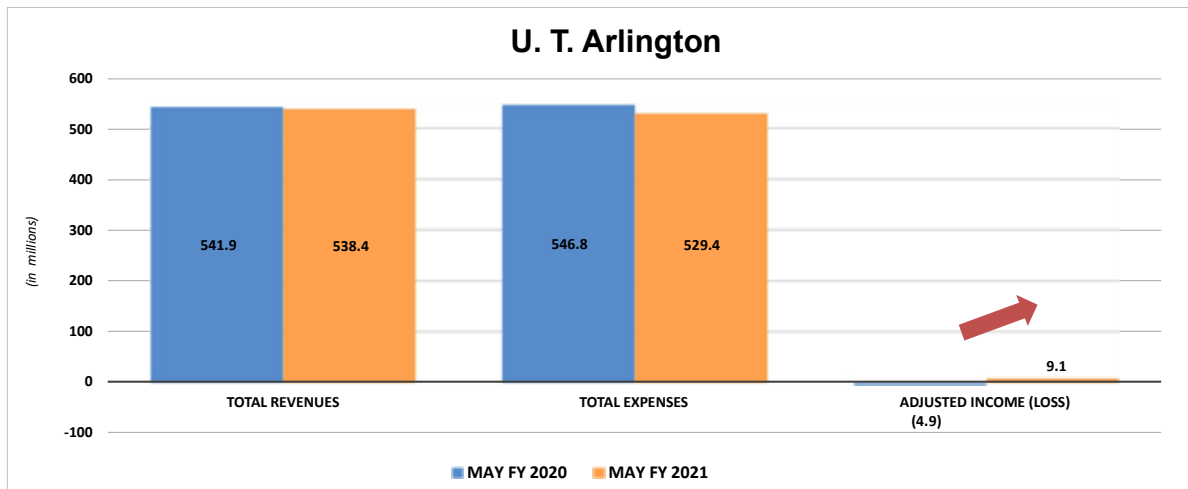
***Payroll Related Costs** - the negative payroll related costs at year-end relate to the pension entry to defer pension contributions made after the measurement date for the entire System.

Other Contracted Services - increase of \$10.8 million primarily due to increased expenses for SIS and the Arlington Regional Data Center.

Insurance Costs/Premiums - increase of \$14.2 million primarily attributable to increases in insurance premiums for CPPP Wind & Flood and CPPP Fire and AOP, as well as the medical self-insurance plan.

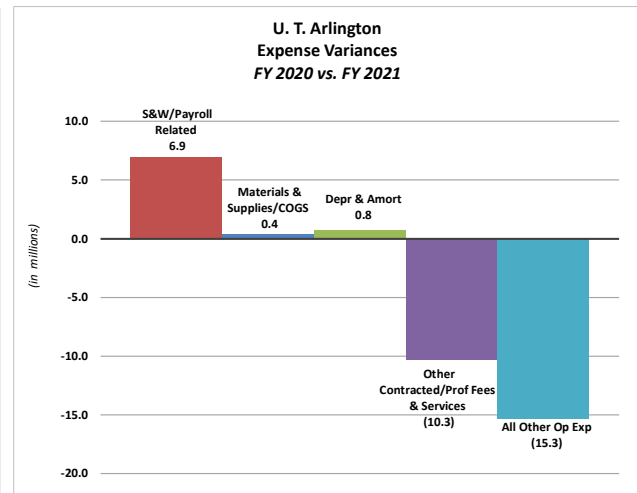
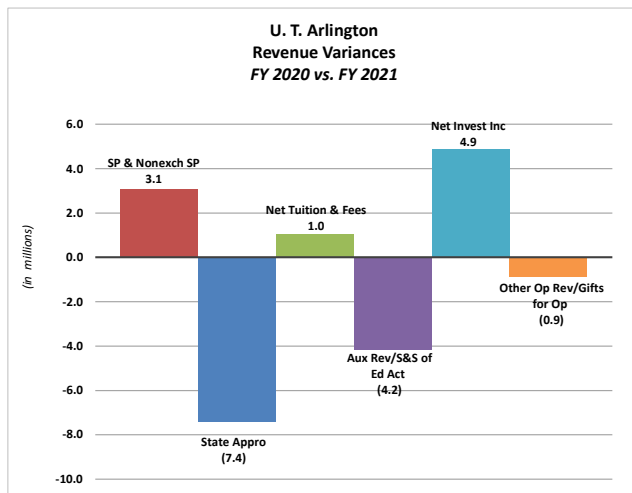
Claims and Losses - increase of \$58.9 million due to the medical self-insurance plan and an increase in CPPP Fire and AOP claims.

Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending May 31, 2021

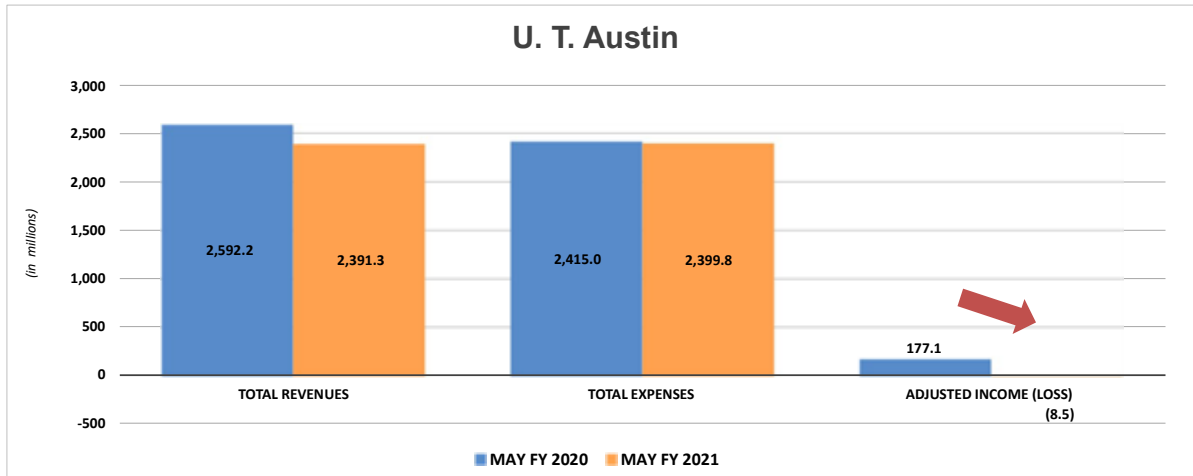


U. T. Arlington reported year-to-date adjusted income of \$9.1 million, an increase of \$14.0 million (285%) from the prior year. The increase was primarily attributable to the following: a decrease in other operating expenses primarily due to a reduction in travel expenses attributable to COVID-19, a decrease in repairs and maintenance, and a decrease in official occasion expenses across all departments as a result of COVID-19; and a decrease in other contracted services/professional fees and services largely attributable to a decrease in Huron consulting expenses and a decrease in IT expenditures. The most current projection received from U. T. Arlington reflects income of \$13.9 million for the year.

(in millions)	May YTD FY 2020	May YTD FY 2021	Variance	Annual Projected FY 2021
Sponsored Programs/Nonexchange Sponsored Programs	\$ 107.7	110.8	3.1	147.4
State Appropriations	103.5	96.0	(7.4)	140.8
Net Tuition and Fees	254.0	255.1	1.0	333.7
Auxiliary Revenues/Sales & Services of Educational Activities	45.7	41.5	(4.2)	55.7
Net Investment Income	19.3	24.1	4.9	28.2
Other Operating Revenues/Gift Contributions for Operations	11.8	10.9	(0.9)	16.4
Total Revenues	541.9	538.4	(3.5)	722.1
Salaries and Wages/Payroll Related Costs	311.6	318.5	6.9	412.7
Materials and Supplies/Cost of Goods Sold	26.7	27.1	0.4	37.6
Depreciation and Amortization	43.0	43.7	0.8	58.3
Other Contracted Services/Professional Fees & Services	69.0	58.7	(10.3)	86.6
All Other Operating Expenses	96.6	81.3	(15.3)	113.1
Total Expenses	546.8	529.4	(17.5)	708.2
Adjusted Income (Loss)	(4.9)	9.1	14.0	13.9
Adjusted Income (Loss) Excluding Depr & Amort Exp	38.1	52.8	14.7	72.2

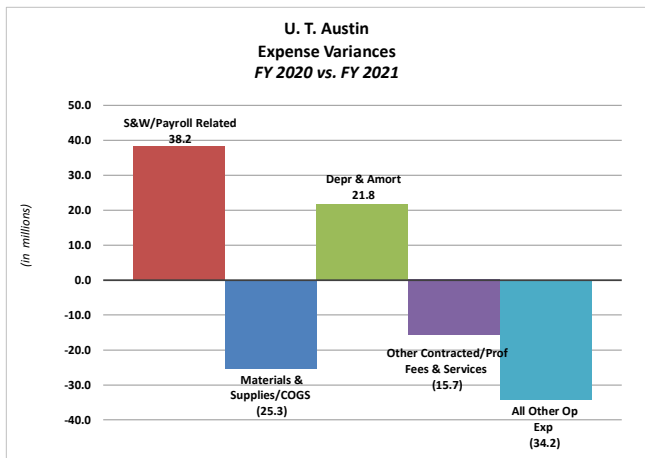
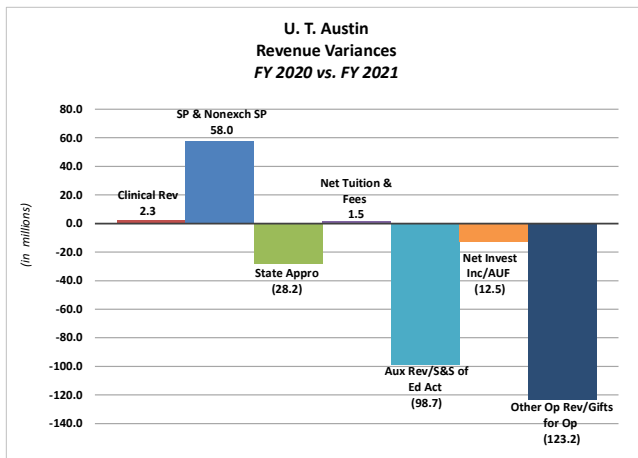


Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending May 31, 2021

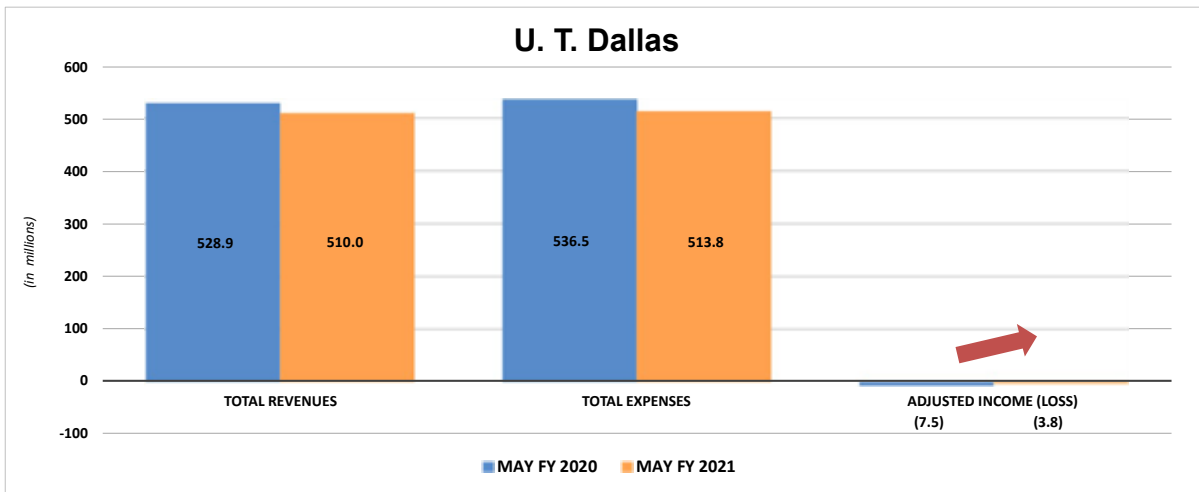


U. T. Austin incurred a year-to-date adjusted loss of \$8.5 million, a decrease of \$185.6 million (105%) from the prior year. The decrease was primarily due to the following: a decrease in gift contributions for operations; and a decrease in auxiliary enterprises revenues and sales and services of educational activities as a result of the continued impact of COVID-19. The most current projection received from *U. T. Austin* reflects income of \$128.9 million for the year.

(in millions)	May YTD FY 2020	May YTD FY 2021	Variance	Annual Projected FY 2021
Clinical Revenues	\$ 5.5	7.8	2.3	11.0
Sponsored Programs/Nonexchange Sponsored Programs	533.2	591.2	58.0	924.5
State Appropriations	266.0	237.8	(28.2)	317.1
Net Tuition and Fees	387.8	389.3	1.5	519.0
Auxiliary Revenues/Sales & Services of Educational Activities	557.0	458.3	(98.7)	471.9
Net Investment Income/Available University Fund (AUF)	574.9	562.4	(12.5)	747.5
Other Operating Revenues/Gift Contributions for Operations	267.8	144.6	(123.2)	199.9
Total Revenues	2,592.2	2,391.3	(200.8)	3,190.9
Salaries and Wages/Payroll Related Costs	1,432.7	1,470.9	38.2	1,862.5
Materials and Supplies/Cost of Goods Sold	126.6	101.3	(25.3)	113.3
Depreciation and Amortization	253.5	275.3	21.8	367.0
Other Contracted Services/Professional Fees & Services	143.6	128.0	(15.7)	166.0
All Other Operating Expenses	458.6	424.4	(34.2)	553.2
Total Expenses	\$ 2,415.0	2,399.8	(15.2)	3,062.0
Adjusted Income (Loss)	177.1	(8.5)	(185.6)	128.9
Adjusted Income (Loss) Excluding Depr & Amort Exp	430.6	266.8	(163.8)	495.9

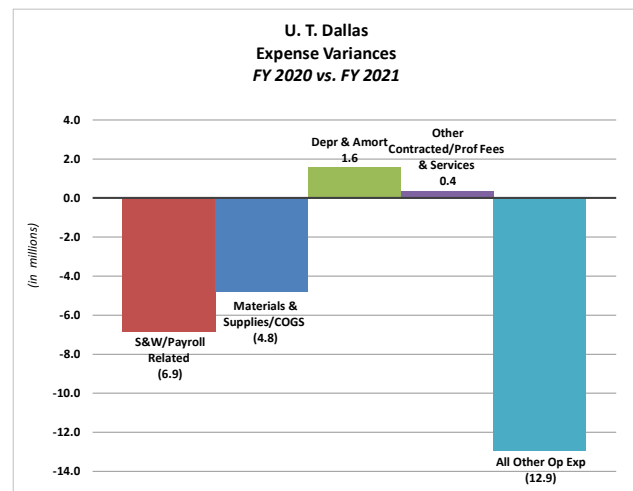
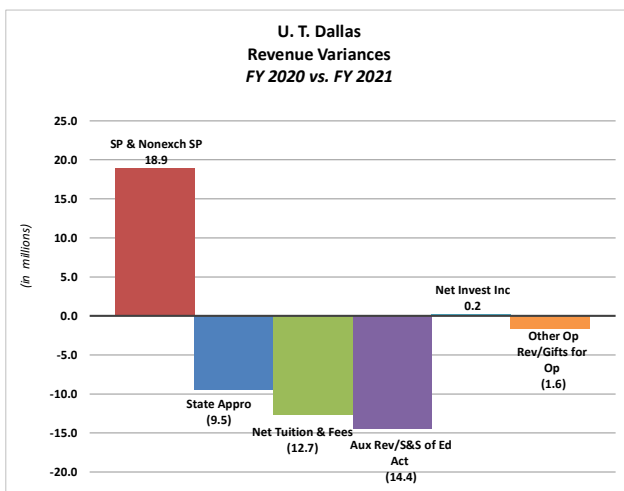


Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending May 31, 2021

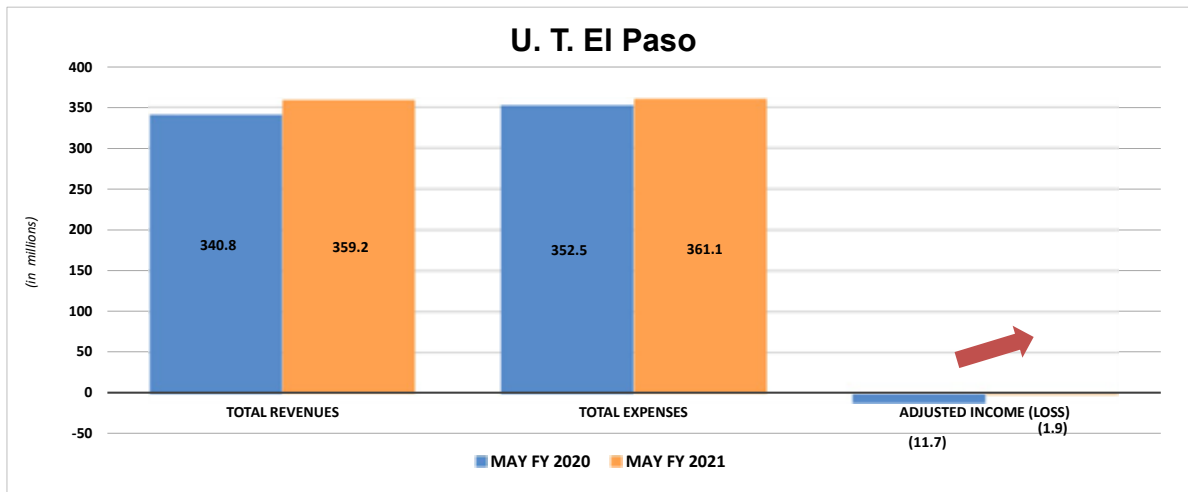


U. T. Dallas incurred a year-to-date adjusted loss of \$3.8 million, a decrease in adjusted loss of \$3.7 million (49%) from the prior year. The decrease was primarily attributable to the following: a decrease in other operating expenses due to a decrease in repairs and maintenance, a reduction in travel attributable to restrictions related to COVID-19, a decrease in official occasion expenses across all departments as a result of COVID-19, and a decrease in rentals and leases due to a reduction in Office of Information Technology rentals; a decrease in salaries and wages attributable to budget cuts, hiring freezes, and a decrease in annual merit increases compared to the prior year; and a decrease in material and supplies among various departments related to COVID-19. The most current projection received from *U. T. Dallas* reflects a loss of \$5.1 million for the year.

(in millions)	May YTD FY 2020	May YTD FY 2021	Variance	Annual Projected FY 2021
Sponsored Programs/Nonexchange Sponsored Programs	\$ 98.7	117.7	18.9	156.9
State Appropriations	93.1	83.6	(9.5)	111.5
Net Tuition and Fees	234.9	222.2	(12.7)	296.3
Auxiliary Revenues/Sales & Services of Educational Activities	59.9	45.6	(14.4)	60.8
Net Investment Income	27.3	27.5	0.2	36.7
Other Operating Revenues/Gift Contributions for Operations	15.1	13.5	(1.6)	17.9
Total Revenues	528.9	510.0	(19.0)	680.0
Salaries and Wages/Payroll Related Costs	308.3	301.5	(6.9)	402.0
Materials and Supplies/Cost of Goods Sold	25.0	20.2	(4.8)	26.9
Depreciation and Amortization	63.3	64.9	1.6	86.6
Other Contracted Services/Professional Fees & Services	25.2	25.6	0.4	34.1
All Other Operating Expenses	114.5	101.6	(12.9)	135.5
Total Expenses	\$ 536.5	513.8	(22.7)	685.1
Adjusted Income (Loss)	(7.5)	(3.8)	3.7	(5.1)
Adjusted Income (Loss) Excluding Depr & Amort Exp	55.8	61.1	5.3	81.5

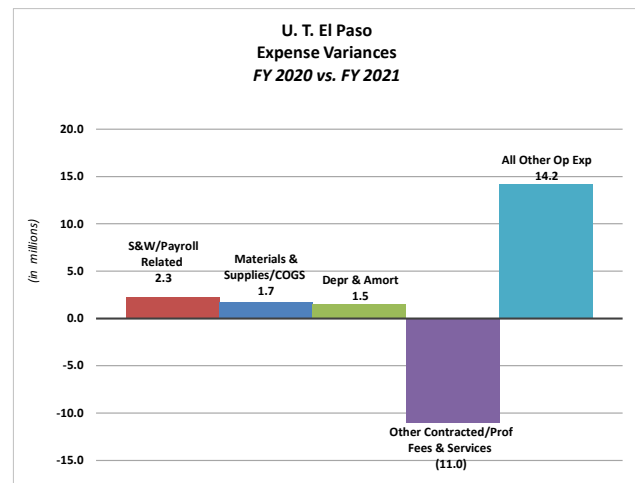
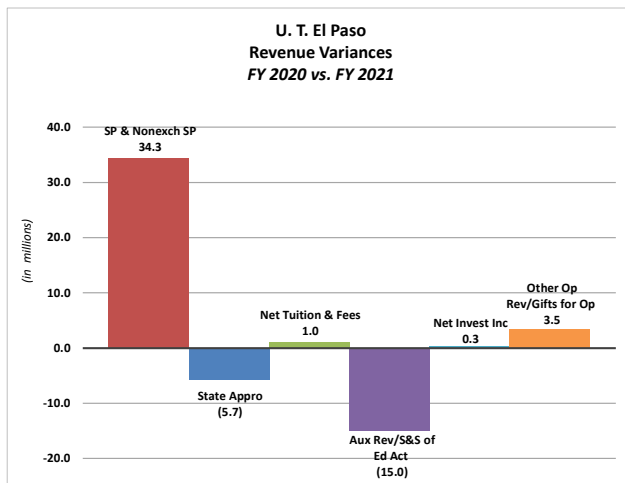


Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending May 31, 2021

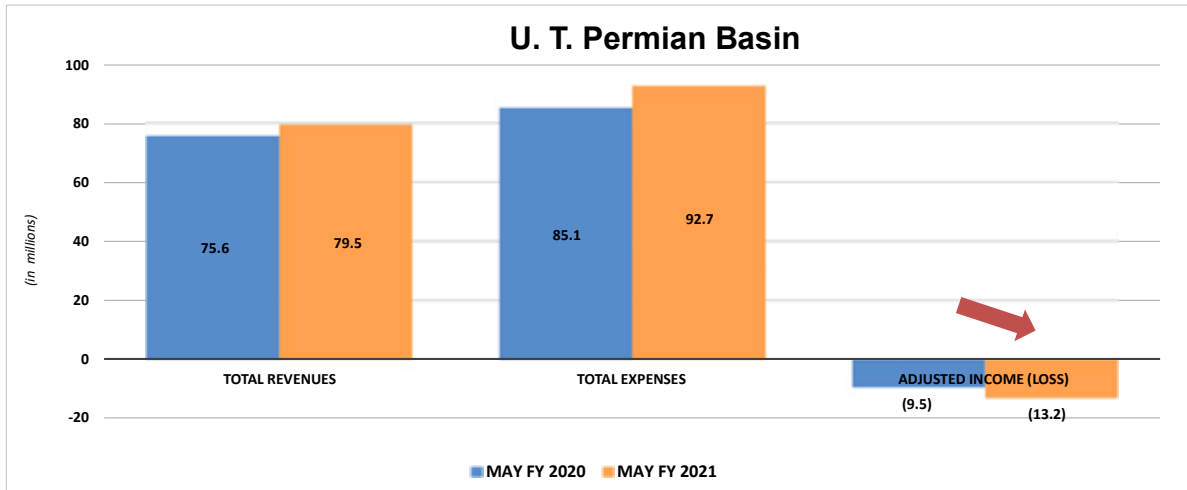


U. T. El Paso incurred a year-to-date adjusted loss of \$1.9 million, a decrease in adjusted loss of \$9.8 million (84%) from the prior year. The decrease was primarily due to the following: a decrease in other contracted services/professional fees and services primarily attributable to various restrictions instituted as a result of COVID-19; and an increase in gift contributions for operations. The most current projection received from *U. T. El Paso* reflects a loss of \$2.8 million for the year.

(in millions)	May YTD FY 2020	May YTD FY 2021	Variance	Annual Projected FY 2021
Sponsored Programs/Nonexchange Sponsored Programs	\$ 100.4	134.8	34.3	207.6
State Appropriations	80.2	74.5	(5.7)	95.3
Net Tuition and Fees	115.3	116.4	1.0	145.5
Auxiliary Revenues/Sales & Services of Educational Activities	29.8	14.8	(15.0)	19.1
Net Investment Income	12.7	13.0	0.3	17.0
Other Operating Revenues/Gift Contributions for Operations	2.3	5.8	3.5	5.8
Total Revenues	340.8	359.2	18.4	490.3
Salaries and Wages/Payroll Related Costs	206.9	209.1	2.3	273.4
Materials and Supplies/Cost of Goods Sold	14.3	16.0	1.7	22.0
Depreciation and Amortization	22.8	24.3	1.5	33.6
Other Contracted Services/Professional Fees & Services	24.2	13.2	(11.0)	17.2
All Other Operating Expenses	84.3	98.4	14.2	146.9
Total Expenses	\$ 352.5	361.1	8.7	493.0
Adjusted Income (Loss)	(11.7)	(1.9)	9.8	(2.8)
Adjusted Income (Loss) Excluding Depr & Amort Exp	11.1	22.4	11.3	30.8

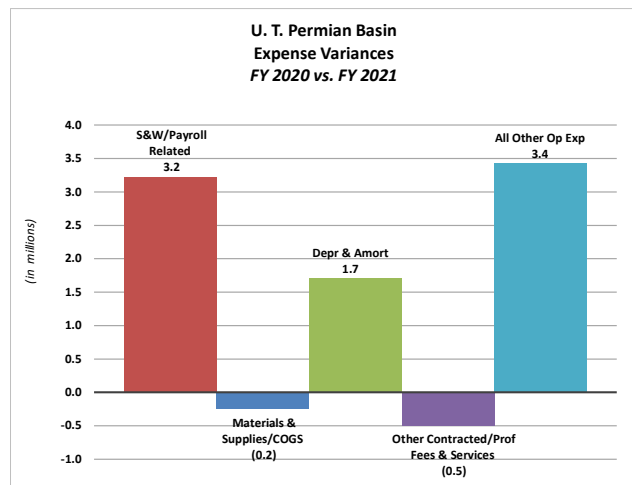
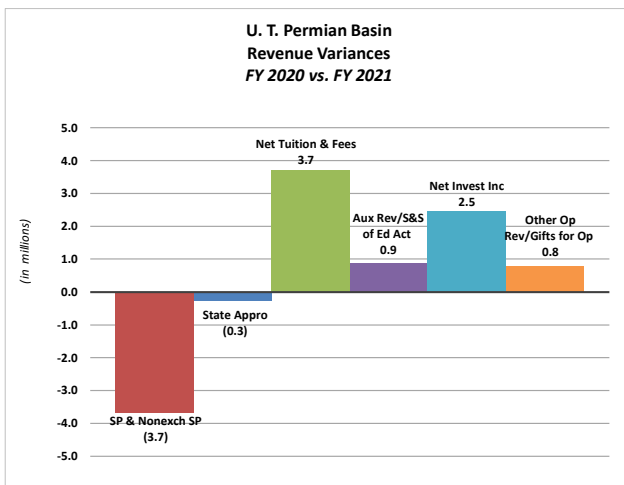


Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending May 31, 2021

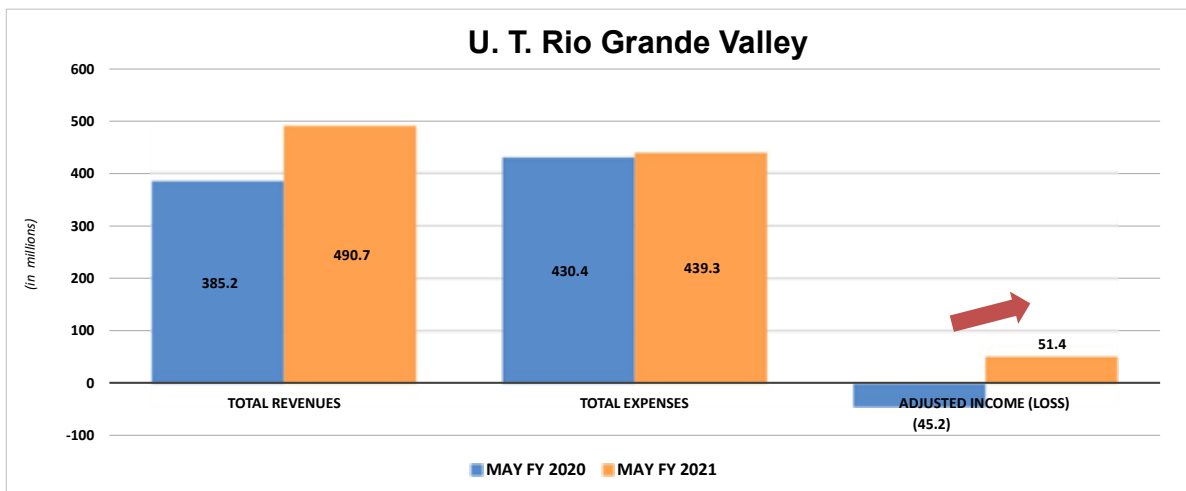


U. T. Permian Basin incurred a year-to-date adjusted loss of \$13.2 million, an increase in adjusted loss of \$3.7 million (39%) from the prior year. The increase was primarily attributable to the following: an increase in salaries and wages and payroll related costs due to vacant positions being filled; and an increase in depreciation and amortization expense as a result of additions to infrastructure. The most current projection received from *U. T. Permian Basin* reflects a loss of \$11.6 million for the year.

