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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

December 9, 1999

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UTIMCO
BOARD OF DIRECTORS MEETING
West Conference Room – 35th Floor, at the offices of Vinson & Elkins,
1001 Fannin, Houston, Texas

December 9, 1999

AGENDA

11:30 a.m.	Call to Order
11:30 a.m. - 11:35 a.m.	Approval of Minutes of September 22, 1999 and November 8, 1999 Meetings
11:35 a.m. - 11:45 a.m.	Approval of Amendment No. 1 to UTIMCO Code of Ethics
11:45 a.m. - 11:55 a.m.	Approval of Amendment No. 4 to UTIMCO Bylaws
11:55 a.m. - 12:00 p.m.	Re-Appointment/Appointment of Directors
12:00 p.m. - 12:10 p.m.	Investment Performance Review
12:10 p.m. - 12:30 p.m.	Review of Endowment Spending Policy
12:30 p.m. - 1:30 p.m.	Recess for Lunch/Briefing Session (Energy Asset Option Fund I, L.P.)
1:30 p.m. - 2:30 p.m.	Public Markets Portfolios U.S. Equities: Enhanced Indexation Presentation: J.P. Morgan Securities
2:30 p.m. - 2:45 p.m.	Inflation Hedging Assets Approval of Commitment to New Fund: Energy Asset Option Fund I, L.P.
2:45 p.m. - 3:00 p.m.	Alternative Investments Program – Non-Marketable Approval of Commitment to Follow-on Fund: SKM Equity Fund III, L.P.
3:00 p.m.	Adjournment

Resolution No. 1

RESOLVED, that the minutes of the Meetings of the Board of Directors held on September 22, 1999 and November 8, 1999, be and are hereby 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 a special meeting on the 22nd day of September, 1999 at the offices of Vinson & Elkins, L.L.P., West Conference Room – 33rd Floor, 1001 Fannin, Houston, Texas, said meeting having been called by the Vice 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 (the "Board"):

Robert H. Allen, Vice Chairman
Woody L. Hunt
J. Luther King, Jr.
A. W. "Dub" Riter, Jr.
A. R. (Tony) Sanchez, Jr.

thus, constituting a majority and quorum of the Board of Directors. Director Susan M. Byrne was absent. Director William H. Cunningham joined the meeting in progress as indicated below. Also participating in the meeting were Thomas G. Ricks, President of the Corporation; Cathy Iberg, Secretary of the Corporation; Dave Russ and Austin Long of Corporation's management ("Management"); and Jerry Turner, Vinson & Elkins, legal counsel for the Corporation. Mr. Allen called the meeting to order at 10:09 a.m. Copies of materials supporting the Board meeting agenda were previously furnished to each Director.

Acceptance of Appointment and Resignation of Directors

The first item Mr. Allen presented to the Board was a proposed resolution for the appointment and resignation of Corporation Directors. Upon motion duly made and seconded, the following resolutions were unanimously adopted:

> WHEREAS, Section 66.08 Texas Education Code (the "Code") requires that the Board of Regents of The University of Texas System (the "Board of Regents") appoint and remove all members of the UTIMCO Board; and
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> WHEREAS, the Board of Regents, on May 13, 1999, appointed Mr. Charles Miller and Mr. Patrick C. Oxford to serve as members of the UTIMCO Board until such time as successor directors were appointed by the Board of Regents; and
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> WHEREAS, the Board of Regents, on August 12, 1999, appointed Mr. A. R. (Tony) Sanchez, Jr. and Mr. Woody L. Hunt to serve as members of the UTIMCO Board

effective upon the contemporaneous resignation by Mr. Miller and Mr. Oxford and until such time as successor directors were appointed by the Board of Regents; NOW THEREFORE BE IT

RESOLVED, that the appointments of Mr. Sanchez and Mr. Hunt to the UTIMCO Board by the Board of Regents to replace Mr. Miller and Mr. Oxford, are hereby accepted; and

RESOLVED, that the resignations of Mr. Miller and Mr. Oxford from the UTIMCO Board, effective upon the date of appointment of their successors by the Board of Regents, are hereby accepted; and

RESOLVED, that the UTIMCO Board does, on behalf of UTIMCO, express appreciation for the dedication with which Mr. Miller and Mr. Oxford have served on the UTIMCO Board.

At this point, Dr. Cunningham joined the meeting.

Approval of Corporation's Open Meeting Policy Statement

Mr. Allen turned the discussion over to Mr. Turner who reviewed the Open Meeting Policy Statement adopted by the Board of Regents on September 3, 1999. Mr. Turner read part of the policy which states, "although UTIMCO is not subject to the Texas Open Meetings Act, Chapter 551 of the Texas Government Code (TOMA), the Board of Directors of UTIMCO recognizes that the public has a valid interest in the meetings of the Board and its Committees being open to the public." Mr. Turner stated that since the Corporation is not subject to TOMA, the statutory penal provisions do not extend to the Board. Mr. Turner reviewed the policy's briefing session provisions for private investments and stated that the Texas legislature approved these provisions for the Texas Growth Fund, an investor in private investments. Dr. Cunningham stated that the provisions associated with telephonic meetings were more conducive to the Corporation's business as compared with the provisions in the Texas Open Meetings Act. Mr. Turner answered the Directors questions and upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that an open meeting policy as set forth in the Open Meeting Policy Statement presented to this meeting be and is hereby approved

Mr. Ricks reported that notice of this meeting had been provided in the manner set forth in the Open Meetings Policy Statement.

Minutes

The next item to come before the Board of Directors was approval of the minutes of the meeting of the Board of Directors held on June 24, 1999. 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 24, 1999 be and are hereby approved in the form provided.

FY 1999 Financial Highlights

Mr. Ricks reported on the financial highlights for the year ended August 31, 1999. Mr. Ricks stated that the value of the assets under Corporation's management had increased by approximately 20% over the previous year with most of the increase attributable to endowment funds. The Permanent Health Fund (PHF), an endowment fund created by the 1999 legislative session, provided $890 million in new endowment contributions. Mr. Ricks stated that the Permanent University Fund (PUF) had its 2nd best year on record and reviewed the PUF's 1999 financial activity. Mr. Ricks reviewed the PUF's asset allocation and total return for the year ended August 31, 1999. He noted that the overweighting in fixed income securities accounted for most of the underperformance of the PUF compared to its neutral policy return. He also stated that the higher than optimal allocation to fixed income was required in order to maintain the distribution stream to the Available University Fund (AUF). Mr. Ricks reviewed the PUF's income distributions to the AUF. Mr. Ricks stated that for the ten years ended August 31, 1999 the PUF's average annual increase in purchasing power gain was 2.95%. Mr. Ricks stated that the PHF received $890 million in new contributions on August 30, 1999 and it earned $.3 million in interest for the final two days of the year. Mr. Ricks reviewed the financial highlights for the Long Term Fund (LTF) and stated that the Fund had a record year producing a total return of 22.1% compared to its policy portfolio of 24.3% and PUF's return of 17.9%. For the ten years ended August 31, 1999 the LTF had an average annual increase in purchasing power of 3.6%. The Short Intermediate Term Fund's return for the year was 2.95% compared to its benchmark of 3.75%. Mr. Ricks answered the Directors' questions.

Approval of Endowment Asset Allocation Guidelines for PUF, PHF and LTF

Mr. Ricks presented the proposed endowment asset allocation guidelines for the PHF, the LTF and the PUF, assuming passage of Proposition 17. Mr. Ricks noted the changes in the proposed asset allocation guidelines and the improved return/risk ratio compared to that proposed in the study by Cambridge and Associates, Inc. Mr. Ricks and Mr. Russ reviewed the efficient frontier analysis supporting the Corporation's recommendations on asset allocation. Mr. Ricks answered the Directors' questions and upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the endowment asset allocation guidelines (as presented to this meeting) for the Permanent Health Fund, the Long Term Fund and the Permanent University Fund (in the event that Proposition 17 is approved in the Constitutional Amendment Election on November 2, 1999) be and are hereby approved.

Approval of Investment Policy Statements for PUF, PHF and LTF

Mr. Ricks reviewed the changes to the endowment investment policies stating that the changes to the PUF's policy were to conform it to the other endowment policy statements. He also mentioned that the PUF, PHF and LTF policies included an inflation hedging asset class. Mr. Ricks answered the Directors' questions and upon motion duly made and seconded, the following resolution was unanimously adopted:

> RESOLVED, that the Investment Policy Statements (as presented to this meeting) for the Permanent Health Fund, the Long Term Fund and the Permanent University Fund (in the event that Proposition 17 is approved in the Constitutional Amendment Election on November 2, 1999) be and are hereby approved.

Approval of FY2000 PUF Distribution

Mr. Ricks stated that the PUF's distribution provisions, as provided for in the amended investment policy statement, are designed to take out the volatility in distributions to the AUF. Mr. Ricks answered the Directors' questions and upon motion duly made and seconded, the following resolution was unanimously adopted:

> RESOLVED, that a distribution of $285,923,022 from the Permanent University Fund to the Available University Fund for the fiscal year ended August 31, 2000 be and is hereby approved in the event that Proposition 17 is approved in the Constitutional Amendment Election on November 2, 1999.

Approval of the Nonmarketable Alternative Investments FY2000 Commitment Budget

Mr. Ricks reviewed the projected market values for the endowment funds and the estimated aggregate value for the Non-marketable investments through FY2004. At this point, Mr. Sanchez and Dr. Cunningham left the meeting and returned a few minutes later. Mr. Ricks answered the Directors' questions and upon motion duly made and seconded, the following resolution was unanimously adopted:

> RESOLVED, that a commitment budget for Alternative Investments – Nonmarketable of $296.3 million for the fiscal year ended August 31, 2000 be and is hereby approved.

Approval of Commitments to Windjammer Mezzanine & Equity Fund II, L. P. and Hampshire Equity Partners III, L.P.

The next item presented to the Board was the review and approval of two follow-on investments, Windjammer Mezzanine & Equity Fund II, L. P. and Hampshire Equity Partners III, L.P. Mr. Long and Mr. Ricks answered the Directors' questions and upon motion duly made and seconded, the following resolutions were unanimously adopted:

Approving Windjammer Mezzanine & Equity Fund II, L. P.
WHEREAS, the Board has reviewed a Short Form Due Diligence Review and Recommendation prepared by the Corporation's management recommending that the Corporation enter into an investment agreement (the "Agreement") with Windjammer Capital Investors, L.L.C., to invest up to $25 million of PUF, PHF and LTF assets in **Windjammer Mezzanine & Equity Fund II, 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 as described in the Short Form Due Diligence Review and Recommendation dated September 22, 1999 for Windjammer Mezzanine & Equity Fund II, L.P., be approved; and be it further

RESOLVED, that the President 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 Windjammer Mezzanine & Equity Fund II, L.P.; and be it further

RESOLVED, that the President, 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.

WHEREAS, the Board has reviewed a Short Form Due Diligence Review and Recommendation prepared by the Corporation's management recommending that the Corporation enter into an investment agreement (the "Agreement") with Lexington Equity Partners III, L.L.C. to invest up to $40 million of PUF, PHF and LTF assets in **Hampshire Equity Partners III, L.P.;**

Approving Hampshire Equity Partners III, 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 as described in the Short Form Due Diligence Review and Recommendation dated September 22, 1999 for Hampshire Equity Partners III, L.P., be approved; and be it further

RESOLVED, that the President 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 Hampshire Equity Partners III, L.P.; and be it further

RESOLVED, that the President, 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.

At this point, Dr. Cunningham left the meeting.

Approval of Commitment of OCM Opportunities Fund III, L. P.

The next matter to come before the Board of Directors was a discussion regarding a proposed investment in OCM Opportunities Fund III, L. P. Mr. Russ reviewed the Due Diligence Review and Recommendation prepared by the Corporation's management dated September 22, 1999. Mr. Russ introduced representatives of OCM Opportunities Fund III, L. P., who provided a presentation and handout materials to each Director on OCM Opportunities Fund III, L. P. The representatives of the Fund answered questions of the Directors and then left the meeting. The

Directors discussed the proposed investment and upon motion duly made and seconded, the following resolution was unanimously adopted:

> WHEREAS, the Board has reviewed a Due Diligence Review and Recommendation prepared by the Corporation's management recommending that the Corporation enter into an investment agreement (the "Agreement") with Oaktree Capital Management, LLC to invest up to $50 million of PUF, PHF and LTF assets in **OCM Opportunities Fund III, L.P.**;
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> 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;
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> NOW, THEREFORE, BE IT RESOLVED, that the terms and provisions of the proposed investment as described in the Due Diligence Review and Recommendation dated September 22, 1999 for OCM Opportunities Fund III, L.P. be approved; and be it further
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> RESOLVED, that the President and any Managing Director of this Corporation be, and each of them hereby is, authorized to make such further revisions to the terms and provisions as may be necessary or in the best interests of this Corporation, excluding an increase in the amount of the capital commitment to OCM Opportunities Fund III, L. P.; and be it further
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> RESOLVED, that the President, 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.

