

PERMANENT HEALTH FUND

FINANCIAL STATEMENTS

Years Ended August 31, 2001 and 2000

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of assets and liabilities, and the comparison summary of investment in securities of the Permanent Health Fund (Fund) as of August 31, 2001 and 2000, the related statements of operations and changes in net assets for the years then ended, and the financial highlights for each of the two years in the period ended August 31, 2001. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights 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 and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of August 31, 2001 and 2000, by correspondence with the custodian. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position and the comparative investment in securities of the Fund as of August 31, 2001 and 2000, the results of its operations and the changes in its net assets for the years then ended, and the financial highlights for each of the two years in the period ended August 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

October 19, 2001

Deloitte
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Tohmatsu

PERMANENT HEALTH FUND

Financial Highlights

Years Ended August 31,

	<u>2001</u>	<u>2000</u>
Selected Per Unit Data		
Net Asset Value, Beginning of Period	\$ 1.113	\$ 1.000
Income From Investment Operations		
Net Investment Income	0.024	0.030
Net Realized and Unrealized Gain (Loss) on Investments	<u>(0.126)</u>	<u>0.128</u>
Total Income (Loss) from Investment Operations	<u>(0.102)</u>	<u>0.158</u>
Less Distributions		
From Net Investment Income	0.024	0.030
From Net Realized Gain	<u>0.022</u>	<u>0.015</u>
Total Distributions	<u>0.046</u>	<u>0.045</u>
Net Asset Value, End of Period	<u>\$ 0.965</u>	<u>\$ 1.113</u>
Ratios and Supplemental Data		
Net Assets, End of Period (in thousands)	\$ 881,433	\$ 1,016,587
Ratio of Expenses to Average Net Assets	0.20%	0.20%
Ratio of Net Investment Income to Average Net Assets	2.44%	2.87%
Ratio of Distributions to Average Net Assets	4.51%	4.28%

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

PERMANENT HEALTH FUND

Comparison Summary of Investment in Securities, at Value

August 31, 2001 and 2000

(in thousands)

	<u>2001</u>	<u>2000</u>
General Endowment Fund Units	\$ 881,268	\$ -
Equity Securities		
Domestic Common Stock	-	155,180
Foreign Common Stock	-	27,804
Commingled Investments	-	189,768
Limited Partnerships	-	7,889
Index Funds	-	356,000
Total Equity Securities	<u>-</u>	<u>736,641</u>
Debt Securities:		
U.S. Government Obligations (Direct and Guaranteed)	-	79,696
U.S. Government Agencies (Non-Guaranteed)	-	32,758
Foreign Government and Provincial Obligations (U.S. Dollar Denominated)	-	96
Foreign Government and Provincial Obligations (Non-U.S. Dollar Denominated)	-	8,346
Municipal and County Bonds	-	3,235
Corporate Bonds	-	70,318
Foreign Corporate Bonds	-	5,057
Commercial Paper	-	1,028
Total Debt Securities	<u>-</u>	<u>200,534</u>
Preferred Stock		
Domestic Preferred Stock	-	1,956
Foreign Preferred Stock	-	192
Total Preferred Stock	<u>-</u>	<u>2,148</u>
Cash and Cash Equivalents		
Money Markets	<u>165</u>	<u>117,112</u>
Total Investment in Securities	<u>\$ 881,433</u>	<u>\$ 1,056,435</u>

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

PERMANENT HEALTH FUND

Statements of Assets and Liabilities

August 31, 2001 and 2000

(Dollars in thousands, except per unit amounts)

	<u>2001</u>	<u>2000</u>
Assets		
Investment in Securities, at Value (Cost \$902,206 and \$997,012, respectively)	\$ 881,433	\$ 1,056,435
Collateral for Securities Loaned, at Value	-	39,604
Deposit with Broker for Futures Contracts	-	6,354
Unrealized Gains on Foreign Currency Exchange Contracts	-	976
Receivables		
Investment Securities Sold	-	9,552
Accrued Income	-	2,767
Other	-	650
Total Assets	<u>881,433</u>	<u>1,116,338</u>
Liabilities		
Payable Upon Return of Securities Loaned	-	39,604
Unrealized Losses on Foreign Currency Exchange Contracts	-	822
Payables		
Investment Securities Purchased	-	58,366
Other	-	959
Total Liabilities	<u>-</u>	<u>99,751</u>
Net Assets	<u>\$ 881,433</u>	<u>\$ 1,016,587</u>
Net Assets Consist Of:		
Participant Contributions	\$ 915,000	\$ 915,000
Accumulated Undistributed Net Realized		
Gain on Investments including Foreign Currency Transactions	-	41,921
Net Unrealized Appreciation (Depreciation) of Investments including		
Translation of Assets and Liabilities in Foreign Currencies	(20,773)	59,666
Distributions in Excess of Net Investment Return	<u>(12,794)</u>	<u>-</u>
Net Assets for 913,765,506 Units	<u>\$ 881,433</u>	<u>\$ 1,016,587</u>
Net Asset Value Per Unit	<u>\$ 0.965</u>	<u>\$ 1.113</u>

