

**MINUTES OF SPECIAL 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 September, 1999 at the offices of Vinson & Elkins, L.L.P., West Conference Room – 33rd Floor, 1001 Fannin, Houston, Texas, said meeting having been called by the Vice 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 (the "Board"):

Robert H. Allen, Vice Chairman
Woody L. Hunt
J. Luther King, Jr.
A. W. "Dub" Riter, Jr.
A. R. (Tony) Sanchez, Jr.

thus, constituting a majority and quorum of the Board of Directors. Director Susan M. Byrne was absent. Director William H. Cunningham joined the meeting in progress as indicated below. 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's management ("Management"); and Jerry Turner, Vinson & Elkins, legal counsel for the Corporation. Mr. Allen called the meeting to order at 10:09 a.m. Copies of materials supporting the Board meeting agenda were previously furnished to each Director.

Acceptance of Appointment and Resignation of Directors

The first item Mr. Allen presented to the Board was a proposed resolution for the appointment and resignation of Corporation Directors. Upon motion duly made and seconded, the following resolutions were unanimously adopted:

WHEREAS, Section 66.08 Texas Education Code (the "Code") requires that the Board of Regents of The University of Texas System (the "Board of Regents") appoint and remove all members of the UTIMCO Board; and

WHEREAS, the Board of Regents, on May 13, 1999, appointed Mr. Charles Miller and Mr. Patrick C. Oxford to serve as members of the UTIMCO Board until such time as successor directors were appointed by the Board of Regents; and

WHEREAS, the Board of Regents, on August 12, 1999, appointed Mr. A. R. (Tony) Sanchez, Jr. and Mr. Woody L. Hunt to serve as members of the UTIMCO Board

effective upon the contemporaneous resignation by Mr. Miller and Mr. Oxford and until such time as successor directors were appointed by the Board of Regents; NOW THEREFORE BE IT

RESOLVED, that the appointments of Mr. Sanchez and Mr. Hunt to the UTIMCO Board by the Board of Regents to replace Mr. Miller and Mr. Oxford, are hereby accepted; and

RESOLVED, that the resignations of Mr. Miller and Mr. Oxford from the UTIMCO Board, effective upon the date of appointment of their successors by the Board of Regents, are hereby accepted; and

RESOLVED, that the UTIMCO Board does, on behalf of UTIMCO, express appreciation for the dedication with which Mr. Miller and Mr. Oxford have served on the UTIMCO Board.

At this point, Dr. Cunningham joined the meeting.

Approval of Corporation's Open Meeting Policy Statement

Mr. Allen turned the discussion over to Mr. Turner who reviewed the Open Meeting Policy Statement adopted by the Board of Regents on September 3, 1999. Mr. Turner read part of the policy which states, "although UTIMCO is not subject to the Texas Open Meetings Act, Chapter 551 of the Texas Government Code (TOMA), the Board of Directors of UTIMCO recognizes that the public has a valid interest in the meetings of the Board and its Committees being open to the public." Mr. Turner stated that since the Corporation is not subject to TOMA, the statutory penal provisions thereof do not extend to the Board. Mr. Turner reviewed the policy's briefing session provisions for private investments and stated that the Texas legislature approved these provisions for the Texas Growth Fund, an investor in private investments. Dr. Cunningham stated that the provisions associated with telephonic meetings were more conducive to the Corporation's business as compared with the provisions in the Texas Open Meetings Act. Mr. Turner answered the Directors questions and upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that an open meeting policy as set forth in the Open Meeting Policy Statement presented to this meeting be and is hereby approved.

Mr. Ricks reported that notice of this meeting had been provided in the manner set forth in the Open Meeting Policy Statement.

Minutes

The next item to come before the Board of Directors was approval of the minutes of the meeting of the Board of Directors held on June 24, 1999. 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 June 24, 1999 be and are hereby approved in the form provided.

