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FOR  
FINANCE AND PLANNING COMMITTEE**

**Committee Meeting:** 11/5/2014

**Board Meeting:** 11/6/2014  
El Paso, Texas

*Jeffery D. Hildebrand, Chairman  
Alex M. Cranberg  
Wallace L. Hall, Jr.  
Brenda Pejovich  
Wm. Eugene Powell*

	<b>Committee Meeting</b>	<b>Board Meeting</b>	<b>Page</b>
<b>Convene</b>	<i>4:00 p.m. Chairman Hildebrand</i>		
1. <b>U. T. System Board of Regents: Discussion and appropriate action regarding Consent Agenda items, if any, referred for Committee consideration</b>	<i>4:01 p.m. <b>Action</b></i>	<b>Action</b>	<b>60</b>
2. <b>U. T. System: Key Financial Indicators Report</b>	<i>4:02 p.m. <b>Report/Discussion</b> Dr. Kelley</i>	Not on Agenda	<b>61</b>
3. <b>U. T. System Board of Regents: Update on activities of the University Lands Advisory Board</b>	<i>4:15 p.m. <b>Report/Discussion</b> Regent Cranberg Dr. Kelley</i>	Not on Agenda	<b>70</b>
4. <b>U. T. System Board of Regents: The University of Texas Investment Management Company (UTIMCO) Performance Summary Report and Investment Reports for the year and quarter ended August 31, 2014</b>	<i>4:40 p.m. <b>Report/Discussion</b> Mr. Zimmerman</i>	<b>Report</b>	<b>71</b>
<b>Adjourn</b>	<i>5:00 p.m.</i>		

1. **U. T. System Board of Regents: Discussion and appropriate action regarding Consent Agenda items, if any, referred for Committee consideration**

RECOMMENDATION

The proposed Consent Agenda is located at the back of the book.

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

INTRODUCTION

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

REPORT

The Key Financial Indicators Report compares the Systemwide quarterly results of operations, key revenues and expenses, reserves, and key financial ratios in a graphical presentation from Fiscal Year 2010 through July 2014. Ratios requiring balance sheet data are provided for Fiscal Year 2009 through Fiscal Year 2013.


















# **THE UNIVERSITY OF TEXAS SYSTEM**



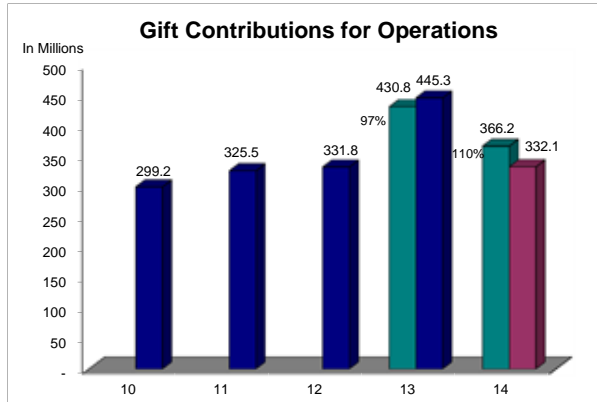
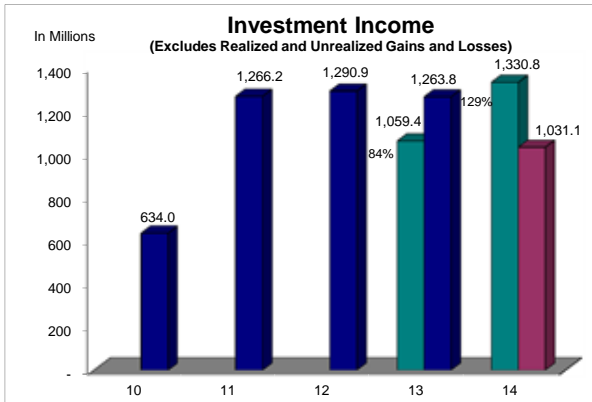
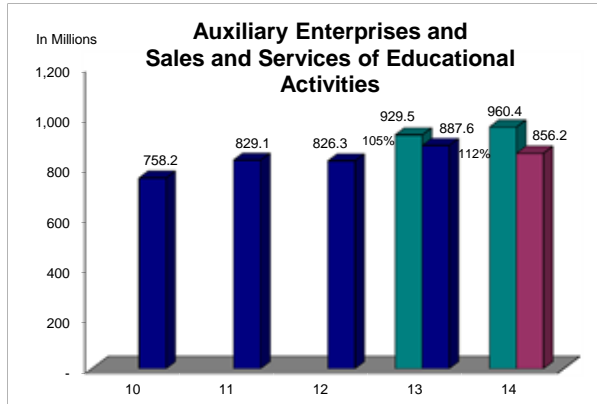
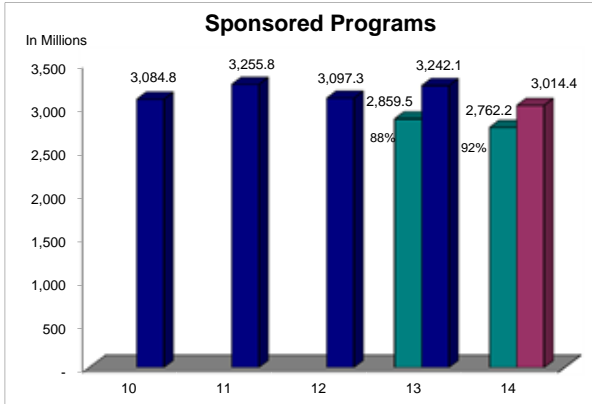
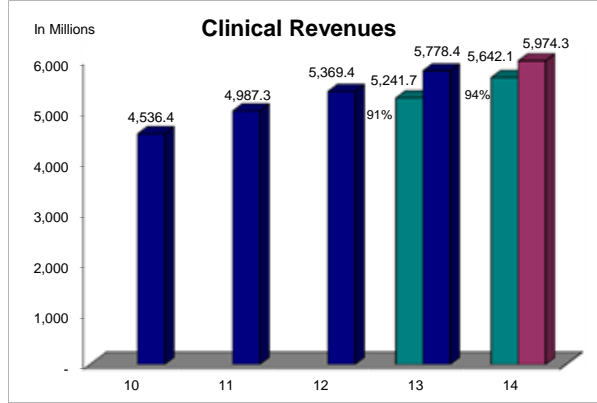
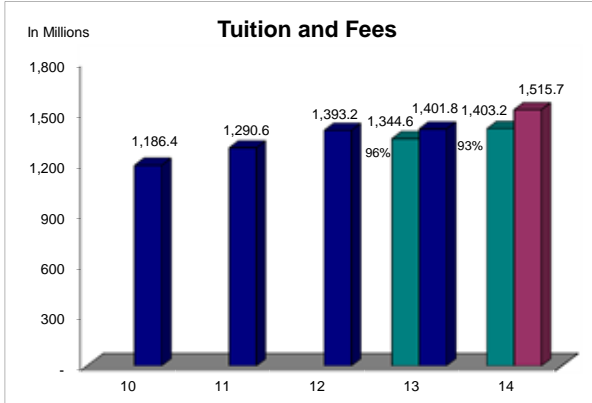
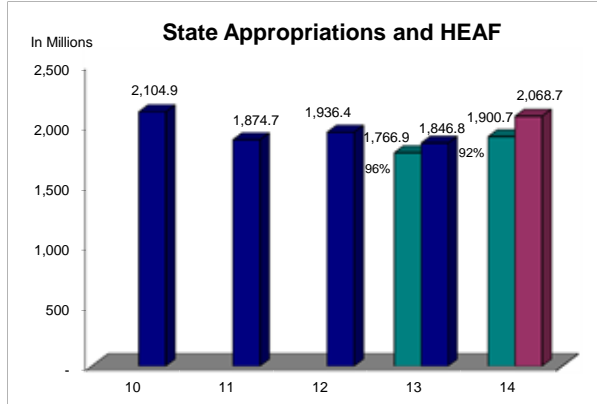
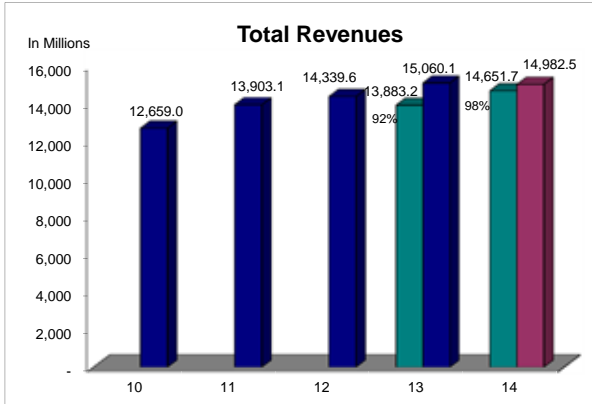
## **KEY FINANCIAL INDICATORS REPORT**