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

PERMANENT HEALTH FUND

Statements of Operations and Changes in Net Assets

Years Ended August 31, 2001 and 2000

(in thousands)

	<u>2001</u>	<u>2000</u>
Investment Income		
Distribution of General Endowment Fund Net Investment Income	\$ 11,011	\$ -
Interest	8,387	22,204
Dividends	4,196	6,814
Income Distributions from Limited Partnerships	29	23
Other	192	178
Total Investment Income	<u>23,815</u>	<u>29,219</u>
Expenses		
Investment Management and Consulting Fees	438	1,248
UTIMCO Management Fee	386	440
Custodial Fees and Expenses	166	202
Dividends on Securities Sold Short	-	33
Other	65	18
Total Expenses	<u>1,055</u>	<u>1,941</u>
Net Investment Income	<u>22,760</u>	<u>27,278</u>
Realized And Unrealized Gain (Loss) on Investments		
Net Realized Gain (Loss) On Investments Securities and Foreign Currency Related Transactions	(26,744)	55,025
Distribution of General Endowment Fund Realized Loss	(8,697)	-
Net Unrealized Appreciation (Depreciation) On Investment Securities and Foreign Currency Related Transactions	(58,491)	59,671
Net Unrealized Depreciation on General Endowment Fund Units	(21,948)	-
Net Gain (Loss) on Investments	<u>(115,880)</u>	<u>114,696</u>
Net Increase (Decrease) in Net Assets Resulting From Operations	\$ (93,120)	\$ 141,974
Net Assets		
Beginning of Period	1,016,587	890,253
Participant Contributions	-	25,000
Distributions to Participants:		
Net Investment Income	(22,760)	(27,278)
Undistributed Net Investment Income	-	(258)
Net Realized Appreciation	(6,480)	(13,104)
In Excess of Net Investment Return	(12,794)	-
End of Period	<u>\$ 881,433</u>	<u>\$ 1,016,587</u>

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

PERMANENT HEALTH FUND

Notes to Financial Statements

Note 1 – Organization

The Permanent Health Fund (Fund) is an internal University of Texas System mutual fund for the pooled investment of state endowment funds for health-related institutions of higher education, created August 30, 1999, with proceeds from state tobacco litigation. The distributions from the Fund endowments support programs that benefit medical research, health education, public health, nursing, and treatment programs at health-related institutions of higher education. Fiduciary responsibility for the Fund rests with the Board of Regents of The University of Texas System (Board of Regents). The day-to-day operational responsibilities of the Fund are delegated to The University of Texas Investment Management Company (UTIMCO), pursuant to an investment management services agreement with the Board of Regents.

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

The accompanying financial statements follow the form and content of investment company financial statements and related disclosures in accordance with accounting principles generally accepted in the United States of America. The principles followed will differ from the principles applied in governmental and fund accounting. The annual combined financial statements of The University of Texas System are prepared in accordance with Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements and include information related to the Fund. The accompanying financial statements may differ in presentation from governmental accounting principles or the Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements.

Note 2 – Investment in GEF

Beginning with the purchase of GEF units on March 1, 2001, the Fund no longer invests in individual securities except for GEF units and a negligible amount of cash. At August 31, 2001, the Fund is the minority participant in the GEF, with ownership of 9,009,891 units, which represents 23.67% 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 distribution to participants. On a monthly basis, the GEF distributes its net investment income and realized gain or loss to the Fund based on its ownership of GEF units at month end. The distributed amounts are reinvested as GEF contributions. Since the distribution is proportional to the percentage of ownership by the unitholders, no additional units are purchased. The Fund redeems GEF units quarterly to meet its distribution requirements to its unitholders. Note 11 reports financial information on the GEF for the period from inception (March 1, 2001) to August 31, 2001.

