

MINUTES OF MEETING OF
THE COMPENSATION COMMITTEE OF
THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

The Compensation Committee (the "Committee") of the Board of Directors of The University of Texas Investment Management Company (the "Corporation") convened in special meeting on the 2nd day of April, 1997, at the offices of Hicks, Muse, Tate & Furst, Incorporated, 200 Crescent Court, Suite 1600, Dallas, Texas, said meeting having been called by the Chairman, with notice provided to each member in accordance with the Bylaws. Participating in the meeting were the following members of the committee:

Richard W. Fisher, Chairman
Thomas O. Hicks
J. Luther King, Jr.(via telephone)

thus, constituting a majority and quorum of the Committee. Also, participating in the meeting was Thomas G. Ricks, President of the Corporation. Mr. Fisher called the meeting to order at 9:05 a.m.

Approval of Minutes

The first item to come before the Committee was consideration of approval of the minutes of the Committee meeting held on December 20, 1996, copies of which had previously been distributed to each Committee member. After discussion, upon motion duly made and seconded, the following resolutions were unanimously adopted:

RESOLVED, that the minutes of the meeting of the Compensation Committee held on December 20, 1996, be and are hereby approved in the form presented to the Committee.

Review of UTIMCO Compensation Plan

The Board then considered a proposed compensation plan based upon recommendations contained in the William A. Mercer, Inc. report evaluating UTIMCO's total compensation program. Mr. Ricks presented the plan, copies of which had previously been distributed to each Committee member. He stated that the basic structure of the plan proposed by Mercer contained two major parts. First, a base salary which was a function of the median base salary for positions of similar job content in the market place, the employee's level of experience and skills and the employee's individual responsibilities and performance results. Second, a performance bonus to be paid to certain eligible employees for achieving and exceeding performance benchmarks. Given the differentiation in tasks, particularly between portfolio management and operations/accounting personnel, eligible employees would be assigned to one of three groups. Mr. Ricks then presented examples of target and incentive bonus calculations for each group. Discussion followed concerning the use of benchmarks measuring individual performance vs.

group performance, the use of target benchmarks to reward expected performance levels, and the ability of the Committee under the plan document to revise the plan or adjust individual awards in light of unusual circumstances. The Committee concluded the discussion by requesting that Mr. Ricks obtain data on the performance compensation plans used by peer universities and foundations for comparative purposes.

Review of UTIMCO 1997 Performance Compensation Plan

The Board next reviewed a draft performance compensation plan for the calendar year 1997, copies of which had previously been distributed to each Committee member. The proposed plan would cover 17 employees with target bonuses ranging from 10% to 50% of base salary and a 2x total bonus (including incentive bonus) ranging from 20% to 100% of base salary. Mr. Ricks reviewed the proposed performance benchmarks for eligible employees under each plan category and the deferral and carry forward provisions governing bonus payments. He also discussed the customization of the plan to recognize the long term performance attributes of the private investment managers and the more qualitative benchmarks for employees involved in investment operations and accounting. The Committee discussed at length various implementation issues including the required phase in period for benchmarks based on 3 year rolling averages and the incompatibility of using total return benchmarks for the Permanent University Fund. The Committee requested that Mr. Ricks redefine the proposed aggregate performance benchmarks to reduce any disproportionate impact on the plan from non total return portfolios. The Committee also requested that Mr. Ricks specifically review Harvard Management Company's plan for further discussion prior to the next UTIMCO Board meeting.

There being no further business to come before the Board of Directors, the meeting was adjourned at approximately 10:35 a.m.

(Note: Subsequent to this meeting Mr. Ricks distributed to Committee members a survey of performance compensation plans of leading foundations and endowments conducted by SCA Consulting Group, Chicago, IL. The survey revealed that 67% of participants maintained bonus compensation plans where the CIO's bonus opportunity range was 0% to 60% and the range for other investment professionals was 0% to 50%. The survey did not include larger peer universities and foundations with similar asset size and complexity of investment portfolios and organizational structures such as Harvard Management Co. ("HMC"), Stanford Management Co., Yale and Howard Hughes Medical Institute which rarely disclose matters of compensation. Mr. Ricks also distributed HMC's plan which was based on benchmarks of a neutrally weighted portfolio of index returns. Mr. Ricks reported that the HMC plan did not include target and maximum bonus levels because the HMC board believed strongly that bonus caps eliminated the incentive to perform above cut-off levels.

Mr. Ricks also distributed a recommendation outlining three options to eliminate non-total return biases in the plan and recommended that the calculation of aggregate index benchmarks be limited to PUF total return portfolios only.

Upon review of this data, the Committee instructed Mr. Ricks to adjust the performance benchmarks as recommended. It also instructed Mr. Ricks to incorporate aspects of HMC's plan

into the UTIMCO Performance Compensation Plan, including the elimination of target and incentive bonus breakpoints in favor of uncapped or linear bonus awards.)

Approved: Richard Fike
Committee Chairman

Date: 12/10/97