



THE UNIVERSITY OF TEXAS  
INVESTMENT MANAGEMENT COMPANY

## Recommended Investment Policy Changes

The University of Texas System Board of Regents  
December 6, 2007



## Context

- Asking Board of Regents to approve changes to Investment Policies
  - Permanent University Fund
  - General Endowment Fund
    - » Long Term Fund
    - » Permanent Health Fund
  - Intermediate Term Fund
  - Derivative Policy
  - Liquidity Policy
- UTIMCO Board, AVC for Finance and Chancellor support recommendations
- Result of four-month process involving
  - Board of Regents
  - UTIMCO Board
  - UT System (Finance, Audit, Legal)
  - Consultants
  - UTIMCO Staff
- Includes
  - Changes to Investment Strategy
  - Enhanced Transparency, Clarity and Reporting
  - Documented, Multi-Level Approval Processes



## Investment Strategy Highlights

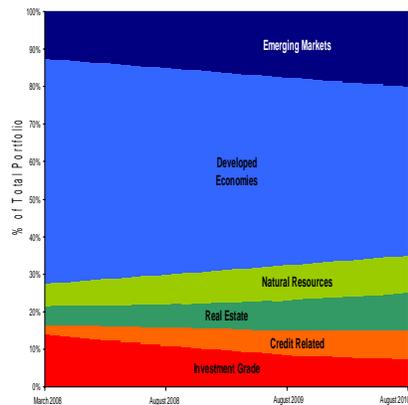
- Increased allocation to Less Correlated and Constrained Mandates (28% of total assets increasing to 33% of total assets)
- Greater exposure to Emerging Markets
- Pursuit of broad range of natural resources investments
- Gradual increase in Private Investments (Projected 12% of total assets in February 2008 increasing to 17.5% in July 2010)
  - Private Real Estate Equity Fund Investments
  - Natural Resources, Emerging Market and Distressed/Opportunistic Strategies
- Illiquidity increased, but liquidity remains ample

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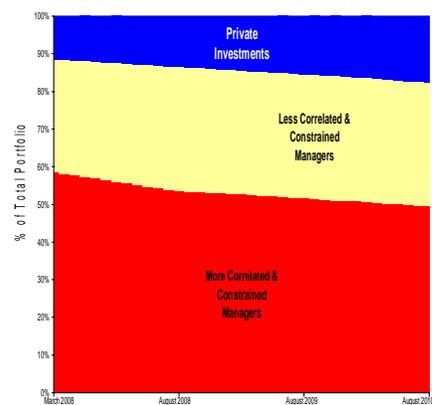


## Asset Class and Investment Type Allocation

By Asset Class



By Investment Type



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## Less Correlated and Constrained Managers

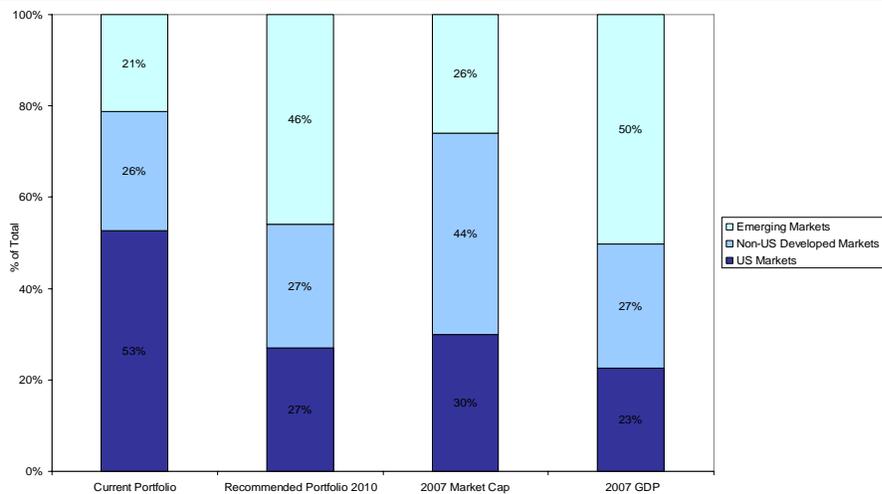
Strategy	No. of Mgrs	AUMs (billions)	Exposures				Representative Managers
			Long	Short	Net	Gross	
Long/Short Equity	21	\$ 2.5	136%	(122%)	14%	258%	Maverick
High Yield/Disstressed	4	0.2	128%	(43%)	84%	171%	Silverpoint
Arbitrage/Relative Value	5	0.8	404%	(436%)	(38%)	840%	Bridgewater, BGI
Multi-Strategy	12	2.5	151%	(84%)	67%	235%	Farallon, Perry
<b>Total/Average</b>	<b>42</b>	<b>\$ 6.0</b>	<b>177%</b>	<b>(145%)</b>	<b>32%</b>	<b>322%</b>	

