

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

The Board of Directors of The University of Texas Investment Management Company (the "Corporation") convened in a special meeting on the 2nd day of July, 1998 in the Boardroom at The Ballpark in Arlington, 1000 Ball Park Way, Arlington, Texas 76011, said meeting having been called by the Chairman, with notice provided to each Director in accordance with the Bylaws. Participating in the meeting were the following members of the Board of Directors:

Thomas O. Hicks, Chairman  
Robert H. Allen  
William H. Cunningham  
Tom Loeffler  
A. W. Riter, Jr.

thus, constituting a majority and quorum of the Board of Directors. Directors Susan Byrne, Luther King and Homer Luther were absent. Also participating in the meeting were Thomas G. Ricks, President of the Corporation; Cathy Iberg, Secretary of the Corporation; Jerry E. Turner, legal counsel for the Corporation; Dave Russ, Austin Long, Craig Nickels and Charles Preston of Corporation management. The meeting was called to order at 12:35 p.m.

**Report of the Audit and Ethics Committee Meeting**

The first matter to come before the Board of Directors was a report by Mr. Allen on the Audit and Ethics Committee meeting held on May 19, 1998. Mr. Allen stated that the Committee approved the minutes from the previous meeting, and reviewed the financial statements with Corporation's management for the period ended March 31, 1998. In addition, the Committee had an extensive discussion on the Corporation's budget and fee request for the fiscal year ended August 31, 1999, copies of which had previously been furnished to each Director. Mr. Allen also reported on a discussion held by the Committee regarding additional fee income received by the Corporation for services rendered by the Corporation's private investment staff, in which Mr. Allen noted that Mr. Ricks and Mr. Turner would provide additional clarification. The Committee also approved the selection of Deloitte and Touche, LLP as the independent auditors for the year ended August 31, 1998. Mr. Allen noted for the Board that Deloitte and Touche would not provide any assurances or express any opinion that the Corporation's and the Fund's systems are Year 2000 compliant. However, he did state that the Corporation's management was in the process of ensuring Year 2000 system compliance. The last item reported on at the Audit and Ethics Committee meeting was a report on Ethics issues. Mr. Allen stated that there were no consequential items presented in the report and all items reported were resolved as documented in the report. Following Mr. Allen's discussion, Mr. Ricks reviewed in detail for the Board the 1999 Annual Fee Request and budget. Mr. Ricks stated that for the fiscal year ended August 31, 1998 the total fee budget was \$15 million. This represented approximately .152% of market

value for the assets under management as of February 28, 1997, in which the Corporation's portion was approximately .057% and the direct expense portion which consists of external management fees, custody cost and other direct expenses represented approximately .095%. The proposed fee budget for the year ended August 31, 1999 would be increased from \$15 to \$19 million, and as a percentage of market value for assets under management as of February 28, 1998 would be an increase from .152% to .165%. Mr. Ricks stated that a majority of this increase is for the LTF direct expenses. The Corporation's portion of the fee request is .049% of the total and the direct expenses of the Funds are budgeted to be .116%. He stated that the Corporation's portion of the fee increased by the rate of inflation of 1.4% over the previous year's fee, and the Fund's direct expense budget increased primarily from external management fees, contingent performance fees for external managers, custodian costs, and auditing costs. Mr. Allen added that the Corporation's staff intends to build up an adequate reserve equal to approximately one year of the Corporation's portion of the fee request. Mr. Ricks and Mr. Allen discussed with the Board the additional fee income received by the Corporation for services rendered by the private investment staff to the promoter's of private equity investments, in which the Corporation has decided to invest. Mr. Ricks stated that if the fee were service related, the Corporation would receive the funds and if the fee were capital related the PUF and the LTF would receive the funds. These fees would offset future budget requests. Mr. Turner stated that in his firm's legal opinion these fees would not be considered unrelated business taxable income. Mr. Ricks said that management would amend the investment management service agreement between the Corporation and the Board of Regents to provide clarification on this issue. He would propose to bring this amendment to the Corporation's Board at their next regular meeting. Mr. Ricks answered the Director's questions. Following this discussion, by motion duly made, and seconded, the following resolution was unanimously adopted:

RESOLVED, that the Corporation's Annual Fee Request for investment management services and the budget for direct expenses of the Funds for the period September 1, 1998 through August 31, 1999, be and is hereby approved in the form presented to the Board of Directors.