PERMANENT HEALTH FUND

Notes to Financial Statements (cont.)

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.

Prior to March 1, 2001, and the Fund's investment in the GEF, investments were primarily valued on the basis of market valuations provided by independent pricing services.

Fixed income securities held directly by the Fund were 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 were based on the New York Stock Exchange composite closing prices, if available. If not available, the market value was based on the closing price on the primary exchange on which the security was traded (if a closing price was not available, the average of the last reported bid and ask price was used).

Limited Partnerships and Other were valued based on a fair valuation determined as specified by policies established by the UTIMCO Board of Directors.

Securities held by the Fund in index funds were generally valued as follows:

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

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

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

Commingled funds were valued based on the net asset value per share provided by the investment company.

(B) **Foreign Currency Translation** -- The accounting records of the Fund are maintained in U.S. dollars. Prior to March 1, 2001, investments in securities and securities sold short were 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 were translated into U.S. dollars at the exchange rate on the dates of the transactions. The Fund did not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from fluctuations arising from changes in market prices of securities held. Such fluctuations were included with the net realized and unrealized gain or loss from investments. Security classifications on the comparison summary of investment in securities, at value were based on currency.

(C) **Investment Income** -- Interest income is accrued as earned. Prior to March 1, 2001, dividend income was recorded on the ex-dividend date. Dividend and interest income was recorded net of foreign taxes where recovery of such taxes was not assured. Investment income included net realized and unrealized currency gains and losses recognized between accrual and payment dates on

PERMANENT HEALTH FUND

Notes to Financial Statements (cont.)

dividend and interest transactions. Premiums and discounts on bonds were not amortized.

(D) **Security Transactions** -- Prior to March 1, 2001, security transactions were recorded on a trade date basis for most securities. International index fund transactions were recorded on a settle date basis due to trading practices which imposed restrictions in acquiring per unit information on the trade date. Gains and losses on securities sold were determined on the basis of average cost. A loss was recognized if there was an impairment in the value of the security that was determined to be other than temporary. Beginning March 1, 2001, a gain or loss is recognized on GEF unit sales on the basis of average cost.

(E) **Distributions to Participants** -- Cash distributions to participants are paid quarterly based on a per unit payout established by the Board of Regents. For the fiscal year ended August 31, 2001, the quarterly rate was \$.0115 which equates to a yearly rate of \$.046 per unit. For the year ended August 31, 2000, the quarterly rate was \$.01125 per unit which equated to a yearly rate of \$.045 per unit. The investment policy provides that the annual payout will be adjusted by the average consumer price index of the prior 36 months including August 31 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.

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

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

(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) **Foreign Currency Contracts** -- Prior to March 1, 2001, the Fund entered 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 agreed to receive or deliver a fixed quantity of foreign currency for an agreed-upon price on an agreed future date. These contracts were 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, was included in the statement of assets and liabilities. Realized and

PERMANENT HEALTH FUND

Notes to Financial Statements (cont.)

unrealized gains and losses were included in the statements of operations. These instruments involved market and/or credit risk in excess of the amount recognized in the statement of assets and liabilities. Risks arose 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 and other overnight funds.

Note 4 – Acquisitions and Dispositions of Investments

Acquisitions and dispositions (including sales, maturities and prepayments) of securities, other than short-term securities, and the associated net realized gains are as follows for the years ended August 31, 2001 and 2000:

	<u>2001</u>	<u>2000</u>
Acquisitions	\$ 1,618,057,223	\$ 3,040,196,480
Dispositions	(1,564,665,247)	(2,284,624,969)
Net Realized Gains (Losses) on Investments	(35,440,605)	55,024,845

Included in acquisitions for the year ended August 31, 2001, is \$922,338,502 related to the initial purchase of GEF units by the Fund on March 1, 2001. Included in dispositions for the year ended August 31, 2001, is \$855,007,626 related to the contribution of investment assets to the GEF. The contribution of investment assets, excluding limited partnerships and one other equity investment, to the GEF on March 1, 2001, was accounted for by the Fund as sales at the market value of the assets contributed. A realized loss in the amount of \$10,810,995 was recognized and is included in the net realized gains (losses) on investments. The contribution of the market value of the limited partnerships and one other equity investment in the amount of \$30,460,955, which included cost basis of \$29,285,623 and unrealized appreciation of \$1,175,332, was accounted for as a carryover in basis, and therefore, no realized gain or loss was recorded.

