

*Confidential*

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



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

*October 31, 2002*

**Notice of Open Meeting of the  
Board of Directors of  
The University of Texas Investment  
Management Company**

**October 31, 2002**

Crescent Court Hotel  
400 Crescent Court, Dallas, Texas

**Open Meeting Agenda**

Convene at 11:15 a.m.

Call to Order/Approval of Minutes of September 18, 2002 Meeting\*  
Approval of Follow-on Investment in Songbird Hearing\*

Presentation by Lee Ainslie, Maverick Capital

Action in response to Compensation Committee Report\*

Lunch/Informal Discussion of Role of UTIMCO Director

Report of Audit and Ethics Committee  
- Approval of Audited Financial Statements\*

Discussion and Approval of Derivative Investment Policy\*

Asset Allocation/Fund Performance/Manager Performance History

Demonstration of New Board of Directors Internet Application

Discussion and Approval of UTIMCO Providing Backup Liquidity  
for the PUF\*

Discussion of UTIMCO Managing Other Funds

Discussion of Procedures for Handling Requests for Investment  
Information including Update on Disclosure of Private Equity  
Program Information

**Convene into Executive Session**

Pursuant to Sections 551.074 and 551.071, Texas Government Code,  
the Board of Directors may convene in Executive Session for the  
purpose of deliberating personnel compensation and for the purpose  
of consultation with attorneys regarding possible litigation over  
disclosure of private investment information.

\*Action by resolution required

Posted: October 28, 2002

By: The University of Texas Investment Management Company

**Resolution No. 1**

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

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

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

thus, constituting a majority and quorum of the Board. Also, participating in the meeting were Bob Boldt, President, Chief Executive Officer and Chief Investment Officer of the Corporation; Cathy Iberg, Secretary of the Corporation; Christy Wallace, Assistant Secretary of the Corporation; Jerry Turner and Rod Edens, legal counsel for the Corporation; Sara McMahan and Trey Thompson, Co-Managing Directors of Non-Marketable Alternative Investments of the Corporation; and Bruce Myers of Cambridge Associates. Mr. Riter called the meeting to order at 10:20 a.m. Copies of materials supporting the Board meeting agenda were previously furnished to each Director or distributed at the meeting.

**Minutes**

The first matter to come before the Board was approval of the minutes of the meeting of the Board of Directors held on June 18, 2002. Upon motion duly made and seconded, the following resolution was unanimously adopted:

**RESOLVED**, that the minutes of the meeting of the Board of Directors held on **June 18, 2002**, be and are hereby approved.

### **Appointment of Advisory Director**

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

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

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

**NOW, THEREFORE**, be it:

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

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

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

### **Statement of Appreciation**

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

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

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

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

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

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

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

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

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

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

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

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

### **Appointment of Managing Directors**

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

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

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

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

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

Joan Moeller, Managing Director – Accounting, Finance and Administration

Bill Edwards, Managing Director– Information Technology Services

### **Approval of Inverness Partners II LP**

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

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

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

NOW, THEREFORE, BE IT RESOLVED, that the terms and provisions of the proposed Investment as described in the Investment Recommendations dated July 16, 2002 and June 24, 2002, for **Inverness Partners II LP** be approved; and be it further

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

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

### **Compensation Committee**

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

### **Asset Allocation Review**

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

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

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

### **Sarbanes-Oxley Act of 2002**

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



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

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

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

### **UTIMCO Disclosure Policy**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Duties and Responsibilities of UTIMCO Director**

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

### **Satellite Asset Management**

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

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

Secretary: \_\_\_\_\_  
Cathy A. Iberg

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

## **Resolution No. 2**

WHEREAS, the Board has reviewed Investment Recommendations 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 \$5 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 Memorandum dated October 31, 2002 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.

**PRESENTATION  
BY  
MAVERICK CAPITAL**

(To Be Distributed at the Meeting)

### **Resolution No. 3**

RESOLVED, that the 2003 Base Salary (for the period September 1, 2002 through August 31, 2003) and 2002 Performance Compensation Award, if deemed appropriate, for the Corporation's President as recommended by the Compensation Committee be and is hereby approved.

**Resolution No. 4**

RESOLVED, that the UTIMCO Performance Compensation Plan for the 2002-2003 Fiscal Year and the Performance Compensation Plan Guidelines - 2002-2003 Fiscal Year as recommended by the Compensation Committee be, and are hereby approved.



## **Resolution No. 5**

RESOLVED, that the separate annual financial statements and audit reports for the Permanent University Fund, the Permanent Health Fund, The University of Texas System Long Term Fund, and The University of Texas System Short Intermediate Term Fund, each for the fiscal years ended August 31, 2002, and August 31, 2001, and The University of Texas System General Endowment Fund for the fiscal year ended August 31, 2002, and the period from inception (March 1, 2001) to August 31, 2001 as recommended by the Audit and Ethics Committee be, and are hereby approved.

**Resolution No. 6**

RESOLVED, that the Derivative Investment Policy, as presented to the Board, be and is hereby approved.

# The University of Texas Investment Management Company

## Derivative Investment Policy

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Effective Date of Policy: February \_\_, 2003  
Date Approved by UTIMCO Board:

### **Purpose:**

The purpose of the Derivative Investment Policy is to enumerate the applications, documentation and limitations for investment in derivative securities in the Permanent University Fund (PUF) and the General Endowment Fund (GEF), hereinafter referred to as the Funds. The Board of Regents approved investment policy guidelines for the Funds' allow for investment in derivative securities provided that their use is in compliance with UTIMCO's Board approved Derivative Investment Policy. The Derivative Investment Policy supplements the Investment Policy Statement for the Funds.

### **Objective:**

The objective of investing in derivative securities is to facilitate risk management and provide efficiency in the implementation of various investment strategies for the Funds. Through the use of derivatives, the complex risks that are bound together in traditional cash market investments can be separated and managed independently. Derivatives provide the Funds with the most economical means to improve the Funds risk/return profile.

### **Scope:**

This Policy applies to internal management of derivatives at UTIMCO only. Derivatives policies for external managers are established on a case by case basis with each external manager. This Policy Statement applies to both exchange traded and over the counter derivative instruments. This Policy shall not be construed to apply to index or other common or commingled funds in which the Funds typically invest. These commingled investment vehicles are governed by separate investment policy statements.

### **Definition of Derivatives:**

Derivatives are financial instruments whose value is derived, in whole or part, from the value of any one or more underlying securities or assets, or index of securities or assets (such as a bonds, stocks, commodities, and currencies). For the purposes of this Policy derivatives shall include futures, forwards, swaps and all forms of options, but shall not include a broader range of securities including mortgage backed securities, structured notes and convertible bonds. (Refer to attached exhibit for glossary of terms)

### **Permitted Derivative Applications:**

Derivatives may be used:

- To implement investment strategies in a low cost and efficient manner,
- To alter the Funds market (systematic) exposure without trading the underlying cash market securities,
- To construct portfolios with risk and return characteristics that could not be created with cash market securities,
- To hedge and control risks so that the Funds' risk/return profile is more closely aligned with the Funds' targeted risk/return profile,
- To facilitate transition trading,
- By managers of public markets investments employed by UTIMCO. An external investment manager may engage in derivative security transactions only if the transactions are consistent with the overall investment objectives of the account. Derivative applications shall be approved only with investment managers that demonstrate investment expertise in their use, and have appropriate risk management policies and procedures to effectively monitor and control their use. Disclosure of permitted derivative applications with external investment managers shall be made to UTIMCO's Board prior to investment.

# The University of Texas Investment Management Company

## Derivative Investment Policy

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- By managers of alternative marketable equities employed by UTIMCO. The due diligence process in the selection of these managers requires a clear understanding of the managers use of derivatives, particularly as it relates to various risk controls and leverage. UTIMCO will invest in such strategies exclusively through limited partnership agreements, offshore corporations or other legal entities that limit the Funds' exposure to its investment in the strategy. Disclosure of derivative applications with alternative marketable equity managers shall be made to UTIMCO's Board prior to investment.

The primary intent of derivative security transactions should be to hedge risk in portfolios or to implement investment strategies more effectively and at a lower cost than would be possible in the cash market.

### **Derivative Applications Not Permitted:**

Derivative Applications shall not be used to invest in asset classes that are not consistent with the Funds policy asset categories, implementation strategies and risk/return characteristics. Only the above derivative applications are permitted until such time as this policy is amended and approved by UTIMCO's Board.

### **Documentation and Controls:**

Prior to the implementation of a new derivative application, UTIMCO shall document the purpose, justification, baseline portfolio, derivative application portfolio, risks (including at a minimum modeling, pricing, liquidity and legal risks), the expected increase or reduction in systematic and specific risk resulting from the application, the acceptable criteria for counterparties in over the counter derivative applications, and the procedures in place to monitor and manage the derivative exposure. Internal control procedures to properly account and value the Funds' exposure to the derivative application shall be fully documented. The Chief Investment Officer shall approve any new derivative applications prior to implementation after fully considering the permissibility, merits, and compliance with all documentation and controls requirements of the application. UTIMCO shall establish an appropriate risk management procedure to monitor compliance and will take corrective action if necessary. UTIMCO shall make a comprehensive report of all derivative applications to the UTIMCO Board on an annual basis.

### **Limitations:**

Leverage is inherent in derivative securities since only a small cash deposit is required to establish a much larger economic impact position. Thus, relative to the cash markets, where in most cases the cash outlay is equal to the asset acquired, derivatives applications offer the possibility of establishing substantially larger market risk exposures with the same amount of cash as a traditional cash market portfolio. Therefore risk management and control processes must focus on the total risk assumed in a derivatives application, which is the sum of the application-specific risk and the market (systematic) risk established by the derivative application. In order to control and limit the leverage risk, each derivative application must specify a baseline portfolio, and risk measures such as Value at Risk (VAR) will be employed to assure that the total economic impact risk of the derivative application portfolio relative to the baseline portfolio will not exceed 20% of the underlying value of the baseline portfolio. The total relative economic impact risk of each derivative application will be monitored on a daily basis by the most appropriate risk management tools for the particular derivatives application.

As an additional global limitation, the total gross value (without netting counter positions) of all derivatives positions, including both internal and external managers, in the Funds shall not exceed 50% of the net asset value of the Funds.

In order to limit the financial risks associated with derivative applications, rigorous counterparty selection criteria and netting agreements shall be required to minimize counterparty risk for over the counter derivatives. The counterparty must be an investment grade credit and the agreement must be marked to market no less frequently than monthly.

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

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**Derivative Investment Policy Exhibit  
Glossary of Terms**

**Application Specific Risk** – The portion of total risk in a derivatives application which is due to factors unique to the application as opposed to more systematic, market-related factors. For example, in an option on a specific stock, the risk associated with the specific business results of the company which issued the stock underlying the option would be Application Specific Risk, as opposed to the overall risk of the stock market which would be Systematic Risk.

**Baseline Portfolio** – The cash-market based portfolio which will serve as the basis for calculating the relative risk level of an equivalent derivatives application.

**Cash Equivalents** – Includes cash, short term fixed income instruments, accruals, variation margin and one day deposits in transit to the account.

**Cash Market** - The physical market for a commodity or financial instrument.

**Counterparty** - The offsetting party in an exchange agreement.

**Derivative Application** – A definition of the intended use of a derivative-based position such as replication or enhancing index returns, asset allocation or completion fund strategies, and various alpha transport strategies.

**Derivative Application Portfolio** – The portfolio including derivative instruments, cash equivalents, and other cash market assets established to replicate a specified baseline portfolio.

**Economic Exposure** - The total effective exposure of a derivative position. The economic exposure is the product of the dollar value of the exposure and the market or systematic risk level of the exposure. A common method of measuring economic exposure is with risk management tools such as “value at risk.”

**Exchange Traded Derivatives** - Derivative instruments traded on an established national or international exchange. These instruments “settle” daily in that cash exchanges are made between the exchange and parties to the contracts consistent with the change in price of the instrument. Fulfillment of the contract is guaranteed by the exchange on which the instruments are traded. Examples include S&P 500 futures contracts and Goldman Sachs Commodities Index futures contracts.