**JULY 2014**

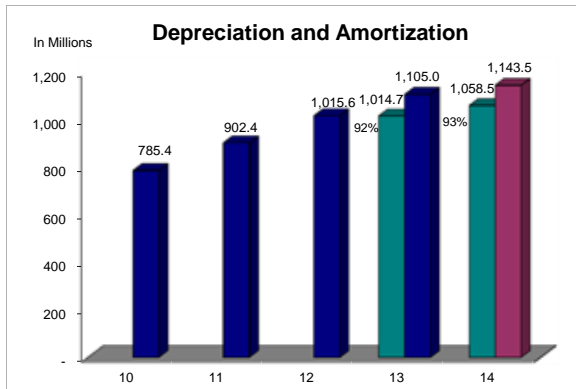
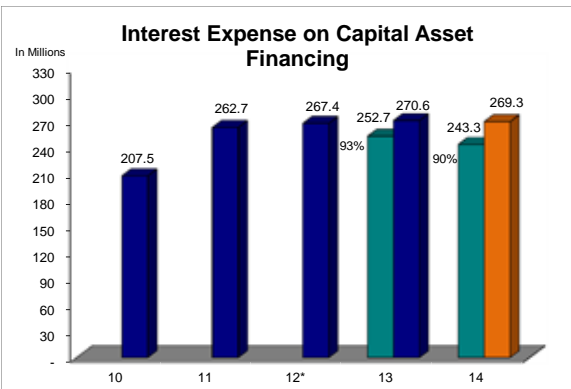
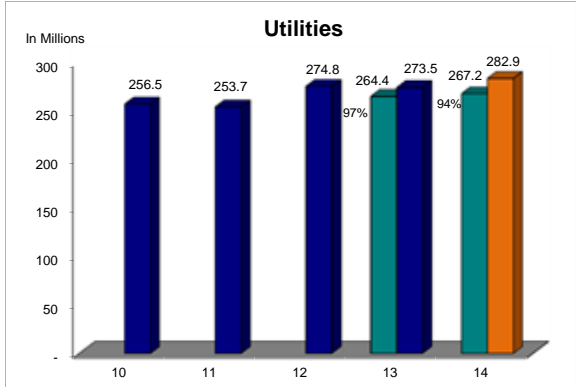
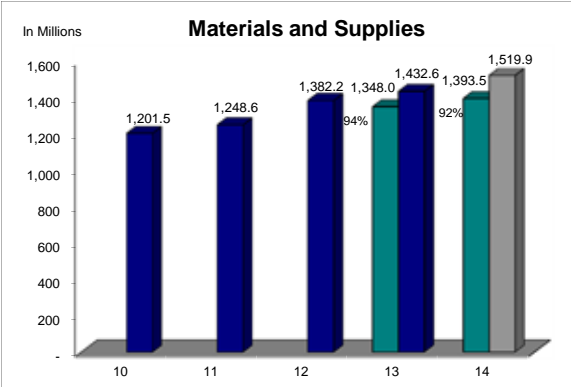
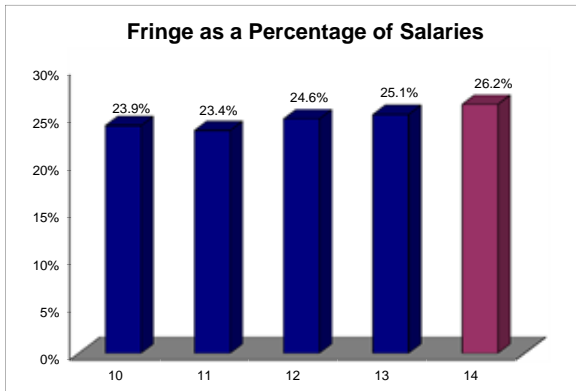
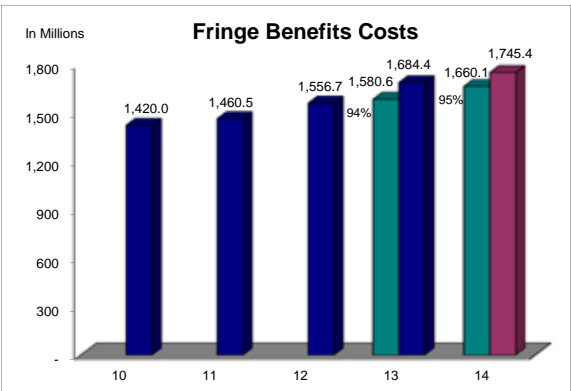
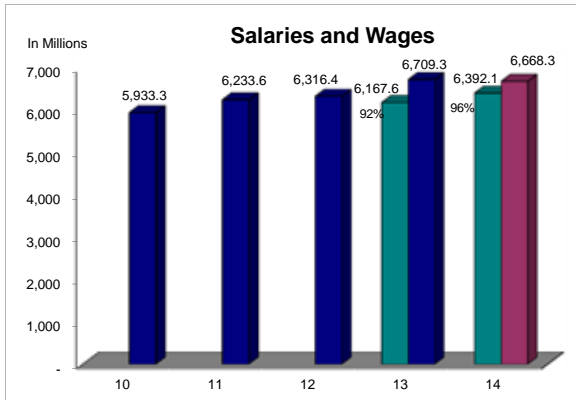
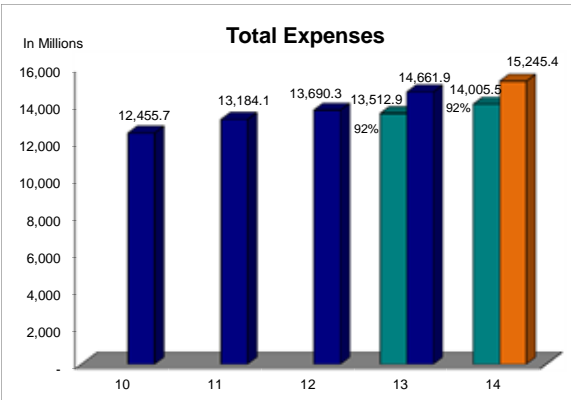
KEY

