

Financial Statements

Permanent University Fund

Years Ended August 31, 2005 and 2004

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Contents

Management’s Discussion and Analysis 1

Report of Independent Auditors 5

Audited Financial Statements

Statements of Fiduciary Net Assets 7

Statements of Changes in Fiduciary Net Assets..... 8

Notes to the Financial Statements..... 9

Supplemental Schedules 35

PERMANENT UNIVERSITY FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Our discussion and analysis of the Permanent University Fund's (PUF) financial performance provides an overview of its activities for the period ended August 31, 2005. This discussion was prepared by The University of Texas Investment Management Company (UTIMCO) and should be read in conjunction with the PUF's financial statements and notes. The PUF is a public endowment contributing to the support of 18 institutions and 6 agencies in The University of Texas System (UT System) and The Texas A&M University System (TAMU System). The Texas Constitution and various state statutes designate The University of Texas System Board of Regents (UT Board) as the fiduciary for the management of certain public endowment and operating funds. The UT Board has entered into an Investment Management Services Agreement delegating investment management responsibility for all investments to UTIMCO.

The purpose of the MD&A is to provide an objective and easily readable analysis of the PUF's financial statements based upon currently known facts, decisions or conditions.

Financial Highlights

- The PUF's net fiduciary assets after distributions increased by \$1,338.8 million from \$8,087.9 million to \$9,426.7 million, or approximately 16.6% for the year ended August 31, 2005, compared to an increase of \$843.1 or approximately 11.6% for the year ended August 31, 2004. The change in net fiduciary assets from year to year is mainly attributable to the following:
 1. Fiscal year 2005 contributions of PUF Lands mineral income increased by 31.7% from \$146.7 million to \$193.1 million and represented 2.2% of the average value of the PUF investments during the year, compared to fiscal year 2004 contributions which increased by 43.6%, from \$102.1 million to \$146.7 million and represented 1.9% of the average value of the PUF investments during the year. PUF Lands consist of more than 2.1 million acres in 19 counties primarily in West Texas.
 2. The PUF posted a net investment return of 18.80% for the year ended August 31, 2005. Investments in commodities, limited partnerships and global equities were the leading contributors to the 2005 return. For the fiscal year ended August 31, 2004, the commodities and domestic and global equity asset classes were the leading performers contributing to a net investment return of 14.73%.
 3. The PUF's annual distribution to the Available University Fund (AUF) decreased by 2.0% in fiscal year 2005, compared to a decrease of 4.1% in fiscal year 2004.

Use of Financial Statements and Notes

The PUF's financial statements were prepared in accordance with standards issued by the Governmental Accounting Standards Board (GASB). Two financial statements are typically

PERMANENT UNIVERSITY FUND

required under GASB: the Statement of Fiduciary Net Assets and the Statement of Changes in Fiduciary Net Assets.

In compliance with the reporting requirements of Section 66.05 of the Texas Education Code, we have included as supplementary information a Schedule of Changes in Cost of Investments and Investment Income. We have also included as supplementary information a Comparison Summary of Investments, at Fair Value.

The notes to the financial statements contain supplemental information that is essential for the fair presentation of the financial statements.

Statements of Fiduciary Net Assets

The Statements of Fiduciary Net Assets present assets, liabilities, and net assets of the PUF under UTIMCO management as of the end of the fiscal year. These statements, along with all of the PUF's financial statements, are prepared using the accrual basis of accounting, whereby PUF investment income is recognized when earned and PUF expenses are recognized when incurred.

The PUF invests in a broad mix of investments and is actively managed to its benchmark, the Endowment Policy Portfolio. The Endowment Policy Portfolio is the index or benchmark for the endowment funds that UTIMCO manages. The return of the Endowment Policy Portfolio is the sum of the weighted benchmark returns for each asset class that comprise it. UTIMCO allocates PUF investment assets to internally and externally managed portfolios in accordance with approved asset allocation policies, and attempts to supplement the original endowment corpus by increasing purchasing power over time. In doing so, UTIMCO increases the PUF resources available to fund the debt service on bonds issued by the UT Board and the Texas A&M System Board of Regents to fund capital expenditures and to fund academic excellence programs at The University of Texas at Austin, Texas A&M University, and Prairie View A&M.

The following summarizes the Statements of Fiduciary Net Assets (in millions):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Assets			
Investments, at Fair Value	\$ 9,575.6	\$ 8,080.4	\$ 7,352.3
Other Assets	1,224.0	970.0	386.0
Total Assets	<u>10,799.6</u>	<u>9,050.4</u>	<u>7,738.3</u>
Total Liabilities	<u>1,372.9</u>	<u>962.5</u>	<u>493.5</u>
Net Assets Held in Trust	<u>\$ 9,426.7</u>	<u>\$ 8,087.9</u>	<u>\$ 7,244.8</u>

PERMANENT UNIVERSITY FUND

Statements of Changes in Fiduciary Net Assets

Changes in fiduciary net assets as presented on the Statements of Changes in Fiduciary Net Assets are based on activity of the PUF investments. The purpose of these statements is to present additions to the PUF resulting from net investment income and contributions from PUF Lands mineral income and to present deductions from the PUF resulting from the distributions to the AUF.

The net increase in fair value of investments of the PUF was \$1,298.7 million during the year compared to \$899.9 million for the year ended August 31, 2004. Investment expenses totaled \$46.0 million, \$23.4 million, and \$15.2 million, respectively, for the years ended August 31, 2005, 2004, and 2003.

The PUF's two primary investment objectives are:

- Provide for current beneficiaries by increasing the annual distribution rate at least equal to the rate of inflation so that real purchasing power is maintained, and
- Provide for future beneficiaries by increasing the market value of endowment funds after the annual distribution at a rate at least equal to the rate of inflation so that future distributions maintain purchasing power as well.

Distributions to the AUF decreased by \$6.8 million, from \$348.0 million in fiscal year 2004 to \$341.2 million, in fiscal year 2005. The fiscal year 2004 distribution amount decreased by \$15.0 million from the fiscal year 2003 distribution of \$363.0 million. PUF distributions are controlled by a spending policy approved by the UT Board as directed by the Texas Constitution, which directs the UT Board to establish a distribution policy that provides stable, inflation-adjusted distributions to the AUF and preserves the real value of the PUF investments over the long term. To achieve this, the annual distribution is currently established at 4.75% of the prior twelve quarters' average net asset value of the PUF investments, as determined each February 28 for the following fiscal year.

The distributions to the AUF are subject to the following overriding conditions:

1. Distributions must be at least equal to the amount needed to pay debt service on PUF Bonds;
2. Distributions may not 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. Distributions may not exceed 7 percent of the average net fair market value of PUF investments in any fiscal year, except as necessary to pay debt service on PUF Bonds.

PERMANENT UNIVERSITY FUND

The following table summarizes the Statements of Changes in Fiduciary Net Assets (in millions):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Investment Income	\$ 1,537.9	\$ 1,072.5	\$ 787.7
Less Investment Expenses	(46.0)	(23.4)	(15.2)
PUF Lands Contributions	193.1	146.7	102.1
Total Additions	<u>1,685.0</u>	<u>1,195.8</u>	<u>874.6</u>
Administrative Expenses			
PUF Lands Expenses	4.7	4.7	5.1
UT System Oversight Fee	0.3	-	-
Distributions to Available University Fund	341.2	348.0	363.0
Total Deductions	<u>346.2</u>	<u>352.7</u>	<u>368.1</u>
Change in Fiduciary Net Assets	1,338.8	843.1	506.5
Net Asset Held in Trust, Beginning of Period	<u>8,087.9</u>	<u>7,244.8</u>	<u>6,738.3</u>
Net Assets Held in Trust, End of Period	<u><u>\$ 9,426.7</u></u>	<u><u>\$ 8,087.9</u></u>	<u><u>\$ 7,244.8</u></u>

Contacting UTIMCO

The above financial highlights are designed to provide a general overview of the PUF's investment results and insight into the following financial statements. Additional information may be found on our website and inquiries may be directed to UTIMCO via www.utimco.org.

Report of Independent Auditors

The Board of Regents of The University of Texas System
The Board of Directors of The University of Texas Investment Management Company

We have audited the accompanying financial statements of the Permanent University Fund (PUF) as of and for the years ended August 31, 2005 and 2004, as listed in the table of contents. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the PUF's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the PUF's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Permanent University Fund and do not purport to, and do not, present fairly the fiduciary net assets of The University of Texas Investment Management Company nor The University of Texas System as of August 31, 2005 and 2004 and the changes in its fiduciary net assets for the years then ended in conformity with accounting principles generally accepted in the United States.

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 (UTIMCO) and are not intended to be a complete presentation of the PUF's assets, liabilities, income, and expenses. The PUF's 2.1 million acres of land are not included in this report (see Note 1).

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the PUF managed by UTIMCO as of August 31, 2005 and 2004, and the changes in the fiduciary net assets for the years then ended, in conformity with accounting principles generally accepted in the United States.

Management's discussion and analysis on pages 1 through 4 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements of the Permanent University Fund. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental schedules as of August 31, 2005 and 2004 and for the years then ended have been subjected to the audit procedures applied in the audits of the financial statements and, in our opinion, based on our audits, are fairly stated in relation to the financial statements taken as a whole.

