

# Annual Report on Major State Investment Funds

FISCAL YEAR 2004

LEGISLATIVE BUDGET BOARD





## LEGISLATIVE BUDGET BOARD

Robert E. Johnson Bldg.  
1501 N. Congress Ave. - 5th Floor  
Austin, TX 7870

512/463-1200  
Fax: 512/475-2902  
<http://www.lbb.state.tx.us>

April 18, 2005

The Honorable David Dewhurst  
The Honorable Tom Craddick  
Members of the Seventy-ninth Legislature

Dear Governor Dewhurst, Speaker Craddick, and Members:

As required by the provisions of Sec. 322.014, Texas Government Code, this report reviews the risk-adjusted performance of the following major state investment funds:

Teacher Retirement System Pension Trust Fund

Permanent School Fund

Employees Retirement System Pension Investment Pool Trust Fund

The University of Texas System

Permanent University Fund

Permanent Health Fund

Comptroller of Public Accounts

Tobacco Settlement Permanent Trust Fund

Texas Guaranteed Tuition Plan Fund

Permanent Public Health Fund

Permanent Higher Education Fund

The report makes no recommendations regarding portfolio allocations or current management practices. It is intended as an informational resource only.

The LBB staff who developed and produced the report are Deborah Beck, Susan Rougeau, James Betz, Wayne Pulver, and Frances Smith.

Respectfully submitted, <

A handwritten signature in black ink, appearing to read "John O'Brien", written over the text "Respectfully submitted, &lt;".

John O'Brien  
Deputy Director  
Legislative Budget Board



---

# CONTENTS

## TRANSMITTAL LETTER

### EXECUTIVE SUMMARY ..... 1

Economic Environment/Investment Environment .....	1
Ending Market Value .....	1
Rates of Return .....	1
Risk-adjusted Return .....	2
Use of External Manager/Advisors for Investments ...	4
Rates of Return for Domestic Equity Investments .....	4
Acronyms .....	4

### SUMMARY OF MAJOR STATE INVESTMENT FUNDS ..... 5

All Major Funds	
Ending Market Values .....	5
Total Rates of Return and Benchmarks .....	5
Average Total Fund Rates of Return .....	6
Risk-adjusted Rates of Return .....	6
Portion of Assets Internally and Externally Managed / Advised .....	7
Rates of Return for Domestic Equities .....	7
Teacher Retirement System	
Pension Trust Fund .....	8
Permanent School Fund .....	9
Employees Retirement System Pension Investment Pool Trust Fund .....	10
The University of Texas System	
Permanent University Fund .....	11
Permanent Health Fund .....	12
Comptroller of Public Accounts	
Tobacco Settlement Permanent Trust .....	13

Texas Guaranteed Tuition Plan Fund .....	14
Permanent Public Health Fund .....	15
Permanent Higher Education Fund .....	16

### APPENDIX A. AUTHORIZING STATUTE ..... 17

### APPENDIX B. MAJOR STATE INVESTMENT FUNDS ... 19

Teacher Retirement System	
Pension Trust Fund .....	19
Permanent School Fund .....	21
Employees Retirement System	
Pension Investment Pool Trust Fund .....	23
The University of Texas System	
Permanent University Fund .....	25
Permanent Health Fund .....	27
Comptroller of Public Accounts	
Tobacco Settlement Permanent Trust Fund .....	29
Texas Guaranteed Tuition Plan Fund .....	31
Permanent Public Health Fund .....	32
Permanent Higher Education Fund .....	33

### APPENDIX C. GLOSSARY ..... 35

### APPENDIX D. REFERENCES ..... 41

Original Data from Agencies and Institutions of Higher Education	
---	--



# EXECUTIVE SUMMARY

The fiscal year 2004 Annual Report on Major State Investment Funds presents the performance for Texas' major investment funds. Included in the report are the risk-adjusted returns for the funds as well as other performance and background information for each of the funds. The investing agencies or institutions of higher education provided all the information that is contained in this report (see attachments in Appendix D). The only information calculated by the Legislative Budget Board (LBB) staff is the risk-adjusted return and the five-year average total fund rate of return. The report makes no recommendations regarding portfolio allocations or current management practices. It is intended as an information resource only.

## ECONOMIC/INVESTMENT ENVIRONMENT

Fiscal year 2004 began with remarkably strong growth. This spending surge was driven primarily by consumers, fueled by child tax credit checks, lower rates of income tax withholding, and mortgage refinancing. However, only a modest increase in jobs resulted. The slow pace of job growth continued to cause a drag on fixed income markets and kept interest rates down over the course of the fiscal year. Nonetheless, by the end of the third quarter of calendar year 2004, the economic growth rate was still a strong 4.0 percent but down from the earlier pace.

Low inflation helped maintain economic growth, but a modest build up in business inventories and a growing trade deficit created a drag on the economy. The waning of consumer spending over the course of fiscal year 2004 as stimulative impacts declined, coupled with rising energy prices and forecasts of modest corporate spending and earnings growth, caused equity markets to level out by the end of the fiscal year after having experienced significant gains throughout most of the year.

The S&P 500 Composite Index returned 11.5 percent in fiscal year 2004 compared to an annual increase of 12.1 percent in fiscal year 2003. The Lehman Brothers Aggregate Bond Index returned 6.8 percent compared to 3.7 percent for the

previous fiscal year. This was driven by the healthy performance of corporate and other longer-issue bonds.

## ENDING MARKET VALUE

The fiscal year 2004 ending market value of the major investment funds was \$136.0 billion, \$11.5 billion more than value of the funds at the end of fiscal year 2003. The funds and their ending market values are shown in Table 1.

## RATES OF RETURN

All funds earned positive rates of return for fiscal year 2004, increasing on average 12.2 percent, reflecting the improved economic and financial environment for the year. The rates of return range from 10.3 percent to 15.0 percent as Table 2 shows.

**TABLE 1      ENDING MARKET VALUE**

FUND NAME	ENDING MARKET VALUE AT AUGUST 31, 2004 (IN BILLIONS)
Teachers Retirement System Pension Trust Fund	\$84.4
Permanent School Fund	19.3
Employees Retirement System Pension	
Investment Pool Trust Fund	19.5
Permanent University Fund	8.1
Permanent Health Fund	0.8
Tobacco Settlement Permanent Trust Fund	1.8
Texas Guaranteed Tuition Plan Fund	1.3
Permanent Public Health Fund	0.4
Permanent Higher Education Fund	0.4
<b>TOTAL INVESTMENT FUNDS</b>	<b>\$136.0</b>

Sources: Investing agencies and institutions of higher education.

# EXECUTIVE SUMMARY

Performance benchmarks were calculated by the agencies or institutions and are identified in the background information provided for each fund in Appendix B.

The total fund rate of return used in this report is the gross time-weighted rate of return for all investments of each fund. The rate is calculated before related investment expenses are deducted and is adjusted to eliminate the effect of timing of cash flows due to contributions and withdrawals. The five-year average rate of return is calculated using a geometric average of the annual rates of return for the five-year period. (Prior to fiscal year 2003, averages were calculated using a mathematical average. Investing agencies and institutions of higher education provide annual rates.)

The annual rates of return reflect both income earned and change in fund value without consideration of the risk of fund investments. Table 3 shows the average rates of return over five years.

### RISK-ADJUSTED RETURN

The risk-adjusted return is a tool used to compare the performance of funds that have different types and proportions of assets, and it quantifies a fund's return relative to its risk. The Sharpe ratio is used as a method of determining the risk-adjusted return for each fund. (The calculation of the Sharpe ratio is explained below.) As Table 4 shows, the returns range from -0.08 to 0.40.

A risk-adjusted return is a single statistic that reflects both the return and volatility of returns over time. A generally accepted measure for computing the risk-adjusted return is the "Sharpe ratio," developed by Nobel Laureate William Sharpe. The

**TABLE 2 ANNUAL RATES OF RETURN**

FUND NAME	RATE OF RETURN FISCAL YEAR 2004	
	TIME WEIGHTED	BENCHMARK <sup>1</sup>
Teachers Retirement System Pension Trust Fund	11.9%	11.5%
Permanent School Fund	10.6	10.4
Employees Retirement System Pension		
Investment Pool Trust Fund	11.7	11.8
Permanent University Fund	15.0	13.2
Permanent Health Fund	15.0	13.2
Tobacco Settlement Permanent Trust Fund	11.6	11.6
Texas Guaranteed Tuition Plan Fund	10.3	11.1
Permanent Public Health Fund	11.6	11.9
Permanent Higher Education Fund	11.8	13.0

<sup>1</sup>Performance benchmarks are identified in the background information provided for each fund in Appendix B.

NOTE: Each fund has different investment objectives and strategies, some required by law, that impact its benchmarks and performance.

SOURCES: Investing agencies and institutions of higher education.

**TABLE 3 AVERAGE RATES OF RETURN**

FUND NAME	FIVE-YEAR PERIOD ENDING FISCAL YEAR 2004
Teachers Retirement System Pension Trust Fund	3.18%
Permanent School Fund	2.95
Employees Retirement System Pension	
Investment Pool Trust Fund	2.89
UT - Permanent University Fund	5.03
UT - Permanent Health Fund	4.95
CPA - Tobacco Settlement Permanent Trust	2.94
CPA - Texas Guaranteed Tuition Plan Fund	4.43
CPA - Permanent Public Health Fund	2.01
CPA - Permanent Higher Education Fund	1.63

NOTE: Each fund has different investment objectives and strategies, some required by law, that impact its benchmarks and performance.

SOURCES: Investing agencies and institutions of higher education.

Sharpe ratio is often used to rank the risk-adjusted performance of various portfolios over the same period of time. The results of the Sharpe ratio indicate the

# EXECUTIVE SUMMARY

**TABLE 4 RISK-ADJUSTED RETURN**

FUND NAME	FIVE-YEAR PERIOD ENDING FISCAL YEAR 2004
Teachers Retirement System Pension Trust Fund	0.04
Permanent School Fund	0.03
Employees Retirement System Pension	
Investment Pool Trust Fund	0.00
UT - Permanent University Fund	0.19
UT - Permanent Health Fund	0.40
CPA - Tobacco Settlement Permanent Trust	0.01
CPA - Texas Guaranteed Tuition Plan Fund	0.19
CPA - Permanent Public Health Fund	-0.05
CPA - Permanent Higher Education Fund	-0.08

SOURCES: Investing agencies and institutions of higher education.

**TABLE 5 PERCENTAGE OF ASSETS INTERNALLY AND EXTERNALLY MANAGED FOR FISCAL YEAR 2004**

FUND NAME	PERCENTAGE OF FUND BALANCE	
	INTERNALLY MANAGED	EXTERNALLY MANAGED/ADVISED
Teachers Retirement System Pension Trust Fund	100%	0%
Permanent School Fund	80.4	19.6
Employees Retirement System Pension		
Investment Pool Trust Fund	68.7	31.3
UT - Permanent University Fund	30.3	69.7
UT - Permanent Health Fund	24.0	76.0
CPA - Tobacco Settlement Permanent Trust Fund	26.2	73.8
CPA - Texas Guaranteed Tuition Plan Fund	9.1	90.9
CPA - Permanent Public Health Fund	18.4	81.6
CPA - Permanent Higher Education Fund	15.7	84.3

NOTE: The UT-PHF assets are invested in the University of Texas System General Endowment Fund (GEF). The above percentages reflect the allocation of the GEF assets.

amount of return earned per unit of risk.

The formula for the Sharpe ratio follows:

$$\frac{[(\text{THE PORTFOLIO'S TOTAL RETURN}) - (\text{THE "RISK-FREE" RATE OF THE 90-DAY TREASURY BILLS})]}{(\text{THE STANDARD DEVIATION OF THE PORTFOLIO'S RETURN OVER TIME})}$$

For example, a portfolio with an average

annualized return of 10 percent over the past five years, the growth of which consistently, year after year, fell within a tight range of 7 percent to 12 percent, would reflect a higher (better) risk-adjusted return than another portfolio that averaged the same 10 percent annualized return, but varied wildly year to year ("higher volatility"), with returns ranging from losses of 20 percent to extraordinary gains of 50 percent. Risk-adjusted returns can only be calculated for a minimum period of three years because, for a single year, the statistic is unreliable. For purposes of this report, the Sharpe ratio is constructed for a five-year span of returns.

The Sharpe ratio is a figure used for comparative purposes and does not reflect different investment objectives and restrictions which legitimately produce different investment strategies and results for different funds.

The total return amounts used in the calculations were provided by the entities responsible for investing the funds. The annual rates used for the risk-free rate of the 90-day Treasury Bill are from the 90-day Treasury Bill average yield, as provided by The University of Texas Investment Management Company. The five-year

# EXECUTIVE SUMMARY

average risk-free rate used in the calculation is 3.2 percent compared to 3.9 percent from last year.

## USE OF EXTERNAL MANAGERS/ADVISORS FOR INVESTMENTS

Each of the funds varies in its use of external managers or advisors to invest its assets. All investments of the Teacher Retirement System Pension Trust Fund are managed internally. The Comptroller of Public Accounts (CPA) manages only fixed income assets internally. External managers invest all equity assets controlled by the CPA. The remaining funds use a mix of internal and external managers. Table 5 lists the portion of assets managed internally and externally for fiscal year 2004.

## RATES OF RETURN FOR DOMESTIC EQUITY INVESTMENTS

Each of the funds has a significant amount invested in domestic equity investments. The two benchmarks for this asset group are the Standard & Poor's 500 Composite Index and the Standard & Poor's 1500 Composite Index. The S&P 500 Composite Index is the investment industry's standard for measuring the performance of actual portfolios. It is a market-value-weighted index of 500 stocks that are traded on the New York Stock Exchange, American Stock Exchange, and the NASDAQ National Market System. The second benchmark is the S&P 1500 Composite Index, which measures the performance of the top 1500 U.S. companies.

Table 6 lists the rates of returns for domestic equity investments for fiscal year 2004. As applicable, the rates are shown for investments managed by external managers and for investments managed internally.

**TABLE 6 RATES OF RETURN FOR DOMESTIC EQUITY INVESTMENTS FOR FISCAL YEAR 2004**

FUND NAME	RATE OF RETURN	
	INTERNALLY	EXTERNALLY
<b>BENCHMARKS:</b>		
<b>STANDARD &amp; POOR'S 500 INDEX</b>	<b>11.5%</b>	<b>11.5%</b>
<b>STANDARD &amp; POOR'S 1500 INDEX</b>	<b>11.4%</b>	<b>11.4%</b>
Teachers Retirement System Pension Trust Fund	13.7	NA
Permanent School Fund	13.4	NA
Employees Retirement System Pension		
Investment Pool Trust Fund	11.3	11.0
UT - Permanent University Fund	20.6	12.1
UT - Permanent Health Fund	21.2	11.0
CPA - Tobacco Settlement Permanent Trust Fund	NA	13.5
CPA - Texas Guaranteed Tuition Plan Fund	NA	16.8
CPA - Permanent Public Health Fund	NA	12.8

Note: TRS and PSF manage all equity investments internally. CPA equity investments are all managed externally. The UT-PHF assets are invested in the University of Texas System General Endowment Fund (GEF). The above percentages reflect the allocation of the GEF assets.

## ACRONYMS

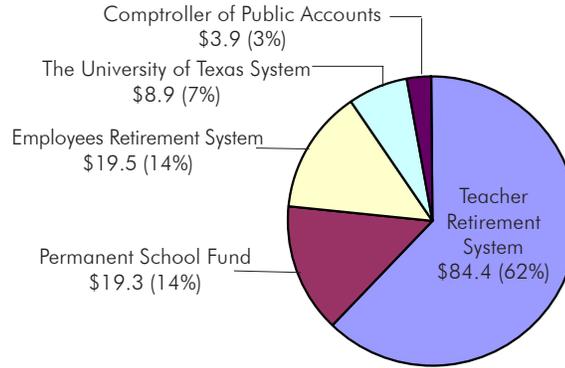
Acronyms used throughout this report follow:

- The University of Texas System - UT
- Texas Education Agency - TEA
- State Board of Education - SBOE
- Employees Retirement System - ERS
- Teacher Retirement System - TRS
- Comptroller of Public Accounts - CPA
- Permanent School Fund - PSF
- Permanent University Fund - PUF
- Permanent Health Fund - PHF
- Tobacco Settlement Fund - TSF
- Texas Guaranteed Tuition Plan Fund - TGTF
- Permanent Public Health Fund - PPHF
- Permanent Higher Education Fund - PHEF

# ALL MAJOR FUNDS

## ENDING MARKET VALUES FISCAL YEAR ENDING AUGUST 31, 2004

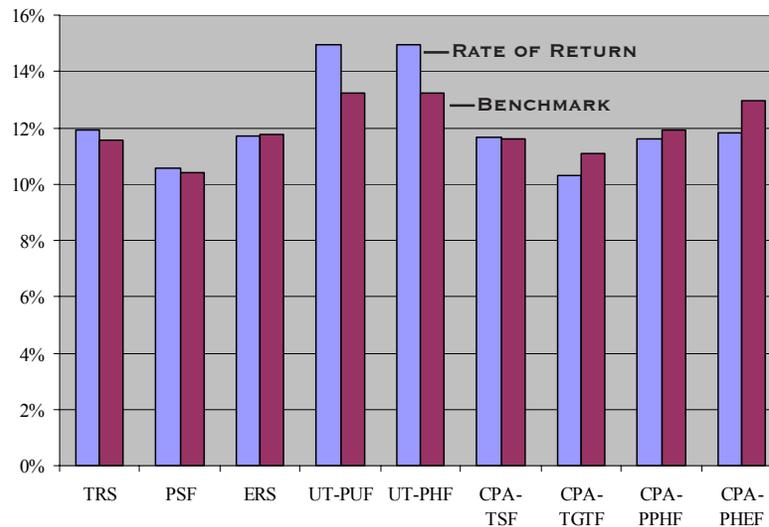
IN BILLIONS



Total - \$136.0 Billion

NOTES: The University of Texas System amounts include the Permanent University Fund and the Permanent Health Fund. Comptroller of Public Accounts amounts include the Tobacco Settlement Fund, the Texas Guaranteed Tuition Plan Fund, the Permanent Public Health Funds, and the Permanent Higher Education Fund.

