

**MINUTES OF THE MEETING OF  
THE BOARD OF DIRECTORS OF  
THE UNIVERSITY OF TEXAS  
INVESTMENT MANAGEMENT COMPANY**

The Board of Directors (the "Board") of The University of Texas Investment Management Company (the "Corporation") convened in an open meeting at 9:35 a.m. on the **16th day of November 2005**, in the Board Room of the Four Seasons at Las Colinas, 4150 North Mac Arthur Boulevard, Irving, Texas, said meeting having been called by the Chairman, H. Scott Caven, Jr., with notice provided to each member in accordance with the Bylaws. The audio portion of the meeting was electronically recorded.

Participating in the meeting were the following members of the Board:

H. Scott Caven, Jr., Chairman  
Clint D. Carlson  
J. Philip Ferguson  
Woody L. Hunt  
Erle Nye  
Robert B. Rowling  
Charles W. Tate

thus, constituting a majority and quorum of the Board. Regent McHugh joined a portion of the meeting by telephone. Mark G. Yudof, Vice Chairman for Policy, was not present at the meeting. Also attending the meeting were R. D. Burck, Advisory Director; Bob Boldt, President of the Corporation; Joan Moeller, Secretary and Treasurer of the Corporation; Christy Wallace, Assistant Secretary of the Corporation; Cathy Iberg, Managing Director – Marketable Alternative Investments and Deputy CIO; Bill Edwards, Managing Director of Information Technology; Larry Goldsmith, Managing Director of Public Markets; Andrea Reed, Risk Manager; Trey Thompson, Managing Director – Non-Marketable Alternative Investments; various staff members of the Corporation; Jerry Turner, legal counsel for the Corporation; Keith Brown of the McCombs School of Business at UT Austin; Scott Kelley, Philip Aldridge, Charlie Chaffin, Amy Barrett and Cathy Swain of UT System Administration; and Hamilton Lee of Cambridge Associates. Mr. Caven called the meeting to order at 9:35 a.m. Copies of materials supporting the Board meeting agenda were previously furnished to each Director or distributed at the meeting.

**Minutes**

The first matter to come before the Board was approval of the minutes of the meetings of the Board of Directors held on October 7, 2005. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the minutes of the meeting of the Board of Directors held on October 7, 2005, be, and are hereby, approved.

## **Committee Appointments**

Mr. Caven welcomed Regent Colleen McHugh as a Regental member and Woody Hunt as an external member of the Board. Their appointments were approved at the UT System Board of Regents meeting that was held on November 10, 2005. Mr. Caven continued by recommending Board committee assignments and chair designations for the Audit and Ethics Committee, Compensation Committee, Risk Committee and a newly formed Policy Committee. Upon motion duly made and seconded, the following resolutions were unanimously adopted:

BE IT RESOLVED, that Woody L. Hunt, Erle Nye and Robert B. Rowling are hereby designated as the Audit and Ethics Committee of the Board of Directors, subject to approval by the Board of Regents at their meeting to be held on February 8-9, 2006, to serve until the expiration of their terms, or until their successors have been chosen and qualified, or until their earlier death, resignation or removal; and

FURTHER RESOLVED, that Erle Nye is hereby designated the Chair of the Audit and Ethics Committee and shall preside at its meetings.

BE IT RESOLVED, that Clint D. Carlson, Philip Ferguson and Robert B. Rowling are hereby designated as the Compensation Committee of the Board of Directors to serve until the expiration of their terms, or until their successors have been chosen and qualified, or until their earlier death, resignation or removal; and

FURTHER RESOLVED, that Philip Ferguson is hereby designated the Chair of the Compensation Committee and shall preside at its meetings.

BE IT RESOLVED, that H. Scott Caven, Jr., Charles W. Tate and Woody L. Hunt are hereby designated as the Risk Committee of the Board of Directors to serve until the expiration of their terms, or until their successors have been chosen and qualified, or until their earlier death, resignation or removal; and

FURTHER RESOLVED, that Charles W. Tate is hereby designated the Chair of the Risk Committee and shall preside at its meetings.

BE IT RESOLVED, that Colleen McHugh, Erle Nye, Robert B. Rowling are hereby designated as the Policy Committee of the Board of Directors to serve until the expiration of their terms, or until their successors have been chosen and qualified, or until their earlier death, resignation or removal; and

FURTHER RESOLVED, that Robert B. Rowling is hereby designated the Chair of the Policy Committee and shall preside at its meetings.

