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The University of Texas Investment Management Company

U T I M C O
THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

Presentation Materials
Board of Directors Meeting

August 30, 1996

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UTIMCO

BOARD OF DIRECTORS MEETING

August 30, 1996

AGENDA

10:30 a.m.	Call to Order/Approval of Minutes of April 17, 1996 and June 10, 1996 Meetings (Tab 1)
10:30 a.m. - 10:40 a.m.	Fixed Income - Discussion of Short Term Fund Management (Tab 2)
10:40 a.m. - 10:45 a.m.	Appointment of Compensation Committee/Approval of Mandate (Tab 3)
10:45 a.m. - 11:45 a.m.	LTF Asset Allocation - Presentation by Cambridge Associates (Tab 4)
11:45 a.m. - 12:00 p.m.	Break/Working Lunch
12:00 p.m. - 12:30 p.m.	Approval of Fiscal Year 1997 Business Plan and Budget (Tab 5)
12:30 p.m. - 1:15 p.m.	Approval of LTF International Small Cap Equity Manager (Tab 6) - Capital Guardian Trust Company.
1:15 p.m. - 2:00 p.m.	Approval of Private Investments (Tab 7) - Kohlberg, Kravis, Roberts & Co.
2:00 p.m. - 2:10 p.m.	Report of Audit Committee
2:10 p.m. - 2:15 p.m.	Approval of Meeting Dates (Tab 8)
2:15 p.m.	Adjournment

Next Scheduled Meeting: Thursday, October 24, 1996*

UTIMCO
Board of Directors Meeting
August 30, 1996

Guests

Cambridge Associates, Inc.

Matthew L. Lincoln - Menlo Park, California
Lindsay Van Voorhis - Menlo Park, California

Capital Group, Inc.

David Fisher, Chairman - Los Angeles, California

Capital Guardian Trust Co.

George L. Romines, Vice President - Atlanta, Georgia

KKR Associates, L. P.

George Roberts, Partner - Menlo Park, California
Michael Michelson, Partner - Menlo Park, California

MINUTES OF SPECIAL MEETING OF
THE BOARD OF DIRECTORS OF
THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

The Board of Directors of The University of Texas Investment Management Company (the "Corporation") convened in special meeting on the 17th day of April, 1996, in the First Floor Conference Room, 210 West 6th Street, Austin, Texas, said meeting having been called by the Chairman, with notice provided to each Director in accordance with the Bylaws. Participating in the meeting were the following members of the Board of Directors:

Thomas O. Hicks, Chairman
Robert H. Allen
R.D. Burck
Susan M. Byrne
William H. Cunningham
Arthur H. Dilly
Donald L. Evans
Richard W. Fisher
Tom Loeffler

thus, constituting a majority and quorum of the Board of Directors. Also, participating in the meeting was Bernard Rapoport, Chairman of the Board of Regents of The University of Texas System (the "System"); Thomas G. Ricks, President of the Corporation; Jerry E. Turner, Secretary of the Corporation; J. Luther King, Jr.; Debbie Mitchell and Randy Reid of the State Auditors' Office; and Robert Holland, Russ Kampfe, Cathy Iberg, Austin Long and Craig Nickels of Corporation management. Mr. Hicks called the meeting to order at 8:00 a.m.

Approval of Minutes

The first matter to come before the Board of Directors was approval of the minutes of the special meeting of the Board of Directors held on February 22, 1996, copies of which had previously been furnished to each Director. By motion duly made, seconded and carried by a unanimous vote, the Board of Directors duly approved the minutes of such meeting.

Funds Summary

Mr. Ricks presented an overview of the assets under management by the Corporation. He stated that it was important to understand that the management of the fixed income, equity and private investment portfolios is overlaid by distinct fund groups, the structure of which is presented under Tab 2 of the presentation materials. Under the investment management services agreement with the U.T. Board of Regents, the Corporation is responsible for the investment management of five fund groups aggregating approximately $9 billion in market value, including the Permanent University Fund ($5.28 billion) managed by the Corporation on behalf of the System and the A&M System as income beneficiaries.

The remaining $3.7 billion of funds are managed by the Corporation for the sole benefit of the System in the form of internal mutual funds and separately managed funds. Each mutual fund has a different risk/return profile and time horizon. The Long Term Fund ($1.7 billion) has a very long term investment horizon befitting the 4,000 endowments underlying the fund. The Short/Intermediate Term Fund ($1.3 billion) has a duration of roughly two years and is designed to match the maturity of reserve and other funds not consumed in the operating cycles of the fifteen component institutions that comprise the System. The Short Term Fund ($594 million) is an external money market fund which provides overnight liquidity and stability of value for component operating funds. Finally, the separately invested funds ($170 million) are endowments and trusts where the donor or legal terms preclude pooling.

Mr. Ricks stated that the funds in aggregate have grown substantially over the 4.5 year period since fiscal year end 1991. Despite this absolute asset growth, performance of the longer term funds lagged the total returns generated by other endowment funds. This underperformance was almost all attributable to income payout policies and the resulting high allocations to fixed income.

Mr. Ricks also stated that with the adoption of the Uniform Management of Institutional Funds Act by the Texas Legislature and the ability to pay out realized gains, the LTF asset allocation has been shifted to 70% equities and 30% fixed income over the past year and a half. The PUF is still approximately 50/50 resulting in a divergence in performance over the last year.

Mr. Ricks stated that it was also important to note that despite the designation of equities as the dominant asset class for the endowment funds, the Corporation is still very much dedicated to the management of fixed income portfolios. This is due not only to the management of long term bond portfolios for the endowment funds, but to the management of $1.8 billion of short and intermediate term portfolios in support of the health and academic operations of the System. Fixed income assets which are represented across every fund group at $4.9 billion comprise 55% of total investment assets. Equities and private investments which are endowment-only activities at $3.6 billion and $395 million, respectively, constitute 40% and 4% of total assets, respectively.

Quarterly Investment Review

Fixed Income:

<u>Background</u>
Originally, System component institutions invested their operating funds locally. Consequently, investment of fixed income portfolios was confined to the PUF and LTF. Investment strategy for these long term bond portfolios was and in the case of the PUF continues to be dictated by legal restrictions. The Constitution, using antiquated trust law concepts, requires the payout of all income and prohibits the reinvestment of income. Conversely, it requires the reinvestment of all gains and prohibits the payout of any gains. As a result, total return based strategies, such as a rate anticipation strategy, where income and price appreciation are viewed as a whole, are inapplicable for the PUF where income and price return are separated. The response to these restrictions has been the use of a buy and hold strategy to reduce volatility of income. In addition, under payout policies adopted

Mr. Ricks stated that it was important prior to establishing asset allocation to arrive at a consensus on the tolerance for risk. Asset allocation was the process of combining asset classes to maximize the expected return for a specified level of risk.

Management of short term investments was centralized at the System in 1988. At that time, the majority of component institutions were mostly invested in local bank deposits and U.S. Treasuries earning below market yields. Subsequently, in 1993 the S/ITF was established as an internally managed mutual fund to provide higher yields for component funds.

Almost 90% of the fixed income portfolios is managed internally at a very low cost. The fixed income portfolios for the endowment funds were a single portfolio managed by a single manager. The fixed income group was a two person staff led by Mr. Robert Holland, Vice President with responsibility for the long term maturities and Mr. Russ Kampfe with responsibility for short and intermediate term maturities.

Permanent University Fund

Mr. Ricks then asked Mr. Holland to present fixed income activity for the quarter ended 2/29/96. Mr. Holland reviewed certain characteristics of the portfolio, particularly the "run-off" schedule and the average quality rating.

He apprised the Board of Directors that in recent years the PUF portfolio has essentially been managed to a maturity schedule, avoiding mortgage-backed securities and, to the extent possible, callable bonds. The objective was to "ladder" bond maturities so that not less than 2½% or more than 4% of the portfolio will mature each year out to 30 years. This was to minimize reinvestment risk and thus assure a more dependable income stream. While progress has been made in filling holes in the maturity ladder, the structure of new bond issuance makes it increasingly impractical to limit holdings in certain out years to the desired maximum of 4% of the portfolio. It was requested that the Board of Directors grant flexibility in the achievement of this 4% maximum figure, realizing that over time there will almost certainly be opportunities to better balance the maturity schedule.

A discussion then ensued concerning the authority of the Board of Directors to provide the requested flexibility. Mr. Ricks stated that the PUF investment policy approved by the U.T. Board did not contain any language to ladder the portfolio; rather, this was a strategy to achieve the investment objective of providing a stable and predicable income stream which was a policy objective. The Asset Management Committee of the U.T. Board was aware of the strategy as the schedule of maturities was presented at each meeting. Dr. Cunningham suggested that Mr. Ricks make a presentation concerning the delegations of authority from the U.T. Board to the Corporation's Board of Directors and in turn to the Corporation's staff. Mr. Evans strongly supported this suggestion stating that complying with legal and contractual conditions by the Corporation was critical.