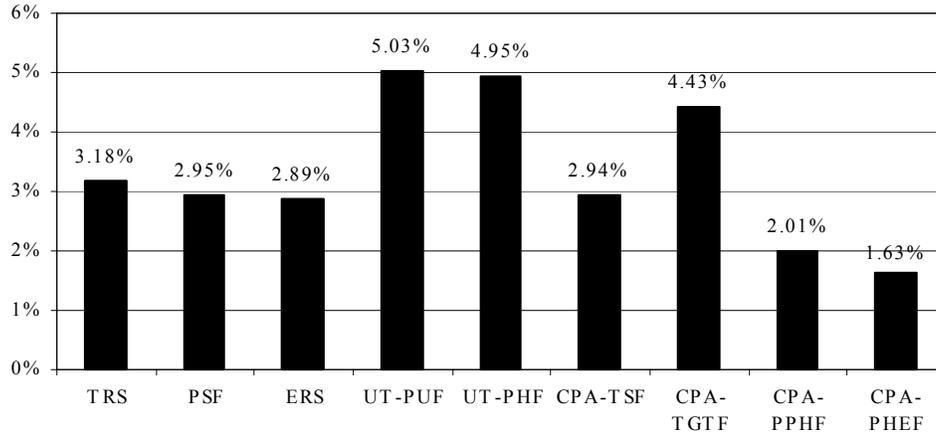
## TOTAL RATES OF RETURN AND BENCHMARKS FISCAL YEAR 2004



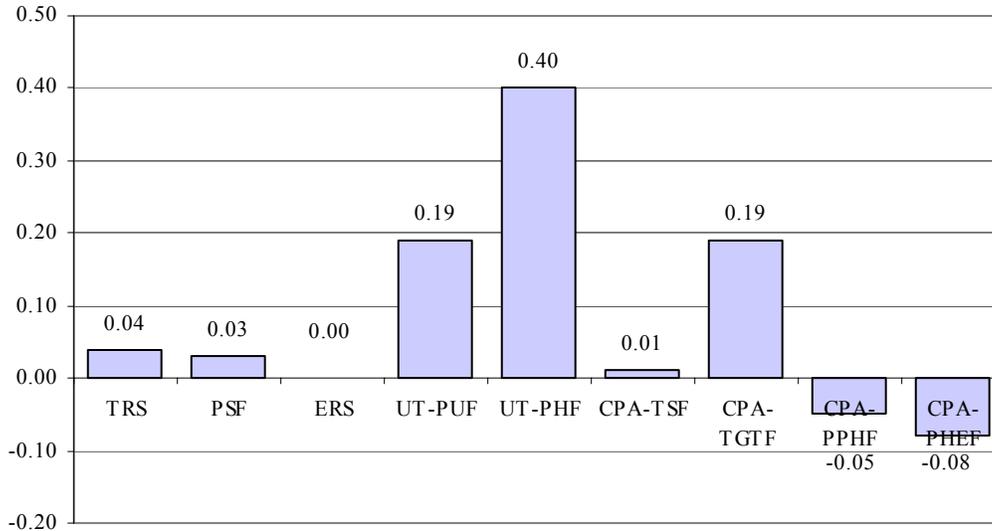
ACRONYMS: TRS = Teacher Retirement System–Pension Trust Fund; PSF = Permanent School Fund; ERS = Employees Retirement System–Pension Trust Fund; UT-PUF = University of Texas–Permanent University Fund; UT-PHF = University of Texas–Permanent Health Fund; CPA-TSF = Comptroller of Public Accounts–Tobacco Settlement Fund; CPA-TGTF = Comptroller of Public Accounts–Texas Guaranteed Tuition Plan Fund; CPA-PPHF = Comptroller of Public Accounts–Permanent Public Health Fund; CPA-PHEF = Comptroller of Public Accounts–Permanent Higher Education Fund.

# ALL MAJOR FUNDS

**AVERAGE TOTAL FUND RATES OF RETURN  
FIVE-YEAR PERIOD ENDING AUGUST 31, 2004**



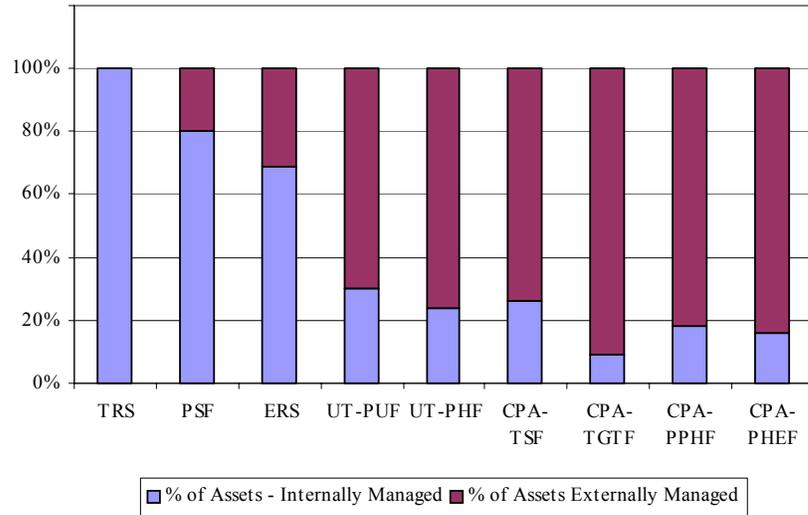
**RISK-ADJUSTED RATES OF RETURN  
FIVE-YEAR PERIOD ENDING AUGUST 31, 2004**



ACRONYMS: TRS = Teacher Retirement System–Pension Trust Fund; PSF = Permanent School Fund; ERS = Employees Retirement System–Pension Trust Fund; UT-PUF = University of Texas–Permanent University Fund; UT-PHF = University of Texas–Permanent Health Fund; CPA-TSF = Comptroller of Public Accounts–Tobacco Settlement Fund; CPA-TGTF = Comptroller of Public Accounts–Texas Guaranteed Tuition Plan Fund; CPA-PPHF = Comptroller of Public Accounts–Permanent Public Health Fund; CPA-PHEF = Comptroller of Public Accounts–Permanent Higher Education Fund

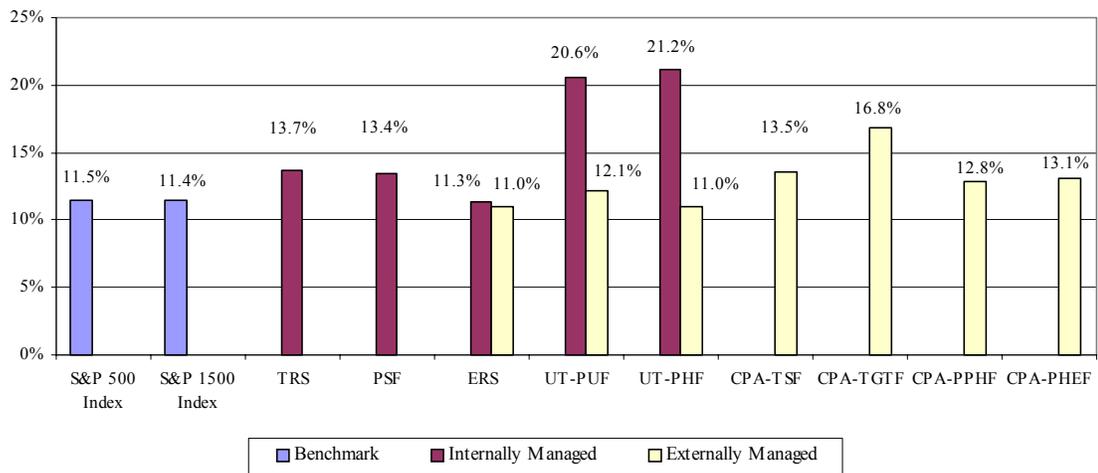
# ALL MAJOR FUNDS

## PORTION OF ASSETS INTERNALLY AND EXTERNALLY MANAGED/ADVISED FISCAL YEAR 2004



NOTE: The UT-PHF assets are invested in the University of Texas System General Endowment Fund (GEF). The above percentages reflect the allocation of GEF assets.

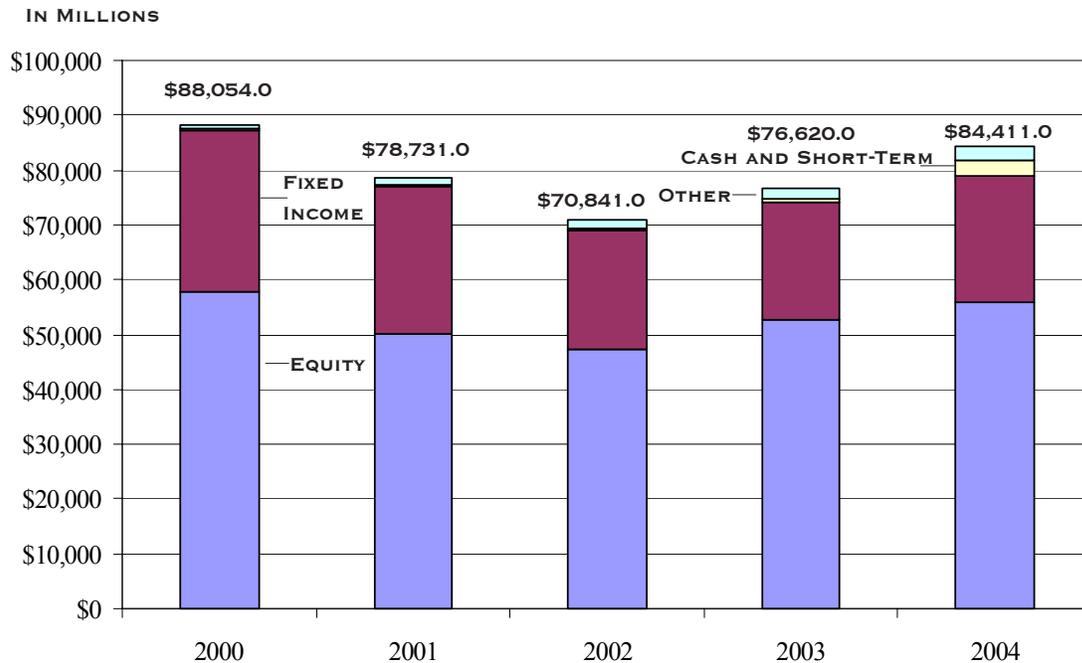
## RATES OF RETURN FOR DOMESTIC EQUITIES FISCAL YEAR 2004



Note: TRS and PSF manage all equity investments internally. CPA equity investments are all managed externally. The UT-PHF assets are invested in the University of Texas System General Endowment Fund (GEF). The above percentages reflect the allocation of the GEF assets.

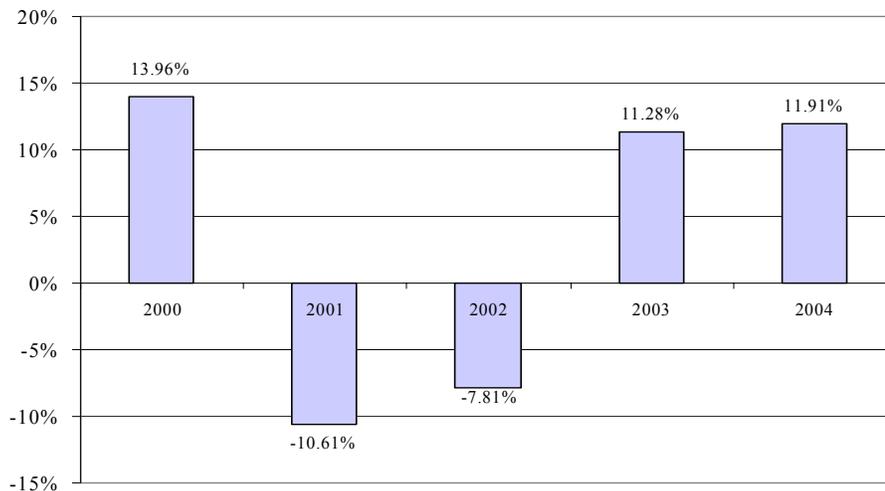
# TEACHER RETIREMENT SYSTEM – PENSION TRUST FUND

## PORTFOLIO DIVERSIFICATION ENDING MARKET VALUES FISCAL YEARS 2000 TO 2004



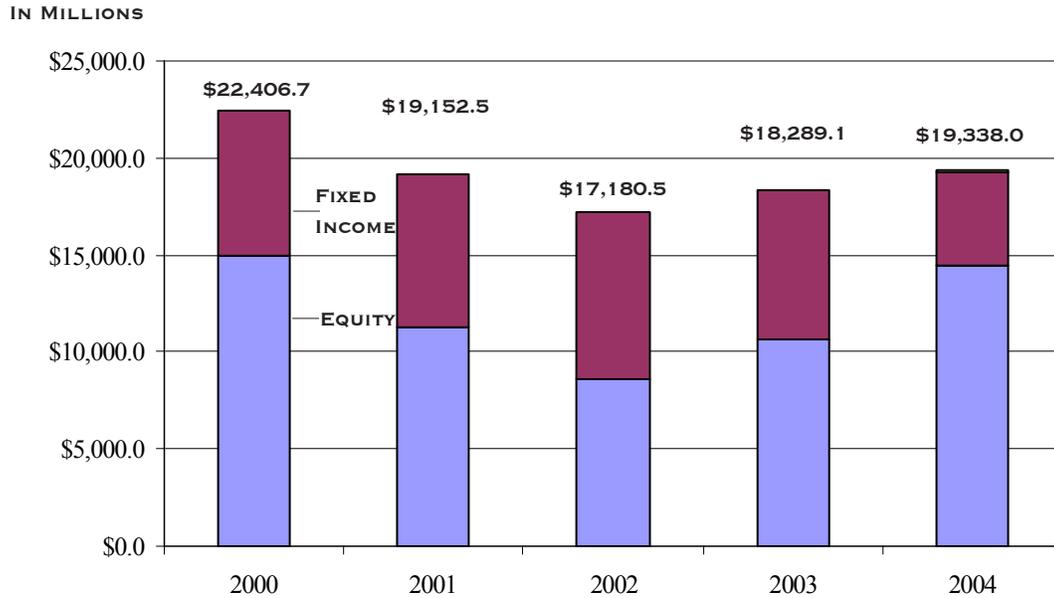
NOTES: Other Investments include limited partnerships in private domestic equity, private international equity, domestic real estate, and domestic strategically traded investments. Cash includes short-term investments.

## ANNUAL TOTAL FUND RATES OF RETURN FISCAL YEARS 2000 TO 2004



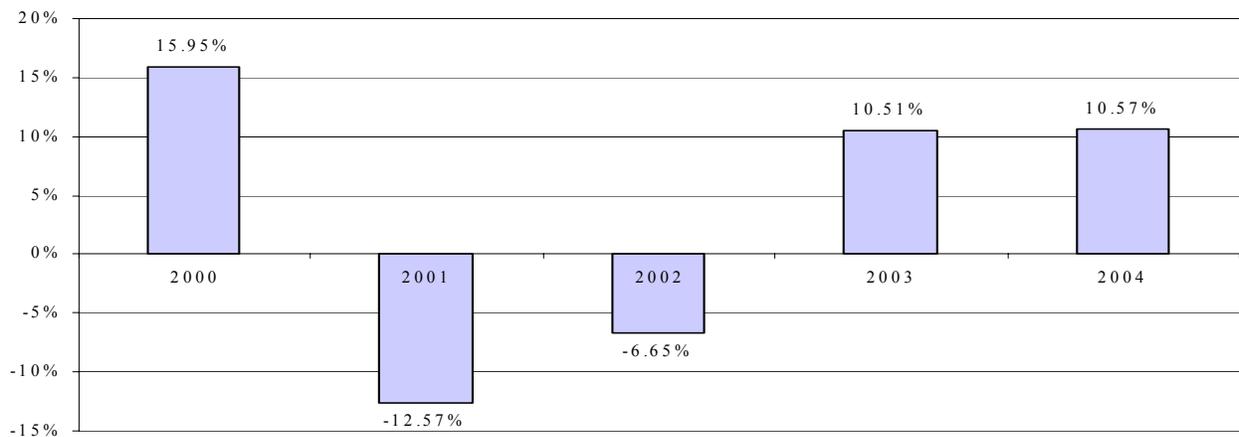
# PERMANENT SCHOOL FUND

## PORTFOLIO DIVERSIFICATION ENDING MARKET VALUES FISCAL YEARS 2000 TO 2004



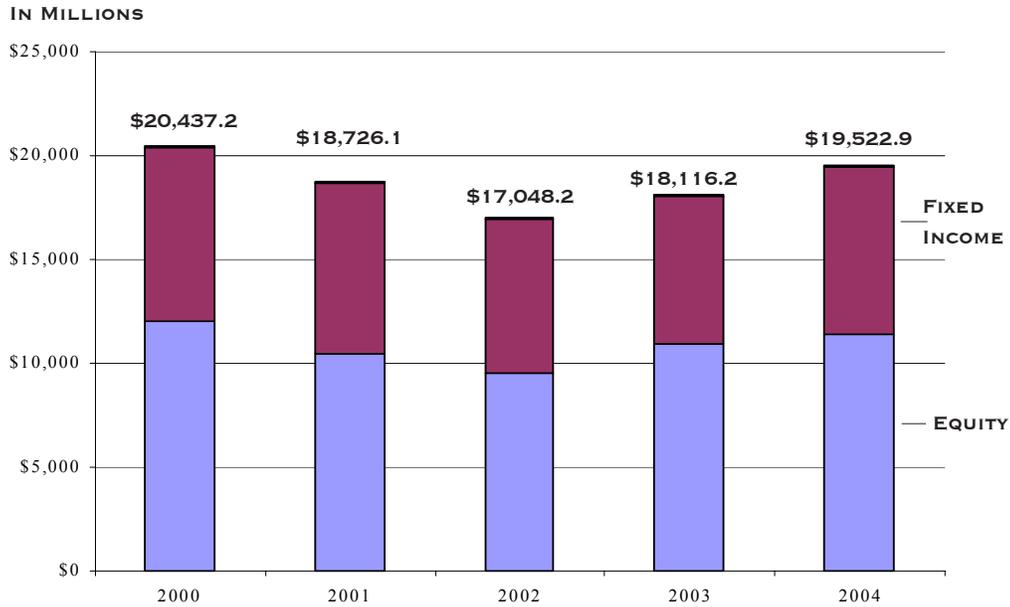
NOTES: Cash and short-term investment amounts are too small to be represented graphically. See Attachment 2 for specific amounts.

