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The University of Texas Investment Management Company

U T I M C O

THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

Presentation Materials Board of Directors Meeting

September 26, 2000

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UTIMCO

BOARD OF DIRECTORS MEETING

The Tower Club, Allegheny Room, Thanksgiving Tower - 48th Floor,
1601 Elm Street, Dallas, Texas

September 26, 2000

AGENDA

10:00 a.m. - 10:05 a.m.	**Call to Order/Approval of Minutes of August 23, 2000 Meeting**
10:05 a.m. - 10:15 a.m.	**FY2000 Results**
10:20 a.m. - 11:55 a.m.	**Report of Strategic Review Committee** - Approval of Private Equity Consultant - Approval of Delegations of Authority
11:55 a.m. - 12:00 p.m.	**Other** - Approval of Amended Investment Management Services Agreement
12:00 p.m.	**Adjournment/Lunch**

Next Scheduled Meeting: Friday, October 27, 2000

Resolution No. 1

RESOLVED, that the minutes of the Meeting of the Board of Directors held on August 23, 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 telephonic meeting enabling all participants to hear, on the 23rd of August 2000 at the UTIMCO Board Room, 210 West 6th Street, Second Floor, Austin, Texas 78701, 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
L. Lowry Mays
A. W. "Dub" Riter, Jr.
A. R. (Tony) Sanchez, Jr.

thus, constituting a majority and quorum of the Board of Directors. Director R. D. (Dan) Burck was absent. Director John D. McStay and J. Luther King, Jr. joined the meeting in progress as indicated below. Also participating in the meeting were Thomas G. Ricks, President of the Corporation; Cathy Iberg, Secretary of the Corporation; Dave Russ of Corporation's management; and Jerry Turner, Vinson & Elkins, legal counsel for the Corporation.

Mr. Allen called the meeting to order at 10:00 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 June 29, 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 June 29, 2000 be and are hereby approved.

Mr. J. Luther King, Jr. joined the meeting following approval of the Board minutes.

Approval of Portfolio Managers-Alternative Equities, Marketable:

The next item to come before the Board of Directors was a follow-up review and approval of $200 million commitment to Satellite Fund V. At the June 29, 2000 meeting the Board of Directors requested that two covenants to the partnership agreement be completed prior to approval. These covenants related to the general partners' investment of capital and the size and number of all capital managed by Satellite Asset Management. In response to the Board's request, Mr. Ricks and Mr. Russ stated that the principals of Satellite Asset Management agreed to invest a minimum of $30 million in personal capital in the Satellite funds in addition to limiting the number of single investors to seven, and limiting the aggregate size of all funds under management to $3.5 billion of initial contributed capital. Upon motion duly made and seconded, the following resolutions were unanimously adopted:

> RESOLVED, that capital contributions of up to $200 million in the aggregate are hereby authorized to be made to Satellite Fund V, L. P. (the "Satellite Fund") on behalf of PUF, PHF and LTF, as limited partners of the Satellite Fund; and be it further
>
> RESOLVED, that the capital contributions to Satellite Fund shall consist of initial capital contributions in the aggregate amount of $150 million, plus a $50 million reserve for future capital contributions for special situations as approved by the President and CEO of the Corporation.

Approval of Follow-on Direct Co-Investment-Alternative Equities, NonMarketable:

The last item presented to the Board of Directors was a review and approval to invest up to an additional $6 million in Songbird Hearing, Inc. Mr. Ricks and Ms. Iberg reviewed the background information previously distributed to the Directors and answered their questions. Upon motion duly made and seconded, the following resolutions were unanimously adopted:

> WHEREAS, the Board has reviewed a Due Diligence Review and Recommendation prepared by the Corporation's management recommending that the Corporation enter into a stock purchase agreement (the "Agreement") with Songbird Hearing, Inc. to invest up to an additional $6 million of PUF, PHF and LTF assets in Songbird Hearing, Inc.;
>
> 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 August 23, 2000 for Songbird Hearing, Inc. be approved; 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 the intent of the foregoing resolutions and to perform the obligations of this Corporation under the Agreement and the instruments referred to therein.

Prior to the adjournment of the meeting Mr. John McStay joined the meeting and was updated on Board approvals. There being no further business to come before the Board of Directors, the meeting was adjourned at approximately 10:27 a.m.

Secretary: ____________________________

APPROVED:

Vice Chairman: ____________________________

UTIMCO
ASSETS UNDER MANAGEMENT

	Asset Value	
	8/31/99	8/31/00
Endowment Funds		
Permanent University Fund	7,465.6	8,452.3
Permanent Health Fund	890.3	1,016.6
Long Term Fund	2,602.3	3,136.2
Separately Invested Funds	165.2	200.1
sub total	11,123.4	12,805.2
Operating Funds		
Short Term Fund	764.5	810.6
Short Intermediate Term Fund	1,769.4	1,844.4
Institutional Index Funds	13.1	71.0
sub total	2,547.0	2,726.0
Total Investment Assets	**13,670.4**	**15,531.2**

FUND PERFORMANCE
(net of fees)

	Net Asset Value (in Millions)	Periods Ended August 31, 2000				
ENDOWMENT FUNDS		One Month	Three Months	One Year	Three Years	Five Years
Permanent University Fund	$ 8,452.3	4.47	6.58	16.53	12.95	14.56
Permanent Health Fund	1,016.6	4.28	6.76	16.09	-	-
Long Term Fund	3,136.2	4.48	6.46	20.59	14.41	15.86
Endowment Policy Portfolio (Benchmark)	$ 12,605.1	3.22	5.00	14.58	13.94	15.12
OPERATING FUNDS						
Short Intermediate Term Fund	$ 1,844.4	0.99	3.17	5.87	6.04	6.19
Composite Index		0.82	2.55	5.90	5.65	5.82
Short Term Fund	810.6	0.56	1.66	6.10	5.69	5.63
90 Day Treasury Bill Rate		0.52	1.41	5.70	5.26	5.32
	$ 2,655.0					

Performance for Periods ended June 30, 2000

Fund	1 Year	3 Years
UTIMCO - LTF (net)	**16.51%**	14.28%
UTIMCO - Endowment Policy Benchmark	11.62%	13.55%
UTIMCO - PUF (net)	11.45%	12.83%
Russell/Mellon Foundation & Endowment Universe(1)	11.36%	13.64%
Russell/Mellon Universe of Funds >$1BN (2)	11.06%	13.64%
Russell/Mellon Trust Universe (3)	10.83%	13.46%
Texas Permanent School Fund	11.10%	**16.20%**
Texas Teacher Retirement System	7.86%	13.61%
Texas Employees Retirement System	6.13%	11.00%

(1) Median average return for universe of 69 and 63 funds, respectively.
(2) Median average return for universe of 97 and 90 funds, respectively.
(3) Median average return for universe of 312 and 283 funds, respectively.

Exhibit B

FOR INTERNAL USE ONLY

LTF PERFORMANCE VS. ENDOWMENTS > $1 BILLION (1)
Periods Ended June 30, 2000

University	% Asset Allocation Venture Capital	Quarter 4/1/00-6/30/00	1 Year 7/1/99-6/30/00	3 Years 7/1/97-6/30/00	5 Years 7/1/95-6/30/00
Southern California, University of	19.88	18.55	40.42	22.80	20.85
Williams College	27.91	17.50	51.18	32.12	27.22
Duke University	21.11	14.17	58.82	32.99	29.13
Massachusetts Institute of Technology	20.53	11.56	57.63	32.45	28.89
Dartmouth College	16.85	9.04	46.57	26.52	23.91
Emory University	6.55	7.42	7.89	3.90	15.04
Harvard College	14.16	7.02	32.18	21.34	23.15
Notre Dame, University of	25.67	6.09	57.92	29.08	26.40
Northwestern University	9.97	4.91	29.01	18.83	18.86
Rice University	11.59	3.98	17.45	--	--
Virginia, University of	20.76	3.50	43.65	24.75	21.34
Chicago, University of	20.04	2.65	40.89	23.95	22.56
Stanford University	23.19	2.30	38.56	23.84	23.38
Rockefeller University	20.36	2.29	34.70	23.13	22.57
Wellesley College	10.77	2.28	37.76	22.20	20.40
Rochester, University of	5.70	2.28	19.13	15.34	16.69
Brown University	0.50	0.19	22.27	15.97	16.90
Pomona College	21.77	0.06	44.74	27.11	23.48
Michigan, University of	20.77	(0.03)	43.41	22.72	20.84
Vandrbilt University	18.89	(0.07)	31.92	22.72	21.60
Case Western Reserve University	0.61	(0.19)	13.14	12.19	14.37
New York University	0.00	(0.23)	6.04	8.26	8.86
Boston College	0.53	(0.31)	15.08	15.48	15.46
California, University of	3.75	(0.42)	14.67	17.25	19.51
U.T.	**3.00**	**(0.82)**	**16.51**	**14.28**	**15.88**
Columbia University	5.91	(0.85)	18.00	12.74	16.08
Washington University	1.07	(1.14)	13.39	14.68	16.57
Johns Hopkins University	2.62	(1.60)	14.49	14.39	16.11
Cornell University	7.21	(1.70)	18.88	16.57	17.94
Pennsylvania, University of	1.36	(1.80)	(3.14)	6.88	11.96
U.T. Rank		**25/30**	**22/30**	**24/29**	**24/29**

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

Resolution No. 2

RESOLVED, that the delegation of investment authority to the Corporation's President and CEO as presented to the Board of Directors is hereby approved.

Resolution No. 3

WHEREAS, the Board has heard a presentation prepared by the Corporation's management recommending that the Corporation enter into an Investment Advisory Agreement with Cambridge Associates, Inc. to serve as a non-discretionary advisor with respect to Alternative Assets – Non Marketable investments;

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 selection of Cambridge Associates to serve as a non-discretionary advisor with respect to Alternative Assets – Non Marketable investments on the terms presented to the Board 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 of the Investment Advisory Agreement as may be necessary or in the best interests of this Corporation; and be it further

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

STRATEGIC REVIEW COMMITTEE
TALKING POINTS/RECOMMENDATIONS

UTIMCO's public constituency ("customer base") is very broad

- the U.T. System Board of Regents – its sole client
- The beneficiaries of the investment funds
  - U.T. System, A&M System, other public institutions of higher ed. (administration, faculty, students)
- The donor community
- The Legislature, through which investment authority is delegated to the U.T. Board
- The State of Texas regulatory infrastructure
  - State Auditor, State Comptroller, Legislative Budget Board
- Public at large/media

UTIMCO's primary goal is to be the model organization for investment management of public funds in Texas.

- Achievement of this objective is dependent upon:
  - the delivery of competitive investment performance
  - a process that ensures public accountability, transparency and public trust, and,
  - continual improvement in the efficiency of the investment management process
- Adoption of the following recommendations will contribute in achieving UTIMCO's primary goal

RECOMMENDATIONS FOR CONSIDERATION BY THE UTIMCO BOARD

The three major recommendations listed below are proposed as a means to:

- to improve operational efficiency by institutionalizing the investment process and thereby insulating it from employee turnover
- to define and concentrate accountability for investment performance and policy compliance on UTIMCO management
- to ensure a transparent policy and investment decision making process.

