

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

The Audit and Ethics Committee (the "Committee") of The University of Texas Investment Management Company (the "Corporation") convened in open session on **January 16, 2006**, in the Whitney Room of the Four Seasons Hotel, 1300 Lamar, Houston, Texas, said meeting having been called by the Committee Chair, Erle Nye, with notice provided to each member in accordance with the Bylaws. The audio portion of the open meeting was electronically recorded. Participating in the meeting were the following members of the Committee:

Erle Nye, Chair
Woody L. Hunt
Robert B. Rowling

thus, constituting a majority and quorum of the Committee. Also attending the meeting were Directors Colleen McHugh and Charles Tate; 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 – Information Technology; Andrea Reed, Risk Manager; 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 Ricky Richter of Ernst & Young. Chairman Nye called the meeting to order at 4:50 p.m. Copies of materials supporting the Committee meeting agenda were previously furnished to each Director.

Approval of the Minutes

The first matter to come before the Committee was approval of the Audit and Ethics Committee minutes of the November 3, 2005, meeting. By motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the minutes of the Meeting of the Audit and Ethics Committee of the Board of Directors held on November 3, 2005, be, and are hereby, approved.

Presentation of the UTIMCO Financial Statements for the Period Ended August 31, 2005

Mr. Nye asked Mr. Richter, from the independent accounting firm of Ernst & Young, LLP, to make a presentation of audit results of communications to the Corporation. Mr. Richter confirmed the completion of audit of the Corporation and reviewed with the Committee the Audit Results and Communication report covering required communications and report on internal controls. As stated in the report, Mr. Richter confirmed that 1) Ernst & Young issued unqualified opinions on the Corporation's August 31, 2005 financial statements, 2) accounting principles selected by management are of good quality, are acceptable, and have been consistently applied under accounting principles generally accepted in the United States, 3)

the Corporation's financial statements and disclosures were complete in all material respects, 4) estimates in the 2005 financial statements did not require significant management judgment, and 5) during fiscal year 2005, the Corporation changed the financial statement presentation from a FASB to a GASB format, with the most significant change being the addition of a Management's Discussion & Analysis section. Mr. Richter also stated that if instances of fraud or allegations of fraud were found during the audit, Ernst & Young would be required to reveal such, but they are not aware of any such instances. No material weaknesses regarding internal control were found during their audit procedures. Mr. Richter and Ms. Moeller answered the Committee members' questions.

Mr. Nye recommended approval of the annual financial statements and audit report for the Corporation for the fiscal years ended August 31, 2005, and August 31, 2004. By motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the annual financial statements and audit report for the Corporation for the years ended August 31, 2005, and August 31, 2004 be, and are hereby, approved in the form as presented to the Committee.

Internal Control

Mr. Nye asked Ms. Moeller to discuss the next item as the Internal Controls Assessment Audit was handed out to the Committee members. The Corporation is voluntarily complying with the relevant provisions of Sarbanes-Oxley Section 404, which involves enhanced disclosure and financial accountability. During the year the Staff, UT System Audit Staff and the outside firm of Ernst & Young have been documenting, reviewing, and testing the processes and controls over accounting and financial reporting for corporate operations and the Permanent University Fund. Mr. Richter from Ernst & Young reported very favorably on the documentation received from the Staff. Ernst & Young reviewed the documentation received, performed additional testing on several areas, and found no notable or reportable issues. Mr. Nye called upon Mr. Chaffin for comment. Mr. Chaffin replied that the Corporation's Board of Directors can feel confident that processes are in place to assure the financial statements for the Corporation and the Permanent University Fund are accurate. By motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that UTIMCO management's assertions on Internal Control over Financial Reporting, and the independent accountant's reports for UTIMCO and the Permanent University Fund for the year ended August 31, 2005, be, and are hereby approved, in the forms presented to the Committee, subject to approval by the Corporation's Board of Directors.

Financial Statements

Mr. Nye asked Ms. Moeller to present the unaudited financial statements for the Corporation and the Permanent University Fund, The University of Texas System General Endowment Fund, the Permanent Health Fund, The University of Texas System Long Term Fund, and The University of Texas System Short Intermediate Term Fund, each for the three months ended November 30, 2005. The interim financial

statements presented for review by the Committee were not audited by Ernst and Young. Ms. Moeller answered the Committee members' questions.

