

Financial Statements
and Independent Auditors' Report
The University of Texas System
Long Term Fund
Years Ended August 31, 2008 and 2007

The University of Texas System Long Term Fund

Financial Statements

Years Ended August 31, 2008 and 2007

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Independent Auditors' Report

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 Statements of Fiduciary Net Assets of The University of Texas System Long Term Fund (the "Fund"), as of August 31, 2008, and August 31, 2007 and the related Statements of Changes in Fiduciary Net Assets for the years then ended. These financial statements are the responsibility of The University of Texas Investment Management Company ("UTIMCO" or "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 of America. 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 consideration of internal control over financial reporting as a basis for designing the 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, 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 of the Fund are intended only to present the financial position of the Fund and do not purport to, and do not, present the financial positions of UTIMCO or The University of Texas System as of August 31, 2008, and August 31, 2007 and the changes in their financial positions for the years then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 3, the financial statements include an investment in The University of Texas System General Endowment Fund (the "GEF"), valued at \$5,285,008,625 and \$5,333,311,084 at August 31, 2008 and August 31, 2007, respectively. The GEF has 51.5% and 40.8% of its net assets as of August 31, 2008, and August 31, 2007, respectively, invested in assets whose fair value has been estimated by management in the absence of readily determinable fair values. Management's estimate of the value of the Fund is based upon the net asset value per unit of GEF, which is also calculated by UTIMCO.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as of August 31, 2008, and August 31, 2007, and the

changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements of the Fund. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of management. The supplemental schedules as of and for the years ended August 31, 2008, and August 31, 2007, have been subjected to the audit procedures applied by us (with 2006, 2005, and 2004 being subject to audit procedures by other auditors) in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Deloitte & Touche LLP

October 31, 2008

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, 2008. 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 was established February 9, 1995, by The University of Texas System Board of Regents (UT Board) to succeed the Common Trust Fund pooled investment fund. The Fund is a pooled investment fund established for the collective investment of approximately 8,500 privately raised endowments and other long-term funds established to benefit the 15 institutions of the UT System. 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 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 pooled investment 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, decreased by \$48.0 million from \$5,333.0 million to \$5,285.0 million or approximately 0.9% for the year ended August 31, 2008, compared to an increase of \$892.2 million or approximately 20.1% for the ended August 31, 2007. The change in net fiduciary assets from year to year is mainly attributable to the following:
 1. Participant contributions to the Fund increased by 1.4% from fiscal year 2007 to 2008. Fiscal year 2008 contributions of \$374.3 million represented 6.8% of the average value of the Fund assets during the year. From fiscal year 2006 to 2007, participant contributions to the Fund increased by 31.3%. Contributions for this period totaled \$369.1 million and represented 7.4% 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 loss of 3.13% for the fiscal year ended August 31, 2008, calculated using the Modified Dietz Method as described by the CFA Institute,

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compared to a net investment return of 15.76% 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 private investment funds, hedge funds, natural resources and investment grade fixed income were the positive contributors to the 2008 return, while real estate and developed and emerging market equities posted negative returns. For the fiscal year ended August 31, 2007, the private market investments, emerging markets equities and hedge funds were the leading performers.

3. The Fund's distribution rate per unit was increased by 3.0%, approximately the average rate of inflation, for the year ended August 31, 2008. This equated to an increase in the 2008 rate to \$0.2929 per unit from the 2007 rate of \$0.2844 per unit. The 2007 rate represented an increase of 2.9% over the fiscal year 2006 rate of \$0.2764 per unit. Fiscal year 2008 distributions represented 3.96% of the Fund's average net asset value during the year, compared to the fiscal year 2007 distributions which represented 4.00% 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 invests in only GEF units and a negligible amount of cash, the majority of the Fund's net assets represent investment in GEF units.

