

**MINUTES OF THE MEETING OF  
THE BOARD OF DIRECTORS OF  
THE UNIVERSITY OF TEXAS  
INVESTMENT MANAGEMENT COMPANY**

The Board of Directors (the "Board") of The University of Texas Investment Management Company (the "Corporation") convened in an open meeting at 9:39 a.m. on the **15th day of November 2004**, at the offices of the Corporation, Suite 1700, 221 West 6th Street, Austin, Texas, 78701, said meeting having been called by the Chairman, Woody L. Hunt, with notice provided to each member in accordance with the Bylaws. The audio portion of the meeting was electronically recorded.

Participating in the meeting were the following members of the Board:

Woody L. Hunt, Chairman  
John W. Barnhill, Jr.  
Clint D. Carlson  
Rita C. Clements  
J. Philip Ferguson  
I. Craig Hester  
R. H. (Steve) Stevens, Jr.  
Charles W. Tate

thus, constituting a majority and quorum of the Board. Chancellor Mark G. Yudof was not present at the meeting. Also, attending the meeting were R. D. Burck, Advisory Director; Scott Caven, UT System Regent; Bob Boldt, President, Chief Executive Officer and Chief Investment Officer of the Corporation; Joan Moeller, Secretary and Treasurer of the Corporation; Christy Wallace, Assistant Secretary of the Corporation; Bill Edwards, Managing Director of Information Technology; Larry Goldsmith, Managing Director of Public Markets; Andrea Reed, Risk Manager; Sara McMahon and Trey Thompson, Co-Managing Directors – Non-Marketable Alternative Investments of the Corporation; several staff members of the Corporation; Jerry Turner and Miriam Burke, legal counsel for the Corporation; Philip Aldridge, Jerry Modjeski, Charlie Chaffin, and Brandon Duck of U. T. System Administration; Bruce Myers of Cambridge Associates; and Michael Sebastian of EnnisKnupp. Mr. Hunt called the meeting to order at 9:39 a.m. Copies of materials supporting the Board meeting agenda were previously furnished to each Director or distributed at the meeting.

**Minutes**

The first matter to come before the Board was approval of the minutes of the meeting of the Board of Directors held on September 29, 2004. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the minutes of the meeting of the Board of Directors held on  
September 29, 2004 be and are hereby, approved.

## **Executive Session**

Mr. Hunt, at 9:41 a.m., announced that, "the Board of Directors of The University of Texas Investment Management Company having been duly convened in Open Session and notice of this meeting having been duly given, I hereby announce the convening of a closed meeting as an Executive Session of the Board, for the purpose of deliberations regarding leasing space for Corporation offices; consultation with attorney about contemplated litigation regarding disclosure of portfolio company information; and deliberating personnel compensation matters for corporation employees. This Executive Session meeting of the Board is authorized by Texas Government Code, Section 551.072 (Leasing Space); Section 551.071 (Contemplated Litigation) and Section 551.074 (Personnel Matters). The time is now 9:41 a.m."

In Executive Session, the Board discussed matters regarding leasing space for Corporation offices, contemplated litigation regarding disclosure of portfolio company information, and personnel compensation matters. No action was taken and no vote was called for or taken by the Board.

## **Reconvene in Open Session**

The Board reconvened at 11:10 a.m. in open session and Mr. Hunt announced that, "the Open Session of the Board of Directors of The University of Texas Investment Management Company is now reconvened. The time is now 11:10 a.m. During the Executive Session, the Board discussed matters regarding leasing space for Corporation offices, contemplated litigation regarding disclosure of portfolio company information, and personnel compensation matters, but did not take any votes."

## **Approval of Proposed Investments**

Mr. Hunt asked Mr. Hester to report as Chairman of the Liquidity Committee regarding proposed investments for the Marketable Alternative program. Mr. Hester stated that the Liquidity Committee met on October 25, 2004 and also before the Board meeting on November 15, 2004, and considered the impact upon the Liquidity Profiles of the PUF and GEF resulting from proposed investments. The Liquidity Committee approved an increase in the pro forma illiquid allocation to approximately 21.7%, which would result from Board approval of the investments. Also proposed was a Public Markets initial investment to use PUF and GEF assets to acquire up to a \$50 million combined institutional investment interest with IronBridge Capital Management, LLC. Upon motion duly made and seconded, the following resolutions were unanimously adopted:

### **Eminence Fund, Ltd.**

WHEREAS, the Board has reviewed the Corporation's Investment Recommendation to use PUF and GEF assets to acquire \$50 million in shares (the "Investment") in Eminence Fund, Ltd.; and

WHEREAS, the Corporation has determined that the Investment 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 as described in the Investment Recommendation dated November 8, 2004, for Eminence Fund, Ltd. be approved; and be it further

RESOLVED, that the President and CEO, and any Managing Director of this Corporation be, and each of them hereby is, authorized to make such further revisions to the terms and provisions as may be necessary or in the best interests of this Corporation, excluding an increase in the amount of the capital commitment to Eminence Fund, Ltd.; and be it further

RESOLVED, that the President and CEO, any Managing Director, 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 Investment), 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 Investment and the instruments referred to therein.

#### **OCM Emerging Markets (Cayman) Fund, Ltd.**

WHEREAS, the Board has reviewed the Corporation's Investment Recommendation to use PUF and GEF assets to acquire \$30 million in shares (the "Investment") in OCM Emerging Markets (Cayman) Fund, Ltd.; and

WHEREAS, the Corporation has determined that the Investment 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 as described in the Investment Recommendation dated November 8, 2004, for OCM Emerging Markets (Cayman) Fund, Ltd. be approved; and be it further

RESOLVED, that the President and CEO, and any Managing Director of this Corporation be, and each of them hereby is, authorized to make such further revisions to the terms and provisions as may be necessary or in the best interests of this Corporation, excluding an increase in the amount of the capital commitment to OCM Emerging Markets (Cayman) Fund, Ltd.; and be it further

RESOLVED, that the President and CEO, any Managing Director, 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 Investment), 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 Investment and the instruments referred to therein.

And for Public Markets Investments:

WHEREAS, the Board has reviewed the Corporation's Investment Recommendation to use PUF and GEF assets to acquire up to a \$50 million combined institutional investment interest (the "Investment") in IronBridge Capital Management's Micro-Cap portfolio; and

WHEREAS, the Corporation has determined that the Investment 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 as described in the Investment Memorandum dated November 8, 2004 for IronBridge Capital Management Micro-Cap portfolio be approved; and be it further

RESOLVED, that the President and CEO, and any Managing Director of this Corporation be, and each of them hereby is, authorized to make such further revisions to the terms and provisions as may be necessary or in the best interests of this Corporation, in the amount of the capital commitment to IronBridge Capital Management Micro-Cap portfolio; and be it further

RESOLVED, that the President and CEO, any Managing Director, 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 Investment), 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 Investment and the instruments referred to therein.

At this time, Mr. Goldsmith gave an executive review of Blakeney Management -Emerging Markets Equities Investment of \$40 million made in October 2004, as a follow-up to the Option to Review election requested by a Director. Mr. Goldsmith answered the Directors' questions.

## **Asset Allocation, Risk and Performance**

Mr. Hunt asked Mr. Boldt to report on the Corporation's asset allocation, risk and performance. Mr. Boldt began by discussing the Market Exposure chart that shows market exposure and deviations from policy targets within tactical policy ranges. Mr. Boldt asked Sara McMahon and Trey Thompson to comment on the private investments and venture capital areas. Mr. Boldt continued by discussing relative risk analysis, the peer universe and value added. The latest performance information was presented. Mr. Boldt also reported Cumulative Value Added under the Corporation's management for the period ended October 31, 2004 as provided by handouts. The net performance for the one-month period ended October 31, 2004, for the PUF and the GEF were 1.87%, and 1.93%, respectively, versus benchmark returns of 1.66% for each fund. The net performance for one-year ended October 31, 2004, for the PUF and GEF were 13.88% and 13.91%, respectively, versus benchmark returns of 12.66% for each fund. The Short Intermediate Term Fund's (SITF) performance was 0.27% versus benchmark return of .31% for the one-month period, and was 2.08% versus benchmark return of 1.88% for the one-year period ended October 31, 2004. Performance for the Short Term Fund (STF) was 0.14% versus 0.13% for its benchmark for the one-month period, and was 1.15% versus benchmark return of 1.16% for the one-year period ended October 31, 2004. Also presented was a manager history performance summary, statistics on liquidity, and total derivatives by type and application. Mr. Boldt, Ms. McMahon, and Mr. Thompson answered the Directors' questions.