Enterprise Risk Management and Compliance Processes

Mr. Nye asked Ms. Moeller and Mr. Lee to present the review of the Corporation's Enterprise Risk Management and Compliance Processes, which is required by the Charter of the Committee. The framework for assessing and managing risk was reviewed and discussed by the Committee. Mr. Lee explained that enterprise risk management is a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, manage risk to be within its risk appetite, and to provide reasonable assurance regarding the achievement of entity objectives. The items relevant to Investment Risk will be discussed later during a joint meeting with the Risk Committee.

Key Operational Risk Exposures

Mr. Nye asked Mr. Lee to continue with review of the Corporation's Key Operational Risk Exposures, also required by the Committee Charter. The process of identifying, analyzing, and managing risks is a critical component of any effective management system. Acknowledging that change is always present, identifying changed conditions and taking actions as necessary to respond to those changes are fundamental to an effective risk process. Mr. Lee answered the Committee members' questions.

Custodian Review

Mr. Nye asked for an update on custodian review, explaining that the master custodian contract terminates on June 30, 2006. Ms. Moeller stated that the master custodian for the UT System investment accounts provides a wide range of services including custody, accounting, performance, analytics, and securities lending and that the purpose for the review is to compare the services, abilities and costs of the current custodian with other custodians in the industry. Mr. Nye asked Ms. Moeller to present an overview of the draft Request for Proposal ("RFP"). Ms. Moeller presented a time line for the process and identified the short list of candidates recognized in the industry as top performers that would be solicited for the proposal. Mr. Moeller answered the Committee members' questions. Mr. Nye asked for Ms. Moeller to provide a periodic report of the process.

Compliance, Reporting and Audit Issues

Mr. Nye asked Ms. Moeller to give an update on internal compliance, reporting and audit issues. Ms. Moeller noted that the Staff recommended to UT System that the audit services contract with Ernst & Young be renewed for another year. She reported that a detailed report of the Investment Policy and Investment Manager Compliance Report was provided. Also noted by Ms. Moeller was that certifications of the August 31, 2004 financial statements by the Chief Executive Officer and the Chief Financial Officer, which is a requirement of the Investment Management Services Agreement, were provided to the

Committee members. Ms. Moeller and Mr. Chaffin answered the Committee members' questions.

Joint Committee Meeting with the Audit and Ethics Committee and the Risk Committee

At this time, Mr. Nye announced that the Audit and Ethics Committee would convene in a joint meeting with the Risk Committee, which joint meeting began at approximately 5:50 p.m. The following members of Risk Committee were present:

- Charles W. Tate, Chair
- H. Scott Caven
- Woody L. Hunt

Mr. Nye began by explaining the purpose of the joint meeting between the Risk Committee and the Audit and Ethics Committee is to discuss the oversight responsibility of the committees related to investment compliance, enterprise risk management, and investment risk management. Currently, the Audit Charter of the Audit and Ethics Committee states that the Audit and Ethics Committee is to assist the UTIMCO Board in monitoring the Corporation's compliance processes associated with investment policies and enterprise risk management. The Audit Charter also states that the Audit and Ethics Committee is to evaluate the overall effectiveness of the corporation's enterprise risk management framework and to evaluate whether management is setting the appropriate tone by communicating the importance of enterprise risk management. The Charter of the Risk Committee contains language that the Risk Committee is provide oversight and monitor investment risk management. Enterprise risk management is a process, effected by an entily's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, manage risk to be within its risk appetite, and to provide reasonable assurance regarding the achievement of entily objectives. Therefore, a part of enterprise risk management for the Corporation relates to investment compliance. There was discussion among the members of the two committees concerning the appropriate allocation of responsibility for investment compliance, including the compliance associated with investment policy statements. The chairs of both the Audit and Ethics Committee and the Risk Committee agreed that the Staff would redraft the Charters of both committees to reflect the discussions at the joint meeting.

There being no further business to come before the Joint Meeting of the Audit and Ethics Committee and the Risk Committee, the meeting was adjourned at approximately 6:15 p.m.

Secretary: 
 Joan Moeller

Approved: 
 Erle Nye, Chair
 Audit and Ethics Committee
 of the Board of Directors of
 The University of Texas Investment
 Management Company

Date: 5-17-06