**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 20th day of August, 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
J. Luther King, Jr.
Tom Loeffler

thus, constituting a majority and quorum of the Board of Directors. Directors Susan Byrne, Homer Luther and A. W. Riter, Jr. 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 and Austin Long of Corporation management. The meeting was called to order at 1:50 p.m.

## Approval of Minutes

The first item to come before the Board of Directors was approval of the minutes of the meeting of the Board of Directors held on July 2, 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 Meeting of the Board of Directors held on July 2, 1998 be and are hereby approved in the form presented.

## Performance Review

The next item presented to the Board of Directors was a report on endowment performance, copies of which were previously furnished to each Director. Mr. Ricks presented a comparison of the PUF and LTF (the "Funds") returns against the Frank Russell Co. universe of 46 funds with assets ranging from $1 billion to $61 billion and the Fund's neutral policy portfolio. Mr. Ricks noted that, although there is limited value in reporting total return for the PUF, the relatively high concentration of U.S. large cap equities and long dated fixed income investments served to reverse four years of relative underperformance and to outperform both the Russell universe and the PUF's neutral policy portfolio over the last 12 months and current quarter.

Mr. Ricks then reviewed the investment performance of the LTF against the Russell universe noting that although the LTF return was slightly above the median universe return for the last twelve months ended June 30, 1998, performance during the last calendar quarter had slipped to the 75th percentile. While the LTF return was approximately that of the Fund's neutral policy portfolio (as reflected by an asset allocation chart distributed during the meeting), both returns underperformed that of the median billion dollar fund.

**Approval of $300 Million Equity Index Futures Program**

The next item to come before the Board of Directors was to approve the $300 million equity index futures program, copies of materials were previously furnished to each Director. Mr. Ricks introduced this item by comparing the PUF's 1997 actual income of $265.2 million to the current year's 1998 budget income of $255.9 million, which for the 1998 year end is projected to be $260.4 million. Mr. Ricks then reviewed the concept of money market equitization, which he characterized as a limited mechanism to increase distributable income while preserving existing equity exposure. Management's request to use equity index futures in an amount not to exceed $300 million was based on two considerations: first, an attempt to preserve the purchasing power of the 1998 budget based on a fiscal 1999 income projection of $251.4 million; and second, a desire to equitize liquidity cash in general. With respect to the preservation of purchasing power, Mr. Ricks reported that based on an inflation rate of 1.8% for 1998, 1999 income would have to grow to $260.5 million or by $9.1 million more than the $251.4 million projected. Assuming an investment rate of 5%, $182.1 million of capital would be required to generate income of $9.1 million. Selling S&P 500 index units to raise this capital would sacrifice the 1.4% yield on the portfolio requiring a further raising of capital to generate the net $9.1 million required. Ultimately, Mr. Ricks estimated that roughly $233 million of equity index futures contracts would be required to generate the additional income required.

Authorization to use up to $300 million of equity index futures was also requested to allow the Corporation to equitize cash held in the liquidity account as part of the cash management process. As an example, Mr. Ricks presented a schedule of the net cash flows associated with the alternative equities – non marketable program. Net cash flow required for 1999 and 2000 was approximately $153.7 million and $53.7 million, respectively, which would be funded by selling a portion of the overweighted US large/mid cap equity portfolios. Mr. Ricks noted that this situation created a mismatch wherein the private equity commitments or use of funds was fixed in future dollars while the equities or the source of funds were variable in future dollars. Selling a portion of the US large/mid cap equity portfolios would allow management to lock in the cash but also allow for equitization of part or all of the cash balances based on management's view of the equity markets.

Mr. Ricks continued by stating that the $300 million of authorized futures contracts would represent approximately 5% of the $7.1 billion value of the PUF. He stated also that because preservation of the AAA credit rating on PUF bonds was a major financial objective, management had reviewed the proposed program with the three major credit rating agencies. He reported that the agencies were comfortable with the program at the 5% level but requested the opportunity for a further review if the program was to be increased. Mr. Ricks answered the Directors questions and, upon motion duly made and seconded, the following resolutions were unanimously adopted:

> WHEREAS, the Board has reviewed presentations (the "Presentations") from management to authorize the purchase of up to $300 million of S&P 500 Index futures contracts to equitize Permanent University Fund fixed income investments;
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> NOW, THEREFORE, BE IT RESOLVED, that the terms and conditions of the proposed purchase of S&P 500 Index futures contracts as described in the Presentations be approved; and be it further
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> 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 $300 million purchase authorization limit; and be it further
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> 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 (including the establishment of futures accounts with a minimum of two broker/dealers) 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 this transaction), 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 said transaction and the instruments referred to therein.