Mr. Holland also pointed out that while the average quality rating of the PUF bond portfolio is currently "Aa2", it will be difficult to maintain this rating for the following reasons: (a) the "Aaa" mortgage sector of the portfolio is running off with proceeds being reinvested in "A" rated corporates in order to retain as much yield as possible, and (b) the significant holding in electric utility bonds is now more subject to down grade due to deregulation in that industry. Mr. Fisher inquired as to whether policy allowed for the purchase of below investment grade bonds. Mr. Holland responded that the PUF policy did not, however, there was no requirement to sell a bond which falls below investment grade after date of purchase. Mr. Hicks then inquired if there should be a program to invest in high yield or distressed securities. Mr. Holland replied that the Corporation's in-house staff is too thinly staffed and has no analytical training for such a specialized sector. Mr. Ricks added that the Asset Management Committee of the U.T. Board has approved a 10% allocation from the LTF to invest in publicly traded alternative assets which included high-yield bonds. However, the asset class was unfunded as the staff was concentrating on diversifying into international and emerging market equity asset classes first.

Long Term Fund

(No presentation of the Long Term Fund fixed income portfolio occurred because of time constraints.)

Short/Intermediate Term Fund

Mr. Ricks then asked Mr. Kampfe to review activity in the $1.2 billion S/ITF. Mr. Kampfe reviewed the S/ITF second quarter summary for the Board of Directors. He noted the fund's slightly bullish outlook for the months ahead, particularly due to yields reaching their highest levels over the past 9-12 months. He indicated that if the market showed some ability to stabilize at the current higher yields, the fund would become significantly more bullish with significant purchases of securities in the 3-5 year maturity area. The most significant change in S/ITF assets for the second quarter was a $124.2 million net contribution by fund participants. The only question concerning this was from Mr. Fisher who asked if the staff understood how to account for CMOs. Mr. Kampfe responded that the staff had been investing in CMOs for over ten years and were confident of their understanding. Mr. Kampfe concluded by reviewing the fund's summary and holdings.

Short Term Fund

Mr. Ricks reported that the only external fixed income management was in the management of short term funds. Goldman Sachs Asset Management was engaged in 1988 to manage the $600 million Short Term Fund. The original fee was 30 basis points which was renegotiated down in 1993 to 18 basis points. With the formation of the S/ITF Fidelity was hired to manage the approximately $100 million liquidity portion of the fund also for 18 basis points.

Byrne BYRNE

Ms. ~~Montgomery~~ remarked that she believed an 18 basis point fee for short term, fixed income management appeared high. Mr. Ricks replied that the fee included custody and, in the case of Goldman Sachs, use of the Goldman Sachs trading and reporting system by each of the component institutions. Management's review had indicated that the major money funds all charged 18-20 basis points. The money fund structure and the prohibition against "preferential dividends" effectively "precluded" the funds from providing fee discounts to larger customers. As a result, the question was whether management could invest the short term funds for less than the $1.25 million currently paid on an annual basis. This issue was to be examined by the staff following completion of the custodian consolidation process at the end of the fiscal year. The Board of Directors agreed as a group that Mr. Ricks should express his concern over the fee and ask the firm what they might offer in terms of a fee reduction.

Equities:

Background

Mr. Ricks reported that prior to 1985, the equity portfolio was 100% actively and internally managed as a single U.S. large cap portfolio. In 1985, following the formation of the System's Office of Asset Management, 30% of the asset class was allocated to seven external managers. In 1993, following Mr. Ricks's appointment as chief investment officer, the equity asset class was restructured to increase diversification. Approximately 50% of the asset class was indexed through Wells Fargo/Nikko. The balance was actively managed through two internally managed portfolios (20%) and with external managers (30%). Mr. Ricks stated that the majority of the external managers were terminated as part of the restructuring. In addition, a minority manager program was established and overall portfolio management expenses were reduced by 25%.

Mr. Ricks also stated that a major objective was to evaluate the current equity management program in light of the new asset allocation program for the LTF and the excessive number of managers brought on since 1993. He wanted to first recruit a Vice President - Equities in order to assist in the process. In response to questions regarding compensation, Mr. Ricks responded that his market research indicated that he could expect to pay $150,000 plus a 25% bonus. This would be a critical recruitment as equities would be the growth vehicle in the future.

U.S. Domestic Equities

Presentation by Austin Calvert & Flavin

Representatives of the firm reviewed their investment style for the $114 million combined equity portfolios which they characterized as relative value with a growth bias. The firm uses a top down approach to assess the market environment and a bottom up approach to research potential stocks. The firm evaluates equities on both absolute and relative measures and attempts to fit them to a model portfolio. The firm then presented its overview of the stock market, expressing concern about current valuations and making comparisons versus the Japanese stock market prior to its major correction. The firm stated that it would like the flexibility to hold more cash but would abide by Mr. Ricks's instructions to keep cash at minimum levels.

Presentation by Kemper Capital Management

Representatives of the firm stated that their objective was to create real returns and to achieve long term returns by conserving principal. It concentrated on overlooked stocks paying high yields. In particular, stocks of companies with high cash flows but where the whole industry or the company may be depressed for the wrong reasons. Since they don't buy stocks that don't conform to their discipline, they will build cash in up markets which was the reverse of most institutional investors. As a result, they will achieve most of their returns in up markets but not runaway markets. The firm pointed out that the System portfolios had not seen a downturn. Mr. Allen inquired about the firm's cash level which was reported to be at 30%.

Emerging Markets

Mr. Ricks reported that the LTF asset allocation program contained a 3% allocation to emerging markets. The staff had delayed funding the allocation until it believed the timing was appropriate for funding. The staff had proposed funding at the last meeting when the Board of Directors approved funding at the 1.5% level or approximately $20 million with Templeton Investment Counsel. The Board of Directors had deferred funding the remaining 1.5% in order to obtain the input of the new directors. Mr. Ricks reported that due to new contributions and appreciation, the 3% allocation now represented $50.8 million for an incremental funding requirement of $30 million. He reviewed an updated comparison of the return and risk performance for the original five finalists and recommended that the balance of the funding be committed to Templeton. The general consensus of the Board of Directors was that diversification away from the U.S. equity markets made sense and that the current level of 1.5% did not represent a sufficient exposure to the asset class to impact returns.

By motion duly made, seconded and carried by a unanimous vote, the Board of Directors approved the full funding for the 3% emerging markets allocation.

Private Investments:

Thayer Equity Investors III, L.P.

The Thayer principals (Fred Malek, Paul Stern and Rick Rickertsen) made a brief presentation, citing their individual credentials and accomplishments and discussing their proposed investment strategy (all of which are contained in the staff's Thayer Equity Investors III, L.P. Due Diligence Review and Recommendation).

During the presentation, Mr. Allen expressed reservations as to the achievability of the principals' quantitative measure of partnership value added: a 25% or more improvement in cash flow for each portfolio investment in its first year. Mr. Malek, citing hotels in general and Ritz-Carlton in particular, stated that increases in cash flow of this magnitude are possible but conceded that some businesses cannot be expected to produce that result in such a short time period.

After the presentation, Mr. Evans asked the principals their response to a particular hypothetical transaction, with a purchase price of $300 million to $500 million, requiring $75 million in equity. The principals replied that they see similar transactions in the current market and cite CB Commercial and Ritz-Carlton as two such successful transactions in their track record.

Mr. Hicks asked the principals whether they can work together for a prolonged period. Mr. Stern replied that his long friendship with Mr. Malek, the stresses of fundraising over the past year and the fact that their spouses are friends all point toward long-term compatibility.

Mr. Hicks asked what the Thayer Capital's partnership governance procedures are, particularly with regard to investment decision making. Mr. Malek replied that all three Thayer Capital principals are equal partners and each investment required unanimous approval of the partners.

The Thayer principals then left the meeting room and the Board of Directors discussed the merits of the investment. The staff, in summarizing the investment prior to the discussion, emphasized the level of experience and ability of both Mr. Malek and Mr. Stern and stated that Mr. Rickertsen's involvement was likely to mitigate any friction which might be expected to develop between the other two partners.

Mr. Fisher stated that in his opinion the ~~business reputation of one of the principals led him to believe that as a~~ the partnership ~~Thayer~~ would be short-lived. Mr. Hicks agreed with the staff that the Thayer principals could produce attractive returns in the current partnership but also agreed with Mr. Fisher that it was unlikely they would stay together long enough to raise and invest a second partnership.

After a short further discussion of the Corporation's policy on partnership continuity, the Board of Directors, by motion duly made, seconded and carried by a unanimous vote, approved a commitment of $20 million subject to further due diligence prior to closing. In voting affirmatively, Mr. Fisher expressed reservations as to whether the Thayer principals could maintain their partnership over more than one fund.

(Note: as a result of further due-diligence, the indicative commitment of $20 million was withdrawn in favor of observing the general partners' performance in the fund over the next three years.)

At this point in time, Mr. Allen left the meeting.

Wand Equity Portfolio II, L.P.

Prior to the presentation, Mr. Hicks recused himself from consideration of Wand, citing his 32 year history with its principals, including certain co-investment~~s~~ transactions and co-advisory business relationships ~~during the past seven years, as well as his interest in Life Partners group which is an investor in Wand Equity Portfolio II, L.P.~~. As discussed in the Due Diligence Review and Recommendation booklet provided to the Board of Directors, the Corporation staff has determined that Mr. Hicks has no prohibited financial interest in the Wand Equity Portfolio II, L.P. within the meaning of Section 66.08 of the Texas Education Code.

The Wand principals (Bruce Schnitzer and David Callard) then made a brief presentation, citing their individual credentials and accomplishments and discussing their proposed investment strategy (all of which are contained in the staff's Wand Equity Portfolio II, L.P. Due Diligence Review and Recommendation).

