

U T I M C O

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY
THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY
THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY



1999 Annual Report

Building

MOMENTUM



PUF Highlights

(in millions)

Years Ended August 31,	1995	1996	1997	1998	1999
PUF Investments (market value)	\$ 4,958.5	\$ 5,292.1	\$ 6,368.3	\$ 6,517.1	\$ 7,465.6
PUF Lands Mineral Contributions	57.1	65.7	85.2	79.5	54.3
Investment Return	724.4	522.1	1,254.0	329.3	1,158.1
Distributions to AUF:					
- Investment income	249.5	253.6	265.2	260.0	263.9
- One-time adjustment				47.3	
PUF Lands Surface Income & Misc.	4.3	5.3	5.7	6.9	10.0
Administrative Expenses	9.5	9.0	10.8	10.7	11.4

Permanent University Fund

The PUF has grown substantially over the past five years from an investment value of \$5.0 billion to \$7.5 billion.



PERMANENT UNIVERSITY FUND

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY
THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY
THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

Permanent University Fund

Feature Story	17
Overview	18
Lands	18
Investments	18
Contributions	19
Investment Return	20
Investment Expenses	20
Investment Distributions	20
Preservation of Investment Purchasing Power	20
Subsequent Event-Constitutional Amendment	21
Feature Story	23
Audited Financial Statements	24

PUF Beneficiaries:

The University of Texas System

- UT Arlington
- UT Austin
- UT Dallas
- UT El Paso
- UT Permian Basin
- UT San Antonio
- UT Tyler
- UT Southwestern Medical Center at Dallas
- UT Medical Branch at Galveston
- UT Health Science Center at Houston
- UT Health Science Center at San Antonio
- UT M. D. Anderson Cancer Center
- UT Health Center at Tyler

