The University of Texas Investment Management Company

Presentation Materials Board of Directors Meeting

September 15, 2004

Notice of Open Meeting of the
Board of Directors of
The University of Texas Investment
Management Company

September 15, 2004

UTIMCO
221 W. 6th Street, Suite 1700
Austin, Texas

Open Meeting Agenda

Convene at 3:00 p.m.

Open Session:
Call to Order/Consideration of Minutes of July 15, 2004 Meeting*

Report from Compensation Committee:
Executive Session
Pursuant to 551.074, Texas Government Code, the Board of Directors may convene in Executive Session to consider the compensation committee report.
Reconvene into Open Session
- Consideration of Compensation Committee Recommendation*

Adjournment

* Action by resolution required

Members of the Committee may attend the meeting by telephone conference call pursuant to Tex. Educ. Code Ann. § 66.08(h)(2)(B). The telephone conference will be audible to the public at the meeting location specified in this notice during each part of the meeting that is required to be open to the public.

Posted: September 10, 2004
By: The University of Texas Investment Management Company

Next Scheduled Meeting: September 29, 2004 – Dallas, Texas

Resolution No. 1

RESOLVED, that the minutes of the meeting of the Board of Directors held on **July 15, 2004** be, and is hereby, approved.

**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 9:55 a.m. on the **15th day of July 2004**, at the offices of the Corporation, Town Lake Conference Room, 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 open meeting was electronically recorded.

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

Woody L. Hunt, Chairman
Mark G. Yudof, Vice-Chairman for Policy
Rita C. Clements
J. Philip Ferguson
I. Craig Hester
R. H. (Steve) Stevens, Jr.

thus, constituting a majority and quorum of the Board. Directors J. Luther King, Jr., Vice-Chairman; and Susan M. Byrne were not present at the meeting. Also, attending the meeting were R. D. Burck, Advisory Director; John Barnhill, UT System Regent; Scott Caven, UT System Regent; Bob Boldt, President 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; various other staff members of the Corporation; Jerry Turner, legal counsel for the Corporation; Philip Aldridge, Charlie Chaffin, Brandon Duck, Jerry Modjeski and Michael Warden of U. T. System Administration; Bruce Myers of Cambridge Associates; Greg Anderson of Texas A&M System; and Michael Sebastian of EnnisKnupp. Mr. Hunt called the meeting to order at 9:55 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 May 26, 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 **May 26, 2004** be, and is hereby, approved.

Approval of Non-Marketable Alternative Investments

Mr. Hunt asked Mr. Hester to speak for the Liquidity Committee regarding proposed illiquid investments for both the Non-Marketable Alternative and Public Markets programs. Mr. Hester stated that the Liquidity Committee met before the Board meeting and approved an increase in allowable illiquid investments, should the Board approve the investments. The only action item for the Board was regarding the proposed commitment to Tejas Venture Partners, L.P., a new, early-stage venture capital fund. Mr. Thompson and Mr. Myers answered the Directors' questions and, upon motion duly made and seconded, the following resolution was unanimously adopted:

> WHEREAS, the Board has reviewed the Corporation's Investment Recommendation to use PUF and GEF assets to acquire $25 million in limited partnership interests (the "Investment") in Tejas Venture Partners, L.P.; 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 July 1, 2004, for Tejas Venture Partners, L.P. 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 Tejas Venture Partners, L.P.; 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.

Asset Allocation, Risk and Performance

Mr. Hunt asked Mr. Boldt to report on the Corporation's asset allocation. Mr. Boldt discussed market exposure, actual vs. policy, the relative risk analysis and a manager history performance summary.

The latest performance information was presented. Mr. Boldt reported value-added under the Corporation's management for the period ended May 31, 2004. The net performance for the one-month period ended May 31, 2004, for the PUF and the GEF were .52%, and .56%, respectively, versus benchmark returns of 1.41% for each fund. The net performance for one-year ended May 31, 2004, for the PUF and GEF were 20.03% and 20.24%, respectively, versus benchmark returns of 14.72% for each fund. The Short Intermediate Term Fund's (SITF) performance was -0.12% versus benchmark return of -0.17% for the one-month period, and was 1.01% versus benchmark return of 0.38% for the one-year period ended May 31, 2004. Performance for the Short Term Fund (STF) was 0.08% versus 0.09% for its benchmark for the one-month period, and was 1.02% versus benchmark return of 1.06% for the one-year period ended May 31, 2004. Also reported and discussed were value-added from tactical asset allocation decisions, the liquidity profile and the derivative report. Mr. Boldt answered the Directors' questions.

Budget and Fee Request (9/1/04 – 8/31/05)

The recommended Services Budget for the 2004-2005 fiscal year presented by Mr. Boldt included all expenses directly associated with the Corporation's operations. The Direct Funds Budget for the 2004-2005 fiscal year included all expenses directly related to the external management of assets of the endowment and operating funds. The sum of the Corporation's Services Budget and the Direct Funds Budget is a measure of the total expense of managing the non-limited partnership investments of the endowment and operating funds. These expenses are allocated across the Funds under the Corporation's management. Chancellor Yudof asked for Mr. Aldridge to give an analysis of the proposed budget. Mr. Aldridge and Mr. Boldt answered the Directors' questions. Adjustments will be required to the Budgets if the CORE Strategy is approved by the Board and UT System Board of Regents. Upon motion duly made and seconded, the following resolution was unanimously adopted:

> RESOLVED, that the Corporation's Budget and Fee Request for the period September 1, 2004 through August 31, 2005 be, and is hereby approved, subject to approval by the U. T. System Board of Regents.

The meeting was recessed at 12:00 p.m.

The Board of the Corporation reconvened in an open meeting at the same meeting location at 12:55 p.m.

Executive Session - Personnel Compensation

After reconvening, Mr. Hunt 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 deliberating personnel compensation matters for corporation employees. This Executive Session meeting of the Board is authorized by Texas Government Code, Section 551.074 (Personnel Matters). The time is now 12:58 p.m."

In Executive Session, the Board discussed personnel compensation matters. No action was taken and no vote was called for or taken by the Board.

The Board reconvened at 1:40 p.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 1:40 p.m. During the Executive Session, the Board discussed personnel compensation matters, but did not take any votes."

Mr. Hunt asked Mr. Ferguson, a member of the Compensation Committee, to give a report of the Compensation Committee to the Board. Mr. Ferguson reported that the Compensation Committee met on July 14, 2004, and approved the Corporation's Officers' and Managing Directors' Base Salaries for Fiscal Year 2004-2005 (excluding the President). He also proposed that the following resolution regarding compensation for the Corporation's President be approved. Upon motion duly made and seconded, the following resolution was unanimously adopted:

> RESOLVED, that the Corporation's President's Base Salary submitted by the Compensation Committee in the amount of $470,000 be, and is hereby, approved.

