

**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 on the **18th day of September, 2002**, in the Crescent I Meeting Room of the Crescent Court Hotel, 400 Crescent Court, Dallas, Texas, said meeting having been called by the Chairman, A. W. "Dub" Riter, Jr., with notice provided to each member in accordance with the Bylaws.

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

A.W. "Dub" Riter, Jr., Chairman
J. Luther King, Jr., Vice-Chairman
R. D. Burck
Susan M. Byrne
Rita C. Clements
Woody L. Hunt
L. Lowry Mays
John D. McStay
R. H. (Steve) Stevens, Jr.
Mark G. Yudof

thus, constituting a majority and quorum of the Board. Also, participating in the meeting were Bob Boldt, President, Chief Executive Officer and Chief Investment Officer of the Corporation; Cathy Iberg, Secretary of the Corporation; Christy Wallace, Assistant Secretary of the Corporation; Jerry Turner and Rod Edens, legal counsel for the Corporation; Sara McMahan and Trey Thompson, Co-Managing Directors of Non-Marketable Alternative Investments of the Corporation; and Bruce Myers of Cambridge Associates. Mr. Riter called the meeting to order at 10:20 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 June 18, 2002. 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 **June 18, 2002**, be and are hereby approved.

Appointment of Advisory Director

The second item presented to the Board of Directors was a resolution to appoint Mr. R. D. Burck as Advisory Director of the Corporation for a term ending April 1, 2003 or until his resignation or removal. Upon motion duly made and seconded, the following resolution was unanimously adopted:

WHEREAS, the Board of Directors of The University of Texas Investment Management Company greatly appreciate the experience, judgment and insight that Mr. R. D. Burck provided during his term as Chancellor of The University of Texas System and *ex-officio* Director of the Corporation; and

WHEREAS, the Board of Directors desires to have continued access to the advice and counsel of Mr. Burck;

NOW, THEREFORE, be it:

RESOLVED, that the Board of Directors hereby appoints Mr. Burck to serve as Advisory Director to the Corporation for a term ending April 1, 2003; and be it

FURTHER RESOLVED, that while Mr. Burck shall not be entitled to vote on any matters coming before the Board of Directors, it is the desire of the Board of Directors that Mr. Burck attend all Board meetings and participate fully in all discussions and briefings incident to such meetings; and be it

FINALLY RESOLVED, that Mr. Burck shall not be entitled to receive any fees or compensation for his service as an Advisory Director to the Corporation, other than reimbursement for expenses incurred in attending Board meetings.

Statement of Appreciation

Mr. Riter acknowledged Mr. Burck's many contributions made during his membership as a board member of the Corporation. Mrs. Clements then read the following Resolution of Appreciation honoring Mr. Burck, which resolution, upon motion duly made and seconded, was unanimously adopted:

WHEREAS, R. D. (Dan) Burck graduated from The University of Texas at Austin in 1956, and then embarked upon a highly successful and distinguished career in private business spanning over 32 years, which included working for Getty Oil Co. from 1955 to 1984, where he was eventually responsible for managing the company's worldwide holdings; being involved in the creation and early operation of ESPN, the cable TV sports network, for which he served as a vice president and director from 1984 to 1988; and working as president and director of Block Watne Texas, Inc., a builder of residential housing; and

WHEREAS, as a result of his vast business experience and extraordinary talent, Mr. Burck was recruited to return to his *alma mater* in 1988 to serve as Vice Chancellor for Business Affairs of The University of Texas System and in 1992 was named Executive Vice Chancellor for Business Affairs of the UT System; and

WHEREAS, in recognition of their confidence in and respect for him, the Board of Regents of the UT System appointed Mr. Burck as Interim Chancellor of the UT System in June 2000 and then unanimously elected him as the eighth Chancellor of the UT System on December 6, 2000; and

WHEREAS, during his tenure with the UT System, Mr. Burck championed increased effectiveness and efficiency in operations, including many cost-savings and cost-avoidance initiatives; instituted a comprehensive compliance program; modernized the UT System's stewardship of its West Texas lands; completed a campus master planning program; and established a program for increasing purchases from historically under-utilized businesses; and

WHEREAS, building on Mr. Burck's leadership in business affairs, in June 2000 the UT System achieved the only triple-A rating from all three bond rating agencies to be given to a university system; and

