

Confidential

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



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

June 29, 2000

UTIMCO
BOARD OF DIRECTORS MEETING
The Tower Club, Allegheny Room, Thanksgiving Tower - 48th Floor,
1601 Elm Street, Dallas, Texas

June 29, 2000

AGENDA

- 10:00 a.m. - 10:05 a.m. Call to Order/Approval of Minutes of April 27, 2000 Meeting**
- 10:05 a.m. - 10:20 a.m. 3Q Results and Activity**
- Approval of UTIMCO Lease Agreement
- 10:20 a.m. - 10:45 a.m. Report of Strategic Review Committee**
- 10:45 a.m. - 11:30 a.m. U.S. Small Cap Equity Portfolio Presentation: Pilgrim Investment Advisors**
- 11:30 a.m. - 1:30 p.m. Endowment Portfolio Restructuring**
Approval of Portfolio Managers:
11:30 a.m. - 12:30 p.m. Alternative Equities-Liquid: Special Situations
Presentation: Satellite Asset Management, L.P.
- 12:30 p.m. - 12:45 p.m. [Lunch Break]**
- 12:45 p.m. - 1:00 p.m. Approval of Portfolio Managers (cont.):**
Non U.S. Equities: Active EAFE
1:00 p.m. - 1:30 p.m. Non U.S. Equities: Active Emerging Markets
- 1:30 p.m. - 1:45 p.m. Report of Audit & Ethics Committee**
- Approval of Audit & Ethics Committee Charter
- Appointment of Independent Accounting Firm for the Fiscal Year ended August 31, 2001
- Approval of Amendment to Valuation Criteria for Alternative Assets
- Ratification of Fiscal 3rd Quarter Write-Offs
- Approval of UTIMCO Fee Request (9/1/00 – 8/31/01)
- 1:45 p.m. - 2:00 p.m. Report of Compensation Committee (Executive Session)**
- Approval of CEO Compensation
- 2:00 p.m. Adjournment**

Next Scheduled Meeting: Thursday, August 23, 2000

Resolution No. 1

RESOLVED, that the minutes of the Meeting of the Board of Directors held on April 27, 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 27th of April 2000 at the Tower Club, St. Lawrence Room, Thanksgiving Tower - 48th Floor, 1601 Elm Street, 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
Woody L. Hunt
J. Luther King, Jr.
John D. McStay
A. W. "Dub" Riter, Jr.
A. R. (Tony) Sanchez, Jr.

thus, constituting a majority and quorum of the Board of Directors. Directors William H. Cunningham and L. Lowry Mays were absent. Also participating in the meeting were Thomas G. Ricks, President of the Corporation; Cathy Iberg, Secretary of the Corporation; Dave Russ of Corporation's management; and Jerry Turner, Vinson & Elkins, legal counsel for the Corporation.

Mr. Allen called the meeting to order at 10:07 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 was approval of the minutes of the meeting of the Board of Directors held on February 24, 2000. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the minutes of the Meeting of the Board of Directors held on February 24, 2000 be and are hereby approved.

Report of Strategic Review Committee

Mr. Hunt reported on the status of the Strategic Review Committee and stated that the Committee had held two meetings. Mr. Hunt stated that additional information had been requested of the Corporation's staff and that the Committee would continue to meet until it was in a position to make a recommendation to the full Board. Mr. Allen stated that a special meeting of the Board would then be called to review the Committee's recommendation.

Executive Review

The next item to come before the Board was an executive review by Mr. Ricks. Mr. Ricks stated that the total value of the assets under the Corporation's management as of March 31, 2000 was \$15.2 billion. He stated that the performance for the one-year period ended March 31, 2000 was 16.33% for the Permanent University Fund and 23.96% for the Long Term Fund that compared to the Endowment Policy Portfolio return of 17.67%. Mr. Ricks reviewed the endowment funds' asset allocation compared to the Neutral Policy Portfolio by dollar exposure to each asset class as of March 31, 2000. Mr. Ricks reviewed the investment manager structure for the endowment funds' by asset class and noted where new manager mandates were required. Mr. Ricks reported on the status of the transition plan for the endowment funds and answered the Directors' questions.

Portfolio Manager Searches

Mr. Ricks stated that the Corporation was in the process of identifying investment managers for four equity asset classes, Established International, Emerging Markets, Small Cap Value and Alternative Marketable. Mr. Russ reviewed the Corporation's generic process for identifying and hiring Public Market managers. By way of example Mr. Russ presented the selection process for active EAFE managers. Mr. Russ also reviewed with the Directors the termination process concerning Public Market managers. Following the presentation Mr. Russ answered the Directors' questions.

Presentation by Schroders

Mr. Russ and Mr. Ricks introduced Nancy Tooke and Christopher Fasciano from Schroder Investment Management North America ("Schroders"). Schroders manages approximately \$334 million in Small Cap Value for the Permanent University Fund, the Permanent Health Fund and the Long Term Fund. The Schroders' representatives distributed presentation materials to the Directors and presented Schroders' performance compared to Small Cap Market indices for the periods previous to and including March 31, 2000. Following the presentation the presenters answered the Directors' questions and then left the meeting.

The Directors recessed for a ten-minute break and reconvened in open session at approximately 12:55 p.m.

Alternative Investments Program- Nonmarketable

Mr. Ricks reviewed the Alternative Equities Nonmarketable Program as of February 29, 2000 and noted that the value of the program was \$1.4 billion. He stated that the annualized IRR as of February 29, 2000 was 22.61%. Mr. Ricks stated that the program's authorized commitments for the year ending August 31, 2000 is \$296.3 million in which all but \$45 million had been committed. Mr. Ricks presented to the Board for their approval two follow-on investments, Wingate Partners III, L.P. and Carlyle Partners III, L.P. Mr. Ricks reviewed the due diligence and recommendation for Wingate Partners III, L.P., answered the Directors' questions and upon motion duly made and seconded, the following resolution was adopted. While Mr. King had no pecuniary interest in the investment, none the less he was acquainted with Wingate Partners and indicated to the Board that he would abstain from voting.

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.

Mr. Ricks reviewed the due diligence and recommendation for Carlyle Partners III, L.P. and answered the Directors' questions 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 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.

Key Officers

The next item presented to the Board was a list of key officers of the Corporation. As required by the Corporation's Code of Ethics the Board shall designate by position the key employees of the Corporation. Upon motion duly made and seconded, the following resolution was unanimously adopted:

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

Board of Directors Annual Meeting Date

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

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

Unitization of Endowment Funds

Mr. Ricks made a presentation on unitizing the investment assets of the Permanent University Fund, the Permanent Health Fund and the Long Term Fund. Mr. Ricks reviewed the advantages associated with unitization and the required implementation steps that would need to be performed before the endowment funds could be unitized. The Board indicated that the Corporation should proceed with the implementation steps as provided in the materials and report on the unitization plan at the next regular Board meeting.

Office Relocation

Ms. Iberg presented the Corporation's proposed office relocation and cited the reasons for the move. Ms. Iberg also reported the implications of the move on the Corporation's budget and the lack of available space in the downtown Austin area. Following the presentation, Ms. Iberg answered the Directors' questions.

Preliminary FY 2001 Budget

Ms. Iberg reviewed the Corporation's preliminary budget for the fiscal year ending August 31, 2001 and indicated the reasons for the increases or decreases when compared to the August 31, 2000 budget and answered the Directors' questions.

Mr. Ricks updated the Board on Legislative Committee Hearings concerning the investment of assets under the Corporation's management.

There being no further business to come before the Board of Directors, the meeting was adjourned at approximately 2:25 p.m.

Secretary: _____

APPROVED:

Vice Chairman: _____

UTIMCO

Assets Under Management

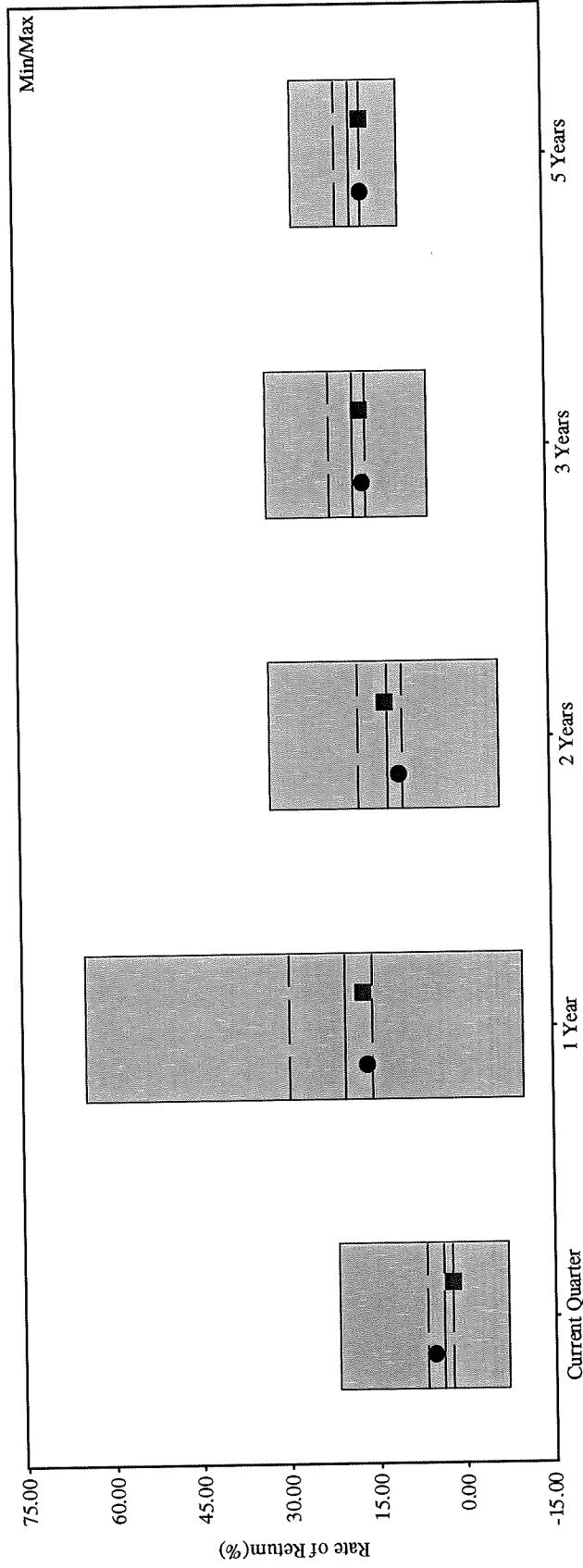
	ENDOWMENT FUNDS			OPERATING FUNDS			TOTAL
	PUF	PHF	LTF	SIFS	STF	SITF	
Time Horizon	Long 5-30 years	Long 5-30 years	Long 5-30 years	Short-Long 0-30 years	Short 0-120 days	Short/Inter 1-5 yrs.	Long 5-30 years
Objectives							
Liquidity	x	x	x	Various	xxx	xx	xx
Income	x	x	x	Various	x	xx	n/a
Safety of Principal	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
Asset Allocation							
Cash equivalents	1%	4%	5%	Various	100%	5%	0%
Fixed Income	17%	18%	18%	Various	0%	95%	38%
Equities	54%	58%	49%	Various	0%	0%	62%
Alternative Equities	20%	12%	20%	Various	0%	0%	0%
Inflation Hedging	8%	8%	8%	Various	0%	0%	0%
Market Value							
May 31, 2000	7,910.9	956.5	2,971.0	152.3	875.5	1,879.1	54.1
February 29, 2000	7,924.8	965.3	2,967.0	196.2	749.2	1,886.6	39.8
November 30, 1999	7,697.9	918.2	2,755.6	157.6	722.0	1,903.3	26.8
August 31, 1999	7,465.6	890.3	2,602.3	165.2	764.5	1,769.4	13.1
August 31, 1998	6,517.1	-	2,147.7	157.4	655.8	1,809.6	-
August 31, 1997	6,368.3	-	2,125.0	146.3	569.3	1,631.4	-
August 31, 1996	5,292.1	-	1,712.1	149.2	561.4	1,332.1	-
UTIMCO formation (3/1/96)	5,280.7	-	1,694.9	170.7	593.5	1,266.8	-
August 31, 1995	4,958.5	-	1,549.7	300.9	526.2	1,123.7	-
August 31, 1994	4,428.0	-	1,214.4	516.5	322.0	945.3	-
August 31, 1993	4,470.9	-	1,119.0	823.0	194.5	696.1	-
August 31, 1992	4,145.4	-	949.3	1,559.5	181.5	-	-
August 31, 1991	3,930.7	-	763.7	1,382.4	243.4	-	-

FUND PERFORMANCE

(net of fees)

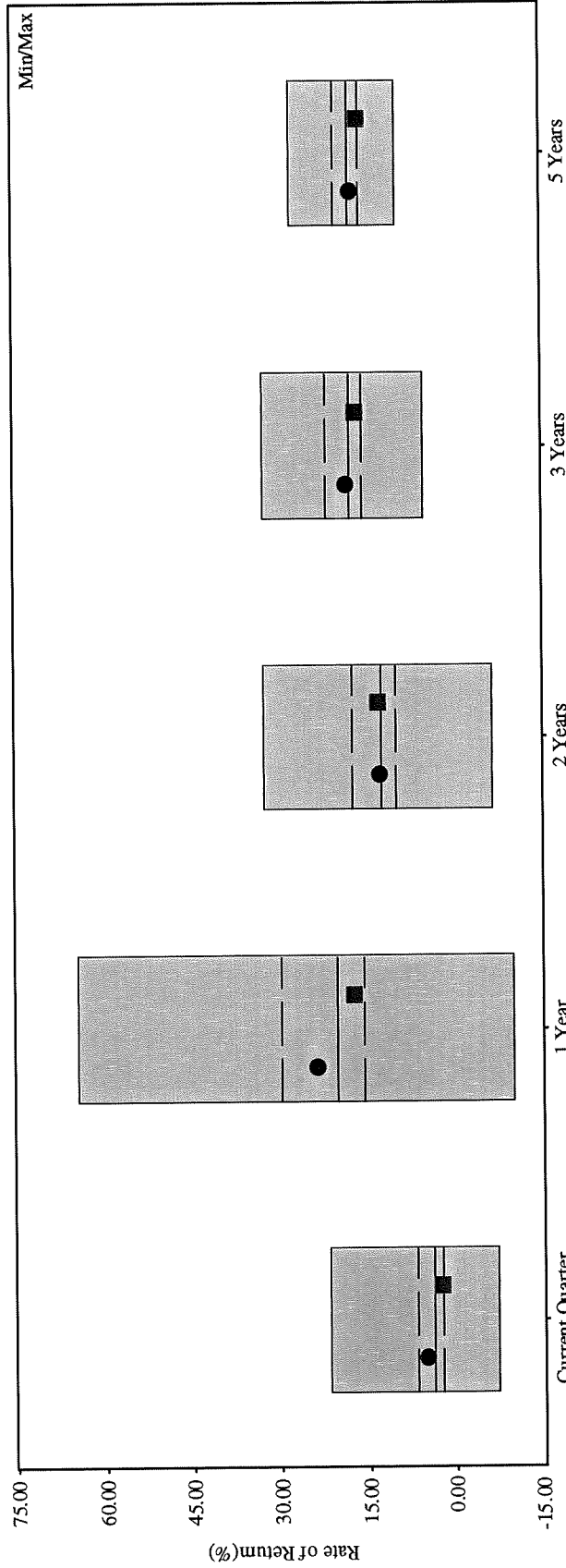
	Net Asset Value (in Millions)	Periods Ended May 31, 2000					Fiscal Year To Date
		One Month	Three Months	One Year	Three Years	Five Years	
ENDOWMENT FUNDS							
Permanent University Fund	\$ 7,910.9	(0.77)	(0.24)	10.46	12.78	14.23	9.34
Permanent Health Fund	956.5	(1.47)	(0.84)	-	-	-	8.73
Long Term Fund	2,971.0	(1.30)	(0.69)	17.05	14.41	15.54	13.27
Endowment Policy Portfolio (Benchmark)	\$ 11,838.4	(0.76)	0.26	11.91	13.64	14.93	9.12
OPERATING FUNDS							
Short Intermediate Term Fund	\$ 1,879.1	0.35	1.55	3.23	5.79	5.93	2.65
Composite Index		0.35	1.26	4.05	5.41	5.62	3.27
Short Term Fund	875.5	0.52	1.53	5.68	5.60	5.59	4.36
90 Day Treasury Bill Rate		0.61	1.61	5.52	5.20	5.34	4.23
	\$ 2,754.6						

Cambridge Quarterly Ending Friday, March 31, 2000 Quartile



	Current Quarter	1 Year	2 Years	3 Years	5 Years
Return	22.00	64.77	32.76	32.71	27.98
(% tile)					
Return	6.57	29.85	17.41	21.95	20.39
(% tile)					
Return	3.70	20.40	12.48	17.80	17.76
(% tile)					
Return	2.26	15.71	9.85	15.53	16.02
(% tile)					
Return	- 6.93	- 9.67	- 6.44	5.50	9.81
(% tile)					
# of Portfolios	115	114	113	109	108
PUF-Net of Fees	5.73	16.78	10.95	16.68	16.31
Policy Portfolio	2.85	17.67	13.47	17.31	16.67
(% tile)	30	66	63	59	70
(% tile)	64	62	43	56	64

Cambridge Quarterly Ending Friday, March 31, 2000 Quartile



	Return	(% tile)	Return	(% tile)	Return	(% tile)	Return	(% tile)	Return	(% tile)
Maximum	22.00		64.77		32.76		32.71		27.98	
25th Percentile	6.57		29.85		17.41		21.95		20.39	
Median	3.70		20.40		12.48		17.80		17.76	
75th Percentile	2.26		15.71		9.85		15.53		16.02	
Minimum	- 6.93		- 9.67		- 6.44		5.50		9.81	
# of Portfolios	115		114		113		109		108	
● LTF-Net of Fees	5.36	35	24.05	36	13.08	48	18.77	45	17.70	53
■ Policy Portfolio	2.85	64	17.67	62	13.47	43	17.31	56	16.67	64

FOR INTERNAL USE ONLY

LTF PERFORMANCE VS. ENDOWMENTS > \$1 BILLION (1)
Periods Ended March 31, 2000

<u>University</u>	<u>% Asset Allocation Venture Capital</u>	<u>Quarter 1/1/00-3/31/00</u>	<u>1 Year 4/1/99-3/31/00</u>	<u>3 Years 4/1/97-3/31/00</u>	<u>5 Years 4/1/95-3/31/00</u>
University of Virginia	20.09	22.00	59.78	26.21	22.11
University of Notre Dame	23.25	19.10	62.17	30.47	26.61
Massachusetts Institute of Technology	13.83	18.88	57.41	32.71	27.98
Williams College	20.20	16.70	54.83	29.80	24.93
University of Chicago	17.53	16.70	45.62	27.17	23.72
Duke University	25.02	16.28	64.77	31.26	27.87
Dartmouth College	13.27	14.55	47.68	27.45	24.51
Princeton	8.64	13.40	53.00	26.15	23.41
Harvard University	10.98	12.98	36.06	23.24	23.55
Wellesley College	8.11	11.97	42.95	24.85	21.40
Northwestern University	7.68	8.40	31.90	20.92	19.18
University of California	2.76	8.23	21.37	22.45	21.78
Columbia University	4.71	7.67	31.28	16.83	18.12
Cornell University	5.78	6.58	28.80	20.92	20.07
Vanderbilt University	21.72	6.41	51.31	26.95	23.24
University of Southern California	6.98	5.90	26.03	20.15	18.39
U.T.	2.87	5.36	24.05	18.77	17.70
Boston College	0.22	5.31	27.75	17.78	17.48
Brown University	3.01	5.01	31.23	19.20	18.25
Stanford University	21.88	4.65	47.29	24.52	23.64
Case Western Reserve University	0.54	4.06	20.75	15.55	16.07
Johns Hopkins University	1.60	3.50	22.06	18.68	17.72
Washington University	0.79	3.27	21.13	19.20	18.43
University of Rochester	3.66	3.25	21.57	17.58	17.32
Rice University	10.66	2.56	--	--	--
New York University	0.00	1.29	10.35	9.84	9.81
University of Pennsylvania	0.82	(0.60)	7.06	10.89	14.66
Emory University	5.31	(6.93)	(0.05)	5.50	14.67
U.T. Rank		17/28	19/27	19/27	21/27

(1) Excludes Yale University.
Source: Cambridge Associates, Inc.