- **Continue board decision making at the policy level**
  - Appointment/evaluation/compensation/termination of chief executive officer
  - Approval of investment policy (investment objectives, asset allocation, manager selection/termination policy, performance objectives, use of derivatives, etc.)
  - Evaluate compliance with investment policies
  - Evaluate investment results against performance objectives

- **Delegate authority to UTIMCO management for:**
  - **tactical asset allocation (within approved ranges)**
  - **manager selection/termination <u>subject to the following limits</u>:**

Manager Type	Manager Exposure	(Millions) UTIMCO Management Authority Limit(1)	Authority Limit as % of Total Assets(2)
Public - Passive	portfolio value + new commitment	**$630**	5.00%
Public - Enhanced/Active	portfolio value + new commitment	**$315**	2.50%
Private - Partnership	undrawn capital+ portfolio value + new commitment(3)	**$32**	0.25%
Private - Direct	portfolio value + new commitment	**$0**	0.00%

(1) at time of award
(2) $12,605 million endowment asset base (PUF,PHF,LTF) as of 8/31/00 (adjusted annually)
(3) subject to concurring recommendation from private equity advisor

- Management's written notification to UTIMCO Board of an its intent to award a mandate under its delgation of authority
  - Management's approval shall become effective within 5 business days of notice provided that:

    - Executed certificates of compliance have been received from each Board member, and,
    - No Board member asserts his or her right of veto to the CEO
  - Management's adherence to Board-approved Investment Manager Selection And Termination Guidelines (see Exhibit A)
  - a concurring recommendation from non-discretionary advisor on selection of private equity managers (see Exhibit B)
  - verification of compliance with the Investment Manager Selection And Termination Guidelines by UTIMCO Compliance Officer and Audit and Ethics Committee (see Exhibit C).
  - Presentations by existing portfolio managers (including general partners) at each Board meeting
    - Managers with higher dollar exposures and potential for higher excess returns shall be reviewed more frequently

- **Subject to concurrence of Compensation Committee, establish a uniform performance compensation plan for UTIMCO management that recognizes:**
  - UTIMCO's compensation should be very competitive with private endowments and foundations
  - The lack of internal mobility in UTIMCO's organizational structure creates a significant retention risk
  - Performance compensation cannot be unlimited on the upside
    - For example: cap at 100% of salary
  - A significant portion of performance compensation should be tied to achievement of corporate wide objectives
  - commitment to the UTIMCO investment team is critical

EXHIBIT A

INVESTMENT MANAGER SELECTION AND TERMINATION GUIDELINES

UTIMCO Management shall be responsible for the selection and termination of internal and external portfolio managers entrusted to invest U.T. System, TAMU System and other funds. While this delegation of authority recognizes that the manager selection and termination process is inherently subjective, it is subject to compliance with the guidelines below. These guidelines are intended to:

- ensure that the appropriate managers are retained to pursue a defined investment strategy within each fund's portfolio structure, and,

- define the general conditions under which a portfolio manager may be placed on a watch list or be terminated.

These guidelines shall be reviewed at least annually by the UTIMCO Board to ensure their continued relevance.

MANAGER SELECTION

The selection of portfolio managers shall be based upon an evaluation of the following due diligence factors:

- **General Overview of Firm**

- History: date of formation, historical focus of firm, etc.
- Ownership: identify the distribution of ownership, capital adequacy, use of firm capital as management incentive tool, etc.
- Number of portfolio products/growth in number of products: identify firm resources that are dedicated to portfolio product under review
- Assets Under Management: what is historical growth pattern, what are firm's plans to manage growth, percentage of firm's assets represented by UTIMCO portfolio.
- Client profile: distribution and size of accounts, high net worth individuals vs. institutional.
- Stability of Client Base: recent history of client additions and losses, reasons for losses
- Participation of Manager's Capital in the Firm's Portfolios
- Compensation of Firm's Investment Professionals

- **Personnel**

- Interviews: meet with key decision makers on-site, check references

- Evaluation of Experience: verify that portfolio managers have a meaningful and proven historical record of success with their current or prior firms.
- Approach to Staffing: Portfolio management by single manager or multi-manager, years staff has worked together, identify relationship manager for account, determine compatibility with UTIMCO staff and process
- Dedication of Firm's Resources: compatibility of firm's organizational size with portfolio management
- Education and Background of Investment Professionals: appropriateness for level of responsibility required by the mandate.
- Turnover of Investment Professionals: historical record, reasons for departures, succession plans.
- Client Service: through marketing representative vs. portfolio manager, firm interest in establishing relationship

- **Investment Philosophy and Process**

- Competitive Advantage/Sustainability of Advantage
- Style Discipline
- Interaction of Macro Research with Security Level Research
- Quantitative vs. Fundamental Investment Approach: reliance on quantitative screens
- Country vs. Security Selection/Use of Hedging: (non-U.S. managers)
- Use of Cash
- Decision Making Process within Firm
- Research and Due Diligence: idea generation, depth of research
- Portfolio Construction/Diversification: by sector, industry, position sizze, country, value vs. equal weighting
- Buy/sell Discipline: definition and consistency of process
- Monitoring/Controls: evidence of effective compliance programs to monitor, control and administer the portfolio account.
- Operations: adequacy of administrative, operating and trading capacities relative to the number and complexity of accounts under management.
- Portfolio Risk: analyze historical and expected volatility of the portfolio vs. its benchmark, review firm's written policies concerning risk management
- Liquidity: daily volume of portfolio securities, can the account be liquidated without a large market impact

- **Historical Investment Performance**

- Comparison Against Relevant Passive Benchmarks:
- Comparison Against Relevant Universe Benchmarks:
- Cyclicality of Excess Returns; Information Ratio

- **Fees**

- Reasonableness Given the Portfolio Mandate

- Asset Based vs. Performance Based

In addition to the factors listed above, the selection of managers for alternative asset partnerships shall include the following considerations:

- **Marketable Alternative Assets:**

- Investment Strategy: identify the unique strategy and pattern of expected returns that is not achievable with traditional strategies at a lower cost. Identify the source of expected value added – stock selection, shorting, leverage, event drivers, distressed investing, etc.

- Net Exposure: identify the manager's process for determining the portfolio's net exposure (long positions less short positions), determine the historical range of net exposure.

- Fees: determine the carried interest and whether it is subject to a preferred return or high water mark/loss carry forward provision.

- Use of Leverage: determine the firm's use of leverage at the partnership level, determine the historical range of leverage used.

- Tax Status; determine the potential that the partnership's activities will create UBTI, representation from firm re: best efforts avoidance of UBTI

- Liquidity: determine the redemption and notice provisions governing the withdrawal of capital

- Transparency: determine the availability of individual portfolio transactions, i.e., ability to see through the partnership.

- **Non - Marketable Alternative Assets:**

- Deal Flow: identify the proprietary nature of the firm's deal flow and distribution of deal generation among partners.

- Key Man Provisions: determine the meaningfulness of provisions allowing for dissolution of the partnership in the event of the departure of certain key individuals from the firm.

- Fees: determine the carried interest and whether it is subject to a preferred return and a clawback.

- Use of Leverage: determine the firm's use of leverage at the partnership level (assumed to be zero and limited to 5% for transaction friction), determine use of leverage at the portfolio company level.

- Tax Status; determine the potential that the partnership's activities will create UBTI, representation from firm re: best efforts avoidance of UBTI

- Valuation Policy: determine the firm's methodology for valuing illiquid investments and the method's reasonableness.

- Realization Strategies: determine the expected strategies to be employed by the firm in realizing its investments and the degree of the firm's experience in executing such strategies.

TERMINATION OF MANAGERS

Portfolio managers (with the exception of index managers) shall be selected with the expectation of generating returns in excess of the returns for a relevant index or universe of peer managers. Managers whose performance is below expectations shall be placed on a watch list to determine whether termination is advisable. Portfolio managers shall be notified when they have been placed on a watch list. Reasons for portfolio managers to be placed on a watch list include:

- Under performance against its benchmark return or universe median return
- Significant change in portfolio composition or style
- Tracking error in excess of designated limits
- Significant changes in the manager's organization
- turnover of personnel
- ownership structure
- Growth of firm's assets under management to a level believed to inhibit effective implementation of portfolio strategy
- Unpredictable performance

If performance does not improve in a manner sufficient to justify manager retention, manager termination shall be considered. Termination of portfolio managers is expected to be infrequent but may be necessitated by the following factors:

- Fraud
- Violation of Investment Policy or Other Terms of Advisory Agreement
- Sustained Under Performance vs. Benchmarks
- Unethical Acts
- Turnover of Key Investment Professionals
- Significant Change in Ownership Structure or Control
- Assumption of Imprudent Risks
- Non Adherence to Assigned Portfolio Strategy
- Restructuring of Portfolio Mandates

EXHIBIT B

USE OF A PRIVATE EQUITIES CONSULTANT

UTIMCO's ability to execute a private equity investment program has been compromised by the departure of its private investment staff. The major impact from staff departures is on the development of investment strategy, identification of investment opportunities, and the due diligence process. The rebuilding of UTIMCO's private equity staff is not considered an attractive option at this time given the over heated demand for private equity professionals. Instead UTIMCO should contract with a private equity consultant (approved by the UTIMCO board and reporting to the CEO) to assist Management in performing the various tasks involved in managing private equities. The use of a consultant will also allow UTIMCO to a) institutionalize the manager selection process against board and staff turnover, b) demonstrate the use of an objective review process and, c) provide assistance in the rebuilding of an internal staff, if and when deemed desirable.

The recommendation to engage Cambridge Associates is based on a review of four insitutions by the Strategic Review Committee: Commonfund Capital, , Harbourvest, Pacific Corproate Group and Cambridge Associates. Following this review, the Committee selected Pacific Corporate Group and Cambridge Associates as finalists. The Committee then requested a recommendation of by Management at the next Board meeting.

Recommendation:
Extend the existing consulting relationship with Cambridge Associates, Inc. to include a role as private equity advisor.

SUMMARY COMPARISON OF PACIFIC CORPORATE GROUP VS. CAMBRIDGE ASSOCIATES

DATE ESTABLISHED
- **PCG – 1979**
- **Cambridge – 1975**

Both firms were early advocates of private equity investing by insitutional funds and remain on the forefront of private equity consulting.

OFFICES
- **PCG**
  La Jolla, CA

- **Cambridge**
  Boston, MA, Washington, D.C.; Menlo Park, CA; and London.

BUSINESS SERVICES
- **PCG**
  Concentrates exclusively on providing both discretionary and non-discretionary private equity advisory services for insitutional investors. Its services include investment policy and strategy, investment manager search and evaluation; direct investing, portfolio monitoring, and performance measurment. It also offers extensive proprietary asset class and manager databases and research as well as financial databases and research which serve as the platform for all of its consulting and advisory work.

  PCG has recently expanded into fund of funds management beginning in 1997. It has two small private equity funds of funds serving high net worth individuals. In addition, it entered into a joint venture with Mitsubishi to raise a $100 million US private equity fund of funds targetted at Japanese insitutional investors. More recently, PCG is forming a target $500 million fund of funds aimed at union funds.

