

PERMANENT UNIVERSITY FUND

FINANCIAL STATEMENTS

Years Ended August 31, 2000 and 1999



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of investment assets and liabilities, and the comparison summary of investment in securities of the Permanent University Fund (PUF) as of August 31, 2000 and 1999, the related statements of operations and changes in net investment assets for the years then ended, and the schedule of changes in cost of investments and investment income for the year ended August 31, 2000. These financial statements are the responsibility of the PUF's management. Our responsibility is to express an opinion on these financial statements 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 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 statements of investment assets and liabilities, the comparison summary of investment in securities, the statements of operations and changes in net investment assets, and the schedule of changes in cost of investments and investment income referred to above present fairly, in all material respects, the financial position and the comparative investment in securities of the PUF as of August 31, 2000 and 1999, its operations and the changes in its net investment assets for the years then ended, and the changes in cost of its investments and investment income for the year ended August 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

The financial statements referred to above include only the investment assets and liabilities and changes therein related to the investments of the PUF which are managed by The University of Texas Investment Management Company. The PUF's 2.1 million acres of land are not included in this report.

Deloitte & Touche LLP

October 27, 2000

Deloitte
Touche
Tohmatsu

PERMANENT UNIVERSITY FUND

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)	\$ 529,467	\$ 461,710
U.S. Government Agencies (Non-Guaranteed)	326,067	356,029
Foreign Government and Provincial Obligations (U.S. Dollar Denominated)	6,709	102,389
Foreign Government and Provincial Obligations (Non-U.S. Dollar Denominated)	67,141	-
Municipal and County Bonds	26,376	110,448
Corporate Bonds	529,309	1,185,249
Foreign Corporate Bonds	23,202	-
Commercial Paper	2,601	-
Other	<u>7,771</u>	<u>7,150</u>
Total Debt Securities	<u>1,518,643</u>	<u>2,222,975</u>
Preferred Stock		
Domestic Preferred Stock	12,325	9,534
Foreign Preferred Stock	<u>4,060</u>	<u>-</u>
Total Preferred Stock	<u>16,385</u>	<u>9,534</u>
Convertible Debentures	<u>-</u>	<u>2,438</u>
Equity Securities		
Domestic Common Stock	1,639,643	1,787,651
Foreign Common Stock	316,210	-
Commingled Funds	1,164,205	-
Limited Partnerships	1,123,614	718,704
Index Funds	1,802,004	2,316,494
Other	<u>10,993</u>	<u>21,416</u>
Total Equity Securities	<u>6,056,669</u>	<u>4,844,265</u>
Cash and Cash Equivalents		
Money Markets and Cash Held at State Treasury	<u>1,039,885</u>	<u>349,094</u>
Total Investment in Securities	<u>\$ 8,631,582</u>	<u>\$ 7,428,306</u>

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

PERMANENT UNIVERSITY FUND

Statements of Investment Assets and Liabilities

August 31, 2000 and 1999

(in thousands)

Investment Assets	2000	1999
Investment in Securities, at Value (Cost \$8,100,267 and \$5,986,378, respectively)	\$ 8,631,582	\$ 7,428,306
Collateral for Securities Loaned, at Value	318,957	395,314
Deposit with Broker for Futures Contracts	63,556	11,155
Unrealized Gains on Foreign Currency Exchange Contracts	5,726	-
Receivables		
Investment Securities Sold	35,919	9,568
Accrued Income	23,209	43,728
Other	<u>3,667</u>	<u>-</u>
Total Investment Assets	<u>9,082,616</u>	<u>7,888,071</u>
Liabilities		
Payable to the Available University Fund	-	24,075
Payable Upon Return of Securities Loaned	318,957	395,314
Unrealized Losses on Foreign Currency Exchange Contracts	6,388	-
Payables		
Investment Securities Purchased	298,686	2,290
Other	<u>6,249</u>	<u>831</u>
Total Liabilities	<u>630,280</u>	<u>422,510</u>
Net Investment Assets	<u>\$ 8,452,336</u>	<u>\$ 7,465,561</u>
Net Investment Assets Consist Of:		
Contributions from PUF Lands	\$ 3,283,113	\$ 3,199,972
Accumulated Undistributed Net Realized Gain on Investments including Foreign Currency Transactions	4,637,666	2,823,666
Net Unrealized Appreciation of Investments including Translation of Assets and Liabilities in Foreign Currencies	<u>531,557</u>	<u>1,441,923</u>
Net Investment Assets	<u>\$ 8,452,336</u>	<u>\$ 7,465,561</u>