ASSET ALLOCATION ENDOWMENT FUNDS

	Actual as of May 31, 2000 Over (Under)		
	PUF	PHF	LTF
	4.4%	1.5%	-0.7%
Equities: U.S. Large/Med Cap	1.7%	3.3%	1.6%
Equities: U.S. Small Cap	1.5%	3.7%	2.1%
Equities: Non U.S. - EAFE	-1.6%	1.6%	-1.1%
Equities: Non U.S. - Emerging Mkts.	-3.8%	1.5%	-2.5%
Alt. Equities: Marketable	-0.9%	-14.6%	-2.9%
Alt. Equities: Nonmarketable	0.8%	0.8%	0.5%
Inflation Hedging	-0.4%	0.7%	-0.1%
Fixed Income: U.S.	-2.5%	-2.4%	-2.1%
Fixed Income: Non U.S.	0.8%	3.9%	5.2%
Cash & Cash Equivalents	0.0%	0.0%	0.0%
Total	100.0%	100.0%	100.0%

UNITIZATION OF ENDOWMENT FUNDS

RECOMMENDED ACTIONS

Scenario #1:

- Secure passage of desired federal tax legislation for PUF in November 2000, and,
- Confirm that PUF bonds will not exceed 20% of PUF book value over the next 5 years
- *Invest PUF, PHF and LTF assets in the GEF beginning January 1, 2001*
 - Estimated cost savings = \$800,000 per year

Scenario #2:

- Scenario 1 does not happen
- *Invest only PHF and LTF assets in the GEF beginning January 1, 2001*
 - Estimated cost savings = \$375,000 per year
 - No known legal or accounting obstacles
 - Slight increase in LTF payout rate with payout equalization
 - Will eliminate manager restriction on investment in tobacco companies

UNITIZATION OF ENDOWMENT FUNDS (cont.) PUF ISSUES

1956:

- Texas constitution authorized UT and A&M to issue bonds secured by PUF distributions to the Available University Fund in an amount up to 20% of PUF book value
 - UT and A&M projects financed with PUF bonds at low tax exempt rates and repaid from PUF investments earnings higher taxable rates

1969:

- Federal tax legislation passed prohibiting tax exempt entities from issuing bonds generating arbitrage profits derived by acquiring investments that produce a higher yield than that paid on the tax exempt bonds
 - the dollar amount of bonds issued is considered "replacement proceeds" and is subject to the arb regs
 - no arb regs also apply to investment earnings from "interest and sinking funds" set aside to pay debt service

1982:

- IRS adopted a revenue ruling determining that a perpetual endowment created pursuant to a state constitution was subject to the non arb limitations

1983:

- IRS letter ruling allows individual PUF securities to be allocated to each PUF bond issue according to the total amount of debt service to be paid from the AUF
 - i.e., the PUF can select the returns of its lowest returning investments to demonstrate yield restriction, i.e. "cherry pick" its investment returns

1984:

- Federal tax legislation exempted PUF bonds in an amount up to 20% of the PUF book value from no arb regulations.
 - only investment earnings can be used to pay debt service

1985:

- Amendment to Texas constitution authorized the issuance of PUF bonds in an amount up to 30% of PUF book value.
 - PUF bonds issued in excess of 20% became "replacement proceeds" and thus subject to the arbitrage provisions as provided in the 1983 Revenue Ruling

1997:

- IRS regulations interpreted to require use of the return of a commingled fund to determine investment yield ,(for bonds sold or issued after 7/8/97)
 - i.e., if PUF was invested in a commingled fund
 - no look through or cherry picking allowed
 - almost certain generation of an arbitrage spread or profit on PUF bonds exceeding the 20% grandfathered debt limit

1999:

- Amendment of Texas constitution redefined PUF distributions to include investment gains
 - V&E says new federal legislation is needed to conform income based language in the Code with the amended language of the Texas constitution and thereby reinstate the original 20% exemption
- Until this correction, PUF bonds issued subsequent to the 1999 constitutional amendment are subject to no arb regs
 - UT and A&M have issued \$118 in million PUF variable note bonds in 2000 at an average cost of roughly 4.30%.
 - cherry picking allows the PUF to:
 - select any individual investments investment returns below the average PUF financing rate of 4.3% to demonstrate compliance with no arb regs
 - to avoid actively restricting the investment return on \$118 million of PUF investments to 4.30%
 - i.e., assuming an expected return of 9.35% on PUF investments, to continue to earn an unrestricted arbitrage spread of 5.05% on \$118 million of PUF assets or \$5.1 million per year
- Because the unitized GEF would be a commingled fund, the PUF would have to use the total return of the *commingled* GEF as a whole to calculate its earnings yield; not individual investments with lowest returns
 - the PUF would be prevented from capturing any arbitrage benefits from cherry picking
 - the current arbitrage benefit of \$5.1 million per year from cherry picking overwhelms the cost savings benefit of \$425,000 available from commingling PUF assets in the GEF

However,

- PUF bonds equal to 13.3% of PUF book value at 8/31/200

- If federal legislation passes to apply the exemption to bonds issued in 2000 and beyond, the \$118 million of recently issued bonds will fall under the newly available 20% exemption – cherry picking is not needed
- If PUF bonds are projected to remain within the 20% exemption, the projected arbitrage value from cherry picking becomes *zero*
 - any and all arbitrage profits would already be available under the 20% exemption
 - there would be no opportunity cost to the PUF due to investment in the commingled GEF
 - PUF would be able to capture cost savings of \$425,000 per year from investing in the commingled GEF until such time (if ever) that PUF bonds are expected to exceed the 20% exemption
- If PUF bonds are projected to exceed the 20% exemption:
 - Option 1: do not commingle for investment purposes
 - Option 2: “sell” the PUF’s investment in GEF to unwind commingling, reinvest in individual securities to allow for cherry picking and to avoid restrictions on PUF investment returns.

Resolution No. 2

RESOLVED, that the President and CEO of this Corporation is authorized and directed to enter into an office lease agreement, furniture lease agreement and a letter of credit, on behalf of the Corporation, and

FURTHER RESOLVED, that the President hereby is authorized to make such further revisions to the terms and provisions of transactions and agreements approved by the Board on June 29, 2000 as may be necessary or in the best interests of this Corporation 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.

Bank One Tower Material Lease Provisions

Landlord: Crescent Real Estate
221 W. 6th Street, Suite 1010
Austin, Texas 78701

Property Location: Bank One Tower
221 W. 6th Street
17th Floor
Austin, Texas 78701

- **Lease Term:** Five years commencing on December 1, 2000 and ending November 30, 2005
- **Lease Area:** Entire 17th floor, approximately 16,455 sq. ft. (will probably sublease approx. 3,000 sq. ft.)
- **Base Rental Rate:** \$22.00 triple net
- **Estimated Tenant Operating Costs:** Approximately \$10.8 per sq. ft.
- **Extension Options:** One five-year extension option to renew at the prevailing market rent
- **Sublease:** Can sublease part of space (50% of any profit goes to landlord)
- **Tenant Improvements:** Landlord provide \$20.00 per rentable sq. ft. Landlord will amortize up to \$5 per ft. on any tenant improvement cost
- **Contractor:** All work will be competitively bid
- **Parking:** One unreserved space per 560 sq. ft. and one reserved per 2,500 sq. ft. which will total about 30 spaces. \$110 per month for unreserved space and \$150 per month for reserved space. (Would like to negotiate terms for 15 additional parking spaces with U. T. System - cost unknown at this time.)
- **Annual Rental Costs:** \$582,684
(Includes lease, operating and parking) \$477,204 (with sublease of building and parking)

**TO BE DISCUSSED
AT THE MEETING**



THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

210 West Sixth Street, 2nd Floor

Austin, TX 78701

FAX

Date: June 28, 2000

Number of pages including cover sheet: 5

To: Mr. A. R. (Tony) Sanchez, Jr.
Sanchez Oil & Gas

Phone: (956)722-8092

Fax #: (956)722-1017

c: _____

From: Thomas G. Ricks

Phone: (512) 499-4337

Fax #: (512) 499-4365

HARD COPY FOLLOWS: Yes No

Message:

Tony -

I need to talk to you about this since we have not been able to schedule a Compensation Committee meeting prior to the full board meeting.

»»»»»CONFIDENTIALITY NOTICE«««««

This transmission is intended only for the use of the individual or entity to which it is addressed and may contain information that is privileged, confidential, and exempt from disclosure under applicable law. If the reader of this transmission is not the intended recipient you are hereby notified that any dissemination, distribution or copying of this communication is strictly prohibited. If you have received this communication in error, please notify us immediately by telephone and return the original transmission to us by mail at the address shown at the top of this page. Thank you.



June 19, 2000

Via Facsimile

Mr. J. Luther King, Jr.
Luther King Capital Management
301 Commerce Street, Suite 1600
Fort Worth, Texas 76102

Dear Luther:

You may recall that the preliminary UTIMCO Budget for the fiscal year September 1, 2000 through August 31, 2001 was previewed at the Board meeting on April 27, 2000. The preliminary budget contained a proposed net increase in total base salary expense of \$69,480 from \$2,478,340 to \$2,547,820. This increase represented an increase of \$198,410 (or approximately +8%) for continuing UTIMCO employees less \$128,930 for a discontinued position. The 8% increase in base salaries consisted of a 5% COLA plus 3% targeted to a) low to mid-level employees and b) Russ Kampfe to recognize his increased responsibilities and promotion to Director – Fixed Income. No objections to this budget were voiced at the Board meeting.

On May 30, 2000, a revised UTIMCO budget was submitted for approval to the Audit & Ethics Committee. The revised budget included a proposed increase in base salary compensation for continuing employees of \$225,370 or +\$27,000 from the preliminary budget. This increase was directly attributable to a proposed \$27,000 salary increase for Cathy Iberg – Managing Director. It was proposed to recognize the expansion of Cathy's responsibilities to where she now effectively functions as the Corporation's chief financial officer. She has become my "go to" person on a wide variety of issues beyond her main accounting, operations and IT responsibilities, including stepping up to assist me in the management of the private equity portfolio. It also serves to recognize the fact that the skills and knowledge to manage UTIMCO's accounting, operations and IT functions are unique and are not readily replaced by personnel from other investment organizations. In particular, she has strong relationships with the U. T. System business and development staff which are crucial to operational efficiency. She represents a core competency within the organization that should be protected. The overall revised budget was approved by the Audit & Ethics Committee for recommendation to the full Board at the June 29, 2000 meeting.

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Mr. J. Luther King, Jr.
 June 19, 2000
 Page 2

In the meantime, on June 14th, UTIMCO's Director of Information Technology Services, Lea Carino, resigned to take a position with Intel in Portland, Oregon. Her resignation has resulted in a restructuring of the back office. Specifically, Bill Edwards, Manager of Security Operations, will head up ITS while his operating responsibilities will be merged with Investment Accounting under Joan Moeller. The net salary adjustments to recognize this restructuring will result in a further \$2,879 increase in the base salary budget. As a result, the final salary budget to be submitted to the Board on June 29, 2000 will request approval for a 9.88% or \$228,249 increase in salary expense from \$2,478,340 to \$2,706,588.

The duties of the Compensation Committee are to:

1. Approve the compensation of all officers (except the President) of the Corporation

Name	Title	FY	Proposed	Increase
		1999-2000	FY 2000-2001	
		Salary	Salary	
David Russ	Managing Director - Public Markets	\$ 180,250	\$ 189,263	5.0%
Cathy Iberg	Managing Director - Investment Operations, Secretary and Treasurer	\$ 164,800	\$ 200,000	21.4%

2. Recommend to the Board the compensation of the President of the Corporation

Name	Title	FY	Proposed	Increase
		1999-2000	FY 2000-2001	
		Salary	Salary	
Thomas Ricks	President and CEO	\$ 330,000	\$ 346,500	5.0%

Technically, this requires a short meeting (no more than 15 minutes?) of the Compensation Committee (King, Sanchez, Mays) prior to the Board meeting on

Mr. J. Luther King, Jr.
June 19, 2000
Page 3

June 29th. I was wondering if you could check your schedule and offer some times when we could meet over the phone. Thanks.

Based on Jerry Turner's review of the fact set regarding TT International, I have decided to exclude TT International from further consideration as a UTIMCO non-U.S. equity manager. Jerry's verbal opinion is that he could probably conclude that you did not indirectly have any sort of pecuniary interest in TT's account with UTIMCO. However, the personal, professional and financial relationship between you and TT International present troublesome appearance issues that are susceptible to being misconstrued with respect to self-dealing. My assumption is that you would prefer to avoid that possibility.

We expect to bring Capital Guardian forward to manage the non-U.S. equity portfolio. I don't know if you would prefer to "appeal" or bring this matter before the Board. You may wish to discuss the matter further with Bob Allen and Jerry Turner.

Sincerely yours,



Thomas G. Ricks
President and Chief Executive Officer

TGR/cw

Attachment

0.05

Name	Base Salary 8/31/2000	Inflationary Inc(April to March	Discretionary Increase	Adjusted Base 8/31/2001	% increase	Department
Ricks, Thomas	\$330,000	\$16,500		\$346,500	5.00%	ceo
Cox, Greg	\$136,990	\$6,850		\$143,840	5.00%	eq
Dave Russ	\$180,250	\$9,013		\$189,263	5.00%	eq1
Kampfe, James R.	\$92,700	\$4,635	\$27,665	\$125,000	34.84%	fi
New Fixed Income Manager	\$100,000			\$100,000	0.00%	fi
Childers, Debbie	\$59,500	\$2,975	\$3,000	\$65,475	10.04%	ac
Hill, Gary	\$55,500	\$2,775	\$2,970	\$61,245	10.35%	ac
McManamy, Rebecca	\$51,000	\$2,550	\$2,590	\$56,140	10.08%	ac
Moeller, Joan	\$68,500	\$3,425	\$12,075	\$84,000	22.63%	ac
Stakom, Colleen	\$38,500	\$1,925	\$2,250	\$42,675	10.84%	ac
Wheless, Judy	\$41,500	\$2,075	\$2,000	\$45,575	9.82%	ac
Iberg, Cathy	\$164,800	\$8,240	\$26,960	\$200,000	21.36%	head
New IT position	\$68,000			\$68,000	0.00%	IT
Dixon, Brent	\$50,000	\$2,500	\$2,500	\$55,000	10.00%	it
Gahagan, C. David	\$60,000	\$3,000	\$4,000	\$66,999	11.67%	it
Montgomery, Steve	\$45,000	\$2,250	\$2,300	\$49,550	10.11%	it
Chandler, Amy	\$43,500	\$2,175	\$2,200	\$47,875	10.06%	it
Coffin, Virginia	\$28,460	\$1,423	\$1,426	\$31,309	10.01%	op
Edwards, Bill	\$76,100	\$3,805	\$7,095	\$87,000	14.32%	op
Holland, Janet	\$47,040	\$2,352	\$3,608	\$53,000	12.67%	op
Rebold, Karen	\$33,500	\$1,675	\$1,467	\$36,642	9.38%	op
Open (Austin Long)	\$206,000	\$10,300		\$216,300	5.00%	pe
Open (craig)	\$154,500	\$7,725		\$162,225	5.00%	pe
Open (charles)	\$154,500	\$7,725		\$162,225	5.00%	pe
	\$2,285,840	\$105,892	\$104,106	\$2,495,837	9.19%	
Burden Rate						
% raise on no add payroll			9.92%			
Kendra Idol	\$27,000	\$1,350	\$2,500	\$30,850	14.26%	oa
Maria Cassens	\$33,000	\$1,650	\$2,000	\$36,650	11.06%	oa
Wallace, Christy	\$59,000	\$2,950	\$2,500	\$64,450	9.24%	oa
Watson, M. Dianne	\$38,500	\$1,925	\$1,500	\$41,925	8.90%	oa
Replacement	\$35,000	\$1,750	\$126	\$36,876	5.36%	oa
	\$192,500	\$9,625	\$8,626	\$210,751	9.48%	
Total-current staff levels with FI addition	\$2,478,340	\$115,517	2 \$112,732	\$2,706,588	9.21%	
% raise on no add payroll			9.88%			



June 12, 2000

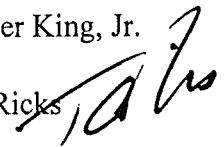
Via Facsimile

MEMORANDUM

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

Robert H. Allen
R. D. (Dan) Burck
Susan M. Byrne
Woody L. Hunt
J. Luther King, Jr.

L. Lowry Mays
John D. McStay
A. W. "Dub" Riter, Jr.
A. R. (Tony) Sanchez, Jr.

FROM: Thomas G. Ricks 

SUBJECT: Board of Directors Meeting – June 29, 2000

This letter is to confirm that the next meeting of the UTIMCO Board of Directors will be held on June 29, 2000. The Open Meeting of the Board is scheduled to begin at 10:00 a.m. and to adjourn at approximately 2:00 p.m. Lunch will be served. The meeting will be held in the **Allegheny Room of The Tower Club, located on the 48th Floor of Thanksgiving Tower, 1601 Elm Street, Dallas, Texas.** Parking is available in the basement of the building and tickets will be validated at The Tower Club. The phone number is (214) 220-0403 and the fax number is (214) 965-9723. Please let Christy Wallace at 512/499-4337 know of any special travel plans or other needs during the day.

An agenda and presentation material will be sent out in advance of the meeting.

Cc: Jerry Turner
Cathy Iberg
David Russ

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June 27, 2000

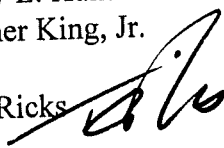
Via Courier

MEMORANDUM

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

Robert H. Allen
 R. D. (Dan) Burck
 Susan M. Byrne
 Woody L. Hunt
 J. Luther King, Jr.

L. Lowry Mays
 John D. McStay
 A. W. "Dub" Riter, Jr.
 A. R. (Tony) Sanchez, Jr.

FROM: Thomas G. Ricks 

SUBJECT: Board of Directors Meeting – June 29, 2000

Enclosed please find the agenda and presentation materials for the upcoming board meeting.

The major approval items relating to investments are the award of four portfolio manager mandates:

Asset Class	Style	Manager	Amount (\$MM)
Non U.S. Equities: Established Mkts.	Active	Capital Guardian Trust Company	\$160.0
Non U.S. Equities: Established Mkts.	Active - Concentrated	Oeschle International Advisors, LLC	\$160.0
Non U.S. Equities: Emerging Mkts.	Active	Capital International, Inc.	\$340.0
Alt. Equities-Liquid	Risk Arb/Distressed	Satellite Asset Management	\$150.0 (1)

(1) + \$50 MM reserve for special situations

There will also be two presentations by portfolio managers:

- Pilgrim Investment Advisors, Mary Lisanti
- Satellite Asset Management, Brian S. Kriftcher

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UTIMCO - Board of Directors

June 27, 2000

Page 2

Please execute the attached Certificate of Compliance and a) if you have disclosed an interest, fax the Certificate to Jerry Turner at Vinson & Elkins prior to the meeting at (512) 236-3244, otherwise b) fax the Certificate to Christy Wallace at (512) 499-4365.

Also enclosed are a) changes made to manager accounts during the current fiscal year, b) the performance of terminated managers; and c) distributed stocks from the private equity portfolio.

The open meeting is scheduled to begin at 10:00 a.m. and to adjourn at approximately 2:00 p.m. Lunch will be served. The meeting will be held in the **Allegheny Room of The Tower Club, located on the 48th Floor of Thanksgiving Tower, 1601 Elm Street, Dallas, Texas.** Parking is available in the basement of the building and tickets will be validated at The Tower Club. The phone number is (214) 220-0403 and the fax number is (214) 965-9723.

cc: Jerry Turner, Vinson & Elkins
Cathy Iberg
David Russ

The University of Texas Investment Management Company

Certificate of Compliance

I have been notified that The University of Texas Investment Management Company ("UTIMCO") is considering entering into the agreement or transaction described below (the "Transaction") with the business entity listed below (the "Business Entity") concerning the investment of assets managed by UTIMCO on behalf of The Board of Regents of The University of Texas System.

- Business Entity 1:** **Capital Guardian Trust Company**
Engagement as a manager for approximately \$160 million Non U.S. Equities – Active EAFE Portfolio
- Business Entity 2:** **Oeschle International Advisors, LLC**
Engagement as a manager for approximately \$160 million Non U.S. Equities – Active EAFE Portfolio
- Business Entity 3:** **Capital International, Inc.**
Engagement as a manager for approximately \$340 million Non U.S. Equities – Active Emerging Markets Portfolio
- Business Entity 4:** **Satellite Advisors, L.L.C.**
Purchase of up to \$200 million Class C limited partnership interests in Satellite Fund V, L.P.
- Business Entity 5:** **Deloitte & Touche, LLP**
Engagement as independent auditor of the financial statements for the year ended August 31, 2000 of the Corporation and the investment funds managed by the Corporation on behalf of the U. T. System Board of Regents.

I hereby certify that I do not have a pecuniary interest in the Transaction or the Business Entity.

I hereby certify that: (check the appropriate box)

- I do not have a personal or private interest in the Transaction or the Business Entity; or
- I have the following personal or private interest in the Transaction or the Business Entity:

Signed this _____ day of _____, 2000.

