

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

FINANCIAL STATEMENTS

Years Ended August 31, 2000 and 1999

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

Tel: (210) 224-1041
Fax: (210) 224-9456
www.us.deloitte.com



INDEPENDENT AUDITORS' REPORT

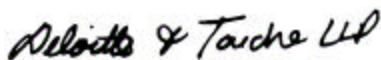
The Board of Directors
The University of Texas Investment Management Company
Austin, Texas

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, 2000 and 1999, 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, 2000. 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, 2000 and 1999, 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, 2000 and 1999, 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, 2000, 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.


October 27, 2000

Deloitte
Touche
Tohmatsu

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Financial Highlights

Years Ended August 31,

	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
Selected Per Unit Data					
Net Asset Value, Beginning of Period	\$ <u>5.347</u>	\$ <u>4.568</u>	\$ <u>4.672</u>	\$ <u>3.897</u>	\$ <u>3.661</u>
Income from Investment Operations					
Net Investment Income	0.142	0.121	0.129	0.143	0.148
Net Realized and Unrealized Gain (Loss) on Investments	<u>0.939</u>	<u>0.868</u>	<u>(0.038)</u>	<u>0.807</u>	<u>0.263</u>
Total Income from Investment Operations	<u>1.081</u>	<u>0.989</u>	<u>0.091</u>	<u>0.950</u>	<u>0.411</u>
Less Distributions					
From Net Investment Income and Undistributed Net Investment Income	0.142	0.121	0.140	0.175	0.175
From Net Realized Gain	<u>0.088</u>	<u>0.089</u>	<u>0.055</u>	<u>-</u>	<u>-</u>
Total Distributions	<u>0.230</u>	<u>0.210</u>	<u>0.195</u>	<u>0.175</u>	<u>0.175</u>
Net Asset Value, End of Period	<u>\$ 6.198</u>	<u>\$ 5.347</u>	<u>\$ 4.568</u>	<u>\$ 4.672</u>	<u>\$ 3.897</u>

Ratios and Supplemental Data

Net Assets, End of Period (in thousands)	\$3,136,229	\$2,602,274	\$2,147,715	\$2,124,977	\$1,712,134
Ratio of Expenses to Average Net Assets	0.33%	0.35%	0.32%	0.24%	0.23%
Ratio of Net Investment Income to Average Net Assets	2.45%	2.42%	2.66%	3.34%	3.86%
Ratio of Distributions to Average Net Assets (5-quarter average)	3.99%	4.19%	4.04%	4.10%	4.59%
Ratio of Distributions to Average Net Assets (12-quarter average) (1997 and 1996 unaudited)	3.98%	4.02%	4.14%	4.46%	4.91%

*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, 2000 and 1999

(in thousands)

	<u>2000</u>	<u>1999</u>
Debt Securities		
U.S. Government Obligations (Direct and Guaranteed)	\$ 190,240	\$ 123,382
U.S. Government Agencies (Non-Guaranteed)	147,839	148,528
U.S. Government Agencies (Non-Guaranteed) (Non-U.S. Dollar Denominated)	-	3,985
Foreign Government and Provincial Obligations (U.S. Dollar Denominated)	3,111	7,103
Foreign Government and Provincial Obligations (Non-U.S. Dollar Denominated)	32,415	61,580
Municipal and County Bonds	9,800	7,447
Certificates of Deposit	-	9,997
Corporate Bonds	176,901	205,042
Foreign Corporate Bonds	22,072	23,515
Commercial Paper	1,328	1,940
Other	<u>3,331</u>	<u>3,065</u>
Total Debt Securities	<u>587,037</u>	<u>595,584</u>
Preferred Stock		
Domestic Preferred Stock	9,885	4,556
Foreign Preferred Stock	<u>2,243</u>	<u>-</u>
Total Preferred Stock	<u>12,128</u>	<u>4,556</u>
Purchased Options	<u>-</u>	<u>4,183</u>
Convertible Debentures	<u>-</u>	<u>2,001</u>
Equity Securities		
Domestic Common Stock	584,665	763,965
Foreign Common Stock	120,632	95,397
Commingled Funds	450,785	314,378
Limited Partnerships	367,959	214,640
Index Funds	834,606	621,173
Other	<u>2,748</u>	<u>7,020</u>
Total Equity Securities	<u>2,361,395</u>	<u>2,016,573</u>
Cash and Cash Equivalents		
Money Markets	<u>251,222</u>	<u>114,310</u>
Total Investment in Securities	<u>\$ 3,211,782</u>	<u>\$ 2,737,207</u>

