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the creation of

Value

2009 Annual Report

Ownership of Permanent Health Fund

(in millions)

	Value
Permanent Health Fund for Higher Education	\$ 389.4
UT Health Science Center at San Antonio	222.5
UT M.D. Anderson Cancer Center	111.3
UT Southwestern Medical Center at Dallas	55.6
UT Medical Branch at Galveston	27.8
UT Health Science Center at Houston	27.8
UT Health Center at Tyler	27.8
UT El Paso	27.8
University of North Texas Health Science Center at Fort Worth	26.4
Regional Academic Health Center	22.3
Permanent Fund for Higher Education Nursing, Allied Health and Other Health-Related Programs	50.1
Permanent Fund for Minority Health Research and Education	27.8
Total	\$1,016.6

Permanent Health Fund

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PHF Beneficiaries

UT El Paso
 UT Health Science Center at Houston
 UT Health Center at Tyler
 UT Southwestern Medical Center at Dallas
 UT Medical Branch at Galveston
 UT Health Science Center at San Antonio
 UT M.D. Anderson Cancer Center
 Regional Academic Health Center at San Antonio
 Texas A&M University Health Science Center
 University of North Texas Health Science Center at Fort Worth
 Texas Tech University Health Science Centers
 Baylor College of Medicine
 Higher Education Nursing, Allied Health, and Other Health-Related Programs
 Minority Health Research & Education Programs

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Legislative leadership creates the largest endowment benefiting children's cancer research

Part of the mission at The University of Texas Health Science Center at San Antonio (UTHSCSA) is to eradicate children's cancer, the leading cause of death from disease in childhood. In 1999, as part of the tobacco settlement payments received by the State of Texas, the 76th Legislature created a \$200 million permanent endowment for UTHSCSA. It is the largest endowment dedicated for children's cancer research. The Texas Legislature sought to create a healthy future for children by promoting research and applying the results to the prevention and treatment of children's cancer.

Cancer in children is tragic. When it happens, parents need to know that their children are getting the best treatments available. Medical teams soon will be hard at work conducting research on the prevention, diagnosis, and treatment of childhood cancer and disease intervention through therapies and vaccines at the Children's Cancer Research Center. The focus on children's cancer is important, since children are prone to a different set of cancers (for example, leukemia, brain tumors, bone tumors) than adults where cancer of the lung, breast, prostate and colon predominate. The Health Science Center's researchers will develop additional programs in the fight against children's cancer and will continue to seek new information, largely with funding from the Permanent Health Fund.

The endowment, valued at \$222.5 million as of August 31, 2000, distributed \$9 million in support for the fiscal year 2000. Distributions for the year ending August 31, 2001, will increase to \$9.2 million. Substantial progress has already been made - expanding existing programs in childhood cancer research, recruiting a nationally known director for the center, and designing a state-of-the-art research building.



FEATURE
STORY

CALLER
in Children



**Permanent Health Fund Overview
(\$1,016.6 million)**

In 1996, the Attorney General filed suit for monetary and injunctive relief on behalf of the State of Texas against the tobacco industry. The lawsuit sought damages, including, but not limited to, recovery of public health expenditures by the state. The lawsuit also sought that the tobacco industry be enjoined from using marketing or advertising campaigns that encourage minors to purchase and consume tobacco products.

In 1998, the tobacco industry and the State of Texas entered into the Texas Settlement Agreement, as amended, that provides for a stream of payments in perpetuity equal to more than \$17.3 billion over the first 25 years. The Agreement also provided for the elimination of certain advertisements and tobacco industry support of legislation and regulations intended to reduce cigarette consumption by minors.

In 1999, the state received a first year settlement payment of \$1,091 million and projected the receipt of an additional \$691 million over the 2000-2001 biennium. Consistent with the long-term educational and public health motives underlying the lawsuit, the 76th Legislature appropriated \$1,015 million of these proceeds to establish three permanent funds and thirteen higher education endowments.

The Permanent Health Fund for Higher Education - \$350 million

The distributions from this endowment finance programs that benefit medical research, health education, and treatment programs at 10 health-related institutions of higher education.

The Permanent Fund for Higher Education Nursing, Allied Health, and Other Health Related Programs - \$45 million

The distributions from this endowment finance grants to public institutions of higher education that offer upper-level academic instruction and training in the fields of nursing, allied health, or other health-related education.

The Permanent Fund for Minority Health Research and Education - \$25 million

The distributions from this endowment finance grants to institutions of higher education, (including Centers for Teacher Education), that conduct research or educational programs that address minority health issues or form partnerships with minority organizations, colleges, or universities to conduct research and educational programs that address minority health issues.

