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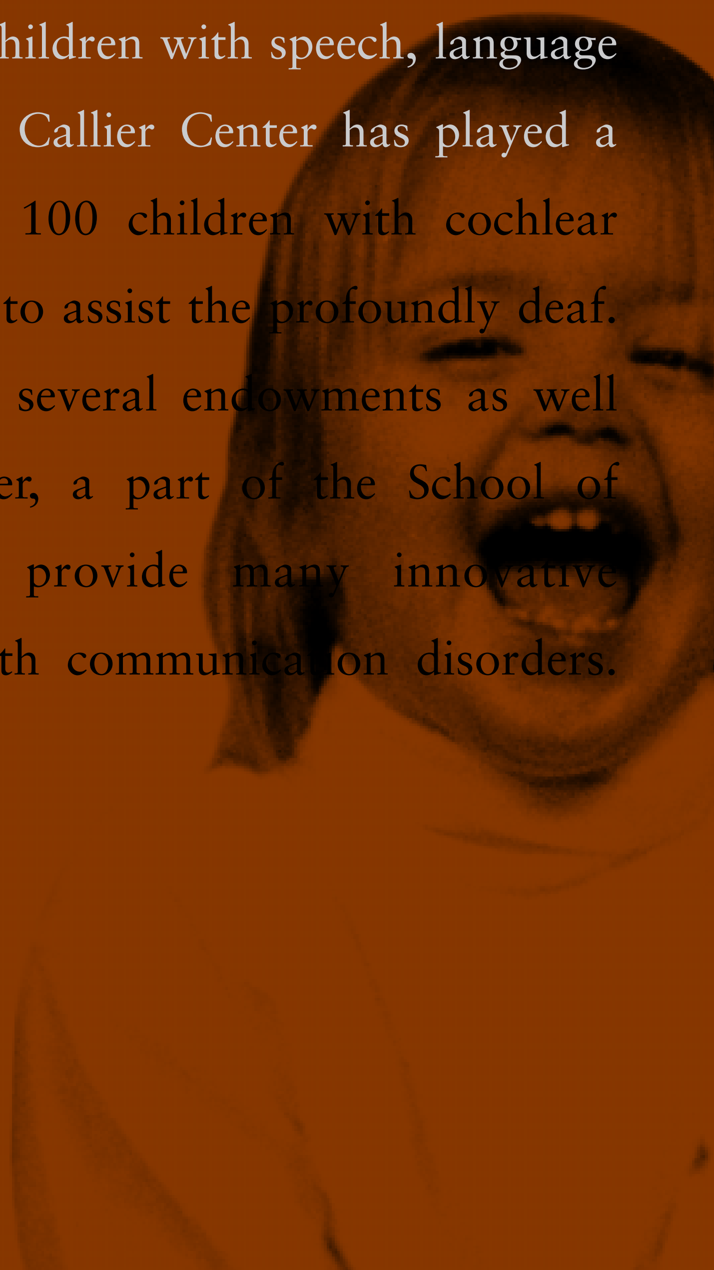
Annual Report for the year ended August 31, 1998

The University of Texas System Long Term Fund Annual Report

The Callier Center for Communication Disorders of The University of Texas at Dallas is a premier teaching, research and clinical institution serving more than 30,000 adults and children with speech, language and hearing disorders each year. The Callier Center has played a major role in implanting more than 100 children with cochlear implants, a state-of-the-art technology to assist the profoundly deaf. Thanks to the support received from several endowments as well as outside sources, the Callier Center, a part of the School of Human Development, is able to provide many innovative programs for adults and children with communication disorders.



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Message from the Chairmen

We are pleased to report that the year ended August 31, 1998 was a year of many positive developments for the Long Term Fund. Among the most notable were:

a 14% increase in new endowment contributions to the Fund Endowment contributions continued to increase over prior years reflecting the sustained generosity of the many benefactors supporting the 15 academic and health institutions comprising the U. T. System. As a result, there were approximately 4,800 endowments participating in the Fund at year end.

a 20% increase in the Fund's distribution rate Included in this increase was a one time adjustment recognizing the above average price appreciation experienced by the Fund in recent years. Going forward, the distribution rate paid to each underlying endowment will be adjusted annually in accordance with a spending formula that is designed to protect the purchasing power of payout and the net assets of the Fund over time.

above average investment performance For the twelve months ended June 30, 1998, the Fund's investment return of 18.9% outperformed the median return of 17.8% for a universe of 126 college and university endowments compiled by Cambridge Associates, Inc. Subsequent to this date, world equity markets declined significantly with the result that the Fund produced a 2.0% return for the year ended August 31, 1998. Although this correction reversed most of the investment gains generated earlier in the year, UTIMCO has not altered its strategic asset allocation in keeping with its long term investment horizon for endowment assets.

restructuring of the Fund's asset allocation and underlying portfolios During the year, UTIMCO dedicated much of its efforts to restructuring the Fund's asset allocation and the underlying equity and fixed income portfolios. UTIMCO increased the Fund's overall exposure to broadly defined equities and further diversified the Fund into Alternative Equities asset classes. These actions were taken to improve the Fund's risk/return profile and to bring the Fund closer to its neutral policy portfolio.

internet endowment reporting UTIMCO converted its reporting for endowment accounts underlying the Fund to an internet delivery platform. For the period ended August 31, 1998, UTIMCO will provide activity and performance reporting on each endowment to the U. T. System institution designated as that endowment's beneficiary.

While new contributions are vital to the expansion of U. T. System teaching and research programs, UTIMCO and the U. T. System Board of Regents recognize the need to preserve the purchasing power of endowments once they are created. With this objective in mind, UTIMCO will continue to reposition the Fund to meet the investment challenges of the next century and to provide enduring financial support to the Fund's many beneficiaries.

Donald L. Evans

Chairman
Board of Regents
The University of Texas System

Thomas O. Hicks

Chairman
Board of Directors
The University of Texas Investment Management Company

Regent
The University of Texas System




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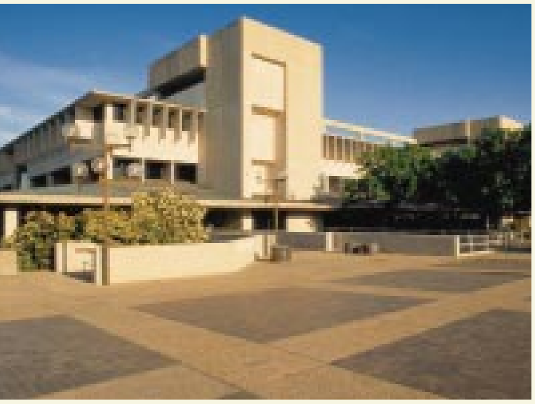





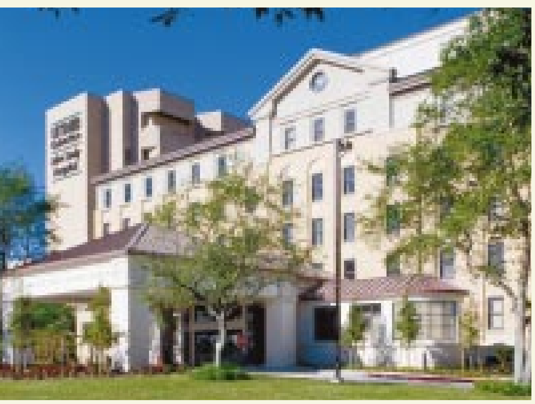




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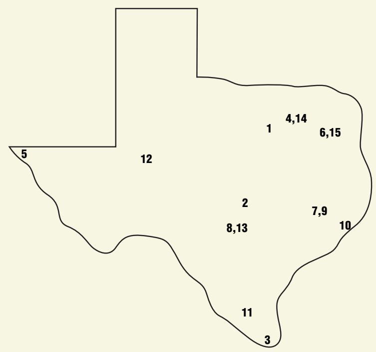
UT System Component Institutions

The 15 component institutions supported by the Fund consist of nine general academic institutions and six health related institutions, with an enrollment base of approximately 147,000 students as of the 1998 Fall semester. Maintenance and enhancement of the academic quality of the institutions will require continued support from the private sector and achievement of Fund investment objectives.