WHEREAS, by virtue of his position as Chancellor of the UT System, Mr. Burck also served as a Director of The University of Texas Investment Management Company, providing outstanding leadership, counsel and guidance to UTIMCO by drawing upon his private business experience as well as the knowledge and insight gained during his tenure with the UT System; and

WHEREAS, although Mr. Burck has resigned from his position as Chancellor of the UT System, he has agreed to serve as a Special Advisor to the Board of Regents and new Chancellor of the UT System and has also agreed, at the unanimous request of the Directors of UTIMCO, to serve an additional term as the first Advisory Director of UTIMCO; **NOW, THEREFORE**

BE IT RESOLVED, that the Directors of The University of Texas Investment Management Company, on behalf of the grateful people of the State of Texas, particularly the Boards of Regents and Administrators of The University of Texas System and The Texas A&M University System, do hereby express to Mr. Burck their sincerest appreciation for his vision, leadership and service that have contributed to UTIMCO's past successes and their gratitude for his continued service as the first Advisory Director of UTIMCO; and

BE IT FURTHER RESOLVED, that all persons who read this Resolution should know that through his service to UTIMCO, Mr. R. D (Dan) Burck has made a lasting and fundamental contribution to improve the manner in which public university endowments are invested and managed in the State of Texas, to the benefit of all of the citizens of the State, particularly the students and faculty of the UT System and the A&M System.

PASSED AND ADOPTED this 18th day of September, 2002.

During the reading of this resolution, Director John McStay joined the meeting.

Appointment of Managing Directors

Mr. Boldt announced promotions that recently had been made within the Corporation. Following this announcement, a recommendation was made to appoint managing directors for the Corporation. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the following persons are hereby appointed as Managing Directors of the Corporation, to serve until the next succeeding Annual Meeting at which officers are elected or until their resignation or removal.

Cathy Iberg, Managing Director - Marketable Alternative Investments and Deputy Chief Investment Officer

Sara McMahon, Co-Managing Director – Non-Marketable Alternative Investments

Trey Thompson, Co-Managing Director – Non-Marketable Alternative Investments

Joan Moeller, Managing Director – Accounting, Finance and Administration

Bill Edwards, Managing Director– Information Technology Services

Approval of Inverness Partners II LP

Mr. Thompson presented to the Board a proposal for an additional investment in Inverness Partners II LP, and answered their questions. Upon motion duly made and seconded, the following resolution was unanimously adopted:

WHEREAS, the Board has reviewed Investment Recommendations prepared by the Corporation and the Corporation's private equity advisor, Cambridge Associates LLC, recommending that the Corporation invest with Inverness Management LLC up to an additional \$15 million of Permanent University Fund (PUF) and General Endowment Fund (GEF) assets in **Inverness Partners II LP** (the "Investment"); and

WHEREAS, the Corporation has determined that the Investment 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 Recommendations dated July 16, 2002 and June 24, 2002, for **Inverness Partners II LP** be approved; and be it further

RESOLVED, that the President and CEO, and any Managing Director of this Corporation be, and each of them hereby is, authorized to make such further revisions to the terms and provisions of the proposed investment as may be necessary or in the best interests of this Corporation, excluding an increase in the amount of the capital commitment to **Inverness Partners II LP**; and be it further

RESOLVED, that the President and CEO, any Managing Director, 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 Investment), 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 Investment and the instruments referred to therein.

Compensation Committee

Mr. King reported that the Compensation Committee took no action regarding compensation issues.

Asset Allocation Review

At this time, Mr. Riter turned the meeting over to Mr. Boldt to discuss asset allocation and proposed changes to the investment policy statements. Mr. Boldt reviewed the Corporation's current portfolio structure, risk and return assumptions and factors affecting allocation decisions. Mr. Boldt presented the proposed new asset allocation structure and then answered the Directors' questions. During the discussion, Mr. Mays left the meeting. In response to questions raised, Mr. Boldt assured the Board that the staff will not make substantial moves within the target allocations without reporting such to the Board. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the amendments to the Investment Policy Statements for the Permanent University Fund and the General Endowment Fund as presented be and are hereby approved; and

BE IT FURTHER RESOLVED, that the amended Investment Policy Statements be recommended for approval at the U. T. Board of Regents meeting on November 12-13, 2002.