Report on FY 1999 Write-offs of Alternative Investments-Nonmarketable

Mr. Ricks presented a report on the write-offs of Alternative Investments-Nonmarketable investments for the year ended August 31, 1999. The PUF's write-offs were $47,276 in market value and $494,083 in book value. - The LTF's write-offs were $25,071 in market value and $89,788 in book value. Mr. Ricks stated that the losses for the year were based on market value which is the method of reporting used for the funds' investments and answered the Directors' questions. Upon motion duly made and seconded, and the following resolution was unanimously adopted:

RESOLVED, that the write-offs of Alternative Investments – Nonmarketable for the fiscal year ended August 31, 1999, as presented to this meeting, be and are hereby ratified.

Amendment to the Corporation's Bylaws: Formation of Nomination Committee

Mr. Allen presented the last item on the agenda proposing an amendment to the Corporation's bylaws to add the creation of a nominating committee section. Following a discussion by the Directors' a motion was duly made and seconded, and the following resolutions were unanimously adopted:

RESOLVED, that the addition of Section 5a to Article III of the Corporation's Bylaws, as presented below, be and is hereby approved.

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

RESOLVED, that Susan M. Byrne, A.W. (Dub) Riter, and A. R. (Tony) Sanchez are hereby designated as the Nominating Committee of the Board of Directors to serve until their successors are chosen and qualify, or until their earlier resignation or removal; and be it further

RESOLVED, that A. W. (Dub) Riter is hereby designated as the Chairman of the Nominating Committee.

There being no further business to come before the Board of Directors, the meeting was adjourned at approximately at 12:30 p.m.

Secretary: ____________________________

APPROVED:

Vice Chairman: ____________________________

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 a special meeting on the 8th of November 1999 at the offices of Vinson & Elkins, L.L.P., West Conference Room – 28th Floor, 1001 Fannin, Houston, Texas, said meeting having been called by the Vice 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 (the "Board"):

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

thus, constituting a majority and quorum of the Board of Directors. Also participating in the meeting were Thomas G. Ricks, President of the Corporation; Cathy Iberg, Secretary of the Corporation; Dave Russ, Austin Long, Craig Nickels and Charles Preston of Corporation's management ("Management"); and Jerry Turner, Vinson & Elkins, legal counsel for the Corporation.

Mr. Allen called the meeting to order at 1:45 p.m. Copies of materials supporting the Board meeting agenda were previously furnished to each Director.

Approval of Investments for Alternative Non-Marketable Programs

Mr. Ricks reported that management was proposing an aggregate of \$112 million in commitments to five investments, one of which was a direct co-investment in Songbird Medical, Inc. This amount, if approved in its entirety, and added to the \$65 million committed by the Board at its September 22, 1999 meeting would result in total commitments year to date of \$177 million against a fiscal year 2000 commitment budget of \$296.3 million. Mr. Long then reviewed management's analysis and recommendations for four investments (Songbird Medical, Inc., Baker Communications Fund II., L.P., Halpern Denny Fund III, L.P., and Cortec Group Fund III, L.P.,) while Mr. Ricks presented the analysis for Austin Ventures VII, L.P. Mr. Long and Mr. Ricks answered the Directors' questions and upon motion duly made and seconded, the Directors adopted the following five sets of resolutions:

Songbird Medical, Inc.
WHEREAS, the Board has reviewed a Due Diligence Review and Recommendation prepared by the Corporation's management recommending that the Corporation enter into a stock purchase agreement (the "Agreement") with Songbird Medical, Inc. to invest up to $12 million of PUF, PHF and LTF assets in Songbird Medical, 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 Due Diligence Review and Recommendation dated November 8, 1999 for Songbird Medical, Inc. be approved; and be it further

RESOLVED, that the President 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 Medical, Inc.; and be it further

RESOLVED, that the President, 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.

Baker Communications Fund II, L.P.
WHEREAS, the Board has reviewed a Short Form Due Diligence Review and Recommendation prepared by the Corporation's management recommending that the Corporation enter into an investment agreement (the "Agreement") with Baker Capital Partners II, LLC, to invest up to $30 million of PUF, PHF and LTF assets in Baker Communications Fund II, L.P.; and

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

NOW, THEREFORE, BE IT RESOLVED, that the terms and provisions of the proposed investment as described in the Short Form Due Diligence Review and Recommendation dated November 8, 1999 for Baker Communications Fund II, L.P., be approved; and be it further

RESOLVED, that the President 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 Baker Communications Fund II, L.P.; and be it further

RESOLVED, that the President, 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.

Halpern Denny Fund III, L.P.

WHEREAS, the Board has reviewed a Short Form Due Diligence Review and Recommendation prepared by the Corporation's management recommending that the Corporation enter into an investment agreement (the "Agreement") with Halpern Denny & Co. IV, LLC, to invest up to $30 million of PUF, PHF and LTF assets in Halpern Denny Fund III, L.P.; and

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

NOW, THEREFORE, BE IT RESOLVED, that the terms and provisions of the proposed investment as described in the Short Form Due Diligence Review and Recommendation dated November 8, 1999 for Halpern Denny Fund III, L.P., be approved; and be it further

RESOLVED, that the President 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 Halpern Denny Fund III, L.P.; and be it further

RESOLVED, that the President, 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.

Cortec Group Fund III, L.P.
WHEREAS, the Board has reviewed a Short Form Due Diligence Review and Recommendation prepared by the Corporation's management recommending that the Corporation enter into an investment agreement (the "Agreement") with Cortec Management (III) L.L.C. to invest up to $20 million of PUF, PHF and LTF assets in Cortec Group Fund III, L.P.; and

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

NOW, THEREFORE, BE IT RESOLVED, that the terms and provisions of the proposed investment as described in the Short Form Due Diligence Review and Recommendation dated November 8, 1999 for Cortec Group Fund III, L.P., be approved; and be it further

RESOLVED, that the President 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 Cortec Group Fund III, L.P.; and be it further

RESOLVED, that the President, 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.

Austin Ventures VII, L.P.
WHEREAS, the Board has reviewed a Short Form Due Diligence Review and Recommendation prepared by the Corporation's management recommending that the Corporation enter into an investment agreement (the "Agreement") with AV Partners VII, L.P., to invest up to $20 million of PUF, PHF and LTF assets in Austin Ventures VII, L.P.; and

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

NOW, THEREFORE, BE IT RESOLVED, that the terms and provisions of the proposed investment as described in the Short Form Due Diligence Review and Recommendation dated November 8, 1999 for Austin Ventures VII, L.P., be approved; and be it further

RESOLVED, that the President 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 Austin Ventures VII, L.P.; and be it further

RESOLVED, that the President, 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.

Minutes

The next item to come before the Board of Directors was approval of the minutes of the meeting of the Board of Directors held on September 22, 1999. Mr. Allen stated that the minutes would be resubmitted for approval at the next regular meeting of the Board.

Performance Results - Fiscal Year to Date

Mr. Ricks handed out presentation materials to all the Directors reporting on current performance results for all funds under management. Mr. Ricks first reported on the performance of the U.T. System operating funds, i.e., the Short Term Fund and the Short Intermediate Term Fund for, periods ended October 31, 1999. Mr. Ricks then reported on and compared the performance of the PUF to the Permanent School Fund on rate of return, income distribution and growth in distributions. Mr. Ricks also reported on the LTF's return against the Cambridge Endowment Universe as of June 30, 1999 and compared the LTF's returns to the returns of the Teacher Retirement System (Texas) and Employees Retirement System (Texas), as of August 31, 1999. Mr. Ricks also reported on the LTF's performance against the Endowment Policy Portfolio, the Russell Universe of Foundation and Endowments and the Russell Universe of greater than $1 billion funds and the Mellon Trust Universe as of September 30, 1999 and the Endowment

Policy Portfolio as of October 31, 1999. Mr. Ricks also reviewed asset allocation and attribution analysis with the Directors for the two months ended October 31, 1999 and answered the Directors' questions.

Review of Public Markets Portfolios

Mr. Russ made a presentation on the LTF's and PUF's public markets portfolios' performance for the period ended August 31, 1999. Mr. Russ reviewed attribution analysis for the LTF and the PUF for the three years ended August 31, 1999, and summarized the investment strategies that have worked well in addition to areas which he believed required improvement. Mr. Russ and Mr. Ricks answered the Directors' questions following the presentation.

Approval of Investment Programs Using Futures Contracts

Mr. Ricks and Mr. Russ reviewed the proposed use of commodity, equity and interest rate futures contracts in the management of investments and answered the Directors' questions. Upon motion duly made and seconded the following resolutions were unanimously adopted:

> RESOLVED, that a GSCI futures program in an amount not to exceed 3.75% of the value of PUF, PHF and LTF Assets be and is hereby approved.
>
> RESOLVED, that an S&P 500 Index and interest rate futures program to equitize cash balances in an amount not to exceed 5.00% of the value of PUF, PHF and LTF Assets be and is hereby approved.

Report on Audit and Ethics Committee Meeting

Mr. Allen reported on the Audit and Ethics Committee meeting which convened prior to the regular meeting of the Board of Directors. Mr. Allen stated that the Committee reviewed Deloitte and Touche's SAS 61 and management report. He also stated that the Committee reviewed and approved the audit reports for the PUF, LTF, SITF and the Corporation for the year ended August 31, 1999. He noted that the Committee had also received a report from the Corporation's Compliance Committee and noted that there were no notable items to report.

Executive Session

Mr. Allen then announced that the Board of Directors would meet in a closed session to discuss the nomination of additional Directors and that the time was 3:41 p.m. (During the closed session, everyone was absent from the meeting room except the Directors, Mr. Ricks, and Mr. Turner.)

Upon completion of the executive session, Mr. Allen announced that the open meeting of the Board of Directors was reconvened and that the time was 4:00 p.m. Mr. Allen announced further that during the closed meeting the Board of Directors discussed potential nominees to the Board but did not take any votes.

There being no further business to come before the Board of Directors, the meeting was adjourned at approximately at 4:00 p.m.

Secretary: ______________________________

APPROVED:

Vice Chairman: ______________________________

Resolution No. 2

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

To be faxed prior to the meeting.

Resolution No. 3
RESOLVED, that the amendment to Section 3 to Article III of the Corporation's Bylaws, as presented below, be and is hereby approved.

Section 3. Appointment and Term. Except for those Directors named in the Articles of Incorporation, Directors shall be appointed by the Board of Regents, except that the Chancellor of the System shall serve as a Director so long as he remains Chancellor of the System. Until otherwise changed by the Board of Regents in compliance with applicable law, the members of the Board of Directors shall include (i) the Chancellor of the System, (ii) at least three (3) persons then serving as members of the Board of Regents ("Regental Directors"), and (iii) one or more persons selected by the Board of Regents from a list of candidates with substantial background and expertise in investments that is submitted by the Board of Regents of The Texas A&M University System. The three (3) Regental Directors shall serve for two-year terms that expire on the first day of ~~February~~ April of each odd-numbered year, except that the initially-appointed Regental Directors shall serve until April ~~February 1~~, 1997. The remaining Directors (other than the Chancellor of the System and the Regental Directors) shall serve three-year staggered terms that expire on the first day of ~~February~~ April of the appropriate year, except that the term of [~~all Directors serving on May 8, 1997, shall end on February 1, 1999.~~] one of the current Directors shall end on April 1, 2001, the term of two (2) of the current Directors shall end on April 1, 2002 and the term of two (2) of current Directors shall end on April 1, 2003. Notwithstanding the foregoing, the Board of Regents may, from time to time, alter the terms of the Directors. Each person serving as a Director shall serve until the earlier to occur of (i) the expiration of such Director's term or (ii) such Director's death, resignation, or removal as provided in these Bylaws.

Resolution No. 4

RESOLVED, that the recommendation of Mr. J. Luther King, Jr. for re-appointment to the UTIMCO Board by the U.T. System Board of Regents until the expiration of a term ending April 1, 2001 be and is hereby approved.

RESOLVED, that the recommendation of Mr. Robert H. Allen and Ms. Susan M. Byrne for re-appointment to the UTIMCO Board by the U.T. System Board of Regents until the expiration of a term ending April 1, 2002 be and is hereby approved.

RESOLVED, that the recommendation of Mr. L. Lowry Mays and Mr. John D. McStay for appointment to the UTIMCO Board by the U.T. System Board of Regents until the expiration of a term ending April 1, 2003 be and is hereby approved.

To be distributed at the meeting.

