

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

The Board of Directors of The University of Texas Investment Management Company (the "Corporation") convened in a special meeting on the 22nd day of October, 1998 in the Regents Boardroom, 9th floor, 201 W. Seventh St., Austin, Texas, said meeting having been called by the Chairman, with notice provided to each Director in accordance with the Bylaws. Participating in the meeting were the following members of the Board of Directors:

Thomas O. Hicks, Chairman
Robert H. Allen
Susan M. Byrne
William H. Cunningham
J. Luther King, Jr.
Tom Loeffler
A. W. Riter, Jr.

thus, constituting a majority and quorum of the Board of Directors. Director Homer Luther was absent. Also participating in the meeting were Thomas G. Ricks, President of the Corporation; Cathy Iberg, Secretary of the Corporation; Dave Russ and Austin Long of Corporation management ("Management"); and Kyle Fox, Vinson & Elkins, legal counsel for the Corporation. The meeting was called to order at 10:35 a.m.

Minutes

The first item to come before the Board of Directors was approval of the minutes of the meeting of the Board of Directors held on August 20, 1998, copies of which had previously been furnished to each Director. 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 August 20, 1998 be and are hereby approved in the form presented.

Performance Review

The next item presented to the Board of Directors was a report on performance, copies of which were previously furnished to each Director. Mr. Ricks presented a comparison of the PUF and LTF (the "Funds") returns against the Frank Russell Co. universe of \$1 billion funds, the Cambridge Associates universe of endowments and the UTIMCO neutrally weighted policy portfolio for the current quarter, one year, two years, three years and five years ended June 30, 1998. Mr. Ricks also presented performance for the two operating funds; the Short Intermediate

second, verification by external entities that benchmark the Corporation against other funds. Mr. Ricks then turned the presentation over to Mr. Russ to discuss one quantitative tool: Value at Risk modeling.

Value at Risk Presentation

Mr. Russ presented the concepts of “value at risk” or VAR and return at risk or RAR. He explained that VAR in dollars is simply the RAR times the dollar value of the portfolio under study. As an example, Mr. Russ then presented VAR calculations for the Long Term Fund’s U.S. Domestic Equities relative to the S&P 500 Index. Mr. Russ defined VAR as the dollar amount that could be lost (or more) within a year with a 5% probability or a 1 in 20 chance.

Mr. Russ then presented a chart to further explain the risk measurement concept. Mr. Russ then presented the actual performance of this portfolio for the month of August 1998. With the addition of the Alternative Equities – Marketable investments replacing S&P 500 Index and S&P Midcap exposure, the portfolio actually outperformed the S&P 500 Index by 12 basis points. A modest improvement, but well within the predicted range. Discussion among Board members followed with Mr. Russ and Mr. Ricks both emphasizing that VAR is another tool for managing risk along with tracking error or active risk, standard deviation, and risk-adjusted returns measurement. Mr. Ricks described the process as developing a mosaic for understanding the entire risk management process in the context of creating performance returns.

S/ITF Risk Evaluation by Standard & Poor’s Corporation

Mr. Ricks next briefed the Board of Directors regarding a recent evaluation by Standard & Poor’s of the credit and market risk of the S/ITF. S&P’s conclusion was that the S/ITF would be rated between the two highest credit quality categories, i.e., between AAA and AA for credit risk. The Fund would also be rated between the two highest market risk categories, i.e. between S1 and S2 for market risk. S&P also listed certain enhancements to the Corporation’s practices and policies. In general, S&P recommended greater specificity and restrictions in the investment guidelines governing the S/ITF in addition to the Corporation forming a centralized investment and credit committee structure. Mr. Ricks reported that S&P’s recommendations were being implemented with the result that he expected a final credit rating of AAf. In response to questions from the Directors, Mr. Ricks also reported that Corporation was less emphatic about receiving an S1 market risk rating since it would push the S/ITF too closely to the STF.

Amendments to S/ITF and STF Investment Policies

The Board of Directors next considered proposed amendments to the investment policy statements for the S/ITF and STF, copies of which had previously been furnished to each Director and are attached to these minutes. The proposed amendments were based upon the recommendations of S&P. Management answered the Directors questions and, upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the amendments to the Short/Intermediate Term Fund and Short Term Fund Investment Policies be and are hereby approved in the forms presented.

