

**THE UNIVERSITY OF TEXAS SYSTEM
LONG TERM FUND**

FINANCIAL STATEMENTS

Years Ended August 31, 2001 and 2000

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
The University of Texas Investment Management Company
Austin, Texas

We have audited the accompanying statements of assets and liabilities, and the comparison summary of investment in securities of The University of Texas System Long Term Fund (Fund) as of August 31, 2001 and 2000, the related statements of operations and changes in net assets for the years then ended, and the financial highlights for each of the five years in the period ended August 31, 2001. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of August 31, 2001 and 2000, by correspondence with the custodian. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position and the comparative investment in securities of the Fund as of August 31, 2001 and 2000, the results of its operations and the changes in its net assets for the years then ended, and the financial highlights for each of the five years in the period ended August 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

The unaudited information on page 2 was not audited by us, and, accordingly, we express no opinion or other form of assurance on it.

Deloitte & Touche LLP

October 19, 2001

Deloitte
Touche
Tohmatsu

**THE UNIVERSITY OF TEXAS SYSTEM
LONG TERM FUND**

Financial Highlights

Years Ended August 31,

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Selected Per Unit Data					
Net Asset Value, Beginning of Period	\$ <u>6.198</u>	\$ <u>5.347</u>	\$ <u>4.568</u>	\$ <u>4.672</u>	\$ <u>3.897</u>
Income from Investment Operations					
Net Investment Income	0.140	0.142	0.121	0.129	0.143
Net Realized and Unrealized Gain (Loss) on Investments	<u>(0.681)</u>	<u>0.939</u>	<u>0.868</u>	<u>(0.038)</u>	<u>0.807</u>
Total Income (Loss) from Investment Operations	<u>(0.541)</u>	<u>1.081</u>	<u>0.989</u>	<u>0.091</u>	<u>0.950</u>
Less Distributions					
From Net Investment Income and Undistributed Net Investment Income	0.140	0.142	0.121	0.140	0.175
From Net Realized Gain	<u>0.105</u>	<u>0.088</u>	<u>0.089</u>	<u>0.055</u>	<u>-</u>
Total Distributions	<u>0.245</u>	<u>0.230</u>	<u>0.210</u>	<u>0.195</u>	<u>0.175</u>
Net Asset Value, End of Period	<u>\$ 5.412</u>	<u>\$ 6.198</u>	<u>\$ 5.347</u>	<u>\$ 4.568</u>	<u>\$ 4.672</u>
Ratios and Supplemental Data					
Net Assets, End of Period (in thousands)	\$ 2,843,300	\$ 3,136,229	\$ 2,602,274	\$ 2,147,715	\$ 2,124,977
Ratio of Expenses to Average Net Assets	0.23%	0.33%	0.35%	0.32%	0.24%
Ratio of Net Investment Income to Average Net Assets	2.44%	2.45%	2.42%	2.66%	3.34%
Ratio of Distributions to Average Net Assets (5-quarter average)	4.31%	3.99%	4.19%	4.04%	4.10%
Ratio of Distributions to Average Net Assets (12-quarter average) (1997 unaudited)	4.12%	3.98%	4.02%	4.14%	4.46%

*The accompanying notes are an integral
part of these financial statements.*

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Comparison Summary of Investment in Securities, at Value

August 31, 2001 and 2000

(in thousands)

	<u>2001</u>	<u>2000</u>
General Endowment Fund Units	\$ 2,842,644	\$ -
Equity Securities		
Domestic Common Stock	-	584,665
Foreign Common Stock	-	120,632
Commingled Investments	-	450,785
Limited Partnerships	-	367,959
Index Funds	-	834,606
Other	-	<u>2,748</u>
Total Equity Securities	<u>-</u>	<u>2,361,395</u>
Debt Securities		
U.S. Government Obligations (Direct and Guaranteed)	-	190,240
U.S. Government Agencies (Non-Guaranteed)	-	147,839
Foreign Government and Provincial Obligations (U.S. Dollar Denominated)	-	3,111
Foreign Government and Provincial Obligations (Non-U.S. Dollar Denominated)	-	32,415
Municipal and County Bonds	-	9,800
Corporate Bonds	-	176,901
Foreign Corporate Bonds	-	22,072
Commercial Paper	-	1,328
Other	-	<u>3,331</u>
Total Debt Securities	<u>-</u>	<u>587,037</u>
Preferred Stock		
Domestic Preferred Stock	-	9,885
Foreign Preferred Stock	-	<u>2,243</u>
Total Preferred Stock	<u>-</u>	<u>12,128</u>
Cash and Cash Equivalents		
Money Markets	<u>796</u>	<u>251,222</u>
Total Investment in Securities	<u>\$ 2,843,440</u>	<u>\$ 3,211,782</u>

