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The University of Texas Investment Management Company

UTIMCO

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

Presentation Materials Board of Directors Meeting

June 26, 2001

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UTIMCO
BOARD OF DIRECTORS MEETING

The Tower Club, Thanksgiving Tower - 48th Floor,
1601 Elm Street, Dallas, Texas

June 26, 2001

AGENDA

10:00 a.m. – 11:10 a.m.	**Briefing Session for Alternative Equities - Nonmarketable** - Update on Partnership Program: Cathy Iberg - Update on Direct Investments: Cathy Iberg - Commitment Budget (7/1/01 – 6/30/02): Cambridge Associates-Astrid Noltemy, Jennifer Urdan
11:10 a.m. - 11:20 a.m.	**Call to Order** **Recognition of New Director** **(1)* **Approval of Alternative Equities - Nonmarketable Commitment Budget (7/1/01 – 6/30/02)*** *(2)* **Approval of Minutes of April 24, 2001 and May 30, 2001 Meetings***(3)*
11:20 a.m. – 11:30 a.m.	**Performance/Activity Update**
11:30 a.m. - 12:15 p.m.	**Manager Presentation: Capital Guardian Trust Company -** George L. Romine, Jr., David I. Fisher and Tracey Campbell - Large Cap International EAFE - Small Cap International - Emerging Markets
12:15 p.m. - 1:00 p.m.	**[Lunch Break]** **Legislative Review** **Designation of Key Employees by the Board***(4)*
1:00 p.m. - 1:30 p.m.	**Report of Audit and Ethics Committee:** Dub Riter **Approval of UTIMCO Fee Request (9/1/01 – 8/31/02)***(5)* **Approval of Independent Auditors for August 31, 2001***(6)*
1:30 p.m. - 2:00 p.m.	**Report of Search Committee**
2:00 p.m.	**Adjournment**

* Action by resolution required

Next Scheduled Meeting: Thursday, August 23, 2001

UPDATE ON
PARTNERSHIP PROGRAM

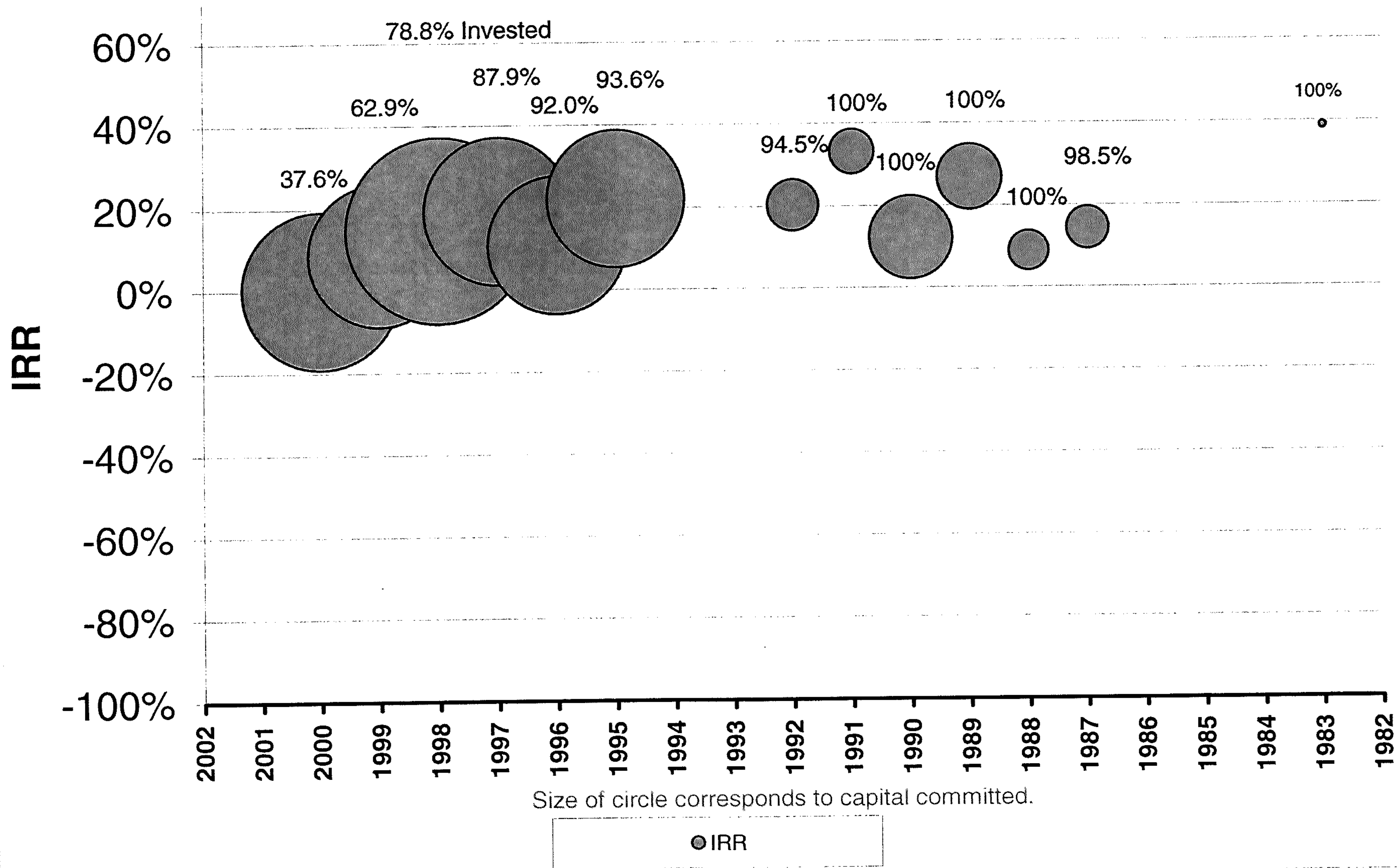
ALTERNATIVE EQUITIES NONMARKETABLE PROGRAM

($ Millions)	Inception to 05/31/01
Committed Capital[1]	
Beginning Balance	0.0
Added[2]	2,633.2
Drawndown	(1,877.1)
Ending Undrawn Balance	756.1
Invested Capital[1]	
Beginning Value	0.0
Drawndown	1,877.1
Return of Capital	(438.2)
Income/Net Realized Gains	(897.0)
Undistributed Capital	541.9
Value of Portfolio[1]	1,534.9
Value of Distributed Stocks	16.2
Total Value of Portfolio	1,551.1
PUF/GEF Asset Base ($ millions)	11,612
% PUF/GEF Asset Base (combined)	13.4%
ANNUALIZED IRR[1]	18.15%
ANNUALIZED IRR (Including Distributed Stocks)	17.25%

1 - Excluding Distributed Stocks

2 - Adjusted for commitments on investments that have been paid out and not fully funded.

Alternative Equities - Nonmarketable Program
Annualized IRR by Vintage Fiscal Year
As of May 31, 2001



UTIMCO
ALTERNATIVE EQUITIES - NONMARKETABLE
CURRENT PROGRAM
As of May 31, 2001
(In $ Millions)

	Value of Investment		
	PUF	GEF	Total
Alternative Equities - Nonmarketable	1,131.3	403.6	1,534.9
Total Fund	7,749.6	3,862.2	11,611.8
% Exposure PE	14.60%	10.45%	13.22%

Asset Class	Value of Investment	% of Total Alternative Assets	Outstanding Commitments	Total Exposure	% Total Exposure
Direct Investments	114.4	7.45%	17.8	132.2	5.8%
Mezzanine	119.3	7.77%	31.2	150.5	6.6%
Non US Private Equities	115.2	7.51%	79.7	194.9	8.5%
Oil & Gas	0.9	0.06%	23.5	24.4	1.0%
Opportunistic	61.7	4.02%	22.5	84.2	3.7%
US Private Equities	725.7	47.28%	392.0	1,117.7	48.8%
US Venture Capital	397.7	25.91%	189.4	587.1	25.6%
Total	1,534.9	100.00%	756.1	2,291.0	100.0%

UTIMCO
ALTERNATIVE EQUITES - NONMARKETABLE
COMMITMENT ACTIVITY

July 1, 2000 - May 31, 2001

Date	Commitment Activity	VC-U.S.	PE-U.S.	Non U.S.	Opp.	Total
	7/1/00-6/30/01 Commitment Budget	**200**	**170**	**75**	**25**	**470**
	Committed and Closed					
1/23/01	Austin Ventures VIII,	-30				**-30**
1/23/01	American Securities Partners III,		-30			**-30**
2/22/01	*Advanced Technology Ventures VII*	-25				**-25**
2/22/01	*CSFB Global Opportunities Fund*				-25	**-25**
2/22/01	*Lighthouse Capital Partners IV*	-20				**-20**
3/27/01	*Atlas Venture Fund VI*			-25		**-25**
4/10/01	Prism Venture Partners IV	-25				**-25**
04/30/01	Ampersand V	-25				**-25**
05/01/01	*Foundation IV*	-20				**-20**
	Total	**-145**	**-30**	**-25**	**-25**	**-225**
	Committed and Not Closed					
6/1/01	Morgenthaler VII	-25				-25
6/30/01	*Parthenon Capital II*		-25			-25
	Total	**-25**	**-25**	**0**	**0**	**-50**
	Total Commitments To-Date	**-170**	**-55**	**-25**	**-25**	**-275**
	Available Capital	**30**	**115**	**50**	**0**	**195**

Note: Funds which represent a new relationship are listed in italics

UTIMCO
ALTERNATIVE EQUITIES - NONMARKETABLE
REPRESENTATIVE NEAR-TERM FORWARD CALENDAR
(CURRENTLY IN PROCESS)

June 2001

Managers	**Focus**
Venture Capital	
Polaris Venture Partners	Early Information Technology/Healthcare
Prospect Ventures	Diversified/Healthcare
Warburg Pincus	U.S./Non U.S.
Private Equity	
Blackstone Capital Partners	Buyouts
Evercore Capital Partners	Buyouts
Non-U.S. Private Equity	
Candover	European Buyouts
Cinven	European Buyouts
Opportunistic	
Goldman Sachs	Secondaries
Lexington Partners	Secondaries
Oaktree Capital Partners	Distressed
Paul Capital Partners	Secondaries
Pomona Capital	Secondaries

Note: Funds that would represent a new relationship are listed in italics

UPDATE ON DIRECT INVESTMENTS

Alternative Equities - Nonmarketable
Summary of Direct Investments ($ in millions)
5/31/01

Investment Entity/Company Name	Business	Calendar Year of Initial Commitment (Vintage Year)	Total Capital Contributed	Total Amount Distributed	Valuation at 5/31/01	Internal Rate of Return (IRR)	Current Outlook	Major Risk Factor	Additional Comments
Newfield Exploration Company	Oil and Gas Exploration	1989	$ 11.0	$ 37.8	$ 45.8	31.3%	Excellent	Further degradation in public stock price	Need to determine plan for disposition
Goldston Oil Co.	Overriding Royalty Interest	1990	$ 6.4	$ 15.8	$ 18.1	22.2%	Good	Oil and Gas Price Volatility	Need to determine plan for disposition, if any
Wand/Acordia	Insurance Brokerage	1997	$ 10.0	$ 29.4	$ -	33.6%	N/A	N/A	Liquidated May 2001, small $ held in reserve for expenses
Oakbay (Varel International)	Drill Bit Manufacturer for Mining and Oil and Gas Drilling	1998	$ 18.7	$ 1.8	$ 18.7	4.0%	Fair/Good	Appropriate Exit Opportunity	Interest on investor unsecured notes has been suspended until 2002
HDA Partners / A/B Investment Partners (FleetPride)	Independent Heavy Duty (Trucks and Off Road) Parts Distributor	1998	$ 20.5	$ -	$ 12.7	-26.6%	Fair	Further decline in business fundamentals	Will continue to track company and industry fundamentals; exit likely upon industry recovery
Terastor	Disk Storage	1999	$ 20.1	$ 8.6	$ -	-41.7%	N/A	N/A	Investment written off fiscal year 2000, received $8.6 in 2001, no further recovery is expected
Songbird	Manufactures and Distributes Disposable Hearing Aids	2000	$ 16.0	$ -	$ 19.0	16.5%	Poor	Financing	Must prove business model, path to profit, need additional cash in September 2001
Total Program			**$ 102.7**	**$ 93.4**	**$ 114.4**	**24.2%**			

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Direct Investment Review
UTIMCO Board of Directors Meeting
June 26, 2001

Newfield Exploration Company

Business:	Oil and Gas Exploration
Location:	Houston, TX
% Ownership:	2.94%

UTIMCO Investments

Date of Financing	Fund	Description	Total Capital Contributed	Total Capital Distributed	Valuation As of 5/31/01	IRR As of 5/31/01
4/20/89 & 4/20/90	PUF	Common Stock	$ 6.0 MM	$25.9 MM	$34.0 MM	31.37%
3/26/90	PUF	Debentures	$ 3.0 MM	$ 3.0 MM	$ 0.0 MM	16.09%
4/20/89 & 4/20/90	GEF	Common Stock	$ 2.0 MM	$ 8.9 MM	$11.8 MM	31.22%
Total			**$11.0 MM**	**$37.8 MM**	**$45.8 MM**	**31.28%**

Investment Outlook: Excellent

Investment Highlights

- *Strong financial performance.* Newfield has consistently generated strong revenues and cash flow through the development of a significant reserve base since its inception in 1988. The Company has maintained a modest leverage profile and low interest requirements over this time period. This has allowed the Company to absorb the price volatility inherent in the industry and continue with its growth plan.
- *Successful realizations-to-date.* Through a maturation of debentures and interest in 1990 ($3.03 million) and a realization of capital gains in 1996 ($31.8 million) and 1999 ($6.0 million), the UT System endowment funds have achieved a 3.44x realized cash-on-cash return on the Newfield investment.
- *Significant potential upside.* In addition to the gains realized-to-date, there is significant remaining value in the Newfield investment. As of May 31, 2001, the investment was valued at $45.8 million ($35.18/share). The near-term outlook on Newfield's market value is positive. As of June 12, 2001, the average 12-month price target was $48/share, which represents a 36% increase over the May 31st stock price.
- *Clear road to disposition.* UTIMCO has not actively pursued the disposition of the endowment funds' remaining Newfield holdings as a result of Tom Ricks' presence on the Newfield board. In light of Tom Ricks' departure from UTIMCO, the investment staff will establish a plan of disposition of all or a part of the remaining Newfield stock. This plan will be made in the context of UTIMCO's Guidelines for Liquidation of Distributed Securities. In addition, no action will be taken until a determination is made that such a disposition would be appropriate and that UTIMCO is not in possession of material nonpublic information.

Summary Income Statement

(000's)	FYE 12/31/98	FYE 12/31/99	FYE 12/31/00	-Three Mo. Ended – 3/31/01
Revenues	$199,474	$287,889	$526,642	$209,326
Gross Profit[(A)]	160,340	234,191	444,998	180,122
Gross Margin	*80.4%*	*81.4%*	*84.5%*	*86.1%*
EBITDA[(A)]	148,270	217,787	412,914	168,837
EBITDA Margin	*74.3%*	*75.7%*	*78.4%*	*80.7%*
EBIT[(A)]	25,123	65,143	221,732	107,691
EBIT Margin	*12.6%*	*22.63%*	*42.1%*	*51.5%*
Net Income[(A)]	47,256	33,204	135,212	63,145
Net Margin	*23.7%*	*11.5%*	*25.7%*	*30.2%*

Note A: Newfield's Gross Profit, EBITDA and Net Income excludes extraordinary items. Significant items excluded were a ceiling test write-down expense of $503 thousand in 2000 and $105 million in 1998, in addition to a $2.4 million charge associated with a change in accounting principle in 2000.