Sarbanes-Oxley Act of 2002

Mr. Riter asked Mr. Turner to introduce Paul S. Maco of Vinson & Elkins to the Board. Mr. Maco gave a presentation entitled "Sarbanes-Oxley Act of 2002 – Congress and the SEC Create a New Corporate Order." The Sarbanes-Oxley Act was signed by the President in July 2002. Auditor conduct and regulation,

corporate responsibility, enhanced financial disclosure, tougher SEC rules and heightened accountability were all discussed in the presentation on the Act. Mr. Maco answered questions from the Board, and then left the meeting.

Fund Performance and Asset Allocation Review

Mr. Boldt reported on the performance of the assets under the Corporation's management for the periods ended July 31, 2002. The net performance for the three-month period ended July 31, 2002, for the PUF and the GEF were -8.72%, and -9.05%, respectively. The net performance for fiscal year-to-date ended July 31, 2002, for the PUF and GEF were -7.66% and -7.32%, respectively. The Short Intermediate Term Fund's (SITF) performance was 0.92% versus benchmark return of 2.49% for the three-month period ended July 31, 2002. Performance for the Short Term Fund (STF) was 0.48% versus 0.48% for its benchmark for the three-month period ended July 31, 2002. Also reviewed were the PUF's and the GEF's performance attribution for the three-month and fiscal year-to-date periods ended July 31, 2002, and investment manager history performance summary as of July 31, 2002. After the report, Mr. Boldt answered the Director's questions.

UTIMCO Disclosure Policy

The next item brought forth to the board was the issue of disclosure of investment information UTIMCO holds on behalf of the UT Board, most notably in the private equity area. Mr. Boldt stated that in private investments, the standard today is to limit disclosure. Mr. Boldt also stated that UTIMCO can be a leader in the area of disclosure, but the Board must realize that with full disclosure, there may be a price to pay in the future with significant decreases in the private equity returns.

Mr. Riter asked Mr. Hunt to review the issue. Mr. Hunt made the following remarks: UTIMCO was established in 1995 to be a model for public funds money management in the State of Texas because the UT Board of Regents understood that the real untold story is the lost billions of dollars in potential Texas public funds that don't exist today because of historic, non-competitive, bottom-quartile investment performance; that UTIMCO's goal is to be a top-quartile performer on a national basis -- to be competitive with the best. And in line with that philosophy, the Board spent a year finding and bringing back to Texas a very talented money manager, Bob Boldt, to lead UTIMCO to the top quartile.

To be a leader, a model for others, performance is essential, but that is not the only requirement. For example, today UTIMCO has a code of conduct for Board and staff that is the strongest in the State -- more restrictive than the codes governing the UT System or the State of Texas. The Board imposed this code on itself three years ago when its conduct was questioned, because the Board understood the requirements of leadership.

Disclosure of private equity investment information, in Mr. Hunt's view, is a leadership challenge for both the Board and staff. It is not a legal issue. UTIMCO is and has been in full compliance with state disclosure requirements. Standard operating procedure (the norm) on a national basis for both private and public investment dollars is *not* to disclose this data. There is concern that a full disclosure policy, particularly of performance data, will prevent UTIMCO from accessing top-quartile funds, thus hindering the goal of being a top-quartile performer.

Investment constraints, the classic one being what percent you invest in fixed income versus equity, can impede investment performance.