By: _____

**ENDOWMENT FUNDS COMBINED
(PUF, PHF AND LTF)
(\$ millions)**

Account Name	Total Value	(Withdrawals)	Net Investment	Total Value	Comments
	09/01/99	Contributions	Gain (Loss)	05/31/00	
Equities:					
U.S. Common Stocks:					
Med/Large Capitalization:					
Equity Income-Internal-Cox(terminated 12/99)	644.4	(627.8)	(16.6)		(Under performance)
Internal-Timmins (terminated 2/2000)	489.5	(460.6)	(28.9)		(Under performance)
Fayez (terminated 2/2000)	232.3	(229.4)	(2.9)		(Under performance)
REITS-Internal-Cox (moved to inflation hedging)	226.5	(209.4)	(17.1)		
BGI S&P 500	1,535.0	(252.0)	137.2	1,420.2	
Cash Equitization	178.0	(183.3)	5.3		
Davis Hamilton Jackson	80.9	(0.1)	15.0	95.8	
MBA Investments	0.9	-	0.1	1.0	
BGI S&P Mid Cap	718.2	41.5	163.7	923.4	
GSAM	224.9	56.2	18.9	300.0	
JP Morgan SSS	-	176.5	10.3	186.8	
JP Morgan REI	-	356.5	18.0	374.5	(reduce Large cap exposure)
Total Med/Large Capitalization	4,330.6	(1,331.9)	303.0	3,301.7	
Small Capitalization:					
Rosenberg Institutional (terminated 12/99)	48.7	(54.7)	6.0		(Under performance) (Operational/ back office problems)
Paradigm (terminated 12/99)	26.8	(37.2)	10.4		
GSAM	77.1	(2.3)	6.7	81.5	
Liquidating Account	0.4	-	(0.1)	0.3	
Fortaleza	33.4	0.1	21.5	55.0	
Schroder	281.0	10.8	41.4	333.2	
Pilgrim Investment	105.3	24.4	77.5	207.2	
Corcillera	35.9	35.1	8.2	79.2	
BGI Russell 2000	-	389.8	(46.7)	343.1	
Total Small Capitalization	608.6	366.0	124.9	1,099.5	(increase small cap exposure)
Total U.S. Common Stocks	4,939.2	(965.9)	427.9	4,401.2	

ENDOWMENT FUNDS COMBINED
(PUF, PHF AND LTF)
(\$ millions)

Account Name	Total Value	(Withdrawals)	Net Investment	Total Value	Comments
	09/01/99	Contributions	Gain (Loss)	05/31/00	
International Common Stocks:					
Established Markets:					
BGI Money Market (transferred to BGI Int'l)	16.5	(16.5)	-	-	
GSAM	82.7	54.3	8.0	145.0	
BGI International Funds	686.0	299.9	63.9	1,049.8	
Capital Guardian	47.5	393.1	(22.1)	418.5	(increase international exposure)
Total Established Markets	832.7	730.8	49.8	1,613.3	
Emerging Markets:					
GSAM	23.5	7.3	2.4	33.2	
Franklin Templeton	50.9	43.4	(4.8)	89.5	
BGI Emerging Market Fund	-	100.0	(13.4)	86.6	(increase emerging market exposure)
Total Emerging Markets	74.4	150.7	(15.8)	209.3	
Total International Common Stocks	907.1	881.5	34.0	1,822.6	

ENDOWMENT FUNDS COMBINED
(PUF, PHF AND LTF)
(\$ millions)

Account Name	Total Value 09/01/99	(Withdrawals) Contributions	Net Investment Gain (Loss)	Total Value 05/31/00	Comments
Alternative Equities:					
Marketable					
RIEM (terminated 12/99)	69.3	(67.7)	(1.6)	-	(Under performance)
OCM Opportunities Fund III, L. P.	-	17.4	(0.1)	17.3	
Farallon Capital Offshore Investors	40.0	169.8	11.7	221.5	
Perry Partners International	48.4	171.0	16.7	236.1	
Maverick Fund	103.4	198.4	45.2	347.0	(Increase alternative marketable exposure)
Total Marketable	261.1	488.9	71.9	821.9	
Nonmarketable	1,038.6	53.6	383.2	1,475.4	
Total Alternative Equities	1,299.7	542.5	455.1	2,297.3	
Inflation Hedging:					
Oil and Gas	-	35.2	-	35.2	
REITS - Greg Cox	-	349.4	49.5	398.9	
Goldman Sachs Commodities Index	-	429.1	109.9	539.0	(new asset class)
Total Inflation Hedging	-	813.7	159.4	973.1	
Total Equities	7,146.0	1,271.8	1,076.4	9,494.2	

ENDOWMENT FUNDS COMBINED
(PUF, PHF AND LTF)
(\$ millions)

Account Name	Total Value 09/01/99	(Withdrawals) Contributions	Net Investment Gain (Loss)	Total Value 05/31/00	Comments
Fixed Income:					
U.S. (Domestic):					
Internal (terminated 2/2000)	2,286.3	(2,269.2)	(17.1)		(conversion of Puf to total return)
BGI US Debt Index	-	0.4	(0.4)		
GSAM	95.0	91.5	3.6	190.1	
PIMCO	282.6	391.8	20.4	694.8	
Internal - Russ Kampfe	-	852.9	22.4	875.3	(reduce fixed income exposure)
Total U.S. (Domestic)	2,663.9	(932.6)	28.9	1,760.2	
International:					
PIMCO	91.6	171.0	(7.8)	254.8	
Total International	91.6	171.0	(7.8)	254.8	
Total Fixed Income	2,755.5	(761.6)	21.1	2,015.0	
GSAM Global Asset Allocation	39.0	33.9	6.7	79.6	
Cash and Cash Equivalents: Liquidity Reserve	1,017.6	(763.6)	(4.5)	249.5	
Total Assets	10,958.1	(219.5)	1,099.7	11,838.3	

**LONG TERM FUND
(Gross of Fees)
TERMINATED INVESTMENT MANAGERS**

Manager	Assets Under Management When Terminated	Termination Date	Last Full Performance Period	One Year	Two Years	Three Years	Five Years	Seven Years	Comments
Large/Mid Cap:									
Fayez Sarofim & Co. S & P 500 Index	\$ 41,390,167	February 2000	January 2000	5.63 10.35	16.54 20.91	18.97 22.88	26.16 26.58	19.64 20.48	Under performance
Greg Cox Internal Equity Income S & P 500 Barra Value	145,966,927	December 1999	November 1999	(1.52) 12.46	3.94 12.85	12.33 16.79	18.99 22.33	N/A	Under performance
Holland Timmins Internal Large Cap S & P 500 Index	163,823,918	February 1998	January 1998	29.87 26.91	27.26 26.62	25.98 30.50	N/A	N/A	Reduce internal manager exposure
Austin, Calvert & Flavin, Inc. S & P 500 Index	40,584,363	September 1997	August 1997	31.91 40.63	22.35 29.21	20.79 26.56	N/A	N/A	Under performance
Kempner Capital Management, Inc. S & P 500 Index	36,787,246	September 1997	August 1997	23.41 40.63	19.13 29.21	17.73 26.56	N/A	N/A	Under performance
Small Cap:									
Rosenberg Equity Russell 2000	50,568,432	December 1999	November 1999	7.86 15.67	0.73 3.92	N/A	N/A	N/A	Under performance
Artisan Partners Russell 2000 Value	38,040,996	April 1999	March 1999	(28.10) (22.03)	0.27 5.65	1.16 8.98	N/A	N/A	Under performance
Strong Capital Management Russell 2000 Growth	72,467,171	June 1998	May 1998	16.94 15.85	N/A	N/A	N/A	N/A	Investment manager moved to Northstar Management Company.
Apodaca-Johnston Capital Management Russell 2000 Growth	8,489,529	September 1997	August 1997	15.39 20.12	10.21 14.58	25.19 18.31	N/A	N/A	Excessive risk
Bankers Trust Company Russell 2000 Growth	45,478,192	April 1997	April 1997	(25.41) (13.54)	N/A	N/A	N/A	N/A	Investment manager moved to Strong Capital Management
Alternative Marketable:									
REIM 90 Day T Bill + 7%	68,409,875	December 1999	November 1999	(14.85) 12.32	N/A	N/A	N/A	N/A	Under performance
Fixed Income:									
Internal Fixed Income Lehman Brothers Aggregate	530,008,680	March 1998	February 1998	13.06 10.37	9.23 7.83	10.91 9.28	8.19 6.96	9.94 8.51	Investment manager retired.

**PERMANENT UNIVERSITY FUND
(Gross of Fees)
TERMINATED INVESTMENT MANAGERS**

Manager	Assets Under Management When Terminated	Termination Date	Last Full Performance Period	One Year	Two Years	Three Years	Five Years	Seven Years	Comments
Large/Mid Cap:	Fayez Sarofim & Co. S & P 500 Index	February 2000	January 2000	5.75 10.35	15.72 20.91	18.26 22.88	25.83 26.58	19.47 20.48	Under performance
	Holland Timmins Internal Large Cap S & P 500 Index	February 2000	January 2000	5.42 10.35	16.15 20.91	20.68 22.88	22.28 26.58	N/A	Under performance
	Greg Cox Internal Equity Income S & P 500 Barra Value	December 1999	November 1999	1.51 12.46	8.09 12.85	14.25 16.79	20.01 22.33	N/A	Under performance
	Austin, Calvert & Flavin, Inc. S & P 500 Index	September 1997	August 1997	32.26 40.63	22.48 29.21	20.91 26.56	N/A	N/A	Under performance
	Kempner Capital Management, Inc. S & P 500 Index	September 1997	August 1997	24.70 40.63	19.81 29.21	18.24 26.56	N/A	N/A	Under performance
	Paradigm Asset Management Russell 2000 Growth	December 1999	November 1999	36.74 32.65	11.69 11.00	12.79 12.35	16.42 15.73	N/A	Operational/back office problems
	Apodaca-Johnston Capital Management Russell 2000 Growth	September 1997	August 1997	14.38 -20.12	9.61 14.58	24.27 18.31	N/A	N/A	Excessive risk

Portfolio Holdings

PUF Private Equities stock

Portfolio Manager: Greg Cox

Custodian: Mellon Trust

Portfolio Number: 7

Custodian Account Number: UPPF22150002

Symbol	Security Name	Cusip	Market Price	Shares	Book Value	Market Value
CKFR	CHECKFREE HOLDINGS CORP	162816102	48.4375	41,763.0000	2,171,153.98	2,022,895.31
CRDS	CROSSROADS SYSTEMS INC	22765D100	38.75	18,203.0000	1,830,834.71	705,366.25
CSCO	CISCO SYSTEMS INC - R	17275R102	67.8125	78,716.0000	5,149,600.72	5,337,928.75
EPNY	E.PIPHANY INC	26881V100	94.625	24,808.0000	2,231,794.38	2,347,457.00
ISLD	DIGITAL ISLAND INC	25385N101	32.5625	92,108.0000	7,000,208.00	2,999,266.75
LU	LUCENT TECHNOLOGIES - R	549463107	59.875	22,021.0000	1,344,519.50	1,318,507.38
MSLV	METASOLV SOFTWARE INC	591393103	53.9375	18,635.0000	1,986,840.40	1,005,125.31
NTIQ	NETIQ CORP	64115P102	46.6875	25,010.0000	1,692,651.80	1,167,654.38
TRSI	T/R SYSTEMS INC - R	87263U102	10.125	45,441.0000	332,628.12	460,090.13
USTR	UNITED STATIONERS INC	913004107	30.8125	11,298.0000	300,103.13	348,119.63
WCOM	WORLDCOM INC - R	98157D106	41	76,252.0000	4,232,895.00	3,126,332.00
Total Equities:				454,255.0000	28,273,229.74	20,838,742.89
Cash:						0.00
Total Portfolio:						20,838,742.89

R = restricted

Portfolio Holdings

LTF Private Equities stock

Portfolio Manager: Greg Cox

Custodian: Mellon Trust

Portfolio Number: 8

Custodian Account Number: ULTF21560002

Symbol	Security Name	Cusip	Market Price	Shares	Book Value	Market Value
CKFR	CHECKFREE HOLDINGS CORP	162816102	48.4375	11,142.0000	579,244.86	539,690.63
CRDS	CROSSROADS SYSTEMS INC	22765D100	38.75	4,551.0000	457,746.83	176,351.25
CSCO	CISCO SYSTEMS INC <i>R</i>	17275R102	67.8125	19,678.0000	1,287,334.76	1,334,414.38
EPNY	E.PIPHANY INC	26881V100	94.625	6,202.0000	557,937.35	586,864.25
ISLD	DIGITAL ISLAND INC	25385N101	32.5625	23,027.0000	1,750,052.00	749,816.69
LU	LUCENT TECHNOLOGIES <i>R</i>	549463107	59.875	11,857.0000	723,943.97	709,937.88
MSLV	METASOLV SOFTWARE INC	591393103	53.9375	4,659.0000	496,736.76	251,294.81
NTIQ	NETIQ CORP	64115P102	46.6875	6,003.0000	406,276.88	280,265.06
TRSI	T/R SYSTEMS INC <i>R</i>	87263U102	10.125	5,048.0000	36,951.36	51,111.00
USTR	UNITED STATIONERS INC	913004107	30.8125	55,065.0000	1,537,991.12	1,696,690.31
WCOM	WORLDCOM INC <i>R</i>	98157D106	41	19,061.0000	1,058,116.00	781,501.00
Total Equities:				166,293.0000	8,892,331.89	7,157,937.26
Cash:						0.00
Total Portfolio:						7,157,937.26

R = restricted

gled fund managed for tax-exempt institutional clients to new Dow Jones-based style indexes.

6 New Orleans navigates rough international waters

New Orleans Employees' Retirement System discovered the hard way that international investing can be tricky.

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Multinational companies are looking to Luxembourg to help solve the headache of providing funded pension plans for their expatriate employees.

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The nation's first cash balance plan is being scuttled in favor of a more innovative one.

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In August, the Western Farm District's DB and DC plans will be turned over to New York Life Benefit Services.

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With acquisitions of \$1 billion so far this year and several new clients, it's been a good year indeed for real estate advisory firm CB Richard Ellis.

sors to conduct searches online and will provide information about suppliers, will pay its way through advertising and fees.

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Unions this year are switching to member-directed money purchase plans and adding 401(k) plans.

41 International mutual fund inflows up 500% for year

Although performance of international and global mutual funds has been lacking, inflows have been up more than 500% this year, thanks in large part to Janus and American Funds, which have captured more than 50% of new international and global assets.

45 Quarterly VAR measures let sponsors make comparisons

Measurisk.com and Russell/Mellon Analytical Services are collaborating on publishing quarterly value-at-risk measures on a wide variety of active manager style peer groups and indexes.

51 Consultant shortage calls for tough measures

A shortage of consultants is prompting officials at William M. Mercer Inc.'s investment consulting unit to consider dropping some clients and raising some fees.

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sis, said Mr. Ibbotson.

Modern researchers of pre-1926 stock returns have had available only the data of various stock indexes, such as the Cowles index covering 1871 to 1940, Mr. Ibbotson said. But the prices of individual stocks in those indexes have been lost and the indexes spanned only fragments of the 19th and early 20th centuries.

"The problem is prior to 1926, there has not been individual stock



Roger Ibbotson is among the researchers studying stock returns from 1815 through 1925.

POLICY DECISION

Big caps are '100 efficient'

Illinois SURS drops active investment of \$595 million

By Barry B. Burr

CHAMPAIGN, Ill. — Trustees of the \$12.3 billion State Universities Retirement System of Illinois will discontinue investing in active domestic large-cap equities.

"If you can't win, why play the game?" John R. Kimmel, chief investment officer, asked rhetorically.

Trustees believe the large-cap segment of the market is too efficient to outperform, based on the system's experience and many academic studies, he said.

"At least for now, until we see evidence," he said, "we're going to sit on the sidelines and take a benchmark return."

Trustees dropped Fayer Sarofim & Co., Houston, which managed \$320 million in domestic large-cap growth equities, and SSCit Asset Management Group, New York, which managed \$275 million in domestic large-cap value equities.

"They are good managers," Mr. Kimmel noted. He said Sarofim, since inception as a SURS manager, ranked in the top quartile with its peers. SSCit ranked in the top half since inception as a manager for the system.

But they could not outperform their benchmarks, net of fees, he added.

Trustees reassigned the \$595 million to

New York Shipping and Commercial started reporting NYSE stock prices, which it reported through 1852. For the subsequent years, the researchers called prices from other New York newspapers in the library, Mr. Ibbotson said.

The authors plan to make the database available to researchers.

"We might make it available free to some researchers, or sell it in See Ibbotson on page 49

an existing Wilshire 5000 index fund, managed by Northern Trust Quantitative Advisors, Chicago.

In a related move, trustees scaled back by \$500 million a Wilshire 4500 index fund, managed by Barclays Global Investors, San Francisco, leaving it with \$250 million. Mr. Kimmel described the portfolio as a "compensating" fund to cover the area of the market generally not part of the two active large-cap portfolios. The Wilshire 4500 excludes the Standard & Poor's 500 index stocks.

Proceeds from the Barclays portfolio went to NTOA's Wilshire 5000 fund as well, bringing its assignment up to \$3.3 billion, including the money from the two active managers. Where possible the proceeds will be transferred in-kind to avoid trading cost, Mr. Kimmel said. "We try to invest in the most cost-effective way," he added.

Sarofim underperformed its benchmark, the S&P 500, by 11.8 percentage points for the year ended March 31, according to the pension fund. For the five years ended March 31, it underperformed by 10 basis points annually. From its inception as a manager for the system — Sept. 30, 1981 — through March 31, it underperformed by 50 basis points annually.

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HEAD

Illinois

Continued from page 2

\$100 billion in assets, is, said Jane Levine, deputy e due by July 31. The cond State Street Global Advion for the systems, expire l to rebid. Candidates must assets under management.

ent System, issued an RFP assive fixed-income portfo- gregate Bond index for the rs should have under man- e Lehman Aggregate bond t passive domestic fixed in- als can be posted on LAC-

sued RFPs for two managers c core and core-plus fixed in- als are due by June 30, said tant Wellesley Group. Fund- ced portfolios, totaling \$155 l, MassMutual and Welling- assive and active managers.

Retirement System is con- illion in international devel- tal Guardian Trust manages e runs \$650 million. Carl equities, said the \$12 billion r of strategies and managers. ith top-down, bottom-up, r concentrated strategies. s to post their data on con- database by June 30. The 25 meeting for determining a formal RFP.

ed RFPs for one core and one manager to run \$5 million 29. The \$40 million system has with an unidentified mu- nutual funds, said Bill Mona- ellesley Group.

ent System is searching for its equities managers, which will n, respectively, said Margaret ne for proposals is July 3. The diversify its investments, she of its assets in domestic fixed % of its domestic large-cap equi- unding for the new managers 'ent managers' portfolios, Ms. ent Counsel is assisting.

Fund plans to search for an ac- ty manager to run \$50 million target for the style. The \$850 RFP in early July, said Eugene r. The RFP will be available

SSBCiti underperformed its benchmark, the S&P/Barra large value index, by 10.5 percentage points for the one-year period, March 31. For the five-year period, it underperformed by 170 basis points annually. From its incep- tion as a manager for SURS — June 30, 1991 — through March 31, it underperformed by 110 basis points annually. SSBCiti includes the numbers of its predecessor, Smith Barney Capital Manage- ment.

Charles E. Sheedy, senior vice president at Fayeze Sarofim, de- clined to comment about SURS. But in general on the large-cap market, he said, "We wouldn't be in business if we didn't think we could add value."

SSBCiti officials declined to comment about SURS or generally on the issue of market efficiency.

Said Krimmel: "It's a tough area in which to operate. Academic research bears that out. Our experience shows that as well. Over the long haul we've just about broken even (that is, equaled the index return), but with slightly higher volatility.

"So we decided to chuck it and go with indexing."

"It's tough to add value," Mr. Krimmel said. "After 18 years, net of fees, we've done just about the index."

Foreign

Continued from page 6

Morgan Stanley Capital Interna- tional Europe Australasia Far East index as its benchmark, it had to invest in certain countries. It was overweighted in Japan in 1997 and 1998, which hurt its performance.

"The top-down strategy as fol- lowed by State Street did not give us the returns (we expected)," said Mr. Davis.

The \$10 million investment shrank to \$9.1 million by the time the fund decided to terminate SSgA in early 1999, although since 1999 was a good year for international investing and the EAFE index, the investment actually was up to \$15 million when the fund cashed it out, according to Mr. Davis.

By the time the fund hired the new managers, the pension plan had grown significantly — from \$280 million to its current \$380 million, he said. As a result, it in- ternational equity al-

If you can't win, why play?

Returns* of Illinois SURS' large-cap managers

	Fayeze Sarofim & Co.	S&P 500 benchmark
One year:	6.1%	17.9%
Five years:	24.6	26.7
Since inception (Sept. 30, 1981):	18.0	18.5

	SSBCiti Asset Management Group	S&P/BARRA large-cap value benchmark
One year:	-0.6%	9.9%
Five years:	19.0	20.7
Since inception (June 30, 1991):	15.8	16.9

* Through March 31

SOURCE: STATE UNIVERSITIES RETIREMENT SYSTEM OF ILLINOIS, CHAMPAIGN

Roger G. Ibbotson, professor of finance at Yale University's School of Management, New Haven, Conn., who is also chairman of Ibbotson Associates Inc., a Chicago-based investment consulting firm, said, "It's a reasonable response for an entity like SURS, which doesn't have any compelling advantage" in the large-cap segment of the market.

"It is a relative zero-sum game against the indexes," he added.

"A lot of investors should ask" whether they outperform the index, Mr. Ibbotson said. "Can I hire a money manager that can be expected to beat the market? Am I better than those investors I'm competing with?"

Mr. Ibbotson wouldn't say the large-cap segment is efficient. But he added, "It's reasonable to act as

if it is efficient."

In their research paper, titled "U.S. Equity Strategy," Richard M. Ennis, director-investment policy research, and Michael D. Sebastian, director-analytical develop- ment, at Ennis Knupp + Associates Inc., Chicago, write with boldface emphasis, "The body of credible, impartial evidence indicates that active stock portfolio managers do not add value."

Large-cap equities represented about 65% of the system's total active domestic equity portfolio. After the changes, the system is left with about \$320 million in active U.S. equities, all in non-large-cap segments with five management firms. It also has some \$830 mil- lion in enhanced U.S. equities portfolios with two firms. ■

were excessive," said Mr. Davis.

Morgan Stanley Dean Witter & Co., New York, the fund's consul- tant, and Frank Russell Co., Taco- ma, Wash., the execution broker, are "working with them (Bank One) to try to get the costs down on the cur- rency conversion," said Mr. Davis.

He said the fund may look for a currency manager after it sees the results of an analysis now being done by Morgan Stanley.

Morgan also is doing a custodi- an review for the fund and "some- thing may come out of that," said Mr. Davis.

A Bank One spokeswoman wouldn't comment.

What has the fund learned from all this?

"We're now more specific in how we question the managers about how they manage money," said Mr. Davis.

Both U.S. Trust and Waddell & Reed will be using an all-cap growth style. Mr. Davis said the fund considered hiring a value manager but decided against it "be-


SSgA

Continued from page 4

easier for investors to use for in- dexing or as benchmarks, he said.

The style indexes have a low turnover, he said. In the large-cap style, it is only 6% of market cap and 12% of stocks a year. The turnover increases as market cap decreases, he added.

The Dow Jones style indexes have purer growth and value seg- ments than do some other style in- dexes, some of which may include the same stock in both growth and value categories, Mr. Petronella said. The purer style shows up in the higher returns in recent years in the growth segments for the backtested Dow Jones style index- es, compared with the Standard & Poor's/BARRA or the Russell styl- indexes, he said. At the same time the Dow Jones value style per- formed worse than the other two indexes, indicating a stronge value bias and a weeding out of so


Moody's®

MOODY'S UPGRADES THE UNIVERSITY OF TEXAS SYSTEM'S LONG TERM DEBT RATING TO Aaa, FROM Aa1; SYSTEM IS FIRST PUBLIC UNIVERSITY TO BE RATED Aaa BASED ON ITS OWN CREDIT QUALITY

ACTION AFFECTS \$1 BILLION OF OUTSTANDING REVENUE BOND DEBT; RATING ALSO AFFIRMED ON PERMANENT UNIVERSITY FUND DEBT

NEW YORK, Jun 26, 2000 -- Moody's Investors Service has upgraded the long-term debt rating of The University of Texas (UT) System to Aaa, from Aa1. The System is the first public university to be rated Aaa by Moody's based on its own credit quality. Moody's rates 15 private colleges and universities Aaa, including Harvard University, Stanford University, Princeton University, and Yale University.

This rating affects \$1 billion of Revenue Financing System (RFS) Bonds and \$20 million of General Tuition Revenue Bonds. Moody's also rates P-1 the System's \$350 million Revenue Financing System Commercial Paper Program. Revenue Financing System debt is secured by a broad pledge of System-wide funds, and the rating reflects the System's general credit characteristics. Debt issued by the System and separately secured by the Permanent University Fund was already rated Aaa. That rating is affirmed.

The rating upgrade reflects gradual improvement in the System's credit quality over time, with several notable events over the last year providing further evidence of enhanced positive credit momentum. The rating also incorporates Moody's expectation that debt levels will continue to rise given the System's significant capital needs, with a projected \$1.5 billion of RFS debt anticipated to be outstanding as of August 31, 2003.