## Public Markets Report

At this point, Russ Kampfe of Corporation management entered the meeting room. The next item presented to the Board of Directors was a report on Public Markets, copies of which were previously furnished to each Director. Mr. Russ reviewed the Public Markets major activity for the first half of 1998. Mr. Russ started by reviewing the performance of the internally managed Large Capital Growth Portfolio. He also described the "value" influence of the Large Capital Growth Portfolio on the overall PUF actively managed domestic equity portfolio. The Large Capital Growth Portfolio is measured against the S&P 500 Barra Growth benchmark. The Large Capital Growth Portfolio has a "value-tilt" relative to the benchmark; this in turn pushes the entire active portion of the PUF domestic equity portfolio into greater value relative to the S&P 500 Index.

Mr. Russ next reviewed the performance of the internally managed PUF REIT portfolio from inception to June 30, 1998. The portfolio is tracking its benchmark very closely, while providing the AUF with approximately 6.53% annualized yield (expendable dividend income), a much higher value than the S&P 500 Index expected dividend yield of about 1.42% or the relatively low Treasury note yields in the 5.00% to 5.50% range.

The next item discussed was the LTF restructuring program. Several portfolio transition trades were executed to fund new manager mandates approved by the Corporation's Board of Directors. The Goldman Sachs Asset Management Global Asset Allocation (GSAM-GAA) mandates was funded beginning in March and completed April 1, 1998. The sources of funds were drawn across the entire portfolio, with the exception of Private Equity. The LTF internal Large Capital Growth Portfolio was partially liquidated by Mr. Russ and internal operations staff to fund GSAM-GAA. GSAM-GAA also accepted securities directly into the portfolio – avoiding any bid/ask spread transaction costs. The overall cost of the portfolio trades was about $0.02 per share. LTF Small Cap managers also provided securities for transfer to GSAM-GAA. GSAM-GAA was also given first choice on the LTF bond portfolio. PIMCO took in the balance of the LTF bond portfolio with the exception of several municipal bonds that will be held to maturity by the LTF. With these two manager mandates nearly all LTF bonds are now managed externally.

The year to date performance for GSAM-GAA and PIMCO was discussed for the short April 1, 1998 to June 30, 1998 time period. Both managers were outperforming their respective benchmarks as of June 30, 1998, GSAM-GAA by 107 basis points and PIMCO by 13 basis points.

Mr. Russ also discussed the shift of LTF assets out of the LTF Midcap Index ($196 MM on 7/28/1998) and the S&P 500 Index ($99.5 MM on 8/3/1998). The net effect of these transactions was to move 11.19% of the LTF large/midcap domestic equity exposure into the Alternative Marketable Equities asset class emphasizing market neutral, a true hedge fund, and two merger arbitrage/special situation managers.

The next topic of discussion was the internally managed Short Intermediate Term Fund (S/ITF) managed by Mr. Russ Kampfe. The fund has been outperforming its composite index since 1996. The 1998 year to date S/ITF outperformance through June 30, 1998 was 66 basis points. Mr. Russ stated that this was remarkable considering that the portfolio is constrained to U.S. Treasury and Agency investments only. Mr. Russ and Mr. Ricks mentioned that preliminary discussions had begun with Standard and Poor's (S&P) rating agency to produce a private rating on the S/ITF. Management has stress tested the portfolio against the S&P rating criteria and is confident that the fund would receive a AAA rating.

Mr. Russ then introduced Mr. Kampfe to the Board of Directors. Mr. Kampfe is currently managing $1,749 million in the S/ITF and with Mr. Holland's retirement $2,447 million in the PUF bond portfolio. Mr. Kampfe discussed his six month outlook for fixed income; essentially, interest rates will continue to drop from their current levels, 3 month T-Bills to a range of 4.5% to 4.75% and 30-Year T-Bonds to a range of 5.0% to 5.125%. He discussed his reasoning for these interest rate projections: the global credit crisis, non-existent U.S. inflation, a slowdown in consumer spending, the strong U.S. dollar, and the continuing inventory correction. Mr. Kampfe turned to his current positioning of the S/ITF: maintaining a duration greater that that of the benchmark, maximize "convexity" (bond parlance for avoiding callable issues), overweight U.S. Treasuries relative to agency securities, and wait for attractive interest rate spreads to return to the market before overweighting agencies. The Board of Directors, management, and Mr. Kampfe discussed that there is a higher probability that the Federal Reserve Bank's next move will be an easing rather than a tightening of interest rates.