**Forward Contract** - A non-standardized contract for the physical or electronic (through a bookkeeping entry) delivery of a commodity or financial instrument at a specified price at some point in the future.

**Futures Contract** - A standardized contract for either the physical delivery of a commodity or instrument at a specified price at some point in the future, or a financial settlement derived from the change in market price of the commodity or financial instrument during the term of the contract.

**Option** - An instrument that conveys the right but not the obligation to buy or deliver the subject financial instrument at a specified price, at a specified future date.

**Over the Counter Derivatives** - Derivative instruments which result from direct negotiation between a buyer and a counterparty. The terms of such instruments are non-standard and are the result of specific negotiations. Settlement occurs at the negotiated termination date, although the terms may include interim

## The University of Texas Investment Management Company Derivative Investment Policy

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cash payments under certain conditions. Examples include currency swaps and forward contracts, interest rate swaps, and collars.

**Swap** - A contract whereby the parties agree to exchange cash flows of defined investment assets in amounts and times specified by the contract.

**Systematic Risk** – The non-diversifiable risks associated with an investment in a particular asset market. For example the financial, political, and other risks associated with a portfolio of common stocks are known as “market” or systematic risks.

**Value at Risk (VAR)** – An established method of measuring economic exposure risk. The measure conveys the maximum potential loss (in dollars or percent of total assets) for a particular investment position, for a particular period of time, for a particular level of confidence.

# UTIMCO ASSETS UNDER MANAGEMENT

## NET RETURN PERFORMANCE SUMMARY

	Net Asset Value	Periods Ended August 31, 2002					
		8/31/2002 (in Millions)	Three Months	Eight Months	One Year	Three Years	Five Years
<b>ENDOWMENT FUNDS</b>							
Permanent University Fund	\$ 6,738.3	(8.00)	(6.92)	(7.35)	(0.46)	4.05	8.44
General Endowment Fund (1)		(8.25)	(7.17)	(6.96)	N/A	N/A	N/A
Permanent Health Fund (1)	698.2	(8.22)	(7.20)	(7.05)	(0.70)	N/A	N/A
Long Term Fund (1)	2,595.1	(8.23)	(7.19)	(6.97)	0.76	4.91	9.13
Separately Invested Funds	174.0	N/M	N/M	N/M	N/M	N/M	N/M
Endowment Policy Portfolio (2)		(7.61)	(7.68)	(6.57)	(1.31)	4.83	10.34
Wilshire 5000 U.S. Equities Index		(14.03)	(18.41)	(16.55)	(9.33)	1.23	9.97
Lehman Brothers Aggregate U.S. Bond Index		3.81	6.82	8.11	9.32	7.80	7.33
Total Endowment Funds	<u>10,205.6</u>						
<b>OPERATING FUNDS</b>							
Short Intermediate Term Fund	1,435.9	0.84	1.95	3.75	6.17	6.15	N/A
Composite Index (Benchmark)		2.51	4.32	6.59	7.30	6.58	N/A
Short Term Fund	1,315.1	0.47	1.31	2.29	4.65	4.98	4.86
90 Day T-Bill Average Yield (Benchmark)		0.44	1.21	2.29	4.50	4.72	4.70
Institutional Index Funds:							
BGI Equity Index Fund B-Lendable (3)	81.3	(13.80)	(19.39)	(17.98)	(10.31)	1.75	10.38
BGI US Debt Index Fund B (4)	254.2	3.81	6.82	8.11	9.32	7.80	7.33
Total Operating Funds	<u>3,086.5</u>						
<b>Total Investments</b>	<b><u>\$ 13,292.1</u></b>						

- (1) As of March 1, 2001 the PHF and LTF invested their respective net asset values into the General Endowment Fund.  
(2) The benchmark that the PUF, GEF, PHF and LTF is measured against is the Endowment Policy Portfolio. The Endowment Policy Portfolio return is the sum of the weighted benchmark returns for each asset class comprising the endowment policy portfolio.  
(3) The Equity Index Fund B replicates the returns of the S&P 500 Index.  
(4) The US Debt Index Fund B replicates the returns of the Lehman Brothers Aggregate U.S. Bond Index.

N/A - Not applicable  
N/M - Not meaningful

**PERMANENT UNIVERSITY FUND  
PERFORMANCE ATTRIBUTION**

	<b>Asset Allocation</b>		<b>Return</b>		<b>Total Attribution (1)</b>
	As of		Three Months Ended		
	August 31, 2002	Benchmark	August 31, 2002	PUF	
<b>Cash</b>	0.0%	1.6%	0.44%	0.47%	-0.02%
<b>Equities:</b>					
U.S. Mid/Large Cap	25.0%	20.0%	-13.80%	-14.15%	0.49%
U.S. Small Cap	7.5%	7.9%	-19.52%	-20.89%	-0.53%
Non U.S. Established Markets	12.0%	10.8%	-13.66%	-14.31%	-0.03%
Non U.S. Emerging Markets	3.0%	4.1%	-13.69%	-14.72%	-0.17%
<b>Marketable Alternative Equities</b>	10.0%	11.9%	2.20%	-6.85%	-1.03%
<b>Inflation Hedging</b>	7.5%	9.1%	4.39%	0.78%	-0.21%
<b>Fixed Income:</b>					
U.S.	15.0%	16.9%	3.81%	2.21%	-0.04%
Non U.S.	5.0%	3.8%	8.23%	6.78%	-0.46%
<b>Total Marketable Securities</b>	85.0%	86.1%	-6.63%	-8.63%	-2.00%
<b>Non-Marketable Alternative Equities (2)</b>	15.0%	13.9%	-13.12%	-3.70%	
<b>Total</b>	100.0%	100.0%	-7.61% (3)	-8.00%	

(1) The Total Attribution reports which asset classes contributed to the Fund's outperformance or underperformance relative to the Endowment Policy Portfolio return.

(2) Nonmarketable Equities has been excluded from attribution analysis.

(3) The benchmark that the Fund is measured against is the Endowment Policy Portfolio. The Endowment Policy Portfolio return is the sum of the weighted benchmark returns for each asset class comprising the Endowment Policy Portfolio.



**PERMANENT UNIVERSITY FUND  
PERFORMANCE ATTRIBUTION**

	<b>Asset Allocation</b>		<b>Return</b>	
	As of		Year Ended	
	August 31, 2002	August 31, 2002	Benchmark	PUF Attribution (1)
<b>Cash</b>	0.0%	1.6%	2.29%	2.29%
<b>Equities:</b>				-0.11%
U.S. Mid/Large Cap	25.0%	20.0%	-17.98%	-14.35%
U.S. Small Cap	7.5%	7.9%	-15.44%	-21.57%
Non U.S. Established Markets	12.0%	10.8%	-14.95%	-14.06%
Non U.S. Emerging Markets	3.0%	4.1%	0.24%	-1.31%
<b>Marketable Alternative Equities</b>	10.0%	11.9%	9.67%	-2.52%
<b>Inflation Hedging</b>	7.5%	9.1%	3.13%	10.85%
<b>Fixed Income:</b>				
U.S.	15.0%	16.9%	8.11%	6.62%
Non U.S.	5.0%	3.8%	10.28%	9.34%
<b>Total Marketable Securities</b>	85.0%	86.1%	-5.42%	-5.88%
<b>Non-Marketable Alternative Equities (2)</b>	15.0%	13.9%	-13.09%	-15.41%
<b>Total</b>	100.0%	100.0%	-6.57% (3)	-7.35%

(1) The Total Attribution reports which asset classes contributed to the Fund's outperformance or underperformance relative to the Endowment Policy Portfolio return.

(2) Nonmarketable Equities has been excluded from attribution analysis.

(3) The benchmark that the Fund is measured against is the Endowment Policy Portfolio. The Endowment Policy Portfolio return is the sum of the weighted benchmark returns for each asset class comprising the Endowment Policy Portfolio.

## GENERAL ENDOWMENT FUND PERFORMANCE ATTRIBUTION

	Asset Allocation		Return		Total Attribution (1)
	As of		Three Months Ended		
	August 31, 2002	Benchmark	August 31, 2002	GEF	
<b>Cash</b>	0.0%	-0.2% (2)	0.44%	0.47%	0.00%
<b>Equities:</b>					
U.S. Mid/Large Cap	25.0%	19.8%	-13.80%	-14.18%	0.55%
U.S. Small Cap	7.5%	8.6%	-19.52%	-20.69%	-0.53%
Non U.S. Established Markets	12.0%	11.9%	-13.66%	-14.18%	-0.02%
Non U.S. Emerging Markets	3.0%	4.6%	-13.69%	-14.75%	-0.19%
<b>Marketable Alternative Equities</b>	10.0%	13.6%	2.20%	-6.79%	-1.03%
<b>Inflation Hedging</b>	7.5%	9.7%	4.39%	0.83%	-0.21%
<b>Fixed Income:</b>					
U.S.	15.0%	16.5%	3.81%	1.93%	-0.18%
Non U.S.	5.0%	4.3%	8.23%	6.72%	-0.42%
<b>Total Marketable Securities</b>	85.0%	88.8%	-6.63%	-8.66%	-2.03%
<b>Non-Marketable Alternative Equities (3)</b>	15.0%	11.2%	-13.12%	-4.37%	
<b>Total</b>	100.0%	100.0%	-7.61% (4)	-8.25%	

(1) The Total Attribution reports which asset classes contributed to the Fund's outperformance or underperformance relative to the Endowment Policy Portfolio return.

(2) Negative cash position does not indicate borrowing, but is the result of certain accrued expenses.

(3) Nonmarketable Equities has been excluded from attribution analysis.

(4) The benchmark that the Fund is measured against is the Endowment Policy Portfolio. The Endowment Policy Portfolio return is the sum of the weighted benchmark returns for each asset class comprising the Endowment Policy Portfolio.

**GENERAL ENDOWMENT FUND  
PERFORMANCE ATTRIBUTION**

	Asset Allocation		Return		
	As of		Year Ended		
	August 31, 2002	August 31, 2002	Benchmark	GEF	Total Attribution (1)
<b>Cash</b>	0.0%	-0.2% (2)	2.29%	2.29%	-0.01%
<b>Equities:</b>					
U.S. Mid/Large Cap	25.0%	19.8%	-17.98%	-14.18%	1.96%
U.S. Small Cap	7.5%	8.6%	-15.44%	-20.54%	-0.91%
Non U.S. Established Markets	12.0%	11.9%	-14.95%	-13.99%	0.28%
Non U.S. Emerging Markets	3.0%	4.6%	0.24%	-1.33%	-0.16%
<b>Marketable Alternative Equities</b>	10.0%	13.6%	9.67%	-2.48%	-1.33%
<b>Inflation Hedging</b>	7.5%	9.7%	3.13%	10.98%	0.47%
<b>Fixed Income:</b>					
U.S.	15.0%	16.5%	8.11%	6.24%	-0.09%
Non U.S.	5.0%	4.3%	10.28%	8.85%	-0.49%
<b>Total Marketable Securities</b>	85.0%	88.8%	-5.42%	-5.70%	-0.28%
<b>Non-Marketable Alternative Equities (3)</b>	15.0%	11.2%	-13.09%	-17.18%	
<b>Total</b>	100.0%	100.0%	-6.57% (4)	-6.96%	

