



**Permanent University Fund <sup>(1)</sup>**  
**Investment Summary Report**  
**(\$ millions)**

|                             | 1st Quarter<br>11/30/99 | 2nd Quarter<br>2/29/00 | 3rd Quarter<br>5/31/00 | 4th Quarter<br>8/31/00 | Year-to-Date |
|-----------------------------|-------------------------|------------------------|------------------------|------------------------|--------------|
| <b>Beginning Net Assets</b> | \$ 7,465.6              | \$ 7,697.9             | \$ 7,924.8             | \$ 7,910.9             | \$ 7,465.6   |
| PUF Lands Receipts (2)      | 18.6                    | 19.0                   | 22.6                   | 22.9                   | 83.1         |
| Investment Return (3)       | 279.3                   | 430.1                  | (18.0)                 | 523.7                  | 1,215.1      |
| Expenses (3)                | -                       | (2.4)                  | (6.9)                  | (4.6)                  | (13.9)       |
| Distributions to AUF (3)    | (65.6)                  | (219.8)                | (11.6)                 | (0.6)                  | (297.6)      |
| <b>Ending Net Assets</b>    | \$ 7,697.9              | \$ 7,924.8             | \$ 7,910.9             | \$ 8,452.3             | \$ 8,452.3   |
| <b>AUF distribution:</b>    |                         |                        |                        |                        |              |
| From PUF Investments (3)    | \$ 65.6                 | \$ 219.8               | \$ 11.6                | \$ 0.6                 | \$ 297.6     |
| From Surface Income         | 1.5                     | 2.1                    | 0.9                    | 1.5                    | 6.0          |
| <b>Total</b>                | \$ 67.1                 | \$ 221.9               | \$ 12.5                | \$ 2.1                 | \$ 303.6     |

(1) Excludes PUF Lands mineral and surface interests with estimated August 31, 2000 values of \$877.9 million and \$156.4 million, respectively.

(2) As of August 31, 2000: 1,244,727 acres under lease, 515,612 producing acres, 3,299 active leases and 2,041 producing leases.

(3) Restatements - The Investment Summary Report was restated to a presentation which is consistent with the reporting of other endowment funds managed by UTIMCO. With the passage of the PUF's constitutional amendment, distributions to the AUF will be from the total investment return of the PUF. The PUF's constitutional amendment also provided that expenses of managing the PUF lands and investments shall be paid by the PUF.

**Year End Commentary August 31, 2000**

Total net investment return for the year was 16.53% versus the neutral policy portfolio return of 14.81%. (Total net unannualized investment return for the fourth quarter was 6.58%.) Equities, as an asset class, posted higher relative returns with the S&P 500 Index and Russell 3000 Index posting returns of 16.31% and 20.63%, respectively. The PUF's equity portfolios (including non-U.S. portfolios) produced a net return of 15.14%.

Alternative equities produced a 44.41% net return for the year and the inflation hedging asset class, which was implemented during the year, posted a 29.61% net return for eight months. The domestic and international fixed income portfolios posted a combined net return of 4.57% for the year versus 7.56% for the Lehman Aggregate Bond Index and a negative return of 5.86% for the Salomon Non-U.S. World Government Bond Index.

The PUF ended the year with a market value of \$8,452.3 million. Period end asset allocation was 78% broadly defined equities, 17% fixed income and 5% money market funds versus an unconstrained neutral allocation of 80% equities, 20% fixed income and 0% money market funds. The high percentage in money market funds reflects the amount held at year-end to fund the September 1, 2000 AUF distribution for the fiscal year ending August 31, 2001.

### **Third Quarter Commentary**

Total net investment return (unannualized) for the quarter was (.24%). Total investment return was \$(18.0) million. The PUF distributed \$11.6 million to the Available University Fund for the quarter. This amount represented an additional PUF distribution to the AUF for the fiscal year ended August 31, 2000 as approved by the Board of Regents at its February 10, 2000 meeting. The PUF ended the quarter with a market value of \$7,910.9 million.

During the quarter, UTIMCO continued to convert the PUF to the same asset allocation currently in place for the Permanent Health Fund and the Long Term Fund. Period end asset allocation was 82% broadly defined equities and 18% fixed income versus an unconstrained neutral allocation of 80% equities and 20% fixed income.

### **Second Quarter Commentary**

Total net investment return (unannualized) for the quarter was 5.7%. Total investment return was \$430.1 million. The PUF distributed \$219.8 million to the Available University Fund for the quarter. This amount represented the PUF distribution to the AUF for the fiscal year ended August 31, 2000 as approved by the Board of Regents at its November 10, 1999 meeting. The PUF ended the quarter with a market value of \$7,924.8 million.

Beginning in February, UTIMCO began the process of converting the PUF to the same asset allocation currently in place for the Permanent Health Fund and the Long Term Fund. This process requires that UTIMCO realign portfolio managers to create identical asset allocations and underlying portfolios across all three endowment funds upon completion. Period end asset allocation was 71% broadly defined equities, 13% fixed income and 16% money market funds versus an unconstrained neutral allocation of 80% equities and 20% fixed income. The high percentage in money market funds is transitory and reflects a point in time between the sale of fixed income assets and purchase of new securities in asset classes where the PUF had been underweighted.

### **First Quarter Commentary**

Total net investment return (unannualized) for the quarter was 3.7%, which was a result of \$65.6 million in income return, and \$213.7 million in price return. The PUF ended the quarter with a market value of \$7,697.9 million. The PUF's accrued investment income increased by a nominal rate of .2% and decreased by an inflation adjusted rate of 2.4% from the first quarter of the prior fiscal year. Period end asset allocation was 69% broadly defined equities and 31% fixed income versus an unconstrained neutral allocation of 80% equities and 20% fixed income.

Pursuant to a statewide election held on November 2, 1999, voters approved Proposition 17 amending the Texas Constitution. The amendments are effective November 29, 1999, and allow for a) distributions to the AUF from the "total return" on PUF investments, including income return as well as capital gains, and b) the payment of PUF expenses from PUF assets.