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part of these financial statements.*

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Statements of Assets and Liabilities

August 31, 2001 and 2000

(Dollars in thousands, except per unit amounts)

	<u>2001</u>	<u>2000</u>
Assets		
Investment in Securities, at Value (Cost \$2,866,119 and \$2,982,494, respectively)	\$ 2,843,440	\$ 3,211,782
Collateral for Securities Loaned, at Value	-	109,470
Deposit with Broker for Futures Contracts	-	24,234
Unrealized Gains on Foreign Currency Exchange Contracts	-	2,845
Receivables		
Investment Securities Sold	17,142	19,556
Accrued Income	2	9,124
Other	<u>-</u>	<u>875</u>
Total Assets	<u>2,860,584</u>	<u>3,377,886</u>
Liabilities		
Payable to Participants	17,142	23,446
Payable Upon Return of Securities Loaned	-	109,470
Unrealized Losses on Foreign Currency Exchange Contracts	-	2,317
Payables		
Investment Securities Purchased	-	103,181
Other	<u>142</u>	<u>3,243</u>
Total Liabilities	<u>17,284</u>	<u>241,657</u>
Net Assets	<u>\$ 2,843,300</u>	<u>\$ 3,136,229</u>
Net Assets Consist Of:		
Participant Contributions (Net of Withdrawals)	\$ 1,704,712	\$ 1,582,604
Accumulated Undistributed Net Realized Gain on Investments		
Including Foreign Currency Transactions	1,161,267	1,323,513
Net Unrealized Appreciation (Depreciation) of Investments including		
Translation of Assets and Liabilities in Foreign Currencies	<u>(22,679)</u>	<u>230,112</u>
Net Assets for 525,401,525 Units and 506,024,547 Units, respectively	<u>\$ 2,843,300</u>	<u>\$ 3,136,229</u>
Net Asset Value Per Unit	<u>\$ 5.412</u>	<u>\$ 6.198</u>

The accompanying notes are an integral part of these financial statements.

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Statements of Operations and Changes in Net Assets

Years Ended August 31, 2001 and 2000

(in thousands)

	<u>2001</u>	<u>2000</u>
Investment Income		
Distribution of General Endowment Fund Net Investment Income	\$ 35,503	\$ -
Interest	25,238	53,088
Dividends	11,772	22,317
Income Distributions from Limited Partnerships	1,331	1,858
Other	<u>721</u>	<u>1,018</u>
Total Investment Income	<u>74,565</u>	<u>78,281</u>
Expenses		
Internal Fee for Educational Purposes	581	592
Investment Management and Consulting Fees	1,361	6,314
UTIMCO Management Fee	1,840	1,925
Custodial Fees and Expenses	248	442
Dividends on Securities Sold Short	-	196
Other Expenses	<u>122</u>	<u>160</u>
Total Expenses	<u>4,152</u>	<u>9,629</u>
Receipt of Funds from UT System for UTIMCO Fee	<u>1,840</u>	<u>1,925</u>
Net Investment Income	<u>72,253</u>	<u>70,577</u>
Realized and Unrealized Gain (Loss) on Investments		
Net Realized Gain (Loss) on Investment Securities and Foreign Currency Related Transactions	(70,091)	728,154
Distribution of General Endowment Fund Realized Loss	(28,163)	-
Net Unrealized Depreciation on Investment Securities and Foreign Currency Related Transactions	(181,965)	(259,288)
Net Unrealized Depreciation on General Endowment Fund Units	<u>(70,826)</u>	<u>-</u>
Net Gain (Loss) on Investments	<u>(351,045)</u>	<u>468,866</u>
Net Increase (Decrease) in Net Assets Resulting from Operations	\$ (278,792)	\$ 539,443
Net Assets		
Beginning of Period	3,136,229	2,602,274
Participant Contributions (including reinvestments of \$8,509 and \$8,699 for the years ended August 31, 2001 and 2000, respectively)	141,818	134,822
Participant Withdrawals:		
Cost	(19,710)	(15,856)
Gain	(8,934)	(9,207)
Distributions to Participants:		
Net Investment Income	(72,253)	(70,577)
Net Realized Appreciation	<u>(55,058)</u>	<u>(44,670)</u>
End of Period	<u>\$ 2,843,300</u>	<u>\$ 3,136,229</u>