ENDOWMENT SPENDING POLICY

December 9, 1999

UTIMCO

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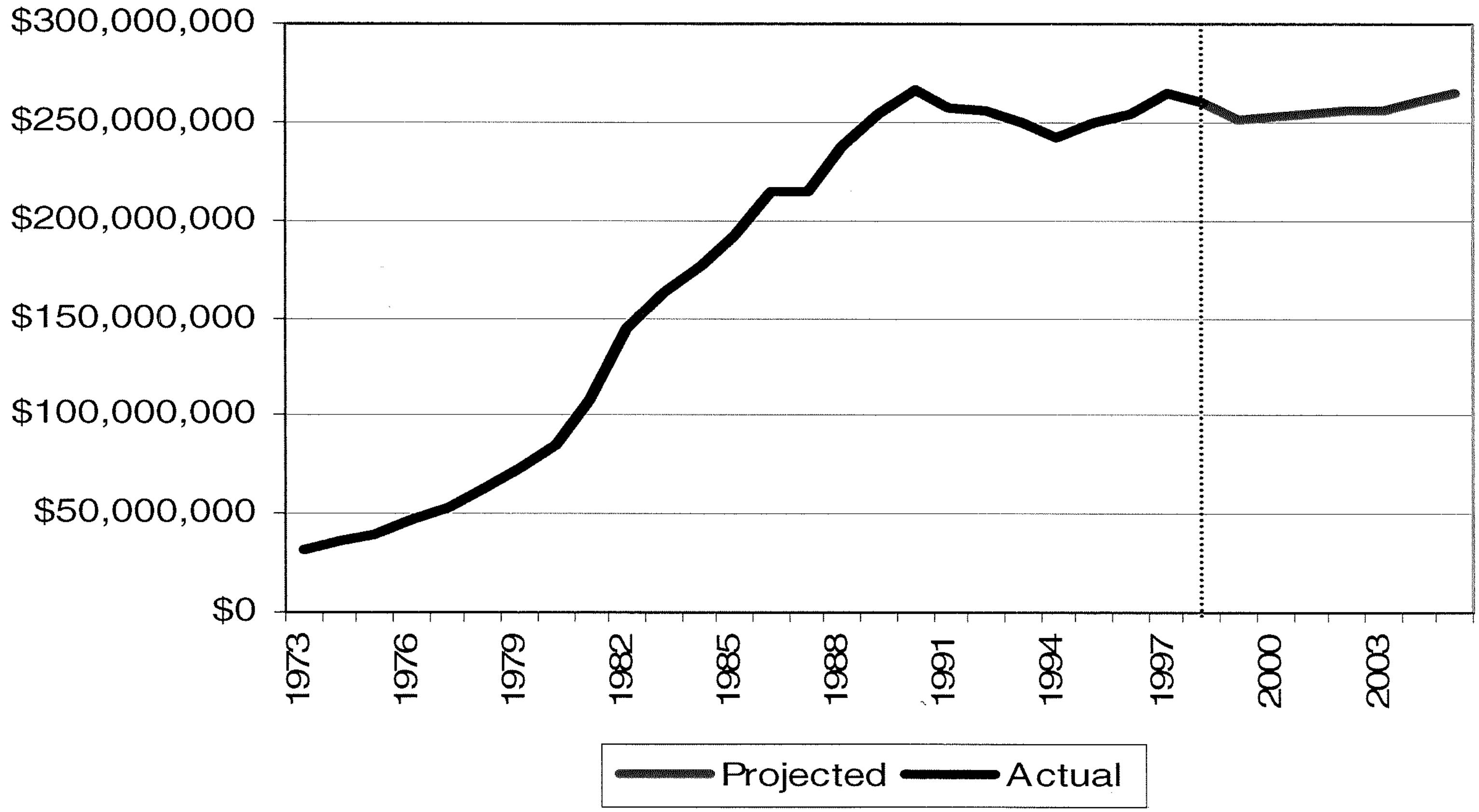
PUF - DISTRIBUTIONS TO THE AUF



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WHAT IS THE PUF'S EXPECTED ANNUAL RETURN?

Conventional Equities	Expected Return	Expected Risk	Neutral Allocation
U.S. Stocks	9.25%	18.50%	**25.0%**
U.S. Small Cap Stocks	10.25%	21.25%	**7.5%**
Global ex-U.S. Stocks	9.75%	20.75%	**12.0%**
Emerging Markets Equity	13.00%	30.00%	**3.0%**
			47.5%
Alternative Investments: Marketable			
Absolute Return	7.75%	9.25%	**3.0%**
Equity Hedge Funds	8.00%	14.00%	**7.0%**
			10.0%
Alternative Investments: Non-Marketable			
Venture Capital	14.25%	15.75%	**7.5%**
Private Equity	12.25%	9.50%	**7.5%**
			15.0%
Inflation Hedging Assets			
Commodities (GSCI)	8.75%	19.25%	**2.5%**
Oil and Gas	11.00%	27.00%	**0.0%**
Real Estate	9.00%	14.50%	**5.0%**
TIPS	6.50%	2.50%	**0.0%**
Timberland	8.50%	9.25%	**0.0%**
			7.5%
Deflation Hedging			
High Yield Bonds	8.50%	13.25%	**0.0%**
Global ex U.S. Bonds	6.50%	13.00%	**5.0%**
U.S. Bonds	6.25%	9.25%	**15.0%**
Cash	3.75%	3.50%	**0.0%**
			20.0%
Total			**100.0%**
Expected Nominal Return			**9.35%**
Expected Risk			**10.44%**
Return/Risk Ratio			**0.90**

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PUF FINANCIAL OBJECTIVES

- Provide PUF CIP and flagship excellence programs with a stable, predictable spending stream
- Increase the spending stream to the AUF at a rate at least equal to the rate of inflation
- Increase the market value of PUF Investments at a rate at least equal to the rate of inflation

WHAT SPENDING RATE ALLOWS FOR ACHIEVEMENT OF PUF FINANCIAL OBJECTIVES?

Preserve PUF purchasing power by spending no more than the expected annual average investment return net of expenses and inflation

	Expected	Degree of Control
Rate of Investment Return	9.35%	low
Less:		
Expense Rate	0.35%	low
Inflation Rate	3.50%	none
Spending Rate	4.50%	high
Change in Purchasing Power	1.00%	

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PUF- SPENDING POLICY

- **PUF spending policy is same as that for PHF and LTF**
  - spend an initial 4.5% of trailing 12 quarter average PUF market value to AUF;
    - For FY2000 = $285.9 million
  - increase annual spending at the average rate of inflation for trailing 12 quarters
  - subject to:
    - a policy collar: minimum and maximum spending rate of 3.5% and 5.5%, respectively, of trailing 12 quarter average PUF market value
    - legal constraints:
      - may not exceed 7% of average market value of PUF investments (as determined by U. T. System BOR)
      - no increase in annual spending if purchasing power of PUF investments not preserved over rolling 10-year periods
      - except as necessary to pay debt service on PUF bonds

CALCULATION OF PUF FY2000 SPENDING

		Net Asset Value
May-96	$	5,343,573,927
Aug-96		5,292,096,216
Nov-96		5,756,992,482
Feb-97		5,823,766,855
May-97		6,048,911,841
Aug-97		6,368,277,993
Nov-97		6,615,090,882
Feb-98		6,976,387,446
May-98		7,112,953,989
Aug-98		6,517,087,231
Nov-98		7,188,931,905
Feb-99		7,202,068,320
	$	76,246,139,086
		/12
12-quarter average	$	6,353,844,924
		X 4.50%
Distribution	$	285,923,022

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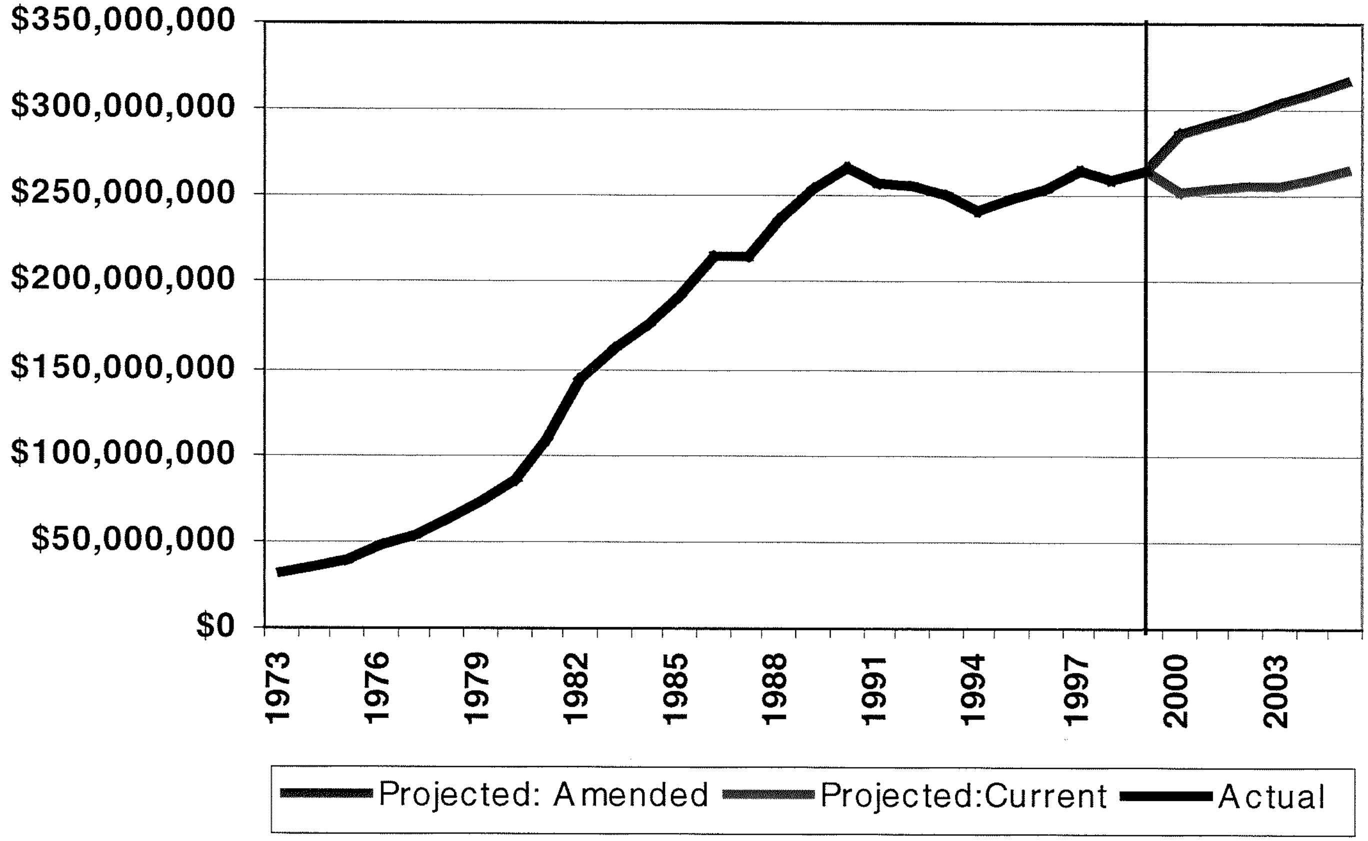
FY 2000 SPENDING VS. FY 1999 SPENDING

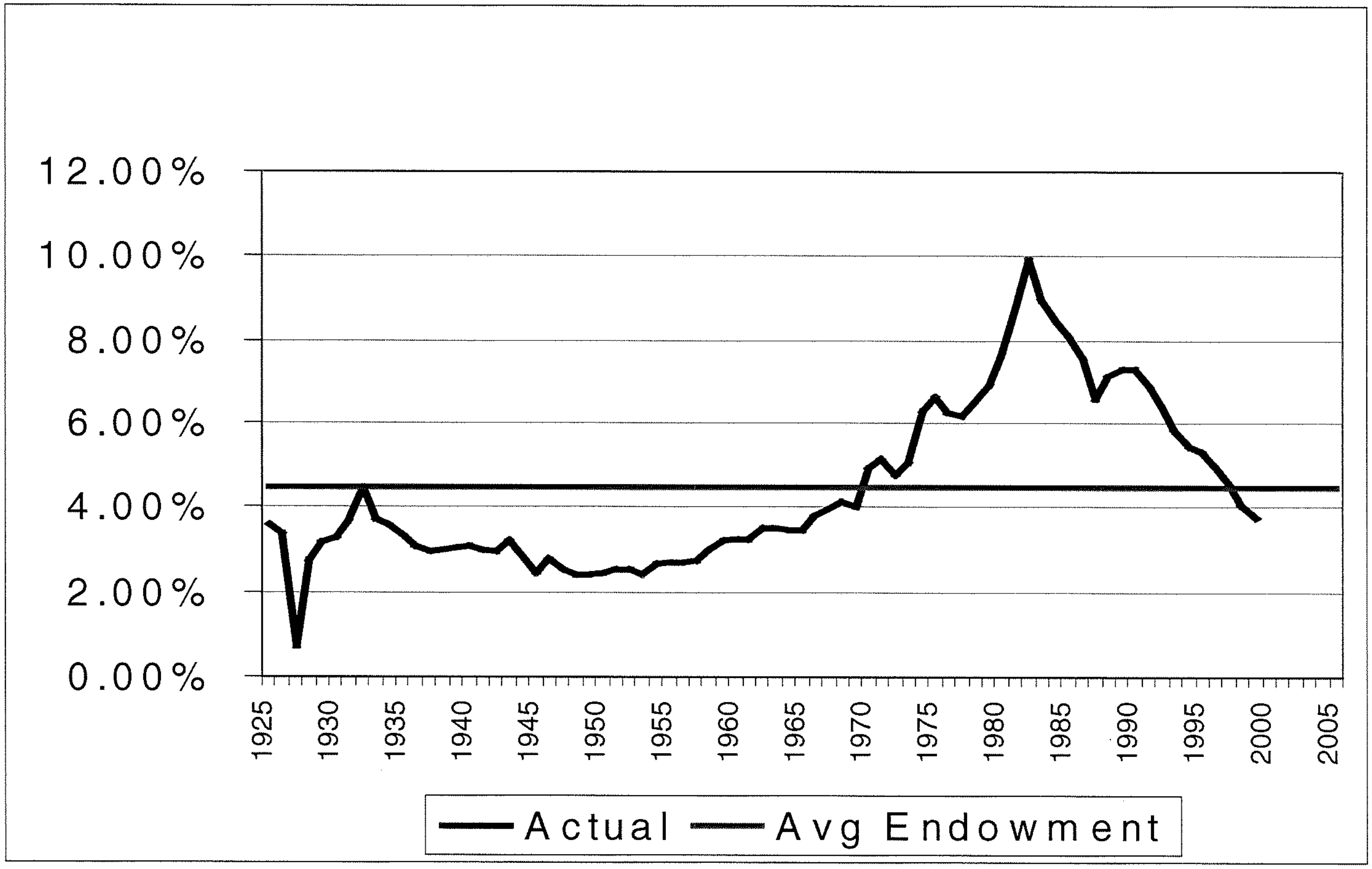
(millions)		
FY2000 Distribution	$	285.9
FY1999 Distribution	$	263.9
$ Increase	$	22.0
% Increase		8.34%