However, Mr. Hunt observed that, if UTIMCO wants to be a leader in a post-Enron world with ever-increasing standards of disclosure and transparency for both private and public organizations, it must move to a higher level of disclosure, one greater than that required by state law. The impact this might have on UTIMCO's entrance into top-quartile, private equity partnerships should be viewed, in Mr. Hunt's judgment, as a potential constraint, one that the staff, the Board and a changing investment environment will be able to mitigate over time. Being a leader rather than a follower is not always easy, and changing disclosure policy is not easy, but Mr. Hunt stated that he was confident that full and fair disclosure is the correct leadership response by the UTIMCO Board at this time, and he sought approval of the following resolution. After Mr. Hunt's comments, Mr. Yudof expressed his support for disclosure. Mr. Turner then reviewed each paragraph of the resolution. In response to questions from various Directors regarding the confidentiality covenants contained in various partnership agreements for investments managed by UTIMCO as agent for the UT Board, Mr. Turner pointed out that the resolution directs the staff to review each such agreement to determine whether waivers would be required and that the staff should follow a procedure affording any objecting general partner or equivalent counterparty an opportunity to seek to protect the disclosure of information if it believed disclosure would cause it substantial competitive harm. It was pointed out that if the resolution was adopted, the staff would no longer seek to protect against the disclosure of the four items of private investment information described in the resolution on the basis that UTIMCO's investment activities might suffer competitive harm as a result of disclosure. Mr. King stated that the UTIMCO Board has a fiduciary obligation to the UT Board to manage funds in a prudent and professional way consistent with the UT Board's policy objectives. Accordingly, Mr. King asked whether the UT Board was aware of the resolution and in agreement with its terms and understood the concerns that Mr. Boldt had raised regarding the potential decrease in private equity returns. Mr. Yudof and Mr. Hunt indicated that the UT Board was aware of the matter and was in agreement with the resolution. Further it was stated that the UT Board would vote on approving the disclosure policy set forth in the resolution at its September 21, 2002 meeting. After much discussion, upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the Corporation is committed to a policy of full and fair disclosure to the public with respect to its private investments; and

RESOLVED, that, without limiting its commitment described above, the Corporation shall immediately take the steps outlined below to enable it to disclose to the public the following information ("private investment information") with respect to its private investments: the name and purpose of each private investment entity; the names of the individual principals managing such private investment; the amount invested by the Corporation in such private investment; and the investment returns for such private investment; and

RESOLVED, that the Corporation's staff and counsel shall review each existing private investment contract to determine whether waivers are required from the general partner or equivalent counterparty in order for the Corporation to disclose to the public such private investment information; and

RESOLVED, that where such waivers are not required, the Corporation shall disclose to the public the private investment information; and

RESOLVED, that where such waivers are required, the Corporation shall take all steps necessary in order to obtain such waivers from the appropriate private investment general partner or equivalent counterparty; and

RESOLVED, that upon receipt of a request for disclosure of private investment information relating to an investment managed by a general partner or equivalent counterparty who has refused to provide such waiver, the Corporation shall seek an Attorney General's decision as to whether the disclosure would cause substantial competitive harm to the general partner or equivalent counterparty or other investors in the private investment and, therefore, may not be disclosed as a matter of law; and

RESOLVED, that in any instance when such an Attorney General's decision is sought, the Corporation shall not take a position in support of withholding the private investment information, rather the Corporation shall notify the appropriate private investment general partner or equivalent counterparty of the request for an Attorney General's decision; and

RESOLVED, that no private investment shall be made with any entity in the future unless the Corporation has clear and unequivocal authority to disclose to the public the private investment information relating to such investment.

Duties and Responsibilities of UTIMCO Director

Mr. Riter asked Mr. Turner to lead a discussion relating to the duties and responsibilities of a UTIMCO Director, as requested by Mr. McStay. Mr. Turner stated that Directors on the Board owe the Corporation the Duties of Care, Loyalty and Obedience, which requires them to act with diligence and prudence, avoid conflicts of interest and act within the scope of their authority. He also reviewed the various provisions of laws and Board policies with which the Board must comply and noted that all Directors have the same responsibilities.

Satellite Asset Management

The next item was an introduction by Ms. Iberg of Mr. Brian S. Kriftcher and Mr. Lief D. Rosenblatt of Satellite Asset Management (Satellite). Mr. Kriftcher and Mr. Rosenblatt gave a presentation to the Board summarizing their company's merger arbitrage/distressed debt portfolio mandate and a history of Satellite's relationship with the Corporation. Also discussed was the Corporation's holdings of WorldCom bonds through Satellite and Satellite's outlook regarding the WorldCom investments. Mr. Kriftcher and Mr. Rosenblatt answered the Directors' questions and then left the meeting.

There being no further business to come before the Board of Directors, the meeting was adjourned at approximately at 3:58 p.m.

Secretary: Cathy Iberg
Cathy A. Iberg

Approved: A. W. Riter, Jr.
A. W. "Dub" Riter, Jr.
Chairman, Board of Directors of
The University of Texas Investment
Management Company

Date: 9-18-02