



BACKGROUND: The University of Texas/Texas A&M Investment Management Company (UTIMCO) completed a self-assessment of its compliance program in 2014, which was validated by an external peer review team in 2015. Since a review of the compliance program had not been completed since 2015, we and UTIMCO decided to evaluate the compliance program and provide a baseline assessment for the new chief compliance officer (CCO).

OBJECTIVE: To determine whether the UTIMCO compliance program is effective, using the United States Department of Justice's (DOJ) guidelines for the "Evaluation of Corporate Compliance Programs" that were updated in June 2020. As part of our effort to achieve this objective, we surveyed all UTIMCO employees and interviewed a sample of the UTIMCO Board of Directors and UTIMCO employees.

CONCLUSION: UTIMCO's compliance program has elements of an effective compliance program. UTIMCO has identified and monitors the majority of its key risks, has robust and detailed monitoring programs in place, and regularly reports to governance and leadership the results of monitoring plan activities. The majority of those interviewed cited the tone at the top and culture as strengths. While most reported that UTIMCO's compliance program was effective, they also cited opportunities to improve program efficiency and effectiveness. Consistent with feedback from the surveys and interviews, some compliance program elements need attention, including the confidential reporting process, risk assessment frequency and methodology, monitoring, quarterly reporting, disciplinary procedures, compliance self-assessment, and training.

OBSERVATIONS

- | | |
|---------------------------|--|
| 1
Medium | Employee uncertainty about protection from retaliation for reporting suspected compliance or ethics violations increases the risk that such incidents go unreported and unresolved and negatively impact UTIMCO's culture and reputation. |
| 2
Medium | Insufficient updating of UTIMCO's compliance risk assessment with input from stakeholders increases the risk that threats to the accomplishment of organizational objectives and misconduct are not effectively identified, monitored, and managed. |
| 3
Medium | Without compliance testing, UTIMCO's compliance program cannot ensure that monitoring activities are effective. Ineffective or inefficient monitoring activities increase the risk that controls are not functioning as intended. |
| 4
Medium | Insufficient compliance testing of operational due diligence follow-up activities increases the risk that external investment managers are not implementing corrective actions, resulting in potential investment loss and reputational damage. |
| 5
Medium | Lack of metrics with summarized qualitative information and too much detail provided to UTIMCO leadership and governance does not facilitate efficient and effective compliance oversight. |
| 6
Low | Lack of a documented disciplinary procedure increases the risk that disciplinary actions are not consistently enforced and/or that they are not commensurate with the severity of the violation. |
| 7
Low | Lack of a periodic compliance self-assessment increases the risk of operating an outdated compliance program, since the program will not have incorporated stakeholders' feedback, lessons learned, or opportunities to improve the efficiency of existing compliance processes. |
| 8
Low | Training that is perceived as being too lengthy and without any post-training assessment increases the risk of employees not fully retaining the content presented and understanding their responsibilities. |

Management developed action plans to address these observations and anticipates implementation by December 31, 2022.



Survey Results Summary [107 of 113 (95%) Responses Received]

Strengths

- 99% Believe that their immediate supervisor conducts herself/himself in an ethical manner.
- 98% Understood the frequency and delivery method of compliance training.
- 97% Knew where to locate policies and procedures.
- 97% Expressed willingness to report legal and ethics violations.
- 92% Were either "very aware" or "aware" of key compliance risks related for their areas.
- 88% Believed that they had received sufficient training to identify potential non-compliance.

Opportunities

- 83% Believed leadership promotes a culture of ethics as demonstrated by their actions. Four responded that they did not believe this to be true and 11 were unsure.
- 21% Expressed uncertainty regarding whether they would be protected from retaliation or retribution if they were to report a suspected violation.
- 9% Did not believe that ethical behavior is rewarded, and that unethical behavior will be remediated consistently, regardless of position in the organization.
- 16 Employees did not know how to locate the compliance hotline number.
- 13 Employees did not include the chief compliance officer as someone to report compliance issues to.
- 26 Employees did not include their immediate supervisor as someone to report compliance issues to.