-  **Actual Annual Amounts**  
(SOURCE: Annual Financial Reports)
-  **Adjustment to Actual Annual Amounts to exclude the Increase in Net OPEB Obligation**  
(SOURCE: Annual Financial Reports)
-  **Budget amounts**  
(SOURCE: Operating Budget Summary)
-  **Projected Amounts based on the average change of the previous three years of data**
-  **Monthly Financial Report Year-to-Date Amounts**
-  **Annual State Net Revenue Collections**  
(SOURCE: Texas Revenue History by Source and Texas Net Revenue by Source, State Comptroller's Office)
-  **Year-to-Date State Net Revenue Collections**  
(SOURCE: State Comptroller's Office)
-  **Estimated State Revenue Collections**  
(SOURCE: Biennial Revenue Estimate, State Comptroller's Office)
-  **Annual and Quarterly Average of FTEs**  
(SOURCE: State Auditor's Office Quarterly FTE Report)
-  **Year-to-Date Margin**  
(SOURCE: Monthly Financial Report)
-  **Projected Amounts based on Monthly Financial Report**
-  **Year-to-Date Margin**  
(SOURCE: Monthly Financial Report)
-  **Target Normalized Rates**
-  **Aaa Median**  
(SOURCE: Moody's)
-  **A2 Median**  
(SOURCE: Moody's)
-  **Good Facilities Condition Index (Below 5%)**
-  **Fair Facilities Condition Index (5% - 10%)**

**KEY INDICATORS OF REVENUES  
ACTUAL 2010 THROUGH 2013  
PROJECTED 2014  
YEAR-TO-DATE 2013 AND 2014 FROM JULY MONTHLY FINANCIAL REPORT**

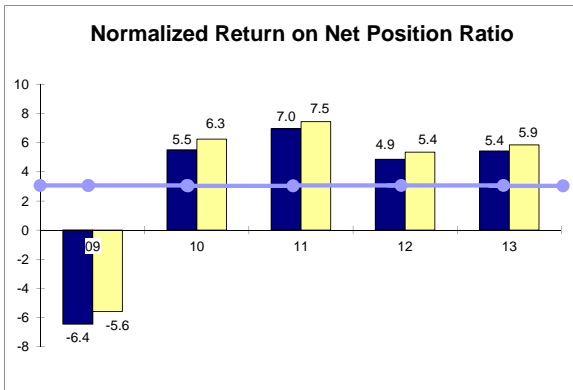
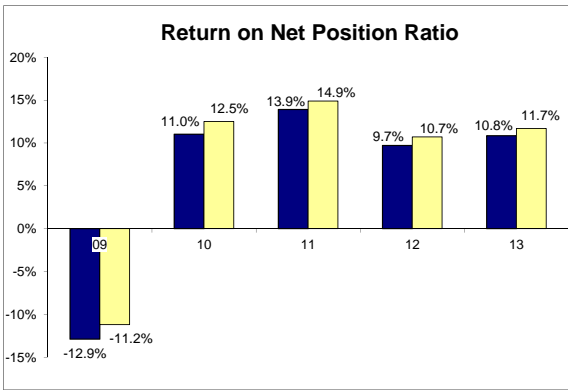
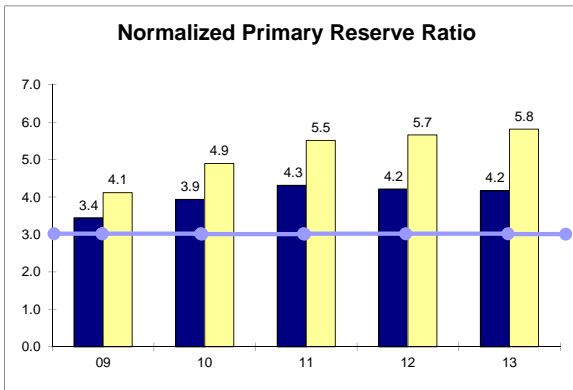
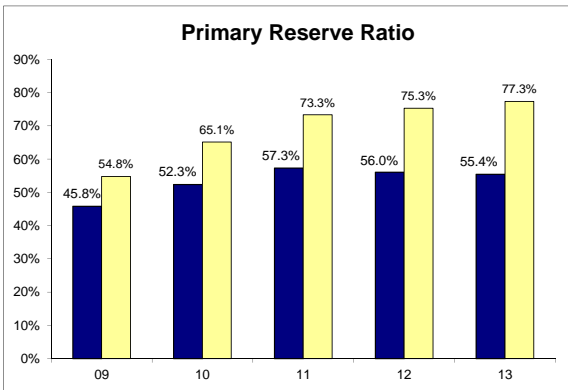
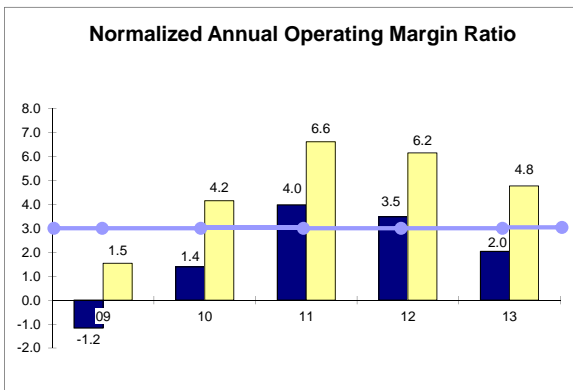
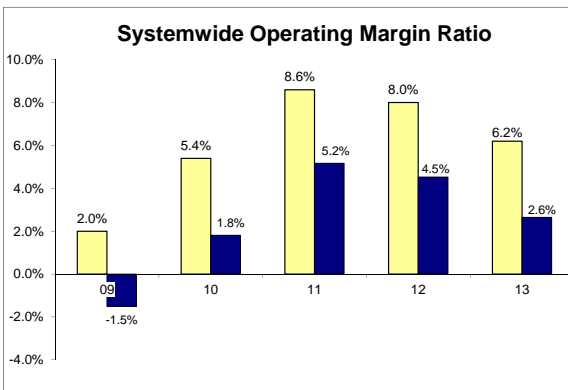
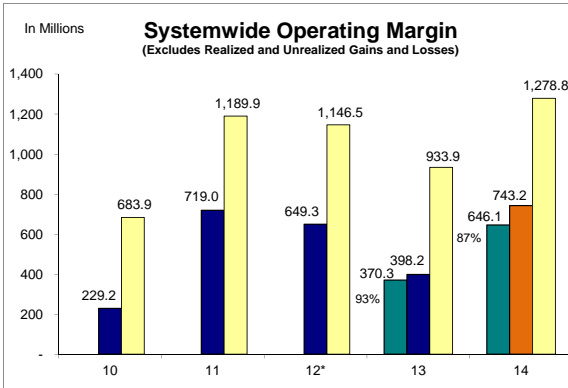


**KEY INDICATORS OF EXPENSES**  
**ACTUAL 2010 THROUGH 2013**  
**PROJECTED 2014**  
**YEAR-TO-DATE 2013 AND 2014 FROM JULY MONTHLY FINANCIAL REPORT**



\*Restated from prior year reports.

