

Annual Report on Major State Investment Funds



PREPARED BY LEGISLATIVE BUDGET BOARD STAFF

April 2010

Annual Report on Major State Investment Funds

FISCAL YEAR 2009

LEGISLATIVE BUDGET BOARD

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April 1, 2010

The Honorable David Dewhurst
The Honorable Joe Straus
Members of the Eighty-first Legislature

Dear Governor Dewhurst, Speaker Straus, and Members:

As required by the provisions of Section 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 Pooled Pension Trust Funds
The University of Texas System
 Permanent Health Fund
 Permanent University 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 Melissa Nelson, Kevin Kavanaugh, Scott Dudley, Kim Loucks, and Kim Irby.

Respectfully submitted,

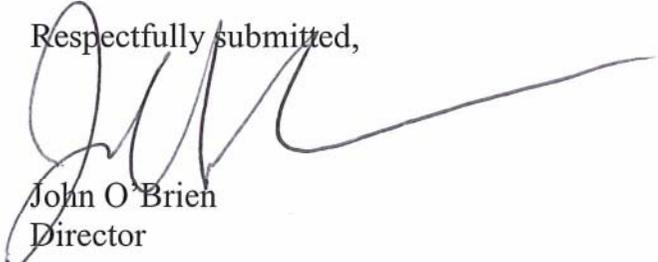

John O'Brien
Director

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EXECUTIVE SUMMARY

The fiscal year 2009 *Annual Report on Major State Investment Funds* presents the performance for Texas' major investment funds. This report includes the risk-adjusted returns, as well as other performance and background information for each of the funds. The state investing agencies or institutions of higher education provided all the information 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. This report does not make recommendations regarding portfolio allocations or current management practices. It is intended as an information resource only.

INVESTMENT ENVIRONMENT

Fiscal year 2009 encompassed the most volatile and distressed financial environment in recent history. The year can be best described as a tale of two halves. Fiscal year 2009 began with the collapse of Lehman Brothers, the federal takeover of Fannie Mae and Freddie Mac, government assisted buyouts of Merrill Lynch, Wachovia, and Washington Mutual, and the need for several hundred billion dollars in taxpayer assistance to recapitalize several large financial institutions. During this same period lending in credit markets slowed to a near standstill, equity markets plunged to their lowest level in over a decade, commodity prices declined rapidly after their sharp spike in late fiscal year 2008, and investors flocked to the relative safety of U.S. debt, sending yields on treasuries down and strengthening the value of the U.S. dollar. However, after several unprecedented measures enacted by the U.S. Treasury and the Federal Reserve (which included the \$700 billion Troubled Asset Relief Program (TARP) package, lowering the federal funds rate to less than 25 basis points, introducing temporary loan programs such as the

Term Auction Facility and Term Asset-backed Securities Loan Facility which allowed financial institutions to borrow directly from the Fed, and purchasing \$1.25 trillion of mortgage backed securities and \$300 billion of long term U.S. treasuries) financial markets began to stabilize, reached bottom in early March, and proceeded to rebound strongly in the second half of fiscal year 2009, making up some, but not all, of the losses from early in the year.

Figure 1 displays the daily closing price of the S&P 500 index over the course of fiscal year 2009 and highlights the stark contrast in performance of equity markets during the first and latter half of the fiscal year. Over the entire fiscal year, the three largest U.S. stock indices; the S&P 500, the Dow Jones Industrial Average, and the NASDAQ, were down 20.44, 17.74, and 15.14 percent, respectively. The first two months of the fiscal year were the most turbulent for stocks in recent memory, fueled by growing losses at nearly all banks and financial service companies and the large uncertainty surrounding central bank's and federal government's response to the financial crisis. Market volatility

FIGURE 1
S&P 500 INDEX, FISCAL YEAR 2009



SOURCE: Standard & Poors

as measured by the standard deviation of daily market returns, was 4.33 percent during September and October, over 300 basis points above the long run historical average. These large market swings further decreased investor confidence, leading to additional losses. When the stock market finally reached bottom, on March 9th, the S&P, DJIA, and NASDAQ indices had lost an average of 45.7 percent since the beginning of the fiscal year, closing at levels not seen since 1996. The latter half of the fiscal year, however, witnessed a strong rebound in stock prices. Capital injections from TARP had largely eliminated fears of bank insolvency and the large monetary and fiscal stimulus from the Federal Reserve and U.S. government began to take its intended effect. Also helping the rally were a large number of strong earnings reports in the summer of 2009 and the release of several positive economic indicators in the closing months of the fiscal year. By the end of August, the three large stock indices had gained an average of 51.4 percent from their March lows.

Interest rates remained relatively low throughout fiscal year 2009, largely due to efforts by the Federal Reserve, such as keeping the federal funds rate below 25 basis points for nearly the entire year. An increase in demand for the perceivably safe U.S. Treasury securities in the face of unstable equity markets also helped to drive down rates. The yield on the 3-month Treasury bill fell from 1.69 to 0.15 percent during fiscal 2009. Yields on longer maturity treasuries fell over the first four months of the fiscal year with the 10-year Treasury note falling from 3.74 to a low of 2.08 percent, but began to rise along with the stock market rally as investors regained some appetite for risk and began to sell long term Treasuries in order to move back into equities. However, despite the Federal Reserve's efforts to keep interest rates low, lending volume still decreased significantly during the fiscal year, as banks and financial institutions faced uncertainty over their future capital needs and judging counterparty risk became increasingly difficult during the financial crisis. The TED spread, a common measure of banks perceived credit risk defined as the difference between the 3-month London Interbank Offered Rate (LIBOR) and the 3-month Treasury bill rate, and a common measure of banks perceived credit risk, rose to an all time high of 464 basis points in October, well above the measure's historical average of 50 basis points. This large increase meant banks were much less willing to lend out reserves, leaving credit markets "frozen" for much of fiscal year 2009. Finally, the value of the U.S. dollar strengthened over the first four months of fiscal 2009, due largely to the surge in demand for U.S. Treasury securities

leading to an increased need for U.S. dollars to purchase the assets. However, once fears over the safety of similar securities had eased, the value of the dollar fell back to pre-crisis levels. Overall, the Federal Reserve's U.S. Dollar Trade Weighted Index, which measures the strength of the dollar against major foreign currencies, was relatively flat over fiscal year 2009, ending the year down 0.1 percent.

The continued correction from the housing bubble continued to drag down real estate markets during fiscal year 2009. Large inventories of unsold homes dampened the demand for new housing construction, sending new housing starts down by 224,000 over the fiscal year. This supply imbalance also continued to send down housing prices, which have been falling since the middle of fiscal year 2006. Over fiscal year 2009, median existing and new home sale prices fell by \$19,400 and \$15,400, respectively. Total U.S. foreclosure rates continued to rise over the fiscal year, but at a much slower rate during the last 5 months of fiscal 2009. However, there were some positive signs during the year. Existing and new home sales rose by a seasonally adjusted annual amount of 297,000 and 10,000, respectively, over the fiscal year. The 30-year conventional mortgage rate fell to a historic low, reaching 4.8 percent in early April, which helped to spur the increase in home sales, however many of these sales were at deeply discounted prices and represented significant loss to the seller.

Energy markets pulled back sharply in fiscal year 2009, coinciding with the fall in equity markets, after reaching record highs at the end of fiscal year 2008. Large declines in global oil demand sent the WTI spot price down 61.8 percent over the first half of the fiscal year. However, the price rebounded along with the stock market, ending fiscal 2009 at \$69.97 per barrel, down 39.5 percent over the fiscal year. Natural gas prices followed a similar trajectory over the first half of the year, but unlike oil, continued to slide even after other markets began to pick up steam. The high cost of new production methods, such as hydraulic fracturing and horizontal drilling used in gas fields such as the Barnett Shale, led to production declines late in the fiscal year, as the decrease in price squeezed profit margins in these areas. The Henry Hub spot price fell 70.6 percent over fiscal year 2009, ending the year at \$2.42 per MMBtu.

The resurgence of financial markets over the latter half of fiscal 2009 are a promising sign for the investment environment during fiscal 2010, however many potential risks still remain. At some point, the Federal Reserve will probably reign in their large quantitative easing and low

interest rate policies used throughout fiscal 2009 to stave off the collapse of the financial system, or risk inflation problems in the future. However, if these excessive liquidity programs are drawn in before financial markets are able to fully function without excessive support; the Fed runs the opposite risk of sending the economy into a “double-dip” recession. Global markets also run the risk of harming the future financial situation, many foreign countries remain deeply troubled economically, and any further deterioration will have negative ripple effects in U.S. financial markets. However, the conditions for recovery remain strong overall, which could lead to a much stronger investment environment in fiscal year 2010 and allow state pension and endowment funds to recover many of the losses suffered during the turbulent financial crisis of 2009.

ENDING MARKET VALUE

The ending market value of the major investment funds for fiscal year 2009 was \$144.8 billion, \$24.5 billion less than value of the funds at the end of fiscal year 2008. The funds and their ending market values are shown in **Figure 2**.

RATES OF RETURN

The average rate of return is -10.93 percent and range from -6.20 percent to -17.63 percent as **Figure 3** shows.

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 time weighted 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 net rate of return as shown in **Figure 4** presents the rate of return after related investment expenses are deducted. The five-year average rate of return is calculated using a geometric average of the annual rates of return for the five-year period.

The annual rates of return reflect both income earned and change in fund value, without consideration of the risk of fund investments. **Figure 5** 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 quantifies a fund’s return relative to its risk. The Sharpe ratio determines the risk-adjusted return for each fund. (The calculation of the Sharpe ratio is explained below.) As **Figure 6** shows, the returns range from 0.001 percent to 0.245 percent.

FIGURE 2
ENDING MARKET VALUE OF MAJOR INVESTMENT FUNDS
FISCAL YEAR 2009

FUND	VALUE (IN BILLIONS)
Teacher Retirement System Pension Trust Fund	\$87.7
Permanent School Fund – TEA	20.6
Permanent School Fund – GLO	1.9
Employees Retirement System Pension Trust Fund	19.8
Permanent University Fund	9.7
Permanent Health Fund	0.8
Tobacco Settlement Permanent Trust Fund	1.8
Texas Guaranteed Tuition Plan Fund	1.5
Permanent Public Health Fund	0.4
Permanent Higher Education Fund	0.5
Total Investment Funds	\$144.8

NOTE: PSF-GLO ending market value is year ending June 30, 2009.
SOURCE: Investing agencies and UTIMCO.

FIGURE 3
MAJOR INVESTMENT FUNDS RATES OF RETURN
FISCAL YEAR 2009

FUND	RATE OF RETURN	
	TIME WEIGHTED	BENCHMARK*
Teacher Retirement System Pension Trust Fund	-13.06%	-11.25%
Permanent School Fund – TEA	-8.47%	-8.64%
Permanent School Fund – GLO	-17.63%	-19.56%
Employees Retirement System Pension Trust Fund	-6.60%	-7.55%
Permanent University Fund	-12.72%	-15.42%
Permanent Health Fund	-13.17%	-15.42%
Tobacco Settlement Permanent Trust Fund	-10.48%	-5.24%
Texas Guaranteed Tuition Plan Fund	-6.20%	-6.80%
Permanent Public Health Fund	-10.72%	-5.24%
Permanent Higher Education Fund	-10.20%	-5.24%

*Performance benchmarks were calculated by the agencies or institutions and 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 affect its benchmarks and performance. PSF-GLO rates of return are based on year ending June 30, 2009.
SOURCE: Investing agencies and UTIMCO.

**FIGURE 4
MAJOR INVESTMENT FUNDS NET RATE OF RETURN
FISCAL YEAR 2009**

FUND	RATE OF RETURN – LESS INVESTMENT COST
Teacher Retirement System Pension Trust Fund	-13.09%
Permanent School Fund – TEA	-8.56%
Permanent School Fund – GLO	-18.26%
Employees Retirement System Pension Trust Fund	-6.71%
Permanent University Fund	-12.98%
Permanent Health Fund	-13.27%
Tobacco Settlement Permanent Trust Fund	-10.56%
Texas Guaranteed Tuition Plan Fund	-6.60%
Permanent Public Health Fund	-10.80%
Permanent Higher Education Fund	-10.28%

NOTE: Detailed fund investment costs are presented in Appendix B. Net Rates of Return were provided by the individual funds this year and not calculated by the LBB. PSF–GLO rates are based on a year ending June 30, 2009.

SOURCE: Investing agencies and UTIMCO.

**FIGURE 5
AVERAGE ANNUAL RATES OF RETURN
FISCAL YEARS 2005 TO 2009**

FUND	RATE OF RETURN
Teacher Retirement System Pension Trust Fund	3.59%
Permanent School Fund – TEA	4.35%
Permanent School Fund – GLO	4.36%
Employees Retirement System Pension Trust Fund	4.53%
Permanent University Fund	5.35%
Permanent Health Fund	5.17%
Tobacco Settlement Permanent Trust Fund	4.35%
Texas Guaranteed Tuition Plan Fund	4.70%
Permanent Public Health Fund	4.18%
Permanent Higher Education Fund	4.38%

NOTE: Each fund has different investment objectives and strategies, some required by law, that affect its benchmarks and performance. PSF–GLO rates of return are based on a year ending June 30 2005 to 2009.

SOURCE: Investing agencies and institutions of higher education.

A risk-adjusted return is a single statistic that reflects both the return and volatility of returns over time. A generally

**FIGURE 6
RISK-ADJUSTED RETURN
FISCAL YEARS 2005 TO 2009**

FUND	RATE OF RETURN (SHARPE RATIO)
Teacher Retirement System Pension Trust Fund	0.055%
Permanent School Fund --TEA	0.119%
Employees Retirement System Pension Trust Fund	0.141%
Permanent University Fund	0.245%
Permanent Health Fund	0.227%
Tobacco Settlement Permanent Trust Fund	0.155%
Texas Guaranteed Tuition Plan Fund	0.174%
Permanent Public Health Fund	0.135%
Permanent Higher Education Fund	0.157%

NOTE: The PSF–GLO invests solely in real estate therefore it is not appropriate to use the GLO’s RAR as measured by the Sharpe Ratio in comparison to the other funds.

SOURCE: The rates of return used in the Sharpe Ratio calculations are the monthly rates of return provided by the investing agencies and UTIMCO.

accepted measure for computing the risk-adjusted return is the “Sharpe ratio,” developed by Nobel Laureate William Sharpe. The 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 amount of return earned per unit of risk.

The formula for the Sharpe ratio follows:

$$\frac{\left(\text{Portfolio's Total Return} \right) - \left(\text{"Risk-free" Rate of 90-day Treasury Bills} \right)}{\left(\text{Standard Deviation of the Portfolio's Return Over Time} \right)}$$

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 should 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 period 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. Each fund provided 60 monthly rates of return that were annualized and geometrically averaged over a 5 year period. These monthly rates of return were also used to calculate the annualized standard deviation. The annual rate used for the risk-free rate is the average of the daily yield of the 90-day Treasury Bill throughout the respective fiscal year. All rates were pulled from the Federal Reserve Economic Database.

USE OF EXTERNAL MANAGERS/ ADVISORS FOR INVESTMENTS

Each of the funds varies in its use of external managers or advisors to invest its assets. **Figure 7** shows the portion of assets managed internally and externally for fiscal year 2009.

**FIGURE 7
PORTION OF ASSETS MANAGED
INTERNALLY AND EXTERNALLY
FISCAL YEAR 2009**

FUND	INTERNAL	EXTERNAL
Teacher Retirement System Pension Trust Fund	81.00%	19.00%
Permanent School Fund – TEA	70.20%	29.80%
Permanent School Fund – GLO	45.00%	55.00%
Employees Retirement System Pension Trust Fund	77.70%	22.30%
Permanent University Fund	12.60%	87.40%
Permanent Health Fund	34.04%	65.96%
Tobacco Settlement Permanent Trust Fund	0.00%	100.00%
Texas Guaranteed Tuition Plan Fund	0.00%	100.00%
Permanent Public Health Fund	0.00%	100.00%
Permanent Higher Education Fund	0.00%	100.00%

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. The PSF–GLO percentages reflect the management of real estate only.
SOURCE: Investing agencies and UTIMCO.

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 large-cap stocks that are traded on either the New York Stock Exchange or the NASDAQ National Market System. The second benchmark is the S&P 1500 Composite Index, which includes the S&P 500 stocks plus 600 mid-cap and 400 small cap stocks.

Figure 8 shows the rates of returns for domestic equity investments for fiscal year 2009. As applicable, the rates are shown for investments managed by external managers and for investments managed internally.

**FIGURE 8
RATES OF RETURN FOR DOMESTIC EQUITY INVESTMENTS
FISCAL YEAR 2009**

BENCHMARKS	INTERNAL	EXTERNAL
Standard & Poor's 500 Index	-20.44%	-20.44%
Standard & Poor's 1500 Index	-20.46%	-20.46%
FUND	INTERNAL	EXTERNAL
Teacher Retirement System Pension Trust Fund	-18.42%	-9.95%
Permanent School Fund – TEA	-18.00%	N/A
Permanent School Fund – GLO	-4.48%	-39.98%
Employees Retirement System Pension Trust Fund	-17.81%	-20.85%
Permanent University Fund	-59.77%	-14.45%
Permanent Health Fund	-62.63%	-14.19%
Tobacco Settlement Permanent Trust Fund	N/A	-18.20%
Texas Guaranteed Tuition Plan Fund	N/A	-18.50%
Permanent Public Health Fund	N/A	-18.20%
Permanent Higher Education Fund	N/A	-18.20%

NOTE: N/A = funds that do not have domestic equity investments for the category shown. 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.
SOURCE: Investing agencies and UTIMCO.

