

**THE UNIVERSITY OF TEXAS SYSTEM
GENERAL ENDOWMENT FUND**

FINANCIAL STATEMENTS

**Year Ended August 31, 2002 and For the Period
from Inception (March 1, 2001) to August 31, 2001**

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of assets and liabilities, and the comparison summary of investment in securities of The University of Texas System General Endowment Fund (Fund) as of August 31, 2002 and 2001, the related statements of operations and changes in net assets for the year ended August 31, 2002, and for the period from inception (March 1, 2001) to August 31, 2001, and the financial highlights for the year ended August 31, 2002, and for the period from inception (March 1, 2001) to August 31, 2001. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of August 31, 2002 and 2001, by correspondence with the custodian. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position and the investment in securities of the Fund as of August 31, 2002 and 2001, the results of its operations and the changes in its net assets for the year ended August 31, 2002, and for the period from inception (March 1, 2001) to August 31, 2001, and the financial highlights for the year ended August 31, 2002, and for the period from inception (March 1, 2001) to August 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

October 18, 2002

Deloitte
Touche
Tohmatsu

**THE UNIVERSITY OF TEXAS SYSTEM
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Financial Highlights

Year Ended August 31, 2002 and For the Period from Inception (March 1, 2001) to August 31, 2001

	<u>2002</u>	<u>2001</u>
Selected Per Unit Data		
Net Asset Value, Beginning of Period	\$ 97.811	\$ 100.000
Income from Investment Operations		
Net Investment Income	1.895	1.200
Net Realized and Unrealized Loss on Investments	<u>(8.774)</u>	<u>(3.389)</u>
Total Income (Loss) from Investment Operations	<u>(6.879)</u>	<u>(2.189)</u>
Net Asset Value, End of Period	<u>\$ 90.932</u>	<u>\$ 97.811</u>
Ratios and Supplemental Data		
Net Assets, End of Period (in thousands)	\$ 3,293,194	\$ 3,723,912
Ratio of Expenses to Average Net Assets	0.20%	0.09%
Ratio of Net Investment Income to Average Net Assets	2.00%	1.22%

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

**THE UNIVERSITY OF TEXAS SYSTEM
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Comparison Summary of Investment in Securities, at Value

August 31, 2002 and 2001

(in thousands)

	<u>2002</u>	<u>2001</u>
Equity Securities		
Index Funds	\$ 775,885	\$ 881,803
Commingled Investments	617,064	640,911
Domestic Common Stock	507,797	733,637
Limited Partnerships	353,556	366,491
Foreign Common Stocks	98,713	116,147
Other	<u>1,263</u>	<u>1,093</u>
Total Equity Securities	<u>2,354,278</u>	<u>2,740,082</u>
Debt Securities		
U.S. Government Obligations (Direct and Guaranteed)	110,388	204,349
U.S. Government Agencies (Non-Guaranteed)	196,481	303,343
U.S. Government Agencies (Non-Guaranteed) (Non-U.S. Dollar Denominated)	899	-
Foreign Government and Provincial Obligations (U.S. Dollar Denominated)	5,865	4,417
Foreign Government and Provincial Obligations (Non-U.S. Dollar Denominated)	58,928	62,569
Municipal and County Bonds	2,831	9,105
Corporate Bonds	221,220	230,395
Foreign Corporate Bonds	10,117	14,861
Commingled Investment	8,711	11,690
Commercial Paper	3,086	-
Other	<u>1,470</u>	<u>3,331</u>
Total Debt Securities	<u>619,996</u>	<u>844,060</u>
Preferred Stock		
Domestic Preferred Stock	5,047	12,842
Foreign Preferred Stock	<u>618</u>	<u>1,305</u>
Total Preferred Stock	<u>5,665</u>	<u>14,147</u>
Convertible Securities	<u>2,183</u>	<u>2,915</u>
Cash and Cash Equivalents		
Money Markets	<u>404,900</u>	<u>320,832</u>
Total Investment in Securities	<u>\$ 3,387,022</u>	<u>\$ 3,922,036</u>