As of August 31, 2008, the Fund owned 30,326,861 GEF units representing an ownership percentage of 83.75%, compared to 29,669,785 GEF units representing an ownership percentage of 82.90% as of August 31, 2007. As of August 31, 2008 and 2007, the fair value of the GEF units was \$5,285.0 million and \$5,333.3 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. UTIMCO allocates GEF's assets to internally and externally managed portfolios in accordance with approved asset allocation policies,

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

	2008	2007	2006
Assets			
General Endowment Fund Units, at Fair Value	\$ 5,285.0	\$ 5,333.3	\$ 4,441.0
Receivable for Investment Securities Sold	4.3	4.2	2.1
Total Assets	5,289.3	5,337.5	4,443.1
Liabilities			
Payable to Participants	4.3	4.2	2.1
Other Payables	-	0.3	0.2
Total Liabilities	4.3	4.5	2.3
Net Assets Held in Trust	\$ 5,285.0	\$ 5,333.0	\$ 4,440.8

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 administrative expenses and participant distributions.

The net decrease in appreciation of investments of the Fund was \$252.3 million during the year compared to the net increase in appreciation of investments of \$642.4 million for the year ended August 31, 2007. Investment expenses totaled \$4.5 million, \$4.0 million and \$2.1 million, respectively, for the years ended August 31, 2008, 2007, and 2006.

Distributions to participants totaled \$217.1 million, \$198.9 million and \$180.5 million, respectively, for the years ended August 31, 2008, 2007, and 2006. The increase in distributions is a result of the UT Board increasing the distribution rate from \$0.2844 per unit to \$0.2929 per unit for fiscal year 2008, and additional contributions into the Fund. The increase for fiscal year 2007 is a result of the UT Board's increase of the distribution rate from \$0.2764 per unit to \$0.2844 per unit, and additional contributions to the Fund. The Fund is structured as a pooled investment fund in which each endowment or account purchases units at the Fund's fair value or net asset value per unit. Cash distributions are paid quarterly, on a per unit basis, directly to the UT System institution of record.

The Fund's 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

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- 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 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):

	2008	2007	2006
Investment Income (Loss)	\$ (170.5)	\$ 736.0	\$ 454.1
Less Investment Expenses	(4.5)	(4.0)	(2.1)
Net Investment Income (Loss)	(175.0)	732.0	452.0
Participant Contributions	374.3	369.1	281.2
Total Additions	199.3	1,101.1	733.2
Administrative Expenses	10.6	4.4	3.7
Participant Withdrawals	19.6	5.6	109.1
Participant Distributions	217.1	198.9	180.5
Total Deductions	247.3	208.9	293.3
Change in Fiduciary Net Assets	(48.0)	892.2	439.9
Net Assets Held in Trust, Beginning of Year	5,333.0	4,440.8	4,000.9
Net Assets Held in Trust, End of Year	\$ 5,285.0	\$ 5,333.0	\$ 4,440.8

Subsequent to August 31, 2008, the U.S. and international financial markets experienced significant volatility. This resulted in substantial declines in equity, fixed income and commodities markets in which the GEF invests directly, and indirectly, through its investments in various hedge funds, private investments and public markets. The financial results of the GEF are impacted by market volatility and, therefore, the Fund was negatively impacted as a result of these market conditions.

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.

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Statements of Fiduciary Net Assets

August 31, 2008 and 2007

(Dollars in thousands, except per unit amounts)

	<u>2008</u>	<u>2007</u>
Assets		
General Endowment Fund Units, at Fair Value	\$ 5,285,009	\$ 5,333,311
Cash and Cash Equivalents	2	1
Receivable for General Endowment Fund Units Sold	4,253	4,155
Total Assets	<u>5,289,264</u>	<u>5,337,467</u>
Liabilities		
Payable to Participants	4,253	4,155
Other Payables	-	266
Total Liabilities	<u>4,253</u>	<u>4,421</u>
Net Assets Held in Trust (757,621,501 Units and 710,779,959 Units, respectively)	<u>\$ 5,285,011</u>	<u>\$ 5,333,046</u>
Net Asset Value Held in Trust Per Unit	<u>\$6.976</u>	<u>\$7.503</u>

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

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Statements of Changes in Fiduciary Net Assets

