

Financial Statements

Permanent University Fund

*Years Ended August 31, 2006 and 2005*

Permanent University Fund

Financial Statements

Years Ended August 31, 2006 and 2005

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## Report of Independent Auditors

The Board of Regents of The University of Texas System  
The Board of Directors of The University of Texas Investment Management Company

We have audited the accompanying financial statements of The Permanent University Fund (PUF) as of and for the years ended August 31, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the PUF's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Permanent University Fund and do not purport to, and do not, present fairly the fiduciary net assets of The University of Texas Investment Management Company nor The University of Texas System as of August 31, 2006 and 2005 and the changes in its fiduciary net assets for the years then ended in conformity with accounting principles generally accepted in the United States.

The financial statements referred to above include only the investment assets and liabilities and changes therein related to the investments of the PUF, which are managed by The University of Texas Investment Management Company (UTIMCO) and are not intended to be a complete presentation of the PUF's assets, liabilities, income, and expenses. The PUF's 2.1 million acres of land are not included in this report (see Note 1).

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the PUF managed by UTIMCO as of August 31, 2006 and 2005, and the changes in the fiduciary net assets for the years then ended, in conformity with accounting principles generally accepted in the United States.

Management's discussion and analysis on pages 3 through 6 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements of the Permanent University Fund. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The supplemental schedules as of August 31, 2006 and for the years then ended have been subjected to the audit procedures applied in the audits of the financial statements and, in our opinion, based on our audits, are fairly stated in relation to the financial statements taken as a whole.

*Ernst & Young LLP*

October 27, 2006

### MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Our discussion and analysis of the Permanent University Fund's (PUF) financial performance provides an overview of its activities for the period ended August 31, 2006. This discussion was prepared by The University of Texas Investment Management Company (UTIMCO) and should be read in conjunction with the PUF's financial statements and notes. The PUF is a public endowment contributing to the support of 18 institutions and 6 agencies in The University of Texas System (UT System) and The Texas A&M University System (TAMU System). The Texas Constitution and various state statutes designate The University of Texas System Board of Regents (UT Board) as the fiduciary for the management of certain public endowment and operating funds. The UT Board has entered into an Investment Management Services Agreement delegating investment management responsibility for all investments to UTIMCO.

The purpose of the MD&A is to provide an objective and easily readable analysis of the PUF's financial statements based upon currently known facts, decisions or conditions.

#### Financial Highlights

- The PUF's net fiduciary assets after distributions increased by \$886.7 million from \$9,426.7 million to \$10,313.4 million, or approximately 9.4% for the year ended August 31, 2006, compared to an increase of \$1,338.8 or approximately 16.6% for the year ended August 31, 2005. The change in net fiduciary assets from year to year is mainly attributable to the following:
  1. Fiscal year 2006 contributions of PUF Lands mineral income increased by 11.3% from \$193.1 million to \$215.0 million and represented 2.1% of the average value of the PUF investments during the year, compared to fiscal year 2005 contributions which increased by 31.7%, from \$146.7 million to \$193.1 million and represented 2.2% of the average value of the PUF investments during the year. PUF Lands consist of more than 2.1 million acres in 19 counties primarily in West Texas.
  2. The PUF posted a net investment return of 11.17% for the year ended August 31, 2006. Investments in real estate investment trusts, private market investments and global equities were the leading contributors to the 2006 return. For the fiscal year ended August 31, 2005, the commodities, private market investments and global equity asset classes were the leading performers contributing to a net investment return of 18.80%.
  3. The PUF's annual distribution to the Available University Fund (AUF) increased by 4.7% in fiscal year 2006, compared to a decrease of 2.0% in fiscal year 2005.

## **PERMANENT UNIVERSITY FUND**

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### **Use of Financial Statements and Notes**

The PUF's financial statements were prepared in accordance with standards issued by the Governmental Accounting Standards Board (GASB). Two financial statements are typically required under GASB: the Statement of Fiduciary Net Assets and the Statement of Changes in Fiduciary Net Assets.

In compliance with the reporting requirements of Section 66.05 of the Texas Education Code, we have included as supplementary information a Schedule of Changes in Cost of Investments and Investment Income. We have also included as supplementary information a Comparison Summary of Investments.

The notes to the financial statements contain supplemental information that is essential for the fair presentation of the financial statements.

### **Statements of Fiduciary Net Assets**

The Statements of Fiduciary Net Assets present assets, liabilities, and net assets of the PUF under UTIMCO management as of the end of the fiscal year. These statements, along with all of the PUF's financial statements, are prepared using the accrual basis of accounting, whereby PUF investment income is recognized when earned and PUF expenses are recognized when incurred.

The PUF invests in a broad mix of investments and is actively managed to its benchmark, the Endowment Policy Portfolio. The Endowment Policy Portfolio is the index or benchmark for the endowment funds that UTIMCO manages. The return of the Endowment Policy Portfolio is the sum of the weighted benchmark returns for each asset class that comprise it. UTIMCO allocates PUF investment assets to internally and externally managed portfolios in accordance with approved asset allocation policies, and attempts to supplement the original endowment corpus by increasing purchasing power over time. In doing so, UTIMCO increases the PUF resources available to fund the debt service on bonds issued by the UT Board and the Texas A&M System Board of Regents to fund capital expenditures and to fund academic excellence programs at The University of Texas at Austin, Texas A&M University, and Prairie View A&M.

## PERMANENT UNIVERSITY FUND

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The following summarizes the Statements of Fiduciary Net Assets (in millions):

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Assets</b>			
Investments	\$ 10,477.1	\$ 9,575.6	\$ 8,080.4
Other Assets	1,341.5	1,224.0	970.0
<b>Total Assets</b>	<u>11,818.6</u>	<u>10,799.6</u>	<u>9,050.4</u>
<b>Total Liabilities</b>	<u>1,505.2</u>	<u>1,372.9</u>	<u>962.5</u>
<b>Net Assets Held in Trust</b>	<u>\$ 10,313.4</u>	<u>\$ 9,426.7</u>	<u>\$ 8,087.9</u>

### Statements of Changes in Fiduciary Net Assets

Changes in fiduciary net assets as presented on the Statements of Changes in Fiduciary Net Assets are based on activity of the PUF investments. The purpose of these statements is to present additions to the PUF resulting from net investment income and contributions from PUF Lands mineral income and to present deductions from the PUF resulting from the distributions to the AUF.

The net increase in investments of the PUF was \$845.3 million during the year compared to \$1,298.7 million for the year ended August 31, 2005. Investment expenses totaled \$76.8 million, \$46.0 million, and \$23.4 million, respectively, for the years ended August 31, 2006, 2005, and 2004.

The PUF's two primary investment objectives are:

- Provide for current beneficiaries by increasing the annual distribution rate at least equal to the rate of inflation so that real purchasing power is maintained, and
- Provide for future beneficiaries by increasing the market value of endowment funds after the annual distribution at a rate at least equal to the rate of inflation so that future distributions maintain purchasing power as well.

Distributions to the AUF increased by \$16.1 million, from \$341.2 million in fiscal year 2005 to \$357.3 million, in fiscal year 2006. The fiscal year 2005 distribution amount decreased by \$6.8 million from the fiscal year 2004 distribution of \$348.0 million. PUF distributions are controlled by a spending policy approved by the UT Board as directed by the Texas Constitution, which directs the UT Board to establish a distribution policy that provides stable, inflation-adjusted distributions to the AUF and preserves the real value of the PUF investments over the long term. To achieve this, the annual

## PERMANENT UNIVERSITY FUND

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distribution is currently established at 4.75% of the prior twelve quarters' average net asset value of the PUF investments, as determined each February 28 for the following fiscal year.

The distributions to the AUF are subject to the following overriding conditions:

1. Distributions must be at least equal to the amount needed to pay debt service on PUF Bonds;
2. Distributions may not increase from the preceding year (except as necessary to pay debt service on PUF Bonds) unless the purchasing power of PUF Investments for any rolling 10-year period has been preserved;
3. Distributions may not exceed 7 percent of the average net fair market value of PUF investments in any fiscal year, except as necessary to pay debt service on PUF Bonds.

The following table summarizes the Statements of Changes in Fiduciary Net Assets (in millions):

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Investment Income	\$ 1,111.6	\$ 1,537.9	\$ 1,072.5
Less Investment Expenses	(76.8)	(46.0)	(23.4)
PUF Lands Contributions	215.0	193.1	146.7
<b>Total Additions</b>	<u>1,249.8</u>	<u>1,685.0</u>	<u>1,195.8</u>
Administrative Expenses			
PUF Lands Expenses	5.3	4.7	4.7
UT System Oversight Fee	0.5	0.3	-
Distributions to Available University Fund	357.3	341.2	348.0
<b>Total Deductions</b>	<u>363.1</u>	<u>346.2</u>	<u>352.7</u>
Change in Fiduciary Net Assets	886.7	1,338.8	843.1
Net Asset Held in Trust, Beginning of Period	9,426.7	8,087.9	7,244.8
<b>Net Assets Held in Trust, End of Period</b>	<u>\$ 10,313.4</u>	<u>\$ 9,426.7</u>	<u>\$ 8,087.9</u>

### Contacting UTIMCO

The above financial highlights are designed to provide a general overview of the PUF's investment results and insight into the following financial statements. Additional information may be found on our website and inquiries may be directed to UTIMCO via [www.utimco.org](http://www.utimco.org).

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## Statements of Fiduciary Net Assets

August 31, 2006 and 2005

(in thousands)

<b>Assets</b>	<b>2006</b>	<b>2005</b>
Investments:		
Equity Securities	\$ 1,542,800	\$ 1,842,238
Preferred Stock	2,483	2,690
Debt Securities	1,932,380	1,640,094
Convertible Securities	114	5,010
Investment Funds	5,717,408	4,748,465
Purchased Options	47,982	20,153
Cash and Cash Equivalents	1,233,886	1,316,942
Total Investments	10,477,053	9,575,592
Collateral for Securities Loaned, at Fair Value	990,531	914,938
Deposit with Brokers for Derivative Contracts	137,568	64,164
Deposit with Broker for Securities Sold Short	7,476	-
Unrealized Gains on Foreign Currency Exchange Contracts	12,296	10,903
Swaps, at Fair Value	3,895	10,809
Receivables:		
Investment Securities Sold	161,250	203,320
Accrued Income	26,901	19,901
Other	1,612	-
Total Receivables	189,763	223,221
<b>Total Assets</b>	<b>11,818,582</b>	<b>10,799,627</b>
<b>Liabilities</b>		
Payable Upon Return of Securities Loaned	990,531	914,938
Options Written, at Fair Value	77,163	35,548
Swaps, at Fair Value	22,514	12,083
Securities Sold Short, at Fair Value	8,476	-
Unrealized Losses on Foreign Currency Exchange Contracts	18,335	8,607
Payables:		
Investment Securities Purchased	373,509	387,385
Other	14,660	14,323
Total Payables	388,169	401,708
<b>Total Liabilities</b>	<b>1,505,188</b>	<b>1,372,884</b>
<b>Net Assets Held in Trust</b>	<b>\$10,313,394</b>	<b>\$ 9,426,743</b>

*The accompanying notes are an integral  
part of these financial statements.*

**PERMANENT UNIVERSITY FUND**

**DETAIL SCHEDULES OF INVESTMENT SECURITIES**

**August 31, 2006**

## Report of Independent Auditors

The Board of Regents of The University of Texas System  
The Board of Directors of The University of Texas Investment Management Company

We have audited, in accordance with auditing standards generally accepted in the United States, the financial statements of the Permanent University Fund (PUF), as of August 31, 2006, and for the year then ended, and have issued our unqualified report thereon dated October 27, 2006. Our audit included an audit of the PUF's accompanying schedule of equity securities (Schedule A), preferred stocks and convertible securities (Schedule B), purchased options (Schedule C), debt securities (Schedule D), investment funds (Schedule E), cash and cash equivalents (Schedule F), and marketable alternative investment pool (Schedule G) as of August 31, 2006. These Schedules are the responsibility of the PUF's management. Our responsibility is to express an opinion on these Schedules based on our audit.

In our opinion, the Schedules referred to above, when read in conjunction with the financial statements of the PUF referred to above, present fairly, in all material respects, the information set forth therein.

*Ernst & Young LLP*

October 27, 2006

**PERMANENT UNIVERSITY FUND**  
**EQUITY SECURITIES**  
August 31, 2006

SCHEDULE A

SECURITY	SHARES	VALUE (\$)	COST (\$)
<b>DOMESTIC COMMON STOCKS</b>			
1-800 FLOWERS COM INC.....	67,254	310,041	461,909
A C MOORE ARTS & CRAFTS INC.....	22,715	403,873	379,380
AAR CORP.....	108,700	2,425,097	2,733,251
ACCESS NATIONAL CORP.....	16,300	148,330	153,102
ACCO BRANDS CORP.....	9,100	197,106	230,867
ACTUANT CORP.....	3,563	160,691	166,320
ADAPTEC INC.....	16,900	69,628	73,238
ADC TELECOMMUNICATIONS INC.....	67,300	918,645	1,088,414
ADESA INC.....	18,369	405,771	448,620
ADVANCED ANALOGIC TECHNOLOGIES.....	8,400	79,968	77,519
AEROFLEX INC.....	51,483	536,453	617,034
ALEXANDRIA REAL ESTATE.....	109,800	10,762,596	4,386,218
ALLIANT TECH SYSTEMS INC.....	14,700	1,124,403	911,590
ALLIS CHALMERS ENERGY INC.....	1,700	31,365	16,575
ALLOY INC.....	12,780	145,436	124,245
ALPHA NATURAL RESOURCES INC.....	600	10,878	11,400
AMB PROPERTIES CORP.....	176,600	9,859,578	8,492,976
AMERICAN INTERNATIONAL GROUP INC.....	55,900	3,567,538	3,626,396
AMERICAN OIL & GAS INC.....	12,236	78,800	54,052
AMERICAN VANGUARD CORP.....	5,200	78,260	80,143
AMIS HOLDINGS INC.....	41,000	373,510	430,286
ANALOG DEVICES INC.....	201,200	6,164,768	6,903,609
ANALOGIC CORP.....	13,899	789,880	652,197
ANSWERTHINK INC.....	17,500	49,875	83,921
APARTMENT INVESTMENT & MANAGEMENT.....	296,600	15,197,784	10,896,886
APPLEBEES INTERNATIONAL INC.....	267,900	5,558,925	6,194,538
APPLIED MATERIALS.....	177,900	3,002,952	3,121,931
ARBITRON INC.....	76,270	2,861,650	2,962,689
ARCH CHEMICAL INC.....	14,215	394,324	390,960
ARCH COAL INC.....	123,740	4,052,485	3,249,756
ARCHSTONE-SMITH TRUST.....	409,381	21,770,882	9,287,302
ASTORIA FINANCIAL CORP.....	28,300	868,810	819,925
ATMI INC.....	24,695	712,945	675,128
AVALONE BAY COMMUNITIES INC.....	219,560	26,566,760	11,075,958
AXCELIS TECHNOLOGIES INC.....	720,666	4,532,989	5,319,568
BANKUNITED FINANCIAL CORP.....	379,724	9,785,487	10,604,581
BAUSCH & LOMB INC.....	90,000	4,356,900	4,398,435
BEARINGPOINT INC.....	27,500	229,900	246,803
BELL MICROPRODUCTS INC.....	96,002	468,490	567,649
BERRY PETEROLEUM CO.....	58,700	1,833,201	1,932,893
BIG LOTS INC.....	560,550	10,286,093	6,654,120
BIOMED REALTY TRUST INC.....	193,200	6,016,248	5,412,497
BISYS GROUP INC.....	129,300	1,330,497	2,013,631
BJ SERVICE CO.....	77,500	2,659,025	2,279,332
BLOCKBUSTER INC.....	91,600	365,484	400,195
BOIS D ARC ENERGY LLC.....	2,400	39,336	31,200
BOSTON PROPERTIES INC.....	302,915	30,785,251	13,434,897
BOWNE & CO INC.....	27,590	425,438	403,947
BRANDYWINE REALTY TRUST.....	66,427	2,167,513	1,927,195

**PERMANENT UNIVERSITY FUND**

**EQUITY SECURITIES**

August 31, 2006

SCHEDULE A

(CONTINUED)

SECURITY	SHARES	VALUE (\$)	COST (\$)
BRE PROPERTIES INC.....	259,800	15,351,582	11,297,956
BROCADE COMMUNITY SYSTEMS INC.....	61,900	383,780	351,723
BROOKFIELD HOMES CORP.....	33,540	791,544	873,508
BROOKS AUTOMATION INC.....	72,859	1,012,740	1,050,476
BROWN & BROWN INC.....	47,100	1,410,174	1,207,629
CABOT CORPORATION.....	7,900	262,517	274,115
CABOT OIL & GAS.....	3,200	163,392	154,513
CACI INTERNATIONAL INC.....	86,200	4,573,772	4,545,732
CADENCE FINANCIAL CORP.....	8,400	173,040	165,392
CALLAWAY GOLF CO.....	40,200	539,082	566,855
CALLON PETROLEUM CO.....	4,500	69,615	89,912
CAMBREX CORP.....	8,900	200,695	191,560
CAMDEN PROPERTY TRUST.....	77,300	5,997,707	5,507,625
CANARGO ENERGY CORP.....	120,600	165,222	76,420
CASCADE MICROTECH INC.....	13,022	153,790	146,059
CBL & ASSOCIATES PROPERTIES INC.....	70,700	2,880,318	2,859,920
C-COR NET CORP.....	62,550	497,273	461,979
CHALLENGER CORPORATION.....	727	8	8
CHECKPOINT SYSTEMS INC.....	341,950	6,206,393	6,712,708
CHEMTURA CORP.....	28,000	243,320	328,797
CHESAPEAKE CORP.....	17,500	253,750	258,049
CHITTENDEN CORP.....	8,225	237,291	224,279
CIRCOR INTERNATIONAL INC.....	12,335	353,891	310,982
CISCO SYSTEMS INC.....	195,200	4,292,448	3,683,117
COHERENT INC.....	14,010	508,003	436,631
COHU INC.....	25,230	423,107	416,832
COLE KENNETH PRODUCTIONS INC.....	10,700	250,487	301,275
COLONIAL PROPERTIES.....	20,200	1,001,516	963,335
COMMUNITY BANCSHARES INC.....	12,800	130,560	125,951
COMPLETE PRODUCTION SERVICES INC.....	1,600	35,520	38,400
COMPUTER TASK GROUP INC.....	30,030	102,703	125,168
COMSTOCK RESOURCES INC.....	249,935	7,188,131	7,406,707
CONEXANT SYSTEMS INC.....	79,100	162,946	253,098
CONSOL ENERGY INC.....	142,380	5,192,599	3,632,607
CORINTHIAN COLLEGES INC.....	34,120	413,534	452,278
COUSINS PROPERTIES INC.....	76,000	2,612,120	2,426,292
COVENANT TRANSPORTATION INC.....	16,695	219,706	246,131
COX RADIO INC.....	148,200	2,350,452	2,318,017
CRESCENT REAL ESTATE.....	95,600	2,069,740	1,858,253
CTS CORP.....	21,195	311,567	267,833
CVS CORP.....	127,300	4,270,915	3,748,760
DARDEN RESTAURANTS INC.....	94,200	3,334,680	2,807,924
DELIA*S INC.....	27,107	195,170	210,451
DELTA & PINE LAND CO.....	140,500	5,684,630	3,262,764
DELTA PETROLEUM CORP.....	6,400	133,760	123,832
DENDRITE INTERNATIONAL.....	62,600	627,252	712,828
DEVELOPERS DIVERSIFIED REALTY CORP.....	92,600	5,009,660	3,995,079
DEVON ENERGY CORP.....	8,700	543,663	537,030
DEVRY INC.....	448,200	10,017,270	8,141,476
DIAMOND OFFSHORE DRILLING INC.....	31,749	2,301,168	2,048,345

PERMANENT UNIVERSITY FUND

EQUITY SECURITIES

August 31, 2006

SCHEDULE A

(CONTINUED)

SECURITY	SHARES	VALUE (\$)	COST (\$)
DIEBOLD INC.....	97,900	4,102,989	3,720,867
DOWNEY FINANCIAL CORP.....	47,500	2,916,025	2,629,894
DTS INC.....	8,000	147,040	154,689
DUCOMMUN INC.....	22,270	385,939	448,839
DYCOM INDUSTRIES INC.....	18,100	366,525	403,496
EAST GROUP PROPERTIES INC.....	4,800	244,848	230,078
EGL INC.....	148,450	4,538,117	3,384,192
ELECTRO RENT CORP.....	8,300	133,713	114,411
ELECTRO SCIENTIFIC INDS INC.....	27,547	548,461	606,892
ELECTRONICS FOR IMAGING INC.....	3,900	89,856	83,226
EMS TECHNOLOGIES INC.....	112,145	2,050,011	1,963,450
ENSCO INTERNATIONAL INC.....	17,900	799,951	860,956
ENTEGRIS INC.....	554,660	6,023,608	5,499,910
EOG RESOURCES INC.....	41,200	2,670,584	2,435,259
EQUITY RESIDENTIAL PROPERTY.....	596,465	29,745,710	19,814,864
EQUITY LIFESTYLE PROPERTIES INC.....	39,725	1,780,872	1,835,504
EQUITY OFFICE PROPERTIES TRUST.....	903,110	33,496,350	28,829,936
ESSEX PROPERTIES TRUST.....	84,700	10,627,309	6,393,108
ESTERLINE TECHNOLOGIES CORP.....	2,400	84,072	81,640
EVANS & SUTHERLAND COMPUTER.....	11,303	47,020	60,292
EXAR CORP.....	31,730	443,585	455,244
EXCO RESOURCE INC.....	8,375	111,890	109,260
EXPLORATION CO.....	800	9,384	3,191
EXTRA SPACE STORAGE INC.....	101,200	1,771,000	1,482,400
FARO TECHNOLOGY INC.....	17,000	299,370	261,609
FEDERAL REALTY INVESTMENT TRUST.....	142,700	10,569,789	8,939,294
FEDERAL SIGNAL CORP.....	21,110	329,527	370,744
FEDERATED DEPARTMENT STORES INC.....	119,100	4,523,418	3,718,152
FEDERATED INVESTMENTS INC.....	23,000	770,040	727,797
FEI COMPANY.....	150,847	3,131,584	3,314,803
FERRO CORP.....	205,835	3,515,662	4,244,958
FIRST NIAGARA FINANCIAL GROUP INC.....	21,400	320,144	293,587
FISHER SCIENTIFIC INTERNATIONAL INC.....	45,600	3,567,288	3,378,803
FLORIDA EAST COAST INDUSTRY.....	63,500	3,455,670	2,866,584
FLUSHING FINANCIAL CORP.....	45	789	776
FOREST CITY ENTERPRISES INC.....	27,910	1,501,000	1,080,913
FOSSIL INC.....	28,010	527,148	551,012
FSI INTERNATIONAL INC.....	39,025	226,345	198,416
FTI CONSULTING INC.....	17,200	384,248	378,688
FULTON FINANCIAL CORP.....	13,598	227,087	223,472
GALLAGHER ARTHUR J & CO.....	171,450	4,594,860	4,731,060
GASCO ENERGY.....	11,580	33,814	32,275
GENERAL COMMUNICATION INC.....	287,800	3,657,938	2,854,623
GENERAL GROWTH PROPERTIES INC.....	124,800	5,657,184	2,933,405
GEORGIA GULF CORP.....	20,700	549,378	575,650
GERBER SCIENTIFIC INC.....	24,635	379,872	217,164
GLENBOROUGH REALTY.....	42,964	1,108,901	890,504
GLOBAL INDUSTRIES LTD.....	40,100	718,592	502,156
GOLDEN WEST FINANCIAL CORP.....	21,600	1,630,584	1,631,146
GRANT PRIDECO INC.....	3,500	145,355	123,772

PERMANENT UNIVERSITY FUND

EQUITY SECURITIES

August 31, 2006

SCHEDULE A

(CONTINUED)

SECURITY	SHARES	VALUE (\$)	COST (\$)
GREEN COUNTY BANKSHARES INC.....	5,230	177,977	142,547
GREENBRIER COMPANIES INC.....	17,755	493,234	524,301
GULF IS FABRICATION INC.....	8,160	220,891	206,378
HALLIBURTON CO.....	35,128	1,145,875	1,036,407
HANOVER COMPRESSOR CO.....	26,373	496,340	487,191
HEALTH CARE PROPERTY INVESTORS.....	25,800	776,322	668,025
HEICO CORP.....	100	3,313	2,241
HELMERICH & PAYNE.....	104,000	2,551,120	3,786,671
HENRY JACK & ASSOC INC.....	162,500	3,113,500	3,226,394
HERCULES OFFSHORE INC.....	3,100	98,952	62,000
HERLEY INDUSTRIES INC.....	19,700	262,404	218,671
HERMAN MILLER INC.....	8,500	240,040	242,541
HESS CORP.....	17,400	796,572	724,197
HEXCEL CORP.....	145,300	2,182,406	2,648,551
HILB ROGAL & HAMILTON CO.....	204,582	8,852,263	7,312,663
HILTON HOTELS CORP.....	521,445	13,281,204	11,753,513
HORIZON HEALTHCARE CORP.....	44,300	606,467	836,512
HORNBECK OFFSHORE SERVICES INC.....	5,300	178,133	170,769
HOST MARRIOTT CORP.....	873,728	19,693,829	13,302,433
HOUSTON EXPLORATION CO.....	59,500	3,816,925	3,413,335
HUTCHINSON TECHNOLOGY INC.....	23,400	482,976	543,000
INLAND REAL ESTATE CORP.....	68,900	1,112,735	1,086,565
INPUT/OUTPUT INC.....	36,300	361,911	274,152
INSITUFORM TECHNOLOGIES INC.....	28,280	649,026	622,059
INTEGRATED DEVICE TECHNOLOGY.....	34,550	595,297	441,190
INTEL CORPORATION.....	403,600	7,886,344	8,329,121
INTERNATIONAL RECTIFIER CORP.....	23,490	829,197	824,728
INTERNET CAPITAL GROUP INC.....	18,000	162,000	166,459
INTERPOOL INC.....	15,460	335,482	301,655
INTERWOVEN INC.....	20,500	224,885	179,631
INVESTORS BANCORP INC.....	42,500	610,725	570,523
INVIDIA CORP.....	91,400	2,660,654	2,205,199
ITT EDUCATIONAL SERVICES INC.....	21,150	1,397,804	795,056
K2 INC.....	28,300	329,695	339,216
KAMAN CORP.....	10,325	184,921	188,005
KANBAY INTERNATIONAL INC.....	5,700	105,507	80,646
KAYDON CORP.....	4,500	171,495	143,319
KEANE INC.....	33,300	515,484	413,257
KEITHLEY INSTRUMENTS INC.....	20,150	227,897	315,136
KELLWOOD CO.....	11,400	312,474	293,468
KEMET CORP.....	778,650	6,408,290	7,553,162
KEY ENERGY GROUP INC.....	14,900	223,500	214,944
KFX INC.....	59,000	945,180	838,924
KILROY REALTY CORP.....	61,600	4,870,712	3,285,432
KINDRED HEALTHCARE INC.....	22,400	697,536	529,460
KLA INSTRUMENTS CORP.....	108,900	4,781,799	5,228,379
KNOLL INC.....	21,770	388,159	379,359
KORN FERRY INTERNATIONAL.....	18,100	369,602	325,544
KRONOS INC.....	5,700	173,964	170,502
KULICKE & SOFFA INDUSTRY INC.....	59,200	465,904	577,724

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SCHEDULE A

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SECURITY	SHARES	VALUE (\$)	COST (\$)
LAKELAND INDUSTRIES INC.....	118,164	1,611,759	1,517,361
LATTICE SEMICONDUCTOR CORP.....	129,400	947,208	708,690
LECROY CORP.....	193,625	2,488,082	3,192,201
LIBERTY PROPERTIES TRUST.....	234,200	11,211,154	10,091,855
LIFEPOINT HOSPITALS INC.....	22,200	755,910	685,192
LONGVIEW ENERGY COMPANY.....	2,100	38,850	31,500
LSI LOGIC CORP.....	243,500	1,960,175	2,086,506
LTX CORP.....	152,890	775,152	974,025
LYDALL INC.....	15,055	128,419	144,176
MACDERMID INC.....	14,060	402,819	440,781
MACERICH CO.....	206,300	15,402,358	10,112,126
MACK CALIFORNIA REALTY CORP.....	186,100	9,891,215	7,797,010
MACROVISION CORP.....	56,100	1,306,008	1,073,026
MAGMA DESIGN AUTOMATION INC.....	21,893	165,949	202,729
MAGUIRE PROPERTIES INC.....	154,000	6,146,140	5,103,160
MARATHON OIL CORP.....	9,100	759,850	738,479
MARSHALL & ILSLEY CORP.....	58,300	2,718,529	2,618,999
MASSEY ENERGY CORP.....	89,010	2,246,612	3,365,425
MATERIAL SCIENCES CORP.....	33,470	318,969	415,376
MATTSON TECHNOLOGY INC.....	39,735	311,125	381,048
MAXWELL TECHNOLOGIES INC.....	8,500	167,790	127,117
MCAFFEE INC.....	256,400	5,835,664	6,229,318
MEDSITE INC.....	4,882	1	1
MERCURY COMPUTER SYSTEM INC.....	45,360	563,371	1,156,781
MEREDITH CORP.....	7,075	334,931	367,825
MERIX CORP.....	37,430	454,026	319,281
MICRON TECHNOLOGY INC.....	340,600	5,885,568	4,763,578
MICROSOFT CORP.....	210,850	5,416,737	5,589,587
MILLS CORP.....	105,800	1,902,284	4,715,303
MKS INSTRUMENTS INC.....	34,900	729,061	687,457
MODINE MANUFACTURING CO.....	7,900	183,991	226,319
MODTECH HOLDINGS INC.....	28,895	155,455	271,133
MONACO COACH CORP.....	56,000	591,360	784,363
MORGAN HOTEL GROUP CO.....	93,980	1,249,934	1,751,914
MORGAN STANLEY DEAN WITTER.....	91,550	6,023,075	5,617,715
MORTONS RESTAURANT GROUP INC.....	9,200	141,772	159,050
MRO SOFTWARE INC.....	94,300	2,422,567	1,149,706
MULTI FINELINE ELECTRONIX INC.....	18,400	415,472	397,996
MYERS INDUSTRIES INC.....	29,372	482,582	412,795
NATIONWIDE HEALTH.....	95,300	2,483,518	2,029,763
NBTY INC.....	15,400	490,644	329,974
NEWALLIANCE BANCSHARES INC.....	24,300	354,294	346,432
NEWFIELD EXPLORATION CO.....	91,422	3,953,087	3,468,111
NEWPARK RESOURCE INC.....	73,800	408,852	496,072
NEWPORT CORP.....	29,460	519,380	445,031
NGP CAPITAL RESOURCES CO.....	1,300	18,408	19,500
NN INC.....	27,400	344,144	333,296
NOKIA CORP.....	152,200	3,177,936	2,718,861
NORTHEAST COMMUNITY BANCORP INC.....	17,100	192,888	188,787
NOVELLUS SYSTEM INC.....	310,600	8,671,952	8,004,671

**PERMANENT UNIVERSITY FUND**  
**EQUITY SECURITIES**  
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SCHEDULE A  
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SECURITY	SHARES	VALUE (\$)	COST (\$)
NYMAGIC INC.....	7,098	210,030	180,862
OAKLEY INC.....	100,938	1,660,430	1,705,904
OMI CORP.....	34,200	770,184	602,223
OYO GEOSPACE.....	197	11,857	6,511
PACIFIC SUNWEAR CALIFORNIA INC.....	48,600	649,296	931,122
PAR PHARMACEUTIAL COS INC.....	38,000	682,100	812,295
PARALLEL PETE CORP.....	16,071	385,383	368,709
PARAMETRIC TECHNOLOGY CORP.....	302,040	4,865,864	4,326,799
PATTERSON UTI ENERGY INC.....	7,459	204,377	121,908
PAXAR CORP.....	12,600	245,322	263,551
PEABODY ENERGY CORP.....	76,722	3,381,138	1,866,051
PENN VIRGINIA CORP.....	29,600	2,101,304	1,615,871
PENTAIR INC.....	78,300	2,341,170	2,683,133
PERICOM SEMICONDUCTOR CORP.....	36,600	340,380	308,113
PEROT SYSTEMS CORP.....	282,500	4,056,700	4,214,014
PERRIGO CO.....	25,600	413,184	388,740
PETROHAWK ENERGY CORP.....	39,400	439,310	480,451
PETROLEUM CO.....	8,283	166,074	149,786
PHOENIX TECHNOLOGY LTD.....	46,390	231,950	286,093
PIER 1 IMPORTS INC.....	41,800	267,102	520,983
PILGRIMS PRIDE CORP.....	26,600	647,976	651,075
PIONEER NATURAL RESOURCE CO.....	22,000	917,620	925,623
PLAINS EXPLORATION & PRODUCTION.....	58,600	2,578,986	1,626,742
PLANAR SYSTEMS INC.....	18,460	181,462	226,990
PLANTRONICS INC.....	35,400	634,368	857,957
POGO PRODUCING CO.....	201,450	8,946,395	10,259,392
POST PROPERTIES INC.....	152,720	7,361,104	6,294,967
POWELL INDUSTRIES INC.....	8,081	177,863	165,546
POWER-ONE INC.....	38,300	260,057	249,788
POWERWAVE TECHNOLOGIES INC.....	93,800	711,004	777,986
PREFERRED BANK LOS ANGELES CA.....	23,300	1,305,965	921,572
PRIDE INTERNATIONAL INC.....	69,100	1,791,763	1,807,657
PROCENTURY CORP.....	24,485	360,419	271,559
PROGRESS SOFTWARE CORP.....	6,900	174,708	168,171
PROLOGIS TRUST.....	354,372	20,007,843	10,076,802
PROSPERITY BANCSHARES INC.....	227,097	8,011,982	6,856,632
PROVIDENT FINANCIAL SERVICES INC.....	33,900	632,235	611,206
PUBLIC STORAGE INC.....	271,140	23,494,281	12,570,911
QUAKER CHEMICAL CORP.....	4,575	86,468	96,698
QUESTAR CORP.....	3,500	302,890	239,496
QUIKSILVER INC.....	34,600	484,400	479,304
RADIOSHACK CORP.....	43,100	778,386	768,551
RAILAMERICA INC.....	28,200	284,538	288,175
READERS DIGEST ASSOCIATION INC.....	16,100	206,241	233,545
RECKSON ASSOCIATES REALTY CORP.....	175,600	7,513,924	6,318,991
REGAL BELOIT CORP.....	4,213	181,833	132,349
RESTORATION HARDWARE INC.....	61,581	432,914	366,904
RF MICRO DEVICES INC.....	95,600	632,872	661,440
ROBBINS & MYERS INC.....	19,521	562,205	472,590
ROGERS CORP.....	74,810	4,340,476	3,041,485

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SCHEDULE A

(CONTINUED)

SECURITY	SHARES	VALUE (\$)	COST (\$)
ROWAN COMPANIES INC.....	31,400	1,073,880	890,458
ROYAL GOLD INC.....	23,200	691,128	747,777
RUBY TUESDAY INC.....	237,000	6,119,340	6,082,671
SAFENET INC.....	207,100	3,893,480	3,636,169
SAKS INC.....	154,800	2,233,764	2,622,952
SANDERSON FARMS INC.....	11,900	371,994	327,344
SAUER INC.....	3,500	78,925	86,169
SCHAWK INC.....	14,700	281,358	309,874
SCHLUMBERGER LTD.....	104,071	6,379,552	5,762,087
SCHOLASTIC CORP.....	14,050	422,343	410,272
SENIOR HOUSING PROPERTIES TRUST.....	81,250	1,653,438	1,464,839
SILICON IMAGE INC.....	7,600	88,236	82,861
SILICON LABORATORIES INC.....	14,400	507,888	485,573
SIMON PROPERTY GROUP INC.....	310,240	26,305,250	16,741,029
SKYWORKS SOLUTIONS INC.....	95,500	442,165	546,312
SL GREEN REALTY CORP.....	67,700	7,552,612	1,902,648
SONOSIGHT INC.....	8,800	279,224	252,586
SOTHEBYS HOLDINGS INC.....	11,700	325,260	220,043
SOUTH FINANCIAL GROUP INC.....	258,041	6,974,848	7,193,992
SOUTHWESTERN ENERGY CO.....	40,900	1,404,915	1,324,426
ST JUDE MEDICAL INC.....	63,200	2,301,112	2,349,282
ST MARY LAND & EXPLORATION CO.....	2,000	81,600	81,931
STANDEX INTERNATIONAL CORP.....	5,780	170,221	163,447
STARWOOD HOTELS & RESORTS.....	294,395	15,679,478	12,549,849
STEAK N SHAKE CO.....	13,600	218,552	232,576
STEELCASE INC.....	20,810	301,745	319,462
STERLING BANCORP.....	29,100	565,413	566,063
STONE ENERGY CORP.....	82,400	3,639,608	3,815,115
STRATEGIC HOTELS & RESORTS INC.....	271,300	5,534,520	5,401,509
SUN MICROSYSTEMS INC.....	837,700	4,180,123	3,915,159
SUPERIOR BANCORP.....	22,627	264,057	250,805
SYMBOL TECHNOLOGIES INC.....	53,600	643,736	569,546
SYMMETRICOM INC.....	26,720	199,331	205,637
SYNOPSIS INC.....	337,900	6,406,584	6,627,882
TAKE-TWO INTERACTIVE SOFTWARE.....	6,900	84,180	68,829
TANGER FACTORY OUTLET CENTERS INC.....	145,500	5,208,900	3,508,179
TAUBMAN CENTERS INC.....	47,500	1,913,775	1,590,694
TEKELEC.....	34,600	460,180	471,602
TENET HEALTHCARE CORP.....	89,530	705,496	605,108
TERADYNE INC.....	327,200	4,593,888	4,990,464
TERASTOR CORP.....	26,236	1	1
TETRA TECHNOLOGIES INC.....	36,814	611,112	587,455
TEXAS INSTRUMENTS INC.....	96,900	3,157,971	2,435,799
TIBCO SOFTWARE INC.....	32,600	256,236	240,628
TRC COMPANIES INC.....	15,430	145,814	186,634
TREASURE ISLAND ROYALTY TRUST.....	511	66	347
TREDEGAR INDUSTRIES INC.....	13,900	229,350	215,046
TRINITY INDUSTRIES INC.....	5,450	181,812	152,721
TRIQUINT SEMICONDUCTOR INC.....	35,800	176,494	156,899
TTM TECHNOLOGIES INC.....	39,800	511,828	545,264

**PERMANENT UNIVERSITY FUND**

**EQUITY SECURITIES**

August 31, 2006

SCHEDULE A

(CONTINUED)

SECURITY	SHARES	VALUE (\$)	COST (\$)
U S I HOLDINGS CORP.....	37,425	500,372	477,013
U STORE IT TRUST.....	61,000	1,215,120	1,271,540
ULTRATECH STEPPER INC.....	29,540	432,170	558,903
UNITED RENTALS INC.....	253,770	5,496,658	5,535,102
UNIVERSAL HEALTH SERVICES INC.....	144,900	8,204,238	6,753,176
VALASSIS COMMUNICATIONS INC.....	8,300	163,676	170,806
VALEANT PHARMACEUTICALS INTERNATIONAL.....	176,900	3,477,854	3,266,498
VALUEVISION INTERNATIONAL INC.....	29,225	322,644	356,927
VARIAN INC.....	10,950	511,146	423,728
VARIAN SEMICONDUCTOR EQUIPMENT.....	10,550	372,521	282,942
VEECO INSTRUMENTS INC.....	22,130	541,300	458,631
VENTAS INC.....	194,400	7,785,720	6,098,936
VISHAY INTERTECHNOLOGY INC.....	250,350	3,507,404	3,726,928
VORNADO REALTY TRUST.....	256,989	27,217,705	13,919,430
WARNACO GROUP INC.....	27,600	555,588	547,411
WARRIOR ENERGY SERVICES CORP.....	2,700	51,570	63,450
WASHINGTON TRUST BANCORP INC.....	6,207	163,803	166,855
WEST MARINE INC.....	19,870	271,623	277,779
WH ENERGY SERVICES INC.....	57,915	2,922,970	2,688,512
WHITING PETROLEUM CORP.....	7,800	351,000	302,978
WILLIAMS CLAYTON ENERGY INC.....	29,664	972,386	888,342
WINNEBAGO INDUSTRIES.....	15,100	440,920	469,413
WJ COMMUNICATIONS INC.....	43,127	73,747	93,736
ZALE CORP.....	17,800	476,150	473,299
ZOLL MEDICAL CORP.....	17,300	655,843	482,314
<b>TOTAL DOMESTIC COMMON STOCKS</b>		<b>971,465,701</b>	<b>788,015,294</b>

**FOREIGN COMMON STOCKS**

A P MOLLER - MAERSK A/S.....	70	582,583	671,313
ACOM CO.....	74,730	3,345,121	4,164,959
AEON CREDIT SERVICE CO.....	25,000	598,968	714,155
AFG(ARBONIA FORSTER HOLDINGS AG).....	700	246,969	203,768
AICHI TOYOTA MOTOR CO.....	51,000	934,902	1,087,904
AIFUL CORP.....	56,300	2,256,128	2,946,822
AIRPORT FACILITIES CO.....	54,000	355,442	322,802
AISIN SEIKI CO.....	5,000	151,767	119,271
AKER KVAERNER.....	22,630	2,171,544	698,486
AKITA DRILLING LTD.....	103,700	1,962,334	1,939,122
ALBERTA CLIPPER ENERGY INC.....	13,725	66,414	49,552
ALFA LAVAL NVP.....	9,800	324,494	327,394
ALGOMA STEEL INC.....	2,100	69,732	62,437
ALPHA CORP.....	5,000	173,509	183,261
ALTEN NPV.....	20,500	625,061	372,938
AMAGERBANKEN.....	18,700	1,273,943	939,971
AMPER SA.....	58,200	705,505	581,550
ANDRES WINES LTD.....	2,800	74,936	64,608
ANGLE ENERGY.....	38,200	129,083	128,377
ANGLO AMERICAN PLC.....	34,760	753,597	414,592
ANTOFAGASTA PLC.....	178,000	1,576,102	935,513
APRIL GROUP.....	11,900	592,548	382,511

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SCHEDULE A

(CONTINUED)

SECURITY	SHARES	VALUE (\$)	COST (\$)
ASAHI BREWERIES.....	450,000	6,606,983	5,396,212
ASATSU-DK INC.....	138,400	4,472,320	3,889,074
ASM PACIFIC TECHNOLOGY.....	60,000	310,927	338,396
ASML HOLDING N V.....	35,900	791,954	717,641
ASPEN INSURANCE HOLDINGS.....	31,300	774,049	790,024
ASPREVA PHARMACEUTICALS CORP.....	15,900	392,575	416,395
AUR RESOURCES INC.....	146,800	2,467,060	1,249,438
AURORA ENERGY RESOURCES INC.....	12,000	102,293	65,312
AUSTRALIAN WEALTH MANAGEMENT.....	130,900	220,916	199,345
AUTONOMY CORP.....	93,000	689,025	613,619
AXON GROUP.....	68,000	519,002	510,653
AZIMUT HOLDING SPA.....	101,000	1,125,685	1,226,536
BALLARD POWER SYSTEMS INC.....	15,300	93,475	158,719
BANCA ITALEASE.....	15,000	724,636	604,114
BAYTEX ENERGY TRUST.....	30,500	735,463	720,470
BCE INC.....	289,231	7,185,491	7,597,023
BELC CO.....	23,000	194,339	223,853
BELLWAY PLC.....	13,600	314,053	186,397
BENI STABILI SPA.....	490,448	501,046	512,954
BG GROUP PLC.....	21,160	1,383,229	768,502
BHP BILLITON LTD.....	30,970	1,303,837	745,421
BIC SA.....	16,500	1,025,205	1,116,653
BIJOU BRIGITTE.....	7,300	1,882,890	723,213
BINCK NV.....	26,900	401,493	460,282
BIOMAR HOLDING S/A.....	26,000	1,035,092	998,684
BIRCHCLIFF ENERGY LTD.....	25,900	123,228	135,277
BOARDWALK REAL ESTATE INVESTMENT.....	20,600	564,307	535,647
BOLIDEN AB.....	34,400	646,804	411,175
BONTERRA ENERGY INCOME.....	2,600	84,343	71,104
BOOM LOGISTICS.....	321,300	1,025,608	834,147
BORALEX INC.....	32,600	274,665	178,029
BOSTON PIZZA ROYALTIES INCOME FUND.....	4,000	68,484	54,765
BOW VALLEY ENERGY LTD.....	38,100	211,142	38,672
BRAEMAR SEASCOPE GROUP PLC.....	91,300	688,153	705,871
BREAKWATER RESOURCES LTD.....	583,700	683,767	618,016
BRIT INSURANCE HOLDINGS.....	64,100	331,034	324,081
BRITISH AIRWAYS.....	174,000	1,359,476	862,479
BRITISH LAND COMPANY PLC.....	216,898	5,631,615	4,155,116
BROOKFIELD PROPERTIES CORP.....	617,950	21,659,148	11,837,288
BUSINESS OBJECTS.....	18,500	515,410	403,332
CABCHARGE AUSTRALIA LTD.....	46,300	265,177	211,474
CAIRN ENERGY PLC.....	51,180	2,075,545	1,371,113
CALSONIC KANSEI CORP.....	193,000	1,146,958	1,431,682
CANACCORD CAPITAL INC.....	45,500	742,104	374,311
CANADA BREAD CO LTD.....	7,000	384,771	187,413
CANADIAN NATURAL RESOURCES LTD.....	43,640	2,295,028	1,088,768
CANADIAN SUPERIOR ENERGY INC.....	40,100	86,215	85,018
CANADIAN WESTERN BANK.....	5,500	218,365	185,777
CANAM MANAC GROUP INC.....	37,200	343,591	221,523
CANEXT ENERGY LTD.....	4,900	7,065	8,782

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SCHEDULE A

(CONTINUED)

SECURITY	SHARES	VALUE (\$)	COST (\$)
CANON MARKETING JAPAN INC.....	33,000	783,604	442,683
CAPITOL ENERGY RESOURCE LTD.....	10,576	48,413	37,288
CAPRAL ALUMINIUM LTD.....	539,800	523,517	556,509
CATHEDRAL ENERGY SERVICES INC.....	10,700	97,382	120,706
CCS INCOME TRUST.....	7,300	246,480	241,228
CELESIO AG.....	25,400	1,287,525	1,029,081
CELTIC EXPLORATION LTD.....	5,400	67,588	69,336
CELTIC RESOURCE HOLDINGS.....	240,500	1,031,588	1,077,837
CEMENTOS PORTLAND VALDERRIVAS.....	6,800	693,736	764,885
CENTURY LEASING SYSTEM.....	53,100	703,563	603,556
CENTURY OILFIELD SERVICES INC.....	261,500	824,735	402,319
CERAMIC PROTECTION CORP.....	3,400	73,990	67,413
CHAMPION REAL ESTATE.....	5,396,000	2,726,882	2,782,791
CHARTER PLC.....	88,200	1,286,793	412,862
CHAUCER HOLDINGS.....	358,100	454,675	419,063
CHEMRING GROUP.....	62,000	1,737,158	979,033
CHIBA BANK.....	50,000	465,959	311,714
CHUBU SHIRYO CO.....	36,000	273,795	194,579
CHUBU STEEL PLATE CO.....	17,000	202,635	241,988
CITIC INTERNATIONAL FINANCIAL HOLDINGS LTD.....	1,931,000	1,003,149	1,079,863
CITYCON OYJ.....	44,400	217,107	188,097
CLARKE INC.....	7,000	72,413	56,554
COCA COLA.....	192,800	3,756,218	4,398,199
CODAN.....	7,200	518,919	258,245
COGECO CABLE INC.....	24,800	564,048	477,570
COGECO INC.....	2,900	59,450	71,955
COM DEV INTERNATIONAL LTD.....	149,100	757,760	683,039
COMPTON PETROLEUM CORP.....	86,200	1,036,986	1,183,582
COMPTON PETROLEUM CORP.....	94,431	1,132,577	1,016,789
CONSUMERS WATERHEATER INC.....	4,700	64,248	66,167
CORBY DISTILLERIES.....	5,400	107,051	105,578
CORE LABORATORIES.....	9,900	726,363	257,091
CORUS GROUP ORD.....	179,780	1,341,372	1,166,254
COSMO OIL.....	122,000	537,784	636,126
CREDIA CO.....	186,000	1,600,154	2,448,081
CRESCENT POINT ENERGY TRUST.....	6,283	129,651	120,349
CREW ENERGY INC.....	17,891	225,703	221,598
CRM HOLDINGS LTD.....	61,200	459,000	634,604
CRYPTOLOGIC INC.....	2,500	65,150	61,372
CTS EVENTIM NPV.....	10,100	313,646	327,291
D&M HOLDINGS INC.....	291,000	893,208	1,045,509
DAIBIRU CORP.....	90,100	916,480	1,051,532
DAIDO METAL CO.....	253,000	1,456,069	1,802,363
DAIICHI KOSHO CO.....	36,000	419,900	426,635
DAIICHI SANKYO COMPANY LTD.....	122,000	3,370,252	2,612,717
DAIKOKU DENKI CO.....	12,000	335,592	388,716
DAISHINKU CORP.....	187,000	1,179,861	1,314,173
DAISYO CORP.....	15,000	216,780	165,239
DATA COMMUNICATIONS SYSTEM CO.....	4,000	140,512	125,822
DATAMONITOR.....	144,300	1,090,373	1,088,206

PERMANENT UNIVERSITY FUND

EQUITY SECURITIES

August 31, 2006

SCHEDULE A

(CONTINUED)

SECURITY	SHARES	VALUE (\$)	COST (\$)
DAVID JONES LIMITED.....	428,300	1,154,562	1,131,589
DELPHI ENERGY CORP.....	24,200	99,875	79,355
DELTA GROUP.....	148,900	365,367	338,419
DELTA HOLDING.....	46,800	734,452	629,163
DENYO CO LTD.....	30,000	367,055	341,896
DERWENT VALLEY HOLDINGS.....	29,563	1,013,886	860,894
DIAMOND LEASE COMPANY.....	20,000	903,782	1,044,614
DIAWABO INFO SYSTEM.....	75,000	1,039,774	1,255,204
DTZ HOLDINGS.....	123,295	1,438,815	963,927
EASYHOME LTD.....	4,750	68,484	51,263
EASYJET ORD.....	159,000	1,402,574	652,075
EIFFAGE.....	18,000	1,556,413	609,675
ELCOTEQ NETWORK CORP.....	21,000	380,367	485,212
ELDORADO GOLD CORP.....	70,300	344,470	306,955
ELEKTRIZITATS-G LAUFENBURG AG.....	330	291,472	289,108
ELEMENTS PLC.....	940,600	1,592,355	1,222,802
ELPIDA MEMORY INC.....	11,000	486,763	503,268
EMBER RESOURCES INC.....	17,515	62,342	48,699
EMERGIS INC.....	110,500	528,727	412,146
ENCANA CORP.....	45,700	2,410,218	1,404,317
ENDEV ENERGY INC.....	31,500	40,874	25,049
ENDURANCE SPECIALTY HOLDINGS LTD.....	10,000	322,700	326,388
ENERFLEX SYSTEMS LTD.....	5,200	154,114	124,029
ENERGY METALS CORP.....	6,114	32,064	28,697
ENGHOUSE SYSTEMS LTD.....	16,300	115,301	152,204
EQUITABLE GROUP INC.....	61,500	1,510,138	1,423,715
ES-CON JAPAN LTD.....	3	5,985	5,121
ESPIRIT ENERGY TRUST.....	1,836	22,699	18,544
ESPRINET.....	103,800	1,775,265	1,484,746
ESSO(FRANCAISE).....	1,600	403,472	394,386
EUROZINC MINING CORP.....	23,300	65,717	69,951
EXPRO INTERNATIONAL GROUP.....	15,590	205,951	115,329
FADESA INMOBILIAR.....	36,500	1,176,456	1,247,610
FAIRFAX FINANCIAL HOLDINGS LTD.....	43,245	5,188,621	6,848,833
FAIRQUEST ENERGY LTD.....	24,600	123,249	129,455
FIRST CALGARY PETES LTD.....	18,123	162,980	135,693
FIRST PACIFIC CO.....	6,670,000	3,001,897	2,143,903
FLINT ENERGY SERVICES LTD.....	33,400	1,956,297	1,147,406
FORDING CANADIAN COAL TRUST.....	45	1,359	967
FORZANI GROUP LTD.....	23,000	349,016	337,651
FOUR SEASONS HOTELS INC.....	1,291	81,475	72,158
FOURLIS.....	28,800	426,164	249,836
FRONTLINE LTD.....	4,500	183,555	170,440
FUBON BANK(HONG KONG) LTD.....	591,000	219,628	227,301
FUCHS PETROLUB AG N V PRT.....	24,970	1,378,558	1,013,807
FUJI HEAVY LTD.....	164,000	949,448	888,553
FUJI MACHINE MANUFACTURING.....	15,000	306,305	322,835
FUJI SEIKO LTD.....	24,000	149,380	161,557
FUJI TELEVISION NETWORK.....	3,719	8,339,490	7,553,762
FUJIKURA.....	52,000	614,947	409,177

**PERMANENT UNIVERSITY FUND**  
**EQUITY SECURITIES**  
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SCHEDULE A  
(CONTINUED)

SECURITY	SHARES	VALUE (\$)	COST (\$)
FUJI-TEC.....	1,578,332	9,998,727	8,627,068
FUKUDA DENSHI.....	4,000	131,986	146,324
FURUNO ELECTRIC CO.....	146,000	1,308,318	1,707,382
FUTABA INDUSTRIAL.....	96,700	2,127,178	1,830,450
FUYO GENERAL LEASE CO LTD.....	12,000	365,264	479,717
GAKKEN CO.....	630,000	1,530,886	1,454,182
GALLEON ENERGY INC.....	233,659	4,000,469	1,880,169
GALLEON ENERGY INC CLASS A.....	868	14,861	6,213
GAMMON LAKE RESOURCES INC.....	28,800	367,218	414,433
GARDA WORLD SECURITY CORP.....	25,100	498,042	165,903
GERRY WEBER INTERNATIONAL AG NPV(REG).....	27,900	589,628	426,594
GLEESON(M J) GROUP ORD.....	180,200	1,317,084	1,091,965
GLOBAL SANTAFE CORP.....	11,700	575,874	515,137
GMP CAPITAL TRUST.....	28,900	602,610	374,983
GOLDCORP INC.....	79,455	2,197,725	1,110,254
GOLDSHIELD GROUP.....	82,700	418,045	524,848
GRAND HOTEL GROUP ORD.....	534,500	402,048	362,229
GROUPE LAPERRIERE & VERREULT.....	96,200	2,188,827	1,913,807
GRUPO CATALANA OCCIDENTE SA.....	19,000	513,415	231,840
GSI GROUP INC.....	54,100	487,441	555,778
GUARDIAN CAPITAL GROUP LTD.....	14,000	141,924	99,926
GULLIVER INTERNATIONAL.....	4,000	325,702	315,249
GUNMA BANK.....	135,000	1,038,240	1,033,600
HALDEX AB.....	20,500	389,702	421,708
HAMMERSON.....	120,777	2,922,242	2,299,399
HANKYU HOLDINGS INC.....	162,000	867,426	980,412
HARRIS STEEL GROUP INC.....	27,800	814,147	390,548
HAWKER RESOURCES INC.....	2,599	10,188	8,690
HENDERSON LAND DEVELOPMENT CO.....	480,000	2,712,701	2,415,363
HIGHPINE OIL & GAS LTD.....	26,915	443,834	170,690
HIGHWAY INSURANCE HOLDINGS.....	801,113	1,074,305	1,045,967
HIKARI BUSINESS.....	30,001	254,517	257,797
HITACHI KOKUSAI ELECTRIC.....	10,000	112,291	131,176
HITACHI MAXELL.....	72,000	903,645	1,006,440
HITACHI SYSTEMS & S NAV.....	5,000	105,299	133,221
HODOGAYA CHEMICAL.....	53,000	183,468	183,999
HOKKAIDO ELECTRIC POWER CO INC.....	7,000	173,083	152,143
HONG KONG LAND HOLDINGS.....	970,000	3,899,400	3,398,547
HSE INTEGRATED LTD.....	666	1,404	1,219
HUDBAY MINERALS INC.....	22,100	298,915	310,729
HUFVUDSTADEN FAST.....	154,700	1,235,145	1,138,922
HUNTING PLC.....	202,200	1,723,074	557,700
HUNTSWORTH.....	165,000	282,469	313,363
HUSKY ENERGY INC.....	30,560	2,106,086	813,578
HUSKY ENERGY INC.....	1,000	68,916	39,788
HUSKY INJECTION MOLDING SYSTEM.....	16,100	72,829	76,498
HYSAN DEVELOPMENT.....	903,151	2,450,443	2,333,523
IBJ LEASING CO LIMITED.....	28,000	697,106	612,216
IG GROUP HOLDINGS.....	74,500	335,145	335,450
IMPERIAL OIL LTD.....	45,480	1,717,780	995,991

**PERMANENT UNIVERSITY FUND**  
**EQUITY SECURITIES**  
August 31, 2006

SCHEDULE A  
(CONTINUED)

SECURITY	SHARES	VALUE (\$)	COST (\$)
INCHCAPE.....	68,400	645,982	284,993
INDEPENDENCE GOLD.....	175,100	462,654	446,996
INMET MINING CORP.....	34,300	1,437,216	893,746
INNOVA EXPLORATION LTD.....	12,162	68,386	76,403
INTERNATIONAL POWER.....	218,600	1,320,197	766,681
INTERNATIONAL URANIUM CORP.....	10,600	59,603	56,595
INVESTOR GROUP.....	172,200	769,278	684,073
ISHIGURO HOMA CORP.....	48,000	723,162	674,099
ITE GROUP ORD.....	223,800	511,906	375,727
ITM POWER.....	24,300	64,596	86,900
ITOCHU CORP.....	105,000	881,826	872,067
IXI CO LTD.....	497	1,606,028	1,451,369
JACCS CO.....	67,000	735,209	578,933
JET MULTIMEDIA.....	22,700	502,688	587,102
JM AB.....	87,600	1,368,542	560,732
JULIUS BAER HOLDINGS.....	15,300	1,468,016	1,224,061
KAGA ELECTRONICS CO.....	11,000	223,217	294,994
KANDENKO.....	118,000	828,017	902,555
KANTO AUTO WORKS.....	52,700	625,022	649,805
KAWAI MUSICAL INST.....	92,000	175,709	236,111
KEIHIN CORP.....	27,000	572,068	431,554
KEIO CORP.....	152,000	990,135	1,055,324
KEIYO BANK LTD.....	26,000	150,079	139,835
KEPPEL CORP.....	120,790	1,152,137	681,041
KERRY PROPERTIES LTD.....	3,962	14,876	14,603
KESKO.....	26,700	1,129,219	553,928
KIER GROUP.....	36,600	1,120,861	498,748
KINGSGATE CONSOLIDATION NL.....	49,000	199,068	229,959
KIRIN BREWERY CO.....	457,000	6,355,178	4,473,664
KODIAK OIL & GAS CORP.....	250,500	1,038,342	515,187
KOHNAN SHOJI.....	106,000	1,096,287	1,675,614
KOMATSU WALL INDUSTRY.....	12,000	200,844	229,033
KOREA ELECTRIC POWER CORP.....	47,730	1,826,796	1,592,709
KT&G CORP.....	75,420	4,424,014	2,582,912
KUBOTA CORPORATION.....	123,000	1,013,071	603,763
KUEHNE & NAGEL AG.....	20,000	1,403,950	734,488
KUMAGAI-GUMI.....	51,000	121,755	138,043
KURABO INDUSTRIES.....	100,000	281,366	263,192
KYODO PRINTING CO.....	65,000	253,272	297,047
KYOSAN ELECTRIC.....	164,000	581,694	584,304
KYOWA EXECO CORP.....	81,000	882,619	716,943
LA SENZA CORP.....	11,300	278,898	183,757
LAND SECURITIES GROUP.....	78,545	2,829,719	2,455,295
LASERTEC CORP.....	24,000	663,000	648,070
LASSONDE INDUSTRIES INC.....	2,000	67,961	64,026
LAURENTIAN BANK OF CANADA.....	20,700	546,528	550,208
LAVENDON GROUP.....	213,600	1,086,850	1,141,865
LEADER ENERGY SERVICES LTD.....	10,621	26,798	15,648
LEGACY HOTELS REIT.....	278,335	2,169,496	2,088,692
LEROY SEAFOOD GROUP.....	13,100	229,595	162,378

PERMANENT UNIVERSITY FUND

EQUITY SECURITIES

August 31, 2006

SCHEDULE A

(CONTINUED)

SECURITY	SHARES	VALUE (\$)	COST (\$)
LINAMAR CORP.....	11,200	136,752	162,578
LION CORP.....	485,000	2,592,787	2,808,816
LUKOIL CO.....	7,300	611,010	602,604
LUMENIS LTD.....	121	169	190
LUNDIN MINING CORP.....	2,300	68,187	61,130
MABUCHI MOTOR.....	78,600	5,006,114	4,512,005
MAEDA CORP.....	70,000	324,679	320,663
MAJOR DRILLING GROUP INTERNATIONAL INC.....	23,600	462,537	183,655
MAKITA CORP.....	84,000	2,470,905	1,330,130
MANDARIN ORIENTAL INTERNATIONAL.....	1,537,000	1,706,070	1,685,993
MARTINREA INTERNATIONAL INC.....	34,000	229,781	191,740
MARUBENI CORP.....	168,000	898,120	927,842
MARUBUN CORP.....	13,000	165,153	149,590
MATSUSHITA ELECTRIC WORKS.....	34,000	362,945	330,272
MAX RE CAPITAL LTD.....	10,900	252,989	267,087
MAZDA MOTOR CORP.....	21,000	134,646	73,559
MCDERMOTT INTERNATIONAL INC.....	24,614	1,186,395	290,371
MECALUX SA.....	20,400	726,725	681,374
MEDA AB SERVICE.....	43,000	882,817	569,687
MEISEI INDUSTRIAL.....	24,000	124,824	183,922
MELCOR DEVELOPMENTS LTD.....	4,000	57,671	31,669
MIDNIGHT OIL EXPLORATION LTD.....	26,400	92,540	90,141
MILANO ASSICURAZIO.....	224,100	1,620,755	844,733
MILLERS RETAIL.....	846,900	1,054,178	1,079,295
MINACS WORLDWIDE INC.....	37,800	185,296	93,673
MINCOR RESOURCES.....	1,244,300	1,159,256	895,163
MINERVA.....	152,076	820,807	823,066
MINISTOP CO.....	71,100	1,385,203	1,389,265
MISSION OIL & GAS INC.....	3,918	52,570	42,317
MINISTOP CO.....	336,000	7,247,986	7,522,845
MITSUBISHI MATERIAL CORP.....	176,000	766,816	768,583
MITSUI FUDOSAN CO.....	218,000	4,888,434	4,571,543
MITSUI TRUST HOLDINGS NPV.....	30,000	351,452	387,700
MITSUMURA PRINTING.....	59,000	276,173	378,797
MMI HOLDINGS.....	2,614,000	1,487,683	1,152,333
MOCHIDA PHARMACEUTICAL.....	41,000	360,413	378,925
MONTEREY EXPLORATION LTD.....	34,600	135,625	126,642
MONTEREY EXPLORATION LTD WTS.....	11,533	0	0
MORGAN SINDALL.....	24,500	506,105	327,210
MORGUARD CORP.....	37,300	1,213,363	1,013,600
MORGUARD REIT.....	7,200	72,470	70,422
MORITA CORP.....	59,000	387,347	402,599
MOSAID TECHNOLOGIES INC.....	4,700	122,778	103,701
MULLEN GROUP INCOME FUND.....	26,400	606,623	318,964
MUNCHENER RUCKVERSICHERUNGS.....	10,052	1,508,663	1,140,004
N.G.K. SPARK PLUG CO.....	33,000	672,465	439,592
N.I.C. CORP.....	29,000	260,860	293,093
NABORS INDUSTRIES.....	16,000	526,080	490,140
NATEXIS BANQUE POPULAIRE.....	6,000	1,543,740	923,646
NAVIGAZ MONTANARI.....	266,200	1,221,586	1,055,788