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Overview

The Long Term Fund (the “Fund”) was established on February 9, 1995, by the Board of Regents of The University of Texas System (the “Board”). It replaced the Common Trust Fund originally established by the Board in 1932. The Fund serves as a pooled fund for the collective investment of approximately 4,800 privately raised endowments and other long term funds of the 15 component institutions comprising The University of Texas System (the “U. T. System”). It also provides for greater diversification of security holdings than would be possible if each participant’s account was managed separately. The Fund is structured as a mutual fund in which each endowment or account purchases units at the Fund’s market value per unit. Cash distributions are paid quarterly, on a per unit basis, directly to the component institution of record.

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Fiduciary responsibility for the Fund rests with the Board. The day-to-day operational responsibilities of the Fund are delegated to The University of Texas Investment Management Company (“UTIMCO”). UTIMCO is a 501 (c)(3) corporation formed in March 1996 to invest endowment and other assets of the Board. UTIMCO is governed by a board of directors consisting of three U. T. System regents, the Chancellor of the U. T. System, and five outside directors with experience in investment management. UTIMCO’s governance structure is designed both to preserve ultimate regental control of investments for fiduciary purposes and to increase the level of investment expertise in the governance of investments. Day-to-day management of funds is delegated to UTIMCO’s employees, who provide a full range of investment management services. UTIMCO employs investment managers and contracts with unaffiliated investment managers in order to enhance the Fund’s return and risk characteristics. UTIMCO manages investments in excess of $11 billion which includes the $6.5 billion Permanent University Fund, and other assets supporting the teaching, research, and health care missions of The University of Texas System component institutions.

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Key

1. UT Arlington - Mall Area
2. UT Austin - University Tower
3. UT Brownsville - Science and Engineering Technology Building
4. UT Dallas - Eugene McDermott Library
5. UT El Paso - Campus View
6. UT Health Center at Tyler - Hospital & Outpatient Clinic Towers
7. UT Health Science Center at Houston - University Center Tower
8. UT Health Science Center at San Antonio - Campus View
9. UT M.D. Anderson Cancer Center at Houston - LeRoy Melcher, Jr. Memorial Fountain in front of the Margaret and Ben Love Clinic and Charles A. LeMaistre Clinic
10. UT Medical Branch at Galveston - R. Waverly Smith Pavilion
11. UT Pan American - Fine Arts Courtyard
12. UT Permian Basin - Mesa Building
13. UT San Antonio - Office of University Communications
14. UT Southwestern Medical Center at Dallas - Hamon, Simmons and Seay Biomedical Research Buildings
15. UT Tyler - R. Don Cowan Fine and Performing Arts Center

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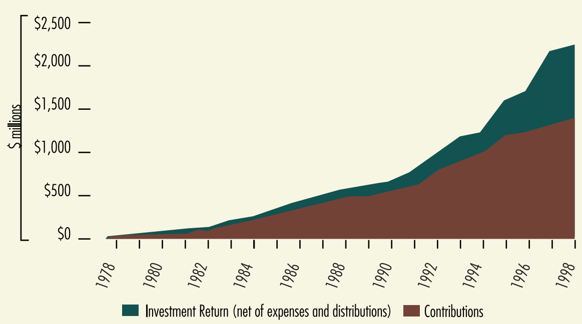
Financial Summary

The Fund's net assets have continued to grow over the years, reaching $2,147.7 million at August 31, 1998. Endowment contributions accounted for 68% of the 22% growth rate in net contributions to the Fund during the year. Total endowments underlying the Fund increased by approximately 400. The five year period illustrated below summarizes the substantial growth in the Fund's net assets. New contributions and investment return after expenses and distributions produced 50.5% and 49.5% of five year asset growth, respectively.

Years ended August 31, (in millions)	**1994**	**1995**	**1996**	**1997**	**1998**
Beginning Net Assets	$1,128.0	$1,226.3	$1,558.8	$1,712.1	$2,125.0
Net Contributions	111.9	202.3	54.1	66.1	80.5
Investment Return	51.3	203.4	182.3	433.8	42.6
Receipt of Funds from U. T. System for UTIMCO Fee	0.0	0.0	0.0	0.0	2.0
Expenses	(2.1)	(2.8)	(3.7)	(4.5)	(7.2)
Distributions (Payout)	(62.8)	(68.5)	(76.4)	(79.1)	(90.9)
Distribution of Gain on Participant Withdrawals	0.0	(1.9)	(3.0)	(3.4)	(4.3)
Ending Net Assets	$1,226.3	$1,558.8	$1,712.1	$2,125.0	$2,147.7

Long Term Fund Growth 1978-1998



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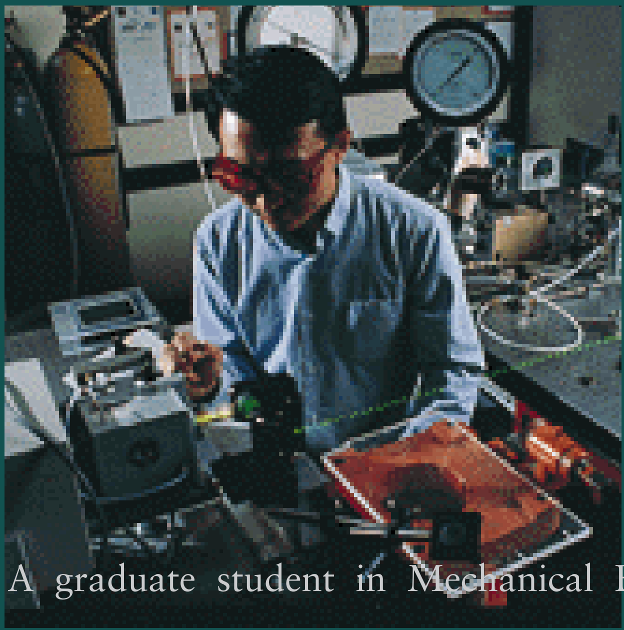
Factors for the Fund in meeting its investment objectives

The Fund's ability to meet its primary investment objectives depends on two important factors:

1. Investment return which is primarily determined by how the Fund allocates its investment assets among different investment classes.
2. The Fund's distribution rate which should not exceed the average net investment return after expenses and inflation. An equilibrium distribution rate is required to preserve the purchasing power of the Fund's assets through time.

	Average Annual Rate (1)
Investment Return	8.5 %
Expenses	(0.5)%
Inflation	(3.5)%
Net Return After Inflation	4.5 %
Distribution Rate	(4.5)%
Net Change in Purchasing Power	0.0 %

(1) based on market indices dated 1901-1996



A graduate student in Mechanical Engineering studies combustion processes in the General Motors Foundation Centennial Combustion Sciences Research Laboratory at The University of Texas at Austin. Research regarding the design of automotive engines is supported with funding from the endowment and major automobile manufacturers.

General Motors Foundation Centennial Endowment for Combustion Sciences Research

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The Fund's asset allocation is weighted toward equities in order to meet its expected investment return targets.

Historical data has shown an asset allocation of 70-80% to equity securities is required in order to provide an expected average investment return in excess of 8.5%. Although there is higher volatility (standard deviation) associated with an equity oriented portfolio, endowment funds can absorb this risk due to their perpetual nature.