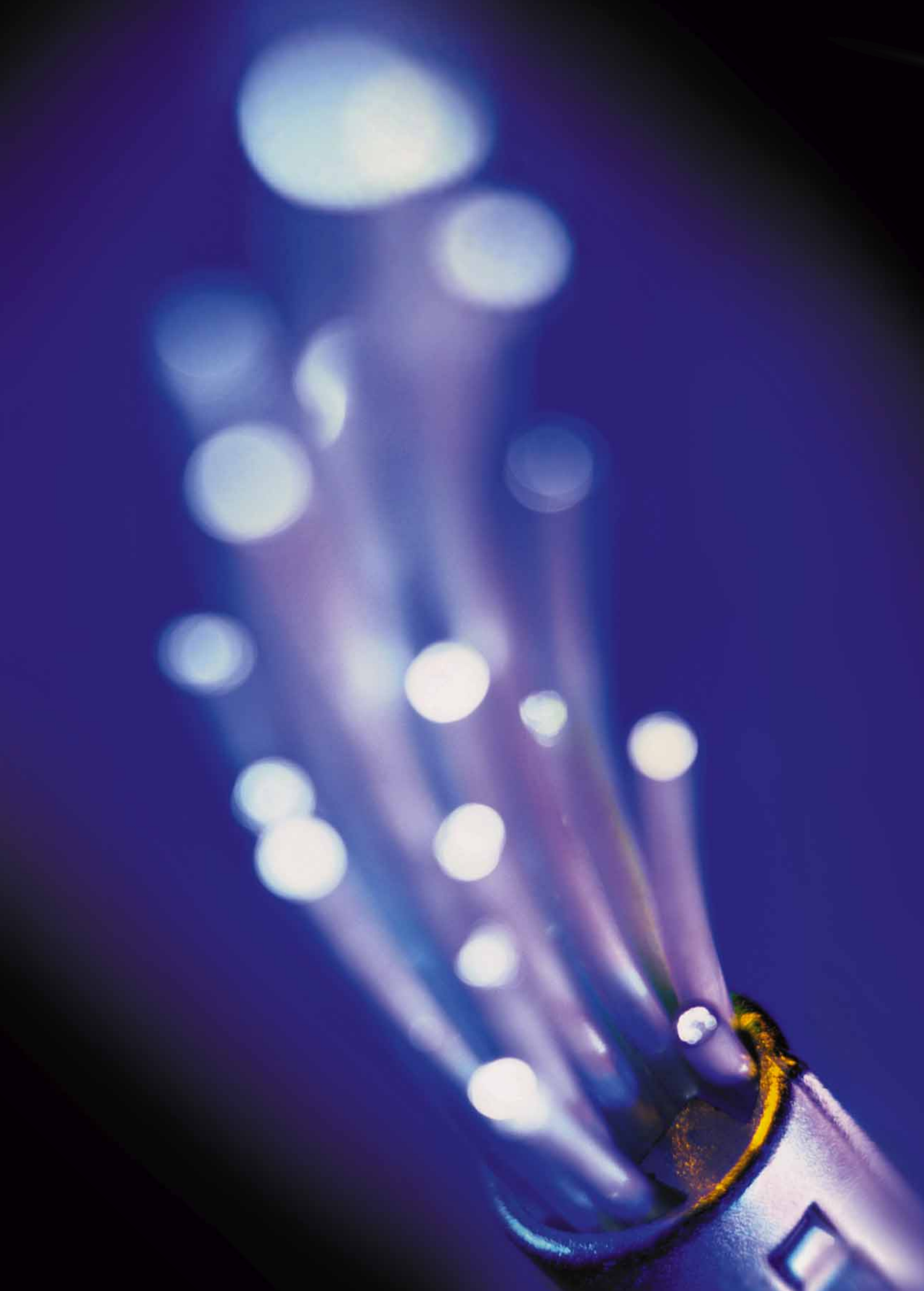
The Texas A&M University System

- Prairie View A&M University
- Tarleton State University
- Texas A&M University
- Texas A&M at Galveston
- The Texas A&M University Health Science Center
- Texas Agriculture Experiment Station
- Texas Agricultural Extension Service
- Texas Engineering Experiment Station
- Texas Engineering Extension Service
- Texas Forest Service
- Texas Transportation Institute

Building

MOMENTUM

in excess of \$13 Billion.





PERMANENT UNIVERSITY FUND

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY
THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY
THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

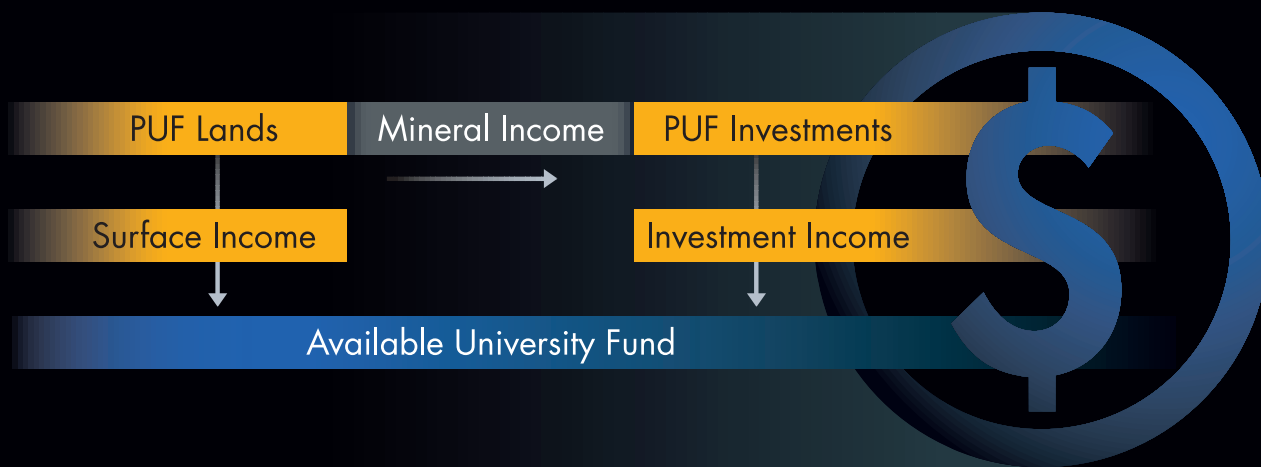
Did you know...

A master's degree in Business Administration can be earned online from the UT TeleCampus.

In October 1997, the UT Board approved a \$3.4 million allocation from its share of PUF distributions to fund its information technology initiatives. One of these initiatives was the development of the UT TeleCampus, a "virtual campus" project. The UT TeleCampus was developed to provide greater access to distance education and was formally launched in May of 1998. Students may earn an MBA or an MEd in Educational Technology online, as well as credits in first year core curriculum courses through the UT TeleCampus. Beginning Fall 2000, the UT TeleCampus will expand its offering of online degrees to include master's degrees in Kinesiology, Electrical Engineering and Computer Science Engineering. With System-wide participation the UT TeleCampus is "Taking the Distance Out of Education."

(www.telecampus.utsystem.edu)

The UT TeleCampus and other UT System Information Technology initiatives would not be possible without an excellent telecommunications infrastructure. Since 1987, the UT Board has invested approximately \$10.5 million of PUF distributions to provide its component institutions with inter-institutional voice, video, and computer communications. Today, the UT System Office of Telecommunications Services works together with the Office of Information Technology and Distance Education to expand the technology-related services of the UT TeleCampus and to ensure access to a high-quality education for all UT students.



Permanent University Fund Overview

The Permanent University Fund (PUF) is a state endowment fund contributing to the support of 18 institutions and 6 agencies of The University of Texas System and The Texas A&M University System. The Texas Constitution of 1876 established the PUF through the appropriation of land grants previously given to The University of Texas at Austin plus one million acres. The land grants to the PUF were completed in 1883 with the contribution of an additional one million acres of land. A timeline of the 123-year history of the PUF can be found on UTIMCO's website at www.utimco.org.

The unique constitutional structure of the PUF and the restrictions governing the income from both the PUF Lands and PUF Investments are depicted above.