PERMANENT UNIVERSITY FUND

EQUITY SECURITIES

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SCHEDULE A

(CONTINUED)

SECURITY	SHARES	VALUE (\$)	COST (\$)
NEC SYSTEM INT & CONS.....	11,000	117,705	146,999
NEW JAPAN RADIO CO.....	51,000	344,827	365,274
NEW WORLD DEVELOPMENT.....	1,678,052	3,012,262	2,550,508
NEWALTA INCOME FUND.....	2,300	67,026	65,924
NEXEN INC.....	11,800	684,661	332,030
NEXEN INC.....	300	17,514	9,636
NICHIAS CORP.....	106,000	786,290	636,385
NIDEC TOSOK CORP.....	7,000	80,096	89,903
NIHON KODEN CORP.....	52,000	928,849	588,475
NIKKO SECURITIES.....	1,155,500	14,679,585	10,799,809
NIPPON FINE CHEMICAL CO.....	506,504	3,152,560	3,131,297
NIPPON LIGHT METAL CO.....	350,000	901,224	873,909
NIPPON MINING HOLDING.....	106,000	777,252	885,540
NIPPON SYNTHETIC CHEMICAL INDUSTRY.....	226,000	815,091	1,076,055
NIPPON TEL & TEL CORP.....	1,111	5,617,283	4,941,799
NIPPON YAKIN KOGYO.....	81,000	346,003	361,082
NIPPONKOA INSURANCE CO.....	275,000	2,189,965	1,853,028
NISHIO RENT ALL CO.....	71,000	1,189,539	1,409,680
NISSAN SHATAI CO.....	57,000	318,813	383,468
NISSEI CORP.....	19,000	213,352	214,448
NOBLE CORP.....	32,000	2,092,480	2,322,630
NOLATO AB.....	19,700	216,525	210,805
NORSK HYDRO ASA.....	41,700	1,078,083	1,160,739
NORSK HYDRO ASA ADR.....	51,000	1,326,000	831,074
NORTH WEST COMPANY FUND.....	12,900	516,116	404,360
NORTHERN ORION RESOURCES INC.....	123,500	574,237	507,458
NORTHGATE EXPLORATION LTD.....	189,400	694,623	310,316
NOVA CHEMICALS CORP.....	11,100	354,312	350,971
NOVATEK OAO GDR.....	15,500	742,915	605,275
NQL DRILLING TOOLS INC.....	11,300	76,878	49,160
NTT URBAN DEVELOPMENT CORP.....	277	2,161,018	2,150,367
OILEXCO INC.....	52,100	318,304	110,293
OKABE.....	228,000	931,168	858,244
OKASAN HOLDINGS INC.....	23,000	237,285	249,329
OKURA INDUSTRIAL.....	276,000	1,346,055	1,290,137
OMC CARD INC.....	29,000	336,769	330,365
ONO PHARMACEUTICAL CO.....	68,000	3,159,825	3,038,177
ORIENT EXPRESS HOTELS LTD.....	112,250	3,758,130	2,525,336
ORIENTAL LAND CO.....	47,000	2,692,928	2,773,089
ORIGIN ENERGY.....	135,260	688,953	730,601
OSAKA STEEL CO.....	32,600	661,533	539,760
OSIM INTERNATIONAL.....	1,755,600	1,953,644	1,244,630
OTSUKA KAGU SHARES.....	8,000	208,722	314,185
OXIANA LTD.....	691,800	1,505,635	756,307
PACIFIC INDUSTRIAL.....	112,000	674,187	566,685
PACIFIC RODERA ENERGY INC.....	23,700	9,503	33,183
PASON SYSTEM INC.....	3,000	44,659	26,972
PASON SYSTEMS INC.....	54,000	803,857	414,957
PAXTON CORP.....	5,333	2,403	2,312
PEACE MARK(HOLDINGS).....	548,000	334,716	239,154

PERMANENT UNIVERSITY FUND

EQUITY SECURITIES

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SCHEDULE A

(CONTINUED)

SECURITY	SHARES	VALUE (\$)	COST (\$)
PEAK ENERGY SERVICE.....	59,500	556,531	659,925
PENN WEST ENERGY.....	1,000	41,630	23,874
PENN WEST ENERGY TRUST.....	61,890	2,562,600	1,165,905
PERILYA LIMITED.....	470,800	1,107,341	718,079
PETROBANK ENERGY & RESOURCES.....	30,200	416,364	324,396
PETRO-CANADA.....	18,700	798,864	585,036
PETRO-CANADA.....	16,800	714,539	502,727
PETROLEO BRASILEIRO SA.....	23,380	2,096,251	964,061
PETROLIFERA PETROLEUM LTD.....	9,112	167,091	29,799
PETROQUEST ENERGY INC.....	13,985	168,240	118,917
PKC GROUP OYJ.....	14,000	195,336	196,622
PLAYTECH LIMITED.....	66,000	349,006	326,917
POCKET CARD CO LTD.....	43,000	386,059	486,703
POTASH CORP OF SASKATCHEWAN INC.....	14,100	1,381,377	1,298,909
PRECISION DRILLING TRUST.....	35,880	1,315,361	855,876
PRESS KOGYO CO.....	223,000	1,030,533	1,308,626
PROMINA GROUP.....	304,600	1,367,734	823,896
PROSPEX RESOURCES LTD.....	20,800	88,092	56,871
QUADRISE CDA FUEL SYSTEMS INC.....	23,200	198,603	150,240
QUADRISE LIQUIDITY.....	23,200	0	0
QUEST CAPITAL CORP.....	24,400	68,160	64,919
RAUTARUUKI OY.....	12,500	364,814	278,944
REAL RESOURCE INC.....	19,279	405,645	346,847
REAL RESOURCES INC.....	7,716	162,351	114,834
RECRUIT COSMOS CO.....	66,000	408,543	511,260
REITMANS (CANADA) LTD.....	3,700	69,649	71,109
RENSBURG SHEPPARDS PLC.....	79,600	1,026,568	1,054,158
RICOH CO LTD.....	180,000	3,537,537	3,029,939
RICOH LEASING CO LTD.....	12,800	345,961	342,242
RIKEN CORP.....	51,000	341,348	312,835
RIO TINTO PLC.....	2,300	463,335	478,391
ROBERT WALTERS.....	70,800	326,580	343,296
ROBERTET SA.....	1,400	218,633	212,342
RUSSEL METALS INC.....	7,400	185,042	145,602
RYMAN HEALTHCARE GROUP LTD.....	116,000	669,683	395,463
S.O.I. TEC.....	41,400	1,261,789	1,274,389
SAIPEM.....	71,720	1,614,853	869,691
SAKAI CHEMICAL INDUSTRY.....	226,000	1,160,012	1,118,773
SALA CORPORATION.....	55,000	274,801	275,712
SALZGITTER AG.....	29,900	2,677,231	553,571
SAMUEL MANU-TECH INC.....	45,100	526,285	435,845
SANGETSU.....	90,600	2,236,322	2,214,567
SANWA SHUTTER CORP.....	66,000	377,030	386,951
SANYO SHINPAN FINANCE CO.....	10,250	430,852	694,844
SANYO YAMAYO DENKI.....	35,000	244,106	214,373
SASOL LTD.....	20,300	710,500	794,116
SATO SHOJI CORP.....	64,000	658,089	887,417
SAVANNA ENERGY SERVICES CORP.....	1,600	35,107	25,634
SAVANNA ENERGY SERVICES CORP.....	92,110	2,021,066	1,664,428
SAVILLS.....	49,400	490,973	620,485

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SCHEDULE A

(CONTINUED)

SECURITY	SHARES	VALUE (\$)	COST (\$)
SBI HOLDINGS INC.....	400	152,620	193,984
SBM OFFSHORE NV.....	59,240	1,623,524	925,908
SCHULTHESS GROUP.....	6,201	3,301,801	2,015,851
SENIOR PLC.....	412,200	482,201	461,434
SENKO CO.....	97,000	301,872	352,133
SEQUOIA OIL & GAS TRUST.....	14,517	174,636	166,493
SEVERFIELD-ROWEN PLC.....	12,600	357,110	207,014
SHIGA BANK.....	84,000	552,193	549,104
SHIMOJIMA CO LTD.....	17,000	215,825	221,669
SHINDENGEN ELECTRIC MAN CO.....	311,000	1,559,176	1,596,610
SHINKI CO.....	144,000	919,606	965,626
SHOWA CORP.....	9,000	149,098	139,442
SILVER STAND RESOURCE INC.....	50,060	1,238,484	737,025
SILVER WHEATON CORP.....	39,399	432,207	398,611
SINGAPORE PRESS HOLDINGS.....	2,424,000	6,134,758	6,418,393
SINO-FOREST CORP.....	17,900	72,584	60,760
SINTOKOGIO LTD.....	15,000	175,982	203,077
SIXT AG.....	35,200	1,712,195	1,383,948
SLOUGH ESTATES.....	108,350	1,354,064	1,160,423
SMIT INTERNATIONALE.....	16,900	1,414,788	1,174,838
SMK CORP.....	42,000	287,198	270,698
SOCIETE AIR FRANCE.....	48,800	1,330,535	1,171,387
SOCO INTERNATIONAL.....	13,000	320,969	321,161
SOLARWORLD AG NPV.....	28,400	1,665,350	257,613
SPARBANK VEST.....	2,800	201,802	186,755
SSAB(SVENSKT STAL)AB.....	50,700	977,817	549,553
ST LAWRENCE CEMENT GROUP INC.....	3,500	103,447	107,019
STAR MICRONICS CO.....	18,000	352,986	147,008
STATOIL ASA.....	66,870	1,807,496	1,107,065
STELLA-JONES INC.....	4,200	76,450	47,053
STOCKMANN AB OY.....	6,300	265,477	228,677
STOLT OFFSHORE.....	63,600	1,124,762	558,070
SULZER AG.....	1,400	1,132,082	574,899
SUMITOMO CORP.....	98,630	1,334,577	870,139
SUMITOMO CORP LEASING.....	29,500	1,622,330	1,415,651
SUMITOMO HEAVY INDUSTRIES.....	107,000	925,080	942,550
SUMITOMO REALTY & DEVELOPMENT CO.....	121,000	3,569,596	2,784,772
SUMITOMO TRUST & BANKING CO.....	71,000	757,309	445,245
SUN HUNG KAI PROPERTIES.....	37,000	403,459	390,515
SUNCALL CORP.....	34,000	232,494	211,562
SUNCOR ENERGY INC.....	26,330	2,042,681	984,907
SUNRISE SENIOR LIVING REIT.....	33,800	306,401	303,626
SUNTELEPHONE CO.....	550,165	4,221,755	4,885,461
SWIRE PACIFIC.....	228,000	2,494,975	2,115,665
SWISS LIFE HOLDING.....	4,400	1,062,574	816,408
SYSTEMS XCELLENCE INC.....	7,850	117,918	76,478
TAG OIL LTD.....	9,100	5,740	10,031
TAIKO BANK.....	384,000	1,093,541	1,190,997
TAISHO PHARMACEUTICAL CO.....	257,000	5,028,904	5,174,554
TAIYO YUDEN CO.....	200,000	2,719,871	2,178,553

PERMANENT UNIVERSITY FUND

EQUITY SECURITIES

August 31, 2006

SCHEDULE A

(CONTINUED)

SECURITY	SHARES	VALUE (\$)	COST (\$)
TAKEFUJI.....	248,250	13,398,325	16,599,009
TALISMAN ENERGY INC.....	122,460	2,152,847	1,331,165
TASEKO MINES LTD.....	530,100	1,280,169	1,022,457
TDK CORP.....	12,000	930,042	857,435
TECK COMINCO LTD.....	26,730	1,772,767	753,065
TECK COMINCO LTD.....	9,200	614,744	530,302
TECNICAS REUNIDAS.....	22,700	618,336	485,211
TEIJIN.....	177,000	950,761	716,256
TELEVISION BROADCAST LTD.....	288,000	1,635,027	1,810,160
TENARIS SA.....	8,365	307,079	272,452
TESCO CORP.....	19,400	314,491	310,154
THUNDER ENERGY TRUST.....	25,834	206,951	261,781
TOA CORP.....	46,000	378,480	438,155
TOCHIGI BANK.....	118,000	802,865	788,890
TOKYO TEKKO CO.....	90,000	811,101	889,048
TORAY INDUSTRIES INC.....	118,000	941,706	789,119
TOSTEM CORP.....	20,000	420,344	427,013
TOTAL ENERGY SERVICES TRUST.....	12,100	179,905	81,933
TOTAL SA.....	10,040	676,997	549,263
TOYO COMMUNICATION.....	66,000	455,813	599,263
TOYO MACHINERY & METAL.....	6,000	51,567	54,284
TOYOTA TSUSHU CORP.....	6,000	158,076	133,562
TRANSCOM WORLDWIDE S.A.....	88,300	848,440	652,896
TRANSOCEAN INC.....	52,070	3,475,673	2,617,676
TRANSPACIFIC INDUSTRY GROUP LTD.....	134,500	744,654	524,161
TRICAN WELL SERVICE LTD.....	6,200	125,872	78,810
TRICAN WELL SERVICE LTD.....	159,220	3,232,463	1,313,607
TRIDENT RESOURCES CORP.....	7,300	328,903	311,234
TRIDENT RESOURCES ENTITLEMENT.....	7,300	0	0
TRIX MINERALS CORP.....	18,000	40,387	38,743
TRIX MINERALS CORP.....	9,000	406	0
TRINIDAD ENERGY SERVICES INC.....	13,000	199,847	192,183
TRUE ENERGY TRUST.....	1,700	21,063	13,215
TSURUMI MANUFACTURE CO.....	152,497	1,584,976	1,351,906
TULLOW OIL PLC.....	113,900	849,829	775,509
TURNKEY E&P INC.....	24,500	126,943	105,772
TUSK ENERGY CORP.....	42,589	130,866	156,503
TV ASAHI CORP.....	734	1,614,631	1,659,097
UFJ NICOS CO LTD.....	66,000	432,741	515,964
UMC JAPAN.....	1,535	437,787	438,328
UNAXIS HOLDINGS.....	5,000	1,472,079	1,394,477
UNIPRES CORP.....	79,000	594,092	797,415
UNI-SELECT INC.....	42,000	1,169,074	1,059,757
UNIVAR NV.....	9,700	401,425	203,931
USG PEOPLE N.V.....	4,000	274,955	344,453
VALLOUREC.....	3,000	672,026	733,108
VAN HOUTTE INC.....	5,300	87,112	88,310
VECTOR AEROSPACE CORP.....	75,900	307,772	241,202
VEDEANT RESOURCES PLC.....	60,500	1,566,240	1,502,814
VEIDEKKE.....	26,200	887,213	283,848

**PERMANENT UNIVERSITY FUND**  
**EQUITY SECURITIES**  
August 31, 2006

SCHEDULE A  
(CONTINUED)

SECURITY	SHARES	VALUE (\$)	COST (\$)
VENTURE PRODUCTION.....	64,974	999,846	807,880
VENTUS ENERGY INC.....	57,800	182,293	175,722
VERO ENERGY INC.....	1,090	5,166	2,608
VIRBAC.....	6,400	360,052	377,564
VTECH HOLDINGS.....	179,000	873,508	473,342
WAJAX INCOME FUND UNIT.....	22,300	799,967	354,325
WAKACHIKU CONSTRUCTION CO LTD.....	249,000	405,500	538,734
WALLENSTAM.....	6,500	85,821	54,304
WEATHERFORD INTERNATIONAL LTD.....	48,016	2,064,688	1,312,811
WESTERN OIL SANDS INC.....	29,600	786,844	751,547
WESTPORT INNOVATIONS INC.....	27,800	29,810	38,345
WOOD GROUP (JOHN) PLC.....	246,760	1,076,041	696,635
WOODSIDE PETROLEUM.....	35,110	1,133,065	585,641
WORLEY GROUP NPV.....	47,800	659,965	266,858
WSP HOLDINGS.....	50,600	438,654	332,828
YAMAHA CORP.....	155,000	3,218,016	2,454,356
YAMAHA MOTOR CO.....	43,000	1,147,547	806,347
YAMATO KOGYO.....	82,200	1,878,296	831,994
YOROZU CORP.....	16,000	172,844	150,832
ZENAS ENERGY CORP.....	40,300	135,453	177,515
ZINIFEX.....	226,200	2,055,578	633,060
<b>TOTAL FOREIGN COMMON STOCKS</b>		<u>565,608,613</u>	<u>469,839,559</u>
<b>OTHER - EQUITY SECURITIES</b>			
FEMPARTNERS INC.....	5,432	1	1
GOLDSTON OIL CO - GLADEWATER JETER ROYALTY INTEREST....		1,921,778	218,067
GOLDSTON OIL CO - JETER #3.....		1,278,639	42,876
GOLDSTON OIL-GLADEWATER JETER.....		2,525,529	159,923
PAXTON CORP WTS.....	5,333	48	0
SEAGATE TECHNOLOGY INC.....	42,300	0	0
SONGBIRD HEARING INC WTS.....	812,527	0	1
SONGBIRD HEARING INC WTS.....	1	0	0
TERASTOR CORP.....	1	0	0
<b>TOTAL OTHER - EQUITY SECURITIES</b>		<u>5,725,995</u>	<u>420,868</u>
<b>TOTAL EQUITY SECURITIES</b>		<u><u>1,542,800,309</u></u>	<u><u>1,258,275,721</u></u>

**PERMANENT UNIVERSITY FUND**  
**PREFERRED STOCKS AND CONVERTIBLE SECURITIES**  
August 31, 2006

SCHEDULE B

SECURITY	SHARES	VALUE (\$)	COST (\$)
<b>DOMESTIC PREFERRED STOCKS</b>			
DG FUNDING TRUST			
PRIVATE PLACEMENT.....	233	2,482,906	2,335,585
NF ACQUISITION CORPORATION			
.....	456	1	1
TERASTOR CORP			
SERIES A.....	280,128	5	5
SERIES B.....	320,670	2	2
SERIES C.....	69,698	4	4
SERIES E.....	5,048,544	0	1
SERIES E ITV.....	305,667	1	1
SERIES F.....	2,603,268	0	1
SERIES F ITV.....	104,917	1	1
<b>TOTAL DOMESTIC PREFERRED STOCKS</b>		<u>2,482,920</u>	<u>2,335,601</u>
<b>CONVERTIBLE SECURITIES</b>			
FEMPARTNERS INC			
SERIES A CONV PFD.....	10,865	86,920	86,920
SERIES B CONV PFD.....	3,395	27,163	27,163
SONGBIRD HEARING INC			
SERIES A3 CONV PFD.....	881,528	0	1
SERIES A4 CONV PFD.....	87,805	0	1
SERIES B CONV PFD.....	3,183,569	0	1
SERIES C CONV PFD.....	29,278,408	0	1
SERIES D CONV PFD.....	4,232,814	0	1
<b>TOTAL CONVERTIBLE SECURITIES</b>		<u>114,083</u>	<u>114,088</u>
<b>TOTAL PREFERRED STOCKS AND CONVERTIBLE SECURITIES</b>		<u>2,597,003</u>	<u>2,449,689</u>

**PERMANENT UNIVERSITY FUND**  
**PURCHASED OPTIONS**  
August 31, 2006

SCHEDULE C

SECURITY	PAR VALUE (1)	VALUE (\$)	COST (\$)
<b>PURCHASED OPTIONS</b>			
DJ EURO STOXX 50 P INDEX			
PUT JUN 07 3462.750 6/15/07.....	6,974	949,491	0
INTEREST RATE SWAPTIONS			
CALL 09 MAY 07 005.190.....	2,179	575,038	432,532
CALL 09 MAY 07 005.200.....	53	31,095	21,333
CALL APR 07 005.080.....	207	89,817	69,604
CALL DEC 06 004.800.....	57	3,677	31,635
CALL DEC06 005.260.....	28	6,924	6,191
CALL JUN 06 005.000.....	58	29,788	27,896
CALL JUN 07 005.000.....	54	27,733	27,860
CALL JUN 07 005.250.....	30	20,592	11,039
CALL JUN 07 005.250.....	409	280,738	183,161
CALL JUN 07 005.500.....	265	274,620	127,200
CALL JUN 09 005.250.....	140	96,096	61,600
CALL MAR 07 005.000.....	600	178,740	228,000
CALL MAR 07 005.000.....	260	77,454	101,400
CALL MAR 07 005.000.....	70	20,853	32,760
CALL MAY 07 005.000.....	80	36,521	43,753
CALL MAY 07 005.150.....	182	96,715	69,125
CALL MAY 09 005.000.....	50	22,826	27,388
CALL NOV06 005.000.....	160	21,304	50,573
CALL OCT 06 004.500.....	140	14	60,900
CALL OCT 06 004.500.....	93	0	47,430
CALL OCT 06 004.500.....	46	0	23,460
CALL OCT 08 05.130.....	209	29,511	39,153
CALL OCT06 005.130.....	48	6,778	7,560
ISHARES TR MSCI EMERGING MARKETS			
PUT NOV 2007 078.185.....	394,897	1,719,832	0
MSCI EMERGING MARKETS INDEX			
PUT JUN 07 079.000.....	193,222	1,378,510	0
PUT JUN 07 080.230.....	192,421	1,420,749	0
NIKKEI AVERAGE INDEX			
PUT DEC 06 14856.100.....	1,039	222,910	0
PUT DEC 06 14951.100.....	1,033	241,865	0
PUT DEC 07 15843.000.....	1,026	1,146,885	0
PUT DEC 07 16733.000.....	971	1,520,988	0
RUSSELL 2000 INDEX			
PUT DEC 06 610.950.....	50,536	309,037	0
PUT DEC 07 647.060.....	47,716	1,524,469	0
PUT DEC 07 657.950.....	46,926	1,624,203	0
PUT DEC 07 678.920.....	45,477	1,829,681	0
PUT DEC 07 690.790.....	44,695	1,954,222	0
PUT DEC 07 696.350.....	44,338	2,014,634	0
PUT JUN 06 681.5196.....	45,303	1,310,784	0
PUT JUN 07 599.0913.....	51,536	776,975	0
PUT JUN 07 600.8275.....	51,387	786,121	0
PUT JUN 07 601.1656.....	51,359	787,917	0

**PERMANENT UNIVERSITY FUND**  
**PURCHASED OPTIONS**  
August 31, 2006

SCHEDULE C  
(CONTINUED)

SECURITY	PAR VALUE (1)	VALUE (\$)	COST (\$)
PUT JUN 07 603.250.....	51,181	799,088	0
PUT JUN 07 608.4275.....	50,746	827,634	0
PUT JUN 07 611.800.....	50,466	727,285	0
PUT JUN 07 612.940.....	50,372	853,482	0
PUT JUN 07 612.9875.....	50,368	853,759	0
PUT JUN 07 613.510.....	37,241	634,042	0
PUT JUN 07 613.610.....	50,317	862,309	0
PUT JUN 07 615.220.....	50,185	866,900	0
PUT JUN 07 619.495.....	49,839	892,735	0
PUT JUN 07 620.540.....	49,756	874,999	0
PUT JUN 07 636.210.....	48,529	995,107	0
PUT JUN 07 637.3075.....	48,446	1,010,635	0
PUT JUN 07 643.625.....	47,970	1,056,770	0
PUT JUN 07 644.930.....	47,873	1,067,142	0
PUT JUN 07 652.7925.....	199,753	4,183,460	0
PUT JUN 07 665.380.....	46,402	1,123,326	0
PUT JUN 07 673.080.....	45,872	1,191,486	0
PUT JUN 07 677.8448.....	45,549	1,266,735	0
PUT JUN 2007 632.130.....	48,843	974,571	0
S & P 500 INDEX			
PUT JUN 07 1118.910.....	160,208	2,054,411	0
PUT JUN 07 1179.2618.....	26,182	674,038	0
PUT JUN 07 1179.4725.....	26,177	662,058	0
PUT SEP 06 1040.000.....	51,438	260	0
PUT SEP 06 1163.2129.....	53,086	16,348	0
S&P/TSE 60 INDEX			
PUT DEC 06 569.7193.....	27,097	33,457	0
PUT DEC 06 570.3948.....	27,065	33,912	0
TOTAL PURCHASED OPTIONS		47,982,056	1,731,553

(1) Par Values on Non-US dollar denominated bonds are reported in currency of issue.

**PERMANENT UNIVERSITY FUND**  
**DEBT SECURITIES**  
August 31, 2006

SCHEDULE D

SECURITY	PAR VALUE (1)	VALUE (\$)	COST (\$)
<b>U. S. GOVERNMENT OBLIGATIONS</b>			
COMMIT TO PURCHASE FEDERAL HOME LOAN MORTGAGE CORP			
4.5% DUE 09/01/18.....	15,100,000	14,496,000	14,345,000
4.5% DUE 09/01/35.....	33,470,000	31,205,545	30,859,973
COMMIT TO PURCHASE FEDERAL NATIONAL MORTGAGE ASSOCIATION			
5% DUE 09/01/21.....	3,000,000	2,937,186	2,911,875
5% DUE 09/01/21.....	9,650,000	9,447,948	9,368,039
5% DUE 09/01/36.....	8,355,000	8,002,519	7,922,731
5% DUE 10/01/21.....	775,000	758,531	757,320
5% DUE 10/01/36.....	7,675,000	7,348,813	7,340,564
5.5% DUE 09/01/36.....	10,660,000	10,460,125	10,268,007
5.5% DUE 10/01/20.....	1,895,000	1,887,303	1,884,341
6% DUE 09/01/36.....	2,500,000	2,502,345	2,493,688
6% DUE 10/01/20.....	2,375,000	2,398,750	2,398,750
6% DUE 10/01/35.....	13,700,000	13,700,000	13,691,044
6.5% DUE 09/01/36.....	13,270,000	13,469,050	13,424,421
6.5% DUE 10/01/36.....	7,270,000	7,372,231	7,371,950
FEDERAL HOME LOAN BANKS CONS			
4.5% BONDS DUE 05/11/07.....	1,815,000	1,804,651	1,798,121
5% BONDS DUE 03/20/07.....	680,000	678,648	679,789
5.515% BONDS DUE 09/18/07.....	780,000	780,310	780,000
5.55% BONDS DUE 08/08/07.....	1,470,000	1,470,916	1,470,000
6.435% BONDS DUE 12/12/11.....	700,000	745,714	822,493
FEDERAL HOME LOAN MORTGAGE CORP			
3.57% CMO 2738 UA DUE 12/15/23.....	936,070	913,097	926,087
4% CMO 2691 MA DUE 01/15/18.....	62,182	61,892	61,817
4% CMO 2786-GA DUE 08/15/17.....	645,184	619,167	624,543
4% CMO 2931 DA DUE 07/15/14.....	770,681	754,930	764,299
4% PASS THRU B1-4039 DUE 05/01/14.....	243,456	233,534	235,087
4% PASS THRU E0-1647 DUE 05/01/19.....	420,888	396,281	394,911
4% PASS THRU E9-9429 DUE 09/01/13.....	1,108,975	1,066,711	1,063,922
4.375% CMO R001 AE DUE 04/15/15.....	1,966,654	1,911,095	1,901,498
4.5% CMO 2508 CR DUE 03/15/16.....	723,109	714,943	725,595
4.5% CMO 2574 PL DUE 05/15/26.....	124,509	123,651	123,692
4.5% CMO 2695 BA DUE 09/15/15.....	6,125	6,111	6,110
4.5% CMO 2731 A DUE 11/15/28.....	378,566	368,363	367,534
4.5% CMO 2773 EA DUE 05/15/10.....	470,513	468,100	472,718
4.5% CMO 2802 NJ DUE 02/15/30.....	118,238	117,436	117,513
4.5% CMO 2931 DA DUE 09/15/29.....	233,216	226,289	229,572
4.5% CMO 2990 EN DUE 02/15/33.....	997,647	959,996	963,041
4.5% CMO 3031 LN DUE 08/15/33.....	749,521	720,056	723,522
4.5% CMO 3037 BC DUE 09/15/35.....	3,526,199	3,412,840	3,487,080
4.875% NOTES DUE 03/15/07.....	1,500,000	1,496,108	1,497,345
5% CMO 2581 QG DUE 12/15/31.....	1,100,000	1,043,478	1,065,281
5% CMO 2827 TA DUE 01/15/21.....	944,215	939,793	953,749
5% CMO 2848 CG DUE 06/15/15.....	434,042	431,272	433,652
5% CMO 3114 KZ DUE 02/15/36.....	394,726	311,527	313,322
5% CMO DUE 12/15/31.....	445,000	426,574	429,601
5% PASS THRU 00-0000 DUE 09/15/33.....	635,000	621,267	622,399

**PERMANENT UNIVERSITY FUND**  
**DEBT SECURITIES**  
August 31, 2006

SCHEDULE D  
(CONTINUED)

SECURITY	PAR VALUE (1)	VALUE (\$)	COST (\$)
5% PASS THRU B1-9614 DUE 07/01/15.....	1,233,605	1,216,856	1,237,267
5% PASS THRU G1-1672 DUE 03/01/15.....	417,254	413,428	416,572
5% PASS THRU G1-1745 DUE 07/01/15.....	2,905,821	2,866,369	2,906,059
5% PASS THRU G1-1786 DUE 10/01/14.....	924,852	916,779	920,227
5% PASS THRU G1-1970 DUE 04/01/16.....	595,488	585,337	582,927
5.065% REMIC CMO 2015 DUE 10/20/15.....	684,710	675,309	672,942
5.125% NOTES DUE 10/24/07.....	1,345,000	1,343,503	1,342,310
5.5% CMO 2875 MA DUE 05/15/26.....	331,806	332,043	331,806
5.5% CMO 2912 EQ DUE 12/15/20.....	271,269	270,797	270,856
5.5% CMO DUE 11/15/33.....	3,372,368	3,069,187	3,304,532
5.67% CMO DUE 12/15/30.....	231,198	231,758	231,704
5.763% CMO DUE 10/25/44.....	2,805,053	2,822,284	2,822,378
5.77% CMO 2266 F DUE 11/15/30.....	85,220	85,135	85,200
6.5% PASS THRU A4-5788 DUE 05/01/35.....	299,886	305,299	311,413
6.53% DEBS DUE 11/26/12.....	5,500,000	5,561,661	5,578,564
6.742% PASS THRU 84-7040 DUE 02/01/29.....	1,148,647	1,164,403	1,191,722
7.078% PASS THRU 78-6190 DUE 07/01/27.....	120,121	121,418	119,371
7.5% CMO 1215-H DUE 03/15/07.....	35,078	34,998	33,428
7.5% CMO 2206Z DUE 01/15/30.....	762,942	791,326	708,447
7.645% PASS THRU 30-0088 DUE 05/01/25.....	8,090,691	8,933,645	8,095,748
7.75% CMO 1394-IA DUE 10/15/22.....	4,312,061	4,428,441	4,276,215
8.3% CMO 1245-I DUE 04/15/07.....	36,132	36,050	35,960
8.5% CMO 1311-KA DUE 07/15/22.....	453,357	453,142	452,691
9.9% REMIC CMO 17-I DUE 10/15/19.....	200,968	212,239	200,032
10% REMIC CMO 18-D DUE 11/15/19.....	529,885	528,206	532,956
11% PASS THRU 17-0147 DUE 11/01/15.....	8,713	9,693	8,694
11.5% PASS THRU 17-0139 DUE 08/01/15.....	7,013	7,620	6,980
13.5% PASS THRU 17-0037 DUE 10/01/10.....	4,065	4,474	4,037
15.5% PASS THRU 17-0051 DUE 06/01/11.....	497	568	494
16.25% PASS THRU 17-0047 DUE 05/01/11.....	508	587	507
<b>FEDERAL NATIONAL MORTGAGE ASSOCIATION</b>			
2.92% REMIC CMO 03-M2 A DUE 05/25/09.....	496,881	479,180	479,386
3.5% REMIC CMO 2003-87 TD DUE 04/25/11.....	335,000	331,245	330,498
3.5% REMIC CMO DUE 04/25/11.....	90,000	88,991	88,263
3.77% REMIC CMO 03-W6 1A32 DUE 10/25/42.....	180,150	179,178	179,333
3.81% PASS THRU 0386341 DUE 08/01/13.....	139,392	129,096	129,002
4% PASS THRU 0254909 DUE 09/01/13.....	625,616	601,237	611,958
4% REMIC CMO 05-35 AC DUE 08/25/18.....	1,646,441	1,578,869	1,606,245
4% REMIC CMO DUE 11/25/17.....	282,605	280,010	282,229
4.125% PASS THRU 0387219 DUE 01/01/10.....	355,675	343,661	342,733
4.191% PASS THRU 0841068 DUE 11/01/34.....	2,356,106	2,324,167	2,342,669
4.22% PASS THRU 0386441 DUE 08/01/13.....	372,825	351,220	348,314
4.243% REMIC CMO 03-W6 1A31 DUE 10/25/42.....	263,296	261,821	262,987
4.25% REMIC CMO 2004-93 DG DUE 04/25/19.....	1,421,999	1,366,498	1,369,121
4.37% REMIC CMO DUE 09/25/10.....	1,101,494	1,074,138	1,067,330
4.469% REMIC CMO 06-05 2A1 DUE 11/25/28.....	620,849	621,108	620,849
4.5% PASS THRU 0254758 DUE 06/01/13.....	867,270	846,380	847,791
4.5% PASS THRU 0254759 DUE 06/01/18.....	207,797	200,171	201,466
4.5% PASS THRU 0255176 DUE 04/01/19.....	1,918,429	1,845,454	1,912,734

**PERMANENT UNIVERSITY FUND**  
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SCHEDULE D  
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SECURITY	PAR VALUE (1)	VALUE (\$)	COST (\$)
4.5% PASS THRU 0255450 DUE 10/01/14.....	213,753	207,178	206,873
4.5% PASS THRU 0725546 DUE 06/01/19.....	678,658	652,843	661,162
4.5% REMIC CMO 05-95 LN DUE 03/25/33.....	760,000	728,870	729,036
4.655% PASS THRU 0387265 DUE 02/01/15.....	352,348	338,703	333,423
4.951% PASS THRU 0800171 DUE 12/01/34.....	683,242	676,854	696,907
5% PASS THRU 0190341 DUE 09/01/18.....	291,417	286,167	298,566
5% PASS THRU 0254510 DUE 11/01/17.....	332,600	326,805	340,759
5% PASS THRU 0254545 DUE 12/01/17.....	48,689	47,840	49,883
5% PASS THRU 0254663 DUE 02/01/13.....	3,863,896	3,826,576	3,854,878
5% PASS THRU 0254685 DUE 04/01/18.....	489,690	480,867	501,702
5% PASS THRU 0255639 DUE 02/01/15.....	951,489	939,165	944,352
5% PASS THRU 0255806 DUE 08/01/20.....	474,121	464,385	474,417
5% PASS THRU 0357312 DUE 12/01/17.....	2,254,889	2,215,601	2,286,598
5% PASS THRU 0357981 DUE 09/01/20.....	103,911	101,777	103,976
5% PASS THRU 0555545 DUE 06/01/18.....	271,351	266,462	278,008
5% PASS THRU 0555750 DUE 09/01/18.....	604,209	593,322	619,031
5% PASS THRU 0653195 DUE 08/01/17.....	617,142	606,389	632,281
5% PASS THRU 0662408 DUE 01/01/18.....	88,407	86,866	90,575
5% PASS THRU 0677681 DUE 02/01/18.....	11,250	11,047	11,526
5% PASS THRU 0685181 DUE 02/01/18.....	1,172,593	1,151,466	1,201,358
5% PASS THRU 0703443 DUE 05/01/18.....	299,741	294,340	307,094
5% PASS THRU 0705284 DUE 06/01/18.....	485,546	477,086	497,457
5% PASS THRU 0708706 DUE 06/01/18.....	253,124	248,563	259,333
5% PASS THRU 0720372 DUE 06/01/18.....	318,221	312,487	326,027
5% PASS THRU 0730057 DUE 08/01/18.....	82,808	81,316	84,839
5% PASS THRU 0743925 DUE 11/01/18.....	526,651	517,162	532,576
5% PASS THRU 0745659 DUE 04/01/16.....	451,897	446,045	438,764
5% PASS THRU 0775689 DUE 05/01/19.....	477,642	468,453	480,459
5% PASS THRU 0777257 DUE 05/01/19.....	57,626	56,517	56,689
5% PASS THRU 0793396 DUE 08/01/19.....	217,157	212,979	217,293
5% PASS THRU 0793917 DUE 09/01/19.....	777,575	762,615	782,161
5% PASS THRU 0796379 DUE 12/01/19.....	812,772	797,135	817,566
5% PASS THRU 0797773 DUE 03/01/20.....	701,686	687,278	705,825
5% PASS THRU 0798733 DUE 11/01/19.....	39,240	38,486	39,472
5% PASS THRU 0799263 DUE 12/01/19.....	21,390	20,978	21,516
5% PASS THRU 0810968 DUE 04/01/20.....	254,312	249,090	255,812
5% PASS THRU 0811870 DUE 02/01/20.....	362,587	355,142	364,726
5% PASS THRU 0815437 DUE 02/01/20.....	128,882	126,235	129,642
5% PASS THRU 0816349 DUE 04/01/20.....	275,275	269,622	276,898
5% PASS THRU 0819732 DUE 04/01/20.....	149,009	145,949	149,888
5% PASS THRU 0819952 DUE 04/01/20.....	480,518	470,651	483,352
5% PASS THRU 0820006 DUE 04/01/20.....	327,391	320,668	329,322
5% PASS THRU 0826761 DUE 08/01/20.....	125,408	122,833	125,486
5% PASS THRU 0829495 DUE 07/01/20.....	52,098	51,028	51,251
5% PASS THRU 0837913 DUE 08/01/35.....	869,872	833,625	859,814
5% PASS THRU 0838480 DUE 09/01/20.....	118,971	116,528	119,045
5% PASS THRU 0838602 DUE 10/01/35.....	131,301	125,830	129,783
5% PASS THRU 0838753 DUE 09/01/35.....	396,500	379,978	391,915
5% PASS THRU 0839002 DUE 08/01/20.....	48,255	47,264	47,471

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SCHEDULE D  
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SECURITY	PAR VALUE (1)	VALUE (\$)	COST (\$)
5% PASS THRU 254508 DUE 11/01/12.....	186,789	185,000	187,840
5% REMIC CMO 03-26 AT DUE 11/25/32.....	1,400,000	1,306,703	1,330,438
5.25% BONDS DUE 04/15/07.....	7,120,000	7,115,208	7,103,486
5.48% REMIC CMO 04-63 FA DUE 08/25/34.....	622,460	622,182	622,460
5.5% PASS THRU 0456654 DUE 02/01/14.....	60,716	60,684	63,140
5.5% PASS THRU 0535704 DUE 12/01/30.....	58,382	57,614	59,295
5.5% PASS THRU 0555531 DUE 06/01/33.....	1,663,156	1,637,445	1,690,052
5.5% PASS THRU 0648962 DUE 11/01/32.....	846,907	834,136	860,603
5.5% PASS THRU 0668399 DUE 01/01/33.....	671,233	661,112	681,721
5.5% PASS THRU 0713467 DUE 04/01/33.....	260,493	256,466	264,563
5.5% PASS THRU 0725042 DUE 01/01/34.....	77,688	76,487	78,927
5.5% PASS THRU 0725425 DUE 04/01/34.....	17,010,667	16,749,762	17,155,523
5.5% PASS THRU 0761826 DUE 08/01/33.....	232,911	229,398	234,894
5.5% PASS THRU 0767725 DUE 12/01/33.....	1,306,778	1,286,577	1,327,018
5.5% PASS THRU 0833058 DUE 09/01/35.....	273,986	269,016	269,395
5.5% PASS THRU 0848209 DUE 12/01/35.....	422,087	414,430	414,305
5.5% PASS THRU 0866420 DUE 01/01/36.....	454,809	446,558	447,187
5.5% PASS THRU 0868841 DUE 04/01/36.....	994,481	975,969	963,404
5.5% PASS THRU 0745444 DUE 04/01/16.....	510,721	510,489	507,210
5.5% REMIC CMO 03-W19 1A5 DUE 11/25/33.....	337,242	335,008	335,336
5.58% REMIC CMO 04-W8 1AF DUE 06/25/44.....	678,152	678,334	677,728
5.73% REMIC CMO 2002-08 F DUE 09/25/32.....	68,827	69,106	68,806
5.83% REMIC CMO 2002-10 FB DUE 03/25/17.....	583,693	589,485	583,693
5.864% PASS THRU 0806506 DUE 10/01/44.....	119,754	120,990	120,198
6% PASS THRU 0426612 DUE 10/01/28.....	498,539	501,731	452,269
6% PASS THRU 0443239 DUE 10/01/28.....	185,990	187,181	167,856
6% PASS THRU 0529320 DUE 07/01/29.....	1,280,544	1,288,448	1,155,691
6% PASS THRU 0555198 DUE 01/01/23.....	209,775	211,983	218,215
6% REMIC CMO 03-34 A1 DUE 04/25/43.....	97,890	98,033	99,404
6% REMIC CMO 04-T3 1A1 DUE 02/25/44.....	143,267	143,817	145,550
6% REMIC CMO 04-W12-1A1 DUE 07/25/44.....	731,731	734,755	743,564
6.4% REMIC CMO 93-G40 H DUE 12/25/23.....	3,839,173	3,922,039	3,695,204
6.5% PASS THRU 0254086 DUE 11/01/21.....	1,003,784	1,026,993	1,047,072
6.5% PASS THRU 0323606 DUE 03/01/29.....	783,026	799,469	724,789
6.5% PASS THRU 0323755 DUE 11/01/13.....	1,184,894	1,203,777	1,139,905
6.5% REMIC CMO 03-W1 1A1 DUE 12/25/42.....	474,213	482,200	497,331
6.502% PASS THRU 0422883 DUE 12/01/26.....	157,548	156,728	160,748
6.64% PASS THRU 0399907 DUE 08/01/27.....	245,944	250,505	252,169
6.8% REMIC CMO 93-59 J DUE 05/25/08.....	561,770	563,589	561,770
6.825% PASS THRU 0381817 DUE 08/01/09.....	2,788,892	2,872,576	2,645,961
6.9% REMIC CMO 93-43 J DUE 04/25/08.....	1,182,071	1,187,216	1,178,318
7% PASS THRU 0323937 DUE 09/01/14.....	1,438,870	1,478,572	1,524,753
7% PASS THRU 0555203 DUE 09/01/32.....	130,725	134,147	134,974
7.15% PASS THRU 0594245 DUE 06/01/30.....	42,245	43,451	43,519
7.46% PASS THRU 0381809 DUE 08/01/29.....	1,199,425	1,350,488	1,207,015
8.375% REMIC CMO 92-G41 MB DUE 08/25/22.....	778,916	826,248	778,020
8.5% REMIC CMO 92-G19 M DUE 04/25/22.....	973,947	1,036,059	967,221
8.6% REMIC CMO 50 CL G DUE 08/25/19.....	170,454	181,727	167,990

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SCHEDULE D  
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SECURITY	PAR VALUE (1)	VALUE (\$)	COST (\$)
<b>GOVERNMENT NATIONAL MORTGAGE ASSOCIATION</b>			
5% REMIC CMO 05-21 Z DUE 03/20/35.....	515,157	429,648	419,822
5.125% PASS THRU 0080119 DUE 10/20/27.....	193,538	194,792	194,264
5.25% PASS THRU 0080364 DUE 01/20/30.....	241,390	241,818	246,131
5.375% PASS THRU 0008351 DUE 01/20/24.....	122,674	123,057	124,705
5.375% PASS THRU 0008865 DUE 05/20/26.....	144,876	145,520	145,238
5.375% PASS THRU 0080180 DUE 03/20/28.....	25,726	25,840	26,132
5.375% PASS THRU 0080393 DUE 04/20/30.....	174,156	175,093	170,263
5.375% PASS THRU 0080397 DUE 04/20/30.....	225,597	226,975	225,850
5.375% PASS THRU 0080407 DUE 05/20/30.....	119,983	120,621	117,287
5.375% PASS THRU 0080409 DUE 05/20/30.....	439,510	442,193	440,126
5.375% PASS THRU 0080418 DUE 06/20/30.....	180,358	181,453	184,473
5.5% PASS THRU 0569547 DUE 01/15/32.....	57,828	57,343	56,247
5.75% PASS THRU 0080095 DUE 07/20/27.....	307,242	308,907	312,475
6.75% REMIC CMO 2001-616 Z DUE 10/16/40.....	10,979,070	11,855,832	10,779,071
7% PASS THRU 0001212 DUE 06/20/23.....	84,175	86,520	83,989
8% PASS THRU 0016676 DUE 04/15/07.....	395	398	394
8.5% PASS THRU 0002841 DUE 11/20/29.....	64,677	69,210	66,804
8.5% PASS THRU 0002855 DUE 12/20/29.....	68,739	73,557	71,000
8.5% PASS THRU 0002910 DUE 04/20/30.....	34,518	36,944	35,654
8.5% PASS THRU 0002936 DUE 06/20/30.....	75,572	80,891	78,058
8.5% PASS THRU 0002947 DUE 07/20/30.....	57,160	61,183	59,040
8.5% PASS THRU 0002974 DUE 09/20/30.....	37,122	39,735	38,343
8.5% PASS THRU 0003029 DUE 01/20/31.....	75,513	80,678	77,996
8.5% PASS THRU 0003043 DUE 02/20/31.....	53,850	57,534	55,621
8.5% PASS THRU 0508335 DUE 04/15/30.....	36,265	38,963	38,350
8.5% PASS THRU 0511172 DUE 01/15/30.....	37,653	40,454	39,818
8.5% PASS THRU 0521511 DUE 10/15/29.....	12,095	12,992	12,791
8.5% PASS THRU 0522981 DUE 02/15/30.....	9,309	10,001	9,844
8.5% PASS THRU 0526031 DUE 08/15/30.....	15,624	16,787	16,523
8.5% PASS THRU 0526032 DUE 08/15/30.....	5,210	5,597	5,509
8.5% PASS THRU 0538114 DUE 09/15/30.....	37,792	40,603	39,965
8.5% PASS THRU 0780840 DUE 07/20/28.....	80,855	86,543	83,514
10% PASS THRU 0151185 DUE 03/15/16.....	32,282	35,599	31,788
10% PASS THRU 0233778 DUE 02/15/18.....	16,849	18,630	16,762
10.5% PASS THRU 0224630 DUE 10/15/17.....	10,028	11,128	9,651
11% PASS THRU 0035288 DUE 03/15/10.....	13,201	14,172	13,096
11.5% PASS THRU 0131670 DUE 05/15/15.....	10,206	11,402	10,157
12.5% PASS THRU 0040744 DUE 05/15/10.....	2,194	2,401	2,161
12.5% PASS THRU 0043162 DUE 11/15/10.....	4,837	5,294	4,628
12.5% PASS THRU 0044298 DUE 11/15/10.....	8,821	9,557	8,441
13% PASS THRU 0047171 DUE 04/15/11.....	790	876	766
13% PASS THRU 0049550 DUE 07/15/11.....	16,899	18,738	15,231
13.5% PASS THRU 0040310 DUE 05/15/10.....	7,455	8,266	7,427
13.5% PASS THRU 0041007 DUE 07/15/10.....	3,255	3,610	3,251
13.5% PASS THRU 0041570 DUE 05/15/10.....	3,063	3,396	3,047
13.5% PASS THRU 0045053 DUE 05/15/11.....	4,024	4,494	3,692
13.5% PASS THRU 0045236 DUE 05/15/11.....	2,426	2,710	2,226
13.5% PASS THRU 0048879 DUE 05/15/11.....	5,994	6,695	5,485

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SCHEDULE D  
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SECURITY	PAR VALUE (1)	VALUE (\$)	COST (\$)
<b>SMALL BUSINESS ADMINISTRATION</b>			
4.76% DUE 09/01/25.....	734,289	707,608	734,289
7.22% PART CERT 2000-20 1 DUE 11/01/20.....	436,902	460,973	458,782
7.64% PART CERT 00-10A DUE 03/01/10.....	92,182	97,072	95,898
<b>SYNTHETIC</b>			
6% CUSTODY RECPT DUE 08/15/11.....	5,170,000	5,619,945	4,995,928
<b>TENNESSEE VALLEY AUTHORITY POWER</b>			
4.875% BONDS DUE 12/15/16.....	1,500,000	1,498,788	1,537,124
<b>UNITED STATES TREASURY</b>			
0% BILLS DUE 09/14/06.....	8,487,600	8,440,905	8,440,905
0.875% INFLATION INDEX NOTE DUE 04/15/10.....	54,424,409	51,703,189	51,983,805
1.625% INFLATION INDEX BOND DUE 01/15/15.....	12,612,350	12,010,803	12,595,479
1.875% INFLATION INDEX NOTE DUE 07/15/13.....	22,636,693	22,076,073	22,630,288
1.875% INFLATION INDEX NOTE DUE 07/15/15.....	46,749,355	45,343,228	45,557,123
2% INFLATION INDEX BOND DUE 01/15/26.....	70,527,840	67,940,879	65,630,146
2% INFLATION INDEX NOTE DUE 01/15/14.....	59,841,467	58,763,842	59,267,566
2% INFLATION INDEX NOTE DUE 01/15/16.....	39,900,313	39,063,325	38,648,610
2% INFLATION INDEX NOTE DUE 07/15/14.....	50,420,540	49,483,020	49,779,255
2.375% INFLATION INDEX BOND DUE 01/15/25.....	43,906,061	44,815,049	44,892,194
2.375% INFLATION INDEX NOTE DUE 04/15/11.....	31,165,963	31,292,559	31,125,728
2.5% INFLATION INDEX NOTE DUE 07/15/16.....	15,095,023	15,436,426	15,249,769
3% INFLATION INDEX NOTE DUE 07/15/12.....	27,619,847	28,747,288	29,917,648
3.375% INFLATION INDEX BOND DUE 04/15/32.....	2,398,077	2,994,879	3,119,859
3.375% INFLATION INDEX NOTE DUE 01/15/07.....	14,726,555	14,720,223	14,742,769
3.375% INFLATION INDEX NOTE DUE 01/15/12.....	5,140,603	5,431,771	5,733,952
3.5% INFLATION INDEX NOTE DUE 01/15/11.....	17,633,847	18,534,143	19,566,863
3.5% NOTES DUE 02/15/10.....	3,800,000	3,654,680	3,609,703
3.5% NOTES DUE 08/15/09.....	7,600,000	7,350,925	7,333,320
3.625% INFLATION INDEX BOND DUE 04/15/28.....	43,673,191	54,402,121	53,354,718
3.625% INFLATION INDEX NOTE DUE 01/15/08.....	54,371,831	55,083,340	55,288,821
3.625% NOTES DUE 04/30/07.....	32,615,000	32,304,146	32,637,550
3.625% NOTES DUE 06/30/07.....	10,570,000	10,447,790	10,478,388
3.875% INFLATION INDEX BOND DUE 04/15/29.....	7,473,592	9,712,164	9,742,616
3.875% INFLATION INDEX NOTE DUE 01/15/09.....	21,498,252	22,213,735	22,986,997
3.875% NOTES DUE 05/15/10.....	32,145,000	31,263,520	32,257,382
3.875% NOTES DUE 09/15/10.....	2,610,000	2,531,496	2,538,205
4% NOTES DUE 02/15/15.....	18,735,000	17,779,946	18,003,957
4.125% NOTES DUE 05/15/15.....	17,865,000	17,091,088	17,835,306
4.25% INFLATION INDEX NOTE DUE 01/15/10.....	19,533,169	20,759,324	21,984,982
4.25% NOTES DUE 08/15/14.....	1,950,000	1,887,767	1,893,006
4.25% NOTES DUE 11/15/14.....	3,615,000	3,496,667	3,515,911
4.5% BONDS DUE 02/15/36.....	37,895,000	35,665,713	34,030,478
4.5% NOTES DUE 02/28/11.....	600,000	595,312	587,921
4.75% NOTES DUE 05/15/14.....	2,600,000	2,602,844	2,593,831
4.875% NOTES DUE 08/15/16.....	1,100,000	1,112,461	1,109,727
5.125% NOTES DUE 05/15/16.....	15,520,000	15,960,737	15,869,579
5.25% BONDS DUE 02/15/29.....	1,645,000	1,715,169	1,683,340
5.375% BONDS DUE 02/15/31.....	50,000	53,195	54,938
6.25% BONDS DUE 08/15/23.....	1,125,000	1,289,971	1,236,018

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SCHEDULE D  
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SECURITY	PAR VALUE (1)	VALUE (\$)	COST (\$)
6.625% BONDS DUE 02/15/27.....	500,000	607,070	634,610
7.125% BONDS DUE 02/15/23.....	30,243,000	37,548,560	36,457,797
8.125% BONDS DUE 05/15/21.....	3,400,000	4,523,595	4,747,811
8.125% BONDS DUE 08/15/19.....	2,900,000	3,791,071	3,992,234
8.875% BONDS DUE 02/15/19.....	5,000,000	6,848,045	7,348,682
<b>TOTAL U. S. GOVERNMENT OBLIGATIONS</b>		<u>1,222,350,122</u>	<u>1,223,055,174</u>
<b>FOREIGN GOVERNMENT AND PROVINCIAL OBLIGATIONS</b>			
<b>ARAB REPUBLIC EGYPT</b>			
4.45% DUE 09/15/15.....	590,000	565,409	587,988
<b>AUSTRIA REPUBLIC</b>			
4% BONDS DUE 07/15/09.....	1,100,000	1,424,388	1,103,602
5% BONDS DUE 07/15/12.....	800,000	1,095,723	888,183
5.5% BONDS DUE 01/15/10.....	600,000	813,805	624,920
<b>BANQUE CENTRALE DE TUNISIE</b>			
7.375% BONDS DUE 04/25/12.....	500,000	535,000	484,375
<b>BUNDESREPUBLIK DEUTSCHLAND</b>			
5.25% BONDS DUE 01/04/11.....	500,000	681,947	701,866
<b>CENTRAL BANK OF TUNISIA BONDS</b>			
7.375% BONDS DUE 04/25/12.....	100,000	107,130	115,250
<b>DENMARK (KINGDOM OF)</b>			
7% BONDS DUE 11/15/07.....	13,830,000	2,466,736	1,759,617
<b>DUTCH (GOVT OF)</b>			
3.75% BONDS DUE 07/15/14.....	600,000	769,773	787,372
<b>FRANCE GOVERNMENT</b>			
4% BONDS DUE 04/25/09.....	1,900,000	2,457,632	1,648,659
4% BONDS DUE 04/25/14.....	400,000	521,748	543,133
4% BONDS DUE 04/25/55.....	100,000	127,429	126,172
4% BONDS DUE 10/25/14.....	1,600,000	2,086,994	2,149,237
4% DEBS DUE 10/25/09.....	5,820,000	7,546,740	4,825,955
4.75% BONDS DUE 04/25/35.....	200,000	286,219	288,431
<b>GERMANY FEDERAL REPUBLIC</b>			
3.5% BONDS DUE 10/09/09.....	400,000	511,508	547,736
4% BONDS DUE 07/04/09.....	1,600,000	2,072,657	2,249,976
5% BONDS DUE 07/04/11.....	2,300,000	3,123,706	2,394,530
5.375% BONDS DUE 01/04/10.....	5,140,000	6,947,907	7,459,260
5.5% BONDS DUE 01/04/31.....	200,000	313,356	309,580
5.625% BONDS DUE 01/04/28.....	9,640,000	15,134,620	13,860,601
6.25% BONDS DUE 01/04/30.....	5,900,000	10,055,881	10,106,223
6.5% BONDS DUE 07/04/27.....	3,260,000	5,623,068	5,087,745
<b>GOVERNMENT OF CANADA</b>			
3% BONDS DUE 12/01/36.....	106,402	127,064	102,658
<b>ISRAEL STATE</b>			
5.5% NOTES DUE 09/18/23.....	600,000	616,876	653,810
<b>JAPAN (GOVERNMENT OF)</b>			
2.3% DUE 06/20/35.....	300,000,000	2,507,917	2,510,465
<b>JAPAN FINANCIAL CORP</b>			
1.55% NOTES DUE 02/21/12.....	140,000,000	1,210,982	1,212,112

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SCHEDULE D  
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SECURITY	PAR VALUE (1)	VALUE (\$)	COST (\$)
ONTARIO PROVIDENCE CANADA			
3.375% BONDS DUE 01/15/08.....	2,625,000	2,561,160	2,623,241
POLAND (GOVT OF)			
6% BONDS DUE 05/24/09.....	9,300,000	3,081,607	3,172,034
QUEBEC (PROVINCE OF) CANADA			
5% DUE 03/01/16.....	755,000	739,873	749,436
REPUBLIC OF ITALY			
4.5% BONDS DUE 05/01/09.....	4,800,000	6,282,485	6,202,403
5.5% BONDS DUE 11/01/10.....	5,910,000	8,091,626	8,044,691
RUSSIAN FEDERATION			
5% BONDS DUE 03/31/30.....	1,430,000	1,590,875	1,437,736
SOUTH AFRICA (REPUBLIC OF)			
7.375% NOTES DUE 04/25/12.....	1,010,000	1,090,800	1,089,039
SPAIN (GOVT OF)			
5.15% BONDS DUE 07/30/09.....	700,000	934,573	645,588
6% BONDS DUE 01/31/29.....	2,240,000	3,681,772	2,214,585
UNITED MEXICAN STATES			
8% NOTES DUE 09/24/22.....	220,000	265,100	228,580
8% NOTES DUE 09/24/22.....	500,000	600,000	486,240
8.3% BONDS DUE 08/15/31.....	600,000	754,500	630,221
11.375% BOND DUE 09/15/16.....	1,000,000	1,430,000	1,382,500
<b>TOTAL FOREIGN GOVERNMENT AND PROVINCIAL OBLIGATIONS</b>		<u>100,836,586</u>	<u>92,035,750</u>
<b>CORPORATE OBLIGATIONS</b>			
ABITIBI-CONSOLIDATED INC			
7.875% DUE 08/01/09.....	148,000	145,780	146,625
AGL CAPITAL CORP			
6.375% DUE 07/15/16.....	510,000	527,894	509,266
ALBERTSONS INC			
7.5% DUE 02/15/11.....	150,000	150,532	152,432
8% DUE 05/01/31.....	180,000	166,271	170,749
ALLIANCE PIPELINE LP			
4.591% DUE 12/31/25.....	43,694	40,695	40,311
ALLIED WASTE NORTH AMERICA INC			
6.5% DUE 11/15/10.....	195,000	191,588	190,613
AMERICAN EXPRESS CREDIT CORP			
5.43% DUE 11/16/09.....	1,105,000	1,106,095	1,106,683
AMERICAN HOME MORTGAGE			
4.29% DUE 10/25/34.....	542,424	530,714	539,035
AMERICAN REFINE FUEL CO LLC			
6.26% DUE 12/31/15.....	313,937	307,335	294,778
AMERICREDIT AUTO REVC			
5.61% DUE 03/06/10.....	405,000	405,689	404,986
AMERIQUEST MORTGAGE			
5.89% DUE 06/25/34.....	315,906	316,847	315,578
ANGLO IRISH			
0% DISC NOTE DUE 10/05/06.....	59,313,000	58,500,544	58,500,544
ANHEUSER BUSCH COMPANIES INC			
5.05% DUE 10/15/16.....	1,575,000	1,528,819	1,614,005

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SCHEDULE D  
(CONTINUED)

SECURITY	PAR VALUE (1)	VALUE (\$)	COST (\$)
<b>APPALACHIAN POWER CO</b>			
4.4% DUE 06/01/10.....	150,000	144,323	149,715
5.55% DUE 04/01/11.....	175,000	175,320	174,673
<b>ARCHSTONE SMITH OPERATION</b>			
5.75% DUE 03/15/16.....	1,100,000	1,099,424	1,077,483
<b>ARGENT SECURITIES INC</b>			
5.43% DUE 11/25/35.....	445,445	445,520	445,445
<b>AT&amp;T CORPORATION</b>			
7.3% DUE 11/15/11.....	630,000	680,159	720,015
<b>AT&amp;T WIRELESS SERVICES INC</b>			
7.875% DUE 03/01/11.....	1,575,000	1,718,456	1,854,777
<b>ATCHISON TOPEKA &amp; SANTA FE RAILROAD</b>			
7.57% EQUIP TRUST DUE 02/15/09.....	1,336,000	1,407,545	1,299,353
<b>ATLANTIC &amp; WESTERN</b>			
11.37163% DUE 01/09/07.....	400,000	393,492	400,000
11.62163% DUE 01/09/09.....	300,000	282,258	300,000
<b>BAE SYSTEM HOLDINGS INC</b>			
4.75% NOTES DUE 08/15/10.....	1,575,000	1,528,131	1,570,464
5.805% NOTES DUE 08/15/08.....	500,000	500,023	500,000
<b>BANC AMERICA COMMERCIAL MORTGAGE</b>			
4.05% DUE 01/10/11.....	935,000	892,049	878,681
4.877% DUE 11/10/42.....	1,072,000	1,059,606	1,077,391
5.001% DUE 09/10/10.....	1,325,000	1,311,025	1,327,773
5.165% DUE 09/10/47.....	460,000	458,194	462,318
<b>BANC AMERICAN MORTGAGE SECURITIES</b>			
5% DUE 05/25/34.....	1,251,161	1,229,542	1,240,995
<b>BANK AMERICA CORP</b>			
0% DISC NOTE DUE 10/10/06.....	5,600,000	5,522,935	5,522,935
0% DISC NOTE DUE 11/01/06.....	2,600,000	2,565,095	2,565,095
<b>BANK OF TOKYO-MITSUBISI UFJ</b>			
3.5% DUE 12/16/15.....	200,000	249,635	235,243
<b>BANK ONE ISSUANCE</b>			
5.36% DUE 02/16/10.....	725,000	725,280	725,595
<b>BANQUE CENTRALE DE TUNISIE</b>			
7.5% DUE 08/06/09.....	300,000	418,576	288,797
<b>BARCLAYS US FUNDING</b>			
0% DISC NOTE DUE 10/26/06.....	2,600,000	2,564,220	2,564,220
<b>BASF AKTIENGESELL</b>			
0% DISC NOTE DUE 09/12/06.....	39,583,000	39,062,704	39,062,704
<b>BEAR STEARNS COMMERCIAL MORTGAGE</b>			
4.75% DUE 02/13/46.....	1,050,000	1,003,620	1,050,164
5.5% DUE 12/25/42.....	75,631	75,640	75,667
5.66% DUE 10/25/32.....	24,724	24,753	24,724
<b>BELLSOUTH CORP</b>			
5.2% DUE 12/15/16.....	1,050,000	981,501	1,048,719
<b>BNP PARIBAS</b>			
4.73% DUE 04/29/49.....	1,000,000	1,269,682	1,226,150
<b>BNSF RY CO</b>			
4.83% DUE 01/15/23.....	191,099	187,695	184,192