Permanent Funds for Health Related Institutions - \$595 million

The distributions from these thirteen higher education endowments fund research and other programs at thirteen Texas institutions of higher education that benefit public health.

The 76th Legislature also designated the State Comptroller, the Board of Regents of the UT System or the governing boards of the beneficiary institutions of the higher education endowments as the administrators of these funds. Pursuant to investment management services agreements between the UT Board, the State Comptroller, and certain other institutions of higher education, UTIMCO was designated as the investment manager for the three permanent funds and ten of the thirteen higher education endowments.

In August 1999, the UT Board of Regents established the Permanent Health Fund ("PHF") as the internal fund for the collective investment of the permanent funds and higher education endowments managed by UTIMCO. During the year, UTIMCO systematically invested PHF funds according to the same endowment policies in use for the Long Term Fund and the Permanent University Fund.

2000 PHF Financial Highlights

August 31,	1999	2000
Beginning Net Asset Value	\$ -	\$ 890.3
Contributions	890.0	25.0
Investment Return	0.3	143.8
Expenses	-	(1.9)
Distributions	-	(40.6)
Ending Net Asset Value	\$ 890.3	\$ 1,016.6

PHF Contributions

Contributions to the PHF consisted of the transfer of the initial \$890 million of endowment corpus from the Texas State Treasury on August 30, 1999. During the fiscal year 2000 the University of North Texas Health Science Center at Forth Worth contributed \$25 million to the PHF.

PHF Investment Return

During the year, UTIMCO systematically invested PHF funds in accordance with the same total return based asset allocation in use for the LTF. The PHF is now actively managed to the Endowment Policy Portfolio although complete alignment is not expected for several years pending the maturation of alternative investment portfolios.

The 2000 fiscal year net return for the PHF was 16.1% versus the 14.8% benchmark return of the Endowment Policy Portfolio. In general, U.S. mid-cap exposure, small-cap equities, and UTIMCO's adoption of an inflation hedging asset class contributed most to the Fund's outperformance.

Asset Class	Average Asset Allocation for the Year Ended August 31, 2000			Investment Return		
	EPP	PHF	Over (Under) Weight	Portfolio Policy Benchmark	PHF	Attribution
Cash and Equivalents	0.0%	17.1%	17.1%	5.7%	6.3%	(1.9)%
U.S. Equities: Med/Large Capitalization	25.0%	24.6%	(0.4)%	16.3%	20.2%	1.1%
U.S. Equities: Small Capitalization	7.5%	8.9%	1.4%	27.2%	57.0%	1.4%
Non-U.S. Equities: Established Markets	12.0%	13.1%	1.1%	12.0%	11.3%	(0.6)%
Non-U.S. Equities: Emerging Markets	3.0%	4.0%	1.0%	4.5%	0.3%	(0.4)%
Alternative Assets: Marketable	10.0%	10.4%	0.4%	13.3%	20.2%	0.6%
Alternative Assets: Nonmarketable	15.0%	0.3%	(14.7)%	17.0%	N/A (2)	(0.4)%
Inflation Hedging	7.5%	5.0%	(2.5)%	N/A (1)	N/A (2)	1.0%
U.S. Fixed Income	15.0%	13.9%	(1.1)%	7.6%	8.6%	0.2%
Non-U.S. Fixed Income	5.0%	2.7%	(2.3)%	(5.9)%	(7.2)%	0.3%
Total Fund Assets	100.0%	100.0%	0.0%	14.8%	16.1%	1.3%

N/A (1) - Asset class added to policy portfolio in December 1999

N/A (2) - Asset class funded during the period

PHF Expenses

PHF expenses are paid from PHF assets. PHF expenses totaled \$1.9 million during the year, and represented 0.20% of average PHF market value. The PHF incurred no expenses during fiscal year 1999.

PHF Distributions

Consistent with the UT Board's endowment spending policy for the Endowment Policy Portfolio, the initial distribution rate for the PHF was set at \$0.045 per unit or 4.5% of initial value. The initial distribution rate was adjusted for the rate of inflation to \$.046 per unit for fiscal year 2001.

Preservation of PHF Purchasing Power

The average rate of inflation for the fiscal year was 3.35%. PHF purchasing power increased by 8.27% during the fiscal year versus a long-term average expected increase of 1.00% for the Endowment Policy Portfolio. This unusually high increase in purchasing power was attributable to above average equity returns and controlled spending.

Annual Average	Expected EPP	For the Period Ended August 31, 2000 One Year
Rate of Investment Return	9.35%	16.18%
Less:		
Expense Rate	0.35%	0.20%
Inflation Rate	3.50%	3.35%
Distribution Rate	4.50%	4.36%
Change in Purchasing Power	1.00%	8.27%