The Aaa rating is supported by UT's:

--Status as a large, diversified system, enrolling nearly 107,000 full-time equivalent students (over 114,000 headcount students) on nine academic campuses, with an additional six health system institutions providing health education and important clinical services. This geographic and programmatic diversification, as well as the fact that the University enrolls more than a third of all students in the state, provides it with significant political support. Further enhancing support for the System is its important role in economic development, driven in part by significant research efforts at several campuses.

--Position as one of two flagship public university systems in a demographically and economically vibrant state. Moody's upgraded the State of Texas rating to Aa1 in June of 1999, reflecting the State's rapidly growing economy, reduced dependence on the oil and gas industry, balanced state finances, growing cash levels, and low debt. The State has historically provided consistent operating and capital support to the System, even during weak economic periods, and has significantly increased funding over the past several years.

--Substantial financial resources, which provide a good cushion for both debt levels as well as operations. The System's own financial resources at the end of 1999 exceeded \$6 billion.

Immediately available reserves would enable the System to repay debt by 1.6 times, or would cover over four months of operations. Reserves available over the intermediate term cover debt by 3.6 times, or over nine and a half months of operations. Certain campuses have demonstrated a strong ability to garner philanthropic support; for example, the flagship campus in Austin is currently in the midst of a \$1 billion fundraising effort with notable success to date.

--Significant academic and facility enhancement derived from the System's two-thirds share of the \$7.9 billion (as of May 31, 2000) constitutionally established Permanent University Fund endowment. Distributions from this public endowment, which also benefits the Texas A&M University System, can be used to secure debt for facilities, with the residual funds flowing into designated excellence programs at certain campuses. These funds have helped the UT System build the University of Texas at Austin into one of the most reputable public university campuses in the nation.

--Large scale of operations, among the largest of all universities in the nation, with a relatively diversified revenue stream providing flexibility to respond to short term declines in any individual revenue source. Approximately 30% of revenue is generated by patient care, 27% from state appropriations, 17% from grants and contracts, 11% from student charges, 11% from gifts and investment income; and 6% from other sources.

--Debt service reimbursement by the State for approximately 28% of the System's outstanding debt. While the State has no legal commitment to continue providing this reimbursement, Moody's believes it will continue to do so based on its long track record of doing so since the early 1970s. In addition, all projects eligible for debt service reimbursement are initially approved by the State.

--Strong administrative management, with good central administration oversight combined with individual campus flexibility to pursue appropriate strategic objectives subject to central review. The University of Texas Investment Management Company (UTIMCO), a separate not-for-profit institution established by the Board of Regents in 1996, manages both the System's own funds and the PUF. UTIMCO enables the System to draw in appropriate investment expertise for its significant funds, while still providing for oversight by the Board of Regents of the System.

Positive developments over the past year include:

--The establishment of significant endowments from tobacco settlement proceeds to fund public health programs, which should further bolster the System's medical research programs. UT Health Funds, individual endowments for each of the System's medical campuses, total \$470 million. In addition, the System will receive a significant share of the income from the \$350 million Permanent Health Fund for Higher Education, established to benefit the State's 10 medical campuses (6 of which are affiliated with UT). The University of Texas Investment Management Company is responsible for investing all these endowed funds. It is projected that these funds will initially generate an additional \$37 million of revenue for investment in medically related programs.

-- Evidence of the State's willingness to partially mitigate health care risk and exposure. The State recently appropriated a special \$40 million fund for the 2000-2001 biennium to assist in covering uninsured patient care costs at Galveston, which should partially relieve the financial stress at this medical center, although clearly not cover the full expense of providing indigent care. While this was a one-time appropriation, the System will continue to seek support from the legislature for this special mission related expense. One of the factors historically preventing the System from being

upgraded to Aaa was the 30% of revenues derived from the health care, which Moody's views as a more volatile industry. Although the System has four hospitals, two (M.D. Anderson Cancer Center and the UT Medical Branch at Galveston) are by far the largest and the system is thus reliant on these operations.

M.D. Anderson, a world-renowned cancer institute, continues to perform well and would be relatively highly rated on its own. However, M.D. Anderson remains a monoline service provider with other national competitors, and given the lack of Certificate of Need in Texas, other providers can easily expand their own oncology services if they so desire.

Galveston, on the other hand, has been negatively affected by a significant increase in indigent care, leading to total operating loss over the past two years of \$40 million. The System has indicated it will reduce the amount of indigent care provided if funding is not forthcoming from the state. Moody's views this as being potentially difficult to implement both strategically and politically as Galveston is the only provider in the service area. Management has taken a proactive approach in dealing with other challenging health care related issues, and we believe this proactive approach will need to continue.

--The passage of an amendment to the constitution enabling the Permanent University Fund to be managed on a total return basis, which should generate additional funds for academic excellence programs and for further investment in campus infrastructure. Prior to this amendment, only income generated by the corpus of the PUF could be distributed, in effect limiting PUF investment options. With the Board now able to establish spending based on a moving average of the market value of the endowment, the PUF can be managed in a way that should generate enhanced longer-term asset growth, as well as additional income. The Board has taken a conservative approach to spending, limiting it to 4.5% of the average net asset value for the trailing 12 fiscal quarters. For the current fiscal year, this spending would result in \$297 million of available income, a 13% increase over fiscal year 1999 levels.

--Further improvement in the State's credit quality, reflected in an upgrade to Aa1 from Aa2 in June, 1999.

In Moody's opinion, the System has two areas of potential credit weakness, which Moody's believes are being appropriately managed, sufficiently mitigating risk at the Aaa level. The first continues to be the System's exposure to the health care industry, which generates 30% of system-wide revenues. A large portion of this patient care exposure is from MD Anderson Cancer Center, which continues to perform well. Also the State has shown a willingness to support this aspect of the System's mission during a difficult period, and Moody's believes that the System would also take suitable action in the event of deterioration.

The second potential area of credit weakness is the System's significant capital needs. Moody's analysis incorporates a notable increase in debt over the next three years, including a \$240 million borrowing for M.D. Anderson to construct a sizable ambulatory facility. This increase in debt should be at least partially offset by continued growth in reserves. Moreover, Moody's believes that the System has appropriate debt management policies in place to ensure that debt levels remain manageable at the Aaa level of risk.

OUTLOOK:

The rating outlook for The University of Texas System is stable, reflecting Moody's expectation that the System will continue to generate strong student demand and political support, leading to favorably balanced operations and good support for debt service. Moody's expects continued gradual enhancement of the System's research functions and academic reputation, and further growth in financial reserves to offset debt increases.

KEY FACTS:

Total FTE Enrollment: 106,922 students

Total Debt: \$1.12 billion

Expendable Resources to Debt: 3.59x

Expendable Resources to Operations: 9.6 months

Total Resources per Student: \$102,749

Average Operating Margin: 3.5%

% of Revenues from State: 26.7%

KEY CONTACTS:

Dan Burck, Interim Chancellor, 512-499-4201

Kerry Kennedy, Interim Executive Vice Chancellor for Business Affairs, 512-499-4560

Terry Hull, Director of Finance, 512-499-4334

CONTACTS:

Journalists: (212) 553-0376

Research Clients: (212) 553-1625



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Why I Buy What I Buy

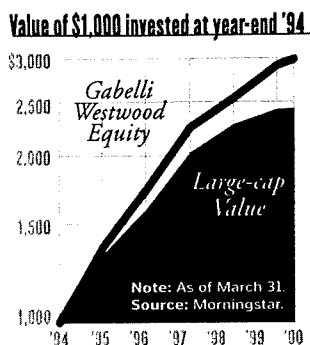
Susan Byrne says there's a good reason her portfolio outshines her peers: "I'd rather be safe than sorry."

SUSAN BYRNE GOT into Wall Street with one ambition: to pay the rent. The 24-year-old single mother and college dropout chose a job as a secretary at E.F. Hutton over two other offers because "it paid the most, combined with what seemed like the smallest risk." That was 1970, and Byrne's bottom-line bias has served her well, leading her in 1983 to start her own firm, Dallas-based Westwood Management, which now oversees \$2.5 billion. Investors in her \$175 million Gabelli Westwood Equity fund haven't fared badly either: It boasts a 22.8% five-year annual return and ranks in the top 9% of large-cap value funds tracked by Morningstar. Like many other value investors, Byrne has been burned of late. Gabelli Westwood rose 14.7% last year and is up a mere 2.2% so far this year. Still, she keeps her cool: "I'd rather be safe than sorry."

vidual stocks that are volatile, but I want to make certain the overall portfolio is not.

My favorite metaphor for the stocks I love is the butterfly. When it's crawling around in the dirt as a caterpillar, it's a "value" stock. But we're not interested in the caterpillar. We're interested in the chrysalis—that period when the change from caterpillar to butterfly is happening but nobody sees it. If we get it right, we get to buy the butterfly at a caterpillar price. Of course, when it becomes a butterfly it flies off into a growth manager's portfolio.

What we first look for is a misperception in the future growth rate—where there's been a positive-earnings surprise, yet the analyst community, for whatever reason, hasn't ratcheted up its earnings estimates. The evidence is in, but it's being dismissed by professionals who

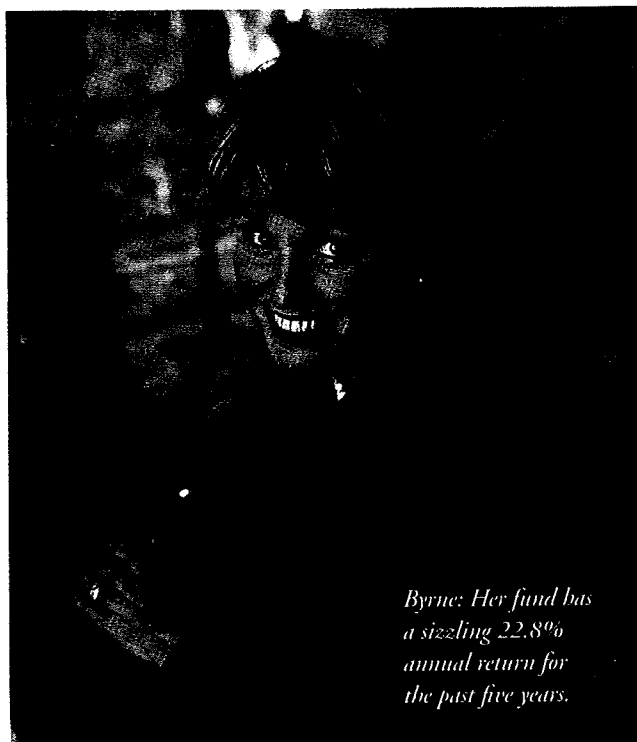


What she looks for

- **Earnings growth** Others on Wall Street ignore it because they "don't understand how it happened or don't trust who's doing it."
- **Return on equity** It should be truly rising, otherwise why invest your money in the company?
- **Group-think** Always question it. "I think of my son's soccer practices. One of the things the coaches screamed was, 'Watch the ball! Watch the feet! Don't get faked out!'"

Byrne met recently with MONEY correspondent Betsy Wangenstein to discuss her stock-picking methods and explain how she differs from most value investors. "Without some unmistakable evidence of impending growth, value can be—and often is—worthless," she argues. Her comments follow:

A LOT OF money managers start with the question, "What stock is going to make me the most money?" I start with "What stock can I avoid losing money on?" I've seen people make enormous amounts of money and I've seen people lose enormous amounts, and I'm not comfortable on either fringe. Sure, I may have indi-



Byrne: Her fund has a sizzling 22.8% annual return for the past five years.

don't understand how it happened or don't trust who's doing it, because it's a crummy industry or it's crummy management who hurt everybody's feelings nine months ago, lied, cheated, whatever.

Okay. All we've done so far is the income statement, which could be an e-ticket to Fantasyland. Now, we move to the balance sheet. The next thing I want to know is return on equity. Specifically: Did this earnings surprise result in a stable-to-increasing return on equity with a stable-to-declining debt level?

Return on equity, or ROE, is one of the most important financial concepts,

A bona fide increase in ROE means there's a shot that something operational has changed—better sales, better profit margins, lower manufacturing costs—and it's not just some financial silliness of reversing accruals. I'll then look at a valuation, because if the operations are improving and the valuation is high, then the company still represents risk to me. But if something real is happening and the valuation is low, then we dig further.

For valuation, our basic model is a bit unusual: a price-to-sales ratio adjusted by gross and net margins. This helps us account for the profitability of different

to-book value. We're interested in only the company whose growth rate is actually changing. We're not interested in the *hope* that it will change—or interested in management's *plan* for change. We become interested only when it's actually changing and no one believes it. Kind of like the "emperor's new clothes."

Part of our discipline is making sure we don't buy into "the story"—the prevailing wisdom, the narrative everyone is betting on. Company X has been a growth stock for 20 years, so it'll always be a growth stock. Or it's a dog because it missed its earnings estimates.

Take Procter & Gamble, which recently saw a 40% drop. Why? These growth-stock darlings of the 1980s were still in growth portfolios of the '90s even though they weren't growing as fast. Then comes some bad news, news that doesn't fit the story, and it all falls apart. Now the story is "the bad news."

I think of my son's soccer practices. One of the things the coaches screamed was, "Watch the ball! Watch the feet! Don't get faked out!" The story is the liberal-arts-major side, the romance side of money management. It is an important part, but it's not the beginning part.

You know, it's not that I'm *not* interested in conventional wisdom. I always stop and say, "What if the analysts are right?" The thing that gives me the nerve to go ahead is: If they're right and we're wrong, then the stock is priced correctly and my worst case is I have dead money.

What most people don't know is what it's like to lose money. When I went into the market in 1970, I saw the Dow go from 575 to 1,000 to 575 in four years. The smartest people I've ever worked with lost 75% of their clients' investment. They recommended securities at ridiculous valuations because they said—see if this sounds familiar—"This company has sold in a valuation range of 30 to 50 times earnings and its counterparts sell at 48 to 60 times earnings. It's growing at 12% and its counterparts are growing at 10%. Therefore it should be accorded a premium multiple. Blah, blah, blah." The fallacy of that analysis is, should *any* of them be selling at that multiple? That's what happens when you get group-think. **S**

WHAT SHE LIKES THESE DAYS

Here are three underappreciated stocks that portfolio manager Susan Byrne says will start surprising Wall Street over the next year.

Avon Products (AVP) \$30.00

Analysts who think the cosmetics maker's door-to-door sales are outdated should be surprised when Avon gets a boost from improving economies in Asia and Latin America—in fact, two-thirds of Avon's sales are outside the U.S. The new CEO will use the **Internet to restore a moribund domestic market** too, fueling 20% annual growth that should lift the stock to \$45 in one year and \$65 in three.

SBC Communications (SBC) \$44.75

Folks are overlooking the old Southwestern Bell's prime position in the rollout of broadband service that will compete with cable. Byrne also likes its \$2-a-share stake in Mexican phone company Telmex. "**SBC is a low-risk, cheap way to play the telecom convergence game.**" With 16% to 18% annual growth, she has a one-year price target of \$58 and a three-year target of \$75.

Compaq Computer (CPQ) \$27.50

After being slammed by Dell, the PC maker has created its own direct-sales and build-to-order systems. "**Earnings surprises will come from increased margins,**" Byrne predicts. With a 35% growth rate, Compaq should reach \$40 within one year and \$75 within three.

Note: As of April 3. Sources: Bloomberg, Westwood Management.

because at the end of the day we all are equity investors. The only reason to put your money in a stock is because you think the company can earn a better return on your money than you could yourself—without the horrible risk.

If ROE has come with a stable or declining debt, this is a good clue that the cash is coming over to the balance sheet and paying down debt. What we don't want to see is an increase in ROE simply because there's been an increase in debt, hidden somewhere in the balance sheet. That's not real.

businesses. For example, if you've got two companies growing top-line revenues at 18%, but one, say a grocery store, earns just 1% to 2% net, and the other, a specialty retailer, earns 20% net, then obviously we'll vary the maximum we'd pay on a price-to-sales basis. (In no case would our price to sales be anything like you're seeing in the so-called Internet model, where there are no earnings.)

By using this approach, you're not buying value or cheapness simply because it's there, as sometimes happens when you use the more traditional model of price-

Send Confirmation Report

Name: UTIMCO

ID: 5124994365

06/28/00 10:51AM Page 1

Job	Start time	Usage	Phone Number or ID	Type	Pages	Mode	Status
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Total: 1'04" Pages sent: 4 Pages printed: 0



THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY
210 West Sixth Street, 2nd Floor
Austin, TX 78701

FAX

Date: June 28, 2000

Number of pages including cover sheet: 4

To: A. W. "Dub" Riter, Jr.

From: Thomas G. Ricks

Phone: (903) 526-3000

Phone: (512) 499-4337

Fax #: (903) 526-3004

Fax #: (512) 499-4365

c:

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U T I M C O

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May 30, 2000

Meeting of the Corporation's Audit and Ethics Committee

Action Items:

- Minutes of the Audit and Ethics Committee for the November 8, 1999 meeting were approved
- The UTIMCO Financial Statements were reviewed for the period ended April 30, 2000. There were no significant financial statement items to report.

UTIMCO's Fee and Direct Expense Budget Request

The Corporation is requesting approval of the Budget for the FYE 2001 at this meeting.

- UTIMCO's fee request for the FYE 2001 will increase 14.7% to 6.6 million.
 - 10.6% is attributable to the relocation of UTIMCO's offices.
 - 4.1% is attributable to general operating and salary expenses
- The Budget for direct expenses of the Funds for FY2001 will increase 69.8% to \$24.4 million
 - 63.1% is attributable to external manager fees, conversion of the PUF to a total return fund
 - 6.7% is attributable to custodian costs, auditing and consulting fees

Engagement of Independent Auditors

- The Audit and Ethics Committee members approved the appointment of Deloitte & Touche, LLP as the independent auditor for the year ended August 31, 2000 subject to approval by the Corporation's Board of Directors at this meeting.
- The fee would increase by 2%

Approval of Amendment No. 2 to Valuation Criteria for Alternative Assets

- The Audit and Ethics Committee approved Amendment No. 2 to the Valuation Criteria for Alternative Assets subject to approval by the Corporation's Board of Directors at this meeting.
- This amendment was recommended by Deloitte & Touche to clarify intra-period adjustments to the market value for non-public securities and partnership/trust investments.

Approval of the Corporation's Audit and Ethics Committee Charter

- The Audit and Ethics Committee approved the Audit and Ethics Committee Charter subject to approval by the Corporation's Board of Directors at this meeting.
- New Charter in line with industry best practices and replaces existing mandate for the Audit and Ethics Committee
- Incorporates SEC's recommendations for public companies
- Requires that Board members are independent
- Requires that Board members are financially literate
- Requires that a member of the Board possess accounting or related financial management background

Update on UTIMCO's Compliance, Reporting and Audit Issues

- The Committee was updated on the Corporation's compliance, reporting and outstanding audit issues. The only item of significance was the proposed write off of the Terastor investment.

Fiscal year 2000 write-offs of Alternative Nonmarketable Investments

- The Audit and Ethics Committee approved the write-off of the Terastor investment to a \$1 and is submitting this write off to the Board of Directors at this meeting for ratification.

1. Approve the compensation of all officers (except the President) of the Corporation

Name	Title	FY	Proposed	Increase
		1999-2000	FY 2000-2001	
		Salary	Salary	
David Russ	Managing Director - Public Markets	\$ 180,250	\$ 189,263	5.0%
Cathy Iberg	Managing Director - Investment Operations, Secretary and Treasurer	\$ 164,800	\$ 200,000	21.4%

(1) recognizes the expansion of Cathy Iberg's responsibilities to where she now effectively functions as the Corporation's chief financial officer. She has become my "go to" person on a wide variety of issues beyond her main accounting, operations and IT responsibilities, including stepping up to assist me in the management of the private equity portfolio. It also serves to recognize the fact that the skills and knowledge to manage UTIMCO's accounting, operations and IT functions are unique and are not readily replaced by personnel from other investment organizations. In particular, she has strong relationships with the U. T. System business and development staff which are crucial to operational efficiency. She represents a core competency within the organization that should be protected.