**PERMANENT UNIVERSITY FUND**  
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SCHEDULE D  
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SECURITY	PAR VALUE (1)	VALUE (\$)	COST (\$)
BOEING CAPITAL CORPORATION			
5.4% DUE 11/30/09.....	1,579,000	1,582,801	1,575,526
BORGER ENERGY ASSOCIATION			
7.26% DUE 12/31/22.....	229,157	224,061	218,979
BURLINGTON NORTHERN SANTA FE CORP			
6.462% DUE 01/15/21.....	1,000,518	1,068,753	1,000,518
7% DEBENTURES DUE 12/15/25.....	600,000	669,395	692,256
8.125% DUE 04/15/20.....	525,000	637,070	604,338
CAPCO AMERICAN SERCURITY			
5.86% DUE 10/15/30.....	116,916	116,697	117,893
CAPITAL ONE AUTO			
5.53% DUE 04/15/09.....	1,195,000	1,196,098	1,194,908
CARNIVAL CORP			
6.15% DUE 04/15/08.....	500,000	504,614	525,230
7.2% DUE 10/01/23.....	1,342,000	1,476,042	1,228,774
CATERPILLAR FINANCIAL SERVICES CORP			
4.3% DUE 06/01/10.....	1,050,000	1,015,445	1,046,861
5.59% DUE 02/25/09.....	615,000	616,216	614,979
CATERPILLAR INC			
6.05% DUE 08/15/36.....	555,000	571,355	553,085
CD 2006 CD2			
5.302% DUE 01/15/46.....	1,142,184	1,143,074	1,145,027
CENTERPOINT ENERGY INC			
7.25% DUE 09/01/10.....	245,000	258,342	269,069
CHARTER ONE BANK			
5.54% DUE 04/26/09.....	1,250,000	1,250,460	1,250,000
CHASE CREDIT CARD TRUST			
5.36% DUE 09/15/09.....	1,585,000	1,585,437	1,585,929
CHASE ISSUANCE TRUST			
5.34% DUE 07/15/10.....	690,000	690,160	690,582
CIT EQUIPMENT COLLATERAL			
4.12% DUE 08/20/08.....	1,225,000	1,215,105	1,213,659
CIT GROUP INC			
5.54625% DUE 08/17/09.....	1,200,000	1,199,478	1,200,000
CITIBANK CREDIT CARD			
5.42375% DUE 10/15/09.....	1,500,000	1,501,025	1,501,523
CITIGROUP INC			
4.625% DUE 08/03/10.....	1,050,000	1,028,010	1,049,864
4.7% DUE 05/29/15.....	1,050,000	996,211	1,056,731
5.525% DUE 01/30/09.....	400,000	400,112	400,000
CITIGROUP MORTGAGE LOAN TRUST			
4.9% DUE 12/25/35.....	888,704	878,039	883,844
COMM 2003 LNB1 COML CTF			
3.251% DUE 06/10/38.....	1,269,431	1,197,035	1,216,522
COMMONWEALTH EDISON CO			
5.95% DUE 08/15/16.....	670,000	673,414	669,656
CONSOLIDATED NATURAL GAS CO			
6.85% DUE 04/15/11.....	245,000	256,733	262,748

**PERMANENT UNIVERSITY FUND**  
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SCHEDULE D  
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SECURITY	PAR VALUE (1)	VALUE (\$)	COST (\$)
CONSUMERS ENERGY CO			
4.4% DUE 08/15/09.....	390,000	378,091	391,357
COX COMMUNICATIONS INC			
7.125% DUE 10/01/12.....	465,000	491,941	498,740
CPG PARTNERS LP			
3.5% DUE 03/15/09.....	355,000	339,867	339,025
CREDIT SUISSE FIRST BOSTON SECURITIES CORP			
2.079% DUE 05/15/38.....	537,609	520,682	519,862
5% DUE 09/25/15.....	241,568	238,893	234,283
5.44% DUE 02/25/36.....	144,032	144,045	144,032
5.54% DUE 11/15/19.....	455,475	455,750	455,019
6.5% DUE 01/15/12.....	1,050,000	1,101,417	1,151,955
CWMBS INC			
5.65% DUE 03/25/35.....	1,749,304	1,753,562	1,752,584
5.65% DUE 03/25/35.....	289,894	291,149	289,894
5.66% DUE 02/25/35.....	693,333	695,925	693,333
5.67% DUE 06/25/35.....	302,972	302,542	302,972
DAIMLER CHRYSLER			
4.05% DUE 06/04/08.....	2,681,000	2,613,817	2,671,804
5.875% DUE 03/15/11.....	1,015,000	1,019,172	1,004,276
DAYTON HUDSON CORP			
6.65% DEBENTURES DUE 08/01/28.....	525,000	579,964	616,922
DELL INC			
7.1% DUE 04/15/28.....	1,050,000	1,181,868	1,304,709
DELPHINUS			
3.545% DUE 11/28/31.....	3,500,000	4,500,336	4,012,154
DEUTSCHE BANK			
7.16688% DUE 12/29/49.....	3,300,000	3,555,423	3,300,178
DEUTSCHE TELEKOM INTERNATIONAL FINANCE BV			
5.75% DUE 03/23/16.....	590,000	573,913	586,195
DEXIA MUNICIPAL AGENCY			
4% BONDS DUE 01/26/11.....	1,300,000	1,682,536	1,663,535
DOW JONES CDX HY			
8.625% DUE 06/29/11.....	3,705,000	3,700,369	3,643,341
DUKE ENERGY FIELD SERVICES LLC			
5.75% DUE 11/15/06.....	205,000	205,040	209,844
DUTCH MBS VI BV MTG BKD			
3.401% DUE 11/02/35.....	336,801	431,734	380,857
DUTCH MORTGAGE PORTFOLIO LOANS			
3.484% DUE 11/20/35.....	961,322	1,236,086	1,121,367
DZ BANK AG DEUTSCHE			
0% DISC NOTE DUE 10/24/06.....	32,954,000	32,503,024	32,503,024
EDISON MISSION ENERGY FUNDING			
7.33% DUE 09/15/08.....	799,302	801,300	818,285
EL PASO NATURAL GAS CO			
7.625% DUE 08/01/10.....	290,000	297,975	306,494
EMARQ CORP			
7.995% DUE 06/01/36.....	250,000	261,290	252,973

**PERMANENT UNIVERSITY FUND**

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SCHEDULE D

(CONTINUED)

SECURITY	PAR VALUE (1)	VALUE (\$)	COST (\$)
EMC MORTGAGE LOAN TRUST			
5.7% DUE 05/25/40.....	88,269	88,519	88,269
ENTERGY GULF STATES INC			
4.875% DUE 11/01/11.....	710,000	676,327	687,634
ENTERPRISE PRODUCTS OPERATION LP			
4.625% DUE 10/15/09.....	1,200,000	1,167,230	1,196,628
EOP OPERATION LTD			
4.65% DUE 10/01/10.....	270,000	260,918	270,105
EUROPEAN INVESTMENT BANK			
4.875% DUE 02/15/36.....	380,000	355,083	376,873
EXELON CORP			
4.9% DUE 06/15/15.....	525,000	491,408	483,693
5.625% DUE 06/15/35.....	1,050,000	961,714	1,047,270
FBR SECURITIZATION			
5.45% DUE 10/25/35.....	125,933	125,945	125,933
FIRST FRANKLIN MORTGAGE			
6.05188% DUE 03/25/34.....	44,181	44,022	44,181
FIRST NLC			
5.44% DUE 12/25/35.....	282,498	282,516	282,498
5.45% DUE 02/25/36.....	321,986	322,012	321,986
FIRST REPUBLIC MORTGAGE LOAN			
5.67% DUE 11/15/31.....	771,368	774,685	771,368
FLEET FINANCIAL GROUP INC			
6.875% DUE 01/15/28.....	525,000	585,022	630,336
FLORIDA POWER & LIGHT CO			
4.85% DUE 02/01/13.....	1,050,000	1,020,083	1,077,237
FLORIDA POWER CORP			
4.5% DUE 06/01/10.....	590,000	573,118	594,208
FORD CREDIT AUTO OWNER			
5.42% DUE 07/15/09.....	770,000	770,708	769,931
FORD MOTOR CREDIT CO			
5.7% DUE 01/15/10.....	1,945,000	1,810,344	1,770,196
6.34% DUE 03/21/07.....	2,400,000	2,396,192	2,368,830
7.25% DUE 10/25/11.....	485,000	463,514	442,617
7.875% DUE 06/15/10.....	1,900,000	1,867,356	1,831,125
FORTIS BANQUE			
0% DISC NOTE DUE 09/19/06.....	16,465,000	16,249,263	16,249,263
FREMONT HOME LOAN			
5.42% DUE 01/25/36.....	323,529	323,576	323,529
GENERAL ELECTRIC CAPITAL			
0% DISC NOTE DUE 10/26/06.....	1,200,000	1,183,950	1,183,950
5.43% MTN DUE 12/12/08.....	300,000	300,194	300,000
6.75% MTN DUE 03/15/32.....	516,000	582,360	568,425
GENERAL ELECTRIC CAPITAL CORP			
1.4% DUE 11/02/06.....	70,000,000	597,732	602,860
GENERAL ELECTRIC WMC MORTGAGE SECURITIES			
5.43% DUE 12/25/35.....	246,307	246,341	246,307
GENERAL MOTORS ACCEPTANCE CORP			
3.337% DUE 05/10/36.....	1,205,873	1,140,222	1,169,979

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DEBT SECURITIES

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SCHEDULE D

(CONTINUED)

SECURITY	PAR VALUE (1)	VALUE (\$)	COST (\$)
5.238% DUE 11/10/45.....	725,000	712,643	691,950
6.75% DUE 12/01/14.....	335,000	321,160	303,094
7.25% DUE 03/02/11.....	690,000	688,425	653,775
7.75% DUE 01/19/10.....	170,000	172,797	166,175
GENERAL MOTORS CORP			
8.375% DUE 07/15/33.....	375,000	314,063	268,028
GMAC LLC			
6.125% DUE 01/22/08.....	650,000	642,278	670,690
GMAC MORTGAGE CORP LOAN TRUST			
5.5% DUE 09/25/34.....	824,702	816,808	828,052
GOLDMAN SACHS SECURITIES			
3.492% DUE 06/01/34.....	1,278,159	1,270,389	1,254,593
4.540248% DUE 09/25/35.....	862,716	848,854	857,594
5.44% DUE 01/25/36.....	101,396	101,408	101,396
5.52% DUE 10/25/33.....	25,258	25,261	25,258
GREENWICH CAPITAL			
5.117% DUE 04/10/37.....	865,000	860,157	868,462
GS AUTO LOAN			
5.47% DUE 02/15/09.....	1,195,000	1,196,095	1,194,943
GULFSTREAM NATURAL GAS			
5.56% DUE 11/01/15.....	275,000	272,628	273,536
HBOS PLC			
5.92% DUE 12/31/49.....	1,300,000	1,248,928	1,300,000
HBOS TREASURY PLC			
0% DISC NOTE DUE 11/01/06.....	1,200,000	1,182,653	1,182,653
HEALTHSOUTH CORP			
10.75% DUE 06/15/16.....	210,000	214,725	206,861
HERMES			
3.772% DUE 04/18/12.....	388,522	483,327	496,068
HERSHEY CO			
5.45% DUE 09/01/16.....	1,045,000	1,048,970	1,042,520
HERTZ VEH FING LLC			
5.08% DUE 11/25/11.....	320,000	316,924	319,948
HEWLETT PACKARD CO			
5.52438% DUE 05/22/09.....	300,000	300,261	300,000
HOMER CITY FUNDING LLC			
8.137% DUE 10/01/19.....	331,200	354,384	355,212
HONDA AUTO			
5.358% DUE 04/18/07.....	97,401	97,332	97,291
HOUSEHOLD FINANCE CORP			
4.125% DUE 12/15/08.....	1,050,000	1,024,086	1,046,987
6.375% DUE 11/27/12.....	1,575,000	1,643,078	1,700,253
HSBC BANK USA NA GLOBAL			
5.625% DUE 08/15/35.....	1,050,000	992,068	1,042,178
HSBC FINANCE CAPITAL			
5.911% DUE 11/30/35.....	1,100,000	1,090,638	1,093,847
HSBC FINANCE CORP			
5.5% DUE 01/19/16.....	400,000	397,106	399,148
6.538% DUE 11/13/07.....	900,000	908,868	925,209

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SCHEDULE D  
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SECURITY	PAR VALUE (1)	VALUE (\$)	COST (\$)
ICI WILMINGTON INC			
4.375% DUE 12/01/08.....	500,000	487,565	494,603
INDIANAPOLIS LIFE INSURANCE CO			
8.66% SURPLUS NOTES DUE 04/01/11.....	2,624,000	2,853,401	2,624,000
INDYMAC MBS			
2.75% DUE 08/25/33.....	58,800	58,547	58,194
INTERNATIONAL LEASE			
5.75% DUE 06/15/11.....	165,000	167,170	164,787
JACKSON NATIONAL LIFE			
5.125% DUE 02/10/11.....	300,000	297,227	299,751
JAPAN FINANCIAL CORP			
5.875% DUE 03/14/11.....	1,700,000	1,753,072	1,661,852
8.375% DUE 12/07/06.....	900,000	1,724,877	1,464,088
KELLOGG CO			
7.45% BONDS DUE 04/01/31.....	1,050,000	1,247,358	1,340,120
KERN RIV FUNDING CORP			
4.893% DUE 04/30/18.....	272,640	261,650	269,194
KINDER MORGAN ENERGY			
5.35% DUE 08/15/07.....	2,149,000	2,129,369	2,147,539
KINDER MORGAN INC			
6.5% DUE 09/01/12.....	365,000	357,931	384,614
KIOWA POWER PARTNERS LLC			
4.811% DUE 12/30/13.....	299,649	289,608	287,627
LANDESBANK-BADGEN			
5.5% DUE 04/02/07.....	240,000	310,438	215,285
LB COMMERCIAL CONDUIT			
6.41% DUE 06/15/31.....	63,857	63,844	64,396
LB UBS COMMERCIAL MORTGAGE			
4.739% DUE 07/15/30.....	1,050,000	998,627	1,006,893
4.885% DUE 09/15/30.....	295,000	291,704	293,755
5.103% DUE 11/15/30.....	1,280,000	1,272,389	1,282,077
LEHMAN XS TRUST			
5.41% DUE 06/25/36.....	489,078	484,257	489,078
LLOYDS TSB BANK			
4.385% DUE 05/29/49.....	900,000	1,106,885	1,055,960
MASTER ALTERNATIVE LOAN			
4.5% DUE 07/25/14.....	345,401	339,505	337,090
MASTER ASSET SECURITIZATION			
4% DUE 12/25/33.....	96,865	96,123	96,668
4.75% DUE 01/25/14.....	258,714	255,287	255,844
5.5% DUE 11/25/17.....	207,687	204,606	207,687
MCCORMICK & CO INC			
5.2% DUE 12/15/15.....	525,000	515,064	502,052
MELLON RESIDENTIAL			
5.76% DUE 12/15/30.....	716,557	718,862	719,468
MERRILL LYNCH & CO			
5.49188% DUE 08/14/09.....	200,000	199,961	200,000
MERRILL LYNCH MORTGAGE			
4.929% DUE 07/12/34.....	363,815	361,932	361,669

PERMANENT UNIVERSITY FUND

DEBT SECURITIES

August 31, 2006

SCHEDULE D

(CONTINUED)

SECURITY	PAR VALUE (1)	VALUE (\$)	COST (\$)
5.41% DUE 01/25/37.....	208,860	208,860	208,860
MIDWEST GENERATION CTF			
8.3% DUE 07/02/09.....	704,145	719,109	729,931
MINNESOTA MINING & MANUFACTURING CO			
6.375% DUE 02/15/28.....	525,000	568,886	592,877
MIZUHO BANK LTD			
0.9675% DUE 12/29/49.....	200,000,000	1,725,883	1,715,488
MIZUHO FINANCIAL			
1.66813% DUE 12/29/49.....	100,000,000	878,211	874,396
MORGAN STANLEY CAPITAL			
3.27% DUE 05/15/40.....	181,762	174,061	170,316
5.809972% DUE 08/12/41.....	1,050,000	1,082,098	1,054,919
MORGAN STANLEY DEAN WITTER			
5.66% DUE 07/25/32.....	1,461	1,478	1,462
MUFG CAPITAL FINANCE 2			
4.85% DUE 07/29/49.....	2,450,000	3,053,721	2,920,768
NEW YORK LIFE GLOBAL			
3.875% DUE 01/15/09.....	520,000	504,000	516,750
NEXTEL COMMUNICATIONS INC			
5.95% DUE 03/15/14.....	350,000	340,275	356,307
NISSAN AUTO RECV			
5.52% DUE 01/15/09.....	455,000	455,874	454,974
NISSAN MOTOR ACCEPTANCE			
0% DISC NOTE DUE 09/20/06.....	3,041,000	2,999,644	2,999,644
NOMURA ASSET SECURITIES			
6.28% DUE 03/15/30.....	35,936	35,922	36,297
NORDDEUTSCHE LDBANK			
0% DUE 09/19/06.....	40,835,000	40,281,391	40,281,391
NORURA ASSET ACCEPTANCE			
5.46% DUE 08/25/35.....	186,510	186,584	186,492
NOVASTAR MORTGAGE FUNDING			
5.605% DUE 04/25/28.....	119,470	119,486	119,451
OPTION ONE MORTGAGE ACCEPTANCE CORP			
5.73% DUE 12/25/31.....	139,990	140,647	139,990
PACIFICORP			
6.1% DUE 08/01/36.....	535,000	544,005	533,256
PARK PLACE ENTERTAINMENT CORP			
9.375% DUE 02/15/07.....	400,000	405,000	410,000
PB FINANCE (DE) INC			
0% DISC NOTE DUE 10/10/06.....	29,655,000	29,250,209	29,250,209
PEARSON			
7% DUE 10/27/14.....	780,000	1,586,867	1,529,886
PEMEX FINANCE LTD			
9.69% DUE 08/15/09.....	39,000	42,156	41,865
PEMEX PROJECT FUNDING			
7.375% DUE 12/15/14.....	1,250,000	1,354,375	1,233,948
8.625% DUE 02/01/22.....	200,000	241,000	210,176
PEMEX PROJECT FUNDING MASTER TRUST			
9.25% DUE 03/30/18.....	2,000,000	2,460,000	2,448,000

**PERMANENT UNIVERSITY FUND**  
**DEBT SECURITIES**  
August 31, 2006

SCHEDULE D  
(CONTINUED)

SECURITY	PAR VALUE (1)	VALUE (\$)	COST (\$)
PETRO-CANADA			
7% DUE 11/15/28.....	525,000	568,671	547,055
PRICOA GLOBAL FUNDING			
5.45063% DUE 03/03/09.....	295,000	295,168	295,000
PRUDENTIAL FINANCIAL INC			
5.4% DUE 06/13/35.....	1,097,000	997,479	1,074,746
PSEG ENERGY HOLDINGS INC			
8.5% DUE 06/15/11.....	145,000	153,338	153,700
PSI ENERGY INC			
6.05% DUE 06/15/16.....	1,050,000	1,066,838	1,049,517
PUBLIC SERVICE CO			
4.375% DUE 10/01/08.....	715,000	700,819	722,844
PUBLIC SERVICE ELECTRIC & GAS CO			
5% DUE 01/01/13.....	165,000	161,140	158,623
PUBLIC SERVICE ENTERPRISE GROUP INC			
5.765% DUE 09/21/08.....	1,300,000	1,302,443	1,300,000
QWEST COMMUNICATIONS INTERNATIONAL INC			
7.25% DUE 02/15/11.....	290,000	287,463	283,200
QWEST CORP			
8.875% DUE 03/15/12.....	900,000	974,250	894,129
RABOBANK CAPITAL FUNDING			
5.254% DUE 10/29/49.....	500,000	475,950	500,000
RABOBANK NEDERLAND GLOBAL			
5.39375% DUE 01/15/09.....	200,000	200,012	200,000
RAS LAFFAN LIQUEFIELD			
5.298% DUE 09/30/20.....	750,000	724,073	750,000
5.838% DUE 09/30/27.....	500,000	486,240	500,000
RBA CAPITAL TRUST			
4.243% DUE 12/29/49.....	800,000	983,488	937,047
RENAISSANCE HOME EQUITY			
5.83% DUE 12/25/33.....	115,086	116,034	115,086
RESIDENTIAL ASSET MORTGAGE PRODUCTS			
5.89% DUE 06/25/32.....	24,690	24,697	24,705
RESIDENTIAL ASSET SECURITIES			
5.43% DUE 11/25/35.....	361,212	361,276	361,212
RESIDENTIAL CAPITAL CORP			
6.375% DUE 06/30/10.....	865,000	872,504	871,173
6.5% DUE 04/17/13.....	365,000	368,228	363,949
RESONA BANK			
5.85% DUE 09/29/49.....	1,200,000	1,164,737	1,188,458
RHINELAND FUNDING CAPITAL			
0% DISC NOTE DUE 09/08/06.....	36,139,000	35,683,107	35,683,107
ROYAL BANK SCOTLAND			
5.39% DUE 12/21/07.....	1,200,000	1,200,786	1,200,000
ROYAL CARIBBEAN CRUISES LTD			
7% DUE 10/15/07.....	100,000	100,932	102,250
SALOMON SMITH BARNEY			
0.6475% DUE 01/04/08.....	100,000,000	854,895	843,651

**PERMANENT UNIVERSITY FUND**  
**DEBT SECURITIES**  
August 31, 2006

SCHEDULE D  
(CONTINUED)

SECURITY	PAR VALUE (1)	VALUE (\$)	COST (\$)
SB TREASURY COMPANY LLC			
9.4% DUE 12/29/49.....	1,400,000	1,489,513	1,514,674
SBC COMMUNICATIONS INC			
4.125% DUE 09/15/09.....	1,525,000	1,471,872	1,523,145
6.45% DUE 06/15/34.....	1,050,000	1,035,453	1,111,683
SEQUOIA MORTGAGE TRUST			
5.67% DUE 10/19/26.....	586,645	587,354	588,295
SG MORTGAGE SECURITIES			
5.43% DUE 10/25/35.....	84,733	84,743	84,733
SHINSEI BANK LTD			
3.75% DUE 02/23/16.....	1,880,000	2,342,481	2,222,802
SIEMENS FINANCE			
5.46625% DUE 08/14/09.....	300,000	299,682	300,000
SIENA MORTGAGES			
3.563% DUE 12/16/38.....	2,377,284	3,057,181	2,845,004
SLM STUDENT LOAN TRUST			
5.38739% DUE 04/25/12.....	710,000	710,000	710,000
5.455% DUE 04/25/12.....	932,313	932,080	932,212
5.495% DUE 04/25/11.....	454,970	455,051	454,970
5.505% DUE 01/27/14.....	463,556	463,588	463,641
SOCIETE GENERAL N A			
0% DISC NOTE DUE 09/06/06.....	43,212,000	42,650,010	42,650,010
0% DISC NOTE DUE 10/10/06.....	2,400,000	2,367,064	2,367,064
SOCIETE GENERALE			
4.196% DUE 01/29/49.....	800,000	988,726	935,668
SOUNDVIEW HOME LOAN			
5.4% DUE 02/25/36.....	106,472	106,492	106,472
5.44% DUE 05/25/35.....	105,489	105,488	105,489
SOUTH CAROLINA ELECTRIC & GAS CO			
5.3% DUE 05/15/33.....	1,050,000	971,306	1,047,974
SOUTHERN CALIFORNIA EDISON CO			
5.56563% DUE 02/02/09.....	390,000	390,323	390,045
SOUTHERN STAR CENTRAL GAS			
6% DUE 06/01/16.....	265,000	265,331	262,881
STANDARD LIFE FUNDING			
0% DISC NOTE DUE 10/24/06.....	16,690,000	16,460,494	16,460,494
STRUCTURED ASSET MORTGAGE			
5.55% DUE 09/25/35.....	2,469,601	2,472,332	2,469,601
SUMITOMO MITSUI			
5.625% DUE 07/29/49.....	200,000	193,279	198,946
SUMITOMO MITSUI BANKING CORP			
1.2275% DUE 06/23/49.....	200,000,000	1,706,118	1,711,695
SWEDBANK			
5.99% DUE 12/11/11.....	1,500,000	1,500,900	1,499,850
TARGET CREDIT CARD			
5.5151% DUE 06/27/11.....	1,515,000	1,516,704	1,516,953
TATE & LYLE FINANCE PLC			
6.625% DUE 06/15/16.....	525,000	541,847	524,491

**PERMANENT UNIVERSITY FUND**  
**DEBT SECURITIES**  
August 31, 2006

SCHEDULE D  
(CONTINUED)

SECURITY	PAR VALUE (1)	VALUE (\$)	COST (\$)
TELECOM ITALIA CAPITAL			
4.875% DUE 10/01/10.....	262,000	254,209	261,733
6.2% DUE 07/18/11.....	855,000	870,226	855,019
TELEFONICA EMISIONES			
5.984% DUE 06/20/11.....	1,900,000	1,928,257	1,900,000
TELEFONOS DE MEXICO			
4.5% DUE 11/19/08.....	220,000	214,905	219,586
TEXTRON FINANCIAL CORP			
5.125% DUE 08/15/14.....	1,050,000	1,023,700	1,045,643
THOMSON CORP			
5.5% DUE 08/15/35.....	525,000	475,959	519,362
TOKAI PREFERRED CAPITAL CO			
9.98% DUE 12/29/49.....	300,000	322,089	332,778
TOYOTA MOTOR CREDIT CORP			
5.37188% DUE 10/12/07.....	1,600,000	1,600,563	1,600,000
TRANSCONTINENTAL GAS PIPE LINE			
6.4% DUE 04/15/16.....	390,000	379,763	384,356
TYSON FOODS INC			
7.25% DUE 10/01/06.....	325,000	325,179	337,906
U S BANCORP			
5.35375% DUE 04/28/09.....	1,200,000	1,200,106	1,200,000
UBS AG			
4.28% DUE 04/29/49.....	700,000	872,469	830,571
UNICREDITO ITALIAN			
3.95% DUE 02/01/16.....	900,000	1,088,107	1,035,682
UNION PACIFIC RAILROAD CO			
7.16% EQUIP TR 96-G DUE 06/01/08.....	1,050,000	1,079,769	1,050,000
UNITED TECHNOLOGIES CORP			
5.4% DUE 05/01/35.....	950,000	902,215	942,742
UOB CAYMAN I LTD			
5.796% DUE 12/29/49.....	700,000	674,044	700,000
USAA AUTO OWNER			
5.03% DUE 11/17/08.....	230,000	229,669	229,982
USAA AUTO OWNER TRUST			
5.47% DUE 04/15/09.....	1,080,000	1,081,476	1,079,950
VALSPAR CORP			
6% DUE 05/01/07.....	1,050,000	1,052,562	1,069,031
VERIZON GLOBAL FUNDING CORP			
4.375% DUE 06/01/13.....	1,050,000	976,833	1,026,014
VIRGINIA ELEC & POWER CO			
4.75% DUE 03/01/13.....	1,050,000	999,756	1,044,267
VOLKSWAGEN AUTO LEASE			
5.5235% DUE 08/20/07.....	405,000	405,124	405,000
VTB CAPITAL S A LOAN			
6.14% DUE 09/21/07.....	700,000	702,981	700,000
WACHOVIA BANK			
2.986% DUE 06/15/35.....	1,269,586	1,185,122	1,203,974
5.46063% DUE 12/02/10.....	800,000	800,146	799,832

**PERMANENT UNIVERSITY FUND**  
**DEBT SECURITIES**  
August 31, 2006

SCHEDULE D  
(CONTINUED)

SECURITY	PAR VALUE (1)	VALUE (\$)	COST (\$)
WAL-MART STORES INC			
5.25% DUE 09/01/35.....	1,050,000	966,650	1,045,590
WAMU MORTGAGE			
5.56% PASS THRU 05-AR6 DUE 04/25/45.....	1,059,929	1,061,724	1,059,929
5.59% PASS THRU 05-AR15 A1 DUE 11/25/45.....	455,842	457,203	455,842
5.64% PASS THRU 05-AR2 2A DUE 01/25/45.....	704,984	709,155	704,984
WASHINGTON MUTUAL MORTGAGE			
5.6% DUE 12/25/27.....	1,513,805	1,512,975	1,514,278
WELLS FARGO MORTGAGE			
4.95% DUE 03/25/36.....	2,450,725	2,417,730	2,426,792
5.5% DUE 03/25/36.....	1,350,272	1,341,644	1,346,211
WEST DT LANDESBANK			
4.75% DUE 09/28/07.....	420,000	544,072	360,748
WESTAR ENERGY INC			
6% DUE 07/01/14.....	310,000	315,948	325,333
WESTPAC BANKING CORP			
0% DISC NOTE DUE 09/06/06.....	48,078,000	47,449,540	47,449,540
WINDSOR FINANCING LLC			
5.881% DUE 07/15/17.....	412,683	410,731	411,736
WRIGLEY (WM) JR CO			
4.3% DUE 07/15/10.....	1,050,000	1,015,416	1,048,131
WYETH			
5.5% DUE 02/15/16.....	1,575,000	1,560,101	1,556,058
<b>TOTAL CORPORATE OBLIGATIONS</b>		<u>596,815,866</u>	<u>595,366,148</u>
<b>OTHER - DEBT SECURITIES</b>			
ALASKA STATE HOUSING FINANCE			
7.32% DUE 12/01/20.....	2,195,000	2,281,483	2,195,000
BADGER TOB ASSET SECURITIZATION CORP WIS			
6% DUE 06/01/17.....	115,000	121,721	104,413
CALIFORNIA STATEWIDE FINANCING AUTHORITY			
5.625% DUE 05/01/29.....	95,000	98,881	85,605
CHICAGO ILL PROJECT & REFERENCE			
4.75% DUE 01/01/30.....	300,000	305,640	304,899
GOLDEN STATE TOB SECURITIZATION			
6.25% DUE 06/01/33.....	3,555,000	3,908,438	3,398,706
6.75% DUE 06/01/39.....	170,000	191,789	149,585
HARRIS COUNTY TEXAS REF-TOLL-ROAD			
5% DUE 08/01/33.....	200,000	202,232	198,452
ILLINOIS STATE TAXABLE PENSION			
4.95% DUE 06/01/23.....	515,000	484,661	467,625
LOS ANGELES CALIF WASTERWATER SYSTEM			
5% DUE 06/01/27.....	500,000	523,555	502,500
LOUISVILLE & JEFFERSON COUNTY KY			
5% DUE 05/15/36.....	200,000	208,518	188,236
MICHIGAN STATE BUILDING AUTHORITY			
5.25% DUE 10/15/13.....	100,000	109,476	111,273
NEW HAMPSHIRE BANK			
5% DUE 08/15/13.....	500,000	541,050	538,475

**PERMANENT UNIVERSITY FUND**  
**DEBT SECURITIES**  
August 31, 2006

SCHEDULE D  
(CONTINUED)

SECURITY	PAR VALUE (1)	VALUE (\$)	COST (\$)
NEW YORK N Y CITY MUNICIPAL FINANCE AUTHORITY			
4.75% DUE 06/15/38.....	600,000	609,342	606,258
TOBACCO SETTLEMENT AUTHORITY IOWA			
6.5% DUE 06/01/23.....	395,000	391,694	395,000
TOBACCO SETTLEMENT FINANCING CORP			
4.375% DUE 06/01/19.....	800,000	799,408	800,000
6% DUE 06/01/23.....	600,000	629,550	531,540
6.125% DUE 06/01/42.....	100,000	106,670	86,209
6.25% DUE 06/01/43.....	585,000	638,902	477,149
6.75% DUE 06/01/39.....	200,000	224,156	188,788
TOTAL OTHER - DEBT SECURITIES		<u>12,377,166</u>	<u>11,329,713</u>
 TOTAL DEBT SECURITIES		 <u><u>1,932,379,740</u></u>	 <u><u>1,921,786,785</u></u>

(1) Par Values on Non-US dollar denominated bonds are reported in currency of issue.

**PERMANENT UNIVERSITY FUND**

SCHEDULE E

**INVESTMENT FUNDS**

August 31, 2006

SECURITY	SHARES	VALUE (\$)	COST (\$)
<b>INVESTMENT FUNDS - MARKETABLE ALTERNATIVE</b>			
ABSOLUTE RETURN (SEE SCHEDULE G).....	16,150,019	1,763,658,673	1,631,200,835
DIRECTIONAL EQUITY (SEE SCHEDULE G).....	7,992,974	858,978,126	800,388,631
<b>TOTAL INVESTMENT FUNDS - MARKETABLE ALTERNATIVE</b>		<u>2,622,636,799</u>	<u>2,431,589,466</u>
<b>INVESTMENT FUNDS - PRIVATE MARKETS</b>			
3I EUROPARTNERS II.....		5,280,884	3,839,741
3I EUROPARTNERS II FCPR.....		799,555	1,842,455
3I EUROPARTNERS III.....		7,095,900	3,959,667
3I EUROPARTNERS III FCPR.....		287,959	75,166
3I UK INVESTMENT PARTNERS.....		2,127,182	2,447,308
3I UKIP II.....		4,564,485	9,801,188
ADVANCED TECHNOLOGY VENTURES VII LP.....		5,636,537	5,604,875
AG CAPITAL RECOVERY PARTNERS IV LP.....		2,974,136	1
AG CAPITAL RECOVERY PARTNERS V LP.....		4,013,247	4,025,000
AG PRIVATE EQUITY PARTNERS III LP.....		4,305,000	4,305,000
AMERICAN INDUSTRIAL PARTNERS CAPITAL FUND LP.....		54,163	53,937
AMERICAN SECURITIES PARTNERS II LP.....		115,168	367,343
AMERICAN SECURITIES PARTNERS III LP.....		5,121,715	5,057,540
AMPERSAND 1995 LP.....		2,623,136	1,973,378
AMPERSAND 1999 LP.....		2,020,357	2,266,127
AMPERSAND 2001 LP.....		7,058,671	8,221,830
AMPERSAND 2006 LP.....		1,386,875	1,386,875
ARCH VENTURE FUND VI LP.....		3,085,748	3,347,430
ARCLIGHT ENERGY PARTNERS FUND I LP.....		8,202,593	5,766,002
ARCLIGHT ENERGY PARTNERS FUND II LP.....		15,903,766	15,986,672
ARCLIGHT ENERGY PARTNERS FUND III LP.....		1,966,833	2,126,752
ASIAN CORPORATE FINANCE FUND LP.....		853,986	739,464
ASIAN MEDIA INVESTORS I LP.....		3,377,021	3,377,021
ASP III ALTERNATIVE INVESTMENTS LP.....		2,733,548	2,857,874
ATLAS VENTURE FUND VI LP.....		5,227,927	5,222,130
AUSTIN VENTURES IV LP.....		155,125	328,495
AUSTIN VENTURES IX LP.....		1,029,774	1,150,000
AUSTIN VENTURES V LP.....		2,317,274	6,206,989
AUSTIN VENTURES VI LP.....		3,580,695	5,754,283
AUSTIN VENTURES VII LP.....		5,519,379	7,008,887
AUSTIN VENTURES VIII LP.....		5,694,373	5,172,485
B IV CAPITAL PARTNERS L P.....		7,237,340	6,792,136
BAKER COMMUNICATIONS FUND (CAYMAN) LP.....		13,782,884	4,924,328
BAKER COMMUNICATIONS FUND II (CAYMAN) LP.....		1,742,105	2,494,423
BAKER COMMUNICATIONS FUND II (QP) LP.....		5,790,860	7,337,149
BAKER COMMUNICATIONS FUND LP.....		2,537,124	4,869,093
BAND OF ANGELS FUND LP.....		2,698,195	3,265,354
BARCLAYS PRIVATE EQUITY EUROPEAN FUND A LP.....		11,434,528	6,793,467
BEACON GROUP III FOCUS VALUE FUND LP.....		1,484,573	7,526,046
BLACKSTONE CAPITAL PARTNERS (CAYMAN) IV LP.....		7,057,305	5,557,878
BLACKSTONE CAPITAL PARTNERS (CAYMAN) V LP.....		3,343,927	3,343,927
BLACKSTONE CAPITAL PARTNERS IV LP.....		12,721,047	9,150,404

**PERMANENT UNIVERSITY FUND**  
**INVESTMENT FUNDS**  
August 31, 2006

SCHEDULE E  
(CONTINUED)

SECURITY	SHARES	VALUE (\$)	COST (\$)
BLACKSTONE CAPITAL PARTNERS V LP.....		32,547	370,372
BLACKSTONE DT CAPITAL PARTNERS V LP.....		1,562,107	2,058,117
BLACKSTONE ECC CAPITAL PARTNERS LP.....		107,196	107,196
BLACKSTONE FC CAPITAL PARTNERS IV LP.....		369,830	254,997
BLACKSTONE FCH CAPITAL PARTNERS IV LP.....		1,593,768	1,606,921
BLACKSTONE SGP CAPITAL PARTNERS (CAYMAN) IV LP.....		322,981	322,981
BLACKSTONE TG CAPITAL PARTNERS IV LP.....		614,693	118,614
BRENTWOOD ASSOCIATES BUYOUT FUND II LP.....		0	1
BRENTWOOD ASSOCIATES PRIVATE EQUITY III LP.....		32,237,543	33,000,549
CANDOVER 2001 FUND US NO 2 LP.....		18,406,756	13,919,042
CANDOVER 2005 FUND US NO 3 LP.....		5,295,537	5,493,930
CARE CAPITAL INVESTMENTS III LP.....		994,706	1,400,000
CARLYLE PARTNERS II LP.....		1,012,520	732,102
CARLYLE PARTNERS III FM (CAYMAN) LP.....		5,026,926	851,682
CARLYLE PARTNERS III HAWAII LP.....		1,384,466	1,295,740
CARLYLE PARTNERS III LOEWS LP.....		555,178	555,178
CARLYLE PARTNERS III LP.....		4,868,752	3,621,648
CARLYLE PARTNERS III TELECOMMUNICATIONS LP.....		1,262,137	1,013,783
CARLYLE PARTNERS IV CAYMAN LP.....		1,990,814	2,386,544
CARLYLE PARTNERS TELECOMMUNICATIONS IV LP.....		8,195,134	7,974,240
CARLYLE PARTNERS TELECOMMUNICATIONS IV LP.....		951,715	951,715
CARLYLE PIEDMONT DOMESTIC PARTNERS LP.....		407,208	325,766
CENTERBRIDGE CAPITAL PARTNERS LP.....		419,435	419,435
CGW SOUTHEAST PARTNERS IV LP.....		12,257,280	9,123,639
CITICORP MEZZANINE PARTNERS LP.....		290,723	2,898,097
CLAYTON, DUBILIER & RICE FUND V LP.....		2,792,361	3,709,127
CORTEC GROUP FUND II LP.....		624,576	883,539
CORTEC GROUP FUND III LP.....		5,728,424	4,531,526
CORTEC GROUP FUND IV LP.....		4,377,047	4,377,047
CRESCENDO II LP.....		0	764,507
CRESCENDO III LP.....		1,102,735	2,184,400
CRESCENDO IV LP.....		1,988,937	2,369,164
CTIP PARTNERS LP.....		689,501	1,781,448
CVC EUROPEAN EQUITY PARTNERS IV (C) LP.....		7,175,639	7,118,931
CVC EUROPEAN EQUITY PARTNERS LP.....		6,541,251	239,443
DDJ TOTAL RETURN LOAN FUND LP.....		13,224,303	14,269,947
DOUGHTY HANSON & CO II.....		6,310,182	6,025,258
DOUGHTY HANSON & CO IV LP.....		18,448,426	16,820,597
DOUGHTY HANSON III LP.....		11,720,309	6,409,591
ENCAP ENERGY CAPITAL FUND III-B LP.....		2,412,115	1,672,703
ENCAP ENERGY CAPITAL FUND IV-B LP.....		3,224,548	2,681,396
ENERGY ASSET OPTION FUND.....		6,747,917	783,826
EOS CAPITAL PARTNERS III LP.....		9,054,823	6,454,554
ESCALATE CAPITAL I LP.....		7,615,073	7,387,881
EVERCORE CAPITAL PARTNERS CAYMAN LP.....		2,560,720	2,108,345
EVERCORE CAPITAL PARTNERS II LP.....		15,471,167	16,759,213
EVERCORE CAPITAL PARTNERS LP.....		2,802,173	4,251,650
EVERCORE METC CAPITAL PARTNERS II LP.....		7,411,831	3,347,984

**PERMANENT UNIVERSITY FUND**  
**INVESTMENT FUNDS**  
August 31, 2006

SCHEDULE E  
(CONTINUED)

SECURITY	SHARES	VALUE (\$)	COST (\$)
FISHER LYNCH VENTURE PARTNERSHIP LP.....		2,293,316	2,425,927
FORTRESS FUND IV (COINVESTMENT FUND A) LP.....		1,409,021	1,409,021
FORTRESS FUND IV LP (FUND A) LP.....		2,323,634	2,323,634
FOUNDATION CAPITAL IV LP.....		6,254,284	6,052,429
FRANCISCO PARTNERS II L P.....		630,000	630,000
GREEN EQUITY INVESTORS III LP.....		26,708,069	15,582,331
GREEN EQUITY INVESTORS IV LP.....		7,457,081	6,712,914
HALPERN DENNY FUND II LP.....		2,554,059	4,414,968
HALPERN DENNY FUND III LP.....		8,336,914	8,624,748
HAMPSHIRE EQUITY PARTNERS II LP.....		21,662,716	1,681,033
HAMPSHIRE EQUITY PARTNERS III LP.....		10,197,607	10,650,810
HAMPSHIRE MEDIA PARTNERS II LP.....		74	1
HELLMAN & FRIEDMAN CAPITAL PARTNERS II LP.....		6,623	2,405
HEP II LLC II.....		0	826,097
INFORMATION TECHNOLOGY VENTURES II LP.....		355,022	1,370,708
INFORMATION TECHNOLOGY VENTURES LP.....		0	1
INVERNESS PARTNERS II LP.....		10,712,066	10,891,481
INVERNESS/PHOENIX PARTNERS LP.....		2,516,821	2,854,435
J W CHILDS BERMUDA AIV TWO LP.....		1,074,599	19,714
JATOTECH VENTURES LP.....		1,921,600	3,230,237
JW CHILDS EQUITY PARTNERS III LP.....		8,461,909	8,058,140
KB MEZZANINE FUND II LP.....		552,793	1,547,955
KKR 1996 FUND (OVERSEAS) LP.....		3,653,908	3,252,489
KKR 1996 FUND LP.....		8,023,878	10,495,685
KNIGHTSBRIDGE VENTURE CAPITAL VI LP.....		1,932,134	2,008,173
KNIGHTSBRIDGE VENTURE COMPLETION 2005 LP.....		15,688,524	15,674,229
LAKE CAPITAL PARTNERS II LP.....		3,098,354	3,350,699
LAKE CAPITAL PARTNERS LP.....		8,726,660	8,096,644
LIGHTHOUSE CAPITAL PARTNERS IV LP.....		5,153,871	3,765,845
LIGHTHOUSE CAPITAL PARTNERS V LP.....		6,678,520	6,904,519
MATLIN PATTERSON GLOBAL OPPORTUNITIES PARTNERS II LP....		10,000,503	10,157,322
MATLIN PATTERSON GLOBAL OPPORTUNITIES PARTNERS LP.....		7,438,982	5,997,592
MORGENTHALER PARTNERS VI LP.....		1,852,708	2,925,501
MORGENTHALER PARTNERS VII LP.....		7,029,665	8,126,405
MORGENTHALER PARTNERS VII LP.....		456,085	496,262
MORGENTHALER PARTNERS VIII LP.....		3,423,158	3,528,498
MORGENTHALER VENTURE PARTNERS IV LP.....		1,348,914	2,511,733
MORGENTHALER VENTURE PARTNERS V LP.....		5,795,067	1,789,930
NORTH AMERICAN FUND II LP.....		2,363,171	4,475,846
NORTH AMERICAN FUND III LP.....		5,404,665	8,855,157
NORTHSTAR SEIDLER MEZZANINE PARTNERS II LP.....		4,953,818	4,816,308
OCM OPPORTUNITIES FUND III LP.....		2,821,634	3,708,904
OCM OPPORTUNITIES FUND IV LP.....		1,315,399	2,002,916
OCM OPPORTUNITIES FUND V LP.....		16,963,333	15,491,317
OCM OPPORTUNITIES FUND VI LP.....		14,455,282	13,165,174
OCM/GFI POWER OPPORTUNITIES FUND II LP.....		4,799,232	4,695,136
OSCCO III LP.....		1	1
PARTHENON INVESTORS II LP.....		6,444,224	5,819,369

**PERMANENT UNIVERSITY FUND**  
**INVESTMENT FUNDS**  
August 31, 2006

SCHEDULE E  
(CONTINUED)

SECURITY	SHARES	VALUE (\$)	COST (\$)
PHILADELPHIA VENTURES II LP.....		137,820	891,948
PMI MEZZANINE FUND LP.....		152,433	1,906,603
POLARIS VENTURE PARTNERS IV LP.....		7,727,957	7,409,731
POLARIS VENTURE PARTNERS V LP.....		525,000	525,000
POMONA CAPITAL V LP.....		4,293,904	1,854,536
POMONA CAPITAL VI LP.....		5,262,550	5,262,292
PRIME ENTERPRISES II LP.....		2,377,590	3,388,275
PRIME VIII LP.....		4,716,161	8,388,820
PRISM VENTURE PARTNERS I LP.....		759,142	3,242,633
PRISM VENTURE PARTNERS II LP.....		6,402,461	6,756,716
PRISM VENTURE PARTNERS II-A LP.....		2,715,863	1,815,506
PRISM VENTURE PARTNERS III LP.....		1,214,879	2,049,675
PRISM VENTURE PARTNERS IV LP.....		5,929,915	6,440,114
PRISM VENTURE PARTNERS V LP.....		3,166,560	3,250,147
PROSPECT VENTURE PARTNERS II LP.....		7,731,124	7,816,164
PTV SCIENCES II LP.....		515,835	699,683
PTV SCIENCES LP.....		15,133,441	12,351,450
PUF/LTF WARBURG 1997 REVOCABLE TRUST.....		1,210,434	743,616
RESERVOIR CAPITAL PARTNERS (CAYMAN) LP.....		5,215,386	5,600,000
RICE PARTNERS II LP.....		2,923,940	5,419,060
RSTW PARTNERS III LP.....		2,161,559	9,879,201
SCF-III LP.....		2,785,644	1,105,890
SCF-IV LP.....		32,684,806	4,980,503
SCF-V LP.....		8,159,763	8,127,545
SCF-VI LP.....		2,262,927	2,503,989
SKM EQUITY FUND II LP.....		11,251,996	11,239,767
SKM EQUITY FUND III LP.....		6,447,234	6,559,046
TCV V LP.....		13,091,175	11,898,970
TCV VI LP.....		6,273,762	6,431,250
TECHNOLOGIES FOR INFORMATION & ENTERTAINMENT III LP.....		377,561	1,796,497
TEXAS GROWTH FUND - 1991 TRUST.....		455,825	649,282
TEXAS GROWTH FUND - 1995 TRUST.....		1,266,634	2,086,444
THIRD CINVEN FUND US (NO 5) LP.....		11,673,891	9,061,976
TPG ARIEL PARTNERS (CAYMAN) LP.....		332,884	332,923
TPG BLUEGRASS IV-AIV 2 LP.....		290,170	290,172
TPG BLUEGRASS V-AIV 2 LP.....		584,327	584,331
TPG PARTNERS IV LP.....		7,342,431	5,687,222
TPG PARTNERS IV-AIV 2 LP.....		392,467	6,722
TRITON FUND II L P.....		6,717,215	6,717,219
UNION SQUARE VENTURES 2004 LP.....		2,504,867	2,657,596
VS&A COMMUNICATIONS PARTNERS II LP.....		1,747,278	2,332,239
VS&A COMMUNICATIONS PARTNERS III LP.....		9,613,200	10,907,494
WAND EQUITY PORTFOLIO II LP.....		9,748,876	10,979,033
WAND/CASEWISE INVESTMENTS LP.....		653,436	409,938
WARBURG PINCUS (BERMUDA) PRIVATE EQUITY IX LP.....		2,450,000	2,450,000
WARBURG PINCUS (BERMUDA) PRIVATE EQUITY VIII LP.....		1,405,671	575,909
WARBURG PINCUS PRIVATE EQUITY IX LP.....		11,019,349	10,701,826
WARBURG PINCUS PRIVATE EQUITY VIII LP.....		14,927,227	11,305,482

**PERMANENT UNIVERSITY FUND**  
**INVESTMENT FUNDS**  
August 31, 2006

SCHEDULE E  
(CONTINUED)

SECURITY	SHARES	VALUE (\$)	COST (\$)
WILLIS STEIN & PARTNERS II LP.....		8,886,425	9,434,043
WILLIS STEIN & PARTNERS LP.....		3,491,265	1,633,173
WINDJAMMER MEZZANINE & EQUITY FUND II LP.....		9,380,996	6,413,953
WINDJAMMER SENIOR EQUITY PARTNERS III LP.....		1,054,022	1,319,073
WINGATE PARTNERS II LP.....		2,420,396	1,624,848
WINGATE PARTNERS III LP.....		5,103,267	5,122,173
WOODLANDS VENTURE FUND LP.....		0	1
WOODLANDS/ESSEX VENTURE FUND III LP.....		986,920	2,179,840
WP IX BRANDYWINE HOLDINGS LLC.....		175,000	175,000
ZN MEXICO II LP.....		7,130,698	7,651,497
<b>TOTAL INVESTMENT FUNDS - PRIVATE MARKETS</b>		<b>973,740,367</b>	<b>895,105,165</b>
<b>INVESTMENT FUNDS - U.S. EQUITY</b>			
ISHARES TR RUSSELL 2000 INDEX.....	423,099	30,365,815	28,940,248
ISHARES TR S&P 100 INDEX FUND.....	3,151,492	190,822,841	181,096,512
ISHARES TR S&P GLOBAL 100.....	1,218,826	84,769,348	76,195,166
PHARMACEUTICAL HOLDERS.....	263,510	20,095,273	19,021,219
PWB VALUE PARTNERS XIV.....	59,999,937	63,497,993	59,999,937
RELATIONAL INVESTORS XI LP.....	1,946,275	237,725,915	209,678,357
SECTOR SPDR TR SBI INDUSTRIAL.....	487,500	15,736,500	16,505,769
STATE STREET RESEARCH ENERGY.....	32,535,047	56,167,626	38,675,286
VALUE ACT CAPITAL INTL LTD CL A S-11.....	1,114,080	266,785,166	239,708,820
VALUE ACT CAPITAL INTL LTD CL B S-11.....	291,205	70,250,040	65,000,000
<b>TOTAL INVESTMENT FUNDS - U.S. EQUITY</b>		<b>1,036,216,517</b>	<b>934,821,314</b>
<b>INVESTMENT FUNDS - NON U.S. DEVELOPED EQUITY</b>			
GS GTAA EQUITY STRATEGY FUND.....	1,105,996	9,573,504	10,494,402
GSAM CORE EAFE FLEX FUND.....	1,072,291	118,240,264	103,258,293
JMBO FUND LIMITED IV.....	105,628	20,007,038	19,500,000
JMBO FUND LIMITED VII.....	66,940	12,596,680	13,000,000
LANSDOWNE EUROPEAN FUND SERIES 1.....	461,522	71,217,498	65,000,000
LANSDOWNE EUROPEAN LONG SERIES 11.....	162,500	16,861,978	16,250,000
LANSDOWNE EUROPEAN LONG SERIES 12.....	422,500	41,928,056	42,250,000
LANSDOWNE EUROPEAN LONG SERIES 16.....	162,500	17,031,740	16,250,000
LANSDOWNE UK EQUITY FUND.....	145,174	31,425,009	31,742,232
<b>TOTAL INVESTMENT FUNDS - NON U.S. DEVELOPED EQUITY</b>		<b>338,881,767</b>	<b>317,744,927</b>
<b>INVESTMENT FUNDS - EMERGING MARKETS</b>			
AUSTIN ALPHA LP.....	37,050,000	62,214,360	37,050,000
BLDRS INDEX FUNDS TRUST.....	673,492	21,693,177	17,181,550
DALTON TAIWAN FUND.....	26,000,000	23,860,694	26,000,000
ISHARES INC MSCI BRAZIL.....	103,898	4,069,685	3,101,607
ISHARES INC MSCI SOUTH KOREA.....	146,789	6,731,744	5,600,340
LANSDOWNE EMERGING MARKET FUND.....	234,000,000	228,662,928	234,000,000
TEMPLETON HIGH VALUE FUND-GLOBAL.....	520,000	52,168,940	52,000,000
TEMPLETON INSTITUTIONAL FUNDS INC.....	8,401,166	175,920,415	139,887,685
<b>TOTAL INVESTMENT FUNDS - EMERGING MARKETS</b>		<b>575,321,943</b>	<b>514,821,182</b>

**PERMANENT UNIVERSITY FUND**  
**INVESTMENT FUNDS**  
August 31, 2006

SCHEDULE E  
(CONTINUED)

SECURITY	SHARES	VALUE (\$)	COST (\$)
<b>INVESTMENT FUNDS - FIXED INCOME</b>			
GIA GLOBAL OPPORTUNITIES FUND.....	91,000,000	93,891,616	91,000,000
GMO TRUST EMERGING COUNTRY DEBT FUND.....	731,653	8,150,615	7,525,741
PIMCO ABSOLUTE RETURN STRATEGY.....	62,646	66,347,671	65,000,000
PIMCO FUNDS PACIFIC INVESTMENT MANAGEMENT SERVICE.....	194,917	2,220,105	2,000,923
TOTAL INVESTMENT FUNDS - FIXED INCOME		<u>170,610,007</u>	<u>165,526,664</u>
 TOTAL INVESTMENT FUNDS		 <u>5,717,407,400</u>	 <u>5,259,608,718</u>

**PERMANENT UNIVERSITY FUND**  
**CASH AND CASH EQUIVALENTS**  
August 31, 2006

SCHEDULE F

SECURITY	VALUE (\$)	COST (\$)
<b>MONEY MARKET FUNDS</b>		
AUSTRALIAN DOLLAR TRADING.....	122,229	122,221
BGI MONEY MARKET FUND.....	208,604	208,604
BSDT-LMDA II.....	771,670	771,670
CANADIAN DOLLAR TRADING.....	1,334,427	1,332,008
CASH (INTEREST BEARING).....	227,800	227,800
CASH EQUITIZATION.....	678,463	757,768
CASH NON CUSTODIED.....	(3,430,929)	(3,430,929)
CHF (SWISS FRANC) TRADING.....	112,255	112,213
DANISH KRONE TRADING.....	44,296	44,019
DREYFUS INSTITUTIONAL PREFERRED MONEY MARKET FUND.....	1,220,460,996	1,220,460,996
EURO EUROPEAN MONETARY UNIT.....	1,213,545	1,212,074
GBP (POUNDS AND PENCE) TRADING.....	322,119	321,298
HONG KONG DOLLAR TRADING.....	172,895	172,969
JAPANESE TRADING.....	8,435,109	8,488,944
MXN (MEXICAN PESO) INCOME.....	1	1
NEW ZEALAND DOLLAR TRADING.....	233,047	217,313
NORWEGIAN KRONE TRADING.....	58,560	58,714
PLN (POLISH ZLOTY) TRADING.....	355,151	364,766
SINGAPORE DOLLAR TRADING.....	306,320	303,688
SWEDISH TRADING.....	67,991	67,986
TEXAS STATE TREASURY FUND.....	1,199,139	1,199,139
TWD (TAIWAN DOLLAR).....	992,661	1,027,758
<b>TOTAL MONEY MARKET FUNDS</b>	<u>1,233,886,349</u>	<u>1,234,041,020</u>
 <b>TOTAL CASH AND CASH EQUIVALENTS</b>	 <u>1,233,886,349</u>	 <u>1,234,041,020</u>

**PERMANENT UNIVERSITY FUND**  
**MARKETABLE ALTERNATIVE INVESTMENT POOL**  
August 31, 2006

SCHEDULE G

SECURITY	VALUE (\$)	COST (\$)
<b>ABSOLUTE RETURN STRATEGIES</b>		
AG SUPER FUND LP.....	30,969,979	30,460,534
AQR ABSOLUTE RETURN OFFSHORE.....	25,031,814	25,377,221
BGI GLOBAL MARKET NEUTRAL FUND B.....	160,633,867	174,281,476
BLACK RIVER COMMODITY.....	41,945,720	45,690,800
BRIDGEWATER PURE ALPHA FUND II.....	103,176,873	109,657,921
BRIDGEWATER PURE ALPHA LEAD.....	59,437,502	56,710,114
ETON CLASS S.....	1,710,487	1,838,258
ETON OVERSEAS FUND LTD CL AA S 02/06.....	25,903,547	28,635,147
FCOI I.....	44,333,044	45,690,800
FCOI II HOLDINGS LP CL A.....	271,499,237	267,107,931
INDUS EVENT DRIVEN FUND.....	29,141,333	27,414,480
K CAPITAL RECEIVABLE.....	1,566,138	1,705,970
MOON CAPITAL SER B-1 SER 47.....	48,594,874	48,736,854
MOON CAPITAL SER B-1 SER 47 01/06.....	10,826,403	12,184,213
OCM EMERGING MARKETS (CAYMAN).....	53,016,089	41,121,720
OCM HIGH YIELD PLUS CAYMAN FUND LTD.....	15,064,777	15,230,267
OZ ASIA FUND.....	26,296,732	27,637,013
OZ ASIA FUND SER 18-30.....	2,778,093	2,975,179
OZ EUROPE OS FUND A/59.....	30,714,180	28,182,697
OZ EUROPE OS FUND SER 12-48.....	2,639,981	2,836,611
OZ OVERSEAS FUND LTD.....	61,460,827	54,950,873
OZ OVERSEAS FUND SER 47-197.....	10,240,175	10,163,071
PARKCENTRAL GLOBAL FUND.....	29,167,088	30,460,534
PERRY COMMITMENT FUND.....	30,053,997	30,460,534
PERRY PARTNERS CASH EQUITIZATION.....	146,493	159,572
PERRY PARTNERS INTL CL A.....	257,065,417	151,326,641
PERRY PARTNERS INTL CL S 1-19.....	20,549,367	22,380,704
PROTEGE PARTNERS CL A SER 2.....	94,698,733	85,474,716
PROTEGE PARTNERS CL A SER 3.....	34,563,402	31,196,887
PROTEGE PARTNERS CL A SER 5.....	159,421	154,669
PROTEGE PARTNERS CL A SER 5 SIDE.....	468,424	527,114
PROTEGE PARTNERS CL A SER 6.....	273,147	288,475
SATELLITE OVERSEAS FUND LTD.....	103,792,122	81,858,487
SHEPHERD CLASS SA 1-14.....	5,313,938	6,066,352
SHEPHERD LIMITED CLASS B-OPT.....	38,001,251	39,988,156
SILVER POINT CAPITAL CL D-150.....	508,896	548,841
SILVER POINT CAPITAL CL H SR 150.....	29,199,480	29,932,041
STEADFAST INTERNATIONAL LTD.....	785,254	866,895
TPG-AXON PTNRS (OFFSHORE) LTD.....	61,930,570	60,921,067
<b>TOTAL ABSOLUTE RETURN STRATEGIES</b>	<b>1,763,658,673</b>	<b>1,631,200,835</b>
<b>DIRECTIONAL EQUITY</b>		
AG LONG/SHORT REALTY LP.....	13,598,105	15,691,035
BLUE RIDGE LP.....	116,666,642	103,560,828
BRAHMAN II OFFSHORE SER 1 CL A.....	30,723,958	32,595,614
BRAHMAN II OFFSHORE SER 2 CL A.....	13,406,668	15,691,035

**PERMANENT UNIVERSITY FUND**  
**MARKETABLE ALTERNATIVE INVESTMENT POOL**  
August 31, 2006

SCHEDULE G  
(CONTINUED)

SECURITY	VALUE (\$)	COST (\$)
CCM SMALL CAP VALUE FUND CLASS.....	25,275,748	31,382,069
EMINENCE FUND LTD CL A.....	58,689,494	50,838,952
EMINENCE LEVERAGED LONG ALPHA.....	5,604,574	6,276,414
EMINENCE LONG ALPHA LTD CLASS.....	5,538,949	6,276,414
EMSO LTD CLASS A SERIES 18.....	25,590,295	31,382,069
EVERGLADES OFFSHORE CLASS A.....	22,023,566	25,105,655
HIGHSIDE OFFSHORE LTD CL A1.....	13,207,590	15,691,035
HIGHSIDE OFFSHORE LTD CL B1.....	26,415,103	31,382,069
INDUS ASIA PACIFIC FUND LTD CL A.....	18,807,410	15,691,035
INDUS JAPAN FUND LTD CL A.....	32,220,248	28,243,862
MAVERICK FUND LP B SHARES.....	27,273,973	24,584,625
MAVERICK FUND LTD.....	255,877,902	184,541,535
MILLGATE INTL CL D 01JAN1999.....	26,465,918	28,696,203
SG PARTNERS LP.....	30,141,006	31,382,069
SIRIOS OVERSEAS FUND CLASS A.....	23,594,100	22,335,624
STANDARD PACIFIC RECEIVABLE.....	1,530,865	1,813,264
STEADFAST INTL CLASS C SER 07/02.....	44,373,525	49,391,853
STEADFAST INTL CLASS E SER 11/05.....	27,932,066	32,144,337
WESTFIELD LIFE SCIENCES.....	14,020,420	15,691,035
TOTAL DIRECTIONAL EQUITY	<u>858,978,126</u>	<u>800,388,631</u>
 TOTAL MARKETABLE ALTERNATIVE INVESTMENT POOL	 <u><u>2,622,636,799</u></u>	 <u><u>2,431,589,466</u></u>

# PERMANENT UNIVERSITY FUND

## Notes to Detail Schedules of Investment Securities

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### Note 1 – Organization

The Permanent University Fund (PUF) is a state endowment contributing to the support of eligible institutions of The University of Texas System (UT System) and The Texas A&M University System (TAMU System). The PUF was established in the Texas Constitution of 1876 through the appropriation of land grants previously given to the University of Texas, as well as an additional one million acres. Additional land grants to the PUF were completed in 1883 with the contribution of another one million acres. Today, the PUF contains over 2.1 million acres of land located primarily in 19 counties in West Texas (PUF Lands).

PUF Lands are managed by UT System administration and produce two streams of income: mineral and surface. UT System administration remits mineral income to the PUF, and distributes surface income to the Available University Fund (AUF). The mineral income retained by the PUF is invested and managed by The University of Texas Investment Management Company (UTIMCO).

### 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 PUF 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).

Private market investment funds and other equity securities are valued using the equity method of accounting using the partnership's capital account balance at the closest available reporting period (usually June 30), as communicated by the general partner, adjusted for contributions and withdrawals subsequent to the latest available reporting period. In the rare case when no ascertainable value is available, the private market investment funds are valued at cost.

Securities held by the PUF in index and exchange traded 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.