PUF - PROJECTED SPENDING (2000-2005)

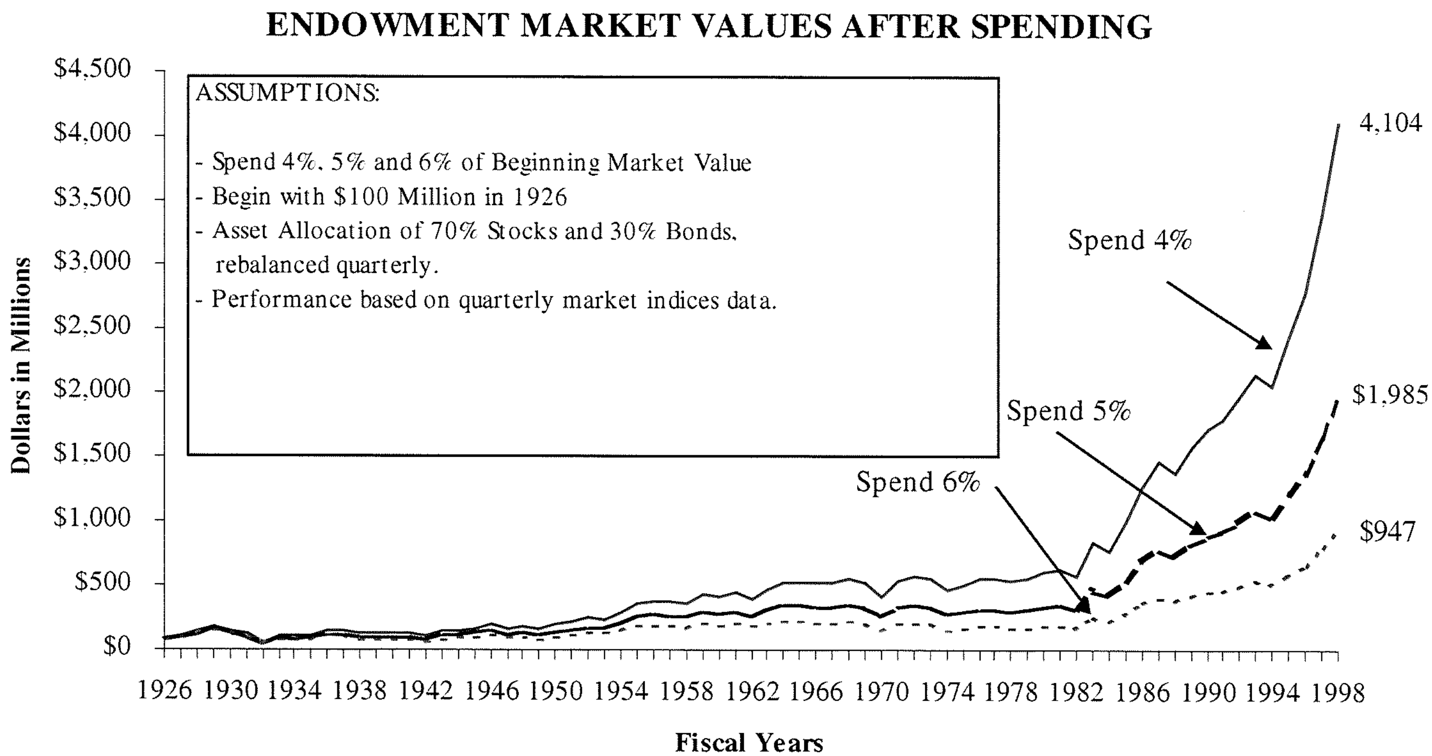


THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

PUF SPENDING AS A % OF ENDOWMENT MARKET VALUE



IMPACT OF DIFFERENT SPENDING RATES ON ENDOWMENT VALUE



Source: Cambridge Associates, Inc.

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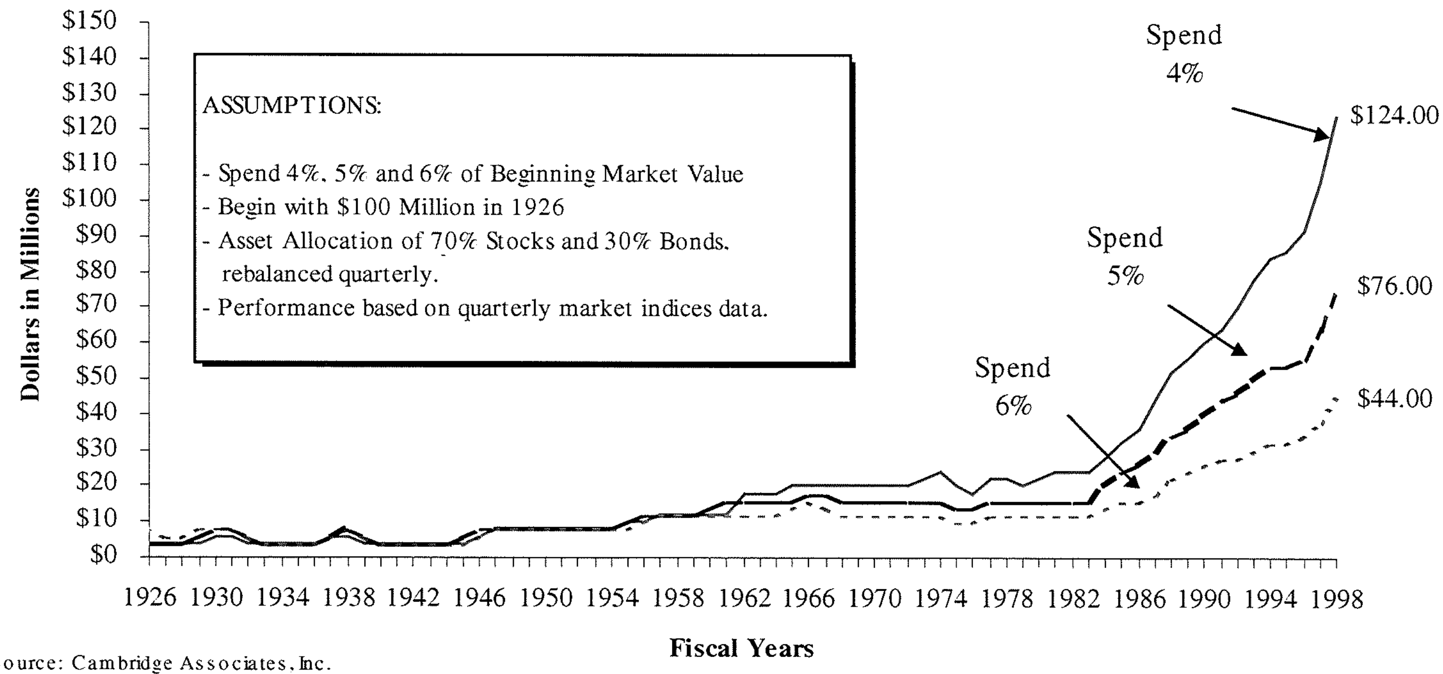
IMPACT OF OF DIFFERENT SPENDING RATES ON ENDOWMENT SPENDING

NOMINAL SPENDING



Source: Cambridge Associates, Inc.

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EXPECTED FINANCIAL RESULTS TODAY VS. 10 YEAR HISTORICAL PERIODS

(USING LTF)

	Expected	1990-99	1973-1982
Rate of Investment Return	9.35%	11.80%	6.73%
Less:			
Expense Rate	0.35%	0.35%	0.35%
Inflation Rate	3.50%	2.99%	8.30%
Spending Rate	4.50%	4.00%	5.30%
Change in Purchasing Power	1.00%	4.46%	-7.22%

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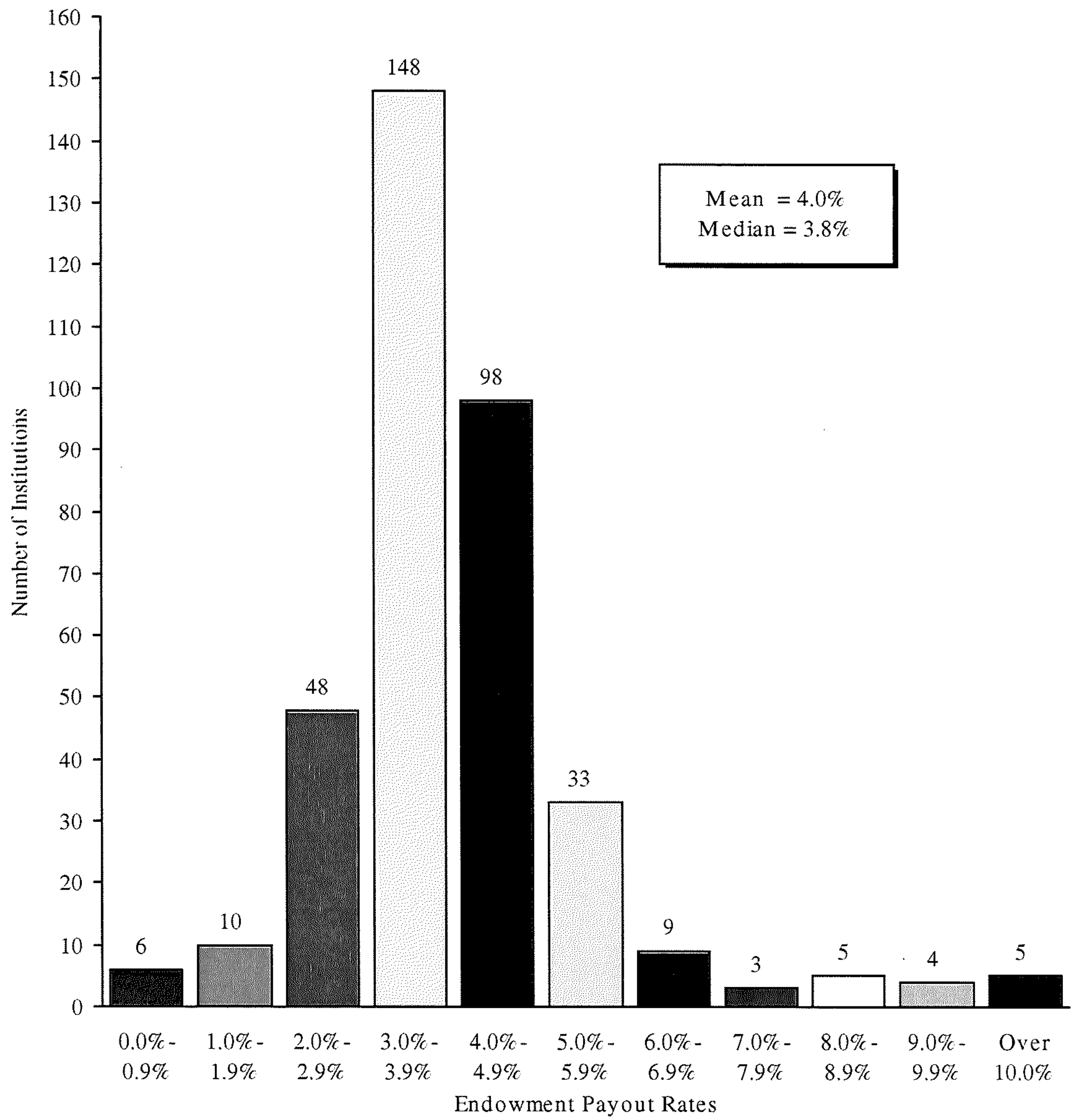
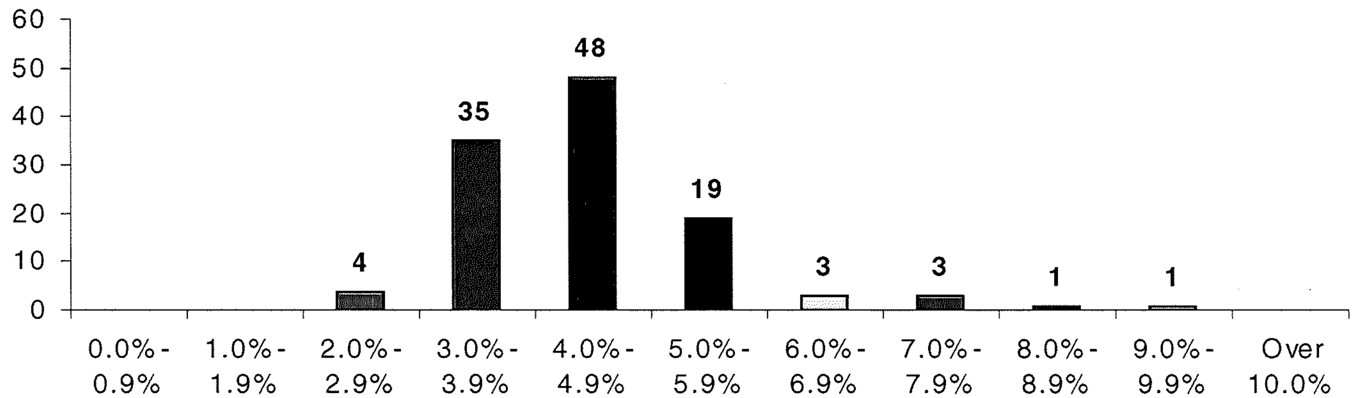
SPENDING RATES - 1998