Risk Management

Mr. Hunt asked to move to the next item on the agenda. Mr. Boldt asked Ms. Reed begin the presentation on the future of risk management at the Corporation. The presentation described the overall plan for managing investment risk at the Corporation. There was a discussion of various risk metrics and their use in a risk budgeting framework, sample risk reports, and a brief overview of current and potential risk systems. Mr. Boldt, Ms. Reed and Mr. Myers answered the Directors' questions. At this point, Chancellor Yudof left the meeting.

Investment Policy Statements

Mr. Hunt asked Mr. Boldt to present the proposed changes to the Investment Policy Statements. The investment policy statements are required to be reviewed annually. In addition, the Working Group (a working group formed by the UT System Board of Regents comprised of representation from UT System administration, Ennis Knupp & Associates, Baker Botts L.L.P. and UT Austin) recommended that the UT System staff and its consultants should be involved in UTIMCO issues, including a key role regarding creation of investment policies. The Corporation's management also requested Vinson & Elkins to review the policies. Mr. Boldt pointed out major changes that were proposed from the Working Group, Corporation's Staff, and Vinson & Elkins, and Mr. Boldt and Mr. Turner answered the Directors' questions. Upon motion duly made and seconded, the following resolution was unanimously adopted:

> RESOLVED, that the amendments to the Investment Policy Statements for the Permanent University Fund, the U. T. System General Endowment Fund, the U. T. System Long Term Fund, the Permanent Health Fund, the U. T. System Short Intermediate Term Fund, the U. T. System Short Term Fund, and the U. T. System Separately Invested Funds as presented be, and are hereby, approved, subject to approval by the U. T. System Board of Regents.

Liquidity Committee Report

Mr. Hunt asked Mr. Hester, Chairman of the Liquidity Committee, to report on the meeting of the Liquidity Committee. Mr. Hester reported that the committee had met prior to the Board Meeting. The Charter of the Liquidity Committee and the Liquidity Policy were handed out, both reflecting changes recommended by the Committee in their meeting. Mr. Hester discussed the proposed changes. In discussing the proposed changes to the policy, questions were also raised by the Directors regarding committee authority vs. delegation of authority to Staff. Mr. Hunt and Mr. Boldt answered the Directors questions. However, due to time constraints, approval of the proposed changes to the Liquidity Policy and the Charter of the Liquidity Committee were deferred until the next Board meeting.

Derivative Investment Policy

Mr. Hunt asked Mr. Boldt to present the proposed changes to the Derivative Investment Policy. The Derivative Investment Policy enumerates the applications, documentation and limitations for investment in derivative securities in the PUF and GEF. The proposed changes were based on review by Corporation Management and Jerry Turner with Vinson and Elkins. After discussion regarding the policy, upon motion duly made and seconded, the following resolution was unanimously adopted:

> RESOLVED, that the Derivative Policy be, and is hereby, approved in the form as presented to the Board.

Discussion and approval of the Delegation of Authority was tabled until the next meeting of the Board. There being no further business to come before the Board of Directors, the meeting was adjourned at approximately 3:30 p.m.

Secretary: ____________________________
Joan Moeller

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

Resolution No. 2

RESOLVED, that UTIMCO Compensation Program, as recommended by the Compensation Committee be, and is hereby, approved in the form as presented to the Board.

Agenda Item
UTIMCO Board Meeting
September 15, 2004

Agenda Item: Consideration of the Proposed UTIMCO Compensation Program

Developed By: Hunt, Boldt,

Presented By: Hunt, Boldt

Type of Item: Action Required by UTIMCO Board

Description: The UTIMCO Compensation Program ("Plan") consists of two elements, base salary and an annual incentive award. UTIMCO's compensation program serves a number of objectives, the most important of which is attracting and retaining key investment and operations staff of outstanding competence and ability.

Recommendation: The Compensation Committee approved the Plan during its meeting held on Monday, September 13, 2004, and recommends the Plan for UTIMCO Board consideration.

Discussion: The UTIMCO Board approved a compensation plan at its January 13, 2004, meeting (the "January Plan"), which was subject to review by the Board of Regents. However, the January Plan was never placed on the Regents agenda for consideration. Upon the suggestion of a Regent, Mercer Human Resource Consulting was retained to rewrite the January Plan.

Since there were numerous structural and technical changes made to the January Plan, it is impractical to present a black-lined version. Instead, the primary structural and technical changes are noted below:

The primary **structural** changes embedded in this Plan versus the January Plan are:

- Eliminated Policy Benchmark <u>completely</u> from the calculation of entity performance.
- Added a provision allowing threshold performance to earn an award equal to 20% of target (rather than 0% of target). Note that target award opportunities and performance standards were not materially changed, so this only impacts awards between threshold and target.
- Changed performance standards for measuring entity performance relative to peer group so that threshold is earned for reaching the 40th percentile (decreased from the 50th percentile), target is earned for reaching the 60th percentile, and maximum is earned for reaching the 75th percentile (unchanged).
- Decreased the maximum qualitative award to 30% or less for all individuals.
- Eliminated the provision that incentive awards are paid and deferred awards vest upon involuntary termination.

- Eliminated the accelerated vesting provision at age 60.

The primary **technical** changes in the Plan versus the January Plan are:

- Evaluating private capital based on partnership commitments made by the current team since 2001 (eliminating measurement of active partnerships made by the prior team but managed by the current team.)
- Changed the methodology Cambridge Associates uses in calculating percentiles so that the 100^{th} percentile is the highest point and the 0 percentile is the lowest point.
- Excluded the PUF and GEF from the performance peer group (so that the funds are not comparing performance against themselves.)
- Added the list of the current peer group used to evaluate entity relative performance.
- Vinson and Elkins rewrote sections on eligibility (Section 5.3) and participation and termination provisions (Section 5.10) to be more technically accurate.
- Added an Appendix to document methodology of calculation of Performance Incentive Award.

Reference: UTIMCO Compensation Program; UTIMCO Compensation Plan (January, 2004)

THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

UTIMCO
COMPENSATION PROGRAM

Table of Contents

1. PROGRAM STRUCTURE

The UTIMCO compensation program consists of two elements, base salary and an annual incentive plan (the "Performance Incentive Plan" or "Plan"):

Base Salary	+	Performance Incentive	=	Total Compensation

2. COMPENSATION PROGRAM OBJECTIVES

UTIMCO's compensation program serves a number of objectives:

- To attract and retain key investment and operations staff of outstanding competence and ability.
- To encourage key investment staff to develop a strong commitment to the performance of the assets for which UTIMCO has been delegated investment responsibility.
- To motivate key investment staff to focus on maximizing real, long-term returns for all funds managed by UTIMCO while assuming appropriate levels of risk.
- To facilitate teamwork so that members of UTIMCO operate as a cohesive group.

