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*The University of Texas  
Investment Management  
Company*



*Presentation Materials  
Board of Directors Meeting*

*April 27, 2000*

**UTIMCO**  
**BOARD OF DIRECTORS MEETING**  
The Tower Club, St. Lawrence Room, Thanksgiving Tower - 48<sup>th</sup> Floor,  
1601 Elm Street, Dallas, Texas

**April 27, 2000**

**AGENDA**

- |                         |   |
|-------------------------|---|
| 10:00 a.m.              | Call to Order/Approval of Minutes of 2/24/00 Meeting  |
| 10:05 a.m. - 10:30 a.m. | Report of Strategic Review Committee<br>Executive Review<br>Performance<br>Status of PUF Conversion to Total Return   |
| 10:30 a.m. - 11:30 a.m. | Status of Portfolio Manager Searches<br>Non-U.S. Equity EAFE Manager<br>Non-U.S. Equity Emerging Markets Manager<br>Alternative Equities: Marketable<br>U.S. Equities: Small Cap Value                      |
| 11:30 a.m. - 12:15 p.m. | Presentation: Existing U.S. Small Cap Value Manager<br>Schroders - Nancy Tooke  |
| 12:15 a.m. - 1:00 p.m.  | Lunch/Approval of Altern. Equities – Non Marketable Managers  |
| 1:00 p.m. - 2:00 p.m.   | Designation of Annual Meeting Date<br>Designation of Key Officers<br>Discussion Items<br>Unitization of Endowment Funds<br>Office Relocation<br>Preliminary FY2001 Budget<br>Legislative Committee Hearings |
| 2:00 p.m.               | Adjournment   |

**Resolution No. 1**

RESOLVED, that the minutes of the Meeting of the Board of Directors held on February 24, 2000 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 24th of February 2000 at the offices of Vinson & Elkins, L.L.P., Conference Room 3834- 38th Floor, 2001 Ross Avenue, Dallas, 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.  
L. Lowry Mays  
John D. McStay  
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 and Craig Nickels of Corporation's management; and Jerry Turner, Vinson & Elkins, legal counsel for the Corporation.

Mr. Allen called the meeting to order at 10:20 a.m. Copies of materials supporting the Board meeting agenda were previously furnished to each Director.

**Minutes**

The first item to come before the Board of Directors was approval of the minutes of the briefing sessions and meetings of the Board of Directors held on September 22, 1999, November 8, 1999, December 9, 1999, and January 5, 2000. Upon motion duly made and seconded, the following resolution was unanimously adopted:

**RESOLVED**, that the minutes of the Briefing Sessions and Meetings of the Board of Directors held on September 22, 1999, November 8, 1999, December 9, 1999 and January 5, 2000, be and are hereby approved.



## **Investment Performance Review**

The next item to come before the Board of Directors was a review of investment performance for the Long Term Fund (LTF), the Permanent University Fund (PUF), the Permanent Health Fund (PHF), the Short Term Fund (STF) and the Short Intermediate Term Fund (SITF). Mr. Ricks stated that in February, UTIMCO began the process of converting the PUF to the same asset allocation currently in place for the PHF and the LTF. This process requires that UTIMCO realign portfolio managers to create identical asset allocations and underlying portfolios across all three endowment funds upon completion. This process would be substantially complete by the end of the fiscal year. Mr. Ricks reviewed the LTF's performance against the Russell/Mellon Foundations and Endowments Universe for the periods ended December 31, 1999. Mr. Ricks informed the Board of Directors of investment manager terminations. Mr. Ricks also reviewed with the Board the activity of the GSCI index through February 15, 2000 and requested that the Board approve an increase in the investment allocation to GSCI futures contracts from 3.75% to 10%. He stated that 10% of the PUF's, PHF's and LTF's asset value is the upper range for the inflation hedging asset class as provided in the asset allocation guidelines for endowment funds. Mr. Ricks answered the Board questions during the presentation. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that value of futures contracts invested in the Goldman Sachs Commodity Index ("GSCI") not exceed the GSCI's maximum allocation range (currently 10%) for the Permanent University Fund, Permanent Health Fund, and Long Term Fund.

## **PHF and LTF Per Unit Spending Rates**

Mr. Ricks recommended an increase of 2.2% in the distribution rate per unit for the PHF to \$0.46 per unit, which is based on the PHF's Investment Policy mandate to increase annual distributions by the rate of inflation and in consideration of the Fund's six-month life. Mr. Ricks recommended to the Board of Directors an increase of 14% in the distribution rate per unit for the LTF to \$.245 per unit. He stated that the increase recognizes the above average rate of growth in the market value of LTF assets and provides an expected distribution rate at least equal to 4% of the value of initial endowment contributions through the 15-month period ended August 31, 2001. Mr. Ricks answered the Board's questions and upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the annual distribution rate for the Permanent Health Fund be increased from \$0.45 per unit to \$0.46 per unit, effective November 30, 2000; and

RESOLVED, that the annual distribution rate for the Long Term Fund be increased from \$0.215 per unit to \$0.245 per unit, effective with the May 31, 2000 distribution.

## Corporation's Five-Year Business Plan

Mr. Allen recommended to the Board of Directors that an *ad hoc* committee of the Board be formed to review the Corporation's business plan. The committee would make revisions to the Plan in addition to recommendations on procedures to be followed in connection with terminated managers. In the interim, Mr. Allen requested Corporation's management to provide status updates on investment management changes and other changes that the Corporation may undertake until such time as the *ad hoc* committee makes recommendations on procedures to the Board of Directors. Upon motion duly made and seconded, the following resolutions were unanimously adopted:

WHEREAS, the Board of Directors of the Corporation has received a Business Plan for the Corporation dated February 24, 2000, which plan was prepared and submitted by Corporation management; and

WHEREAS, the Board of Directors of the Corporation has determined that an *ad hoc* committee of the Board should be appointed to review the plan; and

WHEREAS, Article IV, Section 1, of the Corporation's Bylaws states that the Board of Directors may from time to time designate members of the Board of Directors to constitute committees that shall have and may exercise such powers as a majority of the Board of Directors may determine in the resolution that creates the committee; now, therefore,

BE IT RESOLVED, that there is hereby created an *ad hoc* committee consisting of four members of the Board of Directors, which committee shall be charged with reviewing the Business Plan of the Corporation dated February 24, 2000 and reporting to the Board any recommended revisions to the Plan; and

FURTHER RESOLVED, that, as part of its report, the *ad hoc* committee shall specifically recommend to the Board on procedures to be followed in connection with the termination of any external investment managers; and

FURTHER RESOLVED, that Susan M. Byrne, John McStay, Luther King and Woody Hunt are hereby designated as the members of the *ad hoc* committee of the Board of Directors to serve until their successors are chosen and qualify, or until their earlier resignation or removal; and

FURTHER RESOLVED, that Woody Hunt is hereby designated the Chairman of the *ad hoc* committee and shall preside at its meetings.

## Portfolio Management

Mr. Ricks provided background information on J.P. Morgan Investment Management Company for which the Corporation is recommending a large cap manager mandate for the endowment funds. J.P. Morgan made a presentation to the Board of Directors on their enhanced indexation strategies at the December 9, 1999 Board of Directors' meeting. Mr. Russ provided additional information on the two J.P. Morgan investment strategies for which the Funds would invest, the Research Enhanced Index and Structured Stock Selection. Mr. Ricks and Mr. Russ answered the Director's questions and upon motion duly made and seconded, the following resolutions were unanimously adopted:

WHEREAS, the Board has reviewed a presentation prepared by the Corporation's management recommending that the Corporation enter into an investment agreement (the "Agreement") with **J.P. Morgan Investment Management Company** ("JPMIM") to invest an initial 5% (approximately \$550 million) of PUF, PHF and LTF assets using JPMIM's Research Enhanced Index and Structured Stock Selection investment strategies; 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 Agreement as described in the presentation by the Corporation's management for JPMIM 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; 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.

The Board did not take action on the proposed corporate resolution for the Asset Allocation Swap Program and referred this item to the *ad hoc* committee as part of the review of the Corporation's business plan.

The Board adjourned for a short break at 12:10 p.m. Mr. Allen reconvened the meeting to order at approximately 12:25 p.m.

### Alternative Investments Program- Non-Marketable

Mr. Ricks reviewed the Alternative Equities Non-Marketable Program with the Directors. He stated that the current value of the program was \$1.1 billion. He reviewed the planned commitment schedule for the remainder of the fiscal year with the Directors.

### Approval of JATOTech Ventures Management, L.P.

Mr. Long and Mr. Ricks introduced two representatives of JATOTech Ventures Management, L.P. who made a presentation to the Directors and answered their questions. Following the presentation, the presenters left the room 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 a limited partnership agreement (the "Agreement") with JATOTech Ventures Management, L.P. to invest up to \$10 million of PUF, PHF and LTF assets in **JATOTech Ventures, 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 Due Diligence Review and Recommendation dated February 20, 2000 for **JATOTech Ventures, 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 **JATOTech Ventures, 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.

Approval of Band of Angels Fund, L.P.

Mr. Long and Mr. Ricks introduced two representatives for the Band of Angels Fund, L.P. who made a presentation to the Directors and answered their questions. Mr. Lowry Mays left the meeting at approximately 1:20 p.m. Following the presentation, the presenters left the room 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 a limited partnership agreement (the "Agreement") with Band of Angels Management LLC to invest up to \$10 million of PUF, PHF and LTF assets in **Band of Angels Fund, 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 Due Diligence Review and Recommendation dated February 20, 2000 for **Band of Angels Fund, 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 **Band of Angels Fund, 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.

Approval of Commitment to Follow-on Fund: Prism Venture Partners III, L.P.

The next item presented to the Board was the review and approval of one follow-on investment, Prism Venture Partners III, L.P. Mr. Long answered the Directors' questions and upon motion duly made and seconded, the following resolution was unanimously adopted:

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 **Prism Investment Partners III, L.P.** to invest up to \$10 million of PUF, PHF and LTF assets in **Prism Venture Partners 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 February 24, 2000 for **Prism Venture 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 **Prism Venture 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.

## Approval of Performance Compensation for the President and CEO of the Corporation

Mr. King presented a report to the Directors on the Corporation's Compensation Committee. Mr. Allen announced that the Board of Directors would meet in a closed meeting as an executive session to receive the Compensation Committee report. All members of Corporation's staff left the meeting and the Directors continued the meeting in Executive Session at 2:09 p.m.

At 2:19 p.m., the Board of Directors reconvened in open session. Mr. Allen announced that all Directors (other than Mr. Mays) were still present and that the Committee did not take any vote on any matter during the Executive Session. In the open session a motion was duly made and seconded, and the following resolution was unanimously adopted:

RESOLVED, that the 1999 Performance Compensation for the Corporation's President and CEO as recommended by the Compensation Committee be and is hereby approved.

The last two items presented to the Directors were recommendations by Mr. Allen on appointments to the Corporation's Compensation Committee and Audit and Ethics Committee, subject to the U. T. System Board of Regents' approval. Upon motion duly made and seconded, the following resolutions were unanimously adopted:

BE IT RESOLVED, that J. Luther King, Jr., L. Lowry Mays and A. R. (Tony) Sanchez, Jr. are hereby designated as the Compensation Committee of the Board of Directors to serve until their successors are chosen and qualify, or until their earlier resignation or removal; and

FURTHER RESOLVED, that J. Luther King, Jr. is hereby designated the Chair of the Compensation Committee and shall preside at its meetings; and

FURTHER RESOLVED, that Susan M. Byrne, Woody L. Hunt and A. W. "Dub" Riter, Jr. are hereby designated as the Audit and Ethics Committee of the Board of Directors, subject to approval by the U. T. System Board of Regents at their May 10-11, 2000 meeting, to serve until their successors are chosen and qualify, or until their earlier resignation or removal; and

FURTHER RESOLVED, that A. W. "Dub" Riter, Jr. is hereby designated the Chair of the Audit and Ethics Committee and shall preside at its meetings.

There being no further business to come before the Board of Directors, the meeting was adjourned at approximately at 2:20 p.m.

Secretary: \_\_\_\_\_

APPROVED:

Vice Chairman: \_\_\_\_\_



# UTIMCO

## Assets Under Management

	ENDOWMENT FUNDS				OPERATING FUNDS				TOTAL
	PUF	PHF	LTF	SIFs	STF	SITF	IIFs		
<b>Time Horizon</b>	Long 5-30 years	Long 5-30 years	Long 5-30 years	Short-Long 0-30 years	Short 0-120 days	Short/Inter 1-5 yrs.	Long 5-30 years		
<b>Objectives</b>									
Liquidity	x	x	x	Various	xxx	xx	xx		
Income	x	x	x	Various	x	xx	n/a		
Safety of Principal	xx	xx	xx	Various	xxx	xx	n/a		
Growth of Income	xxx	xxx	xxx	Various	-	xx	x		
Growth of Principal	xxx	xxx	xxx	Various	-	xx	n/a		
<b>U.T FUNDS</b>									
<b>Market Value</b>									
March 31, 2000	8,173.7	1,007.1	3,112.7	135.5	786.1	1,897.9	56.0	15,169.0	
February 29, 2000	7,924.8	965.3	2,967.0	196.2	749.2	1,886.6	39.8	14,728.9	
November 30, 1999	7,697.9	918.2	2,755.6	157.6	722.0	1,903.3	26.8	14,181.4	
August 31, 1999	7,465.6	890.3	2,602.3	165.2	764.5	1,769.4	13.1	13,670.4	
August 31, 1998	6,517.1	-	2,147.7	157.4	655.8	1,809.6	-	11,287.6	
August 31, 1997	6,368.3	-	2,125.0	146.3	569.3	1,631.4	-	10,840.3	
August 31, 1996	5,292.1	-	1,712.1	149.2	561.4	1,332.1	-	9,046.9	
UTIMCO formation (3/1/96)	5,280.7	-	1,694.9	170.7	593.5	1,266.8	-	9,006.6	
August 31, 1995	4,958.5	-	1,549.7	300.9	526.2	1,123.7	-	8,459.0	
August 31, 1994	4,428.0	-	1,214.4	516.5	322.0	945.3	-	7,426.2	
August 31, 1993	4,470.9	-	1,119.0	823.0	194.5	696.1	-	7,303.5	
August 31, 1992	4,145.4	-	949.3	1,559.5	181.5	-	-	6,835.7	
August 31, 1991	3,930.7	-	763.7	1,382.4	243.4	-	-	6,320.2	

# FUND PERFORMANCE

	Net Asset Value (in Millions)	Periods Ended March 31, 2000					Fiscal Year
		One Month	Three Months	One Year	Three Years	Five Years	To Date
<b>ENDOWMENT FUNDS</b>							
Permanent University Fund	\$ 8,174.7	2.83	5.33	16.33	16.54	16.22	12.70
Permanent Health Fund	1,007.1	3.61	3.22	-	-	-	13.62
Long Term Fund	3,111.8	3.20	5.29	23.96	18.74	17.68	17.71
Endowment Policy Portfolio (Benchmark)	\$ 12,293.6	3.14	2.85	17.67	17.31	16.67	12.26
<b>OPERATING FUNDS</b>							
Short Intermediate Term Fund	\$ 1,897.9	1.12	1.50	2.58	6.22	6.26	2.21
Composite Index		0.63	1.24	3.65	5.71	6.03	2.62
Short Term Fund	\$ 786.1	0.50	1.46	5.47	5.56	5.59	3.31
90 day Treasury Bill Rate		0.52	1.39	5.08	5.17	5.33	3.12
	\$ 2,684.0						



## ENDOWMENT FUNDS AS A WHOLE EXPOSURE BY ASSET CLASS

As of March 31, 2000			
Neutral	Asset Class	Actual	Neutral Over(Under)
25.0%	Equities: U.S. Large/Med. Cap.	3,531.1	3,073.4
7.5%	Equities: U.S. Small Cap.	1,242.8	922.0
12.0%	Equities: Non U.S. - EAFE	1,760.1	1,475.2
3.0%	Equities: Non U.S. - Emerging Mkts.	243.4	368.8
10.0%	Alt. Equities: Marketable	698.5	1,229.4
15.0%	Alt. Equities: Non - Marketable	1,456.2	1,844.0
7.5%	Alt. Equities: Inflation Hedging	895.5	922.0
15.0%	Fixed Income: U.S.	1,763.0	1,844.0
5.0%	Fixed Income: Non-U.S.	262.9	614.7
0.0%	Cash & Cash Equivalents	440.1	-
<b>100.0%</b>	<b>Endowment Policy Portfolio</b>	<b>12,293.6</b>	<b>12,293.6</b>
			<b>0.0</b>

**Equities: U.S. Large/Med. Cap. - 25%**  
**\$3,074.3 Million**

Portfolio Strategy	Internal vs.		Portfolio Manager
	%	External	
S&P 500/S&P MidCap Index	66%	External	Barclays Global Investors
S&P 500 Enhanced Index	10%	External	J.P. Morgan - REI
S&P 500 Enhanced Index	10%	External	J.P. Morgan - SSS
Active - GAA	11%	External	Goldman Sachs Asset Mgmt.
Active	3%	External	Davis Hamilton & Jackson
Active	0%	External	MBA Investment Fund
	<u>100%</u>		Total

**Equities: U.S. Small Cap. - 7.5%**  
**\$922 Million**

Portfolio Strategy	Internal vs.		Portfolio Manager
	%	External	
Russell 2000 Index	25%	External	Barclays Global Investors
Active - Value	25%	External	Schroders
Active - Value	8%	External	<i>TBD</i>
Active - Growth	18%	External	Pilgrim/Northstar
Active - Growth	8%	External	Cordillera
Active - Growth	5%	External	Fortaleza
Active - GAA	11%	External	Goldman Sachs Asset Mgmt.
	<u>100%</u>		Total

**Equities: Non U.S. EAFE - 12%**  
**\$1,475.2 Million**

Portfolio Strategy	%	Internal vs.		Portfolio Manager
		External	External	
EAFE Index	33%	External	Barclays Global Investors	
Active-Small Cap	33%	External	Capital Guardian	
Active	23%	External	<i>TBD</i>	
Active - GTAA	11%	External	Goldman Sachs Asset Mgmt.	
	<u>100%</u>		Total	

**Equities: Non U.S. Emerging Mkts. - 3%**  
**\$368.8 Million**

Portfolio Strategy	%	Internal vs.		Portfolio Manager
		External	External	
Active	45%	External	Templeton	
Active	45%	External	<i>TBD</i>	
Active - GAA	10%	External	Goldman Sachs Asset Mgmt.	
	<u>100%</u>		Total	

**Alt. Equities: Marketable - 10%  
\$1,229.4 Million**

Portfolio Strategy	Internal vs.		Portfolio Manager
	%	External	
Active - Hedged Equity	20%	External	Farallon
Active - Hedged Equity	30%	External	Maverick Capital
Active - Risk Arbitrage	20%	External	Perry Partners
Active - Distressed	-	External	Oaktree Capital Mgmt.
Active - Mkt. Neutral, etc.	30%	External	<i>TBD</i>
	100%		Total

**Alt. Equities: Non Marketable - 15%  
\$1,844 Million**

Portfolio Strategy	Internal vs.		Portfolio Manager
	%	External	
Partnerships	75%	External	Various
Direct Co-Investments	25%	Internal	UTIMCO
	100%		Total

**Alt. Equities: Inflation Hedging - 7.5%  
\$922 Million**

Portfolio Strategy	Internal vs.		Portfolio Manager
	%	External	
GS Commodity Index Fut	50%	Internal	UTIMCO
Oil and Gas	4%	External	Goldston, etc.
REITs	46%	Internal	UTIMCO
	100%		Total

**Fixed Income: U.S. - 15%**  
**\$1,844 Million**

Portfolio Strategy	%	Internal vs.		Portfolio Manager
		External	Internal	
Active- Lehman Aggregate	44%	Internal	UTIMCO	
Active- Lehman Aggregate	45%	External	PIMCO	
Active - GTAA	11%	External	Goldman Sachs Asset Mgmt.	
	100%		Total	

**Fixed Income: Non U.S. - 5%**  
**\$614.7 Million**

Portfolio Strategy	%	Internal vs.		Portfolio Manager
		External	Internal	
Active- Salomon Non US WGI	89%	External	PIMCO	
Active - GTAA	11%	External	Goldman Sachs Asset Mgmt.	
	100%		Total	



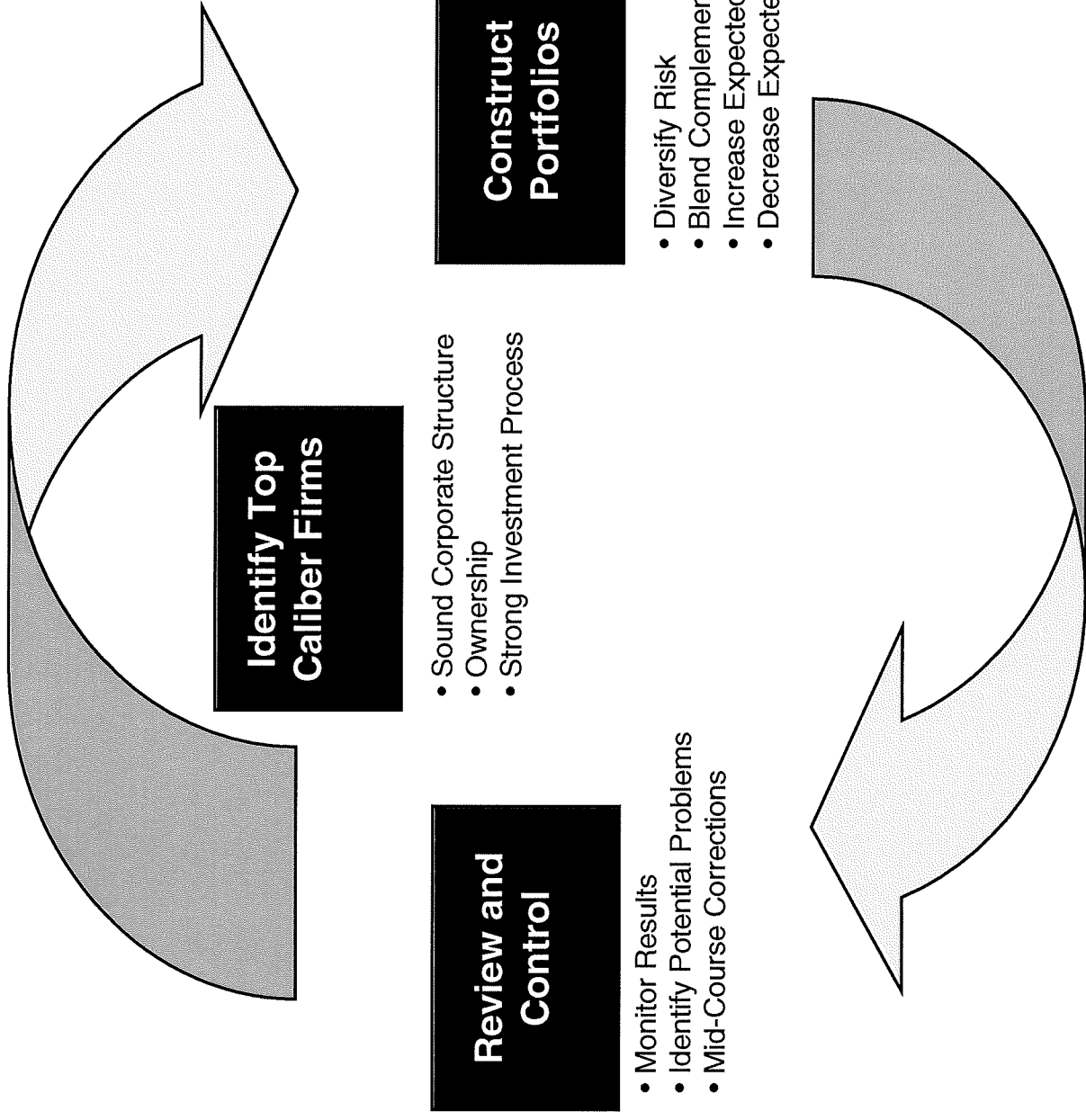
# **Public Market Manager Evaluation Process**

## **Selection and Recommendation Process for Active EAFE Manager and Active Emerging Market Manager**

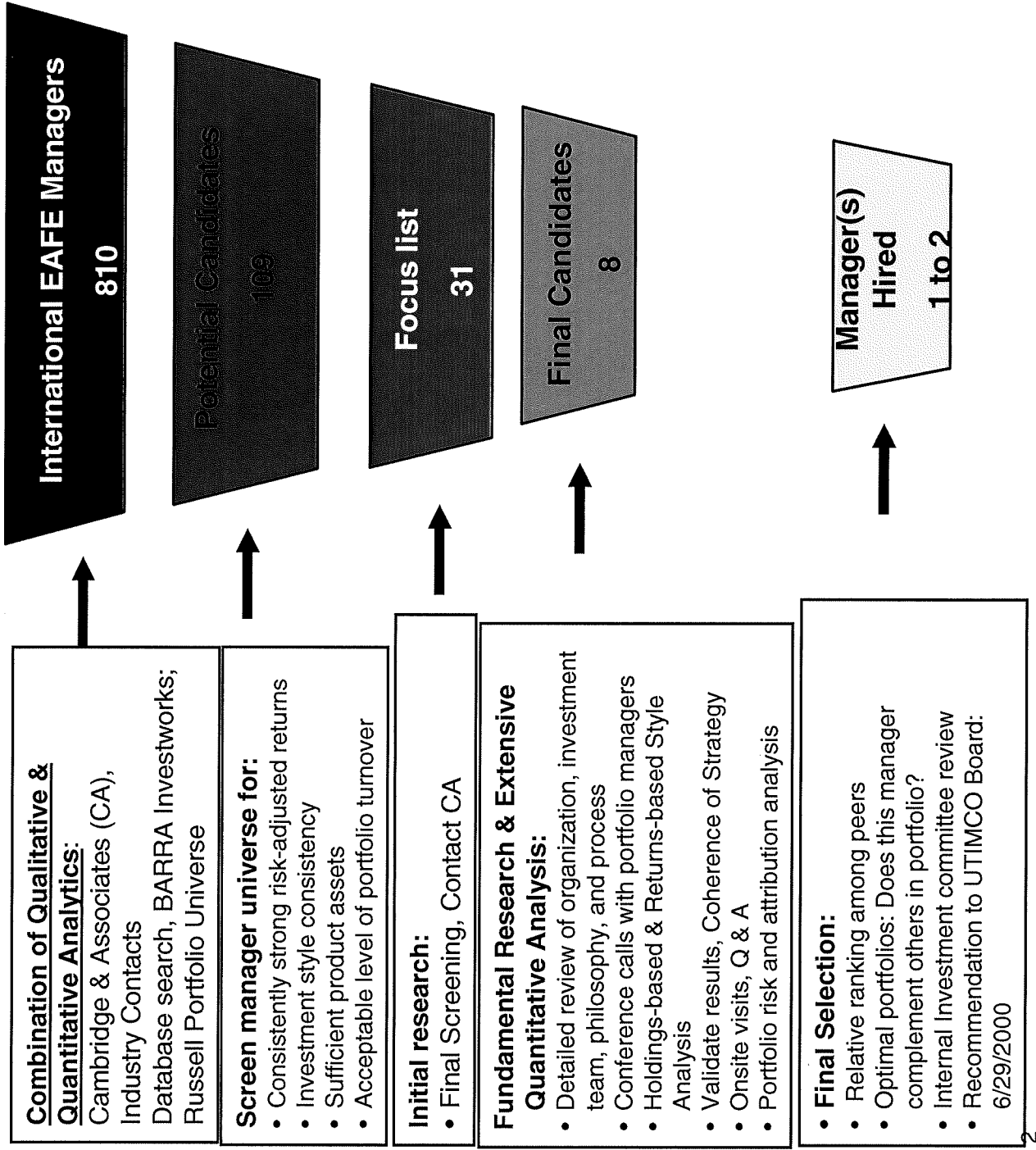
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# Manager Selection Process

*A comprehensive manager selection effort aimed at identifying top caliber firms with superior risk-adjusted returns.*



# Active Ongoing EAFE Manager Search



## Combination of Qualitative & Quantitative Analytics:

### International EAFE Managers

810

- **FIRST CUT: Review of Manager Performance Records, Style, Assets under management, AIMR compliance, and other investment ranking criteria from the InvestWorks and Frank Russell Database Screens. PLUS: Any “cold call” managers who are not in the database are added.**
- **811 International Managers in the InvestWorks database, overlap in the Frank Russell Company (FRC) Universes, gaps in FRC filled with manager provided data .**
- **NEXT STEP: Screen pool further to reduce to managers who could take substantial capital.**

# Raw Data Screens for Active EAFE Managers

## Initially 810 International Managers:

Firm's Name	Fund Name	Product Type	Investment	Product I	Product A	Primary I	Primary P	Research	Minimum	Fee: S
1898 Investment Advisors Funds	1898 International Equity	Mutual Fund	Equity	8/1/95	95.6					
59 Wall Street Trust	59 Wall St International	Equity	Equity	6/1/97	78.2					
ABN AMRO Funds	ABN AMRO Intl Equity Cc	Mutual Fund	Equity	1/1/93	204.7					
ABN AMRO Funds	ABN AMRO Intl Equity Inv	Mutual Fund	Equity	4/1/93	1.7					
ABN-AMRO Asset Management (USA)	International Equity	Separate Account	Equity	1/4/93	217	Sector Rot	MSCI EAFE		10	
Acadian Asset Management, Inc.	Acadian Intl Equity Strate	Separate Account	Equity	4/1/88	2775	Value Con	MSCI EAF Multiple Fe		25	75
Acadian Asset Management, Inc.	International Large-Cap Cc	Separate Account	Equity	1/1/95	1285	Value Con	MSCI EAF Multiple Fe		25	75
Accessor Funds	Accessor Intl Equity Adv	Mutual Fund	Equity	10/1/94	212.9					
Accessor Funds	Accessor Intl Equity Inv	Mutual Fund	Equity	7/1/98						
Accorn Investment Trust	Accorn Foreign Forty	Mutual Fund	Equity	11/1/98	83.4					
Advanced Investment Management L.P.	Enhanced International Inc	Separate Account	Equity	7/1/93	154	Benchmark Custom	lnn Multiple Fe		10	
Advisors Series Trust	Avatar Advantage Intl Eq	Mutual Fund	Equity	2/1/98	0.5					
Aetna Mutual Funds	Aetna International C	Mutual Fund	Equity	6/1/98	1.6					
Aetna Mutual Funds	Aetna International I	Mutual Fund	Equity	12/1/91	46					
Aetna Mutual Funds	Aetna International B	Mutual Fund	Equity	3/1/99	0.3					
Aetna Mutual Funds	Aetna International A	Mutual Fund	Equity	4/1/94	40.1					
AIG Global Investment Corp.	AIG International Equity	Commingled Fund	Equity	6/1/94	112.02					0.5
AIM Family of Funds	AIM International Equity B	Mutual Fund	Equity	9/1/94	1003.4					
AIM Family of Funds	AIM International Equity C	Mutual Fund	Equity	8/1/97	137.1					
AIM Family of Funds	AIM International Equity A	Mutual Fund	Equity	4/1/92	2305.7					
AIM Family of Funds	AIM Adv Intl Value C	Mutual Fund	Equity	5/1/95	109.2					
AIM Family of Funds	AIM Adv Intl Value B	Mutual Fund	Equity	3/1/98	5.6					
AIM Family of Funds	AIM Adv Intl Value A	Mutual Fund	Equity	1/1/97	31.4					
Alleghany Funds	Alleghany/Blair Intl Dev	Mutual Fund	Equity	6/1/93	105.4					
Alleghany Funds	Alleghany/Blair Intl Dev N	Mutual Fund	Equity	11/1/94	7.6					
Alliance Capital Funds	Alliance Worldwrd Priv C	Mutual Fund	Equity	2/1/95	26.7					
Alliance Capital Funds	Alliance Worldwrd Priv B	Mutual Fund	Equity	6/1/94	138.2					
Alliance Capital Funds	Alliance Intl Prem Grth B	Mutual Fund	Equity	3/1/98	28.5					
Alliance Capital Funds	Alliance Worldwrd Priv Adv	Mutual Fund	Equity	10/1/96	2.3					
Alliance Capital Funds	Alliance Worldwrd Priv A	Mutual Fund	Equity	6/1/94	374.2					
Alliance Capital Funds	Alliance Intl Prem Grth C	Mutual Fund	Equity	3/1/98	9.2					
Alliance Capital Funds	Alliance Intl Prem Grth A	Mutual Fund	Equity	3/1/98	12.8					
Alliance Capital Funds	Alliance International C	Mutual Fund	Equity	5/1/93	17.8					
Alliance Capital Funds	Alliance International B	Mutual Fund	Equity	9/1/90	60.8					
Alliance Capital Funds	Alliance International A	Mutual Fund	Equity	6/1/81	90.2					
Alliance Capital Funds	Alliance Intl Prem Grth Ad	Mutual Fund	Equity	3/1/96	2.4					
Alliance Capital Funds	Alliance International Adv	Mutual Fund	Equity	10/1/98	26.4					
Alliance Capital Management L.P.	Passive EAFE Composite	Separate Account	Equity	1/1/88	Indexed					35
Alliance Capital Management L.P.	ACM Group Trust Foreign	Commingled Fund	Equity	5/1/90	75	Growth Mc	MSCI EAF Bottom Up		3	80
Alliance Capital Management L.P.	International Passive Func	Commingled Fund	Equity	6/1/90	Indexed					12
Alliance Capital Management L.P.	Non-Us Equity	Separate Account	Equity	6/1/81	2684	Growth Mc	MSCI EAF Bottom Up		10	65
American AAdvantage Funds	American AAdvantage Intl Eq	Mutual Fund	Equity	8/1/94	61.3					
American AAdvantage Funds	American AAdvantage Intl Eq	Mutual Fund	Equity	8/1/94	6					
American AAdvantage Funds	American AAdvantage Intl Eq	Mutual Fund	Equity	8/1/94	642.7					
American AAdvantage Funds	American AAdvantage Intl Eq	Mutual Fund	Equity	8/1/91	612.5					
American Century Investments	American Cent Intl Gr Adv	Mutual Fund	Equity	10/1/96	61.2					
American Century Investments	American Cent Intl Gr Inst	Mutual Fund	Equity	11/1/97	115.5					

**Screen manager universe for:  
Consistently strong risk-adjusted returns  
Investment style consistency  
Sufficient product assets  
Acceptable level of portfolio turnover**

**Potential EAFE Candidates**

**109**

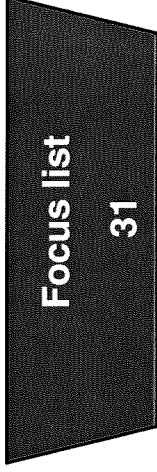
- **Pool Reduced to 109**
- **Ongoing: Discuss Managers with Colleagues and Cambridge & Associates (CA) consultants.**
- **NEXT STEP: Reduce Candidate Pool further**
- **Rank Order on various metrics: Assets under management, years of consistency performance, decile rankings, turnover data, risk-adjusted returns, information and Sharpe ratios.**

# Raw Data Screens for Active EAFE Managers

## Reduce to 109 Managers:

Organization	Universe Membership		Annualized Returns for the period ending December 31, 1999										
	World Equity Portfolios	Non-US Equity Portfolios	1 Yr. Ret.	2 Yr. Ret.	3 Yr. Ret.	4 Yr. Ret.	5 Yr. Ret.	6 Yr. Ret.	7 Yr. Ret.				
ABN AMRO Asset Management - ABN AMRO EAFE		X	43.46	34.86	24.43	21.05	19.90	17.23	18.70				
Acadian Asset Management, Inc. - Intl LC Core059		X	18.94	17.56	13.67	13.08	13.90						
Alliance Capital Management, L.P. - GblEq220890009	X		31.66	27.71	23.65	21.57	21.06	17.33					
Alliance Capital Management, L.P. - Non-US KAM.104		X	46.04	30.31	21.71	18.13	16.80	15.12					
American Century World Mutual Funds, Inc. - AmerCent Intl		X	66.53	41.71	34.57	29.74	26.40	20.95	24.17				
American Express Asset Mgmt. International Inc. - Intl Coll Fund		X	53.14	35.59	24.18	20.28	19.73	16.64	18.68				
Arnhold & S. Bleichroeder Inc. - Gbl Eq Mut Fd	X		19.27	17.26	15.29	16.17	15.87						
Arnhold & S. Bleichroeder Inc. - Intl Acct		X	19.59	23.14	16.65	18.69	18.36	15.56					
Artisan Partners Limited Partnership - Intl Acct 01		X	82.70	56.56	37.04	36.88							
Baillie Gifford Overseas Limited - C-B		X	42.53	31.90	24.57	22.13	19.81	16.51					
Bank of Ireland Asset Management Limited - Gbl Eq 1443232	X		16.99	18.30	18.23	20.34							
Bank of Ireland Asset Management Limited - Intl Eq 828954		X	33.77	24.81	18.11	19.62	19.62	14.80	18.82				
Barclays Global Investors, N.A. - Intl Alpha Titl		X	26.96	22.57	14.81	13.34							
Baring Asset Management - A/P A Intl Fd		X	22.81	21.75	18.98	15.79	14.92	12.46	16.26				
Baring Asset Management - Gbl Fd	X		31.45	25.75	25.75	22.96							
Baring Asset Management - Non-US Com Fd		X	20.14	20.06	15.96	14.31	14.15	11.39	14.99				
Barlett & Co. - Barlett Value		X	34.27	15.24	12.79	14.09	13.49	11.27	14.08				
Batterymarch Financial Management - BW 399 Rep EAFE		X	22.22	18.64	14.47	14.82	13.84	12.49	15.06				
BlackRock Financial Management - Intl Eq Fund		X	32.46	23.97	17.52								
Blair/ole Capital Management Ltd. - Intl Develop MF		X	22.57	23.84	16.46	13.96	14.81	13.71	16.63				
Brandes Investment Partners, Inc. -	X		22.77	16.91	21.83	23.14	21.74	18.13	21.75				
Brandes Investment Partners, Inc. - Account		X	55.37	36.12	30.42	26.71							
Brandywine Asset Management, Inc. - Intl Val Acct46		X	42.76	23.70	17.32	16.01	12.87						
Brinson Partners, Inc. - A/P Client C		X	27.95	23.55	17.05	15.74	16.19	14.01	15.64				