Ernst & Young LLP

October 21, 2005

PERMANENT UNIVERSITY FUND

Statements of Fiduciary Net Assets

August 31, 2005 and 2004

(in thousands)

Assets	2005	2004
Investments, at Fair Value:		
Equity Securities	\$ 1,842,238	\$ 1,396,131
Preferred Stock	2,690	7,325
Debt Securities	1,640,094	1,270,321
Convertible Securities	5,010	4,812
Investment Funds	4,748,465	4,153,102
Purchased Options	20,153	-
Cash and Cash Equivalents	1,316,942	1,248,712
Total Investments	<u>9,575,592</u>	<u>8,080,403</u>
Collateral for Securities Loaned, at Fair Value	914,938	717,183
Deposit with Broker for Derivative Contracts	64,164	83,406
Unrealized Gains on Foreign Currency Exchange Contracts	10,903	1,843
Receivables:		
Investment Securities Sold	203,320	148,726
Accrued Income	19,901	12,383
Other	10,809	6,405
Total Receivables	<u>234,030</u>	<u>167,514</u>
Total Assets	<u>10,799,627</u>	<u>9,050,349</u>
Liabilities		
Payable Upon Return of Securities Loaned	914,938	717,183
Options Written, at Fair Value	35,548	-
Unrealized Losses on Foreign Currency Exchange Contracts	8,607	1,333
Payables:		
Investment Securities Purchased	387,385	230,050
Other	26,406	13,905
Total Liabilities	<u>1,372,884</u>	<u>962,471</u>
Net Assets Held in Trust	<u>\$ 9,426,743</u>	<u>\$ 8,087,878</u>

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

PERMANENT UNIVERSITY FUND

Statements of Changes in Fiduciary Net Assets

Years Ended August 31, 2005 and 2004

(in thousands)

	<u>2005</u>	<u>2004</u>
Additions		
Investment Income:		
Net Increase in Fair Value of Investments	\$ 1,298,679	\$ 899,915
Interest	107,905	53,638
Dividends	75,977	79,362
Income Distributions from Limited Partnerships	29,897	33,418
Securities Lending Income	23,384	3,494
Other	2,123	2,684
Total Investment Income	<u>1,537,965</u>	<u>1,072,511</u>
Less Investment Expenses:		
Investment Management and Consulting Fees	19,580	14,320
Securities Lending Fees	20,943	2,340
UTIMCO Management Fee	3,401	5,361
Custodial Fees and Expenses	1,035	781
Legal	620	329
Analytical and Risk Measurement Fees	276	169
Other	118	111
Total Investment Expenses	<u>45,973</u>	<u>23,411</u>
Net Investment Income	1,491,992	1,049,100
Contributions from PUF Lands	193,092	146,667
Total Additions	<u>1,685,084</u>	<u>1,195,767</u>
Administrative Expenses		
PUF Lands Expenses	4,746	4,683
UT System Oversight Fee	299	-
Total Administrative Expenses	<u>5,045</u>	<u>4,683</u>
Distributions to Available University Fund	341,174	348,034
Total Deductions	<u>346,219</u>	<u>352,717</u>
Change in Fiduciary Net Assets	1,338,865	843,050
Net Assets Held in Trust, Beginning of Period	8,087,878	7,244,828
Net Assets Held in Trust, End of Period	<u><u>\$ 9,426,743</u></u>	<u><u>\$ 8,087,878</u></u>

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

PERMANENT UNIVERSITY FUND

Note 1 – Organization and Basis of Presentation

(A) The Permanent University Fund (PUF) is a state endowment contributing to the support of eligible institutions of The University of Texas System (UT 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, as well as an additional 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 primarily in 19 counties in West Texas (PUF Lands).

PUF Lands are managed by UT System administration and produce two streams of income: mineral and surface. UT System administration remits mineral income to the PUF, and distributes surface income to the Available University Fund (AUF). The mineral income retained by the PUF is invested and managed by The University of Texas Investment Management Company (UTIMCO).

(B) The accompanying financial statements report the investment in securities of the PUF, including the assets, liabilities, mineral contributions and investment income. Expenses related to the PUF's security investments and PUF Lands, as well as distributions from the PUF to the AUF, are also included. The PUF Lands asset values are not included in the accompanying financial statements.

The activities of the PUF are accounted for as a fiduciary fund. The financial statements of the PUF use an economic resources measurement focus and the accrual basis of accounting, whereby revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of cash flows. The financial statements of the PUF are prepared in accordance with the requirements of the Governmental Accounting Standards Board (GASB).

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

The annual combined financial statements of UT 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 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 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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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 equity securities are valued based on a fair valuation determined as specified by policies established by the UTIMCO Board of Directors. Limited partnerships are valued using the partnership's capital account balance at the closest available reporting period (usually June 30), as communicated by the general partner, adjusted for contributions and withdrawals subsequent to the latest available reporting period. In the rare case when no ascertainable value is available, the limited partnership is valued at cost.

Securities held by the PUF in index and exchange traded 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.

Hedge funds and certain other investment funds are valued based on net asset value information 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 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 the change in fiduciary net assets 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 increase in fair value of 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. 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.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

(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 income and expenses during the reporting period. Actual results could differ from these estimates.

(G) *Derivative Applications* -- Derivative securities are financial instruments whose value is derived, in whole or part, from the value of any one or more underlying securities or assets, or index of securities or assets, such as stocks, bonds, commodities, or currencies. The PUF from time to time uses various derivative applications as specified by policies established by the UTIMCO Board of Directors and by guidelines established in contracts with external investment managers. Derivative applications included under these policies and contracts include futures, forwards, swaps and all forms of options. Derivative applications in the PUF are used to achieve the following objectives:

- implement investment strategies in a low cost and efficient manner,
- alter the PUF's market (systematic) exposure without trading the underlying cash market securities,
- construct portfolios with risk and return characteristics that could not be created with cash market securities,
- hedge and control risks so that the PUF's risk/return profile is more closely aligned with the PUF's targeted risk/return profile, and
- facilitate transition trading.

Through the use of derivative applications, the complex risks that are bound together in traditional cash market investments can be separated and managed independently. The primary intent of the PUF's investment in derivative securities is to hedge its risk or to implement investment strategies more effectively and at a lower cost than would be possible in the cash market.

Options Written -- When the PUF writes an option, an amount equal to the premium received by the PUF is recorded as a liability and is subsequently adjusted to the current fair value of the option written. Premiums received from writing options that expire unexercised are treated by the PUF on the expiration date as realized gains from investments. The difference between the premium and the amount paid on effecting a closing purchase transaction, including brokerage commissions, is also treated as a realized gain, or, if the premium is less than the amount paid for the closing purchase transaction, as a realized loss. If a call option is exercised, the premium is added to the proceeds from the sale of the underlying security or currency in determining whether the PUF has realized a gain or loss. If a put option is exercised, the premium reduces the cost basis of the securities purchased by the PUF. The PUF as writer of an option bears the market risk of an unfavorable change in the price of the security underlying the written option. Options are marked to market on a daily basis, and are included as a liability on the statements of fiduciary net assets.

Swaps -- The PUF invests in certain types of swaps to increase or decrease its exposure to long-term interest rates and to certain commodity sector returns. Swaps are agreements between two parties to exchange periodic payments on the notional value of the contract multiplied by a stated fixed interest rate versus a stated floating interest rate, or on a

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

commodity sector return versus a specified cost per contract. Swaps are marked to market on a daily basis, and are included as an other receivable or other payable on the statements of fiduciary net assets. Cash flows occur when a swap is opened, when it resets, if or when it is prematurely terminated by both parties to the agreement, and when it reaches maturity. The frequency of the resets is defined by the term sheet of the particular swap agreement, and varies from instrument to instrument.

Futures Contracts – The PUF enters into futures contracts to facilitate various trading strategies, primarily as a tool to increase or decrease market exposure to various asset classes. Upon entering into a futures contract, initial margin deposit requirements are satisfied by the segregation of specific securities as collateral for the account of the broker (the PUF’s agent in acquiring the futures position). During the period the futures positions are open, the 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 each morning is the carrying and fair value of the futures contracts, and is included as an other receivable or other payable on the statements of fiduciary net assets. 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 managers’ various trading and credit monitoring techniques.

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 statements of fiduciary net assets. Realized and unrealized gains and losses are included in the statements of changes in fiduciary net assets. These instruments involve market and/or credit risk in excess of the amount recognized in the statement of fiduciary net assets. 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, foreign currencies and other overnight funds. A portion of the PUF’s cash and cash equivalents are maintained to support the notional value of future contracts held (see Note 11). Cash and cash equivalents are an integral part of the PUF’s investment activities, and as such are included in the investments balance on the statement of fiduciary net assets.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

(I) **Contributions from PUF Lands** -- The mineral income earned from PUF Lands is recorded on a cash basis as remitted by UT System administration and presented on the accompanying statements of changes in fiduciary net assets as an addition to fiduciary net assets, styled "Contributions from PUF Lands."

(J) **Reclassifications** -- Certain items in the 2004 financial statements and related notes have been reclassified to conform with 2005 classification.

Note 3 – Investment Risk

The investment risk disclosure that follows relates to the PUF's investments before securities lending transactions and the investment of cash collateral. Disclosures relating to securities lending are provided in Note 4.

(A) **Credit Risk**

Article VII, Section 11b of the Texas Constitution authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the PUF in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all of the assets of the fund rather than a single investment.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The PUF's investment policy limits investments in U.S. Domestic bonds and non-dollar denominated bond investments to those that are rated investment grade, Baa3 or better by Moody's Investor Services, BBB- or better, by Standard & Poor's Corporation, or an equivalent rating by a NRSRO at the time of acquisition. This requirement does not apply to investment managers that are authorized by the terms of an investment advisory agreement to invest in below investment grade bonds. Per GASB Statement No. 40 (GASB 40), *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3*, unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. GASB 40 also provides that securities with split ratings, or a different rating assignment between NRSROs, are disclosed using the rating indicative of the greatest degree of risk. The following table presents each applicable investment type grouped by rating as of August 31, 2005.

PERMANENT UNIVERSITY FUND
Notes to Financial Statements (cont.)