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

**THE UNIVERSITY OF TEXAS SYSTEM
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Statements of Assets and Liabilities

August 31, 2002 and 2001

(Dollars in thousands, except per unit amounts)

Assets	2002	2001
Investment in Securities, at Value (Cost \$3,637,907 and \$3,967,110, respectively)	\$ 3,387,022	\$ 3,922,036
Collateral for Securities Loaned, at Value	68,371	116,812
Deposit with Broker for Futures Contracts	18,750	14,129
Unrealized Gains on Foreign Currency Exchange Contracts	8,130	2,694
Receivables		
Investment Securities Sold	75,207	26,861
Accrued Income	8,099	10,351
Other	<u>306</u>	<u>552</u>
Total Assets	<u>3,565,885</u>	<u>4,093,435</u>
 Liabilities		
Payable to Participants	12,998	17,142
Payable Upon Return of Securities Loaned	68,371	116,812
Unrealized Losses on Foreign Currency Exchange Contracts	2,342	935
Payables		
Investment Securities Purchased	187,329	233,316
Other	<u>1,651</u>	<u>1,318</u>
Total Liabilities	<u>272,691</u>	<u>369,523</u>
 Net Assets	 <u>\$ 3,293,194</u>	 <u>\$ 3,723,912</u>
 Net Assets Consist Of:		
Participant Contributions (Net of Withdrawals)	\$ 3,587,430	\$ 3,818,165
Net Unrealized Depreciation of Investments including Translation of Assets and Liabilities in Foreign Currencies	<u>(294,236)</u>	<u>(94,253)</u>
 Net Assets	 <u>\$ 3,293,194</u>	 <u>\$ 3,723,912</u>
 Number of Units:		
Permanent Health Fund (PHF)	7,676,762	9,009,891
The University of Texas System Long Term Fund (LTF)	<u>28,539,389</u>	<u>29,062,538</u>
Total	<u>36,216,151</u>	<u>38,072,429</u>
 Net Asset Value Per Unit	 <u>\$ 90.932</u>	 <u>\$ 97.811</u>

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

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

Year Ended August 31, 2002 and For the Period from Inception (March 1, 2001) to August 31, 2001

(in thousands)

	<u>2002</u>	<u>2001</u>
Investment Income		
Interest	\$ 40,067	\$ 29,790
Dividends	34,458	17,308
Income Distributions from Limited Partnerships	2,887	1,631
Other	<u>1,504</u>	<u>1,187</u>
Total Investment Income	<u>78,916</u>	<u>49,916</u>
Expenses		
Investment Management and Consulting Fees	6,414	3,076
Custodial Fees and Expenses	674	298
Other	<u>157</u>	<u>28</u>
Total Expenses	<u>7,245</u>	<u>3,402</u>
Net Investment Income	<u>71,671</u>	<u>46,514</u>
Realized and Unrealized Loss on Investments		
Net Realized Loss on Investments Securities and Foreign Currency Related Transactions	(124,188)	(36,860)
Net Unrealized Depreciation on Investment Securities and Foreign Currency Related Transactions	<u>(199,983)</u>	<u>(94,253)</u>
Net Loss on Investments	<u>(324,171)</u>	<u>(131,113)</u>
Net Decrease in Net Assets Resulting From Operations	\$ (252,500)	\$ (84,599)
Net Assets		
Beginning of Period	3,723,912	-
Participant Contributions:		
Initial Contributions on March 1, 2001	-	3,839,708
Contributions	103,516	71,544
Participant Withdrawals	<u>(281,734)</u>	<u>(102,741)</u>
End of Period	<u>\$ 3,293,194</u>	<u>\$ 3,723,912</u>

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

Note 1 – Organization

The University of Texas System General Endowment Fund (Fund), created March 1, 2001, is a pooled fund established for the collective investment of long-term funds under the control and management of the Board of Regents of The University of Texas System (Board of Regents). The Fund is organized as a mutual fund and has two participants, the Permanent Health Fund (PHF) and The University of Texas System Long Term Fund (LTF). The PHF and LTF initially purchased units of the Fund on March 1, 2001, in exchange for the contribution of their investment assets. The Fund provides for greater diversification of investments than would be possible if each account were managed separately.