PUF Lands

The UT Board has actively leased the surface and mineral interests of the PUF Lands since 1923. Surface acreage of the sparsely populated PUF Lands has been leased primarily for grazing and easements for power lines and pipelines. As mandated by the Constitution, all surface lease income is deposited in the Available University Fund (AUF). Mineral income generated by the PUF Lands consists primarily of bonuses and rentals from the periodic sale of mineral leases, and royalties on gross revenues from oil, gas, and sulfur production. The Constitution requires that all income from the sale of PUF Lands and leasing of mineral interests be retained within the PUF and invested in PUF Investments.

PUF Investments (\$7,465.6 million)

PUF Investments are invested in a diversified portfolio of equity, fixed income and derivative securities in accordance with the prudent person standard. The Constitution requires the distribution of 100% of investment income to the AUF and prohibits the distribution of capital gains. Distributions of PUF investment income are used first to fund PUF administrative expenses, and then allocated 2/3^{ds} for the benefit of eligible institutions of the UT System and 1/3rd for the benefit of eligible institutions of The Texas A&M University System. PUF distributions paid to the AUF are expended by each university system to fund two major programs:

- #### Debt Service on Bonds Issued to Fund Capital Expenditures

The Constitution authorizes the UT Board and the A&M Board to issue bonds (PUF Bonds) payable from their respective interests in PUF distributions to finance construction and renovation projects, major library acquisitions, and educational and research equipment at the 18 eligible campuses and 6 agencies of their systems. The UT Board and the A&M Board are authorized to issue bonds secured by each system's interest in PUF distributions in an amount not to exceed 20% and 10%, respectively, of the book value of PUF assets at the time of issuance. The \$954.7 million of outstanding PUF bonds were rated AAA, Aaa and AAA by Fitch IBCA, Moody's Investors Service, Inc. and Standard & Poor's Inc., respectively, as of fiscal year end.

- #### Academic Excellence Programs

PUF distributions, after payment of debt service on PUF bonds, are used to fund academic excellence programs at UT Austin, Texas A&M University and Prairie View A&M University. Expenditures for excellence programs encompass library enhancements, specialized science and engineering equipment, student counseling services, graduate student fellowships, and National Merit and other scholarships.



PERMANENT UNIVERSITY FUND

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY
 THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY
 THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

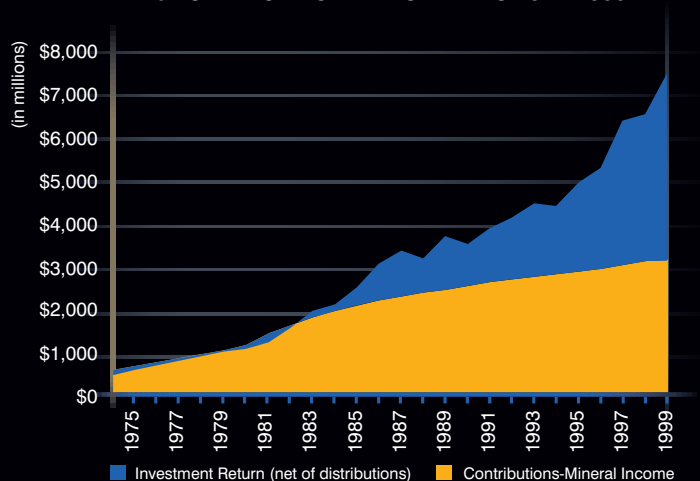
Since 1923, a cumulative \$5,055.6 million, or approximately 54% of the \$9,321.3 million of cumulative investment return generated on PUF Investments has been distributed to the AUF in support of the UT System and the A&M System.

1923-1999 (in millions)	
Beginning Market Value (1923)	\$ -
Contributions of Mineral Income from PUF Lands	3,199.9
Investment Return	9,321.3
Distributions of Income Return to the AUF	(5,055.6)
Ending Market Value (1999)	\$ 7,465.6

PUF Contributions

Fiscal year 1999 contributions of PUF Lands mineral income to PUF Investments decreased by 32% from \$79.5 million to \$54.3 million and represented 0.76% of the average value of PUF Investments during the year. The ability of the depleting PUF Lands mineral resources to increase PUF Investments through contributions has been in decline for over a quarter of a century. Today, preservation of PUF endowment purchasing power is critically dependent on retained investment return. This fact is clearly evident when examining the components of the growth in value of PUF Investments since 1974.

GROWTH OF PUF INVESTMENTS 1974-1999



Building
MOMENTUM

in excess of \$13 Billion.



PUF Investment Return

The 1999 fiscal year annual return for PUF Investments was 17.9% versus the 24.4% return for the Endowment Policy Portfolio. Achievement of the PUF's primary investment objective was hindered substantially by the inability to make PUF distributions to the AUF on a total return basis. Currently, the PUF's asset allocation is subordinated to the management of income return. In an environment of low or declining yields, UTIMCO must allocate a higher than optimal percentage of PUF investment assets to higher yielding, but lower returning fixed income securities in order to maintain PUF distributions on a level-dollar basis.

The subordination of the PUF's asset allocation to income management is evident in the deviation of the PUF's asset allocation from the preferred asset allocation of the Endowment Policy Portfolio, as presented below:

The PUF Investments under performance was largely attributable to a double-weighting, 30.2%, in U.S. Fixed Income assets which reduced the PUF's annual return by 5.6% versus the return of the Endowment Policy Portfolio.