Interview Results Summary [20 Interviews]

Strengths

Program Effectiveness: The majority of those interviewed believed that the compliance program is effective.

Tone at the Top: Management respects and follows policies and ethical standards. Leadership has set high standards and has sent a clear message that credibility takes time to build but can be easily lost.

Culture: Adherence to UTIMCO's "RIGHT" values, which focuses on cultural values and integrity, is measured in the 360-evaluation process and impacts employee incentive compensation.

Monitoring Plans: The monitoring plans are comprehensive, with templates provided to facilitate monitoring activities. An automated service to provide initial and ongoing background checks was implemented at a lower cost and improved background check efficiency.

Quarterly Reporting: Board members get a thorough report at every Audit and Ethics Committee meeting.

Policies: UTIMCO's policies are robust, well-accessible, comprehensive, and available through UTIMCO's intranet.

Training: Annual training is comprehensive and incorporates lessons learned, and efforts to make training fun and engaging are appreciated.

Hotline: Leadership encourages employees to report potential compliance violations or ethical concerns. Most of those interviewed believed that employees do not feel worried about retaliation if they were to report a compliance issue.

Opportunities

Risk Assessment: Members of leadership and governance did not have an opportunity to review the most recent risk assessment and provide feedback. The top five risks are on target but very broad and could be more focused. There is also an opportunity to review and update the risk assessment process.

Monitoring Plans: Tracking calls and meetings is not an effective metric for investment due diligence. The amount of monitoring activities takes a lot of time and could be reduced.

Reporting: Update reporting to governance to increase efficiency and reduce redundancy of information presented. Leverage metrics and develop a monitoring dashboard to streamline reporting.

Training: Too much material to cover in one session. Shorter, periodic training on different subjects would facilitate learning and retention. Implementing training technology could improve accessibility and flexibility while accommodating busy schedules.

Hotline: While people are encouraged to report potential ethical concerns, a few individuals expressed some level of uncertainty as to whether employees feared retaliation if they were to report ethical concerns.



Confidential Reporting Structure and Reporting Process

Employee uncertainty about protection from retaliation for reporting suspected compliance or ethics violations increases the risk that such incidents go unreported and unresolved and negatively impact UTIMCO’s culture and reputation.

The United States Federal Sentencing Guidelines state that organizations, in order to have an effective compliance and ethics program, “shall take reasonable steps...to have and publicize a system, which may include mechanisms that allow for anonymity or confidentiality, whereby the organization’s employees and agents may report or seek guidance regarding potential or actual criminal conduct without fear of retaliation.” UTIMCO has a confidential compliance hotline, hosted by an outside vendor, whereby employees and external parties can anonymously report suspected compliance and ethics violations.

The compliance hotline number is available on UTIMCO’s public webpage and its internal SharePoint site.

To what extent do you believe that you will be protected from retaliation or retribution if you report a suspected violation?	
Strongly protected	56
Somewhat protected	29
Somewhat unprotected	7
Not protected	6
Not sure	9

While UTIMCO has established a confidential reporting structure and reporting process, and most employees were aware of the different avenues for reporting potential compliance issues, 21 percent of respondents (22 of 107) expressed some uncertainty about being protected from retaliation or retribution. These results indicate that not all employees have confidence in UTIMCO’s confidential and anonymous reporting process. In addition, UTIMCO employees may not be aware that suspected compliance or

ethics violations could also be reported to the UT System compliance hotline.

MANAGEMENT ACTION PLAN

Management agrees and has already taken some steps to address this observation. Management is pleased that 85 out of 107 respondents feel protected from retaliation or retribution for filing a suspected compliance or ethics violation, and that only 13 feel “somewhat unprotected” or “not protected.” UTIMCO has undertaken additional training and awareness campaigns on the hotline, both in annual training and in ad hoc discussions at All Hands meetings. Repeated discussions on UTIMCO’s culture (RIGHT) occur throughout the organization and are measured annually in the firm’s 360 peer review process. UTIMCO will continue to measure our employees’ level of awareness on these topics at annual training and through additional compliance or employee engagement surveys to assess whether these efforts are proving effective.