- **Cambridge**
  Provides investment and financial research, consulting, and non-discretionary advisory services for endowments and other nonprofit institutions. Its services include: investment policy and strategy consulting and advice; investment manager search and evaluation; alternative assets consulting and advice; financial management consulting and advice; and performance monitoring. It also offers extensive proprietary asset class and manager databases and research as well as financial databases and research which serve as the platform for all of its consulting and advisory work.

Cambridge formed Cambridge Capital Advisors (CCA) in 1994 to provide comprehensive investment consulting services to endowed institutions with their alternative assets portfolios.

CLIENT BASE/KNOWLEDGE OF ENDOWMENTS

- **PCG**
  PCG has no endowment or foundation clients. Its major clients are almost all public employee retirment systems representing approximately $13.5 billion in private equity assets. Major clients are CALPERS, NYCERS, Colorado Fire and Police Pension Association, State of Washington Retirement System, State of Oregon Public Employee Retirement Fund, Employees retirement System of Rhode Island , World Bank Pension Fund. (It developed the Investment Policy and other guidelines supporting Texas Teachers Retirement System's recent 3% allocation to private equities.)

- **Cambridge**
  Cambridge's clients are colleges and universities representing almost three quarters of US higher education endowment assets as well as other endowed institutions, international institutions, families and corporations. Clients currently using Cambridge's private equity advisory service are The Wellcome Trust, Howard Hughes Medical Institute, Bell South, Memorial Sloan Kettering Cancer Center among others.

HISTORICAL RELATIONSHIP WITH UT/UTIMCO

- **PCG**
  Limited to meetings in early 1990s to review private equity advisory capabilities and U.T. interest in direct investing in JEDI (Enron/CALPERS).

- **Cambridge**
  Provider of investment research reports for 15 years.
  Performed Investment Office Study in 1994 leading to recommendation to form investment management company.
  Performed Asset Allocation studies in 1996 and 1999
  Performed Private Equity Portfolio Evaluation in April, 1999
  Provider of research reports on hedge fund managers – 1999
  Performed PUF spending policy review (February,2000

EMPLOYEES

- **PCG**
  Including Chris Bower as CEO, PGC operates with 30 employees. PCG's organizational structure consists of Investment Management and Investment Administration. Investment Mangement is comprised of 18 professionals (COO, 2 principals, 5 Vice Presidents, 3 Associates and 7 analysts). Investment Administration consists of the CFO, Manager of Marketing Services, and 9 executive assistants.

- **Cambridge**
  Firm has over 300 employees, including a professional staff of over 70 consultants backed by over 80 research professionals. Under this service, CCA plays an intensive and active role, setting agendas, proposing ideas and conducting all follow-up work, subject to their client's approval.

  Within this total, Cambridge employs 20 consultants, 12 research professionals and 16 control professionals that provide alternative asset consulting services.

INVESTMENT PROCESS

- **PCG vs. Cambridge**
  Both PCG and Cambridge employ essentially the same process beginning with policy and strategy development through execution and performance monitoring and reporting. Cambridge differs in viewing the asset class in the context of relative valuations while PCG applies a corporate finance approach to analyzing the underlying portfolio companies. It uses this same corproate finance approach across all investments, both partnerships and directs. PCG's proposed allocations within private equity reflect a captial weighted market distribution that favors buyouts and would result in a portfolio fairly similar to UTIMCO's current portfolio with a historical retun in the low 20's. PCG's strength in buyouts with its large public funds clients is redundant with that of UTIMCO's. Cambridge is strongest in venture capital where UTIMCO's portfolio is weakest. It believes venture capital offers the best risk/return trade-off and advocates a 60% to 70% exposure in a portfolio.

PROPOSED TEAM STRUCTURE

- **PCG**
  PCG proposed a three person team headed by Michael Russell, Principal and supported by Adrienne Gains, and a research analyst. Mike has nine years experience in corporate finance . He was formerly with CIBC Wood Gundy's investment banking group. He has law and MBA degrees from the University of British Columbia.

- **Cambridge**
  5 Person team. Two Consultants (Bruce Myers, Managing Director and Stephen Symchyck)Two Alternative Asset Specialists (Astrid Noltemy (responsible for alternative assets research and portfolio monitoring services), Kristine Dailey,(Non Marketable Alternative Research) private equity and venture capital, oil and gas) and an Associate

INVESTMENT PERFORMANCE:

PCG

PCG's clients are virtually all large public retirment funds. PCG's composite portfolio consists of the approved private equity investments of all of its disscretionary and non-discretionary clients for the period 1990-1998. It consists of a) $4.1 billion of commitments to 89 U.S. partnerships with an IRR of 25.3%, b) $1.2 billion of commitments to 14 direct investments with an IRR of 21.9%, and c) $450 million in commitments to 16 non U.S. partnerships with an IRR of 32.8%.

- **Cambridge**
  Cambridge's clients are private entities that demand confidentiality.
  Client X: $2.6 billion commitments over a 7 year period beginning in 1993. Portfolio consists of 72 US venture capital partnerships, 50 US private equity (buyout) partnerships, and 51 global private equity partnerships. Portfolio IRR = 66%
  Client Y: $350 million commitments over 4 years to 28 different funds among 15 managers. (75% early stage venture capital and 25% buyouts). Portfolio IRR = 155%

QUOTED FEES

- **PCG**
  $1,500,000 annual retainer

- **Cambridge**
  0.25% management fee for a program committing $300 million per year scaling down by 10% each year to a 0.10% minimum base fee. Based on UTIMCO's expected commitments over the next five years, Cambridge's fee would reach $3 million after 4 years, increase to $3.9 million and decline thereafter (assuming no new commitments after 5 years). Cambridge's fee is approximately 2x to 2.5x that of PCG's.

REFERENCE CHECKS

- **PCG**
  Generally positve. Criticism frequently expressed over employee turnover and management style of CEO (see Exhibit B).

- **Cambridge**
  Uniformly positive. (See Exhibit B).

CONFLICTS OF INTEREST

- **PCG**
  PCG is an independent firm. However, like many of its competitors in the private equity advisory industry, PCG has begun to expand into providing discretionary fund of funds to its clients. These funds generally earn higher fees than non-discretionary advisory services. This disparity in fees provides an economic incentive for advisors to favor their fund of funds clients when representing clients to partnerships. This development has elicited criticism from industry observers. PCG's current fund of funds products at $200 million generate approximately 25% of its revenues.

- **Cambridge**
  An independent firm that has placed a special emphasis on avoiding conflicts of interest. It does not receive fees from financial firms and institutions nor does it manage money.

Resolution No. 4

RESOLVED, that the Amended and Restated Investment Management Services Agreement between the Corporation and the Board of Regents of The University of Texas System be and is hereby approved.

AMENDED AND RESTATED INVESTMENT MANAGEMENT SERVICES AGREEMENT

This Amended and Restated Investment Management Services Agreement (this "Agreement") by and between the Board of Regents (the "U.T. Board") of The University of Texas System (the "U.T. System") and The University of Texas Investment Management Company ("UTIMCO"), a Texas non-profit corporation, is effective November 16, 2000 ~~March 1, 1996~~, (the "Effective Date") and amends and restates that certain Investment Management Services Agreement by and between the U.T. Board and UTIMCO, effective March 1, 1996 as amended by the first amendment effective June 2, 1997, the second amendment effective November 12, 1998 and the third amendment effective September 1, 1999 .

RECITALS

WHEREAS, the U.T. Board, pursuant to the Constitution and statutes of the State of Texas, is responsible for the investment of the Permanent University Fund, the local and institutional funds of the U.T. System and the funds of various trusts and foundations for which it serves as trustee, all of which funds are under the control and management of the U.T. Board; and

WHEREAS, Section 66.08, Texas Education Code, as amended, authorizes the U.T. Board, subject to certain conditions, to enter into a contract with a nonprofit corporation for the corporation to invest funds under the control and management of the U.T. Board, as designated by the U.T. Board; and

WHEREAS, UTIMCO has been organized under the laws of the State of Texas, including the Texas Non-Profit Corporation Act, Article 1396-1.01 et seq., Vernon's Texas Civil Statutes, for the express purpose of investing funds under the control and management of the U.T. Board, as designated by the U.T. Board, in accordance with the laws of the State of Texas; and

WHEREAS, the U.T. Board desires to enter into this Agreement with UTIMCO in order to provide for UTIMCO to invest certain designated funds under the control and management of the U.T. Board; and

WHEREAS, UTIMCO desires to enter into this Agreement with the U.T. Board and to invest certain designated funds under the control and management of the U.T. Board; and

WHEREAS, all conditions precedent to the execution and delivery of this Agreement have been fully satisfied and fulfilled, including, without limitations, the conditions established by Section 66.08, Texas Education Code, as amended;

NOW THEREFORE, for and in consideration of the premises and the mutual promises contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

AGREEMENT

Section 1. Definitions.

Accounts shall mean those funds for which the U. T. Board has responsibility, namely (a) the Permanent University Fund, excluding PUF Lands, (b) the Permanent Health Fund, (c) the U. T. Board Accounts and (d) the U. T. Board Trust Accounts.

Available University Fund or ***AUF*** shall mean the fund in which all distributions from the Permanent University Fund from the total return on all investment assets in the Permanent University Fund~~the dividend, interest and other income of the Permanent University Fund (less administrative expenses)~~, including net income attributable to the surface of PUF Lands, all as provided by Article VII, Section 18 of the Texas Constitution.

Affiliate shall mean an entity directly or indirectly controlling, controlled by, or under common control with UTIMCO, including an entity with whom UTIMCO has an express or implied agreement regarding the direct or indirect purchase of investments by each from the other.

Claims shall mean all claims, lawsuits, causes of action and other legal actions and proceedings of whatever nature brought against (whether by way of direct action, counter claim, cross action, or impleader) any Indemnified Party and all requests or demands for indemnification made by any third party upon any Indemnified Party, even if groundless, false or fraudulent, so long as the claim, lawsuit, cause of action, other legal action or proceeding, request or demand is alleged or determined, directly or indirectly, to arise out of, result from, relate to or be based upon, in whole or in part, the duties, activities, acts or omissions of any person arising under this Agreement.

Custodian or ***Custodians*** shall mean a commercial bank, trust company or other entity selected by UTIMCO to hold and safekeep physical securities representing investment assets of any Account and to perform the other functions listed in Section 5 hereof. The primary Custodian as of the effective date of this Agreement is Mellon Trust of Medford, Massachusetts. Substitute or additional Custodians may be appointed by UTIMCO from time to time.

Indemnified Parties shall mean UTIMCO and any of its officers, directors, employees and agents.

Investment Policies shall mean the written investment policies relating to the PUF, the PHF, LTF, the SIF, the S/ITF and the STF which ~~attached hereto as Exhibit A, as the same~~ may be amended from time to time by UTIMCO with the consent and approval of the U.T. Board.

