

**THE UNIVERSITY OF TEXAS SYSTEM
LONG TERM FUND AND
THE PERMANENT HEALTH FUND**

**STATEMENT OF RELATIVE FAIR
VALUES OF ASSETS AND LIABILITIES**

FEBRUARY 28, 2001

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INDEPENDENT AUDITORS' REPORT

Board of Directors
The University of Texas Investment Management Company
Austin, Texas

We have audited the accompanying Statement of Relative Fair Values of Assets and Liabilities of The University of Texas System Long Term Fund and the Permanent Health Fund as of February 28, 2001 as prepared by The University of Texas Investment Management Company ("UTIMCO"). This statement is the responsibility of UTIMCO's management. Our responsibility is to express an opinion on this statement based on our audit.

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 Statement of Relative Fair Values of Assets and Liabilities of The University of Texas System Long Term Fund and the Permanent Health Fund is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statement of Relative Fair Values of Assets and Liabilities of The University of Texas System Long Term Fund and the Permanent Health Fund. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Statement of Relative Fair Values of Assets and Liabilities of The University of Texas System Long Term Fund and the Permanent Health Fund present fairly, in all material respects, the fair values of the assets and liabilities of The University of Texas System Long Term Fund and of the Permanent Health Fund at February 28, 2001, in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Deloitte & Touche LLP".

April 11, 2001

Deloitte
Touche
Tohmatsu

**THE UNIVERSITY OF TEXAS SYSTEM LONG TERM FUND (LTF)
AND THE PERMANENT HEALTH FUND (PHF)**

Statement of Relative Fair Values of Assets and Liabilities

February 28, 2001

(in thousands)

	<u>LTF</u>	<u>PHF</u>
Assets		
Investment in Securities, at Value	\$ 3,089,850	\$ 952,534
Deposit with Broker for Futures Contracts	5,675	3,181
Unrealized Gains on Foreign Currency Exchange Contracts	2,338	905
Receivables		
Investment Securities Sold	44,602	133,014
Accrued Income	8,131	2,466
Total Assets	<u>3,150,596</u>	<u>1,092,100</u>
Liabilities		
Payable to Participants	622	-
Unrealized Losses on Foreign Currency Exchange Contracts	2,409	796
Payables		
Investment Securities Purchased	226,175	167,839
Other	<u>3,283</u>	<u>990</u>
Total Liabilities	<u>232,489</u>	<u>169,625</u>
Net Assets	<u>\$ 2,918,107</u>	<u>\$ 922,475</u>

*The accompanying notes are an integral
part of this relative statement of fair values
of assets and liabilities*

THE UNIVERSITY OF TEXAS SYSTEM LONG TERM FUND (LTF) AND THE PERMANENT HEALTH FUND (PHF)

NOTES TO STATEMENT OF RELATIVE FAIR VALUES OF ASSETS AND LIABILITIES AS OF FEBRUARY 28, 2001

Note 1 – Organization and Basis of Presentation

The accompanying Statement of Relative Fair Values of Assets and Liabilities is presented to report the valuation of existing assets and liabilities of The University of Texas System Long Term Fund (LTF) and the Permanent Health Fund (PHF) as of February 28, 2001. As of March 1, 2001, the LTF and PHF investments, except for a negligible amount of cash, were combined to create a single unitized pooled investment fund for the collective investment of long-term funds under the control and management of the Board of Regents of The University of Texas System. The single pooled investment fund is known as the General Endowment Fund (GEF). The LTF and PHF purchased units in the GEF based on the following:

	LTF	PHF
Net Assets as of February 28, 2001	\$ 2,918,106,765	\$ 922,474,887
Less Net Assets Remaining in Respective Funds	(737,292)	(136,385)
Amount Available to Purchase Units	<u>\$ 2,917,369,473</u>	<u>\$ 922,338,502</u>
Number of Units of the GEF to be Issued (total units 38,397,080)	<u>29,173,695</u>	<u>9,223,385</u>

The LTF is a pooled fund established for the collective investment of private endowments and other long-term funds supporting various programs and purposes of the 15 institutions comprising The University of Texas System (UT System). The LTF was formerly known as the Common Trust Fund. The LTF was established February 9, 1995, by the Board of Regents of The University of Texas System to succeed the Common Trust Fund pooled investment fund.

The PHF is an internal UT System mutual fund for the pooled investment of state endowment funds for health-related institutions of higher education, created August 30, 1999, with proceeds from state tobacco litigation. The distributions from the PHF endowments support programs that benefit medical research, health education, public health, nursing, and treatment programs at health-related institutions of higher education.

Fiduciary responsibility for the LTF and PHF (collectively, the “Funds”) rest with the Board of Regents. The day-to-day operational responsibilities of the Funds are delegated to The University of Texas Investment Management Company (UTIMCO), pursuant to an investment management services agreement with the Board of Regents.

Note 2 – Significant Accounting Policies

(A) **Security Valuation** – Investments are primarily valued on the basis of market valuations provided by independent pricing services.

Fixed income securities held directly by the Funds 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).

THE UNIVERSITY OF TEXAS SYSTEM LONG TERM FUND (LTF) AND THE PERMANENT HEALTH FUND (PHF)

NOTES TO STATEMENT OF *RELATIVE FAIR VALUES OF ASSETS AND LIABILITIES* AS OF *FEBRUARY 28, 2001 (CONT.)*

Limited Partnerships and Other are valued based on a fair valuation determined as specified by policies established by the UTIMCO Board of Directors.

Securities held by the Funds in index funds are generally valued as follows:

Stocks traded on security exchanges are valued at closing market prices on the valuation date.

Stocks 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.

Commingled funds are valued based on the net asset value per share provided by the investment company.

(B) **Foreign Currency Translation** -- The accounting records of the Funds are maintained in U.S. dollars. Investments in securities are valued at the daily rates of exchange on the valuation date.

(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. Premiums and discounts on bonds are not amortized.

(D) **Security Transactions** -- Security transactions are recorded on a trade date basis for most securities. International index fund transactions are recorded on a settlement date basis due to trading practices which impose restrictions on acquiring per unit information on the trade date. A loss is recognized if there is an impairment in the value of the security that is determined to be other than temporary.

(E) **Foreign Currency Contracts** -- When entering into a forward currency contract, the Funds agree 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 Funds' 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 statement of relative fair values of assets and liabilities.

(F) **Futures Contracts** -- The LTF and PHF had \$5,675,070 and \$3,180,867, respectively, on deposit with a broker for collateral as margin for the futures contracts as of February 28, 2001. Futures 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 days' mark to market.

(G) **Use of Estimates** -- The preparation of this statement of relative fair values of assets and liabilities 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 statement of relative fair values of assets and liabilities. Actual results could differ from these estimates.

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