

**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 10:05 a.m. on the **8th day of April 2004**, in 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
R. H. (Steve) Stevens, Jr.

thus, constituting a majority and quorum of the Board. Director James R. Huffines joined the meeting at the point indicated below. Also, attending the meeting were R. D. Burck, Advisory Director and John Barnhill, U. T. System Regent; 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 of Public Markets; 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; Gary Hill, Manager of Investment Reporting; Jerry Turner, legal counsel for the Corporation; Philip Aldridge, Charlie Chaffin, Sandra Neidhart, Jerry Modjeski, and Michael Warden of U. T. System Administration; Bruce Myers of Cambridge Associates; Michael Sebastian of EnnisKnupp; and Charles Szalkowski of Baker Botts. Mr. Hunt called the meeting to order at 10:05 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 January 13, 2004. 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
January 13, 2004 be, and are hereby, approved.

Public Markets Investment

Mr. Hunt turned the meeting over to Mr. Goldsmith to present a proposed Public Markets investment of up to \$100 million in the GMO Emerging Country Debt Fund. Mr. Goldsmith reported that GMO has successfully invested in the Emerging Markets Debt sub-asset category since 1994 and that the proposed investment vehicle is a ten-year old institutional mutual fund offering daily liquidity. After discussion, Mr. Goldsmith answered the Directors' questions. 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 up to a \$100 million institutional investment interest (the "Investment") in **GMO's Emerging Country Debt Fund**; 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 March 10, 2004 for **GMO's Emerging Country Debt Fund** 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 **GMO's Emerging Country Debt Fund**; 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.

Performance and Asset Allocation Reports

Mr. Hunt asked Mr. Boldt to give a report on performance and asset allocation. The reports presented reflected the proposed restatement of the Endowment Policy Portfolios or benchmarks. The latest performance information was presented. Mr. Boldt reported value added under the Corporation's management for the period ended February 29, 2004. The net performance for the one-month period ended February 29, 2004, for the PUF and the GEF were 2.49%, and 2.33%, respectively. The net

performance for one-year ended February 29, 2004, for the PUF and GEF were 31.74% and 32.56%, respectively. The Short Intermediate Term Fund's (SITF) performance was 0.50% versus benchmark return of 0.52% for the one-month period, and was 2.43% versus benchmark return of 2.26% for the one-year period ended February 29, 2004. Performance for the Short Term Fund (STF) was 0.08% versus 0.07% for its benchmark for the one-month period, and was 1.08% versus benchmark return of 1.12% for the one-year period ended February 29, 2004. A handout was distributed that presented restatement numbers, value added tactical asset allocation decisions, manager history performance summary and downside risk models. Chancellor Yudof asked that a risk chart run against VAR be included in next meeting's information.

Liquidity Profiles

Reports on PUF and GEF liquidity profiles as of February 29, 2004 were presented to the Board by Mr. Boldt. In response to questions, Mr. Boldt stated that pursuant to the Liquidity Policy, the actual profile of the funds and compliance with the liquidity policy will be reported to the Board at least on a quarterly basis. The Managing Directors will provide evidence that they concur with the liquidity classification, and the liquidity reports will now be certified by the Staff's Risk Manager and Chief Compliance Officer. The Staff will provide a report of illiquid investments that the UTIMCO Board has approved or delegated since the last report, any changes to the liquidity classification and liquidity will be included in the monthly newsletter sent out by the President.

External Investment Consultant Report

A comprehensive report on Cambridge Associates, the Corporation's external investment consultant, was provided to the Board to satisfy the annual requirement in the Delegation of Authority Policy. The report included description of services provided in the contract covering general consulting services, as well as consultant services in the Non Marketable and Marketable Alternative Investment areas.

Appointment of Officers

The next item to come before the Board was the appointment of officers for the Corporation. Mr. Hunt requested that Mr. King remain as Vice Chairman of the Board until a Director has been named to replace him. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the following persons are hereby appointed to the respective office or offices of the Corporation set forth opposite their names, to serve until the next Annual Meeting of the Corporation or until their resignation or removal.

<u>Name</u>	<u>Office or Offices</u>
Woody L. Hunt	Chairman
J. Luther King	Vice-Chairman
Mark G. Yudof	Vice-Chairman for Policy
Bob Boldt	President
Cathy Iberg	Managing Director
Bill Edwards	Managing Director

Larry Goldsmith	Managing Director
Sara McMahon	Managing Director
Joan Moeller	Managing Director, Treasurer and Secretary
Andrea Reed	Risk Manager
Trey Thompson	Managing Director
Christy Wallace	Assistant Secretary

Designation of Key Employees

The next item to come before the Board was the designation of Key Employees for the Corporation. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, as required by the Corporation's Code of Ethics the Board shall designate, by position, key employees of the Corporation.