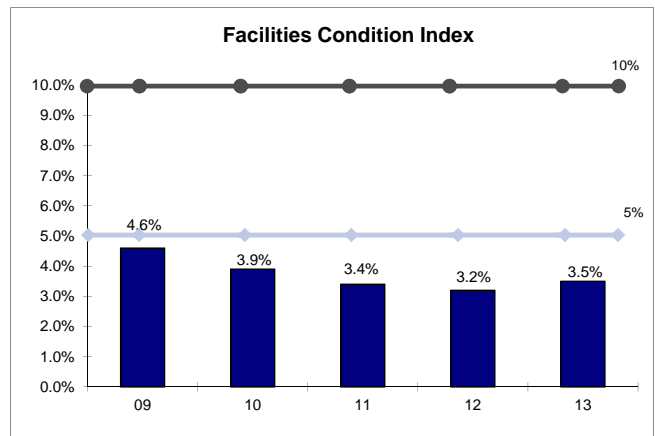
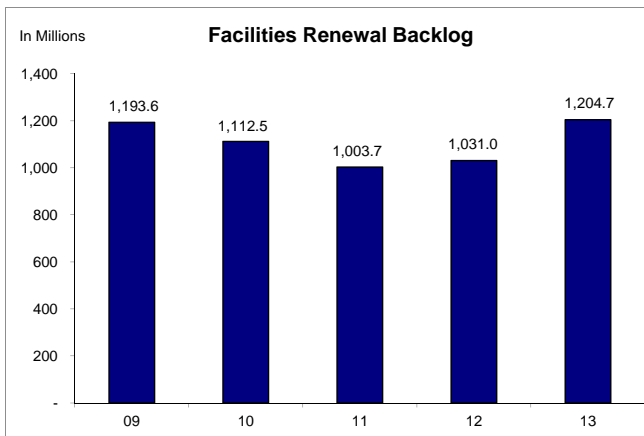
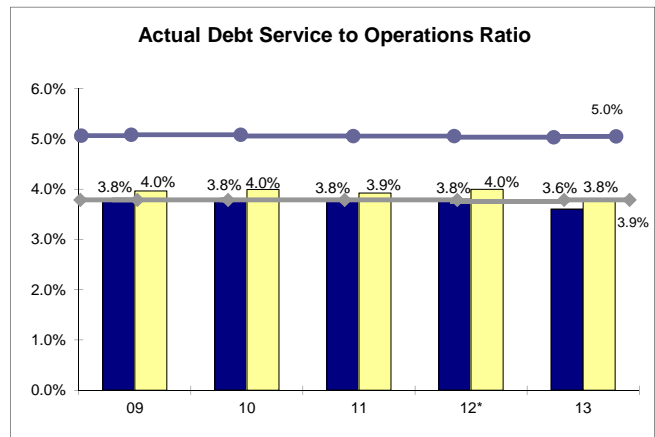
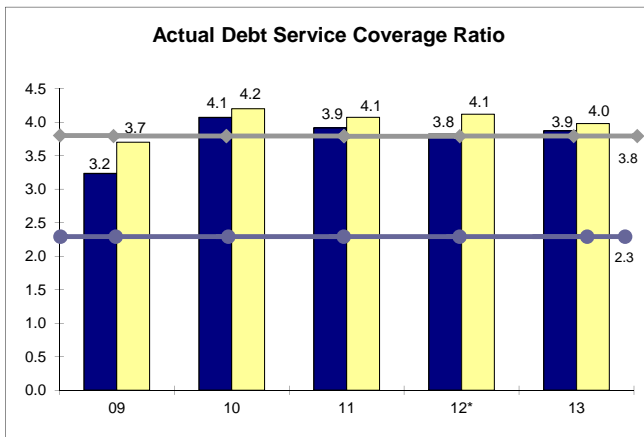
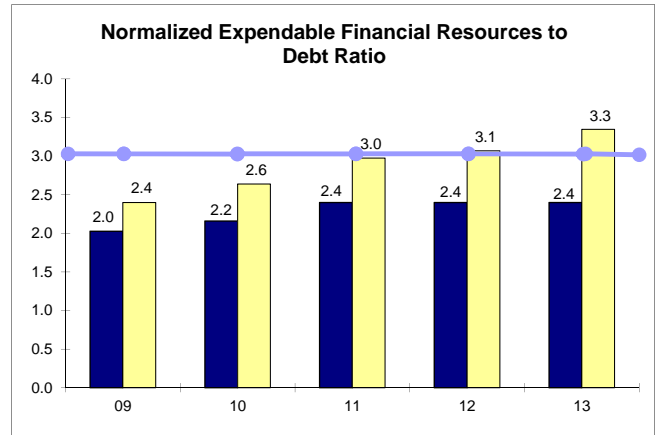
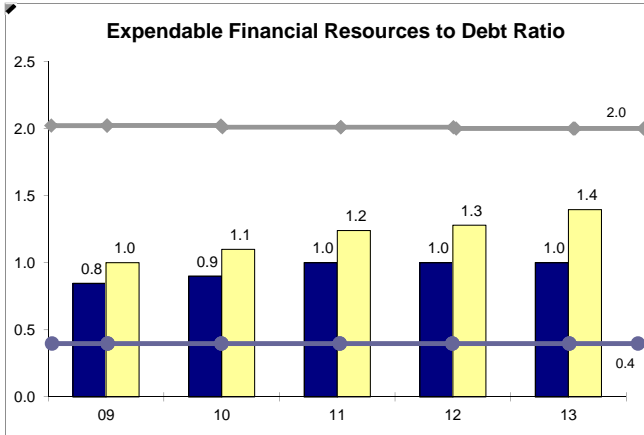
**KEY INDICATORS OF RESERVES**  
**ACTUAL 2009 THROUGH 2013**  
**PROJECTED 2014**  
**YEAR-TO-DATE 2013 AND 2014 FROM JULY MONTHLY FINANCIAL REPORT**



\*Restated from prior year reports.