## **CORE Fund Update**

Mr. Boldt gave a verbal update on the CORE Fund. The CORE Fund is an alternative portfolio that is being designed to replace two of the current operating funds that are available to the chief business officers (CBO's) at each institution and give them a higher return opportunity and a much more diverse portfolio. This design has been under development for some time. The Staff has been working with the CBO's and addressing their specific concerns regarding liquidity and daily cash flow issues. More detailed information will be presented to the Board at the January meeting. Mr. Boldt and Mr. Myers answered the Directors' questions.

## **Limited Partner Performance Issues**

Mr. Boldt discussed a study that was done at Harvard University and referenced a white paper by Mr. Lerner and associates regarding the drivers behind the variance in private equity performance across different categories of institutions. Mr. Boldt answered the Directors' questions.

## **Expense Summary**

Mr. Boldt then handed out an Expense Summary that provided Corporation expenses, direct fund expenses, and partnership and mutual fund expenses. Mr. Boldt explained that the Corporation is following standard industry practice and that every performance number presented to the Board by the Corporation's Staff has always been net of these expenses. Cambridge and EnnisKnupp have been asked to provide a review and analysis of fees paid. The results of this review will be presented upon completion.

## **Resolutions from Executive Session**

Mr. Hunt asked that resolutions related to items discussed during the Executive Session to be handed out. Mr. Hunt read each one and upon motion duly made and seconded, the following resolutions were unanimously adopted:

### **Lease Agreement:**

WHEREAS, The University of Texas Investment Management Company ("UTIMCO") currently leases office space for its executive and administrative offices in the Bank One Tower in Austin, Texas pursuant to an Office Lease with Crescent Real Estate Funding VIII, L.P. which expires on January 31, 2006; and

WHEREAS, UTIMCO must negotiate and enter into a new lease agreement to secure office space for its executive and administrative offices on the expiration of the existing lease.

NOW, THEREFORE, IT IS:

RESOLVED, that the President and CEO of UTIMCO is authorized and directed by the Board of Directors of UTIMCO to negotiate and enter into an office lease agreement on behalf of UTIMCO for executive and general administrative offices in Austin, Texas, ("Lease Agreement") on such terms that may be in the best interests of the UTIMCO as determined by such officer of UTIMCO;

FURTHER RESOLVED, that the Board of Directors affirms and ratifies any actions of the President and CEO of UTIMCO with regard to the Lease Agreement taken prior to the date of this Resolution; and

FURTHER RESOLVED, that the President and CEO is authorized by the Board of Directors to negotiate and enter into on behalf of UTIMCO any modifications of and documents ancillary to the Lease Agreement and to take whatever action as may be necessary or in the best interests of UTIMCO as such officer of UTIMCO may deem necessary, advisable or appropriate to effectuate or carry out the purposes and intent of this Resolution and to perform the obligations of UTIMCO under the Lease Agreement and any instruments referred to therein and/or executed in connection therewith.

### **Compensation Program Awards:**

WHEREAS, the UTIMCO Compensation Program, formerly known as the UTIMCO Performance Compensation Plan (the "Plan"), was amended and restated in its entirety, effective as of September 1, 2004 (the "Restatement Effective Date"); and

WHEREAS, in connection with the restatement of the Plan, the U. T. Board of Regents (the "Regents") resolved on September 28, 2004, that the UTIMCO Board of Directors ("UTIMCO Board") calculate the performance compensation awards for Fiscal Year 2004 under the terms of the Plan as those terms existed prior to the Restatement Effective Date, exercising the full discretion permitted the UTIMCO Board under the pre-restated Plan in such calculation; provided, however, that the total performance compensation awards for all Plan participants for Fiscal Year 2004 is not to exceed \$2.25 million; and

WHEREAS, pursuant to the authority vested in the UTIMCO Board by the pre-restated Plan, the UTIMCO Board has full discretionary authority to calculate the performance compensation awards under the pre-restated Plan; and

WHEREAS, the President has initially calculated the performance compensation awards under the pre-restated Plan for Fiscal Year 2004 for all Plan participants (excluding the President); and

WHEREAS, the UTIMCO Board has reviewed and approves of such initial calculations and has determined that such calculations, when added to the proposed calculation of the performance compensation award for the President for Fiscal Year 2004, do not exceed \$2.25 million in compliance with the Regents' directive;

NOW, THEREFORE, BE IT:

RESOLVED, that pursuant to the directive from the Regents issued on September 28, 2004, and the discretion vested in the UTIMCO Board under the terms of the Plan as those terms existed for the pre-September 1, 2004 period, the UTIMCO Board hereby approves the performance compensation awards for Fiscal Year 2004 for the Plan participants (excluding the President), as those awards were initially calculated and presented by the President, in the aggregate amount of \$1,600,007.