(in millions)	May YTD FY 2020	May YTD FY 2021	Variance	Annual Projected FY 2021
Sponsored Programs/Nonexchange Sponsored Programs	\$ 24.5	20.9	(3.7)	29.8
State Appropriations	16.4	16.2	(0.3)	21.6
Net Tuition and Fees	23.9	27.6	3.7	36.8
Auxiliary Revenues/Sales & Services of Educational Activities	4.7	5.6	0.9	7.3
Net Investment Income	2.1	4.5	2.5	6.7
Other Operating Revenues/Gift Contributions for Operations	4.0	4.8	0.8	6.5
Total Revenues	75.6	79.5	3.9	108.7
Salaries and Wages/Payroll Related Costs	41.8	45.0	3.2	58.5
Materials and Supplies/Cost of Goods Sold	4.9	4.6	(0.2)	6.1
Depreciation and Amortization	13.9	15.6	1.7	20.8
Other Contracted Services/Professional Fees & Services	9.4	8.9	(0.5)	10.3
All Other Operating Expenses	15.2	18.6	3.4	24.5
Total Expenses	\$ 85.1	92.7	7.6	120.3
Adjusted Income (Loss)	(9.5)	(13.2)	(3.7)	(11.6)
Adjusted Income (Loss) Excluding Depr & Amort Exp	4.4	2.4	(2.0)	9.3

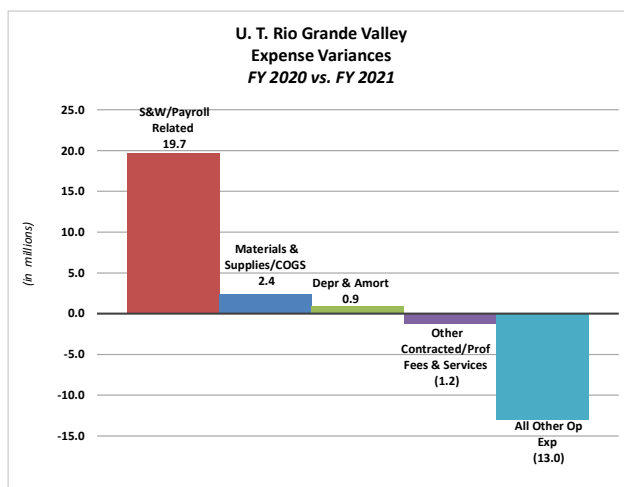
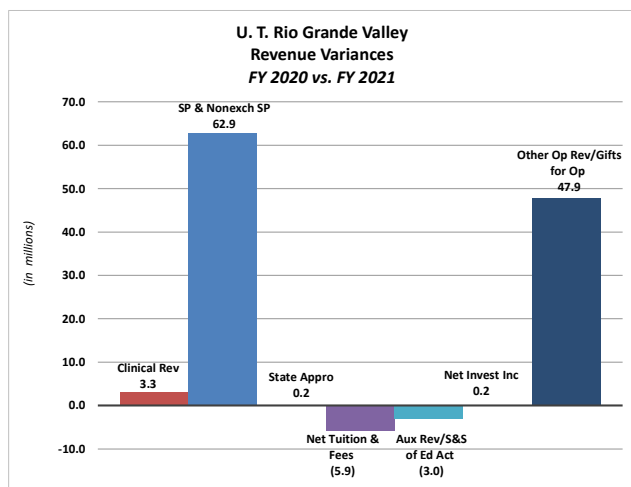


Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending May 31, 2021

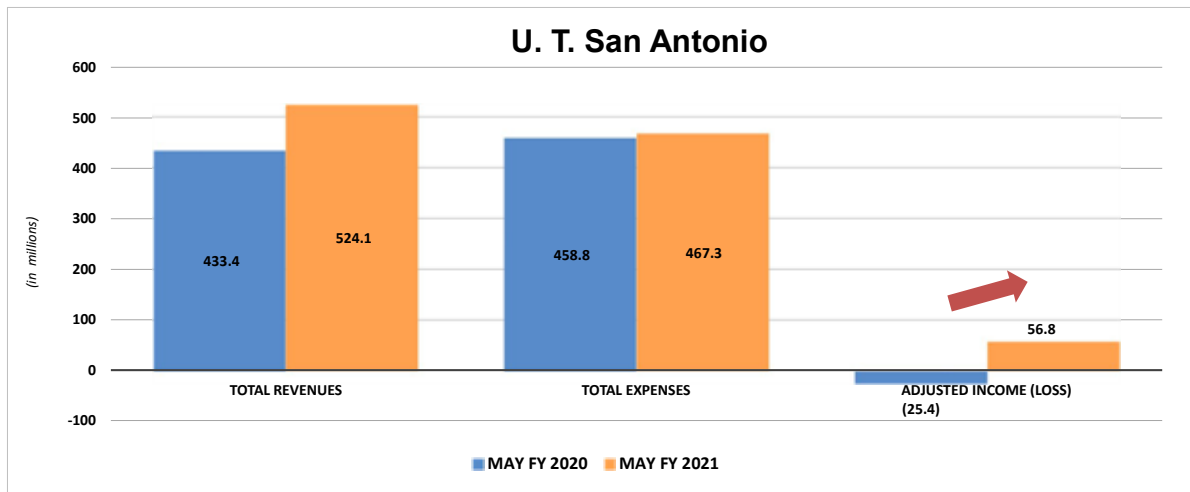


U. T. Rio Grande Valley reported year-to-date adjusted income of \$51.4 million, an increase of \$96.6 million (214%) from the prior year. The increase was primarily due to the following: an increase in other operating revenues/gift contributions for operations as a result of a \$40 million gift received from a private donor and an increase in contact tracing revenues; an increase in sponsored programs attributable to an increase in hospital contract revenue; and an increase in clinical revenues due to additional clinics and COVID-19 related services. The most current projection received from U. T. Rio Grande Valley reflects income of \$52.7 million for the year.

(in millions)	May YTD FY 2020	May YTD FY 2021	Variance	Annual Projected FY 2021
Clinical Revenues	\$ 9.3	12.5	3.3	18.3
Sponsored Programs/Nonexchange Sponsored Programs	139.6	202.5	62.9	313.2
State Appropriations	114.4	114.6	0.2	138.8
Net Tuition and Fees	95.2	89.2	(5.9)	119.4
Auxiliary Revenues/Sales & Services of Educational Activities	11.2	8.2	(3.0)	10.2
Net Investment Income	6.6	6.8	0.2	8.9
Other Operating Revenues/Gift Contributions for Operations	9.1	56.9	47.9	63.9
Total Revenues	385.2	490.7	105.5	672.7
Salaries and Wages/Payroll Related Costs	277.4	297.1	19.7	384.1
Materials and Supplies/Cost of Goods Sold	15.1	17.5	2.4	24.5
Depreciation and Amortization	37.9	38.9	0.9	54.1
Other Contracted Services/Professional Fees & Services	15.1	13.8	(1.2)	20.8
All Other Operating Expenses	85.0	72.0	(13.0)	136.5
Total Expenses	\$ 430.4	439.3	8.9	620.0
Adjusted Income (Loss)	(45.2)	51.4	96.6	52.7
Adjusted Income (Loss) Excluding Depr & Amort Exp	(7.3)	90.3	97.6	106.8

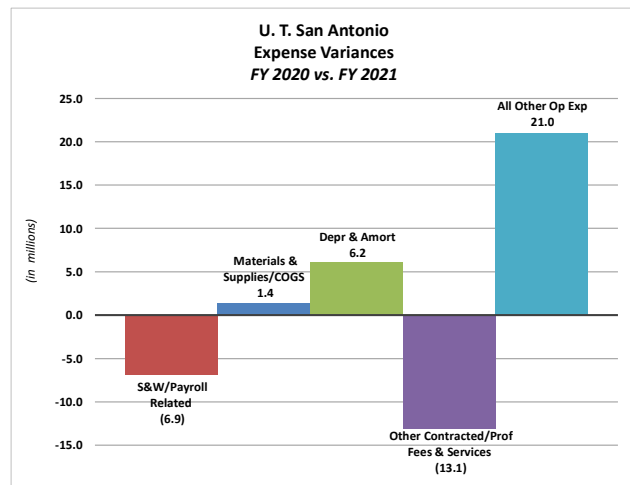
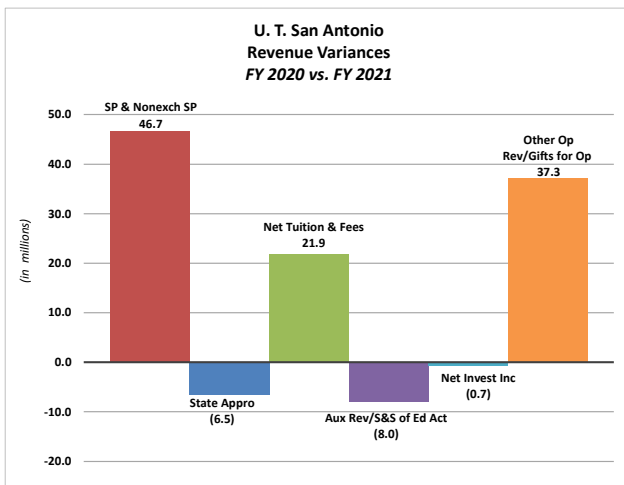


Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending May 31, 2021

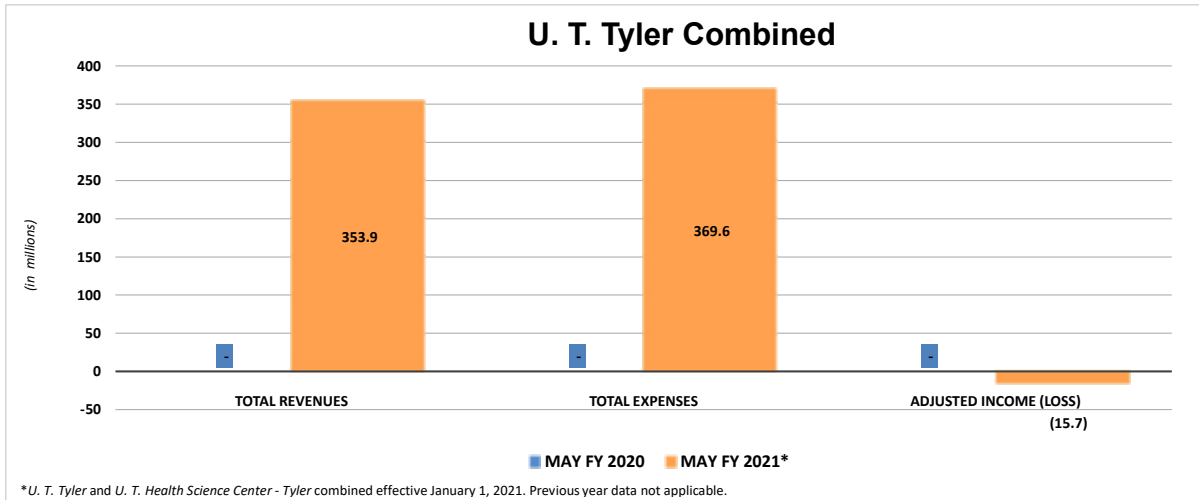


U. T. San Antonio reported year-to-date adjusted income of \$56.8 million, an increase of \$82.1 million (324%) from the prior year. The increase was primarily attributable to the following: an increase in gift contributions for operations due to a \$40 million gift received from a private donor; an increase in net student tuition and fees as a result of increased enrollment, as well as an increase in tuition rates; a decrease in salaries and wages attributable to budget cuts; and a decrease in professional fees and services due to various strategic initiatives in the prior year. The most current projection received from U. T. San Antonio reflects income of \$75.6 million for the year.

(in millions)	May YTD FY 2020	May YTD FY 2021	Variance	Annual Projected FY 2021
Sponsored Programs/Nonexchange Sponsored Programs	\$ 112.4	159.1	46.7	212.1
State Appropriations	97.4	90.9	(6.5)	121.2
Net Tuition and Fees	164.2	186.1	21.9	248.1
Auxiliary Revenues/Sales & Services of Educational Activities	35.0	27.0	(8.0)	36.0
Net Investment Income	16.4	15.7	(0.7)	21.0
Other Operating Revenues/Gift Contributions for Operations	8.1	45.3	37.3	60.5
Total Revenues	433.4	524.1	90.7	698.8
Salaries and Wages/Payroll Related Costs	269.1	262.3	(6.9)	349.7
Materials and Supplies/Cost of Goods Sold	19.8	21.2	1.4	28.5
Depreciation and Amortization	37.1	43.2	6.2	57.7
Other Contracted Services/Professional Fees & Services	31.4	18.3	(13.1)	24.4
All Other Operating Expenses	101.4	122.4	21.0	163.0
Total Expenses	\$ 458.8	467.3	8.5	623.2
Adjusted Income (Loss)	(25.4)	56.8	82.1	75.6
Adjusted Income (Loss) Excluding Depr & Amort Exp	11.7	100.0	88.3	133.2

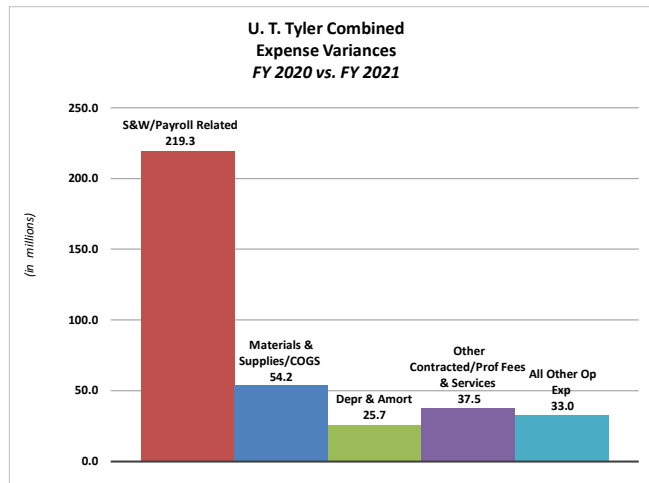
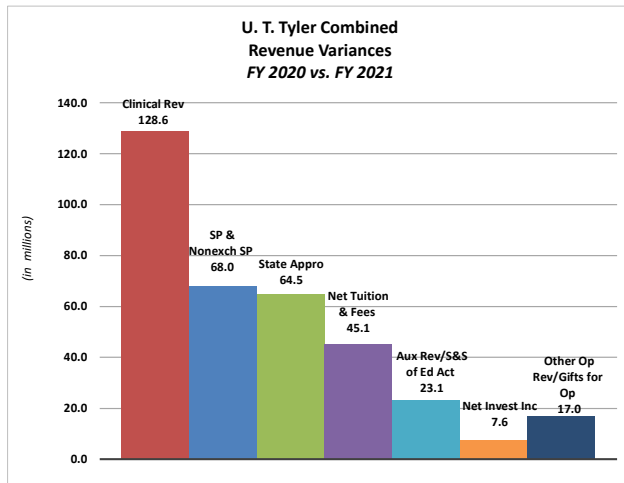


Monthly Financial Report Operating Results, Margin and Projected Year-End For the Period Ending May 31, 2021



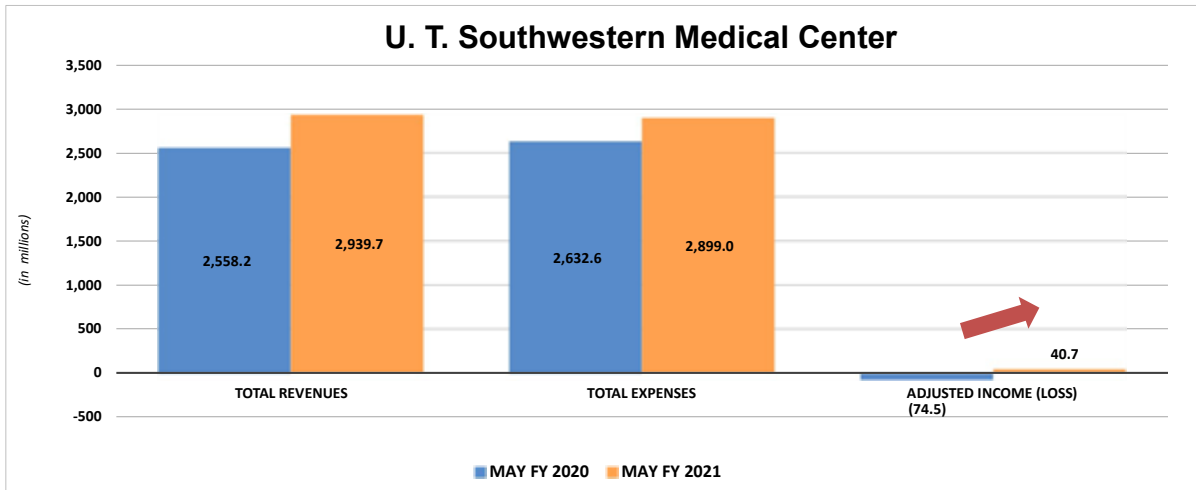
U. T. Tyler Combined: On December 21, 2020, the U. T. System Board of Regents formalized the combination of U. T. Tyler and U. T. Health Science Center - Tyler effective January 1, 2021, in order to create a single, integrated university that will more comprehensively serve the educational, health and economic needs of East Texas. Therefore, previous year's data is not applicable.

(in millions)	May YTD FY 2020	May YTD FY 2021	Variance	Annual Projected FY 2021
Clinical Revenues	\$ -	128.6	128.6	171.8
Sponsored Programs/Nonexchange Sponsored Programs	-	68.0	68.0	95.1
State Appropriations	-	64.5	64.5	83.4
Net Tuition and Fees	-	45.1	45.1	57.4
Auxiliary Revenues/Sales & Services of Educational Activities	-	23.1	23.1	27.3
Net Investment Income	-	7.6	7.6	9.6
Other Operating Revenues/Gift Contributions for Operations	-	17.0 **	17.0	32.4 **
Total Revenues	-	353.9	353.9	477.0
Salaries and Wages/Payroll Related Costs	-	219.3	219.3	287.2
Materials and Supplies/Cost of Goods Sold	-	54.2	54.2	71.2
Depreciation and Amortization	-	25.7	25.7	34.3
Other Contracted Services/Professional Fees & Services	-	37.5	37.5	50.6
All Other Operating Expenses	-	33.0	33.0	48.1
Total Expenses	\$ -	369.6	369.6	491.3
Adjusted Income (Loss)	-	(15.7)	(15.7)	(14.3)
Adjusted Income (Loss) Excluding Depr & Amort Exp	-	10.0	10.0	20.0



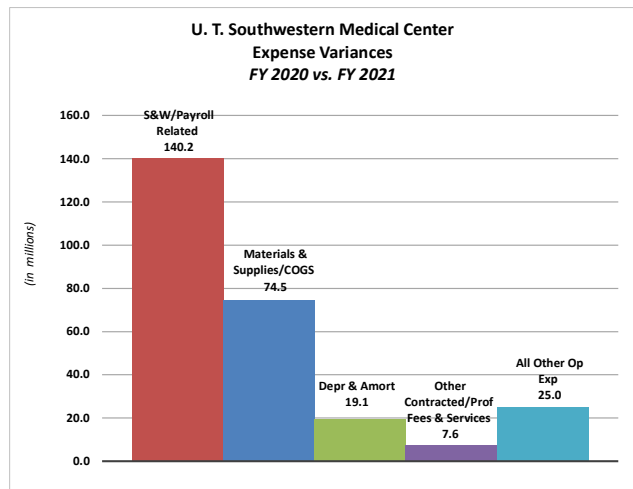
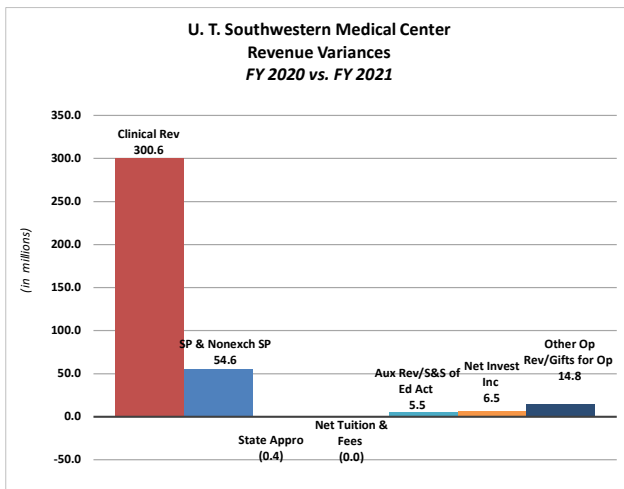
**Other Operating Income includes 30% of UT Health East Texas' (UTHET) net adjusted loss which was \$4.7 million through May. The projected loss of \$14.3 million includes \$1.1 million of UTHET's net adjusted income for the year.

Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending May 31, 2021

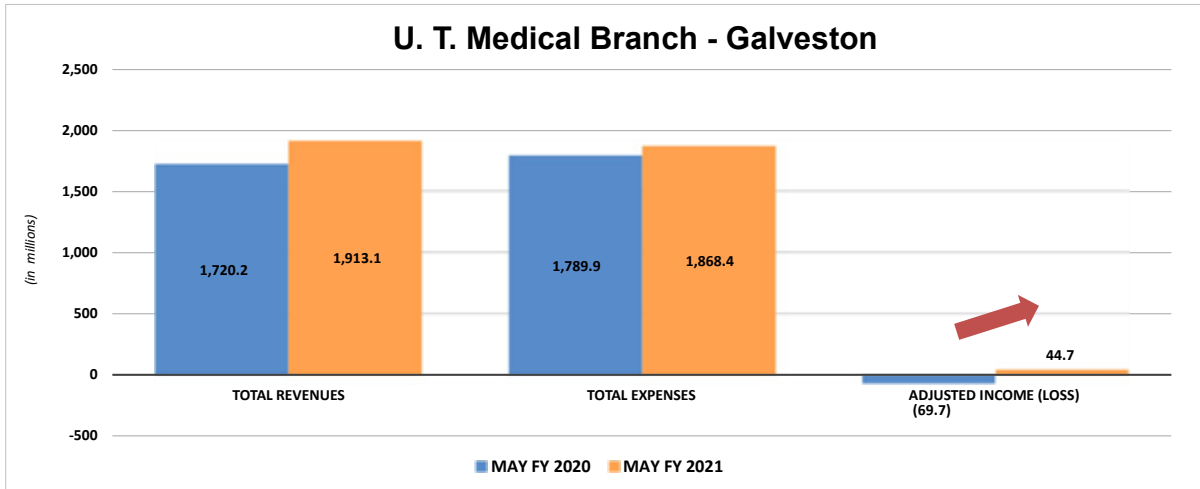


U. T. Southwestern Medical Center reported year-to-date adjusted income of \$40.7 million, an increase of \$115.2 million (155%) from the prior year. The increase was primarily attributable to an increase in clinical revenues due to increased inpatient and outpatient visits, as well as increased surgical volumes and admissions. The most current projection received from U. T. Southwestern Medical Center reflects income of \$83.6 million for the year.

(in millions)	May YTD FY 2020	May YTD FY 2021	Variance	Annual Projected FY 2021
Clinical Revenues	\$ 1,564.5	1,865.1	300.6	2,516.8
Sponsored Programs/Nonexchange Sponsored Programs	549.3	604.0	54.6	812.4
State Appropriations	136.3	135.9	(0.4)	184.4
Net Tuition and Fees	19.6	19.6	(0.0)	27.9
Auxiliary Revenues/Sales & Services of Educational Activities	23.8	29.2	5.5	38.7
Net Investment Income	101.8	108.3	6.5	148.8
Other Operating Revenues/Gift Contributions for Operations	162.9	177.6	14.8	236.4
Total Revenues	2,558.2	2,939.7	381.5	3,965.3
Salaries and Wages/Payroll Related Costs	1,672.0	1,812.3	140.2	2,439.7
Materials and Supplies/Cost of Goods Sold	489.5	564.0	74.5	724.5
Depreciation and Amortization	135.2	154.3	19.1	208.3
Other Contracted Services/Professional Fees & Services	159.1	166.7	7.6	201.3
All Other Operating Expenses	176.8	201.8	25.0	308.0
Total Expenses	\$ 2,632.6	2,899.0	266.4	3,881.7
Adjusted Income (Loss)	(74.5)	40.7	115.2	83.6
Adjusted Income (Loss) Excluding Depr & Amort Exp	60.7	195.0	134.3	291.9

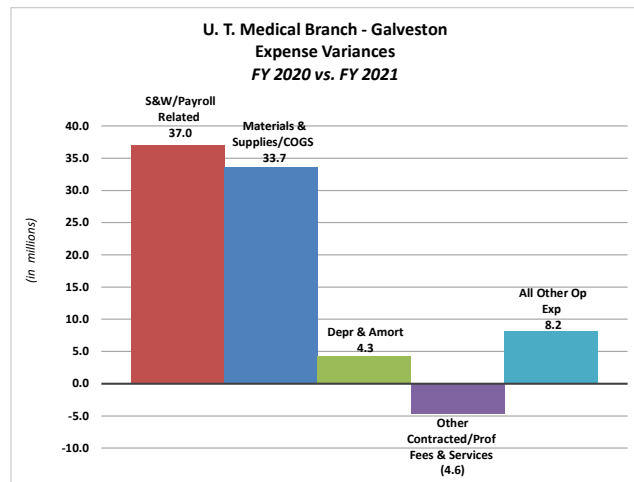
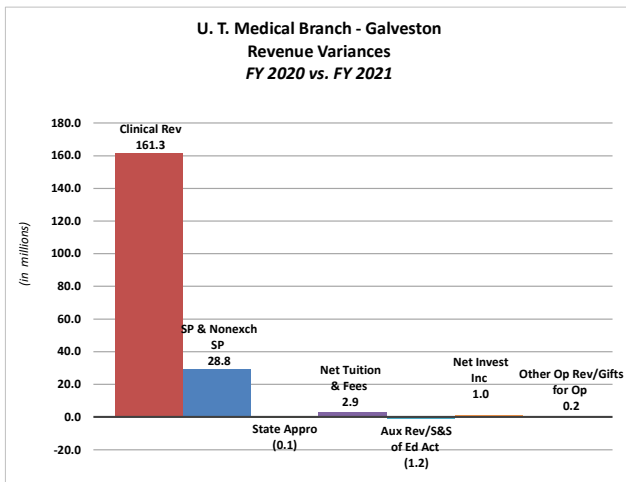


Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending May 31, 2021

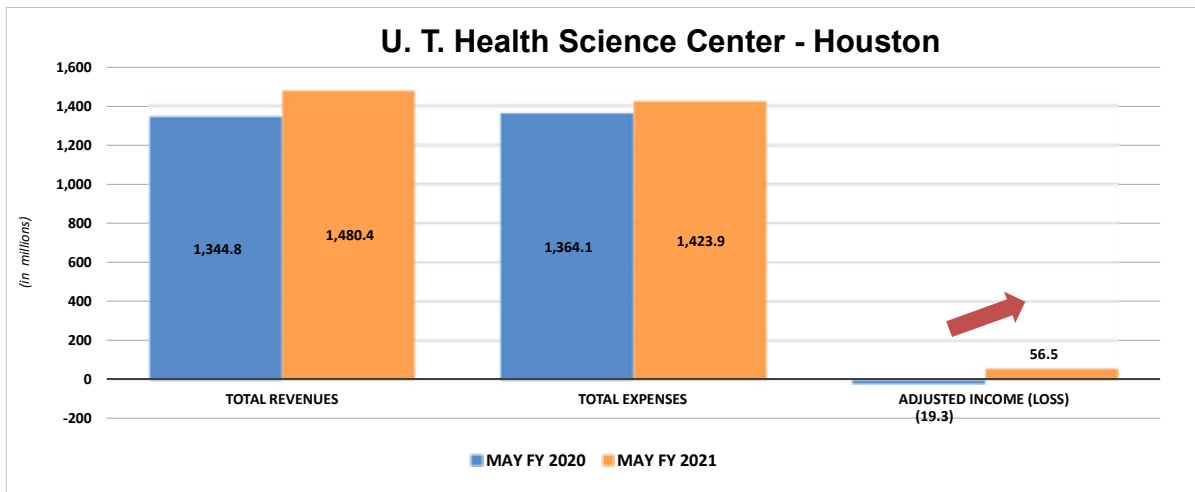


U. T. Medical Branch - Galveston reported year-to-date adjusted income of \$44.7 million, an increase of \$114.4 million (164%) from the prior year. The increase was primarily due to an increase in clinical revenues attributable to increased patient volume and a favorable rate/case mix. The most current projection received from U. T. Medical Branch - Galveston reflects income of \$54.1 million for the year.