Fiduciary responsibility for the Fund rests with the Board of Regents. The day-to-day operational responsibilities of the Fund are delegated to The University of Texas Investment Management Company (UTIMCO), pursuant to an investment management services agreement with the Board of Regents.

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

Note 2 – Significant Accounting Policies

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

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

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

Limited Partnerships and Other are valued based on a fair valuation determined as specified by policies established by the UTIMCO Board of Directors. 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 last available reporting period. In the rare case no ascertainable value is available, the limited partnership is valued at cost.

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Notes to Financial Statements (cont.)

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

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

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

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

Commingled investments are valued based on the net asset value per share provided by the investment company.

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

(C) ***Investment Income*** -- Interest income is accrued as earned. Dividend income is recorded on the ex-dividend date. Dividend and interest income is recorded net of foreign taxes where recovery of such taxes is not assured. Investment income includes net realized and unrealized currency gains and losses recognized between accrual and payment dates on dividend and interest transactions. Premiums and discounts on bonds are not amortized.

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

(E) ***Distributions to Participants*** -- The Fund, for accounting purposes, distributes its net investment income and realized gain or loss to the PHF and LTF monthly based on their ownership of Fund units at month end. The distributed investment income and realized gain amounts are considered reinvested as contributions. Any distributed realized losses reduce the cost basis of the units of the Fund. Since the distribution is proportional to the percentage ownership by the PHF and LTF, no additional units are purchased.

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

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Notes to Financial Statements (cont.)

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

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

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

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

(K) ***Foreign Currency Contracts*** -- The Fund enters into forward foreign currency exchange contracts to hedge against foreign currency exchange rate risks on its non-U.S. dollar denominated investment securities and to facilitate trading strategies primarily as a tool to increase or decrease market exposure to various foreign currencies. When entering into a forward currency contract, the Fund agrees to receive or deliver a fixed quantity of foreign currency for an agreed-upon price on an agreed future date. These contracts are valued daily and the Fund's net equity therein, representing unrealized gain or loss on the contracts as measured by the difference between the forward foreign exchange rates at the dates of entry into the contracts and the forward rates at the reporting date, is included in the statement of assets and liabilities. Realized and unrealized gains and losses are included in the statement of operations. These instruments involve market and/or credit risk in excess of the amount recognized in the statements of assets and liabilities. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movement in currency and securities values and interest rates.

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

(M) ***Options Written*** -- When the Fund writes an option, an amount equal to the premium received by the Fund 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 Fund 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 Fund has realized a gain or loss. If a put option is exercised, the premium reduces the cost basis of the securities purchased by the Fund. The Fund as writer of an option bears the market risk of an unfavorable change in the price of the security underlying the written option.

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Notes to Financial Statements (cont.)

Note 3 – Acquisitions and Dispositions of Investments

On March 1, 2001, the Fund received initial contributions of investment assets of \$922,338,502 and \$2,917,369,473 from the PHF and LTF, respectively. The PHF's and LTF's contribution of investments, excluding limited partnerships and certain other equity investments, totaled \$3,384,493,785 at fair value. The Fund recorded the book value of these investments equal to their fair value and the PHF and LTF recognized gains or losses upon the sale of these investments to the Fund. The limited partnerships and certain other equity investments were also contributed at fair value by the PHF and LTF in the amount of \$455,214,190. The Fund, however, for purposes of subsequent reporting of realized gains, will consider the PHF and LTF's historical cost of \$405,891,674 as the Fund's cost. The PHF and LTF did not record a realized gain or loss on these securities contributed.