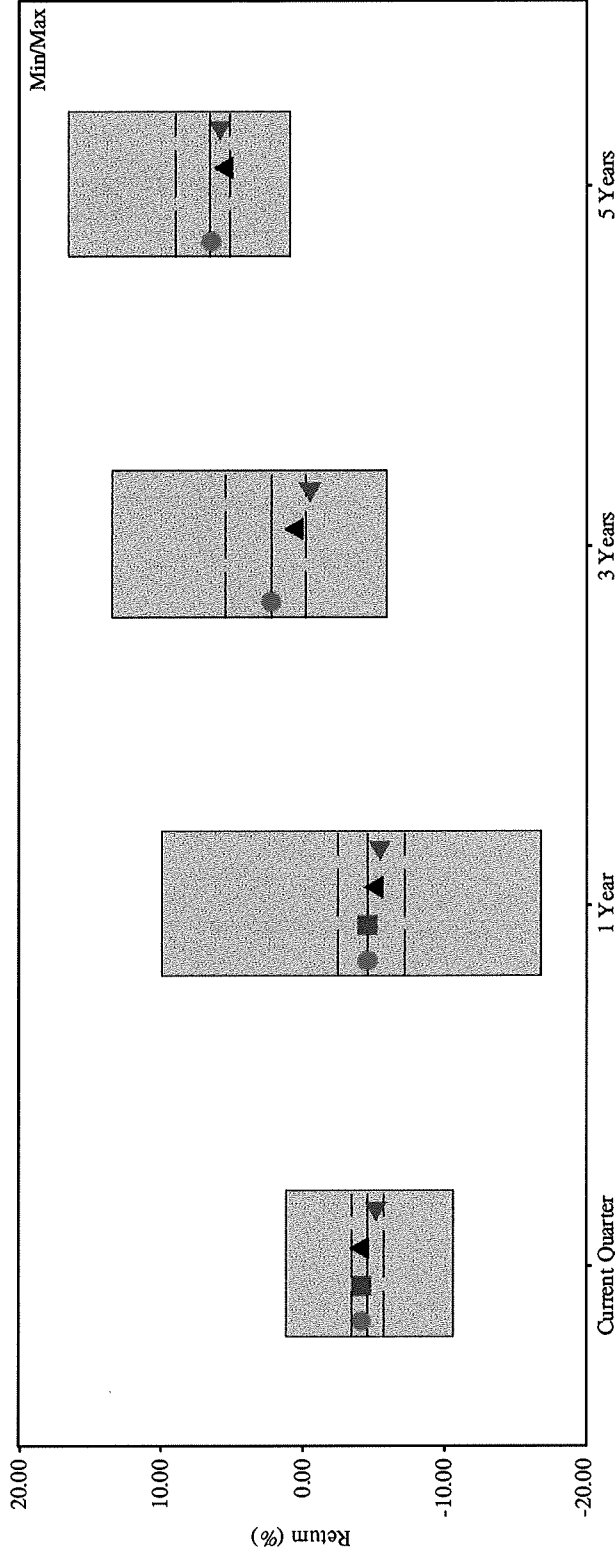
(1) The Total Attribution reports which asset classes contributed to the Fund's outperformance or underperformance relative to the Endowment Policy Portfolio return.

(2) Negative cash position does not indicate borrowing, but is the result of certain accrued expenses.

(3) Nonmarketable Equities has been excluded from attribution analysis.

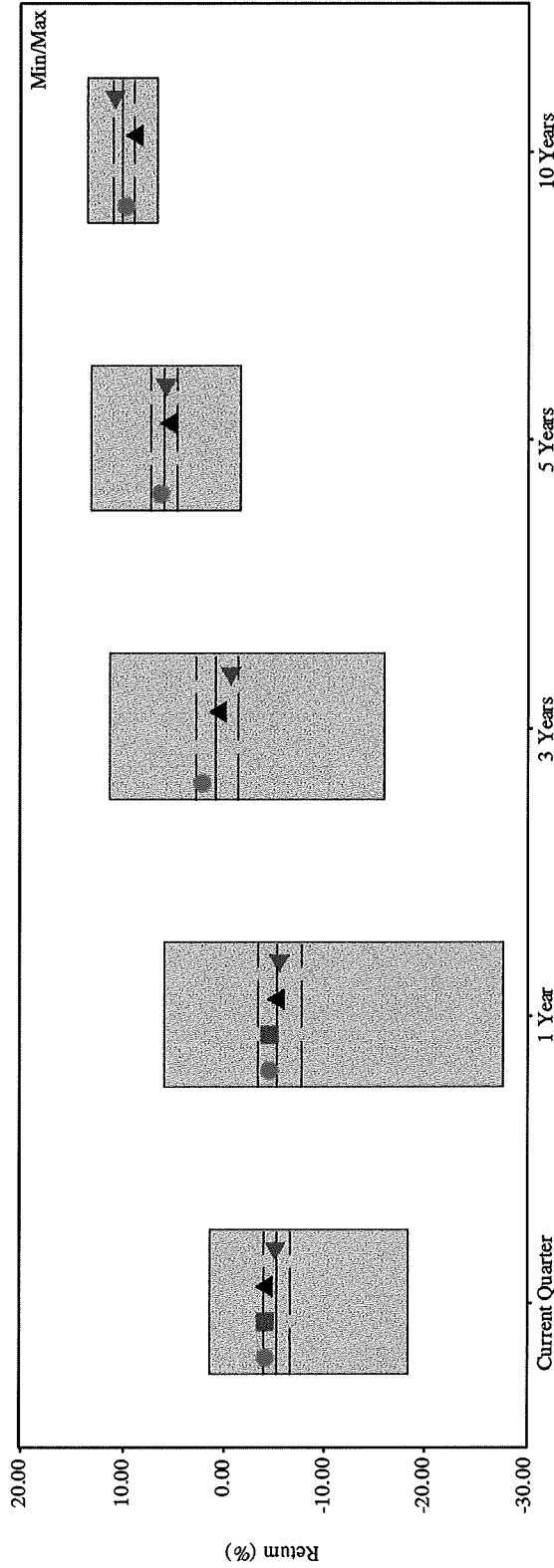
(4) The benchmark that the Fund is measured against is the Endowment Policy Portfolio. The Endowment Policy Portfolio return is the sum of the weighted benchmark returns for each asset class comprising the Endowment Policy Portfolio.

**UTIMCO ENDOWMENT FUNDS vs.  
Cambridge Universe  
Periods Ended June 30, 2002  
Quartile**



	Return	(% tile)	Return	(% tile)	Return	(% tile)	Return	(% tile)
Maximum	1.22		10.07		13.60		16.64	
25th Percentile	- 3.44		- 2.45		5.52		9.02	
Median	- 4.48		- 4.57		2.20		6.66	
75th Percentile	- 5.66		- 7.21		- 0.14		5.30	
Minimum	- 10.61		- 16.81		- 5.74		0.97	
# of Portfolios	130		130		128		122	
LTF-Net of Fees	- 3.92	34	- 4.34	48	2.45	47	6.62	53
PHF-Net of Fees	- 3.91	34	- 4.42	49	-	-	-	-
PUF-Net of Fees	- 3.77	32	- 4.85	52	0.83	66	5.73	69
Endowment Policy Portfolio	- 4.90	65	- 5.19	55	- 0.33	78	6.08	63

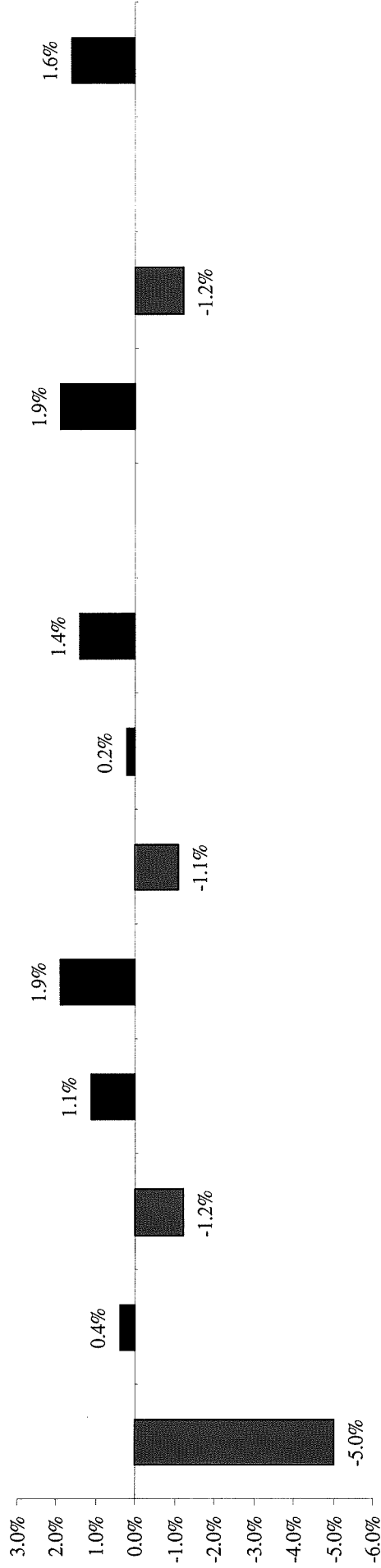
**UTIMCO ENDOWMENTS FUNDS vs.  
TOTAL FUNDS - FOUNDATIONS AND ENDOWMENTS  
Periods Ended June 30, 2002  
Quartile**



	Current Quarter	1 Year	3 Years	5 Years	10 Years
<b>Maximum</b>	1.53	6.08	11.46	13.36	13.71
<b>25th Percentile</b>	- 4.02	- 3.35	2.84	7.33	11.09
<b>Median</b>	- 5.36	- 5.37	0.83	5.92	10.19
<b>75th Percentile</b>	- 6.54	- 7.76	- 1.35	4.72	9.05
<b>Minimum</b>	-18.34	-27.73	-15.76	- 1.57	6.79
<b># of Portfolios</b>	93	92	73	67	45
<b>LTF-Net of Fees</b>	- 3.92	- 4.34	2.45	6.62	9.94
<b>PHF-Net of Fees</b>	- 3.91	- 4.42	—	—	—
<b>PUF-Net of Fees</b>	- 3.77	- 4.85	0.83	5.73	9.26
<b>Endowment Policy Portfolio</b>	- 4.90	- 5.19	- 0.33	6.08	11.12
	24	37	30	43	59
	23	37	—	—	—
	22	42	50	56	72
	44	48	67	50	27

# PUF ASSET ALLOCATION AS OF AUGUST 31, 2002

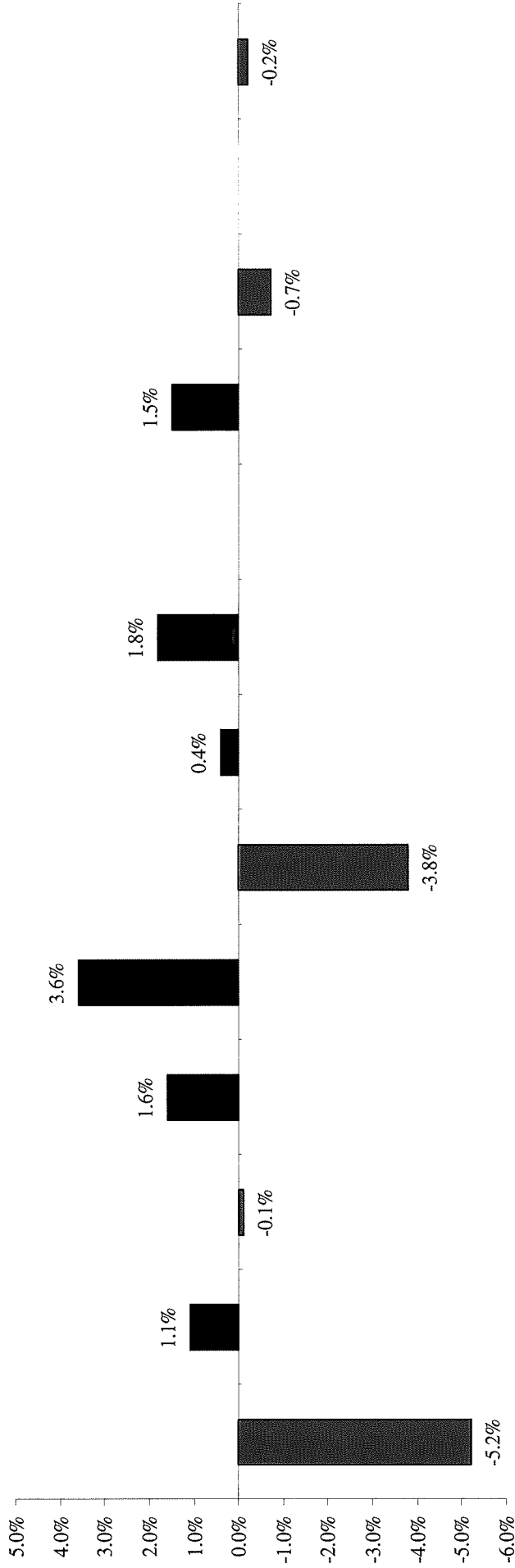
Actual vs Policy



	U.S. Large/Medium Capitalization Equities	U.S. Small Capitalization Equities	Non U.S. Equities - Established Markets	Non U.S. Equities - Emerging Markets	Alternative Markets - Marketable	Alternative Markets - Non-Marketable	Inflation Hedging Assets - Goldman Sachs Commodity Index	Inflation Hedging Assets - Real Estate Investment Trusts	Total Equities	U.S. Fixed Income	Non U.S. Fixed Income	Total Fixed Income	Cash & Cash Equivalents
Actual	20.0%	7.9%	10.8%	4.1%	11.9%	13.9%	2.7%	6.4%	77.7%	16.9%	3.8%	20.7%	1.6%
Neutral Policy	25.0%	7.5%	12.0%	3.0%	10.0%	15.0%	2.5%	5.0%	80.0%	15.0%	5.0%	20.0%	0.0%
Over/Under	-5.0%	0.4%	-1.2%	1.1%	1.9%	-1.1%	0.2%	1.4%	-2.3%	1.9%	-1.2%	0.7%	1.6%