## ANNUAL TOTAL FUND RATES OF RETURN FISCAL YEARS 2000 TO 2004



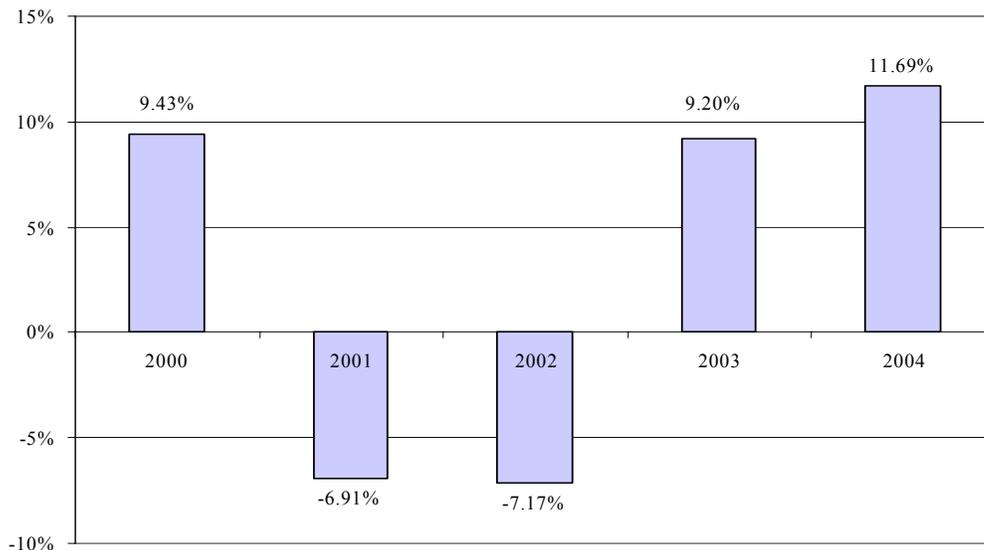
# EMPLOYEES RETIREMENT SYSTEM – PENSION INVESTMENT POOL TRUST FUND

## PORTFOLIO DIVERSIFICATION ENDING MARKET VALUES FISCAL YEARS 2000 TO 2004



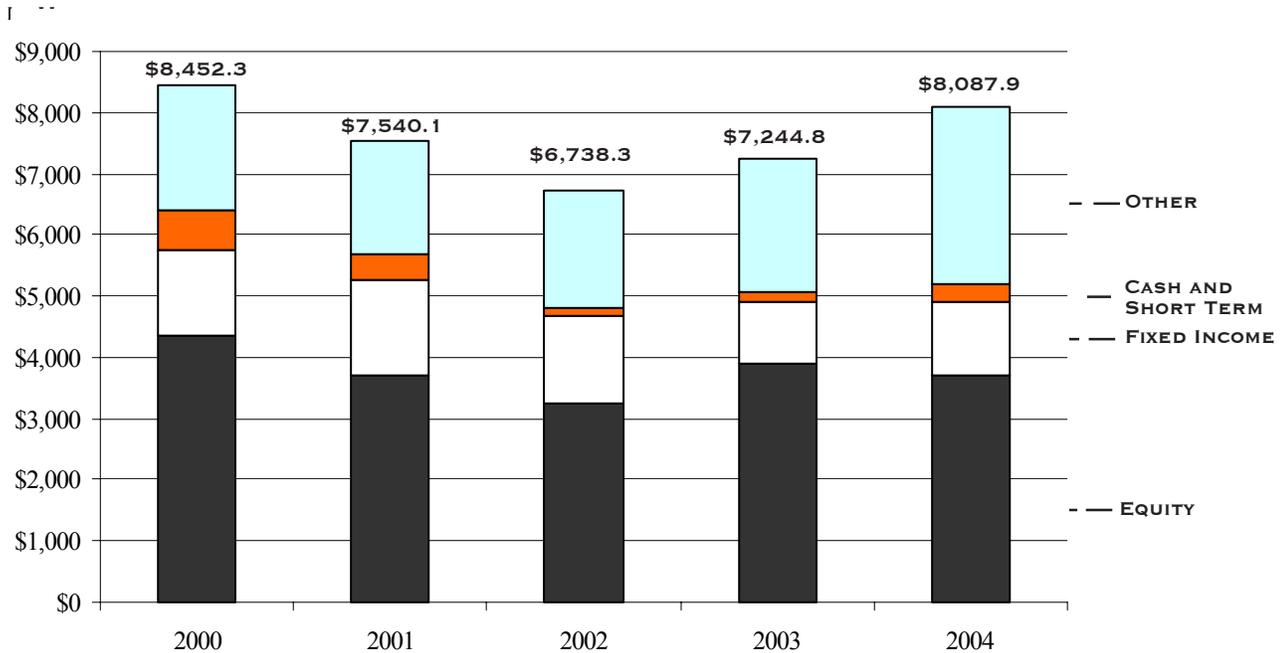
NOTES: Cash and short-term investment amounts are too small to be represented graphically. See Attachment 3 for specific amounts.  
Other Investments include limited partnerships in private domestic equity, private international equity, domestic real estate, and domestic strategically traded investments.  
Cash includes short-term investments.

## ANNUAL TOTAL FUND RATES OF RETURN FISCAL YEARS 2000 TO 2004



# THE UNIVERSITY OF TEXAS SYSTEM – PERMANENT UNIVERSITY FUND

## PORTFOLIO DIVERSIFICATION ENDING MARKET VALUES FISCAL YEARS 2000 TO 2004

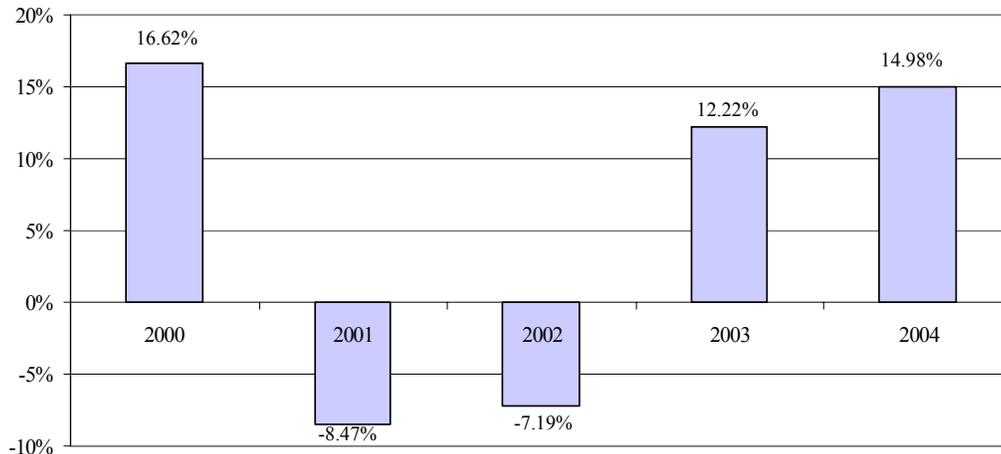


NOTES: Examples of Other Investments include inflation hedging assets such as direct real estate and oil and gas interests; marketable investments such as hedge funds, arbitrage and special situation funds; and nonmarketable investments such as special equity and mezzanine venture capital.

Cash includes short-term investments.

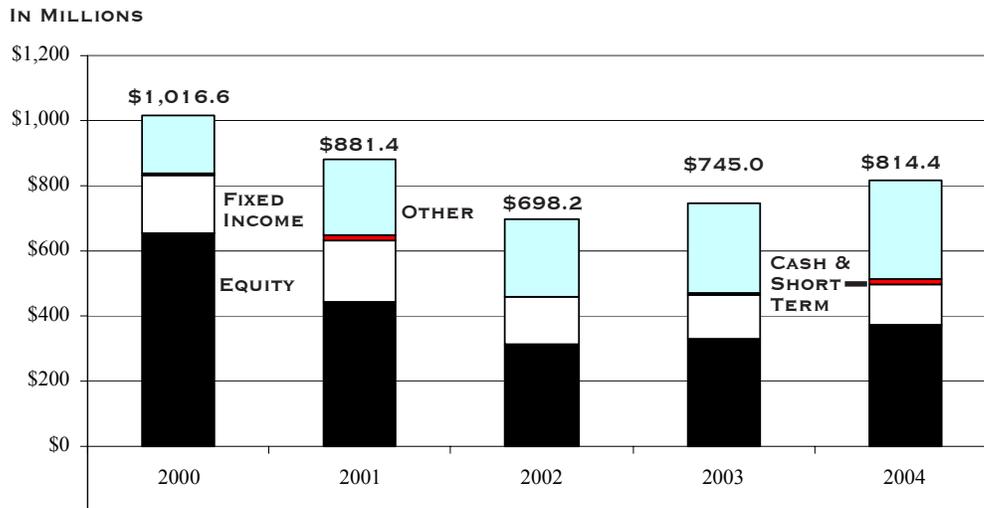
The UT-PUF prior year balances have been restated to reflect changes in targets for their asset mix.

## ANNUAL TOTAL FUND RATES OF RETURN FISCAL YEARS 2000 TO 2004



# THE UNIVERSITY OF TEXAS SYSTEM –PERMANENT HEALTH FUND

## PORTFOLIO DIVERSIFICATION ENDING MARKET VALUES FISCAL YEARS 2000 TO 2004

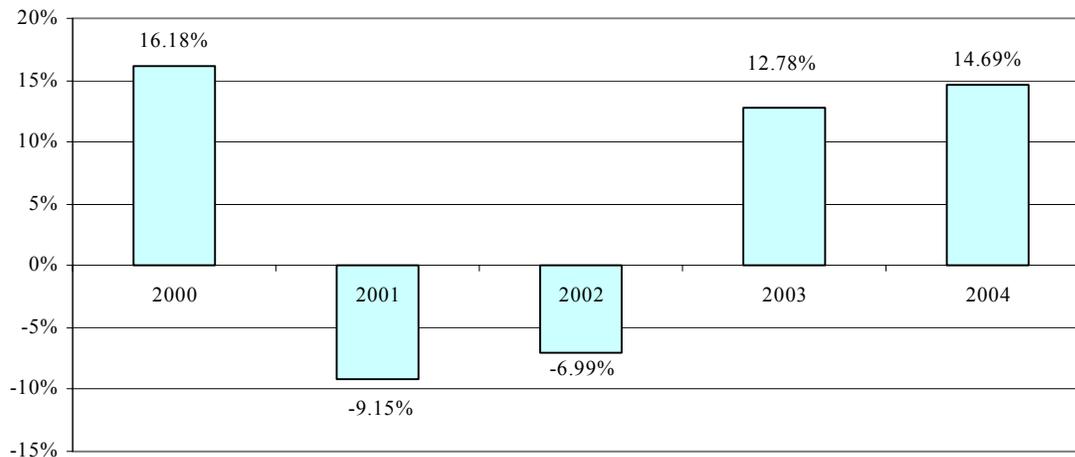


NOTES: The Permanent Health Fund assets are invested in the University of Texas System General Endowment Fund (GEF). The allocation of Permanent Health Fund ending market value is based on the allocation of GEF ending market value.

The Permanent Fund Higher Education Nursing, Allied Health, the Permanent Fund for Minority and Research Education, and other health-related programs were transferred from the University of Texas System to the Comptroller of Public Accounts during fiscal year 2002.

Examples of Other Investments include inflation hedging assets such as direct real estate and oil and gas interests; marketable investments such as hedge funds, arbitrage and special situation funds; and nonmarketable investments such as special equity and mezzanine venture capital. Cash includes short-term investments.

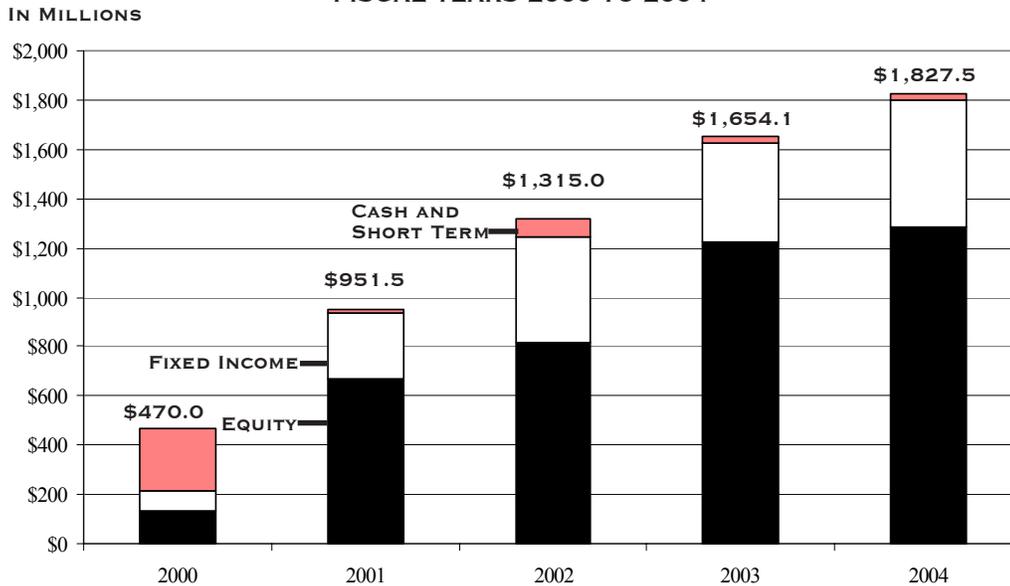
## ANNUAL TOTAL FUND RATES OF RETURN FISCAL YEARS 2000 TO 2004



NOTE: The Permanent Health Fund was created by the Seventy-sixth Legislature, 1999; initial contribution was made on August 31, 1999. It was consolidated with the Long-Term Fund on March 1, 2001. The rates for fiscal years 2001 to the present reflect the rates for the consolidated funds.

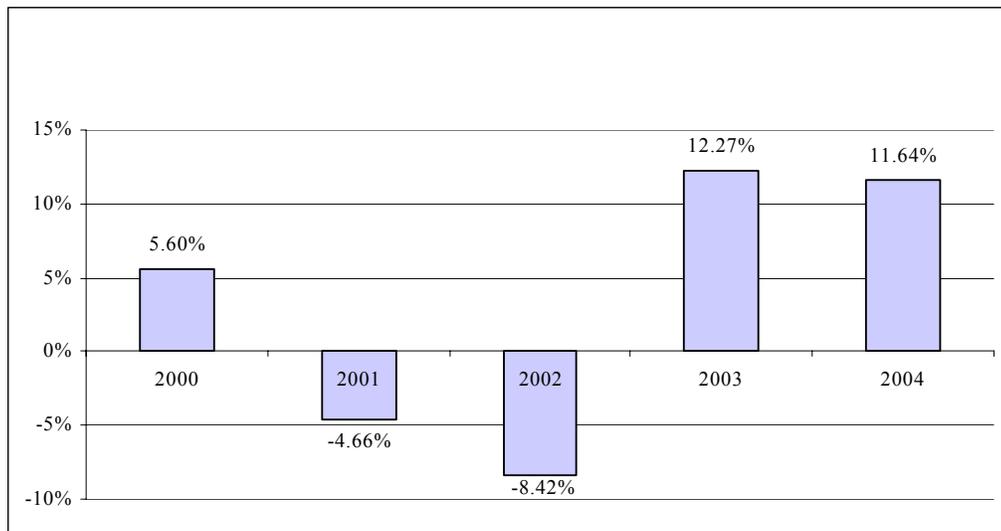
# COMPTROLLER OF PUBLIC ACCOUNTS – TOBACCO SETTLEMENT PERMANENT TRUST FUND

## PORTFOLIO DIVERSIFICATION ENDING MARKET VALUES FISCAL YEARS 2000 TO 2004



NOTE: The Tobacco Settlement Permanent Trust Fund was created by the Seventy-sixth Legislature, 1999; initial contribution was made on December 30, 1999. Cash includes short-term investments. The other investments category is not applicable to this fund. See Attachment 6.

