Financial Statements
and Independent Auditors' Report
Permanent Health Fund

Years Ended August 31, 2008 and 2007

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Financial Statements

Years Ended August 31, 2008 and 2007

Contents

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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 Statements of Fiduciary Net Assets of The Permanent Health Fund (the "Fund"), as of August 31, 2008, and August 31, 2007 and the related Statements of Changes in Fiduciary Net Assets for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 audits provide 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, 2008, or August 31, 2007 and the changes in their financial positions for the years then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 3, the financial statements include an investment in The University of Texas System General Endowment Fund (the "GEF"), valued at $1,025,367,871 and $1,099,759,614 as of August 31, 2008, and August 31, 2007, respectively. The GEF has 51.5% and 40.8% of its net assets as of August 31, 2008, and August 31, 2007, respectively, invested in assets whose fair value have been estimated by management in the absence of readily determinable fair values. Management's estimate of the value of the Fund is based upon the net asset value per unit of GEF, which is also calculated by UTIMCO.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as of August 31, 2008, and August 31, 2007, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 3 through 6 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 audits were 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 years ended August 31, 2008, and August 31, 2007, have been subjected to the audit procedures applied by us (with 2006, 2005, and 2004 being subject to audit procedures by other auditors) in the audits 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 31, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Our discussion and analysis of the Permanent Health Fund's (Fund) financial performance provides an overview of its activities for the year ended August 31, 2008. 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 state endowment funds for health-related institutions of higher education. The University of Texas System Board of Regents (UT Board) established the Fund in August 1999 with proceeds from state tobacco litigation. The Texas Constitution and various state statutes designate the 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.

On March 1, 2001, the Fund purchased units in the General Endowment Fund (GEF) in exchange for the contribution of its investment assets. The GEF, established by the UT Board effective March 1, 2001, is a pooled fund for the collective investment of long-term funds under the control and management of the UT Board. The GEF has only two participants: the Fund and The University of Texas System Long Term Fund (LTF), which was also established by the UT Board. The GEF is organized as a pooled investment fund in which the Fund and the LTF purchase and redeem units quarterly. The GEF is under the fiduciary responsibility of the UT Board and is provided day-to-day operations by 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 net fiduciary assets after distributions, decreased by $74.4 million from $1,100.1 million to $1,025.7 million or by approximately 6.8% for the year ended August 31, 2008, compared to an increase of $113.1 million or approximately 11.5% for the year ended August 31, 2007. The change in net fiduciary assets from year to year is mainly attributable to the following:

    1. The Fund posted a net investment loss of 3.14%, calculated using the Modified Dietz Method as described by the CFA Institute, for the fiscal year ended August 31, 2008, compared to a net investment return of 15.76% for the prior fiscal year. The net investment return of the Fund is dependent on the results of the investments held in the GEF. The GEF's investments in private investment funds, hedge funds, natural resources, and investment grade fixed income were positive contributors to the 2008 return, while real estate and developed and emerging market equities posted negative returns. For the fiscal year ended August 31, 2007, the private investment funds, emerging markets equities and hedge funds were the leading performers.

    2. The Fund's distribution rate was increased by 3.0%, approximately the rate of inflation, for the year ended August 31, 2008. This equated to an increase in the 2008 rate to $.0511 per unit from the 2007 rate of $.0496 per unit. The 2007 rate was

increased by 2.9% from the fiscal year ended August 31, 2006 rate. The fiscal year distributions represented 3.82% of the Fund's average net asset value for the year ended August 31, 2008, and 3.86% of the Fund's average net asset value for the year ended August 31, 2007.

3. There were no participant contributions to the Fund or withdrawals from the Fund during the years ended August 31, 2008 and 2007.

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 by the 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.

Since the Fund invests in only GEF units and a negligible amount of cash, the majority of the Fund's net assets represent investment in GEF units.

As of August 31, 2008, the Fund owned 5,883,848 GEF units representing an ownership percentage of 16.25%, compared to 6,118,081 GEF units representing an ownership percentage of 17.10% as of August 31, 2007. As of August 31, 2008 and 2007, the fair value of the GEF units was $1,025.4 million and $1,099.8 million, respectively.

The GEF 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 GEF'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.