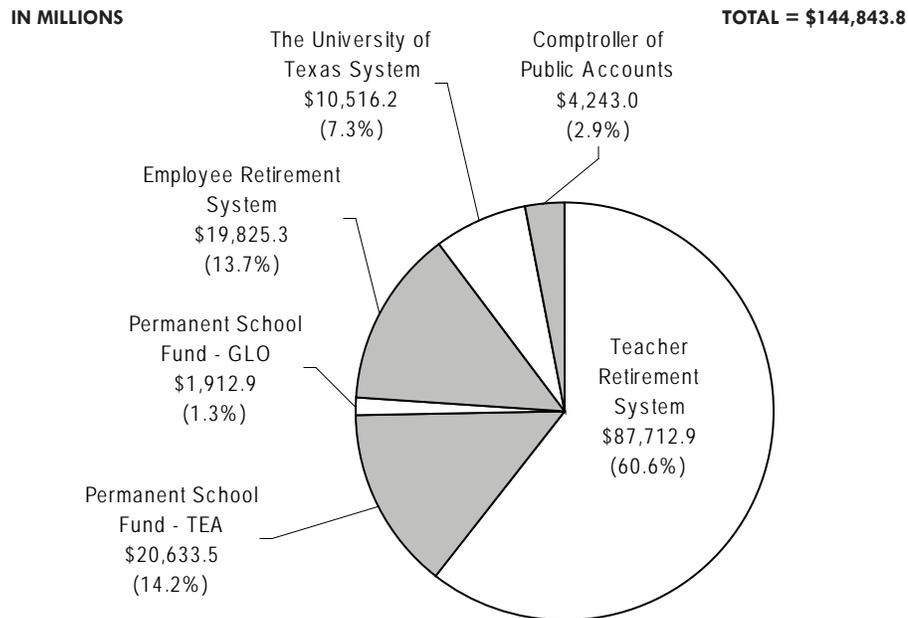
ACRONYMS

Acronyms used throughout this report follow:

- The University of Texas System – UT
- Texas Education Agency – TEA
- General Land Office – GLO
- State Board of Education – SBOE
- State Land Board – SLB
- 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

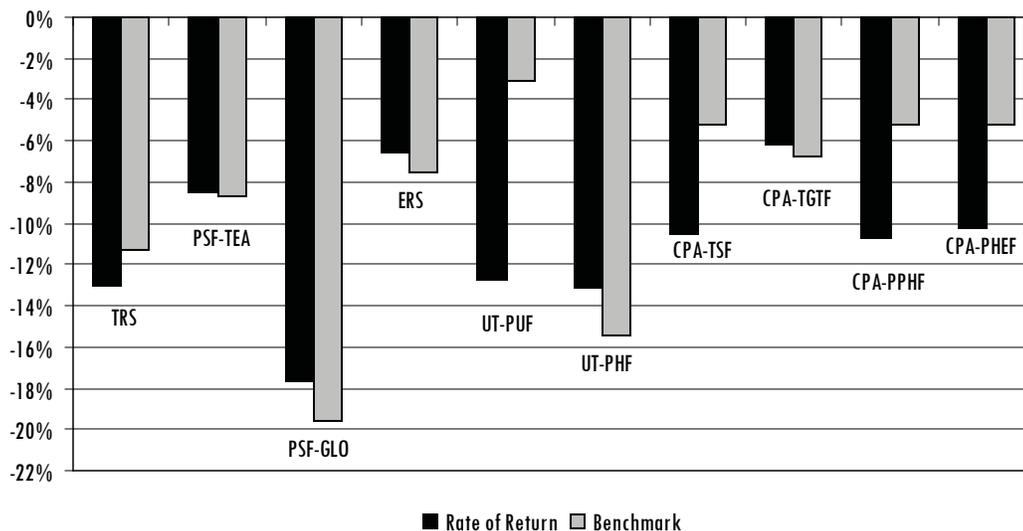
ALL MAJOR FUNDS

ENDING MARKET VALUES FISCAL YEAR ENDING AUGUST 31, 2009



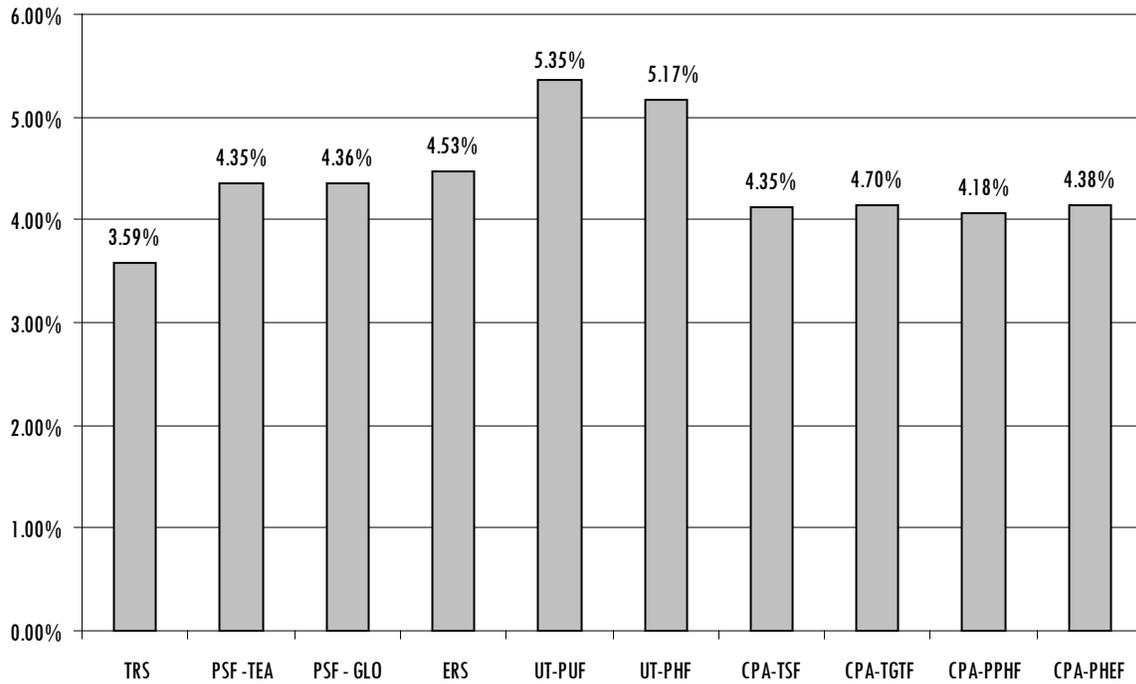
NOTES: The University of Texas System amounts include the Permanent University Fund and the Permanent Health Fund. Comptroller of Public Accounts amounts include the Tobacco Settlement Fund, the Texas Guaranteed Tuition Plan Fund, the Permanent Public Health Fund, and the Permanent Higher Education Fund.

RATES OF RETURN AND BENCHMARKS FISCAL YEAR 2009

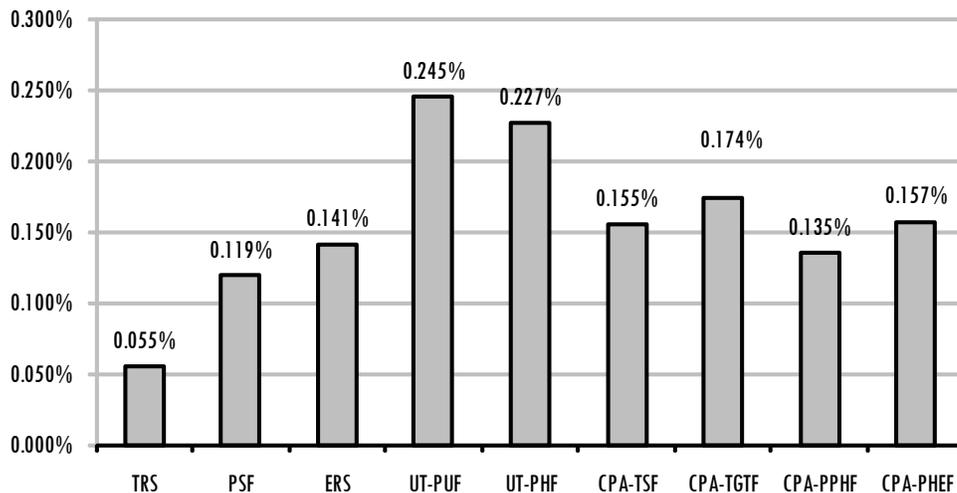


ALL MAJOR FUNDS

**AVERAGE TOTAL FUND RATES OF RETURN
FIVE-YEAR PERIOD ENDING AUGUST 31, 2009**

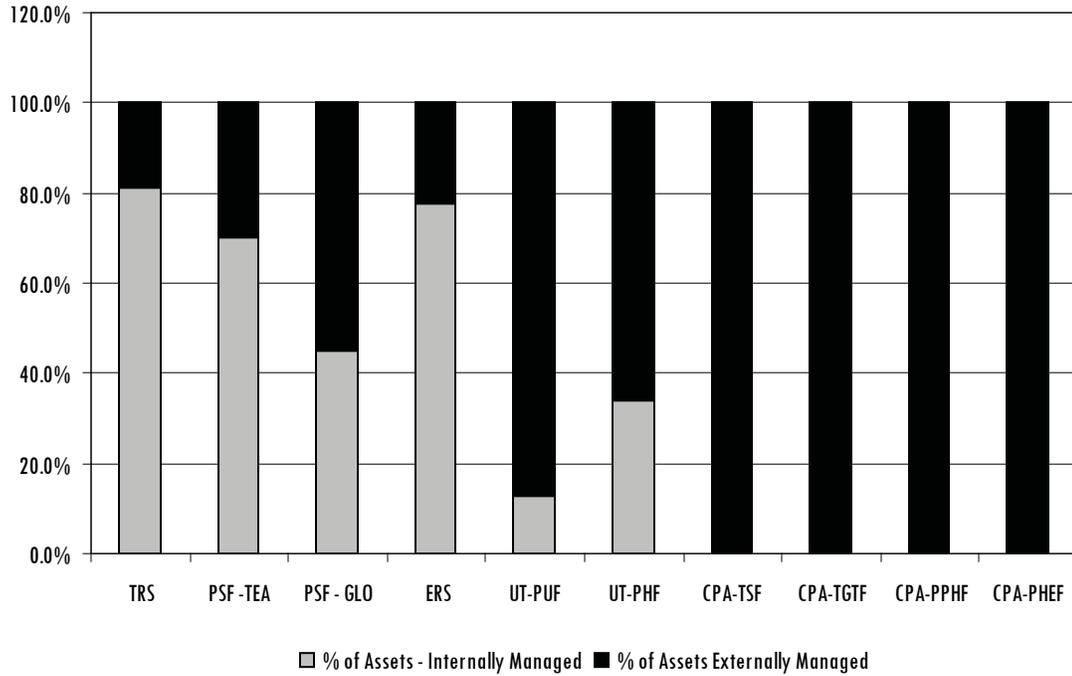


**RISK ADJUSTED RATES OF RETURN
FIVE-YEAR PERIOD ENDING AUGUST 31, 2009**



ALL MAJOR FUNDS

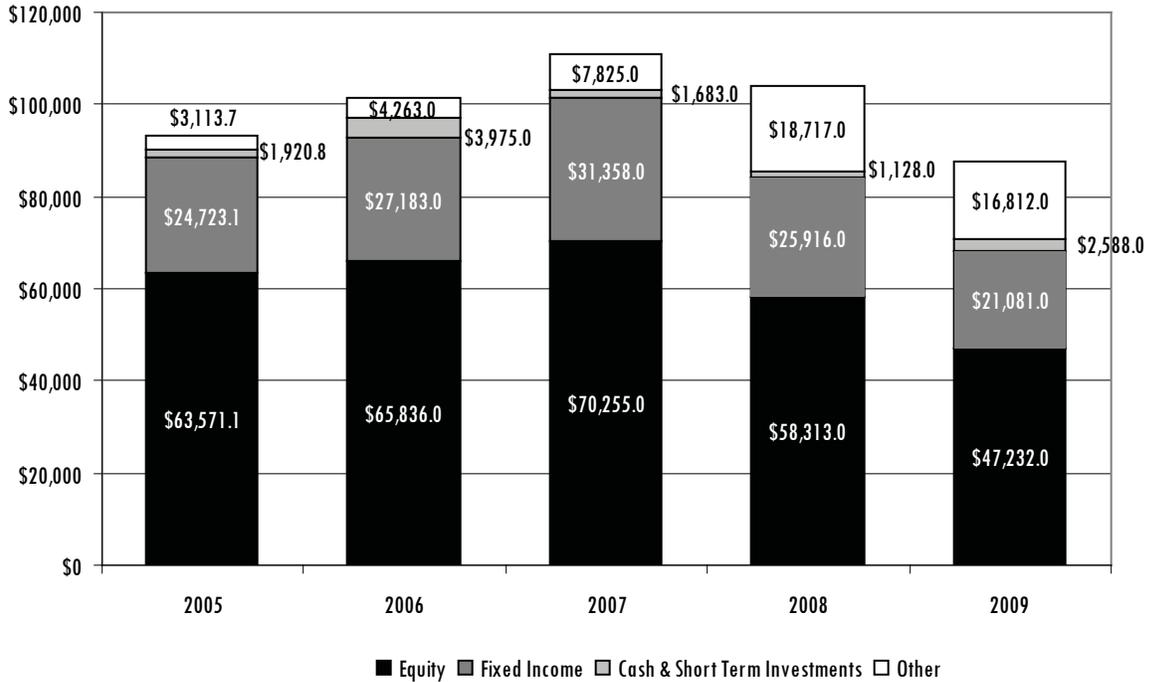
PORTION OF ASSETS INTERNALLY AND EXTERNALLY MANAGED
FISCAL YEAR 2009



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.

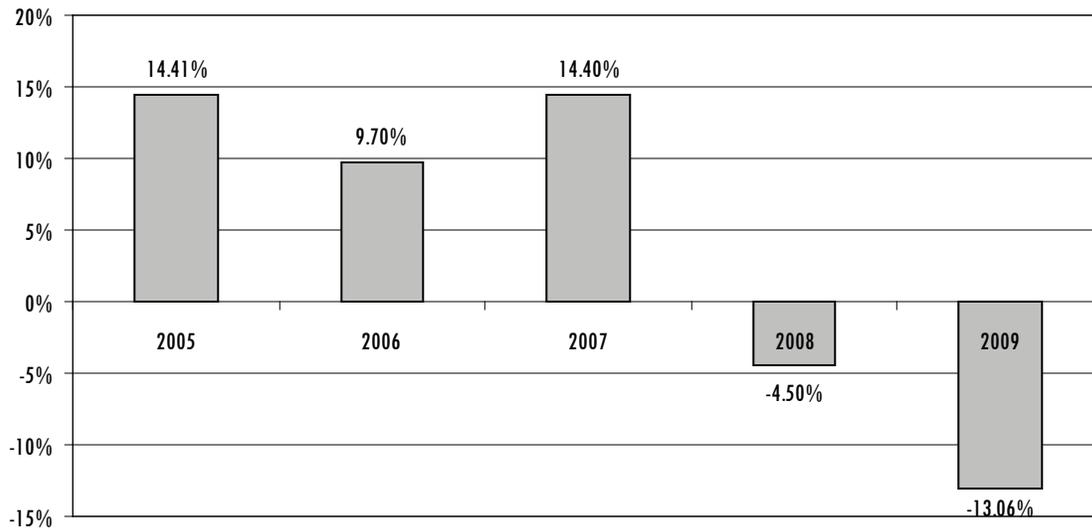
TEACHER RETIREMENT SYSTEM—PENSION TRUST FUND

PORTFOLIO DIVERSIFICATION
ENDING MARKET VALUES
FISCAL YEARS 2005 TO 2009



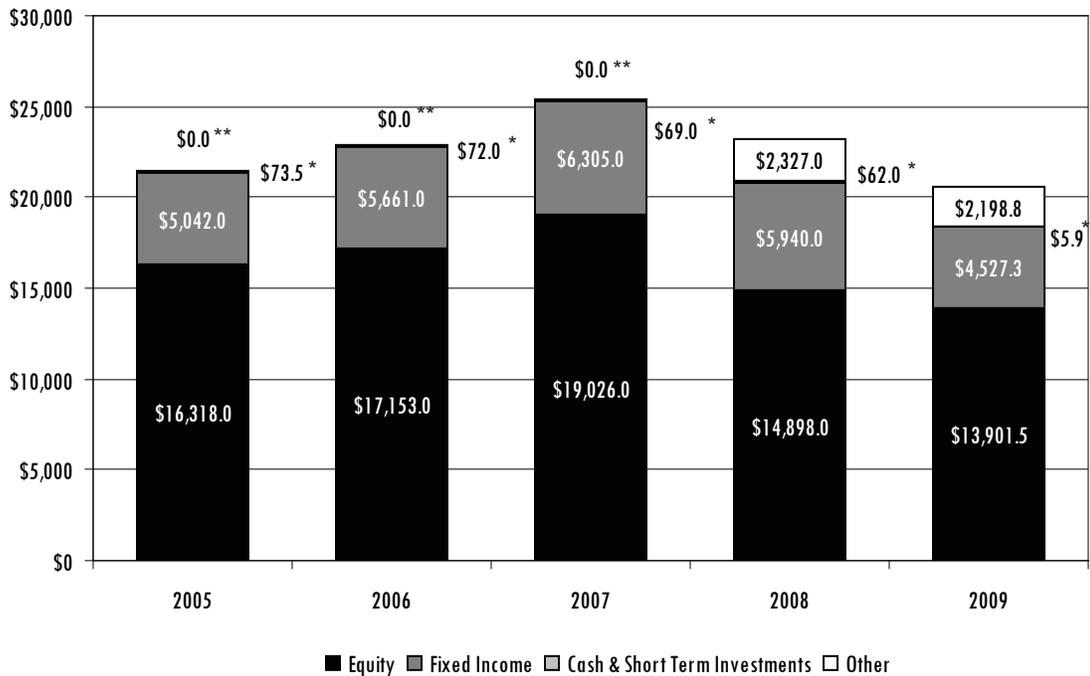
Note: Other investments include investments in private equity, absolute return equity, real estate, commodities, REITS, and other real assets.