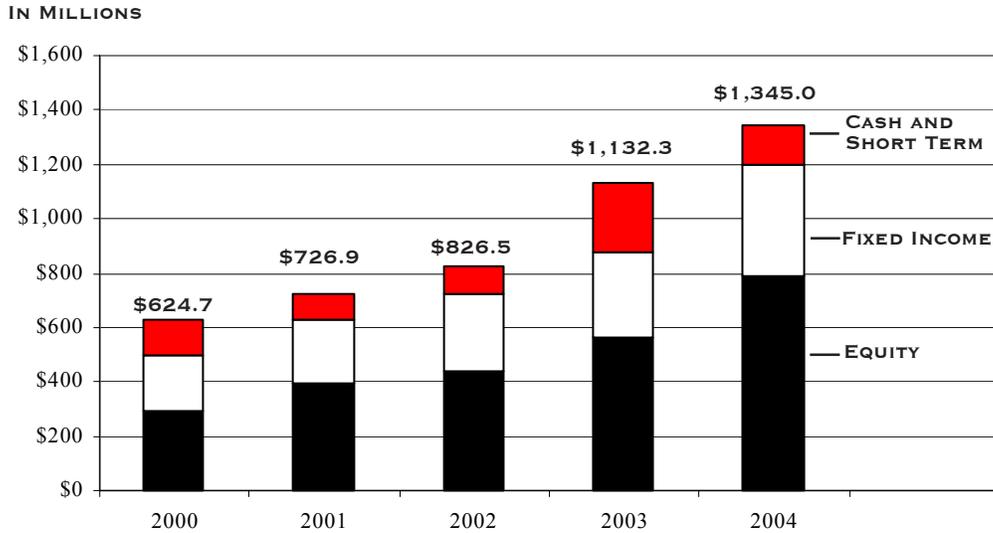
## ANNUAL TOTAL FUND RATES OF RETURN FISCAL YEARS 2000 TO 2004



NOTE: The Tobacco Settlement Permanent Trust Fund was created by the Seventy-sixth Legislature, 1999; initial contribution was made on December 30, 1999.

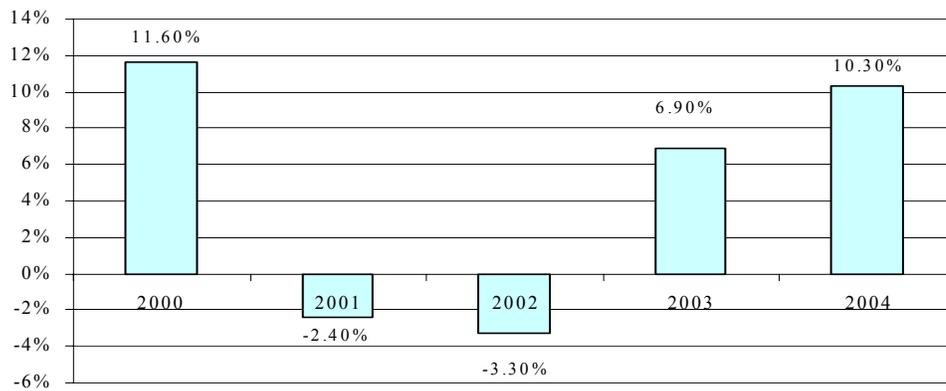
# COMPTROLLER OF PUBLIC ACCOUNTS TEXAS GUARANTEED TUITION PLAN FUND

## PORTFOLIO DIVERSIFICATION ENDING MARKET VALUES FISCAL YEARS 2000 TO 2004



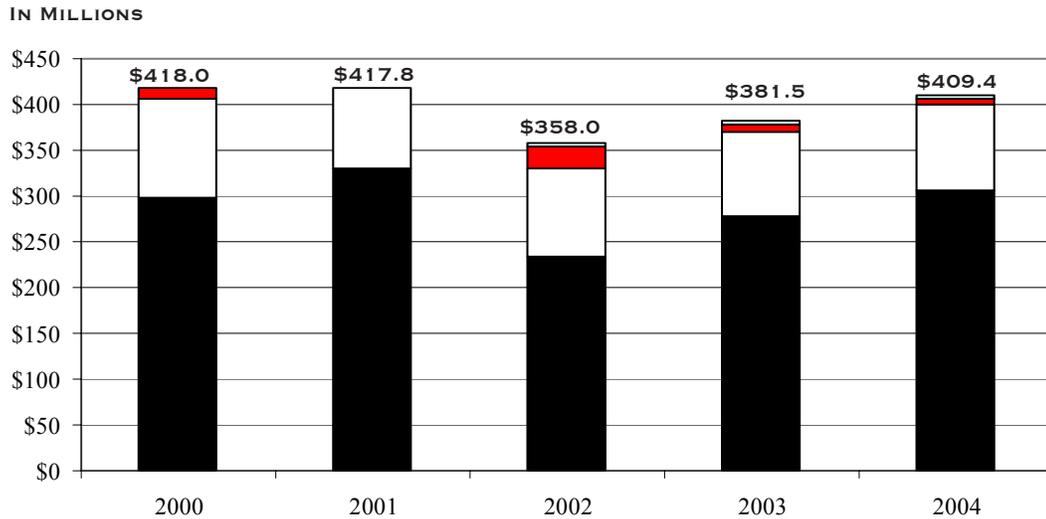
NOTE: Cash includes short-term investments.  
The other investments category is not applicable to this fund. See Attachment 7.

## ANNUAL TOTAL FUND RATES OF RETURN FISCAL YEARS 2000 TO 2004



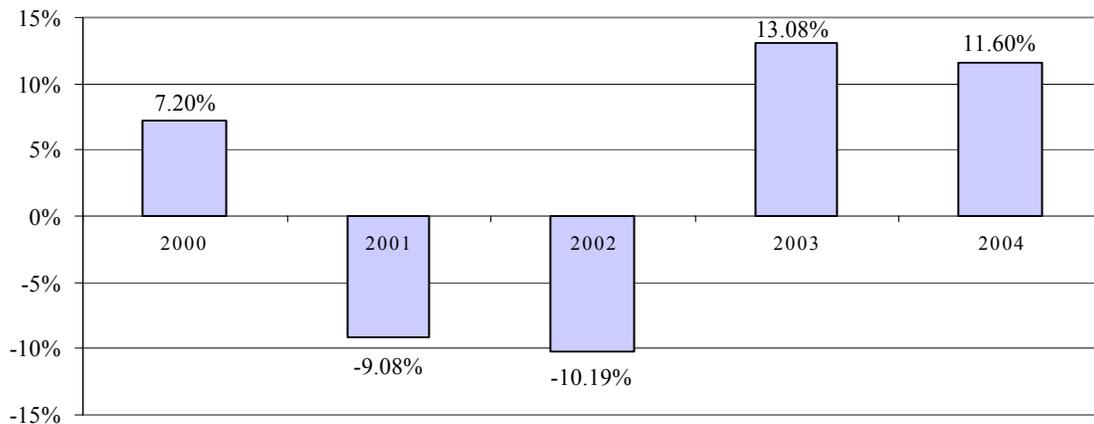
# COMPTROLLER OF PUBLIC ACCOUNTS PERMANENT PUBLIC HEALTH FUND

## PORTFOLIO DIVERSIFICATION ENDING MARKET VALUES FISCAL YEARS 2000 TO 2004



NOTES: The Permanent Public Health Fund was created by the Seventy-sixth Legislature, 1999; initial contribution was made on August 31, 1999. Cash includes short-term investments.

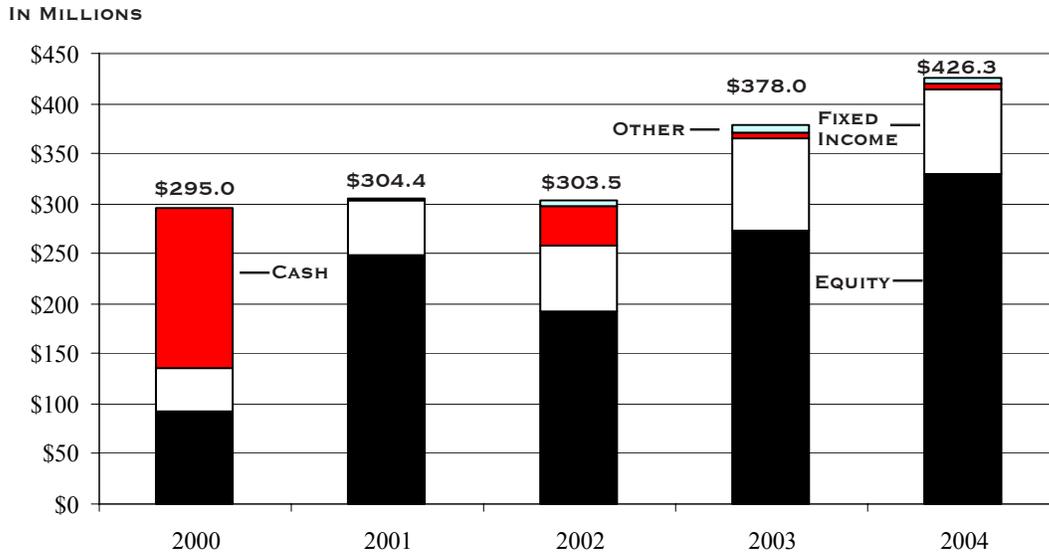
## ANNUAL TOTAL FUND RATES OF RETURN FISCAL YEARS 2000 TO 2004



NOTE: The Permanent Public Health Fund was created by the Seventy-sixth Legislature, 1999; initial contribution was made on August 31, 1999.

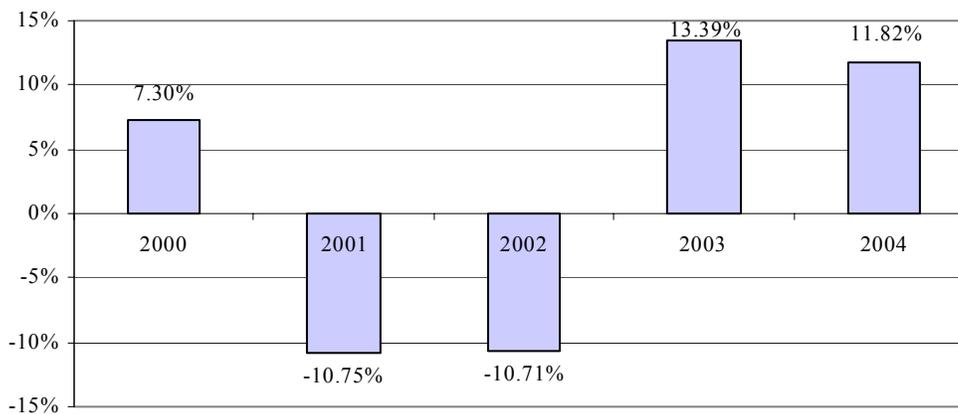
# COMPTROLLER OF PUBLIC ACCOUNTS PERMANENT HIGHER EDUCATION FUND

## PORTFOLIO DIVERSIFICATION ENDING MARKET VALUES FISCAL YEARS 2000 TO 2004



NOTE: Cash includes short-term investments.

## ANNUAL TOTAL FUND RATES OF RETURN FISCAL YEARS 2000 TO 2004



---

## APPENDIX A. AUTHORIZING STATUTE

SECTION 1. Chapter 322, Government Code, is amended by adding Section 322.014 to read as follows:  
Sec. 322.014. REPORT ON MAJOR INVESTMENT FUNDS.

- (a) In this section, “state investment fund” means any investment fund administered by or under a contract with any state governmental entity, including a fund:
- (1) established by statute or by the Texas Constitution; or
  - (2) administered by or under a contract with:
    - (A) a public retirement system as defined by Section 802.001, Government Code, that provides service retirement, disability retirement, or death benefits for officers or employees of the state;
    - (B) an institution of higher education as defined by Section 61.003, Education Code; or
    - (C) any other entity that is part of state government.
- (b) The board shall evaluate and publish an annual report on the risk-adjusted performance of each state investment fund that in the opinion of the board contains a relatively large amount of assets belonging to or administered by the state. The board in its report shall:
- (1) compare the risk-adjusted performance of the funds; and
  - (2) examine the risk-adjusted performance, within and among the funds, of similar asset classes and comparable portfolios within asset classes.
- (c) Each state governmental entity that administers a state investment fund and each person that administers a state investment fund under contract shall provide the board with the information the board requests regarding the performance of the fund.
- (d) The board shall publish the annual report in a format and using terminology that a person without technical investment expertise can understand.



---

## APPENDIX B. MAJOR STATE INVESTMENT FUNDS

### TEACHER RETIREMENT SYSTEM – PENSION TRUST FUND

#### FUND PURPOSE

The Teacher Retirement System of Texas (TRS) administers a defined benefit plan that is a qualified pension trust fund under Section 401(a) of the Internal Revenue Code. The pension trust fund provides service and disability retirement, as well as death and survivor benefits, to eligible employees of public education in Texas and their beneficiaries.

#### FUND CONTRIBUTIONS

Member contributions, state contributions, reporting entity contributions, and investment income increase the fund. The state constitution requires the legislature to establish a member contribution rate of not less than 6 percent of the member's annual compensation and a state contribution rate of not less than 6 percent and not more than 10 percent of the aggregate annual compensation of all members of the system during that fiscal year. The contribution rates for fiscal year 2004 remained the same as fiscal year 2003 with the members contributing 6.4% and the state contributing 6.0%.

The system's Comprehensive Annual Financial Report for fiscal year 2004 reflects that member contributions were \$1.5 billion, state contributions were \$1.2 billion, reporting employers' contributions were \$192 million, and net investment income was \$9.1 billion.

#### FUND DISTRIBUTIONS

Deductions from the fund are predominantly retirement, death, and survivor benefits. During fiscal year 2004 the fund paid \$5.5 billion for benefits, \$220.4 million for members refunding their accounts, and \$24.8 million for administrative expenses (net of investing activity expenses).

#### INVESTMENT OBJECTIVE

The board governs the investment process by adopting investment policies and objectives, which define the fund's strategic investment initiatives, and by monitoring performance to measure the results of both tactical and strategic investment strategies. The total investment portfolio is structured to achieve a long-term rate of return that exceeds the assumed actuarial rate of return adopted by the board; exceeds the long-term rate of inflation by an annualized 3 percent; and exceeds a composite index composed of the respective long-term normal asset mix weighting of the major asset classes, operating within the defined risk parameters for the various asset classes. Investment decisions must adhere to the "prudent person" rule.

#### INVESTMENT AND OVERSIGHT RESPONSIBILITY

The TRS Board of Trustees holds system assets in trust and oversees the investment of the system's funds in accordance with applicable constitutional and statutory provisions. The board is composed of nine trustees who are appointed by the governor to staggered terms of six years. Three trustees are direct appointments. Two trustees are appointed from a list prepared by the State Board of Education. Two trustees are appointed by the governor from the three public school district active member candidates nominated for each position by employees of public school districts. One trustee is appointed from the three higher education active member candidates nominated by employees of institutions of higher education. One trustee is appointed from the three retired member candidates nominated by retired TRS members. A majority of the board is required to have financial expertise. Appointments are subject to confirmation by the Senate. Board member terms expire August 31st of odd-numbered years.

---

## APPENDIX B. MAJOR STATE INVESTMENT FUNDS

### TEACHER RETIREMENT SYSTEM – PENSION TRUST FUND (CONTINUED)

#### PERCENTAGE OF ASSETS EXTERNALLY MANAGED/ADVISED

According to TRS, internal staff manages all TRS assets. The board has not delegated any discretionary investment authority to external investment management firms.

#### INVESTMENT COSTS

The cost of investing the funds for fiscal year was \$16.25 million, or 2 basis points (0.02%) of the net assets held in trust for pension benefits at the end of fiscal year 2004. The investment cost consists of \$11.4 million in direct internal cost and \$4.8 million in indirect internal cost. Prior year investment costs were \$14.6 million or 0.02 percent of the net asset held in trust for pension benefits at the end of the year.

#### PERFORMANCE BENCHMARKS

The following benchmarks were provided by TRS. Benchmarks shown in italics have been updated from fiscal year 2003.

*High-Yield Fixed Income - Citigroup High-Yield Index*

*Investment Grade Fixed Income - Lehman U.S. Aggregate Bond Index*

Domestic Large Cap Equities - Standard & Poor's 500 Index

Domestic Mid Cap Equities - Standard & Poor's Mid Cap 400 Index

Domestic Small Cap Equities - Standard & Poor's Small Cap 600 Index

International Equities - Morgan Stanley Capital International (MSCI) All Country World Index ex-U.S.

Alternative Assets - Private Equities - Three years at zero, then Russell 2000 plus 500 basis points

*Alternative Assets - Absolute Return - 70 percent, three-month London InterBank Offered Rate (LIBOR) plus 30 percent Standard & Poor's 500 Index*

*Alternative Assets - Real Estate - No benchmark has been established and is not included in composite weighting.*

#### RECENT LEGISLATION

Senate Bill 273 passed by the Seventy-seventh Legislature, 2001, increases the TRS multiplier from 2.2 percent to 2.3 percent. Current retirees received an annuity increase of 10.77 percent if they retired prior to September 1, 2000. The increase was 4.5 percent for those retiring between September 1, 2000 and August 31, 2001.

House Bill 3459 passed by the Seventy-eighth Legislature, 2003, delays membership in and contributions to the Teacher Retirement System (TRS) retirement program for 90 days.