Marketable alternative, U.S. equity, non-U.S. developed equity, emerging market and fixed income investment funds and certain other investment funds are valued using the equity method of accounting based on net asset value information provided by the investment company.

**(B) *Foreign Currency Translation*** -- The accounting records of the PUF are maintained in U.S. dollars. Investments in securities are valued at the daily rates of exchange on the valuation date. Purchases and sales of securities of foreign entities and the related income receipts and expense payments are translated into U.S. dollars at the exchange rate on the dates of the transactions. The PUF does not isolate that portion of the results of the change in fiduciary net assets resulting from changes in foreign exchange rates on investments from fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net increase in investments.

**(C) *Security Transactions*** -- Security transactions are recorded on a trade date basis. Gains and losses on securities sold are determined on the basis of average cost. A loss is recognized if there is an impairment in the value of the security that is determined to be other than temporary.

**(D) *Use of Estimates*** -- The preparation of financial statements 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 financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from these estimates.

### **Note 3 – Investment Risk**

The investment risk disclosure that follows relates to the PUF's investments before securities lending transactions and the investment of cash collateral. Disclosures relating to securities lending are provided in Note 4.

#### **(A) *Credit Risk***

Article VII, Section 11b of the Texas Constitution authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the PUF in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all of the assets of the fund rather than a single investment.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The PUF's investment policy limits investments in U.S. Domestic bonds and non-dollar

**PERMANENT UNIVERSITY FUND**  
*Notes to Detail Schedules of Investment Securities (cont.)*

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denominated bond investments to those that are rated investment grade, Baa3 or better by Moody's Investor Services, BBB- or better, by Standard & Poor's Corporation, or BBB- or better, by Fitch Investors Service at the time of acquisition. This requirement does not apply to investment managers that are authorized by the terms of an investment advisory agreement to invest in below investment grade bonds. Per GASB Statement No. 40 (GASB 40), *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3*, unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. GASB 40 also provides that securities with split ratings, or a different rating assignment between NRSROs, are disclosed using the rating indicative of the greatest degree of risk. The following table presents each applicable investment type grouped by rating at August 31, 2006 and 2005:

**PERMANENT UNIVERSITY FUND**  
**Notes to Detail Schedules of Investment Securities (cont.)**

Investment Type	August 31,		Rating
	2006	2005	
<b>Investments:</b>			
U.S. Government Guaranteed	\$ 941,500,304	\$ 790,948,277	Exempt from Disclosure
U.S. Government Non-Guaranteed:			
U.S. Agency	22,495,507	74,365,601	AAA
U.S. Agency	-	6,973,200	A
U.S. Agency Asset Backed	258,354,317	296,764,647	AAA
Total U.S. Government Non-Guaranteed	280,849,824	378,103,448	
Total U.S. Government	1,222,350,128	1,169,051,725	
Corporate Obligations:			
Domestic	62,957,174	51,515,221	AAA
Domestic	16,390,703	7,468,645	AA
Domestic	31,906,859	50,702,626	A
Domestic	39,291,054	31,795,269	BAA/BBB
Domestic	-	13,022,833	BBB
Domestic	272,627	9,267,204	BAA
Domestic	6,250,413	10,067,914	BA/BB
Domestic	675,750	4,878,256	BB
Domestic	2,396,191	447,704	BA
Domestic	10,825,660	5,308,414	B
Domestic	314,062	568,075	CAA
Domestic	-	508,913	CA
Domestic	214,725	-	CCC
			Rating
Domestic	-	3,200,468	Withdrawn
Commercial Paper	367,707,619	63,174,559	P
Commercial Paper	9,270,683	-	A
Foreign	14,525,682	18,171,840	AAA
Foreign	4,126,010	1,836,940	AA
Foreign	14,073,864	7,743,068	A
Foreign	15,616,781	6,515,084	BAA/BBB
Foreign	-	412,574	BBB
Foreign	-	669,298	BAA
Foreign	-	184,275	BA/BB
Total Corporate Obligations	596,815,857	287,459,180	
Foreign Government and Provincial Obligations	69,987,530	128,595,030	AAA
Foreign Government and Provincial Obligations	18,146,253	17,815,716	AA
Foreign Government and Provincial Obligations	6,329,396	2,839,229	A
Foreign Government and Provincial Obligations	4,782,530	6,781,635	BAA/BBB
Foreign Government and Provincial Obligations	-	316,950	BAA
Foreign Government and Provincial Obligations	1,590,876	5,741,745	BA
Foreign Government and Provincial Obligations	-	1,994,411	B
Total Foreign Government and Provincial Obligations	100,836,585	164,084,716	
Other Debt Securities	3,969,722	8,270,200	AAA
Other Debt Securities	1,296,235	1,754,051	AA
Other Debt Securities	-	2,466,629	A
Other Debt Securities	7,111,208	7,007,669	BAA/BBB
Total Other Debt Securities	12,377,165	19,498,549	
Total Debt Securities	\$ 1,932,379,735	\$ 1,640,094,170	
Other Investment Funds - Debt	\$ 66,347,671	\$ 2,041,171	AAA
Other Investment Funds - Debt	96,111,721	-	AA
Other Investment Funds - Debt	8,150,615	21,929,620	BB
Total Other Investment Funds - Debt	\$ 170,610,007	\$ 23,970,791	
Cash and Cash Equivalents - Money Market Funds	\$ 1,222,640,410	\$ 1,297,001,002	AAA
			Exempt from Disclosure
Cash and Cash Equivalents - Other	11,245,940	19,941,012	
Total Cash and Cash Equivalents	\$ 1,233,886,350	\$ 1,316,942,014	
<b>Deposit with Brokers for Derivative Contracts:</b>			
U.S. Government Guaranteed	\$ 84,823,711	\$ 56,437,849	Exempt from Disclosure
Cash	52,744,196	7,725,856	Exempt from Disclosure
	\$ 137,567,907	\$ 64,163,705	
<b>Deposit with Broker for Securities Sold Short:</b>			
Cash	\$ 7,476,175	\$ -	Exempt from Disclosure
	\$ 7,476,175	\$ -	

**(B) Concentrations of Credit Risk**

The PUF's investment policy statement contains the limitation that no more than 5% of the market value of domestic fixed income securities may be invested in corporate or municipal bonds of a single issuer. As of August 31, 2006 and 2005, the PUF does not hold any direct investments in any one issuer that represents five percent or more of total investments.

**(C) Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the PUF will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the PUF will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Texas State Statutes and the PUF's investment policy statements do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. As of August 31, 2006 and 2005, the PUF does not have any deposits or investments that are exposed to custodial credit risk.

**(D) Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its value to changes in market interest rates. Interest rate risk inherent in the PUF is measured by monitoring the modified duration of the overall investment portfolio. Modified duration estimates the sensitivity of the PUF's investments to changes in interest rates. The PUF has no specific policy statement limitations with respect to its overall modified duration. The table below summarizes the PUF's modified duration by investment type at August 31, 2006 and 2005.

**PERMANENT UNIVERSITY FUND**  
**Notes to Detail Schedules of Investment Securities (cont.)**

Investment Type	August 31,			
	2006		2005	
	Value	Modified Duration	Value	Modified Duration
<b>Investments:</b>				
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	\$ 240,121,771	7.22	\$ 214,361,842	6.31
U.S. Treasury Strips	5,619,945	5.00	7,279,180	6.00
U.S. Treasury Bills	8,440,906	0.04	13,616,702	0.14
U.S. Treasury Inflation Protected	670,527,380	7.95	537,547,502	8.04
U.S. Agency Asset Backed	16,790,302	5.16	18,143,051	5.39
Total U.S. Government Guaranteed	<u>941,500,304</u>	7.62	<u>790,948,277</u>	7.36
U.S. Government Non-Guaranteed:				
U.S. Agency	22,495,507	2.36	81,338,801	5.56
U.S. Agency Asset Backed	258,354,317	4.99	296,764,647	3.41
Total U.S. Government Non-Guaranteed	<u>280,849,824</u>	4.78	<u>378,103,448</u>	3.87
Total U.S. Government	<u>1,222,350,128</u>	6.97	<u>1,169,051,725</u>	6.23
Corporate Obligations:				
Domestic	171,997,674	4.42	188,751,543	5.02
Commercial Paper	376,475,846	0.07	63,174,559	0.22
Foreign	48,342,337	11.22	35,533,078	6.32
Total Corporate Obligations	<u>596,815,857</u>	2.22	<u>287,459,180</u>	4.13
Foreign Government and Provincial Obligations	<u>100,836,585</u>	7.42	<u>164,084,716</u>	7.21
Other Debt Securities	<u>12,377,165</u>	10.81	<u>19,498,549</u>	9.54
Total Debt Securities	<u>1,932,379,735</u>	5.55	<u>1,640,094,170</u>	6.00
Other Investment Funds - Debt	<u>170,610,007</u>	3.76	<u>23,970,791</u>	5.96
Cash and Cash Equivalents:				
Money Market Funds	1,222,640,410	0.08	1,297,001,002	0.08
Other	11,245,940	-	19,941,012	-
Total Cash and Cash Equivalents	<u>1,233,886,350</u>	0.08	<u>1,316,942,014</u>	0.08
Total	<u>\$ 3,336,876,092</u>	3.44	<u>\$ 2,981,006,975</u>	3.39
<b>Deposit with Brokers for Derivative Contracts:</b>				
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	\$ -	-	\$ 203,478	0.41
U.S. Treasury Bills	84,823,711	0.13	56,234,371	0.21
Total U.S. Government Guaranteed	<u>84,823,711</u>	0.13	<u>56,437,849</u>	0.21
Cash	<u>52,744,196</u>	-	<u>7,725,856</u>	-
Total Deposit with Brokers for Derivative Contracts	<u>\$ 137,567,907</u>	0.08	<u>\$ 64,163,705</u>	0.18
<b>Deposit with Broker for Securities Sold Short:</b>				
Cash	<u>\$ 7,476,175</u>	-	<u>\$ -</u>	-

**(E) Investments with Fair Values That Are Highly Sensitive to Interest Rate Changes**

In accordance with the PUF's investment policy statement, the PUF may invest in various mortgage backed securities, such as collateralized mortgage backed obligations. The PUF also may invest in investments that have floating rates with periodic coupon changes in market rates, zero coupon bonds and stripped Treasury and Agency securities created from coupon securities. As of August 31, 2006 and 2005, the PUF's investments include the following investments that are highly sensitive to interest rate changes:

**PERMANENT UNIVERSITY FUND**  
*Notes to Detail Schedules of Investment Securities (cont.)*

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Collateralized mortgage obligations which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. These securities amounted to \$84,611,496 and \$114,208,947 as of August 31, 2006 and 2005, respectively.

Mortgage backed securities which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. These securities amounted to \$236,996,121 and \$155,278,025 as of August 31, 2006 and 2005, respectively.

Asset backed securities which are backed by home equity loans, auto loans, equipment loans and credit card receivables. Prepayments by the obligees of the underlying assets in periods of decreasing interest rates could reduce or eliminate the stream of income that would have been received. These securities amounted to \$23,386,086 and \$21,235,066 as of August 31, 2006 and 2005, respectively.

Step-up notes that grant the issuer the option to call the note on certain specified dates. At each call date, should the issuer not call the note, the coupon rate of the note increases (steps up) by an amount specified at the inception of the note. The call feature embedded within a step-up note causes the fair value of the instrument to be considered highly sensitive to interest rate changes. These securities amounted to \$2,558,496 and \$7,940,387 as of August 31, 2006 and 2005, respectively.

**(F) Foreign Currency Risk**

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the PUF's non-U.S. dollar investments. The PUF's investment policy statement limits investments in non-U.S. denominated bonds to 50% of the PUF's total fixed income exposure. The table below summarizes the PUF's non-U.S. dollar investments by asset type at August 31, 2006 and 2005.

**PERMANENT UNIVERSITY FUND**  
**Notes to Detail Schedules of Investment Securities (cont.)**

Investment Type	August 31,	
	2006	2005
<b>Foreign Common Stock:</b>		
Australian Dollar	\$ 16,499,188	\$ 19,685,669
Canadian Dollar	75,585,560	69,967,844
Swiss Franc	10,378,942	16,323,020
Danish Krone	3,612,338	3,734,421
Euro	43,954,967	123,903,374
UK Pound	52,762,374	40,393,465
Hong Kong Dollar	21,194,451	7,468,954
Japanese Yen	231,668,385	197,780,953
South Korean Won	6,250,811	3,026,225
Norwegian Krone	5,491,197	18,202,601
New Zealand Dollar	669,683	-
Swedish Krona	6,976,106	7,836,508
Singapore Dollar	10,728,221	11,281,848
Total Foreign Common Stock	485,772,223	519,604,882
<b>Other - Equity Securities:</b>		
Canadian Dollar	48	-
<b>Foreign Government and Provincial Obligations:</b>		
Australian Dollar	-	890,061
Canadian Dollar	127,064	646,187
Danish Krone	2,466,736	2,512,493
Euro	80,585,557	130,886,845
Japanese Yen	3,718,898	-
Polish Zloty	3,081,607	2,839,229
UK Pound	-	9,386,303
Total Foreign Government and Provincial Obligations	89,979,862	147,161,118
<b>Corporate Obligations:</b>		
Euro	24,619,480	15,209,803
UK Pound	3,311,744	3,283,894
Japanese Yen	5,762,839	-
Total Corporate Obligations	33,694,063	18,493,697
<b>Purchased Options:</b>		
Canadian Dollar	67,369	1,257,214
Euro	949,491	40,678
UK Pound	145,096	-
Japanese Yen	3,132,648	-
Total Purchased Options	4,294,604	1,297,892
<b>Private Market Investments:</b>		
Euro	98,926,472	77,172,078
UK Pound	6,691,668	10,583,599
Total Private Market Investment Funds	105,618,140	87,755,677
<b>Cash and Cash Equivalents:</b>		
Australian Dollar	165,989	123,814
Canadian Dollar	1,341,214	6,040,801
Swiss Franc	112,256	120,616
Danish Krone	44,296	25,224
Euro	1,718,211	1,965,790
UK Pound	579,252	22,520
Hong Kong Dollar	223,245	17,193
Japanese Yen	8,837,728	21,559,455
Mexican New Peso	-	177
Norwegian Krone	58,560	13,252
New Zealand Dollar	233,048	1
Polish Zloty	355,151	163,394
Swedish Krona	133,510	37,873
Singapore Dollar	306,505	89,348
New Taiwan Dollar	992,660	996,252
Total Cash and Cash Equivalents	15,101,625	31,175,710
Total	\$ 734,460,565	\$ 805,488,976

**PERMANENT UNIVERSITY FUND**  
*Notes to Detail Schedules of Investment Securities (cont.)*

**Note 4 – Securities Lending**

In accordance with the prudent investor investment standards, the PUF loans securities to certain brokers who pay the PUF negotiated lenders' fees. These fees are included in investment income and the related expenses are included in investment expenses. The PUF receives qualified securities and/or cash as collateral against the loaned securities. The collateral, when received, will have a market value of 102% of loaned securities of U.S. issuers and a market value of 105% for loaned securities of non-U.S. issuers. If the market value of the collateral held in connection with loans of securities of U.S. issuers is less than 100% at the close of trading on any business day, the borrower is required to deliver additional collateral by the close of the next business day to equal 102% of the market value. For non-U.S. issuers, the collateral should remain at 105% of the market value of the loaned securities at the close of any business day. If it falls below 105%, the borrower must deliver additional collateral by the close of the following business day. The value of securities loaned and the value of collateral held are as follows at August 31, 2006 and 2005:

<b>Securities on Loan</b>	<b>2006 Value</b>	<b>2005 Value</b>	<b>Type of Collateral</b>	<b>2006 Value of Collateral</b>	<b>2005 Value of Collateral</b>
U.S. Government	\$ 725,905,176	\$ 690,148,767	Cash	\$738,197,245	\$ 697,889,734
Foreign Government	11,031,766	22,252,445	Cash	11,576,419	23,365,980
Corporate Bonds	11,836,052	11,696,791	Cash	12,139,900	12,020,843
Common Stock	219,321,315	174,098,254	Cash	228,617,153	181,661,565
<b>Total</b>	<b>\$ 968,094,309</b>	<b>\$ 898,196,257</b>	<b>Total</b>	<b>\$ 990,530,717</b>	<b>\$ 914,938,122</b>
Common Stock	\$ 1,397,330	\$ 330,537	Non-Cash	\$ 1,425,627	\$ 341,911
U.S. Government	14,154,872	22,666,389	Non-Cash	14,808,629	24,356,521
<b>Total</b>	<b>\$ 15,552,202</b>	<b>\$ 22,996,926</b>	<b>Total</b>	<b>\$ 16,234,256</b>	<b>\$ 24,698,432</b>

Cash received as collateral for securities lending activities is invested and reinvested in a commingled pool managed exclusively for the benefit of the PUF, the General Endowment Fund, the Intermediate Term Fund and other Board of Regent accounts that participate in securities lending activities by the securities lending agent. The pool is managed in accordance with investment guidelines established in the securities lending contract between the PUF and its securities lending agent. The maturities of the investments in the pool do not necessarily match the term of the loans, rather the pool is managed to maintain a maximum dollar weighted average maturity of 60 days and an overnight liquidity of 20 percent. Lending income is earned if the returns on those investments exceed the rebate paid to borrowers of the securities for interest on the cash collateral received. The income remaining after the borrower rebates is then shared by the PUF and the securities lending agent on a contractually negotiated split. If the investment of the cash collateral does not provide a return exceeding the rebate or if the investment incurs a loss of principal, the payment of the shortfall to the borrower is made from the PUF and the securities lending agent in the same proportion as income is shared.

The PUF's pro-rata share of collateral pool investments, rating by NRSRO, and weighted average maturity at August 31, 2006 and 2005 is shown in the following table:

**PERMANENT UNIVERSITY FUND**  
**Notes to Detail Schedules of Investment Securities (cont.)**

Description	August 31,					
	2006			2005		
	Fair Value	Rating	Weighted Average Maturity In Days	Fair Value	Rating	Weighted Average Maturity In Days
		No			No	
		Rating			Rating	
Repurchase Agreements	\$ 360,618,038	Available	14	\$ 431,176,486	Available	1
Commercial Paper	430,757,870	P	26	370,595,246	P	36
Floating Rate Notes	56,532,430	AAA		8,375,488	AAA	
Floating Rate Notes	40,604,505	AA		93,724,729	AA	
Total Floating Rate Notes	<u>97,136,935</u>		69	<u>102,100,217</u>		37
Certificates of Deposit	123,934,917	P	67	13,780,760	P	50
Asset Backed Securities	1,776,447	AAA	11	522,304	AAA	168
Other Receivables/Payables	(23,693,490)	Not Rated	-	(3,236,891)	Not Rated	-
Total Collateral Pool Investment	<u>\$ 990,530,717</u>		31	<u>\$ 914,938,122</u>		20

Collateral pool investments are uninsured, and are held by the PUF's securities lending agent, in its name, on behalf of the PUF, except for the investments in repurchase agreements which are held in the securities lending agent's name by a third party custodian not affiliated with the PUF or the borrower of the associated loaned securities. Therefore, the collateral pool is not exposed to custodial credit risk because the pool investments are not held by counterparties to the lending transactions or a counterparties trust department or agent.

Cash collateral is recorded as an asset with an equal and offsetting liability to return the collateral on the statements of fiduciary net assets. Investments received as collateral for securities lending activities are not recorded as assets because the investments remain under the control of the transferor, except in the event of default.

In the event of default, where the borrower is unable to return the securities loaned, the PUF has authorized the securities lending agent to seize the collateral held. The collateral is then used to replace the borrowed securities where possible. Due to some market conditions, it is possible that the original securities cannot be replaced. If the collateral is insufficient to replace the securities, the securities lending agent has indemnified the PUF from any loss due to borrower default.

As of August 31, 2006 and 2005, the PUF had no credit risk exposure to borrowers because the amounts the PUF owed to borrowers exceeded the amounts the borrowers owed the PUF.

There were no significant violations of legal or contractual provisions, no borrower or securities lending agent default losses, and no recoveries of prior period losses during the years ended August 31, 2006 and 2005.

**Note 5 – Investment Funds**

Investment funds include exchange traded funds, index funds, SEC regulated mutual funds and externally managed funds, limited partnerships, and corporate structures which are generally unrated and may be unregulated.

## PERMANENT UNIVERSITY FUND

### Notes to Detail Schedules of Investment Securities (cont.)

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Marketable alternatives funds are invested in private placements with external investment managers who invest in equity and fixed income securities of both domestic and international issuers. These investment managers may invest in both long and short securities and may utilize leverage in their portfolios. The funds invested may be subject to a lock-up restriction of one or more years before the investment may be withdrawn from the manager without significant penalty. There are certain risks associated with these private placements, some of which include investment manager risk, market risk, and liquidity risk, as well as the risk of utilizing leverage in the portfolios.

Private markets funds are invested in limited partnerships with external investment managers or general partners who invest primarily in private equity securities. These investments are domestic and international, are illiquid and may not be realized for a period of several years after the investments are made. There are certain risks associated with these investments, some of which are liquidity risk, market risk, event risk, and investment manager risk.

Public market funds are invested in exchange traded funds, index funds, and private placements with external investment managers who invest in equity and fixed income securities of both domestic and international issuers. These funds are characterized as public market funds based on individual risk/return characteristics and their relationship to the overall asset mix of the PUF. Some of these investment managers may invest in both long and short securities and may utilize modest leverage in their portfolios. There are certain risks associated with these investments, some of which are investment manager risk, market risk, and liquidity risk, as well as the risk of utilizing leverage in the portfolios.

Marketable alternative, private market, and public market funds include investments in private placement vehicles that are subject to risk which could result in the loss of invested capital. The risks include the following:

- *Non-regulation risk* -- Some of these funds are not registered with the Securities Exchange Commission, and therefore are not subject to regulatory controls.
- *Key personnel risk* -- The success of certain funds is substantially dependent on key investment managers and the loss of those individuals may adversely impact the fund's performance.
- *Liquidity risk* -- Many of the PUF's investment funds may impose lockup periods which would cause the PUF to incur penalties to redeem its units or prevent the PUF from redeeming its shares until a certain period of time has elapsed.
- *Limited transparency* -- As private placement investment vehicles, these funds may not disclose the holdings of their portfolios.
- *Investment strategy risk* -- These funds often employ sophisticated investment strategies and may use leverage which could result in the loss of invested capital.

# PERMANENT UNIVERSITY FUND

## Statements of Changes in Fiduciary Net Assets

Years Ended August 31, 2006 and 2005

(in thousands)

	<u>2006</u>	<u>2005</u>
<b>Additions</b>		
Investment Income:		
Net Increase in Investments	\$ 845,348	\$ 1,298,679
Interest	145,078	107,905
Dividends	54,017	75,977
Income Distributions from Private Market Investment Funds	19,665	29,897
Securities Lending Income	44,764	23,384
Other	2,744	2,123
Total Investment Income	<u>1,111,616</u>	<u>1,537,965</u>
Less Investment Expenses:		
Investment Management and Consulting Fees	29,316	19,580
Securities Lending Fees	42,296	20,943
UTIMCO Management Fee	3,247	3,401
Custodial Fees and Expenses	951	1,035
Legal	471	620
Analytical and Risk Measurement Fees	256	276
Other	237	118
Total Investment Expenses	<u>76,774</u>	<u>45,973</u>
Net Investment Income	1,034,842	1,491,992
Contributions from PUF Lands	214,955	193,092
<b>Total Additions</b>	<u>1,249,797</u>	<u>1,685,084</u>
Administrative Expenses		
PUF Lands Expenses	5,338	4,746
UT System Oversight Fee	471	299
Total Administrative Expenses	<u>5,809</u>	<u>5,045</u>
Distributions to Available University Fund	357,337	341,174
<b>Total Deductions</b>	<u>363,146</u>	<u>346,219</u>
Change in Fiduciary Net Assets	886,651	1,338,865
Net Assets Held in Trust, Beginning of Period	9,426,743	8,087,878
<b>Net Assets Held in Trust, End of Period</b>	<u><u>\$ 10,313,394</u></u>	<u><u>\$ 9,426,743</u></u>

*The accompanying notes are an integral part of these financial statements.*

# PERMANENT UNIVERSITY FUND

## Notes to Financial Statements

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### Note 1 – Organization and Basis of Presentation

(A) The Permanent University Fund (PUF) is a state endowment contributing to the support of eligible institutions of The University of Texas System (UT System) and The Texas A&M University System (TAMU System). The PUF was established in the Texas Constitution of 1876 through the appropriation of land grants previously given to the University of Texas, as well as an additional one million acres. Additional land grants to the PUF were completed in 1883 with the contribution of another one million acres. Today, the PUF contains over 2.1 million acres of land located primarily in 19 counties in West Texas (PUF Lands).

PUF Lands are managed by UT System administration and produce two streams of income: mineral and surface. UT System administration remits mineral income to the PUF, and distributes surface income to the Available University Fund (AUF). The mineral income retained by the PUF is invested and managed by The University of Texas Investment Management Company (UTIMCO).

(B) The accompanying financial statements report the investment in securities of the PUF, including the assets, liabilities, mineral contributions and investment income. Expenses related to the PUF's security investments and PUF Lands, as well as distributions from the PUF to the AUF, are also included. The PUF Lands asset values are not included in the accompanying financial statements.

The activities of the PUF are accounted for as a fiduciary fund. The financial statements of the PUF use an economic resources measurement focus and the accrual basis of accounting, whereby revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of cash flows. The financial statements of the PUF are prepared in accordance with the requirements of the Governmental Accounting Standards Board (GASB).

The supplemental Schedule of Changes in Cost of Investments and Investment Income has been prepared for the purpose of complying with the reporting requirements of Section 66.05 of the Texas Education Code.

The annual combined financial statements of UT System are prepared in accordance with Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements and include information related to the PUF. The accompanying financial statements may differ in presentation from the Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements.

### 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 PUF 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

## PERMANENT UNIVERSITY FUND

### Notes to Financial Statements (cont.)

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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).

Private market investment funds and other equity securities are valued based on the equity method of accounting using the partnership's capital account balance at the closest available reporting period (usually June 30), as communicated by the general partner, adjusted for contributions and withdrawals subsequent to the latest available reporting period. In the rare case when no ascertainable value is available, the private market investment funds are valued at cost.

Securities held by the PUF in index and exchange traded 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.

Marketable alternative, U.S. equity, non-U.S. developed equity, emerging market and fixed income investment funds and certain other investment funds are valued using the equity method of accounting based on net asset value information provided by the investment company.

(B) **Foreign Currency Translation** -- The accounting records of the PUF are maintained in U.S. dollars. Investments in securities are valued at the daily rates of exchange on the valuation date. Purchases and sales of securities of foreign entities and the related income receipts and expense payments are translated into U.S. dollars at the exchange rate on the dates of the transactions. The PUF does not isolate that portion of the results of the change in fiduciary net assets resulting from changes in foreign exchange rates on investments from fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net increase in investments.

(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. Investment income includes net realized and unrealized currency gains and losses recognized between accrual and payment dates on dividend and interest transactions. Premiums and discounts on bonds are not amortized.

(D) **Security Transactions** -- Security transactions are recorded on a trade date basis. Gains and losses on securities sold are determined on the basis of average cost. A loss is recognized if there is an impairment in the value of the security that is determined to be other than temporary.

(E) **Federal Income Taxes** -- The PUF is not subject to federal income tax.

## PERMANENT UNIVERSITY FUND

### Notes to Financial Statements (cont.)

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(F) *Use of Estimates* -- The preparation of financial statements 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 financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from these estimates.

(G) *Derivative Applications* -- Derivative securities are financial instruments whose value is derived, in whole or part, from the value of any one or more underlying securities or assets, or index of securities or assets, such as stocks, bonds, commodities, or currencies. The PUF from time to time uses various derivative applications, as allowed under Board of Regent approved investment policy guidelines. These derivative applications are utilized in compliance with a derivative investment policy established by the UTIMCO Board of Directors, and by guidelines established in contracts with external investment managers. Derivative applications included under these policies and contracts include futures, forwards, swaps and all forms of options. Futures contracts are valued at closing market prices on valuation date. Written options and swaps are valued by using independent broker quotes or using models with externally verifiable model inputs. Derivative applications in the PUF are used to achieve the following objectives:

- implement investment strategies in a low cost and efficient manner,
- alter the PUF's market (systematic) exposure without trading the underlying cash market securities,
- construct portfolios with risk and return characteristics that could not be created with cash market securities,
- hedge and control risks so that the PUF's risk/return profile is more closely aligned with the PUF's targeted risk/return profile, and
- facilitate transition trading.

Through the use of derivative applications, the complex risks that are bound together in traditional cash market investments can be separated and managed independently. The primary intent of the PUF's investment in derivative securities is to hedge its risk or to implement investment strategies more effectively and at a lower cost than would be possible in the cash market.

*Options Written* -- When the PUF writes an option, an amount equal to the premium received by the PUF is recorded as a liability and is subsequently adjusted to the current fair value of the option written. Premiums received from writing options that expire unexercised are treated by the PUF on the expiration date as realized gains from investments. The difference between the premium and the amount paid on effecting a closing purchase transaction, including brokerage commissions, is also treated as a realized gain, or, if the premium is less than the amount paid for the closing purchase transaction, as a realized loss. If a call option is exercised, the premium is added to the proceeds from the sale of the underlying security or currency in determining whether the PUF has realized a gain or loss. If a put option is exercised, the premium reduces the cost basis of the securities purchased by the PUF. The PUF as writer of an option bears the market risk of an unfavorable change in the price of the security underlying the written option. Options are marked to market on a daily basis, and are included as a liability on the statements of fiduciary net assets.

## PERMANENT UNIVERSITY FUND

### *Notes to Financial Statements (cont.)*

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*Swaps* -- The PUF invests in certain types of swaps to increase or decrease its exposure to long-term interest rates and to certain commodity sector returns. Swaps are agreements between two parties to exchange periodic payments on the notional value of the contract multiplied by a stated fixed interest rate versus a stated floating interest rate, or on a commodity sector return versus a specified cost per contract. Swaps are marked to market on a daily basis, and are included, at fair value, on the statements of fiduciary net assets. Cash flows occur when a swap is opened, when it resets, if or when it is prematurely terminated by both parties to the agreement, and when it reaches maturity. The frequency of the resets is defined by the term sheet of the particular swap agreement, and varies from instrument to instrument.

*Futures Contracts* – The PUF enters into futures contracts to facilitate various trading strategies, primarily as a tool to increase or decrease market exposure to various asset classes. Upon entering into a futures contract, initial margin deposit requirements are satisfied by the segregation of specific securities as collateral for the account of the broker (the PUF's agent in acquiring the futures position). During the period the futures positions are open, the 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 day's mark to market. The amount that is settled in cash with the broker each morning is the carrying and fair value of the futures contracts, and is included as an other receivable or other payable on the statements of fiduciary net assets. The PUF executes such contracts either on major exchanges or with major international financial institutions and minimizes market and credit risk associated with these contracts through the managers' various trading and credit monitoring techniques.

*Foreign Currency Contracts* -- The PUF enters into forward foreign currency exchange contracts to hedge against foreign currency exchange rate risks on its non-U.S. dollar denominated investment securities and to facilitate trading strategies primarily as a tool to increase or decrease market exposure to various foreign currencies. When entering into a forward currency contract, the PUF agrees 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 PUF's 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 statements of fiduciary net assets. Realized and unrealized gains and losses are included in the statements of changes in fiduciary net assets. These instruments involve market and/or credit risk in excess of the amount recognized in the statements of fiduciary net assets. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movement in currency and securities values and interest rates.

(H) *Securities Sold Short* -- The PUF may sell securities it does not own in anticipation of a decline in the fair value of that security. When the PUF sells a security short, it must borrow the security sold short and deliver it to the broker-dealer through which it made the short sale as collateral for its obligation to deliver the security upon conclusion of the sale. The Deposit with Broker for Securities Sold Short was \$7,476,175 as of August 31, 2006. The market value of securities sold short as of August 31, 2006 was

## PERMANENT UNIVERSITY FUND

### Notes to Financial Statements (cont.)

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\$8,475,707. There were no securities sold short during the year ended August 31, 2005. The PUF must pay dividends or interest on the securities sold short. Until the PUF covers its short sales, it is exposed to market risk to the extent that subsequent market fluctuations may require purchasing securities sold short at prices which may be significantly higher than the market value reflected in the statements of fiduciary net assets.

(I) **Cash and Cash Equivalents** -- Cash and cash equivalents consist of money markets, cash held at the State Treasury, foreign currencies and other overnight funds. A portion of the PUF's cash and cash equivalents are maintained to support the notional value of future contracts held (see Note 8). Cash and cash equivalents are an integral part of the PUF's investment activities, and as such are included in the investments balance on the statement of fiduciary net assets.

(J) **Contributions from PUF Lands** -- The mineral income earned from PUF Lands is recorded on a cash basis as remitted by UT System administration and presented on the accompanying statements of changes in fiduciary net assets as an addition to fiduciary net assets, styled "Contributions from PUF Lands."

(K) **Reclassifications** -- Certain items in the 2005 financial statements and related notes have been reclassified to conform with 2006 classification.

### Note 3 – Investment Risk

The investment risk disclosure that follows relates to the PUF's investments before securities lending transactions and the investment of cash collateral. Disclosures relating to securities lending are provided in Note 4.

#### (A) **Credit Risk**

Article VII, Section 11b of the Texas Constitution authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the PUF in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all of the assets of the fund rather than a single investment.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment.

This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The PUF's investment policy limits investments in U.S. Domestic bonds and non-dollar denominated bond investments to those that are rated investment grade, Baa3 or better by Moody's Investor Services, BBB- or better, by Standard & Poor's Corporation, or BBB- or better, by Fitch Investors Service at the time of acquisition. This requirement does not apply to investment managers that are authorized by the terms of an investment advisory agreement to invest in below investment grade bonds. Per GASB Statement No. 40 (GASB 40), *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3*, unless there is information to the contrary, obligations of the U.S. government or obligations explicitly

## **PERMANENT UNIVERSITY FUND**

### ***Notes to Financial Statements (cont.)***

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guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. GASB 40 also provides that securities with split ratings, or a different rating assignment between NRSROs, are disclosed using the rating indicative of the greatest degree of risk. The following table presents each applicable investment type grouped by rating at August 31, 2006 and 2005:

**PERMANENT UNIVERSITY FUND**  
**Notes to Financial Statements (cont.)**

Investment Type	August 31,		Rating
	2006	2005	
<b>Investments:</b>			
U.S. Government Guaranteed	\$ 941,500,304	\$ 790,948,277	Exempt from Disclosure
U.S. Government Non-Guaranteed:			
U.S. Agency	22,495,507	74,365,601	AAA
U.S. Agency	-	6,973,200	A
U.S. Agency Asset Backed	258,354,317	296,764,647	AAA
Total U.S. Government Non-Guaranteed	280,849,824	378,103,448	
Total U.S. Government	1,222,350,128	1,169,051,725	
Corporate Obligations:			
Domestic	62,957,174	51,515,221	AAA
Domestic	16,390,703	7,468,645	AA
Domestic	31,906,859	50,702,626	A
Domestic	39,291,054	31,795,269	BAA/BBB
Domestic	-	13,022,833	BBB
Domestic	272,627	9,267,204	BAA
Domestic	6,250,413	10,067,914	BA/BB
Domestic	675,750	4,878,256	BB
Domestic	2,396,191	447,704	BA
Domestic	10,825,660	5,308,414	B
Domestic	314,062	568,075	CAA
Domestic	-	508,913	CA
Domestic	214,725	-	CCC
			Rating
Domestic	-	3,200,468	Withdrawn
Commercial Paper	367,707,619	63,174,559	P
Commercial Paper	9,270,683	-	A
Foreign	14,525,682	18,171,840	AAA
Foreign	4,126,010	1,836,940	AA
Foreign	14,073,864	7,743,068	A
Foreign	15,616,781	6,515,084	BAA/BBB
Foreign	-	412,574	BBB
Foreign	-	669,298	BAA
Foreign	-	184,275	BA/BB
Total Corporate Obligations	596,815,857	287,459,180	
Foreign Government and Provincial Obligations	69,987,530	128,595,030	AAA
Foreign Government and Provincial Obligations	18,146,253	17,815,716	AA
Foreign Government and Provincial Obligations	6,329,396	2,839,229	A
Foreign Government and Provincial Obligations	4,782,530	6,781,635	BAA/BBB
Foreign Government and Provincial Obligations	-	316,950	BAA
Foreign Government and Provincial Obligations	1,590,876	5,741,745	BA
Foreign Government and Provincial Obligations	-	1,994,411	B
Total Foreign Government and Provincial Obligations	100,836,585	164,084,716	
Other Debt Securities	3,969,722	8,270,200	AAA
Other Debt Securities	1,296,235	1,754,051	AA
Other Debt Securities	-	2,466,629	A
Other Debt Securities	7,111,208	7,007,669	BAA/BBB
Total Other Debt Securities	12,377,165	19,498,549	
Total Debt Securities	\$ 1,932,379,735	\$ 1,640,094,170	
Other Investment Funds - Debt	\$ 66,347,671	\$ 2,041,171	AAA
Other Investment Funds - Debt	96,111,721	-	AA
Other Investment Funds - Debt	8,150,615	21,929,620	BB
Total Other Investment Funds - Debt	\$ 170,610,007	\$ 23,970,791	
Cash and Cash Equivalents - Money Market Funds	\$ 1,222,640,410	\$ 1,297,001,002	AAA
Cash and Cash Equivalents - Other	11,245,940	19,941,012	Exempt from Disclosure
Total Cash and Cash Equivalents	\$ 1,233,886,350	\$ 1,316,942,014	
<b>Deposit with Brokers for Derivative Contracts:</b>			
U.S. Government Guaranteed	\$ 84,823,711	\$ 56,437,849	Exempt from Disclosure
Cash	52,744,196	7,725,856	Exempt from Disclosure
	\$ 137,567,907	\$ 64,163,705	
<b>Deposit with Broker for Securities Sold Short:</b>			
Cash	\$ 7,476,175	\$ -	Exempt from Disclosure
	\$ 7,476,175	\$ -	

## **PERMANENT UNIVERSITY FUND**

### ***Notes to Financial Statements (cont.)***

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#### ***(B) Concentrations of Credit Risk***

The PUF's investment policy statement contains the limitation that no more than 5% of the market value of domestic fixed income securities may be invested in corporate or municipal bonds of a single issuer. As of August 31, 2006 and 2005, the PUF does not hold any direct investments in any one issuer that represents five percent or more of total investments.

#### ***(C) Custodial Credit Risk***

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the PUF will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the PUF will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Texas State Statutes and the PUF's investment policy statements do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. As of August 31, 2006 and 2005, the PUF does not have any deposits or investments that are exposed to custodial credit risk.

#### ***(D) Interest Rate Risk***

Interest rate risk is the risk that changes in market interest rates will adversely affect the value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its value to changes in market interest rates. Interest rate risk inherent in the PUF is measured by monitoring the modified duration of the overall investment portfolio. Modified duration estimates the sensitivity of the PUF's investments to changes in interest rates. The PUF has no specific policy statement limitations with respect to its overall modified duration. The table below summarizes the PUF's modified duration by investment type at August 31, 2006 and 2005.

**PERMANENT UNIVERSITY FUND**  
**Notes to Financial Statements (cont.)**

Investment Type	August 31,			
	2006		2005	
	Value	Modified Duration	Value	Modified Duration
<b>Investments:</b>				
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	\$ 240,121,771	7.22	\$ 214,361,842	6.31
U.S. Treasury Strips	5,619,945	5.00	7,279,180	6.00
U.S. Treasury Bills	8,440,906	0.04	13,616,702	0.14
U.S. Treasury Inflation Protected	670,527,380	7.95	537,547,502	8.04
U.S. Agency Asset Backed	16,790,302	5.16	18,143,051	5.39
Total U.S. Government Guaranteed	<u>941,500,304</u>	7.62	<u>790,948,277</u>	7.36
U.S. Government Non-Guaranteed:				
U.S. Agency	22,495,507	2.36	81,338,801	5.56
U.S. Agency Asset Backed	258,354,317	4.99	296,764,647	3.41
Total U.S. Government Non-Guaranteed	<u>280,849,824</u>	4.78	<u>378,103,448</u>	3.87
Total U.S. Government	<u>1,222,350,128</u>	6.97	<u>1,169,051,725</u>	6.23
Corporate Obligations:				
Domestic	171,997,674	4.42	188,751,543	5.02
Commercial Paper	376,475,846	0.07	63,174,559	0.22
Foreign	48,342,337	11.22	35,533,078	6.32
Total Corporate Obligations	<u>596,815,857</u>	2.22	<u>287,459,180</u>	4.13
Foreign Government and Provincial Obligations	<u>100,836,585</u>	7.42	<u>164,084,716</u>	7.21
Other Debt Securities	<u>12,377,165</u>	10.81	<u>19,498,549</u>	9.54
Total Debt Securities	<u>1,932,379,735</u>	5.55	<u>1,640,094,170</u>	6.00
Other Investment Funds - Debt	<u>170,610,007</u>	3.76	<u>23,970,791</u>	5.96
Cash and Cash Equivalents:				
Money Market Funds	1,222,640,410	0.08	1,297,001,002	0.08
Other	11,245,940	-	19,941,012	-
Total Cash and Cash Equivalents	<u>1,233,886,350</u>	0.08	<u>1,316,942,014</u>	0.08
Total	<u>\$ 3,336,876,092</u>	3.44	<u>\$ 2,981,006,975</u>	3.39
<b>Deposit with Brokers for Derivative Contracts:</b>				
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	\$ -	-	\$ 203,478	0.41
U.S. Treasury Bills	84,823,711	0.13	56,234,371	0.21
Total U.S. Government Guaranteed	<u>84,823,711</u>	0.13	<u>56,437,849</u>	0.21
Cash	<u>52,744,196</u>	-	<u>7,725,856</u>	-
Total Deposit with Brokers for Derivative Contracts	<u>\$ 137,567,907</u>	0.08	<u>\$ 64,163,705</u>	0.18
<b>Deposit with Broker for Securities Sold Short:</b>				
Cash	<u>\$ 7,476,175</u>	-	<u>\$ -</u>	-

**(E) Investments with Fair Values That Are Highly Sensitive to Interest Rate Changes**

In accordance with the PUF's investment policy statement, the PUF may invest in various mortgage backed securities, such as collateralized mortgage backed obligations. The PUF also may invest in investments that have floating rates with periodic coupon changes in market rates, zero coupon bonds and stripped Treasury and Agency securities created from coupon securities. As of August 31, 2006 and 2005, the PUF's investments include the following investments that are highly sensitive to interest rate changes:

## PERMANENT UNIVERSITY FUND

### *Notes to Financial Statements (cont.)*

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Collateralized mortgage obligations which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. These securities amounted to \$84,611,496 and \$114,208,947 as of August 31, 2006 and 2005, respectively.

Mortgage backed securities which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. These securities amounted to \$236,996,121 and \$155,278,025 as of August 31, 2006 and 2005, respectively.

Asset backed securities which are backed by home equity loans, auto loans, equipment loans and credit card receivables. Prepayments by the obligees of the underlying assets in periods of decreasing interest rates could reduce or eliminate the stream of income that would have been received. These securities amounted to \$23,386,086 and \$21,235,066 as of August 31, 2006 and 2005, respectively.

Step-up notes that grant the issuer the option to call the note on certain specified dates. At each call date, should the issuer not call the note, the coupon rate of the note increases (steps up) by an amount specified at the inception of the note. The call feature embedded within a step-up note causes the fair value of the instrument to be considered highly sensitive to interest rate changes. These securities amounted to \$2,558,496 and \$7,940,387 as of August 31, 2006 and 2005, respectively.

#### *(F) Foreign Currency Risk*

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the PUF's non-U.S. dollar investments. The PUF's investment policy statement limits investments in non-U.S. denominated bonds to 50% of the PUF's total fixed income exposure. The table below summarizes the PUF's non-U.S. dollar investments by asset type at August 31, 2006 and 2005.

# PERMANENT UNIVERSITY FUND

## Notes to Financial Statements (cont.)

Investment Type	August 31,	
	2006	2005
<b>Foreign Common Stock:</b>		
Australian Dollar	\$ 16,499,188	\$ 19,685,669
Canadian Dollar	75,585,560	69,967,844
Swiss Franc	10,378,942	16,323,020
Danish Krone	3,612,338	3,734,421
Euro	43,954,967	123,903,374
UK Pound	52,762,374	40,393,465
Hong Kong Dollar	21,194,451	7,468,954
Japanese Yen	231,668,385	197,780,953
South Korean Won	6,250,811	3,026,225
Norwegian Krone	5,491,197	18,202,601
New Zealand Dollar	669,683	-
Swedish Krona	6,976,106	7,836,508
Singapore Dollar	10,728,221	11,281,848
Total Foreign Common Stock	485,772,223	519,604,882
<b>Other - Equity Securities:</b>		
Canadian Dollar	48	-
<b>Foreign Government and Provincial Obligations:</b>		
Australian Dollar	-	890,061
Canadian Dollar	127,064	646,187
Danish Krone	2,466,736	2,512,493
Euro	80,585,557	130,886,845
Japanese Yen	3,718,898	-
Polish Zloty	3,081,607	2,839,229
UK Pound	-	9,386,303
Total Foreign Government and Provincial Obligations	89,979,862	147,161,118
<b>Corporate Obligations:</b>		
Euro	24,619,480	15,209,803
UK Pound	3,311,744	3,283,894
Japanese Yen	5,762,839	-
Total Corporate Obligations	33,694,063	18,493,697
<b>Purchased Options:</b>		
Canadian Dollar	67,369	1,257,214
Euro	949,491	40,678
UK Pound	145,096	-
Japanese Yen	3,132,648	-
Total Purchased Options	4,294,604	1,297,892
<b>Private Market Investments:</b>		
Euro	98,926,472	77,172,078
UK Pound	6,691,668	10,583,599
Total Private Market Investment Funds	105,618,140	87,755,677
<b>Cash and Cash Equivalents:</b>		
Australian Dollar	165,989	123,814
Canadian Dollar	1,341,214	6,040,801
Swiss Franc	112,256	120,616
Danish Krone	44,296	25,224
Euro	1,718,211	1,965,790
UK Pound	579,252	22,520
Hong Kong Dollar	223,245	17,193
Japanese Yen	8,837,728	21,559,455
Mexican New Peso	-	177
Norwegian Krone	58,560	13,252
New Zealand Dollar	233,048	1
Polish Zloty	355,151	163,394
Swedish Krona	133,510	37,873
Singapore Dollar	306,505	89,348
New Taiwan Dollar	992,660	996,252
Total Cash and Cash Equivalents	15,101,625	31,175,710
Total	\$ 734,460,565	\$ 805,488,976

# PERMANENT UNIVERSITY FUND

## Notes to Financial Statements (cont.)

### Note 4 – Securities Lending

In accordance with the prudent investor investment standards, the PUF loans securities to certain brokers who pay the PUF negotiated lenders' fees. These fees are included in investment income, and related expenses are included in investment expenses. The PUF receives qualified securities and/or cash as collateral against the loaned securities. The collateral, when received, will have a market value of 102% of loaned securities of U.S. issuers and a market value of 105% for loaned securities of non-U.S. issuers. If the market value of the collateral held in connection with loans of securities of U.S. issuers is less than 100% at the close of trading on any business day, the borrower is required to deliver additional collateral by the close of the next business day to equal 102% of the market value. For non-U.S. issuers, the collateral should remain at 105% of the market value of the loaned securities at the close of any business day. If it falls below 105%, the borrower must deliver additional collateral by the close of the following business day. The value of securities loaned and the value of collateral held are as follows at August 31, 2006 and August 31, 2005:

<b>Securities on Loan</b>	<b>2006 Value</b>	<b>2005 Value</b>	<b>Type of Collateral</b>	<b>2006 Value of Collateral</b>	<b>2005 Value of Collateral</b>
U.S. Government	\$ 725,905,176	\$ 690,148,767	Cash	\$738,197,245	\$ 697,889,734
Foreign Government	11,031,766	22,252,445	Cash	11,576,419	23,365,980
Corporate Bonds	11,836,052	11,696,791	Cash	12,139,900	12,020,843
Common Stock	219,321,315	174,098,254	Cash	228,617,153	181,661,565
<b>Total</b>	<b>\$ 968,094,309</b>	<b>\$ 898,196,257</b>	<b>Total</b>	<b>\$ 990,530,717</b>	<b>\$ 914,938,122</b>
Common Stock	\$ 1,397,330	\$ 330,537	Non-Cash	\$ 1,425,627	\$ 341,911
U.S. Government	14,154,872	22,666,389	Non-Cash	14,808,629	24,356,521
<b>Total</b>	<b>\$ 15,552,202</b>	<b>\$ 22,996,926</b>	<b>Total</b>	<b>\$ 16,234,256</b>	<b>\$ 24,698,432</b>

Cash received as collateral for securities lending activities is invested and reinvested in a commingled pool managed exclusively for the benefit of the PUF, the General Endowment Fund, the Intermediate Term Fund and other Board of Regent accounts that participate in securities lending activities by the securities lending agent. The pool is managed in accordance with investment guidelines established in the securities lending contract between the PUF and its securities lending agent. The maturities of the investments in the pool do not necessarily match the term of the loans, rather the pool is managed to maintain a maximum dollar weighted average maturity of 60 days and an overnight liquidity of 20 percent. Lending income is earned if the returns on those investments exceed the rebate paid to borrowers of the securities for interest on the cash collateral received. The income remaining after the borrower rebates is then shared by the PUF and the securities lending agent on a contractually negotiated split. If the investment of the cash collateral does not provide a return exceeding the rebate or if the investment incurs a loss of principal, the payment of the shortfall to the borrower is made from the PUF and the securities lending agent in the same proportion as income is shared.

The PUF's pro-rata share of collateral pool investments, rating by NRSRO, and weighted average maturity at August 31, 2006 and 2005 is shown in the following table.

**PERMANENT UNIVERSITY FUND****Notes to Financial Statements (cont.)**

Description	August 31,					
	2006			2005		
	Fair Value	Rating	Weighted Average Maturity In Days	Fair Value	Rating	Weighted Average Maturity In Days
		No			No	
		Rating			Rating	
Repurchase Agreements	\$ 360,618,038	Available	14	\$ 431,176,486	Available	1
Commercial Paper	430,757,870	P	26	370,595,246	P	36
Floating Rate Notes	56,532,430	AAA		8,375,488	AAA	
Floating Rate Notes	<u>40,604,505</u>	AA		<u>93,724,729</u>	AA	
Total Floating Rate Notes	<u>97,136,935</u>		69	<u>102,100,217</u>		37
Certificates of Deposit	123,934,917	P	67	13,780,760	P	50
Asset Backed Securities	1,776,447	AAA	11	522,304	AAA	168
Other Receivables/Payables	<u>(23,693,490)</u>	Not Rated	-	<u>(3,236,891)</u>	Not Rated	-
Total Collateral Pool Investment	<u>\$ 990,530,717</u>		31	<u>\$ 914,938,122</u>		20

Collateral pool investments are uninsured, and are held by the PUF's securities lending agent, in its name, on behalf of the PUF, except for the investments in repurchase agreements which are held in the securities lending agent's name by a third party custodian not affiliated with the PUF or the borrower of the associated loaned securities. Therefore, the collateral pool is not exposed to custodial credit risk because the pool investments are not held by counterparties to the lending transactions or a counterparties trust department or agent.

Cash collateral is recorded as an asset with an equal and offsetting liability to return the collateral on the statements of fiduciary net assets. Investments received as collateral for securities lending activities are not recorded as assets because the investments remain under the control of the transferor, except in the event of default.

In the event of default, where the borrower is unable to return the securities loaned, the PUF has authorized the securities lending agent to seize the collateral held. The collateral is then used to replace the borrowed securities where possible. Due to some market conditions, it is possible that the original securities cannot be replaced. If the collateral is insufficient to replace the securities, the securities lending agent has indemnified the PUF from any loss due to borrower default.

As of August 31, 2006 and 2005, the PUF had no credit risk exposure to borrowers because the amounts the PUF owed to borrowers exceeded the amounts the borrowers owed the PUF.

There were no significant violations of legal or contractual provisions, no borrower or securities lending agent default losses, and no recoveries of prior period losses during the years ended August 31, 2006 and 2005.

**Note 5 – Investment Funds**

Investment funds include exchange traded funds, index funds, SEC regulated mutual funds and externally managed funds, limited partnerships, and corporate structures which are generally unrated and may be unregulated. The composition of investment funds at August 31, 2006 and 2005 is summarized in the table below as they are classified within the asset mix of the PUF.

**PERMANENT UNIVERSITY FUND***Notes to Financial Statements (cont.)*

	<b>August 31,</b>	
	<b>2006</b>	<b>2005</b>
Marketable Alternatives:		
Absolute Return Strategies	\$1,763,658,673	\$1,430,289,209
Directional Equity	858,978,126	807,457,474
Total Marketable Alternatives	<u>2,622,636,799</u>	<u>2,237,746,683</u>
Private Markets	973,740,367	841,448,191
Public Markets:		
U.S. Equity:		
Private Placements	694,426,740	387,272,051
Exchange Traded Funds	341,789,777	175,995,104
Index Funds	-	386,316,425
Total U.S. Equity	<u>1,036,216,517</u>	<u>949,583,580</u>
Non-U.S. Developed Equity:		
Private Placements	338,881,768	56,250,847
Exchange Traded Funds	-	19,437,294
Index Funds	-	315,629,497
Total Non-U.S. Developed Equity	<u>338,881,768</u>	<u>391,317,638</u>
Emerging Markets:		
Private Placements	366,906,922	43,205,403
Exchange Traded Funds	32,494,606	51,634,724
Publicly Traded Mutual Funds	175,920,415	135,881,918
Index Funds	-	73,676,011
Total Emerging Markets	<u>575,321,943</u>	<u>304,398,056</u>
Fixed Income:		
Private Placements	160,239,287	-
Publicly Traded Mutual Funds	10,370,720	23,970,791
Total Fixed Income	<u>170,610,007</u>	<u>23,970,791</u>
Total Investment Funds	<u>\$ 5,717,407,401</u>	<u>\$4,748,464,939</u>

Marketable alternatives funds are invested in private placements with external investment managers who invest in equity and fixed income securities of both domestic and international issuers. These investment managers may invest in both long and short securities and may utilize leverage in their portfolios. The funds invested may be subject to a lock-up restriction of one or more years before the investment may be withdrawn from the manager without significant penalty. There are certain risks associated with these private placements, some of which include investment manager risk, market risk, and liquidity risk, as well as the risk of utilizing leverage in the portfolios.

Private markets funds are invested in limited partnerships with external investment managers or general partners who invest primarily in private equity securities. These investments are domestic and international, are illiquid and may not be realized for a period of several years after the investments are made. There are certain risks associated with these investments, some of which are liquidity risk, market risk, event risk, and investment manager risk. The PUF has committed \$1,101,669,491 of future funding to various private market investments as of August 31, 2006.

Public market funds are invested in exchange traded funds, index funds, and private placements with external investment managers who invest in equity and fixed income securities of both domestic and international

## PERMANENT UNIVERSITY FUND

### Notes to Financial Statements (cont.)

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issuers. These funds are characterized as public market funds based on individual risk/return characteristics and their relationship to the overall asset mix of the PUF. Some of these investment managers may invest in both long and short securities and may utilize modest leverage in their portfolios. There are certain risks associated with these investments, some of which are investment manager risk, market risk, and liquidity risk, as well as the risk of utilizing leverage in the portfolios.

Marketable alternative, private market, and public market funds include investments in private placement vehicles that are subject to risk which could result in the loss of invested capital. The risks include the following:

- *Non-regulation risk* -- Some of these funds are not registered with the Securities Exchange Commission, and therefore are not subject to regulatory controls.
- *Key personnel risk* -- The success of certain funds is substantially dependent on key investment managers and the loss of those individuals may adversely impact the fund's performance.
- *Liquidity risk* -- Many of the PUF's investment funds may impose lockup periods which would cause the PUF to incur penalties to redeem its units or prevent the PUF from redeeming its shares until a certain period of time has elapsed.
- *Limited transparency* -- As private placement investment vehicles, these funds may not disclose the holdings of their portfolios.
- *Investment strategy risk* -- These funds often employ sophisticated investment strategies and may use leverage which could result in the loss of invested capital.

### Note 6 – Written Options

For the year ended August 31, 2006, the PUF wrote call options on Treasury note, commodity, and domestic and international equity index futures and exchange traded funds. Transactions in call options written during the year ended August 31, 2006 were as follows:

	<u>Contracts</u>	<u>Premiums Received</u>
Call Options Outstanding at August 31, 2005	1,473,043	\$ 5,011,038
Options Written	2,173,252	8,106,587
Options Expired	(473,600)	(5,517,907)
Options Exercised	(1,820)	(304,846)
Options terminated in closing purchase transactions	(22,331)	(716,604)
Call Options Outstanding at August 31, 2006	<u>3,148,544</u>	<u>\$ 6,578,268</u>

The fair value of call options outstanding as of August 31, 2006, was \$48,729,702. This amount is included on the statement of fiduciary net assets as written options, at fair value. The PUF had \$2,828,782 on deposit with a broker for collateral for call options written as of August 31, 2006. The PUF recognized losses of \$48,307,122 on call options written for the year ended August 31, 2006.

For the year ended August 31, 2005, the PUF wrote call options on Treasury note, commodity, and domestic and international equity index futures and exchange traded funds. Transactions in call options written during the year ended August 31, 2005 were as follows:

**PERMANENT UNIVERSITY FUND****Notes to Financial Statements (cont.)**

	<b>Contracts</b>	<b>Premiums Received</b>
Call Options Outstanding at August 31, 2004	-	\$ -
Options Written	1,474,897	5,672,471
Options Expired	(1,854)	(661,433)
Call Options Outstanding at August 31, 2005	<u>1,473,043</u>	<u>\$ 5,011,038</u>

The fair value of call options outstanding as of August 31, 2005, was \$31,222,625. This amount is included on the statement of fiduciary net assets as written options, at fair value. The PUF had \$649,996 on deposit with a broker for collateral for call options written as of August 31, 2005. The PUF recognized losses of \$25,561,987 on call options written for the year ended August 31, 2005.

The PUF also wrote put options on Treasury note, commodity, and domestic and international equity index futures for the year ended August 31, 2006. Transactions in put options written during the year ended August 31, 2006, were as follows:

	<b>Contracts</b>	<b>Premiums Received</b>
Put Options Outstanding at August 31, 2005	1,230,113	\$ 347,568
Options Written	2,428,557	10,445,551
Options Expired	(273,597)	(1,226,526)
Options Exercised	(237,587)	(578,657)
Options terminated in closing purchase transactions	(157,585)	(5,136,884)
Put Options Outstanding at August 31, 2006	<u>2,989,901</u>	<u>\$ 3,851,052</u>

The fair value of put options outstanding as of August 31, 2006, was \$28,433,649. This amount was included on the statement of fiduciary net assets as written options, at fair value. The PUF had \$1,650,587 on deposit with a broker for collateral for call options written as of August 31, 2006. The PUF recognized losses in the amount of \$25,712,374 on put options written for the year ended August 31, 2006.

The PUF also wrote put options on Treasury note, commodity, and domestic and international equity index futures for the year ended August 31, 2005. Transactions in put options written during the year ended August 31, 2005, were as follows:

	<b>Contracts</b>	<b>Premiums Received</b>
Put Options Outstanding at August 31, 2004	-	\$ -
Options Written	1,396,618	1,424,492
Options Expired	(166,505)	(1,076,924)
Put Options Outstanding at August 31, 2005	<u>1,230,113</u>	<u>\$ 347,568</u>

The fair value of put options outstanding as of August 31, 2005, was \$4,325,291. This amount was included on the statement of fiduciary net assets as written options, at fair value. The PUF recognized losses in the amount of \$2,901,759 on put options written for the year ended August 31, 2005.