We anticipate all planned actions will be completed or in place by December 31, 2022.



Risk Assessment Process

Insufficient updating of UTIMCO's compliance risk assessment with input from stakeholders increases the risk that threats to the accomplishment of organizational objectives and misconduct are not effectively identified, monitored, and managed.

Periodic risk assessments are a key element of an ethics and compliance program and should serve as the foundation for all compliance program elements. Historically, the CCO has been responsible for conducting the risk assessment, which entailed the development of multiple risk assessments for the various functional areas and seeking feedback from certain organizational leaders. This approach to developing the risk assessment was more siloed as it was limited to input from selected individuals instead of a wider array of employees and governance. While the UTIMCO Employee Ethics and Compliance Committee (EECC) and the Audit and Ethics Committee were updated on monitoring

activities for the high-risk areas each quarter, they were not asked to provide their review and input for the most recent risk assessment that was completed in October 2019.

While the legacy risk assessment process is based on sound principles, UTIMCO was unable to fully use the spreadsheet tool to produce a consolidated risk assessment. UTIMCO provided the individual risk assessments by functional area, which identified the high organizational and fraud risks and included the top five compliance risk areas that have consistently been reported to UTIMCO's EECC and the Audit and Ethics Committee. However, there was one human resources (HR)-related high risk that was not included among the top risks. Consistent with the risk assessment, interviews suggested that HR high risks were also important, should be monitored, and periodically reported on to the Audit and Ethics Committee.

MANAGEMENT ACTION PLAN

Management agrees and has already taken some steps to address this observation. HR-related issues are covered in the conflicts of interest section of the Institutional Compliance Program. New UTIMCO personnel have been and will continue to be assessing the compliance program with fresh eyes. UTIMCO hired a new General Counsel in August 2020 (who was subsequently named Interim Chief Compliance Officer in April 2021) and a new generalist attorney at the Senior Director level in April 2021. UTIMCO is seeking to hire a new compliance attorney at the Senior Director level in 2021. Collectively, we intend to review and develop new or additional frameworks for risk assessments and monitoring.

We anticipate all planned actions will be completed or in place by December 31, 2022.



Monitoring Plans for Key Risks

Without compliance testing, UTIMCO's compliance program cannot ensure that monitoring activities are effective. Ineffective or inefficient monitoring activities increase the risk that controls are not functioning as intended.

A robust monitoring and testing program can help ensure that an organization's compliance and ethics program is followed and that key risks that can impact achievement of objectives are being mitigated and managed. UTIMCO's responsible parties complete comprehensive, detailed monitoring plans for key risks associated with investment due diligence, investment risk management, and information technology and security. UTIMCO compliance monitors conflicts of interests, and in coordination with accounting, monitors investment compliance; however, UTIMCO compliance does not test or validate that key monitoring activities conducted by the other responsible parties to

ensure that they are in place and functioning as intended.

The monitoring plans are detailed, comprehensive, and completed quarterly. However, feedback from some employees suggests that certain monitoring activities, such as tracking and reporting the number of calls and meetings with external managers, do not provide meaningful metrics or effectively mitigate risk. In addition, the investment due diligence monitoring plans include monitoring steps for activities that may not necessarily warrant compliance monitoring, such as the initial identification of possible investments. As indicated by one of UTIMCO's responsible parties, some monitoring plan reports read like an activity report, listing descriptions of operational actions that occurred over the quarter but may not necessarily clearly address a specific risk. In other cases, some employees interviewed suggested that certain monitoring steps were duplicative, that guidance provided by UTIMCO compliance for completing the monitoring plans was not consistent, and that the rationale for certain monitoring activities was not sufficiently explained to those tasked with completing the monitoring plans. These factors can contribute to manual errors, inefficiency, and inconsistent reporting of monitoring of key risks.

