

**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 9:03 a.m. on the **25th day of May, 2006**, by means of conference telephone enabling all persons participating in the meeting to hear each other, at the offices of the Corporation, Suite 2800, 401 Congress Avenue, Austin, Texas, 78701, said meeting having been called to order 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  
Woody L. Hunt, Vice Chairman  
Mark G. Yudof, Vice Chairman for Policy  
Clint D. Carlson  
J. Philip Ferguson  
Colleen McHugh  
Erle Nye  
Robert B. Rowling  
Charles W. Tate

thus, constituting a majority and quorum of the Board. Also attending the meeting were: 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; Philip Aldridge, Amy Barrett, Charlie Chaffin and Cathy Swain of UT System Administration; and Bruce Myers of Cambridge Associates. Mr. Caven called the meeting to order at 9:03 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 meeting of the Board of Directors held on March 30, 2006. Chancellor Yudof requested the following paragraph to be added within the Investment Policy Statements section of the minutes:

"In the discussion regarding proposed changes to Exhibit A of the investment policies, UTIMCO staff requested a lower end of the range for 'cash' at -5%, based on an interpretation of the revised Derivative Investment Policy that would permit the creation of exposure up to 120% of portfolio assets. Chancellor Yudof noted that the Policy applied to individual derivatives, and the Derivative Policy was not intended to authorize leveraging of the entire portfolio. He suggested that if there is any doubt, the Derivative Policy should be clarified to make sure that no such portfolio leverage authority is granted. The Chancellor also observed that at each meeting the staff frequently seeks additional discretion with regard to portfolio

leveraging, short selling, negative cash balances, and other measures that potentially increase risk and allow leveraged investments without UTIMCO Board oversight. He does not agree with these efforts and is concerned about their cumulative impact on UTIMCO investment strategies.”

Upon motion duly made and seconded, the following resolutions were unanimously adopted:

RESOLVED, that the minutes of the meeting of the Board of Directors held on March 30, 2006, be, and are hereby, approved, subject to revision as requested by the Chancellor; and

RESOLVED, FURTHER, that the President and the Secretary of the Corporation be, and they are hereby, authorized and directed to revise the minutes in accordance with the foregoing resolution.

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

Mr. Caven asked Mr. Nye, Chairman of the Audit and Ethics Committee, to give a report from the Audit and Ethics Committee meeting that was held on May 16, 2006. The first item Mr. Nye reported on was the Custodian Search process. As Chairman, he was involved with the process from beginning to end, and noted that the Staff had performed the search using a very thorough and thoughtful process. He stated that the Staff's recommendation to select Mellon Trust as the custodian reflected the most competent service with the lowest cost. Mr. Nye proposed, on behalf of the Audit and Ethics Committee, a resolution to approve the selection of Mellon Trust as the master custodian for the UT System funds. After discussion, upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the Board approves the selection of Mellon Trust as the master custodian for the UT System Funds and directs staff to negotiate the contract with Mellon Trust, subject to approval of the Board of Regents of The University of Texas System.

Mr. Nye continued by reporting on the revision of the Audit Charter of the Audit and Ethics Committee. Mr. Nye stated that the Audit and Ethics Committee at their last meeting considered the proposed changes to the Audit Charter of the Audit and Ethics Committee and recommended that the Board accept the changes as drafted. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the revision of the Audit Charter of the Audit and Ethics Committee, be, and is hereby approved, in the form submitted to the Corporation's Board of Directors.

Another item discussed and approved at the Audit and Ethics Committee meeting was the appointment of the firm of Ernst & Young, LLP as the independent auditor of the Corporation for the year ended August 31, 2006. Mr. Nye stated that the Committee recommended that the Board approve the Engagement Letter with Ernst & Young, LLP. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the firm of Ernst & Young, LLP be, and is hereby, engaged as the independent auditor of the Corporation for the year ended August 31, 2006, as submitted by the Audit and Ethics Committee.

