

Financial Statements

Permanent Health Fund

Years Ended August 31, 2005 and 2004

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Financial Statements

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MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Our discussion and analysis of the Permanent Health Fund's (Fund) financial performance provides an overview of its activities for the year ended August 31, 2005. This discussion was prepared by The University of Texas Investment Management Company (UTIMCO) and should be read in conjunction with the Fund's financial statements and notes. The Fund is an internal UT System mutual fund for the pooled investment of state endowment funds for health-related institutions of higher education. The University of Texas System Board of Regents (UT Board) established the Fund in August 1999 with proceeds from state tobacco litigation. The Texas Constitution and various state statutes designate the UT Board as the fiduciary for the management of certain public endowment and operating funds. The UT Board has entered into an Investment Management Services Agreement delegating investment management responsibility for all investments to UTIMCO.

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

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

Financial Highlights

- The Fund's net fiduciary assets after distributions, increased by \$111.5 million from \$814.4 million to \$925.9 million or by approximately 13.7% for the year ended August 31, 2005, compared to an increase of \$69.4 million or approximately 9.3% for the year ended August 31, 2004. The change in net fiduciary assets from year to year is mainly attributable to the following:
 1. The Fund posted a net investment return of 18.68% for the fiscal year ended August 31, 2005, compared to a net investment return of 14.60% for the prior fiscal year. The net investment return of the Fund is dependent on the results of the investments held in the GEF. The GEF's investments in commodities, limited partnerships and global equities were the leading contributors to the 2005 return. For the fiscal year ended August 31, 2004, the commodities and domestic and global equity asset classes were the leading performers.
 2. The Fund's distribution rate was \$.047 per unit for the fiscal year ended August 31, 2005. The per unit rate was not increased from the fiscal year ended August 31, 2004. The fiscal year distributions represented 4.39% of the Fund's average net asset value for the year ended August 31, 2005, and 4.81% of the Fund's average net asset value for the year ended August 31, 2004.

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3. There were no participant contributions to the Fund or withdrawals from the Fund during the years ended August 31, 2005 and 2004.

Use of Financial Statements and Notes

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

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

Statements of Fiduciary Net Assets

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

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

As of August 31, 2005, the Fund owned 6,628,710 GEF units representing an ownership percentage of 18.79%, compared to 6,923,785 GEF units representing an ownership percentage of 19.35% as of August 31, 2004. As of August 31, 2005 and 2004, the fair value of the GEF units was \$925.7 million and \$814.2 million, respectively.

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

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Assets			
General Endowment Fund Units, at Fair Value	\$ 925.7	\$ 814.2	\$ 744.8
Cash and Cash Equivalents	0.2	0.2	0.2
Net Assets Held in Trust	<u>\$ 925.9</u>	<u>\$ 814.4</u>	<u>\$ 745.0</u>

Statements of Changes in Fiduciary Net Assets

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Changes in fiduciary net assets as presented on the Statements of Changes in Fiduciary Net Assets are based on activity of the Fund. The purpose of these statements are 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 \$131.3 million during the year compared to \$92.6 million for the fiscal year ended August 31, 2004. Expenses totaled \$0.6 million for the fiscal years ended August 31, 2005 and 2004, and \$0.7 million for the fiscal year ended August 31, 2003.

Distributions to participants totaled \$38.5 million for each of the years ended August 31, 2005, 2004, and 2003.

The net increase in fiduciary net assets totaled \$111.5 million for the year ended August 31, 2005 compared to a net increase in fiduciary net assets of \$69.4 million for the year ended August 31, 2004.

The Fund's two primary investment objectives are:

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

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

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

	2005	2004	2003
Investment Income	\$ 150.6	\$ 108.6	\$ 86.0
Less Investment Expenses	(0.5)	(0.6)	(0.7)
Net Investment Income	150.1	108.0	85.3
Administrative Fee for UT System Oversight	-	-	-
Participant Distributions	38.6	38.6	38.6
Total Deductions	38.6	38.6	38.6
Change in Fiduciary Net Assets	111.5	69.4	46.7
Net Assets Held in Trust, Beginning of Period	814.4	745.0	698.3
Net Assets Held in Trust, End of Period	\$ 925.9	\$ 814.4	\$ 745.0

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

We have audited the accompanying financial statements of the Permanent Health Fund (the "Fund") as of and for the years ended August 31, 2005 and 2004, 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. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Permanent Health Fund and do not purport to, and do not, present fairly the fiduciary net assets of The University of Texas Investment Management Company nor The University of Texas System as of August 31, 2005 and 2004 and the changes in its fiduciary net assets for the years then ended in conformity with accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the Permanent Health Fund as of August 31, 2005 and 2004, and the changes in the fiduciary net assets for the years then ended, in conformity with accounting principles generally accepted in the United States.

