

**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 **30th day of May 2000**, 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:

Susan M. Byrne  
A. W. "Dub" Riter, Jr.  
Woody L. Hunt

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 and Eric Rothe, representing the firm of Deloitte and Touche LLP; and Sandra Brown, Manager of Internal Audits for The University of Texas System (the "System").

Chairman Riter called the meeting to order at 2:00 p.m. Copies of materials supporting the Committee meeting agenda were previously furnished to each Director.

**Approval of the 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 November 8, 1999 meeting. 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 November 8, 1999, be and are hereby approved.

**Presentation of the Corporation's Financial Statements for the Period Ended April 30, 2000**

Mr. Ricks presented the Corporation's financial statements for the period ended April 30, 2000. Mr. Ricks stated that the Corporation's goal is to accumulate a fund balance equal to one year in investment management fees. Mr. Ricks noted that there was nothing out of the ordinary to report and answered the Committee members' questions.

## **Discussion of UTIMCO Fee Request for the Period September 1, 2000 through August 31, 2001**

Mr. Ricks and Ms. Iberg reviewed the updated version of the Corporation's fee request for the fiscal year ending August 31, 2001. The Corporation's annual fee will increase \$900 thousand to \$6.6 million, or 14.7% which is attributed to the relocation of the Corporation's office for \$600 thousand or 10.6%, and \$300 thousand or 4.1% to general operating and compensation expenses. The budget for direct expenses of the funds will increase by 69.8% to \$24.4 million. External manager fees account for 63.1% of the increase with the remaining 6.7% increase in custodian costs, auditing and consulting fees. Conversion of the PUF's asset mix to the policy portfolio requires a more complex asset mix and will increase costs. Mr. Ricks and Ms. Iberg answered the Committee's questions.

### **Engagement of Independent Auditors**

Mr. William Strange, from the firm of Deloitte & Touche, LLP, presented the proposed engagement letter for the audit of the Permanent University Fund, the Permanent Health Fund, the Long Term Fund and the Short Intermediate Term Fund in addition to an audit for the Corporation for the fiscal year ended August 31, 2000. Mr. Strange stated that there would be a fee increase of 2%.

Mr. Strange answered the Committee members' questions and upon motion duly made and seconded, the following resolutions were adopted:

RESOLVED, that the firm of Deloitte & Touche, LLP be and is hereby appointed as the independent auditor of the Corporation for the audit of the fiscal year ended August 31, 2000, subject to approval by the Corporation's Board of Directors, and further

RESOLVED, that the firm of Deloitte & Touche, LLP be and is hereby appointed as the independent auditor of the financial statements of the Permanent University Fund, Permanent Health Fund, Long Term Fund and Short Intermediate Term Fund, for the fiscal year ended August 31, 2000, subject to approval by the Corporation's Board of Directors.

### **Approval of Amendment No. 2 to Valuation Criteria for Alternative Assets**

Ms. Iberg reviewed Amendment No. 2 to the Valuation Criteria for Alternative Assets. This amendment was recommended by Deloitte & Touche during the course of their audit of the financial statements for the Permanent University Fund and the Long Term Fund for the year ended August 31, 1999. The amendment is intended to clarify intra-period adjustments to the market value for non-public directs and partnership/trust investments. She stated that these investments are valued on a calendar quarter which does not coincide with the funds' fiscal reporting quarter. A valuation adjustment may be warranted if a significant event occurs between these two reporting periods. Ms. Iberg answered the Committee

members' questions and upon motion duly made and seconded the following resolution was adopted:

RESOLVED, that the Amendment No. 2 to the Valuation Criteria for Alternative Assets be and is hereby approved, subject to approval by the Corporation's Board of Directors.

### **Approval of the Corporation's Audit and Ethics Committee Charter**

Mr. Ricks reviewed the proposed charter for the Audit and Ethics Committee. He stated that this charter would replace the Audit and Ethics Committee mandate approved on July 15, 1996 by the Corporation's Board of Directors. He noted that audit committees of public companies were adopting the SEC's action plan in designing their audit committee mandates. The Corporation's Audit and Ethics Committee Charter was modeled after the SEC's action plan except for the reporting provisions that apply to publicly traded companies. Mr. Ricks answered the Committee members' questions and upon motion duly made and seconded the following resolutions were unanimously adopted:

WHEREAS, the Corporation's Board of Directors established an Audit and Ethics Committee on February 22, 1996;

WHEREAS, on July 15, 1996 the Board of Directors approved the Audit and Ethics Committee Mandate; and

WHEREAS, this Committee desires to replace the existing Audit and Ethics Committee Mandate with a Charter of the Audit and Ethics Committee of the Board of Directors (the "Charter");

NOW, THEREFORE, BE IT RESOLVED, that the Charter be approved and adopted by this Committee, subject to approval by the Corporation's Board of Directors.

### **Update on UTIMCO's Compliance, Reporting and Audit Issues**

Ms. Iberg updated the Committee on the Corporation's compliance, reporting and outstanding audit issues. The only significant item to report was the proposed write-off of the Terastor investment.

### **Fiscal year 2000 Write-offs of Alternative Investments - Nonmarketable**

Mr. Ricks reviewed the schedule for write-offs of Alternative Investments-Nonmarketable with the Committee members. The only investment presented to be approved for write-off was the Terastor investment. Mr. Ricks reviewed in detail the course of events that gave rise to his recommendation to write down the value of the Terastor investment to a \$1 as of May 31, 2000. Mr. Ricks answered the Committee members' questions and upon motion duly made and seconded, the following resolutions

were unanimously adopted:

RESOLVED, that the write-offs of Alternative Investments - Nonmarketable for the period ended May 31, 2000, as presented to this meeting, be and are approved, and further

RESOLVED, that the write-offs of the Alternative Investments - Nonmarketable, as presented to this meeting, be submitted for ratification to the Corporation's Board of Directors at its next regular meeting.

There being no further business to come before the Audit and Ethics Committee, the meeting was adjourned at approximately 3:02 p.m.

Approved \_\_\_\_\_  
Committee Chairman

Date: \_\_\_\_\_