Long Term Fund or ***LTF*** shall mean the long-term pooled investment fund previously established by the U.T. Board for the collective investment of all endowment and other long-term funds of component institutions of the U.T. System. ~~(other than the Permanent University Fund and other funds subject to use restrictions that are inconsistent with investment in such Long Term Fund).~~

Losses shall mean losses, costs, damages, expenses, judgments and liabilities of whatever nature (including, but not limited to, attorneys', accountants' and other professionals' fees, litigation and court costs and expenses, amounts paid in settlement, amounts paid to discharge judgments and amounts payable by an Indemnified Party to any other person under any arrangement providing for indemnification of that person) directly or indirectly resulting from, arising out of or relating to one or more Claims.

Permanent Health Fund or ***PHF*** shall mean collectively the permanent funds for health-related institutions established pursuant to Chapter 63, Texas Education Code for which the U. T. Board is an administrator.

Permanent University Fund or ***PUF*** shall mean the constitutional fund known by that name and established pursuant to Article VII, Section 11 of the Texas Constitution.

Permanent University Fund Lands or ***PUF Lands*** shall mean the approximately 2,109,109 acres of land located in 24 Texas counties and constituting a part of the Permanent University Fund.

~~***Q.E.I.E.*** shall mean the quasi-endowment fund established by the U.T. Board on December 8, 1988, to provide performance compensation for professional staff employed by the Office of Asset Management.~~

Separately Invested Funds or ***SIFs*** shall mean U.T. System Funds or U.T. Board Trust accounts which by election of the U.T. Board or by requirement of the trust indenture or donative instrument are invested -separately and apart from other U.T. System Funds and the PUF.

Short/Intermediate Term Fund or ***S/ITF*** shall mean the short/intermediate term pooled investment fund previously established by the U.T. Board for the collective investment of funds (other than endowment and other long-term funds, including the Permanent University Fund) of the component institutions of the U.T. System.

Short Term Fund or ***STF*** shall mean the money market mutual fund or funds approved by UTIMCO from time to time as an investment for U.T. System Funds. ~~As of the effective date of this Agreement, the only Short Term Fund is a money market mutual fund known as the Financial Square Prime Obligations Fund, which is a series of the Goldman Sachs Money Market Trust. Substitute or additional money market mutual funds (including internally managed funds) may be approved by UTIMCO from time to time as the Short Term Fund.~~

U.T. Board Accounts shall mean the investment assets of the U.T. System, consisting of the Long Term Fund, the Short/Intermediate Term Fund, the Short Term Fund and the Separately Invested Funds.

U.T. Board Trust Accounts shall mean the assets of charitable remainder trusts, foundations and other separately invested funds for which the U.T. Board serves as trustee on behalf of itself and other co-beneficiaries.

U.T. System Funds shall mean all funds under the control and management of the U.T. Board, other than the Permanent University Fund, the Permanent Health Fund and the U.T. Board Trust Accounts.

Section 2. Delegation of Investment Authority.

The U.T. Board hereby appoints UTIMCO as its investment manager with complete authority to act for the Board in the investment of the Accounts, subject, however, to such limitations and restrictions as are set forth in the Investment Policies. UTIMCO shall furnish the U.T. Board with continuous investment management services and shall invest and reinvest the assets of the Accounts in such ways and at such times as are believed by UTIMCO to be consistent with the Investment Policies and Section 4 hereof. UTIMCO shall be responsible for overall management of the U.T. Board's investment affairs and shall manage each Account as a discretionary account.

Section 3. Description of Investment Management Services.

During the term of this Agreement, UTIMCO shall provide the following services in conjunction with the investment of the Accounts:

a) **Investment Policies**:
UTIMCO shall review current investment policies for each Account and recommend any amendments for approval by the U.T. Board. Such review shall include distribution (spending) guidelines, long-term investment return expectations and expected risk levels, asset allocation targets and ranges for each eligible asset class, expected returns for each asset class and fund, and designated performance benchmarks for each asset class.

b) **Investment Management**:

UTIMCO shall oversee the investment management process. Such oversight shall include the development of an investment outlook based on global economic and capital market forecasts, the rebalancing of allocations to each asset class within ranges in response to changes in the investment outlook, and the selection of a combination of portfolio managers to construct portfolios designed to generate the expected returns of each asset class.

c) **Investment Performance**:
UTIMCO shall monitor and report on investment performance for the PUF and U.T. Board accounts. Such responsibilities shall include the calculation and evaluation of performance of asset classes and individual portfolios, against established benchmarks over various periods of time, the periodic review of performance benchmarks, the reporting of investment performance of Separately Invested Assets and U.T. Board Trust Accounts as requested by the U.T. Board, and the reporting to regulatory agencies and others regarding investments under management to the extent required by applicable law.

d) **Operations**:
UTIMCO shall execute such operational responsibilities as the purchase and sale of investments, settlement of all trades (to the extent such trades are not settled by Custodian or brokers), the accounting for all transactions at the portfolio level in accordance with generally accepted accounting principles, the preparation and delivery of periodic financial reports on all funds; and the maintenance of complete books and records (internally or through contract with the designated Custodian for the assets under management) reflecting transactions and balances of the Accounts.

e) **Books and Records**:
UTIMCO shall maintain the books and records for each Account on the basis of a fiscal year ending August 31st (or such other fiscal year as the U.T. Board may establish from time to time), and shall keep full separate records of all transactions with respect to each Account. The books and records of the Accounts and all records concerning UTIMCO's operations shall be available during normal business hours for inspection by an authorized representative of U.T. System. UTIMCO shall provide full audit access to auditors representing the U.T. Board or the State Auditor, including access to any and all information concerning the operations of UTIMCO.

f) **Other Services**:
UTIMCO shall perform other investment management services to include attending meetings of the U. T. Board and making such reports as the U. T. Board may request from time to time, rendering services to promoters of private equity investments in which UTIMCO has decided to invest, attending meetings of governing bodies of companies in which UTIMCO's managed Accounts have invested, voting of securities (or proxies with respect thereto) held as investments of the Accounts; providing U. T. System component institutions with annual endowment reports reflecting, among other things, changes in the investment value of such component's endowment and distributions made to such

component to support the activities for which the endowment was established; providing charitable trust administration services such as portfolio management, annual tax return preparation, annual trust reporting to donors and remittance of quarterly distributions; providing annual reporting of investment transactions and balances and distributing funds to authorized beneficiaries on foundation accounts; effecting distributions directly or through the Custodian to U. T. System component institutions or other named beneficiaries from the Accounts; supporting and maintaining on-line account information system for endowment accounts; and any other services necessary to provide investment management of the Accounts.

Section 4. Investment Manager as Fiduciary.

UTIMCO acknowledges that it will be acting as a fiduciary with respect to managing the investments of the Accounts ~~and that,~~ subject to the Investment Policies and applicable law.~~, it will exercise the judgment and care under the circumstances then prevailing that persons of ordinary prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of their capital~~. The U.T. Board recognizes that all investment transactions involve a variety of significant potential risks, including, without limitation, market risk, liquidity risk, credit risk, cash flow risk, operational risk and counterparty risk. The U.T. Board agrees that (i) UTIMCO will not be liable for any losses incurred in the Accounts as a result of investments made pursuant to the Investment Policies, and (ii) UTIMCO will not be liable for actions of co-fiduciaries. The Board also acknowledges that UTIMCO shall not be liable for, and, to the fullest extent authorized by the Constitution and laws of the State of Texas, agrees to hold UTIMCO harmless from the consequences of any action taken or omitted to be taken by the U.T. System or any of its employees or agents prior to March 1, 1996. ~~the Effective Date of this Agreement~~.

Section 5. Custody of Assets.

UTIMCO shall use custodians for safekeeping, settlement of security purchases, sales, collection of income and other duties as more fully described in the existing custody agreement between the U.T. Board and the Custodian, which agreement, together with the U.T. Board's rights, duties and obligations thereunder, has been ~~or shall be~~ assigned to UTIMCO. In addition, UTIMCO may from time to time use a brokerage firm to settle security sales on behalf of the Board and may invest in a regulated mutual fund, externally managed commingled funds, or other investments ~~or the Common Fund,~~ in which assets are held outside of the bank custody relationship. Any physical certificates not held in safekeeping with a Custodian shall be held in safekeeping at a local bank as designated by UTIMCO.

Section 6. Use of Unaffiliated Investment Managers.

UTIMCO shall be entitled to use unaffiliated investment advisors to invest all or part of the Accounts and to perform other duties as more fully described in existing investment advisory agreements between the U.T. Board and such investment advisors, which agreements, together with the U.T. Board's rights, duties and obligations thereunder, have been ~~or shall be~~ assigned to UTIMCO.

Section 7. Investment Management Fees; Direct Expenses.

For services performed hereunder, UTIMCO shall be compensated in the amounts and in the manner set forth below.

~~a) **Organizational Fee:**~~
~~On the Effective Date, the U.T. Board shall pay UTIMCO the sum of $250,000 as reimbursement for expenses incurred in organizing UTIMCO to provide the investment management services required herein. Any excess funds remaining after payment of all actual organizational expenses shall be rebated back to the U.T. Board.~~

~~b) **Working Capital Fee:**~~
~~On the Effective Date, the U.T. Board shall pay to UTIMCO an amount equal to $500,000 to be used by UTIMCO as a working capital reserve. Said reserve shall be used, as needed, to pay operating expenses associated with the general management of the Accounts and shall be reviewed annually to determine its level of adequacy.~~

~~c) **In-Kind Transfer of Office Equipment:**~~
~~On the Effective Date, the U.T. Board shall transfer title to certain equipment currently used by the Office of Asset Management of the U.T. System listed on Exhibit B hereto with an estimated book value of $631,000.~~

~~d)~~a)~~)~~ **Annual Budget and Management Fee:**
UTIMCO shall submit to the U.T. Board its proposed annual budget for the following fiscal year (an "Annual Budget") within the time frame specified by the Board. The Annual Budget shall include all estimated expenses associated with the management of the Accounts. The Annual Budget shall also include an annual UTIMCO management fee (an "Annual UTIMCO Management Fee") which shall include all operating expenses associated with the general management of the Accounts, including, without limitation, salaries, benefits and performance compensation of portfolio management and support personnel, expenses for consulting services, office space lease expenses, office furniture and equipment expenses, professional, legal, payroll, and other general services expenses, travel, insurance, capital expenditures, and other miscellaneous expenses incurred by UTIMCO in connection with the performance of its obligations hereunder.

At the same time that UTIMCO submits its Annual Budget, it shall also submit to the U.T. Board an allocation formula for charging the Annual Budget to the Accounts. The

Annual Budget and the allocation formula shall be approved or disapproved by the U.T. Board at its next regular meeting. The U.T. Board will not unreasonably withhold approval of the Annual Budget or the allocation formula. Any such Budget or formula that is disapproved shall be promptly revised by UTIMCO and re-submitted to the U.T. Board for approval.

On or before the first day of each fiscal quarter, UTIMCO shall be entitled to charge each Account with its allocable share (determined in accordance with the allocation formula then in effect) of one-fourth of the amount of the Annual UTIMCO Management Fee to pay UTIMCO's operating expenses for the succeeding fiscal quarter. UTIMCO shall be entitled, with the approval of the U.T. Board, to revise the Annual UTIMCO Management Fee and allocation formula at any time during a fiscal year. Any statements for partial quarters at the beginning or end of this Agreement shall be prorated to reflect the actual time services were rendered during such partial quarters.