Investment Type	Fair Value	Rating
Investments, at Fair Value:		
U.S. Government Guaranteed	\$ 790,948,277	Exempt from Disclosure
U.S. Government Non-Guaranteed:		
U.S. Agency	74,365,601	AAA
U.S. Agency	15,081,337	A
U.S. Agency Asset Backed	296,764,647	AAA
Total U.S. Government Non-Guaranteed	<u>386,211,585</u>	
Total U.S. Government	<u>1,177,159,862</u>	
Corporate Obligations:		
Domestic	51,515,221	AAA
Domestic	7,468,645	AA
Domestic	58,269,288	A
Domestic	36,289,766	BAA/BBB
Domestic	13,435,407	BBB
Domestic	9,936,502	BAA
Domestic	10,252,189	BA/BB
Domestic	4,878,256	BB
Domestic	447,704	BA
Domestic	5,361,874	B
Domestic	568,075	CAA
Domestic	508,913	CA
		Rating
Domestic	3,200,468	Withdrawn
Commercial Paper	55,066,422	P
Foreign	18,171,840	AAA
Foreign	1,836,940	AA
Foreign	122,945	A
Foreign	<u>2,020,588</u>	BAA/BBB
Total Corporate Obligations	<u>279,351,043</u>	
Foreign Government and Provincial Obligations	128,595,030	AAA
Foreign Government and Provincial Obligations	17,815,716	AA
Foreign Government and Provincial Obligations	2,839,229	A
Foreign Government and Provincial Obligations	6,781,635	BAA/BBB
Foreign Government and Provincial Obligations	316,950	BAA
Foreign Government and Provincial Obligations	5,741,745	BA
Foreign Government and Provincial Obligations	<u>1,994,411</u>	B
Total Foreign Government and Provincial Obligations	<u>164,084,716</u>	
Other Debt Securities	8,270,200	AAA
Other Debt Securities	1,754,051	AA
Other Debt Securities	2,466,629	A
Other Debt Securities	<u>7,007,669</u>	BAA/BBB
Total Other Debt Securities	<u>19,498,549</u>	
Total Debt Securities	<u>\$ 1,640,094,170</u>	
Other Investment Funds - Debt	\$ 2,041,171	AAA
Other Investment Funds - Debt	21,929,620	BB
Total Other Investment Funds - Debt	<u>\$ 23,970,791</u>	
Cash and Cash Equivalents - Money Market Funds	\$ 1,297,001,002	AAA
Cash and Cash Equivalents - Other	19,941,012	Exempt from Disclosure
Total Cash and Cash Equivalents	<u>\$ 1,316,942,014</u>	
Deposit with Broker for Derivative Contracts:		
U.S. Government Guaranteed	\$ 56,437,849	Exempt from Disclosure
Cash	7,725,856	Exempt from Disclosure
	<u>\$ 64,163,705</u>	

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

(B) Concentrations of Credit Risk

The PUF's investment policy statement contains the limitation that no more than 5% of the market value of domestic fixed income securities may be invested in corporate or municipal bonds of a single issuer. As of August 31, 2005, the PUF does not hold any direct investments in any one issuer that represents five percent or more of total investments.

(C) Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the PUF will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the PUF will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Texas State Statutes and the PUF's investment policy statements do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. As of August 31, 2005, the PUF does not have any deposits or investments that are exposed to custodial credit risk.

(D) Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Interest rate risk inherent in the PUF is measured by monitoring the modified duration of the overall investment portfolio. Modified duration estimates the sensitivity of the PUF's investments to changes in interest rates. The PUF has no specific policy statement limitations with respect to its overall modified duration. The table below summarizes the PUF's modified duration by investment type as of August 31, 2005.

PERMANENT UNIVERSITY FUND**Notes to Financial Statements (cont.)**

Investment Type	Fair Value	Modified Duration
Investments in Securities:		
U.S. Government Guaranteed:		
U.S. Treasury Bonds and Notes	\$ 214,361,842	6.31
U.S. Treasury Strips	7,279,180	6.00
U.S. Treasury Bills	13,616,702	0.14
U.S. Treasury Inflation Protected	537,547,502	8.04
U.S. Agency Asset Backed	18,143,051	5.39
Total U.S. Government Guaranteed	<u>790,948,277</u>	7.36
U.S. Government Non-Guaranteed:		
U.S. Agency	89,446,938	5.08
U.S. Agency Asset Backed	296,764,647	3.41
Total U.S. Government Non-Guaranteed	<u>386,211,585</u>	3.80
Total U.S. Government	<u>1,177,159,862</u>	6.19
Corporate Obligations:		
Domestic	202,132,308	5.21
Commercial Paper	55,066,422	0.21
Foreign	22,152,313	5.34
Total Corporate Obligations	<u>279,351,043</u>	4.24
Foreign Government and Provincial Obligations	<u>164,084,716</u>	7.21
Other Debt Securities	<u>19,498,549</u>	9.54
Total Debt Securities	<u>\$ 1,640,094,170</u>	6.00
Other Investment Funds - Debt	<u>\$ 23,970,791</u>	5.96
Cash and Cash Equivalents:		
Money Market Funds	1,297,001,002	0.08
Other	19,941,012	-
Total Cash and Cash Equivalents	<u>\$ 1,316,942,014</u>	0.08
Total	<u>\$ 2,981,006,975</u>	3.39
Deposit with Brokers for Derivative Contracts:		
U.S. Government Guaranteed:		
U.S. Treasury Bonds and Notes	\$ 203,478	0.41
U.S. Treasury Bills	56,234,371	0.21
Total U.S. Government Guaranteed	<u>56,437,849</u>	0.21
Cash	<u>7,725,856</u>	-
Total Deposit with Brokers for Derivative Contracts	<u>\$ 64,163,705</u>	0.18

(E) Investments with Fair Values That Are Highly Sensitive to Interest Rate Changes

In accordance with the PUF's investment policy statement, the PUF may invest in various mortgage backed securities, such as collateralized mortgage backed obligations. The PUF also may invest in investments that have floating rates with periodic coupon changes in market rates, zero coupon bonds and stripped Treasury and Agency securities created from coupon securities. As of August 31, 2005, the PUF's investments include the following investments that are highly sensitive to interest rate changes:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Collateralized mortgage obligations which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. As of August 31, 2005, these securities amounted to \$114,208,947.

Mortgage backed securities which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. As of August 31, 2005, these securities amounted to \$155,278,025.

Asset backed securities which are backed by home equity loans, auto loans, equipment loans and credit card receivables. Prepayments by the obligees of the underlying assets in periods of decreasing interest rates could reduce or eliminate the stream of income that would have been received. As of August 31, 2005 these securities amounted to \$21,235,066.

Step-up notes that grant the issuer the option to call the note on certain specified dates. At each call date, should the issuer not call the note, the coupon rate of the note increases (steps up) by an amount specified at the inception of the note. The call feature embedded within a step-up note causes the fair value of the instrument to be considered highly sensitive to interest rate changes. As of August 31, 2005, these securities amounted to \$7,940,387.

(F) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the PUF's non-U.S. dollar investments. The PUF's investment policy statement limits investments in non-U.S. denominated bonds to 50% of the PUF's total fixed income exposure. The table below summarizes the PUF's non-U.S. dollar investments by asset type.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type	Fair Value	Investment Type	Fair Value
Foreign Common Stock:		Purchased Options:	
Australian Dollar	\$ 19,685,669	Canadian Dollar	\$ 1,257,214
Canadian Dollar	69,967,844	Euro	40,678
Swiss Franc	16,323,020	Total Purchased Options	<u>1,297,892</u>
Danish Krone	3,734,421	Limited Partnerships:	
Euro	123,903,374	Euro	77,172,078
UK Pound	40,393,465	UK Pound	10,583,599
Hong Kong Dollar	7,468,954	Total Limited Partnerships	<u>87,755,677</u>
Japanese Yen	197,780,953	Cash and Cash Equivalents:	
South Korean Won	3,026,225	Australian Dollar	123,814
Norwegian Krone	18,202,601	Canadian Dollar	6,040,801
Swedish Krona	7,836,508	Swiss Franc	120,616
Singapore Dollar	11,281,848	Danish Krone	25,224
Total Foreign Common Stock	<u>519,604,882</u>	Euro	1,965,790
Foreign Government and Provincial Obligations:		UK Pound	22,520
Australian Dollar	890,061	Hong Kong Dollar	17,193
Canadian Dollar	646,187	Japanese Yen	21,559,455
Danish Krone	2,512,493	Mexican New Peso	177
Euro	130,886,845	Norwegian Krone	13,252
UK Pound	9,386,303	New Zealand Dollar	1
Polish Zloty	2,839,229	Polish Zloty	163,394
Total Foreign Government and Provincial Obligations	<u>147,161,118</u>	Swedish Krona	37,873
Corporate Obligations:		Singapore Dollar	89,348
Euro	15,209,803	Taiwan Dollar	996,252
UK Pound	3,283,894	Total Cash and Cash Equivalents	<u>31,175,710</u>
Total Corporate Obligations	<u>18,493,697</u>		
		Total	<u>\$ 805,488,976</u>

Note 4 – Securities Lending

In accordance with the prudent investor investment standards, the PUF loans securities to certain brokers who pay the PUF negotiated lenders' fees. These fees are included in investment income, and associated expenses are included in investment expenses. 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 U.S. issuers and a market value of 105% for loaned securities of non-U.S. issuers. If the market value of the collateral held in connection with loans of securities of U.S. 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-U.S. 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, 2005 and August 31, 2004:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Securities on Loan	2005 Value	2004 Value	Type of Collateral	2005 Value of Collateral	2004 Value of Collateral
U.S. Government	\$ 690,148,767	\$ 416,432,428	Cash	\$697,889,734	\$422,163,748
Foreign Government	22,252,445	3,218,959	Cash	23,365,980	3,291,930
Corporate Bonds	11,696,791	15,260,347	Cash	12,020,843	15,607,230
Common Stock	174,098,254	266,626,615	Cash	181,661,565	276,120,435
Total	\$898,196,257	\$701,538,349	Total	\$914,938,122	\$717,183,343
Common Stock	\$ 330,537	\$ 486,664	Non-Cash	\$ 341,911	\$ 499,617
U.S. Government	22,666,389	5,859,806	Non-Cash	24,356,521	7,018,253
Total	\$ 22,996,926	\$ 6,346,470	Total	\$ 24,698,432	\$ 7,517,870

Cash received as collateral for securities lending activities is invested and reinvested in a commingled pool managed exclusively for the benefit of the PUF, the General Endowment Fund, and other Board of Regent accounts that participate in securities lending activities by the securities lending agent. The pool is managed in accordance with investment guidelines established in the securities lending contract between the PUF and its securities lending agent. The maturities of the investments in the pool do not necessarily match the term of the loans, rather the pool is managed to maintain a maximum dollar weighted average maturity of 60 days and an overnight liquidity of 20 percent. Lending income is earned if the returns on those investments exceed the rebate paid to borrowers of the securities for interest on the cash collateral received. The income remaining after the borrower rebates is then shared by the PUF and the securities lending agent on a contractually negotiated split. If the investment of the cash collateral does not provide a return exceeding the rebate or if the investment incurs a loss of principal, the payment of the shortfall to the borrower is made from the PUF and the securities lending agent in the same proportion as income is shared.

