Financial Statements

and Independent Auditors' Report

The University of Texas System

Intermediate Term Fund

Year Ended August 31, 2007 and

For the Period from Inception (February 1, 2006) to August 31, 2006

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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 Statement of Fiduciary Net Assets of The University of Texas System Intermediate Term 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 period from inception (February 1, 2006) to 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 years 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 $944,140,956 (25.4% 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 being subject to audit procedures applied 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 Intermediate Term Fund's (Fund) financial performance provides an overview of its activities for the 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, created February 1, 2006, as a replacement for The University of Texas System Short Intermediate Term Fund, the BGI Equity Index Fund and the BGI Debt Index Fund, is an internal University of Texas System (UT System) pooled investment fund for the investment of operating funds and other intermediate and long-term funds held by the UT System institutions and UT System Administration. The Fund was created to improve the efficiency of operating funds management and to improve investment returns on UT System operating reserves. 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 net fiduciary assets, after contributions, withdrawals, and distributions increased by $671.8 million from $3,048.8 million to $3,720.6 million or by approximately 22.0% for the year ended August 31, 2007. The change in net fiduciary assets from year to year is mainly attributable to the following:

  1. Net participant contributions to the Fund totaled $436.0 million for the year ended August 31, 2007. Initial contributions to the Fund on February 1, 2006, totaled $2,930.9 million. Net contributions to the Fund after the initial funding totaled $70.2 million for the period ended August 31, 2006.

  2. The Fund posted a net investment return of 10.62%, calculated using the Modified Dietz Method as described by the CFA Institute, for the fiscal year ended August 31, 2007. Investments in emerging markets, directional hedge funds and absolute return hedge funds were the leading contributors to the 2007 return. For the period from inception (February 1, 2006) to August 31, 2006, the fund posted a net investment return of 3.42%. Investments in real estate investment trusts, non U.S. developed equities, and absolute return hedge funds were the leading contributors to the 2006 return.

  3. The Fund's distribution rate was 3.0% per year, or .25% per month, for the fiscal year ended August 31, 2007 and for the period from inception (February 1, 2006) to August 31, 2006. Distributions from the Fund totaled $104.0 million for the year ended August 31, 2007. For the period from inception (February 1, 2006) to August 31, 2006, distributions totaled $52.7 million.

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 typically 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 Policy Portfolio. The Policy Portfolio is the index or benchmark for the intermediate term funds that UTIMCO manages. The return of the 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 preserve the purchasing power of Fund assets by earning a compound annualized return over rolling three year-periods, net of all direct and allocated expenses, of at least inflation as measured by the Consumer Price Index plus 3%. In doing so, UTIMCO increases the operating resources available to the UT System institutions which invest in the Fund.

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

	2007	2006
Assets		
Investments, at Fair Value	$ 4,097.3	$ 3,266.3
Other Assets	875.9	732.7
Total Assets	4,973.2	3,999.0
Total Liabilities	1,252.6	950.2
Net Assets Held in Trust	$ 3,720.6	$ 3,048.8

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 withdrawals and distributions.

The net increase in investments of the Fund was $251.9 million for the fiscal year ended August 31, 2007 and $55.3 million during the period from inception (February 1, 2006) to August 31, 2006. Investment expenses for the same periods totaled $37.5 million and $15.0 million, respectively.

Distributions to participants totaled $104.0 million for the fiscal year ended August 31, 2007 and $52.7 million for the period from inception (February 1, 2006) to August 31, 2006. Cash distributions are paid monthly based on a 3% annual distribution rate. To calculate the monthly payment the distribution rate is divided by 12 and then multiplied by each unitholder's account, which is determined as follows:

- Net asset value of each unitholder's account on the last business day of the second prior month;
- Plus value of each unitholder's net purchase/redemption amount on the first business day of the prior month;
- Less the distribution amount paid to each unitholder's account on the first business day of the prior month.

The following summarizes the Statements of Changes in Fiduciary Net Assets (in millions) for the year ended August 31, 2007 and for the period from inception (February 1, 2006) to August 31, 2006:

	2007	2006
Investment Income	$ 377.4	$ 115.4
Less Investment Expenses	(37.5)	(15.0)
Net Investment Income	339.9	100.4
Participant Contributions	664.6	3,112.3
Total Additions	1,004.5	3,212.7
Participant Withdrawals	228.7	111.2
Participant Distributions	104.0	52.7
Total Deductions	332.7	163.9
Change in Fiduciary Net Assets	671.8	3,048.8
Net Assets Held in Trust, Beginning of Period	3,048.8	-
Net Assets Held in Trust, End of Period	$ 3,720.6	$ 3,048.8

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, 2007 and 2006

(Dollars in thousands, except for per unit amount)

Assets	**2007**	**2006**
Investments, at Fair Value:		
Equity Securities	$ 504,104	$ 356,975
Debt Securities	1,416,318	1,164,860
Convertible Securities	2,887	-
Investment Funds	1,578,265	1,239,522
Purchased Options	5,450	4,478
Cash and Cash Equivalents	590,283	500,444
Total Investments	4,097,307	3,266,279
Collateral for Securities Loaned, at Fair Value	453,074	482,333
Deposit with Brokers for Derivative Contracts	24,719	19,535
Deposit with Broker for Securities Sold Short	-	305
Swaps, at Fair Value	107,644	1,366
Unrealized Gains on Foreign Currency Exchange Contracts	4,759	701
Receivables:		
Investment Securities Sold	268,275	215,352
Accrued Income	13,310	12,218
Other	4,150	972
Total Receivables	285,735	228,542
Total Assets	4,973,238	3,999,061
Liabilities		
Payable upon Return of Securities Loaned	453,074	482,333
Options Written, at Fair Value	3,470	9,847
Swaps, at Fair Value	102,219	5,567
Securities Sold Short, at Fair Value	8,279	1,869
Unrealized Losses on Foreign Currency Exchange Contracts	4,116	1,938
Payables:		
Investment Securities Purchased	665,455	436,625
Distributions Payable	9,300	7,540
Other	6,768	4,500
Total Payables	681,523	448,665
Total Liabilities	1,252,681	950,219
Net Assets Held in Trust (34,137,811 Units and 30,020,169 Units, respectively)	**$ 3,720,557**	**$ 3,048,842**
Net Asset Value Held in Trust Per Unit	**$ 108.986**	**$ 101.560**