UTIMCO is hereby authorized to pay from each Account direct expenses incurred for portfolio management, custodian, auditing, and other services which are performed by external vendors specifically for each Account. ~~UTIMCO is authorized to pay expenses incurred on behalf of the Permanent University Fund by submitting a purchase voucher to the State Comptroller for payment of said expenses from the Available University Fund. Notwithstanding the above, vouchers submitted for quarterly payment of the Annual UTIMCO Management Fee from the AUF shall require the approval of the Office of Investment Accounting of the U.T. System (or any successor to the functions of that office).~~

~~e)~~b) **Directors Fees:**

Members of UTIMCO management, with the approval of the UTIMCO Board, may serve as directors of companies in which UTIMCO has directly invested Account assets. In such event, any and all compensation paid to UTIMCO management for their services as directors shall be endorsed over to UTIMCO and considered a part of UTIMCO's fee income. Furthermore, UTIMCO Board approval of UTIMCO management's services as directors of investee companies shall be conditioned upon the extension of UTIMCO's Directors and Officers Insurance Policy coverage to UTIMCO management's services as directors of investee companies.

~~f)~~c) **Fees For Services Rendered:**

Members of UTIMCO management may perform services for which UTIMCO receives a fee ("Service Fees") from investment promoters or investee companies in consideration of the UTIMCO staff's private investment activities and/or investment origination activities. Such Service Fees shall be considered additional fee income to UTIMCO. UTIMCO may also receive commitment fees, standby fees and other similar fees ("Capital Fees") accruing or inuring to the capital invested on behalf of the Accounts managed by UTIMCO. Such Capital Fees shall be credited to the Accounts from which such investments are funded.

d) **Miscellaneous Fees:**
UTIMCO management may perform specialized services for accounts that are separately invested for which UTIMCO receives a fee from the account. These fees primarily relate to maintenance of computer programs for the separately invested accounts. Such Miscellaneous Fees shall be considered additional fee income to UTIMCO.

Section 8. Brokerage Commissions.

The U.T. Board acknowledges and agrees that the investment management fees provided for in Section 6 are in addition to any compensation that may be due to a broker or dealer in effecting and executing transactions on behalf of UTIMCO. UTIMCO is hereby authorized and empowered, with full and absolute discretion, to issue instructions in accordance with the Investment Policies to such unaffiliated brokerage firms as may be selected by UTIMCO for the execution of orders for the purchase, sale, exchange and general investment of the Accounts; provided that UTIMCO shall not select a brokerage firm that is an Affiliate of UTIMCO. All orders for Account transactions shall be placed in such markets and through such brokers as UTIMCO determines will offer the most favorable price, execution and commission cost of each order. The U.T. Board acknowledges and agrees that UTIMCO, from time to time and in accordance with applicable law, may pay commissions to brokers that are higher than those that might be obtainable elsewhere in order to obtain from such brokers research and other services expected to enhance the long-term value of the Accounts. ~~Notwithstanding the preceding sentence, UTIMCO agrees that the average commission rate paid to brokers on all orders for transactions for the Accounts shall not exceed 6¢ per share or such other rate (higher or lower) as shall be set by the U.T. Board from time to time.~~

Section 9. Valuation of Account Assets.

~~For the purposes of reporting the valuation of each Account, the market value of the securities (including cash and short term equivalents) settled in the Account shall be determined as of the close of business on the last business day of each fiscal quarter by the Custodian.~~
The valuation of the account shall be determined in accordance with the investment policies approved by the U. T. Board for the account.

Section 10. Representations and Warranties of Parties.

U.T. Board.

A. The U.T. Board (a) is duly established and validly existing under the laws of the State of Texas and is an agency of the State of Texas, (b) has all power and authority and all material government licenses, authorizations, consents and approvals required to carry on its business as now conducted, and (c) has full power and authority to execute, deliver and perform this Agreement.

B. The execution, delivery and performance by the U.T. Board of this Agreement have been duly authorized by all necessary action and do not contravene, or result in the violation of or constitute a default under, any provision of applicable law or regulation, or any order, rule or regulation of any court, governmental agency or instrumentality or any agreement, resolution or instrument to which the U.T. Board is a party or by which it or any of its property is bound.

C. No authorization, consent, approval, permit, license, or exemption of, or filing or registration with, any court or governmental department, commission, board, bureau, agency or instrumentality that has not been obtained or issued is or will be necessary for the valid execution, delivery or performance by the U.T. Board of this Agreement.

D. This Agreement constitutes a valid and binding agreement of the U.T. Board.

E. There is no action, suit or proceeding pending or, to the knowledge of the U.T. Board, threatened against or affecting the U.T. Board or the U.T. System, or relating to this Agreement, in any court or before or by any governmental department, agency or instrumentality which, if adversely determined, would materially affect the ability or authority of the U.T. Board to enter into, and perform its obligations under, this Agreement, or which in any manner questions the validity or enforceability of this Agreement.

F. The U.T. Board has approved ~~and does hereby approve~~:
   (1) the Articles of Incorporation and Bylaws of UTIMCO; ~~attached as Exhibits D and E, respectively;~~
   (2) the Investment Policies;
   (3) the audit and ethics committee of UTIMCO;~~, the members of which are listed on Exhibit F ;~~ and
   (4) the Code of Ethics of UTIMCO ~~attached as Exhibit G~~.

G. The U.T. Board has been provided with the opportunity to ask questions of, and it has received answers thereto satisfactory to it from, UTIMCO and its representatives regarding this Agreement and has obtained all additional information requested by it of UTIMCO and its representatives prior to entering into this Agreement.

UTIMCO.

A. UTIMCO (a) is duly organized and validly existing as a Texas non-profit corporation under the laws of the State of Texas, particularly the Texas Non-Profit Corporation Act, Article 1396-1.01 et seq., Vernon's Texas Civil Statutes, (b) has all corporate power and authority and all material government licenses, authorizations, consents and approvals required to carry on its business as now conducted, and (c) has full power and authority to execute, deliver and perform this Agreement.

B. The execution, delivery and performance by UTIMCO of this Agreement have been duly authorized by all necessary action by UTIMCO and do not contravene, or result in the violation of or constitute a default under, any provision of applicable law or regulation, or any order, rule or regulation of any court, governmental agency or instrumentality or any agreement, resolution or instrument to which UTIMCO is a party or by which it or any of its property is bound.

C. No authorization, consent, approval, permit, license, or exemption of, or filing or registration with, any court or governmental department, commission, board, bureau, agency or instrumentality that has not been obtained or issued is or will be necessary for the valid execution, delivery or performance by UTIMCO of this Agreement.

D. This Agreement constitutes a valid and binding agreement of UTIMCO.

E. There is no action, suit or proceeding pending or, to the knowledge of UTIMCO, threatened against or affecting UTIMCO, or relating to this Agreement in any court or before or by any governmental department, agency or instrumentality which, if adversely determined, would materially affect the ability or authority of UTIMCO to enter into, and to perform its obligations under, this Agreement, or which in any manner questions the validity or enforceability of this Agreement.

Section 11. UTIMCO's Code of Ethics. ~~Prohibition Against Self-Dealing.~~

Consistent with the requirements of Section 66.08, Texas Education Code, UTIMCO's Directors, and Employees shall abide by UTIMCO's Code of Ethics as approved by the U. T. Board. ~~shall not enter into an agreement or transaction with any of the following:~~

~~A. A director, officer, or employee of UTIMCO acting in other than an official capacity on behalf of UTIMCO;~~

~~B. A business entity in which a director, officer, or employee of UTIMCO has an interest;~~

~~C. A former director, officer, or employee of UTIMCO on or before the second anniversary of the date the person ceased to be a director, officer, or employee of UTIMCO;~~

~~D. A business entity in which a former director, officer, or employee of UTIMCO has an interest on or before the second anniversary of the date the person ceased to be a director, officer, or employee of UTIMCO.~~

~~For purposes of this Section, a person has an interest in a business entity if (i) the person owns five percent or more of the voting stock or shares of the business entity; (ii) the person owns five percent or more of the fair market value of the business entity; or (iii) money received by the person from the business entity exceeds five percent of the person's gross income for the preceding calendar year. Any agreement or transaction entered into in violation of this Section 11 is void.~~

Section 12. UTIMCO's Open Meeting Policy.

UTIMCO shall comply with the provisions of its Open Meeting Policy as approved by the U.T Board.

Section 13~~12~~. Prohibition Against Service to Other Clients.

In accordance with Section 66.08, Texas Education Code, UTIMCO shall not engage in any business other than managing the Accounts under this Agreement.

Section 14~~13~~. Investment Company Act.

UTIMCO shall not be required to register as an "investment company" under the investment Company Act of 1940, as amended.

Section 15~~14~~. Termination.

The U.T. Board may terminate this Agreement at any time by written notice to UTIMCO, effective immediately upon receipt of such notice by UTIMCO, subject to reasonable allowance for settlement of pending trades. UTIMCO may terminate this Agreement upon thirty (30) days' written notice to the U.T. Board. There shall be no penalty for termination; however, UTIMCO shall be entitled to all compensation and benefits earned prior to termination.

Section 16~~15~~. Amendments.

No amendment hereto shall be effective unless executed in the same manner as this Agreement.

Section 17~~16~~. Notices.

All notices or communications hereunder shall be in writing and shall not be effective until hand delivered and receipted to the other party, or sent by overnight delivery, or sent by United States Certified or Registered Mail, postage prepaid, to the addressed party. The following are the designated addresses for such notices or communications and may only be changed by communication in the manner required by this paragraph:

To U.T. Board:
Board of Regents of The University of Texas System
Attn: Executive Secretary
201 West Seventh Street
Austin, Texas 78701
Tel. (512) 499-4402
Fax. (512) 499-4425

To UTIMCO:
The University of Texas Investment Management Company
Attn: President
210 West Sixth St. - 2nd Floor
Austin, Texas 78701
Tel. (512) 499-4337
Fax. (512) 499-4365

Section 18~~17~~. Non-Assignability.

No Assignment of this Agreement by UTIMCO shall be made without having obtained the prior written consent of the U.T. Board nor is the Agreement assignable by the U.T. Board without prior written consent of UTIMCO.

Section 19~~18~~. No Waiver of Breach.

A waiver of a breach of any provision of this Agreement shall not constitute a waiver of any subsequent breach of that provision or a breach of any provision hereof. Failure of either party to enforce at any time or from time to time any provision of this Agreement shall not be construed as a waiver thereof.