US Stock/ US Bond Ratio	Average Annual Compound Return %	Standard Deviation %
0/100	5.2	9.8
10/90	5.8	9.9
20/80	6.4	10.3
30/70	6.9	11.0
40/60	7.4	12.0
50/50	7.9	13.1
60/40	8.3	14.4
70/30	8.7	15.9
80/20	9.1	17.4
90/10	9.4	19.0
100/0	9.7	20.6

Investment Objectives

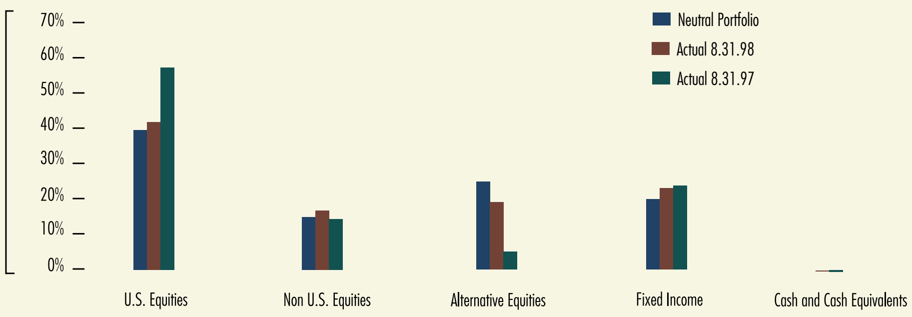
The majority of the accounts invested in the Fund are endowments which are perpetual in nature. As a result, they require investment management with long term fund investment horizons. The Fund's investment objectives follow the principles of endowment fund management.
The two primary investment objectives of the Fund are to preserve the purchasing power of the Fund's assets and its annual distributions by earning an average total return after inflation of 5.5% over rolling ten year periods or longer. Growth of the Fund is required to preserve its purchasing power and is essential for providing growth in the distributions to the component institutions. The Fund's two secondary objectives are to generate a fund return in excess of the neutral policy portfolio benchmark, and the average median return of the universe of the college and university endowments as reported annually by Cambridge Associates, Inc. and National Association of College and University Business Officers ("NACUBO") over five year periods or longer. The neutral policy portfolio benchmark is a composite of asset class return indices weighted to reflect the Fund's neutral asset allocation policy.

Asset Allocation

The Fund's ability to meet its investment objectives depends primarily upon the allocation of its assets among different investment classes. Asset allocation is the primary determinant of investment performance. In establishing an asset allocation policy, it is recognized that the Fund's risk/return profile can be enhanced by diversifying its investments across different types of assets whose returns are not closely correlated. The Board, in February of 1995, approved a long term equity allocation goal to be achieved in five years. The long term policy contains neutral allocations of 20%, 55%, and 25% to fixed income, equities, and alternative equities, respectively. Specific asset allocations may be changed from time to time based on the economic and investment outlook. The Board adopted a total return investment strategy for the Fund in late 1993 with the amendment to the Texas Uniform Management of Institutional Funds Act. This Act allowed governing boards of public institutions of higher education to appropriate for expenditure the realized appreciation of an endowment fund. Since each account owns an undivided interest in the Fund based on the number of units it holds, the Fund's realized appreciation is also available for expenditure. Prior to the amendment of the law, only income (defined primarily as interest and dividends) could be distributed to meet the distribution provisions established for the Fund.

During the year, the Fund increased its overall exposure to broadly defined equities and further diversified the Fund into the Alternative Equities - Marketable asset class. The Fund also invested a portion of its Fixed Income allocation into Non U.S. securities. The asset allocation chart below compares the neutral policy asset allocation to the actual allocation of the Fund's assets for the previous two-year periods ending August 31, 1998 and 1997, respectively.

Asset Allocation



The chart below compares the Fund's neutral policy portfolio benchmark returns against the actual returns by asset class for the year. The Fund underperformed its neutral policy portfolio benchmark return by 1.0%. The Fund performed well in U.S. Fixed Income, Non U.S. Equities - Established Markets and Alternative Equities - Nonmarketable and underperformed in Large/Medium Cap, and Small Cap asset classes. The Fund remained substantially underweighted in the Alternative Equities - Nonmarketable asset class. The combination of these factors resulted in the Fund underperforming its neutral policy portfolio benchmark return of 3.0%.

Asset Class:	Actual Allocation 8/31/98	Neutrally Weighted Policy Allocation	Actual Returns	Neutral Policy (Benchmark) Returns
Equities				
U.S. Equities				
Large/Medium Cap	31.4 %	30.0 %	3.4 %	8.1 %
Small Cap	10.8 %	10.0 %	(21.9)%	(19.4)%
	42.2 %	40.0 %	(2.8)%	1.2 %
Non U.S. Equities				
Established Markets	14.1 %	12.0 %	(0.9)%	(5.0)%
Emerging Markets	2.0 %	3.0 %	(51.6)%	(50.9)%
	16.1 %	15.0 %	(12.1)%	(14.2)%
Alternative Equities				
Marketable	12.2 %	7.0 %	N.A.	10.0 %
Nonmarketable	6.8 %	18.0 %	32.8 %	13.6 %
	19.0 %	25.0 %	29.8 %	12.6 %
Total Equities	77.3 %	80.0 %		
Fixed Income				
U.S. (Domestic)	17.7 %	15.0 %	13.1 %	10.6 %
Foreign	5.1 %	5.0 %	N.A.	6.1 %
Total Fixed Income	22.8 %	20.0 %	11.9 %	9.5 %
Cash and Cash Equivalents	(0.1)%	0.0 %	N.M.	N.M
Total Fund	100.0 %	100.0 %	2.0 %	3.0 %

N.M. - Not Meaningful N.A. - Asset class funded during the year.

Performance

Against Cambridge Universe

An objective of the Fund is to generate a return in excess of the average median return of the universe for college and university endowments as reported annually by NACUBO and Cambridge Associates, Inc. The chart below is a comparison of the Fund to other colleges and universities that reported returns to Cambridge Associates, Inc. for the one, three and five year periods ending June 30, 1998. For the twelve month period ending June 30, 1998, the Fund's total investment return of 18.9% outperformed the median return of 17.8% of a universe of 126 college and university endowments.

Years ended June 30, 1998

	1 yr.	3 yrs.	5 yrs.
Total Fund Return	18.9 %	18.6 %	14.9 %
Median Return of the Universe	17.8 %	18.8 %	15.1 %

Subsequent to June 30, 1998, the world equity markets declined significantly and as a result, the Fund produced a 2.0% total return for the year ended August 31, 1998. Although this correction reversed most of the investment gains generated earlier in the year, UTIMCO has not altered its strategic asset allocation in keeping with its long term investment horizon.

Adjusted for Inflation

Another objective of the Fund is to earn an average total return after inflation of 5.5% over rolling ten year periods or longer. The Fund met this objective by preserving the purchasing power of the Fund assets and annual distributions by earning an average annual total return after inflation of 6.5% and net real return after distributions of 1.3% for the ten year period ending August 31, 1998. The following chart shows the calculation of the Fund's net real return for the current year as well as for the three, five and ten year periods ending August 31, 1998.

Long Term Fund Real Return
Years ended August 31, 1998

	1 yr.	3 yrs.	5 yrs.	10 yrs.
Total Return	2.0 %	12.5 %	11.4 %	9.9 %
Fund Expenses (net of reimbursement)	(0.2)	(0.2)	(0.2)	(0.2)
Net Total Return	1.8	12.3	11.2	9.7
Inflation	(1.6)	(2.3)	(2.4)	(3.2)
Net Real Return After Inflation	0.2	10.0	8.8	6.5
Distributions	(4.1)	(4.2)	(4.6)	(5.2)
Net Real Return after Distributions	(3.9)%	5.8 %	4.2 %	1.3 %

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Comparison of the Fund's investment management fees and other costs with other college endowment funds

The Fund incurs external investment counseling fees, a UTIMCO management fee and a U. T. System fee for educational purposes. Other costs associated with the management of the Fund's assets are custody, audit and performance measurement fees. The ratio of expenses to the average market value of the Fund for 8/31/98 was .32%, a portion of which is offset by .09% reimbursement from U. T. System for the UTIMCO management fee. The resulting net expense ratio was .23% for the year. The average expense ratio as published by the most recent Cambridge Associates, Inc. survey (June 30, 1997) for endowment funds greater than 400 million was .51%.