3. TOTAL COMPENSATION PROGRAM PHILOSOPHY

UTIMCO aspires to attract and retain high caliber employees from nationally recognized peer institutions and the investment management community in general. UTIMCO strives to provide a total compensation program that is competitive nationally, with the elements of compensation evaluated relative to comparably sized University endowments, foundations, in-house managed pension funds and for-profit investment management firms with a similar investment philosophy (e.g., externally managed funds).

UTIMCO's total compensation program is positioned against the competitive market as follows:

- Base salaries are targeted at the market median (e.g., 50th percentile).
- Target total compensation (salary plus target Incentive Award Opportunity) is positioned at the market median.
- Maximum total compensation (salary plus maximum Incentive Award Opportunity) is targeted at the market 75th percentile if performance is outstanding. (For this purpose, 0 is the lowest point and 100 is the highest.)

Although base salaries as well as target and maximum total compensation have a targeted positioning relative to market, an individual employee's actual total compensation may vary from the targeted positioning based on the individual's experience, education, knowledge, skills and performance as well as UTIMCO's investment performance as described in this document. Base salaries and Incentive Award Opportunities (as well as the actual Performance Incentive Awards) are not determined based on seniority at UTIMCO.

4. BASE SALARY ADMINISTRATION

4.1. Salary Structure

(a) Base salaries are administered through a Salary Structure as set forth in this Section 4.1. Each position has its own salary range, with the midpoint set approximately equal to the market median base salary for positions with similar job content and level of responsibility. In most cases, the salary range will be from 20% below the midpoint to 20% above the midpoint.

(b) The salary range midpoints will be determined based on consultation with the outside compensation consultant and with UTIMCO management. Salary range midpoints for key management, investment and operations positions will be updated at least every three years based on a salary benchmarking study conducted by a qualified compensation consultant selected by the Compensation Committee. In years in which the Committee does not commission a formal salary survey, the base salary midpoints may be adjusted based on expected annual salary structure adjustments as reported in one or more published compensation planning surveys.

4.2. Salary Adjustments

(a) Individual employees' base salaries are determined by the Board. Base salaries will be set within the salary range for each position. An individual's base salary within the range may be higher or lower than the salary range midpoint based on his or her level of experience, education, knowledge, skills and performance. On an exception basis, the Board may set individual base salaries outside of the salary range if an individual either substantially exceeds or does not meet all of the market criteria for a particular position (e.g., recent promotion).

(b) Individuals may receive an annual adjustment (increase or decrease) of their base salaries at the discretion of the Board. Base salary adjustments, if any, will be determined based on each Participant's experience, education, knowledge, skills and performance. Employees are not guaranteed an annual salary increase.

5. PERFORMANCE INCENTIVE PLAN

5.1. Purpose of the Performance Incentive Plan and Effective Date

(a) The purpose of the Performance Incentive Plan is to provide an annual Incentive Award Opportunity based on specific objective criteria relative to UTIMCO's and each Participant's performance. The primary objectives of the Performance Incentive Plan are outlined in Section 2.

(b) The effective date of the Performance Incentive Plan is September 1, 2003.

5.2. Performance Period

(a) For purposes of the Performance Incentive Plan, the Performance Period begins on July 1 of each year and ends the following June 30.

(b) Except as provided under Section 5.8(b)(2) and Section 5.9, historical performance will be measured between July 1 of each year and the following June 30 for gauging achievement of the entity and asset class Performance Goals.

5.3. Eligibility and Participation

(a) Each employee (and only such an employee) who is (i) employed by UTIMCO in an "Eligible Position" and (ii) selected by the Board is eligible to participate in the Performance Incentive Plan and become a "Participant." "Eligible Positions" include senior management, investment staff, and other key positions as determined from time to time by the President and CEO, subject to approval by the Board. Eligible Positions will be confirmed by the Board within the first 60 days of the Performance Period. The Board in its discretion may also designate a newly hired or promoted employee to be in an Eligible Position during a Performance Period. An Eligible Position in one Performance Period is not automatically an Eligible Position in any subsequent Performance Period. A list of Eligible Positions for the 2003/2004 Performance Period is set forth on the table in Section 5.5(c).

(b) An employee in an Eligible Position who has been selected by the Board to participate in the Plan will become a Participant in the Plan on the latest of (i) the date he or she is employed in an Eligible Position, (ii) the date he or she is selected by the Board to participate in the Plan, or (iii) any later date as designated by the Board; provided, however, that an employee may not commence participation in the Plan and first become a Participant during the last three months of any Performance Period. If, during the last three months of any Performance Period, an employee has been selected by the Board to participate in the Plan or becomes employed in an Eligible Position, participation in the Plan will be delayed until the first day of the next following Performance Period (assuming such employee is employed by UTIMCO in an Eligible Position on such date).

(c) An employee will cease to be a Participant in the Plan on the earliest to occur of: (i) the date such employee is no longer employed in an Eligible Position; (ii) the date of termination of such employee's employment with UTIMCO for any reason (including voluntary and involuntary termination, death, and disability); (iii) the date of termination of the Plan; (iv) the date such employee commences a leave of absence; (v) the date such employee begins participation in any other UTIMCO incentive program; (vi) the date the Board designates that such employee's employment position is not an Eligible Position; or (vii) any date designated by the Board as the date on which such employee is no longer a Participant.

(d) Except as provided in Sections 5.10(b), (c), and (d), only Participants are eligible to receive Performance Incentive Awards under the Performance Incentive Plan.

5.4. Performance Goals

(a) Within the first 60 days of each Performance Period, the President and CEO will recommend goals ("Performance Goals") for each Participant (other than the Performance Goals for the President and CEO, which are determined as provided in Section 5.4(c), and the Performance Goals for employees who are hired or promoted during a Performance Period) subject to approval by the Compensation Committee within the first 90 days of the Performance Period. The President and CEO will also recommend Performance Goals for employees who are hired or promoted during the Performance Period and become Participants (subject to confirmation by the Compensation Committee) at the time those employees are designated as Participants.

(b) There are three types of Performance Goals:

(1) Entity Performance (e.g., performance of the Total Endowment Assets)

(2) Asset Class Performance (e.g., US public equity, international equity, private capital, fixed income, etc.)

(3) Individual Performance

Except for the President and CEO, Individual Performance Goals will be defined jointly by each Participant and his or her supervisor. These Individual Performance Goals will be measurable and subject to approval by the President and CEO as well as the Compensation Committee. Individual Performance Goals may be established in one or more of the following areas:

- Leadership
- Implementation of operational goals
- Management of key strategic projects

- Effective utilization of human and financial resources

(c) The President and CEO's Performance Goals will be determined and approved by the Board.