PUF Investment Expenses

The Texas Constitution requires that all PUF endowment expenses be paid from PUF distributions. This constraint means that leasing and investment expenses incurred to produce new contributions of mineral income and total investment return must be paid from the income portion of the investment return and surface income only. PUF investment management expenses increased by \$100,000 to \$6.5 million during 1999 and represented 0.09% of the average value of PUF Investments versus 0.10% for the prior year.

PUF Investment Distributions

As stated previously, the Constitution requires that 100% of investment income be paid as distributions from PUF Investments. A low income return cannot be supplemented with capital gains and a high income return cannot be reinvested for future income growth. As a result, the PUF's annual distribution is influenced heavily by external market-driven variables such as interest rates, the accompanying reinvestment spread on fixed income investments and dividend growth. During the year, income distributed from PUF Investments increased by 1.5% from \$260.0 million (excluding the 1998 one-time extraordinary adjustment of \$47.3 million) to \$263.9 million. Growth in dividends from PUF Investments was offset in large part by the declining yields earned on fixed income investments.

Preservation of PUF Investments Purchasing Power

Preserving PUF Investments purchasing power over time is dependent on the PUF's ability to meet its distribution policy objectives. These objectives, which are somewhat contradictory, are generally optimized through a total return investment and distribution approach exemplified by the Endowment Policy Portfolio. The segregation of income return from price return under the Constitution separates the annual distribution paid from total investment return earned and makes optimization difficult.

PUF distribution policy objectives are to:

Provide a stable and predictable stream of distributions to the AUF

For the preceding five-year period, starting with the fiscal year ended August 1995, the rate of change in the PUF's distribution of investment income (excluding the 1998 one-time extraordinary adjustment of \$47.3 million) was 3.0%, 1.6%, 4.6%, (2.0%) and 1.5%.

Asset Allocation as of August 31, 1999

Investment Return

Asset Class	Asset Allocation as of August 31, 1999			Investment Return		
	EPP	PUF	Over (Under) Weight	Portfolio Policy Index	PUF	Attribution
Cash and Equivalents	0.0%	1.4%	1.4%	0.0%	6.0%	(0.3%)
U.S. Equities: Med/Large Capitalization	30.0%	46.6%	16.6%	39.9%	32.2%	(1.2%)
U.S. Equities: Small Capitalization	10.0%	4.4%	(5.6%)	28.3%	27.2%	(0.3%)
Non-U.S. Equities: Established Markets	12.0%	6.8%	(5.2%)	30.5%	22.3%	(0.9%)
Non-U.S. Equities: Emerging Markets	3.0%	0.0%	(3.0%)	72.3%	0.0%	(1.3%)
Alternative Assets: Marketable	7.0%	0.0%	(7.0%)	12.3%	0.0%	0.9%
Alternative Assets: Nonmarketable	18.0%	10.6%	(7.4%)	17.0%	21.1%	1.3%
U.S. Fixed Income	15.0%	30.2%	15.2%	0.8%	(1.0%)	(5.6%)
Non-U.S. Fixed Income	5.0%	0.0%	(5.0%)	6.2%	0.0%	0.9%
TOTAL PUF INVESTMENTS	100.0%	100.0%	0.0%	24.4%	17.9%	(6.5%)



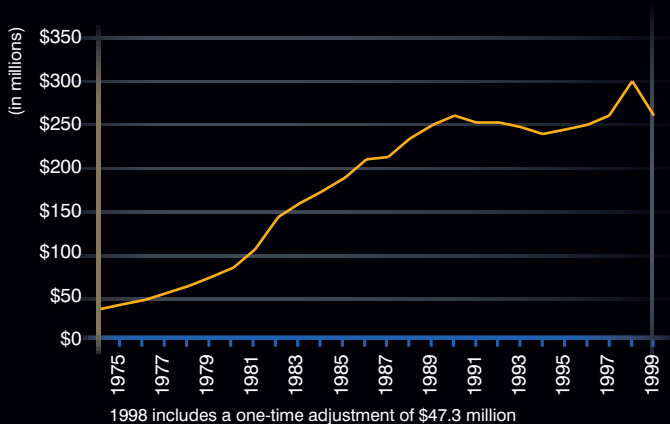
PERMANENT UNIVERSITY FUND

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY
 THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY
 THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

Increase the distribution stream to the AUF at a rate at least equal to the rate of inflation

Prior to August 31, 1997, measuring the increase in the PUF's distribution stream was not meaningful because the PUF's distribution percentage of 4.9% was higher than the target average of 4.5%. The PUF's distributions have declined 4.4% on a real basis over the two-year period ended August 31, 1999. This excludes the 1998 one-time extraordinary adjustment of \$47.3 million.

