

**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 9:40 a.m. on the **12th day of September 2003**, at the offices of the Corporation, Town Lake Conference Room, 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.

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

Woody L. Hunt, Chairman  
J. Luther King, Jr., Vice-Chairman  
Mark G. Yudof, Vice-Chairman for Policy  
Susan M. Byrne  
Rita C. Clements  
J. Philip Ferguson  
I. Craig Hester  
James R. Huffines

thus, constituting a majority and quorum of the Board. Director R. H. (Steve) Stevens, Jr. was 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; Larry Goldsmith, Managing Director - Public Markets Investments; Andrea Reed, Risk Manager; Sara McMahon and Trey Thompson, Managing Directors – Non-Marketable Alternative Investments of the Corporation; Bill Edwards – Managing Director Information Technology; Greg Lee, Manager of Finance and Administration of the Corporation; Jerry Turner, legal counsel for the Corporation; and Bruce Myers of Cambridge Associates. Mr. Scott Caven, a U.T. System Regent; Messrs. Michael Warden, Charlie Chaffin, and Jerry Modjeski of U. T. System; and Mr. Michael Sebastian of EnnisKnupp also attended the meeting. Mr. Hunt called the meeting to order at 9:40 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 meetings of the Board of Directors held on June 26, 2003 and July 21, 2003. 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  
**June 26, 2003 and July 21, 2003** be, and are hereby, approved.

## **Approval of Non-Marketable Alternative Investment**

Mr. Hunt asked Mr. Thompson to present to the Board an Investment Proposal for investment in MatlinPatterson Global Opportunities Partners II, L.P. After discussion, upon motion duly made and seconded, the following resolution was unanimously adopted:

WHEREAS, the Board has reviewed the Corporation's Investment Recommendation to use PUF and GEF assets to acquire \$30 million in limited partnership interests (the "Investment") in MatlinPatterson Global Opportunities Partners II L.P.; 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 Memorandum dated August 8, 2003 for MatlinPatterson Global Opportunities Partners II, L.P. 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 as may be necessary or in the best interests of this Corporation, excluding an increase in the amount of the capital commitment to MatlinPatterson Global Opportunities Partners II L.P.; 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.

## **Fund Performance and Asset Allocation Review**

Mr. Boldt reported on the value added and performance of the assets under the Corporation's management for the period ended July 31, 2003. The net performance for the three-month period ended July 31, 2003, for the PUF and the GEF were 7.11%, and 7.56%, respectively. The net performance for one year ended July 31, 2003, for the PUF and GEF were 9.86% and 10.81%, respectively. The Short Intermediate Term Fund's (SITF) performance was 0.10% versus benchmark return of -0.17% for the three-month period ended July 31, 2003. Performance for the Short Term Fund (STF) was 0.28% versus 0.31% for its benchmark for the three-month period ended July 31, 2003. Also reviewed was manager history performance summary as of July 31, 2003. It was requested that a liquidity report be included with other

quarterly reports to better measure and insure full transparency. Handouts with updated numbers as of August 31, 2003 were provided. Reviewed were the PUF's and the GEF's performance attribution for the fiscal year-to-date period ended August 31, 2003, and cumulative value-added in endowment funds. This was the best year for the Corporation for value added since inception. Chancellor Yudof requested additional information including Private Capital. Handouts with the requested information were provided. After the report, Mr. Boldt gave an overview of the fiscal year and answered the Directors' questions. Mr. Hunt requested that results of tactical moves in the portfolio continue to be reported to the Board.

### **Asset Allocation Study**

Mr. Hunt asked Mr. Boldt to present the next item on the agenda, asset allocation review. Mr. Boldt explained that this asset allocation review would involve the Board members more actively than in the past, and that much of the remainder of the meeting would be devoted to open discussion of assumptions and decision factors that would eventually lead up to a final asset allocation policy decision. Mr. Boldt gave a presentation on asset mix policies of other endowment funds. Mr. Boldt then asked Ms. Reed to present a reprise on Post Modern Portfolio Theory. Mr. Boldt, Ms. Reed and Mr. Myers answered the Directors' questions on the presentations. Mr. Boldt then continued with a presentation on Long Term Risk and Return Assumptions.