Summary Balance Sheet

(000's)	- FYE - 12/31/98	- FYE - 12/31/99	- FYE - 12/31/00	- As of - 3/31/01
Current Assets	$45,269	$125,929	$179,149	$212,398
Total Assets	629,311	781,561	1,023,250	1,545,169
Current Liabilities	54,075	90,727	141,060	230,970
Senior Debt	208,650	124,679	133,711	349,599
Total Debt	208,650	124,679	133,711	349,599
Total Liabilities	251,288	172,066	218,985	550,975
Shareholders Equity	323,948	375,018	519,455	619,474
Market Capitalization	$843,955	$1,116,411	$2,021,191	$1,558,878

Ratio Analysis

	- FYE - 12/31/98	- FYE - 12/31/99	- FYE - 12/31/00	- As of - 3/31/01[(A)]
Revenue Growth	0.04%	44.3%	82.9%	21.2%
Total Debt/EBITDA	1.41x	0.57x	0.32x	0.69x
Total Debt / Capitalization	39.2%	25.0%	20.5%	36.1%

Note A: Revenue growth and Long Term Debt-to-EBITDA statistics for 3/31/2001 reflect last-twelve-month revenues and EBITDA of $638.1 million and $509.6 million, respectively.

Business Summary

Newfield Exploration Company is an independent oil and gas company engaged in the exploration, development and acquisition of crude oil and natural gas properties. The Company's areas of operation include the Gulf of Mexico, U.S. onshore Gulf Coast, offshore northwest Australia, Bohai Bay, offshore China, and, through the recent acquisition of Lariat Petroleum, the Anadarko Basin of Oklahoma. At year-end 2000, the Company had proved reserves of 687 Bcfe (billion cubic feet equivalent) comprised of 520 Bcf (billion cubic feet) of natural gas and 28 MMBbls (million barrels) of oil and condensate.

Newfield has eight company-operated rigs running in the Gulf of Mexico (including workovers and recompletions), three operated rigs running onshore along the U.S. Gulf Coast, seven in the Anadarko Basin of Oklahoma and one in West Texas. In addition, 10 outside-operated rigs are active: two in the Gulf of Mexico, one onshore U.S. Gulf Coast, six in the Anadarko Basin and one in Bohai Bay, China.

Investment Description

Joe B. Foster, former Chairman of Tenneco Oil Company, founded Newfield in 1988. The Company was capitalized with a $9 million investment from a group led by Charles Duncan, the UT System endowment funds ($3 million) and the founding employees. In April 1990, a second private placement added $37 million to Newfield's capital. Investors included Yale and Duke Universities, Dartmouth College and Warburg, Pincus Investors, LP. The UT System endowment funds participated in this round of financing with an $8 million investment.

As part of the terms of its investment, the UT System endowment funds received the right to nominate one director to the Newfield Board provided it owned at least 10% of Newfield. This right expired in 1995 when the endowment funds' ownership declined below 10% (today, the fully diluted ownership is 2.94%). From 1989 through 1991, Michael Patrick represented the University on Newfield's Board. From 1992 - 1995, Tom Ricks served on the Newfield Board on behalf of the UT System endowment funds. Upon expiration of the endowment funds' Board rights in 1995, Tom Ricks was elected by the Newfield shareholders to remain on the Board to serve in an individual capacity, not on behalf of the UT System endowment funds.

Business Outlook

Since inception in 1988/1989, Newfield has grown its proved reserves both through exploration and acquisition. Newfield's focus of operations has historically been the Gulf of Mexico and onshore Gulf Coast, but recent acquisitions have broadened the Company's focus to the Anadarko Basin, and to a lesser degree, internationally (China/Australia). The Gulf of Mexico will still remain the Company's primary focus (representing approximately 80% of Newfield's total production in 2000). Newfield is still very active in this region, with 29 successful wells drilled in 2000 (81% success rate).

The Company's recent expansion into the Anadarko Basin and international regions will serve to supplement Newfield's GOM/Gulf Coast operations while at the same time provide excellent upside potential. In January 2001, Newfield acquired Lariat Petroleum for $333 million (representing the Company's largest acquisition ever) and thus established a new focus area in the Anadarko Basin of Oklahoma. Through Lariat, the Company acquired 256 Bcfe of proved reserves (90% located in the Anadarko Basin). Newfield now owns an interest in over 1,350 producing wells, over 1.3 million gross acres and over 100,000 mineral acres in the Anadarko region.

Newfield's first international venture was in 1997 when the Company acquired Huffco International. Newfield received a 35% interest in a production-sharing contract (PSC) in the Bohai Bay, offshore China. In 2000, Newfield reported its first international discovery with two successful wells in Bohai Bay. In July 1999, the Company entered Australia after acquiring the Timor Sea assets of Gulf Australia Resources Limited. Newfield now owns and operates a 50% interest in two producing oil fields and six Exploration Permits covering approximately 2.5 million acres in Australia's Timor Sea. Since the time of acquisition, Newfield has drilled two unsuccessful infill wells and three exploratory dry holes. Costs incurred in Australia to-date have been relatively modest, with an $11 million acquisition price and $4 million in dry hole costs (in addition to approximately $40 million in development costs relating to proved reserves, upon which approximately $72 million of revenue has been generated since 1999).

As exemplified on the page 2, Newfield has demonstrated strong financial performance. Fiscal year 2000 was a record in terms of revenue and profitability. Through a combination of acquisitions, increased production and a strong price environment, the Company has grown revenue and EBITDA at an aggressive pace (82.4% and 90.0%, respectively in FY2000 over FY1999). As a result of Newfield's strong cash flow, Newfield has been able to fund much of its activity through internal cash flow. As a consequence, the Company has maintained a strong balance sheet with modest leverage of 0.20x Debt-to-EBITDA and 20% Debt-to-Capitalization as of 12/31/2000.

Valuation/Exit Opportunity

The UT System endowment funds have realized gains of $37.8 million to-date on the combined $11 million investment and currently hold 1,302,400 shares of common stock at $44.0 million, as of the most recent quarter ended 5/41/01. The IRR over the twelve-year holding period has been 31.3%. UTIMCO has not actively pursued the disposition of its remaining Newfield holdings as a result of Tom Ricks' presence on the Newfield board. In light of Tom Ricks' departure from UTIMCO, the investment staff will establish a plan of disposition of all or a part of the remaining Newfield stock. This plan will be made in the context of UTIMCO's Guidelines for Liquidation of Distributed Securities. In addition, no action will be taken until a determination is made that such a disposition would be appropriate and that UTIMCO is not in possession of material nonpublic information.

Direct Investment Review
UTIMCO Board of Directors Meeting
June 26, 2001

Goldston Oil Company – Gladewater Jeter

Business:	Overriding Royalty Interest in Oil and Gas Properties
Location:	Gregg County, TX and Upshur County, TX
% Ownership:	41% Leasehold Interest

UTIMCO Investments

Date of Financing	Fund	Description	Total Capital Contributed	Total Capital Distributed	Valuation As of 5/31/01	IRR As of 05/31/01
1989 - 1990	PUF	Jeter # 1	$3.8 MM	$8.0 MM	$6.6 MM	17.5%
1989 - 1990	PUF	Royalty	$0.8 MM	$1.8 MM	$3.8 MM	25.3%
1996 - 1998	PUF	Jeter # 3	$0.5 MM	$2.9 MM	$4.0 MM	131.5%
1989 - 1990	GEF	Jeter # 1	$1.0 MM	$2.0 MM	$1.7 MM	17.5%
1989 - 1990	GEF	Royalty	$0.2 MM	$0.4 MM	$1.0 MM	25.3%
1996 - 1998	GEF	Jeter # 3	$0.1 MM	$0.7 MM	$1.0 MM	131.5%
Total			**$6.4 MM**	**$15.8 MM**	**18.1 MM**	**22.2%**

Investment Outlook: Good

Business Summary

Goldston Oil purchases oil and gas properties and then operates and develops them for its own account and for the Mary Iris Goldston Trust. Its principals concentrate on Texas properties, with which they have extensive analytical and operational experience. Hank Boswell, ex-president of AMOCO Oil, discovered the Gladewater Jeter property. It had been foreclosed upon by Halliburton and was subsequently purchased by Goldston from the bankruptcy estate.

Investment Description

In 1989, Goldston purchased the working interest in Gladewater Jeter and then sold the UT System endowment funds a net profits interest (an overriding royalty determined by net profits) at cost. As a net profits interest owner, the endowment funds are subject to call only on the net income from the property and do not have any liability associated with the ownership of these interests.

Valuation/Exit Opportunity

The UT System endowment funds have received a significant amount of distributions from its net profits interest in Gladewater Jeter, representing a 2.47x realized cash-on-cash return on invested capital.

The Goldston properties have provided the UT System endowment funds a stable annuity source of cash flow for over a decade. Considering the long-term nature of the reserve base (the average life of existing reserves is 66.4 years), continued production should provide a steady long-term source of cash flow to the endowment. Significant production is expected for the next fifteen years, with a declining production profile thereafter. To the extent that cash flow declines (through production or price degradation), there could be a detrimental effect on the endowment funds' internal rate of return. In the event that the investment's internal rate of return falls below UTIMCO's targeted benchmark return (17%), UTIMCO will look to monetize the remaining value of its expected cash flow stream such that the endowment funds' aggregate returns are not compromised relative to the benchmark.

Direct Investment Review
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Wand/Acordia Investments LP (ACO Brokerage Holding Corporation)

Business: Insurance Brokerage
Location: Chicago, IL

UTIMCO Investments

Date of Financing	Fund	Description	Initial Cost	Distributions	Latest Valuation	IRR As of 05/31/01
08/28/97	PUF	LP Interest	$8.0 MM	$23.5 MM	--	33.65%
08/28/97	GEF	LP Interest	$2.0 MM	$ 5.9 MM	--	33.51%
Total			**$10.0 MM**	**$29.4 MM**	**--**	**33.62%**

Investment Outlook: N/A

Business Summary

Acordia is the largest privately-held insurance brokerage company in the United States, with over 3,500 associates and more than $3 billion in risk premiums. Acordia provides insurance brokerage, administrative services, and a wide range of financial and consulting services from more than 100 local offices across the nation. The merger between Acordia and Wells Fargo Insurance created the nation's fifth largest insurance agency and the largest bank holding company-owned insurance agency in the country. The combined company has $630 million in revenue and 176 agencies in 34 states with 5,514 associates.

Investment Description

In August 1997, Wand Partners formed Wand/Acordia Investments, LP, a partnership consisting of Wand Partners and certain limited partners within the Wand Partners fund, for the sole purpose of purchasing a controlling interest of ACO Brokerage Holding Corporation, the parent company of Acordia. At that time, the Partnership purchased 1,632,000 shares of Common Stock of Acordia for $16,360,000. The UT System endowment funds invested $10 million of this amount. In May 2001, the Partnership sold ACO to Wells Fargo & Company for total gross proceeds of $49,513,411. Pending completion of the final tax return, the Partnership will be dissolved and any remaining cash will be distributed to the partners.

Valuation/Exit Opportunity

On May 16, 2001, UTIMCO received a total distribution of $29,382,508 on its original $10,000,000 investment in the Wand/Acordia partnership. This represents a 2.94x cash-on-cash return on investment and a 33.6% internal rate of return since inception.

Direct Investment Review
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Oakbay B.V. (a Dutch holding company, parent of Varel International and Crystal Profor) – herein after referred to as Varel

Business:	Manufactures and distributes drill bits and related products to customers in the oil and mining industries throughout the world.
Location:	Matamoros, Mexico; Dallas, Texas; Houston, Texas; and Tarbes, France
% Ownership:	40.1%

UTIMCO Investments

Date of Financing	Fund	Description	Total Capital Contributed	Total Capital Distributed	Valuation As of 5/31/01	IRR As of 5/31/01
7/1/98, 6/23/99, 12/3/99, 10/17/00	PUF	Common Stock	$ 0.8 MM	--	$ 0.8 MM	0.00%
7/1/98, 6/23/99, 12/3/99, 10/17/00	GEF	Common Stock	$ 0.3 MM	--	$ 0.3 MM	0.00%
7/1/98, 6/23/99, 12/3/99, 10/17/00	PUF	Preferred Stock	$ 4.5 MM	--	$ 4.5 MM	0.00%
7/1/98, 6/23/99, 12/3/99, 10/17/00	GEF	Preferred Stock	$ 1.9 MM	--	$ 1.9 MM	0.00%
7/1/98, 6/23/99, 12/3/99	PUF	Unsecured Note	$ 7.8 MM	$ 1.3 MM	$ 7.8 MM	6.71%
7/1/98, 6/23/99, 12/3/99	GEF	Unsecured Note	$ 3.3 MM	$ 0.5 MM	$ 3.3 MM	6.71%
Total			**$18.7 MM**	**$ 1.8 MM**	**$18.7 MM**	**4.00%**

Investment Outlook: Fair/Good

Investment Highlights

- ***Well positioned in the drill bit industry.*** Recent improvements in manufacturing and product design have increased the quality of Varel's PDC and roller cone bits, which now equal or exceed competitors' performance at a lower cost. Recent acquisitions have given Varel the manufacturing capacity to double its sales. The Company is currently the fifth largest bit manufacturer in the world, with a market share of approximately 5%.
- ***Growth.*** The primary drivers behind Varel's growth are strong performing domestic and recovering international rig activity, Varel's focus on international growth and the recent development of its PDC business.
- ***Financial results have recovered since the recent downturn.*** The worldwide increase in rig activity has positively impacted Varel's financial results. Gross margin has improved to 41% for the nine months ended April 30, 2001 due to manufacturing efficiencies and pricing increases. Varel has improved their manufacturing efficiencies significantly from FY2000.
- ***Balance sheet highly leveraged.*** Primarily due to the drop off in cash flow, coupled with an increase in debt resulting from the MBO in June of 1998 and recent acquisitions (June and July of 1999), the Company's balance sheet is highly leveraged, albeit improved significantly year-to-date. As of April

30, 2001, Varel had $22.7 million of senior unsecured debt on its balance sheet (of which the endowment funds hold $11.1 million). The coupon on this debt is 8.75% through August 1, 2002 and 10.00% thereafter. Principal payments commence on July 31, 2005. Interest payments on these notes have been suspended since December 29, 2000, as payments of interest would violate Varel's loan covenants with The Bank of Scotland, the Company's senior secured lender. As of April 30, 2001, The Bank of Scotland held a $4.7 million revolver and $16.9 million term loan. Under the current capital structure, the Company is limited in terms of its ability to take on additional debt necessary to fund organic and/or acquisition growth.