Years Ended August 31, 2008 and 2007

(in thousands)

	<u>2008</u>	<u>2007</u>
Additions		
Investment Income:		
Net Increase (Decrease) in Investments	\$ (252,310)	\$ 642,427
Allocation of General Endowment Fund Net Investment Income	81,828	93,629
Other	4	11
Total Investment Income (Loss)	<u>(170,478)</u>	<u>736,067</u>
Less Investment Expenses:		
UTIMCO Management Fee	4,380	3,861
Other Expenses	155	162
Total Investment Expenses	<u>4,535</u>	<u>4,023</u>
Net Investment Income (Loss)	<u>(175,013)</u>	<u>732,044</u>
Participant Contributions	<u>374,300</u>	<u>369,087</u>
Total Additions	<u>199,287</u>	<u>1,101,131</u>
Deductions		
Administrative Expenses:		
Fee for Endowment Administration and Management	10,532	4,164
Fee for UT System Oversight	109	190
Total Administrative Expenses	<u>10,641</u>	<u>4,354</u>
Participant Withdrawals	19,565	5,630
Participant Distributions	<u>217,116</u>	<u>198,881</u>
Total Deductions	<u>247,322</u>	<u>208,865</u>
Change in Fiduciary Net Assets	<u>(48,035)</u>	<u>892,266</u>
Net Assets Held in Trust, Beginning of Year	<u>5,333,046</u>	<u>4,440,780</u>
Net Assets Held in Trust, End of Year	<u>\$ 5,285,011</u>	<u>\$ 5,333,046</u>

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

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 (UT Board) to succeed the Common Trust Fund pooled investment fund. Fiduciary responsibility for the Fund rests with the UT Board. 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 UT Board.

On March 1, 2001, the Fund purchased units in the 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 performance of the Fund is significantly impacted by the performance of the GEF. 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 pooled investment 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 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 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 – Investment in GEF

The Fund only invests in 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, 2008, the Fund is the majority participant in the GEF, with ownership of 30,326,861 units, which represents 83.75% of the GEF. At August 31, 2007, the Fund held 29,669,785 units, which represented 82.90% 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 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

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Notes to Financial Statements (cont.)

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. Investment assets which are held in the GEF that have readily determinable fair values are primarily valued on the basis of market valuations provided by independent pricing services. The GEF's investments in private investment funds, hedge funds, U.S. equity, non-U.S. equity, emerging market and fixed income investment funds and certain other equity securities are fair valued by management using partnership capital balances and net asset value information provided by the investment manager as well as other considerations as described in the GEF financial statements.

(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 UT Board. For the fiscal year ended August 31, 2008, the quarterly rate was \$.073225 which equates to an annual rate of \$.2929 per unit. For the fiscal year ended August 31, 2007, the quarterly distribution rate was \$.0711 which equated to an annual rate of \$.2844 per unit. The ratio of distributions to average net assets (12-quarter average) was 4.00% as of August 31, 2008. 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** -- Unit purchases occur on the first business day of each fiscal quarter. Unit redemptions occur on the last business day of each fiscal quarter. The value of participating units, upon admission to the Fund, is based upon the market value of net assets held as of the quarterly valuation date. Redemptions from the Fund will also be made at the market value price per unit at the quarterly 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 interest in the Fund's net assets.

(H) **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

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Notes to Financial Statements (cont.)

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.

(I) **Cash and Cash Equivalents** -- Cash and Cash Equivalents consist of money market investments and other overnight funds.

(J) **Reclassifications** -- Certain items in the 2007 financial statements and related notes have been reclassified to conform with the 2008 classification.

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, 2008 and 2007, the Fund's unit ownership in the GEF was 83.75% and 82.90%, respectively, of the total.

(A) **Credit Risk**

Article VII, Section 11b of the Texas Constitution authorizes the UT Board, 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 UT Board, 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 UT Board has elected the 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). During the year, the GEF's investment policy was amended to remove requirements regarding investment ratings. The amendments were effective March 1, 2008. Prior to the amendments, the policy limited investments in U.S. Domestic bonds and non-dollar denominated bond investments to those that were 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 did not apply to investment managers that were 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, 2008 and 2007:

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Notes to Financial Statements (cont.)

