

**MINUTES OF  
MEETING OF THE RISK COMMITTEE OF  
THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY**

The Risk Committee (the "Committee") of The University of Texas Investment Management Company (the "Corporation") convened in open session on **January 19, 2010**, 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, Charles Tate, 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:

Charles W. Tate, Chair  
Clint D. Carlson  
J. Philip Ferguson  
Paul Foster

Erle Nye, Chairman of the Board, attended the meeting, thus constituting a majority and quorum of the Committee and the Board. Employees of the Corporation attending the meeting were Bruce Zimmerman, CEO and Chief Investment Officer; Joan Moeller, Secretary and Treasurer; Christy Wallace, Assistant Secretary; Cissie Gonzalez, internal General Counsel and Chief Compliance Officer; Lindel Eakman, Managing Director - Private Markets Investments; Uzi Yoeli, Senior Director - Portfolio Risk Management; and various staff members. Also attending were Keith Brown of the McCombs School of Business at UT Austin; Jim Phillips, Charlie Chaffin, Moshmee Kalamkar and Miles Ragland representing The University of Texas System (the "UT System"); and Jerry Turner of Andrews Kurth LLP. Chairman Tate called the meeting to order at 9:34 a.m. Copies of materials supporting the Committee meeting agenda were previously furnished to each Committee member.

**Minutes**

The first matter to come before the Committee was approval of the minutes of the meeting of the Risk Committee held on November 5, 2009. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the minutes of the meeting of the Risk Committee held on **November 5, 2009** be, and are hereby, approved.

**Categorization of New Mandates**

Mr. Tate rearranged the agenda to continue with the discussion of items requiring action during the meeting and asked Mr. Zimmerman to skip to Tab 4 and discuss the Categorization of New Investment Mandates. Mr. Zimmerman stated that there were seven new investment mandates being submitted for the Committee's review and approval. Mr. Zimmerman presented details of the Staff recommendations for new mandate categorizations. These represented the mandate categorizations prepared by staff from October 27, 2009, to January 8, 2010. There were also two mandates included in the "Mandate Categorization Watch-List" that will continue to be monitored by Staff for possible recategorization. The

Chief Compliance Officer and CEO and Chief Investment Officer concurred in the categorizations prepared by the Managing Directors. Upon motion duly made and seconded, the following resolution was unanimously adopted:

WHEREAS, the Board adopted a Mandate Categorization Procedure on January 30, 2008, with an effective date of March 1, 2008, to provide greater transparency into the process of classifying an investment mandate within the approved Asset Classes and Investment Types as defined in the Investment Policy Statements for the Permanent University Fund, the General Endowment Fund, and the Intermediate Term Fund; and

WHEREAS, the Procedure requires the Managing Directors, the Chief Compliance Officer, and the Chief Investment Officer to review and categorize each new mandate, to recommend re-categorization of any existing mandate if after the initial or annual categorization they become aware of a change(s) in the investment characteristics of the mandate that warrants a re-categorization, and to annually review all existing mandates; and

WHEREAS, a Managing Director, the Chief Compliance Officer, and the Chief Investment Officer have reviewed all new mandates prepared from October 27, 2009, through January 8, 2010, and categorized each as required by the Procedure; and

WHEREAS, the Risk Committee has reviewed the new Asset Class and Investment Type Mandate Categorizations, and concurs in the classifications as proposed by the Corporation's staff.

NOW, THEREFORE, BE IT

RESOLVED, that the Categorizations of the Asset Class and Investment Type for each Investment Mandate are hereby approved.

### **Derivative Investments by External Managers**

Mr. Tate stated that at the last Committee meeting in November, Staff reported a focused effort on enhancing derivative investments controls and processes. It was reported that in conjunction with the review and subsequent amendments to the Derivative Investment Policy (the "Policy"), Staff developed the Derivative Investments Controls and Processes document, effective September 1, 2009. The Policy set forth the applications, documentations and limitations for Derivative Investments in the Permanent University Fund, the General Endowment Fund, the Intermediate Term Fund, and the Separately Invested Funds. The Derivative Investments Controls and Processes document provides detailed steps for Staff to follow to comply with the Policy and to strengthen internal controls to ensure derivative risks are identified, measured appropriately, properly controlled, and reported. Mr. Tate said that after Staff review, one manager was found to be out of compliance, engaging in Derivative Investments that were not within the delegated authority set forth on Exhibit B of the Policy. He stated that Committee approval, subject to further approval by the Board, was needed for retention of PIMCO as an existing external manager operating under an Agency Agreement with the current investment guidelines and restrictions on the use of Derivative Investments contained in the Investment Advisory Agreement effective October 1, 2003, as