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

Statements of Changes in Fiduciary Net Assets

Year Ended August 31, 2007 and For the Period from Inception (February 1, 2006) to August 31, 2006

(in thousands)

Additions	**2007**	**2006**
Investment Income:		
Net Increase in Investments	$ 251,929	$ 55,278
Interest	79,896	44,132
Dividends	16,514	6,136
Securities Lending Income	29,038	9,831
Other	26	32
Total Investment Income	377,403	115,409
Less Investment Expenses:		
Investment Management	5,872	3,149
Securities Lending Fees	28,102	9,585
UTIMCO Management Fee	2,758	1,682
Custodial Fees and Expenses	445	333
Analytical and Risk Measurement Fees	148	103
Consulting Fees	165	67
Legal	33	48
Other	40	14
Total Investment Expenses	37,563	14,981
Net Investment Income	339,840	100,428
Participant Contributions	664,626	3,112,267
Total Additions	1,004,466	3,212,695
Deductions		
Administrative Expenses:		
UT System Oversight Fee	83	36
Participant Withdrawals	228,648	111,137
Participant Distributions	104,020	52,680
Total Deductions	332,751	163,853
Change in Fiduciary Net Assets	671,715	3,048,842
Net Assets Held in Trust, Beginning of Period	3,048,842	-
Net Assets Held in Trust, End of Period	**$ 3,720,557**	**$ 3,048,842**

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

Note 1 – Organization and Basis of Presentation

The University of Texas System Intermediate Term Fund (Fund) is a pooled fund established for the collective investment of operating funds and other short and intermediate term funds held by the 15 University of Texas System (UT System) institutions and UT System Administration. The Fund was established February 1, 2006, by the Board of Regents of UT System (Board of Regents). 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). 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 year ended August 31, 2007 and for the period from inception (February 1, 2006) to August 31, 2006, interest and dividend withholding in the amounts of $160,198 and $83,686 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*** -- Cash distributions to participants are paid monthly based on a percentage rate established by the Board of Regents. For the fiscal year ended August 31, 2007 and the period from inception (February 1, 2006) to August 31, 2006, the annual distribution rate was 3.0%.

(F) ***Fund Valuation*** -- Valuation of the Fund's units occurs on a monthly 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 and redemptions occur on the first business day of each month. The value of participating units, upon admission to the Fund, is based upon the market value of net assets held as of the monthly valuation date. Redemptions from the Fund will also be made at the market value price per unit at the monthly valuation date at the time of the redemption. 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) ***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.

(J) ***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. Derivative applications included under these policies and contracts include futures, forwards, swaps and all forms of options. Futures contracts are valued at closing market prices on the valuation date. Written options and swaps are valued by using independent broker quotes, or using models with externally verifiable model inputs. 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 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 statement of fiduciary net assets.

Swaps -- The Fund invests in certain types of swaps to increase or decrease its exposure to long-term interest rates and to certain commodity sector returns. Swaps are agreements between two parties to exchange periodic payments on the notional value of the contract multiplied by a stated fixed interest rate versus a stated floating interest rate, or on a commodity sector return versus a specified cost per contract. Swaps are marked to market on a daily basis, and are included at fair value on 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 statement 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 statement 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.

(K) ***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 values of securities sold short as of August 31, 2007 and 2006 were $8,278,725 and $1,868,821, 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 $304,696 as of August 31, 2006. The Fund must pay dividends or interest on the securities sold short. Until the Fund covers it 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 statements of fiduciary net assets.

(L) ***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 written option and futures contracts held (see Notes 6 and 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 statements of fiduciary net assets.

(M) ***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 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 at August 31, 2007 and 2006:

Investment Type	August 31, 2007	August 31, 2006	Rating
Investments:			
U.S. Government Guaranteed	$ 440,848,534	$ 473,366,820	Exempt from Disclosure
U.S. Government Non-Guaranteed:			
U.S. Agency	57,551,612	30,856,283	AAA
U.S. Agency Asset Backed	516,391,532	317,298,470	AAA
Total U.S. Government Non-Guaranteed	573,943,144	348,154,753	
Total U.S. Government	1,014,791,678	821,521,573	
Corporate Obligations:			
Domestic	129,619,459	111,117,715	AAA
Domestic	28,665,983	11,557,596	AA
Domestic	39,975,174	28,367,491	A
Domestic	28,627,637	32,039,002	BAA/BBB
Domestic	11,691,885	5,738,350	BA/BB
Domestic	4,781,923	11,309,708	B
Domestic	2,211,188	657,438	CAA
Domestic	-	444,788	CCC
Domestic	146,989	-	P
Commercial Paper	28,640,435	57,271,887	P
Commercial Paper	2,567,115	1,084,099	A
Certificates of Deposit	11,400,129	-	AA
Foreign	3,375,317	789,593	AAA
Foreign	3,754,756	698,342	AA
Foreign	10,764,164	6,590,964	A
Foreign	11,623,132	8,016,097	BAA/BBB
Foreign	251,601	285,600	B
Total Corporate Obligations	318,096,887	275,968,670	
Foreign Government and Provincial Obligations	78,522,000	63,310,512	AAA
Foreign Government and Provincial Obligations	1,429,310	1,822,466	AA
Foreign Government and Provincial Obligations	2,069,287	1,656,139	A
Total Foreign Government and Provincial Obligations	82,020,597	66,789,117	
Other Debt Securities	205,354	203,760	AAA
Other Debt Securities	1,106,491	377,216	AA
Other Debt Securities	96,592	-	BAA/BBB
Total Other Debt Securities	1,408,437	580,976	
Total Debt Securities	$ 1,416,317,599	$ 1,164,860,336	
Other Investment Funds - Debt	$ 37,145,819	$ 40,829,336	AAA
Other Investment Funds - Debt	16,052,949	51,588,800	AA
Other Investment Funds - Debt	111,875,190	-	A
Other Investment Funds - Debt	10,129,428	-	B
Total Other Investment Funds - Debt	$ 175,203,386	$ 92,418,136	
Cash and Cash Equivalents - Money Market Funds	$ 587,461,811	$ 494,816,463	AAA
Cash and Cash Equivalents - Other	2,821,453	5,627,663	Exempt from Disclosure
Total Cash and Cash Equivalents	$ 590,283,264	$ 500,444,126	
Deposit with Brokers for Derivative Contracts:			
U.S. Government Guaranteed	$ 22,678,612	$ -	Exempt from Disclosure
Cash	2,040,000	19,534,614	Exempt from Disclosure
	$ 24,718,612	$ 19,534,614	
Deposit with Broker for Securities Sold Short:			
Cash	$ -	$ 304,696	Exempt from Disclosure