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

THE UNIVERSITY OF TEXAS SYSTEM

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Statements of Assets and Liabilities

August 31, 2000 and 1999

(in thousands)

	<u>2000</u>	<u>1999</u>
Assets		
Investment in Securities, at Value (Cost \$2,982,494 and \$2,248,175, respectively)	\$ 3,211,782	\$ 2,737,207
Collateral for Securities Loaned, at Value	109,470	21,490
Deposit with Broker for Securities Sold Short	-	65,612
Deposit with Broker for Futures Contracts	24,234	10,111
Unrealized Gains on Foreign Currency Exchange Contracts	2,845	6,275
Receivables		
Investment Securities Sold	19,556	64,180
Accrued Income	9,124	8,709
Other	<u>875</u>	<u>1,992</u>
Total Assets	<u>3,377,886</u>	<u>2,915,576</u>
Liabilities		
Payable to Participants	23,446	14,972
Securities Sold Short, at Value	-	64,286
Payable Upon Return of Securities Loaned	109,470	21,490
Unrealized Losses on Foreign Currency Exchange Contracts	2,317	819
Payables		
Investment Securities Purchased	103,181	209,642
Dividends on Securities Sold Short	-	25
Other	<u>3,243</u>	<u>2,068</u>
Total Liabilities	<u>241,657</u>	<u>313,302</u>
Net Assets	<u>\$ 3,136,229</u>	<u>\$ 2,602,274</u>
Net Assets Consist Of:		
Participant Contributions (Net of Withdrawals)	\$ 1,582,604	\$ 1,463,638
Accumulated Undistributed Net Realized Gain on Investments		
Including Foreign Currency Transactions	1,323,513	649,236
Net Unrealized Appreciation of Investments including		
Translation of Assets and Liabilities in Foreign Currencies	<u>230,112</u>	<u>489,400</u>
Net Assets for 506,024,547 and 486,701,841 Units, respectively	<u>\$ 3,136,229</u>	<u>\$ 2,602,274</u>
Net Asset Value Per Unit	<u>\$ 6.198</u>	<u>\$ 5.347</u>

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

**THE UNIVERSITY OF TEXAS SYSTEM
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Statements of Operations and Changes in Net Assets

Years Ended August 31, 2000 and 1999

(in thousands)

	<u>2000</u>	<u>1999</u>
Investment Income		
Interest	\$ 53,088	\$ 40,112
Dividend	22,317	21,895
Income Distributions from Limited Partnerships	1,858	1,654
Other	<u>1,018</u>	<u>1,052</u>
Total Investment Income	<u>78,281</u>	<u>64,713</u>
Expenses		
Internal Fee for Educational Purposes	592	497
Investment Management Fees	6,314	4,118
UTIMCO Management Fee	1,925	2,147
Custodial Fees and Expenses	442	514
Dividends on Securities Sold Short	196	884
Other Expenses	<u>160</u>	<u>185</u>
Total Expenses	<u>9,629</u>	<u>8,345</u>
Receipt of Funds from UT System for UTIMCO Fee	<u>1,925</u>	<u>2,147</u>
Net Investment Income	<u>70,577</u>	<u>58,515</u>
Realized and Unrealized Gain (Loss) on Investments		
Net Realized Gain on Investment Securities and Foreign Currency Related Transactions	728,154	71,077
Net Unrealized Appreciation (Depreciation) on Investment Securities and Foreign Currency Related Transactions	<u>(259,288)</u>	<u>346,730</u>
Net Gain on Investments	<u>468,866</u>	<u>417,807</u>
Net Increase in Net Assets Resulting from Operations	\$ 539,443	\$ 476,322
Net Assets		
Beginning of Period	2,602,274	2,147,715
Participant Contributions (including reinvestments of \$8,699 and \$7,821 for the years ended August 31, 2000 and 1999, respectively)	134,822	96,474
Participant Withdrawals:		
Cost	(15,856)	(11,501)
Gain	(9,207)	(5,256)
Distributions to Participants:		
Net Investment Income	(70,577)	(58,515)
Net Realized Appreciation	<u>(44,670)</u>	<u>(42,965)</u>
End of Period	<u>\$ 3,136,229</u>	<u>\$ 2,602,274</u>