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

PERMANENT UNIVERSITY FUND

Statements of Operations and Changes in Net Investment Assets

Years Ended August 31, 2000 and 1999

(in thousands)

	<u>2000</u>	<u>1999</u>
Investment Income		
Interest	\$ 161,889	\$ 184,787
Dividend	68,744	70,662
Income Distributions from Limited Partnerships	7,149	5,829
Other	<u>2,838</u>	<u>2,637</u>
Total Investment Income	<u>240,620</u>	<u>263,915</u>
Expenses (Note 4)		
Investment Management Fees	7,779	-
PUF Lands Expense	3,548	-
UTIMCO Management Fee	2,235	-
Custodial Fees and Expenses	220	-
Other Expenses	<u>133</u>	<u>-</u>
Total Expenses	<u>13,915</u>	<u>-</u>
Net Investment Income	<u>226,705</u>	<u>263,915</u>
Realized and Unrealized Gain on Investments		
Net Realized Gain on Investment Securities and Foreign Currency Related Transactions	1,884,858	447,722
Net Unrealized Appreciation (Depreciation) on Investment Securities and Foreign Currency Related Transactions	<u>(910,366)</u>	<u>446,438</u>
Net Gain on Investments	<u>974,492</u>	<u>894,160</u>
Net Increase in Net Investment Assets Resulting from Operations	\$ 1,201,197	\$ 1,158,075
Net Investment Assets		
Beginning of Period	7,465,561	6,517,087
Contributions from PUF Lands	83,141	54,314
Distributions to Available University Fund	<u>(297,563)</u>	<u>(263,915)</u>
End of Period	<u>\$ 8,452,336</u>	<u>\$ 7,465,561</u>

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

PERMANENT UNIVERSITY FUND

SCHEDULE OF CHANGES IN COST OF INVESTMENTS AND INVESTMENT INCOME

Year ended August 31, 2000

(in thousands)

	Beginning Cost	Purchases	Sale, Maturity & Redmptns.	Gains (Losses)	Reclass & Amortization	Ending Cost	Investment Income
Debt Securities							
U.S. Government Obligations (Direct and Guaranteed)	\$ 456,196	\$ 1,999,802	\$ (1,936,924)	\$ (3,687)	\$ 1,569	\$ 516,956	\$ 29,527
U.S. Government Agencies (Non-Guaranteed)	351,716	509,514	(538,080)	(4,722)	668	319,096	22,192
Foreign Government and Provincial Obligations (U.S. \$)	98,541	7,261	(97,562)	(1,785)	23	6,478	3,857
Foreign Government and Provincial Obligations (Non U.S. \$)	-	590,832	(519,766)	(2,381)	-	68,685	83
Municipal and County Bonds	109,059	5,084	(85,194)	(2,786)	10	26,173	4,877
Corporate Bonds	1,165,053	463,532	(1,068,469)	(34,346)	479	526,249	59,973
Foreign Corporate Bonds	-	97,141	(74,565)	1,377	-	23,953	248
Commercial Paper	-	231,472	(228,875)	4	-	2,601	1,028
Other	7,150	621	-	-	-	7,771	667
Total Debt Securities	<u>2,187,715</u>	<u>3,905,259</u>	<u>(4,549,435)</u>	<u>(48,326)</u>	<u>2,749</u>	<u>1,497,962</u>	<u>122,452</u>
Purchased Options	<u>-</u>	<u>3,272</u>	<u>(1,471)</u>	<u>(359)</u>	<u>(1,442)</u>	<u>-</u>	<u>-</u>
Preferred Stock							
Domestic Preferred Stock	9,373	13,968	(1,010)	(12,446)	2,438	12,323	(44)
Foreign Preferred Stock	-	5,349	(1,137)	(216)	-	3,996	6
Total Preferred Stock	<u>9,373</u>	<u>19,317</u>	<u>(2,147)</u>	<u>(12,662)</u>	<u>2,438</u>	<u>16,319</u>	<u>(38)</u>
Convertible Debentures	<u>2,438</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,438)</u>	<u>-</u>	<u>39</u>
Equity Securities							
Domestic Common Stock	1,138,580	1,622,149	(2,086,264)	512,849	107,535	1,294,849	32,400
Foreign Common Stock	-	390,504	(67,357)	(2,932)	-	320,215	1,729
Commingled Funds	-	1,464,900	(333,490)	11,342	-	1,142,752	3,386
Rights and Warrants	-	277	(286)	9	-	-	284
Limited Partnerships	674,835	329,447	(164,094)	171,582	(107,535)	904,235	7,149
Index Funds	1,617,674	1,898,768	(2,789,263)	1,155,282	-	1,882,461	30,944
Other	6,669	-	(9,748)	4,656	-	1,577	1,025
Total Equity Securities	<u>3,437,758</u>	<u>5,706,045</u>	<u>(5,450,502)</u>	<u>1,852,788</u>	<u>-</u>	<u>5,546,089</u>	<u>76,917</u>
Cash and Cash Equivalents							
Money Markets and Cash Held at State Treasury	349,094	597,386*	-	93,417**	-	1,039,897	39,648
Security Lending	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,602</u>
Total Investment in Securities	<u>\$ 5,986,378</u>	<u>\$ 10,231,279</u>	<u>\$ (10,003,555)</u>	<u>\$ 1,884,858</u>	<u>\$ 1,307</u>	<u>\$ 8,100,267</u>	<u>\$ 240,620</u>