- ***Current market environment.*** Higher commodity prices and increased capital spending budgets have led to higher valuations for oil and gas service companies and enthusiasm for the sector. Varel is not positioned today for an exit, however, given the Company's size and recent poor performance. Although operations have improved substantially, management continues to struggle with Crystal Profor in France. Varel's sales are not perfectly correlated to any one commodity price, as approximately 50% of the Company's sales are generated through the oil field service sector and 50% are generated through the mining sector. This split provides some diversification in terms of commodity prices (crude oil, natural gas, coal, and metals) hence reducing (somewhat) the volatility inherent in both industries.

- ***Simmons and Company International.*** In May 2001, Simmons & Company presented Varel with potential strategic alternatives. In their report, they stated that a sale today could yield an enterprise value of $70 million. Varel's projected sales for 2002 are $78.2 million. If Varel meets the 2002 projection, the valuation may approach $100 million. Another outlet for exit, although difficult, is the IPO market. Simmons believes that the smallest achievable IPO issuance in today's market is $50 million, although it would be difficult for Varel to access this market given the Company's small size and lack of solid financial history. Simmon's viewed a sale or merger as the best exit opportunity for Varel. For these reasons, Simmons recommended that management target a sale in mid-2002 after the Company has demonstrated a solid year of financial performance. Major bit manufacturers, however, will likely be unable to complete a deal with Varel as a result of anti-trust issues.

Summary Income Statement

(000's)	- FYE - 7/31/99	- FYE - 7/31/00	- Nine Mo. Ended – 4/30/01
Revenues	$34,880	$52,756	$44,580
Gross Profit	10,893	15,622	18,133
Gross Margin	*31.2%*	*29.6%*	*40.7%*
EBITDA	1,148	1,320	6,214
EBITDA Margin	*3.3%*	*2.5%*	*13.9%*
Net Income	(2,364)	($3,175)	1,664
Net Margin	*-6.8%*	*-6.0%*	*3.7%*

Summary Balance Sheet

(000's)	- FYE - 7/31/99	- FYE - 7/31/00	- As of - 4/30/01
Current Assets	$49,121	$46,105	$45,243
Total Assets	66,941	66,013	66,094
Current Liabilities	12,607	14,173	17,672
Senior Secured Notes	24,100	21,850	21,600
Senior Unsecured Notes	21,432	22,748	22,748
Total Debt	45,532	44,598	44,348
Total Liabilities	56,501	57,236	54,370
Shareholders Equity	$10,440	$8,777	$11,724

Ratio Analysis

	- FYE - 7/31/99	- FYE - 7/31/00	- As of - 4/30/01[(A)]
Revenue Growth	-23%	51%	13%
Senior Secured Debt / EBITDA	21.0x	16.5x	2.6x
Total Debt / EBITDA	39.7x	33.8x	5.4x
Total Debt / Total Capitalization	81%	84%	79%

Note A: Revenue growth and Long Term Debt-to-EBITDA statistics for 4/30/2001 reflect annualized revenues and EBITDA of $59.4 million and $8.3 million, respectively.

Business Summary

Oakbay B.V. and subsidiaries manufacture and distribute drill bits and related products to customers in the oil and mining industries throughout the world. The Company has manufacturing facilities located in Matamoros, Mexico; Dallas, Texas; Houston, Texas; and Tarbes, France.

Investment Description

In 1998, UTIMCO was presented the opportunity to acquire, on behalf of the UT System endowment funds, Varel International for approximately 5.8X estimated FY1998 EBITDA (Apr. 97 – Mar. 98) in partnership with 3i plc, the UTIMCO general partner sponsoring this transaction. The UT System endowment funds invested $14 million at closing in the form of unsecured notes, preferred stock and common stock. At that time, the endowment funds committed an additional $11 million to be used for future acquisitions. To date, the endowment funds have invested $18.7 million of the total $25 million commitment and hold 40.1% of the Company.

Following UTIMCO's approval of the transaction in 1998, a holding company, Oakbay B.V., was created to purchase the shares of Varel International. Crystal Profor SA was a subsequent acquisition made by Oakbay B.V. in 1999. This acquisition served to broaden the Company's geographic focus within Europe.

Business Outlook

The oil field service industry has recovered from the severe downturn in 1998 and 1999, driven largely by the increase in energy prices. Despite recent pull-backs, both crude oil and natural gas are presently trading at historically high prices. This high price environment is expected to continue, and oil and gas companies have adjusted their capital spending budgets accordingly. Recently, coal prices have experienced resurgence as well (although the metals industry remains depressed). These improvements have had a positive impact on drilling and coal-mining activity and as such, on Varel's year-to-date performance ($44.6 million in revenue and $6.2 million in EBITDA, representing a 13.9% margin). Significantly higher volume, coupled with an ability to increase prices, has contributed to Varel's significant margin recovery (13.9% EBITDA margin vs. 2.5% in FY2000). The Company's cash flow leverage, at 2.6x senior secured debt and 5.4x total debt, has improved, but is still high relative to its peers in the industry. Varel must achieve a lower leverage profile in order to have the ability to maintain flexibility in light of inherent industry volatility.

Valuation/Exit Opportunity

Data provided by Simmons & Company in May 2001 indicate that the best exit opportunity for Varel is a strategic sale or merger to a financial buyer or another industry participant. Comparable market valuations are currently very strong. Simmons recommended, however, that Varel target a sale in mid-2002 in order to have demonstrated a solid year of financial performance (which is expected in 2001). With strong recent performance, the market should be more receptive and this should bolster the Company's market valuation. Another option is the IPO market, but given the Company's size and poor financial performance, this outlet would likely be difficult. In order for the Company to be positioned for exit, the management team needs to continue to strengthen the Company's market position, improve financial performance, and bring leverage down to acceptable levels.

Direct Investment Review
UTIMCO Board of Directors Meeting
June 26, 2001

FleetPride, Inc. (City Truck Holdings, Inc., the parent company of HDA Parts Systems, Inc.)

Business:	Heavy-duty vehicle after-market parts distribution
Location:	Deerfield, IL
% Ownership:	6.66%

UTIMCO Investments

Date of Financing	Fund / Entity	Total Commitment	Description	Total Capital Contributed	Valuation As of 5/31/01	IRR As of 5/31/01
12/23/1998	PUF / HDA Parts	$16.25 MM	LP Interest	$10.07 MM	$ 5.03 MM	-27.24%
12/23/1998	GEF / HDA Parts	$ 8.75 MM	LP Interest	$ 5.42 MM	$ 2.71 MM	-27.24%
4/10/2001	PUF / A/B Investors	$ 3.25 MM	LP Interest	$ 3.25 MM	$ 3.25 MM	0.00%
4/10/2001	GEF / A/B Investors	$ 1.75 MM	LP Interest	$ 1.75 MM	$ 1.75 MM	0.00%
Total		**$30.00 MM**		**$20.49 MM**	**$12.74 MM**	**-26.59%**

Investment Outlook: Fair

Investment Highlights

- *Appropriate capital structure.* The recent modifications to the Company's capital structure have provided additional liquidity and financial flexibility. From an investment perspective, the UT System endowment funds' recent $5 million subordinated debt investment is convertible into preferred stock that will be senior to other equity holders. This will supplement the returns earned on the endowment funds' common and preferred stock investments.
- *Corrective actions have been initiated.* Management has worked to rationalize the current cost structure and improve the Company's working capital condition. The primary equity sponsors (Brentwood and Aurora), together with FleetPride's CEO, are also pursuing several key individuals to place on FleetPride's management team in order to effectively manage and improve the Company's financial and operating controls.
- *Cost structure continues to be a focus.* The management team has focused on cost reductions, working capital improvements and streamlining corporate overhead. Cost savings of approximately $10 million are expected in 2001.
- *Positioned for growth.* With more than 160 locations in 33 states, FleetPride has built the infrastructure and distribution capability necessary to support future growth. In response to the industry downturn, management has focused on scaling back overhead, originally necessary to support expected growth (which has not materialized). The Company has been able to maintain the scope of its distribution network, however, to support any future expansion opportunities.
- *Improving industry trends.* The Company's monthly average sales per day figures have increased on a month-over-month basis in 2001, indicating a slight reversal of the industry decline. A strong third and fourth quarter will be key to a full industry recovery.
- *Exit most likely extended past 2002.* Both Brentwood and Aurora are targeting an exit through a sale to a strategic buyer once industry fundamentals improve.

Summary Income Statement – Proforma Results (Restated for Acquisitions)

(000's)	FYE 12/31/98	FYE 12/31/99	FYE 12/31/00	-Three Mo. Ended – 3/31/01
Revenues	$545,582	$558,498	$508,903	$121,611
Gross Profit	176,273	188,686	172,845	40,710
Gross Margin	*32.3%*	*33.8%*	*34.0%*	*33.5%*
EBITDA	47,327	47,714	22,728	5,948
EBITDA Margin	*8.7%*	*8.5%*	*4.5%*	*4.9%*
EBIT	34,372	35,074	7,838	2,157
EBIT Margin	*6.3%*	*6.3%*	*1.5%*	*1.8%*
Net Income	7,271	5,649	(13,265)	(3,464)
Net Margin	*1.3%*	*1.0%*	*-2.6%*	*-2.8%*

Summary Balance Sheet – Actual Results

(000's)	- FYE - 12/31/98	- FYE - 12/31/99	- FYE - 12/31/00	- As of - 3/31/01
Current Assets	$72,637	$197,448	$186,397	$194,423
Total Assets	163,924	478,149	460,563	470,858
Current Liabilities	29,250	66,021	45,542	46,087
Senior Debt	18,200	121,250	137,500	152,500
Total Debt	118,200	221,250	237,500	252,500
Total Liabilities	147,250	287,271	283,042	298,587
Shareholder's Equity	16,474	190,878	177,521	172,271

Ratio Analysis

	- FYE - 12/31/98	- FYE - 12/31/99	- FYE - 12/31/00	-As of– 3/31/01[(A)]
Revenue Growth	N/A	-4.63%	-8.88%	-3.07%
Senior Debt / EBITDA[(B)]	0.60x	2.54x	6.05x	8.42x
Senior Debt / Total Capitalization[(B)]	13.5%	29.4%	33.3%	35.2%

Note A: Revenue growth and Long Term Debt-to-EBITDA statistics for 3/31/2001 reflect last-twelve-months revenues and EBITDA of $493.3 million and $17.8 million, respectively.
Note B: The Company's $100 million subordinated debt issuance has been excluded from the leverage metrics presented due to the convertible nature of these securities.

Business Summary

FleetPride is the largest and fastest growing independent heavy-duty parts distributor in the $10 billion after-market parts industry. FleetPride has a customer base of approximately 20,000 with distribution centers in 33 states. Concentrating on heavy-duty vehicles, FleetPride supports Class VI through Class VIII commercial vehicles such as tractor-trailers, waste disposal trucks and large off-road vehicles used in the mining, construction and agriculture industries.

Investment Description

In 1998, Brentwood Associates ("Brentwood") formed HDA Parts Systems, Inc. through a $25 million acquisition of two platform businesses in order to pursue a consolidation strategy in the heavy-duty vehicle parts distribution industry. In late 1998, Brentwood formed a partnership (HDA Partners I, LP) to provide additional capital for strategic acquisitions. The UT System endowment funds invested $25 million into this partnership ($15 million was funded at closing, with the remaining $10 million reserved for future acquisitions). In September 1999, HDA Parts Systems merged with Quality Distribution Service Partners (owned by Aurora Capital) to form FleetPride, Inc. Brentwood/Co-investors and Aurora Capital each own 40% of the Company, with the management team holding the remaining 20%. In early 2001, the UT System endowment funds invested an additional $5 million into A/B Investment Partners, a partnership formed by Brentwood and Aurora to participate in the Company's debt restructuring. In this restructuring, A/B Investment Partners purchased $60 million (out of a $100 million total issue) of FleetPride's Senior Subordinated Notes for $24.5 million (a 41% discount). These Notes are exchangeable into Preferred Stock at the partnership's option. In addition, the A/B Investors partnership invested an additional $12 million in Senior Unsecured Notes. These Notes, as well as $50 million of the Subordinated Note issue, carry a 12% payment in kind coupon, with the accrued interest representing a senior unsecured claim to the Company. Both Notes mature in August 2005. As part of this transaction, the senior lenders agreed to modify the Company's bank covenants through the end of 2001 in light of current debt levels. Among the modified covenants is a minimum EBITDA requirement of $23.5 million and a Senior Secured Debt-to-EBITDA level of 5.80x by 12/31/2001. The Company's current run-rate for 2001 is $23.7 million EBITDA and 5.77x Senior Secured Debt-to-EBITDA (as of 3/31/2001).

The A/B Investors partnership has recently purchased an additional $30 million of the Company's Senior Subordinated Notes (an average 55% discount). UTIMCO declined to participate in this additional investment.

Business Outlook

The Company has experienced a significant decline in operating performance as a result of poor industry fundamentals. In response to fairly vigorous growth in average ton-miles, new truck purchases were ramped up dramatically in 1998, 1999 and the first half of 2000. As a result, the truck population grew faster than ton-miles, leading to lower utilization rates and a soft after-market in 2000. This over-supply, coupled with a subsequent drop off in industry ton-miles (due to the slowdown in the economy), led to a sharp drop in new truck orders (down approximately 20% in 2000 and an estimated 30% in 2001). During this same time period, trucking and transportation companies were experiencing inflated diesel fuel prices, driver shortages and a tight credit market, thus reducing cash flow. This has had a significant impact on the after-market parts industry and FleetPride in particular. FleetPride suffered a 9.7% decline in FYE 2000 revenues. Prior to the industry downturn, management had expanded the Company's distribution capabilities and infrastructure to position FleetPride for growth. The sharp decline in revenues, coupled with the expanded cost structure, led to a significant decline in FY2000 operating margin (4.5% versus a budgeted 8.1%).

In response these issues, the management team has focused on cost reductions, working capital improvements and streamlining corporate overhead. To date, management has implemented $3 million of corporate cost reductions, consolidated certain operating regions and closed unprofitable branches. Through these efforts, management expects to reduce SG&A by $10 million in FY2001. Management is also focusing on improving the Company's working capital condition by (i) increasing inventory turnover, (ii) consolidating product lines and (iii) improving receivable collections (year-to-date days sales outstanding (DSOs) are down from 43 days to 41 days despite customer difficulties). Management is looking to add a Chief Operating Officer to build and improve upon these efforts. Additionally, the

Company is looking to replace its Chief Financial Officer. Discussions with Brentwood indicate that there is a need for an individual in this position who can aggressively manage the Company's balance sheet in terms of working capital, inventory management and cost reduction efforts.

A combination of increasing utilization and average fleet age in 2001 and 2002 should lead to reasonable growth in 2002 for after-market sales. This, coupled with management's efforts to rationalize the Company's cost structure, should lead to improved profitability and a return to acceptable leverage levels.

