# MINUTES OF A 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 special meeting on the 30th day of August, 1996, in the Regents Meeting Room, Ashbel Smith, 9th Floor, 201 W. Seventh Street, 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
Donald L. Evans
Richard W. Fisher
J. Luther King, Jr.
Tom Loeffler
Homer L. Luther, Jr.

thus, constituting a majority and quorum of the Board of Directors. Also participating in the meeting were Bernard Rapoport, Chairman of the Board of Regents of The University of Texas System (the "System"); Thomas G. Ricks, President of the Corporation; Jerry E. Turner, Secretary of the Corporation; and Cathy Iberg, Austin Long and Craig Nickels of Corporation management. Mr. Hicks called the meeting to order at 10:30 a.m.

## Approval of Minutes

The first matter to come before the Board of Directors was approval of the minutes of the special meeting of the Board of Directors held on April 17, 1996, copies of which had previously been furnished to each Director. Mr. Ricks stated that the minutes contained an elaboration as to Mr. Hicks' recusal from participation in the discussion and approval of the Wand Equity Portfolio II, L.P. investment. Mr. Hicks stated that the elaboration mischaracterized the reasons for his recusal and requested revised language to clearly describe his statements concerning recusal. Upon motion duly made and seconded, the following resolutions were unanimously adopted:

> RESOLVED, that the minutes of the Special Meeting of the Board of Directors held on April 17, 1996, be and are hereby approved, subject to revision as requested by the Board; and
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> RESOLVED, FURTHER, that the President and the Secretary of the Corporation be and they are hereby authorized and directed to revise the minutes and to take such other action to accomplish the purposes of the foregoing resolution.

1. recommend to the Board the compensation of the President of the Corporation,

2. approve the compensation of all officers (except the President) of the Corporation,

3. such other powers and duties as may be assigned to the Compensation Committee, from time to time, by the Board of Directors of the Corporation;

RESOLVED, FURTHER, that Richard W. Fisher, Thomas O. Hicks, and J. Luther King, Jr. are hereby designated as the Compensation Committee of the Board of Directors to serve until the first Board of Directors meeting following the November 1997 Board of Directors meeting, or until their successors are chosen and qualify, or until their earlier resignation or removal; and

RESOLVED, FURTHER, that Richard W. Fisher is hereby designated the Chairman of the Compensation Committee and shall preside at its meetings.

**Long Term Fund Asset Allocation Policy Review**

The Board of Directors next heard a presentation by Mr. Matthew L. Lincoln and Mr. Lindsay Van Voorhis of Cambridge Associates, Inc. concerning its review and recommendations regarding asset allocation policy for the Long Term Fund. The presentation encompassed an overview of investment planning, spending policies, investment objectives, equity return characteristics, the need to hedge against fundamental risks of deflation and inflation, the merits of moderating Fund volatility and increasing returns of the core equity portfolio through suballocations to alternative asset classes. Messrs. Lincoln and Van Voorhis then presented their firm's recommended asset allocation targets for the Long Term Fund and compared them to the asset allocations maintained by the leading endowments.

(At this point in the meeting, Messrs. Rapoport, Hicks, Evans, Loeffler and Cunningham left the meeting.) The balance of the presentation consisted of remarks by Cambridge representatives concerning the merits of international small cap equities as a suballocation and a question and answer session. (Messrs. Rapoport, Hicks, Evans, Loeffler and Cunningham returned to the meeting.) The consensus of the Board of Directors was to defer further discussion of this topic to a special meeting of the Board to be held October 11, 1996. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the next meeting of the Board is called to be held at the offices of Hicks, Muse, Tate & Furst Incorporated in Dallas, Texas from 9:00 a.m. to 12:00 p.m. on October 11, 1996.



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## Approval of Fiscal Year 1997 Business Plan and Budget

The next item to come before the Board of Directors was the review of the Corporation's business plan and budget for the fiscal year beginning September 1, 1996. Given the hour and the need to hear presentations from representatives of two other firms, the Board agreed to consider this item at the October 11, 1996 meeting of the Board.

## Approval of International Small Cap Equity Manager for the Long Term Fund

Mr. Ricks introduced this item by stating that the current investment policy statement for the Long Term Fund contained a target allocation of 4% of the market value of the fund for international small cap equity investments. This allocation was approved as part of the desire to increase diversification by reducing the allocation to U.S. domestic equities from approximately 55% of the Fund to 25% of the Fund. Mr. Ricks further stated the relative valuations between U.S. domestic large/mid cap equities versus international small cap equities supported the funding of the latter asset class at this time. He also stated that implementation of this rebalancing would result in a 50% allocation to U.S. domestic equities and a 15% allocation to international equities.

Mr. Ricks stated that, at 4% of the Long Term Fund's current value, the allocation would equal approximately $67 million. Management had conducted a manager search process which identified 18 manager candidates. Following an examination of each candidate's investment philosophy, performance record, personnel, organization, and financial and ethical viability, management selected two finalists, Capital Guardian Trust Co. and Wanger Asset Management. Management then conducted on-site due diligence and arrived at a final recommendation of Capital Guardian Trust Co.

Capital Guardian manages assets of $46.8 billion of which $1.1 billion was in the form of international small cap equities. Mr. Ricks stated that management's recommendation to engage Capital Guardian vs. Wanger Asset Management was based primarily on Capital Guardian's superior risk/return profile over the last three years and lower management fees.

