

*Confidential*

***The University of Texas  
Investment Management  
Company***



***Presentation Materials  
Board of Directors Meeting***

*December 12-13, 2001*

**UTIMCO  
BOARD OF DIRECTORS MEETING**

Fairmont Hotel  
1717 N. Akard St.  
Dallas, TX 75201

**December 12-13, 2001**

**AGENDA**

- |                                |   |
|--------------------------------|---|
| <b>5:30 p.m. – 5:35 p.m.</b>   | <b>Call to Order</b>  |
| <b>5:35 p.m. – 6:00 p.m.</b>   | Appointment of Chairman and Vice-Chairman of the Board *<br>Appointment and Resignation of Board of Directors *<br>Resolution of Appreciation *   |
| <b>6:00 p.m.</b>               | <b>Recess</b>   |
| <b>8:30 a.m. – 8:35 a.m.</b>   | <b>Reconvene</b><br>Approval of Minutes of October 26, 2001 and November 26, 2001, Meetings*  |
| <b>8:35 a.m. – 9:00 a.m.</b>   | <b>Alternative Equities – Nonmarketable Update</b>  |
| <b>9:00 a.m. – 9:15 a.m.</b>   | <b>Fund Performance/Asset Allocation</b>  |
| <b>9:15 a.m. – 10:30 a.m.</b>  | <b>Strategy Discussion on Asset Allocation</b><br>(Cathy Iberg and Cambridge Associates LLC, Bruce Myers)   |
| <b>10:30 a.m. – 10:45 a.m.</b> | <b>[Break]</b>  |
| <b>10:45 a.m. - 11:15 a.m.</b> | <b>Oaktree Capital Management, LLC</b><br>(Howard Marks and Greg Bradner)<br>OCM Emerging Markets Fund and OCM Distressed Debt Funds  |
| <b>11:15 a.m. – 11:30 a.m.</b> | <b>Approval of Commitment to OCM Emerging Markets Fund*</b><br><b>Approval of Barclays Global Structured Tiered Emerging Markets Fund*</b><br><b>Approval of Barclays Global Russell 2000 Alpha Tilts Fund*</b>   |
| <b>11:30 a.m. – 11:40 a.m.</b> | <b>Selection of Nominating Committee for Board of Directors*</b>  |
| <b>11:40 a.m. - 12:00 p.m.</b> | <b>Executive Session</b><br>- Pursuant to Section 551.074, Texas Government Code, the Board of Directors shall convene in Executive Session for the purpose of deliberating the employment of a new President and CEO and other personnel matters.<br><b>Report of Chief Executive Officer Search Committee</b><br><b>Reconvene into Open Session</b><br>- Act on recommendation of Chief Executive Officer Search Committee for position of President and CEO* |
| <b>12:00 p.m.</b>              | <b>Adjournment</b>  |

\* Action by resolution required

**Next Scheduled Meeting: February 19, 2002**

## **Resolution No. 1**

WHEREAS, Section 66.08 Texas Education Code (the "Code") requires that the Board of Regents of The University of Texas System (the "Board of Regents") appoint and remove all members of the UTIMCO Board; and

WHEREAS, Mr. Allen served as The Texas A&M University System Regents' representative on the UTIMCO Board serving from March 1996 to his resignation effective November 1, 2001; and

WHEREAS, it is recommended that Mr. R. H. (Steve) Stevens, Jr., of Houston, Texas, be appointed to the Board to serve the remainder of the term of Mr. Robert H. Allen which expires on April 1, 2002, and for a three-year term thereafter ending April 1, 2005, or until his successor has been chosen and qualified, or until his earlier death, resignation, or removal.

RESOLVED, that the appointment of Mr. R. H. (Steve) Stevens, Jr. to the UTIMCO Board by the Board of Regents to replace Mr. Robert H. Allen, is hereby accepted.

## **Resolution No. 2**

RESOLVED, that following the resignation of Mr. Robert H. Allen as Chairman of the Corporation, Mr. A. W. "Dub" Riter, Jr. is hereby appointed to the office of Chairman of the Corporation, and Mr. J. Luther King, Jr. is hereby appointed to the office of Vice-Chairman of the Corporation to serve until the next Annual Meeting of the Corporation or until his resignation or removal.



### **Resolution No. 3**

RESOLVED, that the minutes of the meeting of the Board of Directors held on October 26, 2001, and the minutes of the joint meeting of the Board of Directors and Chief Executive Officer Search Committee held on November 26, 2001, be and are hereby approved.

**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 26th day of October, 2001, at the offices of the Corporation, 221 W. Sixth Street, Suite 1700, Austin, Texas, said meeting having been called by the Chairman, 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  
A.W. "Dub" Riter, Jr., Vice Chairman  
R. D. Burck  
Susan M. Byrne  
Rita C. Clements  
J. Luther King, Jr.  
L. Lowry Mays  
Woody L. Hunt

thus, constituting a majority and quorum of the Board. Director John D. McStay was not present at the meeting. Also, participating in the meeting was Cathy Iberg, Interim President of the Corporation; Christy Wallace, Interim Secretary of the Corporation; and Jerry Turner, legal counsel for the Corporation. Mr. Allen called the meeting to order at 9:40 a.m. Copies of materials supporting the Board meeting agenda were previously furnished to each Director or distributed at the meeting.

**Alternative Equities – Nonmarketable**

The first three items presented to the Board of Directors were review and approval to invest up to \$50 million in Blackstone Capital Partners IV, L.P.; \$40 million in OCM Opportunities Fund IV, L.P.; and \$30 million in Warburg Pincus Private Equity VIII, L.P. Ms. Iberg reviewed the Corporation's investment recommendations and Cambridge Associates' concurring recommendations, previously distributed to the Directors, and answered their questions. Upon motion duly made and seconded, the following resolutions were unanimously adopted:

WHEREAS, the Board has reviewed Investment Recommendations prepared by the Corporation and the Corporation's private equity advisor, Cambridge Associates LLC, recommending that the Corporation enter into a limited partnership agreement (the "Agreement") with The Blackstone Group to invest up to \$50 million of PUF and GEF assets in **Blackstone Capital Partners IV, L.P.**; and

WHEREAS, the Corporation has determined that the Agreement does not constitute an agreement or transaction entered into in violation of Subsection 66.08(i) of the Texas Education Code;

NOW, THEREFORE, BE IT RESOLVED, that the terms and provisions of the proposed investment as described in the Investment Recommendations dated October 26, 2001 for **Blackstone Capital Partners IV, L.P.** be approved; and be it further

RESOLVED, that the President and CEO, and any Managing Director of this Corporation be, and each of them hereby is, authorized to make such further revisions to the terms and provisions as may be necessary or in the best interests of this Corporation, excluding an increase in the amount of the capital commitment to **Blackstone Capital Partners IV, L.P.**; and be it further

RESOLVED, that the President and CEO, any Managing Director, and the Secretary of this Corporation be, and each of them hereby is, authorized and empowered (any one of them acting alone) to do or cause to be done all such acts or things and to sign and deliver, or cause to be signed and delivered, all such documents, instruments and certificates (including, without limitation, all notices and certificates required or permitted to be given or made under the terms of the Agreement), in the name and on behalf of the Corporation, or otherwise, as such officer of this Corporation may deem necessary, advisable or appropriate to effectuate or carry out the purposes and intent of the foregoing resolutions and to perform the obligations of this Corporation under the Agreement and the instruments referred to therein.

And,

WHEREAS, the Board has reviewed Investment Recommendations prepared by the Corporation and the Corporation's private equity advisor, Cambridge Associates LLC, recommending that the Corporation enter into a limited partnership agreement (the "Agreement") with Oaktree Capital Partners, LLC to invest up to \$40 million of PUF and GEF assets in **OCM Opportunities Fund IV, L.P.**; and

WHEREAS, the Corporation has determined that the Agreement does not constitute an agreement or transaction entered into in violation of Subsection 66.08(i) of the Texas Education Code;

NOW, THEREFORE, BE IT RESOLVED, that the terms and provisions of the proposed investment as described in the Investment Recommendations dated October 26, 2001 for **OCM Opportunities Fund IV, L.P.** be approved; and be it further

RESOLVED, that the President and CEO, and any Managing Director of this Corporation be, and each of them hereby is, authorized to make such further revisions to the terms and provisions as may be necessary or in the best interests

of this Corporation, excluding an increase in the amount of the capital commitment to **OCM Opportunities Fund IV, L.P.**; and be it further

RESOLVED, that the President and CEO, any Managing Director, and the Secretary of this Corporation be, and each of them hereby is, authorized and empowered (any one of them acting alone) to do or cause to be done all such acts or things and to sign and deliver, or cause to be signed and delivered, all such documents, instruments and certificates (including, without limitation, all notices and certificates required or permitted to be given or made under the terms of the Agreement), in the name and on behalf of the Corporation, or otherwise, as such officer of this Corporation may deem necessary, advisable or appropriate to effectuate or carry out the purposes and intent of the foregoing resolutions and to perform the obligations of this Corporation under the Agreement and the instruments referred to therein.

And,

WHEREAS, the Board has reviewed Investment Recommendations prepared by the Corporation and the Corporation's private equity advisor, Cambridge Associates LLC, recommending that the Corporation enter into a limited partnership agreement (the "Agreement") with Warburg Pincus & Co., LLC to invest up to \$30 million of PUF and GEF assets in **Warburg Pincus Private Equity VIII, L.P.**; and

WHEREAS, the Corporation has determined that the Agreement does not constitute an agreement or transaction entered into in violation of Subsection 66.08(i) of the Texas Education Code;

NOW, THEREFORE, BE IT RESOLVED, that the terms and provisions of the proposed investment as described in the Investment Recommendations dated October 26, 2001 for **Warburg Pincus Private Equity VIII, L.P.** be approved; and be it further

RESOLVED, that the President and CEO, and any Managing Director of this Corporation be, and each of them hereby is, authorized to make such further revisions to the terms and provisions as may be necessary or in the best interests of this Corporation, excluding an increase in the amount of the capital commitment to **Warburg Pincus Private Equity VIII, L.P.**; and be it further

RESOLVED, that the President and CEO, any Managing Director, and the Secretary of this Corporation be, and each of them hereby is, authorized and empowered (any one of them acting alone) to do or cause to be done all such acts or things and to sign and deliver, or cause to be signed and delivered, all such documents, instruments and certificates (including, without limitation, all notices and certificates required or permitted to be given or made under the terms of the Agreement), in the name and on behalf of the Corporation, or otherwise, as such officer of this Corporation may deem necessary, advisable or appropriate to effectuate or carry out the purposes and intent of the foregoing resolutions and to

perform the obligations of this Corporation under the Agreement and the instruments referred to therein.

The fourth item presented to the Board of Directors was a review and approval to enter into a stock purchase agreement to invest up to an additional \$4 million of PUF and GEF assets in Songbird Hearing, Inc. Ms. Iberg reviewed the Corporation's investment recommendation previously distributed to the Directors, and answered their questions. Upon motion duly made and seconded, the following resolution was unanimously adopted:

WHEREAS, the Board has reviewed the Investment Recommendation prepared by the Corporation recommending that the Corporation enter into a stock purchase agreement (the "Agreement") with Songbird Hearing, Inc. to invest up to an additional \$4 million of PUF and GEF assets in **Songbird Hearing, Inc.**; and

WHEREAS, the Corporation has determined that the Agreement does not constitute an agreement or transaction entered into in violation of Subsection 66.08(i) of the Texas Education Code;

NOW, THEREFORE, BE IT RESOLVED, that the terms and provisions of the proposed investment as described in the Investment Recommendations dated October 26, 2001 for **Songbird Hearing, Inc.** be approved; and be it further

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

RESOLVED, that the President and CEO, any Managing Director, and the Secretary of this Corporation be, and each of them hereby is, authorized and empowered (any one of them acting alone) to do or cause to be done all such acts or things and to sign and deliver, or cause to be signed and delivered, all such documents, instruments and certificates (including, without limitation, all notices and certificates required or permitted to be given or made under the terms of the Agreement), in the name and on behalf of the Corporation, or otherwise, as such officer of this Corporation may deem necessary, advisable or appropriate to effectuate or carry out the purposes and intent of the foregoing resolutions and to perform the obligations of this Corporation under the Agreement and the instruments referred to therein.

Ms. Iberg then presented a report on the write-offs of Alternative Investments-Nonmarketable for the year ended August 31, 2001. The PUF's, GEF's and LTF's loss reported for the year ended August 31, 2001 was \$80,704, 79,835 and 3,424 respectively. Ms. Iberg stated that the losses for the year were on fair market value basis of accounting, which is the method of reporting used for the funds' investments. Ms. Iberg answered the Directors'

questions. Upon motion duly made and seconded, and the following resolution was unanimously adopted:

RESOLVED, that compliance with the Corporation's valuation policy provision for book and market value write-offs of Alternative Investments-Nonmarketable for the period ended August 31, 2001, as presented to this meeting, be and are hereby ratified.

### **Market Update**

Ms. Iberg reviewed the current asset allocation, adopted after an asset-allocation study was completed in April of 1999, and comparative asset allocation data from Cambridge Associates, LLC dated March and June 30, 2001 for various college and foundation universes. Mr. Bruce Myers, of Cambridge Associates, LLC, presented a current market valuations summary dated October of 2001 for specific asset classes. Mr. Myers, Ms. Astrid Noltemy and Ms. Jennifer Urdan, also from Cambridge Associates, LLC, discussed future market opportunities for investment by the Corporation. Following the presentation, the Cambridge individuals answered the Directors' questions and left the meeting.

### **Minutes**

The next matter to come before the Board was approval of the minutes of the meeting of the Board of Directors held on August 22, 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 August 22, 2001, be and are hereby approved.

### **Board of Directors Annual Meeting Date**

The next item presented to the Board was the designation of the annual meeting for the purposes of electing officers for the ensuing year and transacting such other business as may be properly brought before such Annual Meeting. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the next Annual Meeting of the Corporation be held the third Thursday of April 2002, in Austin, Texas.

### **Open Meetings Act**

The next item brought forward to the Board was adoption of a resolution for the Corporation to comply with all laws subject to the Texas Public Information Act and Texas Open Meetings Act and that any resolutions or actions previously adopted or taken by the Board pertaining to this

subject matter are repealed and superceded. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, this Corporation and the various funds (the "UTIMCO Funds") that it administers and manages have recently become subject to the Open Meetings Act, Chapter 551, Texas Government Code (the "Open Meetings Act"), and since 1997 have been subject to the Public Information Act, Chapter 552, Texas Government Code (the "Public Information Act" and together with the Open Meetings Act, the "Acts"); and

WHEREAS, jointly, the Acts contain the "open government" laws of the State of Texas as the Public Information Act contains the "open records" laws of the State of Texas and the Open Meetings Act contains the "open meetings" laws of the State of Texas; and

WHEREAS, prior to becoming subject to the Acts this Board of Directors adopted resolutions designed to cause this Corporation and the UTIMCO Funds to substantially comply with the Acts as applicable to the Board of Regents of the University of Texas System; and

WHEREAS, this Board of Directors desires to restate the policy of this Corporation and the UTIMCO Funds to comply with the Acts;

NOW, THEREFORE, BE IT

RESOLVED, that management for this Corporation is hereby directed to cause this Corporation and the UTIMCO Funds to comply in all respects with the provisions of the Public Information Act, Chapter 552, Texas Government Code, and the Open Meetings Act, Chapter 551, Texas Government Code; and be it further

RESOLVED, that any resolutions or actions previously adopted or taken by this board pertaining to the subject matter of the immediately preceding resolution be and the same hereby are repealed and superceded in favor of such preceding resolution.

### **Amendments to Corporate Bylaws**

Mr. Turner then discussed proposed changes to the Corporate Bylaws. These changes will be subject to approval by the U. T. System Board of Regents in November 2001. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the amendments to the Corporation's Bylaws as presented to the Board, be and are hereby approved.

## **Performance Review**

Ms. Iberg reported on the performance of the assets under the Corporation's management for the periods ended September 30, 2001. The net performance for the three-month period ending September 30, 2001, for the Permanent University Fund (PUF), Permanent Health Fund (PHF) and Long Term Fund (LTF) were (7.90)%, (8.18)%, and (8.16)%, respectively. The net investment returns for the fiscal year-to-date period ending September 30, 2001, for the PUF, PHF, and the LTF were (5.62)%, (5.91)%, and (5.87)%, respectively. The Short Intermediate Term Fund's (SITF) performance was 0.93% versus 1.62% for its benchmark for the fiscal year-to-date period ended September 30, 2001. Performance for the Short Term Fund (STF) was 0.28% versus 0.43% for its benchmark for the fiscal year-to-date period ended September 30, 2001. Ms. Iberg reviewed the PUF's performance attribution for the year ended August 31, 2001, and reported on the returns for the various periods ended June 30, 2001, for the PUF, PHF and the LTF against various Russell/Mellon and Cambridge universes. Ms. Iberg also reported on the asset allocation of the Permanent University Fund and the General Endowment Fund (GEF) as of September 30, 2001, comparing actual versus their respective neutral policy portfolio. After her report, Ms. Iberg answered the Directors' questions.

At this point, Ms. Byrne and Mr. Mays left the meeting.

## **Executive Session**

Mr. Allen requested that the Directors convene in executive session to discuss the search for the President and Chief Executive Officer position of the Corporation. At 11:20 a.m. Mr. Allen announced that "the Board of Directors of The University of Texas Investment Management Company have 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 search for the President and Chief Executive Officer of The University of Texas Investment Management Company. This Executive Session meeting of the Board is authorized by Texas Government Code, Section 551.074 (Personnel Matters). The time is now 11:20 a.m."

The Board reconvened at 12:15 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 12:15 p.m. During the Executive Session, the Board discussed the search for the Corporation's President and CEO position, but did not take any votes."

## **Report of Compensation Committee**

Mr. King reported that at its meeting on October 10, 2001, the Compensation Committee reviewed and approved the 2001 Performance Compensation Awards for all Corporation employees (other than the Interim President and CEO) as recommended by Ms. Iberg.



**Performance Compensation Award for Interim President and CEO**

Next, the Board considered the 2001 Performance Compensation Award for the Interim President and CEO. After discussion, the following resolution was adopted:

RESOLVED, that in view of her outstanding leadership and service to the Corporation and in recognition of her immeasurable contributions during the current year, a special performance compensation award of \$50,000 be paid to the Interim President and CEO of The University of Texas Investment Management Company and that such award should be paid during the current year, without deferral of any amount.

There being no further business to come before the Board, the meeting was adjourned at approximately 12:20 p.m.