(d) Each Performance Goal is assigned a weight as illustrated in the table in Section 5.5(c), which shows the weightings for each Eligible Position for the 2003/2004 Performance Period. For each Performance Period, the Compensation Committee will approve the weightings of the Performance Goals at the same time it approves the Performance Goals.

5.5. Incentive Award Opportunity Levels and Performance Incentive Awards

(a) At the beginning of each Performance Period, each Participant is assigned an "Incentive Award Opportunity" for each Performance Goal. The Incentive Award Opportunity is expressed as a percentage of base salary earned during the Performance Period. The Incentive Award Opportunities are set by the Board. The Incentive Award Opportunities include a threshold, target and maximum award for achieving commensurate levels of performance.

(b) Incentive Award Opportunities for the 2003/2004 Performance Period are set forth in the following table:

	Weighting			Incentive Award Opportunity (% of Salary)			
Eligible Position	**Entity**	**Asset Class**	**Individual**	**< Threshold**	**Threshold**	**Target**	**Maximum**
		Investment Professionals					
President, CEO & CIO	70%	0%	30%	0%	18%	90%	180%
Deputy CIO & MD of Marketable Alt. Invest.	40%	40%	20%	0%	13%	65%	130%
Risk Manager	70%	0%	30%	0%	12%	60%	120%
MD, Public Markets Invest.	20%	60%	20%	0%	12%	60%	120%
MD, Inflation Hedging Assets	20%	60%	20%	0%	12%	60%	120%
Co-MD, Non-Marketable Alt Inv (n=2)	40%	40%	20%	0%	12%	60%	120%
Portfolio Manager, Equity Invest.	20%	60%	20%	0%	10%	50%	100%
Sr. Portfolio Mgr., Fixed Income Invest.	20%	60%	20%	0%	10%	50%	100%
Portfolio Manager, Fixed Income Invest.	20%	60%	20%	0%	10%	50%	100%
Analytical Support	20%	60%	20%	0%	5%	25%	50%
		Operations/Support Professionals					
MD, Accounting, Finance & Admin.	70%	0%	30%	0%	12%	60%	120%
MD, Information Technology	70%	0%	30%	0%	12%	60%	120%
Manager, Finance & Administration	70%	0%	30%	0%	6%	30%	60%
Manager, Investment Reporting	70%	0%	30%	0%	6%	30%	60%
Manager, Portfolio Accounting & Ops.	70%	0%	30%	0%	6%	30%	60%

(c) Actual "Performance Incentive Awards" are the amounts that are actually awarded to Participants for the respective Performance Period. Actual Performance Incentive Awards will range from zero (if a Participant performs below threshold on all Performance Goals) to the maximum Incentive Award Opportunity (if a Participant performs at or above maximum on all Performance Goals) depending on performance relative to objectives. Awards are capped at maximum levels regardless of whether a Participant exceeds the stated maximum Performance Goals.

(d) Following the end of each Performance Period, the Compensation Committee will review the actual performance of each Participant against the Performance Goals of the respective Participant and determine the Participant's level of achievement of his or her Performance Goals. The Compensation Committee will seek, and may rely on, the independent confirmation of the level of Performance Goal achievement from an external investment consultant to evaluate Entity Performance and Asset Class Performance. The President and CEO will submit a written report to the Compensation Committee, which documents the Participant's performance relative to Participant's Performance Goals set at the beginning of the Performance Period and upon which the Compensation Committee may rely in evaluating the Participant's performance. The Board will determine the President and CEO's level of achievement relative to the President and CEO's Performance Goals.

(e) Performance Incentive Awards will be calculated for each Participant based on the percentage achieved of the Performance Goals, taking into account the weighting for each Entity Performance, Asset Class Performance, and Individual Performance Goals and each Participant's Incentive Award Opportunity. The Compensation Committee will review all Performance Incentive Award calculations, based on the certification of its advisors, and submit its recommendations to the Board for approval.

(f) The methodology for calculating Incentive Award Opportunities and Performance Incentive Awards is presented in Appendix A.

5.6. Form and Timing of Payouts of Performance Incentive Awards

(1) Seventy percent of the Performance Incentive Award will be paid to the Participant ("Paid Performance Incentive Award") within 120 days of the completion of the Performance Period, and

(2) Thirty percent of the Performance Incentive Award will be treated as a "Nonvested Deferred Award" subject to the terms of Section 5.7.

5.7. Nonvested Deferred Awards

(a) Nonvested Deferred Awards will be credited to a hypothetical account on UTIMCO's books in the individual Participants' names ("Nonvested Deferred Award Account(s)") as of the date that the corresponding Paid Performance Incentive Awards are transmitted to Participants. For each Performance Period, a Nonvested Deferred Award Account will be established for each Participant to which will be credited the Nonvested Deferred Award of such Participant for such Performance Period. The Nonvested Deferred Award

Accounts will be credited (or debited) monthly with an amount equal to the net investment returns of the Total Endowment Assets ("Net Returns") for the month multiplied by the balance of the respective Participant's Nonvested Deferred Award Account(s) as of the last day of the month. When the Nonvested Deferred Award is initially credited to the Nonvested Deferred Award Account, the Nonvested Deferred Award Account will by credited (or debited) with Net Returns for the month of the initial credit of a Nonvested Deferred Award but the Net Returns will be prorated to reflect the number of days of the month during which the amounts were credited to the Nonvested Deferred Award Account. Participants are not entitled to their Nonvested Deferred Awards unless they become vested in those awards.

(b) Assuming continued employment with UTIMCO, Nonvested Deferred Awards for each respective Performance Period will vest and become payable according to the following schedule:

(1) On the first anniversary of the end of the Performance Period for which the Nonvested Deferred Award was earned, one third of the Nonvested Deferred Award Account then credited to the Participant will be vested and paid to the Participant.

(2) On the second anniversary of the end of the Performance Period for which the Nonvested Deferred Award was earned, one half of the Nonvested Deferred Award Account then credited to the Participant will be vested and paid to the Participant.

(3) On the third anniversary of the end of the Performance Period for which the Nonvested Deferred Award was earned, the remaining Nonvested Deferred Award Account for that Performance period then credited to the Participant will be vested and paid to the Participant.