(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 of corporate or municipal bonds that is 5% 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, 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:

Investment Type	August 31, 2007 Value	2007 Modified Duration	August 31, 2006 Value	2006 Modified Duration
Investments in Securities:				
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	$ 102,350,048	6.94	$ 122,005,989	7.08
U.S. Treasury Strips	2,242,206	3.98	2,326,244	5.00
U.S. Treasury Bills	4,051,465	0.04	1,218,300	0.04
U.S. Treasury Inflation Protected	331,259,519	8.76	346,925,662	7.75
U.S. Agency Asset Backed	945,296	14.55	890,624	15.23
Total U.S. Government Guaranteed	440,848,534	8.25	473,366,819	7.56
U.S. Government Non-Guaranteed:				
U.S. Agency	33,386,996	0.75	30,856,283	0.69
U.S. Agency Asset Backed	516,391,532	4.93	317,298,471	4.00
U.S. Agency Commercial Paper	24,164,616	0.02	-	-
Total U.S. Government Non-Guaranteed	573,943,144	4.48	348,154,754	3.71
Total U.S. Government	1,014,791,678	6.12	821,521,573	5.93
Corporate Obligations:				
Domestic	245,720,238	3.39	202,279,218	2.87
Commercial Paper	31,207,550	0.13	57,308,853	0.06
Certificates of Deposit	11,400,129	0.98	-	-
Foreign	29,768,970	7.77	16,380,596	17.35
Total Corporate Obligations	318,096,887	3.40	275,968,667	3.15
Foreign Government and Provincial Obligations	82,020,597	4.99	66,789,117	6.25
Other Debt Securities	1,408,437	9.97	580,976	13.60
Total Debt Securities	1,416,317,599	5.45	1,164,860,333	5.29
Other Investment Funds - Debt	175,203,386	3.97	92,418,136	3.58
Cash and Cash Equivalents:				
Money Market Funds	587,461,811	0.08	494,821,407	0.08
Other	2,821,453	-	5,622,719	-
Total Cash and Cash Equivalents	590,283,264	0.08	500,444,126	0.08
Total	$ 2,181,804,249	3.88	$ 1,757,722,595	3.72
Deposit with Brokers for Derivative Contracts:				
U.S. Government Guaranteed:				
U.S. Treasury Bills	$ 22,678,612	0.14	$ 19,534,614	0.14
Cash	2,040,000	-	-	-
Total Deposit with Brokers for Derivative Contracts	$ 24,718,612	0.14	$ 19,534,614	0.14
Deposit with Broker for Securities Sold Short:				
Cash	$ -	-	$ 304,696	-

(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, 2006, the Fund'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. These securities amounted to $151,579,835 and $51,558,674 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 $439,321,874 and $300,695,588 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 $56,915,303 and $73,558,816 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 $2,592,747 and $1,377,780 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:

Investment Type	August 31, 2007	August 31, 2006
Foreign Common Stock:		
Australian Dollar	$ 1,856,479	$ 2,128,304
Canadian Dollar	9,373,372	4,401,884
Danish Krone	366,994	485,869
Euro	5,489,034	6,063,755
Hong Kong Dollar	9,417,342	8,967,598
Japanese Yen	25,541,821	16,826,656
New Zealand Dollar	-	92,947
Norwegian Kroner	1,545,048	1,074,412
Singapore Dollar	561,089	702,971
Swedish Krona	1,684,242	1,370,607
Swiss Franc	980,584	1,102,458
UK Pound	23,829,314	12,676,076
Total Foreign Common Stock	80,645,319	55,893,537
Foreign Government and Provincial Obligations:		
Canadian Dollar	5,422,135	5,226,645
Euro	51,664,040	35,133,020
Japanese Yen	2,855,423	778,488
UK Pound	21,435,826	19,971,177
Total Foreign Government and Provincial Obligations	81,377,424	61,109,330
Corporate Obligations:		
Danish Krone	1,949,607	-
Euro	7,931,242	7,082,050
Japanese Yen	4,132,714	3,447,270
UK Pound	1,802,339	-
Total Corporate Obligations	15,815,902	10,529,320
Purchased Options:		
Euro	401,375	233,763
UK Pound	38,748	59,195
Total Purchased Options	440,123	292,958
Cash and Cash Equivalents:		
Australian Dollar	39,448	73,634
Canadian Dollar	154,652	125,471
Danish Krone	30,298	1,169
Euro	643,874	1,719,698
Hong Kong Dollar	1,932	28,327
Hungarian Forint	3,663	-
Japanese Yen	1,253,310	2,818,394
Mexico Peso	9,579	-
New Zealand Dollar	196,044	147,181
Norwegian Kroner	35,649	11,640
Singapore Dollar	1,463	12,571
Swedish Krona	24,640	8,114
Swiss Franc	35,973	8,361
UK Pound	893,223	153,632
Total Cash and Cash Equivalents	3,323,748	5,108,192
Total	$ 181,602,516	$ 132,933,337

Note 4 – Securities Lending

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	$350,545,631	$382,910,086	Cash	$354,476,510	$389,146,791
Foreign Government	-	19,642,373	Cash	-	20,623,339
Corporate Bonds	12,843,978	16,072,104	Cash	13,185,330	16,521,740
Common Stock	81,878,161	54,201,816	Cash	85,412,292	56,041,327
Total	$445,267,770	$472,826,379	**Total**	$453,074,132	$482,333,197
U.S. Government	$ 60,927,678	$ 11,935,856	Non-Cash	$ 62,115,725	$ 12,395,828
Common Stock	1,375,556	-	Non-Cash	1,397,527	-
Total	$ 62,303,234	$ 11,935,856	**Total**	$ 63,513,252	$ 12,395,828

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 General Endowment 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 is shown in the following table.