Interim Secretary: \_\_\_\_\_  
Christy W. Wallace

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



**MINUTES OF THE JOINT MEETING OF THE  
BOARD OF DIRECTORS  
AND CHIEF EXECUTIVE OFFICER SEARCH COMMITTEE  
OF THE UNIVERSITY OF TEXAS  
INVESTMENT MANAGEMENT COMPANY**

The Board of Directors (the "Board") of The University of Texas Investment Management Company (the "Corporation") and the Chief Executive Officer Search Committee (the "Committee") of the Board convened in an open meeting on the **26th day of November, 2001**, by means of conference telephone enabling all persons participating in the meeting to hear each other, at the offices of the Corporation, 221 W. 6<sup>th</sup> Street, Suite 1700, Austin, Texas 78701, said meeting having been called by A. W. "Dub" Riter, Jr. and J. Luther King, Jr., with notice provided to each member in accordance with the Bylaws. Participating in the meeting were the following members of the Committee:

J. Luther King, Jr., Committee Chairman  
Susan M. Byrne  
Woody L. Hunt  
L. Lowry Mays  
A. W. "Dub" Riter, Jr.

The following members of the Board were also present:

R. D. Burck  
Rita C. Clements

thus, constituting a majority and quorum of the Committee and the Board. Committee member John D. McStay was absent. Also, present at the meeting was Jerry Turner, legal counsel for the Corporation; Mr. Dave Morris of Heidrick and Struggles search firm; Mr. R. H. (Steve) Stevens, Jr., as a guest of the Board; and Celina Moreno, a reporter from the Daily Texan newspaper. Mr. Riter, Vice-Chairman of the Board, called the meeting to order at 2:05 p.m. Copies of materials supporting the Committee meeting agenda were distributed prior to the meeting.

**Approval of the October 25, 2001 Minutes of the Joint Meeting of the Board of Directors and Chief Executive Officer Search Committee**

The first matter to come before the Committee was approval of the Minutes of the Joint Meeting of the Board of Directors and Chief Executive Officer Search Committee on October 25, 2001. By motion duly made, and seconded, the following resolution was adopted by the Committee:

RESOLVED, that the minutes of the joint meeting of the Board of Directors and Chief Executive Officer Search Committee held on October 25, 2001, be and are hereby approved.

**Executive Session**

Mr. Riter requested that the Committee and the Board convene in executive session to discuss the search for the President and Chief Executive Officer position of the Corporation. At 2:08 p.m. Mr. Riter announced that, "the Board of Directors and the Chief Executive Officer Search Committee of 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 Committee and the Board to consider personnel issues related to the search for the President and Chief Executive Officer of The University of Texas Investment Management Company. This Executive Session meeting of the Committee and the Board is authorized by Texas Government Code, Section 551.074 (Personnel Matters). The time is now 2:08 p.m." At this time, Ms. Moreno left the meeting.

The Committee and the Board reconvened at 3:09 p.m. in open session and Mr. Riter announced that, "the Open Session of the Committee and the Board of Directors of The University of Texas Investment Management Company is now reconvened. The time is now 3:09 p.m. During the Executive Session, the Committee and the Board discussed the search for the Corporation's President and CEO position, but took no action."

There being no further business to come before the Committee and the Board, the meeting was adjourned at approximately 3:10 p.m.

Approved: \_\_\_\_\_ Date: \_\_\_\_\_  
J. Luther King, Jr.  
Chairman, Chief Executive Officer Search Committee  
of the Board of Directors of  
The University of Texas Investment  
Management Company

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

**ALTERNATIVE EQUITIES-  
NONMARKETABLE  
UPDATE**

## **UTIMCO Alternative Equities – Nonmarketable US Venture Capital Portfolio Analysis Update**

Pursuant to recent discussions relating to UTIMCO's venture capital portfolio, the UTIMCO Private Markets staff has undertaken a subjective review of the companies that comprise the bulk of this portfolio. Please refer to the memorandum dated November 13, 2001 for a broad overview of the portfolio and the impact that fluctuations in market value have on endowment returns.

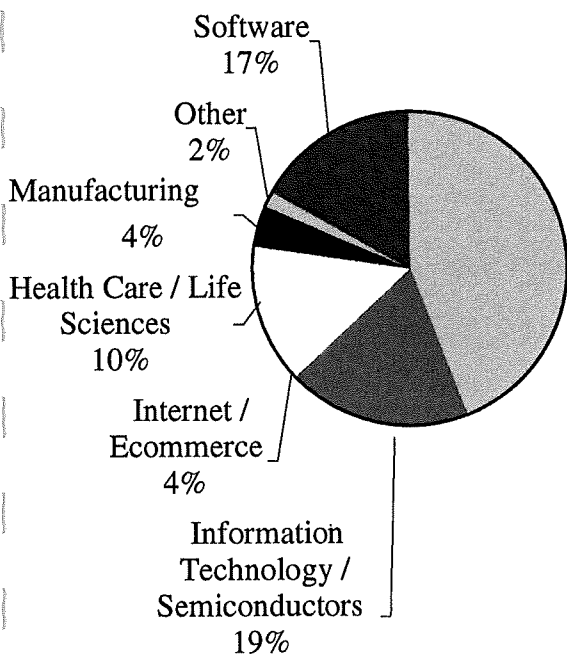
The focus of the staff's subjective review has been on UTIMCO's top ten venture relationships/general partners. These relationships represent 96% of UTIMCO's exposure to this asset class and comprise 24 individual funds that in turn own interests in 452 companies. In doing this review, the staff has been encouraged by the frankness and honesty of the majority of these general partners in their attempts to provide us more insight on the state of their portfolios. The staff has subjectively valued each company in the portfolio based upon that company's (i) performance relative to expectations, (ii) ability to raise financing over the last 12 months and the respective valuation achieved and, most importantly, (iii) need for financing over the next twelve months. This last measure was based upon the respective company's current cash burn rate, projected cash-flow break-even and need for liquidity. In general, UTIMCO's general partners have already reduced valuations in their portfolios, (UTIMCO's venture portfolio has declined by 39.1% since 9/30/00) and UTIMCO's exercise is an attempt to provide a conservative estimate of future near-term declines in the portfolio.

Any company that currently faces a need for financing was reduced in value by 50%, (unless a specific indication was provided by the general partner), a conservative estimate of the potential decline in valuation over the previous round of financing (and current valuation in UTIMCO's portfolio). UTIMCO feels that a 50% mark down is appropriate in this instance, as most companies are currently experiencing 30% - 50% declines in valuation *if* they face the need for equity financing. Companies that have adequate liquidity and face no financing risk over the next twelve months were not marked up or down because these valuations will not be subject to the same volatility in valuations. In addition to a 50% mark down on companies that have a financing need, a 25% discount was taken on the 9/30/01 valuations of publicly held securities within the portfolio. Lastly, any company whose viability is in question was written down to zero.

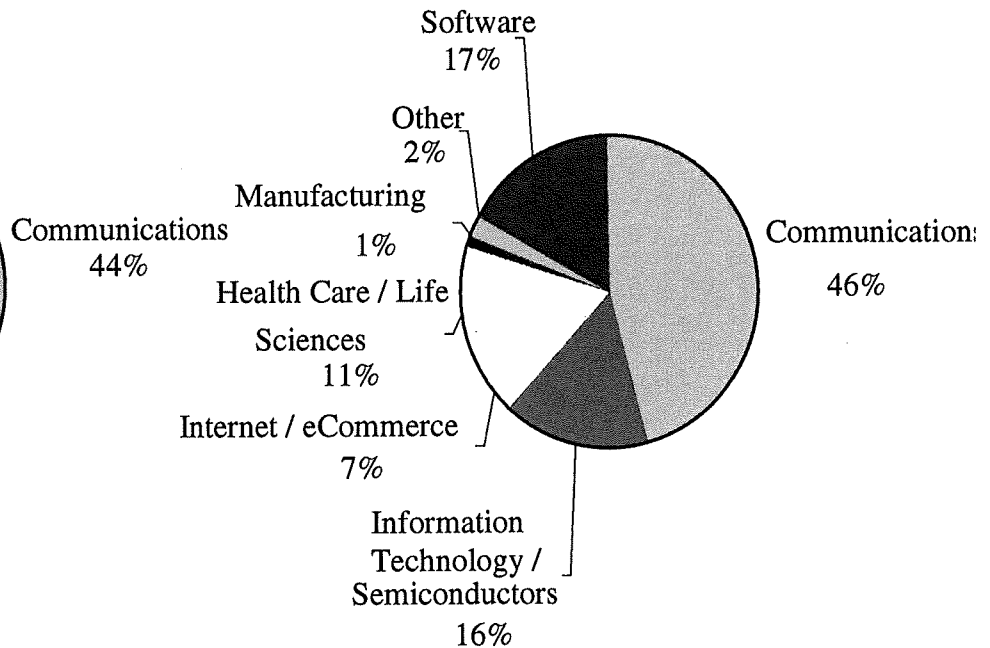
***The aggregate result of UTIMCO's analysis is a decline of 17.5% over 9/30/01 values. Exhibit A*** provides more detail on the results of this subjective analysis. It should be noted that this analysis did not include any potential for increases in valuation. Based upon insight provided by the general partners, the UTIMCO staff believes that there still is potential for strong returns in the portfolio upon a market recovery.

To provide additional insight into UTIMCO's US Venture Capital portfolio, an industry breakdown of the portfolio is presented below. As would be expected, the Internet/eCommerce portion of the portfolio (4%) has suffered the greatest drop in valuation, with this sector representing 7% of the cost basis of the portfolio and only 4% of the current market value. On the other hand, Communications, information technology/semiconductors and manufacturing have contributed to an increase in the market value of the portfolio.

**Market Value**  
As of 9/30/01



**Cost**  
As of 9/30/01



In conclusion, a near-term decline of 17.5% can be expected for UTIMCO's venture portfolio. The Private Markets staff will continue to monitor the quarterly performance of the venture portfolio and provide updates and additional analysis as needed.

Exhibit A

<b>Fund</b>	<b>Valuation 9/30/01</b>		<b>UTIMCO's Estimated Valuation</b>
Prism I	\$17,853,067		\$15,035,456
Prism II	\$43,544,423		\$27,556,413
Prism III	\$5,333,231		\$5,333,231
AV IV	\$2,935,350		\$2,302,196
AV V	\$21,958,113		\$17,627,234
AV VI	\$17,616,897		\$12,089,428
AV VII	\$9,912,900		\$6,703,996
Morgenthaler III	\$118,324		\$88,743
Morgenthaler IV	\$5,748,747		\$5,556,390
Morgenthaler V	\$23,405,519		\$21,712,322
Morgenthaler VI	\$4,087,949		\$3,921,411
TIEIII	\$5,958,127		\$5,736,391
Lighthouse IV	\$7,615,238		\$6,634,918
Band of Angels	\$4,660,178		\$3,558,207
Ampersand III	\$24,930,392		\$21,742,951
Ampersand IV	\$15,615,485		\$15,873,441
Ampersand V	\$3,523,373		\$3,523,373
ITV	\$5,290,658		\$5,104,646
ITV II	\$18,161,900		\$9,359,504
Crescendo II	\$12,152,310		\$10,920,032
Crescendo III	\$13,229,134		\$11,443,885
Crescendo IV	\$3,898,669		\$3,208,044
North American II	\$29,623,025		\$29,623,025
North American III	\$10,297,531		\$9,120,571
	<b>\$ 307,470,540</b>	<b>96%</b>	<b>\$253,775,808</b>
All Others	\$ 14,474,206	4%	\$17,001,891
<b>Total Venture Partnerships</b>	<b>\$ 321,944,746</b>	<b>100%</b>	<b>\$270,777,699</b>
<b>Total Estimated Aggregate Decline</b>			<b>-17.5%</b>





November 13, 2001

**MEMORANDUM**

TO: The University of Texas Investment Management Company - Board of Directors

A. W. "Dub" Riter, Jr., Vice Chairman	Woody L. Hunt
R. D. Burck	J. Luther King, Jr.
Susan M. Byrne	L. Lowry Mays
Rita C. Clements	John D. McStay

FROM: Cathy A. Iberg

SUBJECT: UTIMCO's Venture Capital portfolio and associated risk exposure

As a follow-up to the board of Directors meeting on October 25, 2001, I would like to provide you with an overview of UTIMCO's venture exposure as well as the relative impact that fluctuations in the valuation of this portfolio will have on the overall endowment under various scenarios.

As of August 31, 2001, US Venture Capital represented 25.5% of the endowment fund's non-marketable alternative equities portfolio, but only 3.3% of the overall endowment (the Permanent University Fund and the General Endowment Fund) (**Exhibit A**). A target of 50% exposure to venture capital in the non-marketable alternative asset portfolio has been recommended by Cambridge Associates, to be achieved over time. However, future commitments will be made based on the opportunity set within the market place.

As illustrated in Table 1 on the following page, UTIMCO has committed slightly more than \$600 million to this asset class since 1988. As of August 31, 2001, a total of \$372 million has been realized from \$362 million invested, resulting in a 1.03x return on investment. The unrealized portion of the portfolio was valued at \$376 million as of August 31. This valuation, coupled with the capital realized to-date, results in an internal rate of return of 27.6% since inception and represents a 2.0x return on investment. The remaining value of the portfolio, \$376 million, is the portion of capital currently "at risk" as a result of current market conditions and the inflated values experienced in this asset class over the last 24 months.

(TABLE 1)

UTIMCO US Venture Capital Portfolio Performance							
Fiscal 2001 as of August 31, 2001							
Fiscal Vintage Year	Commitment	Invested	Returned	Remaining Value	IRR	Return On Investment	Outstanding Commitments
1988	\$ 3.0	\$ 3.0	\$ 4.8	\$ 0.0	7.0%	1.6x	\$ 0.00
1989	\$ 24.6	\$ 24.6	\$ 75.3	\$ 30.4	28.9%	4.3x	\$ 0.00
1990	\$ 28.4	\$ 28.4	\$ 60.8	\$ 1.1	18.5%	2.1x	\$ 0.00
1995	\$ 61.0	\$ 58.8	\$124.9	\$ 39.3	46.0%	2.8x	\$ 2.20
1996	\$ 15.0	\$ 15.0	\$ 5.5	\$ 29.3	27.3%	2.4x	\$ 0.00
1997	\$ 50.0	\$ 49.8	\$ 56.9	\$ 64.8	44.4%	2.4x	\$ 0.20
1998	\$ 50.0	\$ 50.0	\$ 21.1	\$ 60.2	29.9%	1.6x	\$ 0.00
1999	\$ 90.0	\$ 82.0	\$ 22.7	\$101.5	31.9%	1.5x	\$ 8.00
2000	\$ 70.0	\$ 33.4	\$ 0.0	\$ 32.2	-4.4%	1.0x	\$ 36.60
2001	\$215.0	\$ 16.6	\$ 0.0	\$ 16.7	-0.6%	1.0x	\$198.40
<b>Total</b>	<b>\$607.0</b>	<b>\$361.6</b>	<b>\$372.0</b>	<b>\$375.5</b>	<b>27.6%</b>	<b>2.0x</b>	<b>\$245.40</b>

In an effort to better understand the relative impact of further degradation in the value of the “at-risk” portion of UTIMCO’s venture capital portfolio (\$375.5 million), we ran three market value decline scenarios assuming a 10%, 25% and 50% drop, respectively, in the market value of the venture capital portfolio. We then re-computed UTIMCO’s portfolio returns under these three scenarios as of August 31, 2001. Table 2 illustrates the results of this analysis.

(TABLE 2)

Internal Rate of Return									
Downside Scenario	Venture Capital Portfolio (Since Inception)			Non-Marketable Alternative Equity Portfolio <sup>(A)</sup> (Since Inception)			The Permanent University Fund <sup>(B)</sup> (10 Year)		
	<u>Actual</u>	<u>After Decline</u>	<u>Change</u>	<u>Actual</u>	<u>After Decline</u>	<u>Change</u>	<u>Actual</u>	<u>After Decline</u>	<u>Change</u>
-10%	27.6%	26.6%	1.00%	17.0%	16.6%	0.40%	10.39%	10.35%	0.04%
-25%	27.6%	24.9%	2.70%	17.0%	16.0%	1.00%	10.39%	10.29%	0.10%
-50%	27.6%	21.3%	6.30%	17.0%	14.9%	2.10%	10.39%	10.19%	0.20%

Note A: Excludes Distributed Stocks.

Note B: Total endowment (PUF and GEF combined) returns are not calculated. As such, Permanent University Fund returns were used for this analysis. The effect on GEF returns for a 10%, 25% and 50% drop in venture market value is .03%, .18% and .16%, respectively.

While a significant decline in the value of the venture portfolio will impact UTIMCO’s non-marketable alternative equity portfolio returns, such decline will have minimal impact on the overall endowment’s returns. For example, a 50% drop in the market value of the venture portfolio (an unlikely event in any one period) would result in a 14.90% since inception return for the non-marketable alternative equity portfolio, a 2.10% change, and only a 0.20% change to overall 10-year endowment returns. Assuming that this drop does occur in one period (in this case August 31), overall one-month endowment returns drop by 1.75%.

UTIMCO's investment activity in venture capital has increased over time, largely the result of the natural growth in size of the endowment's alternative equities portfolio and efforts to strengthen the endowment's venture capital exposure. Investment activity in 1998, 1999 and 2000 was also affected by the "boom" in the venture capital industry, created by capital chasing the exceptional returns realized in the technology sector and Internet space in particular. The table below illustrates the level of activity in the market during this time period and the "bubble" created in 2000, in particular.

(TABLE 3)

<b>Venture Investment (Overall Market)<sup>(A)</sup></b>		
	<b>Annual Investment</b>	<b>Annual Growth</b>
<b>1995</b>	\$5.8 Billion	-
<b>1996</b>	\$11.7 Billion	101%
<b>1997</b>	\$17.2 Billion	46%
<b>1998</b>	\$22.8 Billion	33%
<b>1999</b>	\$58.8 Billion	158%
<b>2000</b>	\$103.2 Billion	76%
<b>2001</b>	\$22.8 Billion	-78% (YTD)

Note A: Data provided by the National Venture Capital Association

When comparing this to UTIMCO's annual investment activity in this asset class, one can see that UTIMCO's participation during this critical period (2000) was modest relative to overall market activity and consistent with growth in the alternative program. Growth in annual venture investments during the mid-nineties reflects a shift to a higher allocation towards venture capital. Venture capital as a percent of overall investment has remained relatively constant over time.