Acquisitions and dispositions (including sales, maturities and prepayments) of securities, other than short-term securities, and the associated net realized losses are as follows for the year ended August 31, 2002 and for the period from inception (March 1, 2001) to August 31, 2001:

	<u>2002</u>	<u>2001</u>
Acquisitions	\$ 4,625,257,901	\$ 6,281,959,888
Dispositions	(4,924,069,289)	(2,606,891,798)
Net Realized Losses on Investments	(124,187,406)	(36,859,866)

The net realized loss on investments includes \$27,766,186 and \$26,919,800 of capital losses incurred on the commingled investments and index funds for the year ended August 31, 2002, and for the period from inception (March 1, 2001) to August 31, 2001, respectively. Also included in net realized loss on investments are \$2,845,890 of currency exchange gains for the year ended August 31, 2002, and \$5,647,083 of currency exchange losses for the period from inception (March 1, 2001) to August 31, 2001.

Note 4 – Fees and Expenses

The Fund incurs investment management fees from various external managers of the Fund. The fees, generally assessed quarterly, are based on a percentage of the market value of investments held by each individual investment manager and currently range from 0.01% to 1.0%. In addition to quarterly investment management fees, the Fund may pay annual performance-based management fees for investment performance in excess of certain defined benchmarks as provided for in the managers' contracts. In addition, the Fund incurs consulting fees for investment planning and oversight services with regard to limited partnerships and hedge funds.

Custodial fees and expenses are assessed by the financial institution which holds the Fund's assets. Fees are based on the number of accounts, market value of the Fund, and transaction activity in accordance with the contractual agreement with the institution. Additional fees are assessed for performance measurement and on-line communication services per the contractual agreement.

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

Note 5 – Index Funds

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

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 400 Mid-Cap 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 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 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 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 Provisional EAFE Equity Index was a temporary fund established to accommodate the reconstitution of the previous MSCI EAFE Index (Morgan Stanley Capital International Europe, Australia and Far East Index). The MSCI EAFE Index did not fully represent the international equity markets and was reconstituted to create a more representative benchmark. The Provisional EAFE Index was folded into the standard MSCI EAFE Index Fund B upon completion of the reconstitution and final transition in May 2002.

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.

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

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Notes to Financial Statements (cont.)

The Mid-Cap Index Fund B Lendable is majority owned, and the Emerging Markets Structured Tier Fund B is solely owned by the Fund and the Permanent University Fund. The market values of the Fund's interests in these index funds are as follows:

	August 31,	
	2002	2001
Mid-Cap Index Fund B Lendable	\$ 313,552,230	\$ 345,172,117
EAFE Equity Index Fund B	215,431,749	-
Equity Index Fund B Lendable	145,503,530	251,876,195
Russell 2000 Alpha Tilts Fund B	66,993,761	-
Emerging Markets Structured Tiered Fund B	34,403,816	-
Provisional EAFE Equity Index	-	209,772,510
Russell 2000 Index Fund B	-	74,981,968
	<u>\$ 775,885,086</u>	<u>\$ 881,802,790</u>

Note 6 – Commingled Investments

The commingled investments consist of investments in other entities in which the Fund has an ownership percentage, shares or limited partnership interest. The market values of the commingled investments consist of the following:

	August 31,	
	2002	2001
Equity Commingled Investments:		
Merger Arbitrage and Special Situation Funds	\$ 266,051,280	\$ 261,547,201
Hedge Fund	162,779,288	164,386,371
Emerging Market Mutual Funds	117,991,611	119,003,366
Small Capitalization International Stock Fund	51,524,771	95,384,536
Emerging Market Absolute Return Fund	18,183,608	-
Growth-Oriented, Capital Appreciation Fund	<u>533,314</u>	<u>589,041</u>
Total Equity Commingled Investments	<u>\$ 617,063,872</u>	<u>\$ 640,910,515</u>
Debt Commingled Investment:		
High Yield Bond Fund	<u>\$ 8,710,889</u>	<u>\$ 11,690,404</u>

The merger arbitrage and special situation funds invest in merger arbitrage, corporate restructuring, distressed investments, distressed convertibles and liquidations. The hedge fund invests primarily in medium and large capitalization U.S. equities in which performance is driven by long and short security selection with a low net exposure to market risk. The emerging market funds utilize a long and short investment strategy and invest primarily in emerging and developed markets in Asia and the Pacific region and emerging markets in Latin America, Eastern Europe, the Middle East, and Russia.

