

Financial Statements

The University of Texas System

General Endowment Fund

Years ended August 31, 2004 and 2003

The University of Texas System General Endowment Fund

Financial Statements

Years ended August 31, 2004 and 2003

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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, 2004. 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 \$622.8 million from \$3,584.8 million to \$4,207.6 million or approximately 17.4% during the year.
- The PHF and LTF redeemed and purchased Fund units resulting in a net increase in contributions of \$73.4 million during the year.
- The Fund posted a net investment return of 14.77% for the fiscal year ended August 31, 2004, compared to a net investment return of 12.81% for the prior fiscal year.
- 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 are considered reinvested as contributions to the Fund. 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.

Use of Financial Statements and Notes

The Fund 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.

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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, is 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 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):

	2004	2003	Amount of Increase (Decrease)	Percent Change
Assets				
Investments, at Fair Value	\$ 4,207.6	\$ 3,671.9	\$ 535.7	15%
Other Assets	469.1	202.9	266.2	131
Total Assets	4,676.7	3,874.8	801.9	21
Total Liabilities	469.1	290.0	179.1	62
Net Assets Held in Trust	\$ 4,207.6	\$ 3,584.8	\$ 622.8	17%

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 distributions.

The net increase in fair value of investments of the Fund was \$467.9 million during the year ended August 31, 2004 compared to \$346.3 million for the year ended August 31, 2003. Expenses totaled \$9.5 million in fiscal year 2004 and \$5.8 million in fiscal year 2003.

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The net increase in fiduciary net assets totaled \$622.9 million for the fiscal year ended August 31, 2004 compared to a net increase in net assets totaling \$291.6 million for the fiscal year ended August 31, 2003.

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

	2004	2003	Amount of Increase (Decrease)	Percent Change
Investment Income	\$ 559.0	\$ 423.5	\$ 135.5	32%
Less Investment Expenses	(9.5)	(5.8)	(3.7)	(64)
Net Investment Income	549.5	417.7	131.8	32
Participant Contributions	308.9	110.1	198.8	181
Total Additions	858.4	527.8	330.6	63
Participant Withdrawals	235.6	236.2	(0.6)	-
Total Deductions	235.6	236.2	(0.6)	-
Change in Fiduciary Net Assets	622.8	291.6	331.2	114
Net Assets Held in Trust, Beginning of Period	3,584.8	3,293.2	291.5	9
Net Assets Held in Trust, End of Period	\$ 4,207.6	\$ 3,584.8	\$ 622.8	17%

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.

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
Austin, Texas

We have audited the accompanying financial statements of The University of Texas System General Endowment Fund (the "Fund") as of and for the years ended August 31, 2004 and 2003, 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 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, 2004 and 2003 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 General Endowment Fund as of August 31, 2004 and 2003, and the changes in its 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 1 through 3 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 General Endowment Fund. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental schedules as of and for the years ended August 31, 2004 and 2003 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 supplemental schedules for the years ended August 31, 2002 and 2001 were audited by other auditors whose report dated October 18, 2002 included an unqualified opinion.

 Ernst & Young LLP

October 22, 2004

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Statements of Fiduciary Net Assets

August 31, 2004 and 2003

(Dollars in thousands, except per unit amounts)

Assets	2004	2003
Investments, at Fair Value		
Equity Securities	\$ 724,672	\$ 694,349
Preferred Stock	5,173	4,722
Debt Securities	659,617	492,053
Purchased Options	-	6,315
Convertible Securities	3,860	3,829
Investment Funds	2,292,046	2,173,201
Cash and Cash Equivalents	522,195	297,385
Total Investments	<u>4,207,563</u>	<u>3,671,854</u>
Collateral for Securities Loaned, at Fair Value	334,005	78,308
Deposit with Broker for Futures Contracts	41,143	25,688
Unrealized Gains on Foreign Currency Exchange Contracts	938	6,920
Receivables		
Investment Securities Sold	84,982	84,818
Accrued Income	6,261	6,020
Other	1,844	1,194
Total Assets	<u>4,676,736</u>	<u>3,874,802</u>
Liabilities		
Payable to Participants	16,005	40,492
Payable Upon Return of Securities Loaned	334,005	78,308
Unrealized Losses on Foreign Currency Exchange Contracts	656	4,826
Payables		
Investment Securities Purchased	112,561	164,790
Other	5,865	1,621
Total Liabilities	<u>469,092</u>	<u>290,037</u>
Net Assets Held in Trust	<u>\$ 4,207,644</u>	<u>\$ 3,584,765</u>
Number of Units:		
Permanent Health Fund (PHF)	6,923,785	7,263,383
The University of Texas System Long Term Fund (LTF)	28,857,142	27,696,705
Total	<u>35,780,927</u>	<u>34,960,088</u>
Net Asset Value Held in Trust Per Unit	<u>\$ 117.595</u>	<u>\$ 102.539</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, 2004 and 2003

(in thousands)