On May 7, 2001, FleetPride's largest competitor, TransComUSA, voluntarily filed to reorganize under Chapter 11 of the United States Bankruptcy Code. The Company cited a prolonged industry slump, declining sales, severe liquidity problems and a heavy debt load as factors in the filing. Brentwood noted that TransCom's comparable sales have declined more severely than FleetPride's. The bankruptcy could potentially create issues for FleetPride as suppliers and vendors to this industry will likely be more sensitive and less flexible with regard to FleetPride's purchasing arrangements. FleetPride views this event as slightly positive, however, as FleetPride will be able to establish relationships with certain TransCom customers in markets in which they overlap. An example of this is FedEx, a TransCom customer that FleetPride has avoided in the past (it was low margin business at that time). With the loss of its primary competitor, FleetPride, currently in negotiations with FedEx, is able to demand a significantly higher margin for this business.

On June 8, 2001, Moody's Investor Service lowered the rating of FleetPride's $149 million senior secured bank facility to B3, from B1, and its $100 subordinated notes to Caa3, from B3, with a negative outlook. These new ratings reflect FleetPride's poor operating performance, weak cash flow, poor industry fundamentals and poor financial flexibility. Moody's did recognize, however, the Company's strong equity sponsorship and support, the market leading position of the Company, and its large, diversified customer base. Moody's has taken action as a result of the recent covenant waivers and modifications and not on any new information. Both Brentwood and UTIMCO feel that these ratings now appropriately reflect the Company's current situation (which it has been experiencing for nearly a year). These new ratings, however, could further hinder FleetPride's ability to negotiate effectively with its vendors and suppliers, as well as reduce the Company's flexibility with respect to the lender group and the need for additional capital. This highlights the necessity to effectively reduce costs during this time of depressed revenue in order to maintain adequate cash flow and liquidity.

Valuation/Exit Opportunity

As a result of the Company's degradation in financial and operational performance, Brentwood recommended a 50% write-down of the HDA Parts Systems holdings. The recent $5 million investment through A/B Investment Partners is valued at cost due to its seniority in FleetPride's capital structure. UTIMCO concurs with these assessments.

A/B Investment Partners has an option to repurchase (at a discount) the remaining $10 million of the Company's long-term debt. UTIMCO will likely choose to not invest in these future rounds. If a long-term recessionary period is underway, additional capital may be required to ease the Company's liquidity problems. In this instance, Aurora would likely invest additional capital and the UT System endowment funds' ownership interest would be diluted.

The recent events experienced in the trucking and after-market parts industries, although exaggerated, are representative of the industry's business cycle, which typically lasts 18-to-24 months. This would indicate an industry recovery in late 2001 or 2002. As such, Brentwood, Aurora and the management team will likely position the Company for sale in the next two to three years. The exit will likely be a sale to a truck manufacturer expanding their distribution base, or to a large automotive parts distributor that has a desire to expand its heavy-duty after-market parts segment.

Direct Investment Review
UTIMCO Board of Directors Meeting
June 26, 2001

Songbird Hearing Inc.

Business: Development and commercialization of a line of disposable hearing aids based on proprietary technology licensed from Sarnoff Corporation.

Location: Princeton, New Jersey

% Ownership: 13.2%

UTIMCO Investments

Date of Financing	Fund	Total Commitment	Description	Total Capital Contributed	Valuation As of 5/31/01	IRR As of 5/31/01
12/1999	PUF	$ 6.6 MM	Preferred Stock- Series C	$ 5.5 MM	$ 7.2 MM	19.27%
12/1999	GEF	$ 5.4 MM	Preferred Stock- Series C	$ 4.5 MM	$ 5.8 MM	19.27%
12/2000	PUF	$ 2.7 MM	Preferred Stock- Series D	$ 2.7 MM	$ 2.7 MM	0.00%
12/2000	GEF	$ 3.3 MM	Preferred Stock- Series D	$ 3.3 MM	$ 3.3 MM	0.00%
Total		**$18.0 MM**		**$16.0 MM**	**$19.0 MM**	**16.53%**

Investment Outlook: Poor (significant financing risk)

Investment Highlights

- *Status.* Songbird raised $45 million in December of 2000. It was anticipated that this round of financing would take them to break-even cash flow. At that time, it was thought that an IPO would be considered when market conditions were more favorable. Songbird component inventories were ordered in anticipation of a stronger volume ramp-up. This ramp-up was based on consumer interest, but dispenses were below plan as 30%, of the Songbird Clinics had not begun to dispense and the fit rates (a gauge for consumer exposure and expected sales) did not meet expectations. For the first quarter of 2001, Songbird's cash balance was $11.6 million below plan. $10.1 million was due to substantial increases in inventories and payments to vendors in excess of plan. They have since cut operations to prove the business model and the CFO has resigned. Management is focusing on 12% of the US market and has scaled back the supply chain and manufacturing. Other initiatives include a partnership with Boots, a U.K.-based retail chain, and the location of test sites in Costco stores. Starting June 18th, they will have an experienced (temporary) CFO spend 3 days a week at Songbird, in addition a financial analyst has been brought on board from Bank of America to provide weekly metric data. Gary Eichhorn, a Songbird board member, has extensive business experience with start-ups and will spend 2 days a week at Songbird. Business metrics provided to-date have not been appropriate and investors have been unable to evaluate the business model.

- *Business model.* Songbird must prove the business model and the path to profit. Currently, it is estimated that Songbird's cash will support a reduced budget until the end of September 2001. In order to raise additional capital from private investors, the Company must prove a business model and provide a clear path toward profitability in a very short time frame. Songbird's primary US hearing aid distribution channel is through audiologists. The business model is predicated on a 50% replenishment rate of disposable hearing aids sold to audiologists. As a result, replenishment is the key business factor. The most recent data suggests replenishment rates of 34% versus the 50%

needed. In addition to increasing channel throughput, Songbird must successfully convert to digital (versus analog) format to provide a profit path for its product.

- ***Cash flow need.*** As of 5/31/01, the Company's cash balance was $8.2 million. The expected burn rate for June is $3 million, leaving $5 million at the end of June 2001. The expected cash flow need for the 3rd quarter is estimated to be $3.8 million.

- ***Security of Supply Chain.*** Star, the supplier for the microphone, is the only known supplier for this product. Star benefits from the technology associated with the production of the product, which they may use in other types of products they make. In order to protect Songbird's supply chain, it must strengthen its relationship with Star and believes that a joint venture is the best solution to insure that no product interruptions occur within the next 3-to-4 months.

- ***Other Mitigating Factors.***
  - Long lead time for supply chain (5 months)- difficult to manage inventory
  - Must phase in digital in September of 2001 while phasing out analog - will cause disruption in projected sales and create inventory obsolescence
  - Currently no permanent CFO
  - Yields and labor costs improving with 86.5 % yields in May
  - Digital in launch mode
  - Extended Series D discussions underway with Somerset Financial ($8 to $15million)
  - Working with vendors for extended terms
  - Difficult market environment to raise money
  - Pursuing a strategy with Johnson & Johnson - Japan

Summary Income Statement

(000's)	- FYE - 12/31/98	- FYE - 12/31/99	- FYE - 12/31/00	- Four Mo. Ended – 4/30/01
Revenues	$ --	$ --	$1,877	$1,850
Gross Profit	--	--	(7,415)	(5,172)
EBITDA	(4,148)	(12,516)	(37,428)	(14,609)
Net Income	($3,867)	($12,140)	($36,851)	($14,259)

Summary Balance Sheet

(000's)	- FYE - 12/31/98	- FYE - 12/31/99	- FYE - 12/31/00	- As of - 4/30/01
Current Assets	$10,492	$24,023	$39,979	$19,818
Total Assets	10,518	25,743	47,333	29,424
Current Liabilities	601	2,015	13,022	8,447
Long Term Debt	--	--	1,707	2,331
Redeemable Convertible Preferred Stock	16,676	42,177	84,921	84,921
Total Liabilities and Commitments	17,277	44,192	99,650	95,699
Shareholder's deficit	(6,759)	(18,449)	(52,317)	(66,275)
Total liabilities and shareholder's deficit	$10,518	$25,743	$47,333	$29,424

Ratio Analysis (Not meaningful)

Business Summary

Songbird Hearing Inc. ("Songbird" or the "Company") was incorporated in Delaware on June 20, 1997. The Company is engaged in the development and commercialization of a line of disposable hearing aids, primarily in the United States, based on proprietary technology licensed from Sarnoff Corporation ("Sarnoff"). The Company was formed by Sarnoff and several other investors, with Sarnoff receiving a minority interest in the Company in exchange for a technology license.

Effective June 1, 2000, the Company emerged from the development stage and commenced commercial operations. Although no longer in the development stage, the Company continues to use significant cash flows in operations and continues to be subject to risks and uncertainties similar to other companies in a comparable stage of development. There is no assurance that profitable operations, if ever achieved, could be sustained on a continuing basis. In addition, development activities and the commercialization of the Company's proprietary technology will require significant additional financing. The Company's accumulated deficit aggregated $55,780,428 through December 31, 2000. Substantial losses are expected for at least the foreseeable future. Further, the Company's future operations are dependent on the success of the Company's research and commercialization efforts and, ultimately, upon market acceptance of the Company's products.

The Company plans to continue to finance its operations principally with a combination of private placements of equity and equipment collateralized term debt.

Investment Description

As of May 1, 2001, the Restated Certificate authorizes Common Stock and Preferred Stock as set forth in the following table:

	Authorized	Outstanding As of May 1, 2001
Common Stock, par value $0.001 per share	40,000,000	2,874,939
Series A Preferred Stock, par value $0.01 per share	4,476,556	4,476,556
Series B Preferred Stock, par value $0.01 per share	4,700,000	4,692,308
Series C Preferred Stock, par value $0.01 per share	7,100,000	7,083,335
Series D Preferred Stock, par value $0.01 per share	9,594,883	9,594,883
Total Capital Stock	65,871,439	28,722,021

In addition to the Common Stock outstanding, an aggregate of 27,138,973 shares of Common Stock are reserved for issuance upon the conversion of outstanding and issued Preferred Stock and Options and Warrants.

Common Stock

The holders of Common Stock are entitled to one vote per share on all matters to be voted upon by the stockholders, subject to voting preferences of the Preferred Stock described below. The holders of Common Stock are entitled to receive cash dividends when and as declared by the Board of Directors out of legally available funds, subject to the rights and preferences of the holders of Preferred Stock (as defined below). In the event of any liquidation, dissolution, or winding up of Songbird, after payment to the holders of the Preferred Stock as described below, the holders of Common Stock and Preferred Stock, subject to the limitation as described below, will be entitled to receive all remaining assets available for distribution to stockholders, on a pro rata, as-converted basis. Each share of Preferred Stock is convertible into a number of fully paid and nonassessable shares of Common Stock, as determined in accordance with the provisions of the Second Amended and Restated Certificate of Incorporation, as amended, at any time at the election of the holder thereof. The holders of Common Stock have no preemptive, subscription, redemption, sinking fund or conversion rights.

Preferred Stock

Songbird's Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock (each series of Preferred Stock are referred to collectively as the "Preferred Stock" as is

appropriate in the context of the particular reference) have the rights, preferences and privileges set forth below:

<u>Dividend Rights</u>. The holders of Preferred Stock are entitled to receive dividends payable in cash, property or shares when and as declared on shares of Common Stock. Any such dividend shall be

paid to the holders of Preferred Stock as if such holders' shares of Preferred Stock had been converted into Common Stock on the record date for receipt of such dividend.

Liquidation Preference. In the event of any liquidation, dissolution or winding up of Songbird, the holders of Preferred Stock will be entitled to receive, pari passu and in preference to the holders of Common Stock, an amount equal to $1.00 per share for Series A Preferred Stock, $2.60 per share for Series B Preferred Stock, $3.60 per share for Series C Preferred Stock, and $4.69 per share for Series D Preferred Stock. In addition, the holders of Preferred Stock will be entitled to receive, pari passu and in preference to the holders of Common Stock, an amount per annum from the date of issuance of such shares equal to $0.08 per share for Series A Preferred Stock, $0.208 per share for Series B Preferred Stock, $0.288 per share for Series C Preferred Stock, and $0.3752 per share for Series D Preferred Stock, plus, in each case, other declared but unpaid dividends. If our assets are insufficient to make such payments, all of our assets shall be distributed ratably among the holders of Preferred Stock in proportion to the full preferential amount such holders otherwise would be entitled to receive. After payment of the liquidation preferences to the holders of each series of Preferred Stock, the holders of Common Stock and Preferred Stock will be entitled to receive the remaining assets and funds of Songbird on a pro rata, as converted basis, until the holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock receive in the aggregate, including the preferential amounts stated above, $2.50, $6.50, $9.00, and $11.725 per share, respectively. Thereafter, any remaining assets shall be distributed to the holders of Common Stock.

Business Outlook

The Company has not proven the business model and must convert to digital in order to provide a profit path for its product. Both of these objectives must be met in a short time frame in order to obtain future financing. Raising additional capital in the current market environment will likely be difficult.

Valuation/Exit Opportunity

IPO or large strategic buyer.

ALTERNATIVE EQUITIES - NONMARKETABLE COMMITMENT BUDGET

CAMBRIDGE ASSOCIATES MATERIALS

(BOUND SEPARATELY)

ALTERNATIVE EQUITIES - NONMARKETABLE COMMITMENT BUDGET

CAMBRIDGE ASSOCIATES MATERIALS

(BOUND SEPARATELY)

Resolution No. 3

RESOLVED, that the minutes of the meetings of the Board of Directors held on April 24, 2001 and May 30, 2001 be and are hereby approved.

Resolution No. 2

RESOLVED, that a commitment budget of $395 million for the Alternative Investments – Nonmarketable asset class for the period July 1, 2001 through June 30, 2002 be and is hereby approved.

Resolution No. 4

RESOLVED, that the following employees be designated as key employees of the Corporation:

Cathy A. Iberg	Interim President and Chief Executive Officer
Greg Cox	Portfolio Manager – Equity Investments
J. Russell Kampfe	Senior Portfolio Manager – Fixed Income Investments
Harland B. Doak	Portfolio Manager – Fixed Income Investments
Joan Moeller	Accounting and Security Operations Manager
Sara J. Skone	Investment Officer – Private Markets

Resolution No. 5

RESOLVED, that the Fee Request for the period September 1, 2001 through August 31, 2002 be and is hereby approved.

Resolution No. 6

RESOLVED, that the firm of Deloitte & Touche, LLP be and is hereby appointed as the independent auditor of the Corporation for the year ended August 31, 2001, and further

RESOLVED, that the firm of Deloitte & Touche, LLP be and is hereby appointed as the independent auditor of the financial statements of the Permanent University Fund, Permanent Health Fund, Long Term Fund, General Endowment Fund, and Short Intermediate Term Fund for the fiscal year ended August 31, 2001.

MINUTES OF SPECIAL 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 an open meeting on the 24th of April 2001 at the offices of the Corporation, Town Lake Conference Room, 221 West 6th Street, Austin, Texas, 78701, said meeting having been called by Robert H. Allen, with notice provided to each Director in accordance with the Bylaws. Participating in the meeting were the following members of the Board of Directors (the "Board"):

Robert H. Allen, Chairman
Woody L. Hunt, Vice Chairman
R. D. Burck
Susan M. Byrne
J. Luther King, Jr.
John D. McStay
A. W. "Dub" Riter, Jr.
A. R. (Tony) Sanchez

thus, constituting a majority and quorum of the Board of Directors. Directors Woody L. Hunt and A. R. (Tony) Sanchez joined the meeting by means of conference telephone enabling all persons participating in the meeting to hear each other. Director Lowry Mays was absent. Also participating in the meeting were Thomas G. Ricks, President of the Corporation; Cathy Iberg, Secretary of the Corporation; Dave Russ, of Corporation's management; and Jerry Turner, Vinson & Elkins, legal counsel for the Corporation.