	August 31,					
	2007			2006		
Description	**Fair Value**	**Rating**	**Weighted Average Maturity In Days**	**Fair Value**	**Rating**	**Weighted Average Maturity In Days**
Repurchase Agreements	$ 147,362,236	No Rating Available	4	$ 175,600,866	No Rating Available	14
Commercial Paper	124,251,247	P	38	209,755,051	P	26
Floating Rate Notes	32,628,433	AAA		27,528,140	AAA	
Floating Rate Notes	92,792,085	AA		19,772,129	AA	
Total Floating Rate Notes	125,420,518		13	47,300,269		69
Fixed Rate Notes	1,444,568	AAA	105	-	-	-
Certificates of Deposit	-	-	-	60,349,390	P	67
Asset Backed Securities	55,359,604	AAA		865,031	AAA	
Asset Backed Securities	578,483	P		-	-	
Total Asset Backed Securities	55,938,087		32	865,031		11
Other Receivables/Payables	(1,342,524)	Not Rated	-	(11,537,410)	Not Rated	-
Total Collateral Pool Investment	$ 453,074,132		20	$ 482,333,197		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.

	August 31, 2007	August 31, 2006
Marketable Alternatives:		
Absolute Return Strategies	$ 511,499,404	$ 432,443,969
Directional Equity	432,641,552	306,872,663
Total Marketable Alternatives	944,140,956	739,316,632
Public Markets:		
U.S. Equity:		
Private Placements	136,103,102	120,340,148
Exchange Traded Funds	37,791,857	82,513,101
Index Funds	-	39,547,426
Total U.S. Equity	173,894,959	242,400,675
Non-U.S. Developed Equity:		
Private Placements	73,224,311	50,758,557
Exchange Traded Funds	-	26,729,040
Index Funds	46,414,173	-
Total Non-U.S. Developed Equity	119,638,484	77,487,597
Emerging Markets:		
Private Placements	116,391,744	67,765,066
Publicly Traded Mutual Funds	10,687,536	20,133,407
Index Funds	38,308,049	-
Total Emerging Markets	165,387,329	87,898,473
Fixed Income:		
Private Placements	111,875,190	92,418,136
Publicly Traded Mutual Funds	32,883,720	-
Index Funds	30,444,476	-
Total Fixed Income	175,203,386	92,418,136
Total Investment Funds	$ 1,578,265,114	$ 1,239,521,513

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's 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.

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 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 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 lockup 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 period ended August 31, 2007, were as follows:

	Contracts	**Premiums Received**
Call Options Outstanding at August 31, 2006	270,183	$ 2,638,359
Options Written	178,293	2,880,028
Options Expired	(125,308)	(1,818,660)
Options Exercised	(15,806)	(654,395)
Options terminated in closing purchase transactions	(80,958)	(744,384)
Call Options Outstanding at August 31, 2007	226,404	$ 2,300,948

As of August 31, 2007, an amount of $2,836,630 is included on the statements of fiduciary net assets as options written, at fair value. The Fund recognized gains of $850,636 on call options written for the period ended August 31, 2007.

During the period from inception (February 1, 2006) to 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 period ended August 31, 2006, were as follows:

	Contracts	Premiums Received
Call Options Outstanding at February 1, 2006	-	$ -
Options Written	315,843	2,841,890
Options Expired	(41,339)	(126,231)
Options Exercised	-	-
Options terminated in closing purchase transactions	(4,321)	(77,300)
Call Options Outstanding at August 31, 2006	270,183	$ 2,638,359

As of August 31, 2006, an amount of $4,334,102 is included on the statements of fiduciary net assets as options written, at fair value. The Fund recognized losses of $1,862,963 on call options written for the period ended August 31, 2006.

The Fund also wrote put options on Treasury note and domestic and international equity index futures during the year ended August 31, 2007. Transactions in put options written during the period ended August 31, 2007, were as follows:

	Contracts	Premiums Received
Put Options Outstanding at August 31, 2006	1,262,079	$ 4,459,498
Options Written	4,678,757	622,834
Options Expired	(5,789,488)	(3,230,413)
Options Exercised	(40,071)	(1,280,998)
Options terminated in closing purchase transactions	(23,313)	(465,034)
Put Options Outstanding at August 31, 2007	87,964	$ 105,887

As of August 31, 2007, an amount of $633,870 is included on the statements of fiduciary net assets as written options at fair value. The Fund recognized losses in the amount of $1,310,402 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 period ended August 31, 2006. Transactions in put options written during the period ended August 31, 2006, were as follows:

	Contracts	Premiums Received
Put Options Outstanding at February 1, 2006	-	$ -
Options Written	1,441,193	5,115,847
Options Expired	(57,264)	(82,076)
Options Exercised	-	-
Options terminated in closing purchase transactions	(121,850)	(574,273)
Put Options Outstanding at August 31, 2006	1,262,079	$ 4,459,498

As of August 31, 2006, an amount of $5,513,123 is included on the statements of fiduciary net assets as written options at fair value. The Fund recognized losses in the amount of $1,488,649 on put options written for the year ended August 31, 2006.

Note 7 – Swaps

During the fiscal year ended August 31, 2007, and for the period from inception (February 1, 2006) to August 31, 2006, 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:

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2007 Assets	Liabilities
Interest Rate					
Australian Dollar					
	6.500%	16,500,000	1/15/2009	$ -	$ 39,893
	6.500%	3,400,000	1/15/2010	-	19,238
	6.750%	200,000	12/15/2017	-	1,301
	7.000%	1,600,000	12/15/2009	1,121	-
	7.000%	22,500,000	6/15/2010	32,310	-
UK Pound					
	3.500%	400,000	12/17/2037	3,593	-
	4.000%	11,200,000	12/15/2035	860,789	-
	4.250%	300,000	6/12/2036	-	68,811
	4.500%	22,900,000	9/15/2017	295,335	-
	5.000%	5,600,000	6/15/2009	-	222,499
	5.000%	13,100,000	9/15/2010	-	845,997
	5.000%	6,000,000	9/15/2015	-	583,692
	5.000%	700,000	3/20/2018	107,276	-
	5.322%	11,200,000	9/14/2009	333,639	-
	6.000%	23,000,000	9/20/2012	199,301	-
Canadian Dollar					
	5.000%	1,000,000	6/15/2015	5,632	-
	5.000%	5,600,000	6/20/2017	-	12,627
	5.500%	22,600,000	6/20/2017	-	318,502
Euro					
	0.000%	600,000	3/15/2012	-	5,651
	0.158%	1,500,000	12/15/2011	205	-
	1.948%	200,000	3/15/2012	-	1,141
	1.950%	100,000	3/30/2012	-	511
	1.955%	200,000	3/28/2012	-	920
	1.960%	600,000	3/30/2012	-	2,380
	1.988%	800,000	12/15/2011	501	-
	1.995%	2,100,000	3/15/2012	-	806
	2.028%	300,000	10/15/2011	2,730	-
	2.040%	2,000,000	2/21/2011	26,012	-
	2.095%	700,000	10/15/2011	11,309	-
	2.261%	2,100,000	7/14/2011	53,190	-
	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%	10,600,000	9/19/2009	-	136,938
	4.000%	20,700,000	12/15/2011	526,607	-
	4.000%	-	9/19/2012	149,132	-
	4.000%	21,800,000	10/30/2014	972,016	-
	4.000%	6,200,000	12/15/2014	276,445	-
	4.000%	2,200,000	6/15/2017	143,918	-
	5.000%	25,700,000	9/19/2012	749,322	-
	5.000%	100,000	3/19/2018	-	7,910
	5.000%	1,900,000	3/19/2038	-	88,322
	5.000%	8,400,000	12/15/2011	243,028	-
	6.000%	4,100,000	6/18/2034	-	544,547
Japanese Yen					
	0.000%	11,210,000,000	9/10/2009	96,708,793	-
	1.000%	4,990,000,000	9/18/2008	16,611	-
	1.000%	14,600,000,000	3/18/2009	-	159,521
	1.500%	5,420,000,000	3/20/2011	-	87,836
	1.500%	1,420,000,000	6/20/2012	91,730	-
	1.980%	600,000,000	9/27/2016	-	133,713
	2.000%	850,000,000	6/20/2010	-	105,388
	2.000%	1,920,000,000	12/20/2013	-	532,250
	2.000%	4,260,000,000	12/20/2016	-	643,838
	2.500%	940,000,000	12/15/2035	96,143	-
	3.000%	250,000,000	6/20/2036	-	229,058