FY 1999 Financial Highlights

Mr. Ricks reported on the financial highlights for the year ended August 31, 1999. Mr. Ricks stated that the value of the assets under Corporation's management had increased by approximately 20% over the previous year with most of the increase attributable to endowment funds. The Permanent Health Fund (PHF), an endowment fund created by the 1999 legislative session, provided \$890 million in new endowment contributions. Mr. Ricks reviewed the PUF's 1999 financial activity and stated that the Permanent University Fund (PUF) had its second best year on record. Mr. Ricks reviewed the PUF's asset allocation and total return for the year ended August 31, 1999. He noted that the overweighting in fixed income securities accounted for most of the underperformance of the PUF compared to its neutral policy return. He also stated that the higher than optimal allocation to fixed income was required in order to maintain the distribution stream to the Available University Fund (AUF). Mr. Ricks reviewed the PUF's income distributions to the AUF. Mr. Ricks stated that for the ten years ended August 31, 1999 the PUF's average annual increase in purchasing power gain was 2.95%. Mr. Ricks stated that the PHF received \$890 million in new contributions on August 30, 1999 and it earned \$.3 million in interest for the final two days of the year. Mr. Ricks reviewed the financial highlights for the Long Term Fund (LTF) and stated that the Fund had a record year producing a total return of 22.1% compared to its policy portfolio of 24.3% and PUF's return of 17.9%. For the ten years ended August 31, 1999 the LTF had an average annual increase in purchasing power of 3.6%. The Short Intermediate Term Fund's return for the year was 2.95% compared to its benchmark of 3.75%. Mr. Ricks answered the Directors' questions.

Approval of Endowment Asset Allocation Guidelines for PUF, PHF and LTF

Mr. Ricks presented the proposed endowment asset allocation guidelines for the PHF, the LTF and the PUF, assuming passage of Proposition 17. Mr. Ricks noted the changes in the proposed asset allocation guidelines and the improved return/risk ratio compared to that proposed in the study by Cambridge Associates, Inc. Mr. Ricks and Mr. Russ reviewed the efficient frontier analysis supporting the Corporation's recommendations on asset allocation. Mr. Ricks answered the Directors' questions and upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the endowment asset allocation guidelines (as presented to this meeting) for the Permanent Health Fund, the Long Term Fund and the Permanent University Fund (in the event that Proposition 17 is approved in the Constitutional Amendment Election on November 2, 1999) be and are hereby approved.

Approval of Investment Policy Statements for PUF, PHF and LTF

Mr. Ricks reviewed the changes to the endowment investment policies stating that the changes to the PUF's policy were to conform it to the other endowment policy statements. He also mentioned that the PUF, PHF and LTF policies included an inflation hedging asset class. Mr. Ricks answered the Directors' questions and upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the Investment Policy Statements (as presented to this meeting) for the Permanent Health Fund, the Long Term Fund and the Permanent University Fund (in the event that Proposition 17 is approved in the Constitutional Amendment Election on November 2, 1999) be and are hereby approved.

Approval of FY2000 PUF Distribution

Mr. Ricks stated that the PUF's distribution provisions, as provided for in the amended investment policy statement, are designed to take out the volatility in distributions to the AUF. Mr. Ricks answered the Directors' questions and upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that a distribution of \$285,923,022 from the Permanent University Fund to the Available University Fund for the fiscal year ended August 31, 2000 be and is hereby approved in the event that Proposition 17 is approved in the Constitutional Amendment Election on November 2, 1999.

Approval of the Nonmarketable Alternative Investments FY2000 Commitment Budget

Mr. Ricks reviewed the projected market values for the endowment funds and the estimated aggregate value for the Nonmarketable Alternative Investments through FY2004. Mr. Ricks answered the Directors' questions and upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that a commitment budget for Alternative Investments – Nonmarketable of \$296.3 million for the fiscal year ended August 31, 2000 be and is hereby approved.

Approval of Commitments to Windjammer Mezzanine & Equity Fund II, L. P. and Hampshire Equity Partners III, L.P.