Mr. Allen called the meeting to order at 10:00 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 February 22, 2001, and March 30, 2001. 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 February 22, 2001 and March 30, 2001, be and are hereby approved.

Performance Review

Mr. Ricks reported on the performance of the endowment funds and the operating funds for the second quarter ended February 28, 2001. Total assets under management decreased from $15.5 billion as of August 31, 2000, to $14.6 billion as of February 28, 2001. The net investment returns for the one-year period ending February 28, 2001, for the Long Term Fund ("LTF"), Permanent University Fund ("PUF"), and the Permanent Health Fund ("PHF") were (1.43)%, (0.26)% and (1.76)% respectively. The net performance for the seven-month period ending March 31, 2001 for the LTF, PUF and PHF were (9.77)%, (9.21)% and (10.19)% respectively. Mr. Ricks reported on the returns for the one-year period ended December 31, 2000 for the PUF and LTF against various Russell/Mellon universes and other large state investment funds. Performance for the Short Term Fund (STF) was 6.53% versus 6.36% for its benchmark for the one-year ended February 28, 2001. The Short Intermediate Term Fund's (SITF) performance was 10.71% versus 9.68% for its benchmark for the one-year ended February 28, 2001. After his report, Mr. Ricks answered the Directors' questions.

The audited Statement of Relative Fair Values of Assets and Liabilities for The University of Texas System Long Term Fund and the Permanent Health Fund as of February 28, 2001 was presented to the board members, for which an unqualified opinion was expressed. The audit was performed in conjunction with the pooling of investment assets for the LTF and PHF into a single pooled investment fund known as the General Endowment Fund ("GEF") beginning March 1, 2001.

Alternative Equities-Nonmarketable

The next item presented to the Board was an update regarding the status of the private investment portfolio by Ms. Astrid Noltemy, Mr. Bruce Myers and Ms. Jennifer Urdan from Cambridge Associates, LLC. Following the presentation, the Cambridge individuals answered the Directors' questions and left the meeting. During the presentation by Cambridge, Director Tony Sanchez left the meeting by disconnecting from the conference telephone.

Manager Presentations

Mr. Francis Enderle and Mr. Will Britten of Barclays Global Investors reported on Barclays Global Investors' indexing methodologies, upcoming changes in the index modeling, trading strategies and securities lending. The presenters answered the Directors' questions, and then left the meeting.

The next presentation was by Goldman Sachs Asset Management. Several principals of Goldman Sachs, including Mr. Bob Litterman, Mr. J. K. Brown, Ms. Melissa Brown, Mr. Alec Stais and Mr. Michael Zaremsky gave a strategic partnership overview, highlighting the partnership framework, portfolio performance, risk management objectives and the Computer–Optimized Research–Enhanced (CORE) investment process. The presenters answered the Directors' questions and then left the meeting. Director Woody Hunt also left the meeting by disconnecting from the conference telephone.

Legislative Review

Ms. Cathy Iberg and Mr. Jerry Turner presented the current status of the Corporation's related legislation.

Appointment of Director

The next item presented to the Board was a recommendation to reappoint Mr. King to the Corporation's Board of Directors. Upon motion duly made and seconded the Directors adopted the following resolution:

> RESOLVED, that the recommendation of Mr. J. Luther King, Jr. for re-appointment to the UTIMCO Board by the U. T. System Board of Regents until the expiration of a term ending April 1, 2004 be and is hereby approved.

Election of Officers

The next item presented to the Board was Ms. Iberg's resignation as Secretary of the Corporation, in conjunction with her appointment as interim President and CEO, effective April 24, 2001. The Board recommended appointment of an interim Secretary of the Corporation and interim Assistant Secretary of the Corporation. Upon motion duly made and seconded, the following resolution was unanimously adopted:

> WHEREAS, the Board of Directors, desires to appoint Ms. Christy W. Wallace to serve as interim Secretary of the Corporation and Ms. Joan B. Moeller to serve as interim Assistant Secretary of the Corporation effective upon the contemporaneous resignation by Ms. Cathy A. Iberg as Secretary of the Corporation, on April 24, 2001, until such time as successors are appointed by the Board of Directors; NOW THEREFORE BE IT
>
> RESOLVED, that the appointment of Ms. Wallace as Secretary of the Corporation and Ms. Moeller as Assistant Secretary of the Corporation to replace Ms. Iberg each such appointment being made on an interim basis under their successors are appointed, is hereby approved; and
>
> RESOLVED, that the resignation of Ms. Iberg, as Secretary of the Corporation, effective April 24, 2001, is hereby accepted.

Report of Compensation Committee

Mr. King provided a report of the Compensation Committee and answered the Directors' questions. He stated that the Amended Performance Compensation Plan and the compensation adjustments were recommendations of William M. Mercer, Incorporated. Upon motion duly made and seconded, the following resolutions were unanimously adopted:

> RESOLVED, that the Amended Performance Compensation Plan for the year ended August 31, 2001 be and is hereby approved; and
>
> RESOLVED, that the recommendation of the Compensation Committee for compensation adjustments for UTIMCO employees Greg Cox and J.

Russell Kampfe be approved and retroactive to September 1, 2000, as presented with the Mercer Study.

Report of Chief Executive Officer Search Committee

Mr. King, Chairman of the Chief Executive Officer Search Committee, reported that a date would soon be determined for the next committee meeting. The agenda for the upcoming meeting will include presentations by three to four search firms, followed by committee selection of the firm best suited to conduct a successful search for the Corporation's President and CEO.

Resolution of Appreciation

Prior to the conclusion of the meeting, Chairman Allen read a Resolution of Appreciation adopted by the UTIMCO Board of Directors honoring and recognizing the contributions of Mr. Thomas G. Ricks:

WHEREAS, Thomas G. Ricks first joined the finance and investment staff of The University of Texas System in March 1985, when he was appointed as the UT System Manager of Finance; and

WHEREAS, as a result of his extraordinary talent, professionalism and commitment, Mr. Ricks was progressively assigned greater responsibility within the UT System, culminating with his service as Vice Chancellor for Asset Management and Chief Investment Officer from January 1993 through February 1996; and

WHEREAS, while still serving as Vice Chancellor of the UT System, Mr. Ricks challenged the UT Board of Regents, the UT System Administrators and the Legislative Leaders of the State of Texas to adopt an improved investment management structure resembling that utilized by the nation's private universities with the largest endowments; and

WHEREAS, in response to Mr. Ricks' challenge, during March 1996, the UT System contracted with The University of Texas Investment Management Company for the management of all of the investment funds that are the responsibility of the UT Board of Regents and, thereby, the UT System became the only public university system in the country to spin-off its investment operations into a private nonprofit corporation dedicated exclusively to providing professional oversight and management of university funds; and

WHEREAS, in March 1996, Mr. Ricks resigned his position with the UT System in order to be appointed President and Chief Executive Officer of UTIMCO; and

WHEREAS, under Mr. Ricks' leadership, UTIMCO has managed the 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, a disproportionate amount of the credit for UTIMCO's success over the past five years is directly attributable to Mr. Ricks' leadership, integrity, hard work and devotion; and

WHEREAS, to the great regret of the UTIMCO Board of Directors, Mr. Ricks has announced his resignation from UTIMCO to pursue other professional opportunities within the private sector; **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 Thomas G. Ricks their sincerest appreciation for his vision, leadership and professional competency that have contributed to UTIMCO's success; and

BE IT FURTHER RESOLVED, that all persons who read this Resolution should know that Thomas G. Ricks 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 24th day of April 2001.

There being no further business to come before the Board of Directors, the meeting was adjourned at approximately 1:49 p.m.

Secretary: ____________________________
Cathy Iberg

APPROVED:

Chairman: ____________________________
Robert H. Allen

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 30th day of May 2001, at the offices of Luther King Capital Management, 301 Commerce Street, Suite 1600, Fort Worth, Texas 76102, said meeting having been called by Robert H. Allen, with notice provided to each member in accordance with the Bylaws. Participating in the meeting were the following members of the Board:

Robert H. Allen, Chairman
Woody L. Hunt, Vice Chairman
Susan M. Byrne
R. D. Burck
J. Luther King, Jr.
A. W. "Dub" Riter, Jr.

thus, constituting a majority and quorum of the Board. Members of the Board not present at the meeting were Rita C. Clements, L. Lowry Mays and John McStay. Also, participating in the meeting was Christy Wallace, Interim Secretary of the Corporation; and Rod Edens, legal counsel for the Corporation. Mr. Allen called the meeting to order at 3:45 p.m.

Following the opening of the meeting at 3:45 p.m., Mr. Allen announced that, "the Board of Directors of The University of Texas Investment Management Company having been duly convened in Open Session and notice of this meeting having been duly given, I hereby announce the convening of a closed meeting as an Executive Session of the Board to consider personnel issues related to the Interim President and Chief Executive Officer of The University of Texas Investment Management Company. This Executive Session meeting of the Board is authorized by the Open Meeting Policy Statement of The University of Texas Investment Management Company adopted on September 22, 1999. The time is now 3:45 p.m."

In Executive Session, the Board discussed an agreement providing supplemental compensation for Cathy Iberg serving in her capacity as interim President and CEO of the Corporation. No action was taken and no vote was called for or taken by the Board.

The Board reconvened at 3:48 p.m. in open session and Mr. Allen announced that, "the Open Session of the Board of Directors of The University of Texas Investment Management Company is now reconvened. The time is now 3:48 p.m. During the Executive Session, the Board discussed an agreement providing supplemental compensation for Cathy Iberg serving in her capacity as interim President and CEO of the Corporation, but did not take any votes."

In Open Session, upon motion duly made and adopted, the following resolution was approved:

RESOLVED, that the agreement as of May 30, 2001, authorizing Cathy Iberg to receive supplemental pay in her capacity as the interim President and Chief Executive Officer of the Corporation, in the form thereof submitted at this meeting, is hereby approved; and Robert H. Allen, Chairman of the Board, is hereby authorized in the name and on behalf of this corporation to execute and deliver such agreement in the form submitted at this meeting.

There being no further business to come before the Board, the meeting was adjourned at approximately 3:50 p.m.

Interim Secretary: ____________________________
Christy W. Wallace

Approved: ______________________________ Date: ________________
Robert H. Allen
Chairman, Board of Directors of
The University of Texas Investment
Management Company

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UTIMCO ASSETS UNDER MANAGEMENT AND NET OF FEES FUND PERFORMANCE

ENDOWMENT FUNDS	Net Asset Value 8/31/00 (in Millions)	Net Asset Value 5/31/01 (in Millions)	Periods Ended May 31, 2001 Three Months	One Year	Three Years	Five Years	Fiscal Year To Date
Permanent University Fund	$ 8,452.3	$ 7,749.6	0.37	0.34	6.06	10.90	(5.85)
Permanent Health Fund (1)	1,016.6	917.5	0.60	(0.33)	N/A	N/A	(6.64)
Long Term Fund (1)	3,136.2	2,938.2	0.61	(0.14)	7.25	11.66	(6.19)
Separately Invested Funds	200.1	190.4	N/M	N/M	N/M	N/M	N/M
Endowment Policy Portfolio (Benchmark)			1.17	1.54	8.46	11.58	(3.36)
Total Endowment Funds	$ 12,805.2	$ 11,795.7					
OPERATING FUNDS							
Short Intermediate Term Fund	1,844.4	1,841.9	1.49	10.66	6.30	7.01	7.26
Composite Index			1.49	9.92	6.36	6.53	7.19
Short Term Fund	810.6	910.0	1.28	6.27	5.77	5.70	4.53
90 Day Treasury Bill Rate			1.29	6.03	5.47	5.42	4.56
Institutional Index Funds:							
BGI Equity Index Fund B-Lendable (2)	44.5	109.4	1.62	(10.55)	6.15	15.13	(16.50)
BGI US Debt Index Fund B (3)	26.5	44.4	0.69	13.11	6.42	7.68	8.24
Total Operating Funds	2,726.0	2,905.7					
Total Investments	$ 15,531.2	$ 14,701.4					

breakeven — perf for endow
Benchmark derived by —

(1) As of March 1, 2001 the PHF and LTF invested their respective net asset values into the General Endowment Fund.

(2) The Equity Index Fund B replicates the returns of the S&P 500 Index.

(3) The US Debt Index Fund B replicates the returns of the Lehman Brothers Aggregate Index.

Dist.
$12. B
down 800 million

N/M - Not Meaningful

FY To date perf. Benefited by underweighting asset class

PERMANENT UNIVERSITY FUND PERFORMANCE

Marketable altern. equities helped us most

	Asset Allocation			Return		Total Attribution
				Nine Months Ended May 31, 2001		(Asset Allocation and Manager Performance)
	Neutral	Nine Month Average	As of May 31, 2001	Benchmark	PUF	
Equities:						
U.S. Mid/Large Cap	25.00%	21.20%	23.03%	-16.50%	-11.11%	1.70%
U.S. Small Cap	7.50%	9.97%	10.23%	-6.67%	-10.75%	-0.59%
Non U.S. Established Markets	12.00%	12.19%	11.49%	-17.66%	-21.83%	-0.69%
Non U.S. Emerging Markets	3.00%	3.38%	3.22%	-21.96%	-22.74%	-0.19%
Alternative Equities:						
Marketable	10.00%	8.89%	9.40%	10.15%	15.25%	0.19%
Nonmarketable	15.00%	15.43%	14.77%	12.50%	-6.92%	-2.80%
Inflation Hedging	7.50%	6.52%	4.04%	5.01%	10.36%	0.17%
Fixed Income:						
U.S.	15.00%	16.34%	17.10%	8.24%	8.38%	0.05%
Non U.S.	5.00%	2.04%	2.04%	-1.97%	-1.98%	-0.06%
Cash	0.00%	4.04%	4.68%	4.56%	-12.30%	-0.27%
Total	100.00%	100.00%	100.00%	-3.36%	-5.85%	-2.49%

negative due to 9 mo period (earlier) last yr 2000 used S&P 500 to equitize cash

We have reclassified — & include - w/ large cap perf.

PERMANENT UNIVERSITY FUND
PERFORMANCE (CONT.)