The Wand principals then left the board room and the Board of Directors discussed the merits of the investment. The staff, in summarizing the investment prior to the discussion, emphasized the value remaining in the initial Wand fund's software and business services investments, which should result in superior returns at the point they are eventually realized. The staff noted that investing with the Wand principals over the next 18 months or so is an interim step on a partnership by partnership (i.e., investment by investment) basis, to be followed by the raising of a conventional fund in which the staff would proposed to participate. The staff also noted that the relationship between the Wand principals and the staff is expected to be unusually close, with Wand serving to introduce the staff to a number of co-investment opportunities on an unpromoted basis.

The staff outlined certain key items on the term sheet not yet agreed to by the parties and proposed the following position on each: all interim investments prior to the raising of the fund should be aggregated for purposes of determining payback; the request of the Wand principals to vary the amounts invested by the general partners for each investment amounts to cherrypicking and should be denied in favor of a fixed ratio; the Wand proposal to share only 25% of transaction fees with the limited partners is at the low end of the acceptable range and should be negotiated up; and the terms under which each of the partnerships can be extended should be altered to require a vote of the limited partners. Finally, the staff proposed imposing the same promoted interest hurdle rate for Wand II as for the staff's incentive compensation program: 500 basis points over the S&P 500 on a dollar-weighted, time-weighted basis.

After some discussion of the staff's proposed promoted interest hurdle rate computation, the Board of Directors, by motion duly made, seconded and carried by a unanimous vote (Mr. Hicks abstaining), unanimously approved a commitment of up to 20% of the club/fund amount representing $13.125 million initially and then up to $30 million assuming an ultimate fund size of $150 million. Mr. Evans summarized the particular concerns of the Board of Directors in approving this investment: that the Wand agreement should prohibit cherrypicking on the part of the principals investing as general partners; that all investments should be aggregated for purposes of determining payback; and that the computation of the promoted interest be done on the most advantageous terms to the System's interest as possible.

Financial Report - March 1996

Mr. Ricks then presented the Corporation's balance sheet (unaudited) as of March 31, 1996, the Corporation's statement of revenue, expenses and changes in fund balance (unaudited) for the period of March 1, 1996 through March 31, 1996, and the Corporation's statement of cash flows (unaudited) for the period March 1, 1996 through March 31, 1996. He stated that there was nothing to report concerning the Corporation's first month of operations as operations had proceeded as expected.

Fiscal Year 1996-97 Budget Parameters

Mr. Ricks stated that the System, as part of its budget planning for fiscal year 1996-97, had requested the amount of investment management fees to be charged beginning September 1, 1996. Mr. Ricks added that this was difficult given the Corporation's existence for one month. Given the need for a number, he had submitted a 5% increase over the annualized fee amount for the second half of fiscal year 1996. The Board of Directors indicated that these budget parameters were acceptable. Mr. Ricks stated that a detailed budget would be submitted for approval at the August meeting.

Meeting Date

Mr. Ricks stated that the next meeting dates needed to be scheduled. He was instructed to telephone directors for mutually convenient dates for the remainder of the calendar year.

There being no further business to come before the Board of Directors, the meeting was adjourned.

Secretary

APPROVED:

MINUTES OF SPECIAL MEETING OF
THE BOARD OF DIRECTORS OF
THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

The Board of Directors of The University of Texas Investment Management Company (the Corporation) convened in special meeting on the 10th day of June, 1996, in the offices of Hicks, Muse, Tate & Furst, 200 Crescent Court, Suite 1600, Dallas, Texas, said meeting having been called by the Chairman, with notice provided to each Director in accordance with the Bylaws. Participating in the meeting were the following members of the Board of Directors:

Thomas O. Hicks, Chairman
Robert H. Allen
Susan M. Byrne
William H. Cunningham
Donald L. Evans
Richard W. Fisher
J. Luther King, Jr.
Tom Loeffler
Homer L. Luther, Jr.

thus, constituting a majority and quorum of the Board of Directors. Also, participating in the meeting was Bernard Rapoport, Chairman of the Board of Regents of The University of Texas System (the System); Thomas G. Ricks, President of the Corporation; Jerry E. Turner, Secretary of the Corporation;and Cathy Iberg, Austin Long and Craig Nickels of Corporation management. Mr. Hicks called the meeting to order at 1:15 p.m.

Approval of Minutes

The first matter to come before the Board of Directors was approval of the minutes of the special meeting of the Board of Directors held on April 17, 1996, copies of which had previously been furnished to each Director. Mr. Ricks discussed certain editorial revisions to the minutes that were recommended by Mr. Turner, including an elaboration as to Mr. Hicks' recusal from participation in the discussion and approval of the Wand Equity Portfolio II, L.P. investment. Mr. ricks indicated that the revised minutes would be presented to the Board of Directors for approval at its next meeting.

UTIMCO Governance and Compliance Process

Mr. Turner, as counsel to the Corporation, presented an overview of the standards of conduct applicable to the Board of Directors pursuant to the Texas Non-Profit Corporation Act. Mr. Turner advised that the Directors are required to act in good faith, with the care an ordinarily prudent person in a like position would exercise under similar circumstances, in an manner they reasonably believe to be in the best interests of the Corporation. Mr. Turner also described certain statutory immunities from liability and indemnification arrangements afforded the Directors.

Mr. Ricks then distributed a handout (also distributed at the June 10, 1996 Audit & Ethics Committee meeting) outlining the different statutes, agreements, policies and Codes of Ethics with which the Corporation was obligated to comply. Compliance by the Corporation was required in five major areas: federal statutes; state statutes; the Investment Management Services Agreement; investment policies; and the UTIMCO Code of Ethics. Compliance regarding certain federal and state tax issues involved compliance with Internal Revenue Code Section 501(c)(3).

Mr. Ricks also reviewed statutory requirements under state statutes. He reviewed the major requirements of Section 66.08 of the Texas Education Code, Article VII, Section 11b of the State Constitution governing investment of the PUF, Chapter 51 of the Texas Education Code and, finally, Section 163 of the Texas Property Code. Mr. Ricks also reviewed the duties required of the Corporation under the Investment Management Services Agreement noting that the investment policies were to be presented for annual approval by the Board of Regents of the System (the "U. T. Board"). Mr. Ricks also stated that the review of the PUF and LTF policies by the Board of Directors was scheduled to begin at the next meeting when Cambridge Associates would update its asset allocation study for the LTF.

Mr. Ricks also briefed the Board of Directors on the need to comply with the UTIMCO Code of Ethics. He also stated that the UTIMCO Financial Disclosure and Conflict of Interest Statement which was signed by Corporation management would be circulated to the Board of Directors as discussed in the Audit & Ethics Committee meeting.

Finally, Mr. Ricks stated that a formal compliance statement would be generated each quarter and submitted to the Board of Directors. There were no questions from the Board of Directors concerning compliance matters.

1997 Legislative Issues - Amendment of Constitution

Mr. Ricks then referred to Tab 3 of the meeting booklet stating that the staff had identified four statutory or constitutional issues where amendment would enhance the effectiveness of investment management.

The first statute was Subsections 66.08 (i) - (j) of the Texas Education Code. Subsection (i) prohibits the Corporation from entering into an agreement with a former Director, officer, or employee of the Corporation before the second anniversary of the date the person ceased to be a Director, officer or employee of the Corporation. The Corporation is also prohibited from entering into an agreement with a business entity in which a former Director, officer or employee of the Corporation has an interest on or before the second anniversary of the date the person ceased to be a Director, officer or employee of the Corporation. Mr. Ricks stated that this restriction was stronger than the conflict of interest standards which were currently applicable to the System. "Interest" was defined to include money received by the person from the business entity which exceeded five percent of the person's gross income for the preceding calendar year. Mr. Ricks stated that this definition of "interest" effectively eliminated a current or prospective Corporation employee's employability with the large number of financial institutions with which the Corporation had a relationship. It also had the unintended effect of voiding the Corporation's contracts with an existing financial institution. Few recruits would consider working for the Corporation under such circumstances. There was general agreement that this provision should be softened.

Mr. Ricks also stated that Corporation management was in discussion with the State Comptroller's Office and State Treasurer's Office to solicit their endorsement for amendments to Sections 66.02 , 66.07 and 66.78 of the Texas Education Code. Mr. Ricks characterized these provisions as operationally inefficient and reflective of outdated investment procedures. The Board of Directors requested that Mr. Ricks inform them of progress on this issue.

Mr. Ricks then referred to the Analysis and Proposed Amendment to the Texas Constitution for the PUF which he had distributed earlier to the Board of Directors. He recommended that the Board of Directors recommend a constitutional amendment to the U. T. Board to convert the PUF's current income only spending formula to a formula based on long term equilibrium concepts. Such an amendment in Mr. Ricks' opinion would improve the probability of the PUF's being able to preserve the purchasing power of both the spending stream and the fund value after withdrawals for spending. A discussion ensued among Directors discussing the pros and cons of the proposed amendment. The discussion concluded with a general agreement that the Board of Directors would not support the proposed constitutional amendment at this time. The Board encouraged Mr. Ricks to continue the dividend growth strategy that was currently in place as well as the gradual conversion to a higher equity content for the PUF.

