

Financial Statements
and Independent Auditors' Report
The University of Texas System
General Endowment Fund
Years Ended August 31, 2007 and 2006

The University of Texas System General Endowment Fund

Financial Statements

Years Ended August 31, 2007 and 2006

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Independent Auditors' Report

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 Statement of Fiduciary Net Assets of The University of Texas System General Endowment Fund (the "Fund"), as of August 31, 2007, and the related Statement of Changes in Fiduciary Net Assets for the year then ended. These financial statements are the responsibility of The University of Texas Investment Management Company ("UTIMCO" or "management"). Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Fund as of and for the year ended August 31, 2006, were audited by other auditors whose report, dated October 27, 2006, expressed an unqualified opinion on those statements and included an explanatory paragraph noting that the financial statements of the Fund were not intended to present the financial positions of UTIMCO or The University of Texas System.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing the audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund'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, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Fund are intended only to present the financial position of the Fund and do not purport to, and do not, present the financial positions of UTIMCO or The University of Texas System as of August 31, 2007, and the changes in their financial positions for the year then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 2, the financial statements include investments valued at \$2,628,868,644 (40.8% of net assets) as of August 31, 2007, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on procedures performed by management which use information provided by the fund managers or the general partners.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as of August 31, 2007, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 3 through 5 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Fund. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of management. The supplemental schedules as of and for the year ended August 31, 2007, have been subjected to the audit procedures applied by us (with 2006, 2005, 2004 and 2003 being subject to audit procedures by other auditors) in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Deloitte & Touche LLP

October 29, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Our discussion and analysis of The University of Texas System General Endowment Fund's (Fund) financial performance provides an overview of its activities for the fiscal year ended August 31, 2007. This discussion was prepared by The University of Texas Investment Management Company (UTIMCO) and should be read in conjunction with the Fund's financial statements and notes. The Fund is a pooled investment fund for the collective investment of the Permanent Health Fund (PHF) and The University of Texas System Long Term Fund (LTF). The Fund was created to allow the PHF and LTF to benefit from their identical investment objectives by providing greater efficiencies and cost savings than was possible when the investments of the PHF and LTF were managed separately. 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 Fund's financial statements based upon currently known facts, decisions or conditions.

Financial Highlights

- The Fund's fiduciary net assets, after contributions and withdrawals, increased by \$1,005.3 million from \$5,427.8 million to \$6,433.1 million or approximately 18.5% for the year ended August 31, 2007, compared to an increase of \$501.0 million or approximately 10.2% for the year ended August 31, 2006. The change in net fiduciary net assets from year to year is mainly attributable to the following:
 1. The PHF and LTF redeemed and purchased Fund units resulting in a net increase in contributions of \$114.9 million for the year ended August 31, 2007, compared to a net reduction in contributions for the year ended August 31, 2006 of \$54.2 million.
 2. The Fund posted a net investment return of 15.90%, calculated using the Modified Dietz Method as described by the CFA Institute, for the fiscal year ended August 31, 2007. Investments in private market investment funds, emerging markets equities and directional hedge funds were the leading contributors to the 2007 return. For the fiscal year ended August 31, 2006, the real estate investment trusts, private market investment funds and global equities asset classes were the leading performers contributing to a net investment return of 11.10%.
 3. The Fund allocates its net investment income and its realized gain or loss to the PHF and LTF monthly based on their ownership of Fund units at month end. The distributed net investment income and realized gain amounts increase the cost basis of the units of the Fund, and any distributed realized losses reduce the cost basis of the units in the Fund. Since the distribution is proportional to the percentage ownership by the PHF and LTF, no additional units are purchased.

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Use of Financial Statements and Notes

The Fund's financial statements were prepared in accordance with standards issued by the Governmental Accounting Standards Board (GASB). Two financial statements are required under GASB: the Statement of Fiduciary Net Assets and the Statement of Changes in Fiduciary Net Assets.

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 Fund as of the end of the fiscal year. These statements, along with all of the Fund's financial statements, are prepared using the accrual basis of accounting, whereby Fund investment income is recognized when earned and Fund expenses are recognized when incurred.

The Fund 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. UTIMCO allocates the Fund's 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 endowment resources available to fund the teaching, research, and health care programs specified by the various donors.

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

Assets	2007	2006	2005
Investments, at Fair Value	\$ 6,620.6	\$ 5,560.3	\$ 5,002.9
Other Assets	706.7	626.8	656.2
Total Assets	7,327.3	6,187.1	5,659.1
Total Liabilities	894.2	759.3	732.3
Net Assets Held in Trust	\$ 6,433.1	\$ 5,427.8	\$ 4,926.8

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 Fund. The purpose of these statements is to present additions to the Fund resulting from net investment income and participant contributions and to present deductions from the Fund resulting from participant distributions.

The net increase in investments of the Fund was \$777.2 million during the year ended August 31, 2007 compared to the net increase in investments of \$453.8 million for the year ended August 31, 2006. Expenses totaled \$38.1 million, \$38.2 million, and \$23.1 million, respectively, for the years ended August 31, 2007, 2006, and 2005.

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The net increase in fiduciary net assets totaled \$1,005.3 million for the fiscal year ended August 31, 2007 compared to a net increase in fiduciary net assets totaling \$501.0 million for the fiscal year ended August 31, 2006.

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Investment Income	\$ 928.5	\$ 593.3	\$ 814.2
Less Investment Expenses	(38.1)	(38.2)	(23.1)
Net Investment Income	<u>890.4</u>	<u>555.1</u>	<u>791.1</u>
Participant Contributions	<u>360.7</u>	<u>273.9</u>	<u>139.2</u>
Total Additions	<u>1,251.1</u>	<u>829.0</u>	<u>930.3</u>
Participant Withdrawals	<u>245.8</u>	<u>328.0</u>	<u>211.1</u>
Total Deductions	<u>245.8</u>	<u>328.0</u>	<u>211.1</u>
Change in Fiduciary Net Assets	1,005.3	501.0	719.2
Net Assets Held in Trust, Beginning of Year	5,427.8	4,926.8	4,207.6
Net Assets Held in Trust, End of Year	<u>\$ 6,433.1</u>	<u>\$ 5,427.8</u>	<u>\$ 4,926.8</u>

Contacting UTIMCO

The above financial highlights are designed to provide a general overview of the Fund'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.

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Statements of Fiduciary Net Assets

August 31, 2007 and 2006

(Dollars in thousands, except per unit amounts)

Assets	2007	2006
Investments, at Fair Value:		
Equity Securities	\$ 843,586	\$ 806,951
Preferred Stock	2,795	2,771
Purchased Options	6,002	25,853
Debt Securities	855,674	1,070,164
Convertible Securities	2,509	16
Investment Funds	4,019,358	3,126,170
Cash and Cash Equivalents	890,712	528,367
Total Investments	<u>6,620,636</u>	<u>5,560,292</u>
Collateral for Securities Loaned, at Fair Value	388,332	471,382
Deposit with Brokers for Derivative Contracts	43,748	56,937
Deposit with Brokers for Securities Sold Short	-	4,030
Swaps, at Fair Value	75,210	2,579
Unrealized Gains on Foreign Currency Exchange Contracts	10,343	6,688
Receivables:		
Investment Securities Sold	169,020	70,576
Accrued Income	12,770	13,754
Other	7,194	865
Total Receivables	<u>188,984</u>	<u>85,195</u>
Total Assets	<u>7,327,253</u>	<u>6,187,103</u>
Liabilities		
Payable to Participants	4,155	2,092
Payable Upon Return of Securities Loaned	388,332	471,382
Written Options, at Fair Value	3,952	41,531
Swaps, at Fair Value	68,837	11,628
Securities Sold Short, at Fair Value	10,713	4,569
Unrealized Losses on Foreign Currency Exchange Contracts	4,796	9,837
Payables:		
Investment Securities Purchased	402,976	210,687
Other	10,421	7,622
Total Payables	<u>413,397</u>	<u>218,309</u>
Total Liabilities	<u>894,182</u>	<u>759,348</u>
Net Assets Held in Trust	<u>\$ 6,433,071</u>	<u>\$ 5,427,755</u>
Number of Units:		
Permanent Health Fund (PHF)	6,118,081	6,359,817
The University of Texas System Long Term Fund (LTF)	<u>29,669,785</u>	<u>28,623,092</u>
Total	<u>35,787,866</u>	<u>34,982,909</u>
Net Asset Value Held in Trust Per Unit	<u>\$ 179.756</u>	<u>\$ 155.154</u>

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

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Statements of Changes in Fiduciary Net Assets

Years Ended August 31, 2007 and 2006

(in thousands)

	<u>2007</u>	<u>2006</u>
Additions		
Investment Income:		
Net Increase in Investments	\$ 777,235	\$ 453,778
Interest	79,014	76,993
Dividends	25,394	28,590
Income Distributions from Private Market Investment Funds	18,178	10,742
Securities Lending Income	27,444	22,253
Other	1,267	961
Total Investment Income	<u>928,532</u>	<u>593,317</u>
Less Investment Expenses:		
Investment Management	9,935	15,398
Securities Lending Fees	26,333	21,035
Consulting Fees	400	385
Custodial Fees and Expenses	709	798
Legal Fees	284	243
Analytical and Risk Measurement Fees	304	255
Other Expenses	115	80
Total Investment Expenses	<u>38,080</u>	<u>38,194</u>
Net Investment Income	890,452	555,123
Participant Contributions	360,686	273,830
Total Additions	<u>1,251,138</u>	<u>828,953</u>
Deductions		
Participant Withdrawals	245,822	327,995
Change in Fiduciary Net Assets	1,005,316	500,958
Net Assets Held in Trust, Beginning of Period	5,427,755	4,926,797
Net Assets Held in Trust, End of Period	<u>\$ 6,433,071</u>	<u>\$ 5,427,755</u>

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

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Notes to Financial Statements

Note 1 – Organization and Basis of Presentation

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 pooled investment 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 activities of the Fund are accounted for as a fiduciary fund. The financial statements of the Fund use an economic resources management 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 Fund is subject to the pronouncements of the Governmental Accounting Standards Board (GASB).