PUF DISTRIBUTIONS TO THE AUF 1974-1999



Increase the value of PUF Investments (after distributions) at a rate at least equal to the rate of inflation

The low rates of inflation throughout the 1990s continued unabated during the fiscal year as the rate of inflation averaged a benign 2.26%. The purchasing power of PUF Investments increased by 12.01% during the fiscal year versus a long-term average expected increase of 1.00% for the Endowment Policy Portfolio (EPP) as shown in the chart below. This unusually high increase in purchasing power was attributable to an extremely ideal investment climate characterized by above average equity returns and low inflation.

The success of PUF Investments in meeting the objective of preserving purchasing over the long term depends upon the ability to generate high returns in periods of low inflation that will offset lower returns in periods of high inflation. Despite a consistent overweighting in lower returning fixed income investments and a higher than desired distribution rate, the purchasing power of PUF Investments increased by an annual average of 7.61% and 2.88% over the five-year and ten-year periods ending August 31, 1999, respectively.

Subsequent Event - Constitutional Amendment

Pursuant to a statewide election held on November 2, 1999, voters approved Proposition 17 amending the Texas Constitution. The amendments are effective January 1, 2000 and allow 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 amendment also directs the UT Board to establish a distribution policy that attempts to balance the need to provide a stable, inflation adjusted distribution stream with the need to preserve the real value of the PUF Investments over the long term. Payment of distributions in any given fiscal year is subject to the following conditions:

A minimum payment in an amount equal to the amount needed to pay debt service on PUF Bonds,

No increase in distribution (except as necessary to pay debt service during that fiscal year on PUF bonds) unless the purchasing power of PUF Investments for any rolling 10-period has been preserved,

Not to exceed an amount equal to seven percent (7%) of the average net fair market value of PUF Investment assets in any fiscal year, except as necessary to pay debt service on PUF Bonds.

Annual Average	Expected	For the Periods Ended August 31, 1999		
	EPP	One Year	Five Years	Ten Years
Rate of Investment Return	9.35%	17.91%	14.53%	11.36%
Less:				
Expense Rate	0.35%	0.00%*	0.00%*	0.00%*
Inflation Rate	3.50%	2.26%	2.32%	2.99%
Distribution Rate	4.50%	3.64%	4.60%	5.49%
Change in Purchasing Power	1.00%	12.01%	7.61%	2.88%

* Paid out of the AUF



U T I M C O

PERMANENT UNIVERSITY FUND

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY
THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY
THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

Did you know...

After Texas A&M University, Prairie View A&M University is the second oldest public institution of higher education in Texas.

Distributions from the Permanent University Fund are used by the component institutions of both The University of Texas System and The Texas A&M University System to support library services.

A primary objective of Texas A&M University's current campaign, Vision 2020, is to be ranked as one of the top ten public U.S. universities by the year 2020. A major focus of Vision 2020 is to improve the Sterling C. Evans Library using distributions from the Permanent University Fund and other sources. Prairie View A&M University, a historically African-American university, is home to the John B. Coleman Library. The special collections of this library include "Black Heritage of the West" and "Blacks in the U.S. Military". Distributions from the PUF supplement library operations and faculty salaries at each of The Texas A&M University System campuses.

The Tarlton Law Library on The University of Texas at Austin campus serves as a state resource on current Texas legal matters for 1,500 full-time law students and 100 faculty members. The Tarlton Law Library is the fifth largest academic law library in the nation with over 930,000 volumes. It is housed in the largest academic law library building in the U. S., with over 167,000 square feet of floor space. Even though the library's budget for acquisitions exceeded \$1 million for the first time in 1997, state appropriations are inadequate to sustain the Tarlton Law Library or develop its collection.

**Deloitte &
Touche LLP**



Deloitte Touche LLP
Suite 2300
333 Clay Street
Houston, Texas 77002-4196

Telephone: 713.982.2000
Facsimile: 713.982.2001

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of investment assets and liabilities, and the comparison summary of investment in securities of the Permanent University Fund (PUF) as of August 31, 1999 and 1998, the related statements of investment income and the statements of changes in net investment assets for the years then ended, and the schedule of changes in cost of investments for the year ended August 31, 1999. 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 generally accepted auditing standards. 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. Our procedures included confirmation of securities owned as of August 31, 1999 and 1998, by correspondence with the custodian. 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.

In our opinion, the statements of investment assets and liabilities, the comparison summary of investment in securities, the statements of investment income, the statements of changes in net investment assets, and the schedule of changes in cost of investments referred to above present fairly, in all material respects, the financial position and the comparative investment in securities of the PUF as of August 31, 1999 and 1998, its investment income and the changes in its net investment assets for the years then ended, and the changes in cost of its investments for the year ended August 31, 1999 in conformity with generally accepted accounting principles.

The financial statements referred to above include only the assets and liabilities and investment income related to the investments of the PUF which are managed by The University of Texas Investment Management Company. The PUF's 2.1 million acres of West Texas land is not included in this report.