	<u>2004</u>	<u>2003</u>
Additions		
Investment Income		
Net Increase in Fair Value of Investments	\$ 467,899	\$ 346,274
Interest	27,024	34,052
Dividends	42,969	34,685
Income Distributions from Limited Partnerships	19,576	7,060
Other	1,554	1,426
Total Investment Income	<u>559,022</u>	<u>423,497</u>
Less Investment Expenses		
Investment Management and Consulting Fees	8,461	5,001
Custodial Fees and Expenses	646	547
Legal Fees	189	124
Analytical and Risk Measurement Fees	169	75
Other Expenses	58	34
Total Investment Expenses	<u>9,523</u>	<u>5,781</u>
Net Investment Income	549,499	417,716
Participant Contributions	308,928	110,074
Total Additions	<u>858,427</u>	<u>527,790</u>
Deductions		
Participant Withdrawals	235,548	236,219
Total Deductions	<u>235,548</u>	<u>236,219</u>
Change in Fiduciary Net Assets	622,879	291,571
Net Assets Held in Trust, Beginning of Period	3,584,765	3,293,194
Net Assets Held in Trust, End of Period	<u>\$ 4,207,644</u>	<u>\$ 3,584,765</u>

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

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 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).

Limited partnerships and other equity securities are valued based on a fair valuation determined as specified by policies established by the UTIMCO Board of Directors. Limited partnerships are valued 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 limited partnership is valued at cost.

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Notes to Financial Statements (cont.)

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.

Hedge funds and other investment funds are valued 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 fair value of investments. Security classifications as domestic or foreign on the summary of investments, at fair value are based on currency.

(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 are considered reinvested as contributions. 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

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Notes to Financial Statements (cont.)

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.

(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 specified by policies 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. 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. Under the provisions of the derivatives policy, leverage is not employed in the derivative applications unless specifically authorized by the UTIMCO Board.

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

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Notes to Financial Statements (cont.)

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.

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 monthly basis, and are included as an asset or liability 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 -- 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 asset or liability 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 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) *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 11). 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.

(M) Reclassifications -- Certain items in the 2003 financial statements and related notes have been reclassified to conform with 2004 classification.

Note 3 – Investments

The Fund invests in various investment vehicles. These investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments may occur in the near term and that such changes could materially affect the amounts reported in the statement of fiduciary net assets.

To comply with the reporting requirements of GASB Statement No. 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements, the Fund's investments are categorized in the tabulation titled "Investment Categories" to give an indication of credit risk assumed by the Fund at fiscal year-end.

Credit risk is the risk that another party to a deposit or investment transaction will not fulfill its obligations. This is not to be confused with market risk, which is the risk that the market value of an investment, collateral protecting a deposit or securities underlying a repurchase agreement, will decline. Market risk is not depicted in this note.

The following categories of credit risk are included:

- Category 1:** Investments that are insured or registered or for which the governmental entity or its agent in the governmental entity's name holds the securities.
- Category 2:** Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the governmental entity's name.
- Category 3:** Uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the governmental entity's name.

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Notes to Financial Statements (cont.)

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Fair Value</u>
Other Cash and/or Deposits	\$ 15,287	\$ —	\$ —	\$ 15,287
Investments -- by category:				
U.S. Government and Agency Obligations	154,077	—	—	154,077
U.S. Government Agency Mortgage Obligations	97,948	—	—	97,948
Collateralized Mortgage Obligations	7,860	—	—	7,860
Corporate Obligations	90,492	—	—	90,492
Foreign Obligations	86,309	—	—	86,309
Political Subdivision Obligations	2,046	—	—	2,046
Commercial Paper	64,245	—	—	64,245
Corporate Stock	511,379	—	—	511,379
Foreign Stock	181,173	—	—	181,173
Investments -- uncategorized:				
Mutual Funds	—	—	—	825,951
Mineral Interests	—	—	—	1,603
Private Placement for Venture Capital	—	—	—	406,899
Other Investments	—	—	—	1,475,197
Securities Lending Collateral	—	—	—	334,005
Investments Held by Broker/Dealers Under Securities Lending Agreements				
U.S. Government and Agency Obligations	—	—	—	184,302
Corporate Obligations	—	—	—	8,844
Corporate Stock	—	—	—	18,410
Foreign Stock	—	—	—	21,140
Mutual Funds	—	—	—	95,544
Totals by Asset	<u>\$ 1,210,816</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 4,582,711</u>

The total balance in the table above is comprised of the following components on the Statement of Fiduciary Net Assets:

Investments, at Fair Value	\$ 4,207,563
Collateral for Securities Loaned, at Fair Value	334,005
Deposit with Broker for Futures Contracts	41,143
Total	<u>\$ 4,582,711</u>

Because the investments listed as uncategorized in the above table are not evidenced by securities in physical or book entry form, these investments are not categorized in accordance with GASB Statement Number 3.

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Notes to Financial Statements (cont.)