* Net increase in cash and money markets during the year.

** Includes net realized gains on futures contracts and foreign currency contracts.

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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements

Note 1 – Organization

(A) The Permanent University Fund (PUF) is a state endowment contributing to the support of eligible institutions of The University of Texas System (U.T. System) and the Texas A&M University System (TAMU System). The PUF was established in the Texas Constitution of 1876 through the appropriation of land grants previously given to the University of Texas plus one million acres. Additional land grants to the PUF were completed in 1883 with the contribution of another one million acres. Today, the PUF contains over 2.1 million acres of land located in 24 counties primarily in West Texas (PUF Lands).

PUF Lands produce two streams of income: mineral and surface. Mineral income is contributed to the PUF and surface income is distributed to the Available University Fund (AUF). The investments of the PUF are managed by The University of Texas Investment Management Company (UTIMCO). The PUF Lands are managed by U.T. System administration.

(B) Amendments to the Texas Constitution were approved by voters in a statewide election held on November 2, 1999. The amendments were effective November 29, 1999, and allow for a) distributions to the Available University Fund (AUF) from the “total return” on PUF investments, including income return as well as capital gains (realized and unrealized) and (b) the payment of PUF expenses from PUF assets. Before the effective date of the amendments, the constitutional provisions governing the PUF prohibited the expenditure of corpus, and consequently, gains and losses on sales of securities remained in the PUF. Conversely, the Texas Constitution mandated that all dividend and interest income be distributed to the AUF on an accrual basis. The amendments directed the Board of Regents of U.T. System to establish a distribution policy that provides stable, inflation adjusted annual distributions to the AUF and preserves the real value of the PUF investments over the long term. Accordingly, distributions to the AUF in any given fiscal year are now subject to the following: (1) A minimum amount equal to the amount needed to pay debt service on PUF bonds; (2) No increase from the preceding year (except as necessary to pay debt service on PUF bonds) unless the purchasing power of PUF investments for any rolling 10-year period has been preserved; (3) A maximum amount equal to seven percent of the average net fair market value of PUF assets in any fiscal year, except as necessary to pay debt service on PUF bonds.

(C) The accompanying financial statements report the investment in securities of the PUF, including the assets, liabilities and investment income. Beginning November 29, 1999, expenses related to the PUF’s investments and PUF Lands are also included in accordance with the constitutional amendments. The PUF Lands are not included in this report.

These 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 Schedule of Changes in Cost of Investments and Investment Income has been prepared for the purpose of complying with the reporting requirement of Section 66.05 of the Texas Education Code.

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 PUF. The accompanying financial statements may differ in presentation from governmental accounting principles or the Texas Comptroller of Public Accounts’ Annual Financial Reporting Requirements.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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 PUF 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 PUF 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 PUF'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 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 PUF 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 PUF are maintained in U.S. dollars. Investments in securities 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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

payments are translated into U.S. dollars at the exchange rate on the dates of the transactions. The PUF 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. Subsequent to the effective date of the constitutional amendments, premiums and discounts on bonds are no longer being amortized. Any effects attributable to amortization in current and future periods will be reported in the net unrealized appreciation or depreciation of the PUF's investment securities instead of as an addition to or deduction from interest income. This change has no effect on the PUF'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) **Federal Income Taxes** -- The PUF is not subject to federal income tax.

(F) **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.