Deloitte & Touche LLP

October 29, 1999

**Deloitte Touche
Tohmatsu**



PERMANENT UNIVERSITY FUND

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY
 THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY
 THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

Financial Statements

STATEMENTS OF INVESTMENT ASSETS AND LIABILITIES

August 31, 1999 and 1998

(in thousands)

	1999	1998
INVESTMENT ASSETS		
Investment in Securities, at Value (Cost \$5,986,378 and \$5,405,896, respectively)	\$ 7,428,306	\$ 6,401,385
Collateral for Securities Loaned, at Value	395,314	326,534
Deposit with Broker for Futures Contracts	11,155	-
Receivables		
Investment Securities Sold	9,568	104,705
Accrued Income	43,728	44,644
TOTAL INVESTMENT ASSETS	7,888,071	6,877,268
LIABILITIES		
Payable to the Available University Fund	24,075	21,256
Payable Upon Return of Securities Loaned	395,314	326,534
Payables		
Investment Securities Purchased	2,290	12,391
Other	831	-
TOTAL LIABILITIES	422,510	360,181
NET INVESTMENT ASSETS	\$ 7,465,561	\$ 6,517,087

STATEMENTS OF CHANGES IN NET INVESTMENT ASSETS

Years Ended August 31, 1999 and 1998

(in thousands)

	1999	1998
BEGINNING NET INVESTMENT ASSETS	\$ 6,517,087	\$ 6,368,278
Contributions from PUF Lands	54,314	79,534
Investment Income	263,915	259,978
Investment Income Distributed	(263,915)	(259,978)
Net Realized Gains	447,722	467,553
Net Unrealized Appreciation (Depreciation)	446,438	(398,278)
ENDING NET INVESTMENT ASSETS	\$ 7,465,561	\$ 6,517,087

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

Permanent University Fund

Financial Statements

COMPARISON SUMMARY OF INVESTMENT IN SECURITIES

August 31, 1999 and 1998

(in thousands)

	1999		1998	
	Value	Cost	Value	Cost
DEBT SECURITIES				
U.S. Govt. Obligations (Direct and Guaranteed)	\$ 461,710	\$ 456,196	\$ 439,655	\$ 385,865
U.S. Govt. Agencies (Non-Guaranteed)	356,029	351,716	418,900	378,981
Foreign Government Obligations	102,389	98,541	111,200	98,475
Municipal and County Bonds	110,448	109,059	122,344	109,289
Corporate Bonds	1,185,249	1,165,053	1,304,751	1,197,547
Other	7,150	7,150	4,993	4,993
TOTAL DEBT SECURITIES	2,222,975	2,187,715	2,401,843	2,175,150
PREFERRED STOCKS	9,534	9,373	3,156	3,072
CONVERTIBLE DEBENTURES	2,438	2,438	-	-
EQUITY SECURITIES				
Domestic Common Stocks	1,787,651	1,138,580	1,522,491	1,178,931
Limited Partnerships	718,704	674,835	454,445	448,376
Index Funds	2,316,494	1,617,674	1,866,082	1,449,485
Other	21,416	6,669	9,885	7,399
TOTAL EQUITY SECURITIES	4,844,265	3,437,758	3,852,903	3,084,191
CASH AND CASH EQUIVALENTS				
Money Markets and Cash Held at State Treasury	349,094	349,094	143,483	143,483
TOTAL CASH AND CASH EQUIVALENTS	349,094	349,094	143,483	143,483
TOTAL INVESTMENT IN SECURITIES	\$ 7,428,306	\$ 5,986,378	\$ 6,401,385	\$ 5,405,896

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



PERMANENT UNIVERSITY FUND

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY
 THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY
 THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

STATEMENTS OF INVESTMENT INCOME

Years Ended August 31, 1999 and 1998

(in thousands)

	1999	1998
DEBT SECURITIES		
U.S. Govt. Obligations (Direct and Guaranteed)	\$ 31,966	\$ 30,247
U.S. Govt. Agencies (Non-Guaranteed)	27,738	29,418
Foreign Government Obligations	7,538	7,533
Municipal and County Bonds	8,232	8,258
Corporate Bonds	93,660	96,884
Other	543	-
TOTAL DEBT SECURITIES	169,677	172,340
PREFERRED STOCKS	111	230
EQUITY SECURITIES		
Domestic Common Stocks	39,239	36,445
Limited Partnerships	5,829	6,159
Index Funds	31,312	32,162
Other	1,386	2,576
TOTAL EQUITY SECURITIES	77,766	77,342
CASH AND CASH EQUIVALENTS		
Money Markets and Cash Held at State Treasury	15,110	8,598
Commercial Paper	-	173
TOTAL CASH AND CASH EQUIVALENTS	15,110	8,771
OTHER INVESTMENT INCOME		
Securities Lending	1,251	1,295
TOTAL INVESTMENT INCOME	\$ 263,915	\$ 259,978

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

Permanent University Fund

Financial Statements

SCHEDULE OF CHANGES IN COST OF INVESTMENTS

Year Ended August 31, 1999

(in thousands)

