

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

The Audit and Ethics Committee of The University of Texas Investment Management Company (the "Committee") convened on the **11th day of December 1997**, by means of conference telephone enabling all persons participating in the meeting to hear each other, said meeting having been called by the Committee Chairman, with notice provided to each member in accordance with the Bylaws. Participating in the meeting were the following members of the Committee:

Robert H. Allen
Susan M. Byrne
A. W. "Dub" Riter

thus, constituting a majority and quorum of the Committee. Also participating in the meeting were Thomas G. Ricks, President of The University of Texas Investment Management Company (the "Corporation"); Cathy Iberg, Vice President - Investment Operations and Secretary of the Corporation; and Jerry Turner, legal counsel for the Corporation. Robert H. Allen, Chairman, called the meeting to order at 9:00 a.m.

Approval of the November 4, 1997 Minutes of the Audit and Ethics Committee

The first matter to come before the Committee was approval of the Audit and Ethics Committee Minutes of the November 4, 1997 meeting, copies of which had previously been furnished to each Committee member. 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 held on November 4, 1997, be, and are hereby, approved in the form presented to the Committee.

Follow-up on Auditor's Management Letter Item

The next item to come before the Committee was a review of the report submitted to the Committee from Mr. Charles Chaffin, Director of Audits for the University of Texas System, (the "System"), copies of which had previously been furnished to each Committee member. This report was furnished in response to Mr. Allen's request, at the November 4, 1997 meeting, that Mr. Chaffin review the Corporation's internal controls for reconciling its records with the custodian's reports in view of the pricing error referred to in the Deloitte & Touche management report dated October 31, 1997. The Committee members noted that Mr. Chaffin's report satisfied their concerns regarding the internal control structure as it related to the pricing error. As noted in the report the System auditors concluded that the pricing error was isolated, had no material affect on any published financial information, and did not indicate any weakness in the internal control structure.

Update on State Auditor's Review of U. T. System Investment Practices and Actions Taken in Response to those Recommendations.

The next item to come before the Committee was review of an update on the actions taken to date on the State Auditor's recommendations to the System regarding the investment practices audit completed in November of 1996, copies of this update had previously been furnished to each Committee member. This review was in response to Mr. Allen's request as noted in the minutes of the Audit & Ethics Committee meeting on November 4, 1997. Mr. Ricks discussed the new government code amendments that require a state agency to report any failure to implement audit recommendations by the State Auditor. He also stated that this recommendation was effective for audit reports issued after September 1, 1997. However, he further stated that the State Auditor may refer back to any audit reports issued prior to that date. Mr. Ricks went over the update and answered the questions of the Committee. Mr. Allen noted that one of the State Auditor's recommendations related to public accessibility to information relating to investment decisions and requested that a brief summary on the Texas Open Records Act be presented to the Corporation's Board at the next meeting, specifically discussing the Attorney General's opinion that concluded the Corporation was subject to the Texas Open Records Act. Mr. Turner and Mr. Ricks answered various questions presented by the Committee on the open record provisions. They also answered questions regarding the new government code amendments on State Audit Reports. In response to a question from Mr. Allen, Mr. Turner stated that the Corporation was in compliance with the provisions of the act.

Approval of Revised Code of Ethics

The next item to come before the Committee was review and consideration of a revised Code of Ethics for Directors and Employees, copies of which had been previously furnished to each Committee member. Mr. Ricks and Mr. Turner went over the key provisions of the revised Code of Ethics. Mr. Ricks explained to the Committee that these revisions were modeled after the Teacher Retirement System's policy, as recommended by the State Auditor's report issued in November of 1996. Mr. Allen asked Mr. Turner if the revised Code of Ethics was comprehensive enough to meet various standards imposed on the directors and employees of UTIMCO and if they met industry standards. Mr. Turner stated that in his opinion, the revised Code of Ethics meets industry standards and satisfies applicable legal requirements. Mr. Ricks and Mr. Turner continued to answer various questions presented by the Committee on the revised Code of Ethics. Mr. Turner also discussed with the Committee the appointment of a Chief Compliance Officer for the Corporation. A recommendation was made by management to appoint Cathy Iberg, Vice President of Operations. By motion duly made, and seconded, the following resolution was unanimously adopted:

RESOLVED, that the revision of the Code of Ethics be and hereby approved in the form submitted to the Committee, and further resolved that Cathy Iberg, Vice President of Investment Operations, be appointed the Chief Compliance Officer for the Corporation.

Change in Year End For UTIMCO

The last item to come before the Committee was approval to a change in the year end for the Corporation. By motion duly made, and seconded, the following resolution was unanimously adopted:

RESOLVED, that the change of the fiscal year of the Corporation to the annual period September 1 through August 31 be and is hereby approved.

There being no further business to come before the Audit and Ethics Committee, the meeting was adjourned at approximately 9:55 a.m.

Approved: _____
Committee Chairman

Date: _____