Note 4 – Hedge Funds

Hedge fund investments are broadly defined to include nontraditional investment strategies whereby the majority of the underlying securities are traded on public exchanges or are otherwise readily marketable. The fair values of the hedge fund investments consist of the following:

	August 31,	
	2004	2003
Equity		
Long/Short - Global	\$ 254,561,666	\$ 252,876,661
Long/Short - U.S.	43,093,842	27,610,058
Long/Short - Emerging Markets	28,308,696	23,020,400
Long/Short - Technology and Life Sciences	15,946,459	-
Long/Short - Developed Asia	16,243,839	-
Total Equity	<u>358,154,502</u>	<u>303,507,119</u>
Absolute Return		
Multistrategy - Global Event Oriented and Arbitrage	410,856,100	323,688,467
Long/Short - Global Market Neutral	68,029,196	-
Fund of Funds	66,884,750	45,399,131
Multistrategy - Global Market Neutral	27,203,633	-
Total Absolute Return	<u>572,973,679</u>	<u>369,087,598</u>
Total Hedge Funds	<u>\$ 931,128,181</u>	<u>\$ 672,594,717</u>

Equity hedge fund investments include U.S. and international long/short equity strategies. These strategies attempt to exploit profits from stock selection skills by taking long and short positions in various equity securities and can be directional biased to the equity market. Equity hedge fund investments are made through private placement agreements.

Absolute return hedge fund investments include arbitrage and event oriented strategies. Arbitrage strategies attempt to exploit pricing discrepancies between closely related securities, utilizing a variety of different tactics primarily within equity, fixed income and convertible securities markets. Event oriented strategies attempt to exploit discreet events or anticipated events such as bankruptcies, mergers, takeovers, spinoffs and recapitalizations in equity and debt securities. Absolute return hedge funds investments are also made through private placement agreements. Market risk is generally hedged.

The fund of funds invests in other hedge funds including merger arbitrage and special situation fund, and other relative value hedge funds and equity return strategies.

Note 5 – Index Funds

The index funds, managed by the same investment manager, consist of several funds with different investment objectives, as follows:

The EAFE Equity Index Fund B is managed to replicate the Morgan Stanley Capital International Europe, Australia and Far East Index (EAFE). Individual index funds are established to represent each country within the EAFE Index. The fund is a commingled ‘superfund’ comprised from the individual EAFE Index country funds managed in their appropriate capitalization weights.

The Equity Index Fund B Lendable is a portfolio of common stocks with the objective of approximating as closely as practicable the capitalization weighted total return of that segment of the U.S. market for publicly traded common stocks represented by the larger capitalized markets. The fund tracks the S&P 500 Index.

The Active International Equity Fund B attempts to match or outperform the returns of any of the National or Regional Divisions of the MSCI EAFE Index or MSCI Canada Index by investing in collective funds in whatever proportion among National or Regional Divisions recommended by the Active International Equity Strategy.

The Russell 3000 Alpha Tilts Fund B's objective is approximating the capitalization weighted total rate of return of the Russell 3000 Index. The fund is selected and maintained in accordance with a quantitative formula designed to select stocks through optimized tilts toward particular stock characteristics. The formula is designed to provide systematic exposure to such characteristics with the objective of producing long-term returns in excess of the total rate of return of the Russell 3000 Index.

The Russell 2000 Alpha Tilts Fund B's objective is approximating the capitalization weighted total rate of return of the Russell 2000 Index. The fund is selected and maintained in accordance with a formula designed to select stocks through optimized tilts toward particular stock characteristics. The formula is designed to provide systematic exposure to such characteristics with the objective of producing long-term returns in excess of the total rate of return of the Russell 2000 Index.

The Emerging Markets Structured Tiered Fund B attempts to approximate the capitalization weighted total rates of return of the equity securities in the Morgan Stanley Capital International Emerging Markets Free Index for selected countries. The fund adopts a structured tier weighting approach across the countries.

The Mid-Cap Index Fund B Lendable is a portfolio of common stocks with the objective of approximating as closely as practicable the capitalization weighted total rate of return of the segment of the U.S. and Canadian markets for publicly traded common stocks represented by the medium capitalized companies. The fund tracks the S&P 400 Mid-Cap Index.

The EAFE Equity Index Transition Fund was a temporary fund established to accommodate the transition of existing investments into an existing index fund. The EAFE Equity Index Transition Fund was folded into the EAFE Equity Index Fund B upon completion of the transition.

When deemed appropriate, a portion of the index funds may invest in futures contracts for the purpose of acting as a temporary substitute for investment in common stocks.

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

Notes to Financial Statements (cont.)

The Active International Equity Fund B is majority owned by the Fund and the Permanent University Fund. The market values of the Fund's interests in these index funds are as follows:

	August 31,	
	2004	2003
EAFE Equity Index Fund B	\$ 178,747,438	\$ 166,993,484
Equity Index Fund B Lendable	90,651,897	104,989,080
Active International Equity Fund B	84,262,819	68,322,813
Russell 3000 Alpha Tilts Fund B	83,013,608	52,188,990
Russell 2000 Alpha Tilts Fund B	61,557,741	111,219,982
Emerging Markets Structured Tiered Fund B	40,723,864	118,842,238
Mid-Cap Index Fund B Lendable	5,112,979	238,928,385
EAFE Equity Index Transition Fund	-	218,257
	<u>\$ 544,070,346</u>	<u>\$ 861,703,229</u>

Note 6 – Limited Partnerships

The limited partnerships consist of interests in privately held investments that are not registered for sale on public exchanges. The fair values of the limited partnerships consist of the following:

	August 31,	
	2004	2003
U.S. Private Equity	\$ 180,898,416	\$ 171,367,289
Opportunistic	58,786,631	61,047,986
Venture Capital	73,912,861	60,757,306
Non-U.S. Private Equity	57,810,513	51,601,243
Mezzanine	20,678,016	21,969,831
Oil and Gas	6,977,011	7,023,086
Direct Investments	7,835,401	2,900,354
	<u>\$ 406,898,849</u>	<u>\$ 376,667,095</u>

The U.S. private equity interests consist of investments in private equity partnerships which primarily invest in the equity securities of private businesses that are considered to be in the post-start-up phase and that are profitable and generating income.