The net realized gains (losses) on investments included \$4,669,011 and \$12,601,425 of reinvested capital gains earned on the index and mutual funds for the years ended August 31, 2001 and 2000, respectively. Also included in net realized gains (losses) were \$1,139,303 and \$3,565,484 of currency exchanges losses for the years ended August 31, 2001 and 2000, respectively.

Note 5 – 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 fees assessed for the years ended August 31, 2001 and 2000, were \$385,773 and \$439,627, respectively.

Prior to March 1, 2001, the Fund incurred investment management fees from various external managers of the Fund. The fees, generally assessed quarterly, were based on a percentage of the market value of investments held by each individual investment manager and ranged from 0.01% to 1.0%. In addition to quarterly investment management fees, the Fund paid annual performance-based management fees for investment performance in excess of certain defined benchmarks as provided for in the manager's contract. Beginning March 1, 2001, the Fund no longer incurs external investment management fees.

PERMANENT HEALTH FUND

Notes to Financial Statements (cont.)

Custodial fees and expenses were assessed quarterly 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. Beginning March 1, 2001, the Fund is assessed only a negligible fee for the maintenance of two accounts.

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

Note 6 – Index Funds

Prior to March 1, 2001, the Fund had investments in index funds, which were managed by the same investment manager and consisted of several funds with different investment objectives, as follows:

The Equity Index Fund B Ex-Tobacco was 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. market for publicly traded common stocks represented by the larger capitalized companies. The criterion for selection of investments was the S&P 500 Index, excluding the stocks of companies engaged in the production or manufacture of tobacco-related products.

The Mid-Cap Index Fund B Lendable was 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 United States and Canadian markets for publicly traded common stocks represented by the medium capitalized companies. The fund tracked the S&P Mid-Cap 400 Index.

The EAFE Equity Index Fund B Ex-Tobacco was managed to replicate the Morgan Stanley Capital International Europe, Australia and Far East Index (EAFE), excluding the stocks of companies engaged in the production or manufacture of tobacco-related products. Individual index funds were established to represent each country within the EAFE Index. The fund was a commingled 'superfund' comprised from the individual EAFE Index country funds managed in their appropriate capitalization weights.

The Russell 2000 Index Fund B's objective was approximating as closely as practicable the capitalization weighted total return of the segment of the U.S. market for publicly traded common stocks represented by the Russell 2000 Index.

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

The Equity Index Fund B Ex-Tobacco was majority-owned by the Fund. The Mid-Cap Index Fund B Lendable and the Russell 2000 Index Fund B were majority-owned by the Fund, the Permanent University Fund and The University of Texas System Long Term Fund. The market values of the Fund's interests in these index funds were as follows at August 31, 2000:

PERMANENT HEALTH FUND

Notes to Financial Statements (cont.)

Equity Index Fund B Ex-Tobacco	\$ 141,345,964
Mid-Cap Index Fund B Lendable	77,623,056-
EAFE Equity Index Fund B Ex-Tobacco	86,534,718
Russell 2000 Index Fund B	<u>50,496,376</u>
	<u>\$ 356,000,114</u>

Note 7 – Commingled Investments

Prior to March 1, 2001, the Fund held commingled investments, which consisted of investments in other entities in which the Fund had an ownership percentage or shares. The market values of the commingled investments consisted of the following at August 31, 2000:

Emerging Market Mutual Funds	\$ 48,839,671
Small Capitalization International Stock Fund	38,866,923
Merger Arbitrage and Special Situation Funds	53,438,633
Hedge Fund	40,012,736
Small Capitalization Fund	<u>8,609,737</u>
	<u>\$ 189,767,700</u>

The merger arbitrage and special situation funds invested in merger arbitrage, corporate restructuring, distressed investments, distressed convertibles and liquidations. The hedge fund invested primarily in medium and large capitalization U.S. equities in which performance was driven by long and short security selection with a low net exposure to market risk.