### Approval of Minutes

The next item to come before the Board of Directors was approval of the minutes of the meetings of the Board of Directors held on April 23, 1998, and on May 22, 1998, copies of which had previously been furnished to each Director. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the minutes of the Meetings of the Board of Directors held on April 23, 1998 and May 22, 1998 be and are hereby approved in the form presented.

## **Review of PUF Income**

Mr. Ricks presented to the Board of Directors a report projecting PUF income through the year August 31, 2002, copies of which had previously been furnished to each Director. Mr. Ricks stated that the income generated by the PUF over the next 5 years would essentially remain flat due to the current interest rate environment. Mr. Ricks discussed a method to increase payout to the AUF. Mr. Ricks presented to the Directors a Bond Equitization concept in which S&P 500 index futures contracts would be used to replace part of the existing S&P 500 exposure. The Dreyfus Money Market Fund would be used as the collateral for the futures contracts. He further explained that the price appreciation would remain with the PUF while the income earned on the money market fund would be distributed to the AUF. This type of transaction would increase distributable income to the AUF by the difference between the dividend yield on the S&P 500 of approximately 1.4% and the money market yield, which currently is approximately 5.5%. Mr. Ricks also reviewed the risks of the transaction as summarized in the materials previously distributed to the Directors. The Directors requested that Mr. Ricks continue to obtain additional information regarding this concept.

## **Performance Review**

The next item presented to the Board of Directors was a performance review of the PUF and the LTF through the period ending March 31, 1998, copies of which had previously been furnished to each Director. Mr. Ricks noted that the first comparison was against the Cambridge Quarterly Universe, which is comprised of approximately 100 endowments. He also mentioned that this universe is comprised of approximately 400 endowments reporting on a June 30<sup>th</sup> year-end basis. Mr. Ricks discussed the positive progression on performance for the LTF from the previous 5 years to the current one-year and current quarter basis ending March 31, 1998. He then proceeded to discuss the LTF's performance against 22 other university endowments in excess of one billion dollars. He further noted that for the 3 and 5 year periods ending March 31, 1998, the LTF ranked 15<sup>th</sup> out of 22, while for the one year and current quarter ending March 31, 1998, the LTF ranked 5<sup>th</sup>. Mr. Ricks answered the questions of the Directors following the presentation.

## **Discussion of the LTF's Asset Allocation**

The next item presented to the Board of Directors was a review of the LTF's asset allocation as compared to other colleges and universities, copies of which had previously been furnished to each Director. Mr. Ricks noted that the LTF's current allocation to Alternative Equities-Non-Marketable as well as to the Alternative Equities-Marketable was lower relative to other universities. He also reviewed with the Directors the LTF's efficient frontier, which indicates that the LTF was incurring more investment risk than that of the neutral policy portfolio. He discussed with the Board the goal of moving more toward the neutral policy portfolio. The policy portfolio contains an 18% asset allocation to Alternative Equities-Non-Marketable and a 7% asset allocation to Alternative Equities-Marketable. Mr. Ricks discussed with the Board that management was prepared to fund the Alternative Equities-Marketable asset class as provided for in the policy. Mr. Ricks answered the questions of the Directors then turned the discussion

over to Dave Russ regarding the selection of managers for the Alternative Equities-Marketable asset class.

### **Discussion and Selection of Investment Managers for the Alternative Equities-Marketable**

Mr. Russ reviewed with the Board of Directors materials covering the Alternative Equities-Marketable asset class, copies of which had previously been furnished to each Director. Mr. Russ discussed four managers the Corporation proposed to invest in this asset class: Maverick Capital, Ltd.; Rosenberg Institutional Equity Management ("REIM"); Perry Corp.; and Farallon Capital Management, L.L.C. Mr. Russ noted for the Directors that by funding this asset class the LTF would become more diversified and thereby reduce its overall investment risk. Mr. Russ further stated that the initial core commitment to the Alternative Equities-Marketable would be 7% which is the amount provided for in the LTF investment policy. Mr. Russ and Mr. Ricks answered the Director's questions and then proceeded to introduce representatives from Maverick Capital, Ltd., REIM, and Perry Corporation, each of whom made presentations. Following the presentations and after further discussion by the Directors, upon motion duly made and seconded, the following resolutions were unanimously adopted:

(1) WHEREAS, the Board has reviewed a presentation prepared by the Corporation's management recommending that the Corporation enter into an investment agreement (the "Agreement") with Maverick Capital, Ltd. to invest an initial \$53 million of LTF assets in Maverick Fund, Ltd.; and

WHEREAS, the Corporation has determined that the Agreement does not constitute an agreement or transaction entered into in violation of Subsection 66.08(i) of the Texas Education Code;

NOW, THEREFORE, BE IT RESOLVED, that the terms and provisions of the proposed investment as described in the Private Placement Memorandum for Maverick Fund, Ltd. be approved; and be it further

RESOLVED, that the President and any Managing Director or Vice President of this Corporation be, and each of them hereby is, authorized to make such further revisions to the terms and provisions as may be necessary or in the best interests of this Corporation, including an increase in the amount of the capital commitment to the Maverick Fund, Ltd. provided that the aggregate commitment to Maverick Fund, Ltd. May not exceed 30% of the LTF policy limit for investment in the Alternative Equities – Marketable asset class; and be it further

RESOLVED, that the President, any Managing Director or Vice President, and the Secretary of this Corporation be, and each of them hereby is, authorized and empowered (any one of them acting alone) to do or cause to be done all such acts or things and to sign and deliver, or cause to be signed and delivered, all such documents, instruments and certificates (including, without limitation, all notices and certificates required or permitted to be given or made under the terms of the Agreement), in the name and on behalf of the Corporation, or otherwise, as such officer of this Corporation may

deem necessary, advisable or appropriate to effectuate or carry out the purposes and intent of the foregoing resolutions and to perform the obligations of this Corporation under the Agreement and the instruments referred to therein.

(2) WHEREAS, the Board has reviewed a presentation prepared by the Corporation's management recommending that the Corporation enter into an investment agreement (the "Agreement") with Rosenberg Institutional Equity Management ("RIEM") to invest an initial \$44 million of LTF assets in a separately managed RIEM U. S. Equity Market Neutral account, invested in U. S. Equities both long and short; and

WHEREAS, the Corporation has determined that the Agreement does not constitute an agreement or transaction entered into in violation of Subsection 66.08(i) of the Texas Education Code;

NOW, THEREFORE, BE IT RESOLVED, that the terms and provisions of the proposed investment as described in the investment agreement for the separately managed RIEM U. S. Equity Market Neutral account be approved; and be it further

RESOLVED, that the President and any Managing Director or Vice President of this Corporation be, and each of them hereby is, authorized to make such further revisions to the terms and provisions as may be necessary or in the best interests of this Corporation, including an increase in the amount of the capital commitment to the separately managed RIEM U. S. Equity Market Neutral account provided that the aggregate commitment to the separately managed RIEM U. S. Equity Market Neutral account may not exceed 25% of the LTF policy limit for investment in the Alternative Equities – Marketable asset class; and be it further

RESOLVED, that the President, any Managing Director or Vice President, and the Secretary of this Corporation be, and each of them hereby is, authorized and empowered (any one of them acting alone) to do or cause to be done all such acts or things and to sign and deliver, or cause to be signed and delivered, all such documents, instruments and certificates (including, without limitation, all notices and certificates required or permitted to be given or made under the terms of the Agreement), in the name and on behalf of the Corporation, or otherwise, as such officer of this Corporation may deem necessary, advisable or appropriate to effectuate or carry out the purposes and intent of the foregoing resolutions and to perform the obligations of this Corporation under the Agreement and the instruments referred to therein.