The opportunistic category consists of interests in private equity partnerships that invest in distressed debt, specialized sectors or that purchase limited partnership interests in private equity partnerships on a secondary basis.

Venture capital consists of interests in private equity partnerships that provide capital to companies that are in the early stages of development.

Non-U.S. private equity interests consist of investments in private equity and venture capital partnerships that are based outside of the U.S. These partnerships focus on making investments in companies that have operations in countries other than the U.S.

Mezzanine interests consist of investments in partnerships that make subordinated debt or minority equity investments in private companies.

THE UNIVERSITY OF TEXAS SYSTEM

GENERAL ENDOWMENT FUND

Notes to Financial Statements (cont.)

Oil and Gas consists of interests in private partnerships that hold royalty interests and other non-working interests in oil and gas properties. These properties create an income stream over the life of the partnership.

Direct investments represent the Fund's direct interests in private companies.

Note 7 – Securities Lending

The Fund loans securities to certain brokers who pay the Fund negotiated lenders' fees. These fees are included in investment income. 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, 2004 and 2003:

Securities on Loan	2004 Value	2003 Value	Type of Collateral	2004 Value of Collateral	2003 Value of Collateral
U.S. Government	\$182,642,422	\$ 33,846,231	Cash	\$185,304,995	\$ 34,293,065
Foreign					
Government	2,499,918	9,265,920	Cash	2,647,227	9,744,659
Corporate Bonds	6,344,451	12,707,965	Cash	6,490,800	13,138,006
Common Stock	134,881,538	20,226,902	Cash	139,561,726	21,132,580
Total	\$326,368,329	\$ 76,047,018	Total	\$334,004,748	\$ 78,308,310
U.S. Government	\$ 1,659,095	\$ 3,777,301	Non-Cash	\$ 1,925,822	\$ 3,918,834
Common Stock	211,905	–	Non-Cash	217,545	–
Total	\$ 1,871,000	\$ 3,777,301	Total	\$ 2,143,367	\$ 3,918,834

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 8 – Commitments

The Fund had unfunded contractual commitments for Limited Partnerships and Other assets of \$403,898,813 as of August 31, 2004.

THE UNIVERSITY OF TEXAS SYSTEM

GENERAL ENDOWMENT FUND

Notes to Financial Statements (cont.)

Note 9 – Written Options

During the year the Fund wrote call options on Treasury bond and equity index futures. Transactions in call options written during the year ended August 31, 2004, were as follows:

	<u>Contracts</u>	<u>Premiums Received</u>
Call Options Outstanding at August 31, 2003	-	\$ -
Options Written	63,627	1,659,133
Options Expired	(349)	(358,389)
Options Exercised	(63,203)	(1,260,009)
Call Options Outstanding at August 31, 2004	<u>75</u>	<u>\$ 40,735</u>

As of August 31, 2004 the Fund had 75 written call options outstanding on ten year U.S. Treasury Note futures contracts with an expiration date of December 31, 2004. An amount of \$45,703 is included in other payables on the statement of fiduciary net assets as of August 31, 2004 for these outstanding contracts. There were no written call options outstanding as of August 31, 2003. The Fund recognized losses in the amount of \$63,790 on call options written for the year ended August 31, 2004. During the year ended August 31, 2003 there were no transactions in call options written.

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

Notes to Financial Statements (cont.)

Note 10 – Swaps

During the year the Fund entered into interest rate, total return 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, 2004:

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2004	
				Assets	Liabilities
Interest Rate					
UK Pound					
	5.000%	2,600,000	3/20/2013	\$ 20,469	\$ -
	5.250%	1,900,000	9/17/2018	-	11,296
	5.000%	8,100,000	3/15/2032	-	275,753
Euro					
	6.000%	10,300,000	3/15/2032	407,494	-
	4.000%	10,500,000	3/15/2007	252,747	-
	4.000%	17,100,000	3/15/2007	411,617	-
	6.000%	3,100,000	3/20/2018	75,126	-
	5.750%	1,200,000	9/17/2018	15,957	-
	4.000%	1,600,000	6/17/2010	17,501	-
	5.000%	1,100,000	6/16/2014	96,065	-
	4.000%	2,550,000	6/16/2014	28,016	-
	4.000%	17,000,000	6/16/2014	186,775	-
	4.000%	5,290,000	6/17/2010	-	57,861
Japanese Yen					
	0.800%	400,000,000	3/30/2012	126,413	-
	2.000%	545,000,000	12/20/2013	-	173,737
	2.000%	270,000,000	6/15/2012	-	89,776
Swedish Krona					
	4.500%	25,700,000	6/17/2008	30,877	-
	4.500%	20,800,000	6/17/2008	24,990	-
	4.500%	20,700,000	6/17/2008	24,870	-
U.S. Dollar					
	6.000%	9,400,000	12/18/2033	71,245	-
	4.000%	18,700,000	12/15/2009	-	30,900
	5.000%	20,500,000	12/15/2014	-	473,919
	5.000%	2,100,000	12/15/2014	-	48,548
	5.000%	400,000	12/15/2014	-	9,247
	5.000%	300,000	12/15/2014	-	6,935
	4.000%	1,200,000	12/15/2009	-	1,983
	6.000%	4,000,000	12/15/2024	-	358,702
	6.000%	5,000,000	12/18/2033	37,896	-
				<u>1,828,058</u>	<u>1,538,657</u>
Total Return					
U.S. Dollar					
	-	400,000	11/1/2004	8,940	-
	-	300,000	9/30/2004	7,176	-
				<u>16,116</u>	<u>-</u>
Commodity					
U.S Dollar					
	TBill + 45 Basis Points	53,600,000	9/30/2004	-	-
	TBill + 45 Basis Points	18,200,000	9/30/2004	-	-
	TBill + 45 Basis Points	-	8/31/2004	-	338,291
	TBill + 45 Basis Points	-	8/31/2004	-	1,095,170
				<u>-</u>	<u>1,433,461</u>
Total				<u>\$ 1,844,174</u>	<u>\$ 2,972,118</u>