(c) Notwithstanding the provisions of paragraphs (a) and (b) of this Section 5.7, upon execution of an "Election to Defer Payment of Vested Deferred Awards" form authorized by the Compensation Committee, a Participant may elect to defer payment of his or her Nonvested Deferred Awards that have become vested in accordance with Section 5.7(b) (including credited Net Returns) ("Vested Deferred Awards"). Vested Deferred Awards will be credited to a hypothetical account on UTIMCO's books in the individual Participants' names ("Vested Deferred Award Account(s)") as of the date that Participant elects to defer payment of the Vested Deferred Award. A Participant may elect to be paid such amounts in his or her Vested Deferred Award Account at any time subject to reasonable administrative procedures established by UTIMCO. Such amounts credited to Participant's Vested Deferred Award Account will be paid as soon as reasonably practicable after the Performance Measurement Date of the month during which the Participant makes the election, increased or decreased at that time for the Net Returns on such amounts from the date such Vested Deferred Awards were allocated to the Participant's Vested Deferred Award Account through such Performance Measurement Date. No Net Returns will be determined for a Vested Deferred Award Account until distribution of such account has been elected by the Participant. Participants are responsible for all income tax consequences associated with Participant's Vested Deferred Award Account.

(d) Notwithstanding the provisions of Section 5.7(c), each Participant who terminates employment with UTIMCO will be paid the balance of his or her Vested Deferred Award Account. Such amounts will be paid as soon as reasonably practicable after the Performance Measurement Date of the month during which the Participant terminates employment with UTIMCO, increased or decreased at that time for the Net Returns on such amounts from the date such Vested Deferred Awards were credited to the Participant's Vested Deferred Award Account through such Performance Measurement Date.

5.8. Performance Standards

(a) Entity Performance

(1) Entity Performance for purposes of the Performance Incentive Plan is the performance of the Total Endowment Assets. Entity Performance under the Performance Incentive Plan is based on performance relative to a Peer Group. Performance relative to the Peer Group will be measured based on 3-year rolling historical performance. Entity Performance for each participant is based on the time period that that participant was employed at UTIMCO.

(2) The performance of the Peer Group will be determined annually by the Board's chosen investment advisor for the Performance Period. The Board's investment advisor will calculate a percentile rank for Entity Performance relative to the Peer Group, with the 100th percentile representing the highest rank, the 50th percentile representing the median and the 0th percentile representing the lowest rank. Threshold awards will be earned for reaching the 40th percentile, target awards will be earned for reaching the 60th percentile and maximum awards will be earned for reaching the 75th percentile, with Performance Incentive Awards and Performance Goals interpolated in a linear fashion between threshold and target as well as between target and maximum.

(b) Asset Class Performance

(1) Asset Class Performance will be measured relative to the appropriate benchmark based on 3-year rolling historical performance. Performance standards for each asset class will vary depending on the ability to outperform the respective benchmark. The following table identifies the

benchmarks for each asset class as well as threshold, target and maximum performance standards. Performance Incentive Awards and Performance Goals will be interpolated in a linear fashion between threshold and target as well as between target and maximum.

Asset Class	Benchmark	Policy Portfolio Weights (% of Portfolio)	Performance Standards Threshold	Target	Maximum
Entity: Peer goup	Peer group (Endowments w/ >$ 1 B assets)	n/a	40th %ile	60th %ile	75th %ile
US Public Equity	Russell 3000	20.0%	+0 bps	+31 bps	+62 bps
International Equity	MSCI All Country World Index, Ex US	17.0%	+0 bps	+52.5 bps	+105 bps
Fixed Income	Lehman Brothers Aggregate Bond Index	10.0%	+0 bps	+12.5 bps	+25 bps
Private Capital	Roll up of Private Equity & Venture Capital	15.0%			
Private Equity	Venture Economics Private Equity Database	--	+0 bps	+100 bps	+200 bps
Venture Capital	Venture Economics Venture Capital Database	--	+0 bps	+112.5 bps	+225 bps
Absolute Return Hedge Funds	91-Day T-Bill	15.0%	+300 bps	+350 bps	+400 bps
Equity Hedge Funds	91-Day T-Bill	10.0%	+400 bps	+465 bps	+530 bps
Inflation Hedge	Roll up of Commodities, TIPS & REITS	13.0%			
Commodities	Goldman Sachs Commodity Index	3.1%	-100 bps	-15 bps	+0 bps
TIPS	Lehman Brothers US TIPS Index	4.9%	+0 bps	+2.5 bps	+5 bps
REITS	WRESI (Wilshire Real Estate Securities Index)	4.9%	+0 bps	+37.5 bps	+75 bps
Cash	91-Day T-Bill	0.0%	+0 bps	+0 bps	+0 bps
Short Intermediate Term Fund	SITF Policy Statement	--	+0 bps	+5 bps	+10 bps

(2) Performance for the private capital asset class is calculated differently than other asset classes due to its longer investment horizon and illiquidity of assets. Performance of the private capital asset class is determined based on the performance of partnership commitments made by the current private capital team since 2001 based on internal rates of return (IRR's) relative to the respective Venture Economics benchmarks.

(c) Individual Performance

Individual Performance will be measured based on performance during the Performance Period.

5.9. Modification of Performance Standards for Newly Hired Employees

(a) Although Entity Performance and most Asset Class Performance are measured based on three-year rolling historical performance, newly hired Participants will be phased into the Plan so that Entity Performance and Asset Class Performance is measured over a period of time consistent with the Participant's tenure. For example, in the Performance Period in which a Participant is hired, the Entity Performance and Asset Class Performance component of the Incentive Award Opportunity will be based on one full year of historical performance (i.e., the performance for the Performance Period during which the Participant was hired). During a Participant's second year of tenure, the Entity Performance and Asset Class Performance components of the Incentive Award Opportunity will be based on two full years of historical performance. In the third year and beyond, the Entity Performance and Asset Class Performance component of the Incentive Award Opportunity will be based on three full years of rolling historical performance.

(b) Notwithstanding the provisions of Section 5.8(a), if the Participant worked for UTIMCO for less than six full months in the Performance Period in which he or she was hired, Asset Class Performance calculations for that year would be based on the performance during the actual full months the Participant worked at UTIMCO. In order to prevent this partial year Performance Period from having too large an impact on Performance Incentive Award calculations over multiple Performance Periods, the weighting of the first Performance Period would be discounted in the following manner:

<u>Second Performance Period of Participation</u>
Weight for Performance Period 1 = ((Months worked in year 1)/6) x 50%
Weight for Performance Period 2 = 100% - weight for performance year 1

<u>Third Performance Period of Participation</u>
Weight for Performance Period 1 = ((Months worked in year 1)/6) x 33%
Weight for Performance Period 2 = (100% - Weight for performance year 1)/2
Weight for Performance Period 3 = (100% - Weight for performance year 1)/2

5.10. Termination Provisions

(a) Except as otherwise provided in this Section 5.10, any Participant who ceases to be a Participant (either because of termination of employment with UTIMCO or for any other reason stated in Section 5.3(c)) prior to the end of a Performance Period will not be eligible to receive payment of any Performance Incentive Award for that or any subsequent Performance Periods. In addition, a Participant will only continue to vest in Nonvested Deferred Awards while he or she is employed with UTIMCO and will forfeit any Nonvested Deferred Awards at termination of employment with UTIMCO. Subject to 7.6, all Vested Deferred Awards are payable at termination of employment in accordance with Section 5.7(e).