Type of Investment	Beginning Cost	Purchases	Sales, Maturities & Redemptions	Gains (Losses)	Reclass & Amortization	Ending Cost
DEBT SECURITIES						
U.S. Govt. Obligations (Direct and Guaranteed)	\$ 385,865	\$ 91,064	\$ (21,193)	\$ 33	\$ 427	\$ 456,196
U.S. Govt. Agencies (Non-Guaranteed)	378,981	-	(29,436)	267	1,904	351,716
Foreign Government Obligations	98,475	-	-	-	66	98,541
Municipal and County Bonds	109,289	-	(260)	-	30	109,059
Corporate Bonds	1,197,547	-	(34,711)	729	1,488	1,165,053
Other	4,993	2,157	-	-	-	7,150
TOTAL DEBT SECURITIES	2,175,150	93,221	(85,600)	1,029	3,915	2,187,715
PREFERRED STOCKS						
	3,072	6,380	(150)	71	-	9,373
CONVERTIBLE DEBENTURES						
	-	2,438	-	-	-	2,438
EQUITY SECURITIES						
Domestic Common Stocks	1,178,931	573,174	(677,451)	42,556	21,370	1,138,580
Limited Partnerships	448,376	275,027	(81,346)	54,148	(21,370)	674,835
Index Funds	1,449,485	449,990	(604,731)	322,930	-	1,617,674
Other	7,399	-	(726)	(4)	-	6,669
TOTAL EQUITY SECURITIES	3,084,191	1,298,191	(1,364,254)	419,630	-	3,437,758
CASH AND CASH EQUIVALENTS						
Money Markets and Cash Held at State Treasury	143,483	178,619*	-	26,992**	-	349,094
TOTAL INVESTMENT IN SECURITIES	\$5,405,896	\$ 1,578,849	\$(1,450,004)	\$ 447,722	\$ 3,915	\$ 5,986,378

* Net increase in cash and money markets during the year.

** Includes realized gains on futures contracts.



PERMANENT UNIVERSITY FUND

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY
THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY
THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

Notes to Financial Statements

Note 1 - Organization

(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 plus 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 2,109,190 acres located in 24 counties primarily in West Texas.

The PUF's 2.1 million acres of West Texas land produce two streams of income: mineral and surface. Mineral income is retained forever as part of the PUF; however, surface income is distributed to the Available University Fund (AUF).

The investments of the PUF are managed by The University of Texas Investment Management Company (UTIMCO). Investment management fees are charged directly to the AUF.

The accompanying financial statements include only the assets and liabilities and investment income related to the investments of the PUF which are managed by UTIMCO. The PUF's 2.1 million acres of West Texas land is not included in this report.

(B) The constitutional provisions governing the PUF prohibit the expenditure of corpus, and consequently, gains and losses on sales of securities remain in the PUF. Conversely, the Constitution of Texas mandates that all dividend and interest income be distributed to the AUF on an accrual basis.

(C) The audited financial statements and schedules have been prepared for the purpose of complying with the reporting requirements of Section 66.05 and 66.08(f) of the Texas Education Code and for the purpose of presenting the statement of investment income.

Note 2 - Significant Accounting Policies

(A) *Cash and Cash Equivalents* - Cash and cash equivalents consist of cash held at the State Treasury, commercial paper and money market instruments.

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

Fixed income securities directly held 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 investment 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).

Limited Partnerships and Other are valued based on a fair valuation determined as specified by policies established by the UTIMCO Board of Directors. At August 31, 1999, certain conditions existed that warranted an adjustment to several limited partnerships and one direct investment which was not specifically addressed by the Board policy. The policy states that if a direct investment is held by a partnership, the valuation used by the PUF is the price used by the partnership. Additionally, the limited partnership is valued based on the capital account balance at the closest available reporting period, as communicated by the general partner, adjusted for intra valuation date contributions and withdrawals. There were two significant sales that were consummated prior to the end of the reporting period but were not reflected in the general partners' June 30, 1999 financial statements. Accordingly, valuation adjustments were made to more accurately reflect the market value of these investments at August 31, 1999. Proceeds from the sales of these investments were received in September 1999.

Securities held in index funds are generally valued as follows:

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

Stocks traded on the over-the-counter market are valued at the last reported bid price, except for National Market System OTC stocks which are valued at their closing market prices.

Fixed income securities are valued based upon bid quotations obtained from major market makers or security exchanges.

(C) *Foreign Currency Translation* - The accounting records of the PUF are maintained in U.S. dollars. Purchases and sales of securities of foreign entities and the related income receipts are translated into U.S. dollars at the exchange rate on the dates of the transactions. The portion of currency gains and losses resulting from changes in foreign exchange rates on purchases and sales of securities is included with net realized and unrealized gain or loss from investments. The currency gains and losses on dividend and interest payments resulting from changes in foreign exchange rates between the accrual date and the payment date are included in investment income.

(D) *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. Bonds are amortized over the life of the security using the interest method, which is a method of amortizing discounts or premiums that results in constant rates of interest.

(E) *Security Transactions* - Security transactions are accounted for on a trade date basis for most securities. International index fund transactions are recorded on a settle date basis due to trading practices which impose restrictions in acquiring per unit information on the trade date. 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.