Management's discussion and analysis on pages 1 through 4 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements of the Permanent Health Fund. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental schedules as of August 31, 2005 and 2004 and for the years then ended have been subjected to the audit procedures applied in the audits of the financial statements and, in our opinion, based on our audits, are fairly stated in relation to the financial statements taken as a whole. The Permanent Health Fund financial statements for the years ended August 31, 2002 and 2001, which are not presented with the accompanying financial statements, were audited by other auditors whose report dated October 18, 2002, expressed an unqualified opinion on the financial statements. Their report on the 2002 and 2001 supplemental schedules stated that, in their opinion, such information was fairly stated in all material respects in relation to the financial statements for the years ended August 31, 2002 and 2001, taken as a whole.

Ernst & Young LLP

October 21, 2005

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Statements of Fiduciary Net Assets

August 31, 2005 and 2004

(Dollars in thousands, except per unit amounts)

	<u>2005</u>	<u>2004</u>
Assets		
General Endowment Fund Units, at Fair Value	\$ 925,661	\$ 814,200
Cash and Cash Equivalents	<u>237</u>	<u>224</u>
Net Assets Held in Trust (820,000,000 Units)	<u>\$ 925,898</u>	<u>\$ 814,424</u>
Net Asset Value Held in Trust Per Unit	<u>\$ 1.129</u>	<u>\$ 0.993</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, 2005 and 2004

(in thousands)

	<u>2005</u>	<u>2004</u>
Additions		
Investment Income		
Net Increase in Fair Value of Investments	\$ 131,345	\$ 92,625
Allocation of General Endowment Fund Net Investment Income	19,225	16,012
Interest	3	1
Dividends	1	4
Total Investment Income	<u>150,574</u>	<u>108,642</u>
Less Investment Expenses		
UTIMCO Management Fee	517	622
Other Expenses	11	17
Total Investment Expenses	<u>528</u>	<u>639</u>
Net Investment Income	150,046	108,003
Total Additions	<u>150,046</u>	<u>108,003</u>
Deductions		
Administrative Fee for UT System Oversight	32	-
Participant Distributions	38,540	38,540
Total Deductions	<u>38,572</u>	<u>38,540</u>
Change in Fiduciary Net Assets	111,474	69,463
Net Assets Held in Trust, Beginning of Period	<u>814,424</u>	<u>744,961</u>
Net Assets Held in Trust, End of Period	<u>\$ 925,898</u>	<u>\$ 814,424</u>

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

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Notes to Financial Statements

Note 1 – Organization and Basis of Presentation

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

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

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

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

Note 2 – Investment in GEF

Beginning with the purchase of GEF units on March 1, 2001, the Fund no longer invests in individual securities except for GEF units and a negligible amount of cash. The Fund also continues to receive securities as proceeds in class action suits from the securities the Fund previously owned. These securities are normally sold when received, but from time to time will be reflected as a Fund investment. At August 31, 2005, the Fund is the minority participant in the GEF, with ownership of 6,628,710 units, which represents 18.79% of the GEF. At August 31, 2004, the Fund held 6,923,785 units, which represented 19.35% of the GEF.

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Notes to Financial Statements (continued)

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

Note 3 – Significant Accounting Policies

- (A) **Security Valuation** -- The Fund's investment in GEF units is valued at the net asset value per unit reported by the GEF which is based on fair value.
- (B) **Investment Income** -- Interest income is accrued as earned.
- (C) **Security Transactions** -- A gain or loss is recognized on GEF unit sales on the basis of average cost.
- (D) **Distributions to Participants** -- Cash distributions to participants are paid quarterly based on a per unit payout established by the Board of Regents. For the years ended August 31, 2005 and 2004 the quarterly rate was \$.01175 per unit which equates to a yearly rate of \$.047 per unit. The ratio of distributions to average net assets (12-quarter average) was 4.79% as of August 31, 2005. The investment policy provides that the annual payout will be adjusted by the average consumer price index of the prior 36 months subject to a maximum distribution of 5.5% of the Fund's average market value and a minimum distribution of 3.5% of the Fund's average market value.
- (E) **Fund Valuation** -- Valuation of the Fund's units occurs on a quarterly basis. Unit values are determined by dividing the value of the Fund's net assets by the number of units outstanding on the valuation date.
- (F) **Purchases and Redemption of Units** -- The value of participating units, upon admission to the Fund, is based upon the market value of net assets held as of the valuation date. Redemptions from the Fund will also be made at the market value price per unit at the valuation date at the time of the withdrawal. There are no transaction costs incurred by participants for the purchase or redemption of units.
- (G) **Participants' Net Assets** -- All participants in the Fund have a proportionate undivided interest in the Fund's net assets.
- (H) **Federal Income Taxes** -- The Fund is not subject to federal income tax.
- (I) **Use of Estimates** -- The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions

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Notes to Financial Statements (continued)

that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

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

Note 4 – Investment Risk

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

(A) Credit Risk

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

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

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

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Notes to Financial Statements (continued)

GEF Investment Type	Fund's Pro-Rata Share Fair Value	Rating
GEF Investments, at Fair Value:		
U.S. Government Guaranteed	\$ 77,213,077	Exempt from Disclosure
U.S. Government Non-Guaranteed:		
U.S. Agency	7,816,795	AAA
U.S. Agency	1,251,413	A
U.S. Agency Asset Backed	35,683,902	AAA
Total U.S. Government Non-Guaranteed	44,752,110	
Total U.S. Government	121,965,187	
Corporate Obligations:		
Domestic	4,928,159	AAA
Domestic	1,155,284	AA
Domestic	5,820,036	A
Domestic	3,830,634	BAA/BBB
Domestic	1,118,968	BBB
Domestic	823,295	BAA
Domestic	1,092,635	BA/BB
Domestic	436,953	BB
Domestic	44,658	BA
Domestic	543,786	B
Domestic	56,189	CAA
Domestic	52,088	CA Rating
Domestic	287,611	Withdrawn
Commercial Paper	5,089,689	P
Foreign	1,388,457	AAA
Foreign	250,080	A
Foreign	80,766	BAA/BBB
Total Corporate Obligations	26,999,288	
Foreign Government and Provincial Obligations	10,339,213	AAA
Foreign Government and Provincial Obligations	2,169,108	AA
Foreign Government and Provincial Obligations	293,720	A
Foreign Government and Provincial Obligations	850,861	BAA/BBB
Foreign Government and Provincial Obligations	39,703	BAA
Foreign Government and Provincial Obligations	712,100	BA
Foreign Government and Provincial Obligations	107,850	B
Total Foreign Government and Provincial Obligations	14,512,555	
Other Debt Securities	790,157	AAA
Other Debt Securities	223,424	AA
Other Debt Securities	224,847	A
Other Debt Securities	734,436	BAA/BBB
Total Other Debt Securities	1,972,864	
Total Debt Securities	\$ 165,449,894	
Other Investment Funds - Debt	\$ 201,658	AAA
Other Investment Funds - Debt	2,218,771	BB
Total Other Investment Funds - Debt	\$ 2,420,429	
Cash and Cash Equivalents - Money Market Funds	\$ 95,943,861	AAA
Cash and Cash Equivalents - Other	2,009,161	Exempt from Disclosure
Total Cash and Cash Equivalents	\$ 97,953,022	
Deposit with Broker for Derivative Contracts:		
U.S. Government Guaranteed	\$ 4,986,221	Exempt from Disclosure
Cash	731,457	Exempt from Disclosure
	\$ 5,717,678	

PERMANENT HEALTH FUND

Notes to Financial Statements (continued)

(B) Concentrations of Credit Risk

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

(C) Custodial Credit Risk

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

(D) Interest Rate Risk

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

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Notes to Financial Statements (continued)