MANAGEMENT ACTION PLAN

Management agrees and has already taken some steps to address this observation. New UTIMCO personnel have been and will continue to be assessing the compliance program with fresh eyes. UTIMCO hired a new General Counsel in August 2020 (who was subsequently named Interim Chief Compliance Officer in April 2021) and a new generalist attorney at the Senior Director level in April 2021. UTIMCO is seeking to hire a new compliance attorney at the Senior Director level in 2021. Collectively, we intend to review and develop new or additional frameworks for risk assessments and monitoring.

We anticipate all planned actions will be completed or in place by December 31, 2022.



Operational Due Diligence Monitoring Plan

Insufficient compliance testing of operational due diligence follow-up activities increases the risk that external investment managers are not implementing corrective actions, resulting in potential investment loss and reputational damage.

Financial scandals, volatile markets, and an increasingly complex regulatory environment have increased the importance of inspecting a prospective, external investment manager's operational activities. Awareness of potential control weaknesses and risks in an external investment manager's operations, organizational structure and staffing, investment strategy, and third-party relationships can seriously impact an investment's overall success. UTIMCO's operational due diligence (ODD) team, which reports to the chief operating officer (COO), examines external investment

managers' operational activities. UTIMCO considers the ODD team's results in coordination with investment due diligence before deciding to invest.

The ODD team appears to perform thorough reviews of a prospective investment manager's operations, governance, personnel, compliance, and technology. In addition, the ODD team provides specific and actionable recommendations for an investment manager to address identified deficiencies. The COO indicated that the ODD team is working on a monitoring plan which would include following up on ODD recommendations. Once the monitoring plan is in place, UTIMCO compliance could periodically validate ODD's monitoring plan to ensure that external investment managers are implementing corrective actions as part of the ongoing due diligence process.

MANAGEMENT ACTION PLAN

Management agrees and has already taken significant steps to address this observation. In late 2020, Legal & Compliance (L&C) identified ODD compliance as a major initiative in its 2021 Action Plan. Starting in January 2021, L&C and ODD teams began regularly collaborating to ensure ODD risks associated with any existing or potential external manager were properly identified and that recommended actions were included in UTIMCO's agreements as contractual obligations to the extent necessary and possible. In July 2021, the ODD team will launch a risk-based approach to ODD monitoring where those managers deemed "riskier" will be reviewed on a more frequent or set basis.

We anticipate all planned actions will be completed or in place by June 30, 2022.



Periodic Reporting

Lack of metrics with summarized qualitative information and too much detail provided to UTIMCO leadership and governance does not facilitate efficient and effective compliance oversight.

The UTIMCO compliance program reports on high-risk monitoring plans and the compliance work plan to two committees of the UTIMCO Board of Directors—the Audit and Ethics Committee and the Risk Committee. This results in duplicative reporting to governance and information that the Risk Committee may not need to exercise its fiduciary duties.

Various metrics are reported to the Audit and Ethics Committee; however, they are not organized in a dashboard that could summarize UTIMCO's compliance with key policy requirements. Quarterly compliance reporting to both the Audit and Ethics Committee and the Risk Committee includes detailed qualitative narratives regarding various compliance checks

performed, most of which do not indicate policy exceptions. Opportunities exist to use metrics and summarized qualitative information to reduce the volume of reported detail, while focusing attention on the most important items. Reduction of reporting redundancy and detail and elimination of unnecessary monitoring steps could also improve efficiency of compliance monitoring and reporting without introducing additional risk of non-compliance.

MANAGEMENT ACTION PLAN

Management agrees and has already taken significant steps to address this observation. Certain Compliance dashboard reporting is currently in the process of being rolled out. Additional reporting is currently in development. Additionally, UTIMCO will recommend that the charters of the Audit & Ethics Committee, Risk Committee and Cyber Risk Committee be reviewed at the September 2021 UTIMCO Board and Committee meetings with the aim of eliminating duplicative or unnecessary reporting.

We anticipate all planned actions will be completed or in place by December 31, 2022.



