

**MINUTES OF THE MEETING OF  
THE BOARD OF DIRECTORS OF  
THE UNIVERSITY OF TEXAS  
INVESTMENT MANAGEMENT COMPANY**

The Board of Directors (the "Board") of The University of Texas Investment Management Company (the "Corporation") convened in an open meeting at 9:35 a.m. on the **18th day of January 2005**, at the offices of the Corporation, Suite 1700, 221 West 6th Street, Austin, Texas, 78701, said meeting having been called by the Chairman, Woody L. Hunt, with notice provided to each member in accordance with the Bylaws. The audio portion of the meeting was electronically recorded.

Participating in the meeting were the following members of the Board:

Woody L. Hunt, Chairman  
John W. Barnhill, Jr.  
Clint D. Carlson  
I. Craig Hester  
R. H. (Steve) Stevens, Jr.

thus, constituting a majority and quorum of the Board. Director Charles W. Tate joined the meeting at the point indicated below. Vice Chairman Mark G. Yudof, Director Rita C. Clements and Director J. Philip Ferguson were not present at the meeting. Also, attending the meeting were R. D. Burck, Advisory Director; Bob Boldt, President, Chief Executive Officer and Chief Investment Officer 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 of Information Technology; Larry Goldsmith, Managing Director of Public Markets; Andrea Reed, Risk Manager; Sara McMahon and Trey Thompson, Co-Managing Directors – Non-Marketable Alternative Investments of the Corporation; several staff members of the Corporation; Jerry Turner, legal counsel for the Corporation; Scott Kelley, Philip Aldridge, Cathy Swain, Michael Warden and Charlie Chaffin of U. T. System Administration; Keith Brown of the McCombs School of Business at UT Austin; Greg Anderson of Texas A&M System; Bruce Myers of Cambridge Associates; Ricky Richter of Ernst and Young; and Michael Sebastian of EnnisKnupp. Mr. Hunt called the meeting to order at 9:35 a.m. Copies of materials supporting the Board meeting agenda were previously furnished to each Director or distributed at the meeting.

**Minutes**

The first matter to come before the Board was approval of the minutes of the meeting of the Board of Directors held on November 15, 2004. The Delegation of Authority was handed out as an attachment to the minutes. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the minutes of the meeting of the Board of Directors held on  
November 15, 2004, be, and are hereby, approved.

## **Asset Allocation, Risk and Performance**

Mr. Hunt made several introductions of attendees at the meeting. Dr. Keith Brown, a finance professor in the McCombs School of Business at UT Austin, and a special consultant to the Chairman of the Board of UTIMCO; Mr. Greg Anderson, Associate Vice Chancellor and Treasurer of the Texas A&M System; and Ms. Cathy Swain, UT System Director of Investment Oversight.

Mr. Hunt asked Mr. Boldt to report on the Corporation's asset allocation, risk and performance. At this point, Director Tate joined the meeting. Mr. Boldt began by discussing the Market Exposure chart showing market exposure and deviations from policy targets within tactical policy ranges. He continued by discussing relative risk analysis, the peer universe and value added. A discussion of proxy benchmarks used for hedge funds ensued. Director Carlson stated that it is very difficult to use benchmarks that are available, due to the diverse nature of hedge funds. Mr. Myers agreed and stated that the proxy benchmark being used by the Corporation is the most widely accepted practice in the hedge fund arena. The latest performance information was presented. Mr. Boldt also reported Cumulative Value Added under the Corporation's management for the period ended December 31, 2004, as provided by handouts. The net performance for the one-month period ended December 31, 2004, for the PUF and the GEF were 2.43%, and 2.40%, respectively, versus benchmark returns of 1.84% for each fund. The net performance for the one-year ended December 31, 2004, for the PUF and GEF were 14.22% and 14.09%, respectively, versus benchmark returns of 12.78% for each fund. The Short Intermediate Term Fund's (SITF) performance was 0.30% versus benchmark return of .21% for the one-month period, and was 1.81% versus benchmark return of 1.02% for the one-year period ended December 31, 2004. Performance for the Short Term Fund (STF) was 0.17% versus 0.21% for its benchmark for the one-month period, and was 1.15% versus benchmark return of 1.16% for the one-year period ended December 31, 2004. Also presented was a manager history performance summary, statistics on liquidity, and total derivatives by type and application. Mr. Boldt and Mr. Myers answered the Directors' questions. Two new applications in the endowment portfolio, currency overlay management and the recently implemented put-spread collar to protect the U.S. equity portfolio, were presented by Mr. Boldt and Mr. Goldsmith. In the interest of time, Mr. Boldt did not make a verbal presentation on the year 2004 in review, but provided a handout "2004: A Great Year".

## **UTIMCO Annual Financial Statements and Audit Report**

Chairman Woody L. Hunt asked Director Stevens, Chairman of the Audit and Ethics Committee, to present the UTIMCO Annual Financial Statements and Audit Report. The financial statements were audited by Ernst & Young, LLP. Ernst & Young offered an unqualified opinion on the August 31, 2004 financial statements. Director Stevens stated that he had met with Ricky Richter of Ernst & Young and that there were no audit adjustments. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the annual financial statements and audit report for the Corporation for the years ended August 31, 2004, and August 31, 2003 be, and are hereby, approved in the form as presented to the Board.

