

**MINUTES OF MEETING OF THE  
AUDIT AND 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 4, 2010**, 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, Janiece Longoria, 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:

Janiece Longoria, Chair  
Erle Nye  
Charles Tate

thus constituting a majority and quorum of the Committee. Also attending the meeting was Paul Foster, Chairman of the Board. Employees of the Corporation attending the meeting were Bruce Zimmerman, CEO and Chief Investment Officer; Joan Moeller, Secretary and Treasurer; Christy Wallace, Assistant Secretary; Cecilia Gonzalez, internal General Counsel and Chief Compliance Officer; Gary Hill, Senior Manager - Investment Reporting; Debbie Childers, Manager - Portfolio Accounting and Operations; and Melynda Shepherd, Manager - Finance and Administration. Other attendees were Charlie Chaffin, Moshmee Kalamkar and Roger Starkey of UT System Administration; and Tom Wagner and Bob Connolly of Deloitte and Touche LLP. Chairman Longoria called the meeting to order at 7:47 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 Audit and Ethics Committee meetings held on July 8, 2010, and August 6, 2010. Upon motion duly made and seconded, the following resolution was unanimously adopted by the Committee:

RESOLVED, that the minutes of the Meetings of the Audit and Ethics Committee of the Board of Directors held on July 8, 2010, and August 6, 2010, be, and are hereby, approved.

**Audit Results and Communications**

Ms. Longoria asked Mr. Tom Wagner, engagement partner from the independent accounting firm of Deloitte & Touche LLP, to present the audit results and necessary communications for the 2010 audits of the investment funds. Mr. Wagner first introduced himself and Mr. Bob Connolly, and gave a brief background of Mr. Connolly's career at Deloitte & Touche LLP. Mr. Wagner confirmed the completion of the audits of the Permanent University Fund (PUF), The University of Texas System General Endowment Fund (GEF), the Permanent Health Fund (PHF), The University of Texas System Long Term Fund (LTF), and The University of Texas System Intermediate Term Fund (ITF) (the "Funds"), and the Statement of Investment Performance Statistics, summarized the process and reviewed with the Committee a copy of

the Audit Results and Communication report covering required communications. Mr. Wagner explained that a draft version of the Audit Results and Communication was distributed to the Committee in advance of the meeting in order to facilitate the Committee's request for additional time to review the materials prior to the meeting. The final version was completed on October 29. The final version had only minor and editorial changes from the draft that was distributed to the Committee, with no changes in the balances. In the final version of the Audit Results and Communications, Mr. Wagner confirmed that 1) Deloitte & Touche LLP issued unqualified opinions on the Funds' August 31, 2010, 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. 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. The Funds' financial statements and disclosures were complete in all material respects. Mr. Wagner stated that no material weaknesses regarding internal controls were found during their audit procedures. Mr. Wagner reported that earlier in the year he was contacted by the State Auditor's office regarding access to Deloitte & Touche's working papers related to the 2009 Funds' audits. With the Corporation management's permission, Mr. Wagner cooperated in full with the State Auditor's office. After a visit to the offices of Deloitte and Touche LLP, and a review of their files for the Funds, the State Auditor's office was satisfied with the results and did not select the Funds for a State audit. Mr. Chaffin and the UT System Audit Office also appreciated the cooperation with the State Auditor's office by Deloitte & Touche LLP. Mr. Tate requested a copy of the 2010 UTIMCO Management Representation Letter. The Committee requested that the draft form of the letter be included in future meeting materials. Mr. Wagner, Mr. Zimmerman, Ms. Moeller and Mr. Chaffin 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. He also reported that the assistance provided by the UT System Audit Office was very helpful. Mr. Zimmerman added that he was very appreciative of the great job that the Accounting and Finance team do throughout the year, which is affirmed in these audits. 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, 2010, be, and is hereby approved in the form as presented to the Audit and Ethics Committee.

Ms. Longoria asked Mr. Wagner and Ms. Moeller to continue by reviewing the separate financial statements and audit reports for the PUF, GEF, PHF, LTF, and ITF for the years ended August 31, 2010 and 2009. They also presented the statements of investment performance statistics for the year ended August 31, 2010, for the PUF, GEF, PHF, LTF, and ITF. Mr. Zimmerman, Ms. Moeller, Mr. Wagner, Mr. Hill 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, 2010 and August 31, 2009, and the Statement of Investment Performance Statistics for the year ended August 31, 2010, be and are hereby approved in the form as presented to the Audit and Ethics Committee.

### **UT System Audit Office Report**

Ms. Longoria asked Mr. Chaffin to give a report from the UT System Audit Office. Mr. Chaffin reported on the audit of the Chief Executive Officer and Chief Investment Officer's Expenses for 2010. He reported that the audit was complete and no findings were to be reported.