**Initial research:  
Final Screening, Contact CA**



- **Pool Reduced to 31**
- **NEXT STEP: Reduce Candidate Pool further to arrive at the Final Candidate Pool**
- **Contact CA Consultants, Industry Peers**
  - Review culled list
  - Discuss merits of each remaining manager in a multi-manager,
  - multi-asset class portfolio



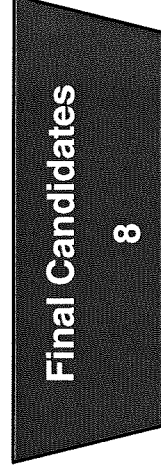
# Raw Data Screens for Active EAFE Managers

## Reduce to 31 Managers:

Raw Data from Investworks:			
Firm's Name	Fund Name	Product Ty Investment Type	Product In Product A: Primary In Primary Product Benchm
Artisan Partners	Artisan International Fund	Comminglk Equity	12/28/95 3054 Growth Va MSCI EAFE
Artisan Partners	Artisan International Equity	Separate f Equity	1/1/96 4684 Growth Va MSCI EAFE
Capital Management Associates, Inc.	International ADR	Separate f Equity	1/1/93 23 Country/R MSCI EAFE
Driehaus Capital Management, Inc.	Driehaus International Growth	Separate f Equity	7/1/90 993 MSCI EAFE
Marvin & Palmer Associates, Inc.	MPA Non-U.S. Equity L.P.	Comminglk Equity	8/1/89 393 Country/C MSCI EAFE
Marvin & Palmer Associates, Inc.	Non US Equities	Separate f Equity	10/31/88 9528 Country/C MSCI EAFE
Nicholas-Applegate Capital Management	International Growth	Separate f Equity	1/1/94 3397.6 Growth Mc MSCI EAFE
Oechsle International Advisors	Select Equity	Separate f Equity	4/1/94 916 Stock Pick MSCI EAFE
Pinnacle Associates Ltd.	Int'l Growth Portfolio	Separate f Equity	1/1/92 522 Growth St MSCI EAFE
State Street Research & Management Co.	Concentrated Intl Equity	Separate f Equity	6/1/91 83 Stock Pick MSCI EAFE
Trust Fund Advisors, Inc.	International Equity	Separate f Equity	1/1/94 165 MSCI EAFE
TT International	Active International Equity	Separate f Equity	3/31/90 3974 Country/R MSCI EAFE
Waddell & Reed Asset Management Group	Int'l Growth Equity Composite	Separate f Equity	3/1/90 130.8 Country/R MSCI EAFE
Dresdner RCM Global Invests	Dresdner RCM International Growth	Comminglk Equity	12/31/94 286 Growth St MSCI World ex US
Dresdner RCM Global Invests	International Equity	Separate f Equity	10/31/90 4544 Growth St MSCI World ex US
Wells Capital Management	International Equity	Separate f Equity	1/1/94 323.72 MSCI All Country World
Brandes Investment Partners, L.P.	International Equity	Separate f Equity	6/30/90 29199 Value Low MSCI EAFE
Capital Guardian Trust Company	Non-US Equity Commingled Fund	Comminglk Equity	7/1/78 16351 Other Inves MSCI EAFE
Capital Guardian Trust Company	Non-US Equity Composite	Separate f Equity	7/1/78 54432 Other Inves MSCI EAFE
Diversified Investment Advisors	International Equity Fund	Comminglk Equity	8/1/90 350 MSCI EAFE
Fiduciary Trust Company International	International Equity Fund	Comminglk Equity	1/1/78 16 Growth St MSCI EAFE
Kayne Anderson Investment Management, LLC	International Rising Dividends	Separate f Equity	7/1/94 444.3 Value Gro MSCI EAFE
Neuberger Berman, LLC	International Equity	Separate f Equity	6/30/94 204 Value Low MSCI EAFE
Oechsle International Advisors	Separate Account	Separate f Equity	1/1/80 6599 Growth Err MSCI EAFE
Putnam Investments, Inc.	International Equity	Separate f Equity	1/1/87 10058 MSCI EAFE
Putnam Investments, Inc.	International Equity Fund LLC	Comminglk Equity	7/1/94 5001 MSCI EAFE
Simms Capital Management, Inc.	International Equity	Separate f Equity	1/1/92 679.5 Growth St MSCI EAFE
St/Kim International Investment Assoc.	International Equity (EAFE+)	Separate f Equity	11/1/90 1303 Growth Va MSCI EAFE
State Street Global Advisors	IGOF	Separate f Equity	1/1/90 339 MSCI EAFE
Unibank Investment Management	EAFE Equities	Separate f Equity	1/1/95 1151 MSCI EAFE

## **Fundamental research (1):**

**Detailed review of organization, investment team, philosophy, and process**  
**Conference calls with portfolio managers**  
**Holdings-based & Returns-based Style Analysis**  
**Validate results, Coherence of Strategy**  
**Onsite visits, Q & A**  
**Portfolio risk and attribution analysis**



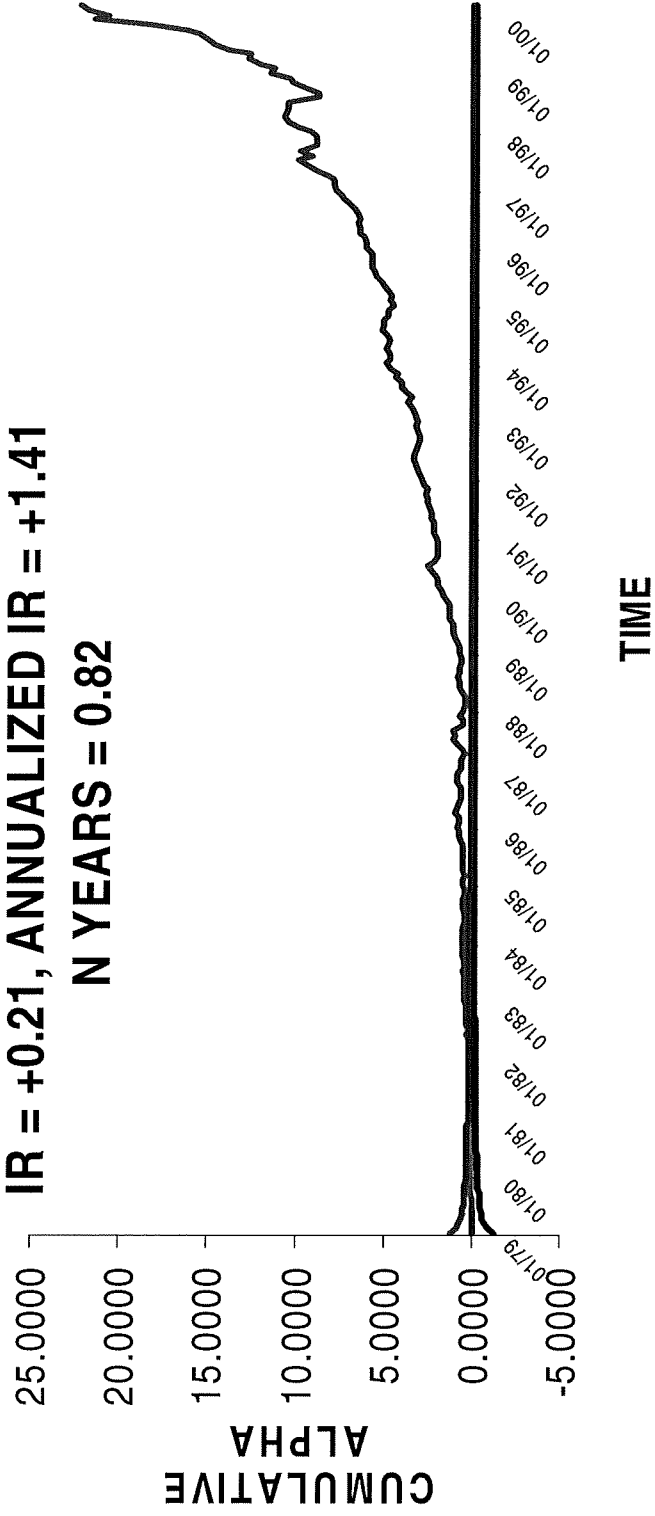
- **Ongoing Discussions with Cambridge continue, reduce pool to consensus between UTIMCO and CA “best fit” managers**
- **Directly Contact firms, accumulate firm generated metrics, create UTIMCO analytical screens for each manager**
  - See next page as an example of just one metric:
    - **CGTC Developed International v. EAFE: 80% Confidence Interval**
    - **Answers the question: Has the manager consistently added value over the benchmark?**
- **Site Visits with the Finalists**

# CGTC Developed International v. EAFE CUMULATIVE ALPHA

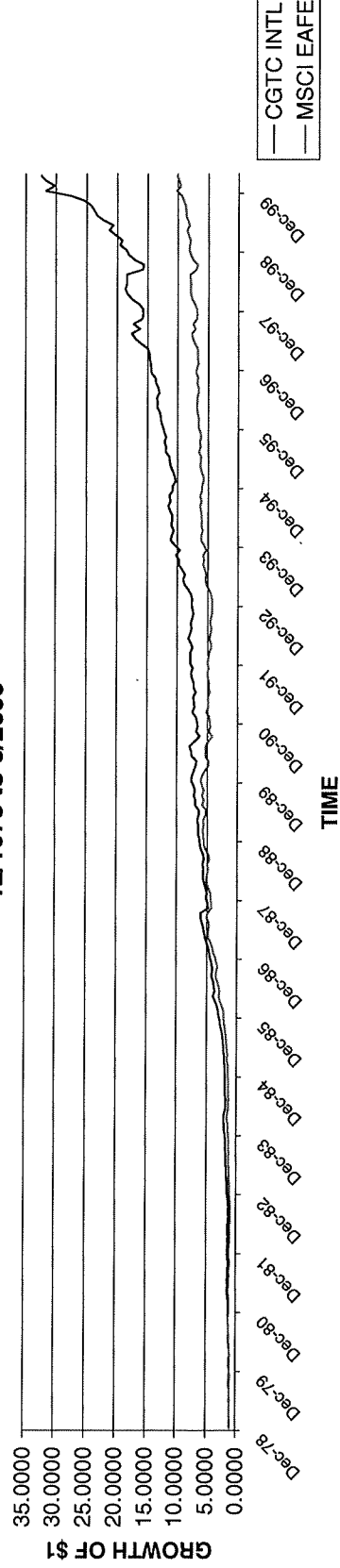
80% Confidence Interval

IR = +0.21, ANNUALIZED IR = +1.41

N YEARS = 0.82



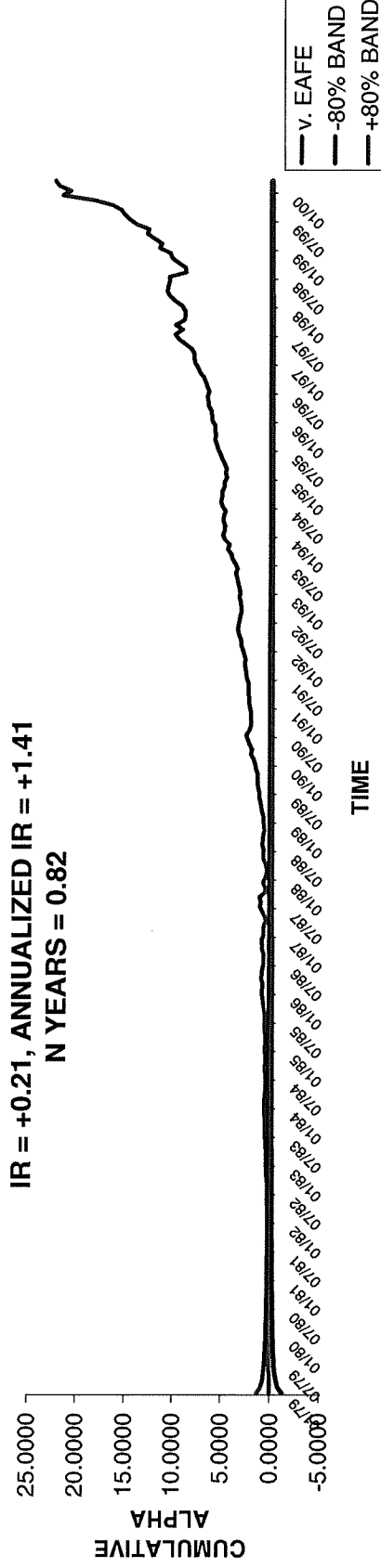
**CGTC Developed Intl v. EAFE  
12/1978 to 3/2000**



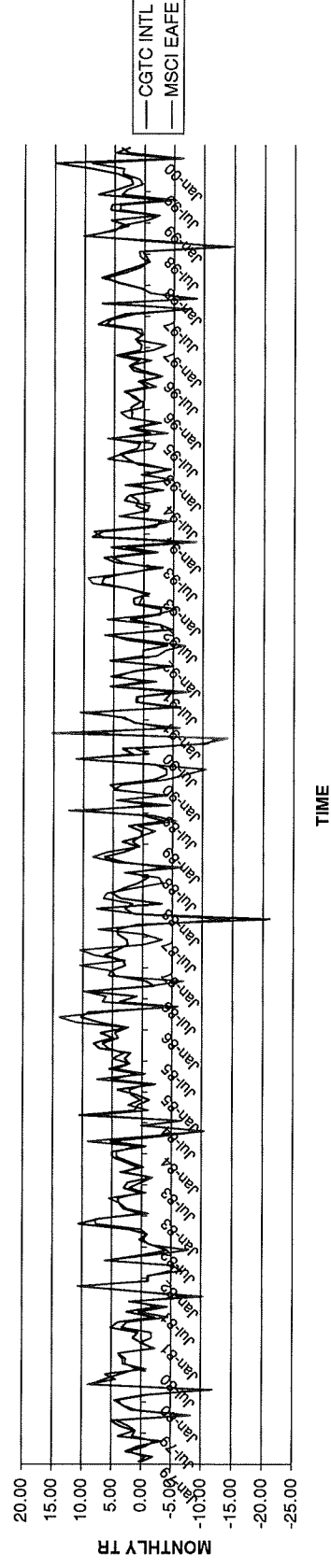
**CGTC Developed International v. EAFE CUMULATIVE ALPHA**

80% Confidence Interval

IR = +0.21, ANNUALIZED IR = +1.41  
N YEARS = 0.82



**CGTC Developed Intl MONTHLY VOLATILITY**



**EAFE International**  
Cumulative Return  
v. EAFE

	CGTC INTL	MSCI EAFE
Cumulative Return	3146.98	2231.19
Annualized Return	17.80%	11.53%

Annualized Alpha

Ex Post Beta:  
v. EAFE

0.8071

Standard Deviation

0.81

Tracking Error

15.89%

Naïve Return/Risk:

-1.26%

1.12

Downside Risk:

0.67

12.60%

Information Ratio:

0.2152

Monthly Alpha Risk

2.07%

Annualized Alpha Risk

7.16%

Annual Info Ratio

1.4146

1/1988 to 3/2000

255 Months

21 years + 3 months

CORRELATION

	CGTC INTL	MSCI EAFE
CGTC INTL	1	
MSCI EAFE	0.908875031	1

t-Test: Paired Two Sample for Means

	CGTC INTL	MSCI EAFE
Mean	1.480504261	1.035536078
Variance	21.04504671	24.52688788
Observations	255	255
Pearson Correlation	0.908875031	
Hypothesized Mean Difference	0	
df	254	
t Stat	3.437094563	
P(T<=t) one-tail	0.000343424	
t Critical one-tail	1.650873855	
P(T<=t) two-tail	0.000686849	
t Critical two-tail	1.968347068	

T-STAT

3.437094563

T-DIST

0.000343221

PROBABILITY:

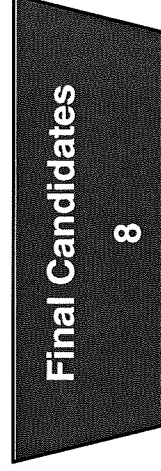
99.97% (of skill)

N-Years to "be sure" of skill or no skill 80%:

0.82

## Fundamental research (2):

Detailed review of organization, investment team, philosophy, and process  
Conference calls with portfolio managers  
Holdings-based & Returns-based Style Analysis  
Validate results, Coherence of Strategy  
Onsite visits, Q & A  
Portfolio risk and attribution analysis

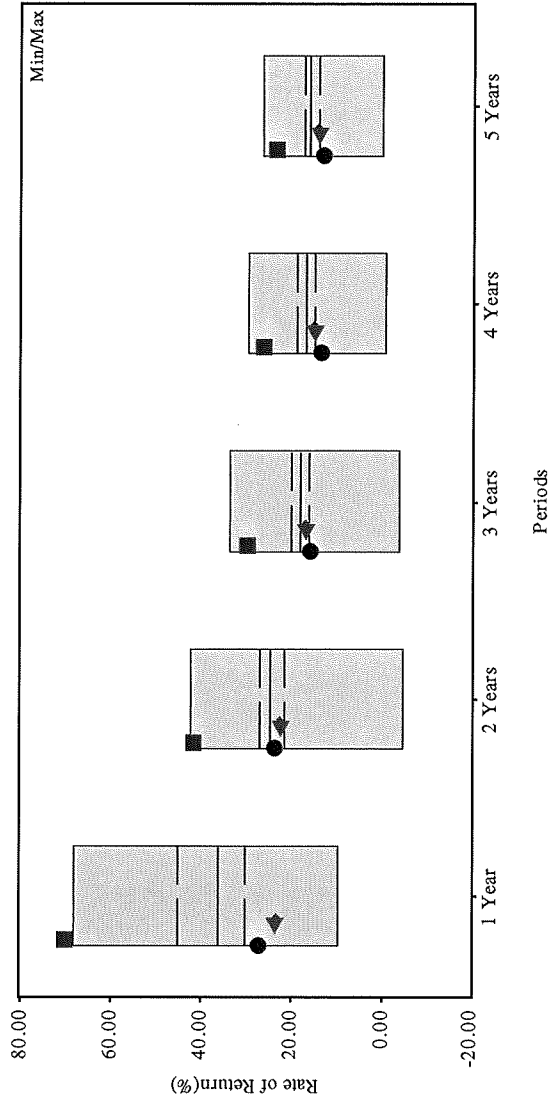


- How does Focus List Rank in FRC Quartile Charts? Continue or drop?
- Examine actual portfolio holdings, determine weights relative to the benchmark weights. Is manager true to process?
- Due Diligence with Investment Managers, cut through marketers
- ***THIS IS WHERE WE ARE IN THE EAFE SEARCH PROCESS as of 4/27/2000***
- **UTIMCO Qualitative Matrix: Combine Qualitative features (pp14-15)**
- **NEXT STEP: Reduce Candidate Pool further to the Hiring Recommendation --> 1 to 2 Managers**

# NON-US EQUITY SEGMENT-BILLION DOLLAR CORPORATE

## Ending Friday, December 31, 1999

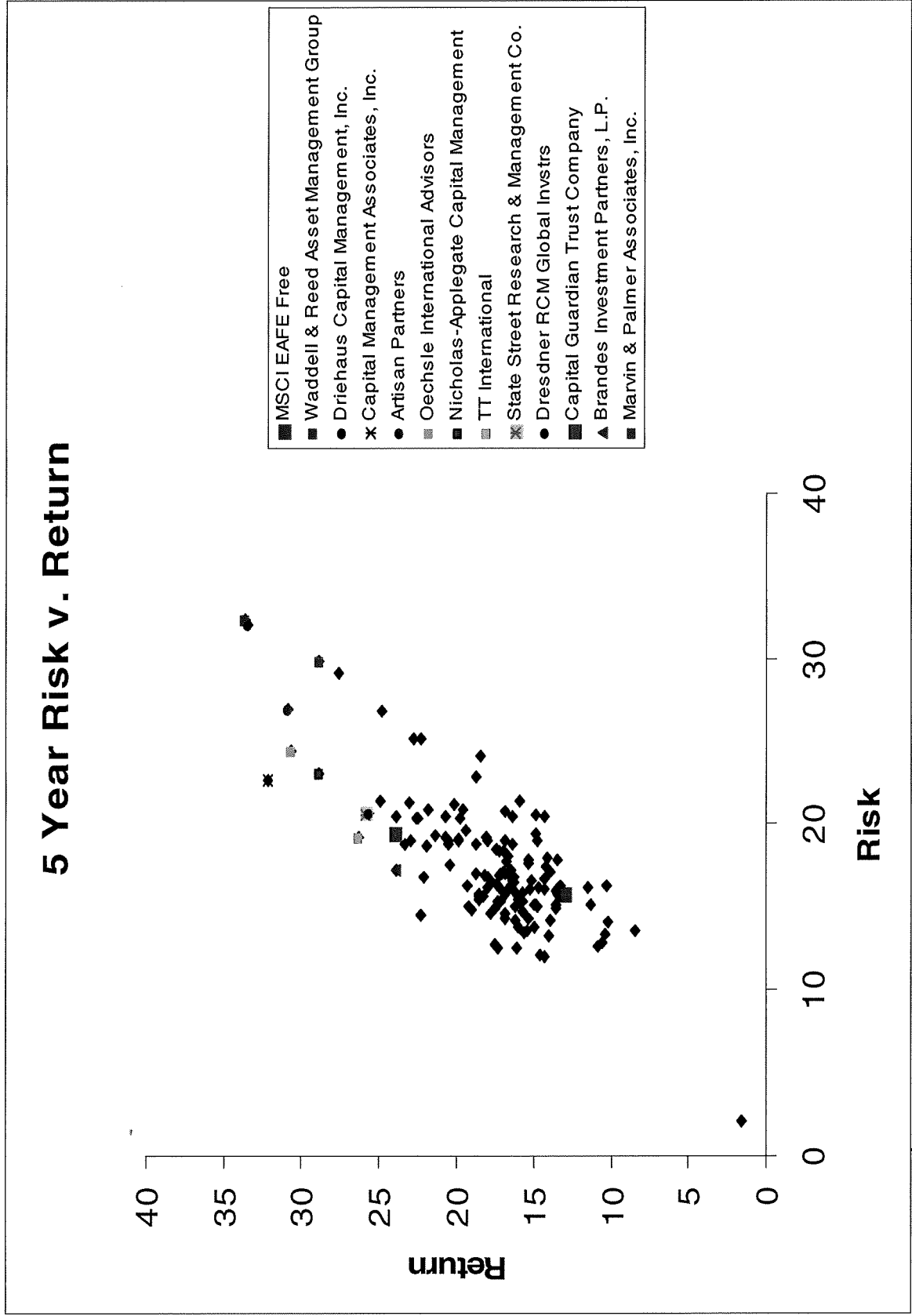
### Quartile



- MSCI EAFE
- ▲ Oechsle Intl - International Rep Account K (Selec
- ◆ BOATMEN'S - LTF
- \* Jennison Assoc - Account C-88
- ⊕ Brandes Inv - International Equity DEH80
- \* Artisan Partars - International Representative Ac
- \* Hansberger Inv - International Equity Separate Ac
- Artisan Partars - International Representative Ac
- Capital Guardian Trust - EAFE
- ◀ BOATMEN'S - PUF
- ◇ TT Intl Inv - Account G Retirement Plan
- \* Morgan Stan-NY - Pooled International Equity Trus
- ▼ Templeton Inv - International Equity Account 5139
- Bank of Ireland - International Equity Account 82
- Stichester Intl - SII International Equity Group
- △ Barclays NA - International Alpha Tilts

Universe Source: (c) Russell/Mellon Analytical Services

# Risk/Return Scatterplot: Did we miss the outliers?



## Qualitative Management Features (1)

- Is the investment process/performance sustainable ?
    - Relative to the Markets? Other managers? Other managers with similar philosophy?
    - Is it a well constructed portfolio ?
    - Is it a robust methodology ? Coherent ? Explainable ?
    - Faithfulness to execution ?
    - Fit with UTIMCO manager structure and objectives ? Understanding of “Endowment” management ?
  
  - Does the investment manager have the interests of the client and internal portfolio managers aligned ?
    - Does the manager have a clear understanding of UTIMCO’s objectives ?
    - Stated interest in UTIMCO’s mission, not just another “client?”
    - Do PM’s strive to outperform client’s benchmark or increase assets under management?
    - Are the PM’s and Analysts properly financially incentivized ?
    - Stability of personnel ? Experience as a cohesive team? Years together ?
    - Availability of Key Personnel ?
    - “Star” syndrome ? Or, the sum of the team is greater than the whole ?
-



## Qualitative Management Features (2)

- Does the investment strategy complement/enhance the other multi-asset class portfolios in the overall fund ?
    - Are there diversifying benefits to adding the portfolio to the mix of other managers/portfolios ?
  - Establish Risk and Return Expectations.
    - Ensure that minimum investment targets are met.
  - Organizational Structure: Relationship of Asset Size (current and expected)
    - Administrative complexity
  - Familiarity with own Portfolio?
    - Triangulate for a consistent story
-

## Reasons for Manager Termination (1)

- Disconnect between stated process and observed results
- Style Drift, Increasing Risk, Extreme negative tracking error, Poor relative performance with respect to previously agreed upon benchmark
- Weak organizational characteristics
- Key individuals/star leave, Ownership/incentive structure flawed
- Judgement that historical performance is not sustainable
- Extraordinary Value-added over the short run.
- Incomplete disclosure
- Legal or compliance issues
- Violations of guidelines or overall policies

**Constant Vigilance:**  
***Continually evaluate managers to identify real or potential weaknesses.***

**Monitoring:**  
***Feedback Loop.***  
***Monthly holdings based analysis of Publicly traded portfolios.***

***Comparison to Peer Group universe.***

## Reasons for Manager Termination (2)

- Initial Steps leading to Termination or Mid-Course correction
    - Watch list: BUY/HOLD/SELL
    - Reduction in assets under management
-

## **Quantitative Metrics: Pre-Hire and Post-Hire**

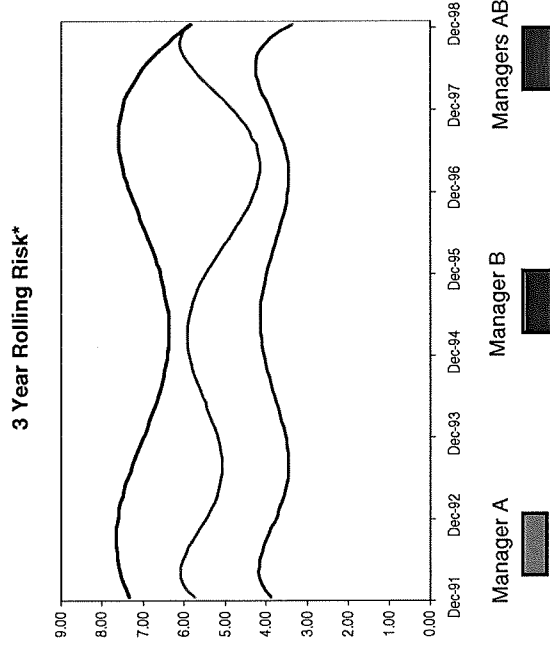
- **Examples of Pre-Hire Optimization and Portfolio Blending**
  - **Examples of BARRA-based metrics, produced Monthly**
    - **Factor Exposures**
    - **Attribution Analysis**
      - **Macro and Micro**
-

# Construct Portfolios

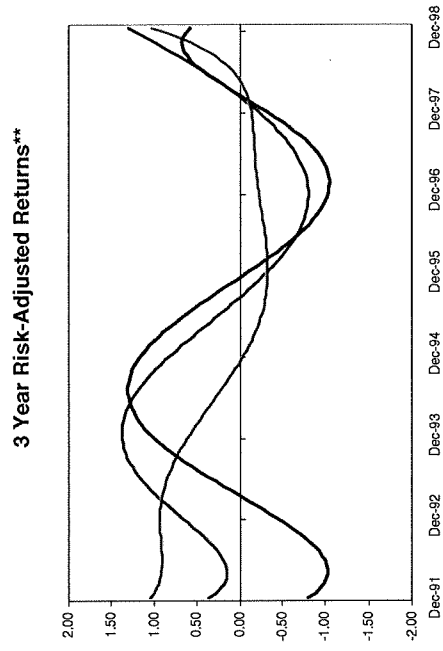
## Sample Portfolio Blending and Optimization

***By identifying and blending managers with complementary approaches, we seek to achieve strong risk-adjusted returns with lower portfolio volatility.***

➤ **Combine managers in seeking to reduce risk...**



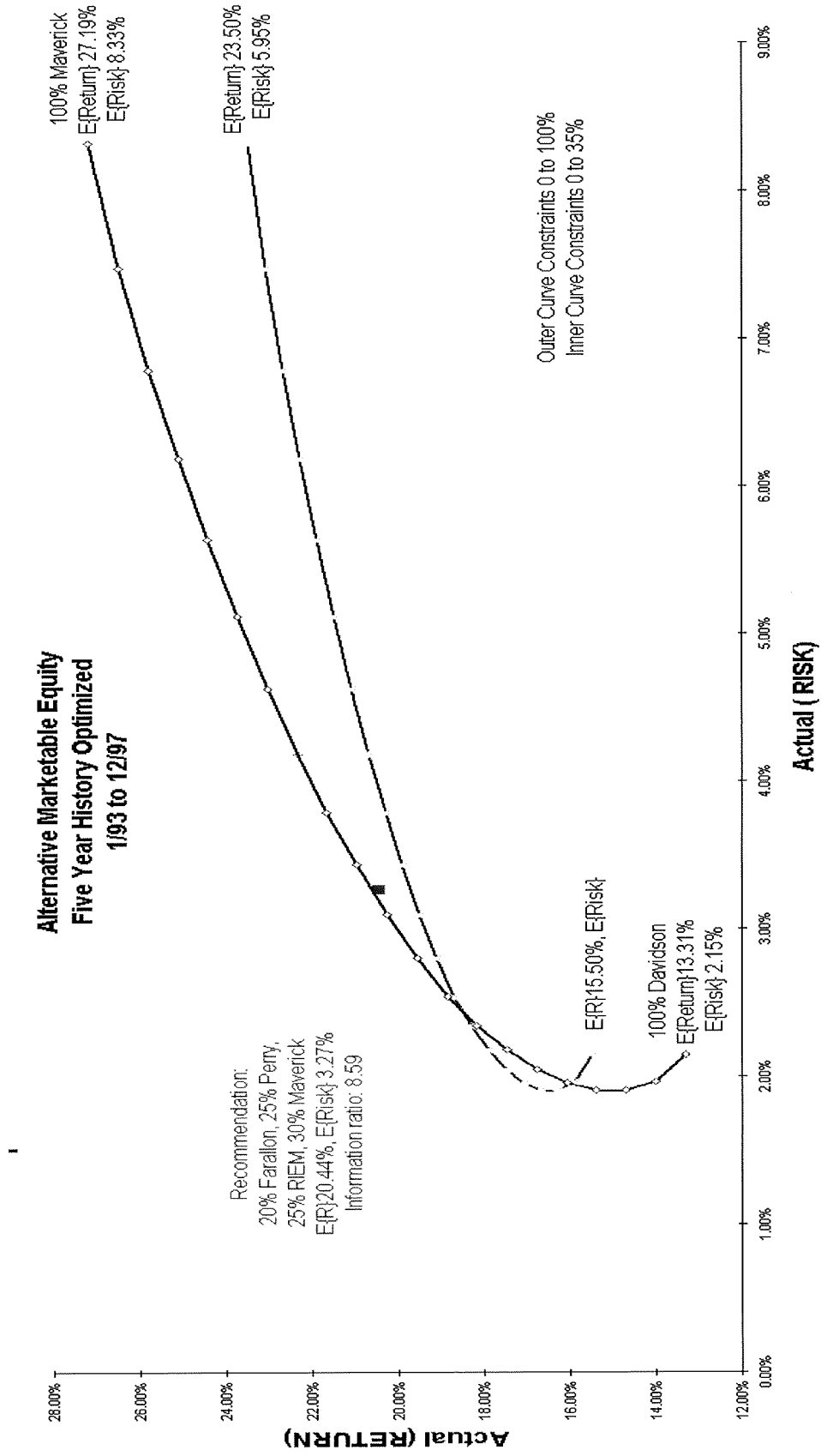
➤ **While striving to maintain strong risk-adjusted returns.**



\*Tracking Error

\*\*Risk-adjusted returns are measured by information ratio, which is a similar measure to Sharpe Ratio, but focuses on the relative rate of return per one relative unit of risk (where Sharpe Ratio focuses on absolute). Information ratio is measured by dividing the excess rate of return with the tracking error. The higher the information ratio, the more value-added a manager has contributed to the portfolio's performance.

# Portfolio Optimization Example: Alternative Marketable Equity Candidate Efficient Frontier and Manager Recommendation:



# After the Hire: Review and Control

**Program is designed to review the relevant aspects of each firm to monitor compliance with stated objectives and provide transparency of the underlying portfolios.**

**UTIMCO Staff will not invest in a strategy that is not easily explained or transparent.**

**We emphasize the Public nature of the Endowment assets with all potential managers.**

## Portfolio Characteristics

### Financial Ratios

### Risk Factors

### Industry Exposures

### Over- & Under-weights

## Investment Risk

### Volatility

### Style

### Size

## Portfolio Performance vs. Objectives

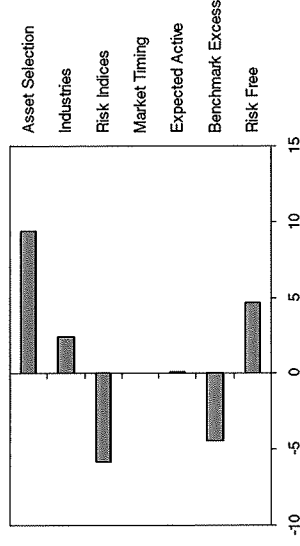
### Attribution Analysis

## BARRA Aegis

### Portfolio Characteristics

Manager A	S&P/Barra Growth Index
Market Capitalization (median)	Higher than Benchmark
Number of Stocks	55
P/E Ratio	41.4
P/B Ratio	14.56
Current Yield (%)	0.81
Return on Equity (%)	24.47
Historical Beta	1.21
5 Year Earning Growth	12.59
Wtg Avg Mkt Cap (\$m)	110.24
	152.98

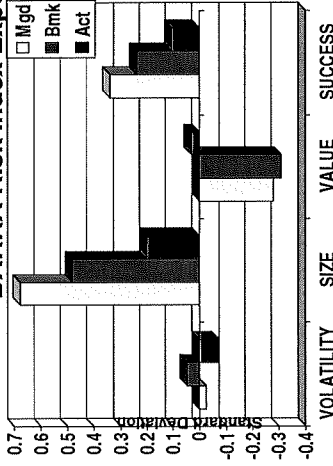
## BARRA Performance Attribution



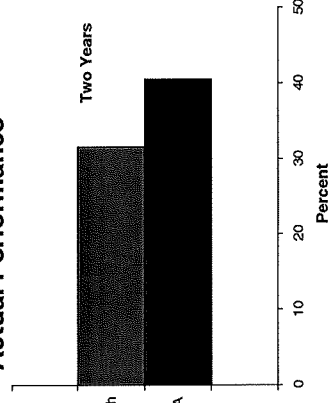
## Best and Worst Policies

	Avg Active Exposure	Return %
<b>5 Best Policies</b>		
1. COMPUTER HARDWARE	9.15	2.56
2. WIRELESS TELECOM	2.66	2.93
3. ELECTRONIC EQUIPME	3.33	1.44
4. FOOD & BEVERAGES	-4.93	1.22
5. HOME PRODUCTS	-3.64	0.89
<b>5 Worst Policies</b>		
1. SEMICONDUCTORS	-2.85	-2.63
2. MOMENTUM	0.18	-1.61
3. COMPUTER SOFTWARE	-4.49	-1.25
4. AIRLINES	1.82	-1.04
5. NON-EST UNIVERSE	0.09	-0.92

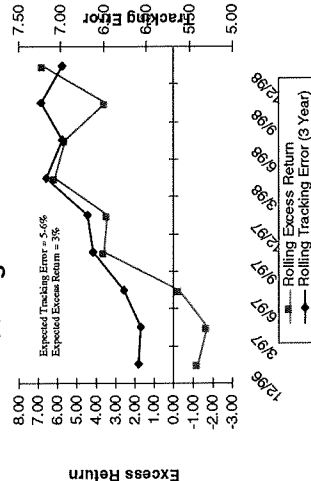
## BARRA Risk Index Exposure



## Actual Performance



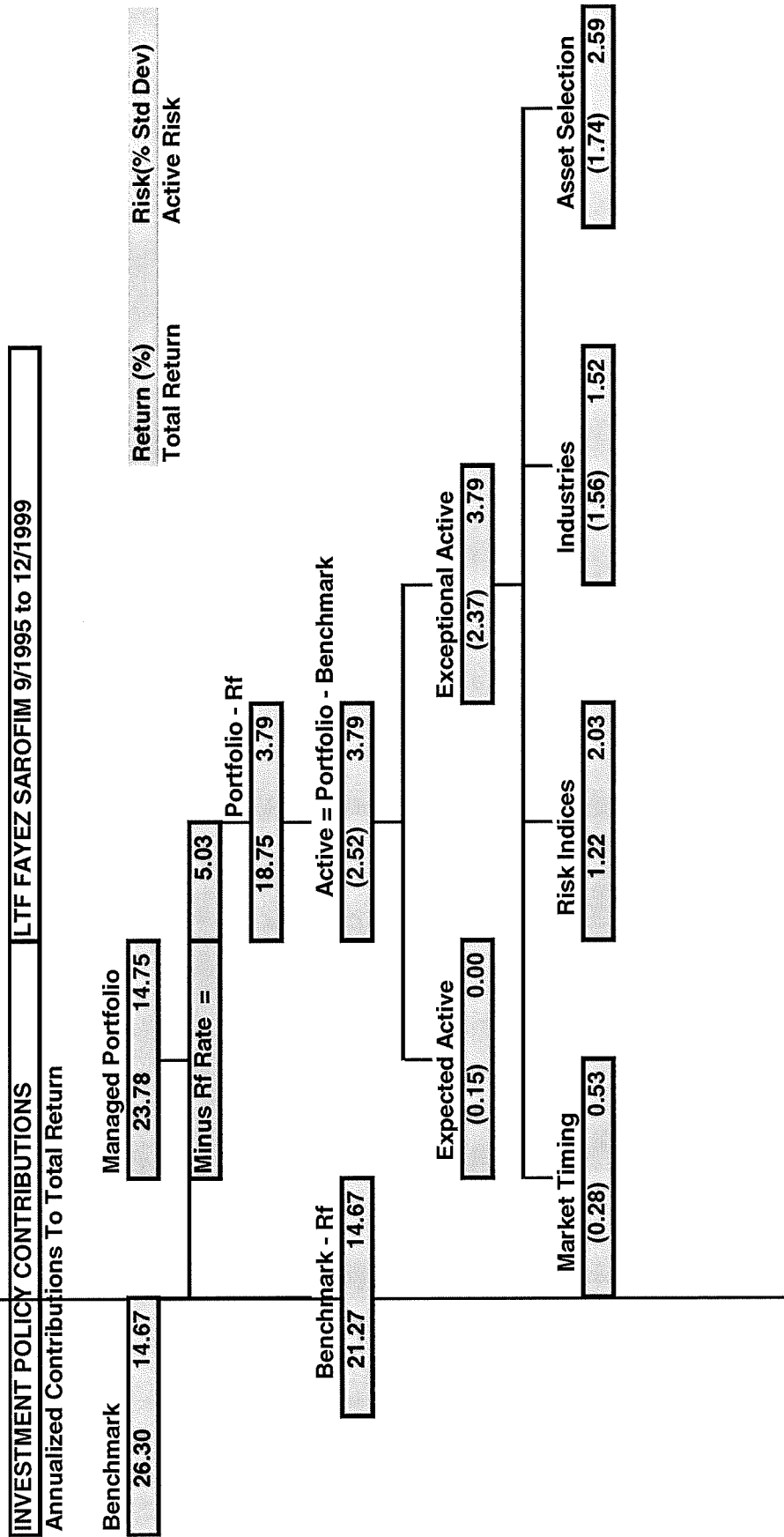
## Tracking Error and Excess Return



# Review and Control

*Holdings Based Attribution Analysis, quantifies the sources of returns down to the security level.*

- Monthly Updates on Performance Attribution Analysis
- Ability to Drill-down into Portfolios





# Review and Control

- Ability to Drill-down into Portfolios:
  - Security Selection
    - Which Securities Added-value, subtracted value?