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part of these financial statements.*

THE UNIVERSITY OF TEXAS SYSTEM
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Notes to Financial Statements

Note 1 Organization

The Long Term Fund (Fund) is a pooled fund established for the collective investment of private endowments and other long-term funds supporting various programs and purposes of the 15 institutions comprising The University of Texas System (UT System). The Fund was formerly known as the Common Trust Fund. The Long Term Fund was established February 9, 1995, by the Board of Regents of The University of Texas System (Board of Regents) to succeed the Common Trust Fund pooled investment fund. Fiduciary responsibility for the Fund rests with the Board of Regents. The day-to-day operational responsibilities of the Fund are delegated to The University of Texas Investment Management Company (UTIMCO), pursuant to an investment management services agreement with the Board of Regents.

On March 1, 2001, the Fund purchased units in the newly created General Endowment Fund (GEF) in exchange for the contribution of its investment assets. The GEF, established by the Board of Regents effective March 1, 2001, is a pooled fund for the collective investment of long-term funds under the control and management of the Board of Regents. The GEF has only two participants: the Fund and the Permanent Health Fund (PHF) also established by the Board of Regents. The GEF is organized as a mutual fund in which the Fund and the PHF purchase and redeem units quarterly. The GEF is under the fiduciary responsibility of the Board of Regents and is provided day-to-day operations by UTIMCO.

The accompanying financial statements follow the form and content of investment company financial statements and related disclosures in accordance with accounting principles generally accepted in the United States of America. The principles followed will differ from the principles applied in governmental and fund accounting. The annual combined financial statements of The University of Texas System are prepared in accordance with Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements and include information related to the Fund. The accompanying financial statements may differ in presentation from governmental accounting principles or the Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements.

Note 2 Investment in GEF

Beginning with the purchase of GEF units on March 1, 2001, the Fund no longer invests in individual securities except for GEF units and a negligible amount of cash. Subsequent participant contributions received by the Fund were also used to purchase GEF units. At August 31, 2001, the Fund is the majority participant in the GEF, with ownership of 29,062,538 units, which represents 76.33% of the GEF.

The GEF and the Fund have identical investment objectives. Additionally, the GEF's accounting policies follow the Fund's, as described in Note 3, except for the distribution to participants. On a monthly basis, the GEF distributes its net investment income and realized gain or loss to the Fund based on its ownership of GEF units at month end. The distributed amounts are reinvested as GEF contributions. Since the distribution is proportional to the percentage of ownership by the unitholders, no additional units are purchased. The Fund redeems GEF units quarterly to meet its distribution requirements to its unitholders. Note 11 reports financial information of the GEF for the period of inception (March 1, 2001) to August 31, 2001.

Note 3 Significant Accounting Policies

(A) Security Valuation -- The Fund's investment in GEF Units is valued at the net asset value per unit reported by the GEF.

Prior to March 1, 2001, and the Fund's investment in the GEF, investments were primarily valued on the basis of market valuations provided by independent pricing services.

Fixed income securities held directly by the Fund were valued based upon prices supplied by Merrill Lynch Securities Pricing Service and other major fixed income pricing services, external broker quotes and internal pricing matrices.