The accompanying notes are an integral 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 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.

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 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. The valuation policy was amended during the year ended August 31, 2000, to allow for significant events not reflected by the partnership including, but not limited to, consummated sales and significant market fluctuations that occurred after the June 30 valuation reporting period of the partnership. Previously, the policy stated that if a direct investment was held by a partnership, the valuation used by the Fund was the price used by the partnership. Additionally, the limited partnership was valued based on the capital account balance at the closest available reporting period, as communicated by the general partner, adjusted for intra valuation date contributions and withdrawals. At August 31, 1999, certain conditions existed that warranted an adjustment to several limited partnerships and one direct investment which was not specifically addressed by the Board policy before the amendment. There were two significant sales that were consummated prior to the Fund's year-end but were not reflected in the general partners' June 30, 1999, financial statements. Accordingly, valuation adjustments were made to more accurately reflect

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Notes to Financial Statements (cont.)

the market value of these investments at August 31, 1999. Proceeds from the sales of these investments were received in September 1999.

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. Premiums and discounts on bonds are not amortized.

(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 Participants** -- Cash distributions to participants are paid quarterly based on a per unit payout established by the Board of Regents. 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. A special increase of 13.95% was made commencing with the May 31, 2000 distribution in order to recognize the above average appreciation experienced by the Fund in recent years. For the fiscal year ended August 31, 2000, this equated to a yearly rate of \$.23 per unit. For the year ended August 31, 1999, the quarterly rate was \$.0525 per unit which equated to a yearly rate of \$.21 per unit. The ratio of distributions to average net assets (12-quarter average) was 3.98% as of August 31, 2000. The

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Notes to Financial Statements (cont.)

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

(M) ***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 Statements of Assets and Liabilities and measure them at fair value. This statement is effective for fiscal years beginning after June 15, 2000. The Fund's financial statements are not expected to change

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Notes to Financial Statements (cont.)

as a result of the adoption of SFAS No. 133. The Fund currently accounts for its derivative instruments at fair value.

(N) **Reclassifications** -- Certain items in the 1999 Statement of Operations and Changes in Net Assets have been reclassified to conform with the 2000 classification.

Note 3 – 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 are as follows for the years ended August 31, 2000 and 1999:

	<u>2000</u>	<u>1999</u>
Acquisitions	\$ 4,625,764,607	\$ 3,861,075,869
Dispositions	(4,637,465,450)	(3,772,865,066)
Net Realized Gains on Investments	728,153,520	71,077,186

The net realized gains on investments included \$277,883,151 and \$57,449,786 of reinvested capital gains earned on the index and mutual funds for the years ended August 31, 2000 and 1999, respectively. Also included in net realized gains were \$3,245,755 and \$6,784,295 of currency exchanges losses for the years ended August 31, 2000 and 1999, respectively.

Note 4 – Fees and Expenses

The Fund is assessed a quarterly internal fee by the 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, 2000 and 1999.

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, 2000 and 1999, were \$1,925,254 and \$2,146,952, respectively. The Fund, however, is reimbursed by the 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.

The Fund incurs investment management 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 management 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.

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

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Notes to Financial Statements (cont.)

Note 5 – Index Funds

The index funds, managed by the same investment manager, consist of several funds with different investment objectives, as follows:

The Equity Index Fund B Lendable is 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 tracks the S&P 500 Index.