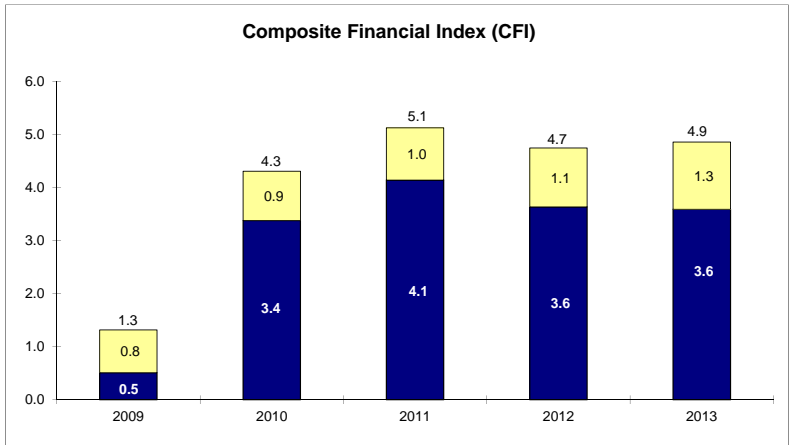


## KEY INDICATORS OF CAPITAL NEEDS AND CAPACITY 2009 THROUGH 2013

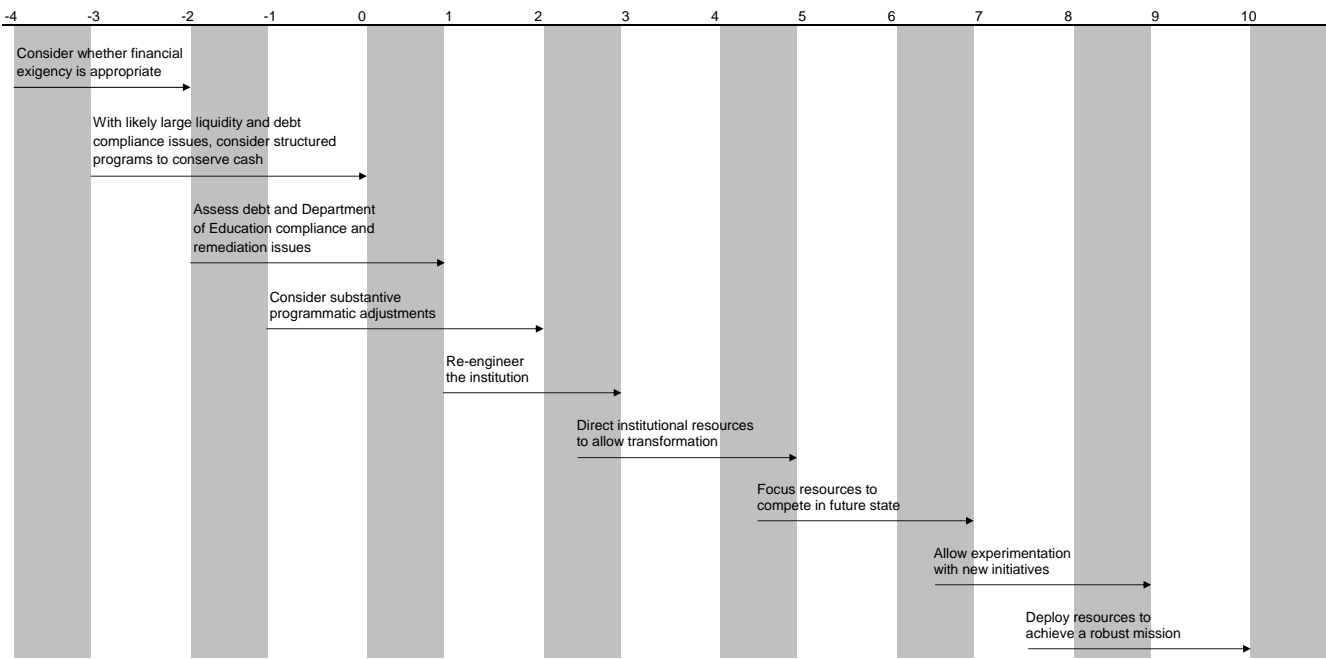


\*Restated from prior year reports.

**KEY INDICATORS OF FINANCIAL HEALTH  
2009 THROUGH 2013**

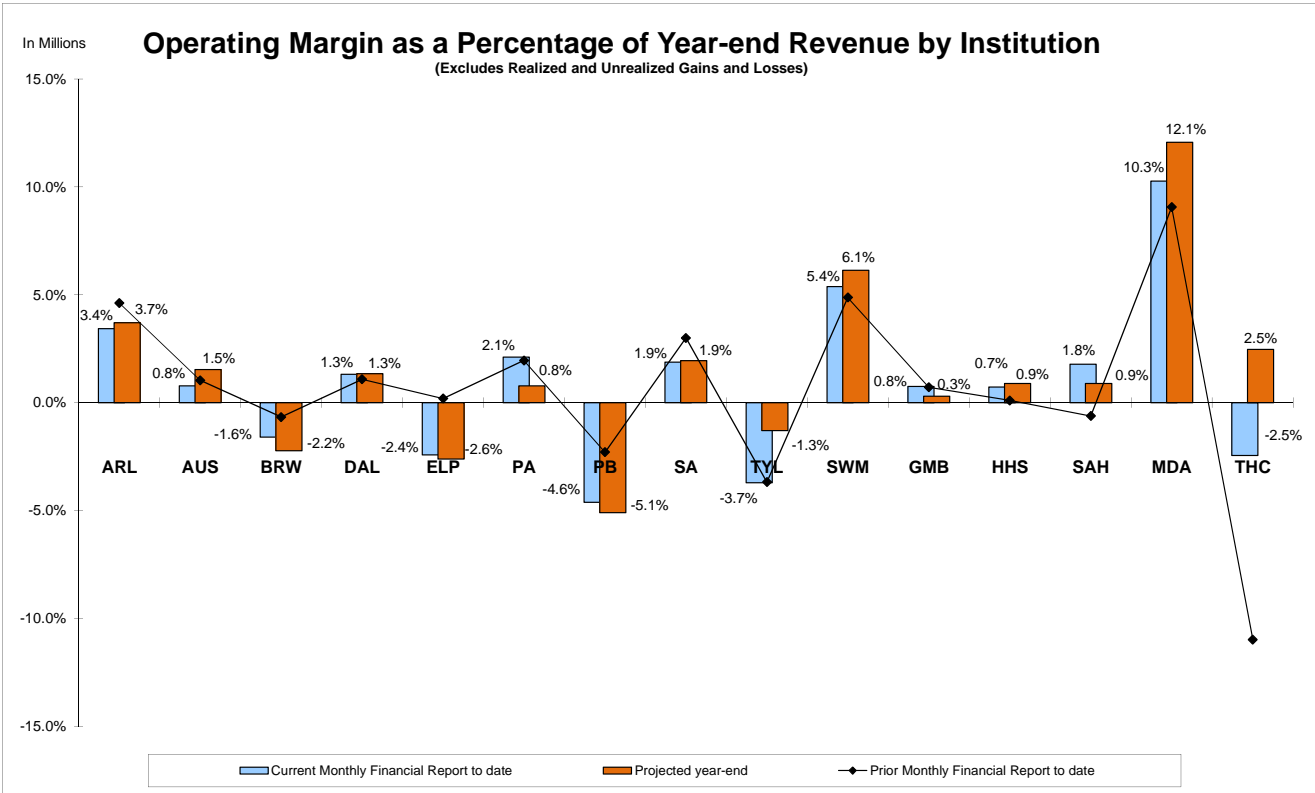
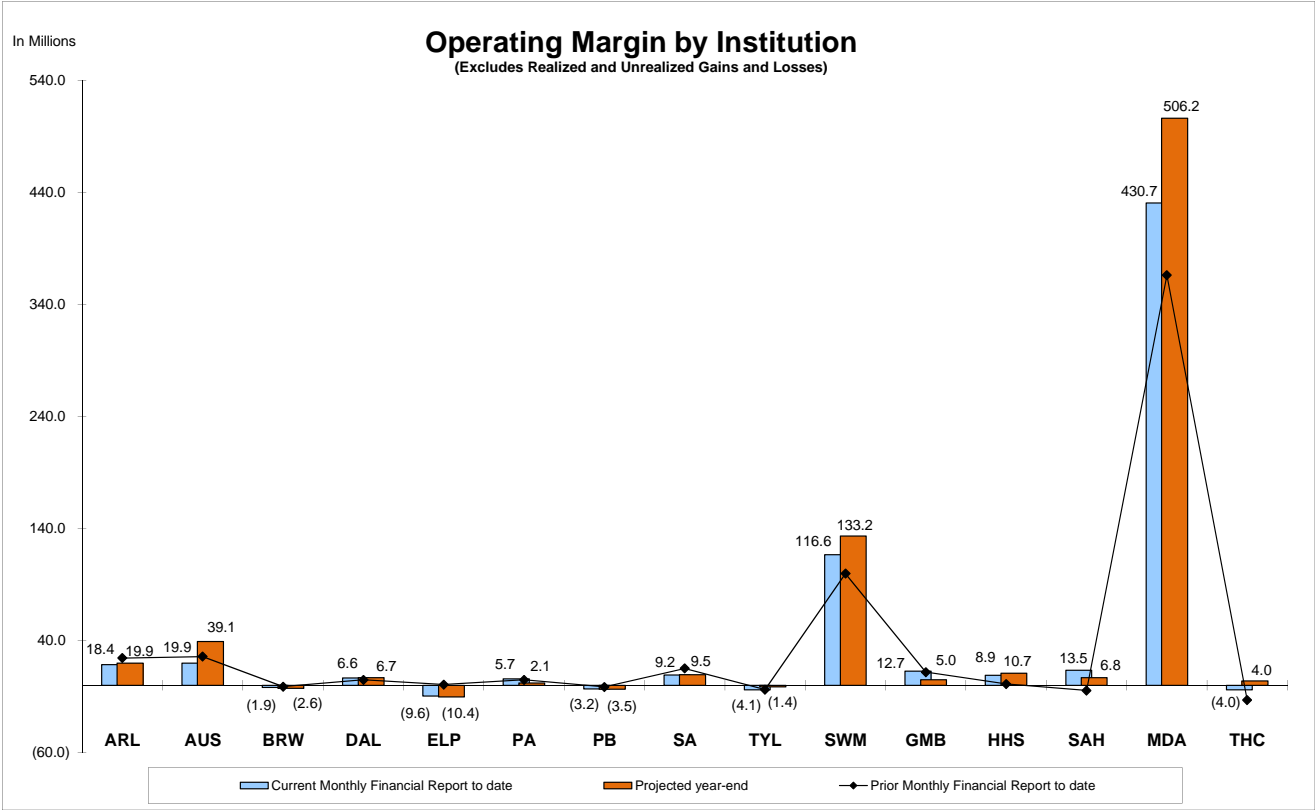