Stock and Bond Index Investment Options for Operating Funds

The next item was discussion of investment alternatives other than the S/ITF and STF for the U.T. System operating funds. Mr. Ricks reported that the operating funds of the U. T. System components (including U.T. System Administration) amounted to roughly \$2.5 billion. These funds were invested either in the S/ITF at \$1.8 billion or the STF at \$650 million. Mr. Ricks stated that it was not unusual for large universities to invest a portion of those operating funds in excess of annual operating cycle requirements with their longer term endowment funds. A similar strategy to enhance investment return might make sense for certain health components as well as U.T. Austin with large operating funds balances. During discussion, the Board agreed that U.T. System Administration and component institutions should analyze the composition of their operating funds to determine each institution's capacity to absorb the risks of a long-term investment program. Mr. Ricks stated that given the fact that component institutions valued liquidity, use of longer term fixed income and equity index funds might be more appropriate than the LTF which was not managed to provide short term liquidity.

Implementation of the Alternative Equities - Marketable Program

The next item presented to the Board of Directors was a review of the Alternative Marketable Equity (AME) Program in the value at risk framework as well as the actual performance of the portfolio for August 1998. Copies of the materials were previously furnished to each Director. Mr. Russ reported that the program behaved as anticipated by reducing actual losses and risk due to its low correlation to the S&P 500 Index or other equity indices relative to the S&P 500 Index. For the month of August, the S&P 500 Index was down by 14.5% while the AME portfolios as a whole were down 5.2% for a net value-added of 9.30%.

He also reported that none of the AME managers were leveraged as of September 30, 1998 or since the Corporation hired them. Discussion then ensued between the Board and Management regarding the recent problems in the "hedge" fund industry and the use of excessive leverage.

Approval of Commitment to Austin Venture Partners VI, L.P

At this point, Craig Nickels and Charles Preston of Corporation management entered the meeting room. The next matter to come before the Board of Directors was a discussion regarding a proposed investment in Austin Venture Partners VI, L.P. Mr. Long reviewed a Short Form Due Diligence Review & Recommendation dated October 22, 1998 describing the proposed investment, copies of which had previously been furnished to each Director. The Directors discussed the proposed investment and upon motion duly made and seconded, the following resolutions were adopted with all Directors voting for approval.

WHEREAS, the Board has reviewed a Short Form Due Diligence Review and Recommendation prepared by the Corporation's management recommending that the Corporation enter into an investment agreement (the "Agreement") with AV Partners VI, L.P. to invest up to \$20 million of PUF and LTF assets in Austin Venture Partners VI, L.P.;

compliant by January 1999, and the external investment manager review on Y2K will be completed by December 31, 1998. Ms. Iberg then answered the Directors questions.

Executive Session

At this point, Messrs. Long, Nickels, Preston and Russ and Ms. Iberg left the meeting room.

Mr. Ricks then briefed the Board on a concept to allow private equity portfolio managers to invest a portion of their annual bonus compensation side by side with the PUF and the LTF. The Board's consensus was that such a program would better align the interests of the portfolio managers with those of the funds and condition the ultimate realization of a bonus with the performance of the portfolio itself. Discussion ensued concerning optional participation, employee eligibility and potential regulatory requirements. The Board instructed Mr. Ricks to examine the concept further and to report his findings at the next meeting.

The Board next considered appointment of the Corporation's officers. Upon motion duly made and seconded, the following resolutions were adopted with all Directors voting for approval:

RESOLVED, that the following persons are hereby appointed to the respective office or offices of the Corporation set forth opposite their names, to serve until the next Annual Meeting of the Corporation or until their resignation or removal.

<u>Name</u>	<u>Office or Offices</u>
Thomas O. Hicks	Chairman
Thomas G. Ricks	President and Chief Executive Officer
Austin M. Long	Managing Director
David H. Russ	Managing Director
Cathy A. Iberg	Managing Director, Treasurer and Secretary

There being no further business to come before the Board of Directors, the meeting was adjourned at approximately 3:35 p.m.

Secretary: Cathy Iberg

APPROVED:

Chairman: Thomas O. Hicks