**LTF FAYEZ SAROFIM 9/1995 to 12/1999**

**INVESTMENT POLICY CONTRIBUTIONS**  
 Annualized Contributions To Asset Selection Return

Source Of Return	Contribution (% Return)	Risk (Std Dev)	Info Ratio	T-Stat
1 Over-weighted Assets	(1.35)	(1.35)		
2 Under-weighted Assets	(0.04)	(0.04)		
3 Assets Held In Portfolio [1+2]	(1.39)	(1.39)		
4 Benchmark Assets Not Held	(0.35)	(0.35)		
5 Total Asset Selection [3+4]	(1.74)	(1.74)	2.59	(0.54)
				(1.12)

# Review and Control

- Which Securities Added-value, subtracted value?
- The underweight to MSFT cost 93 bps to the overall portfolio
- COKE overweight cost 43 bps
- The INTC overweight helped by 43 bps

## ASSET CONTRIBUTIONS

### Annualized Contributions To Active Return

Asset ID	Asset Name	Primary Industry	Avg Wgt (%)	Contribution (% Return)	Months Held (#)	Months Held (%)
&&CS	CASH		0.04	0.00	51.00	100.00
USA15C1	DAIMLERCHRYSLER AG	MOTOR VEHICLES & PARTS	1.18	(0.12)	13.00	25.49
USAA5F1	ABBOTT LABS	MEDICAL PRODUCTS	1.67	(0.12)	51.00	100.00
<b>USAD281</b>	<b>COCA COLA CO</b>	<b>FOOD &amp; BEVERAGES</b>	<b>8.09</b>	<b>(0.43)</b>	<b>51.00</b>	<b>100.00</b>
USAD9U1	COMPAQ COMPUTER CORP	COMPUTER HARDWARE	0.63	(0.13)	38.00	74.51
USAE681	DISNEY WALT CO	MEDIA	1.13	(0.05)	51.00	100.00
USAG151	GILLETTE CO	HOME PRODUCTS	2.76	(0.16)	51.00	100.00
USAGMU1	HEWLETT PACKARD CO	COMPUTER HARDWARE	1.23	0.15	38.00	74.51
<b>USAH8Z1</b>	<b>INTEL CORP</b>	<b>SEMICONDUCTORS</b>	<b>3.30</b>	<b>0.43</b>	<b>51.00</b>	<b>100.00</b>
<b>USAHC71</b>	<b>INTERNATIONAL BUSINESS</b>	<b>COMPUTER SOFTWARE</b>	<b>1.86</b>	<b>(0.23)</b>	<b>2.00</b>	<b>3.92</b>
USAHML1	JOHNSON & JOHNSON	MEDICAL PRODUCTS	3.55	(0.04)	51.00	100.00
<b>USAHQN1</b>	<b>KELLOGG CO</b>	<b>FOOD &amp; BEVERAGES</b>	<b>1.69</b>	<b>(0.34)</b>	<b>49.00</b>	<b>96.08</b>
USAY41	MERCK & CO INC	DRUGS	4.93	0.07	51.00	100.00
<b>USAJ471</b>	<b>MICROSOFT CORP</b>	<b>COMPUTER SOFTWARE</b>	<b>1.11</b>	<b>(0.93)</b>	<b>13.00</b>	<b>25.49</b>
USAJ8P1	MINNESOTA MNG & MFG CO	CHEMICALS	1.31	(0.14)	40.00	78.43

## Qualitative Management Features (1)

- Is the investment process/performance sustainable ? **21 years plus history for EAFE product and 12 years plus for Emerging Markets.**
    - Relative to the Markets? Other managers? Other managers with similar philosophy? **See the FRC Quartile Charts.**
    - Is it a well constructed portfolio ? **Bottom up process, security by security**
    - Is it a robust methodology ? Coherent ? Explainable ? **Yes**
    - Faithfulness to execution ? **Yes**
    - Fit with UTIMCO manager structure and objectives ? Understanding of “Endowment” management ? **Yes. CGTC clients include many Endowments and Foundations. Offer a 10% fee reduction to E & F.**
  
  - Does the investment manager have the interests of the client and internal portfolio managers aligned ?
    - Does the manager have a clear understanding of UTIMCO’s objectives ?
    - Stated interest in UTIMCO’s mission, not just another “client?”
      - **Yes. CGTC is one of very few managers who conducts a “client audit” to determine the client’s needs and strategies.**
-

## Qualitative Management Features (2)

Do PM's strive to outperform client's benchmark or increase assets under management?

***Performance is the key driver at CGTC. Both the career analysts and the PMs are compensated on value added. A poor performing analyst or PM is demoted or terminated.***

Are the PM's and Analysts properly financially incentivized ?

***All Analysts, PMs and Marketeers are shareholders in this private company.***

Stability of personnel ? Experience as a cohesive team? Years together ?

***Very few PMs or analysts have left CGTC. The average time together for the 8 member team is twelve years, with Fischer and Ronus working together for 28 years.***

Availability of Key Personnel ?

***All the portfolio managers are available to large clients. David Fisher has been very responsive to our calls and visits.***

## Qualitative Management Features (3)

- “Star” syndrome ? Or, the sum of the team is greater than the whole ?
  - **Definitely the latter. Portfolio management is shared: no member of the team has greater than 12% of the total assets under his or her control. Generational transfers are occurring as older members of the team wind down or approach retirement: successful younger (+40 !) members of the team take on increasing incremental portfolios of the portfolio.**
- 
- Does the investment strategy complement/enhance the other multi-asset class portfolios in the overall fund ? **Yes, Existing relationship**
    - Are there diversifying benefits to adding the portfolio to the mix of other managers/portfolios ? **Yes, demonstrated ability to add value.**
  - Establish Risk and Return Expectations.
    - Ensure that minimum investment targets are met.
    - **CGTC has exceeded expectations in the past. We believe that this is due to their unique multiple portfolio manager structure.**
  - Organizational Structure: Relationship of Asset Size (current and expected)
    - Administrative complexity: **Simple: Long Only EAFE Companies**
  - Familiarity with own Portfolio?
    - Triangulate for a consistent story: **CGTC Multiple-manager methodology strengthens the underlying understanding of the overall portfolio. Each team member agrees to the other’s holdings.**

## Appendix II

- **Cambridge and Associates Manager write-ups on final 8 Managers**
-

UNIVERSITY OF TEXAS

COMPARATIVE PERFORMANCE OF NON-U.S. EQUITY MANAGERS\*

Annual Returns (%)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Brandes Investment Partners	--	41.3	7.4	42.0	-2.0	14.8	17.2	20.9	15.9	54.5
Capital Guardian Trust Company	--	--	--	--	--	--	--	--	24.9	57.5
Grantham, Mayo, Van Otterloo & Company	-10.3	15.4	-3.2	42.3	6.7	14.5	15.6	7.6	14.7	29.6
Hansberger Global Investors	--	--	--	47.6	2.2	16.2	21.0	14.1	-7.2	29.2
Oechsle International Advisors	--	--	--	--	--	12.0	22.4	34.4	15.2	79.3
**Southeastern Asset Management	--	--	--	--	--	--	--	--	--	24.4
TT International Investment Management	--	25.5	4.7	72.2	-9.1	24.4	23.6	20.7	18.1	46.7
Wellington Management Company, LLP	--	--	--	--	13.0	24.6	17.6	4.4	14.8	30.3
MSCI EAFE Index	-23.4	12.1	-12.2	32.6	7.8	11.2	6.0	1.8	20.0	27.0
MSCI All Country World ex U.S. Index	-23.4	13.6	-10.9	35.6	7.1	8.5	6.6	1.7	14.1	31.8
MSCI EAFE Growth Index	-25.0	14.1	-13.0	25.1	4.5	11.4	3.5	2.1	22.2	29.5
MSCI EAFE Value Index	-21.7	10.3	-1.2	39.9	11.0	11.3	8.8	1.5	17.7	24.1
<b>CA Manager Medians</b>										
Non-U.S. Diverse	-14.7	14.5	-5.6	32.8	5.4	11.6	10.5	2.1	17.7	28.0
Non-U.S. Equity	-12.1	13.5	-3.2	37.5	2.3	12.1	14.0	5.5	17.0	36.1
Non-U.S. Growth	-12.6	13.2	-2.5	39.2	1.1	12.4	13.8	7.6	18.4	46.9
Non-U.S. Opportunistic	-12.0	15.5	0.1	34.8	-0.8	14.0	12.9	5.0	17.3	36.1
Non-U.S. Value	-9.6	15.4	-3.6	40.2	3.8	12.5	15.6	6.5	14.3	28.8

Average Annual Compound Returns (%)  
Through December 31, 1999

	10Yr	9Yr	8Yr	7Yr	6Yr	5Yr	4Yr	3Yr	2Yr
Brandes Investment Partners	--	22.4	20.2	22.1	19.1	23.9	26.2	29.4	33.8
Capital Guardian Trust Company	--	--	--	--	--	--	--	--	40.3
Grantham, Mayo, Van Otterloo & Company	12.4	15.3	15.2	18.2	14.6	16.2	16.6	17.0	21.9
Hansberger Global Investors	--	--	--	16.4	11.9	14.0	13.4	11.0	9.5
Oechsle International Advisors	--	--	--	--	--	30.6	35.8	40.6	43.7
**Southeastern Asset Management	--	--	--	--	--	--	--	--	--
TT International Investment Management	--	23.4	23.1	26.0	19.6	26.3	26.8	27.9	31.6
Wellington Management Company, LLP	--	--	--	--	17.2	18.0	16.4	16.0	22.3
MSCI EAFE Index	7.0	11.1	10.9	14.7	12.0	12.8	13.2	15.7	23.4
MSCI All Country World ex U.S. Index	7.1	11.2	10.9	14.4	11.2	12.1	13.0	15.2	22.6
MSCI EAFE Growth Index	6.1	10.3	9.8	13.6	11.7	13.2	13.7	17.3	25.8
MSCI EAFE Value Index	7.9	11.8	12.0	15.8	12.2	12.4	12.7	14.0	20.9
<b>CA Manager Medians</b>									
Non-U.S. Diverse	9.8	12.1	11.7	15.0	12.2	14.7	15.3	16.0	23.7
Non-U.S. Equity	11.3	14.5	14.2	16.9	14.0	16.5	17.8	18.7	26.3
Non-U.S. Growth	11.4	15.0	15.4	18.3	15.4	19.9	21.4	24.7	31.5
Non-U.S. Opportunistic	12.0	14.8	13.9	15.9	13.4	16.7	17.1	19.2	26.4
Non-U.S. Value	12.3	14.9	14.5	17.0	14.0	16.0	16.6	17.1	21.2

\* Please see individual factsheets for source of historical performance. All returns are gross of fees.

\*\* Net of fees.

**BRANDES INVESTMENT PARTNERS**

International Equity  
12750 High Bluff Drive  
San Diego, CA 92130  
(858)755-0239  
www.brandes.com

Philosophy: Non-U.S. Value  
Tax-Exempt Product Accounts (12/31/99): 108  
Tax-Exempt Product Assets (12/31/99): \$13,309 mm  
Total Product Assets (12/31/99): \$16,304 mm  
Total Firm Assets (12/31/99): \$41,538 mm

New Business Contact: Michael Bills (858)755-0239  
Organization: Independent Investment Counsel

Year Founded: 1974  
SEC Registered: Yes  
AIMR Compliant: Yes, Level II

**Investment Approach:** Portfolio construction is based on Graham & Dodd analysis implementing fundamental techniques to estimate the intrinsic value of companies. Attractive stocks generally have a price one-third below the determined intrinsic value. Country weightings may vary greatly from the benchmark. The firm will have no exposure in Japan if they fail to identify any undervalued companies. Issues in emerging markets comprise 15 to 20% of the total holdings. Maximum limits of 5% for a single security and 20% for a single country or industry are imposed. The portfolio contains between 40 and 75 stocks. The portfolio is usually fully invested. Turnover averages 30% on an annual basis. The firm does not hedge currency at all.

**Research:** The firm relies primarily on in-house research.

**Investment Results:**

	<u>Annual Total Returns (%)</u>									
	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Brandes Investment Partners	—	41.3	7.4	42.0	-2.0	14.8	17.2	20.9	15.9	54.5
MSCI EAFE Index	-23.4	12.1	-12.2	32.6	7.8	11.2	6.0	1.8	20.0	27.0
MSCI All Country World ex U.S. Index	-23.4	13.6	-10.9	35.6	7.1	8.5	6.6	1.7	14.1	31.8
MSCI EAFE Value Index	-21.7	10.3	-11.2	39.9	11.0	11.3	8.8	1.5	17.7	24.1
<u>Manager Medians</u>										
Non-U.S. Equity	-12.1	13.5	-3.2	37.5	2.3	12.1	14.0	5.5	17.0	36.1
Non-U.S. Value	-9.6	15.4	-3.6	40.2	3.8	12.5	15.6	6.5	14.3	28.8

**Average Annual Compound Returns (%) Through Calendar Year 12/31/99**

	<u>10YR</u>	<u>9YR</u>	<u>8YR</u>	<u>7YR</u>	<u>6YR</u>	<u>5YR</u>	<u>4YR</u>	<u>3YR</u>	<u>2YR</u>
Brandes Investment Partners	—	22.4	20.2	22.1	19.1	23.9	26.2	29.4	33.8
MSCI EAFE Index	7.0	11.1	10.9	14.7	12.0	12.8	13.2	15.7	23.4
MSCI All Country World ex U.S. Index	7.1	11.2	10.9	14.4	11.2	12.1	13.0	15.2	22.6
MSCI EAFE Value Index	7.9	11.8	12.0	15.8	12.2	12.4	12.7	14.0	20.9
<u>Manager Medians</u>									
Non-U.S. Equity	11.3	14.5	14.2	16.9	14.0	16.5	17.8	18.7	26.3
Non-U.S. Value	12.3	14.9	14.5	17.0	14.0	16.0	16.6	17.1	21.2

**Performance Notes:** Performance represents a composite of all fully discretionary International Equity accounts under management for at least one month. Returns include return on cash reserves. Performance is gross of management fees. Returns have been audited by an independent third party.



**BRANDES INVESTMENT PARTNERS**  
**International Equity**

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**Staff:**

Portfolio Managers	22
Analysts	12
Portfolio Managers/Analysts	19
Other (Admin/Mgmt/Marketing)	286

**Biographies of Key Personnel:**

**Charles H. Brandes**      **Managing Partner & Chief Investment Officer**  
  
With firm since 1974; with product since 1990  
  
B.A., Bucknell University, 1965  
Investment Company, Registered Representative and Research Analyst  
U.S. Army, Officer

**Jeffrey A. Busby**      **Managing Partner**  
  
With firm since 1988; with product since 1990  
  
M.B.A., University of California - Berkeley, 1988  
B.S., Northwestern University, 1983  
Great American Savings Bank, Analyst  
Jack White & Company, Registered Representative

**Glenn R. Carlson**      **Managing Partner**  
  
With firm since 1986; with product since 1990  
  
B.A., University of California - San Diego, 1988  
Jack White & Company, Trader  
Trade Plus, Customer Service

**Robert J. Gallagher**      **Portfolio Manager**  
  
With firm since 1999  
  
M.B.A., University of California, 1985  
B.S., University of California, 1983  
Union Bank and Bank of Tokyo Group, Officer  
DIVAD Division of Ford Aerospace, Financial Analyst

**BRANDES INVESTMENT PARTNERS**  
**International Equity**

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

**Paul B. Korngiebel**

**Senior Analyst**

With firm since 1999

M.B.A., Northwestern Graduate School of Management

M.A., Harvard University

B.A., Bowdoin College

Global Management Consulting Firm

Investment Bank, Equity Research

**William Pickering**

**Director**

With firm since 1991; with product since 1991

M.B.A., San Diego State University, 1991

B.A., San Diego State University, 1981

Jack White & Company, 1986 - 91

**Brent V. Woods**

**Managing Partner**

With firm since 1995

J.D., Harvard University, 1988

M.A., Cambridge University, 1985

A.B., Princeton University, 1983

Milbank, Tweed, Hadley & McCoy, Attorney, 1990 - 95

Mitchell, Silberberg & Knupp, Attorney, 1988 - 89

**BRANDES INVESTMENT PARTNERS**  
**International Equity**

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**Fee Schedule:**

**Separate Account (Endowment)**

0.950% on first \$10 mm

0.800% on next \$10 mm

0.600% on next \$30 mm

0.500% over \$50 mm

Fee excludes custody.

There is a 10% discount for non-profit organizations.

Vehicle is closed to new investors.

Minimum Account Size: \$10 mm

**Commingled Account (Endowment)**

1.000% on first \$5 mm

0.900% on next \$5 mm

0.800% on next \$10 mm

0.600% on next \$30 mm

0.500% over \$50 mm

Fee includes custody.

Vehicle is closed to new investors.

Minimum Account Size: \$1 mm

**Mutual Fund**

**Brandes Institutional International Equity Fund:**

**Expense Ratio:**

1.200% of assets.

Vehicle is closed to new investors.

Minimum Account Size: \$1 mm

**Representative Clients:**

**Advanced Micro Devices**

**Chicago Firemen's Annuity & Benefit Fund**

**Children's Hospital of San Diego**

**Hawaii Laborers**

**San Diego City Employees' Retirement System**

## BRANDES INVESTMENT PARTNERS

### International Equity

#### Portfolio Description:

Market Capitalization Emphasis:	varies	Stocks in Initial Universe:	13,000
Security Quality Emphasis:	varies	Stocks Followed Closely:	500
		Average Number of Stocks Held:	69

	<u>Relative</u>		<u>Frequency</u>
	<u>To Market</u>		<u>of Use</u>
Price/Earnings Ratio	below	Options	never
Price/Book Ratio	below	Convertibles	rarely
Earnings Growth Rate		U.S. Stocks	never
Dividend Growth Rate		Futures	never
Current Income Yield	above	Bonds	never
ROE	below	Currency Hedging	never
Payout			

Average Percentage of Cash Reserves Used: 3%      Allowable Range: 0% to 10%  
 Highest Percentage of Cash Reserves Used in Past: 9%      Date: June 1999  
 Average Annual Turnover: 29%      Range: 25% to 35%

#### Actual Portfolio Characteristics As of December 31, 1999

Average Weighted Market-Capitalization	\$41,259.0 mm
Median Market-Capitalization	\$10,608.0 mm
Trailing 12-month Price/Earnings Ratio	24.2
Trailing 12-month Price/Book Ratio	3.5
Trailing 5-Year Earnings Growth Rate	
Trailing 5-Year Dividend Growth Rate	
Dividend Yield	1.8%
ROE	14.0%
Payout	
Quality (AAA/AA...)	

#### Top Ten Country Allocations

	% of Assets
1. United Kingdom	21.2
2. Japan	17.6
3. Emerging Markets	15.9
4. Germany	10.5
5. France	8.7
6. Netherlands	5.2
7. Singapore	4.2
8. Italy	4.1
9. Hong Kong	3.5
10. Switzerland	2.7

Portfolio Allocation: Stocks: 99.0% Bonds: 0.0% Cash: 1.0% Other: 0.0%

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

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**CAPITAL GUARDIAN TRUST COMPANY**  
**Non-U.S. Equity Diversified Research Portfolio**  
 333 South Hope Street  
 51st Floor  
 Los Angeles, CA 90071  
 (213)486-9200  
 www.capgroup.com

Philosophy: Non-U.S. Growth  
 Tax-Exempt Product Accounts (12/31/99): 2  
 Tax-Exempt Product Assets (12/31/99): \$272 mm  
 Total Product Assets (12/31/99): \$272 mm  
 Total Firm Assets (12/31/99): \$122,655 mm

**New Business Contact:** Lianne Mair (213)486-9471  
**Organization:** Money Center Bank Affiliate  
**Parent/Affiliate:** The Capital Group Companies, Inc.

**Year Founded:** 1968  
**SEC Registered:** No  
**AIMR Compliant:** Yes

**Investment Approach:** The firm employs a value-oriented, bottom-up strategy based on extensive field research and direct company contact. The basic fundamental investment philosophy is combined with macro-economic and political judgments on the outlook for economies, industries, currencies and markets. Portfolio construction begins with the individual company and an evaluation of its prospects regardless of industry or country market index weightings. When a number of companies appear to be attractively priced and are in the same country or industry, the firm tends to build a sizable position in that country or industry. However, these individual company evaluations are continuously cross-checked against the firm's assessment of the industry, the local markets, and the currency risk/opportunity. The total account weightings reflect the aggregate decisions of the portfolio managers actively managing any one account. Portfolios typically have a standard deviation lower than the index and hold 100 - 120 securities. Turnover ranges 25% - 40% annually.

**Research:** The firm relies primarily on in-house research (95%) supplemented with "Street" research (5%).

**Investment Results:**

	<u>Annual Total Returns (%)</u>									
	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Capital Guardian Trust Company	—	—	—	—	—	—	—	—	24.9	57.5
MSCI EAFE Index	-23.4	12.1	-12.2	32.8	7.8	11.2	6.0	1.8	20.0	27.0
MSCI All Country World ex U.S. Index	-23.4	13.6	-10.9	35.8	7.1	8.5	6.6	1.7	14.1	31.8
MSCI EAFE Growth Index	-25.0	14.1	-13.0	25.1	4.5	11.4	3.5	2.1	22.2	29.5
<b>Manager Medians</b>										
Non-U.S. Equity	-12.1	13.5	-3.2	37.5	2.3	12.1	14.0	5.5	17.0	36.1
Non-U.S. Growth	-12.6	13.2	-2.5	39.2	1.1	12.4	13.8	7.6	18.4	46.9

**Average Annual Compound Returns (%) Through Calendar Year 12/31/99**

	<u>10YR</u>	<u>9YR</u>	<u>8YR</u>	<u>7YR</u>	<u>6YR</u>	<u>5YR</u>	<u>4YR</u>	<u>3YR</u>	<u>2YR</u>
Capital Guardian Trust Company	—	—	—	—	—	—	—	—	40.3
MSCI EAFE Index	7.0	11.1	10.9	14.7	12.0	12.8	13.2	15.7	23.4
MSCI All Country World ex U.S. Index	7.1	11.2	10.9	14.4	11.2	12.1	13.0	15.2	22.6
MSCI EAFE Growth Index	6.1	10.3	9.8	13.6	11.7	13.2	13.7	17.3	25.8
<b>Manager Medians</b>									
Non-U.S. Equity	11.3	14.5	14.2	16.9	14.0	16.5	17.8	18.7	26.3
Non-U.S. Growth	11.4	15.0	15.4	18.3	15.4	19.9	21.4	24.7	31.5

**Performance Notes:** Performance represents a composite of all fully discretionary Non-U.S. Equity Diversified Research Portfolio accounts. Returns do not include return on cash reserves. Performance is gross of management fees. Returns have been audited by an independent third party.

**CAPITAL GUARDIAN TRUST COMPANY**  
**Non-U.S. Equity Diversified Research Portfolio**

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**Staff:**

Portfolio Managers/Analysts	27
Other (Admin/Mgmt/Marketing)	34

**Biographies of Key Personnel:**

**Richard Bridges**      Vice President, Director

With firm since 1992; with product since 1997

M.B.A., London Business School  
B.A., New College (Oxford)  
Hambros Bank Limited  
Daily Telegraph (London), Financial Reporter

**CAPITAL GUARDIAN TRUST COMPANY**  
**Non-U.S. Equity Diversified Research Portfolio**

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**Fee Schedule:**

**Separate Account (Endowment)**

0.700% on first \$25 mm

0.550% on next \$25 mm

0.425% on next \$200 mm

0.375% over \$250 mm

Custody is excluded.

Performance-based fees are available.

Minimum Account Size: \$100 mm

**Commingled Account (Endowment)**

0.700% on first \$25 mm

0.550% on next \$25 mm

0.425% on next \$200 mm

0.375% over \$250 mm

Custody is included.

Performance-based fees are available.

Minimum Account Size: \$25 mm

**Representative Clients:** Confidential.

**CAPITAL GUARDIAN TRUST COMPANY**  
**Non-U.S. Equity Diversified Research Portfolio**

**Portfolio Description:**

Market Capitalization Emphasis:	large	Stocks in Initial Universe:	2,700
Security Quality Emphasis:	varies	Stocks Followed Closely:	1,300
		Average Number of Stocks Held:	104

	Relative To Market		Frequency of Use
Price/Earnings Ratio	varies	Options	never
Price/Book Ratio	varies	Convertibles	varies
Earnings Growth Rate	above	U.S. Stocks	never
Dividend Growth Rate	varies	Futures	never
Current Income Yield	equal to	Bonds	never
ROE	varies	Currency Hedging	rarely
Payout			

Average Percentage of Cash Reserves Used: 0%      Allowable Range: 0% to 5%  
 Highest Percentage of Cash Reserves Used in Past: 5%    Date: December 1997  
 Average Annual Turnover: 30%      Range: 25% to 40%

**Actual Portfolio Characteristics As of December 31, 1999**

Average Weighted Market-Capitalization	\$51,610.0 mm
Median Market-Capitalization	\$23,950.0 mm
Trailing 12-month Price/Earnings Ratio	55.4
Trailing 12-month Price/Book Ratio	3.6
Trailing 5-Year Earnings Growth Rate	25.9%
Trailing 5-Year Dividend Growth Rate	
Dividend Yield	1.1%
ROE	4.0%
Payout	
Quality (AAA/AA...)	

**Top Ten Country Allocations**

	% of Assets
1. Japan	41.5
2. United Kingdom	12.0
3. Germany	8.0
4. France	7.8
5. Netherlands	5.7
6. Italy	5.1
7. Switzerland	4.0
8. Australia	2.3
9. Canada	2.2
10. Emerging Markets	2.0

**Portfolio Allocation: Stocks: 98.5% Bonds: 0.0% Cash: 1.5% Other: 0.0%**

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

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**GRANTHAM, MAYO, VAN OTTERLOO & COMPANY**

International Active  
 40 Rowes Wharf  
 Boston, MA 02110  
 (617)330-7500  
 www.gmo.com

Philosophy: Non-U.S. Value  
 Tax-Exempt Product Accounts (12/31/99): 85  
 Tax-Exempt Product Assets (12/31/99): \$6,842 mm  
 Total Product Assets (12/31/99): \$6,879 mm  
 Total Firm Assets (12/31/99): \$26,191 mm

New Business Contact: Christopher Callahan (617)346-7501  
 Organization: Independent Investment Counsel

Year Founded: 1977  
 SEC Registered: Yes  
 AIMR Compliant: No

**Investment Approach:** The firm follows a rigorous, structured value approach through the combination of fundamental stock selection and quantitative research. The fund's investment process begins with a disciplined quantitative stock screening process. Stocks are sorted within countries by price/earnings, price/book, price/cash flow and yield. Companies falling in the cheapest 20% of the market on any of these measures are subject to further fundamental research, including review of the sector, published company information and analysis, and discussions with company management. Portfolio construction begins by determining country weights via sorting countries on value measures. Measures include a price/fair value dividend discount model along with aggregate price/earnings and price/book ratios. Over- and under-weightings relative to the EAFE Index are determined by a cumulative value score assigned to each country and by input from the portfolio manager responsible for that country. All companies outside the U.S. are eligible for inclusion in the portfolio. Exposure to emerging markets ranges 0%-10%. Cash reserves are a residual of the investment process, and turnover averages approximately 10%-35% annually.

**Research:** The firm relies on extensive valuation models using data developed in-house.

**Investment Results:**

	<u>Annual Total Returns (%)</u>									
	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Grantham, Mayo, Van Otterloo & Co	-10.3	15.4	-3.2	42.3	6.7	14.5	15.6	7.6	14.7	29.6
MSCI EAFE Index	-23.4	12.1	-12.2	32.6	7.8	11.2	6.0	1.8	20.0	27.0
MSCI All Country World ex U.S. Index	-23.4	13.6	-10.9	35.6	7.1	8.5	6.6	1.7	14.1	31.8
MSCI EAFE Value Index	-21.7	10.3	-11.2	39.9	11.0	11.3	8.8	1.5	17.7	24.1
<b>Manager Medians</b>										
Non-U.S. Equity	-12.1	13.5	-3.2	37.5	2.3	12.1	14.0	5.5	17.0	36.1
Non-U.S. Value	-9.6	15.4	-3.6	40.2	3.8	12.5	15.6	6.5	14.3	28.8

Average Annual Compound Returns (%) Through Calendar Year 12/31/99

	<u>10YR</u>	<u>9YR</u>	<u>8YR</u>	<u>7YR</u>	<u>6YR</u>	<u>5YR</u>	<u>4YR</u>	<u>3YR</u>	<u>2YR</u>
Grantham, Mayo, Van Otterloo & Co	12.4	15.3	15.2	18.2	14.6	16.2	16.6	17.0	21.9
MSCI EAFE Index	7.0	11.1	10.9	14.7	12.0	12.8	13.2	15.7	23.4
MSCI All Country World ex U.S. Index	7.1	11.2	10.9	14.4	11.2	12.1	13.0	15.2	22.6
MSCI EAFE Value Index	7.9	11.8	12.0	15.8	12.2	12.4	12.7	14.0	20.9
<b>Manager Medians</b>									
Non-U.S. Equity	11.3	14.5	14.2	16.9	14.0	16.5	17.8	18.7	26.3
Non-U.S. Value	12.3	14.9	14.5	17.0	14.0	16.0	16.6	17.1	21.2

**Performance Notes:** Performance represents a composite of all fully discretionary, tax-exempt International Active accounts. Returns include return on cash reserves. Performance is gross of management fees.

**GRANTHAM, MAYO, VAN OTTERLOO & COMPANY**  
**International Active**

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<b>Staff:</b>		
	Portfolio Managers	5
	Analysts	4
	Other (Admin/Mgmt/Marketing)	3

**Biographies of Key Personnel:**

<b>Jui Lai</b>	<p>Co-Head, GMO International Active</p> <p>M.B.A., University of Witwatersrand (South Africa)          B.S., University of Witwatersrand (South Africa)          PosAlpha Investment Management Limited, Managing Director, 1985 - 87          Allan Gray Investment Counsel, Partner          Legal and General, Assistant General Manager</p>
<b>Hoyt Ludington</b>	<p>Portfolio Manager</p> <p>M.B.A., Duke University          B.A., Williams College          Shawmut National Corporation, Corporate Credit Analyst</p>
<b>Richard Mattione</b>	<p>Portfolio Manager</p> <p>Ph.D., Harvard University          B.S.C., Washington University          J.P. Morgan &amp; Company, Economist and Market Strategist          Brookings Institution, Research Associate</p>
<b>Ann Spruill</b>	<p>Co-Head, GMO International Active</p> <p>Ph.D., Boston University          B.S., University of Rhode Island          Fleet/Norstar Financial Group, Director of International Equity Investment</p>
<b>Eyk Van Otterloo</b>	<p>Founding Member</p> <p>M.B.A., Harvard University          B.A., Amsterdam Municipal University (Netherlands)          Keystone Custodian Funds, Fund Manager, Associate Director of Research, and Analyst          Phoenix Mutual Life Insurance Company, Director of Common Stock</p>

**GRANTHAM, MAYO, VAN OTTERLOO & COMPANY**  
**International Active**

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**Fee Schedule:**

**Separate Account (Endowment)**

0.750% on all assets.

Fee excludes custody.

Minimum Account Size: \$150 mm

**Mutual Fund**

GMO Foreign Fund:

Net Annual Expenses:

0.750% of assets (as of 12/31/99).

Fee includes custody.

Share Class Structure (based on total assets invested with GMO):

Class II: \$1 mm to \$35 mm: additional fee of 0.130%.

Class III: \$35 mm to \$250 mm: additional fee of 0.060%.

Class IV: \$250 mm and above: no additional fee.

Minimum Account Size: \$1 mm

**Representative Clients:**

3M Company

Connecticut (State of)

Corning

SmithKline Beecham Corp.

Sprint Corp.

Stanford University

**GRANTHAM, MAYO, VAN OTTERLOO & COMPANY**  
**International Active**

**Portfolio Description:**

Market Capitalization Emphasis:	varies	Stocks in Initial Universe:	4,000
Security Quality Emphasis:	varies	Stocks Followed Closely:	1,000
		Average Number of Stocks Held:	465

	Relative To Market		Frequency of Use
Price/Earnings Ratio	below	Options	never
Price/Book Ratio	below	Convertibles	rarely
Earnings Growth Rate	above	U.S. Stocks	rarely
Dividend Growth Rate	above	Futures	rarely
Current Income Yield	above	Bonds	never
ROE	above	Currency Hedging	rarely
Payout	above		

Average Percentage of Cash Reserves Used: 4%      Allowable Range: 2% to 7%  
 Highest Percentage of Cash Reserves Used in Past: 9%      Date: May 1998  
 Average Annual Turnover: 27%      Range: 10% to 35%

**Actual Portfolio Characteristics As of December 31, 1999**

Average Weighted Market-Capitalization	\$34,400.0 mm
Median Market-Capitalization	\$4,877.0 mm
Trailing 12-month Price/Earnings Ratio	29.8
Trailing 12-month Price/Book Ratio	2.3
Trailing 5-Year Earnings Growth Rate	15.0%
Trailing 5-Year Dividend Growth Rate	7.0%
Dividend Yield	1.8%
ROE	
Payout	
Quality (AAA/AA...)	

**Top Ten Country Allocations**

	% of Assets
1. Japan	28.4
2. United Kingdom	15.5
3. Emerging Markets	7.4
4. France	7.1
5. Germany	6.9
6. Italy	5.1
7. Netherlands	4.9
8. Australia	3.9
9. Spain	3.0
10. Switzerland	2.8

Portfolio Allocation: Stocks: 95.3% Bonds: 0.0% Cash: 4.7% Other: 0.0%

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

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**HANSBERGER GLOBAL INVESTORS**

International Common Stock  
 515 East Las Olas Boulevard  
 Suite 1300  
 Fort Lauderdale, FL 33301  
 (954)522-5150

Philosophy: Non-U.S. Value  
 Tax-Exempt Product Accounts (12/31/99): 22  
 Tax-Exempt Product Assets (12/31/99): \$1,764 mm  
 Total Product Assets (12/31/99): \$1,887 mm  
 Total Firm Assets (12/31/99): \$2,953 mm

New Business Contact: Wesley Freeman (954)713-2511  
 Organization: Independent Investment Counsel

Year Founded: 1994  
 SEC Registered: Yes  
 AIMR Compliant: Yes

**Investment Approach:** The firm's research effort commences with a universe of over 30,000 companies. Undervalued companies are uncovered from proprietary valuation screens, worldwide research sources, and company visits. The research process generates 400-500 potentially undervalued securities. Rigorous financial analysis is applied to each undervalued security with an emphasis on the company's business over an entire economic cycle. The firm concentrates on fundamental issues within a company that could lead to a revaluation of share price (e.g., sales growth, cash flow analysis, margin analysis, new product development, management changes and interviews, financial restructuring, adjusted net asset value, currency impact, macroeconomic factors). The resulting "Value List" of 100 - 300 securities meeting a strict value discipline is then subject to peer review. Each share on the "Value List" has an established buy and sell target. Portfolios typically contain 100 securities in 27 - 35 countries with individual securities representing no more than 1.5% of the total. Country exposure and industry weighting are residuals of the bottom-up stock selection process. Emerging market exposure ranges from 5% - 20%. An issue becomes a sale candidate if it approaches the sell target based on discount to projected normalized earnings or net asset value, share fundamentals deteriorate, or the share appreciates to an over-weight position. Annual turnover averages less than 20%. Portfolio currency exposure is unhedged.