Section 20~~19~~. Indemnification.

a) **Agreements to Indemnify**:
To the fullest extent authorized by the Constitution and laws of the State of Texas, the U.T. Board shall indemnify and hold harmless each of the Indemnified Parties against any and all Losses, including Losses resulting from the negligence of the Indemnified Party claiming

indemnification; provided, however, the U.T. Board shall not be obligated to indemnify an Indemnified Party against Losses to the extent such Losses are caused by (i) an act or omission that involves intentional misconduct or a knowing violation of law by the Indemnified Party claiming indemnification, (ii) a transaction from which the Indemnified Party claiming indemnification received an improper benefit, (iii) an act or omission for which the liability of the Indemnified Party claiming indemnification is expressly provided by an applicable statute, or (iv) an act or omission constituting gross negligence by the Indemnified Party claiming indemnification; provided further that indemnification payments by the U.T. Board shall be paid from the same sources as the Annual Fee pursuant to Section 7.

b) **Reimbursement**:
Each Indemnified Party shall reimburse the U.T. Board for payments made by the U.T. Board pursuant to this Section to the extent of any proceeds, net of all expenses of collection, actually received by it from any insurance with respect to any Loss. At the request and expense of the U.T. Board, each Indemnified Party shall have the duty to claim any such insurance proceeds and such Indemnified Party shall assign its rights to such proceeds, to the extent of such required reimbursement, to the U.T. Board.

c) **Notice**:
In case any Claim shall be brought or, to the knowledge of any Indemnified Party, threatened against any Indemnified Party in respect of which indemnity may be sought against the U.T. Board, such Indemnified Party shall promptly notify the U.T. Board in writing; provided, however, that any failure so to notify shall not relieve the U.T. Board of its obligations under this Section.

d) **Defense**:
The U.T. Board shall have the right to assume the investigation and defense of all Claims, including the employment of counsel and the payment of all expenses. Each Indemnified Party shall have the right to employ separate counsel in any such action and participate in the investigation and defense thereof, but the fees and expenses of such counsel shall be paid by such Indemnified Party unless (i) the employment of such counsel has been specifically authorized by the U.T. Board, in writing, (ii) the U.T. Board has failed to assume the defense and to employ counsel, or (iii) the named parties to any such action (including any impleaded parties) include both an Indemnified Party and the U.T. Board, and such Indemnified Party shall have been advised by counsel that there may be one or more legal defenses available to it which are different from or additional to those available to the U.T. Board (in which case, if such Indemnified Party notifies the U.T. Board in writing that it elects to employ separate counsel at the U.T. Board's expense, the U.T. Board shall not have the right to assume the defense of the action on behalf of such Indemnified Party; provided, however, that the U.T. Board shall not, in connection with any one action or separate but substantially similar or related actions in the same jurisdiction arising out of the same general allegation or circumstances, be liable for the reasonable fees and expenses

of more than one separate firm of attorneys for the Indemnified Parties, which firm shall be designated in writing by such Indemnified Parties).

e) **Cooperation; Settlement**:
Each Indemnified Party shall use reasonable efforts to cooperate with the U.T. Board in the defense of any action or Claim. The U.T. Board shall not be liable for any settlement of any action or Claim without its consent but, if any such action or Claim is settled with the consent of the U.T. Board or there be final judgment for the plaintiff in any such action or with respect to any such Claim, the U.T. Board shall indemnify and hold harmless the Indemnified Parties from and against any Loss by reason of such settlement or judgment as provided in Subsection (a) of this Section.

f) **Survival; Right to Enforce**:
The provisions of this Section shall survive the termination of this Agreement, and the obligations of the U.T. Board hereunder shall apply to Losses or Claims whether asserted prior to or after the termination of this Agreement. In the event of failure by the U.T. Board to observe the covenants, conditions and agreements contained in this Section, any Indemnified Party may take any action at law or in equity to collect amounts then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the U.T. Board under this Section.

Section 21~~0~~. Confidential Relationships.

Except as otherwise required by law~~,~~ all information and recommendations furnished by UTIMCO shall be regarded as confidential by the U.T. Board. Each party shall regard as confidential all information concerning the affairs of the other party or the Accounts. Each party shall take all steps as are reasonably necessary to ensure compliance with this Section.

Section 22~~1~~. Entire Agreement; Miscellaneous.

This Agreement contains the entire agreement between the parties and all representation with respect to the subject matter thereof. Headings in the Agreement are for purposes of reference only and shall not limit or otherwise effect the meaning hereof. Any capitalized term used in an Exhibit to this Agreement shall have the meaning designated herein, unless otherwise defined in the Exhibit itself.

Section 23~~2~~. Governing Law.

This Agreement and all matters arising under it shall be governed by the laws of the State of Texas. Venue for any action brought by any party hereto concerning the subject matter of this Investment Management Agreement shall be in Travis County, Texas.

Investment Policies shall mean the written investment policies relating to the PUF, the PHF, LTF, the SIF, the S/ITF and the STF which ~~attached hereto as Exhibit A, as the same~~ may be amended from time to time by UTIMCO with the consent and approval of the U.T. Board.

Long Term Fund or ***LTF*** shall mean the long-term pooled investment fund previously established by the U.T. Board for the collective investment of all endowment and other long-term funds of component institutions of the U.T. System. ~~(other than the Permanent University Fund and other funds subject to use restrictions that are inconsistent with investment in such Long Term Fund).~~

Losses shall mean losses, costs, damages, expenses, judgments and liabilities of whatever nature (including, but not limited to, attorneys', accountants' and other professionals' fees, litigation and court costs and expenses, amounts paid in settlement, amounts paid to discharge judgments and amounts payable by an Indemnified Party to any other person under any arrangement providing for indemnification of that person) directly or indirectly resulting from, arising out of or relating to one or more Claims.

Permanent Health Fund or ***PHF*** shall mean collectively the permanent funds for health-related institutions established pursuant to Chapter 63, Texas Education Code for which the U. T. Board is an administrator.

Permanent University Fund or ***PUF*** shall mean the constitutional fund known by that name and established pursuant to Article VII, Section 11 of the Texas Constitution.

Permanent University Fund Lands or ***PUF Lands*** shall mean the approximately 2,109,109 acres of land located in 24 Texas counties and constituting a part of the Permanent University Fund.

~~***Q.E.I.E.*** shall mean the quasi-endowment fund established by the U.T. Board on December 8, 1988, to provide performance compensation for professional staff employed by the Office of Asset Management.~~

Separately Invested Funds or ***SIFs*** shall mean U.T. System Funds or U.T. Board Trust accounts which by election of the U.T. Board or by requirement of the trust indenture or donative instrument are invested -separately and apart from other U.T. System Funds and the PUF.

Short/Intermediate Term Fund or ***S/ITF*** shall mean the short/intermediate term pooled investment fund previously established by the U.T. Board for the collective investment of funds (other than endowment and other long-term funds, including the Permanent University Fund) of the component institutions of the U.T. System.

REFERENCE CHECKS

PACIFIC CORPORATE GROUP

CONFIDENTIAL

9/12/00 Telephone call w/ Jay Fewel (Equity Investment Officer) of Oregon Public Employees Retirement Fund (Confidential)

Fund is $42 billion with $5.5 billion invested in private equities. Oregon began its private equity portfolio in 1981 with an initial commitment to KKR. Oregon managed the program internally until the Board brought in PCG in 1991. (Fund must get Legislative approval to add staff which is a frustrating process). Subsequent to 1991, PCG suffered high personnel turnover. The Fund did an extensive review of PCG and decided to retain them. Since then the firm has been more stable.

PCG works with Fewel to identify and evaluate private equity partnerships (no directs). All recommendations (except certain follow-ons) require Board approval. Fewel makes recommendations to the Board with PCG often in attendance. Fund commits about $1 billion a year to 8-12 partnerships with the majority on commitments to follow-on funds. He notes the Fund just committed $1 billion to KKR's newest fund alone. Their program is about 2/3 buy-outs (due to their size) with the remainder in mezzanine and VC. IRR to date is about low 20's.

PCG prepares a quarterly report and a detailed annual report regarding the portfolio. PCG's contract was extended last year for another two years. Fewel says they will most likely renew as the benefit from converting to a new advisor would have to be compelling to offset any program disruption. He says PCG is user friendly and there is a good dialogue between staff and the firm.

Fewel did express concern about PCG staffing and scale up since PCG had just brought on the State of Washington account and was actively talking to other large funds (e.g. Texas Teachers, UTIMCO, etc.). He wondered how the core senior employees would re-allocate their time.

Fewel also mentioned that Oregon had relationships with two captive fund of funds that were delegated responsibility for investing capital in "small" funds with assets less than $300 million. Otherwise, PCG was the private equity advisor.

9/14/00 Telephone call w/ Barry Gonder (Senior Investment Officer – Private Equity) of California Public Employees Retirement System (Confidential)

CALPERS is a $175 billion public pension fund. $14 billion is committed to private equity with $7 billion invested. Last year it committed $2-$3 billion and expects to commit $4 billion this year.

PCG has been involved with CALPERS since 1989 when it helped the fund establish a private equity program. CALPERS long association with PCG has been marked by "ups and downs due to firm turnover". At the same time, PCG's involvement was very good for C as it got them involved in private equity. PCG "built a good portfolio" (buyouts, some mezzanine and distressed but little venture)and more recently has assisted C's expansion into direct investments, e.g. their JV with Enron, investments in Comcast and Thomas Weisel. Until 1996, PCG was CALPERS' sole private equity advisor. At this time, the program had reached a size where the Board began to recruit private sector professionals to increase internal management of both public and private portfolios. BG was a part of that effort, joining from Travellers Insurance. In 1996, BG allocated 60% to 70% of the advisory work for partnerships to Hamilton Lane leaving 30% of partnerships and all direct investments with PCG. BG says PCG is easier to work with on complex direct investments where PCG's California location allows them to work "shoulder to shoulder". Hamilton Lane's East Coast location made collaborative efforts on direct investments more difficult.

BG says that from 1989-96, Chris Bower (CEO of PCG) worked with the PCG board. Since then, BG has implemented a program to engage specialized non-discretionary advisors for each segment of the private equity market. PCG is now working directly with staff. To date, C is using Hamilton Lane for US buyout partnerships, PCG for some US buyouts (where it had great relationships) and direct investments. C had also formed Grove St. Capital to advise them on US venture capital, and had used two different firms for non- US private equity. PCG did "an ok job in Europe and Japan" with less experience in Asia and Latin America. The proliferation of private equity funds made coverage on a global basis increasingly difficult. BG says the traditional gatekeepers can't cover the world with 20 person staffs. Given their size, C has elected to contract with firms specializing in particularly market niches.

C's private equity portfolio is heavily concentrated in US buyouts (due to its size). C recently formed Grove St. Advisors to help it penetrate the US venture capital market. C recruited Clint Harris, a former partner of Advent as well as other venture capital investors to invest $750 million on a discretionary basis. (i.e. a private fund of funds). Since Grove's commitments to individual venture funds are around $10-$15 million, CALPERS also co-invests directly in these partnerships without a Grove St. fee or carried interest. (Grove St. is also negotiating a similar discretionary arrangement with State of Oregon.)

C also participated in a joint venture with International Finance Corp. and Asian Development Bank (among others) to create an Asian merchant bank which advised it on

Asian investments. C was increasingly active in Asia using the merchant bank's local offices on due diligence trips. C has only one investment in Latin America private equity (Excel). It did not anticipate making any commitments to LA private equity next year.