Bob Boldt	President, Chief Executive Officer and Chief Investment Officer
Cathy Iberg	Managing Director - Marketable Alternative Investments/Deputy CIO
Bill Edwards	Managing Director - Information Technology
Larry Goldsmith	Managing Director – Public Markets Investments
Sara McMahon	Managing Director - Non-Marketable Alternative Investments
Joan Moeller	Managing Director - Accounting, Finance and Administration
Andrea Reed	Risk Manager
Trey Thompson	Managing Director - Non-Marketable Alternative Investments
Greg Cox	Portfolio Manager - Equity Investments
Russ Kampfe	Senior Portfolio Manager - Fixed Income Investments
Harland Doak	Portfolio Manager - Fixed Income Investments
Debbie Childers	Manager of Portfolio Accounting and Operations
Gary Hill	Manager of Investment Reporting
Greg Lee	Manager - Finance and Administration
Christy Wallace	Executive Assistant

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. R. D. Burck to serve as Advisory Director to the Corporation for a term ending April 1, 2005; 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. Hunt acknowledged Mr. J. Luther King's contributions made during his long tenure as a board member of the Corporation. The following Resolution of Appreciation honoring Mr. King was read, and the resolution upon motion duly made and seconded, was unanimously adopted:

WHEREAS, J. Luther King, Jr. graduated from Texas Christian University with B.S.C. and M.B.A. degrees, then embarked upon a highly successful and distinguished career in investment management, which began in 1963 as a credit analyst at First National Bank of Fort Worth, continued in 1970 as a mutual fund manager for Shareholders Management Company (which became part of American General Insurance Company), and further progressed in 1973 when Mr. King joined Lionel D. Edie & Company (a New York-based investment firm), where he eventually became a Director and Manager of the Dallas office; and

WHEREAS, in March 1979, Mr. King formed his own investment advisory firm, Luther King Capital Management, which manages approximately \$5.4 billion on behalf of employee benefit plans, corporations, foundations, endowments and high net worth individuals and is the largest employee-owned investment advisory firm in the Dallas-Fort Worth area; and

WHEREAS, as a result of his vast business experience and extraordinary talent, Mr. King was appointed by the Board of Regents of The University of Texas System to the Board of Directors of The University of Texas Investment Management Company in 1996 and was re-appointed by the Regents to serve another term on the Board of UTIMCO in 1999; and

WHEREAS, Mr. King served UTIMCO in many roles, including as Vice-Chairman of the Board, as Chairman and Member of the Board's Compensation Committee, as Chairman of the Board's Executive Officer Search Committee and as a Member of the Board's Strategic Review Committee, providing outstanding leadership and guidance to UTIMCO by drawing upon his substantial business background listed above and his additional service as a Director of numerous public and private companies and philanthropic organizations; and

WHEREAS, Mr. King's commitment and service as a Director of UTIMCO was exemplary, reflecting his deep devotion to higher education and the excellence and advancement of the investment profession, evidenced by his service as Trustee of Texas Christian University, as Chairman and Member of the Board of the Investment Counsel Association of America and as Chairman and Trustee of the Investment Advisory Committee for the Employees Retirement System of Texas; and

WHEREAS, during Mr. King's tenure on the Board, UTIMCO managed the Permanent University Fund and other investments of the UT System with the highest standards of integrity, professionalism and competency, earning wide praise and recognition from UTIMCO's investment beneficiaries, namely the UT System and The Texas A&M University System, as well as the alumni and patrons of such Systems, the State's legislative leaders, the national credit rating agencies and the capital markets and investment community generally; and

WHEREAS, much of the credit for UTIMCO's success is directly attributable to Mr. King's leadership, judgment, direction and commitment; and

WHEREAS, to the great regret of the UTIMCO Board and Staff, Mr. King's term as a member of the UTIMCO Board expired as of April 1, 2004, and, due to term limits, Mr. King is not eligible for a successive term on the Board; 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 J. Luther King, Jr. their sincerest appreciation and gratitude for his vision, leadership and service that have contributed to UTIMCO's past successes; and

BE IT FURTHER RESOLVED, that all persons who read this Resolution should know that through his outstanding service to UTIMCO, Mr. King 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.

Mr. King voiced his appreciation for the opportunity to serve on the Corporation's Board to the benefit of the U. T. and Texas A&M Systems. He has been a part of UTIMCO since inception and stated what tremendous strides and dynamic changes have been made by quality staff and dedicated Board members. He stressed that independence of UTIMCO must be kept to ensure compounding performance over the next 15-20 years. Several Directors bestowed gratitude for his service, elaborated on his many fine qualities, and stated that he had been a mentor for many in a leadership role. He has been important to the State of Texas by giving true public service as a member of the Board for so many years and will be missed. At this point, Director Huffines joined the meeting.

The U. T. System Short Intermediate Term Fund Issues

Mr. Boldt offered to answer any questions of the Board regarding the letter sent out by the Chairman of the U. T. System Board of Regents and attached report written by EnnisKnupp regarding the Short Intermediate Fund. A concern was raised that the SITF performance during 2001 and 2002 underperformed its benchmark. A discussion ensued regarding the management of the SITF following the objectives stated in the SITF Investment Policy Statement. The Board directed the Corporation's Staff to work with EnnisKnupp and Mr. Aldridge to clarify ambiguous language in the SITF Policy Statement.