**Research:** The firm relies on in-house research supplemented by external sources.

**Investment Results:**

	<u>Annual Total Returns (%)</u>									
	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Hansberger Global Investors	—	—	—	47.6	2.2	16.2	21.0	14.1	-7.2	29.2
MSCI EAFE Index	-23.4	12.1	-12.2	32.8	7.8	11.2	6.0	1.8	20.0	27.0
MSCI All Country World ex U.S. Index	-23.4	13.6	-10.9	35.6	7.1	8.5	6.6	1.7	14.1	31.8
MSCI EAFE Value Index	-21.7	10.3	-11.2	39.9	11.0	11.3	8.8	1.5	17.7	24.1
<b>Manager Medians</b>										
Non-U.S. Equity	-12.1	13.5	-3.2	37.5	2.3	12.1	14.0	5.5	17.0	36.1
Non-U.S. Value	-9.6	15.4	-3.6	40.2	3.8	12.5	15.6	6.5	14.3	28.8

Average Annual Compound Returns (%) Through Calendar Year 12/31/99

	<u>10YR</u>	<u>9YR</u>	<u>8YR</u>	<u>7YR</u>	<u>6YR</u>	<u>5YR</u>	<u>4YR</u>	<u>3YR</u>	<u>2YR</u>
Hansberger Global Investors	—	—	—	16.4	11.9	14.0	13.4	11.0	9.5
MSCI EAFE Index	7.0	11.1	10.9	14.7	12.0	12.8	13.2	15.7	23.4
MSCI All Country World ex U.S. Index	7.1	11.2	10.9	14.4	11.2	12.1	13.0	15.2	22.6
MSCI EAFE Value Index	7.9	11.8	12.0	15.8	12.2	12.4	12.7	14.0	20.9
<b>Manager Medians</b>									
Non-U.S. Equity	11.3	14.5	14.2	16.9	14.0	16.5	17.8	18.7	26.3
Non-U.S. Value	12.3	14.9	14.5	17.0	14.0	16.0	16.6	17.1	21.2

**Performance Notes:** Performance represents a composite of all fully discretionary, tax-exempt International Equity accounts. Returns include return on cash reserves. Performance is gross of management fees. Returns have not been audited by an independent third party. Performance prior to 07/96 represents results achieved by Jim Chaney and Retz Reeves while at Templeton.

**HANSBERGER GLOBAL INVESTORS**  
**International Common Stock**

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**Staff:**

Analysts	14
Portfolio Managers/Analysts	8
Other (Admin/Mgmt/Marketing)	28

**Biographies of Key Personnel:**

- Francisco J. Alzuru**      **Managing Director**
- With firm since 1995; with product since 1995
- M.B.A., Oklahoma City University, 1990  
 B.S., Universidad Simon Bolivar (Caracas), 1984  
 Vestcorp Partners, Vice President and Senior Research Analyst, 1990 - 94
- James E. Chaney**      **Chief Investment Officer**
- With firm since 1996; with product since 1996
- M.B.A., Columbia University, 1987  
 M.S., Northeastern University, 1985  
 B.S., University of Massachusetts, 1979  
 Templeton Investment Counsel, Inc., Executive Vice President, 1991 - 96  
 G.E. Investments, Vice President and Portfolio Manager, 1987 - 91
- Ajit Dayal**      **Managing Director - India**
- M.B.A., University of North Carolina at Chapel Hill  
 B.A., Bombay University (India)  
 Jardine Fleming, Director and Portfolio Manager/Analyst  
 S.G. Warburg
- Aureole L. Foong**      **Director - Asian Research**
- M.B.A., University of Southern California  
 B.S., University of Southern California  
 Peregrine Asset Management, Director and Portfolio Manager  
 Unifund, Portfolio Manager  
 Morgan Stanley, Inc., Private Client Services
- Charles F. Gulden**      **Managing Director**
- With firm since 1996; with product since 1996
- B.A., Denison University, 1983  
 Templeton Investment Counsel, Inc., Vice President and Director, 1989 - 96

**HANSBERGER GLOBAL INVESTORS**  
**International Common Stock**

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

**Thomas L. Hansberger**

**Chairman and CEO**

With firm since 1994; with product since 1994

Graduate, Miami University (OH), 1955

Templeton Investment Counsel, Inc., Director of Research and Primary Portfolio Manager,  
 1979 - 92

Templeton Worldwide, Inc., Chairman, President and CEO, 1979 - 92

**Mark Poon**

**Managing Director - Asia**

Templeton Investment Counsel, Inc., Head of Emerging Markets Trading

Galbraith, Head of Emerging Markets Trading

Korea Development Bank, Trader

Hang Seng Bank (Hong Kong), Trader

**Lauretta A. Reeves**

**Director of Research/Portfolio Manager/Analyst**

With firm since 1996; with product since 1996

M.B.A., Nova-Southeastern University, 1989

Graduate, Florida International University, 1986

Templeton Investment Counsel, Inc., Senior Vice President and Portfolio Manager, 1987 - 96

**Vladimir Tyurenkov**

**Managing Director**

With firm since 1996; with product since 1996

M.B.A., Pepperdine University, 1992

M.S., Moscow State Technical University, 1986

Russian Government, 1990 - 92

Pepperdine University Russian Conversion and Privatization Program, 1993 - 96

**HANSBERGER GLOBAL INVESTORS**  
**International Common Stock**

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**Fee Schedule:**            **Separate Account (Endowment)**  
0.750% on first \$25 mm  
0.500% on next \$75 mm  
0.350% over \$100 mm  
Fee excludes custody.

Minimum Account Size: \$20 mm

**Mutual Fund**  
**Expense Ratio:**  
1.000% of assets (for year-ending 12/31/98).

Minimum Account Size: \$1 mm

**Representative Clients:**    Confidential.



**HANSBERGER GLOBAL INVESTORS**  
International Common Stock

**Portfolio Description:**

Market Capitalization Emphasis:	varies	Stocks in Initial Universe:	30,000
Security Quality Emphasis:	varies	Stocks Followed Closely:	500
		Average Number of Stocks Held:	100

	Relative To Market		Frequency of Use
Price/Earnings Ratio	below	Options	never
Price/Book Ratio	below	Convertibles	varies
Earnings Growth Rate	above	U.S. Stocks	never
Dividend Growth Rate	varies	Futures	never
Current Income Yield	above	Bonds	never
ROE	varies	Currency Hedging	never
Payout	varies		

Average Percentage of Cash Reserves Used:  
Highest Percentage of Cash Reserves Used in Past: 15%  
Average Annual Turnover: 18%      Range: 18% to 20%

Allowable Range: 3% to 5%

**Actual Portfolio Characteristics As of June 30, 1999**

Average Weighted Market-Capitalization  
Median Market-Capitalization  
Trailing 12-month Price/Earnings Ratio  
Trailing 12-month Price/Book Ratio  
Trailing 5-Year Earnings Growth Rate  
Trailing 5-Year Dividend Growth Rate  
Dividend Yield  
ROE  
Payout  
Quality (AAA/AA...)

**Top Ten Country Allocations**

	% of Assets
1. Emerging Markets	17.7
2. Japan	14.8
3. United Kingdom	12.3
4. Hong Kong	6.2
5. France	4.5
6. Netherlands	4.3
7. Spain	3.9
8. Sweden	3.9
9. Germany	3.8
10. New Zealand	3.8

Portfolio Allocation: Stocks: 97.7% Bonds: 0.0% Cash: 2.3% Other: 0.0%

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**OECHSLE INTERNATIONAL ADVISORS****Select**

One International Place, 23rd Floor  
 Boston, MA 02110  
 (617)330-8810

Philosophy: Non-U.S. Growth  
 Tax-Exempt Product Accounts (12/31/99): 9  
 Tax-Exempt Product Assets (12/31/99): \$801 mm  
 Total Product Assets (12/31/99): \$916 mm  
 Total Firm Assets (12/31/99): \$19,054 mm

New Business Contact: Stephen Butters (617)330-8824  
 Organization: Independent Investment Counsel

Year Founded: 1986  
 SEC Registered: Yes  
 AIMR Compliant: No

**Investment Approach:** Select is principally an absolute return product with the flexibility to invest substantial portions of the portfolio's assets in both emerging and established markets. Occasionally, U.S. equities can be employed on an opportunistic basis. As such, it seeks to capture the best long-only equity ideas of the firm. The strategy is predominantly a bottom-up approach. The product seeks to control risk by maintaining an allocation in at least eight markets and limiting industry and security concentration to 35% and 15%, respectively. Stock selection is based on asset value, earnings growth forecasts, quality, and marketability. The portfolio typically holds 40 - 50 stocks. The investment time horizon is 6 to 36 months. Currency forwards are utilized in order to avoid performance erosion during periods of dollar strength. Stock index futures are used on the long side as a cost-effective way to gain immediate exposure to a market and on the short side to offset underlying longs during periods considered too risky. Annual turnover averages 125%.

**Research:** The firm relies on in-house research supplemented by worldwide contacts.

**Investment Results:**Annual Total Returns (%)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Oechsle Intl Advisors	—	—	—	—	—	12.0	22.4	34.4	15.2	79.3
MSCI EAFE Index	-23.4	12.1	-12.2	32.6	7.8	11.2	6.0	1.8	20.0	27.0
MSCI All Country World ex U.S. Index	-23.4	13.6	-10.9	35.6	7.1	8.5	6.6	1.7	14.1	31.8
MSCI EAFE Growth Index	-25.0	14.1	-13.0	25.1	4.5	11.4	3.5	2.1	22.2	29.5
<b>Manager Medians</b>										
Non-U.S. Equity	-12.1	13.5	-3.2	37.5	2.3	12.1	14.0	5.5	17.0	36.1
Non-U.S. Growth	-12.6	13.2	-2.5	39.2	1.1	12.4	13.8	7.6	18.4	46.9

Average Annual Compound Returns (%) Through Calendar Year 12/31/99

	10YR	9YR	8YR	7YR	6YR	5YR	4YR	3YR	2YR
Oechsle Intl Advisors	—	—	—	—	—	30.6	35.8	40.6	43.7
MSCI EAFE Index	7.0	11.1	10.9	14.7	12.0	12.8	13.2	15.7	23.4
MSCI All Country World ex U.S. Index	7.1	11.2	10.9	14.4	11.2	12.1	13.0	15.2	22.6
MSCI EAFE Growth Index	6.1	10.3	9.8	13.6	11.7	13.2	13.7	17.3	25.8
<b>Manager Medians</b>									
Non-U.S. Equity	11.3	14.5	14.2	16.9	14.0	16.5	17.8	18.7	26.3
Non-U.S. Growth	11.4	15.0	15.4	18.3	15.4	19.9	21.4	24.7	31.5

**Performance Notes:** Performance represents a composite of all fully discretionary, tax-exempt Select accounts. Returns include return on cash reserves. Performance is gross of management fees. Performance prior to 1/1/97 represents the longest standing Select account.

**OECHSLE INTERNATIONAL ADVISORS**  
**Select**

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**Staff:**

Analysts	4
Portfolio Managers/Analysts	13
Other (Admin/Mgmt/Marketing)	23

**Biographies of Key Personnel:**

**Adam Brown**

**Analyst**

With firm since 1997

M.A., St. Andrew's University, 1996

Graduate, Stirling University, 1993

Martin Currie, Limited, Investment Analyst, 1994 - 97

**Stephen J. Butters**

**Marketing/Client Services**

With firm since 1993

M.B.A., Columbia University, 1968

Graduate, Stonehill College, 1966

Butters Lyons, Founder, 1988 - 93

Putnam Management Company, Marketing, 1970 - 88

Hellman - Jordan Management Company, 1982 - 82

**Kathleen Harris**

**Principal**

With firm since 1995

M.B.A., University of Chicago, 1987

B.S., University of Illinois, 1984

State of Wisconsin Investment Board, Portfolio Manager and Investment Director, 1989 - 94

Northern Trust Company, Fund Manager and Equity Analyst, 1984 - 89

**S. Dewey Keesler, Jr.**

**Principal & Chief Investment Officer**

With firm since 1986

Graduate, University of Freiburg (Germany), 1981

B.A., Washington and Lee University, 1980

Putnam International Advisors, Portfolio Manager and Analyst, 1981 - 86

**OECHSLE INTERNATIONAL ADVISORS**  
**Select**

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

**Dana K. Martin**

**Portfolio Manager**

With firm since 1993

M.B.A., University of Pennsylvania, 1987

M.A., University of Pennsylvania

B.A., Yale University, 1982

Fidelity Investments, Portfolio Manager, 1987 - 93

**Walter Oechsle**

**Principal**

With firm since 1986

M.S., New York University, 1959

B.A., Lafayette College, 1957

Putnam International Advisors, President and Executive Officer, 1973 - 86

Arnhold & S. Bleichroeder, Inc., Portfolio Manager, 1959 - 73

**L. Sean Roche**

**Principal**

With firm since 1986

B.S., London School of Economics, 1976

Putnam International Advisors, Vice President and Portfolio Manager, 1981 - 86

James Capel & Company (London), Analyst, 1979 - 81

Rowe Rudd & Company, Analyst, 1976 - 79

**Steven H. Schaefer**

**Principal**

With firm since 1986

B.A., Princeton University, 1961

Putnam International Advisors, Managing Director and Senior Vice President, 1984 - 86

Manufacturers Hanover Limited, Assistant Managing Director, 1984 - 84

Bank of Boston, Vice President, 1980 - 83

Reliance International, Director, 1978 - 80

**Guy Scott**

**Analyst**

With firm since 1998

B.A., Lawrence University, 1988

State of Wisconsin Investment Board, Equity Analyst/Assistant Portfolio Manager, 1994 - 98

Mellon Bank, Cash Manager, 1991 - 93

**OECHSLE INTERNATIONAL ADVISORS  
Select**

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

Warren Walker

Principal

With firm since 1986

B.A., Kenyon College, 1982

Putnam International Advisors, Analyst, 1984 - 86

Lombard Odier International Portfolio Management, Portfolio Manager, 1983 - 84

Morgan Guaranty, Trainee, 1982 - 83

**OECHSLE INTERNATIONAL ADVISORS  
Select**

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**Fee Schedule:**

**Separate Account (Endowment)**

1.000% on first \$50 mm

0.750% on next \$50 mm

0.650% over \$100 mm

Fee excludes custody.

Minimum Account Size: \$20 mm

**Commingled Account (Endowment)**

0.900% on all assets.

Minimum Account Size: \$5 mm

**Representative Clients:**

Boston College

Eastman Kodak

Emory University

Houston Municipal Employees' Pension System

Stanford University

**OECHSLE INTERNATIONAL ADVISORS**  
**Select**

**Portfolio Description:**

Market Capitalization Emphasis:	varies	Stocks in Initial Universe:	1,400
Security Quality Emphasis:	varies	Stocks Followed Closely:	700
		Average Number of Stocks Held:	45

	<u>Relative</u>		<u>Frequency</u>
	<u>To Market</u>		<u>of Use</u>
Price/Earnings Ratio	above	Options	rarely
Price/Book Ratio	above	Convertibles	never
Earnings Growth Rate	above	U.S. Stocks	rarely
Dividend Growth Rate		Futures	varies
Current Income Yield	above	Bonds	never
ROE		Currency Hedging	varies
Payout			

Average Percentage of Cash Reserves Used: Allowable Range: 0% to 10%  
 Highest Percentage of Cash Reserves Used in Past: 13% Date: June 1994  
 Average Annual Turnover: 125% Range: 100% to 150%

**Actual Portfolio Characteristics As of December 31, 1999**

**Top Ten Country Allocations**

Average Weighted Market-Capitalization	\$43,300.0 mm
Median Market-Capitalization	\$29,500.0 mm
Trailing 12-month Price/Earnings Ratio	
Trailing 12-month Price/Book Ratio	9.1
Trailing 5-Year Earnings Growth Rate	
Trailing 5-Year Dividend Growth Rate	
Dividend Yield	1.5%
ROE	
Payout	
Quality (AAA/AA...)	

<u>Top Ten Country Allocations</u>	<u>% of Assets</u>
1. Japan	25.5
2. Emerging Markets	19.9
3. Netherlands	18.4
4. Germany	8.7
5. United Kingdom	5.2
6. France	5.0
7. Finland	4.1
8. Hong Kong	3.2
9. Singapore	2.6
10. Australia	2.5

Portfolio Allocation: Stocks: 97.1% Bonds: 0.0% Cash: 2.9% Other: 0.0%

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

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**SOUTHEASTERN ASSET MANAGEMENT**  
**Longleaf Partners International Fund**  
 6410 Poplar Avenue, Suite 900  
 Memphis, TN 38119  
 (901)761-2474  
 www.longleafpartners.com

Philosophy: Non-U.S. Value  
 Tax-Exempt Product Accounts (12/31/99): N/A  
 Tax-Exempt Product Assets (12/31/99): N/A  
 Total Product Assets (12/31/99): \$294 mm  
 Total Firm Assets (12/31/99): \$13,390 mm

New Business Contact: Frank Stanley (901)761-2474  
 Organization: Independent Investment Counsel

Year Founded: 1975  
 SEC Registered: Yes  
 AIMR Compliant: No

**Investment Approach:** The firm believes superior long-term investment performance can be achieved when financially strong, well-managed companies are bought at prices significantly below their business value and sold when they approach corporate worth. The international universe includes companies which exceed \$200 million in market cap, and are located in countries where hedging economic and currency risks is not prohibitively expensive. Buying criteria include: 1) undervalued stocks which are selling at a substantial discount from the company's liquidating value, at a relatively low multiple of free cash flow, or at a large discount from a price at which a comparable business has been sold; 2) companies with financial integrity; 3) shareholder-oriented management as evidenced by stock ownership and past actions to benefit shareholders; and 4) competitively entrenched businesses. Stocks are purchased at significant discounts to their corporate worth. Positions are sold when the security price approaches 100% of the appraisal or when other, more attractive investment opportunities exist. The firm does not impose country or sector weighting limits, and portfolios bear no resemblance to any index. Currency exposure hedging is sometimes used. Turnover averages 20% annually.

**Research:** The firm relies on in-house research (100%).

**Investment Results:**

	<u>Annual Total Returns (%)</u>									
	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Southeastern Asset Management	—	—	—	—	—	—	—	—	—	24.4
MSCI EAFE Index	-23.4	12.1	-12.2	32.6	7.8	11.2	6.0	1.8	20.0	27.0
MSCI All Country World ex U.S. Index	-23.4	13.6	-10.9	35.6	7.1	8.5	6.6	1.7	14.1	31.8
MSCI EAFE Value Index	-21.7	10.3	-11.2	39.9	11.0	11.3	8.8	1.5	17.7	24.1
<b>Manager Medians</b>										
Non-U.S. Equity	-12.1	13.5	-3.2	37.5	2.3	12.1	14.0	5.5	17.0	36.1
Non-U.S. Value	-9.6	15.4	-3.6	40.2	3.8	12.5	15.6	6.5	14.3	28.8

**Average Annual Compound Returns (%) Through Calendar Year 12/31/99**

	<u>10YR</u>	<u>9YR</u>	<u>8YR</u>	<u>7YR</u>	<u>6YR</u>	<u>5YR</u>	<u>4YR</u>	<u>3YR</u>	<u>2YR</u>
Southeastern Asset Management	—	—	—	—	—	—	—	—	—
MSCI EAFE Index	7.0	11.1	10.9	14.7	12.0	12.8	13.2	15.7	23.4
MSCI All Country World ex U.S. Index	7.1	11.2	10.9	14.4	11.2	12.1	13.0	15.2	22.6
MSCI EAFE Value Index	7.9	11.8	12.0	15.8	12.2	12.4	12.7	14.0	20.9
<b>Manager Medians</b>									
Non-U.S. Equity	11.3	14.5	14.2	16.9	14.0	16.5	17.8	18.7	26.3
Non-U.S. Value	12.3	14.9	14.5	17.0	14.0	16.0	16.6	17.1	21.2

**Performance Notes:** Performance represents the Longleaf Partners International Fund, a mutual fund. Returns include return on cash reserves. Performance is net of management fees. Returns have been audited by an independent third party.



**SOUTHEASTERN ASSET MANAGEMENT  
Longleaf Partners International Fund**

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**Staff:**

Analysts	1
Portfolio Managers/Analysts	7
Other (Admin/Mgmt/Marketing)	4

**Biographies of Key Personnel:**

**John B. Buford**      Vice President

With firm since 1990

B.B.A., University of Texas, 1985  
 First Tennessee Bank, Vice President, 1989 - 90  
 Metropolitan National Bank, Commercial Lending Officer and Credit Analyst, 1985 - 88

**G. Staley Cates**      President/Director of Research

With firm since 1986

B.B.A., University of Texas, 1986  
 Morgan, Keegan & Company, Research Associate, 1986 - 86

**Jason E. Dunn**      Assistant Vice President

With firm since 1997

B.A., Rhodes College, 1999

**C. T. Fitzpatrick, III**      Vice President

With firm since 1990

M.B.A., Vanderbilt University, 1990  
 B.A., University of Alabama, 1986  
 Merrill Lynch Capital Markets, Financial Analyst, 1986 - 88

**O. Mason Hawkins**      Chairman/Chief Executive Officer

With firm since 1975

M.B.A., University of Georgia, 1971  
 B.A., University of Florida, 1970  
 First Tennessee Investment Management, Director of Research, 1974 - 75  
 Atlantic National Bank, Director of Research, 1972 - 73

**SOUTHEASTERN ASSET MANAGEMENT**  
**Longleaf Partners International Fund**

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

**E. Andrew McDermott**      **Vice President**

With firm since 1998

B.A., Princeton University, 1992

J.P. Morgan Investment Management, 1994 – 98

NEC Logistics, 1992 – 94

**Frank N. Stanley, III**      **Vice President**

With firm since 1985

M.B.A., University of Florida, 1970

B.S., Georgia Institute of Technology, 1964

Montag & Caldwell, Portfolio Manager and Analyst, 1974 – 84

Atlantic National Bank, Investment Officer, 1972 – 73

**James E. Thompson, Jr.**      **Vice President**

With firm since 1996

M.B.A., University of Virginia, 1986

B.S., University of North Carolina, 1982

Salem Investment Counselors, Vice President, 1994 – 95

Wilmington Capital Management, Director of Research, 1991 – 93

Wachovia Bank and Trust Company, Senior Analyst, 1987 – 90

**SOUTHEASTERN ASSET MANAGEMENT**  
**Longleaf Partners International Fund**

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**Fee Schedule:**

**Mutual Fund**

Expense ratio:

1.750% on all assets (as of 6/30/99).

No sales-load.

No 12(b) 1 fee.

Fee includes custody.

Minimum Account Size: \$10,000

**Representative Clients:**

Confidential.

**SOUTHEASTERN ASSET MANAGEMENT**  
**Longleaf Partners International Fund**

**Portfolio Description:**

Market Capitalization Emphasis:	varies	Stocks in Initial Universe:	200
Security Quality Emphasis:	high	Stocks Followed Closely:	60
		Average Number of Stocks Held:	21

	<u>Relative To Market</u>		<u>Frequency of Use</u>
Price/Earnings Ratio		Options	rarely
Price/Book Ratio		Convertibles	varies
Earnings Growth Rate		U.S. Stocks	rarely
Dividend Growth Rate		Futures	never
Current Income Yield		Bonds	varies
ROE		Currency Hedging	often
Payout			

Average Percentage of Cash Reserves Used: 5%      Allowable Range:  
 Highest Percentage of Cash Reserves Used in Past: 23%      Date: December 1998  
 Average Annual Turnover: 20%      Range:

**Actual Portfolio Characteristics As of December 31, 1999**

Average Weighted Market-Capitalization	\$1,929.0 mm
Median Market-Capitalization	\$826.0 mm
Trailing 12-month Price/Earnings Ratio	
Trailing 12-month Price/Book Ratio	
Trailing 5-Year Earnings Growth Rate	
Trailing 5-Year Dividend Growth Rate	
Dividend Yield	
ROE	
Payout	
Quality (AAA/AA...)	

**Top Ten Country Allocations**

	<b>% of Assets</b>
1. Japan	28.5
2. United Kingdom	23.0
3. Canada	19.2
4. Emerging Markets	8.4
5. USA	7.9
6. New Zealand	6.1
7. Finland	6.0

Portfolio Allocation: Stocks: 99.0% Bonds: 0.0% Cash: 1.0% Other: 0.0%

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**TT INTERNATIONAL INVESTMENT MANAGEMENT**  
**Active International (Long-EAFE) Equity**  
**Martin House**  
**5 Martin Lane**  
**London, EC4R 0DP**  
**011-44-207-410-3500**

**Philosophy: Non-U.S. Opportunistic**  
**Tax-Exempt Product Accounts (12/31/99): 22**  
**Tax-Exempt Product Assets (12/31/99): \$6,079 mm**  
**Total Product Assets (12/31/99): \$6,079 mm**  
**Total Firm Assets (12/31/99): \$6,572 mm**

**New Business Contact: Rahul Moodgal 011-44-207-410-3514**  
**Organization: Independent Investment Counsel**

**Year Founded: 1988**  
**SEC Registered: Yes**  
**AIMR Compliant: Yes, Level I**

**Investment Approach:** The firm's investment philosophy focuses on identifying value either in unrecognized asset potential or accelerating earnings momentum. The process begins with a country allocation framework that is determined by one of the investment partners on a quarterly basis with a twelve-month horizon. Geopolitical trends as well as interest rates and inflation are of prime importance. Capital inflows/outflows are also considered. Sector and stock selection are left to the portfolio manager responsible for each geographic area. The firm seeks to buy companies in the multiple range of 1.0 to 1.5 times the sustainable growth rate plus dividend yield. An investment candidate preferably exhibits a catalyst (i.e., new management, new product, etc.) to unlock the value of the company. Liquidity is important so larger capitalization companies are generally used. Portfolios are not benchmark-driven and as such may have substantially different country weightings from the MSCI EAFE Index. Portfolios typically contain 40 - 60 names; a greater number of investment ideas are needed to invest in the smaller markets in the Far East. The top ten holdings constitute 40% - 50% of the portfolio's market value. Exposure to emerging markets averages around 6%, but may rise as high as 10%. Average turnover is 200% annually.

**Research:** The firm relies primarily on external research supplemented by in-house research and company visits.

**Investment Results:**

**Annual Total Returns (%)**

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
TT International Invest Mgmt	—	25.5	4.7	72.2	-9.1	24.4	23.8	20.7	18.1	46.7
MSCI EAFE Index	-23.4	12.1	-12.2	32.6	7.8	11.2	6.0	1.8	20.0	27.0
MSCI All Country World ex U.S. Index	-23.4	13.6	-10.9	35.6	7.1	8.5	6.6	1.7	14.1	31.8
<b>Manager Medians</b>										
Non-U.S. Equity	-12.1	13.5	-3.2	37.5	2.3	12.1	14.0	5.5	17.0	36.1
Non-U.S. Opportunistic	-12.0	15.5	0.1	34.8	-0.8	14.0	12.8	5.0	17.3	36.1

**Average Annual Compound Returns (%) Through Calendar Year 12/31/99**

	10YR	9YR	8YR	7YR	6YR	5YR	4YR	3YR	2YR
TT International Invest Mgmt	—	23.4	23.1	26.0	19.6	26.3	26.8	27.9	31.6
MSCI EAFE Index	7.0	11.1	10.9	14.7	12.0	12.8	13.2	15.7	23.4
MSCI All Country World ex U.S. Index	7.1	11.2	10.9	14.4	11.2	12.1	13.0	15.2	22.6
<b>Manager Medians</b>									
Non-U.S. Equity	11.3	14.5	14.2	16.9	14.0	16.5	17.8	18.7	26.3
Non-U.S. Opportunistic	12.0	14.8	13.9	15.9	13.4	16.7	17.1	19.2	26.4

**Performance Notes:** Performance represents a composite of all fully discretionary, tax-exempt U.S. based International Common Stock accounts. Returns include return on cash reserves. Performance is gross of management fees. Returns have been audited by an independent third party.

**TT INTERNATIONAL INVESTMENT MANAGEMENT**  
**Active International (Long-EAFE) Equity**

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**Biographies of Key Personnel:**

**Henry Bedford**

**Portfolio Manager**

With firm since 1999

M.B.A., Northwestern University, 1980

B.A., Hamilton College, 1976

Moore Capital Management, Portfolio Manager, 1996 - 99

Boar's Head Management/Caxton, Portfolio Manager, 1993 - 96

Goldman Sachs, Partner, 1980 - 92

**Michael Bullock**

**Portfolio Manager**

B.S.C., London University

Morgan Grenfell Investment Services, Chairman and CIO

**Pauline Pong**

**Portfolio Manager - Japan**

With firm since 1996

B.A., University of Liverpool, 1978

M&G Investment Management, Ltd., 1984 - 96

Gartmore Investment Management, 1982 - 84

G.T. Management, 1979 - 82

**Peter Robertson**

**Consultant - Asia/Pacific**

With firm since 1996

Graduate, Harrow School, 1958

M&G Investment Management Ltd., Far East Director, 1965 - 95

Philip Hill Higginson, Private Client Manager, 1962 - 65

**TT INTERNATIONAL INVESTMENT MANAGEMENT**  
**Active International (Long-EAFE) Equity**

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

**Martin Shenfield**

**Partner**

With firm since 1998

Graduate, Imperial College, 1989

M.A., Cambridge University, 1979

Ki Pacific Asset Management, Inc., Chief Executive Officer, 1993 - 98

Enskilda Asset Management, Chief Investment Officer, 1990 - 92

Fidelity Investment Services Ltd., Directorships, 1982 - 90

Morgan Grenfell, Fund Manager/Analyst, 1979 - 81

**Timothy A. Tacchi**

**Senior Partner**

With firm since 1988

M.A., Oxford University, 1976

Fidelity International, Investment Director, 1983 - 88

Hambros Bank, Investment Manager, 1976 - 83

**James E. Tonner**

**Partner**

With firm since 1992

Graduate, Harvard Business School, 1979

Graduate, Holy Cross, 1952

Global Asset Management, Director, 1990 - 92

Chemical Bank Investment Group, Managing Director, 1989 - 90

Fidelity International, Managing Director and Chairman of International Investment Policy Group,  
1968 - 88

National Provident Institution, Investment Secretary, 1957 - 68

Ivory & Sime, Junior Investment Analyst, 1952 - 57

**Mark S. Williams**

**Partner**

With firm since 1994

Graduate, London Business School, 1983

B.A., Durham University, 1980

Goldman Sachs, Executive Director/Co-Head of Foreign Exchange Europe, 1987 - 94

Chemical Bank, Vice President of Commodity Finance, 1984 - 87

Amro Bank, Graduate Trainee, 1980 - 84

**TT INTERNATIONAL INVESTMENT MANAGEMENT**  
**Active International (Long-EAFE) Equity**

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**Fee Schedule:**

**Separate Account (Endowment)**

0.600% on first \$100 mm

0.400% on next \$200 mm

0.350% on next \$200 mm

Fee excludes custody.

Vehicle is closed to new investors.

Minimum Account Size: \$100 mm

**Commingled Account (Endowment)**

Delaware Business Trust:

Expense Ratio:

1.000% of assets.

Fee includes custody.

Minimum Account Size: \$3 mm

**Mutual Fund**

LKCM International Fund

Expense ratio:

1.200% of assets (as of 12/31/98).

Fee includes custody.

This is a no-load fund.

Minimum Account Size: \$10,000

**Representative Clients:**

Amateur Athletic Foundation of Los Angeles

Children's Medical Center

Davidson College

Detroit, MI (City of)

Gannett Co.

Kaiser Family Foundation

Kresge Foundation

University of Rochester



**TT INTERNATIONAL INVESTMENT MANAGEMENT**  
**Active International (Long-EAFE) Equity**

**Portfolio Description:**

Market Capitalization Emphasis:	large	Stocks in Initial Universe:	200
Security Quality Emphasis:	high	Stocks Followed Closely:	150
		Average Number of Stocks Held:	75

	Relative To Market		Frequency of Use
Price/Earnings Ratio	above	Options	never
Price/Book Ratio	above	Convertibles	rarely
Earnings Growth Rate	equal to	U.S. Stocks	never
Dividend Growth Rate	above	Futures	rarely
Current Income Yield	equal to	Bonds	never
ROE	equal to	Currency Hedging	often
Payout	varies		

Average Percentage of Cash Reserves Used: 8%      Allowable Range: 0% to 10%  
 Highest Percentage of Cash Reserves Used in Past: 25%    Date: December 1994  
 Average Annual Turnover: 200%      Range: 0% to 350%

**Actual Portfolio Characteristics As of December 31, 1999**

Average Weighted Market-Capitalization	\$60,000.0 mm
Median Market-Capitalization	\$23,000.0 mm
Trailing 12-month Price/Earnings Ratio	50.5
Trailing 12-month Price/Book Ratio	5.3
Trailing 5-Year Earnings Growth Rate	18.9%
Trailing 5-Year Dividend Growth Rate	
Dividend Yield	0.6%
ROE	13.3%
Payout	
Quality (AAA/AA...)	

**Top Ten Country Allocations**

	% of Assets
1. Japan	34.7
2. Germany	11.6
3. France	10.2
4. United Kingdom	6.5
5. Emerging Markets	4.9
6. Italy	4.7
7. Hong Kong	4.3
8. Netherlands	3.7
9. Finland	3.6
10. Sweden	2.8

Portfolio Allocation: Stocks: 93.6% Bonds: 0.0% Cash: 6.4% Other: 0.0%

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**WELLINGTON MANAGEMENT COMPANY, LLP**  
**International Research Equity**  
**75 State Street**  
**Boston, MA 02109**  
**(617)951-5000**  
**www.wellmanage.com**

**Philosophy: Non-U.S. Diverse**  
**Tax-Exempt Product Accounts (12/31/99): 13**  
**Tax-Exempt Product Assets (12/31/99): \$3,943 mm**  
**Total Product Assets (12/31/99): \$3,959 mm**  
**Total Firm Assets (12/31/99): \$235,524 mm**

**New Business Contact: Susan Fagerstrom (617)951-5658**  
**Organization: Independent Investment Counsel**

**Year Founded: 1928**  
**SEC Registered: Yes**  
**AIMR Compliant: Yes**

**Investment Approach:** The firm employs a bottom-up process through which securities are selected solely for their total return potential rather than any particular style-oriented characteristics. The process is driven by the global equity analysts, each responsible for one or, in most cases, more industries. Analysts, at their sole discretion, select stocks from within their respective industries to construct a sub-portfolio representing the best stock ideas from their research universe. The allocation of assets to each of the sub-portfolios corresponds to the relative weight of each research analyst's coverage of the MSCI EAFE Index. Individual selection and timing of investments for each of the sub-portfolios is at the discretion of the individual analysts, subject to the constraint that securities fall within the analyst's particular area of research expertise and that the sub-portfolios remain fully invested. If an analyst follows multiple industries, the analyst has discretion to overweight or underweight industries within the sub-portfolio. Three portfolio coordinators manage and monitor the overall process, but all the investment decisions are made by the analysts. Country weightings may deviate substantially from the MSCI EAFE Index. Portfolios remain fully invested and are broadly diversified across 111 holdings in at least 15 markets. Currency typically remains unhedged. However, when proprietary currency models indicate extreme overvaluation of a currency, the portfolio coordinator may consult the analysts and defensively hedge the portfolio. Emerging markets exposure is capped at 15% of market value.

**Research:** Approximately 85% of the firm's research is conducted in-house supplemented by external sources.

**Investment Results:**

Annual Total Returns (%)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Wellington Management Company, LLP	—	—	—	—	13.0	24.6	17.6	4.4	14.8	30.3
MSCI EAFE Index	-23.4	12.1	-12.2	32.6	7.8	11.2	6.0	1.8	20.0	27.0
MSCI All Country World ex U.S. Index	-23.4	13.6	-10.9	35.6	7.1	8.5	6.6	1.7	14.1	31.8
<b>Manager Medians</b>										
Non-U.S. Diverse	-14.7	14.5	-5.6	32.8	5.4	11.6	10.5	2.1	17.7	28.0
Non-U.S. Equity	-12.1	13.5	-3.2	37.5	2.3	12.1	14.0	5.5	17.0	38.1

Average Annual Compound Returns (%) Through Calendar Year 12/31/99

	10YR	9YR	8YR	7YR	6YR	5YR	4YR	3YR	2YR
Wellington Management Company, LLP	—	—	—	—	17.2	18.0	16.4	16.0	22.3
MSCI EAFE Index	7.0	11.1	10.9	14.7	12.0	12.8	13.2	15.7	23.4
MSCI All Country World ex U.S. Index	7.1	11.2	10.9	14.4	11.2	12.1	13.0	15.2	22.6
<b>Manager Medians</b>									
Non-U.S. Diverse	9.8	12.1	11.7	15.0	12.2	14.7	15.3	16.0	23.7
Non-U.S. Equity	11.3	14.5	14.2	16.9	14.0	16.5	17.8	18.7	26.3

**Performance Notes:** Performance represents a composite of all fully discretionary, tax-exempt International Research Equity accounts. Returns include return on cash reserves. Performance is gross of management fees. Returns have not been audited by an independent third party.

**WELLINGTON MANAGEMENT COMPANY, LLP**  
**International Research Equity**

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**Biographies of Key Personnel:**

**William N. Booth**            **Senior Vice President & Partner**

With firm since 1982

B.A., Trinity College, 1971  
David L. Babson & Company, 1980 - 82  
State Street Bank, 1972 - 78

**Perry M. Traquina**        **Senior Vice President & Partner**

With firm since 1980

M.B.A., Harvard University, 1980  
B.A., Brandeis University, 1978

**Michael A. Tyler**         **Senior Vice President & Partner**

With firm since 1987

M.B.A., Harvard University, 1987  
B.A., Princeton University, 1982  
Datamation Magazine, 1982 - 85

**WELLINGTON MANAGEMENT COMPANY, LLP**  
**International Research Equity**

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**Fee Schedule:**                    **Separate Account (Endowment)**  
0.750% on first \$50 mm  
0.650% on next \$50 mm  
0.550% over \$100 mm  
Minimum annual fee: \$537,500.  
Fee excludes custody.

Minimum Account Size: \$75 mm

**Commingled Account (Endowment)**  
0.750% on first \$50 mm  
0.650% on next \$50 mm  
0.550% over \$100 mm  
Fee includes custody.  
Minimum annual fee: \$37,500.

