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 20th day of August, 1998, at 1000 Ball Park Way, Arlington, Texas, said meeting having been called by J. Luther King, Jr., with notice provided to each member in accordance with the Bylaws. Participating in the meeting were the following members of the Committee:

Thomas O. Hicks
J. Luther King, Jr.
Robert H. Allen

thus, constituting a majority and quorum of the Committee. Also, participating in the meeting was Thomas G. Ricks, President of the Corporation; Jerry E. Turner, legal counsel for the Corporation; and Cathy Iberg, Secretary of the Corporation. Mr. King called the meeting to order at 1:05 p.m.

<u>Approval of Minutes</u>

The first item to come before the Committee was consideration of approval of the minutes of the Committee meeting held on April 1, 1998, 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 April 1, 1998, be and are hereby approved in the form presented to the Committee.

<u>Approval of the FY1999 Salary Budget</u>

Mr. Ricks reminded the Committee that its primary responsibilities were to approve the compensation of all officers except for that of the President, which the Committee was to recommend to the full Board. He also reminded the Committee that the Corporation's fiscal year had recently been converted from a calendar year basis to a September 1-August 31 fiscal year basis in order to synchronize the Corporation's budget with the annual fee request that was a part of the of the U. T. System budget cycle. The Corporation's fee request for the fiscal year Sept. 98-Aug.99 was approved by the Corporation's Board at its July 2, 1998 meeting and was in turn approved by the U. T. System Board at its August 13, 1998 meeting.

Mr. Ricks then presented a schedule of the 1999 Corporation fee breaking out the $19.5 million total fee into $5.7 million allocated for the Corporation itself and $13.8 million allocated for direct expenses such as external manager fees and custody fees. He then reviewed the components of the Corporation's $5.7 million fee of which roughly $2.4 million was budgeted for salaries and wages and an additional $763,000 was budgeted for accrued bonuses. He noted that these two items taken together accounted for 56% of the Corporation's budget.

Mr. Ricks then reviewed a schedule presenting the proposed salaries for the 31 employees on the Corporation's payroll. Based on current employees carried forward, proposed salaries were to increase by 5.54%. However, when including eliminated positions and vacation accruals, total salaries were budgeted to decline by 6.46%. Bonus accruals were to increase by 17.4% from $650,000 to $763,000. Overall, the proposed total compensation budget would decline by 1.75%.

Mr. Ricks stated that the Corporation began to experience turnover in the information technology and accounting positions. While employees had resigned for a variety of reasons, there was no question that the Austin labor market was extremely competitive. He stated that the proposed budget awarded above average salary increases to these employees in order to protect the Corporation's investment in their skill set. Mr. Ricks also stated that proposed increases for officers and those employees participating in the performance compensation plan were kept in line with increases across the industry. Mr. Allen inquired as to whether the increases were based on a compensation survey. Mr. Ricks replied that the increases were based on reports from industry contacts but that there was no formal survey since the Mercer compensation study conducted at the end of 1996.

Mr. Ricks further stated that compensation for the private equity staff was an emerging issue. He did not believe that compensation for these employees diverged significantly from that offered by other major foundations and endowments but that compensation was clearly below that offered by partnerships and investment banks involved in the sell side of the private equity markets. Mr. Ricks stated that this issue had emerged with the proposal from the private equity staff to spin out of the Corporation and effectively to convert a "cost" center into a "profit" center. Mr. Ricks stated that the payment of bonus compensation was constrained by the inability to fund compensation from the capital appreciation of PUF investments. The requirement to pay a major portion of bonus compensation from PUF income - a limited and currently declining income stream – limited the bonus plan versus that of other institutions. Following discussion and questions of management, the Committee elected to discuss the proposed compensation budget further with the full Board at its meeting scheduled to be held later in the day.

There being no further business to come before the Committee, the meeting was adjourned at approximately 1:45 p.m.

Approved: ______________________ Date:_________________

Committee Chairman