

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

The Risk Committee (the "Committee") of The University of Texas Investment Management Company (the "Corporation") convened in open session on **January 16, 2006**, in the Whitney Room of the Four Seasons Hotel, 1300 Lamar, Houston, Texas, said meeting having been called by the Committee Chair, Charles Tate, 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:

Charles Tate, Chair  
H. Scott Caven, Jr.  
Woody L. Hunt

thus, constituting a majority and quorum of the Committee. Also attending the meeting were Bob Boldt, President of the Corporation; Joan Moeller, Secretary and Treasurer of the Corporation; Christy Wallace, Assistant Secretary of the Corporation; Cathy Iberg, Managing Director – Marketable Alternative Investments and Deputy CIO; Bill Edwards, Managing Director – Information Technology; Larry Goldsmith, Managing Director of Public Markets; Andrea Reed, Risk Manager; various staff members of the Corporation; Jerry Turner, legal counsel for the Corporation; Keith Brown of the McCombs School of Business at UT Austin; Philip Aldridge, Amy Barrett, Charlie Chaffin, and Cathy Swain of UT System Administration; and Ricky Richter of Ernst & Young. Chairman Tate called the meeting to order at 3:35 p.m. Copies of materials supporting the Committee meeting agenda were previously furnished to each Director.

**Minutes**

The first matter to come before the Committee was approval of the minutes of the meeting of the Risk Committee held on July 21, 2005. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the minutes of the meeting of the Risk Committee held on July 21, 2005, be, and are hereby, approved.

**Liquidity Profiles**

The next item on the agenda was the report on Liquidity Profiles as of the end of October 2005. The PUF and GEF profile reports included certification signatures by the Risk Manager, Chief Compliance Officer, and President of the Corporation. All Managing Directors' signatures were provided certifying the October 31, 2005, reports and supporting documentation. Mr. Boldt presented the liquidity profiles, actual liquidity classifications, and pro-forma liquidity profile. The Committee requested that the Staff provide the most current liquidity information prior to each meeting, realizing that it may require an additional mailing. Mr. Boldt answered the Directors' questions.

## **Risk Dashboard**

Mr. Tate asked Mr. Boldt to move on to the presentation of the Risk Dashboard. Mr. Boldt explained that the Staff has developed a set of standardized charts and graphs that will be provided to the Board on a monthly basis presenting a comprehensive risk analysis of the Endowment Funds. An in-depth discussion was held on the specific panels of the Risk Dashboard. Also discussed was a negative out of range position for cash that occurred at the end of November due to the mismatch in the timing of a contribution and withdrawal from the General Endowment Fund. Staff elected not to liquidate securities for the quarterly distribution on November 30, 2005, because a large contribution related to the LBJ Foundation was being added to the GEF on the following day. Mr. Hunt expressed an opinion that even though there may be costs associated with avoiding a out of range position, even for a 12-hour time frame as it was in this case, for appearances it would be better to absorb the cost and avoid an out of range cash position. Another suggestion was made to consider changing the Investment Management Policy to allow a one-day grace period. It was suggested that this discussion item be brought forth to the Policy Committee. Mr. Boldt, Mr. Goldsmith and Ms. Reed answered the Directors' questions.

## **Derivative Compliance**

Mr. Boldt continued by giving an overview of the Derivative Compliance process. When creating the reports to provide to the Committee, the Staff realized that there were two different "types" of derivatives, Type 1 and Type 2. The Staff differentiates between the two by identifying those derivatives that replicate exposures and those that tilt the portfolio in some way. Type 1 derivatives are typically futures which are collateralized by cash or, in "structured active management" applications by hedge funds, to limit their economic impact and leverage. Type 2 derivatives are typically options or swaps and are collateralized by the portfolio to which they are applied. Type 2 derivatives serve to either increase or decrease risk. He asked Ms. Reed to review the process that the risk management staff follows to evaluate and test the risk in the various derivative applications that the Corporation pursues. In order to ensure that risk does not exceed the limits set forth in the Derivative Investment Policy, UTIMCO tests Type 1 applications on a stand-alone basis, while Type 2 applications are tested along with their respective portfolios. Mr. Boldt and Ms. Reed answered the Directors' questions.

## **Comprehensive Derivative Report**

Mr. Boldt continued with the Comprehensive Derivative Report. The Derivative Investment Policy amendments approved on October 7, 2005 require that the Staff provide a comprehensive report of all approved derivative applications and all outstanding derivatives positions established under agency agreements. Also prepared was a report on counterparties. The reports are for the period ended October 31, 2005. Mr. Tate asked for a motion to accept the Liquidity Profiles that were discussed earlier in the meeting. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the Liquidity Profiles for October 2005, be, and are hereby, approved in the form submitted to the Committee.

There being no further business to come before the Risk Committee, the meeting was adjourned at approximately 4:48 p.m. to meet jointly with the Audit and Ethics Committee.

Joint Meeting with the Audit and Ethics Committee


At 5:55 p.m., Chairman Tate reconvened the meeting of the Risk Committee in a joint meeting with the Corporation's Audit and Ethics Committee, with the following members of such committee being present:

Erle Nye, Chair  
Woody L. Hunt  
Robert B. Rowling

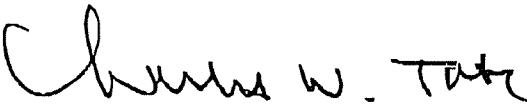
Mr. Nye began by explaining that the purpose of the joint meeting between the Risk Committee and the Audit and Ethics Committee was to discuss the oversight responsibility of the committees related to investment compliance, enterprise risk management, and investment risk management. Currently, the Audit Charter of the Audit and Ethics Committee states that the Audit and Ethics Committee is to assist the UTIMCO Board in monitoring the Corporation's compliance processes associated with investment policies and enterprise risk management. The Audit Charter also states that the Audit and Ethics Committee is to evaluate the overall effectiveness of the corporation's enterprise risk management framework and to evaluate whether management is setting the appropriate tone by communicating the importance of enterprise risk management. The Charter of the Risk Committee contains language that the Risk Committee is provide oversight and monitor investment risk management. Enterprise risk management is a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, manage risk to be within its risk appetite, and to provide reasonable assurance regarding the achievement of entity objectives. Therefore, a part of enterprise risk management for the Corporation relates to investment compliance. There was discussion among the members of the two committees concerning the appropriate allocation of responsibility for investment compliance, including the compliance associated with investment policy statements. The chairs of both the Audit and Ethics Committee and the Risk Committee agreed that the Staff would redraft the Charters of both committees to reflect the discussions at the joint meeting.

There being no further business to come before the Joint Meeting of the Audit and Ethics Committee and the Risk Committee, the meeting was adjourned at approximately 6:15 p.m.

Secretary:

  
Joan Moeller

Approved:

  
Charles W. Tate, Chair  
Risk Committee  
of the Board of Directors of  
The University of Texas Investment  
Management Company

Date:

4/4/06