# GEF ASSET ALLOCATION AS OF AUGUST 31, 2002

Actual vs Policy



	U.S. Large/Medium Capitalization Equities	U.S. Small Capitalization Equities	Non U.S. Equities - Established Markets	Non U.S. Equities - Emerging Markets	Alternative Markets - Marketable	Alternative Markets - Non-Marketable	Inflation Hedging Assets - Goldman Sachs Commodity Index	Inflation Hedging Assets - Real Estate Investment Trusts	U. S. Fixed Income	Non U. S. Fixed Income	Total Fixed Income	Cash & Cash Equivalents
Actual	19.8%	8.6%	11.9%	4.6%	13.6%	11.2%	2.9%	6.8%	16.5%	4.3%	20.8%	-0.2%
Neutral Policy	25.0%	7.5%	12.0%	3.0%	10.0%	15.0%	2.5%	5.0%	15.0%	5.0%	20.0%	0.0%
Over/Under	-5.2%	1.1%	-0.1%	1.6%	3.6%	-3.8%	0.4%	1.8%	1.5%	-0.7%	0.8%	-0.2%
								Total Equities				
								79.4%				
								80.0%				
								-0.6%				





**INVESTMENT MANAGER HISTORY (1)**  
**PERFORMANCE SUMMARY**  
**August 31, 2002**

Calendar Year  
To Date

Three Months	One Year	Three Years	Five Years	Ten Years	Eight Months Ended August 31, 2002	From Inception to August 31, 2002
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(13.77)	(17.97)	(10.29)	1.91	-	(19.38)	N/A
0.03	0.02	0.02	0.16	-	0.02	February 1993
(15.86)	(9.17)	5.31	8.44	-	(12.16)	N/A
0.02	0.08	0.08	0.07	-	0.00	December 1992
(15.27)	(19.01)	-	-	-	(21.00)	(17.90)
(1.47)	(1.03)	-	-	-	(1.60)	(0.80)
(12.72)	(15.33)	(8.63)	3.97	-	(17.85)	9.37
1.07	2.65	1.68	2.23	-	1.54	10.07
(13.75)	(16.54)	(9.82)	-	-	(18.47)	(2.80)
0.05	1.45	0.49	-	-	0.93	(0.50)
(11.00)	(14.01)	(16.24)	(5.93)	-	(16.12)	8.40
2.80	3.97	(5.93)	(7.68)	-	3.28	(7.45)
(13.80)	(17.98)	(10.31)	1.75	10.38	(19.39)	0.95
(15.88)	(9.25)	5.23	8.37	13.68	(12.16)	(7.45)
(22.27)	(27.41)	(1.34)	3.19	-	(30.58)	8.63
0.31	(1.39)	11.18	9.89	-	(0.50)	7.05
(20.22)	(28.54)	(3.20)	(5.99)	-	(29.83)	2.40
2.36	(2.51)	9.33	0.71	-	0.26	0.82
(24.62)	(42.76)	(13.94)	(1.27)	-	(40.24)	3.11
(2.04)	(16.74)	(1.41)	-	-	(10.15)	4.86
(22.58)	(26.02)	(12.53)	(6.70)	4.56	(30.08)	(3.48)
(16.23)	(7.28)	-	-	-	(11.15)	(2.22)
0.88	(1.69)	-	-	-	(2.07)	1.26
(35.38)	(35.84)	-	-	-	(37.68)	(32.60)
(18.27)	(30.25)	-	-	-	(28.60)	(29.12)
(17.11)	(5.59)	8.20	4.94	12.74	(9.08)	(3.48)
(16.83)	-	-	-	-	-	(18.45)
2.69	-	-	-	-	-	4.31
(17.43)	(7.79)	2.34	-	-	(12.78)	(0.81)
2.10	7.65	4.03	-	-	6.51	2.52
(21.71)	(19.94)	4.09	0.83	-	(21.87)	9.09
(2.19)	(4.50)	5.78	1.17	-	(2.57)	2.75
(19.52)	(15.44)	(1.69)	(0.34)	9.06	(19.30)	(3.33)

**NET OF FEES PERFORMANCE:**

**Equities:**

**Domestic Equities:**

**Large/Med Cap Equities:**

BGI S&P 500

vs. S & P 500 Index

BGIS & P Midcap

vs. S & P Midcap Index

Cash Equitization

vs. S & P 500 Index

Davis Hamilton Jackson

vs. S & P 500 Index

GSAM

vs. S & P 500 Index

MBA Investments

vs. S & P 500 Index

S&P 500 Index

S&P Midcap Index

**Small Cap Equities:**

Cordillera

vs. Russell 2000 Growth

Fortaleza

vs. Russell 2000 Growth

ING Pilgrim

vs. Russell 2000 Growth

Russell 2000 Growth

Dalton, Greiner, Hartman, Maher Value 2000

vs. Russell 2000 Value

Dalton, Greiner, Hartman, Maher Ultravalue

vs. Russell 2000 Value

Russell 2000 Value

BGI Russell 2000 Alpha Titl

vs. Russell 2000

GSAM

vs. Russell 2000

Schroder

vs. Russell 2000

Russell 2000

Manager outlook:

positive
neutral to slightly positive
neutral (strategy to be reviewed)
neutral to slightly negative
negative

**INVESTMENT MANAGER HISTORY (1)**  
**PERFORMANCE SUMMARY**  
**August 31, 2002**

<b>Manager outlook:</b>
positive
neutral to slightly positive
neutral (strategy to be reviewed)
neutral to slightly negative
negative

	Calendar Year						From Inception to August 31, 2002	Inception Date
	Three Months	One Year	Three Years	Five Years	Ten Years	Eight Months Ended August 31, 2002		

**NET OF FEES PERFORMANCE (continued)**

**International Equities:**

**Established Markets:**

BGI EAFE International Fund vs. MSCI EAFE Net	(13.61) 0.05	(14.18) 0.78	(10.66) 0.35	(1.82) 0.60	-	(11.09) 0.44	4.15 0.58	3.57	April 1993
Capital Guardian Trust Small Cap International vs. MSCI EAFE Net	(15.13) (1.48)	(12.22) 2.73	(13.11) (2.10)	(6.92) (4.50)	-	(5.86) 5.67	4.82 6.39	(1.57)	December 1996
Capital Guardian EAFE vs. MSCI EAFE Net	(15.97) (2.31)	(16.04) (1.09)	-	-	-	(14.35) (2.81)	(19.78) (1.04)	(18.74)	August 2000
GSAM vs. MSCI EAFE Net	(13.18) 0.48	(15.60) (0.65)	(11.66) (0.65)	-	-	(13.34) (1.81)	(5.28) (0.14)	(5.14)	April 1998
Oechsle vs. MSCI EAFE Net	(14.85) (1.20)	(15.72) (0.77)	-	-	-	(13.15) (1.62)	(22.46) (3.72)	(18.74)	August 2000
MSCI EAFE Net	(13.66)	(14.95)	(11.01)	(2.42)	3.92	(11.53)			

**Emerging Markets:**

BGI Emerging Markets Structured Fund vs. MSCI Emerging Markets	(13.48) 0.20	-	-	-	-	-	(9.63) (0.82)	(8.81)	February 2002
Capital Guardian Emerging vs. MSCI Emerging Markets	(16.13) (2.45)	(2.50) (2.74)	-	-	-	(8.90) (3.07)	(17.91) (2.64)	(15.27)	August 2000
Franklin Templeton vs. MSCI Emerging Markets	(11.50) 2.19	0.93 0.68	(7.07) 2.59	(8.17) 1.21	-	1.20 7.04	(2.69) 3.52	(6.21)	January 1996
GSAM vs. MSCI Emerging Markets	(15.12) (1.43)	0.43 0.19	(3.99) 5.67	-	-	(6.06) (0.23)	(5.00) 3.19	(8.19)	April 1998
MSCI Emerging Markets	(13.69)	0.24	(9.65)	(9.39)	0.19	(5.83)			

**Alternative Equities:**

**Marketable:**

Farallon Capital Offshore Investors vs. 90 Day Treasury Bill + 7%	(4.44) (6.64)	3.41 (6.26)	10.96 (1.07)	-	-	1.17 (4.85)	11.51 (0.33)	11.84	August 1998
Maverick Fund vs. 90 Day Treasury Bill + 7%	(1.63) (3.83)	(0.98) (10.65)	16.72 4.69	-	-	1.17 (4.85)	13.78 1.94	11.84	August 1998
OCM Emerging Markets Fund vs. 90 Day Treasury Bill + 7%	(0.22) (2.42)	-	-	-	-	6.96 0.94	6.96 0.94	6.02	January 2002
Perry Partners International vs. 90 Day Treasury Bill + 7%	(2.39) (4.59)	3.33 (6.34)	12.88 0.85	-	-	2.22 (3.80)	11.89 0.65	11.84	August 1998
Satellite Fund vs. 90 Day Treasury Bill + 7%	(27.30) (29.50)	(22.43) (32.10)	-	-	-	(24.92) (30.94)	(5.45) (16.23)	10.78	September 2000
90 Day Treasury Bill + 7%	2.20	9.67	12.03	12.25	12.24	6.02			

**Non-Marketable**

vs. Benchmark (17%)	(4.37) 8.75	(17.18) (4.09)	1.54 7.14	11.12 5.77	16.21 1.79	(8.92) 7.23	N/A		December 1982
Wilshire 5000 U.S. Equities Index + 4%	(13.12)	(13.09)	(5.60)	5.35	14.42	(16.15)			

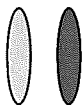
**INVESTMENT MANAGER HISTORY (I)  
PERFORMANCE SUMMARY  
August 31, 2002**

<b>Manager outlook:</b>
positive
neutral to slightly positive
neutral (strategy to be reviewed)
neutral to slightly negative
negative

	Calendar Year					From Inception to August 31, 2002	Manager	Benchmark	Inception Date	
	Three Months	One Year	Three Years	Five Years	Ten Years					Eight Months Ended
	August 31, 2002	August 31, 2002	August 31, 2002	August 31, 2002	August 31, 2002					August 31, 2002

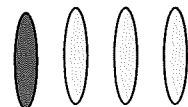
**NET OF FEES PERFORMANCE (continued)**

**Inflation Hedging:**  
 Goldman Sachs Commodity Index  
 vs. Goldman Sachs Commodity Index - 100 bps  
 REITS - Greg Cox  
 vs. NAREIT  
 GSCI Index - 100bps  
 NAREIT