ANNUAL TOTAL RATES OF RETURN
FISCAL YEARS 2005 TO 2009



PERMANENT SCHOOL FUND-TEA

PORTFOLIO DIVERSIFICATION
ENDING MARKET VALUES
FISCAL YEARS 2005 TO 2009

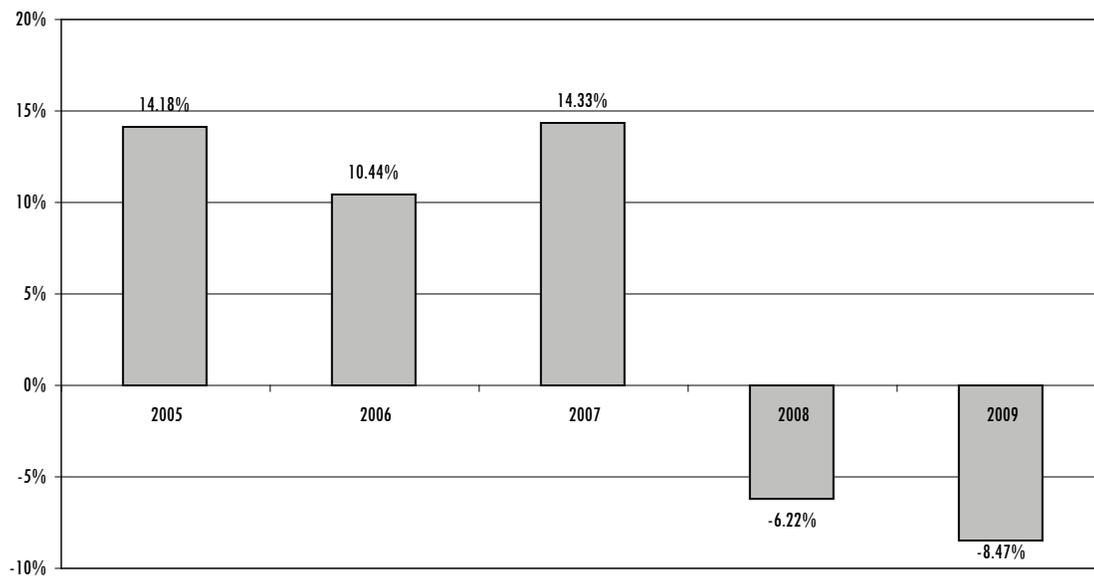


*These amounts are all in the Cash & Short-term securities category.

**These amounts are in the other category.

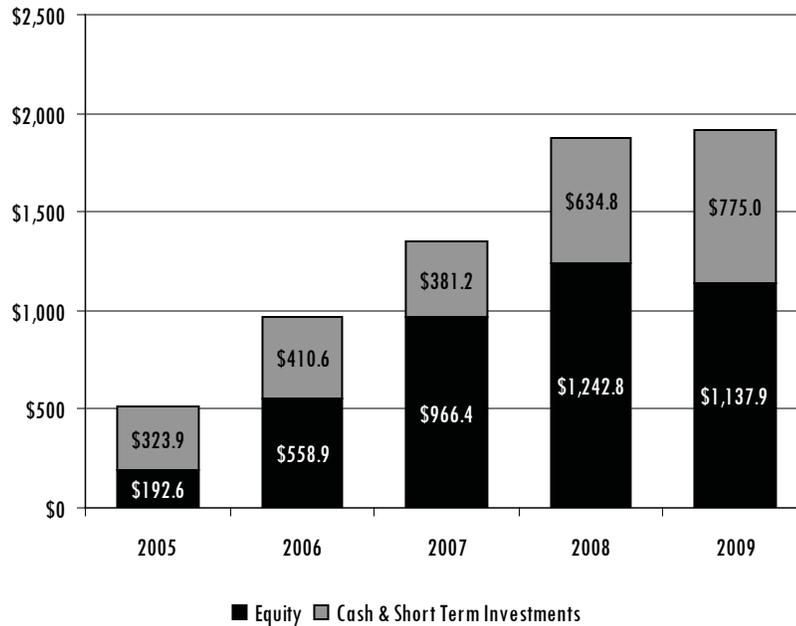
NOTE: Other investments include absolute return equity.

ANNUAL TOTAL RATES OF RETURN FISCAL YEARS 2005 TO 2009



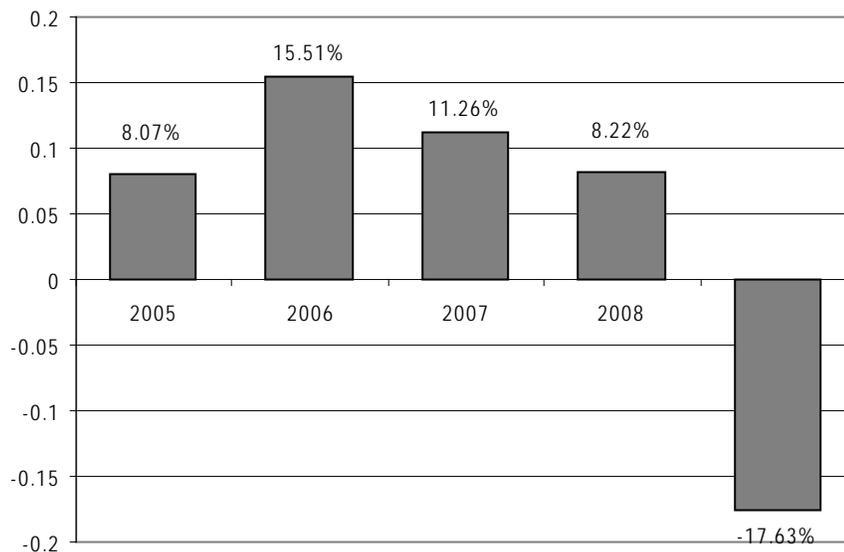
PERMANENT SCHOOL FUND—GLO

PORTFOLIO DIVERSIFICATION ENDING MARKET VALUES FISCAL YEARS 2005 TO 2009



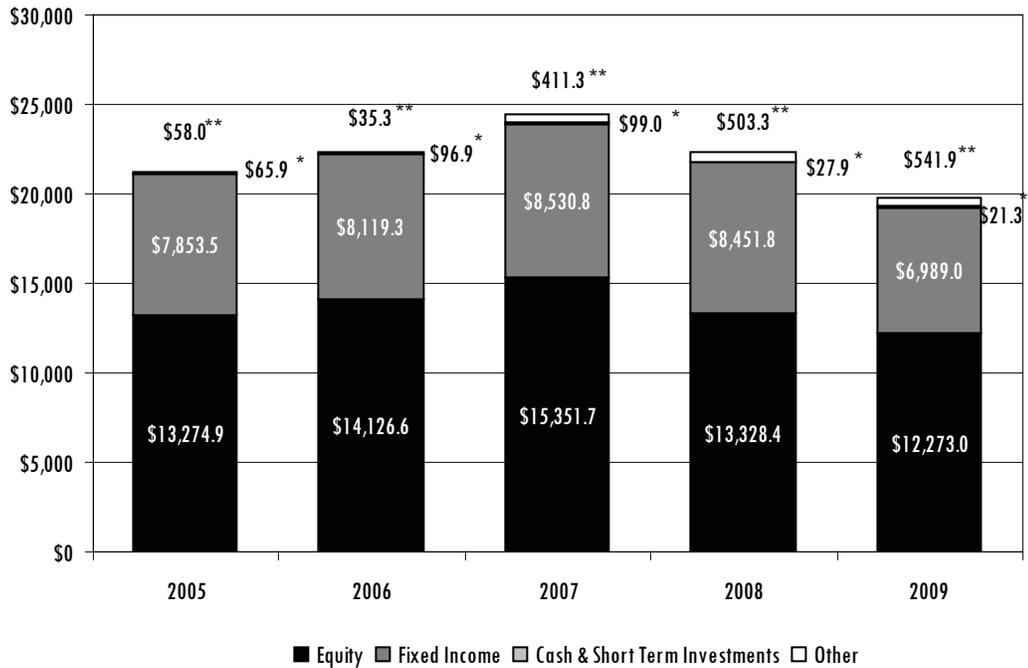
NOTE: the fixed income and other investments categories are not applicable to this fund.

ANNUAL TOTAL RATES OF RETURN FISCAL YEARS 2005 TO 2009



EMPLOYEES RETIREMENT SYSTEM—PENSION TRUST FUND

PORTFOLIO DIVERSIFICATION
ENDING MARKET VALUES
FISCAL YEARS 2005 TO 2009

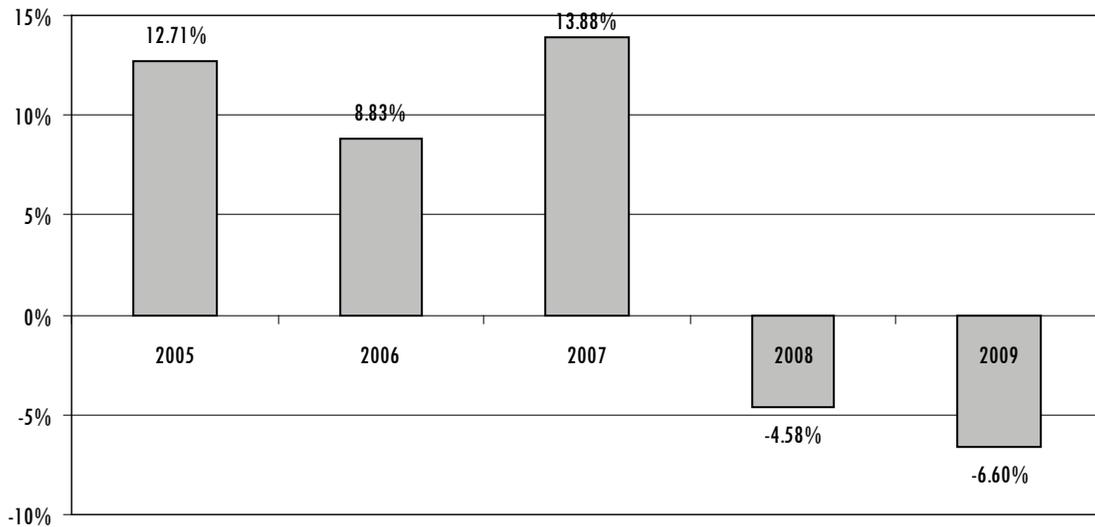


*These amounts are in the Cash & Short-Term Investments category.

**These amounts are in the Other Investments category.

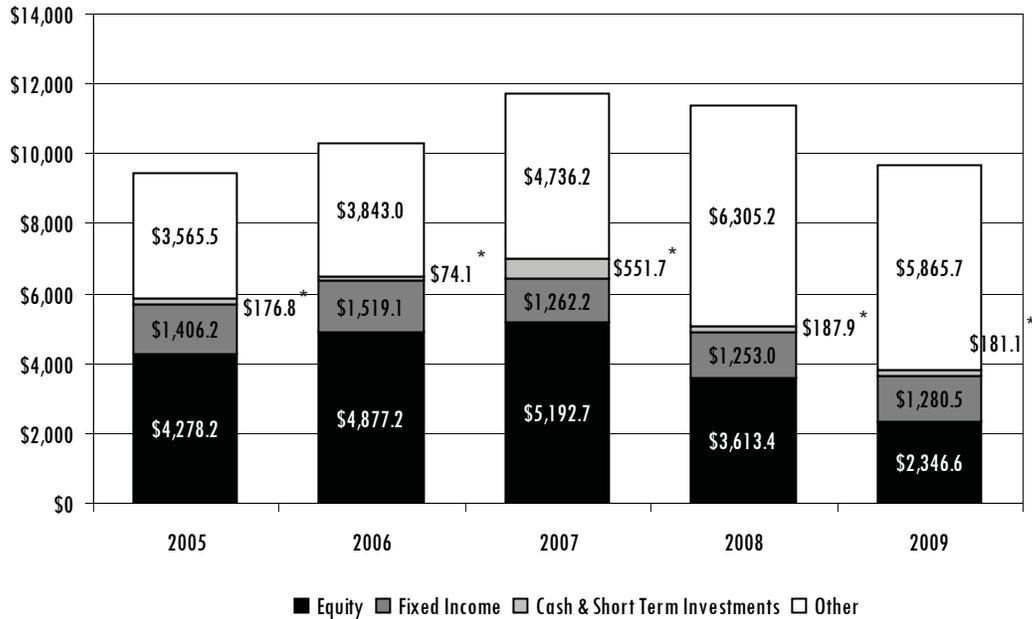
NOTE: Other investments include private equities, Domestic Real Estate Investment Trusts (REIT), and Global (REIT).

ANNUAL TOTAL RATES OF RETURN
FISCAL YEARS 2005 TO 2009



THE UNIVERSITY OF TEXAS SYSTEM— PERMANENT UNIVERSITY FUND

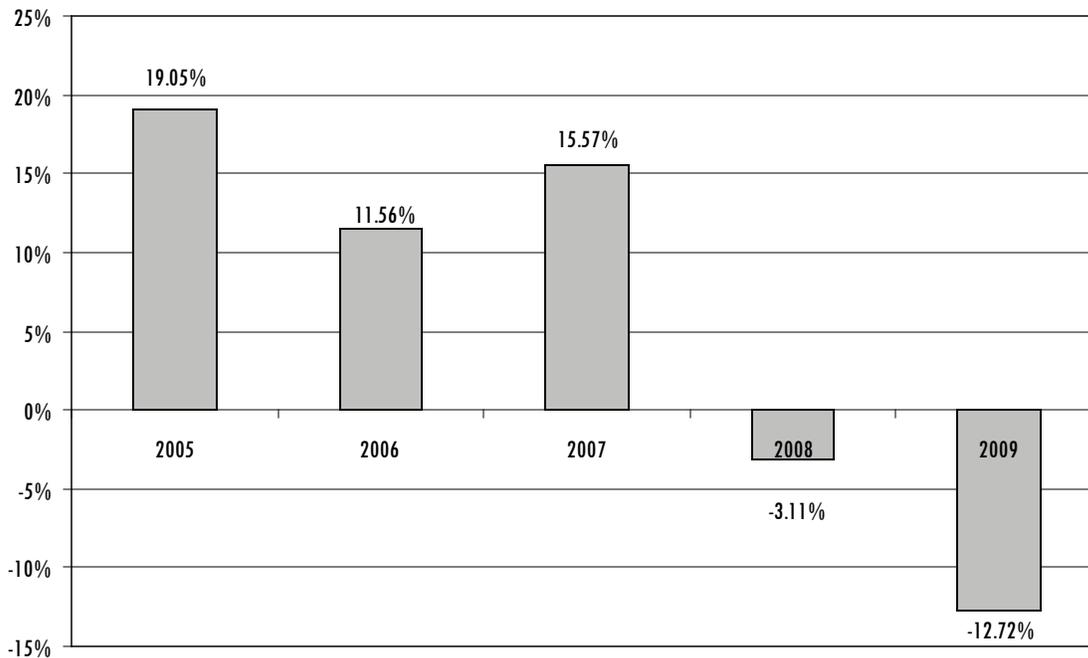
PORTFOLIO DIVERSIFICATION
ENDING MARKET VALUES
FISCAL YEARS 2005 TO 2009



*These amounts are in the Cash & Short-term Investments category.

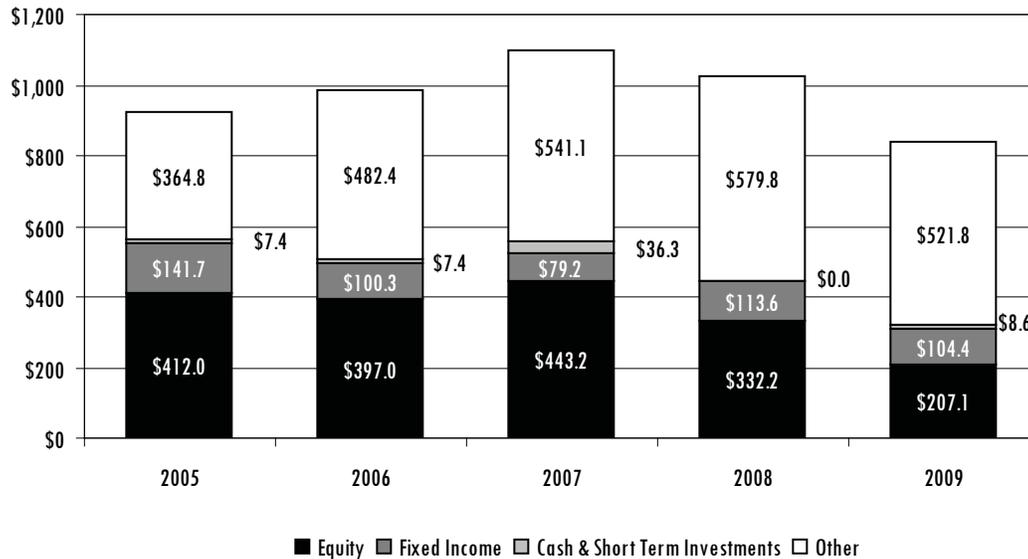
NOTE: The UT-PUF prior year balances have been restated to reflect changes in targets for their asset mix. Other investments include alternative investments such as hedge funds and private equity partnerships.