SPENDING RATES - 114 ENDOWMENTS

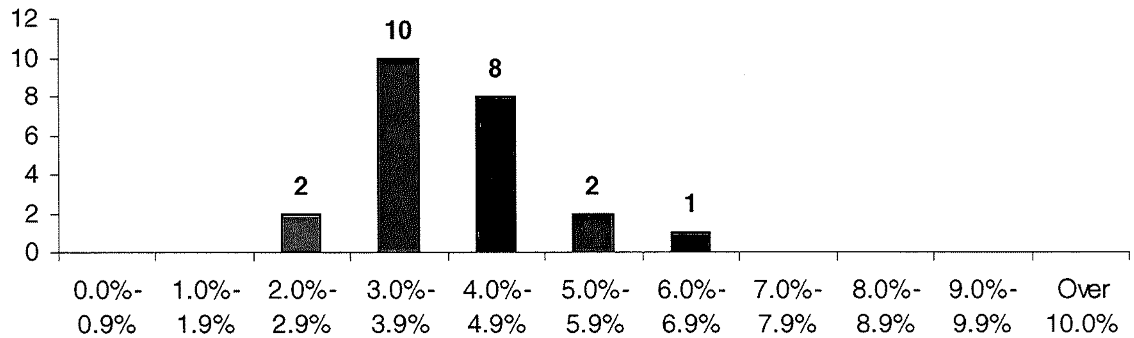
CAMBRIDGE AND ASSOCIATES, INC.
SPENDING % OF OTHER ENDOWMENTS
YEAR ENDED JUNE 30, 1999



Endowment Payout Rates
Based on preliminary information from Cambridge Associates, Inc.

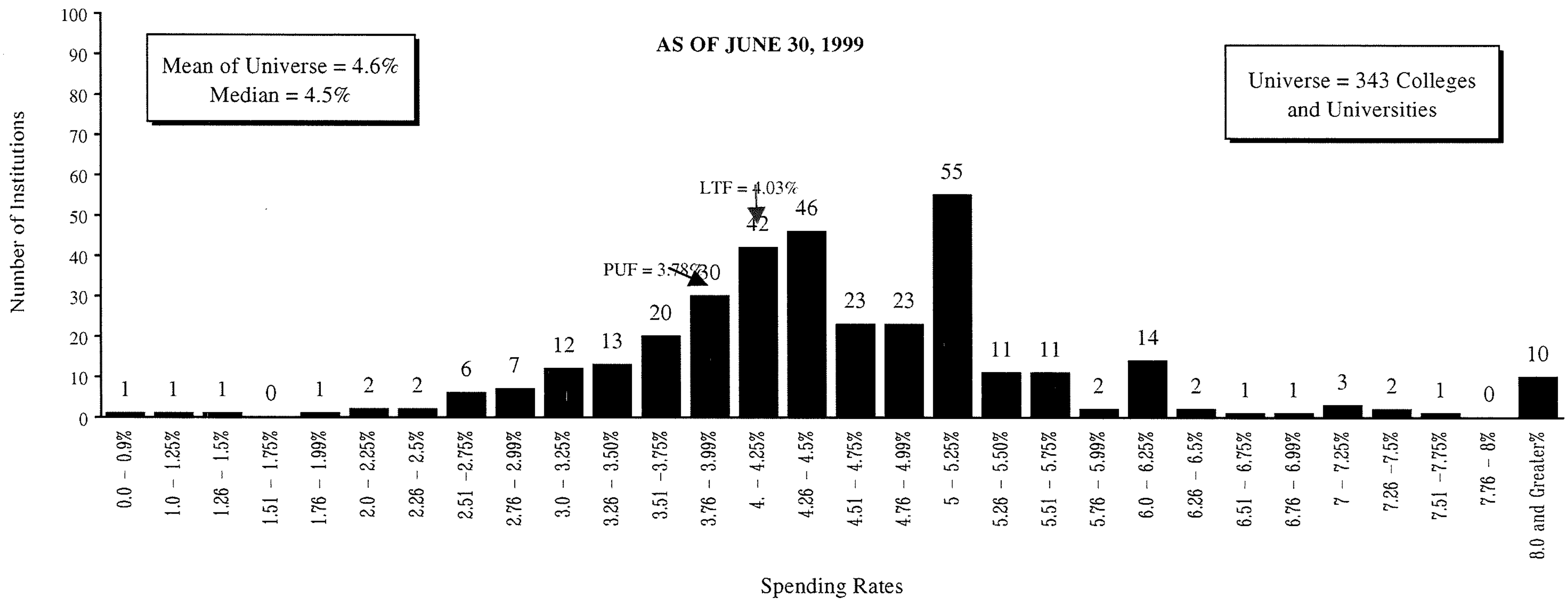
SPENDING RATES - ENDOWMENTS >$1BN

CAMBRIDGE ASSOCIATES, INC.
SPENDING % OF OTHER ENDOWMENTS
OVER BILLION $
YEAR ENDED JUNE 30, 1999



Endowment Payout Rates
Based on preliminary information from Cambridge and Associates, Inc.

SPENDING RATES - 343 ENDOWMENTS (INCL. FOUNDATIONS)



utimco/puf/pufpayou.ppt

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PROBABILITY OF A GREATER THAN 10% DECLINE IN PUF INFLATION ADJUSTED ASSETS OVER 5, 10 AND 10 YEAR PERIODS ASSUMING 70% EQUITY ALLOCATION

Spending Rate	5 Years	10 Years	20 Years	Probability Trend
3%	19.0%	17.1%	13.6%	decreasing
4%	24.5%	24.5%	23.5%	stable
5%	31.4%	33.6%	35.7%	increasing
6%	38.4%	44.6%	50.0%	increasing

Source: Goldman Sachs & Co. Data based on 5,000 simulations.

To be distributed at the meeting.

Resolution No. 5

WHEREAS, the Board has reviewed a Due Diligence Review and Recommendation prepared by the Corporation's management recommending that the Corporation enter into a limited partnership agreement (the "Agreement") with Energy Option Advisors, LLC to invest up to $25 million of PUF, PHF and LTF assets in **Energy Asset Option Fund I, 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 as described in the Due Diligence Review and Recommendation dated December 9, 1999 for Energy Asset Option Fund I, L.P. be approved; and be it further

RESOLVED, that the President 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 Energy Asset Option Fund I, L.P.; and be it further

RESOLVED, that the President, 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.

Proposed Investment

SUMMARY TERM SHEET

Partnership:	Energy Asset Option Fund I, L.P.
Classification:	Inflation hedging.
Fund Size:	$100 million.
Investment Strategy:	Utilizing a proprietary database of geological, engineering, operational and financial data, acquire marginally economic or uneconomic proved developed producing and proved undeveloped reserves of oil and gas, with particular attention to factors (including pricing and costs, technology and field development) that can fuel an increase in value of the acquired reserves.
Term:	10 years, subject to a 5 year extension on a vote of 80% in interest.
General Partner:	Energy Option Advisers L.L.C., a Texas limited liability company.
Principals:	Jeff Sandefer, John Owen, Karl Weber, Brad Juneau, Harold Heinz, Jim Edsel, Jeff Vaughan and Rob Arnot.
Management Fee:	1.5% of commitments, on a semiannual basis, with a refund of fees paid in excess of actual expenses, paid on a six-month lag.
Profit Sharing:	20% of net gains after payback of capital to the limited partners.
Performance History:	Energy Asset Option Fund I is Jeff Sandefer's first fund. His performance history must therefore be judged from the success of Sandefer Offshore, a company he founded in 1986 with capital from General Atlantic Partners. When Sandefer Offshore, which used an option strategy closely related to the Fund's strategy, was sold in 1990, General Atlantic realized a 100x return (an IRR of approximately 151%).

Negative (Risk) Factors:

- Illiquid investment, with losses likely to precede gains.
- Competitive investment environment.
- Highly cyclical industry
- Dependent upon the services of a single principal (Jeff Sandefer)

Positive Factors:

- Jeff Sandefer widely regarded as a trustworthy, astute and value-added investor.
- Excellent technical support team, with each principal an expert in an important geological basin of interest.
- Outstanding track record as an operator.
- Proven ability to gauge the timing of property sales to maximize return.
- Extensive relationships and contacts in the industry, which should result in attractive investment opportunities.
- $10 million commitment by Jeff Sandefer.

Limited Partners:

Investor	$mm
Jeff Sandefer	$10
Wellesley College	$10
Cheyne Walk Trust	$6
MDT Advisers	$5
Ziff Brothers Investments	$46
Total	$77

Recommendation: Invest $25 million ($13.75 million PUF, $8.0 million LTF and $3.25 million in the PHF).

Exposure v. Target:

	% of Total Fund
LTF	4.18%
PUF	4.28%
PHF	4.15%

Estimated Final Closing Date:	December 21, 1999.
Expected Return:	18%
Conflicts of Interest:	After extensive due diligence, UTIMCO management believes that an investment in Energy Asset Option Fund I, L.P. by the LTF, PUF and PHF represents no conflict of interest under either TEX. EDUC. CODE ANN. §66.08 (Vernon 1995) or TEX. GOVT CODE ANN. §572 *et. seq.* (Vernon 1993) as interpreted by the Texas courts and by the Attorney General of the State of Texas. UTIMCO management has put the principals of Energy Option Advisers L.L.C. on notice that, should any apparent violation of the statutes cited above arise in connection with any future transaction, they must notify the responsible UTIMCO officer so that the LTF, PUF and PHF can abstain from the transaction in compliance with Texas law.
Y2K Compliance:	UTIMCO management has inquired about Energy Option Advisers L.L.C.'s Y2K readiness and has been assured by the Energy Option Advisers L.L.C. management that issues relating to Y2K problems will not have a material adverse effect on its business.

Approved:

Craig J. Nickels	
Austin M. Long, III	
Thomas G. Ricks	

I. THE PARTNERS

A. Jeff Sandefer, President of the General Partner

1. Experience

a) Jeff began his career in 1982 when he went to work for Ensearch as a reserve engineer.

b) In 1984, he joined Sandefer Oil and Gas, his father's firm.

c) Jeff worked at General Atlantic Partners in the summer of 1985 between terms at Harvard Business School.

d) In 1986, after completing his MBA at Harvard, Jeff founded Sandefer Offshore with capital from General Atlantic Partners.

e) Jeff began to teach at The University of Texas at Austin in 1990, an activity he has continued to the present. Among his many accomplishments as a university professor is the founding of the Foundation for Entrepreneurial Excellence, a Sec. 501 (c)(3) organization dedicated to fostering entrepreneurship in the Graduate School of Business. FEE now teaches 25% of the elective graduate hours at the Graduate School of Business.

f) He sold Sandefer Offshore in 1993 at a time when low interest rates and high oil prices (an unusual combination) maximized his financial return.

2. Education

a) Jeff earned a BS in Petroleum Engineering at The University of Texas at Austin in 1982.

b) He received an MBA from Harvard University in 1986.