The University of Texas at Arlington Centennial Scholarship Endowment

The University of Texas at Arlington Centennial Scholarship Endowment provides support for deserving and academically promising first-generation college students. Created during the University's Centennial year, the endowment is funded through contributions to the Centennial Scholarship Brick Walk project. Individuals, corporations and foundations that donate to the project are recognized each spring for their contributions.

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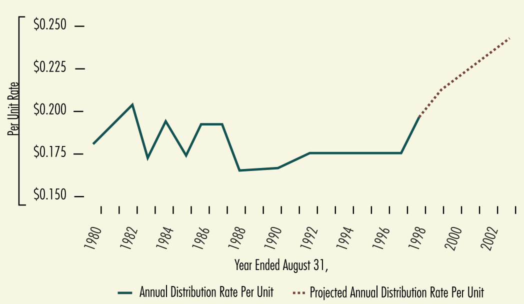
Understanding Endowment Distributions

All endowments which invest in the Fund purchase units based on the Fund's net asset value price per unit on the purchase date. The endowment beneficiary receives distributions quarterly from the Fund based on the number of units owned multiplied by the current distribution rate. The distribution rate is increased each year by an average consumer price index. This formula continues so long as the distribution % is between 3.5% and 5.5% of the Fund's market value. In this way, the dollars distributed are inflation adjusted in order to maintain their purchasing power. The chart below presents the per unit distribution rate and the projected increases based on an inflation rate of 3.5%.

During the year, a special one-time adjustment in the distribution rate was made which recognized the above average price appreciation experienced by the Fund in recent years.

Long Term Fund Distribution Rates Per Unit



Performance

Against Neutral Policy Portfolio

A third objective of the Fund is to outperform its neutral policy portfolio. The following table compares the historical performance of the Fund against its neutral policy portfolio:

Years ended August 31, 1998

	1 yr.	2 yrs.	3 yrs.	5 yrs.
Long Term Fund	2.0 %	13.0 %	12.5 %	11.4 %
Benchmark: Neutral Policy Portfolio	3.0 %	14.0 %	14.0 %	13.1 %

For the year, the Fund produced a total return of 2.0% versus a return of 3.0% for the neutral policy portfolio. The Fund's underperformance relative to its benchmark was due to several factors: substantial under-weighting in the Alternative Equities - Nonmarketable asset class during the year, and underperformance in the Large/Medium Cap, and Small Cap asset classes when compared to their respective benchmarks. The Fund outperformed in the Alternative Equities - Nonmarketable, U.S. Fixed Income and Non U.S. Equities - Developed Markets compared to their respective benchmarks for the year.

By Asset Class

Fixed Income - Performance

	1 yr.	2 yrs.	3 yrs.	5 yrs.
Fixed Income - U.S. (1)	13.1 %	12.0 %	9.4 %	8.0 %
Fixed Income - Non - U.S. (2)	N.A.	N.A.	N.A.	N.A.
Total Fixed Income	11.9 %	11.4 %	9.1 %	7.7 %
Benchmarks:				
Lehman Brothers Aggregate (1)	10.6 %	10.3 %	8.2 %	6.8 %
Salomon Non - U.S. WGBI (2)	6.1 %	1.2 %	3.2 %	6.2 %

N.A. - funded during the year

The Fund continued to reposition its assets into equity securities. During the year, $47.3 million was transferred from the U.S. Fixed Income portfolio to Non U.S. Equities. The Fund also diversified its fixed income exposure to Non U.S. investments during the year. The fixed income portfolios constituted 23.2% of the Fund's beginning of the year market value and 22.8% of the year end market value. The fixed income markets posted above average returns for the year. The total return for the Fund's U.S. Fixed Income portfolio was 13.1% versus its benchmark of 10.6%. The outperformance of the portfolio versus its benchmark was primarily attributable to the fact that it had a higher income component with a longer modified duration than the benchmark.

John Chapman Endowed Professorship in Microbiology

The Center for Pulmonary and Infectious Disease Control (CPIDC) at The University of Texas Health Center at Tyler has remained a leader in infectious disease research and treatment through generous donations from The Cain Foundation. Richard Wallace, Jr., M.D., holder of the John Chapman Endowed Professorship in Microbiology, has been instrumental in providing vital assistance to the CPIDC in tuberculosis research and is known internationally for his efforts in fighting infectious disease.

U.S. Equities - Performance

	1 yr.	2 yrs.	3 yrs.	5 yrs.
Large/Mid Cap (1)	3.4 %	19.5 %	18.9 %	14.8 %
Small Cap (2)	(21.9)%	(1.2)%	2.8 %	N.A.
Total U.S. Equities (3)	(2.8)%	15.3 %	16.0 %	14.6 %
Benchmarks:				
S&P 500 (1)	8.1 %	23.3 %	21.8 %	18.2 %
Russell 2000 (2)	(19.4)%	1.9 %	4.8 %	8.1 %
Russell 3000 (3)	3.5 %	19.7 %	18.9 %	16.5 %

N.A. Non Applicable

The Fund's U.S. Equities posted a 2.8% loss for the year. Economic turmoil overseas and the pace of U.S. corporate earnings growth contributed to a pessimistic view and from mid July, 1998 to August 31, 1998, the U.S. Equity markets declined significantly. The market decline affected Small Cap stocks more adversely than Large Cap stocks. Subsequent to year end, the U.S. Equity markets have made a recovery. During the year, $345.5 million was transferred from the U.S. Equity portfolios. Of this amount, $275.5 million was allocated to the Alternative Equities - Marketable asset class, $10.5 million to Alternative Equities - Nonmarketable, $30.2 million to Non U.S. Equities and $29.3 million to fund distributions (payout).

Non U.S. Equities - Performance

	1 yr.	2 yrs.	3 yrs.	5 yrs.
Established Markets (1)	(0.9)%	6.1 %	7.1 %	5.1 %
Emerging Markets (2)	(51.6)%	(23.1)%	N.A.	N.A.
Total Non U.S. Equities	(12.1)%	0.6 %	3.5 %	4.3 %
Benchmarks				
FTAW (excludes U.S.) (1)	(5.0)%	1.8 %	3.9 %	4.4 %
MSCI Emerging Markets (2)	(50.9)%	(29.0)%	(20.0)%	(9.4)%

N.A. Non Applicable

The Fund's Non U.S. Equities - Established Market investments posted a negative return of 0.9% return for the year and outperformed its benchmark of (5.0)%. This asset class was also affected by the Asian crisis during the year. The Emerging Markets asset class posted a negative return of 51.6% for the year. This severe loss resulted from the economic environment in Asia, Russia and Latin America. The Fund's exposure to the Emerging Markets asset class was relatively small; 2% at year end. The Fund's total exposure to Non U.S. Equities at year end was $346.4 million.