Review of Investment Performance

Mr. Ricks then reviewed investment performance for the most recent month, quarter and fiscal year to date. He stated that year to date the increase in the equity allocation to 70% for the LTF had paid off resulting in an 11.3% unannualized total return versus 9.8% for the PUF. The divergence in the most recent quarter and month had widened as fixed income securities had posted negative returns. He also stated that the increased diversification of the LTF into small cap growth had paid off as well since this was the best performing sector for the year. His expectation was that LTF performance for the year would be considerably more in line with the mean return of the Cambridge Associates universe.

LTF Risk Management - Value at Risk

Mr. Ricks reported that the Board of Directors would soon begin the process of reviewing investment polices. Since asset allocation was a fundamental aspect of investment policy, it was important to bear in mind that asset allocation was derived from a stated risk tolerance and the optimal combination of asset classes to maximize return for a given level of risk. He referred to the efficient frontier analysis performed by Cambridge Associates for the LTF stating that prior to restructuring of the asset allocation in place had an expected arithmetic average return of 6.7% and an expected risk (standard deviation) of 13.1% for a return/risk ratio of .51:1. In adopting the new asset allocation, the Board of Directors had increased its risk tolerance as measured by the standard deviation of the return to 14.3%. At the same time, the asset allocation had resulted in a proportionately greater increase in expected average return to 8.8% each year as measured by the higher efficiency of the portfolio. This was evidenced by a higher return/risk ratio of .62:1.

Mr. Ricks also reported that management had commissioned Bankers Trust Company to perform a value at risk study of the LTF using a proprietary model known as RAROC ("Risk Adjusted Return on Capital") to determine risk on an absolute dollar basis. The model essentially decomposed each portfolio security into a multitude of currency, interest rate, option, and other risk components to predict the maximum cumulative loss that the fund could incur over the next year with a 99% confidence level. The analysis predicted that the maximum cumulative loss that could occur through February, 1997 was $271 million or 16.6% of the current market value of the fund. The analysis also revealed that virtually all of the risk reduction in the fund was being generated by asset allocation. Mr. Fisher stated that while the model may be theoretically correct, he was skeptical that the use of up to 500 risk characteristics represented much value added in evaluating risk. Mr. Ricks conceded that the 500 risk elements represented by Bankers Trust Company seemed excessive but that the process was designed to break risk apart into its components rather than just standard deviation of return. This was the direction that most risk models were developing. Since Bankers Trust Company was using only three years of historical data, Mr. Ricks was trying to compare the projected risk level implied by RAROC versus the original Cambridge Associates analysis. The RAROC analysis implied there was less expected risk in the fund, however, the analysis was completed prior to completion of the restructuring to the new asset allocation.

Mr. Evans requested that a separate report be presented to the Board of Directors regarding current asset allocation versus the target allocations. Mr. Ricks responded that current allocation was reported in an exploded format in the quarterly investment report. He agreed to highlight asset allocation at the beginning of each meeting.

Consideration of Divestiture of Tobacco Holdings

The next item to be discussed was consideration of divestiture of tobacco stocks. Mr. Ricks reported that across the PUF and LTF, tobacco holdings were $66.3 million or 1% of assets. Approximately 70% of the holdings were represented by Philip Morris of which 75% was held by active managers and 25% in index funds. Another 25% was in the form of holdings in U.S. Tobacco which was held in an internal active portfolio. The balance or 5% was held in three other companies. Mr. Ricks reviewed the history of litigation over the last 40 years stating that the current risk in holding tobacco securities was in the form of the state Medicaid suits and potential FDA regulation of tobacco. Mr. Ricks also reviewed the historical returns generated by tobacco stocks noting that as a group they had outperformed the S&P 500 Index in nine of the last twelve years. In Mr. Ricks' opinion, the litigation risk was overdiscounted and there were several avenues to resolution of the litigation. He cited strong fundamental industry growth prospects versus the S&P 500 Index and the fact that many of the research firms used by the internal staff and the funds' external managers rated tobacco stocks, particularly Philip Morris, strong buys or holds. He recommended against divestiture based on current risk adjusted return expectations. Considerable discussion ensued concerning the advantages and drawbacks to divestiture.

The conclusion of the Board of Directors was that the Corporation's contract with the U. T. Board imposed a fiduciary responsibility on the Corporation in the management of the investments of the System's funds in accordance with the prudent person standard. This is the strict trust standard that requires a trustee to manage a beneficiary's funds with the same amount of prudence, discretion and intelligence that it exercises in the management of its affairs. Specifically, this standard requires the Corporation to base all investment decisions relating to the PUF solely upon economic considerations, including the probable income and probable safety of an investment. Based upon its review of the PUF's tobacco-related stocks, the Board of Directors determined that the risk adjusted returns expected for such stocks did not warrant disposition at this time.

Report of Audit and Ethics Committee

Mr. Evans, as Committee Chairman, reported that the Committee had met earlier in the day. The Committee had reviewed the Corporation's financial statements for the two months since inception. In addition, the Committee reviewed and approved an audit plan involving the use of a Big Six accounting firm to provide audit services. The selection was expected to be in late July following a request for proposals. Mr. Evans also reported that the Committee had reviewed compliance requirements as well as the UTIMCO Code of Ethics. Finally, he reported that the mandate for the Committee would be circulated for approval by the Board of Directors via unanimous written consent.

(At this point, Messrs. Loeffler and Evans departed the meeting.)

Presentation by Fayez Sarofim & Co.

Mr. Ricks introduced the next item stating that Fayez Sarofim was the longest running manager having been hired in 1988. The firm managed approximately $150 million of large cap growth equities for the PUF and LTF. He pointed out that the firm had added considerable value over the S&P 500 Index having generated an average return of 16.3% for the PUF versus 14.6% for the S&P 500 Index for the seven years since inception.

Mr. Ralph Thomas of Fayez Sarofim & Co. reviewed the performance for the PUF noting that the firm had outperformed the S&P500 Index since June 30, 1988 by 18.0% to 15.4%. He also presented the firm's economic and market outlook plus the firm's global growth investment strategy which was focused on companies involved in geographic expansion, new product development or restructuring/cost cutting. Their strategy was based on the expectation that a) the profit growth of U.S. multinational companies would exceed that for the U.S. economy as a whole and b) economic growth of emerging economies with large populations and a rising middle class would exceed that of the U.S. He concluded by stating that he believed that the firm expected continued economic expansion but at a slower pace and that the stock market would place increasing emphasis on earnings predictability.

Private Investments - The Beacon Group III - Focus Value Fund, L.P.

Messrs. Boisi, Mandel and Wilkinson, pricipals of The Beacon Group made a brief presentation to the Board of Directors citing their individual credentials and accomplishments and discussing their proposed investment strategy (all of which are contained in the staff's The Beacon Group III - Focus Value Fund, L.P. Due Diligence Review and Recommendation).

After the presentation, Ms. Byrne stated that her impression was that the Beacon principals think the current markets are expensive. She posed a hypothetical investment, with $4.5 million in cash flow, and asked what price might be considered too high and whether there are any absolute parameters for determining it. Mr. Mandel replied that there are no absolute parameters and that he would have to look at both the company and the opportunity to assess the likelihood of the outcome. Ms. Byrne then asked whether Beacon's principals are strategic buyers. Mr. Mandel replied that in his view all private investment firms are strategic buyers. Mr. Boisi elaborated that Beacon identifies companies in need of growth capital where the firm can negotiate good pricing.

Mr. Hicks inquired as to whether Beacon purchases minority positions. Mr. Boisi replied that Beacon prefers full ownership but will take a minority position in circumstances in which the firm has negative control.

Mr. Allen asked whether Beacon allows management to have a stake. Mr. Boisi replied that they always do. Mr. Mandel said that Beacon looks at such transactions in the same way as Hicks, Muse and would therefore take a minority share if there are compatible co-investors. Without compatible co-investors, he said, Beacon would need control to invest. Mr. Wilkinson said that's why Beacon's Bayside transaction is held 50/50: the result is negative control.

Mr. Mandel said that Beacon plans for a 25% to 35% IRR and that if they properly assess the risk-adjusted returns and select the best opportunities he thinks they can achieve that.

Mr. Fisher, alluding to the Beacon principals' prior experience at Goldman Sachs, noted that proprietary deal flow is critical. He asked the Beacon principals to quantify their current expectations for the long run in the private markets. Mr. Boisi replied that the Beacon principals have the ability to raise large sums of money. They could have raised $1 billion, he said, but chose to raise a smaller fund in order to avoid the competition they see at the top of the market. The size of the fund they're raising speaks to their view of the current market.

Mr. Mandel remarked that Beacon frequently passes on deals which are overpriced. He cited the example of a company doing business on three continents which he passed on because of information he uncovered during the due diligence process (information unknown to management, as it turned out) which clearly indicated that the company was overpriced. This is the discipline required to be a good investor in the private markets, he said.

Mr. Boisi said that internal Beacon discussions as to pricing are very aggressive and all the participants have a chance to make their views known. One of the partners is made the designated skeptic and given the task of identifying four or five weaknesses which must be clarified to proceed.

Mr. Hicks asked if all Beacon professionals will work for both the Energy Fund and the Focus Value Fund. Mr. Boisi replied that the three energy partners won't work on Focus Value transactions. He also said that Mr. Mandel and Mr. Wilkinson won't work on Energy Fund transactions. However, the mergers and acquisitions partners will work for and refer transactions to both groups.

