

**MINUTES OF
MEETING OF THE POLICY COMMITTEE OF
THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY**

The Policy Committee (the "Committee"), of The University of Texas Investment Management Company (the "Corporation"), convened in open session on **July 13, 2006**, at the offices of the Corporation, Suite 2800, 401 Congress Avenue, Austin, Texas, said meeting having been called by the Committee Chair, Robert Rowling, with notice provided to each member in accordance with the Corporation's Bylaws. The audio portion of the meeting was electronically recorded. Participating in the meeting were the following members of the Committee:

Robert B. Rowling, Chair
Colleen McHugh

thus, constituting a majority and quorum of the Committee. Policy Committee Member Erle Nye was not present at the meeting. Also attending the meeting were H. Scott Caven, Jr., Chairman of the Board; 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; Andrea Reed, Risk Manager; Jerry Turner, legal counsel for the Corporation; Keith Brown of the McCombs School of Business at UT Austin; Philip Aldridge, Amy Barrett, Charlie Chaffin, William Huang and Cathy Swain of UT System Administration; and Bruce Myers and Hamilton Lee of Cambridge Associates. Chairman Rowling called the meeting to order at 8:35 a.m. Copies of materials supporting the Committee meeting agenda were previously furnished to each Director.

Approval of the Minutes

The first matter to come before the Committee was approval of the minutes of the Committee's May 25, 2006 meeting. By motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the minutes of the Meeting of the Policy Committee of the Board of Directors held on May 25, 2006, be, and are hereby, approved.

Hedge Fund Benchmark Issues

Mr. Rowling asked Mr. Boldt to give background of the hedge fund benchmark issues. Mr. Boldt gave a history of benchmark indices used for hedge funds prior to the Standard & Poors (S&P) composite. He also gave reasons for moving to the S&P and background of the benchmark. Since September 2005, the Corporation has used a composite of S&P "investable" hedge fund indices as the benchmark for the hedge fund portfolio. The integrity and reliability of these indices have been called into question since the investment manager, PlusFunds, had disputed dealings with Refco in late 2005 and subsequently filed for bankruptcy in early 2006. Mr. Boldt gave the Committee a summary of the thought process behind the Staff recommendation of a new benchmark. On June 28, 2006, S&P announced that due to the diminishing number of managed accounts and their distribution in the index as of July 1, 2006, the S&P investable hedge fund indices will not be representative of the broad range of strategies that hedge funds employ and therefore will no longer be published. However, it is staff's position that the S&P hedge fund

indices became non-representative many months earlier. UTIMCO Staff conducted a thorough review of alternative benchmark solutions for the portfolio and recommends that 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. January 1, 2006 is recommended as the first starting date for the new benchmark as this date coincides with Refco's claim against PlusFunds, the catalyst that created the disruptive developments surrounding the S&P investable indices. The effect of the retroactive change for the period of January through April of 2006 is a reduction in the benchmark performance of -.06%. The effect of the retroactive change for this four month period on the overall policy portfolio benchmarks on the PUF and GEF is a reduction of -.02%. The effect of the retroactive change on the ITF's policy overall portfolio benchmark for the period of February through April of 2006 is a reduction of -.08%. The effect on the hedge fund asset category benchmark for this three month period is a reduction of -.34%. Mr. Boldt, Mr. Stotts and Mr. Myers answered the Committee Members' questions. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the Committee recommends to the UTIMCO Board 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 approved, subject to approval by the UTIMCO Board and U. T. System Board of Regents; and further

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

RESOLVED, that the Committee recommends to the UTIMCO Board 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) should be updated consistent with such amendments.

There being no further business to come before the Policy Committee, the meeting was adjourned at approximately 9:10 a.m.

Secretary: Joan Moeller
Joan Moeller

Approved: Robert B. Rowling
Robert B. Rowling, Chair
Policy Committee of the Board of Directors of
The University of Texas Investment Management Company

Date: 1/25/07