Equity security market values were based on the New York Stock Exchange composite closing prices, if available. If not available, the market value was based on the closing price on the primary exchange on which the security was traded (if a closing price was not available, the average of the last reported bid and ask price was used).

Limited Partnerships and Other were valued based on a fair valuation determined as specified by policies established by the UTMCO Board of Directors.

Securities held by the Fund in index funds were generally valued as follows:

Stocks traded on security exchanges were valued at closing market prices on the valuation date.

Stocks traded on the over-the-counter market were valued at the last reported bid price, except for National Market System OTC stocks, which were valued at their closing market prices.

Fixed income securities were valued based upon bid quotations obtained from major market makers or security exchanges.

Commingled funds were valued based on the net asset value per share provided by the investment company.

(B) Foreign Currency Translation -- The accounting records of the Fund are maintained in U.S. dollars. Prior to March 1, 2001, investments in securities and securities sold short were valued at the daily rates of exchange on the valuation date. Purchases and sales of securities of foreign entities and the related income receipts and expense payments were translated into U.S. dollars at the exchange rate on the dates of the transactions. The Fund did not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from fluctuations arising from changes in market prices of securities held. Such fluctuations were included with the net realized and unrealized gain or loss from investments. Security classifications on the comparison summary of investment in securities, at value were based on currency.

(C) Investment Income -- Interest income is accrued as earned. Prior to March 1, 2001, dividend income was recorded on the ex-dividend date. Dividend and interest income was recorded net of

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Notes to Financial Statements (cont.)

foreign taxes where recovery of such taxes was not assured. Investment income included net realized and unrealized currency gains and losses recognized between accrual and payment dates on dividend and interest transactions. Premiums and discounts on bonds were not amortized.

(D) **Security Transactions** -- Prior to March 1, 2001, security transactions were recorded on a trade date basis for most securities. International index fund transactions were recorded on a settle date basis due to trading practices, which imposed restrictions in acquiring per unit information on the trade date. Gains and losses on securities sold were determined on the basis of average cost. A loss was recognized if there was an impairment in the value of the security that was determined to be other than temporary. Beginning March 1, 2001, a gain or loss is recognized on GEF unit sales on the basis of average cost.

(E) **Distributions to Participants** -- Cash distributions to participants are paid quarterly based on a per unit payout established by the Board of Regents. For the fiscal year ended August 31, 2001, the quarterly rate was \$.06125 which equates to a yearly rate of \$.245 per unit. For the year ended August 31, 2000, the quarterly distribution rate for the first two quarters ended February 29, 2000, was \$.05375 per unit, and for the final two quarters ended August 31, 2000, the quarterly rate was \$.06125 per unit. For the fiscal year ended August 31, 2000, this equated to a yearly rate of \$.23 per unit. The ratio of distributions to average net assets (12-quarter average) was 4.12% as of August 31, 2001. The investment policy provides that the annual payout will be adjusted by the average consumer price index of the prior 36 months including August 31 subject to a maximum distribution of 5.5% of the Fund's average market value and a minimum distribution of 3.5% of the Fund's average market value.

(F) **Fund Valuation** -- Valuation of the Fund's units occurs on a quarterly basis. Unit values are determined by dividing the value of the Fund's net assets by the number of units outstanding on the valuation date.

(G) **Purchases and Redemption of Units** -- The value of participating units, upon admission to the Fund, is based upon the market value of net assets held as of the valuation date. Redemptions from the Fund will also be made at the market value price per unit at the valuation date at the time of the withdrawal. There are no transaction costs incurred by participants for the purchase or redemption of units.

(H) **Participants Net Assets** -- All participants in the Fund have a proportionate undivided interest in the Fund's net assets.

(I) **Federal Income Taxes** -- The Fund is not subject to federal income tax.