The annual combined financial statements of UT System are prepared in accordance with the 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 the Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements.

Note 2 – Significant Accounting Policies

(A) **Security Valuation** -- Investments with readily determinable fair values 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).

Private market funds and certain other equity securities are fair valued by management. The fair values of these investments are estimated by management using the partnership's capital account balance at the closest available reporting period, as communicated by the general partner, adjusted for contributions and withdrawals subsequent to the last available reporting period as well as consideration of any other information which has been provided by the partnership or other source. In rare cases the private market funds are valued at cost, but only when management determines that it is the best approximation of value.

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Notes to Financial Statements (cont.)

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

Long and short stock positions traded on security exchanges are valued at closing market prices on the valuation date.

Long and short stock positions 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.

Marketable alternative, U.S. equity, non-U.S. developed equity, emerging market and fixed income investment funds and certain other investment funds are fair valued by management based on net asset value information provided by the investment company.

(B) ***Foreign Currency Translation*** -- The accounting records of the Fund 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 Fund 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 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. For the years ended August 31, 2007 and 2006, interest and dividend withholding in the amounts of \$454,363 and \$405,421 have been netted against dividend and interest income. Investment income includes net realized and unrealized currency gains and losses recognized between accrual and payment dates on dividend and interest transactions. Interest expense amounts paid on certain derivative settlements are netted against interest income in the statements of changes in fiduciary net assets. 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.

(E) ***Distributions to Participants*** -- The Fund, for accounting purposes, allocates 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 allocated investment income and realized gain amounts increase the cost basis of the units of the Fund, and any allocated realized losses reduce the cost basis of the units of the Fund. Since the allocation 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.

(G) ***Purchases and Redemption of Units*** -- Unit purchases occur on the first business day of each fiscal quarter. Unit redemptions occur on the last business day of each fiscal quarter. The value

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Notes to Financial Statements (cont.)

of participating units, upon admission to the Fund, is based upon the market value of net assets held as of the quarterly valuation date. Redemptions from the Fund will also be made at the market value price per unit at the quarterly 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) ***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 Fund from time to time uses various derivative applications, as allowed under Board of Regent approved derivative investment policy guidelines, and by guidelines established in contracts with external investment managers. Futures contracts are valued at closing market prices on valuation date. Written options and swaps are valued by using independent broker quotes or using models with externally verifiable model inputs. Derivative applications included under these policies and contracts include futures, forwards, swaps and all forms of options. Derivative applications in the Fund are used to achieve the following objectives:

- implement investment strategies in a low cost and efficient manner,
- alter the Fund'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 Fund's risk/return profile is more closely aligned with the Fund'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 Fund'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 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

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Notes to Financial Statements (cont.)

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. Options are marked to market on a daily basis, and are included as a liability on the statements of fiduciary net assets.

Swaps -- 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 commodity sector return versus a specified cost per contract. Swaps are marked to market on a daily basis, and are included at fair value in the statements of fiduciary net assets. Cash flows may 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. These instruments involve market and/or credit risk in excess of the amount recognized in the statements 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.

Futures Contracts -- The Fund 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 Fund'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 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.

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 foreign 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 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 statements 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.

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Notes to Financial Statements (cont.)

(L) **Securities Sold Short** -- The Fund may sell securities it does not own in anticipation of a decline in the fair value of that security, or as a means to adjust the duration of certain fixed income portfolios. When the Fund sells a security short, it must borrow the security sold short and deliver it to the broker-dealer through which it made the short sale as collateral for its obligation to deliver the security upon conclusion of the sale. The market value of securities sold short as of August 31, 2007 and 2006 was \$10,713,490 and \$4,568,973, respectively. The securities sold short as of August 31, 2007 are commitments to sell U.S. Treasury securities that do not require cash deposits. The Deposit with Broker for Securities Sold Short was \$4,030,234 for August 31, 2006. The Fund must pay dividends or interest on the securities sold short. Until the Fund covers its shorts sales, it is exposed to market risk to the extent that subsequent market fluctuations may require purchasing securities sold short at prices which may be significantly higher than the market value reflected in the statement of fiduciary net assets.

(M) **Cash and Cash Equivalents** -- Cash and Cash Equivalents consist of money market investments, foreign currencies and other overnight funds. A portion of the Fund's cash and cash equivalents are maintained to support the notional value of futures contracts held (see Note 8). Cash and cash equivalents are an integral part of the Fund's investment activities, and as such are included in the investments balance on the statement of fiduciary net assets.

(N) **Reclassifications** -- Certain items in the 2006 financial statements and related notes have been reclassified to conform with the 2007 classification.

Note 3 – Investment Risk

The investment risk disclosure that follows relates to the Fund'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 Permanent University Fund (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. Pursuant to Section 51.0031(c) of the Texas Education Code, the Board of Regents has elected the PUF prudent investor standard to govern its management of the Fund.

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 Fund'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 BBB- or better, by Fitch Investors Service 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

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Notes to Financial Statements (cont.)

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, 2007 and 2006:

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Notes to Financial Statements (cont.)

Investment Type	August 31,		Rating
	2007	2006	
Investments, at Fair Value:			
U.S. Government Guaranteed	\$ 293,690,141	\$ 488,621,082	Exempt from Disclosure
U.S. Government Non-Guaranteed:			
U.S. Agency	13,761,526	14,753,501	AAA
U.S. Agency Asset Backed	308,889,544	165,335,521	AAA
Total U.S. Government Non-Guaranteed	322,651,070	180,089,022	
Total U.S. Government	616,341,211	668,710,104	
Corporate Obligations:			
Domestic	45,448,307	32,549,255	AAA
Domestic	15,785,416	5,259,513	AA
Domestic	20,633,081	17,274,534	A
Domestic	17,604,096	22,324,597	BAA/BBB
Domestic	4,779,037	4,510,823	BA/BB
Domestic	2,344,006	5,815,053	B
Domestic	568,800	171,688	CAA
Domestic	300,873	117,588	CCC
Domestic	146,990	-	P
Domestic	-	10,518	Rating Withdrawn
Commercial Paper	32,599,788	101,990,653	P
Commercial Paper	1,898,027	125,635,303	A
Certificates of Deposit	6,600,975	-	AA
Foreign	7,859,082	5,162,532	AAA
Foreign	6,069,177	3,361,173	AA
Foreign	8,405,119	8,317,931	A
Foreign	7,892,247	7,068,373	BAA/BBB
Total Corporate Obligations	178,935,021	339,569,534	
Foreign Government and Provincial Obligations	38,659,181	37,106,962	AAA
Foreign Government and Provincial Obligations	1,781,385	11,827,719	AA
Foreign Government and Provincial Obligations	13,901,179	3,640,494	A
Foreign Government and Provincial Obligations	1,788,247	1,918,085	BAA/BBB
Foreign Government and Provincial Obligations	1,457,875	1,468,500	BA/BB
Total Foreign Government and Provincial Obligations	57,587,867	55,961,760	
Other Debt Securities	1,307,088	1,598,754	AAA
Other Debt Securities	969,752	586,557	AA
Other Debt Securities	533,193	3,737,606	BAA/BBB
Total Other Debt Securities	2,810,033	5,922,917	
Total Debt Securities	\$ 855,674,132	\$ 1,070,164,315	
Other Investment Funds - Debt	\$ 16,647,313	\$ 35,725,669	AAA
Other Investment Funds - Debt	21,479,212	51,724,323	AA
Other Investment Funds - Debt	53,607,764	-	A
Other Investment Funds - Debt	4,799,797	4,388,793	BA/BB
Other Investment Funds - Debt	3,112,689	-	B
Total Other Investment Funds - Debt	\$ 99,646,775	\$ 91,838,785	
Cash and Cash Equivalents - Money Market Funds	\$ 882,703,868	\$ 521,860,064	AAA
Cash and Cash Equivalents - Other	8,008,515	6,506,854	Exempt from Disclosure
Total Cash and Cash Equivalents	\$ 890,712,383	\$ 528,366,918	
Deposit with Brokers for Derivative Contracts:			
U.S. Government Guaranteed	\$ 42,347,339	\$ 44,052,195	Exempt from Disclosure
Cash	1,400,987	12,884,683	Exempt from Disclosure
	\$ 43,748,326	\$ 56,936,878	
Deposit with Broker for Securities Sold Short:			
Cash	\$ -	\$ 4,030,234	Exempt from Disclosure
	\$ -	\$ 4,030,234	

THE UNIVERSITY OF TEXAS SYSTEM
GENERAL ENDOWMENT FUND

Notes to Financial Statements (cont.)