ANNUAL TOTAL RATES OF RETURN
FISCAL YEARS 2005 TO 2009



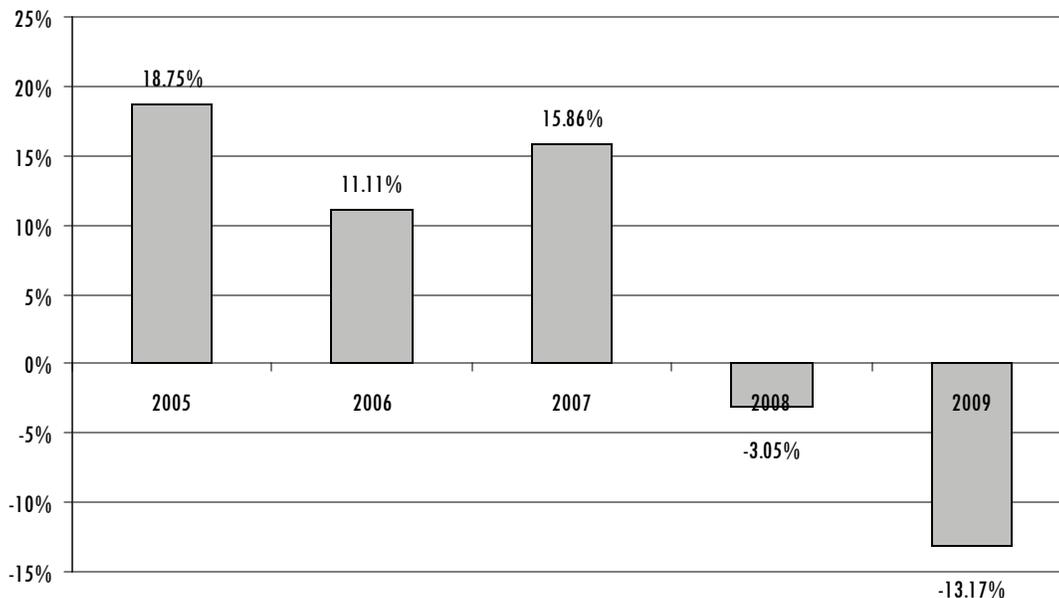
THE UNIVERSITY OF TEXAS SYSTEM— PERMANENT HEALTH FUND

PORTFOLIO DIVERSIFICATION
ENDING MARKET VALUES
FISCAL YEARS 2005 TO 2009



NOTE: The PHF assets are invested in the UT System General Endowment Fund (GEF). The allocation of PHF ending market value is based upon the allocation of GEF ending market value. 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.

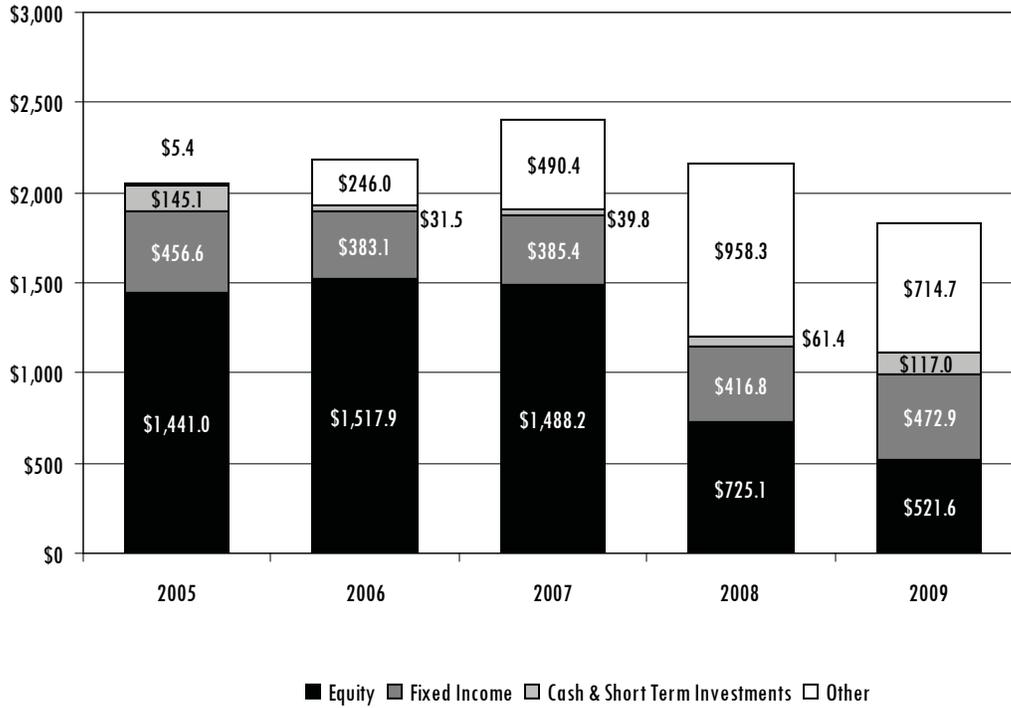
ANNUAL TOTAL RATES OF RETURN
FISCAL YEARS 2005 TO 2009



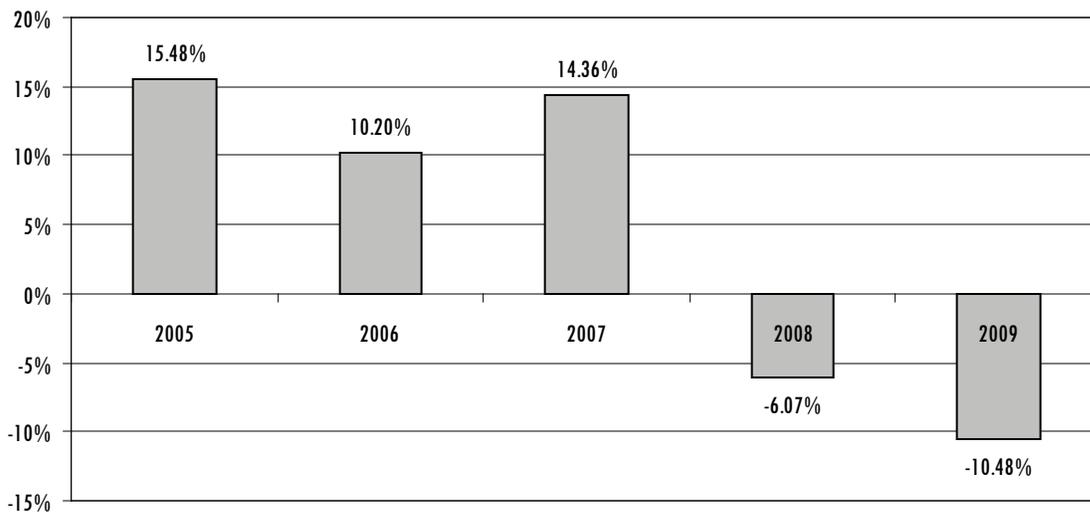
NOTE: The Permanent Health Fund was created by the Seventy-sixth Legislature, 1999; initial contribution was made on August 31, 1999. It was consolidated with the Long-Term Fund on March 1, 2001. The rates for fiscal years 2001 to the present reflect the rates for the consolidated funds.

COMPTROLLER OF PUBLIC ACCOUNTS— TOBACCO SETTLEMENT PERMANENT TRUST FUND

PORTFOLIO DIVERSIFICATION
ENDING MARKET VALUES
FISCAL YEARS 2005 TO 2009

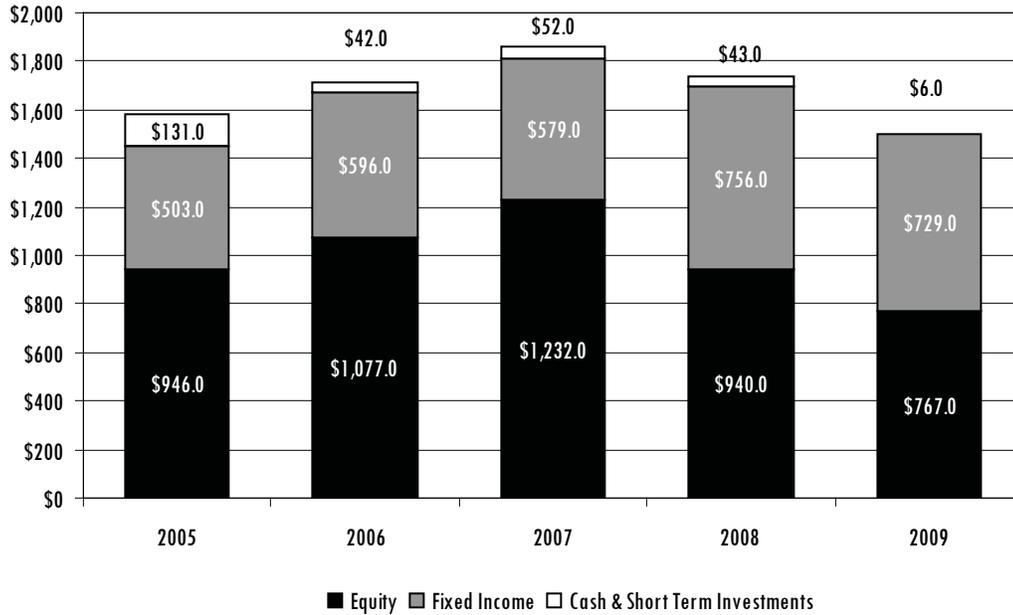


ANNUAL TOTAL RATES OF RETURN
FISCAL YEARS 2005 TO 2009



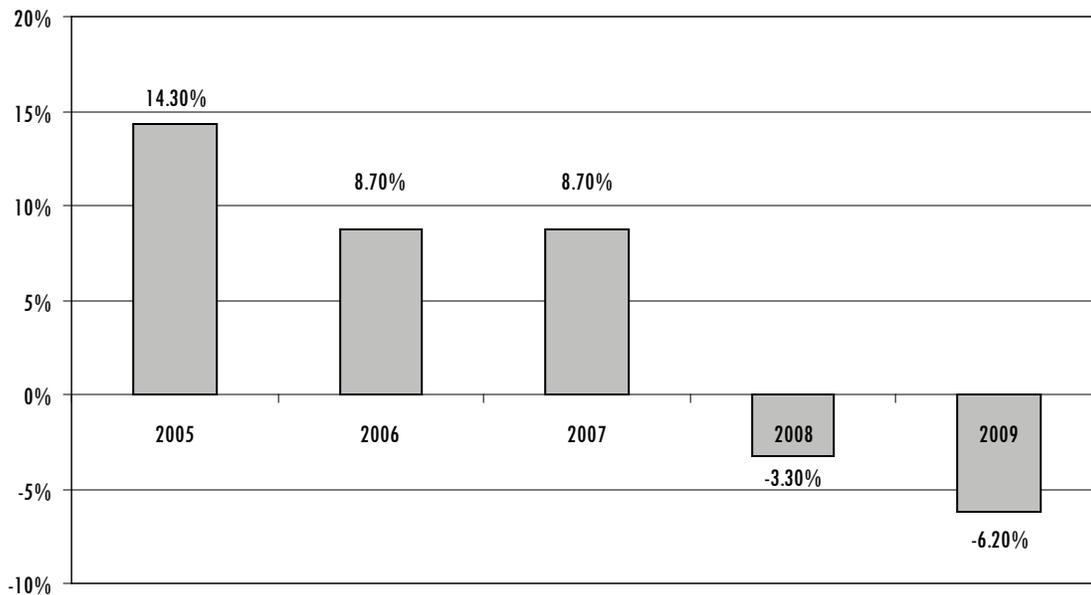
COMPTROLLER OF PUBLIC ACCOUNTS— TEXAS GUARANTEED TUITION PLAN FUND

PORTFOLIO DIVERSIFICATION
ENDING MARKET VALUES
FISCAL YEARS 2005 TO 2009



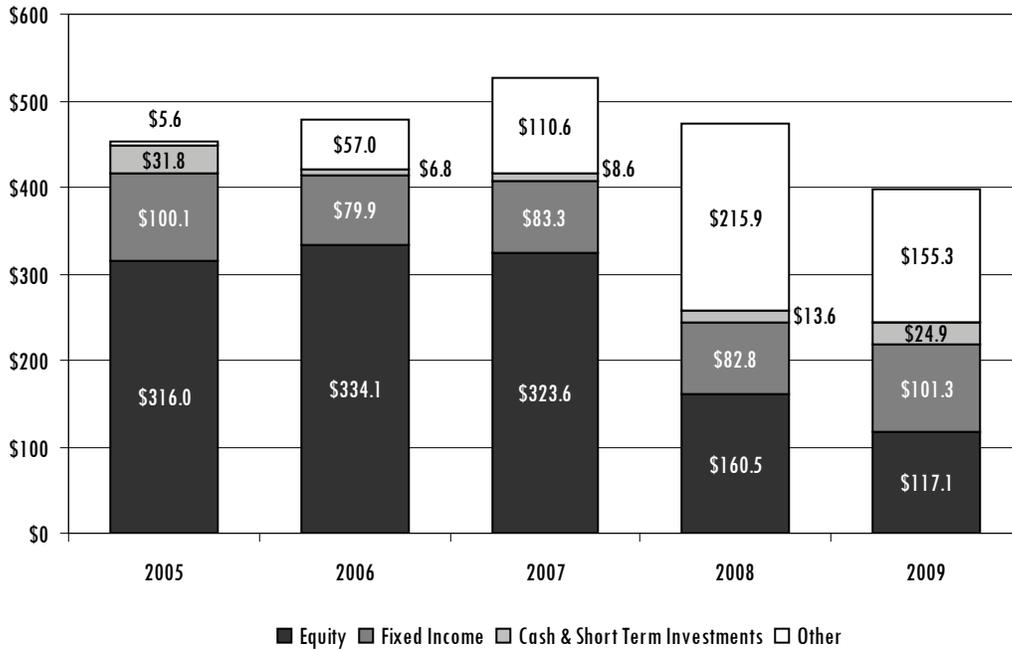
Note: The other investments category is not applicable to this fund.

ANNUAL TOTAL RATES OF RETURN
FISCAL YEARS 2005 TO 2009



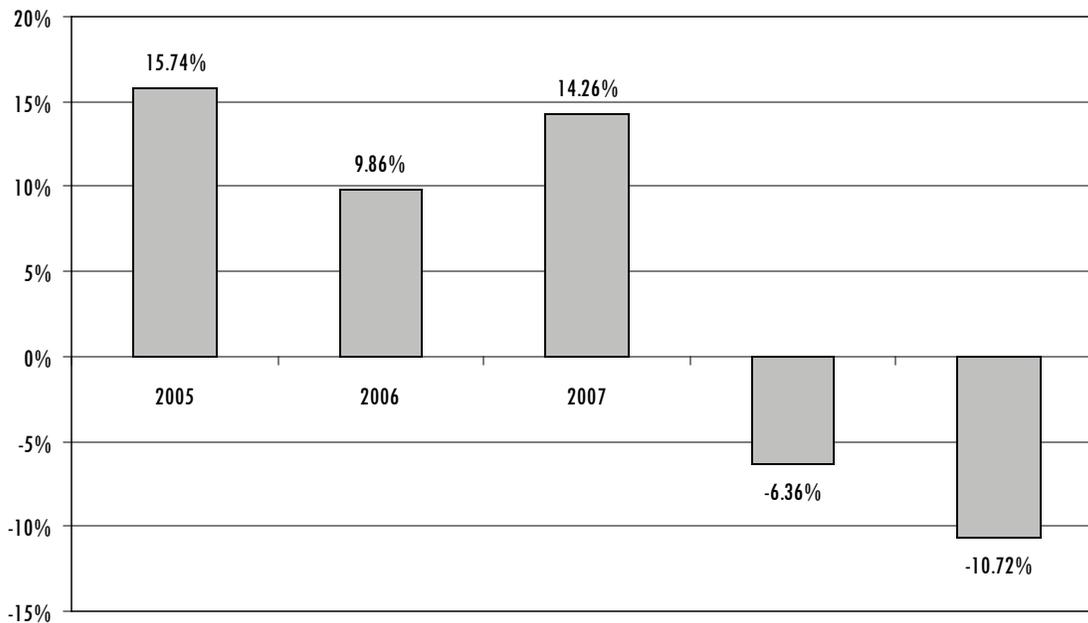
COMPTROLLER OF PUBLIC ACCOUNTS— PERMANENT PUBLIC HEALTH FUND

PORTFOLIO DIVERSIFICATION
ENDING MARKET VALUES
FISCAL YEARS 2005 TO 2009



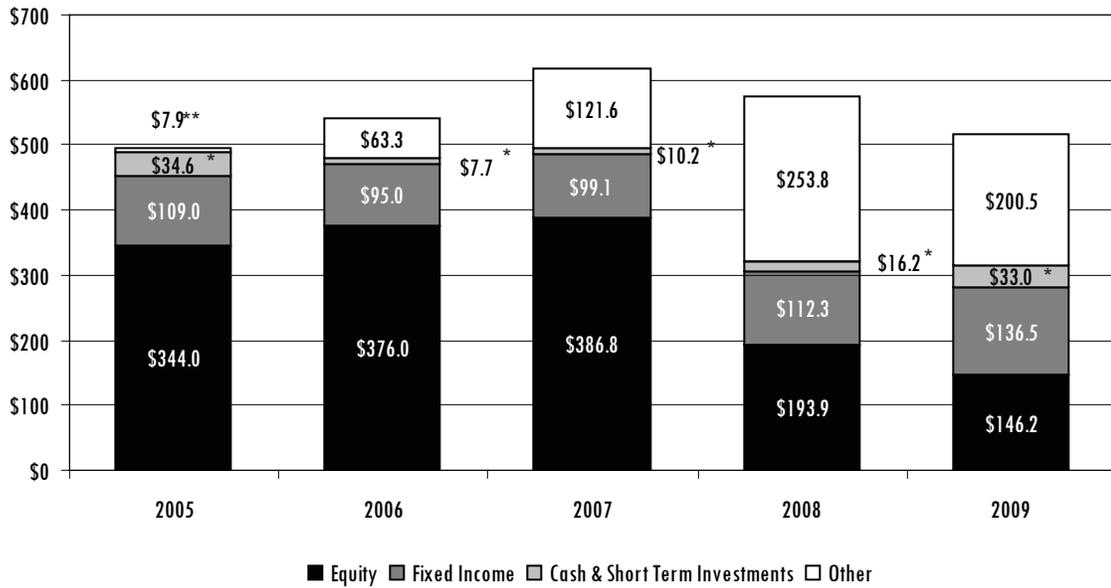
NOTE: Other investments include directional and non-directional hedge funds, private equity, and real estate.