	Asset Allocation			Return		Total Attribution
				Three Months Ended May 31, 2001		(Asset Allocation and Manager Performance)
	Neutral	Three Month Average	As of May 31, 2001	Benchmark	PUF	
Equities:						
U.S. Mid/Large Cap	25.00%	21.82%	23.03%	1.62%	3.21%	0.32%
U.S. Small Cap	7.50%	9.64%	10.23%	5.07%	4.73%	0.05%
Non U.S. Established Markets	12.00%	11.38%	11.49%	-3.70%	-3.92%	-0.02%
Non U.S. Emerging Markets	3.00%	3.19%	3.22%	-5.29%	-2.26%	0.08%
Alternative Equities:						
Marketable	10.00%	9.32%	9.40%	3.07%	3.29%	-0.01%
Nonmarketable	15.00%	16.07%	14.77%	4.00%	-4.80%	-1.40%
Inflation Hedging	7.50%	3.96%	4.04%	1.48%	4.62%	0.11%
Fixed Income:						
U.S.	15.00%	17.48%	17.10%	0.69%	0.48%	-0.09%
Non U.S.	5.00%	2.10%	2.04%	-4.57%	-4.52%	0.17%
Cash	0.00%	5.04%	4.68%	1.29%	1.15%	-0.01%
Total	100.00%	100.00%	100.00%	1.17%	0.37%	-0.80%

Where did we lose — function of benchmark

GENERAL ENDOWMENT FUND
PERFORMANCE
(Inception Date 3/1/2001)

	Asset Allocation			Return		Total Attribution
				Three Months Ended May 31, 2001		(Asset Allocation and Manager Performance)
	Neutral	Three Month Average	As of May 31, 2001	Benchmark	GEF	
Equities:						
U.S. Mid/Large Cap	25.00%	24.32%	25.83%	1.62%	2.72%	0.23%
U.S. Small Cap	7.50%	9.93%	10.63%	5.07%	4.99%	0.09%
Non U.S. Established Markets	12.00%	12.22%	12.43%	-3.70%	-3.84%	-0.05%
Non U.S. Emerging Markets	3.00%	3.37%	3.43%	-5.29%	-2.23%	0.08%
Alternative Equities:						
Marketable	10.00%	10.38%	10.60%	3.05%	3.26%	0.02%
Nonmarketable	15.00%	11.22%	10.54%	4.00%	-5.05%	-1.14%
Inflation Hedging	7.50%	4.03%	4.15%	1.48%	4.62%	0.11%
Fixed Income:						
U.S.	15.00%	17.66%	17.63%	0.70%	0.69%	-0.06%
Non U.S.	5.00%	2.39%	2.33%	-4.57%	-4.46%	0.16%
Cash	0.00%	4.48%	2.43%	1.29%	1.37%	0.01%
Total	100.00%	100.00%	100.00%	1.17%	0.62%	-0.55%

PERFORMANCE COMPARISON
for Periods ended March 31, 2001

Fund	1 Year	3 Years
UTIMCO - PUF (net)	-6.59%	4.77%
UTIMCO - PHF (net) (1)	-8.47%	N/A
UTIMCO - LTF (net) (1)	-7.86%	**5.62%**
UTIMCO - Endowment Policy Benchmark	-5.25%	6.89%
Russell/Mellon Foundation & Endowment Universe (2)	-8.26%	4.95%
Russell/Mellon Universe of Funds >$1BN (3)	-10.16%	5.09%
Russell/Mellon Trust Universe (4)	-9.36%	4.87%
Texas Permanent School Fund	-11.06%	5.14%
Texas Teacher Retirement System	-9.90%	4.33%
Texas Employees Retirement System	**-6.11%**	4.39%

(1) As of March 1, 2001 the PHF and LTF invested their respective net asset values into the General Endowment Fund.

(2) Median return for universe of 91 and 66 funds, respectively.

(3) Median return for universe of 87 and 82 funds, respectively.

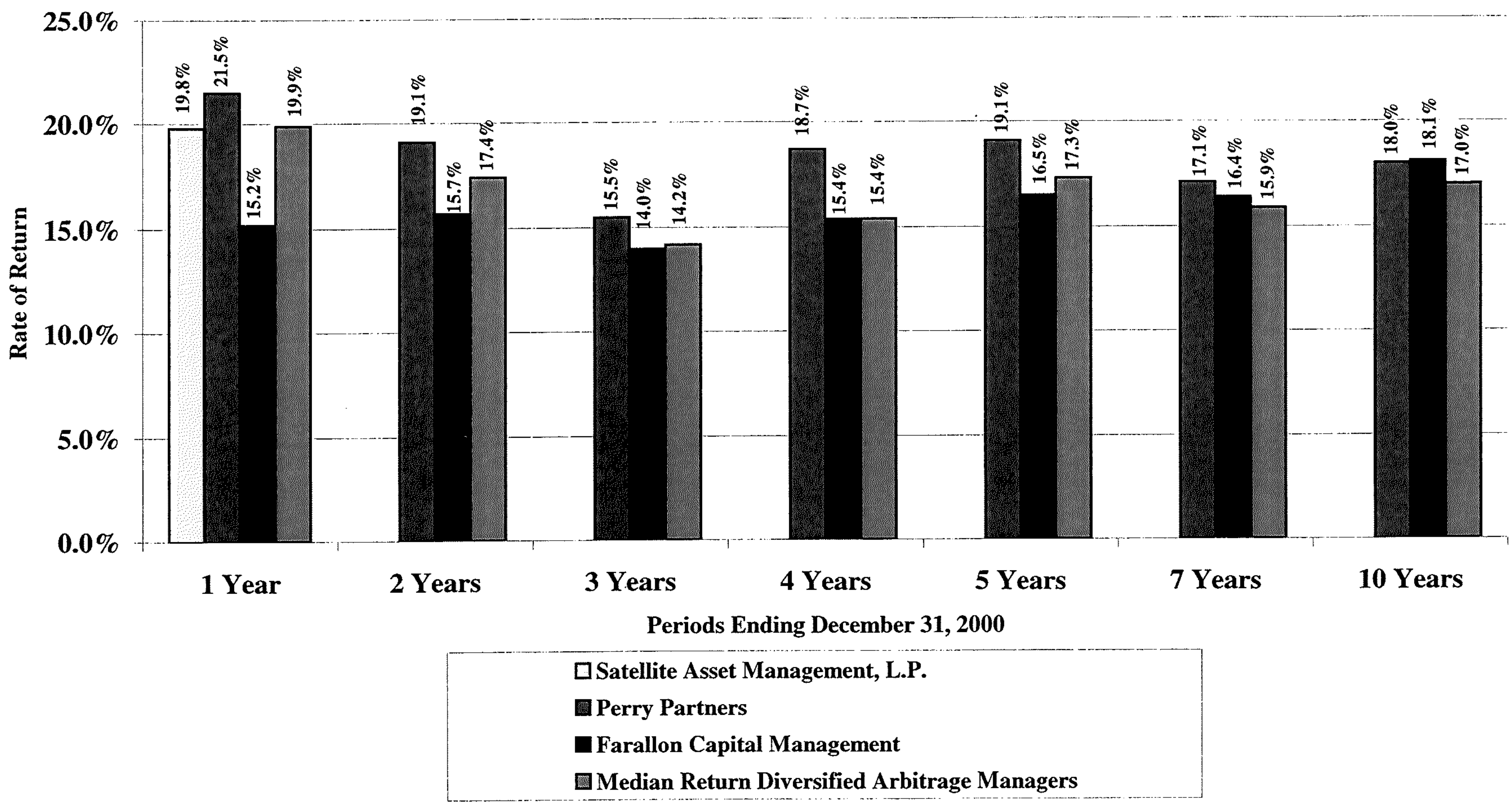
(4) Median return for universe of 331 and 282 funds, respectively.

LTF outperf
all on
3 yr.

CAMBRIDGE ASSOCIATES COMPARISONS ON UTIMCO'S ALTERNATIVE EQUITIES - MARKETABLE MANAGERS

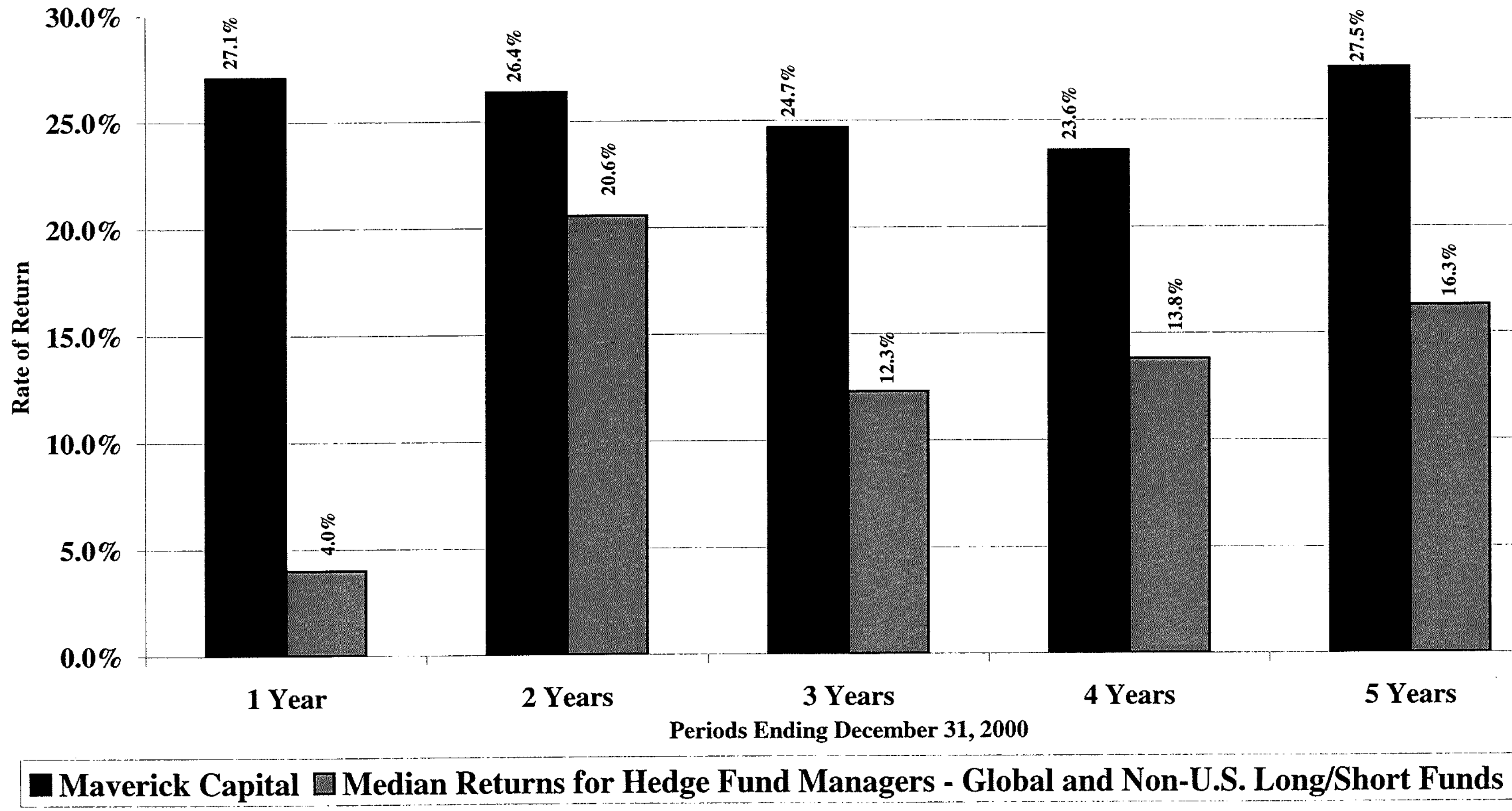
12/31/2000

UTIMCO Arbitrage Managers Vs. Cambridge Median Returns for Diversified Arbitrage Managers



Source: Cambridge Associates, Inc. "Event" Arbitrage 2001 Report

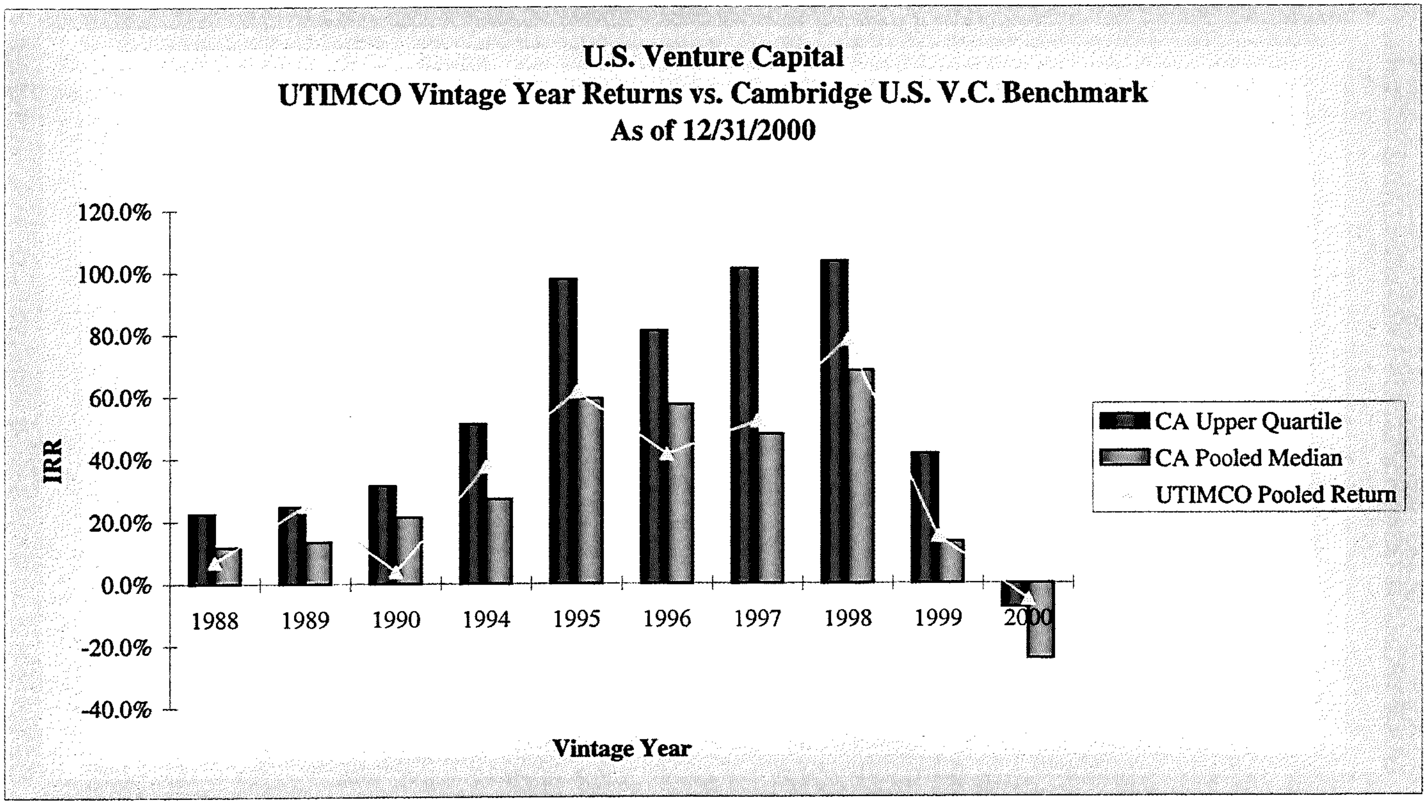
UTIMCO Hedge Managers Vs. Cambridge Median Returns for Hedge Fund Managers