Mr. Hicks asked if the economics of the two funds are intermixed. Mr. Boisi replied that they are. He said that at the end of the year he sits down with each partner and negotiates the amount that partner will reinvest into the firm. The objective is for the partners to live off the interest on the capital. He said this promotes teamwork and focus, as well as a long-term view.

Mr. Hicks asked if Beacon would be in the market with other products. Mr. Boisi replied that the firm will not. The firm's Energy and Focus Value Funds will remain its only products.

Mr. Hicks asked whether Beacon would invest internationally. Mr. Boisi replied that foreign investment would comprise less than 25% of the fund.

Mr. Hicks asked where the Beacon principals might invest overseas. Mr. Boisi said that Europe and South America both look attractive. Beacon has invited Senator Bentsen to join the firm's Council in order to open further the doors already cracked by the Bayside transaction.

Mr. Luther asked the Beacon principals to explain the workings of their fees and carried interest. Mr. Wilkinson said that the management fee would be 1.75% on the first $200 million plus 1.5% on commitments in excess of that amount. The limited partners will receive the return of their management fees paid, capital invested plus a preferred return prior to the general partners' receiving their 20% promoted interest in the partnership's gains.

Mr. Luther asked how co-investments are offered to the limited partners. Mr. Boisi began by noting that under the partnership agreement there is a limit to the amount the partnership can invest in any one transaction. He said that Beacon looks at the System as a prime co-investment limited partner because the firm wants the most sophisticated limited partners possible.

Mr. Luther asked if the transactions would typically be between $50 million and $100 million. Mr. Wilkinson replied that an example might be a $75 million transaction in Australian gold mining with the Oppenheimers as partners. In such an investment the fund might invest $25 million, with the remainder split between the Oppenheimer family and perhaps a local venture fund. Mr. Luther commented that apparently co-investment isn't done by formula. Mr. Wilkinson said that it is not; rather, it is fluid. He stated that rigid formulas don't work.

Mr. Luther asked what competition the Bayside transaction will pose for the Beacon principals' time going forward. Mr. Mandel replied that the Bayside transaction is Beacon's only non-fund investment. It will take some time, but all necessary permits have already been obtained and the local management is excellent. He noted that both partners know the transaction well, so either could react to any emergency.

Ms. Byrne pointed out that the Corporation isn't in the gold business and doesn't know mining. She asked if the Board of Directors could presume that the Corporation would not see the gold mining transaction. Mr. Mandel replied that this is Beacon's first value fund and, if co-investment is a priority, he intends to show U.T. transactions. However, he emphasized that Beacon will not be able to deal well with co-investors with prolonged approval cycles. Co-investments must be made by groups which can come to a decision quickly.

Mr. Hicks asked whether co-investments would be on an unpromoted basis. Mr. Mandel replied that Beacon has not yet determined its policy on that issue. Mr. Boisi added that Faith Rosenfeld, the Beacon partner in charge of investor relations, will keep the Corporation. informed at all times of co-investment opportunities and policies.

Mr. Hicks said that the UTIMCO Board of Directors recognizes that the staff can respond and hopes that in doing so the staff can maximize PUF and LTF investment returns. Mr. Ricks said that the terms and conditions of each co-investment would be a matter of negotiation.

Mr. Hicks asked the maximum fund size and the average size of the planned portfolio's transactions. Mr. Mandel replied that the fund will be $300 million to $500 million and the average amount invested will be about $40 million per transaction.

The Beacon principals then left the room and the UTIMCO Board of Directors debated the merits of a commitment to the Beacon Group III - Focus Value Fund. Mr. Hicks asked the staff why their investment memorandum recommended a commitment of only $15 million. Mr. Long replied that the requested commitment is smaller than usual for a corporate acquisition fund because Beacon is a new investment bank and the fund is a first-time fund in the sense that this will be the first time Mr. Mandel and Mr. Wilkinson have worked together.

Mr. King said that the fact that the Beacon Focus Value Fund is Beacon's first fund is a plus, since Mr. Boisi and Mr. Mandel worked together for many years at Goldman Sachs and the management group is therefore not a start-up in the usual sense. Mr. Hicks added that, in light of the long-term track record of the investment managers, a $25 million commitment would be more appropriate.

However, the Board of Directors identified the following issues as critical to the negotiation of an agreement with the Beacon Group for an investment in the Beacon Focus Value Fund:

- co-investments must be unpromoted and favorable terms granted to others in a co-investment group must be granted to the PUF and LTF on the so-called "most favored nations" basis; and,
- a member of the UTIMCO staff must have a seat on the Beacon Focus Value Fund advisory committee in order to insure that no conflicts of interest arise between Beacon's mergers and acquisitions business and the group's role as fiduciary for the PUF and LTF in the investment of their funds.

Following this discussion, the Board of Directors, by motion duly made, seconded and carried by a unanimous vote, approved a $25 million commitment to the Beacon Group III - Focus Value Fund, L.P. subject to further due diligence and to obtaining the terms set out in the bullet points above in addition to market terms and conditions on all other contractual provisions.

(Given the late hour, items on the agenda relating to the discussion of Short Term Fund Management and the appointment of a Compensation Committee were deferred to the next meeting.)

There being no further business to come before the Board of Directors, the meeting was adjourned at approximately 5:45 p.m.

____
Secretary

APPROVED:

____

UTIMCO
MONEY FUND BALANCES
July 31, 1996

	LTF	SITF	STF	SIF	TOTAL
GSAM/FINANCIAL SQUARE					
Operating Funds					
U.T. System Administration	-	-	149.7	-	**149.7**
UT Arlington	-	-	3.7	-	**3.7**
UT Austin	-	-	99.0	-	**99.0**
UT Dallas	-	-	5.8	-	**5.8**
UT El Paso	-	-	11.7	-	**11.7**
UT Pan American	-	-	4.6	-	**4.6**
UT Brownsville	-	-	3.0	-	**3.0**
UT Permian Basin	-	-	0.2	-	**0.2**
UT San Antonio	-	-	8.8	-	**8.8**
UT Tyler	-	-	5.9	-	**5.9**
UTSWMC- Dallas	-	-	27.8	-	**27.8**
UTMB Galveston	-	-	134.0	-	**134.0**
UTHSC-Houston	-	-	31.8	-	**31.8**
UTHSC-San Antonio	-	-	9.5	-	**9.5**
UT M.D. Anderson	-	-	80.3	-	**80.3**
UTHC- Tyler	-	-	12.6	-	**12.6**
Endowment Funds					
Long Term Fund	85.1	-	-	-	**85.1**
Separately Invested Funds	-	-	-	2.7	**2.7**
sub-total	85.1	0.0	588.4	2.7	**676.2**
FIDELITY MONEY MARKET					
Short/Intermediate Term Fund	-	141.7	-	-	**141.7**
sub-total	0.0	141.7	0.0	0.0	**141.7**
TOTAL	**85.1**	**141.7**	**588.4**	**2.7**	**817.9**

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University of Texas Client Profile

University of Texas is a significant investor in the Financial Square Prime Obligations Fund, as well as a heavy consumer of operational services.

Investment:	Financial Square Prime Obligations Fund
Fund description	A1-P1 rated securities only, which include US gov't secs, obligations of US banks and US companies, cp and repo
Average balance	$435 million
Average number of transactions per day	23
Number of sub-accounts	1 Primary system account (Austin) 16 Sub-accounts (Campuses)
Number of wire addresses	98 Destinations
Number of redemptions [05/01/95 - 05/01/96]	4,937
Number of purchases [05/01/95 - 05/01/96]	2,609
Number of exchanges [05/01/95 - 05/01/96]	816
Number of wires [05/01/95 - 05/01/96]	4,937
Total number of transactions [05/01/95 - 05/01/96]	8,362
Number of client service calls [05/01/95 - 05/01/96]	778
*Average service level [05/01/95 - 05/01/96]	95%
Accuracy of wire transfers [05/01/95 - 05/01/96]	100%

* GSAM tracks all client calls, but also has a separate tracking system to ensure that our top 10 clients - which includes UT - calls are answered within 18 seconds.

Goldman Sachs

Institutional Money Market Funds

Fund Family	Total Size 12/31/95 ($Bil)	Prime Fund 6/30/96 ($Bil)	Fee (bps)	International Prime Fund 6/30/96 ($Bil)	Fee (bps)
Federated	29	4.1	20	-	-
Fidelity	26	1.2	18	7.0	18
Dreyfus	21	2.3	20	4.5	20
Goldman Sachs	18	3.9	18	2.0	18
Provident	16	6.0	18	2.3	18

Efficient and Cost-Effective Cash Management Alternatives

FS Prime, a separate pooled account, and a University of Texas proprietary fund, each have different revenue, expense and service dynamics.