## **Asset Allocation and Performance**

Mr. Caven asked Mr. Boldt to report on the Corporation's asset allocation and performance. Mr. Boldt began by discussing the Market Exposure chart showing market exposure and deviations from policy targets within tactical policy ranges. He continued by discussing asset allocation and attribution analysis, the peer universe and value added. Mr. Boldt reported Cumulative Value Added under the Corporation's management for periods ended September 30, 2005. He also handed out performance information for August 31, 2005. The net performance for the one-month period ended September 30, 2005, for the Permanent University Fund ("PUF") was 1.65% and for the General Endowment Fund ("GEF") was 1.62%, versus benchmark returns of 1.46% for each fund. The net performance for the one-year period ended September 30, 2005, for the PUF and GEF were 18.22% and 18.21%, respectively, versus benchmark returns of 15.04% for each fund. The Short Intermediate Term Fund's (SITF) performance was -.39% versus its benchmark return of -.25% for the one-month period, and was 1.95% versus its benchmark return of .98% for the one-year period ended September 30, 2005. Performance for the Short Term Fund (STF) was 0.29% versus 0.30% for its benchmark for the one-month period, and was 2.65% versus a benchmark return of 2.62% for the one-year period ended September 30, 2005. Also presented was performance attribution, statistics on liquidity, total derivatives by type and application, and actions taken under the Delegation of Authority. In reporting the manager history performance summary, it was noted that Peter Cundhill and Associates, Inc., Canada mandate, was terminated on October 13, 2005. Mr. Boldt, Mr. Thompson, Mr. Goldsmith, and Ms. Iberg answered the Directors' questions. Mr. Hunt observed that the Policy Committee needs to consider the definition of "hedge funds" in view of the apparent trend of some active managers to hedge risk by taking long/short positions.

## **Executive Session**

Mr. Caven, at 10:29 a.m., announced that, "the Board of Directors of The University of Texas Investment Management Company having been duly convened in Open Session and notice of this meeting having been duly given, I hereby announce the convening of a closed meeting as an Executive Session of the Board, for the purpose of deliberating personnel compensation matters for corporation employees. This Executive Session meeting of the Board is authorized by Texas Government Code, Section 551.074 (Personnel Matters). The time is now 10:29 a.m."

In Executive Session, the Board discussed matters regarding personnel compensation matters. No action was taken and no vote was called for or taken by the Board.

## **Reconvene in Open Session**

The Board reconvened at 11:10 a.m. in open session and Mr. Caven announced that, "the Open Session of the Board of Directors of The University of Texas Investment Management Company is now reconvened. The time is now 11:10 a.m. During the Executive Session, the Board discussed personnel compensation matters, but did not take any votes."

## **Compensation Committee Report**

Mr. Caven asked for a report from the Compensation Committee. Director Ferguson, Chairman, reported that the Compensation Committee (the "Committee") had met that morning, prior to the Board meeting. The Committee reviewed the peer group for the 2005/2006 Compensation Program as determined by Cambridge Associates and recommended approval. They also reviewed an item related to the 2005/2006 Compensation Program. In addition to the eligible participants approved by the Committee and the Board in September 2005, three additional employees have filled analyst positions in the Non-Marketable and Risk Management area. The Committee reviewed the goals recommended by the President and CEO for these positions and the Committee requested that the Board approve the employees as eligible to participate in the UTIMCO 2005/2006 Compensation Program. The Committee also recommended that the Board approve the performance compensation awards under the UTIMCO Compensation Program for all eligible employees, including the President and Chief Executive Officer, and recommended the proposed performance compensation award of the President and Chief Executive Officer. Cambridge Associates certified the peer universe performance data and a copy of the memorandum was provided. Upon motion duly made and seconded, the following resolutions were unanimously adopted:

### **Peer Group:**

WHEREAS, Section 8.14 of the UTIMCO Compensation Program (the "Plan") provides that the "Peer Group" will be updated annually at the beginning of each Performance Period, and Appendix B will be amended accordingly; and

WHEREAS, Section 7.2 of the Plan provides that the Board has the right to amend the Plan or any portion thereof from time to time; and

WHEREAS, the Board wishes to amend Appendix B to conform to the updated Peer Group;

NOW, THEREFORE, be it:

RESOLVED, that the updated and amended Appendix B (UTIMCO Peer Group), a copy of which is attached hereto [see the attachments to these minutes], is hereby adopted and approved as part of the Plan to replace the current Appendix B, effective as of July 1, 2005.