(TABLE 4)

<b>UTIMCO Annual Venture Investments</b>			
	<b>Annual Investment</b>	<b>Annual Growth</b>	<b>As a % of Annual Non-Marketable Alt. Investments</b>
<b>1995</b>	\$14.0 Million	-	29.4%
<b>1996</b>	\$12.8 Million	-9%	12.5%
<b>1997</b>	\$31.0 Million	142.2%	14.2%
<b>1998</b>	\$50.5 Million	63%	16.8%
<b>1999</b>	\$84.1 Million	67%	19.3%
<b>2000</b>	\$85.9 Million	2%	21.7%
<b>2001</b>	\$35.8 Million	-58%	22.7%

UTIMCO has committed \$607 million to 38 separate venture capital partnerships (there are currently 110 partnerships represented in UTIMCO's non-marketable alternative asset portfolio). Within these 38 partnerships, UTIMCO's capital has been invested in approximately 500 companies across a variety of sectors and industry groups. UTIMCO has undertaken a review of its venture capital portfolio in order to determine the current state of the portfolio, the risk of future near-term degradation and the impact that this degradation will have on overall

endowment returns and private equity portfolio returns in particular. The process by which this being done is through a "bottom-up" analysis of the 452 companies held in the portfolios of UTIMCO's ten largest venture capital relationships. Together, these relationships represent 97% of UTIMCO's current exposure to this asset class. We are currently meeting with these entities to discuss this analysis and other near-term issues that they are facing. In this analysis, we will work to quantify the expected near-term degradation in the market value of the portfolio. There are several characteristics of this portfolio that should provide some comfort in the face of the short-term negative market conditions that we are facing. For example:

- (i) As detailed in Table 2, the impact on overall returns in the event of a significant drop in market value would be minimal due to the small size of the venture portfolio relative to the overall endowment (3.3%);
- (ii) The portfolio is fairly well diversified and invested with top-tier managers. Recent commitments have been concentrated with diversified managers and managers with a non-technology focus (i.e. healthcare);
- (iii) UTIMCO's commitments have been spread across vintage years, which should help to minimize volatility as a result of stage concentration (i.e. early stage, etc.);
- (iv) Over 50% of commitments made to this asset class have not yet been invested, creating the opportunity for this capital to be invested at attractive valuations given current market conditions; and
- (v) Any downside scenarios will not reflect the upside potential of the portfolio as most investments are carried at cost (unless there is some form of external financing event or there has been a subjective write-down). According to the National Venture Capital Association, under normal market conditions, 3 out of 10 start-up companies typically fail and result in negative returns to venture funds. These funds look to only a few companies to generate exceptional returns. While the current market will likely result in a higher than 3:10 ratio of failed companies, certain companies within the portfolio should still generate strong returns.

An interesting point to note is the benefit that venture capital has brought to the State of Texas. In addition to providing superior long-term returns to the endowment (27%+), recent studies have shown that Texas was ranked number 2 in terms of job creation (676,158) and revenue generation (\$158.2 Billion) by venture-backed companies (as of September 30, 2001). Texas was also ranked as the eighth fastest growing state for venture investment. This should create local investment opportunities for UTIMCO going forward.

I will follow up with the results of the analysis that we are currently undertaking on the venture portfolio. Please call me if you have any questions, comments or suggestions.



**THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY**  
**ALTERNATIVE EQUITES - NONMARKETABLE**  
**COMMITMENT ACTIVITY**  
*As of November 30, 2001*

July 1, 2001 - June 30, 2002

<b>Date</b>	<b>Commitment Activity</b>	<b>VC-U.S.</b>	<b>PE-U.S.</b>	<b>Non U.S.</b>	<b>Opp.</b>	<b>Total</b>
7/1/01-6/30/02	<b>Commitment Budget</b>	175	120	50	50	395
<b>Committed and Closed</b>						
07/02/01	<i>Prospect Venture Partners II</i>	-25				-25
07/31/01	<i>Polaris Venture Partners IV</i>	-20				-20
08/17/01	<i>The Candover 2001 Fund</i>			-30		-30
10/30/01	OCM Opportunities IV				-40	-40
10/30/01	<i>Warburg Pincus Private Equity VIII</i>	-30				-30
11/9/01	<i>Blackstone Capital Partners IV</i>		-45			-45
<b>Total Closed</b>		<b>-75</b>	<b>-45</b>	<b>-30</b>	<b>-40</b>	<b>-190</b>
<b>Committed - Not Closed</b>						
	Evercore Capital Partners II		-45			-45
	<i>Pomona Capital V</i>				-25	-25
	<i>The Third Cinven Fund</i>			-25		-25
<b>Total Committed - Not Closed</b>		<b>0</b>	<b>-45</b>	<b>-25</b>	<b>-25</b>	<b>-95</b>
<b>Under Due Diligence</b>						
	EnCap Energy Capital Fund IV				-10	-10
	<i>JW Child</i>		-25			-25
	<i>Lindsay Goldberg &amp; Bessemer</i>		-25			-25
<b>Total Under Due Diligence</b>		<b>0</b>	<b>-50</b>	<b>0</b>	<b>-10</b>	<b>-60</b>
<b>Total Activity</b>		<b>-75</b>	<b>-140</b>	<b>-55</b>	<b>-75</b>	<b>-345</b>
<b>Remaining Budget</b>						<b>50</b>

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

**THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY**  
**ALTERNATIVE EQUITES - NONMARKETABLE**  
**FORWARD CALENDAR**  
*As of November 30, 2001*

**Venture Capital**

		<u>Fundraising</u>		<u>Budget Year</u>
Alloy Ventures	Early IT/HC	1H	2002	2002
Battery Ventures	Early IT/Diversified	1H	2003	2003
<i>Lighthouse Capital Partners</i>	<i>Diversified</i>	<i>2H</i>	<i>2002</i>	<i>2003</i>
Sevin Rosen Partners	Early IT/Diversified	1H	2003	2003
Three Arch Partners	Early HC/Diversified	2H	2002	2003
Venrock Partners	Early IT/HC	2H	2002	2003

**Private Equity**

ABRY	Buyouts	1H	2002	2002
<i>Encap</i>	<i>Energy</i>	<i>2H</i>	<i>2001</i>	<i>2002</i>
Inverness	Buyouts	1H	2002	2002
J.W. Childs	Buyouts	2H	2001	2002
<i>L. Green &amp; Partners</i>	<i>Buyouts</i>	<i>1H</i>	<i>2002</i>	<i>2002</i>
Lindsay Goldberg & Bessemer	Buyouts	2H	2001	2002
<i>North American</i>	<i>Buyouts</i>	<i>1H</i>	<i>2002</i>	<i>2002</i>
<i>Willis Stein</i>	<i>Buyouts</i>	<i>1H</i>	<i>2002</i>	<i>2002</i>
Bain Capital	Buyouts	1H	2003	2003
Code Hennessey	Buyouts	1H	2003	2003
<i>Cravey, Green and Wahlen</i>	<i>Buyouts</i>	<i>1H</i>	<i>2003</i>	<i>2003</i>
<i>Halpern Denny</i>	<i>Buyouts</i>	<i>2H</i>	<i>2002</i>	<i>2003</i>
<i>Hampshire Equity</i>	<i>Buyouts</i>	<i>1H</i>	<i>2003</i>	<i>2003</i>
Oak Hill Capital Partners	Buyouts	2H	2002	2003
Providence Equity Partners	Buyouts - Communications Focus	1H	2003	2003
Silver Lake Partners	Tech Buyouts and Growth Equity	2H	2002	2003
Texas Pacific Group	Buyouts	2H	2002	2003
Vestar	Buyouts	2H	2002	2003
VS&A	<i>Buyouts</i>	<i>2H</i>	<i>2002</i>	<i>2003</i>
Audax	Buyouts	2H	2003	2004

**Non-U.S. Private Equity**

Barclays European Fund	European Mid-Market Buyouts	1H	2002	2002
BC Partners	European Buyouts	1H	2003	2003
<i>Doughty-Hanson</i>	<i>European Buyouts</i>	<i>2H</i>	<i>2002</i>	<i>2003</i>
<i>3i</i>	<i>European Buyouts</i>	<i>1H</i>	<i>2003</i>	<i>2003</i>

**Opportunistic**

Pomona Capital	Secondaries	2H	2001	2002
Dover Street	Secondaries	1H	2002	2002

*Existing Relationships listed in italics*



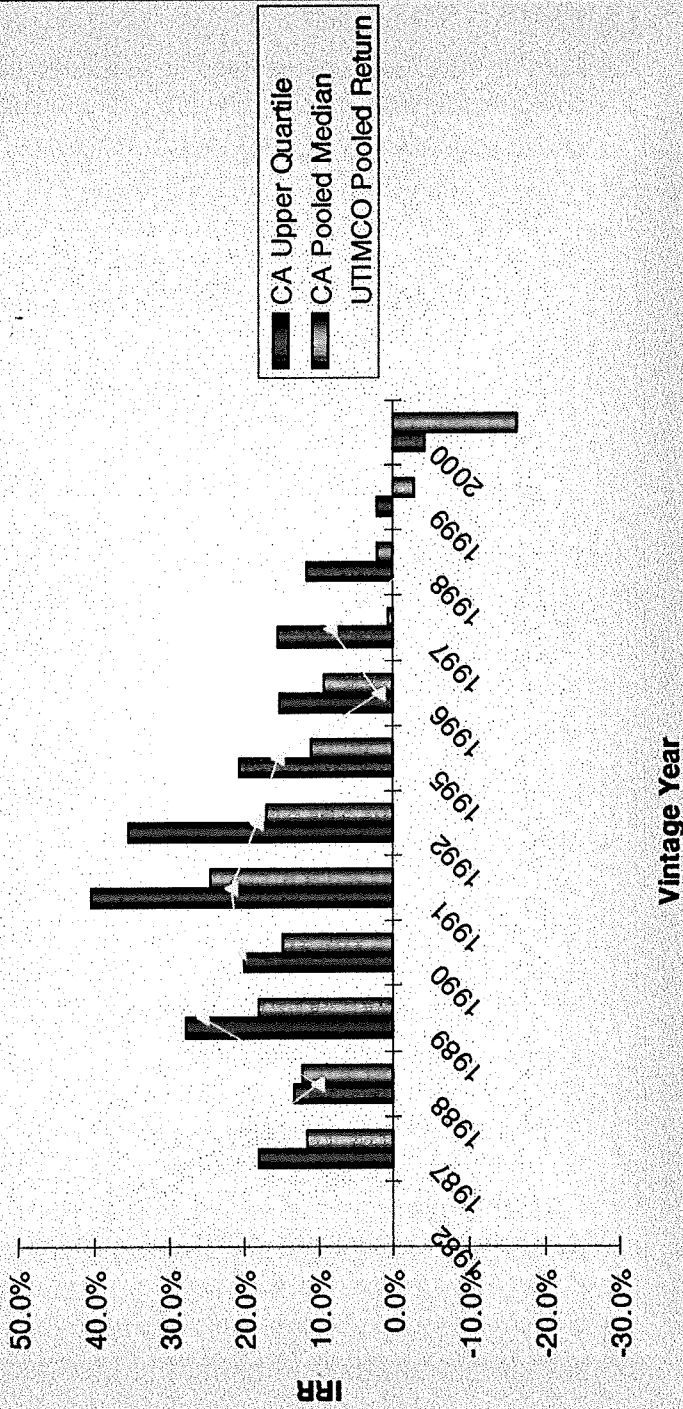


**U.S. Venture Capital  
UTIMCO Vintage Year Returns vs. Cambridge VC Benchmark  
as of 6/30/01**



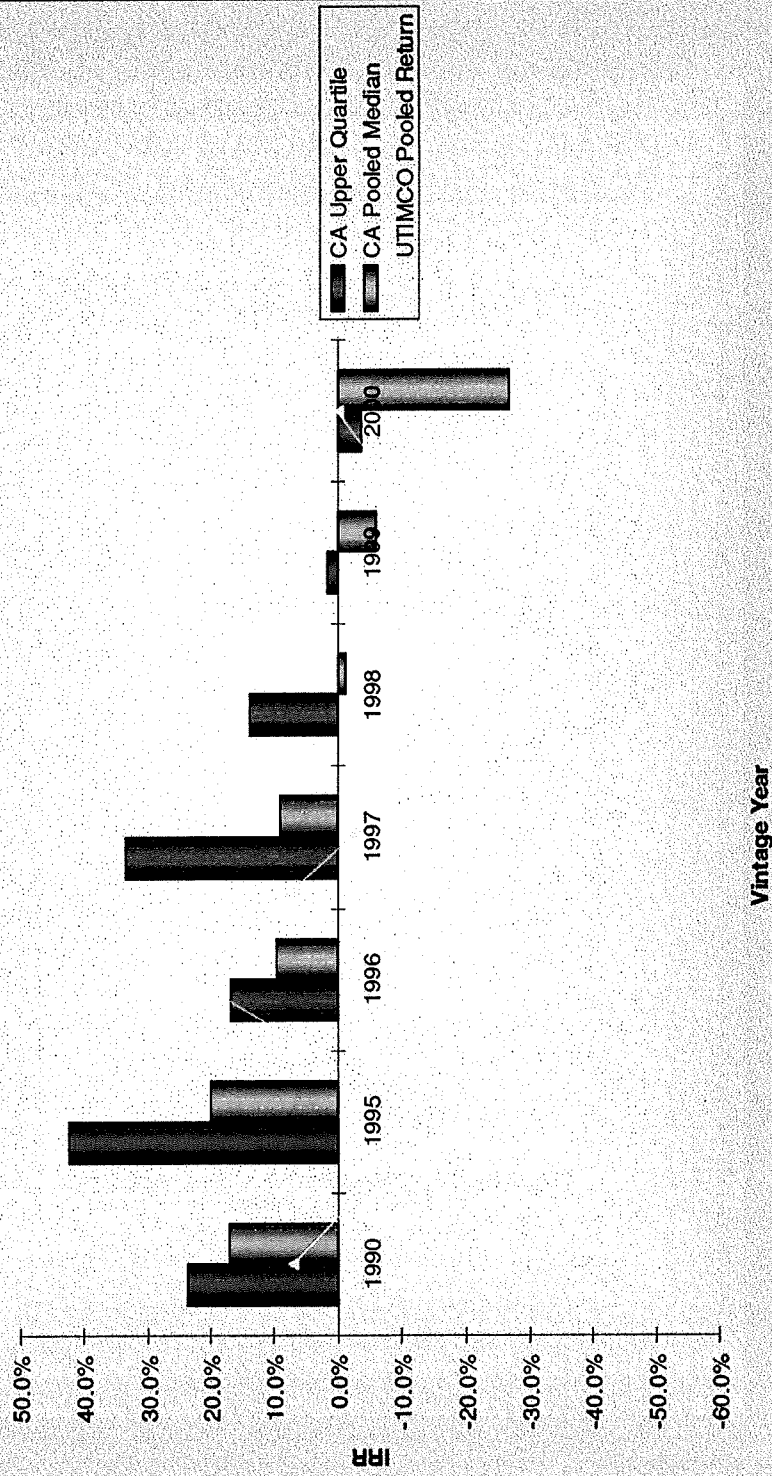
	CA	CA	UTIMCO
	<u>Upper Quartile</u>	<u>Pooled Median</u>	<u>Pooled Return</u>
1988	22.6%	11.6%	7.0%
1989	26.7%	13.3%	27.2%
1990	32.0%	21.1%	4.6%
1994	47.3%	24.3%	49.0%
1995	89.9%	49.2%	40.6%
1996	73.6%	50.3%	53.2%
1997	80.7%	29.5%	35.8%
1998	70.7%	29.5%	35.2%
1999	13.7%	-2.4%	12.2%
2000	-12.4%	-23.5%	-13.6%

**U.S. Private Equity  
UTIMCO Vintage Year Returns vs. Cambridge PE Benchmark  
as of 6/30/01**



	CA Upper Quartile	CA Pooled Median	UTIMCO Pooled Return
1982	NA	NA	38.8%
1987	18.0%	11.5%	21.9%
1988	13.2%	12.3%	10.2%
1989	27.8%	18.1%	25.4%
1990	19.9%	14.9%	20.6%
1991	40.5%	24.5%	21.7%
1992	35.4%	16.9%	18.2%
1995	20.6%	11.0%	15.4%
1996	15.2%	9.3%	2.0%
1997	15.5%	0.8%	8.3%
1998	11.6%	2.3%	-3.0%
1999	2.2%	-2.7%	-17.2%
2000	4.2%	-16.4%	-18.1%

**Non-U.S. Private Equity**  
**UTIMCO Vintage Year Returns vs. Cambridge Non-U.S. P.E. Benchmark**  
*as of 6/30/01*



	CA	CA	UTIMCO
	<u>Upper Quartile</u>	<u>Pooled Median</u>	<u>Pooled Return</u>
1990	23.7%	17.2%	7.0%
1995	42.3%	20.0%	-14.4%
1996	16.9%	9.7%	22.5%
1997	33.5%	9.0%	-2.2%
1998	13.9%	-1.2%	-48.6%
1999	1.7%	-6.0%	-16.0%
2000	-3.7%	-26.9%	N/A

**UPDATE ON:  
FUND PERFORMANCE  
ASSET ALLOCATION**

**TO BE DISTRIBUTED  
AT THE MEETING**

# **STRATEGY DISCUSSION ON ASSET ALLOCATION**

**(ADDITIONAL MATERIALS TO BE  
DISTRIBUTED AT THE MEETING)**

Exhibit 1  
XYZ UNIVERSITY

**Guiding Principles for Managing a Portfolio with a High Equity Allocation  
February 2000**

1. Equity allocations should be broadly diversified with respect to asset classes as well as to:
  - industry sectors
  - manager style
  - capitalization range
  - geographical markets
2. Equity exposures should incorporate many investment strategies with special emphasis on optimizing the size and number of *uncorrelated* strategies. Some possible uncorrelated strategies may have return characteristics that are lower than others, but their ability to dampen portfolio risk justifies their inclusion in the asset mix. As the commitment to equity investments goes higher, the importance of risk control as a key factor in decision-making must also grow.
3. Rebalancing assets to target allocations on a regular (at least annual) basis is important for maintaining strong risk controls and for achieving expected returns. In the absence of regular rebalancing, the market will often do it for the investor with a depressing effect on returns.
4. It is more important to achieve a specific targeted return consistently over the long term than to outperform selected market indices over the short term. Measuring performance over rolling multi-year periods produces a more significant indication of success than does a one-year performance result.
5. Foregoing liquidity for a portion of the endowment is not a significant problem considering the endowment's perpetual life. Nonetheless, if the illiquid portion of the endowment grows too large the burden of meeting endowment draw falls disproportionately on the marketable portion of the portfolio. Since in bear markets this could force the sale of marketable assets at unattractive prices, the size of the illiquid assets should not be so large as to constrain the ability to meet endowment draws. Additionally, the return expectations for these assets must include a premium for illiquidity.
6. With respect to the allocation to fixed income, it is important to be clear about the role these securities play in the portfolio. If fixed income is held for deflation protection, they should be of high credit quality and longer than average duration. Other portions of the fixed income portfolio may be managed for total return, current income generation, or diversification.