(b) If a Participant ceases to be a Participant in the Plan under Section 5.3(c) prior to the end of a Performance Period because his or her employment position is no longer an Eligible Position (but such employee continues to be employed with UTIMCO), such Participant's Performance Incentive Award for the current Performance Period, if any, will be calculated on a prorated basis from the first day of the Performance Period to the Performance Measurement Date immediately preceding or coinciding with the date the Participant ceases to be in an Eligible Position, and such individual will not be entitled to any Performance Incentive Awards for any Performance Period thereafter (unless he or she again becomes a Participant in accordance with Sections 5.3(a) and (b)). All Nonvested Deferred Awards continue to vest subject to the provisions of Section 5.7(b).

(c) If a Participant ceases to be a Participant in the Plan under Section 5.3(c) prior to the end of a Performance Period because his or her employment with UTIMCO terminates due to death or disability (as defined in the Internal Revenue Code §22(e)(3)), the Participant's Performance Incentive Award for the Performance Period in which termination occurs will be paid at target on a prorated basis from the first day of the Performance Period to the Performance Measurement Date immediately preceding or coinciding with the date of the Participant's death or disability, and such individual will not be entitled to any Performance Incentive Awards for any Performance Period thereafter (unless he or she again becomes a Participant in accordance with Sections 5.3(a) and (b)). All Nonvested Deferred Awards will vest immediately and be paid. Payments of Nonvested Deferred Awards due under this provision will be made to the estate or designated beneficiaries of the deceased Participant or to the disabled Participant, as applicable, within 60 days of the date of termination of employment.

(d) If a Participant ceases to be a Participant in the Plan under Section 5.3(c) prior to the end of a Performance Period because he or she commences a Compensation Committee-approved leave of absence, such Participant's Performance Incentive Award for the current Performance Period, if any, will be calculated on a prorated basis from the first day of the Performance Period to the Performance Measurement Date immediately preceding or coinciding with the date the Participant commences such leave of absence, and such individual will not be entitled to any Performance Incentive Awards for any Performance Period thereafter (unless he or she again becomes a Participant in accordance with Sections 5.3(a) and (b)).

5.11. Authorizing Performance Incentive Awards

(a) Within 120 days following the end of a Performance Period, the Compensation Committee will review and make recommendations concerning Performance Incentive Awards to Participants whom it determines, to have met or exceeded the performance benchmarks for the Performance Period. The Board will approve Performance Incentive Awards and has the right to adjust Performance Incentive Awards to Participants in any amount and on any basis as determined by the Board in its discretion in order to recognize particular circumstances that may have affected the achievement of performance during the Performance Period.

(b) Following the approval of a Performance Incentive Award, the Board will promptly notify each Participant as to the amount, if any, of the

Performance Incentive Award as well as the terms, provisions, conditions and limitations of the Nonvested Deferred Award, if any.

6. PLAN AUTHORITY AND RESPONSIBILITY

(a) The Performance Incentive Plan is administered by the Board and the Compensation Committee.

(b) The Board has authority to:

(1) Establish the conditions for the determination and payment of compensation by establishing the provisions of the Performance Incentive Plan.

(2) Select the employees who are eligible to be Participants.

(3) Subject to the terms of the Plan, determine the amount and timing of Performance Incentive Awards under the Plan.

(4) Establish the base salaries, Performance Incentive Opportunity Levels and Performance Incentive Awards.

7. PERFORMANCE INCENTIVE PLAN INTERPRETATION

7.1. Board Discretion

(a) The Board, as applicable, has the discretion to interpret the Plan and may from time to time adopt such rules and regulations, consistent with the provisions of the Plan that itr may deem advisable to carry out the Plan. All decisions made by the Board, as applicable, in selecting the Participants approved to receive Performance Incentive Awards, including the amount thereof, and in construing the provisions of the Plan or the terms of any Performance Incentive Awards are final and binding on all Participants.

(b) Notwithstanding any provision of the Plan to the contrary, the Board shall have the discretion and authority to make changes in the terms of the Plan in determining a Participant's eligibility for, or amount of, a Performance Incentive Award for any Performance Period whenever it considers that circumstances have occurred during the Performance Period so as to make such changes appropriate in the opinion of the Board, provided however, any such change shall not deprive or eliminate a prior right of a Participant.

7.2. Duration, Amendment and Termination

The Board shall have the right in its discretion to amend the Plan from time to time, to suspend it for a specified period or to terminate it entirely. However, if the Plan is suspended or terminated during a Performance Period, Participants will receive a prorated Performance Incentive Award based on performance achieved and base salary earned through the Performance Measurement Date immediately preceding such suspension or termination. The Plan shall be in effect from the Effective Date until termination by the Board; provided, however, that if the Board so determines at the time of any suspension or termination, Nonvested Deferred Awards credited to Participants' Nonvested Deferred Award Account(s) as of the effective date of such suspension or termination will continue to be administered under the terms of the Plan after any suspension or termination of the Plan.

7.3. Record Keeping and Reporting

(a) All records for the Plan shall be maintained by the Managing Director of Accounting, Finance and Administration at UTIMCO. Relative performance data and calculations shall be reviewed by UTIMCO's external investment consultant before Performance Incentive Awards are finalized and approved by the Board.

(b) UTIMCO will provide all Participants with a comprehensive report of the current value of their respective Nonvested and Vested Deferred Award Account balances, including a complete vesting schedule of those balances, on at least a quarterly basis.

7.4. Continued Employment

Nothing in the adoption of this Plan or the awarding of Performance Incentive Awards shall confer on any employee the right to continued employment with UTIMCO or affect in any way the right of UTIMCO to terminate his or her employment at any time.

7.5. Non-transferability of Awards

Except for the rights of the estate or designated beneficiaries of Eligible Employees to receive payments, as set forth herein, Performance Incentive Awards under this Plan are non-assignable and non-transferable and are not subject to anticipation, adjustment, alienation, encumbrance, garnishment, attachment or levy of any kind. The preceding notwithstanding, the Plan will pay a Vested Deferred Award in accordance with an order that meets the requirements of a "qualified domestic relations order" as set forth in Section 414(p) of the Internal Revenue Code and Section 206(d) of ERISA.

7.6. Unfunded Liability

(a) Neither the establishment of this Plan, the awarding of Performance Incentive Awards, the creation of Nonvested Deferred Awards Accounts, nor the creation of Vested Deferred Awards Accounts shall be deemed to create a trust. The Plan shall constitute an unfunded, unsecured liability of UTIMCO to make payments in accordance with the provisions of the Plan. Any amounts set aside by UTIMCO to assist it in the payment of Performance Incentive Awards or other benefits under the Plan, including without limitation, amounts set aside to pay for Nonvested Deferred Awards and Vested Deferred Awards, shall be the assets of UTIMCO, and no Participants shall have any security or other interest in any assets of UTIMCO or the Board of Regents of The University of Texas System by reason of the Plan.