#### **Compensation Program Award for President:**

WHEREAS, the UTIMCO Compensation Program, formerly known as the UTIMCO Performance Compensation Plan (the "Plan"), was amended and restated in its entirety, effective as of September 1, 2004 (the "Restatement Effective Date"); and

WHEREAS, in connection with the restatement of the Plan, the U. T. Board of Regents (the "Regents") resolved on September 28, 2004, that the UTIMCO Board of Directors ("UTIMCO Board") calculate the performance compensation awards for Fiscal Year 2004 under the terms of the Plan as those terms existed prior to the Restatement Effective Date, exercising the full discretion permitted the

UTIMCO Board under the pre-restated Plan in such calculation; provided, however, that the total performance compensation awards for all Plan participants for Fiscal Year 2004 is not to exceed \$2.25 million; and

WHEREAS, pursuant to the authority vested in the UTIMCO Board by the pre-restated Plan, the UTIMCO Board has full discretionary authority to calculate the performance compensation awards under the pre-restated Plan; and

WHEREAS, the UTIMCO Board has calculated the performance compensation award under the pre-restated Plan for the President for Fiscal Year 2004; and

WHEREAS, the UTIMCO Board has determined that such calculation, when added to the initial calculations of the performance compensation awards for the Plan participants excluding the President for Fiscal Year 2004, does not exceed \$2.25 million in compliance with the Regents' directive;

NOW, THEREFORE, BE IT:

RESOLVED, that pursuant to the directive from the Regents issued on September 28, 2004, and the discretion vested in the UTIMCO Board under the terms of the Plan as those terms existed for the pre-September 1, 2004 period, the UTIMCO Board hereby approves the performance compensation award for Fiscal Year 2004 for the President in the amount of \$649,993.

### **New Legislation Affecting Compensation Program**

Mr. Hunt asked Ms. Burke of Vinson and Elkins to provide an explanation of the new legislation behind the proposed resolution affecting the Compensation Program. Ms. Burke and Mr. Turner answered the Directors' questions. Upon motion duly made and seconded, the following resolution was unanimously adopted:

WHEREAS, the UTIMCO Compensation Program, formerly known as the UTIMCO Performance Compensation Plan (the "Plan"), was amended and restated in its entirety, effective as of September 1, 2004 (the "Restatement Effective Date"); and

WHEREAS, on October 11, 2004, Congress passed the American Jobs Creation Act of 2004 (the "Act"), which adds a new provision to the Internal Revenue Code, effective January 1, 2005, that significantly affects nonqualified deferred compensation plans; and

WHEREAS, the Plan is a nonqualified deferred compensation plan that is affected by the Act; and

WHEREAS, pursuant to the Act, the Internal Revenue Service ("IRS") is mandated to provide guidance within 60 days from enactment of the Act clarifying



many issues raised by the new legislation, including guidance providing a limited time period during which affected plans may be amended to comply with the new rules; and

WHEREAS, at this time it is not clear exactly what changes to the Plan will be necessitated by the new law, and such changes will not be known until the IRS guidance is issued; however it is anticipated that the Plan will have to be modified in certain respects to comply with the new law once the IRS guidance is issued; and

WHEREAS, pursuant to section 7.2 of the Plan, the UTIMCO Board has the right in its discretion to amend the Plan or any portion thereof from time to time; and

WHEREAS, the UTIMCO Board wishes to delegate authority to the Chairman of the UTIMCO Board to make any changes to the Plan that are necessitated or advisable as a result of the Act so that such changes may be made promptly upon issuance of the IRS guidance;

NOW, THEREFORE, BE IT:

RESOLVED, that the Chairman of the UTIMCO Board is hereby authorized and directed to make any changes to the Plan necessitated by, or advisable on account of, the American Jobs Creation Act of 2004 and to perform all such acts and things, to execute all documents and instruments, and to take any and all other steps as he may deem necessary, advisable, convenient, or proper to effectuate the same and to comply with all applicable provisions of all applicable law, and any and all such actions heretofore taken shall be, and they hereby are, ratified and approved.