Exhibit 2  
Major Foundation Endowment  
Risk Map (By Manager)

Manager	Risk Bucket										Benchmark Reference
	Volatility Risk	Directional Risk	Shortfall Risk	Benchmark Risk	Liquidity Risk	Deflation Risk	Inflation Risk				
Enhanced Index	++	neutral	neutral	neutral	+	+++	++				Russell 3000
LC Value Mgr	++	neutral\ -	neutral	+	+	+++	++				Russell 3000
LC Growth Mgr	++	neutral\ -	neutral	+	+	+++	++				Russell 3000
Midcap Value Mgr	++	- \ neutral	neutral	++	++	+++	++				Russell 3000
Midcap Growth Mgr	+++	++	++	+++	+++	+++	++				Russell 3000
SC Growth	++	neutral\ -	+	+	++	+++	++				Russell 3000
MicroCap Growth	+++	++	++	+++	+++	+++	++				Russell 3000
SC Value	++	+	+	+++	++	+++	++				EAFE
EAFE Mgr	++	neutral	neutral	+	+	+++	++				EAFE
EAFE Mgr	++	- \ neutral	neutral	++	++	+++	++				EAFE
EAFE Mgr	++	neutral	neutral	+\ \ ++	+	+++	++				EAFE
EAFE Mgr	+++	++	+	+++	++	+++	++				EAFE
Global L/S	+	--	neutral	neutral	+	+++	+				3XTBills
L/S Growth	++	-	neutral	neutral	+	+++	+				3XTBills
L/S Emerging Mkts	++	--	neutral	neutral	++	+++	++				MSCI EM
Event Arbitrage	neutral	---	-	++	+++	+++	+ / ++				2XTBills
Div. Arbitrage	+	--	--	neutral	+	+++	+ / ++				2XTBills
Div. Arbitrage	++	--	neutral	neutral	+	+++	+ / ++				3XTbills
VC/PE FOF's	+++	++	++	+++	+++	+++	+ / ++				R3000 + 5%
Real Estate	+	-	+	+	+++	+++	--				15%
Energy	+	-	+	+	+++	+++	-				15%
High Quality Bond	neutral	neutral	+++	neutral	--	+++	++				Lehman Ag
TIPS	neutral	neutral	+++	+	--	+++	--				CPI + 3.75%

Exhibit 3A  
**Large University Endowment**  
**Viewed in Traditional Asset Allocation Terms**

<b>Domestic Equity</b>	37.5%
Large Cap - Core	10.0%
Large Cap Value	5.0%
Large Cap Growth	5.0%
Mid Cap Value	5.0%
Mid Cap Growth	5.0%
Small Cap Core	2.5%
Small/Micro Cap Growth	2.5%
Small Cap Value	2.5%
<b>International Equity</b>	13.0%
Int'l Value	4.0%
Int'l Value	3.0%
Int'l Value	4.0%
Int'l Growth	2.0%
<b>Hedged Equity</b>	6.0%
Global Core	3.0%
Domestic Growth	1.5%
Emerging Markets	1.5%
<b>Absolute Return</b>	6.0%
Event Arbitrage	2.0%
Diversified Arbitrage	2.0%
Convertible Arbitrage	2.0%
<b>Private Equity</b>	17.5%
Funds of Funds	15.0%
Real Estate/Energy	2.5%
<b>Fixed Income</b>	20.0%
Domestic High Quality	15.0%
TIPS	5.0%
	100.0%



Exhibit 3B  
**Large University Endowment  
Viewed Functionally**

<b>Risk Reducing Assets</b>		28.5%
Domestic Fixed Income	(Deflation Hedge)	15.0%
		7.5%
TIPS	(Inflation Hedge)	5.0%
Oil and Gas	" "	1.25%
Real Estate	" "	1.25%
Fixed Income Substitutes		6.0%
Arbitrage		2.0%
Arbitrage		2.0%
Arbitrage		2.0%
<b>Drivers of Return</b>		71.5%
Global Equity	(Includes Long/Short Managers)	3.0%    3.0%
Domestic Equities	(Includes Long/Short Managers)	10.0%    39.0%
		5.0%
		5.0%
		1.5%
		5.0%
		5.0%
		2.5%
		2.5%
		2.5%
Global Ex-US	(Includes Long/Short Managers)	4.0%    14.5%
		3.0%
		4.0%
		2.0%
		1.5%
Private Markets		15.0%    15.0%

"Drivers of Return" should be properly diversified by capitalization, geography, and investment style in order to not subject the fund to risk of concentration in any one area.

Allocations within the "Drivers of Return" are properly guided by Mean-Variance analysis, supplemented by careful attention to risk allocation across asset classes and managers.

**OAKTREE CAPITAL  
MANAGEMENT, LLC**

**PRESENTATION TO BE  
DISTRIBUTED AT THE MEETING**

**APPROVAL OF COMMITMENTS TO:  
OCM EMERGING MARKETS FUND, LTD.**

**BARCLAYS GLOBAL INVESTORS  
EMERGING MARKETS  
STRUCTURED TIERED STRATEGY**

**Non U.S. Equities - Emerging Markets  
November 30, 2001**

<b>Asset Allocation</b>			
<b>Neutral Policy</b>	<b>Estimated</b>		<b>GEF</b>
	<b>Actual</b>	<b>PUF</b>	
	2.2%	2.2%	2.3%
	0.7%	0.7%	0.6%
	0.3%	0.3%	0.3%
<b>3.0%</b>	<b>3.2%</b>	<b>3.2%</b>	<b>3.3%</b>

<i>Existing Portfolio</i>	<b>\$ millions</b>			
	<b>PUF</b>	<b>GEF</b>	<b>GEF</b>	<b>Total</b>
<i>Managers</i>				
Growth	\$ 154.9	\$ 85.0	\$ 239.9	
Value	47.6	23.1	70.7	
Core	22.5	11.4	33.9	
<b>Total Existing</b>	<b>\$ 225.0</b>	<b>\$ 119.5</b>	<b>\$ 344.5</b>	

*Recommended*

*Additions:*

Risk Focused				
Long/Short Fund				
BGI- Emerging Markets	\$ 62.0	\$ 38.0	\$ 100.0	62.0%
Structured Tier Strategy				
OCM - Emerging Markets Fund	\$ 33.0	\$ 17.0	50.0	66.0%
<b>Total Additions</b>	<b>\$ 95.0</b>	<b>\$ 55.0</b>	<b>\$ 150.0</b>	<b>1.3%</b>
<b>Total Allocation</b>	<b>\$ 320.0</b>	<b>\$ 174.5</b>	<b>\$ 494.5</b>	<b>3.0%</b>

Estimated Net Asset

Value of the Funds	\$ 7,079.4	\$ 3,640.3	\$ 10,719.7	
	66.0%	34.0%	100.0%	

## UTIMCO Emerging Markets Mandate Summary

### Advantages:

**Valuation:** (Source: Cambridge Associates LLC) November 2001

*Inexpensive- relative to developed markets and to their own historical averages*

- Post 95 price/book, price/cash earnings, P/E, and dividend – yield averages, the value of the MSCI is roughly half of the MSCI world
- Prices are about 1.5 standard deviations below seven –year means
- Earnings should accelerate once global demand returns

### Disadvantages :

- Inherent Volatility of Asset Class

### Objective and Recommendation:

- Reduce inherent volatility in asset class
- Increase asset allocation from 3% to 4.5% for PUF, 4.8% for GEF, an increase of 1.5%, 1.8% versus neutral
- Recommend the addition of 2 new mandates:  
\$50 million to OCM Emerging Markets Fund (supported by Cambridge recommendation )  
\$100 million to BGI Structured Tiered Emerging Markets Strategy

### Attached Chart Summary:

Benchmark/Manager	Annualized Return	Annualized Standard Deviation (+-)
Emerging Markets Free Index	-13.35%	29.14
UTIMCO	-12.13%	30.51
BGI Structured	-8.56%	29.11
OCM	25.13%	9.0
<b>Combined</b>	<b>-3.4%</b>	<b>25.02</b>

### Assumptions:

Allocation of 10% to OCM Emerging Markets

Allocation of 20% to BGI structured tiered emerging markets strategy

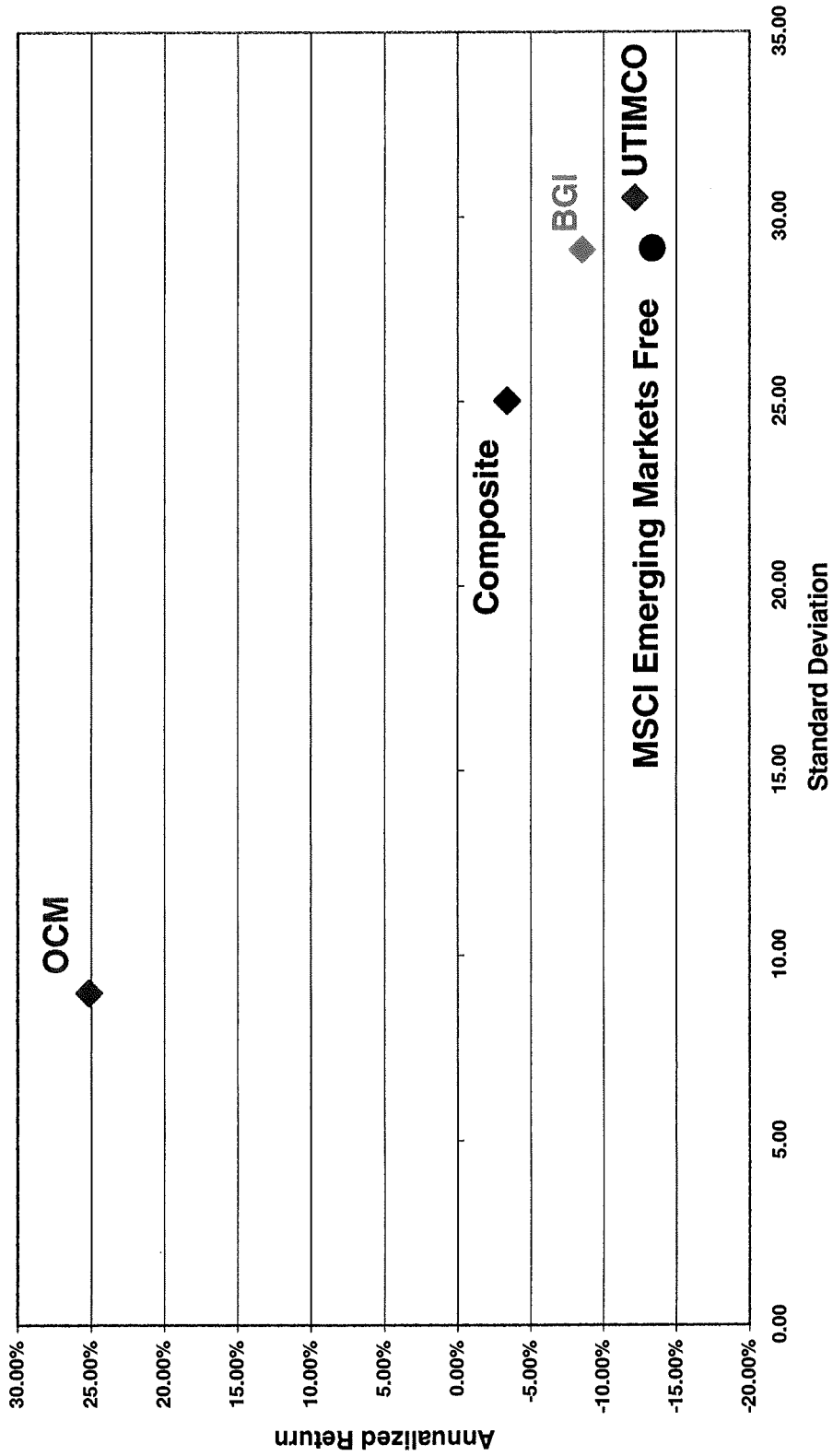
Balance of Allocation is based on UTIMCO's historical mandate

Simulate Returns Utilizing Actual Return History of the above from 4/97 to 10/01- 55 months

The MSCI EMF Index was negative in 26 out of 55 months – 47% of time.

No rebalancing was undertaken during period resulting in 34% Oaktree, 16% BGI and 50% UTIMCO allocation at end of 55 month period

## Emerging Markets April 1, 1997 through October 31, 2001 (55 months)





## **Resolution No. 4**

WHEREAS, the Board has reviewed Investment Recommendations prepared by the Corporation and the Corporation's private equity advisor, Cambridge Associates LLC, recommending that the Corporation invest with Oaktree Capital Management, LLC up to \$50 million of PUF and GEF assets in **OCM Emerging Markets Fund Ltd.** (the "Investment"); and

WHEREAS, the Corporation has determined that the Investment does not constitute an agreement or transaction entered into in violation of Subsection 66.08(i) of the Texas Education Code;

NOW, THEREFORE, BE IT RESOLVED, that the terms and provisions of the proposed investment as described in the Investment Recommendations dated December 13, 2001 for **OCM Emerging Markets Fund Ltd.** be approved; and be it further

RESOLVED, that the President and CEO, and any Managing Director of this Corporation be, and each of them hereby is, authorized to make such further revisions to the terms and provisions as may be necessary or in the best interests of this Corporation, excluding an increase in the amount of the capital commitment **OCM Emerging Markets Fund Ltd.**; and be it further

RESOLVED, that the President and CEO, any Managing Director, and the Secretary of this Corporation be, and each of them hereby is, authorized and empowered (any one of them acting alone) to do or cause to be done all such acts or things and to sign and deliver, or cause to be signed and delivered, all such documents, instruments and certificates (including, without limitation, all notices and certificates required or permitted to be given or made under the terms of the Investment), in the name and on behalf of the Corporation, or otherwise, as such officer of this Corporation may deem necessary, advisable or appropriate to effectuate or carry out the purposes and intent of the foregoing resolutions and to perform the obligations of this Corporation under the Investment and the instruments referred to therein.



## OCM Emerging Markets Fund, LTD.

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December 13, 2001

**CATEGORY:** Absolute Return Long/Short Strategy

**FUND SIZE:** NAV of existing funds is \$1.1 billion at 11/01/01, \$500 million of additional capital is being raised; Expected close: January 2, 2002

**TOTAL UTIMCO CURRENT EXPOSURE:** UTIMCO's relationship with Oaktree Capital, is through distressed debt funds, OCM Opportunities III (\$50M) and OCM Opportunities IV (\$40M)

**UTIMCO RECOMMENDATION:** \$50 million investment

**UTIMCO DELEGATION OF AUTHORITY:** Board action required.

**CAMBRIDGE ASSOCIATES LLC:** Memorandum dated December 3, 2001, concurring with UTIMCO's recommendation to invest \$50 million.

**BACKGROUND:** OCM Emerging Markets Fund, LTD is the offshore Cayman Island fund that will invest in the Master Fund, OCM Emerging Markets Fund, L. P. The master fund will invest in emerging markets emphasizing Asia as well as Latin America and Russia. Oaktree was founded in April 1995, built around the team that managed high yield bonds, convertibles and distressed debt at the Trust company of the West (TCW). Oaktree has expanded its investment management capabilities to include mezzanine, emerging markets, power infrastructure, and real estate alongside its core capabilities of debt-related investments.

Oaktree's investment philosophy extends to all their investment mandates. Oaktree's Emerging Markets Fund exhibits numerous attributes in common with other Oaktree portfolios:

- *Risk control:* the fund will be hedged and diversified employing opportunistic investments, emphasis is placed on down side risk protection
- *Consistency:* the fund will focus on consistent absolute returns avoiding directional bets on industries and countries
- *De-emphasis on macro investing:* Pursues bottom-up, value-driven search for misvaluations. Most decisions based on Oaktree's proprietary research focusing on Company risk, concentrating on the obscure and out-of-favor entities.
- *Market Inefficiencies:* less efficient markets are attractive where skill and effort pay off

### **STRATEGY:**

The Fund's strategy is designed to derive steady substantial profits rather than full participation in the movements of the underlying markets. Historically, emerging markets, as an asset class has been very volatile. Emerging markets presents attractive opportunities. Fundamentally the growth prospects are above that of developed countries and imperfections in the availability of good information provide an attractive opportunity for the long-term investor. The managers expect to provide high returns in the target range of 20-30% before fees. OCM's Emerging Market Fund is expected to experience much less volatility when compared to the market. By comparison, based on the composite performance history for the period of April 4, 1997 through October 31, 2001, the volatility as measured by standard deviation was 8.9% versus the MSCI emerging markets index of 28.9%. The returns for this same time period were 25.1% (net of fees) when compared to the MSCI Emerging Markets Index of (13.4%). OCM's Emerging Markets

## OCM Emerging Markets Fund, LTD.

Fund expects to derive their returns from manager skill, not movements in the market. The primary emphasis of the team will be to focus on approximately 320 companies comprising their focus list, approximately 75% of all long and short positions are sourced from this list. In order to mitigate illiquidity risks inherent in emerging markets, short positions may be purchased in the large and mega cap company names. As provided in TABLE I Oaktree produced more positive period returns in both longs and shorts when compared to the number of negative return months.