The Mid-Cap Index Fund B Lendable is 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 tracks the S&P 400 Index.

The Russell 2000 Index Fund B's objective is 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 is managed to replicate the Morgan Stanley Capital International Europe, Australia and Far East Index (EAFE). Individual index funds are established to represent each country within the EAFE Index. The fund is a commingled 'superfund' comprised from the individual EAFE Index country funds managed in their appropriate capitalization weights.

The MSCI Equity Index Fund B is twenty-one international funds, invested in Europe, Australia and the Far East. The *Emerging Markets Index Fund Malaysia* was originally an investment in the MSCI Equity Index Fund B. Malaysia was removed from the MSCI EAFE index. The MSCI Equity Index Fund B is invested almost entirely in the same countries as the EAFE Equity Fund B except the MSCI Equity Index Fund B includes Canada and Malaysia.

When deemed appropriate, a portion of the index funds may invest 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 are majority-owned by the Fund, Permanent University Fund and the Permanent Health Fund. The market values of the Fund's interests in these index funds are as follows:

	August 31,	
	2000	1999
Equity Index Fund B Lendable	\$ 319,421,241	\$ 431,903,753
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	350,758	-
MSCI Equity Index Fund B	-	189,269,486
	<u>\$ 834,605,999</u>	<u>\$ 621,173,239</u>

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Notes to Financial Statements (cont.)

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 market values of the commingled funds consist of the following:

	August 31,	
	2000	1999
Emerging Market Mutual Funds	\$ 121,222,172	\$ 74,386,291
Small Capitalization International Stock Fund	120,917,232	47,471,853
Merger Arbitrage and Special Situation Funds	118,757,585	88,258,995
Hedge Fund	88,749,518	103,353,137
Growth-Oriented, Capital Appreciation Fund	<u>1,138,340</u>	<u>907,481</u>
	<u>\$ 450,784,847</u>	<u>\$ 314,377,757</u>

The merger arbitrage and special situation funds invest in merger arbitrage, corporate restructuring, distressed investments, distressed convertibles and liquidations. The hedge fund invests 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 at August 31, 2000 and 1999:

Securities on Loan	2000 Value	1999 Value	Type of Collateral	2000 Value of Collateral	1999 Value of Collateral
U.S. Government	\$ 92,044,361	\$ 16,687,519	Cash	\$ 93,444,401	\$ 17,083,390
Corporate Bonds	8,150,318	1,442,755	Cash	8,355,400	1,467,900
Common Stock	<u>7,367,099</u>	<u>2,777,814</u>	Cash	<u>7,670,176</u>	<u>2,938,975</u>
Total	<u>\$ 107,561,778</u>	<u>\$ 20,908,088</u>	Total	<u>\$ 109,469,977</u>	<u>\$ 21,490,265</u>
U.S. Government	<u>\$ 8,466,720</u>	<u>\$ -</u>	Non-Cash	<u>\$ 8,862,184</u>	<u>\$ -</u>

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,

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Notes to Financial Statements (cont.)

except in the event of default.

Note 8 – Commitments

The Fund had unfunded contractual commitments for Limited Partnerships and Other assets of \$203,329,399 as of August 31, 2000.

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 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.

The Fund discontinued its neutral trading strategy through securities sold short during the year, and therefore there was no Deposit with Broker for Securities Sold Short at August 31, 2000. At August 31, 1999 the Deposit with Broker for Securities Sold Short was \$65,612,408. The market value of securities sold short as of August 31, 1999, was \$64,285,650.

Note 10 – Futures Contracts

The Fund's activities include trading in derivatives such as futures contracts. Futures contracts 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 asset classes that used futures during the year include 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 and \$10,111,157 on deposit with a broker for collateral as margin for the futures contracts as of August 31, 2000, and August 31, 1999, respectively. It is 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 exceed the notional value of the futures contracts held. 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 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 that is settled in cash with the broker on each morning is the carrying and fair value of the futures contracts. The amount of net realized gain on the futures contracts was \$39,516,154 and \$4,729,527 for the years ended August 31, 2000 and 1999, respectively. 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, 2000, and the average

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Notes to Financial Statements (cont.)