## **UTIMCO Annual Report**

Mr. Hunt asked Ms. Moeller to report on the 2004 Annual Report. Ms. Moeller gave background of the process followed to create the report each year. The report includes separate reports for each of the funds, stories specific to each of the UT System institutions, and a disc with the audited financial statements. This was the second year that the Staff worked with an advisory group consisting of development staff from several of the institutions to improve upon the reporting. Due to a request from this working group, a glossary, "Frequently Used Terms", was included in the FAQ booklet this year. The 2004 Annual Report was considered a success due to the fact that 8,000 copies were ordered this year (as compared to 6,500 last year), it was delivered to the institutions three to four weeks earlier than last year, and positive feedback has been received from the institutions. The Directors' questions were answered by Mr. Boldt and Ms. Moeller.

### **Executive Session**

Mr. Hunt, at 11:02 a.m., announced that, "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 Board, for the purpose of deliberations regarding consultation with attorney about contemplated litigation regarding disclosure of portfolio company information. This Executive Session meeting of the Board is authorized by Texas Government Code, Section 551.071 (Contemplated Litigation). The time is now 11:02 a.m."

In Executive Session, the Board discussed matters regarding contemplated litigation regarding disclosure of portfolio company information. No action was taken and no vote was called for or taken by the Board.

### **Reconvene in Open Session**

The Board reconvened at 11:50 a.m. in open session and Mr. Hunt announced that, "the Open Session of the Board of Directors of The University of Texas Investment Management Company is now reconvened. The time is now 11:50 a.m. During the Executive Session, the Board discussed matters regarding contemplated litigation regarding disclosure of portfolio company information but did not take any votes."

### **Management Fees**

Mr. Hunt asked Mr. Boldt to provide information on the Corporation management fees. Mr. Boldt presented information regarding fees and expenses paid by the Corporation to external private equity fund, hedge fund and mutual fund managers. An analysis of these fees by EnnisKnupp (still in draft form), and a letter from Ernst & Young indicating that the Corporation's method of disclosing these fees is consistent with accounting principles and standard industry practice, was provided as part of the Board meeting materials. Mr. Boldt stated that the UT System has asked for a more extensive cost study and Cambridge has provided a first draft of their proposal for this study. Mr. Boldt, Mr. Myers and Mr. Turner answered the Directors' questions.

The meeting was recessed at 12:20 p.m.

The Board of the Corporation reconvened in an open meeting at the same meeting location at 1:05 p.m.

**CORE Fund Update**

Mr. Hunt gave introduction to the discussion and consideration of new fund options for UT System operating capital. He then asked Mr. Boldt to give his presentation. Mr. Boldt began by showing the current status of the operating funds, the history of the balances and cash flows, and the problems surrounding the operating funds capital due to the size of the organization, the actual dollar amount and the de-centralization of control. Mr. Hunt asked Mr. Anderson to review the management process of such funds at The Texas A&M University System. There was a discussion of various issues including liquidity, centralization, and differences of medical and academic dynamics. Mr. Boldt, Mr. Kelley, Mr. Aldridge and Mr. Anderson answered the Directors' questions. Mr. Boldt continued with presenting possible solutions to the issues. Discussion continued with Mr. Boldt, Mr. Anderson, Mr. Myers and Mr. Turner answering the Directors' questions. During this time, Director Hester left the meeting.

In order to institute the new Fund options for UT System operating capital, Mr. Boldt recommended to the Board adoption of all asset allocation policies, investment policies, the proposed revised budget, all recommended amendments to the Investment Management Services Agreement, Derivative Policy, and adoption of the proposed Swap Agreement provided to the Board. Upon motions duly made and seconded, the following resolutions were unanimously adopted:

Investment Policy Statements:

RESOLVED, that the Proposed Investment Policy Statements for the CORE Fund, CORE Guarantee Fund, CORE Plus Fund, Balanced Fund, Equity Fund and amendments to the General Endowment Fund Investment Policy Statement as presented be, and are hereby, approved, subject to approval by the U. T. System Board of Regents.

Investment Management Services Agreement:

RESOLVED, that the amendments to the Investment Management Services Agreement as presented be, and are hereby, approved, subject to approval by the U. T. System Board of Regents.

Derivative Investment Policy:

RESOLVED, that amendments to the Derivative Investment Policy be, and are hereby, approved in the form submitted to the Corporation's Board of Directors.

Swap Agreement:

RESOLVED, that Proposed Swap Agreement be, and is hereby, approved in the form submitted to the Corporation's Board of Directors.

Amended UTIMCO Services and Direct Funds Budget:

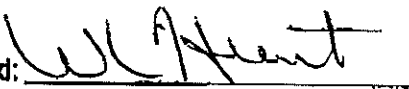
RESOLVED, that the UTIMCO Services and Direct Funds Budget for the period September 1, 2004 through August 31, 2005, be amended to include the incremental costs associated with the new Operating Funds, subject to approval by the U. T. System Board of Regents.

Mr. Boldt presented the changes to the Liquidity Policy for the CORE Fund and Balanced Fund. Upon discussion, a recommendation was made to change the trigger zone to 30% to 40%, which would mean that any illiquid investments made in the 30%-40% trigger zone would require prior approval by the Liquidity Committee or the Board. Upon motion duly made and seconded, with the change in the trigger zone duly noted, the following resolution was unanimously adopted:

RESOLVED, that the Liquidity Policy for the CORE Fund and Balanced Fund be, and is hereby, approved, subject to approval by the U. T. System Board of Regents.

There being no further business to come before the Board of Directors, the meeting was adjourned at approximately 3:40 p.m.

Secretary:   
Joan Moeller

Approved:  Date: 3/14/05  
Woody L. Hunt  
Chairman, Board of Directors of  
The University of Texas Investment  
Management Company