The next item presented to the Board was the review and approval of two follow-on investments, Windjammer Mezzanine & Equity Fund II, L. P. and Hampshire Equity Partners III, L.P. Mr. Long and Mr. Ricks answered the Directors' questions and upon motion duly made and seconded, the following resolutions were unanimously adopted:

Approving Windjammer Mezzanine & Equity Fund II, L. P.

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 Windjammer Capital Investors, L.L.C., to invest up to \$25 million of PUF, PHF and LTF assets in **Windjammer Mezzanine & Equity Fund II, L.P.**; and

WHEREAS, the Corporation has determined that the Agreement does not constitute an agreement or transaction entered into in violation of Subsection 66.08(i) of the Texas Education Code;

NOW, THEREFORE, BE IT RESOLVED, that the terms and provisions of the proposed investment as described in the Short Form Due Diligence Review and Recommendation dated September 22, 1999 for Windjammer Mezzanine & Equity Fund II, L.P., be approved; and be it further

RESOLVED, that the President and any Managing Director of this Corporation be, and each of them hereby is, authorized to make such further revisions to the terms and provisions as may be necessary or in the best interests of this Corporation, excluding an increase in the amount of the capital commitment to Windjammer Mezzanine & Equity Fund II, L.P.; and be it further

RESOLVED, that the President, any Managing Director, and the Secretary of this Corporation be, and each of them hereby is, authorized and empowered (any one of them acting alone) to do or cause to be done all such acts or things and to sign and deliver, or cause to be signed and delivered, all such documents, instruments and certificates (including, without limitation, all notices and certificates required or permitted to be given or made under the terms of the Agreement), in the name and on behalf of the Corporation, or otherwise, as such officer of this Corporation may deem necessary, advisable or appropriate to effectuate or carry out the purposes and intent of the foregoing resolutions and to perform the obligations of this Corporation under the Agreement and the instruments referred to therein.

Approving Hampshire Equity Partners III, L.P.

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 Lexington Equity Partners III, L.L.C. to invest up to \$40 million of PUF, PHF and LTF assets in **Hampshire Equity Partners III, L.P.**; and

WHEREAS, the Corporation has determined that the Agreement does not constitute an agreement or transaction entered into in violation of Subsection 66.08(i) of the Texas Education Code;

NOW, THEREFORE, BE IT RESOLVED, that the terms and provisions of the proposed investment as described in the Short Form Due Diligence Review and Recommendation dated September 22, 1999 for Hampshire Equity Partners III, L.P., be approved; and be it further

RESOLVED, that the President and any Managing Director of this Corporation be, and each of them hereby is, authorized to make such further revisions to the terms and provisions as may be necessary or in the best interests of this Corporation, excluding an increase in the amount of the capital commitment to Hampshire Equity Partners III, L.P.; and be it further

RESOLVED, that the President, any Managing Director, and the Secretary of this Corporation be, and each of them hereby is, authorized and empowered (any one of them acting alone) to do or cause to be done all such acts or things and to sign and deliver, or cause to be signed and delivered, all such documents, instruments and certificates (including, without limitation, all notices and certificates required or permitted to be given or made under the terms of the Agreement), in the name and on behalf of the Corporation, or otherwise, as such officer of this Corporation may deem necessary, advisable or appropriate to effectuate or carry out the purposes and intent of the foregoing resolutions and to perform the obligations of this Corporation under the Agreement and the instruments referred to therein.

At this point, Dr. Cunningham left the meeting.

Approval of Commitment of OCM Opportunities Fund III, L. P.