### **Report on Institutional Compliance Peer Review**

Ms. Longoria asked Ms. Gonzalez to report on the Institutional Compliance Peer Review. Ms. Gonzalez reported that an Institutional Compliance Peer Review was required by the UT System Audit Office and was to be completed by August 31, 2010. On August 30-31, 2010, the peer review was conducted onsite at the UTIMCO offices. UTIMCO engaged Bart J. Brunk, Controller, DUMAC, LLC, James P. Feeney, Chief Compliance Officer, Commonfund, and Mark C. Krcmaric, Managing Director & Chief Operating Officer, University of Notre Dame (the "Peer Review Team"), to evaluate its Institutional Compliance Program (the "Program"). Also included in the review process were Senior Staff and other responsible parties as well as Mr. Chaffin and Ms. Kalamkar of UT System Audit Office and Mr. Larry Plutko, UT Systemwide Compliance Officer. The Peer Review Team examined UTIMCO's core compliance documentation, administered a compliance effectiveness/awareness survey to all employees, and conducted interviews with senior management and other high-risk area Responsible Parties. The Peer Review Team was requested to evaluate UTIMCO's Program based on the following objectives: (1) validation of the Chief Compliance Officer's Self-Assessment of the Program; (2) evaluation of Program effectiveness; (3) identification of opportunities for Program enhancement; and (4) assistance and/or recommendations related to the Employee Ethics and Compliance Committee, staff compliance awareness and training, and risk assessment/risk management in the UTIMCO-identified high-risk areas. Ms. Gonzalez said that the peer review team divided up the requested tasks and were very engaged in all aspects of the review. Mr. Chaffin agreed and said that he felt that the most difficult aspect of the review was finding peers to form the Peer Review Team. He was complimentary of the peer review process and said as he talked to the Team, their overall comments were that the Staff was doing an outstanding job. Mr. Zimmerman and Ms. Gonzalez answered the Committee Members' questions. The Committee was pleased with the review process and results.

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

Ms. Longoria asked Ms. Gonzalez to present an update on compliance, reporting and audit issues. Ms. Gonzalez reported that ethics training was held for all employees and interns during the fiscal year as required by the Code of Ethics. She reported that for the fiscal year, September 1, 2009 to August 31, 2010, one securities transaction requiring preclearance of trades was not precleared and four transactional disclosure forms had not been filled out on time, with no violations in the fourth quarter. She reported that

the only activity on the Corporation's Compliance Hotline were hang-ups for the quarter ending August 31, 2010, and for the fiscal year. Ms. Gonzalez presented the Investment Policies Compliance Report for the Quarter Ended August 31, 2010; and the Institutional Compliance Program Annual Report for the Year Ended August 31, 2010. Ms. Gonzalez provided an overview of the Institutional Compliance Action Program for FY 2010 reporting that all items were completed or on-going except for the web-based or electronic transmission of the Certificates of Compliance. She also presented the Institutional Compliance Action Plan for FY 2011, which mostly includes on-going monitoring of the compliance program with the exception of revisions to the current records retention schedule and development of a business continuity plan. Mr. Zimmerman, Ms. Gonzalez and Ms. Moeller answered the Committee Members' questions.

### **Executive Session**

Ms. Longoria announced, at 8:51 a.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 of the Committee, for the purpose of deliberating individual personnel compensation matters related to the General Counsel and Chief Compliance Officer's Performance Incentive Award as a Participant in the UTIMCO Compensation Program for the Performance Period ended June 30, 2010. This Executive Session meeting of the Committee is authorized by *Texas Government Code* § 551.074 (Personnel Matters). The date is November 4, 2010, and the time is now 8:51 a.m." With the exception of Chairman Foster and Mr. Zimmerman, all other meeting participants left the meeting at this time.

### **Open Session**

The Committee reconvened in open session and Ms. Longoria 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 date is November 4, 2010, and the time is now 8:57 a.m. During the Executive Session, the Committee deliberated individual personnel compensation matters but no action was taken nor decisions made, and no vote was called for or had by the Committee in Executive Session."

Ms. Longoria recommended that the Audit and Ethics Committee and the CEO jointly recommend to the Compensation Committee, subject to approval by the UTIMCO Board, the Performance Incentive Award for the General Counsel and Chief Compliance Officer for the 2009/2010 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 that the Audit and Ethics Committee and the CEO approve the Chief Compliance Officer's performance goals and achievement of the goals and 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 2009/2010 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 and Chief Compliance Officer for the 2009/2010 Performance Period and wishes to document approval of such Performance Incentive Award and recommend that the Compensation Committee 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 2009/2010 Performance Period, and the Audit and Ethics Committee and CEO hereby jointly recommend to the Compensation Committee the Performance Incentive Award for the General Counsel and Chief Compliance Officer for the 2009/2010 Performance Period.

There being no further business to come before the Committee, the meeting was adjourned at 8:58 a.m.

Secretary:

  
Joan Moeller

Approved:

  
Janiece Longoria, Chair

Audit and Ethics Committee of The University of Texas Investment  
Management Company

Date:

5.6.2011