(B) Concentrations of Credit Risk

The Fund'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. The Fund does not hold any direct investments in any one issuer that is 5% percent or more of the market value of the Fund's domestic fixed income 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 Fund 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 Fund 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 Fund'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, 2007 and 2006, the Fund 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 value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its value to changes in market interest rates. Interest rate risk inherent in the Fund is measured by monitoring the modified duration of the overall investment portfolio. Modified duration estimates the sensitivity of the Fund's investments to changes in interest rates. The Fund has no specific policy statement limitations with respect to its overall modified duration. The following table summarizes the Fund's modified duration by investment type at August 31, 2007 and 2006:

THE UNIVERSITY OF TEXAS SYSTEM
GENERAL ENDOWMENT FUND
Notes to Financial Statements (cont.)

Investment Type	August 31,			
	2007		2006	
	Value	Modified Duration	Value	Modified Duration
Investments in Securities:				
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	\$ 68,222,685	7.34	\$ 123,394,180	7.28
U.S. Treasury Strips	2,818,474	3.98	2,924,111	5.00
U.S. Treasury Bills	5,954,134	0.06	4,977,641	0.04
U.S. Treasury Inflation Protected	214,856,449	8.63	355,036,247	7.91
U.S. Agency Asset Backed	1,838,399	5.56	2,288,903	5.88
Total U.S. Government Guaranteed	<u>293,690,141</u>	8.10	<u>488,621,082</u>	7.65
U.S. Government Non-Guaranteed:				
U.S. Agency	12,363,412	2.18	14,753,501	3.05
U.S. Agency Asset Backed	308,889,544	4.93	165,335,521	5.46
U.S. Agency Commercial Paper	1,398,114	0.02	-	-
Total U.S. Government Non-Guaranteed	<u>322,651,070</u>	4.80	<u>180,089,022</u>	5.26
Total U.S. Government	<u>616,341,211</u>	6.37	<u>668,710,104</u>	7.00
Corporate Obligations:				
Domestic	107,610,606	4.10	88,305,907	4.41
Commercial Paper	34,497,815	0.18	227,353,618	0.07
Certificates of Deposit	6,600,975	1.16	-	-
Foreign	30,225,625	5.87	23,910,009	11.18
Total Corporate Obligations	<u>178,935,021</u>	3.54	<u>339,569,534</u>	1.98
Foreign Government and Provincial Obligations	<u>57,587,867</u>	5.48	<u>55,961,760</u>	6.52
Other Debt Securities	<u>2,810,033</u>	11.67	<u>5,922,917</u>	12.30
Total Debt Securities	<u>855,674,132</u>	5.74	<u>1,070,164,315</u>	5.41
Other Investment Funds - Debt	<u>99,646,775</u>	3.58	<u>91,838,784</u>	3.77
Cash and Cash Equivalents:				
Money Market Funds	882,703,868	0.08	521,860,064	0.08
Other	8,008,515	-	6,506,854	-
Total Cash and Cash Equivalents	<u>890,712,383</u>	0.08	<u>528,366,918</u>	0.08
Total	<u>\$ 1,846,033,290</u>	2.89	<u>\$ 1,690,370,017</u>	3.66
Deposit with Brokers for Derivative Contracts:				
U.S. Government Guaranteed:				
U.S. Treasury Bills	\$ 42,347,339	0.15	\$ 42,900,178	0.15
U.S. Treasury Inflation Protected	-	-	1,152,017	0.36
Total U.S. Government Guaranteed	<u>42,347,339</u>	0.15	<u>44,052,195</u>	0.16
Cash	<u>1,400,987</u>	-	<u>12,884,683</u>	-
Total Deposit with Brokers for Derivative Contracts	<u>\$ 43,748,326</u>	0.15	<u>\$ 56,936,878</u>	0.11
Deposit with Broker for Securities Sold Short:				
Cash	<u>\$ -</u>	-	<u>\$ 4,030,234</u>	-

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

In accordance with the Fund's investment policy statement, the Fund may invest in various mortgage backed securities, such as collateralized mortgage backed obligations. The Fund 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. No percentage of holdings limitations are specified in the investment policy statements regarding these types of securities. As of August 31, 2007 and 2006 the Fund's investments include the following investments that are highly sensitive to interest rate changes:

THE UNIVERSITY OF TEXAS SYSTEM
GENERAL ENDOWMENT 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. These securities amounted to \$77,506,494 and \$36,102,174 as of August 31, 2007 and 2006, respectively.

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. These securities amounted to \$265,196,128 and \$152,326,777 as of August 31, 2007 and 2006, respectively.

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. These securities amounted to \$13,355,602 and \$13,242,548, as of August 31, 2007 and 2006, respectively.

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. These securities amounted to \$2,462,846 and \$1,983,815 as of August 31, 2007 and 2006, respectively.

(F) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the Fund's non-U.S. dollar investments. The Fund's investment policy statement limits investments in non-U.S. denominated bonds to 50% of the Fund's total fixed income exposure. The following table summarizes the Fund's exposure to non-U.S. dollar investments at August 31, 2007 and 2006:

THE UNIVERSITY OF TEXAS SYSTEM
GENERAL ENDOWMENT FUND
Notes to Financial Statements (cont.)

Investment Type	August 31,	
	2007	2006
Foreign Common Stock:		
Australian Dollar	\$ 10,549,627	\$ 8,534,198
Canadian Dollar	35,183,485	37,669,008
Swiss Franc	5,672,796	5,094,521
Danish Krone	1,516,763	1,870,287
Euro	27,052,933	22,362,906
UK Pound	34,016,913	27,234,609
Hong Kong Dollar	10,198,100	11,269,939
Japanese Yen	109,613,776	122,721,691
South Korean Won	-	3,365,746
New Zealand Dollar	-	363,707
Norwegian Krone	6,799,750	2,919,601
Swedish Krona	5,152,580	3,551,759
Singapore Dollar	2,085,425	5,736,852
Total Foreign Common Stock	<u>247,842,148</u>	<u>252,694,824</u>
Other - Equity Securities		
Canadian Dollar	-	26
Foreign Government and Provincial Obligations:		
Canadian Dollar	120,883	127,064
Danish Krone	514,816	499,411
Euro	46,833,527	44,776,200
Japanese Yen	3,025,707	2,199,641
New Zealand Dollar	347,060	336,342
Polish Zloty	1,979,365	1,822,456
UK Pound	525,139	-
Total Foreign Government and Provincial Obligations	<u>53,346,497</u>	<u>49,761,114</u>
Corporate Obligations:		
Canadian Dollar	947,730	-
Danish Krone	1,382,688	-
Euro	12,116,015	10,959,086
UK Pound	1,200,984	766,612
Japanese Yen	3,541,859	1,716,000
Total Corporate Obligations	<u>19,189,276</u>	<u>13,441,698</u>
Purchased Options:		
Canadian Dollar	-	36,275
Euro	164,555	511,229
UK Pound	16,210	77,456
Japanese Yen	-	1,686,811
Total Purchased Options	<u>180,765</u>	<u>2,311,771</u>
Private Market Investment Funds:		
Euro	93,517,523	57,393,661
UK Pound	861,540	2,729,729
Total Private Market Investment Funds	<u>94,379,063</u>	<u>60,123,390</u>
Cash and Cash Equivalents:		
Australian Dollar	115,910	90,778
Canadian Dollar	1,053,026	689,056
Swiss Franc	226,168	48,778
Danish Krone	74,142	17,437
Euro	3,428,370	1,031,350
UK Pound	1,335,948	507,356
Hong Kong Dollar	10,425	119,521
Japanese Yen	3,967,104	5,241,463
Mexican Peso	7,274	-
Norwegian Kroner	173,377	40,489
New Zealand Dollar	73,645	280,192
Polish Zloty	98,973	202,922
Swedish Krona	94,700	135,494
Singapore Dollar	94,852	111,956
Taiwan Dollar	331	331
Total Cash and Cash Equivalents	<u>10,754,245</u>	<u>8,517,123</u>
Total	<u>\$ 425,691,994</u>	<u>\$ 386,849,946</u>

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

Notes to Financial Statements (cont.)

Note 4 – Securities Lending

In accordance with the prudent investor investment standards, the Fund loans securities to certain brokers who pay the Fund negotiated lenders' fees. These fees are included in investment income and related expenses are included in investment expenses. 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, 2007 and 2006:

Securities on Loan	2007 Value	2006 Value	Type of Collateral	2007 Value of Collateral	2006 Value of Collateral
U.S. Government	\$204,686,201	\$337,257,794	Cash	\$206,900,816	\$343,142,005
Foreign Government	-	12,120,643	Cash	-	12,724,861
Corporate Bonds	6,170,878	4,778,573	Cash	6,345,150	4,898,370
Common Stock	168,137,279	106,120,368	Cash	175,086,296	110,616,706
Total	\$378,994,358	\$460,277,378	Total	\$388,332,262	\$471,381,942
U.S. Government	\$ 35,790,886	\$ 22,439,309	Non-Cash	\$ 36,404,134	\$ 22,923,741
Corporate Bonds	112,057	-	Non-Cash	113,847	-
Common Stock	11,799,895	757,036	Non-Cash	11,988,363	772,367
Total	\$ 47,702,838	\$ 23,196,345	Total	\$ 48,506,344	\$ 23,696,108

Cash received as collateral for securities lending activities is invested and reinvested in a commingled pool managed exclusively for the benefit of the Fund, the Permanent University Fund, the Intermediate Term Fund and other Board of Regent accounts that participate in securities lending activities. The pool is managed in accordance with investment guidelines established in the securities lending contract between the Fund 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%. Lending income is earned if the returns on those investments exceed the rebate paid to borrowers of the securities. The income remaining after the borrower rebates is then shared with the 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 would come from the Fund and the securities lending agent in the same proportion as the split of income.