(in millions)	May YTD FY 2020	May YTD FY 2021	Variance	Annual Projected FY 2021
Clinical Revenues	\$ 1,124.7	1,286.0	161.3	1,711.3
Sponsored Programs/Nonexchange Sponsored Programs	147.6	176.4	28.8	229.3
State Appropriations	270.6	270.5	(0.1)	359.6
Net Tuition and Fees	34.1	37.0	2.9	50.5
Auxiliary Revenues/Sales & Services of Educational Activities	21.2	20.0	(1.2)	28.3
Net Investment Income	49.1	50.1	1.0	63.5
Other Operating Revenues/Gift Contributions for Operations	72.9	73.1	0.2	89.1
Total Revenues	1,720.2	1,913.1	192.9	2,531.6
Salaries and Wages/Payroll Related Costs	1,093.0	1,130.0	37.0	1,501.0
Materials and Supplies/Cost of Goods Sold	232.1	265.8	33.7	346.7
Depreciation and Amortization	143.8	148.1	4.3	199.1
Other Contracted Services/Professional Fees & Services	150.8	146.3	(4.6)	192.5
All Other Operating Expenses	170.2	178.4	8.2	238.3
Total Expenses	\$ 1,789.9	1,868.4	78.5	2,477.5
Adjusted Income (Loss)	(69.7)	44.7	114.4	54.1
Adjusted Income (Loss) Excluding Depr & Amort Exp	74.1	192.8	118.7	253.2

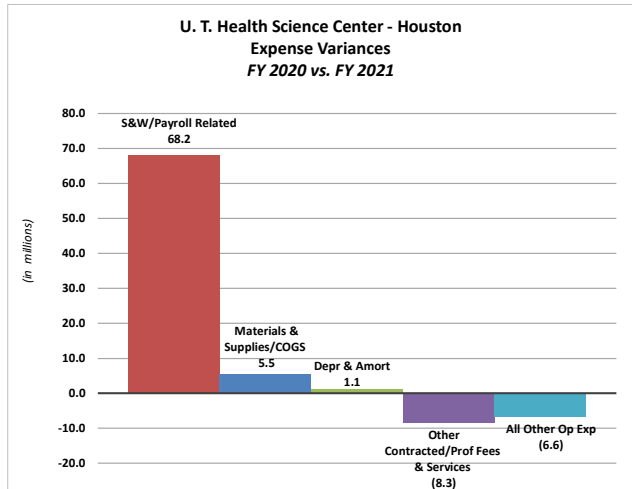
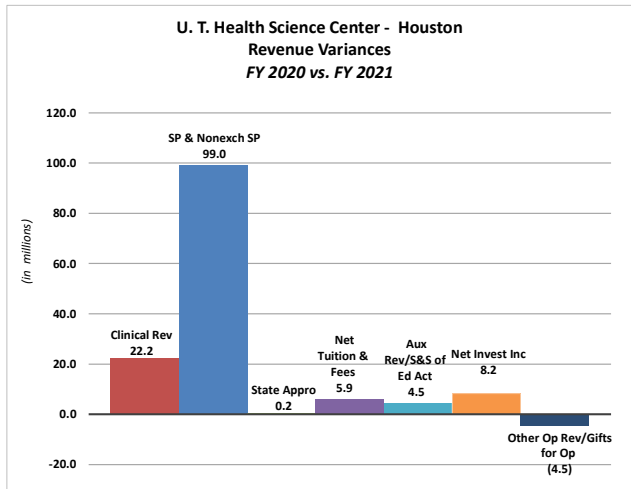


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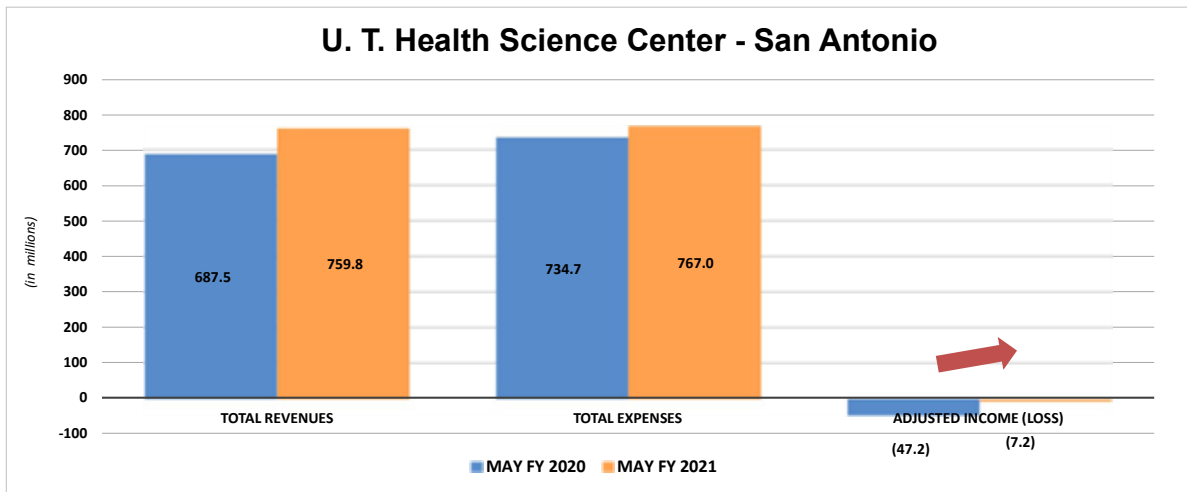


U. T. Health Science Center - Houston reported year-to-date adjusted income of \$56.5 million, an increase of \$75.8 million (393%) from the prior year. The increase was primarily attributable to the following: an increase in sponsored programs as a result of an increase in contractual revenues from Memorial Hermann Hospital, Harris Health System, and Health and Human Services as a result of expanded contracted services and support, as well as contract restructuring; and an increase in clinical revenues primarily attributable to an increase in clinical productivity. The most current projection received from U. T. Health Science Center - Houston reflects income of \$35.6 million for the year.

(in millions)	May YTD FY 2020	May YTD FY 2021	Variance	Annual Projected FY 2021
Clinical Revenues	\$ 363.9	386.2	22.2	513.6
Sponsored Programs/Nonexchange Sponsored Programs	632.7	731.6	99.0	979.8
State Appropriations	162.3	162.5	0.2	216.9
Net Tuition and Fees	47.2	53.1	5.9	69.2
Auxiliary Revenues/Sales & Services of Educational Activities	49.4	53.8	4.5	66.3
Net Investment Income	45.2	53.4	8.2	69.1
Other Operating Revenues/Gift Contributions for Operations	44.2	39.7	(4.5)	90.3
Total Revenues	1,344.8	1,480.4	135.6	2,005.1
Salaries and Wages/Payroll Related Costs	1,030.8	1,099.0	68.2	1,512.9
Materials and Supplies/Cost of Goods Sold	73.6	79.0	5.5	105.4
Depreciation and Amortization	50.3	51.3	1.1	71.0
Other Contracted Services/Professional Fees & Services	95.8	87.5	(8.3)	125.6
All Other Operating Expenses	113.6	107.0	(6.6)	154.7
Total Expenses	\$ 1,364.1	1,423.9	59.8	1,969.6
Adjusted Income (Loss)	(19.3)	56.5	75.8	35.6
Adjusted Income (Loss) Excluding Depr & Amort Exp	31.0	107.8	76.8	106.5

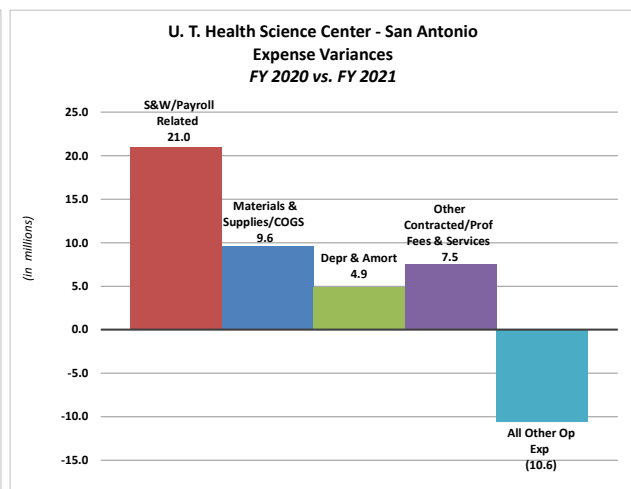
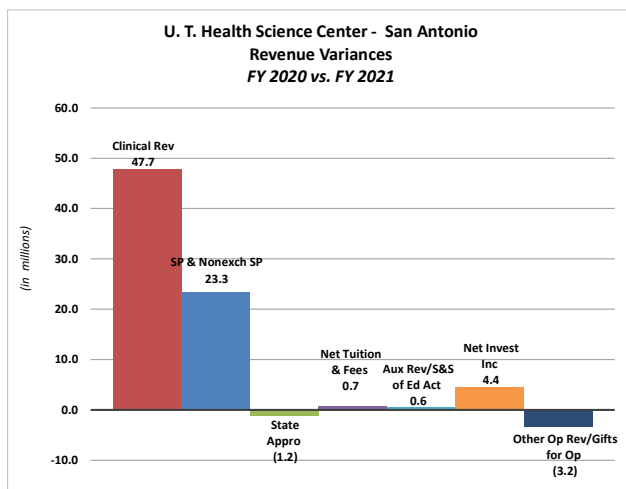


Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending May 31, 2021

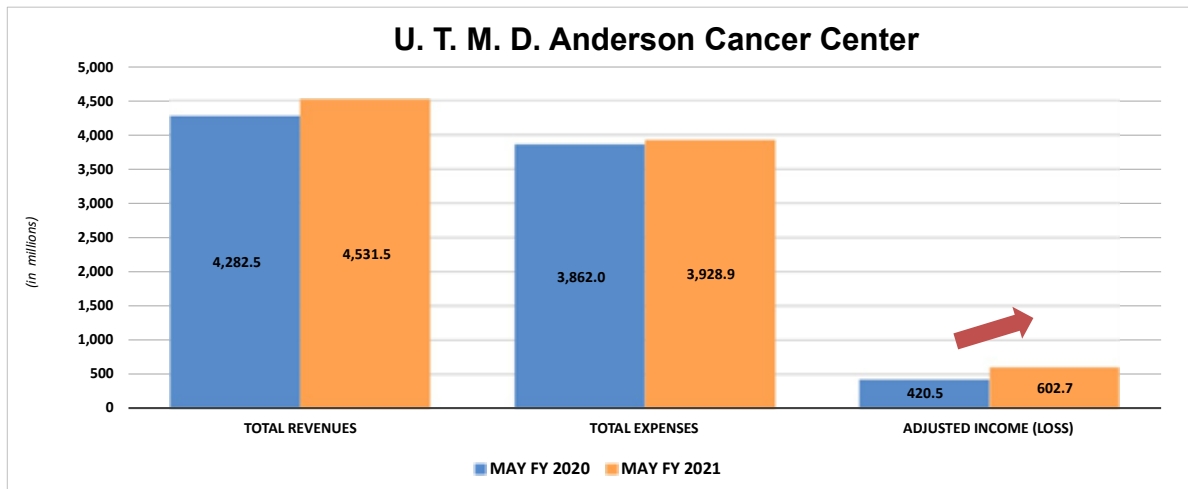


U. T. Health Science Center - San Antonio incurred a year-to-date adjusted loss of \$7.2 million, a decrease in adjusted loss of \$39.9 million (85%) from the prior year. The decrease was primarily due to the following: an increase in clinical revenues as a result of increased volume and clinical productivity at all UT Health Physicians sites, dental clinics, and clinical expansion efforts; and a decrease in other operating expenses primarily due to conference and event cancellations and various restrictions instituted as a result of COVID-19. The most current projection received from *U. T. Health Science Center – San Antonio* reflects a loss of \$23.8 million for the year due to anticipated year-end COVID-19 recovery costs.

(in millions)	May YTD FY 2020	May YTD FY 2021	Variance	Annual Projected FY 2021
Clinical Revenues	\$ 173.8	221.5	47.7	295.4
Sponsored Programs/Nonexchange Sponsored Programs	272.8	296.1	23.3	392.7
State Appropriations	127.0	125.8	(1.2)	167.9
Net Tuition and Fees	36.8	37.5	0.7	51.4
Auxiliary Revenues/Sales & Services of Educational Activities	23.9	24.5	0.6	31.5
Net Investment Income	35.0	39.4	4.4	47.4
Other Operating Revenues/Gift Contributions for Operations	18.3	15.0	(3.2)	32.4
Total Revenues	687.5	759.8	72.3	1,018.7
Salaries and Wages/Payroll Related Costs	496.5	517.5	21.0	705.2
Materials and Supplies/Cost of Goods Sold	73.0	82.6	9.6	114.0
Depreciation and Amortization	45.8	50.6	4.9	67.2
Other Contracted Services/Professional Fees & Services	44.1	51.6	7.5	66.3
All Other Operating Expenses	75.3	64.7	(10.6)	89.8
Total Expenses	\$ 734.7	767.0	32.3	1,042.6
Adjusted Income (Loss)	(47.2)	(7.2)	39.9	(23.8)
Adjusted Income (Loss) Excluding Depr & Amort Exp	(1.4)	43.4	44.8	43.4

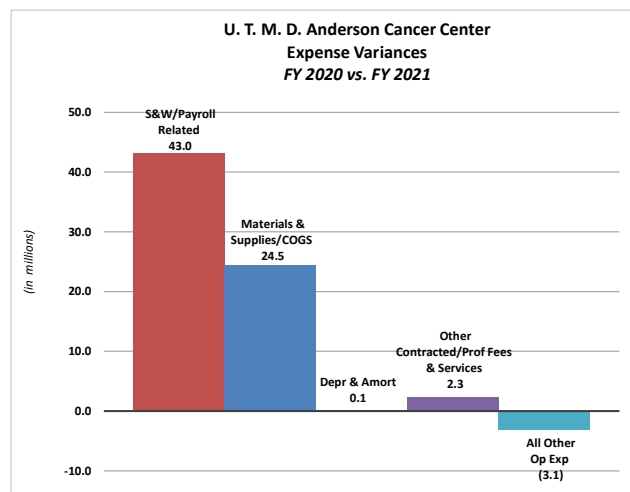
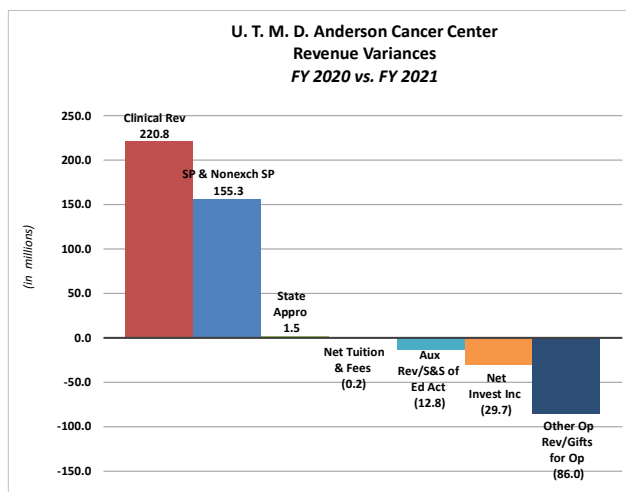


Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending May 31, 2021



U. T. M. D. Anderson Cancer Center reported year-to-date adjusted income of \$602.7 million, an increase in adjusted income of \$182.2 million (43%) from the prior year. The increase was primarily attributable to an increase in clinical revenues as a result of an increase in inpatient and outpatient activity. The most current projection received from U. T. M. D. Anderson Cancer Center reflects income of \$809.0 million for the year.

(in millions)	May YTD FY 2020	May YTD FY 2021	Variance	Annual Projected FY 2021
Clinical Revenues	\$ 3,238.1	3,458.9	220.8	4,699.7
Sponsored Programs/Nonexchange Sponsored Programs	332.7	488.0	155.3	726.7
State Appropriations	154.1	155.6	1.5	107.5
Net Tuition and Fees	1.9	1.8	(0.2)	1.8
Auxiliary Revenues/Sales & Services of Educational Activities	30.1	17.3	(12.8)	25.0
Net Investment Income	252.2	222.6	(29.7)	316.4
Other Operating Revenues/Gift Contributions for Operations	273.3	187.4	(86.0)	229.8
Total Revenues	4,282.5	4,531.5	249.0	6,106.8
Salaries and Wages/Payroll Related Costs	2,203.2	2,246.2	43.0	2,989.6
Materials and Supplies/Cost of Goods Sold	869.8	894.3	24.5	1,218.7
Depreciation and Amortization	273.7	273.8	0.1	369.2
Other Contracted Services/Professional Fees & Services	271.4	273.8	2.3	385.5
All Other Operating Expenses	243.9	240.7	(3.1)	334.8
Total Expenses	\$ 3,862.0	3,928.9	66.8	5,297.8
Adjusted Income (Loss)	420.5	602.7	182.2	809.0
Adjusted Income (Loss) Excluding Depr & Amort Exp	694.2	876.5	182.3	1,178.2



3. **U. T. System Board of Regents: Approval of annual distributions from the Permanent Health Fund, the Long Term Fund, and the Intermediate Term Fund**

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Business Affairs in the recommendation that

- a. the distribution rate for the Permanent Health Fund (PHF) be increased from \$0.0655 per unit to \$0.0667 per unit for Fiscal Year 2022 (effective with November 30, 2021 distribution);
- b. the distribution rate for the U. T. System Long Term Fund (LTF) be increased from \$0.3578 per unit to \$0.3642 per unit for Fiscal Year 2022 (effective with November 30, 2021 distribution); and
- c. the distribution rate for the U. T. System Intermediate Term Fund (ITF) remain at 3.0% per annum (paid monthly) for Fiscal Year 2022.

BACKGROUND INFORMATION

The spending policy objectives of the PHF and LTF are to:

- a. provide a predictable stable stream of distributions over time;
- b. ensure that the inflation-adjusted value of the distributions is maintained over the long term; and
- c. ensure that the inflation-adjusted value of the assets of the PHF and the LTF, as appropriate after distributions, is maintained over the long term.

The increase in the consumer price index for the prior three years as of November 30, 2020, was 1.80%. The recommended 1.80% increase in the PHF distribution rate of \$0.0655 to \$0.0667 per unit will increase the distributions by the average rate of inflation for the trailing 12 quarters. The PHF's distribution rate calculated using the prior 12-quarter average value of the PHF is 4.51%.

On November 14, 2019, the Board of Regents authorized a maximum 0.80% allocation (80 basis points) from the market value of the LTF to provide additional funding for development operations at U. T. institutions to substantially increase philanthropic revenue. The proposed LTF distribution rate of \$0.3642 per unit or 4.67% of the market value of the LTF plus the 0.80% development allocation will result in a total LTF spending rate of 5.47% of the prior 12-quarter average value of the LTF.

The distribution rate for the ITF was originally set at 3.0% per annum for Fiscal Year 2007 by the U. T. Board on May 11, 2006, and has continued at that rate for each succeeding fiscal year. The recommendation for Fiscal Year 2022 is to continue a distribution rate of 3.0%.

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4. U. T. System Board of Regents: Equipment financing authorization for Fiscal Year 2022 and resolution regarding parity debt

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. System Board of Regents

- a. approve an aggregate amount of \$227,834,000 of Revenue Financing System Equipment Financing for FY 2022 as allocated to those U. T. System institutions listed in the table at the end of this item; and
- b. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that
 - parity debt shall be issued to pay the cost of equipment including costs incurred prior to the issuance of such parity debt;
 - sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. System Board of Regents relating to the Financing System;
 - the U. T. System institutions, which are “Members” as such term is used in the Master Resolution, possess the financial capacity to satisfy their direct obligation as defined in the Master Resolution relating to the issuance by the U. T. System Board of Regents of tax-exempt parity debt in the aggregate amount of \$227,834,000 for the purchase of equipment; and
 - this resolution satisfies the official intent requirements set forth in Section 1.150-2 of Title 26 of the *Code of Federal Regulations* that evidences the Board's intention to reimburse project expenditures with bond proceeds.

BACKGROUND INFORMATION

On April 14, 1994, the U. T. System Board of Regents approved the use of Revenue Financing System debt for equipment purchases in accordance with the Guidelines Governing Administration of the Revenue Financing System. Equipment financing is used for the purchase of equipment in lieu of more costly vendor financing. The guidelines specify that the equipment to be financed must have a useful life of at least three years. The debt is amortized four times a year with full amortization period not to exceed 10 years.

This agenda item requests approval of an aggregate amount of \$227,834,000 for equipment financing for Fiscal Year 2022. On August 20, 2020, the U. T. System Board of Regents approved a total of \$204,750,000 of equipment financing for Fiscal Year 2021. Through July 31, 2021, \$78,775,000 of equipment financing has been utilized for Fiscal Year 2021.

Further details on the equipment to be financed and leverage ratios for individual institutions may be found on the following page.

U. T. SYSTEM EQUIPMENT FINANCING - INSTITUTION REQUESTS
FY 2022

Institution	\$ Amount of Request	Description of Expected Capital Equipment	Spendable Cash & Investments to Total Debt *	Unrestricted Cash & Investments to Total Debt *
U. T. Arlington	\$3,000,000	Thermal Energy Plant - Variable Frequency Drive and Boiler	3.1x	
U. T. Dallas	8,000,000	General purpose equipment supporting University's instruction, research & business operations	1.3x	
U. T. El Paso	400,000	Vehicle purchases	1.9x	
U. T. Rio Grande Valley	7,000,000	IT Infrastructure, network upgrades, and security-related equipment	6.0x	
U. T. San Antonio	4,420,000	Boiler equipment; furniture and equipment for athletic and academic buildings	2.0x	
U. T. Tyler	25,014,000	Clinical/Laboratory and IT equipment for the Health Science Center	0.7x	
U. T. Southwestern Medical Center	30,000,000	Information resources projects; clinical and hospital equipment		0.5x
U. T. Medical Branch - Galveston	40,000,000	Clinical, IT infrastructure, research-related, and facility-related equipment		0.8x
U. T. Health Science Center - Houston	10,000,000	Research and clinical equipment, implementation of electronic health record system		5.3x
U. T. Health Science Center - San Antonio	20,000,000	Clinical transformation and research related to primary care, cancer, longevity and aging studies		3.0x
U. T. M. D. Anderson Cancer Center	80,000,000	Medical, diagnostic, research, vehicles, information systems and technology in nature		7.3x
Total	\$227,834,000			

* Spendable Cash & Investments to Total Debt ratios and Unrestricted Cash & Investments to Total Debt ratios are based on 2020 Analysis of Financial Condition (Feb. 2021).

U. T. System Office of Finance, July 10, 2021

5. U. T. System Board of Regents: Adoption of a Resolution authorizing the issuance, sale, and delivery of Permanent University Fund Bonds and authorization to complete all related transactions

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. System Board of Regents

- a. adopt a Resolution, substantially in the form previously approved by the U. T. System Board of Regents, authorizing the issuance, sale, and delivery of Board of Regents of The University of Texas System Permanent University Fund (PUF) Bonds in one or more installments in an aggregate principal amount not to exceed \$750 million to be used to refund certain outstanding PUF Bonds, to refund PUF Commercial Paper Notes, to provide new money to fund construction and acquisition costs, and to pay the costs of issuance; and
- b. authorize appropriate officers and employees of U. T. System as set forth in the Resolution to take any and all actions necessary to carry out the intentions of the U. T. System Board of Regents within the limitations and procedures specified therein; to make certain covenants and agreements in connection therewith; and to resolve other matters incident and related to the issuance, sale, security, and delivery of such bonds.

BACKGROUND INFORMATION

On August 20, 2020, the Board of Regents adopted a resolution authorizing the issuance of PUF Bonds in an amount not to exceed \$750 million for Fiscal Year 2021. Adoption of this Resolution would provide \$750 million of authorization for similar purposes for Fiscal Year 2022. Approval of this item does not allocate additional PUF debt for capital projects.

Adoption of this Resolution would authorize the advance or current refunding of a portion of certain outstanding PUF Bonds provided that an advance refunding exceeds a minimum 3% present value debt service savings threshold. An advance refunding involves issuing bonds to refund outstanding bonds more than 90 days in advance of the call date, whereas a current refunding involves issuing bonds to refund outstanding bonds within 90 days of the call date. Refunding bonds are issued at lower interest rates thereby producing debt service savings. Adoption of this Resolution would provide the flexibility to select the particular bonds to be refunded depending on market conditions at the time of pricing. The Resolution provides that additional PUF Bonds may be refunded if such refunding is determined to be in the best interest of the U. T. System.

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

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

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

Note: The proposed Resolution is available online at <https://utsystem.edu/board-of-regents/meetings/board-meeting-2021-08-18>.

6. U. T. System Board of Regents: Adoption of a Supplemental Resolution authorizing the issuance, sale, and delivery of Revenue Financing System Bonds and authorization to complete all related transactions

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. System Board of Regents

- a. adopt a Supplemental Resolution, substantially in the form previously approved by the U. T. System Board of Regents, authorizing the issuance, sale, and delivery of Board of Regents of The University of Texas System Revenue Financing System (RFS) Bonds in one or more installments in an aggregate principal amount not to exceed \$850 million to be used to refund certain outstanding RFS Bonds, to refund RFS Commercial Paper Notes, to provide new money to fund construction and acquisition costs of projects in the Capital Improvement Program, and to pay the costs of issuance; and
- b. authorize appropriate officers and employees of U. T. System as set forth in the Supplemental Resolution to take any and all actions necessary to carry out the intentions of the U. T. System Board of Regents within the limitations and procedures specified therein; to make certain covenants and agreements in connection therewith; and to resolve other matters incident and related to the issuance, sale, security, and delivery of such RFS Bonds.

BACKGROUND INFORMATION

On August 20, 2020, the Board of Regents adopted the 35th Supplemental Resolution authorizing the issuance of additional RFS Bonds in an amount not to exceed \$850 million. Adoption of this 36th Supplemental Resolution would provide authority to finance additional projects approved by the Board of Regents under the same provisions as the prior resolution.

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

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

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

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

Note: The proposed Resolution is available online at <https://utsystem.edu/board-of-regents/meetings/board-meeting-2021-08-18>.

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

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. System Board of Regents a) adopt resolutions substantially in the form previously approved by the U. T. System Board of Regents (the Resolutions) authorizing appropriate officers of the U. T. System to enter into bond enhancement agreements related to its Revenue Financing System (RFS) and Permanent University Fund (PUF) debt programs in accordance with the U. T. System Interest Rate Swap Policy and to take any and all actions necessary to carry out the intentions of the U. T. System Board of Regents, and b) ratify the U. T. System Interest Rate Swap Policy as set forth in Regents Rule 70202 on the following pages.

BACKGROUND INFORMATION

Texas Education Code Section 65.461 provides specific authority to the U. T. System Board of Regents to enter into "bond enhancement agreements," which include interest rate swaps and related agreements in connection with administration of the U. T. System's RFS and PUF debt programs.

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

On August 20, 2020, the Board approved bond enhancement agreement resolutions for FY 2021. Approval of this item would authorize the execution of bond enhancement agreement transactions related to RFS and PUF debt in accordance with the U. T. System Interest Rate Swap Policy for FY 2022 and will ratify the existing U. T. System Interest Rate Swap Policy, set out on the following pages and included as Exhibit B to both resolutions, as required by *Texas Government Code* Section 1371.056. The determination to utilize bond enhancement agreements will be made based on market conditions at the time of pricing the related debt issuance. The Chancellor and the Chairman of the Board's Finance and Planning Committee will be informed in advance of any proposed transactions to be undertaken pursuant to the resolutions.

Note: The proposed Resolutions are available online at <https://utsystem.edu/board-of-regents/meetings/board-meeting-2021-08-18>.