### Code of Ethics

Mr. Caven introduced the next item which was discussion and consideration of proposed amendments to the Corporation's Code of Ethics ("Code"). This matter has been reviewed by both the Policy Committee and the Audit and Ethics Committee. Mr. Caven asked Mr. Burgdorf to begin the discussion by giving background and reasons for revisions. Mr. Burgdorf gave a re-drafting overview beginning with the charge to re-write the Code in a form that used plain English and was easier to understand, and then gave an explanation of each of the substantive changes proposed. Involved in the re-write were several members from the UT System staff, Corporate Staff and outside counsel, Vinson and Elkins. Mr. Nye stated that the revisions to the Code were reviewed at a joint meeting of the Policy Committee and the Audit and Ethics Committee on May 16, 2006, and the Audit and Ethics Committee approved the changes as presented with the exception of the changes contained in Sections 3.03 and 3.06. Mr. Rowling voiced agreement with Mr. Nye and further acknowledged that the Policy Committee had met again earlier in the day, prior to the Board meeting, and adopted new language in regard to Section 3.03. Mr. Rowling asked Mr. Turner to read the proposed changes to Sections 3.03 which were approved by the Policy Committee. Mr. Turner read the following:

Sec. 3.03. UTIMCO Investments in Private Investments of Certain Business Entities. UTIMCO or a UTIMCO entity may not:

- (1) invest in the private investments of a business entity if a director or director entity then owns a private investment in the same business entity unless:
  - (A) the director or director entity acquired the private investment before the date on which the director assumed a position with UTIMCO;
  - (B) the director's private investment does not constitute a pecuniary interest in a business entity as defined by Section 3.01(b) of this code; and
  - (C) the Board approves the investment by UTIMCO or the UTIMCO entity by a vote of two-thirds of the membership of the Board after a full disclosure in an open meeting of the relevant facts and a finding by the Board that the investment will not benefit the director or director entity financially;
- (2) invest in the private investments of a business entity if an employee or employee entity then owns a private investment in the same business entity; or
- (3) except as provided above, co-invest with a director, director entity, employee, or employee entity in the private investments of the same business entity.

Mr. Turner also read implicit changes to Section 3.06 that were recommended by UT System Office of General Counsel and approved by V&E:

Sec. 3.06. Divestment Not Required For Certain Private Investments.

A director, director entity, employee, or employee entity that owns a private investment in a business entity on the date on which the director or employee assumes a position with UTIMCO is not required by Section 3.04 or 3.05 of this code to divest that private investment as long as the private investment does not constitute a pecuniary interest in a business entity as defined by Section 3.01 of this code. Any transactions concerning the private investment that might occur after that date are subject to this code.

Mr. Turner answered the Directors' questions. Chancellor Yudof voiced support for the revision, but also stated that he had some open issues and that he would like additional review, including a review of a memo from Baker Botts on the subject, prior to taking the revisions to the UT System Board of Regents for approval. Upon motion duly made and seconded, the following resolutions were unanimously adopted:

RESOLVED, that amendments to the Code of Ethics of the Corporation as presented be, and are hereby, approved, subject to approval by the Board of Regents of The University of Texas System; and it be further

RESOLVED, that the foregoing resolution supersedes the resolutions of the Board adopted on July 21, 2005, that approved amendments to the Code of Ethics; and be it further

RESOLVED, that the resolutions of the Board adopted on July 21, 2005, approving amendments to the Code of Ethics are rescinded.

### **Bylaws**

Mr. Caven asked Mr. Turner to explain the proposed amendments to the Corporation's Bylaws. Mr. Turner presented the three minor changes recommended by Staff, to adjust the language in the Bylaws to be consistent with language in the Texas Education Code, Code of Ethics, Investment Management Services Agreement, and to reflect the new office address of the Corporation. Mr. Rowling reported that the Policy Committee had approved these changes and recommended approval. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that amendments to the Bylaws of the Corporation as presented be, and are hereby, approved, subject to approval by the Board of Regents of The University of Texas System.

### **Financial Statements and Audit and Ethics Committee Self Assessment**

Mr. Nye reported two other items discussed at the Audit and Ethics Committee held on May 16, 2006. The committee reviewed Unaudited Financial Statements for the six months ended February 28, 2006, for the Permanent University Fund (PUF), General Endowment Fund (GEF), Permanent Health Fund (PHF), Long Term Fund (LTF), Intermediate Term Fund (ITF), and UTIMCO. Also reported by Mr. Nye was the first self-assessment of the Committee, as required by the Audit Charter of the Audit and Ethics Committee. The self-assessment requires each Committee member to evaluate his or her own performance as well as the performance of the Committee as a whole, on a regular basis. Mr. Nye stated that Mr. Chaffin and Ms. Barrett of UT System Audit Office presented and discussed their institutional and investment compliance program audit report. The investment compliance activities have developed significantly and, given the increased complexity of the portfolio and emerging guidance on effective compliance, Mr. Chaffin expressed concern with regards to compliance of asset allocation category limits. The auditors have difficulty in auditing the limits when there are no clear lines in definitions of hedge funds and other categories. Mr. Nye stated that he did not bring this point to the Board to alarm them, but rather to inform the Board regarding an issue that haunts the industry.