There were no outstanding swap contracts as of August 31, 2003.

Note 11 – Futures Contracts

During the years ended August 31, 2004 and 2003, futures contracts were used to facilitate various trading strategies, primarily as a tool to increase or decrease market exposure to various asset classes of the Fund. The asset classes that used futures include domestic and foreign equities, domestic and foreign debt, and commodities. The Fund had \$41,143,075 and \$25,688,593 on deposit with a broker for collateral as margin for the futures contracts as of August 31, 2004 and 2003, 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 gains on the futures contracts was \$31,442,236 and \$33,017,005 for the years ended August 31, 2004 and 2003, respectively.

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, 2004 for futures contracts:

Contract	Number of Contracts	Expiration	Notional Value at August 31, 2004		Carrying and Fair Value at August 31, 2004	
			Long	Short	Assets	Liabilities
Domestic Fixed Income						
U.S. 5 Year Treasury Notes	24	Sep-04	\$ -	\$ 2,700,750	\$ -	\$ 17,250
U.S. 5 Year Treasury Notes	60	Dec-04	6,640,312	-	19,688	-
U.S. 10 Year Treasury Notes	154	Sep-04	17,474,188	-	57,750	-
U.S. 10 Year Treasury Notes	314	Dec-04	35,266,125	-	131,108	-
			<u>59,380,625</u>	<u>2,700,750</u>	<u>208,546</u>	<u>17,250</u>
Domestic Equity						
Dow Jones Index	1,332	Sep-04	135,504,360	-	680,890	-
NASDAQ 100 Index	353	Sep-04	48,343,350	-	108,891	-
Russell 2000 Index Mini	232	Sep-04	12,715,920	-	100,920	-
Russell 2000 Index Mini	4,413	Sep-04	-	241,876,530	-	1,976,653
S&P 500 Index	851	Sep-04	234,897,275	-	1,103,018	-
S&P 500 Index	97	Sep-04	-	26,774,425	-	123,675
S&P 500 Index Mini	97	Sep-04	-	5,354,885	-	-
S&P Midcap 400 Index Mini	904	Sep-04	-	52,196,960	-	413,116
			<u>431,460,905</u>	<u>326,202,800</u>	<u>1,993,719</u>	<u>2,513,444</u>
Commodities						
Goldman Sachs Commodities	1,767	Sep-04	130,669,650	-	132,525	-
Foreign Fixed Income						
10 Year Swap Note	79	Sep-04	-	11,055,402	-	-
90 Day Euro Dollar	30	Jun-05	21,658,150	-	14,462	-
Euro-Bund	846	Sep-04	64,807,841	-	196,992	-
Euro-Bund	38	Dec-04	5,321,483	-	18,814	-
Japan 10 Year Bond	20	Sep-04	25,085,420	-	89,673	-
Japan 10 Year Bond	6	Dec-04	7,468,224	-	-	-
			<u>124,341,118</u>	<u>11,055,402</u>	<u>319,941</u>	<u>-</u>
Foreign Equity						
All Shares Index	1,767	Sep-04	-	27,268,543	-	91,040
Amsterdam Index	102	Sep-04	8,041,324	-	-	-
CAC 40 Index	127	Sep-04	5,567,927	-	-	-
DAX Index	20	Sep-04	2,306,032	-	-	-
DJ Euro Stoxx 50	228	Sep-04	-	7,425,969	-	182,420
DJ Euro Stoxx 50	666	Sep-04	21,691,647	-	-	-
FTSE 100 Index	916	Sep-04	73,724,281	-	-	324,286
Hang Seng Index	15	Sep-04	1,232,508	-	-	-
Hang Seng Index	184	Sep-04	-	15,118,764	-	29
IBEX Index	15	Sep-04	-	1,437,487	-	-
MSCI Taiwan Index	1,070	Sep-04	-	26,150,800	117,700	-
Nikkei 225 Index	159	Sep-04	16,081,825	-	-	116,051
OMX Index	144	Sep-04	-	1,315,355	-	-
S&P/MIB Index	9	Sep-04	1,483,097	-	-	-
S&P/TSE 60 Index	371	Sep-04	26,203,142	-	214,431	-
SPI 200 Index	138	Sep-04	-	8,638,827	-	-
Topix Index	370	Sep-04	38,097,405	-	-	207,285
			<u>194,429,188</u>	<u>87,355,745</u>	<u>332,131</u>	<u>921,111</u>
Total			<u>\$ 940,281,486</u>	<u>\$ 427,314,697</u>	<u>\$ 2,986,862</u>	<u>\$ 3,451,805</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, 2003 for futures contracts:

Contract	Number of Contracts	Expiration	Notional Value at August 31, 2003		Carrying and Fair Value at August 31, 2003	
			Long	Short	Assets	Liabilities
Domestic Fixed Income						
U. S. 2 Year Treasury Notes	174	Sep-03	\$ -	\$ 37,339,312	\$ 19,032	\$ -
U. S. 5 Year Treasury Notes	357	Sep-03	-	39,799,922	50,201	-
U. S. 10 Year Swap Notes	143	Sep-03	-	15,435,063	26,812	-
U. S. 10 Year Treasury Notes	95	Sep-03	10,595,469	-	-	20,156
U. S. 10 Year Treasury Notes	560	Dec-03	61,442,499	-	-	95,528
U. S. Treasury Bonds	69	Sep-03	-	7,411,031	-	1,313
U. S. Treasury Bonds	7	Sep-03	751,844	-	12,938	-
			<u>72,789,812</u>	<u>99,985,328</u>	<u>108,983</u>	<u>116,997</u>
Domestic Equity						
Russell 2000 Index	140	Sep-03	34,821,500	-	241,500	-
Russell 2000 Index	56	Sep-03	-	13,928,600	-	96,600
S&P 500 Index	568	Sep-03	143,093,400	-	923,000	-
S&P 500 Index	12	Sep-03	-	3,023,100	-	19,500
			<u>177,914,900</u>	<u>16,951,700</u>	<u>1,164,500</u>	<u>116,100</u>
Commodities						
Goldman Sachs Commodities	888	Sep-03	53,668,500	-	-	55,500
Foreign Fixed Income						
10 Year Swap Note	79	Sep-03	-	9,858,198	-	-
Australian 10 Year Bond	37	Sep-03	2,485,991	-	8,649	-
Canada 10 Year Bond	62	Dec-03	4,814,202	-	13,009	-
Euro-Bund	399	Sep-03	49,990,955	-	75,801	-
Euro-Bund	42	Dec-03	5,227,695	-	27,084	-
Japan 10 Year Bond	11	Sep-03	12,953,380	-	-	47,569
Japan 10 Year Bond	10	Sep-03	-	11,775,800	9,870	-
Japan 10 Year Bond	3	Dec-03	3,502,656	-	-	-
Swiss Fed Bond	8	Sep-03	-	737,196	47	-
UK Long Gilt	86	Dec-03	-	15,991,746	31,039	-
			<u>78,974,879</u>	<u>38,362,940</u>	<u>165,499</u>	<u>47,569</u>
Foreign Equity						
Amsterdam Index	22	Sep-03	-	1,594,151	6,734	-
CAC 40 Index	116	Sep-03	-	4,231,416	12,351	-
DAX Index	42	Sep-03	4,023,831	-	-	44,879
FTSE 100 Index	178	Sep-03	-	11,747,736	80,000	-
Hang Seng Index	61	Sep-03	4,262,535	-	51,230	-
IBEX Index	59	Sep-03	4,620,803	-	-	32,680
MIB 30 Index	12	Sep-03	-	1,679,589	9,103	-
OMX Index	157	Sep-03	-	1,102,222	852	-
SPI 200 Index	45	Sep-03	-	2,327,916	-	22,305
Topix Index	37	Sep-03	3,178,994	-	30,297	-
			<u>16,086,163</u>	<u>22,683,030</u>	<u>190,567</u>	<u>99,864</u>
Total			<u>\$ 399,434,254</u>	<u>\$ 177,982,998</u>	<u>\$ 1,629,549</u>	<u>\$ 436,030</u>

THE UNIVERSITY OF TEXAS SYSTEM
GENERAL ENDOWMENT FUND

Notes to Financial Statements (cont.)

Note 12 – Foreign Currency Exchange Contracts

The tables below summarize by currency the contractual amounts of the Fund’s foreign currency exchange contracts at August 31, 2004 and 2003. Foreign currency amounts are translated at exchange rates as of August 31, 2004 and 2003. 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.

<u>Currency</u>	<u>Net Buy</u> <u>August 31, 2004</u>	<u>Net Sell</u> <u>August 31, 2004</u>	<u>Unrealized Gains</u> <u>on Foreign</u> <u>Currency</u> <u>Exchange</u> <u>Contracts</u> <u>August 31, 2004</u>	<u>Unrealized Losses</u> <u>on Foreign</u> <u>Currency</u> <u>Exchange</u> <u>Contracts</u> <u>August 31, 2004</u>
Australian Dollar	\$ 1,259,669	\$ –	\$ 18,317	\$ 5,829
Canadian Dollar	–	5,549,731	4,077	18,931
Euro	–	7,875,492	167,859	43,566
Japanese Yen	39,958,336	–	98,727	141,418
New Zealand Dollar	–	480,388	19,716	3,478
Norwegian Krone	–	4,487,332	167,393	100,858
Singapore Dollar	–	1,018,665	12,333	7,899
Slovak Koruna	120,140	–	–	1,401
South Korean Won	1,191,697	–	16,890	–
Swedish Krona	–	1,134,243	15,703	661
Swiss Franc	–	–	6,607	18,717
UK Pound	4,585,717	–	410,511	313,058
	<u>\$ 47,115,559</u>	<u>\$ 20,545,851</u>	<u>\$ 938,133</u>	<u>\$ 655,816</u>