---

## APPENDIX B. MAJOR STATE INVESTMENT FUNDS

### PERMANENT SCHOOL FUND

#### FUND PURPOSE

The Permanent School Fund (PSF) was created expressly for the benefit of funding Texas public schools. A total return distribution, which is currently 4.5 percent of average fund value, along with 25 percent of motor fuel tax revenues are transferred to the Available School Fund (ASF). Monies from the fund are distributed to local public school districts based on the average daily attendance of public school students.

#### FUND CONTRIBUTIONS

Proceeds from the sale of PSF land, royalty, and other earnings generated by the PSF land are added annually to the fund by the General Land Office (GLO), which manages the real estate assets. According to the Texas Education Agency (TEA), \$154.5 million was added to the PSF during fiscal year 2004.

#### FUND DISTRIBUTIONS

On September 13, 2003, the voters of the State of Texas (State) approved a constitutional amendment that changed the fund distribution methodology from an income-based formula to a total return based formula. As such, all investment income is deposited directly into the PSF along with certain land-related revenues. Beginning in September 2003, the fund transferred a total return amount to the ASF. The total return amount calculation for fiscal year 2004 was 4.5% of the average market value of the fund at the end of the previous sixteen fiscal quarters prior to the start of the 78<sup>th</sup> Legislative session. In fiscal year 2004, \$880 million was distributed to the ASF.

#### INVESTMENT OBJECTIVE

The investment objective, according to the Texas Education Agency (TEA), is long term and focused on balancing the benefits between current and future generations fairly while preserving the real per capita value of the PSF. Investment decisions adhere to the “prudent person” rule. On September 13, 2003, the voters of the state approved a constitutional amendment that changed the PSF distribution methodology to a total return-based formula instead of the existing current-income-based formula for funding the ASF. Asset class allocations were adjusted accordingly to meet the investment objectives under this new distribution methodology.

#### INVESTMENT AND OVERSIGHT RESPONSIBILITY

The Texas Constitution assigns control of PSF assets to the State Board of Education (SBOE), while administrative duties related to the PSF reside with the Commissioner of Education and TEA staff. SBOE members are elected from 15 single-member districts with the governor designating the chairman. No members are required to have experience in investment management. The SBOE appoints a Committee of Investment Advisors (“CIA”) to provide independent review of the fund’s investment policies, procedures, and nature of investments. Each member of the SBOE appoints a single member to the CIA, and these advisors serve at the pleasure of the SBOE member who appointed them.

---

## APPENDIX B. MAJOR STATE INVESTMENT FUNDS

### PERMANENT SCHOOL FUND (CONTINUED)

#### PERCENTAGE OF ASSETS

##### EXTERNALLY MANAGED/ADVISED

According to TEA, approximately 20 percent of PSF assets are externally managed. Independent firms are used to invest funds, provide custodial and accounting services, provide securities lending services, advise on asset allocation, and evaluate investment performance.

##### INVESTMENT COSTS

According to TEA, the cost of administrating the fund was \$7.6 million, or 0.04 percent, of the ending fund balance for fiscal year 2004. This includes \$5.3 million in internal direct costs and \$2.26 million in fees paid to external entities. Prior year investment costs were \$21.6 million, or 0.12 percent, of the ending fund balance.

##### PERFORMANCE BENCHMARKS

The following benchmarks were provided by TEA. Benchmarks shown in italics have been updated from fiscal year 2003.

Fixed Income, managed internally - Lehman Brothers Aggregate Bond Index

Domestic Large Cap Equities, Passive - Standard & Poor's 500 Stock Composite Index

*Domestic MidCap and Small Cap Equities, Passive - Standard & Poor's 1,000 Stock Composite Index*

*International Equities, Passive - Morgan Stanley Capital International Europe, Australasia, Far East (EAFE) plus Canada*

An allocation index is calculated for each class of investments (fixed income and equity securities) to measure the overall performance. The allocation index is the weighted average rate of return of each of the above indices.

#### RECENT LEGISLATION

House Bill 3558, passed by the Seventy-seventh Legislature, 2001, granted the State Land Board more flexibility as it relates to management of the Permanent School Funds lands, mineral, and royalty interest.

House Bill 3459, passed by the Seventy-eighth Legislature 2003, moved the accounting for the PSF from a cash to an accrual basis by redefining the fund to include unrealized interest and dividends. The conversion was completed during fiscal year 2003.

House Joint Resolution 68, passed by the Seventy-eighth Legislature, Regular Session, and approved by voters in September 2003, redefines the PSF distribution to the ASF beginning in fiscal year 2004. Instead of being based solely on dividend and interest income, the distribution will equal a rate of total return on all investment assets of the PSF. For the 2004-05 biennium, this rate is 4.5 percent of the average market value of the PSF for the preceding 16 fiscal quarters.

---

## APPENDIX B. MAJOR STATE INVESTMENT FUNDS

### EMPLOYEES RETIREMENT SYSTEM – PENSION INVESTMENT POOL TRUST FUND

#### FUND PURPOSE

The Employees Retirement System (ERS) is responsible for investing the pension trust fund which finances retirement benefits for retirees from state agencies, the governor's office, and their beneficiaries. Also included are retired law enforcement personnel, judges, legislators, and their beneficiaries.

#### FUND CONTRIBUTIONS

Member and state contributions are added to the funds. For the pension trust fund, the state constitution requires the legislature to establish a member contribution rate of not less than 6 percent of the member's annual compensation and a state contribution rate of not less than 6 percent and not more than 10 percent of the total annual compensation of all members. Appropriations for 2003–04 are based on a 6 percent state contribution rate.

According to ERS, \$451.8 million was added to the pension trust fund for fiscal year 2004.

#### FUND DISTRIBUTIONS

Distributions from the pension trust fund are based on benefit payments owed, and according to ERS, equaled \$1.1 billion in fiscal year 2004.

#### INVESTMENT OBJECTIVE

The primary investment objective, according to ERS, is to earn a return that will ensure the payments due to members of the retirement plans and their beneficiaries are at a reasonable cost to the members and the taxpayers of the state. Investment decisions must adhere to the "prudent person" rule.

#### INVESTMENT AND OVERSIGHT RESPONSIBILITY

The Board of Trustees of ERS has general responsibility for investment decisions. Six members serve on the board. Three members are elected by participating state employees. One member is appointed by the governor. One is appointed by the chief justice of the Supreme Court, and one member is appointed by the speaker of the House of Representatives. The board appoints an investment advisory committee. The committee members are investment professionals who are required to meet at least quarterly to review ERS investments.

#### PERCENTAGE OF ASSETS

##### EXTERNALLY MANAGED/ADVISED:

According to ERS, approximately 68.7 percent of the agency's invested funds are handled completely by internal staff. For the remaining 31.3 percent, staff receives counsel from various fund advisors.

#### INVESTMENT COSTS

According to ERS, the cost of investing the funds was \$14.01 million or 0.07 percent of the ending fund balance for fiscal year 2004. This includes \$4.13 million in direct internal expenses, \$0.51 million in indirect internal investment expenses, and \$9.37 million in external investment expenses. Prior year investment costs were \$15.1 million or 0.08 percent of the ending fund balance.

---

## APPENDIX B. MAJOR STATE INVESTMENT FUNDS

### EMPLOYEES RETIREMENT SYSTEM – PENSION INVESTMENT POOL TRUST FUND (CONTINUED)

#### PERFORMANCE BENCHMARKS

The following benchmarks were provided by ERS, and those in italics are reported differently from previous fiscal years.

*Fixed Income – Investment Grade - Lehman Brothers  
Aggregate Bond Index*

*Fixed Income – High Yield – Merrill Lynch Master II  
Index*

Domestic Large Cap Equities – Standard & Poor's  
500 Stock Composite Index

Domestic Small Cap Equities – Standard & Poor's  
600 Index

Domestic Value Equities – Standard & Poor's /  
Barra Value Index

Domestic Growth Equities – Standard & Poor's /  
Barra Growth Index

International Equities – Europe, Australia and Far  
East (EAFE) Index

Cash Equivalents – 90-day U.S. Treasury Bill rate

#### RECENT LEGISLATION

Senate Bill 292, passed by the Seventy-seventh Legislature, 2001, established a new type of service for state employees called additional service credit. Beginning January 1, 2002, state employees may be eligible to purchase additional service credit for additional retirement credit. The ERS Board of Trustees determines the actuarial tables and rules for purchase.

Senate Bill 587, passed by the Seventy-seventh Legislature, 2001, removes restrictions on retirees returning to work.

House Bill 2359, enacted by the Seventy-eight Legislature, Regular Session, 2003, establishes a 90-day delay in retirement contributions—both the 6 percent contributed by the state and the 6 percent deducted from the employee's salary—for new state employees. This 90-day delay statutorily expires on August 31, 2005.

House Bill 3208, enacted by the Seventy-eighth Legislature, Regular Session, 2003, provides an early retirement incentive in the form of a lump-sum bonus. The lump-sum bonus is equal to 25 percent of the employee's total regular salary for those employees eligible to retire on or after August 31, 2003 and before September 1, 2005. To receive this lump sum payment, a state employee who is eligible to retire as of August 31, 2003 must retire on that date and a state employee who is first eligible to retire after August 31, 2003 and before September 1, 2005 must retire in the month that the employee first becomes eligible.

---

## APPENDIX B. MAJOR STATE INVESTMENT FUNDS

### UNIVERSITY OF TEXAS SYSTEM – PERMANENT UNIVERSITY FUND

#### FUND PURPOSE

The Permanent University Fund (PUF) is a public endowment contributing to the support of most institutions in The University of Texas System (UT System) and the Texas A&M University System. Distributions from the PUF as well as all surface lease income are deposited in the Available University Fund (AUF) for the benefit of the eligible institutions.

#### FUND CONTRIBUTIONS

Mineral and other income are added annually to the fund. According to UT System, \$146.7 million in mineral income earned by PUF lands were contributed to the PUF during fiscal year 2004.

#### FUND DISTRIBUTIONS

The PUF is a total-return fund, and amounts from both income as well as changes in asset values may be distributed. The UT System Board has established an annual distribution to the AUF of 4.75 percent of the prior twelve quarters' average net asset value of the PUF. According to the UT System, \$348 million was paid to the AUF in fiscal year 2004.

#### INVESTMENT OBJECTIVE

According to the UT System, the primary goal is to preserve the purchasing power of the PUF's assets and annual distributions by earning an average annual total return after inflation of 5.1 percent over rolling ten-year periods or longer. The objective is dependent on the ability to generate high returns in periods of low inflation that will offset lower returns generated in years when the capital markets under perform the rate of inflation. Investment decisions must adhere to the "prudent investor" rule.

#### INVESTMENT AND OVERSIGHT RESPONSIBILITY

The Texas Constitution assigns responsibility for managing the PUF's lands and investment to The UT System Board of Regents. The PUF's investment manager is The University of Texas Investment Management Company (UTIMCO). The UTIMCO Board of Directors includes three members of The UT System Board, the chancellor of The UT System, and five outside investment professionals.

#### PERCENTAGE OF ASSETS

##### EXTERNALLY MANAGED/ADVISED

According to UT System, approximately 69.7 percent of the PUF assets are externally managed.

#### INVESTMENT COSTS

According to UT System, total investment expenses were \$25.7 million or 0.32 percent of the ending fund balance. This amount includes \$2.3 million for direct internal costs, \$3.0 million for indirect internal costs, and \$20.4 million for external costs for fiscal year 2004. Investment costs for the previous fiscal year were \$20.2 million or 0.28 percent of the ending fund balance.

---

## APPENDIX B. MAJOR STATE INVESTMENT FUNDS

### UNIVERSITY OF TEXAS SYSTEM – PERMANENT UNIVERSITY FUND (CONTINUED)

#### PERFORMANCE BENCHMARKS

The Endowment Policy Portfolio return is the total index or benchmark return for the PUF. This return is the sum of the weighted benchmark return for each asset class comprising the endowment policy portfolio.

The UT System provided the following benchmark returns for each asset class. Benchmarks shown in italics have been updated from fiscal year 2003.

*Fixed Income – 66.7 percent Lehman Brothers Aggregate Bond Index plus 33.3 percent Lehman Brothers U.S. Tips Index*

*U.S. Equities – 80 percent Russell 3000 Index plus 20 percent Wilshire Associates Real Estate Securities Index*

Global ex U.S. Equities – Morgan Stanley Capital International – All Country World Free ex U.S.

*Equity Hedge Funds – 90-day T-Bill Average Yield plus 4 percent*

*Absolute Return – 90-day T-Bill Average Yield plus 3 percent*

*Commodities – Goldman Sachs Commodities Index minus 1 percent*

*Private Capital – Venture Economics' Periodic IRR Index*

Cash and Equivalents – 90-day T-Bill Average Yield

#### RECENT LEGISLATION

In November 1999, voters approved a constitutional amendment regarding distributions from the PUF. It allows The UT System Board of Regents to determine the amount of investment return from the PUF that will be distributed to the AUF. This distribution may be made from the total return on all investment assets of the PUF. Previously, only investment income could be distributed.

---

## APPENDIX B. MAJOR STATE INVESTMENT FUNDS

### UNIVERSITY OF TEXAS SYSTEM – PERMANENT HEALTH FUND

#### FUND PURPOSE

The Permanent Health Fund (PHF) is a collection of public endowments to support research and other programs at higher education institutions. The consolidated fund includes the Permanent Health Fund for Higher Education, Permanent Funds for Health-related Institutions, and the University of Texas at El Paso. The Permanent Fund for Higher Education Nursing, Allied Health and Other Health Related Programs, and the Permanent Fund for Minority Health Research and Education were transferred to the Comptroller of Public Accounts (CPA) during fiscal year 2002. The endowments were created with proceeds from the comprehensive tobacco settlement between the State and the tobacco industry.

#### FUND CONTRIBUTIONS

Initially \$890 million of endowment corpus was transferred on August 30, 1999, and another \$25 million was transferred during fiscal year 2000. The Permanent Fund for Higher Education Nursing, Allied Health and Other Health Related Programs, and the Permanent Fund for Minority Health Research and Education, totaling \$88.2 million, were transferred to the CPA during fiscal year 2002. No contributions were made in fiscal years 2003 or 2004.

#### FUND DISTRIBUTIONS

The PHF is a total return fund, and distributions from both income as well as capital gains may be distributed. The University of Texas (UT) System Board initially established an annual distribution of 4.5 percent of the beginning value of the PHF. Distributions are increased annually by the average inflation rate (C.P.I.) provided that the distribution rate remains within a range of 3.5 percent to 5.5 percent of the fund's market value. According to the UT System, \$38.5 million was transferred to eligible institutions during fiscal year 2004.

#### INVESTMENT OBJECTIVE

According to the UT System, the primary goal is to preserve the purchasing power of the PHF assets and annual distributions by earning an average annual real return of 5.1 percent over rolling ten-year periods or longer.

#### INVESTMENT AND OVERSIGHT RESPONSIBILITY

The Seventy-sixth Legislature, 1999, designated the CPA, The UT System Board of Regents, the Board of Regents of Texas Tech University System, University of North Texas System, and Texas A&M University System as the administrators of these funds. These entities have designated The University of Texas Investment Management Company (UTIMCO) as the investment manager. The UTIMCO Board of Directors includes three members of The UT System Board, the chancellor of The UT System, and five outside investment professionals.

#### PERCENTAGE OF ASSETS

##### EXTERNALLY MANAGED/ADVISED

The PHF assets are invested in the UT System General Endowment Fund (GEF). According to the UT System, approximately 76 percent of the GEF assets are externally managed.

#### INVESTMENT COSTS

According to the UT System, total investment expenses for fiscal year 2004 were \$2.8 million or 0.34 percent of the ending fund balance. This amount includes \$0.2 million in direct investment expenses, \$0.4 million in indirect investment expenses, and \$2.2 million in external expenses. Investment costs for fiscal year 2003 were \$1.9 million or 0.26 percent of the ending fund balance.

---

## APPENDIX B. MAJOR STATE INVESTMENT FUNDS

### UNIVERSITY OF TEXAS SYSTEM – PERMANENT HEALTH FUND (CONTINUED)

#### PERFORMANCE BENCHMARKS

The PHF assets are invested in the GEF. The Endowment Policy Portfolio return is the total index or benchmark return for the GEF. This return is the sum of the weighted benchmark return for each asset class comprising the endowment policy portfolio.

The UT System provided the following benchmark returns for each asset class. Benchmarks shown in italics have been updated since fiscal year 2003.

*Fixed Income – 66.7% Lehman Brothers Aggregate Bond Index plus 33.3% Lehman Brothers U.S. Tips Index*

*U.S. Equities – 80% Russell 3000 Index plus 20% Wilshire Associates Real Estate Securities Index*

Global ex U.S. Equities – Morgan Stanley Capital International – All Country World Free ex U.S.

*Equity Hedge Funds – 90-day T-Bills Average Yield plus 4 percent*

*Absolute Return – 90-day T-Bills Average Yield plus 3 percent*

*Commodities – Goldman Sachs Commodity Index minus 1 percent*

*Private Capital – Venture Economics' Periodic IRR Index*

Cash and Equivalents – 90-day T-Bill Average Yield

---

## APPENDIX B. MAJOR STATE INVESTMENT FUNDS

### COMPTROLLER OF PUBLIC ACCOUNTS – TOBACCO SETTLEMENT PERMANENT TRUST FUND

#### FUND PURPOSE

The Tobacco Settlement Permanent Trust (TSF) is an endowment to support counties with unreimbursed healthcare expenditures. The Seventy-sixth Legislature, 1999, created the endowment with proceeds from the comprehensive tobacco settlement between the State and the tobacco industry. Although the Comptroller of Public Accounts (CPA) manages the investments, the endowment is classified as a private purpose trust fund.