2. Recommend to the Board the compensation of the President of the Corporation

Name	Title	FY	Proposed	Increase
		1999-2000	FY 2000-2001	
		Salary	Salary	
Thomas Ricks	President and CEO	\$ 330,000	\$ 346,500	5.0%

Equities: U.S. Small Cap.
Neutral: 7.5% = \$888 million
Overweight: 10% = \$1,184 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	TBD
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

**PLEASE REFER TO
PILGRIM INVESTMENTS, INC.
PRESENTATION
(BOUND SEPARATELY)**

Equities: Non U.S. Emerging Mkts.
Neutral: 9% = \$1,065 million
Overweight: 12% = \$1,420 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.	
	100%		Total	

Equities: Non U.S. Emerging Mkts.
Neutral: 3% = \$355 Million
Overweight: 4% = \$474 million

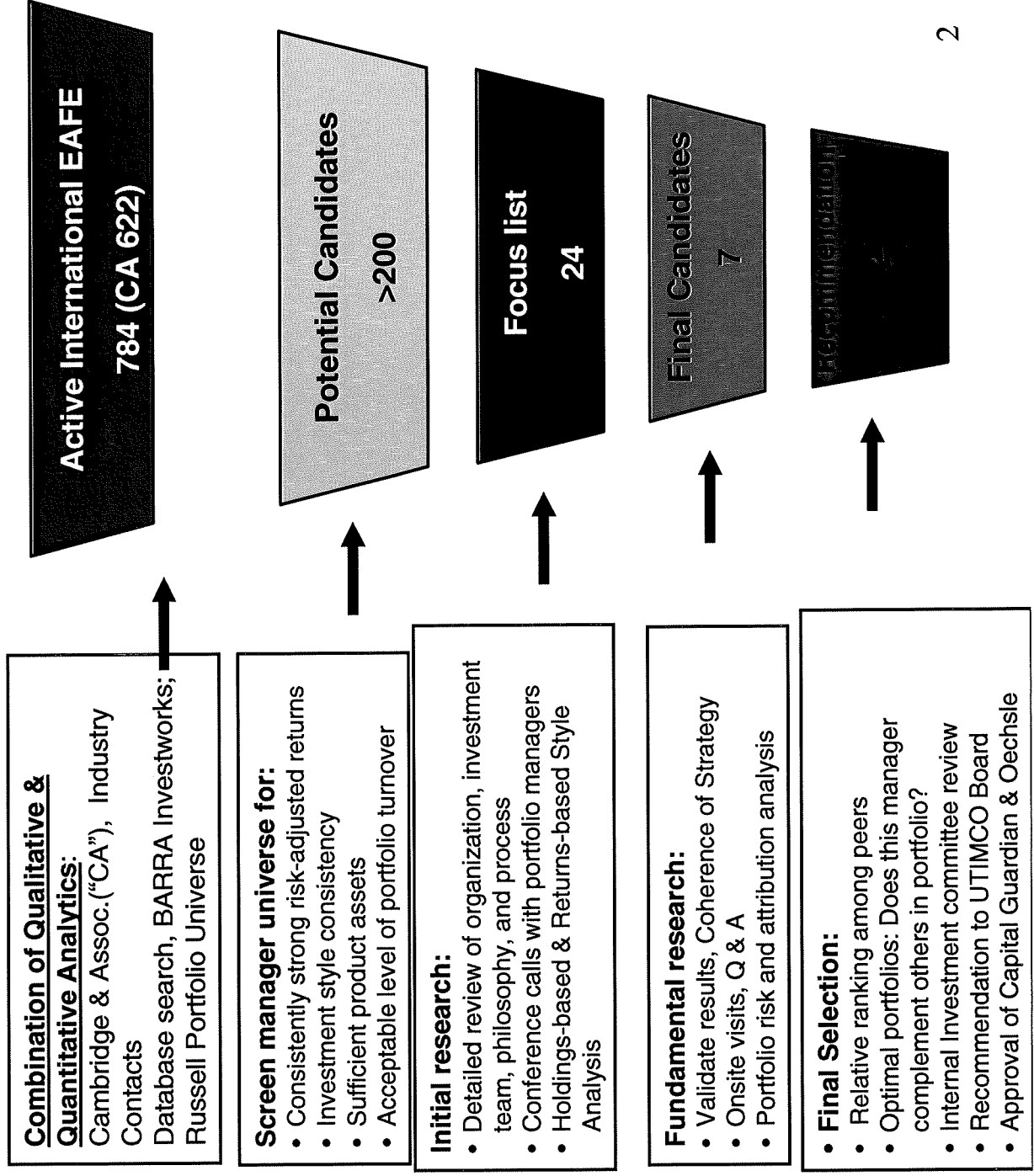
Portfolio Strategy	%	Internal vs.		Portfolio Manager
		External	External	
Active	25%	External	Templeton	
Active	64%	External	<i>TBD</i>	
Active - GAA	11%	External	Goldman Sachs Asset Mgmt.	
	100%		Total	

**Recommendation for Active International EAFE Managers
and Active Emerging Markets Manager**

UTIMCO Board Meeting

6/29/2000

Active International EAFE managers



Executive Summary:

Active EAFE Manager Selection Criteria

- Of the 7 Active EAFE Manager finalists, 2 are closed to new investors
- Any of the 5 remaining managers would complement the other Endowment asset classes
- Eliminated 3 of the remaining managers due to potential perceived conflicts, high correlations, and reduced risk/return trade-offs: PLUS the Capital Fee concessions are compelling.
- The 2 Recommended Managers, CGTC and Oechsle, have demonstrated:
 - Outstanding Performance Consistency
 - Excellent Risk-adjusted Historical Returns
 - Expectation that this behavior will persist in the future.
 - Team Oriented Investment Processes
- CGTC is an existing UTIMCO manager in the International Small Cap asset class.
 - Small Cap performance has been stellar
 - The performance on the other CGTC portfolios is consistently top quartile
 - The Capital investment process is key to this success
 - CGTC is willing to negotiate on reduced fees across all portfolios on an aggregate basis, a range of 35 to 45 basis points all in
 - Amenable to separate account management, helps UTIMCO derive risk management metrics
 - The 8 member team approach used by CGTC is an extremely powerful, consistent process
- Inclusion of the Oechsle Select Portfolio:
 - Low Correlation to the other Active EAFE Managers
 - High Risk-adjusted Returns relative to the MSCI EAFE Index
 - Lower Beta (0.48) and Lower Standard Deviation Risk than the MSCI EAFE Benchmark
 - Overall low correlation to the other major asset classes
 - This is the type of investment performance desired in a multi-asset class portfolio:
 - Low Risk, High Returns, Low Beta, and Low Correlation and Covariance to other Asset Classes and Sub-asset classes

International EAFE Manager

- Both the Capital Developed Markets portfolio and the Oechsle portfolio have performed well as exhibited below and in the following Frank Russell Chart
- The Oechsle Select portfolio complements the Capital portfolios and the index exposure

Manager	Strategy Assets	Return *	Risk *	Monthly I.R.	Correlation to Indices:		
					MSCI EAFE	MS Emerg Mkt	Equity Strat
Wellington	\$4,000 MM	16.51%	13.88%	0.24	0.93		0.72
CGTC INTL	\$12,000 MM	20.57%	14.96%	0.38	0.92		0.80
TT Active Intl	\$6,000 MM	21.44%	13.96%	0.27	0.78		0.73
Oechsle Select	\$812 MM	18.48%	11.08%	0.14	0.59		0.41
MSAM LONDON	\$6,800 MM	15.61%	12.17%	0.15	0.89		0.59
MSCI EAFE		11.63%	13.65%	--	1.00		0.63

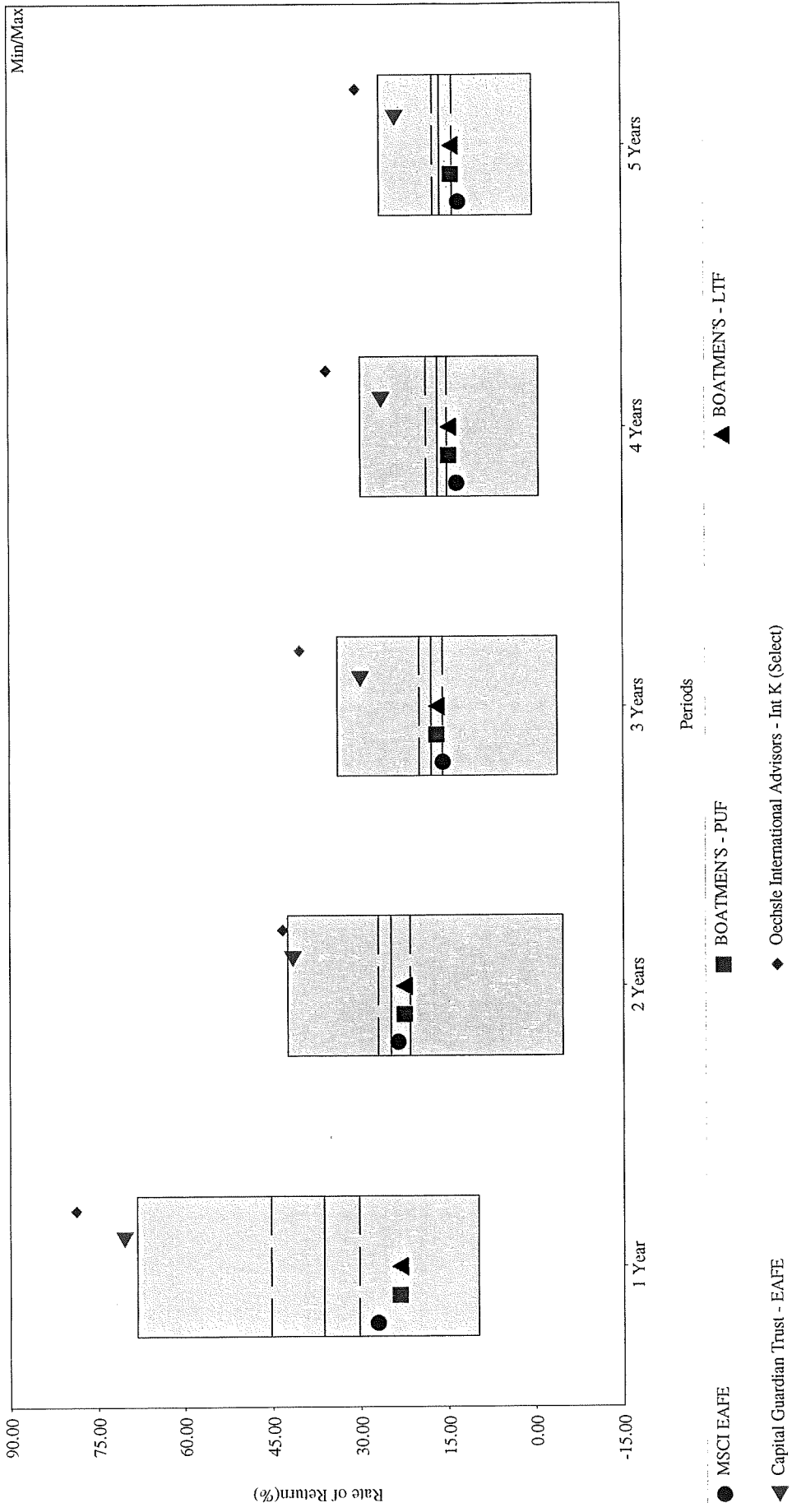
Monthly I.R. = Monthly Information Ratio relative to the appropriate UTIMCO Asset Class Benchmark

* Complete performance data for each manager: 4/1994 to 3/2000

NON-US EQUITY SEGMENT-BILLION DOLLAR CORPORATE

Ending Friday, December 31, 1999

Quartile



Recommendation: Active International EAFE Managers

- Oechsle and Capital are complementary strategies
 - Oechsle is a concentrated manager with relatively low Beta versus the MSCI EAFE index (0.48)
 - Oechsle also has a low correlation to CTGC Core, MSCI EAFE index, Capital International Emerging Markets and the MSCI Emerging Markets Index:

	Oechsle Select
CGTC INTL	0.58
MSCI EAFE	0.49
CGTC Emerging Growth	0.43
MSCI EMERG MKTS FREE	0.45

- From a Portfolio Construction perspective this powerful combination of lower risk and higher return potential reduces risk and increases potential returns for the overall portfolio.
- The risk reducing aspects of the combination of the two portfolios is very attractive in an optimal portfolio context.
- Of the 23% Active International EAFE Mandate, allocate a total of \$320 MM as follows:
 - 50% to Oechsle Select Targeted ~ \$160 MM
 - 50% to Capital Guardian Trust Company (CGTC) CORE International ~ \$160 MM

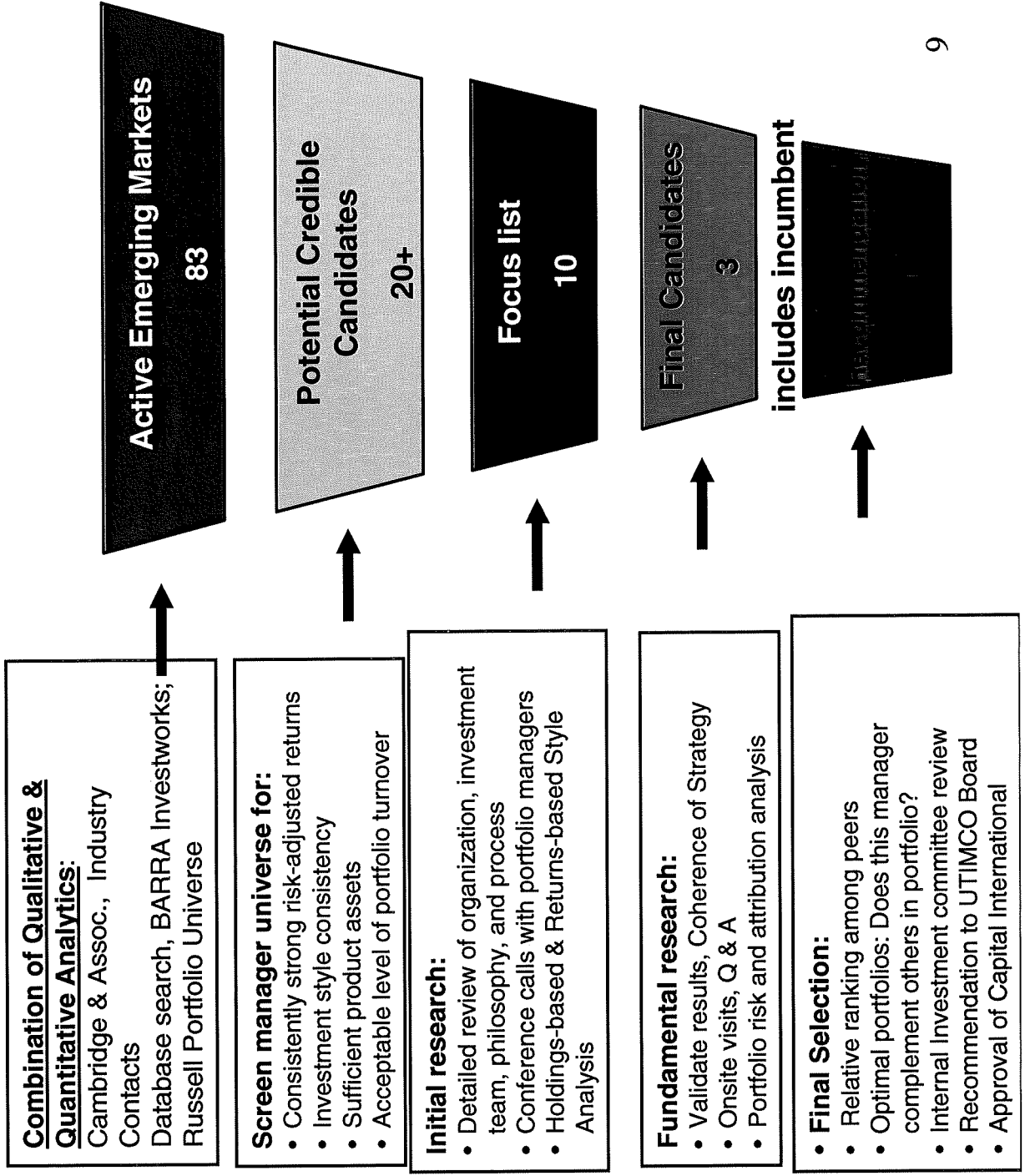
Oechsle International Advisors, LLC

- Strategy - Concentrated 30 positions
- Sector Exposure Limited
- Minimum 8 International markets
- Maximum Emerging 35%
 - Opportunistic historic maximum 20%
- Use CFTC-approved International Futures
 - To maintain full exposure to markets
- Predominantly stock driven, unanticipated earnings growth expectation
- Assets under management in this Strategy: \$812 MM 4/30/2000
- Total Firm Assets: \$19 Billion, all international
- Fees: 74 bps
- Alignment of Interests:
 - Predominantly Employee owned, Fleet Bank 1/3 non-voting, Hellman-Friedman < 1%

Capital Guardian Trust Company

- UTIMCO has the existing International Small Cap relationship with CGTC
- Long term experience managing International equities
 - Track record begins in 1981
- Extremely stable organization, portfolio managers and career analyst rarely leave
- Research-driven process
- Team managed portfolios with individual manager AND analyst input
- Consistent tactical and strategic implementation
- Flexible fee arrangements with eleemosynary organizations
 - All in fee: 35 to 45 bps dependent on size
- 100% Employee owned

Active Emerging Markets managers



Emerging Markets Manager

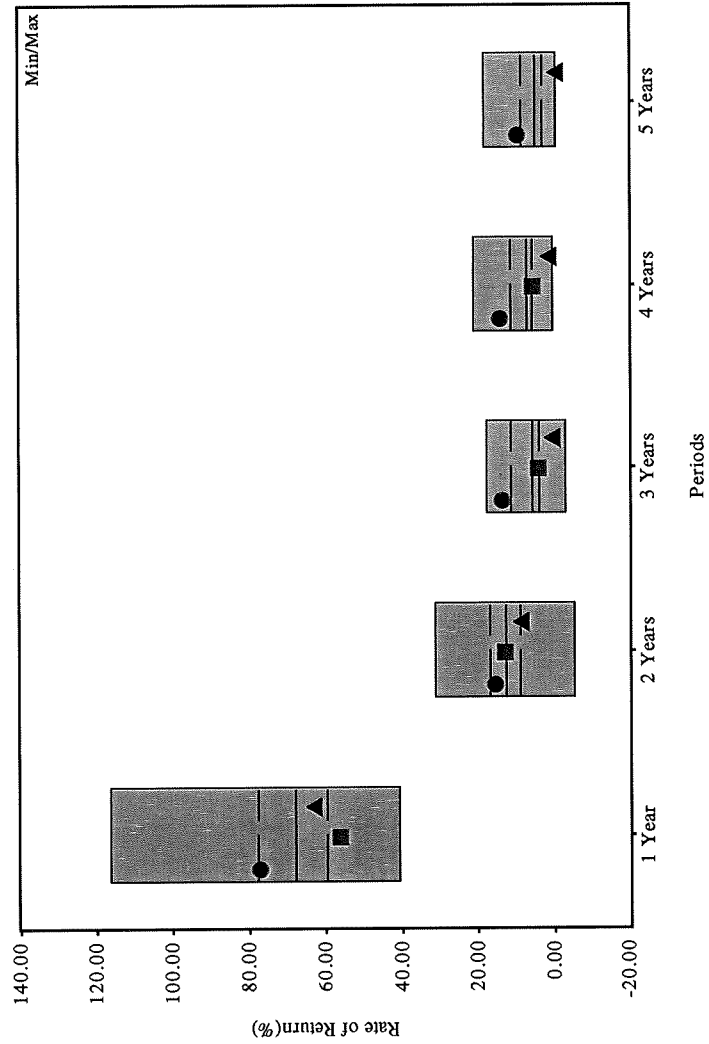
- The Capital Emerging Markets portfolio has performed well, as demonstrated below and in the following Frank Russell Chart

Manager	Strategy Assets	Return *	Risk *	Monthly I.R.	Correlation to Indices:		
					MSCI EAFE	MS Emerg Mkt Equity Strat	0.91
MOBIUS Templeton EM	\$11,400 MM	2.79%	24.47%	0.04	0.63		0.91
Capital International EM	\$23,400 MM	9.41%	24.15%	0.42	0.62		0.97
MSAM EM	\$6,800 MM	8.69%	26.11%	0.28	0.63		1.00
MSCI EMERG MKTS FREE		0.34%	24.36%	—	0.64		0.94
Monthly I.R = Monthly Information Ratio relative to the appropriate UTIMCO Asset Class Benchmark							
* Complete performance data for each manager: 4/1994 to 3/2000							

EMERGING MARKETS EQUITY PORTFOLIOS

Ending Friday, December 31, 1999

Quartile



● Capital Guardian Trust - Emerging Markets ■ TEMPLETON - LTF

▲ MSCI Emerging Markets Free

Universe Source: (c) Frank Russell Company

Executive Summary:

Active Emerging Markets Manager Selection Criteria

- The Mobius/Templeton Portfolio has added very little value relative to other Emerging Markets managers over the UTIMCO history
 - 4/1994 to 3/2000:
 - Mobius/Templeton: 4.70% v. 0.34% MSCI Emerging Markets Free
 - Capital International: 9.41% v. 0.34% MSCI Emerging Markets Free
 - Morgan Stanley Asset Mgmt: 8.69% v. 0.34% MSCI Emerging Markets Free

- Mobius/Templeton has been unwilling to negotiate on fees, in fact requested a fee INCREASE in recent discussions.

- As with the EAFE Mandate: Eliminated 1 of 3 remaining managers due to high correlations, and reduced risk/return trade-offs: PLUS the Capital Fee concessions are compelling.

- Recommended Managers:
 - We recommend holding Mobius/Templeton:
 - Value Emerging Manager complements the CGTC EM growth style.
 - Value has been out of favor in the Emerging Markets as well as International and US.
 - Mark Mobius is a star manager with a team of analysts in subordinate roles.

 - Capital International has demonstrated Outstanding Performance Consistency with similar risk characteristics relative to all three managers and the MSCI Emerging Markets Free Index.
 - Excellent Risk-adjusted Historical Returns, Expectation that this behavior will persist in the future.

- New Manager Mandate: Capital International

- The Capital International Emerging Markets Growth Fund performance story is consistent with the International CORE and Small Cap portfolios
 - uses a Team Oriented Investment Processes, overlapping managers across all three Capital portfolios insures persistence of consistent strategy.

Recommendation: Active Emerging Market Managers

- Of the 3% Neutral Emerging Markets Mandate:
 - 11% GSAM Global Account - Hold
 - Hold Mobius/Templeton to 25%
 - Add Capital International, Inc. Emerging Growth Fund 64%
 - Represents: 2.4% of Total Emerging Exposure or ~ \$227 MM Neutral position of all Endowment Portfolios
 - With 1% overweight (4% Total Exposure) to Emerging Markets: ~ \$345 MM of all Endowment Portfolios

Resolution No. 3

RESOLVED, that the selection of Capital Guardian Trust Company to invest an initial \$160 million of PUF, PHF and LTF assets allocated to the Non U.S. Equities – Established Markets asset class be and is hereby approved.

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:

Annual Total Returns (%)

	<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	32.6	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
Manager Medians										
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
Manager Medians									
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

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

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

	<u>Relative</u>		<u>Frequency</u>
	<u>To Market</u>		<u>of Use</u>
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

	<u>% of Assets</u>
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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Resolution No. 4

RESOLVED, that the selection of Oeschle International Advisors, LLC to invest an initial \$160 million of PUF, PHF and LTF assets allocated to the Non U.S. Equities – Established Markets asset class be and is hereby approved.

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 (%)

	<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>
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
<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. 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>
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
<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. 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

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

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

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

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

	Relative To Market		Frequency of Use
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

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...)	

Top Ten Country Allocations

	% of Assets
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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Resolution No. 5

RESOLVED, that the selection of Capital International, Inc. to invest an initial \$340 million of PUF, PHF and LTF assets allocated to the Non U.S. Equities – Emerging Markets asset class be and is hereby approved.

CAPITAL INTERNATIONAL, INC.
Emerging Markets Growth Fund

Biographies of Key Personnel (continued):

Nancy J. Kyle

Senior Vice President

With firm since 1991

B.A., Connecticut College

J.P. Morgan Investment Management Inc., Managing Director and Chief International Equity

Strategist, 1980 - 91

Jardine Fleming (Hong Kong), Fund Manager

Thomas Wolf

Vice President

With firm since 1993

M.P.P.M., Yale University

B.A., Columbia University

Pictet International Ltd., Vice President and Portfolio Manager

Morgan Grenfell International (Tokyo)

Morgan Grenfell Investments (London)

CAPITAL INTERNATIONAL, INC.
Emerging Markets Growth Fund

Fee Schedule:

Mutual Fund

Capital International Emerging Markets Growth Fund:

Expense Ratio:

0.737% of assets (for fiscal year ending 9/30/99).