# PERMANENT UNIVERSITY FUND

## Notes to Financial Statements (cont.)

### Note 7 – Swaps

During the year the PUF entered into interest rate, credit default and commodity swap contracts. The following discloses the notional amount, the coupon rate, and the fair values of the outstanding swap contracts as of August 31, 2006:

	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2006	
				Assets	Liabilities
<b>Interest Rate</b>					
<b>Australian Dollar</b>					
	6.000%	\$ 33,900,000	6/15/2010	\$ -	\$ 213,171
	6.000%	19,400,000	6/15/2015	169,389	-
<b>UK Pound</b>					
	0.670%	930,000	9/20/2014	-	1,123
	4.250%	4,100,000	6/12/2036	280,732	-
	4.500%	30,800,000	9/15/2017	46,420	-
	5.000%	3,500,000	6/15/2008	-	13,630
	5.000%	35,000,000	6/15/2009	-	337,773
	5.000%	23,700,000	9/15/2010	-	188,916
	5.000%	400,000	9/15/2015	-	3,089
	5.000%	600,000	6/18/2034	86,649	-
<b>Canadian Dollar</b>					
	5.000%	1,400,000	6/15/2015	49,672	-
	5.500%	-	8/31/2006	-	194,302
	5.500%	-	9/8/2006	-	58,599
<b>Euro</b>					
	2.040%	1,300,000	2/21/2011	-	6,396
	2.103%	4,000,000	10/15/2010	5,564	-
	2.146%	900,000	10/15/2010	4,203	-
	4.000%	6,970,000	6/17/2010	-	90,708
	4.000%	22,930,000	6/16/2014	-	225,201
	4.500%	5,400,000	6/17/2015	-	295,260
	5.000%	2,300,000	6/16/2014	223,574	-
	5.000%	100,000	6/17/2015	10,287	-
	6.000%	700,000	6/18/2034	128,726	-
<b>Japanese Yen</b>					
	0.800%	720,000,000	3/30/2012	156,346	-
	1.000%	-	9/18/2008	7,709	-
	2.000%	-	9/4/2006	-	199,440
	2.000%	1,850,000,000	6/20/2010	-	192,529
	2.000%	530,000,000	6/15/2012	-	176,301
	2.000%	1,490,000,000	12/20/2013	-	1,035,105
	2.000%	7,350,000,000	12/15/2015	-	1,017,122
	2.500%	1,470,000,000	12/15/2035	-	146,791
	5.000%	3,700,000,000	3/18/2008	70,423	-
<b>U.S. Dollar</b>					
	4.000%	24,600,000	6/21/2007	-	343,710
	4.000%	27,600,000	12/15/2008	-	780,825
	5.000%	109,400,000	12/15/2007	-	267,760
	5.000%	9,300,000	12/20/2008	-	23,917
	5.000%	58,000,000	6/18/2009	-	9,268
	5.000%	41,600,000	12/20/2011	301,080	-
	5.000%	35,700,000	12/20/2013	450,054	-
	5.000%	33,600,000	12/20/2016	728,747	-
	5.000%	8,400,000	12/20/2036	-	497,371
				<u>2,719,575</u>	<u>6,318,307</u>

# PERMANENT UNIVERSITY FUND

## Notes to Financial Statements (cont.)

				<u>Fair Value at August 31, 2006</u>	
	<u>Coupon</u>	<u>Notional Value</u>	<u>Maturity Date</u>	<u>Assets</u>	<u>Liabilities</u>
<b>Commodity</b>					
<b>U.S. Dollar</b>					
	TBILL + 23 Basis Points	\$ 50,950,000	26-Sep-06	\$ -	\$ 3,050,372
	TBILL + 27 Basis Points	35,040,000	26-Sep-06	-	2,098,979
				<u>-</u>	<u>5,149,351</u>
<b>Credit Default</b>					
<b>U.S. Dollar</b>					
	0.410%	1,000,000	20-Jun-07	1,931	-
	1.800%	100,000	20-Sep-06	446	-
	3.650%	200,000	20-Jun-11	14,214	-
	4.30%	1,000,000	20-Jun-10	45,949	-
	4.55%	700,000	20-Jun-07	23,580	-
	4.60%	600,000	20-Jun-07	20,509	-
				<u>106,629</u>	<u>-</u>
<b>Structured</b>					
<b>U.S. Dollar</b>					
	Emerging	26,000,000	7-Apr-07	-	585,184
	Emerging	32,500,000	13-Apr-07	-	560,814
	Emerging	26,000,000	20-Apr-07	-	326,113
	Emerging	32,500,000	27-Apr-07	-	329,566
	Emerging	32,500,000	4-May-07	-	631,020
	Emerging	16,250,000	11-May-07	-	379,763
	Emerging	48,750,000	18-May-07	-	1,041,439
	Emerging	29,250,000	25-May-07	-	1,799,076
	Emerging	48,750,000	4-Jun-07	-	3,949,030
	TOPIX	26,000,000	4-May-07	-	1,426,728
	TOPIX	21,450,000	7-Apr-07	83,197	-
	TOPIX	16,250,000	8-Apr-07	319,583	-
	TOPIX	32,500,000	9-Apr-07	666,533	-
	TOPIX	7,800,000	15-Apr-07	-	17,892
				<u>1,069,313</u>	<u>11,046,625</u>
<b>Total</b>				<u>\$ 3,895,517</u>	<u>\$ 22,514,283</u>

The following discloses the notional amount, the coupon rate, and the fair values of the outstanding swap contracts as of August 31, 2005:

# PERMANENT UNIVERSITY FUND

## Notes to Financial Statements (cont.)

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2005	
				Assets	Liabilities
<b>Interest Rate</b>					
<b>Australian Dollar</b>					
	6.000%	\$ 18,700,000	6/15/2010	\$ 316,586	\$ -
	6.000%	15,200,000	6/15/2010	257,332	-
	6.000%	10,700,000	6/15/2015	-	291,062
	6.000%	8,700,000	6/15/2015	-	237,572
<b>UK Pound</b>					
	5.000%	16,800,000	9/15/2010	792,855	-
	5.000%	6,600,000	9/15/2010	311,479	-
	5.000%	4,700,000	9/15/2010	221,810	-
	5.000%	2,500,000	9/15/2010	117,984	-
	5.000%	2,400,000	9/15/2010	113,265	-
	5.000%	1,100,000	6/18/2034	112,526	-
	5.000%	2,000,000	6/15/2008	41,565	-
	5.000%	1,500,000	6/15/2008	31,174	-
	5.000%	400,000	9/15/2010	18,877	-
	5.000%	200,000	9/15/2010	9,439	-
	5.000%	1,200,000	6/18/2034	-	123,693
	5.000%	1,100,000	6/18/2034	-	113,385
	5.000%	1,200,000	9/15/2015	-	93,271
	5.000%	300,000	9/15/2015	-	23,318
	5.000%	200,000	9/15/2015	-	15,545
<b>Canadian Dollar</b>					
	5.500%	2,900,000	12/16/2014	-	94,683
	5.500%	2,200,000	12/16/2014	-	71,828
	5.500%	2,000,000	12/16/2014	-	65,298
	4.500%	600,000	6/15/2025	-	376
<b>Euro</b>					
	5.000%	2,300,000	6/16/2014	417,006	-
	4.000%	3,200,000	6/17/2010	233,932	-
	4.000%	1,600,000	6/17/2010	116,947	-
	5.000%	100,000	6/17/2015	18,843	-
	4.000%	34,630,000	6/16/2014	-	3,001,413
	4.000%	8,570,000	6/17/2010	-	626,399
	4.000%	3,000,000	12/15/2014	-	238,769
	4.500%	1,700,000	6/17/2015	-	232,249
	4.500%	1,500,000	6/17/2015	-	204,925
	4.500%	1,500,000	6/17/2015	-	204,925
	4.500%	700,000	6/17/2015	-	95,632
	4.000%	1,200,000	12/15/2014	-	95,508
<b>Japanese Yen</b>					
	1.000%	800,000,000	3/20/2009	50,952	-
	0.800%	720,000,000	3/30/2012	44,327	-
	2.000%	870,000,000	12/20/2013	-	516,121
	2.000%	530,000,000	6/15/2012	-	333,901
	2.000%	110,000,000	12/20/2013	-	65,257

# PERMANENT UNIVERSITY FUND

## Notes to Financial Statements (cont.)

				Fair Value at August 31, 2005	
Currency	Coupon	Notional Value	Maturity Date	Assets	Liabilities
<b>Interest Rate</b>					
<b>U.S. Dollar</b>					
	4.000%	\$ 24,800,000	12/15/2010	\$ 324,357	\$ -
	4.000%	20,800,000	12/15/2010	296,197	-
	4.000%	36,900,000	12/15/2007	178,801	-
	4.000%	7,100,000	12/15/2010	101,105	-
	5.500%	2,800,000	12/16/2014	93,000	-
	5.500%	2,300,000	12/16/2014	76,393	-
	4.000%	4,100,000	12/15/2010	58,385	-
	5.500%	1,600,000	12/16/2014	53,143	-
	4.000%	2,300,000	12/15/2010	32,752	-
	5.000%	33,000,000	12/15/2015	-	1,362,213
	5.000%	32,700,000	12/15/2012	-	1,181,797
	3.000%	95,900,000	6/15/2006	-	777,349
	5.000%	14,300,000	12/15/2015	-	590,292
	5.000%	11,000,000	12/15/2015	-	454,071
	5.000%	7,400,000	12/15/2015	-	305,466
	5.000%	4,700,000	12/15/2015	-	194,012
	5.000%	3,600,000	12/15/2015	-	148,605
	5.000%	2,900,000	12/15/2015	-	119,710
	4.000%	24,600,000	6/21/2007	-	84,553
	5.000%	1,400,000	12/15/2015	-	57,791
	5.000%	800,000	12/15/2015	-	33,023
	5.000%	700,000	12/15/2012	-	25,298
	4.000%	300,000	12/15/2007	-	1,454
	4.000%	200,000	12/15/2007	-	969
				4,441,032	12,081,733
<b>Credit Default</b>					
<b>U.S. Dollar</b>					
	4.550%	700,000	6/20/2007	29,054	-
	4.600%	600,000	6/20/2007	25,417	-
	3.500%	1,000,000	6/20/2006	16,269	-
	3.000%	800,000	6/20/2006	9,837	-
	3.200%	700,000	6/20/2006	9,720	-
	4.300%	1,000,000	6/20/2010	9,397	-
	2.450%	500,000	9/20/2007	-	1,210
				99,694	1,210
<b>Commodity</b>					
<b>U.S. Dollar</b>					
	TBill + 36.5 Basis Points	96,628,586	9/23/2005	3,652,561	-
	TBill + 45 Basis Points	69,200,000	9/23/2005	2,615,760	-
				6,268,321	-
<b>Total</b>				\$ 10,809,047	\$ 12,082,943

## Note 8 – Futures

During the periods ended August 31, 2006 and 2005, the asset classes that used futures include domestic and foreign equities, domestic and foreign debt, and commodities. The PUF had \$86,202,519 and \$63,513,709 on deposit with a broker for collateral as margin for the futures contracts as of August 31, 2006 and 2005, respectively. Short futures were used by internal managers and may be used by a limited number of external managers of the PUF to hedge the PUF's interest rate or country risk associated with security positions. At August 31, 2006, the net realized loss on the futures contracts was \$8,792,816 compared to the net realized gain of \$103,700,479 for the year ended August 31, 2005.

# PERMANENT UNIVERSITY FUND

## Notes to Financial Statements (cont.)

The following discloses the name, number of contracts, notional value, and the carrying and fair values at August 31, 2006 for futures contracts:

Contract	Number of Contracts	Expiration	Notional Value at August 31, 2006		Carrying and Fair Value at August 31, 2006		
			Long	Short	Assets	Liabilities	
<b>Domestic Fixed Income</b>							
U.S. 5 Year Treasury Notes	728	Dec-06	\$ 76,519,625	\$ -	\$ 113,750	\$ -	
U.S. 10 Year Treasury Notes	170	Sep-06	-	18,261,719	-	89,360	
U.S. 10 Year Treasury Notes	336	Dec-06	36,078,000	-	55,860	-	
U.S. Treasury Bond	93	Sep-06	10,293,938	-	34,875	-	
U.S. Treasury Bond	89	Sep-06	-	9,851,187	-	33,375	
			<u>122,891,563</u>	<u>28,112,906</u>	<u>204,485</u>	<u>122,735</u>	
<b>Domestic Equity</b>							
Dow Jones Index	441	Sep-06	50,234,310	-	4,410	-	
Russell 2000 Index Mini	14,714	Sep-06	-	1,061,909,380	653,194	-	
Russell 2000 Index Mini	2,165	Dec-06	-	157,547,050	7,082	-	
S&P 500 Index	5,405	Sep-06	1,764,192,000	-	655,451	-	
			<u>1,814,426,310</u>	<u>1,219,456,430</u>	<u>1,320,137</u>	<u>-</u>	
<b>Commodities</b>							
Goldman Sachs Commodities	2,718	Sep-06	316,647,000	-	1,223,100	-	
<b>Foreign Fixed Income</b>							
90 Day Euro Dollar	323	Sep-06	76,393,538	-	10,094	-	
90 Day Euro Dollar	125	Dec-06	29,579,687	-	10,938	-	
90 Day Euro Dollar	55	Mar-07	13,032,937	-	6,188	-	
90 Day Euro Dollar	37	Jun-07	8,780,562	-	4,162	-	
90 Day Euro Dollar	130	Sep-07	30,889,625	-	16,250	-	
90 Day Euro Dollar	57	Dec-07	13,553,175	-	7,125	-	
90 Day Euro Dollar	23	Mar-08	5,469,688	-	2,875	-	
90 Day Euro Dollar	41	Sep-08	9,745,700	-	4,100	-	
90 Day Euro Dollar	41	Dec-08	9,741,600	-	4,100	-	
90 Day Euro Dollar	41	Mar-09	9,738,013	-	3,587	-	
90 Day Euro Dollar	41	Jun-09	9,733,912	-	3,075	-	
Euro-Bund	25	Sep-06	3,784,788	-	12,697	-	
Euro-Bund	1	Dec-06	150,521	-	4,024	-	
Japan 10 Year Bond	46	Sep-06	52,940,112	-	247,245	-	
Japan 10 Year Bond	31	Dec-06	35,573,957	-	243,767	-	
UK Long Gilt	3	Dec-06	-	628,680	-	2,531	
			<u>309,107,815</u>	<u>628,680</u>	<u>580,227</u>	<u>2,531</u>	
<b>Foreign Equity</b>							
Amsterdam Index	8	Sep-06	961,369	-	-	-	
CAC 40 Index	35	Sep-06	2,314,906	-	-	-	
DAX Index	6	Sep-06	1,125,356	-	-	-	
DJ Euro Stoxx 50	1,091	Sep-06	53,207,966	-	-	257,926	
FTSE 100 Index	1,541	Sep-06	173,044,169	-	-	1,306,833	
FTSE/JSE Top 40	138	Sep-06	3,850,028	-	-	116,756	
Hang Seng Index	4	Sep-06	446,922	-	-	43	
IBEX Index	6	Sep-06	933,848	-	-	-	
MSCI Singapore Index	272	Sep-06	10,267,022	-	48,828	-	
MSCI Taiwan Index	225	Sep-06	6,192,000	-	51,750	-	
OMX Index	55	Sep-06	754,690	-	-	-	
S&P/MIB Index	4	Sep-06	973,427	-	-	-	
SPI 200 Index	12	Sep-06	1,169,301	-	-	-	
Topix Index	33	Sep-06	4,598,926	-	-	9,578	
			<u>259,839,930</u>	<u>-</u>	<u>100,578</u>	<u>1,691,136</u>	
<b>Total</b>			<u>\$ 2,822,912,618</u>	<u>\$ 1,248,198,016</u>	<u>\$ 3,428,527</u>	<u>\$ 1,816,402</u>	

# PERMANENT UNIVERSITY FUND

## Notes to Financial Statements (cont.)

The following discloses the name, number of contracts, notional value, and the carrying and fair values at August 31, 2005 for futures contracts:

Contract	Number of Contracts	Expiration	Notional Value at August 31, 2005		Carrying and Fair Value at August 31, 2005		
			Long	Short	Assets	Liabilities	
<b>Domestic Fixed Income</b>							
U.S. 5 Year Treasury Notes	648	Dec-05	\$ 70,227,000	\$ -	\$ 198,499	\$ -	
U.S. 10 Year Treasury Notes	80	Sep-05	-	9,033,750	-	34,610	
U.S. 10 Year Treasury Notes	114	Dec-05	-	12,776,906	-	58,092	
U.S. Treasury Bond	154	Sep-05	18,229,750	-	105,875	-	
U.S. Treasury Bond	24	Dec-05	2,832,750	-	16,500	-	
			<u>91,289,500</u>	<u>21,810,656</u>	<u>320,874</u>	<u>92,702</u>	
<b>Domestic Equity</b>							
Dow Jones Index	488	Sep-05	51,249,760	-	424,560	-	
Russell 2000 Index Mini	8,110	Sep-05	-	541,099,200	-	10,786,300	
S&P 500 Index	1,527	Sep-05	466,269,450	-	4,884,942	-	
S&P 500 Index	1,490	Dec-05	457,355,500	-	4,769,580	-	
S&P 500 Index Mini	33	Sep-05	-	2,015,475	-	-	
S&P Midcap 400 Index Mini	57	Sep-05	4,066,950	-	68,970	-	
S&P Midcap 400 Index Mini	760	Sep-05	-	54,226,000	-	919,600	
			<u>978,941,660</u>	<u>597,340,675</u>	<u>10,148,052</u>	<u>11,705,900</u>	
<b>Commodities</b>							
Goldman Sachs Commodities	2,866	Sep-05	332,527,650	-	-	2,077,850	
<b>Foreign Fixed Income</b>							
90 Day Euro Dollar	217	Dec-05	52,036,600	-	70,525	-	
90 Day Euro Dollar	101	Mar-06	24,210,962	-	39,138	-	
Euro-Bund	255	Sep-05	38,872,177	-	909	-	
Euro-Bund	161	Dec-05	24,220,076	-	-	-	
Japan 10 Year Bond	41	Sep-05	51,508,710	-	-	314,176	
Japan 10 Year Bond	6	Dec-05	7,520,580	-	-	-	
UK Long Gilt	5	Sep-05	1,026,972	-	4,596	-	
			<u>199,396,077</u>	<u>-</u>	<u>115,168</u>	<u>314,176</u>	
<b>Foreign Equity</b>							
Amsterdam Index	107	Sep-05	10,259,064	-	-	-	
DJ Euro Stoxx 50	19	Sep-05	-	764,106	-	-	
DJ Euro Stoxx 50	1,963	Sep-05	78,944,194	-	676,237	-	
FTSE 100 Index	1,707	Sep-05	162,563,111	-	958,577	-	
FTSE/JSE Top 40	735	Sep-05	15,858,642	-	108,074	-	
Hang Seng Index	49	Sep-05	4,695,638	-	-	1,525	
IBEX Index	63	Sep-05	-	7,771,687	-	-	
MSCI Singapore Index	229	Sep-05	7,330,936	-	-	13,592	
MSCI Taiwan Index	736	Sep-05	18,473,600	-	-	-	
S&P/MIB Index	45	Sep-05	-	9,276,912	-	-	
S&P/TSE 60 Index	87	Sep-05	-	8,792,997	-	-	
SPI 200 Index	179	Sep-05	-	14,921,238	-	-	
Topix Index	375	Sep-05	42,870,157	-	-	46,336	
			<u>340,995,342</u>	<u>41,526,940</u>	<u>1,742,888</u>	<u>61,453</u>	
<b>Total</b>			<u>\$ 1,943,150,229</u>	<u>\$ 660,678,271</u>	<u>\$ 12,326,982</u>	<u>\$ 14,252,081</u>	

**PERMANENT UNIVERSITY FUND***Notes to Financial Statements (cont.)***Note 9 – Foreign Currency Exchange Contracts**

The tables below summarize by currency the contractual amounts of the PUF’s foreign currency exchange contracts at August 31, 2006 and 2005. Foreign currency amounts are translated at exchange rates as of August 31, 2006 and 2005. The “Net Buy” amounts represent the U.S. dollar equivalent of net commitments to purchase foreign currencies, and the “Net Sell” amounts represent the U.S. dollar equivalent of net commitments to sell foreign currencies.

Currency	Net Buy August 31, 2006	Net Sell August 31, 2006	Unrealized Gains	Unrealized Losses
			on Foreign Currency Exchange Contracts August 31, 2006	on Foreign Currency Exchange Contracts August 31, 2006
Australian Dollar	\$ 12,652,476	\$ –	\$ 322,654	\$ 62,718
UK Pound	191,745,353	–	5,665,459	1,323,122
Canadian Dollar	–	4,360,753	306,159	450,111
Chilean Peso	282,678	–	458	–
Chinese Yuan Renminbi	29,314,104	–	194,239	713,246
Czech Koruna	526,068	–	10,143	75,311
Danish Krone	–	1,072,066	6,425	–
Euro	–	30,319,200	1,940,220	1,000,136
Hungarian Forint	–	467,765	40,503	91,868
Indian Rupee	57,255	–	109	–
Japanese Yen	266,644,559	–	2,438,177	11,814,037
Mexican New Peso	7,434,113	–	366,360	467,229
New Taiwan Dollar	8,613,028	–	112,250	400,592
New Zealand Dollar	–	3,538,888	314,118	309,228
Norwegian Krone	580,774	–	473	29,593
Polish Zloty	1,159,366	–	66,976	235,464
New Russian Rubel	357,060	–	2,240	–
South African Comm Rand	2,857,935	–	116,174	505,048
Singapore Dollar	12,361,321	–	105,368	544
Slovak Koruna	–	–	6,216	5,064
South Korean Won	6,157,567	–	108,588	271,165
Swedish Krona	7,002,804	–	43,552	66,185
Swiss Franc	14,214,405	–	129,104	514,134
	<u>\$ 561,960,866</u>	<u>\$ 39,758,672</u>	<u>\$ 12,295,965</u>	<u>\$ 18,334,795</u>

**PERMANENT UNIVERSITY FUND****Notes to Financial Statements (cont.)**

Currency	Net Buy August 31, 2005	Net Sell August 31, 2005	Unrealized Gains	Unrealized Losses
			on Foreign Currency Exchange Contracts August 31, 2005	on Foreign Currency Exchange Contracts August 31, 2005
Australian Dollar	\$ 21,006,327	\$ –	\$ 137,960	\$ 192,107
Canadian Dollar	–	44,241,372	157,597	623,896
Chilean Peso	211,478	–	3,799	–
Chinese Yuan Renminbi	23,736,172	–	375	360,101
Czech Koruna	2,228,118	–	47,603	5,905
Danish Krone	–	1,787,247	6,211	–
Euro	–	73,873,103	3,640,465	1,155,744
Hong Kong Dollar	4,648,253	–	266	1,111
Hungarian Forint	1,070,352	–	47,976	18,299
Indonesian Rupian	447,231	–	32,231	–
Japanese Yen	135,263,487	–	791,764	3,023,537
Mexican New Peso	8,468,512	–	188,049	28,995
New Zealand Dollar	–	1,452,918	29,740	13,923
Norwegian Krone	–	11,949,970	47,560	64,707
Polish Zloty	365,021	–	364,231	35,517
New Russian Rubel	238,736	–	133	922
Singapore Dollar	3,108,832	–	99,809	89,675
Slovak Koruna	470,891	–	57	5,634
South African Comm Rand	5,539,813	–	179,152	11,077
South Korean Won	10,858,291	–	86,780	333,537
Swedish Krona	5,079,572	–	166,078	190,716
Swiss Franc	6,358,485	–	28,934	362,165
New Taiwan Dollar	21,206,011	–	30,744	728,095
UK Pound	179,187,625	–	4,815,456	1,361,059
	<u>\$ 429,493,207</u>	<u>\$ 133,304,610</u>	<u>\$ 10,902,970</u>	<u>\$ 8,606,722</u>

**Note 10 – Purchase Agreements**

The PUF entered into note purchase agreements with the UT System Board of Regents and the Texas A&M System Board of Regents. The agreement with the UT System Board of Regents committed the PUF to acquire up to \$400,000,000 of UT System flexible rate notes in the event of a failed remarketing of such notes. This agreement was terminated effective November 10, 2005, when UTIMCO, as investment manager of the funds under the control of management of the UT System Board of Regents, entered into a security purchase agreement with the UT System Board of Regents. This agreement with the UT System Board of Regents terminates all prior agreements. The new agreement commits the funds under management, including the PUF, to purchase UT System notes and bonds outstanding up to \$1,285,000,000.

Based on the prior agreement with the UT System Board of Regents the PUF received an annual commitment fee equal to 0.15% of the notes outstanding. Under the new agreement the commitment fee was eliminated.

The agreement with the Texas A&M System Board of Regents committed the PUF to acquire up to

## **PERMANENT UNIVERSITY FUND**

### ***Notes to Financial Statements (cont.)***

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\$80,000,000 of Texas A&M System flexible rate notes in the event of a failed remarketing of such notes. Effective February 1, 2006, the Texas A&M flexible rate note program was increased to \$125,000,000. The note purchase agreement between the PUF and the Texas A&M System Board of Regents was amended effective November 1, 2005, to eliminate the annual commitment fee required under the original agreement. Under the original agreement the PUF received an annual commitment fee equal to 0.1% of the commitment amount.

The commitment fees earned by the PUF were \$13,443 and \$159,000, respectively, for the years ended August 31, 2006 and 2005.

### **Note 11 – Distributions to the Available University Fund**

The Texas Constitution allows for (a) distributions to the AUF from the “total return” on PUF investments, including income return as well as capital gains (realized and unrealized) and (b) the payment of PUF expenses from PUF assets. The Texas Constitution directs the Board of Regents of UT System to establish a distribution policy that provides stable, inflation-adjusted annual distributions to the AUF and preserves the real value of the PUF investments over the long term. Accordingly, distributions to the AUF in any given fiscal year are subject to the following: (1) A minimum amount equal to the amount needed to pay debt service on PUF bonds; (2) No increase from the preceding year (except as necessary to pay debt service on PUF bonds) unless the purchasing power of PUF investments for any rolling 10-year period has been preserved; (3) A maximum amount equal to seven percent of the average net fair market value of PUF assets in any fiscal year, except as necessary to pay debt service on PUF bonds. The PUF distribution to the AUF for the year ending August 31, 2007, will be \$400,685,603. The first payment in the amount of \$100,171,401 was made September 1, 2006.

### **Note 12 – Fees and Expenses**

The PUF incurs investment management fees from various external managers of the PUF. The fees, generally assessed quarterly, are based on a percentage of the market value of investments held by each individual investment manager and currently range from 0.01% to 1.0%. In addition to quarterly investment management fees, the PUF may pay annual performance-based management fees for investment performance in excess of certain defined benchmarks as provided for in the managers’ contracts. In addition, the PUF incurs consulting fees for investment planning and oversight services with regard to private market and marketable alternative investments.

UTIMCO assesses the PUF a management fee to cover the costs of managing the PUF investments and providing day-to-day operations. The fee assessed for the year ended August 31, 2006 was \$3,246,736, net of a rebate of \$2,344,400 of prior year reserves from UTIMCO to the PUF. The fee assessed for the year ended August 31, 2005 was \$3,400,636, net of a rebate of \$2,390,343 of prior year reserves from UTIMCO to the PUF.

The PUF is assessed a fee to cover expenses related to the management of the PUF Lands. The fee assessed for the year ended August 31, 2006 was \$5,338,378 and was \$4,745,460 for the year ended August 31, 2005. Beginning in fiscal year 2005, the PUF is assessed a fee to cover costs associated with UT System personnel and UT System consultants hired to provide assistance to the Board of Regents of UT

## **PERMANENT UNIVERSITY FUND**

### ***Notes to Financial Statements (cont.)***

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System and the Chancellor of the UT System in their oversight responsibilities of UTIMCO. The fee assessed for the year ended August 31, 2006 was \$471,337 and was \$298,771 for the year ended August 31, 2005.

Custodial fees and expenses are assessed by the financial institution which holds the PUF's assets. Fees are based on the number of accounts, market value of the PUF, and transaction activity in accordance with the contractual agreement with the institution. Additional fees are assessed for performance measurement, risk measurement and on-line communication services per the contractual agreement.

The PUF incurs legal fees associated with the review of new investment manager agreements and with due diligence efforts undertaken as part of the hiring of new investment managers.

Analytical and risk measurement fees are also incurred to implement and maintain a sophisticated risk measurement system for the PUF.

The PUF incurs other expenses related to its operations primarily consisting of audit fees, printing and graphic expenses, and consultation fees.

**PERMANENT UNIVERSITY FUND**  
**Supplemental Schedules**

**Comparison Summary of Investments**

August 31, 2006 and, 2005

(in thousands)

	2006		2005	
<b>Equity Securities</b>				
Domestic Common Stock	\$ 971,465	9.30%	\$ 1,210,018	12.64%
Foreign Common Stock	565,609	5.37%	618,673	6.46%
Other	5,726	.05%	13,547	.14%
<b>Total Equity Securities</b>	1,542,800	14.72%	1,842,238	19.24%
<b>Preferred Stock</b>	2,483	.02%	2,690	.03%
<b>Debt Securities</b>				
U. S. Government Obligations	1,222,350	11.67%	1,169,052	12.21%
Foreign Government and Provincial Obligations	100,837	.96%	164,085	1.72%
Corporate Obligations	596,816	5.70%	287,459	3.00%
Other	12,377	.12%	19,498	.20%
<b>Total Debt Securities</b>	1,932,380	18.45%	1,640,094	17.13%
<b>Convertible Securities</b>	114	.00%	5,010	.05%
<b>Purchased Options</b>	47,982	.46%	20,153	.21%
<b>Investment Funds</b>				
Absolute Return Strategies	1,763,659	16.83%	1,430,289	14.94%
Directional Equity	858,978	8.20%	807,458	8.43%
Private Markets	973,740	9.29%	841,448	8.79%
U.S. Equity	1,036,217	9.89%	949,584	9.91%
Non-U.S. Developed Equity	338,882	3.24%	391,317	4.09%
Emerging Markets	575,322	5.49%	304,398	3.18%
Fixed Income	170,610	1.63%	23,971	.25
<b>Total Investment Funds</b>	5,717,408	54.57%	4,748,465	49.59%
<b>Cash and Cash Equivalents</b>				
Money Market Funds Maintained to Back Futures Contracts	894,772	8.54%	987,314	10.31%
Other Money Market Funds and Cash Held at State Treasury	339,114	3.24%	329,628	3.44%
<b>Total Cash and Cash Equivalents</b>	1,233,886	11.78%	1,316,942	13.75%
<b>Total Investment in Securities</b>	\$ 10,477,053	100.00%	\$ 9,575,592	100.00%

# PERMANENT UNIVERSITY FUND

## Supplemental Schedules (cont.)

### Schedule of Changes in Cost of Investments and Investment Income

Year Ended August 31, 2006

(in thousands)

	Beginning Cost	Purchases	Sales, Maturities & Redemptions	Gains (Losses)	Reclass	Ending Cost	Investment Income
<b>Equity Securities</b>							
Domestic Common Stock	\$ 921,619	\$ 908,907	\$ (1,319,246)	\$ 260,804	\$ 15,931	\$ 788,015	\$ 22,231
Foreign Common Stock	510,168	565,107	(755,059)	149,615	9	469,840	10,685
Other	560	(1)	(453)	2	313	421	1,681
<b>Total Equity Securities</b>	<u>1,432,347</u>	<u>1,474,013</u>	<u>(2,074,758)</u>	<u>410,421</u>	<u>16,253</u>	<u>1,258,276</u>	<u>34,597</u>
<b>Preferred Stock</b>							
Domestic Preferred Stock	2,491	5	(178)	18	-	2,336	159
<b>Debt Securities</b>							
U. S. Government Obligations	1,152,167	5,389,240	(5,293,906)	(24,446)	-	1,223,055	60,200
Foreign Government and Provincial Obligations	152,498	419,413	(481,688)	1,313	500	92,036	5,390
Corporate Obligations	282,320	2,042,920	(1,727,878)	(1,496)	(500)	595,366	22,435
Swaps	-	-	-	-	-	-	5,941
Other	18,025	194,279	(201,283)	309	-	11,330	911
<b>Total Debt Securities</b>	<u>1,605,010</u>	<u>8,045,852</u>	<u>(7,704,755)</u>	<u>(24,320)</u>	<u>-</u>	<u>1,921,787</u>	<u>94,877</u>
<b>Purchased Options</b>	<u>1,295</u>	<u>19,250</u>	<u>(17,720)</u>	<u>(1,093)</u>	<u>-</u>	<u>1,732</u>	<u>-</u>
<b>Convertible Securities</b>	<u>13,986</u>	<u>-</u>	<u>-</u>	<u>(13,872)</u>	<u>-</u>	<u>114</u>	<u>-</u>
<b>Investment Funds</b>							
Marketable Alternative	1,700,528	1,132,429	(556,876)	155,508	-	2,431,589	3,820
Private Markets	1,206,985	299,010	(332,220)	(262,417)	(16,253)	895,105	19,665
U.S. Equity	871,293	1,082,424	(1,092,273)	73,377	-	934,821	6,730
Non U.S. - Developed Equity	346,017	382,124	(512,033)	101,637	-	317,745	4,002
Emerging Markets	266,640	742,315	(579,196)	85,062	-	514,821	6,390
Fixed Income	20,957	159,382	(17,198)	2,386	-	165,527	2,433
<b>Total Investment Funds</b>	<u>4,412,420</u>	<u>3,797,684</u>	<u>(3,089,796)</u>	<u>155,553</u>	<u>(16,253)</u>	<u>5,259,608</u>	<u>43,040</u>
<b>Cash and Cash Equivalents</b>							
Money Market Funds and Cash Held at State Treasury	1,317,279	-	(78,993) *	(4,245) **	-	1,234,041	44,937
<b>Other</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,362</u>
<b>Total Investment in Securities</b>	<u>\$ 8,784,828</u>	<u>\$ 13,336,804</u>	<u>\$ (12,966,200)</u>	<u>\$ 522,462</u>	<u>\$ -</u>	<u>\$ 9,677,894</u>	<u>\$ 223,972</u>

\* Net decrease in cash and money markets during the year.

\*\* Includes net realized gains on futures contracts, written options and foreign currency contracts.

Financial Statements

The University of Texas System

General Endowment Fund

*Years Ended August 31, 2006 and 2005*

The University of Texas System General Endowment Fund

Financial Statements

Years Ended August 31, 2006 and 2005

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## Report of Independent Auditors

The Board of Regents of The University of Texas System  
The Board of Directors of The University of Texas Investment Management Company

We have audited the accompanying financial statements of The University of Texas General Endowment Fund (the "Fund") as of and for the years ended August 31, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only The University of Texas General Endowment Fund and do not purport to, and do not, present fairly the fiduciary net assets of The University of Texas Investment Management Company nor The University of Texas System as of August 31, 2006 and 2005 and the changes in its fiduciary net assets for the years then ended in conformity with accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of The University of Texas General Endowment Fund as of August 31, 2006 and 2005, and the changes in the fiduciary net assets for the years then ended, in conformity with accounting principles generally accepted in the United States.

Management's discussion and analysis on pages 2 through 4 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements of The University of Texas General Endowment Fund. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The supplemental schedules as of August 31, 2006, 2005, 2004 and 2003 and for the years then ended have been subjected to the audit procedures applied in the audits of the financial statements and, in our opinion, based on our audits, are fairly stated in relation to the financial statements taken as a whole. The Fund's financial statements for the year ended August 31, 2002, which are not presented with the accompanying financial statements, were audited by other auditors whose report thereon dated October 18, 2002, expressed an unqualified opinion on the financial statements. Their report on the 2002 supplemental schedules stated that, in their opinion, such information was fairly stated in all material respects in relation to the financial statements taken as a whole.



October 27, 2006

**THE UNIVERSITY OF TEXAS SYSTEM  
GENERAL ENDOWMENT FUND**

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

Our discussion and analysis of The University of Texas System General Endowment Fund's (Fund) financial performance provides an overview of its activities for the fiscal year ended August 31, 2006. This discussion was prepared by The University of Texas Investment Management Company (UTIMCO) and should be read in conjunction with the Fund's financial statements and notes. The Fund is an internal UT System mutual fund for the pooled investment of the Permanent Health Fund (PHF) and The University of Texas System Long Term Fund (LTF). The Fund was created to allow the PHF and LTF to benefit from their identical investment objectives by providing greater efficiencies and cost savings than was possible when the investments of the PHF and LTF were managed separately. The Texas Constitution and various state statutes designate The University of Texas System Board of Regents (UT Board) as the fiduciary for the management of certain public endowment and operating funds. The UT Board has entered into an Investment Management Services Agreement delegating investment management responsibility for all investments to UTIMCO.

The purpose of the MD&A is to provide an objective and easily readable analysis of the Fund's financial statements based upon currently known facts, decisions or conditions.

**Financial Highlights**

- The Fund's fiduciary net assets, after contributions and withdrawals, increased by \$501.0 million from \$4,926.8 million to \$5,427.8 million or approximately 10.2% for the year ended August 31, 2006, compared to an increase of \$719.2 million or approximately 17.1% for the year ended August 31, 2005. The change in net fiduciary net assets from year to year is mainly attributable to the following:
  1. The PHF and LTF redeemed and purchased Fund units resulting in a net reduction in contributions of \$54.2 million for the year ended August 31, 2006, compared to a net reduction in contributions for the year ended August 31, 2005 of \$71.9 million.
  2. The Fund posted a net investment return of 11.10% for the fiscal year ended August 31, 2006. Investments in real estate investment trusts, private market investment funds and global equities were the leading contributors to the 2006 return. For the fiscal year ended August 31, 2005, the commodities, private market investment funds and global equity asset classes were the leading performers contributing to a net investment return of 18.82%.
  3. The Fund allocates its net investment income and its realized gain or loss to the PHF and LTF monthly based on their ownership of Fund units at month end. The distributed net investment income and realized gain amounts increase the cost basis of the units of the Fund, and any distributed realized losses reduce the cost basis of the units in the Fund. Since the distribution is proportional to the percentage ownership by the PHF and LTF, no additional units are purchased.

# THE UNIVERSITY OF TEXAS SYSTEM GENERAL ENDOWMENT FUND

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## Use of Financial Statements and Notes

The Fund's financial statements were prepared in accordance with standards issued by the Governmental Accounting Standards Board (GASB). Two financial statements are required under GASB: the Statement of Fiduciary Net Assets and the Statement of Changes in Fiduciary Net Assets.

The notes to the financial statements contain supplemental information that is essential for the fair presentation of the financial statements.

## Statements of Fiduciary Net Assets

The Statements of Fiduciary Net Assets present assets, liabilities, and net assets of the Fund as of the end of the fiscal year. These statements, along with all of the Fund's financial statements, are prepared using the accrual basis of accounting, whereby Fund investment income is recognized when earned and Fund expenses are recognized when incurred.

The Fund invests in a broad mix of investments and is actively managed to its benchmark, the Endowment Policy Portfolio. The Endowment Policy Portfolio is the index or benchmark for the endowment funds that UTIMCO manages. The return of the Endowment Policy Portfolio is the sum of the weighted benchmark returns for each asset class that comprise it. UTIMCO allocates the Fund's assets to internally and externally managed portfolios in accordance with approved asset allocation policies, and attempts to supplement the original endowment corpus by increasing purchasing power over time. In doing so, UTIMCO increases the endowment resources available to fund the teaching, research, and health care programs specified by the various donors.

The following summarizes the Statements of Fiduciary Net Assets (in millions):

<b>Assets</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Investments	\$ 5,560.3	\$ 5,002.9	\$ 4,207.6
Other Assets	626.8	656.2	469.1
<b>Total Assets</b>	<b>6,187.1</b>	<b>5,659.1</b>	<b>4,676.7</b>
<b>Total Liabilities</b>	<b>759.3</b>	<b>732.3</b>	<b>469.1</b>
<b>Net Assets Held in Trust</b>	<b>\$ 5,427.8</b>	<b>\$ 4,926.8</b>	<b>\$ 4,207.6</b>

## Statements of Changes in Fiduciary Net Assets

Changes in fiduciary net assets as presented on the Statements of Changes in Fiduciary Net Assets are based on activity of the Fund. The purpose of these statements is to present additions to the Fund resulting from net investment income and participant contributions and to present deductions from the Fund resulting from participant distributions.

The net increase in investments of the Fund was \$453.8 million during the year ended August 31, 2006 compared to the net increase in of investments of \$689.8 million for the year ended August 31, 2005. Expenses totaled \$38.2 million, \$23.1 million, and \$10.7 million, respectively, for the years ended August 31, 2006, 2005, and 2004.

**THE UNIVERSITY OF TEXAS SYSTEM  
GENERAL ENDOWMENT FUND**

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The net increase in fiduciary net assets totaled \$501.0 million for the fiscal year ended August 31, 2006 compared to a net increase in fiduciary net assets totaling \$719.2 million for the fiscal year ended August 31, 2005.

The following summarizes the Statements of Changes in Fiduciary Net Assets (in millions):

	<b>2006</b>	<b>2005</b>	<b>2004</b>
Investment Income	\$ 593.3	\$ 814.2	\$ 560.2
Less Investment Expenses	(38.2)	(23.1)	(10.7)
Net Investment Income	<u>555.1</u>	<u>791.1</u>	<u>549.5</u>
Participant Contributions	273.9	139.2	308.9
Total Additions	<u>829.0</u>	<u>930.3</u>	<u>858.4</u>
Participant Withdrawals	328.0	211.1	235.6
Total Deductions	<u>328.0</u>	<u>211.1</u>	<u>235.6</u>
Change in Fiduciary Net Assets	501.0	719.2	622.8
Net Assets Held in Trust, Beginning of Period	4,926.8	4,207.6	3,584.8
Net Assets Held in Trust, End of Period	<u>\$ 5,427.8</u>	<u>\$ 4,926.8</u>	<u>\$ 4,207.6</u>

**Contacting UTIMCO**

The above financial highlights are designed to provide a general overview of the Fund's investment results and insight into the following financial statements. Additional information may be found on our website and inquiries may be directed to UTIMCO via [www.utimco.org](http://www.utimco.org).

**THE UNIVERSITY OF TEXAS SYSTEM  
GENERAL ENDOWMENT FUND**

**Statements of Fiduciary Net Assets**

August 31, 2006 and 2005

(Dollars in thousands, except per unit amounts)

<b>Assets</b>	<b>2006</b>	<b>2005</b>
Investments		
Equity Securities	\$ 806,951	\$ 963,605
Preferred Stock	2,771	2,808
Purchased Options	25,853	10,867
Debt Securities	1,070,164	880,521
Convertible Securities	16	4,022
Investment Funds	3,126,170	2,619,756
Cash and Cash Equivalents	528,367	521,304
Total Investments	<u>5,560,292</u>	<u>5,002,883</u>
Collateral for Securities Loaned, at Fair Value	471,382	494,069
Deposit with Brokers for Derivative Contracts	56,937	30,429
Deposit with Brokers for Securities Sold Short	4,030	-
Swaps, at Fair Value	2,579	6,477
Unrealized Gains on Foreign Currency Exchange Contracts	6,688	5,591
Receivables		
Investment Securities Sold	70,576	109,587
Accrued Income	13,754	10,099
Other	865	-
Total Receivables	<u>85,195</u>	<u>119,686</u>
<b>Total Assets</b>	<u>6,187,103</u>	<u>5,659,135</u>
<b>Liabilities</b>		
Payable to Participants	2,092	1,547
Payable Upon Return of Securities Loaned	471,382	494,069
Written Options, at Fair Value	41,531	19,152
Swaps, at Fair Value	11,628	7,048
Securities Sold Short, at Fair Value	4,569	-
Unrealized Losses on Foreign Currency Exchange Contracts	9,837	4,525
Payables		
Investment Securities Purchased	210,687	197,646
Other	7,622	8,351
Total Payables	<u>218,309</u>	<u>205,997</u>
<b>Total Liabilities</b>	<u>759,348</u>	<u>732,338</u>
<b>Net Assets Held in Trust</b>	<u>\$ 5,427,755</u>	<u>\$ 4,926,797</u>
<b>Number of Units:</b>		
Permanent Health Fund (PHF)	6,359,817	6,628,710
The University of Texas System Long Term Fund (LTF)	<u>28,623,092</u>	<u>28,652,350</u>
<b>Total</b>	<u>34,982,909</u>	<u>35,281,060</u>
<b>Net Asset Value Held in Trust Per Unit</b>	<u>\$ 155.154</u>	<u>\$ 139.644</u>

The accompanying notes are an integral part of these financial statements.

**THE UNIVERSITY OF TEXAS SYSTEM  
GENERAL ENDOWMENT FUND**

**Statements of Changes in Fiduciary Net Assets**

*Years Ended August 31, 2006 and 2005*

*(in thousands)*

	<u>2006</u>	<u>2005</u>
<b>Additions</b>		
Investment Income		
Net Increase in Investments	\$ 453,778	\$ 689,817
Interest	76,993	54,685
Dividends	28,590	41,765
Income Distributions from Private Market Investment Funds	10,742	14,740
Securities Lending Income	22,253	12,527
Other	961	648
Total Investment Income	<u>593,317</u>	<u>814,182</u>
Less Investment Expenses		
Investment Management	15,398	10,031
Securities Lending Fees	21,035	11,157
Consulting Fees	385	405
Custodial Fees and Expenses	798	884
Legal Fees	243	317
Analytical and Risk Measurement Fees	255	276
Other Expenses	80	54
Total Investment Expenses	<u>38,194</u>	<u>23,124</u>
Net Investment Income	555,123	791,058
Participant Contributions	273,830	139,205
<b>Total Additions</b>	<u>828,953</u>	<u>930,263</u>
<b>Deductions</b>		
Participant Withdrawals	327,995	211,110
<b>Total Deductions</b>	<u>327,995</u>	<u>211,110</u>
<b>Change in Fiduciary Net Assets</b>	500,958	719,153
Net Assets Held in Trust, Beginning of Period	4,926,797	4,207,644
<b>Net Assets Held in Trust, End of Period</b>	<u>\$ 5,427,755</u>	<u>\$ 4,926,797</u>

*The accompanying notes are an integral  
part of these financial statements.*

# THE UNIVERSITY OF TEXAS SYSTEM

## GENERAL ENDOWMENT FUND

### *Notes to Financial Statements*

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#### **Note 1 – Organization and Basis of Presentation**

The University of Texas System General Endowment Fund (Fund), created March 1, 2001, is a pooled fund established for the collective investment of long-term funds under the control and management of the Board of Regents of The University of Texas System (Board of Regents). The Fund is organized as a mutual fund and has two participants, the Permanent Health Fund (PHF) and The University of Texas System Long Term Fund (LTF). The PHF and LTF initially purchased units of the Fund on March 1, 2001, in exchange for the contribution of their investment assets. The Fund provides for greater diversification of investments than would be possible if each account were managed separately.

Fiduciary responsibility for the Fund rests with the Board of Regents. The day-to-day operational responsibilities of the Fund are delegated to The University of Texas Investment Management Company (UTIMCO), pursuant to an Investment Management Services Agreement with the Board of Regents.

The activities of the Fund are accounted for as a fiduciary fund. The financial statements of the Fund use an economic resources management focus and the accrual basis of accounting, whereby revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of cash flows. The Fund is subject to the pronouncements of the Governmental Accounting Standards Board (GASB).

The annual combined financial statements of UT System are prepared in accordance with the Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements and include information related to the Fund. The accompanying financial statements may differ in presentation from the Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements.

#### **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 Fund 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).

Private market investment funds and other equity securities are valued using the equity method of accounting using the partnership's capital account balance at the closest available reporting period (usually June 30), as communicated by the general partner, adjusted for contributions and withdrawals subsequent to the last available reporting period. In the rare case no ascertainable value is available, the private market investment funds are valued at cost.

**THE UNIVERSITY OF TEXAS SYSTEM**  
**GENERAL ENDOWMENT FUND**  
*Notes to Financial Statements (cont.)*

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Securities held by the Fund in index funds and exchange traded 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.

Marketable alternative, U.S. equity, non-U.S. developed equity, emerging market and fixed income investment funds and certain other investment funds are valued using the equity method of accounting based on net asset value information provided by the investment company.

(B) ***Foreign Currency Translation*** -- The accounting records of the Fund are maintained in U.S. dollars. Investments in securities are valued at the daily rates of exchange on the valuation date. Purchases and sales of securities of foreign entities and the related income receipts and expense payments are translated into U.S. dollars at the exchange rate on the dates of the transactions. The Fund does not isolate that portion of the results of the change in fiduciary net assets resulting from changes in foreign exchange rates on investments from fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net increase in investments.

(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. Investment income includes net realized and unrealized currency gains and losses recognized between accrual and payment dates on dividend and interest transactions. Premiums and discounts on bonds are not amortized.

(D) ***Security Transactions*** -- Security transactions are recorded on a trade date basis. Gains and losses on securities sold are determined on the basis of average cost. A loss is recognized if there is an impairment in the value of the security that is determined to be other than temporary.

(E) ***Distributions to Participants*** -- The Fund, for accounting purposes, allocates its net investment income and realized gain or loss to the PHF and LTF monthly, based on their ownership of Fund units at month end. The allocated investment income and realized gain amounts increase the cost basis of the units of the Fund, and any allocated realized losses reduce the cost basis of the units of the Fund. Since the allocation is proportional to the percentage ownership by the PHF and LTF, no additional units are purchased.

(F) ***Fund Valuation*** -- Valuation of the Fund's units occurs on a quarterly basis. Unit values are determined by dividing the value of the Fund's net assets by the number of units outstanding on the valuation date.

(G) ***Purchases and Redemption of Units*** -- The value of participating units, upon admission to the Fund, is based upon the market value of net assets held as of the valuation date. Redemptions from the Fund will also be made at the market value price per unit at the valuation date at the time of the withdrawal. There are no transaction costs incurred by participants for the purchase or redemption of units.

**THE UNIVERSITY OF TEXAS SYSTEM**  
**GENERAL ENDOWMENT FUND**  
*Notes to Financial Statements (cont.)*

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(H) *Participants' Net Assets* -- All participants in the Fund have a proportionate undivided interest in the Fund's net assets.

(I) *Federal Income Taxes* -- The Fund is not subject to federal income tax.

(J) *Use of Estimates* -- The preparation of financial statements 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

(K) *Derivative Applications* -- Derivative securities are financial instruments whose value is derived, in whole or part, from the value of any one or more underlying securities or assets, or index of securities or assets, such as stocks, bonds, commodities, or currencies. The Fund from time to time uses various derivative applications, as allowed under Board of Regent approved investment policy guidelines. These derivative applications are utilized in compliance with a derivative investment policy established by the UTIMCO Board of Directors, and by guidelines established in contracts with external investment managers. Futures contracts are valued at closing market prices on valuation date. Written options and swaps are valued by using independent broker quotes or using models with externally verifiable model inputs. Derivative applications included under these policies and contracts include futures, forwards, swaps and all forms of options. Derivative applications in the Fund are used to achieve the following objectives:

- implement investment strategies in a low cost and efficient manner,
- alter the Fund's market (systematic) exposure without trading the underlying cash market securities,
- construct portfolios with risk and return characteristics that could not be created with cash market securities,
- hedge and control risks so that the Fund's risk/return profile is more closely aligned with the Fund's targeted risk/return profile, and
- facilitate transition trading.

Through the use of derivative applications, the complex risks that are bound together in traditional cash market investments can be separated and managed independently. The primary intent of the Fund's investment in derivative securities is to hedge its risk or to implement investment strategies more effectively and at a lower cost than would be possible in the cash market.

*Options Written* -- When the Fund writes an option, an amount equal to the premium received by the Fund is recorded as a liability and is subsequently adjusted to the current fair value of the option written. Premiums received from writing options that expire unexercised are treated by the Fund on the expiration date as realized gains from investments. The difference between the premium and the amount paid on effecting a closing purchase transaction, including brokerage commissions, is also treated as a realized gain, or, if the premium is less than the amount paid for the closing purchase transaction, as a realized loss. If a call option is exercised, the premium is added to the proceeds from the sale of the underlying security or currency in determining whether the Fund has realized a gain or loss. If a put option is exercised, the premium reduces the cost basis of the securities purchased by the Fund. The Fund as writer of an option bears the market risk of an unfavorable change in the price of the security underlying the written option.

# THE UNIVERSITY OF TEXAS SYSTEM

## GENERAL ENDOWMENT FUND

### *Notes to Financial Statements (cont.)*

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Options are marked to market on a daily basis, and are included as a liability on the statements of fiduciary net assets.

*Swaps* -- Swaps are agreements between two parties to exchange periodic payments on the notional value of the contract multiplied by a stated fixed interest rate versus a stated floating interest rate, or on a commodity sector return versus a specified cost per contract. Swaps are marked to market on a daily basis, and are included at fair value in the statements of fiduciary net assets. Cash flows occur when a swap is opened, when it resets, if or when it is prematurely terminated by both parties to the agreement, and when it reaches maturity. The frequency of the resets is defined by the term sheet of the particular swap agreement, and varies from instrument to instrument.

*Futures Contracts* -- The Fund enters into futures contracts to facilitate various trading strategies, primarily as a tool to increase or decrease market exposure to various asset classes. Upon entering into a futures contract, initial margin deposit requirements are satisfied by the segregation of specific securities as collateral for the account of the broker (the Fund's agent in acquiring the futures position). During the period the futures positions are open, the 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 day's mark to market. The amount that is settled in cash with the broker each morning is the carrying and fair value of the futures contracts, and is included as an other receivable or other payable on the statements of fiduciary net assets. The Fund executes such contracts either on major exchanges or with major international financial institutions and minimizes market and credit risk associated with these contracts through the managers' various trading and credit monitoring techniques.

*Foreign Currency Contracts* -- The Fund enters into forward foreign currency exchange contracts to hedge against foreign currency exchange rate risks on its non-U.S. dollar denominated investment securities and to facilitate trading strategies primarily as a tool to increase or decrease market exposure to various foreign currencies. When entering into a forward foreign currency contract, the Fund agrees 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 Fund's 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 statements of fiduciary net assets. Realized and unrealized gains and losses are included in the statements of changes in fiduciary net assets. These instruments involve market and/or credit risk in excess of the amount recognized in the statements of fiduciary net assets. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movement in currency and securities values and interest rates.

(L) *Securities Sold Short* -- The Fund may sell securities it does not own in anticipation of a decline in the fair value of that security. When the Fund sells a security short, it must borrow the security sold short and deliver it to the broker-dealer through which it made the short sale as collateral for its obligation to deliver the security upon conclusion of the sale. The Deposit with Broker for Securities Sold Short was \$4,030,234 as of August 31, 2006. The market value of securities sold short as of August 31, 2006 was \$4,568,973. The Fund must pay dividends or interest on the securities sold short. Until the Fund covers its short sales, it is exposed to market risk to the extent

# THE UNIVERSITY OF TEXAS SYSTEM

## GENERAL ENDOWMENT FUND

*Notes to Financial Statements (cont.)*

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that subsequent market fluctuations may require purchasing securities sold short at prices which may be significantly higher than the market value reflected in the statement of fiduciary net assets.

(M) **Cash and Cash Equivalents** -- Cash and Cash Equivalents consist of money markets, foreign currencies and other overnight funds. A portion of the Fund's cash and cash equivalents are maintained to support the notional value of futures contracts held (see Note 8). Cash and cash equivalents are an integral part of the Fund's investment activities, and as such are included in the investments balance on the statement of fiduciary net assets.

(N) **Reclassifications** -- Certain items in the 2005 financial statements and related notes have been reclassified to conform with 2006 classification.

### Note 3 – Investment Risk

The investment risk disclosure that follows relates to the Fund's investments before securities lending transactions and the investment of cash collateral. Disclosures relating to securities lending are provided in Note 4.

#### (A) **Credit Risk**

Article VII, Section 11b of the Texas Constitution authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (the "PUF") in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all of the assets of the fund rather than a single investment. Pursuant to Section 51.0031(c) of the Texas Education Code, the Board of Regents has elected the PUF prudent investor standard to govern its management of the Fund.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The Fund's investment policy limits investments in U.S. Domestic bonds and non-dollar denominated bond investments to those that are rated investment grade, Baa3 or better by Moody's Investor Services, BBB- or better, by Standard & Poor's Corporation, or BBB- or better, by Fitch Investors Service at the time of acquisition. This requirement does not apply to investment managers that are authorized by the terms of an investment advisory agreement to invest in below investment grade bonds. Per GASB Statement No. 40 (GASB 40), *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3*, unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. GASB 40 also provides that securities with split ratings, or a different rating assignment between NRSROs, are disclosed using the rating indicative of the greatest degree of risk. The following table presents each applicable investment type grouped by rating as of August 31, 2006 and 2005.

**THE UNIVERSITY OF TEXAS SYSTEM**  
**GENERAL ENDOWMENT FUND**  
*Notes to Financial Statements (cont.)*

Investment Type	August 31,		Rating
	2006	2005	
<b>Investments, at Fair Value:</b>			
U.S. Government Guaranteed	\$ 488,621,082	\$ 410,926,435	Exempt from Disclosure
U.S. Government Non-Guaranteed:			
U.S. Agency	14,753,501	41,600,824	AAA
U.S. Agency	-	3,486,600	A
U.S. Agency Asset Backed	<u>165,335,521</u>	<u>189,909,004</u>	AAA
Total U.S. Government Non-Guaranteed	<u>180,089,022</u>	<u>234,996,428</u>	
Total U.S. Government	<u>668,710,104</u>	<u>645,922,863</u>	
Corporate Obligations:			
Domestic	32,549,255	26,227,562	AAA
Domestic	5,259,513	3,987,292	AA
Domestic	17,274,534	26,568,844	A
Domestic	22,175,891	18,283,032	BAA/BBB
Domestic	-	5,738,898	BBB
Domestic	148,706	4,023,428	BAA
Domestic	3,429,835	5,715,758	BA/BB
Domestic	282,258	2,325,452	BB
Domestic	798,730	237,670	BA
Domestic	5,815,053	2,865,309	B
Domestic	171,688	299,038	CAA
Domestic	-	277,212	CA
Domestic	117,588	-	CCC
Domestic	10,518	1,530,659	Rating Withdrawn
Commercial Paper	101,990,653	30,260,619	P
Commercial Paper	125,635,303	-	A
Foreign	5,162,532	7,389,342	AAA
Foreign	3,361,173	2,161,106	AA
Foreign	8,317,931	5,736,190	A
Foreign	7,068,373	2,533,357	BAA/BBB
Foreign	-	216,227	BBB
Foreign	-	358,133	BAA
Foreign	-	99,225	BA/BB
Foreign	-	28,710	B
Total Corporate Obligations	<u>339,569,534</u>	<u>146,863,063</u>	
Foreign Government and Provincial Obligations	37,106,962	55,025,083	AAA
Foreign Government and Provincial Obligations	11,827,719	11,543,947	AA
Foreign Government and Provincial Obligations	3,640,494	1,563,171	A
Foreign Government and Provincial Obligations	1,918,085	4,528,262	BAA/BBB
Foreign Government and Provincial Obligations	-	211,300	BAA
Foreign Government and Provincial Obligations	1,468,500	3,789,780	BA
Foreign Government and Provincial Obligations	-	<u>573,976</u>	B
Total Foreign Government and Provincial Obligations	<u>55,961,760</u>	<u>77,235,519</u>	
Other Debt Securities	1,598,754	4,205,197	AAA
Other Debt Securities	586,557	1,189,058	AA
Other Debt Securities	-	1,196,629	A
Other Debt Securities	<u>3,737,606</u>	<u>3,908,654</u>	BAA/BBB
Total Other Debt Securities	<u>5,922,917</u>	<u>10,499,538</u>	
Total Debt Securities	<u>\$ 1,070,164,315</u>	<u>\$ 880,520,983</u>	
Other Investment Funds - Debt	\$ 35,725,669	\$ 1,073,218	AAA
Other Investment Funds - Debt	51,724,323	-	AA
Other Investment Funds - Debt	<u>4,388,793</u>	<u>11,808,257</u>	BB
Total Other Investment Funds - Debt	<u>\$ 91,838,785</u>	<u>\$ 12,881,475</u>	
Cash and Cash Equivalents - Money Market Funds	\$ 521,860,064	\$ 510,611,287	AAA
Cash and Cash Equivalents - Other	6,506,854	10,692,712	Exempt from Disclosure
Total Cash and Cash Equivalents	<u>\$ 528,366,918</u>	<u>\$ 521,303,999</u>	
<b>Deposit with Brokers for Derivative Contracts:</b>			
U.S. Government Guaranteed	\$ 44,052,195	\$ 26,536,568	Exempt from Disclosure
Cash	<u>12,884,683</u>	<u>3,892,797</u>	Exempt from Disclosure
	<u>\$ 56,936,878</u>	<u>\$ 30,429,365</u>	
<b>Deposit with Broker for Securities Sold Short:</b>			
Cash	\$ 4,030,234	\$ -	Exempt from Disclosure
	<u>\$ 4,030,234</u>	<u>\$ -</u>	

**THE UNIVERSITY OF TEXAS SYSTEM**  
**GENERAL ENDOWMENT FUND**  
*Notes to Financial Statements (cont.)*

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*(B) Concentrations of Credit Risk*

The Fund's investment policy statement contains the limitation that no more than 5% of the market value of domestic fixed income securities may be invested in corporate or municipal bonds of a single issuer. The Fund does not hold any direct investments in any one issuer that represents five percent or more of total investments.

*(C) Custodial Credit Risk*

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Fund will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Fund will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Texas State Statutes and the Fund's investment policy statements do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. As of August 31, 2006 and 2005, the Fund does not have any investments that are exposed to custodial credit risk.

*(D) Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its value to changes in market interest rates. Interest rate risk inherent in the Fund is measured by monitoring the modified duration of the overall investment portfolio. Modified duration estimates the sensitivity of the Fund's investments to changes in interest rates. The Fund has no specific policy statement limitations with respect to its overall modified duration. The following table summarizes the Fund's modified duration by investment type at August 31, 2006 and 2005.

**THE UNIVERSITY OF TEXAS SYSTEM**  
**GENERAL ENDOWMENT FUND**  
*Notes to Financial Statements (cont.)*

Investment Type	August 31,			
	2006		2005	
	Value	Modified Duration	Value	Modified Duration
<b>Investments in Securities:</b>				
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	\$ 123,394,180	7.28	\$ 113,343,204	6.47
U.S. Treasury Strips	2,924,111	5.00	3,650,520	6.00
U.S. Treasury Bills	4,977,641	0.04	7,027,898	0.15
U.S. Treasury Inflation Protected	355,036,247	7.91	284,511,840	8.03
U.S. Agency Asset Backed	<u>2,288,903</u>	5.88	<u>2,392,973</u>	2.34
Total U.S. Government Guaranteed	<u>488,621,082</u>	7.65	<u>410,926,435</u>	7.42
U.S. Government Non-Guaranteed:				
U.S. Agency	14,753,501	3.05	45,087,424	5.21
U.S. Agency Asset Backed	<u>165,335,521</u>	5.46	<u>189,909,004</u>	3.39
Total U.S. Government Non-Guaranteed	<u>180,089,022</u>	5.26	<u>234,996,428</u>	3.74
Total U.S. Government	<u>668,710,104</u>	7.00	<u>645,922,863</u>	6.08
Corporate Obligations:				
Domestic	88,305,907	4.41	98,080,155	5.06
Commercial Paper	227,353,618	0.07	30,260,618	0.23
Foreign	<u>23,910,009</u>	11.18	<u>18,522,290</u>	6.80
Total Corporate Obligations	<u>339,569,534</u>	1.98	<u>146,863,063</u>	4.28
Foreign Government and Provincial Obligations	<u>55,961,760</u>	6.52	<u>77,235,519</u>	8.69
Other Debt Securities	<u>5,922,917</u>	12.30	<u>10,499,538</u>	11.31
Total Debt Securities	<u>1,070,164,315</u>	5.41	<u>880,520,983</u>	5.90
Other Investment Funds - Debt	<u>91,838,784</u>	3.77	<u>12,881,475</u>	5.97
Cash and Cash Equivalents:				
Money Market Funds	521,860,064	0.08	510,611,287	0.08
Other	<u>6,506,854</u>	-	<u>10,692,712</u>	-
Total Cash and Cash Equivalents	<u>528,366,918</u>	0.08	<u>521,303,999</u>	0.08
Total	<u>\$ 1,690,370,017</u>	3.66	<u>\$ 1,414,706,457</u>	3.76
<b>Deposit with Brokers for Derivative Contracts:</b>				
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	\$ -	-	\$ 110,176	0.41
U.S. Treasury Bills	42,900,178	0.15	25,280,888	0.21
U.S. Treasury Inflation Protected	<u>1,152,017</u>	0.36	<u>1,145,504</u>	1.33
Total U.S. Government Guaranteed	<u>44,052,195</u>	0.16	<u>26,536,568</u>	0.26
Cash	<u>12,884,683</u>	-	<u>3,892,797</u>	-
Total Deposit with Brokers for Derivative Contracts	<u>\$ 56,936,878</u>	0.11	<u>\$ 30,429,365</u>	0.22
<b>Deposit with Broker for Securities Sold Short:</b>				
Cash	<u>\$ 4,030,234</u>	-	<u>\$ -</u>	-

**(E) Investments with Fair Values That Are Highly Sensitive to Interest Rate Changes**

In accordance with the Fund's investment policy statement, the Fund may invest in various mortgage backed securities, such as collateralized mortgage backed obligations. The Fund also may invest in investments that have floating rates with periodic coupon changes in market rates, zero coupon bonds and stripped Treasury and Agency securities created from coupon securities. As of August 31, 2006 and 2005, the Fund's investments include the following investments that are highly sensitive to interest rate changes:

Collateralized mortgage obligations which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will

# THE UNIVERSITY OF TEXAS SYSTEM

## GENERAL ENDOWMENT FUND

### *Notes to Financial Statements (cont.)*

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affect the fair value of these securities. These securities amounted to \$36,102,174 and \$50,062,056 as of August 31, 2006 and 2005, respectively.

Mortgage backed securities which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. These securities amounted to \$152,326,777 and \$97,192,500 as of August 31, 2006 and 2005, respectively.

Asset backed securities which are backed by home equity loans, auto loans, equipment loans and credit card receivables. Prepayments by the obligees of the underlying assets in periods of decreasing interest rates could reduce or eliminate the stream of income that would have been received. These securities amounted to \$13,242,548 and \$11,047,555, as of August 31, 2006 and 2005, respectively.

Step-up notes that grant the issuer the option to call the note on certain specified dates. At each call date, should the issuer not call the note, the coupon rate of the note increases (steps up) by an amount specified at the inception of the note. The call feature embedded within a step-up note causes the fair value of the instrument to be considered highly sensitive to interest rate changes. These securities amounted to \$1,983,815 and \$4,967,598 as of August 31, 2006 and 2005, respectively.

