

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

A meeting of the Audit and Ethics Committee (the "Committee") of The University of Texas Investment Management Company (the "Corporation") convened in open session on **June 30, 2009**, 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, said meeting having been called by the Committee Chair, Paul Foster, with notice provided to each member in accordance with the Corporation's Bylaws. The audio portion of the meeting was electronically recorded. Participating in the meeting were the following members of the Committee:

Paul Foster, Chair  
Colleen McHugh

thus constituting a majority and quorum of the Committee. Also attending the meeting was Erle Nye, Chairman of the Board. Employees of the Corporation attending the meeting were Bruce Zimmerman, CEO and Chief Investment Officer; Cathy Iberg, President and Deputy CIO; Joan Moeller, Secretary and Treasurer; Christy Wallace, Assistant Secretary; Cecilia Gonzalez, internal General Counsel and Chief Compliance Officer; Lindel Eakman, Managing Director – Private Investments; and other staff members. Other attendees were Jerry Turner and Bob Jewell of Andrews Kurth LLP; Scott Kelley, Mark Gentle, Philip Aldridge, Charlie Chaffin, William Huang, Moshmee Kalamkar, Miles Ragland, Gan Louie and Laura Hartmann of UT System Administration; and Tom Wagner and Shali Mehta of Deloitte and Touche LLP. Committee Member Charles Tate joined later in the meeting as noted in the minutes. Chairman Foster called the meeting to order at 1:05 p.m. Copies of materials supporting the Committee meeting agenda were previously furnished to each Committee member.

**Approval of Minutes**

The first matter to come before the Committee was the approval of the minutes of the Meeting of the Audit and Ethics Committee meeting held on April 16, 2009. Upon motion duly made and seconded, the following resolution was unanimously adopted by the Committee:

RESOLVED, that the minutes of the Meeting of the Audit and Ethics Committee of the Board of Directors held on April 16, 2009 be, and are hereby, approved.

Mr. Tate joined the meeting at this time.

**Unaudited Financial Statements**

Mr. Foster asked Ms. Moeller to lead the presentation of the separate unaudited financial statements as of May 31, 2009, for the Permanent University Fund (PUF), The University of Texas System General Endowment Fund (GEF), the Permanent Health Fund (PHF), The University of Texas System Long Term Fund (LTF), The University of Texas System Intermediate Term Fund (ITF) (collectively, the Funds) and the

Corporation. Ms. Moeller presented the financial statements for the Funds and the Corporation. Mr. Zimmerman and Ms. Moeller summarized budget to actual expenses for the Corporation and the Investment Funds, and capital expenditures versus actual.

### **Independent Auditor**

Mr. Foster asked Ms. Moeller to present the proposed appointment of an independent auditor for the Corporation. Ms. Moeller reported that Staff recommended approval by the Committee of the engagement of Deloitte & Touche LLP, as the Corporation's independent auditor for the fiscal year ending August 31, 2009. Ms. Moeller and Mr. Chaffin answered the Committee Members' questions. Upon motion duly made and seconded, the following resolution was unanimously adopted by the Committee:

RESOLVED, that the firm of Deloitte & Touche, LLP be, and is hereby, engaged as the independent auditor of the Corporation for the year ended August 31, 2009, subject to further approval of the UTIMCO Board.

### **UT System Audit Office Report**

Mr. Foster asked Mr. Chaffin to give a report from the UT System Audit Office. Mr. Chaffin provided an update on the status of the FY 2009 Audit Plan. He reported that the Audit Office assisted Deloitte & Touche LLP with the audit of the Funds and the Corporation last fall, and beginning in July 2009, will again provide assistance for the audit of the Funds for the fiscal year ending August 31, 2009. The Audit Office will perform due diligence in conjunction with the interim work of Deloitte & Touche LLP. He also reported that the Audit Office completed the audit of the PUF internal controls and will be performing an audit of the CEO and Chief Investment Officer's travel and other expenses in August 2009 consistent with the manner in which the travel and other expenses of UT System presidents and Chancellor are performed. Mr. Chaffin and Ms. Kalamkar provided a report on the completed audit of the internal controls of the PUF. Ms. Kalamkar explained that the audit objectives were to provide assurance to Corporation's management and the Committee that internal controls over financial reporting are adequately documented and to determine whether these controls are sufficient and functioning as intended. The Audit Office also followed up on open recommendations from a previous audit of internal controls. The overall results were that the financial reporting processes for the PUF were adequately documented and the controls tested appeared to be adequate and functioning as intended. Mr. Chaffin proposed the audit plan for FY 2010 providing a summary of audits to be performed. Mr. Chaffin, Ms. Kalamkar, and Mr. Wagner answered the Committee Members' questions. Upon motion duly made and seconded, the following resolution was unanimously adopted by the Committee:

RESOLVED, that The University of Texas System Fiscal Year 2010 Internal Audit Plan for UTIMCO be, and is hereby, approved.

### **Report from Deloitte and Touche on 2009 Audit**

Mr. Foster asked Mr. Wagner to discuss the external audit for FY 2009 to be performed by Deloitte & Touche LLP. Mr. Wagner reported that the contract for audit services for the 2009 financial statement audit of the Funds was signed on May 29, 2009. Deloitte & Touche LLP will begin its interim field work on July

13, 2009. Mr. Wagner said there had been productive discussions with Staff over the past few months regarding due diligence processes, best practices, and last year's audit process. He reported to the Committee that as of now, he doesn't anticipate any significant change in the audit process as performed last year, but reported that they will also look at key controls across the Corporation. Deloitte & Touche LLP will work with the UT System Audit Office during both interim field work and the final audit. Mr. Wagner answered the Committee Members' questions. Mr. Wagner and Ms. Mehta left the meeting at this time.

### **Audit and Ethics Committee's Self-Assessment**

Mr. Foster asked Ms. Gonzalez to discuss the Audit and Ethics Committee's Self-Assessment. Ms. Gonzalez explained that the Audit and Ethics Charter requires the Audit and Ethics Committee to evaluate the Committee's performance, both of the individual members and collectively, on a regular basis. The last self assessment was performed in June 2008. She reported that the Self-Assessment tool had been mailed to each Committee member in May and was to be returned on or before June 15, 2009. Ms. Gonzalez had tallied the responses and shared the findings with the Committee. She stated that overall the responses were extremely positive and all responses expressed satisfaction with the Committee. Mr. Tate suggested that the Staff present, at some point, an overall review on compliance requirements, and explain the voluntary compliance items related to Sarbanes-Oxley. Mr. Zimmerman asked whether other committees of the Corporation should consider submitting self-assessments. After discussion, Mr. Zimmerman said that Staff would pursue the suggestion of periodic reviews for each of the Corporation's committees. Mr. Zimmerman and Ms. Gonzalez answered the Committee Members' questions.

### **Placement Agent Fees**

Mr. Foster asked Mr. Zimmerman to lead the discussion of placement agent fees pertaining to the Funds' investments. Mr. Zimmerman stated that due to the high profile nature of placement agent fees, Ms. Iberg and Mr. Eakman led the Less Correlated and Constrained Investment Group and the Private Markets Group in a project to approach general partners and investment managers to determine their placement agent policies and actions. Andrews Kurth LLP assisted in developing the questionnaire that was sent to the general partners and investment managers. The questionnaire asked whether third-party investment managers were paying finders' fees, placement or similar fees, or any other benefits to third parties as a result of or related to a third party's role in connection with the Funds' investments in any fund formed by the manager's firm. Managers were also asked whether the firm, any of its principals, employees, agents, or affiliates were or have been subject to a regulatory investigation or probe of its role in an alleged fraudulent or illegal scheme to pay or extract kickbacks from any investment management firm. Mr. Zimmerman, Ms. Iberg, and Mr. Eakman discussed the results of this project and answered the Committee Members' questions.

### **Investment Manager Due Diligence**

Mr. Foster asked Mr. Zimmerman to continue with discussion of the investment manager due diligence performed by the Corporation's accounting staff. Mr. Zimmerman said he thought it was important for the Committee to know that the accounting staff had become more active in participating in the up-front and on-going due diligence processes for external investment managers. He noted that several accounting staff

members had participated in phone calls and site visits with the Corporation's investment Staff, and had been focusing on the back office controls and processes for these managers.