### **Asset Allocation and Performance**

Mr. Caven asked Mr. Boldt to report on the Corporation's asset allocation and performance. Mr. Boldt reported that the Texas Law School Foundation will be investing their funds, approximately \$90 million of assets, with the Corporation beginning in September. Mr. Boldt continued by presenting an investment update and discussed performance information for March 31, 2006. He also gave preliminary information for April. He discussed 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 March 31, 2006. The net performance for the one-month period ended March 31, 2006, for the Permanent University Fund ("PUF") was 0.83% and for the General Endowment Fund ("GEF") was 0.80%, versus benchmark returns of 1.51% for each fund. The net performance for the one-year period ended March 31, 2006, for the PUF and GEF was 14.29% and 14.02%, respectively, versus benchmark returns of 16.30% for each fund. The new Intermediate Term Fund's ("ITF") performance was 0.85% versus its benchmark return of 1.00% for the one-month period. Performance for the Short Term Fund ("STF") was 0.38% versus 0.39% for its benchmark for the one-month period, and was 3.72% versus a benchmark return of 3.53% for the one-year period ended March 31, 2006. Also presented was performance attribution, statistics on liquidity, total derivatives by type and application, actions taken under the Delegation of Authority, manager changes since the last Board meeting and the Risk Dashboard. Mr. Boldt, Ms. Iberg, Ms. Reed and Mr. Thompson answered the Directors' questions during the update. Mr. Boldt asked Mr. Goldsmith to give a brief update on the Intermediate Term Fund ("ITF") from inception to April 30, 2006. Before turning the meeting over to Mr. Goldsmith, Mr. Boldt asserted that the ITF, by July 1, 2006, would be fully compliant with the prescribed asset allocation policy targets and ranges. He was pleased to announce that this had been achieved ahead of schedule. Mr. Goldsmith gave an update of the ITF including performance, asset allocation, deviations from targets and a summary of activity. Mr. Boldt and Mr. Goldsmith answered the Directors' questions.

### **Manager Classification Issues**

Mr. Caven introduced the next topic on the agenda which addressed manager classification issues and the procedures in place at the Corporation. Mr. Boldt began by discussing the convergences and overlaps developing among active investment managers and how potential issues arise as to how managers should be classified within the Corporation's more rigid asset category framework. Mr. Caven left the meeting during this discussion, but prior to leaving, he requested that the Staff and the UT System oversight group listen to the tape of this meeting and prepare a memorandum with all the issues discussed today on this very important topic. After further discussion, it was realized that a need for consensus on this topic was required for day-to-day management of the funds, until classification issues could be resolved comprehensively in the next asset allocation study. During discussion of options to move forward, it was generally accepted that the Chairman of the Board and the Chairman of the Risk Committee, and the Risk Committee itself, if necessary, can bring a final recommendation to the Board and Board of Regents in July, with the Chairman acting in the interim on questions regarding classification.

### **New Method of Reporting Individual Managers**

Mr. Boldt discussed the procedure of the current watch list and stated that it is very loosely defined. The Watch List was originally created as an information tool between the Staff and the Board, not between Staff and the general public. The Board concurred that the delegation process on manager selection would remain at the Staff level, but suggested that a report be given periodically to the Board on any action taken by Staff, after the fact.

**Investment Consultant Request for Proposal**

Mr. Boldt continued by providing the Board information on the Staff's process of reviewing Corporation service providers. The Staff has identified seven investment consultants to be potential recipients of the current Request for Proposal (RFP). The Staff will keep the Board apprised of the process. There was discussion on possibly having more than one consultant. Cambridge is currently the Board's investment consultant. Mr. Boldt answered the Directors' questions and noted their suggestions for changes to the RFP.

There being no further business to come before the Board of Directors, the meeting was adjourned at approximately 11:40 a.m.

Secretary: Joan Moeller  
Joan Moeller

Approved: H. Scott Caven, Jr. Date: 9.22.06  
H. Scott Caven, Jr.  
Chairman, Board of Directors of  
The University of Texas Investment  
Management Company