(G) **Foreign Currency Contracts** -- The PUF 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 PUF 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 PUF'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.

(H) **Cash and Cash Equivalents** -- Cash and Cash Equivalents consist of money markets, cash held at the State Treasury and other overnight funds.

(I) **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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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 PUF's financial statements are not expected to change as a result of the adoption of SFAS No. 133. The PUF currently accounts for its derivative instruments at fair value.

(J) **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 – Investment Activity

The cost of purchases and proceeds from sales and maturities of investments (excluding cash and cash equivalents) were \$9,633,892,981 and \$10,003,554,607, respectively, for the year ended August 31, 2000. For the year ended August 31, 1999, the cost of purchases and proceeds from sales and maturities were \$1,400,230,388 and \$1,450,003,764, respectively. Such transactions were made at current market prices on the dates of the transactions.

Note 4 – Fees and Expenses

Beginning November 29, 1999, expenses related to the PUF's investments and PUF Lands are paid by the PUF in accordance with the constitutional amendments as mentioned in Note 1. Previously, these expenses were paid by the AUF. These expenses are as follows:

- a) The PUF is assessed a fee to cover expenses related to the management of the PUF Lands. The fee assessed for the period beginning November 29, 1999 to August 31, 2000 was \$3,547,507.
- b) UTIMCO assesses the PUF a management fee to cover the costs of managing the PUF investments and providing day-to-day operations. The fee assessed for the period beginning November 29, 1999 to August 31, 2000 was \$2,234,898.
- c) The PUF incurs investment management fees from various external managers of the PUF. 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 PUF may pay annual performance-based management fees for investment performance in excess of certain defined benchmarks as provided for in the manager's contract.
- d) Custodial fees and expenses are assessed quarterly by the financial institution which holds the PUF's assets. Fees are based on the number of accounts, market value of the PUF, 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.
- e) The PUF incurs other expenses related to its operations primarily consisting of audit fees, printing and graphic expenses, legal expenses and consultation fees.

PERMANENT UNIVERSITY FUND

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 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 which were invested in Europe, Australia, and the Far East. The MSCI Equity Index Fund B is comprised almost entirely in the same countries as the EAFE Equity Fund B except the MSCI Equity Index Fund B includes Canada and Malaysia.

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 Emerging Markets Index Fund is a portfolio of international equity securities, registered investment companies, other investment funds and derivative assets with the objective of providing returns which approximate the capitalization weighted total rates of return of the markets in certain countries for equity securities traded outside the U.S.

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

The Mid-Cap Index Fund B Lendable and the Russell 2000 Index Fund B are majority-owned by the PUF, The University of Texas System Long Term Fund, and the Permanent Health Fund. The market values of the PUF's interests in these index funds are as follows:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

	August 31,	
	2000	1999
Equity Index Fund B Lendable	\$ 314,614,415	\$ 1,102,392,137
Mid-Cap Index Fund B Lendable	770,333,872	717,407,908
EAFE Equity Index Fund B	467,146,063	-
MSCI Equity Index Fund B	-	496,694,447
Russell 2000 Index Fund B	228,743,843	-
Emerging Markets Index Fund	<u>21,166,069</u>	<u>-</u>
	<u>\$ 1,802,004,262</u>	<u>\$ 2,316,494,492</u>

Note 6 – Commingled Funds

The commingled funds consist of investments in other entities in which the PUF has an ownership percentage or shares. The investment vehicles include shares and limited partnerships. The PUF did not invest in commingled funds at August 31, 1999. The market values of the commingled funds consist of the following at August 31, 2000:

Emerging Market Mutual Funds	\$ 318,081,664
Small Capitalization International Stock Fund	311,418,327
Merger Arbitrage and Special Situation Funds	305,844,423
Hedge Fund	<u>228,860,270</u>
	<u>\$ 1,164,204,684</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 PUF loaned securities to certain brokers who paid the PUF negotiated lenders' fees. These fees are included in investment income. The PUF 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:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Securities on Loan	2000 Value	1999 Value	Type of Collateral	2000 Value of Collateral	1999 Value of Collateral
U.S. Government	\$ 274,603,759	\$ 376,230,804	Cash	\$ 278,413,675	\$ 383,425,026
Foreign Government	657,706	-	Cash	690,000	-
Corporate Bonds	17,160,685	7,513,232	Cash	17,468,690	7,706,250
Common Stock	<u>21,505,974</u>	<u>4,063,775</u>	Cash	<u>22,384,409</u>	<u>4,182,602</u>
Total	<u>\$ 313,928,124</u>	<u>\$ 387,807,811</u>	Total	<u>\$ 318,956,774</u>	<u>\$ 395,313,878</u>
U.S. Government	<u>\$ 3,568,466</u>	<u>\$ 50,147,308</u>	Non-Cash	<u>\$ 4,292,936</u>	<u>\$ 52,665,859</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, except in the event of default.