ANNUAL TOTAL RATES OF RETURN
FISCAL YEARS 2005 TO 2009



COMPTROLLER OF PUBLIC ACCOUNTS— PERMANENT HIGHER EDUCATION FUND

PORTFOLIO DIVERSIFICATION
ENDING MARKET VALUES
FISCAL YEARS 2005 TO 2009

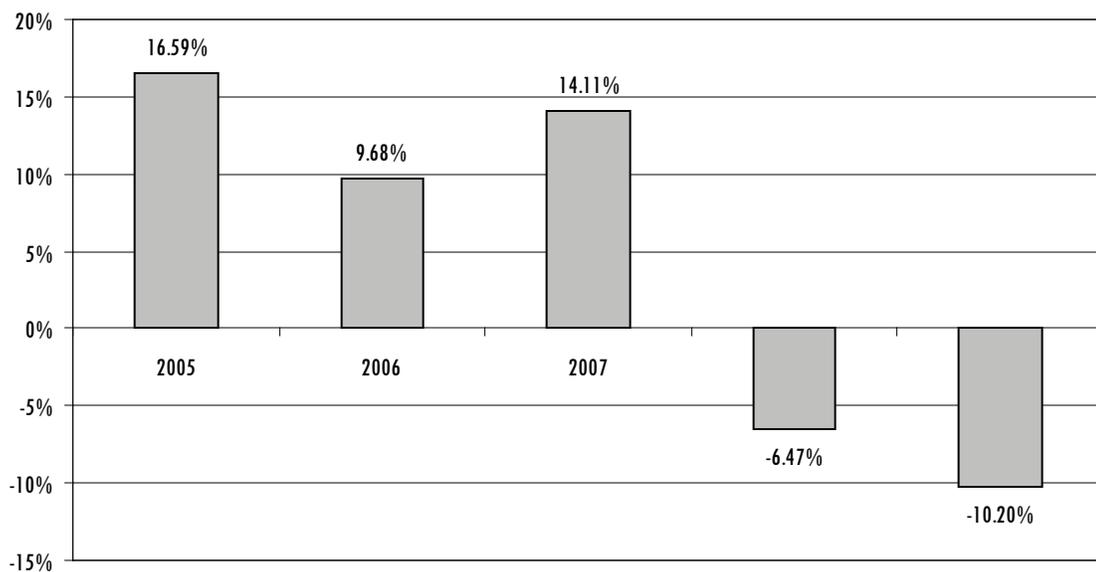


* These amounts are in Cash & Short-term securities.

**These amounts are in the other category.

NOTE: Other investments include directional and non-directional hedge funds, private equity, and real estate.

ANNUAL TOTAL RATES OF RETURN
FISCAL YEARS 2005 TO 2009



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 member reinstatements increased the fund's value in fiscal year 2009. 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 but not more than 10 percent of the aggregate annual compensation of all members of the system during that fiscal year. In fiscal year 2009 the state and member contribution rate was 6.4 percent. In fiscal year 2010 the member contribution rate will remain at 6.4 percent. The state contribution rate was increased to 6.644 percent, effective January 1, 2010, as a result of a recent Texas Attorney General's opinion concluding one-time supplemental payment to eligible TRS retirees is not permissible under Texas law.

The system's Comprehensive Annual Financial Report for fiscal year 2009 reports total contributions increased \$209.9 million or 5.1 percent over fiscal year 2008 contributions. In fiscal year 2009 member contributions were \$2.1 billion, state contributions were \$1.8 billion, reporting entity contributions were \$413 million, and member reinstatements were \$76 million. In fiscal year 2009 investment income resulted in a loss of \$14.0 billion to the fund.

FUND DISTRIBUTIONS

Deductions from the fund are predominantly retirement, death, and survivor benefits. During fiscal year 2009, the fund paid \$6.3 billion for benefits, \$267 million for members refunding their accounts, and \$30 million for other expenses (net of investing activity expenses). In fiscal year 2009 fund distributions totaled \$6.6 billion.

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 5 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" standard. In fiscal year 2008, the board reviewed and adjusted the investment policy to achieve the long-term targeted rate of return of 8 percent. This resulted in a shift to a more diversified investment strategy, which included a change in asset allocation and benchmarks.

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, and is assisted by outside investment consultants and internal and external legal counsel. Appointments are subject to confirmation by the Senate. Board member terms expire August 31 of odd numbered years.

TEACHER RETIREMENT SYSTEM—PENSION TRUST FUND (CONTINUED)**PERCENTAGE OF ASSETS EXTERNALLY MANAGED/
ADVISED**

According to TRS, internal staff manages 81 percent of TRS assets; the remaining 19 percent are managed externally. External management of funds began in August of 2008.

INVESTMENT COSTS

The cost of investing the funds for the fiscal year was \$69 million, or 7 basis points (0.07 percent) of the net assets held in trust for pension benefits at the beginning of fiscal year 2009. The investment cost consists of \$28 million in direct internal cost and \$10 million in indirect internal cost. According to TRS, direct investment expenses included salaries and operating costs of the investment division. Indirect costs included fees for services such as accounting, purchasing, legal and supplies and security. External investment costs include fees paid to external managers and do not include transaction costs on investments. The increase in investment expenses in fiscal year 2009 is primarily due to an increase in external management fees that were incurred for the first time at the end of fiscal year 2008. Prior year investment costs were \$29 million or 0.03 percent of the net assets.

PERFORMANCE BENCHMARKS

TRS provided the following benchmarks for fiscal year 2009.

- Global Best Ideas – Morgan Stanley Capital International (MSCI) All Country World
- Domestic Equities – Large Cap Growth – Russell 1000 Growth
- Domestic Equities – Large Cap Value – Russell 1000 Value
- Domestic Equities – Small Cap – Russell 2000
- International Equities – MSCI Europe, Australia and Far East (EAFE) + Canada
- Emerging Markets – MSCI Emerging Markets (EM)
- Private Equities – Russell 3000 + 5%
- Cash – CitiGroup 90-day US Treasury Bill
- Absolute Return – 3 Month Libor + 2%
- Other Stable Value – LB Long Treasuries, LB Intermediate Gov/Credit Index

- Commodities – GS Commodities Index
- Global Inflation Linked – LB Global Inflation Linked Bond Index
- Long Treasuries – LB Long Treasuries
- Intermediate Government/ Credit – LB Intermediate Gov/Credit Index
- US TIPS – LB US Treasury TIPS Index
- Real Estate – National Council of Real Estate Investment Fiduciaries (NCREIF) Open-End Diversified Core (ODCE)
- REITS – National Association of Real Estate Investment Trusts (NAREIT)
- Other Real Assets – US Core CPI + 5%

RECENT LEGISLATION

The Eighty-first Legislature, Regular Session, 2009, did not enact any bills that affected the management, contributions, deductions or investments of the Teacher Retirement System Pension Trust Fund.

The Eightieth Legislature, Regular Session, 2007, enacted several bills that affect TRS.

Senate Bill 1447 provides additional investment authority to TRS by including certain private investments in the definition of “securities,” and allows the board of trustees to delegate investment authority of not more than thirty percent of the fund assets to external managers. In addition, investments in hedge funds are restricted to no more than five percent of the value of the systems investment portfolio. This investment authority expires September 1, 2012.

Senate Bill 247 prohibits state funds from being invested, or remaining invested, in publicly traded securities of certain companies that engage in business operation in the Country of Sudan. TRS is required to identify any listed company, from a list compiled and maintained by the Comptroller of Public Accounts, in which they own direct or indirect holdings. Written notice must be sent to the scrutinized company encouraging or warning that company to refrain from business activities in the Sudan, and warn the company that they may be subject to divestment.

PERMANENT SCHOOL FUND—TEXAS EDUCATION AGENCY

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 2.5 percent of average market value, along with 25 percent of the state's 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. In addition to these deposits GLO transfers an authorized amount set by the State Land Board (SLB) each year to the Texas Education Agency (TEA). According to TEA \$100.4 million was added to the PSF during fiscal year 2008 and \$100.0 million in fiscal year 2009.

FUND DISTRIBUTIONS

The Fund calculates its annual distribution to the Available School Fund (ASF) using a total return methodology, established by Constitutional amendment in 2003. Distribution rates are set by a two-thirds (2/3) vote of the State Board of Education (SBOE). If the SBOE does not set the rate before the start of the next Legislative session, then the Legislature will set the distribution rate. The distribution rate cannot exceed 6.0 percent of the total market value and the total distribution over the past ten years cannot exceed the total return for the same period. The distribution rate is set at 2.5 percent for fiscal years 2010 and 2011, or 5.0 percent for the biennium in the event that the full 2.5 percent is not transferred in fiscal year 2010. In fiscal year 2009 \$716.5 million was distributed to the ASF.

INVESTMENT OBJECTIVE

The investment objective, according to TEA, is long term and focused on fairly balancing the benefits between current and future generations while preserving the real per capita value of the PSF. Investment decisions adhere to the "prudent person" rule and asset class allocations are adjusted accordingly to meet the investment objectives of the Fund.

INVESTMENT AND OVERSIGHT RESPONSIBILITY

The Texas Constitution assigns control of PSF assets to the 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 that appointed them.

PERCENTAGE OF ASSETS EXTERNALLY MANAGED/ADVISED

According to TEA, approximately 29.8 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. TEA reports external managers are used to manage international equities and absolute return investments.

INVESTMENT COSTS

According to TEA, the cost of administrating the fund was \$10.8 million, or 5 basis points (0.05 percent) of the beginning fund balance for fiscal year 2009. This includes \$7.7 million in direct internal costs and over \$0.4 million in fees paid to external entities. In addition to standard investment salaries, costs, and allocated agency overhead, TEA reports investment expenses included costs associated with accounting, information technology, compliance and support staff; as well as fees paid for external management. Prior year investment costs were \$9.8 million or 0.04 percent of the fund balance.

PERFORMANCE BENCHMARKS

The following benchmarks were provided by TEA for fiscal year 2009.

- Fixed Income, managed internally – Barclay's Aggregate Bond Index
- Domestic Large Cap Equities, Passive – Standard & Poor's 500 Stock Composite Index

PERMANENT SCHOOL FUND—TEXAS EDUCATION AGENCY (CONTINUED)

- Domestic MidCap and Small Cap Equities, Passive – Standard & Poor’s 1000 Stock Composite Index
- International Equities, Passive – Morgan Stanley Capital International All Country World ex-U.S. Net of Dividends

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 2217, passed by the Seventy-ninth Legislature, 2005, added a cap of 15 percent to the portion of the PSF that may be invested in real estate.

PERMANENT SCHOOL FUND—GENERAL LAND OFFICE

FUND PURPOSE

The School Land Board (SLB) and the Commissioner of the Texas General Land Office (GLO) possess the authority to manage the state-owned lands dedicated to the Permanent School Fund (PSF). The funds are managed through the Real Estate Special Fund Account (RESFA) and can be used to acquire real estate as well as protect, maintain and enhance the value of the public school land. The real estate portfolio of the PSF is limited by statute to no more than 15 percent of the funds total market value.

FUND CONTRIBUTIONS

Contributions to the RESFA include revenue from school land sales, oil and gas royalties, surface damage fees and various other sources. According to GLO \$560.6 million was added to the RESFA in fiscal year 2009.

FUND DISTRIBUTIONS

The RESFA distribution to TEA is authorized annually by the SLB. According to GLO in fiscal year 2009 \$100.0 million was distributed to TEA. In fiscal year 2010 the SLB has authorized the release of \$100 million to TEA.

INVESTMENT OBJECTIVE

The primary investment objective, according to the GLO and the SLB, is to pursue a long-term strategy of investing in a variety of real estate to acquire, manage, and sell Stable Return real estate investments and produce gross total returns that exceed returns on the National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index by 100 basis points, measured over a rolling five-year period. Investment decisions must adhere to the “prudent investor standard.”

INVESTMENT AND OVERSIGHT RESPONSIBILITY

The Permanent School Fund real estate investment portfolio is managed through a combined effort of the SLB, the Investment Advisory Committee (IAC), TXGLO staff, and external fund managers including a real asset investment advisor. The SLB is comprised of the Land Commissioner, an appointee of the Governor and an appointee of the Attorney General. The IAC is comprised of the GLO Deputy Commissioner of Funds Management, the General Counsel,

the Deputy Commissioner of Asset Management, the Chief Clerk and a member of the SLB.

PERCENTAGE OF ASSETS EXTERNALLY MANAGED/ADVISED

According to the GLO, approximately 55 percent of the PSF real estate assets are externally managed. External investment managers manage a portfolio of commercial real estate in limited partnerships including office, industrial, retail, hotel, and apartment investments. The internally managed portfolio includes direct commercial real estate investments in areas where GLO is the only investor including raw land, industrial, and some mixed-use investments. GLO indicated 100 percent of their cash and short term securities are externally managed by the comptroller.

INVESTMENT COSTS

According to the GLO, total investment expenses for the year ending June 30, 2009, were \$12.3 million or 66 basis points (.66 percent) of the beginning fund balance. This amount includes \$2.7 million for direct internal costs, \$0.5 million in indirect internal expenses, and \$9.1 million for external costs. Internal investment expenses include cost for personnel and operating expenses relating to portfolio management, fees for legal services, procurement, and financial reporting. External expenses include management and incentive fees per limited partnership agreements. According to GLO, the increase in fiscal year 2009 investment expenses was due to an increase in actual investments and commitments made as well as additional closing fees. Investment costs for year ending June 30, 2008, were \$4.1 million, or .30 percent of the fund balance.

PERFORMANCE BENCHMARKS

The following benchmark has been identified by the GLO for year ending June 30, 2009.

- National Council of Real Estate Investment Fiduciaries (“NCREIF”) Property Index (“NPI”)

RECENT LEGISLATION

The Eighty-first Legislature, Regular Session, 2009, did not enact any legislation that directly affects SLB’s ability to invest or manage the real estate funds held in the RESFA.

PERMANENT SCHOOL FUND—GLO (CONTINUED)

House Bill 3699, passed by the Eightieth Legislature, 2007, broadens the SLB's authority to manage and control land, mineral and royalty interests, and real estate investments, and to utilize investment consultants or advisors. The SLB is authorized to designate funds received from the lands, interest, and investments for deposit in the real estate special fund account (RESF).

Also, House Bill 3699 revised Natural Resources Code section 51.413(1) to allow the SLB to release funds from the RESF directly to the Available School Fund (ASF). An Attorney General's Opinion was requested on the constitutionality of this transfer authority. The Attorney General's Opinion (opinion number GA-0617) found this provision of the bill inconsistent with the constitutional definition of the ASF, as set forth in the Texas Constitution article VII, section 5(a). As a result, it is the Attorney General's opinion that a court would find the transfer provision unconstitutional, thus requiring any transfer of proceeds from the sale of land in the RESFA to go to the PSF for investment by the State Board of Education.

House Bill 2217, passed by the Seventy-ninth Legislature, 2005 allows the School Land Board to set sales prices on real property and allows fund managers to be appointed to help manage real estate investments.

EMPLOYEES RETIREMENT SYSTEM—PENSION TRUST FUND

FUND PURPOSE

The Employees Retirement System of Texas was created by the Texas Legislature in 1947 and is administered in accordance with the Texas Constitution. The System provides a retirement and disability pension plan for State employees, law enforcement and custodial officers, elected state officials and two classes of judges. The system administers the trust funds with a fiduciary obligation to the members and retirees of the System who are its beneficiaries. The Employees Retirement System of Texas Plan (ERS), the Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECOS), the Judicial Retirement System of Texas Plan One (JRSI), and the Judicial Retirement System of Texas Plan II (JRS II) are single employer defined benefit pension plans. For investment purposes the trust funds are joined but separate accounting records are maintained.

FUND CONTRIBUTIONS

Member and state contributions are made to the trust funds as a percent of compensation set by state law. For ERS the constitution provides that the state contribution may not be less than 6 percent nor more than 10 percent and the member contribution may not be less than 6 percent. For 2008–09, the member contribution was 6 percent and the state contribution was 6.45 percent. The state contribution rate for the 2010–11 biennium set by the Eighty-first Legislature, Regular Session, 2009, is 6.45 percent. This rate increased to 6.95 percent for the 2010–11 biennium on January 1, 2010, as a result of a November 23, 2009, Texas Attorney General Opinion that stated the one-time payments in the General Appropriations Act, 2010–11 biennium, to retired state employees and retired teachers may be unconstitutional. The 2010–11 biennium member contribution rate was increased by House Bill 2559, Eighty-first Legislature, Regular Session, 2009, from 6.45 percent to equal the state contribution rate, not to exceed 6.5 percent.

Members of the LECOS are also members of the ERS; subsequently no contributions from either the state or the members have been made to the fund since 1993. However, the provisions of House Bill 2559 authorized a new 0.5 percent contribution to the LECOS for the LECOS members only beginning in the 2010–11 biennium.

JRS I is a pay as you go plan and there is no trust fund to receive contributions. Member contributions of 6 percent are deposited as unappropriated receipts in the states general revenue fund. Annuity payments and refunds for this plan are appropriated each biennium therefore the fund has no invested assets. Contributions to JRS II are set by general law and the state appropriations act. In fiscal year 2009, the member contribution rate was 6 percent and the state contribution rate was set at 16.83 percent and will remain the same for fiscal year 2010.

The 2009 Comprehensive Annual Financial Report (CAFR) reported that total member contributions to the pension trust funds for fiscal year 2009 were \$357.8 million and the total state contributions were \$395.0 million. Along with member and state contributions investment income also contributes to the fund value. In fiscal year 2009 investment income combined with contributions resulted in a loss to the trust funds of \$838.8 million.

FUND DISTRIBUTIONS

Distributions from the pension trust fund are based on benefit payments owed and according to ERS, equaled \$1.6 billion in fiscal year 2009.