3. Affiliations

a) Public/private company boards:

(1) Union Pacific Resources

b) Charitable boards/service:

(1) Chairman of the Acton Institute

(2) Board of National Review Institute

(3) Board of Putting Children First

(4) Board of the Houston chapter of Boy Scouts of America

(5) Board of Foundation for Entrepreneurial Excellence

B. John Owens, Chief Operating Officer

1. Experience

   a) John began his career as a Business Assurance Senior Associate at Coopers & Lybrand in 1995.

   b) In 1998, he joined Arthur Anderson's Global Corporate Finance Group as a Director.

   c) John became COO of Sandefer Capital Partners in 1998.

2. Education

   a) John received a BS in Business Administration and an MS in Accounting from Oklahoma State University in 1994.

   b) He received an MBA in Finance from The University of Texas at Austin in 1998.

C. Karl M. Weber, Senior Vice President (and Rocky Mountain Basin expert)

1. Experience

   a) Karl begain his career at Nicor Exploration, where he began as a Tax Manager.

   b) In 1984, he became Controller at Chandler and Associates.

   c) Karl then joined General Atlantic Energy in 1985 as Manager of Investor Relations and Controller.

d) He became CFO of Sandefer Offshore in 1990.

e) Karl joined Sandefer Ventures as COO in 1993 after the sale of Sandefer Offshore.

2. Education

a) Karl received a BS in Accounting from the University of Denver in 1981.

b) He received a PMD from Harvard Business School in 1990.

3. Affiliations

a) Public/private company boards

(1) None.

b) Charitable boards/service

(1) None.

D. Brad Juneau (Gulf of Mexico Basins)

1. Experience

a) Brad began his business career as a reservoir engineer at the First National Bank of Midland.

b) In 1982, he joined Texas International Petroleum Company as a production/reservoir engineer.

c) Brad was hired as the Senior Vice President, Exploration, by Zilkha Energy Co. in 1984.

d) In 1998, he helped to sell Zilkha Energy to Sonat for $1.4 billion.

e) Brad joined Sandefer Capital in 1999, where he directs the Gulf of Mexico strategy. He is also an expert in 3-D technology and risk analysis.

2. Education

a) Brad received a BS degree in Petroleum Engineering from Louisiana State University in 1981.

3. Affiliations

a) Public/private company boards:

(1) None.

b) Charitable boards/service:

(1) None.

E. Harold Heinz (Alaska Basins)

1. Experience

a) Harold's initial assignment after college in 1965 was as in instructor in the Engineering School of the U.S. Army Corps of Engineers.

b) He began his business career in 1967, when he was appointed President of Arco Alaska and Arco Transportation Co.

c) In 1990, he was appointed Commission of Natural Resources for the State of Alaska.

d) He became the Resource Development Adviser to the Governor of Alaska in 1992.

e) He left state employment in 1993 to become a resource development consultant.

f) Harold currently directs Sandefer Capital's Alaska strategy and provides additional engineering support in facilities and reservoir estimation and production.

2. Education

a) Harold received a BS in Petroleum Engineering from the Colorado School of Mines in 1964.

3. Affiliations

a) Public/private company boards:

(1) None.

b) Charitable boards/service:

(1) None.

F. Jim Edsel (Austin Chalk) various community-related boards

1. Experience

a) Jim began his business career in 1980 at Hunt Oil Company as a District Land Manager.

b) In 1981, he became President of Gemini Exploration Company.

c) Jim joined Arrow Exploration Company as President in 1994.

d) In 1997, he became President of Orbis Energy, LLC, a company with residual Austin Chalk interests.

e) Jim currently directs the Austin Chalk strategy for Sandefer Capital Partners. He also provides support in land management, regulatory affairs and investor relations.

2. Education

a) Jim received his BBA in Petroleum Land Management at The University of Texas at Austin in 1980.

3. Affiliations

a) Public/private company boards:

(1) None.

b) Charitable boards/service:

(1) None.

G. Jeff Vaughan (San Juan Basin)

1. Experience

a) Jeff started his career in 1982 as a reservoir engineer at Northwest Pipeline Corp.

b) In 1985, he became a drilling and production engineer at Northwest Pipeline.

c) Jeff joined Williams Production Company as the head of Joint Interest and Acquisitions in 1990.

d) He became a Vice President of Operations and Engineering at Giant Exploration and Production Co. in 1991.

e) In 1996, Jeff became Manager of Crude Oil and Natural Gas Trading at Giant Industries.

f) He currently directs the San Juan Basin strategy for Sandefer Capital and provides support in reservoir engineering, gas compression and pipeline systems.

2. Education

a) Jeff received a BS in Petroleum Engineering from the Colorado School of Mines in 1982.

3. Affiliations

a) Public/private company boards:

(1) None.

b) Charitable boards/service:

(1) None.

H. Rob Arnot (Permian Basin)

1. Experience

a) Rob began his career as a petroleum engineer at Amoco Production Company in 1978.

b) In 1981, he became the Managing Partner of WG Arnot Oil and Gas.

c) Rob has recently joined Sandefer Capital to direct its West

Texas Permian Basin strategy and to provide additional support in field operations.

2. Education

3. Rob received a BS in Petroleum Engineering from The University of Texas at Austin in 1978.

4. Affiliations

a) Public/private company boards:

(1) None.

b) Charitable boards/service:

(1) None.

II. FUND STRATEGY, TERMS

A. General Commentary

1. UTIMCO's Managing Director of Private Markets has known Jeff Sandefer for twelve years. In addition to founding Sandefer Offshore in 1986 at the age of 26, Jeff has distinguished himself by his success in implementing in the Gulf of Mexico approximately the same strategy to be used by the current Fund. His efforts resulted in the development of over 300 MMCFE per day of production and over 500 BCFE of proved developed producing reserves. In total, Sandefer Offshore generated nearly $500 million in net profits during his ownership.

2. After selling Sandefer Offshore in 1993, Jeff devoted himself to public service as an adjunct professor at The University of Texas at Austin. He established the Foundation for Entrepreneurial Excellence at U.T. Austin and over the years has expanded it into one of the premier programs in the Graduate School of Business (FEE now teaches 25% of the elective hours at the Graduate School of Business).

3. After the Ziff family sold the Ziff-Davis publishing empire, family representatives came to Jeff to ask him to manage an energy portfolio. He agreed to do so, on the following terms:

a) The Ziff family would put up half the funding for each transaction; Jeff would put up the other half, although he was allowed to sell down his portion to investors cleared by the Ziff family.

b) The family would pay expenses, although Jeff has never drawn a salary under the agreement (and will not draw a salary under the Fund's agreement, either).

c) Either the Ziff family or Jeff could call for a sale of the properties acquired at any time, in which case the opposing party had a right to sell at the price at which the properties were presented or to request an independent appraisal.

d) The Ziff family, as an accommodation to Jeff to allow him to raise the Fund, has now waived all its rights under its agreement with Jeff except for a right of first refusal when the fund liquidates its properties. The UTIMCO staff believes that under the market circumstances likely to prevail when the Fund's properties are liquidated, this residual right will not have a significant effect on the value of the Fund's properties.

B. Fund Strategy

1. The Fund will utilize a proprietary database of geological, engineering, operational and financial data to acquire marginally economic or uneconomic proved developed producing reserves of oil and gas, along with associated proved undeveloped reserves. The Fund will price its acquisitions with particular attention to factors (including pricing and costs, technology and field or area development) that can fuel an increase in the value of the acquired reserves. Given a lengthy holding period, the long-term investment strategy of the Fund is to hold its reserves at the lowest possible cost (e.g., by allowing third parties to back into a portion of the proved develop reserves, thus, in effect, shorting the proved developed producing reserves while staying long in the proved undeveloped reserves) in order to participate in the sharp increase in value when the remaining reserves become recoverable.

2. In order to make the geological, engineering and financial calculations required to implement this strategy, Sandefer Capital has gathered a group of professionals with deep knowledge born of long experience in several basins of interest:

a) Karl Weber – Rocky Mountain Basins (Piceance, Uinta, Green River and Big Horn)

b) Brad Juneau – Gulf of Mexico Basins (Shelf and Deep Water)

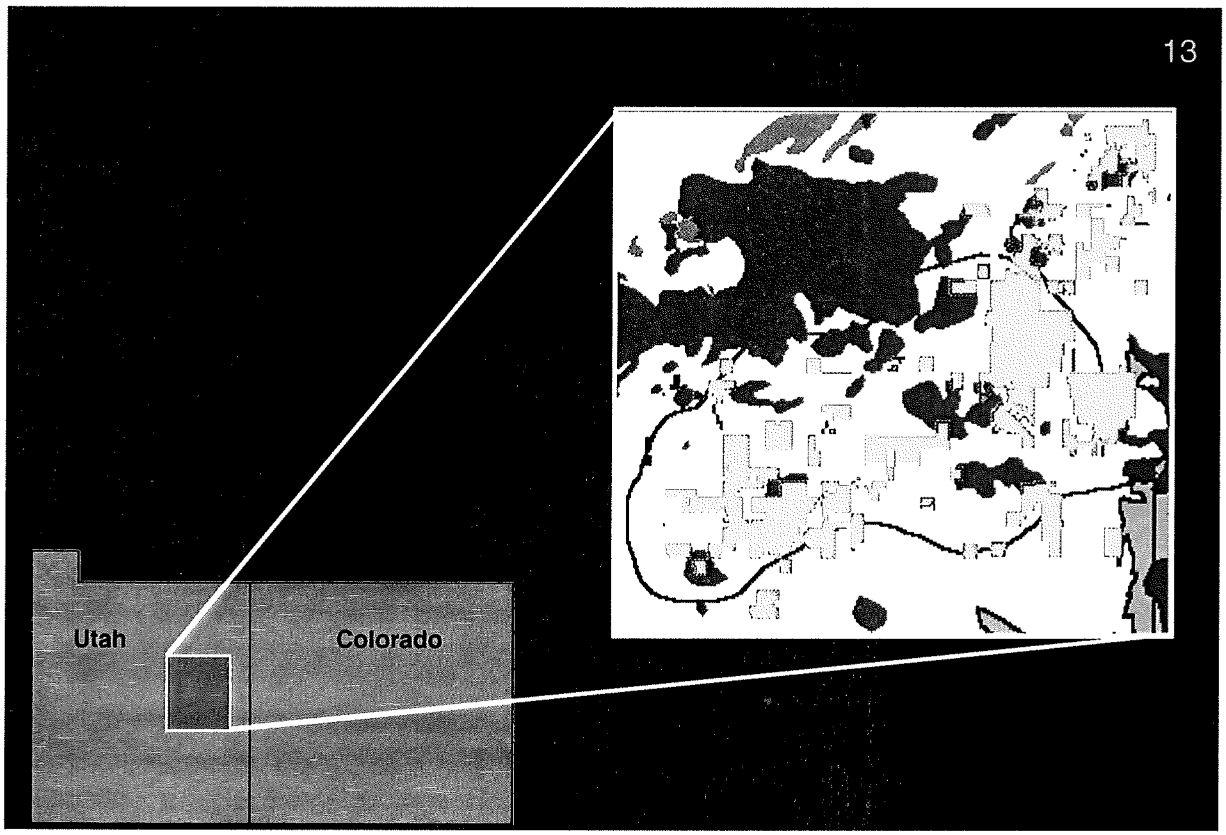
c) Rob Arnot – West Texas Permian Basin

d) Jeff Vaughan – San Juan Basin

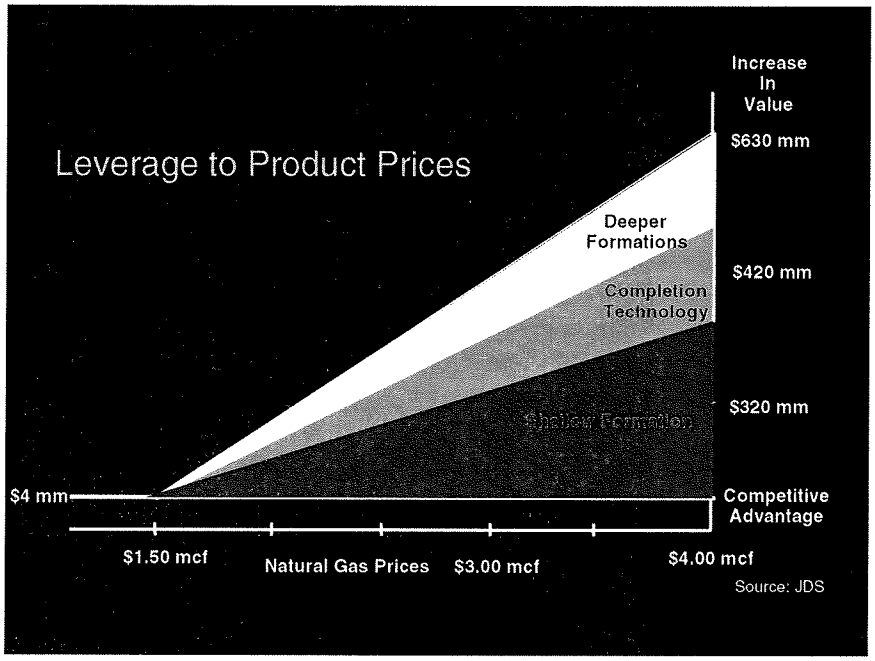
e) Jim Edsel – the Austin Chalk Trend (South Texas to Louisiana)

f) Harold Heinz – Alaska Basins (Cook Inlet and North Slope).