Fee includes custody.

Vehicle is semi-closed to new investors.

Minimum Account Size: \$100,000

Representative Clients:

Bell Atlantic

Bryn Mawr School

Commonfund Group

General Motors

ITT

Mobil Oil

Northwestern University

Pitney-Bowes Inc.

Pomona College

Swarthmore College

CAPITAL INTERNATIONAL, INC.
Emerging Markets Growth Fund

Portfolio Description:

Market Capitalization Emphasis:	varies	Stocks in Initial Universe:	15,042
Security Quality Emphasis:		Stocks Followed Closely:	1,700
		Average Number of Stocks Held:	409

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

Average Percentage of Cash Reserves Used: 5% Allowable Range: 5% to 12%
 Highest Percentage of Cash Reserves Used in Past: 21% Date: December 1988
 Average Annual Turnover: 19% Range: 18% to 24%

Actual Portfolio Characteristics As of December 31, 1999

Average Weighted Market-Capitalization	\$9,100.0 mm
Median Market-Capitalization	\$4,400.0 mm
Trailing 12-month Price/Earnings Ratio	26.4
Trailing 12-month Price/Book Ratio	3.4
Trailing 5-Year Earnings Growth Rate	
Trailing 5-Year Dividend Growth Rate	
Dividend Yield	3.4%
ROE	
Payout	
Quality (AAA/AA...)	

Top Ten Country Allocations

	% of Assets
1. Mexico	12.5
2. South Korea	11.0
3. Turkey	9.8
4. Brazil	9.2
5. Taiwan	9.1
6. India	8.2
7. Other	5.9
8. South Africa	4.6
9. Argentina	2.9
10. Indonesia	2.7

Portfolio Allocation: Stocks: 96.4% Bonds: 1.2% Cash: 2.4% 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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Alt. Equities: Marketable - 10%
\$1,18.4 Million

<u>Portfolio Strategy</u>	<u>%</u>	<u>Internal vs.</u>	<u>Portfolio</u>
		<u>External</u>	<u>Manager</u>
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 - Various	<u>30%</u>	External	<i>TBD</i>
	100%		Total

Resolution No. 6

RESOLVED, that the purchase of up to \$200 million of Class C shares of Satellite Fund V, LP. on behalf of the PUF, PHF and LTF be and is hereby approved.

FURTHER RESOLVED, that the purchase of shares shall consist of an initial \$150 million investment plus a \$50 million reserve for investment in special situations as approved by the President and CEO.

Recommendation for Alternative Marketable Equity Manager

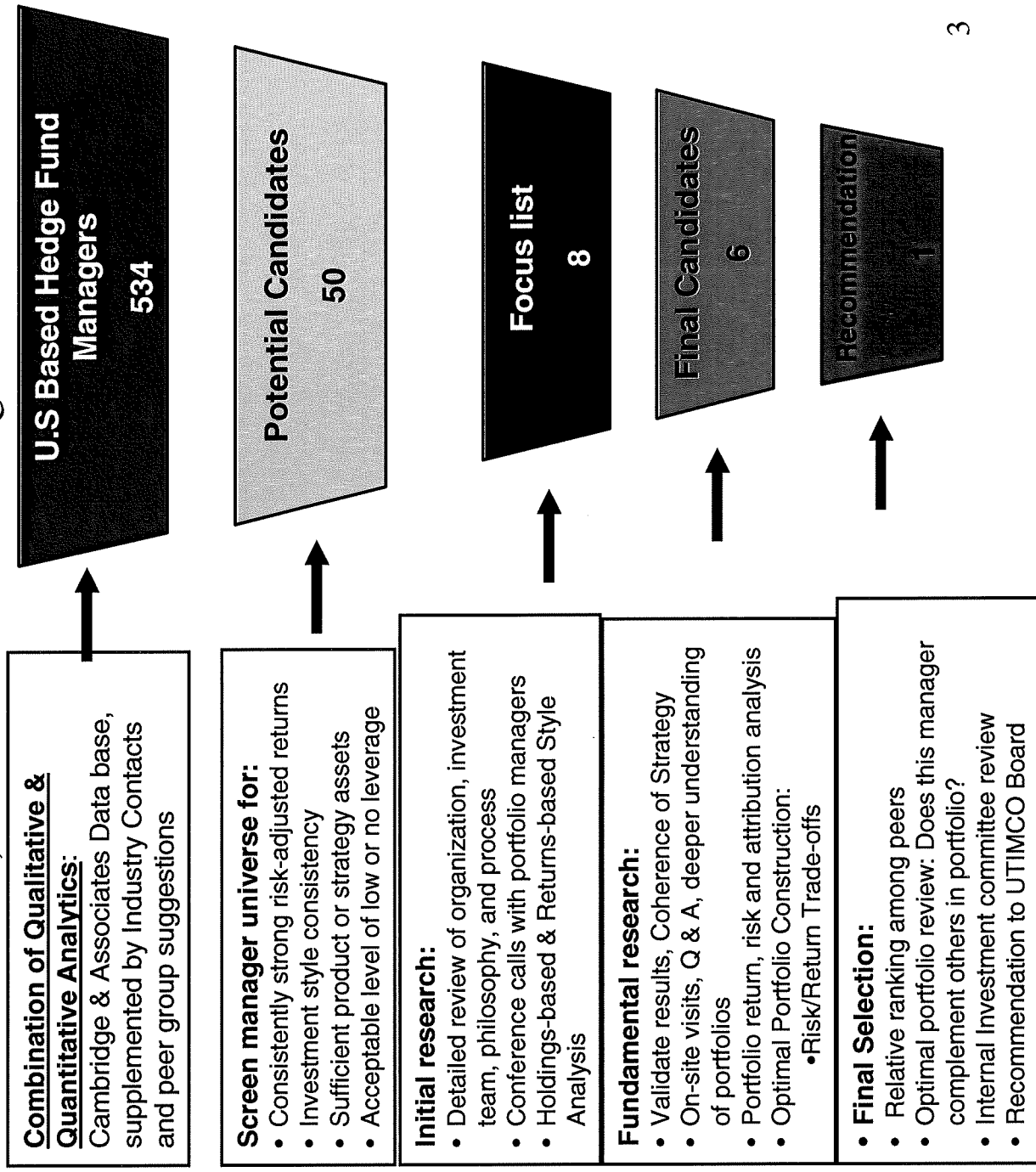
UTIMCO Board Meeting

6/29/2000

AME Performance as of 5/31/2000

	LONG TERM FUND						
	PERFORMANCE SUMMARY						
	Alternative Marketable Equities						
	31-May-00						
	Periods Ended May 31, 2000						
	Allocation	One	Three	Six	One	Fiscal Year	Calendar Year
	%	Month	Months	Months	Year	To Date	To Date
						Nine Months	Five Months Ended
						May 31, 2000	May 31, 2000
Net Asset							
Value							
(in Millions)							
Total AME Program	7.4	0.61	7.48	9.57	14.97	14.00	6.24
vs. 90 Day Treasury Bill + 7%		(0.58)	4.10	2.99	1.86	4.19	0.74

Identify: Alternative Marketable Equity Managers with a Diversified Opportunistic strategy across 1.) Event Arbitrage, 2.) Distressed Debt and 3.) Relative Value Arbitrage



Alternative Marketable Equity (AME) Manager Recommendation

- Satellite Fund V complements the current manager roster
 - Excellent Risk-adjusted returns, no leverage
 - Negative correlation (6/1995 to 12/1999) to all existing AME managers:

Manager	Strategy Assets	Return *	Risk *	Monthly I.R.	Correlation to Existing Managers:	
					Farallon	Maverick Perry
Allen & Co.	\$150 MM	11.00%	4.33%	-0.08	0.42	0.41
Angelo, Gordon & Company, L.P.	\$80 MM	16.01%	3.23%	0.24	0.40	0.40
Chilton Investment Company	\$700 MM	14.00%	3.00%	0.09	0.51	0.46
Farallon Capital Management	\$1,400 MM	16.47%	13.27%	0.09	1.00	0.78
Maverick Capital	\$4,000 MM	12.55%	27.41%	0.04	0.78	1.00
Omega	\$800 MM	19.99%	15.73%	0.14	0.65	0.70
OZ Advisors	\$1,900 MM	18.36%	7.99%	0.18	0.59	0.48
Perry Partners	\$2,100 MM	17.91%	8.03%	0.17	0.59	0.48
Q Funding	\$600 MM	21.20%	5.44%	0.39	0.34	0.27
Satellite Asset Management, L.P.	\$1,100 MM	22.24%	8.22%	0.28	-0.06	-0.12
Standard Pacific Capital	\$1,200 MM	8.17%	26.77%	-0.01	0.81	0.92
Viking Global Investors	\$585 MM	16.88%	14.57%	0.09	0.95	0.78

Monthly I.R. = Monthly Information Ratio relative to the UTIMCO Asset Class Benchmark, T-Bills + 7% Annualized.

* Complete performance data for each manager: 6/1995 to 12/1999

Alternative Marketable Equity (AME) Manager Recommendation

- Satellite complements our existing manager roster going forward.
- Management is considering both “true” market neutral managers and distressed debt specialists to complete the program.
- Most managers considered in this round
 - are highly correlated to our existing managers
 - are not risk reducing and value-adding in an optimal risk/return trade-off scenario
 - are all excellent managers that we will continue to follow

Attractive Terms

- **Recommendation: Invest up to \$150 MM allocated across all endowment portfolios in Class C shares**
- In exchange for a longer lock-up period, reflecting the longer time horizon of endowment assets, Satellite offers the following terms:
 - **Class A: 1.5% Management Fee - 20% Carried Interest**
 - Redeemable on each 1 year anniversary, without redemption fee.
 - Quarterly redemptions after 1 year lock-up
 - **Class B: 1.0% Management Fee - 18% Carried Interest**
 - Redeemable on each 3 year anniversary, subject to a 2% redemption fee
 - Realized and Unrealized gains may be redeemed at the end of any calendar quarter
 - **Class C: 1.0% Management Fee- 15% Carried Interest**
 - Redeemable on each 5 year anniversary
 - Realized and Unrealized gains may be redeemed at the end of any calendar year
 - Separate account

Satellite Investment Team Qualitative Summary

- Lief Rosenblatt, Mark Sonnino, and Gabe Nechamkin have worked together as Managing Directors of the Soros Fund for 12 years prior to forming Satellite in 1999.
- The entire Soros arbitrage and distressed investments team has amicably joined Satellite.
- The management team has invested > \$40 million of their capital in the Satellite companies.
- Tactical opportunistic exploitation of the three main strategic markets which perform well in different economic environments:
 - The specific allocation is determined based upon Satellites' assessment of the best risk-adjusted returns among the underlying investment opportunities.

Qualitative Summary

- Positive returns during each quarter that the S&P 500 Index was negative for Satellite team history
- Full disclosure/transparency: UTIMCO's portfolio will be managed as a separate fund -- not commingled
- Strong Investor base, other patient endowments and foundations
- Attractive terms

Quantitative Summary

- Negative Correlation to existing managers
- For the 6/1995 to 3/2000 track record:
 - Low Beta relative to S&P 500, 0.44
 - High Monthly and Annualized Information Ratio, 0.32 and 1.24
 - High Relative performance achieved without high leverage: 22.93% Satellite Team v. 12.88% UTIMCO Benchmark

M E M O R A N D U M

TO: Thomas Ricks
The Univeristy of Texas Investment Management Company

FROM: Bruce Myers
Steve Symchych

DATE: June 23, 2000

RE: Satellite Asset Management

BACKGROUND

Satellite Asset Management is an arbitrage fund founded in late 1999 by the former event arbitrage group at Soros Fund Management. The nucleus of the team (Gabe Nechamkin, Lief Rosenblatt, and Mark Sonnino) have worked together for over twelve years at Soros, and are well respected within the arbitrage community. Initial plans called for them to raise \$1 billion after running nearly \$2 billion at Soros. They will be investing at least \$40 million of their own money in the fund.

The firm invests in three different strategies.

Event Arbitrage. These are, for the most part, fully hedged transactions including announced mergers, tender offers, and recapitalizations.

Distressed Credits. The focus here is on the senior claims of companies undergoing reorganization, where the underlying assets are such that the investment will be relatively insensitive to changes in the enterprise value of the company.

Relative Value Arbitrage. A small part of the fund (less than 10% of capital), the firm's relative value work will attempt to exploit the inefficiencies in pricing between different classes of securities of one issuer. A typical transaction in this area might be to be long a convertible bond while shorting the common stock of the same issuer.

At the inception of the fund late last year, the principals indicated that they expected the fund to be invested, on average, 70% in event arbitrage, 25% in distressed credits and 5% in relative value arbitrage. However, allocations to the distressed and merger books will vary significantly over time as market conditions dictate, and distressed credits could, during certain periods, be the dominant element of the fund. During the first quarter of 2000, most of the positions held were in the event arbitrage area, with Satellite believing that the opportunities they were seeing in the distressed and relative value areas were not as attractive. All strategies will be global, with perhaps as much as fifty percent of the merger positions being either international or cross border transactions. The preponderance of event arbitrage transactions should produce a fairly stable pattern of returns. The fund is expected to hold between 35-45 total positions over time, and to employ a very modest amount of leverage (up to 1.2 to 1).

ISSUES

The track record for this fund is obviously brief, but the prior performance of the principals while at Soros is attractive. On the attached summary we have shown performance for full calendar years up through the end of 1998 (since the team did not complete a full calendar year at Soros in 1999). In interpreting the past performance of the team while at Soros, UTIMCO should note that at points in the past the degree of leverage employed may have been modestly greater than the expected use of leverage in this fund, and that the position size and degree of diversification was at times less. Said more simply, the posture of this fund is designed to be less volatile and to take fewer risks than the team took while at Soros. We view this as a positive, but one should understand that future returns may be marginally less robust due to tighter risk controls and slightly less leverage.

Fees are higher than standard for a fund of this type, with a 150 basis point management fee as opposed to the more typical 100 basis point management fee. A discounted fee schedule (100 basis points with a reduced incentive fee) is available to those institutions willing to commit themselves to the fund for three or five year periods. Several leading universities had committed themselves for the extended periods in order to obtain the reduced fee.

We view both of these issues as relatively minor.

CONCLUSION

Although a new firm, this is a talented group of investors who had functioned effectively while at Soros, and we would expect them to be equally successful as an independent organization. Minimal leverage, adequate diversification and the past experience of the principals should combine to establish Satellite as a strong, defensive addition to a marketable alternative assets program.

SATELLITE ASSET MANAGEMENT, L.P.

Satellite Fund II, L.P.
 10 East 50th Street, 21st Floor
 New York, NY 10022
 (212)350-9320

Strategy: Event Arbitrage
 Total Product Assets (12/31/99): \$125 mm
 Strategy Assets (12/31/99): \$345 mm
 Total Firm Assets (12/31/99): \$345 mm

New Business Contact: Brian Kriftcher (212)209-2050
 Organization: Independent Investment Counsel

Year Founded: 1999
 SEC Registered: No
 AIMR Compliant: No

Investment Approach: The partnership emphasizes a team approach to portfolio management as it strives to deliver consistent absolute returns that are uncorrelated with market indices. The strategy can be broadly defined as "special situation" investing. More specifically, merger and event arbitrage, distressed credits investing and relative value arbitrage strategies are employed. In merger and event arbitrage investing, the partnership searches for companies facing a major corporate event. Event-driven situations include mergers, tender offers, recapitalizations, spin-offs, liquidations and substantial corporate self-tenders. Catalytic events such as changes in corporate management or strategy, or open market repurchases of stock are not included. The distressed credits strategy focuses on senior claims whose ultimate recovery is relatively insensitive to changes in the total enterprise value of the company. Investments in this sector may include high-yield bonds, bank loans, trade claims and other instruments that are contractually or structurally senior and thus judged not to have equity-like risk and whose exits will typically be in cash or par bonds. The relative value arbitrage strategy seeks to exploit inefficiencies in pricing of related securities (e.g. intracapital arbitrage, voting vs. nonvoting shares) and is typically related to an event such as a spin-off or merger. This strategy usually comprises less than 10% of the partnership. Investment opportunities are sought globally, but the primary investment focus is in the United States, Europe, Canada and Australia. The fund will generally have 40-60 positions, and may allocate 10-15% to an individual situation if the firm's 3% of initial yearly starting capital "loss" rules are not exceeded. The fund anticipates, in most environments, operating within a range of 80-120% invested (longs to equity capital) but in times of market dislocation and stress would be willing to go to 2 to 1 leverage.

Research: The firm relies on in-house research.

Investment Results:

	<u>Annual Total Returns (%)</u>										
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Satellite Asset Management, L.P.	8.3	30.5	13.2	19.2	12.6	15.4	18.0	13.2	17.3	---	7.0
S&P 500	-3.1	30.5	7.6	10.1	1.3	37.6	23.0	33.4	28.6	21.0	2.3
91-Day Treasury Bills	8.2	5.7	3.6	3.2	4.6	5.9	5.4	5.5	5.1	5.1	1.5
<u>Manager Medians</u>											
Event Arbitrage	5.4	18.9	9.0	23.9	7.3	16.2	13.5	15.1	6.4	14.3	4.5

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

	10YR	9YR	8YR	7YR	6YR	5YR	4YR	3YR	2YR
Satellite Asset Management, L.P.	---	---	---	---	---	---	---	---	---
S&P 500	18.2	20.9	19.7	21.5	23.6	28.6	26.4	27.6	24.8
91-Day Treasury Bills	5.2	4.9	4.8	5.0	5.3	5.4	5.3	5.2	5.1
<u>Manager Medians</u>									
Event Arbitrage	12.4	13.0	13.0	14.2	12.1	13.2	12.6	12.1	10.3

Performance Notes: Performance represents the Satellite Fund II Limited Partnership. Performance is net of advisory and performance-related incentive fees. Performance prior to 11/1/99 represents returns earned on portfolios managed by the Satellite team for accounts of Soros Fund Management LLC during their tenure as heads of the risk arbitrage and distressed investment group at Soros. The returns were reported as the gross trading profits (or losses) by the manager divided by average long balances. Net performance has been estimated by applying the manager's stated one-year lock-up fee schedule to the reported returns.

Staff:

Portfolio Managers

3

Biographies of Key Personnel:

Brian S. Kriftcher Principal

With firm since 1999; with product since 1999

J.D., St. John's University

B.A., S.U.N.Y. College at Albany

S.A.C. Capital Advisors, LLC, COO and General Counsel, 1995 - 99

Neuberger & Berman, Counsel

Cantor Fitzgerald Securities, Counsel

Richard Lammers Trader

With firm since 1999; with product since 1999

B.B.A., City University of New York - Baruch College

Soros Fund Management LLC, Trader, 1994 - 99

Oppenheimer & Company, Trader

Gabe Nechamkin Principal

With firm since 1999; with product since 1999

B.A., University of Rochester

Soros Fund Management LLC, Managing Director and Head of Trading, 1988 - 99

Plaza Securities Company, Director of Arbitrage Trading

Drexel Bernham Lambert, Vice President

Lief D. Rosenblatt Principal

With firm since 1999; with product since 1999

J.D., Harvard Law School

M.A., University of Oxford

A.B., Harvard College

Soros Fund Management LLC, Managing Director, 1988 - 99

Plaza Securities Company, General Partner

Lehman Brothers, Senior Vice President

Biographies of Key Personnel (continued):

Mark D. Sonnino

Principal

With firm since 1999; with product since 1999

S.M., Massachusetts Institute of Technology

A.B., Columbia College

Soros Fund Management LLC, Managing Director and Head of Research, 1988 - 99

Plaza Securities Company, Director of Arbitrage Research

Chase Manhattan Bank, Director

Christopher Tuzzo

Principal

With firm since 1999; with product since 1999

M.B.A., New York University

B.S., Boston University

Soros Fund Management LLC, Analyst, 1994 - 99

Price Waterhouse, Consultant

Fee Schedule:

Limited Partnership

Satellite Fund I, L.P.:

The following three options are available:

1.500% of assets, plus 20% of net profits with a one-year lock-up.

1.000% of assets, plus 18% of net profits with a three-year lock-up.

1.000% of assets, plus 15% of net profits with a five-year lock-up.

Entry: Monthly.

Exit: Following the lock-up period, withdrawals may occur on the anniversary date of the investment, with 90-days notice. In addition, withdrawals may occur at any calendar quarter-end after the first anniversary of the investment, with 60-days notice, but are subject to a 2% penalty and a 10% overall fund redemption limit.

Minimum Account Size: \$10 mm

Representative Clients:

Confidential.

SATELLITE ASSET MANAGEMENT, L.P.

Satellite Fund II, L.P.
 10 East 50th Street, 21st Floor
 New York, NY 10022
 (212)350-9320

Strategy: Event Arbitrage
 Total Product Assets (12/31/99): \$125 mm
 Strategy Assets (12/31/99): \$345 mm
 Total Firm Assets (12/31/99): \$345 mm

New Business Contact: Brian Kriftcher (212)209-2050
 Organization: Independent Investment Counsel

Year Founded: 1999
 SEC Registered: No
 AIMR Compliant: No

Investment Approach: The partnership emphasizes a team approach to portfolio management as it strives to deliver consistent absolute returns that are uncorrelated with market indices. The strategy can be broadly defined as "special situation" investing. More specifically, merger and event arbitrage, distressed credits investing and relative value arbitrage strategies are employed. In merger and event arbitrage investing, the partnership searches for companies facing a major corporate event. Event-driven situations include mergers, tender offers, recapitalizations, spin-offs, liquidations and substantial corporate self-tenders. Catalytic events such as changes in corporate management or strategy, or open market repurchases of stock are not included. The distressed credits strategy focuses on senior claims whose ultimate recovery is relatively insensitive to changes in the total enterprise value of the company. Investments in this sector may include high-yield bonds, bank loans, trade claims and other instruments that are contractually or structurally senior and thus judged not to have equity-like risk and whose exits will typically be in cash or par bonds. The relative value arbitrage strategy seeks to exploit inefficiencies in pricing of related securities (e.g. intracapital arbitrage, voting vs. nonvoting shares) and is typically related to an event such as a spin-off or merger. This strategy usually comprises less than 10% of the partnership. Investment opportunities are sought globally, but the primary investment focus is in the United States, Europe, Canada and Australia. The fund will generally have 40-60 positions, and may allocate 10-15% to an individual situation if the firm's 3% of initial yearly starting capital "loss" rules are not exceeded. The fund anticipates, in most environments, operating within a range of 80-120% invested (longs to equity capital) but in times of market dislocation and stress would be willing to go to 2 to 1 leverage.