INVESTMENT OBJECTIVE

The primary investment objective, outlined by ERS in the CAFR, is to earn a rate of return that ensures payments due to members and their beneficiaries at a reasonable cost to the members of the retirement plan and the taxpayers. The investment policy is structured around maximizing return while maintaining the safety of principal, reducing risk through diversification, and managing costs associated with implementation. The Board of Trustees sets a long-term asset allocation target which is adjusted to meet the needs of the plan and the beneficiaries. Investment decisions must adhere to the duty of care as set forth in Sec. 815.307 of the Government Code.

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

EMPLOYEES RETIREMENT SYSTEM—PENSION TRUST FUND (CONTINUED)

appointed by the speaker of the House of Representatives. The board selects external investment managers and appoints an investment advisory committee. The committee members are investment professionals who are required to meet, at least quarterly, to review ERS investments. An independent consultant is also retained to evaluate and analyze investment results.

Percentage of Assets Externally Managed/Advised:

According to ERS, approximately 77.7 percent of the agency's invested funds are handled completely by internal staff. For the remaining 22.3 percent, staff receives counsel from various fund advisors.

INVESTMENT COSTS

According to ERS, the cost of investing the funds was \$35.7 million, or 16 basis points (0.16 percent) of the beginning fund balance for fiscal year 2009. This includes \$23.2 million in direct internal expenses and \$12.5 million in external investment expenses. Internal investment costs included expenses for materials and supplies, rentals, salaries and wages, professional fees and services, and other operating expenses. External investment expenses included investment advisory and consulting fees. Prior year investment costs were \$35.5 million or 0.15 percent of the fund balance.

PERFORMANCE BENCHMARKS

The following benchmarks were provided by ERS for fiscal year 2009.

- Fixed Income – Investment Grade – Barclays Capital Aggregate Bond Index
- Fixed Income – Standard & Poor's 1500 and Standard & Poor's 500 Blend
- Fixed Income – High Yield – Merrill Lynch High Yield Master Trust BB-B, and Barclays Capital US High Yield Corp 2% Issuer Cap.
- Real Estate – Financial Times and London Stock Exchange (FTSE), European Public Real Estate Association (EPRA)/NAREIT Blended Global Real Estate, FTSE EPRA/ NAREIT US, FTSE EPRA/ NAREIT US Global ex US
- Domestic Small Cap Equities – Standard & Poor's 600 Index
- Domestic Small Cap Value – Standard & Poor's 600 Index/ Citigroup Barra Value
- Domestic Small Cap Growth – Standard & Poor's 600/ Citigroup Growth
- Domestic Large Cap Equities – Standard & Poor's 500 Stock Composite Index
- Domestic Equities Large Cap Value – Standard & Poor's 500/Citigroup Value
- Domestic Equities Large Cap Growth – Standard & Poor's 500/Citigroup Growth
- Domestic Equities Mid Cap – Standard & Poor's 400 Mid-Cap
- International Equities – Morgan Stanley Capital International (MSCI) World ex US 5.89, Australia and Far East (EAFE) Free Index and MSCI EAFE/MSCI All Country World Index (ACWI) ex US Blended Index
- Cash Equivalents – 91-day U.S. Treasury Bill rate

RECENT LEGISLATION

The Eighty-first Legislature, Regular Session, 2009, enacted several bills that affect ERS including House Bill 2559. Provisions of House Bill 2559 authorize the State of Texas to match state employee contributions with contributions up to 6.5 percent, and establishes a new 0.5 percent contribution to the LECOS fund for LECOS members only. The bill also prohibits current employees who retire on or after May 31, 2009, from returning to work for a state agency for 90 days and modifies retirement benefits and annuity payments for those employees hired on or after September 1, 2009, as well as state employees who never contributed to the system or withdrew all of their funds from their ERS retirement account.

Senate Bill 247, passed by the Eightieth Legislature, Regular Session, 2007, prohibits state funds from being invested, or remaining invested, in publicly traded securities of certain companies that engage in business operation in the Country of Sudan. ERS is required to identify any listed company,

EMPLOYEES RETIREMENT SYSTEM—PENSION TRUST FUND (CONTINUED)

from a list compiled and maintained by the Comptroller of Public Accounts, in which they own direct or indirect holdings. Written notice must be sent to the scrutinized company encouraging or warning that company to refrain from business activities in the Sudan, and warn the company that they may be subject to divestment.

House Bill 957, enacted by the Eightieth Legislature, Regular Session, 2007, provides for automatic enrollment in the 401(k) plan for any new employee hired after January 1, 2008, unless the employee elects not to participate. A minimum contribution of 1 percent will be made to a default investment product selected by the board of trustees.

THE UNIVERSITY OF TEXAS SYSTEM—PERMANENT UNIVERSITY FUND

FUND PURPOSE

The Permanent University Fund (PUF) is a public endowment established by the Texas Constitution in 1876. The PUF contributes 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 incomes are added annually to the fund. According to the UT System, \$340.0 million in income earned by PUF lands were contributed to the PUF during fiscal year 2009. This represents a 25.7 percent decrease over the 2008 contribution of \$457.7 million. According to the 2008 CAFR, the increased mineral contributions to the PUF in fiscal year 2008 were the result of various factors including increased oil and natural gas prices and an increase in production volume.

FUND DISTRIBUTIONS

The PUF is a total return fund and amounts from both income as well as changes in asset values may be distributed. Article VII, Section 18(e) of the Texas Constitution requires that the amount of any distributions to the AUF shall be determined by the UT System Board in a manner intended to provide the AUF with a stable and predictable stream of annual distributions and to maintain over time the purchasing power of PUF investments and annual distributions to the AUF. The UT System Board has established an annual distribution to the AUF of 4.75 percent of the prior three years average net asset value of the PUF. According to the UT System, \$530.9 million was paid to the AUF in fiscal year 2009 and the distribution for fiscal year 2010 is set at \$529.6 million.

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). UTIMCO is the first external management corporation formed by a public university. 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 the UT System, approximately 87.4 percent of the PUF assets are externally managed.

INVESTMENT COSTS

According to the UT System, total investment expenses were \$33.5 million, or 29 basis points (0.29 percent) of the beginning fund balance. This amount includes \$4.2 million for direct internal costs, \$3.9 million for indirect internal costs, and \$25.4 million for external expenses for fiscal year 2009. The investment expenses included costs for management fees and fees related to custodial, auditing, consulting, performance, and risk management. Investment costs for the previous fiscal year were \$52.5 million or 0.45 percent of the fund balance.

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. The benchmarks below represent the PUF investment policy for the fiscal year ended August 31, 2009.

- Investment Grade Fixed Income – Barclays Capital Global Aggregate Index

THE UNIVERSITY OF TEXAS SYSTEM—PERMANENT UNIVERSITY FUND (CONTINUED)

- Credit-Related Fixed Income – Barclays Capital Global High-Yield Index
- Real Estate – FTSE EPRA/NAREIT (National Association of Real Estate Investment Trusts) Equity Index
- Natural Resources – Dow Jones-UBS Commodity Index Total Return and Morgan Stanley Capital International (MSCI) World Natural Resources Index
- Developed Country Equity – MSCI World Index with net dividends
- Emerging Markets Equity – MSCI Emerging Markets with net dividends
- Hedge Funds – Hedge Fund Research Indices Fund of Funds Composite Index
- Private Investments – Venture Economics Custom Index and Custom National Council of Real Estate Investment Fiduciaries (NACREIF) Index

THE 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 have been made since then.

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, measured by the Consumer Price Index (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, \$43.3 million was transferred to eligible institutions during fiscal year 2009.

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 UT System Board of Regents as the administrators of the fund. The UT System Board of Regents designated the University of Texas Investment Management Company (UTIMCO) as the investment manager. UTIMCO is the first external management corporation formed by a public university. The UTIMCO Board of Directors includes three members of the UT System Board, the chancellor of the UT System, and five outside investment professionals. The Long Term Fund (LTF) and the PHF are invested in shares of the General Endowment Fund (GEF), an internal mutual fund managed by UTIMCO.

PERCENTAGE OF ASSETS EXTERNALLY MANAGED/ADVISED

The PHF assets are invested in the UT System GEF. According to the UT System, 65.96 percent of the GEF assets are externally managed.

INVESTMENT COSTS

According to the UT System, total investment expenses for fiscal year 2009 were \$0.9 million, or 9 basis points (0.9 percent) of the beginning fund balance. This amount includes \$0.4 million in direct investment expenses and \$0.5 million in indirect investment expenses. The investment expenses included costs for management fees, custodian services and audit fees. Investment costs for fiscal year 2008 were \$0.9 million or 0.08 percent of the fund balance.

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.

- Investment Grade Fixed Income – Barclays Capital Global Aggregate Index
- Credit-Related Fixed Income – Barclays Capital Global High-Yield Index

THE UNIVERSITY OF TEXAS SYSTEM—PERMANENT HEALTH FUND (CONTINUED)

- Real Estate – FTSE EPRA/NAREIT (National Association of Real Estate Investment Trusts) Equity Index
- Natural Resources – Dow Jones-UBS Commodity Index Total Return and Morgan Stanley Capital International (MSCI) World Natural Resources Index
- Developed Country Equity – MSCI World Index with net dividends
- Emerging Markets Equity – MSCI Emerging Markets with net dividends
- Hedge Funds – Hedge Fund Research Indices Fund of Funds Composite Index
- Private Investments – Venture Economics Custom Index and Custom National Council of Real Estate Investment Fiduciaries (NACREIF) Index

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 was contributed to the fund through fiscal year 2003. No additional contributions are anticipated.

FUND DISTRIBUTIONS

The TSF is a total return fund and distributions may be made from both income as well as growth in asset values. The investment advisory committee (described below) has approved, and the CPA has adopted, a distribution rule set forth in Title 34, Part 1, Chapter 18, Section 18.2 of the Texas Administrative Code. The rule is designed to meet the investment objective of the trust (described below). According to the CPA, \$92.3 million was distributed during fiscal year 2009.

INVESTMENT OBJECTIVE

The primary investment objective, according to the CPA, is to provide a predictable, stable stream of distributions and to preserve the purchasing power of fund assets and annual distributions by earning an average annual total return, after inflation, of 5.0 percent over rolling ten-year periods or longer. Investment decisions must adhere to the “prudent investor” rule.

INVESTMENT AND OVERSIGHT RESPONSIBILITY

The CPA, through the Texas Treasury Safekeeping Trust Company, is responsible for management and oversight of the fund. An investment advisory committee composed of members from participating entities advises the CPA and approves rules governing the CPA’s duties and responsibilities for the investment of and distributions from the fund. The advisory committee is 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 by the Texas Conference of Urban Counties from subdivisions that received the third through the twelfth largest annual distributions in the preceding year. 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

According to the CPA, 100 percent of the fund’s assets are externally managed.

INVESTMENT COSTS

According to the CPA, total investment expenses for fiscal year 2009 were \$5.3 million, or 25 basis points (0.25 percent) of the beginning fund balance. This amount includes \$2.8 million for direct internal costs and \$2.5 million for external costs. Internal and external investment expenses included costs for salaries, consulting and auditing services, IT systems, compliance monitoring, overhead, risk management services, reporting and investment accounting, and management services. The investment costs for fiscal year 2008 were \$7.0 million or 0.29 percent of the fund balance.

PERFORMANCE BENCHMARKS

The CPA provided the following benchmarks for fiscal year 2009.

- Fixed Income – Investment Grade – 65 percent US Aggregate 35 percent Global Aggregate ex US
- Fixed Income – High Yield – Barclays Global High Yield Index
- Absolute Return – 3 Month T-Bill and Hedge Fund Research: Fund of Fund - Conservative

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

- Domestic Equities –Standard & Poor’s 1500 Stock Composite Index
- International Equities – Morgan Stanley Capital International (MSCI) All Country World Index (ACWI) ex USA
- Emerging Market Equities – MSCI Emerging Markets Index
- Hedge Fund – HFR: FOF – Diversified and 3 Month T-Bill
- Private Equity – MSCI ACWI
- Enhanced Real Estate – NCREIF National Property Index (NPI)
- Stable Value Real Estate – CPI
- TIPS – Barclays Global Inflation Linked
- Commodities – Dow Jones UBS Commodity
- Cash Equivalents – 90-day U.S. Treasury Bill rate

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. Currently the Texas Prepaid Higher Tuition Board has closed the Texas Guaranteed Tuition Plan Fund for enrollment. The plan currently accepting enrollment, The Texas Tuition Promise Fund, went into effect September 1, 2008. The fund is managed by the Texas Prepaid Higher Education Tuition Board.

FUND CONTRIBUTIONS

Existing member contributions are added annually to the Texas Guaranteed Tuition Plan fund. In fiscal year 2009 contributions totaled \$28.7 million in tuition contract payments and over \$800,000 in fees and other revenue. Investment income resulted in a loss of \$127.3 million to the fund in fiscal year 2009. According to CPA, contributions combined with the investment income loss resulted in a decrease of \$97.8 million.

FUND DISTRIBUTIONS

According to the CPA, \$123.4 million was distributed to colleges for tuition payments during fiscal year 2009. An additional \$1.9 million was distributed for administrative expenses and \$13.5 million was refunded to contract purchasers. In fiscal year 2009 fund distributions totaled \$138.8 million.

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, 100 percent of the fund’s assets are externally managed.

INVESTMENT COSTS

According to the CPA, the costs of investing the fund for fiscal year 2009 were \$5.0 million, or 29 basis points (0.29 percent) of the beginning fund balance. This amount consists entirely of external investment expenses and includes securities lending fees. The investment costs for fiscal year 2008 were \$16.1 million or 0.86 percent of the fund balance.

PERFORMANCE BENCHMARKS

The CPA provided the following benchmarks for fiscal year 2009.

- Fixed Income – Investment Grade – Barclays Capital Aggregate Bond Index
- Fixed Income – High Yield – Barclays Capital Corporate High Yield Bond Index
- Fixed Income – Global – Citigroup World Government Bond Index
- Domestic Equities – Standard and Poor’s 500 Index
- Value Equities – Large Capitalization – Russell 1000 Value Index
- Growth Equity – Large Capitalization – Russell 1000 Growth Index
- Core Equities – Small Capitalization – Russell 2000 Stock Index
- International Equities – Growth Account – Citigroup PMI EPAC Index
- International Equities – Value Account – MSCI EAFE Index
- Cash Equivalents – 90-day T-bill rate

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 may be made from both income as well as growth in asset values. The annual distributions are determined by the Comptroller of Public Accounts (CPA). Annual distributions, paid quarterly, are calculated as 4.5 percent of the twenty-quarter moving-average value of the PPHF as of June 30 for the following fiscal year. The annual distributions may not exceed 7 percent of the average net fair market value of the investment assets of the fund. According to the CPA, \$21.1 million was transferred during fiscal year 2009 to the Texas Department of Health to fund the relevant programs.

INVESTMENT OBJECTIVE

The primary investment objective, according to the CPA, is to provide a predictable, stable stream of distributions and to preserve the purchasing power of each fund's assets and annual distributions by earning an average annual total return, after inflation, of 5 percent over rolling ten-year periods or longer. Investment decisions must adhere to the "prudent investor" rule.

INVESTMENT AND OVERSIGHT RESPONSIBILITY

The CPA, through the Texas Treasury Safekeeping Trust Company, is responsible for management and oversight of the fund.

PERCENTAGE OF ASSETS EXTERNALLY MANAGED/ADVISED

According to the CPA, 100 percent of the fund assets are externally managed.

INVESTMENT COSTS

According to the CPA, the costs of administering the fund for fiscal year 2009 were \$1.2 million, or 25 basis points (0.25 percent) of the beginning fund balance. Internal and external investment expenses included costs for consulting, auditing, IT systems, compliance monitoring, overhead, risk management, reporting, investment accounting, investment management, and fees paid to money managers and custodians. Investment costs for fiscal year 2008 were \$1.5 million or 0.29 percent of the fund balance.

PERFORMANCE BENCHMARKS

The CPA provided the following benchmarks for fiscal year 2008:

- Fixed Income – Investment Grade – 65 percent US Aggregate 35 percent Global Aggregate ex US
- Fixed Income – High Yield – Barclays Global High Yield Index
- Absolute Return – 3-month T-Bill and Hedge Fund Research: Fund of Fund - Conservative
- Domestic Equities – Standard & Poor's 1500 Stock Composite Index
- International Equities – Morgan Stanley Capital International (MSCI) All Country World Index (ACWI) ex USA
- Emerging Market Equities – MSCI Emerging Markets Index
- Hedge Fund – HFR: FOF – Diversified and 3-month T-Bill
- Private Equity – MSCI ACWI
- Enhanced Real Estate – NCREIF National Property Index (NPI)
- Stable Value Real Estate – CPI

COMPTROLLER OF PUBLIC ACCOUNTS—PERMANENT PUBLIC HEALTH FUND (CONTINUED)

- TIPS - Barclays Global Inflation Linked
 - Commodities - Dow Jones UBS Commodity
 - Cash Equivalents - 90-day U.S. Treasury Bill rate
-

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.

The Eighty-first Legislature, Regular Session, 2009, passed House Bill 51, which repeals the PHEF and establishes the National Research University Development Fund (RUDF) in its place. Reallocations of the PHEF began in June of 2009. The RUDF will be under the oversight of the Comptroller and outside the state treasury.

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 2009.

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. Investment decisions must adhere to the “prudent investor” rule.

INVESTMENT AND OVERSIGHT RESPONSIBILITY

The CPA, through the Texas Treasury Safekeeping Trust Company, is responsible for management and oversight of the fund.

PERCENTAGE OF ASSETS EXTERNALLY MANAGED/ADVISED

According to the CPA, 100 percent of the fund assets are externally managed.

INVESTMENT COSTS

According to the CPA, total investment expenses for fiscal year 2009 were \$1.5 million, or 26 basis points (0.26 percent) of the beginning fund balance. Internal and external investment expenses included costs for consulting, auditing, IT systems, compliance monitoring, overhead, risk management, reporting, investment accounting, investment management, and fees paid to money managers and custodians. Investment costs for fiscal year 2008 were \$1.8 million or 0.29 percent of the fund balance.