The PUF's pro-rata share of collateral pool investments, rating by NRSRO, and weighted average maturity as of August 31, 2005 is shown in the following table.

Description	Fair Value	Rating	Weighted Average Maturity In Days
		No Rating	
Repurchase Agreements	\$ 431,176,486	Available	1
Commercial Paper	370,595,246	P	36
Floating Rate Notes	8,375,488	AAA	
Floating Rate Notes	93,724,729	AA	
Total Floating Rate Notes	102,100,217		37
Certificates of Deposit	13,780,760	P	50
Asset Backed Securities	522,304	AAA	168
Other Receivables/Payables	(3,236,891)	Not Rated	-
Total Collateral Pool Investment	\$ 914,938,122		20

Collateral pool investments are uninsured, and are held by the PUF's securities lending agent, in its name, on behalf of the PUF, except for the investments in repurchase agreements which are held in the securities lending agent's name by a third party custodian not affiliated with the PUF or the borrower of the associated loaned securities. Therefore, the collateral pool is not exposed to custodial credit risk because the pool investments are not held by counterparties to the lending transactions or a counterparties trust department or agent.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Cash collateral is recorded as an asset with an equal and offsetting liability to return the collateral on the statements of fiduciary net assets. 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.

In the event of default, where the borrower is unable to return the securities loaned, the PUF has authorized the securities lending agent to seize the collateral held. The collateral is then used to replace the borrowed securities where possible. Due to some market conditions, it is possible that the original securities cannot be replaced. If the collateral is insufficient to replace the securities, the securities lending agent has indemnified the PUF from any loss due to borrower default.

As of August 31, 2005, the PUF had no credit risk exposure to borrowers because the amounts the PUF owed to borrowers exceeded the amounts the borrowers owed the PUF.

There were no significant violations of legal or contractual provisions, no borrower or securities lending agent default losses, and no recoveries of prior period losses during the year ended August 31, 2005.

Note 5 – Hedge Funds

Hedge fund investments are broadly defined to include nontraditional investment strategies whereby the majority of the underlying securities are traded on public exchanges or are otherwise readily marketable. The fair values of the hedge fund investments consist of the following:

	August 31,	
	2005	2004
Equity		
Long/Short - Global Equity	\$ 619,397,020	\$ 483,662,145
Long/Short - Emerging Markets	108,934,550	54,952,290
Long/Short - U.S.	91,156,847	63,294,129
Long/Short - Developed Asia	37,577,767	31,532,158
Long/Short - Technology and Life Sciences	34,026,927	30,954,891
Long/Short - International	26,240,516	-
	<u>917,333,627</u>	<u>664,395,613</u>
Absolute Return		
Multistrategy - Global Event Oriented and Arbitrage	824,139,891	727,404,307
Long/Short - Global Market Neutral	176,527,647	132,056,675
Fund of Funds	142,236,010	130,142,152
Multistrategy - Global Market Neutral	91,892,883	52,807,167
Multistrategy - Japan Event Oriented	32,084,456	14,558,606
Multistrategy - European Event Oriented and Arbitrage	27,109,150	-
Multistrategy - Global Special Situations	19,875,570	-
Global Long/Short Credit	6,547,450	-
	<u>1,320,413,057</u>	<u>1,056,968,907</u>
Total Hedge Funds	<u>\$ 2,237,746,684</u>	<u>\$ 1,721,364,520</u>

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Equity hedge fund investments include U.S. and international long/short equity strategies. These strategies attempt to exploit profits from stock selection skills by taking long and short positions in various equity securities and can be directional biased to the equity market. Equity hedge fund investments are made through private placement agreements.

Absolute return hedge fund investments include arbitrage and event oriented strategies. Arbitrage strategies attempt to exploit pricing discrepancies between closely related securities, utilizing a variety of different tactics primarily within equity, fixed income and convertible securities markets. Event oriented strategies attempt to exploit discreet events or anticipated events such as bankruptcies, mergers, takeovers, spinoffs and recapitalizations in equity and debt securities. Absolute return hedge funds investments are also made through private placement agreements. Market risk is generally hedged.

The fund of funds invests in other hedge funds including merger arbitrage and special situation fund, and other relative value hedge funds and equity return strategies.

Note 6 – Index Funds

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

The Active International Equity Fund B attempts to match or outperform the returns of any of the National or Regional Divisions of the MSCI EAFE Index or MSCI Canada Index by investing in collective funds in whatever proportion among National or Regional Divisions recommended by the Active International Equity Strategy.

The Russell 3000 Alpha Tilts Fund B's objective is approximating the capitalization weighted total rate of return of the Russell 3000 Index. The fund is selected and maintained in accordance with a quantitative formula designed to select stocks through optimized tilts toward particular stock characteristics. The formula is designed to provide systematic exposure to such characteristics with the objective of producing long-term returns in excess of the total rate of return of the Russell 3000 Index.

The Russell 2000 Alpha Tilts Fund B's objective is approximating the capitalization weighted total rate of return of the Russell 2000 Index. The fund is selected and maintained in accordance with a formula designed to select stocks through optimized tilts toward particular stock characteristics. The formula is designed to provide systematic exposure to such characteristics with the objective of producing long-term returns in excess of the total rate of return of 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.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

The Emerging Markets Structured Tiered Fund B attempts to approximate the capitalization weighted total rates of return of the equity securities in the Morgan Stanley Capital International Emerging Markets Free Index for selected countries. The fund adopts a structured tier weighting approach across the countries.

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 U.S. and Canadian markets for publicly traded common stocks represented by the medium capitalized companies. The fund tracks the S&P Mid-Cap 400 Index.

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.

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 Active International Equity Fund B is majority owned by the PUF and The University of Texas System General Endowment Fund. The fair values of the PUF's interests in these index funds are as follows:

	August 31,	
	2005	2004
Active International Equity Fund B	\$ 205,132,587	\$ 167,315,907
Russell 3000 Alpha Tilts Fund B	193,234,689	152,835,970
Russell 2000 Alpha Tilts Fund B	142,989,966	127,003,548
EAFE Equity Index Fund B	110,496,910	295,451,521
Emerging Markets Structured Tiered Fund B	73,676,011	88,670,026
Mid-Cap Index Fund B Lendable	40,388,711	32,266,482
Equity Index Fund B Lendable	9,703,059	72,159,163
	<u>\$ 775,621,933</u>	<u>\$ 935,702,617</u>

Note 7 – Limited Partnerships

The limited partnerships consist of interests in privately held investments that are not registered for sale on public exchanges. The fair values of the limited partnerships consist of the following:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

	August 31,	
	2005	2004
U.S. Private Equity	\$ 398,679,413	\$ 384,335,097
Venture Capital	142,867,343	116,487,352
Non-U.S. Private Equity	129,010,000	122,295,181
Opportunistic	103,899,754	68,561,313
Mezzanine	44,841,092	60,101,058
Direct Investments	14,247,154	12,408,598
Oil and Gas	7,903,434	8,527,459
	<u>\$ 841,448,190</u>	<u>\$ 772,716,058</u>

The U.S. private equity interests consist of investments in private equity partnerships which primarily invest in the equity securities of private businesses that are considered to be in the post-start-up phase and that are profitable and generating income.

Venture capital consists of interests in partnerships that provide capital to companies that are in the early stages of development.

Non-U.S. private equity interests consist of investments in private equity and venture capital partnerships that are based outside of the U.S. These partnerships focus on making investments in companies that have operations in countries other than the U.S.

The opportunistic category consists of interests in private equity partnerships that invest in distressed debt, specialized sectors or that purchase limited partnership interests in private equity partnerships on a secondary basis.

Mezzanine interests consist of investments in partnerships that make subordinated debt or minority equity investments in private companies.

Direct investments represent the PUF's direct interests in private companies.

Oil and Gas consists of interests in private partnerships that hold royalty interests and other non-working interests in oil and gas properties. These properties create an income stream over the life of the partnership.

Note 8 – Commitments

The PUF had unfunded contractual commitments for Limited Partnerships and Other assets of \$716,010,640 as of August 31, 2005.

Note 9 – Written Options

For the year ended August 31, 2005, the PUF wrote call options on Treasury note, commodity, and domestic and international equity index futures and exchange traded funds. Transactions in call options written during the year ended August 31, 2005 were as follows:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

	<u>Contracts</u>	<u>Premiums Received</u>
Call Options Outstanding at August 31, 2004	-	\$ -
Options Written	1,474,897	5,672,471
Options Expired	(1,854)	(661,433)
Call Options Outstanding at August 31, 2005	<u>1,473,043</u>	<u>\$ 5,011,038</u>

The fair value of call options outstanding as of August 31, 2005, was \$31,222,625. This amount is included on the statement of fiduciary net assets as written options, at fair value. The PUF had \$649,996 on deposit with a broker for collateral for call options written as of August 31, 2005. The PUF recognized losses of \$25,561,987 on call options written for the year ended August 31, 2005.