Note 8 – Securities Lending

Prior to March 1, 2001, the Fund loaned securities to certain brokers who paid the Fund negotiated lenders' fees. These fees are included in investment income. The Fund received qualified securities and/or cash as collateral against the loaned securities. The collateral, when received, was required to have a market value of 102% of loaned securities of United States issuers and a market value of 105% for loaned securities of non-United States issuers. If the market value of the collateral held in connection with loans of securities of United States issuers became less than 100% at the close of trading on any business day, the borrower was required to deliver additional collateral by the close of the next business day to equal 102% of the market value. For non-United States issuers, the collateral was required to remain at 105% of the market value of the loaned securities at the close of any business day. If it fell below 105%, the borrower was required to deliver additional collateral by the close of the following business day. The value of securities loaned and the value of collateral held were as follows at August 31, 2000:

Securities On Loan	Value	Type of Collateral	Value of Collateral
U.S. Government	\$ 38,046,975	Cash	\$ 38,603,170
Common Stock	<u>967,874</u>	Cash	<u>1,000,755</u>
Total	<u>\$ 39,014,849</u>	Total	<u>\$ 39,603,925</u>
U.S. Government	<u>\$ 139,403</u>	Non-Cash	<u>\$ 278,737</u>

PERMANENT HEALTH FUND

Notes to Financial Statements (cont.)

Cash received as collateral for securities lending activities was recorded as an asset with an equal and offsetting liability to return the collateral. Investments received as collateral for securities lending activities were not recorded as assets because the investments remained under the control of the transferor, except in the event of default.

Note 9 – Futures Contracts

Prior to March 1, 2001, the Fund's activities included trading in derivatives such as futures contracts. 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 included domestic and foreign equities, domestic and foreign debt and commodities. Commodity index exposure was obtained through the Goldman Sachs Commodity Index (GSCI). The GSCI is a composite index of commodity sector returns, representing an unleveraged, long-only investment in commodity futures that is broadly diversified across the spectrum of commodities. The Fund had \$6,354,242 on deposit with a broker for collateral as margin for the futures contracts as of August 31, 2000. It was the intention of the Fund not to utilize leverage when entering into these contracts and to maintain cash balances that, when combined with the collateral deposit with a broker, exceeded the notional value of the futures contracts held. Futures contracts were marked to market daily; that is, they were valued at the close of business each day, and a gain or loss was recorded between the value of the contracts that day and on the previous day. The daily gain or loss was referred to as the daily variation margin, which was settled in cash with the broker each morning for the amount of the previous day's mark to market. The amount that was settled in cash with the broker each morning was the carrying and fair value of the futures contracts. The Fund recognized a loss on the futures contracts of \$5,116,796 for the period ended February 28, 2001, and a gain on the futures contracts of \$12,160,707 for the year ended August 31, 2000. The Fund executed such contracts either on major exchanges or with major international financial institutions and minimized market and credit risk associated with these contracts through the manager's various trading and credit monitoring techniques.

The table below discloses the average carrying and fair value for the period ended February 28, 2001. The Fund did not hold futures at August 31, 2001.

	Average Carrying and Fair Value for the Period Ended February 28, 2001	
	<u>Assets</u>	<u>Liabilities</u>
Domestic Equity Futures	\$ 131,203	\$ 182,577
International Equity Futures	60,774	63,671
Commodity Futures	314,691	307,616
Domestic Fixed Income Futures	28,510	23,479
International Fixed Income Futures	8,756	7,754

The following discloses the notional, carrying and fair values at August 31, 2000, and the average carrying and fair values for the year ended August 31, 2000, for futures contracts:

PERMANENT HEALTH FUND

Notes to Financial Statements (cont.)

	Notional Value at August 31, 2000		Carrying and Fair Value at August 31, 2000		Average Carrying and Fair Value for the Year Ended August 31, 2000	
	Long	Short	Assets	Liabilities	Assets	Liabilities
Domestic Equity Futures	\$ 52,101,100	\$ 805,575	\$ 638,243	\$ 4,725	\$ 229,499	\$ 231,076
International Equity Futures	3,801,787	5,117,999	31,097	41,878	42,193	44,431
Commodity Futures	37,690,988	-	-	69,413	240,115	172,613
Domestic Fixed Income Futures	8,706,797	-	47,579	-	20,362	17,793
International Fixed Income Futures	7,247,462	-	25,824	1	6,304	6,306

Note 10 – Foreign Currency Exchange Contracts

The table below summarizes by currency the contractual amounts of the Fund's foreign currency exchange contracts at August 31, 2000. Foreign currency amounts were translated at exchange rates as of August 31, 2000. The "Net Buy" amounts represent the U.S. dollar equivalent of net commitments to purchase foreign currencies, and the "Net Sell" amounts represent the U.S. dollar equivalent of net commitments to sell foreign currencies. The Fund did not hold any foreign currency exchange contracts at August 31, 2001.