#### FUND CONTRIBUTIONS

The initial contribution of tobacco settlement proceeds was made on March 1, 2000. According to the CPA, \$1.683 billion were contributed to the fund through fiscal year 2003. No additional contributions are anticipated.

#### FUND DISTRIBUTIONS

The TSF is a total return fund, and distributions from both income as well as changes in asset values may be distributed. The investment advisory committee (described below) may adopt an annual distribution rate between a minimum of 4.5 percent and a maximum of 7 percent of the average market value of the corpus for the preceding twelve quarters. According to the CPA, \$28.5 million was distributed during fiscal year 2004.

#### INVESTMENT OBJECTIVE

The primary investment objective, according to the CPA, is to preserve the purchasing power of fund assets and annual distributions by earning an average annual total return after inflation of 5.5 percent over rolling ten-year periods or longer. Investment decisions must adhere to the “prudent investor” rule.

#### INVESTMENT AND OVERSIGHT RESPONSIBILITY

The CPA is responsible for management and oversight of the fund. An investment advisory committee composed of members from participating entities advises the CPA

and adopts rules governing the CPA’s duties and responsibilities for the investment of the fund. The Seventy-eight Legislature, 2003, amended the composition of the advisory committee. The advisory committee is now composed of 11 appointed members. The comptroller appoints one member. One member is appointed by the political subdivision that, in the year preceding the appointment, received the largest annual distribution paid from the account. The political subdivision that received the second largest annual distribution paid from the account appoints one member. Four members are appointed from subdivisions that received the third through the twelfth largest annual distributions paid from the account as long as the subdivision does not have an appointee serving on the advisory committee at the time of appointment. The County Judges and Commissioners Association of Texas, the North and East Texas County Judges and Commissioners Association, the South Texas County Judges and Commissioners Association, and the West Texas County Judges and Commissioners Association each appoint one member.

#### PERCENTAGE OF ASSETS EXTERNALLY MANAGED/ADVISED

Internal staff manages investment grade fixed-income investments, and external managers manage equity and high-yield fixed-income investments. According to the CPA, approximately 73.8 percent of the fund’s assets are externally managed.

#### INVESTMENT COSTS

According to the CPA, the costs of administrating the fund for fiscal year 2004 were \$5.3 million or 0.29 percent of the ending fund balance. This amount includes \$0.5 million for direct internal costs and \$4.8 million for external costs. The investment costs for fiscal year 2003 were \$3.8 million or 0.23 percent of the ending fund balance.

---

## APPENDIX B. MAJOR STATE INVESTMENT FUNDS

### COMPTROLLER OF PUBLIC ACCOUNTS – TOBACCO SETTLEMENT PERMANENT TRUST FUND (CONTINUED)

#### PERFORMANCE BENCHMARKS

The CPA provided the following benchmarks. Benchmarks shown in italics have been updated since fiscal year 2003.

Fixed Income – Investment Grade - Lehman Brothers Aggregate Bond Index (Custom)

Fixed Income – High Yield – Merrill Lynch High Yield Bond Index

*Domestic Equities – Standard & Poor's 1500 Stock Composite Index*

International Equities – Europe, Australia and Far East (EAFE) Index

Alternative Assets – Standard & Poor's 1500 Stock Composite Index

Cash Equivalents - 90-day U.S. Treasury Bill rate

#### RECENT LEGISLATION

House Bill 2425, passed by the Seventy-eighth Legislature, 2003, changed the size and composition of the investment advisory committee that the CPA is authorized to establish for the Tobacco Settlement Permanent Trust Account. The advisory committee now consists of eleven appointed members. The comptroller appoints one member. One member is appointed by the political subdivision that, in the year preceding the appointment, received the largest annual distribution paid from the account. The political subdivision that received the second largest annual distribution paid from the account appoints one member. Four members are appointed from subdivisions that received the third through the twelfth largest annual distributions paid from the account as long as the subdivision does not have an appointee serving on the advisory committee at the time of appointment. The County Judges and Commissioners Association of Texas, the North and East Texas County Judges and Commissioners Association, the South Texas County Judges and Commissioners Association, and the West Texas County Judges and Commissioners Association each appoint one member.

---

## APPENDIX B. MAJOR STATE INVESTMENT FUNDS

### COMPTROLLER OF PUBLIC ACCOUNTS – TEXAS GUARANTEED TUITION PLAN FUND

#### FUND PURPOSE

The Texas Guaranteed Tuition Plan (formerly the Texas Tomorrow Fund) is a fully guaranteed prepaid tuition program which began in January 1996.

#### FUND CONTRIBUTIONS

Member contributions are added annually to the fund. According to the CPA, \$153.6 million in tuition contracts, application fees, and other revenue were added to the fund during fiscal year 2004.

#### FUND DISTRIBUTIONS

According to the CPA, \$41.5 million was distributed to colleges for tuition payments during fiscal year 2004. An additional \$8.4 million was distributed for administrative expenses.

#### INVESTMENT OBJECTIVE

According to the CPA, the investment objective is to accumulate sufficient funds to fully meet current and future obligations to fund participants. To meet this goal, the board has developed four general objectives: preserve the purchasing power of the fund by achieving investment earnings in excess of inflation; protect the fund principal from market value erosion; keep return volatility low by employing prudent fund diversification; and invest assets in compliance with the “prudent person” standard.

#### INVESTMENT AND OVERSIGHT RESPONSIBILITY

The Texas Prepaid Higher Education Tuition Board directs the investment policies that are carried out by investment managers. The board is chaired by the comptroller and includes two members appointed by the governor and four members appointed by the lieutenant governor. At least two of the lieutenant governor’s appointees are from a list of persons recommended by the speaker of the House of Representatives.

#### PERCENTAGE OF ASSETS

##### EXTERNALLY MANAGED/ADVISED

According to the CPA, approximately 90.9 percent of the assets were externally managed. External managers handle the fund’s equity investments. Internal staff performs fixed income securities.

##### INVESTMENT COSTS

According to the CPA, the costs of investing the fund for fiscal year 2004 were \$4 million or 0.30 percent of the ending fund balance. This amount mostly includes external costs. The investment costs for fiscal year 2003 were \$2.9 million or 0.25 percent of the ending fund balance.

##### PERFORMANCE BENCHMARKS

The CPA provided the following benchmarks for fiscal year 2004. Benchmarks shown in italics have been updated since fiscal year 2003.

*Fixed Income – Investment Grade - Lehman Brothers  
Aggregate Bond Index*

*Fixed Income – High Yield – Lehman Brothers High Yield  
Bond Index*

*Fixed Income – Global – Citigroup World Government  
Bond Index*

*Domestic Equities – Large Capitalization – Russell 1000  
Index*

*Domestic Equities – Small Capitalization – Russell 2000  
Index*

*International Equities – Citigroup PMI EPAC Index*

Cash Equivalents – 90-day T-bill rate

##### RECENT LEGISLATION

Senate Bill 1588, passed by the Seventy-eighth Legislature, 2003, amended Chapter 42 of the Property Code to make college savings plans (including the Texas Guaranteed Tuition Plan) exempt from attachment, execution, and seizure for the payment of debts.

---

## APPENDIX B. MAJOR STATE INVESTMENT FUNDS

### COMPTROLLER OF PUBLIC ACCOUNTS – PERMANENT PUBLIC HEALTH FUND

#### FUND PURPOSE

The Permanent Public Health Fund (PPHF) is a collection of public endowments to support state-administered, health-related programs. The consolidated fund includes the Permanent Tobacco Education and Enforcement Fund, the Permanent Children and Public Health Fund, the Permanent EMS and Trauma Care Fund, the Permanent Rural Health Facility Capital Fund, and the Permanent Small Urban Hospitals Funds. The endowments were created with proceeds from the comprehensive tobacco settlement between the state and the tobacco industry.

#### FUND CONTRIBUTIONS

Initially, \$475 million of tobacco settlement proceeds were contributed in fiscal year 2000. No additional tobacco proceeds have been added to the fund.

#### FUND DISTRIBUTIONS

The PPHF is a total return fund, and distributions from both income as well as changes in asset values may be distributed. The annual distributions are determined by the Comptroller of Public Accounts (CPA) and may not exceed 7 percent of the average net fair market value of the investment assets of the fund. According to the CPA, \$18.6 million was transferred during fiscal year 2004 to the Texas Department of Health to fund the relevant programs.

#### INVESTMENT OBJECTIVE

The primary investment objective, according to the CPA, is to preserve the purchasing power of each fund's assets and annual distributions by earning an average annual total return after inflation of 5.5 percent over rolling ten-year periods or longer. Investment decisions must adhere to the "prudent investor" rule.

#### INVESTMENT AND OVERSIGHT RESPONSIBILITY

The CPA is responsible for management and oversight of the fund.

#### PERCENTAGE OF ASSETS

##### EXTERNALLY MANAGED/ADVISED

Internal staff manages investment-grade fixed-income investments, and external managers manage equity and high-yield fixed-income investments. According to the CPA, approximately 81.6 percent of the fund assets are externally managed.

##### INVESTMENT COSTS

According to the CPA, the costs of administrating the fund for fiscal year 2004 were \$1.8 million or 0.45 percent of the ending fund balance and mostly include external costs. Investment costs for fiscal year 2003 were \$1.2 million or 0.31 percent of the fund balance.

##### PERFORMANCE BENCHMARKS

The CPA provided the following benchmarks. Benchmarks shown in italics have been updated since fiscal year 2003.

Fixed Income – Investment Grade - Lehman  
Brothers Aggregate Bond Index (Custom)

Fixed Income – High Yield - Merrill Lynch High  
Yield Bond Index

*Domestic Equities – Standard & Poor's 1500 Stock  
Composite Index*

International Equities – Europe, Australia and Far  
East (EAFE) Index

Alternative Assets – Standard & Poor's 1500 Stock  
Composite Index

Cash Equivalents – 90-day U.S. Treasury Bill rate

##### RECENT LEGISLATION

Senate Bill 1611, passed by the Seventy-seventh Legislature, 2001, authorized the CPA to establish an investment advisory board for the Texas Treasury Safekeeping Trust Company. The advisory board must consist of seven members appointed by the CPA with the advice of the governor, lieutenant governor, and speaker of the House of Representatives. The members must have knowledge of or experience in finance, including the management of funds or business operations.

---

## APPENDIX B. MAJOR STATE INVESTMENT FUNDS

### COMPTROLLER OF PUBLIC ACCOUNTS – PERMANENT HIGHER EDUCATION FUND

#### FUND PURPOSE

The Permanent Higher Education Fund (PHEF) was created in fiscal year 1996 to establish a permanent endowment fund for higher education institutions not eligible for the PUF. The legislature is required to deposit funds each year to the PHEF until its balance reaches \$2 billion. Once the fund reaches \$2 billion, investment income will be distributed to eligible institutions.

#### FUND CONTRIBUTIONS

General Revenue appropriations are added annually to the fund. According to the Comptroller of Public Accounts (CPA), no appropriations were added to the fund in fiscal year 2004.

#### FUND DISTRIBUTIONS

Currently no distributions are made from the fund. Once the fund balance reaches \$2 billion, investment income will be distributed each year to eligible institutions.

#### INVESTMENT OBJECTIVE

The primary investment objective, according to the CPA, is capital appreciation until the principal reaches \$2 billion. In 1999, the Seventy-sixth Legislature expanded the CPA's investment authority to the "prudent investor" rule.

#### INVESTMENT AND OVERSIGHT RESPONSIBILITY

The CPA is responsible for management and oversight of the fund.

#### PERCENTAGE OF ASSETS EXTERNALLY MANAGED/ ADVISED

Internal staff manages investment-grade fixed-income investments, and external managers manage equity and high-yield, fixed-income investments. According to the CPA, approximately 85 percent of the fund assets are externally managed.

#### INVESTMENT COSTS

According to the CPA, the cost of administrating the fund for fiscal year 2004 was \$1.8 million or 0.43 percent of the ending fund balance and mostly includes external costs. Investment costs for fiscal year 2003 were \$1.1 million or 0.28 percent of the ending fund balance.

#### PERFORMANCE BENCHMARKS

The CPA provided the following benchmarks.

Fixed Income – Investment Grade – Lehman Brothers Aggregate Bond Index (Custom)

Fixed Income – High Yield – Merrill Lynch High Yield Bond Index

Domestic Equities – Large/Mid Cap – 90 percent Standard & Poor's 500 Stock Composite Index plus 10 percent Standard & Poor's 400 Stock Composite Index

International Equities – Europe, Australia and Far East (EAFE) Index

Alternative Assets – Standard & Poor's 1500 Stock Composite Index

Cash Equivalents – 90-day U.S. Treasury Bill rate

#### RECENT LEGISLATION

House Bill 1839, Seventy-seventh Legislature, 2001, modifies the \$50 million yearly allocation to the PHEF. This legislation directs the CPA to reduce the \$50 million annual deposit by an amount equal to the total return from all investment assets of the PHEF in the previous year. It also creates the Texas Excellence Fund and the University Research Fund to promote research and institutional excellence. (House Bill 3526, Seventy-eighth Legislature, 2003, repealed these new funds and replaced them with the Research Development Fund.)

Senate Bill 1611, passed by the Seventy-seventh Legislature, 2001, authorized the CPA to establish an investment advisory board for the Texas Treasury Safekeeping Trust Company. The advisory board must consist of seven members appointed by the CPA with the advice of the governor, lieutenant governor, and speaker of the House of Representatives. The members must have knowledge of or experience in finance, including the management of funds or business operations.



---

## APPENDIX C. GLOSSARY

### **ACTIVE PORTFOLIO STRATEGY**

A money-management approach based on informed, independent investment judgement as opposed to passive management (indexing). It attempts to outperform a benchmark index.

### **ALTERNATIVE INVESTMENTS**

Investment opportunities which have not been identified by traditional public or fixed income capital markets. Also may be defined as private, nontraditional, illiquid investments. Alternative investments are accomplished almost exclusively through private offerings of debt equity interest and are often made through entities organized as limited partnerships. Examples of alternative investments include international and emerging market stocks, hedge funds, event driven strategies, as well as illiquid equity investments such as venture capital, mezzanine financing, private equity and buy-out investing, real estate, and oil and gas.

### **ASSET ALLOCATION**

The process of diversifying an investment portfolio among asset classes (stocks, bonds, real estate, etc.) in order to achieve a particular investment objective. Asset allocation is used to anticipate the long-term future direction of markets and to deploy assets in a way that will result in superior performance in the context of acceptable risks. Studies have shown that asset allocation has a far greater effect on investment performance than does the selection of investment managers or the selection of individual securities.

### **BASIS POINT (BP)**

The smallest measure used in quoting investment performance or fees. One basis point is  $1/100^{\text{th}}$  of one percent. Thus, 100 basis points equals one percent. A bond's yield that increased from 8.00 percent to 8.50 percent would be said to have risen 50 basis points. A management fee of 25 basis points represents 0.25 percent of value of the assets managed.

### **BENCHMARK**

A reference that serves as a standard by which investments may be measured. In the investment environment, the benchmark may be a common economic or financial index, such as the Consumer Price Index or the Standard & Poor's 500 (S&P 500) Index.

### **BONDS**

Contracts to pay specified sum of money (the principal or face value) at a specified future date (maturity) plus interest paid at an agreed percentage of the principal. Maturity is usually longer than one year. The relationship between the bondholder and issuer of the bonds is that of creditor and debtor. Thus, the holder has no corporate ownership privileges as stockholders do.

### **BROKER**

A person who acts as an intermediary between a buyer and seller, usually charging a commission.

### **CASH EQUIVALENTS**

Investment instruments have such high liquidity and safety that they are virtually as good as cash. They typically have a short maturity. Examples include a money market fund, Treasury Bills, and investments in a custodian bank's short term investment fund (STIF) or similar fund. Such securities help minimize risk during volatile market periods as well as to provide cash flow.

### **COLLATERALIZED MORTGAGE OBLIGATION (CMO)**

A security created using the underlying cash flows from mortgage-backed securities as collateral. A CMO shifts the uncertainty regarding the exact timing of principal return in a mortgage-backed security. This uncertainty exists because the timing of mortgage-backed principal payments is influenced by changes in interest rates, the current economic climate, and the geographic makeup of loans.

### **COMMON STOCK**

Share in a public company or a privately held firm. Common stockholders typically have voting and dividend rights. In the event of corporate bankruptcy or other

---

## APPENDIX C. GLOSSARY

liquidation of assets, common stockholders are paid after secured and unsecured creditors, bond holders, and preferred stockholders.

### **CORPUS**

The principal of a fund or estate as distinct from income or interest.

### **CREDIT RISK**

The likelihood that a party involved in an investment transaction will not fulfill its obligations. This type of risk is often associated with the issuer of the investment security and is affected by the concentration of deposits or investments in a single instrument or with a single institution.

### **CUSTODIAN BANK**

Used by an entity with large investment holdings to hold securities, record transactions, and collect interest or dividends from investments. The custodian bank is sometimes referred to as the primary or master custodian because it obtains the services of subcontractors and agencies to actually hold and trade the securities.

### **DERIVATIVE**

A contract or financial arrangement whose value is based on the performance of an underlying financial asset, index, or other investment. Derivatives are available based on the performance of assets, interest rates, currency exchange rates, and various domestic and foreign indexes.

### **DIVERSIFICATION**

The spreading of risk by investing in several individual investments or categories of investments, such as stocks, bonds, cash equivalents, and real estate.

