

**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 9:50 a.m. on the **13th day of July, 2006**, in the Board Room at the offices of the Corporation, Suite 2800, 401 Congress Avenue, Austin, Texas, 78701, said meeting having been called to order by the Chairman, H. Scott Caven, Jr., 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:

H. Scott Caven, Jr., Chairman
Woody L. Hunt, Vice Chairman
Mark G. Yudof, Vice Chairman for Policy
Clint D. Carlson
J. Philip Ferguson
Colleen McHugh
Robert B. Rowling
Charles W. Tate

thus, constituting a majority and quorum of the Board. Director Erle Nye was not present at the meeting. Also attending the meeting were Mr. Ardon Moore, a Director candidate to be considered for appointment at the afternoon UT System Board of Regents meeting; 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; Trey Thompson, Managing Director – Non-Marketable Alternative Investments; various staff members of the Corporation; Jerry Turner and Dusty Burke, legal counsel for the Corporation; Keith Brown of the McCombs School of Business at UT Austin; Greg Anderson of the Texas A&M University System; Scott Kelley, Philip Aldridge, Amy Barrett, Charlie Chaffin, William Huang, Jim Phillips and Cathy Swain of UT System Administration; Bruce Myers and Hamilton Lee of Cambridge Associates; and Nanci Hibschan and Warren Kerper of Mercer Human Resource Consulting. Mr. Caven called the meeting to order at 9:50 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 25, 2006, and the minutes of the Board Retreat held May 30-31, 2006. Upon motion duly made and seconded, the following resolutions were unanimously adopted:

RESOLVED, that the minutes of the meeting of the Board of Directors held on May 25, 2006, and the minutes of the Board Retreat held May 30-31, 2006, be, and are hereby, approved.

Committee Assignments

The second item to come before the Board was a resolution to designate committee assignments. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that Erle Nye shall continue as the Chair of the Audit and Ethic Committee and shall preside at its meetings and that Colleen McHugh and Robert B. Rowling shall serve as members of the Audit and Ethics Committee, subject to approval by the Board of Regents at their meeting to be held on August 9-10, 2006, to serve until the expiration of their terms, or until their successors have been chosen and qualified, or until their earlier death, resignation or removal; and

FURTHER RESOLVED, that Charles W. Tate shall continue as the Chair of the Risk Committee and shall preside at its meetings and that J. Phillip Ferguson and Clint D. Carlson shall serve as members of the Risk Committee to serve until the expiration of their terms, or until their successors have been chosen and qualified, or until their earlier death, resignation or removal; and

FURTHER RESOLVED, that J. Phillip Ferguson shall continue as the Chair of the Compensation Committee and shall preside at its meetings and that Charles W. Tate and Clint D. Carlson shall serve as members of the Compensation Committee to serve until the expiration of their terms, or until their successors have been chosen and qualified, or until their earlier death, resignation or removal; and

FURTHER RESOLVED, that Robert B. Rowling shall continue as the Chair of the Policy Committee and shall preside at its meetings and that Colleen McHugh and Erle Nye shall serve as members of the Policy Committee to serve until the expiration of their terms, or until their successors have been chosen and qualified, or until their earlier death, resignation or removal.

Vice-Chairman Appointment

Mr. Caven recommended that the Board appoint Robert B. Rowling as Vice Chairman of the Board. Upon motion duly made and seconded, the following resolution was adopted:

RESOLVED, that the following person is hereby appointed to the respective office of the Corporation set forth opposite his name, to serve until the next Annual Meeting of the Corporation or until his resignation or removal.