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Notes to Financial Statements (cont.)

Note 7 – Limited Partnerships

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

	August 31,	
	2002	2001
U.S. Private Equity	\$ 164,362,231	\$ 175,908,499
Venture Capital	74,679,119	106,976,639
Opportunistic	45,366,743	21,443,134
Non-U.S. Private Equity	38,217,992	30,175,128
Mezzanine	23,361,798	26,992,196
Direct Investments	4,461,106	4,461,106
Oil and Gas	3,107,038	535,040
	<u>\$ 353,556,027</u>	<u>\$ 366,491,742</u>

The U.S. private equity interests consist of investments in private equity funds 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 private equity funds that provide capital to companies that are in the early stages of development. Opportunistic consists of interests in private equity funds that invest in distressed debt and that purchase limited partnership interests in private equity funds on a secondary basis. Non-U.S. private equity interests consist of investments in private equity and venture capital funds that are based outside of the U.S. These funds focus on making investments in companies that have operations in countries other than the U.S. Mezzanine interests consist of investments in private equity funds that purchase private debt and equity securities of private businesses to provide temporary financing. Direct investments represent the Fund'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 – Securities Lending

The Fund loans securities to certain brokers who pay the Fund negotiated lenders' fees. These fees are included in investment income. The Fund receives qualified securities and/or cash as collateral against the loaned securities. The collateral, when received, will have a market value of 102% of loaned securities of 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, 2002 and 2001:

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Notes to Financial Statements (cont.)

Securities on Loan	2002 Value	2001 Value	Type of Collateral	2002 Value of Collateral	2001 Value of Collateral
U.S. Government	\$ 35,514,900	\$ 94,429,956	Cash	\$ 35,961,724	\$ 95,780,461
Foreign Government	961,421	1,311,727	Cash	1,010,345	1,380,200
Corporate Bonds	23,687,864	12,726,663	Cash	24,460,254	13,035,000
Common Stock	<u>6,546,729</u>	<u>6,224,026</u>	Cash	<u>6,939,041</u>	<u>6,616,357</u>
Total	<u>\$ 66,710,914</u>	<u>\$ 114,692,372</u>	Total	<u>\$ 68,371,364</u>	<u>\$ 116,812,018</u>
U.S. Government	<u>\$ 1,921,464</u>	<u>\$ 8,394,625</u>	Non-Cash	<u>\$ 2,073,215</u>	<u>\$ 8,859,374</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 9 – Commitments

The Fund had unfunded contractual commitments for Limited Partnerships and Other assets of \$385,953,087 as of August 31, 2002.

Note 10 – Written Options

During the period ended August 31, 2001, the Fund wrote put options on short-term interest rate futures contracts. At August 31, 2001, there were 577 contracts on short-term interest rate futures contracts outstanding with a principal notional value of \$577,000,000. The principal notional value is used as a mechanism to determine the day-to-day fluctuations in the value of the options written and is not indicative of the risk of loss to the Fund. At option expiry, for each basis point the underlying futures price is below the contract strike price, the Fund is subject to a \$25 reduction in the value of each outstanding contract. For example, if the Fund had written the 577 put options on short-term interest rate futures contracts at 4.00% (i.e., a eurodollar futures price of 96.00), and interest rates increased to 4.50% (i.e., a eurodollar futures price of 95.50), the Fund would recognize a loss in an amount equal to \$721,250 (577 X \$25 X 50 basis points) less the premium received at the time the contract was written.

The 577 contracts outstanding as of August 31, 2001, represented contracts on 90 Day Eurodollar futures with a weighted average interest rate of 4.59%. These contracts expired during the year ended August 31, 2002, and the Fund recognized gains in the amount of \$6,143.