GEF Investment Type	Fund's Pro-Rata Share		Rating
	August 31,		
	2008	2007	
Investments:			
U.S. Government Guaranteed	\$ 135,081,625	\$ 243,469,127	Exempt from Disclosure
U.S. Government Non-Guaranteed:			
U.S. Agency	-	11,408,305	AAA
U.S. Agency Asset Backed	125,919,795	256,069,432	AAA
Total U.S. Government Non-Guaranteed	125,919,795	267,477,737	
Total U.S. Government	261,001,420	510,946,864	
Corporate Obligations:			
Domestic	51,477,411	37,676,647	AAA
Domestic	22,113,241	13,086,110	AA
Domestic	49,592,732	17,104,824	A
Domestic	26,108,761	14,593,796	BAA/BBB
Domestic	889,461	3,961,822	BA/BB
Domestic	1,532,064	1,943,181	B
Domestic	-	471,535	CAA
Domestic	250,223	249,424	CCC
Domestic	516,401	121,854	P
Commercial Paper	7,483,880	27,025,224	P
Commercial Paper	-	1,573,464	A
Certificates of Deposit	-	5,472,208	AA
Certificates of Deposit	1,758,773	-	A
Foreign	17,473,276	6,515,179	AAA
Foreign	12,256,317	5,031,348	AA
Foreign	11,289,363	6,967,844	A
Foreign	10,091,090	6,542,673	BAA/BBB
Foreign	361,717	-	No Rating
Total Corporate Obligations	213,194,710	148,337,133	
Foreign Government and Provincial Obligations	55,696,971	32,048,461	AAA
Foreign Government and Provincial Obligations	25,275,968	1,476,768	AA
Foreign Government and Provincial Obligations	23,897,256	11,524,077	A
Foreign Government and Provincial Obligations	5,218,943	1,482,457	BAA/BBB
Foreign Government and Provincial Obligations	5,332,198	1,208,578	BA/BB
Total Foreign Government and Provincial Obligations	115,421,336	47,740,341	
Other Debt Securities	500,500	1,083,576	AAA
Other Debt Securities	1,188,878	803,924	AA
Other Debt Securities	923,269	-	A
Other Debt Securities	1,480,567	442,017	BAA/BBB
Other Debt Securities	2,137,122	-	No Rating
Total Other Debt Securities	6,230,336	2,329,517	
Total Debt Securities	\$ 595,847,802	\$ 709,353,855	
Other Investment Funds - Debt	\$ -	\$ 13,800,622	AAA
Other Investment Funds - Debt	89,871,911	17,806,267	AA
Other Investment Funds - Debt	-	44,440,836	A
Other Investment Funds - Debt	6,208,998	3,979,032	BA/BB
Other Investment Funds - Debt	682,894	2,580,419	B
Total Other Investment Funds - Debt	\$ 96,763,803	\$ 82,607,176	
Cash and Cash Equivalents - Money Market Funds	\$ 393,024,763	\$ 738,400,566	AAA
Deposit with Brokers for Derivative Contracts:			
U.S. Government Guaranteed	\$ 16,730,623	\$ 35,105,944	Exempt from Disclosure
Cash	12,322,365	1,161,418	Exempt from Disclosure
	\$ 29,052,988	\$ 36,267,362	

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Notes to Financial Statements (cont.)

(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 of corporate or municipal bonds that is 5% or more of the market value of the GEF's domestic fixed income 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, 2008 and 2007, the GEF 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 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, 2008 and 2007:

THE UNIVERSITY OF TEXAS SYSTEM

LONG TERM FUND

Notes to Financial Statements (cont.)