3. The White River acquisition demonstrates Sandefer Capital's combined expertise and the Fund strategy. The White River field is in Eastern Utah:



4. The White River acquisition was predicated on the following view of increasing recoverability as a result of higher gas prices:



As this graph illustrates, modest increases in the price of natural gas have dramatic effects on the value of the White River reserves. In true option fashion, a doubling of the price of natural gas will result in a 100x increase in the value of the property's reserves. The Fund's strategy is to use the optionality of marginally economic or uneconomic reserves to achieve superior rates of return in a climate of rising oil and gas prices.

5. Although the Fund's option strategy can work in any volatile market, the recent run-up in oil and gas prices will test the general partner's ability to buy marginally economic or uneconomic reserves at attractive prices. At this point in the cycle, the general partner and the UTIMCO staff agree that oil and gas prices have not been high enough for long enough to entirely obviate the market. However, if prices remain high and/or move higher it will be impossible to draw down and employ the funds committed to the investment. Although the UTIMCO staff does not believe that the risk this contingency is high, it is nevertheless possible.

C. Fund Terms

1. The term of the partnership will be ten years, although 80% in interest can elect to extend the life an additional five years.

2. The general partner of Energy Asset Option Fund I will be Energy Option Advisers, LLC, which will be controlled by Jeff Sandefer. Its offices will be at 515 Congress Avenue, Suite 1875, Austin, Texas 78701.

3. The Fund's acquisition period will be three years from the closing date.

4. The general partner is required to invest at least 2.5% of total Fund commitments. Note that under the terms of the Ziff family co-investment agreement with Jeff Sandefer he is required to invest 10% of each deal; the Fund's 2.5% requirement is therefore a fall-back position should the Ziff family cancel its agreement, which remains operative with respect to required investment.

5. The Fund will pay a 1.5% management fee as a reimbursement of the general partner's expenses. If the general partner's expenses are less than that amount, the remainder will be refunded at the next payment period. Note that Jeff Sandefer will not take a salary from the general partner during the acquisition period and the management fee therefore does not benefit him personally at any time.

6. The general partner will participate in a 20% promoted interest after payback of capital to the limited partners. Payback includes all management fees paid. The general partner may take distributions of the promoted interest after the earlier of payback of the limited partners' capital or an appraised value of the portfolio in excess of 150% of cost.

7. A clawback provision requires the general partner to rebate to the partnership any distributions received in excess of the 20% promoted interest.

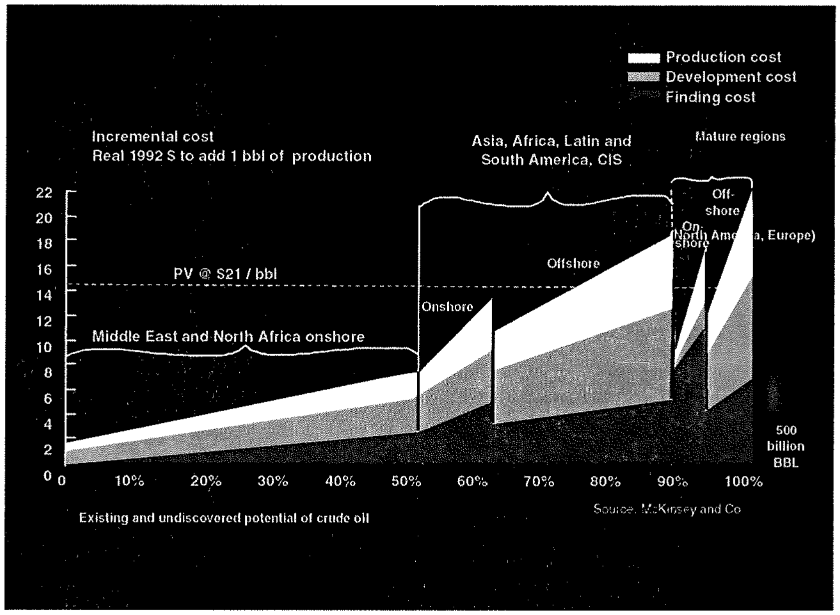
8. Neither Jeff Sandefer, who has other obligations under his agreement with the Ziff family, nor any of the basin experts he has hired, are required to spend 100% of their time on the Fund's business. In addition, neither Jeff nor the basin experts is or are required to make the Fund his exclusive vehicle for oil and gas investment. Having noted these exceptions, Jeff and Sandefer Capital are required to offer the Fund all oil and gas opportunities that are within the Fund's financial means and that contain significant amounts of proved or probable undeveloped reserves.

9. The general partner may be removed for any reason by an 80% in interest vote of the partnership.

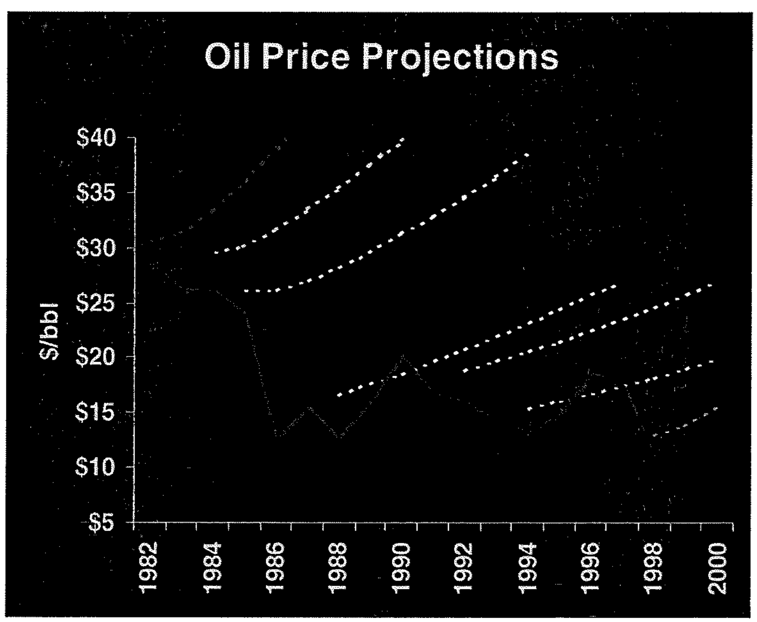
III. INVESTMENT ENVIRONMENT

A. Domestic market

1. Reserves in the U.S. domestic oil province are the most expensive to recover in the world, as the following graph makes clear:



2. An important additional barrier to domestic production is the pricing uncertainty associated with the commodity aspect of oil and gas production. In recent years, most price forecasts have been in error by a significant margin:



Source: J.B. Herold

3. The overall result of the high cost of extracting oil and gas in the U.S. domestic province and the uncertainty of the present value of the reserves discovered and produced has meant that the cost of marginally economic and/or uneconomic reserves has fallen dramatically. Because prices of such reserves are currently low, an acquisition program to acquire such reserves should result in superior capital gains once the rising secular trend in oil prices results in making them recoverable and thus economic.

IV. TRACK RECORD

Energy Asset Option Fund I is Jeff Sandefer's first fund. His performance history must therefore be judged from the success of Sandefer Offshore, a company he founded in 1986 with capital from General Atlantic Partners. When Sandefer Offshore, which used an option strategy closely related to the Fund's strategy, was sold in 1990, General Atlantic realized a 100x return (an IRR of approximately 151%). General Atlantic's partners have stated that their investment in Sandefer Offshore was the single best ROE the firm has ever had.

V. CO-INVESTORS

Investor	$mm
Jeff Sandefer	$10
Wellesley College	$10
Cheyne Walk Trust	$6
MDT Advisers	$5
Ziff Brothers Investments	$46
*Total	$77

The commitment of MDT Advisers is tentative at this writing. The UTIMCO staff believes that MDT is likely to commit if the UTIMCO board approves the staff's recommendation to invest in Energy Asset Option Fund I.

VI. DUE DILIGENCE AND REFERENCE CHECKS

A. Due Diligence

1. General

UTIMCO's Managing Director of Private Markets has known Jeff Sandefer personally since 1988. In addition to being one of the youngest founder/CEOs of a major independent oil and gas company in the Gulf of Mexico, Jeff has demonstrated his success by personally realizing $150 million on the sale of Sandefer Offshore, a company that he founded, ran and sold in the 1980s.

Jeff has an enviable reputation for integrity and business acumen in the oil and gas industry. He is well known in industry circles, especially in Houston, as an aggressive and extremely focused oil and gas investor.

2. Site Visits

UTIMCO staff representatives interviewed Jeff Sandefer and his staff on several occasions. On November 3, 1999, the staff took the following representative notes:

As we begin our discussion, it seems clear that Jeff's primary investment strategy is buying reserves with a large marginally economic or uneconomic proved developed producing or proved undeveloped component. He shows me an example in northern Utah on the Wyoming border, with a TCF of gas that he tied up for $2 million. On this particular property, 1 well will hold 25,000 acres or so; also, the TCF of gas is in the top 6,000 feet, while there's perhaps 2 or 3 additional TCF below that horizon.

He's now made a deal with Rosewood to drill 150 wells over a number of years to test every section they own (and to put in a gas gathering system), after which they'll still control over 1,000 locations for free. He says that if commodity prices decline he'll then buy Rosewood out, since he's got the time.

He thinks there's another similar play to the west of this one with 300 million barrels recoverable of waxy crude that sells today for $8 a barrel. He also thinks that there are other such locations in the Rockies.

He's raising $100 million to do five or six deals like this. The intent is to farm out some of these deals and to hold some powder dry so that they can do one all by themselves. He thinks this would take three years to invest and another seven or so to harvest. The partners would have the option to extend the partnership to a total of 15 years.

In addition to Jeff, Brad Juneau (who ran Zilka Offshore) and Jim Edsel are the principals involved. They will also employ a group of what Jeff terms reservoir experts, including Harold Heinz in Alaska, Karl Weber and Jeff Vaughan in the Rockies/Denver and Rob Arnot in West Texas. Karl is the guy who put together the deal outlined above and who brought Rosewood in. Each of these experts knows a particular basin or sub-basin. Most of them are already independently wealthy and are available only because they recognize the value of an organized effort to exploit the volatility of oil & gas prices.

He shows me a slide depicting the cost to find, produce and deliver a barrel of oil in areas all over the world. His point is that the cost curves in the U.S. are extremely steep, which means that marginal barrels exhibit extreme price volatility. This is another argument for controlling undeveloped reserves to play price volatility in the fashion of an option (in which volatility increases value).

He refers to the Rockies as chiefly a logistical play. He also says that he wants to be in the Rockies because that's where the most volatility is.

He shows a slide depicting the attribution of completion technology improvements in increasing BCF/well.

He thinks that the biggest risk is simply not putting the money to work because they can't find eligible properties at suitable prices.

a) Infrastructure

(1) Further interviews made it clear that the Sandefer Capital Partners infrastructure is capable of producing the appropriate reports for an institutional oil and gas investment, including reports of cash flows, estimated reserves and PV10 valuations.

b) Deal Inflow and Review

(1) Because of his long experience in the industry, along with the wide-ranging contacts of his basin experts, Sandefer Capital is constantly exposed to high-quality deal flow.

(2) More importantly, the focus of Energy Asset Option Fund I on a few important basins means that Sandefer Capital can proactively generate its own ideas and deal flow based on proprietary research. The quality of this deal flow is demonstrated by the two investments into which Sandefer Capital has placed the Ziff family prior to the raising of Energy Asset Option Fund I.

c) Structuring

(1) The Sandefer Capital principals are extremely expert at structuring the types of transactions in which Energy Asset Option Fund I will invest. Indeed, it is the structuring of the transactions into which the Fund will enter that generates most of the value. Jeff Sandefer's history of similar transactions while building Sandefer Offshore serves as a guide to the structure likely to be used by the Fund. The structuring expertise of the group of professionals Jeff has assembled at Sandefer Capital has been demonstrated by the two transactions in which Sandefer Capital has invested the Ziff Family's funds prior to the raising of Energy Asset Option Fund I.

d) Monitoring

(1) . Sandefer Capital's basin experts have an intimate understanding of the performance to be expected from the properties the Fund will acquire. This level of experience includes the costs associated with the recovery methods required for such exotic properties as heavy oil and/or tight sands gas. When the experience of the basin experts is combined with Sandefer Capital's monitoring capabilities, the result is an overall quality control that should enhance the value of the development process and therefore the value of the underlying reserves.

e) Investment Realization

(1) Jeff Sandefer individually, and his basin experts as a group, have demonstrated an ability to time the oil and gas markets to maximize the value of reserves.