	FS Prime Obligations Fund	Separately Managed Account	University of Texas Proprietary Fund
Determinants of Gross Yield:			
– Weighted Average Maturity	Maximum flexibility	Limited by size and cash flows	Limited by size and cash flows
Determinants of Expense:			
– Management Fees	17 BPs net	Negotiated: 10 to 15 BPs	Negotiated: 10 to 15 BPs
– Fund Administration Fees	Included in "Management Fees"	Separate: 2 to 5 BPs	Separate: 5 to 20 BPs
– Custody and Fund Accounting	Included in "Other"	Separate: 2 to 5 BPs	Separate: $115,000 (2 BPs)
– Shareholder Servicing/Accounting	4 BPs (included in "Fund Administration")	Separate: $400,000 (5 BPs)	Separate: $400,000 (5 BPs)
– Other (e.g., audit, outside counsel)	1.5 BPs gross; 1 BPs net	Separate: $75,000 to $150,000 (1 to 2.5 BPs)	Separate: $130,000 (6 BPs)
Impact on Gross Yield	All inclusive, capped @ 18 BPs	Range: 21 to 33 BPs	Range: 25 to 35 BPs Lipper Avg.: 39 BPs
Management Issues			
– Regulatory Oversight	• 1940 Act provides standards for management, accounting and risk management	• Subject to local regulatory oversight	• 1940 Act provides standards for management, accounting and risk management
– Special Operational Services	• Available	• Depends on choice of custodian	• Available
– Electronic Access (e.g. SMART)	• Available	• Depends on choice of custodian	• Available

Goldman Sachs

Designation of Compensation Committee

RESOLVED, that there is hereby created a compensation committee consisting of three members of the Board of Directors, which committee shall be charged with responsibility for oversight of the compensation of directors and officers and employees of the Corporation;

RESOLVED, FURTHER, that the Compensation Committee shall have the following authority and responsibilities:

compensation not [illegible] issue for [illegible] consideration [illegible]

1. reviewing and recommending to the Board the compensation of directors of the Corporation,
2. determining the compensation of the President of UTIMCO,

4 [illegible]

3. reviewing and making recommendations concerning the compensation of all officers (except the President) of UTIMCO,
4. such other powers and duties as may be assigned to the Compensation Committee from time to time by the UTIMCO Board;

RESOLVED, FURTHER, that Richard W. Fisher, Thomas O. Hicks, and J. Luther King, Jr. are hereby designated as the Compensation Committee of the Board of Directors to serve until the first Board of Directors meeting following the November 1997 Board of Directors meeting or until their successors are chosen and qualify, or until their earlier resignation or removal and;

RESOLVED, FURTHER, that Richard W. Fisher is hereby designated the Chairman of the Compensation Committee and shall preside at its meetings.

Please refer to Cambridge Associates, Inc. *Asset Allocation Policy Review Discussion Materials.*

Please refer to the Fiscal Year 1996-97 Business Plan and Budget.

LTF ASSET ALLOCATION

	Current Allocation	Proposed Changes	Resulting Allocation	Target Allocation
EQUITIES				
Common Equities				
Domestic				
Large/Mid Cap	46%	-4%	42%	**25%**
Small Cap	8%	0%	8%	**10%**
	54%	-4%	50%	**35%**
International				
Established Markets				
Large/Mid Cap	8%	0%	8%	**8%**
Small Cap	0%	4%	4%	**4%**
Emerging Markets	3%	0%	3%	**3%**
	11%	4%	15%	**15%**
Total	65%	0%	65%	**50%**
Alternative Equities				
Liquid	0%	0%	0%	**10%**
Illiquid	5%	0%	5%	**10%**
	5%	0%	5%	**20%**
TOTAL EQUITIES	70%	0%	70%	**70%**
INFLATION HEDGING	0%	0%	0%	**10%**
FIXED INCOME				
Domestic	30%	0%	30%	**15%**
International	0%	0%	0%	**5%**
TOTAL FIXED INCOME	30%	0%	30%	**20%**
TOTAL LTF	100%	0%	100%	**100%**

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LONG TERM FUND
INTL. SMALL CAP EQUITIES
PROPOSED FUNDING

($millions)

	Amount
LTF Market Value	1,682.6
Target Allocations (%)	4.0%
Target Allocations ($)	$67.3

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Non-U.S. Small Capitalization Manager Screening Process

1. Investment Philosophy

a. Coherence

b. Faithfulness of execution

c. Fit with UTIMCO's structure and objectives

d. Bottom-up stock selection, value bias

2. Performance Record

a. Minimum 3 years investment history in product.

b. Risk adjusted investment performance above peers, as measured by Frank Russell, over a 3 year time frame.

3. Personnel

a. Experience (in years) of professional personnel

b. Years that the group has been together

c. Financial incentives

d. Availability of key personnel

e. Interest in UTIMCO

f. Personal chemistry with UTIMCO

4. Organization

a. Research capability

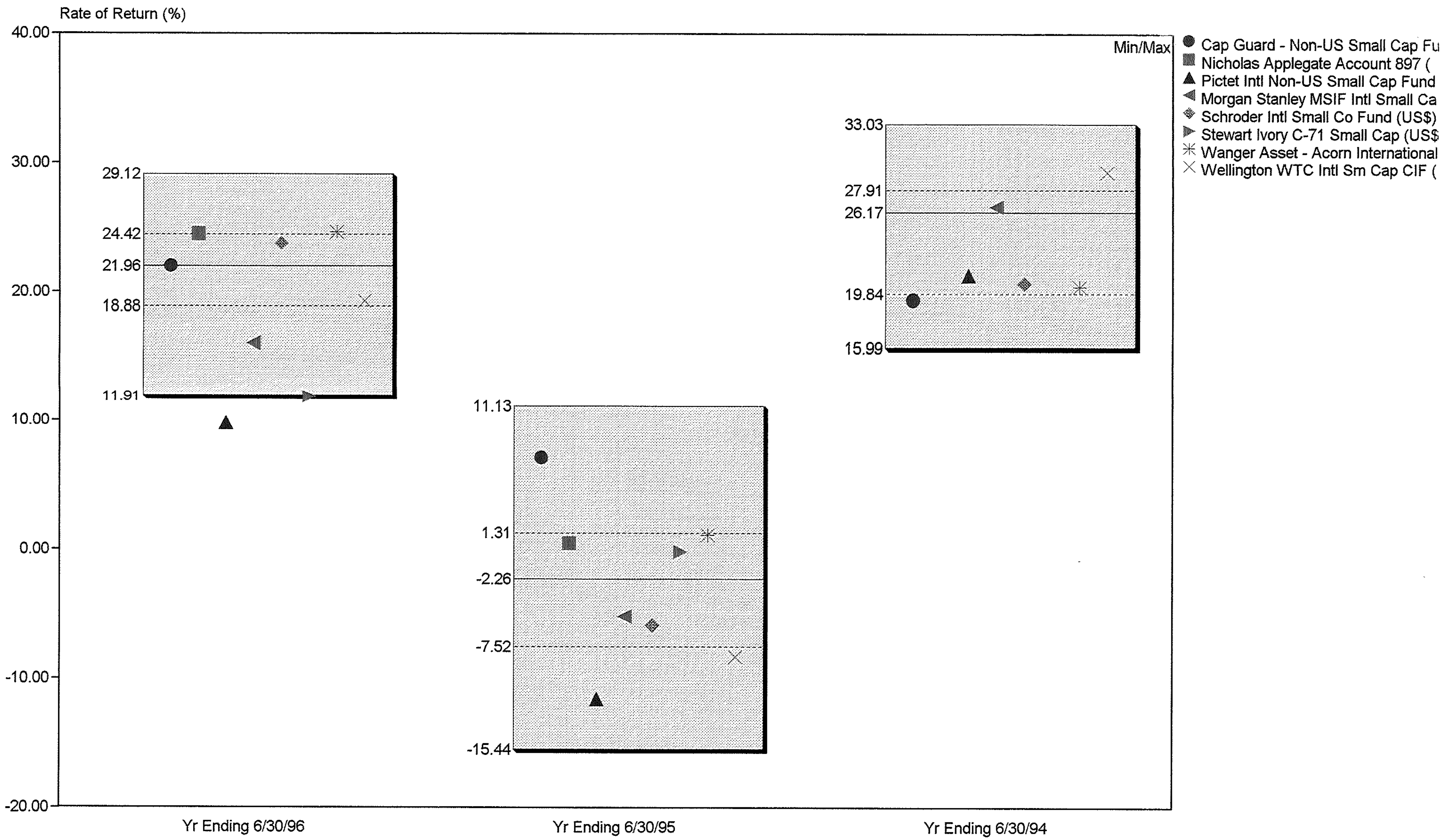
b. Similarity of clientele or familiarity with particular UTIMCO (eleemosynary) characteristics