C's board had recently approved new delegation guidelines. BG had a $200 million commitment limit with the CIO having a $400 million limit. The limit for direct co-investments with an approved general partner was $75 million. Direct investments w/o participation by an approved general partner requires full board approval.

BG said he was increasingly concerned with the conflicts of interest arising from the expansion of non-discretionary private equity advisors into the more lucrative fund of funds business. He was less concerned with PCG's relatively small offerings and because PCG was now managing 30% of C's partnership investment program. He had greater concerns with Hamilton Lane which had expanded rapidly into fund of funds with two offerings of approximately $1 billion.

There are eight professionals managing C's private equity portfolio. The staff sets strategy, vets the investments in collaboration with their advisors and, if required, brings them to the Board. The staff doesn't attend all partnership meetings. Rather it focuses on the 20 most important relationships and leans on the advisors with respect to the minor relationships.

C pays Hamilton Lane a retainer of $1.1 million per year. It pays PCG $300,000 per year plus transaction fees ranging from $10,000 to $400,000 per transaction.

C has recently allocated $500 million to a Corporate Partnering direct investment program with PCG. C is looking to build upon its successful partnering initiatives with Enron, etc. where PCG was heavily involved.

C used to contract with PCG on a 3 year rotation. The RFP process had become so painful that they had moved to a cancelable evergreen agreement.

Looking back, PCG's history of turnover consisted of two periods of heavy turnover. The departure of Brian Kinsman, David Grass and AJ Meter 2 ½ years ago was a "real shock" to the firm. BG says Chris Bower is not the easiest (but not the hardest) person to work for. He suspects that 30% of turnover was related to personality and 70% to economics. Chris, as founder of PCG, did not have a good reputation of sharing firm profits or ownership. The recent turnovers had motivated him to bring in compensation and organization consultants to create a fairer plan. PCG was also adding staff and rejiggering positions. BG says that Chris Bower had always hired very good people and trained them very well. While BG did not always agree with Chris, he thought Chris was very smart and creative particularly with some of the thorny and structural issues encountered on direct investments. PCG was mercenary about protecting its own economic interests which also benefited C in the structuring and negotiation of direct investments. At the same time, PCG won't screw a client.

9/21/00 Telephone call w/Garrett MacDonald (Investment Officer –Private Equity) of The World Bank Pension Dept. (Confidential)

World Bank pension funds total $13 billion with a 20% target allocation to alternatives. $400 million is currently invested in private equities with another $500MM committed but undrawn. Most of the private equity exposure is in buyouts (TPG, Schroders Europe) with little in venture capital. They also have $500 million invested in real estate and $400 million in hedge funds.

In 1987, management of the entire fund was outsourced to a spin out of the World Bank's investment staff. This was reversed in 1995 when the assets were brought back in-house. At that time, World Bank did not want to chew up staff time designing and producing a private equity portfolio reporting and performance monitoring system. They reviewed Chancellor, Hamilton Lane, PCG and Cambridge and selected PCG based on the strength of their reporting system.

Garrett says that they also used PCG on 2-3 due diligence assignments but that he had grown concerned about conflicts of interest emerging from PCG's (and other consultants') expansion into the fund of funds business. He emphasizes that "PCG has not done a due diligence analysis for us in 3 years and won't be doing any in the future". He is particularly critical of PCG's over representation of an advisory relationship with the World Bank. PCG's insensitivity in marketing the World Bank name "annoys us no end". He also stresses that PCG's role is not advisory but back office data compilation. Even then they had some recent "hiccups" in performance reporting. He states that Chris Bower probably would not have listed World Bank as a reference if he was aware of them. He estimates that World Bank is paying PCG "north of $150,000" for their performance measuring services. He would like to bring the PCG reporting function in-house once he hires an investment accountant.

Garrett also states that he has been disappointed in the turnover experienced by PCG. He was familiar with Mike Moy, David Graus and Ivan ?? all of whom had retired or resigned. More recently PCG was losing junior staff to other firms. He mentions that Michael Russell is still there and is consistently good on European buyouts. He believes (based on conversations with former insiders) that there was dissatisfaction with the manner in which Chris Bowers ran the firm. Specifically, he was alleged to share an inadequate amount of firm profits with staff. Also, he supposedly failed to develop the CALPERs relationship properly early on in the relationship when he supposedly demanded an unreasonable level of compensation to initiate a direct investment program with them. Garrett offers that he is not fond of Chris Bower personally.

Garrett states that his dissatisfaction extends to the use of consultants in the due diligence process. He understands their value "as a short term crutch" to assist a junior officer during a period of transition. He sat in on PCG's due diligence meetings and said there is no magic to the process. The process and underlying questions are straight forward. The critical part is you must have people you trust. There is no substitute for your staff taking responsibility and coming forward based on their own due diligence to represent that they would invest their own money in a fund. You can't do this with a consultant – particularly when you are trying to figure out if they are cherry picking funds for their other lines of business.

9/22/00 Telephone call w/Joan Caine (Deputy Treasurer) Employee Retirement System of Rhode Island (Confidential)

The ERSRI pension fund is $7.2 billion with a 7.5% allocation to private equity. PCG began acting as the fund's private equity advisor in 1995. At that time, the private equity portfolio consisted of an investment in a Crossroads fund of funds and the Narragansett First Fund. With planned expansion of the portfolio, a previous administration brought in PCG because it did not have the resources to perform due diligence and take investments through the State Investment Committee. From the period 1995-1998, the fund approved 32 funds. PCG performed all of the due diligence, write ups, presentations to the Committee as well as follow up portfolio monitoring, performance measurement and reporting.

A new Treasurer was elected in 1999 at which time Joan joined the fund. The Treasurer concluded that the program had expanded too rapidly and imposed a moratorium on new commitments. PCG continues to measure performance and report on the portfolio. Joan says they are very satisfied with PCG's reporting package. The portfolio is approximately $450 million with the majority invested in buyouts and only 8% in venture capital. The IRR on the portfolio through 12/31/99 is 24.2% and 1.7x capital.

Recently, they have decided to consider re-ups. Joan has begun working with Tara Blackburn only in the last few weeks. She is pleased with Tara's competence but Joan stresses she really has no experience with PCG's current due diligence skills. She stated that the Committee had been very impressed with David Graus and another PCG consultant. The Committee was very disappointed when they left PCG. Kelly Dupont backs up Tara. Chris Bower has attended the annual meeting.

Joan did not know whether the fund would expand the PCG mandate to include discretionary authority. The downside is that the partnerships strongly prefer to work directly with the fund's staff, principal to principal and not through an intermediary whose mandate may terminated in the future. On the other hand, the Treasurer's staff is severely constrained. The 9 member staff is unionized with the result that the Joan and Treasurer "don't delegate a whole lot".

9/11/00 Telephone call w/ John Peavey (CIO) of Texas Teacher Retirement System (Confidential)

John says he and Keith Garrison just completed an on-site visit with PCG yesterday. History is that TRS engaged PCG about 2 years ago to assist TRS in initiating a private equity program. PCG did "a nice job" writing a private equity investment policy. The policy together with a 3% allocation to private equities was approved by the TRS board in June, 2000. No direct co-investments are contemplated at this time.

TRS circulated an RFP for a non discretionary private equity consultant to assist in the due diligence and back office functions. Their plan contemplates committing approximately $1.0 billion to $1.5 billion during each of the next three years. Either TRS staff or the consultant can generate ideas and would be able to veto each others recommendations. Each commitment will require a consensus recommendation plus TRS board approval.

TRS sent the RFP to 12 firms, six of which responded. John said leading firms , specifically, Hamilton Lane, Brinson Partners and Frank Russell were moving away from non-discretionary engagements in favor of their fund of funds businesses. Cambridge Associates declined to respond (it doesn't service pension funds).

PCG and Pathway were the two highest ranking firms. Pathway does not manage funds of funds but does have two large proprietary separate accounts with the State of Washington and State of Oregon plans. Both are managing about the same amount of capital (PCG $13 BN). John points out that PCG has only 6 accounts whereas Pathway had 18 accounts (CALSTRS, MASSPRIM, and some big corporations such as JCPenney.) John was very impressed with Pathway's internet based reporting system which gives daily balances cash calls, etc., unlike PCG which has no such capability.

Quotes for a 3 year program:

- PCG: Year 1 $1.0MM fee, Year 2 +25%, Year 3: +25% - no carried interest
- Pathway: Year 1 $750,000 fee, Year 2; $1.25MM Year 3: $1.7MM - no carried interest

John says the fees work out to be roughly equivalent in years 2 and 3.

John says they will recommend a firm to TRS board on Sept. 21. He is leaning towards Pathway. He is concerned with having to compete with CALPRS as a PCG client and doesn't believe PCG has adequately addressed the conflicts issues with respect to its funds of funds business. PCG simply said it was not a problem. He noted that both firms have a reputation for aggressively inserting themselves into the process with respect to Board and partnership interaction. This is a common criticism that has surfaced in their due diligence process.

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5/25/00 telephone call: TGR w/ SRG (confidential)

[Note: the most comparable private equity portfolio to UTIMCO's where Cambridge serves a non-discretionary advisor is that of The Wellcome Trust ("TWT"). CA advised TWT regarding the initiation of a private equity program involving total capital commitments of $2.6 billion over a 7 year period beginning in 1993. TWT's portfolio through 1999 consisted of 72 US venture capital partnerships, 50 US private equity (buyout) partnerships, and 51 global private equity partnerships.]

By way of introduction, SRG states that he has been a Trustee of TWT for 17 years and Chairman of the Board for the last 10 years. He is largely responsible for investments and has been actively involved in this capacity since 1989. SRG is also a trustee of Paul Getty's Family Fund which employed Cambridge as its investment advisor. Cambridge was engaged by TWT in early 1994 to advise them on the implementation of a private equity program.

TWT's assets are approximately $20 billion. Originally the allocation to private equities was 8%, is approximately 10% today and is expected to reach 15% in 5 years. From a dead start in 1994, TWT approved approximately $200 million in commitments the first year and has approved approximately $750 million over the last 18 months. The private equity mandate includes oil and gas and real estate but it is an incidental part of the portfolio. The portfolio does not include hedge funds. He says TWT has declined only three Cambridge recommendations. Of TWT's declines, two were essentially the correct decision and one was "very wrong". He states that the performance of the six-year old portfolio at 66% IRR is remarkable. All private equity solicitations are referred to Cambridge. TWT listens to Cambridge's views but TWT makes its own decisions. In his opinion, Jim Bailey "is a cut above the others" and is "an extremely good judge of private equity". His only criticism is that Cambridge is inclined to produce "great tomes". They are "incredibly thorough in due diligence and take their time". The process can be ponderous but " they have never been wrong on due diligence".

Cambridge's leading role has receded slightly since inception when they handled 90% of private equity activity. Today he estimates that with the addition of staff (1 private equity person and 2 junior analysts) Cambridge is responsible for 70% of activity. Cambridge has advised them on internal staffing decisions. Cambridge also performs back office functions for TWT where they are "very efficient". He mentions that the TWT CIO has recently retired and that Sandra Robertson is assuming greater responsibility in private equities.