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2007 Assets	Liabilities
Interest Rate					
U.S. Dollar					
	0.000%	2,200,000	12/7/2007	57,280	-
	0.000%	40,000,000	6/18/2009	128,020	-
	0.000%	95,000,000	9/10/2009	-	95,000,000
	0.700%	1,400,000	9/20/2008	199	-
	4.500%	-	8/31/2007	-	276,794
	5.000%	21,000,000	6/18/2009	67,211	-
	5.000%	500,000	12/17/2009	2,346	-
	5.000%	3,100,000	12/19/2009	14,546	-
	5.000%	54,700,000	12/19/2012	158,206	-
	5.000%	1,900,000	12/21/2013	9,732	-
	5.000%	5,400,000	12/19/2014	21,363	-
	5.000%	60,900,000	12/19/2017	1,027,310	-
	5.000%	1,500,000	6/20/2027	-	79,288
	5.000%	11,800,000	12/19/2037	-	766,847
	6.000%	-	8/31/2007	111,872	-
Mexican Peso					
	8.170%	13,000,000	11/4/2016	-	10,569
	8.330%	7,700,000	2/14/2017	819	-
	8.720%	10,500,000	9/5/2016	26,564	-
	8.840%	8,000,000	9/23/2016	25,430	-
Brazilian Real					
	10.680%	3,000,000	1/2/2012	-	48,215
				103,561,560	100,975,003
Commodity					
U.S. Dollar					
	Fixed	38,520,000	9/26/2007	-	265,380
	TBILL + 22 Basis Points	46,220,000	9/26/2007	317,871	-
	TBILL + 25 Basis Points	16,300,000	9/26/2007	139,542	-
	TBILL + 28 Basis Points	38,610,000	9/26/2007	265,469	-
				722,882	265,380
Credit Default					
Euro					
	0.000%	-	12/20/2016	1,507	-
	0.210%	-	6/20/2012	1	-
	0.235%	-	6/20/2012	702	-
	0.250%	-	6/20/2012	1,408	-
	0.290%	-	6/20/2012	-	416
	0.340%	-	6/20/2012	-	1,261
	0.365%	-	6/20/2012	-	1,238
	0.390%	-	6/20/2012	-	266
	0.450%	-	9/20/2012	7,058	-
	0.460%	-	9/20/2012	-	72
	0.470%	-	9/20/2012	-	24,199
	0.490%	-	9/20/2012	-	3
	0.850%	-	12/20/2016	12,049	-
	1.958%	900,000	4/10/2012	-	6,420
U.S. Dollar					
	0.350%	-	8/31/2007	-	340,099
	0.600%	-	8/31/2007	-	140,594
	5.200%	-	8/31/2007	-	924
	0.350%	10,220,000	6/20/2012	-	137,690
	0.000%	-	6/20/2012	-	2,980
	0.050%	-	9/20/2009	147	-
	0.070%	1,300,000	6/20/2008	-	2,580
	0.089%	-	6/20/2012	1,381	-
	0.090%	-	6/20/2012	2,427	-
	0.100%	-	6/20/2012	1,389	-
	0.120%	-	6/20/2012	669	-

Credit Default
U.S. Dollar

	0.135%	-	3/20/2015	1,398	-
	0.140%	-	3/20/2011	334	-
	0.150%	800,000	6/20/2008	-	4,602
	0.150%	-	6/20/2017	604	-
	0.160%	1,000,000	6/20/2008	-	5,653
	0.165%	-	3/20/2011	2,324	-
	0.170%	-	6/20/2010	10,417	-
	0.180%	-	3/20/2012	1,902	-
	0.210%	-	9/20/2011	528	-
	0.210%	-	6/20/2012	1,714	-
	0.220%	-	9/20/2009	-	549
	0.230%	-	6/20/2009	431	-
	0.240%	700,000	2/20/2008	-	768
	0.245%	100,000	6/20/2008	-	191
	0.290%	-	6/20/2011	1,027	-
	0.310%	-	12/20/2011	650	-
	0.320%	-	6/20/2010	-	410
	0.350%	-	9/20/2011	-	734
	0.350%	1,100,000	6/20/2012	31,350	-
	0.390%	-	6/20/2010	-	1,021
	0.395%	-	9/20/2011	2,420	-
	0.400%	-	6/20/2014	-	391
	0.452%	-	6/20/2012	-	625
	0.455%	-	6/20/2012	-	5,498
	0.459%	-	6/20/2012	-	634
	0.460%	-	9/20/2011	4,518	-
	0.460%	-	3/20/2012	-	29
	0.460%	-	12/20/2016	1,321	-
	0.495%	-	6/20/2017	-	118
	0.510%	-	6/20/2011	13,255	-
	0.519%	-	6/20/2012	-	2,864
	0.520%	-	6/20/2012	-	3,300
	0.530%	-	6/20/2012	-	602
	0.539%	-	6/20/2017	1,481	-
	0.550%	-	9/20/2011	3,480	-
	0.600%	-	6/20/2017	71,026	-
	0.610%	200,000	5/20/2012	-	3,675
	0.650%	-	12/20/2016	193,211	-
	0.660%	100,000	9/20/2012	-	2,683
	0.670%	-	6/20/2017	6,241	-
	0.675%	-	6/20/2017	994	-
	0.700%	200,000	6/20/2012	-	15,963
	0.700%	100,000	9/20/2012	-	2,515
	0.700%	-	6/20/2017	3,258	-
	0.720%	100,000	9/20/2012	-	2,633
	0.750%	100,000	9/20/2012	38	-
	0.770%	-	3/20/2012	-	3,871
	0.800%	100,000	9/20/2012	261	-
	0.820%	200,000	5/20/2012	-	5,614
	0.895%	-	6/20/2017	1,899	-
	0.898%	-	6/20/2017	1,886	-
	0.990%	-	6/20/2017	2,392	-
	1.010%	100,000	6/20/2012	-	3,028
	1.040%	-	6/20/2017	882	-
	1.080%	-	6/20/2017	2,397	-
	1.200%	1,290,000	6/20/2012	-	63,382
	1.200%	-	6/20/2017	9,742	-
	1.290%	-	6/20/2011	-	956
	1.300%	-	6/20/2017	63,106	-
	1.330%	-	6/20/2017	9,809	-
	1.600%	-	6/20/2017	12,764	-