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

Rule: 70202

1. Title

Interest Rate Swap Policy

2. Rule and Regulation

Sec. 1 Authority. *Texas Education Code*, [Chapter 55](#), including Section [55.13](#), *Texas Education Code*, [Chapter 65](#), including Section [65.461](#), and *Texas Government Code*, [Chapter 1371](#), including Section [1371.056](#), authorize the Board of Regents (Board) of The University of Texas System (U. T. System) to enter into interest rate management agreements and bond enhancement agreements (collectively “swaps”).

Sec. 2 Purpose. This policy will govern the use of swaps in connection with the U. T. System’s management of its debt programs, including the Permanent University Fund and Revenue Financing System debt programs. By using swaps in a prudent manner, the U. T. System can increase the U. T. System’s financial flexibility, provide opportunities for interest rate savings, allow the U. T. System to actively manage asset and liability interest rate risk, take advantage of market opportunities to lower the overall cost of debt, balance interest rate risk, or hedge other exposures. The use of swaps must be tied directly to U. T. System debt instruments. The U. T. System shall not enter into swaps for speculative purposes.

Sec. 3 Legality/Approval. Prior to entering into a swap, the U. T. System must receive approval from the Board of Regents (which may include a delegation of authority to an Authorized Representative to enter into one or more swaps) and any required approvals from the Texas Attorney General and the Texas Bond Review Board. The U. T. System will also secure an opinion acceptable to the Authorized Representative from legal counsel that the swap is a legal, valid, and binding obligation of the U. T. System and that entering into the swap complies with applicable State and federal laws.

Sec. 4 Form of Agreements. Each interest rate swap shall contain terms and conditions as set forth in the International Swaps and Derivatives Association, Inc. (ISDA) Master Agreement, as amended, and such other terms and conditions including schedules, credit support annexes, and confirmations as deemed necessary by an Authorized Representative.

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Rules and Regulations of the Board of Regents**

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- Sec. 5 Methods of Procuring Swaps. Swaps can be procured via competitive bids or on a negotiated basis with counterparties or its credit support providers having credit ratings of 'A' or 'A2' or better from Standard & Poor's or Moody's, respectively.
- 5.1 Competitive. The competitive bid should include a minimum of three firms. An Authorized Representative may allow a firm or firms not submitting the bid that produces the lowest cost to match the lowest bid and be awarded a specified percentage of the notional amount of the swap.
- 5.2 Negotiated. An Authorized Representative may procure swaps by negotiated methods in the following situations:
- (a) A determination is made by an Authorized Representative that due to the complexity of a particular swap, a negotiated bid would result in the most favorable pricing;
 - (b) A determination is made by an Authorized Representative that, in light of the facts and circumstances, a negotiated bid will promote the U. T. System's interests by encouraging and rewarding innovation; or
 - (c) A determination is made by an Authorized Representative that a competitive bid would likely create market pricing effects that would be detrimental to the interests of the U. T. System.
- Sec. 6 Counterparty Risk. Counterparty risk is the risk of a failure by one of the U. T. System's swap counterparties to perform as required under a swap. To mitigate this risk, the U. T. System will 1) diversify its exposure among highly rated swap counterparties satisfying the rating criteria set forth in Section 5 above; 2) require collateralization as set forth below; and 3) include an optional termination event if the counterparty (or its credit support provider, if applicable) is downgraded below a second (lower) threshold.
- 6.1 Value Owed by Counterparty. To limit and diversify the U. T. System's counterparty risk and to monitor credit exposure to each counterparty, the U. T. System may not enter into a swap with an otherwise qualified counterparty

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unless the cumulative mark-to-market value owed by the counterparty (and its credit support provider, if applicable) to the U. T. System shall be less than or equal to the applicable threshold amount set forth in Section 6.3 below.

6.2 Calculation of Value Owed. The value owed shall be the sum of all mark-to-market values between the subject counterparty and the U. T. System regardless of the type of swap, net of collateral posted by the counterparty. Collateral will consist of cash, U.S. Treasury securities, and Federal Agency securities guaranteed unconditionally by the full faith and credit of the U.S. Government. Collateral shall be deposited with a third party trustee acceptable to U. T. System or as mutually agreed upon between U. T. System and each counterparty.

6.3 Threshold Amounts Based on Credit Rating. Specific threshold amounts by counterparty are based on the cumulative mark-to-market value of the swap(s) and the credit rating of the counterparty or its credit support provider. The threshold amounts are as follows:

(a) AAA / Aaa	\$30 million
(b) AA+ / Aa1	\$25 million
(c) AA / Aa2	\$20 million
(d) AA- / Aa3	\$15 million
(e) A+ / A1	\$10 million
(f) A / A2	\$ 5 million

6.4 Downgraded Rating. If the credit rating of a counterparty or its credit support provider is downgraded such that the cumulative mark-to-market value of all swaps between such counterparty and the U. T. System exceeds the maximum permitted by this policy, the counterparty must post collateral or provide other credit enhancement that is satisfactory to the U. T. System and ensures compliance with this policy.

Sec. 7 Termination Risk. The U. T. System shall consider the merits of including a provision that permits optional termination at any time over the term of the swap (elective termination right). In general, exercising the right to optionally terminate a swap should produce a benefit to the U. T. System, either through

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

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

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Rules and Regulations of the Board of Regents**

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

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

3. Definitions

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

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

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

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

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

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

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

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

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

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

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

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

4. Relevant Federal and State Statutes

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

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

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

5. Relevant System Policies, Procedures, and Forms

None

6. Who Should Know

Administrators

7. System Administration Office(s) Responsible for Rule

Office of Business Affairs

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8. Dates Approved or Amended

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

9. Contact Information

Questions or comments regarding this Rule should be directed to:

- bor@utsystem.edu

8. U. T. System Board of Regents: Approval of amendments to the Investment Policy Statements for the Permanent University Fund, the General Endowment Fund, the Permanent Health Fund, the Long Term Fund, and the Intermediate Term Fund

RECOMMENDATION

The Chancellor and the Executive Vice Chancellor for Business Affairs concur in the recommendation of the Board of Directors of The University of Texas/Texas A&M Investment Management Company (UTIMCO) that the U. T. System Board of Regents approve the proposed amendments to the Investment Policy Statements, including asset allocation, as set forth in congressional style on the following pages.

- a. Permanent University Fund (PUF)
- b. General Endowment Fund (GEF)
- c. Intermediate Term Fund (ITF)
- d. Permanent Health Fund (PHF)
- e. Long Term Fund (LTF)

A PowerPoint Presentation setting out UTIMCO's Strategic Asset Allocation follows the Investment Policy Statements.

BACKGROUND INFORMATION

The Master Investment Management Services Agreement (IMSA) between the U. T. System Board of Regents and UTIMCO requires that UTIMCO review the current Investment Policies for each Fund at least annually. The review includes long-term investment return expectations and expected risk levels, strategic asset allocation targets and ranges, expected returns for each fund, designated performance benchmarks for each Asset Class and such other matters as the U. T. System Board or its staff designees may request.

The PUF and ITF Investment Policy Statements are included in the materials with the proposed tracked changes. The proposed changes to the PUF and ITF, which will also be made in the GEF Investment Policy Statement, include (1) collapsing U.S. Public Equity, Non-U.S. Public Equity, and Global Developed Public Equity into a new comprehensive category: Developed Public Equity; (2) adding Long Term Treasuries as a new, separate asset class; (3) amends the definition of cash to reference and conform to the definition of cash in the Liquidity Policy; (4) clarifies Commodities asset class to include "any other instruments defined by regulators as a commodity"; and (5) collapses Public Real Estate into a comprehensive Real Estate asset class.

Exhibits A to the PUF and ITF are also included with proposed tracked changes to reflect updates to the strategic asset allocation framework and set forth revised Asset Class targets and ranges. The proposed changes to Exhibit A of the PUF will also be made to Exhibit A of the GEF Investment Policy Statement and Exhibits B to the PHF and LTF Investment Policy Statements.

The effective date for these amended Investment Policy Statements is September 1, 2021.

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

**THE UNIVERSITY OF TEXAS SYSTEM
PERMANENT UNIVERSITY FUND
INVESTMENT POLICY STATEMENT**

Purpose

The Permanent University Fund (the “PUF”) is a public endowment contributing to the support of eligible institutions of The University of Texas System and The Texas A&M University System as provided in Article VII, Section 18 of the *Texas Constitution*.

PUF Organization

The PUF was established in the *Texas Constitution* of 1876 through the appropriation of land grants previously given to The University of Texas at Austin plus one million acres. The land grants to the PUF were completed in 1883 with the contribution of an additional one million acres of land. Today, the PUF contains 2,109,190 acres of land (the “PUF Lands”) located in 19 counties primarily in West Texas.

The 2.1 million acres comprising the PUF Lands produce two streams of income: a) mineral income, primarily in the form of oil and gas royalties and b) surface income, primarily from surface leases and easements. Under the Texas Constitution, mineral income, as a non-renewable source of income, remains a non-distributable part of PUF corpus, and is invested pursuant to this Policy Statement. Surface income, as a renewable source of income, is distributed to the Available University Fund (the “AUF”), as received. The Constitution also requires that all surface income and investment distributions paid to the AUF be expended for certain authorized purposes.

The expenditure of the AUF is subject to a prescribed order of priority:

First, following a 2/3rds and 1/3rd allocation of AUF receipts to the U. T. System and the A&M System, respectively, AUF receipts are expended for debt service on PUF bonds. Article VII of the *Texas Constitution* authorizes the U. T. System Board of Regents (the “Board of Regents”) and the Texas A&M University System Board of Regents (the “TAMUS Board”) to issue bonds payable from their respective interests in AUF receipts to finance permanent improvements and to refinance outstanding PUF obligations. The Constitution limits the amount of bonds and notes secured by each System’s interest in divisible PUF income to 20% and 10% of the book value of PUF investment securities, respectively. Bond resolutions adopted by both Boards also prohibit the issuance of additional PUF parity obligations unless the interest of the related System in AUF receipts during the preceding fiscal year covers projected debt service on all PUF Bonds of that System by at least 1.5 times.

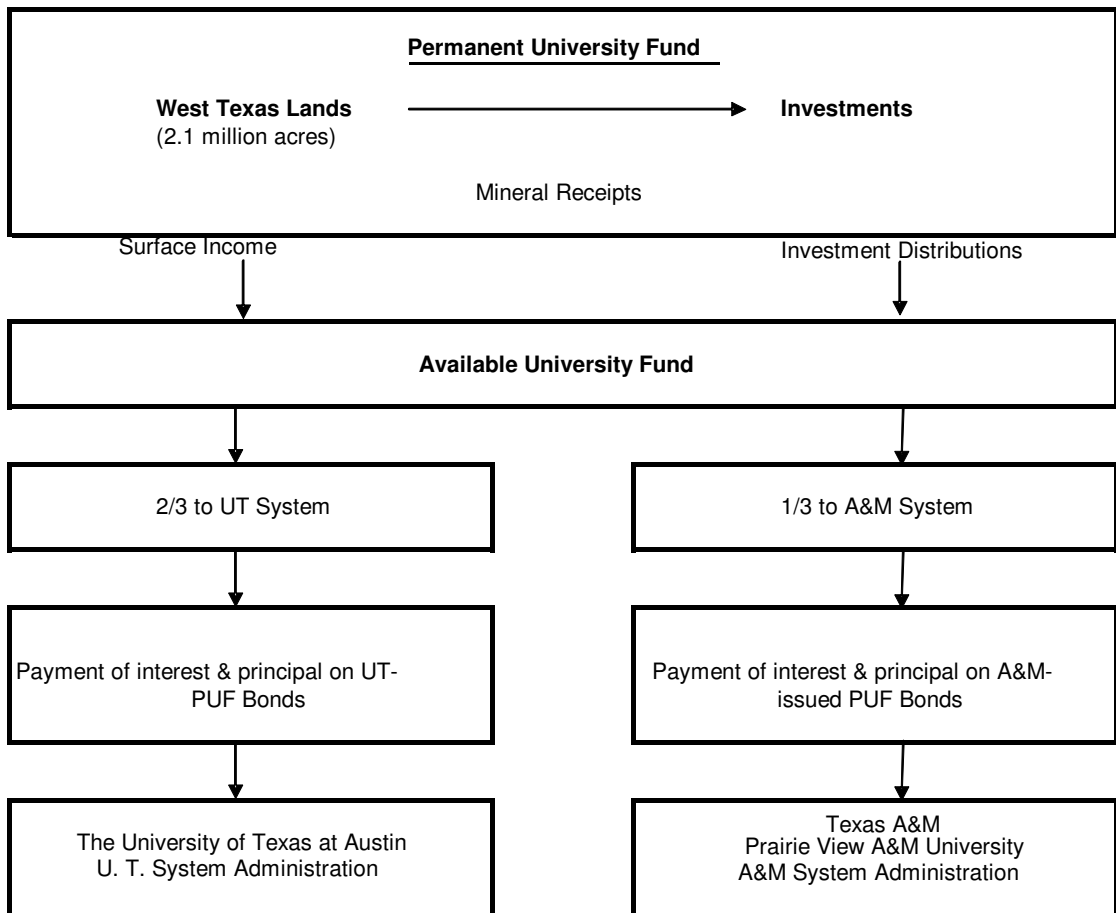
UTIMCO ~~09/01/2020~~09/01/2021

Permanent University Fund Investment Policy Statement (continued)

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

The payment of surface income and investment distributions from the PUF to the AUF and the associated expenditures is depicted below in Exhibit 1:

Exhibit 1



PUF Management

Article VII, Section 11b of the *Texas Constitution* assigns fiduciary responsibility for managing and investing the PUF to the Board of Regents. Article VII, Section 11b authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the PUF in any kind of investments and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and

Permanent University Fund Investment Policy Statement (continued)

subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment.

Ultimate fiduciary responsibility for the PUF rests with the Board of Regents. Section 66.08 of the *Texas Education Code*, as amended, authorizes the Board of Regents, subject to certain conditions to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board of Regents.

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas/Texas A&M Investment Management Company ("UTIMCO"), the PUF shall be managed by UTIMCO, which shall a) recommend investment policy for the PUF, b) recommend specific Asset Class allocation targets, ranges and performance benchmarks consistent with PUF objectives, and c) monitor PUF performance against PUF objectives. UTIMCO shall invest the PUF's assets in conformity with this Policy Statement. All changes to this Policy Statement or the exhibits to this Policy Statement, including changes to Asset Class allocation targets, ranges, and performance benchmarks, are subject to approval by the Board of Regents.

UTIMCO may select and terminate unaffiliated investment managers subject to the Delegation of Authority Policy approved by the UTIMCO Board. Managers shall be monitored for performance and adherence to investment disciplines.

PUF Administration

UTIMCO shall employ an administrative staff to ensure that all transaction and accounting records are complete and prepared on a timely basis. Internal controls shall be emphasized so as to provide for responsible separation of duties and adequacy of an audit trail. Custody of PUF assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

PUF Investment Objectives

The PUF and the General Endowment Fund (the "GEF") are managed similarly for efficient investment purposes. The primary investment objective of the PUF shall be to maximize investment returns within the risk parameters specified in this Policy Statement without regard to the distribution rate. Investment returns are expressed net of all investment-related expenses. Additional expenses include U.T. System administrative fees charged to the fund.

Investments must be prudently diversified, and within the approved Policy Downside Volatility Bounds, as defined in Exhibit A, and measured at least monthly by

Permanent University Fund Investment Policy Statement (continued)

UTIMCO's risk model. Liquidity of the PUF will be governed by the Liquidity Policy, overseen by the Risk Committee of the UTIMCO Board.

PUF return, Asset Class allocations, and downside volatility targets are subject to adjustment from time to time by the Board of Regents.

Asset Class Allocation and Policy

Asset Class allocation is the primary determinant of the volatility of investment return and, subject to the Asset Class allocation ranges specified in Exhibit A, is the responsibility of UTIMCO. UTIMCO is responsible for measuring actual Asset Class allocation at least monthly (incorporating the impact of derivative positions covered under the Derivative Investment Policy), and for reporting the actual portfolio Asset Class allocation to the UTIMCO Board and the Board of Regents at least quarterly. While specific Asset Class allocation positions may be changed within the ranges specified in Exhibit A based on the economic and investment outlook from time to time, the range limits cannot be intentionally breached without prior approval of the Board of Regents.

In the event that actual portfolio positions in Asset Classes or the Portfolio Projected Downside Volatility move outside the ranges indicated in Exhibit A due to market forces that shift relative valuations, UTIMCO staff will immediately report this situation to the UTIMCO Board Chairman and take steps to rebalance portfolio positions back within the policy ranges in an orderly manner as soon as practicable. Extenuating circumstances that could cause immediate rebalancing to be irrational and detrimental to the interest of the PUF asset values could warrant requesting approval of the UTIMCO Board Chairman to waive immediate remedial action.

PUF assets shall be allocated among the following broad Asset Classes based upon their individual return/risk characteristics and relationships to other Asset Classes:

Global Equity:

~~U.S. Public Equity – U.S. Public Equity invests primarily in the equity securities of companies domiciled in the U.S. These securities are traded in public markets (on an exchange, over the counter, pursuant to SEC Rule 144a, or issued in an underwritten initial public offering (“IPO”)) or are restricted but expected to become public or otherwise freely marketable within three years after the initial investment. U.S. Public Equity includes common stocks, preferred stocks, exchange traded funds, and derivatives based on common stocks or equity indices (including convertibles, warrants, rights, options, and futures).~~

~~Non-U.S. Developed Public Equity – Non-U.S. Developed Public Equity invests primarily in the equity securities of companies that are domiciled in the developed countries (other than including the U.S.) that are part of the MSCI World Index. These securities are traded in public markets (on an~~

Permanent University Fund Investment Policy Statement (continued)

exchange, over the counter, or issued in an underwritten initial public offering (“IPO”)) or are restricted but expected to become public or otherwise freely marketable within three years after the initial investment. ~~Non-U.S.~~ Developed Public Equity includes common stocks, depositary receipts, preferred stocks, exchange traded funds, and derivatives based on common stocks or equity indices (including convertibles, warrants, rights, options, and futures).

~~Global Developed Public Equity – Global Developed Public Equity invests primarily in the equity securities of companies that are domiciled in the developed countries that are part of the MSCI World Index; however, the asset allocation between U.S. and non-U.S. may be variable over time. Global Developed Public Equity includes common stocks, depositary receipts, preferred stocks, exchange traded funds, and derivatives based on common stocks or equity indices (including convertibles, warrants, rights, options, and futures).~~

Emerging Markets Public Equity – Emerging Markets Public Equity invests primarily in the equity securities of companies that are domiciled in (i) the emerging countries that are part of the MSCI Emerging Markets Index or (ii) countries that have yet to reach MSCI Emerging Markets Index qualification status. These securities are traded in public markets (on an exchange, over the counter, or issued in an underwritten initial public offering (“IPO”)) or are restricted but expected to become public or otherwise freely marketable within three years after the initial investment. Emerging Markets Public Equity includes common stocks, depositary receipts, preferred stocks, exchange traded funds, and derivatives based on common stocks or equity indices (including convertibles, warrants, rights, options, and futures).

Directional Hedge Funds – Directional Hedge Funds invest long and short in equities, fixed income, commodities, currencies and other global market instruments including derivatives. Directional Hedge Funds exhibit some market sensitivity as defined by beta to public equities. Strategies may include but are not limited to long/short equity, multi-strategy, event-driven, distressed and stressed credit and global macro.

Private Equity – Private Equity investments are made directly, through private limited partnerships, joint ventures or other special purpose vehicles and result in controlling or minority ownership interests in private or publicly-traded companies. These investments are acquired by purchasing publicly-traded or privately-issued common and preferred stocks, convertible securities, warrants, rights, options or debt obligations of private or publicly-traded companies. Private Equity investments often have transfer restrictions and are not as liquid as publicly-traded securities. Private Equity investments are often classified by strategy including: buyouts, venture capital and private credit.

Stable Value:

Permanent University Fund Investment Policy Statement (continued)

Investment Grade Fixed Income – Investment Grade Fixed Income represents ownership of fixed income instruments across all maturities, U.S. and non-U.S., that are rated investment grade. These include debt issued by the Sovereign Governments, various government enterprises and agencies, and corporations. The principal securities include bonds, notes, bills and mortgage and asset-backed securities. In addition, derivative applications that serve as a fixed income substitute may be classified as Investment Grade Fixed Income.

Long Treasuries – Long Treasuries represents ownership of fixed income instruments across long-dated maturities issued by the U.S. government. The principal securities may include bonds, notes and bills. In addition, derivative applications that serve as a fixed income substitute may be classified as Long Treasuries.

Credit-Related Fixed Income – Credit-Related Fixed Income represents ownership of fixed income instruments across all maturities, including real and nominal, U.S. and non-U.S., that are rated below investment grade.

Stable Value Hedge Funds – Stable Value Hedge Funds invest long and short in equities, fixed income, commodities, currencies and other global market instruments including derivatives. Stable Value Hedge Fund investments exhibit little to no market sensitivity, as defined by beta to U.S. Developed Public Equity, and have an absolute return orientation. Strategies may include but are not limited to market-neutral equity, multi-strategy, re-insurance, risk premia, trend following, senior secured lending and global macro.

Cash – Cash ~~consists of internal and external pooled investment funds, cash in foreign~~ has the same meaning as given to the term “Cash” in the Liquidity Policy and includes, for example, cash in any currencies, and other overnight funds that have not been allocated to a specific asset class.

Real Return:

Inflation Linked Bonds – Inflation Linked Bonds include fixed income investments issued by both U.S. and Non-U.S. Governments where the principal value of the bond has been indexed to some rate of inflation, as well as derivatives referencing Inflation Linked Bonds or directly linked to inflation rates, including but not limited to inflation swaps. Inflation Linked Bonds are intended to provide some degree of inflation protection.

Commodities – Commodities investments represent ownership of ~~bulk physical~~ fungible goods such as metals, grains, foods and energy products or any other investment defined by regulators as a commodity. These investments can be made through actual physical ownership of the goods, or through financial ownership of the underlying goods achieved through the purchase of derivatives based on commodities or commodities indices.

Permanent University Fund Investment Policy Statement (continued)

Natural Resources – Natural Resources investments are made directly, through private limited partnerships, joint ventures or other special purpose vehicles and result in a controlling or minority ownership interest in a company involved in the production of natural resources including, but not limited to: energy, precious metals, metals, minerals, agriculture, livestock, and timber. Some Natural Resource investments may have transfer restrictions and may not be as liquid as publicly-traded securities.

Infrastructure – Infrastructure investments are made directly, through private limited partnerships, joint ventures or other special purpose vehicles and result in ownership of companies or assets that provide an essential service that contributes to the economic or social productivity of an organization, community, or society at large with real assets in the water, transportation, energy, communication or social sectors. Investments generally have structure features that include a monopolistic or oligopolistic market position with high barriers to entry; a low elasticity of demand due to their essential functions; stable, predictable, and long-term revenue contracts; or inflation protection through inflation adjustment mechanisms in underlying contracts. Some Infrastructure investments may have transfer restrictions and may not be as liquid as publicly-traded securities.

~~Public Real Estate – Public Real Estate investments may be public, made principally in companies that are part of the FTSE/EPRA NAREIT Developed MSCI US REIT (RMZ) Index and that own or manage equity or debt interests in portfolios of real estate or Public Real assets. These securities are traded Estate investments generally trade in public markets (on an exchange, over the counter, or issued in an underwritten initial public offering) or are restricted but expected to become public or otherwise freely marketable within three years after the initial investment. Public Real Estate includes common stocks, depositary receipts, preferred stocks, exchange traded funds, and derivatives based on common stocks or equity indices (including convertibles, warrants, rights, options, and futures). investments may also be private. Private Real Estate – Private Real Estate investments are made directly, through private limited partnerships, joint ventures or other special purpose vehicles and result in a controlling or minority ownership interest in a real asset or a real estate focused company. Private Real Estate investments are acquired by purchasing physical real assets, physical real estate or publicly-traded or privately-issued securities including, but not limited to: common or preferred stock, secured or subordinated debt, mortgage-related investments, master limited partnerships (“MLPs”) and real estate investment trusts (“REITs”). Some Private Real Estate investments may have transfer restrictions and may not be as liquid as publicly-traded securities. Private Real Estate investments may be made by purchasing or selling: physical real estate; privately issued securities such as interests in private limited partnerships, joint ventures or other special purpose vehicles (which in each case could result in a controlling or minority ownership interest in a real estate focused company); common or preferred stocks; depositary~~

Permanent University Fund Investment Policy Statement (continued)

receipts; exchange traded funds; secured or subordinated debt; mortgage-related investments; real estate investment trusts (“REITs”) or any other instrument commonly used by institutional investors and derivatives based on any of the foregoing. Real Estate investments are often classified by strategy including: core, core-plus, value-added, opportunistic and special situations.

Strategic Partnerships:

Strategic Partnerships are multi-asset investment portfolios designed to generate investment returns through a combination of security selection and tactical asset allocation. Strategic Partnerships may invest long or short in equities, fixed income, commodities, currencies, funds, and other global market instruments, including derivatives. Strategies utilized by Strategic Partnerships may involve the use of leverage to enhance the portfolio’s risk-adjusted returns.

All mandates will be categorized at inception and on an ongoing basis by Asset Class.

Performance Measurement

The investment performance of the PUF will be measured by the PUF’s custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board and compared against the stated Policy Benchmarks of the PUF, as indicated in Exhibit A (incorporating the impact of internal derivative positions) and reported to the UTIMCO Board and the Board of Regents at least quarterly. The Policy Portfolio benchmark will be maintained by UTIMCO and will ~~be comprised of~~ comprise a blend of Asset Class indices weighted to reflect PUF’s Asset Class allocation policy targets as defined in Exhibit A. Monthly performance data and net asset values will be available on the UTIMCO website within a reasonable time after each month end.

Investment Guidelines

The PUF must be invested at all times in strict compliance with applicable law.

Investment guidelines include the following:

General

- Investment guidelines for index, commingled funds, limited partnerships, and corporate vehicles managed externally shall be governed by the terms and conditions of the respective investment management contracts, partnership agreements or corporate documents.
- Investment guidelines of all other externally managed accounts as well as internally invested funds must be reviewed and approved by UTIMCO’s Chief

Permanent University Fund Investment Policy Statement (continued)

Investment Officer prior to investment of PUF assets in such investments.

- No securities may be purchased or held which would jeopardize the PUF's tax-exempt status.
- No internal investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No internal investment strategy or program employing short sales may be made unless specifically authorized in the Delegation of Authority Policy, the Derivative Investment Policy or by the UTIMCO Board.
- The PUF's investments in warrants shall not exceed more than 5% of the PUF's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.
- The PUF may utilize derivatives only in accordance with the Derivative Investment Policy. The aggregate prorated annual premium of Derivative Investments utilized to reduce exposure to an Asset Class or hedge against risk shall not exceed 75 basis points of PUF value.

Investment Grade and Credit-Related Fixed Income

Not more than 5% of the market value of fixed income securities may be invested in corporate and municipal bonds of a single issuer.

Public Real Estate, and Public Equity

- Not more than 25% of the market value of equity securities may be invested in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at cost.
- Not more than 5% of the market value of equity securities may be invested in the securities of one corporation at cost.

Stable Value

- Not more than 7.5% of the market value of equity and fixed income securities taken together may be invested in one corporation at cost.

PUF Distributions

The PUF shall balance the needs and interests of present beneficiaries with those of the future. PUF spending policy objectives shall be to:

- provide a predictable, stable stream of distributions over time;

Permanent University Fund Investment Policy Statement (continued)

- ensure that the inflation adjusted value of distributions is maintained over the long term; and
- ensure that the inflation adjusted value of PUF assets after distributions is maintained over rolling 10-year periods.

The goal is for the PUF's average spending rate over time not to exceed the PUF's average annual investment return after inflation and expenses in order to preserve the purchasing power of PUF distributions and underlying assets.

Annually, the Board of Regents will approve a distribution amount to the AUF pursuant to Regents' Rule 80303, Section 2.2.

Following approval of the distribution amount, distributions from the PUF to the AUF will be made at the discretion of UTIMCO management in consultation with the U. T. System Office of Finance and The Texas A&M University System Office of Treasury Services.

PUF Accounting

The fiscal year of the PUF shall begin on September 1st and end on August 31st. Market value of the PUF shall be maintained on an accrual basis in compliance with Generally Accepted Accounting Principles ("GAAP"), Governmental Accounting Standards Board Statements, industry guidelines, or state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO's Chief Investment Officer and reported to the UTIMCO Board. Assets deemed to be "other than temporarily impaired" as defined by GAAP shall be written off and reported to UTIMCO's Chief Investment Officer and the UTIMCO Board when material. The PUF's financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

Valuation of Assets

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all PUF net assets. Valuation of PUF assets shall be based on the books and records of the custodian for the valuation date. The final determination of PUF net assets for a month end close shall normally be completed within seven business days but determination may be longer under certain circumstances. Valuation of alternative assets shall be determined in accordance with the UTIMCO Valuation Criteria for Alternative Assets as approved by the UTIMCO Board and then in effect.