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

	2008	2007	2006
Assets			
General Endowment Fund Units, at Fair Value	$ 1,025.4	$ 1,099.8	$ 986.8
Cash and Cash Equivalents	0.3	0.3	0.2
Net Assets Held in Trust	$ 1,025.7	$ 1,100.1	$ 987.0

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 decrease in appreciation of investments of the Fund was $47.8 million during the year compared to an increase in the appreciation of investments of $135.0 million for the fiscal year ended August 31, 2007. Investment expenses totaled $1.0 million for the fiscal year ended August 31, 2008, $0.8 million for the fiscal year ended August 31, 2007, and $0.5 for the fiscal year ended August 31, 2006.

Distributions to participants totaled $41.9 million, $40.7 million and $39.5 million, respectively, for the years ended August 31, 2008, 2007, and 2006. The increase in distributions is a result of the UT Board increasing the distribution rate from $0.0496 per unit to $0.0511 per unit for fiscal year 2008. The increase for fiscal year 2007 is a result of the UT Board's increase of the distribution rate from $0.0482 per unit to $0.0496 per unit.

The Fund's objectives are:

- Provide for current beneficiaries by increasing the annual distribution rate at least equal to the rate of inflation so that real purchasing power is maintained, and

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

Fund distributions are controlled by a spending policy approved by the UT Board. The key to preservation of endowment purchasing power over the long-term is control of spending through a target distribution rate. This target rate should not exceed the endowment's average annual investment return after fund expenses and inflation. The Fund distributions are increased annually at an average rate of inflation provided that the distribution rate remains within a range of 3.5% to 5.5% of the Fund's net asset value. As reported on the financial highlights schedule of the financial statements, the ratio of distributions to average net assets (12-quarter average) has remained between 3.5% to 5.5%.

PERMANENT HEALTH FUND

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

	2008	2007	2006
Investment Income (Loss)	$ (31.5)	$ 154.6	$ 101.2
Less Investment Expenses	(1.0)	(0.8)	(0.5)
Net Investment Income (Loss)	(32.5)	153.8	100.7
Administrative Fee for UT System Oversight	-	-	0.1
Participant Distributions	41.9	40.7	39.5
Total Deductions	41.9	40.7	39.6
Change in Fiduciary Net Assets	(74.4)	113.1	61.1
Net Assets Held in Trust, Beginning of Year	1,100.1	987.0	925.9
Net Assets Held in Trust, End of Year	$ 1,025.7	$ 1,100.1	$ 987.0

Subsequent to August 31, 2008, the U.S. and international financial markets experienced significant volatility. This resulted in substantial declines in equity, fixed income and commodities markets in which the GEF invests directly, and indirectly, through its investments in various hedge funds, private investments and public markets. The financial results of the GEF are impacted by market volatility and, therefore, the Fund was negatively impacted as a result of these market conditions.

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.

Statements of Fiduciary Net Assets

August 31, 2008 and 2007

(Dollars in thousands, except per unit amounts)

	2008	2007
Assets		
General Endowment Fund Units, at Fair Value	$ 1,025,367	$ 1,099,760
Cash and Cash Equivalents	326	296
Net Assets Held in Trust (820,000,000 Units)	$ 1,025,693	$ 1,100,056
Net Asset Value Held in Trust Per Unit	$ 1.251	$ 1.342

The accompanying notes are an integral part of these financial statements

Statements of Changes in Fiduciary Net Assets

Years Ended August 31, 2008 and 2007

(in thousands)

	2008	2007
Additions		
Investment Income:		
Net Increase (Decrease) in Investments	$ (47,829)	$ 135,011
Allocation of General Endowment Fund Net Investment Income	16,329	19,587
Other	1	3
Total Investment Income (Loss)	(31,499)	154,601
Less Investment Expenses:		
UTIMCO Management Fee	905	840
Other Expenses	33	16
Total Investment Expenses	938	856
Net Investment Income (Loss)	(32,437)	153,745
Deductions		
Administrative Fee for UT System Oversight	24	45
Participant Distributions	41,902	40,672
Total Deductions	41,926	40,717
Change in Fiduciary Net Assets	(74,363)	113,028
Net Assets Held in Trust, Beginning of Year	1,100,056	987,028
Net Assets Held in Trust, End of Year	$ 1,025,693	$ 1,100,056

The accompanying notes are an integral part of these financial statements

Note 1 – Organization and Basis of Presentation

The Permanent Health Fund (Fund) is a pooled investment fund established for the collective investment of state endowment funds for health-related institutions of higher education, created August 30, 1999. The distributions from the Fund endowments support programs that benefit medical research, health education, public health, nursing, and treatment programs at health-related institutions of higher education. Fiduciary responsibility for the Fund rests with the Board of Regents of The University of Texas System (UT Board). 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 UT Board.