Currency	Net Buy August 31, 2000	Net Sell August 31, 2000	Unrealized Gains on Foreign Currency Exchange Contracts August 31, 2000	Unrealized Losses on Foreign Currency Exchange Contracts August 31, 2000
Australian Dollar	\$ -	\$ 1,057,063	\$ 48,505	\$ 19,478
Canadian Dollar	2,458,414	-	19,455	9,066
Euro Currency	5,826,138	-	207,943	210,494
Japanese Yen	7,342,300	-	207,383	13,933
New Zealand Dollar	-	2,796,531	205,367	54,543
Norwegian Krone	4,809,893	-	37,648	157,793
Singapore Dollar	1,809,095	-	22,409	2,446
Swedish Krona	-	5,001,403	109,133	24,747
UK Pound	1,989,665	-	61,998	143,439
Various	985,337	-	55,810	186,535
	<u>\$ 25,220,842</u>	<u>\$ 8,854,997</u>	<u>\$ 975,651</u>	<u>\$ 822,474</u>

PERMANENT HEALTH FUND

Notes to Financial Statements (cont.)

Note 11 – Financial Information on GEF

The following presents the investments and net assets of the GEF, in thousands, as of August 31, 2001.

Equity Securities

Index Funds	\$ 881,803
Domestic Common Stock	733,637
Commingled Investments	640,911
Limited Partnerships	366,491
Foreign Common Stock	116,147
Other	1,093
Total Equity Securities	<u>2,740,082</u>

Debt Securities:

U.S. Government Obligations (Direct and Guaranteed)	204,349
U.S. Government Agencies (Non-Guaranteed)	303,343
Foreign Government and Provincial Obligations (U.S. Dollar Denominated)	4,417
Foreign Government and Provincial Obligations (Non-U.S. Dollar Denominated)	62,569
Municipal and County Bonds	9,105
Corporate Bonds	230,395
Foreign Corporate Bonds	14,861
Commingled Investment	11,690
Other	3,331
Total Debt Securities	<u>844,060</u>

Preferred Stock

Domestic Preferred Stock	12,842
Foreign Preferred Stock	1,305
Total Preferred Stock	<u>14,147</u>

Convertible Securities

2,915

Cash and Cash Equivalents

Money Markets	<u>320,832</u>
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Total Investment in Securities

\$ 3,922,036

Other Assets

171,399

Liabilities

(369,523)

Net Assets

\$ 3,723,912

Fund Ownership

23.67%

Value of Fund Interest

\$ 881,268

PERMANENT HEALTH FUND

Notes to Financial Statements (cont.)

The following presents information on the operations of the GEF, in thousands, for the period of its inception (March 1, 2001) to August 31, 2001.

Investment Income

Interest	\$ 29,790
Dividends	17,308
Income Distributions from Limited Partnerships	1,631
Other	<u>1,187</u>
Total Investment Income	<u>49,916</u>

Total Expenses

3,402

Net Investment Income

46,514

Realized And Unrealized Loss on Investments

Net Realized Loss On Investments Securities and Foreign Currency Related Transactions	(36,860)
Net Unrealized Depreciation On Investment Securities and Foreign Currency Related Transactions	<u>(94,253)</u>
Net Loss on Investments	<u>(131,113)</u>

Net Decrease in Net Assets Resulting From Operations

\$ (84,599)

Net Assets

Beginning of Period	-
Contribution of Participant Net Assets to GEF on March 1, 2001	3,839,708
Subsequent Participant Contributions	81,198
Participant Withdrawals:	
Cost	(104,220)
Loss	1,479
Distributions	<u>(9,654)</u>
Ending Net Assets	<u>\$ 3,723,912</u>

The Fund's share of the above transactions are as follows:

Net Investment Income	\$ 11,011
Net Realized Losses	(8,697)
Net Unrealized Depreciation	(21,948)
Purchase of GEF units on March 1, 2001	922,339
Subsequent Sale of GEF Units	<u>(21,437)</u>
Value of Fund Interest	<u>\$ 881,268</u>