GEF Investment Type	Fund's Pro-Rata Share			
	August 31,			
	2008		2007	
	Value	Modified Duration	Value	Modified Duration
Investments:				
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	\$ 22,031,358	5.35	\$ 56,556,606	7.34
U.S. Treasury Strips	2,419,214	3.00	2,336,515	3.98
U.S. Treasury Bills	2,796,867	0.05	4,935,977	0.06
U.S. Treasury Inflation Protected	87,943,533	8.82	178,115,996	8.63
U.S. Agency Asset Backed	19,890,653	3.85	1,524,033	5.56
Total U.S. Government Guaranteed	<u>135,081,625</u>	7.24	<u>243,469,127</u>	8.10
U.S. Government Non-Guaranteed:				
U.S. Agency	-	-	10,249,269	2.18
U.S. Agency Asset Backed	125,919,795	5.92	256,069,432	4.93
U.S. Agency Commercial Paper	-	-	1,159,036	0.02
Total U.S. Government Non-Guaranteed	<u>125,919,795</u>	5.92	<u>267,477,737</u>	4.80
Total U.S. Government	<u>261,001,420</u>	6.60	<u>510,946,864</u>	6.37
Corporate Obligations:				
Domestic	152,480,294	5.14	89,209,193	4.10
Commercial Paper	7,483,880	0.11	28,598,689	0.18
Certificates of Deposit	1,758,773	0.70	5,472,208	1.16
Foreign	51,471,763	5.03	25,057,043	5.87
Total Corporate Obligations	<u>213,194,710</u>	4.90	<u>148,337,133</u>	3.54
Foreign Government and Provincial Obligations	<u>115,421,335</u>	7.36	<u>47,740,341</u>	5.48
Other Debt Securities	<u>6,230,334</u>	6.95	<u>2,329,517</u>	11.67
Total Debt Securities	<u>595,847,799</u>	6.14	<u>709,353,855</u>	5.74
Other Investment Funds - Debt	<u>96,763,803</u>	5.70	<u>82,607,176</u>	3.58
Cash and Cash Equivalents:				
Money Market Funds	<u>393,024,763</u>	0.08	<u>738,400,566</u>	0.08
Total	<u>\$ 1,085,636,365</u>	3.91	<u>\$ 1,530,361,597</u>	2.89
Deposit with Brokers for Derivative Contracts:				
U.S. Government Guaranteed:				
U.S. Treasury Bills	\$ 16,730,623	0.14	\$ 35,105,944	0.15
Cash	<u>12,322,365</u>	-	<u>1,161,418</u>	-
Total Deposit with Brokers for Derivative Contracts	<u>\$ 29,052,988</u>	0.08	<u>\$ 36,267,362</u>	0.15

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

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 and Agency securities created from coupon securities. No percentage of holdings limitations are specified in the investment policy statements regarding these types of securities. As of August 31, 2008 and 2007, the GEF's investments include the following investments that are highly sensitive to interest rate changes.

THE UNIVERSITY OF TEXAS SYSTEM

LONG TERM FUND

Notes to Financial Statements (cont.)

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 \$79,858,902 and \$64,252,884 as of August 31, 2008 and 2007, 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 \$108,004,681 and \$219,847,590 as of August 31, 2008 and 2007, 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 \$14,292,670 and \$11,071,794 as of August 31, 2008 and 2007, 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 \$93,307 and \$2,041,699 as of August 31, 2008 and 2007, 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 was amended during the year to remove limitations in non-U.S. denominated bonds. The amendments to the policy were effective March 1, 2008. Prior to the amendment, the policy statement limited 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 at August 31, 2008 and 2007:

THE UNIVERSITY OF TEXAS SYSTEM

LONG TERM FUND

Notes to Financial Statements (cont.)