Performance Periods Ending June 30, 2007	1 year	3 Year	5 Year	August 1998 Inception
Annualized Return	17.3%	12.5%	12.2%	11.1%
Benchmark Returns	9.4%	6.8%	6.1%	8.5%
Value-Add	7.9%	5.7%	6.1%	2.6%
Annualized Volatility	2.1%	3.1%	4.0%	5.6%
Correlation to Russell 3000	0.69	0.72	0.69	0.52
Correlation to Lehman Agg	(0.48)	(0.08)	0.04	0.04

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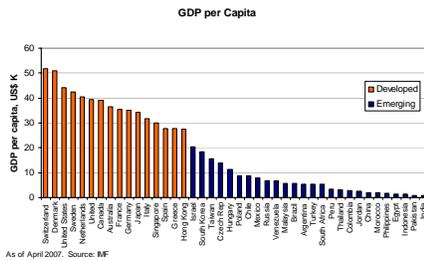
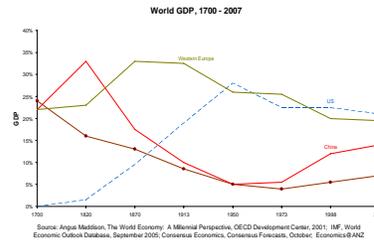
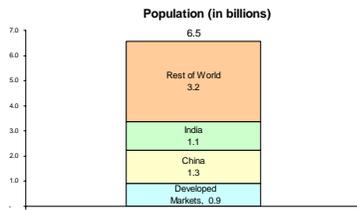
## Equity Asset Classes Weights



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# Emerging Market Trends



Emerging Market Economies	1998	2005
GDP Growth	2.4%	6.7%
Current Account (% of GDP)	-0.8%	4.1%
Fiscal Deficit (% of GDP)	4.6%	0.7%
Inflation	11.8%	5.0%
External Debt (% of GDP)	49.0%	37.0%

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# Natural Resources

- Numerous asset categories (e.g., oil, gas, water, agriculture, timber, livestock, metals, minerals, etc)
- Global growth driving significant increases in real demand
  - Food, clothing, transportation, housing
  - China currently accounts for 10-35% of world demand for various resources. If Chinese growth slows to 6-8% per year and all else remains flat, real global demand is projected to increase 35-140% per year depending on the natural resource
- Capital Intensive supply chain with decades of underinvestment

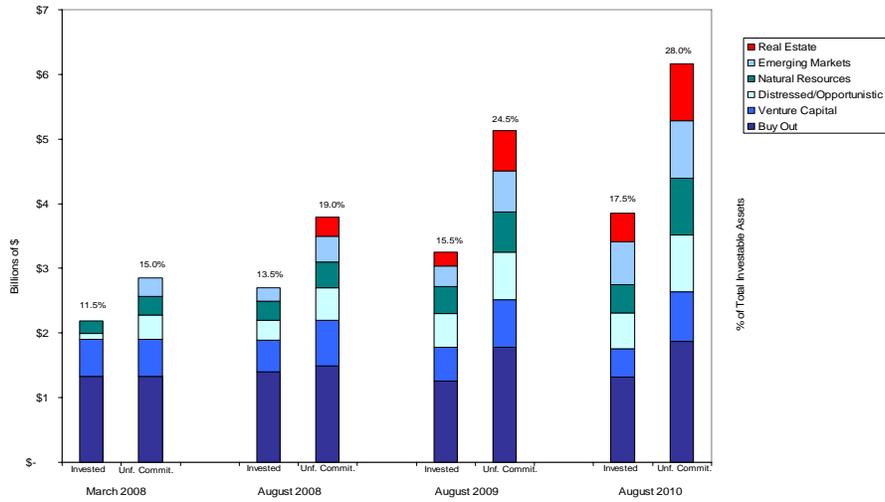


- Current prices are high in recent/nominal terms but not in historical/real terms

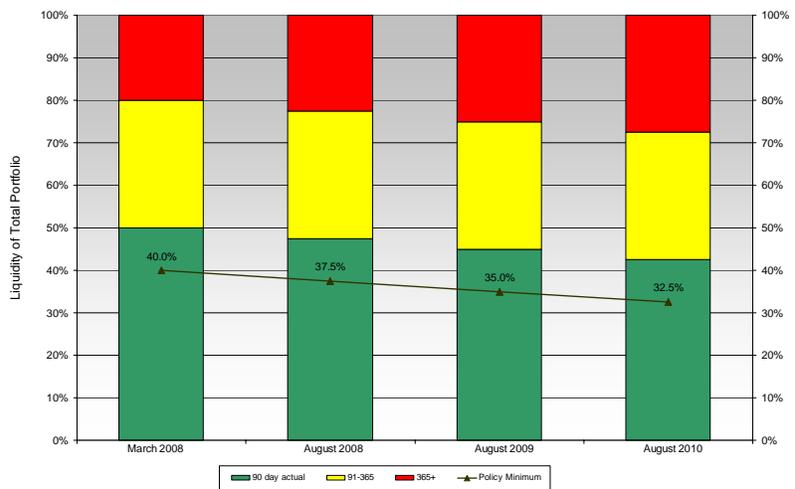
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# Private Investments