Documented Disciplinary Procedures

Lack of a documented disciplinary procedure increases the risk that disciplinary actions are not consistently enforced and/or that they are not commensurate with the severity of the violation.

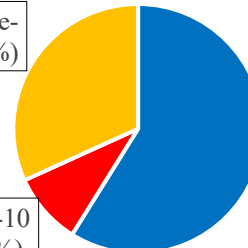
The DOJ guidance states that a “hallmark of effective implementation of a compliance program is the establishment of incentives for compliance and disincentives for non-compliance.” The key to this is “whether the company has clear disciplinary procedures in place, enforces them consistently across the organization, and ensures that the procedures are commensurate with the violations.”

UTIMCO has communicated its expectations regarding

violations of policy through its Code of Ethics, Employee Handbook, and initial and annual compliance training. UTIMCO has also created a disciplinary procedure for employee securities transaction violations. However, UTIMCO has not developed standardized disciplinary procedures for other potential disciplinary actions outside of securities transaction violations. As indicated by the survey question to the right, nine percent of employees did not perceive that ethical and unethical behavior is treated consistently regardless of position within UTIMCO, while 32 percent were not sure. While incidents are handled on a case-by-case basis, documented procedures would provide additional guidance for more consistent application of disciplinary actions.

Do you perceive that ethical behavior is rewarded and unethical behavior will be remediated at all levels (i.e., consistent treatment regardless of position within organization)?

Not sure-
34 (32%)



Yes-63
(59%)

No-10
(9%)

MANAGEMENT ACTION PLAN

Management agrees with the observation and will prepare disciplinary action procedures to supplement UTIMCO's existing policies and procedures.

We anticipate all planned actions will be completed or in place by December 31, 2021.



Compliance Self-Assessment and Potential Opportunities for Improvement

Lack of a periodic compliance self-assessment increases the risk of operating an outdated compliance program, since the program will not have incorporated stakeholders' feedback, lessons learned, or opportunities to improve the efficiency of existing compliance processes.

The DOJ's guidance states that a "hallmark of an effective compliance program is its capacity to improve and evolve" and suggests that organizations take "reasonable steps to ensure that [their] compliance and ethics programs is followed" and that they periodically evaluate their compliance program's effectiveness.

In the six years between the compliance peer review and this audit, UTIMCO has not performed a self-assessment or surveyed employees to obtain their input regarding employee understanding, engagement, concerns, or opportunities for improvement. Interviews with employees indicated that little has

changed in terms of compliance program practices; however, UTIMCO leadership team members and investment practices have changed since the last peer review.

A self-assessment could identify opportunities to update the compliance program and automate certain activities. For example, UTIMCO employees perform several activities to complete quarterly monitoring plans. Some manual, legacy activities are time consuming and include use of various documents and spreadsheets to track data and compile reports, which increases the risk of manual errors. Automating compliance activities, where practical, could reduce these risks. One employee interviewed suggested that UTIMCO could use a third-party service to automate the reporting of employees' personal trades and for monitoring employee trading through identification of potential exceptions for further review. This could improve efficiency and reduce the risk of errors without diminishing effectiveness. While opportunities exist to leverage technology to improve effectiveness and efficiency, UTIMCO reported recently implementing a third-party technology solution that provides timely and continuous background check information on prospective and current external investment managers at a fraction of the cost of the legacy process.

MANAGEMENT ACTION PLAN

Management agrees and has already taken some steps to address this observation. New UTIMCO personnel have been and will continue to be assessing the compliance program with fresh eyes. UTIMCO hired a new General Counsel in August 2020 (who was subsequently named Interim Chief Compliance Officer in April 2021), a new generalist attorney at the Senior Director level in April 2021 and is seeking to hire a new compliance attorney at the Senior Director level no later than August 2021. L&C's 2021 Action Plan identified compliance automation as a major initiative and has made some progress toward that goal. UTIMCO will explore leveraging existing resources, using off-the-shelf software or bespoke applications to streamline manual processes. We will also explore requiring self-assessments or peer assessments on a set and consistent basis.