<u>Name</u>	<u>Office or Offices</u>
Robert B. Rowling	Vice-Chairman

Endowment and Operating Funds Update

Mr. Caven asked Mr. Boldt to present the Corporation's endowment and operating funds update. Mr. Boldt began by discussing portfolio policy ranges and policy targets, and then presented the Market Exposure chart showing market exposure and deviations from policy targets within tactical policy ranges. Mr. Boldt provided updated market exposure information as of July 5, 2006. He also handed out preliminary performance information for May 31, 2006. The net performance for the one-month period ended April 30, 2006, for the PUF was 2.36% and for the GEF was 2.33%, versus benchmark returns of 1.83% for each fund. The net performance for the one-year period ended April 30, 2006, for the PUF and GEF were 18.17% and 17.93%, respectively, versus benchmark returns of 18.39% for each fund. The Intermediate Term Fund's (ITF) performance was 1.38% versus its benchmark return of 0.99% for the one-month period, and was 2.13% versus its benchmark return of 2.00% for the three-month period ended April 30, 2006. Performance for the Short Term Fund (STF) was 0.39% versus 0.37% for its benchmark for the one-month period, and was 3.89% versus a benchmark return of 3.68% for the one-year period ended April 30, 2006. Mr. Boldt continued by reporting Cumulative Value Added under the Corporation's management for periods ended May 31, 2006. Also presented was information on performance attribution, liquidity, risk dashboard, the Comprehensive Derivative Report, and actions taken under the Delegation of Authority. Mr. Boldt indicated that at a future meeting, a presentation would be made explaining how performance attribution is calculated. Mr. Boldt, Mr. Goldsmith, Ms. Reed, and Mr. Myers answered the Directors' questions.

Executive Session

Mr. Caven, at 10:40 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 to consider the Compensation Committee report. This Executive Session meeting of the Board is authorized by Texas Government Code, Section 551.074 (Personnel Matters). The time is now 10:40 a.m. and the date is July 13, 2006."

Reconvene in Open Session

The Board reconvened at 12:05 p.m., in open session and Mr. Caven 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 12:06 p.m. During the Executive Session, the Board discussed matters regarding personnel compensation matters, but did not take any votes."

Mr. Caven asked for a recommendation from the Compensation Committee. Compensation Committee Chairman Ferguson reported that the Compensation Committee recommended a base salary for the Corporation's President for the 2006-2007 Fiscal Year in the amount of \$525,000. Upon motion duly made and seconded, the following resolution was adopted:

RESOLVED, that the Corporation's President's Base Salary submitted by the Compensation Committee for the Fiscal Year 2006-2007, in the amount of \$525,000, be, and is hereby, approved.

Compensation Program

Mr. Caven stated that the next item for discussion and action was proposed changes to the Compensation Program, most of which were needed to bring the Program into compliance with IRS regulations that have changed recently. Mr. Caven asked Ms. Burke of Vinson & Elkins to explain the changes. Ms. Burke summarized the changes made by the restatement and she answered questions posed by the members of the Board. Ms. Burke pointed out that further guidance under section 409A is anticipated to be issued by the IRS in September of this year, and it is possible (although not likely) that the forthcoming guidance may require additional modifications to the Compensation Program. Mr. Ferguson stated that the UTIMCO Compensation Committee had reviewed the proposed revisions to the UTIMCO Compensation Program at its June 13, 2006, meeting. The Compensation Committee made the recommendation to the UTIMCO Board to approve the proposed changes to the UTIMCO Compensation Program as set forth in the restated document. Upon motion duly made and seconded, the following resolution was adopted:

WHEREAS, Section 7.2 of the UTIMCO Compensation Program (the "Compensation Program") provides that UTIMCO, by action of its Board of Directors (the "Board"), has the right in its discretion to amend the Compensation Program or any portion thereof from time to time; and

WHEREAS, UTIMCO and the Board wish to amend the Compensation Program to (i) make changes required by section 409A of the Internal Revenue Code, (ii) incorporate the Intermediate Term Fund into the Compensation Program as a measure of performance, (iii) incorporate prior amendments into the document, and (iv) make certain other changes to the Compensation Program and to incorporate all such amendments into an amended and restated plan document in the form previously provided to the Board; and

WHEREAS, the Board has reviewed the proposed restatement of the Compensation Program;

NOW, THEREFORE, be it:

RESOLVED, that the Board approves and adopts the restatement of the UTIMCO Compensation Program, effective as of July 1, 2006, except as otherwise stated in the document.

The Eligible Positions, Weightings, and Incentive Award Opportunities resolution was deferred at this time, to be discussed at a later date at a special called meeting. Due to time restraints, the discussion of investment environment and opportunities was eliminated from the meeting agenda. At this time, Mr. Rowling and Chancellor Yudof left the meeting.