Mr. Russ proceeded to turn the discussion to the Short Term Fund (STF) that is managed externally by Dreyfus. The trailing one-year performance for the STF was 5.62% versus 5.37% for the 3 month T-Bill, for a net alpha of 25 basis points. Mr. Russ and Mr. Ricks discussed the fact that Dreyfus is currently seeking an AAAm ("m" for money market) rating from Standard & Poor's for the STF. The fund is currently unrated. There are two reasons for this rating: first, to increase confidence in the fund for the participants (the 15 UT component institutions) and second, to position the STF as the money market instrument of choice for the Board approved PUF money market equitization program. This second reason for seeking the rating provides an additional level of safety to the PUF's AAA/Aaa long-term bond rating.

## Approval of Commitment to Northstar Seidler Mezzanine Partners II, L.P

At this point, Craig Nickels and Charles Preston of Corporation management entered the meeting room and Russ Kampfe left. The next matter to come before the Board of Directors was a discussion regarding a proposed investment in Northstar Seidler Mezzanine Partners II, L.P. Mr. Long reviewed a Due Diligence Review & Recommendation dated August 20, 1998 describing the proposed investment, copies of which had previously been furnished to each Director. Mr. Long introduced representatives of Northstar Capital, Ltd., who provided a presentation concerning Northstar Seidler Mezzanine Partners II, 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.

> 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 Northstar Capital, Ltd. to invest up to $25 million of PUF and LTF assets in Northstar Seidler Mezzanine Partners, II, L.P.; and
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> 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;
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> NOW, THEREFORE, BE IT RESOLVED, that the terms and provisions of the proposed investment as described in the Due Diligence Review and Recommendation dated August 20, 1998 for Northstar Seidler Mezzanine Partners, II, L.P. be approved; and be it further
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> 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 Northstar Seidler Mezzanine Partners, II, 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 Investment Commitment in InterLink Communications Partners, LLLP**

The next item presented to the Board of Directors was a proposal to increase the commitment in InterLink Communications Partners, LLLP by $10 million. Mr. Long reviewed a short form Due Diligence Review & Recommendation dated August 20, 1998 describing the proposed investment, copies of which had previously been furnished to each Director. The Directors discussed the proposed investment and upon motion duly made and seconded, the following resolutions were adopted with all Directors voting for approval.

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 InterLink Communications Partners, LLLP by $10 million from the PUF and LTF; 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 InterLink Communications Partners, LLLP short form Due Diligence Review and Recommendation dated August 20, 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 InterLink Communications Partners, LLLP above $25 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 Various Commitments to Alternative Equities-Non Marketable Investments**

The next matter to come before the Board of Directors was a discussion regarding proposed follow-on investments into partnerships in which the Corporation has previously approved the investment relationship. The follow-on investments presented to the Board of Directors were Brentwood Associates Private Equity III, L.P., Willis Stein & Partners II, L.P., VS&A Communications Partners III, L.P., Prism Venture Partners II, L.P., and Crescendo III, L.P. Mr. Long reviewed the Due Diligence Review & Recommendations dated August 20, 1998 describing the proposed investments, copies of which had previously been furnished to each Director. The Directors discussed the proposed investments and upon motion duly made and seconded, the following resolutions were adopted with all Directors voting for approval.

WHEREAS, the Board has reviewed short form Due Diligence Review and Recommendations prepared by the Corporation's management recommending that the Corporation enter into investment agreements (the "Agreements") with Brentwood Private Equity III, LLC, Willis Stein & Partners Management II, L.P., VS&A Equities III, LLC, Prism Investment Partners II, L.P., and Crescendo Ventures III, LLC to invest up to $75 million, $50 million, $40 million, $25 million and $25 million, respectively, of PUF and LTF assets in Brentwood Associates Private Equity III, L.P., Willis Stein & Partners II, L.P., VS&A Communications Partners III, L.P., Prism Venture Partners II, L.P., and Crescendo III, L.P. (the "Partnerships"), respectively; and

WHEREAS, the Corporation has determined that the Agreements do not constitute agreements or transactions 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 investments as described in the short form Due Diligence Review and Recommendations dated August 20, 1998 for the Partnerships be approved; and be it further

RESOLVED, that the $50 million commitment to Willis Stein & Partners, II, L.P. be applied against planned commitments for fiscal year 1997-98 and that the remaining $165 million of aggregate commitments to Brentwood Associates Private Equity III, L.P., VS&A Communications Partners III, L.P., Prism Venture Partners II, L.P., and Crescendo III, L.P. be applied against planned commitments for fiscal year 1998-99; 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 each respective Partnership; 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 Agreements), 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 Agreements and the instruments referred to therein.