Note 8 – Commitments

The PUF had unfunded contractual commitments for Limited Partnerships and Other assets of \$448,192,803 as of August 31, 2000.

Note 9 – Futures Contracts

The PUF's activities include trading in derivatives such as futures contracts. During the year ended August 31, 2000, the futures contracts were used to facilitate various trading strategies, primarily as a tool to increase or decrease market exposure to various asset classes of the PUF. 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. In 1999, the PUF used S&P 500 equity futures to maintain market exposure to the S&P 500 index and maintained money market and collateral balances equivalent to the notional value of the S&P contracts to produce interest income. The PUF had \$63,556,206 and \$11,155,241 on deposit with a broker for collateral as margin for the futures contracts as of August 31, 2000 and 1999, respectively. It is the intention of the PUF 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 day's 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 \$96,480,985 and \$27,037,966 for the years ended August 31, 2000 and 1999, respectively. The PUF 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

PERMANENT UNIVERSITY FUND

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	
	Long	Short	Assets	Liabilities	Assets	Liabilities
Equity Futures	\$ 198,543,120	\$ 40,071,284	\$ 3,560,298	\$ 256,766	\$ 829,214	\$ 849,478
Commodity Futures	313,378,875	-	-	577,125	2,018,703	1,453,021
Fixed Income Futures	104,667,005	54,239,594	236,216	258,142	83,399	93,994

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	
	Long	Short	Assets	Liabilities	Assets	Liabilities
S&P 500 Equity Futures	\$ 176,853,200	\$ -	\$ -	\$ 830,800	\$ 916,719	\$ 791,543

Note 10 – Purchased Options

During the year ended August 31, 2000, the PUF invested in over-the-counter traded put options as a tool to facilitate various trading strategies. These options are contracts that allow the holder of the option to 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 PUF'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 PUF'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 year ended August 31, 2000, the PUF recognized losses of \$359,297 on purchased options. The average carrying and fair value of purchased options was \$995,261 for the year ended August 31, 2000. At August 31, 2000, the PUF did not hold any purchased options. The PUF did not invest in purchased options during the year ended August 31, 1999.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Note 11 – Foreign Currency Exchange Contracts

The table below summarizes by currency the contractual amounts of the PUF's foreign currency exchange contracts at August 31, 2000. Foreign currency amounts are translated at exchange rates as of August 31, 2000. The "Net Buy" amounts represent the U.S. dollar equivalent of net commitments to purchase foreign currencies, and the "Net Sell" amounts represent the U. S. dollar equivalent of net commitments to sell foreign currencies. The PUF did not have any foreign currency exchange contracts at August 31, 1999.

<u>Currency</u>	<u>Net Buy August 31, 2000</u>	<u>Net Sell August 31, 2000</u>	<u>Unrealized Gains on Foreign Currency Exchange Contracts August 31, 2000</u>	<u>Unrealized Losses on Foreign Currency Exchange Contracts August 31, 2000</u>
Euro Currency	\$ 48,990,881	\$ -	\$ 1,455,584	\$ 1,961,526
UK Pound	18,529,965	-	500,076	1,208,928
New Zealand Dollar	-	18,465,061	1,475,915	379,300
Swiss Franc	2,159,552	-	58,624	504,562
Canadian Dollar	15,579,322	-	124,070	66,940
Norwegian Krone	38,347,068	-	300,063	1,257,739
Japanese Yen	64,820,726	-	144,062	293,939
Australian Dollar	-	8,673,392	367,005	88,123
Swedish Krona	-	41,057,241	902,352	202,901
Hong Kong Dollar	-	8,070,330	25,292	-
Singapore Dollar	14,681,416	-	170,882	19,808
Danish Krone	4,087,147	-	-	81,674
Greek Drachma	3,522,233	-	-	222,876
Various	<u>5,878,886</u>	<u>-</u>	<u>201,740</u>	<u>99,597</u>
	<u>\$ 216,597,196</u>	<u>\$ 76,266,024</u>	<u>\$ 5,725,665</u>	<u>\$ 6,387,913</u>