**Scale for Charting CFI Performance**



Source: Strategic Financial Analysis for Higher Education, Seventh Edition

## KEY INDICATORS OF RESERVES YEAR-TO-DATE 2013 AND 2014 FROM JULY MONTHLY FINANCIAL REPORT PROJECTED 2014 YEAR-END MARGIN



3. **U. T. System Board of Regents: Update on activities of the University Lands Advisory Board**

REPORT

Regent Cranberg, Chairman of the University Lands Advisory Board (ULAB), and Executive Vice Chancellor Kelley will present an update on activities related to the ULAB.

BACKGROUND INFORMATION

The ULAB was established by the Board of Regents on May 15, 2014, and the Regents' *Rules and Regulations*, Rule 10402, regarding Committees and Other Appointments, was subsequently editorially amended to include the ULAB.

On July 10, 2014, the U. T. System Board of Regents appointed the following members to the ULAB:

For terms of two years:

- Regent Cranberg, who has agreed to serve as Chairman;
- Regent Hildebrand; and
- The Texas A&M University System Regent Morris Foster.

For terms of three years:

- Mr. Thomas L. Carter, Jr., President, CEO, and Chairman of Black Stone Minerals Company LP; and
- Mr. Frank D. Tsuru, CEO and President of M3Midstream LLC.

Executive Vice Chancellor for Business Affairs Scott Kelley serves as an ex officio, nonvoting member.

ULAB members advise the Board on operations and management of the University Lands Office, including hiring the University Lands Chief Executive, reviewing and recommending budgets to the Board, and providing strategic direction.

4. **U. T. System Board of Regents: The University of Texas Investment Management Company (UTIMCO) Performance Summary Report and Investment Reports the year and quarter ended August 31, 2014**

REPORT

The August 31, 2014 UTIMCO Performance Summary Report is attached on [Page 72](#).

The Investment Reports for the fiscal year and quarter ended August 31, 2014, are set forth on [Pages 73 - 76](#).

Item I on [Page 73](#) reports activity for the Permanent University Fund (PUF) investments. The PUF's net investment return for the fiscal year was 15.11% versus its composite benchmark return of 14.19%. The PUF's net asset value increased by \$2,512 million since the beginning of the year to \$17,365 million. The increase was due to \$1,129 million PUF Lands receipts, plus a net investment return of \$2,260 million, less the annual distribution to the Available University Fund (AUF) of \$877 million.

Item II on [Page 74](#) reports activity for the General Endowment Fund (GEF) investments. The GEF's net investment return for the fiscal year was 14.73% versus its composite benchmark return of 14.19%. The GEF's net asset value increased by \$929 million during the fiscal year to \$8,325 million.

Item III on [Page 75](#) reports activity for the Intermediate Term Fund (ITF). The ITF's net investment return for the fiscal year was 10.45% versus its composite benchmark return of 9.79%. The net asset value increased during the fiscal year to \$6,665 million due to net investment return of \$610 million, plus net contributions of \$721 million, less distributions of \$186 million.

All exposures were within their asset class and investment type ranges. Liquidity was within policy.

Item IV on [Page 76](#) presents book and market values of cash, debt, equity, and other securities held in funds outside of internal investment pools. Total cash and equivalents, consisting primarily of institutional operating funds held in the Dreyfus and Fidelity money market fund, increased by \$47 million to \$2,257 million during the three months since the last reporting period. Market values for the remaining asset types were debt securities: \$21 million versus \$21 million at the beginning of the period; equities: \$81 million versus \$89 million at the beginning of the period; and other investments: \$10 million versus \$1 million at the beginning of the period.

## UTIMCO Performance Summary

August 31, 2014

	Net Asset Value 8/31/2014 (in Millions)	Periods Ended August 31, 2014 (Returns for Periods Longer Than One Year are Annualized)							
		Short Term		Year to Date		Historic Returns			
		1 Mo	3 Mos	Fiscal	Calendar	1 Yr	3 Yrs	5 Yrs	10 Yrs
<b>ENDOWMENT FUNDS</b>									
Permanent University Fund	\$ 17,365	1.94%	2.86%	15.11%	8.28%	15.11%	8.93%	10.86%	7.93%
Permanent Health Fund	1,113								
Long Term Fund	7,212								
General Endowment Fund	<u>25,690</u>	1.86%	2.79%	14.73%	7.78%	14.73%	8.89%	10.86%	7.98%
Separately Invested Funds	<u>170</u>								
Total Endowment Funds	<u>25,860</u>								
<b>OPERATING FUNDS</b>									
Intermediate Term Fund	6,665	1.30%	1.69%	10.45%	5.11%	10.45%	6.07%	8.10%	N/A
Short Term Fund and Debt Proceeds Fund	2,199								
Total Operating Funds	<u>8,864</u>								
Total Assets Under Management	<u>\$ 34,724</u>								
<b>VALUE ADDED (1) (Percent)</b>									
Permanent University Fund		0.61%	0.29%	0.92%	0.87%	0.92%	0.71%	1.79%	1.78%
General Endowment Fund		0.53%	0.22%	0.54%	0.37%	0.54%	0.67%	1.79%	1.83%
Intermediate Term Fund		0.28%	0.21%	0.66%	0.41%	0.66%	1.64%	2.44%	N/A
<b>VALUE ADDED (\$ IN MILLIONS)</b>									
Permanent University Fund		\$105	\$49	\$139	\$141	\$139	\$334	\$1,285	\$2,535
General Endowment Fund		44	18	39	29	39	159	701	1,424
Intermediate Term Fund		19	13	41	27	41	272	616	-
Total Value Added		<u>\$168</u>	<u>\$80</u>	<u>\$219</u>	<u>\$197</u>	<u>\$219</u>	<u>\$765</u>	<u>\$2,602</u>	<u>\$3,959</u>

Footnote available upon request.