#### *(F) Foreign Currency Risk*

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the Fund's non-U.S. dollar investments. The Fund's investment policy statement limits investments in non-U.S. denominated bonds to 50% of the Fund's total fixed income exposure. The following table summarizes the Fund's exposure to non-U.S. dollar investments at August 31, 2006 and 2005:

**THE UNIVERSITY OF TEXAS SYSTEM**  
**GENERAL ENDOWMENT FUND**  
*Notes to Financial Statements (cont.)*

Investment Type	August 31,	
	2006	2005
<b>Foreign Common Stock:</b>		
Australian Dollar	\$ 8,534,198	\$ 10,124,785
Canadian Dollar	37,669,008	36,684,222
Swiss Franc	5,094,521	7,802,018
Danish Krone	1,870,287	2,446,779
Euro	22,362,906	61,022,142
UK Pound	27,234,609	21,563,653
Hong Kong Dollar	11,269,939	3,920,523
Japanese Yen	122,721,691	104,257,087
South Korean Won	3,365,746	1,609,388
New Zealand Dollars	363,707	-
Norwegian Krone	2,919,601	9,780,475
Swedish Krona	3,551,759	4,338,954
Singapore Dollar	5,736,852	5,665,952
Total Foreign Common Stock	<u>252,694,824</u>	<u>269,215,978</u>
<b>Other - Equity Securities</b>		
Canadian Dollar	26	-
<b>Foreign Government and Provincial Obligations:</b>		
Australian Dollar	-	445,031
Canadian Dollar	127,064	432,652
Danish Krone	499,411	508,675
Euro	44,776,200	57,153,201
Japanese Yen	2,199,641	-
New Zealand Dollar	336,342	810,244
Polish Zloty	1,822,456	1,563,171
UK Pound	-	5,420,008
Total Foreign Government and Provincial Obligations	<u>49,761,114</u>	<u>66,332,982</u>
<b>Corporate Obligations:</b>		
Euro	10,959,086	7,644,464
UK Pound	766,612	752,506
Japanese Yen	1,716,000	-
Total Corporate Obligations	<u>13,441,698</u>	<u>8,396,970</u>
<b>Purchased Options:</b>		
Canadian Dollar	36,275	676,961
Euro	511,229	36,207
UK Pound	77,456	-
Japanese Yen	1,686,811	-
Total Purchased Options	<u>2,311,771</u>	<u>713,168</u>
<b>Private Market Investment Funds:</b>		
Euro	57,393,661	49,292,741
UK Pound	2,729,729	4,367,073
Total Private Market Investment Funds	<u>60,123,390</u>	<u>53,659,814</u>
<b>Cash and Cash Equivalents:</b>		
Australian Dollar	90,778	63,237
Canadian Dollar	689,056	3,422,722
Swiss Franc	48,778	43,231
Danish Krone	17,437	23,105
Euro	1,031,350	1,425,974
UK Pound	507,356	(36,249)
Hong Kong Dollar	119,521	11,058
Japanese Yen	5,241,463	12,035,227
Mexican New Peso	-	-
Norwegian Krone	40,489	5,225
New Zealand Dollar	280,192	8,229
Polish Zloty	202,922	89,959
Swedish Krona	135,494	4,885
Singapore Dollar	111,956	29,906
New Taiwan Dollar	331	332
Total Cash and Cash Equivalents	<u>8,517,123</u>	<u>17,126,841</u>
Total	<u>\$ 386,849,946</u>	<u>\$ 415,445,753</u>

**THE UNIVERSITY OF TEXAS SYSTEM**  
**GENERAL ENDOWMENT FUND**  
*Notes to Financial Statements (cont.)*

**Note 4 – Securities Lending**

In accordance with the prudent investor investment standards, the Fund loans securities to certain brokers who pay the Fund negotiated lenders' fees. These fees are included in investment income and related expenses are included in investment expenses. The Fund receives qualified securities and/or cash as collateral against the loaned securities. The collateral, when received, will have a market value of 102% of loaned securities of U.S. issuers and a market value of 105% for loaned securities of non-U.S. issuers. If the market value of the collateral held in connection with loans of securities of U.S. issuers is less than 100% at the close of trading on any business day, the borrower is required to deliver additional collateral by the close of the next business day to equal 102% of the market value. For non-U.S. issuers, the collateral should remain at 105% of the market value of the loaned securities at the close of any business day. If it falls below 105%, the borrower must deliver additional collateral by the close of the following business day. The value of securities loaned and the value of collateral held are as follows at August 31, 2006 and 2005:

<b>Securities on Loan</b>	<b>2006 Value</b>	<b>2005 Value</b>	<b>Type of Collateral</b>	<b>2006 Value of Collateral</b>	<b>2005 Value of Collateral</b>
U.S. Government	\$337,257,794	\$365,710,122	Cash	\$343,142,005	\$369,426,991
Foreign Government	12,120,643	18,437,869	Cash	12,724,861	19,305,472
Corporate Bonds	4,778,573	4,949,974	Cash	4,898,370	5,084,750
Common Stock	106,120,368	96,373,309	Cash	110,616,706	100,251,659
<b>Total</b>	<b>\$460,277,378</b>	<b>\$485,471,274</b>	<b>Total</b>	<b>\$471,381,942</b>	<b>\$494,068,872</b>
U.S. Government	\$ 22,439,309	\$ 7,564,102	Non-Cash	\$ 22,923,741	\$ 7,824,389
Common Stock	757,036	736,292	Non-Cash	772,367	761,628
<b>Total</b>	<b>\$ 23,196,345</b>	<b>\$ 8,300,394</b>	<b>Total</b>	<b>\$ 23,696,108</b>	<b>\$ 8,586,017</b>

Cash received as collateral for securities lending activities is invested and reinvested in a commingled pool managed exclusively for the benefit of the Fund, the Permanent University Fund, the Intermediate Term Fund and other Board of Regent accounts that participate in securities lending activities. The pool is managed in accordance with investment guidelines established in the securities lending contract between the Fund and its securities lending agent. The maturities of the investments in the pool do not necessarily match the term of the loans, rather the pool is managed to maintain a maximum dollar weighted average maturity of 60 days and an overnight liquidity of 20 percent. Lending income is earned if the returns on those investments exceed the rebate paid to borrowers of the securities. The income remaining after the borrower rebates is then shared with the lending agent on a contractually negotiated split. If the investment of the cash collateral does not provide a return exceeding the rebate or if the investment incurs a loss of principal, the payment of the shortfall to the borrower would come from the Fund and the securities lending agent in the same proportion as the split of income.

The Fund's pro-rata share of collateral pool investments, rating by NRSRO, and weighted average maturity as of August 31, 2006 and 2005, is shown in the following table.

**THE UNIVERSITY OF TEXAS SYSTEM**  
**GENERAL ENDOWMENT FUND**  
*Notes to Financial Statements (cont.)*

Description	August 31,					
	2006			2005		
	Fair Value	Rating	Weighted Average Maturity In Days	Fair Value	Rating	Weighted Average Maturity In Days
		No Rating			No Rating	
Repurchase Agreements	\$ 171,613,892	Available	14	\$ 232,820,580	Available	1
Commercial Paper	204,992,614	P	26	200,108,779	P	36
Floating Rate Notes	26,903,120	AAA		4,522,477	AAA	
Floating Rate Notes	<u>19,323,207</u>	AA		<u>50,608,154</u>	AA	
Total Floating Rate Notes	<u>46,226,327</u>		69	<u>55,130,631</u>		37
Certificates of Deposit	58,979,172	P	67	7,441,140	P	50
Asset Backed Securities	845,390	AAA	11	282,026	AAA	168
Other Receivables/Payables	<u>(11,275,453)</u>	Not Rated	-	<u>(1,714,284)</u>	Not Rated	-
Total Collateral Pool Investment	<u>\$ 471,381,942</u>		31	<u>\$ 494,068,872</u>		20

Collateral pool investments are uninsured, and are held by the securities lending agent, in its name, on behalf of the Fund, except for the investments in repurchase agreements which are held in the securities lending agent's name by a third party custodian not affiliated with the Fund or the borrower of the associated loaned securities. Therefore, the collateral pool is not exposed to custodial credit risk because the pool investments are not held by counterparties to the lending transactions or a counterparties trust department or agent.

Cash collateral is recorded as an asset with an equal and offsetting liability to return the collateral on the statements of fiduciary net assets. Investments received as collateral for securities lending activities are not recorded as assets because the investments remain under the control of the transferor, except in the event of default.

In the event of default, where the borrower is unable to return the securities loaned, the Fund has authorized the securities lending agent to seize the collateral held. The collateral is then used to replace the borrowed securities where possible. Due to some market conditions, it is possible that the original securities cannot be replaced. If the collateral is insufficient to replace the securities, the securities lending agent has indemnified the Fund from any loss due to borrower default.

As of August 31, 2006 and 2005, the Fund had no credit risk exposure to borrowers because the amounts the Fund owed to borrowers exceeded the amounts the borrowers owed the Fund.

There were no significant violations of legal or contractual provisions, no borrower or securities lending agent default losses, and no recoveries of prior period losses during the years ended August 31, 2006 and 2005.

**Note 5 – Investment Funds**

Investment funds include exchange traded funds, index funds, SEC regulated mutual funds and externally managed funds, limited partnerships, and corporate structures which are generally unrated and may be unregulated. The composition of investment funds at August 31, 2006 and 2005 is summarized in the table below as they are classified within the asset mix of the Fund.

**THE UNIVERSITY OF TEXAS SYSTEM**  
**GENERAL ENDOWMENT FUND**  
*Notes to Financial Statements (cont.)*

	August 31,	
	2006	2005
Marketable Alternatives:		
Absolute Return Strategies	\$957,363,306	\$767,923,000
Directional Equity	455,192,610	428,609,676
Total Marketable Alternatives	<u>1,412,555,916</u>	<u>1,196,532,676</u>
Private Markets	586,501,102	493,180,684
Public Markets:		
U.S. Equity:		
Private Placements	373,228,158	208,036,046
Exchange Traded Funds	187,232,146	91,403,952
Index Funds	-	243,388,656
Total U.S. Equity	<u>560,460,304</u>	<u>542,828,654</u>
Non-U.S. Developed Equity:		
Private Placements	175,306,690	25,979,312
Exchange Traded Funds	-	10,485,739
Index Funds	-	187,152,260
Total Non-U.S. Developed Equity	<u>175,306,690</u>	<u>223,617,311</u>
Emerging Markets:		
Private Placements	197,565,210	23,264,465
Exchange Traded Funds	11,312,673	27,803,275
Publicly Traded Mutual Funds	90,629,502	69,955,152
Index Funds	-	29,692,702
Total Emerging Markets	<u>299,507,385</u>	<u>150,715,594</u>
Fixed Income:		
Private Placements	86,282,693	-
Publicly Traded Mutual Funds	5,556,091	12,881,475
Total Fixed Income	<u>91,838,784</u>	<u>12,881,475</u>
Total Investment Funds	<u>\$3,126,170,181</u>	<u>\$2,619,756,394</u>

Marketable alternatives funds are invested in private placements with external investment managers who invest in equity and fixed income securities of both domestic and international issuers. These investment managers may invest in both long and short securities and may utilize leverage in their portfolios. The funds invested may be subject to a lock-up restriction of one or more years before the investment may be withdrawn from the manager without significant penalty. There are certain risks associated with these private placements, some of which include investment manager risk, market risk, and liquidity risk, as well as the risk of utilizing leverage in the portfolios.

Private markets funds are invested in limited partnerships with external investment managers or general partners who invest primarily in private equity securities. These investments are domestic and international, are illiquid and may not be realized for a period of several years after the investments are made. There are certain risks associated with these investments, some of which are liquidity risk, market risk, event risk, and investment manager risk. The Fund has committed \$537,430,747 of future funding to various private market investments as of August 31, 2006.

Public market funds are invested in exchange traded funds, index funds, and private placements with external investment managers who invest in equity and fixed income securities of both domestic and international issuers. These funds are characterized as public market funds based on individual risk/return characteristics and their relationship to the overall asset mix of the Fund. Some of these investment managers may invest in both long and short securities and may utilize modest leverage in their portfolios. There are certain risks associated with these investments, some of which are

**THE UNIVERSITY OF TEXAS SYSTEM**  
**GENERAL ENDOWMENT FUND**  
*Notes to Financial Statements (cont.)*

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investment manager risk, market risk, and liquidity risk, as well as the risk of utilizing leverage in the portfolios.

Marketable alternative, private market, and public market funds include investments in private placement vehicles that are subject to risk which could result in the loss of invested capital. The risks include the following:

- *Non-regulation risk* -- Some of these funds are not registered with the Securities Exchange Commission, and therefore are not subject to regulatory controls.
- *Key personnel risk* -- The success of certain funds is substantially dependent on key investment managers and the loss of those individuals may adversely impact the fund's performance.
- *Liquidity risk* -- Many of the Fund's investment funds may impose lockup periods which would cause the Fund to incur penalties to redeem its units or prevent the Fund from redeeming its shares until a certain period of time has elapsed.
- *Limited transparency* -- As private placement investment vehicles, these funds may not disclose the holdings of their portfolios.
- *Investment strategy risk* -- These funds often employ sophisticated investment strategies and may use leverage which could result in the loss of invested capital.

**Note 6 – Written Options**

During the year, the Fund wrote call options on Treasury note, commodity, and domestic and international equity index and exchange traded fund futures. Transactions in call options written during the year ended August 31, 2006 were as follows:

	<u>Contracts</u>	<u>Premiums Received</u>
Call Options Outstanding at August 31, 2005	793,182	\$ 2,707,781
Options Written	1,163,673	4,347,219
Options Expired	(256,526)	(2,954,187)
Options Exercised	(980)	(164,148)
Options terminated in closing purchase transactions	<u>(11,976)</u>	<u>(399,534)</u>
Call Options Outstanding at August 31, 2006	<u>1,687,373</u>	<u>\$ 3,537,131</u>

As of August 31, 2006, an amount of \$26,232,821 is included on the statement of fiduciary net assets as options written, at fair value. The Fund recognized losses of \$26,016,771 on call options written for the year ended August 31, 2006.

During the year ended August 31, 2005, the Fund wrote call options on Treasury note, commodity, and domestic and international equity index and exchange traded fund futures. Transactions in call options written during the year ended August 31, 2005, were as follows:

**THE UNIVERSITY OF TEXAS SYSTEM**  
**GENERAL ENDOWMENT FUND**  
*Notes to Financial Statements (cont.)*

	<u>Contracts</u>	<u>Premiums Received</u>
Call Options Outstanding at August 31, 2004	75	\$ 40,735
Options Written	794,139	3,040,599
Options Expired	(957)	(332,818)
Options Exercised	(75)	(40,735)
Call Options Outstanding at August 31, 2005	<u>793,182</u>	<u>\$ 2,707,781</u>

As of August 31, 2005 an amount of \$16,824,170 is included on the statement of fiduciary net assets as written options at fair value. The Fund recognized losses in the amount of \$13,784,662 on call options written for the year ended August 31, 2005.

During the year ended August 31, 2006, the Fund wrote put options on Treasury note, commodity, and domestic and international equity index and exchange traded fund futures. Transactions in put options written during the year ended August 31, 2006, were as follows:

	<u>Contracts</u>	<u>Premiums Received</u>
Put Options Outstanding at August 31, 2005	662,365	\$ 185,726
Options Written	1,306,304	5,566,095
Options Expired	(145,241)	(633,568)
Options Exercised	(127,931)	(311,587)
Options terminated in closing purchase transactions	(84,712)	(2,767,402)
Put Options Outstanding at August 31, 2006	<u>1,610,785</u>	<u>\$ 2,039,264</u>

As of August 31, 2006, an amount of \$15,297,808 is included on the statement of fiduciary net assets as written options at fair value. The Fund recognized gains in the amount of \$13,868,529 on put options written for the year ended August 31, 2006.

The Fund also wrote put options on Treasury note and domestic and international equity index futures during the year ended August 31, 2005. Transactions in put options written during the year ended August 31, 2005, were as follows:

	<u>Contracts</u>	<u>Premiums Received</u>
Put Options Outstanding at August 31, 2004	-	\$ -
Options Written	752,351	845,288
Options Expired	(89,596)	(547,632)
Options Exercised	(390)	(111,930)
Put Options Outstanding at August 31, 2005	<u>662,365</u>	<u>\$ 185,726</u>

As of August 31, 2005, an amount of \$2,327,984 is included on the statement of fiduciary net assets as written options at fair value. The Fund recognized gains in the amount of \$1,595,143 on put options written for the year ended August 31, 2005.

**Note 7 – Swaps**

During the fiscal year ended August 31, 2006, the Fund entered into interest rate, credit default and commodity swap contracts. The following discloses the notional amount, the coupon rate, and the fair values of the outstanding swap contracts as of August 31, 2006:

**THE UNIVERSITY OF TEXAS SYSTEM**  
**GENERAL ENDOWMENT FUND**  
*Notes to Financial Statements (cont.)*

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2006	
				Assets	Liabilities
<b>Interest Rate</b>					
<b>Australian Dollar</b>					
	6.000%	\$ 1,000,000	6/20/2009	\$ -	\$ 3,451
	6.000%	18,700,000	6/15/2010	-	117,590
	6.000%	10,700,000	6/15/2015	93,426	-
<b>UK Pound</b>					
	4.250%	2,800,000	6/12/2036	191,708	-
	4.500%	10,300,000	9/15/2017	22,521	-
	5.000%	-	9/7/2006	-	5,706
	5.000%	-	9/8/2006	-	31,956
	5.000%	1,500,000	6/15/2008	-	5,842
	5.000%	27,600,000	9/15/2010	-	236,383
	5.000%	1,300,000	9/15/2015	-	10,039
	5.000%	500,000	6/18/2034	72,207	-
<b>Canadian Dollar</b>					
	5.000%	700,000	6/15/2015	24,836	-
	5.500%	-	8/24/2006	-	61,683
<b>Euro</b>					
	2.103%	2,000,000	10/15/2010	2,782	-
	2.146%	400,000	10/15/2010	1,868	-
	4.000%	2,390,000	6/17/2010	-	31,103
	4.000%	10,050,000	6/16/2014	-	98,703
	4.500%	7,600,000	6/17/2015	-	415,551
	5.000%	1,100,000	6/16/2014	106,927	-
	5.000%	300,000	6/17/2015	30,862	-
	6.000%	1,200,000	3/15/2032	156,376	-
	6.000%	1,500,000	6/18/2034	275,841	-
<b>Japanese Yen</b>					
	0.800%	400,000,000	3/30/2012	86,859	-
	1.000%	-	9/18/2008	4,081	-
	2.000%	-	9/4/2006	-	98,489
	2.000%	1,000,000,000	6/20/2010	-	104,070
	2.000%	270,000,000	6/15/2012	-	89,814
	2.000%	875,000,000	12/20/2013	-	594,356
	2.000%	4,110,000,000	12/15/2015	-	568,758
	2.500%	830,000,000	12/15/2035	-	82,882
	5.000%	2,000,000,000	3/18/2008	38,067	-
<b>South Korean Won</b>					
	4.765%	1,050,700,000	2/3/2009	4,644	-
	4.800%	2,508,300,000	2/1/2009	13,252	-
	4.965%	525,400,000	2/3/2011	7,288	-
	4.990%	650,500,000	2/1/2011	9,721	-
	5.000%	543,300,000	2/1/2011	8,349	-
<b>U.S. Dollar</b>					
	4.000%	5,300,000	12/15/2008	-	149,941
	5.000%	29,600,000	12/15/2007	-	72,447
	5.000%	5,400,000	12/20/2008	-	13,891
	5.000%	30,000,000	6/18/2009	-	4,794
	5.000%	5,700,000	12/20/2011	41,254	-
	5.000%	18,700,000	12/20/2013	235,743	-
	5.000%	25,400,000	12/20/2016	550,898	-
	5.000%	200,000	12/20/2026	9,616	-
	5.000%	3,700,000	12/20/2036	-	219,080
	5.500%	2,200,000	12/16/2014	13,286	-
				<u>2,002,412</u>	<u>3,016,529</u>

**THE UNIVERSITY OF TEXAS SYSTEM**  
**GENERAL ENDOWMENT FUND**  
*Notes to Financial Statements (cont.)*

<u>Currency</u>	<u>Coupon</u>	<u>Notional Value</u>	<u>Maturity Date</u>	<u>Fair Value at August 31, 2006</u>	
				<u>Assets</u>	<u>Liabilities</u>
<b>Commodity</b>					
<b>U.S. Dollar</b>					
	TBILL + 23 Basis Points	\$ 12,770,000	9/26/2006	\$ -	\$ 764,382
	TBILL + 27 Basis Points	31,710,000	9/26/2006	-	1,899,084
				<u>-</u>	<u>2,663,466</u>
<b>Credit Default</b>					
<b>U.S. Dollar</b>					
	0.410%	500,000	6/20/2007	<u>965</u>	<u>-</u>
				<u>965</u>	<u>-</u>
<b>Structured</b>					
<b>U.S. Dollar</b>					
	Emerging	14,000,000	4/7/2007	-	315,099
	Emerging	17,500,000	4/13/2007	-	301,977
	Emerging	14,000,000	4/20/2007	-	175,599
	Emerging	17,500,000	4/27/2007	-	177,459
	Emerging	17,500,000	5/4/2007	-	339,780
	Emerging	8,750,000	5/11/2007	-	204,488
	Emerging	26,250,000	5/18/2007	-	560,775
	Emerging	15,750,000	5/25/2007	-	968,733
	Emerging	26,250,000	6/4/2007	-	2,126,401
	TOPIX	14,000,000	5/4/2007	-	768,238
	TOPIX	11,550,000	4/7/2007	44,799	-
	TOPIX	8,750,000	4/8/2007	172,083	-
	TOPIX	17,500,000	4/9/2007	358,902	-
	TOPIX	4,200,000	4/15/2007	-	9,635
				<u>575,784</u>	<u>5,948,184</u>
				<u>\$ 2,579,161</u>	<u>\$ 11,628,179</u>
<b>Total</b>					

The following discloses the notional amount, the coupon rate, and the fair values of the outstanding swap contracts as of August 31, 2005:

<u>Currency</u>	<u>Coupon</u>	<u>Notional Value</u>	<u>Maturity Date</u>	<u>Fair Value at August 31, 2005</u>	
				<u>Assets</u>	<u>Liabilities</u>
<b>Interest Rate</b>					
<b>Australian</b>					
	6.000%	\$ 4,800,000	6/15/2015	\$ -	\$ 131,074
	6.000%	8,400,000	8/15/2010	142,210	-
	6.000%	5,900,000	6/15/2015	-	160,492
	6.000%	10,300,000	6/15/2015	174,376	-
<b>UK Pound</b>					
	5.000%	900,000	6/18/2034	92,067	-
	5.000%	500,000	6/15/2008	10,391	-
	5.000%	1,000,000	6/15/2008	20,782	-
	5.000%	2,000,000	9/15/2010	94,387	-
	5.000%	5,400,000	9/15/2010	254,846	-
	5.000%	200,000	9/15/2015	-	15,545
	5.000%	1,300,000	9/15/2015	-	101,044
	5.000%	10,100,000	9/15/2010	476,657	-
	5.000%	100,000	9/15/2015	-	7,773
	5.000%	200,000	9/15/2010	9,439	-
	5.000%	4,300,000	9/15/2010	202,933	-
	5.000%	1,000,000	6/18/2034	-	103,077
<b>Canadian</b>					
	5.500%	2,100,000	12/16/2014	-	68,777
	6.000%	700,000	12/16/2019	15,380	-
	5.500%	2,000,000	12/16/2014	-	65,298
	4.500%	300,000	6/15/2025	-	188

**THE UNIVERSITY OF TEXAS SYSTEM**  
**GENERAL ENDOWMENT FUND**  
*Notes to Financial Statements (cont.)*

				<u>Fair Value at August 31, 2005</u>	
<u>Currency</u>	<u>Coupon</u>	<u>Notional Value</u>	<u>Maturity Date</u>	<u>Assets</u>	<u>Liabilities</u>
<b>Interest Rate</b>					
<b>Euro</b>					
	6.000%	\$ 3,600,000	3/15/2032	\$ 594,854	\$ -
	4.000%	800,000	6/17/2010	58,474	-
	4.000%	1,600,000	6/17/2010	116,966	-
	5.000%	1,100,000	6/16/2014	199,438	-
	4.000%	3,190,000	6/17/2010	-	233,164
	5.000%	300,000	6/17/2015	56,528	-
	4.000%	19,550,000	6/16/2014	-	1,694,416
	4.500%	400,000	6/17/2015	-	54,647
	4.500%	800,000	6/17/2015	-	109,294
	4.500%	700,000	6/17/2015	-	95,632
	4.500%	5,700,000	6/17/2015	-	778,716
	4.000%	2,100,000	12/15/2014	-	167,138
	4.000%	200,000	12/15/2014	-	15,918
<b>Japanese Yen</b>					
	0.800%	400,000,000	3/30/2012	24,626	-
	2.000%	545,000,000	12/20/2013	-	323,317
	2.000%	270,000,000	6/15/2012	-	170,101
	1.000%	400,000,000	3/20/2009	25,476	-
<b>U.S. Dollar</b>					
	3.000%	35,700,000	6/15/2006	-	289,378
	3.000%	5,000,000	6/15/2006	-	40,529
	5.500%	1,000,000	12/16/2014	33,214	-
	5.500%	2,300,000	12/16/2014	76,393	-
	5.000%	19,600,000	12/15/2015	-	809,072
	5.000%	7,600,000	12/15/2015	-	313,722
	5.000%	2,400,000	12/15/2015	-	99,070
	5.000%	4,300,000	12/15/2015	-	177,500
	5.000%	5,200,000	12/15/2015	-	214,652
	5.000%	700,000	12/15/2015	-	28,895
	5.000%	2,500,000	12/15/2015	-	103,198
	5.000%	1,400,000	12/15/2015	-	57,791
	5.000%	300,000	12/15/2015	-	12,384
	6.000%	200,000	12/15/2025	-	8,328
	4.000%	1,200,000	12/15/2010	17,088	-
	4.000%	1,500,000	12/15/2010	21,360	-
	4.000%	11,500,000	12/15/2010	163,763	-
	4.000%	1,600,000	12/15/2010	22,784	-
	4.000%	12,400,000	12/15/2010	162,178	-
	4.000%	2,500,000	12/15/2007	12,114	-
	4.000%	200,000	12/15/2007	-	969
	4.000%	100,000	12/15/2007	-	485
	5.000%	16,100,000	12/15/2012	-	581,863
	5.000%	400,000	12/15/2012	-	14,456
	4.000%	20,300,000	12/15/2007	98,365	-
	4.000%	3,900,000	12/15/2010	55,537	-
				3,232,626	7,047,903
<b>Credit Default</b>					
<b>U.S. Dollar</b>					
	3.500%	1,000,000	6/20/2006	16,268	-
<b>Commodity</b>					
<b>U.S. Dollar</b>					
	TBill + 36.5 Basis Points	24,990,395	9/23/2005	944,637	-
	TBill + 45 Basis Points	60,400,000	9/23/2005	2,283,120	-
				3,227,757	-
<b>Total</b>				\$ 6,476,651	\$ 7,047,903

**THE UNIVERSITY OF TEXAS SYSTEM**  
**GENERAL ENDOWMENT FUND**  
*Notes to Financial Statements (cont.)*

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**Note 8 – Futures Contracts**

During the years ended August 31, 2006 and 2005, the asset classes that used futures include domestic and foreign equities, domestic and foreign debt, and commodities. The Fund had \$44,736,566 and \$30,429,365 on deposit with a broker for collateral as margin for the futures contracts as of August 31, 2006 and 2005, respectively. Short futures were used by internal managers and may be used by a limited number of external managers of the Fund to hedge the Fund's interest rate or country risk associated with security positions. The amount of net realized losses on the futures contracts was \$5,835,002 for the year ended August 31, 2006. The amount of net realized gains on the futures contracts was \$47,597,850 for the year ended August 31, 2005.

The following discloses the name, number of contracts, notional value, and the carrying and fair values at August 31, 2006 for futures contracts:

**THE UNIVERSITY OF TEXAS SYSTEM**  
**GENERAL ENDOWMENT FUND**  
*Notes to Financial Statements (cont.)*

Contract	Number of Contracts	Expiration	Notional Value at August 31, 2006		Carrying and Fair Value at August 31, 2006	
			Long	Short	Assets	Liabilities
<b>Domestic Fixed Income</b>						
U.S. 5 Year Treasury Notes	179	Dec-06	\$ 18,814,578	\$ -	\$ 27,969	\$ -
U.S. 10 Year Treasury Notes	126	Sep-06	-	13,535,156	-	37,407
U.S. 10 Year Treasury Notes	287	Dec-06	30,816,625	-	36,878	-
U.S. Treasury Bond	74	Sep-06	8,190,875	-	27,750	-
U.S. Treasury Bond	45	Sep-06	-	4,980,938	-	16,875
			<u>57,822,078</u>	<u>18,516,094</u>	<u>92,597</u>	<u>54,282</u>
<b>Domestic Equity</b>						
Dow Jones Index	240	Sep-06	27,338,400	-	2,400	-
Russell 2000 Index Mini	7,751	Sep-06	-	559,389,670	347,802	-
Russell 2000 Index Mini	1,140	Dec-06	-	82,957,800	-	-
S&P 500 Index	2,501	Sep-06	<u>816,326,400</u>	<u>-</u>	<u>332,799</u>	<u>-</u>
			<u>843,664,800</u>	<u>642,347,470</u>	<u>683,001</u>	<u>-</u>
<b>Commodities</b>						
Goldman Sachs Commodities	1,462	Sep-06	<u>170,323,000</u>	<u>-</u>	<u>657,900</u>	<u>-</u>
<b>Foreign Fixed Income</b>						
90 Day Euro Dollar	157	Sep-06	37,132,462	-	4,906	-
90 Day Euro Dollar	56	Dec-06	13,251,700	-	4,900	-
90 Day Euro Dollar	162	Mar-07	38,387,925	-	18,225	-
90 Day Euro Dollar	13	Jun-07	3,085,063	-	1,463	-
90 Day Euro Dollar	43	Sep-07	10,217,338	-	5,375	-
90 Day Euro Dollar	23	Dec-07	5,468,825	-	2,875	-
90 Day Euro Dollar	12	Mar-08	2,853,750	-	1,500	-
90 Day Euro Dollar	20	Sep-08	4,754,000	-	2,000	-
90 Day Euro Dollar	20	Dec-08	4,752,000	-	2,000	-
90 Day Euro Dollar	20	Mar-09	4,750,250	-	1,750	-
90 Day Euro Dollar	20	Jun-09	4,748,250	-	1,500	-
Japan 10 Year Bond	17	Sep-06	19,564,824	-	138,354	-
Japan 10 Year Bond	26	Dec-06	29,836,222	-	135,437	-
UK Long Gilt	3	Dec-06	-	628,679	-	2,531
Euro-Bund	63	Sep-06	9,537,665	-	21,851	-
Euro-Bund	9	Dec-06	<u>1,354,690</u>	<u>-</u>	<u>32,731</u>	<u>-</u>
			<u>189,694,964</u>	<u>628,679</u>	<u>374,867</u>	<u>2,531</u>
<b>Foreign Equity</b>						
Amsterdam Index	4	Sep-06	480,685	-	-	-
CAC 40 Index	17	Sep-06	1,124,383	-	-	-
DAX Index	3	Sep-06	562,678	-	-	-
DJ Euro Stoxx 50	811	Sep-06	39,552,393	-	-	183,784
FTSE 100 Index	812	Sep-06	91,182,261	-	-	689,575
FTSE/JSE Top 40	75	Sep-06	2,092,406	-	-	62,872
Hang Seng Index	2	Sep-06	223,461	-	-	23
IBEX 35 Index	3	Sep-06	466,924	-	-	-
MSCI Singapore Index	147	Sep-06	5,548,722	-	26,430	-
MSCI Taiwan Index	121	Sep-06	3,329,920	-	27,830	-
OMX Index	26	Sep-06	356,763	-	-	-
S&P/MIB Index	2	Sep-06	486,713	-	-	-
SPI 200 Index	6	Sep-06	584,650	-	-	-
Topix Index	16	Sep-06	<u>2,229,782</u>	<u>-</u>	<u>-</u>	<u>5,161</u>
			<u>148,221,741</u>	<u>-</u>	<u>54,260</u>	<u>941,415</u>
<b>Total</b>			<u>\$ 1,409,726,583</u>	<u>\$ 661,492,243</u>	<u>\$ 1,862,625</u>	<u>\$ 998,228</u>

**THE UNIVERSITY OF TEXAS SYSTEM**  
**GENERAL ENDOWMENT FUND**  
*Notes to Financial Statements (cont.)*

The following discloses the name, number of contracts, notional value, and the carrying and fair values at August 31, 2005 for futures contracts:

Contract	Number of Contracts	Expiration	Notional Value at August 31, 2005		Carrying and Fair Value at August 31, 2005		
			Long	Short	Assets	Liabilities	
<b>Domestic Fixed Income</b>							
U.S. 5 Year Treasury Notes	314	Dec-05	\$ 34,029,750	\$ -	\$ 97,187	\$ -	
U.S. 10 Year Treasury Notes	33	Sep-05	-	3,726,422	3,609	-	
U.S. 10 Year Treasury Notes	87	Dec-05	-	9,750,797	-	43,500	
U.S. Treasury Bond	78	Sep-05	9,233,250	-	53,625	-	
U.S. Treasury Bond	7	Dec-05	826,219	-	4,813	-	
			<u>44,089,219</u>	<u>13,477,219</u>	<u>159,234</u>	<u>43,500</u>	
<b>Domestic Equity</b>							
Dow Jones Index	116	Sep-05	12,182,320	-	100,920	-	
Russell 2000 Index Mini	4,178	Sep-05	-	278,756,160	-	5,556,740	
S&P 500 Index	676	Sep-05	206,416,600	-	2,162,558	-	
S&P 500 Index	660	Dec-05	202,587,000	-	2,112,695	-	
S&P 500 Emini	16	Sep-05	-	977,200	-	-	
S&P Midcap 400 Index Mini	30	Sep-05	2,140,500	-	36,300	-	
S&P Midcap 400 Index Mini	404	Sep-05	-	28,825,400	-	488,840	
			<u>423,326,420</u>	<u>308,558,760</u>	<u>4,412,473</u>	<u>6,045,580</u>	
<b>Commodities</b>							
Goldman Sachs Commodities	1,542	Sep-05	<u>178,910,550</u>	<u>-</u>	<u>-</u>	<u>1,117,950</u>	
<b>Foreign Fixed Income</b>							
90 Day Euro Dollar	59	Mar-06	14,143,038	-	22,863	-	
90 Day Euro Dollar	116	Dec-05	27,816,800	-	37,700	-	
Euro-Bund	217	Sep-05	33,079,460	-	127,801	-	
Euro-Bund	137	Dec-05	20,609,629	-	80,684	-	
Japan 10 Year Bond	21	Sep-05	26,382,510	-	25,640	-	
Japan 10 Year Bond	5	Dec-05	6,267,150	-	6,105	-	
			<u>128,298,587</u>	<u>-</u>	<u>300,793</u>	<u>-</u>	
<b>Foreign Equity</b>							
Amsterdam Index	49	Sep-05	4,698,076	-	-	-	
DJ Euro Stoxx 50	1,075	Sep-05	43,232,302	-	364,833	-	
FTSE 100 Index	791	Sep-05	75,329,479	-	449,107	-	
FTSE/JSE TOP 40	395	Sep-05	8,522,672	-	58,419	-	
Hang Seng Index	25	Sep-05	2,395,733	-	-	811	
IBEX Index	34	Sep-05	-	4,194,244	-	-	
MSCI Singapore Index	123	Sep-05	3,937,577	-	-	7,341	
MSCI Taiwan Index	396	Sep-05	9,939,600	-	-	-	
S&P/MIB Index	23	Sep-05	-	4,741,533	-	-	
S&P/TSE 60 Index	44	Sep-05	-	4,447,033	-	-	
SPI 200 Index	91	Sep-05	-	7,585,657	-	-	
Topix Index	191	Sep-05	21,835,200	-	-	23,168	
			<u>169,890,639</u>	<u>20,968,467</u>	<u>872,359</u>	<u>31,320</u>	
<b>Total</b>			<u>\$ 944,515,415</u>	<u>\$ 343,004,446</u>	<u>\$ 5,744,859</u>	<u>\$ 7,238,350</u>	

**Note 9 – Foreign Currency Exchange Contracts**

The tables below summarize by currency the contractual amounts of the Fund's foreign currency exchange contracts at August 31, 2006 and 2005. Foreign currency amounts are translated at exchange rates as of August 31, 2006 and 2005. The "Net Buy" amounts represent the U.S. dollar equivalent of net commitments to purchase foreign currencies, and the "Net Sell" amounts represent the U.S. dollar equivalent of net commitments to sell foreign currencies.

**THE UNIVERSITY OF TEXAS SYSTEM**  
**GENERAL ENDOWMENT FUND**  
*Notes to Financial Statements (cont.)*

Currency	Net Buy	Net Sell	Unrealized Gains on Foreign Currency Exchange Contracts	Unrealized Losses on Foreign Currency Exchange Contracts
	August 31, 2006	August 31, 2006	August 31, 2006	August 31, 2006
Australian Dollar	\$ 7,335,810	\$ —	\$ 172,056	\$ 37,731
Canadian Dollar	—	2,061,562	170,308	241,809
Chilean Peso	151,827	—	259	—
Chinese Yuan Renminbi	15,891,505	—	104,402	385,580
Czech Koruna	288,193	—	5,234	40,392
Danish Krone	359,473	—	782	2,936
Euro	532,473	—	1,119,389	501,200
Hungarian Forint	—	238,479	21,719	49,674
Indian Rupee	33,568	—	63	—
Japanese Yen	145,383,916	—	1,309,018	6,354,240
Mexican New Peso	3,992,230	—	196,593	250,635
New Taiwan Dollar	4,789,576	—	60,441	218,574
New Zealand Dollar	—	2,488,478	172,424	173,579
Norwegian Krone	332,120	—	215	16,273
Polish Zloty	327,629	—	35,332	126,140
New Russian Rubel	197,840	—	1,168	—
Singapore Dollar	6,641,938	—	56,585	372
Slovak Koruna	—	—	3,066	2,567
South African Comm Rand	1,536,353	—	63,059	268,198
South Korean Won	3,403,298	—	58,324	145,663
Swedish Krona	3,765,825	—	23,516	35,411
Swiss Franc	7,529,615	—	68,994	275,521
UK Pound	103,262,718	—	3,044,667	710,653
	<u>\$ 305,755,907</u>	<u>\$ 4,788,519</u>	<u>\$ 6,687,614</u>	<u>\$ 9,837,148</u>

Currency	Net Buy	Net Sell	Unrealized Gains on Foreign Currency Exchange Contracts	Unrealized Losses on Foreign Currency Exchange Contracts
	August 31, 2005	August 31, 2005	August 31, 2005	August 31, 2005
Australian Dollar	\$ 11,241,773	\$ —	\$ 72,978	\$ 102,864
Canadian Dollar	—	23,732,307	81,342	332,138
Chilean Peso	111,304	—	2,000	—
Chinese Yuan Renminbi	12,789,467	—	204	194,111
Czech Koruna	1,187,246	—	24,505	3,025
Euro	—	21,244,159	1,946,523	513,153
Hong Kong Dollar	2,506,473	—	143	599
Hungarian Forint	555,182	—	25,750	9,867
Indonesian Rupian	245,708	—	17,708	—
Japanese Yen	72,666,052	—	422,677	1,612,192
Mexican New Peso	4,482,342	—	101,162	15,319
New Taiwan Dollar	11,379,386	—	16,260	390,498
New Zealand Dollar	—	1,591,028	19,089	30,727
Norwegian Krone	—	6,405,779	25,632	40,379
Polish Zloty	144,004	—	198,238	18,817
New Russian Rubel	109,589	—	67	1,252
Singapore Dollar	2,041,585	—	45,933	47,622
Slovak Koruna	255,405	—	29	3,073
South African Comm Rand	2,983,209	—	96,999	6,745
South Korean Won	5,783,992	—	45,879	178,385
Swedish Krona	2,318,017	—	97,340	101,185
Swiss Franc	3,916,327	—	12,360	216,336
UK Pound	87,366,371	—	2,338,351	706,883
	<u>\$ 222,083,432</u>	<u>\$ 52,973,273</u>	<u>\$ 5,591,169</u>	<u>\$ 4,525,170</u>

# THE UNIVERSITY OF TEXAS SYSTEM

## GENERAL ENDOWMENT FUND

*Notes to Financial Statements (cont.)*

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### **Note 10 – Purchase Commitment**

Effective November 10, 2005, UTIMCO, as investment manager of the funds under the control and management of the Board of Regents, entered into a security purchase agreement with the Board of Regents. The agreement commits the funds under management, including the Fund, to purchase up to \$1,285,000,000 in UT System flexible rate notes in the event of a failed remarketing of such notes.

### **Note 11 – Fees and Expenses**

The Fund incurs investment management fees from various external managers of the Fund. The fees, generally assessed quarterly, are based on a percentage of the market value of investments held by each individual investment manager and currently range from 0.01% to 0.9%. In addition to quarterly investment management fees, the Fund may pay annual performance-based management fees for investment performance in excess of certain defined benchmarks as provided for in the managers' contracts. In addition, the Fund incurs consulting fees for investment planning and oversight services with regard to private market and marketable alternative investments.

Custodial fees and expenses are assessed by the financial institution which holds the Fund's assets. Fees are based on the number of accounts, market value of the Fund, and transaction activity in accordance with the contractual agreement with the institution. Additional fees are assessed for performance measurement and on-line communication services per the contractual agreement.

The Fund incurs legal fees associated with the review of investment manager agreements and with due diligence efforts undertaken as part of hiring new investment managers.

Analytical and risk measurement fees are also incurred to implement and maintain a sophisticated risk measurement system for the Fund.

The Fund incurs other expenses related to its operations primarily consisting of audit fees, printing and graphic expenses, and consultation fees.

**THE UNIVERSITY OF TEXAS SYSTEM**  
**GENERAL ENDOWMENT FUND**  
*Supplemental Schedules*

**Comparison Summary of Investments**  
*August 31, 2006 and 2005*  
*(in thousands)*

	2006		2005	
	Value	% of Total	Value	% of Total
<b>Equity Securities</b>				
Domestic Common Stock	\$ 509,099	9.16%	\$ 638,244	12.75%
Foreign Common Stock	296,420	5.32%	321,974	6.44%
Other	1,432	0.03%	3,387	0.07%
<b>Total Equity Securities</b>	<u>806,951</u>	<u>14.51%</u>	<u>963,605</u>	<u>19.26%</u>
<b>Preferred Stock</b>				
Domestic Preferred Stock	<u>2,771</u>	<u>0.05%</u>	<u>2,808</u>	<u>0.06%</u>
<b>Debt Securities</b>				
U.S. Government Obligations	668,710	12.03%	645,923	12.91%
Corporate Obligations	339,570	6.11%	146,863	2.94%
Foreign Government and Provincial Obligations	55,962	1.01%	77,236	1.54%
Other	5,922	0.11%	10,499	0.21%
<b>Total Debt Securities</b>	<u>1,070,164</u>	<u>19.26%</u>	<u>880,521</u>	<u>17.60%</u>
<b>Purchased Options</b>	<u>25,853</u>	<u>0.46%</u>	<u>10,867</u>	<u>0.22%</u>
<b>Convertible Securities</b>	<u>16</u>	<u>0.00%</u>	<u>4,022</u>	<u>0.08%</u>
<b>Investment Funds</b>				
Absolute Return Strategies	957,363	17.22%	767,923	15.35%
Directional Equity	455,193	8.18%	428,610	8.57%
Private Markets	586,501	10.55%	493,181	9.86%
U.S. Equity	560,460	10.08%	542,829	10.85%
Non-U.S. Developed Equity	175,307	3.15%	223,617	4.47%
Emerging Markets	299,507	5.39%	150,715	3.01%
Fixed Income	91,839	1.65%	12,881	0.25%
<b>Total Investment Funds</b>	<u>3,126,170</u>	<u>56.22%</u>	<u>2,619,756</u>	<u>52.36%</u>
<b>Cash and Cash Equivalents</b>				
Money Market Funds Maintained to Back Futures Contracts	355,490	6.39%	401,342	8.02%
Money Market Funds – Other	172,877	3.11%	119,962	2.40%
<b>Total Cash and Cash Equivalents</b>	<u>528,367</u>	<u>9.50%</u>	<u>521,304</u>	<u>10.42%</u>
<b>Total Investment in Securities</b>	<u>\$ 5,560,292</u>	<u>100.00%</u>	<u>\$ 5,002,883</u>	<u>100.00%</u>

**THE UNIVERSITY OF TEXAS SYSTEM**  
**GENERAL ENDOWMENT FUND**  
*Supplemental Schedules (cont.)*

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**Financial Highlights**  
*Years Ended August 31,*

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Selected Per Unit Data</b>					
Net Asset Value, Beginning of Period	\$ 139.644	\$ 117.595	\$ 102.539	\$ 90.932	\$ 97.811
Income from Investment Operations					
Net Investment Income	2.846	2.826	2.247	1.972	1.895
Net Realized and Unrealized Gain (Loss) on Investments	12.664	19.223	12.809	9.635	(8.774)
Total Income (Loss) from Investment Operations	15.510	22.049	15.056	11.607	(6.879)
Net Asset Value, End of Period	<u>\$ 155.154</u>	<u>\$ 139.644</u>	<u>\$ 117.595</u>	<u>\$ 102.539</u>	<u>\$ 90.932</u>
<b>Ratios and Supplemental Data</b>					
Net Assets, End of Period (in thousands)	\$5,427,755	\$4,926,797	\$4,207,644	\$3,584,765	\$3,293,194
Ratio of Expenses to Average Net Assets	0.33%	0.26%	0.24%	0.17%	0.20%
Ratio of Net Investment Income to Average Net Assets	1.96%	2.20%	2.02%	2.12%	2.00%

Financial Statements

Permanent Health Fund

*Years Ended August 31, 2006 and 2005*

Permanent Health Fund

Financial Statements

Years Ended August 31, 2006 and 2005

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## Report of Independent Auditors

The Board of Regents of The University of Texas System  
The Board of Directors of The University of Texas Investment Management Company

We have audited the accompanying financial statements of the Permanent Health Fund (the "Fund") as of and for the years ended August 31, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

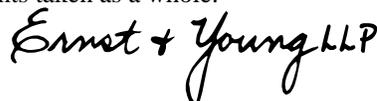
We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Permanent Health Fund and do not purport to, and do not, present fairly the fiduciary net assets of The University of Texas Investment Management Company nor The University of Texas System as of August 31, 2006 and 2005 and the changes in its fiduciary net assets for the years then ended in conformity with accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the Permanent Health Fund as of August 31, 2006 and 2005, and the changes in the fiduciary net assets for the years then ended, in conformity with accounting principles generally accepted in the United States.

Management's discussion and analysis on pages 2 through 5 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements of the Permanent Health Fund. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The supplemental schedules as of August 31, 2006, 2005, 2004 and 2003 and for the years then ended have been subjected to the audit procedures applied in the audits of the financial statements and, in our opinion, based on our audits, are fairly stated in relation to the financial statements taken as a whole. The Fund's financial statements for the year ended August 31, 2002, which are not presented with the accompanying financial statements, were audited by other auditors whose report thereon dated October 18, 2002, expressed an unqualified opinion on the financial statements. Their report on the 2002 supplemental schedules stated that, in their opinion, such information was fairly stated in all material respects in relation to the financial statements taken as a whole.



October 27, 2006

## **PERMANENT HEALTH FUND**

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### **MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

Our discussion and analysis of the Permanent Health Fund's (Fund) financial performance provides an overview of its activities for the year ended August 31, 2006. This discussion was prepared by The University of Texas Investment Management Company (UTIMCO) and should be read in conjunction with the Fund's financial statements and notes. The Fund is an internal UT System mutual fund for the pooled investment of state endowment funds for health-related institutions of higher education. The University of Texas System Board of Regents (UT Board) established the Fund in August 1999 with proceeds from state tobacco litigation. The Texas Constitution and various state statutes designate the UT Board as the fiduciary for the management of certain public endowment and operating funds. The UT Board has entered into an Investment Management Services Agreement delegating investment management responsibility for all investments to UTIMCO.

On March 1, 2001, the Fund purchased units in the newly created General Endowment Fund (GEF) in exchange for the contribution of its investment assets. The GEF, established by the UT Board effective March 1, 2001, is a pooled fund for the collective investment of long-term funds under the control and management of the UT Board. The GEF has only two participants: the Fund and The University of Texas System Long Term Fund (LTF), which was also established by the UT Board. The GEF is organized as a mutual fund in which the Fund and the LTF purchase and redeem units quarterly. The GEF is under the fiduciary responsibility of the UT Board and is provided day-to-day operations by UTIMCO.

The purpose of the MD&A is to provide an objective and easily readable analysis of the Fund's financial statements based upon currently known facts, decisions or conditions.

#### **Financial Highlights**

- The Fund's net fiduciary assets after distributions, increased by \$61.1 million from \$925.9 million to \$987.0 million or by approximately 6.6% for the year ended August 31, 2006, compared to an increase of \$111.5 million or approximately 13.7% for the year ended August 31, 2005. The change in net fiduciary assets from year to year is mainly attributable to the following:
  1. The Fund posted a net investment return of 11.05% for the fiscal year ended August 31, 2006, compared to a net investment return of 18.68% for the prior fiscal year. The net investment return of the Fund is dependent on the results of the investments held in the GEF. The GEF's investments in real estate investment trusts, private market investment funds and global equities were the leading contributors to the 2006 return. For the fiscal year ended August 31, 2005, the commodities, private market investments and domestic and global equity asset classes were the leading performers.
  2. The Fund's distribution rate was increased by 2.6%, approximately the rate of inflation, for the year ended August 31, 2006. This equated to an increase in the 2006 rate to \$.0482 per unit from the 2005 rate of \$.047 per unit. The 2005 rate was not increased from the fiscal year ended August 31, 2004 rate. The fiscal year distributions represented 4.13% of the

## **PERMANENT HEALTH FUND**

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Fund's average net asset value for the year ended August 31, 2006, and 4.39% of the Fund's average net asset value for the year ended August 31, 2005.

3. There were no participant contributions to the Fund or withdrawals from the Fund during the years ended August 31, 2006 and 2005.

### **Use of Financial Statements and Notes**

The Fund's financial statements were prepared in accordance with standards issued by the Governmental Accounting Standards Board (GASB). Two financial statements are required by the GASB: the Statement of Fiduciary Net Assets and the Statement of Changes in Fiduciary Net Assets.

The notes to the financial statements contain supplemental information that is essential for the fair presentation of the financial statements.

### **Statements of Fiduciary Net Assets**

The Statements of Fiduciary Net Assets present assets, liabilities, and net assets of the Fund as of the end of the fiscal year. These statements, along with all of the Fund's financial statements, are prepared using the accrual basis of accounting, whereby Fund investment income is recognized when earned and Fund expenses are recognized when incurred.

Since the Fund no longer invests in individual securities except for the GEF units and a negligible amount of cash, the majority of the Fund's Statements of Fiduciary Net Assets is reflected in its investment in GEF units.

As of August 31, 2006, the Fund owned 6,359,817 GEF units representing an ownership percentage of 18.18%, compared to 6,628,710 GEF units representing an ownership percentage of 18.79% as of August 31, 2005. As of August 31, 2006 and 2005, the fair value of the GEF units was \$986.8 million and \$925.7 million, respectively.

The GEF invests in a broad mix of investments and is actively managed to its benchmark, the Endowment Policy Portfolio. The Endowment Policy Portfolio is the index or benchmark for the endowment funds that UTIMCO manages. The return of the Endowment Policy Portfolio is the sum of the weighted benchmark returns for each asset class that comprise it. UTIMCO allocates GEF's assets to internally and externally managed portfolios in accordance with approved asset allocation policies, and attempts to supplement the original endowment corpus by increasing purchasing power over time.

## PERMANENT HEALTH FUND

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The following summarizes the Statements of Fiduciary Net Assets (in millions):

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Assets</b>			
General Endowment Fund Units	\$ 986.8	\$ 925.7	\$ 814.2
Cash and Cash Equivalents	0.2	0.2	0.2
<b>Net Assets Held in Trust</b>	<u>\$ 987.0</u>	<u>\$ 925.9</u>	<u>\$ 814.4</u>

### Statements of Changes in Fiduciary Net Assets

Changes in fiduciary net assets as presented on the Statements of Changes in Fiduciary Net Assets are based on activity of the Fund. The purpose of these statements is to present additions to the Fund resulting from net investment income and participant contributions and to present deductions from the Fund resulting from participant distributions.

The net increase in investments of the Fund was \$82.6 million during the year compared to \$131.3 million for the fiscal year ended August 31, 2005. Investment expenses totaled \$0.5 million for the fiscal years ended August 31, 2006 and 2005, and \$0.6 for the fiscal year ended August 31, 2004.

Distributions to participants totaled \$39.5 million for the year ended August 31, 2006 and \$38.5 million for the years ended August 31, 2005 and 2004.

The net increase in fiduciary net assets totaled \$61.1 million for the year ended August 31, 2006 compared to a net increase in fiduciary net assets of \$111.5 million for the year ended August 31, 2005.

The Fund's two primary investment objectives are:

- Provide for current beneficiaries by increasing the annual distribution rate at least equal to the rate of inflation so that real purchasing power is maintained, and
- Provide for future beneficiaries by increasing the market value of endowment funds after the annual distribution at a rate at least equal to the rate of inflation so that future distributions maintain purchasing power as well.

Fund distributions are controlled by a spending policy approved by the UT Board. The key to preservation of endowment purchasing power over the long-term is control of spending through a target distribution rate. This target rate should not exceed the endowment's average annual investment return after fund expenses and inflation. The Fund distributions are increased annually at an average rate of inflation provided that the distribution rate remains within a range of 3.5% to 5.5% of the Fund's net asset value. As reported on the financial highlights schedule of the financial statements, the ratio of distributions to average net assets (12-quarter average) has remained between 3.5% to 5.5%.

## PERMANENT HEALTH FUND

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The following table summarizes the Statements of Changes in Fiduciary Net Assets (in millions):

	2006	2005	2004
Investment Income	\$ 101.2	\$ 150.6	\$ 108.6
Less Investment Expenses	(0.5)	(0.5)	(0.6)
Net Investment Income	100.7	150.1	108.0
Administrative Fee for UT System Oversight	0.1	-	-
Participant Distributions	39.5	38.6	38.6
Total Deductions	39.6	38.6	38.6
Change in Fiduciary Net Assets	61.1	111.5	69.4
Net Assets Held in Trust, Beginning of Period	925.9	814.4	745.0
Net Assets Held in Trust, End of Period	\$ 987.0	\$ 925.9	\$ 814.4

### Contacting UTIMCO

The above financial highlights are designed to provide a general overview of the Fund's investment results and insight into the following financial statements. Additional information may be found on our website and inquiries may be directed to UTIMCO via [www.utimco.org](http://www.utimco.org).

## PERMANENT HEALTH FUND

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### Statements of Fiduciary Net Assets

August 31, 2006 and 2005

(Dollars in thousands, except per unit amounts)

	<u>2006</u>	<u>2005</u>
<b>Assets</b>		
General Endowment Fund Units	\$ 986,754	\$ 925,661
Cash and Cash Equivalents	<u>274</u>	<u>237</u>
<b>Net Assets Held in Trust (820,000,000 Units)</b>	<u>\$ 987,028</u>	<u>\$ 925,898</u>
<b>Net Asset Value Held in Trust Per Unit</b>	<u>\$ 1.204</u>	<u>\$ 1.129</u>

*The accompanying notes are an integral  
part of these financial statements*

## PERMANENT HEALTH FUND

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### Statements of Changes in Fiduciary Net Assets

Years Ended August 31, 2006 and 2005

(in thousands)

	<u>2006</u>	<u>2005</u>
<b>Additions</b>		
Investment Income		
Net Increase in Investments	\$ 82,649	\$ 131,345
Allocation of General Endowment Fund Net Investment Income	18,594	19,225
Interest	1	3
Dividends	-	1
Total Investment Income	<u>101,244</u>	<u>150,574</u>
Less Investment Expenses		
UTIMCO Management Fee	528	517
Other Expenses	<u>16</u>	<u>11</u>
Total Investment Expenses	<u>544</u>	<u>528</u>
Net Investment Income	<u>100,700</u>	<u>150,046</u>
<b>Total Additions</b>	<u>100,700</u>	<u>150,046</u>
<b>Deductions</b>		
Administrative Fee for UT System Oversight	46	32
Participant Distributions	<u>39,524</u>	<u>38,540</u>
<b>Total Deductions</b>	<u>39,570</u>	<u>38,572</u>
<b>Change in Fiduciary Net Assets</b>	61,130	111,474
Net Assets Held in Trust, Beginning of Period	<u>925,898</u>	<u>814,424</u>
<b>Net Assets Held in Trust, End of Period</b>	<u>\$ 987,028</u>	<u>\$ 925,898</u>

*The accompanying notes are an integral  
part of these financial statements*

## **PERMANENT HEALTH FUND**

### ***Notes to Financial Statements***

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#### **Note 1 – Organization and Basis of Presentation**

The Permanent Health Fund (Fund) is an internal University of Texas 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 Fund 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 Fund rests with the Board of Regents of The University of Texas System (Board of Regents). The day-to-day operational responsibilities of the Fund are delegated to The University of Texas Investment Management Company (UTIMCO), pursuant to an Investment Management Services Agreement with the Board of Regents.

On March 1, 2001, the Fund purchased units in the newly created General Endowment Fund (GEF) in exchange for the contribution of its investment assets. The GEF, established by the Board of Regents effective March 1, 2001, is a pooled fund for the collective investment of long-term funds under the control and management of the Board of Regents. The GEF has only two participants: the Fund and The University of Texas System Long Term Fund (LTF), which was also established by the Board of Regents. The GEF is organized as a mutual fund in which the Fund and the LTF purchase and redeem units quarterly. The GEF is under the fiduciary responsibility of the Board of Regents and is provided day-to-day operations by UTIMCO.

The activities of the Fund are accounted for as a fiduciary fund. The financial statements of the Fund use an economic resources measurement focus and the accrual basis of accounting, whereby revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of cash flows. The financial statements of the Fund are prepared in accordance with the requirements of the Governmental Accounting Standards Board (GASB).

The annual combined financial statements of The University of Texas System are prepared in accordance with Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements and include information related to the Fund. The accompanying financial statements may differ in presentation from the Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements.

#### **Note 2 – Investment in GEF**

Beginning with the purchase of GEF units on March 1, 2001, the Fund no longer invests in individual securities except for GEF units and a negligible amount of cash. The Fund also continues to receive securities as proceeds in class action suits from the securities the Fund previously owned. These securities are normally sold when received, but from time to time will be reflected as a Fund investment. At August 31, 2006, the Fund is the minority participant in the GEF, with ownership of 6,359,817 units, which represents 18.18% of the GEF. At August 31, 2005, the Fund held 6,628,710 units, which represented 18.79% of the GEF.

## **PERMANENT HEALTH FUND**

### ***Notes to Financial Statements (continued)***

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The GEF and the Fund have identical investment objectives. Additionally, the GEF's accounting policies follow the Fund's, as described in Note 3, except for the distributions to participants. On a monthly basis for accounting purposes, the GEF allocates its net investment income and realized gain or loss to the Fund based on its ownership of GEF units at month end. The allocated investment income and realized gain amounts increase the cost basis of the units in the GEF, and any allocated realized losses reduce the cost basis of the units in the GEF. Since the allocation is proportional to the percentage of ownership by the unitholders, no additional units are purchased. The Fund redeems GEF units quarterly to meet its distribution requirements to its unitholders.

#### **Note 3 – Significant Accounting Policies**

(A) **Security Valuation** -- The Fund's investment in GEF units is valued at the net asset value per unit reported by the GEF.

(B) **Investment Income** -- Interest income is accrued as earned.

(C) **Security Transactions** -- A gain or loss is recognized on GEF unit sales on the basis of average cost.

(D) **Distributions to Participants** -- Cash distributions to participants are paid quarterly based on a per unit payout established by the Board of Regents. For the year ended August 31, 2006 the quarterly rate was \$.01205 per unit which equates to an annual rate of \$.0482 per unit and for the year ended August 31, 2005 the quarterly rate was \$.01175 per unit which equates to an annual rate of \$.047 per unit. The ratio of distributions to average net assets (12-quarter average) was 4.36% as of August 31, 2006. The investment policy provides that the annual payout will be adjusted by the average consumer price index of the prior 36 months subject to a maximum distribution of 5.5% of the Fund's average market value and a minimum distribution of 3.5% of the Fund's average market value.

(E) **Fund Valuation** -- Valuation of the Fund's units occurs on a quarterly basis. Unit values are determined by dividing the value of the Fund's net assets by the number of units outstanding on the valuation date.

(F) **Purchases and Redemption of Units** -- The value of participating units, upon admission to the Fund, is based upon the market value of net assets held as of the valuation date. Redemptions from the Fund will also be made at the market value price per unit at the valuation date at the time of the withdrawal. There are no transaction costs incurred by participants for the purchase or redemption of units.

(G) **Participants' Net Assets** -- All participants in the Fund have a proportionate undivided interest in the Fund's net assets.

(H) **Federal Income Taxes** -- The Fund is not subject to federal income tax.

**PERMANENT HEALTH FUND**  
***Notes to Financial Statements (continued)***

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(I) **Use of Estimates** -- The preparation of financial statements 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

(J) **Cash and Cash Equivalents** -- Cash and Cash Equivalents consist of money markets and other overnight funds.

**Note 4 – Investment Risk**

The investment risk disclosure that follows relates to the GEF's investments before securities lending transactions and the investment of cash collateral. Disclosures relating to the GEF's securities lending transactions are provided in Note 5. Values presented are the Fund's pro-rata share of GEF investments based on its unit ownership in the GEF. As of August 31, 2006 and 2005, the Fund's unit ownership in the GEF was 18.18% and 18.79%, respectively, of the total.

(A) ***Credit Risk***

Article VII, Section 11b of the Texas Constitution authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (the "PUF") in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all of the assets of the fund rather than a single investment. Pursuant to Section 51.0031(c) of the Texas Education Code, the Board of Regents has elected the PUF prudent investor standard to govern its management of the GEF.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The Fund's investment policy limits investments in U.S. Domestic bonds and non-dollar denominated bond investments to those that are rated investment grade, Baa3 or better by Moody's Investor Services, BBB- or better, by Standard & Poor's Corporation, or BBB- or better by Fitch Investors Service at the time of acquisition. This requirement does not apply to investment managers that are authorized by the terms of an investment advisory agreement to invest in below investment grade bonds. Per GASB Statement No. 40 (GASB 40), *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3*, unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. GASB 40 also provides that securities with split ratings, or a different rating assignment between NRSROs, are disclosed using the rating indicative of the greatest degree of risk. The following table presents the Fund's pro-rata share of each applicable GEF investment type grouped by rating as of August 31, 2006 and 2005.