<u>Currency</u>	<u>NetBuy</u> <u>August 31,2003</u>	<u>NetSell</u> <u>August 31,2003</u>	<u>Unrealized Gains</u> <u>on Foreign</u> <u>Currency</u> <u>Exchange</u> <u>Contracts</u> <u>August 31,2003</u>	<u>Unrealized Losses</u> <u>on Foreign</u> <u>Currency</u> <u>Exchange</u> <u>Contracts</u> <u>August 31,2003</u>
Australian Dollar	\$ 14,223,196	\$ –	\$ 168,533	\$ 577,305
Canadian Dollar	–	23,530,711	326,608	245,250
Danish Krone	1,970,471	–	1,608	113,382
Euro	22,347,686	–	678,155	451,817
Hong Kong Dollar	–	363,291	326	43
Japanese Yen	71,256,328	–	1,225,925	610,242
New Zealand Dollar	–	1,073,812	208,291	34,693
Norwegian Krone	–	1,720,609	1,412,015	74,655
Polish Zloty	797,339	–	19,928	53,483
Singapore Dollar	8,767,217	–	239,438	26,314
Swedish Krona	18,692,592	–	943,981	887,193
Swiss Franc	–	18,097,729	1,392,352	1,040,342
UK Pound	13,922,233	–	302,402	711,562
	<u>\$ 151,977,062</u>	<u>\$ 44,786,152</u>	<u>\$ 6,919,562</u>	<u>\$ 4,826,281</u>

Note 13 – Revenue Sharing Agreements

The Fund has entered into revenue sharing agreements with certain external investment managers. These agreements specify that the Fund shall receive a certain percentage of the gross revenues received by the investment manager for a specified period of time. The percentages of revenue shared in these fee arrangements currently range from 7.5% to 25%. During the year ended August 31, 2004, the Fund received \$109,778 of revenue sharing income, which is included in other investment income on the Statement of Changes in Fiduciary Net Assets. The Fund did not receive any revenue sharing income for 2003.

Note 14 – 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 1.0%. 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 limited partnerships and hedge 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.

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, at Fair Value
August 31, 2004 and 2003
(in thousands)

	2004		2003	
	Value	% of Total	Value	% of Total
Equity Securities				
Domestic Common Stock	\$ 521,436	12.39%	\$ 566,279	15.42%
Foreign Common Stock	201,632	4.79%	126,286	3.44%
Other	1,604	0.04%	1,784	0.05%
Total Equity Securities	724,672	17.22%	694,349	18.91%
Preferred Stock				
Domestic Preferred Stock	4,492	0.11%	4,605	0.13%
Foreign Preferred Stock	681	0.02%	117	0.00%
Total Preferred Stock	5,173	0.13%	4,722	0.13%
Debt Securities				
U.S. Government Obligations	399,821	9.50%	261,942	7.13%
Corporate Obligations	172,448	4.10%	139,056	3.79%
Foreign Government and Provincial Obligations	83,882	1.99%	87,476	2.38%
Other	3,466	0.08%	3,579	0.10%
Total Debt Securities	659,617	15.67%	492,053	13.40%
Purchased Options	-	0.00%	6,315	0.17%
Convertible Securities	3,860	0.09%	3,829	0.10%
Investment Funds				
Hedge Funds	931,128	22.13%	672,595	18.32%
Index Funds	544,070	12.93%	861,703	23.47%
Limited Partnerships	406,899	9.67%	376,667	10.26%
Other	214,042	5.09%	262,236	7.14%
Exchange Traded Funds	195,907	4.66%	-	0.00%
Total Investment Funds	2,292,046	54.48%	2,173,201	59.19%
Cash and Cash Equivalents				
Money Market Funds Maintained to Back Futures Contracts	448,086	10.65%	212,955	5.80%
Money Market Funds - Other	74,109	1.76%	84,430	2.30%
Total Cash and Cash Equivalents	522,195	12.41%	297,385	8.10%
Total Investment in Securities	\$ 4,207,563	100.00%	\$ 3,671,854	100.00%

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

Financial Highlights

Years Ended August 31, 2004, 2003, 2002 and For the Period from Inception (March 1, 2001) to August 31, 2001

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Selected Per Unit Data				
Net Asset Value, Beginning of Period	\$ 102.539	\$ 90.932	\$ 97.811	\$ 100.000
Income from Investment Operations				
Net Investment Income	2.247	1.972	1.895	1.200
Net Realized and Unrealized Gain (Loss) on Investments	12.809	9.635	(8.774)	(3.389)
Total Income (Loss) from Investment Operations	15.056	11.607	(6.879)	(2.189)
Net Asset Value, End of Period	<u>\$ 117.595</u>	<u>\$ 102.539</u>	<u>\$ 90.932</u>	<u>\$ 97.811</u>
Ratios and Supplemental Data				
Net Assets, End of Period (in thousands)	\$ 4,207,644	\$ 3,584,765	\$ 3,293,194	\$3,723,912
Ratio of Expenses to Average Net Assets	0.24%	0.17%	0.20%	0.09%
Ratio of Net Investment Income to Average Net Assets	2.02%	2.12%	2.00%	1.22%