(J) **Use of Estimates** -- The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

(K) **Foreign Currency Contracts** -- Prior to March 1, 2001, the Fund entered into forward foreign currency exchange contracts to hedge against foreign currency exchange rate risks on its non-U.S. dollar denominated investment securities and to facilitate trading strategies primarily as a tool to

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increase or decrease market exposure to various foreign currencies. When entering into a forward currency contract, the Fund agreed to receive or deliver a fixed quantity of foreign currency for an agreed-upon price on an agreed future date. These contracts were valued daily and the Fund's net equity therein, representing unrealized gain or loss on the contracts as measured by the difference between the forward foreign exchange rates at the dates of entry into the contracts and the forward rates at the reporting date, was included in the statement of assets and liabilities. Realized and unrealized gains and losses were included in the statements of operations. These instruments involved market and/or credit risk in excess of the amount recognized in the statement of assets and liabilities. Risks arose from the possible inability of counterparties to meet the terms of their contracts and from movement in currency and securities values and interest rates.

(L) **Cash and Cash Equivalents** -- Cash and Cash Equivalents consist of money markets and other overnight funds.

Note 4 Acquisitions and Dispositions of Investments

Acquisitions and dispositions (including sales, maturities and prepayments) of securities, other than short-term securities, and the associated net realized gains and losses are as follows for the years ended August 31, 2001 and 2000:

	<u>2001</u>	<u>2000</u>
Acquisitions	\$ 4,281,236,190	\$ 4,625,764,607
Dispositions	(4,038,396,693)	(4,637,465,450)
Net Realized Gains (Losses) on Investments	(98,254,229)	728,153,520

Included in acquisitions for the year ended August 31, 2001, is \$2,917,369,473 related to the initial purchase of GEF units by the Fund on March 1, 2001. Included in dispositions for the year ended August 31, 2001, is \$2,818,489,636 related to the contribution of investment assets to the GEF. The contribution of investment assets, excluding limited partnerships and certain other equity investments, to the GEF on March 1, 2001, was accounted for by the Fund as sales at the market value of the assets contributed. A realized loss in the amount of \$90,919,069 was recognized and is included in the net realized gains (losses) on investments. The contribution of the market value of the limited partnerships and certain other equity investments in the amount of \$424,753,235, which included cost basis of \$376,606,051 and unrealized appreciation of \$48,147,184, was accounted for as a carryover in basis, and therefore, no realized gain or loss was recorded.

The net realized gains (losses) on investments included \$18,541,639 and \$277,883,151 of reinvested capital gains earned on the index and mutual funds for the years ended August 31, 2001 and 2000, respectively. Also included in net realized gains (losses) were \$26,146,887 and \$3,245,755 of currency exchanges losses for the years ended August 31, 2001 and 2000, respectively.

Note 5 Fees and Expenses

The Fund is assessed a quarterly internal fee by UT System for educational purposes based on 0.005% of the Fund's net asset value on the last day of each quarter for the years ended August 31, 2001 and 2000.

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Notes to Financial Statements (cont.)

The Fund is assessed a management fee by UTIMCO to cover the costs of managing the Fund and providing day-to-day operations. The fees assessed for the years ended August 31, 2001 and 2000, were \$1,839,534 and \$1,925,254, respectively. The Fund, however, is reimbursed by UT System for the fee, which is shown in the statements of operations and changes in net assets as Receipt of Funds from UT System for UTIMCO Fee.

Prior to March 1, 2001, the Fund incurred investment management fees from various external managers of the Fund. The fees, generally assessed quarterly, were based on a percentage of the market value of investments held by each individual investment manager and ranged from 0.01% to 1.0%. In addition to quarterly investment management fees, the Fund paid annual performance-based management fees for investment performance in excess of certain defined benchmarks as provided for in the manager's contract. Beginning March 1, 2001, the Fund no longer incurs external investment management fees.

Custodial fees and expenses are assessed by the financial institution, which holds the Fund's assets. Fees are based on the number of accounts, market value of the Fund, and transaction activity in accordance with the contractual agreement with the institution. Additional fees are assessed for performance measurement and on-line communication services per the contractual agreement. Beginning March 1, 2001, the Fund is assessed only a negligible fee for the maintenance of two accounts.

The Fund incurs other expenses related to its operations primarily consisting of audit fees, printing and graphic expenses, legal and consultation fees.

