

**MINUTES OF MEETING OF THE
AUDIT & ETHICS COMMITTEE OF
THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY**

A meeting of the Audit and Ethics Committee (the "Committee") of The University of Texas Investment Management Company (the "Corporation") convened in open session on **July 15, 2008**, by means of conference telephone enabling all persons participating in the meeting to hear each other, at the offices of the Corporation, Suite 2800, 401 Congress Avenue, Austin, Texas, said meeting having been called by the Committee Chair, Erle Nye, 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:

Erle Nye, Chair
Paul Foster
Colleen McHugh
Charles W. Tate

thus constituting a majority and quorum of the Committee. Employees of the Corporation attending the meeting were Bruce Zimmerman, CEO and Chief Investment Officer; Joan Moeller, Secretary and Treasurer; Christy Wallace, Assistant Secretary; Bill Edwards, Managing Director of Information Technology; Cissie Gonzalez, internal General Counsel and Chief Compliance Officer; Uzi Yoeli, Director - Portfolio Risk Management; Melynda Shepherd, Manager – Finance and Administration; Gary Hill, Manager – Investment Reporting; Debbie Childers, Manager – Portfolio Accounting and Operations; Philip Aldridge, Charlie Chaffin, William Huang, Moshmee Kalamkar, Miles Ragland, and Jim Phillips of UT System Administration; Barb Davison and Kelly Anderson of Investment Training and Consulting, Inc.; and Tom Wagner and Robert Connolly from Deloitte & Touche LLP. Chairman Nye called the meeting to order at 10:40 a.m. Copies of materials supporting the Committee meeting agenda were previously furnished to each Committee member.

Approval of Minutes

The first matter to come before the Committee was the approval of the minutes of the Joint Meeting of the Policy and Audit and Ethics Committee meeting and the meeting of the Audit and Ethics Committee, both held on April 15, 2008. Upon motion duly made and seconded, the following resolution was unanimously adopted by the Committee:

RESOLVED, that the minutes of the Joint Meeting of the Policy and Audit and Ethics Committees of the Board of Directors held on April 15, 2008, and the Meeting of the Audit and Ethics Committee of the Board of Directors held on April 15, 2008, be, and are hereby, approved.

Code of Ethics

Mr. Nye asked Mr. Zimmerman to review the proposed changes to the Code of Ethics. Mr. Zimmerman stated that the draft changes to the Code of Ethics maintain a strong system of checks and balances, ethics and compliance and full annual disclosure of all investments. He summarized a few of the changes to the Code of Ethics, explaining that discussion of these changes began in April of 2008, were based on the joint efforts of Vinson & Elkins LLP and Staff with further review by UT System Office of General Counsel, and consistent with *Texas Education Code* Section 66.08. He stated that Staff recommended approval of draft changes to the Code of Ethics by the Committee and that the Committee recommend any proposed changes to the Policy Committee for concurrence and submission to the UTIMCO Board for approval. The changes to the Code of Ethics will be discussed with appropriate action taken by Policy Committee at its meeting on July 15, 2008, and the Board at its July 23, 2008 meeting. Final recommendation for approval by the UT System Board of Regents will be considered at its August 13, 2008 meeting. Mr. Zimmerman answered the Committee Members' questions. Upon motion duly made and seconded, the following resolution was unanimously adopted:

WHEREAS, the charter of the Audit and Ethics Committee requires the Committee to periodically review the Code of Ethics policy of the Corporation and recommend any proposed changes to the Policy Committee for concurrence and submission to the Board for approval; and

WHEREAS, the Committee has reviewed the Code of Ethics policy and desires to recommend changes to the Policy Committee for concurrence and submission to the Board for approval.

NOW, THEREFORE, be it:

RESOLVED, that the Committee hereby recommends to the Policy Committee the Code of Ethics policy in the form previously provided to the Committee for concurrence of the Policy Committee, subject to further approval of the UTIMCO Board.

Presentation of Unaudited Financial Statements

Mr. Nye asked Ms. Moeller to present the unaudited financial statements as of May 31, 2008, for the Permanent University Fund (PUF), General Endowment Fund (GEF), Permanent Health Fund (PHF), Long Term Fund (LTF), Intermediate Term Fund (ITF) (collectively the "Funds"), and the Corporation that have been prepared by Corporation staff. Ms. Moeller reviewed the Funds' unaudited financial statements without footnotes for the nine months ended May 31, 2008 and 2007 and responded to questions from Committee Members. Ms. Moeller also reviewed the Corporation's unaudited financial statements with footnotes for the nine months ended May 31, 2008 and 2007 with the Committee. Mr. Zimmerman and Ms. Moeller answered the Committee Members' questions.

