

Section III

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Investments

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The Permanent University Fund
Analysis of Change in the Value of the PUF
(in millions)

	1998	1999	2000	2001	2002
Market Value of Investment Assets	\$ 6,517.1	7,465.6	8,452.3	7,540.1	6,738.3
Mineral, Royalties, and Rentals	67.1	52.7	80.4	103.7	71.8
Bonus on Mineral Leases	12.4	1.6	2.7	11.8	8.5
Miscellaneous Land Receipts	-	-	-	0.1	0.2
Realized Gains on Sales of Securities	467.6	447.7	1,884.9	(160.4)	(308.1)
Unrealized Gains on Securities Held	(398.3)	446.5	(910.4)	(735.2)	(367.9)
Investment Income, net of expenses ¹	260.0	263.9	226.7	184.9	132.1
Distributions to the AUF ¹	(260.0)	(263.9)	(297.6)	(317.1)	(338.4)
One-Time Adjustment ²	(47.3)	-	-	-	-
Memo:					
Book Value	\$ 5,521.6	6,023.6	7,920.8	7,743.8	7,309.9
University of Texas System					
Constitutional Debt Limit	1,104.3	1,204.7	1,584.2	1,548.8	1,483.2
University of Texas System					
Debt Outstanding	\$ 661.0	623.6	603.2	669.0	796.8

Notes:

¹ Prior to 1999-2000 all investment income was distributed to the AUF. During 1999-2000, the PUF was changed to a total return fund with the passage of a constitutional amendment. In conjunction with this amendment the annual distribution to the AUF was established at 4.5% of the prior twelve quarters' net asset value of the PUF determined as of each February 28th for the following fiscal year. Prior to the constitutional amendment, PUF Investment expenses were paid from the PUF distributions to the AUF.

² Effective September 1, 1997 a statutory amendment changed the distribution of income from cash to an accrual basis of accounting. This change resulted in a one-time distribution adjustment to the AUF of \$47.3 million.

Trend Analysis of Total Return (Net of Fees)

Endowment Funds

Fund	Years Ending August 31					Five Years
	1998	1999	2000	2001	2002	1998 - 2002
PUF	4.9%	17.8	16.5	(8.6)	(7.4)	4.1
GEF ¹	-	-	-	N/A	(7.0)	-
PHF ^{1,2}	-	-	16.10	-9.2	(7.1)	-
LTF ¹	1.9	21.9	20.6	-8.8	(7.0)	4.9

Operating Funds

Operating Fund	Years Ending August 31					Five Years
	1998	1999	2000	2001	2002	1998 - 2002
Short Intermediate Term Fund (SITF)	9.4%	2.9	5.9	9.0	3.8	6.2
Short Term Fund (STF)	5.8	5.2	6.1	5.6	2.3	5.0

Other Accounts

Other Accounts	Years Ending August 31					Five Years
	1998	1999	2000	2001	2002	1998 - 2002
Medical Liability Self-Insurance Fund	3.7%	17.1	17.2	(4.8)	(4.4)	5.3

Notes:

Total return includes dividends on equities, bond income, other interest income, and both realized and unrealized capital appreciation of equities and bonds.

¹ As of March 1, 2001, the LTF and PHF purchased units in the newly created General Endowment Fund (GEF) in exchange for the contribution of their respective net assets.

² The Permanent Health Fund (PHF) was funded August 30, 1999 with \$890,000,000. Performance was not calculated for the two-day period.

N/A - Endowment Fund was funded during the period.

Historical Performance (Net of Fees) Permanent University Fund and Benchmarks For the Years 1998-2002

Endowment Funds

Permanent University Fund

	Years Ending August 31				Five Years Ending August 31	
	1998	1999	2000	2001	2002	1998 - 2002
Domestic Fixed Income (1)	12.9%	(1.0)	5.6	12.3	6.6	7.1
International Fixed Income (2)	-	-	N/A	4.0	9.3	N/A
Total Fixed Income	12.9	(1.0)	4.6	11.3	6.9	6.8
Domestic Equities (3)	(0.9)	31.7	19.7	(17.3)	(16.9)	1.4
International Established Markets (4)	4.3	22.2	9.2	(29.7)	(14.1)	(3.4)
International Emerging Markets (5)	-	-	N/A	(30.6)	(1.3)	N/A
Total International Equities	4.3	22.2	8.1	(29.9)	(11.3)	(3.0)
Alternative Equities:						
Nonmarketable (6)	8.7	21.1	41.9	(11.0)	(15.4)	6.9
Marketable (7)	-	-	N/A	20.1	(2.5)	N/A
Total Alternative Equities	8.7	21.1	44.4	(0.5)	(10.2)	11.0
Inflation Hedging (8)	-	-	N/A	18.7	10.9	N/A
Total Fund ¹	4.9%	17.8	16.5	(8.6)	(7.4)	4.1