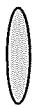
**Fixed Income:**

**Domestic Fixed Income:**  
 Fixed Income - Harland Doak  
 vs. Credit Related Fixed Income Composite  
 Fixed Income - Russ Kampfe  
 vs. Lehman Brothers Aggregate  
**Total Internally Managed Fixed Income**  
 vs. Lehman Brothers Aggregate  
 GSAM  
 vs. Lehman Brothers Aggregate  
 GSAM High Yield  
 vs. Lehman Brothers Aggregate  
 PIMCO  
 vs. Lehman Brothers Aggregate  
 Lehman Brothers Aggregate  
 Credit Related Fixed Income Composite



**International Fixed Income:**

PIMCO  
 vs. Salomon Non-U.S. WGBI Unhedged  
 Salomon Non-U.S. WGBI Unhedged



GSAM Global Asset Allocation Overlay



10.18 (0.04)	-	-	-	-	-	-	6.64	5.16	May 2002
(2.75)	8.37	14.08	6.82	-	-	-	1.48	9.34	April 1993
0.09	0.18	0.27	0.68	-	-	-	12.26	9.34	April 1993
10.23 (2.84)	(4.32)	9.46	(0.99)	2.50	11.56	7.52	2.92		
(0.00)	3.47	-	-	-	-	1.90	6.33	8.43	February 2001
(3.01)	(3.17)	-	-	-	-	(3.83)	(2.10)	10.60	February 2000
2.15	6.26	-	-	-	-	4.56	9.59	10.60	February 2000
(1.66)	(1.85)	-	-	-	-	(2.26)	(1.01)	10.60	
1.42	5.27	-	-	-	-	3.63	9.42	7.43	April 1998
(2.39)	(2.84)	-	-	-	-	(3.19)	(1.18)	8.48	March 2001
1.96	6.10	8.86	-	-	-	4.92	7.05	7.37	March 1998
(1.84)	(2.01)	(0.46)	-	-	-	(1.90)	(0.38)	8.48	March 2001
(7.23)	(3.92)	-	-	-	-	(4.77)	(2.59)	7.37	March 1998
(11.04)	(12.03)	-	-	-	-	(11.59)	(11.07)	0.60	
3.24	8.23	9.87	-	-	-	6.80	7.97	3.66	March 1998
(0.57)	0.12	0.55	-	-	-	(0.02)	0.60		
3.81	8.11	9.32	7.80	7.33	-	6.82	2.57	3.66	March 1998
3.01	6.64	-	-	-	-	5.73	(1.09)		
6.72	8.85	2.50	-	-	-	13.34	2.57	3.66	March 1998
(1.51)	(1.43)	0.02	-	-	-	(0.99)	(1.09)		
8.23	10.28	2.48	3.93	5.11	-	14.33			
(14.68)	(15.82)	(1.30)	-	-	-	(16.83)	(5.82)		April 1998

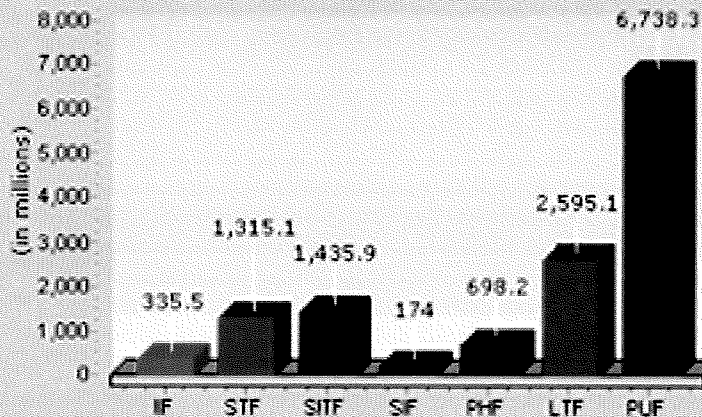
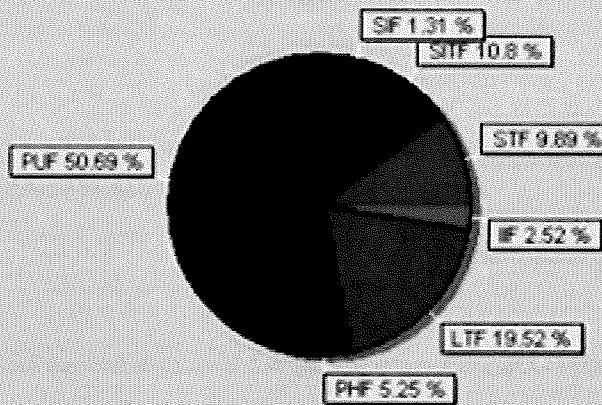
UTIMCO Board of Directors



Home

Welcome to the Boardroom, Sean McElherry.

Fund Values



Total Operating Fund Value: \$3,886.50  
 Total Endowment Fund Value: \$10,205.60

Current News

- 10/21/2002 - How Long Can VCs Keep Their Curtains Closed? - [BNV](#)
- 10/18/2002 - CalPERS in disclosure lawsuit - [PEO](#)
- 10/21/2002 - FT REPORT - FT FUND MANAGEMENT - Activists try to dig up by League investments - [FT](#)

Portfolio News

- 10/19/2002 - Overhang worries fund investors - [DD](#)

Performance News

- 9/30/2002 - UTIMCO Performance Summary - [UTIMCO](#)
- 9/30/2002 - Investment Manager Performance - [UTIMCO](#)



Adobe Acrobat Reader

There will be a live demonstration of this at the board meeting.

## **Resolution No. 7**

RESOLVED, that the Board authorizes the Officers of the Corporation to enter into a Note Purchase Agreement with the Board of Regents and the University of Texas System dated December 1, 2002 in the amount of \$400,000,000; and with the Board of Regents of the Texas A&M University System dated December 6, 2002 in the amount of \$80,000,000.

**A RESOLUTION** covenanting to use lawfully available funds to purchase Board of Regents of The University of Texas System Permanent University Fund Flexible Rate Notes, Series A (the "Notes") tendered for purchase and not remarketed; approving and authorizing certain authorized officers and employees to act on behalf of the Board of Regents (the "Board") of The University of Texas System in the execution of a related Note Purchase Agreement; and reciting that this Resolution constitutes a "Credit Agreement" for purposes of the Board's resolution authorizing the Notes.

---

**WHEREAS**, on the date hereof, the Board of Regents (the "Board") of The University of Texas System has adopted an amended and restated resolution (the "Note Resolution") approving and authorizing the issuance of its Board of Regents of The University of Texas System Permanent University Fund Flexible Rate Notes, Series A, in an amount at any one time outstanding of not to exceed \$400,000,000 (the "Notes"); and

**WHEREAS**, the Board, in Section 6.04(a) of the Note Resolution, covenanted and agreed that at all times while there are outstanding Notes, it will maintain one or more Credit Agreements (as defined in the Note Resolution) in amounts such that, assuming that all then outstanding Notes were to be tendered for purchase, the amount available to be drawn under the Credit Agreements would be sufficient at that time to pay the purchase price therefor at an amount equal to the principal of all such Notes; and

**WHEREAS**, Section 6.04(b) of the Note Resolution provides that a Credit Agreement may be a resolution adopted by the Board pursuant to which the Board covenants to provide liquidity support for the Notes by using lawfully available funds to purchase Notes tendered for purchase and not remarketed, which resolution recites that it constitutes a "Credit Agreement" for purposes of the Note Resolution; and

**WHEREAS**, the Board desires to provide liquidity support for the Notes and in furtherance of such desire, the Board and The University of Texas Investment Management Company ("UTIMCO") desire to enter into a certain Note Purchase Agreement substantially in the form attached hereto and incorporated herein, pursuant to which UTIMCO will agree, subject to the conditions and limitations set forth therein, to purchase, as an investment for the Permanent University Fund, Notes in an aggregate amount up to but not exceeding \$400,000,000; **NOW, THEREFORE**

**BE IT RESOLVED**, that the Board covenants and agrees to provide liquidity support for the Notes by using lawfully available funds to purchase Notes tendered for purchase; and

**BE IT FURTHER RESOLVED**, that an Authorized Representative (as defined in the Note Resolution) is hereby authorized to execute and deliver a Note Purchase Agreement, pursuant to which UTIMCO will agree, subject to the conditions and limitations set forth therein, to purchase, as an investment for the Permanent University Fund, Notes in an aggregate amount up to but not exceeding \$400,000,000 together with any other documents called for thereunder.

**BE IT FURTHER RESOLVED**, that this Resolution constitutes a “Credit Agreement” for purposes of the Note Resolution.

**PASSED AND ADOPTED**, this the 14th day of November, 2002.

ATTEST:

\_\_\_\_\_  
Counsel and Secretary to the Board

\_\_\_\_\_  
Chairman of the Board

(Seal)

\$400,000,000

NOTE PURCHASE AGREEMENT

dated as of

December 1, 2002

between

BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM

and

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY  
as Investment Manager of the  
PERMANENT UNIVERSITY FUND



## NOTE PURCHASE AGREEMENT

This Note Purchase Agreement is dated as of December 1, 2002, between the Board of Regents (the "Board") of The University of Texas System (the "System") and The University of Texas Investment Management Company ("UTIMCO"), as investment manager of the Permanent University Fund (the "Fund").

### RECITALS

WHEREAS, the Fund is a constitutional fund and public endowment contributing to the support of certain institutions of the System and The Texas A&M University System, as created, established, implemented, and administered pursuant to Article VII, Sections 10, 11, 11a, 11b, 15, and 18 of the Texas Constitution, as currently or hereafter amended, and further implemented by the provisions of Chapter 66, Texas Education Code, as currently or hereafter amended; and

WHEREAS, the Board, by resolution adopted on November 14, 2002 (the "Note Resolution"), has established an interim financing program and authorized the issuance of its Board of Regents of The University of Texas System Permanent University Fund Flexible Rate Notes, Series A, in an amount at any one time outstanding of not to exceed \$400,000,000 (the "Notes"); and

WHEREAS, Article VII, Section 18(g) of the Texas Constitution provides that the Notes are authorized investments for the Fund; and

WHEREAS, the Board and UTIMCO desire to enter into an agreement whereby UTIMCO will agree to purchase Notes tendered for purchase and not remarketed as investments for the Fund; and

WHEREAS, to accomplish the foregoing and to document said agreement, the Board and UTIMCO hereby enter into this Note Purchase Agreement, pursuant to which UTIMCO will agree, subject to the conditions and limitations set forth herein, to purchase, as an investment for the Fund, Notes in an aggregate amount up to but not exceeding Four Hundred Million Dollars (\$400,000,000);

NOW THEREFORE, the parties hereto agree as follows:

#### **Section 1. Definitions.**

The terms defined below have the following meanings when used herein unless the context shall indicate a contrary meaning:

"Agreement" shall mean this Note Purchase Agreement, as from time to time amended or supplemented.

"Authorized Representative" shall mean in the case of the Board, the Assistant Vice Chancellor for Finance of the System or the Director of Finance of the System, or such other officer or employee of the System authorized to act as an Authorized Representative of the Board and in the case of UTIMCO, the President and Chief Executive Officer of UTIMCO, or such other officer or employee of UTIMCO authorized to act as an Authorized Representative of UTIMCO.

“Board” shall mean the Board of Regents of The University of Texas System.

“Board Purchase Date” shall have the meaning set forth in Section 5 hereof.

“Business Day” shall mean any day (i) when banks are open for business in Austin, Texas and (ii) when banks are not authorized to be closed in New York, New York.

“Commitment” shall mean Four Hundred Million Dollars (\$400,000,000), as such amount may be reduced and reinstated as more fully provided herein. Upon each Purchase Date, the Commitment shall be automatically reduced by the principal amount of Notes purchased by the Fund. Upon each date on which the Fund sells Notes pursuant to this Agreement, the Commitment shall be automatically reinstated by the principal amount of Notes which are sold.