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

Schedule of Investments by Industry
August 31, 2004

Industry	Percentage of Total		Industry	Percentage of Total	
	Value	Investments		Value	Investments
Agricultural Services	\$ 987,982	0.02%	Metal Mining	\$ 5,431,375	0.13%
Agriculture Production-Crops	1,954,734	0.05%	Mineral Interests	1,603,402	0.04%
Amusement and Recreation Services	4,268,184	0.10%	Miscellaneous Manufacturing Industries	3,460,673	0.08%
Apparel and Other Finished Products	5,844,490	0.14%	Miscellaneous Retail	3,717,715	0.09%
Apparel and Accessory Stores	5,291,158	0.13%	Mining, Quarry Nonmetal Minerals	950,382	0.02%
Auto Dealers, Gas Stations	2,765,746	0.07%	Mortgage/Asset Backed	19,235,588	0.46%
Auto Repair, Services, Parking	481,247	0.01%	Motion Pictures	1,561,843	0.04%
Building Construction-General Contractor	7,771,711	0.18%	Motor Freight Transport, Warehouse	7,090,603	0.17%
Building Material, Hardware, Garden-Retail	67,860	0.00%	Municipal	11,313,621	0.27%
Business Services	30,211,283	0.72%	Nonclassifiable Establishment	689,098	0.02%
Chemicals and Allied Products	36,506,242	0.87%	Nondepository Credit Institution	27,011,845	0.64%
Coal Mining	2,655,328	0.06%	Nondurable Goods-Wholesale	4,887,738	0.12%
Commercial Paper	64,245,208	1.53%	Oil and Gas Extraction	24,684,859	0.59%
Communications	26,708,490	0.63%	Other Industry	7,872,385	0.19%
Construction-Special Trade	1,402,817	0.03%	Paper and Allied Products	2,512,716	0.06%
Depository Institutions	47,325,094	1.12%	Personal Services	1,056,871	0.03%
Diversified Manufacturing	2,378,207	0.06%	Petroleum Refining and Related Industries	14,455,820	0.34%
Durable Goods-Wholesale	12,847,397	0.31%	Pipe Lines, Except Natural Gas	2,456,429	0.06%
Eating and Drinking Places	6,857,079	0.16%	Primary Metal Industries	12,826,265	0.30%
Educational Services	319,022	0.01%	Printing, Publishing and Allied Services	5,495,971	0.13%
Electronics, Other Electronic Equipment, Except Computers	32,052,584	0.76%	Railroad Transportation	4,179,198	0.10%
Electric, Gas, Sanitary Service	22,207,866	0.53%	Real Estate	12,932,356	0.31%
Engineering, Research, Management, and Related Services	9,872,162	0.23%	Rubber and Miscellaneous Plastic Products	1,786,857	0.04%
Metal Fabrication, Except Machinery and Trans Equipment	6,899,267	0.16%	Security and Commodity Brokers	7,613,334	0.18%
Food and Kindred Products	18,142,959	0.43%	Social Services	42,504	0.00%
Food Stores	4,679,277	0.11%	Stone, Clay, Glass, Concrete Products	2,220,717	0.05%
Foreign Government and Provincial Obligations	83,882,315	1.99%	Textile Mill Products	50,901	0.00%
Forestry	378,643	0.01%	Tobacco Products	2,731,021	0.06%
Furniture and Fixtures	1,322,108	0.03%	Transit and Passenger Transportation	301,781	0.01%
General Merchandise Stores	6,390,236	0.15%	Transportation By Air	6,579,893	0.16%
Health Services	4,201,435	0.10%	Transportation Equipment	14,025,996	0.33%
Heavy Construction-Not Building Construction	2,640,488	0.06%	Transportation Services	1,252,933	0.03%
Real Estate Holding	213,110,424	5.06%	Water Transportation	5,966,400	0.14%
Home Furniture and Equipment Store	2,871,557	0.07%	U. S. Government Obligations	392,443,470	9.34%
Hotels, Other Lodging Places	20,361,820	0.48%	Other - Debt Securities	3,465,467	0.08%
Industrial, Commercial Machinery, Computer Equipment	27,560,637	0.66%	Hedge Funds	931,128,180	22.13%
Insurance Agents, Brokers and Service	606,876	0.01%	Index Funds	544,070,346	12.93%
Insurance Carriers	27,516,151	0.65%	Limited Partnerships	406,898,850	9.67%
Leather and Leather Products	1,545,816	0.04%	Exchange Traded Funds	195,906,766	4.66%
Lumber and Wood Products, Except Furniture	1,766,687	0.04%	Other - Investment Funds	214,041,633	5.09%
Measurement Instruments, Photography Goods, Watches	30,515,733	0.73%	Money Market Funds	522,195,453	12.41%
			Total Investment Assets	\$ 4,207,563,575	100.00%