

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

The Board of Directors (the "Board") of The University of Texas Investment Management Company (the "Corporation") convened in an open meeting at 9:45 a.m. on the **26th day of June 2003**, in Crescent I Meeting Room of the Hotel Crescent Court, 400 Crescent Court, Dallas, Texas, said meeting having been called by the Chairman, Woody L. Hunt, with notice provided to each member in accordance with the Bylaws.

Participating in the meeting were the following members of the Board:

Woody L. Hunt, Chairman  
J. Luther King, Jr., Vice-Chairman  
Susan M. Byrne  
Rita C. Clements  
James R. Huffines  
Mark G. Yudof

thus, constituting a majority and quorum of the Board. Also, attending the meeting were R. D. Burck, Advisory Director; Bob Boldt, President, Chief Executive Officer and Chief Investment Officer 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; Larry Goldsmith, Managing Director - Public Markets Investments; Andrea Reed, Risk Manager; Sara McMahon and Trey Thompson, Managing Directors – Non-Marketable Alternative Investments of the Corporation; Greg Lee, Manager of Finance and Administration of the Corporation; Jerry Turner, legal counsel for the Corporation; and Bruce Myers of Cambridge Associates. Mr. Scott Caven, a U.T. System Regent, and Michael Warden and Philip Aldridge of U.T. System also attended the meeting. Mr. Hunt called the meeting to order at 9:45 a.m. Copies of materials supporting the Board meeting agenda were previously furnished to each Director or distributed at the meeting.

**Fund Performance and Asset Allocation Review**

Mr. Boldt reported on the value added and performance of the assets under the Corporation's management for the periods ended May 31, 2003. The net performance for the three-month period ended May 31, 2003, for the PUF and the GEF were 8.23%, and 8.73%, respectively. The net performance for one year ended May 31, 2003, for the PUF and GEF were -2.22% and -1.84%, respectively. The Short Intermediate Term Fund's (SITF) performance was 0.62% versus benchmark return of 0.98% for the three-month period ended May 31, 2003. Performance for the Short Term Fund (STF) was 0.31% versus 0.31% for its benchmark for the three-month period ended May 31, 2003. Also reviewed were the PUF's and the GEF's performance attribution for the three-month and fiscal year-to-date periods ended May 31, 2003, and investment manager history performance summary as of May 31, 2003. After the report, Mr. Boldt answered the Directors' questions. The Board requested future reporting to include performance of tactical moves both in returns and dollar value. Mr. Hunt

also asked Mr. Myers to identify actual peers of the Corporation, those with similar size and constraints, to use as a measurement of comparison and to evaluate performance

### **Minutes**

The next matter to come before the Board was approval of the minutes of the meeting of the Board of Directors held on April 25, 2003. 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 April 25, 2003, be, and are hereby, approved.

### **Appointment of Director**

In conjunction with Mr. Huffines' first attendance to a UTIMCO board meeting, a motion was duly made and seconded, and the following resolution was unanimously adopted:

WHEREAS, Section 66.08 of the 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 December 10, 2001, appointed Mr. A. W. "Dub" Riter, Jr. to serve as a member of the UTIMCO Board until such time as a successor director was appointed by the Board of Regents; and

WHEREAS, the Board of Regents, on May 8, 2003, appointed Mr. James Richard Huffines to serve as a member of the UTIMCO Board effective upon the contemporaneous resignation by Mr. Riter and until such time as a successor director was appointed by the Board of Regents; NOW THEREFORE BE IT

RESOLVED, that the appointment of Mr. Huffines to the UTIMCO Board by the Board of Regents to replace Mr. Riter, is hereby accepted; and

RESOLVED, that the resignation of Mr. Riter from the UTIMCO Board, effective upon the date of appointment of his successor by the Board of Regents, is hereby accepted; and

RESOLVED, that the UTIMCO Board does, on behalf of UTIMCO, express appreciation for the dedication with which Mr. Riter has served on the UTIMCO Board.

### **Designation of Officer and Key Employee**

The next item on the agenda was to designate Larry Goldsmith, the new Managing Director – Public Markets Investments for the Corporation as an officer and key employee. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the following person is hereby appointed to the respective office of the Corporation set forth opposite his name, to serve until the next Annual Meeting of the Corporation or until his resignation or removal, and

FURTHER RESOLVED, that, as required by the Corporation's Code of Ethics, the Board shall designate him by position as a key employee of the Corporation.