5. Financial and Ethical Viability

NON-U.S. SMALL CAPITALIZATION EQUITY MANAGER CANDIDATES

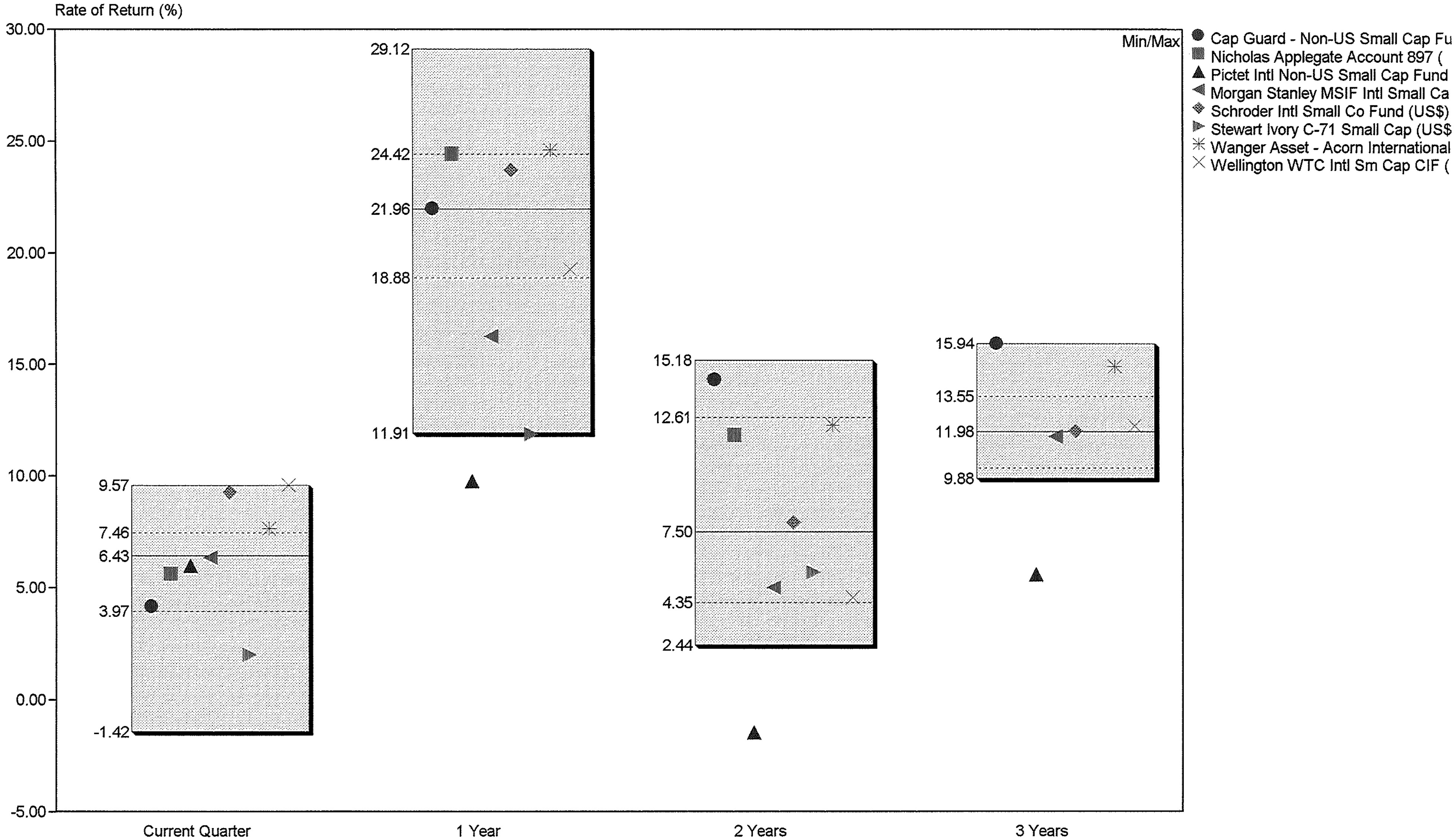
#	Manager	Initial Sort	Finalist	Recommended
	Frank Russell Universe			
1	Acadian Asset Management			
2	Capital Guardian Trust Company	x	x	x
3	Castle International Asset Management Ltd.			
4	Globeflex Capital, L.P.			
5	Grantham Mayo, Van Otterloo & Co.			
6	Montgomery Asset Management			
7	Morgan Grenfell Investment Services Ltd.			
8	Morgan Stanley Asset Management	x		
9	Rowe Price-Fleming International, Inc.			
10	Schroder Capital Management International	x		
11	Seligman Henderson			
12	Stewart Ivory International	x		
13	Wanger Asset Management, L.P.	x	x	
14	Wellington Management Company	x		
	Staff Additions			
15	Bee & Associates			
16	Jacobs Asset Management			
17	Nicholas-Applegate Capital Management	x		
18	Pictet International	x		

GLOBAL EX-US EQUITY SMALL CAP PORTFOLIOS (US$)
Ending June 30, 1996



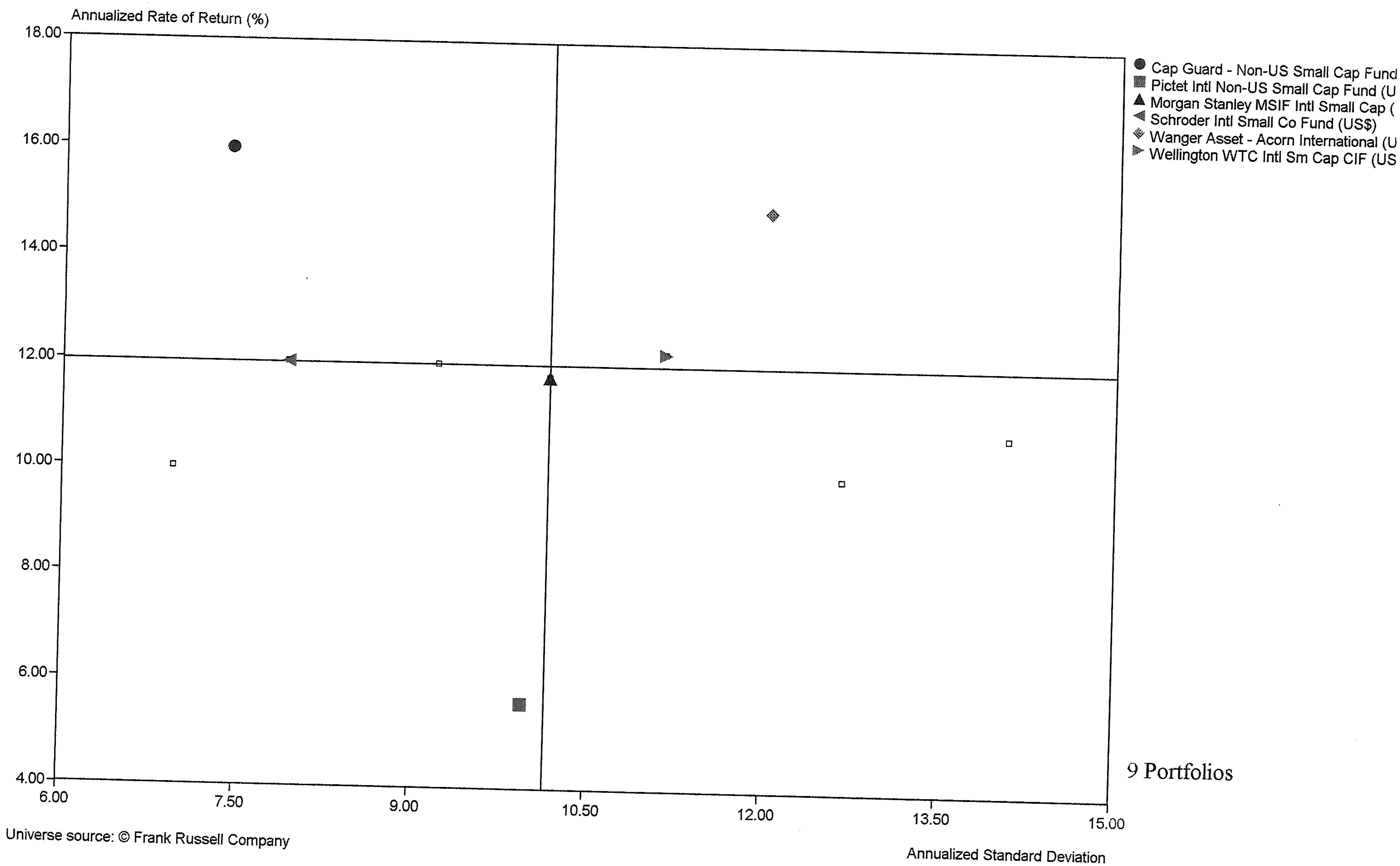
Universe source: © Frank Russell Company

GLOBAL EX-US EQUITY SMALL CAP PORTFOLIOS (US$)
Ending June 30, 1996



Universe source: © Frank Russell Company

GLOBAL EX-US EQUITY SMALL CAP PORTFOLIOS (US$)
3 Years Ending June 30, 1996



Universe source: © Frank Russell Company

Capital Guardian Trust Company
333 South Hope Street
Los Angeles, CA 90071
(213) 486-9200

Founded:	1968
Employee Ownership:	100% active and recently retired employees.
Assets Under Management:	\$46.8 billion \$ 1.1 billion international small capitalization
Investment Process:	The firm has a multi-manager structure which results in a portfolio that is broken down into four portfolios, each managed separately by lead portfolio managers. One of the portfolios is managed by the research group. Bottom-up stock selection. (appraisal of accounting procedures, and standard financial valuations P/B, P/E, ROE, etc. Extensive field research; competitors, suppliers, large customers, economists, government officials, industry specialists. Over 50 non-U.S. equity analysts located in six offices outside U.S. 90% - 95% of portfolio holdings are result of internal research. \$90 million annual research budget. Brokerage resource as needed in analyzing country, industry, or company fundamentals.
Portfolio Structure	120 - 150 names; Emerging market exposure may reach 10%, in commingled vehicle. Separate accounts may omit.