Benchmarks

	Years Ending August 31				Five Years Ending August 31	
	1998	1999	2000	2001	2002	1998 - 2002
(1) Lehman Brothers Aggregate Bond Index	10.6%	0.8	7.6	12.4	8.1	7.8
(2) Salomon Non-U.S. World Government Bond Index, Unhedged	6.1	6.2	(-5.9)	3.7	10.3	3.9
(3) Standard & Poor's 500 Index	8.1	39.8	16.3	(24.4)	(18.0)	1.8
(3) Russell 3000 Equity Index	3.5	38.5	20.6	(24.5)	(17.3)	1.5
(4) Morgan Stanley Capital International Europe, Asia, Far East Index, net	(0.1)	25.7	9.6	(24.4)	(15.0)	(2.4)
(5) Morgan Stanley Capital International Emerging Markets Free Index	(50.9)	68.7	4.5	(29.6)	0.2	(9.4)
(6) 17% Benchmark ² Wilshire 5000 U. S. Equities Index +4% ²	17.0	17.0	17.0	17.0	-	-
(7) 90 Day T-Bills Average Yield + 7%	12.9	12.3	13.3	13.2	9.7	12.3
(8) 33% (Goldman Sachs Commodity Index minus 100 basis points) plus 67% (National Commercial Real Estate Index Fund)	(5.1)	16.2	23.7	4.4	3.1	8.0
Change in Consumer Price Index	1.6%	2.3	3.4	2.7	1.8	2.4

Notes: ¹ Includes cash not allocated to an investment portfolio.

² During the fiscal year ended August 31, 2002, the Policy/Neutral Benchmark was restated to reflect a change in the benchmark for the Non-Marketable asset class from 17% per annum to the Wilshire 5000 U. S. Equities Index +4%.

Numerical notation indicates which benchmark is applicable to each asset class shown.

N/A-Asset class funded during period.

Source: The University of Texas Investment Management Company (UTIMCO).

Historical Performance (Net of Fees) General Endowment Fund and Benchmarks

Endowment Funds (Continued)

General Endowment Fund¹

	Year Ended <u>August 31, 2002</u>
Domestic Fixed Income (1)	6.2%
International Fixed Income (2)	8.9
Total Fixed Income	6.6
Domestic Equities (3)	(16.4)
International Established Markets (4)	(14.0)
International Emerging Markets (5)	(1.3)
Total International Equities	(11.3)
Alternative Equities:	
Nonmarketable (6)	(17.2)
Marketable (7)	(2.5)
Total Alternative Equities	(9.7)
Inflation Hedging (8)	11.0
Total Fund ²	(7.0)

Benchmarks

	Year Ended <u>August 31, 2002</u>
(1) Lehman Brothers Aggregate Bond Index	8.1%
(2) Salomon Non-U.S. World Government Bond Index, Unhedged	10.3
(3) Standard & Poor's 500 Index	(18.0)
(3) Russell 3000 Equity Index	(17.3)
(4) Morgan Stanley Capital International Europe, Asia, Far East Index, net	(15.0)
(5) Morgan Stanley Capital International Emerging Markets Free Index	0.2
(6) Wilshire 5000 U. S. Equities Index +4%	(13.1)
(7) 90 Day T-Bills Average Yield +7%	9.7
(8) 33% (Goldman Sachs Commodity Index minus 100 basis points) plus 67% (National Commercial Real Estate Index Fund)	3.1
Change in Consumer Price Index	1.8%

Notes: ¹ As of March 1, 2001, the LTF and the PHF purchased units in the newly created General Endowment Fund (GEF) in exchange for the contribution of their respective net assets, and no longer have investments in the individual asset classes. The PHF and the LTF investment performance is now dependent on the GEF. Numerical notation indicates which benchmark is applicable to each asset class shown.

² Includes cash not allocated to an investment portfolio.

Source: The University of Texas Investment Management Company (UTIMCO).