<u>Name</u>	<u>Office or Offices</u>
Larry Goldsmith	Managing Director – Public Markets Investments

### **Mission Statement and Strategic Goals**

Mr. Hunt asked Mr. Boldt to lead the discussion of the proposed mission statement, strategic goals and Corporate strategies to achieve goals. Mr. Boldt gave a presentation and stated that although no action was necessary, this discussion would ultimately result in the Corporation establishing formal statements of mission, goals and strategies. Among items of discussion were clarification of the Corporation's clients, and acceptance of responsibility to be a leader in the community of endowment funds. The discussion of strategic goals led into questions regarding value-added determination and setting benchmarks. Mr. Boldt answered the Directors' questions.

### **Asset Allocation Decision Making Process and Timeline**

Mr. Boldt reported that over the next three meetings, the Board will revisit the asset allocation and process in more depth than it has in the past. Mr. Hunt explained that the next item on the agenda would be to provide background for the asset allocation objectives. Mr. Boldt described the objectives, process and timetable of this strategic asset allocation review. During the discussion, Mr. Steve Stevens joined the meeting. Mr. Boldt answered the Director's questions and referred to the Asset Class Foundation Statements, provided in Board material, to be used as reference documents as well as the Corporation's staff.

### **Risk Management Framework for Asset Allocation**

Mr. Boldt then went on to describe risk. He then asked Ms. Andrea Reed to present an overview of the Post Modern Portfolio Theory risk framework that will be employed in the asset allocation process. Mr. Boldt and Ms. Reed answered the Directors' questions.

## **Decision Factors**

Mr. Hunt asked Mr. Boldt to introduce the concept of Decision Factors, and the presentation of 27 possible Factors to provide background for the use of Decision Factors in the strategic asset allocation process. Mr. Hunt asked Mr. Bruce Myers of Cambridge Associates to give his opinion on the process suggested for asset allocation review. Mr. Myers stated that an in depth discussion of risk should produce a deeper understanding of the dynamics of asset mix which would be beneficial to the process.

## **Liquidity Policy**

The next item was a recommendation to accept the Liquidity Policy as presented to the Board. As explained previously, the Liquidity Policy would define liquidity categories and set asset weight limits for each category in order to control the assumed aggregate amount of liquidity risk in each portfolio. After Mr. Boldt answered the Directors' questions, upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the Liquidity Policy be, and is hereby, approved in the form as presented to the Board.

## **Budget and Fee Request (9/1/03 – 8/31/04)**

The recommended Budget and Fee Request presented by Mr. Boldt set the financial parameters for the Corporation's operations for the 2003-2004 fiscal year. This year's budget was developed through a revamped process to decentralize budgetary responsibility and proposes the allocation method for distributing costs to each Fund. Also discussed was the possibility of the Corporation making a repayment of organizational costs to the UT System and the Texas A&M System. Mr. Boldt answered the Directors' questions. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the Corporation's Budget and Fee Request for the period September 1, 2003 through August 31, 2004 be, and is hereby approved, subject to approval by the UT System Board of Regents.

## **New Investment Strategy**

Mr. Hunt asked Mr. Boldt to explain and revisit the New Investment Strategy, considering both the inefficiency in the investment of UT System operating funds and a possible solution. Although no formal action was required by the Board, the UTIMCO Staff was authorized to expend resources to further consider and research the New Investment Strategy.

### **Derivative Applications**

Mr. Boldt was asked to continue on to the next item which was recommending to the Board approval of two Derivative Applications as presented. These applications would allow UTIMCO staff to create attractive alternatives to traditional active management portfolios and to inexpensively and flexibly make tactical alterations to the equity portions of the endowment portfolios. After discussion of both applications, the Structured Active Management Applications were tabled for further review and the U.S. Equity Applications (Select Index Futures and Index-derived Exchange Traded Funds) were approved. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the U.S. Equity Applications be, and are hereby, approved in the forms as presented to the Board.

### **Report of the Audit and Ethics Committee**

Mr. Hunt asked Joan Moeller to give an update of the Audit and Ethics Committee Meeting held on June 19, 2003. The Audit and Ethics Committee is required to review the Code of Ethics annually and recommend any proposed changes to the Board for approval. The Charter of the Audit and Ethics Committee sets forth the functions, duties and responsibilities of the Committee to assist the Board in monitoring the financial and compliance functions of the Corporation and the investment funds managed on behalf of the U. T. Board of Regents. Ms. Moeller summarized the proposed changes, and Mr. Hunt reported that the Audit and Ethics Committee had approved the amendments to the Code of Ethics and the Charter of the Audit and Ethics Committee, and the Committee recommended Board approval of both documents. Upon motion duly made and seconded, the following resolutions were unanimously adopted:

RESOLVED, that the revision of the Code of Ethics be, and is hereby, approved in the form submitted to the Board, subject to approval by the UT System Board of Regents and also

RESOLVED, that the revision of the Charter of the Audit and Ethics Committee be, and is hereby, approved in the form submitted to the Board.