“Commitment Period” shall mean the period from the Effective Date to but not including the Commitment Termination Date.

“Commitment Termination Date” shall mean the Maximum Maturity Date of the Notes, as defined in the Note Resolution, unless terminated earlier by UTIMCO by giving at least 60 days prior written notification to the Board.

“Effective Date” shall mean the date of initial issuance of Notes authorized by the Note Resolution, which date shall be specified in writing delivered to UTIMCO on or before said “Effective Date”.

“Fund” shall mean the Permanent University Fund as created, established, implemented, and administered pursuant to Article VII, Sections 10, 11, 11a, 11b, 15, and 18 of the Texas Constitution, as currently or hereafter amended, and further implemented by the provisions of Chapter 66, Texas Education Code, as currently or hereafter amended.

“Maximum Interest Rate” shall mean the lesser of (a) fifteen percent (15%) per annum and (b) the maximum net effective interest rate permitted by law to be paid on obligations issued or incurred by the Board in the exercise of its borrowing powers (prescribed by Chapter 1204, Texas Government Code, or any successor provision).

“Note” or “Notes” shall mean the evidences of indebtedness authorized to be issued and at any time outstanding pursuant to the Note Resolution.

“Note Resolution” shall mean the resolution adopted by the Board on November 14, 2002, approving and authorizing the issuance of the Notes.

“Notice of Purchase” shall mean that notice completed and executed by an Authorized Representative of the Board in substantially the form attached hereto as Exhibit “A”, which notice shall serve as a written request for UTIMCO to purchase Notes as investments for the Fund in the manner set forth in this Agreement.

“Notice of Purchase Date” shall mean that notice completed and executed by an Authorized Representative of UTIMCO in substantially the form attached hereto as Exhibit “A”, which notice shall serve as a written notice of the Purchase Date.

“Paying Agent” shall mean such agent appointed pursuant to section 5.03 of the Note Resolution, or any successor to such agent. The initial Paying Agent shall be Deutsche Bank Trust Company Americas.

“Proposed Purchase Date” shall have the meaning set forth in Section 3 hereof.

“Purchase Commitment” shall mean the lesser of the Commitment or Forty Million Dollars (\$40,000,000), being the maximum principal amount of Notes the Fund is committed to purchase on any Purchase Date pursuant to this Agreement.

“Purchase Date” shall mean the date specified by UTIMCO pursuant to section 3 of this Agreement as the date on which UTIMCO will purchase tendered Notes, which date shall be either the Proposed Purchase Date or the next succeeding Business Day.

“Remarketing Agent” shall mean the dealer or remarketing agent selected from time to time by the Board to remarket the Notes in accordance with section 5.04 of the Note Resolution. The initial Remarketing Agent shall be Goldman, Sachs & Co.

“System” shall mean The University of Texas System.

“UTIMCO” shall mean The University of Texas Investment Management Company.

## **Section 2. Commitment to Purchase Notes.**

UTIMCO agrees that it will, during the Commitment Period, on the terms and conditions and subject to the limitations set forth in this Agreement, purchase Notes as investments for the Fund from time to time in amounts up to, but not exceeding, an aggregate principal amount equal to the Commitment, in the event the Remarketing Agent has been unable to remarket the Notes tendered for purchase in accordance with the terms of the Note Resolution; provided that UTIMCO shall not be obligated to purchase Notes in excess of the Purchase Commitment on any Purchase Date.

## **Section 3. Method of Purchase.**

By not later than 11:00 a.m. C.S.T. on the date of a proposed purchase of Notes hereunder (the “Proposed Purchase Date”), an Authorized Representative of the Board shall submit a purchase request to an Authorized Representative of UTIMCO specifying the amount of Notes to be purchased and the Proposed Purchase Date. A purchase request shall be made by delivery of a completed and executed Notice of Purchase or by telephonic notice confirmed as soon as possible by delivery or telecopy of a completed and signed Notice of Purchase, provided that such purchase request shall not be conditioned upon the receipt of the confirming Notice of Purchase.

Upon receipt by UTIMCO of such a purchase request, an Authorized Representative of UTIMCO shall notify an Authorized Representative of the Board whether UTIMCO will purchase such Notes on the Proposed Purchase Date or on the next succeeding Business Day, which notification shall be confirmed as soon as possible by delivery or telecopy of a completed

and signed Notice of Purchase Date, provided that selection of the Purchase Date shall not be conditioned upon receipt of the confirming Notice of Purchase Date.

If the Purchase Date is the Proposed Purchase Date, UTIMCO shall make available, in federal or other immediately available funds, to the Paying Agent, the funds necessary to fund such purchase at or prior to 1:30 p.m. C.S.T. on the Purchase Date, in which event the purchase price shall be par as provided in the Note Resolution. If the Purchase Date is the next succeeding Business Day after the Proposed Purchase Date, UTIMCO shall make available, in federal or other immediately available funds, to the Board, the funds necessary to fund such purchase at or prior to 1:30 p.m. C.S.T. on the Purchase Date, in which event the purchase price shall again be par and the Board shall be obligated to pay any accrued interest on the Notes to such Purchase Date.

#### **Section 4. Interest Rates.**

Each Note purchased by the Fund pursuant to this Agreement shall be an investment of the Fund and shall bear interest on the principal amount at a rate equal to the rate on taxable commercial paper issued by a major corporate issuer bearing a nationally recognized securities rating agency credit rating equivalent to that of the Note as agreed to by Authorized Representatives of UTIMCO and the Board.

If the rate of interest applicable to a purchased Note when determined in the paragraph above would exceed the Maximum Interest Rate, then the applicable rate shall be reduced to the Maximum Interest Rate.

#### **Section 5. Purchase by the Board.**

UTIMCO shall be entitled to tender any Note purchased by the Fund to the Board on any date (the "Board Purchase Date") on or before the 15th day following the Purchase Date and the Board shall be obligated to purchase such Notes on such Board Purchase Date using lawfully available funds. The purchase price for such Notes shall be the par amount of such Notes plus accrued interest from the Purchase Date to the Board Purchase Date calculated in accordance with section 4 of this Agreement.

#### **Section 6. Commitment Fee.**

The Board shall pay to UTIMCO an annual commitment fee in an amount equal to 0.1 percent (10 basis points) per annum times the average Commitment during the payment period. The commitment fee shall accrue from and including the Effective Date to (but excluding) the Commitment Termination Date and shall be payable in arrears (a) on the first Business Day of each February, May, August, and November during the term hereof and (b) on the Commitment Termination Date. On each date on which the commitment fee is due, the Board shall deliver to UTIMCO a schedule setting out the manner of calculation of such fee. Such commitment fee shall be subject to amendment as mutually agreed to in writing by Authorized Representatives of the Board and UTIMCO.

**Section 7. Notice of Agents.**

The Note Resolution appoints Deutsche Bank Trust Company Americas, as Paying Agent, and Goldman Sachs & Co., as Remarketing Agent. The Board shall give notice to UTIMCO of appointment of any substitute agents, which notice shall specify the name and address of such substitute agent.

**Section 8. Information.**

The Board shall provide periodic notice to UTIMCO of Flexible Rate Periods, at times as mutually agreed to by Authorized Representatives of the Board and UTIMCO. Further, the Board shall promptly provide to UTIMCO copies of all notices it receives as "Liquidity Provider" pursuant to the Note Resolution.

**Section 9. No Materially Adverse Amendments to Note Resolution or Contracts.**

The Board shall not consent to any amendment to or modification or waiver of any provisions of the Note Resolution or other contract relating to the Notes which would be materially adverse to UTIMCO's interests without giving UTIMCO advance notice of any such changes to be considered.

**Section 10. Termination or Reduction of Purchase Commitment.**

During the Commitment Period, the Board may, upon at least three Business Days notice to UTIMCO, terminate or reduce the Purchase Commitment from time to time by an aggregate amount of \$1,000,000 or any integral multiple thereof.

**Section 11. Extension or Modification of Agreement.**

This Agreement may not be extended or modified unless agreed to in writing by Authorized Representatives of the Board and UTIMCO.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

THE UNIVERSITY OF TEXAS INVESTMENT  
MANAGEMENT COMPANY,  
as Investment Manager of the  
PERMANENT UNIVERSITY FUND

By: \_\_\_\_\_  
President and Chief Executive Officer

BOARD OF REGENTS OF THE UNIVERSITY  
OF TEXAS SYSTEM

By: \_\_\_\_\_  
Assistant Vice Chancellor for Finance

EXHIBIT A

NOTICE OF PURCHASE

TO: The University of Texas Investment Management Company

FROM: Board of Regents of The University of Texas System

The University of Texas System, acting herein by the undersigned Authorized Representative, pursuant to the Note Purchase Agreement dated as of December 1, 2002, between the Board of Regents of The University of Texas System and The University of Texas Investment Management Company, as Investment Manager of the Permanent University Fund, issues this notice for a Note Purchase to be made under the Note Purchase Agreement as follows:

1. Proposed Purchase Date (which shall be a Business Day):  
\_\_\_\_\_;

2. Amount of Notes to be Purchased:  
\_\_\_\_\_;

If Notes are purchased on the Proposed Purchase Date, the funds to purchase Notes as provided in the Note Purchase Agreement, should be available for the account of holders of the Notes at Deutsche Bank Trust Company Americas, the Paying Agent by no later than 1:30 p.m. C.S.T.

If Notes are purchased on the next succeeding Business Day after the Proposed Purchase Date, the funds to purchase Notes as provided in the Note Purchase Agreement, should be available for the Board by no later than 1:30 p.m. C.S.T. as detailed in instructions to be provided separately.

Date of this Notice  
of Purchase: \_\_\_\_\_

BOARD OF REGENTS OF THE UNIVERSITY  
OF TEXAS SYSTEM

By: \_\_\_\_\_  
Authorized Representative

NOTICE OF PURCHASE DATE

TO: Board of Regents of The University of Texas System

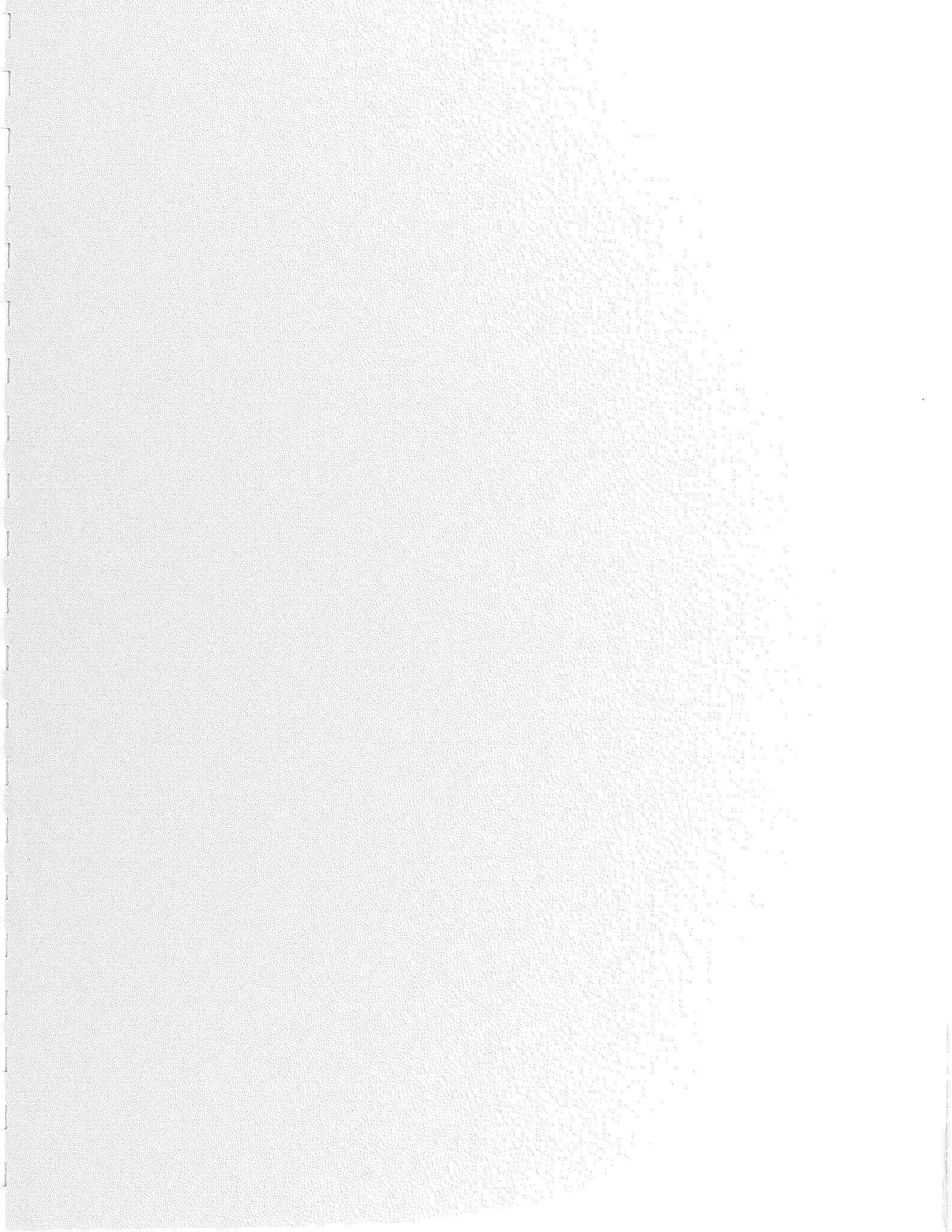
FROM: The University of Texas Investment Management Company