On March 1, 2001, the Fund purchased units in the General Endowment Fund (GEF) in exchange for the contribution of its investment assets. The GEF, established by the UT Board effective March 1, 2001, is a pooled fund for the collective investment of long-term funds under the control and management of the UT Board. The performance of the Fund is significantly impacted by the performance of the GEF. The GEF has only two participants: the Fund and The University of Texas System Long Term Fund (LTF), which was also established by the UT Board. The GEF is organized as a pooled investment fund in which the Fund and the LTF purchase and redeem units quarterly. The GEF is under the fiduciary responsibility of the UT Board and is provided day-to-day operations by UTIMCO.

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

The annual combined financial statements of The University of Texas 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 – Investment in GEF

The Fund only invests in GEF units and a negligible amount of cash. The Fund also continues to receive securities as proceeds in class action suits from the securities the Fund previously owned. These securities are normally sold when received, but from time to time will be reflected as a Fund investment. At August 31, 2008, the Fund is the minority participant in the GEF, with ownership of 5,883,848 units, which represents 16.25% of the GEF. At August 31, 2007, the Fund held 6,118,081 units, which represented 17.10% of the GEF.

The GEF and the Fund have identical investment objectives. Additionally, the GEF's accounting policies follow the Fund's, as described in Note 3, except for the distributions to participants. On a monthly basis for accounting purposes, the GEF allocates its net investment income and realized gain or loss to the Fund based on its ownership of GEF units at month end. The allocated investment income and realized gain amounts increase the cost basis of the units in the GEF, and any allocated realized losses reduce the cost basis of the units in the GEF. Since the allocation is proportional to the percentage of ownership by the unitholders, no additional units are purchased. The Fund redeems GEF units quarterly to meet its distribution requirements to its unitholders.

Note 3 – Significant Accounting Policies

(A) **Security Valuation** -- The Fund's investment in GEF units is valued at the net asset value per unit reported by the GEF. Investment assets which are held in the GEF that have readily determinable fair values are primarily valued on the basis of market valuations provided by independent pricing services. The GEF's investments in private investment funds, hedge funds, U.S. equity, non-U.S. equity, emerging market and fixed income investment funds and certain other equity securities are fair valued by management using partnership capital balances and net asset value information provided by the investment manager as well as other considerations as described in the notes to the GEF financial statements.

(B) **Investment Income** -- Interest income is accrued as earned.

(C) **Security Transactions** -- A gain or loss is recognized on GEF unit sales on the basis of average cost.

(D) **Distributions to Participants** -- Cash distributions to participants are paid quarterly based on a per unit payout established by the UT Board. For the year ended August 31, 2008 the quarterly rate was $.012775 per unit which equates to an annual rate of $.0511 per unit and for the year ended August 31, 2007, the quarterly rate was $.01240 per unit which equated to an annual rate of $.0496 per unit. The ratio of distributions to average net assets (12-quarter average) was 3.90% as of August 31, 2008. The investment policy provides that the annual payout will be adjusted by the average consumer price index of the prior 36 months subject to a maximum distribution of 5.5% of the Fund's average market value and a minimum distribution of 3.5% of the Fund's average market value.

(E) **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.

(F) **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 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.

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

(H) **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.

(I) **Cash and Cash Equivalents** -- Cash and Cash Equivalents consist of money market investments and other overnight funds.

Note 4 – Investment Risk

The investment risk disclosure that follows relates to the GEF's investments before securities lending transactions and the investment of cash collateral. Disclosures relating to the GEF's securities lending transactions are provided in Note 5. Values presented are the Fund's pro-rata share of GEF investments based on its unit ownership in the GEF. As of August 31, 2008 and 2007, the Fund's unit ownership in the GEF was 16.25% and 17.10%, respectively, of the total.

(A) Credit Risk

Article VII, Section 11b of the Texas Constitution authorizes the UT Board, 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 UT Board, 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 UT Board has elected the prudent investor standard to govern its management of the GEF.