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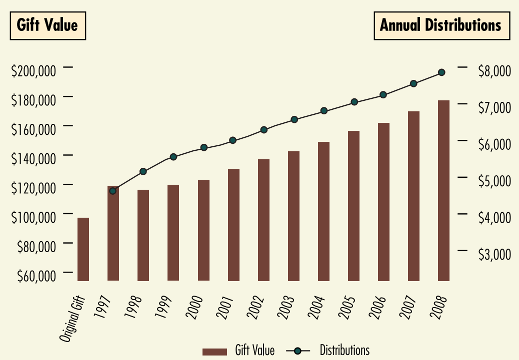
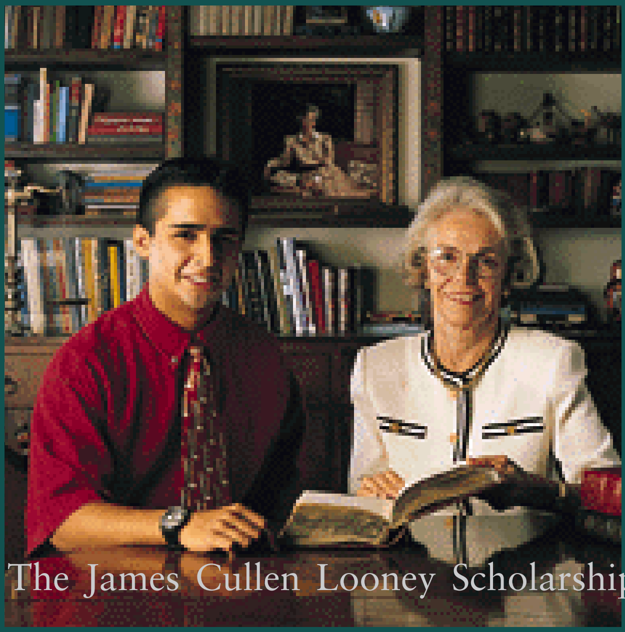
Endowment expectations – growth in value of endowment assets and growth in the distribution stream

An institution which receives the benefit of an endowment gift can expect the value of that gift to increase along with an increase in its annual distribution. The chart below illustrates this concept. The growth in the value of the gift is assumed at 4% per year. This is net of distributions and fees. Growth in the distributions is based on an average inflation rate of 3.5% per year. This example assumes historical market averages.





James Cullen Looney Scholarship

The James Cullen Looney Scholarship is one of the first two scholarship endowments ever established at The University of Texas-Pan American. Eduardo Vento, a senior English major from McAllen and recipient of the James Cullen Looney Scholarship, is pictured with Judge Looney's daughter Margaret Looney McAllen, who has followed in her father's footsteps as a regent of U. T. Pan American. This Scholarship has helped make possible Eduardo's participation in the Honors Studies Program at U. T. Pan American. The legacy of Judge James Cullen Looney, who loved the Rio Grande Valley and was committed to helping people better their lives through education, lives on at The University of Texas-Pan American through the James Cullen Looney Scholarship.

Alternative Equities - Performance

	1 yr.	2 yrs.	3 yrs.	5 yrs.
Nonmarketable (1)	32.8 %	24.3 %	20.8 %	25.5 %
Marketable (2)	N.A.	N.A.	N.A.	N.A.
Total Alternative Equities	29.8 %	22.9 %	19.9 %	25.2 %
Benchmarks:				
S&P 500 Index +5% (1)	13.6 %	29.5 %	27.9 %	24.2 %
Consumer Price Index +8% (2)	10.0 %	10.4 %	10.7 %	10.9 %

N.A. - funded during the year

Alternative Equities are comprised of two asset classes, Marketable and Nonmarketable. Marketable investments are broadly defined to include hedge funds, market neutral, arbitrage and special situation funds, high yield bonds, distressed obligations and other non-traditional investment portfolio strategies where the underlying securities are listed and traded on public exchanges. Nonmarketable investments include private equity, buyouts, mezzanine debt, and venture capital investments that are privately held. These investments require a commitment of capital for extended periods of time with no liquidity.

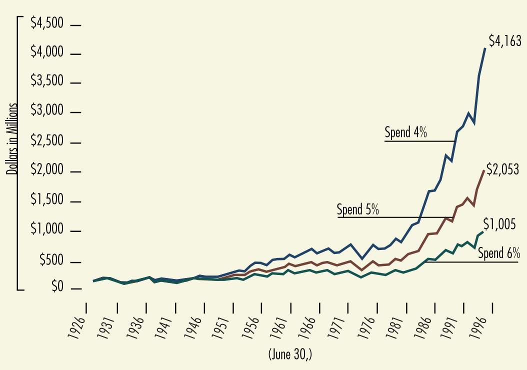
The Nonmarketable investment return was 32.8% for the year compared to its benchmark of 13.6%. During the year, only $10.5 million was transferred to this asset class. The Fund's year end actual allocation of 6.8% to this class continues to be underfunded relative to its neutral policy allocation of 18%. Nonmarketable investments totaled $145.7 million at year end. During the last month of the year, UTIMCO invested $275.5 million in Marketable investments to create a weighting of 12% at year end versus a neutral policy allocation of 7%. Marketable investments were overweighted to compensate for the underweighting in Nonmarketable investments.

<key concept>

Impact of the distribution (spending) rate on the endowment's value over time

The impact that the distribution (spending) rate will have on the endowment's value is shown graphically in the chart below. The dollar value of the endowment is adversely affected by the larger spending rate. This example assumes an initial endowment value of $100 million in 1926 with a constant asset allocation of 70% to stocks and 30% to bonds. Performance in these sectors is based on quarterly market indices.

Distribution Spending Concept on Value



Edward Taborsky Scholarship

Christian Garza received the Edward Taborsky Scholarship during the 1997-98 academic year and is now attending Yale Law School. He made outstanding use of The University of Texas at Austin's opportunities, as both scholar and student leader. The endowed scholarship was created through a gift from the Estate of Nolie Richard Keenan who received a bachelor's of science degree in education from U. T. Austin in 1950. Mr. Keenan named the Scholarship after government professor Edward Taborsky in gratitude for the profound influence he had on his life.

Distributions

The distributions of the Fund are based on a distribution policy which balances the needs and interests of present beneficiaries with those of the future. The Fund's distribution policy objectives are: to provide a predicable, stable stream of distributions over time, to ensure that the inflation adjusted value of the distributions is maintained over the long term, and to ensure that the inflation adjusted value of Fund assets after distributions is maintained over the long term.

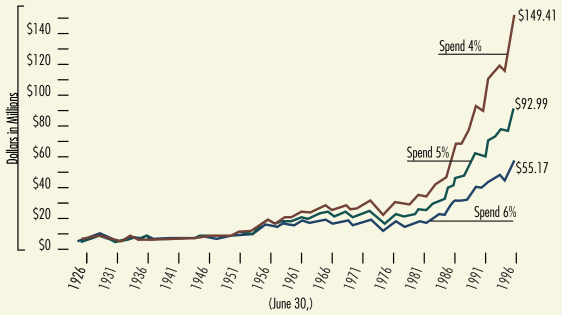
Many donors who establish endowments make their gifts through bequests or otherwise expect them to stand as one-time gifts to the institution. Thus, there may not be further contributions to ensure that a particular endowment will continue to provide the same level of real economic support as prices rise. Furthermore, many endowments support faculty salary supplements that are integral parts of faculty compensation. An unexpected decline in the distribution from the endowment would cause considerable difficulties for the component institutions that the Fund supports. Recognizing these factors, UTIMCO, as directed by its Board of Directors, does not distribute to the component institutions all earnings, including capital gains, from the endowment for the given period. Instead, it remits a fixed amount to each endowment based on the number of units the endowment holds in the Fund. The distribution rate is adjusted each year by the consumer price index (inflation) 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. This type of distribution formula will enhance the Fund's ability to meet its objectives. The purpose of establishing a maximum and minimum perimeter is to stabilize the distribution stream. The Fund increased its distribution rate by 20% during the year. This increase included a one time adjustment recognizing the above average price appreciation experienced by the Fund in recent years. At year end, the distribution rate per unit of ownership was $.21.

<key concept>

Impact of the Fund's distribution rate on distributions (the dollar payout) to the institution

The impact the distribution rate (or spending rate) has on the dollar payout can be shown graphically in the chart below. This example assumes an initial endowment value of $100 million in 1926 with a constant asset allocation of 70% to equities and 30% to bonds. Distribution rates are at 4%, 5%, 6% of the beginning market value of the endowment. Distributions over time are greater if the distribution rate, as a percentage of market, is smaller. This is because the market value of the Fund has been able to increase at a greater rate due to the lower distribution rate.

Distribution Spending Concept on Distributions



Annie Laurie Howard Research Professorship

The Annie Laurie Howard Research Professorship at The University of Texas M.D. Anderson Cancer Center in Houston has special meaning to Dr. Ellen R. Gritz (pictured) because of Annie Laurie Howard's lifelong commitment to education. Dr. Gritz, Professor and Chair, Department of Behavioral Science, is the current holder of the Professorship. She has used the Professorship for special needs, such as to support research in preventing the onset of smoking in children. Dr. Gritz provides a summer research experience for outstanding Texas high school students in the King Foundation Program. Her research program also focuses on quality of life issues for cancer patients and survivors.