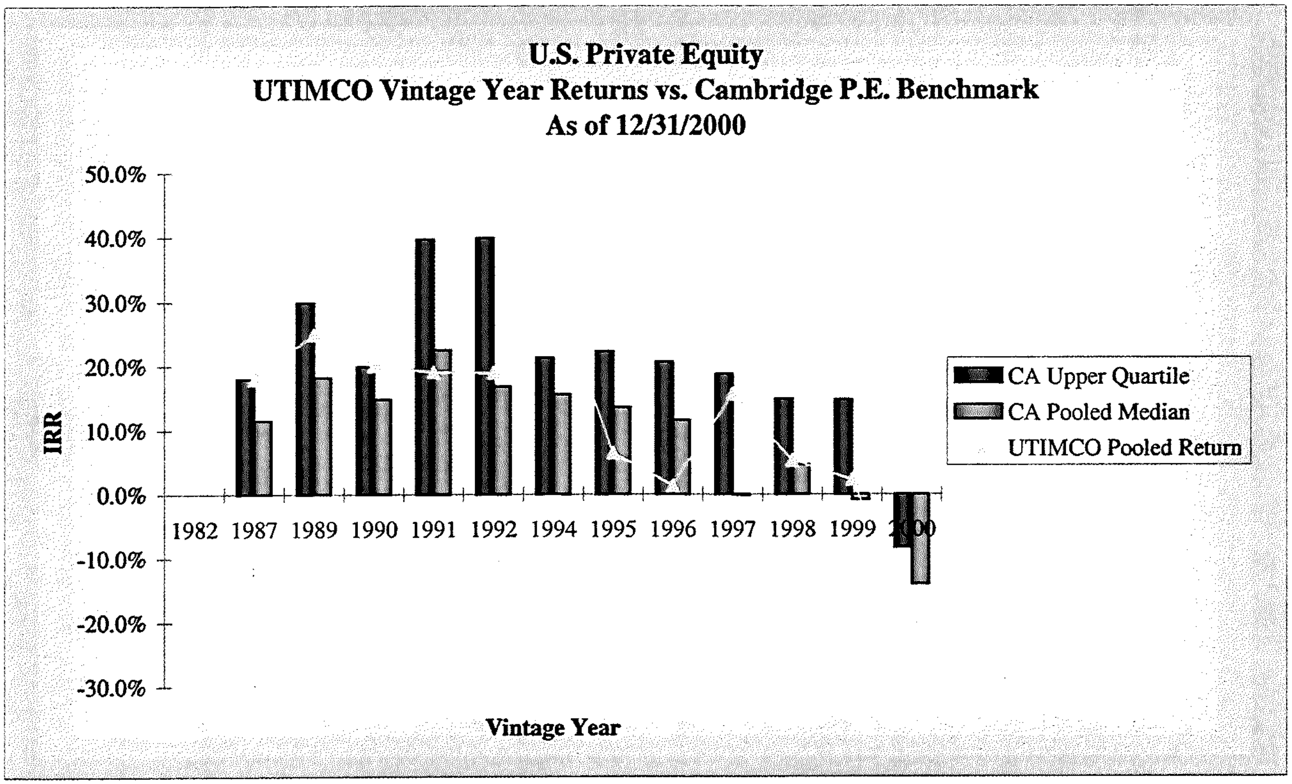
Source: Cambridge Associates, Inc. Hedge Funds 2001 Report

CAMBRIDGE ASSOCIATES COMPARISONS ON UTIMCO'S ALTERNATIVE EQUITIES - NONMARKETABLE

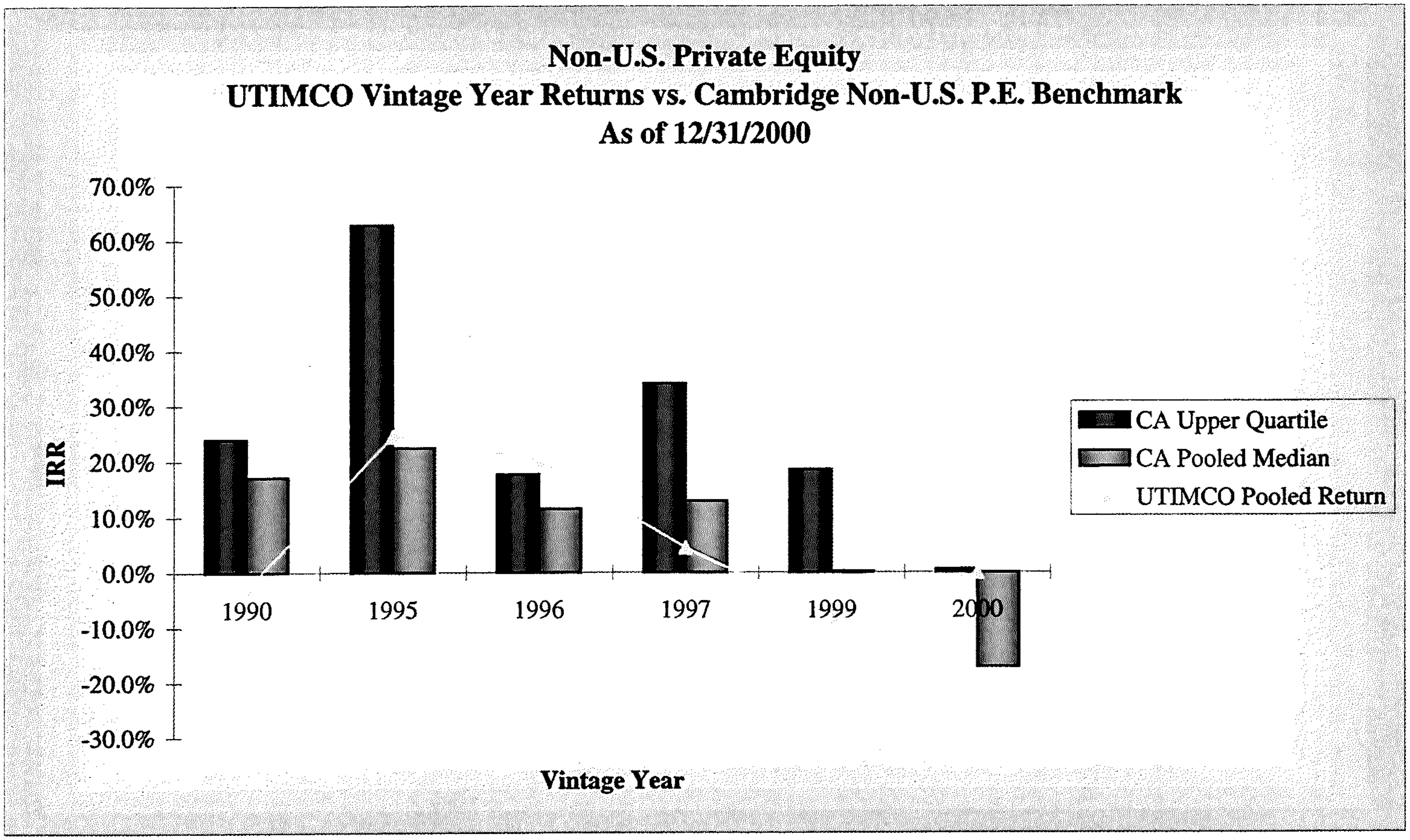
12/31/2000



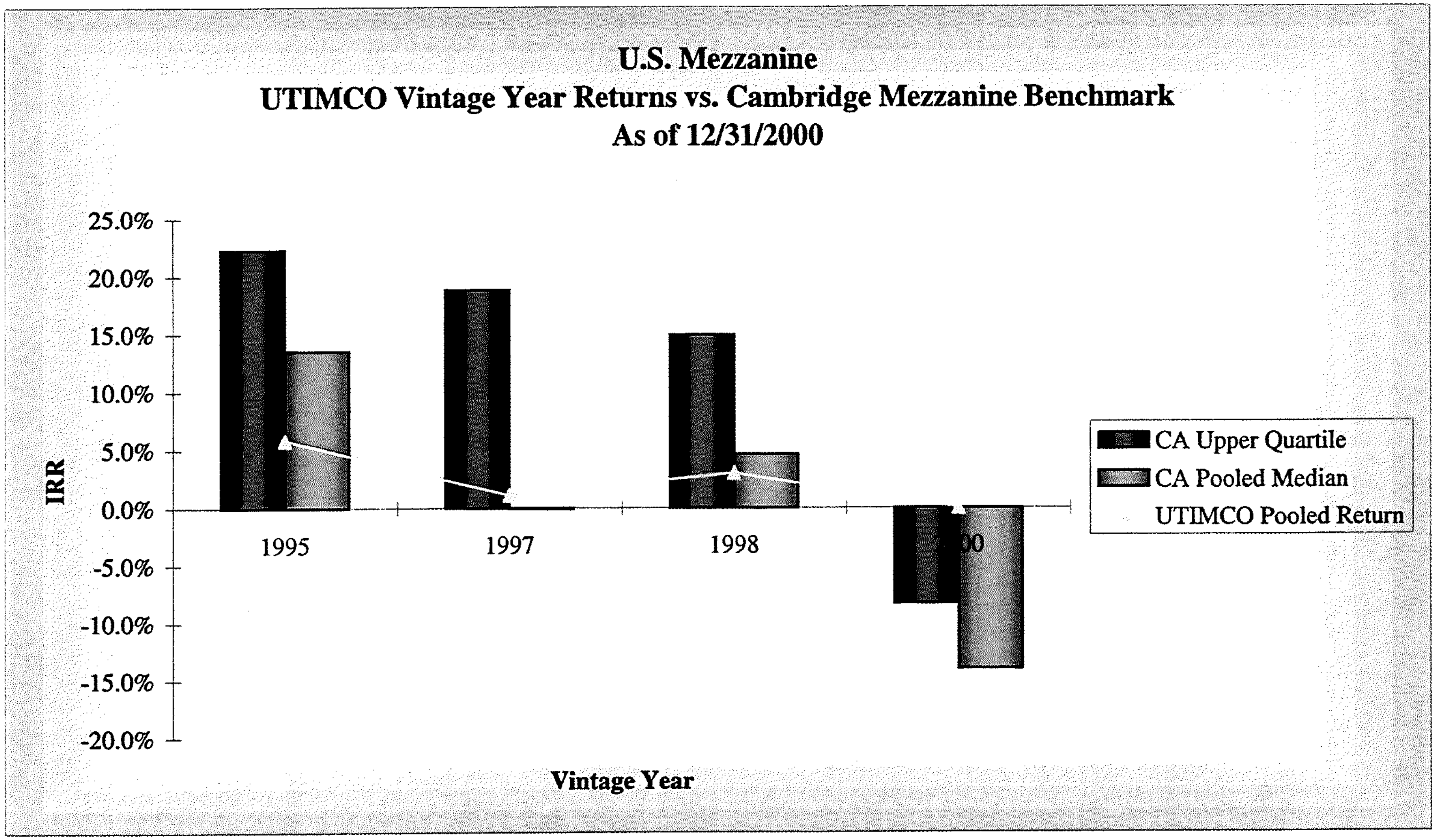
Vintage	Cambridge Upper Quartile	Cambridge Pooled Median	UTIMCO Pooled Return
1988	22.5%	11.6%	6.9%
1989	24.7%	13.3%	25.1%
1990	31.5%	21.3%	3.8%
1994	51.1%	27.1%	37.5%
1995	97.8%	59.4%	61.5%
1996	81.2%	57.4%	41.5%
1997	101.3%	47.8%	52.1%
1998	103.7%	68.3%	78.3%
1999	41.6%	13.3%	15.1%
2000	-7.6%	-24.2%	-5.2%



Vintage	CA Upper Quartile	CA Pooled Median	UTIMCO Pooled Return
1982	NA	NA	35.3%
1987	18.0%	11.5%	18.0%
1989	29.9%	18.2%	25.0%
1990	19.9%	14.8%	20.1%
1991	39.7%	22.5%	19.1%
1992	39.9%	16.8%	19.0%
1994	21.3%	15.6%	32.6%
1995	22.3%	13.6%	6.5%
1996	20.7%	11.6%	1.4%
1997	18.8%	-0.1%	15.7%
1998	14.9%	4.6%	5.3%
1999	14.8%	-0.8%	2.3%
2000	-8.3%	-14.0%	-19.2%



Vintage	Cambridge Upper Quartile	Cambridge Pooled Median	UTIMCO Pooled Return
1990	24.0%	17.2%	-2.9%
1995	62.8%	22.4%	24.5%
1996	17.7%	11.5%	20.0%
1997	34.1%	12.9%	4.5%
1999	18.6%	0.2%	-8.2%
2000	0.6%	-17.1%	NA



Vintage	Cambridge Upper Quartile	Cambridge Pooled Median	UTIMCO Pooled Return
1995	22.32%	13.55%	5.84%
1997	18.84%	-0.05%	1.14%
1998	14.92%	4.62%	3.03%
2000	-8.31%	-13.99%	0.00%

UPDATE ON
UTIMCO ACTIVITIES

TO BE DISTRIBUTED
AT THE MEETING

PLEASE REFER TO
CAPITAL GUARDIAN TRUST COMPANY
PRESENTATION

(BOUND SEPARATELY)

LEGISLATIVE REVIEW

TO BE DISTRIBUTED AT THE MEETING

UTIMCO Code of Ethics
Section XI. Key Employee

Section XI. Key Employees

A. The Board shall designate by position with UTIMCO the employees who exercise significant decision-making authority. By virtue of their position with UTIMCO, these persons are "key employees".

B. Employees designated as key employees must acknowledge their key employee status in writing through the annual ethics compliance statement.

C. Requirements of this Code which are specifically applicable to key employees are the following:

(1) disciplinary action disclosure; and

(2) advance approval of outside employment, including service as a director, officer, investment consultant, or manager for another person or entity.

