Permanent Health Fund
Nine Month Update for Fiscal Year 2005

Highlights

Financial Highlights						
(in millions)		Year ended August 31, 2004	Quarter ended November 30, 2004	Quarter ended February 28, 2005	Quarter ended May 31, 2005	Year to Date
Beginning Net Asset Value	$	745.0	$ 814.4	864.7	896.5	814.4
Net Investment Return		107.9	59.9	41.4	0.4	101.7
Distributions (Payout)		(38.5)	(9.6)	(9.6)	(9.7)	(28.9)
Ending Net Asset Value	**$**	**814.4**	**$ 864.7**	**$ 896.5**	**$ 887.2**	**$ 887.2**

The PHF's net asset value increased by $72.8 million, from $814.4 million to $887.2 million, during the nine months ended May 31, 2005. As discussed below, very strong investment performance for the period resulted in actual investment earnings of $101.7 million, net of investment expenses. Distributions amounted to $28.9 million. Unit holders for the PHF are as follows:

Permanent Health Fund Ownership Allocation May 31, 2005 ($ millions)	Amount
Permanent Health Fund for Higher Education	$ 378.8
UT Health Science Center at San Antonio	216.4
UT M. D. Anderson Cancer Center at Houston	108.2
UT Southwestern Medical Center at Dallas	54.1
UT Medical Branch at Galveston	27.0
UT Health Science Center at Houston	27.0
UT Health Center at Tyler	27.0
UT El Paso	27.0
Regional Academic Health Center	21.7
Total	**$ 887.2**

Investment Performance Review

The PHF posted a net investment return of 12.55% for the nine months ended May 31, 2005. The PHF derives it return mainly from the shares it owns in the GEF. The PHF's return is slightly less than the GEF's return due to additional expenses incurred by the PHF. The GEF posted a net return of 12.65%. The GEF's first nine months of the fiscal year 2005 ended on a positive note, with global equities and private capital leading the way as each asset class produced positive investment returns, as reflected in the following chart:

Nine Months ended May 31, 2005		
Asset Class	**Actual Net Investment Return**	**Benchmark Return**
Cash and Cash Equivalents	1.66%	1.67%
U.S. Equities	13.87%	12.48%
Global Equities	16.76%	16.91%
Equity Hedge Funds	8.33%	4.76%
Absolute Return Hedge Funds	9.78%	3.98%
Commodities	10.59%	9.73%
Fixed Income	5.54%	3.82%
Total Marketable Securities	11.74%	9.45%
Private Capital	20.86%	15.73%
Total Fund	**12.65%**	**10.41%**

Market Commentary

Cash and Cash Equivalents
As long as moderate economic growth and restrained core inflation continue, markets expect the Federal Reserve (Fed) to bring its Funds rate to 3.75% in a measured manner by the end of 2005. If the Fed can attain an area of policy neutrality without meaningful changes in growth or inflation, then they may pause to assess the situation for a number of months.

U.S. Equities
After a fairly flattish September and October, the equity markets rallied during November and December, and then moved sideways in a trading range during the first five months of 2005. The S&P 500 (+9.4%), the Russell 3000 (+11.1%), the Dow (+4.6%) and the Russell 2000 (+13.8%) have all turned in positive results for the first nine months of the fiscal year.

Oil prices continue to weigh heavily on the minds of investors as the price for crude oil per barrel continues to trade at historically elevated levels. Higher energy prices typically have negative implications on future corporate earnings growth and consumer spending, as it increases the likelihood for inflation.

Additional pressure on the U.S. equity markets stems from a continued rising interest rate environment which potentially undermines future corporate profits through higher borrowing costs.

Despite facing higher oil prices and rising interest rates, the equity markets have been quite resilient over the past nine months. However, concerns about slowing corporate earnings growth, slowing productivity growth, potential inflation, and the implications of a flatter yield curve raise concern that the market is nearing a near-term peak.

Global Equities
International markets are positive for the first nine months of the fiscal year with Developed Market equities (EAFE) up 15.4% and Emerging Markets up 27.1%.

International events in recent months have been dominated with negative news from the Euro-Zone. The European Central Bank (ECB) cut 2005 growth forecasts, Germany and France unemployment remains in the low double-digits, and new lows are being hit in European confidence and business sentiment indicators, culminating with France and the Netherlands voting to reject the EU constitution. With the Euro-Zone focused on these issues, proponents of Japan and the Pacific region point to the attractiveness of the area supported by absolute valuations, relative valuations, and relative strength metrics.

Emerging Markets equities have posted a strong run over the past nine months, and while these markets remain generally healthy, they face several areas of vulnerability. The positives are that economic growth and commodity prices are both strong, and currencies are attractive. In addition, valuations (overall) remain attractive as well, although the valuation gap with developed markets has narrowed over the last two years. However, in an environment of rising global inflation and higher interest rates, emerging markets would not be immune to a tightening of global liquidity and increased risk aversion which may be on the horizon.