(3) WHEREAS, the Board has reviewed a presentation prepared by the Corporation's management recommending that the Corporation enter into an investment agreement (the "Agreement") with Perry Corp. to invest an initial \$44 million of LTF assets in Perry Partners International, Inc. Class A Shares; and

WHEREAS, the Corporation has determined that the Agreement does not constitute an agreement or transaction entered into in violation of Subsection 66.08(i) of the Texas Education Code;

NOW, THEREFORE, BE IT RESOLVED, that the terms and provisions of the proposed investment as described in the Private Placement Memorandum for Perry Partners International, Inc. Class A Shares be approved; and be it further

RESOLVED, that the President and any Managing Director or Vice President of this Corporation be, and each of them hereby is, authorized to make such further revisions to the terms and provisions as may be necessary or in the best interests of this Corporation, including an increase in the amount of the capital commitment to the Perry Partners International, Inc. Class A Shares provided that the aggregate commitment to Perry Partners International, Inc. Class A Shares may not exceed 25% of the LTF policy limit for investment in the Alternative Equities – Marketable asset class; and be it further

RESOLVED, that the President, any Managing Director or Vice President, and the Secretary of this Corporation be, and each of them hereby is, authorized and empowered (any one of them acting alone) to do or cause to be done all such acts or things and to sign and deliver, or cause to be signed and delivered, all such documents, instruments and certificates (including, without limitation, all notices and certificates required or permitted to be given or made under the terms of the Agreement), in the name and on behalf of the Corporation, or otherwise, as such officer of this Corporation may deem necessary, advisable or appropriate to effectuate or carry out the purposes and intent of the foregoing resolutions and to perform the obligations of this Corporation under the Agreement and the instruments referred to therein.

(4) WHEREAS, the Board has reviewed a presentation prepared by the Corporation's management recommending that the Corporation enter into an investment agreement (the "Agreement") with Farallon Capital Management, L.L.C. to invest an initial \$35 million of LTF assets in Farallon Capital Offshore Investors, Inc.; and

WHEREAS, the Corporation has determined that the Agreement does not constitute an agreement or transaction entered into in violation of Subsection 66.08(i) of the Texas Education Code;

NOW, THEREFORE, BE IT RESOLVED, that the terms and provisions of the proposed investment as described in the Confidential Memorandum for Farallon Capital Offshore Investors, Inc. be approved; and be it further

RESOLVED, that the President and any Managing Director or Vice President of this Corporation be, and each of them hereby is, authorized to make such further revisions to the terms and provisions as may be necessary or in the best interests of this Corporation, including an increase in the amount of the capital commitment to the Farallon Capital Offshore Investors, Inc. provided that the aggregate commitment to Farallon Capital Offshore Investors, Inc. may not exceed 20% of the LTF policy limit for investment in the Alternative Equities – Marketable asset class; and be it further

RESOLVED, that the President, any Managing Director or Vice President, and the Secretary of this Corporation be, and each of them hereby is, authorized and empowered (any one of them acting alone) to do or cause to be done all such acts or things and to sign and deliver, or cause to be signed

and delivered, all such documents, instruments and certificates (including, without limitation, all notices and certificates required or permitted to be given or made under the terms of the Agreement), in the name and on behalf of the Corporation, or otherwise, as such officer of this Corporation may deem necessary, advisable or appropriate to effectuate or carry out the purposes and intent of the foregoing resolutions and to perform the obligations of this Corporation under the Agreement and the instruments referred to therein.

### **Review of Alternative Equities-Non-Marketable Program**

The next item presented to the Board of Directors were revised projections for the Alternative Equities-Non-Marketable investment program, copies of which had been previously furnished to each Director. Mr. Ricks reviewed with the Directors the original 1995 plan as well as revised projections through the year 2002. Mr. Ricks mentioned that the current asset allocation to this asset class is 6.7% for the PUF and 5.8% for the LTF. Mr. Ricks stated that in order to meet the neutral asset allocation targets for the PUF and LTF at 15% and 18%, respectively, the program would need to step up its current commitment schedule. Mr. Ricks also presented to the Directors a revised projected commitment schedule for the Alternative Non-Marketable equity asset class that indicated that the LTF would continue to be underfunded for the next five years. Mr. Ricks recommended that the Directors allow Corporation management to allocate on a discretionary basis some or all of this underfunding to the Alternative Equities-Marketable asset class until such time as these funds were needed to fund the commitments for the Alternative Equities-Non-Marketable asset class. Mr. Ricks noted that the LTF's total neutral policy allocation for the Alternative Equities asset class is 25%. Mr. Ricks answered the questions of the Directors and upon motion duly made and seconded, the following resolutions was unanimously adopted:

RESOLVED, that the commitment levels for the Alternative Equities-Non-Marketable Program be increased based on the July 1998 projections as provided in the materials distributed to the Directors; and be it further

RESOLVED, that the authorization to exceed the Long Term Fund neutral policy allocation for the Alternative Equities-Marketable asset class by an amount equal to the difference between the neutral policy allocation and actual investment in the Alternative Equities-Non-Marketable asset class be and is hereby approved.