CORE Fund Strategy

Mr. Hunt asked Mr. Boldt to begin discussion of the CORE Fund Strategy. The presentation included research completed by Staff on new investment options for System operating funds currently invested in the Short Term Fund, the Short Intermediate Term Fund, the Bond Index Fund, and the Equity Index Fund. Mr. Boldt presented projected gains from implementing the new Funds, discussed transition and strategic issues with the new alternatives, presented advantages and disadvantages and answered the Directors' questions.

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

The Board of the Corporation reconvened in an open meeting at 1:20 p.m.

Working Group Report

Mr. Hunt deferred to Mr. Szalkowski of Baker Botts to update the Board of the progress of the Working Group. The Working Group was authorized by the UT System Board of Regents on December 19, 2003 and appointed on February 4, 2004 to review investment operations of UTIMCO. Mr. Szalkowski stated that the Group had met several times and were reviewing information compiled from several requests. The Group would prepare a written report to be provided to the UT System Board of Regents in time for the special called Board of Regents meeting to be held on April 29, 2004. He and Mr. Aldridge answered the Directors' questions. Mr. Szalkowski stated that two members of the Working Group had resigned, Professors Stark and Brown, because of "time commitments". In response to a question from Director Stevens regarding the participation of Greg Anderson as the Texas A&M representative on the Working Group, Mr. Aldridge stated that Mr. Anderson had been regularly updated on discussions with the Working Group. Several Directors expressed concern that no Board members had been contacted by the Working Group, and Director Huffines encouraged the Working Group to meet with all members of the UTIMCO Board prior to completing their report.

CORE Fund Strategy cont.

Mr. Hunt asked Mr. Boldt to continue with information regarding the new creative, substitute strategy for investing the System operating funds. Technical and transitional issues were discussed. At this point, Director Huffines left the meeting. An advisory committee of Chief Business Officers of the components was suggested to provide insight from the institutional level. Although no action was necessary, the Board encouraged Mr. Boldt and his staff to proceed with contacting and educating the Chief Business Officers with the new options and prepare a final report for the Board. Directors Yudof and Byrne left the meeting during the discussion.

PUF Distribution Amount and PHF and LTF Payout Rates

Mr. Hunt asked Ms. Moeller to present to the Board the Staff's recommendation of the Permanent University Fund distribution amount and the Permanent Health Fund and the Long Term Fund payout rates or the fiscal year ending August 31, 2005. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the annual distribution amount for the Permanent University Fund be decreased from \$348,033,578 to \$341,174,270, for fiscal year 2005, effective with the September 1, 2004 distribution and the distribution rate for the Long Term Fund be increased from \$0.2645 per unit to \$0.2697 per unit, and the Permanent Health Fund remain at current payout rate of \$.047 per unit for fiscal year 2005, effective with the November 30, 2004 distributions.

BE IT FURTHER RESOLVED, that the annual distribution amount for the Permanent University Fund and the distribution rates for the Long Term Fund and Permanent Health Fund be approved and adopted by this Corporation's Board of Directors, subject to approval by The University of Texas System Board of Regents.

Restatement of Historical Endowment Policy Portfolio Return

Mr. Hunt asked Ms. Moeller to continue with presenting the detailed analysis of the proposed restatement of the Endowment Policy Portfolio (EPP). Ms. Moeller reported that the Staff completed a thorough review of the asset class weights and benchmarks used in the establishment of the EPP's and worked to resolve technical benchmark issues to result in more accurate performance comparisons in the future. Also discussed was the new asset allocation approved in December 2003, and its phase-in process.

Liquidity Committee Report

Mr. Hunt asked Mr. Hester, Chairman of the Liquidity Committee to report on the meeting of the Liquidity Committee. Mr. Hester reported that the committee had held its first meeting on March 23, 2004. The Committee agreed to meet at least quarterly, and more often should the need arise due to changes within the liquidity percentage ranges, to review the certified report of illiquid investments since the last report, any changes to the liquidity classification, and current liquidity state. A Charter of the Liquidity Committee was presented to the Committee and approved. The Charter had been reviewed by Cambridge Associates, EnnisKnupp and Vinson and Elkins. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the Charter of the Liquidity Committee be and is hereby approved in the form submitted to the Board.

Audit and Ethics Committee Report

Mr. Stevens, Chairman of the Audit and Ethics Committee, reported that the Committee met prior to the Board meeting and approved that the firm of Ernst & Young, LLP be appointed as the independent auditor of the Corporation for the year ended August 31, 2004. 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, 2004, as submitted by the Audit and Ethics Committee be, and is hereby, approved.

Aug-03-2004 01:44pm From-HUNT BUILDING CORPORATION

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Mr. Hunt thanked both Mr. Hester and Mr. Stevens for their leadership roles on the Committees.

There being no further business to come before the Board of Directors, the meeting was adjourned at approximately 3:30 p.m.

Secretary: Joan Moeller
Joan Moeller

Approved: Woody L. Hunt Date: 8/4/04
Woody L. Hunt
Chairman, Board of Directors of
The University of Texas Investment
Management Company