PERFORMANCE BENCHMARKS

The CPA provided the following benchmarks for fiscal year 2009.

- Fixed Income – Investment Grade – 65 percent US Aggregate 35 percent Global Aggregate ex US
- Fixed Income – High Yield – Barclays Global High Yield Index
- Absolute Return – 3 Month T-Bill and Hedge Fund Research: Fund of Fund - Conservative
- Domestic Equities –Standard & Poor’s 1500 Stock Composite Index
- International Equities – Morgan Stanley Capital International (MSCI) All Country World Index (ACWI) ex USA
- Emerging Market Equities – MSCI Emerging Markets Index
- Hedge Fund – HFR: FOF – Diversified and 3 Month T-Bill
- Private Equity – MSCI ACWI
- Enhanced Real Estate – NCREIF National Property Index (NPI)
- Stable Value Real Estate – CPI
- TIPS – Barclays Global Inflation Linked
- Commodities – Dow Jones UBS Commodity
- Cash Equivalents – 90-day U.S. Treasury Bill rate

APPENDIX C. GLOSSARY

ACTIVE PORTFOLIO STRATEGY

A money-management approach based on informed, independent investment judgment 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.) 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 1/100th 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 others 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

Contract 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 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.

DERIVATIVES

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 possessed 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 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 times of rising inflation because interest or dividend payments 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.

HEDGE FUND

A hedge fund is typically set up as a private investment partnership that is open to a limited number of investors. The portfolios are typically managed more aggressively and rely on advanced investment strategies to generate high returns. Hedge Funds are not regulated by The Securities and Exchange Commission (SEC)

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.

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

A 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.

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 owed 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.

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

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 – GLO)

Permanent School Fund (PSF – TEA)

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 (CPA)

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. TEACHER RETIREMENT SYSTEM PENSION FUND

	Market Value of Fund Year Ending Aug. 31, 2009 \$ in millions				
Total Fund	\$87,712.9				
	Fiscal Year 2009 Time Weighted Gross Fund Return	Fiscal Year 2009 Time Weighted Net Fund Return	Fiscal Year 2009 Benchmark Adjusted Gross Fund Return		
Total Fund	(13.06%)	(13.09%)	(11.25%)		
	Fiscal Year 2009	Fiscal Year 2008	Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2005
Gross Return - Total Fund	(13.06%)	(4.50%)	14.40%	9.70%	14.41%
Gross Return - Equity (For Fiscal Year 2009 only)	(17.14%)	(11.00%)	17.00%	12.08%	18.35%
% of Domestic Equity Internally Managed	84.00%	94.00%	100.00%		
Rate of Return for Internally Managed	(18.42%)	(8.98%)	17.00%		
% of Domestic Equity Externally Managed	16.00%	6.00%	0.00%		
Rate of Return for Externally Managed	(9.95%)	N/A	N/A		
Gross Return- Fixed Income	4.14%	4.82%	5.60%	2.16%	4.78%
Gross Return - Cash & Short-term	(4.56%)	4.39%	5.38%	4.52%	2.53%
Gross Return - All Other	(27.00%)	4.84%	26.66%	22.92%	28.02%
	Market Value of Fund Year Ending Aug. 31, 2009 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2008 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2007 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2006 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2005 \$ in millions
Portfolio Diversification					
All Equity	\$47,232	\$58,313	\$70,255	\$65,836	\$63,571
All Fixed Income	\$21,081	\$25,916	\$31,358	\$27,183	\$24,723
All Cash & Short-term Securities	\$2,588	\$1,128	\$1,683	\$3,975	\$1,921
All Other Investments	\$16,812	\$18,717	\$7,825	\$4,263	\$3,114
	Total Fiscal Year 2009 \$ in millions				
Fund Contributions					
Members	\$2,107				
State	\$1,757				
Reporting Employers	\$413				
Member Reinstatements	\$76				
Investment Income	(\$13,972)				
Total Contributions	(\$9,619)				
	Fund Distributions \$ in millions				
Benefits	\$6,342				
Refunds	\$267				
Other	\$30				
Total Distributions	\$6,639				
	Internal Investment Expenses: \$ in millions				
Direct	\$28				
Indirect	\$10				
External Investment Expenses:	\$31				
Total Investment Expenses:	\$69				
	Year Ending Aug. 31, 2009				
Percentage of Assets Externally Managed	19%				

The 18.85% of percentage of Assets Managed includes Hedge Funds, without hedge funds it is 14.79%. The External Investment Expenses are considered direct investment expense but are not included in the \$28 million above.

ATTACHMENT 2. PERMANENT SCHOOL FUND—TEA

	Market Value of Fund Year Ending Aug. 31, 2009 \$ in millions				
Total Fund	\$20,633.5				
	Fiscal Year 2009 Time Weighted Gross Fund Return	Fiscal Year 2009 Benchmark Adjusted Net Fund Return	Fiscal Year 2009 Benchmark Adjusted Gross Fund Return		
Total Fund	(8.47%)	(8.56%)	(8.64%)		
	Fiscal Year 2009	Fiscal Year 2008	Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2005
Gross Return - Total Fund	(8.47%)	(6.22%)	14.33%	10.44%	14.18%
Gross Return - Equity	(16.68%)	(10.51%)	17.00%	12.84%	17.54%
(For Fiscal Year 2009 only)					
% of Domestic Equity Internally Managed	100.00%	100.00%	100.00%		
Rate of Return for Internally Managed	(18.00%)	(9.91%)	15.25%		
% of Domestic Equity Externally Managed	0.00%	0.00%	0.00%		
Rate of Return for Externally Managed	N/A	N/A	N/A		
Gross Return- Fixed Income	10.20%	5.40%	5.59%	1.74%	4.11%
Gross Return - Cash & Short-term	N/A				
Gross Return - All Other*	(4.86%)				
	Market Value of Fund Year Ending Aug. 31, 2009 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2008 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2007 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2006 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2005 \$ in millions
Portfolio Diversification					
All Equity	\$13,901.5	\$14,898	\$19,026	\$17,153	\$16,318
All Fixed Income	\$4,527.3	\$5,940	\$6,305	\$5,661	\$5,042
All Cash & Short-term Securities	\$5.9	\$62	\$69	\$72	\$74
All Other Investments	\$2,198.8	\$2,327	-	-	-
Totals:	\$20,633.5	\$23,227	\$25,400	\$22,886.1	\$21,433.4
	Total Fiscal Year 2009				
Fund Contributions	\$100,000,000				
Fund Distributions	\$716,533,764				
Internal Investment Expenses:					
Direct	\$7,732,105				
Indirect	\$2,614,617				
External Investment Expenses:	436,894				
Total Investment Expenses:	\$10,783,616				
	Year Ending Aug. 31, 2009				
Percentage of Assets Externally Managed	29.80%				

*Rate of Return is Modified Dietz.

Factors currently include in calculation of investment expenses:

1. External Investment Expenses: Single external investment manager for International Equity Index Portfolio.
2. Internal Investment Expense includes personnel and operating costs for portfolio management, legal, consulting, custody, accounting and information technology.

ATTACHMENT 3. PERMANENT SCHOOL FUND—TEXAS GENERAL LAND OFFICE (GLO)

	Market Value of Fund				
	Year Ending June 30, 2009				
	\$ in millions				
Total Fund	\$1,912.9				
	Year Ending June 30, 2009	Year Ending June 30, 2009	Year Ending June 30, 2009	Year Ending June 30, 2006	Year Ending June 30, 2005
	Time Weighted Gross Fund Return	Time Weighted Net Fund Return	Benchmark Adjusted Gross Fund Return		
Total Fund	(17.63%)	(18.26%)	(19.56%)		
	Year Ending June 30, 2009	Year Ending June 30, 2008	Year Ending June 30, 2007	Year Ending June 30, 2006	Year Ending June 30, 2005
Gross Return - Total Fund	(17.63%)	8.22%	11.26%	15.51%	8.07%
Gross Return - Real Assets	(26.53%)	9.45%	14.47%	26.65%	21.35%
(For Year Ending 2009 only)					
% of Real Assets Internally Managed	45.00%	44.00%	61.00%	N/A	N/A
Rate of Return for Internally Managed	(4.48%)	12.73%	13.51%	N/A	N/A
% of Real Assets Externally Managed	55.00%	56.00%	39.00%	N/A	N/A
Rate of Return for Externally Managed	(39.98%)	5.65%	13.57%	N/A	N/A
Gross Return- Fixed Income			N/A	N/A	N/A
Gross Return - Cash & Short-term	2.33%	4.53%	5.17%	4.14%	
Gross Return - All Other		N/A	N/A	N/A	N/A
Gross Return - Absolute Return		N/A	N/A	N/A	N/A
Gross Return - Equity Hedge		N/A	N/A	N/A	N/A
Gross Return - Non-marketable		N/A	N/A	N/A	N/A
	Market Value of Fund Year Ending June 30, 2009	Market Value of Fund Year Ending June 30, 2008	Market Value of Fund Year Ending June 30, 2007	Market Value of Fund Year Ending June 30, 2006	Market Value of Fund Year Ending June 30, 2005
	\$ in millions				
Portfolio Diversification					
All Real Assets	\$1,137.9	\$1,242.8	\$966.4	\$558.9	\$192.6
All Fixed Income					
All Cash & Short-term Securities	\$775.0	\$634.8	\$381.2	\$410.6	\$323.9
All Other Investments					
Absolute Return					
Equity Hedge					
Non-marketable					
Totals	\$1,912.9	\$1,877.6	\$1,347.6	\$969.5	\$516.5
	Year Ending Aug. 31, 2009	Year Ending Aug. 31, 2008	Year Ending Aug. 31, 2007	Year Ending Aug. 31, 2006	Year Ending Aug. 31, 2005
Fund Contributions					
Contributions to GLO controlled portion	\$560,568,998	\$881,533,356	\$583,215,730	\$453,192,002	\$423,099,271
Contributions to TEA controlled portion¹	\$100,000,000	\$100,000,000	\$131,884,610	\$121,722,153	\$295,794,429
Fund Distributions					
Distributions to TEA controlled portion	\$100,000,000	\$100,000,000	\$78,000,000	\$78,000,000	\$260,500,000
Depository interest transferred to TEA	–	–	\$22,389,314	\$15,827,324	\$9,173,645
	Year Ending June 30, 2009	Year Ending June 30, 2008	Year Ending June 30, 2007	Year Ending June 30, 2006	Year Ending June 30, 2005
Internal Investment Expenses					
Direct	\$2,687,171	\$1,682,158	\$396,895	\$454,459	\$117,134
Indirect	\$537,434	\$336,432	–	–	–
External Investment Expenses:	\$9,103,710	\$2,058,531	\$738,017	–	–
Total Investment Expenses:	\$12,328,315	\$4,077,121	\$1,134,912	\$454,459	\$117,134
	Year Ending June 30, 2009	Year Ending June 30, 2008	Year Ending June 30, 2007	Year Ending June 30, 2006	Year Ending June 30, 2005
Percentage of Assets Externally Managed	55%	56%	39%	7%	N/A

¹These numbers include the amounts shown on the line entitled "Distributions to TEA controlled portion."

ATTACHMENT 4. EMPLOYEES RETIREMENT SYSTEM—PENSION TRUST FUND

	Market Value of Fund Year Ending Aug. 31, 2009 \$ in millions				
	(Note 1)				
Total Fund	\$19,825.34				
	Fiscal Year 2009 Time Weighted Gross Fund Return	Fiscal Year 2009 Time Weighted Net Fund Return	Fiscal Year 2009 Benchmark Adjusted Gross Fund Return		
Total Fund	(6.60%)	(6.71%)	(7.55%)		
	Fiscal Year 2009	Fiscal Year 2008	Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2005
Gross Return - Total Fund (Note 2)	(6.60%)	(4.58%)	13.88%	8.83%	12.71%
Gross Return - Equity (Note 2) (For Fiscal Year 2009 only)	(16.52%)	(11.62%)	16.39%	12.09%	17.84%
% of Domestic Equity Internally Managed	83.50%	74.92%	71.62%	<i>MV Weight - Not Performance Return</i>	
			15.23%		
Rate of Return for Internally Managed (Note 3)	(17.81%)	(10.10%)	(Large Cap) 17.82%		
			(Small Cap)		
% of Domestic Equity Externally Managed	16.50%	25.08%	28.38%	<i>MV Weight - Not Performance Return</i>	
			13.97%		
Rate of Return for Externally Managed (Note 3)	(20.85%)	(15.35%)	(Large Cap) 11.70%		
			(Small Cap)		
Gross Return- Fixed Income (Note 2)	5.81%	5.40%	5.79%	2.45%	5.22%
Gross Return - Cash & Short-term (Note 2)	(46.88%)	11.16%	5.37%	4.61%	2.53%
Gross Return - All Other (Note 4)	(22.42%)	(15.47%)	34.81%	20.46%	6.24%
	Market Value of Fund Year Ending Aug. 31, 2009 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2008 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2007 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2006 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2005 \$ in millions
Portfolio Diversification					
All Equity	\$12,273.11	\$13,328.38	\$15,351.73	\$14,126.56	\$13,274.89
All Fixed Income	\$6,989.02	\$8,451.83	\$8,530.78	\$8,119.29	\$7,853.46
All Cash & Short-term Securities	\$21.31	\$27.89	\$99.03	\$96.94	\$65.93
All Other Investments	\$541.90	\$503.32	\$411.25	\$35.27	\$57.96
Totals:	\$19,825.34	\$22,311.42	\$24,392.79	\$22,378.10	\$21,252.20
	Total Fiscal Year 2009 \$ in millions				
Fund Contributions (Note 5)	(\$838.84)	(Note 5)			
Fund Distributions	\$1,571.42				
Internal Investment Expenses:					
Direct	\$23.21				
Indirect					
External Investment Expenses:	\$12.48				
Total Investment Expenses:	\$35.69				
	Year Ending Aug. 31, 2009				
Percentage of Assets Externally Managed	22.3%				

Note 1: Includes the Employee Retirement Funds (Fund 0955), the Law Enforcement and Custodial Officer Supplemental Retirement Fund (Fund 0977), and the Judicial Retirement System Plan Two Fund (Fund 0993).

Note 2: Gross Rate of Returns with Risk Management. Returns beginning fiscal year 2007 and after are calculated daily and linked.

Note 3: Gross Rate of Returns Ex Risk Management.

Note 4: Internal Rate of Returns prior to fiscal year 2008.

Note 5: Includes investment income.

ATTACHMENT 5. THE UNIVERSITY OF TEXAS SYSTEM—PERMANENT UNIVERSITY FUND

	Market Value of Fund Year Ending Aug. 31, 2009 \$ in millions				
Total Fund	\$9,673.9				
	Fiscal Year 2009 Time Weighted Gross Fund Return	Fiscal Year 2009 Benchmark Adjusted Gross Fund Return	Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2005
Total Fund	(12.72%)	(15.42%)			
	Fiscal Year 2009	Fiscal Year 2008	Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2005
Gross Return - Total Fund	(12.72%)	(3.11%)	15.57%	11.56%	19.05%
Gross Return - Equity Domestic	(22.86%)	(12.43%)	13.95%	12.61%	19.56%
(For Fiscal Year 2009 only)					
% of Domestic Equity Internally Managed	33.39%	11.75%	48.74%	55.70%	39.51%
Rate of Return for Internally Managed	(59.77%)	(23.44%)	12.12%	11.85%	14.56%
% of Domestic Equity Externally Managed	66.61%	88.25%	51.26%	44.30%	60.49%
Rate of Return for Externally Managed	(14.45%)	(12.26%)	15.58%	9.56%	24.31%
Foreign	(16.09%)	(13.30%)	23.74%	21.02%	26.55%
Gross Return- Fixed Income	8.19%	7.32%	4.76%	2.42%	6.67%
Gross Return - Cash & Short-term	2.20%	3.94%	7.86%	16.45%	2.48%
Gross Return - All Other					
Absolute Return			14.79%	9.11%	14.52%
Equity Hedge	(7.91%)	1.50%	19.01%	6.24%	13.23%
Non-marketable	(15.00%)	2.30%	28.59%	23.02%	30.00%
Commodities	(32.80%)	24.83%	(9.70%)	(4.41%)	32.29%
Real Estate	(19.02%)				
	Market Value of Fund Year Ending Aug. 31, 2009 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2008 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2007 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2006 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2005 \$ in millions
Portfolio Diversification					
All Equity	\$2,346.6	\$3,613.4	\$5,192.7	\$4,877.2	\$4,278.2
Domestic	\$785.5	\$1,289.3	\$2,930.0	\$2,750.8	\$2,612.9
Foreign	\$1,561.1	\$2,324.1	\$2,262.7	\$2,126.4	\$1,665.3
All Fixed Income	\$1,280.5	\$1,253.0	\$1,262.2	\$1,519.1	\$1,406.2
All Cash & Short-term Securities	\$181.1	\$187.9	\$551.7	\$74.1	\$176.8
All Other Investments	\$5,865.7	\$6,305.2	\$4,736.2	\$3,843.0	\$3,565.5
Absolute Return	—		\$1,762.7	\$1,511.0	\$1,277.8
Equity Hedge	\$2,804.1	\$3,615.1	\$1,155.2	\$859.0	\$917.3
Non-Marketable	\$2,193.9	\$2,121.1	\$1,396.1	\$981.1	\$875.0
Commodities	\$439.2	\$569.0	\$422.2	\$491.9	\$495.4
Real Estate	\$428.5				
Totals	\$9,673.9	\$11,359.5	\$11,742.8	\$10,313.4	\$9,426.7
	Total Fiscal Year 2009 \$ in millions				
Fund Contributions	\$340.0				PUF Land receipts
Fund Distributions	(\$530.9)				Distributed to Available University Fund
Internal Investment Expenses:					
Direct	\$4.2				
Indirect	\$3.9				
External Investment Expenses:	\$25.4				Investment expense is made up of internal and external management fees, custodian, audit, consulting, performance, risk measurement, and securities lending fees.
Total Investment Expenses:	\$33.5				
	Year Ending Aug. 31, 2009				
Percentage of Assets Externally Managed	87.40%				