Recommendation to designate the following UTIMCO employees as key employees:

Cathy A. Iberg	Interim President and Chief Executive Officer
Greg Cox	Portfolio Manager – Equity Investments
J. Russell Kampfe	Senior Portfolio Manager – Fixed Income Investments
Harland B. Doak, Jr.	Portfolio Manager – Fixed Income Investments
Joan B. Moeller	Accounting and Security Operations Manager
Sara J. Skone	Investment Officer – Private Markets

UTIMCO Fee and Direct Budgeted Investment Expenses
Annual Fee and Allocation Schedule
For the fiscal year ending August 31, 2001

Proposed Budget	Fund Name					Separate Funds	Total
	PUF	PHF	LTF	S/ITF	STF		
Market Value 2/29/00 ($ millions)	**7,924.8**	**965.3**	**2,967.0**	**1,886.6**	**749.2**	**236.0**	**14,728.9**
UTIMCO Services(1)	**3,329,925**	**485,538**	**2,315,274**	**439,185**			**6,569,921**
Direct Expenses of the Fund							
External Management Fees	9,111,114	1,247,447	3,546,974		N/A (2)		13,905,535
External Management Fees - Performance Based	5,075,348	646,958	1,936,625				7,658,931
Other Direct Costs	1,383,460	559,938	797,292	119,637		5,000	2,865,328
Total Direct Expenses of the Fund	15,569,922	2,454,343	6,280,892	119,637		5,000	24,429,795
TOTAL	**18,899,847**	**2,939,881**	**8,596,166**	**558,822**	N/A (2)	**5,000**	**30,999,716**
Percentage of Market Value							
UTIMCO Services	0.042%	0.050%	0.078%	0.023%	0.000%	0.000%	0.045%
Direct Expenses of the Fund	0.196%	0.254%	0.212%	0.006%	0.000%	0.002%	0.166%
TOTAL	**0.238%**	**0.305%**	**0.290%**	**0.030%**	**0.000%**	**0.002%**	**0.210%**

(1) Allocation Ratio: PUF-51%,Health Fund-7%,LTF-35%, SITF-7%

(2) Income is net of fees

no change in private investment staff or performance compensation plan

(amounts may not foot due to rounding adjustments)

UTIMCO Fee and Direct Budgeted Investment Expenses
Annual Fee and Allocation Schedule
For the fiscal year ending August 31, 2002

Proposed Budget	Fund Name						Separate Funds	Total
	PUF	PHF	LTF	GEF (PHF LTF)	S/ITF	STF		
Market Value 2/28/01 ($ millions)	**7,686.9**	**922.5**	**2,918.1**	**3,840.6**	**1,909.3**	**892**	**272.4**	**14,601.2**
UTIMCO Services(1)	**3,274,506**	**558,026**	**2,285,475**		**580,269**			**6,698,276**
Direct Expenses of the Fund								
External Management Fees	8,474,148	0		4,314,168		N/A (2)		12,788,316
External Management Fees - Performance Based	4,619,509	0		2,780,603				7,400,111
Other Direct Costs	2,717,816	17,593	58,385	2,151,907	131,442		5,000	5,082,144
Total Direct Expenses of the Fund	15,811,473	17,593	58,385	9,246,677	131,442		5,000	25,270,571
TOTAL	**19,085,979**	**575,619**	**2,343,861**	**9,246,677**	**711,711**	N/A (2)	**5,000**	**31,968,847**
Percentage of Market Value								
UTIMCO Services	0.043%	0.060%	0.078%	0.000%	0.030%	0.000%	0.000%	0.046%
Direct Expenses of the Fund	0.206%	0.002%	0.002%	0.241%	0.007%	0.000%	0.002%	0.173%
TOTAL	**0.248%**	**0.062%**	**0.080%**	**0.241%**	**0.037%**	**0.000%**	**0.002%**	**0.219%**

(1) Allocation Ratio: PUF-49%,Health Fund-8%,LTF-34%, SITF-9%

(2) Income is net of fees

(amounts may not foot due to rounding adjustments)

UTIMCO
Reconciliation of 2001 budget to 2002

Projected Expenses

UTIMCO Services-2001 budget	$ 6,569,921	
Increases(Decreases) to Budget:		
Compensation- Regular	(93,283)	(Reduction in compensation due to decrease in staff size)
Performance Compensation	254,676	(Change in plan and budget for staff bonuses)
Payroll Taxes	17,023	(due to above)
Employee benefits and Payroll taxes	13,482	(due to above)
General Operating Expenses	(32,200)	(general reduction in budgeted costs)
Lease Expense	(218,730)	(non-recurring costs of new lease eliminated)
Professional fees	77,000	(to adjust for increase in legal fees)
Insurance-general	(1,205)	(renewal)
Depreciation	111,592	(furniture and leaseholds)
Budget 2002	$ 6,698,276	
Increase over Prior Year Budget-UTIMCO fees	2.0%	
Direct Expenses of the Fund- 2001 Budget	$ 24,429,795	
Increases(Decreases) to Budget:		
Management Fees-management changes, fee growth	(1,117,219)	(reduction in valuation of equity portfolios,management fees are asset based)
Management Fees-performance based	(258,820)	(same as above)
Custodian and Analytical Fees	(579,885)	(Savings due to consolidation of PHF and LTF to GEF, reduced asset size)
Cambridge Associates	2,799,844	(new contract)
Other direct costs	(3,143)	
Budget 2002	$ 25,270,571	
Increase over Prior Year Budget-Direct	3.4%	
Total Budget for 2001	$ 31,968,847	

(amounts may not foot due to rounding adjustments)

INDEPENDENT AUDITORS

ENGAGEMENT LETTER

Deloitte & Touche LLP
Suite 2300
333 Clay Street
Houston, Texas 77002-4196

Tel: (713) 982-2000
Fax: (713) 982-2001
www.us.deloitte.com

Deloitte & Touche

May 9, 2001

Ms. Cathy Iberg
The University of Texas Investment Management Company
Austin, Texas

Dear Ms. Iberg:

We are pleased to serve as independent accountants and auditors for The University of Texas Investment Management Company, The University of Texas System Long Term Fund, The University of Texas System Short Intermediate Term Fund, the Permanent Health Fund, the General Endowment Fund, and the Permanent University Fund (collectively, "UTIMCO and the Funds"). Mr. William O. Strange will be responsible for the services that we perform for UTIMCO and the Funds. He will be assisted by Mr. Eric Rothe, Assurance & Advisory Manager. Mr. Strange will, as he considers necessary, call on other individuals with specialized knowledge, either in this office or elsewhere in our firm, to assist in the performance of our services.

While auditing and reporting on UTIMCO and the Funds' annual financial statements for the year ending August 31, 2001, is the service that we are to provide under this engagement letter, we would also be pleased to assist UTIMCO and the Funds on issues as they arise throughout the year. Hence, we hope that UTIMCO and the Funds will call Mr. Strange whenever management believes he can be of assistance.

We will perform this engagement subject to the terms and conditions set forth herein.

Audit of Financial Statements

Our audit of UTIMCO and the Funds' financial statements for the year ending August 31, 2001, will be conducted in accordance with auditing standards generally accepted in the United States of America (hereinafter referred to as "generally accepted auditing standards").

We will plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. However, because of the characteristics of fraud, particularly those involving concealment and falsified documentation (including forgery), a properly planned and performed audit may not detect a material misstatement. Therefore, an audit conducted in accordance with generally accepted auditing standards is designed to obtain reasonable, rather than absolute, assurance that the financial statements are free of material misstatement. An audit is not designed to detect error or fraud that is immaterial to the financial statements.

An audit includes obtaining an understanding of internal control sufficient to plan the audit and to determine the nature, timing, and extent of audit procedures to be performed. An audit is not designed to provide assurance on internal control or to identify reportable conditions.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

The objective of our audit is the expression of an opinion on the fairness of the presentation of UTIMCO and the Funds' financial statements in conformity with accounting principles generally accepted in the United States of America (hereinafter referred to as "generally accepted accounting principles"), in all material respects. Our ability to express an opinion, and the wording of our opinion, will, of course, be dependent on the facts and circumstances at the date of our report. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or decline to issue a report as a result of this engagement. If we are unable to complete our audit or if our auditors' report requires modification, the reasons therefor will be discussed with UTIMCO and the Funds' management and the Audit Committee.

Management's Responsibility

The financial statements are the responsibility of UTIMCO and the Funds' management. In this regard, management has the responsibility for, among other things, (1) establishing and maintaining effective internal control over financial reporting, (2) identifying and ensuring that UTIMCO and the Funds comply with the laws and regulations applicable to their activities, (3) properly recording transactions in the accounting records, (4) adjusting the financial statements to correct material misstatements, (5) making appropriate accounting estimates, (6) safeguarding assets, (7) the overall accuracy of the financial statements and their conformity with generally accepted accounting principles, and (8) making all financial records and related information available to us.

We will make specific inquiries of UTIMCO and the Funds' management about the representations embodied in the financial statements. As part of our audit procedures, we will request that management provide us with a representation letter acknowledging management's responsibility for the preparation of the financial statements and affirming management's belief that the effects of any uncorrected financial statement misstatements aggregated by us during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We will also request that management confirm certain representations made to us during our audit. The responses to those inquiries and related written representations of management required by generally accepted auditing standards are part of the evidential matter that we will rely on as auditors in forming our opinion on UTIMCO and the Funds' financial statements. Because of the importance of management's representations, UTIMCO and the Funds agree to release and indemnify Deloitte & Touche LLP and its personnel from all claims, liabilities, and expenses relating to our services under this engagement letter attributable to any misrepresentation by management.

If UTIMCO and the Funds intend to publish or otherwise reproduce in any document our report on UTIMCO and the Funds' financial statements, or otherwise make reference to Deloitte & Touche LLP in a document that contains other information in addition to the audited financial statements (e.g., in a periodic filing with a regulator, in a debt or equity offering circular, or in a private placement memorandum), thereby associating Deloitte & Touche LLP with such document, UTIMCO and the Funds agree that management will provide us with a draft of the document to read and obtain our approval for the inclusion or incorporation by reference of our report, or the reference to Deloitte & Touche LLP, in such document before the document is printed and distributed. The inclusion or incorporation by reference of our report in any such document would constitute the reissuance of our report. UTIMCO and the Funds also agree that management will notify us and obtain our approval prior to including our report on an electronic site.

Our engagement to perform the services described above does not constitute our agreement to be associated with any such documents published or reproduced by or on behalf of UTIMCO and the Funds. Any request by UTIMCO and the Funds to reissue our report, to consent to its inclusion or incorporation by reference in an offering or other document, or to agree to its inclusion on an electronic site will be considered based on the facts and circumstances existing at the time of such request. The estimated fees outlined herein do not include any services that would need to be performed in connection with any such request; fees for such services (and their scope) would be subject to our mutual agreement at such time as we are engaged to perform the services and would be described in a separate engagement letter.

Other Communications Arising From the Audit

In connection with the planning and the performance of our audit, generally accepted auditing standards require that certain matters be communicated to the Audit Committee. We will report directly to the Audit Committee any fraud of which we become aware that involves senior management, and any fraud (whether caused by senior management or other employees) of which we become aware that causes a material misstatement of the financial statements. We will report to senior management any fraud perpetrated by lower level employees of which we become aware that does not cause a material misstatement of the financial statements; however, we will not report such matters directly to the Audit Committee, unless otherwise directed by the Audit Committee.

We will inform the appropriate level of management of UTIMCO and the Funds and determine that the Audit Committee is adequately informed with respect to illegal acts that have been detected or have otherwise come to our attention in the course of our audit, unless the illegal act is clearly inconsequential.

We will also report directly to UTIMCO and the Funds' management and the Audit Committee matters coming to our attention during the course of our audit that we believe are reportable conditions. Reportable conditions are significant deficiencies in the design or operation of internal control that could adversely affect UTIMCO and the Funds' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, we will communicate to the Audit Committee, or determine that the Audit Committee is informed, about certain other matters related to the conduct of our audit, including, when applicable:

- Our responsibility as auditors under generally accepted auditing standards
- Significant accounting policies
- Management judgments and accounting estimates
- Audit adjustments
- Other information in documents containing audited financial statements
- Disagreements with management
- Consultation by management with other accountants on significant matters
- Difficulties encountered in performing the audit
- Major issues discussed with management prior to our retention as auditors.

We may also have other comments for management on matters we have observed and possible ways to improve the efficiency of UTIMCO and the Funds' operations or other recommendations concerning internal control.

With respect to these other communications, it is our practice to discuss all comments, if appropriate, with the level of management responsible for the matters, prior to their communication to senior management and/or the Audit Committee.

Coordination of the Audit

We will plan the performance of our audit in accordance with the following timetable:

Audit Performance Schedule:	
Planning and internal control testwork	June/July 2001
Final field work	September/October 2001
Report on financial statements and management letter	October 2001

Assistance to be supplied by your personnel, including preparation of schedules and analyses of accounts, will be described in a separate attachment. Timely completion of this work will facilitate the completion of our audit by the targeted completion dates.

We will notify you promptly of any circumstances we encounter that could significantly change the targeted completion dates.

Fees

We estimate that our total fees for these audits will be the following, plus actual expenses (e.g., travel, typing, telephone).

Permanent University Fund	$ 38,000
The University of Texas System Long Term Fund	8,000
The University of Texas System Short Intermediate Term Fund	8,000
Permanent Health Fund	6,000
General Endowment Fund	25,000
UTIMCO	5,900
Investment Performance Statistics	4,100
	$ 95,000

Invoices will be sent according to the timing of our work, and payments are due upon receipt. Expenses will be billed in addition to the fee. Expenses will be stated separately on the invoices.

We will notify you promptly of any circumstances we encounter that could significantly affect our estimate. Additional services provided beyond the described scope of services will be billed separately.

* * * * * * *

If the above terms are acceptable to UTIMCO and the Funds and the services outlined are in accordance with your understanding, please sign the copy of this letter in the space provided and return it to us.

Yours truly,

Deloitte & Touche LLP

Accepted and agreed to by
UTIMCO and the Funds:

By:______________________________

Title:____________________________

Date:____________________________

DRAFT

CONFIDENTIAL

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY (UTIMCO)

Executive

PRESIDENT AND CHIEF ~~INVESTMENT~~ OFFICER

POSITION SPECIFICATION

COMPANY

The University of Texas Investment Management Company (UTIMCO) is a 501(c)(3) investment management corporation whose sole purpose is the management of investment assets under the fiduciary care of the Board of Regents of The University of Texas System. Created in March 1996, UTIMCO is the first external investment corporation formed by a public university system. It invests endowment and operating funds in excess of $16 billion, including the Permanent University Fund, the Permanent Health Fund, the Long Term Fund, the Short Term Fund and the Short Intermediate Term Fund, among other funds. UTIMCO is governed by a nine-member Board of Directors appointed by the UT System Board. The UTIMCO Board of Directors includes three members of the UT System Board, the Chancellor of The University of Texas System, and five outside investment professionals.

Reporting Relationship

This position reports to the Board of Directors at UTIMCO.

PROFESSIONAL REQUIREMENTS

Given the significant responsibilities of the position of President and Chief Investment Officer, our client seeks a well-regarded and ~~well-known~~ senior investment professional with strong leadership experience in the investment management ~~industry.~~ process or arena Broad investment management skills and experience are required as this individual should have the ~~ability to invest~~ knowledge across all asset classes within UTIMCO's sophisticated investment management ~~operation~~ process. In order to maximize the Company's asset allocation, the organization works both with a professional staff internally, as well as with a variety of well-regarded outside investment management organizations.

As this position is a key communication point with a variety of constituencies, including The Board of Regents of The University of Texas System, as well as the leadership bodies for

Official start date – today

all of the colleges contained within the system and Texas A&M University, this position will require strong abilities in this area. The investment of public funds requires this individual to communicate not only with the various educational institutions in the State of Texas, but also with the State Legislature and other governmental entities.

PROFESSIONAL RESPONSIBILITIES

This individual will manage the entire organization from an investment, as well as administrative standpoint. Reporting to the Board of Directors of this organization, this individual will be responsible for maintaining its reputation as a well-regarded and sophisticated investment organization. The attraction, retention, motivation and mentoring of the investment staff is of critical importance, as well as the overall leadership of the organization's staff of 25 people.

PERSONAL CHARACTERISTICS

In order to accomplish the mission, the President and Chief Investment Officer should have outstanding investment, communications, as well as leadership skills within the investment field. This individual will clearly be a sophisticated investment thinker with a strong desire to maintain UTIMCO's outstanding reputation.

In addition, the successful candidate must be a person of high ethics and integrity who is well respected within the investment community, not only for his/her technical skills, but also for his/her credibility and high standards of professional conduct.

DAM/dl
SR100325392
June 14, 2001