The University of Texas Investment Management Company, acting herein by the undersigned Authorized Representative, shall purchase the above-referenced Notes on the:

- Proposed Purchase Date
- First Business Day following the Proposed Purchase Date

THE UNIVERSITY OF TEXAS INVESTMENT  
MANAGEMENT COMPANY

By: \_\_\_\_\_  
Authorized Representative





\$80,000,000

**NOTE PURCHASE AGREEMENT**

dated as of

December 6, 2002

between

**BOARD OF REGENTS OF THE TEXAS A&M UNIVERSITY SYSTEM**

and

**THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY  
as Investment Manager of the  
PERMANENT UNIVERSITY FUND**

## NOTE PURCHASE AGREEMENT

This Note Purchase Agreement is effective and dated as of December 6, 2002, between the Board of Regents (the "Board") of The Texas A&M University System (the "System") and The University of Texas Investment Management Company ("UTIMCO"), as investment manager of the Permanent University Fund (the "Fund").

### RECITALS

WHEREAS, the Fund is a constitutional fund and public endowment contributing to the support of certain institutions of the System and The University of Texas System, as created, established, implemented, and administered pursuant to Article VII, Sections 10, 11, 11a, 11b, 15, and 18 of the Texas Constitution, as currently or hereafter amended, and further implemented by the provisions of Chapter 66, Texas Education Code, as amended;

WHEREAS, the Board by resolution adopted on December 6, 2002 (the "Note Resolution") discontinued its existing interim finance program, established a new interim financing program, and authorized the issuance of its "Board of Regents of The Texas A&M University System Permanent University Fund Flexible Rate Notes" in an amount at any one time outstanding not to exceed \$80,000,000 (the "Notes"); and

WHEREAS, Article VII, Section 18(g) of the Texas Constitution provides that the Notes are authorized investments for the Fund;

WHEREAS, the Board and UTIMCO desire to enter into an agreement whereby UTIMCO will agree to purchase Notes tendered for purchase and not remarketed as investments for the Fund;

WHEREAS, to accomplish the foregoing and to document said agreement, the Board and UTIMCO hereby enter into this Note Purchase Agreement, pursuant to which UTIMCO will agree, subject to the conditions and limitations set forth herein, to purchase, as an investment for the Fund, Notes in an aggregate amount up to but not exceeding \$80,000,000; and

NOW THEREFORE, the parties hereto agree as follows:

Section 1. **Definitions.** The terms defined below have the following meanings when used herein unless the context shall indicate a contrary meaning:

"Agreement" means this Note Purchase Agreement, as from time to time amended or supplemented.

"Authorized Representative" means (i) in the case of the Board, one or more of the following officers or employees of the System, to-wit: the Chancellor, the Deputy Chancellor, the Vice Chancellor for Business Services, the Associate Vice Chancellor and Treasurer, the Associate Vice Chancellor for Budgets and Accounting, the Manager of Banking and Investments, the Director of Financial Planning, or such other officer or employee of the System authorized by the Board to act as an Authorized Representative; and (ii) in the case of UTIMCO, the President and Chief Executive Officer of UTIMCO, or such other officer or employee of UTIMCO authorized to act as an Authorized Representative of UTIMCO.

"Board" means the Board of Regents of The Texas A&M University System.

“Board Purchase Date” has the meaning set forth in Section 5 of this Agreement.

“Business Day” means any day (i) when banks are open for business in Austin, Texas and (ii) when banks are not authorized to be closed in New York, New York.

“Commitment” means \$80,000,000, as such amount may be reduced and reinstated as more fully provided herein. Upon each Purchase Date, the Commitment shall be automatically reduced by the principal amount of Notes purchased by the Fund. Upon each date on which the Fund sells Notes pursuant to this Agreement, the Commitment shall be automatically reinstated by the principal amount of Notes which are sold.

“Commitment Period” means the period from the Effective Date to, but not including, the Commitment Termination Date.

“Commitment Termination Date” means the Maturity Date of the Notes, as defined in the Note Resolution, unless terminated earlier by UTIMCO by giving at least 60 days prior written notification to the Board.

“Effective Date” means the date of initial issuance of Notes authorized by the Note Resolution, which date shall be specified in writing delivered to UTIMCO on or before said “Effective Date”.

“Fund” means the Permanent University Fund as created, established, implemented, and administered pursuant to Article VII, Sections 10, 11, 11a, 11b, 15, and 18 of the Texas Constitution, as amended, and further implemented by the provisions of Chapter 66, Texas Education Code, as amended.

“Maximum Interest Rate” means the lesser of (a) 15% per annum and (b) the maximum net effective interest rate permitted by law to be paid on obligations issued or incurred by the Board in the exercise of its borrowing powers (prescribed by Chapter 1204, Texas Government Code, as amended, or any successor provision).

“Note” or “Notes” means the evidences of indebtedness authorized to be issued and at any time outstanding pursuant to the Note Resolution.

“Note Resolution” shall have the meaning set forth in the recitals to this Agreement.

“Notice of Purchase” means that notice completed and executed by an Authorized Representative of the Board in substantially the form attached hereto as Exhibit “A”, which notice shall serve as a written request for UTIMCO to purchase Notes as investments for the Fund in the manner set forth in this Agreement.

“Notice of Purchase Date” means that notice completed and executed by an Authorized Representative of UTIMCO in substantially the form attached hereto as Exhibit “B”, which notice shall serve as written notice of the Purchase Date.

“Paying Agent/Registrar” means such agent appointed pursuant to section 5.03 of the Note Resolution, or any successor to such agent. The initial Paying Agent/Registrar shall be U.S. Bank Trust, National Association.

“Proposed Purchase Date” has the meaning set forth in Section 3 of this Agreement.

“Purchase Commitment” means the lesser of the Commitment or \$10,000,000, being the maximum principal amount of Notes the Fund is committed to purchase on any Purchase Date pursuant to this Agreement.

“Purchase Date” means the date specified by UTIMCO pursuant to Section 3 of this Agreement as the date on which UTIMCO will purchase tendered Notes, which date shall be either the Proposed Purchase Date or the next succeeding Business Day.

“Remarketing Agent” means the dealer or remarketing agent selected from time to time by the Board to remarket the Notes in accordance with section 5.04 of the Note Resolution. The initial Remarketing Agent shall be J.P. Morgan Chase & Co.

“System” means The Texas A&M University System.

“UTIMCO” means The University of Texas Investment Management Company, as investment manager for the Permanent University Fund.

Section 2. **Commitment to Purchase Notes.** In order to provide liquidity support for the Notes, UTIMCO agrees that it will, during the Commitment Period, on the terms and conditions set forth in this Agreement, purchase Notes as investments for the Fund from time to time in amounts up to, but not exceeding, an aggregate principal amount equal to the Commitment in the event the Remarketing Agent has been unable to remarket the Notes in good faith and in accordance with the terms of the Note Resolution; provided, however, that UTIMCO shall not be obligated to purchase Notes in excess of the Purchase Commitment on any Purchase Date.

Section 3. **Method of Purchase.** By not later than 12:15 p.m., New York, New York time, on the date of a proposed purchase of Notes hereunder (herein, the “Proposed Purchase Date”) an Authorized Representative of the Board shall submit a purchase request to an Authorized Representative of UTIMCO specifying the amount of Notes to be purchased and the Proposed Purchase Date. A purchase request shall be made by delivery of a completed and executed Notice of Purchase or by telephonic notice confirmed as soon as possible by delivery or teletype of a completed and signed Notice of Purchase; provided, however, that such purchase shall not be conditioned upon the receipt of the confirming Notice of Purchase. Each Notice of Purchase, whether by telephone, teletype, or in writing, requesting a purchase of Notes shall specify the date and amount of such purchase.

Upon receipt by UTIMCO of such a purchase request, an Authorized Representative of UTIMCO shall advise an Authorized Representative of the Board whether UTIMCO will purchase such Notes on the Proposed Purchase Date or on, but not later than, the next succeeding Business Day which notification shall be confirmed as soon as possible by delivery or teletype of a completed and signed Notice of Purchase Date, provided that selection of the Purchase Date shall not be conditioned upon receipt of the confirming Notice of Purchase Date.

If the Purchase Date is the Proposed Purchase Date, UTIMCO shall make available, in federal or other immediately available funds, to the Paying Agent/Registrar, the funds necessary to fund such purchase of Notes at or prior to 2:30 p.m. New York, New York time, on such Purchase Date, in which event the purchase price shall be par as provided in the Note Resolution. If the Purchase Date is the next succeeding Business Day after the Proposed Purchase Date, UTIMCO shall make available, in federal or other immediately available funds, to the Board, the funds necessary to fund such purchase of Notes at or prior to 2:30 p.m., New York, New York time, on such Purchase Date, in which event the purchase price shall again be par and the Board shall be obligated to pay any accrued interest on the Notes to such Purchase Date.

Section 4. **Interest Rates.** Each Note purchased by the Fund pursuant to this Agreement shall be an investment of the Fund and shall bear interest on the principal amount at a rate equal to the rate on taxable commercial paper issued by a major corporate issuer bearing a nationally recognized securities rating agency credit rating equivalent to that of the Note, as agreed to by Authorized Representatives of UTIMCO and the Board.

If the rate of interest applicable to a purchased Note when determined in the paragraph above would exceed the Maximum Interest Rate, then the applicable rate shall be reduced to the Maximum Interest Rate.

Section 5. **Purchase by the Board.** UTIMCO shall be entitled to tender any Note purchased by the Fund to the Board on any date (the "Board Purchase Date") on or after the 15th day following the Purchase Date, and the Board shall be obligated to purchase such Notes on such Board Purchase Date using lawfully available funds. The purchase price for such Notes shall be the par amount of such Notes plus accrued interest from the Purchase Date to the Board Purchase Date calculated in accordance with Section 4 of this Agreement.

Section 6. **Commitment Fee.** The Board shall pay to UTIMCO an annual commitment fee in an amount equal to 0.1% (10 basis points) per annum (computed pro rata on the basis of actual days elapsed and a 365 or 366-day year, as may be applicable) times the average Commitment during the payment period. The commitment fee shall accrue from and including the Effective Date to, but excluding, the Commitment Termination Date and shall be payable in arrears (a) on the first Business Day of each February, May, August, and November during the term hereof, commencing on February 1, 2003 and (b) on the Commitment Termination Date. On each date on which the commitment fee is due, the Board shall deliver to UTIMCO a schedule setting out the manner of calculation of such fee. Such commitment fee shall be subject to amendment as mutually agreed to in writing by Authorized Representatives of the Board and UTIMCO.