### **Update on Compliance, Reporting and Audit Issues**

Mr. Foster asked Ms. Gonzalez to present the update on compliance, reporting and audit issues. Ms. Gonzalez reported that all pre-clearance of trades had cleared and all transaction forms had been filled out on time. Pursuant to a recommendation by the State Auditor's Office, the transactional disclosure form now includes a certification that each employee must sign stating that the employee has disclosed to UTIMCO all brokerage transactions in all of the employee's accounts. Disclosure forms were sent out to all financial advisors and service providers pursuant to State law. Responses are being reviewed with plans to follow-up if necessary. Ms. Gonzalez presented the Investment Policies Compliance Report for the Quarter Ended May 31, 2009, noting that one position exceeded the rule that limits 5% in one issuer, in securities lending. This was reported and managed as per policy requirements, and this position as of May 31, 2009 was back in compliance. Ms. Gonzalez reported that a new board member was appointed in March and when the board member's financial disclosure form was received, a pecuniary interest was disclosed that created a conflict of interest. UTIMCO's investment managers holding the same positions were asked to liquidate them, which they did in May and June. Ms. Gonzalez continued by presenting the Institutional Compliance Program Quarterly Report for the Quarter Ended May 31, 2009, which was submitted to UT System. Ms. Gonzalez reported that David Gahagan, Network Manager/Chief Information Security Officer for Information Technology for the Corporation, was commended by Lewis Watkins, the UT System Chief Information Security Officer, for the quality of the UTIMCO Information Security Program document and quarterly reports submitted to UT System. Mr. Watkins requested permission to use the UTIMCO Information Security Program document as a model at the UT System Chief Information Security Officers' Council meeting in June and Mr. Gahagan was invited to speak about UTIMCO's Information Security Program. Mr. Zimmerman and Ms. Gonzalez answered the Committee Members' questions.

### **Executive Session**

Mr. Foster announced, at 2:04 p.m., that "The Audit and Ethics Committee of 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 for the purpose of deliberating individual personnel compensation and evaluation matters. This Executive Session meeting of the Committee is authorized by *Texas Government Code* § 551.074 (Personnel Matters). The time is now 2:04 p.m." With the exception of Mr. Zimmerman, the Committee Members, Mr. Turner and Mr. Jewell, all other meeting participants left the meeting at this time.

### **Open Session**

The Committee reconvened in open session and Mr. Foster announced that "The Open Session of the Audit and Ethics Committee of the Board of Directors of The University of Texas Investment Management Company is now reconvened. The time is now 2:12 p.m. During the Executive Session, the Committee deliberated individual personnel compensation matters, but no action was taken nor decisions made, and no vote was called for or had by the Committee Executive Session." Mr. Foster recommended approval of the base salary recommended by the CEO for Ms. Gonzalez, the designation of the General Counsel and

Chief Compliance Officer position as an Eligible Position in the UTIMCO Compensation Program for the 2009/2010 Performance Period, the weighting and incentive award opportunity for the Eligible Position, the designation of Ms. Gonzalez as a Participant in the UTIMCO Compensation Program, and her performance goals for the 2009/2010 Performance Period. By motion duly made and seconded, the following resolution was unanimously adopted:

WHEREAS, the UTIMCO Board has established a UTIMCO Compensation Program (the "Plan") for certain employees of the Corporation; and

WHEREAS, Section 4.2(a) of the Plan provides that the Compensation Committee of the Board of Directors of UTIMCO will determine the base salaries of key investment and operations employees; and

WHEREAS, Section 5.3.(a) of the Plan provides that, in order to become a "Participant" in the Plan for a Performance Period, a UTIMCO employee must be (1) employed in a position designated by the Board of Directors of UTIMCO (the "UTIMCO Board") as an "Eligible Position" for that Performance Period and (2) selected by the UTIMCO Board as eligible to participate for that Performance Period; and