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). During the year the Fund's investment policy was amended to remove requirements regarding investment ratings. The amendments was effective March 1, 2008. Prior to the amendments, the policy limited 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. These requirements did not apply to investment managers that were authorized by the terms of an investment advisory agreement to invest in below investment grade bonds. Per GASB Statement No. 40 (GASB 40), *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3*, unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. GASB 40 also provides that securities with split ratings, or a different rating assignment between NRSROs, are disclosed using the rating indicative of the greatest degree of risk. The following table presents the Fund's pro-rata share of each applicable GEF investment type grouped by rating as of August 31, 2008 and 2007:

GEF Investment Type	Fund's Pro-Rata Share August 31, 2008	2007	Rating
Investments:			
U.S. Government Guaranteed	$ 26,207,783	$ 50,221,014	Exempt from Disclosure
U.S. Government Non-Guaranteed:			
U.S. Agency	-	2,353,221	AAA
U.S. Agency Asset Backed	24,430,256	52,820,112	AAA
Total U.S. Government Non-Guaranteed	24,430,256	55,173,333	
Total U.S. Government	50,638,039	105,394,347	
Corporate Obligations:			
Domestic	9,987,360	7,771,660	AAA
Domestic	4,290,288	2,699,306	AA
Domestic	9,621,705	3,528,257	A
Domestic	5,065,476	3,010,300	BAA/BBB
Domestic	172,568	817,215	BA/BB
Domestic	297,242	400,825	B
Domestic	-	97,265	CAA
Domestic	48,547	51,449	CCC
Domestic	100,189	25,136	P
Commercial Paper	1,451,981	5,574,564	P
Commercial Paper	-	324,563	A
Certificates of Deposit	-	1,128,767	AA
Certificates of Deposit	341,227	-	A
Foreign	3,390,068	1,343,903	AAA
Foreign	2,377,902	1,037,829	AA
Foreign	2,190,299	1,437,275	A
Foreign	1,957,817	1,349,574	BAA/BBB
Foreign	70,178	-	No Rating
Total Corporate Obligations	41,362,847	30,597,888	
Foreign Government and Provincial Obligations	10,806,015	6,610,720	AAA
Foreign Government and Provincial Obligations	4,903,902	304,617	AA
Foreign Government and Provincial Obligations	4,636,412	2,377,102	A
Foreign Government and Provincial Obligations	1,012,550	305,790	BAA/BBB
Foreign Government and Provincial Obligations	1,034,523	249,297	BA/BB
Total Foreign Government and Provincial Obligations	22,393,402	9,847,526	
Other Debt Securities	97,104	223,512	AAA
Other Debt Securities	230,659	165,828	AA
Other Debt Securities	179,127	-	A
Other Debt Securities	287,251	91,176	BAA/BBB
Other Debt Securities	414,632	-	No Rating
Total Other Debt Securities	1,208,773	480,516	
Total Debt Securities	$ 115,603,061	$ 146,320,277	
Other Investment Funds - Debt	$ -	$ 2,846,691	AAA
Other Investment Funds - Debt	17,436,447	3,672,945	AA
Other Investment Funds - Debt	-	9,166,928	A
Other Investment Funds - Debt	1,204,635	820,765	BA/BB
Other Investment Funds - Debt	132,491	532,270	B
Total Other Investment Funds - Debt	$ 18,773,573	$ 17,039,599	
Cash and Cash Equivalents - Money Market Funds	$ 76,252,470	$ 152,311,817	AAA
Deposit with Brokers for Derivative Contracts:			
U.S. Government Guaranteed	$ 3,245,982	$ 7,241,395	Exempt from Disclosure
Cash	2,390,716	239,569	Exempt from Disclosure
	$ 5,636,698	$ 7,480,964	

(B) Concentrations of Credit Risk

The GEF'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 GEF does not hold any direct investments in any one issuer of corporate or municipal bonds that is 5% or more of the market value of the GEF'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 GEF 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 GEF 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 GEF'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, 2008 and 2007, the GEF 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 GEF is measured by monitoring the modified duration of the overall investment portfolio. Modified duration estimates the sensitivity of the GEF's investments to changes in interest rates. The GEF has no specific policy statement limitations with respect to its overall modified duration. The following table summarizes the GEF's modified duration and the Fund's pro-rata share of the GEF investment value by investment type as of August 31, 2008 and 2007:

GEF Investment Type	Fund's Pro-Rata Share August 31, 2008 Value	2008 Modified Duration	2007 Value	2007 Modified Duration
Investments:				
U.S. Government Guaranteed:				
U.S.Treasury Bonds and Notes	$ 4,274,401	5.35	$ 11,666,079	7.34
U.S. Treasury Strips	469,362	3.00	481,959	3.98
U.S. Treasury Bills	542,633	0.05	1,018,157	0.06
U.S. Treasury Inflation Protected	17,062,313	8.82	36,740,453	8.63
U.S. Agency Asset Backed	3,859,074	3.85	314,366	5.56
Total U.S. Government Guaranteed	26,207,783	7.24	50,221,014	8.10
U.S. Government Non-Guaranteed:				
U.S. Agency	-	-	2,114,143	2.18
U.S. Agency Asset Backed	24,430,256	5.92	52,820,112	4.93
U.S. Agency Commercial Paper	-	-	239,078	0.02
Total U.S. Government Non-Guaranteed	24,430,256	5.92	55,173,333	4.80
Total U.S. Government	50,638,039	6.60	105,394,347	6.37
Corporate Obligations:				
Domestic	29,583,375	5.14	18,401,413	4.10
Commercial Paper	1,451,981	0.11	5,899,126	0.18
Certificates of Deposit	341,227	0.70	1,128,767	1.16
Foreign	9,986,264	5.03	5,168,582	5.87
Total Corporate Obligations	41,362,847	4.90	30,597,888	3.54
Foreign Government and Provincial Obligations	22,393,403	7.36	9,847,526	5.48
Other Debt Securities	1,208,775	6.95	480,516	11.67
Total Debt Securities	115,603,064	6.14	146,320,277	5.74
Other Investment Funds - Debt	18,773,573	5.70	17,039,599	3.58
Cash and Cash Equivalents:				
Money Market Funds	76,252,470	0.08	152,311,817	0.08
Total	$ 210,629,107	3.91	$ 315,671,693	2.89
Deposit with Brokers for Derivative Contracts:				
U.S. Government Guaranteed:				
U.S. Treasury Bills	$ 3,245,982	0.14	$ 7,241,395	0.15
Cash	2,390,716	-	239,569	-
Total Deposit with Brokers for Derivative Contracts	$ 5,636,698	0.08	$ 7,480,964	0.15

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

The GEF may invest in various mortgage backed securities, such as collateralized mortgage backed obligations. The GEF 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, 2008 and 2007, the GEF's investments include the following investments that are highly sensitive to interest rate changes.

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. The Fund's pro-rata share of these securities amounted to $15,495,011 and $13,253,610 as of August 31, 2008 and 2007, 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. The Fund's pro-rata share of these securities amounted to $20,956,132 and $45,348,538 as of August 31, 2008 and 2007, 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. The Fund's pro-rata share of these securities amounted to $2,773,205 and $2,283,808 as of August 31, 2008 and 2007, 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. The Fund's pro-rata share of these securities amounted to $17,910 and $421,147 as of August 31, 2008 and 2007, respectively.

(F) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the GEF's non-U.S. dollar investments. The GEF's investment policy statement was amended during the year to remove limitations on investments in non-U.S. denominated bonds. The amendment was effective March 1, 2008. Prior to the amendment, The Policy Statement limited investments in non-U.S. denominated bonds to 50% of the GEF's total fixed income exposure. The following table summarizes the Fund's pro-rata exposure of the GEF's non-U.S. dollar investments at August 31, 2008 and 2007:

GEF Investment Type	Fund's Pro-Rata Share August 31, 2008	2007
Domestic Common Stock:		
UK Pound	$ 7,950	$ -
Foreign Common Stock:		
Australian Dollar	1,748,639	1,802,380
Canadian Dollar	4,967,678	6,011,020
Swiss Franc	474,350	969,185
Danish Krone	134,352	259,136
Euro	5,776,338	4,621,934
UK Pound	6,748,755	5,811,714
Hong Kong Dollar	4,288,200	1,742,323
Japanese Yen	9,987,282	18,727,270
Norwegian Kroner	707,413	1,161,722
Philippine Peso	98,311	-
Swedish Krona	522,228	880,307
Singapore Dollar	1,255,537	356,290
Thai Baht	152,195	-
Total Foreign Common Stock	36,861,278	42,343,281
Other - Equity Securities		
Canadian Dollar	6	-
Foreign Government and Provincial Obligations:		
Australian Dollar	1,209,031	-
Brazilian Real	672,856	-
Canadian Dollar	1,285,155	20,653
Danish Krone	-	87,955
Euro	6,873,475	8,001,404
Indian Rupee	361,667	-
Japanese Yen	4,820,250	516,935
Malaysian Ringgit	1,014,646	-
Mexican Peso	772,212	-
New Zealand Dollar	633,569	59,294
Polish Zloty	1,199,941	338,170
UK Pound	1,857,085	89,719
Singapore Dollar	322,436	-
South African Rand	656,315	-
Swedish Krona	390,773	-
Total Foreign Government and Provincial Obligations	22,069,411	9,114,130
Corporate Obligations:		
Australian Dollar	567,486	-
Canadian Dollar	350,601	161,918
Danish Krone	513,486	236,229
Euro	3,861,848	2,069,994
Hong Kong Dollar	70,178	-
Icelandic Krona	296,441	-
UK Pound	82,074	205,185
Japanese Yen	430,146	605,119
Total Corporate Obligations	6,172,260	3,278,445
Other Debt Securities:		
Hong Kong Dollar	201,289	-
Purchased Options:		
Euro	8,304	28,114
UK Pound	-	2,769
Total Purchased Options	8,304	30,883
Private Investment Funds:		
Euro	21,232,098	15,977,261
UK Pound	154,043	147,192
Total Private Investment Funds	21,386,141	16,124,453
Cash and Cash Equivalents:		
Australian Dollar	46,252	19,803
Canadian Dollar	109,655	179,907
Swiss Franc	26,181	38,640
Danish Krone	24,505	12,667
Euro	146,191	585,729
UK Pound	83,565	228,244
Hong Kong Dollar	59,182	1,781
Japanese Yen	109,179	677,771
Mexican Peso	654	1,243
Norwegian Kroner	1,219	29,621
New Zealand Dollar	8,466	12,582
Polish Zloty	21	16,909
Swedish Krona	320	16,179
Singapore Dollar	13,970	16,205
Taiwan Dollar	56	57
Total Cash and Cash Equivalents	629,416	1,837,338
Total	$ 87,336,055	$ 72,728,530

Note 5 – Securities Lending

In accordance with the prudent investor investment standards, the GEF loans securities to certain brokers who pay the GEF negotiated lenders' fees. These fees are included in GEF investment income, and the related expenses are included in investment expenses. The GEF 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 Fund's pro-rata share of the value of GEF securities loaned and the value of collateral held are as follows at August 31, 2008 and 2007:

GEF Securities on Loan	2008 Value	2007 Value	Type of Collateral	2008 Value of Collateral	2007 Value of Collateral
U.S. Government	$ 11,995,619	$ 35,001,340	Cash	$ 12,269,882	$ 35,380,040
Foreign Government	599,903	-	Cash	636,043	-
Corporate Bonds	10,331	1,055,220	Cash	10,530	1,085,021
Common Stock	35,335,947	28,751,475	Cash	36,765,343	29,939,757
Total	$ 47,941,800	$ 64,808,035	**Total**	$ 49,681,798	$ 66,404,818
U.S. Government	$ 297,630	$ 6,120,242	Non-Cash	$ 309,322	$ 6,225,107
Corporate Bonds	-	19,162	Non-Cash	-	19,468
Common Stock	77,309	2,017,782	Non-Cash	80,346	2,050,010
Total	$ 374,939	$ 8,157,186	**Total**	$ 389,668	$ 8,294,585

Cash received as collateral for securities lending activities is invested and reinvested in a commingled pool managed exclusively for the benefit of the GEF, the Permanent University Fund, the Intermediate Term Fund and other UT Board accounts that participate in securities lending activities. The pool is managed in accordance with investment guidelines established in the securities lending contract between the GEF 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 GEF and the securities lending agent in the same proportion as the split of income.

The Fund's pro-rata share of the GEF's portion of the collateral pool investments, rating by NRSRO, and weighted average maturity as of August 31, 2008 and 2007 is shown in the following table.