Summary

The year ending August 31, 1998 was a year of relatively low investment returns for the Fund particularly when compared to the generous returns produced by the securities markets in prior years. Despite the recent correction in the global equity markets, UTIMCO will adhere to its strategic asset allocation as represented by its neutrally weighted policy portfolio. UTIMCO believes that an asset allocation dominated by broadly diversified equities will maximize the Fund's ability to achieve its long term investment objectives.

Subsequent to the Fund's year end, the global equity markets have experienced significant appreciation in value. While certain sectors of the global economy continue to be plagued by financial disequilibrium, temporary market disruptions on the path to long term economic prosperity are to be expected. Endowment assets, by definition, are perpetual funds. As such, the purchasing power of the distributions paid from an endowment to support teaching research, scholarships and other academic purposes must be maintained in perpetuity. Such a responsibility requires a long term investment horizon and the application of a disciplined investment process. UTIMCO is committed to fulfilling this responsibility and to providing increasing levels of financial support to current and future generations of students.

<key concept>

Distribution Policy Illustrated

To illustrate the distribution policy objectives, assume that a donor contributes $1,000,000 to create an endowment. Also assume that the Fund actually earns (income plus price appreciation) 11.5% for the year after the costs of management, and the average consumer price index (inflation) is 5%. The Fund retains the 7% component of the total earnings of 11.5% and remits 4.5% or $45,000 to the institution. The market value of the endowment is now $1,070,000. The following year the Fund will remit 1.05% of $45,000 and the component institution will receive $47,250. The distribution amount was adjusted by the average consumer price index of 5%. In this way, the investment value continues to grow over time as does the absolute amount of the distribution.

Florence and Marie Hall Endowment for Programs of Excellence in Education in the Medical Sciences

The Florence and Marie Hall Endowment for Programs of Excellence in Education in the Medical Sciences at The University of Texas Medical Branch at Galveston was established by Miss Marie Hall and her mother Mrs. Florence Hall. Distributions from this endowment are used to develop new teaching methods and to enhance the educational capacity of the staff and faculty of The University of Texas Marine Biomedical Institute at Galveston. Pictured is Miss Marie Hall with the research vessel named in her honor, which was made possible through support provided by this endowment.

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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 statement of assets and liabilities of The University of Texas System Long Term Fund (the "Fund") as of August 31, 1998, the comparison summary of investment in securities as of August 31, 1998 and 1997, the related statements of operations and changes in net assets for each of the two years in the period ended August 31, 1998, and the financial highlights for each of the three years in the period ended August 31, 1998. 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 generally accepted auditing standards. 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, 1998, 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 of the Fund as of August 31, 1998, the comparative investment in securities as of August 31, 1998 and 1997, the results of its operations and the changes in its net assets for each of the two years in the period ended August 31, 1998, and the financial highlights for each of the three years in the period ended August 31, 1998 in conformity with generally accepted accounting principles.

The unaudited information on page 21 was not audited by us, and, accordingly, we express no opinion or other form of assurance on it.

Deloitte & Touche LLP

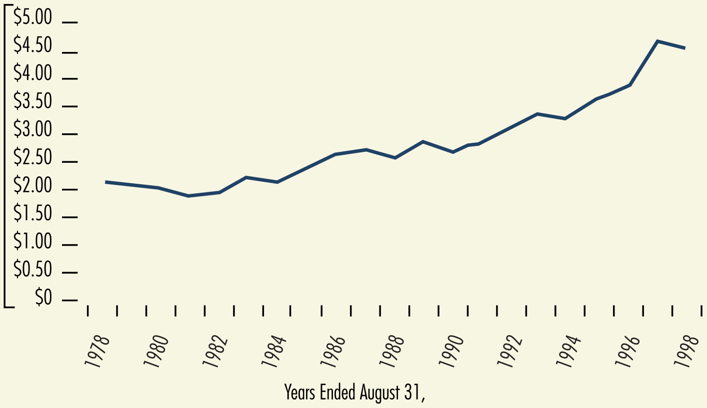
October 30, 1998

Deloitte Touche
Tohmatsu
International

Financial Highlights

Years Ended August 31,	1998	1997	1996	Unaudited 1995	Unaudited 1994
Selected Per Unit Data					
Net Asset Value, Beginning of Period	$ 4.672	$ 3.897	$ 3.661	$ 3.336	$ 3.375
Income from Investment Operations					
Net Investment Income	0.129	0.143	0.148	0.166	0.167
Net Realized and Unrealized Gain (Loss) on Investments	(0.038)	0.807	0.263	0.334	(0.031)
Total Income from Investment Operations	0.091	0.950	0.411	0.500	0.136
Less Distributions					
From Net Investment Income and Undistributed Net Investment Income	0.140	0.175	0.175	0.175	0.175
From Net Realized Appreciation	0.055	–	–	–	–
Total Distributions	0.195	0.175	0.175	0.175	0.175
Net Asset Value, End of Period	$ 4.568	$ 4.672	$ 3.897	$ 3.661	$ 3.336
Ratios and Supplemental Data					
Net Assets, End of Period (in thousands)	$ 2,147,715	$ 2,124,977	$ 1,712,134	$ 1,558,799	$ 1,226,266
Ratio of Expenses to Average Net Assets	0.319 %	0.235 %	0.225 %	0.212 %	0.182 %
Ratio of Net Investment Income to Average Net Assets	2.657 %	3.336 %	3.864 %	4.867 %	5.085 %
Ratio of Distributions to Average Net Assets (5-quarter average)	4.043 %	4.098 %	4.589 %	5.187 %	5.304 %
Ratio of Distributions to Average Net Assets (12-quarter average) (unaudited)	4.137 %	4.462 %	4.906 %		

Net Asset Value Per Unit (unaudited)



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

Comparison Summary of Investment in Securities, at Value

August 31, 1998 and 1997 (in thousands)

	1998	1997
Debt Securities		
U.S. Government Obligations (Direct and Guaranteed)	$ 156,622	$ 136,762
U.S. Government Agencies (Non-Guaranteed)	134,758	70,995
U.S. Government Agencies (Non-Guaranteed) (Non U.S. Dollar Denominated)	8,961	–
Foreign Government and Provincial Obligations (U.S. Dollar Denominated)	5,537	14,910
Foreign Government and Provincial Obligations (Non U.S. Dollar Denominated)	67,585	–
Municipal and County Bonds	8,066	17,600
Corporate Bonds	167,443	170,996
Foreign Corporate Bonds	744	–
Other	2,140	–
Total Debt Securities	551,856	411,263
Preferred Stock	4,674	788
Equity Securities		
Domestic Common Stock	628,809	630,281
Foreign Common Stock	69,810	–
Commingled Funds	236,856	142,079
Limited Partnerships	125,276	84,412
Index Funds	490,070	737,095
Other	3,667	8,619
Rights and Warrants	–	2
Total Equity Securities	1,554,488	1,602,488
Cash and Cash Equivalents		
Money Markets	161,946	133,952
Total Investment in Securities	$ 2,272,964	$ 2,148,491

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

Statement of Assets and Liabilities

August 31, 1998 (in thousands)