UTIMCO 10/28/2014

**I. PERMANENT UNIVERSITY FUND**  
**Investment Reports for Periods Ended August 31, 2014**

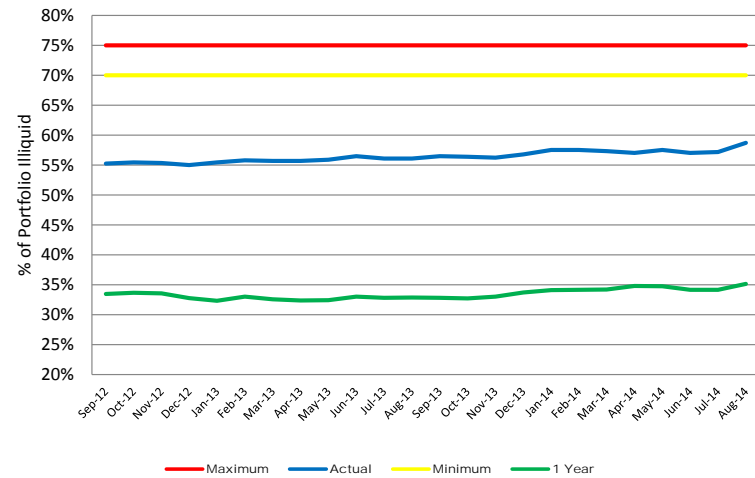
Prepared in accordance with *Texas Education Code Sec. 51.0032*

	Fiscal Year to Date						
	Asset Allocation		Returns		Value Added		
	Actual	Policy	Portfolio	Policy Benchmark	Tactical Allocation	Active Management	Total
<b>More Correlated and Constrained:</b>							
Investment Grade	6.6%	7.5%	2.69%	6.24%	-0.22%	-0.15%	-0.37%
Credit-Related	0.1%	0.0%	18.55%	11.24%	0.01%	-0.01%	0.00%
Real Estate	2.5%	2.5%	18.77%	19.41%	0.00%	-0.02%	-0.02%
Natural Resources	7.9%	7.5%	2.79%	8.29%	-0.80%	0.12%	-0.68%
Developed Country	15.2%	14.0%	21.44%	21.10%	0.04%	0.07%	0.11%
Emerging Markets	<u>10.1%</u>	<u>10.0%</u>	<u>29.01%</u>	<u>19.98%</u>	<u>-0.03%</u>	<u>0.70%</u>	<u>0.67%</u>
<b>Total More Correlated and Constrained</b>	<b>42.4%</b>	<b>41.5%</b>	<b>15.16%</b>	<b>15.87%</b>	<b>-1.00%</b>	<b>0.71%</b>	<b>-0.29%</b>
<b>Less Correlated and Constrained</b>	<b>29.6%</b>	<b>30.0%</b>	<b>10.61%</b>	<b>7.73%</b>	<b>-0.02%</b>	<b>0.94%</b>	<b>0.92%</b>
<b>Private Investments</b>	<b><u>28.0%</u></b>	<b><u>28.5%</u></b>	<b><u>20.04%</u></b>	<b><u>18.61%</u></b>	<b><u>-0.02%</u></b>	<b><u>0.31%</u></b>	<b><u>0.29%</u></b>
<b>Total</b>	<b><u>100.0%</u></b>	<b><u>100.0%</u></b>	<b><u>15.11%</u></b>	<b><u>14.19%</u></b>	<b><u>-1.04%</u></b>	<b><u>1.96%</u></b>	<b><u>0.92%</u></b>

**Summary of Capital Flows**

(\$ millions)	Fiscal Year Ended August 31, 2013	Quarter Ended August 31, 2014	Fiscal Year Ended August 31, 2014
Beginning Net Assets	\$13,470	\$16,912	\$14,853
PUF Lands Receipts	857	279	1,129
Investment Return (Net of Expenses)	1,170	483	2,260
Distributions to AUF	(644)	(309)	(877)
Ending Net Assets	<u>\$14,853</u>	<u>\$17,365</u>	<u>\$17,365</u>

**Permanent University Fund  
Actual Illiquidity vs. Trigger Zones**



## II. GENERAL ENDOWMENT FUND

### Investment Reports for Periods Ended August 31, 2014

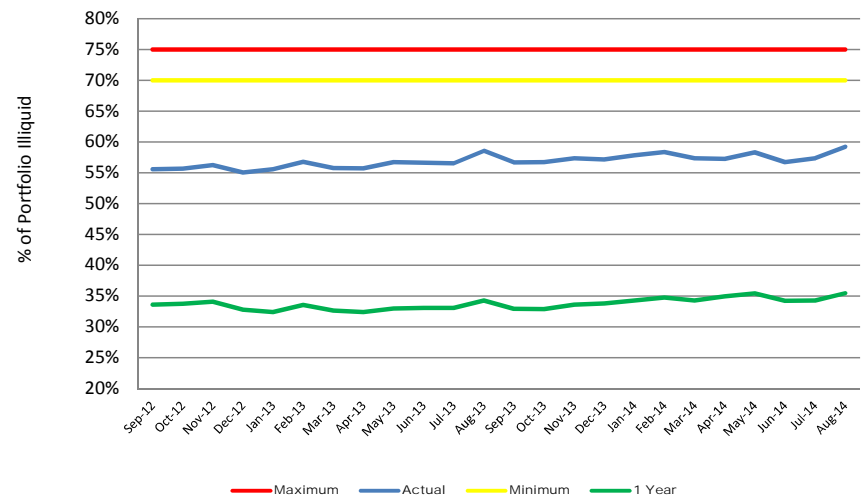
Prepared in accordance with *Texas Education Code Sec. 51.0032*

	Fiscal Year to Date						
	Asset Allocation		Returns		Value Added		
	Actual	Policy	Portfolio	Policy Benchmark	Tactical Allocation	Active Management	Total
<b>More Correlated and Constrained:</b>							
Investment Grade	5.6%	7.5%	3.70%	6.24%	-0.18%	-0.03%	-0.21%
Credit-Related	0.1%	0.0%	18.55%	11.24%	0.00%	0.00%	0.00%
Real Estate	2.5%	2.5%	18.83%	19.41%	0.00%	-0.02%	-0.02%
Natural Resources	8.1%	7.5%	2.86%	8.29%	-0.84%	0.14%	-0.70%
Developed Country	15.4%	14.0%	21.44%	21.10%	0.02%	0.06%	0.08%
Emerging Markets	<u>10.3%</u>	<u>10.0%</u>	<u>22.84%</u>	<u>19.98%</u>	<u>0.05%</u>	<u>0.09%</u>	<u>0.14%</u>
<b>Total More Correlated and Constrained</b>	<b>42.0%</b>	<b>41.5%</b>	<b>14.26%</b>	<b>15.87%</b>	<b>-0.95%</b>	<b>0.24%</b>	<b>-0.71%</b>
<b>Less Correlated and Constrained</b>	<b>29.8%</b>	<b>30.0%</b>	<b>10.61%</b>	<b>7.73%</b>	<b>0.02%</b>	<b>0.90%</b>	<b>0.92%</b>
<b>Private Investments</b>	<b><u>28.2%</u></b>	<b><u>28.5%</u></b>	<b><u>20.05%</u></b>	<b><u>18.61%</u></b>	<b><u>0.02%</u></b>	<b><u>0.31%</u></b>	<b><u>0.33%</u></b>
<b>Total</b>	<b><u>100.0%</u></b>	<b><u>100.0%</u></b>	<b><u>14.73%</u></b>	<b><u>14.19%</u></b>	<b><u>-0.91%</u></b>	<b><u>1.45%</u></b>	<b><u>0.54%</u></b>

#### Summary of Capital Flows

(\$ millions)	Fiscal Year Ended August 31, 2013	Quarter Ended August 31, 2014	Fiscal Year Ended August 31, 2014
Beginning Net Assets	\$7,105	\$8,113	\$7,396
Contributions	166	88	225
Withdrawals	(152)	(10)	(13)
Distributions	(360)	(94)	(371)
Investment Return (Net of Expenses)	<u>637</u>	<u>228</u>	<u>1,088</u>
Ending Net Assets	<u>\$7,396</u>	<u>\$8,325</u>	<u>\$8,325</u>