TABLE I

Strategy	Average Exposure (4/97-10/2001)	Up months (positive returns)	Down Months (negative returns)
Long	49.6%	37	17
Short	28.1%	34	21
Gross	77.7%		
<b>Net</b>	<b>21.5%</b>	<b>49</b>	<b>6</b>

TABLE II

**REGION EXPOSURE; (AVERAGE FOR THE PERIOD OF JANUARY 2001 THROUGH OCTOBER 2001)**

Region	Long	Short	Gross	Net
Asia	35.1%	22.2%	57.3%	12.9%
Latin America	10.6%	8.8%	19.4%	1.7%
E. European	2.3%	.25	2.5%	2.1%
Other	.8%	5.1%	5.9%	-4.3%
<b>Total</b>	<b>48.7%</b>	<b>36.3%</b>	<b>85%</b>	<b>12.3%</b>

**INFRASTRUCTURE:** Oaktree was founded in April of 1995. It has been built around a team managing high yield, distressed debt and convertibles at TCW. This group has remained in tact since the mid-1980's. Total staff size is around 200 with offices in Los Angeles, NY, Tokyo, London and Singapore. The entity is 100% owned by 41 key employees involved daily in the business and manages \$19.8 billion. Mr. Howard Marks, Chairman and Mr. Bruce Karsh, President oversee this fund. The portfolio managers for the emerging markets strategy are John Moon and Tim Jensen. John Moon joined Oaktree in July of 1988. Previous to joining Oaktree, Mr. Moon founded Moon Capital in January 1997, spent his previous three and one-half years with Ardsley Partners focusing on emerging countries and previous to that served his family's business operations in acquisition and management of private companies. Tim Jensen joined Oaktree in January of 2000. Previously Mr. Jensen served as a principal and portfolio manager at Morgan Stanley focusing on Asia, ex-Japan. Previous to Morgan he worked with John Moon at Ardsley Partners. In his work history he has lived in several emerging countries. A team of 23 individuals directly support these 2 individuals.

## OCM Emerging Markets Fund, LTD.

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### INVESTOR GROUP INCLUDING NEW COMMITMENTS: Oaktree will invest \$10 million

Endowments:		Other
Boston	Washington	Adamas Partners
Case Western	Yale	BT Holdings
Chicago	Minnesota	Church Pension Fund
Columbia	Vanderbilt	State of Delaware
Dartmouth		GIC Government of Singapore
Duke		McKinsey Consulting Europe
Grinnell		New Orleans Firefighters
Kansas State		Pennsylvania SERS
Michigan State		Samsung
North Carolina		Fire & Marine
Northwestern		SunAmerica
Notre Dame		UBS fund of funds
Penn State		
Pepperdine		
Southern Methodist		
Stanford		

### FEES AND LOCK UP PERIODS:

**Annual management fee:** 2% of net assets offset by any fees collected relating to the fund, such as director fees.

**Incentive Compensation:** 10% of profits up to 6 1/2% of gross annualized return transitioning to 20% at gross annualized return of 20%. If gross annual returns exceed 20%, an additional 10% of profits above 20% will be earned. Incentive fees are only collected at the end of lock up period and the valuation on each withdrawal date will constitute a high water mark.

Withdrawal dates will occur on December 31, 2004, and any non-withdrawn capital will be locked up for another 3-year period.

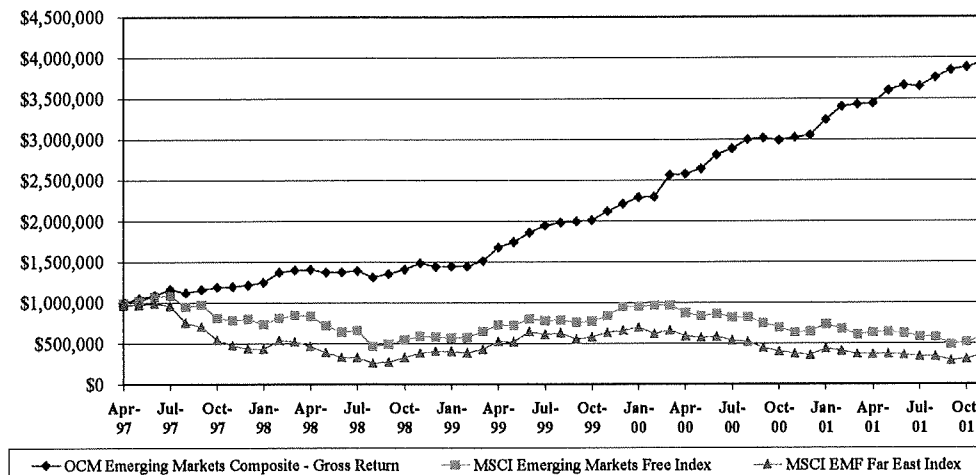
### CONCLUSION:

The large influx of capital in less liquid markets employing a short strategy presents challenges and risks. However, Oaktree's philosophy concerning risk management mitigates some of this concern. Investment in this fund should reduce the volatility experienced in the emerging markets asset class and provide above average returns.

# OCM Emerging Markets Composite Returns <sup>1,2</sup>(Preliminary November Returns)

	1997	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
<b>1997</b>														
OCM Gross Returns <sup>3</sup>					0.7%	4.5%	3.8%	6.6%	(3.7%)	3.6%	2.5%	0.7%	1.5%	21.6%
OCM Net Returns <sup>4</sup>					0.4%	3.4%	2.9%	5.2%	(3.1%)	2.7%	1.9%	0.4%	1.1%	15.9%
MSCI EMF Index <sup>5</sup>					(0.3%)	2.6%	5.1%	1.3%	(12.8%)	2.6%	(16.5%)	(3.7%)	2.2%	(20.0%)
MSCI EMF FE Index <sup>5</sup>					(3.0%)	0.4%	1.8%	(2.9%)	(21.3%)	(6.7%)	(22.5%)	(12.7%)	(8.4%)	(56.2%)
<b>1998</b>														
OCM Gross Returns	2.6%	9.8%	2.2%	0.5%	(2.4%)	0.4%	1.1%	(5.7%)	3.1%	4.1%	5.5%	(3.0%)	18.5%	
OCM Net Returns	2.0%	7.7%	1.6%	0.3%	(2.1%)	0.2%	0.8%	(4.7%)	2.4%	3.1%	4.2%	(2.5%)	13.1%	
MSCI EMF Index	(7.9%)	10.4%	4.0%	(1.3%)	(14.0%)	(10.7%)	2.8%	(29.3%)	6.1%	10.4%	8.2%	(1.8%)	(27.5%)	
MSCI EMF FE Index	(1.4%)	25.1%	(2.8%)	(10.9%)	(16.2%)	(14.5%)	(0.3%)	(21.2%)	4.4%	20.3%	16.8%	5.0%	(7.3%)	
<b>1999</b>														
OCM Gross Returns	0.3%	0.2%	4.3%	11.2%	4.0%	6.5%	4.7%	1.8%	0.7%	0.8%	5.3%	4.4%	53.6%	
OCM Net Returns	(0.2%)	(0.1%)	3.2%	8.7%	3.1%	5.0%	3.7%	1.4%	0.5%	0.6%	4.1%	3.3%	38.3%	
MSCI EMF Index	(1.7%)	0.9%	12.9%	12.2%	(0.9%)	11.1%	(2.9%)	0.8%	(3.5%)	2.0%	8.9%	12.6%	63.7%	
MSCI EMF FE Index	(0.3%)	(4.2%)	11.3%	22.0%	(0.9%)	24.3%	(5.6%)	3.1%	(11.7%)	4.5%	9.1%	4.8%	64.0%	
<b>2000</b>														
OCM Gross Returns	3.5%	0.2%	11.7%	0.5%	2.5%	6.5%	2.7%	3.9%	0.6%	(0.9%)	1.1%	1.0%	37.9%	
OCM Net Returns	2.7%	0.2%	9.3%	0.3%	1.9%	5.1%	2.1%	3.0%	0.4%	(0.8%)	0.7%	0.7%	28.3%	
MSCI EMF Index	0.4%	1.3%	0.3%	(9.6%)	(4.4%)	3.2%	(5.3%)	0.4%	(8.9%)	(7.3%)	(8.8%)	2.3%	(31.8%)	
MSCI EMF FE Index	4.9%	(11.0%)	7.1%	(10.8%)	(3.0%)	2.0%	(8.2%)	(3.2%)	(13.7%)	(10.0%)	(6.4%)	(4.9%)	(45.8%)	
<b>2001</b>														
OCM Gross Returns	6.1%	5.0%	0.7%	0.4%	4.7%	1.6%	(0.3%)	3.0%	2.4%	0.9%	1.5%		29.1%	
OCM Net Returns	4.8%	3.9%	0.5%	0.3%	3.6%	1.2%	(0.3%)	2.3%	1.8%	0.6%	1.1%		21.6%	
MSCI EMF Index	13.6%	(7.9%)	(10.3%)	4.7%	0.9%	(2.3%)	(6.6%)	(1.2%)	(15.7%)	6.2%	10.3%		(11.8%)	
MSCI EMF FE Index	21.9%	(6.5%)	(9.8%)	0.3%	0.1%	(1.6%)	(6.0%)	0.2%	(15.3%)	6.5%	15.0%		(0.8%)	
<b>Since Inception</b>														
		Cumulative	Annualized	Cum. Outperf.	Cum. Outperf.	% UP	% Down	Sharpe	Information					
		Return	Return	vs. MSCI EMF	vs. MSCI EMF FE	Months	Months	Ratio	Ratio					
OCM Gross Returns <sup>6</sup>	294.3%	34.2%	337.1%	358.5%	89.3%	10.7%	2.63	1.89						
OCM Net Returns	182.6%	24.9%	225.5%	246.8%	85.7%	14.3%	2.25	1.46						
MSCI EMF Index	(42.9%)	(11.3%)			53.6%	46.4%	(0.56)	-						
MSCI EMF FE Index	(64.2%)	(19.8%)			41.1%	58.9%	(0.64)	-						

## Growth of \$1,000,000 Invested at Inception



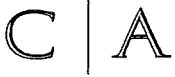
- The Composite commenced April 4, 1997. The Composite includes the OCM Pacific Moon Fund, L.P. since its inception in April 1997, the OCM Emerging Markets Fund, L.P. beginning January 1999, and the OCM Emerging Markets Fund II, L.P. beginning September 2000 (the "Funds"). Effective October 1, 1998 Oaktree Capital Management, LLC ("Oaktree") became general partner of the Pacific Moon Fund, L.P., the predecessor fund whose investment approach was adopted by and management personnel were hired by Oaktree.
- The returns shown in this table since inception through September 2001 were obtained from the OCM Emerging Markets Composite Report which has been Level II verified by PricewaterhouseCoopers LLP in conformity with the Performance Presentation Standards of the Association for Investment Management and Research. Copies of the Report are available upon request. The returns after September 2001 are calculated using the same methodology. Oaktree makes no representation, and it should not be assumed, that past investment performance is an indication of future returns.
- The returns shown are time-weighted, before management fees and expenses, and incentive fees.
- The returns shown are after management fees and expenses, and potential incentive allocations which are charged to the limited partners based on 20% of their profits, as defined. The net returns shown, which exclude all non-fee paying accounts, have been calculated by allocating these amounts on a monthly basis to the limited partners' gross returns. As a result, actual net performance may differ from the net returns presented.
- The indices provided are both from Morgan Stanley Capital International. These indices measure markets free of investment and capital constraints in emerging markets and Asia ex-Japan, respectively. Unlike the Funds, the indices are comprised of "long" securities only, whereas the Funds have the ability to, and have taken, short positions in their investment portfolios.
- Certain profits and losses from "hot issues" are allocated only to investors eligible to participate in such issues in accordance with NASD Rules. Since inception, the annualized gross and net composite returns for those investors who participate in hot issues was 36.6% and 26.6%, respectively, whereas for those who are not eligible to participate it was 31.4% and 22.7%, respectively.

A potential investor considering an investment in an OCM Emerging Markets fund should read this exhibit in conjunction with the separate Private Placement Memorandum ("PPM"). The PPM contains a more complete description of the investment practices, restrictions, risks, and other factors relevant to a decision to invest. Offers to sell interests in any fund are made only by the particular PPM and not by this exhibit. Please contact Oaktree Capital Management, LLC for further information.



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## M E M O R A N D U M

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TO: Cathy Iberg  
The University of Texas Investment Management Company

FROM: Bruce Myers

DATE: December 3, 2001

RE: OCM Emerging Markets Fund

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### BACKGROUND

From its inception in 1995, Oaktree as a firm has focused on identifying underpriced assets. While the origin of the firm dates back to the distressed investment unit at TCW, they have gradually broadened their product line over the years. Most relevant to an analysis of the emerging markets hedge fund has been their increased involvement in non-U.S. investing. Even while the group was still at TCW, significant non-U.S. distressed debt positions were initiated in the early 1990's, and a separate team managing international convertible bonds was established in 1994. As with many investors in distressed securities, distressed Japanese real estate and mortgage loans became more of a focus in the late 1990's, and a Tokyo real estate office was established in 1998. In 1999, a Singapore office was opened, and a dedicated team for European high yield bonds was established that year as well.

The flagship product at OCM has been the Opportunities Funds (and their predecessors at TCW), and Opportunities Fund II was raised in 1997 immediately prior to the Asian Debt Crisis of the following year. Significant amounts of distressed Asian and emerging market debt consequently were purchased in Opportunities Fund II. During this period OCM became acquainted with John Moon and the emerging market hedge fund he has recently established. OCM clearly saw Moon's team as an opportunity for them to expand their work in the highly inefficient (and periodically liquidity constrained) emerging markets. Moon joined OCM in 1998, bringing the assets and staff of his fund with him to Oaktree.

Following a stint at his family's business, Moon began his investment management career at Ardsley Partners. At Ardsley he served as one of three individuals responsible for managing Ardsley's international hedge fund, and focused on Asia, Latin America, and Eastern Europe. After three and a half years at Ardsley, Moon founded the Pacific Moon fund in April of 1997. Initially, the Pacific Moon staff consisted of Moon and two analysts Pearlyn Chong and Serena Park. After discussion with OCM, the Pacific Moon team transplanted to OCM in July of 1998, bringing the relatively small Pacific Moon fund with them. OCM raised its first Emerging Market Fund in January of 1999, followed by a second in September of 2000.

In the years following the raising of the First OCM Emerging Markets Fund significant additions to Moon's team were made. Most notably, Timothy Jensen, who had worked with Moon at Ardsley partners, joined in 2000 as co-portfolio manager. Jensen's responsibilities at Ardsley and elsewhere had focused on Latin America, which nicely complimented Moon's more extensive background in Asia. A number of analysts

were also added to provide broad coverage of eastern Europe and India as well as to add to the depth of analysis in non-Japan Asia and in Latin America. Currently, there are ten professionals on the dedicated emerging markets team, with Moon and Jensen serving as co-portfolio managers supported by eight analysts. Each major geographical area is covered by at least two professionals, serving as junior and senior analysts for the region. The core of the team is in New York, with several others in the Singapore office. In addition to these ten professionals, OCM represents that 13 other investment professionals have emerging market responsibilities in other product lines and serve as a support to the emerging markets hedge fund.

## STRATEGY

The fund seeks stable and attractive returns by investing primarily in emerging markets, based on the view that such markets contain inefficiencies not present in developed countries. Country and industry allocation is generally a residual of bottoms-up stock selection, although top-down analysis is used to determine the level of risk contained in a particular market or sector.

Conceptually, the portfolio contains several different investment sub-strategies, including:

- Long-term core investments expected to be held for the life of the fund, generally in stable, large-capitalization stocks purchased at attractive valuation levels, or in under-researched or illiquid small- and medium-capitalization issues with long-term potential;
- Long and short positions in companies with small mis-valuations, in which gains are expected to be realized in under six months;
- Long and short trading positions capturing short-term opportunities, generally less than three months in duration, including arbitrage positions, hybrid securities, IPOs, discounted placements, and dividend capture opportunities.

Stock selection is opportunistic and fundamentally driven, seeking companies undervalued in absolute, rather than relative, terms. Companies are scrutinized for earnings growth potential, competitive advantage, balance sheet quality, cash flow, management strength, political and regulatory environment, and plans for value-enhancing capital allocation. A strong emphasis is placed on valuation during the stock selection process, with valuation work based on the use of discounted cash flow models and the comparison of valuation multiples within sectors. In addition, the local currency outlook is assessed to see if risk can be hedged at a reasonable cost.

Gross long exposure is typically 80% to 140% and the average exposure is around 20% net long. While the fund could, by charter, be up to 20% net short, OCM views this as highly unlikely and would expect the fund to always be net long. The partnership holds approximately 100 investments, which may be made up of 130 or more securities, with some being different classes of stock, or options/warrants on stocks. Private placement investments are capped at 20%, no one holdings can be more than 10%, no one industry more than 30%, and no one country can be more than 40%. Investment occurs primarily in equities, although the fund may take occasional positions in debt, currencies, and cash. A small portion of the fund may be invested in developed markets, and developed markets shorts are occasionally used as a hedge where shorting in the comparable emerging market stock is not possible.

## STRENGTHS

The emerging markets product is staffed by bright, capable professionals who understand the workings of the local markets and know their companies well. In an asset class with thousands of potential holdings, they focus in on 350 – 400 companies and monitor those candidates closely for extremes of under and over-valuation. Returns since inception have been quite strong, as detailed on the attachment at the end of this memo.

The fund is cautious in its use of leverage, and for much of its brief history has not employed leverage at all. When leverage was employed it was modest, and peaked at 1.35:1 in March of 2000. Gross exposures by sector, country, region, and market capitalization are closely monitored and the liquidity of each market factors into the sizing of the allocation for that market.

Modest net long exposure limits the downside possibilities in very volatile markets. Over the life of the fund, the average long exposure has been approximately 50%, with average short exposure 28% and the average net long exposure 22%. Net exposure has ranged from a high of 39.6% net long to a low of 5.5% net long. The fund has never been net short in the past, and while unlikely in the future, it is permitted to be so.

Over the life of the fund, longs have contributed almost as much return to the track record as shorts. Although the contributions of longs and shorts varies over time, a disaggregation of returns indicates that the firm is skilled in the selection of both longs and shorts in the covered markets. Developed markets positions, while used occasionally, have not exceeded 7.5% of the portfolio at any time, and have not meaningfully contributed to return.

## ISSUES FOR CONSIDERATION

As with many hedge funds, the legal mandate imbedded in the controlling documents is quite broad. While developed markets investments have not been a significant element in the management of the fund, they could become a greater influence on returns in the future. A similar comment could be made with regard to the use of futures contracts or other derivatives. The contrarian and opportunistic approach used by the fund make it difficult to predict exactly what exposures are likely in the future.

The low net long exposure of the fund almost guarantees that the fund will lag the long only indexes during bull markets. This fund is properly viewed as a means of achieving absolute and stable levels of return, and not as a means to beat a particular index.

Fees for funds subject to a three-year lock-up are a 2% annual management fee and a 20% allocation of profits, subject to a high water mark. Additionally, if the fund generates a gross return in excess of 20%, OCM will be entitled to an incentive fee of 30% on the amount generated in excess of 20%. This fee structure could provide an incentive for the firm to take outside risks. However, the risk control policies and culture of OCM partially mitigate this concern.