Corporate External Auditor

Mr. Nye stated that the next item for the Committee was to recommend the appointment of Deloitte & Touche LLP to serve as the Corporation's auditor for fiscal year ended 2008. The Staff's recommendation coincides with UT System's selection of Deloitte & Touche LLP as external auditor for the Funds. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the firm of Deloitte & Touche, LLP be, and is hereby, engaged as the independent auditor of the Corporation for the year ended August 31, 2008, subject to further approval of the UTIMCO Board.

Internal Auditor Report

Mr. Nye asked Mr. Chaffin to report from the UT System Audit Office. Mr. Chaffin explained that the UT System Audit Office co-sourced with Investment Training & Consulting Institute, Inc. to conduct audits of the internally managed fixed income and derivatives. Barbara Davison reviewed the audit reports with the Committee and answered the Committee Members' questions. Mr. Chaffin added that these two audits were conducted in depth by professionals and assured the Committee that they received complete cooperation from Staff and the results were merely suggestions to enhance the programs already in place.

Mr. Chaffin updated the Committee on the status of their 2008 internal audit plan for UTIMCO. He then presented the proposed audit plan for fiscal year 2009 and answered questions from the Committee. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that The University of Texas System Fiscal Year 2009 Internal Audit Plan for UTIMCO be, and is hereby, approved.

External Auditor Report

Mr. Nye asked Mr. Wagner to update the Committee on the external audit services of the Funds for the fiscal year ended August 31, 2008. Mr. Wagner informed the Committee of the progress of Deloitte & Touche LLP's interim work and provided an overview of the audit plan for the 2008 audits of the Funds. Mr. Wagner answered the Committee Members' questions.

Audit and Ethics Committee's Self Assessment

Mr. Nye acknowledged that the Audit Charter of the Audit and Ethics Committee requires the Committee to evaluate its own performance, both of individual members and collectively, on a regular basis. This requirement was added to the charter in May 2005. The Self-Assessment tool was mailed to the Audit and Ethics Committee members on June 25, 2008. The Chief Compliance Officer received all responses by July 9, 2008, tallied the responses, and shared the positive findings with the Audit and Ethics Committee. Mr. Zimmerman, Ms. Gonzalez and Ms. Moeller answered the questions of the Committee Members.

Update on Compliance, Reporting and Audit Issues

Mr. Nye asked Ms. Moeller and Ms. Gonzalez to present the update on compliance, reporting and audit issues. Ms. Moeller began by asking Ms. Shepherd to briefly discuss the Ethics and Disclosure Requirements for Outside Financial Advisors and Service Providers required by *Texas Government Code* Section 2263.005. Ms. Shepherd discussed the background of the annual procedure that Staff follows to obtain the required information from the external managers. The Executive Summary was included in the presentation materials for the meeting. Mr. Nye asked Ms. Gonzalez to present the General Compliance Report for the Quarter Ended May 31, 2008. Ms. Gonzalez informed the Committee that there were currently no issues with non-compliance.

Ms. Gonzalez gave a brief update on the UTIMCO Compliance Hot Line, review of pre-clearance of trades and receipt of Compliance Certificates. The Institutional Compliance Program Quarterly Report for the Quarter Ended May 31, 2008, was included in the presentation materials for Committee review.

Discussion with General Counsel and Chief Compliance Officer

For this agenda item, Mr. Nye asked Mr. Zimmerman to leave the room to allow an opportunity for an open-ended discussion on compliance matters without the presence of the CEO and Chief Financial Officer. Mr. Zimmerman left the meeting at this time. Ms. Gonzalez gave a very optimistic report regarding the Staff's acceptance of her newly formed role as Chief Compliance Officer and gave the Committee a review of all projects she is working on. Ms. Gonzalez answered the Committee Members' questions.

Executive Session

Mr. Nye announced, at 12:07 p.m., that "The Audit and Ethics Committee of 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 for the purpose of deliberating individual personnel compensation and evaluation matters. This Executive Session meeting of the Committee is authorized by *Texas Government Code* § 551.074 (Personnel Matters). The time is now 12:07 p.m." Mr. Zimmerman returned to the meeting at this time. With the exception of Mr. Zimmerman and the Committee Members, all other meeting participants left the meeting at this time.

Open Session

The Committee reconvened in open session and Mr. Nye announced that "The Open Session of the Audit and Ethics Committee of the Board of Directors of The University of Texas Investment Management Company is now reconvened. The time is now 12:18 p.m. During the Executive Session, the Committee discussed individual personnel compensation and evaluation matters, but did not take any final action or votes, or make any decisions."