Research: The firm relies on in-house research.

Investment Results:

	<u>Annual Total Returns (%)</u>											
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	3 mos
Satellite Asset Management, L.P.	8.3	30.5	13.2	19.2	12.6	15.4	18.0	13.2	17.3	---	7.0	
S&P 500	-3.1	30.5	7.6	10.1	1.3	37.6	23.0	33.4	28.6	21.0	2.3	
91-Day Treasury Bills	8.2	5.7	3.6	3.2	4.6	5.9	5.4	5.5	5.1	5.1	1.5	
<u>Manager Medians</u>												
Event Arbitrage	5.4	18.9	9.0	23.9	7.3	16.2	13.5	15.1	6.4	14.3	4.5	

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>
Satellite Asset Management, L.P.	---	---	---	---	---	---	---	---	---
S&P 500	18.2	20.9	19.7	21.5	23.6	28.6	26.4	27.6	24.8
91-Day Treasury Bills	5.2	4.9	4.8	5.0	5.3	5.4	5.3	5.2	5.1
<u>Manager Medians</u>									
Event Arbitrage	12.4	13.0	13.0	14.2	12.1	13.2	12.6	12.1	10.3

Performance Notes: Performance represents the Satellite Fund II Limited Partnership. Performance is net of advisory and performance-related incentive fees. Performance prior to 11/1/99 represents returns earned on portfolios managed by the Satellite team for accounts of Soros Fund Management LLC during their tenure as heads of the risk arbitrage and distressed investment group at Soros. The returns were reported as the gross trading profits (or losses) by the manager divided by average long balances. Net performance has been estimated by applying the manager's stated one-year lock-up fee schedule to the reported returns.

Staff:

Portfolio Managers

3

Biographies of Key Personnel:

Brian S. Kriftcher Principal

With firm since 1999; with product since 1999

J.D., St. John's University
B.A., S.U.N.Y. College at Albany
S.A.C. Capital Advisors, LLC, COO and General Counsel, 1995 - 99
Neuberger & Berman, Counsel
Cantor Fitzgerald Securities, Counsel

Richard Lammers Trader

With firm since 1999; with product since 1999

B.B.A., City University of New York - Baruch College
Soros Fund Management LLC, Trader, 1994 - 99
Oppenheimer & Company, Trader

Gabe Nechamkin Principal

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Minimum Account Size: \$10 mm

Representative Clients:

Confidential.

6/14/00

SATELLITE ASSET MANAGEMENT

Telephone conversation w/ BK, Note to File - TGR

Year to date performance through May 31, 2000 ranged between 10.15% to 10.97% depending on the class of shares owned. The firm has generated seven consecutive positive monthly returns since starting up as SAM in November, 1999. Fund is approximately 75% invested with 99% of the portfolio invested in merger and special arb. Distressed is only 1% due to relatively unattractive terms at the senior level where the firm invests. Approximately 30% of the portfolio is non-US which is significantly below average and reflects the decline in stock for stock European M&A activity.

Assets under management are \$970 million of which roughly half is under 3 or 5 year lockup. Investor group is now Yale (>\$150 million separate account), Northwestern, UNC, U. Wash., Council of Foreign Relations, Mt. Sinai Medical Foundation, Knight Foundation, some high net worth families. SAM is in final negotiations with Princeton. None of these institutions are former Soros clients. They are concentrating on endowments and foundations. They have very little exposure to funds of funds which have been intentionally discouraged from investing by SAM's redemption provisions.

BK reports that Soros Fund Management has restaffed its risk arbitrage group. He knows the team that was brought in and says that they have less discretion and capital to work with.

5/2/00

SATELLITE ASSET MANAGEMENT

NYC Meeting w/Lief Rosenblatt, Brian Krifter, Gabe Nechamkin, Mark Sonnino, TGR, DR

On site visit at SAM's offices. Offices are very functional with a trading configuration the exact duplicate of the one they used at Soros. Partners sit literally next to each other and manage and trade their allocated positions through a jointly viewed portfolio management system. Partners took us through a live demonstration of their proprietary software used to classify all of the variables used to value securities and assess the downside risk of each investment. The portfolio management system allows them to size their positions and control the downside based on a real time evaluation of each security's risk/return profile. SAM identifies its competitive advantages as the following:

1. the "dynamic sizing" capability of its portfolio management software
2. the timely and valuable information gleaned from wide network of contacts developed by investing large amounts of capital with Soros over 11 years
3. don't have specialists, i.e., a dedicated distressed manager or non US risk arb manager that remains idle when the market is out of favor or that requires a minimum allocation of capital. The same investment process is used across all investment opportunities and rank orders all investments on a risk adjusted basis, i.e. the portfolio and the resulting allocations to risk arb vs. distressed are built bottom up.

3/10/00

SATELLITE ASSET MANAGEMENT

Austin Meeting w/Lief Rosenblatt, Brian Krifter, TGR

Satellite is the former team that ran the \$2.7 billion risk arb/distressed/high yield portfolio for Soros Fund Management. They were a highly autonomous unit within Soros and were not involved in the management of the macro bets employed in the Soros Quantum Fund. The team's core consists of LR, Gabe Nechamkin, and Mark Sonnino. All three worked together in the Arbitrage Trading Group at Plaza Securities before joining Soros. After 11.5 years with Soros, they left in November 1999 to form SAM. BK is the former COO of SAC Capital Advisors and general counsel of Neuberger Berman. All members of the Soros arb/distressed group have joined SAM. Currently SAM consists of 5.5 investment professionals and 8.5 back office employees.

LR states that their departure was amicable and that Soros had allowed them to export their performance. Their departure was motivated by the fact that their deferred compensation plan required them to invest 100% of their deferred comp into the Soros Quantum fund for 10 years. As a result, 10 years of accumulated deferred comp was tied up in a fund with a higher risk profile and managers rather than in their own portfolio which was focused on absolute returns. Soros was not agreeable to setting this precedent because he believed it would balkanize the firm i.e., portfolio managers would no longer be tethered to the firm. Their resignation from Soros triggered immediate withdrawal of the deferred comp and payment of taxes. The deferred comp is the source of the general partners \$40 million capital commitment to SAM.

SAM's strategy is identical to that pursued at Soros except that it expects a higher percentage of the portfolio to be global particularly given the rapidly expanding European merger market. SAM's objectives are consistent absolute returns of 15% with low correlation to market returns, low volatility of returns and preservation of capital. It pursues three strategies:

- Merger/Event Arbitrage:
i.e., true classic risk arb investing in companies involved in major corporate events. Buy the target company and short the acquirer in order to capture the discount between current and the consumated price. It does not invest in catalytic events such as changes in corporate management.
- Distressed debt
SAM purchases bank loans and other senior debt where the ultimate recovery is not sensitive to changes in the company's value but where the risk is the length of time to realization. No equity risk such as cheap junior equity. Such equity becomes orphan equity when the firm comes out because no one follows it and there is no liquidity. Result: you have to lug it around and wait for the market to recognize its value. They do not serve on credit committees as they are a waste of time. Positions turn over

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- Class B: minimum 5 year lockup, 1.0% management fee, 15% carried interest.

Soros is not investing in SAM. LR says Soros insists on paying no more than a .5% management fee and 10% carried interest given the marketing value of his presence. SAM had declined to allow Soros in on those terms and was not interested in having Soros as a major outside tenant anyway.

LR points out that the terms were designed to encourage investors to provide a fixed asset base for the fund. Of the \$750 million under management, \$250 million was contributed as either Class B or Class C shares. He notes that the Soros capital structure had a major advantage in its flexibility. Their group could draw down Soros capital on demand to take advantage of temporary market opportunities and pricing disparities. This usually occurred when there was not enough capital in the market to keep spreads tight. For example: large index funds often have to sell out of index companies when they are acquired by a non-index company. SAM interested is developing co-investment relationships with their investors to provide temporary additional capital to take advantage of similar situations. Yale has dedicated \$50 million to such activities.

Resolution No. 7

WHEREAS, the Corporation's Board of Directors established an Audit and Ethics Committee on February 22, 1996;

WHEREAS, on July 15, 1996 the Board of Directors approved the Audit and Ethics Committee Mandate; and

WHEREAS, this Committee desires to replace the Existing Audit and Ethics Committee Mandate with a Charter of the Audit and Ethics Committee of the Board of Directors (the "Charter");

NOW, THEREFORE, BE IT RESOLVED, that the Charter be and is hereby approved.

UTIMCO
CHARTER
OF THE
AUDIT AND ETHICS COMMITTEE

Background

The Board of Directors (the "Board") of UTIMCO (the "Corporation") established an Audit and Ethics Committee (the "Committee") on February 22, 1996. On July 15, 1996 the Board adopted certain resolutions regarding, among other things, the Corporation's Audit and Ethics Committee Mandate (the "Existing Mandate"). The Existing Mandate is superceded by this Charter effective as of its date of adoption by the Board.

Purpose

The primary purpose of the Committee is to assist the Board in monitoring:

- the integrity of the Corporation's financial reporting process and system of internal control, the audit process, and the corporation's process for monitoring compliance with laws and regulations;
- the independence and performance of the Corporation's independent auditors;
- for the purposes of review, any internal audit functions performed by the U. T. System Audit Office;
- the Corporation's Audit and Ethics Policies; and
- the Corporation's compliance processes associated with investment policies and risk management.

Scope

In addition to the Corporation, the Corporation's Audit and Ethics Committee Charter shall encompass the investment assets subject to the Investment Management Services Agreement by and between the Board of Regents of The University of Texas System (the "U. T. Board") and the Corporation effective March 1, 1996.

Composition

The Committee shall be composed of three members of the Board; such members to be appointed from time to time by a majority of the Board and approved by the U. T. Board as required by Section 66.08 (c)(3) of the Texas Education Code. Members

- meet periodically with management to review the Corporation's major financial risk exposures and the steps management has taken to monitor and control such exposures;
- review significant changes to the Corporation's internal controls and accounting principles and practices as suggested by the independent auditor, internal auditors or management;
- review the significant reports to management prepared by the U. T. System Audit Office and management's responses; and
- review with the Corporation's legal counsel or other appropriate persons legal matters that may have a material impact on the financial statements, the Corporation's compliance policies and any material reports or inquiries received from regulators or governmental agencies.

Auditors. The Committee has the following duties and responsibilities with respect to the Corporation's independent and internal auditors:

- recommend to the Board the appointment of the independent auditor, which firm is ultimately accountable to the Committee and the Board.
- approve the fee arrangement of the independent auditor;
- after interviewing members of the Corporation's staff evaluate together with the Board the performance of the independent auditor and, if so determined by the Committee, recommend that the Board replace the independent auditor; and
- if determined by the Committee to be necessary or advisable, recommend that the Board take appropriate action to satisfy itself of the independence of the auditor.

Other Duties. The Committee has the following additional duties and responsibilities:

- make regular reports (at least twice each calendar year) to the Board regarding the Committee's activities and such other reports as may be requested by the Board;
- review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval;
- perform such additional special functions, duties or responsibilities as may from time to time be designated by the Board;

- review the Ethics policy of the Corporation annually and recommend any proposed changes to the Board for approval; and
- annually evaluate and review the Corporation's compliance process.

Powers and Limitations

The Committee shall have the authority to retain special legal, accounting or other consultants to advise the Committee. The Committee may request any officer or employee of the Corporation or the Corporation's outside legal counsel or the U. T. System Audit Office to attend any meeting of the Committee or to meet with any members of, or consultants to, the Committee.

While the Committee has the duties, responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Corporation's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. This is the responsibility of management and the independent auditor. Nor is it the duty of the Committee to conduct investigations, to resolve disagreements between management and the independent auditor or to assure compliance with laws and regulations and the policies of the Corporation including the Corporation's Code of Ethics.

Resolution No. 8

RESOLVED, that the firm of Deloitte & Touche, LLP be and is hereby appointed as the independent auditor of the Corporation for the year ended August 31, 2000, and further

RESOLVED, that the firm of Deloitte & Touche, LLP be and is hereby appointed as the independent auditor of the financial statements of the Permanent University Fund, Permanent Health Fund, Long Term Fund and Short/Intermediate Term Fund, for the fiscal year ended August 31, 2000.



April 10, 2000

Deloitte & Touche LLP
Suite 1100
700 North St. Mary's
San Antonio, Texas 78205-3589

Telephone: (210) 224-1041
Facsimile: (210) 224-9456

Ms. Cathy Iberg
The University of Texas Investment Management Company
210 West Sixth Street
Austin, Texas 78701

Dear Ms. Iberg:

We are pleased to serve as independent accountants and auditors for The University of Texas Investment Management Company, The University of Texas System Long Term Fund, The University of Texas System Short Intermediate Term Fund, Permanent Health Fund, and the Investments of the Permanent University Fund (collectively, "UTIMCO and the Funds"). Mr. William O. Strange will be responsible for the services that we perform for UTIMCO and the Funds. He will be assisted by Mr. Paul Horak, Audit Senior Manager, and Mr. Eric Rothe, Audit Manager. Mr. Strange will, as he considers necessary, call on other individuals with specialized knowledge, either in this office or elsewhere in our firm, to assist in the performance of our services.

While auditing and reporting on UTIMCO and the Funds' annual financial statements for the year ending August 31, 2000, is the service that we are to provide under this engagement letter, we would also be pleased to assist UTIMCO and the Funds on issues as they arise throughout the year. Hence, we hope that UTIMCO and the Funds will call Mr. Strange whenever management believes he can be of assistance.

We will perform this engagement subject to the terms and conditions set forth herein.

Audit of Financial Statements

Our audit of UTIMCO and the Funds' financial statements for the year ending August 31, 2000, will be conducted in accordance with generally accepted auditing standards.

We will plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. However, because of the characteristics of fraud, particularly those involving concealment and falsified documentation (including forgery), a properly planned and performed audit may not detect a material misstatement. Therefore, an audit conducted in accordance with generally accepted auditing standards is designed to obtain reasonable, rather than absolute, assurance that the financial statements are free of material misstatement. An audit is not designed to detect error or fraud that is immaterial to the financial statements.

An audit includes obtaining an understanding of internal control sufficient to plan the audit and to determine the nature, timing, and extent of audit procedures to be performed. An audit is not designed to provide assurance on internal control or to identify reportable conditions.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

The objective of our audit is the expression of an opinion on the fairness of the presentation of UTIMCO and the Funds' financial statements in conformity with generally accepted accounting principles, in all material respects. Our ability to express an opinion, and the wording of our opinion, will, of course, be dependent on the facts and circumstances at the date of our report. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or decline to issue a report as a result of this engagement. If we are unable to complete our audit or if our auditors' report requires modification, the reasons therefor will be discussed with UTIMCO and the Funds' management and the Audit Committee.

Neither our audit of UTIMCO and the Funds' financial statements for the year ending August 31, 2000, nor any reviews or other services provided pursuant to this engagement letter, will provide any assurances, nor will we express any opinion, that UTIMCO and the Funds' systems or any other systems, such as those of UTIMCO and the Funds' vendors, service providers, customers, or other third parties, are year 2000 compliant. In addition, we are not engaged to perform, nor will we perform as part of this engagement, any procedures to test whether UTIMCO and the Funds' systems or any other systems are year 2000 compliant or whether the plans and activities of UTIMCO and the Funds or any third parties are sufficient to address and correct system or any other problems that might arise because of the year 2000, nor will we express any opinion or provide any other assurances with respect to these matters.

Management's Responsibility

The financial statements are the responsibility of UTIMCO and the Funds' management. In this regard, management has the responsibility for, among other things, establishing and maintaining effective internal control over financial reporting, for identifying and ensuring that UTIMCO and the Funds comply with the laws and regulations applicable to its activities, for properly recording transactions in the accounting records, for adjusting the financial statements to correct material misstatements, for making appropriate accounting estimates, for safeguarding assets, for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles, and for making all financial records and related information available to us.

We will make specific inquiries of UTIMCO and the Funds' management about the representations embodied in the financial statements. As part of our audit procedures, we will request that management provide us with a representation letter acknowledging management's responsibility for the preparation of the financial statements and affirming management's belief that the effects of any uncorrected financial statement misstatements aggregated by us during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We will also request that management confirm certain representations made to us during our audit. The responses to those inquiries and related written representations of management required by generally accepted auditing standards are part of the evidential matter that we will rely on as auditors in forming our opinion on UTIMCO and the Funds' financial statements. Because of the importance of management's representations, UTIMCO and the Funds agree to release and indemnify Deloitte & Touche LLP and its personnel from all claims, liabilities, and expenses relating to our services under this engagement letter attributable to any misrepresentation by management.

If UTIMCO and the Funds intend to publish or otherwise reproduce in any document our report on UTIMCO and the Funds' financial statements, or otherwise make reference to Deloitte & Touche LLP in a document that contains other information in addition to the audited financial statements (e.g., in a periodic filing with a regulator, in a debt or equity offering circular or in a private placement memorandum), thereby associating Deloitte & Touche LLP with such document, UTIMCO and the Funds agree that management will provide us with a draft of the document to read and obtain our approval for the inclusion or incorporation by reference of our report, or the reference to Deloitte & Touche LLP, in such document before the document is printed and distributed. The inclusion or incorporation by reference of our report in any such document would constitute the reissuance of our report. UTIMCO and the Funds also agree that management will notify us and obtain our approval prior to including our report on an electronic site.

Our engagement to perform the services described above does not constitute our agreement to be associated with any such documents published or reproduced by or on behalf of UTIMCO and the Funds. Any request by UTIMCO and the Funds to reissue our report, to consent to its inclusion or incorporation by reference in an offering or other document, or to agree to its inclusion on an electronic site, will be considered based on the facts and circumstances existing at the time of such request. The estimated fees outlined herein do not include any services that would need to be performed in connection with any such request; fees for such services (and their scope) would be subject to our mutual agreement at such time and would be described in a separate engagement letter.

Other Communications Arising From the Audit

In connection with the planning and the performance of our audit, generally accepted auditing standards require that we ensure that certain matters be communicated to the Audit Committee. We will report directly to the Audit Committee any fraud of which we become aware that involves senior management, and any fraud (whether caused by senior management or other employees) of which we become aware that causes a material misstatement of the financial statements. We will report to senior management any fraud perpetrated by lower level employees of which we become aware that does not cause a material misstatement of the financial statements; however, we will not report such matters directly to the Audit Committee, unless otherwise directed by the Audit Committee.

We will inform the appropriate level of management of UTIMCO and the Funds and determine that the Audit Committee is adequately informed with respect to illegal acts that have been detected or have otherwise come to our attention in the course of our audit, unless the illegal act is clearly inconsequential.

We will also report directly to management and the Audit Committee matters coming to our attention during the course of our audit that we believe are reportable conditions. Reportable conditions are significant deficiencies in the design or operation of internal control that could adversely affect UTIMCO and the Funds' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, we will communicate to the Audit Committee, or determine that the Audit Committee is informed, about certain other matters related to the conduct of our audit, including, when applicable:

- Our responsibility as auditors under generally accepted auditing standards
- Significant accounting policies
- Management judgments and accounting estimates
- Audit adjustments
- Other information in documents containing audited financial statements
- Disagreements with management
- Consultation by management with other accountants on significant matters
- Difficulties encountered in performing the audit
- Major issues discussed with management prior to our retention as auditors.

We may also have other comments for management on matters we have observed and possible ways to improve the efficiency of UTIMCO and the Funds' operations or other recommendations concerning internal control.

With respect to these other communications, it is our practice to discuss all comments, if appropriate, with the level of management responsible for the matters, prior to their communication to senior management and/or the Audit Committee.

Coordination of the Audit

We will plan the performance of our audit in accordance with the following timetable:

Audit Performance Schedule:	
Planning and internal control testwork	June/July 2000
Final field work	September/October 2000
Report on financial statements and management letter	October 2000

Assistance to be supplied by your personnel, including preparation of schedules and analyses of accounts, will be described in a separate attachment. Timely completion of this work will facilitate the completion of our audit by the targeted completion dates.

We will notify you promptly of any circumstances we encounter that could significantly change the targeted completion dates.

Fees

We estimate that our total fees for this audit will be the following, plus actual expenses (e.g., travel, typing, telephone). We will notify you promptly of any circumstances we encounter that could significantly affect our estimate.

Permanent University Fund:	
Investments	\$ 36,000
West Texas Operations	45,000
Long Term Fund	18,000
Permanent Health Fund	10,000
Short Intermediate Term Fund	7,800
UTIMCO	5,700
Investment performance statistics	<u>3,900</u>
	<u>\$ 126,400</u>

If the above terms are acceptable to UTIMCO and the Funds, and the services outlined are in accordance with your understanding, please sign the copy of this letter in the space provided and return it to us.

Yours truly,

Deloitte & Touche LLP

Accepted and agreed to by UTIMCO and the Funds:

By: _____

Title: _____

Date: _____

Resolution No. 9

RESOLVED, that Amendment No. 2 to the Valuation Criteria for Alternative Assets be and is hereby approved.

UTIMCO
Valuation Criteria for Alternative Assets

Determination of Market Value in Financial Reports

The methodology used to evaluate the alternative illiquid, alternative liquid, and inflation hedging assets portfolios shall be performed quarterly using the guidelines outlined below. These valuations shall be communicated to the Fund's custodian by the third business day following the quarterly valuation period.

Direct Investments

a. Publicly traded stocks and bonds

Restricted Stock

- last bid price or market closing price available for the last day of the measurement period discounted by 20% of market value.