During the year ended August 31, 2004, the PUF wrote call options on Treasury bond and domestic equity index futures. Transactions in call options written during the year ended August 31, 2004, were as follows:

	<u>Contracts</u>	<u>Premiums Received</u>
Call Options Outstanding at August 31, 2003	-	\$ -
Options Written	123,461	3,257,052
Options Expired	(715)	(744,708)
Options Exercised	<u>(122,746)</u>	<u>(2,512,344)</u>
Call Options Outstanding at August 31, 2004	<u>-</u>	<u>\$ -</u>

As of August 31, 2004 there were no call options outstanding. The PUF recognized losses in the amount of \$154,606 on call options written for the year ended August 31, 2004.

The PUF also wrote put options on Treasury note, commodity, and domestic and international equity index futures for the year ended August 31, 2005. Transactions in put options written during the year ended August 31, 2005, were as follows:

	<u>Contracts</u>	<u>Premiums Received</u>
Put Options Outstanding at August 31, 2004	-	\$ -
Options Written	1,396,618	1,424,492
Options Expired	(166,505)	(1,076,924)
Put Options Outstanding at August 31, 2005	<u>1,230,113</u>	<u>\$ 347,568</u>

The fair value of put options outstanding as of August 31, 2005, was \$4,325,291. This amount was included on the statement of fiduciary net assets as written options, at fair value. The PUF recognized losses in the amount of \$2,901,759 on put options written for the year ended August 31, 2005. During the year ended August 31, 2004, there were no transactions in put options written.

Note 10 – Swaps

During the year the PUF entered into interest rate, credit default and commodity swap contracts. The following discloses the notional amount, the coupon rate, and the fair values of the outstanding swap contracts as of August 31, 2005:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2005	
				Assets	Liabilities
Interest Rate					
Australian Dollar					
	6.000%	\$ 18,700,000	6/15/2010	\$ 316,586	\$ -
	6.000%	15,200,000	6/15/2010	257,332	-
	6.000%	10,700,000	6/15/2015	-	291,062
	6.000%	8,700,000	6/15/2015	-	237,572
UK Pound					
	5.000%	16,800,000	9/15/2010	792,855	-
	5.000%	6,600,000	9/15/2010	311,479	-
	5.000%	4,700,000	9/15/2010	221,810	-
	5.000%	2,500,000	9/15/2010	117,984	-
	5.000%	2,400,000	9/15/2010	113,265	-
	5.000%	1,100,000	6/18/2034	112,526	-
	5.000%	2,000,000	6/15/2008	41,565	-
	5.000%	1,500,000	6/15/2008	31,174	-
	5.000%	400,000	9/15/2010	18,877	-
	5.000%	200,000	9/15/2010	9,439	-
	5.000%	1,200,000	6/18/2034	-	123,693
	5.000%	1,100,000	6/18/2034	-	113,385
	5.000%	1,200,000	9/15/2015	-	93,271
	5.000%	300,000	9/15/2015	-	23,318
	5.000%	200,000	9/15/2015	-	15,545
Canadian Dollar					
	5.500%	2,900,000	12/16/2014	-	94,683
	5.500%	2,200,000	12/16/2014	-	71,828
	5.500%	2,000,000	12/16/2014	-	65,298
	4.500%	600,000	6/15/2025	-	376
Euro					
	5.000%	2,300,000	6/16/2014	417,006	-
	4.000%	3,200,000	6/17/2010	233,932	-
	4.000%	1,600,000	6/17/2010	116,947	-
	5.000%	100,000	6/17/2015	18,843	-
	4.000%	34,630,000	6/16/2014	-	3,001,413
	4.000%	8,570,000	6/17/2010	-	626,399
	4.000%	3,000,000	12/15/2014	-	238,769
	4.500%	1,700,000	6/17/2015	-	232,249
	4.500%	1,500,000	6/17/2015	-	204,925
	4.500%	1,500,000	6/17/2015	-	204,925
	4.500%	700,000	6/17/2015	-	95,632
	4.000%	1,200,000	12/15/2014	-	95,508
Japanese Yen					
	1.000%	800,000,000	3/20/2009	50,952	-
	0.800%	720,000,000	3/30/2012	44,327	-
	2.000%	870,000,000	12/20/2013	-	516,121
	2.000%	530,000,000	6/15/2012	-	333,901
	2.000%	110,000,000	12/20/2013	-	65,257

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

				Fair Value at August 31, 2005	
Currency	Coupon	Notional Value	Maturity Date	Assets	Liabilities
Interest Rate					
U.S. Dollar					
	4.000%	\$ 24,800,000	12/15/2010	\$ 324,357	\$ -
	4.000%	20,800,000	12/15/2010	296,197	-
	4.000%	36,900,000	12/15/2007	178,801	-
	4.000%	7,100,000	12/15/2010	101,105	-
	5.500%	2,800,000	12/16/2014	93,000	-
	5.500%	2,300,000	12/16/2014	76,393	-
	4.000%	4,100,000	12/15/2010	58,385	-
	5.500%	1,600,000	12/16/2014	53,143	-
	4.000%	2,300,000	12/15/2010	32,752	-
	5.000%	33,000,000	12/15/2015	-	1,362,213
	5.000%	32,700,000	12/15/2012	-	1,181,797
	3.000%	95,900,000	6/15/2006	-	777,349
	5.000%	14,300,000	12/15/2015	-	590,292
	5.000%	11,000,000	12/15/2015	-	454,071
	5.000%	7,400,000	12/15/2015	-	305,466
	5.000%	4,700,000	12/15/2015	-	194,012
	5.000%	3,600,000	12/15/2015	-	148,605
	5.000%	2,900,000	12/15/2015	-	119,710
	4.000%	24,600,000	6/21/2007	-	84,553
	5.000%	1,400,000	12/15/2015	-	57,791
	5.000%	800,000	12/15/2015	-	33,023
	5.000%	700,000	12/15/2012	-	25,298
	4.000%	300,000	12/15/2007	-	1,454
	4.000%	200,000	12/15/2007	-	969
				4,441,032	12,081,733
Credit Default					
U.S. Dollar					
	4.550%	700,000	6/20/2007	29,054	-
	4.600%	600,000	6/20/2007	25,417	-
	3.500%	1,000,000	6/20/2006	16,269	-
	3.000%	800,000	6/20/2006	9,837	-
	3.200%	700,000	6/20/2006	9,720	-
	4.300%	1,000,000	6/20/2010	9,397	-
	2.450%	500,000	9/20/2007	-	1,210
				99,694	1,210
Commodity					
U.S. Dollar					
	TBill + 36.5 Basis Points	96,628,586	9/23/2005	3,652,561	-
	TBill + 45 Basis Points	69,200,000	9/23/2005	2,615,760	-
				6,268,321	-
Total				\$ 10,809,047	\$ 12,082,943

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

The following discloses the notional amount, the coupon rate, and the fair values of the outstanding swap contracts as of August 31, 2004:

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2004	
				Assets	Liabilities
Interest Rate					
UK Pound					
	5.000%	\$ 4,700,000	3/20/2013	\$ 37,001	\$ -
	5.000%	14,900,000	3/15/2032	-	507,248
	5.000%	9,800,000	6/15/2008	-	103,355
	5.250%	3,400,000	9/17/2018	-	20,215
Euro					
	6.000%	19,000,000	3/15/2032	4,070,596	-
	4.000%	19,100,000	3/15/2007	459,759	-
	4.000%	18,050,000	3/15/2007	434,485	-
	4.000%	28,800,000	6/16/2014	316,418	-
	5.000%	2,300,000	6/16/2014	200,863	-
	6.000%	5,600,000	3/20/2018	135,712	-
	4.000%	5,830,000	6/16/2014	64,053	-
	4.000%	3,200,000	6/17/2010	35,001	-
	5.750%	2,100,000	9/17/2018	27,925	-
	6.000%	19,000,000	3/15/2006	-	3,318,908
	4.000%	11,970,000	6/17/2010	-	130,927
Japanese Yen					
	0.800%	720,000,000	3/30/2012	227,543	-
	2.000%	870,000,000	12/20/2013	-	277,342
	2.000%	530,000,000	6/15/2012	-	176,226
Swedish Krona					
	4.500%	37,900,000	6/17/2008	45,534	-
	4.500%	38,200,000	6/17/2008	45,894	-
	4.500%	40,600,000	6/17/2008	48,778	-
U.S. Dollar					
	6.000%	19,600,000	12/18/2033	148,553	-
	6.000%	9,800,000	12/18/2033	74,277	-
	5.000%	35,000,000	12/15/2014	-	809,130
	6.000%	8,400,000	12/15/2024	-	753,274
	5.000%	8,600,000	12/15/2014	-	198,815
	5.000%	1,700,000	12/15/2014	-	39,301
	4.000%	17,800,000	12/15/2009	-	29,413
	5.000%	1,100,000	12/15/2014	-	25,430
	5.000%	800,000	12/15/2014	-	18,494
	4.000%	2,300,000	12/15/2009	-	3,801
				6,372,392	6,411,879
Total Return					
U.S. Dollar					
	-	700,000	9/30/2004	16,745	-
	-	700,000	11/1/2004	15,645	-
				32,390	-
Commodity					
U.S. Dollar					
	TBill + 45 Basis Points	-	8/31/2004	-	1,673,113
	TBill + 45 Basis Points	-	8/31/2004	-	1,108,727
	TBill + 45 Basis Points	57,400,000	9/30/2004	-	-
	TBill + 45 Basis Points	82,000,000	9/30/2004	-	-
				-	2,781,840
Total				\$ 6,404,782	\$ 9,193,719

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Note 11 – Futures

During the periods ended August 31, 2005 and August 31, 2004, the asset classes that used futures include domestic and foreign equities, domestic and foreign debt, and commodities. The PUF had \$63,513,709 and \$83,406,268 on deposit with a broker for collateral as margin for the futures contracts as of August 31, 2005, and August 31, 2004, respectively. Short futures were used by internal managers and may be used by a limited number of external managers of the PUF to hedge the PUF's interest rate or country risk associated with security positions. The amount of net realized gains on the futures contracts was \$103,700,479 and \$64,446,069 for the years ended August 31, 2005 and August 31, 2004, respectively.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