The fair market value of the PUF's net assets shall include all related receivables and payables of the PUF on the valuation. Such valuation shall be final and conclusive.

Permanent University Fund Investment Policy Statement (continued)

Compliance

Compliance with this Policy will be monitored by UTIMCO's Chief Compliance Officer. UTIMCO's Chief Executive Officer, the UTIMCO Board, and the UTIMCO Audit & Ethics Committee will receive regular reports on UTIMCO's compliance with this Policy. All material instances of noncompliance, as determined by UTIMCO's Chief Compliance Officer and the Chair of the UTIMCO Audit & Ethics Committee, will require an action plan proposed by UTIMCO's Chief Executive Officer and approved by the Chairman of the UTIMCO Board with timelines for bringing the non-compliant activity within this Policy.

Securities Lending

The PUF may participate in a securities lending contract with a bank or nonbank security lending agent for purposes of realizing additional income. Loans of securities by the PUF shall be collateralized by cash, letters of credit or securities issued or guaranteed by the U.S. Government or its agencies. The collateral will equal at least 100% of the current market value of the loaned securities. The contract shall state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and collateral, acceptable investment of collateral and indemnification provisions. The contract may include other provisions as appropriate.

The securities lending program will be evaluated from time to time as deemed necessary by the UTIMCO Board. Monthly reports issued by the lending agent shall be reviewed by UTIMCO staff to ensure compliance with contract provisions.

Investor Responsibility

As a shareholder, the PUF has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies in a manner consistent with the unique role and mission of higher education as well as for the economic benefit of the PUF. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the PUF solely in the interest of the U. T. System and the A&M System, in compliance with the Proxy Voting Policy then in effect, and shall not invest the PUF so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

The Board of Regents reserves the right to amend this Policy Statement as it deems necessary or advisable.

Effective Date

UTIMCO ~~09/01/2020~~09/01/2021

Permanent University Fund Investment Policy Statement (continued)

The effective date of this Policy shall be September 1, ~~2020~~2021.

**EXHIBIT A
ASSET CLASS TARGETS, RANGES, AND PERFORMANCE OBJECTIVES
EFFECTIVE SEPTEMBER 1, 2020-2021**

Asset Class	Min v Target ⁽¹⁾	Target ⁽²⁾⁽³⁾	Max v Target ⁽¹⁾	Benchmark
Global Equity:				
U.S. Public Equity	-5.0%	7.0%	+5.0%	MSCI US with Net Dividends
Non-U.S. Developed Public Equity	-5.0%	3.8%	+5.0%	MSCI EAFE and Canada with Net Dividends
Global Developed Public Equity	-5.0%	40.0% <u>23.6%</u>	+5.0%	MSCI World Index with Net Dividends
Total Developed Public Equity	-5.0%	20.8%	+5.0%	
Emerging Markets Public Equity	-5.0%	7.2% <u>7.0%</u>	+5.0%	MSCI Emerging Markets Index with Net Dividends
Total Public Equity	-5.0%	28.0% <u>30.6%</u>	+5.0%	
Directional Hedge Funds	-5.0%	9.2% <u>6.5%</u>	+5.0%	HFRI Fund of Funds Composite
Private Equity ⁽³⁾	12.8% <u>14.2%</u>	22.8% <u>24.2%</u>	32.8% <u>34.2%</u>	Blended Cambridge Buyouts, Emerging Markets Private Equity and Venture Capital, Credit Opportunities, and Venture Capital
Total Global Equity	-7.0%	60.0% <u>61.3%</u>	+7.0%	
Stable Value:				
Investment Grade Fixed Income	-5.0%	6.7% <u>5%</u>	+5.0%	Bloomberg Barclays Global Aggregate Index - Hedged
Long Treasuries	-5.0%	2.2%	+5.0%	Bloomberg US Treasury: Long Index
Credit-Related Fixed Income	-5.0%	0.0%	+5.0%	Bloomberg Barclays Capital Global High Yield Index
Total Fixed Income	-5.0%	6.7%	+5.0%	
Cash	-5.0%	1.0%	+5.0%	3 month T-Bills
Stable Value Hedge Funds	-5.0%	9.5% <u>9.2%</u>	+5.0%	HFRI Fund of Funds Conservative
Total Stable Value	-10.0%	17.2% <u>16.9%</u>	+6.0%	
Real Return:				
Inflation Linked Bonds	-5.0%	1.7% <u>2.0%</u>	+5.0%	Bloomberg Barclays Global Inflation-Linked: U.S. TIPS Index
Gold	-5.0%	0.0%	+5.0%	Gold Spot Price (XAU)
Commodities	-5.0%	0.0%	+5.0%	Bloomberg Commodity TRI
Total Commodities	-5.0%	0.0%	+5.0%	
Natural Resources ⁽³⁾	1.1% <u>1.0%</u>	6.1% <u>4.5%</u>	11.1% <u>9.5%</u>	Cambridge Natural Resources
Infrastructure ⁽³⁾	0.0%	3.3% <u>3.0%</u>	8.3% <u>8.0%</u>	Cambridge Infrastructure
Public Real Estate	-5.0%	0.0%	+5.0%	FTSE EPRA/NAREIT Developed Index Net TRI USD
Private Real Estate ⁽³⁾	2.9% <u>2.3%</u>	7.9% <u>7.3%</u>	12.9% <u>12.3%</u>	Blended MSCI US REIT Index (RMZ) and Cambridge Total Real Estate
Total Real Return	-6.0%	19.0% <u>16.8%</u>	+6.0%	
Strategic Partnerships	-5.0%	3.8% <u>5.0%</u>	+5.0%	Blended Bloomberg Barclays Global Aggregate Index - Hedged, Bloomberg US Treasury: Long Index, MSCI US with Net Dividends, MSCI EAFE and Canada World Index with Net Dividends, and MSCI Emerging Markets Index with Net Dividends
Total All Asset Classes		100.0%		

The total Asset Class exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed 105% of the Asset Class exposure excluding the amount of derivatives exposure not collateralized by Cash.

POLICY/TARGET RETURN/RISKS ⁽²⁾	
Expected 10-Year Annual Real Return (Benchmark Policy Portfolio Beta)	4.3% <u>3.22%</u>
Expected 10-Year Annual Real Return (Policy Portfolio Total Return)	4.57%
One Year Downside Volatility	10.9% <u>9.35%</u>
Risk Bounds	
Lower: 1 Year Downside Volatility	75.00%
Upper: 1 Year Downside Volatility	115.00%

(1) When preceded by a "-" or "+", in relation to the Asset Class Target; with the exception of Cash, "Min" will not be below zero

(2) Asset Class Targets and Policy/Target Return/Risks reset monthly

(3) The Adjusted Target weight of each of Private Equity, ~~Private~~ Real Estate, Natural Resources and Infrastructure, will be set each month as the ending actual weight from the prior month. Any difference in the calculated Private Equity, ~~Private~~ Real Estate, Natural Resources, and Infrastructure Adjusted Target weights from the original Target weights derived from this table will be offset using other asset classes with 52% of such difference applied to U.S. Public Equity, 28% to Non-U.S. Developed Public Equity, and 20% to Investment Grade ~~blend of Total~~ Fixed Income components.

**THE UNIVERSITY OF TEXAS SYSTEM
INTERMEDIATE TERM FUND
INVESTMENT POLICY STATEMENT**

Purpose

The University of Texas System Intermediate Term Fund (the “ITF”) was established by the Board of Regents of The University of Texas System (the “Board of Regents”) as a pooled fund for the collective investment of operating funds and other intermediate and long-term funds held by U. T. System institutions and U. T. System Administration.

ITF Organization

The ITF functions as a mutual fund in which each eligible account purchases and redeems ITF units as provided herein. The ownership of ITF assets shall at all times be vested in the Board of Regents. Such assets shall be deemed to be held by the Board of Regents, as a fiduciary, regardless of the name in which the assets may be registered.

ITF Management

Article VII, Section 11b of the Texas Constitution authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (the “PUF”) in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment. Pursuant to Section 51.0031(c) of the *Texas Education Code*, the Board of Regents has elected the PUF prudent investor standard to govern its management of the ITF.

Ultimate fiduciary responsibility for the ITF rests with the Board of Regents. Section 66.08, *Texas Education Code*, as amended, authorizes the Board of Regents, subject to certain conditions, to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board of Regents.

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas/Texas A&M Investment Management Company (“UTIMCO”), the ITF shall be managed by UTIMCO, which shall a) recommend investment policy for the ITF, b) recommend specific Asset Class allocation targets, ranges, and performance benchmarks consistent with ITF objectives, and c) monitor ITF performance against ITF objectives. UTIMCO shall invest the ITF assets in

Intermediate Term Fund Investment Policy Statement (continued)

conformity with this Policy Statement. All changes to this Policy Statement or the exhibits to this Policy Statement, including changes to Asset Class allocation targets, ranges and performance benchmarks, are subject to approval by the Board of Regents.

UTIMCO may select and terminate unaffiliated investment managers subject to the Delegation of Authority Policy approved by the UTIMCO Board. Managers shall be monitored for performance and adherence to investment disciplines.

ITF Administration

UTIMCO shall employ an administrative staff to ensure that all transaction and accounting records are complete and prepared on a timely basis. Internal controls shall be emphasized so as to provide for responsible separation of duties and adequacy of an audit trail. Custody of ITF assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

Funds Eligible to Purchase ITF Units

No account shall be eligible to purchase units of the ITF unless it is under the sole control, with full discretion as to investments, by the Board of Regents. Any account whose governing instrument contains provisions which conflict with this Policy Statement, whether initially or as a result of amendments to either document, shall not be eligible to purchase or hold units of the ITF.

ITF Investment Objectives

The ITF consists of intermediate and long-term funds held by the U. T. System Board of Regents, as a fiduciary, for the benefit of U. T. System institutions, U. T. System Administration, and other affiliated funds. ITF assets are pooled for efficient investment purposes and managed by UTIMCO over the intermediate to longer term.

The primary investment objective of the ITF is to maximize investment returns within the risk parameters specified in this Policy Statement without regard to the distribution rate.

The secondary investment objective is to preserve the purchasing power of ITF assets by earning a compound annualized return over rolling five-year periods, net of all direct and allocated expenses, of at least inflation as measured by the Consumer Price Index (CPI-U) plus 3% and to generate average annual returns net of all investment-related expenses, in excess of the approved Policy Portfolio over rolling five-year periods. Investment returns are expressed net of all investment-related expenses. Additional expenses include U. T. System administrative fees charged to the fund.

Investments must be prudently diversified, and within the approved Policy Downside Volatility Bounds, as defined in Exhibit A, and measured at least monthly by UTIMCO's risk model. Liquidity of the ITF will be governed by the Liquidity Policy, overseen by the Risk Committee of the UTIMCO Board.

Intermediate Term Fund Investment Policy Statement (continued)

ITF return, Asset Class allocations, and downside volatility targets are subject to adjustment from time to time by the Board of Regents.

Asset Class Allocation and Policy

Asset Class allocation is the primary determinant of the volatility of investment return and, subject to the Asset Class allocation ranges specified in Exhibit A, is the responsibility of UTIMCO. The Asset Class allocation is designed to accommodate the intermediate investment horizon of the ITF assets with enhanced returns at moderate managed risk levels. UTIMCO is responsible for measuring actual Asset Class allocation at least monthly (incorporating the impact of derivative positions covered under the Derivative Investment Policy), and for reporting the actual portfolio Asset Class allocation to the UTIMCO Board and the Board of Regents at least quarterly. While specific Asset Class allocation positions may be changed within the ranges specified in Exhibit A based on the economic and investment outlook from time to time, the range limits cannot be intentionally breached without prior approval of the Board of Regents.

In the event that actual portfolio positions in Asset Class or the Projected Downside Volatility move outside the ranges indicated in Exhibit A due to market forces that shift relative valuations, UTIMCO staff will immediately report this situation to the UTIMCO Board Chairman and take steps to rebalance portfolio positions back within the policy ranges in an orderly manner as soon as practicable. Extenuating circumstances that could cause immediate rebalancing to be irrational and detrimental to the interest of the ITF asset values could warrant requesting approval of the UTIMCO Board Chairman to waive remedial action.

ITF assets shall be allocated among the following broad Asset Classes based upon their individual return/risk characteristics and relationships to other Asset Classes:

Global Equity:

~~U.S. Public Equity – U.S. Public Equity invests primarily in the equity securities of companies domiciled in the U.S. These securities are traded in public markets (on an exchange, over the counter, pursuant to SEC Rule 144a, or issued in an underwritten initial public offering (“IPO”)) or are restricted but expected to become public or otherwise freely marketable within three years after the initial investment. U.S. Public Equity includes common stocks, preferred stocks, exchange traded funds, and derivatives based on common stocks or equity indices (including convertibles, warrants, rights, options, and futures).~~

~~Non-U.S. Developed Public Equity – Non-U.S. Developed Public Equity invests primarily in the equity securities of companies that are domiciled in the developed countries (other than including the U.S.) that are part of the MSCI World Index. These securities are traded in public markets (on an exchange, over the counter, or issued in an underwritten initial public offering (“IPO”)) or are restricted but~~

Intermediate Term Fund Investment Policy Statement (continued)

expected to become public or otherwise freely marketable within three years after the initial investment. ~~Non-U.S.~~ Developed Public Equity includes common stocks, depositary receipts, preferred stocks, exchange traded funds, and derivatives based on common stocks or equity indices (including convertibles, warrants, rights, options, and futures).

~~Global Developed Public Equity – Global Developed Public Equity invests primarily in the equity securities of companies that are domiciled in the developed countries that are part of the MSCI World Index; however, the asset allocation between U.S. and non-U.S. may be variable over time. Global Developed Public Equity includes common stocks, depositary receipts, preferred stocks, exchange traded funds, and derivatives based on common stocks or equity indices (including convertibles, warrants, rights, options, and futures).~~

Emerging Markets Public Equity – Emerging Markets Public Equity invests primarily in the equity securities of companies that are domiciled in (i) the emerging countries that are part of the MSCI Emerging Markets Index or (ii) countries that have yet to reach MSCI Emerging Markets Index qualification status. These securities are traded in public markets (on an exchange, over the counter, or issued in an underwritten initial public offering (“IPO”)) or are restricted but expected to become public or otherwise freely marketable within three years after the initial investment. Emerging Markets Public Equity includes common stocks, depositary receipts, preferred stocks, exchange traded funds, and derivatives based on common stocks or equity indices (including convertibles, warrants, rights, options, and futures).

Directional Hedge Funds – Directional Hedge Funds invest long and short in equities, fixed income, commodities, currencies and other global market instruments including derivatives. Directional Hedge Funds exhibit some market sensitivity as defined by beta to public equities. Strategies may include but are not limited to long/short equity, multi-strategy, event-driven, distressed and stressed credit and global macro.

Stable Value:

Investment Grade Fixed Income – Investment Grade Fixed Income represents ownership of fixed income instruments across all maturities, U.S. and non-U.S., that are rated investment grade. These include debt issued by the Sovereign Governments, various government enterprises and agencies, and corporations. The principal securities include bonds, notes, bills and mortgage and asset-backed securities. In addition, derivative applications that serve as a fixed income substitute may be classified as Investment Grade Fixed Income.

~~Long Treasuries – Long Treasuries represents ownership of fixed income instruments across long-dated maturities issued by the U.S. government. The principal securities may include bonds, notes and bills. In addition, derivative~~

Intermediate Term Fund Investment Policy Statement (continued)

applications that serve as a fixed income substitute may be classified as Long Treasuries.

Stable Value Hedge Funds – Stable Value Hedge Funds invest long and short in equities, fixed income, commodities, currencies and other global market instruments including derivatives. Stable Value Hedge Fund investments exhibit little to no market sensitivity, as defined by beta to U.S. Developed Public Equity, and have an absolute return orientation. Strategies may include but are not limited to market-neutral equity, multi-strategy, re-insurance, risk premia, trend following, senior secured lending and global macro.

Cash – Cash ~~consists of internal and external pooled investment funds, cash in foreign~~ has the same meaning as given to the term “Cash” in the Liquidity Policy and includes, for example, cash in any currencies, and other overnight funds that have not been allocated to a specific asset class.

Real Return:

Inflation Linked Bonds – Inflation Linked Bonds include fixed income investments issued by both U.S. and Non-U.S. Governments where the principal value of the bond has been indexed to some rate of inflation, as well as derivatives referencing Inflation Linked Bonds or directly linked to inflation rates, including but not limited to inflation swaps. Inflation Linked Bonds are intended to provide some degree of inflation protection.

Commodities – Commodities investments represent ownership of ~~bulk physical~~ fungible goods such as metals, grains, foods and energy products or any other investment defined by regulators as a commodity. These investments can be made through actual physical ownership of the goods, or through financial ownership of the underlying goods achieved through the purchase of derivatives based on commodities or commodities indices.

Public Real Estate – Public Real Estate invests principally in companies that are part of the ~~FTSE/EPRA NAREIT Developed~~ MSCI US REIT (RMZ) Index and that own or manage equity or debt interests in portfolios of real estate or real assets. These securities are traded in public markets (on an exchange, over the counter, or issued in an underwritten initial public offering) or are restricted but expected to become public or otherwise freely marketable within three years after the initial investment. Public Real Estate includes common stocks, depositary receipts, preferred stocks, exchange traded funds, and derivatives based on common stocks or equity indices (including convertibles, warrants, rights, options, and futures).

All mandates will be categorized at inception and on an ongoing basis by Asset Class.

Intermediate Term Fund Investment Policy Statement (continued)

Performance Measurement

The investment performance of the ITF will be measured by the ITF's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, compared against the stated Policy Benchmarks of the ITF, as indicated in Exhibit A (incorporating the impact of internal derivative positions) and reported to the UTIMCO Board and the Board of Regents at least quarterly. The Policy Portfolio benchmark will be maintained by UTIMCO and will ~~be comprised of~~ **comprise** a blend of Asset Class indices reported by the independent custodian and weighted to reflect ITF's approved Asset Class allocation policy targets as defined in Exhibit A. Monthly performance data and net asset values will be available on the UTIMCO website within a reasonable time after each month end.

Investment Guidelines

The ITF must be invested at all times in strict compliance with applicable law. Investment guidelines include the following:

General

- Investment guidelines for index, commingled funds, limited partnerships, and corporate vehicles managed externally shall be governed by the terms and conditions of the respective investment management contracts, partnership agreements or corporate documents.
- Investment guidelines of all other externally managed accounts as well as internally invested funds must be reviewed and approved by UTIMCO's Chief Investment Officer prior to investment of ITF assets in such investments.
- No securities may be purchased or held which would jeopardize the ITF's tax-exempt status.
- No internal investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No internal investment strategy or program employing short sales may be made unless specifically authorized in the Delegation of Authority Policy, the Derivative Investment Policy or by the UTIMCO Board.
- The ITF's investments in warrants shall not exceed more than 5% of the ITF's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.
- The ITF may utilize derivatives only in accordance with the Derivative Investment Policy. The aggregate prorated annual premium of Derivative Investments utilized to reduce exposure to an Asset Class or hedge against risk shall not exceed 50 basis points of ITF value.

Investment Grade Fixed Income

Intermediate Term Fund Investment Policy Statement (continued)

Not more than 5% of the market value of fixed income securities may be invested in corporate and municipal bonds of a single issuer.

Public Real Estate and Public Equity

- Not more than 25% of the market of equity securities may be invested in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at cost.
- Not more than 5% of the market value of equity securities may be invested in the securities of one corporation at cost.

Stable Value

- Not more than 7.5% of the market value of equity and fixed income securities taken together may be invested in one corporation at cost.

ITF Accounting

The fiscal year of the ITF shall begin on September 1st and end on August 31st. Market value of the ITF shall be maintained on an accrual basis in compliance with Generally Accepted Accounting Principles (“GAAP”), Governmental Accounting Standards Board Statements, industry guidelines, or state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO’s Chief Investment Officer and reported to the UTIMCO Board. Assets deemed to be “other than temporarily impaired” as defined by GAAP shall be written off and reported to UTIMCO’s Chief Investment Officer and the UTIMCO Board when material. The ITF’s financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

Valuation of ITF Assets

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all ITF net assets and the net asset value per unit of the ITF. The final determination of ITF net assets for a month end close shall normally be completed within seven business days but determination may be longer under certain circumstances. Valuation of ITF assets shall be based on the books and records of the custodian for the valuation date.

The fair market value of the ITF’s net assets shall include all related receivables and payables of the ITF on the valuation date and the value of each unit thereof shall be its proportionate part of such net value. Such valuation shall be final and conclusive.

Compliance

Intermediate Term Fund Investment Policy Statement (continued)

Compliance with this Policy will be monitored by UTIMCO's Chief Compliance Officer. UTIMCO's Chief Executive Officer, the UTIMCO Board, and the UTIMCO Audit & Ethics Committee will receive regular reports on UTIMCO's compliance with this Policy. All material instances of noncompliance, as determined by UTIMCO's Chief Compliance Officer and the Chair of the UTIMCO Audit & Ethics Committee, will require an action plan proposed by UTIMCO's Chief Executive Officer and approved by the Chairman of the UTIMCO Board with timelines for bringing the noncompliant activity within this Policy.

ITF Distributions

The ITF shall provide monthly distributions to the unit holders. The Board of Regents will approve an annual distribution amount. Distributions from the ITF to the unit holders shall be made monthly on the first business day of each month. To calculate the monthly distribution, the distribution rate (% divided by 12) will be multiplied by each unit holder's account, determined as follows:

- Net asset value of each unit holder's account on the last business day of the second prior month;
- Plus value of each unit holder's net purchase/redemption amount on the first business day of the prior month;
- Less the distribution amount paid to each unit holder's account on the first business day of the prior month.

Purchase and Redemption of ITF Units

The ITF participants may purchase units on the first business day of each month upon payment of cash or reinvestment of distributions to the ITF, at the net asset value per unit of the ITF as of the prior month ending valuation date. Such purchase commitments are binding. The ITF participants may redeem ITF units on a monthly basis. The unit redemption shall be paid in cash as soon as practicable after the month end valuation date of the ITF. Redemptions from the ITF shall be at the market price per unit determined at the time of the redemption. Such redemption commitments are binding.

Participants of the ITF are required to provide notification of purchases and redemptions based on specific notification requirements as set forth in The University of Texas System Allocation Policy for Non-Endowment Funds.

Intermediate Term Fund Investment Policy Statement (continued)

Securities Lending

The ITF may participate in a securities lending contract with a bank or non-bank security lending agent for purposes of realizing additional income. Loans of securities by the ITF shall be collateralized by cash, letters of credit, or securities issued or guaranteed by the U.S. Government or its agencies. The collateral will equal at least 100% of the current market value of the loaned securities. The contract shall state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and collateral, acceptable investment of collateral and indemnification provisions. The contract may include other provisions as appropriate.

The securities lending program will be evaluated from time to time as deemed necessary by the UTIMCO Board. Monthly reports issued by the lending agent shall be reviewed by UTIMCO staff to ensure compliance with contract provisions.

Investor Responsibility

As a shareholder, the ITF has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies in a manner consistent with the unique role and mission of higher education as well as for the economic benefit of the ITF. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the ITF solely in the interest of ITF unitholders, in compliance with the Proxy Voting Policy then in effect, and shall not invest the ITF so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

The Board of Regents reserves the right to amend the Investment Policy Statement as it deems necessary or advisable.

Effective Date

The effective date of this Policy shall be ~~March~~September 1, ~~2020~~2021.

EXHIBIT A
ASSET CLASS TARGETS, RANGES, AND PERFORMANCE OBJECTIVES
 EFFECTIVE **MARCH/SEPTEMBER 1, 2020/2021**

Asset Class	Min v Target ⁽¹⁾	Target ⁽²⁾	Max v Target ⁽¹⁾	Benchmark
Global Equity:				
U.S.-Public Equity	-5.0%	3.1%	+5.0%	MSCI U.S. with Net Dividends
Non-U.S.-Developed Public Equity	-5.0%	1.9%	+5.0%	MSCI EAFE and Canada with Net Dividends
Global-Developed Public Equity	-5.0%	4.210.8%	+5.0%	MSCI World Index with Net Dividends
<i>Total Developed Public Equity</i>	-5.0%	9.2%	+5.0%	
Emerging Markets Public Equity	-5.0%	3.83.2%	+5.0%	MSCI Emerging Markets Index with Net Dividends
<i>Total Public Equity</i>	-5.0%	13.014.0%	+5.0%	
Directional Hedge Funds	-5.0%	43.038.0%	+5.0%	HFRI Fund of Funds Composite
Total Global Equity	-7.0%	66.052.0%	+7.0%	
Stable Value:				
Investment Grade Fixed Income	-5.0%	35.016.0%	+5.0%	Bloomberg Barelays Global Aggregate Index - Hedged
<u>Long Treasuries</u>	-5.0%	4.0%	+5.0%	<u>Bloomberg US Treasury Long Index</u>
<i>Total Fixed Income</i>	-5.0%	20.0%	+5.0%	
Cash	-5.0%	2.0%	+5.0%	3 month Tbills
Stable Value Hedge Funds	-5.0%	7.016.0%	+5.0%	HFRI Fund of Funds Conservative
Total Stable Value	-10.0%	44.038.0%	+6.0%	
Real Return:				
Inflation Linked Bonds	-5.0%	0.05.0%	+5.0%	Bloomberg Barelays Global Inflation-Linked: U.S. TIPS Index
Gold	-5.0%	0.0%	+5.0%	Gold Spot Price (XAU)
Commodities	-5.0%	0.02.5%	+5.0%	Bloomberg Commodity TRI
<i>Total Commodities</i>	-5.0%	0.02.5%	+5.0%	
Public Real Estate	-5.0%	0.02.5%	+5.0%	FTSE EPRA/NAREIT Developed Net TRI <u>USDMSCI US REIT (RMZ) Index</u>
Total Real Return	-6.0%	0.010.0%	+6.0%	
Total All Asset Classes		100.0%		

The total Asset Class exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed 100% of the Asset Class exposure excluding the amount of derivatives exposure not collateralized by Cash.

POLICY/TARGET RETURN/RISKS⁽²⁾	
Expected 10-Year Annual Real Return (Benchmark <u>Policy Portfolio Beta</u>)	2.380.12%
<u>Expected 10-Year Annual Real Return (Policy Portfolio Total Return)</u>	3.842.51%
One Year Downside Volatility	4.47%
Risk Bounds	
Lower: 1 Year Downside Volatility	75.00%
Upper: 1 Year Downside Volatility	115.00%

(1) In relation to the Asset Class Target; with the exception of Cash, "Min" will not be below zero
 (2) Asset Class Targets and Policy/Target Return/Risks reset monthly



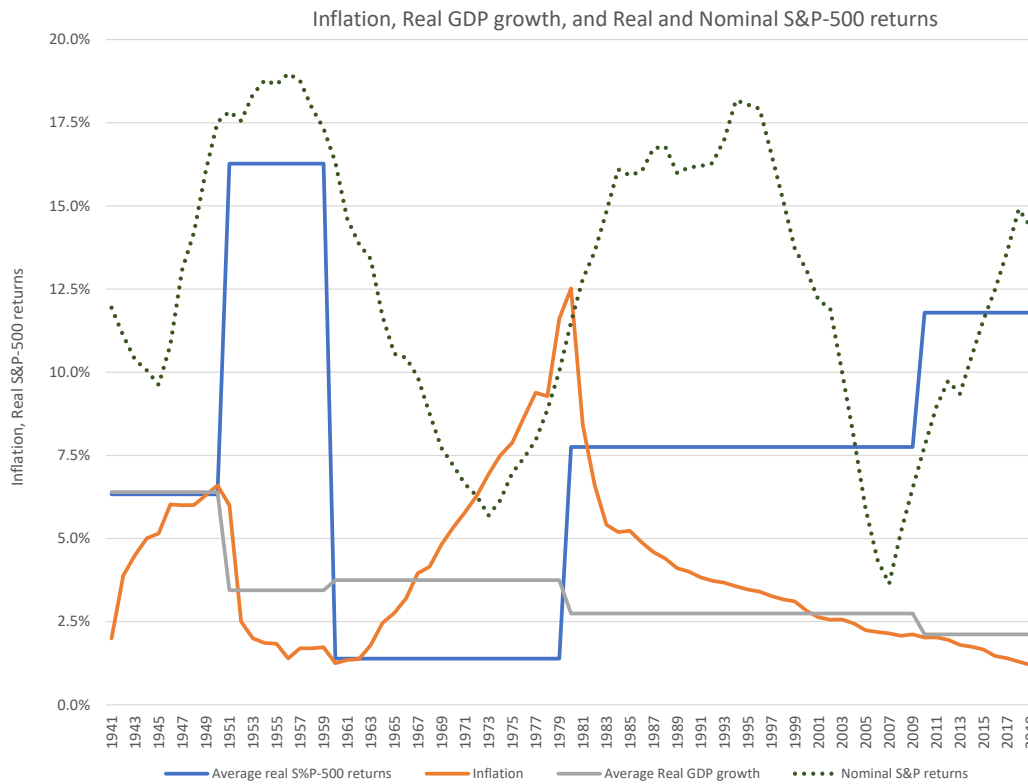
Strategic Asset Allocation

Mr. Britt Harris, CEO, Chief Investment Officer and President
Mr. Rich Hall, Deputy Chief Investment Officer
Ms. Joan Moeller, Chief Operations Officer

U. T. System Board of Regents Meeting
Finance and Planning Committee
August 2021



Interim Strategic Asset Allocation Review: End of an Era?