(b) Nothing contained in the Plan shall be deemed to give any Participant, or any personal representative or beneficiary, any interest or title to any specific property of UTIMCO or any right against UTIMCO other than as set forth in the Plan.

7.7. Compliance with State and Federal Law

No portion of the Plan shall be effective at any time when such portion violates an applicable state or federal law, regulation or governmental order or directive.

7.8. Federal, State and Local Tax

All Performance Incentive Awards under this Plan shall be subject to any deductions (1) for tax and withholding required by federal, state, or local law at the time such tax and withholding is due (irrespective of whether such Performance Incentive Award is deferred and not payable at such time) and (2) for any and all amounts owed by the Participant to UTIMCO at the time of payment of the Performance Incentive Award. UTIMCO shall not be obligated to advise an employee of the existence of the tax or the amount, which UTIMCO will be required to withhold.

7.9. Prior Plan

(a) The Performance Incentive Plan restates and supercedes the UTIMCO Performance Compensation Plan, which was effective August 31, 2001 ("Prior Plan").

(b) All deferred awards under the Prior Plan will retain the vesting schedule defined under the Prior Plan. However, as of the Effective Date, those deferred amounts will be credited or debited with the Net Returns over the remaining deferral period. Deferred balances earned under the Prior Plan will be subject to the terms and conditions for Deferred Awards under the

Plan except the vesting period which will remain the same as it was under the Prior Plan.

8. DEFINITION OF TERMS

8.1. **Asset Class Performance** is the performance of specific asset classes within the Total Endowment Assets (such as US public equity, private capital, etc.) [based on the standards set forth in Section 5.8(b)(1).

8.2. **Board** is the UTIMCO Board of Directors.

8.3. **Compensation Committee** is the Compensation Committee of the UTIMCO Board of Directors.

8.4. **Effective Date** is defined in Section 5.1(b).

8.5. **Eligible Position** is defined in Section 5.3(a).

8.6. **Entity Performance** represents the performance of the Total Endowment Assets (based on the standards set forth in Section 5.8).

8.7. **Incentive Award Opportunity** is defined in Section 5.5(a).

8.8. **Net Returns** is the investment performance return of the Total Endowment Assets, net of fees. Net of fees factors in all administrative and other fees for managing the Total Endowment Assets. The net investment return will be calculated as follows:

$$\frac{\text{Permanent University Fund Beginning Net Asset Value}}{\text{Total Endowment Beginning Net Asset Value}} \quad \text{X} \quad \text{Permanent University Fund Net Investment Return}$$

Plus

$$\frac{\text{General Endowment Fund Beginning Net Asset Value}}{\text{Total Endowment Beginning Net Asset Value}} \quad \text{X} \quad \text{General Endowment Fund Net Investment Return}$$

8.9. **Nonvested Deferred Award** is defined in Section 5.7.

8.10. **Nonvested Deferred Award Account** is defined in Section 5.7(a).

8.11 **Paid Performance Incentive Award** is defined in Section 5.6(1).

8.11. **Participant** is defined in Section 5.3(a).

8.12. **Peer Group** is a peer group of endowment funds maintained by the Board's external investment advisor that is composed of all endowment funds with assets greater than $1. billion at the beginning of each Performance Period. Harvard University, Yale University and Total Endowment Assets are excluded from this peer group. The peer group will be updated annually at the beginning of each Performance Period. See Section 9 for the list of organizations in the peer group.

8.13. **Performance Goals** are defined in Section 5.4(a).

8.14. **Performance Incentive Award** is the component of a Participant's total compensation that is based on specific performance goals and awarded as current income or deferred at the end of a Performance Period in accordance with Section 5.

8.15. **Performance Incentive Plan** is defined in Section 5.

8.16. **Performance Measurement Date** is the close of the last business day of the month.

8.17. **Performance Period** is defined in Section 5.2.

8.18. **Prior Plan** is the UTIMCO Performance Compensation Plan, effective August 31, 2001.

8.19. **Salary Structure** is defined in Section 4.1.

8.20. **Total Endowment Assets** means the combination of the Permanent University Fund and the General Endowment Fund, but does not include any other endowment funds monitored by UTIMCO such as the Separately Invested Fund. Performance of the Total Endowment Assets is measured net of fees, meaning performance is measured after factoring in all administrative and other fees incurred for managing the Total Endowment Assets.

8.21. **Vested Deferred Award** is defined in Section 5.7(c).

8.22. **Vested Deferred Award Account** is defined in Section 5.7(c).

9. UTIMCO PEER GROUP

- Brown University
- California Institute of Technology
- Case Western Reserve University
- Columbia University
- Cornell University
- Dartmouth College
- Duke University
- Emory University
- Grinnell College
- Johns Hopkins University
- Massachusetts Institute of Technology
- New York University
- Northwestern University
- Ohio State University and Foundation
- Princeton University
- Purdue University
- Rice University
- Stanford University
- The Rockefeller University
- The Texas A&M University System and Foundations
- UNC at Chapel Hill and Foundations
- University of California
- University of Chicago
- University of Michigan
- University of Minnesota and Foundation
- University of Notre Dame
- University of Pennsylvania
- University of Pittsburgh
- University of Rochester
- University of Southern California
- University of Virginia
- University of Washington
- Vanderbilt University
- Washington University
- Wellesley College
- Williams College

Source: Cambridge Associates. Represents University endowments (excluding Harvard, Yale and Total Endowment Assets) with total assets in excess of $1 billion as of fiscal year end June 2003.

Appendix A
UTIMCO Compensation Program
Performance Incentive Award Methodology

I. Determine "Incentive Award Opportunities" for Each Participant[1]

1. Identify the weights (i.e., percentages of importance) to be allocated to each of the three Performance Goals for each Participant's Eligible Position. The weights vary for each Eligible Position and are set forth on the chart in Section 5.5(b). For example, for the President and CEO, the weight allocated to the Entity Performance Goal is 70%, the weight allocated to the Asset Class Performance Goal is 0%, and the weight allocated to the Individual Performance Goal is 30%. The total of the weights ascribed to the three Performance Goals must add up to 100% for each Participant.

2. Identify the percentage of base salary for the Participant's Eligible Position that determines the Performance Incentive Award for achievement of the Threshold, Target, and Maximum levels of the Performance Goals. The percentages vary for each Eligible Position and are set forth in the chart in Section 5.5(b). For example, the President and CEO is awarded 18% of his base salary for achievement of Threshold level performance of all three Performance Goals, 90% of his base salary for achievement of Target level performance of all three Performance Goals, and 180% of his base salary for achievement of Maximum level performance of all three Performance Goals.