#### General Endowment Fund Actual Illiquidity vs. Trigger Zones





### III. INTERMEDIATE TERM FUND Investment Reports for Periods Ended August 31, 2014

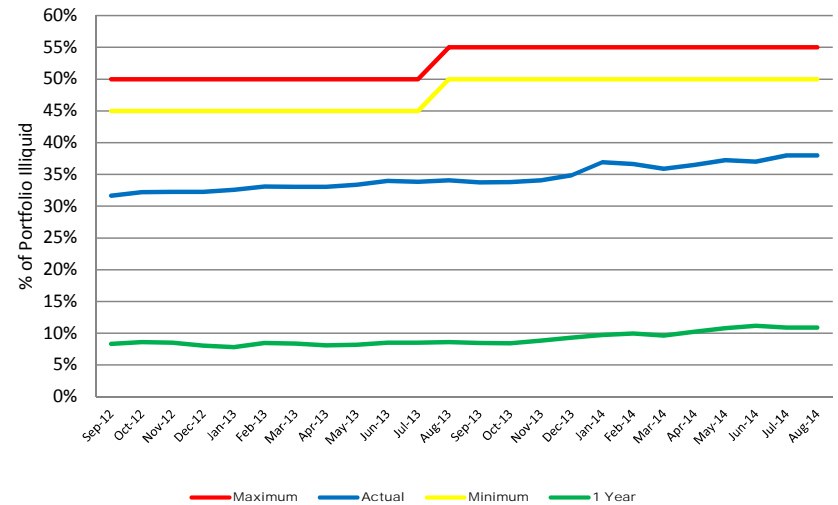
Prepared in accordance with *Texas Education Code Sec. 51.0032*

	Fiscal Year to Date						
	Asset Allocation		Returns		Value Added		
	Actual	Policy	Portfolio	Policy Benchmark	Tactical Allocation	Active Management	Total
<b>More Correlated and Constrained:</b>							
Investment Grade	28.5%	30.0%	6.48%	6.24%	-0.06%	0.17%	0.11%
Credit-Related	0.0%	0.0%	0.00%	0.00%	0.00%	0.00%	0.00%
Real Estate	3.1%	3.0%	18.75%	19.41%	-0.04%	-0.03%	-0.07%
Natural Resources	7.7%	7.0%	3.06%	8.29%	-0.65%	0.12%	-0.53%
Developed Country	9.6%	9.0%	21.41%	21.10%	0.00%	0.06%	0.06%
Emerging Markets	<u>6.2%</u>	<u>6.0%</u>	<u>20.67%</u>	<u>19.98%</u>	<u>-0.06%</u>	<u>0.03%</u>	<u>-0.03%</u>
<b>Total More Correlated and Constrained</b>	<b>55.1%</b>	<b>55.0%</b>	<b>10.52%</b>	<b>11.16%</b>	<b>-0.81%</b>	<b>0.35%</b>	<b>-0.46%</b>
<b>Less Correlated and Constrained</b>	<b>44.9%</b>	<b>45.0%</b>	<b>10.56%</b>	<b>7.73%</b>	<b>0.01%</b>	<b>1.11%</b>	<b>1.12%</b>
<b>Private Investments</b>	<b><u>0.0%</u></b>	<b><u>0.0%</u></b>	<b><u>0.00%</u></b>	<b><u>0.00%</u></b>	<b><u>0.00%</u></b>	<b><u>0.00%</u></b>	<b><u>0.00%</u></b>
<b>Total</b>	<b><u>100.0%</u></b>	<b><u>100.0%</u></b>	<b><u>10.45%</u></b>	<b><u>9.79%</u></b>	<b><u>-0.80%</u></b>	<b><u>1.46%</u></b>	<b><u>0.66%</u></b>

#### Summary of Capital Flows

(\$ millions)	Fiscal Year Ended August 31, 2013	Quarter Ended August 31, 2014	Fiscal Year Ended August 31, 2014
Beginning Net Assets	\$4,893	\$6,560	\$5,520
Contributions	694	1,350	2,111
Withdrawals	(158)	(1,306)	(1,390)
Distributions	(158)	(50)	(186)
Investment Return (Net of Expenses)	<u>249</u>	<u>111</u>	<u>610</u>
Ending Net Assets	<u>\$5,520</u>	<u>\$6,665</u>	<u>\$6,665</u>

#### Intermediate Term Fund Actual Illiquidity vs. Trigger Zones



**IV. SEPARATELY INVESTED ASSETS**  
**Summary Investment Report at August 31, 2014**  
 Report prepared in accordance with *Texas Education Code Sec. 51.0032*

ASSET TYPES	(\$ thousands)															
	FUND TYPE															
	CURRENT PURPOSE DESIGNATED		RESTRICTED		ENDOWMENT & SIMILAR FUNDS		ANNUITY & LIFE INCOME FUNDS		AGENCY FUNDS		TOTAL EXCLUDING OPERATING FUNDS		OPERATING FUNDS (DEBT PROCEEDS AND (SHORT TERM FUND))		TOTAL	
	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET
<b>Cash &amp; Equivalents:</b>																
Beginning value 05/31/14	-	-	2,351	2,352	92,772	92,772	1,861	1,861	319	319	97,303	97,304	2,112,450	2,112,450	2,209,753	2,209,754
Increase/(Decrease)	-	-	(87)	(88)	(40,295)	(40,295)	123	123	637	637	(39,622)	(39,623)	86,984	86,984	47,362	47,361
Ending value 08/31/14	-	-	2,264	2,264	52,477	52,477	1,984	1,984	956	956	57,681	57,681	2,199,434	2,199,434	2,257,115	2,257,115
<b>Debt Securities:</b>																
Beginning value 05/31/14	-	-	20	21	11,268	11,931	8,516	8,723	-	-	19,804	20,675	-	-	19,804	20,675
Increase/(Decrease)	-	-	(2)	(3)	65	193	68	92	-	-	131	282	-	-	131	282
Ending value 08/31/14	-	-	18	18	11,333	12,124	8,584	8,815	-	-	19,935	20,957	-	-	19,935	20,957
<b>Equity Securities:</b>																
Beginning value 05/31/14	1,160	19,841	3,818	3,809	41,068	49,466	12,825	15,520	-	-	58,871	88,636	-	-	58,871	88,636
Increase/(Decrease)	-	(9,907)	(2,017)	(2,012)	3,438	4,290	1,297	(109)	-	-	2,718	(7,738)	-	-	2,718	(7,738)
Ending value 08/31/14	1,160	9,934	1,801	1,797	44,506	53,756	14,122	15,411	-	-	61,589	80,898	-	-	61,589	80,898
<b>Other:</b>																
Beginning value 05/31/14	-	-	724	724	6	6	527	111	200	200	1,457	1,041	-	-	1,457	1,041
Increase/(Decrease)	-	-	6,144	6,144	-	-	8	(2)	2,851	2,851	9,003	8,993	-	-	9,003	8,993
Ending value 08/31/14	-	-	6,868	6,868	6	6	535	109	3,051	3,051	10,460	10,034	-	-	10,460	10,034
<b>Total Assets:</b>																
Beginning value 05/31/14	1,160	19,841	6,913	6,906	145,114	154,175	23,729	26,215	519	519	177,435	207,656	2,112,450	2,112,450	2,289,885	2,320,106
Increase/(Decrease)	-	(9,907)	4,038	4,041	(36,792)	(35,812)	1,496	104	3,488	3,488	(27,770)	(38,086)	86,984	86,984	59,214	48,898
Ending value 08/31/14	1,160	9,934	10,951	10,947	108,322	118,363	25,225	26,319	4,007	4,007	149,665	169,570	2,199,434	2,199,434	2,349,099	2,369,004

Details of individual assets by account furnished upon request.