GEF Investment Type	August 31,	
	2008	2007
Domestic Common Stock:		
UK Pound	\$ 40,977	\$ -
Foreign Common Stock:		
Australian Dollar	9,012,935	8,747,247
Canadian Dollar	25,604,685	29,172,465
Swiss Franc	2,444,920	4,703,611
Danish Krone	692,485	1,257,627
Euro	29,772,727	22,430,999
UK Pound	34,784,814	28,205,199
Hong Kong Dollar	22,102,479	8,455,777
Japanese Yen	51,477,012	90,886,506
Norwegian Kroner	3,646,186	5,638,028
Philippine Peso	506,723	-
Swedish Krona	2,691,699	4,272,273
Singapore Dollar	6,471,359	1,729,135
Thai Baht	784,453	-
Total Foreign Common Stock	189,992,477	205,498,867
Other - Equity Securities		
Canadian Dollar	30	-
Foreign Government and Provincial Obligations:		
Australian Dollar	6,231,656	-
Brazilian Real	3,468,072	-
Canadian Dollar	6,624,021	100,230
Danish Krone	-	426,861
Euro	35,427,652	38,832,123
Indian Rupee	1,864,126	-
Japanese Yen	24,844,801	2,508,772
Malaysian Ringgit	5,229,744	-
Mexican Peso	3,980,180	-
New Zealand Dollar	3,265,578	287,766
Polish Zloty	6,184,805	1,641,195
UK Pound	9,571,893	435,420
Singapore Dollar	1,661,920	-
South African Rand	3,382,816	-
Swedish Krona	2,014,142	-
Total Foreign Government and Provincial Obligations	113,751,406	44,232,367
Corporate Obligations:		
Australian Dollar	2,924,969	-
Canadian Dollar	1,807,086	785,812
Danish Krone	2,646,637	1,146,459
Euro	19,904,953	10,046,021
Hong Kong Dollar	361,717	-
Icelandic Krona	1,527,934	-
UK Pound	423,032	995,799
Japanese Yen	2,217,083	2,936,740
Total Corporate Obligations	31,813,411	15,910,831
Other Debt Securities:		
Hong Kong Dollar	1,037,493	-
Purchased Options:		
Euro	42,798	136,441
UK Pound	-	13,441
Total Purchased Options	42,798	149,882
Private Investment Funds:		
Euro	109,435,668	77,540,262
UK Pound	793,974	714,348
Total Private Investment Funds	110,229,642	78,254,610
Cash and Cash Equivalents:		
Australian Dollar	238,395	96,107
Canadian Dollar	565,192	873,119
Swiss Franc	134,946	187,528
Danish Krone	126,302	61,475
Euro	753,506	2,842,641
UK Pound	430,718	1,107,704
Hong Kong Dollar	305,037	8,644
Japanese Yen	562,734	3,289,333
Mexican Peso	3,372	6,031
Norwegian Kroner	6,280	143,756
New Zealand Dollar	43,637	61,063
Polish Zloty	108	82,064
Swedish Krona	1,649	78,521
Singapore Dollar	72,005	78,647
Taiwan Dollar	290	274
Total Cash and Cash Equivalents	3,244,171	8,916,907
Total	\$ 450,152,405	\$ 352,963,464

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, 2008 and 2007:

GEF Securities on Loan	2008 Value	2007 Value	Type of Collateral	2008 Value of Collateral	2007 Value of Collateral
U.S. Government	\$ 61,823,577	\$ 169,684,861	Cash	\$ 63,237,082	\$ 171,520,776
Foreign					
Government	3,091,807	-	Cash	3,278,069	-
Corporate Bonds	53,247	5,115,658	Cash	54,270	5,260,129
Common Stock	182,116,037	139,385,804	Cash	189,482,921	145,146,539
Total	\$ 247,084,668	\$ 314,186,323	Total	\$ 256,052,342	\$ 321,927,444
U.S. Government	\$ 1,533,939	\$ 29,670,644	Non-Cash	\$ 1,594,200	\$ 30,179,027
Corporate Bonds	-	92,895	Non-Cash	-	94,379
Common Stock	398,438	9,782,113	Non-Cash	414,090	9,938,353
Total	\$ 1,932,377	\$ 39,545,652	Total	\$ 2,008,290	\$ 40,211,759

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 UT Board 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%. 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, 2008 and 2007 is shown in the following table:

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

Notes to Financial Statements (cont.)