GEF Investment Type	Fund's Pro-Rata Share Fair Value	Modified Duration
GEF Investments in Securities:		
U.S. Government Guaranteed:		
U.S. Treasury Bonds and Notes	\$ 21,297,188	6.47
U.S. Treasury Strips	685,933	6.00
U.S. Treasury Bills	1,320,542	0.15
U.S. Treasury Inflation Protected	53,459,775	8.03
U.S. Agency Asset Backed	449,639	2.34
Total U.S. Government Guaranteed	77,213,077	7.42
U.S. Government Non-Guaranteed:		
U.S. Agency	9,068,208	4.87
U.S. Agency Asset Backed	35,683,902	3.39
Total U.S. Government Non-Guaranteed	44,752,110	3.69
Total U.S. Government	121,965,187	6.05
Corporate Obligations:		
Domestic	20,190,296	5.26
Commercial Paper	5,089,689	0.24
Foreign	1,719,303	6.17
Total Corporate Obligations	26,999,288	4.37
Foreign Government and Provincial Obligations	14,512,555	7.79
Other Debt Securities	1,972,864	11.31
Total Debt Securities	165,449,894	5.90
Other Investment Funds - Debt	2,420,429	5.97
Cash and Cash Equivalents:		
Money Market Funds	95,943,861	0.08
Other	2,009,161	-
Total Cash and Cash Equivalents	97,953,022	0.08
Total	\$ 265,823,345	3.76
Deposit with Brokers for Derivative Contracts:		
U.S. Government Guaranteed:		
U.S. Treasury Bonds and Notes	\$ 20,702	0.41
U.S. Treasury Bills	4,750,279	0.21
U.S. Treasury Inflation Protected	215,240	1.33
Total U.S. Government Guaranteed	4,986,221	0.26
Cash	731,457	-
Total Deposit with Brokers for Derivative Contracts	\$ 5,717,678	0.22

PERMANENT HEALTH FUND

Notes to Financial Statements (continued)

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

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

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

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

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

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

(F) Foreign Currency Risk

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

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Notes to Financial Statements (continued)

<u>GEF Investment Type</u>	<u>Fund's Pro-Rata Share Fair Value</u>	<u>GEF Investment Type</u>	<u>Fund's Pro-Rata Share Fair Value</u>
Foreign Common Stock:		Purchased Options:	
Australian Dollar	\$ 1,902,447	Canadian Dollar	\$ 127,201
Canadian Dollar	6,892,965	Euro	6,803
Swiss Franc	1,465,999	Total Purchased Options	<u>134,004</u>
Danish Krone	459,750	Limited Partnerships:	
Euro	11,466,061	Euro	9,262,106
UK Pound	4,051,811	UK Pound	<u>820,573</u>
Hong Kong Dollar	736,666	Total Limited Partnerships	<u>10,082,679</u>
Japanese Yen	19,589,906	Cash and Cash Equivalents:	
South Korean Won	302,404	Australian Dollar	11,882
Norwegian Krone	1,837,751	Canadian Dollar	643,130
Swedish Krona	815,289	Swiss Franc	8,123
Singapore Dollar	<u>1,064,632</u>	Danish Krone	4,341
Total Foreign Common Stock	<u>50,585,681</u>	Euro	267,941
Foreign Government and Provincial Obligations:		UK Pound	(6,811)
Australian Dollar	83,622	Hong Kong Dollar	2,078
Canadian Dollar	81,295	Japanese Yen	2,261,419
Danish Krone	95,580	Norwegian Krone	982
Euro	10,739,086	New Zealand Dollar	1,546
New Zealand Dollar	152,245	Polish Zloty	16,903
UK Pound	1,018,420	Swedish Krona	918
Polish Zloty	<u>293,720</u>	Singapore Dollar	5,619
Total Foreign Government and Provincial Obligations	<u>12,463,968</u>	Taiwan Dollar	<u>62</u>
Corporate Obligations:		Total Cash and Cash Equivalents	<u>3,218,133</u>
Euro	1,436,395		
UK Pound	<u>141,396</u>	Total	<u>\$ 78,062,256</u>
Total Corporate Obligations	<u>1,577,791</u>		

Note 5 – Securities Lending

The GEF loans securities to certain brokers who pay the GEF negotiated lenders' fees. These fees are included in GEF investment income and related expenses are included in investment expenses. The GEF receives qualified securities and/or cash as collateral against the loaned securities. The collateral, when received, will have a market value of 102% of loaned securities of U.S. issuers and a market value of 105% for loaned securities of non-U.S. issuers. If the market value of the collateral held in connection with loans of securities of U.S. issuers is less than 100% at the close of trading on any business day, the borrower is required to deliver additional collateral by the close of the next business day to equal 102% of the market value. For non-U.S. issuers, the collateral should remain at 105% of the market value of the loaned securities at the close of any business day. If it falls below 105%, the borrower must deliver additional collateral by the close of the following business day. The Fund's pro-rata share of the value of GEF securities loaned and the value of collateral held are as follows at August 31, 2005 and 2004:

PERMANENT HEALTH FUND

Notes to Financial Statements (continued)