	August 31,					
	2008			2007		
Description	Fund's Pro-Rata Share Fair Value	Rating	Weighted Average Maturity In Days	Fund's Pro-Rata Share Fair Value	Rating	Weighted Average Maturity In Days
Repurchase Agreements	$ 22,549,516	No Rating Available	2	$ 21,598,148	No Rating Available	4
Commercial Paper	20,954,468	P	23	18,210,886	P	38
Floating Rate Notes	1,262,155	AAA		4,782,187	AAA	
Floating Rate Notes	3,773,592	AA		13,600,073	AA	
Total Floating Rate Notes	5,035,747		9	18,382,260		13
Fixed Rate Notes	418,912	AAA	13	211,723	AAA	105
Certificates of Deposit	1,130,626	P	36	-		-
Asset Backed Securities	-	-		8,113,781	AAA	
Asset Backed Securities	-	-		84,785	P	
Total Asset Backed Securities	-		-	8,198,566		32
Other Receivables/Payables	(407,470)	Not Rated	-	(196,765)	Not Rated	-
Total Collateral Pool Investment	$ 49,681,799		13	$ 66,404,818		20

Collateral pool investments are uninsured, and are held by the securities lending agent, in its name, on behalf of the GEF, 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 GEF or the borrower of the associated loaned securities. Therefore, the collateral pool is not exposed to custodial credit risk because the pool investments are not held by counterparties to the lending transactions or a counterparties' trust department or agent.

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 GEF 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 GEF from any loss due to borrower default.

As of August 31, 2008 and 2007, the GEF had no credit risk exposure to borrowers because the amounts the GEF owed to borrowers exceeded the amounts the borrowers owed the GEF.

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, 2008 and 2007.

Note 6 – Fees and Expenses

The Fund is assessed a management fee by UTIMCO to cover the costs of managing the Fund and providing day-to-day operations. The fee assessed for the year ended August 31, 2008, was $905,220. The fee assessed for the year ended August 31, 2007, was $839,949.

The Fund is assessed a fee to cover costs associated with UT System personnel in their effort to provide assistance to the UT Board and the Chancellor of the UT System in their oversight responsibilities of UTIMCO. For the years ended August 31, 2008 and 2007, the fees amounted to $24,297 and $44,548, respectively.

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

Note 7 – Subsequent Events

Subsequent to August 31, 2008, the U.S. and international financial markets experienced significant volatility. This resulted in substantial declines in equity, fixed income and commodities markets in which the Fund invests directly, and indirectly, through its investments in various hedge funds, private investments and public markets. The financial results of the Fund are impacted by market volatility and, therefore, the Fund was negatively impacted as a result of these market conditions.

Financial Highlights
Years Ended August 31,

	2008	2007	2006	2005	2004
Selected Per Unit Data					
Net Asset Value, Beginning of Year	$ 1.342	$ 1.204	$ 1.129	$ 0.993	$ 0.908
Income From Investment Operations					
Net Investment Income	0.019	0.023	0.022	0.023	0.019
Net Realized and Unrealized Gain (Loss) on Investments	(0.059)	0.165	0.101	0.160	0.113
Total Income (Loss) from Investment Operations	(0.040)	0.188	0.123	0.183	0.132
Less Distributions					
From Net Investment Income	0.019	0.023	0.022	0.023	0.019
From Net Realized Gain and In Excess of Net Realized Investment Return	0.032	0.027	0.026	0.024	0.028
Total Distributions	0.051	0.050	0.048	0.047	0.047
Net Asset Value, End of Year	$ 1.251	$ 1.342	$ 1.204	$ 1.129	$ 0.993
Ratios and Supplemental Data					
Net Assets, End of Year (in thousands)	$ 1,025,693	$ 1,100,056	$ 987,028	$ 925,898	$ 814,424
Ratio of Expenses to Average Net Assets	0.27%	0.28%	0.39%	0.32%	0.31%
Ratio of Net Investment Income to Average Net Assets	1.40%	1.78%	1.88%	2.13%	1.92%
Ratio of Distributions to Average Net Assets (5-quarter average)	3.82%	3.86%	4.13%	4.39%	4.81%
Ratio of Distributions to Average Net Assets (12-quarter average)	3.90%	4.06%	4.36%	4.79%	5.14%