

**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 **November 6, 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; Cissie Gonzalez, internal General Counsel and Chief Compliance Officer; Bill Edwards, Managing Director of Information Technology; Uzi Yoeli, Director - Portfolio Risk Management; Gary Hill, Manager - Investment Reporting; Debbie Childers, Manager - Portfolio Accounting and Operations; Melynda Shepherd, Manager - Finance and Administration; Philip Aldridge, Charlie Chaffin, Moshmee Kalamkar, Miles Ragland, and Jim Phillips of UT System Administration; William Volk of Vinson & Elkins LLP; Jerry Turner of Andrews Kurth LLP; and Tom Wagner and Robert Connolly from Deloitte & Touche LLP. Chairman Nye called the meeting to order at 3:30 p.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 Meeting of the Audit and Ethics Committee meeting held on July 15, 2008. Upon motion duly made and seconded, the following resolution was unanimously adopted by the Committee:

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

**Audit Results and Communications**

Mr. Nye asked Mr. Tom Wagner, engagement partner from the independent accounting firm of Deloitte & Touche LLP, to present the audit results and necessary communications. Mr. Wagner confirmed the completion of audits of the Permanent University Fund (PUF), The University of Texas System General Endowment Fund (GEF), the Permanent Health Fund (PHF), and The University of Texas System Long Term Fund (LTF), and The University of Texas System Intermediate Term Fund (ITF) (the "Funds"),

summarized the process and reviewed with the Committee the Audit Results and Communication report covering required communications. As stated in the report, Mr. Wagner confirmed that 1) Deloitte & Touche LLP issued unqualified opinions on the Funds' August 31, 2008 financial statements, 2) there were no changes in accounting policies that impacted the Funds' financial statement balances, and 3) accounting principles utilized by management are of good quality, are acceptable, and have been consistently applied under accounting principles generally accepted in the United States. The Funds' financial statements and disclosures were complete in all material respects. As part of the audit, Deloitte & Touche LLP reviewed and tested the market values of alternative investments and concluded that the Funds' recorded investment values were fairly stated. Mr. Wagner stated that no material weaknesses regarding internal control were found during their audit procedures. Mr. Wagner answered the Committee members' questions.

Mr. Wagner reported that there were no concerns regarding management. Mr. Wagner stated they had no difficulties to report and were very complimentary of the Corporation's staff, and the cooperation that Deloitte & Touche LLP had received throughout the audit process. Upon motion duly made and adopted, the following resolution was approved unanimously:

RESOLVED, that Deloitte & Touche LLP's Financial Statement Audit Results and Communications on the Investment Funds Under Fiduciary Responsibility of The University of Texas System Board of Regents for the year ended August 31, 2008, be, and is hereby approved in the form as presented to the Audit and Ethics Committee.

Mr. Nye asked Mr. Wagner and Ms. Moeller to continue by reviewing the separate financial statements and audit reports for the Permanent University Fund (PUF), The University of Texas System General Endowment Fund (GEF), the Permanent Health Fund (PHF), and The University of Texas System Long Term Fund (LTF), and The University of Texas System Intermediate Term Fund (ITF) for the years ended August 31, 2008 and 2007. Presentation of the statements of investment performance statistics for the year ended August 31, 2008 for the PUF, GEF, PHF, LTF, and ITF. Ms. Moeller, Mr. Wagner and Mr. Chaffin answered questions of the Committee. Upon motion duly made and adopted, the following resolution was approved:

RESOLVED, that the separate annual financial statements and audit reports for the Permanent University Fund, the Permanent Health Fund, The University of Texas System Long Term Fund, The University of Texas System General Endowment Fund, and The University of Texas System Intermediate Term Fund, each for the fiscal years ended August 31, 2008 and August 31, 2007, and the Statement of Investment Performance Statistics for the year ended August 31, 2008, be and are hereby approved in the form as presented to the Audit and Ethics Committee.

### **Internal Auditor Report**

Mr. Nye asked Mr. Chaffin to give a report from the UT System Audit Office. Mr. Chaffin reviewed the Audit Office report on the Corporation's CEO and Chief Investment Officer's expenses for 2008 and the Follow-Up Audit for Fiscal Year 2008. Mr. Chaffin and Mr. Zimmerman answered the Committee Members' questions.

## **Update on Compliance, Reporting and Audit Issues**

Mr. Nye asked Ms. Gonzalez to present the update on compliance, reporting and audit issues. Ms. Gonzalez presented the General Compliance Report for the Quarter Ended August 31, 2008. She informed the Committee that there were currently no issues with non-compliance. Ms. Gonzalez reported that she had not yet reviewed the compliance report for September and October, but when final net asset values for the PUF and GEF for September 30, 2008 became available, Private Investments exceeded the ranges set by the Investment Policy Statements. As required by the Investment Policy Statements, Ms. Gonzalez, CCO, notified the Chairs of the Audit and Ethics Committee and the Risk Committee. Also as required by the Investment Policy Statements, the CEO and Chief Investment Officer notified the Chairman of the Board and proposed a plan of action to bring Private Investments back within the ranges. The CEO and Chief Investment Officer also discussed the proposed plan of action with the Committee Chairs. The Chairman of the Board and the Committee Chairs agreed with the proposed plan of action and it is being followed.

Ms. Gonzalez gave a brief update of pre-clearance of trades and the Corporation's Compliance Hotline activity. She also referenced the UT System's Action Plan to Enhance Institutional Compliance, the Institutional Compliance Program Annual Report for the Year Ended August 31, 2008, and the Institutional Compliance Action Plan for Fiscal Year 2009. All were included in the presentation materials for Committee review.

## **Executive Session**

On behalf of Mr. Nye, Ms. Gonzalez announced, at 4:30 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 4:30 p.m." With the exception of Mr. Zimmerman, the Committee Members, and Mr. Volk and Mr. Turner, 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 4:38 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. Tate left the meeting at this time.

Mr. Nye recommended acceptance of the Performance Incentive Award of the General Counsel and Chief Compliance Officer for the 2007/2008 Performance Period. By motion duly made and seconded, the following resolution was unanimously adopted:

WHEREAS, the Audit Charter of the Audit and Ethics Committee requires the Audit and Ethics 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 award for the Chief Compliance Officer; and

WHEREAS, the Audit and Ethics Committee and the CEO have prepared a joint recommendation regarding the Performance Incentive Award of the General Counsel and Chief Compliance Officer for the 2007/2008 Performance Period; and

WHEREAS, subject to approval by the UTIMCO Board, the Audit and Ethics Committee and the CEO jointly recommend the performance incentive award of the General Counsel and Chief Compliance Officer; and

WHEREAS, the Audit and Ethics Committee has reviewed the Performance Incentive Award for the General Counsel for the 2007/2008 Performance Period and wishes to document approval of such Performance Incentive Award and recommend that the Board approve the same;

NOW, THEREFORE, be it:

RESOLVED, that the Audit and Ethics Committee approves the Performance Incentive Award for the General Counsel and Chief Compliance Officer as recommended by the CEO for the 2007/2008 Performance Period, and the Audit and Ethics Committee hereby jointly recommend to the UTIMCO Board the Performance Incentive Award for the General Counsel and Chief Compliance Officer for the 2007/2008 Performance Period.

There being no further business to come before the Committee, the meeting was adjourned at 4:45 p.m.

Secretary: Joan Moeller  
Joan Moeller

Approved: Erle Nye Date: 2-18-09  
Erle Nye, Chair  
Audit & Ethics Committee of The University of Texas Investment  
Management Company