Transactions in put options written during the period ended August 31, 2002 were as follows:

	<u>Number of Contracts</u>	<u>Premiums Received</u>
Put Options Outstanding at August 31, 2001	577	\$ 232,528
Options Expired	<u>(577)</u>	<u>(232,528)</u>
Put Options Outstanding at August 31, 2002	<u>-</u>	<u>\$ -</u>

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Transactions in put options written during the period ended August 31, 2001, were as follows:

	<u>Number of Contracts</u>	<u>Premiums Received</u>
Put Options Outstanding at August 31, 2000	-	\$ -
Options Written	810	340,978
Options Expired	<u>(233)</u>	<u>(108,450)</u>
Put Options Outstanding at August 31, 2001	<u>577</u>	<u>\$ 232,528</u>

At August 31, 2002, there were no put options outstanding. The fair value of the put options outstanding as of August 31, 2001, was \$6,143. This amount was included in Other Liabilities on the statement of assets and liabilities. The Fund recognized gains in the amount of \$334,835 on put options for the period from inception (March 1, 2001) to August 31, 2001. As of August 31, 2001, no securities were held as collateral for the put options written by the Fund.

The Fund also wrote call options on Treasury bond futures contracts during the period ended August 31, 2001. As of August 31, 2001, the principal notional value of the 69 Treasury bond futures contracts outstanding was \$7,348,500 based on an August 31, 2001, price of \$106.50. These contracts expired during the year ended August 31, 2002, and the Fund recognized gains in the amount of \$48,594.

Transactions in call options written during the period ended August 31, 2002 were as follows:

	<u>Number of Contracts</u>	<u>Premiums Received</u>
Call Options Outstanding at August 31, 2001	69	\$ 34,730
Options Expired	<u>(69)</u>	<u>(34,730)</u>
Call Options Outstanding at August 31, 2002	<u>-</u>	<u>\$ -</u>

Transactions in call options written during the period ended August 31, 2001, were as follows:

	<u>Number of Contracts</u>	<u>Premiums Received</u>
Call Options Outstanding at August 31, 2000	-	\$ -
Options Written	341	147,149
Options Expired	<u>(272)</u>	<u>(112,419)</u>
Call Options Outstanding at August 31, 2001	<u>69</u>	<u>\$ 34,730</u>

There were no open positions in call options written as of August 31, 2002. The fair value of the call options outstanding as of August 31, 2001, was \$48,594. This amount was included in Other Liabilities on the statement of assets and liabilities. For the period from inception (March 1, 2001) to August 31, 2001, the Fund recognized gains in the amount of \$98,555 on call options written.

Note 11 – Futures Contracts

The Fund's activities include trading in derivatives such as futures contracts. Futures contracts are used to facilitate various trading strategies, primarily as a tool to increase or decrease market exposure to various asset classes of the Fund. The asset classes that used futures during the year

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include domestic and foreign equities, domestic and foreign debt, and commodities. Commodity index exposure was obtained through the Goldman Sachs Commodity Index (GSCI). The GSCI is a composite index of commodity sector returns, representing an unleveraged, long-only investment in commodity futures that is broadly diversified across the spectrum of commodities. The Fund had \$18,749,761 and \$14,129,014 on deposit with a broker for collateral as margin for the futures contracts as of August 31, 2002 and 2001, respectively. It is the intention of the Fund not to utilize leverage when entering into these contracts and to maintain cash balances that, when combined with the collateral deposited with a broker, exceed the notional value of the futures contracts held. Short futures may be used by a limited number of the Fund's external managers to hedge the Fund's interest rate or country risk associated with security positions. 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 each morning is the carrying and fair value of the futures contracts. The amount of net realized loss on the futures contracts was \$10,002,498 and \$7,049,629 during the year ended August 31, 2002 and for the period from inception (March 1, 2001) to August 31, 2001, respectively. The Fund executes such contracts either on major exchanges or with major international financial institutions and minimizes market and credit risk associated with these contracts through the managers' various trading and credit monitoring techniques.