### **DURATION**

A concept that measures bond price volatility by measuring the “length” of a bond. It is a weighted average term to maturity of the bond’s cash flows, the weights being the present value of each cash flow as a percentage of the bond’s full price. The greater the duration of a bond, the greater its percentage price volatility. In general, duration rises with maturity, falls with the frequency of coupon payments, and falls as the yield rises.

### **ENDOWMENT**

Funds given to an entity, such as a college or university, with donor-imposed restrictions that the funds are not to be expended but are to be invested for purpose of producing income.

### **EQUITY INVESTMENT**

Ownership interest processed by shareholders in a corporation.

### **EXTERNAL MANAGER**

A person or firm that makes investment portfolio decisions and executes transactions independently, subject to the overall restrictions agreed upon by contract between the fiduciary for the fund and the external manager.

### **FIXED INCOME INVESTMENTS**

A security that pays a fixed rate of return in the form of interest or dividends, over a specified period of time and includes government, corporate, and municipal bonds, preferred stocks, and certain mortgage investments. This asset class is expected to provide regular, predictable income and greater stability of market value than available from equity investments. It is advantageous in times of low inflation, but does not protect holders against erosion of buying power in time of rising inflation because interest or dividend payment do not increase.

### **GENERAL PARTNER**

Member of a partnership who is jointly and severally liable for all debts incurred by the partnership; or a managing partner of a limited partnership who is in charge of its operations. A general partner has unlimited liability.

### **HEDGE/HEDGING**

A strategy used to offset investment risk. A perfect hedge is one eliminating the possibility of future gain or loss.

### **INDEMNIFICATION**

An agreement to compensate another party for damage or loss. In securities lending programs, the program administrator may agree to indemnify the lender of securities for any losses caused by the failure of the borrower to return borrowed securities.

---

## APPENDIX C. GLOSSARY

### INDEX

A statistical composite that measures changes in the economy or in financial markets, often expressed in percentage changes from a base period. For example, the Consumer Price Index, which is composed of the prices of key goods and services, moves up or down as the rate of inflation changes. Other indexes measure the ups and downs of the stock, bond, and other investment markets. Common indexes include the New York Stock Exchange Index, Standard & Poor 500 Index, and the Shearson Lehman Aggregate Bond Index.

### INVESTMENT ADVISOR

A person or service retained by the investing entity to provide investment advice for a fee. The advisors may present economic information such as expected changes in interest rates, current and future national or global economic growth, and other factors that may affect the economy in the future. Investment advisors also present industry information that may affect future decisions in selecting specific securities. The advisor may specialize in a particular kind of investment, such as emerging growth stocks or international stocks.

### LARGE / MEDIUM / SMALL CAPS

Stocks of companies with market capitalization of \$500 million or less. Such stocks generally represent companies that are less well established, but are often faster growing than mid-caps (market capitalization of \$500 million to \$3 billion to 5 billion) or large caps (\$1 billion or more). They are often more volatile than stocks of more well-established companies.

### LEVERAGED BUYOUT

Equity investments in public or private companies that result in the purchase of a significant portion or majority control of the company.

### LIQUIDITY

The ease with which an asset can be converted to money. Also, the ability to buy or sell an asset quickly and in large volume without substantially affecting the price.

### MARKET RISK

The risk that the value of a security will rise or decline as a result of changes in market conditions.

### MATURITY

The date on which a debt's principal is to be repaid.

### MEZZANINE FINANCING

Investment in the subordinated debt of privately owned companies. The debt holder participates in equity appreciation through conversion features such as rights, warrants, or options.

### MERRILL LYNCH 90-DAY U.S. TREASURY BILL INDEX

Benchmark which assumes that treasury bills are bought at the beginning of a period at market value and held to maturity. Upon maturity, it is assumed that additional bills are purchased at market value and again held until maturity. The rollover continues until the end of the period. The calculation includes the sum of the yields earned by the treasury bills.

### MODERN PORTFOLIO THEORY

An investment decision approach that permits an investor to classify, estimate, and control both the kind and the amount of expected risk and return. Portfolio theory quantifies the relationship between risk and return and assumes that investors must be compensated for assuming risk. It departs from traditional security analysis by determining the statistical relationships among securities comprising the overall portfolio rather than analyzing the characteristics of individual investments.

### MUTUAL FUND

Portfolio of securities professionally managed by the sponsoring management company or investment company that issues shares to investors. The major advantages of mutual funds are diversification, professional management, and ownership of a variety of securities with a minimal capital investment.

---

## APPENDIX C. GLOSSARY

### **PASSIVE PORTFOLIO STRATEGY**

A money-management strategy that seeks to match rather than outperform return and risk characteristics of a market segment or index, by mirroring its composition.

### **PEER GROUP**

One group that is of equal standing with another group. In comparing an investment fund's performance with its peers, the peer group should include other funds with similar characteristics, such as fund size, purpose, and investment restrictions.

### **PORTFOLIO**

A combined holding of more than one investment. The purpose of a portfolio is to reduce risk by diversification.

### **PRIVATE INVESTMENTS**

Investment opportunities which have not been identified by traditional capital markets. Typically more volatile than traditional securities, private investments require strong due diligence controls.

### **PRIVATE PLACEMENT**

A securities issuance which is exempt from registration requirements of the Securities Act of 1933. It generally involves the sale of stocks, bonds, or other investments directly to an institutional investor.

### **PRUDENT INVESTOR STANDARD**

This standard provides that a board or other fiduciary in making investments, may acquire or retain 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 the assets of the fund rather than a single investment. Generally, this standard assumes that the board or other fiduciary has investment knowledge and expertise, and provides broader investment authority than the prudent person standard.

### **PRUDENT PERSON STANDARD**

A concept born from the 1830 Massachusetts court decision of *Harvard College v. Armory* that described the

duty owned by a trustee to beneficiaries: "All that can be required of a trustee to invest is, that he shall conduct himself faithfully and exercise sound discretion. He is to observe how men of prudence, discretion, and intelligence manage their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income, as well as the probable safety of the capital to be invested."

### **RISK**

In exchange for a return on investment, the investor may expose assets to possible losses. Risk is the probability or possibility of such losses. Risk is also often defined in terms of market volatility, or standard deviations of returns. The standard deviation is a statistical measure of portfolio risk, which reflects the average deviation of observations from their sample mean. It is used as an estimate of risk because it measures how wide the range of returns typically is. The wider the range of returns, the higher the portfolio risk.

### **S&P 500**

An index which measures the performance of the common stock of 500 of the largest U.S. corporations. The S&P 500 represents the aggregate market value changes relative to a base period of 500 stocks primarily traded on the New York Exchange.

### **S&P 1500**

The S&P 1500 Composite Index, which measures the performance of the top 1500 U.S. companies.

### **SECURITIES LENDING**

A program in which institutional investors transfer their securities to broker-dealers and other borrowers in exchange for collateral and a promise by the borrower to return the identical securities. The collateral may consist of cash, securities, or letters of credit. The lender agrees to the collateral to the borrower upon maturity of the loan and return of the borrowed securities.

---

## APPENDIX C. GLOSSARY

### **TIME-WEIGHTED RATE OF RETURN**

The total rate of return on an investment adjusted to eliminate the effect of timing of cash flows due to contributions and withdrawals which are not controllable by investment managers.

### **TOTAL RETURN**

The annual return on an investment including appreciation and interest or dividends. A “total return fund” is one that is indifferent to whether the return is generated by appreciation or ordinary income because it can spend from both categories. The Permanent School Fund is not considered a total return fund because the constitution requires different treatment of appreciation and ordinary income.

### **TRANCHE**

A class into which a multi-class security, such as collateralized mortgage obligation (CMO) is split. The different tranches of a CMO, which may range from a fast-pay class to long-term slow-pay class, are designed to meet different investor objectives for portfolio diversification.

### **VENTURE CAPITAL**

Venture capital is an important source of financing for start-up companies or other embarking on a new or turnaround ventures that entail some investment risk but offer the potential for above average future profits. Sources of venture capital include wealthy individual investors, subsidiaries of banks and other corporations organize as small business investment companies: groups of investment banks and other financing sources that pool investments in venture capital funds or venture capital limited partnerships. Some venture capital sources invest only at a certain stage of entrepreneurship, such as the start-up or seed money stage, the first round or second round phases that follow, or at the mezzanine level immediately preceding an initial public offering. In return for taking an investment risk, the venture capitalists are usually rewarded with some combination of profits,

preferred stock, royalties on sales, and capital appreciation of common shares.

### **VOLATILITY**

The extent to which a security or market tends to rise or fall sharply in price within short-term period.

### **YIELD**

The annual return on investment (from dividends or interest) expressed as a percentage of either cost or current price. Yield is one component of return.

---

PRIMARY SOURCE: “A Summary of the State’s Investments”, prepared by the State Auditor’s Office for the Senate Finance Committee, October 1999.



---

## APPENDIX D. REFERENCES

The following investing agencies and institutions of higher education provided information contained in the *Annual Report on Major State Investment Funds*.

Teacher Retirement System (TRS)

Permanent School Fund (PSF)

Employees Retirement System (ERS)

The University of Texas System (UT System)

Permanent University Fund (UT-PUF)

Permanent Health Fund (UT-PHF)

Comptroller of Public Accounts

Tobacco Settlement Permanent Trust (CPA-TSF)

Texas Guaranteed Tuition Plan Fund (CPA-TGTF)

Permanent Public Health Fund (CPA-PHF)

Permanent Higher Education Fund (CPA-PHEF)

Remittances of original data from agencies and institutions of higher education for this report are attached.

**ATTACHMENT 1**

**TEACHERS RETIREMENT SYSTEM PENSION FUND**

	Market Value of Fund Year Ending Aug. 31, 2004 \$ in millions				
<b>Total Fund</b>	<b>\$84,411</b>				
	Fiscal Year 2004 Time Weighted Gross Fund Return		Fiscal Year 2004 Benchmark Adjusted Gross Fund Return		
<b>Total Fund</b>	<b>11.91%</b>		<b>11.54%</b>		
	Fiscal Year 2004	Fiscal Year 2003	Fiscal Year 2002	Fiscal Year 2001	Fiscal Year 2000
<b>Gross Return - Total Fund</b>	11.91%	11.28%	-7.81%	-10.61%	13.96%
<b>Gross Return - Equity (For Fiscal Year 2004 only)</b>	13.73%	13.32%	-14.83%	-21.57%	17.21%
<b>% Domestic Equity Internally Managed</b>	100%				
<b>% Domestic Equity Externally Managed</b>	0%				
<b>Gross Return-Fixed Income Gross Return,</b>	7.96%	5.75%	8.24%	13.66%	8.08%
<b>Cash and Short-term Gross Return - All Other</b>	1.28%	1.63%	2.43%	3.89%	4.62%
	10.84%	8.11%	-6.62%	8.53%	2.83%
	Market Value Year Ending August 31, 2004 \$ in millions	Market Value Year Ending August 31, 2003 \$ in millions	Market Value Year Ending August 31, 2002 \$ in millions	Market Value Year Ending August 31, 2001 \$ in millions	Market Value Year Ending August 31, 2000 \$ in millions
<b>All Equity</b>	\$55,836	\$52,697	\$47,159	\$50,167	\$57,894
<b>All Fixed Income</b>	\$23,070	\$21,282	\$21,937	\$26,811	\$29,441
<b>All Cash and Short-term Securities</b>	\$3,027	\$650	\$155	\$351	\$204
<b>All Other Investments</b>	\$2,478	\$1,991	1,590	\$1,402	\$515
<b>Fund Contributions</b>	Total Fiscal Year 2004 \$ in millions				
Members	\$1,530.3				
State	\$1,241.8				
Reporting Employers	\$192.4				
Member Reinstatements	\$197.3				
Investment Income	\$9,145.9				
<b>Total Contributions</b>	<b>\$12,307.7</b>				
<b>Fund Distributions</b>					
Benefits	\$5,453.9				
Refunds	\$220.4				
Other	\$63.4				
<b>Total Distributions</b>	<b>\$5,737.7</b>				
Internal Investment Expenses:					
Direct	\$11.4				
Indirect	\$4.8				
External Investment Expenses	\$0				
<b>Total Investment Expenses</b>	<b>\$16.3</b>				

**ATTACHMENT 2**

**PERMANENT SCHOOL FUND**

<b>Total Fund</b>	Market Value of Fund Year Ending Aug. 31, 2004 \$ in millions \$19,338				
<b>Total Fund</b>	Fiscal Year 2004 Time Weighted Gross Fund Return 10.57%		Fiscal Year 2004 Benchmark Adjusted Gross Fund Return 10.39%		
<b>Gross Return - Total Fund</b>	Fiscal Year 2004	Fiscal Year 2003	Fiscal Year 2002	Fiscal Year 2001	Fiscal Year 2000
<b>Gross Return - Equity (For Fiscal Year 2004 only)</b>	10.57%	10.51%	-6.65%	-12.57%	15.95%
<b>% Domestic Equity Internally Managed</b>	13.38%	13.06%	-18.07%	-24.75%	20.66%
<b>% Domestic Equity Externally Managed</b>	100%				
<b>Gross Return-Fixed Income Gross Return, Cash and Short-term Gross Return - All Other</b>	0%				
	6.31%	6.04%	8.39%	12.54%	6.44%
<b>Portfolio Diversification</b>	Market Value Year Ending August 31, 2004 \$ in millions	Market Value Year Ending August 31, 2003 \$ in millions	Market Value Year Ending August 31, 2002 \$ in millions	Market Value Year Ending August 31, 2001 \$ in millions	Market Value Year Ending August 31, 2000 \$ in millions
<b>All Equity</b>	\$14,418	\$10,664	\$8,563	\$11,234	\$14,981
<b>All Fixed Income</b>	\$4,859	\$7,625	\$8,618	\$7,918	\$7,425
<b>All Cash and Short-term Securities</b>	\$61	\$0	\$0	\$0	\$0
<b>All Other Investments</b>	\$0	\$0	\$0	\$0	\$0
	Total Fiscal Year 2004				
<b>Fund Contributions</b>	\$154,453,008				
<b>Fund Distributions</b>	-\$879,981,967				
<b>Internal Investment Expenses</b>					
Direct	\$5,330,366				
Indirect	\$0				
<b>External Investment Expenses</b>	-\$2,261,140				
<b>Total Investment Expense</b>	-\$7,591,506				
<b>Percentage of Assets Externally Managed</b>	Year Ending August 31, 2004 19.57%				

**ATTACHMENT 3**

**EMPLOYEE RETIREMENT SYSTEM PENSION INVESTMENT POOL TRUST FUND**

<b>Total Fund</b>	Market Value of Fund Year Ending Aug. 31, 2004 \$ in millions \$19,522.86				
<b>Total Fund</b>	Fiscal Year 2004 Time Weighted Gross Fund Return 11.69%		Fiscal Year 2004 Benchmark Adjusted Gross Fund Return 11.76%		
<b>Gross Return - Total Fund</b>	Fiscal Year 2004	Fiscal Year 2003	Fiscal Year 2002	Fiscal Year 2001	Fiscal Year 2000
<b>Gross Return - Equity (For Fiscal Year 2004 only)</b>	11.69%	9.20%	-7.17%	-6.91%	9.43%
<b>% Domestic Equity Internally Managed</b>	14.31%				
<b>% Domestic Equity Externally Managed</b>	25.34% (MV Weight - Not Performance Return)				
<b>Gross Return-Fixed Income Gross Return,</b>	15.15% (MV Weight - Not Performance Return)				
<b>Cash and Short-term Gross Return - All Other</b>	7.78%	6.50%	6.17%	11.80%	7.49%
	1.10%	1.40%	2.33%	5.75%	6.38%
	5.15%	-13.52%	N/A	N/A	N/A
<b>Portfolio Diversification</b>	Market Value Year Ending August 31, 2004 \$ in millions	Market Value Year Ending August 31, 2003 \$ in millions	Market Value Year Ending August 31, 2002 \$ in millions	Market Value Year Ending August 31, 2001 \$ in millions	Market Value Year Ending August 31, 2000 \$ in millions
<b>All Equity</b>	\$11,412.20	\$10,955.70	\$9,507.04	\$10,499.65	\$12,047.44
<b>All Fixed Income</b>	\$8,046.97	\$7,083.09	\$7,476.80	\$8,171.97	\$8,358.11
<b>All Cash and Short-term Securities</b>	\$6.49	\$8.03	\$6.22	\$4.71	\$5.32
<b>All Other Investments</b>	\$57.19	\$69.39	\$58.09	\$49.74	\$26.30
<b>Total Market Value of Fund</b>	\$19,522.85	\$18,116.21	\$17,048.15	\$18,726.07	\$20,437.17
<b>Fund Contributions</b>	Total Fiscal Year 2004 \$ in millions				
<b>Fund Distributions</b>	\$451.80				
<b>Internal Investment Expenses</b>	\$1,141.40				
<b>Direct</b>	\$4.64				
<b>Indirect</b>	\$4.13				
<b>External Investment Expenses</b>	\$0.51				
<b>Total Investment Expense</b>	\$9.37				
	\$14.01 (Investment expense amounts are budgeted, not actual amounts.)				
<b>Percentage of Assets Externally Managed</b>	Year Ending August 31, 2004 31.27%				