	1979-1982	2020
Discount Rate	20%	0.0%
Inflation Rate	14%	2.4%
10-Year Treasury	10.3%	1.6%
S&P 500	102	4200
P/E Shiller	8.7X	34.5X
Debt/GDP	31%	129%
Fed Balance Sheet	\$0.2T	\$8.0T
US Deficit/GDP	-1%	-19%

Capital Market Assumptions: Overshoot



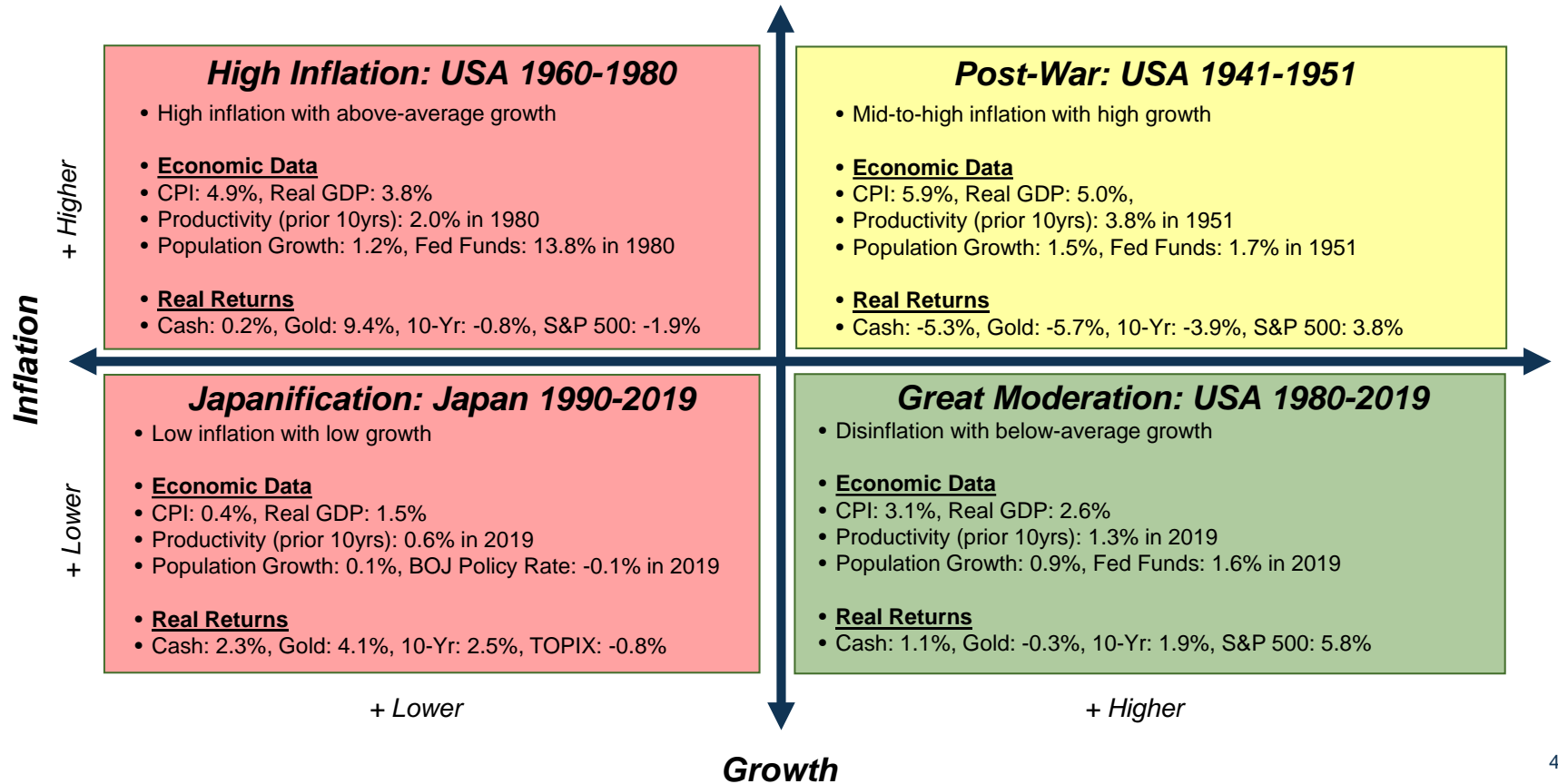
Asset Class	2018 Exp Return	Actual Return ¹	Difference	Projected
Endowment Return	7.5	12.8	5.3	6.8
Endowment Volatility ²	11.0	8.5	-2.5	12.0
Endowment Sharpe	0.4	1.3	0.9	0.5
ITF Return	5.3	9.5	4.2	4.8
ITF Volatility ²	6.8	8.1	1.3	6.1
ITF Sharpe	0.5	1.0	0.5	0.6

Asset Class	2018 Exp Return	Actual Return ¹	Difference	Projected
US Public Equity	6.3	17.0	10.7	4.9
Non US Developed Public Equity	6.4	8.5	2.1	5.8
Emerging Markets Public Equity	8.0	12.0	4.0	7.3
Directional Hedge Funds	1.9	6.7	4.8	1.5
Private Equity	8.6	23.7	15.1	8.1
Total Fixed Income	2.6	4.8	2.2	1.2
Cash	1.6	1.4	(0.2)	1.1
Stable Value Hedge Funds	1.6	5.6	4.0	1.1
Private Real Estate	6.5	5.3	(1.2)	6.1
Natural Resources	8.6	(8.9)	(17.5)	6.3
Infrastructure	8.6	11.0	2.4	7.0
TIPS	2.6	6.2	3.6	1.5

¹ Annualized returns through 4/30/21 from inception of current SAA targets (9/1/2018)

² Realized volatility is lower than theoretical volatility in endowments due to smoothed nature of private returns.

Four Potential Paths Forward



SAA Summary Recommendations: Endowments



Across Regimes	Stable Value	Global Equity	Real Return
Current	18%	63%	19%
Proposed	16%	65%	19%
Change	-2%	2%	0%

Key Change

- 1) Shift Investment Grade Bonds to Long Treasuries to generate a higher return & provide better diversification
- 2) Total returns & Sharpe ratio unchanged

Within Regimes

Global Equity	Public Developed Equity	Emerging Equity	Directional Hedge Funds	Private Equity	Total
Current	25.0%	8.0%	5.0%	25.0%	63.0%
Proposed	<u>27.0%</u>	<u>8.0%</u>	<u>5.0%</u>	<u>25.0%</u>	<u>65.0%</u>
Change	2.0%	0.0%	0.0%	0.0%	2.0%

Stable Value	Inv. Grade Bonds	Long Term Treasuries	Cash	Stable Value Hedge Funds	Total
Current	7.0%	0.0%	1.0%	10.0%	18.0%
Proposed	<u>0.0%</u>	<u>5.0%</u>	<u>1.0%</u>	<u>10.0%</u>	<u>16.0%</u>
Change	-7.0%	5.0%	0.0%	0.0%	-2.0%

Real Return	Real Estate	Natural Resources	Infrastructure	TIPS	Commodities	Total
Current	10.0%	3.0%	6.0%	0.0%	0.0%	19.0%
Proposed	<u>9.0%</u>	<u>3.0%</u>	<u>5.0%</u>	<u>2.0%</u>	<u>0.0%</u>	<u>19.0%</u>
Change	-1.0%	0.0%	-1.0%	2.0%	0.0%	0.0%

Benchmarks (Endowments)

- 1) Collapse MSCI United States Index and MSCI Europe, Australasia and Far East ("EAFE") Index into MSCI World Index
- 2) Add Long Treasury Index
- 3) Add MSCI US Real Estate Investment Trust ("REIT") Index and create blended public/private Real Estate Index

Total Expected Return	Beta	Alpha	Total	Sharpe
Current	5.4%	1.4%	6.8%	0.5
New	5.4%	1.3%	6.8%	0.5
Change	0.0%	-0.1%	0.0%	0.0

SAA Summary Recommendations: ITF



Across Regimes	Stable Value	Global Equity	Real Return
Current	56%	44%	0%
Proposed	50%	40%	10%
Change	-6%	-4%	10%

- Key Changes**
- 1) New Real Return portfolio to improve diversification
 - 2) Move Investment Grade Bonds to Long Treasuries & Stable Value Hedge Funds to improve return & diversification
 - 3) Total exp. returns +0.6% with same Sharpe ratio

Within Regimes

Global Equity	Public Developed Equity	Emerging Equity	Directional Hedge Funds	Private Equity	Total
Current	9.2%	3.8%	43.0%	0.0%	56.0%
Proposed	11.5%	3.5%	35.0%	0.0%	50.0%
Change	2.3%	-0.3%	-8.0%	0.0%	-6.0%

Stable Value	Inv. Grade Bonds	Long Term Treasuries	Cash	Stable Value Hedge Funds	Total
Current	35.0%	0.0%	2.0%	7.0%	44.0%
Proposed	6.0%	7.0%	2.0%	25.0%	40.0%
Change	-29.0%	7.0%	0.0%	18.0%	-4.0%

Real Return	Public REITS	TIPS	Commodities	Total
Current	0.0%	0.0%	0.0%	0.0%
Proposed	2.5%	5.0%	2.5%	10.0%
Change	2.5%	5.0%	2.5%	10.0%

Benchmarks (ITF)

- 1) Combine US + EAFE into MSCI World Index
- 2) Add Long Treasury Index
- 3) Add MSCI US REIT Index
- 4) Add Bloomberg Commodities Index
- 5) Add TIPS Index

Total Expected Return	Beta	Alpha	Total	Sharpe
Current	1.9%	2.3%	4.2%	0.6
New	2.2%	2.6%	4.8%	0.6
Change	0.3%	0.3%	0.6%	0.0

Appendix



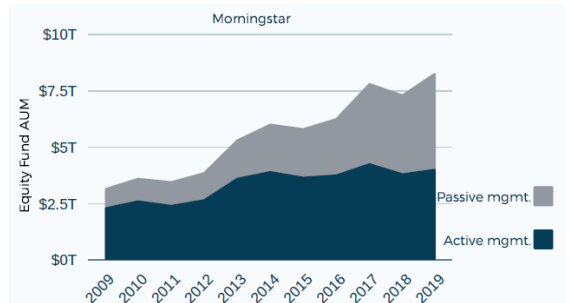
Fixed Income: Zero Lower Bound





Future Super-Factors

Conventional				Technology			
	Extreme						
	1980s	2010s	Future		1980	2021	
Inflation	5.1%	1.8%	2.3%	Computing power	Conventional	Quantum	
Labor Force Growth	1.7%	1.4%	0.4%	High Tech	HP PC	AI/Robots	
Productivity	1.4%	0.9%	1.4%	Labor Replaced	Physical	Mental	
GDP - Real	3.1%	2.3%	1.8%	Timing	(End)	Start	
Demographics	Boomer	Millennial	Mill/GenZ				
Climate Change				Capitalism			
	Projected Costs (2020-2050)				Shareholder	Stakeholder	
Without Transition	\$300 Trillion						
With Transition	\$100-150 Trillion						
China: Cooperation vs Competition				Ownership			
GDP	1980	2021	2035		Fragmented	Concentrated	
USA	\$2.9T	\$22.1T	\$38.0T				
China	\$0.2T	\$15.7T	\$41.0T				
Relative Size (\$)	-\$2.7T	-\$6.4	+\$3.0T				
Relative Size (%)	-93%	-29%	+8%				
Proj. Real GDP Growth							
USA GDP	1.8%						
China GDP	4.0%						
Pandemic Effect	\$Fiscal Stimulus		% of GDP				
USA	\$4.2T		20%				
China	\$1.2T		8%				
Government							
USA	Democratic						
China	Autocratic						





Contribution Analysis: Endowments & ITF

Endowments						
	Proposed	Contribution Analysis				
	Weights	Beta	Alpha	Total Return	Risk	Liquidity*
Global Developed	27.0%	25.8%	13.4%	23.3%	31.4%	(-43.7%)
US Large Cap	-	-	-	-	-	-
EAFE	-	-	-	-	-	-
Emerging	8.0%	10.7%	8.9%	10.4%	12.6%	(-13.0%)
Directional Hedge Funds	5.0%	1.4%	15.3%	4.1%	2.3%	6.7%
Private Equity	25.0%	37.2%	17.6%	33.3%	36.3%	(-9.5%)
Total Global Equity	65.0%	75.1%	55.3%	71.2%	82.6%	(-59.5%)
Global Aggregate Bonds	-	-	-	-	-	-
Long Treasuries	5.0%	2.1%	0.4%	1.8%	(-2.0%)	57.0%
Cash	1.0%	0.2%	-	0.2%	0.0%	9.9%
Stable Value Hedge Funds	10.0%	2.0%	28.2%	7.2%	4.4%	14.1%
Total Stable Value	16.0%	4.3%	28.6%	9.2%	2.4%	81.0%
Real Estate	9.0%	10.1%	10.0%	10.1%	8.3%	(-3.0%)
Natural Resources	3.0%	3.5%	2.2%	3.2%	3.6%	(-1.0%)
Infrastructure	5.0%	6.4%	3.7%	5.9%	2.9%	(-1.7%)
TIPS	2.0%	0.6%	0.1%	0.5%	0.1%	6.7%
Commodities	-	-	-	-	-	-
Total Real Return	19.0%	20.5%	16.1%	19.7%	15.0%	1.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	-

Portfolio Expectations		Change
Beta Returns	5.4%	0.3%
Alpha Returns	1.3%	(-0.2%)
Total Returns	6.8%	0.2%
Total Risk	12.0%	0.4%
Sharpe Ratio	0.48	0.01

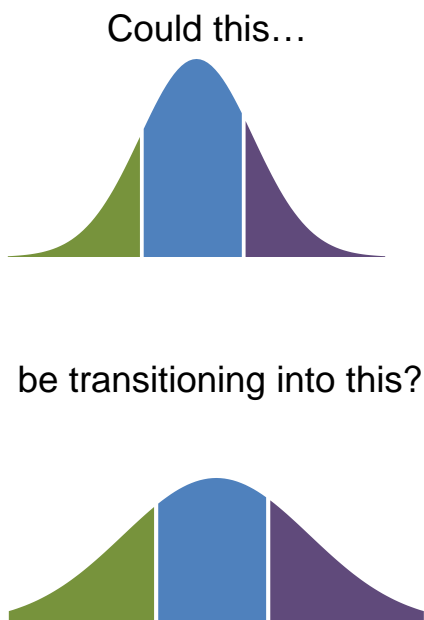
ITF					
	Proposed	Contribution Analysis			
	Weights	Beta	Alpha	Total Return	Risk
Global Developed	11.5%	23.9%	2.6%	12.3%	21.6%
US Large Cap	-	-	-	-	-
EAFE	-	-	-	-	-
Emerging	3.5%	16.7%	2.9%	9.2%	15.2%
Directional Hedge Funds	35.0%	23.5%	55.9%	41.1%	35.1%
Total Global Equity	50.0%	64.1%	61.4%	62.6%	71.9%
Global Aggregate Bonds	6.0%	3.3%	0.9%	2.0%	(-0.5%)
Long Treasuries	7.0%	7.4%	0.3%	3.5%	(-2.6%)
Cash	2.0%	1.0%	-	0.5%	0.0%
Stable Value Hedge Funds	25.0%	12.6%	36.7%	25.7%	23.0%
Total Stable Value	40.0%	24.2%	37.9%	31.7%	20.0%
Public REITs	2.5%	5.6%	0.5%	2.8%	2.4%
TIPS	5.0%	3.4%	0.2%	1.7%	1.5%
Commodities	2.5%	2.6%	-	1.2%	4.3%
Total Real Return	10.0%	11.7%	0.7%	5.7%	8.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Portfolio Expectations		Change
Beta Returns	2.2%	0.3%
Alpha Returns	2.6%	0.3%
Total Returns	4.8%	0.6%
Total Risk	6.1%	1.2%
Sharpe Ratio	0.60	(0.04)

*Liquidity needs required to rebalance, make distributions, and meet net capital calls in market stress periods. Does not sum to zero due to distributions out of the Endowment and additional rebalancing to replenish bonds and cash.

Orange asset classes include policy changes: Global Developed replacing US and Non-US Public Equity, Long Treasuries benchmarked to Bloomberg US Treasury: Long Index, Real Estate benchmarked to blended MSCI US REIT Index (RMZ) and Cambridge Total Real Estate.

Risk of Regime Change High



Average Probability	21.25%	15.00%	41.25%	22.50%	
Asset Class	Rising Growth / Rising Inflation	Falling Growth / Falling Inflation	Rising Growth / Falling Inflation	Falling Growth / Rising Inflation	Probability Weighted Portfolio
US Public Equity	11.5%	7.9%	20.4%	4.6%	13.1%
Non-US Public Equity	15.6%	5.4%	26.6%	3.2%	15.8%
Total EM Public Equity	11.4%	3.9%	12.8%	4.3%	9.3%
Directional Hedge Funds	1.3%	4.8%	1.1%	5.5%	2.7%
Total Private Equity	16.1%	14.2%	17.8%	10.0%	15.2%
Private Credit	0.7%	6.4%	4.7%	2.1%	3.5%
Total Global Equity	56.5%	42.6%	83.5%	29.8%	59.5%
Global Aggregate Bonds	1.4%	3.9%	1.4%	2.3%	2.0%
Long US Treasuries	-	15.8%	2.7%	3.4%	4.3%
Chinese Nominals	-	8.4%	-	-	1.3%
Australian Nominals	-	3.7%	-	-	0.6%
Cash	0.5%	0.5%	0.3%	0.5%	0.4%
Stable Value Hedge Funds	9.0%	11.9%	7.4%	14.3%	9.9%
Total Stable Value	10.9%	45.4%	11.8%	20.5%	18.6%
Private Real Estate	11.5%	3.7%	3.2%	8.1%	6.2%
Natural Resources	3.8%	1.0%	0.5%	1.5%	1.5%
Infrastructure	3.1%	1.0%	1.0%	4.2%	2.2%
Commodities	13.8%	-	-	-	2.9%
Gold	-	-	-	10.0%	2.3%
TIPS	0.5%	2.9%	-	15.7%	4.1%
Non-US IL's	-	3.4%	-	10.2%	2.8%
Total Real Return	32.6%	12.0%	4.8%	49.7%	21.9%
<i>Total Privates</i>	35.1%	26.3%	27.3%	26.0%	28.5%
<i>Total Alternatives</i>	45.4%	44.2%	35.8%	45.7%	41.3%
Median External Expected Returns	6.8%	4.5%	7.2%	4.6%	5.5%
Median External Expected Volatility	14.3%	8.1%	16.2%	7.4%	10.9%
Median External Expected Sharpe	0.42	0.46	0.40	0.51	0.43

9. U. T. System Board of Regents: Approval of the Annual Budget for Fiscal Year 2022, 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, 2022, as set forth below, which includes the capital expenditures budget and other external direct charges to the Funds, and the Annual Fee and Allocation Schedule as set forth following the proposed budget.

BACKGROUND INFORMATION

The proposed Total Budgeted Costs consist of \$60.6 million (9.0% increase over FY 2021 budget) for UTIMCO services and \$8.1 million (11.8% increase from FY 2021 budget) for Fund Direct Costs (external non-investment manager services such as custodial, legal, audit, and consulting services). These Total Budgeted Costs represent only a portion of total investment costs as they exclude external manager fees. The proposed Total Budgeted Costs was approved by the UTIMCO Board on June 29, 2021.

The 9.0% increase in UTIMCO services is due primarily to the increase in headcount, promotions, market adjustments, and normal raises. Additionally, there is an increase in data and subscriptions costs driven by a shift to more subscription-based information technology arrangements, which in turn results in capital expenditure savings and a reduction of the proposed capital expenditures budget to \$100,000.

The proposed Annual Fee and Allocation Schedule shows the allocation of the proposed budgeted expenses among U. T. System funds. The fees are to be paid quarterly.

UTIMCO recommends that \$6 million of cash reserves be distributed back to the U. T. System funds per the Master Investment Management Services Agreement (IMSA) between the U. T. System Board of Regents and UTIMCO.

The U. T. System Office of Business Affairs has prepared a memorandum for the purpose of reviewing budgeted expenses, which is included as a part of this Agenda Item following the proposed Budget and the Fee and Allocation Schedule.



FY 2022 Budget

Mr. Britt Harris, CEO, Chief Investment Officer and President

Mr. Rich Hall, Deputy Chief Investment Officer

Ms. Joan Moeller, Chief Operations Officer

U. T. System Board of Regents Meeting

Finance and Planning Committee

August 2021

Strategic Plan, Budget & Compensation Frameworks



Strategic Plan

- **Manage to five-year strategic plan which forecasts returns, Assets Under Management (AUM), staffing and budget**
- Updated and reviewed periodically by UTIMCO Board of Directors

Budget

- **Budget and staffing follows strategic plan if returns and AUM are in line forecast**
- Budget and staffing are revised if returns or AUM are below projections (e.g. paused hiring, senior promotions, and raises for FY21 after COVID shock)
- **Current budget equates to 11 basis points of AUM, which is 40% below peers**

Compensation

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



FY22 Summary Budget vs. Strategic Plan

	FY 2022			FY 2022 Budget Proposed v FY22 Projected in Strategic Plan	
	Budget	% of Total Budget	Projected in Strategic Plan	\$	%
UTIMCO Personnel Costs:					
Salaries	20,552,099	30%	20,595,510	(43,411)	-0.2%
Performance Compensation	18,981,580	28%	19,325,805	(344,225)	-1.8%
Benefits & Taxes	6,064,557	9%	5,598,964	465,593	8.3%
Total UTIMCO Personnel Costs	\$ 45,598,236	66%	\$ 45,520,279	\$ 77,957	0.2%
Other UTIMCO Costs:					
Data & Subscriptions	4,706,004	7%	4,452,263	253,741	5.7%
Travel	1,108,004	2%	1,324,317	(216,313)	-16.3%
Lease	3,322,198	5%	3,315,000	7,198	0.2%
Depreciation	2,100,000	3%	2,100,000	-	0.0%
Other Costs	3,796,632	6%	4,293,559	(496,927)	-11.6%
Total Other UTIMCO Costs:	\$ 15,032,838	22%	\$ 15,485,139	\$ (452,301)	-2.9%
Total UTIMCO Services Costs:	\$ 60,631,074	88%	\$ 61,005,418	\$ (374,344)	-0.6%
Bps of AUM	9.62		9.68		
Direct Fund Costs:					
Custodian Fees	4,278,000	6%	4,400,000	(122,000)	-2.8%
Other	3,780,631	6%	3,127,385	653,246	20.9%
Total Direct Fund Costs	\$ 8,058,631	12%	\$ 7,527,385	\$ 531,246	7.1%
Grand Total UTIMCO Budget:	\$ 68,689,705		\$ 68,532,803	\$ 156,902	0.2%
Bps of AUM	10.90		10.88		
AUM projected (\$ billion)	\$63		\$63		
UTIMCO Headcount	122		122		

Proposed budget of \$68.7 million is **aligned with strategic plan**

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

Due to strong returns, AUM of **\$63 billion is well ahead of the projected AUM that was expected in 2021**

Note: Detail on FY 2022 Budget vs. FY 2021 budget and the current five-year strategic plan has been provided in the appendix



Annual Fee and Allocation Schedule

UTIMCO Management Fee and Direct Budgeted Investment Expenses Annual Fee and Allocation Schedule For the fiscal year ending August 31, 2022

<u>Proposed Budget</u>	<u>Fund Name</u>						Separate Funds	Debt Proceeds	Total
	PUF	PHF	LTF	GEF	ITF	STF			
<u>Market Value 4/30/21 (\$ millions)</u>	29,388			19,493	10,045	2,587	245	64	61,822
<u>UTIMCO Management Fee</u>									
Dollars	30,238,367			20,057,046	10,335,661				60,631,074
Basis Points	10.3			10.3	10.3				9.8
<u>Direct Expenses to the Fund, excluding UT System Direct Expenses to the Fund</u>									
Dollars	3,943,643	25,272	28,272	2,672,543	1,388,901				8,058,631
Basis Points	1.3	0.2	0.0	1.4	1.4				1.3

Appendix





FY22 Budget vs. FY 2021 Budget

	FY 2021	FY 2022			FY 2022 Budget Proposed v FY 2021 Budget	
	Budget	Budget	% of Total Budget	Projected in Strategic Plan	\$	%
UTIMCO Personnel Costs:						
Salaries	18,774,406	20,552,099	30%	20,595,510	1,777,693	9.5%
Performance Compensation	17,650,561	18,981,580	28%	19,325,805	1,331,019	7.5%
Benefits & Taxes (3)	5,485,510	6,064,557	9%	5,598,964	579,047	10.6%
Total UTIMCO Personnel Costs (1) (2)	\$ 41,910,477	\$ 45,598,236	66%	\$ 45,520,279	\$ 3,687,759	8.8%
Other UTIMCO Costs:						
Data & Subscriptions (4)	4,153,165	4,706,004	7%	4,452,263	552,839	13.3%
Travel	954,702	1,108,004	2%	1,324,317	153,302	16.1%
Lease	3,222,992	3,322,198	5%	3,315,000	99,206	3.1%
Depreciation	1,900,000	2,100,000	3%	2,100,000	200,000	10.5%
Other Costs (5)	3,468,875	3,796,632	6%	4,293,559	327,757	9.4%
Total Other UTIMCO Costs:	\$ 13,699,734	\$ 15,032,838	22%	\$ 15,485,139	\$ 1,333,104	9.7%
Total UTIMCO Services Costs:	\$ 55,610,211	\$ 60,631,074	88%	\$ 61,005,418	\$ 5,020,863	9.0%
Bps of AUM	11.59	9.62		9.68		
Direct Fund Costs:						
Custodian Fees	4,201,000	4,278,000	6%	4,400,000	77,000	1.8%
Other (6)	3,007,101	3,780,631	6%	3,127,385	773,530	25.7%
Total Direct Fund Costs	\$ 7,208,101	\$ 8,058,631	12%	\$ 7,527,385	\$ 850,530	11.8%
Grand Total UTIMCO Budget:	\$ 62,818,312	\$ 68,689,705		\$ 68,532,803	\$ 5,871,393	9.3%
Bps of AUM	13.09	10.90		10.88		
AUM projected (\$ billion)	\$48	\$63		\$63		
UTIMCO Headcount	115	122		122		

Notes

- (1) FY22 Budgeted Personnel Costs are slightly less but closely aligned with the Revised Strategic Plan.
- (2) FY22 Budgeted Personnel Costs increased from the FY21 Budget due to the increases in headcount (8 FTE), promotions, market adjustments, and normal raises.
- (3) FY22 Budgeted Benefits and Taxes are higher compared to the Strategic Plan because the Employee Leadership Development costs are included in "Benefits & Taxes" in the budgets but in "Other Costs" in the Strategic Plan (\$426k in FY21 and \$318k in FY22).
- (4) The FY22 increase in Data & Subscriptions is driven by a shift to more Subscription-based Information Technology Arrangements (SBITAs). Consequently, costs for capitalized fixed assets (servers and software) will be substantially less going forward as well as the maintenance costs associated with the servers and software.
- (5) Other costs include: Hiring, Recruiting & Relocation (\$436k); Consulting Services for IT (\$1.98 mil); IT Service Agreements (\$308k)
- (6) Other Direct Costs include: Barra Risk System (\$726k), Fund Auditors (\$878k), Legal Fees (\$715k), Tax Consultants (\$155k), Background Searches (\$304k), Performance Attribution Costs-MSCI (\$140k), Consultants (\$308k)