## CONCLUSION

Emerging markets, both on a long-only basis and a long/short basis, have been problematic for investors. The OCM fund appears to us to be one of the better (and arguably the best) of the long/short funds operating in these markets. The team appears to understand the risks of their markets as well as having the analytical capabilities needed to identify possibilities for outstanding returns. While not well suited as a replacement for long-only emerging markets exposure, it is well suited (in our view) as a satellite position in a broadly diversified hedge funds program.

We concur with the recommendation that UTMICO invest up to \$50 million in this fund.





## **CAPITAL INTERNATIONAL**

### **Emerging Markets Equity Mandate**

#### **RESOURCES/BACKGROUND**

Capital International is the legal entity under which the Capital Group of companies invests in the emerging markets. Analysts and portfolio managers at Capital International are also employees of Capital Guardian, making the division a legal distinction and not an organizational one. Capital is one of the largest managers of emerging markets equity in the industry, with \$17.6 billion under management in the Emerging Markets Growth Fund. (Additional assets in emerging markets equity are managed in off shore funds as well). Capital insists that their large size is not an obstacle to flexibility and moreover, to achieving strong performance. The Emerging Markets Free universe is approximately \$1.9 trillion, which makes Capital's assets less than 1% of the universe. Capital also points out that they annually impose capacity constraints (which has closed them in the past) and that an independent, objective Board of Directors decides those restrictions. Nonetheless, Capital will frequently have a small number of holdings where they represent more than 5% of the market capitalization of a company.

#### **STRUCTURE/PROCESS**

As in other Capital products, a multi-manager approach is utilized. The line-up in the emerging markets equity team was last changed in 1999. Early that year, Chris Choe and Osman Akiman joined the roster from the research ranks at Capital, joining seven other portfolio managers who were already in place. The portfolio manager team in the emerging markets product is larger by design, as Capital feels that a larger number of portfolio managers can best cover the large number of countries and regions that make up the catchall term "emerging markets". Although there are nine portfolio managers, the trend over time has been to equalize the weight of the various portfolio manager segments. Nonetheless, the portfolio managers of long standing (David Fisher, Koenaad Foulon, Victor Kohn, Nancy Kyle, and Thomas Wolf) still have larger shares.

The research team is correspondingly large, with 31 analysts spread around the globe. There has been very little turnover in the research effort, although a few analysts did leave at year-end 1999 and have been subsequently replaced. The research portfolio (generated by 19 of the emerging market research analysts) represents 25% of the overall fund.

#### **RECENT PERFORMANCE**

The portfolio holds nearly 300 names, with the top ten holdings representing 31% of the portfolio (versus 18.5% for the index). Capital maintained an emphasis on technology and telecoms until late in 2000, and were still modestly overweight the "TTM" area at the beginning of 2001. Their significant overweight to Turkey clearly has not helped recent performance, although Capital feels that their Turkish holdings offer compelling fundamentals. Country, industry, and issuer parameters are in place and are overseen by the portfolio coordinator. Nonetheless, there are no tracking error goals that dictate portfolio construction, and they believe that their process should generate 200-250 basis points of alpha per year over multi-year periods.

Capital insists that they are looking for strong absolute performers as well as good relative investments. In general, they did not pursue dotcoms and they avoided a fair amount of Israeli technology, which has

helped, on the downside. While a range of styles is represented in the nine-person portfolio manager team, it is probably fair to say that this group tends to be a bit more growth-oriented than the team running the EAFE mandate product. As such, it is not surprising that Capital should perform so strongly on the upside, while being vulnerable on the downside.

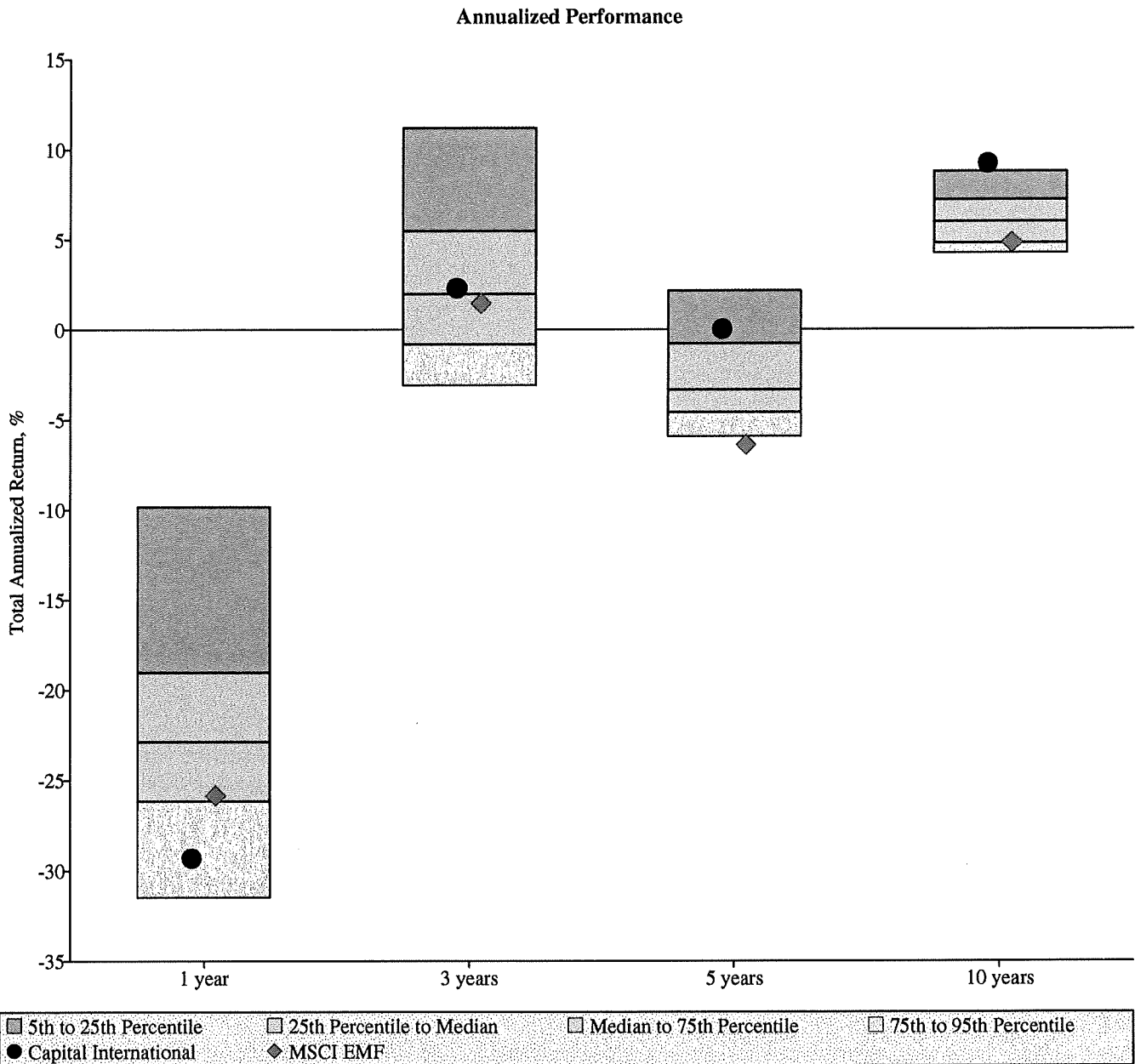
Capital believes that the outlook for the asset class is compelling. Multiples for emerging markets companies are compressed to record lows and are at or near the levels reached during the 1998 Asian crisis. Retail investors have all but retreated and hedge funds and proprietary desks are not major influences. That leaves long-term institutional investors as the major players in the asset class. In many areas, overselling has been the norm due to global worries on top of local problems. The universe of interesting company ideas, according to Capital, is enormous. That said, there has been increasing skepticism in the institutional investor community about the viability of emerging markets as a dedicated exposure.

## CONCLUSIONS

- Concerns over emerging markets as a dedicated exposure should be separated from concerns over Capital as a manager in the asset class. The arguments for and against dedicated emerging markets exposure would be best addressed in the context of a review of overall asset allocation.
- As a manager in the asset class, Capital is one of the few firms to have an extensive, on-the-ground network of analysts. The quality of their analytical work, while not infallible, is generally of the highest grade. Although trailing the benchmark somewhat in the past twelve months, they have added value over 3, 5, and 10-year periods and have beaten the benchmark (sometimes by a wide margin) in 7 of the last 10 calendar years.
- While we have historically been somewhat skeptical about the size of assets under management, we feel that they are convincing in their argument (supported by continued strong performance) that size has not an inhibition. **We continue to view Capital as one of the strongest emerging markets managers in the industry and would encourage UTIMCO to retain their relationship with Capital in this area. Some thought should be given, however, to utilizing one or more firms as a compliment to Capital in this asset class. A manager whose approach is more value oriented, or perhaps even a long/short manager could be beneficial.**

**UNIVERSITY OF TEXAS  
PERFORMANCE VS. CA EMERGING MARKETS UNIVERSE**

As of June 30, 2001



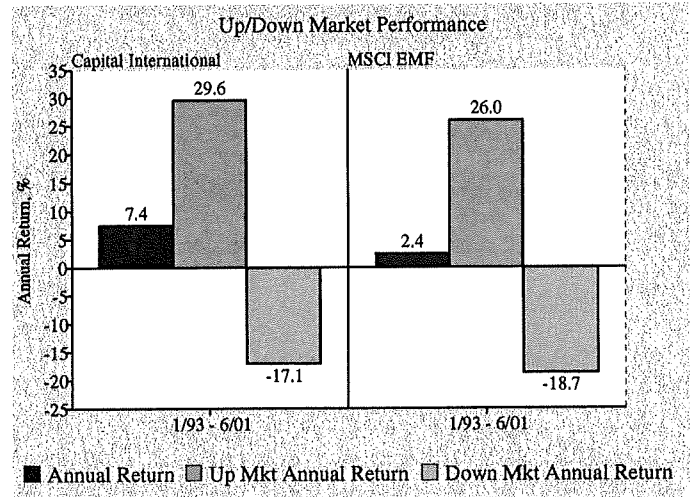
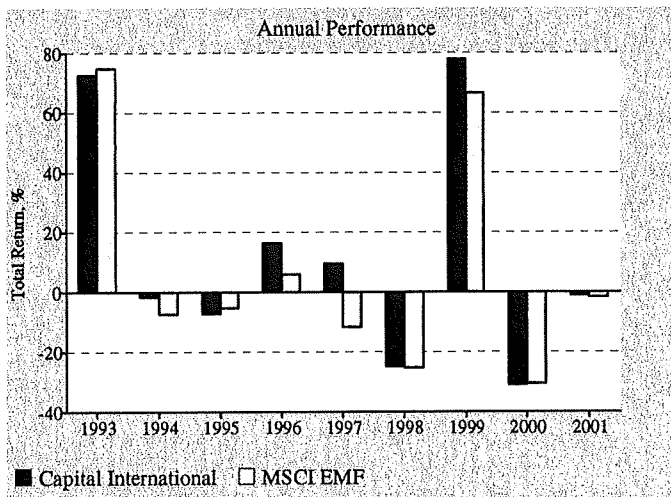
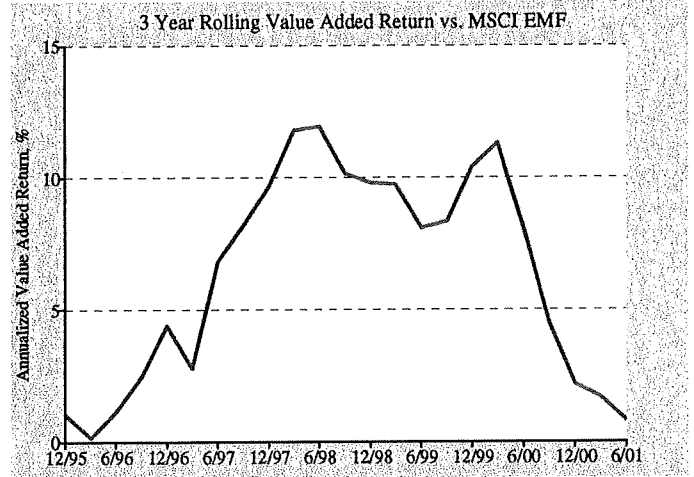
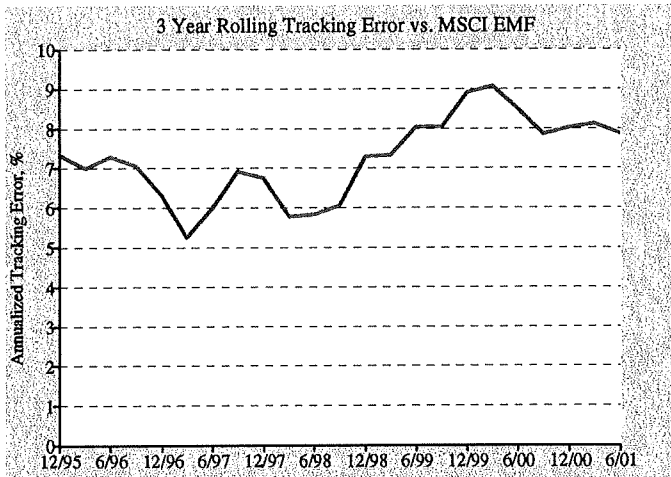
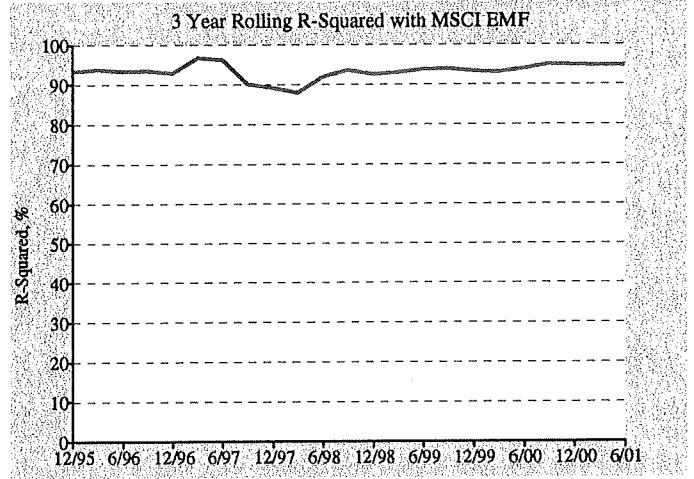
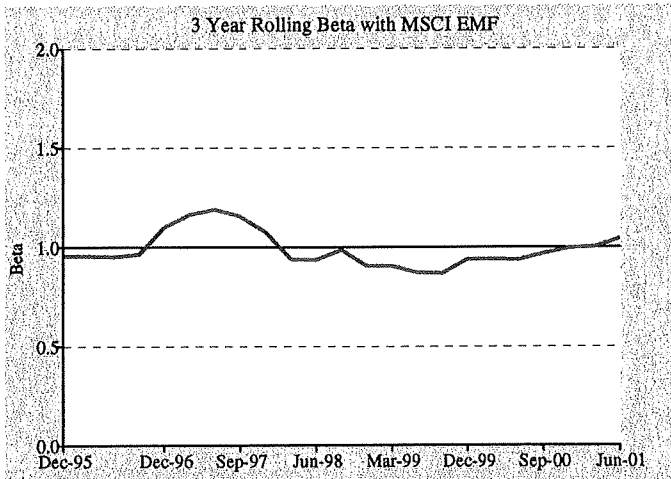
**Average Annual Compound Returns (%)**

	1 Year	3 Years	5 Years	10 Years
Capital International	-29.3	2.3	0.0	9.2
MSCI EMF	-25.8	1.5	-6.4	4.8
CA Emerging Markets Equity Universe Median	-22.9	2.0	-3.3	6.0

CA Emerging Markets Equity Universe Size	68	63	54	6
--	----	----	----	---

Note: Calculations are based on quarterly data. Manager returns are gross of fees unless otherwise noted by an \*.

**UNIVERSITY OF TEXAS  
CAPITAL INTERNATIONAL : EMERGING MARKETS GROWTH FUND  
As of June 30, 2001**



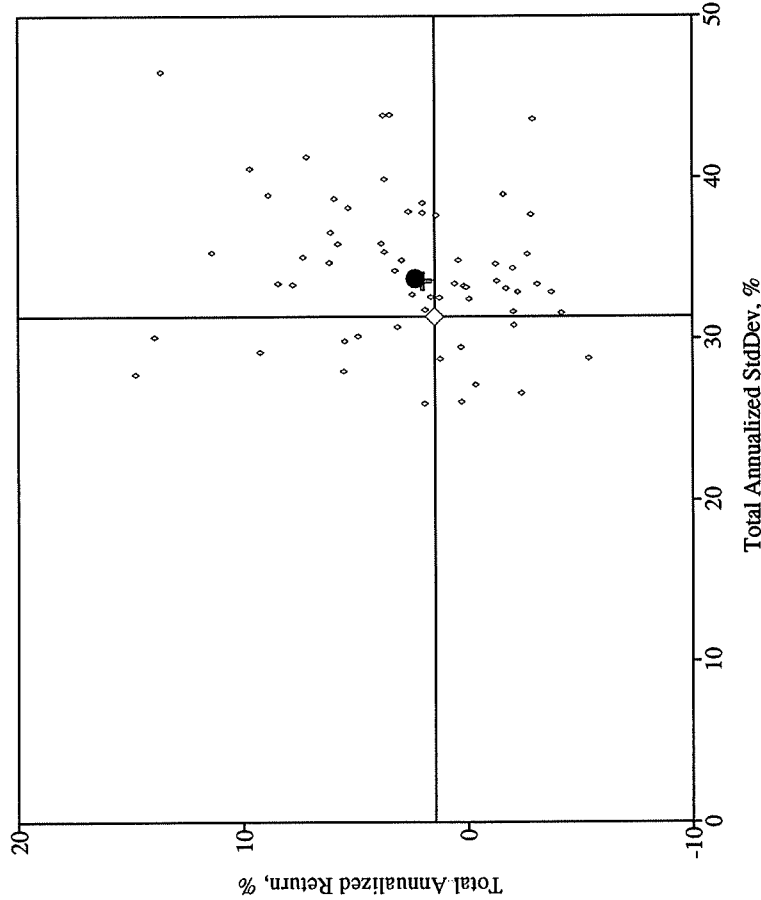
		Annualized Return, %	Annualized StdDev, %	MPT Statistics		
		Total	Total	Beta	R-Squared, %	Sharpe Ratio
Capital International	Jan 93 - Jun 01	7.4	27.9	1.0	93.0	0.2
MSCI EMF	Jan 93 - Jun 01	2.4	27.5	1.0	100.0	0.0

Performance Note : Calculations are based on quarterly data. Manager returns are gross of fees unless otherwise noted by an \*.