### **Public Markets Investments Program**

Mr. Hunt turned the meeting over to Mr. Boldt and Mr. Goldsmith for a presentation on the Corporation's Public Markets Investments program. This presentation was part two of an overview of the Public Markets Investments program. The primary focus of this presentation was to provide the Staff's perspective on leadership thinking in the debate of active vs. passive management. Mr. Boldt, Mr. Goldsmith and Mr. Myers answered the Directors' questions.

The meeting was recessed at 12:40 p.m.

The Board of the Corporation reconvened in an open meeting at the same meeting location at 1:35 p.m.

## **Audit and Ethics Committee Report**

After reconvening, Mr. Hunt turned the meeting over to Mr. Stevens, Chairman of the Audit and Ethics Committee. Mr. Stevens reported that the Audit and Ethics Committee had met on November 1, 2004, to approve the audited financial statements of the Permanent University Fund, General Endowment Fund, Permanent Health Fund, Long Term Fund, Short Intermediate Term Fund, and the Statement of Performance Statistics. The Audit and Ethics Committee approved the financial statements as presented. Mr. Richter of Ernst and Young gave a report to the Audit and Ethics Committee and was very complimentary of the Staff. The audit reports have been reviewed and approved by the UT System Board of Regents. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the separate annual financial statements and audit reports for the Permanent University Fund, the Permanent Health Fund, The University of Texas System Long Term Fund, The University of Texas System General Endowment Fund, and The University of Texas System Short Intermediate Term Fund, each for the fiscal years ended August 31, 2004, and August 31, 2003, and the Statement of Investment Performance Statistics for the year ended August 31, 2004, be and are hereby approved in the form as presented to the Board.

## **Committee Appointments**

Mr. Hunt brought up the next item to come before the Board, which was designation of committee members and chair designations for the Audit and Ethics Committee, Compensation Committee and the Liquidity Committee. Upon motion duly made and seconded, the following resolutions were unanimously adopted:

BE IT RESOLVED, that John W. Barnhill, I. Craig Hester and R. H. (Steve) Stevens, Jr. are hereby designated as the Audit and Ethics Committee of the Board of Directors, approved by the Board of Regents at their meeting held on November 4-5, 2004, to serve until their successor has been chosen and qualified, or until such their earlier death, resignation or removal; and

FURTHER RESOLVED, that R. H. (Steve) Stevens, Jr. is hereby designated the Chair of the Audit and Ethics Committee and shall preside at its meetings; and

FURTHER RESOLVED, that Clint D. Carlson, J. Philip Ferguson and Charles W. Tate are hereby designated as the Compensation Committee of the Board of Directors to serve until their successor has been chosen and qualified, or until such their earlier death, resignation or removal; and

FURTHER RESOLVED, that J. Philip Ferguson is hereby designated the Chair of the Compensation Committee and shall preside at its meetings; and

FURTHER RESOLVED, that Rita C. Clements, I. Craig Hester and Woody L. Hunt are hereby designated as the Liquidity Committee of the Board of Directors to

serve until their successor has been chosen and qualified, or until such their earlier death, resignation or removal; and

FURTHER RESOLVED, that I. Craig Hester is hereby designated the Chair of the Liquidity Committee and shall preside at its meetings.

**Delegation of Authority Policy**

Mr. Hunt asked Mr. Boldt to present the proposed Delegation of Authority Policy, amended with regard to best practices, delegation of authority to Staff, best use of Directors' time, and the Working Group's recommendations. Mr. Hunt gave a history of the Delegation of Authority Policy and the Board discussed the proposed changes with Mr. Hunt, Mr. Boldt, Mr. Myers and Mr. Turner answering the Directors' questions. Upon motion duly made and seconded, the following resolution to approve the revised Delegation of Authority, subject to changes made by Mr. Turner, was unanimously adopted:

RESOLVED, that the revised Delegation of Authority Policy be, and is hereby approved in the form as presented to the Board, subject to changes made by Mr. Turner.

The final version of the Delegation of Authority Policy is attached to these minutes.

**Current State of Competitiveness**

Mr. Hunt asked Mr. Boldt to give his presentation on the Current State of Competitiveness. Mr. Boldt handed out a copy of his presentation and a chart showing peer group asset allocations. Mr. Boldt and Mr. Hunt answered the Directors' questions.

There being no further business to come before the Board of Directors, the meeting was adjourned at approximately 3:55 p.m.

Secretary: \_\_\_\_\_  
Joan Moeller

Approved: \_\_\_\_\_ Date: \_\_\_\_\_  
Woody L. Hunt  
Chairman, Board of Directors of  
The University of Texas Investment  
Management Company



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