### **Approval of Commitment to Green Equity Investors III, L.P.**

The next matter to come before the Board of Directors was a discussion regarding a proposed investment in Green Equity Investors III, L.P. Mr. Long reviewed a Due Diligence Memorandum & Recommendation dated July 2, 1998 describing the proposed investment, copies of which had previously been furnished to each Director. Mr. Hicks had disclosed in an attachment to his Certificate of Compliance that, in 1994 or 1995, an insurance subsidiary of Life Partners Group, Inc. (a publicly held life insurance holding company in which Hicks, Muse

Equity Fund then owned a minority interest) invested approximately \$5 million in debt securities issued by Arrow Group Industries, which was then a portfolio company affiliated with Leonard Green & Partners, L.P. The investment was recommended by Crescent Capital Corporation, which was a registered investment advisor in which Mr. Hicks and certain principals of Hicks, Muse were significant owners, but not operating managers. For these reasons, Mr. Hicks abstained from discussion and voting on this particular investment. Mr. Long introduced representatives of Green Equity Investors, who provided a presentation concerning Green Equity Investors III, L.P. The representatives of the Fund answered questions of the Directors and then left the meeting. The Directors discussed the proposed investment and upon motion duly made and seconded, the following resolutions were adopted with all Directors voting for approval, except Mr. Hicks who abstained from voting for reasons described above.

WHEREAS, the Board has reviewed a Due Diligence Review and Recommendation prepared by the Corporation's management recommending that the Corporation enter into an investment agreement (the "Agreement") with GEI III, L.L.C. to invest up to \$75 million of PUF and LTF assets in Green Equity Investors III, L.P.; and

WHEREAS, the Corporation has determined that the Agreement does not constitute an agreement or transaction entered into in violation of Subsection 66.08(i) of the Texas Education Code;

NOW, THEREFORE, BE IT RESOLVED, that the terms and provisions of the proposed investment as described in the Due Diligence Review and Recommendation dated July 2, 1998 for Green Equity Investors III, L.P. be approved; and be it further

RESOLVED, that the President and any Managing Director or Vice President of this Corporation be, and each of them hereby is, authorized to make such further revisions to the terms and provisions as may be necessary or in the best interests of this Corporation, excluding an increase in the amount of the capital commitment to Green Equity Investors III, L.P.; and be it further

RESOLVED, that the President, any Managing Director or Vice President, and the Secretary of this Corporation be, and each of them hereby is, authorized and empowered (any one of them acting alone) to do or cause to be done all such acts or things and to sign and deliver, or cause to be signed and delivered, all such documents, instruments and certificates (including, without limitation, all notices and certificates required or permitted to be given or made under the terms of the Agreement), in the name and on behalf of the Corporation, or otherwise, as such officer of this Corporation may deem necessary, advisable or appropriate to effectuate or carry out the purposes and intent of the foregoing resolutions and to perform the obligations of this Corporation under the Agreement and the instruments referred to therein.



## Approval to Increase Commitment to Wand Partners, Inc.

The next item to come before the Board of Directors was a proposal to increase the current commitment to Wand Partners, Inc. by \$13 million. Mr. Hicks had disclosed in an attachment to his Certificate of Compliance that Wand Partners, Inc. and/or its affiliates (including Bruce Schnitzer and David Callard) had invested in many partnerships and transactions sponsored by Hicks, Muse, Tate and Furst Incorporated since 1989. He also noted that he has been a friend of Mr. Schnitzer's for almost 30 years and that Messrs. Schnitzer and Callard have served as directors of certain portfolio companies controlled by Hicks, Muse funds. Mr. Hicks also reported that neither his family nor he co-invest with the Wand Equity Portfolio II, L.P., although certain principals of Hicks, Muse have committed to co-invest alongside such fund. For these reasons, Mr. Hicks abstained from discussion and voting of this particular investment. Mr. Long reviewed with the Board the Short Form Due Diligence Review and Recommendation dated July 2, 1998, copies of which had previously been furnished to each Director. The Directors discussed the proposed investment, and upon motion duly made the following resolutions were adopted with all Directors voting for approval, except Mr. Hicks who abstained from voting for reasons as more fully described above.