(2) Equally importantly, the long-term incentives of the Energy Asset Option Fund I partnership agreement align the economic interests of the Sandefer Capital principals and the limited partner investors.

f) Relationship Maintenance

(1) . Jeff Sandefer's principal realization prior to the raising of Energy Asset Option Fund I was the sale of Sandefer Offshore, a company that he founded, ran and then sold. However, Sandefer Offshore was itself well

known for the timing of its sales of assets that enable the company to move forward in other areas of interest in the Gulf.

g) Culture and Other

(1) . Jeff Sandefer is well known, both in the oil and gas industry and at The University of Texas at Austin, for insisting on excellence in everything he undertakes. That culture has been communicated to the professionals he has recruited to Sandefer Capital.

B. Reference Checks

1. . Numerous reference checks revealed that Jeff Sandefer has an industry-wide reputation for integrity, business acumen and ambition. We received no negative references of any kind, which is most unusual for an individual of Jeff's attainments.

VII. RECOMMENDATION

A. PUF portfolio effect

1. Should the UTIMCO board approve an investment in Energy Asset Option Fund I, the commitment recommended by Management would have the following portfolio effect on the PUF:

PUF	PUF % FMV
PUF w/o commitment	4.00%
PUF w/ $13.75 million commitment	4.18%

a) The last line in this table can be read to mean that, should all remaining commitments (including the commitment to Energy Asset Option Fund I) be drawn down at the close of the investment, the inflation hedging asset class would comprise 4.18% of the PUF. Such an occurrence is virtually impossible, but as a stress test of whether the private investment portfolio is operating within strategic guidelines this computation is a useful exercise.

B. LTF Portfolio effect

1. Should the UTIMCO board approve an investment in Energy Asset Option Fund I, the commitment amount recommended by Management

would have the following portfolio effect on the LTF:

LTF	LTF % FMV
LTF w/o commitment	3.98%
LTF w/ $8.0 million commitment	4.28%

a) The last line in this table can be read to mean that, should all remaining commitments (including the commitment to Energy Asset Option Fund I) be drawn down at the close of the investment, the inflation hedging asset class would comprise 4.28% of the LTF. Such an occurrence is virtually impossible, but as a stress test of whether the private investment portfolio is operating within strategic guidelines this computation is a useful exercise.

C. PHF Portfolio effect

1. Should the UTIMCO board approve an investment in Energy Asset Option Fund I, the commitment amount recommended by Management would have the following portfolio effect on the PHF:

PHF	PHF % FMV
PHF w/o commitment	3.79%
PHF w/ $8.0 million commitment	4.15%

b) The last line in this table can be read to mean that, should all remaining commitments (including the commitment to Energy Asset Option Fund I) be drawn down at the close of the inflation hedging asset class would comprise 4.15% of the PHF. Such an occurrence is virtually impossible, but as a stress test of whether the private investment portfolio is operating within strategic guidelines this computation is a useful exercise.

VIII. CONFLICTS OF INTEREST

After extensive due diligence, Management believes that an investment in Energy Asset Option Fund I, L.P. by the LTF and PUF represents no conflict of interest under either TEX. EDUC. CODE ANN. §66.08 (Vernon 1995) or TEX. GOVT CODE ANN. §572 *et. seq.* (Vernon 1993) as interpreted by the Texas courts and by the Attorney General of the State of Texas.

Management has put the principals of Energy Option Advisers L.L.C., the general partner of Energy Asset Option Fund I, L.P., on notice that, should any apparent violation of the statutes cited above arise in connection with any future transaction, they must notify the responsible UTIMCO officer so that the LTF and PUF can abstain from the transaction in compliance with Texas law.

Energy Asset Option Fund I presents certain additional problems with regard to conflict of interest due to the agreement among Jeff Sandefer, Sandefer Capital Partners and the Ziff family to share energy transactions in a reserve acquisition program. Although the Ziff family has waived certain rights under the agreement, a right of first refusal remains that could, under certain circumstances, result in a chilling effect on the sales price of the Fund's assets. The UTIMCO staff believes that the practical effect of the right of first refusal will be minimal in the market circumstances likely to prevail upon the liquidation of the Fund's portfolio.

Also, Energy Asset Option Fund I partnership agreement specifically states that Jeff Sandefer will not spend 100% of his time in the service of the Fund. Jeff will be allowed to spend whatever time he thinks necessary to continue his educational efforts at U.T. Austin and will also be able to source, research, negotiate and conclude energy transactions not suitable for the Fund. Note that he is required, under the Fund's partnership agreement, to show the Fund all investment opportunities involving significant amounts of proved undeveloped or probable reserves.

As a professor, Jeff is currently a paid employee of The University of Texas at Austin. He is willing to teach at no compensation if necessary in order to avoid any appearance of a conflict of interest in his role as an employee versus his role as an investment manager.

Finally, Regent Tony Sanchez sits on an advisory board related to U.T. Austin's Center for Entrepreneural Studies. This unpaid position is in no way a conflict of interest for either Regent Sanchez or Jeff Sandefer; this relationship is cited here for disclosure purposes only.

IX. Y2K Compliance

Management has inquired about Energy Option Advisers L.L.C.'s Y2K readiness and has been assured by the partners that issues relating to Y2K problems will not have a material adverse effect on Energy Asset Option Fund I's business.

Resolution No. 6

WHEREAS, the Board has reviewed a Short Form Due Diligence Review and Recommendation prepared by the Corporation's management recommending that the Corporation enter into an investment agreement (the "Agreement") with SKM Partners LLC, to invest up to $25 million of PUF, PHF and LTF assets in **SKM Equity Fund III, 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 as described in the Short Form Due Diligence Review and Recommendation dated December 9, 1999 for SKM Equity Fund III, L.P., be approved; and be it further

RESOLVED, that the President 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 SKM Equity Fund III, L.P.; and be it further

RESOLVED, that the President, 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.

Proposed Follow-on Investment

SUMMARY TERM SHEET

Name:	The SKM Equity Fund III, L.P.
Classification:	Special equity.
Fund Size:	$600 million.
Investment Strategy:	Acquire securities, primarily equities, in friendly transactions relating to the acquisition, buyout, recapitalization or restructuring of growth companies with revenues between $10 million and $100 million, with particular emphasis on retailing, restaurants and manufacturing of consumer products. SKM has opened a new Dallas office that will concentrate on investments of $5 million to $15 million to provide growth capital to companies in various industries, in a proactive effort to address strong deal flow below the radar screen of many mid-market investment groups.
Term:	10 years
General Partner:	SKM Partners, LLC.
Management Fee:	2.00% during the acquisition period, 1.00% thereafter
Profit Sharing:	80/20 after payback to the limited partners plus a 10% hurdle rate (with a 100% catch-up)

Performance History:

	Net		Remaining	IRR	
Fund	Invested	Realized	Valuation	Fund	S&P +5
SKM Equity Fund, L.P. (1991)	$157.1	$539.4	$788.7	65.86%	30.71%
SKM Equity Fund II, L.P. (1997)	$350.3	$25.2	$300.8	-5.42%	24.52%
Combined record	$507.5	$564.6	$1,089.5	59.57%	28.50%

Negative (Risk) Factors: Illiquid investment, with losses likely to precede gains

Firm focuses on retailing, restaurants and consumer product manufacturing, so the portfolio may be unusually vulnerable to a recession in consumer spending.

Positive factors: Exceptional track record

Principals have built a substantial organization that seems likely to perpetuate its niche industry franchise

Industry focus and contacts comprise a valuable intangible

Current LTF/PUF portfolios are still underweighted in retail and consumer, this fund's primary emphasis

Limited Partners:

Investor	Commitment
Bell Atlantic	$100
Lucent	$75
AT&T	$75
General Electric	$60
United Technologies	$60
U. of California	$60
Goldman Sachs Capital Partners III	$50
SKM as General Partner	$30
Various others	$125
	$635

Additional soft circles include the funds of funds of Frank Russell, Wilshire and Forstmann Leff; the State of Ohio public pension fund; and Citigroup. The aggregate commitments, including soft circles, total $790 million at this writing.

Recommendation: Invest $25 million

Exposure v. Target:

	% of total fund
LTF	%
PUF	%

Estimated Closing Date: January 31, 1997

Expected Return:	30%, with a standard deviation of 21%.
Conflicts of Interest:	After extensive due diligence, UTIMCO management believes that an investment in SKM Equity Fund III, L.P. by the LTF, PUF and PHF represents no conflict of interest under either TEX. EDUC. CODE ANN. §66.08 (Vernon 1995) or TEX. GOVT CODE ANN. §572 *et. seq.* (Vernon 1993) as interpreted by the Texas courts and by the Attorney General of the State of Texas. UTIMCO management has put the principals of SKM Partners, LLC on notice that, should any apparent violation of the statutes cited above arise in connection with any future transaction, they must notify the responsible UTIMCO officer so that the LTF, PUF and PHF can abstain from the transaction in compliance with Texas law.
Y2K Compliance:	UTIMCO management has inquired about SKM Partners, LLC's Y2K readiness and has been assured by the SKM Partners, LLC management that issues relating to Y2K problems will not have a material adverse effect on either its business or the businesses of any of its portfolio companies.

Approved:

Craig J. Nickels	
Austin M. Long, III	
Thomas G. Ricks	

I have include a review of endowment spending policy because there is an expressed concern by certain U.T. regents and staff that the current payout formula is too conservative to accommodate desired budget levels.

What I would like to do is to share with you the analytical derivation of the current spending formula that is contained in the endowment investment policies. At the last meeting, the investment policy and underlying payout formula for the PUF was simply conformed with those of the PHF and LTF to create a uniform endowment policy. Endowment payout from these three funds is projected to exceed $400 million this year so it is a significant component of UT and A&M capital and operating budgets. Since UT and A&M are beginning the budget process for fiscal year 2001 and beyond, questions have arisen concerning the formula and the spending rate itself.

Certainly there is no disagreement that an income based payout is undesirable. PUF spending was flat for the entire decade of the 90's and was projected to remain flat through 2005 as well. The result was a substantial loss in purchasing power in PUF spending and a less than optimal asset allocation vs. the LTF and PHF; what we refer to as the Endowment Policy Portfolio. With the Constitutional amendment, we have adopted the PHF and LTF asset allocation with its superior return and risk profile for the PUF as well. This asset allocation or Policy Portfolio is presented on page 3 and currently has an expected annual return of 9.35% and a standard deviation of 10.44. So if the expected investment return on the endowment fund return is 9.35% what is an appropriate spending rate as a % of endowment assets? The answer depends on your financial objectives. The current payout formula assumes three universally recognized endowment objectives on page 4:

Achievement of these objectives requires a balancing between the need to provide educational and financing programs with a stable, predictable cash flow stream that keeps pace with inflation and highly volatile capital markets. But there is one agreed upon rule of thumb presented on page 5. You should spend no more than the expected annual average investment return after expenses and inflation. So assuming 100% certainty of not underestimating over time the policy portfolio return of 9.35%, a 35 bps expense rate or a 3.5% historical rate of inflation ,the rule says you can sustain a 5.5% spending rate. However, you have to consider uncertainty of outcome, your lack of control over three of these variables and your desire not to cut spending. There is low control over the expected investment return of 9.35% because markets may not cooperate and the funds are price takers. There is little ability to reduce expenses beyond a minimal fixed rate and there is zero control over the actual rate of inflation. That leaves the spending rate which was targetted at 4.5% in consideration of a margin for error and to allow for some real growth.

This spending rule underlies the current spending policy. For the PUF on page 6, spend an initial 4.5% and increase spending at the rate of inflation to preserve purchasing power. Also, smooth out the volatility in endowment payout from the volatility of investment returns and the rate of inflation by using a 12 quarter average. Then subject the resulting spending rate to a collar with a 3.5% floor and a 5.5% ceiling.

Applied to the PUF on page 7, take the market values for each of the last 12 quarters, divided the total by 12 too get average market value and multiply by the initial rate of 4.5% to get $285.9 million. Then increase it by the rate of inflation each year subject to the collar to preserve purchasing power. This formula on page 8 resulted in a $22 million increase in PUF spending year to year and $30 million if you consider that spending will no longer include expenses. expenses are now paid out of assets . Assuming the expected investment return and the historical rate of inflation, payout would increase steadily to $316 million in 5 years.

There is a case that payout should be raised because of a prolonged period of under spending by UT and A&M on PUF financed capital projects and academic programs. Relative to the 6% to 10% rates paid in the 1980s and early 90's, spending has certainly been constrained. But relative to the spending rates of the average endowment fund, PUF spending under the income based payout has been constrained only over the last 2 to 4 years.

Moving to p. 11, a change in the spending rate today has a considerable impact on the future value of the endowment and the future payout from the endowment. These next two charts depict the historical trade off between consumption and investment decision that each university board of trustees must make.

Preserving purchasing power over the perpetual life of an endowment fund is no easy task. Over the last decade, endowments have enjoyed the best of all worlds. Above average investment returns and below average inflation. This is not always the case as in the 1970's, a period of the worst of all worlds; below expected rates of return and above average rates of inflation. During that period, with just a 5.3% average spending rate, the PUF lost an average of 7% of its purchasing power each year of the decade.