No Restrictions

- last bid price or market closing price available for the last day of the measurement period.

b. Non-public stocks and bonds

- if held as a direct investment and also held in a partnership/trust, valuation is price used by the partnership/trust, ~~or~~ subject to significant events not reflected by the partnership/trust including, but not limited to, consummated sales and significant market fluctuations, or
- if held only as a direct investment, last price paid in a new round of financing (in which at least one substantial outside investor participated), subject to significant events including, but not limited to, consummated sales and significant market fluctuations.

c. Oil and gas - valuation determined by using FASB 69 methodology

d. Real estate at last appraised value

Partnership/Trust Investments

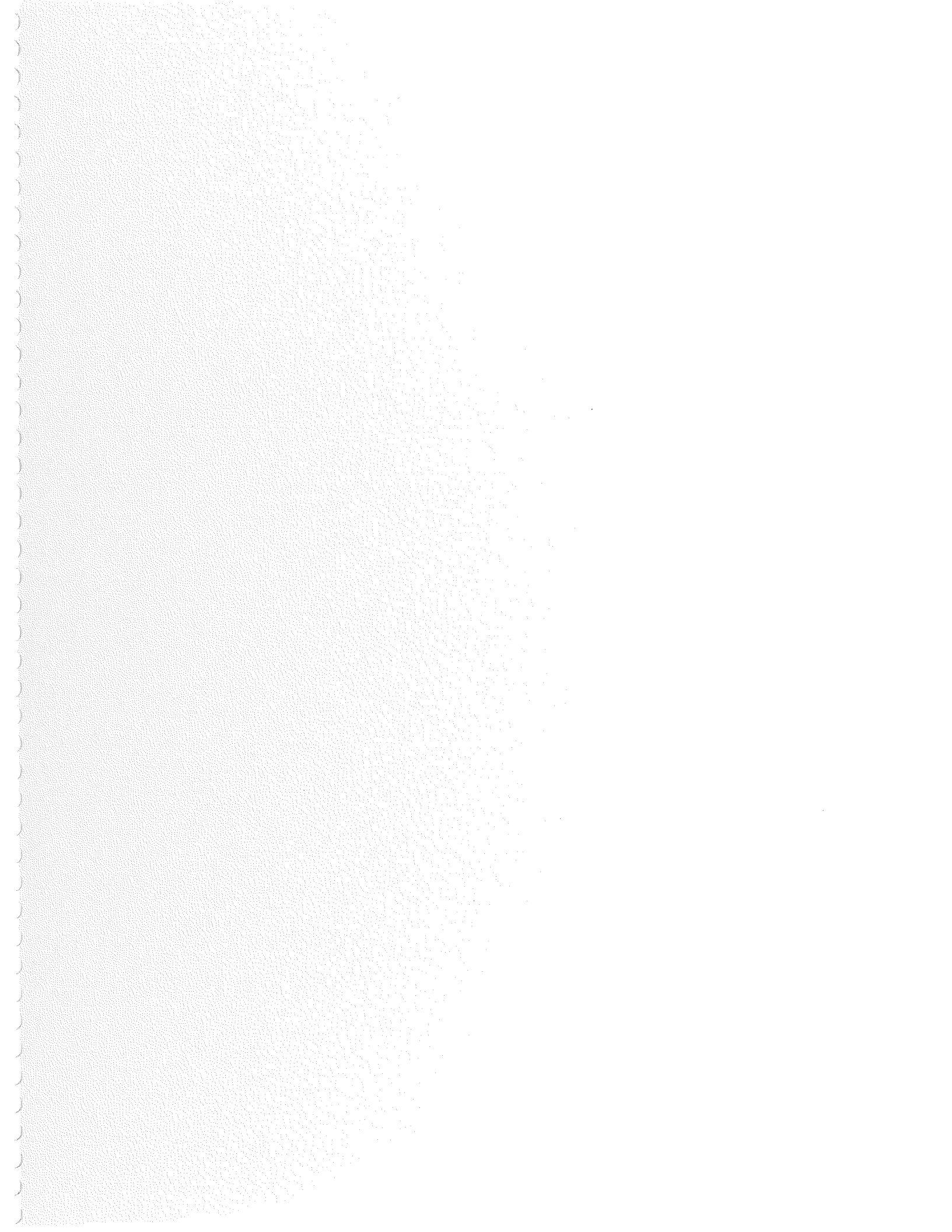
The partnership's/trust's capital account balance at the closest available reporting period, as communicated by the general partner, adjusted for intra valuation date contributions and withdrawals, subject to significant events not reflected by the partnership/trust including, but not limited to, consummated sales and significant market fluctuations.

Other

If no ascertainable value is available for the above-listed types of investments, book value of the investment shall be used for the investment's market value. If the investment is stated in foreign currency, the book value for the market value determination shall be further adjusted for currency exchange gains or losses.

Write Down - Book & Market Value

Investments determined to be permanently impaired in value shall, after the written approval of the President, be written down to a \$1 or entirely written off, and ratified by the Corporation's board.



Resolution No. 10

RESOLVED, that the write-offs of Alternative Investments - Nonmarketable for the period ended May 31, 2000, as presented to this meeting, be and are hereby ratified.

UTIMCO

**Write Off of Alternative Investments - Nonmarketable
For the Quarter ended May 31, 2000**

<u>Fund</u>	<u>Investment Description</u>	<u>Market Value</u> <u>2/29/2000</u>	<u>Market Value</u> <u>5/31/2000</u>	<u>Loss Reported</u> <u>for the period</u> <u>ended 5/31/2000</u>	<u>Date</u>	<u>Explanation</u>	<u>Book Value</u> <u>Written Off *</u>
PUF	TeraStor	\$ 13,079,083	\$ -	\$ (13,079,083)	May-00	(to be faxed)	\$ 13,079,082
		\$ 13,079,083	\$ -	\$ (13,079,083)			\$ 13,079,082
LTF	TeraStor	\$ 7,042,584	\$ -	\$ (7,042,584)	May-00	(to be faxed)	\$ 7,042,583
		\$ 7,042,584	\$ -	\$ (7,042,584)			\$ 7,042,583
Total PUF and LTF		\$ 20,121,667	\$ -	\$ (20,121,667)			\$ 20,121,665

IRR (Based on 2/29/2000 Market Value)

	<u>PUF</u>	<u>LTF</u>	<u>Combined</u>
Before Write-Off	23.74%	20.40%	22.61%
After Write-Off	23.51%	20.12%	22.37%
Change	-0.23%	-0.28%	-0.24%

13.59 % of Value - Directs
1.43 % of Value - Alternative Nonmarketable
0.18 % of Value - Total Fund (PUF and LTF)

Loss is the difference in the fair value of the investment from one period to the next.

* Remaining Book value was written down to \$1.

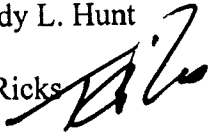


May 26, 2000

Via Facsimile

MEMORANDUM

TO: UTIMCO - Audit and Ethics Committee
A. W. "Dub" Riter, Jr., Chairman
Susan M. Byrne
Woody L. Hunt

FROM: Thomas G. Ricks 

RE: Alternative Equities – Non Marketable (Direct Co-Investment)
Terastor Corporation
Recommendation to Write \$20 million Investment in Company Down to \$1

---CONFIDENTIAL---

Terastor Corporation, Palo Alto, California, was established in 1996 to develop high capacity removable disk drive technology offering 8x current storage levels at .2x the cost. Prior to UTIMCO's involvement in 1998, Terastor raised \$40 million in four equity rounds of financing led by Information Technology Ventures (ITV), a venture capital partnership in which UTIMCO is a limited partner. The fourth round in August 1997 was financed at a \$200 million pre-money valuation and a \$470 million valuation (or \$12.16 per share). In December, 1998, UTIMCO purchased \$8 million of a \$21 million Series E Preferred Stock offering at \$1.03 per share. The ability to purchase equity in Terastor at an 85% discount to the previous round of financing was the result of certain factors:

- A breach by a Terastor supplier, Seagate, to produce optical read/write heads for Terastor's removable disk drives. This resulted in a delay in Terastor's production schedule and litigation.
- Montgomery Securities, Terastor's advisor, convinced management to price the Series E shares at the same \$470 million valuation as the Series D round. This valuation proved to be too high given the delay in Terastor's production schedule and the market correction in August 1998.

- Terastor's continuing need for operating capital with which to scale up for commercial production.

Given the reduced pricing, Terastor limited the Series E financing to \$21 million with the recognition that it would have to issue a follow on round of financing to fund volume production and to reach break-even.

Subsequently, in June, 1999, UTIMCO purchased \$12 million of a \$29.7 million Series F Preferred Stock offering at \$1.05 per share giving it a roughly 20% ownership position in Terastor. Terastor had produced a limited quantity of product at the desired specifications. Scale up to high volume production was the remaining operating challenge.

Over the ensuing year, Terastor was able to scale up production of its proprietary optical head technology. Unfortunately, Tosoh (Japan), the world's second largest producer of removable disks (e.g. CDs), could only produce 20% of any volume disk production run at the required specifications. The remaining 80% of the disks produced contained unacceptable amounts of organic matter. Terastor's laser based read/write head would "cook" the matter into carbon and create spots on the disks. Although Terastor's required disk specifications are within those currently met by hard drive (nonremovable) disk manufacturers, consistent volume production at equivalent specifications will require additional capital investment by removable CD manufacturers to build the necessary clean rooms. Tosoh and the other leading removable disk manufacturers (Maxell and Imation/3M) are not willing to make the additional investment without a certain source of demand from Terastor or other purchaser. So while Terastor's optical head technology proved out, it could not locate a supplier of disks to scale up production.

In early May, 2000, Terastor suspended operations in order to focus on two objectives:

- **Avoid Bankruptcy**

As of 5/25/00, Terastor had \$2.2 million in cash and was burning \$250,000 to \$300,000 per month in legal fees. Terastor has to convince its four creditors not to force it into involuntary bankruptcy.

- Silicon Valley Bank ("SVB")

Credit facility is for working capital advances and equipment lease financing. The facility is secured by all assets of the Company except for intellectual property. Currently, the outstanding balance is \$1.2 million and the Company is current on its payments. At the same time, it is in default of covenants requiring current payment status on other Company credit facilities and solvency ratios. The Company is scheduled to meet with SVB on June 1 to ensure that the bank does not force them into bankruptcy. According to Bill Dobbin, (Terastor CFO), SVB believes there is value in the Seagate lawsuit and will be calling investors to determine their interest in supporting litigation with additional capital.

- Finova
Credit facility is a \$4 million equipment lease line secured by leased R&D equipment. Dobbin says approximately \$1 million of the equipment is located at a sub-contractor's office (Firefly) which has expressed an interest in assuming the lease payments for this equipment. The balance of the equipment is brand name off the shelf equipment with a reasonable recovery value.
- Silicon Valley Bank/Myra Mitchell
Credit facility is a \$1.5 million equipment lease line secured by leased R&D equipment which Dobbin reports is also brand name off the shelf equipment with a reasonable recovery value. This facility will be incorporated into the discussions scheduled with SVB on June 1.
- Unsecured Trade Payables
Accounts payable currently total \$3.9 million of which \$2.4 million is owed to Olympus Corp. The Company is in discussions with Olympus to trade them equipment to settle any claims. Dobbin says that this trade would not be a preferential transfer according to their bankruptcy attorneys.
- **Settle Outstanding Litigation**
Terastor is involved in three lawsuits, which have been consolidated for purposes of discovery.
 - Joe Davis v. Knight (Terastor CTO) and McCoy (Terastor Chairman & CEO)
Background
Joe Davis ("Davis"), is an individual who worked with Gordon Knight, ("Knight") a Terastor founder and senior engineer, on a portion of Terastor's proprietary technology prior to the formation of Terastor. Davis claims:
 - he and Knight had originally formed a partnership to exploit the technology that is currently being developed by Terastor.
 - that Knight, together with Terastor Chairman/CEO Jim McCoy ("McCoy"), cut him out of the eventual formation of Terastor.
 - misappropriation of trade secrets by Knight, McCoy and Terastor.
The alleged trade secrets about which Davis complains are primarily CAD drawings prepared by Knight and Davis prior to the formation of Terastor. Davis subsequently went on to found a competitor, Quinta, that was acquired by Seagate for approximately \$400 million. Seagate subsequently wrote off its investment in Quinta. Davis received approximately \$20 million from the sale of his interest in Quinta to Seagate.
 - he is entitled to
 - a substantial portion of the founder's stock in Terastor,
 - a portion of Terastor's profits
 - a court-ordered conveyance of certain technology licenses from Terastor to Davis.

Terastor and Knight do not believe that any agreement exists or existed between Knight and Davis, and believe Davis' claims are without merit. In addition, they believe that even if the Davis claims had merit, he has not been damaged because of the success of Quinta.

Current Status of Litigation (5/25/00)

Since Joe Davis is now an employee of Seagate, settlement discussions regarding the Seagate litigation below require Seagate to use its best efforts to resolve the Joe Davis suit internally.

- Maxoptics v. Knight/McCoy/Terastor

Background

Maxoptix is a former subsidiary of Kubota, Knight's former employer. Maxoptics claims that:

- Knight, McCoy and Terastor misappropriated proprietary Maxoptix technology because Knight was employed by Maxoptix at the time of formation of the Company and for some time thereafter.
- while Knight disclosed to Maxoptix some facts relating to a corporate opportunity to exploit the technology (which Maxoptix declined), Knight failed to update Maxoptix regarding improvements to the opportunity that would have influenced Maxoptix's decision.
- it is entitled to \$20 million from Terastor and 1/3 of its common stock.

Terastor and Knight claim they engaged appropriate legal counsel to ensure they did not misappropriate any Maxoptix property, which is documented, as is Knight's attempts to convince Maxoptix to pursue the technology.

Current Status of Maxoptics Litigation (5/25/00)

The most recent action in the settlement process was a proposal by Maxoptics asking for 15% of Terastor's proceeds (if any) from the settlement of litigation with Seagate. Subsequent negotiations have reduced the proposed settlement to the greater of 8% (net of legal fees) or \$5 million. Other terms under discussion include the purchase of certain Terastor R&D equipment by Maxoptics and the licensing of Terastor technology to Maxoptics in the field of removable optical media products for computer applications. Any licensing of Terastor technology would require a payment of 25% of fees earned by Maxoptics from sub-licensing its technology. Terastor would still be able to license its technology in this field to a named set of customers. Terastor would retain the right to license its own technology in other fields. These include video and hard drive applications where some companies such as Maxell have indicated an interest.

The Maxoptics suit is very close to settlement according to Terastor Pres./COO Ahola. One remaining stumbling block is Maxoptics' intent to file against Terastor Chairman & CEO McCoy personally in the event that Terastor loses its suit against Seagate.

- Terastor v. Seagate

Background

Terastor claims that Seagate:

- breached its contract to provide critical components to Terastor which put Terastor behind schedule,
- misappropriated proprietary Terastor technology after breaching the supply contracts,
- violated antitrust laws by encouraging Maxoptix to sue Terastor to interfere with Terastor's Series E preferred stock offering.
- Al Shugart, former CEO of Seagate, admitted to terminating Seagate's performance under the Terastor contract for business reasons
- Terastor is entitled to approximately \$100 million in damages

Terastor states that Seagate's wrongful conduct was motivated by Seagate's acquisition of Quinta, the competitor to Terastor founded by Joe Davis. Seagate has asserted as a defense that its breach was justified because Terastor may not own the technology that is the subject of their contract, and thus Terastor fraudulently induced Seagate to enter into the contract.

Assessment of Seagate Litigation by Vinson & Elkins (12/98)

"Terastor's claim for breach of contract against Seagate appears strong. Seagate's termination of its performance under the Joint Development Agreement likely delayed the release of Terastor's products. In addition, Seagate's acquisition of Quinta, a Terastor competitor, raises serious questions regarding Seagate's commitment to performance under the Joint Development Agreement. Seagate's defense relating to misrepresentations of ownership may turn on the outcome of the other lawsuits in which Terastor is involved.

The misappropriation claim by Terastor is also significant, though Terastor will be required to show actual appropriation of its proprietary information by Seagate/Quinta, which is a fact-intensive and potentially complicated to prove. Discovery disputes have prevented Terastor's legal counsel from reviewing Seagate/Quinta technical information. Consequently, V&E does not have sufficient technical information to determine whether Seagate has used technology disclosed by Terastor during the course of its performance under the Joint Development Agreement.

With respect to the antitrust claim, while there is some evidence of cooperation among Seagate and Maxoptix, the filing of a lawsuit by Maxoptix that is not meritless will typically not support liability under the antitrust laws as a matter of public policy. However, if successful, Terastor's claims against Seagate could support very high damage figures."

Current Status of Seagate Litigation (5/25/00)

The most recent developments in settlement discussions emanate from a Seagate offer earlier this year to sell a Seagate disk drive division to Terastor (net of

working capital) for approximately \$110 million. This division had generated sales of approximately \$300 million and earnings of \$25 million for the last 3 years. Using cash flow and sales multiples of 6x and 7x, respectively, the division was valued at roughly \$200 million thus implying "settlement value" of \$90 million.

Terastor had received strong indications of interest from buyout funds to finance the purchase using \$30 - \$40 million of equity and \$70 million of debt. Unexpectedly, after 12 quarters of stable performance, the division's results in 1Q2000 were very disappointing. First quarter revenues were \$53 million versus plan of \$75 million with a slight loss of \$1 million. The purchase was no longer financeable using debt with the result that all parties agreed to back off until Seagate produced new projections for the division.

In May, Seagate offered a new proposal to spin out the disk drive division where Seagate would own a 90% interest and fund the division's working capital needs and where Terastor would own a 10% minority interest. Also, to the surprise of Terastor, Seagate dropped its demand to license Terastor's technology. These terms are substantially worse than originally offered by Seagate. At the same time, Seagate announced that it was being taken private by two private equity firms, Silverlake and TPG. The result is that while discussions with Seagate remain on a settlement path, negotiations have slowed as Seagate management has taken on this transaction.

Outlook

A trial date to hear the Seagate suit has been set for four months from now on September 18, 2000. Seagate has requested and received two delays to date. The judge has stated that he will not tolerate any more delay tactics. Terastor management and its attorneys believe the litigation will be settled before the trial date.

Two factors should be kept in mind if the Seagate litigation proceeds to trial:

- The outcome and cost of the trial will be simplified by a settlement of the Maxoptics litigation. Terastor asserts that Seagate's defense that its breach of the Terastor contract with Terastor was justified by Maxoptics claims to the Terastor technology will be weakened by the expected settlement of the Maxoptics litigation. In other words, Seagate will be hard pressed to claim that Terastor fraudulently induced Seagate to enter into the contract.
- Terastor's ability to quantify injury has been weakened by its inability to commercialize its technology through production of a product. Terastor's failure in this respect may be the reason Seagate recently offered substantially poorer settlement terms and dropped its long term insistence that any settlement provide for the licensing of Terastor's technology by Seagate.

There is no current estimate regarding the length or cost of the trial. A Terastor shareholders meeting has been scheduled for May 31, 2000 with Terastor's attorneys to update investors on the status of creditor discussions and litigation. Terastor's attorneys have stated that they will not work on a contingency basis but would understand Terastor's decision to use other attorneys if it so chooses.

Summary

Terastor has suspended operations and released all employees except for senior officers. As a result, the value of UTIMCO's investment has been permanently impaired. For UTIMCO to recover its entire \$20 million investment in the future, settlement and litigation proceeds (net of legal expenses, Maxoptics payments and settlement of other liabilities) must exceed \$100 million. Given the fact that any recovery will be predicated on the patience of creditors and highly uncertain outcomes regarding litigation and the licensing of Terastor's portfolio of intellectual property, I recommend that UTIMCO's investment in Terastor be written down to \$1.

cc: Cathy Iberg, UTIMCO
Charles Chaffin, UT System Audit Office
Sandra Neidhart, UT System Audit Office
Jerry Turner, Vinson & Elkins
William Strange, Deloitte & Touche LLP
Eric Rothe, Deloitte & Touche, LLP

Resolution No. 11

RESOLVED, that the Fee Request for the period September 1, 2000 through August 31, 2001 be and is hereby approved.

2000

Annual Fee and Allocation Schedule

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

(1) Allocation Ratio: PUF-52%, LTF-33%, S/TF-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)

2001

Annual Fee and Allocation Schedule

Revised 5/23/2000

Proposed Budget	UT Funds					Separate Funds	Total
	PUF	PHF	Pooled Funds	STF			
							
Market Value 2/29/00 (\$ millions)	7,924.8	965.3	2,967.0	1,886.6	749.2	236.0	14,728.9
UTIMCO Services(1)	3,329,925	485,538	2,315,274	439,185			6,569,921
Direct Expenses of the Fund							
External Management Fees	9,111,114	1,247,447	3,546,974		N/A (2)		13,905,535
External Management Fees - Performance Based	5,075,348	646,958	1,936,625				7,658,931
Other Direct Costs	1,383,460	559,938	797,292	119,637		5,000	2,865,328
Total Direct Expenses of the Fund	15,569,922	2,454,343	6,280,892	119,637		5,000	24,429,795
TOTAL	18,899,847	2,939,881	8,596,166	558,822	N/A (2)	5,000	30,999,716
Percentage of Market Value							
UTIMCO Services	0.042%	0.050%	0.078%	0.023%	0.000%	0.000%	0.045%
Direct Expenses of the Fund	0.196%	0.254%	0.212%	0.006%	0.000%	0.002%	0.166%
TOTAL	0.238%	0.305%	0.290%	0.030%	0.000%	0.002%	0.210%

(1) Allocation Ratio: PUF-51%, Health Fund-7%, LTF-35%, SITF-7%

(2) Income is net of fees no change in private investment staff or performance compensation plan (amounts may not foot due to rounding adjustments)

UTIMCO
Revised 5/23/2000
Reconciliation of 2000 budget to 2001

Projected Expenses

UTIMCO Services-2000 budget	\$ 5,730,297	
Increases(Decreases) to Budget:		
¹ Compensation- Regular	96,440	-\$128,930 is due to staffing changes, addition of fixed income manager, reduction in in-house equity managers. \$225,370 is pay increases, approximately 9% of payroll.
¹ Performance Compensation	90,677	(due to above. Same plan as prior year)
¹ Employee benefits and Payroll taxes	9,727	(due to above)
General Operating Expenses	(48,200)	(reduce budget for general reduction in budgeted costs)
² Lease Expense	609,580	(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>\$ 6,569,921</u>	
Increase over Prior Year Budget-UTIMCO fees	14.7%	
Percentage Attributable to Move	10.6%	
Direct Expenses of the Fund- 2000 Budget	\$ 14,391,091	
Increases(Decreases) to Budget:		
³ Management Fees-management changes, fee growth	9,084,806	\$ 3,540,904 is an overall increase(increase in PUF converting to a total return fund, decrease in PHF and LTF due to fee reductions. \$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>\$ 24,429,795</u>	
Increase over Prior Year Budget-Direct	69.8%	
Total Budget for 2001	<u><u>\$ 30,999,716</u></u>	

1-Compensation Adjustments by CEO
2-Increase in tenant finish out costs
3-Adjust JP Morgan to fee agreement

Resolution No. 12

RESOLVED, that the Base Salary for the President and CEO for the period September 1, 2000 through August 31, 2001, as recommended by the Compensation Committee be and is hereby approved.