Note 6 Index Funds

Prior to March 1, 2001, the Fund had investments in index funds, which were managed by the same investment manager and consisted of several funds with different investment objectives, as follows:

The Equity Index Fund B Lendable was a portfolio of common stocks with the objective of approximating as closely as practicable the capitalization weighted total return of that segment of the U.S. market for publicly traded common stocks represented by the larger capitalized markets. The fund tracked the S&P 500 Index.

The Mid-Cap Index Fund B Lendable was a portfolio of common stocks with the objective of approximating as closely as practicable the capitalization weighted total rate of return of the segment of the United States and Canadian markets for publicly traded common stocks represented by the medium capitalized companies. The fund tracked the S&P 400 Mid-Cap Index.

The Russell 2000 Index Fund B's objective was approximating as closely as practicable the capitalization weighted total return of the segment of the U.S. market for publicly traded common stocks represented by the Russell 2000 Index.

The EAFE Equity Index Fund B was managed to replicate the Morgan Stanley Capital International Europe, Australia and Far East Index (EAFE). Individual index funds were established to represent each country within the EAFE Index. The fund was a commingled 'superfund'

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Notes to Financial Statements (cont.)

comprised from the individual EAFE Index country funds managed in their appropriate capitalization weights.

The Emerging Markets Index Fund Malaysia was originally an investment in the MSCI Equity Index Fund B which was twenty-one international funds invested in Europe, Australia and the Far East. Malaysia was removed from the MSCI EAFE index.

When deemed appropriate, a portion of the index funds may have been invested in futures contracts for the purpose of acting as a temporary substitute for investment in common stocks.

The Mid-Cap Index Fund B Lendable and the Russell 2000 Index Fund B were majority-owned by the Fund, the Permanent University Fund and the Permanent Health Fund. The market values of the Fund's interests in these index funds were as follows at August 31, 2000:

Equity Index Fund B Lendable	\$ 319,421,241
Mid-Cap Index Fund B Lendable	209,843,969
Russell 2000 Index Fund B	108,684,647
EAFE Equity Index Fund B	196,305,384
Emerging Markets Index Fund Malaysia	<u>350,758</u>
	<u>\$ 834,605,999</u>

Note 7 Commingled Investments

Prior to March 1, 2001, the Fund held commingled investments, which consisted of investments in other entities in which the Fund had an ownership percentage or shares. The market values of the commingled investments consisted of the following at August 31, 2000:

Emerging Market Mutual Funds	\$ 121,222,172
Small Capitalization International Stock Fund	120,917,232
Merger Arbitrage and Special Situation Funds	118,757,585
Hedge Fund	88,749,518
Growth-Oriented, Capital Appreciation Fund	<u>1,138,340</u>
	<u>\$ 450,784,847</u>

The merger arbitrage and special situation funds invested in merger arbitrage, corporate restructuring, distressed investments, distressed convertibles and liquidations. The hedge fund invested primarily in medium and large capitalization U.S. equities in which performance was driven by long and short security selection with a low net exposure to market risk.

Note 8 Securities Lending

Prior to March 1, 2001, the Fund loaned securities to certain brokers who paid the Fund negotiated lenders' fees. These fees are included in investment income. The Fund received qualified securities and/or cash as collateral against the loaned securities. The collateral, when received, was required to

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Notes to Financial Statements (cont.)

have a market value of 102% of loaned securities of United States issuers and a market value of 105% for loaned securities of non-United States issuers. If the market value of the collateral held in connection with loans of securities of United States issuers was less than 100% at the close of trading on any business day, the borrower was required to deliver additional collateral by the close of the next business day to equal 102% of the market value. For non-United States issuers, the collateral was required to remain at 105% of the market value of the loaned securities at the close of any business day. If it fell below 105%, the borrower was required to deliver additional collateral by the close of the following business day. The value of securities loaned and the value of collateral held were as follows at August 31, 2000:

Securities on Loan	Value	Type of Collateral	Value of Collateral
U.S. Government	\$ 92,044,361	Cash	\$ 93,444,401
Corporate Bonds	8,150,318	Cash	8,355,400
Common Stock	<u>7,367,099</u>	Cash	<u>7,670,176</u>
Total	<u>\$ 107,561,778</u>	Total	<u>\$ 109,469,977</u>
U.S. Government	<u>\$ 8,466,720</u>	Non-Cash	<u>\$ 8,862,184</u>

Cash received as collateral for securities lending activities was recorded as an asset with an equal and offsetting liability to return the collateral. Investments received as collateral for securities lending activities were not recorded as assets because the investments remained under the control of the transferor, except in the event of default.