The Fund's pro-rata share of collateral pool investments, rating by NRSRO, and weighted average maturity as of August 31, 2007 and 2006, is shown in the following table:

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

Notes to Financial Statements (cont.)

Description	August 31,					
	2007			2006		
	Fair Value	Rating	Weighted Average Maturity In Days	Fair Value	Rating	Weighted Average Maturity In Days
Repurchase Agreements	\$ 126,304,960	No Rating Available	4	\$ 171,613,892	No Rating Available	14
Commercial Paper	106,496,409	P	38	204,992,614	P	26
Floating Rate Notes	27,966,004	AAA		26,903,120	AAA	
Floating Rate Notes	79,532,593	AA		19,323,207	AA	
Total Floating Rate Notes	<u>107,498,597</u>		13	<u>46,226,327</u>		69
Fixed Rate Notes	1,238,147	AAA	105	-		-
Certificates of Deposit	-		-	58,979,172	P	67
Asset Backed Securities	47,449,013	AAA		845,390	AAA	
Asset Backed Securities	495,821	P		-	-	
Total Asset Backed Securities	<u>47,944,834</u>		32	<u>845,390</u>		11
Other Receivables/Payables	(1,150,685)	Not Rated	-	(11,275,453)	Not Rated	-
Total Collateral Pool Investment	<u>\$ 388,332,262</u>		20	<u>\$ 471,381,942</u>		31

Collateral pool investments are uninsured, and are held by the securities lending agent, in its name, on behalf of the Fund, 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 Fund 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 the counterparties' trust department or agent.

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 Fund 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 Fund from any loss due to borrower default.

As of August 31, 2007 and 2006, the Fund had no credit risk exposure to borrowers because the amounts the Fund owed to borrowers exceeded the amounts the borrowers owed the Fund.

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 years ended August 31, 2007 and 2006.

Note 5 – Investment Funds

Investment funds include exchange traded funds, index funds, Securities and Exchange Commission regulated mutual funds and externally managed funds, limited partnerships, and corporate structures which are generally unrated and may be unregulated. The composition of investment funds at August 31, 2007 and 2006 is summarized in the table below as they are classified within the asset mix of the Fund.

THE UNIVERSITY OF TEXAS SYSTEM
GENERAL ENDOWMENT FUND
Notes to Financial Statements (cont.)

	August 31,	
	2007	2006
Marketable Alternatives:		
Absolute Return Strategies	\$ 1,189,814,805	\$ 957,363,306
Directional Equity	642,415,800	472,113,769
Total Marketable Alternatives	<u>1,832,230,605</u>	<u>1,429,477,075</u>
Private Markets	796,638,039	586,501,102
Public Markets:		
U.S. Equity:		
Private Placements	526,041,073	373,228,158
Exchange Traded Funds	-	187,232,146
Total U.S. Equity	<u>526,041,073</u>	<u>560,460,304</u>
Non-U.S. Developed Equity:		
Private Placements	191,825,553	158,385,531
Index Funds	79,393,986	-
Total Non-U.S. Developed Equity	<u>271,219,539</u>	<u>158,385,531</u>
Emerging Markets:		
Private Placements	339,081,574	197,565,210
Exchange Traded Funds	10,753,317	11,312,673
Publicly Traded Mutual Funds	51,600,533	90,629,502
Index Funds	92,146,236	-
Total Emerging Markets	<u>493,581,660</u>	<u>299,507,385</u>
Fixed Income:		
Private Placements	53,607,764	86,282,693
Publicly Traded Mutual Funds	46,039,011	5,556,091
Total Fixed Income	<u>99,646,775</u>	<u>91,838,784</u>
Total Investment Funds	<u>\$ 4,019,357,691</u>	<u>\$ 3,126,170,181</u>

The Fund invests in marketable alternative investments through undivided unit interests in investment pools established in the name of the Board of Regents. Amounts presented in the Fund financial statements and related note disclosures represent the Fund's pro-rata share of these investment pool assets. The marketable alternatives investment pools are invested in private placements with external investment managers who invest in equity and fixed income securities of both domestic and international issuers. These investment managers may invest in both long and short securities and may utilize leverage in their portfolios. The funds invested may be subject to a lock-up restriction of one or more years before the investment may be withdrawn from the manager without significant penalty. There are certain risks associated with these private placements, some of which include investment manager risk, market risk, and liquidity risk, as well as the risk of utilizing leverage in the portfolios.

Private markets funds are invested in limited partnerships with external investment managers or general partners who invest primarily in private equity securities. These investments are domestic and international, are illiquid and may not be realized for a period of several years after the investments are made. There are certain risks associated with these investments, some of which are liquidity risk, market risk, event risk, and investment manager risk. The Fund has committed \$688,038,486 of future funding to various private market investments as of August 31, 2007.

Public market funds are invested in exchange traded funds, index funds, and private placements with external investment managers who invest in equity and fixed income securities of both domestic and international issuers. These funds are characterized as public market funds based on individual

THE UNIVERSITY OF TEXAS SYSTEM
GENERAL ENDOWMENT FUND

Notes to Financial Statements (cont.)

risk/return characteristics and their relationship to the overall asset mix of the Fund. Some of these investment managers may invest in both long and short securities and may utilize modest leverage in their portfolios. There are certain risks associated with these investments, some of which are investment manager risk, market risk, and liquidity risk, as well as the risk of utilizing leverage in the portfolios.

Marketable alternative, private market, and public market funds include investments in private placement vehicles that are subject to risk which could result in the loss of invested capital. The risks include the following:

- *Non-regulation risk* -- Some of these funds are not registered with the Securities and Exchange Commission, and therefore are not subject to regulatory controls.
- *Key personnel risk* -- The success of certain funds is substantially dependent on key investment managers and the loss of those individuals may adversely impact the fund's performance.
- *Liquidity risk* -- Many of the Fund's investment funds may impose lock-up periods which would cause the Fund to incur penalties to redeem its units or prevent the Fund from redeeming its shares until a certain period of time has elapsed.
- *Limited transparency* -- As private placement investment vehicles, these funds may not disclose the holdings of their portfolios.
- *Investment strategy risk* -- These funds often employ sophisticated investment strategies and may use leverage which could result in the loss of invested capital.

Note 6 – Written Options

During the year, the Fund wrote call options on Treasury note, commodity, and domestic and international equity index and exchange traded fund futures. Transactions in call options written during the year ended August 31, 2007 were as follows:

	<u>Contracts</u>	<u>Premiums Received</u>
Call Options Outstanding at August 31, 2006	1,687,373	\$ 3,537,131
Options Written	155,376	3,115,331
Options Expired	(56,806)	(553,311)
Options Exercised	(22,431)	(956,479)
Options terminated in closing purchase transactions	(1,489,872)	(3,114,005)
Call Options Outstanding at August 31, 2007	<u>273,640</u>	<u>\$ 2,028,667</u>

As of August 31, 2007, an amount of \$3,118,754 is included on the statements of fiduciary net assets as options written, at fair value. The Fund recognized losses of \$30,569,949 on call options written for the year ended August 31, 2007.

During the year ended August 31, 2006, the Fund wrote call options on Treasury note, commodity, and domestic and international equity index and exchange traded fund futures. Transactions in call options written during the year ended August 31, 2006, were as follows:

THE UNIVERSITY OF TEXAS SYSTEM
GENERAL ENDOWMENT FUND

Notes to Financial Statements (cont.)

	<u>Contracts</u>	<u>Premiums Received</u>
Call Options Outstanding at August 31, 2005	793,182	\$ 2,707,781
Options Written	1,163,673	4,347,219
Options Expired	(256,526)	(2,954,187)
Options Exercised	(980)	(164,148)
Options terminated in closing purchase transactions	(11,976)	(399,534)
Call Options Outstanding at August 31, 2006	<u>1,687,373</u>	<u>\$ 3,537,131</u>

As of August 31, 2006 an amount of \$26,232,821 is included on the statements of fiduciary net assets as written options at fair value. The Fund recognized losses in the amount of \$26,016,771 on call options written for the year ended August 31, 2006.

During the year ended August 31, 2007, the Fund wrote put options on Treasury note, commodity, and domestic and international equity index and exchange traded fund futures. Transactions in put options written during the year ended August 31, 2007, were as follows:

	<u>Contracts</u>	<u>Premiums Received</u>
Put Options Outstanding at August 31, 2006	1,610,785	\$ 2,039,264
Options Written	3,408,488	1,836,643
Options Expired	(3,069,376)	(880,140)
Options terminated in closing purchase transactions	(1,814,448)	(2,931,493)
Put Options Outstanding at August 31, 2007	<u>135,449</u>	<u>\$ 64,274</u>

As of August 31, 2007, an amount of \$833,743 is included on the statements of fiduciary net assets as written options at fair value. The Fund recognized losses in the amount of \$7,882,561 on put options written for the year ended August 31, 2007.

