

**MINUTES OF MEETING OF
THE AUDIT AND ETHICS COMMITTEE OF
THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY**

The Audit and Ethics Committee of The University of Texas Investment Management Company (the "Committee") convened on the **19th day of May 1998**, by means of conference telephone enabling all persons participating in the meeting to hear each other, said meeting having been called by the Committee Chairman, with notice provided to each member in accordance with the Bylaws. Participating in the meeting were the following members of the Committee:

Robert H. Allen
Susan M. Byrne
A. W. "Dub" Riter

thus, constituting a majority and quorum of the Committee. Also participating in the meeting were Thomas G. Ricks, President of The University of Texas Investment Management Company (the "Corporation"); Cathy Iberg, Vice President - Investment Operations and Secretary of the Corporation; Jerry Turner, legal counsel for the Corporation; William Strange CPA, representing the firm of Deloitte and Touche LLP; Craig Robertson and Sandra Brown, representing the internal audit division of the The University of Texas System (the "System"). Robert H. Allen, Chairman, called the meeting to order at 10:30 a.m.

Approval of the December 11, 1997 Minutes of the Audit and Ethics Committee

The first matter to come before the Committee was approval of the Audit and Ethics Committee Minutes of the December 11, 1997 meeting, copies of which had previously been furnished to each Committee member. By motion duly made, and seconded, the following resolution was unanimously adopted:

RESOLVED, that the minutes of the meeting of the Audit and Ethics Committee held on December 11, 1997, be and are hereby approved in the form presented to the Committee.

Presentation of the Corporation's Financial Statements for the Three Month Period ended March 31, 1998

The next item to come before the Committee was a review of the financial statements of the Corporation for the three-month period ended March 31, 1998, copies of which had been previously furnished to each Committee member. Mr. Ricks introduced the financial statement presentation by reminding the Committee that the fiscal year-end for the Corporation was changed to August 31st, and therefore the fiscal year for the financial statements would be based on the period beginning January 1, 1998 and ending August 31, 1998. The Corporation's previous year-end was December 31st. At this time Mr. Ricks turned the discussion over to Cathy Iberg. Ms. Iberg reviewed with the Committee each financial statement for the Corporation, and answered their questions. As part of this review, Ms. Iberg and Mr. Ricks brought to the Committee's attention that \$197,500 of income had been received by the Corporation for a co-investment fee from Wand Partners, Inc. Mr. Ricks stated that Vinson & Elkins is currently

reviewing the unrelated business income tax issue related to the fee. Mr. Turner indicated that this review had not yet been completed but a report would be made at the Corporation's board meeting on July 2, 1998. Mr. Allen inquired about the deposit of fee income to the Corporation versus a deposit to the PUF and the LTF. Mr. Ricks responded by stating that if the fee were service related, the Corporation would receive the funds and if the fee were capital related the PUF and the LTF would receive the funds. Mr. Ricks also stated that the management would like to build a working capital reserve equal to one year of the Corporation's fee income, and indicated that this would provide an adequate reserve balance to handle any unanticipated corporate expenses. The Committee members wanted to make this intention known to the Corporation's board as well as the Board of Regents.

Approval of the Corporation's Fee Request for the Period September 1, 1998 Through August 31, 1999

The next item presented to the Committee was a request for approval of the 1999 Annual Fee Request, copies of which had previously been furnished to each Committee member. Mr. Ricks reviewed with the Committee the changes in the fee request from 1998 to 1999. Mr. Ricks stated that there was no increase in the total projected investment expenses for the PUF, and as a percentage of assets managed, the investment expenses declined from .131% to .109%. The LTF fee request, on the other hand, would result in an increase from .330% to .452% of total fund assets. This increase was primarily attributable to an increase in direct expenses of the fund such as external management, contingent performance fees payable to external managers and custody costs. Mr. Ricks stated that the average endowment management fees reported by Cambridge Associates is about .50% to .55% of assets. The Corporation's services fees, which are the indirect investment management fees, were increased by the rate of inflation of 1.4% over the previous year. The Committee members also inquired about the Corporation's progression on the year 2000 computer problem. Mr. Ricks and Ms. Iberg answered the Committee's concerns about the year 2000 efforts and what action the Corporation has taken to date. In addition, Craig Robertson from the System's audit office stated that they were in the process of reviewing the Corporation's efforts to address the year 2000 problem. Following this discussion, by motion duly made, and seconded, the following resolution was unanimously adopted:

RESOLVED, that the Corporation's Annual Fee Request and Budget for investment management services for the period September 1, 1998 through August 31, 1999, be and is hereby approved in accordance with the request presented to the Board.

Approve Engagement of Independent Auditors, Deloitte and Touche, LLP

William Strange from the firm of Deloitte and Touche LLP made a short presentation concerning the proposed engagement letter for the upcoming audit for the fiscal year ended August 31, 1998 for the investments of the PUF, LTF and S/ITF. The Corporation will be audited for the calendar year ended December 31, 1997 and for a short fiscal period ending August 31, 1998. Clarification was made to the Committee that the fee proposal would include an audit on PUF mineral receipts for which the System

would be responsible. By motion duly made, and seconded, the following resolution was unanimously adopted:

RESOLVED, that the firm of Deloitte & Touche, LLP be and is hereby appointed as the independent auditor of the Corporation and Funds managed by the Corporation on behalf of the Board of Regents of The University of Texas System for the fiscal year ending August 31, 1998 for the Funds and for the calendar year ended December 31, 1997 and for the short period ending August 31, 1998 for the Corporation, subject to the approval of the Board of Directors of the Corporation and the Board of Regents of The University of Texas System.

Report of UTIMCO Ethics Committee

The next item to come before the Committee was a review of the Ethics Report for the Corporation, copies of which had previously been furnished to each Committee member. Mr. Ricks reviewed with the Committee those items reviewed by the Corporation's internal ethics committee following adoption of the Ethics Policy on December 15, 1997 and answered the Committee members' questions.

There being no further business to come before the Audit and Ethics Committee, the meeting was adjourned at approximately 11:10 a.m.

Approved: _____
Committee Chairman

Date: _____