Note 9 Futures Contracts

Prior to March 1, 2001, the Fund's activities included trading in derivatives such as futures contracts. Futures contracts were used to facilitate various trading strategies, primarily as a tool to increase or decrease market exposure to various asset classes of the Fund. The asset classes that used futures included domestic and foreign equities, domestic and foreign debt and commodities. Commodity index exposure was obtained through the Goldman Sachs Commodity Index (GSCI). The GSCI is a composite index of commodity sector returns, representing an unleveraged, long-only investment in commodity futures that is broadly diversified across the spectrum of commodities. The Fund had \$24,233,970 on deposit with a broker for collateral as margin for the futures contracts as of August 31, 2000. It was the intention of the Fund not to utilize leverage when entering into these contracts and to maintain cash balances that, when combined with the collateral deposit with a broker, exceeded the notional value of the futures contracts held. Futures contracts were marked to market daily; that is, they were valued at the close of business each day, and a gain or loss was recorded between the value of the contracts that day and on the previous day. The daily gain or loss was referred to as the daily variation margin, which was settled in cash with the broker each morning for the amount of the previous day's mark to market. The amount that was settled in cash with the broker each morning was the carrying and fair value of the futures contracts. The Fund recognized a loss on futures contracts of \$12,364,493 for the period ended February 28, 2001, and a gain on futures contracts of \$39,516,154 for the year ended August 31, 2000. The Fund executed such contracts either on major exchanges or with major international financial institutions and minimized market and credit risk associated with these contracts through the manager's various trading and credit monitoring techniques.

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Notes to Financial Statements (cont.)

The table below discloses the average carrying and fair value for the period ended February 28, 2001. The Fund did not hold futures at August 31, 2001.

	Average Carrying and Fair Value for the Period Ended February 28, 2001	
	<u>Assets</u>	<u>Liabilities</u>
Domestic Equity Futures	\$ 264,997	\$ 376,599
International Equity Futures	155,366	159,107
Commodity Futures	884,221	862,340
Domestic Fixed Income Futures	64,495	75,653
International Fixed Income Futures	28,869	23,826

The following discloses the notional, carrying and fair values at August 31, 2000, and the average carrying and fair values for the year ended August 31, 2000, for futures contracts:

	Notional Value at August 31, 2000		Carrying and Fair Value at August 31, 2000		Average Carrying and Fair Value for the Year Ended August 31, 2000	
	<u>Long</u>	<u>Short</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Domestic Equity Futures	\$ 74,538,800	\$ 805,575	\$ 1,081,704	\$ 4,725	\$ 609,927	\$ 610,887
International Equity Futures	11,317,359	15,035,913	89,491	94,276	232,113	225,440
Commodity Futures	113,806,013	-	-	209,588	717,489	515,286
Domestic Fixed Income Futures	4,803,516	20,615,109	19,391	98,964	28,176	28,825
International Fixed Income Futures	32,763,938	-	66,327	734	63,884	58,331

THE UNIVERSITY OF TEXAS SYSTEM
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Notes to Financial Statements (cont.)

Note 10 Foreign Currency Exchange Contracts

The table below summarizes by currency the contractual amounts of the Fund's foreign currency exchange contracts at August 31, 2000. Foreign currency amounts were translated at exchange rates as of August 31, 2000. The "Net Buy" amounts represent the U.S. dollar equivalent of net commitments to purchase foreign currencies, and the "Net Sell" amounts represent the U.S. dollar equivalent of net commitments to sell foreign currencies. The Fund did not hold any foreign currency exchange contracts at August 31, 2001.

