

**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 **16th day of June 1999**, 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, Jr.

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, Managing Director - 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; and Charles Chaffin, Director of Internal Audits for The University of Texas System (the "System"). Robert H. Allen, Chairman, called the meeting to order at 9:35 a.m.

Approval of the October 30, 1998 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 October 30, 1998 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 meetings of the Audit and Ethics Committee held on October 30, 1998, be, and are hereby, approved in the form presented to the Committee.

Presentation of the Corporation's Financial Statements for the period ended April 30, 1999

Mr. Ricks presented the Corporation's Financial Statements for the period ended April 30, 1999 copies of which had previously been furnished to each Committee member. Mr. Ricks noted that there was nothing out of the ordinary to report and answered the Committee members' questions.

Report on U. T. System Audits

Ms. Iberg and Mr. Chaffin reported on two audits by the U. T. System, copies of which had previously been furnished to each Committee member. Ms. Iberg stated the results for both audits were favorable. The report for the first audit, Y2K Project Status and Compliance stated that the Corporation had undertaken reasonable steps to address the Year 2000 issue and that its efforts were thoroughly documented. Mr. Chaffin indicated that he had no concern regarding the Corporation's Y2K efforts.

Mr. Chaffin commented that the Compliance portion of the first audit was not yet complete but that he had no concerns over the Corporation's compliance program. He stated that the final U. T. System audit comments would focus on strengthening documentation efforts.

The second audit was a follow up audit concerning the implementation of recommendations contained in the State Auditor's Review of Controls Over Investment Practices at Six Major Investing Entities dated November 1996. Ms. Iberg reviewed the November 1996 State Auditor's recommendations and the resulting U. T. System Office of Audits comments. She stated that there were no significant items to report. Mr. Chaffin indicated that the results of the State Auditor's recommendations and UTIMCO's follow-up to the State Auditor's recommendations were favorable. Ms. Iberg, Mr. Ricks and Mr. Chaffin answered the Committee members' questions.

Approval of UTIMCO Fee Request for the period September 1, 1999 through August 31, 2000

Mr. Ricks reviewed the Corporation's fee request for the year end August 31, 2000, copies of which had previously been furnished to each Committee member. He stated that the Permanent Health Fund had been established to manage health endowments created by the legislature with proceeds from tobacco litigation. He stated that the Corporation's proposed budget was \$20,814,787, which was approximately 15.8 basis points (.158%) of the total value of the funds managed by UTIMCO. Mr. Ricks then answered the Committee members' questions. Following the discussion, by motion duly made, and seconded, the following resolution was unanimously adopted:

RESOLVED, that the Fee Request for the period September 1, 1999 through August 31, 2000 be and is hereby approved and is recommended for approval to the Corporation's Board of Directors.

Engagement of Independent Auditors

Mr. Strange presented the proposed engagement letter for the financial audit of the Corporation, the Permanent University Fund, Long Term Fund and Short Intermediate Term Fund for the year ended August 31, 1999. Mr. Strange explained that there was a small increase in the fee for the Long Term Fund due to the complexities of the Fund's investments and then answered the Committee members' questions. Upon motion duly made and seconded, the following resolutions were unanimously adopted:

RESOLVED, that the firm of Deloitte & Touche, LLP be and is hereby appointed as the independent auditor of the Corporation for the year ended August 31, 1999;

BE IT FURTHER RESOLVED, that the firm of Deloitte & Touche, LLP be and is hereby appointed as the independent auditor of the funds managed by the Corporation on behalf of the U.T. System Board of Regents for the year ended August 31, 1999.

Approval of Policy Amendment to Valuation Criteria for Alternative Assets

Mr. Ricks reviewed the proposed changes to the valuation policy for private investments. Under the proposed changes, stocks would be valued at the last price paid in a new round of financing in which at

least one substantial outside investor participated. In addition, if a partnership/trust in which UTIMCO owned an interest also held the non-public investment, the valuation of the investment would be the value reported by the partnership or trust. The Committee members requested that the write down section of the valuation policy be amended to require the approval of investment write downs by the Corporation's Board. Mr. Ricks answered the Committee members' questions, followed by a motion duly made, and seconded, the following resolution was unanimously adopted:

RESOLVED, that the Amendment to the Valuation Criteria for Alternative Assets be and is hereby approved, with the further amendment requested by the Committee.

Report on the Corporation's Internal Ethics Committee

Ms. Iberg presented the Corporation's ethics report for items reported since the October 30, 1998 meeting of the Committee, copies of which had previously been furnished to each Committee member. She stated that there were no notable items to report.

There being no further business to come before the Audit and Ethics Committee, the meeting was adjourned at approximately 10:55 a.m.

Approved _____
Committee Chairman

Date: _____