**PERMANENT HEALTH FUND**  
**Notes to Financial Statements (continued)**

GEF Investment Type	PHF Fund's Pro Rata Share August 31,		Rating
	2006	2005	
<b>Investments:</b>			
U.S. Government Guaranteed	\$ 88,831,313	\$ 77,213,077	Exempt from Disclosure
U.S. Government Non-Guaranteed:			
U.S. Agency	2,682,186	7,816,795	AAA
U.S. Agency	-	655,132	A
U.S. Agency Asset Backed	<u>30,057,998</u>	<u>35,683,902</u>	AAA
Total U.S. Government Non-Guaranteed	<u>32,740,184</u>	<u>44,155,829</u>	
Total U.S. Government	<u>121,571,497</u>	<u>121,368,906</u>	
Corporate Obligations:			
Domestic	5,917,455	4,928,159	AAA
Domestic	956,179	749,212	AA
Domestic	3,140,510	4,992,286	A
Domestic	4,031,577	3,435,382	BAA/BBB
Domestic	-	1,078,339	BBB
Domestic	27,035	756,002	BAA
Domestic	623,544	1,073,991	BA/BB
Domestic	51,315	436,952	BB
Domestic	145,209	44,658	BA
Domestic	1,057,177	538,392	B
Domestic	31,213	56,189	CAA
Domestic	-	52,088	CA
Domestic	21,377	-	CCC
Domestic	1,912	287,611	Rating Withdrawn
Commercial Paper	18,541,901	5,685,970	P
Commercial Paper	22,840,498	-	A
Foreign	938,548	1,388,457	AAA
Foreign	611,061	406,072	AA
Foreign	1,512,200	1,077,830	A
Foreign	1,285,030	476,018	BAA/BBB
Foreign	-	40,629	BBB
Foreign	-	67,293	BAA
Foreign	-	18,644	BA/BB
Foreign	-	5,395	B
Total Corporate Obligations	<u>61,733,741</u>	<u>27,595,569</u>	
Foreign Government and Provincial Obligations	6,746,046	10,339,213	AAA
Foreign Government and Provincial Obligations	2,150,279	2,169,108	AA
Foreign Government and Provincial Obligations	661,842	293,720	A
Foreign Government and Provincial Obligations	348,708	850,860	BAA/BBB
Foreign Government and Provincial Obligations	-	39,703	BAA
Foreign Government and Provincial Obligations	266,973	712,100	BA
Foreign Government and Provincial Obligations	-	107,850	B
Total Foreign Government and Provincial Obligations	<u>10,173,848</u>	<u>14,512,554</u>	
Other Debt Securities	290,653	790,157	AAA
Other Debt Securities	106,636	223,424	AA
Other Debt Securities	-	224,847	A
Other Debt Securities	679,497	734,436	BAA/BBB
Total Other Debt Securities	<u>1,076,786</u>	<u>1,972,864</u>	
Total Debt Securities	<u>\$ 194,555,872</u>	<u>\$ 165,449,893</u>	
Other Investment Funds - Debt	\$ 6,494,927	\$ 201,658	AAA
Other Investment Funds - Debt	9,403,482	-	AA
Other Investment Funds - Debt	797,883	2,218,771	BB
Total Other Investment Funds - Debt	<u>\$ 16,696,292</u>	<u>\$ 2,420,429</u>	
Cash and Cash Equivalents - Money Market Funds	\$ 94,874,160	\$ 95,943,861	AAA
Cash and Cash Equivalents - Other	1,182,946	2,009,161	Exempt from Disclosure
Total Cash and Cash Equivalents	<u>\$ 96,057,106</u>	<u>\$ 97,953,022</u>	
<b>Deposit with Brokers for Derivative Contracts:</b>			
U.S. Government Guaranteed	\$ 8,008,689	\$ 4,986,221	Exempt from Disclosure
Cash	2,342,435	731,457	Exempt from Disclosure
	<u>\$ 10,351,124</u>	<u>\$ 5,717,678</u>	
<b>Deposit with Broker for Securities Sold Short:</b>			
Cash	<u>\$ 732,697</u>	<u>\$ -</u>	Exempt from Disclosure

**PERMANENT HEALTH FUND**  
***Notes to Financial Statements (continued)***

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***(B) Concentrations of Credit Risk***

The GEF's investment policy statement contains the limitation that no more than 5% of the market value of domestic fixed income securities may be invested in corporate or municipal bonds of a single issuer. The GEF does not hold any direct investments in any one issuer that represents five percent or more of total investments.

***(C) Custodial Credit Risk***

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the GEF will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the GEF will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Texas State Statutes and the GEF's investment policy statements do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. As of August 31, 2006 and 2005, the GEF does not have any investments that are exposed to custodial credit risk.

***(D) Interest Rate Risk***

Interest rate risk is the risk that changes in market interest rates will adversely affect the value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its value to changes in market interest rates. Interest rate risk inherent in the GEF is measured by monitoring the modified duration of the overall investment portfolio. Modified duration estimates the sensitivity of the GEF's investments to changes in interest rates. The GEF has no specific policy statement limitations with respect to its overall modified duration. The following table summarizes the GEF's modified duration and the Fund's pro-rata share of the GEF investment value by investment type as of August 31, 2006 and 2005.

**PERMANENT HEALTH FUND**  
**Notes to Financial Statements (continued)**

GEF Investment Type	Fund's Pro Rata Share			
	August 31,			
	2006	Modified	2005	Modified
	Value	Duration	Value	Duration
<b>Investments in Securities:</b>				
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	\$ 22,433,062	7.28	\$ 21,297,188	6.47
U.S. Treasury Strips	531,603	5.00	685,933	6.00
U.S. Treasury Bills	904,935	0.04	1,320,542	0.15
U.S. Treasury Inflation Protected	64,545,590	7.91	53,459,775	8.03
U.S. Agency Asset Backed	416,123	5.88	449,640	2.34
Total U.S. Government Guaranteed	<u>88,831,313</u>	7.65	<u>77,213,078</u>	7.42
U.S. Government Non-Guaranteed:				
U.S. Agency	2,682,186	3.05	8,471,927	5.21
U.S. Agency Asset Backed	30,057,998	5.46	35,683,902	3.39
Total U.S. Government Non-Guaranteed	<u>32,740,184</u>	5.26	<u>44,155,829</u>	3.74
Total U.S. Government	<u>121,571,497</u>	7.00	<u>121,368,907</u>	6.08
Corporate Obligations:				
Domestic	16,054,014	4.41	18,429,261	5.06
Commercial Paper	41,332,888	0.07	5,685,970	0.23
Foreign	4,346,840	11.18	3,480,338	6.80
Total Corporate Obligations	<u>61,733,742</u>	1.98	<u>27,595,569</u>	4.28
Foreign Government and Provincial Obligations	<u>10,173,848</u>	6.52	<u>14,512,554</u>	8.54
Other Debt Securities	<u>1,076,786</u>	12.30	<u>1,972,863</u>	11.31
Total Debt Securities	<u>194,555,873</u>	5.41	<u>165,449,893</u>	5.90
Other Investment Funds - Debt	<u>16,696,291</u>	3.77	<u>2,420,429</u>	5.97
Cash and Cash Equivalents:				
Money Market Funds	94,874,160	0.08	95,943,861	0.08
Other	1,182,946	-	2,009,161	-
Total Cash and Cash Equivalents	<u>96,057,106</u>	0.08	<u>97,953,022</u>	0.08
Total	<u>\$ 307,309,270</u>	3.66	<u>\$ 265,823,344</u>	3.76
<b>Deposit with Brokers for Derivative Contracts:</b>				
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	\$ -	-	\$ 20,702	0.41
U.S. Treasury Bills	7,799,252	0.15	4,750,279	0.21
U.S. Treasury Inflation Protected	209,437	0.36	215,240	1.33
Total U.S. Government Guaranteed	<u>8,008,689</u>	0.16	<u>4,986,221</u>	0.26
Cash	<u>2,342,435</u>	-	<u>731,457</u>	-
Total Deposit with Brokers for Derivative Contracts	<u>\$ 10,351,124</u>	0.11	<u>\$ 5,717,678</u>	0.22
<b>Deposit with Broker for Securities Sold Short:</b>				
Cash	<u>\$ 732,697</u>	-	<u>\$ -</u>	-

**(E) Investments with Fair Values That Are Highly Sensitive to Interest Rate Changes**

In accordance with the GEF's investment policy statement, the GEF may invest in various mortgage backed securities, such as collateralized mortgage backed obligations. The GEF also may invest in investments that have floating rates with periodic coupon changes in market rates, zero coupon bonds and stripped Treasury

**PERMANENT HEALTH FUND**  
***Notes to Financial Statements (continued)***

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and Agency securities created from coupon securities. As of August 31, 2006 and 2005, the GEF's investments include the following investments that are highly sensitive to interest rate changes.

Collateralized mortgage obligations which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. The Fund's pro-rata share of these securities amounted to \$6,563,375 and \$9,406,660 as of August 31, 2006 and 2005, respectively.

Mortgage backed securities which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. The Fund's pro-rata share of these securities amounted to \$27,693,008 and \$18,262,471 as of August 31, 2006 and 2005, respectively.

Asset backed securities which are backed by home equity loans, auto loans, equipment loans and credit card receivables. Prepayments by the obligees of the underlying assets in periods of decreasing interest rates could reduce or eliminate the stream of income that would have been received. The Fund's pro-rata share of these securities amounted to \$2,407,495 and \$2,075,836 as of August 31, 2006 and 2005, respectively.

Step-up notes that grant the issuer the option to call the note on certain specified dates. At each call date, should the issuer not call the note, the coupon rate of the note increases (steps up) by an amount specified at the inception of the note. The call feature embedded within a step-up note causes the fair value of the instrument to be considered highly sensitive to interest rate changes. The Fund's pro-rata share of these securities amounted to \$360,658 and \$933,412 as of August 31, 2006 and 2005, respectively.

***(F) Foreign Currency Risk***

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the GEF's non-U.S. dollar investments. The GEF's investment policy statement limits investments in non-U.S. denominated bonds to 50% of the GEF's total fixed income exposure. The following table summarizes the Fund's pro-rata exposure of the GEF's non-U.S. dollar investments as of August 31, 2006 and 2005.

**PERMANENT HEALTH FUND**  
**Notes to Financial Statements (continued)**

GEF Investment Type	Fund's Pro-Rata Share	
	August 31,	
	2006	2005
<b>Foreign Common Stock:</b>		
Australian Dollar	\$ 1,551,517	\$ 1,902,447
Canadian Dollar	6,848,226	6,892,965
Swiss Franc	926,184	1,465,999
Danish Krone	340,018	459,750
Euro	4,065,576	11,466,061
UK Pound	4,951,252	4,051,811
Hong Kong Dollar	2,048,875	736,666
Japanese Yen	22,310,803	19,589,906
South Korean Won	611,893	302,404
New Zealand Dollars	66,122	-
Norwegian Krone	530,783	1,837,751
Swedish Krona	645,710	815,289
Singapore Dollar	1,042,960	1,064,632
Total Foreign Common Stock	45,939,919	50,585,681
<b>Other - Equity Securities</b>		
Canadian Dollar	5	-
<b>Foreign Government and Provincial Obligations:</b>		
Australian Dollar	-	83,622
Canadian Dollar	23,100	81,295
Danish Krone	90,793	95,580
Euro	8,140,313	10,739,086
Japanese Yen	399,895	-
New Zealand Dollar	61,147	152,245
Polish Zloty	331,323	293,720
UK Pound	-	1,018,420
Total Foreign Government and Provincial Obligations	9,046,571	12,463,968
<b>Corporate Obligations:</b>		
Euro	1,992,362	1,436,395
UK Pound	139,370	141,396
Japanese Yen	311,969	-
Total Corporate Obligations	2,443,701	1,577,791
<b>Purchased Options:</b>		
Canadian Dollar	6,595	127,201
Euro	92,941	6,803
UK Pound	14,082	-
Japanese Yen	306,662	-
Total Purchased Options	420,280	134,004
<b>Private Market Investment Funds:</b>		
Euro	10,434,168	9,262,106
UK Pound	496,265	820,573
Total Private Market Investment Funds	10,930,433	10,082,679
<b>Cash and Cash Equivalents:</b>		
Australian Dollar	16,503	11,882
Canadian Dollar	125,270	643,130
Swiss Franc	8,868	8,123
Danish Krone	3,170	4,341
Euro	187,499	267,941
UK Pound	92,237	(6,811)
Hong Kong Dollar	21,729	2,078
Japanese Yen	952,898	2,261,419
Norwegian Krone	7,361	982
New Zealand Dollar	50,939	1,546
Polish Zloty	36,891	16,903
Swedish Krona	24,633	918
Singapore Dollar	20,354	5,619
New Taiwan Dollar	60	62
Total Cash and Cash Equivalents	1,548,412	3,218,133
Total	\$ 70,329,321	\$ 78,062,256

**PERMANENT HEALTH FUND**  
**Notes to Financial Statements (continued)**

**Note 5 – Securities Lending**

In accordance with the prudent investor investment standards, the GEF loans securities to certain brokers who pay the GEF negotiated lenders' fees. These fees are included in GEF investment income, and the related expenses are included in investment expenses. The GEF receives qualified securities and/or cash as collateral against the loaned securities. The collateral, when received, will have a market value of 102% of loaned securities of U.S. issuers and a market value of 105% for loaned securities of non-U.S. issuers. If the market value of the collateral held in connection with loans of securities of U.S. issuers is less than 100% at the close of trading on any business day, the borrower is required to deliver additional collateral by the close of the next business day to equal 102% of the market value. For non-U.S. issuers, the collateral should remain at 105% of the market value of the loaned securities at the close of any business day. If it falls below 105%, the borrower must deliver additional collateral by the close of the following business day. The Fund's pro-rata share of the value of GEF securities loaned and the value of collateral held are as follows at August 31, 2006 and 2005:

<b>GEF Securities on Loan</b>	<b>2006 Value</b>	<b>2005 Value</b>	<b>Type of Collateral</b>	<b>2006 Value of Collateral</b>	<b>2005 Value of Collateral</b>
U.S. Government	\$61,313,467	\$68,716,932	Cash	\$62,383,217	\$69,415,332
Foreign Government	2,203,533	3,464,476	Cash	2,313,380	3,627,498
Corporate Bonds	868,745	930,100	Cash	890,524	955,425
Common Stock	19,292,683	18,108,545	Cash	20,110,117	18,837,287
<b>Total</b>	<b>\$83,678,428</b>	<b>\$91,220,053</b>	<b>Total</b>	<b>\$85,697,238</b>	<b>\$92,835,542</b>
U.S. Government	\$4,079,466	\$1,421,295	Non-Cash	\$4,167,536	\$1,470,203
Common Stock	137,629	138,349	Non-Cash	140,416	143,110
<b>Total</b>	<b>\$4,217,095</b>	<b>\$1,559,644</b>	<b>Total</b>	<b>\$4,307,952</b>	<b>\$1,613,313</b>

Cash received as collateral for securities lending activities is invested and reinvested in a commingled pool managed exclusively for the benefit of the GEF, the Permanent University Fund, and other Board of Regent accounts that participate in securities lending activities. The pool is managed in accordance with investment guidelines established in the securities lending contract between the GEF and its securities lending agent. The maturities of the investments in the pool do not necessarily match the term of the loans, rather the pool is managed to maintain a maximum dollar weighted average maturity of 60 days and an overnight liquidity of 20 percent. Lending income is earned if the returns on those investments exceed the rebate paid to borrowers of the securities. The income remaining after the borrower rebates is then shared with the lending agent on a contractually negotiated split. If the investment of the cash collateral does not provide a return exceeding the rebate or if the investment incurs a loss of principal, the payment of the shortfall to the borrower would come from the GEF and the securities lending agent in the same proportion as the split of income.

The Fund's pro-rata share of the GEF's portion of the collateral pool investments, rating by NRSRO, and weighted average maturity as of August 31, 2006 and 2005 is shown in the following table.

**PERMANENT HEALTH FUND**  
**Notes to Financial Statements (continued)**

Description	August 31,					
	2006			2005		
	Fund's Pro-Rata Share Fair Value	Rating	Weighted Average Maturity In Days	Fund's Pro-Rata Share Fair Value	Rating	Weighted Average Maturity In Days
Repurchase Agreements	\$ 31,199,406	No Rating	14	\$ 43,746,987	No Rating	1
Commercial Paper	37,267,657	P	26	37,600,440	P	36
Floating Rate Notes	4,890,987	AAA		849,773	AAA	
Floating Rate Notes	3,512,959	AA		9,509,272	AA	
Total Floating Rate Notes	8,403,946		69	10,359,045		37
Certificates of Deposit	10,722,413	P	67	1,398,190	P	50
Asset Backed Securities	153,692	AAA	11	52,993	AAA	168
Other Receivables/Payables	(2,049,877)	Not Rated	-	(322,114)	Not Rated	-
Total Collateral Pool Investment	<u>\$ 85,697,237</u>		31	<u>\$ 92,835,541</u>		20

Collateral pool investments are uninsured, and are held by the securities lending agent, in its name, on behalf of the GEF, except for the investments in repurchase agreements which are held in the securities lending agent's name by a third party custodian not affiliated with the GEF or the borrower of the associated loaned securities. Therefore, the collateral pool is not exposed to custodial credit risk because the pool investments are not held by counterparties to the lending transactions or a counterparties trust department or agent.

Cash collateral is recorded as an asset with an equal and offsetting liability to return the collateral on the statements of fiduciary net assets. Investments received as collateral for securities lending activities are not recorded as assets because the investments remain under the control of the transferor, except in the event of default.

In the event of default, where the borrower is unable to return the securities loaned, the GEF has authorized the securities lending agent to seize the collateral held. The collateral is then used to replace the borrowed securities where possible. Due to some market conditions, it is possible that the original securities cannot be replaced. If the collateral is insufficient to replace the securities, the securities lending agent has indemnified the GEF from any loss due to borrower default.

As of August 31, 2006 and 2005, the GEF had no credit risk exposure to borrowers because the amounts the GEF owed to borrowers exceeded the amounts the borrowers owed the GEF.

There were no significant violations of legal or contractual provisions, no borrower or securities lending agent default losses, and no recoveries of prior period losses during the years ended August 31, 2006 and 2005.

**Note 6 – Fees and Expenses**

The Fund is assessed a management fee by UTIMCO to cover the costs of managing the Fund and providing day-to-day operations. The fee assessed for the year ended August 31, 2006, was \$528,017, net of a rebate of \$176,800 of excess reserves from UTIMCO to the Fund. The fee assessed for the year

## **PERMANENT HEALTH FUND**

### ***Notes to Financial Statements (continued)***

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ended August 31, 2005, was \$516,757, net of a rebate of \$169,581 of excess reserves from UTIMCO to the Fund.

The Fund is assessed a fee to cover costs associated with UT System personnel and UT System consultants hired to provide assistance to the Board of Regents and the Chancellor of the UT System in their oversight responsibilities of UTIMCO. For the years ended August 31, 2006 and 2005, the fees amounted to \$46,295 and \$31,793, respectively.

The Fund incurs other expenses related to its operations primarily consisting of custodial fees, audit fees, printing and graphic expenses, legal and consultation fees.

**PERMANENT HEALTH FUND**  
**Supplemental Schedules**

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**Financial Highlights**

*Years Ended August 31,*

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Selected Per Unit Data</b>					
Net Asset Value, Beginning of Period	\$ 1.129	\$ 0.993	\$ 0.908	\$ 0.852	\$ 0.965
Income From Investment Operations					
Net Investment Income	0.022	0.023	0.019	0.017	0.018
Net Realized and Unrealized Gain (Loss) on Investments	<u>0.101</u>	<u>0.160</u>	<u>0.113</u>	<u>0.086</u>	<u>(0.084)</u>
Total Income (Loss) from Investment Operations	<u>0.123</u>	<u>0.183</u>	<u>0.132</u>	<u>0.103</u>	<u>(0.066)</u>
Less Distributions					
From Net Investment Income	0.022	0.023	0.019	0.017	0.018
From Net Realized Gain and In Excess of Net Realized Investment Return	<u>0.026</u>	<u>0.024</u>	<u>0.028</u>	<u>0.030</u>	<u>0.029</u>
Total Distributions	<u>0.048</u>	<u>0.047</u>	<u>0.047</u>	<u>0.047</u>	<u>0.047</u>
Net Asset Value, End of Period	<u>\$ 1.204</u>	<u>\$ 1.129</u>	<u>\$ 0.993</u>	<u>\$ 0.908</u>	<u>\$ 0.852</u>
<b>Ratios and Supplemental Data</b>					
Net Assets, End of Period (in thousands)	\$ 987,028	\$ 925,898	\$ 814,424	\$ 744,961	\$ 698,250
Ratio of Expenses to Average Net Assets	0.39%	0.32%	0.31%	0.27%	0.27%
Ratio of Net Investment Income to Average Net Assets	1.88%	2.13%	1.92%	2.01%	1.91%
Ratio of Distributions to Average Net Assets (5-quarter average)	4.13%	4.39%	4.81%	5.48%	5.05%
Ratio of Distributions to Average Net Assets (12-quarter average)	4.36%	4.79%	5.14%	5.08%	4.66%

Financial Statements

The University of Texas System

Long Term Fund

*Years Ended August 31, 2006 and 2005*

The University of Texas System Long Term Fund

Financial Statements

Years Ended August 31, 2006 and 2005

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## Report of Independent Auditors

The Board of Regents of The University of Texas System  
The Board of Directors of The University of Texas Investment Management Company

We have audited the accompanying financial statements of The University of Texas System Long Term Fund (the "Fund") as of and for the years ended August 31, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only The University of Texas System Long Term Fund and do not purport to, and do not, present fairly the fiduciary net assets of The University of Texas Investment Management Company nor The University of Texas System as of August 31, 2006 and 2005 and the changes in its fiduciary net assets for the years then ended in conformity with accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of The University of Texas System Long Term Fund as of August 31, 2006 and 2005, and the changes in the fiduciary net assets for the years then ended, in conformity with accounting principles generally accepted in the United States.

Management's discussion and analysis on pages 2 through 5 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements of The University of Texas System Long Term Fund. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The supplemental schedules as of August 31, 2006, 2005, 2004 and 2003 and for the years then ended have been subjected to the audit procedures applied in the audits of the financial statements and, in our opinion, based on our audits, are fairly stated in relation to the financial statements taken as a whole. The Fund's financial statements for the year ended August 31, 2002, which are not presented with the accompanying financial statements, were audited by other auditors whose report thereon dated October 18, 2002, expressed an unqualified opinion on the financial statements. Their report on the 2002 supplemental schedules stated that, in their opinion, such information was fairly stated in all material respects in relation to the financial statements taken as a whole.



October 27, 2006

# THE UNIVERSITY OF TEXAS SYSTEM LONG TERM FUND

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## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Our discussion and analysis of The University of Texas System Long Term Fund's (Fund) financial performance provides an overview of its activities for the fiscal year ended August 31, 2006. This discussion was prepared by The University of Texas Investment Management Company (UTIMCO) and should be read in conjunction with the Fund's financial statements and notes. The Fund is an internal UT System mutual fund for the pooled investment of approximately 7,200 privately raised endowments and other long-term funds of the 15 institutions of the UT System. The Texas Constitution and various state statutes designate The University of Texas System Board of Regents (UT Board) as the fiduciary for the management of certain public endowment and operating funds. The UT Board has entered into an Investment Management Services Agreement delegating investment management responsibility for all investments to UTIMCO.

On March 1, 2001, the Fund purchased units in the newly created General Endowment Fund (GEF) in exchange for the contribution of its investment assets. The GEF, established by the UT Board effective March 1, 2001, is a pooled fund for the collective investment of long-term funds under the control and management of the UT Board. The GEF has only two participants: the Fund and the Permanent Health Fund (PHF), which was also established by the UT Board. The GEF is organized as a mutual fund in which the Fund and the PHF purchase and redeem units quarterly. The GEF is under the fiduciary responsibility of the UT Board and is provided day-to-day operations by UTIMCO.

The purpose of the MD&A is to provide an objective and easily readable analysis of the Fund's financial statements based upon currently known facts, decisions or conditions.

### Financial Highlights

- The Fund's net fiduciary assets, after contributions, withdrawals and distributions, increased by \$439.9 million from \$4,000.9 million to \$4,440.8 million or approximately 11.0% for the year ended August 31, 2006, compared to an increase of \$607.6 million or approximately 17.9% for the ended August 31, 2005. The change in net fiduciary assets from year to year is mainly attributable to the following:
  1. Participant contributions to the Fund increased by 92.2% from fiscal year 2005 to 2006. Fiscal year contributions of \$281.2 million represented 6.7% of the average value of the Fund assets during the year. Participant contributions consist of endowment and other long-term funds that have been forwarded to the Fund for management by UTIMCO.
  2. The Fund posted a net investment return of 11.06% for the fiscal year ended August 31, 2006, compared to a net investment return of 18.68% for the prior fiscal year. The net investment return of the Fund is dependent on the results of the investments held in the GEF. The GEF's investments in real estate investment trusts, private market investments and global equities were the leading contributors to the 2006 return. For the fiscal year ended

# **THE UNIVERSITY OF TEXAS SYSTEM LONG TERM FUND**

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August 31, 2005, the commodities, private market investments and global equities asset classes were the leading performers.

3. The Fund's distribution rate per unit was increased by 2.5%, approximately the average rate of inflation, for the year ended August 31, 2006. This equated to an increase in the 2006 rate to \$0.2764 per unit from the 2005 rate of \$0.2697 per unit. The 2005 rate represented an increase of 2.0% over the fiscal year 2004 rate of \$0.2645 per unit. Fiscal year 2006 distributions represented 4.27% of the Fund's average net asset value during the year, compared to the fiscal year 2005 distributions which represented 4.51% of the Fund's average net asset value for the year.

## **Use of Financial Statements and Notes**

The Fund's financial statements were prepared in accordance with standards issued by the Governmental Accounting Standards Board (GASB). Two financial statements are required under GASB: the Statement of Fiduciary Net Assets and the Statement of Changes in Fiduciary Net Assets.

The notes to the financial statements contain supplemental information that is essential for the fair presentation of the financial statements.

## **Statements of Fiduciary Net Assets**

The Statements of Fiduciary Net Assets present assets, liabilities, and net assets of the Fund as of the end of the fiscal year. These statements, along with all of the Fund's financial statements, are prepared using the accrual basis of accounting, whereby Fund investment income is recognized when earned and Fund expenses are recognized when incurred.

Since the Fund no longer invests in individual securities except for GEF units and a negligible amount of cash, the majority of the Fund's Statements of Fiduciary Net Assets are reflected in its investment in GEF units.

As of August 31, 2006, the Fund owned GEF 28,623,092 units representing an ownership percentage of 81.82%, compared to 28,652,350 GEF units representing an ownership percentage of 81.21% as of August 31, 2005. As of August 31, 2006 and 2005, the fair value of the GEF units was \$4,441.0 million and \$4,001.1 million, respectively.

The GEF invests in a broad mix of investments and is actively managed to its benchmark, the Endowment Policy Portfolio. The Endowment Policy Portfolio is the index or benchmark for the endowment funds that UTIMCO manages. The return of the Endowment Policy Portfolio is the sum of the weighted benchmark returns for each asset class that comprise it. UTIMCO allocates GEF's assets to internally and externally managed portfolios in accordance with approved asset allocation policies, and attempts to supplement the original endowment corpus by increasing purchasing power over time. In doing so, UTIMCO increases the endowment resources available to fund the teaching, research, and health care programs specified by the various donors.

# THE UNIVERSITY OF TEXAS SYSTEM

## LONG TERM FUND

The following table summarizes the Statements of Fiduciary Net Assets (in millions):

	2006	2005	2004
<b>Assets</b>			
General Endowment Fund Units	\$ 4,441.0	\$ 4,001.1	\$ 3,393.4
Cash and Cash Equivalents	-	-	-
Receivable for Investment Securities Sold	2.1	1.5	16.0
<b>Total Assets</b>	<b>4,443.1</b>	<b>4,002.6</b>	<b>3,409.4</b>
<b>Liabilities</b>			
Payable to Participants	2.1	1.5	16.0
Other Payables	0.2	0.2	0.1
<b>Total Liabilities</b>	<b>2.3</b>	<b>1.7</b>	<b>16.1</b>
<b>Net Assets Held in Trust</b>	<b>\$ 4,440.8</b>	<b>\$ 4,000.9</b>	<b>\$ 3,393.3</b>

### Statement of Changes in Fiduciary Net Assets

Changes in fiduciary net assets as presented on the Statements of Changes in Fiduciary Net Assets are based on activity of the Fund. The purpose of these statements is to present additions to the Fund resulting from net investment income and participant contributions and to present deductions from the Fund resulting from administrative expenses and participant distributions.

The net increase in investments of the Fund was \$371.3 million during the year compared to \$558.6 million for the year ended August 31, 2005. Investment expenses totaled \$2.1 million, \$2.4 million and \$3.1 million, respectively for the years ended August 31, 2006, 2005 and 2004.

Distributions to participants totaled \$180.5 million, \$167.8 million and \$158.0 million, respectively, for the years ended August 31, 2006, 2005 and 2004. The increase in distributions is a result of the UT Board increasing the distribution rate from \$0.2697 per unit to \$0.2764 per unit for fiscal year 2006, and additional contributions into the Fund. The increase for fiscal year 2005, is a result of the UT Board's increase of the distribution rate from \$.2645 per unit to \$.2697 per unit, and additional contributions to the Fund. The Fund is structured as a mutual fund in which each endowment or account purchases units at the Fund's market value per unit. Cash distributions are paid quarterly, on a per unit basis, directly to the UT System institution of record.

The Fund's two primary investment objectives are:

- Provide for current beneficiaries by increasing the annual distribution rate at least equal to the rate of inflation so that real purchasing power is maintained, and
- Provide for future beneficiaries by increasing the market value of endowment funds after the annual distribution at a rate at least equal to the rate of inflation so that future distributions maintain purchasing power as well.

# THE UNIVERSITY OF TEXAS SYSTEM

## LONG TERM FUND

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Fund distributions are controlled by a spending policy approved by the UT Board. The key to preservation of endowment purchasing power over the long-term is control of spending through a target distribution rate. This target rate should not exceed the endowment's average annual investment return after fund expenses and inflation. The Fund distributions are increased annually at an average rate of inflation provided that the distribution rate remains within a range of 3.5% to 5.5% of the Fund's net asset value. As reported on the financial highlights statement in the supplemental schedules, the ratio of distributions to average net assets (12-quarter average) has remained between 3.5% to 5.5%.

The following table summarizes the Statements of Changes in Fiduciary Net Assets (in millions):

	<b>2006</b>	<b>2005</b>	<b>2004</b>
Investment Income	\$ 454.1	\$ 640.6	\$ 441.1
Less Investment Expenses	(2.1)	(2.4)	(3.1)
Net Investment Income	452.0	638.2	438.0
Participant Contributions	281.2	146.3	315.1
Total Additions	733.2	784.5	753.1
Administrative Expenses	3.7	3.4	3.0
Participant Withdrawals	109.1	5.7	38.6
Participant Distributions	180.5	167.8	158.0
Total Deductions	293.3	176.9	199.6
Change in Fiduciary Net Assets	439.9	607.6	553.5
Net Assets Held in Trust, Beginning of Period	4,000.9	3,393.3	2,839.8
Net Assets Held in Trust, End of Period	\$ 4,440.8	\$ 4,000.9	\$ 3,393.3

### Contacting UTIMCO

The above financial highlights are designed to provide a general overview of the Fund's investment results and insight into the following financial statements. Additional information may be found on our website and inquiries may be directed to UTIMCO via [www.utimco.org](http://www.utimco.org).

**THE UNIVERSITY OF TEXAS SYSTEM  
LONG TERM FUND**

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**Statements of Fiduciary Net Assets**

*August 31, 2006 and 2005*

*(Dollars in thousands, except per unit amounts)*

	<u>2006</u>	<u>2005</u>
<b>Assets</b>		
General Endowment Fund Units	\$ 4,441,001	\$ 4,001,136
Cash and Cash Equivalents	1	2
Receivable for Investment Securities Sold	2,092	1,547
<b>Total Assets</b>	<u>4,443,094</u>	<u>4,002,685</u>
<b>Liabilities</b>		
Payable to Participants	2,092	1,547
Other Payables	222	200
<b>Total Liabilities</b>	<u>2,314</u>	<u>1,747</u>
<b>Net Assets Held in Trust</b> <b>(658,470,815 Units and 631,354,939 Units, respectively)</b>	<u>\$ 4,440,780</u>	<u>\$ 4,000,938</u>
<b>Net Asset Value Held in Trust Per Unit</b>	<u>\$6.744</u>	<u>\$6.337</u>

*The accompanying notes are an integral  
part of these financial statements.*

**THE UNIVERSITY OF TEXAS SYSTEM  
LONG TERM FUND**

**Statements of Changes in Fiduciary Net Assets**

*Years Ended August 31, 2006 and 2005*

*(in thousands)*

	<u>2006</u>	<u>2005</u>
<b>Additions</b>		
Investment Income		
Net Increase in Investments	\$ 371,346	\$ 558,584
Allocation of General Endowment Fund Net Investment Income	82,750	82,016
Other	5	10
Total Investment Income	<u>454,101</u>	<u>640,610</u>
Less Investment Expenses		
UTIMCO Management Fee	1,965	2,237
Other Expenses	138	119
Total Investment Expenses	<u>2,103</u>	<u>2,356</u>
Net Investment Income	451,998	638,254
Participant Contributions	<u>281,191</u>	<u>146,261</u>
<b>Total Additions</b>	<u>733,189</u>	<u>784,515</u>
<b>Deductions</b>		
Administrative Expenses		
Fee for Endowment Compliance	2,720	2,526
Fee for UT System Oversight	200	120
Internal Fee for Educational Purposes	856	761
Total Administrative Expenses	<u>3,776</u>	<u>3,407</u>
Participant Withdrawals	109,104	5,612
Participant Distributions	<u>180,467</u>	<u>167,833</u>
<b>Total Deductions</b>	<u>293,347</u>	<u>176,852</u>
<b>Change in Fiduciary Net Assets</b>	439,842	607,663
Net Assets Held in Trust, Beginning of Period	<u>4,000,938</u>	<u>3,393,275</u>
<b>Net Assets Held in Trust, End of Period</b>	<u>\$ 4,440,780</u>	<u>\$ 4,000,938</u>

*The accompanying notes are an integral  
part of these financial statements.*

# THE UNIVERSITY OF TEXAS SYSTEM

## LONG TERM FUND

### *Notes to Financial Statements*

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#### **Note 1 – Organization and Basis of Presentation**

The University of Texas System Long Term Fund (Fund) 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 Fund was formerly known as the Common Trust Fund. The Long Term Fund was established February 9, 1995, by the Board of Regents of The University of Texas System (Board of Regents) to succeed the Common Trust Fund pooled investment fund. Fiduciary responsibility for the Fund rests with the Board of Regents. The day-to-day operational responsibilities of the Fund are delegated to The University of Texas Investment Management Company (UTIMCO), pursuant to an Investment Management Services Agreement with the Board of Regents.

On March 1, 2001, the Fund purchased units in the newly created General Endowment Fund (GEF) in exchange for the contribution of its investment assets. The GEF, established by the Board of Regents effective March 1, 2001, is a pooled fund for the collective investment of long-term funds under the control and management of the Board of Regents. The GEF has only two participants: the Fund and the Permanent Health Fund (PHF) which was also established by the Board of Regents. The GEF is organized as a mutual fund in which the Fund and the PHF purchase and redeem units quarterly. The GEF is under the fiduciary responsibility of the Board of Regents and is provided day-to-day operations by UTIMCO.

The activities of the Fund are accounted for as a fiduciary fund. The financial statements of the Fund use an economic resources measurement focus and the accrual basis of accounting, whereby revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of cash flows. This fund is subject to the pronouncements of the Governmental Accounting Standards Board (GASB).

The annual combined financial statements of UT System are prepared in accordance with Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements and include information related to the Fund. The accompanying financial statements may differ in presentation from the Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements.

#### **Note 2 – Investment in GEF**

Beginning with the purchase of GEF units on March 1, 2001, the Fund no longer invests in individual securities except for GEF units and a negligible amount of cash. The Fund also continues to receive securities as proceeds in class action suits from the securities the Fund previously owned. These securities are normally sold when received, but from time to time will be reflected as a Fund investment. Subsequent participant contributions received by the Fund are also used to purchase GEF units. At August 31, 2006, the Fund is the majority participant in the GEF, with ownership of 28,623,092 units, which represents 81.82% of the GEF. At August 31, 2005, the Fund held 28,652,350 units, which represented 81.21% of the GEF.

The GEF and the Fund have identical investment objectives. Additionally, the GEF's accounting policies follow the Fund's, as described in Note 3, except for the distributions to participants. On a monthly basis

**THE UNIVERSITY OF TEXAS SYSTEM**  
**LONG TERM FUND**

***Notes to Financial Statements (cont.)***

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for accounting purposes, the GEF allocates its net investment income and realized gain or loss to the Fund based on its ownership of GEF units at month end. The allocated investment income and realized gain amounts increase the cost basis of the units in the GEF, and any allocated realized losses reduce the cost basis of the units in the GEF. Since the distribution is proportional to the percentage of ownership by the unitholders, no additional units are purchased. The Fund redeems GEF units quarterly to meet its distribution requirements to its unitholders.

**Note 3 – Significant Accounting Policies**

- (A) **Security Valuation** -- The Fund's investment in GEF Units is valued at the net asset value per unit reported by the GEF.
- (B) **Investment Income** -- Interest income is accrued as earned.
- (C) **Security Transactions** -- A gain or loss is recognized on GEF unit sales on the basis of average cost.
- (D) **Distributions to Participants** -- Cash distributions to participants are paid quarterly based on a per unit payout established by the Board of Regents. For the fiscal year ended August 31, 2006, the quarterly rate was \$.0691 which equates to an annual rate of \$.2764 per unit. For the fiscal year ended August 31, 2005, the quarterly distribution rate was \$.067425 which equated to an annual rate of \$.2697 per unit. The ratio of distributions to average net assets (12-quarter average) was 4.44% as of August 31, 2006. The investment policy provides that the annual payout will be adjusted by the average consumer price index of the prior 36 months subject to a maximum distribution of 5.5% of the Fund's average market value and a minimum distribution of 3.5% of the Fund's average market value.
- (E) **Fund Valuation** -- Valuation of the Fund's units occurs on a quarterly basis. Unit values are determined by dividing the value of the Fund's net assets by the number of units outstanding on the valuation date.
- (F) **Purchases and Redemption of Units** -- The value of participating units, upon admission to the Fund, is based upon the market value of net assets held as of the valuation date. Redemptions from the Fund will also be made at the market value price per unit at the valuation date at the time of the withdrawal. There are no transaction costs incurred by participants for the purchase or redemption of units.
- (G) **Participants' Net Assets** -- All participants in the Fund have a proportionate undivided interest in the Fund's net assets.
- (H) **Federal Income Taxes** -- The Fund is not subject to federal income tax.
- (I) **Use of Estimates** -- The preparation of financial statements 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

# THE UNIVERSITY OF TEXAS SYSTEM

## LONG TERM FUND

*Notes to Financial Statements (cont.)*

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(J) **Cash and Cash Equivalents** -- Cash and Cash Equivalents consist of money markets and other overnight funds.

### **Note 4 – Investment Risk**

The investment risk disclosure that follows relates to the GEF's investments before securities lending transactions and the investment of cash collateral. Disclosures relating to the GEF's securities lending are provided in Note 5. Values presented are the Fund's pro-rata share of GEF investments based on its unit ownership in the GEF. As of August 31, 2006 and 2005, the Fund's unit ownership in the GEF was 81.82% and 81.21%, respectively, of the total.

#### **(A) Credit Risk**

Article VII, Section 11b of the Texas Constitution authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (the "PUF") in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all of the assets of the fund rather than a single investment. Pursuant to Section 51.0031(c) of the Texas Education Code, the Board of Regents has elected the PUF prudent investor standard to govern its management of the GEF.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The Fund's investment policy limits investments in U.S. Domestic bonds and non-dollar denominated bond investments to those that are rated investment grade, Baa3 or better by Moody's Investor Services, BBB- or better, by Standard & Poor's Corporation, or BBB- or better by Fitch Investors Service at the time of acquisition. This requirement does not apply to investment managers that are authorized by the terms of an investment advisory agreement to invest in below investment grade bonds.

Per GASB Statement No. 40 (GASB 40), *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3*, unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. GASB 40 also provides that securities with split ratings, or a different rating assignment between NRSROs, are disclosed using the rating indicative of the greatest degree of risk. The following table presents the Fund's pro-rata share of each applicable GEF investment type grouped by rating as of August 31, 2006 and 2005.

**THE UNIVERSITY OF TEXAS SYSTEM**  
**LONG TERM FUND**  
**Notes to Financial Statements (cont.)**

GEF Investment Type	Fund's Pro Rata Share		Rating
	2006	2005	
<b>Investments:</b>			
U.S. Government Guaranteed	\$ 399,789,769	\$ 333,713,358	Exempt from Disclosure
U.S. Government Non-Guaranteed:			
U.S. Agency	12,071,315	33,784,029	AAA
U.S. Agency	-	2,831,468	A
U.S. Agency Asset Backed	135,277,523	154,225,101	AAA
Total U.S. Government Non-Guaranteed	147,348,838	190,840,598	
Total U.S. Government	547,138,607	524,553,956	
<b>Corporate Obligations:</b>			
Domestic	26,631,800	21,299,403	AAA
Domestic	4,303,334	3,238,080	AA
Domestic	14,134,024	21,576,558	A
Domestic	18,144,314	14,847,651	BAA/BBB
Domestic	-	4,660,559	BBB
Domestic	121,671	3,267,426	BAA
Domestic	2,806,291	4,641,767	BA/BB
Domestic	230,943	1,888,500	BB
Domestic	653,521	193,012	BA
Domestic	4,757,876	2,326,917	B
Domestic	140,475	242,849	CAA
Domestic	-	225,124	CA
Domestic	96,211	-	CCC
Domestic	8,606	1,243,048	Rating Withdrawn
Commercial Paper	83,448,752	24,574,649	P
Commercial Paper	102,794,805	-	A
Foreign	4,223,984	6,000,885	AAA
Foreign	2,750,112	1,755,034	AA
Foreign	6,805,731	4,658,360	A
Foreign	5,783,343	2,057,339	BAA/BBB
Foreign	-	175,598	BBB
Foreign	-	290,840	BAA
Foreign	-	80,581	BA/BB
Foreign	-	23,315	B
Total Corporate Obligations	277,835,793	119,267,495	
Foreign Government and Provincial Obligations	30,360,916	44,685,870	AAA
Foreign Government and Provincial Obligations	9,677,440	9,374,839	AA
Foreign Government and Provincial Obligations	2,978,652	1,269,451	A
Foreign Government and Provincial Obligations	1,569,377	3,677,402	BAA/BBB
Foreign Government and Provincial Obligations	-	171,597	BAA
Foreign Government and Provincial Obligations	1,201,527	3,077,680	BA
Foreign Government and Provincial Obligations	-	466,126	B
Total Foreign Government and Provincial Obligations	45,787,912	62,722,965	
Other Debt Securities	1,308,101	3,415,040	AAA
Other Debt Securities	479,921	965,634	AA
Other Debt Securities	-	971,782	A
Other Debt Securities	3,058,109	3,174,218	BAA/BBB
Total Other Debt Securities	4,846,131	8,526,674	
Total Debt Securities	\$ 875,608,443	\$ 715,071,090	
Other Investment Funds - Debt	\$ 29,230,742	\$ 871,560	AAA
Other Investment Funds - Debt	42,320,841	-	AA
Other Investment Funds - Debt	3,590,910	9,589,486	BB
Total Other Investment Funds - Debt	\$ 75,142,493	\$ 10,461,046	
Cash and Cash Equivalents - Money Market Funds	\$ 426,985,904	\$ 414,667,426	AAA
Cash and Cash Equivalents - Other	5,323,908	8,683,551	Exempt from Disclosure
Total Cash and Cash Equivalents	\$ 432,309,812	\$ 423,350,977	
<b>Deposit with Brokers for Derivative Contracts:</b>			
U.S. Government Guaranteed	\$ 36,043,506	\$ 21,550,347	Exempt from Disclosure
Cash	10,542,248	3,161,340	Exempt from Disclosure
	\$ 46,585,754	\$ 24,711,687	
<b>Deposit with Broker for Securities Sold Short:</b>			
Cash	\$ 3,297,537	\$ -	Exempt from Disclosure

# THE UNIVERSITY OF TEXAS SYSTEM

## LONG TERM FUND

### *Notes to Financial Statements (cont.)*

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#### **(B) Concentrations of Credit Risk**

The GEF's investment policy statement contains the limitation that no more than 5% of the market value of domestic fixed income securities may be invested in corporate or municipal bonds of a single issuer. The GEF does not hold any direct investments in any one issuer that represents five percent or more of total investments.

#### **(C) Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the GEF will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the GEF will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Texas State Statutes and the GEF's investment policy statements do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. As of August 31, 2006 and 2005, the GEF does not have any investments that are exposed to custodial credit risk.

#### **(D) Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its value to changes in market interest rates. Interest rate risk inherent in the GEF is measured by monitoring the modified duration of the overall investment portfolio. Modified duration estimates the sensitivity of the GEF's investments to changes in interest rates. The GEF has no specific policy statement limitations with respect to its overall modified duration. The following table summarizes the GEF's modified duration and the Fund's pro-rata share of the GEF investment value by investment type as of August 31, 2006 and 2005.

**THE UNIVERSITY OF TEXAS SYSTEM**  
**LONG TERM FUND**  
**Notes to Financial Statements (cont.)**

GEF Investment Type	August 31,			
	2006		2005	
	Value	Modified Duration	Value	Modified Duration
<b>Investments in Securities:</b>				
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	\$ 100,961,118	7.28	\$ 92,046,016	6.47
U.S. Treasury Strips	2,392,508	5.00	2,964,587	6.00
U.S. Treasury Bills	4,072,706	0.04	5,707,356	0.15
U.S. Treasury Inflation Protected	290,490,657	7.91	231,052,065	8.03
U.S. Agency Asset Backed	1,872,781	5.88	1,943,333	2.34
Total U.S. Government Guaranteed	<u>399,789,770</u>	7.65	<u>333,713,357</u>	7.42
U.S. Government Non-Guaranteed:				
U.S. Agency	12,071,315	3.05	36,615,497	5.21
U.S. Agency Asset Backed	135,277,523	5.46	154,225,102	3.39
Total U.S. Government Non-Guaranteed	<u>147,348,838</u>	5.26	<u>190,840,599</u>	3.74
Total U.S. Government	<u>547,138,608</u>	7.00	<u>524,553,956</u>	6.08
Corporate Obligations:				
Domestic	72,251,893	4.41	79,650,894	5.06
Commercial Paper	186,020,730	0.07	24,574,648	0.23
Foreign	19,563,169	11.18	15,041,952	6.80
Total Corporate Obligations	<u>277,835,792</u>	1.98	<u>119,267,494</u>	4.28
Foreign Government and Provincial Obligations	<u>45,787,912</u>	6.52	<u>62,722,965</u>	8.54
Other Debt Securities	<u>4,846,131</u>	12.30	<u>8,526,675</u>	11.31
Total Debt Securities	<u>875,608,443</u>	5.41	<u>715,071,090</u>	5.90
Other Investment Funds - Debt	<u>75,142,493</u>	3.77	<u>10,461,046</u>	5.97
Cash and Cash Equivalents:				
Money Market Funds	426,985,904	0.08	414,667,426	0.08
Other	5,323,908	-	8,683,551	-
Total Cash and Cash Equivalents	<u>432,309,812</u>	0.08	<u>423,350,977</u>	0.08
Total	<u>\$ 1,383,060,748</u>	3.66	<u>\$ 1,148,883,113</u>	3.76
<b>Deposit with Brokers for Derivative Contracts:</b>				
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	\$ -	-	\$ 89,474	0.41
U.S. Treasury Bills	35,100,926	0.15	20,530,609	0.21
U.S. Treasury Inflation Protected	942,580	0.36	930,264	1.33
Total U.S. Government Guaranteed	<u>36,043,506</u>	0.16	<u>21,550,347</u>	0.26
Cash	<u>10,542,248</u>	-	<u>3,161,340</u>	-
Total Deposit with Brokers for Derivative Contracts	<u>\$ 46,585,754</u>	0.11	<u>\$ 24,711,687</u>	0.22
<b>Deposit with Broker for Securities Sold Short:</b>				
Cash	<u>\$ 3,297,537</u>	-	<u>\$ -</u>	-

**(E) Investments with Fair Values That Are Highly Sensitive to Interest Rate Changes**

In accordance with the GEF's investment policy statement, the GEF may invest in various mortgage backed securities, such as collateralized mortgage backed obligations. The GEF also may invest in investments that have floating rates with periodic coupon changes in market rates, zero coupon bonds and stripped Treasury

# THE UNIVERSITY OF TEXAS SYSTEM

## LONG TERM FUND

### *Notes to Financial Statements (cont.)*

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and Agency securities created from coupon securities. As of August 31, 2006 and 2005, the GEF's investments include the following investments that are highly sensitive to interest rate changes.

Collateralized mortgage obligations which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. The Fund's pro-rata share of these securities amounted to \$29,538,799 and \$40,655,395 as of August 31, 2006 and 2005, respectively.

Mortgage backed securities which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. The Fund's pro-rata share of these securities amounted to \$124,633,768 and \$78,930,029 as of August 31, 2006 and 2005, respectively.

Asset backed securities which are backed by home equity loans, auto loans, equipment loans and credit card receivables. Prepayments by the obligees of the underlying assets in periods of decreasing interest rates could reduce or eliminate the stream of income that would have been received. The Fund's pro-rata share of these securities amounted to \$10,835,053 and \$8,971,720 as of August 31, 2006 and 2005, respectively.

Step-up notes that grant the issuer the option to call the note on certain specified dates. At each call date, should the issuer not call the note, the coupon rate of the note increases (steps up) by an amount specified at the inception of the note. The call feature embedded within a step-up note causes the fair value of the instrument to be considered highly sensitive to interest rate changes. The Fund's pro-rata share of these securities amounted to \$1,623,158 and \$4,034,187 as of August 31, 2006 and 2005, respectively.

#### **(F) *Foreign Currency Risk***

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the GEF's non-U.S. dollar investments. The GEF's investment policy statement limits investments in non-U.S. denominated bonds to 50% of the GEF's total fixed income exposure. The following table summarizes the Fund's pro-rata exposure of the GEF's non-U.S. dollar investments as of August 31, 2006 and 2005.

# THE UNIVERSITY OF TEXAS SYSTEM

## LONG TERM FUND

Notes to Financial Statements (cont.)

GEF Investment Type	Fund's Pro-Rata Share	
	August 31,	
	2006	2005
<b>Foreign Common Stock:</b>		
Australian Dollar	\$ 6,982,681	\$ 8,222,338
Canadian Dollar	30,820,782	29,791,257
Swiss Franc	4,168,337	6,336,019
Danish Krone	1,530,269	1,987,029
Euro	18,297,330	49,556,081
UK Pound	22,283,357	17,511,842
Hong Kong Dollar	9,221,064	3,183,857
Japanese Yen	100,410,888	84,667,181
South Korean Won	2,753,853	1,306,984
New Zealand Dollars	297,585	-
Norwegian Krone	2,388,818	7,942,724
Swedish Krona	2,906,049	3,523,665
Singapore Dollar	4,693,892	4,601,320
Total Foreign Common Stock	206,754,905	218,630,297
<b>Other - Equity Securities</b>		
Canadian Dollar	21	-
<b>Foreign Government and Provincial Obligations:</b>		
Australian Dollar	-	361,409
Canadian Dollar	103,964	351,357
Danish Krone	408,618	413,095
Euro	36,635,887	46,414,115
Japanese Yen	1,799,746	-
New Zealand Dollar	275,195	657,999
Polish Zloty	1,491,133	1,269,451
UK Pound	-	4,401,588
Total Foreign Government and Provincial Obligations	40,714,543	53,869,014
<b>Corporate Obligations:</b>		
Euro	8,966,724	6,208,069
UK Pound	627,242	611,110
Japanese Yen	1,404,031	-
Total Corporate Obligations	10,997,997	6,819,179
<b>Purchased Options:</b>		
Canadian Dollar	29,680	549,760
Euro	418,288	29,404
UK Pound	63,374	-
Japanese Yen	1,380,149	-
Total Purchased Options	1,891,491	579,164
<b>Private Market Investment Funds:</b>		
Euro	46,959,493	40,030,635
UK Pound	2,233,464	3,546,500
Total Private Market Investment Funds	49,192,957	43,577,135
<b>Cash and Cash Equivalents:</b>		
Australian Dollar	74,275	51,355
Canadian Dollar	563,786	2,779,592
Swiss Franc	39,910	35,108
Danish Krone	14,267	18,764
Euro	843,851	1,158,033
UK Pound	415,119	(29,438)
Hong Kong Dollar	97,792	8,980
Japanese Yen	4,288,565	9,773,808
Norwegian Krone	33,128	4,243
New Zealand Dollar	229,253	6,683
Polish Zloty	166,031	73,056
Swedish Krona	110,861	3,967
Singapore Dollar	91,602	24,287
New Taiwan Dollar	271	270
Total Cash and Cash Equivalents	6,968,711	13,908,708
Total	\$ 316,520,625	\$ 337,383,497

# THE UNIVERSITY OF TEXAS SYSTEM

## LONG TERM FUND

### Notes to Financial Statements (cont.)

#### Note 5 – Securities Lending

In accordance with the prudent investor investment standards, the GEF loans securities to certain brokers who pay the GEF negotiated lenders' fees. These fees are included in the GEF investment income, and related expenses are included in investment expenses. The GEF receives qualified securities and/or cash as collateral against the loaned securities. The collateral, when received, will have a market value of 102% of loaned securities of U.S. issuers and a market value of 105% for loaned securities of non-U.S. issuers. If the market value of the collateral held in connection with loans of securities of U.S. issuers is less than 100% at the close of trading on any business day, the borrower is required to deliver additional collateral by the close of the next business day to equal 102% of the market value. For non-U.S. issuers, the collateral should remain at 105% of the market value of the loaned securities at the close of any business day. If it falls below 105%, the borrower must deliver additional collateral by the close of the following business day.

The Fund's pro-rata share of the value of GEF securities loaned and the value of collateral held are as follows at August 31, 2006 and 2005:

<b>GEF Securities on Loan</b>	<b>2006 Value</b>	<b>2005 Value</b>	<b>Type of Collateral</b>	<b>2006 Value of Collateral</b>	<b>2005 Value of Collateral</b>
U.S. Government	\$275,944,327	\$296,993,190	Cash	\$280,758,788	\$300,011,659
Foreign Government	9,917,110	14,973,393	Cash	10,411,481	15,677,974
Corporate Bonds	3,909,828	4,019,874	Cash	4,007,846	4,129,325
Common Stock	86,827,685	78,264,764	Cash	90,506,589	81,414,372
<b>Total</b>	<b>\$376,598,950</b>	<b>\$394,251,221</b>	<b>Total</b>	<b>\$385,684,704</b>	<b>\$401,233,330</b>
U.S. Government	\$18,359,843	\$6,142,807	Non-Cash	\$18,756,205	\$6,354,186
Common Stock	619,407	597,943	Non-Cash	631,951	618,518
<b>Total</b>	<b>\$18,979,250</b>	<b>\$6,740,750</b>	<b>Total</b>	<b>\$19,388,156</b>	<b>\$6,972,704</b>

Cash received as collateral for securities lending activities is invested and reinvested in a commingled pool managed exclusively for the benefit of the GEF, the Permanent University Fund, the Intermediate Term Fund and other Board of Regent accounts that participate in securities lending activities. The pool is managed in accordance with investment guidelines established in the securities lending contract between the GEF and its securities lending agent. The maturities of the investments in the pool do not necessarily match the term of the loans, rather the pool is managed to maintain a maximum dollar weighted average maturity of 60 days and an overnight liquidity of 20 percent. Lending income is earned if the returns on those investments exceed the rebate paid to borrowers of the securities. The income remaining after the borrower rebates is then shared with the lending agent on a contractually negotiated split. If the investment of the cash collateral does not provide a return exceeding the rebate or if the investment incurs a loss of principal, the payment of the shortfall to the borrower would come from the Fund and the securities lending agent in the same proportion as the split of income.

The Fund's pro-rata share of the GEF's portion of the collateral pool investments, rating by NRSRO, and weighted average maturity as of August 31, 2006 and 2005 is shown in the following table.

# THE UNIVERSITY OF TEXAS SYSTEM

## LONG TERM FUND

*Notes to Financial Statements (cont.)*

Description	August 31,					
	2006			2005		
	Fund's Pro-Rata Share Fair Value	Rating	Weighted Average Maturity In Days	Fund's Pro-Rata Share Fair Value	Rating	Weighted Average Maturity In Days
Repurchase Agreements	\$ 140,414,486	Available	14	\$ 189,073,593	Available	1
Commercial Paper	167,724,957	P	26	162,508,339	P	36
Floating Rate Notes	22,012,133	AAA		3,672,704	AAA	
Floating Rate Notes	<u>15,810,248</u>	AA		<u>41,098,882</u>	AA	
Total Floating Rate Notes	<u>37,822,381</u>		69	<u>44,771,586</u>		37
Certificates of Deposit	48,256,759	P	67	6,042,950	P	50
Asset Backed Securities	691,698	AAA	11	229,033	AAA	168
Other Receivables/Payables	<u>(9,225,576)</u>	Not Rated	-	<u>(1,392,170)</u>	Not Rated	-
Total Collateral Pool Investment	<u>\$ 385,684,705</u>		31	<u>\$ 401,233,331</u>		20

Collateral pool investments are uninsured, and are held by the securities lending agent, in its name, on behalf of the GEF, except for the investments in repurchase agreements which are held in the securities lending agent's name by a third party custodian not affiliated with the GEF or the borrower of the associated loaned securities. Therefore, the collateral pool is not exposed to custodial credit risk because the pool investments are not held by counterparties to the lending transactions or a counterparties trust department or agent.

Cash collateral is recorded as an asset with an equal and offsetting liability to return the collateral on the statements of fiduciary net assets. Investments received as collateral for securities lending activities are not recorded as assets because the investments remain under the control of the transferor, except in the event of default.

In the event of default, where the borrower is unable to return the securities loaned, the GEF has authorized the securities lending agent to seize the collateral held. The collateral is then used to replace the borrowed securities where possible. Due to some market conditions, it is possible that the original securities cannot be replaced. If the collateral is insufficient to replace the securities, the securities lending agent has indemnified the GEF from any loss due to borrower default.

As of August 31, 2006 and 2005, the GEF had no credit risk exposure to borrowers because the amounts the GEF owed to borrowers exceeded the amounts the borrowers owed the GEF.

There were no significant violations of legal or contractual provisions, no borrower or securities lending agent default losses, and no recoveries of prior period losses during the years ended August 31, 2006 and 2005.

### Note 6 – Fees and Expenses

The Fund is assessed a management fee by UTIMCO to cover the costs of managing the Fund and providing day-to-day operations. The fee assessed for the year ended August 31, 2006, was \$1,965,491, net of a rebate of \$1,293,600 of prior year reserves from UTIMCO to the Fund. The fee assessed for the year ended August 31, 2005 was \$2,236,783, net of a rebate of \$1,246,673 of prior year reserves from UTIMCO to the Fund.

**THE UNIVERSITY OF TEXAS SYSTEM**  
**LONG TERM FUND**

***Notes to Financial Statements (cont.)***

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The Fund is assessed an annual administrative fee on behalf of UT System institutions based on 0.08% of the market value of the Fund for the support of enhanced and expanded endowment compliance efforts. This fee is assessed and paid at the beginning of each fiscal year. The fees assessed for the fiscal years ending August 31, 2006 and 2005, were \$2,720,170 and \$2,525,960, respectively.

The Fund is assessed a quarterly internal fee by UT System for educational purposes based on 0.005% of the Fund's net asset value on the last day of each quarter for the years ended August 31, 2006 and 2005. The fees assessed for the years ended August 31, 2006 and 2005, were \$855,873 and \$761,378, respectively.

The Fund is assessed a fee to cover costs associated with UT System personnel and UT System consultants hired to provide assistance to the Board of Regents and the Chancellor of the UT System in their oversight responsibilities of UTIMCO. The fees assessed for the years ended August 31, 2006 and 2005, were \$200,047 and \$120,446, respectively.

The Fund incurs other expenses related to its operations primarily consisting of audit fees, printing and graphic expenses, legal, consultation fees and custodial fees.

**THE UNIVERSITY OF TEXAS SYSTEM**  
**LONG TERM FUND**  
*Supplemental Schedule*

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**Financial Highlights**  
*Years Ended August 31,*

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Selected Per Unit Data</b>					
Net Asset Value, Beginning of Period	\$ 6.337	\$ 5.585	\$ 5.114	\$ 4.788	\$ 5.412
Income from Investment Operations					
Net Investment Income	0.117	0.123	0.099	0.097	0.098
Net Realized and Unrealized Gain (Loss) on Investments	0.566	0.899	0.637	0.487	(0.471)
Total Income (Loss) from Investment Operations	0.683	1.022	0.736	0.584	(0.373)
Less Distributions					
From Net Investment Income	0.117	0.123	0.099	0.097	0.098
From Net Realized Gain	0.159	0.147	0.166	0.161	0.153
Total Distributions	0.276	0.270	0.265	0.258	0.251
Net Asset Value, End of Period	\$ 6.744	\$ 6.337	\$ 5.585	\$ 5.114	\$ 4.788

**Ratios and Supplemental Data**

Net Assets, End of Period (in thousands)	\$4,440,780	\$4,000,938	\$3,393,275	\$2,839,846	\$2,595,063
Ratio of Investment Expenses to Average Net Assets	0.38%	0.32%	0.33%	0.29%	0.29%
Ratio of Total Expenses to Average Net Assets	0.47%	0.42%	0.43%	0.40%	0.39%
Ratio of Net Investment Income to Average Net Assets	1.82%	2.05%	1.84%	2.01%	1.89%
Ratio of Distributions to Average Net Assets (5-quarter average)	4.27%	4.51%	4.89%	5.40%	4.86%
Ratio of Distributions to Average Net Assets (12-quarter average)	4.44%	4.78%	4.98%	4.86%	4.38%

Financial Statements

The University of Texas System

Intermediate Term Fund

*For the Period from Inception (February 1, 2006)*

*to August 31, 2006*

The University of Texas System Intermediate Term Fund

Financial Statements

For the Period from Inception (February 1, 2006) to August 31, 2006

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## Report of Independent Auditors

The Board of Regents of The University of Texas System  
The Board of Directors of The University of Texas Investment Management Company

We have audited the accompanying financial statements of The University of Texas System Intermediate Term Fund (the "Fund") as of August 31, 2006 and for the period from February 1, 2006 (inception) to August 31, 2006, as listed in the table of contents. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Intermediate Term Fund and do not purport to, and do not, present fairly the fiduciary net assets of The University of Texas Investment Management Company nor The University of Texas System as of August 31, 2006 and the changes in its fiduciary net assets for the year then ended in conformity with accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the Intermediate Term Fund as of August 31, 2006, and the changes in the fiduciary net assets for the period from February 1, 2006 (inception) to August 31, 2006, in conformity with accounting principles generally accepted in the United States.

Management's discussion and analysis on pages 2 through 4 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of The University of Texas System Intermediate Term Fund. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The supplemental schedules as of August 31, 2006 and for the period from February 1, 2006 (inception) to August 31, 2006 have been subjected to the audit procedures applied in the audit of the financial statements and, in our opinion, based on our audit, are fairly stated in relation to the financial statements taken as a whole.