GEF Securities on Loan	2005 Value	2004 Value	Type of Collateral	2005 Value of Collateral	2004 Value of Collateral
U.S. Government	\$ 68,716,932	\$ 34,318,511	Cash	\$ 69,415,332	\$ 34,818,809
Foreign					
Government	3,464,476	469,735	Cash	3,627,498	497,414
Corporate Bonds	930,100	1,192,122	Cash	955,425	1,219,621
Common Stock	18,108,545	25,344,241	Cash	18,837,287	26,223,648
Total	<u>\$ 91,220,053</u>	<u>\$ 61,324,609</u>	Total	<u>\$ 92,835,542</u>	<u>\$ 62,759,492</u>
U.S. Government	\$ 1,421,295	\$ 311,744	Non-Cash	\$ 1,470,203	\$ 361,862
Common Stock	138,349	39,817	Non-Cash	143,110	40,877
Total	<u>\$ 1,559,644</u>	<u>\$ 351,561</u>	Total	<u>\$ 1,613,313</u>	<u>\$ 402,739</u>

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

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

Description	Fund's Pro-Rata Share Fair Value	Rating	Weighted Average Maturity In Days
Repurchase Agreements	\$ 43,746,987	No Rating	1
Commercial Paper	37,600,440	P	36
Floating Rate Notes	849,773	AAA	
Floating Rate Notes	9,509,272	AA	
Total Floating Rate Notes	<u>10,359,045</u>		37
Certificates of Deposit	1,398,190	P	50
Asset Backed Securities	52,993	AAA	168
Other Receivables/Payables	(322,114)	Not Rated	-
Total Collateral Pool Investment	<u>\$ 92,835,541</u>		20

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

Cash collateral is recorded as an asset with an equal and offsetting liability to return the collateral on the

PERMANENT HEALTH FUND

Notes to Financial Statements (continued)

statements of fiduciary net assets. Investments received as collateral for securities lending activities are not recorded as assets because the investments remain under the control of the transferor, except in the event of default.

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

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

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

Note 6 – Fees and Expenses

The Fund is assessed a management fee by UTIMCO to cover the costs of managing the Fund and providing day-to-day operations. The fees assessed for the year ended August 31, 2005, were \$516,757, net of a rebate of \$169,581 of excess reserves from UTIMCO to the Fund. The fees assessed for the year ended August 31, 2004, were \$621,526.

Beginning in fiscal year 2005, the Fund is assessed a fee to cover costs associated with UT System personnel and UT System consultants hired to provide assistance to the Board of Regents and the Chancellor of the UT System in their oversight responsibilities of UTIMCO. For the year ended August 31, 2005, the fee amounted to \$31,793.

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

PERMANENT HEALTH FUND
Supplemental Schedules

Financial Highlights

Years Ended August 31,

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Selected Per Unit Data					
Net Asset Value, Beginning of Period	\$ 0.993	\$ 0.908	\$ 0.852	\$ 0.965	\$ 1.113
Income From Investment Operations					
Net Investment Income	0.023	0.019	0.017	0.018	0.024
Net Realized and Unrealized Gain (Loss) on Investments	<u>0.160</u>	<u>0.113</u>	<u>0.086</u>	<u>(0.084)</u>	<u>(0.126)</u>
Total Income (Loss) from Investment Operations	<u>0.183</u>	<u>0.132</u>	<u>0.103</u>	<u>(0.066)</u>	<u>(0.102)</u>
Less Distributions					
From Net Investment Income	0.023	0.019	0.017	0.018	0.024
From Net Realized Gain and In Excess of Net Realized Investment Return	<u>0.024</u>	<u>0.028</u>	<u>0.030</u>	<u>0.029</u>	<u>0.022</u>
Total Distributions	<u>0.047</u>	<u>0.047</u>	<u>0.047</u>	<u>0.047</u>	<u>0.046</u>
Net Asset Value, End of Period	<u>\$ 1.129</u>	<u>\$ 0.993</u>	<u>\$ 0.908</u>	<u>\$ 0.852</u>	<u>\$ 0.965</u>
Ratios and Supplemental Data					
Net Assets, End of Period (in thousands)	\$ 925,898	\$ 814,424	\$ 744,961	\$ 698,250	\$ 881,433
Ratio of Expenses to Average Net Assets	0.32%	0.31%	0.27%	0.27%	0.20%
Ratio of Net Investment Income to Average Net Assets	2.13%	1.92%	2.01%	1.91%	2.44%
Ratio of Distributions to Average Net Assets (5-quarter average)	4.39%	4.81%	5.48%	5.05%	4.51%
Ratio of Distributions to Average Net Assets (12-quarter average)	4.79%	5.14%	5.08%	4.66%	N/A