### **Second Amended and Restated Investment Management Services Agreement**

Ms. Moeller next presented the proposed changes to the Investment Management Services Agreement, a contract between the U.T. System Board of Regents and the Corporation authorized by Section 66.08 of the Texas Education Code. The majority of these changes were proposed by the U.T. System to include recommendations from the Baker Botts LLP report, and one clarifying item was requested by the Corporation's staff. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the revision of the Investment Management Services Agreement be, and is hereby, approved in the form submitted to the Board, subject to approval by the UT System Board of Regents.

### **Amendments to the Investment Policy Statements**

The next item on the agenda was proposed amendments to the Investment Policy Statements for all of the funds managed by the Corporation. Ms. Moeller discussed the changes and Chancellor Yudof provided insight regarding changes put forth by the Baker Botts LLP report. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the amendments to the Investment Policy Statements for the Permanent University Fund, the U. T. System General Endowment Fund, the Permanent Health Fund, the U. T. System Long Term Fund, the U. T. System Short Intermediate Term Fund, the U. T. System Separately Invested Funds and the U. T. System Short Term Fund as presented be, and are hereby, approved, subject to approval by the UT System Board of Regents.

### **Amendments to Bylaws**

Mr. Hunt asked Ms. Moeller to continue by presenting the proposed amendments to the Corporation Bylaws. She explained that the U. T. System and U. T. Board of Regents had requested that the Bylaws be amended to create a Vice Chancellor for Policy. She handed out an updated copy to the Directors. Upon motion duly made and seconded, the following resolutions were unanimously adopted:

RESOLVED, that the revision of the Bylaws be, and is hereby, approved in the form submitted to the Board, subject to approval by the UT System Board of Regents; and

WHEREAS, the Bylaws of the Corporation provide that the officers of the Corporation shall consist of a Chairman of the Board, a Vice Chairman of the Board, a President, a Secretary, a Treasurer, and such other officers and assistant officers as the Board of Directors may from time to time elect or appoint; and

WHEREAS, the U. T. System Board of Regents has determined that the Board of Directors appoint a Vice Chairman for Policy who shall be responsible for coordinating responsibilities, including the appropriate resolution of policy issues, assigned to UTIMCO and U.T. System by the Rules and Regulations of the Board of Regents and the Investment Management Services Agreement; Now, therefore

BE IT RESOLVED, that Chancellor Mark Yudof is hereby appointed as Vice Chairman for Policy; and

BE IT FURTHER RESOLVED, that Chancellor Mark Yudof shall serve as Vice Chairman for Policy until the next annual election of Corporation officers.

### Committee Appointments

Mr. Hunt brought the last item to come before the Board, which was designation of committee members and chair designations for the Compensation Committee and the Nominating Committee; and change of chairmanship for the Audit and Ethics Committee. Upon motion duly made and seconded, the following resolutions were unanimously adopted:

BE IT RESOLVED, that J. Luther King, Jr., Susan M. Byrne and James R. Huffines are hereby designated as the Compensation Committee of the Board of Directors to serve until the expiration of their term, or until their successor has been chosen and qualified, or until such their earlier death, resignation or removal; and

FURTHER RESOLVED, that J. Luther King, Jr. is hereby designated the Chair of the Compensation Committee and shall preside at its meetings; and

FURTHER RESOLVED, that Rita C. Clements, Susan M. Byrne and James R. Huffines are hereby designated as the Nominating Committee of the Board of Directors to serve until the expiration of their term, or until their successor has been chosen and qualified, or until such their earlier death, resignation or removal; and


FURTHER RESOLVED, that Rita C. Clements is hereby designated the Chair of the Nominating Committee and shall preside at its meetings; and

FURTHER RESOLVED, that Susan M. Byrne, Woody L. Hunt, and R. H. (Steve) Stevens, Jr. will remain as the Audit and Ethics Committee of the Board of Directors, to serve until the expiration of their term, or until their successor has been chosen and qualified, or until such their earlier death, resignation or removal; and

FURTHER RESOLVED, that R. H. (Steve) Stevens, Jr. is hereby designated the Chair of the Audit and Ethics Committee and shall preside at its meetings.

There being no further business to come before the Board of Directors, the meeting was adjourned at approximately 3:55 p.m.

Secretary:   
Joan Moeller

Approved:  Date: 9/20/03  
Woody L. Hunt  
Chairman, Board of Directors of  
The University of Texas Investment  
Management Company