Minimum Account Size: \$5 mm

**Representative Clients:**    Glenwood School  
   International Paper  
   Massachusetts Institute of Technology Endowment  
   Province of British Columbia  
   St. Mark's School

**WELLINGTON MANAGEMENT COMPANY, LLP**  
**International Research Equity**

**Portfolio Description:**

Market Capitalization Emphasis:	varies	Stocks in Initial Universe:	3,600
Security Quality Emphasis:	varies	Stocks Followed Closely:	550
		Average Number of Stocks Held:	111

	Relative To Market		Frequency of Use
Price/Earnings Ratio	equal to	Options	rarely
Price/Book Ratio	equal to	Convertibles	never
Earnings Growth Rate	equal to	U.S. Stocks	often
Dividend Growth Rate	equal to	Futures	rarely
Current Income Yield	equal to	Bonds	never
ROE	equal to	Currency Hedging	rarely
Payout	equal to		

Average Percentage of Cash Reserves Used: 4%      Allowable Range: 2% to 6%  
 Highest Percentage of Cash Reserves Used in Past: 12%    Date: September 1993  
 Average Annual Turnover: 72%      Range: 60% to 100%

**Actual Portfolio Characteristics As of December 31, 1999**

**Top Ten Country Allocations**

Average Weighted Market-Capitalization	\$53,169.0 mm
Median Market-Capitalization	\$10,545.0 mm
Trailing 12-month Price/Earnings Ratio	30.6
Trailing 12-month Price/Book Ratio	3.4
Trailing 5-Year Earnings Growth Rate	
Trailing 5-Year Dividend Growth Rate	
Dividend Yield	1.3%
ROE	12.9%
Payout	
Quality (AAA/AA...)	

	% of Assets
1. United Kingdom	20.7
2. Japan	19.2
3. France	13.0
4. Netherlands	8.0
5. Canada	5.2
6. Spain	4.7
7. Australia	4.6
8. Finland	4.6
9. Sweden	4.1
10. Emerging Markets	3.5

Portfolio Allocation: Stocks: 97.2%    Bonds: 0.0%    Cash: 2.8%    Other: 0.0%

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

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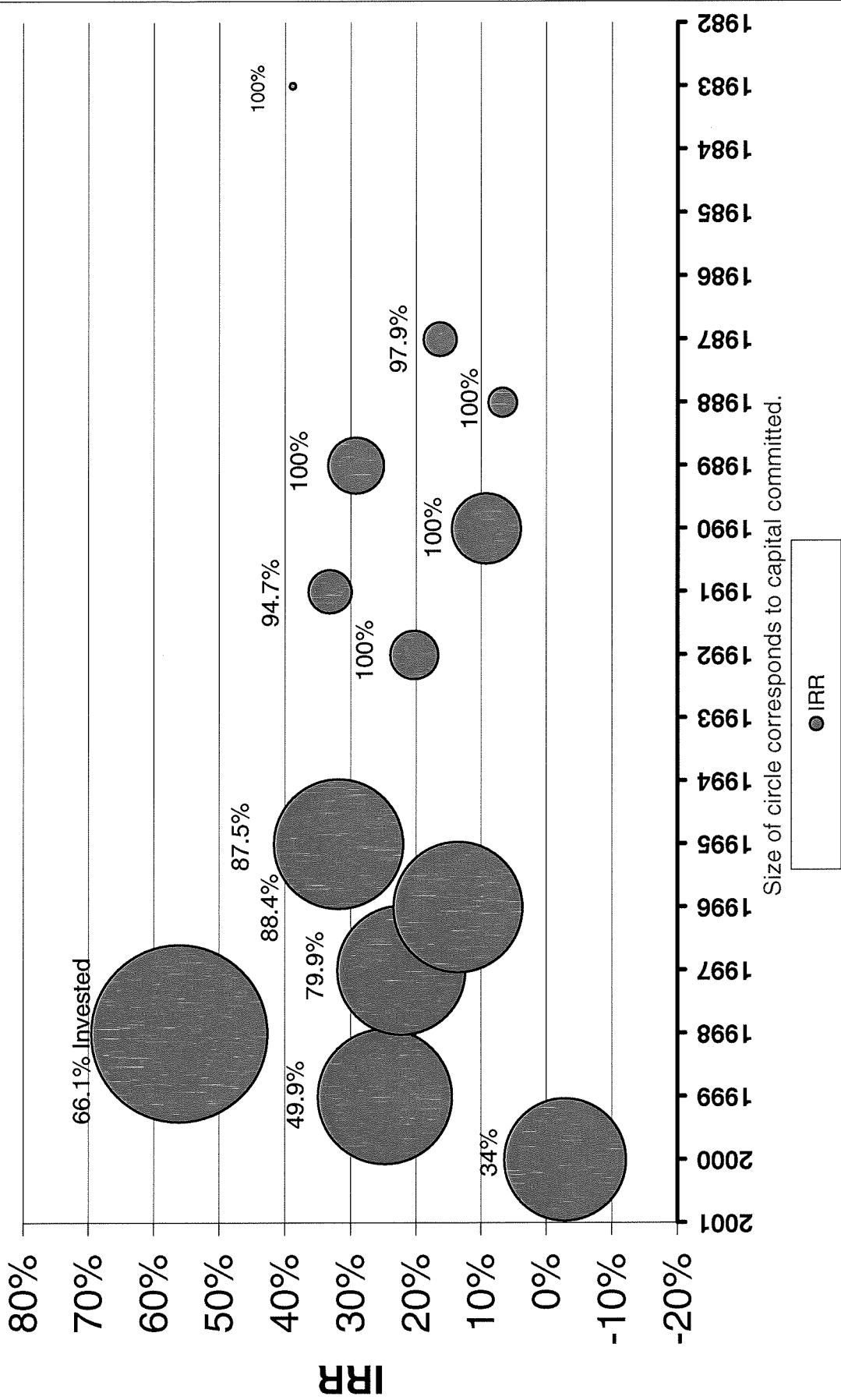
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**ALTERNATIVE EQUITIES  
NONMARKETABLE PROGRAM**

	<u>Inception to 02/29/00</u>
(\$ MILLIONS)	
<b>Committed Capital</b>	
Beginning Balance	0.0
Added	2,176.3
Drawdown	(1,556.4)
Ending Undrawn Balance	<u>619.9</u>
<b>Invested Capital</b>	
Beginning Value	0.0
Drawdown	1,556.4
Return of Capital	(462.6)
Income/Net Realized Gains	(618.6)
Undistributed Capital	<u>475.2</u>
Value of Portfolio	1,413.1
PUF/LTF/PHF Asset Base (\$ millions)	11,857
% PUF/LTF/PHF Asset Base (combined)	11.9%

**Alternative Equities - Nonmarketable Program  
Annualized IRR by Vintage Fiscal Year  
(22.61% Annualized IRR by Program)  
As of February 29, 2000**



**ALTERNATIVE INVESTMENTS - NON MARKETABLE**  
**FY 2000**  
**(MILLIONS)**

Date	Action	Entity	Type	Amount		
				Partnership	Direct	Total
09/22/1999	Authorized					<b>\$ 296.3</b>
09/22/1999	Committed	Windjammer Mezz. & Eq. Fund II, L.P.	Mezzanine	(25.0)		(25.0)
09/22/1999	Committed	Hampshire Equity Partners II, L.P.	Special Equities	(40.0)		(40.0)
		<b>sub-total</b>		<b>(65.0)</b>	<b>-</b>	<b>(65.0)</b>
		<b>available capital</b>				<b>\$ 231.3</b>
11/08/1999	Committed	Songbird Medical Inc.	Venture Capital		(12.0)	(12.0)
11/08/1999	Committed	Baker Communications Fund II, L.P.	Special Equities	(30.0)		(30.0)
11/08/1999	Committed	Halpern Denny Fund III, L.P.	Special Equities	(30.0)		(30.0)
11/08/1999	Committed	Cortec Group Fund III, L.P.	Special Equities	(20.0)		(20.0)
11/08/1999	Committed	Austin Ventures VII L.P.	Venture Capital	(20.0)		(20.0)
		<b>sub-total</b>		<b>(100.0)</b>	<b>(12.0)</b>	<b>(112.0)</b>
		<b>cumulative sub-total</b>		<b>(165.0)</b>	<b>(12.0)</b>	<b>(177.0)</b>
		<b>available capital</b>				<b>\$ 119.3</b>
12/09/1999	Committed	SKM Equity Fund III, L.P.	Special Equities	(25.0)		(25.0)
		<b>sub-total</b>		<b>(25.0)</b>	<b>-</b>	<b>(25.0)</b>
		<b>cumulative sub-total</b>		<b>(190.0)</b>	<b>(12.0)</b>	<b>(202.0)</b>
		<b>available capital</b>				<b>\$ 94.3</b>
02/24/2000	Committed	JATO Tech Ventures, L.P.	Venture Capital	(10.0)		(10.0)
	Committed	Band of Angels Fund, L.P.	Venture Capital	(10.0)		(10.0)
	Committed	Morgenthaler Venture Partners VI, L.P.	Venture Capital	(10.0)	(10.0)	(10.0)
	Committed	Prism Venture Partners III, L.P.	Venture Capital	(10.0)	(10.0)	(10.0)
	Committed	Crescendo IV, L.P.	Venture Capital	(10.0)	(10.0)	(10.0)
		<b>sub-total</b>		<b>(50.0)</b>	<b>0.0</b>	<b>(50.0)</b>
		<b>cumulative sub-total</b>		<b>(240.0)</b>	<b>(12.0)</b>	<b>(252.0)</b>
		<b>available capital</b>				<b>\$ 44.3</b>
04/27/2000	Proposed	Wingate Partners III	Special Equities	(20.0)		(20.0)
	Proposed	Carlyle Partners III	Special Equities	(25.0)		(25.0)
		<b>sub-total</b>		<b>(45.0)</b>	<b>-</b>	<b>(45.0)</b>
		<b>cumulative sub-total</b>		<b>(285.0)</b>	<b>(12.0)</b>	<b>(297.0)</b>
		<b>available capital</b>				<b>\$ (0.7)</b>
06/29/2000	None					
08/24/2000	None					
08/24/2000	Authorized					<b>\$ 342.2</b>
FY2001	Expected	8 Partnership Investments	Misc.	(256.6)		(256.6)
FY2001	Expected	4 Direct Co-Investments	Misc.		(85.6)	(85.6)
		<b>sub-total</b>		<b>(256.6)</b>	<b>(85.6)</b>	<b>(342.2)</b>
		<b>available capital</b>				<b>\$ -</b>





## **Resolution No. 2**

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 Wingate Management Company III, L.P. to invest up to \$20 million of PUF, PHF and LTF assets in **Wingate 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 Due Diligence Review and Recommendation dated April 27, 2000 for **Wingate 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 **Wingate 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.

**INVESTMENT DUE DILIGENCE AND  
RECOMMENDATION**

**ALTERNATIVE EQUITIES:  
NON-MARKETABLE**



**WINGATE PARTNERS III, L.P.**

*April 27, 2000*

## WINGATE PARTNERS III, L.P.

### **Recommendation: Commit \$20 million**

PUF: \$11.0 million

LTF: \$6.4 million

PHF: \$2.6 million

### **Background**

Wingate Partners III is currently offering \$125 million of limited partnership interests in Wingate Partners III, L.P. on identical terms to those for Wingate Partners I and II. The Fund's investment strategy is to acquire controlling interest in five to seven middle-market companies (\$100 million to \$750 million in revenues) that possess a significant market presence in the U.S. The Fund will continue to concentrate on low and medium technology companies in manufacturing, distribution and service industries. Target companies generally will be underperforming (as little as a year to two years away from bankruptcy) due to:

- i) an unfocused strategy, misdirected incentives, "tired" management, underutilized technology or other operating and strategic problems, or
- ii) the pursuit of an operating plan that does not address fundamental changes within an industry such as consolidation, over-capacity, channel shifts or other competitive pressures.

Target companies can also be unprofitable at the time of acquisition provided that the company's losses are not due solely to excess leverage or where Wingate believes profitability can be restored through identifiable operating improvements.

Post acquisition, Wingate will attempt to add to shareholder value through active involvement in directing strategy, consolidating operations, upgrading management, reducing operating costs and improving the efficiency of operating assets and liabilities.

### **Summary of Terms**

The terms of Wingate Partners III, L.P. are as follows:

Fund:	Wingate Partners III, L.P.
Security:	Limited Partnership Interest
Offering:	\$125 million
General Partner:	Wingate Management Co. III, L.P. (Dallas, TX)
Principals:	Jay I. Applebaum, Michael B. Decker, James A. Johnson, Jason Reed

Strategy:	Acquire controlling interest in 5-7 companies that are underperforming or that participate in industries that are in transition
Term:	10 years with 3 annual extensions at election of GP
Acquisition Period:	7 years
Allocation of Capital Gains:	80% to limited partners; 20% to general partner (after 100% payback of capital to limited partners)
Allocation of Fee Income:	80% to limited partners; 20% to general partner
Management Fee:	2.5% of committed capital per annum until 7 <sup>th</sup> anniversary; \$1 million thereafter

### Analysis of Return History

The recommendation to commit \$20 million to Wingate III is based substantially on Wingate's successful execution of its investment strategy for Wingate Partners I and II. The return histories for these two funds are as follows:

#### 1) Wingate Partners I

In 1987, UT committed \$10 million to Wingate Partners I, a \$67 million fund. Over the ensuing six-year acquisition period, Wingate invested \$54 million of partnership capital to acquire six companies. Through December 31, 1999, it had received actual proceeds from liquidations, fee income and undistributed shares of United Stationers stock, equal to \$405.3 million.

Acquisition Date	Company	Industry	Cash Investment	Proceeds	Projected IRR
Oct-88	Redman Industries	Manufactured Housing	\$11.7	\$63.2	62%
Oct-88	Redman Building Products	Aluminum/Vinyl Windows	\$10.0	\$33.2	26%
Dec-88	Century Products	Juvenile Products	\$4.3	\$38.5	33%
May-91	Loomis, Fargo & Co.	Armored Transport Services	\$11.4	\$24.4	16%
Jan-92	United Stationers	Office Products, Furniture	\$13.1	\$241.0	69%
May-94	AmeriStat	Mobile Medical Services	\$3.6	\$5.0	24%
			<u>\$54.1</u>	<u>\$405.3</u>	

Wingate estimates its unrealized value in Loomis Fargo at \$30 million (6x operating cash flow). Inclusion of this unrealized value in the return calculation would increase the IRR on its \$11.4 million investment in Loomis Fargo from 16% to 28%.

Net of fees, expenses, and carried interest, Wingate has distributed \$325 million to limited partners (on an LP capital base of \$65 million) for an IRR of 29% and a payback ratio of 5.0x. Inclusion of the unrealized value in Loomis Fargo would increase the IRR and payback ratio slightly to 30% and 5.4x, respectively. These returns compare very favorably to the

median return and payback ratio for the Cambridge Associates universe of U.S. private equity funds originated in 1987, at 12% and 2.0x, respectively.

2) **Wingate Partners II**

Seven years later, in 1994, UT committed \$15 million to Wingate Partners II, a \$125 million fund established to pursue an investment strategy identical to Wingate Partners I. Over the succeeding five years ended December 31, 1999; Wingate II invested \$64 million in 5 companies.

Acquisition Date	Company	Industry	Cash Investment	Value/ Proceeds	Projected IRR
Mar-95	United Stationers	Office Products, Furniture	\$7.1	\$77.8	121%
Nov-95	Heafner Tire Group	Independent tire distributor	\$8.5	\$28.9	59%
Dec-97	National Spirit Group	Student sports and spirit	\$18.8	\$19.6	N/A
Jan-99	Pro Parts Express	Automotive aftermarket	\$11.2	\$12.0	N/A
Jul-99	Kevco	Building products	\$18.2	\$19.4	N/A
			\$63.8	\$157.7	

As of December 31, 1999, the actual proceeds received from liquidations and fee income, the undistributed shares of United Stationers stock and cost value of original investment in National Spirit Group, Pro Parts Express and Kevco was estimated at \$157.7 million. Factoring in management expenses and carried interest, the \$77 million invested by WPII limited partners would have an estimated net value of \$136 million. The resulting IRR of 41% and payback ratio of 1.8x is considerably better than the median return and payback ratio for the Cambridge Associates universe of U.S. private equity funds originated in 1994 at 15% and 1.4x, respectively.

Although Wingate's 12-year return history is based upon 11 actual investments, a substantial portion of the return has been generated by numerous post-acquisition transactions to support portfolio company growth or to execute individual company acquisition strategies. In addition to the original 11 base investments, there have been 30 follow on acquisitions as well as numerous divestitures, refinancings and other corporate transactions in Wingate I and II portfolio companies. The 30 add-on acquisitions have increased the revenues of the 11 base companies from \$2.3 billion to \$6.6 billion.

The historical return profile in Wingate I and II also evidences a consistency of success per investment. There have been no investment losses through 1997 with mature investments producing a 20% return or better.

Finally, the investment environment for Wingate's strategy is in some respects superior to the period encompassed by Wingate II. During the mid-90's, Wingate's target companies had the option to go public. Today many of these companies can't execute without additional capital but are reluctant to issue stock at the poor public market valuations for small cap companies.

### **Evaluation of Degree of Control/ General Partner**

The success of the proposed investment in Wingate III will depend highly on the ability of Wingate's principals to identify and acquire target investments, to improve the operating performance of portfolio companies and subsequently to dispose of the investments at a gain.

Wingate III represents the first fund where none of the original three founding partners (Hegi, Callier and Sturgess) will participate actively in the management of the Fund. However, the transition in fund management has been phased in gradually over Wingate Partners I-III with the founding partners continuing to support management through participation on the Fund's Board of Advisors. Members of this Board (see Exhibit A) serve in a fiduciary/advisory/network capacity but do participate actively in the Fund's management (except for any continuing responsibilities as principals of predecessor Wingate funds). Board members are encouraged to devote attention to their duties by receiving 1.5% of the general partner's carried interest each as well as board fees of \$30,000. Wingate management estimates that Board members will also invest anywhere from \$100,000 to \$400,000 in Wingate III.

Of the four remaining principals, Jim Johnson (Managing Principal) and Bud Applebaum have been active in Wingate Partners I and II and have worked together for 10 years. Mike Decker and Jason Reed have 3 years and 1 ½ years as Wingate principals but possess significant experience with other firms. (see Exhibit A) The Wingate principals have a higher degree of operating experience than what is observed in the typical private equity fund. They also possess complementary supporting skills including acquisition funding, purchase and sale negotiations, refinancings, strategic consulting and accounting. All of the four principals of Wingate III have successfully executed Wingate's investment strategy, both as investors and operators, in Wingate II.

It should be noted that Wingate I and II were managed by a complement of roughly six principals. At first glance, it would appear that the four person Wingate III management team is understaffed to fully execute its strategy. However, of the four unrealized investments in Wingate II, founding principal Fred Hegi will continue as Chairman and CEO of Kevco and former principal Ed Easterling will continue as Chairman/CEO of National Spirit. Accordingly, Wingate III management will have sufficient capacity upon closing. At the same time, during the first two years following closing, Wingate expects to add two additional staff members: a) a vice president with a transaction structuring and financing background to complement the operating expertise of the current principals, and b) an associate with financial and industry analytical support capability.

In addition to the retirement of its founding partners, Wingate has also seen the departure of four principals since 1987. (See Exhibit A). None of these departures were related to internal discontent within Wingate. Dennis Johnson wanted to run his own business and left to join a start up. Doug Smith returned to manage three companies held through his family's estate. Ed Easterling left to become Chairman/CEO of a Wingate portfolio company. Wingate's ability to recruit and retain the necessary management staff over the extended life of a Wingate fund is quite strong; due largely to its growing reputation as a skilled and proven private equity investor and the presence of a stable and prestigious base of limited partners. (See Exhibit B)

### **Evaluation of Risk of Wingate III's Investments in Portfolio Companies**

While Wingate III's investments will not have the risk associated with developmental stage enterprises or technology based investments, they will involve a significant degree of operating risk. Wingate III's investments involve varying degrees of leverage at the company level. Such leverage during an economic recession or with a company experiencing operating problems could impair the profitability and even survivability of a portfolio company. Wingate's acquisitions currently are comprised of 25% equity and 75% debt, which is in line with current market requirements. This is considerably more conservative than Wingate I investments such as Century Products and Redman Industries where equity was 14% and 10% of the acquisition financing, respectively.

The operating risk posed by leverage and the initially poor operating performance of Wingate portfolio companies is often compounded by the need for company management to execute marketing, engineering, production, logistical or financial solutions to improve operations. This in turn increases the reliance upon each company's management team, which is responsible for day-to-day operations. While Wingate intends to invest in companies with strong and seasoned management, its investment strategy clearly anticipates that a portfolio company's management team will be able to operate the company in accordance with Wingate's plans. Note: Wingate has replaced entire senior management teams in approximately half of its portfolio companies and has made significant management changes in the other half. Wingate's dependency on portfolio company management is controlled by a number of factors:

- Wingate has avoided turnaround situations, which frequently depend on the reversal of unfavorable industry fundamentals. Unprofitable companies will only be considered if:
  - losses are the result of under-management prior to acquisition,
  - the company has strong underlying fundamentals, and
  - Wingate's pre-acquisition operating plan can identify specific and attainable actions to improve operating cash flow
- Wingate itself, or jointly with its co-investors, acquires controlling interests in a relatively small number of companies at any one time. This approach allows it to be actively involved with company management both in developing and implementing strategic and operating plans, and in closely monitoring a company's financial and operating performance. In addition, Wingate provides significant incentives to company management that correlate with the achievement of operating objectives.

While the limited partners' agreement allows Wingate to acquire minority interests, this is not expected to occur with any frequency in Wingate III. Wingate II did acquire a 46% ownership in Kevco only because Kevco had public debt outstanding and Wingate did not want to trip change of control restrictions. It does control 55% of the company on an economic basis and maintains effective control through Fred Hegi and Jim Johnson, as Chairman and Senior Vice President of the company, respectively.



### **Evaluation of Term Risk and Degree of Liquidity of Wingate III's Investments in Portfolio Companies**

The term and illiquidity risk of Wingate Partners III is high because the acquisition period during which Wingate purchases investments is quite long for a private equity fund; six and seven years, respectively for Wingate Partners I and Wingate Partners II. Once purchased, Wingate's investments in portfolio companies have taken approximately 5 and as long as 10 years to reach maturity and be realized. Therefore, no significant return from the sale of investments in Wingate III portfolio companies will occur until at least three years and up to 10 years from closing. During this period, there will be no readily available market for Wingate III's investments in portfolio companies. Any sale and liquidity of investments likely will be event driven (usually sale to a strategic buyer), require a lengthy period of time and may result in distributions of in-kind securities to UTIMCO.

At the same time, the compounding of high rates of return earned by Wingate over the long life of its investments has resulted in very high pay back multiples e.g. \$48.7 million for the \$9.6 million UT invested in Wingate I.

### **Evaluation of Principals' Commitment to Prior Funds**

Since December 31, 1999, Wingate II has acquired a sixth investment, ENSR, an international environmental consulting company with annual sales of \$160 million and EBITDA of \$12.5 million. The acquisition price was \$61 million of which \$11 million was Wingate Partners II equity capital. Wingate's operating plan for ENSR is to build it into a leading environmental services firm focused on the corporate multinational clients through internal growth and acquisitions. ENSR represents the final platform investment for Wingate II. With United Stationers and Heafner Tire Group essentially realized, approximately \$33 million of Wingate II capital is available for add-on acquisitions for the four unrealized investments: National Spirit Group, Pro Parts Express, Kevco and ENSR. As noted above, two principals of Wingate II, Fred Hegi and Ed Easterling are CEO's of Kevco and National Spirit Group, respectively. As a result, the four Wingate III principals will only have to manage two investments in the Wingate II portfolio and can dedicate a substantial portion of their time to Wingate III.

### **Evaluation of Competition**

Potential competitors include other private equity partnerships and large industrial and financial companies investing directly. Wingate, however, does not operate in a highly competitive environment because:

- its target companies require greater participation in company operations than what is usually provided by most private equity funds.
- The time necessary to implement operating changes and realize investments is extensively long.

After 12 years, Wingate has gained a national reputation as a successful investor in underperforming companies. As a result, Wingate often receives the opportunity to review and negotiate an acquisition on a non-compete basis. Such situations have arisen when the seller requires strict confidentiality, when another transaction fails to close and when selling owners have revised their expectations of a company's value but are unable to generate new interest because the sale was extensively shopped. Approximately half of Wingate I and II investments

were acquired on an exclusive basis. As a result, Wingate's due diligence review averages three months and can last as long as six or nine months.

Wingate's competitors tend to be industry specific. The closest general competitor to Wingate is the \$800 million Questar fund, which is affiliated with the Jay Alix turnaround consulting firm. However, Questar focuses on upper mid-market transactions due to its size. Wingate's competitive position in the small to mid-market arena has allowed it to control the price of entry into Wingate I and II investments to a degree not normally enjoyed by other private equity firms.

### **Evaluation of Liquidity of UTIMCO's Limited Partnership Interest in Wingate Partners III**

The liquidity of a partnership interest in Wingate Partners III is standard for a private equity investment. UTIMCO's limited partnership interest generally will not be transferable and voluntary withdrawal of UTIMCO's interest will not be permitted. Furthermore, any transfer of UTIMCO's limited partnership interest will be affected by restrictions on resales imposed by both federal and state securities laws.

### **Evaluation of Alignment of Interests Between General Partner and UTIMCO**

Although Wingate principals will commit \$3.5 million to Wingate III, Wingate's 20% carried interest on realized gains can create an incentive for Wingate to pursue investments in portfolio companies with greater speculative risk than it would otherwise purchase in the absence of this performance-based interest.

While this moral hazard is present in every partnership investment, Wingate has kept the size of Wingate III at the same level as Wingate Partners II; i.e. \$125 million. This is an exceedingly rare act in today's buy-out market that provides for no increase (in dollars) in Wingate's management fee or carried interest (all other things being equal). In addition, Wingate shares 80% of any structuring or other fees it earns with its limited partners versus an industry standard of 50%. Finally, there is no evidence that Wingate has strayed from its stated discipline of investing in undermanaged manufacturing, distribution or service companies by taking on technology risk or increasing leverage in either Wingate I or Wingate II.

### **Evaluation of Alignment of Interests within Wingate III /Business Risk**

Although Wingate III has experienced some turnover, the growth of the firm as well as its investment process has remained very stable. In addition, the sharing of the general partners carried interest is well distributed among principals and within the firm. The business risk associated with Wingate III is low.

### **Evaluation of General Partner Indemnification Risk**

The terms of the limited partnership agreement obligate UTIMCO to indemnify Wingate for liabilities incurred in managing Wingate III. Wingate has a higher than normal probability of being subjected to derivative claims brought by shareholders of portfolio companies, particularly given its practice of acquiring control and participating actively in the management of its portfolio companies. UTIMCO's obligation to indemnify Wingate would be payable and limited in amount to the partnership assets representing UTIMCO's interest in Wingate III and would

include any unpaid commitment as well as disgorgement of any capital previously returned to UTIMCO.

While Wingate has been named in various suits it has never had to pay any claims. All suits have been settled at the portfolio company level, the most serious being a product liability suit against Century Products.

**Evaluation of Conflicts of Interests**

No conflicts of interests on the part of UTIMCO directors or management have been identified during the due diligence process. Wingate principals also were not aware of any conflicts.

**Expected Return:** 22%

**Risk Rating (within asset class):** Moderate

**Undrawn Commitment Liability as a Percentage of Endowment Assets as of 2/29/00:  
(assuming approval of both Wingate Partners III and Carlyle Partners III commitments on  
April 27, 2000).**

PUF: 5.4%

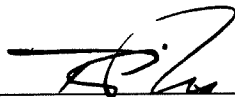
LTF: 6.7%

PHF: 3.8%

**Expected Closing Date:** June, 2000

**Account Officer:** T. G. Ricks

UTIMCO Management Approval:



T. G. Ricks

Exhibit A

Principals	Experience	Wingate Partners		
		I	II	III
Fred Hegi (1987-2000)	Founding Partner: VP Cooper Industries, UT Austin PHD	X	X	
Jim Callier (1987-1995)	Founding Partner: partner McKinsey & Co., Harvard MBA	X		
Tom Sturgess (1987-1996)	Founding Partner: Swift Independent Corp. Harvard MBA	X	X	
<b>Bud Applebaum (1987-)</b>	<b>Salomon Bros., Arthur Andersen, UT Austin BBA</b>	X	X	X
Dennis Johnson (1989-1990)		X		
<b>Jim Johnson (1990-</b>	<b>10 yrs. Booz, Allen &amp; Hamilton, Stanford MBA</b>	X	X	X
Robert Taylor (1994-1998)			X	
V. Ed Easterling (1994-1999)			X	
<b>Mike Decker (1996-</b>	<b>COO Trammel Crow, Pres. Huffco, BCG, Harvard MBA</b>		X	X
Douglas Smith (1996-1998)			X	
<b>Jason Reed (1998-</b>	<b>6 yrs. Boston Consulting Group, Harvard MBA</b>		X	X

Advisory Board	Experience	Wingate Partners		
		I	II	III
Lee Walton	Worldwide Managing Partner - McKinsey & Co. (ret.)	X		
<b>Peter Wodtke</b>	<b>G.P. Peter Wodtke, formerly VP Citicorp</b>	X	X	X
Wally Hawley	Founding Partner - InterWest Partners	X	X	
Howard Beasley	Ch. And CEO - Lone Star Technologies	X		
<b>Jim Callier</b>	<b>Founding Partner - Wingate Partners</b>		X	X
<b>Tom Sturgess</b>	<b>Founding Partner - Wingate Partners</b>		X	X
<b>Robert Cizik</b>	<b>Chairman &amp; CEO, Cooper Industries (retired)</b>		X	X
<b>Jody Grant</b>	<b>Chairman &amp; CEO, Texas Capital Bancshares</b>		X	X
<b>Fred Hegi</b>	<b>Founding Partner - Wingate Partners</b>		X	X

## Exhibit B

	Wingate Partners		
	I	II	III
<u>General Partner</u>			
Wingate Management Co.	0.7	1.3	3.5
 <u>Limited Partners</u>			
American Financial Corp.	2.0	-	
Hughes Aircraft Retirement Trust	5.0	5.0	
<b>Long Term Fund</b>	<b>10.0</b>	<b>3.0</b>	<b>6.4</b>
<b>Permanent University Fund</b>	-	<b>12.0</b>	<b>11.0</b>
<b>Permanent Health Fund</b>	-	-	<b>2.6</b>
Bolsa Corp/Ultima Partners	1.0	1.5	
Equitable Insurance Companies	6.0	-	
Hall Family Investments	10.0	25.0	
Frederic C. Hamilton	1.0	1.0	
CBC Capital Partners	5.0	-	
St. Paul Fire & Marine	10.0	-	
Bank of America Capital Corp.	5.0	5.0	
SOS & Co.	2.0	2.0	
Henry Hillman Interests	10.0	-	
Caroline Hunt Investments	-	2.0	
Yale University	-	25.0	
Kauffman Foundation	-	10.0	
Duke University	-	10.0	
Ray Hunt Family Investments	-	7.0	
Ford Foundation	-	10.0	
Common Fund	-	8.0	
Total	67.7	127.8	125.0



### **Resolution No. 3**

WHEREAS, the Board has reviewed a Due Diligence Review and Recommendation prepared by the Corporation's management and supplemental analysis from Cambridge Capital Advisors, Inc. dated December 1999, recommending that the Corporation enter into a limited partnership agreement (the "Agreement") with TC Group III, LLC to invest up to \$25 million of PUF, PHF and LTF assets in **Carlyle 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 Due Diligence Review and Recommendation dated April 27, 2000 for **Carlyle 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 **Carlyle 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.

**INVESTMENT DUE DILIGENCE AND  
RECOMMENDATION**

**ALTERNATIVE EQUITIES:  
NON-MARKETABLE**



**CARLYLE PARTNERS III, L.P.**

*April 27, 2000*



## CARLYLE PARTNERS III, L.P.

### **Recommendation: Commit \$25 million**

PUF: \$13.75 million

LTF: \$8.0 million

PHF: \$3.25 million

### **Background**

The Carlyle Group is currently offering approximately \$2.5 billion of limited partnership interests in Carlyle Partners III, L.P. The Fund will seek out leveraged buyout transaction with companies in six primary industries:

- Defense and Government Information Technology
- Telecommunications and Media
- Commercial Aerospace
- Manufacturing/Consumer Products
- Healthcare
- Environmental Protection
- Energy
- Technology

Carlyle employs a six-pronged investment strategy: 1) industry specialization, 2) acquisition of companies at below average price multiples (the average EBITDA purchase price multiple for the 17 investments in Carlyle II was 6.51x.), 3) addition of post-acquisition value to portfolio companies, 4) emphasis on strategic joint ventures with corporate partners, 5) transaction origination (70% of Carlyle II investments were generated on a sole source basis), and 6) use of the Carlyle global network's investment strategy.

### **Summary of Terms**

The terms of Carlyle Partners III, L.P. are as follows:

Fund:	Carlyle Partners III, L.P.
Security:	Limited Partnership Interest
Offering:	\$2.5 billion
General Partner:	TC Group III, L.L.C. (Washington, D.C.)
Principals:	Carlyle has 132 investment professionals.
Strategy:	(see above)

Term:	10 years with 3 annual extensions at election of GP
Acquisition Period:	6 years
Allocation of Capital Gains:	80% to limited partners; 20% to general partner (after 100% payback of capital to limited partners and 9% return)
Management Fee:	1.5% of committed capital per annum until 6 <sup>th</sup> anniversary; 1% of funded commitments less acquisition cost of realized investments thereafter
Carlyle Commitment:	Greater of \$100 million or 3% of total commitments

### **Analysis of Return History**

The Carlyle Group closed its first fund in 1990.

#### **Carlyle Partners**

Carlyle Partners was a \$100 million fund that focused on defense and aerospace industry acquisitions. Carlyle I invested in 18 companies for a net IRR of 29.6% through June 30, 1999.

Although UT was not an investor in Carlyle I, it co-invested with the Carlyle Group in 1991 to acquire a Carlyle I portfolio company, BDM International, a government information technology company, from Ford Aerospace. UT invested \$11 million of which \$8 million was invested directly in BDM stock and \$3 million was invested through BDM Acquisition Partners of which the Carlyle Group was the general partner.

UT sold its \$11 million investment in BDM for \$54.4 million through a series of transactions with BDM itself and TRW beginning in 1994 for an IRR of 50.5%. UTIMCO staff (T. G. Ricks) became familiar with Messrs. Carlucci, Rubenstein and Conway of the Carlyle Group through common service on the BDM board of directors from 1993 through 1997.

#### **Carlyle Partners II**

In 1995, based on the success of its investment in BDM and its confidence in the Carlyle Group, UT committed \$10 million to Carlyle Partners II, a \$1.3 billion fund. Carlyle II pursued a more broadly based industry strategy than Carlyle I, which has been further extended under Carlyle III. During the 5-year acquisition period through June 30, 1999, Carlyle II made 17 investments with a Carlyle estimated gross IRR of 57%.

Of the \$10 million committed by UT to Carlyle III, \$9.5 million has been drawdown through February 29, 2000. Of this amount, \$5.7 million has been returned. The

remaining \$4.2 million of unreturned capital had a value of \$10.5 million for an IRR of 34.3%.

### **General Comments:**

- The Carlyle Group has stood out in offering UT/UTIMCO numerous co-investment opportunities over the years, many of which became successful Carlyle I and Carlyle II investments. Unfortunately, due to policy and other constraints over this period, UT has not co-invested with Carlyle beyond the originally successful BDM investment in 1990.
- Since 1995, Carlyle has expanded rapidly to become one of the largest private equity firms in the world. Carlyle today has approximately 250 employees located in 13 offices across 9 countries. Since the formation of Carlyle II in 1995, Carlyle's multi-specialty global strategy for its firm has included the formation of eight new funds focusing on venture capital, real estate, European buyouts, high yield debt, Asian buyouts and Internet companies, in addition to U.S. buyouts as represented by Carlyle I and II. At the same time, it has developed one of the most diversified bases of limited partners, which currently comprises approximately 450 institutional and high net worth investors in more than 50 countries. Carlyle's ultimate objective is to grow its assets under management from \$9 billion today to \$20 billion in order to position the firm to be sold or taken public. To this end, Carlyle expects to offer a Latin America buyout fund and an energy fund during 2000.
- Carlyle III, at the \$2.5 billion fund size posted on the cover, represents a doubling in assets over Carlyle II's \$1.1 billion capital base. As of first closing, \$1.9 billion was committed to Carlyle III. (See list of investors in Exhibit A). However, the Fund is becoming rapidly oversubscribed with \$3.3 billion to \$3.5 billion in total commitments estimated by final close at the end of April. To date, the inevitable stresses associated with managing the firm's global expansion do not appear to have affected its success in U.S. buyout investments. The firm's expertise in its focus industries, its ability to enter into critical strategic partnerships, its impressive network of corporate and government leaders, and its historically high rate of sole-sourced transactions places Carlyle in an extremely strong competitive position.
- Carlyle was recently included in a highly public criminal investigation by the U.S. Department of Justice of activities by the Connecticut State Treasurer involving kickbacks in exchange for investment of state pension funds. Exhibit B is a copy of a letter from the U.S. Attorney's Office, District of Connecticut dated November 23, 1999, to Carlyle's attorneys. It states that based on current evidence, Carlyle is neither a subject nor a target of the investigation and that the Government had contacted the Carlyle Group because it had information which was relevant to the ongoing investigation.

- The Houston Chronicle in 1999 essentially alleged that UT's investment in Carlyle II represented a conflict of interest for U. T. System regents, as fiduciaries for UT's investments and appointees of Governor Bush, a director of a Carlyle I portfolio company and son of President Bush, an advisor to Carlyle Asia Partners, L.P. UT was never an investor in either Carlyle I or Carlyle Asia Partners, L.P. UTIMCO's counsel has assured UTIMCO that Governor Bush's role as a former director of Caterair and President Bush's role as advisor to Carlyle Asia Partners, L.P. do not in themselves constitute a conflict of interest on the part of UTIMCO's directors and does not prohibit UTIMCO from investing in Carlyle Partners III, L.P. No conflicts of interests on the part of UTIMCO directors or management have been identified during the due diligence process. At no time during the due diligence process for Carlyle Partners III, L.P. has a U. T. System regent, UTIMCO director, or any member of the Governor's office propose, encourage, or discuss the merits of an investment in the Carlyle Group or a Carlyle-affiliated entity with the UTIMCO investment staff.

To support this investment recommendation, a comprehensive analysis of Carlyle Partners III, L.P. by Cambridge Capital Advisors, Inc. is attached as Exhibit C.