The following discloses the name, number of contracts, notional value, and the carrying and fair values at August 31, 2005 for futures contracts:

Contract	Number of Contracts	Expiration	Notional Value at August 31, 2005		Carrying and Fair Value at August 31, 2005		
			Long	Short	Assets	Liabilities	
Domestic Fixed Income							
U.S. 5 Year Treasury Notes	648	Dec-05	\$ 70,227,000	\$ -	\$ 198,499	\$ -	
U.S. 10 Year Treasury Notes	80	Sep-05	-	9,033,750	-	34,610	
U.S. 10 Year Treasury Notes	114	Dec-05	-	12,776,906	-	58,092	
U.S. Treasury Bond	154	Sep-05	18,229,750	-	105,875	-	
U.S. Treasury Bond	24	Dec-05	2,832,750	-	16,500	-	
			<u>91,289,500</u>	<u>21,810,656</u>	<u>320,874</u>	<u>92,702</u>	
Domestic Equity							
Dow Jones Index	488	Sep-05	51,249,760	-	424,560	-	
Russell 2000 Index Mini	8,110	Sep-05	-	541,099,200	-	10,786,300	
S&P 500 Index	1,527	Sep-05	466,269,450	-	4,884,942	-	
S&P 500 Index	1,490	Dec-05	457,355,500	-	4,769,580	-	
S&P 500 Index Mini	33	Sep-05	-	2,015,475	-	-	
S&P Midcap 400 Index Mini	57	Sep-05	4,066,950	-	68,970	-	
S&P Midcap 400 Index Mini	760	Sep-05	-	54,226,000	-	919,600	
			<u>978,941,660</u>	<u>597,340,675</u>	<u>10,148,052</u>	<u>11,705,900</u>	
Commodities							
Goldman Sachs Commodities	2,866	Sep-05	332,527,650	-	-	2,077,850	
Foreign Fixed Income							
90 Day Euro Dollar	217	Dec-05	52,036,600	-	70,525	-	
90 Day Euro Dollar	101	Mar-06	24,210,962	-	39,138	-	
Euro-Bund	255	Sep-05	38,872,177	-	909	-	
Euro-Bund	161	Dec-05	24,220,076	-	-	-	
Japan 10 Year Bond	41	Sep-05	51,508,710	-	-	314,176	
Japan 10 Year Bond	6	Dec-05	7,520,580	-	-	-	
UK Long Gilt	5	Sep-05	1,026,972	-	4,596	-	
			<u>199,396,077</u>	<u>-</u>	<u>115,168</u>	<u>314,176</u>	
Foreign Equity							
Amsterdam Index	107	Sep-05	10,259,064	-	-	-	
DJ Euro Stoxx 50	19	Sep-05	-	764,106	-	-	
DJ Euro Stoxx 50	1,963	Sep-05	78,944,194	-	676,237	-	
FTSE 100 Index	1,707	Sep-05	162,563,111	-	958,577	-	
FTSE/JSE Top 40	735	Sep-05	15,858,642	-	108,074	-	
Hang Seng Index	49	Sep-05	4,695,638	-	-	1,525	
IBEX Index	63	Sep-05	-	7,771,687	-	-	
MSCI Singapore Index	229	Sep-05	7,330,936	-	-	13,592	
MSCI Taiwan Index	736	Sep-05	18,473,600	-	-	-	
S&P/MIB Index	45	Sep-05	-	9,276,912	-	-	
S&P/TSE 60 Index	87	Sep-05	-	8,792,997	-	-	
SPI 200 Index	179	Sep-05	-	14,921,238	-	-	
Topix Index	375	Sep-05	42,870,157	-	-	46,336	
			<u>340,995,342</u>	<u>41,526,940</u>	<u>1,742,888</u>	<u>61,453</u>	
Total			<u>\$ 1,943,150,229</u>	<u>\$ 660,678,271</u>	<u>\$ 12,326,982</u>	<u>\$ 14,252,081</u>	

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

The following discloses the name, number of contracts, notional value, and the carrying and fair values at August 31, 2004 for futures contracts:

Contract	Number of Contracts	Expiration	Notional Value at August 31, 2004		Carrying and Fair Value at August 31, 2004	
			Long	Short	Assets	Liabilities
Domestic Fixed Income						
U.S. 5 Year Treasury Notes	63	Sep-04	\$ 7,025,484	\$ -	\$ 19,688	\$ -
U.S. 5 Year Treasury Notes	91	Dec-04	10,071,141	-	29,860	-
U.S. 10 Year Treasury Notes	299	Sep-04	33,927,156	-	143,945	-
U.S. 10 Year Treasury Notes	267	Dec-04	29,987,437	-	52,780	-
			<u>81,011,218</u>	<u>-</u>	<u>246,273</u>	<u>-</u>
Domestic Equity						
Dow Jones Index	2,880	Sep-04	292,982,400	-	1,467,702	-
NASDAQ 100 Index	627	Sep-04	85,867,650	-	193,661	-
Russell 2000 Index Mini	643	Sep-04	35,242,830	-	279,705	-
Russell 2000 Index Mini	8,549	Sep-04	-	468,570,690	-	3,824,618
S&P 500 Index	2,081	Sep-04	574,408,025	-	2,685,887	-
S&P 500 Index	181	Sep-04	-	49,960,525	-	230,775
S&P 500 Index Mini	193	Sep-04	-	10,654,565	-	-
S&P Midcap 400 Index Mini	1,680	Sep-04	-	97,003,200	-	767,931
			<u>988,500,905</u>	<u>626,188,980</u>	<u>4,626,955</u>	<u>4,823,324</u>
Commodities						
Goldman Sachs Commodities	3,252	Sep-04	240,485,400	-	243,900	-
Foreign Fixed Income						
10 Year Swap Note	146	Sep-04	-	20,431,502	-	-
90 Day Euro Dollar	160	Sep-04	38,936,000	-	26,000	-
Euro-Bund	671	Sep-04	94,740,875	-	379,254	-
Euro-Bund	54	Dec-04	7,562,107	-	-	81,660
Japan 10 Year Bond	33	Sep-04	41,390,943	-	155,831	-
Japan 10 Year Bond	13	Dec-04	16,181,152	-	17,005	-
UK Long Gilt	5	Sep-04	964,957	-	2,416	-
			<u>199,776,034</u>	<u>20,431,502</u>	<u>580,506</u>	<u>81,660</u>
Foreign Equity						
All Shares Index	3,282	Sep-04	-	50,648,194	-	169,095
Amsterdam Index	202	Sep-04	15,924,975	-	-	-
CAC 40 Index	236	Sep-04	10,346,700	-	-	-
DAX Index	36	Sep-04	4,150,857	-	-	-
DJ Euro Stoxx 50	1,234	Sep-04	40,191,429	-	-	-
DJ Euro Stoxx 50	443	Sep-04	-	14,428,528	-	337,990
FTSE 100 Index	1,706	Sep-04	137,307,449	-	-	601,310
Hang Seng Index	25	Sep-04	2,054,180	-	-	-
Hang Seng Index	343	Sep-04	-	28,183,347	-	54
IBEX Index	27	Sep-04	-	2,587,477	-	-
MSCI Taiwan Index	1,987	Sep-04	-	48,562,280	218,570	-
Nikkei 225 Index	485	Sep-04	49,054,624	-	-	354,176
OMX Index	265	Sep-04	-	2,420,619	-	-
S&P/MIB Index	20	Sep-04	3,295,772	-	-	-
S&P/TSE 60 Index	695	Sep-04	49,086,749	-	397,881	-
SPI 200 Index	283	Sep-04	-	17,715,856	-	-
Topix Index	791	Sep-04	81,446,075	-	-	450,570
			<u>392,858,810</u>	<u>164,546,301</u>	<u>616,451</u>	<u>1,913,195</u>
Total			<u>\$1,902,632,367</u>	<u>\$ 811,166,783</u>	<u>\$ 6,314,085</u>	<u>\$ 6,818,179</u>

PERMANENT UNIVERSITY FUND*Notes to Financial Statements (cont.)***Note 12 – Foreign Currency Exchange Contracts**

The tables below summarize by currency the contractual amounts of the PUF's foreign currency exchange contracts at August 31, 2005 and 2004. Foreign currency amounts are translated at exchange rates as of August 31, 2005 and 2004. 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, 2005	Net Sell August 31, 2005	Unrealized Gains on Foreign Currency Exchange Contracts August 31, 2005	Unrealized Losses on Foreign Currency Exchange Contracts August 31, 2005
Australian Dollar	\$ 21,006,327	\$ –	\$ 137,960	\$ 192,107
Canadian Dollar	–	44,241,372	157,597	623,896
Chilean Peso	211,478	–	3,799	–
Chinese Yuan Renminbi	23,736,172	–	375	360,101
Czech Koruna	2,228,118	–	47,603	5,905
Danish Krone	–	1,787,247	6,211	–
Euro	–	73,873,103	3,640,465	1,155,744
Hong Kong Dollar	4,648,253	–	266	1,111
Hungarian Forint	1,070,352	–	47,976	18,299
Indonesian Rupian	447,231	–	32,231	–
Japanese Yen	135,263,487	–	791,764	3,023,537
Mexican New Peso	8,468,512	–	188,049	28,995
New Zealand Dollar	–	1,452,918	29,740	13,923
Norwegian Krone	–	11,949,970	47,560	64,707
Polish Zloty	365,021	–	364,231	35,517
New Russian Rubel	238,736	–	133	922
Singapore Dollar	3,108,832	–	99,809	89,675
Slovak Koruna	470,891	–	57	5,634
South African Comm Rand	5,539,813	–	179,152	11,077
South Korean Won	10,858,291	–	86,780	333,537
Swedish Krona	5,079,572	–	166,078	190,716
Swiss Franc	6,358,485	–	28,934	362,165
New Taiwan Dollar	21,206,011	–	30,744	728,095
UK Pound	179,187,625	–	4,815,456	1,361,059
	<u>\$ 429,493,207</u>	<u>\$ 133,304,610</u>	<u>\$ 10,902,970</u>	<u>\$ 8,606,722</u>