WHEREAS, Section 5.4(a) of the Plan provides that the Compensation Committee of the Board of Directors of UTIMCO will approve the Performance Goals for each Participant (other than for the CEO) for each Performance Period; and

WHEREAS, Section 5.4.(d) of the Plan provides that, subject to the approval of the UTIMCO Board, the Compensation Committee will approve (or adjust as it deems appropriate) the Weightings of the Performance Goals (entity, asset class, and individual) for each Participant (other than for the CEO) for each Performance Period; and

WHEREAS, Section 5.5.(a) of the Plan provides that, subject to the approval of the UTIMCO Board, the Compensation Committee will determine the Incentive Award Opportunity for each Performance Goal for each Participant in an Eligible Position; and

WHEREAS, the charter of the Audit and Ethics Committee (the "Committee") requires the Committee and the CEO to approve the Chief Compliance Officer's performance goals and achievement of the goals, and to make a joint recommendation to the Compensation Committee as to the base salary and performance incentive awards for the Chief Compliance Officer; and

WHEREAS, the Committee and the CEO have prepared a joint recommendation regarding the base salary of the General Counsel and Chief Compliance Officer; and

WHEREAS, subject to the approval of the Compensation Committee, the Committee and CEO have reviewed and approve the Performance Goals for the

General Counsel and Chief Compliance Officer for the 2009/2010 Performance Period as presented to the Committee; and

WHEREAS, subject to approval by the UTIMCO Board, the Audit and Ethics Committee and the CEO jointly recommend the position of General Counsel and Chief Compliance Officer as an Eligible Position and Cecilia Gonzalez as a "Participant" in the Plan for the 2009/2010 Performance Period, effective as of July 1, 2009; and

WHEREAS, subject to the concurrence of the Compensation Committee and approval by the UTIMCO Board, the Audit and Ethics Committee has reviewed and approves the Eligible Position, Weightings of the Performance Goals, and the Incentive Award Opportunities for the position of General Counsel and Chief Compliance Officer for the 2009/2010 Performance Period as presented to the Audit and Ethics Committee.

NOW, THEREFORE, be it:

RESOLVED, that the Audit and Ethics Committee approves the base salary of the General Counsel and Chief Compliance Officer as recommended by the CEO and the Audit and Ethics Committee and the CEO hereby jointly recommend to the Compensation Committee the base salary of the General Counsel and Chief Compliance Officer, effective September 1, 2009.

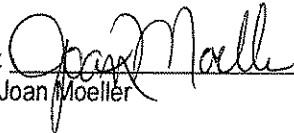
FURTHER RESOLVED, that the Audit and Ethics Committee approves the Performance Goals of the General Counsel and Chief Compliance Officer for the 2009/2010 Performance Period as recommended by the CEO and the Audit and Ethics Committee and the CEO hereby jointly recommend to the Compensation Committee the Performance Goals of the General Counsel and Chief Compliance Officer, effective as of July 1, 2009.


FURTHER RESOLVED, that the Audit and Ethics Committee and the CEO hereby jointly recommend to the Compensation Committee that the position of General Counsel and Chief Compliance Officer be designated by the UTIMCO Board as an "Eligible Position" in the Plan for the 2009/2010 Performance Period; and be it

FURTHER RESOLVED, that the Audit and Ethics Committee and the CEO hereby jointly recommend to the Compensation Committee that Cecilia Gonzalez be designated by the UTIMCO Board as a "Participant" in the Plan for the 2009/2010 Performance Period, effective as of July 1, 2009; and be it

FURTHER RESOLVED, that the Audit and Ethics Committee and the CEO hereby jointly recommend to the Compensation Committee that the Eligible Position, Weightings of Performance Goals, and Incentive Award Opportunities for the Eligible Position of General Counsel and Chief Compliance Officer for the 2009/2010 Performance Period be approved in the manner presented to the Committee, effective as of July 1, 2009.

There being no further business to come before the Committee, the meeting was adjourned at 2:15 p.m.

Secretary:   
Joan Moeller

Approved:   
Paul Foster, Chair  
Audit and Ethics Committee of The University of Texas Investment  
Management Company

Date: 11-6-09