**Expected Return:** 20%

**Risk Rating (within asset class):** Moderate

**Undrawn Commitment Liability as a Percentage of Endowment Assets as of 2/29/00: (assuming approval of both Carlyle Partners III and Wingate Partners III commitments on April 27, 2000).**

PUF: 5.4%

LTF: 6.7%

PHF: 3.8%

**Account Responsibility:** T. G. Ricks

**UTIMCO Management Approval:**   
T. G. Ricks

## **CPIII Investor List**

### **U.S./Canada**

AIG  
Bank of Nova Scotia  
Boeing  
Bank of America  
Bank of New York  
Champion International Corporation  
Chase  
Credit Lyonnais  
DeutscheBank/Bankers Trust  
Delaware State Board of Pension Trustees  
Equitable  
First Union  
Gannett  
Government of Singapore Investment Corporation (GSIC)  
Liberty Mutual  
Marsh & McLennan  
PaineWebber  
Union Labor Life Insurance Company (ULLICO)  
Michigan Department of Treasury  
Goldman Sachs Asset Management (GSAM)  
MetLife  
Credit Suisse First Boston  
Indosuez/CA

### **International**

Abbey National Treasury Services  
SEB Investment Management  
Swiss Re  
Wellcome Trust

Other small institutions and wealthy families

U.S. Department of Justice



*United States Attorney  
District of Connecticut*

*Abraham A. Ribicoff Federal Building  
150 Main Street Room 322  
Hartford, Connecticut 06103*

*(860) 947-1101*

*Fax (860) 240-3229*

November 23, 1999

Everett C. Johnson, Esq.  
Latham & Watkins  
1001 Pennsylvania., N.W.  
Suite 1300  
Washington, D.C. 20004

Thomas J. Murphy, Esq.  
Cowdery, Ecker, & Murphy  
750 Main Street  
Hartford, CT 06103

Gentlemen:

As I stated to you in our meeting on November 22, 1999, based on the evidence currently available to the Government, the Carlyle Group is neither a subject nor a target of the criminal investigation of the investment activity by the former Connecticut State Treasurer Paul J. Silvester. The Government has contacted the Carlyle Group simply because it has information which is relevant to the ongoing investigation.

As you are aware, and as is always the case, future developments might cause the Government to change the above-stated position.

Please contact me with any questions or concerns.

Very truly yours,

STEPHEN C. ROBINSON  
UNITED STATES ATTORNEY

*Nora R. Dannehy*  
NORA R. DANNEHY  
ASSISTANT UNITED STATES ATTORNEY

C | C | A

CAMBRIDGE CAPITAL ADVISORS INC

Carlyle Partners III, L.P.

December 1999

# Carlyle Partners III, L.P.

December 1999

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**CARLYLE PARTNERS III, L.P.**

The Carlyle Group  
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Suite 220 South  
Washington, DC 20004-2505  
Tel: 202-347-2626  
Fax: 202-347-1818  
Email: [jgriffin@thecarlylegroup.com](mailto:jgriffin@thecarlylegroup.com)  
Web Site: [www.thecarlylegroup.com](http://www.thecarlylegroup.com)  
Contact: Jim Griffin

**Asset Class:** Leveraged Buyout

**Focus:** Diversified

**I. Organization and Management:**

- A. Fund:** Carlyle Partners III, L.P., a Delaware limited partnership (the "Fund").
- B. General Partner:** TC Group III, L.L.C., a Delaware limited liability company (the "General Partner").
- C. Affiliate:** CP III Investment Holdings, L.P., Investment Limited Partner.
- D. Affiliate:** Carlyle Investment Management, L.L.C., Investment advisor.
- E. Key Principals:** Frank C. Carlucci, James A. Baker, III, Richard G. Darman, Leslie L. Armitage, William E. Conway, Jr., W. Robert Dahl, Daniel A. D'Aniello, Allan M. Holt, Jerome H. Powell, David M. Rubenstein, and Frank D. Yearly (the "Principals").
- F. Number of Prior Partnerships:** This offering will represent the third buyout fund for the Firm. The first fund, Carlyle Partners Leveraged Capital Fund I, L.P., was founded in 1990 with \$100.5 million in committed capital. The second buyout fund, Carlyle Partners II, L.P., was formed in 1994 with \$1.3 billion in commitments.
- G. Years of Experience of Managing Partners:** The management team has an average seven years experience working together. The Carlyle Group, formed in 1987, has raised approximately \$5.0 billion through seven private equity funds, which have focused on US buyouts, venture capital, real estate, high yield bonds, European buyouts, and Asian buyouts.

**II. Investment Strategy:** The Fund will generally make control investments of \$25 million to \$100 million in the commercial aerospace, defense and government information technology, telecommunications and media, manufacturing and consumer products, healthcare, and environmental protection and energy industries. Investments will be made in the form of management buyouts, corporate partnerships, platform build-ups, and private placements. The Fund will make approximately 35 to 40 investments. The Fund intends to make investments in companies in which it obtains majority control of the board of directors or, at a minimum, significant influence over governance of the business.

**III. Terms of the Offering:**

- A. Minimum Commitment:** \$10 million.
- B. Expected Capitalization:** \$2.5 billion.
- C. General Partner's Commitment:** The greater of \$100 million or 3% of total commitments.
- D. Commitment Period:** Six years from the date of the initial closing with a two-year extension for follow-on.
- E. Takedown:** Investments will be drawn down as necessary with a minimum 14 calendar days notice.
- F. Distributions:** Distributions will be made in the following priority: (i) First, 100% to Limited Partners until they have received distributions equal to their capital contributions for all realized investments and a 9% cumulative compound annual rate of return; (ii) 80% to the Investment Limited Partner and 20% to the Limited Partners until such time as the Investment Limited Partner has received 20% of the sum of the distributed preferred return; and (ii) thereafter, 80% to Limited Partners and 20% to the Investment Limited Partner.
- G. Management Fee:** The General Partner will receive an annual management fee equal to 1.5% of capital under management during the Commitment Period and 1% of capital under management thereafter.
- H. Life of Partnership:** 10 years from date of the final closing with two one-year extensions if necessary.
- I. Projected Closing:** An initial closing is expected on December 1999 on \$1 billion. A final closing is targeted for March 2000.

**CARLYLE PARTNERS III, L.P.**  
The Carlyle Group

**IV. Investment Performance:**

<u>Fund</u>	<u>Inception Date</u>	<u>Fund Size</u>	<u>\$ Drawn Down</u>	<u>Market Value of Portfolio</u>	<u>Market Distributed</u>	<u>Net IRR</u>	<u>Vintage Year Mean Benchmark</u> <sup>1</sup>	<u>Vintage Year Median Benchmark</u> <sup>1</sup>
Fund I <sup>2</sup>	3/8/90	\$100	\$100	\$0.0	\$300.0	29.6% <sup>3</sup>	16.46%	16.11%
Fund II <sup>2</sup>	10/28/94	\$1,330.0	\$761.5	\$982.0	\$713.1	44.3% <sup>4</sup>	14.35%	12.46%

**Performance Notes:**

<sup>1</sup> U.S. private equity benchmarks are net to Limited Partners, as of 6/30/99, as calculated by Cambridge Associates, Inc.

<sup>2</sup> Information provided by the General Partner, as of 6/30/99.

<sup>3</sup> Returns are net of management fees and carried interest, as of 6/30/99, as calculated by the General Partner.

<sup>4</sup> The IRR is calculated from one of Fund II's tranches and is representational of Fund II's IRR.

**V. Key Personnel:**

<p><b>A. James A. Baker III</b></p> <p>1992-1993 1989-1992 1985-1988 1981-1985 Prior Experience</p>	<p><b>Senior Counselor</b></p> <p>White House Chief of Staff United States Secretary of State United States Secretary of the Treasury White House Chief of Staff Andrews &amp; Kurth, Lawyer</p>
<p><b>B. Frank C. Carlucci III</b></p> <p>1988-1989 Prior Experience</p> <p>Education</p>	<p><b>Chairman</b></p> <p>United States Secretary of Defense Sears World Trade, Chairman and CEO United States Ambassador to Portugal United States Deputy Director of Central Intelligence United States Deputy Secretary of Defense</p> <p>AB, Princeton University MBA, Harvard University</p>
<p><b>C. William E. Conway, Jr.</b></p> <p>1987-Present 1984-1987 1981-1984 Prior Experience</p> <p>Education</p>	<p><b>Managing Director</b></p> <p>The Carlyle Group MCI Communications, Senior Vice President and CFO MCI Communications, Vice President and Treasurer The First National Bank of Chicago</p> <p>AB, Dartmouth College MBA, University of Chicago</p>

**CARLYLE PARTNERS III, L.P.**  
The Carlyle Group

- |           |   |  |
|-----------|---|--|
| <b>D.</b> | <b>Daniel A. D’Aniello</b>                    | <b>Managing Director</b>   |
|           | 1987-Present<br>Prior Experience              | The Carlyle Group<br>Marriott Corp., Vice President - Finance and<br>Development<br>PepsiCo, Financial Officer<br>TWA, Financial Officer     |
|           | Education                                     | BA, Syracuse University<br>MBA, Harvard Business School  |
| <b>E.</b> | <b>Richard G. Darman</b>                      | <b>Managing Director</b>   |
|           | 1993-Present<br>1989-1993                     | The Carlyle Group<br>Director of the U.S. Office of Management and<br>Budget   |
|           | 1987-1989                                     | Shearson Lehman Brothers, Inc., Managing<br>Director   |
|           | 1985-1987                                     | Deputy Secretary of the U.S. Treasury  |
|           | 1981-1985                                     | Assistant to the President of the United States  |
|           | Prior Experience                              | ICF, Inc., Principal and Director<br>Assistant U.S. Secretary of Commerce  |
|           | Education                                     | AB, Harvard College<br>MBA, Harvard Business School  |
| <b>F.</b> | <b>Leslie L. Armitage</b>                     | <b>Managing Director</b>   |
|           | 1990-Present                                  | The Carlyle Group  |
|           | Education                                     | BS, Wharton School of the University of<br>Pennsylvania<br>CFA   |
| <b>G.</b> | <b>David M. Rubenstein</b>                    | <b>Managing Director</b>   |
|           | 1987-Present<br>1981-1987<br>Prior Experience | The Carlyle Group<br>Shaw, Pittman, Potts & Trowbridge, Partner<br>Deputy Domestic Policy Assistant to the<br>President of the United States |
|           | Education                                     | BA, Duke University<br>JD, University of Chicago   |

**CARLYLE PARTNERS III, L.P.**  
The Carlyle Group

<b>H.</b>	<b>W. Robert Dahl</b>	<b>Managing Director</b>
	1999-Present 1986-1999 Prior Experience	The Carlyle Group Credit Suisse First Boston, Managing Director Price Waterhouse, CPA
	Education	BA, Middlebury College MBA, Harvard Business School
<b>I.</b>	<b>Allan M. Holt</b>	<b>Principal</b>
	1991-Present Prior Experience	The Carlyle Group Ticketron, Senior Vice President and CFO Avenir Group, Inc. MCI Communications Corp, Director of Planning & Budgets Coopers & Lybrand
	Education	BA, Rutgers University MBA, University of California, Berkeley
<b>J.</b>	<b>Jerome H. Powell</b>	<b>Principal</b>
	1997-Present 1995-1997 1993-1995 1990-1993 Prior Experience	The Carlyle Group Dillon, Read & Co. Inc., Managing Director Bankers Trust Company, Managing Director Treasury Department, Under Secretary for Finance Dillon, Read & Co. Inc., Senior Vice President Davis Polk & Wardwell, Associate
	Education	JD, Georgetown University Law Center BA, Princeton University

**K. Frank D. Yeary**

**Principal**

Present

The Carlyle Group  
Salomon Smith Barney, Global Head of  
Telecommunications and Media, Managing  
Director  
Lehman Brothers, Investment Banker

Education

BA, University of California Berkeley

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**CARLYLE PARTNERS III, L.P.**  
The Carlyle Group

**SUMMARY**

Carlyle Partners III, L.P. (the "Fund" or "CPIII") is a \$2.5 billion partnership being organized by The Carlyle Group (the "Firm" or "Carlyle") to make private equity investments primarily in the United States. The Fund will invest in U.S. leveraged buyout transactions in industries such as defense, government information technology, aerospace, telecommunications and media, technology, consumer products, manufacturing, healthcare, and environmental protection and energy. The Fund will focus on growth equity financings, buy and build platform transactions, strategic joint ventures with corporate partners, and recapitalizations. The principals of the Fund will be Frank C. Carlucci, James A. Baker, III, Richard G. Darman, Leslie L. Armitage, William E. Conway, Jr., W. Robert Dahl, Daniel A. D'Aniello, Allan M. Holt, Jerome H. Powell, David M. Rubenstein, and Frank D. Yeary (the "Principals"). This offering will represent the third U.S. buyout fund for the Firm.

**ORGANIZATION AND MANAGEMENT**

The Carlyle Group ("Carlyle" or the "Firm") was established in 1987 by Messrs. Conway, Rubenstein, and D'Aniello. Carlyle is a diversified global private equity firm headquartered in Washington, D.C. managing funds dedicated to buyouts, venture capital, real estate and leveraged bank loans, high yield bonds, and mezzanine/private equity transactions. Internationally, Carlyle manages buyout funds in Europe and Asia. The Firm employs 247 people and 132 investment professionals located in 13 offices around the world. In total, the Firm has invested \$2.5 billion in 114 transactions through seven institutional funds. The Fund will be the third U.S. leveraged buyout fund raised by Carlyle.

The Fund's investment professional team consists of eight managing directors averaging seven years experience with the Firm, seven principals averaging five years experience with the Firm, six vice presidents averaging three years experience with the Firm, and 11 associates averaging one year experience with the Firm. Frank C. Carlucci, Carlyle's Chairman, joined the Firm in 1989. James A. Baker, III and Richard G. Darman act as the Firm's Senior Counselor and Senior Advisor, respectively. In total, there are 35 investment professionals, including 18 managing directors and principals. Many of these investment professionals have prior experience as operational managers, corporate executives, and investment bankers.

Given the Firm's size, Carlyle has maintained a relatively stable team having six non-associate investment professionals depart the Firm since its formation. Of the six departures, two left Carlyle to form their own private equity firm, two left to join other private equity firms, one left to join an internet start-up, and one of the founding partners was bought-out by the Firm.

The Firm is organized into separate investment teams that focus on investments in a specified industry. Each team works to develop in depth knowledge of the industry to which it is devoted. Within each industry team, sourcing and creation of investment opportunities are dispersed among the Firm's investment professionals. Five managing directors will act as industry leaders: Ms. Armitage will focus on aerospace and defense, information systems, and environmental services; Mr. Dahl will focus on healthcare; Mr. Holt will focus on aerospace and defense, Mr.



Powell will focus on consumer products and manufacturing; and Mr. Yeary will focus on telecommunications and media.

The Firm has attempted to design an incentive compensation program to align the interests of its investment professionals. Each of Carlyle's 97 investment professionals shares in a portion of the carried interest from all the Carlyle Funds. The General Partner's carry will be distributed as follows: of the twenty points of carried interest, one-half a point (or 2.5%) goes into a central equity pool which is later shared among all the Firm's funds and investment professionals. Eleven points of the carried interest (or 60%) are divided among the three founding partners, Messrs. Conway, D'Aniello, and Rubenstein. Approximately 4.7 points (or 25%) goes to the remaining managing directors of the Fund including Leslie Armitage, Peter Clare, Robert Dahl, Allan Holt, Jerome Powell, Frank Yeary, Glenn Youngkin, and Edward Mathias of Carlyle Ventures. Approximately 1.8 points (or 10%) go to the contributing deal team members that are non-managing directors. The remaining two points (or 10%) go to the Richard King Mellon Family who provided seed equity for the Firm when it first began.

Investment decisions begin at the fund level for Carlyle and then progress to the firm level. The investment decision process involves the transaction's industry leader, other industry team members, and the Firm's founders. Founding partner William Conway ultimately controls final approval for all Carlyle deals across all funds.

## **INVESTMENT STRATEGY**

The Fund will generally make control investments of \$25 million to \$100 million in the commercial aerospace, defense and government information technology, telecommunications and media, manufacturing and consumer products, healthcare, and environmental protection and energy industries. Roughly one-quarter to one-third of the portfolio will be invested in defense, aerospace, and government information technology, another 25% to 30% will be invested in telecommunications and media, 15% to 20% will be deployed in healthcare, 10% in manufacturing and consumer products, and the remainder of the portfolio will be invested in environmental protection and energy companies. Investments will be made in the form of management buyouts, corporate partnerships, platform build-ups, and private placements. The Fund will make approximately 35 to 40 investments.

Since its inception, Carlyle has adopted an industry-focused approach to investing. In the late 1980's and early 1990's, Carlyle focused on investments in the defense, aerospace and government information technology industries. Throughout the mid and late 1990's, Carlyle's focus has expanded to include telecommunications and media, technology, consumer products, manufacturing, healthcare, and environmental protection and energy.

Each Carlyle deal team uses its industry expertise to oversee and facilitate implementation of operational and financial strategies by the portfolio companies. Carlyle first focuses on businesses in certain core industries that it understands. In most circumstances, Carlyle would not make an investment outside of those core industries without significant co-investment by a strategic partner.

Part of the Firm's strategy is to exploit cross-fund investing. The investment teams of Carlyle's various funds are encouraged to identify and exploit synergies in the Carlyle network and to utilize the multi-disciplined and global platform. For instance, Northpoint Communications was a cross-fund investment between Fund II and Carlyle's venture Fund where Fund II offered

telecom experience and Carlyle's venture Fund added venture/start-up experience. This process is evolving over time as the global deal teams gain more experience, exposure, reputation, and contacts. There is no prescribed formula as to allocation of transactions to the various funds, however.

## PERFORMANCE

<u>Fund</u>	<u>Inception Date</u>	<u>Fund Size</u>	<u>\$ Drawn Down</u>	<u>Market Value of Portfolio</u>	<u>Distributed</u>	<u>Net IRR</u>	<u>Vintage Year Mean Benchmark<sup>1</sup></u>	<u>Vintage Year Median Benchmark<sup>1</sup></u>
Fund I <sup>2</sup>	3/08/90	\$100.0	\$100.0	\$0.0	\$300.0	29.6% <sup>3</sup>	16.46%	16.11%
Fund II <sup>2</sup>	10/28/94	\$1,330.0	\$761.5	\$982.0	\$713.1	44.3% <sup>4</sup>	14.35%	12.46%

### Performance Notes:

1 U.S. private equity benchmarks are net to Limited Partners, as of 6/30/99, as calculated by Cambridge Associates, Inc.

2 Information provided by the General Partner, as of 6/30/99.

3 Returns are net of management fees and carried interest, as of 6/30/99, as calculated by the General Partner.

4 The IRR is calculated from one of Fund II's tranches and is representational of Fund II's IRR.

## Fund I

According to the General Partner, the internal rate of return for CP I is 29.6%, as of June 30, 1999. The Fund's IRR is significantly above the Cambridge Associates' vintage year mean and median benchmarks of 16.46% and 16.11%, respectively. This "buyout" fund's portfolio included four venture capital transactions (Carlyle did not have a dedicated venture capital fund at that time). The four companies are as follows: Pathogenesis, a biotech investment having produced a 21.6% IRR; Prime Towers, a telecommunications investment having produced a 88% IRR; QCS, an internet investment having produced a 0% IRR; and Transit, a telecommunications investment having produced a 36.6%. These venture capital investments did not have a material impact on the fund's return, which would have been 29.3% without these transactions.

There are eighteen investments in CP I, sixteen of which have been realized. Most of CP I's returns have been driven by defense and aerospace transactions where the Firm initially had the most experience and expertise. The fund's four top performing investments include three defense electronics transactions (GDE Systems, Magnavox, and Power Paragon) as well as one aerospace transaction (Vought). The fund's three worst performing transactions are Care Systems, Caterair, and Four Seasons. Care Systems was a small transaction (\$7 million) managed by David Dupree (who has since left the Firm). Care Systems was a healthcare investment, a sector in which the Firm had little expertise. Carlyle felt the transaction was poorly managed by Mr. Dupree and gave the limited partners a credit for their pro-rata share in the investment which they could put toward any other Carlyle transaction. Caterair was bought from Marriott in a non-auction transaction. This was CP I's first and largest investment. Issues arose as the company tried to expand during a recession. In addition, Carlyle did not have control of the Board. The company was eventually sold to a competitor for virtually a complete loss, returning only .08 times the investment. Four Seasons was a build up of radio stations. The company suffered from poor management and recessionary issues. The company was also sold at a loss returning only .24 times the investment. Despite these losses, CP I has generated an attractive rate of return and multiple of invested capital.

## **Fund II**

According to Cambridge Associates, the internal rate of return for CP II is 44.32%, as of June 30, 1999, well above the vintage year mean and median benchmarks of 14.35% and 12.46%, respectively. There have been two realizations in CP II, Genesis Cable Communications and Howmet International, which produced an internal rate of return of 16.4% or 1.36 times equity invested, and 130% or 7.5 times equity invested, respectively. Contour Group which was merged into another CP II transaction, Aerostructures, has been realized at a loss. The fund has had one partial realization, Elgar Electronics, which has returned 6.8 times equity invested and an internal rate of return of 222.7%. Seven companies have had an increase in valuation. Of particular note are Prime Communications, United Defense, and United States Marine Repair. Northpoint has not been written up, but recently had an initial public offering and is trading at a substantial premium to Carlyle's investment purchase price. There have also been two write-downs, GTS Duratek, and Insight Health Services.

Unlike CP I, the returns for CP II come from several different industry sectors including telecommunications, energy and aerospace. Due to the cyclicity of these sectors, Fund II investments were focused less in the defense sector and more in aerospace. The defense industry has been consolidating, making it difficult for Carlyle to find investments. On the other hand, the aerospace industry was at the bottom of its cycle and, as a result, presented a number of interesting opportunities for Fund II. As the consolidation in defense slows down and the aerospace sector peaks, Fund III anticipates more defense transactions and less aerospace transactions. Fund III will also have more telecommunications and environmental transactions than Fund I.

## **COMPETITIVE ADVANTAGES:**

### **Strong Leadership**

Carlyle has devoted significant resources to create and maintain the growth and vision of the organization. David Rubenstein, in particular, has an impressive understanding of the private equity industry, environment, trends, and competitive landscape and how Carlyle needs to respond as this industry drivers change. This type of leadership is absent from many buyout funds and should continue to guide the Firm as it develops and expands.

### **Stable, Deep Team**

Carlyle has developed a solid, well-respected franchise. It has remained relatively stable since its founding with few of the Firm's core professionals having departed. The three founding partners have been together for over twelve years, with five other professionals having been with the Firm for over seven years. The number of professionals dedicated to the Firm's buyout strategy has grown from seventeen in Fund II, to thirty-five in Fund III. Deal teams are getting larger and more experienced. There are currently eight investment professionals covering the aerospace, defense, and government information technology sectors, four covering the telecommunications sector, and two each in the healthcare, manufacturing/consumer, and environmental/energy sectors. With this depth and stability, the Firm is well positioned to invest Fund III.

**Deal Flow**

Carlyle's strongest sources of deal flow have been the networks of the Firm's investment professionals. Approximately seventy percent of Fund II's investments were sole sourced. The principals' reputation, experience, and contacts have provided the Firm with high quality transactions, particularly in the defense and aerospace sectors. In addition, the Firm has established a high profile board of advisors and counselors including the Firm's Chairman Frank Carlucci, Senior Counselor James A. Baker, III, and Senior Advisors Richard Darman, and Ex-President George Bush. These prestigious, well-connected individuals provide the Firm with credibility and aid the Firm in sourcing and winning deals. In addition, the entire Firm is incented to provide deal flow among the various funds through the sharing of an equity pool to which each Carlyle fund contributes.

**LP Friendly Terms**

Unlike many private equity funds, Carlyle has maintained very reasonable limited partnership terms. The preferred return, which gives limited partners a certain percentage of the profits prior to the General Partner, is 9%. This compares favorably to an industry standard of 8%. In addition, the management fee is 1.5%, slightly below the typical buyout fund management fee of 2%.

**ISSUES FOR CONSIDERATION:****Investment Decision Process**

Carlyle's investment decision process typically involves the industry team leader, other industry team members, and the three founders, Messrs. D'Aniello, Rubenstein, and Conway. Final approval is made by Mr. Conway. Carlyle's increasingly strong performance is a testament to Mr. Conway's capabilities which has provided consistency of methodology and investment style. However, the concentration of decision-making authority in one individual can lead to difficult succession issues. Mr. Conway has been at Carlyle for twelve years and the Firm has acknowledged that it is unclear whether Mr. Conway will take part in Fund IV. Although there are a number of very experienced professionals within the Firm that could potentially take Mr. Conway's position, their ability to arbitrate investment decisions has never been tested or proven.

**Global, Multi-Disciplined Approach**

Carlyle takes a global, multi-disciplined approach to investing. The Firm has several international funds including Asian and European Funds. In addition, the Firm has multi-disciplined funds including a real estate fund, a venture fund, and a high-yield debt fund, in addition to their core leveraged buyout fund. Fund teams are encouraged to work together and to exploit the Carlyle network, leveraging resources, contacts, deal flow, and due diligence. In order for this type of approach to be successful, each of Carlyle's funds must be committed to the concept. In practice, however, this is often dilutive to the buyout professionals' efforts. Moreover, the lack of a clear allocation strategy for transactions can easily lead to conflicts among the various fund managers.

### **Unproven Industry Teams**

While Carlyle has built an excellent reputation in the defense and aerospace sectors, its reputation, skills and capabilities in the Fund's other focus sectors are unproven. For example, the team leaders in the telecommunications and healthcare sectors have been with Carlyle for approximately one year, compared to the defense and aerospace team leaders who have been with the firm eight and nine years, respectively. And while the individuals heading-up healthcare and telecom each have extensive investment banking experience in their respective sectors, their skills and capabilities as principal investors are unproven.

### **Incentive Structure**

Overall, the carried interest is highly concentrated in the hands of a few individuals with sixty percent going to the three founding partners, Messrs. Conway, D'Aniello, and Rubenstein. When one considers that these individuals are receiving high percentages of the carry from all the Carlyle funds, the allocation seems particularly high. Only ten percent is split among the twenty-four non-managing directors. In addition, carry is only awarded to individuals that have contributed to the transaction. If few deals are done in particular industry sectors, those professionals stand to share very little (if any) carried interest. This could result in dissatisfaction or departures.

### **Fund Size**

Fund II was a \$1.33 billion fund. At \$2.5 billion, CP III is expected to be approximately double the size of Fund II. Although the number of buyout fund professionals has doubled since the last fund, this is a large increase. Capacity among the more experienced professionals may become an issue, especially given the Firm's goal of maintaining its strategy of not investing in larger transactions, but rather more transactions.

### **Connecticut Treasury Scandal**

Carlyle was recently under investigation for its involvement with Paul Silvester, the Connecticut State Treasurer and sole trustee of its pension fund who pleaded guilty in September 1999 to charges including racketeering, for steering state pension money to five investment funds in return for kickbacks and other favors. The State of Connecticut invested in two of Carlyle's funds - the European Fund in early 1998 and the Asian Fund later in 1998. Connecticut's commitment to the Asian Fund occurred during Mr. Silvester's final three months (the period under closest investigation). Carlyle has since released the State of Connecticut from a portion of its commitment to the European Fund but not from its commitment to the Asia Fund. Although Carlyle has been thoroughly investigated by the F.B.I. and according to the Firm has been verbally exonerated (the Firm is waiting for written confirmation), potential investors should be aware of the investigation.

Carlyle Partners II, L.P.

Partnership Analysis Review

As of June 30, 1999

# Carlyle Partners II, L.P.

## Partnership Analysis Review

As of June 30, 1999

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## **I. Partnership Summary**



**Carlyle Partners II, L.P.**  
**As of June 30, 1999**

**Inception date:** October 28, 1994  
**Period of first drawdown:** 4th Quarter, 1994

**Funding Status:**

Total Capitalization:	\$533,010,204
Total Contributions:	\$357,355,548
Total Distributions:	\$244,866,939
Fund Net Asset Value:	\$480,678,912
Cumulative Portfolio Cost:	\$315,068,729
Current Portfolio Cost:	\$259,734,778
Current Portfolio Market Value:	\$471,519,952

**Performance Measurement Ratios:**

Distribution / Paid-In Multiple:	0.69
Residual Value / Paid-In Multiple:	1.35
Total Value / Paid-In Multiple:	2.03
Paid-In / Committed Multiple:	0.67

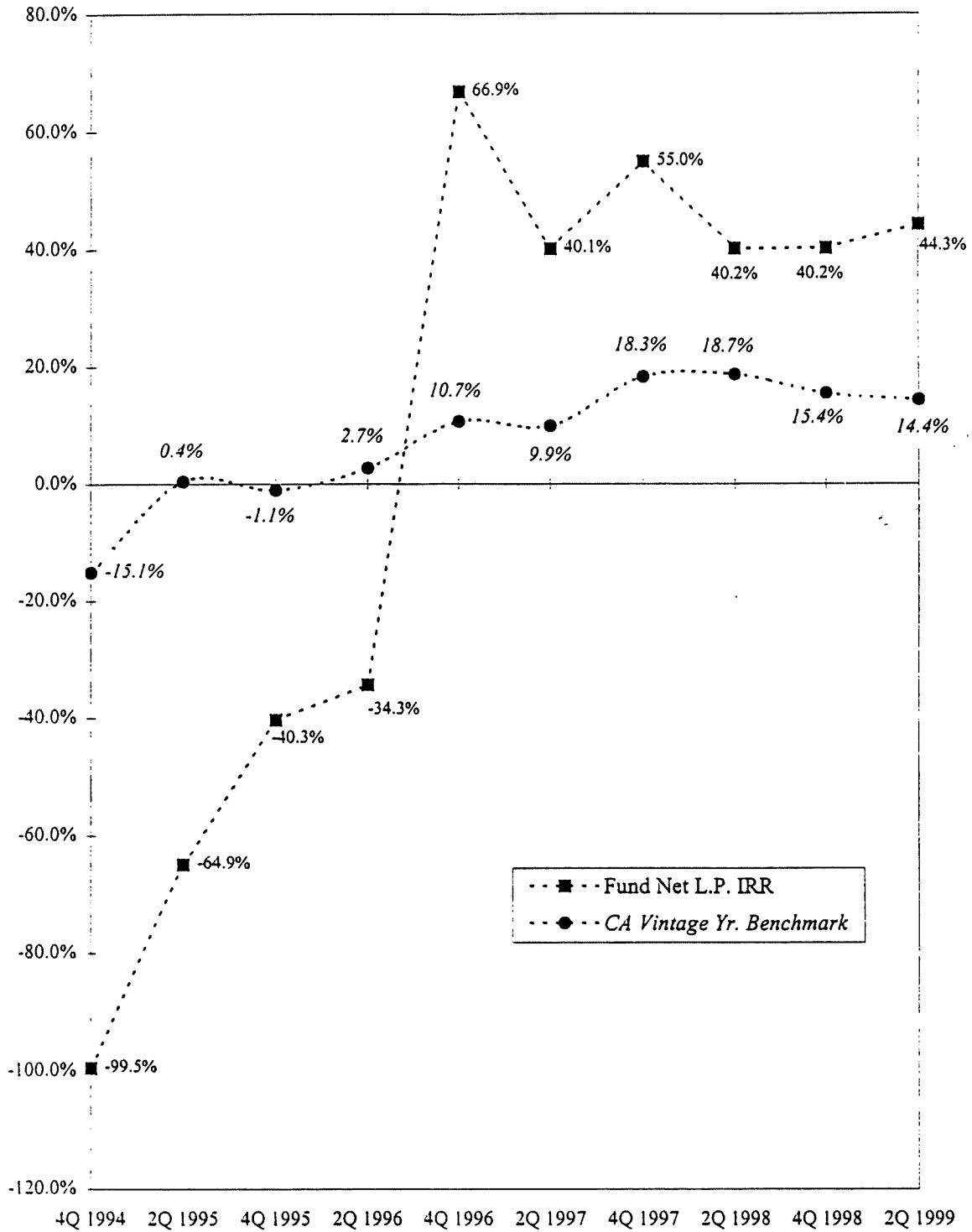
**Performance Measurement Returns:**

IRR to LPs net of fees and carried interest:	44.3%
IRR to all partners net of fees:	48.0%
IRR on portfolio investments:	62.3%

<b>CA U.S. Private Equity Benchmark<sup>1</sup>:</b>	<b>14.4%</b>
Median:	12.5%

<sup>1</sup> The CA U.S. private equity benchmarks are based on 17 U.S. private equity funds formed in 1994 and are net of management fees, expenses and carried interest.

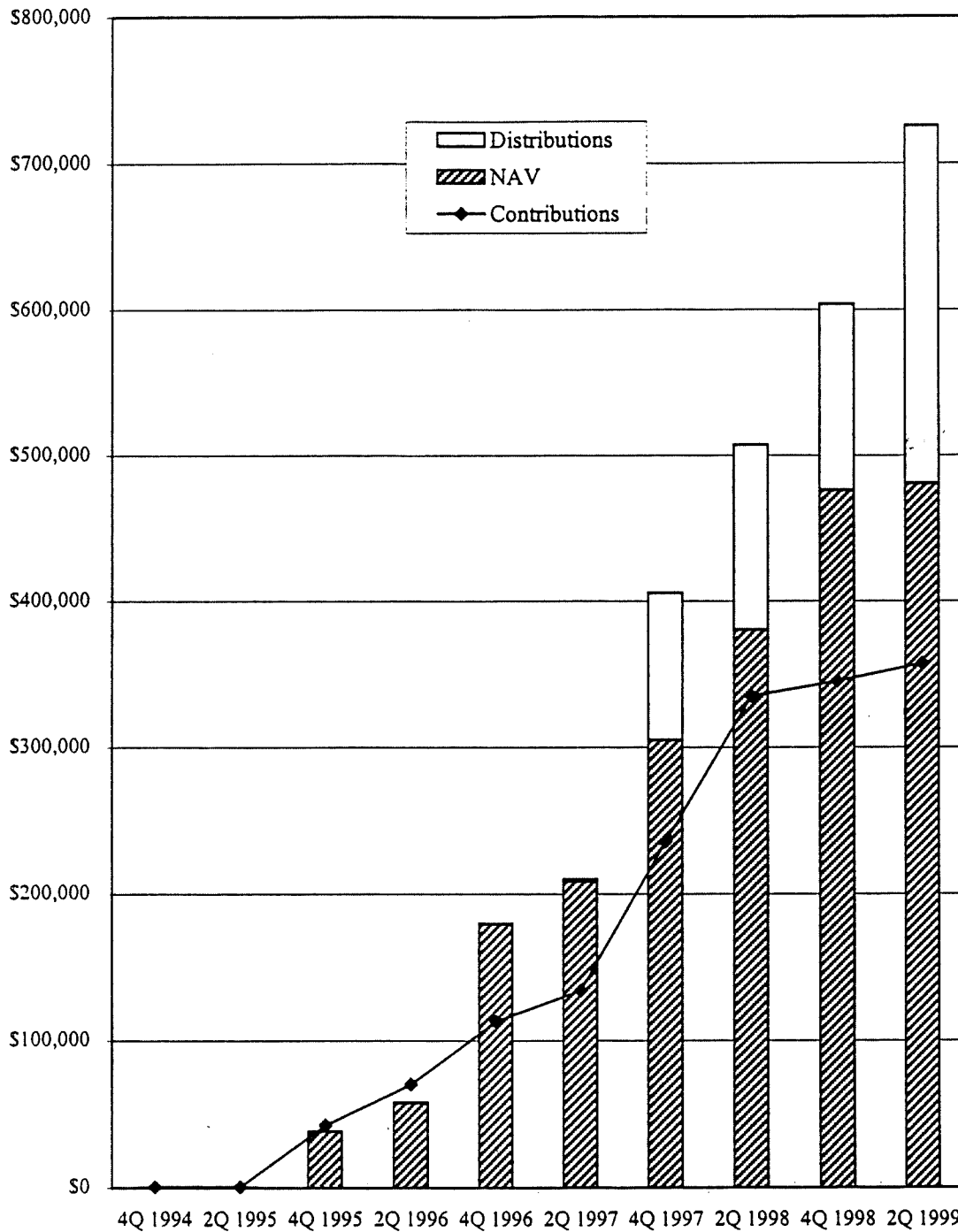
**Carlyle Partners II, L.P.**  
**IRR Net to Limited Partners**  
**Inception through June 30, 1999**



The CA U.S. private equity historical benchmarks are based on 17 U.S. private equity funds formed in 1994 and are net of management fees, expenses and carried interest.

**Carlyle Partners II, L.P.**  
**Partnership Funding Status**  
**Inception through June 30, 1999**

(Dollars in 000s)



This graph represents cumulative contributions vs. cumulative distributions plus NAV from inception of the fund through the report period.