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9/20/00 telephone call: TGR w/ MG (Confidential)

MG says their fund is $2 billion of which 15% is allocated to private equities. Approximately $350 million is committed to 28 different funds among 15 managers. MSKCC commits $10 million a fund. Portfolio is 4 years old and is 75% early stage venture capital and 25% buyouts.

MSKCC had used Cambridge Associates (CA) for several years for asset allocation and other strategic consulting work. Four years ago, MSKCC authorized private equity and hedge fund programs. MG, as CFO, decided to use a private equity consultant because 1) he did not have the staff to perform due diligence at the detailed level required by the board and 2) MSKCC's was unable to gain access to top tier venture capital firms on their own. He viewed this as an opportunity to diversify his consulting base and interviewed a number of the general pension fund consultants. He was "very disappointed" in the overall capabilities of these firms. While some had expertise in one sector (i.e. hedge funds), no firm had the across the board expertise of CA. In addition, CA was unequaled in its ability to get their clients into the best firms, particularly venture firms. Since CA was an early advocate of private investments and endowment funds were among the early investors, CA had long standing relationships with the leading firms.

MG says MSKCC pays CA its standard basis point fee. They are "not cheap" but he believes they have the best analytics – both quantitative with their "huge" database and qualitative knowledge of internal partnership dynamics. The quality of their work is uniformly excellent with reporting available electronically. One disappointment is the lagged reporting on performance against manager universes (e.g. June universe performance is distributed in mid-October). MG says that this is not CA's fault in that partnerships (particularly non-U.S. partnerships) are notoriously slow in reporting.

MSKCC's process requires board approval for new managers but not for re-ups. Access to top performing funds requires very short approval time frames. The funds they have targeted are usually heavily subscribed to. Often funds test new investor interest by requesting a commitment in less than a week (within which the fund fills up). As a result, the MSKCC board created an alternative investment sub-committee to process recommendations quickly. MG's recommendation with CA write up is e-mailed to the sub-committee which has 72 hours to disapprove (any one committee member can veto) – otherwise the recommendation is deemed approved. CA representatives are available to attend meetings. Cambridge presents a quarterly portfolio report. Jim Bailey attends annual reviews as well as broad asset allocation and other strategy or policy related meetings.

Overall portfolio performance since inception is an IRR of 155% with venture returning 166% and buyouts 25%. CA helped then get into several target funds. In some cases, staff had to "beat on" committee members to use their influence to gain access. Committee members include Ben Rosen of Sevin Rosen/COMPAC and Peter Crist of VenRock among others.

MG says they do not use CA for back office functions relating to portfolio cash flows. They do rely on CA for portfolio monitoring (including attending partnership meetings), performance measurement, and portfolio reporting. They use Warburg Pincus for distribution management. They have also used CA for cash flow modeling but portfolio appreciation and cash flow velocity have increased so rapidly that they have hedged the model by keeping 1/3 of undrawn commitments in cash and equivalents.

MG says CA has experienced no turnover in their consultant team during the 4 year relationship. Beth Neuhaus is the primary contact.

MG is not concerned that CA is talking to UTIMCO about an advisory relationship. He believes there are only 15-20 entities that CA would offer this preferred service to with other clients "just getting the books". In fact, he would derive greater comfort from the addition of UTIMCO because it would give CA the resources to increase the size of its research staff where he believes most of the value is created. He would be concerned if CA added a large public pension fund such as CALPERS which he said would suck all the resources and access away from other CA clients.

Cambridge Associates, Inc.
9/20/00 on-site meeting with James N. Bailey(CEO) – via phone, Sandra Urie (Chief Operating Officer), R. Bruce Myers (Managing Director), Steve Symchyk, Astrid Noltemy (via phone) , Katherine Dailey, William Rietz and TGR (confidential)

(CA was sent the private equity portfolio by individual investment as of 5/31/00).

(Note: In April, 1999, CA presented an evaluation of the UT/UTIMCO private equity portfolio from inception through 12/31/98. They have continued to track a majority of the portfolio's investments since then).

CA says that the US and European buyout funds in the UT/UTIMCO portfolio are very strong and include many of the funds that they recommend to their clients. They agree with the portfolio's focus on medium size buyouts vs. large buyout funds. The weakest part of the portfolio, both in terms of aggregate exposure and the quality of the individual funds is venture capital. Here there are insufficient managers with above median returns.

CA's primary recommendation would be to increase the quality of the venture capital portfolio to that of the buyout portfolio. It recommends this strategy despite the extremely high returns generated by venture as of late because it believes that venture capital offers the best risk reward profile. Venture capital returns are less correlated with returns of the capital markets than buyouts – because the power of technology allows companies to buck downward market cycles. In the short term, buyouts are looking more attractive than VC. There are a lot of companies selling for 3x to 10x trailing earnings which when combined with moderate leverage offer potentially good returns. CA believes that buyout funds have had to pay too much for cash flow during most of the decade. CA has been a proponent of international buyouts for 15 years and believes that traditional VC has become attractive in Europe and Israel. They are much more cautious on Asia private equity while stating that the 1998 meltdown has created a much more favorable environment. Investors can negotiate better provisions with respect to minority ownership and even gain control. In addition, banks were providers of venture capital and have exited the business. Investment in Latin America private equity requires an extremely selective approach – only the best firms such as Exxel in Argentina, GP Investimientos in Brazil and Hicks Muse qualify.

CA is generally not a proponent of mezzanine funds stating that the risk reward relationship is not as good as investing on the equity side(buyouts) or VC which has no debt in its capital structure. Mezzanine offers 95% of downside and upside returns are in the high teens to low 20s. Mezzanine has not made its case over the last 20 years of economic growth.

CA would expect that new commitments would be 75% U.S. , 10% to 15% developed Europe and 5% Asia/Latin America. VC would represent 60% to 70% of overall exposure.

In addition, the number of commitments each year would increase significantly. This strategy reflects the fact that as a new investor in a top tiered fund, you must be prepared to commit as little as $5 million initially in order to secure a place in the fund's roster of limited partners. Also, in venture capital it is critical to invest in the top half of the manager universe because of the large disparity in performance between quartiles. The problem is that you can't predict which among these funds will have a 300% return. And 1 or 2 partnerships can now drive a vintage year's economics. You want more choices rather than less among the above average funds to create a higher probability of having good fortune strike you. CA claims that 85% of the partnerships selected exceeded VC median returns.

Diversification is critical in venture capital for additional reasons. Syndication of financing by venture firms has declined dramatically. As a result, a single VC firm will finance a company through IPO. This was the case with E-bay, Amazon.com and Yahoo which had only 1-2 venture investors. Result: your programs returns can be driven by one or two companies rather than 1-2 venture firms in your portfolio. Proliferation of venture partnerships in your portfolio is more work but a better strategy in the end. Another factor is the sector rotation in the public equity markets where you need to have broad exposure to different sectors as they get hot, i.e., rocketing appreciation in B2C followed by B2B and now fiber optic telecommunication companies.

CA would use a three step approach in advising UTIMCO. The first step involves investment planning where CA and staff would set investment objectives and long term allocation targets to buyouts, venture capital, non-U.S. private equity, etc. A written multi-year plan would then be developed outlining the allocations to each strategy and projected commitment sizes.

The second step would be policy implementation and plan execution. CA and staff would establish a "watch list" of opportunities from their database of managers that will be marketing funds three months to one year into the future. CA says that because they have relationships with highly desirable and loyal endowment and foundation investors, they are usually among the first to be approached when a fund is contemplating a return to the market. The focus will not only be on the blue chip funds but on emerging funds as well. Once a watch list has been established, CA would introduce UTIMCO to the targeted managers in advance to indicate our interest. Jim Bailey states that this is critical and was key to Wellcome Trust's success. He states that in the incredibly constrained environment over the last 5-6 years Wellcome was able to secure a $10 million investment in Kleiner Perkins after one year and is now able to invest in larger economic amounts. Often if they did not get in on the first try, they were able to participate in the next fund. UTIMCO must be committed to working a proactive "courtship" process and cultivate managers in advance and be prepared to respond quickly. Jim also says that access is not as much an issue as in recent years except for a select few venture firms. The funds have continued to increase in size while their historical investors are choking on the highly appreciated values. Investors are still committing but at lower levels than before. CA will perform detailed due diligence on the managers and provide written recommendations. Plan execution also includes monitoring the current invested allocation against commitments. CA would also provide advice with respect to cash flow planning to manage liquidity and advise on distribution management as well.

The third step is back office operations and administrative services. CA would review the partnership agreements, etc. and provide an issues sheet regarding partnership terms to V&E. CA would also arrange for execution of documents and monitor UTIMCO's custodian's receipt and disbursement of cash. I mention that our back office is intact and that this is an area where we are not seeking advisory support. In addition, UTIMCO has been actively involved with other institutional investors in the development of Private I portfolio management software. I would strongly prefer not to have replication of costs and services. CA says they don't have to perform these services if UTIMCO can guarantee them access to real time access to partnership activity. Also Private I does not track fund investments in underlying portfolio companies which is an essential part of their manager database. (They track cross holdings by multiple funds in individual fun ds and attribute fund performance by each company back to individuals within a fund). CA says that it has been updating most of UTIMCO's activity since it had loaded the portfolio into their database as part of the 1998 study. They then take me through UTIMCO's portfolio in the database and demonstrate how it loads up into quarterly activity and performance reports. We agree to address these issues if CA is selected and review fees at the same time. I offer that this information flow is mostly from the client to CA. Is there any ability for the client to access the database on line? They respond that they are upgrading the database for Internet access by March 2001. Access would be limited to each client's own portfolio. Also, CA does not sit on fund Advisory Boards in order to avoid the appearance of favoritism or endorsement of that fund.

Next we review the firm's resources that would be allocated to UTIMCO. I ask if CA will need to bring on additional staff if UTIMCO selects them. Jim Bailey says no. The firm's centralized research effort is the platform for all of its consulting and advisory work. They do not have to add research resources at the margin. Of the 80 research professionals on staff, 20 are dedicated to alternative assets. They are responsible for performing due diligence and updating their database of 1,200 funds and the underlying 18,000 investments in portfolio companies. CA says it contains over 95% of the institutional quality funds in operation. In addition, there are 16 control professionals which provide data analysis and performance measurement of the funds in the data base.

CA is proposing to service UTIMCO with a five person team out of the Boston office consisting of two consultants, two alternative assets research specialists, and a consulting associate. The team would be headed Bruce Myers (16 years industry experience and UTIMCO's lead consultant for 3 years). Bruce would be assisted by Stephen Symchyk (consultant), Astrid Noltemy(formerly head of the firm's alternative assets research and portfolio monitoring services) and Kristine Dailey (a research specialist with an emphasis on U.S. venture capital. Kristine and Astrid performed the 1998 evaluation of UTIMCO's private equity portfolio and are intimately familiar with UTIMCO's portfolio.) The specialists serve as asset class specific portfolio managers and would be directly examining asset allocation and UTIMCO's strategy. Jim Bailey says that UTIMCO is a particularly valued Cambridge client and the quality of the personnel they