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>
Equity Futures	\$ 85,856,159	\$ 15,841,488	\$ 1,171,195	\$ 99,001	\$ 858,082	\$ 846,815
Commodity Futures	113,806,013	-	-	209,588	717,489	515,286
Fixed Income Futures	37,567,453	20,615,109	85,718	99,698	28,556	30,757

The following discloses the notional, carrying and fair values at August 31, 1999, and the average carrying and fair values for the year ended August 31, 1999, for futures contracts:

	Notional Value at August 31, 1999		Carrying and Fair Value at August 31, 1999		Average Carrying and Fair Value for the Year Ended August 31, 1999	
	<u>Long</u>	<u>Short</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Equity Futures	\$ 29,354,339	\$ 26,925,109	\$ 492,233	\$ 556,508	\$ 651,488	\$ 639,361
Fixed Income Futures	42,409,432	24,096,650	19,842	83,830	124,327	119,013

Note 11 – Purchased Options

During the years ended August 31, 2000 and 1999, the Fund invested in over-the-counter traded put and call options as a tool to facilitate various trading strategies. These options are contracts that allow the holder of the option to purchase or sell a financial instrument at a specified price and within a specified period of time. Purchased options have no off-balance sheet risk as the Fund's market risk is limited to its investment in the option. Market risk is substantially dependent upon the value of the underlying financial instruments and is affected by market forces such as volatility and changes in interest rates. The contractual amounts do not represent the amounts exchanged by the parties to the option and thus, are not a measure of the Fund's exposure to credit or market risk. Contractual amounts are not included in the statement of assets and liabilities and generally exceed the cash requirements of the option. Credit risk is minimized by using only primary dealers as designated by the Federal Reserve Bank.

During the years ended August 31, 2000 and 1999, the Fund recognized losses of \$624,316 and \$76,273, respectively, on purchased options. The average carrying and fair value of purchased options was \$2,130,018 and \$1,448,013 for the years ended August 31, 2000 and 1999.

The Fund did not hold any put or call positions at August 31, 2000. The Fund held call options to purchase U.S. Treasury obligations with a face amount of \$34,900,000 and put options to sell U.S.

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Notes to Financial Statements (cont.)

Treasury obligations with a face amount of \$25,280,000 at August 31, 1999. The carrying and fair value of these options was \$4,182,802.

Note 12 – Foreign Currency Exchange Contracts

The tables below summarize by currency the contractual amounts of the Fund's foreign currency exchange contracts at August 31, 2000, and August 31, 1999. Foreign currency amounts are translated at exchange rates as of August 31, 2000 and August 31, 1999. 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 August 31, 2000	Net Sell August 31, 2000	Unrealized Gains on Foreign Currency Exchange Contracts	Unrealized Losses on Foreign Currency Exchange Contracts
			August 31, 2000	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
	<u>\$73,279,709</u>	<u>\$ 27,163,186</u>	<u>\$ 2,844,556</u>	<u>\$ 2,316,720</u>

Currency	Net Buy August 31, 1999	Net Sell August 31, 1999	Unrealized Gains on Foreign Currency Exchange Contracts	Unrealized Losses on Foreign Currency Exchange Contracts
			August 31, 1999	August 31, 1999
Euro Currency	\$ 30,041,100	\$ -	\$ 320,237	\$ 42,824
UK Pound	16,780,905	-	33,906	120,998
New Zealand Dollar	-	16,241,272	487,740	58,059
Swiss Franc	-	26,265,988	578,270	3,781
Canadian Dollar	16,662,603	-	-	59,282
Norwegian Krone	22,832,469	-	2,907	340,253
Japanese Yen	64,885,181	-	3,955,256	34,784
Australian Dollar	-	22,960,169	636,625	22,332
Swedish Krona	-	12,243,927	178,218	13,669
Various	-	5,298,198	81,907	123,345
	<u>\$151,202,258</u>	<u>\$ 83,009,554</u>	<u>\$ 6,275,066</u>	<u>\$ 819,327</u>