PERMANENT UNIVERSITY FUND**Notes to Financial Statements (cont.)**

Currency	Net Buy	Net Sell	Unrealized Gains on Foreign Currency Exchange Contracts	Unrealized Losses on Foreign Currency Exchange Contracts
	August 31, 2004	August 31, 2004	August 31, 2004	August 31, 2004
Australian Dollar	\$ 2,251,642	\$ –	\$ 17,187	\$ 6,632
Canadian Dollar	–	10,139,490	8,515	34,383
Danish Krone	–	1,277,998	10,314	–
Euro	–	30,673,914	514,192	73,566
Japanese Yen	73,282,546	–	195,317	268,930
New Zealand Dollar	388,479	–	21,901	3,687
Norwegian Krone	–	8,688,997	317,303	192,038
Singapore Dollar	–	2,846,933	21,815	12,541
Slovak Koruna	221,508	–	–	2,582
South Korean Won	2,080,249	–	30,244	–
Swedish Krona	–	3,046,063	28,556	1,133
Swiss Franc	–	1,503,731	21,842	36,496
UK Pound	22,990,074	–	655,578	701,104
	<u>\$ 101,214,498</u>	<u>\$ 58,177,126</u>	<u>\$ 1,842,764</u>	<u>\$ 1,333,092</u>

Note 13 – Note Purchase Commitment

The PUF has entered into note purchase agreements with the UT System Board of Regents and the Texas A&M System Board of Regents. These agreements committed the PUF to acquire up to \$400,000,000 of UT System flexible rate notes and \$80,000,000 of Texas A&M System flexible rate notes in the event of a failed remarketing of such notes.

The PUF and the UT System Board of Regents amended their note purchase agreement in fiscal year 2004. Based on the amended agreement the PUF will receive an annual commitment fee equal to 0.15% of the notes outstanding. For a portion of the year ended August 31, 2005, there were amounts of UT System flexible rate notes outstanding, as of August 31, 2005, however, there were none.

The note purchase agreement between the PUF and the Texas A&M System Board of Regents remained the same. Under the original agreement the PUF receives an annual commitment fee equal to 0.1% of the commitment amount.

The commitment fees earned by the PUF were \$159,000 for the year ended August 31, 2005. The commitment fees earned by the PUF under these agreements were \$323,425 for the year ended August 31, 2004.

Note 14 – Revenue Sharing Agreements

The PUF has entered into revenue sharing agreements with certain external investment managers. These agreements specify that the PUF shall receive a certain percentage of the gross revenues received by the investment manager for a specified period of time. The percentages of revenue shared in these fee arrangements currently range from 7.5% to 25%. For the years ending August 31, 2005 and 2004, the PUF received \$588,861 and \$213,099, respectively of revenue sharing income, which is included in other investment income on the Statement of Changes in Fiduciary Net Assets.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Note 15 – Distributions to the Available University Fund

The Texas Constitution allows for (a) distributions to the 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. The Texas Constitution directs the Board of Regents of UT 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 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. The PUF distribution to the AUF for the year ending August 31, 2006, will be \$357,337,225. The first payment in the amount of \$100,000,000 was made September 1, 2005.

Note 16 – Fees and Expenses

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 0.9%. 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 managers’ contracts. In addition, the PUF incurs consulting fees for investment planning and oversight services with regard to limited partnerships and hedge funds.

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 year ended August 31, 2005 was \$3,400,636, net of a rebate of \$2,390,343 of prior year reserves from UTIMCO to the PUF. The fees assessed for the year ended August 31, 2004 were \$5,360,677.

The PUF is assessed a fee to cover expenses related to the management of the PUF Lands. The fee assessed for the year ended August 31, 2005 was \$4,745,460 and was \$4,682,804 for the year ended August 31, 2004. Beginning in fiscal year 2005, the PUF is assessed a fee to cover costs associated with UT System personnel and UT System consultants hired to provide assistance to the Board of Regents of UT System and the Chancellor of the UT System in their oversight responsibilities of UTIMCO. For the year ended August 31, 2005, the fee amounted to \$298,771.

Custodial fees and expenses are assessed 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, risk measurement and on-line communication services per the contractual agreement.

The PUF incurs legal fees associated with the review of new investment manager agreements and with due diligence efforts undertaken as part of the hiring of new investment managers.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Analytical and risk measurement fees are also incurred to implement and maintain a sophisticated risk measurement system for the PUF.

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

PERMANENT UNIVERSITY FUND
Supplemental Schedules

Comparison Summary of Investments, at Fair Value
August 31, 2005 and, 2004
(in thousands)

	2005		2004	
Equity Securities				
Domestic Common Stock	\$1,311,875	13.70%	\$ 998,374	12.36%
Foreign Common Stock	516,816	5.40%	391,343	4.84%
Other	13,547	.14%	6,414	.08%
Total Equity Securities	1,842,238	19.24%	1,396,131	17.28%
Preferred Stock				
Domestic Preferred Stock	2,690	.03%	6,465	.08%
Foreign Preferred Stock	-	.00%	860	.01%
Total Preferred Stock	2,690	.03%	7,325	.09%
Debt Securities				
U. S. Government Obligations	1,177,160	12.29%	801,787	9.92%
Foreign Government and Provincial Obligations	164,085	1.72%	164,447	2.04%
Corporate Obligations	279,351	2.92%	291,027	3.60%
Other	19,498	.20%	13,060	.16%
Total Debt Securities	1,640,094	17.13%	1,270,321	15.72%
Convertible Securities	5,010	.05%	4,812	.06%
Purchased Options	20,153	.21%	-	.00%
Investment Funds				
Index Funds	775,622	8.10%	935,703	11.58%
Hedge Funds	2,237,747	23.37%	1,721,365	21.30%
Limited Partnerships	841,448	8.79%	772,716	9.56%
Exchange Traded Funds	247,067	2.58%	358,941	4.44%
Other	646,581	6.75%	364,377	4.51%
Total Investment Funds	4,748,465	49.59%	4,153,102	51.39%
Cash and Cash Equivalents				
Money Market Funds Maintained to Back Futures Contracts	987,314	10.31%	950,781	11.77%
Other Money Market Funds and Cash Held at State Treasury	329,628	3.44%	297,931	3.69%
Total Cash and Cash Equivalents	1,316,942	13.75%	1,248,712	15.46%
Total Investment in Securities	\$ 9,575,592	100.00%	\$ 8,080,403	100.00%

PERMANENT UNIVERSITY FUND
Supplemental Schedules (cont.)

Schedule of Investments by Industry
August 31, 2005

Industry	Percentage of		Industry	Percentage of	
	Value	Total Investments		Value	Total Investments
Agriculture Production-Crops	\$ 4,684,400	0.05%	Mineral Interests	\$ 13,546,717	0.14%
Amusement and Recreation Services	2,232,831	0.02%	Mining, Quarry Nonmetal Minerals	1,934,327	0.02%
Apparel and Accessory Stores	6,868,494	0.07%	Miscellaneous Manufacturing Industries	8,667,676	0.09%
Apparel and Other finished Products	5,347,184	0.06%	Miscellaneous Retail	11,420,451	0.12%
Auto Dealers, Gas Stations	8,051,920	0.08%	Mortgage/Asset Backed	61,151,952	0.64%
Auto Repair, Services, Parking	1,955,802	0.02%	Motion Pictures	5,768,529	0.06%
Banking and Financial Services	8,669,785	0.09%	Motor Freight Transport, Warehouse	10,121,633	0.11%
Building Construction-General Contractor	12,116,736	0.13%	Municipal	19,498,549	0.20%
Building Material, Hardware, Garden-Retail	3,595,026	0.04%	Nonclassifiable Establishment	21,544,883	0.22%
Business Services	79,140,778	0.83%	Nondepository Credit Instituion	61,311,527	0.64%
Chemicals and Allied Products	110,852,497	1.16%	Nondurable Goods-Wholesale	16,722,234	0.17%
Coal Mining	28,234,338	0.29%	Oil and Gas Extraction	114,763,774	1.20%
Commercial Paper	55,066,422	0.58%	Other Industry	30,568,863	0.32%
Communications	70,816,609	0.74%	Paper and Allied Products	2,124,235	0.02%
Construction-Special Trade	3,365,518	0.04%	Personal Services	215,273	0.00%
Depository Institutions	106,683,838	1.11%	Petroleum Refining and Related Industries	39,069,345	0.41%
Durable Goods-Wholesale	14,872,616	0.16%	Pipe Lines, Except Natural Gas	3,631,971	0.04%
Eating and Drinking Places	16,981,518	0.18%	Primary Metal Industries	35,349,506	0.37%
Educational Services	6,742,683	0.07%	Printing, Publishing and Allied	13,980,544	0.15%
Electric, Gas, Sanitary Service	51,348,587	0.54%	Purchased Options	20,152,503	0.21%
Electronics, Other Electronic Equipment, Except Compute	86,288,593	0.90%	Railroad Transportation	8,461,343	0.09%
Engineering, Research, Management and Related Services	27,762,215	0.29%	Real Estate	473,701,474	4.95%
Fabricated Metal Except Machinery and Trans Equipment	3,895,373	0.04%	Rubber and Miscellaneous Plastic Products	8,588,455	0.09%
Financial Services	1,039,501	0.01%	Security and Commodity Brokers	37,331,731	0.39%
Food and Kindred Products	42,803,578	0.45%	Stone, Clay, Glass, Concrete Products	8,346,471	0.09%
Food Stores	6,862,657	0.07%	Textile Mill Products	892,406	0.01%
Foreign Government and Provincial Obligations	164,084,716	1.71%	Tobacco Products	8,095,859	0.08%
Furniture and Fixtures	3,778,934	0.04%	Transit and Passenger Transportation	615,154	0.01%
General Merchandise Stores	14,123,348	0.15%	Transportation by Air	6,969,764	0.07%
Health Services	6,825,791	0.07%	Transportation Equipment	55,717,593	0.58%
Heavy Construction-Not Building Construction	10,500,601	0.11%	Transportation Services	5,446,844	0.06%
Home Furniture and Equipment Store	3,438,837	0.04%	Water Transportation	14,301,754	0.15%
Hotels, Other Lodging Places	27,785,560	0.29%	U. S. Government Obligations	1,156,798,860	12.07%
Industrial, Commercial Machinery, Computer Equipment	83,434,134	0.87%	Hedge Funds	2,237,746,683	23.36%
Insurance Agents, Brokers and Service	9,184,104	0.10%	Index Funds	775,621,933	8.10%
Insurance Carriers	53,794,004	0.56%	Limited Partnerships	841,448,190	8.79%
Leather and Leather Products	950,785	0.01%	Exchange Traded Funds	247,067,123	2.58%
Lumber and Wood Products, Except Furniture	406,236	0.00%	Other Investment Funds	646,581,009	6.75%
Measurement Instruments, Photography Goods, Watches	73,438,972	0.77%	Money Market Funds	1,316,942,014	13.74%
Metal Mining	15,347,208	0.16%			
			Grand Total	\$ 9,575,591,881	100.00%