Marketable Alternatives
The Marketable Alternatives portfolio, which consists of investments in equity hedge and absolute return funds, posted a return of 9.2% for the nine months ended May 31, 2005. As of May 31, 2005, the Marketable Alternatives portfolio of $3.3 billion represented 24.5% of endowment fund assets, a 0.5% underweight to its investment policy target allocation of 25%.

Equity Hedge Funds
For the first nine months of the fiscal year, the equity hedge portfolio generated positive performance in eight of the nine months, with the only loss coming in April 2005 (-1.1%). Comparatively, the S&P 500 had three negative months of return, with losses of -2.4% in January 2005, -1.8% in March 2005, and -1.9% in April 2005. Specifically, equity hedge funds generated a return of 8.3% for the nine months ended May 31, 2005 which compared to the S&P 500 return of 9.4% and to the funds' benchmark of 4.8% for the same time period. As of May 31, 2005, the

equity hedge funds' net exposure to the equity markets was 41.2%, which was comprised of 19.4% to U.S. equities and 21.8% to international equities, respectively. Investments in equity hedge funds represent 10.0% of endowment fund assets.

The equity hedge fund portfolio is broadly diversified and hedged in its exposure to equity markets with long and short positions across industries, countries, and investment themes. Stock selection skills are the primary determinant of investment performance within the equity hedge fund portfolio. Four new equity hedge fund investments were added during the first nine months - Everglades Offshore Fund, Millgate International, Steadfast International, and Moon Capital Global Equity Offshore Fund.

Absolute Return Funds

Absolute return funds posted a return of 9.7% for the nine months ended May 31, 2005, which compared favorably to the funds' benchmark of 4.0% for the same time period. At quarter end, the absolute return funds' largest allocation was to hedged special situation equities at 47.8%, followed by distressed debt at 14.7%. Investments in absolute return funds represent 14.5% of endowment fund assets, 0.5% below the investment policy target allocation of 15%.

The strong performance of the absolute return portfolio was largely driven from the multi-strategy managers. In fact, the top three performers of the total Marketable Alternatives portfolio for the nine months ended May 31, 2005 are multi-strategy managers from the absolute return portfolio. The absolute return portfolio had eight positive months of performance with the only negative month coming in April (-0.7%). Three new managers, K Capital Partners, TPG-Axon Capital Management, and OZ Europe Overseas Fund, were added to the absolute return portfolio during the first nine months.

Commodities

Although supply concerns and rising world demand for energy and industrial metals tapered off somewhat during the spring months of 2005, the anticipation of strong demand during the summer driving season drove two primary commodity indices, once again, near record levels. The Dow Jones-AIG Commodity Index posted a nine month gain of 6.9%, while the GSCI (Goldman Sachs Commodity Index), which has a significant energy component (72%), was up 10.6% for the nine month period.

Fixed Income

Total return for the aggregate fixed income market, as measured by the Lehman Brothers Aggregate Bond Index, was up 3.2% for the first three quarters of the fiscal year. Results were heavily dependent upon positioning on the yield curve as maturities between 1-3 years returned only 1% while maturities beyond 10 years rewarded investors at 8.2%. Once again, investors were rewarded for overweighting spread product, (i.e. corporate bonds, mortgages, etc.), in their fixed income portfolios. Although the Federal Reserve continues to indicate that they will keep raising market interest rates to combat potential inflation, recent economic data has started to signal a slight slowdown in growth. If the Fed decides to pause, spread product may temporarily come under some pressure. Continued performance of spread product will be dependent upon low core inflation, low volatility in rates and some moderated economic growth.

Private Capital

For the nine month period ended May 31, 2005, the private capital portfolio generated a 20.9% return. While this absolute performance provides a good indication of the strength of the portfolio, the UTIMCO staff prefers to focus on longer-term performance data because such analyses are more meaningful in the private equity industry. Since inception, the UT endowments have generated an annual IRR of 11.37% on their private capital investments. Had UTIMCO invested those private capital dollars in the public market, as represented by the Russell 3000 index, the endowments would have generated a return of only 5.55% since the inception of the private capital program in 1982. Thus, by investing in private capital, the UT endowments have received 5.82% in annual out-performance for more than 20 years.

The endowments continue to receive significant cash distributions from their private capital portfolio. For the nine month period ended May 31, 2005, UTIMCO's general partners returned $333.8 million in cash and securities to the endowments, up from $285.9 million in the prior nine month period. Fiscal 2005 has been a great year for private equity distributions, not just for UTIMCO, but the industry as a whole, due to increased merger and acquisition (M&A) activity and the continued strength in the debt financing markets. Distributions from the endowments' venture capital funds remained small, despite a pick-up in initial public offering activity during the year. The UTIMCO staff expects the endowments' venture capital funds to join the distribution activity in upcoming years, as portfolio companies that survived the downturn and newer start-ups benefit from strong M&A.