### **New Participants in the Plan:**

WHEREAS, Section 5.3(a) of the UTIMCO Compensation Program (the "Plan") provides that a UTIMCO employee must be in an "Eligible Position" and selected by the Board in order to become a "Participant" in the Plan; and

WHEREAS, Section 5.3(a) of the Plan provides that the Board in its discretion may designate a newly hired or promoted employee to be in an "Eligible Position" during a Performance Period; and

WHEREAS, Section 5.3(b) of the Plan provides that an employee in an "Eligible Position" selected by the Board will become a Participant on the date designated by the Board; and

WHEREAS, pursuant to Sections 5.4(a) and 5.4(d) of the Plan, the President and CEO set, and the Compensation Committee has approved, the "Performance Goals" and "weightings" for each proposed new Participant for the 2005/2006 Performance Period; and

WHEREAS, Section 5.5(a) of the Plan provides that, at the time an employee is designated as a Participant in the Plan, the Board will determine the "Incentive Award Opportunity" for each Performance Goal set for such Participant for the Performance Period, including a threshold, target, and maximum award;

NOW, THEREFORE, be it:

RESOLVED, that the Eligible Positions and the associated Incentive Award Opportunities set forth on the Exhibit attached hereto [see the attachments to these minutes] are hereby approved for the 2005/2006 Performance Period, effective as of the date the respective employee employed in each such Eligible Position is selected as a Participant in the Plan; and

RESOLVED, that Mark Shoberg is hereby selected as a Participant in the Plan, effective as of October 31, 2005, Scott Bigham is hereby selected as a Participant in the Plan, effective as of September 1, 2005, and Kate Wagner is hereby selected as a Participant in the Plan, effective as of October 31, 2005.

**Performance Incentive Awards for the Participants:**

WHEREAS, in accordance with Section 5.5(d) of the UTIMCO Compensation Program (the "Plan"), the Compensation Committee has determined each Participant's level of achievement of his or her "Performance Goals" for the 2004/2005 Performance Period, except the level of achievement of the President and CEO with respect to his Performance Goals for such period; and

WHEREAS, Sections 5.5(e) and 5.5(f) of the Plan provide that, based on the percentage achieved of each Participant's Performance Goals for a Performance Period, a "Performance Incentive Award" will be calculated for each Participant for such Performance Period in accordance with the calculation methodology set forth in Appendix A of the Plan; and

WHEREAS, Sections 5.5(e) and 5.5(g) of the Plan provide that the Compensation Committee will review all Performance Incentive Award calculations for all Participants who have met or exceeded their performance benchmarks for such Performance Period and submit its recommendations to the Board for approval; and

WHEREAS, the Compensation Committee has reviewed the Performance Incentive Awards for all Participants who have met or exceeded their performance benchmarks for the 2004/2005 Performance Period, approved such Performance Incentive Awards, and recommended that the Board approve the same; and

NOW, THEREFORE, be it:

RESOLVED, that the Performance Incentive Awards for the Participants (including the President and CEO) for the 2004/2005 Performance Period in the total amount of \$2,261,214 are hereby approved.

**And the President and CEO's Performance Incentive Award:**

WHEREAS, Section 5.5(d) of the UTIMCO Compensation Program (the "Plan") provides that, at the end of each "Performance Period," the Board will determine the level of achievement of the President and CEO with respect to his "Performance Goals" for such Performance Period; and

WHEREAS, the Board has reviewed the actual performance of the President and CEO during the Performance Period and has compared such actual performance relative to each Performance Goal category for the President and CEO against his corresponding Performance Goal for such Performance Period;

NOW, THEREFORE, be it:

RESOLVED, that the Board approves the President and CEO's Performance Incentive Award for the 2004/2005 Performance Period in the amount of \$526,212.

Mr. Ferguson addressed the Staff to let them know that the Committee and the entire Board felt that they had done an extraordinary job this year and the achievements that they have accomplished in this period of time should be applauded.

**Policy Committee**

Mr. Caven explained the purpose of the new Policy Committee. The Policy Committee is to provide oversight and monitor the development and amendments of the Corporate Board Policies and Document; and the development and amendment of the investment-related policies of the Board of Regents related to the management of funds under the control and management of the Board of Regents; and the amendment of the Investment Management Services Agreement, the Code of Ethics and Bylaws. Mr. Caven proposed adopting the Charter with suggested changes by the UT System Office of General Counsel, other than the suggested deletion of the words "development and" before the words "review of" in the first sentence under the heading "Investment Policies of the U.T. Board" on the second page of the Charter. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the Proposed Charter of the Policy Committee be, and is hereby, approved in the form submitted to the Corporation's Board of Directors with the changes recommended by Chairman Caven.