The Fund also wrote put options on Treasury note and domestic and international equity index futures during the year ended August 31, 2006. Transactions in put options written during the year ended August 31, 2006, were as follows:

	<u>Contracts</u>	<u>Premiums Received</u>
Put Options Outstanding at August 31, 2005	662,365	\$ 185,726
Options Written	1,306,304	5,566,095
Options Expired	(145,241)	(633,568)
Options Exercised	(127,931)	(311,587)
Options terminated in closing purchase transactions	(84,712)	(2,767,402)
Put Options Outstanding at August 31, 2006	<u>1,610,785</u>	<u>\$ 2,039,264</u>

As of August 31, 2006, an amount of \$15,297,808 is included on the statements of fiduciary net assets as written options at fair value. The Fund recognized gains in the amount of \$13,868,529 on put options written for the year ended August 31, 2006.

Note 7 – Swaps

During the fiscal year ended August 31, 2007, the Fund 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, 2007:

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

Notes to Financial Statements (cont.)

				Fair Value at August 31, 2007	
<u>Currency</u>	<u>Coupon</u>	<u>Notional Value</u>	<u>Maturity Date</u>	<u>Assets</u>	<u>Liabilities</u>
Interest Rate					
Australian Dollar					
	6.000%	15,100,000	6/15/2010	\$ -	\$ 275,785
	6.000%	9,100,000	6/15/2015	319,528	-
	6.500%	10,760,000	1/15/2009	-	26,015
	6.500%	2,200,000	1/15/2010	-	12,448
	6.750%	200,000	12/15/2017	-	1,301
	7.000%	1,400,000	12/15/2009	981	-
	7.000%	23,700,000	6/15/2010	34,033	-
UK Pound					
	3.500%	7,400,000	12/17/2037	66,477	-
	4.000%	5,000,000	12/15/2035	384,259	-
	4.250%	200,000	6/12/2036	45,935	-
	4.500%	19,600,000	9/15/2017	252,878	-
	5.000%	1,000,000	6/15/2008	-	22,221
	5.000%	2,900,000	6/15/2009	115,037	-
	5.000%	11,500,000	9/15/2010	-	742,090
	5.000%	7,700,000	9/15/2015	-	749,071
	5.000%	300,000	3/20/2018	91,951	-
	5.322%	7,000,000	9/14/2009	208,525	-
	5.500%	200,000	12/15/2036	-	30,573
	6.000%	2,300,000	6/19/2009	1,993	-
	6.000%	8,200,000	9/20/2012	71,055	-
Canadian Dollar					
	5.000%	700,000	6/15/2015	6,038	-
	5.000%	4,500,000	6/20/2017	-	10,147
	5.500%	1,400,000	6/20/2017	-	89,394
Euro					
	1.948%	400,000	3/15/2012	-	2,282
	1.950%	200,000	3/30/2012	-	1,023
	1.955%	800,000	3/28/2012	-	3,680
	1.960%	200,000	4/5/2012	-	949
	1.988%	500,000	12/15/2011	313	-
	1.995%	2,400,000	3/15/2012	-	921
	2.028%	600,000	10/15/2011	5,460	-
	2.095%	1,500,000	10/15/2011	24,234	-
	2.103%	2,000,000	10/15/2010	41,431	-
	2.146%	400,000	10/15/2010	9,483	-
	2.275%	400,000	10/15/2016	1,820	-
	2.350%	400,000	10/15/2016	898	-
	2.353%	400,000	10/15/2016	1,256	-
	4.000%	-	9/19/2009	-	7,084
	4.000%	2,390,000	6/17/2010	41,014	-
	4.000%	-	12/15/2011	1,269	-
	4.000%	-	9/19/2012	98,619	-
	4.000%	10,050,000	6/16/2014	421,098	-
	4.000%	100,000	12/15/2014	-	4,459
	4.000%	6,800,000	6/15/2017	444,838	-
	4.000%	-	12/15/2011	51,831	-
	4.000%	2,200,000	6/21/2036	-	363,800
	4.435%	3,000,000	6/18/2015	192,816	-
	5.000%	6,600,000	12/15/2011	-	190,951
	5.000%	12,100,000	9/19/2012	352,794	-
	5.000%	1,100,000	6/16/2014	42,914	-
	5.000%	2,500,000	3/19/2038	-	116,213
	6.000%	1,200,000	3/15/2032	109,260	-
	6.000%	2,200,000	6/18/2034	-	292,196

THE UNIVERSITY OF TEXAS SYSTEM
GENERAL ENDOWMENT FUND

Notes to Financial Statements (cont.)

				Fair Value at August 31, 2007	
<u>Currency</u>	<u>Coupon</u>	<u>Notional Value</u>	<u>Maturity Date</u>	<u>Assets</u>	<u>Liabilities</u>
Interest Rate					
Japanese Yen					
	0.000%	7,434,000,000	9/10/2009	\$ 64,133,200	\$ -
	0.800%	400,000,000	3/30/2012	82,479	-
	1.000%	2,200,000,000	9/18/2008	7,248	-
	1.000%	10,470,000,000	3/18/2009	-	113,875
	1.500%	3,600,000,000	3/20/2011	-	58,341
	1.500%	980,000,000	6/20/2012	63,307	-
	1.980%	500,000,000	9/27/2016	-	111,428
	2.000%	1,000,000,000	6/20/2010	-	123,986
	2.000%	270,000,000	6/15/2012	-	74,313
	2.000%	485,000,000	12/20/2013	-	134,449
	2.000%	2,390,000,000	12/20/2016	-	361,214
	2.500%	710,000,000	12/15/2035	72,619	-
	3.000%	220,000,000	6/20/2036	-	201,571
South Korean Won					
	4.765%	1,050,700,000	2/3/2009	-	7,767
	4.800%	2,508,300,000	2/1/2009	-	17,263
	4.965%	525,400,000	2/3/2011	-	4,538
	4.990%	650,500,000	2/1/2011	-	5,054
	5.000%	543,300,000	2/1/2011	-	4,036
U.S. Dollar					
	0.000%	1,400,000	12/7/2007	36,451	-
	0.000%	26,500,000	6/18/2009	84,813	-
	0.000%	63,000,000	9/10/2009	-	63,000,000
	0.700%	1,000,000	9/20/2008	143	-
	4.000%	-	8/31/2007	31,632	-
	4.500%	-	8/31/2007	-	174,235
	5.000%	14,900,000	12/19/2008	33,644	-
	5.000%	18,000,000	6/18/2009	57,609	-
	5.000%	3,400,000	12/17/2009	15,953	-
	5.000%	33,400,000	12/19/2009	156,719	-
	5.000%	18,100,000	12/19/2012	54,112	-
	5.000%	12,000,000	12/19/2014	47,473	-
	5.000%	32,400,000	12/19/2017	546,549	-
	5.000%	200,000	12/20/2026	10,412	-
	5.000%	5,400,000	12/19/2037	-	350,930
Mexican Peso					
	8.170%	15,100,000	11/4/2016	-	12,276
	8.330%	8,700,000	2/14/2017	925	-
	8.840%	7,000,000	9/23/2016	22,251	-
Brazilian Real					
	10.680%	1,300,000	1/2/2012	-	20,893
				<u>68,897,577</u>	<u>67,718,772</u>
Commodity					
U.S. Dollar					
	Fixed	48,730,000	9/26/2007	-	335,720
	TBILL + 22 Basis Points	71,300,000	9/26/2007	490,355	-
	TBILL + 28 Basis Points	48,250,000	9/26/2007	331,750	-
				<u>822,105</u>	<u>335,720</u>
Credit Default					
Euro					
	0.000%	-	12/20/2016	904	-
	0.450%	-	9/20/2012	4,705	-
	0.460%	-	9/20/2012	-	47
	0.470%	-	9/20/2012	-	15,782
	0.490%	-	9/20/2012	-	2
	0.850%	-	12/20/2016	8,133	-
	1.958%	1,700,000	4/10/2012	-	16,408

**THE UNIVERSITY OF TEXAS SYSTEM
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Notes to Financial Statements (cont.)