The Board next heard a presentation from Mr. David Fisher, Chairman of Capital Group, Inc. and Mr. George L. Romines, Vice President of Capital Guardian Trust Co. regarding its capabilities in managing international small cap equity investments for institutional investors. The representatives reviewed the firm's investment process, its portfolio management team, the resources committed to international investing by the firm, as well as the portfolio's performance. Consideration of management's recommendations to engage Capital Guardian to manage the international small cap equity allocation for the Long Term Fund was deferred until further review and approval of asset allocation policy for the Long Term Fund by the Board at its meeting scheduled for October 11, 1996.

(At this point in the meeting, Messrs. Long and Nickels joined the meeting.)

**Approval of $50 Million Commitment to The KKR 1996 Fund, L.P.**

NOTE: At this point, Mr. Fisher recused himself and left the meeting citing his letter of notification to the Corporation's management that Mr. Henry Kravis, a principal in The 1996 KKR Fund, was an investor in Value Partners, Ltd., a fund managed by Fisher-Ewing Partners, of which Mr. Fisher is the managing partner. Vinson & Elkins, as the Corporation's counsel, was requested prior to the meeting by management to review the transaction for possible conflicts of interest. Vinson & Elkins concluded that provided Mr. Fisher recused himself, the Corporation's investment in The KKR 1996 Fund would not constitute a prohibited transaction pursuant to Section 66.08 of the TEXAS EDUCATION CODE, a violation of the standards of conduct or an unremedied conflict of interest pursuant to Section 572 of the TEXAS GOVERNMENT CODE.

Following Mr. Fisher's departure, the Board considered management's recommendation to commit $50 million of Permanent University Fund and Long Term Fund assets in The KKR 1996 Fund, L.P. (the "Fund") as presented in the KKR 1996 Fund, L.P. Due Diligence Review and Recommendation prepared by the Corporation's management.

The Board heard a presentation from Mr. George Roberts and Mr. Michelson, principals of Kohlberg Kravis Roberts & Co. ("KKR"), the general partner of the Fund. Messrs. Roberts and Michelson stated that the Fund, which ultimately was expected to receive $5 billion of capital commitments, was being raised to acquire equity investments in growth companies with the intent of adding value through a leveraged build up strategy. The individuals cited their individual credentials and accomplishments and discussed both KKR's twenty year investment track record and the proposed investment strategy for the Fund. Following the departure of Messrs. Roberts and Michelson, the Board discussed the merits of the proposed investment. Upon motion duly made and seconded, the following resolution was unanimously adopted by those members present at the meeting:

> WHEREAS, on July 7, 1995, the Asset Management Committee of the Board of Regents of The University of Texas System approved a five-year plan (the "Plan") to fully fund previously approved allocations to private investments equal to 10% of the market value of Permanent University Fund ("PUF") and Long Term Fund ("LTF") assets; and
>
> WHEREAS, the Plan projects that, as of August 31, 1999, the aggregate market value of the PUF and LTF assets will equal approximately $8.0 billion and a 10% allocation to private investments will equal $800 million; and
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> WHEREAS, the Plan projects that a cumulative $1.069 billion of capital commitments will be required over the five-year life of the Plan in order to meet the required $800 million of funded private investments and that the following commitments will be required in each fiscal year of the Plan:

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| Fiscal Year 1994-95 | $ 285 million; |
| Fiscal Year 1995-96 | $ 265 million |
| Fiscal Year 1996-97 | $ 220 million |
| Fiscal Year 1997-98 | $ 173 million |
| Fiscal Year 1998-99 | $ 126 million |
| Total | $1,069 million; and |

WHEREAS, commitments of $285 million to seventeen investments were approved during fiscal year 1994-95; and

WHEREAS, commitments of $222 million to eleven investments have been approved through August 29, 1996, resulting in uncommitted capital of $43 million for the balance of fiscal year 1995-96; and

WHEREAS, the Board has reviewed a Due Diligence Memorandum & Recommendation prepared by UTIMCO's (the "Corporation") management, recommending that the Corporation enter into a Limited Partnership Agreement (the "Agreement") with Kohlberg, Kravis, Roberts & Co. ("KKR & Co.") to invest an aggregate of $50 million of PUF and LTF assets in The KKR 1996 Fund, L.P.; and

WHEREAS, on August 30, 1996, the Board heard a presentation from and interviewed representatives of KKR & Co. concerning The KKR 1996 Fund, L.P.; and

WHEREAS, the Board agrees with the staff that in light of the quality of KKR & Co.'s historical record and the size of The KKR 1996 Fund, L.P., it is reasonable and prudent to exceed the fiscal year 1995-96 commitment target by $7 million; and

WHEREAS, the Board desires to enter into the Agreement with KKR & Co. to invest $50 million of PUF and LTF assets in The KKR 1996 Fund, L.P.; and

WHEREAS, the Board 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 in the amount of $50 million, as described in The KKR 1996 Fund, L.P. Due Diligence Memorandum & Recommendation dated August 30, 1996, be approved; and be it further

RESOLVED, that the President and any Vice President of this Corporation be, and each of them hereby is, authorized to make such further revisions to said terms and provisions as may be necessary or in the best interests of this Corporation, excluding an increase in the amount of the $50 million capital commitment to The KKR 1996 Fund, L.P.; and be it further

RESOLVED, that the President, any Vice President, 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.

There being no further business to come before the Board of Directors, the meeting was adjourned at approximately 2:30 p.m.

Secretary

APPROVED:



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