Mr. Caven noted that although the Chancellor, as Vice Chairman of Policy, will not be a member of the Committee, he will continue to have the duties assigned him in that role under the Corporation's Bylaws and the Investment Management Services Agreement between the Corporation and the Board of Regents.

### **Delegation of Authority**

Mr. Caven asked Mr. Boldt to present the recommended changes to the Delegation of Authority. Mr. Boldt explained that upon request of the Board, the Staff had redrafted the proposed language related to short sales of securities to offset existing long positions for risk control purposes. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the amendment to the Delegation of Authority Policy be, and is hereby, approved in the form submitted to the Corporation's Board of Directors.

### **Audit and Ethics Committee Report**

Mr. Caven asked Mr. Nye, Chairman of the Audit and Ethics Committee, to give a Committee report. Mr. Nye reported that the Audit and Ethics Committee met on November 3, 2005, and recommended approval of the audited financial statements of the Permanent University Fund, General Endowment Fund, Permanent Health Fund, Long Term Fund, Short Intermediate Term Fund, and the Statement of Performance Statistics. The financial statements were audited by Ernst & Young, LLP. Ricky Richter, coordinating partner, presented Ernst & Young's Audit Results and Communications letter and answered questions related to the financial statements. Ernst & Young issued unqualified opinions on the August 31, 2005 financial statements. The opinions were dated October 21, 2005. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the separate annual financial statements and audit reports for the Permanent University Fund, the Permanent Health Fund, The University of Texas System Long Term Fund, The University of Texas System General Endowment Fund, and The University of Texas System Short Intermediate Term Fund, each for the fiscal years ended August 31, 2005 and August 31, 2004 and the Statement of Investment Performance Statistics for the year ended August 31, 2005 be and are hereby approved in the form as presented to the Board.

The meeting was recessed at 11:40 a.m. The Board of the Corporation reconvened in an open meeting at the same meeting location at 12:45 p.m.

### **Marketable Alternatives Portfolio Update**

Mr. Caven asked Ms. Iberg to give an update on the Marketable Alternatives Portfolio. Ms. Iberg gave a broad overview of the hedge fund portfolio. She focused on the overall hedge fund industry, portfolio performance and composition, pooling of hedge fund managers, and near-term plans for the Program. Ms. Iberg, Mr. Boldt and Dr. Brown answered the Directors' questions.

**Risk Dashboard**

Mr. Caven asked Mr. Boldt to present the next item on the agenda. Mr. Boldt explained each chart on the new Risk Dashboard, a report that will be sent to the Board on a monthly basis. The report contains a set of standardized charts and graphs presenting a comprehensive risk analysis of the Endowment Funds. Mr. Boldt, Ms. Reed and Dr. Brown answered the Directors' questions.

**Discussion of Investment Environment and Opportunities**

Mr. Boldt led an open-ended discussion with the Directors regarding current issues, concerns and opportunities in the investment environment. Mr. Boldt provided a handout of Investment Trends and answered the Directors' questions. Mr. Nye and Ms. McHugh left the meeting during discussion.

**Intermediate Term Fund ("ITF")**

Mr. Caven asked Mr. Goldsmith to give a presentation on the implementation status of the Intermediate Term Fund. Mr. Goldsmith presented and discussed the developed timeline. To effectively utilize select incumbent active endowment managers in the proposed ITF, a request was made by the Staff to raise the investment ceiling beyond current Delegation of Authority limits, for prescribed managers, in prescribed amounts as provided. Mr. Boldt and Mr. Goldsmith answered the Directors' questions. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the Manager Exception List for the Intermediate Term Fund be, and is hereby, approved in the form submitted to the Corporation's Board of Directors.

**Transaction Interface for Intermediate Term Fund**

Mr. Caven asked Mr. Edwards to demonstrate the online system developed to facilitate the trading and reporting requirements for the system institutions' holdings of the Short Term Fund and the Intermediate Term Fund. Training will be provided to the system institutions in January, 2006, prior to the implementation of the ITF. Mr. Edwards answered the Directors' questions.

There being no further business to come before the Board of Directors, the meeting was adjourned at approximately 3:40 p.m.

Secretary: \_\_\_\_\_  
Joan Moeller

Approved: \_\_\_\_\_ Date: \_\_\_\_\_  
H. Scott Caven, Jr.  
Chairman, Board of Directors of  
The University of Texas Investment  
Management Company