## **II. Partnership Investments**

- **Portfolio**
- **Performance**
- **Diversification**

**CARLYLE PARTNERS II, L.P.**  
**PORTFOLIO INVESTMENTS SINCE INCEPTION**  
**As of June 30, 1999**

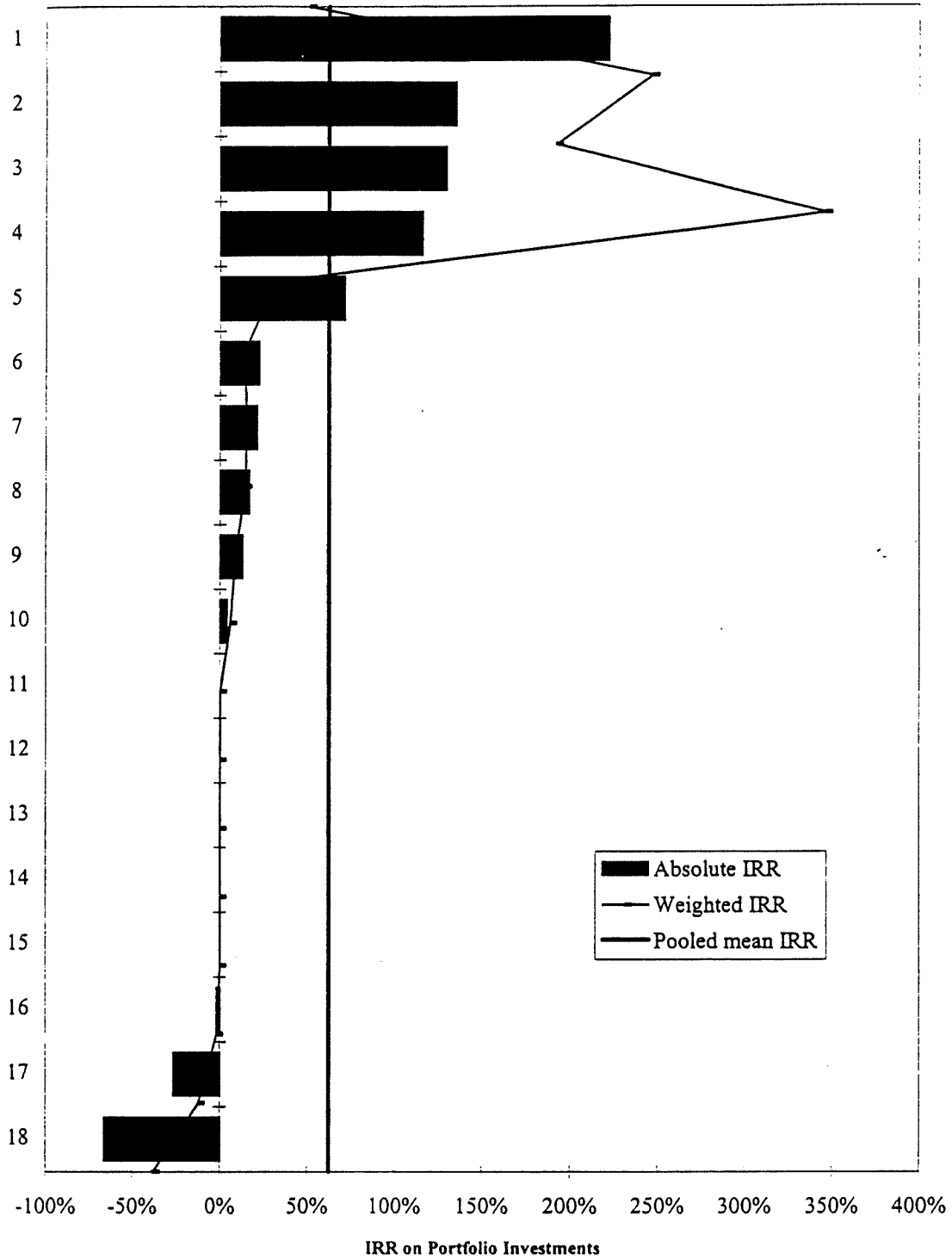
<u>Company Name</u>	<u>Year of Initial Investment</u>	<u>Cumulative Cost</u>	<u>Current Portfolio Cost</u>	<u>Portfolio Market Value</u>	<u>Value Realized</u>	<u>Annualized IRR</u>
<b><u>CURRENT PORTFOLIO INVESTMENTS (Unrealized and Partially Realized)</u></b>						
Composite Structures, LLC	1997	962,114	962,114	962,114	0	0.0%
Elgar Electronics Corp.	1996	4,037,880	73,489	440,346	31,290,000	222.7% —
Federal Data Corp.	1995	12,499,416	12,499,416	21,206,118	0	20.8% —
GTS Duratek, Inc.	1995	17,582,182	17,582,182	16,539,443	0	-1.8%
IT Group, Inc.	1996	11,170,495	11,170,495	18,911,839	0	22.2% —
InSight Health Services Corp.	1997	8,207,727	8,207,727	4,998,139	0	-26.3%
Lear Siegler Services, Inc.	1997	11,890,991	11,890,991	14,863,739	0	12.6%
NorthPoint Comm. Group, Inc.	1999	9,156,833	9,156,833	9,156,833	0	0.0%
PRA International, Inc.	1996	6,199,217	6,199,217	6,199,217	0	0.0%
Piedmont/Hawthorne Holdings, Inc.	1998	7,260,047	7,260,047	7,260,047	0	0.0%
Prime Communications, LLC	1997	32,039,204	32,039,204	84,545,774	0	135.5% —
The Aerostructures Corp.	1996	26,668,458	26,668,458	28,779,533	0	3.8%
The American Bottling Company	1998	55,931,324	55,931,324	55,931,324	0	0.0%
United Defense, L.P.	1997	52,274,197	52,274,197	182,959,684	0	116.2% —
United States Marine Repair, Inc.	1997	7,819,084	7,819,084	18,765,802	0	71.4% —
Total Current Portfolio		\$263,699,169	\$259,734,778	\$471,519,952	\$31,290,000	44.9%
<b><u>FULLY REALIZED INVESTMENTS</u></b>						
Contour Group of Companies	1996	10,093,473	0	0	4,037,387	-66.0%
Genesis Cable Communication, LLC	1996	15,362,038	0	0	20,943,208	16.4%
Howmet International	1995	25,914,049	0	0	194,864,209	130.0%
Total Fully Realized Investments		\$51,369,560	\$0	\$0	\$219,844,804	102.0%
Total Investments Since Inception		\$315,068,729	\$259,734,778	\$471,519,952	\$251,134,804	62.3%

**Carlyle Partners II, L.P.**  
**Performance by Individual Investment**

<u>Company</u>	<u>Company Code</u>	<u>Annualized IRR</u>	<u>Status</u>	<u>Weighted IRR</u>
Elgar Electronics Corp.	1	223%	Partially Realized	51%
Prime Communications, LLC	2	136%	Unrealized	248%
Howmet International	3	130%	Fully Realized	192%
United Defense, L.P.	4	116%	Unrealized	347%
United States Marine Repair, Inc.	5	71%	Unrealized	32%
IT Group, Inc.	6	22%	Unrealized	14%
Federal Data Corp.	7	21%	Unrealized	15%
Genesis Cable Communication, LLC	8	16%	Fully Realized	14%
Lear Siegler Services, Inc.	9	13%	Unrealized	9%
The Aerostructures Corp.	10	4%	Unrealized	6%
PRA International, Inc.	11	0%	Unrealized	0%
Composite Structures, LLC	12	0%	Unrealized	0%
Piedmont/Hawthorne Holdings, Inc.	13	0%	Unrealized	0%
The American Bottling Company	14	0%	Unrealized	0%
NorthPoint Comm. Group, Inc.	15	0%	Unrealized	0%
GTS Duratek, Inc.	16	-2%	Unrealized	-2%
InSight Health Services Corp.	17	-26%	Unrealized	-12%
Contour Group of Companies	18	-66%	Fully Realized	-38%

*See Graph on Next Page*

**Carlyle Partners II, L.P.**  
**Performance by Individual Investment**  
**Weighted IRR vs. Absolute IRR**



This graph compares the annual rate of return (IRR) generated by each portfolio company since initial funding in comparison to a weighted IRR. Each company is weighted by its size, relative to the average-sized investment. This graph illustrates the fund's ability to maximize the amount of capital in better performing companies and to minimize the investment in poorer performing companies.

**CARLYLE PARTNERS II, L.P.**  
**PARTNERSHIP PROFILE SINCE INCEPTION**  
**As of June 30, 1999**

BY STAGE

<u>Stage</u>	<u>Invested Capital</u>	<u>% of Total Assets</u>	<u>Annualized % Return</u>
Senior Debt LBO	159,264,386	50.5%	46.1%
Acquisition/Shell	62,480,373	19.8%	63.9%
Expansion	31,526,539	10.0%	65.5%
Equity LBO	25,914,049	8.2%	130.0%
Public	25,789,909	8.2%	-6.3%
Equity only	10,093,473	3.2%	-66.0%
Total	\$315,068,729	100.0%	62.3%

BY FOCUS

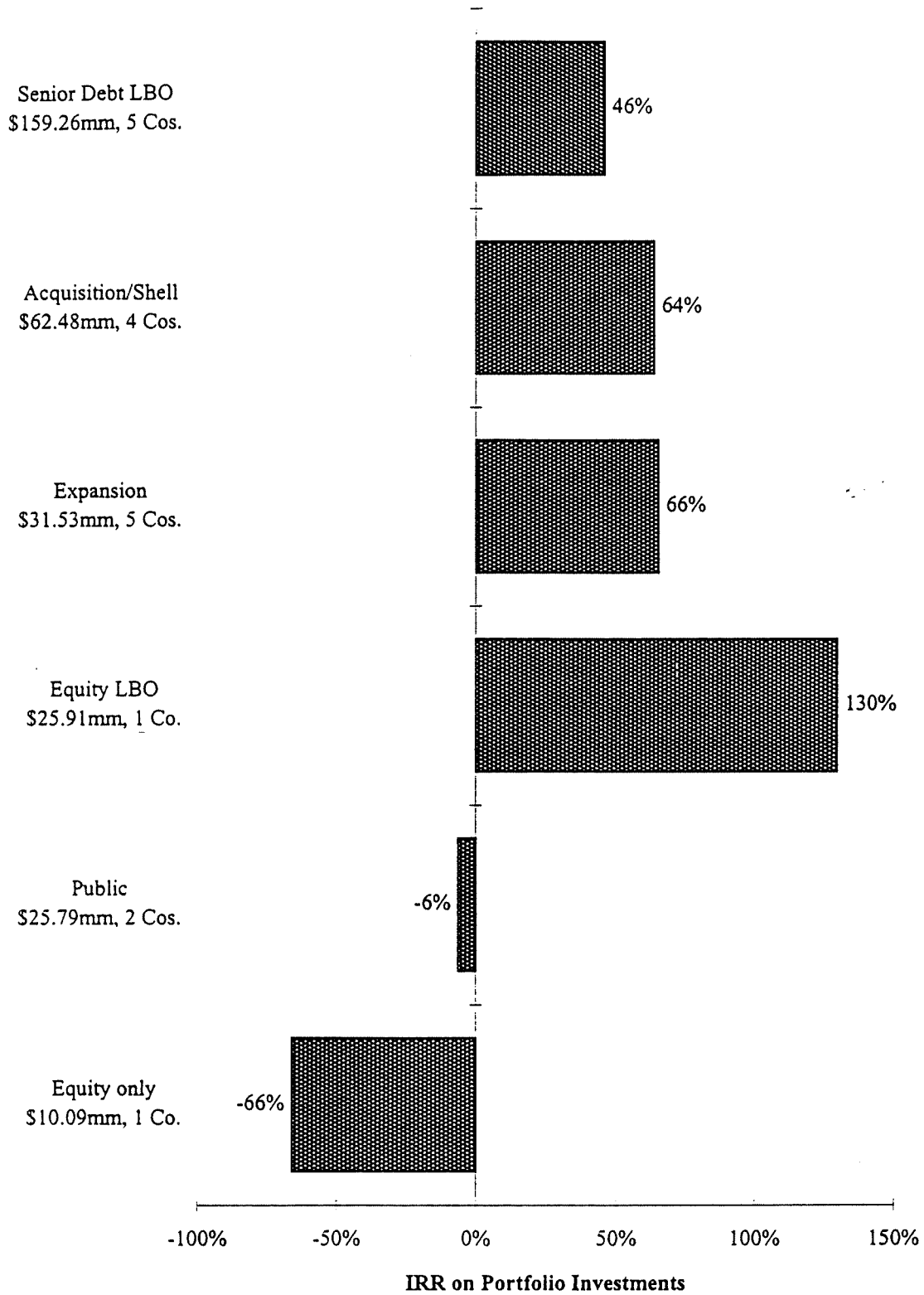
<u>Focus</u>	<u>Invested Capital</u>	<u>% of Total Assets</u>	<u>Annualized % Return</u>
Manufacturing	171,843,615	54.5%	87.4%
Communications	56,558,075	18.0%	64.6%
Industrial	23,188,918	7.4%	121.7%
Chemical/Materials	17,582,182	5.6%	-1.8%
Healthcare/Biotech	14,406,944	4.6%	-11.6%
Hardware	12,499,416	4.0%	20.8%
Environmental	11,170,495	3.5%	22.2%
Transportation	7,819,084	2.5%	71.4%
Total	\$315,068,729	100.0%	62.3%

BY REGION

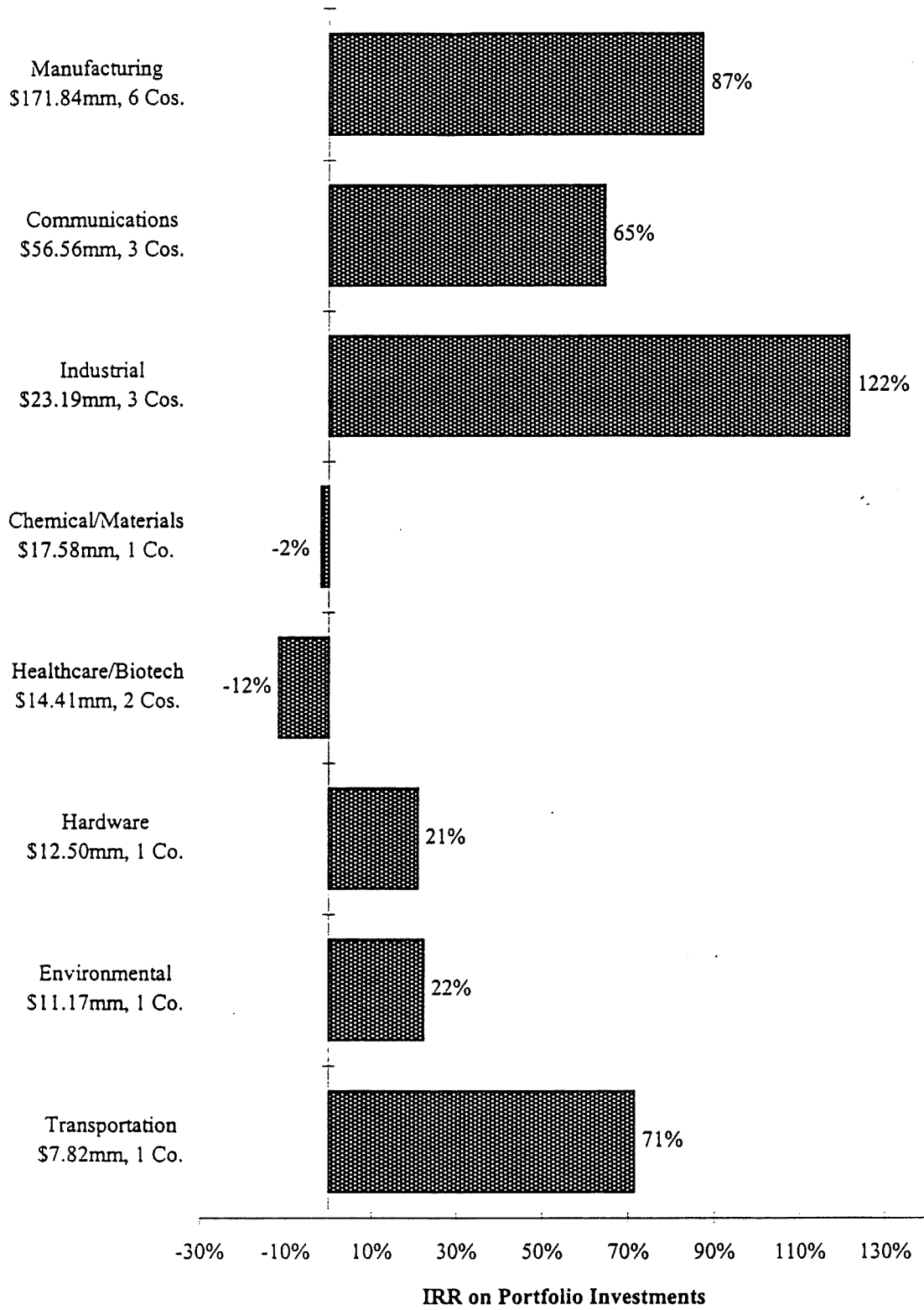
<u>Region</u>	<u>Invested Capital</u>	<u>% of Total Assets</u>	<u>Annualized % Return</u>
MidAtlantic	151,474,786	48.1%	51.4%
Midwest/Plains	55,931,324	17.8%	0.0%
Southeast	49,290,543	15.6%	7.9%
Northeast	25,914,049	8.2%	130.0%
California	22,364,554	7.1%	150.8%
Northwest	10,093,473	3.2%	-66.0%
Total	\$315,068,729	100.0%	62.3%



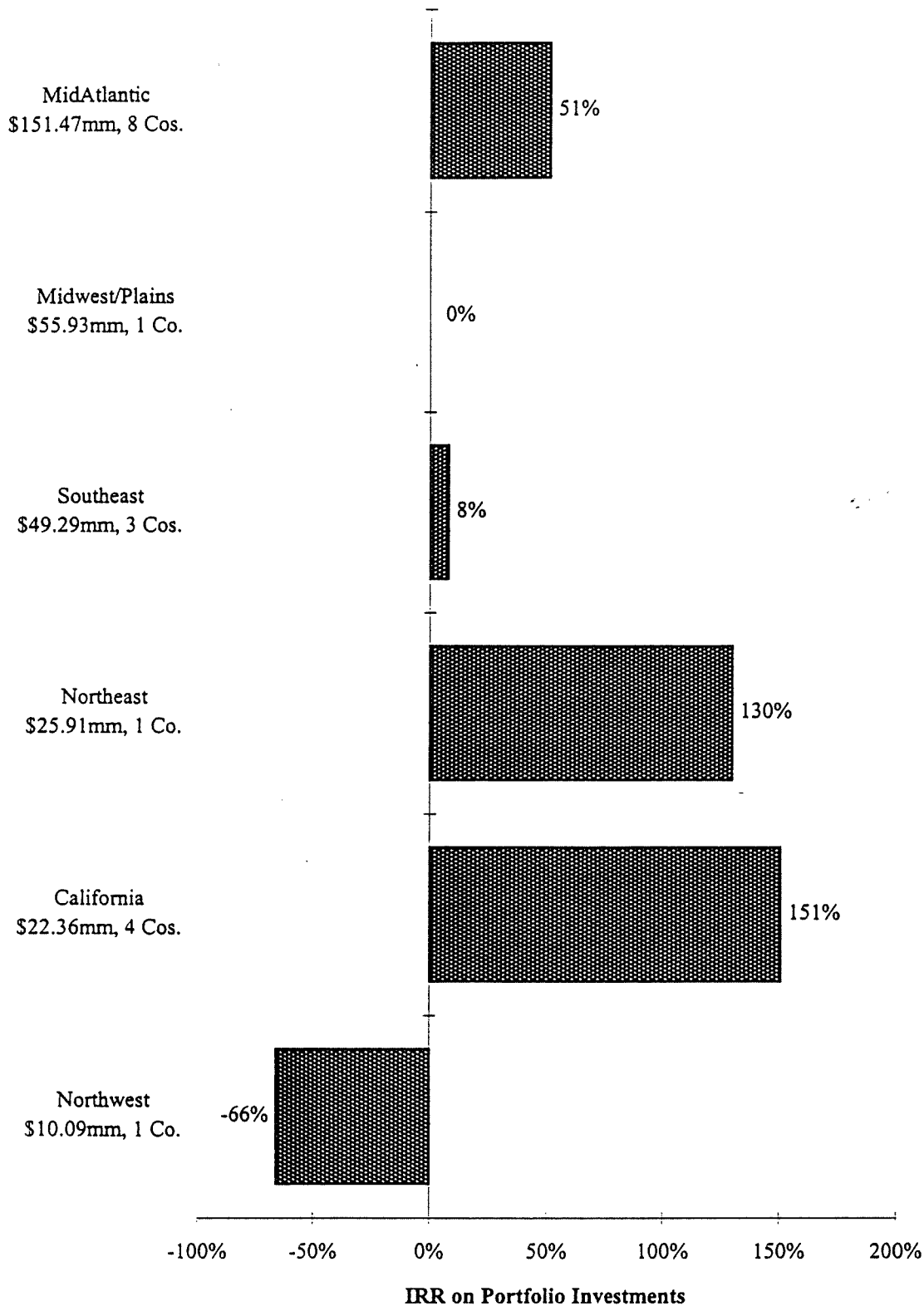
**Carlyle Partners II, L.P.**  
**Investment Performance by Stage**  
**Cumulative Since Inception**



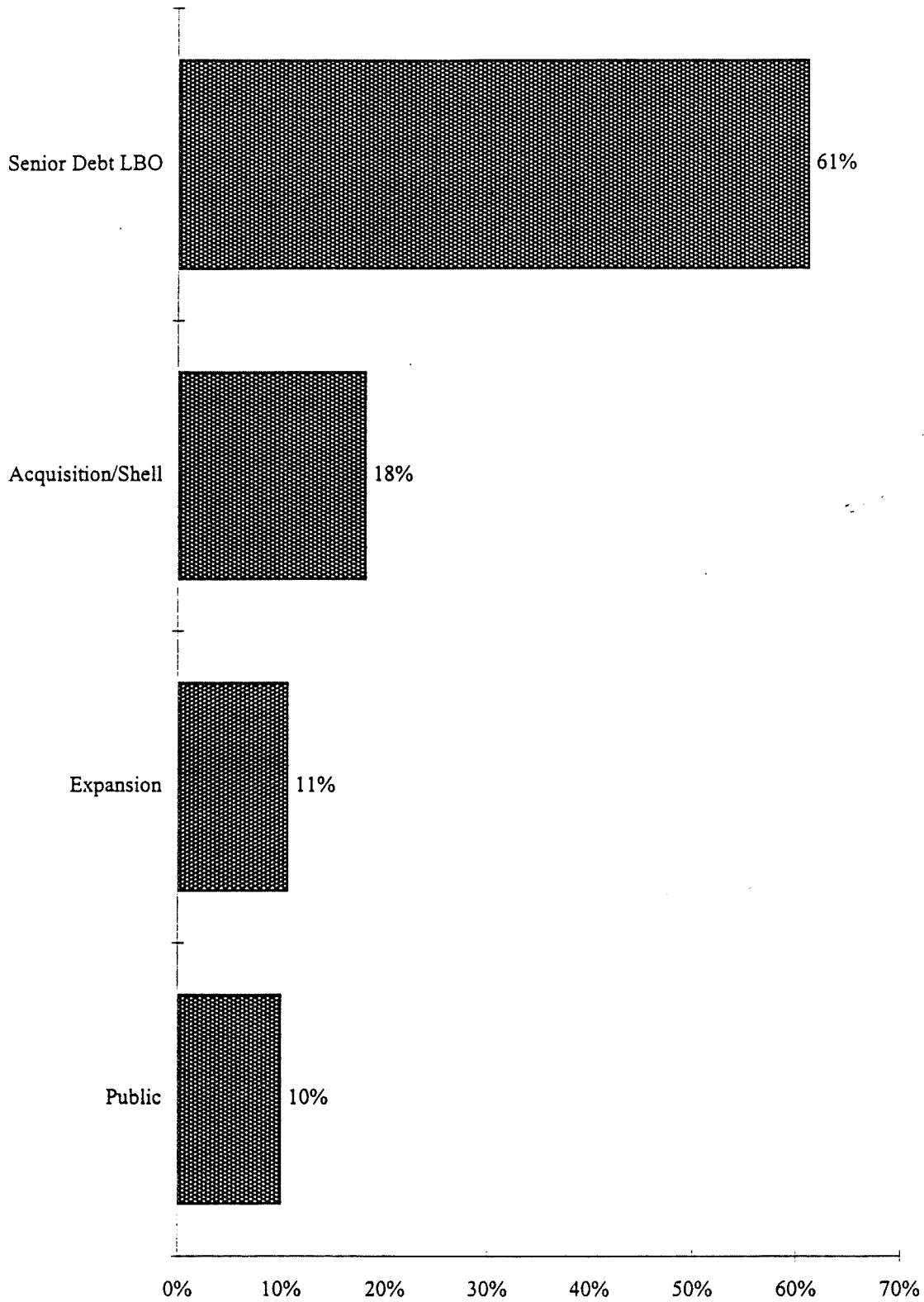
**Carlyle Partners II, L.P.**  
**Investment Performance by Focus**  
**Cumulative Since Inception**



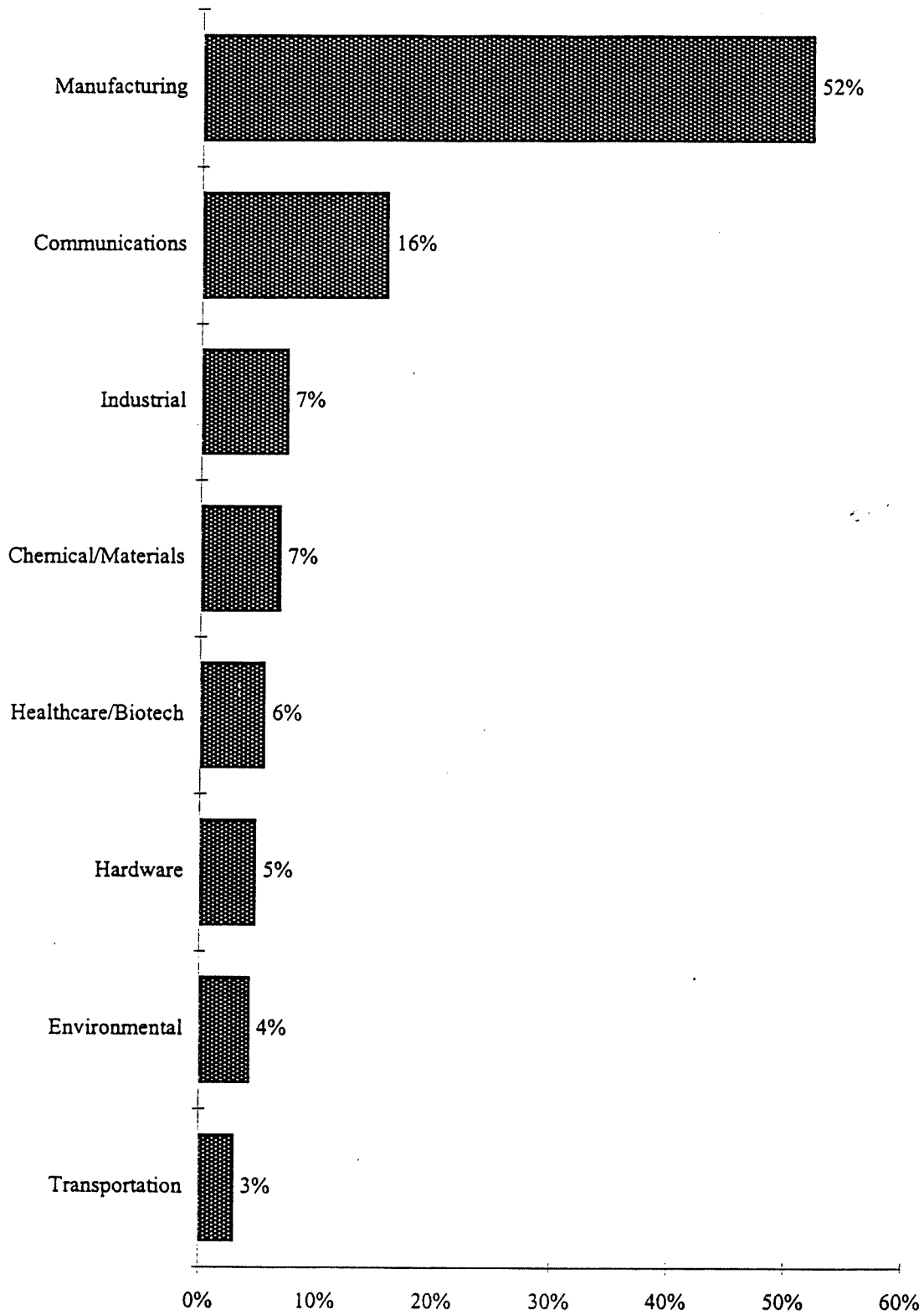
**Carlyle Partners II, L.P.**  
**Investment Performance by Region**  
**Cumulative Since Inception**



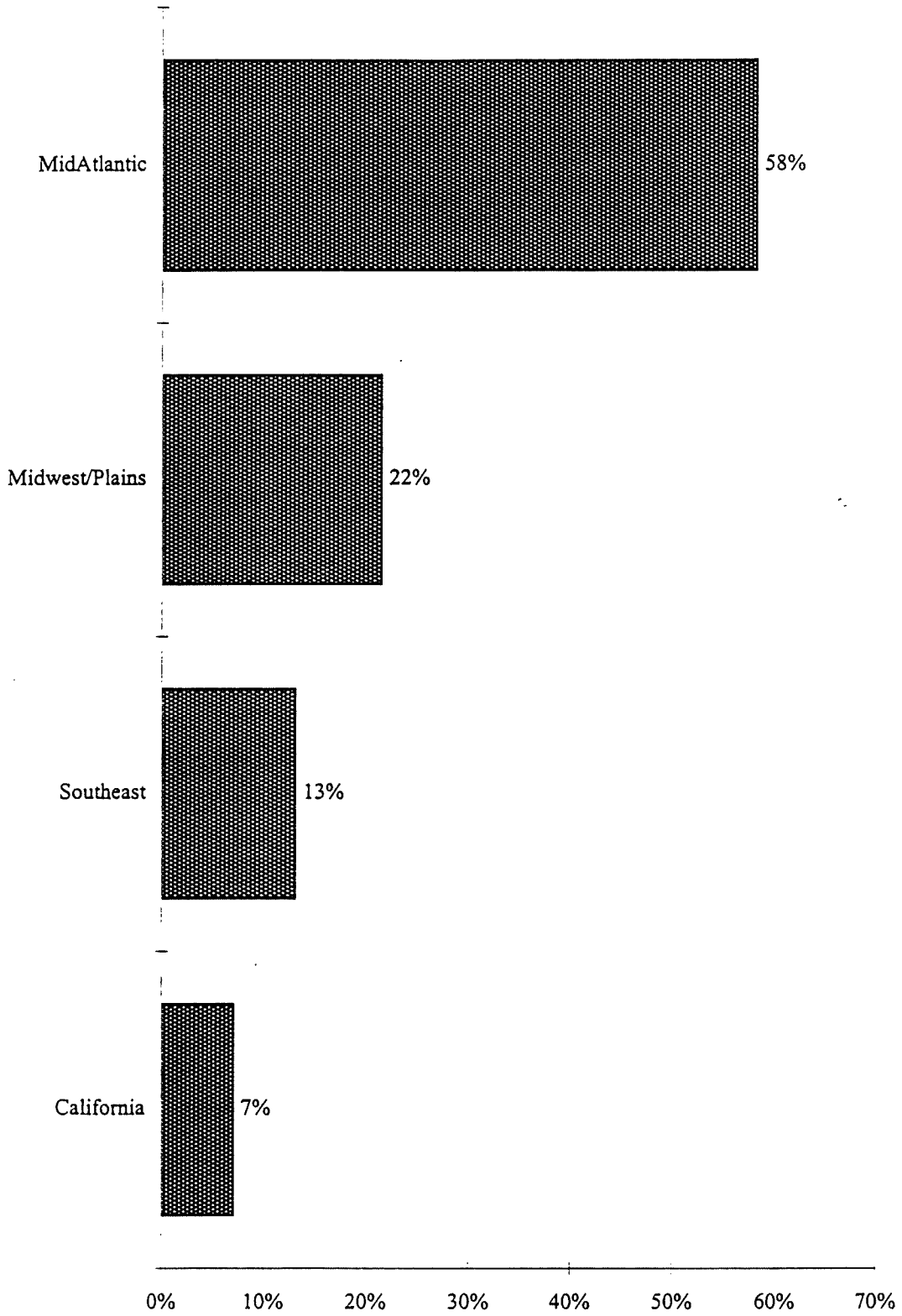
**Carlyle Partners II, L.P.**  
**Investment Diversification by Stage**  
**% of Current Dollars Invested**



**Carlyle Partners II, L.P.**  
**Investment Diversification by Focus**  
**% of Current Dollars Invested**



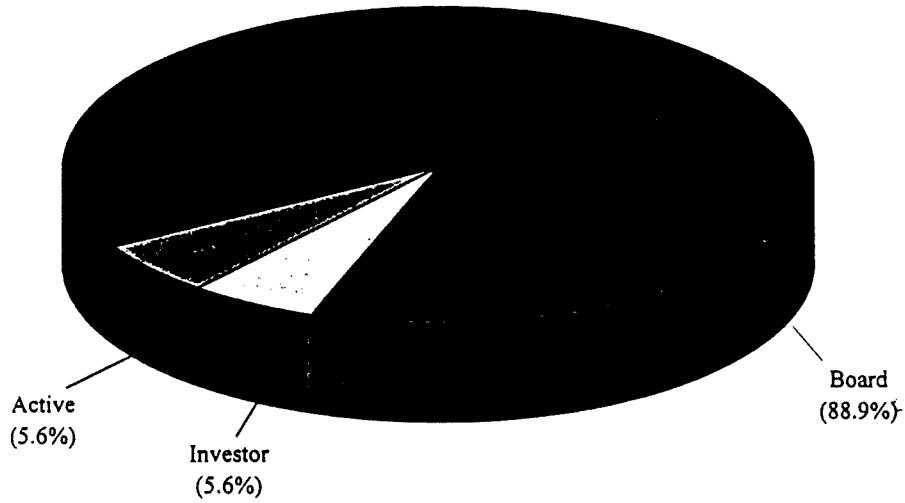
**Carlyle Partners II, L.P.**  
**Investment Diversification by Region**  
**% of Current Dollars Invested**



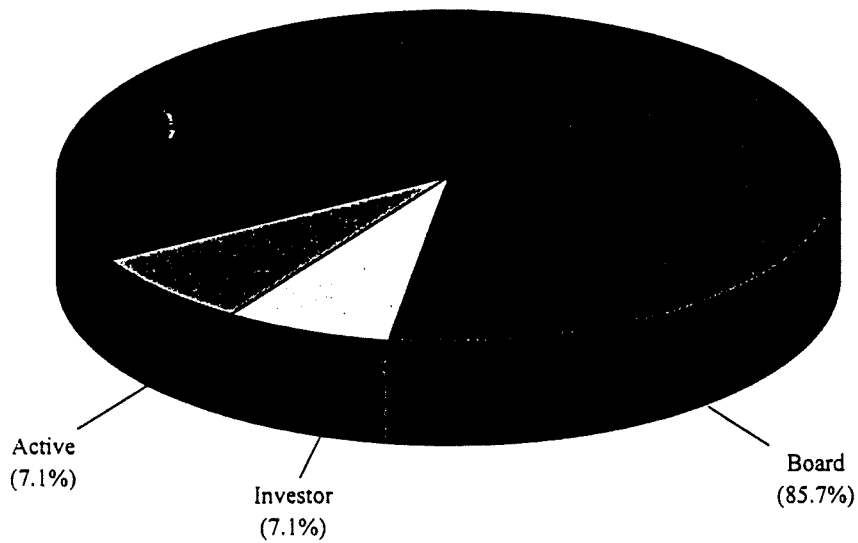
### **III. Partnership Role**

Carlyle Partners II, L.P.  
LEVEL OF PORTFOLIO RESPONSIBILITY  
% of Number of Investments

SINCE INCEPTION

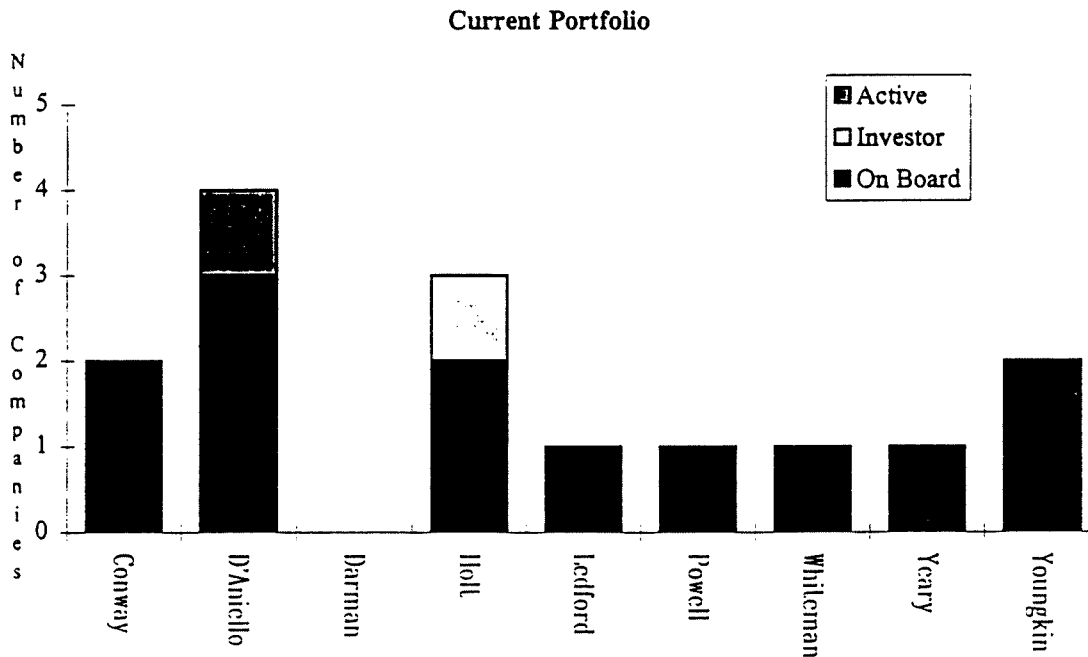
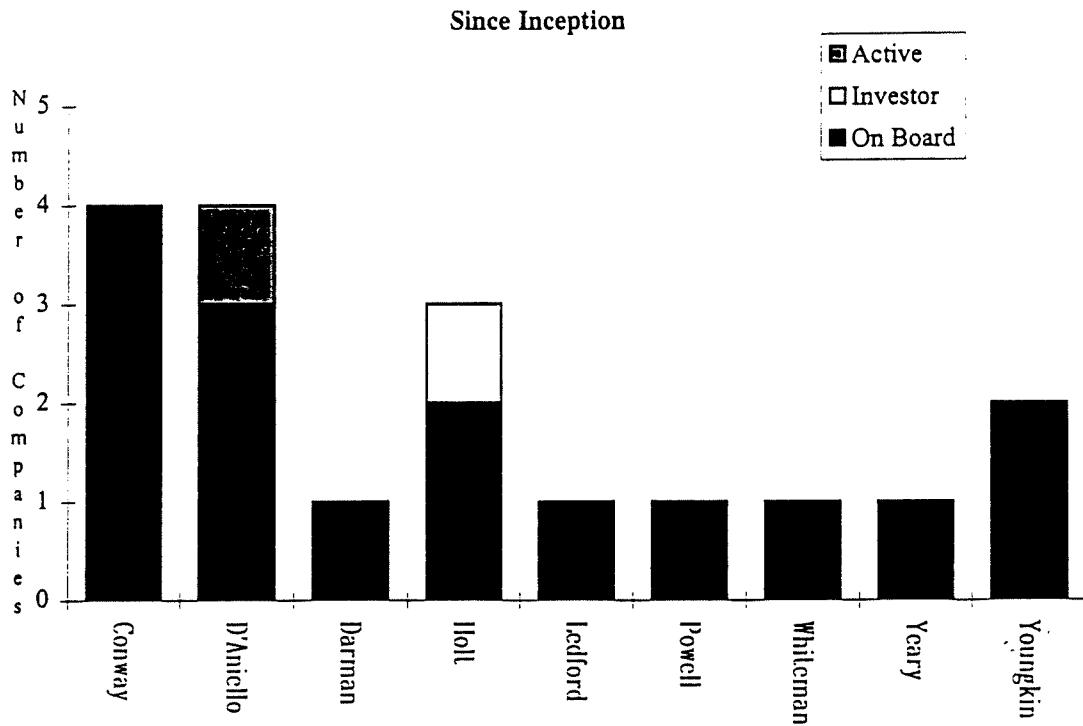


CURRENT PORTFOLIO





**Carlyle Partners II, L.P.**  
**PORTFOLIO RESPONSIBILITY BY INVESTING PARTNER**



Note: Investments where two partners share monitoring are listed for each partner responsible.

