

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

The Audit and Ethics Committee (the "Committee") of The University of Texas Investment Management Company (the "Corporation") convened in open session on the **11th day of June 2001**, by means of conference telephone enabling all persons participating in the meeting to hear each other, at the offices of the Corporation, 221 W. 6th Street, Suite 1700, Austin, Texas 78701, 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:

A. W. "Dub" Riter, Jr.
Woody L. Hunt

thus, constituting a majority and quorum of the Committee. Director Susan M. Byrne was not present at the meeting. Also participating in the meeting were Cathy Iberg, Interim President of the Corporation; Joan Moeller, Accounting and Security Operations Manager of the Corporation; Christy Wallace, Interim Secretary of the Corporation; Jerry Turner, legal counsel for the Corporation; William Strange and Eric Rothe, representing the firm of Deloitte and Touche LLP; and Christine Overbagh and Charlie Chaffin representing the The University of Texas System (the "System") Audit Office.

Chairman Riter called the meeting to order at 2:35 p.m. Copies of materials supporting the Committee meeting agenda were previously furnished to each Director.

Approval of the 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 10, 2000 meeting. By motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the minutes of the Meeting of the Committee held on
November 10, 2000 are hereby approved.

Presentation of the Corporation's Financial Statements for the Period Ended April 30, 2001

Ms. Iberg presented the Corporation's financial statements for the period ended April 30, 2001. Ms. Iberg stated that the Corporation's goal is to have a capital reserve equal to one-year of investment management fees. For the fiscal year ended August 31, 2001, UTIMCO will be substantially under its operating budget. This result is primarily attributable to a substantial decrease in payroll costs for staff positions that were unfilled or replaced at lower salaries. With two upper management positions currently unfilled, this trend will continue through the end of the fiscal year. As such, a portion of UTIMCO's management fee will be rebated to the investment funds for the fiscal year ended August 31, 2001. Ms. Iberg estimated the amount to be at least \$1 million. Ms. Iberg noted that there was no other significant financial statement items to report and answered the Committee members' questions.

Discussion of UTIMCO Fee Request for the Period September 1, 2001 through August 31, 2002

Ms. Iberg reviewed the Corporation's fee request for the fiscal year ending August 31, 2002. The Corporation's annual fee will increase approximately \$100 thousand from \$6.6 million to \$6.7 million, or 2.0%. The direct expenses of the funds, which consists primarily of external management fees, custodian fees, external audit fees, legal and consulting expenses, are budgeted to increase by \$840 thousand from \$24.4 million to \$25.2 million, or 3.4%. Ms. Iberg explained the variances between the two budget periods and answered the Committee members' questions.

Engagement of Independent Auditors

Mr. William Strange, from the firm of Deloitte & Touche, LLP, made a presentation concerning the proposed engagement letter for the audits of the Permanent University Fund, the Permanent Health Fund, the Long Term Fund, the General Endowment Fund, and the Short Intermediate Term Fund, in addition to an audit for the Corporation; for the fiscal year ended August 31, 2001. Mr. Strange stated that the fee for August 31, 2000 was \$81,400 and the proposed audit fee for August 31, 2001 is \$95,000, an increase of \$13,600. Mr. Strange stated that the increase was due to the addition of the General Endowment Fund and inflationary increases in cost.

Mr. Strange answered the Committee members' questions and upon motion duly made and seconded, the following resolutions were adopted:

RESOLVED, that the firm of Deloitte & Touche, LLP be and is hereby appointed as the independent auditor of the Corporation for the year ended August 31, 2001, subject to approval by the Corporation's Board of Directors, and further

RESOLVED, that the firm of Deloitte & Touche, LLP be and is hereby appointed as the independent auditor of the funds managed by the Corporation on behalf of the U. T. System Board of Regents for the fiscal year ended August 31, 2001, subject to approval by the Corporation's Board of Directors.

At this point, William Strange and Eric Rothe left the meeting.

Update on UTIMCO's Compliance, Reporting and Audit Issues

Ms. Iberg updated the Committee on the Corporation's compliance, reporting and outstanding audit issues. Ms. Iberg stated that there were no significant items to report and, along with Mr. Chaffin, answered the Committee members' questions.

There being no further business to come before the Audit and Ethics Committee, the meeting was adjourned at approximately 3:05 p.m.

Interim Secretary: _____
Christy W. Wallace

Approved: _____ Date: _____
A. W. "Dub" Riter, Jr., Chairman
Audit and Ethics Committee
of the Board of Directors of
The University of Texas Investment Management Company