				Fair Value at August 31, 2007	
<u>Currency</u>	<u>Coupon</u>	<u>Notional Value</u>	<u>Maturity Date</u>	<u>Assets</u>	<u>Liabilities</u>
Credit Default					
U.S. Dollar					
	0.350%	-	8/31/2007	\$ -	\$ 204,671
	0.350%	3,700,000	6/20/2012	-	53,938
	0.050%	-	9/20/2009	98	-
	0.070%	1,000,000	12/20/2007	-	1,249
	0.070%	800,000	6/20/2008	-	1,588
	0.100%	-	6/20/2012	1,389	-
	0.120%	500,000	6/20/2008	-	1,008
	0.140%	-	3/20/2011	223	-
	0.150%	1,000,000	6/20/2008	-	4,192
	0.160%	1,500,000	6/20/2008	-	9,941
	0.160%	-	3/20/2011	-	170
	0.160%	-	12/20/2011	2,571	-
	0.160%	-	6/20/2012	12,134	-
	0.165%	-	12/20/2013	4,739	-
	0.170%	-	6/20/2010	7,440	-
	0.180%	-	3/20/2012	1,268	-
	0.200%	-	6/20/2009	537	-
	0.210%	-	6/20/2011	733	-
	0.210%	-	12/20/2016	2,875	-
	0.210%	-	6/20/2012	857	-
	0.220%	-	9/20/2009	-	366
	0.230%	-	3/20/2012	2,407	-
	0.240%	-	3/20/2011	-	511
	0.290%	-	6/20/2011	685	-
	0.340%	-	12/20/2016	5,724	-
	0.350%	-	9/20/2011	-	734
	0.350%	15,500,000	6/20/2012	441,744	-
	0.390%	-	6/20/2010	-	681
	0.395%	-	9/20/2011	1,613	-
	0.452%	-	6/20/2012	-	625
	0.455%	-	6/20/2012	-	2,749
	0.459%	-	6/20/2012	-	634
	0.462%	-	6/20/2012	-	1,412
	0.470%	-	6/20/2011	-	563
	0.495%	-	6/20/2017	-	118
	0.510%	-	6/20/2011	8,837	-
	0.519%	-	6/20/2012	-	1,718
	0.520%	-	6/20/2012	-	1,650
	0.539%	-	6/20/2017	740	-
	0.542%	-	6/20/2012	-	683
	0.600%	-	6/20/2017	23,330	-
	0.650%	-	12/20/2016	52,540	-
	0.660%	100,000	9/20/2012	-	2,683
	0.670%	-	6/20/2017	3,120	-
	0.675%	-	6/20/2017	994	-
	0.700%	100,000	9/20/2012	-	2,515
	0.700%	-	6/20/2017	1,629	-
	0.720%	100,000	9/20/2012	-	2,633
	0.750%	100,000	9/20/2012	38	-
	0.770%	-	3/20/2012	-	2,581
	0.840%	100,000	6/20/2012	484	-
	0.850%	-	3/20/2008	16,874	-
	0.895%	-	6/20/2017	1,899	-
	0.898%	-	6/20/2017	1,886	-
	0.990%	-	6/20/2017	1,196	-
	1.010%	100,000	6/20/2012	-	3,028
	1.040%	-	6/20/2017	882	-
	1.080%	-	6/20/2017	1,798	-
	1.190%	-	6/20/2017	39,296	-
	1.200%	330,000	6/20/2012	-	16,214
	1.290%	-	6/20/2011	-	956

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

Notes to Financial Statements (cont.)

				Fair Value at August 31, 2007	
<u>Currency</u>	<u>Coupon</u>	<u>Notional Value</u>	<u>Maturity Date</u>	<u>Assets</u>	<u>Liabilities</u>
Commodity					
U.S. Dollar					
	1.540%	-	6/20/2017	\$ 26,333	\$ -
	1.630%	-	6/20/2017	12,602	-
	2.750%	370,000	6/20/2012	-	18,343
	3.050%	100,000	9/20/2012	-	8,544
	3.800%	100,000	9/20/2012	-	4,558
	4.850%	-	9/20/2012	3,406	-
	5.200%	-	9/20/2008	2,029	-
	5.400%	200,000	9/20/2012	-	3,573
	5.450%	200,000	9/20/2012	-	3,277
	7.000%	100,000	9/20/2012	2,925	-
Brazilian Real					
	10.575%	600,000	1/2/2012	-	10,390
				<u>703,617</u>	<u>400,735</u>
Inflation					
UK Pound					
	3.381%	300,000	6/14/2027	-	1,466
Euro					
	1.980%	700,000	4/30/2012	-	3,586
	2.080%	1,300,000	6/15/2012	1,060	-
	2.238%	1,000,000	6/20/2012	10,881	-
				<u>11,941</u>	<u>5,052</u>
Equity					
U.S. Dollar					
	Emerging	29,999,792	11/16/2007	4,068,538	-
	Emerging	15,329,910	9/29/2007	706,405	-
	Domestic	2,929,609	10/30/2007	-	377,357
				<u>4,774,943</u>	<u>377,357</u>
Total				<u>\$ 75,210,183</u>	<u>\$ 68,837,636</u>

THE UNIVERSITY OF TEXAS SYSTEM
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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, 2006:

Interest Rate	Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2006	
					Assets	Liabilities
	Australian Dollar	6.000%	\$ 1,000,000	6/20/2009	\$ -	\$ 3,451
		6.000%	18,700,000	6/15/2010	-	117,590
		6.000%	10,700,000	6/15/2015	93,426	-
	UK Pound	4.250%	2,800,000	6/12/2036	191,708	-
		4.500%	10,300,000	9/15/2017	22,521	-
		5.000%	-	9/7/2006	-	5,706
		5.000%	-	9/8/2006	-	31,956
		5.000%	1,500,000	6/15/2008	-	5,842
		5.000%	27,600,000	9/15/2010	-	236,383
		5.000%	1,300,000	9/15/2015	-	10,039
		5.000%	500,000	6/18/2034	72,207	-
	Canadian Dollar	5.000%	700,000	6/15/2015	24,836	-
		5.500%	-	8/24/2006	-	61,683
	Euro	2.103%	2,000,000	10/15/2010	2,782	-
		2.146%	400,000	10/15/2010	1,868	-
		4.000%	2,390,000	6/17/2010	-	31,103
		4.000%	10,050,000	6/16/2014	-	98,703
		4.500%	7,600,000	6/17/2015	-	415,551
		5.000%	1,100,000	6/16/2014	106,927	-
		5.000%	300,000	6/17/2015	30,862	-
		6.000%	1,200,000	3/15/2032	156,376	-
		6.000%	1,500,000	6/18/2034	275,841	-
	Japanese Yen	0.800%	400,000,000	3/30/2012	86,859	-
		1.000%	-	9/18/2008	4,081	-
		2.000%	-	9/4/2006	-	98,489
		2.000%	1,000,000,000	6/20/2010	-	104,070
		2.000%	270,000,000	6/15/2012	-	89,814
		2.000%	875,000,000	12/20/2013	-	594,356
		2.000%	4,110,000,000	12/15/2015	-	568,758
		2.500%	830,000,000	12/15/2035	-	82,882
		5.000%	2,000,000,000	3/18/2008	38,067	-
	South Korean Won	4.765%	1,050,700,000	2/3/2009	4,644	-
		4.800%	2,508,300,000	2/1/2009	13,252	-
		4.965%	525,400,000	2/3/2011	7,288	-
		4.990%	650,500,000	2/1/2011	9,721	-
		5.000%	543,300,000	2/1/2011	8,349	-
	U.S. Dollar	4.000%	5,300,000	12/15/2008	-	149,941
		5.000%	29,600,000	12/15/2007	-	72,447
		5.000%	5,400,000	12/20/2008	-	13,891
		5.000%	30,000,000	6/18/2009	-	4,794
		5.000%	5,700,000	12/20/2011	41,254	-
		5.000%	18,700,000	12/20/2013	235,743	-
		5.000%	25,400,000	12/20/2016	550,898	-
		5.000%	200,000	12/20/2026	9,616	-
		5.000%	3,700,000	12/20/2036	-	219,080
		5.500%	2,200,000	12/16/2014	13,286	-
					<u>2,002,412</u>	<u>3,016,529</u>

**THE UNIVERSITY OF TEXAS SYSTEM
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Notes to Financial Statements (cont.)

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2006	
				Assets	Liabilities
Commodity					
U.S. Dollar					
	TBILL + 23 Basis Points	\$ 12,770,000	9/26/2006	\$ -	\$ 764,382
	TBILL + 27 Basis Points	31,710,000	9/26/2006	-	1,899,084
				<u>-</u>	<u>2,663,466</u>
Credit Default					
U.S. Dollar					
	0.410%	500,000	6/20/2007	965	-
				<u>965</u>	<u>-</u>
Structured					
U.S. Dollar					
	Emerging	14,000,000	4/7/2007	-	315,099
	Emerging	17,500,000	4/13/2007	-	301,977
	Emerging	14,000,000	4/20/2007	-	175,599
	Emerging	17,500,000	4/27/2007	-	177,459
	Emerging	17,500,000	5/4/2007	-	339,780
	Emerging	8,750,000	5/11/2007	-	204,488
	Emerging	26,250,000	5/18/2007	-	560,775
	Emerging	15,750,000	5/25/2007	-	968,733
	Emerging	26,250,000	6/4/2007	-	2,126,401
	TOPIX	14,000,000	5/4/2007	-	768,238
	TOPIX	11,550,000	4/7/2007	44,799	-
	TOPIX	8,750,000	4/8/2007	172,083	-
	TOPIX	17,500,000	4/9/2007	358,902	-
	TOPIX	4,200,000	4/15/2007	-	9,635
				<u>575,784</u>	<u>5,948,184</u>
Total				<u>\$ 2,579,161</u>	<u>\$ 11,628,179</u>

Note 8 – Futures Contracts

During the years ended August 31, 2007 and 2006, the asset classes that used futures include domestic and foreign equities, domestic and foreign debt, and commodities. The Fund had \$42,348,326 and \$44,736,566 on deposit with a broker for collateral as margin for the futures contracts as of August 31, 2007 and 2006, respectively. Short futures were used by internal managers and may be used by a limited number of external managers of the Fund to hedge the Fund's interest rate or country risk associated with security positions. The amount of net realized gains on the futures contracts was \$16,440,398 for the year ended August 31, 2007. The amount of net realized losses on the futures contracts was \$5,835,002 for the year ended August 31, 2006.