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2007 Assets	Liabilities
Credit Default					
U.S. Dollar					
	2.750%	-	8/31/2007	311,085	-
	2.750%	2,800,000	6/20/2012	-	138,814
	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	3,044	-
	5.400%	300,000	9/20/2012	-	5,360
	5.450%	300,000	9/20/2012	-	4,915
	7.000%	100,000	9/20/2012	2,925	-
Brazilian Real					
	10.575%	1,000,000	1/2/2012	-	17,316
				808,258	970,558
Inflation					
UK Pound					
	3.381%	200,000	6/14/2027	-	977
Euro					
	1.980%	100,000	4/30/2012	-	512
	2.080%	1,900,000	6/15/2012	1,549	-
	2.238%	1,000,000	6/20/2012	10,880	-
	1.940%	900,000	4/10/2012	-	6,258
				12,429	7,747
Equity					
U.S. Dollar					
	Emerging	10,949,935	11/16/2007	2,034,292	-
	Emerging	15,000,065	9/29/2007	504,575	-
				2,538,867	-
Total				**$ 107,643,996**	**$ 102,218,688**

The following discloses the notional amount, the coupon rate, and the fair values of the outstanding swap contracts as of August 31, 2006:

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2006 Assets	Liabilities
Interest Rate					
Australian Dollar					
	6.000%	3,000,000	6/20/2009	$ -	$ 10,354
UK Pound					
	4.000%	1,500,000	12/15/2035	21,232	-
	4.250%	600,000	6/12/2036	41,102	-
	4.500%	4,100,000	9/15/2017	1,860	-
	5.000%	2,000,000	6/15/2009	-	11,019
	5.000%	10,000,000	9/15/2010	-	79,844
	5.000%	700,000	9/15/2015	-	5,406
Canadian Dollar					
	5.000%	2,500,000	6/15/2015	88,699	-
Euro					
	2.040%	2,000,000	2/21/2011	-	9,840
	4.000%	21,000,000	12/15/2011	-	187,728
	4.000%	5,100,000	12/15/2014	-	16,746
	6.000%	3,200,000	6/18/2034	588,461	-
Japanese Yen					
	1.000%	1,100,000,000	9/18/2008	10,521	-
	2.000%	850,000,000	6/20/2010	-	88,459
	2.000%	3,200,000,000	12/20/2013	-	931,243
	2.000%	4,530,000,000	12/15/2015	-	626,879
	2.500%	1,000,000,000	12/15/2035	-	99,858
	5.000%	1,700,000,000	3/18/2008	32,357	-
U.S. Dollar					
	5.000%	8,300,000	12/20/2008	-	21,387
	5.000%	24,000,000	6/18/2009	-	3,835
	5.000%	600,000	12/20/2011	-	4,342
	5.000%	24,200,000	12/20/2016	524,871	-
	5.000%	9,800,000	12/20/2036	-	580,266
				1,309,103	2,677,206
Commodity					
U.S. Dollar					
	TBILL + 23 Basis Points	2,380,000	9/26/2006	16,590	-
	TBILL + 24 Basis Points	27,180,000	9/26/2006	-	1,495,264
				16,590	1,495,264
Credit Default					
U.S. Dollar					
	0.410%	600,000	6/20/2007	1,158	-
				1,158	-
Structured					
U.S. Dollar					
	Emerging	10,000,000	4/7/2007	-	225,071
	Emerging	10,000,000	4/13/2007	-	172,558
	Emerging	17,000,000	5/18/2007	-	612,576
	TOPIX	7,000,000	5/4/2007	-	384,119
	TOPIX	10,000,000	4/7/2007	38,787	-
				38,787	1,394,324
Total				**$ 1,365,638**	**$ 5,566,794**

Note 8 – Futures Contracts

During the year ended August 31, 2007 and for the period from inception (February 1, 2006) to August 31, 2006, the asset classes that used futures included domestic and foreign equities, domestic and foreign debt, and commodities. The Fund had $22,678,612 and $19,534,614 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 $1,719,051 for the year ended August 31, 2007. The amount of net realized losses on the futures contracts was $3,742,345 for the period from inception (February 1, 2006) to 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:

Contract	Number of Contracts	Expiration	Notional Value at August 31, 2007 Long	Notional Value at August 31, 2007 Short	Carrying and Fair Value at August 31, 2007 Assets	Carrying and Fair Value at August 31, 2007 Liabilities
Domestic Fixed Income						
U.S. 2 Year Treasury Notes	19	Sep-07	$ -	$ 3,915,188	$ 4,156	$ -
U.S. 5 Year Treasury Notes	52	Dec-07	5,548,562	-	13,078	-
U.S. 5 Year Treasury Notes	114	Dec-07	-	12,164,156	-	13,812
U.S. 10 Year Treasury Notes	251	Sep-07	-	27,480,578	86,281	-
U.S. 10 Year Treasury Notes	161	Dec-07	17,556,547	-	15,234	-
U.S. 10 Year Treasury Notes	39	Dec-07	-	4,252,828	-	62,890
U.S. Treasury Bond	254	Dec-07	-	28,336,875	95,250	-
			23,105,109	76,149,625	213,999	76,702
Domestic Equity						
Russell 2000 Index Mini	612	Sep-07	-	48,641,760	-	624,240
S&P 500 Index	776	Sep-07	286,479,800	-	2,929,400	-
			286,479,800	48,641,760	2,929,400	624,240
Commodities						
Goldman Sachs Commodities	1,070	Sep-07	133,041,125	-	1,163,625	-
Foreign Fixed Income						
3 Month Euro Euribor	134	Dec-07	43,618,343	-	-	15,947
3 Month Euro Euribor	61	Sep-08	19,906,005	-	-	12,440
3 Month Euro Euribor	81	Dec-08	26,433,946	-	-	12,384
3 Month Euroyen Tiff	61	Dec-07	13,043,051	-	-	1,967
3 Month Euroyen Tiff	131	Mar-08	27,997,779	-	-	4,220
90 Day Euro Dollar	32	Sep-07	7,559,400	-	-	4,200
90 Day Euro Dollar	41	Dec-07	9,744,162	-	-	4,612
90 Day Euro Dollar	462	Mar-08	110,140,800	-	-	86,625
90 Day Euro Dollar	3	Mar-08	-	715,200	563	-
90 Day Euro Dollar	191	Jun-08	45,574,988	-	-	42,975
90 Day Euro Dollar	143	Sep-08	34,119,800	-	-	32,175
90 Day Euro Dollar	1	Sep-08	-	238,600	225	-
90 Day Euro Dollar	12	Dec-08	2,862,000	-	-	2,550
90 Day Euro Dollar	7	Mar-09	1,668,538	-	-	1,487
90 Day Euro Dollar	8	Jun-09	1,905,800	-	-	1,500
90 Day Euro Dollar	18	Jun-09	-	4,288,050	3,375	-
90 Day Sterling Libor	31	Mar-08	7,336,944	-	-	2,340
90 Day Sterling Libor	22	Jun-08	5,213,520	-	4	-
Canada 10 Year Bond	15	Dec-07	-	1,582,030	5,254	-
Japan 10 Year Bond	20	Sep-07	23,353,320	-	-	47,578
Japan 10 Year Bond	2	Sep-07	-	2,335,332	-	-
Japan 10 Year Bond	18	Dec-07	20,955,870	-	-	52,115
UK Long Gilt	124	Dec-07	-	26,774,725	3,934	-
Euro-Bobl	328	Sep-07	-	48,302,946	91,436	-
Euro-Bund	277	Sep-07	42,961,856	-	-	49,000
Euro-Bund	4	Sep-07	-	620,388	708	-
Euro-Schatz	86	Sep-07	12,117,288	-	-	8,187
			456,513,410	84,857,271	105,499	382,302
Forein Equity						
FTSE 100 Index	210	Sep-07	26,751,226	-	403,463	-
TOPIX Index	122	Sep-07	16,960,962	-	417,024	-
			43,712,188	-	820,487	-
Total			$ 942,851,632	$ 209,648,656	$ 5,233,010	$ 1,083,244

The following discloses the name, number of contracts, notional value, and the carrying and fair values at August 31, 2006, for futures contracts:

			Notional Value at August 31, 2006		Carrying and Fair Value at August 31, 2006	
Contract	**Number of Contracts**	**Expiration**	**Long**	**Short**	**Assets**	**Liabilities**
Domestic Fixed Income						
U.S. 5 Year Treasury Notes	90	Dec-06	$ -	$ 9,459,844	$ -	$ 15,468
U.S. 10 Year Treasury Notes	36	Sep-06	-	3,867,187	-	10,688
U.S. 10 Year Treasury Notes	598	Dec-06	64,210,250	-	107,663	-
U.S. Treasury Bond	42	Sep-06	4,648,875	-	16,875	-
U.S. Treasury Bond	76	Sep-06	-	8,412,250	-	29,625
			68,859,125	21,739,281	124,538	55,781
Domestic Equity						
Russell 2000 Index Mini	1,362	Sep-06	-	98,295,540	53,927	-
Russell 2000 Index Mini	201	Dec-06	-	14,626,770	7,211	-
S&P 500 Index	842	Sep-06	274,828,800	-	105,250	-
			274,828,800	112,922,310	166,388	-
Commodities						
Goldman Sachs Commodities	732	Sep-06	85,278,000	-	329,400	-
Foreign Fixed Income						
90 Day Euro Dollar	87	Sep-06	20,576,588	-	2,719	-
90 Day Euro Dollar	28	Dec-06	6,625,850	-	2,450	-
90 Day Euro Dollar	231	Jun-07	54,819,187	-	25,988	-
90 Day Euro Dollar	67	Sep-07	15,920,037	-	8,375	-
90 Day Euro Dollar	64	Dec-07	15,217,600	-	8,000	-
90 Day Euro Dollar	61	Mar-08	14,506,562	-	7,625	-
90 Day Euro Dollar	19	Sep-08	4,516,300	-	1,900	-
90 Day Euro Dollar	19	Dec-08	4,514,400	-	1,900	-
90 Day Euro Dollar	19	Mar-09	4,512,738	-	1,663	-
90 Day Euro Dollar	19	Jun-09	4,510,838	-	1,425	-
Japan 10 Year Bond	26	Sep-06	29,922,672	-	174,599	-
Japan 10 Year Bond	37	Dec-06	42,459,239	-	198,573	-
UK Long Gilt	5	Dec-06	-	1,047,799	-	4,219
Euro-Bobl	171	Sep-06	24,176,240	-	139,289	-
			242,278,251	1,047,799	574,506	4,219
Foreign Equity						
FTSE 100 Index	254	Sep-06	28,522,530	-	1,424	174,830
S&P/TSE 60 Index	40	Sep-06	-	4,920,748	11,462	-
			28,522,530	4,920,748	12,886	174,830
Total			$ 699,766,706	$ 140,630,138	$ 1,207,718	$ 234,830

Note 9 – Foreign Currency Exchange Contracts

The table below summarizes 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.