3. Calculate the dollar amount of the Threshold, Target, and Maximum awards for each Participant by multiplying the Participant's base salary for the Performance Period by the applicable percentage in Step #2 above. For example, assuming the President and CEO has a base salary of $450,000 for the year, the President and CEO will be awarded a total of $81,000 (18% of his base salary) if he achieves Threshold level performance of all three Performance Goals, $405,000 (90% of his base salary) if he achieves Target level performance of all three Performance Goals, and $810,000 (180% of his base salary) if he achieves Maximum level performance of all three Performance Goals.

4. Because a Participant may achieve different levels of performance in different Performance Goals and be eligible for different levels of awards for that achievement (e.g., he or she may achieve Target performance in the Equity Performance Goal and be eligible to receive a Target award for

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[1] These Incentive Award Opportunities represent amounts that each Participant will be awarded if he or she achieves his or her Performance Goals at varying levels and are calculated at the beginning of each Performance Period.

that goal and achieve Maximum performance in the Individual Performance Goal and be eligible to receive a Maximum award for that Performance Goal), it is necessary to determine the dollar amount (the "Incentive Award Opportunity") of the Threshold, Target, and Maximum award for each separate Performance Goal. This is done by multiplying the dollar amount of the Threshold, Target, and Maximum awards for the performance of all three Performance Goals calculated in Step #3 above for the Participant by the weight allocated for that Participant to the particular Performance Goal. For example, as determined in Step #3 above, the President and CEO will receive a Performance Incentive Award of $405,000 if he achieves Target level performance of all three Performance Goals. This $405,000 is broken up per Performance Goal as follows: If the President and CEO achieves Target level performance in the Entity Performance Goal, he will be awarded $283,500 (his weight allocation of 70% for this Performance Goal multiplied by the $405,000), and if he achieves Target level performance in his Individual Performance Goal, he will be awarded $121,500 (his weight allocation of 30% for this Performance Goal multiplied by the $405,000). Note that, because no weight allocation is given to the President and CEO for the Asset Class Performance Goal, no amount of the $405,000 is allocated to the achievement of that Performance Goal.

5. After Step #4 above is performed for each of the three levels of performance for each of the three Performance Goals, there will be nine different Incentive Award Opportunities for each Participant. For example, for the President and CEO (based on a Base Salary of $450,000 for the year), the nine different Incentive Award Opportunities for achievement of the Performance Goals for the Performance Period are as follows:

Incentive Award Opportunities for President and CEO

Performance Goal/Weight	Threshold Level Award	Target Level Award	Maximum Level Award
Entity (70%	$56,700	$283,500	$567,000
Asset Class (0%)	$0	$0	$0
Individual (30%	$24,300	$121,500	$243,000
Total (100%)	$81,000 (18% of salary)	$405,000 (90% of salary)	$810,000 (180% of salary)

II. Calculate Performance Incentive Award for Each Participant

6. Determine the achievement percentages that divide the Threshold, Target, and Maximum levels for each Performance Goal. These divisions are set forth in the chart in Section 5.8(b)(1) for the Entity and Asset Class Performance Goals. For example, as shown on the chart, achievement of the Entity Performance Goal in the 40th percentile is the Threshold performance level, achievement of the Entity Performance Goal in the

60th percentile is the Target performance level, and achievement of the Entity Performance Goal in the 75th percentile is the Maximum performance level. As shown on the chart, the achievement percentile for the Asset Class Performance Goal is based on the attained basis points for a particular type of investment. Thus the measurement of the level of achievement (i.e., Threshold, Target, or Maximum) for the Asset Class Performance Goal differs for each Participant depending on the assets under that Participant's investment control. The measurement for the level of achievement (i.e., Threshold, Target, or Maximum) for the Individual Performance Goal is initially determined each Performance Period by the Participant's supervisor, if any, and then is approved (or adjusted) by the Compensation Committee as it deems appropriate in its discretion. If the Participant has no supervisor, the measurement for the level of achievement for the Individual Performance Goal is determined each Performance Period by the Compensation Committee.

7. Determine the percentile achieved of each of the Performance Goals for each Participant using the standards set forth in Sections 5.5 and 5.8 of the Plan, as modified in the case of new hires in Section 5.9.

8. Calculate the amount of each Participant's award attributable to each Performance Goal by determining the Incentive Award Opportunity amount for the applicable percentile of the Participant's level of achievement for each Performance Goal as determined in Step #4 and Step #5 above. That is, achievement of the Entity Performance Goal in the 40th percentile is the Threshold performance level and merits a Threshold level award, achievement in the 60th percentile is the Target performance level and merits a Target level award, and achievement in the 75th percentile is the Maximum performance level and merits a Maximum level award. For example, if the President and CEO achieved 100% of his Individual Performance Goal, he would have earned an award of $243,000 (Maximum award) for that Performance Goal for the Performance Period, and if the Entity Performance Goal of the 40th percentile is achieved, he would have earned an award of $56,700 (Threshold award) for that Performance Goal for the Performance Period.

9. An award for achievement percentiles in between the stated Threshold, Target, and Maximum levels is determined by interpolation. For example, if the 54th percentile of the Equity Performance Goal has been achieved, it is between the Threshold (40th percentile) and the Target (60th percentile) levels. To determine the amount of the award attributable to a 54th percentile achievement of the Equity Performance Goal, perform the following steps: (i) subtract the difference between the dollar amount of the Threshold and Target Incentive Award Opportunities for the Participant (e.g., for the President and CEO, as illustrated in the above table, the difference is $226,800 ($283,500- $56,700)); (ii) divide 14 (the percentile difference between the Threshold level of 40th percentile and

the attained level of 54^{th} percentile) by 20 (the percentile difference between the Threshold level and the Target level); (iii) multiply the amount determined in the preceding Step (i) by the percentage determined in the preceding Step (ii); (iv) add the amount determined in the preceding Step (iii) to the Threshold Incentive Award Opportunity for the Participant to get the actual award for the Participant attributable to each Performance Goal.

10. No award is given for an achievement percentile below Threshold, and no award above the Maximum award is given for an achievement percentile above the Maximum level. For example, if the 38^{th} percentile of the Entity Performance Goal has been achieved for the Performance Period, no award is given for that Performance Goal. If the 85^{th} percentile of the Entity Performance Goal has been achieved for the Performance Period, no award in excess of the Maximum Incentive Award Opportunity for that goal is given.

11. Add the awards determined in Step #8 and/or Step #9 above together to determine the total amount of the Participant's Performance Incentive Award for the Performance Period.