**UNIVERSITY OF TEXAS  
RISK/RETURN RELATIONSHIPS**

Data Through June 2001

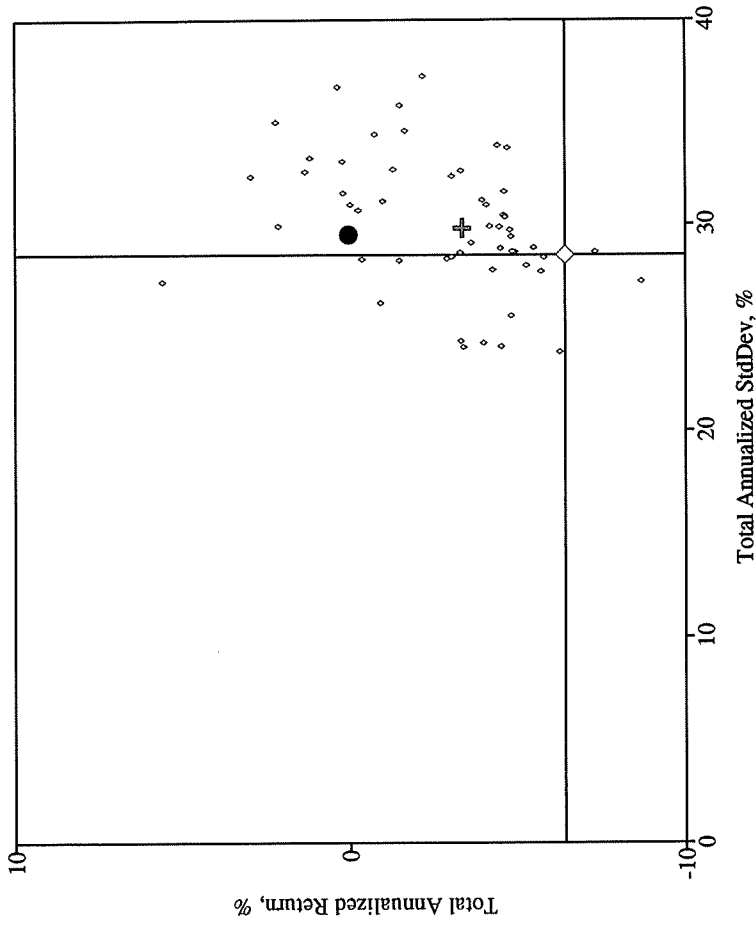
**3 Year Risk/Return Relationship**



◇ CA Emg Markets Equity Universe    ● Capital International  
 ◇ CA Emg Markets Equity Universe Median  
 ◇ MSCI EMF

	Annualized Return, %	Annualized StdDev, %
Capital International	2.3	33.7
MSCI EMF	1.5	31.4
CA Emg Markets Equity Universe Median	2.0	33.6

**5 Year Risk/Return Relationship**



◇ CA Emg Markets Equity Universe    ● Capital International  
 ◇ CA Emg Markets Equity Universe Median  
 ◇ MSCI EMF

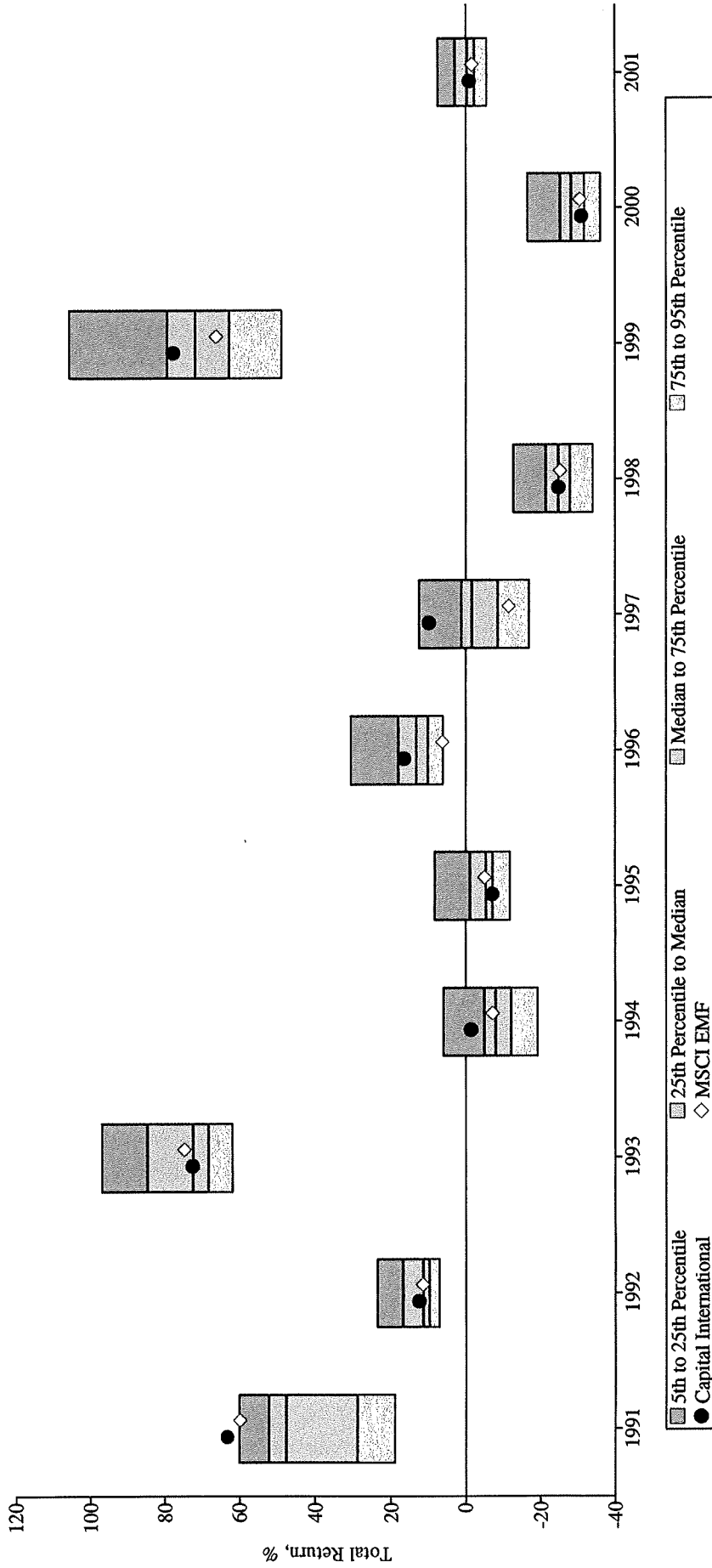
	Annualized Return, %	Annualized StdDev, %
Capital International	0.0	29.5
MSCI EMF	-6.4	28.5
CA Emg Markets Equity Universe Median	-3.3	29.8

*Note: Returns and standard deviations are based on quarterly data. Manager returns are gross of fees unless otherwise noted by an \*.  
 Universe Note: Each gray diamond represents a manager in the CA Emerging Markets Universe.*

**UNIVERSITY OF TEXAS  
PERFORMANCE ANALYSIS**

Data Through June 2001

Annual Performance



Annual Returns (%)

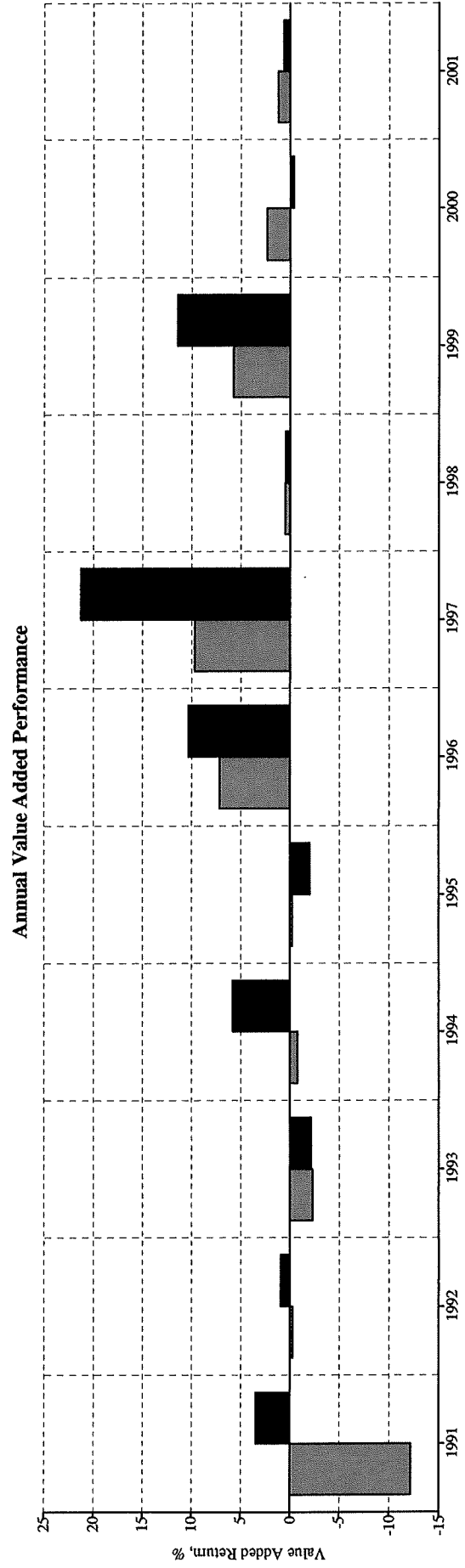
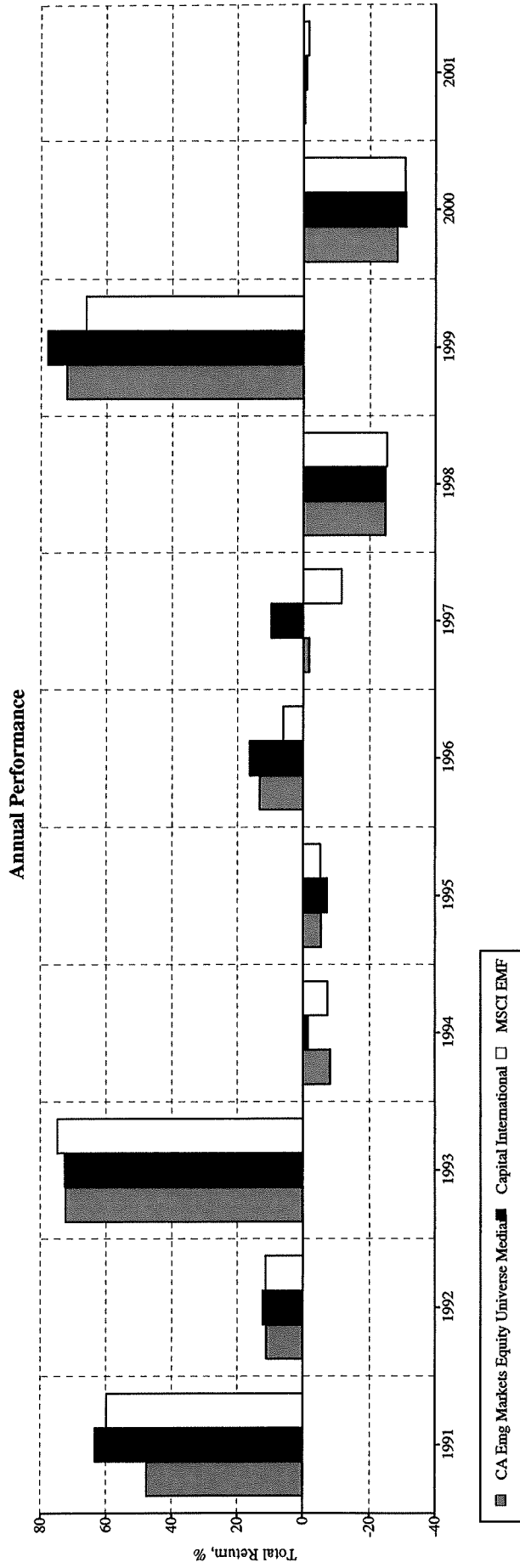
	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Capital International	63.4	12.3	72.7	-1.5	-7.2	16.4	9.7	-24.9	77.9	-31.0	-1.0
MSCI EMF	59.9	11.4	74.9	-7.3	-5.2	6.0	-11.6	-25.3	66.4	-30.6	-1.6
CA Eng Markets Equity Universe Median	47.7	11.1	72.5	-8.1	-5.4	13.2	-1.9	-24.8	72.2	-28.2	-0.5

CA Eng Markets Equity Universe Size	7	13	20	33	49	56	63	68	73	73	68
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Note: Calculations are based on quarterly data. Manager returns are gross of fees unless otherwise noted by an \*.  
 Universe Note: The floating bars represent the CA Emerging Markets Universe. Percentile rankings are based on a scale of 0-100 where 0 represents the highest value and 100 the lowest.

# UNIVERSITY OF TEXAS PERFORMANCE ANALYSIS

Data Through June 2001

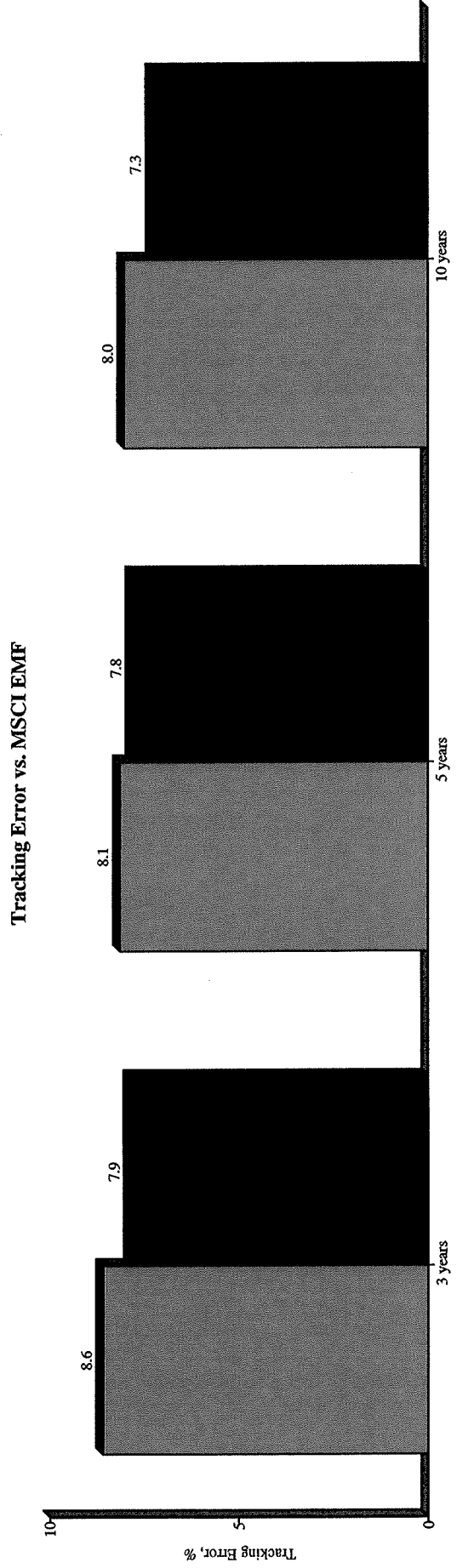
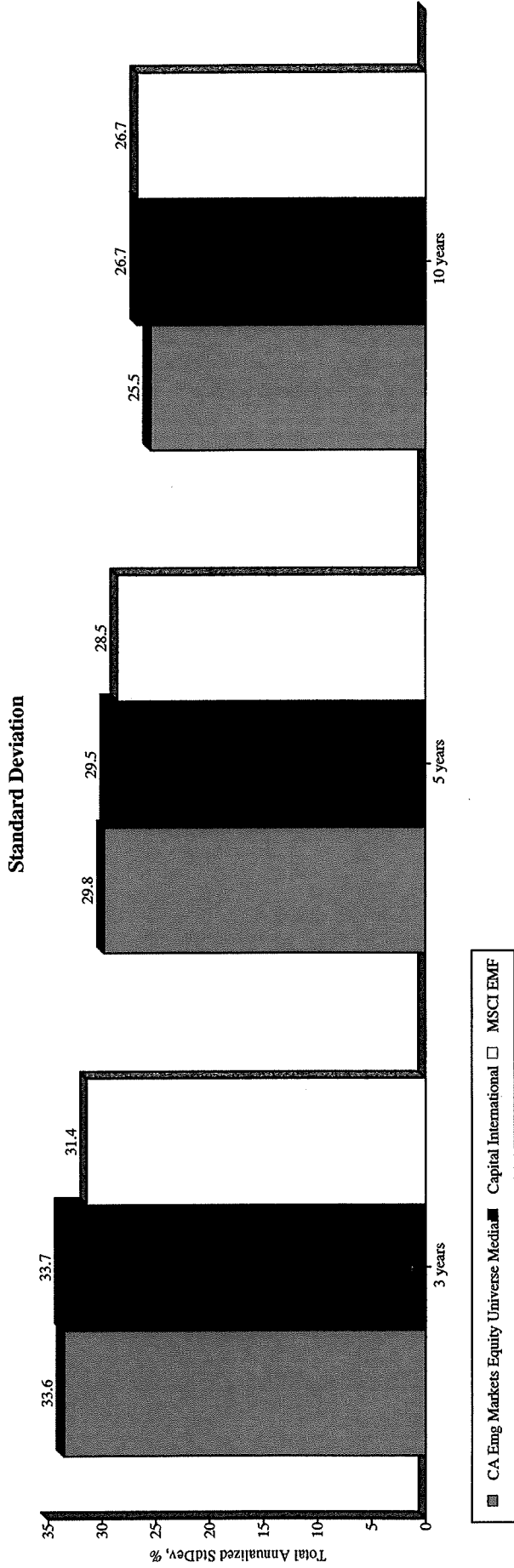


Note: Calculations are based on quarterly data. Manager returns are gross of fees unless otherwise noted by an \*.