October 27, 2006

# **THE UNIVERSITY OF TEXAS SYSTEM INTERMEDIATE TERM FUND**

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

Our discussion and analysis of The University of Texas System Intermediate Term Fund's (Fund) financial performance provides an overview of its activities for the period from inception (February 1, 2006) to August 31, 2006. This discussion was prepared by The University of Texas Investment Management Company (UTIMCO) and should be read in conjunction with the Fund's financial statements and notes. The Fund, created February 1, 2006 as a replacement for the University of Texas System Short Intermediate Term Fund, the BGI Equity Index Fund and the BGI Debt Index Fund, is an internal UT System mutual fund for the pooled investment of operating funds and other intermediate and long-term funds held by the UT System institutions and UT System Administration. The Fund was created to improve the efficiency of operating funds management and to improve investment returns on UT System operating reserves. The Texas Constitution and various state statutes designate The University of Texas System Board of Regents (UT Board) as the fiduciary for the management of certain public endowment and operating funds. The UT Board has entered into an Investment Management Services Agreement delegating investment management responsibility for all investments to UTIMCO.

The purpose of the MD&A is to provide an objective and easily readable analysis of the Fund's financial statements based upon currently known facts, decisions or conditions.

### **Financial Highlights**

- The Fund's net fiduciary assets, after contributions, withdrawals, and distributions totaled \$3,048.8 million as of August 31, 2006. Activity during the period from inception (February 1, 2006) to August 31, 2006 was mainly attributable to the following:
  1. Initial participant contributions to the Fund on February 1, 2006, totaled \$2,930.9 million. Net contributions to the Fund after the initial funding totaled \$70.2 million.
  2. The Fund posted an unannualized net investment return of 3.42% for the period from inception (February 1, 2006) to August 31, 2006. Investments in real estate investment trusts, non U.S. developed equities, and absolute return hedge funds were the leading contributors to the return.
  3. The Fund's distribution rate was 3.0% per year, or .25% per month, for the period from inception (February 1, 2006) to August 31, 2006. Distributions from the Fund totaled \$52.7 million for the period.

# THE UNIVERSITY OF TEXAS SYSTEM INTERMEDIATE TERM FUND

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## Use of Financial Statements and Notes

The Fund's financial statements were prepared in accordance with standards issued by the Governmental Accounting Standards Board (GASB). Two financial statements are required under GASB: the Statement of Fiduciary Net Assets and the Statement of Changes in Fiduciary Net Assets.

The notes to the financial statements contain supplemental information that is essential for the fair presentation of the financial statements.

## Statement of Fiduciary Net Assets

The Statement of Fiduciary Net Assets presents assets, liabilities, and net assets of the Fund as of the end of the fiscal year. This statement, along with all of the Fund's financial statements, are prepared using the accrual basis of accounting, whereby Fund investment income is recognized when earned and Fund expenses are recognized when incurred.

The Fund invests in a broad mix of investments and is actively managed to its benchmark, the Policy Portfolio benchmark. The Policy Portfolio is the index or benchmark for the intermediate term funds that UTIMCO manages. The return of the Policy Portfolio is the sum of the weighted benchmark returns for each asset class that comprise it. UTIMCO allocates the Fund's assets to internally and externally managed portfolios in accordance with approved asset allocation policies, and attempts to preserve the purchasing power of Fund assets by earning a compound annualized return over rolling three year-periods, net of all direct and allocated expenses, of at least inflation as measured by the Consumer Price Index plus 3%. In doing so, UTIMCO increases the operating resources available to the UT System institutions which invest in the Fund.

The following summarizes the Statement of Fiduciary Net Assets (in millions) as of August 31, 2006:

<b>Assets</b>	
Investments	\$ 3,266.3
Other Assets	732.7
<b>Total Assets</b>	<u>3,999.0</u>
<b>Total Liabilities</b>	950.2
<b>Net Assets Held in Trust</b>	<u><u>\$ 3,048.8</u></u>

## Statement of Changes in Fiduciary Net Assets

Changes in fiduciary net assets as presented on the Statement of Changes in Fiduciary Net Assets are based on activity of the Fund. The purpose of this statement is to present additions to the Fund resulting from net investment income and participant contributions and to present deductions from the Fund resulting from participant withdrawals and distributions.

The net increase in investments of the Fund was \$55.3 million during the period from inception (February 1, 2006) to August 31, 2006. Investment expenses for the same period totaled \$15.0 million.

# THE UNIVERSITY OF TEXAS SYSTEM INTERMEDIATE TERM FUND

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Distributions to participants totaled \$52.7 million for the period from inception (February 1, 2006) to August 31, 2006. Cash distributions are paid monthly based on a 3% annual distribution rate. To calculate the monthly payment the distribution rate is divided by 12 and then multiplied by each unitholder's account, which is determined as follows:

- ? Net asset value of each unitholder's account on the last business day of the second prior month;
- ? Plus value of each unitholder's net purchase/redemption amount on the first business day of the prior month;
- ? Less the distribution amount paid to each unitholder's account on the first business day of the prior month.

The following summarizes the Statement of Changes in Fiduciary Net Assets (in millions) for the period from inception (February 1, 2006) to August 31, 2006:

Investment Income	\$	115.4
Less Investment Expenses		(15.0)
Net Investment Income		<u>100.4</u>
Participant Contributions		<u>3,112.3</u>
Total Additions		<u>3,212.7</u>
Participant Withdrawals		111.2
Participant Distributions		<u>52.7</u>
Total Deductions		<u>163.9</u>
Change in Fiduciary Net Assets		3,048.8
Net Assets Held in Trust, Beginning of Period		-
Net Assets Held in Trust, End of Period	\$	<u><u>3,048.8</u></u>

## Contacting UTIMCO

The above financial highlights are designed to provide a general overview of the Fund's investment results and insight into the following financial statements. Additional information may be found on our website and inquiries may be directed to UTIMCO via [www.utimco.org](http://www.utimco.org).

**THE UNIVERSITY OF TEXAS SYSTEM  
INTERMEDIATE TERM FUND**

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Statement of Fiduciary Net Assets

August 31, 2006

(Dollars in thousands, except for per unit amount)

**Assets**

Investments:

Equity Securities	\$ 356,975
Debt Securities	1,164,860
Investment Funds	1,239,522
Purchased Options	4,478
Cash and Cash Equivalents	500,444
Total Investments	<u>3,266,279</u>

Collateral for Securities Loaned, at Fair Value	482,333
Deposit with Brokers for Derivative Contracts	19,535
Deposit with Broker for Securities Sold Short	305
Swaps, at Fair Value	1,366
Unrealized Gains on Foreign Currency Exchange Contracts	701

Receivables:

Investment Securities Sold	215,352
Accrued Income	12,218
Other	972
Total Receivables	<u>228,542</u>
<b>Total Assets</b>	<u><b>3,999,061</b></u>

**Liabilities**

Payable upon Return of Securities Loaned	482,333
Options Written, at Fair Value	9,847
Swaps, at Fair Value	5,567
Securities Sold Short, at Fair Value	1,869
Unrealized Losses on Foreign Currency Exchange Contracts	1,938

Payables:

Investment Securities Purchased	436,625
Distributions Payable	7,540
Other	4,500
Total Payables	<u>448,665</u>
<b>Total Liabilities</b>	<u><b>950,219</b></u>

**Net Assets Held in Trust (30,020,169 Units) \$ 3,048,842**

**Net Asset Value Held in Trust Per Unit \$ 101.560**

*The accompanying notes are an integral  
part of these financial statements.*

**THE UNIVERSITY OF TEXAS SYSTEM  
INTERMEDIATE TERM FUND**

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**Statement of Changes in Fiduciary Net Assets**

*For the Period from Inception (February 1, 2006) to August 31, 2006*

*(in thousands)*

**Additions**

Investment Income:

Net Increase in Investments	\$55,278
Interest	44,132
Dividends	6,136
Securities Lending Income	9,831
Other	32
Total Investment Income	<u>115,409</u>

Less Investment Expenses:

Investment Management	3,149
Securities Lending Fees	9,585
UTIMCO Management Fee	1,682
Custodial Fees and Expenses	333
Analytical and Risk Measurement Fees	103
Consulting Fees	67
Legal	48
Other	14
Total Investment Expenses	<u>14,981</u>

Net Investment Income 100,428

Participant Contributions 3,112,267

**Total Additions** 3,212,695

**Administrative Expenses**

UT System Oversight Fee 36

**Deductions**

Participant Withdrawals	111,137
Participant Distributions	52,680
<b>Total Deductions</b>	<u>163,853</u>

Change in Fiduciary Net Assets 3,048,842

Net Assets Held in Trust, Beginning of Period -

**Net Assets Held in Trust, End of Period** \$ 3,048,842

*The accompanying notes are an integral  
part of these financial statements.*

# THE UNIVERSITY OF TEXAS SYSTEM

## INTERMEDIATE TERM FUND

### *Notes to Financial Statements*

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#### **Note 1 – Organization and Basis of Presentation**

The University of Texas System Intermediate Term Fund (Fund) is a pooled fund established for the collective investment of operating funds and other short and intermediate term funds held by the 15 University of Texas System (UT System) institutions and UT System Administration. The Fund was established February 1, 2006, by the Board of Regents of UT System (Board of Regents). Fiduciary responsibility for the Fund rests with the Board of Regents. The day-to-day operational responsibilities of the Fund are delegated to The University of Texas Investment Management Company (UTIMCO), pursuant to an Investment Management Services Agreement with the Board of Regents.

The activities of the Fund are accounted for as a fiduciary fund. The financial statements of the Fund use an economic resources management focus and the accrual basis of accounting, whereby revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of cash flows. The Fund is subject to the pronouncements of the Governmental Accounting Standards Board (GASB).

The annual combined financial statements of UT System are prepared in accordance with the Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements and include information related to the Fund. The accompanying financial statements may differ in presentation from the Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements.

#### **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 Fund 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). Securities held by the Fund in index funds and exchange traded 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.

# THE UNIVERSITY OF TEXAS SYSTEM

## INTERMEDIATE TERM FUND

### *Notes to Financial Statements (cont.)*

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Marketable alternative, U.S. equity, non-U.S. developed equity, emerging market and fixed income investment funds and certain other investment funds are valued using the equity method of accounting based on net asset value information provided by the investment company.

(B) ***Foreign Currency Translation*** -- The accounting records of the Fund are maintained in U.S. dollars. Investments in securities are valued at the daily rates of exchange on the valuation date. Purchases and sales of securities of foreign entities and the related income receipts and expense payments are translated into U.S. dollars at the exchange rate on the dates of the transactions. The Fund does not isolate that portion of the results of the change in fiduciary net assets resulting from changes in foreign exchange rates on investments from fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net increase in investments.

(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. Investment income includes net realized and unrealized currency gains and losses recognized between accrual and payment dates on dividend and interest transactions. Premiums and discounts on bonds are not amortized.

(D) ***Security Transactions*** -- Security transactions are recorded on a trade date basis. Gains and losses on securities sold are determined on the basis of average cost. A loss is recognized if there is an impairment in the value of the security that is determined to be other than temporary.

(E) ***Distributions to Participants*** -- Cash distributions to participants are paid monthly based on a percentage rate established by the Board of Regents. For the period from inception (February 1, 2006) to August 31, 2006, the annual distribution rate was 3.0%.

(F) ***Fund Valuation*** -- Valuation of the Fund's units occurs on a monthly basis. Unit values are determined by dividing the value of the Fund's net assets by the number of units outstanding on the valuation date.

(G) ***Purchases and Redemption of Units*** -- The value of participating units, upon admission to the Fund, is based upon the market value of net assets held as of the valuation date. Redemptions from the Fund will also be made at the market value price per unit at the valuation date at the time of the redemption. There are no transaction costs incurred by participants for the purchase or redemption of units.

(H) ***Participants' Net Assets*** -- All participants in the Fund have a proportionate undivided interest in the Fund's net assets.

(I) ***Federal Income Taxes*** -- The Fund is not subject to federal income tax.

(J) ***Use of Estimates*** -- The preparation of financial statements 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

# THE UNIVERSITY OF TEXAS SYSTEM

## INTERMEDIATE TERM FUND

*Notes to Financial Statements (cont.)*

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(K) *Derivative Applications* -- Derivative securities are financial instruments whose value is derived, in whole or part, from the value of any one or more underlying securities or assets, or index of securities or assets, such as stocks, bonds, commodities, or currencies. The Fund from time to time uses various derivative applications, as allowed under Board of Regent approved investment policy guidelines. These derivative applications are utilized in compliance with a derivative investment policy established by the UTIMCO Board of Directors, and by guidelines established in contracts with external investment managers. Derivative applications included under these policies and contracts include futures, forwards, swaps and all forms of options. Futures contracts are valued at closing market prices on the valuation date. Written options and swaps are valued by using independent broker quotes, or using models with externally verifiable model inputs. Derivative applications in the Fund are used to achieve the following objectives:

- implement investment strategies in a low cost and efficient manner,
- alter the Fund's market (systematic) exposure without trading the underlying cash market securities,
- construct portfolios with risk and return characteristics that could not be created with cash market securities,
- hedge and control risks so that the Fund's risk/return profile is more closely aligned with the Fund's targeted risk/return profile, and
- facilitate transition trading.

Through the use of derivative applications, the complex risks that are bound together in traditional cash market investments can be separated and managed independently. The primary intent of the Fund's investment in derivative securities is to hedge its risk or to implement investment strategies more effectively and at a lower cost than would be possible in the cash market.

*Options Written* -- When the Fund writes an option, an amount equal to the premium received by the Fund is recorded as a liability and is subsequently adjusted to the current fair value of the option written. Premiums received from writing options that expire unexercised are treated by the Fund on the expiration date as realized gains from investments. The difference between the premium and the amount paid on effecting a closing purchase transaction, including brokerage commissions, is also treated as a realized gain, or, if the premium is less than the amount paid for the closing purchase transaction, as a realized loss. If a call option is exercised, the premium is added to the proceeds from the sale of the underlying security or currency in determining whether the Fund has realized a gain or loss. If a put option is exercised, the premium reduces the cost basis of the securities purchased by the Fund. The Fund as writer of an option bears the market risk of an unfavorable change in the price of the security underlying the written option. Options are marked to market on a daily basis, and are included as a liability on the statement of fiduciary net assets.

*Swaps* -- The Fund invests in certain types of swaps to increase or decrease its exposure to long-term interest rates and to certain commodity sector returns. Swaps are agreements between two parties to exchange periodic payments on the notional value of the contract multiplied by a stated fixed interest rate versus a stated floating interest rate, or on a commodity sector return versus a specified cost per contract. Swaps are marked to market on a daily basis, and are included at fair value on the statement of fiduciary net assets. Cash flows occur when a swap is opened, when it resets, if or when it is

**THE UNIVERSITY OF TEXAS SYSTEM**  
**INTERMEDIATE TERM FUND**

*Notes to Financial Statements (cont.)*

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prematurely terminated by both parties to the agreement, and when it reaches maturity. The frequency of the resets is defined by the term sheet of the particular swap agreement, and varies from instrument to instrument.

*Futures Contracts* -- The Fund enters into futures contracts to facilitate various trading strategies, primarily as a tool to increase or decrease market exposure to various asset classes. Upon entering into a futures contract, initial margin deposit requirements are satisfied by the segregation of specific securities as collateral for the account of the broker (the Fund's agent in acquiring the futures position). During the period the futures positions are open, the 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 day's mark to market. The amount that is settled in cash with the broker each morning is the carrying and fair value of the futures contracts, and is included as an other receivable or other payable on the statement of fiduciary net assets. The Fund executes such contracts either on major exchanges or with major international financial institutions and minimizes market and credit risk associated with these contracts through the managers' various trading and credit monitoring techniques.

*Foreign Currency Contracts* -- The Fund enters into forward foreign currency exchange contracts to hedge against foreign currency exchange rate risks on its non-U.S. dollar denominated investment securities and to facilitate trading strategies primarily as a tool to increase or decrease market exposure to various foreign currencies. When entering into a forward foreign currency contract, the Fund agrees 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 Fund's 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 statements of fiduciary net assets. Realized and unrealized gains and losses are included in the statement of changes in fiduciary net assets. These instruments involve market and/or credit risk in excess of the amount recognized in the statement of fiduciary net assets. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movement in currency and securities values and interest rates.

(L) *Securities Sold Short* -- The Fund may sell securities it does not own in anticipation of a decline in the fair value of that security. When the Fund sells a security short, it must borrow the security sold short and deliver it to the broker-dealer through which it made the short sale as collateral for its obligation to deliver the security upon conclusion of the sale. The Deposit with Broker for Securities Sold Short was \$304,696 as of August 31, 2006. The market value of securities sold short as of August 31, 2006 was \$1,868,821. The Fund must pay dividends or interest on the securities sold short. Until the Fund covers its shorts sales, it is exposed to market risk to the extent that subsequent market fluctuations may require purchasing securities sold short at prices which may be significantly higher than the market value reflected in the statement of fiduciary net assets.

(M) *Cash and Cash Equivalents* -- Cash and Cash Equivalents consist of money markets, foreign currencies and other overnight funds. A portion of the Fund's cash and cash equivalents are maintained to support the notional value of written option and futures contracts held (see Notes 6 and

# THE UNIVERSITY OF TEXAS SYSTEM

## INTERMEDIATE TERM FUND

*Notes to Financial Statements (cont.)*

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8). Cash and cash equivalents are an integral part of the Fund's investment activities, and as such are included in the investments balance on the statement of fiduciary net assets.

### **Note 3 – Investment Risk**

The investment risk disclosure that follows relates to the Fund's investments before securities lending transactions and the investment of cash collateral. Disclosures relating to securities lending are provided in Note 4.

#### **(A) Credit Risk**

Article VII, Section 11b of the Texas Constitution authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (the "PUF") in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all of the assets of the fund rather than a single investment. Pursuant to Section 51.0031(c) of the Texas Education Code, the Board of Regents has elected the PUF prudent investor standard to govern its management of the Fund.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The Fund's investment policy limits investments in U.S. Domestic bonds and non-dollar denominated bond investments to those that are rated investment grade, Baa3 or better by Moody's Investor Services, BBB- or better, by Standard & Poor's Corporation, or BBB- or better, by Fitch Investors Service at the time of acquisition. This requirement does not apply to investment managers that are authorized by the terms of an investment advisory agreement to invest in below investment grade bonds. Per GASB Statement No. 40 (GASB 40), *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3*, unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. GASB 40 also provides that securities with split ratings, or a different rating assignment between NRSROs, are disclosed using the rating indicative of the greatest degree of risk. The following table presents each applicable investment type grouped by rating as of August 31, 2006.

**THE UNIVERSITY OF TEXAS SYSTEM**  
**INTERMEDIATE TERM FUND**  
*Notes to Financial Statements (cont.)*

<u>Investment Type</u>	<u>Value</u>	<u>Rating</u>
<b>Investments:</b>		
U.S. Government Guaranteed	\$ 473,366,820	Exempt from Disclosure
U.S. Government Non-Guaranteed:		
U.S. Agency	30,856,283	AAA
U.S. Agency Asset Backed	317,298,470	AAA
Total U.S. Government Non-Guaranteed	<u>348,154,753</u>	
Total U.S. Government	<u>821,521,573</u>	
Corporate Obligations:		
Domestic	111,117,715	AAA
Domestic	11,557,596	AA
Domestic	28,367,491	A
Domestic	31,004,122	BAA/BBB
Domestic	1,034,880	BAA
Domestic	2,296,726	BA/BB
Domestic	1,119,986	BB
Domestic	2,321,638	BA
Domestic	11,309,708	B
Domestic	657,438	CAA
Domestic	444,788	CCC
Commercial Paper	57,271,887	P
Commercial Paper	1,084,099	A
Foreign	789,593	AAA
Foreign	698,342	AA
Foreign	6,590,964	A
Foreign	8,016,097	BAA/BBB
Foreign	285,600	B
Total Corporate Obligations	<u>275,968,670</u>	
Foreign Government and Provincial Obligations	63,310,512	AAA
Foreign Government and Provincial Obligations	1,822,466	AA
Foreign Government and Provincial Obligations	1,656,139	A
Total Foreign Government and Provincial Obligations	<u>66,789,117</u>	
Other Debt Securities	203,760	AAA
Other Debt Securities	377,216	AA
Total Other Debt Securities	<u>580,976</u>	
Total Debt Securities	<u>\$ 1,164,860,336</u>	
Other Investment Funds - Debt	\$ 40,829,336	AAA
Other Investment Funds - Debt	51,588,800	AA
Total Other Investment Funds - Debt	<u>\$ 92,418,136</u>	
Cash and Cash Equivalents - Money Market Funds	\$ 494,816,463	AAA
Cash and Cash Equivalents - Other	5,627,663	Exempt from Disclosure
Total Cash and Cash Equivalents	<u>\$ 500,444,126</u>	
<b>Deposit with Brokers for Derivative Contracts:</b>		
U.S. Government Guaranteed	\$ 19,534,614	Exempt from Disclosure
<b>Deposit with Broker for Securities Sold Short:</b>		
Cash	\$ 304,696	Exempt from Disclosure

# THE UNIVERSITY OF TEXAS SYSTEM

## INTERMEDIATE TERM FUND

*Notes to Financial Statements (cont.)*

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### *(B) Concentrations of Credit Risk*

The Fund's investment policy statement contains the limitation that no more than 5% of the market value of domestic fixed income securities may be invested in corporate or municipal bonds of a single issuer. The Fund does not hold any direct investments in any one issuer that represents five percent or more of total investments.

### *(C) Custodial Credit Risk*

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Fund will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Fund will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Texas State Statutes and the Fund's investment policy statements do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. As of August 31, 2006, the Fund does not have any investments that are exposed to custodial credit risk.

### *(D) Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its value to changes in market interest rates. Interest rate risk inherent in the Fund is measured by monitoring the modified duration of the overall investment portfolio. Modified duration estimates the sensitivity of the Fund's investments to changes in interest rates. The Fund has no specific policy statement limitations with respect to its overall modified duration. The following table summarizes the Fund's modified duration by investment type as of August 31, 2006.

**THE UNIVERSITY OF TEXAS SYSTEM**  
**INTERMEDIATE TERM FUND**  
*Notes to Financial Statements (cont.)*

<u>Investment Type</u>	<u>Value</u>	<u>Modified Duration</u>
<b>Investments in Securities:</b>		
U.S. Government Guaranteed:		
U.S. Treasury Bonds and Notes	\$ 122,005,989	7.08
U.S. Treasury Strips	2,326,244	5.00
U.S. Treasury Bills	1,218,300	0.04
U.S. Treasury Inflation Protected	346,925,662	7.75
U.S. Agency Asset Backed	890,624	15.23
Total U.S. Government Guaranteed	<u>473,366,819</u>	7.56
U.S. Government Non-Guaranteed:		
U.S. Agency	30,856,283	0.69
U.S. Agency Asset Backed	317,298,471	4.00
Total U.S. Government Non-Guaranteed	<u>348,154,754</u>	3.71
Total U.S. Government	<u>821,521,573</u>	5.93
Corporate Obligations:		
Domestic	202,279,218	2.87
Commercial Paper	57,308,853	0.06
Foreign	16,380,596	17.35
Total Corporate Obligations	<u>275,968,667</u>	3.15
Foreign Government and Provincial Obligations	<u>66,789,117</u>	6.25
Other Debt Securities	<u>580,976</u>	13.60
Total Debt Securities	<u>1,164,860,333</u>	5.29
Other Investment Funds - Debt	<u>92,418,136</u>	3.58
Cash and Cash Equivalents:		
Money Market Funds	494,821,407	0.08
Other	5,622,719	-
Total Cash and Cash Equivalents	<u>500,444,126</u>	0.08
Total	<u>\$ 1,757,722,595</u>	3.72
<b>Deposit with Brokers for Derivative Contracts:</b>		
U.S. Government Guaranteed:		
U.S. Treasury Bills	<u>\$ 19,534,614</u>	0.14
<b>Deposit with Broker for Securities Sold Short:</b>		
Cash	<u>\$ 304,696</u>	-

**(E) Investments with Fair Values That Are Highly Sensitive to Interest Rate Changes**

In accordance with the Fund's investment policy statement, the Fund may invest in various mortgage backed securities, such as collateralized mortgage backed obligations. The Fund also may invest in investments that have floating rates with periodic coupon changes in market rates, zero coupon bonds

# THE UNIVERSITY OF TEXAS SYSTEM

## INTERMEDIATE TERM FUND

*Notes to Financial Statements (cont.)*

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and stripped Treasury and Agency securities created from coupon securities. As of August 31, 2006, the Fund's investments include the following investments that are highly sensitive to interest rate changes:

Collateralized mortgage obligations which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. As of August 31, 2006, these securities amounted to \$51,558,674.

Mortgage backed securities which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. As of August 31, 2006, these securities amounted to \$300,695,588.

Asset backed securities which are backed by home equity loans, auto loans, equipment loans and credit card receivables. Prepayments by the obligees of the underlying assets in periods of decreasing interest rates could reduce or eliminate the stream of income that would have been received. As of August 31, 2006, these securities amounted to \$73,558,816.

Step-up notes that grant the issuer the option to call the note on certain specified dates. At each call date, should the issuer not call the note, the coupon rate of the note increases (steps up) by an amount specified at the inception of the note. The call feature embedded within a step-up note causes the fair value of the instrument to be considered highly sensitive to interest rate changes. As of August 31, 2006, these securities amounted to \$1,377,780.

### *(F) Foreign Currency Risk*

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the Fund's non-U.S. dollar investments. The Fund's investment policy statement limits investments in non-U.S. denominated bonds to 50% of the Fund's total fixed income exposure. The following table summarizes the Fund's exposure to non-U.S. dollar investments as of August 31, 2006.

**THE UNIVERSITY OF TEXAS SYSTEM**  
**INTERMEDIATE TERM FUND**  
*Notes to Financial Statements (cont.)*

<u>Investment Type</u>	<u>Value</u>	<u>Investment Type</u>	<u>Value</u>
Foreign Common Stock:		Purchased Options:	
Japanese Yen	\$ 16,826,656	Euro	\$ 233,763
UK Pound	12,676,076	UK Pound	59,195
Hong Kong Dollar	8,967,598	Total Purchased Options	<u>292,958</u>
Euro	6,063,755	Cash and Cash Equivalents:	
Canadian Dollar	4,401,884	Japanese Yen	2,818,394
Australian Dollar	2,128,304	Euro	1,719,698
Swedish Krona	1,370,607	UK Pound	153,632
Swiss Franc	1,102,458	New Zealand Dollar	147,181
Norwegian Krone	1,074,412	Canadian Dollar	125,471
Singapore Dollar	702,971	Australian Dollar	73,634
Danish Krone	485,869	Hong Kong Dollar	28,327
New Zealand Dollar	92,947	Singapore Dollar	12,571
Total Foreign Common Stock	<u>55,893,537</u>	Norwegian Krone	11,640
Foreign Government and Provincial Obligations:		Swiss Franc	8,361
Euro	35,133,020	Swedish Krona	8,114
UK Pound	19,971,177	Danish Krone	1,169
Canadian Dollar	5,226,645	Total Cash and Cash Equivalents	<u>\$ 5,108,192</u>
Japanese Yen	778,488		
Total Foreign Government and Provincial Obligation	<u>61,109,330</u>		
Corporate Obligations:			
Euro	7,082,050		
Japanese Yen	3,447,270		
Total Corporate Obligations	<u>10,529,320</u>		

**Note 4 – Securities Lending**

The Fund loans securities to certain brokers who pay the Fund negotiated lenders' fees. These fees are included in investment income and related expenses are included in investment expenses. The Fund receives qualified securities and/or cash as collateral against the loaned securities. The collateral, when received, will have a market value of 102% of loaned securities of U.S. issuers and a market value of 105% for loaned securities of non-U.S. issuers. If the market value of the collateral held in connection with loans of securities of U.S. issuers is less than 100% at the close of trading on any business day, the borrower is required to deliver additional collateral by the close of the next business day to equal 102% of the market value. For non-U.S. issuers, the collateral should remain at 105% of the market value of the loaned securities at the close of any business day. If it falls below 105%, the borrower must deliver additional collateral by the close of the following business day. The value of securities loaned and the value of collateral held are as follows at August 31, 2006.

<u>Securities on Loan</u>	<u>2006 Value</u>	<u>Type of Collateral</u>	<u>2006 Value of Collateral</u>
U.S. Government	\$382,910,086	Cash	\$389,146,791
Foreign Government	19,642,373	Cash	20,623,339
Corporate Bonds	16,072,104	Cash	16,521,740
Common Stock	54,201,816	Cash	56,041,327
<b>Total</b>	<u>\$472,826,379</u>	<b>Total</b>	<u>\$482,333,197</u>
U.S. Government	<u>\$ 11,935,856</u>	Non-Cash	<u>\$ 12,395,828</u>

Cash received as collateral for securities lending activities is invested and reinvested in a commingled pool managed exclusively for the benefit of the Fund, the Permanent University Fund, the General Endowment Fund, and other Board of Regent accounts that participate in securities lending activities.

**THE UNIVERSITY OF TEXAS SYSTEM**  
**INTERMEDIATE TERM FUND**  
*Notes to Financial Statements (cont.)*

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The pool is managed in accordance with investment guidelines established in the securities lending contract between the Fund and its securities lending agent. The maturities of the investments in the pool do not necessarily match the term of the loans, rather the pool is managed to maintain a maximum dollar weighted average maturity of 60 days and an overnight liquidity of 20 percent. Lending income is earned if the returns on those investments exceed the rebate paid to borrowers of the securities. The income remaining after the borrower rebates is then shared with the lending agent on a contractually negotiated split. If the investment of the cash collateral does not provide a return exceeding the rebate or if the investment incurs a loss of principal, the payment of the shortfall to the borrower would come from the Fund and the securities lending agent in the same proportion as the split of income.

The Fund's pro-rata share of collateral pool investments, rating by NRSRO, and weighted average maturity as of August 31, 2006, is shown in the following table.

<u>Description</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Weighted Average Maturity In Days</u>
		No Rating	
Repurchase Agreements	\$ 175,600,866	Available	14
Commercial Paper	209,755,051	P	26
Floating Rate Notes	27,528,140	AAA	
Floating Rate Notes	19,772,129	AA	
Total Floating Rate Notes	<u>47,300,269</u>		69
Certificates of Deposit	60,349,390	P	67
Asset Backed Securities	865,031	AAA	11
Other Receivables/Payables	<u>(11,537,410)</u>	Not Rated	-
Total Collateral Pool Investment	<u>\$ 482,333,197</u>		31

Collateral pool investments are uninsured, and are held by the securities lending agent, in its name, on behalf of the Fund, except for the investments in repurchase agreements which are held in the securities lending agent's name by a third party custodian not affiliated with the Fund or the borrower of the associated loaned securities. Therefore, the collateral pool is not exposed to custodial credit risk because the pool investments are not held by counterparties to the lending transactions or a counterparties trust department or agent.

Cash collateral is recorded as an asset with an equal and offsetting liability to return the collateral on the statements of fiduciary net assets. Investments received as collateral for securities lending activities are not recorded as assets because the investments remain under the control of the transferor, except in the event of default.

In the event of default, where the borrower is unable to return the securities loaned, the Fund has authorized the securities lending agent to seize the collateral held. The collateral is then used to replace the borrowed securities where possible. Due to some market conditions, it is possible that the original securities cannot be replaced. If the collateral is insufficient to replace the securities, the securities lending agent has indemnified the Fund from any loss due to borrower default.

As of August 31, 2006, the Fund had no credit risk exposure to borrowers because the amounts the Fund owed to borrowers exceeded the amounts the borrowers owed the Fund.

**THE UNIVERSITY OF TEXAS SYSTEM**  
**INTERMEDIATE TERM FUND**  
*Notes to Financial Statements (cont.)*

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There were no significant violations of legal or contractual provisions, no borrower or securities lending agent default losses, and no recoveries of prior period losses during the year ended August 31, 2006.

**Note 5 – Investment Funds**

Investment funds include exchange traded funds, index funds, SEC regulated mutual funds and externally managed funds, limited partnerships, and corporate structures which are generally unrated and may be unregulated. The composition of investment funds at August 31, 2006 is summarized in the table below as they are classified within the asset mix of the Fund.

Marketable Alternatives:	
Absolute Return Strategies	\$432,443,970
Directional Equity	306,872,663
Total Marketable Alternatives	<u>739,316,632</u>
Public Markets:	
U.S. Equity:	
Private Placements	120,340,148
Exchange Traded Funds	82,513,101
Index Funds	39,547,426
Total U.S. Equity	<u>242,400,675</u>
Non-U.S. Developed Equity:	
Private Placements	50,758,557
Exchange Traded Funds	26,729,040
Total Non-U.S. Developed Equity	<u>77,487,597</u>
Emerging Markets:	
Private Placements	67,765,066
Publicly Traded Mutual Funds	20,133,407
Total Emerging Markets	<u>87,898,473</u>
Fixed Income:	
Private Placements	92,418,136
Total Investment Funds	<u>\$1,239,521,513</u>

Marketable alternatives funds are invested in private placements with external investment managers who invest in equity and fixed income securities of both domestic and international issuers. These investment managers may invest in both long and short securities and may utilize leverage in their portfolios. The funds invested may be subject to a lock-up restriction of one or more years before the investment may be withdrawn from the manager without significant penalty. There are certain risks associated with these private placements, some of which include investment manager risk, market risk, and liquidity risk, as well as the risk of utilizing leverage in the portfolios.

Public market funds are invested in exchange traded funds, index funds, and private placements with external investment managers who invest in equity and fixed income securities of both domestic and international issuers. These funds are characterized as public market funds based on individual risk/return characteristics and their relationship to the overall asset mix of the Fund. Some of these investment managers may invest in both long and short securities and may utilize modest leverage in their portfolios. There are certain risks associated with these investments, some of which are investment manager risk, market risk, and liquidity risk, as well as the risk of utilizing leverage in the portfolios.

**THE UNIVERSITY OF TEXAS SYSTEM**  
**INTERMEDIATE TERM FUND**  
*Notes to Financial Statements (cont.)*

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Marketable alternative and public market funds include investments in private placement vehicles that are subject to risk which could result in the loss of invested capital. The risks include the following:

- *Non-regulation risk* -- Some of these funds are not registered with the Securities Exchange Commission, and therefore are not subject to regulatory controls.
- *Key personnel risk* -- The success of certain funds is substantially dependent on key investment managers and the loss of those individuals may adversely impact the fund's performance.
- *Liquidity risk* -- Many of the Fund's investment funds may impose lockup periods which would cause the Fund to incur penalties to redeem its units or prevent the Fund from redeeming its shares until a certain period of time has elapsed.
- *Limited transparency* -- As private placement investment vehicles, these funds may not disclose the holdings of their portfolios.
- *Investment strategy risk* -- These funds often employ sophisticated investment strategies and may use leverage which could result in the loss of invested capital.

**Note 6 – Written Options**

During the period, the Fund wrote call options on Treasury note, commodity, and domestic and international equity index and exchange traded fund futures. Transactions in call options written during the period ended August 31, 2006 were as follows:

	<b>Contracts</b>	<b>Premiums Received</b>
Call Options Outstanding at February 1, 2006	-	\$ -
Options Written	315,843	2,841,890
Options Expired	(41,339)	(126,231)
Options Exercised	-	-
Options terminated in closing purchase transactions	(4,321)	(77,300)
Call Options Outstanding at August 31, 2006	<u>270,183</u>	<u>\$ 2,638,359</u>

As of August 31, 2006, an amount of \$4,334,102 is included on the statement of fiduciary net assets as options written, at fair value. The Fund recognized losses of \$1,862,963 on call options written for the period ended August 31, 2006.

The Fund also wrote put options on Treasury note and domestic and international equity index futures during the period ended August 31, 2006. Transactions in put options written during the period ended August 31, 2006, were as follows:

**THE UNIVERSITY OF TEXAS SYSTEM**  
**INTERMEDIATE TERM FUND**  
*Notes to Financial Statements (cont.)*

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	<u>Contracts</u>	<u>Premiums Received</u>
Put Options Outstanding at February 1, 2006	-	\$ -
Options Written	1,441,193	5,115,847
Options Expired	(57,264)	(82,076)
Options Exercised	-	-
Options terminated in closing purchase transactions	(121,850)	(574,273)
Put Options Outstanding at August 31, 2006	<u>1,262,079</u>	<u>\$ 4,459,498</u>

As of August 31, 2006, an amount of \$5,513,123 is included on the statement of fiduciary net assets as written options at fair value. The Fund recognized a loss in the amount of \$1,488,649 on put options written for the year ended August 31, 2006.

**Note 7 – Swaps**

During the period ended August 31, 2006, the Fund entered into interest rate, credit default and commodity swap contracts. The following discloses the notional amount, the coupon rate, and the fair values of the outstanding swap contracts as of August 31, 2006:

**THE UNIVERSITY OF TEXAS SYSTEM**  
**INTERMEDIATE TERM FUND**  
*Notes to Financial Statements (cont.)*

	Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2006	
					Assets	Liabilities
<b>Interest Rate</b>						
<b>Australian Dollar</b>						
		6.000%	3,000,000	6/20/2009	\$ -	\$ 10,354
<b>UK Pound</b>						
		4.000%	1,500,000	12/15/2035	21,232	-
		4.250%	600,000	6/12/2036	41,102	-
		4.500%	4,100,000	9/15/2017	1,860	-
		5.000%	2,000,000	6/15/2009	-	11,019
		5.000%	10,000,000	9/15/2010	-	79,844
		5.000%	700,000	9/15/2015	-	5,406
<b>Canadian Dollar</b>						
		5.000%	2,500,000	6/15/2015	88,699	-
<b>Euro</b>						
		2.040%	2,000,000	2/21/2011	-	9,840
		4.000%	21,000,000	12/15/2011	-	187,728
		4.000%	5,100,000	12/15/2014	-	16,746
		6.000%	3,200,000	6/18/2034	588,461	-
<b>Japanese Yen</b>						
		1.000%	1,100,000,000	9/18/2008	10,521	-
		2.000%	850,000,000	6/20/2010	-	88,459
		2.000%	3,200,000,000	12/20/2013	-	931,243
		2.000%	4,530,000,000	12/15/2015	-	626,879
		2.500%	1,000,000,000	12/15/2035	-	99,858
		5.000%	1,700,000,000	3/18/2008	32,357	-
<b>U.S. Dollar</b>						
		5.000%	8,300,000	12/20/2008	-	21,387
		5.000%	24,000,000	6/18/2009	-	3,835
		5.000%	600,000	12/20/2011	-	4,342
		5.000%	24,200,000	12/20/2016	524,871	-
		5.000%	9,800,000	12/20/2036	-	580,266
					<u>1,309,103</u>	<u>2,677,206</u>
<b>Commodity</b>						
<b>U.S. Dollar</b>						
		TBILL + 23 Basis Points	2,380,000	9/26/2006	16,590	-
		TBILL + 24 Basis Points	27,180,000	9/26/2006	-	1,495,264
					<u>16,590</u>	<u>1,495,264</u>
<b>Credit Default</b>						
<b>U.S. Dollar</b>						
		0.410%	600,000	6/20/2007	1,158	-
					<u>1,158</u>	<u>-</u>
<b>Structured</b>						
<b>U.S. Dollar</b>						
		Emerging	10,000,000	4/7/2007	-	225,071
		Emerging	10,000,000	4/13/2007	-	172,558
		Emerging	17,000,000	5/18/2007	-	612,576
		TOPIX	7,000,000	5/4/2007	-	384,119
		TOPIX	10,000,000	4/7/2007	38,787	-
					<u>38,787</u>	<u>1,394,324</u>
<b>Total</b>					<b>\$ 1,365,638</b>	<b>\$ 5,566,794</b>

**Note 8 – Futures Contracts**

During the period ended August 31, 2006, the asset classes that used futures included domestic and foreign equities, domestic and foreign debt, and commodities. The Fund had \$19,534,614 on deposit with a broker for collateral as margin for the futures contracts as of August 31, 2006. Short futures were used by internal managers and may be used by a limited number of external managers of the

**THE UNIVERSITY OF TEXAS SYSTEM**  
**INTERMEDIATE TERM FUND**  
*Notes to Financial Statements (cont.)*

Fund to hedge the Fund's interest rate or country risk associated with security positions. The amount of net realized loss on the futures contracts was \$3,742,345 for the period from inception (February 1, 2006) to August 31, 2006.

The following discloses the name, number of contracts, notional value, and the carrying and fair values at August 31, 2006 for futures contracts:

<u>Contract</u>	<u>Number of Contracts</u>	<u>Expiration</u>	<u>Notional Value at August 31, 2006</u>		<u>Carrying and Fair Value at August 31, 2006</u>	
			<u>Long</u>	<u>Short</u>	<u>Assets</u>	<u>Liabilities</u>
<b>Domestic Fixed Income</b>						
U.S. 5 Year Treasury Notes	90	Dec-06	\$ -	\$ 9,459,844	\$ -	\$ 15,468
U.S. 10 Year Treasury Notes	36	Sep-06	-	3,867,187	-	10,688
U.S. 10 Year Treasury Notes	598	Dec-06	64,210,250	-	107,663	-
U.S. Treasury Bond	42	Sep-06	4,648,875	-	16,875	-
U.S. Treasury Bond	76	Sep-06	-	8,412,250	-	29,625
			<u>68,859,125</u>	<u>21,739,281</u>	<u>124,538</u>	<u>55,781</u>
<b>Domestic Equity</b>						
Russell 2000 Index Mini	1,362	Sep-06	-	98,295,540	53,927	-
Russell 2000 Index Mini	201	Dec-06	-	14,626,770	7,211	-
S&P 500 Index	842	Sep-06	274,828,800	-	105,250	-
			<u>274,828,800</u>	<u>112,922,310</u>	<u>166,388</u>	<u>-</u>
<b>Commodities</b>						
Goldman Sachs Commodities	732	Sep-06	85,278,000	-	329,400	-
<b>Foreign Fixed Income</b>						
90 Day Euro Dollar	87	Sep-06	20,576,588	-	2,719	-
90 Day Euro Dollar	28	Dec-06	6,625,850	-	2,450	-
90 Day Euro Dollar	231	Jun-07	54,819,187	-	25,988	-
90 Day Euro Dollar	67	Sep-07	15,920,037	-	8,375	-
90 Day Euro Dollar	64	Dec-07	15,217,600	-	8,000	-
90 Day Euro Dollar	61	Mar-08	14,506,562	-	7,625	-
90 Day Euro Dollar	19	Sep-08	4,516,300	-	1,900	-
90 Day Euro Dollar	19	Dec-08	4,514,400	-	1,900	-
90 Day Euro Dollar	19	Mar-09	4,512,738	-	1,663	-
90 Day Euro Dollar	19	Jun-09	4,510,838	-	1,425	-
Japan 10 Year Bond	26	Sep-06	29,922,672	-	174,599	-
Japan 10 Year Bond	37	Dec-06	42,459,239	-	198,573	-
UK Long Gilt	5	Dec-06	-	1,047,799	-	4,219
Euro-Bobl	171	Sep-06	24,176,240	-	139,289	-
			<u>242,278,251</u>	<u>1,047,799</u>	<u>574,506</u>	<u>4,219</u>
<b>Foreign Equity</b>						
FTSE 100 Index	254	Sep-06	28,522,530	-	1,424	174,830
S&P/TSE 60 Index	40	Sep-06	-	4,920,748	11,462	-
			<u>28,522,530</u>	<u>4,920,748</u>	<u>12,886</u>	<u>174,830</u>
<b>Total</b>			<u>\$ 699,766,706</u>	<u>\$ 140,630,138</u>	<u>\$ 1,207,718</u>	<u>\$ 234,830</u>

**THE UNIVERSITY OF TEXAS SYSTEM**  
**INTERMEDIATE TERM FUND**  
*Notes to Financial Statements (cont.)*

**Note 9 – Foreign Currency Exchange Contracts**

The table below summarizes by currency the contractual amounts of the Fund's foreign currency exchange contracts at August 31, 2006. Foreign currency amounts are translated at exchange rates as of August 31, 2006. The "Net Buy" amounts represent the U.S. dollar equivalent of net commitments to purchase foreign currencies, and the "Net Sell" amounts represent the U.S. dollar equivalent of net commitments to sell foreign currencies.

Currency	Net Buy August 31, 2006	Net Sell August 31, 2006	Unrealized Gains on Foreign Currency Exchange Contracts August 31, 2006	Unrealized Losses on Foreign Currency Exchange Contracts August 31, 2006
Australian Dollar	\$ 4,342,081	\$ -	\$ 4,100	\$ 2,903
Canadian Dollar	-	826,836	-	23,817
Chinese Yuan Renminbi	3,661,287	-	-	38,824
Danish Krone	907,093	-	868	6,304
Euro	-	19,220,466	78,524	108,061
Japanese Yen	56,840,905	-	1,131	1,301,838
New Taiwan Dollar	1,333,136	-	-	16,536
New Zealand Dollar	-	3,477,384	1,354	39,786
Singapore Dollar	820,006	-	-	741
South Korean Won	2,164,423	-	-	12,332
Swedish Krona	1,157,539	-	-	8,684
UK Pound	6,610,066	-	614,849	378,535
	\$ 77,836,536	\$ 23,524,686	\$ 700,826	\$ 1,938,361

**Note 10 – Purchase Commitment**

Effective November 10, 2005, UTIMCO, as investment manager of the funds under the control and management of the Board of Regents, entered into a security purchase agreement with the Board of Regents. The agreement commits the funds under management, including the Fund, to purchase up to \$1,285,000,000 in UT System flexible rate notes in the event of a failed remarketing of such notes.

**Note 11 – Fees and Expenses**

The Fund incurs investment management fees from various external managers of the Fund. The fees, generally assessed quarterly, are based on a percentage of the market value of investments held by each individual investment manager and currently range from 0.10% to 1.00%. In addition to quarterly investment management fees, the Fund may pay annual performance-based management fees for investment performance in excess of certain defined benchmarks as provided for in the managers' contracts. In addition, the Fund incurs consulting fees for investment planning and oversight services with regard to alternative marketable investment funds.

Custodial fees and expenses are assessed by the financial institution which holds the Fund's assets. Fees are based on the number of accounts, market value of the Fund, and transaction activity in accordance with the contractual agreement with the institution. Additional fees are assessed for performance measurement and on-line communication services per the contractual agreement.

The Fund incurs legal fees associated with the review of investment manager agreements and with due diligence efforts undertaken as part of hiring new investment managers.

**THE UNIVERSITY OF TEXAS SYSTEM**  
**INTERMEDIATE TERM FUND**  
*Notes to Financial Statements (cont.)*

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Analytical and risk measurement fees are also incurred to implement and maintain a sophisticated risk measurement system for the Fund.

The Fund incurs other expenses related to its operations primarily consisting of audit fees, and consultation fees.

**THE UNIVERSITY OF TEXAS SYSTEM**  
**INTERMEDIATE TERM FUND**  
*Supplemental Schedules*

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**Summary of Investments**

August 31, 2006

(in thousands)

	<u>Value</u>	<u>% of Total</u>
<b>Equity Securities</b>		
Domestic Common Stock	\$ 277,695	8.50%
Foreign Common Stock	79,280	2.43%
<b>Total Equity Securities</b>	<u>356,975</u>	<u>10.93%</u>
<b>Debt Securities</b>		
U.S. Government Obligations	821,521	25.15%
Corporate Obligations	275,969	8.45%
Foreign Government and Provincial Obligations	66,789	2.04%
Other	581	0.02%
<b>Total Debt Securities</b>	<u>1,164,860</u>	<u>35.66%</u>
<b>Purchased Options</b>	<u>4,478</u>	<u>0.14%</u>
<b>Investment Funds</b>		
Absolute Return Strategies	432,444	13.24%
Directional Equity	306,873	9.40%
U.S. Equity	242,401	7.42%
Non-U.S. Developed Equity	77,488	2.37%
Emerging Markets	87,898	2.69%
Fixed Income	92,418	2.83%
<b>Total Investment Funds</b>	<u>1,239,522</u>	<u>37.95%</u>
<b>Cash and Cash Equivalents</b>		
Money Market Funds Maintained to Back Futures Contracts	338,162	10.35%
Money Market Funds - Other	162,282	4.97%
<b>Total Cash and Cash Equivalents</b>	<u>500,444</u>	<u>15.32%</u>
 <b>Total Investment in Securities</b>	 <u>\$ 3,266,279</u>	 <u>100.00%</u>

**THE UNIVERSITY OF TEXAS SYSTEM**  
**INTERMEDIATE TERM FUND**  
*Supplemental Schedules (cont.)*

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**Financial Highlights**

*For the Period from Inception (February 1, 2006) to August 31, 2006*

**Selected Per Unit Data**

Net Asset Value, Beginning of Period	\$ 100.000
Income From Investment Operations	
Net Investment Income	1.493
Net Realized and Unrealized Gain on Investments	1.817
Total Income from Investment Operations	3.310
Less Distributions	
From Net Investment Income	(1.493)
From Net Realized Gain	(0.257)
Total Distributions	(1.750)
Net Asset Value, End of Period	\$ 101.560

**Ratios and Supplemental Data**

Net Assets, End of Period (in thousands)	\$ 3,048,842
Ratio of Expenses to Average Net Assets	0.18%
Ratio of Net Investment Income to Average Net Assets	1.50%
Ratio of Distributions to Average Net Assets	1.75%

**PERMANENT UNIVERSITY FUND**

**THE UNIVERSITY OF TEXAS SYSTEM GENERAL ENDOWMENT FUND**

**PERMANENT HEALTH FUND**

**THE UNIVERSITY OF TEXAS SYSTEM LONG TERM FUND**

Statement of Investment Performance Statistics

For the Year Ended August 31, 2006

**THE UNIVERSITY OF TEXAS SYSTEM INTERMEDIATE TERM FUND**

Statement of Investment Performance Statistics

For the Period from Inception (February 1, 2006) to August 31, 2006

## Report of Independent Auditors

The Board of Regents of The University of Texas System  
The Board of Directors of The University of Texas Investment Management Company

We have audited, in accordance with auditing standards generally accepted in the United States, the financial statements of the Permanent University Fund, The University of Texas System General Endowment Fund, the Permanent Health Fund, and The University of Texas System Long Term Fund (collectively, “the Funds”) for the year ended August 31, 2006, and The University of Texas System Intermediate Term Fund for the period from inception (February 1, 2006) to August 31, 2006, and have issued our reports thereon dated October 27, 2006. We have also audited the accompanying schedules of investment performance statistics of the Funds for the year ended August 31, 2006 and of The University of Texas System Intermediate Term Fund for the period from inception (February 1, 2006) to August 31, 2006. These schedules are the responsibility of the Funds’ management. Our responsibility is to express an opinion on the schedules based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedules referred to above are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedules, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the schedules. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the schedules referred to above present fairly, in all material respects, the composite rates of return on the respective investment portfolios of the Funds for the year ended August 31, 2006, and the composite rates of return of The University of Texas System Intermediate Term Fund for the period from inception (February 1, 2006) to August 31, 2006, on the basis described in Note 1.



October 27, 2006

**PERMANENT UNIVERSITY FUND**  
**THE UNIVERSITY OF TEXAS SYSTEM GENERAL ENDOWMENT FUND**  
**PERMANENT HEALTH FUND**  
**THE UNIVERSITY OF TEXAS SYSTEM LONG TERM FUND**  
**THE UNIVERSITY OF TEXAS SYSTEM INTERMEDIATE TERM FUND**

**STATEMENT OF INVESTMENT PERFORMANCE STATISTICS**  
**FOR THE YEAR ENDED AUGUST 31, 2006**

Investment Manager	Rate of Return for the Year Ended August 31, 2006			
	Permanent University Fund	General Endowment Fund	Permanent Health Fund	Long Term Fund
<b>NET OF FEES</b>				
<b>Domestic Equities</b>				
Blackrock Hedge	7.0 %	7.0 %	- %	- %
Blackrock Small Cap	10.2	10.3	-	-
Dow Jones Exchange Traded Funds and Futures	10.9	10.8	-	-
Global 100 Index Exchange Traded Funds	13.6	13.6	-	-
Healthcare Exchange Traded Funds	10.1	10.1	-	-
MBA Investments	-	6.2	-	-
Relational Investors	3.2	3.2	-	-
S & P 100 Index Exchange Traded Funds	9.8	9.8	-	-
S & P 500 Index Futures	9.4	8.9	-	-
TCW MultiCap	1.9	1.9	-	-
TCW Small Value	8.9	9.1	-	-
Value Act Capital	20.6	20.6	-	-
Westport	11.3	11.3	-	-
Long Large Cap Spread Trade	4.5	4.5	-	-
Short Small Cap Spread Trade	(8.8)	(8.9)	-	-
<b>Total Domestic Equities</b>	<b>8.1</b>	<b>8.5</b>	-	-
<b>International Equities</b>				
<b>Non U.S. Developed Equities</b>				
Blackrock Global	15.0	14.9	-	-
Bridgewater Currency Overlay	(0.8)	(0.7)	-	-
Capital Guardian Trust Small Cap International	26.5	25.9	-	-
Cundill EAFE	12.8	12.8	-	-
Cundill Japan	14.6	14.5	-	-
Dalton Japan	15.5	14.5	-	-
Globeflex	34.9	35.0	-	-
Globeflex Canadian	30.0	29.9	-	-
Globeflex Japan	15.3	15.1	-	-
Globeflex Microcap	17.7	17.6	-	-
International Futures & Exchange Traded Funds	21.7	21.4	-	-
JMBO Fund	1.0	1.0	-	-
<b>Total Non U.S. Developed Equities</b>	<b>20.2</b>	<b>19.9</b>	-	-
<b>Emerging Markets Equities</b>				
ADRE Emerging Markets Exchange Traded Funds	32.3	33.3	-	-
Blakeney Management	31.5	31.5	-	-
Emerging Proxy	17.5	17.2	-	-
Franklin Templeton	27.5	27.5	-	-
<b>Total Emerging Markets Equities</b>	<b>22.3</b>	<b>21.8</b>	-	-
<b>Total International Equities</b>	<b>20.4</b>	<b>20.0</b>	-	-

See note to statements of investment performance statistics.

PERMANENT UNIVERSITY FUND  
THE UNIVERSITY OF TEXAS SYSTEM GENERAL ENDOWMENT FUND  
PERMANENT HEALTH FUND  
THE UNIVERSITY OF TEXAS SYSTEM LONG TERM FUND  
THE UNIVERSITY OF TEXAS SYSTEM INTERMEDIATE TERM FUND

**STATEMENT OF INVESTMENT PERFORMANCE STATISTICS  
FOR THE YEAR ENDED AUGUST 31, 2006**

Investment Manager	Rate of Return for the Year Ended August 31, 2006			
	Permanent University Fund	General Endowment Fund	Permanent Health Fund	Long Term Fund
<b>NET OF FEES</b>				
Directional Hedge Funds	6.2 %	6.2 %	- %	- %
Absolute Return Hedge Funds	9.0	8.9	-	-
Private Capital				
Internal	23.0	21.8	-	-
Inflation Linked REITS	28.0	27.9	-	-
Commodities				
Goldman Sachs Commodity Index Futures	(6.7)	(6.7)	-	-
PIMCO Real Return	(0.4)	(0.3)	-	-
<b>Total Commodities</b>	<b>(4.6)</b>	<b>(4.6)</b>	-	-
Treasury Inflation Protected Securities (TIPS)				
Internal TIPS	1.7	1.7	-	-
PIMCO TIPS	1.9	1.9	-	-
Reams TIPS	3.1	3.1	-	-
<b>Total TIPS</b>	<b>2.1</b>	<b>2.1</b>	-	-
<b>Total Inflation Linked</b>	<b>8.4</b>	<b>8.2</b>	-	-
Fixed Income				
GMO Emerging Debt Fund	12.9	12.9	-	-
Internal Fixed Income	1.6	1.5	-	-
PIMCO Fixed Income	2.3	2.7	-	-
Reams Core Plus	2.5	2.5	-	-
<b>Total Fixed Income</b>	<b>2.3</b>	<b>2.5</b>	-	-
<b>TOTAL FUND (Net of fees)</b>	<b>11.2%</b>	<b>11.1%</b>	<b>11.1%</b>	<b>11.1%</b>
<b>TOTAL FUND (Gross of fees)</b>	<b>11.6%</b>	<b>11.5%</b>	<b>11.1%</b>	<b>11.1%</b>

See note to statements of investment performance statistics.

PERMANENT UNIVERSITY FUND  
 THE UNIVERSITY OF TEXAS SYSTEM GENERAL ENDOWMENT FUND  
 PERMANENT HEALTH FUND  
 THE UNIVERSITY OF TEXAS SYSTEM LONG TERM FUND  
 THE UNIVERSITY OF TEXAS SYSTEM INTERMEDIATE TERM FUND

**STATEMENT OF INVESTMENT PERFORMANCE STATISTICS  
 FOR THE PERIOD FROM INCEPTION (FEBRUARY 1, 2006) TO AUGUST 31, 2006**

Investment Manager	Rate of Return for the Seven Months Ended August 31, 2006 (unannualized) Intermediate Term Fund
<b>NET OF FEES</b>	
<b>Domestic Equities</b>	
Barclays Global Investors Russell 3000 Alpha Tilts	2.0 %
Blackrock Hedge	(4.7)
Global 100 Index Exchange Traded Funds	6.9
Relational Investors	0.2
S & P 100 Index Exchange Traded Funds	5.6
S & P 500 Index Futures	3.0
TCW MultiCap	(1.2)
Value Act Capital	8.0
Westport	0.4
Long Large Cap Spread Trade	2.2
Short Small Cap Spread Trade	(0.3)
<b>Total Domestic Equities</b>	<b>2.8</b>
<b>International Equities</b>	
<b>Non U.S. Developed Equities</b>	
Blackrock Global	9.2
EAFE Exchange Traded Funds	7.3
Globeflex	7.7
Globeflex Microcap	0.2
Goldman Sachs Structured International Equity	10.0
International Developed Futures	11.3
JMBO Fund	(8.3)
Lansdowne Europe	3.7
<b>Total Non U.S. Developed Equities</b>	<b>4.6</b>
<b>Emerging Markets Equities</b>	
Dalton Taiwan	(8.2)
Emerging Markets Cash	2.3
Franklin Templeton	0.9
Lansdowne Emerging	(3.6)
<b>Total Emerging Markets Equities</b>	<b>(1.8)</b>
<b>Total International Equities</b>	<b>1.3</b>

See note to statements of investment performance statistics.

PERMANENT UNIVERSITY FUND  
 THE UNIVERSITY OF TEXAS SYSTEM GENERAL ENDOWMENT FUND  
 PERMANENT HEALTH FUND  
 THE UNIVERSITY OF TEXAS SYSTEM LONG TERM FUND  
 THE UNIVERSITY OF TEXAS SYSTEM INTERMEDIATE TERM FUND

**STATEMENT OF INVESTMENT PERFORMANCE STATISTICS  
 FOR THE PERIOD FROM INCEPTION (FEBRUARY 1, 2006) TO AUGUST 31, 2006**

Investment Manager	Rate of Return for the Seven Months Ended August 31, 2006 (unannualized) Intermediate Term Fund
<b>NET OF FEES</b>	
<b>Directional Hedge Funds</b>	<b>2.7 %</b>
<b>Absolute Return Hedge Funds</b>	<b>4.2</b>
<b>Inflation Linked</b>	
<b>REITS</b>	
Cohen & Steers	15.5
Morgan Stanley REITs	12.9
REIT Cash	5.0
<b>Total REITs</b>	<b>13.2</b>
<b>Commodities</b>	
Goldman Sachs Commodity Index Futures	(4.8)
PIMCO Real Return	0.0
<b>Total Commodities</b>	<b>(3.3)</b>
<b>Treasury Inflation Protected Securities (TIPS)</b>	
Internal TIPS	1.9
PIMCO TIPS	2.1
Reams TIPS	2.4
<b>Total TIPS</b>	<b>2.1</b>
<b>Total Inflation Linked</b>	<b>5.3</b>
<b>Fixed Income</b>	
Internal Fixed Income	2.2
PIMCO Fixed Income	3.5
Reams Core Plus	2.7
<b>Total Fixed Income</b>	<b>2.8</b>
<b>TOTAL FUND (Net of fees)</b>	<b>3.4%</b>
<b>TOTAL FUND (Gross of fees)</b>	<b>3.5%</b>

See note to statements of investment performance statistics.

**PERMANENT UNIVERSITY FUND  
THE UNIVERSITY OF TEXAS SYSTEM GENERAL ENDOWMENT FUND  
PERMANENT HEALTH FUND  
THE UNIVERSITY OF TEXAS SYSTEM LONG TERM FUND  
THE UNIVERSITY OF TEXAS SYSTEM INTERMEDIATE TERM FUND**

**NOTE TO STATEMENT OF INVESTMENT PERFORMANCE STATISTICS**

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**1. BASIS OF PRESENTATION**

The accompanying investment performance statistics have been computed net of investment management fees using the Modified Dietz Method, a time-weighted rate of return calculation published by the Association for Investment Management and Research. The total fund has been computed net and gross of investment management fees for comparative purposes.

For the Permanent University Fund and The University of Texas System General Endowment Fund (GEF), the individual investment manager returns reported in the statement of investment performance statistics represent investment managers that were funded for the entire year ended August 31, 2006. The returns for the Permanent Health Fund (PHF) and The University of Texas System Long Term Fund (LTF) are presented only for the total fund since the PHF and LTF purchased units in the GEF and no longer have individual investment managers. The return for the categories of total domestic equities, total non U.S. developed equities, total emerging markets equities, total international equities, total directional hedge funds, total absolute return, REITS, total commodities, total TIPS, total inflation linked, total fixed income and total fund include investment managers that were funded or terminated during the year ended August 31, 2006.

For The University of Texas System Intermediate Term Fund, the individual investment manager returns reported in the statement of investment performance statistics represent investment managers that were funded for the entire period from inception (February 1, 2006) to August 31, 2006. The return for the categories of total domestic equities, total non U.S. developed equities, total emerging markets equities, total international equities, total directional hedge funds, total absolute return, total REITS, total commodities, total TIPS, total inflation linked, total fixed income and total fund include investment managers that were funded or terminated during the period from inception (February 1, 2006) to August 31, 2006.

The formula for the Modified Dietz Method is shown in Appendix I.

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**FORMULA FOR MODIFIED DIETZ METHOD**

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The formula for estimating the time-weighted rate of return using the Modified Dietz Method,  $R_{DIETZ}$ , is:

	<b>Gross of Fees</b>		<b>Net of Fees</b>
$R_{DIETZ}$	$= \frac{MVE - MVB - F}{MVB + FW}$	$R_{DIETZ(net)}$	$= \frac{MVE - MVB - F - FEES}{MVB + FW}$

where  $MVB$  is the market value at the beginning of the period, including accrued income from the previous period;  
 $MVE$  is the market value at the end of the period, including accrued income for the period;  
 $F$  is the sum of the cash flows within the period (contributions to the portfolio are positive flows, and withdrawals or distributions are negative flows);  
 $FW$  is the sum of each cash flow,  $F_i$ , multiplied by its weight,  $W_i$ ; and  
 $FEES$  is the sum of investment management fees paid during the period.

$W_i$  is the proportion of the total number of days in the period that the cash flow  $F_i$  has been in (or out of) the portfolio. The formula for  $W_i$  is:

$$W_i = \frac{CD - D_i}{CD}$$

where  $CD$  is the total number of days in the period; and  
 $D_i$  is the number of days since the beginning of the period in which cash flow  $F_i$  occurred.