Permanent University Fund

Notes to Financial Statements

(F) *Recently Issued Accounting Standards* - In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 standardizes the accounting for derivative instruments, by requiring an entity to recognize those items as assets or liabilities in the Statements of Assets and Liabilities and measure them at fair value. This statement is effective for fiscal years beginning after June 15, 2000. The PUF's financial statements are not expected to change as a result of the adoption of SFAS No. 133. The PUF currently accounts for its derivative instruments at fair value.

(G) *Use of Estimates* - The preparation of financial statements in conformity with generally accepted accounting principles 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.

Cash received as collateral for securities lending activities is recorded as an asset with an equal and offsetting liability to return the collateral. 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.

Note 5 - Investment Commitments

Unfunded contractual commitments for Limited Partnerships and Other assets were \$585,732,628 at August 31, 1999.

Note 3 - Investment Activity

The cost of purchases and proceeds from sales and maturities of investments (excluding cash and cash equivalents) were \$1,400,230,388 and \$1,450,003,764, respectively, for the year ended August 31, 1999. For the year ended August 31, 1998, the cost of purchases and proceeds from sales and maturities were \$1,601,657,450 and \$1,638,513,583, respectively. Such transactions were made at current market prices on the dates of the transactions.

Note 4 - Securities Lending

The PUF loaned securities to certain brokers who paid the PUF negotiated lenders' fees. These fees are included in investment income. 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 United States issuers and a market value of 105% for loaned securities of non-United States issuers. If the market value of the collateral held in connection with loans of securities of United States 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-United States issuers, the collateral should remain 105% of the market value of the loaned securities at the close of any business day. If it falls below the 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 as of August 31, 1999 and 1998 are as follows:

Securities on Loan	1999 Value	1998 Value	Type of Collateral	1999 Value of Collateral	1998 Value of Collateral
U.S. Government	\$ 376,230,804	\$ 293,735,448	Cash	\$ 383,425,026	\$ 298,296,499
Corporate Bonds	7,513,232	21,030,198	Cash	7,706,250	22,034,870
Common Stock	4,063,775	5,327,432	Cash	4,182,602	6,202,169
Total	\$ 387,807,811	\$ 320,093,078	Total	\$ 395,313,878	\$ 326,533,538
U.S. Government	\$ 50,147,308	\$ 12,434,830	Non-Cash	\$ 52,665,859	\$ 12,851,250
Corporate Bonds	-	5,971,625	Non-Cash	-	6,125,000
Total	\$ 50,147,308	\$ 18,406,455	Total	\$ 52,665,859	\$ 18,976,250

PERMANENT UNIVERSITY FUND

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY
 THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY
 THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

Note 6 - Index Funds

The index funds consist of the Equity Index Fund B Lendable, which is majority-owned by the PUF and The University of Texas System Long Term Fund, and the Mid Cap Index Fund B Lendable, which is majority-owned by the PUF. Also included in the index funds are twenty-one MSCI Equity Index Fund B international funds which are invested in Europe, Australia and the Far East. The values of the funds as of August 31, 1999 and 1998 are as follows:

	August 31, 1999	1998
Equity Index Fund B Lendable	\$ 1,102,392,137	\$ 936,699,381
Mid Cap Index Fund B Lendable	717,407,908	513,003,187
MSCI Equity Index Fund B	496,694,447	416,379,542
	\$ 2,316,494,492	\$ 1,866,082,110

Note 7 - Futures Contracts

During the year ended August 31, 1999, the PUF began trading in S&P 500 equity futures. The PUF does not utilize leverage when entering into these contracts. S&P 500 equity futures were used to maintain market exposure to the S&P 500 index. The PUF maintained money market and collateral balances equivalent to the notional value of the S&P 500 contracts to produce interest income. The PUF's money market balance associated with the contracts as of August 31, 1999 was \$166,692,484 in addition to \$11,155,241 held on deposit with broker. 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 difference 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 of net realized gain on the S&P 500 futures contracts was \$27,037,966 for the year ended August 31, 1999. The PUF executes the contracts on a major exchange and minimizes market and credit risk associated with these contracts through various trading and credit monitoring techniques.

The following discloses the notional, carrying and fair values at August 31, 1999 and the average carrying and fair values for the year ended August 31, 1999 for futures contracts:

	Notional Value at August 31, 1999		Carrying and Fair Value at August 31, 1999		Average Carrying and Fair Value for the Year Ended August 31, 1999	
	Long	Short	Assets	Liabilities	Assets	Liabilities
S&P 500 Equity Futures	\$176,853,200	\$ -	\$ -	\$830,800	\$792,527	\$1,178,509

Note 8 - Year 2000 (Unaudited)

The PUF could be adversely affected if the computer systems it uses and those used by the PUF's managers, custodian and other major service providers, do not properly process and calculate date-related information and data from and after January 1, 2000. This is commonly known as the Year 2000 problem.

All internal processes and programs, hardware and software products have been analyzed and are considered Year 2000 ready. As of August 31, 1999, Mellon Trust, the custodian and the major service provider for the PUF, had completed 100% of the remediation and system testing for their mission critical and high business value systems and considered themselves ready for the Year 2000. The PUF's other key service providers have taken steps that UTIMCO believes are reasonable in addressing Year 2000.