The following discloses the name, number of contracts, notional value, and the carrying and fair values at August 31, 2007 for futures contracts:

THE UNIVERSITY OF TEXAS SYSTEM
GENERAL ENDOWMENT FUND

Notes to Financial Statements (cont.)

Contract	Number of Contracts	Expiration	Notional Value at August 31, 2007		Carrying and Fair Value at August 31, 2007	
			Long	Short	Assets	Liabilities
Domestic Fixed Income						
U.S. 2 Year Treasury Notes	24	Sep-07	\$ -	\$ 4,945,500	\$ 5,250	\$ -
U.S. 5 Year Treasury Notes	220	Dec-07	-	23,474,687	44,952	-
U.S. 10 Year Treasury Notes	324	Sep-07	-	35,472,938	111,375	-
U.S. 10 Year Treasury Notes	10	Dec-07	1,090,469	-	-	3,906
U.S. Treasury Bond	17	Dec-07	1,896,562	-	-	6,375
U.S. Treasury Bond	133	Dec-07	-	14,837,812	49,875	-
			<u>2,987,031</u>	<u>78,730,937</u>	<u>211,452</u>	<u>10,281</u>
Domestic Equity						
Russell 2000 Index Mini	2,523	Sep-07	-	200,528,040	-	2,573,460
S&P 500 Index	1,647	Sep-07	608,031,225	-	6,217,425	-
			<u>608,031,225</u>	<u>200,528,040</u>	<u>6,217,425</u>	<u>2,573,460</u>
Commodities						
Goldman Sachs Commodities	1,307	Sep-07	162,509,113	-	1,421,363	-
Foreign Fixed Income						
3 Month Euro Euribor	89	Dec-07	28,970,392	-	-	10,999
3 Month Euro Euribor	3	Dec-08	979,035	-	-	51
3 Month Euroyen Tiff	51	Dec-07	10,904,845	-	-	537
3 Month Euroyen Tiff	87	Mar-08	18,593,945	-	-	914
90 Day Euro Dollar	79	Sep-07	18,662,269	-	-	10,369
90 Day Euro Dollar	1	Dec-07	237,662	-	-	112
90 Day Euro Dollar	281	Mar-08	66,990,400	-	-	52,688
90 Day Euro Dollar	9	Mar-08	-	2,145,600	1,688	-
90 Day Euro Dollar	50	Jun-08	11,930,625	-	-	11,250
90 Day Euro Dollar	91	Sep-08	21,712,600	-	4,050	-
90 Day Euro Dollar	18	Sep-08	-	4,294,800	-	20,475
90 Day Euro Dollar	16	Dec-08	3,816,000	-	-	3,400
90 Day Euro Dollar	15	Dec-08	-	3,577,500	3,188	-
90 Day Euro Dollar	20	Mar-09	4,767,250	-	-	4,250
90 Day Euro Dollar	23	Mar-09	-	5,482,338	4,888	-
90 Day Euro Dollar	12	Jun-09	2,858,700	-	-	2,250
90 Day Euro Dollar	9	Jun-09	-	2,144,025	1,688	-
90 Day Sterling Libor	53	Mar-08	12,543,807	-	-	4,000
90 Day Sterling Libor	8	Jun-08	1,895,825	-	-	2
90 Day Sterling Libor	56	Dec-08	13,289,132	-	4,238	-
Canada 10 Year Bond	10	Dec-07	-	1,054,686	3,509	-
Japan 10 Year Bond	11	Sep-07	12,844,326	-	-	50,165
Japan 10 Year Bond	2	Sep-07	-	2,335,332	-	-
Japan 10 Year Bond	12	Dec-07	13,970,580	-	-	46,720
UK Long Gilt	-	Sep-07	-	-	6,210	-
UK Long Gilt	46	Dec-07	-	9,932,559	-	4,663
Euro-Bobl	172	Sep-07	-	25,329,594	47,948	-
Euro-Bund	154	Sep-07	23,884,931	-	-	27,242
Euro-Bund	5	Sep-07	-	775,485	884	-
Euro-Schatz	54	Sep-07	7,608,530	-	-	5,141
			<u>276,460,854</u>	<u>57,071,919</u>	<u>78,291</u>	<u>255,228</u>
Foreign Equity						
DJ Euro Stoxx 50	726	Sep-07	42,518,350	-	380,593	-
FTSE 100 Index	896	Sep-07	114,138,566	-	1,724,243	-
			<u>156,656,916</u>	<u>-</u>	<u>2,104,836</u>	<u>-</u>
Total			<u>\$ 1,206,645,139</u>	<u>\$ 336,330,896</u>	<u>\$10,033,367</u>	<u>\$ 2,838,969</u>

THE UNIVERSITY OF TEXAS SYSTEM
GENERAL ENDOWMENT 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, 2006 for futures contracts:

<u>Contract</u>	<u>Number of Contracts</u>	<u>Expiration</u>	<u>Notional Value at August 31, 2006</u>		<u>Carrying and Fair Value at August 31, 2006</u>	
			<u>Long</u>	<u>Short</u>	<u>Assets</u>	<u>Liabilities</u>
Domestic Fixed Income						
U.S. 5 Year Treasury Notes	179	Dec-06	\$ 18,814,578	\$ -	\$ 27,969	\$ -
U.S. 10 Year Treasury Notes	126	Sep-06	-	13,535,156	-	37,407
U.S. 10 Year Treasury Notes	287	Dec-06	30,816,625	-	36,878	-
U.S. Treasury Bond	74	Sep-06	8,190,875	-	27,750	-
U.S. Treasury Bond	45	Sep-06	-	4,980,938	-	16,875
			<u>57,822,078</u>	<u>18,516,094</u>	<u>92,597</u>	<u>54,282</u>
Domestic Equity						
DOW Jones Index	240	Sep-06	27,338,400	-	2,400	-
Russell 2000 Index Mini	7,751	Sep-06	-	559,389,670	347,802	-
Russell 2000 Index Mini	1,140	Dec-06	-	82,957,800	-	-
S&P 500 Index	2,501	Sep-06	<u>816,326,400</u>	<u>-</u>	<u>332,799</u>	<u>-</u>
			<u>843,664,800</u>	<u>642,347,470</u>	<u>683,001</u>	<u>-</u>
Commodities						
Goldman Sachs Commodities	1,462	Sep-06	<u>170,323,000</u>	<u>-</u>	<u>657,900</u>	<u>-</u>
Foreign Fixed Income						
90 Day Euro Dollar	157	Sep-06	37,132,462	-	4,906	-
90 Day Euro Dollar	56	Dec-06	13,251,700	-	4,900	-
90 Day Euro Dollar	162	Mar-07	38,387,925	-	18,225	-
90 Day Euro Dollar	13	Jun-07	3,085,063	-	1,463	-
90 Day Euro Dollar	43	Sep-07	10,217,338	-	5,375	-
90 Day Euro Dollar	23	Dec-07	5,468,825	-	2,875	-
90 Day Euro Dollar	12	Mar-08	2,853,750	-	1,500	-
90 Day Euro Dollar	20	Sep-08	4,754,000	-	2,000	-
90 Day Euro Dollar	20	Dec-08	4,752,000	-	2,000	-
90 Day Euro Dollar	20	Mar-09	4,750,250	-	1,750	-
90 Day Euro Dollar	20	Jun-09	4,748,250	-	1,500	-
Japan 10 Year Bond	17	Sep-06	19,564,824	-	138,354	-
Japan 10 Year Bond	26	Dec-06	29,836,222	-	135,437	-
UK Long Gilt	3	Dec-06	-	628,679	-	2,531
Euro-Bund	63	Sep-06	9,537,665	-	21,851	-
Euro-Bund	9	Dec-06	<u>1,354,690</u>	<u>-</u>	<u>32,731</u>	<u>-</u>
			<u>189,694,964</u>	<u>628,679</u>	<u>374,867</u>	<u>2,531</u>
Foreign Equity						
Amsterdam Index	4	Sep-06	480,685	-	-	-
CAC 40 Index	17	Sep-06	1,124,383	-	-	-
DAX Index	3	Sep-06	562,678	-	-	-
DJ Euro Stoxx 50	811	Sep-06	39,552,393	-	-	183,784
FTSE 100 Index	812	Sep-06	91,182,261	-	-	689,575
FTSE/JSE Top 40	75	Sep-06	2,092,406	-	-	62,872
Hang Seng Index	2	Sep-06	223,461	-	-	23
IBEX 35 Index	3	Sep-06	466,924	-	-	-
MSCI Singapore Index	147	Sep-06	5,548,722	-	26,430	-
MSCI Taiwan Index	121	Sep-06	3,329,920	-	27,830	-
OMX Index	26	Sep-06	356,763	-	-	-
S&P/MIB Index	2	Sep-06	486,713	-	-	-
SPI 200Index	6	Sep-06	584,650	-	-	-
Topix Index	16	Sep-06	<u>2,229,782</u>	<u>-</u>	<u>-</u>	<u>5,161</u>
			<u>148,221,741</u>	<u>-</u>	<u>54,260</u>	<u>941,415</u>
Total			<u>\$ 1,409,726,583</u>	<u>\$ 661,492,243</u>	<u>\$ 1,862,625</u>	<u>\$ 998,228</u>

THE UNIVERSITY OF TEXAS SYSTEM
GENERAL ENDOWMENT FUND

Notes to Financial Statements (cont.)