Mr. Nye recommended acceptance of the proposal by Mr. Zimmerman that the Committee recommend (1) the base salary of the General Counsel and Chief Compliance Officer, (2) the position of General Counsel

and Chief Compliance Officer as an Eligible Position in the Plan, and the Weightings of the Performance Goals (entity, asset class, and qualitative), and the Incentive Award Opportunities, (3) designation of Cecilia Gonzalez as a Participant in the Plan, and (4) the performance goals of the General Counsel and Chief Compliance Officer. By motion duly made and seconded, the following resolution was unanimously adopted:

WHEREAS, the UTIMCO Board has established a UTIMCO Compensation Program (the "Plan") for certain employees of the Corporation; and

WHEREAS, Section 4.2(a) of the Plan provides that the Compensation Committee of the Board of Directors of UTIMCO will determine the base salaries of key investment and operations employees; and

WHEREAS, Section 5.3.(a) of the Plan provides that, in order to become a "Participant" in the Plan for a Performance Period, a UTIMCO employee must be (1) employed in a position designated by the Board of Directors of UTIMCO (the "UTIMCO Board") as an "Eligible Position" for that Performance Period and (2) selected by the UTIMCO Board as eligible to participate for that Performance Period; and

WHEREAS, Section 5.4(a) of the Plan provides that the Compensation Committee of the Board of Directors of UTIMCO will approve the Performance Goals for each Participant (other than for the CEO) for each Performance Period; and

WHEREAS, Section 5.4.(d) of the Plan provides that, subject to the approval of the UTIMCO Board, the Compensation Committee will approve (or adjust as it deems appropriate) the Weightings of the Performance Goals (entity, asset class, and individual) for each Participant (other than for the CEO) for each Performance Period; and

WHEREAS, Section 5.5.(a) of the Plan provides that, subject to the approval of the UTIMCO Board, the Compensation Committee will determine the Incentive Award Opportunity for each Performance Goal for each Participant in an Eligible Position; and

WHEREAS, the charter of the Audit and Ethics Committee (the "Committee") requires the Committee and the CEO to approve the Chief Compliance Officer's performance goals and achievement of the goals, and to make a joint recommendation to the Compensation Committee as to the base salary and performance incentive awards for the Chief Compliance Officer; and

WHEREAS, the Committee and the CEO have prepared a joint recommendation regarding the base salary of the General Counsel and Chief Compliance Officer; and

WHEREAS, subject to the approval of the Compensation Committee, the Committee and CEO have reviewed and approve the Performance Goals for the

General Counsel and Chief Compliance Officer for the 2008/2009 Performance Period as presented to the Committee; and

WHEREAS, subject to approval by the UTIMCO Board, the Audit and Ethics Committee and the CEO jointly recommend the position of General Counsel and Chief Compliance Officer as an Eligible Position and Cecilia Gonzalez as a "Participant" in the Plan for the 2008/2009 Performance Period, effective as of July 1, 2008; and

WHEREAS, subject to the concurrence of the Compensation Committee and approval by the UTIMCO Board, the Audit and Ethics Committee has reviewed and approves the Eligible Position, Weightings of the Performance Goals, and the Incentive Award Opportunities for the position of General Counsel and Chief Compliance Officer for the 2008/2009 Performance Period as presented to the Audit and Ethics Committee.

NOW, THEREFORE, be it:

RESOLVED, that the Audit and Ethics Committee approves the base salary of the General Counsel and Chief Compliance Officer as recommended by the CEO and the Audit and Ethics Committee and the CEO hereby jointly recommend to the Compensation Committee the base salary of the General Counsel and Chief Compliance Officer, effective September 1, 2008.

FURTHER RESOLVED, that the Audit and Ethics Committee approves the Performance Goals of the General Counsel and Chief Compliance Officer for the 2008/2009 Performance Period as recommended by the CEO and the Audit and Ethics Committee and the CEO hereby jointly recommend to the Compensation Committee the Performance Goals of the General Counsel and Chief Compliance Officer, effective as of July 1, 2008.

FURTHER RESOLVED, that the Audit and Ethics Committee and the CEO hereby jointly recommend to the Compensation Committee that the position of General Counsel and Chief Compliance Officer be designated by the UTIMCO Board as an "Eligible Position" in the Plan for the 2008/2009 Performance Period; and be it

FURTHER RESOLVED, that the Audit and Ethics Committee and the CEO hereby jointly recommend to the Compensation Committee that Cecilia Gonzalez be designated by the UTIMCO Board as a "Participant" in the Plan for the 2008/2009 Performance Period, effective as of July 1, 2008; and be it

FURTHER RESOLVED, that the Audit and Ethics Committee and the CEO hereby jointly recommend to the Compensation Committee that the Eligible Position, Weightings of Performance Goals, and Incentive Award Opportunities for the Eligible Position of General Counsel and Chief Compliance Officer for the 2008/2009 Performance Period be approved in the manner presented to the Committee, effective as of July 1, 2008.

There being no further business to come before the Committee, the meeting was adjourned at 12:25 p.m.

Secretary: 
Joan Moeller

Approved: 
Erle Nye, Chair
Audit & Ethics Committee of The University of Texas Investment
Management Company

Date: 11/12/08