\*The "On Board" designation in the upper graph reflects companies in which a partner held a board seat at some point during the fund's investment in the company. The "On Board" designation in the lower graph reflects only those companies where board seats are currently held.

## **IV. Methodology**

## Appendix

Single Fund Analysis  
Methodology and Users' Guide

This report provides an analysis on the progress of a single alternative asset partnership investment. Included in the report is information specific to a partnership's funding status, portfolio investments, performance, and the general partner involvement in each of the portfolio investments. The analysis is a useful tool for evaluating a fund manager when considering a new investment or when meeting with the general partners of an existing partnership investment.

You may find the following description of the data sources, our classification process, calculation techniques and methodology helpful with your interpretation of the information presented in the report:

1. Partnership financial statements and narratives are the primary source for information concerning partnership cash flows, portfolio company investments and investor transactions. Unless otherwise indicated, the fund manager reviewed the report and had an opportunity to clarify or update data.
2. CA classifies each portfolio company investment within a partnership by industry, stage of development and region designations based on internally defined parameters. The classification of investments is made internally to ensure consistency across all partnerships in our database.
3. The performance calculation solves for the discount rate (IRR) which makes the Net Present Value of an investment equal to zero. The calculation is based on cash-on-cash returns over equal periods, modified for the residual value of the partnership's equity or portfolio company's net asset value. The residual value attributed to each respective group being measured is incorporated at its ending value. The alternative assets data base accounts for transactions on a quarterly basis, but adopts annualized values for reporting purposes. As a result of this annualization technique, companies that have changed in value over a short time frame after initial investment (two quarters or less) may produce very large returns that are denoted by \*\*\*\*\*% in the report, or otherwise footnoted.
4. The net asset value used in the performance calculation of a portfolio company investment is that reported by the partnership in its financial statements.
5. The residual value of an investors' interest is that which is reported by the partnership in its financial statements.
6. The IRR (Net to Limited Partners) reflects the investor's return on its investment in the partnership, after fees, expenses and carried interest received by the general partners.
7. The IRR (Net to All Partners) reflects the investor's return on its investment in the partnership, after fees and expenses only.
8. The IRR on portfolio company investments reflects the partnership's gross return on its investment in its portfolio company investments. This return measures only portfolio company investment performance and does not measure the effects of uninvested cash, fees, carried interest and other expenses of the partnership.
9. Unless otherwise indicated, all foreign transactions are converted to U.S. dollars. Contributions and distributions, both on the fund and company level, are converted to U.S. dollars based on the average daily exchange rate at the close of the quarter. Market values are converted based on the closing rate of the currency on the last day of the quarter. Committed capital is converted to U.S. dollars based on the currency rate at the fund's inception.

## Appendix (continued)

10. Vintage year is defined as the legal inception date as noted in the fund's closing documents and financial statements.
11. Unless otherwise indicated, NA denotes that the information was not provided by and is not available from the fund manager.
12. Each graph is presented to provide valuable information in an easy-to-read format. You may find the following explanations to be of help when interpreting the graphs:
- a) **IRR Net to Limited Partners:**

Compares the historical Net IRRs of the partnership against the CA historical vintage year pooled means. This J-curve graph illustrates how the partnership's returns compare, on a historical basis, to its cohort group.
  - b) **Partnership Funding Status:**

Tracks the partnership's cumulative paid-in capital, cumulative distributions and residual interest (NAV) from inception of the fund through the reporting period. This graph provides an overview of the historical relationship of capital calls to distributed capital and NAVs.
  - c) **Performance by Individual Investment-Weighted IRR vs Absolute IRR**

Compares the annual rate of return (IRR) generated by each portfolio company since initial funding in comparison to a weighted IRR. Each company is weighted by its size, relative to the average-sized investment. This graph illustrates the fund's ability to maximize the amount of capital in better performing companies and to minimize the investment in poorer performing companies.
  - d) **Investment diversification graphs:**

*Investment Performance by Stage, Focus and Region:* The performance calculation for any industry, region or stage classification pools all company transactions of a similar designation and computes a return on the pooled cash flows and market values. The returns are since inception.

*Current Exposure to Stage, Focus and Region:* Illustrates the partnership's current exposure, based on current dollars invested, to a specific industry, region and stage classification as of the report period.

These graphs illustrate the partnership's ability to adhere to a stated strategy or to determine how each sector has influenced the partnership's returns.
  - e) **General Partner Responsibility**

Illustrates the role of each partner in the management of the portfolio since inception and currently. This comparison illustrates the level of activity and commitment to the portfolio that may directly impact the overall fund performance.
13. Fund level and portfolio company benchmark calculations represent aggregate data of alternative assets funds. Portfolio company benchmark calculations are customized, based on the fund's stated investment strategy and actual investment period of the portfolio.

UTIMCO Bylaws  
Article III. Board of Directors

Section 7. Annual Meetings. The annual meeting of the Board of Directors ("Annual Meeting") shall be held at such time and place as shall be designated from time to time by resolution of the Board of Directors, or, if not so designated, on the first business day of the month of October of each year at the Corporation's principal office for the purpose of (i) electing officers for the ensuing year, and (ii) transacting such other business as may be properly brought before such Annual Meeting. Notice of Annual Meetings shall be required.

**Resolution No. 4**

RESOLVED, that the Annual Meeting of the Corporation is called to be held on October 27, 2000.

## UTIMCO Code of Ethics Section XI. Key Employee

### **Section XI. Key Employee**

- A. The Board shall designate by position with UTIMCO the employees who exercise significant decision-making authority. By virtue of their position with UTIMCO, these persons are “key employees”.
  
- B. Employees designated as key employees must acknowledge their key employee status in writing through the annual ethics compliance statement.
  
- C. Requirements of this Code which are specifically applicable to key employees are the following:
  - (1) disciplinary action disclosure; and
  
  - (2) advance approval of outside employment, including service as a director, officer, investment consultant, or manager for another person or entity.

### **Resolution No. 5**

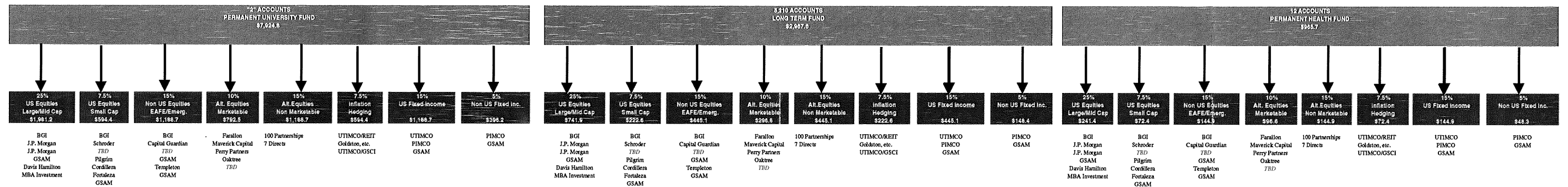
**RESOLVED**, that the following employees be designated as key employees of the Corporation:

Thomas G. Ricks	President and Chief Executive Officer
David H. Russ	Managing Director - Public Markets
Cathy A. Iberg	Managing Director - Investment Operations
Greg L. Cox	Portfolio Manager
J. Russell Kampfe	Portfolio Manager

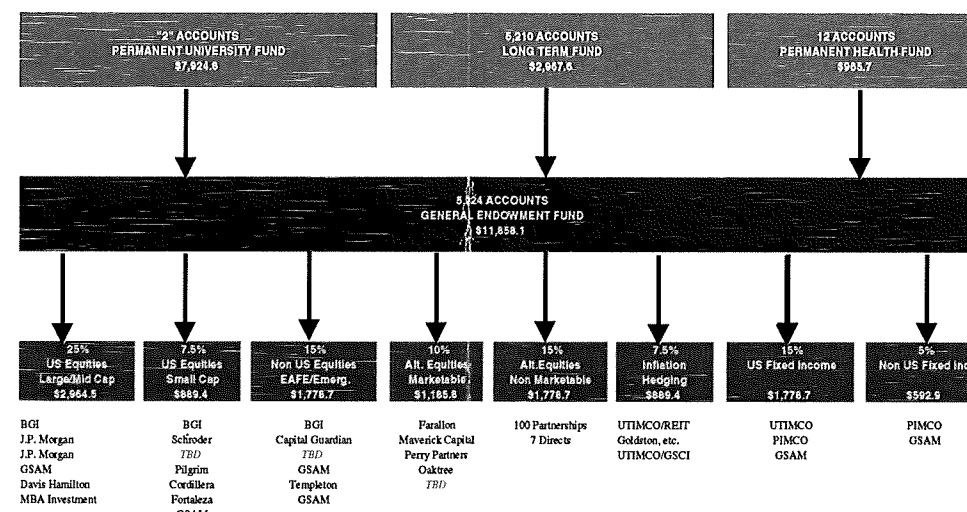
# UNITIZATION OF ENDOWMENT ACCOUNTS

(A/O FEBRUARY 29, 2000 - MILLIONS)

## [CURRENT ACCOUNT STRUCTURE]



## [PROPOSED ACCOUNT STRUCTURE]



# WHY UNITIZATION?

- ▶ **Streamlines Investment Operations**
  - ▶ PUF, PHF, LTF are now being managed identically but with triplication of operating and administrative effort
    - ▶ 3 sets of: investment policies, portfolios, partnership agreements, trades, wire transfers, security positions, accounting entries, analysis, reporting, performance reports
- ▶ **Reduces Costs**
  - ▶ estimated at \$750,000 per year
    - ▶ no reduction in portfolio advisory fees
    - ▶ no reduction in staff headcount
- ▶ **Common Accounting Practice for Investment Funds**
  - ▶ established body of accounting principles
  - ▶ flexible - allows for addition and withdrawal of funds (e.g. PHF )
  - ▶ does not affect legal structure of underlying endowment funds



## WHY UNITIZATION (CONT.)

- ▶ **Accommodates Idiosyncrasies of PUF, PHF and LTF**
- ▶ **Calculation of PUF Book Value Based Debt Capacity**
  - ▶ statute authorizes use of PUF's proportional ownership of GEF book value
- ▶ **Calculation of PUF No Arbitrage Return**
  - ▶ an issue irrespective of unitization
  - ▶ working with V&E to define application of rules
  - ▶ can always carve out yield restricted funds from GEF
- ▶ **Recognition of Different Expense Burdens for Each Fund**
  - ▶ PUF: Expenses for Lands Management, No Arb Calculations
  - ▶ LTF: expenses for endowment accounting (5,000+ endowments), UT Administrative charges
  - ▶ PHF: expenses for standard endowment accounting and reporting

## IMPLEMENTATION

- ▶ **Complete PUF Conversion to Total Return (8/31/00)**
- ▶ **Obtain legal and accounting opinions**
- ▶ **Consult with A&M, U.T. System Business Office, State Auditors, State Comptroller/PHF Beneficiaries**
- ▶ **Establish GEF Account Structure**
- ▶ **Amend Advisory Agreements to Reflect a Single Account**
- ▶ **Unitization should occur on first day of fiscal year 2001 (e.g. 9/1/00)**
  - ▶ four months from now

Utilization: Estimated Savings in Custody Fees

Charge	PUF	LIF	PHF	Total	Combined	Savings
Structural Charges						
Active Portfolios	\$ 2,000.00	\$ 50,000	\$ 50,000	\$ 150,000	\$ 50,000	\$ 100,000
SIA Portfolios	\$ 500.00	-	-	-	-	-
Utilization	\$ 1,500.00	-	-	-	-	-
Plan Accounts	\$ 400.00	-	-	-	-	-
Cash Accounts	\$ 200.00	200	200	600	200	400
Pooled Fund Manager	\$ 500.00	5,000	5,000	15,000	5,000	10,000
Administrative Fee						
Domestic	\$ 0.000025	\$ 71,222	\$ 23,731	\$ 284,362	\$ 284,362	-
International						
Category I	\$ 0.000025	\$ 2,940	\$ 1,106	\$ 4,414	\$ 4,414	-
Category II	\$ 0.000500	\$ 292,780	\$ 110,091	\$ 439,554	\$ 439,554	-
Category III	\$ 0.002500	\$ 15,186	\$ 5,710	\$ 22,799	\$ 22,799	-
Category IV	\$ 0.005000	\$ 90,306	\$ 33,957	\$ 135,578	\$ 135,578	-
Global Performance Measurement						
Monthly						
Total Return	\$ 500.00	\$ 27,000	\$ 27,000	\$ 81,000	\$ 27,000	\$ 54,000
Asset Class	\$ 500.00	-	-	-	-	-
Attribution	\$ 1,000.00	-	-	-	-	-
Daily						
Total Return	\$ 500.00	\$ 23,500	\$ 23,500	\$ 70,500	\$ 23,500	\$ 47,000
Global Analytics						
Monthly	\$ 500.00	\$ 13,000	\$ 13,000	\$ 39,000	\$ 13,000	\$ 26,000
Daily	\$ 500.00	-	-	-	-	-
Executive Workbench Connection						
Telecommunications	\$ 1,350.00	\$ 2,025	\$ 1,350	\$ 5,400	\$ 5,400	-
Client Reporting Services	\$ 45,000.00	\$ 16,875	\$ 11,250	\$ 45,000	\$ 45,000	-
CRS Online	\$ 250.00	-	-	-	-	-
Transaction Charges						
Domestic						
Buy/Sell	\$ 7.00	\$ 105,084	\$ 105,084	\$ 315,252	\$ 105,084	\$ 210,168
Futures	\$ 25.00	\$ 77,100	\$ 29,000	\$ 115,800	\$ 115,800	-
Margin Variations	\$ 10.00	\$ 6,600	\$ 2,480	\$ 9,920	\$ 9,920	-
Options	\$ 40.00	-	-	-	-	-
FX Transactions	\$ 30.00	\$ 48,600	\$ 48,600	\$ 145,800	\$ 48,600	\$ 97,200
Wire Transfers	\$ 10.00	\$ 4,480	\$ 4,480	\$ 13,440	\$ 4,480	\$ 8,960
Checks	\$ 5.00	-	-	-	-	-
International						
Category I	\$ 7.00	\$ 168	\$ 168	\$ 504	\$ 168	\$ 336
Category II	\$ 25.00	\$ 105,400	\$ 105,400	\$ 316,200	\$ 105,400	\$ 210,800
Category III	\$ 60.00	\$ 960	\$ 960	\$ 2,880	\$ 960	\$ 1,920
Category IV	\$ 85.00	\$ 6,120	\$ 6,120	\$ 18,360	\$ 6,120	\$ 12,240
Out Of Pocket Expenses						
Telex Charges	\$ 1.00	\$ 2,588	\$ 2,588	\$ 7,763	\$ 2,588	\$ 5,176
<b>Total</b>		\$ 1,085,322	\$ 664,566	\$ 2,239,128	\$ 1,454,928	\$ 784,200

**General Endowment Fund  
Statement of Assets and Liabilities**

	<b>August 31, 2001</b>	<b>May 31, 2001</b>	<b>February 29, 2001</b>	<b>November 30, 2000</b>
<b>Assets</b>				
Investment in Securities, at Value	13,086,412	12,397,221	12,242,143	12,178,338
Collateral for Securities Loaned, at Value				
Deposit with Broker for Futures Contracts	52,450	52,450	51,600	51,600
Unrealized Gains on Foreign Currency Exchange Contracts	9,695	4,826	6,425	7,895
Receivables				
Investment Securities Sold	9,685	1,251	4,544	8,945
Accrued Income	41,450	36,789	29,459	31,589
Other	16,555	14,250	12,453	10,151
<b>Total Assets</b>	<b>13,216,247</b>	<b>12,506,787</b>	<b>12,346,624</b>	<b>12,288,518</b>
<b>Liabilities</b>				
Payable to Participants				-
Payable Upon Return of Securities Loaned				
Unrealized Losses on Foreign Currency Exchange Contracts	9,991	9,289	8,945	7,823
Payables				
Investment Securities Purchased	2,155	54,250	1,245	6,541
Other	9,150	9,450	8,041	7,841
<b>Total Liabilities</b>	<b>21,296</b>	<b>72,989</b>	<b>18,231</b>	<b>22,205</b>
<b>Net Assets</b>	<b>13,194,951</b>	<b>12,433,798</b>	<b>12,328,393</b>	<b>12,266,313</b>
<b>Net Assets Consist Of:</b>				
Participant Contributions (Net of Withdrawals)	5,970,265	5,861,861	5,780,665	5,684,065
Accumulated Undistributed Net Realized Gain on Investments including Foreign Currency Transactions	4,482,073	4,465,113	4,490,754	4,495,818
Net Unrealized Appreciation of Investments including Translation of Assets and Liabilities in Foreign Currencies	2,742,613	2,106,824	2,056,974	2,086,430
<b>Net Assets</b>	<b>13,194,951</b>	<b>12,433,798</b>	<b>12,328,393</b>	<b>12,266,313</b>

## General Endowment Fund

### Statement of Operations and Changes

	August 31, 2001	May 31, 2001	February 29, 2001	November 30, 2000
<b>Investment Income</b>				
Interest	59,850	55,222	56,945	54,245
Dividend	26,720	23,890	24,350	20,845
Other	1,430	2,450	1,890	2,641
<b>Total Investment Income</b>	<b>88,000</b>	<b>81,562</b>	<b>83,185</b>	<b>77,731</b>
<b>Expenses</b>				
Investment Counseling Fees	1,780	1,590	1,560	1,500
JTIMCO Fee	1,434	1,434	1,434	1,434
Consultation Fees	30	29	27	30
Custodial Fees and Expenses	260	240	220	150
Miscellaneous Expenses	35	41	31	25
<b>Total Expenses</b>	<b>3,539</b>	<b>3,334</b>	<b>3,272</b>	<b>3,139</b>
<b>Net Investment Income</b>	<b>84,461</b>	<b>78,228</b>	<b>79,913</b>	<b>74,592</b>
<b>Realized And Unrealized Gain on Investments</b>				
Net Realized Gain On Investments Securities and Foreign Currency Related Transactions	62,899	25,404	43,450	145,685
Net Unrealized Appreciation (Depreciation) On Investment Securities and Foreign Currency Related Transaction	635,789	49,850	(29,456)	285,456
<b>Net Gain on Investments</b>	<b>698,688</b>	<b>75,254</b>	<b>13,994</b>	<b>431,141</b>
<b>Net Increase in Net Assets Resulting From Operation</b>	<b>783,149</b>	<b>153,482</b>	<b>93,907</b>	<b>505,733</b>
<b>Net Assets</b>				
Beginning of Period	12,433,798	12,328,393	12,266,313	-
Pooling of Funds Net Asset Components:				
Participant Contributions				5,651,915
Accumulated Net Realized Gain				4,402,965
Net Unrealized Appreciation				1,800,974
Participant Contributions	108,404	81,196	96,600	32,150
Participant Withdrawals:				
Cost			-	-
Gain			-	-
Distributions to Participants:				
Net Investment Income	(84,461)	(78,228)	(79,913)	(74,592)
Net Realized Appreciation	(45,939)	(51,045)	(48,514)	(52,832)
<b>End of Period</b>	<b>13,194,951</b>	<b>12,433,798</b>	<b>12,328,393</b>	<b>12,266,313</b>
Number of units	12,165,687.659	12,060,537.925	11,981,625.768	11,888,005.029
Net Asset Value Per unit	1,084.603795	1,030.948875	1,028.941584	1,031.822662

## Permanent University Fund

### Statement of Assets and Liabilities

	<u>August 31, 2001</u>	<u>May 31, 2001</u>	<u>February 29, 2001</u>	<u>November 30, 2000</u>
Assets:				
Investment in Securities, at Value	8,820,961	8,342,925	8,269,649	\$ 8,243,923
Accrued Interest	245	245	194	210
Prepays			-	-
Total Assets	<u>8,821,206</u>	<u>8,343,170</u>	<u>8,269,843</u>	<u>8,244,133</u>
Liabilities:				
Payable			-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Assets	<u>\$ 8,821,206</u>	<u>\$ 8,343,170</u>	<u>\$ 8,269,843</u>	<u>\$ 8,244,133</u>

#### Net Assets Consist of:

Contributions of PUF Lands	3,431,795	3,394,537	\$ 3,343,381	\$ 3,300,092
Accumulated Undistributed Net Realized Gain and Income	3,377,890	3,370,819	3,364,328	3,358,442
Net Unrealized Appreciation of Investments including Translation of Assets and Liabilities in Foreign Curren	2,011,521	1,577,814	1,562,134	1,585,599
	<u>8,821,206</u>	<u>8,343,170</u>	<u>\$ 8,269,843</u>	<u>\$ 8,244,133</u>

**Permanent University Fund**

**Statement of Operations and Changes**

	<u>August 31, 2001</u>	<u>May 31, 2001</u>	<u>February 29, 2001</u>	<u>November 30, 2000</u>
<b>Investment Income</b>				
Interest	675	691	592	\$ 666
Dividends	56,200	52,111	53,259	49,684
<b>Total Investment Income</b>	<u>56,875</u>	<u>52,802</u>	<u>53,851</u>	<u>50,350</u>
<b>Expenses</b>				
West Texas Land Expense	1,050	1,050	1,050	1,050
UTIMCO Fee (maybe)	12	12	12	12
Other (such as West Texas Land audit)	-	2	-	45
<b>Total Expense</b>	<u>1,062</u>	<u>1,064</u>	<u>1,062</u>	<u>1,107</u>
<b>Net Investment Income</b>	<u>55,813</u>	<u>51,738</u>	<u>52,789</u>	<u>49,243</u>
<b>Realized and Unrealized Gain on Investments</b>				
Net Realized Gain on Investment Securities	30,528	34,023	32,367	35,246
Net Unrealized Appreciation on Investments	433,707	15,680	(23,465)	251,699
<b>Net Gain on Investments</b>	<u>464,235</u>	<u>49,703</u>	<u>8,902</u>	<u>286,945</u>
<b>Net Increase in Net Assets Resulting from Operations</b>	<u>520,048</u>	<u>101,441</u>	<u>61,691</u>	<u>336,188</u>
<b>Net Assets</b>				
Beginning of Period	8,343,170	8,269,843	8,244,133	7,924,756
Contributions from PUF Lands	37,258	51,156	43,289	62,459
Distributions to Available University Fund	(79,270)	(79,270)	(79,270)	(79,270)
<b>End of Period</b>	<u>8,821,206</u>	<u>8,343,170</u>	<u>8,269,843</u>	<u>\$ 8,244,133</u>
<b>Summary of Investments:</b>				
Investment in GEF	8,775,863	8,284,579	8,219,708	\$ 8,175,705
Dreyfus money market	45,098	58,346	49,941	68,218
<b>Total</b>	<u>\$ 8,820,961</u>	<u>\$ 8,342,925</u>	<u>8,269,649</u>	<u>\$ 8,243,923</u>

## Long Term Fund

### Statement of Assets and Liabilities

	August 31, 2001	May 31, 2001	February 29, 2001	November 30, 2000
<b>Assets:</b>				
Investment in Securities, at Value	3,372,592	3,154,407	\$ 3,115,991	\$ 3,095,704
Accrued Interest	27	15	25	35
Prepays			-	-
<b>Total Assets</b>	<b>3,372,619</b>	<b>3,154,422</b>	<b>3,116,016</b>	<b>3,095,739</b>
<b>Liabilities:</b>				
Payable to components	577	604	548	558
Payable other (education fee)	321	318	310	300
<b>Total Liabilities</b>	<b>898</b>	<b>922</b>	<b>858</b>	<b>858</b>
<b>Net Assets</b>	<b>\$ 3,371,721</b>	<b>\$ 3,153,500</b>	<b>\$ 3,115,158</b>	<b>\$ 3,094,881</b>

#### Net Assets Consist of:

Contributions	1,605,738	1,606,100	1,574,484	\$ 1,546,084
Accumulated Undistributed Net Realized Gain and Income	1,070,969	1,027,377	1,026,777	1,026,166
Net Unrealized Appreciation of Investments including Translation of Assets and Liabilities in Foreign Curren	695,014	520,023	513,897	522,631
	<b>3,371,721</b>	<b>3,153,500</b>	<b>\$ 3,115,158</b>	<b>\$ 3,094,881</b>



## Long Term Fund

### Statement of Operations and Changes

	August 31, 2001	May 31, 2001	February 29, 2001	November 30, 2000
<b>Investment Income</b>				
Interest	41	39	34	\$ 50
Dividends	21,595	19,839	20,187	18,806
<b>Total Investment Income</b>	<b>21,636</b>	<b>19,878</b>	<b>20,221</b>	<b>18,856</b>
<b>Expenses</b>				
Education Fee	321	318	310	300
UTIMCO Fee (additional)	80	80	80	80
Other	5	2	4	5
<b>Total Expense</b>	<b>406</b>	<b>400</b>	<b>394</b>	<b>385</b>
Reimbursement from UT System	500	500	500	500
<b>Net Investment Income</b>	<b>21,730</b>	<b>19,978</b>	<b>20,327</b>	<b>18,971</b>
<b>Realized and Unrealized Gain on Investments</b>				
Net Realized Gain on Investment Securities	11,730	12,953	12,267	13,341
Net Unrealized Appreciation on Investments	174,991	6,126	(8,734)	95,442
<b>Net Gain on Investments</b>	<b>186,721</b>	<b>19,079</b>	<b>3,533</b>	<b>108,783</b>
<b>Net Increase in Net Assets Resulting from Operations</b>	<b>208,451</b>	<b>39,057</b>	<b>23,860</b>	<b>127,754</b>
<b>Net Assets</b>				
Beginning of Period	3,153,500	3,115,158	3,094,881	2,967,022
Participant Contributions		32,000	28,750	32,150
Participant Withdrawals:				
Cost	(362)	(384)	(350)	(348)
Gain	(215)	(220)	(198)	(210)
Distributions to Participants:				
Net Investment Income	(21,730)	(19,978)	(20,327)	(18,971)
Net Realized Appreciation	32,077	(12,133)	(11,458)	(12,516)
<b>End of Period</b>	<b>3,371,721</b>	<b>3,153,500</b>	<b>3,115,158</b>	<b>\$ 3,094,881</b>
Units	527,344,098	524,262,610	518,932,050	514,068,321.65
Market value per unit	6.39377890	6.01511640	6.00301820	6.02037010
<b>Summary of Investments:</b>				
Investment in GEF	3,372,145	3,154,069	3,115,472	\$ 3,094,614
Dreyfus money market	447	338	519	1,090
<b>\$ 3,372,592</b>	<b>\$ 3,154,407</b>	<b>3,115,991</b>	<b>\$ 3,095,704</b>	

# Office Relocation

*not electronic*

## Purpose

- ▶ Logistics - employees and files on one floor
- ▶ Provide for consolidation of trading operations
- ▶ Need larger Board room
- ▶ Allowance for growth in 3-5 years
- ▶ UT System has space constraint
- ▶ New location needs to be in close proximity to UT System
- ▶ Recognition of UTIMCO's separate legal structure

# Impact of Relocation on Budget

Lease Space information	Current Expense	Estimated New Location Cost	Annual Current Expense	Annual Estimated Cost Based on New Location	Increase in Cost
<i>Rentable space</i>	12,565 sq ft	12,663 sq ft			
<b>Recurring</b>					
Base rent	179,700/yr	\$22 per sq ft (1)	\$179,700	\$278,586	\$98,886
Utilities	-	\$10.80 per sq ft (1)	\$0	\$136,760	\$136,760
<i>Parking spaces</i>	40 spaces	32 spaces			
Parking fees	\$1,500 a month	Bank One (2)	\$18,000	\$48,024	\$30,024
Furniture lease	19,445/yr	41,100/yr	\$19,445	\$41,100	\$21,655
OIR Services:					
Internet access charges	\$775/mo.	\$850/mo	\$9,300	\$10,200	\$900
Bundled telephone charges(local and long distance)	\$2,400/mo.	\$3,400/mo	\$28,800	\$40,800	\$12,000
Mainframe access and paper chgs.	\$8,900/yr.	\$8,900/yr.	\$8,900	\$8,900	\$0
<b>Total Recurring</b>			<b>\$264,145</b>	<b>\$564,370</b>	<b>\$300,225</b>
<b>Non-Recurring</b>					
Physical move	-	\$25,000	\$0	\$25,000	\$25,000
Refurbishment	-	\$5 per ft. tenant cost (3)	\$0	\$63,315	\$63,315
Paper( letterhead etc.)		\$4,500 (4)	\$0	\$4,500	\$4,500
Phone cost		\$39,500	\$0	\$39,500	\$39,500
<b>Total Non-Recurring</b>			<b>\$0</b>	<b>\$132,315</b>	<b>\$132,315</b>
<b>Total Cost</b>			<b>\$264,145</b>	<b>\$696,685</b>	<b>\$432,540</b>

1) Includes janitorial, taxes, insurance, etc.

2) per Bank One terms

3) Landlord \$10 per square foot, estimate \$15 per foot

4) Includes development, letterhead, labels, business cards and announcements

5) lease cost would be approx. 41,100 per year for a 7 year lease.

**Proposal Comparison  
for  
UTIMCO  
April 17, 2000**

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Building Name	Leased Premises/ Floor/ Add-on factor	Lease Commence-ment	Quoted Rental Rate	Operating Expenses	Tenant Improvement Allowance	Parking	Estimated Total Cost of Occupancy/ Year 1	Renewal Option/Expansion
Bank One Tower 221 W. 6 <sup>th</sup> Street	±10,731 usf 12 <sup>th</sup> floor 18% (subject to architects measurement)	January 1, 2001 ±6,779 usf Now	<b>5 YEAR</b> Year 1-5: \$22.00 NNN	2000 estimated @ \$10.80/rsf	<b>5 YEAR</b> \$10.00/rsf	Unreserved 1:560 \$110 + tax/mo	\$32.80/rsf	Five (5) years With 12 months notice
	±8,936 usf 10 <sup>th</sup> floor 18% (subject to architects measurement)	±2,119 usf Aug 1, 2000 (adjacent)	<b>7 YEAR</b> Year 1-5: \$22.00 NNN Year 6-7: \$25.00 NNN	<b>History of Operating Expenses</b> 1999-\$10.28/rsf	<b>7 YEAR</b> \$14.00/rsf	Reserved 1:2500 \$150 + tax/mo		Preferential right to lease the balance of the floor
One Congress Plaza 111 Congress Ave.	±10,000-±12,000 usf 6 <sup>th</sup> floor 17.62%	December 15, 2000	<b>5 YEAR</b> Year 1-5: \$25.50 NNN	2000 estimated @ \$10.15/rsf	<b>5 YEAR</b> \$5.00/rsf (Still verifying whether the \$5.00/rsf is for a 5,7, and 10 year lease)	Unreserved 1:600 \$110 + tax/mo	\$35.65/rsf	Five (5) years With 12 months notice
			<b>7 YEAR</b> Year 1-5: \$25.50 NNN Year 6-7: \$28.00 NNN	<b>History of Operating Expenses</b> 1999-\$9.80/rsf		Reserved 1:2500 \$225 + tax/mo		Did not address
			<b>10 YEAR</b> Year 1-5: \$25.50 NNN Year 6-10: \$28.00 NNN					

UTIMCO

Building Name	Leased Premises/ Floor/ Add-on factor	Lease Commence-ment	Quoted Rental Rate	Operating Expenses	Tenant Improvement Allowance	Parking	Estimated Total Cost of Occupancy/ Year 1	Renewal Option/Expansion
First State Bank 400 W. 15 <sup>th</sup> Street	±10,000-±12,000 usf 15 <sup>th</sup> floor 17%	July 1, 2000	<p><b>5 YEAR</b> Year 1-5: \$18.50 NNN + \$.50/yr</p> <p><b>7 YEAR</b> Year 1-7: \$18.50 NNN + \$.50/yr</p> <p><b>10 YEAR</b> Year 1-10: \$18.50 NNN + \$.50/yr</p>	<p>2000 estimated @ \$10.00/rsf</p> <p><b>History of Operating Expenses</b> 1999-\$9.60/rsf</p>	<p><b>5 YEAR</b> \$5.00/rsf</p> <p><b>7 YEAR</b> \$7.00/rsf</p> <p><b>10 YEAR</b> \$10.00/rsf</p>	Unreserved 1:250 \$95 + tax/mo	\$28.50/rsf	<p>Did not address</p> <p>Right of first offer on the remainder of the 15<sup>th</sup> floor</p>

2000

### Annual Fee and Allocation Schedule

	UT Funds						Total
	PUF	PHF	Pooled Funds			Separate Funds	
	<b>PUF</b>	<b>PHF</b>	<b>LTF</b>	<b>S/ITF</b>	<b>STF</b>		
<b>Market Value 2/29/99 (\$ millions)</b>	7,202.1	820.0	2,425.4	1,838.3	693.4	155.6	13,134.8
<b>( PHF based on contribution value)</b>							
<b>Projected Expenses</b>							
UTIMCO Services(1)	2,979,864	439,627	1,925,254	385,552	0	0	5,730,297
Direct Expenses of the Fund	4,200,607	2,405,168	7,663,921	116,395	N/A (2)	5,000	14,391,091
<b>TOTAL</b>	<b>7,180,471</b>	<b>2,844,795</b>	<b>9,589,174</b>	<b>501,947</b>	<b>0</b>	<b>5,000</b>	<b>20,121,387</b>
<b>Percentage of Market Value</b>							
UTIMCO Services	0.041%	0.054%	0.079%	0.021%		0.000%	0.044%
Direct Expenses of the Fund	0.058%	0.293%	0.316%	0.006%		0.003%	0.110%
<b>TOTAL</b>	<b>0.100%</b>	<b>0.347%</b>	<b>0.395%</b>	<b>0.027%</b>		<b>0.003%</b>	<b>0.153%</b>

(1) Allocation Ratio: PUF-52%, LTF-33%, S/ITF-7%, Health Fund-8%

(2) Net of fees

Shaded areas are charged to the AUF until effective date of constitutional amendment  
(amounts may not foot due to rounding adjustments)



**UTIMCO**  
**(Preliminary)**  
**Reconciliation of 2000 budget to 2001**

**Projected Expenses**

UTIMCO Services-2000 budget	\$ 5,730,297	
Increases(Decreases) to Budget:		
Compensation- Regular	69,480	-\$128,930 is due to staffing changes, addition of fixed income manager, reduction in in-house equity managers.
		\$198,410 is pay increases, approximately 8% of payroll.
Performance Compensation	83,937	( due to above. Same plan as prior year)
Employee benefits and Payroll taxes	9,239	(due to above)
General Operating Expenses	(48,200)	(reduce budget for general reduction in budgeted costs )
Lease Expense	419,635	( recurring and non-recurring costs, excludes internet access and telephone-local lines)
Professional fees	77,000	( to adjust legal fees to actual projected expenses for 1999-2000, increase of \$70,000. \$7,000 in accounting)
Insurance-general	4,400	(benefits services )
Budget 2001	<u>\$ 6,345,788</u>	
<b>Increase over Prior Year Budget-UTIMCO fees</b>	<b>10.7%</b>	
Direct Expenses of the Fund- 2000 Budget	\$ 14,391,091	
Increases(Decreases) to Budget:		
Management Fees-management changes, fee growth	9,207,697	(\$ 3,663,795 is an overall increase in converting the PUF to a total return fund. \$5,543,902 is 50% of the maximum performance compensation for managers in place at the date of this budget)
Custodian Fees	803,297	(convert the PUF to a total return fund)
Other direct costs	150,600	(Audit of \$85,600 most of which is attributable to WTO Internal Control Review. Increase in annual report of \$37,000. Increase in Frank Russell of \$28,000 due to the conversion of the PUF to a total return fund.)
Budget 2001	<u>\$ 24,552,685</u>	
<b>Increase over Prior Year Budget-Direct</b>	<b>70.6%</b>	
<b>Total Budget for 2001</b>	<u><u>\$ 30,898,473</u></u>	



**UTIMCO**  
**(Preliminary)**  
**2001 Budgetary Issues**

**Projected Expenses**

UTIMCO Services-2001 budget	\$	6,345,788	
Increases(Decreases) to Budget:			
Compensation- Includes all compensation and benefits		(658,513)	reduction of all private investment staff compensation and benefits. Hire investment analyst
Adjusted Budget 2001	\$	5,687,275	
Direct Expenses of the Fund- 2001 Budget	\$	24,552,685	
Increases(Decreases) to Budget:			
Custodian Fees		(784,200)	(unitization of endowment funds)
Other direct costs-???? Private investment consulting costs		-	(unknown)
Adjusted Budget 2001	\$	23,768,485	
<b>Total Adjusted Budget for 2001</b>	<b>\$</b>	<b>29,455,760</b>	