PERMANENT UNIVERSITY FUND
Supplemental Schedules (cont.)

Schedule of Investments by Industry
August 31, 2004

<u>Industry</u>	<u>Value</u>	<u>Percentage of Total Investments</u>	<u>Industry</u>	<u>Value</u>	<u>Percentage of Total Investments</u>
Agricultural Services	\$ 1,685,406	0.02%	Metal Mining	\$ 10,560,015	0.13%
Agriculture Production-Crops	3,889,710	0.05%	Mineral Interests	6,413,402	0.08%
Amusement and Recreation Services	8,850,574	0.11%	Miscellaneous Manufacturing Industries	6,443,857	0.08%
Apparel and Other Finished Products	10,991,885	0.14%	Miscellaneous Retail	7,083,868	0.09%
Apparel and Accessory Stores	9,433,966	0.12%	Mining, Quarry Nonmetal Minerals	2,203,959	0.03%
Auto Dealers, Gas Stations	5,144,458	0.06%	Mortgage/Asset Backed	47,020,927	0.58%
Auto Repair, Services, Parking	1,011,794	0.01%	Motion Pictures	2,983,982	0.04%
Building Construction-General Contractor	15,138,839	0.19%	Motor Freight Transport, Warehouse	14,151,948	0.18%
Building Material, Hardware, Garden-Retail	142,506	0.00%	Municipal	10,931,413	0.14%
Business Services	59,199,947	0.73%	Nonclassifiable Establishment	1,431,203	0.02%
Chemicals and Allied Products	67,804,051	0.84%	Nondepository Credit Institution	37,812,211	0.47%
Coal Mining	4,881,273	0.06%	Nondurable Goods-Wholesale	9,159,367	0.11%
Commercial Paper	89,090,164	1.10%	Oil and Gas Extraction	46,623,177	0.58%
Communications	54,432,059	0.67%	Other - Debt Securities	13,059,605	0.16%
Construction-Special Trade	2,655,600	0.03%	Other Industry	13,504,839	0.17%
Depository Institutions	91,018,784	1.13%	Paper and Allied Products	4,750,236	0.06%
Diversified Manufacturing	4,306,430	0.05%	Personal Services	1,899,995	0.02%
Durable Goods-Wholesale	25,153,634	0.31%	Petroleum Refining and Related Industries	27,984,020	0.35%
Eating and Drinking Places	13,250,945	0.16%	Pipe Lines, Except Natural Gas	4,768,361	0.06%
Educational Services	639,711	0.01%	Primary Metal Industries	24,167,788	0.30%
Electronics, Other Electronic Equipment, Except Computers	62,320,405	0.77%	Printing, Publishing and Allied Services	11,057,946	0.14%
Electric, Gas, Sanitary Service	43,596,369	0.54%	Railroad Transportation	8,193,737	0.10%
Engineering, Research, Management, and Related Services	19,824,628	0.25%	Real Estate	25,115,530	0.31%
Metal Fabrication, Except Machinery and Transportation Equi	13,433,361	0.17%	Rubber and Miscellaneous Plastic Products	3,375,370	0.04%
Food and Kindred Products	34,610,091	0.43%	Security and Commodity Brokers	14,178,015	0.18%
Food Stores	8,320,212	0.10%	Social Services	92,092	0.00%
Foreign Government and Provincial Obligations	164,446,705	2.04%	Stone, Clay, Glass, Concrete Products	4,480,550	0.06%
Forestry	734,567	0.01%	Textile Mill Products	92,872	0.00%
Furniture and Fixtures	2,507,927	0.03%	Tobacco Products	5,236,251	0.06%
General Merchandise Stores	11,613,300	0.14%	Transit and Passenger Transportation	487,074	0.01%
Health Services	8,049,446	0.10%	Transportation By Air	12,509,674	0.15%
Heavy Construction-Not Building Construction	4,743,458	0.06%	Transportation Equipment	33,441,586	0.41%
Real Estate Holding	407,482,736	5.04%	Transportation Services	2,342,569	0.03%
Home Furniture and Equipment Stores	5,229,464	0.06%	U. S. Government Obligations	787,764,409	9.75%
Hotels, Other Lodging Places	39,231,091	0.49%	Water Transportation	11,627,618	0.14%
Industrial, Commercial Machinery, Computer Equipment	53,380,649	0.66%	Hedge Funds	1,721,364,520	21.30%
Insurance Agents, Brokers and Service	1,089,572	0.01%	Index Funds	935,702,617	11.58%
Insurance Carriers	52,072,845	0.64%	Limited Partnerships	772,716,058	9.56%
Leather and Leather Products	2,956,982	0.04%	Exchange Traded Funds	358,941,082	4.44%
Lumber and Wood Products, Except Furniture	3,530,154	0.04%	Other Investment Funds	364,376,917	4.51%
Measurement Instruments, Photography Goods, Watches	57,744,174	0.71%	Money Market Funds	1,248,712,183	15.46%
			Total Investment Assets	\$ 8,080,402,715	100.00%

PERMANENT UNIVERSITY FUND

Supplemental Schedules (cont.)

Schedule of Changes in Cost of Investments and Investment Income

Year Ended August 31, 2005

(in thousands)

	Beginning Cost	Purchases	Sales, Maturities & Redemptions	Gains (Losses)	Reclass	Ending Cost	Investment Income
Equity Securities							
Domestic Common Stock	\$ 798,558	\$ 1,064,294	\$ (1,050,879)	\$ 158,988	\$ 28,941	\$ 999,902	\$ 27,093
Foreign Common Stock	369,494	595,404	(610,405)	77,392	-	431,885	10,083
Other	713	-	(195)	42	-	560	1,375
Total Equity Securities	<u>1,168,765</u>	<u>1,659,698</u>	<u>(1,661,479)</u>	<u>236,422</u>	<u>28,941</u>	<u>1,432,347</u>	<u>38,551</u>
Preferred Stock							
Domestic Preferred Stock	8,134	4,965	(7,348)	(267)	(2,993)	2,491	109
Foreign Preferred Stock	786	83	(1,226)	357	-	-	-
Total Preferred Stock	<u>8,920</u>	<u>5,048</u>	<u>(8,574)</u>	<u>90</u>	<u>(2,993)</u>	<u>2,491</u>	<u>109</u>
Debt Securities							
U. S. Government Obligations	787,599	3,376,333	(3,005,414)	1,757	-	1,160,275	40,865
Foreign Government and Provincial Obligations	153,253	506,531	(518,130)	10,844	-	152,498	6,585
Corporate Obligations	282,944	840,026	(841,974)	3,530	(10,314)	274,212	10,253
Swaps	-	-	-	-	-	-	18,314
Other	20,129	40,762	(49,154)	(4,026)	10,314	18,025	1,270
Total Debt Securities	<u>1,243,925</u>	<u>4,763,652</u>	<u>(4,414,672)</u>	<u>12,105</u>	<u>-</u>	<u>1,605,010</u>	<u>77,287</u>
Purchased Options	<u>-</u>	<u>2,518</u>	<u>(394)</u>	<u>(829)</u>	<u>-</u>	<u>1,295</u>	<u>-</u>
Convertible Securities	<u>13,788</u>	<u>523</u>	<u>(167)</u>	<u>(158)</u>	<u>-</u>	<u>13,986</u>	<u>6</u>
Investment Funds							
Index Funds	893,367	203,536	(539,286)	151,440	-	709,057	25,335
Hedge Funds	1,372,482	601,236	(340,181)	66,991	-	1,700,528	4,197
Limited Partnerships	1,158,383	220,718	(302,352)	156,184	(25,948)	1,206,985	29,897
Exchange Traded Funds	358,714	795,198	(950,166)	35,562	-	239,308	5,298
Other	338,765	471,482	(314,056)	60,351	-	556,542	5,483
Total Investment Funds	<u>4,121,711</u>	<u>2,292,170</u>	<u>(2,446,041)</u>	<u>470,528</u>	<u>(25,948)</u>	<u>4,412,420</u>	<u>70,210</u>
Cash and Cash Equivalents							
Money Market Funds and Cash Held at State Treasury	1,248,733	-	(24,604) *	93,150 **	-	1,317,279	28,991
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,132</u>
Total Investment in Securities	<u>\$ 7,805,842</u>	<u>\$ 8,723,609</u>	<u>\$ (8,555,931)</u>	<u>\$ 811,308</u>	<u>\$ -</u>	<u>\$ 8,784,828</u>	<u>\$ 239,286</u>

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

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