Permanent University Fund Distribution Amount

Mr. Caven asked Mr. Boldt to present the recommendation for the distribution amount for the Permanent University Fund ("PUF"). The recommendation is based on the PUF Investment Policy Statement which provides guidelines to calculate the distribution amount and provides the spending policy objectives of the PUF. The Corporation's Staff recommended that the UTIMCO Board approve the distribution from the PUF

to the Available University Fund in the amount of \$400,685,603 for fiscal year 2006-07. The proposed amount is an increase of 12.1% over the prior year distribution of \$357,337,255. Upon motion duly made and seconded, the following resolution was adopted:

RESOLVED, that the annual distribution amount for the Permanent University Fund be increased from \$357,337,255 to \$400,685,603 for fiscal year 2007, effective with the September 1, 2006 distribution; and

BE IT FURTHER RESOLVED, that the annual distribution amount for the Permanent University Fund be approved and adopted by this Corporation's Board of Directors, subject to approval by The University of Texas System Board of Regents.

Policy Committee Report

Mr. Caven asked Ms. McHugh to give a report from the Policy Committee Meeting that had been held that morning, prior to the Board meeting. Ms. McHugh reported that the Policy Committee had met, approved, and recommended that the Board adopt amendments to Exhibit A of the Investment Policy Statements related to the Permanent University Fund, General Endowment Fund and Intermediate Term Fund establishing a new benchmark for hedge funds. Mr. Caven continued by stating that due to the fact that the benchmark for hedge fund investments that was adopted by the Board last year had gone out of business, a new benchmark must be selected. Mr. Boldt reported that UTIMCO Staff had conducted a thorough review of alternative benchmark solutions for the portfolio and, with agreement from Board advisors Dr. Brown and Cambridge Associates, was recommending a new benchmark, MSCI Investable Hedge Fund Index, be used for the Hedge Fund asset class, which includes Directional and Absolute Return Hedge Funds, effective January 1, 2006 for the PUF and GEF, and February 1, 2006 for the ITF. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that amendments to Exhibit A of the Investment Policy Statements of the Permanent University Fund (PUF), General Endowment Fund (GEF) and Intermediate Term Fund (ITF) establishing a new benchmark for Hedge Funds, effective January 1, 2006 for the PUF and GEF and February 1, 2006 for the ITF, all as presented be, and are hereby, approved, subject to approval by the U. T. System Board of Regents; and further

RESOLVED, that the Board recommends to the U.T. System Board of Regents that, following their approval of such amendments to the Investment Policy Statements, the investment performance reports for the PUF, GEF and ITF should be restated consistent with such amendments; and further

RESOLVED, that, upon approval of such amendments by the U.T. System Board of Regents, the Hedge Fund benchmark in the UTIMCO Compensation Program (Tables 3 and 4) shall be updated consistent with such amendments.

Recommended 2006-2007 Budget

Mr. Caven asked Mr. Boldt to move to the 2006-2007 Budget discussion. Mr. Boldt began with a background of the budget process and timeline. The budget includes all operating and investment expenses and an analysis of current and projected cash reserves. UTIMCO staff recommended a total operating budget of \$56,122,249 for the 2006-2007 fiscal year, a 15.6% increase over the prior year. One primary reason for the increase in the total budget is the costs associated with managing the new Intermediate Term Fund (ITF). The prior year budget only included a partial year of expenses for this new fund. The current year budget includes a full year of both operating and direct fund expenses for the ITF. The Board had been provided a complete analysis of all elements of the budget and the reasons for all changes, including an analysis of cash reserves. Mr. Boldt and Mr. Lee answered the Directors' questions. Upon motion duly made and seconded, the following resolution was unanimously adopted, with the exception of the section of the Budget relating to the Eligible Positions, Weightings, and Incentive Award Opportunities that was deferred earlier in the meeting:

RESOLVED, that the Corporation's Operating Budget, Capital Budget, and Fee Request for the period September 1, 2006 through August 31, 2007 be, and is hereby approved, with the exception of the section of the Budget relating to the Eligible Positions, Weightings, and Incentive Award Opportunities, subject to approval by the U. T. System Board of Regents.

There being no further business to come before the Board of Directors, the meeting was adjourned at approximately 12:30 p.m.

Secretary: Joan Moeller
Joan Moeller

Approved: H. Scott Caven, Jr. Date: 9.22.06
H. Scott Caven, Jr.
Chairman, Board of Directors of
The University of Texas Investment
Management Company