ATTACHMENT 6. THE UNIVERSITY OF TEXAS SYSTEM—PERMANENT HEALTH FUND

	Market Value of Fund Year Ending Aug. 31, 2009 \$ in millions				
Total Fund	\$842.3				
	Fiscal Year 2009 Time Weighted Gross Fund Return	Fiscal Year 2009 Benchmark Adjusted Gross Fund Return			
Total Fund	(13.17%)	(15.42%)			
	Fiscal Year 2009	Fiscal Year 2008	Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2005
PHF					
Gross Return - Total Fund	(13.17%)	(3.05%)	15.86%	11.11%	18.75%
Gross Return - Equity	(See Note 1)	(See Note 1)	(See Note 1)	(See Note 1)	(See Note 1)
(For Fiscal Year 2009 only)					
% of Domestic Equity Internally Managed			100.00%	100.00%	100.00%
% of Domestic Equity Externally Managed			0.00%	0.00%	0.00%
Gross Return- Fixed Income	(See Note 1)	(See Note 1)	(See Note 1)	(See Note 1)	(See Note 1)
Gross Return - Cash & Short-term	1.21%	3.97%	5.39%	4.58%	2.48%
Gross Return - All Other	(See Note 1)	(See Note 1)	(See Note 1)	(See Note 1)	(See Note 1)
	Fiscal Year 2009	Fiscal Year 2008	Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2005
GEF					
Gross Return - Total Fund	(13.04%)	(2.91%)	16.07%	11.45%	19.04%
Gross Return - Equity					
Domestic	(24.20%)	(12.31%)	13.89%	12.68%	19.65%
(For Fiscal Year 2009 only)					
% of Domestic Equity Internally Managed	34.04%	12.88%	50.97%	51.38%	33.60%
Rate of Return for Internally Managed	(62.63%)	(21.39%)	12.05%	12.89%	14.92%
% of Domestic Equity Externally Managed	65.96%	87.12%	49.03%	48.62%	66.40%
Rate of Return for Externally Managed	(14.19%)	(12.23%)	15.52%	9.50%	23.47%
Foreign	(16.21%)	(13.12%)	24.16%	20.70%	27.06%
Gross Return - Fixed Income	8.58%	7.35%	4.76%	2.50%	6.67%
Gross Return - Cash & Short-term	2.18%	4.28%	7.79%	17.97%	2.48%
Gross Return - All Other					
Absolute Return			14.79%	9.04%	14.69%
Equity Hedge	(7.91%)	1.51%	19.01%	6.15%	13.17%
Non-marketable	(14.97%)	3.68%	31.86%	21.77%	28.26%
Commodities	(32.04%)	24.16%	-9.56%	-4.42%	32.46%
Real Estate	(19.14%)				

ATTACHMENT 6. THE UNIVERSITY OF TEXAS SYSTEM—PERMANENT HEALTH FUND (CONTINUED)

	Market Value of Fund Year Ending Aug. 31, 2009 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2008 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2007 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2006 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2005 \$ in millions
Portfolio Diversification					
All Equity	\$842.0	\$1,025.4	\$1,099.8	\$986.7	\$925.7
All Fixed Income					
All Cash & Short-term Securities	\$0.3	\$0.3	\$0.3	\$0.3	\$0.2
All Other Investments					
	Total Fiscal Year 2009 \$ in millions				
Fund Contributions	—				
Fund Distributions	(\$43.3)	Distributed to unit holders of the fund			
Internal Investment Expenses:					
Direct	\$0.4				
Indirect	\$0.5				
External Investment Expenses:	—				
Total Investment Expenses:	\$0.9				
Allocation from GEF					
Total Expense	\$0.9			Investment expense is made up of investment management fees, custodian and audit fees.	

**Year Ending
Aug. 31, 2009**

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 GEF, established by the Board of Regents effective March 1, 2001, is a pooled fund for the collective investment of long-term funds under the control and management of the Board. The GEF is organized as a mutual fund in which the PHF and LTF are the only unit holders. As of August 31, 2009, the PHF had a 15.71% ownership of the GEF. The returns by asset class for the GEF for fiscal year 2009 are shown above.

ATTACHMENT 7. COMPTROLLER OF PUBLIC ACCOUNTS—TOBACCO SETTLEMENT PERMANENT FUND

	Market Value of Fund Year Ending Aug. 31, 2009 \$ in millions				
Total Fund	\$1,826.2				
	Fiscal Year 2009 Time Weighted Gross Fund Return	Fiscal Year 2009 Time Weighted Net Fund Return	Fiscal Year 2009 Benchmark Adjusted Gross Fund Return		
Total Fund	(10.48%)	(10.56%)	(5.24%)		
	Fiscal Year 2009	Fiscal Year 2008	Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2005
Gross Return - Total Fund	(10.48%)	(6.07%)	14.36%	10.20%	15.48%
Gross Return - Equity (For Fiscal Year 2009 only)	(18.20%)	(13.65%)	16.47%	13.02%	20.00%
% of Domestic Equity Internally Managed	0.00%	0.00%	0.00%		
Rate of Return for Internally Managed					
% of Domestic Equity Externally Managed	100.00%	100.00%	100.00%		
Rate of Return for Externally Managed	(18.20%)	(13.65%)	16.47%		
Gross Return- Fixed Income	9.12%	3.75%	5.10%	4.29%	6.08%
Gross Return - Cash & Short-term	0.48%	3.30%	5.11%	3.08%	0.85%
Gross Return - All Other					
Gross Return - Absolute Return	(9.02%)	(0.30%)	9.61%	N/A	N/A
Gross Return - Equity Hedge	(7.60%)	(1.76%)	15.37%	N/A	N/A
Gross Return - Non-marketable - Private Equity	(19.44%)	3.28%	7.75%		
Gross Return - Non-marketable - Real Estate- Value Add Opportunistic	(37.95%)	12.69%	24.10%		
Gross Return - Non-marketable - Real Estate- Stable Return	(19.17%)				
Gross Return - Commodities	(29.45%)	N/A			
Gross Return - Non-marketable				7.02%	N/A
	Market Value of Fund Year Ending Aug. 31, 2009 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2008 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2007 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2006 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2005 \$ in millions
Portfolio Diversification					
All Equity	\$521.6	\$725.1	\$1,488.2	\$1,517.9	\$1,441.0
All Fixed Income	\$472.9	\$416.8	\$385.4	\$383.1	\$456.6
All Cash & Short Term Securities	\$117.0	\$61.4	\$39.8	\$31.5	\$145.1
All Other Investments	\$714.7	\$958.3	\$490.4	\$246.0	\$5.4
Absolute Return	\$255.7	\$427.1	\$187.4	\$107.9	N/A
Equity Hedge	\$201.3	\$307.2	\$191.2	\$104.1	N/A
Non-marketable - Private Equity	\$117.3	\$106.7	\$55.1		
Non-marketable - Real Estate-Value Add Opportunistic	\$48.4	\$106.4	\$56.7		
Non-marketable - Real Estate-Stable Value	\$38.4				
Commodities	\$53.6	\$10.9			
Non-marketable				\$34.0	\$5.4
Totals:	\$1,826.2	\$2,161.6	\$2,403.8	\$2,178.5	\$2,048.1
	Total Fiscal Year 2009 \$ in millions				
Fund Contributions	—				
Fund Distributions	\$92,303,845.00				
Internal Investment Expenses:					
Direct	\$2,821,854.29				
Indirect					
External Investment Expenses:	\$2,500,316.23				
Total Investment Expenses:	\$5,322,170.52				
	Year Ending Aug. 31, 2009				
Percentage of Assets Externally Managed	100.0%				

ATTACHMENT 8. COMPTROLLER OF PUBLIC ACCOUNTS—TEXAS GUARANTEED TUITION PLAN FUND

	Market Value of Fund Year Ending Aug. 31, 2009 \$ in millions				
Total Fund	\$1,502.0				
	Fiscal Year 2009 Time Weighted Gross Fund Return	Fiscal Year 2009 Time Weighted Net Fund Return	Fiscal Year 2009 Benchmark Adjusted Gross Fund Return		
Total Fund	(6.2%)	(6.6%)	(6.8%)		
	Fiscal Year 2009	Fiscal Year 2008	Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2005
Gross Return - Total Fund	(6.2%)	(3.3%)	8.7%	8.7%	14.3%
Gross Return - Equity (For Fiscal Year 2009 only)	(18.5%)	(7.6%)	16.4%	12.2%	21.2%
% of Domestic Equity Internally Managed	N/A	N/A	N/A	N/A	N/A
Rate of Return for Internally Managed	N/A	N/A	N/A	N/A	N/A
% of Domestic Equity Externally Managed	100.0%	100.0%	100.0%	100.0%	100.0%
Rate of Return for Externally Managed	(18.5%)	(7.6%)	16.4%		
Gross Return- Fixed Income	7.2%	6.1%	5.4%	2.9%	4.7%
Gross Return - Cash & Short-term	3.5%	4.6%	5.0%	2.5%	2.5%
Gross Return - All Other	N/A	N/A	N/A	N/A	N/A
	Market Value of Fund Year Ending Aug. 31, 2009 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2008 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2007 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2006 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2005 \$ in millions
Portfolio Diversification					
All Equity	\$767	\$940	\$1,232	\$1,077	\$946
All Fixed Income	\$729	\$756	\$579	\$596	\$503
All Cash & Short-term Securities	\$6	\$43	\$52	\$ 42	\$131
All Other Investments	-	-	-	-	-
Totals:	\$1,502	\$1,739	\$1,863	\$1,715	\$1,580
	Total Fiscal Year 2009				
Fund Contributions:					
Prepaid Tuition Contract Payments	\$28,683,348				
Application Fees & Other Income	\$863,812				
Investment Income	(\$127,338,242)				
Total Fund Contributions	(\$97,791,082)				
Fund Distributions:					
Tuition Payments to Colleges	\$123,446,872				
Administrative Expenses	\$1,868,217				
Refunds to Contract Purchasers	\$13,479,063				
Total Fund Distributions	\$138,794,152				
Internal Investment Expenses:					
Direct					
Indirect					
External Investment Expenses:	\$5,018,624				
Total Investment Expenses:	\$5,018,624				
	Year Ending Aug. 31, 2009				
Percentage of Assets Externally Managed	100.0%				

ATTACHMENT 9. COMPTROLLER OF PUBLIC ACCOUNTS—PERMANENT PUBLIC HEALTH FUND

	Market Value of Fund Year Ending Aug. 31, 2009 \$ in millions				
Total Fund	\$398.6				
	Fiscal Year 2009 Time Weighted Gross Fund Return	Fiscal Year 2009 Time Weighted Net Fund Return	Fiscal Year 2009 Benchmark Adjusted Gross Fund Return	Fiscal Year 2006	Fiscal Year 2005
Total Fund	(10.72%)	(10.80%)	(5.24%)		
	Fiscal Year 2009	Fiscal Year 2008	Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2005
Gross Return - Total Fund	(10.72%)	(6.36%)	14.26%	9.86%	15.74%
Gross Return - Equity (For Fiscal Year 2009 only)	(18.20%)	(13.65%)	16.47%	13.15%	19.56%
% of Domestic Equity Internally Managed	0.00%	0.00%	0.00%		
Rate of Return for Internally Managed		0.00%	0.00%		
% of Domestic Equity Externally Managed	100.00%	100.00%	100.00%		
Rate of Return for Externally Managed	(18.20%)	(13.65%)	16.47%		
Gross Return- Fixed Income	9.12%	3.75%	5.10%	2.25%	4.31%
Gross Return - Cash & Short-term	0.48%	3.30%	5.11%	2.94%	3.67%
Gross Return - All Other					(4.69%)
Gross Return - Absolute Return	(9.02%)	(0.30%)	9.61%	9.08%	N/A
Gross Return - Equity Hedge	(7.60%)	(1.76%)	15.37%	4.87%	N/A
Gross Return - Non-marketable - Private Equity	(19.96%)	1.34%	5.22%		
Gross Return - Non-marketable - Real Estate- Value	(37.95%)	12.69%	24.10%		
Gross Return - Non-marketable - Real Estate- Stable	(19.17%)				
Gross Return - Commodities	(29.45%)	N/A			
Gross Return - Non-marketable				(9.68%)	(4.69%)
	Market Value of Fund Year Ending Aug. 31, 2009 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2008 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2007 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2006 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2005 \$ in millions
Portfolio Diversification					
All Equity	\$117.1	\$160.5	\$323.6	\$334.1	\$316.0
All Fixed Income	\$101.3	\$82.8	\$83.3	\$79.9	\$100.1
All Cash & Short Term Securities	\$24.9	\$13.6	\$8.6	\$6.8	\$31.8
All Other Investments	\$155.3	\$215.9	\$110.6	\$57.0	\$5.6
Absolute Return	\$53.7	\$95.8	\$41.1	\$23.7	N/A
Equity Hedge	\$42.2	\$69.0	\$41.9	\$22.8	N/A
Non-marketable - Private Equity	\$28.4	\$25.4	\$15.2		
Non-marketable - Real Estate-Value Add Opportunistic	\$10.6	\$23.3	\$12.4		
Non-marketable - Real Estate-Stable Value	\$8.4				
Commodities	\$12.0	\$2.4			
Non-marketable				\$10.5	\$5.6
Totals:	\$398.6	\$472.8	\$526.1	\$477.8	\$453.5

**ATTACHMENT 9. COMPTROLLER OF PUBLIC ACCOUNTS—PERMANENT PUBLIC HEALTH FUND
(CONTINUED)**

	Total Fiscal Year 2009
Fund Contributions	—
Fund Distributions	\$21,128,774.00
Internal Investment Expenses:	
Direct	\$614,622.85
Indirect	
External Investment Expenses:	\$544,618.59
Total Investment Expenses:	\$1,159,241.44
	Year Ending Aug. 31, 2009
Percentage of Assets Externally Managed	100.0%

ATTACHMENT 10. COMPTROLLER OF PUBLIC ACCOUNTS—PERMANENT HIGHER EDUCATION FUND

	Market Value of Fund				
	Year Ending Aug. 31, 2009				
	\$ in millions				
Total Fund	\$516.2				
	Fiscal Year 2009	Fiscal Year 2009	Fiscal Year 2009	Fiscal Year 2006	Fiscal Year 2005
	Time Weighted	Time Weighted	Benchmark		
	Gross Fund	Net Fund	Adjusted		
	Return	Return	Gross Fund		
Total Fund	(10.20%)	(10.28%)	(5.24%)		
	Fiscal Year 2009	Fiscal Year 2008	Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2005
Gross Return - Total Fund	(10.20%)	(6.47%)	14.11%	9.68%	16.59%
Gross Return - Equity	(18.20%)	(13.65%)	16.47%	13.07%	20.58%
(For Fiscal Year 2009 only)					
% of Domestic Equity Internally Managed	0.00%		0.00%		
Rate of Return for Internally Managed			0.00%		
% of Domestic Equity Externally Managed	100.00%	100.00%	100.00%		
Rate of Return for Externally Managed	(18.20%)	(13.65%)	16.47%		
Gross Return- Fixed Income	9.12%	3.75%	5.10%	2.23%	4.33%
Gross Return - Cash & Short-term	0.48%	3.30%	5.11%	2.94%	3.72%
Gross Return - All Other					
Gross Return - Absolute Return	(9.02%)	(0.30%)	9.61%	9.08%	N/A
Gross Return - Equity Hedge	(7.60%)	(1.76%)	15.37%	4.87%	N/A
Gross Return - Non-marketable - Private Equity	(19.96%)	1.34%	5.22%		
Gross Return - Non-marketable - Real Estate-Value Add Opportunistic	(37.95%)	12.69%	24.10%		
Gross Return - Non-marketable - Real Estate-Stable Return	(19.17%)				
Gross Return - Commodities	(29.45%)	N/A			
Gross Return - Non-marketable				(12.78%)	(5.65%)
	Market Value of Fund				
	Year Ending Aug. 31, 2009	Year Ending Aug. 31, 2008	Year Ending Aug. 31, 2007	Year Ending Aug. 31, 2006	Year Ending Aug. 31, 2005
	\$ in millions				
Portfolio Diversification					
All Equity	\$146.2	\$193.9	\$386.8	\$376.0	\$344.0
All Fixed Income	\$136.5	\$112.3	\$99.1	\$95.0	\$109.0
All Cash & Short Term Securities	\$33.0	\$16.2	\$10.2	\$7.7	\$34.6
All Other Investments	\$200.5	\$253.8	\$121.6	\$63.3	\$7.9
Absolute Return	\$73.7	\$114.2	\$44.7	\$25.8	N/A
Equity Hedge	\$58.1	\$82.2	\$45.6	\$24.9	N/A
Non-marketable - Private Equity	\$32.6	\$28.7	\$17.8		
Non-marketable - Real Estate-Value Add Opportunistic	\$11.8	\$25.8	\$13.8		
Non-marketable - Real Estate-Stable Value	\$9.2				
Commodities	\$15.1	\$2.9			
Non-marketable				\$7.9	\$5.7
Totals	\$516.2	\$576.2	\$617.7	\$542.0	\$495.5

**ATTACHMENT 10. COMPTROLLER OF PUBLIC ACCOUNTS—PERMANENT HIGHER EDUCATION FUND
(CONTINUED)**

	Total Fiscal Year 2009
Fund Contributions	\$0.0
Fund Distributions	\$0.0
Internal Investment Expenses:	
Direct	\$771,614.27
Indirect	
External Investment Expenses:	\$682,411.12
Total Investment Expenses:	\$1,454,025.39
	Year Ending Aug. 31, 2009
Percentage of Assets Externally Managed	100.0%