### **Pinto Technology Ventures**

Mr. Hunt announced that representatives of Pinto Technology Funds, L.P. had arrived. Mr. Thompson then introduced the fund strategy, and the Pinto team consisting of Mr. Robert K. Hatcher, Non-Executive Chairman of the General Partner, Mr. Matthew S. Crawford and Dr. Evan S. Melrose, Principals. The three summarized the opportunity, strategy and partnership opportunities of the Corporation and Pinto Technology Ventures, L.P. and answered the Directors' questions. Mr. Hunt thanked the three representatives from Pinto Technology Ventures, and Mr. Hatcher, Mr. Crawford and Mr. Melrose left the meeting. Mr. Boldt advised the Board that the Pinto investment was still under consideration by Corporation staff.

### **Asset Allocation Study Continued**

Mr. Hunt asked Mr. Boldt to continue the workshop on Asset Allocation Review. Mr. Boldt explained the assumption matrix, correlations matrix and revisited the topic of Potential Value Added (PVA). Mrs. Clements and Mr. Yudof left the meeting during this discussion. Mr. Boldt and Mr. Myers answered the Directors' questions. Board members accepted all staff recommendations on asset category estimated returns, risks, and correlations with the exception of fixed income. Board members Hester and Ferguson suggested the return and risk factors for fixed income be changed to 5% and 6% respectively, from 6% and 7% as recommended by staff. All other Board members concurred in this recommendation.

### **Reappointment of Advisory Director**

The next item on the agenda was the recommendation to reappoint Mr. R. D. Burck as an Advisory Director to the Corporation. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the Board of Directors hereby reappoints Mr. Burck to serve as Advisory Director to the Corporation for a term ending April 1, 2004; 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.

### **Investment Management Services Agreement**

Mr. Hunt asked Ms. Moeller to explain changes made to the Second Amended and Restated Investment Management Services Agreement (IMSA). Ms. Moeller explained that after the Directors' approved the IMSA at the June 26, 2003 meeting, the UT System Board of Regents requested additional minor changes to the agreement for clarification purposes. Mr. Turner stated that he had reviewed and agreed with the changes. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the Board of Directors ratify, confirm and approve revisions of the Investment Management Services Agreement, in the form submitted to the Board.

### **Compensation Committee Report**

Mr. King, Chairman of the Compensation Committee, reported that the Committee met prior to the Board Meeting and approved the Corporation's Officers' Base Salaries for Fiscal Year 2003-2004 (excluding the President). He also proposed that the following resolution regarding compensation for the Corporation's President be approved. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the Corporation's President's Base Salary submitted by the Compensation Committee be, and is hereby, approved.

### **Appointment of Independent Auditor**

Mr. Hunt asked Ms. Moeller to present the next item on the agenda. Ms. Moeller stated that at the Audit and Ethics Committee meeting held on September 4, 2003, members approved the appointment of Ernst & Young, LLP as the independent auditor of the Corporation subject to approval by the Board at this meeting. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the firm of Ernst & Young, LLP be, and is hereby appointed as the independent auditor of the Corporation for the year ended August 31, 2003, as submitted by the Audit and Ethics Committee.

### **Derivatives Applications**

Mr. Hunt asked Mr. Boldt to lead the discussion on derivative applications. Mr. Boldt gave an overview of the derivative applications that would enhance the Corporation's staff's ability to add value to the endowment portfolios. He then asked Mr. Goldsmith to explain the recommended international application. Mr. Goldsmith stated that the recommended derivative application would allow the Corporation's staff to inexpensively and flexibly make strategic and/or tactical position shifts to the international equity portions of the endowment portfolios. Mr. Goldsmith and Mr. Boldt answered the Directors' questions. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the International Derivatives Application be, and is hereby, approved in the form as presented to the Board.

Mr. Boldt continued discussion with a recommendation of a structured active derivatives application that would allow the Corporation's staff to create attractive alternatives to traditional active management portfolios. Mr. Boldt answered the Directors' questions. Mr. Boldt amended his recommendation to place a limit of 5% of the total endowment portfolios to be invested in structured action management applications. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the Structured Active Management Derivatives Application be, and is hereby, approved in the revised form as requested to the Board.

### **Decision Factors**

Mr. Boldt handed out the top ten Candidate Decision Factors for the Permanent University Fund and the General Endowment Fund for review and discussion. The Board discussed each factor individually. After discussion, the Board selected a final list of decision factors which will assist the Board in making the final asset allocation decision.

There being no further business to come before the Board of Directors, the meeting was adjourned at approximately 4:50 p.m.

Secretary:   
Joan Moeller

Approved:  Date: 11/20/03  
Woody L. Hunt  
Chairman, Board of Directors of  
The University of Texas Investment  
Management Company