The following discloses the notional, carrying and fair values at August 31, 2002, and the average carrying and fair values for the year ended August 31, 2002, for futures contracts:

	Notional Value at August 31, 2002		Carrying and Fair Value at August 31, 2002		Average Carrying and Fair Value for the Year Ended August 31, 2002	
	<u>Long</u>	<u>Short</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Domestic Fixed Income Futures	\$ 45,079,078	\$ 114,685,328	\$ 70,476	\$ 142,385	\$ 232,098	\$ 243,703
International Fixed Income Futures	127,082,192	50,349,578	284,621	30,284	135,077	124,471
Domestic Equity Futures	143,919,310	4,888,125	54,470	-	492,278	560,172
International Equity Futures	15,099,006	9,455,356	156,976	132,581	261,156	261,299
Commodities Futures	95,424,900	-	44,425	-	382,932	310,496

The following discloses the notional, carrying and fair values at August 31, 2001, and the average carrying and fair values for the period from inception (March 1, 2001) to August 31, 2001 for futures contracts:

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	Notional Value at		Carrying and Fair Value		Average Carrying and Fair Value	
	August 31, 2001		at		for the Period from	
	Long	Short	Assets	Liabilities	Assets	Liabilities
Domestic Fixed Income Futures	\$ 37,538,750	\$ 75,938,875	\$ 62,813	\$ 53,417	\$ 138,805	\$ 139,065
International Fixed Income Futures	42,728,035	18,291,341	71,554	34,653	66,278	59,556
Domestic Equity Futures	80,308,325	3,753,200	410,350	3,600	411,329	469,780
International Equity Futures	14,904,283	9,919,416	111,004	154,748	154,540	157,005

Note 12 – Foreign Currency Exchange Contracts

The table below summarizes by currency the contractual amounts of the Fund's foreign currency exchange contracts at August 31, 2002 and 2001. Foreign currency amounts are translated at exchange rates as of August 31, 2002 and 2001. 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, 2002	Net Sell August 31, 2002	Unrealized Gains on Foreign Currency Exchange Contracts August 31, 2002	Unrealized Losses on Foreign Currency Exchange Contracts August 31, 2002
Australian Dollar	\$ 3,811,858	\$ -	\$ 342,307	\$ 2,411
Canadian Dollar	-	7,939,281	375,516	131,481
Danish Krone	966,650	-	42,799	-
Euro	45,956,285	-	830,451	17,141
Japanese Yen	67,210,003	-	3,639,620	384,501
New Zealand Dollar	3,081,427	-	172,269	13,694
Norwegian Krone	5,160,496	-	2,395,377	307,868
Singapore Dollar	916,954	-	101	83,302
Swedish Krona	22,262,844	-	74,857	87,773
Swiss Franc	-	23,050,955	158,668	977,873
UK Pound	14,516,673	-	98,372	336,134
	<u>\$ 163,883,190</u>	<u>\$ 30,990,236</u>	<u>\$ 8,130,337</u>	<u>\$ 2,342,178</u>

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<u>Currency</u>	<u>Net Buy August 31, 2001</u>	<u>Net Sell August 31, 2001</u>	<u>Unrealized Gains on Foreign Currency Exchange Contracts August 31, 2001</u>	<u>Unrealized Losses on Foreign Currency Exchange Contracts August 31, 2001</u>
Australian Dollar	\$ 9,129,945	\$ -	\$ 117,311	\$ 1,732
Canadian Dollar	-	7,493,594	72,373	19,113
Danish Krone	1,186,533	-	74,762	-
Euro	47,605,814	-	194,048	306,807
Japanese Yen	31,459,953	-	1,288,813	72,585
New Zealand Dollar	-	6,885,606	4,345	241,288
Norwegian Krone	18,325,246	-	474,752	-
Singapore Dollar	-	4,300,065	347	98,971
Swedish Krona	-	16,129,949	-	69,142
Swiss Franc	6,388,659	-	222,998	103,231
UK Pound	17,001,757	-	243,896	22,159
	<u>\$ 131,097,907</u>	<u>\$ 34,809,214</u>	<u>\$ 2,693,645</u>	<u>\$ 935,028</u>