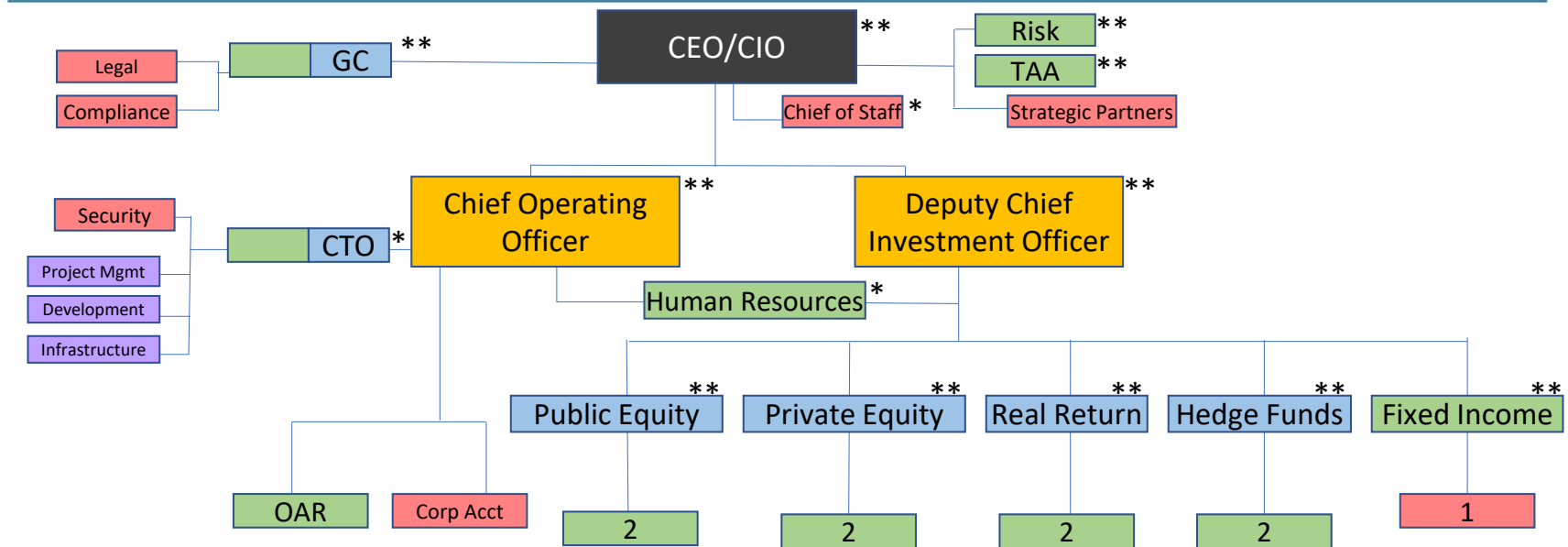
5-Year Strategic Plan – 2021 Update



	Approved Budget		Approved Budget		Approved Budget		UTIMCO Projected Budget		
	2019	2020	2021	2022	2023	2024	2025	2026	
UTIMCO Personnel Costs:									
Base Salary	15,876,073	17,889,310	18,774,406	20,595,510	23,130,143	24,821,485	26,327,368	27,997,169	
		13%	5%	10%	12%	7%	6%	6%	
Performance Comp	12,907,738	15,592,053	17,650,560	19,325,805	22,202,057	24,160,649	25,851,133	27,677,327	
		21%	13%	9%	15%	9%	7%	7%	
Benefits and Taxes	3,884,425	4,736,765	5,060,218	5,598,964	6,357,841	6,869,744	7,318,035	7,655,243	
Total UTIMCO Personnel Costs	\$ 32,668,236	\$ 38,218,128	\$ 41,485,184	\$ 45,520,280	\$ 51,690,041	\$ 55,851,879	\$ 59,496,536	\$ 63,329,739	
Y-O-Y Increase (%)		17%	9%	10%	14%	8%	7%	6%	
Total UTIMCO FTE	98	114	115	122	130	133	135	135	
Other UTIMCO Costs:									
Data & Subscriptions	3,209,125	3,647,004	4,088,161	4,452,263	4,921,496	5,136,253	5,452,682	5,589,000	
Travel & Meetings	1,242,016	1,333,956	1,015,722	1,324,317	1,446,436	1,516,811	1,578,111	1,617,564	
Lease	2,630,324	2,663,724	3,222,992	3,315,000	3,316,000	3,317,000	3,312,000	3,307,000	
Depreciation	1,600,000	1,675,000	1,900,000	2,100,000	2,100,000	2,050,000	2,000,000	1,750,000	
Other Costs	2,439,310	2,330,884	3,898,152	4,293,559	3,122,648	3,037,215	3,007,270	2,952,827	
- Contract Svcs & Maint	900,296	954,801	2,652,612	3,080,000	1,850,000	1,850,000	1,750,000	1,750,000	
- Hiring, Relo, Mercer Comp	543,000	474,000	375,600	350,000	380,000	275,000	325,000	250,000	
- Legal	215,004	215,004	125,004	100,000	110,000	110,000	110,000	110,000	
- Other / Miscellaneous	781,010	687,079	744,936	763,559	782,648	802,215	822,270	842,827	
Total Other UTIMCO Costs	11,120,775	11,650,568	14,125,027	15,485,139	14,906,581	15,057,278	15,350,063	15,216,390	
Total UTIMCO COSTS	\$ 43,789,011	\$ 49,868,696	\$ 55,610,211	\$ 61,005,419	\$ 66,596,622	\$ 70,909,157	\$ 74,846,599	\$ 78,546,129	
Y-O-Y Increase (%)		14%	12%	10%	9%	6%	6%	5%	
Bps of AUM	9.80	9.15	9.47	9.68	10.04	10.13	10.17	10.28	
Fund Costs									
Custodian Fees	8,947,724	4,100,000	4,200,000	4,400,000	4,600,000	4,800,000	4,800,000	4,800,000	
Other	2,577,450	3,001,269	3,008,101	3,127,385	3,252,480	3,382,580	3,517,883	3,658,598	
Total Fund Costs	\$ 11,525,174	\$ 7,101,269	\$ 7,208,101	\$ 7,527,385	\$ 7,852,480	\$ 8,182,580	\$ 8,317,883	\$ 8,458,598	
Y-O-Y Increase (%)		-38%	2%	4%	4%	4%	2%	2%	
Bps of AUM	2.45	1.30	1.23	1.19	1.18	1.17	1.13	1.11	
Grand Total UTIMCO Budget	\$ 55,314,185	\$ 56,969,965	\$ 62,818,312	\$ 68,532,804	\$ 74,449,102	\$ 79,091,737	\$ 83,164,482	\$ 87,004,727	
Y-O-Y Increase (%)		3%	10%	9%	9%	6%	5%	5%	
Bps of AUM	12.25	10.45	10.70	10.88	11.23	11.30	11.30	11.39	
Projected AUM (\$B)	\$47	\$55	\$59	\$63	\$66	\$70	\$74	\$76	



UTIMCO Target Organization



	Color 1	CEO/Chief Investment Officer
	Color 2	Chief Operating Officer, Deputy Chief Investment Officer
Senior Managing Director	Color 3	General Counsel (GC), Chief Technology Officer (CTO), Public Equity, Private Equity, Real Return, Hedge Funds
Managing Director	Color 4	Investment Compliance; Risk; Tactical Asset Allocation (TAA); Human Resources; Fixed Income; Operations, Accounting & Reporting (OAR); Public Equity 2; Private Equity 2; Real Return; Hedge Funds 2
Senior Director	Color 5	Strategic Partners, Corporate Accounting, Corporate Legal, Compliance, Security, Fixed Income, Chief of Staff
Director	Color 6	Project Management, Development, Infrastructure

* Denotes Leadership Team
 ** Denotes Leadership Team & Investment Committee



UTIMCO Compensation Plan Detail

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

Fiscal Year 2022

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

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

Presented by:

Terry Hull – Associate Vice Chancellor for Finance

Allen Hah – Assistant Vice Chancellor for Finance

July 16, 2021

Based on UTIMCO Board approval on June 29, 2021

Fiscal Year 2022
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 2022 that the UTIMCO Board approved on June 29, 2021 and the U. T. System Board of Regents will consider at its August 18-19, 2021 meeting. The “UTIMCO Services Budget” includes corporate expenses paid directly by UTIMCO, and the “Direct Costs to Funds” budget includes costs related to custody, consulting, risk measurement, and legal and audit costs related to funds. The proposed budget for FY22 is:

	FY22 (\$ millions)
UTIMCO Services Budget	60.6
<u>Direct Costs to Funds Budget</u>	<u>8.1</u>
Total Budgeted Costs	<u>\$ 68.7</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:

- **COVID-19 global pandemic:** Growth in the UTIMCO budget for FY22 largely reflects the implementation of a five-year strategic growth plan that was approved in June 2019. Although growth plans were delayed in FY21 as a result of the COVID-19 pandemic, UTIMCO revised its original plan as markets recovered such that the FY22 budget approximates the original plan in total although UTIMCO is ahead on Assets Under Management (“AUM”) and lower on headcount.
- **Total Forecast Costs for FY21:** Total costs for FY21 are forecast at \$61.1 million, which is 2.8% lower than what was budgeted. The decrease is due primarily to significantly reduced travel expenses, staff vacancies, and savings in the contract services relative to budget for a business continuity/disaster recovery project.
- **Total Budgeted Costs for FY22:** The FY22 budget is \$68.7 million, a 9.4% increase from FY21:
 - **The UTIMCO Services Budget:** The FY22 budget includes \$60.6 million for the “operating” budget of UTIMCO, a 9.0% increase from the FY21 budget. The increase is due primarily to the addition of employees as a part of the strategic plan that was adopted in FY19 and the adoption of Subscription-Based Information Technology (SBIT), which essentially shifts capital costs to operating expenses.
 - **The Total Direct Costs to Funds Budget:** The FY22 budget of \$8.1 million for direct fund costs is 12.5% higher than the FY21 budget due primarily to increased legal expenses.
- **UTIMCO Reserves:** There is \$6 million in reserves available to be distributed at fiscal year-end 2021 as the reserve balances are above the levels needed to cover appropriate levels of the budget and capital expenditures.
- **UTIMCO Costs Compared to Peers:** UTIMCO’s total costs as a percentage of AUM are forecast to be 10bps in FY21. While total costs have been increasing, UTIMCO has conducted benchmarking studies showing that total costs as a percentage of AUM remain below industry averages and are favorable compared to peers.

Budget Analysis and Trends

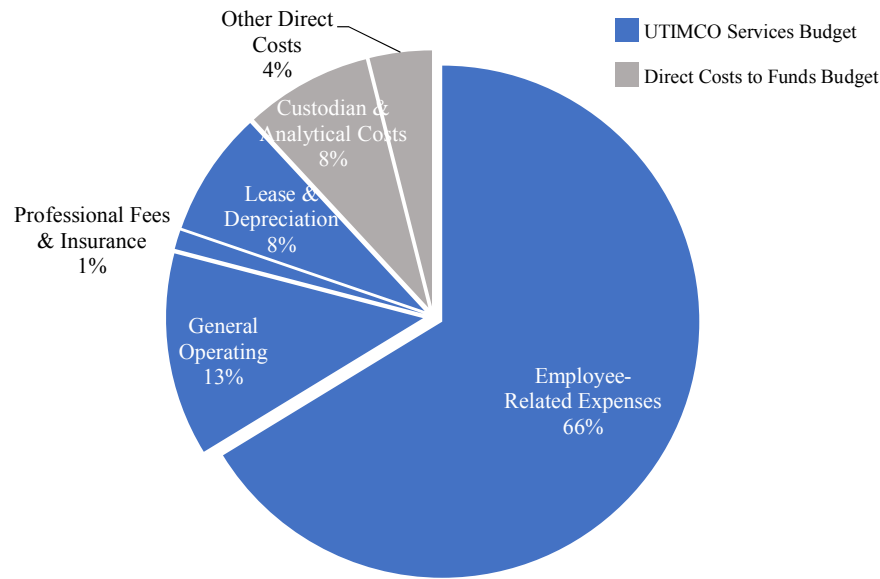
UTIMCO proposes Total Budgeted Costs for FY22 of \$68.7 million. Table 1 shows the Total Budgeted Costs (Direct Costs to Funds and UTIMCO Services Budget) as a percent of average AUM for FY22 and the Total Actual and Forecast Costs as a percent of average AUM from FY17 to FY21.

Table 1: Total Actual Costs Trend FY17-FY21 and Total Budgeted Costs FY22
(\$ millions)

	FY17	FY18	FY19	FY20	Forecast FY21	Budget FY22
Average Total AUM¹	39,063	43,173	46,400	49,906	58,322	65,895
% Change in AUM	8%	11%	7%	8%	17%	13%
Direct Costs to Funds	8.4	10.6	7.5	6.6	7.5	8.1
% Change in Direct Costs to Funds	2.2%	27.1%	-29.0%	-12.1%	12.4%	8.1%
Direct Costs to Funds % of AUM	0.02%	0.02%	0.02%	0.01%	0.01%	0.01%
UTIMCO Services	33.2	36.1	41.8	47.3	53.6	60.6
% Change in UTIMCO Services	23.6%	8.7%	15.8%	13.2%	13.3%	13.1%
UTIMCO Services % of AUM	0.08%	0.08%	0.09%	0.09%	0.09%	0.09%
Total Costs	41.6	46.7	49.3	53.9	61.1	68.7
% Change in Total Costs	18.6%	12.4%	5.6%	9.3%	13.2%	12.5%
Total Costs % of AUM	0.11%	0.11%	0.11%	0.11%	0.10%	0.10%

¹ FY21 and FY22 Average Total AUM assumes projected balances based on moderate returns, projected West Texas Land and gift income, and projected distributions.

FY22 Total Budgeted Costs
\$68.7 million



The UTIMCO Services Budget (blue shade in the pie chart above) represents 88% of the total budget, with employee-related expenses being the largest component at 75% of the Services Budget. Direct Costs to Funds include Custodian & Analytical Costs (8%) 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 FY21 and FY22. Refer to Exhibits A and B at the end of this memo for a detailed budget comparison for FY21-FY22 and actual trend history for FY17-FY21.

Table 2: FY21 Forecast and FY22 Budget Overview
(\$ millions)

	FY21 Forecast				FY22 Budget			
	\$ Budget	\$ Projected	\$ Change vs FY21 Budget	% Change vs FY21 Budget	\$ Budget	\$ Change vs FY21 Projected	% Change vs FY21 Projected	% Change vs FY21 Budget
UTIMCO Services	55.6	53.6	-2.0	-3.6%	60.6	7.0	13.1%	9.0%
Direct Costs to Funds	7.2	7.5	0.3	3.5%	8.1	0.7	8.7%	12.5%
Total Budgeted Costs	62.8	61.1	-1.7	-2.8%	68.7	7.7	12.6%	9.4%

UTIMCO Services Budget

In 2019, UTIMCO conducted a comprehensive review of relevant peer and industry benchmarks to determine appropriate resource levels needed to maintain strong fiduciary stewardship of U. T. and Texas A&M assets. These findings provided the basis for a long-term strategic plan (“2019 Strategic Plan”) that was supported by UTIMCO’s Board of Directors on July 27, 2019, and the U. T. System Board of Regents approved the FY20 budget as presented at the August 2019 Board meeting. The plan called for increased resources because of expected growth in AUM, complexity, succession planning, and oversight responsibilities, and it was expected that the plan would result in an increase of 33 employees by FY24.

The original plan was to reach 127 employees by the end of FY22. The outbreak of the 2019 Novel Coronavirus Disease (“COVID-19”) pandemic significantly affected travel, commerce, and financial markets globally, which caused UTIMCO to diverge from the 2019 Strategic Plan in FY21 by pausing hiring, promotions and raises. The current proposed budget for FY22 reflects a revised plan that largely returns to the originally planned levels as markets have quickly recovered and the reopening of the economy is underway.

For FY22, total personnel-related expenses including employee benefits account for 75% of the UTIMCO Services Budget (or 67% of Total Budgeted Costs). Trends in staffing and total compensation in relation to assets under management are shown in Table 3. Highlights from these tables include:

- Salaries are increasing by 12.7% and Performance Compensation is increasing by 5.1% for FY22 as a result of hiring additional employees, promotions, and base salary raises.

- Despite the additional staffing, elevated returns on investment funds over the last year are expected to result in an increase in AUM per employee in FY21 and FY22 compared to the prior five-year period.
- Total Compensation has grown by 14.4% annually from FY17 to FY21 primarily because of increased headcount and promotions. Total Compensation for FY22 is budgeted at 8.9% over FY21 projected levels, which would equate to a 13.3% growth rate on an average annual basis over a five-year period.
- Since FY17, Total Compensation per employee has increased 5.4% (annualized) from \$256k to \$316k forecast in FY21 and is budgeted to be at \$324k in FY22.

Table 3: UTIMCO Compensation and Headcount FY17-FY22 (excluding benefits)

	FY17	FY18	FY19	FY20	Forecast FY21	% Change Since FY17 (annual)	Budget FY22	% Change From FY21
Employees (as of year end)	83	94	95	110	115	8.5%	122	6.1%
Average Total AUM (\$ millions)	39,063	43,173	46,400	49,906	58,322	10.5%	65,895	13.0%
Average AUM/Employee (\$ millions)	471	459	488	454	507	1.9%	540	6.5%
Salaries (\$ millions)	10.9	13.7	16.2	17.0	18.2	13.7%	20.6	12.7%
Performance Compensation (\$ millions)	10.3	10.4	11.3	15.2	18.1	15.1%	19.0	5.1%
Total Compensation (\$ millions)	21.2	24.1	27.5	32.2	36.3	14.4%	39.5	8.9%
Total Compensation per Employee (\$)	255,552	256,204	289,541	292,288	315,690	5.4%	324,047	2.6%
Perf. Comp. as % of Salaries	94%	76%	69%	89%	99%		92%	
Perf. Comp. as % of Total Compensation	49%	43%	41%	47%	50%		48%	

Lease and Depreciation Expenses: Lease expenses are budgeted to increase 3.7% compared to FY21 forecasted amounts due primarily to the implementation of new accounting rules (GASB 87), which eliminates amortizing tenant improvements (deferred rent credit) and is used instead to reduce the beginning lease asset that is depreciated. The new accounting treatment is expected to result in a slight decrease in lease expenses over time as the interest expense portion declines, but higher operating lease expenses are expected to offset that. Lease expenses have increased in recent years due to the build-out of additional space in the UT System building to accommodate the growth from the 2019 Strategic Plan that was completed in late 2020. Table 4 shows the lease expense trends from FY17-FY22.

Table 4: UTIMCO Lease Expenses FY17-FY22

	Actual				Forecast	Budget
	FY17	FY18	FY19	FY20	FY21	FY22
Property Lease	\$1,136,800	\$1,762,827	\$2,047,589	\$2,230,214	\$2,595,464	\$2,137,569
Operating Lease	860,630	523,826	475,606	582,545	699,171	720,146
Parking Expenses	169,335	197,847	214,830	219,266	245,175	262,575
Lease Interest Expense	-	-	-	-	-	201,907
Other Expenses	14,150	4,716	-	-	-	-
Amortization (Deferred Rent Credit)	(108,267)	(208,054)	(263,864)	(287,791)	(335,643)	-
Total Lease Expenses (net)	\$2,072,648	\$2,281,162	\$2,474,161	\$2,744,234	\$3,204,167	\$3,322,197

Depreciation Expense is budgeted to increase 11% to \$2.1 million compared to the FY21 forecasted amount of \$1.9 million due to the buildout of expanded lease space, furniture, and new equipment to support additional employees.

Other General Operating Expenses, Professional Fees, and Insurance (non-employee): Office expenses, insurance, travel, professional fees, contract services and maintenance costs fall in this category and are forecast to be \$6.6 million in FY21, which is \$1.8 million or 21% lower than the FY21 budget of \$8.4 million. The decrease is due primarily to lower travel and meeting expenses as a result of the global pandemic, savings in the contract services for the business continuity / disaster recovery project and reduced maintenance costs. Subscriptions are expected to increase substantially in FY22 by \$553k over FY21 Budget due to the shift to SBIT.

A cybersecurity audit conducted by an outside consultant recommended several projects in FY21 and FY22 to implement “Best Practices” in various development and infrastructure projects. The FY21 projects are related to the design of the information security program and business continuity / disaster recovery system enhancements. The FY22 projects will enhance security controls and will define and implement a data classification strategy. As a result, Contract Services is budgeted to increase \$414k in FY22, with the increase partially offset by a \$181k reduction in costs related to maintenance agreements. The increase in Contract Services is expected to be “one-time” in nature and is expected to result in future savings due to the removal of temporary expenses and other redundancies.

Direct Costs to Funds

Direct Costs to Funds for FY22 are budgeted at \$8.1 million, a 11.8% increase from the FY21 budget. This is primarily due to increased legal fees. UTIMCO’s General Counsel is adding new outside counsel to accommodate the higher number and level of complexity of deals being executed. UTIMCO plans to utilize internal counsel for all corporate legal matters and to shift more of the investment transaction related legal matters to outside counsel.

UTIMCO Capital Expenditures

The trend for Capital Expenditures for FY17-FY22 is summarized in Table 5 below. Capital expenditures in FY21 were primarily for the build-out of newly leased space to accommodate new hires associated with the strategic plan and for ongoing technology upgrades. UTIMCO expects to have savings over time due to the shift to SBIT for technology needs.

Table 5: UTIMCO Capital Expenditures FY17-FY22

	Actual				Forecast FY21	Budget FY22
	FY17	FY18	FY19	FY20		
Ongoing: Technology and Software Upgrades	\$56,488	\$17,758	\$115,487	\$200,000	\$119,000	\$30,000
Ongoing: Office Equipment and Fixtures	5,374	77,585	-	113,000	89,000	105,000
Expansion: Technology Initiatives / Video Conferencing	-	1,238,149	-	-	-	-
Expansion: Leasehold Buildout (net of TI allowance)	-	6,498,972	-	-	2,352,000	-
Expansion: Furniture and Fixtures	-	2,669,179	65,573	-	423,000	-
Total Capital Expenditures (net)	\$61,862	\$10,501,643	\$181,060	\$313,000	\$2,983,000	\$135,000

EXHIBIT A

Total Budgeted Costs FY21-FY22

	FY21		Change from FY21 Budget		FY22		Change from FY21 Forecast		Change from FY21 Budget
	Budget	Forecast	\$	%	Budget	\$	%	%	
UTIMCO Services									
Salaries	18,774,406	18,240,504	-533,902	-2.8%	20,552,099	2,311,595	12.7%	9.5%	
Performance Compensation + Earnings	17,650,560	18,063,891	413,331	2.3%	18,981,580	917,689	5.1%	7.5%	
Total Compensation	36,424,966	36,304,395	-120,571	-0.3%	39,533,679	3,229,284	8.9%	8.5%	
Total Payroll taxes	1,756,264	2,050,442	294,179	16.8%	2,107,447	57,004	2.8%	20.0%	
403(b) Contributions	1,417,359	1,328,877	-88,482	-6.2%	1,533,929	205,052	15.4%	8.2%	
Insurance, Cell Phone, Learning	1,714,096	1,706,414	-7,682	-0.4%	1,921,150	214,737	12.6%	12.1%	
Employee Benefits	3,131,454	3,035,290	-96,164	-3.1%	3,455,079	419,788	13.8%	10.3%	
Recruiting and Relocation Expenses	100,000	78,564	-21,436	-21.4%	130,000	51,436	65.5%	30.0%	
Employee Education	630,036	380,641	-249,395	-39.6%	538,632	157,991	41.5%	-14.5%	
Other Employee Related Expenses	730,036	459,205	-270,831	-37.1%	668,632	209,427	45.6%	-8.4%	
Total Employee Related Expenses	42,042,720	41,849,333	-193,387	-0.5%	45,764,836	3,915,503	9.4%	8.9%	
On-Line Data & Subscriptions	4,153,165	3,974,720	-178,445	-4.3%	4,706,004	731,284	18.4%	13.3%	
Contract Services & Maintenance	2,227,320	1,344,918	-882,402	-39.6%	2,461,212	1,116,294	83.0%	10.5%	
Travel & Meetings, Including BOD	1,015,722	85,506	-930,216	-91.6%	1,177,024	1,091,518	1276.5%	15.9%	
Phone and Telecommunications	55,488	30,734	-24,754	-44.6%	2,964	-27,770	-90.4%	-94.7%	
Computer & Office Supplies	60,360	37,707	-22,653	-37.5%	65,856	28,149	74.7%	9.1%	
Other Office Expenses	181,536	165,146	-16,390	-9.0%	206,796	41,650	25.2%	13.9%	
Total Office Expense	297,384	233,587	-63,797	-21.5%	275,616	42,029	18.0%	-7.3%	
Total Lease Expense	3,222,992	3,204,167	-18,825	-0.6%	3,322,198	118,031	3.7%	3.1%	
Board, Comp., & Hiring Consultants	305,600	412,300	106,700	34.9%	336,000	-76,300	-18.5%	9.9%	
Legal Expenses	125,004	267,067	142,063	113.6%	150,000	-117,067	-43.8%	20.0%	
Accounting fees	104,604	106,105	1,501	1.4%	104,856	-1,249	-1.2%	0.2%	
Total Professional Fees	535,208	785,472	250,264	46.8%	590,856	-194,616	-24.8%	10.4%	
Total Insurance	215,700	218,124	2,424	1.1%	233,328	15,204	7.0%	8.2%	
Depreciation of Equipment	1,900,000	1,900,000	0	0.0%	2,100,000	200,000	10.5%	10.5%	
Total Non-Employee Related Expenses	13,567,491	11,746,494	-1,820,996	-13.4%	14,866,238	3,119,743	26.6%	9.6%	
Total UTIMCO Services	55,610,211	53,595,827	-2,014,384	-3.6%	60,631,074	7,035,247	13.1%	9.0%	
Direct Costs to Funds									
Custodian Fees and Other Direct Costs	4,201,000	4,150,892	-50,108	-1.2%	4,278,000	127,108	3.1%	1.8%	
Analytical Tools	159,135	154,500	-4,635	-2.9%	154,500	0	0.0%	-2.9%	
Risk Measurement	998,500	1,286,353	287,853	28.8%	1,065,225	-221,128	-17.2%	6.7%	
Custodian and Analytical Costs	5,358,635	5,591,745	233,110	4.4%	5,497,725	-94,020	-1.7%	2.6%	
Consultant Fees	307,500	307,500	0	0.0%	307,500	0	0.0%	0.0%	
Auditing	846,516	787,140	-59,376	-7.0%	908,156	121,016	15.4%	7.3%	
Legal Fees	225,000	396,215	171,215	76.1%	715,000	318,785	80.5%	217.8%	
Background Searches & Other	470,450	375,307	-95,143	-20.2%	630,250	254,943	67.9%	34.0%	
Other Direct Costs Total	1,849,466	1,866,162	16,696	0.9%	2,560,906	694,744	37.2%	38.5%	
Total Direct Costs to Funds	7,208,101	7,457,907	249,806	3.5%	8,058,631	600,724	8.1%	11.8%	
Total Budgeted Costs	62,818,312	61,053,734	-1,764,578	-2.8%	68,689,705	7,635,971	12.5%	9.3%	

Fiscal Year 2022 Review of UTIMCO Services Budget and Other Direct Costs to Funds
 Prepared by the U. T. System Office of Finance
 July 16, 2021

EXHIBIT B

Total Actual Costs FY17-FY21 and FY22 Budget

	FY17	FY18	FY19	FY20	FY21	FY22
	Actual	Actual	Actual	Actual	Forecast	Budget
UTIMCO Services						
Salaries	10,919,643	13,667,683	16,235,197	16,966,760	18,240,504	20,552,099
Performance Compensation + Earnings	10,291,209	10,415,478	11,271,195	15,184,901	18,063,891	18,981,580
Total Compensation	21,210,852	24,083,161	27,506,392	32,151,661	36,304,395	39,533,679
Total Payroll taxes	843,661	955,790	1,455,958	1,387,881	2,050,442	2,107,447
403(b) Contributions	749,882	941,512	1,112,464	1,200,281	1,328,877	1,533,929
Insurance & Cell Phone	1,126,193	1,234,563	1,369,599	1,525,319	1,706,414	1,921,150
Employee Benefits	1,876,075	2,176,075	2,482,063	2,725,600	3,035,290	3,455,079
Recruiting and Relocation Expenses	161,814	181,230	81,607	146,509	78,564	130,000
Employee Education	82,904	90,110	112,955	72,321	356,136	502,032
Other Employee-Related Expenses	244,718	271,340	194,562	218,829	434,701	632,032
Total Employee Related Expenses	24,175,306	27,486,366	31,638,975	36,483,972	41,824,829	45,728,236
On-Line Data & Subscriptions	1,935,118	2,688,550	3,246,582	3,606,892	3,974,720	4,706,004
Contract Services & Maintenance	425,494	813,342	748,427	862,160	1,344,918	2,461,212
Travel & Meetings, Including BOD	688,498	792,548	946,860	583,265	85,506	1,177,024
Phone and Telecommunications	40,540	46,616	41,428	44,331	30,734	2,964
Computer & Office Supplies	60,836	165,639	75,955	44,192	37,707	65,856
Other Office Expenses	147,974	149,779	152,749	193,206	189,650	243,396
Total Office Expense	249,349	362,034	270,132	281,729	258,091	312,216
Total Lease Expense	2,072,648	2,281,161	2,474,161	2,744,234	3,204,167	3,322,198
Board, Compensation, & Hiring Consultants	762,181	328,063	350,898	600,516	412,300	336,000
Legal Expenses	188,846	75,414	176,226	171,519	267,067	150,000
Accounting fees	56,950	58,910	63,420	101,590	106,105	104,856
Total Professional Fees	1,007,977	462,386	590,544	873,625	785,472	590,856
Total Insurance	187,348	195,114	202,752	208,714	218,124	233,328
Depreciation of Equipment	2,453,498	1,015,435	1,669,890	1,646,105	1,900,000	2,100,000
Total Non-Employee Related Expenses	9,019,930	8,610,569	10,149,348	10,806,723	11,770,998	14,902,838
Total UTIMCO Services	33,195,236	36,096,935	41,788,323	47,290,695	53,595,827	60,631,074
Direct Costs to Funds						
Custodian Fees and Other Direct Costs	6,221,234	8,501,722	4,868,268	4,047,237	4,150,892	4,278,000
Analytical Tools	399,568	0	0	154,500	154,500	154,500
Risk Measurement	286,501	297,499	292,000	654,340	1,286,353	1,065,225
Custodian and Analytical Costs	6,907,303	8,799,221	5,160,268	4,856,077	5,591,745	5,497,725
Consultant Fees	320,000	470,000	481,496	297,500	307,500	307,500
Auditing	770,000	790,000	811,750	828,919	787,140	908,156
Legal Fees	83,715	152,895	304,048	188,455	396,215	715,000
Background Searches & Other	287,165	425,515	792,168	494,394	375,307	630,250
Other Direct Costs Total	1,460,880	1,838,410	2,389,462	1,809,268	1,866,162	2,560,906
Total Direct Costs to Funds	8,368,183	10,637,631	7,549,730	6,665,345	7,457,907	8,058,631
Total Budgeted Costs	41,563,419	46,734,566	49,338,053	53,956,040	61,053,734	68,689,705

EXHIBIT C
UTIMCO Reserve Analysis for August 31, 2021

<u>Projected Cash Reserves at August 31, 2021</u>		
Cash		\$ 33,500,000
Prepaid Expenses		1,200,000
Less: Accounts Payable (Includes incentive compensation & earnings payable)		<u>(15,500,000)</u>
Projected Cash Reserves at August 31, 2021		<u><u>\$ 19,200,000</u></u>
FY22 Proposed Operating Budget	60,631,074	
Applicable Percentage	25%	15,157,768
Capital Budget Expenditures		135,000
Depreciation Expense		<u>(2,100,000)</u>
Required Cash Reserves at August 31, 2021		<u><u>\$ 13,192,768</u></u>
Balance Available for Distribution		\$ 6,007,232
Recommended Distribution		\$ 6,000,000

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

Mr. Britt Harris, President, Chief Executive Officer, and Chief Investment Officer, has provided an update on The University of Texas/Texas A&M Investment Management Company (UTIMCO) as set forth on the following pages.