The next matter to come before the Board of Directors was a discussion regarding a proposed investment in OCM Opportunities Fund III, L. P. Mr. Russ reviewed the Due Diligence Review and Recommendation prepared by the Corporation's management dated September 22, 1999. Mr. Russ introduced representatives of OCM Opportunities Fund III, L. P., who provided a presentation and handout materials to each Director on OCM Opportunities Fund III, L. P. The representatives of the Fund answered questions of the Directors and then left the meeting. The

Directors discussed the proposed investment and upon motion duly made and seconded, the following resolution was unanimously adopted:

WHEREAS, the Board has reviewed a Due Diligence Review and Recommendation prepared by the Corporation's management recommending that the Corporation enter into an investment agreement (the "Agreement") with Oaktree Capital Management, LLC to invest up to \$50 million of PUF, PHF and LTF assets in **OCM Opportunities Fund III, L.P.**; and

WHEREAS, the Corporation has determined that the Agreement does not constitute an agreement or transaction entered into in violation of Subsection 66.08(i) of the Texas Education Code;

NOW, THEREFORE, BE IT RESOLVED, that the terms and provisions of the proposed investment as described in the Due Diligence Review and Recommendation dated September 22, 1999 for OCM Opportunities Fund III, L.P. be approved; and be it further

RESOLVED, that the President and any Managing Director of this Corporation be, and each of them hereby is, authorized to make such further revisions to the terms and provisions as may be necessary or in the best interests of this Corporation, excluding an increase in the amount of the capital commitment to OCM Opportunities Fund III, L. P.; and be it further

RESOLVED, that the President, any Managing Director, and the Secretary of this Corporation be, and each of them hereby is, authorized and empowered (any one of them acting alone) to do or cause to be done all such acts or things and to sign and deliver, or cause to be signed and delivered, all such documents, instruments and certificates (including, without limitation, all notices and certificates required or permitted to be given or made under the terms of the Agreement), in the name and on behalf of the Corporation, or otherwise, as such officer of this Corporation may deem necessary, advisable or appropriate to effectuate or carry out the purposes and intent of the foregoing resolutions and to perform the obligations of this Corporation under the Agreement and the instruments referred to therein.

Report on FY 1999 Write-offs of Alternative Investments-Nonmarketable

Mr. Ricks presented a report on the write-offs of Alternative Investments-Nonmarketable investments for the year ended August 31, 1999. The PUF's write-offs were \$47,276 in market value and \$494,083 in book value. The LTF's write-offs were \$25,071 in market value and \$89,788 in book value. Mr. Ricks stated that the losses for the year were based on market value which is the method of reporting used for the funds' investments and answered the Directors'

questions. Upon motion duly made and seconded, and the following resolution was unanimously adopted:

RESOLVED, that the write-offs of Alternative Investments – Nonmarketable for the fiscal year ended August 31, 1999, as presented to this meeting, be and are hereby ratified.

Amendment to the Corporation's Bylaws: Formation of Nomination Committee

Mr. Allen presented the last item on the agenda proposing an amendment to the Corporation's bylaws to add the creation of a nominating committee section. Following a discussion by the Directors' a motion was duly made and seconded, and the following resolutions were unanimously adopted:

RESOLVED, that the addition of Section 5a to Article III of the Corporation's Bylaws, as presented below, be and is hereby approved.

Section 5A. Nominations; Nominating Committee. Upon the occurrence of a vacancy in the office of Director, the Board of Directors shall submit to the Board of Regents the name of a nominee to fill such vacancy. The nominee so submitted shall be selected by the Board of Directors from a list of names compiled by the Chairman of the Board. Prior to selection of the nominee, a nominating committee shall screen the individuals on the list and recommend to the Board a nominee to fill such vacancy. The Chairman of the Board shall appoint three members of the Board to serve as the nominating committee and shall designate the chairman of the committee.

RESOLVED, that Susan M. Byrne, A.W. (Dub) Riter, and A. R. (Tony) Sanchez are hereby designated as the Nominating Committee of the Board of Directors to serve until their successors are chosen and qualify, or until their earlier resignation or removal; and be it further

RESOLVED, that A. W. (Dub) Riter is hereby designated as the Chairman of the Nominating Committee.

There being no further business to come before the Board of Directors, the meeting was adjourned at approximately at 12:30 p.m.

Secretary: Cathy King

APPROVED:

Vice Chairman: Robert H. Allen