Currency	Net Buy August 31, 2007	Net Sell August 31, 2007	Unrealized Gains on Foreign Currency Exchange Contracts August 31, 2007	Unrealized Losses on Foreign Currency Exchange Contracts August 31, 2007
Australian Dollar	$ 2,886,285	$ -	$ 47,985	$ 421,450
Brazilian Real	4,586,914	-	99,380	133,458
Canadian Dollar	-	2,167,685	7,148	848
Chinese Yuan Renminbi	13,731,047	-	107,102	122,276
Danish Krone	-	1,460,911	-	10,959
Euro	38,133,546	-	722,230	1,325
Indian Rupee	1,690,401	-	-	8,599
Japanese Yen	-	59,290,018	2,907,613	2,964,284
Malaysian Ringgit	3,513,492	-	5,665	150,186
Mexican Peso	3,939,142	-	22,000	46,126
Taiwan Dollar	1,312,223	-	1,548	15,298
New Zealand Dollar	-	2,043,106	11,881	66,345
Norwegian Kroner	1,575,386	-	30,566	1,125
Polish Zloty	863,388	-	46,518	31,977
New Russian Rouble	7,059,140	-	79,255	12,116
Singapore Dollar	1,134,505	-	251	12,864
South African Rand	546,589	-	7,634	-
South Korean Won	3,756,752	-	1,442	48,099
Swedish Krona	1,272,749	-	1,264	11,624
Swiss Franc	-	163,800	9	822
UK Pound	9,362,981	-	659,623	56,094
	$ 95,364,540	$ 65,125,520	$ 4,759,114	$ 4,115,875

Currency	Net Buy August 31, 2006	Net Sell August 31, 2006	Unrealized Gains on Foreign Currency Exchange Contracts August 31, 2006	Unrealized Losses on Foreign Currency Exchange Contracts August 31, 2006
Australian Dollar	$ 4,342,081	$ -	$ 4,100	$ 2,903
Canadian Dollar	-	826,836	-	23,817
Chinese Yuan Renminbi	3,661,287	-	-	38,824
Danish Krone	907,093	-	868	6,304
Euro	-	19,220,466	78,524	108,061
Japanese Yen	56,840,905	-	1,131	1,301,838
Taiwan Dollar	1,333,136	-	-	16,536
New Zealand Dollar	-	3,477,384	1,354	39,786
Singapore Dollar	820,006	-	-	741
South Korean Won	2,164,423	-	-	12,332
Swedish Krona	1,157,539	-	-	8,684
UK Pound	6,610,066	-	614,849	378,535
	$ 77,836,536	$ 23,524,686	$ 700,826	$ 1,938,361

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

UTIMCO assesses the Fund a management fee to cover the costs of managing the Fund and providing day to day operations. The fee assessed for the year ended August 31, 2007 was $2,758,365. The fee assessed for the period from inception (February 1, 2006) to August 31, 2006 was $1,682,315.

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 0.04% to 1.00%. 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 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. Fees incurred for the year ended August 31, 2007 and for the period from inception (February 1, 2006) to August 31, 2006 were $444,823 and $332,714, respectively.

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. For the year ended August 31, 2007 the fees incurred totaled $32,748. For the period from inception (February 1, 2006) to August 31, 2006 the fees incurred totaled $48,355.

The Fund is assessed a fee to cover costs associated with UT System personnel in their effort to provide assistance to the Board of Regents and the Chancellor of the UT System in their oversight responsibilities of UTIMCO. For the year ended August 31, 2007 and for the period from inceptions (February 1, 2006) to August 31, 2006, the fees amounted to $82,649 and $35,501, respectively.

Analytical and risk measurement fees are also incurred to implement and maintain a sophisticated risk measurement system for the Fund. Fees incurred for the year ended August 31, 2007 and for the period from inception (February 1, 2006) to August 31, 2006 were $148,281 and $103,311, respectively.

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

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

	2007		2006	
Equity Securities	**Value**	**% of Total**	**Value**	**% of Total**
Domestic Common Stock	$ 390,341	9.53%	$ 277,695	8.50%
Foreign Common Stock	113,763	2.78%	79,280	2.43%
Total Equity Securities	504,104	12.31%	356,975	10.93%
Debt Securities				
U.S. Government Obligations	1,014,792	24.78%	821,521	25.15%
Corporate Obligations	318,097	7.76%	275,969	8.45%
Foreign Government and Provincial Obligations	82,021	2.00%	66,789	2.04%
Other	1,408	0.03%	581	0.02%
Total Debt Securities	1,416,318	34.57%	1,164,860	35.66%
Purchased Options	5,450	0.13%	4,478	0.14%
Convertible Securities	2,887	0.07%	-	0.00%
Investment Funds				
Absolute Return Strategies	511,499	12.48%	432,444	13.24%
Directional Equity	432,642	10.56%	306,873	9.40%
U.S. Equity	173,895	4.24%	242,401	7.42%
Non-U.S. Developed Equity	119,639	2.92%	77,488	2.37%
Emerging Markets	165,387	4.04%	87,898	2.69%
Fixed Income	175,203	4.28%	92,418	2.83%
Total Investment Funds	1,578,265	38.52%	1,239,522	37.95%
Cash and Cash Equivalents				
Money Market Funds Maintained to Back Futures Contracts	393,877	9.61%	338,162	10.35%
Money Market Funds - Other	196,406	4.79%	162,282	4.97%
Total Cash and Cash Equivalents	590,283	14.40%	500,444	15.32%
Total Investment in Securities	$ 4,097,307	100.00%	$ 3,266,279	100.00%

Financial Highlights

Year Ended August 31, 2007 and For the Period from Inception (February 1, 2006) to August 31, 2006

	2007	2006
Selected Per Unit Data		
Net Asset Value, Beginning of Period	$ 101.560	$ 100.000
Income From Investment Operations		
Net Investment Income	2.669	1.493
Net Realized and Unrealized Gain on Investments	7.943	1.817
Total Income from Investment Operations	10.612	3.310
Less Distributions		
From Net Investment Income	(2.669)	(1.493)
From Net Realized Gain	(0.517)	(0.257)
Total Distributions	(3.186)	(1.750)
Net Asset Value, End of Period	$ 108.986	$ 101.560
Ratios and Supplemental Data		
Net Assets, End of Period (in thousands)	$ 3,720,557	$ 3,048,842
Ratio of Expenses to Average Net Assets	0.27%	0.18%
Ratio of Net Investment Income to Average Net Assets	2.54%	1.50%
Ratio of Distributions to Average Net Assets	3.01%	1.75%