**Approval of Second Amendment to the Investment Management Services Agreement**

The Board next considered an amendment to the Investment Management Services Agreement (the "Agreement"), between the Corporation and the Board of Regents of The University of Texas System, a copy of which was distributed to each Director. The amendment formalized the allocation of fee income between the Fund's accounts and the Corporation as agreed by the Board at its July 2, 1998 meeting and transferred existing language concerning service by the Corporation's employees as directors of investee companies from the Fund's investment policy statements to the Agreement. A copy of the proposed amendment is attached to these minutes. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the Second Amendment to the Investment Management Services Agreement dated March 1, 1996 between the Corporation and the Board of Regents of The University of Texas System be and is hereby approved.

**Annual Meeting**

Next, Mr. Hicks informed the Board that the next meeting of the Board would be held on Thursday, October 22, 1998 at the Corporation's principal office in Austin, Texas, and that officers for the ensuing year would be elected at the meeting. After discussion, upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the annual meeting of the Board of Directors shall be held on October 22, 1998 beginning at 10:30 a.m., local time, at the principal office of the Corporation in Austin, Texas for the purpose of (i) electing officers for the ensuing year, and (ii) transacting such other business as may be properly brought before such annual meeting.

**Executive Session and Report of Compensation Committee**

At this point, Messrs. Long, Nickels, Preston and Russ and Ms. Iberg left the meeting room.

Mr. Ricks then advised the Board that he had been presented with a proposal from the private equity staff to spin off their operations into a newly-formed firm, with the Corporation owing part of the equity of and sharing in part of the income from the new firm. Mr. Ricks continued that the proposal was for the new firm to raise private equity capital from other sources and to function effectively as a "fund of funds." Mr. Ricks stated that an arguable benefit of the proposal was to convert a "cost" center of the Corporation into a "profit" center. Mr. Ricks stated that while compensation for the private equity staff did not diverge significantly from that offered by other major foundations and endowments, it was clearly below that offered by partnerships and investment banks involved in the sell side of the private equity markets. Further, Mr. Ricks explained that the payment of bonus compensation by the Corporation was constrained by its inability to fund compensation from the capital appreciation of PUF investments and that, accordingly, the Corporation's bonus plan was more limited than those available at other institutions. The Board asked questions of Mr. Ricks and discussed the proposal.

At this point, Mr. Ricks left the meeting room.

Mr. King then gave a brief report from the Compensation Committee. He reported that Mr. Ricks had presented a budget for 1999 of $19.5 million, with $5.7 million allocated to Corporation staff and overhead, including a bonus pool of $763,000, and $13.8 million allocated for direct expenses such as external manager fees and custody fees. Mr. King then reported that upon learning of the proposal from the private equity staff, the Compensation Committee determined to defer to the Board for a decision on the compensation proposals submitted by Mr. Ricks. After much discussion, the Board determined that implementation of the proposal of the private equity group was not in the best interests of the Corporation at this time. The consensus of the Board was to adjust the salary recommendations submitted by Mr. Ricks for Messrs. Long, Nickels and Preston in order, in part, to discourage further pursuit of their proposal and to recognize the value of their services to the Corporation.

The Board then reviewed the proposed salary schedule submitted by Mr. Ricks. After much discussion, the Board determined that all recommended salaries were acceptable except for those of Messrs. Long, Nickels and Preston and of Mr. Ricks and Mr. Russ. Whereupon, upon motion duly made and seconded, and carried by unanimous vote, the Board approved the recommended 1999 salaries for all Corporation employees as submitted by Mr. Ricks, except that Mr. Ricks' salary shall be increased to $300,000, Mr. Russ' salary shall be increased to $175,000, Mr. Long's salary shall be increased to $200,000 and the salaries for Mr. Nickels and Mr. Preston shall be increased to $150,000, each.

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

Secretary: ______________________

APPROVED:

Chairman: ______________________