amended. Mr. Zimmerman explained that UTIMCO's Risk Management group, led by Uzi Yoeli, documented the use of Derivative Investments by sixteen external managers operating under an Agency Agreement. Mr. Zimmerman asked Mr. Yoeli to present the results of the study done by the Risk Management Group. Mr. Yoeli reported that of the sixteen external managers, nine had been approved by the Chief Investment Officer to use Derivative Investments. Of the nine external managers approved to use Derivative Investments, eight were in compliance with the Policy. One manager, PIMCO, was engaging in Derivative Investments that were not within the delegated authority set forth on Exhibit B of the Policy due to previously negotiated investment guidelines and restrictions contained in its Investment Advisory Agreement effective October 1, 2003, as amended. Staff was requesting that the Committee approve retaining PIMCO as an existing external manager operating under an Agency Agreement with the current investment guidelines and restrictions on the use of derivatives contained in the Investment Advisory Agreement. Mr. Zimmerman and Mr. Yoeli answered the Committee Members' questions. Mr. Tate asked Mr. Turner if the Board had the authority to make the exception for PIMCO without the approval of the UT System Board of Regents. Mr. Turner stated that he believed approval by the Board was within the Delegation of Authority Policy, but he would make sure prior to the Board meeting. Upon motion duly made and seconded, subject to confirmation of the Board's authority to approve the retention of PIMCO from Mr. Turner, the following resolution was unanimously adopted:

WHEREAS, the UTIMCO Board approved an amendment to the Derivative Investment Policy effective August 20, 2009 ("Policy"); and

WHEREAS, the UTIMCO Board authorized the Corporation's CEO to negotiate with each existing external manager operating under an Agency Agreement that engages in Derivative Investments to ensure its Derivative Investments are in compliance with the Derivative Investment Policy subject to the requirement that the Corporation's CEO must seek approval from the UTIMCO Board to allow the retention of any existing external manager that is not in compliance with the Derivative Investment Policy on the date of the first 2010 regular meeting of the Corporation's Board; and

WHEREAS, Corporation staff has reviewed all of the Corporation's external managers operating under an Agency Agreement that engages in Derivative Investments for compliance with the Policy and determined that one external manager operating under an Agency Agreement (PIMCO) is currently allowed to engage in Derivative Investments that are not within the delegated authority set forth on Exhibit B of the Policy due to previously negotiated investment guidelines and restrictions contained in its Investment Advisory Agreement effective October 1, 2003, as amended; and

WHEREAS, Corporation staff has documented and presented to the Committee its reasons for desiring to retain PIMCO as an external manager; and

WHEREAS, the Committee concurs with the reasons presented by Corporation staff for desiring to retain PIMCO as an external manager and wishes to document its approval of retention of PIMCO as an external manager and recommends that the Board approve the same.

NOW, THEREFORE, BE IT

RESOLVED, that the retention of PIMCO as an existing external manager operating under an Agency Agreement with the current investment guidelines and restrictions on the use of derivatives contained in the Investment Advisory Agreement effective October 1, 2003, as amended, is hereby approved, subject to further approval of the UTIMCO Board.

### **Increase in Delegation of Authority Limits for Specific Managers**

Mr. Tate informed the Committee that Staff had identified seven managers for which it would like to increase the investment limits in excess of the limits provided in the Delegation of Authority Policy and/or previously approved by the UTIMCO Board. Mr. Tate asked Mr. Zimmerman to explain the Staff's request. Mr. Zimmerman explained that the Proposed Increases to Delegation of Authority Limits listed seven managers that were either currently above or near the delegated authority limit due to appreciation. He said Staff was requesting the increase in the delegated authority limit so it can have the option to invest additional capital with these managers. Mr. Zimmerman led the discussion with the Committee providing the rationale for increasing the delegated authority limits for specific managers and a summary of each mandate relationship. Mr. Zimmerman and Ms. Iberg answered the Committee Members' questions. After discussion, the Committee asked the Staff to further review the definitive amounts needed for each mandate and to come back to the Committee at a later date with specific requests. The increase request was tabled until further notice.

### **Funds Performance Update and Risk Reporting**

Due to the Audit and Ethics Committee meeting starting immediately following the Risk Committee meeting, there was limited time for discussion. Mr. Tate asked that the Funds Performance Update and Risk Reporting be tabled at this meeting since Mr. Zimmerman would be making a full report at the Board of Directors meeting being held the following week.

### **Compliance Summary Program**

Mr. Tate asked Ms. Gonzalez to provide highlights of the Compliance Summary Program for the Quarter Ending November 30, 2009. Ms. Gonzalez stated that the UT System is no longer requiring the Quarterly Institutional Compliance Program Report, but they will still require the action plan to be submitted. Ms. Gonzalez will continue to include the report in the Audit and Ethics Committee and Risk Committee meeting materials. Mr. Zimmerman and Ms. Gonzalez reported that there were two minor items out of compliance. One manager held 16 securities when it was only approved to hold up to 15 and had not requested approval to go above the guideline limits. The manager has since been granted approval to hold the extra security. Ms. Gonzalez stated that a certificate of compliance for a newly funded commitment had not been sent to the newest Director prior to funding. The certificate of compliance for the funded commitment as well as the certificates of compliance for other mandates under consideration not previously furnished to the Director were sent immediately upon discovery. No conflicts were reported by the Director.

With there being no further business to come before the Risk Committee, the meeting was adjourned at approximately 10:45 a.m.

Secretary: Joan Moeller  
Joan Moeller

Approved: Charles W. Tate  
Charles W. Tate, Chair  
Risk Committee  
of the Board of Directors of  
The University of Texas Investment  
Management Company

Date: 4/15/10