UTIMCO Update

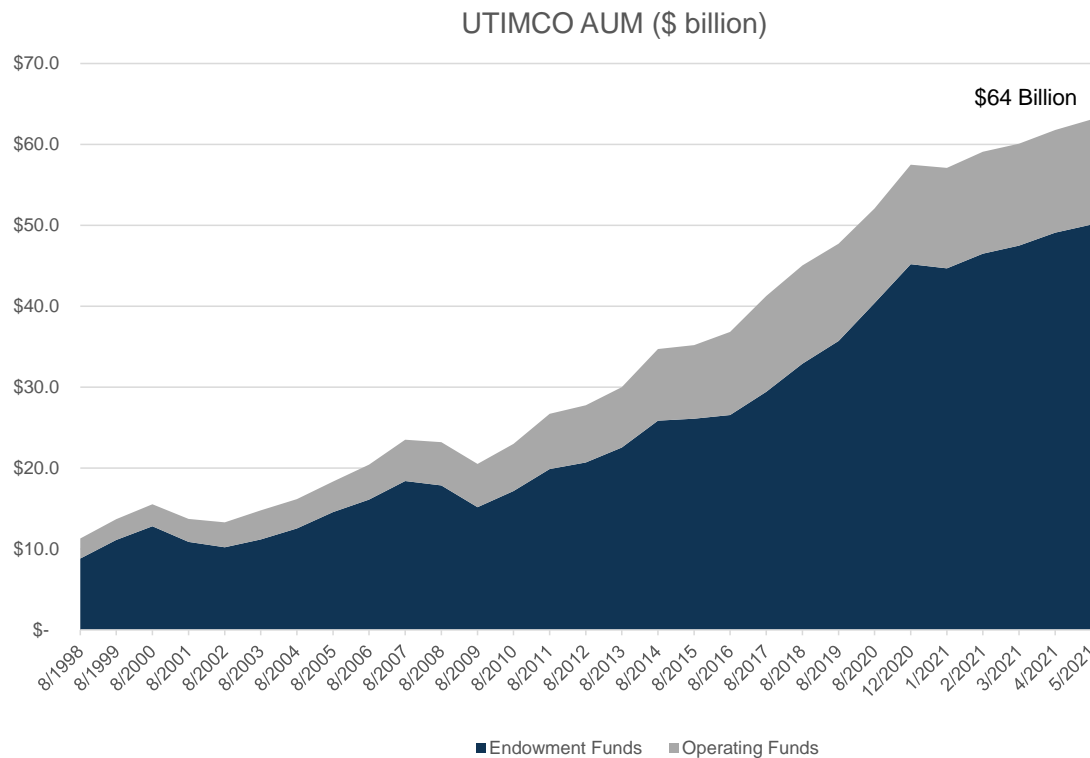
Mr. Britt Harris, CEO, Chief Investment Officer and President
Mr. Rich Hall, Deputy Chief Investment Officer
Ms. Joan Moeller, Chief Operations Officer

U. T. System Board of Regents Meeting
Finance and Planning Committee
August 2021



Growth in Assets Under Management (“AUM”)

Total Assets through May 31, 2021



12 Month Change in AUM

\$ Billion	
Beginning Net Asset Value	48.3
Contributions	2.8
Net Investment Income	14.9
Distributions	-2.0
Ending Net Asset Value	64.0

10 Year Change in AUM

\$ Billion	
Beginning Net Asset Value	27.5
Contributions	20.6
Net Investment Income	31.0
Distributions	-15.1
Ending Net Asset Value	64.0

Summary of UTIMCO AUM, Returns and Alpha

As of May 31, 2021



Endowment Returns

	1-Year	5-Years	10-Years
Investment Return %	+36.9	+12.7	+8.7
Policy Portfolio	34.5	11.3	7.7
Value Add %	+2.4	+1.4	+1.0
Total Investment Return \$	\$13,663	\$22,442	\$28,066
Value Add \$	\$857	\$3,011	\$4,411

Assets Under Management (\$ billions)

	1-Year	5-Years	10-Years
Endowments			
Beginning NAV	\$36.2	\$25.8	\$20.3
Contributions	3.0	11.3	16.7
Net Investment Return	13.3	21.6	26.8
Distributions	-1.5	-7.7	-12.8
Ending NAV	51.0	51.0	51.0
AUM Growth \$	\$14.8	\$25.2	\$30.7
Est. AUM Per Student (\$ thousands)	147	83	72
Operating Funds			
Beginning NAV	\$12.1	\$9.7	\$7.2
Contributions	-0.2	1.2	3.9
Net Investment Return	1.6	3.5	4.2
Distributions	-0.3	-1.4	-2.3
Ending NAV	13.0	13.0	13.0
AUM Growth \$	\$0.9	\$3.3	\$5.8
Total UTIMCO			
Beginning NAV	\$48.3	\$35.5	\$27.5
Ending NAV	\$64.0	\$64.0	\$64.0
AUM Growth \$	\$15.7	\$28.5	\$36.5

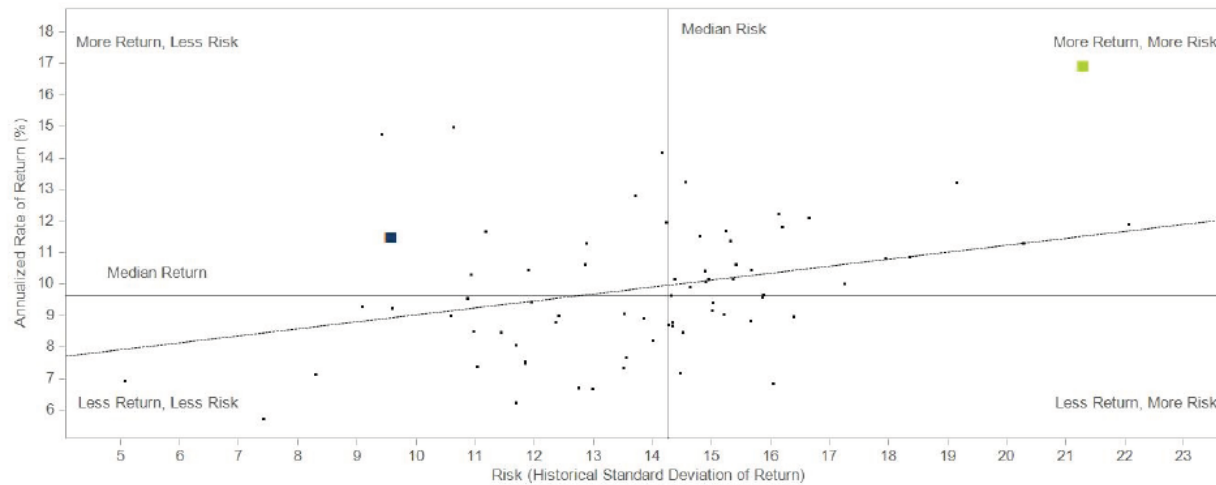
Endowment Risk / Return

Three Years Ending March 31, 2021



Trust Universe Comparison Service Risk vs Total Returns of Master Trusts - Foundation & Endowment

3 Years Ending March 31, 2021



Alpha: 6.83
Beta: 0.22
R-Squared: 0.1

	Risk Value	Risk Rank	Return Value	Return Rank
GEF TOTAL FUND	9.62	92	11.35	23
PUF TOTAL FUND	9.65	91	11.34	25
S&P 500	21.35	2	16.78	1
Median	14.27		9.83	



UTIMCO Independent Assurance Activities

External Audit - Deloitte Annual Audits Include Review of:

- Permanent University Fund
- PUF Detailed Schedule of Investments
- General Endowment Fund
- Permanent Health Fund
- Long Term Fund
- Intermediate Term Fund
- Investment Performance Statistics
- UTIMCO Corporate
- UTIMCO 403(b) Tax Sheltered Annuity Plan (initiated 2020)

Internal Audit and Consulting Projects - UT System Audit Office:

UTIMCO Software Development Life Cycle Review	2018
Travel and Business Entertainment Expenses FY 2017 & FY 2018	2018
UTIMCO Risk Management Consulting	2020
UTIMCO's Compliance Program	2021

Appendix



UTIMCO's 2021 Top Priorities



Performance

- Outperform agreed performance benchmarks
- Honor our purpose and responsibilities to others
- Respond to emerging market conditions professionally
- Enhance and utilize our analytical and reporting capabilities
- Support our people, deepen our culture and collaborate proactively

People

- Servant Leadership:
 - How can I help you?
 - Customer + Empathy + Development + Agreement = Empowerment
- Target Investment Organization: Distinctives, Development, Coaching/Feedback, Accountability
- Compensation Study and Career Path resolution (Operations, Accounting, Reporting, Information Services & Information Security)
- Diversity and Inclusion review and initiatives

Investment Team

- Strategic Asset Allocation
- Seamless and effective Investment Risk Committee (Fund level optimization and related issues)
- Barra Risk Analytics installation: Comprehensive use including Risk Metrics and eFront
- Expand Beta oriented investment capability, toolkit (Exchange Traded Funds) and technology
- Assess Risk Budgeting framework
- Well developed Co-Investment capability

Operations Team

- Professionally complete all required reporting and all client requests
- Streamline and refine manual processes and modernize the legacy systems
- Proactive care for UTIMCO client institutions

Information Services & Security Team

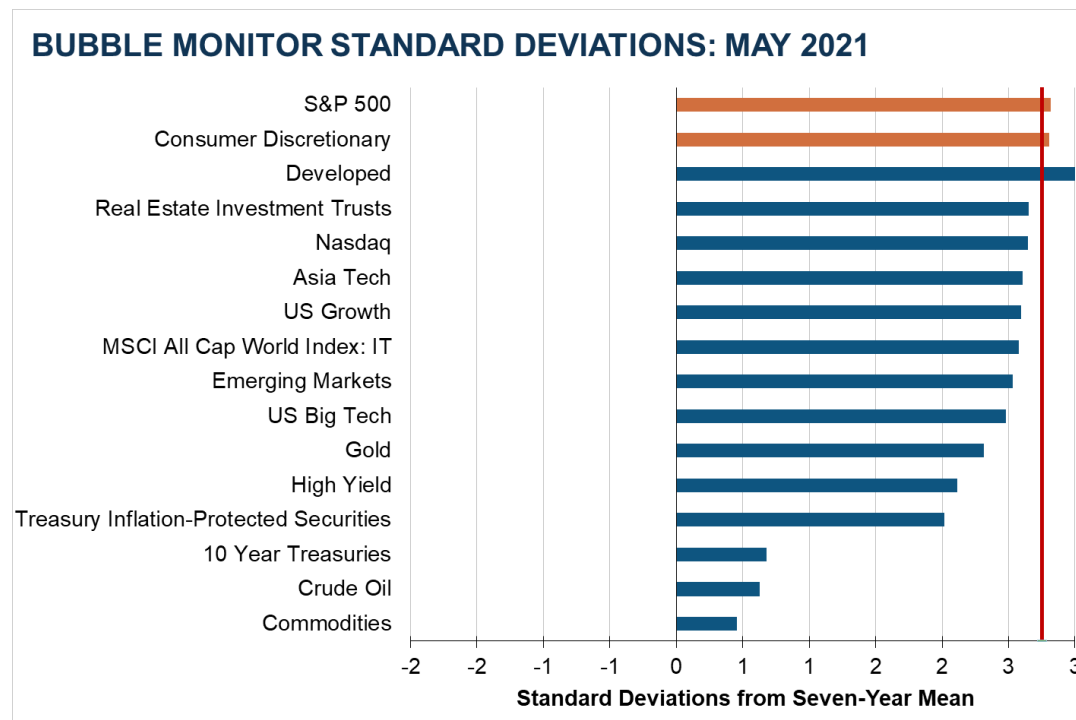
- Deliver new virtual desktop throughout UTIMCO
- Customer project reviews and prioritization
- Co-lead Barra Risk Analytics implementation project
- Complete Cyber Security E&Y agreed recommendations
- Prioritize software delivery



Financial Asset Bubble Monitor

As of May 31, 2021

Two criteria in the bubble monitor – over a 7y period: Standard Deviation > 2.75 (shown below) and 2x price appreciation



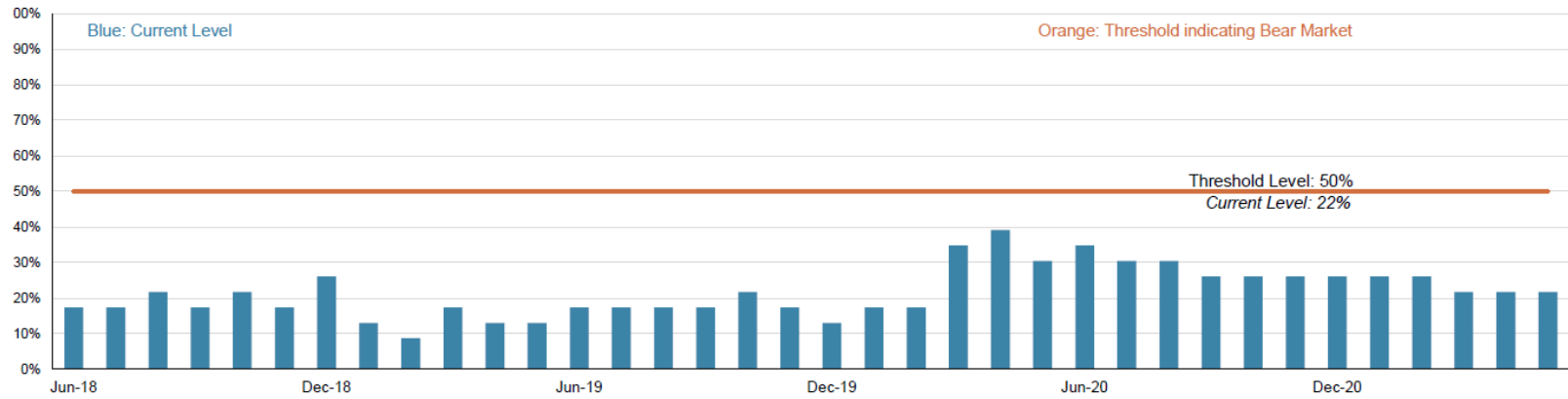
*To satisfy the second bubble criteria (2x price in last 7 years):
 - Gold would need to reach a price level of \$2,400
 - Treasury Inflation-Protected Security Index would need to appreciate 62%
 - 10y Treasuries Index would need to appreciate 56%



US Bear Market Indicator

As of May 31, 2021

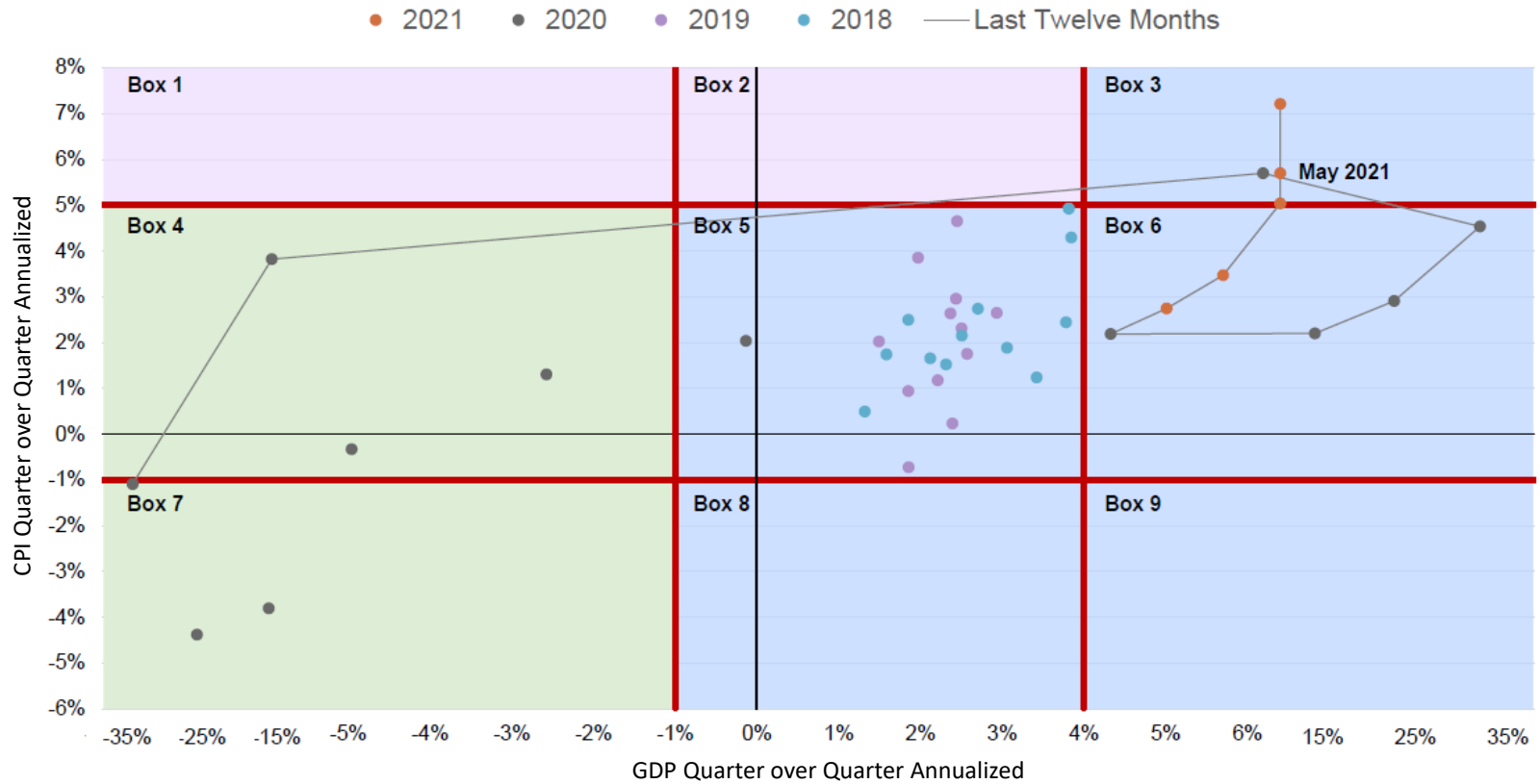
PERCENTAGE OF INDICATORS ON



	Total	Inflation	Employment	Growth	Credit	Market
June-20	8/23	1	4	2	1	0
July-20	7/23	0	5	1	1	0
August-20	7/23	0	5	1	1	0
September-20	6/23	0	4	1	1	0
October-20	6/23	0	4	1	1	0
November-20	6/23	0	4	1	1	0
December-20	6/23	0	4	1	1	0
January-21	6/23	0	4	1	1	0
February-21	6/23	0	4	1	1	0
March-21	5/23	1	3	0	1	0
April-21	5/23	3	1	0	1	0
May-21	5/23	3	1	0	1	0

Environmental Model: US Policy Signal

As of May 31, 2021



Economic Forecasts



Estimates as of 5/31/21

	Quarterly Real GDP		Real GDP		S&P 500 EPS		Unemployment		Core PCE	
	Q2	Q3	2021	2022	2021	2022	2021	2022	2021	2022
Applied Global Macro Research	11.4%	13.3%	9.4%	3.4%	\$187		3.8%	3.0%	2.5%	2.3%
Barclays	11.0%	8.0%	7.1%	3.8%	\$190		4.7%	4.1%	2.5%	1.9%
BofA	10.0%	9.0%	7.0%	5.5%	\$185	\$205	4.2%	3.5%	2.7%	2.3%
Citi	10.4%	4.7%	6.4%	3.3%	\$184	\$202	4.3%	3.7%	2.6%	2.4%
Credit Suisse	7.6%	11.7%	6.9%		\$200	\$215	4.8%		2.5%	
Goldman	9.5%	9.0%	7.0%	5.1%	\$193	\$202	4.0%	3.5%	2.5%	2.1%
International Strategy & Investment Group	10.0%	10.0%	8.0%	4.0%	\$182	\$245	4.0%	3.2%	2.5%	2.5%
JP Morgan	10.0%	8.3%	6.7%	4.1%	\$200	\$225	4.7%	4.0%	2.5%	2.0%
Morgan Stanley	10.8%	8.4%	8.0%	3.2%	\$189	\$200	5.0%	3.9%	2.4%	2.1%
UBS	8.0%	8.9%	7.9%	3.8%	\$206	\$232	4.7%	4.2%	3.0%	1.5%
Yardeni	9.0%	4.0%	6.1%		\$195	\$205	4.5%		2.3%	
Median	10.0%	8.9%	7.0%	3.8%	\$190	\$205	4.5%	3.7%	2.5%	2.1%
Average	9.8%	8.7%	7.3%	4.0%	\$192	\$215	4.4%	3.7%	2.5%	2.1%
Federal Open Markets Committee			6.5%	3.3%			4.5%	3.9%	2.2%	2.0%

	2019	2020	2019	2020	2019	2020	2019	2020
Prior Years	2.2%	-3.5%	\$163	\$140	3.6%	6.7%	1.6%	1.4%

11. U. T. System: Approval of a Master Services Agreement and Related Statements of Work with Vizient, Inc.

RECOMMENDATION

The Chancellor and the Executive Vice Chancellor for Health Affairs concur in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. System Board of Regents approve the U. T. System Master Services Agreement and related Statements of Work with Vizient, Inc.

BACKGROUND INFORMATION

The University of Texas System institutions rely heavily on external group purchasing organizations (GPOs) for resources and expertise to meet the institutions' needs for purchased goods and services. The use of GPOs achieves overall business efficiency by reducing procurement processing time and limiting the need to add procurement and contracting staff to manage the competitive procurement process. This achieves procurement cost savings that support the core missions of the institutions. It is essential for the largest U. T. System health institutions (U. T. Southwestern Medical Center, U. T. Medical Branch - Galveston and U. T. M. D. Anderson Cancer Center) to use a single, primary national healthcare GPO. This enables them to leverage their combined buying power to realize even deeper pricing discounts for medical and surgical supplies and pharmaceuticals than they could achieve with separate healthcare GPOs, and enables usage of common tools for identifying cost savings opportunities. Currently, annual aggregated spend by U. T. institutions through the incumbent GPO is \$1.93 billion.

GPO Spend July 2019 through June 2020 by Category and by U. T. System Institution			
Manufacturer Spend	\$ 803,433,222	U. T. Southwestern Medical Center	\$ 362,758,030
Medical/surgical Distributer Spend	\$ 124,420,448	U. T. Medical Branch - Galveston	\$ 172,577,813
Pharmacy Wholesaler Spend	\$ 926,321,021	U. T. M. D. Anderson Cancer Center	\$ 1,318,838,848
Miscellaneous, Non-acute and Academic	\$ <u>71,300,713</u>	Other U. T. System Institutions	\$ <u>71,300,713</u>
	\$ 1,925,475,404		\$ 1,925,475,404

U. T. System's Supply Chain Alliance (Alliance) facilitated a request for proposal (RFP) for national healthcare GPO services. Vizient, Inc. (Vizient), the largest national healthcare GPO, responded with significant financial benefits and robust technology tools that will improve patient outcomes and lower costs to UTSWMC, UTMB, and UTMDACC.

Vizient's CEO also has agreed to leverage Vizient's existing community contracting program to help certified, diverse (minority, women, veteran, etc.) suppliers connect with local hospitals. The U. T. System Office of Historically Underutilized Businesses (HUBs), and all the institutional HUB offices, will work with Vizient to identify, recruit, and grow new Texas HUB suppliers across U. T. System.

The University of Texas System National Healthcare GPO Services

Scott C. Kelley, Ed.D., Executive Vice Chancellor for
Business Affairs

U. T. System Board of Regents Meeting
Finance and Planning Committee
August 2021



THE UNIVERSITY of TEXAS SYSTEM
THIRTEEN INSTITUTIONS. UNLIMITED POSSIBILITIES.

National Healthcare Group Purchasing Organization (GPO) Services

- Leverage member spend in competitive sourcing events to realize savings and efficiencies through aggregation with manufactures, distributors, and other vendors
- Offer technology tools and related services
- Offer consulting services focused on guaranteed savings through committed programs
- Compensated by supplier-paid administrative fees that are shared with members



Governance

- UTSWMC, UTMB and UTMDACC chief business officers (CBOs) authorized a request for proposal (RFP) in Fall 2020
- The U. T. System Supply Chain Alliance facilitated the RFP
- Multiple individuals from UTSWMC, UTMB and UTMDACC participated in the RFP evaluation phase
- CBOs reviewed final RFP evaluation scorecards to select Vizient, Inc. as U. T. System's national healthcare GPO
- U. T. System Executive Vice Chancellor for Health Affairs and Vizient's chief executive officer to meet regularly



Contract Award Rationale

- Vizient's culture is member-owned and member-driven
- Vizient's member base includes the majority of U.S. academic health centers
- Vizient's financial proposal (cash over five years) is **\$156M**, significantly higher than its primary competitor's proposal of \$103M, or the \$69M for extending the incumbent's term without an RFP for an additional five years
- Vizient is already an accredited GPO participant in the U. T. System GPO Accreditation Program



Contract Term, Value, and Benefits

- Maximum 10-year contract term
- \$21.5 billion spend through GPO contracts over 10 years
- U. T. institutions gain contracting efficiencies, cost savings, and cost avoidances by leveraging Vizient contracts
- Vizient's Supply Diversity program will work with institutional HUB programs to build new HUB supplier agreements while helping local communities through Community Contracting