Currency	Net Buy August 31, 2000	Net Sell August 31, 2000	Unrealized Gains on Foreign Currency Exchange Contracts August 31, 2000	Unrealized Losses on Foreign Currency Exchange Contracts August 31, 2000
Euro Currency	\$ 13,259,455	\$ -	\$ 549,347	\$ 428,547
UK Pound	4,258,426	-	212,927	373,691
New Zealand Dollar	-	8,475,436	771,233	198,838
Swiss Franc	1,142,319	-	24,630	212,089
Canadian Dollar	5,419,707	-	45,592	26,828
Norwegian Krone	14,473,707	-	113,288	474,824
Japanese Yen	26,439,055	-	466,499	55,277
Australian Dollar	-	3,280,760	138,418	46,683
Swedish Krona	-	15,406,990	346,382	80,475
Various	8,287,040	-	176,240	419,468
	\$73,279,709	\$ 27,163,186	\$ 2,844,556	\$ 2,316,720

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Notes to Financial Statements (cont.)

Note 11 Financial Information on GEF

The following presents the investments and net assets of the GEF, in thousands, as of August 31, 2001.

Equity Securities	
Index Funds	\$ 881,803
Domestic Common Stock	733,637
Commingled Investments	640,911
Limited Partnerships	366,491
Foreign Common Stocks	116,147
Other	<u>1,093</u>
Total Equity Securities	<u>2,740,082</u>
Debt Securities	
U.S. Government Obligations (Direct and Guaranteed)	204,349
U.S. Government Agencies (Non-Guaranteed)	303,343
Foreign Government and Provincial Obligations (U.S. Dollar Denominated)	4,417
Foreign Government and Provincial Obligations (Non-U.S. Dollar Denominated)	62,569
Municipal and County Bonds	9,105
Corporate Bonds	230,395
Foreign Corporate Bonds	14,861
Commingled Investment	11,690
Other	<u>3,331</u>
Total Debt Securities	<u>844,060</u>
Preferred Stock	
Domestic Preferred Stock	12,842
Foreign Preferred Stock	<u>1,305</u>
Total Preferred Stock	<u>14,147</u>
Convertible Securities	<u>2,915</u>
Cash and Cash Equivalents	
Money Markets	<u>320,832</u>
Total Investment in Securities	\$ 3,922,036
Other Assets	171,399
Liabilities	<u>(369,523)</u>
Net Assets	\$ 3,723,912
Fund Ownership	<u>76.33%</u>
Value of Fund Interest	<u>\$ 2,842,644</u>

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Notes to Financial Statements (cont.)

The following presents information on the operations of the GEF, in thousands, for the period of its inception (March 1, 2001) to August 31, 2001.

Investment Income	
Interest	\$ 29,790
Dividends	17,308
Income Distributions from Limited Partnerships	1,631
Other	<u>1,187</u>
Total Investment Income	<u>49,916</u>
Total Expenses	<u>3,402</u>
Net Investment Income	<u>46,514</u>
Realized And Unrealized Loss on Investments	
Net Realized Loss On Investments Securities and Foreign Currency Related Transactions	(36,860)
Net Unrealized Depreciation On Investment Securities and Foreign Currency Related Transactions	<u>(94,253)</u>
Net Loss on Investments	<u>(131,113)</u>
Net Decrease in Net Assets Resulting From Operations	\$ (84,599)
Net Assets	
Beginning of Period	-
Contribution of Participant Net Assets to GEF on March 1, 2001	3,839,708
Subsequent Participant Contributions	81,198
Participant Withdrawals:	
Cost	(104,220)
Loss	1,479
Distributions	<u>(9,654)</u>
Ending Net Assets	<u>\$ 3,723,912</u>
The Fund's share of the above transactions are as follows:	
Net Investment Income	35,503
Net Realized Losses	(28,163)
Net Unrealized Depreciation	(70,826)
Purchase of GEF units on March 1, 2001	2,917,369
Subsequent GEF Unit Purchases	71,544
Subsequent Sale of GEF Units	<u>(82,783)</u>
Value of Fund Interest	<u>\$ 2,842,644</u>