ATTACHMENT 4

THE UNIVERSITY OF TEXAS SYSTEM PERMANENT UNIVERSITY FUND

	Market Value of Fund Year Ending Aug. 31, 2004 \$ in millions				
<b>Total Fund</b>	\$8,087.9				
	Fiscal Year 2004 Time Weighted Gross Fund Return		Fiscal Year 2004 Benchmark Adjusted Gross Fund Return		
<b>Total Fund</b>	14.98%		13.22%		
	Fiscal Year 2004	Fiscal Year 2003	Fiscal Year 2002	Fiscal Year 2001	Fiscal Year 2000
<b>Gross Return - Total Fund</b>	14.98%	12.22%	-7.19%	-8.47%	16.62%
<b>Gross Return - Equity</b>					
Domestic	15.26%	17.69%	-12.90%	-13.74%	27.65%
Foreign	20.58%	17.30%	-11.14%	-29.71%	8.11%
<b>(For Fiscal Year 2004 only)</b>					
<b>% Domestic Equity</b>					
<b>Internally Managed</b>	50.13%				
<b>Domestic Equity</b>					
<b>Externally Managed</b>	49.87%				
<b>Gross Return-Fixed Income</b>	9.82%	6.84%	7.11%	11.50%	4.58%
<b>Gross Return,</b>					
<b>Cash and Short-term</b>	1.06%	1.34%	2.29%	5.60%	6.10%
<b>Gross Return - All Other</b>					
Absolute Return	13.02%	21.12%	-4.04%	15.75%	(See Note 1)
Equity Hedge	11.17%	4.30%	-0.37%	27.67%	(See Note 1)
Non-marketable	13.03%	-6.25%	-15.41%	-11.04%	40.93%
Commodities	18.32%	21.76%	(See Note 1)	(See Note 1)	(See Note 1)
	Market Value Year Ending August 31, 2004	Market Value Year Ending August 31, 2003	Market Value Year Ending August 31, 2002	Market Value Year Ending August 31, 2001	Market Value Year Ending August 31, 2000
<b>Portfolio Diversification</b>	\$ in millions				
<b>All Equity</b>	\$3,701.1	\$3,882.9	\$3,262.4	\$3,701.9	\$4,363.8
Domestic	\$2,228.6	\$2,537.9	\$2,269.7	\$2,703.4	\$2,918.1
Foreign	\$1,472.5	\$1,345.0	\$992.7	\$998.5	\$1,445.7
<b>All Fixed Income</b>	\$1,195.3	\$1,033.3	\$1,410.3	\$1,557.9	\$1,375.5
<b>All Cash and</b>					
<b>Short-term Securities</b>	\$294.9	\$154.5	\$151.1	\$433.9	\$646.6
<b>All Other Investments</b>	\$2,896.6	\$2,174.1	\$1,914.5	\$1,846.4	\$2,072.4
<b>Total Market Value of Fund</b>	<b>\$8,087.9</b>	<b>\$7,244.8</b>	<b>\$6,738.3</b>	<b>\$7,540.1</b>	<b>\$8,458.3</b>
	Total Fiscal Year 2004 \$ in millions				
<b>Fund Contributions</b>	\$146.7 (PUF Land Receipts)				
<b>Fund Distributions</b>	-\$348.0 (Distributed to Available University Fund)				
<b>Internal Investment Expenses</b>					
Direct	\$2.3				
Indirect	\$3.0				
<b>External Investment Expenses</b>	\$20.4				
<b>Total Investment Expense</b>	\$25.7				
	Year Ending August 31, 2004				
<b>Percentage of Assets</b>					
<b>Externally Managed</b>	<b>69.74%</b>				

Note 1: As of March 1, 2001, the PHF and LTF purchased units in the newly created General Endowment Fund (GEF) in exchange for their contribution of investment assets. The GET, 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. The GEF is organized as a mutual fund in which the PHF and LTF are the only unit holders. As of August 31, 2003, the PHF had a 20.8% ownership of the GEF. The returns by asset class for the GEF for fiscal year 2003 are shown above.

ATTACHMENT 5

THE UNIVERSITY OF TEXAS SYSTEM PERMANENT HEALTH FUND

	Market Value of Fund Year Ending Aug. 31, 2004 \$ in millions				
<b>Total Fund</b>	\$814.4				
	Fiscal Year 2004 Time Weighted Gross Fund Return		Fiscal Year 2004 Benchmark Adjusted Gross Fund Return		
<b>Total Fund</b>	14.98%		13.22%		
	Fiscal Year 2004	Fiscal Year 2003	Fiscal Year 2002	Fiscal Year 2001	Fiscal Year 2000
<b>Gross Return - Total Fund</b>	14.69%	12.78%	-6.99%	-9.15%	16.18%
<b>Gross Return - Equity</b>	(See Note 1)	(See Note 1)	(See Note 1)	(See Note 1)	22.12%
<b>(For Fiscal Year 2004 only)</b>					
<b>% Domestic Equity</b>					
<b>Internally Managed</b>	100.00%				
<b>%Domestic Equity</b>					
<b>Externally Managed</b>	0.00%				
<b>Gross Return-Fixed Income</b>	(See Note 1)	(See Note 1)	(See Note 1)	(See Note 1)	4.90%
<b>Gross Return,</b>					
<b>Cash and Short-term</b>	1.06%	1.34%	2.29%	5.60%	6.10%
<b>Gross Return - All Other</b>	(See Note 1)	(See Note 1)	(See Note 1)	(See Note 1)	(See Note 1)
<b>GEF</b>	<b>Fiscal Year 2004</b>	<b>Fiscal Year 2003</b>			
<b>Gross Return - Total Fund</b>	14.95%	12.94%			
<b>Gross Return - Equity</b>					
Domestic	14.96%	17.89%			
Foreign	20.70%	17.24%			
<b>(For Fiscal Year 2004 only)</b>					
<b>% Domestic Equity</b>					
<b>Internally Managed</b>	35.44%				
<b>%Domestic Equity</b>					
<b>Externally Managed</b>	64.56				
<b>Gross Return - Fixed Income</b>	9.90%	7.25%			
<b>Gross Return, Cash &amp; Short-term</b>	1.06%	1.34%			
<b>Gross Return - All Other</b>					
Absolute Return	13.02%	21.11%			
Equity Hedge	11.09%	4.20%			
Non-marketable	12.13%	-6.59%			
Commodities	18.57%	21.78%			

(continued on next page)

ATTACHMENT 5

THE UNIVERSITY OF TEXAS SYSTEM PERMANENT HEALTH FUND (CONTINUED)

Portfolio Diversification	Market Value Year Ending August 31, 2004 \$ in millions	Market Value Year Ending August 31, 2003 \$ in millions	Market Value Year Ending August 31, 2002 \$ in millions	Market Value Year Ending August 31, 2001 \$ in millions	Market Value Year Ending August 31, 2000 \$ in millions
All Equity	\$814.2	\$744.8	\$698.1	\$881.3	\$652.7
All Fixed Income					\$179.7
All Cash and Short-term Securities	\$0.2	\$0.2	\$0.1	\$0.1	\$5.0
All Other Investments					\$179.2
	Total Fiscal Year 2004 \$ in millions				
Fund Contributions	\$0				
Fund Distributions	-\$38.5 (Distributed to unitholders of the fund)				
Internal Investment Expenses					
Direct	\$0.2				
Indirect	\$0.4				
External Investment Expenses	\$0				
Total Investment Expense	\$0.6				
	Year Ending August 31, 2004				
Percentage of Assets Externally Managed	(See Note 1)				

Note 1: As of March 1, 2001, the PHF and LTF purchased units in the newly created General Endowment Fund (GEF) in exchange for their contribution of investment assets. The GET, 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. The GEF is organized as a mutual fund in which the PHF and LTF are the only unit holders. As of August 31, 2003, the PHF had a 20.8% ownership of the GEF. The returns by asset class for the GEF for fiscal year 2003 are shown above.

Note 2: Fund created August 1999; therefore, no returns available.

Note 3: No funding in this asset class during this fiscal year.

ATTACHMENT 6

COMPTROLLER OF PUBLIC ACCOUNTS - TOBACCO SETTLEMENT PERMANENT TRUST

**Total Fund** Market Value of Fund  
Year Ending Aug. 31, 2004  
\$ in millions  
\$1,827.5

**Total Fund** Fiscal Year 2004 Time Weighted Gross Fund Return 11.64% Fiscal Year 2004 Benchmark Adjusted Gross Fund Return 11.59%

	Fiscal Year 2004	Fiscal Year 2003	Fiscal Year 2002	Fiscal Year 2001	Fiscal Year 2000
<b>Gross Return - Total Fund</b>	11.64%	12.27%	-8.42%	-4.66%	5.60%
<b>Gross Return - Equity (For Fiscal Year 2004 only)</b>	13.46%	15.30%	-17.43%	-18.16%	N/A
<b>% Domestic Equity Internally Managed</b>	0%				
<b>% Domestic Equity Externally Managed</b>	100%				
<b>Gross Return-Fixed Income Gross Return,</b>	6.08%	2.28%	7.98%	13.73%	N/A
<b>Cash and Short-term Gross Return - All Other</b>	0.85%	1.23%	2.19%	5.90%	4.60%
	N/A	N/A	N/A	N/A	N/A

<b>Portfolio Diversification</b>	Market Value Year Ending August 31, 2004 \$ in millions	Market Value Year Ending August 31, 2003 \$ in millions	Market Value Year Ending August 31, 2002 \$ in millions	Market Value Year Ending August 31, 2001 \$ in millions	Market Value Year Ending August 31, 2000 \$ in millions
<b>All Equity</b>	\$1,283.3	\$1,222.3	\$818.0	\$666.7	\$131.0
<b>All Fixed Income</b>	\$518.6	\$404.9	\$425.0	\$267.3	\$85.0
<b>All Cash and Short-term Securities</b>	\$25.6	\$26.9	\$72.0	\$17.5	\$254.0

**Fund Contributions** Total Fiscal Year 2004 \$0  
\$ in millions  
**Fund Distributions** -\$28.5  
**Internal Investment Expenses**

Direct	\$0.5
Indirect	\$0

**External Investment Expenses** \$4.8  
**Total Investment Expense** \$5.3

**Percentage of Assets Externally Managed** Year Ending August 31, 2004  
73.8%

ATTACHMENT 7

COMPTROLLER OF PUBLIC ACCOUNTS - TEXAS GUARANTEED TUITION PLAN FUND

<b>Total Fund</b>	Market Value of Fund Year Ending Aug. 31, 2004 \$ in millions \$1,345				
<b>Total Fund</b>	Fiscal Year 2004 Time Weighted Gross Fund Return 10.3%		Fiscal Year 2004 Benchmark Adjusted Gross Fund Return 11.1%		
<b>Gross Return - Total Fund</b>	Fiscal Year 2004	Fiscal Year 2003	Fiscal Year 2002	Fiscal Year 2001	Fiscal Year 2000
<b>Gross Return - Equity (For Fiscal Year 2004 only)</b>	10.3%	6.9%	-3.3%	-2.4%	11.6%
<b>% Domestic Equity Internally Managed</b>	16.8%	9.2%	-10.7%	N/A	N/A
<b>% Domestic Equity Externally Managed</b>	0%				
<b>Gross Return-Fixed Income Gross Return, Cash and Short-term Gross Return - All Other</b>	100%				
	5.3%	3.2%	8.3%	11.2%	8.0%
	0.5%	1.4%	1.9%	4.5%	5.8%
	N/A	N/A	N/A	N/A	N/A
<b>Portfolio Diversification</b>	Market Value Year Ending August 31, 2004 \$ in millions	Market Value Year Ending August 31, 2003 \$ in millions	Market Value Year Ending August 31, 2002 \$ in millions	Market Value Year Ending August 31, 2001 \$ in millions	Market Value Year Ending August 31, 2000 \$ in millions
<b>All Equity</b>	\$789	\$562.2	\$441	\$394	\$295
<b>All Fixed Income</b>	\$410	\$317	\$284	\$238	\$199
<b>All Cash and Short-term Securities</b>	\$146	\$252.9	\$102	\$96	\$131
<b>All Other Investments</b>	\$0	\$0	\$0	\$0	\$0
	Total Fiscal Year 2004				
<b>Fund Contributions</b>					
Prepaid Tuition Contract Payments	\$153,569,495				
Application Fees and Other Income	\$64,623				
Investment Income	\$117,665,960				
<b>Fund Distributions</b>					
Tuition Payments to Colleges	\$41,479,739				
Other Administrative Expenses	\$8,403,803				
<b>Internal Investment Expenses</b>					
Direct	\$40,945				
Indirect	\$3,000				
<b>External Investment Expenses</b>	\$3,927,112				
<b>Total Investment Expense</b>	\$3,971,057				
<b>Percentage of Assets Externally Managed</b>	Year Ending August 31, 2004 <b>90.9%</b>				

**ATTACHMENT 8**

**COMPTROLLER OF PUBLIC ACCOUNTS - PERMANENT PUBLIC HEALTH FUND**

<b>Total Fund</b>	Market Value of Fund Year Ending Aug. 31, 2004 \$ in millions				
	\$409.4				
<b>Total Fund</b>	Fiscal Year 2004 Time Weighted Gross Fund Return		Fiscal Year 2004 Benchmark Adjusted Gross Fund Return		
	11.60%		11.94%		
<b>Gross Return - Total Fund</b>	Fiscal Year 2004	Fiscal Year 2003	Fiscal Year 2002	Fiscal Year 2001	Fiscal Year 2000
<b>Gross Return - Equity (For Fiscal Year 2004 only)</b>	11.60%	13.08%	-10.19%	-9.08%	7.20%
<b>% Domestic Equity Internally Managed</b>	12.84%	14.89%	-17.36%	-18.23%	N/A
<b>% Domestic Equity Externally Managed</b>	0%				
<b>Gross Return-Fixed Income Gross Return,</b>	100%				
<b>Cash and Short-term Gross Return - All Other</b>	6.65%	2.27%	7.36%	12.17%	N/A
	0.96%	1.23%	2.19%	5.60%	6.10%
	-14.55%	-19.73%	0%	N/A	N/A
<b>Portfolio Diversification</b>	Market Value Year Ending August 31, 2004 \$ in millions	Market Value Year Ending August 31, 2003 \$ in millions	Market Value Year Ending August 31, 2002 \$ in millions	Market Value Year Ending August 31, 2001 \$ in millions	Market Value Year Ending August 31, 2000 \$ in millions
<b>All Equity</b>	\$306.0	\$277.6	\$234.9	\$330.3	\$298.0
<b>All Fixed Income</b>	\$93.5	\$93.4	\$96.0	\$86.8	\$108.0
<b>All Cash and Short-term Securities</b>	\$6.1	\$6.2	\$23.0	\$0.7	\$12.0
<b>All Other Investments</b>	\$3.8	\$4.3	\$4.1	\$0	\$0
<b>Fund Contributions</b>	Total Fiscal Year 2004				
<b>Fund Distributions</b>	\$0				
<b>Internal Investment Expenses</b>	-\$18,609,792				
Direct	\$114,385				
Indirect	\$0				
<b>External Investment Expenses</b>	\$1,716,713				
<b>Total Investment Expense</b>	\$1,831,098				
<b>Percentage of Assets Externally Managed</b>	Year Ending August 31, 2004				
	<b>81.6%</b>				

ATTACHMENT 9

COMPTROLLER OF PUBLIC ACCOUNTS - PERMANENT HIGHER EDUCATION FUND

	Market Value of Fund Year Ending Aug. 31, 2004 \$ in millions				
<b>Total Fund</b>	\$426.3				
	Fiscal Year 2004 Time Weighted Gross Fund Return		Fiscal Year 2004 Benchmark Adjusted Gross Fund Return		
<b>Total Fund</b>	11.82%		12.99%		
	Fiscal Year 2004	Fiscal Year 2003	Fiscal Year 2002	Fiscal Year 2001	Fiscal Year 2000
<b>Gross Return - Total Fund</b>	11.82%	13.39%	-10.71%	-10.75%	7.30%
<b>Gross Return - Equity (For Fiscal Year 2004 only)</b>	13.11%	16.26%	-17.72%	-17.34%	N/A
<b>% Domestic Equity Internally Managed</b>	0%				
<b>% Domestic Equity Externally Managed</b>	100%				
<b>Gross Return-Fixed Income Gross Return,</b>	7.04%	2.28%	7.39%	13.06%	N/A
<b>Cash and Short-term Gross Return - All Other</b>	0.97%	1.13%	2.19%	5.20%	6.10%
	-14.55%	-19.73%	0%	N/A	N/A
	Market Value Year Ending August 31, 2004 \$ in millions	Market Value Year Ending August 31, 2003 \$ in millions	Market Value Year Ending August 31, 2002 \$ in millions	Market Value Year Ending August 31, 2001 \$ in millions	Market Value Year Ending August 31, 2000 \$ in millions
<b>Portfolio Diversification</b>					
<b>All Equity</b>	\$329.9	\$272.9	\$191.6	\$284.7	\$92.0
<b>All Fixed Income</b>	\$84.2	\$92.5	\$67.1	\$53.9	\$44.0
<b>All Cash and Short-term Securities</b>	\$6.5	\$6.2	\$38.6	\$1.8	\$159.0
<b>All Other Investments</b>	\$5.7	\$6.4	\$6.2	\$0	\$0
	Total Fiscal Year 2004				
<b>Fund Contributions</b>	\$0				
<b>Fund Distributions</b>	\$0				
<b>Internal Investment Expenses</b>					
Direct	\$110,867				
Indirect	\$0				
<b>External Investment Expenses</b>	\$1,724,854				
<b>Total Investment Expense</b>	\$1,835,721				
	Year Ending August 31, 2004				
<b>Percentage of Assets Externally Managed</b>	84.3%				