Note 9 – Foreign Currency Exchange Contracts

The following tables summarize by currency the contractual amounts of the Fund’s foreign currency exchange contracts at August 31, 2007 and 2006. Foreign currency amounts are translated at exchange rates as of August 31, 2007 and 2006. 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.

<u>Currency</u>	Net Buy	Net Sell	Unrealized Gains on Foreign Currency Exchange Contracts	Unrealized Losses on Foreign Currency Exchange Contracts
	August 31, 2007	August 31, 2007	August 31, 2007	August 31, 2007
Australian Dollar	\$ 7,430,259	\$ –	\$ 254,368	\$ 543,651
Brazilian Real	3,104,399	–	66,611	93,513
Canadian Dollar	8,683,494	–	254,823	41,445
Chilean Peso	156,650	–	5,319	–
Chinese Yuan Renminbi	21,562,376	–	308,985	197,177
Czech Koruna	–	94,082	27,936	6,860
Danish Krone	–	1,156,577	88	8,724
Euro	121,700,442	–	3,164,958	565,046
Hungarian Forint	–	201,834	17,823	37,345
Indian Rupee	1,125,834	–	–	5,560
Japanese Yen	–	16,149,626	2,984,249	1,916,297
Malaysian Ringgit	3,108,793	–	4,659	135,305
Mexican Peso	3,959,040	–	40,625	105,236
Taiwan Dollar	2,190,178	–	6,631	28,787
New Zealand Dollar	–	3,030,293	142,586	138,169
Norwegian Kroner	1,178,359	–	25,048	646
Polish Zloty	–	636,895	76,102	119,925
Russian Rouble	4,755,549	–	55,486	12,059
Singapore Dollar	866,853	–	171	9,952
South African Rand	465,878	–	49,889	37,944
South Korean Won	6,733,282	–	17,321	124,805
Swedish Krona	3,381,671	–	52,309	79,945
Swiss Franc	7,125,922	–	190,241	93,431
UK Pound	82,176,842	–	2,596,490	493,884
	<u>\$ 279,705,821</u>	<u>\$ 21,269,307</u>	<u>\$ 10,342,718</u>	<u>\$ 4,795,706</u>

THE UNIVERSITY OF TEXAS SYSTEM
GENERAL ENDOWMENT FUND

Notes to Financial Statements (cont.)

<u>Currency</u>	Net Buy		Unrealized Gains on Foreign Currency Exchange Contracts		Unrealized Losses on Foreign Currency Exchange Contracts	
	<u>August 31, 2006</u>	<u>August 31, 2006</u>	<u>August 31, 2006</u>	<u>August 31, 2006</u>	<u>August 31, 2006</u>	<u>August 31, 2006</u>
Australian Dollar	\$ 7,335,810	\$ –	\$ 172,056	\$ 37,731		
Canadian Dollar	–	2,061,562	170,308	241,809		
Chilean Peso	151,827	–	259	–		
Chinese Yuan Renminbi	15,891,505	–	104,402	385,580		
Czech Koruna	288,193	–	5,234	40,392		
Danish Krone	359,473	–	782	2,936		
Euro	532,473	–	1,119,389	501,200		
Hungarian Forint	–	238,479	21,719	49,674		
Indian Rupee	33,568	–	63	–		
Japanese Yen	145,383,916	–	1,309,018	6,354,240		
Mexican Peso	3,992,230	–	196,593	250,635		
Taiwan Dollar	4,789,576	–	60,441	218,574		
New Zealand Dollar	–	2,488,478	172,424	173,579		
Norwegian Kroner	332,120	–	215	16,273		
Polish Zloty	327,629	–	35,332	126,140		
Russian Rouble	197,840	–	1,168	–		
Singapore Dollar	6,641,938	–	56,585	372		
Slovak Koruna	–	–	3,066	2,567		
South African Rand	1,536,353	–	63,059	268,198		
South Korean Won	3,403,298	–	58,324	145,663		
Swedish Krona	3,765,825	–	23,516	35,411		
Swiss Franc	7,529,615	–	68,994	275,521		
UK Pound	103,262,718	–	3,044,667	710,653		
	<u>\$ 305,755,907</u>	<u>\$ 4,788,519</u>	<u>\$ 6,687,614</u>	<u>\$ 9,837,148</u>		

Note 10 – Purchase Commitment

Effective November 10, 2005, UTIMCO, as investment manager of the funds under the control and management of the Board of Regents, entered into a security purchase agreement with the Board of Regents. The agreement commits the funds under management, including the Fund, to purchase up to \$1,285,000,000 in UT System flexible rate notes in the event of a failed remarketing of such notes.

Note 11 – 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 0.07% 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 private market and marketable alternative investment 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. For the years ended August 31, 2007 and 2006, custodial fees and expenses incurred by the Fund amounted to \$709,494 and \$797,865, respectively.

THE UNIVERSITY OF TEXAS SYSTEM
GENERAL ENDOWMENT FUND

Notes to Financial Statements (cont.)

The Fund incurs legal fees associated with the review of investment manager agreements and with due diligence efforts undertaken as part of hiring new investment managers. Fees incurred by the Fund for the years ended August 31, 2007 and 2006 amounted to \$283,848 and \$242,788, respectively.

Analytical and risk measurement fees are also incurred to implement and maintain a sophisticated risk measurement system for the Fund. For the years ended August 31, 2007 and 2006, the Fund fees incurred by the Fund amounted to \$304,484 and \$255,660.

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

THE UNIVERSITY OF TEXAS SYSTEM
GENERAL ENDOWMENT FUND
Supplemental Schedules

Comparison Summary of Investments
August 31, 2007 and 2006
(in thousands)

	2007		2006	
	Value	% of Total	Value	% of Total
Equity Securities				
Domestic Common Stock	\$ 539,702	8.15%	\$ 509,099	9.16%
Foreign Common Stock	302,245	4.57%	296,420	5.32%
Other	1,639	0.02%	1,432	0.03%
Total Equity Securities	<u>843,586</u>	<u>12.74%</u>	<u>806,951</u>	<u>14.51%</u>
Preferred Stock				
Domestic Preferred Stock	2,795	0.04%	2,771	0.05%
Debt Securities				
U.S. Government Obligations	616,341	9.31%	668,710	12.03%
Corporate Obligations	178,935	2.70%	339,570	6.11%
Foreign Government and Provincial Obligations	57,588	0.87%	55,962	1.01%
Other	2,810	0.04%	5,922	0.11%
Total Debt Securities	<u>855,674</u>	<u>12.92%</u>	<u>1,070,164</u>	<u>19.26%</u>
Purchased Options	6,002	0.09%	25,853	0.46%
Convertible Securities	2,509	0.04%	16	0.00%
Investment Funds				
Absolute Return Strategies	1,189,815	17.97%	957,363	17.22%
Directional Equity	642,416	9.70%	455,193	8.18%
Private Markets	796,638	12.03%	586,501	10.55%
U.S. Equity	526,042	7.95%	560,460	10.08%
Non-U.S. Developed Equity	271,219	4.10%	175,307	3.15%
Emerging Markets	493,581	7.46%	299,507	5.39%
Fixed Income	99,647	1.51%	91,839	1.65%
Total Investment Funds	<u>4,019,358</u>	<u>60.72%</u>	<u>3,126,170</u>	<u>56.22%</u>
Cash and Cash Equivalents				
Money Market Funds Maintained to Back Futures Contracts	564,381	8.52%	355,490	6.39%
Money Market Funds – Other	326,331	4.93%	172,877	3.11%
Total Cash and Cash Equivalents	<u>890,712</u>	<u>13.45%</u>	<u>528,367</u>	<u>9.50%</u>
Total Investment in Securities	<u>\$ 6,620,636</u>	<u>100.00%</u>	<u>\$ 5,560,292</u>	<u>100.00%</u>

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

Supplemental Schedules (cont.)

Financial Highlights

Years Ended August 31,

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Selected Per Unit Data					
Net Asset Value, Beginning of Year	\$ 155.154	\$ 139.644	\$ 117.595	\$ 102.539	\$ 90.932
Income from Investment Operations					
Net Investment Income	3.131	2.846	2.826	2.247	1.972
Net Realized and Unrealized Gain on Investments	21.471	12.664	19.223	12.809	9.635
Total Income from Investment Operations	24.602	15.510	22.049	15.056	11.607
Net Asset Value, End of Year	<u>\$ 179.756</u>	<u>\$ 155.154</u>	<u>\$ 139.644</u>	<u>\$ 117.595</u>	<u>\$ 102.539</u>

Ratios and Supplemental Data

Net Assets, End of Year (in thousands)	\$6,433,071	\$5,427,755	\$4,926,797	\$4,207,644	\$3,584,765
Ratio of Expenses to Average Net Assets	0.20%	0.33%	0.26%	0.24%	0.17%
Ratio of Net Investment Income to Average Net Assets	1.88%	1.96%	2.20%	2.02%	2.12%