Assets	
Investment in Securities, at Value (Cost $2,140,914)	$ 2,272,964
Collateral for Securities Loaned, at Value	70,565
Deposit with Broker for Securities Sold Short	55,355
Deposit with Broker for Futures Contracts	10,523
Unrealized Gains on Foreign Currency Exchange Contracts	6,230
Receivables	
Investment Securities Sold	48,967
Accrued Income	9,223
Other	2,298
Total Assets	2,476,125
Liabilities	
Payable to Participants	7,035
Securities Sold Short, at Value	55,359
Payable Upon Return of Securities Loaned	70,565
Unrealized Losses on Foreign Currency Exchange Contracts	6,812
Payables	
Investment Securities Purchased	185,915
Dividends on Securities Sold Short	61
Other	2,663
Total Liabilities	328,410
Net Assets	$ 2,147,715
Net Assets Consist Of:	
Participant Contributions (Net of Withdrawals)	$ 1,378,665
Accumulated Undistributed Net Realized Gain on Investments including Foreign Currency Transactions	626,379
Net Unrealized Appreciation of Investments including Translation of Assets and Liabilities in Foreign Currencies	142,671
Net Assets for 470,190,284 Units	$ 2,147,715
Net Asset Value Per Unit	$ 4.568

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

Statements of Operations and Changes in Net Assets

Years Ended August 31, 1998 and 1997 (in thousands)

	1998	1997
Investment Income		
Interest	$ 39,388	$ 44,477
Dividend	24,839	23,748
Other	750	728
Total Investment Income	64,977	68,953
Expenses		
Internal Fee for Educational Purposes	456	794
Internal Fee for Management Purposes	–	1,191
Investment Counseling Fees	4,066	1,835
UTIMCO Fee	2,033	–
Internal Administrative Fee	–	300
Consultation Fees	134	128
Custodial Fees and Expenses	374	231
Dividends on Securities Sold Short	62	–
Miscellaneous Expenses	123	61
Total Expenses	7,248	4,540
Receipt of Funds from U. T. System for UTIMCO Fee	2,033	–
Net Investment Income	59,762	64,413
Realized and Unrealized Gain (Loss) on Investments		
Net Realized Gain on Investment Securities and Foreign Currency Related Transactions	305,179	94,442
Net Unrealized (Depreciation) Appreciation on Investment Securities and Foreign Currency Related Transactions	(327,422)	270,435
Net Gain (Loss) on Investments	(22,243)	364,877
Net Increase in Net Assets Resulting from Operations	$ 37,519	$ 429,290
Net Assets		
Beginning of Period	2,124,977	1,712,134
Participant Contributions (including reinvestments of $5,039 and $5,738 for the years ended August 31, 1998 and 1997, respectively)	93,166	77,519
Participant Withdrawals:		
Cost	(12,702)	(11,397)
Gain	(4,299)	(3,438)
Distributions to Participants:		
Net Investment Income	(59,762)	(64,413)
Undistributed Net Investment Income	(5,337)	(14,718)
Net Realized Appreciation	(25,847)	–
End of Period	$ 2,147,715	$ 2,124,977

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

Note 1 Organization

The Long Term Fund (the "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 ("U. T. 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 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 agreement with the Board of Regents.

The accompanying financial statements follow the form and content of investment company financial statements and related disclosures in accordance with generally accepted accounting principles. 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 Long Term 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 Significant Accounting Policies

(a) Security Valuation Investments are primarily valued on the basis of market valuations provided by independent pricing services.

Fixed income securities held directly by the Fund are 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 are based on the New York Stock Exchange composite closing prices, if available. If not available, the market value is based on the closing price on the primary exchange on which the security is traded (if a closing price is not available, the average of the last reported bid and ask price is used).

Limited partnerships and Other are valued based on a fair valuation determined as specified by policies established by the UTIMCO Board of Directors.

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

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

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

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

Commingled funds are 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. Investments in securities and securities sold short are 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 are translated into U.S. dollars at the exchange rate on the dates of the transactions. The Fund does 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 are included with the net realized and unrealized gain or loss from investments.

(c) Investment Income Interest income is accrued as earned. Dividend income is recorded on the ex-dividend date. Dividend and interest income is recorded net of foreign taxes where recovery of such taxes is not assured. Investment income includes net realized and unrealized currency gains and losses recognized between accrual and payment dates on dividend and interest transactions. Effective September 1, 1997, premiums and discounts on bonds are no longer being amortized. In the prior year, the amount of amortization was $332,352. Any effects attributable to amortization in current and future periods will be reported in the net unrealized appreciation or depreciation of the Fund's investment securities instead of as an addition or deduction from interest income. This change has no effect on the Fund's net asset value or total investment return.

(d) Security Transactions Security transactions are recorded on a trade date basis for most securities. International index fund transactions are recorded on a settle date basis due to trading practices which impose restrictions in acquiring per unit information on the trade date. Gains and losses on securities sold are determined on the basis of average cost. A loss is recognized if there is an impairment in the value of the security that is determined to be other than temporary.

(e) Distributions to Unitholders Cash distributions to unitholders are paid quarterly based on a per unit payout established by the Board of Regents.
For the year ended August 31, 1998 the quarterly distribution rate for the first two quarters ended February 28, 1998 was $.045 per unit, and for the final two quarters ended August 31, 1998, the quarterly rate was $.0525 per unit. A special increase of 16.67% was made commencing with the May 31, 1998 distribution in order to recognize the above average price appreciation experienced by the Fund in recent years. For the fiscal year ended August 31, 1998, this equated to a yearly rate of $.195 per unit. For the fiscal year ended August 31, 1997, the quarterly rate was $.04375 per unit which equated to a yearly rate of $.175 per unit. The unaudited ratio of distributions to average net assets (12-quarter average) was 4.137% as of August 31, 1998. The investment policy provides that 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. Any purchase amount will be assigned a whole number of units in the Fund to avoid fractional units. Any fractional amount of purchase funds which exceeds the market value of the units assigned will be transferred to the Fund but no units will be issued. Redemptions from the Fund will also be made at the net asset value 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 generally accepted accounting principles 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 The Fund enters 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 increase or decrease market exposure to various foreign currencies. When entering into a forward currency contract, the Fund agrees to receive or deliver a fixed quantity of foreign currency for an agreed-upon price on an agreed future date. These contracts are 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, is included in the statement of assets and liabilities. Realized and unrealized gains and losses are included in the statements of operations. These instruments involve market and/or credit risk in excess of the amount recognized in the statement of assets and liabilities. Risks arise 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) Recently Issued Accounting Standards In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 standardizes the accounting for derivative instruments, by requiring an entity to recognize those items as assets or liabilities in the statement of assets and liabilities and measure them at fair value. This statement is effective for fiscal years beginning after June 15, 1999. The Fund's financial statements are not expected to change as a result of the adoption of SFAS No. 133. The Fund currently accounts for its derivative instruments at fair value.

Note 3 Acquisitions and Dispositions of Investments

Acquisitions and dispositions (including sales, maturities and prepayments) of securities, other than short-term securities, totaled $2,505,246,621 and $2,442,149,266, respectively. Net realized gains on investments for the years ended August 31, 1998 and 1997, were $305,179,222 and $94,441,798, respectively. The realized gains for August 31, 1998 included $57,163,124 of reinvested capital gains earned on the index and mutual funds and $5,777,183 of currency exchange losses. Included in realized gains for the year ended August 31, 1997 was $42,680,869 of index and mutual funds reinvested capital gains and $51,956 of currency exchange losses.

Note 4 Investment, Management, and Custodial Fees and Expenses

The Fund was assessed a quarterly internal fee by the U. T. System for educational purposes based on 0.005% and 0.01% of the Fund's net asset value on the last day of each quarter for the years ended August 31, 1998 and 1997, respectively. For the year ended August 31, 1997 the quarterly internal fee by U. T. System for management purposes was based on 0.015% of the Fund's net assets on the last day of each quarter. Additionally, an internal administrative fee of $300,000 was charged to the Fund by U. T. System for the year ended August 31, 1997. The internal fee for management purposes and the internal administrative fee were discontinued beginning September 1997.

Effective September 1, 1997, the Fund is assessed a management fee by UTIMCO to cover the costs of managing the Fund and providing day-to-day operations. The fee assessed for the year ended August 31, 1998 was $2,033,652. This fee in prior years was paid by the nondivisible portion of the Available University Fund. The Fund, however, is reimbursed by the U. T. System for the fee which is shown in the statements of operations and changes in net assets as receipt of funds from U. T. System for UTIMCO fee.