WHEREAS, the Board has reviewed a Short Form Due Diligence Review and Recommendation prepared by the Corporation's management recommending that the Corporation increase its commitment under its limited partnership agreement (the "Agreement") with Wand Partners, Inc. by \$13 million of PUF and LTF assets; and

WHEREAS, the Corporation has determined that the Agreement does not constitute an agreement or transaction entered into in violation of Subsection 66.08(i) of the Texas Education Code;

NOW, THEREFORE, BE IT RESOLVED, that the terms and provisions of the proposed increased commitment as described in the Wand Equity Portfolio II, L.P Short Form Due Diligence Review and Recommendation dated July 2, 1998 be approved; and be it further

RESOLVED, that the President and any Managing Director or Vice President of this Corporation be, and each of them hereby is, authorized to make such further revisions to the terms and provisions as may be necessary or in the best interests of this Corporation, excluding an increase in the amount of aggregate capital committed to the Wand Equity Portfolio II, L.P above \$43 million; and be it further

RESOLVED, that the President, any Managing Director or Vice President, and the Secretary of this Corporation be, and each of them hereby is, authorized and empowered (any one of them acting alone) to do or cause to be done all such acts or things and to sign and deliver, or cause to be signed and delivered, all such documents, instruments and certificates (including, without limitation, all notices and certificates required or permitted to be given or made under the terms of the Agreement), in the name and on behalf of the Corporation, or otherwise, as such officer of this Corporation may deem necessary, advisable or appropriate to effectuate or carry out the

purposes and intent of the foregoing resolutions and to perform the obligations of this Corporation under the Agreement and the instruments referred to therein.

**Approval of Commitment to Morgenthaler Venture Partners V, L.P.**

The next item to come before the Board of Directors was a proposed investment of \$25 million with Morgenthaler Venture Partners V, L.P. Mr. Long stated that the Corporation has an existing investment relationship with the general partner, Morgenthaler Management Partners V, LLC. Mr. Long reviewed with the Board the Short Form Due Diligence Review and Recommendation dated July 2, 1998, copies of which had previously been furnished to each Director. The Directors discussed the proposed investment, and upon motion duly made the following resolutions were unanimously adopted:

WHEREAS, the Board has reviewed a Short Form Due Diligence Review and Recommendation prepared by the Corporation's management recommending that the Corporation enter into an investment agreement (the "Agreement") with Morgenthaler Management Partners V, LLC to invest \$25 million of PUF and LTF assets in Morgenthaler Venture Partners V, L.P.; and

WHEREAS, the Corporation has determined that the Agreement does not constitute an agreement or transaction entered into in violation of Subsection 66.08(i) of the Texas Education Code;

NOW, THEREFORE, BE IT RESOLVED, that the terms and provisions of the proposed investment as described in the Short Form Due Diligence Review and Recommendation dated July 2, 1998 for Morgenthaler Venture Partners V, L.P. be approved; and be it further

RESOLVED, that the President and any Managing Director or Vice President of this Corporation be, and each of them hereby is, authorized to make such further revisions to the terms and provisions as may be necessary or in the best interests of this Corporation, excluding an increase in the amount of the capital commitment to Morgenthaler Venture Partners V, L.P.; and be it further

RESOLVED, that the President, any Managing Director or Vice President, and the Secretary of this Corporation be, and each of them hereby is, authorized and empowered (any one of them acting alone) to do or cause to be done all such acts or things and to sign and deliver, or cause to be signed and delivered, all such documents, instruments and certificates (including, without limitation, all notices and certificates required or permitted to be given or made under the terms of the Agreement), in the name and on behalf of the Corporation, or otherwise, as such officer of this Corporation may deem necessary, advisable or appropriate to effectuate or carry out the purposes and intent of the foregoing resolutions and to perform the obligations of this Corporation under the Agreement and the instruments referred to therein.

There being no further business to come before the Board of Directors, the meeting was adjourned at approximately 5:35 p.m.

Secretary: Cathy Dong

APPROVED:

Chairman: [Signature]