We anticipate all planned actions will be completed or in place by April 30, 2022.



Compliance Training and Testing

Training that is perceived as being too lengthy and without any post-training assessment increases the risk of employees not fully retaining the content presented and understanding their responsibilities.

According to the DOJ's guidance, a "hallmark of a well-designed compliance program is appropriately tailored training and communications." Compliance program policies and procedures should be accompanied by a training program that informs and tests employees on the policies that they are responsible for knowing.

UTIMCO has taken steps to ensure that its policies and procedures have been integrated into the organization by conducting periodic training for all directors, officers, and employees. In addition, we

were informed that efforts were underway before the audit began to update policies and procedures and strengthen organization of and access to them.

UTIMCO provides compliance training upon a director's appointment or an employee's hiring and then annually thereafter. Compliance training topics are based on risk and incorporates lessons learned from prior compliance incidents. Most of the employees interviewed indicated that UTIMCO's compliance training content was good and were aware that the compliance team was available to answer questions about compliance training and policies. Some employees even complimented the compliance team's efforts to make training fun and interesting. However, the current training program does not include any testing of employees to confirm their comprehension of the compliance and ethics content presented. In addition, the general consensus of those interviewed was that UTIMCO's annual compliance training lasted too long and covered too much content for one session. Some of those interviewed suggested breaking up the training into specific topics and making training available at different times during the year.

UTIMCO could enhance the effectiveness and efficiency of its compliance training program by using automated compliance training technology and tools that are available throughout the year; include shorter, targeted sessions to facilitate retention of information presented; and include testing of employees to ensure retention and serve as a way to measure training curriculum effectiveness.

MANAGEMENT ACTION PLAN

Management agrees and has already taken some steps to address this observation. New training was launched in April 2021, with 100% of UTIMCO employee completing the training within the required time frame. Some testing was included in the training this year. The presentation materials are posted on the internal L&C website to serve as an easy reference guide. UTIMCO will explore launching video training next year with additional testing to determine comprehension of key concepts. In addition, L&C's 2021 Action Plan contains a goal of providing targeted training on discrete topics in a "lunch and learn" type format on a quarterly basis, with the first such training anticipated for CY Q3 2021.

We anticipate all planned actions will be completed or in place by April 30, 2022.



This engagement was conducted in accordance with the guidelines set forth in the Institute of Internal Auditors’ *International Standards for the Professional Practice of Internal Auditing*.

SCOPE AND PROCEDURES

The scope of the audit included UTIMCO’s current institutional compliance activities, with historical information focusing primarily on calendar year 2020. Audit procedures included reviewing background information about UTIMCO’s compliance program, gathering feedback from UTIMCO directors and employees, and testing selected compliance activities during the scope of this audit. These procedures included, but were not limited to:

- Surveying UTIMCO employees across the company (i.e., leadership, management, and staff in investment and non-investment positions) to assess awareness of the compliance program;
- Interviewing UTIMCO directors, compliance team members, and employees across the company;
- Reviewing the compliance risk assessment and monitoring processes; and
- Validating monitoring of compliance high-risk areas through sample testing.

We will follow up on management action plans in this report to determine their implementation status. Any requests for extension to the implementation dates require approval from the System Administration Internal Audit Committee. This process will help enhance accountability and ensure that timely action is taken to address the observations.

OBSERVATION RATINGS

Priority	An issue that, if not addressed timely, has a high probability to directly impact achievement of a strategic or important operational objective of System Administration or the UT System as a whole.
High	An issue considered to have a medium to high probability of adverse effects to a significant office or business process or to System Administration as a whole.
Medium	An issue considered to have a low to medium probability of adverse effects to an office or business process or to System Administration as a whole.
Low	An issue considered to have minimal probability of adverse effects to an office or business process or to System Administration as a whole.

CRITERIA

DOJ’s “Evaluation of Corporate Compliance Programs” (updated June 2020), and UTIMCO and UT System policies and procedures, as applicable.

REPORT DATE

June 8, 2021

REPORT DISTRIBUTION

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