The Fund incurs investment counseling fees from various external managers of the Fund. The fees, generally assessed quarterly, are based on a percentage of the market value of investments held by each individual investment manager and currently range from 0.01% to 1.0%. In addition to quarterly investment counseling fees, the Fund may pay annual performance based management fees for investment performance in excess of certain defined benchmarks as provided for in the manager's contract.

Custodial fees and expenses are assessed quarterly 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.

<notes>

Note 5 Index Funds

The index funds consist of the Equity Index Fund B Lendable, which is majority-owned by the Long Term Fund and the Permanent University Fund. Also included in the index funds are twenty-one MSCI Equity Index Fund B international funds which are invested in Europe, Australia and the Far East. The Fund liquidated its investment in the Mid Cap Index Fund B Lendable during the year ended August 31, 1998. The market values of the funds are as follows:

August 31,	**1998**	**1997**
Equity Index Fund B Lendable	$ 323,560,976	$ 400,162,613
Mid Cap Index Fund B Lendable	–	177,480,193
MSCI Equity Index Fund B	166,508,861	159,452,171
	$ 490,069,837	$ 737,094,977

Note 6 Commingled Funds

The commingled funds consist of investments in other entities in which the Fund has an ownership percentage or shares. The investment vehicles include shares and limited partnerships. The investments include an investment in an emerging market institutional mutual fund, a small capitalization international stock fund, two U.S. and European event-driven special situation funds, and a fund investing long and short with a low net exposure to market risk.

Note 7 Securities Lending

The Fund loaned securities to certain brokers who paid the Fund negotiated lenders' fees. These fees are included in investment income. The Fund receives qualified securities and/or cash as collateral against the loaned securities. The collateral, when received, will 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 is less than 100% at the close of trading on any business day, the borrower is 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 should remain at 105% of the market value of the loaned securities at the close of any business day. If it falls below 105%, the borrower must deliver additional collateral by the close of the following business day. The value of securities loaned and the value of collateral held are as follows:

Securities on Loan	**Value**	**Type of Collateral**	**Value**
U.S. Government	$ 47,191,807	Cash	$ 48,193,219
Corporate Bonds	6,630,247	Cash	7,783,150
Common Stock	13,234,304	Cash	14,588,638
Total	$ 67,056,358	**Total**	$ 70,565,007
U.S. Government	$ 18,967,485	Non-Cash	$ 19,044,052
Corporate Bonds	3,014,970	Non-Cash	3,180,000
Total	$ 21,982,455	**Total**	$ 22,224,052

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

Note 8 Commitments

The Fund had unfunded contractual commitments for limited partnerships and other assets of $281,438,602 as of August 31, 1998.

Note 9 Securities Sold Short

In connection with the Fund's market neutral trading strategies, the Fund may sell a security it does not own in anticipation of a decline in the fair value of that security. When the Fund sells a security short, it must borrow the security sold short and deliver it to the broker-dealer through which it made the short sale as collateral for its obligation to deliver the security upon conclusion of the sale. The deposit with broker for securities sold short was $55,354,742 at August 31, 1998. The market value of securities sold short as of August 31, 1998 was $55,359,113. The Fund must pay dividends or interest on the securities sold short. Until the Fund covers its short sales, it is exposed to market risk to the extent that subsequent market fluctuations may require purchasing securities sold short at prices which may be significantly higher than the market value reflected in the statement of assets and liabilities. The Fund has a policy of reviewing, as considered necessary, the credit standing of the broker selected by the manager for the account under management.

Note 10 Futures Contracts

The Fund's activities include trading in derivatives such as futures contracts. Derivatives are used to facilitate various trading strategies, primarily as a tool to increase or decrease market exposure to various asset classes of the Fund. The Fund has $10,523,063 on deposit with a broker for collateral as margin for the futures contracts as of August 31, 1998. Futures contracts are marked to market daily; that is, they are valued at the close of business each day, and a gain or loss is recorded between the value of the contracts that day and on the previous day. The daily gain or loss difference is referred to as the daily variation margin which is settled in cash with the broker each morning for the amount of the previous days' mark to market. The amount of net realized loss on the futures contracts was $3,741,050 for the year ended August 31, 1998. The Fund executes such contracts either on major exchanges or with major international financial institutions and minimizes market and credit risk associated with these contracts through the manager's various trading and credit monitoring techniques.

The following discloses the notional, carrying and fair values at August 31, 1998 and the average carrying and fair value for the year ended August 31, 1998 for futures contracts:

	Notional Value at August 31, 1998		Carrying and Fair Value at August 31, 1998		Average Carrying and Fair Value for the Year Ended August 31, 1998	
	Long	Short	Assets	Liabilities	Assets	Liabilities
Equity Futures	$ 45,686,120	$ 17,529,580	$ 785,113	$ 1,011,639	$ 521,666	$ 362,722
Fixed Income Futures	29,834,601	30,569,625	255,986	95,601	69,046	82,149

Note 11 Foreign Currency Exchange Contracts

The table below summarizes by currency the contractual amounts of the Fund's foreign currency exchange contracts at August 31, 1998. Foreign currency amounts are translated at exchange rates as of August 31, 1998. 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.

Currency	Net Buy	Net Sell	Unrealized Gains on Foreign Currency Exchange Contracts	Unrealized Losses on Foreign Currency Exchange Contracts
German Mark	$ 46,370,101	$ –	$ 989,676	$ 501,948
UK Pound	34,012,233	–	894,205	351,716
Canadian Dollar	15,599,311	–	336,293	1,519,189
Swiss Franc	–	27,297,802	749,014	1,451,507
Norwegian Krone	15,868,744	–	344,687	926,147
French Franc	10,088,377	–	254,091	196,447
Australian Dollar	–	10,634,845	1,067,218	278,634
Swedish Krona	–	13,603,837	165,044	236,247
Various	17,897,853	–	1,429,631	1,349,733
	$ 139,836,619	$ 51,536,484	$ 6,229,859	$ 6,811,568

<notes>

Note 12 Year 2000 (Unaudited)

The Fund could be adversely affected if the computer systems it uses and those used by the Fund's managers, custodian and other major service providers do not properly process and calculate date-related information and data from and after January 1, 2000. This is commonly known as the Year 2000 problem. UTIMCO, as the investment manager for the Fund, embarked on an active Year 2000 program during the fall of 1996. All internal processes and programs, hardware and software products, and external interfaces have been carefully analyzed both for Year 2000 compliance and for their impact on the Fund's ability to continue normal operations beyond January 1, 2000.

UTIMCO began monitoring the efforts of other key external vendors during the fall of 1997. Mellon Trust, the custodian and the major service provider for the Fund, has met with UTIMCO every two months to review and report their progress regarding the Year 2000 plan. As of August 31, 1998, Mellon Trust is on target to remediate its systems and to complete integration testing by January 1999.

Based on the information available to UTIMCO management, the Fund's managers and other key service providers are taking steps that they believe are reasonable in addressing the Year 2000 issues. At this time, however, there can be no assurance that these steps will be sufficient, and the failure of a timely completion of all necessary procedures could have a material adverse effect on the Fund's operations. Management will continue to monitor the status of and its exposure to this issue.

Note 13 Reclassification

Certain balances for 1997 have been reclassified to conform with the 1998 classification.

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The Department of Ophthalmology at The University of Texas Southwestern Medical Center at Dallas benefits from the George A. and Nancy P. Shutt Professorship in Medical Science. Dr. Dwight Cavanagh, Vice Chairman of the Department, is one of the world's leading cornea physician-researchers. He has performed hundreds of corneal transplants, including three operations on 4-year old Tyeisha (pictured with Cavanagh). More than 40,000 individuals will receive corneal transplants this year, relying on the surgical expertise of Cavanagh and other specialists to preserve or restore their sight.