Section 7. **Notice of Agents.** The Note Resolution appoints U.S. Bank Trust, National Association, as Paying Agent/Registrar and J.P. Morgan Chase & Co., as Remarketing Agent. The Board shall give notice to UTIMCO of appointment of any substitute agents, which notice shall specify the name and address of such substitute agent.

Section 8. **Information.** The Board shall provide periodic notice to UTIMCO of Flexible Rate Periods at times as mutually agreed to by Authorized Representatives of the Board and UTIMCO. Further, the Board shall promptly provide to UTIMCO copies of all notices it receives as "Liquidity Provider" pursuant to the Note Resolution.

Section 9. **No Materially Adverse Amendments to Note Resolution or Contracts.** The Board shall not consent to any amendment to or modification or waiver of any provisions of the Note Resolution or other contract relating to the Notes which would be materially adverse to UTIMCO's interests without giving UTIMCO 30 days advance notice of any such changes to be considered.

Section 10. **Termination or Reduction of Purchase Commitment.** During the Commitment Period, the Board may, upon at least three Business Days notice to UTIMCO, terminate or reduce the Purchase Commitment from time to time by an aggregate amount of \$1,000,000 or any integral multiple thereof.

Section 11. **Extension or Modification of Agreement.** This Agreement may not be extended or modified unless agreed to in writing by Authorized Representatives of the Board and UTIMCO.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

THE UNIVERSITY OF TEXAS INVESTMENT  
MANAGEMENT COMPANY,  
as Investment Manager of the  
PERMANENT UNIVERSITY FUND

By: \_\_\_\_\_  
President and Chief Executive Officer

BOARD OF REGENTS OF THE TEXAS A&M  
UNIVERSITY SYSTEM

By: \_\_\_\_\_  
Associate Vice Chancellor and Treasurer

EXECUTION PAGE TO NOTE PURCHASE AGREEMENT

EXHIBIT A

NOTICE OF PURCHASE

TO: The University of Texas Investment Management Company, as investment manager for the Permanent University Fund

FROM: Board of Regents of The A&M University System

The Texas A&M University System, acting herein by the undersigned Authorized Representative, pursuant to the "Note Purchase Agreement" dated as of December 6, 2002 between the Board of Regents of The Texas A&M University System (the "Board") and The University of Texas Investment Management Company, as Investment Manager of the Permanent University Fund, issues this notice for a Note Purchase to be made under the Note Purchase Agreement as follows:

1. Date Notes are to be purchased (which shall be a Business Day):

\_\_\_\_\_;

2. Amount of Notes to be Purchased:

\_\_\_\_\_;

**[If Notes are purchased on the Proposed Purchase Date, use the following language:]**

The funds to purchase Notes as provided in the Note Purchase Agreement, should be available for the account of holders of the Notes at U.S. Bank Trust, National Association, the Paying Agent/Registrar, by no later than 2:30 p.m. New York, New York time.

**[If Notes are purchased on the next succeeding Business Day after the Proposed Purchase Date, use the following language:]**

The funds to purchase Notes as provided in the Note Purchase Agreement, should be available for the Board by no later than 2:30 p.m., New York, New York time as detailed in instructions to be provided separately.

Date of this Notice

BOARD OF REGENTS OF THE TEXAS  
A&M UNIVERSITY SYSTEM

By: \_\_\_\_\_  
Authorized Representative

EXHIBIT B

NOTICE OF PURCHASE DATE

TO: Board of Regents of The Texas A&M University System

FROM: The University of Texas Investment Management Company

The University of Texas Investment Management Company, acting herein by the undersigned Authorized Representative, shall purchase the above-referenced Notes on the:

- Proposed Purchase Date
- First Business Day following the Proposed Purchase Date

THE UNIVERSITY OF TEXAS INVESTMENT  
MANAGEMENT COMPANY

By: \_\_\_\_\_  
Authorized Representative



## **Discussion Regarding the Possibility of UTIMCO Investing UT System Related Foundations' and Other Organizations' Investment Assets**

- The University of Texas at Austin Law School Foundation (Foundation) and the University of Texas at San Antonio Alumni Association (Association) have inquired of the possibility of UTIMCO managing their investments.
- The ultimate decision rests with the Board of Regents of UT System (Board of Regents).
  - UTMCO, by state statute, can only invest funds under the control and management of the Board. UT System's Office of General Counsel will need to determine whether the Board has the requisite authority to contract with foundations' and other organizations' funds
- Is it permissible for UTIMCO to manage any funds which the Board of Regents has contractual responsibility to manage?
  - Yes. The Management Contract between UTIMCO and the Board of Regents would seem to automatically impose upon UTIMCO the responsibility for the management of such funds.
- Why manage non-UT System Funds?
  - Valuable capability to make available to entities that support UT System institutions; UTIMCO can provide a lower cost, higher return potential alternative
  - Additional assets carry a very small incremental cost increase. Therefore, current participants in UTIMCO funds would gain a slight cost reduction benefit as costs are spread across a broader asset base.
- Issues for UTIMCO
  - Legal:
    1. Impact upon UTIMCO's tax-exempt status
    2. Impact upon UTIMCO's exemption from the Investment Advisers Act of 1940
    3. Legal exposure
    4. Public policy issues regarding unfair competition
  - Management:
    1. Additional expenses
    2. Additional staffing requirements
    3. Pricing (ability to charge the foundations and organizations for set-up costs and legal expenses)
    4. Reporting Requirements

5. UTIMCO's responsiveness to concerns of foundations and organizations

- If acceptable to UTIMCO Board to invest non-UT System Funds, how should the process work? What is the procedure to accept the investment assets?
  - UTIMCO would not solicit the foundations and organizations for their investment assets. The foundations and organizations would seek out UTIMCO.
  - UTIMCO Board would accept or reject the investment assets based on established guidelines (proposed guidelines presented below)
  - If UTIMCO Board accepts, recommend to Board of Regents to accept control and management of investment assets
  
- Proposed guidelines
  - Funds will be invested in the Long Term Fund (LTF)
  - Minimum investment (\$10 million)
  - Must adhere to the LTF's investment policy statement, including distributions
  - Withdrawal notification (lockup provisions: limitations and timing)
  - Must support University related activities
  - Burden would fall on each Foundation and Organization to determine any prohibition from their investing in the LTF, such as investment restrictions
  - Foundations and organizations would not have separate representation on the UTIMCO Board
  
- Action

UTIMCO Board recommends that the Board of Regents consider future specific proposals from UTIMCO allowing UTIMCO to manage the investment assets of related foundations and organizations meeting all UTIMCO and UT System criteria.

To: UTIMCO Board of Directors

From: UTIMCO Staff

Date: October 24, 2002

Re: Update on Disclosure Issue and Open Records Process

This memorandum addresses (i) the level and type of requests that UTIMCO has received over the last month for private partnership information, (ii) publicity UTIMCO has received on the topic, (iii) third parties who have posted the information on the Internet and (iv) the submission and response process put in place by the UTIMCO staff to handle the high level of requests submitted.

### Submitted Requests

UTIMCO has received 364 requests for information relating to its private equity partnerships since September 18<sup>th</sup> (the date that the resolution was passed). The majority of these requests have been for the information contemplated by the resolution.

The requests have been categorized in order to allow us to track the source of demand for the information. As illustrated in the table below, the requestors have been primarily in the US. Many individuals did not disclose the entity that they represent, which attributes to the high level of miscellaneous requestors (36%). The second largest group to request the information, at 25%, have been general partners who compete against UTIMCO's general partners. This was followed by investment banks and consultants at 18%. Limited partners (UTIMCO competitors) represented 9% of the requests. Industry press (defined as any financial publication or website) followed at 6%.

TPIA Requests Received from September 18, 2002 – October 24, 2002						
Category	U.S. Requestor		Non-U.S. Requestor		Total	
General Press	11	3%	0	0.0%	11	3%
Industry Press	17	5%	3	25%	20	6%
UTIMCO General Partners	9	3%	0	0.0%	9	3%
Other General Partners	88	25%	1	8%	89	25%
Limited Partners	31	9%	1	8%	32	9%
Investment Banks and Consultants	60	17%	4	33%	64	18%
Attorneys and Auditors	9	3%	0	0.0%	9	3%
Miscellaneous	127	36%	3	25%	130	36%
<b>Total</b>	<b>352</b>	<b>100.0%</b>	<b>12</b>	<b>100.0%</b>	<b>364</b>	<b>100.0%</b>

### UTIMCO Publicity

While UTIMCO received 30 general and industry press requests, there have been 92 articles published about UTIMCO's decision to release private partnership information.

65 of these articles were published by the general press, with the remainder published in industry publications. These articles are available to our Board members through the UTIMCO Board of Director website.

Of note, the Private Equity Analyst hosted a virtual seminar on October 25 entitled "Public Disclosure of Private Equity Data: The Fallout", discussing UTIMCO's decision to release of private equity information. The Private Equity Analyst charged a minimum \$350 rate for participation.

### **Third Party Posting of UTIMCO Information**

Several parties have posted UTIMCO's electronic reports online. Some provide access to subscribers only, other provide free access to the general public. Examples of such entities who have posted UTIMCO's information are:

- Bloomberg
- Private Equity Week
- Venture Economics
- InsiderVC.com

### **Submission and Response Process**

The UTIMCO staff put a submission and response process put in place in order to handle the high level of requests submitted. The first step was to have UTIMCO's IT department create a submission form for the UTIMCO website (see attached). Depending on the nature of the request, the UTIMCO staff will respond to the request within 24 – 48 hours.

The detailed process is shown below:

- The requestor fills out a form on our website to request information.
- The request is received by the Open Records Group.
- The request is recorded in the TPIA (Texas Public Information Act) log.
- If the requestor asked for ALL partnerships, the request is processed and reports are emailed to the requestor within 24 hours, then logged complete.
- If the requestor asked for a subset of information, the request is processed, a customized report generated and emailed back to the requestor within 48 hours, then logged complete.
- Requests outside the resolution are dealt with on a case by case basis.
- If an email comes back "undeliverable" then the UTIMCO staff attempts to contact the requestor via telephone. If unsuccessful, then the email is attempted twice more. If still unsuccessful, the request is closed.
- Records of all requests and responses are maintained in the UTIMCO TPIA files.

Friday, October 25, 2002

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  - [UT System Site](#)
  - [UT Component Institutions](#)
  - [UTIMCO Publications](#)
- ▼ **Links to Other Sites**
- ▼ **Location**

## UTIMCO Contact Information

**Tel:** 512.225.1600  
**Fax:** 512.225.1660  
**Address:** 221 West 6th Street  
 Suite 1700  
 Austin Texas 78701  
**Email:** [webmaster@utimco.org](mailto:webmaster@utimco.org)



For your convenience, use the form below to get in touch with a UTIMCO representative.

[Click here for General Inquiries](#)

[Click here to Request Information about Non-Marketable Alternative Investments](#)

Indicates a Required Field

First Name   
 Last Name   
 Organization   
 Street Address #1:   
 Street Address #2:   
 City:   
 State:   ZipCode:   
 Country   
 Email Address   
 Phone   
 Fax

- Info Requested
- Partnership Name
  - Vintage Year
  - Names of Fund Principals
  - UTIMCO Commitment (\$)
  - Dollars Invested
  - Dollars Returned
  - Remaining Value
  - Internal Rate of Return

Funds

ALL FUNDS
3i Europartners II, L.P.
3i Europartners IIIA, L.P.
3i UK Investment Partners
3i UKIP II
Advanced Technology Ventures VII, L.P.
American Industrial Partners Capital Fund, L.P.
American Securities Partners II, L.P.
American Securities Partners III, L.P.
Ampersand 1995 Limited Partnership
Ampersand 1999 Limited Partnership
Ampersand 2001 Limited Partnership

(Press Ctrl/Hold Shift for Multiple Selections)

Submit	Reset
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