Description	August 31,					
	2008			2007		
	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	\$ 116,216,738	No Rating Available	2	\$ 104,706,812	No Rating Available	4
Commercial Paper	107,996,107	P	23	88,285,523	P	38
Floating Rate Notes	6,504,950	AAA		23,183,817	AAA	
Floating Rate Notes	19,448,515	AA		65,932,520	AA	
Total Floating Rate Notes	<u>25,953,465</u>		9	<u>89,116,337</u>		13
Fixed Rate Notes	2,159,010	AAA	13	1,026,424	AAA	105
Certificates of Deposit	5,827,070	P	36	-		-
Asset Backed Securities	-	-		39,335,232	AAA	
Asset Backed Securities	-	-		411,036	P	
Total Asset Backed Securities	<u>-</u>		-	<u>39,746,268</u>		32
Other Receivables/Payables	(2,100,049)	Not Rated	-	(953,920)	Not Rated	-
Total Collateral Pool Investment	<u>\$ 256,052,341</u>		13	<u>\$ 321,927,444</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 the 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, 2008 and 2007, 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, 2008 and 2007.

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, 2008, was \$4,380,276. The fee assessed for the year ended August 31, 2007, was \$3,860,575.

THE UNIVERSITY OF TEXAS SYSTEM
LONG TERM FUND

Notes to Financial Statements (cont.)

The Fund is assessed an annual administrative fee on behalf of UT System and UT System institutions for the support of endowment administration and management efforts. This fee is assessed and paid at the beginning of each fiscal year. The fees assessed for the fiscal years ending August 31, 2008 and 2007, were \$10,530,986 and \$4,163,562, respectively.

The Fund is assessed a fee to cover costs associated with UT System personnel in their efforts to provide assistance to the UT Board and the Chancellor of the UT System in their oversight responsibilities of UTIMCO. The fees assessed for the years ended August 31, 2008 and 2007, were \$109,426 and \$190,250, 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.

Note 7 – Subsequent Events

Subsequent to August 31, 2008, the U.S. and international financial markets experienced significant volatility. This resulted in substantial declines in equity, fixed income and commodities markets in which the Fund invests directly, and indirectly, through its investments in various hedge funds, private investments and public markets. The financial results of the Fund are impacted by market volatility and, therefore, the Fund was negatively impacted as a result of these market conditions.

THE UNIVERSITY OF TEXAS SYSTEM
LONG TERM FUND
Supplemental Schedule

Financial Highlights
Years Ended August 31,

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Selected Per Unit Data					
Net Asset Value, Beginning of Year	\$ 7.503	\$ 6.744	\$ 6.337	\$ 5.585	\$ 5.114
Income from Investment Operations					
Net Investment Income	0.090	0.122	0.117	0.123	0.099
Net Realized and Unrealized Gain (Loss) on Investments	(0.324)	0.921	0.566	0.899	0.637
Total Income (Loss) from Investment Operations	(0.234)	1.043	0.683	1.022	0.736
Less Distributions					
From Net Investment Income	0.090	0.122	0.117	0.123	0.099
From Net Realized Gain	0.203	0.162	0.159	0.147	0.166
Total Distributions	0.293	0.284	0.276	0.270	0.265
Net Asset Value, End of Year	<u>\$ 6.976</u>	<u>\$ 7.503</u>	<u>\$ 6.744</u>	<u>\$ 6.337</u>	<u>\$ 5.585</u>

Ratios and Supplemental Data

Net Assets, End of Year (in thousands)	\$5,285,011	\$5,333,046	\$4,440,780	\$4,000,938	\$3,393,275
Ratio of Investment Expenses to Average Net Assets	0.26%	0.28%	0.38%	0.32%	0.33%
Ratio of Total Expenses to Average Net Assets	0.45%	0.36%	0.47%	0.42%	0.43%
Ratio of Net Investment Income to Average Net Assets	1.22%	1.72%	1.82%	2.05%	1.84%
Ratio of Distributions to Average Net Assets (5-quarter average)	3.96%	4.00%	4.27%	4.51%	4.89%
Ratio of Distributions to Average Net Assets (12-quarter average)	4.00%	4.15%	4.44%	4.78%	4.98%