# Liquidity of the Endowment Funds





## Enhanced Transparency, Clarity and Reporting

- Asset Classes and Investment Types

Asset Classes

- \* Investment Grade Fixed Income
- \* Credit-Related Fixed Income
- \* Real Estate
- \* Natural Resources
- \* Developed Country Equity
- \* Emerging Markets Equity

Investment Types

- \* More Correlated and Constrained Mandate
- \* Less Correlated and Constrained Mandate
- \* Private Investments

- Derivative exposures explicitly included within Asset Class Ranges
- Risk Limits narrowed and explicitly included in Investment Policies

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## Documented, Multi-Level Approval Processes

- Mandate Categorization Procedure
  - Guidelines
  - Documented Process
  - Risk Committee Review
- Delegation of Authority Policy clarification
- Independent Chief Compliance Officer Responsibilities
- Specific, Explicit UTIMCO Board, Risk Committee and Audit & Ethics Committees' Roles

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## March 2008

March 2008		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	Investment Grade	<b>Lehman Brothers Global Agg (11.0%)</b>	3.0%	0.0%	14.0%
	Credit-Related	<b>Lehman Brothers Global High Yield (1.5%)</b>	0.5%	0.5%	2.5%
Real Assets	Real Estate	<b>NAREIT Equity Index (4.0%)</b>	0.0%	0.0%	5.0%
	Natural Resources	<b>DJ-AIG Commodity Index Total Return (5.0%)</b>	1.0%	1.0%	6.0%
Equity	Developed Country	<b>MSCI World Index with Net Dividends (27.5%)</b>	22.5%	10.0%	60.0%
	Emerging Markets	<b>MSCI EM Index with Net Dividends (9.5%)</b>	3.0%	0.0%	12.5%
<b>Total</b>		<b>58.5%</b>	<b>30.0%</b>	<b>11.5%</b>	<b>100.0%</b>

\* Investment Policy Targets = Bold Black

\*\* Reportable Targets = Gray

	MSCI Investable Hedge Fund Index
	Venture Economics Customer Index

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## August 2008

FYE 2008		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	Investment Grade	<b>Lehman Brothers Global Agg (8.5%)</b>	2.5%	0.0%	11.0%
	Credit-Related	<b>Lehman Brothers Global High Yield (1.5%)</b>	2.0%	1.5%	5.0%
Real Assets	Real Estate	<b>NAREIT Equity Index (5.5%)</b>	0.5%	0.0%	6.0%
	Natural Resources	<b>DJ-AIG Commodity Index Total Return (5.0%)</b>	1.5%	1.5%	8.0%
Equity	Developed Country	<b>MSCI World Index with Net Dividends (22.0%)</b>	23.5%	9.5%	55.0%
	Emerging Markets	<b>MSCI EM Index with Net Dividends (11.0%)</b>	3.0%	1.0%	15.0%
<b>Total</b>		<b>53.5%</b>	<b>33.0%</b>	<b>13.5%</b>	<b>100.0%</b>

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\*\* Reportable Targets = Gray

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	Venture Economics Customer Index

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## August 2009

FYE 2009		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	Investment Grade	Lehman Brothers Global Agg (6.5%)	2.0%	0.0%	8.5%
	Credit-Related	Lehman Brothers Global High Yield (1.5%)	2.5%	2.5%	6.5%
Real Assets	Real Estate	NAREIT Equity Index (6.5%)	0.5%	1.0%	8.0%
	Natural Resources	DJ-AIG Commodity Index Total Return (6.0%)	1.5%	2.0%	9.5%
Equity	Developed Country	MSCI World Index with Net Dividends (18.0%)	23.5%	0.5%	50.0%
	Emerging Markets	MSCI EM Index with Net Dividends (13.0%)	3.0%	1.5%	17.5%
<b>Total</b>		<b>51.5%</b>	<b>33.0%</b>	<b>15.5%</b>	<b>100.0%</b>

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## August 2010

FY 2010		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	Investment Grade	Lehman Brothers Global Agg (4.5%)	3.0%	0.0%	7.5%
	Credit-Related	Lehman Brothers Global High Yield (2.0%)	3.0%	2.5%	7.5%
Real Assets	Real Estate	NAREIT Equity Index (7.0%)	1.0%	2.0%	10.0%
	Natural Resources	DJ-AIG Commodity Index Total Return (6.0%)	2.0%	2.0%	10.0%
Equity	Developed Country	MSCI World Index with Net Dividends (16.0%)	21.0%	8.0%	45.0%
	Emerging Markets	MSCI EM Index with Net Dividends (14.0%)	3.0%	1.0%	20.0%
<b>Total</b>		<b>49.5%</b>	<b>33.0%</b>	<b>17.5%</b>	<b>100.0%</b>

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