**UNIVERSITY OF TEXAS  
RISK ANALYSIS**

**Data Through June 2001**



*Note: Calculations are based on quarterly data. Manager returns are gross of fees unless otherwise noted by an \*.*

**CAPITAL INTERNATIONAL, INC.****Emerging Markets Growth Fund****11100 Santa Monica Boulevard****15th Floor****Los Angeles, CA 90025****310-996-6242****www.capgroup.com****Philosophy: Emerging Markets Equity****Tax-Exempt Product Accounts (6/30/01): 1****Tax-Exempt Product Assets (6/30/01): \$17,634 mm****Total Product Assets (6/30/01): \$17,634 mm****Total Firm Assets (6/30/01): \$32,181 mm****New Business Contact:** Abbe Shapiro 310-996-6153**Organization:** Holding Company Subsidiary**Parent/Affiliate:** The Capital Group Companies, Inc.**Year Founded:** 1987**Registered:** SEC**Compliant:** AIMR

**Investment Approach:** The firm's research-intensive investment process involves extensive field research and direct company contact. Company-specific analysis is coupled with an assessment of industry, local market, and currency factors. Macroeconomic and political judgements impact overall country and sector weights. The portfolio is constructed by allocating portions of the fund to multiple managers as well as an analyst team. Each manager works independently to create sub-portfolios and the analyst team creates a research portfolio including the group's best stock ideas. The sub-portfolios within this "multi-manager" structure are then combined within the overall fund. The portfolio typically contains 375 - 425 securities. The fund may also invest a portion of assets in debt instruments as long as the investment is consistent with the fund's objective of long-term capital growth. Turnover averages 25% annually.

**Research:** The firm relies on internal research for 95% of its investment decisions. The remaining 5% is generated from external, worldwide sources.

**Investment Results:**

	<u>Annual Total Returns (%)</u>										9 mos
	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Capital International, Inc.	63.4	12.3	72.7	-1.5	-7.2	16.4	9.7	-24.9	77.9	-31.0	-25.6
MSCI Emerging Markets Free Index	59.9	11.4	74.8	-7.3	-5.2	6.0	-11.6	-25.3	66.4	-30.6	-22.9
S&P/IFC Investable Composite Index	39.5	3.3	79.6	-12.0	-8.4	9.4	-14.7	-22.0	67.1	-31.8	-20.8

Manager Medians

Emerging Markets Equity	47.7	11.1	72.6	-8.1	-5.4	13.2	-1.9	-24.8	72.2	-28.2	-20.4
-------------------------	------	------	------	------	------	------	------	-------	------	-------	-------

Average Annual Compound Returns (%) Through Latest Quarter 9/30/01

	<u>10YR</u>	<u>9YR</u>	<u>8YR</u>	<u>7YR</u>	<u>6YR</u>	<u>5YR</u>	<u>4YR</u>	<u>3YR</u>	<u>2YR</u>	<u>1YR</u>
Capital International, Inc.	6.0	3.9	0.3	-5.1	-2.7	-5.1	-12.4	1.0	-17.1	-37.7
MSCI Emerging Markets Free Index	2.0	0.3	-3.9	-9.3	-7.8	-10.2	-13.9	1.7	-18.1	-33.2
S&P/IFC Investable Composite Index	1.5	0.2	-4.1	-9.4	-6.9	-9.7	-13.2	2.2	-17.6	-31.7

Manager Medians

Emerging Markets Equity	3.5	2.3	-2.0	-6.6	-4.5	-7.1	-12.4	3.3	-13.5	-30.1
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**Performance Notes:** Performance represents the Emerging Markets Growth Fund. Returns include return on cash reserves. Performance is net of management fees. Returns have been audited by an independent third party. Capital International, Inc. total return percentages are calculated from Net Asset Value assuming all distributions are reinvested. The Fund is an open-ended interval fund that redeems Fund shares on a monthly basis. The Fund operated as a closed-end fund until July 1, 1999.

**CAPITAL INTERNATIONAL, INC.**  
**Emerging Markets Growth Fund**

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**Staff:**

Portfolio Managers	9
Analysts	30

**Biographies of Key Personnel:**

Osman Y. Akiman      Vice President

With firm since 1994; with product since 1994

M.B.A., Harvard Graduate School of Business Administration  
B.S.E., Wharton School - University of Pennsylvania  
B.A., Wharton School - University of Pennsylvania  
Citibank, N.A. (Istanbul, Turkey), Credit and Marketing Manager, 1991 - 94  
Minister of Economy (Istanbul, Turkey), Advisor, 1989 - 91

Christopher Choe      Vice President

With firm since 1990

B.A., University of Kent  
Swiss Bank Corporation, Investment Analyst  
J.P. Morgan, Treasury Investments Manager  
Arthur Andersen & Company

Luis Freitas de Oliveira      Senior Vice President

With firm since 1994; with product since 1994

M.B.A., INSEAD  
B.A., Universidade Federal de Minas Gerais (Brazil)  
Citibank N.A. (Brazil)

David I. Fisher      Vice Chairman of the Board

With firm since 1969

M.B.A., University of Missouri  
B.A., University of California - Berkeley  
Smith Barney & Company, Officer  
General Electric Company, Marketing Executive

**CAPITAL INTERNATIONAL, INC.**  
**Emerging Markets Growth Fund**

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**Biographies of Key Personnel (continued):**

Koenraad C. Foulon      Director and Senior Vice President

With firm since 1990

Graduate, Universite Catholique de Louvain (Belgium)  
Shearson Lehman Global Asset Management, Managing Director  
Morgan Guaranty Trust Company, Banker  
Banque DeGroof, Portfolio Manager

Hartmut Giesecke      Senior Vice President

With firm since 1973

M.E., Freiburg University (Germany)  
M.B.A., Columbia University  
Geneva Graduate Institute of International Studies and German Research Assn., Research Fellow,  
1972 - 73

Victor D. Kohn      Senior Vice President and Director

With firm since 1986

M.B.A., Stanford University  
M.A., Universidad de Chile  
B.A., Universidad de Chile  
Montgomery Securities, Analyst, 1984 - 86

Nancy J. Kyle      Senior Vice President

With firm since 1991

B.A., Connecticut College  
J.P. Morgan Investment Management Inc., Managing Director and Chief International Equity  
Strategist, 1980 - 91  
Jardine Fleming (Hong Kong), Fund Manager

Shaw B. Wagener      Ex. Vice President, Director

With firm since 1981

B.A., Claremont McKenna College, 1981

**CAPITAL INTERNATIONAL, INC.**  
**Emerging Markets Growth Fund**

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**Fee Schedule:**

**Mutual Fund**

Capital International Emerging Markets Growth Fund:

Expense Ratio:

0.693 % of assets (as of 9/30/01)

Fee includes custody.

Must be a qualified purchaser to be eligible.

Minimum Account Size: \$100,000

**Representative Clients:**

Bell Atlantic

Bryn Mawr School

Commonfund Group

General Motors

ITT

Mobil Oil

Northwestern University

Pitney-Bowes Inc.

Pomona College

Swarthmore College

**CAPITAL INTERNATIONAL, INC.**  
**Emerging Markets Growth Fund**

**Portfolio Description:**

Market Capitalization Emphasis:	varies	Stocks in Initial Universe:	15,042
Security Quality Emphasis:	varies	Stocks Followed Closely:	1,700
		Average Number of Stocks Held:	307

	<u>Relative To Market</u>		<u>Frequency of Use</u>
Price/Earnings Ratio	below	Options	rarely
Price/Book Ratio	above	Convertibles	often
Earnings Growth Rate	---	U.S. Stocks	rarely
Dividend Growth Rate	---	Futures	rarely
Current Income Yield	below	Bonds	often
ROE	---	Currency Hedging	varies
Payout	---		

Average Percentage of Cash Reserves Used: 5%                      Allowable Range: 3% to 10%  
 Highest Percentage of Cash Reserves Used in Past: 21%    Date: December 1988  
 Average Annual Turnover: 25%    Range: 18% to 34%

**Actual Portfolio Characteristics As of June 30, 2001**

Average Weighted Market-Capitalization	\$13,800.0 mm
Median Market-Capitalization	---
Trailing 12-month Price/Earnings Ratio	13.2
Trailing 12-month Price/Book Ratio	2.4
Trailing 5-Year Earnings Growth Rate	57.8%
Trailing 5-Year Dividend Growth Rate	32.3%
Dividend Yield	1.5%
ROE	---
Payout	---
Quality (AAA/AA...)	---

Top Ten Country Allocations

	% of Assets
1. Mexico	18.1
2. South Korea	12.5
3. Brazil	12.3
4. Taiwan	9.0
5. India	8.7
6. China	5.5
7. Turkey	4.3
8. South Africa	3.9
9. Other	3.4
10. Russia	3.0

Portfolio Allocation:    Stocks: 93.3%    Bonds: 1.7%    Cash: 5.0%    Other: 0.0%

Information reviewed on 12/3/01

The CA Manager Medians are derived from Cambridge Associates' proprietary database covering investment managers. CA does not necessarily endorse or recommend the managers in this universe. Performance results are generally gross of investment management fees and do not include returns for discontinued managers.

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**APPROVAL OF COMMITMENTS TO:**

**BARCLAYS GLOBAL INVESTORS  
RUSSELL 2000 ALPHA TILTS FUND**

## **Resolution No. 5**

WHEREAS, the Board has reviewed the Investment Recommendation prepared by the Corporation recommending that the Corporation may enter into an agreement (the Agreement) with Barclays Global Investors N. A. to invest up to \$100 million of PUF and GEF assets in **Barclays Global Investors Emerging Markets Structured Tiered Strategy**, and

WHEREAS, the Corporation has determined that the Agreement does not constitute an agreement or transaction entered into in violation of Subsection 66.08(i) of the Texas Education Code;

NOW, THEREFORE, BE IT RESOLVED, that the terms and provisions of the proposed investment as described in the Investment Recommendation dated December 13, 2001 for **Barclays Global Investors Emerging Markets Structured Tiered Strategy** be approved; and be it further

RESOLVED, that the President and CEO, and any Managing Director of this Corporation be, and each of them hereby is, authorized to make such further revisions to the terms and provisions as may be necessary or in the best interests of this Corporation, excluding an increase in the amount of the capital commitment to **Barclays Global Investors Emerging Markets Structured Tiered Strategy**; and be it further

RESOLVED, that the President and CEO, any Managing Director, and the Secretary of this Corporation be, and each of them hereby is, authorized and empowered (any one of them acting alone) to do or cause to be done all such acts or things and to sign and deliver, or cause to be signed and delivered, all such documents, instruments and certificates (including, without limitation, all notices and certificates required or permitted to be given or made under the terms of the Agreement), in the name and on behalf of the Corporation, or otherwise, as such officer of this Corporation may deem necessary, advisable or appropriate to effectuate or carry out the purposes and intent of the foregoing resolutions and to perform the obligations of this Corporation under the Agreement and the instruments referred to therein.



# BARCLAYS GLOBAL EMERGING MARKETS STRUCTURED TIERED STRATEGY

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December 13, 2001

**CATEGORY:** Emerging Markets

**TOTAL UTIMCO CURRENT EXPOSURE:** Endowment funds

## Exposure to Barclays Global (as of 10/31/01) (\$ in millions)

	PUF	GEF	Total
Large Cap (S&P 500)	\$295.0	\$236.0	\$531.0
Mid Cap (S&P 400)	\$574.5	\$315.8	\$890.3
Small Cap (Russell 2000)	\$65.5	\$68.6	\$134.1
International (MSCI-EAFE)	\$340.0	\$195.1	\$535.1
	<b>\$1,275.0</b>	<b>\$815.5</b>	<b>\$2,090.5</b>

**UTIMCO RECOMMENDATION:** Approval up to \$100 million

**UTIMCO DELEGATION OF AUTHORITY:** Board action required.

### BACKGROUND:

Barclays Global Investors (BGI) manages \$771 billion in assets as of June 30, 2001. BGI manages these assets passively, or through enhanced index structures.

### STRATEGY:

The Emerging Markets Structured Tiered Strategy will be invested in collective funds or portfolios of securities, each of which is an index fund that attempts to approximate the capitalization weighted total rates of return of equity securities in the Morgan Stanley Capital International Emerging Markets Free Index (MSCI Emerging Markets Free Index) for a selected country. The strategy adopts a structured tiered weighting approach across the countries. BGI's approach is designed to incorporate three key dimensions in total performance management; return, risk and cost. Five markets comprise 64% of the benchmark, South Africa 16%, Korea 15%, Taiwan 13%, Mexico 10%, and Brazil 10%. Country volatility in emerging markets is greater than that of developed markets. The dispersion of returns within emerging markets results in less correlation than countries within developed markets. Transaction costs are much higher in these markets when compared to the US or other developed countries. BGI's strategy employs factors such as the stage of country development, portfolio and operational risks in addition to liquidity and transaction costs in determining the composition of the portfolio. BGI believes this method ensures diversification that captures mean reversion (self-balancing) and limits turnover, which reduces transaction costs. Country risk is reduced relative to the benchmark while balancing industry and region (Asia, Latin America and emerging Europe) risk. Total return of this strategy since the funds inception on 5/31/2001 through October 31, 2001 has been (5.7%), compared to the MSCI EMF of (8.85%).

# BARCLAYS GLOBAL EMERGING MARKETS STRUCTURED TIERED STRATEGY

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## **FEES AND LOCK UP PERIODS:**

**Annual management fee:** Flat fee of .45% of average value of UTIMCO's allocation to this fund.

## **DIVERSIFICATION TO EXISTING MANAGER MANDATES:**

Emerging markets present attractive opportunities. The trendline for economic growth is above those in developed countries. Many of the countries have competitive advantages such as low labor and resource costs. Allocation of funds to this mandate provides additional diversification to the existing managers in this asset class and provides the tactical allocation exposure that UTIMCO wishes to obtain.



## **Resolution No. 6**

WHEREAS, the Board has reviewed the Investment Recommendation prepared by the Corporation, recommending that the Corporation enter into an agreement (the "Agreement") with Barclays Global Investors N.A. to invest up to \$150 million of PUF and GEF assets in **Barclays Global Investors Russell 2000 Alpha Tilts Fund**; and

WHEREAS, the Corporation has determined that the Agreement does not constitute an agreement or transaction entered into in violation of Subsection 66.08(i) of the Texas Education Code;

NOW, THEREFORE, BE IT RESOLVED, that the terms and provisions of the proposed investment as described in the Investment Recommendation dated December 13, 2001 for **Barclays Global Investors Russell 2000 Alpha Tilts Fund** be approved; and be it further

RESOLVED, that the President and CEO, and any Managing Director of this Corporation be, and each of them hereby is, authorized to make such further revisions to the terms and provisions as may be necessary or in the best interests of this Corporation, excluding an increase in the amount of the capital commitment to **Barclays Global Investors Russell 2000 Alpha Tilts Fund**; and be it further

RESOLVED, that the President and CEO, any Managing Director, and the Secretary of this Corporation be, and each of them hereby is, authorized and empowered (any one of them acting alone) to do or cause to be done all such acts or things and to sign and deliver, or cause to be signed and delivered, all such documents, instruments and certificates (including, without limitation, all notices and certificates required or permitted to be given or made under the terms of the Agreement), in the name and on behalf of the Corporation, or otherwise, as such officer of this Corporation may deem necessary, advisable or appropriate to effectuate or carry out the purposes and intent of the foregoing resolutions and to perform the obligations of this Corporation under the Agreement and the instruments referred to therein.

# BARCLAYS GLOBAL RUSSELL 2000 ALPHA TILTS FUND

December 13, 2001

**CATEGORY:** Small Cap

**TOTAL UTIMCO CURRENT EXPOSURE:** Endowment funds

## Exposure to Barclays Global (as of 10/31/01)

(\$ in millions)

	PUF	GEF	Total
Large Cap (S&P 500)	\$295.0	\$236.0	\$531.0
Mid Cap (S&P 400)	\$574.5	\$315.8	\$890.3
Small Cap (Russell 2000)	\$65.5	\$68.6	\$134.1
International (MSCI-EAFE)	\$340.0	\$195.1	\$535.1
	<b>\$1,275.0</b>	<b>\$815.5</b>	<b>\$2,090.5</b>

**UTIMCO RECOMMENDATION:** Approval up to \$150 million

**UTIMCO DELEGATION OF AUTHORITY:** Board action required.

### BACKGROUND:

Barclays Global Investors (BGI) manages \$771 billion in assets as of June 30, 2001. BGI manages these assets passively, or through enhanced index structures.

### STRATEGY:

The Russell 2000 Alpha Tilts fund will be invested and reinvested in a portfolio of common stocks with the objective of approximating the capitalization weighted total rate of return of the Russell 2000 Index; provided, each fund portfolio shall be selected and maintained in accordance with a formula designed to select stocks through optimized tilts toward particular stock characteristics. The objective of the strategy is to produce long-term returns in excess of the return of the Russell 2000 Index. This strategy has produced annual returns in excess of the benchmark for 8 of the 10 full year periods in existence. Underperformance relative to the benchmark was (.23%) and (1.65%) for the 2 underperforming years. Cumulative alpha since inception of 7/31/90 through 11/30/01 has been 169.76% gross, annualized 4.06%.

### FEES AND LOCK UP PERIODS:

**Annual management fee:** Base fee of .20% and incentive fee of 20% of excess performance (Return of Alpha tilts over Russell 2000) for a one year period.

### DIVERSIFICATION TO EXISTING MANAGER MANDATES:

Replacing a portion or all of UTIMCO's exposure to the Russell 2000 index fund will provide UTIMCO with the opportunity to exceed the benchmark return without incurring substantial risk of underperformance relative to the benchmark.

**Excerpt from Corporate Bylaws:**

**Section 5A. Nominations; Nominating Committee.** Upon the occurrence of a vacancy in the office of Director (other than in the office of an Affiliated Director), the Board of Directors shall submit to the Board of Regents the name of a nominee to fill such vacancy. The nominee so submitted shall be selected by the Board of Directors from a list of names compiled by the Chairman of the Board. Prior to selection of the nominee, a nominating committee shall screen the individuals on the list and recommend to the Board a nominee to fill such vacancy. The Chairman of the Board shall appoint three members of the Board to serve as the nominating committee and shall designate the chairman of the committee.

The Committee currently has three members:

A. W. (Dub) Riter, Jr. – Chairman

Susan M. Byrne

~~A. R. (Tony) Sanchez~~

**Resolution No. 7**

RESOLVED, that \_\_\_\_\_ , \_\_\_\_\_ ,  
and \_\_\_\_\_ are hereby designated as the Nominating  
Committee of the Board of Directors to serve until their successors are  
chosen and qualify, or until their earlier resignation or removal; and be it  
further

RESOLVED, that \_\_\_\_\_ is hereby designated as the  
Chairman of the Nominating Committee.

**Resolution No. 8**

RESOLVED, \_\_\_\_\_ that upon receiving and accepting the offer of the position of President and Chief Executive Officer of the Corporation, is hereby appointed to the office to serve until the next Annual Meeting of the Corporation or until his resignation or removal.