Historical Performance (Net of Fees) Operating Funds and Benchmarks

Operating Funds

Short Intermediate Term Fund

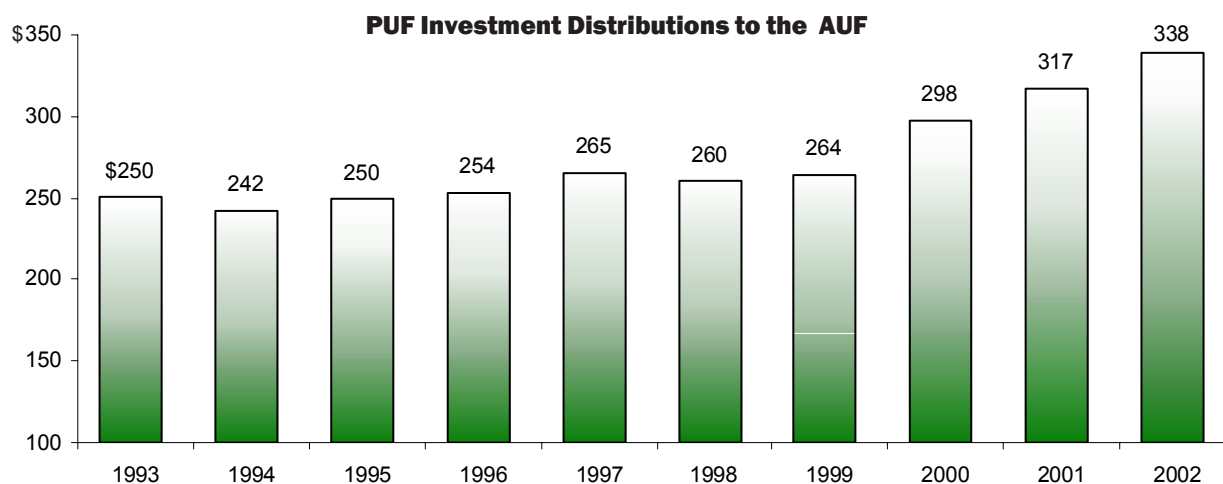
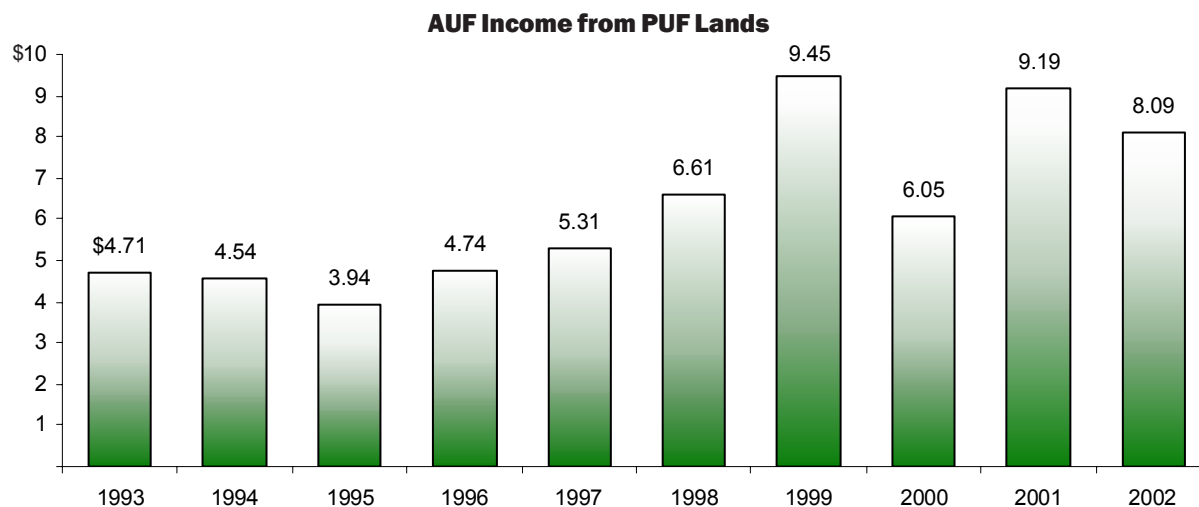
	Years Ending August 31					Five Years Ending
	1998	1999	2000	2001	2002	August 31 1998 - 02
Total Fund	9.4%	2.9	5.9	9.0	3.8	6.2
Composite Index	7.3	3.8	5.9	9.4	6.6	6.6

Short Term Fund

	Years Ending August 31					Five Years Ending
	1998	1999	2000	2001	2002	August 31 1998 - 02
Total Fund	5.8	5.2	6.1	5.6	2.3	5.0
90 Treasury Bill Average Yield	5.3%	4.8	5.7	5.6	2.3	4.7

Source: The University of Texas Investment Management Company (UTIMCO).

Available University Fund Trend Analysis (in millions)



Years Ending August 31

Source of Income	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
PUF Lands ¹	\$4.71	4.54	3.94	4.74	5.31	6.61	9.45	6.05	9.19	8.10
Investment ²	250.25	242.30	249.53	253.63	265.19	259.98	263.92	297.56	317.09	338.43
One-time Adjustment ³	-	-	-	-	-	47.29	-	-	-	-
Total Distributions	\$254.96	246.85	253.47	258.37	270.50	313.88	273.37	303.61	326.29	346.53

Notes:

¹ This represents only AUF income deposited from PUF Lands.

² Prior to FY 1999-2000, all investment income was distributed to the AUF. During FY 1999-2000 the PUF was changed to a total return fund with the passage of a constitutional amendment. In conjunction with this amendment the annual distribution to the AUF was established at 4.5% of the prior twelve quarters' net asset value of the PUF determined as of each February 28th for the following fiscal year.

³ Effective September 1, 1997 a statutory amendment changed the distribution of income from cash to an accrual basis of accounting. This change resulted in a one time distribution adjustment to the AUF of \$47.29 million.

Source: U. T. System University Lands Accounting Office; The University of Texas Investment Management Company (UTIMCO).