Key Investment Personnel:

David I. Fischer
Chairman of the Board, The Capital Group Companies, Inc.,
joined organization 1969

Harmut Giesecke
Chairman of Capital's Japanese investment mgmt. subsidiary
joined organization 1972

Nancy Kyle
SVP., responsible for asset allocation for global balanced accts.
joined organization 1991, prior exp. J.P. Morgan, Jardine Fleming

John Mcllwraith
SVP., global portfolio manager
joined organization 1984, prior exp. Brown Brothers, GT Mgmt.

Richard N. Havas
SVP., portfolio manager, head of research portfolio.
joined firm 1986

Capital Guardian Trust Company

Names in portfolio: 130-150

Clients Non-U.S. Small Capitalization Equities

Los Angeles County Employees Retirement Association
Ameritech
San Diego City Employees Retirement Association
Nynex
Central Illinois Light Company
General Mills Inc.
Eaton Corporation
Reynolds Metals
Illinois Municipal Retirement Fund
World Bank

Fee Schedule -- Non-U.S. Small Capitalization Equity

up to $25 mm	.70 of 1%
next $25 mm	.55 of 1%
next 200 mm	.425 of 1%
over 250 mm	.375 of 1%

Eleemosynary deduction 10% of gross fee

Custodial, Legal, Audit: 9 basis points

2

- better risk/return profile
- #2 selection for emerging mkts after Templeton - opportunity to consolidate managers
- purer product - max. of 10% in small cap stocks in emerging mkts - Wanger/Acorn up to 25%
- value vs growth bias
- stronger institutional client base and strong back office
- separate acct or commingled
- fee 50 bps graduated scale vs 80 bps
- David Fisher - chair; personal acct

Long Term Fund International Small Cap Equity Allocation - Capital Guardian Trust Company

WHEREAS, The University of Texas System Long Term Fund Policy Statement approved by The Board of Regents of The University of Texas System on February 9, 1995 and amended on February 8, 1996, specifies a long-term allocation to foreign-currency equities of non-U.S. corporations traded on established securities markets in an amount equal to 12% of the market value of Long Term Fund ("LTF") assets;

WHEREAS, investments in foreign-currency equities of non-U.S. corporations traded on established securities markets as of July 31, 1996 equaled 7.8% of the market value of LTF assets;

WHEREAS, the Board desires to fully fund and further diversify the 12% LTF allocation to foreign-currency equities of non-U.S. corporations traded on established securities markets by investing 4% of the market value of LTF assets in equity securities of small capitalization non-U.S. corporations;

WHEREAS, the Board has heard a presentation by UTIMCO's (the "Corporation") management recommending that the Corporation enter into an Investment Advisory Agreement with Capital Guardian Trust Company ("Capital Guardian") to invest 4% of the market value of LTF assets in equity securities of small capitalization non-U.S. corporations;

WHEREAS, on August 30, 1996, the Board heard a presentation from and interviewed representatives of Capital Guardian concerning Capital Guardian's management of non-U.S., small capitalization equity portfolios;

WHEREAS, the Board desires to enter into an Investment Advisory Agreement with Capital Guardian to invest 4% of the market value of LTF assets in equity securities of small capitalization non-U.S. corporations;

WHEREAS, the Corporation has determined that the execution and delivery of such Investment Advisory Agreement will not constitute an agreement or transaction entered into in violation of Subsection 66.08(i) of the Education Code;

NOW, THEREFORE, BE IT RESOLVED, that the terms and provisions of the proposed Investment Advisory Agreement with Capital Guardian be approved; and be it further

RESOLVED, that the President and any Vice President of this Corporation be, and each of them hereby is, authorized to make such further revisions to the terms and provisions Investment Advisory Agreement as may be necessary or in the best interests of this Corporation, excluding an increase in the amount of fees to be paid to Capital Guardian; and be it further

RESOLVED, that the President and any Vice President, 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, the negotiation, execution and delivery of the Investment Advisory Agreement and all notices and certificates required or permitted to be given or made under the terms of the Investment Advisory 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 agreements and instruments referred to therein.

Private Investments Commitment Activity
By Date of Approval

	1995	1996					1997	1998	1999
	Total	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	**Total**	**Total**	**Total**	**Total**
The Woodlands/Essex Venture Fund III, L.P.	**$5.0**								
Austin Ventures IV, L.P.	**$5.0**								
Rice Partners II, L.P.	**$25.0**								
Citicorp Mezzanine Partners, L.P.	**$25.0**								
Clayton, Dubilier & Rice Fund V, L.P.	**$20.0**								
Carlyle Partners II, L.P.	**$10.0**								
KB Mezzanine Partners II, L.P.	**$25.0**								
Wingate Partners II, L.P.	**$15.0**								
Morgenthaler Ventures IV, L.P.	**$15.0**								
SCF III, L.P.	**$20.0**								
North American Fund II, L.P.	**$15.0**								
PMI Mezzanine Fund, L.P.	**$25.0**								
Asian Corporate Finance Fund, L.P.	**$20.0**								
Technologies for Information & Entertainment III, L.P.	**$10.0**								
Texas Growth Fund II	**$10.0**								
VS&A Communications Partners II, L.P.	**$30.0**								
Information Technology Partners, L.P.*	**$10.0**								
Cortec Group		$20.0							
Ampersand Ventures			$15.0						
Energy Arrow E. TX Pinnacle Reef Play			$2.0						
3i			$20.0						
CVC European Equity Partners L.P.			$30.0						
CWB Capital Partners Fund II			$30.0						
Willis Stein & Partners, L.P.			$20.0						
Atlantic Medical Partners			$10.0						
Brentwood Associates			$20.0						
Wand Partners				$30.0					
Beacon Group					*$25.0*				
KKR**					***$50.0***				
	$285.0	$20.0	$147.0	$30.0	$75.0	**$272.0**	**$220.0**	**$173.0**	**$126.0**

*name change from New Horizon Partners, L.P.

**subject to further due diligience

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Please refer to The KKR 1996 Fund, L.P. Due Diligence and Recommendation.

Private Investment Commitment to The KKR 1996 Fund, L.P.

WHEREAS, on July 7, 1995, the Asset Management Committee of the Board of Regents of The University of Texas System approved a five-year plan (the "Plan") to fully fund previously approved allocations to private investments equal to 10% of the market value of Permanent University Fund ("PUF") and Long Term Fund ("LTF") assets;

WHEREAS, the Plan projects that as of August 31, 1999, the aggregate market value of the PUF and LTF assets will equal approximately $8.0 billion and a 10% allocation to private investments will equal $800 million;

WHEREAS, the Plan projects that a cumulative $1.069 billion of capital commitments will be required over the five-year life of the Plan in order to meet the required $800 million of funded private investments and that the following commitments will be required in each fiscal year of the Plan:

Fiscal Year 1994-95	$ 285 million
Fiscal Year 1995-96	$ 265 million
Fiscal Year 1996-97	$ 220 million
Fiscal Year 1997-98	$ 173 million
Fiscal Year 1998-99	$ 126 million
Total	$1,069 million;

WHEREAS, commitments of $285 million to seventeen investments were approved during fiscal year 1994-95;

WHEREAS, commitments of $212 million to eleven investments have been approved through August 29, 1996 resulting in uncommitted capital of $53 million for the balance of fiscal year 1995-96;

WHEREAS, the Board has reviewed a Due Diligence Memorandum & Recommendation prepared by the UTIMCO's (the "Corporation") management recommending that the Corporation enter into a Limited Partnership Agreement (the "Agreement") with Kohlberg, Kravis, Roberts & Co. ("KKR&Co.") to invest an aggregate of $50 million of PUF and LTF assets in The KKR 1996 Fund, L.P.;

WHEREAS, on August 30, 1996, the Board heard a presentation from and interviewed representatives of KKR&Co. concerning The KKR 1996 Fund, L.P.;

WHEREAS, the Board agrees with the staff that in light of the quality of KKR&Co.'s historical record and the size of The KKR 1996 Fund, L.P. it is reasonable and prudent to exceed the fiscal year 1995-96 commitment target by $7 million;

WHEREAS, the Board desires to enter into the Agreement with KKR&Co. to invest $50 million of PUF and LTF assets in The KKR 1996 Fund, L.P.;

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 in the amount of $50 million as described in The KKR 1996 Fund, L.P. Due Diligence Memorandum & Recommendation dated August 30, 1996 be approved; and be it further

RESOLVED, that the President and any Vice President 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 $50 million capital commitment to the Fund; and be it further

RESOLVED, that the President, any Vice President, 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.

UTIMCO

1996-97 BOARD OF DIRECTORS' MEETINGS

Thursday, October 24, 1996*	Austin, Texas	8:30 a.m. - 1:00 p.m. (*includes working lunch*)
Friday, December 20, 1996	Austin, Texas	8:30 a.m. - 1:00 p.m. (*includes working lunch*)
Monday, Feb. 17 Friday, February 14, 1997	Austin, Texas	8:30 a.m. - 1:00 p.m. (*includes working lunch*)
Monday, April 14, 1997	Austin, Texas	8:30 a.m. - 1:00 p.m. (*includes working lunch*)
Tuesday, June 3, 1997	Austin, Texas	8:30 a.m. - 1:00 p.m. (*includes working lunch*)
Friday, August 29, 1997*	Austin, Texas	8:30 a.m. - 1:00 p.m. (*includes working lunch*)

Please note these dates on your calendar.

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