

Annual Report on Major State Investment Funds



LEGISLATIVE BUDGET BOARD

FISCAL YEAR 2007

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LEGISLATIVE BUDGET BOARD

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May 8, 2008

The Honorable David Dewhurst
The Honorable Tom Craddick
Members of the Eightieth Legislature

Dear Governor Dewhurst, Speaker Craddick, and Members:

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

Teacher Retirement System Pension Trust Fund

Permanent School Fund

Employees Retirement System 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, Emily Brownlow, Scott Dudley, Cindy Bowie and Kim Irby.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "John O'Brien".

John O'Brien
Director

TABLE OF CONTENTS

Transmittal Letter	
Executive Summary	1
Economic Environment/Investment Environment.....	1
Ending Market Value	1
Rates of Return	2
Methodology	
Total Fund Rates of Return.....	3
Risk-adjusted Return	3
Use of External Manager/Advisors for Investments.....	4
Rates of Return for Domestic Equity Investments.....	4
Acronym	4
Summary of Major State Investment Funds.....	5
All Major Funds	
Ending Market Values.....	5
Rates of Return and Benchmarks	5
Average Total Fund Rates of Return	6
Risk-adjusted Return	6
Portion of Assets Internally and Externally Managed / Advised	7
Rates of Return for Domestic Equities	7
Teacher Retirement System	
Pension Trust Fund	8
Permanent School Fund TEA.....	9
Permanent School Fund GLO.....	10
Employees Retirement System	
Pension Trust Fund	11
The University of Texas System	
Permanent University Fund	12
Permanent Health Fund.....	13

TABLE OF CONTENTS

Comptroller of Public Accounts	
Tobacco Settlement Permanent Trust	14
Texas Guaranteed Tuition Plan Fund	15
Permanent Public Health Fund.....	16
Permanent Higher Education Fund	17
Appendix A.	
Authorizing Statute.....	19
Appendix B.	
Major State Investment Funds	21
Teacher Retirement System	
Pension Trust Fund.....	21
Permanent School Fund TEA.....	24
Permanent School Fund GLO.....	26
Employees Retirement System	
Pension Trust Fund.....	28
The University of Texas System	
Permanent University Fund	30
Permanent Health Fund.....	32
Comptroller of Public Accounts	
Tobacco Settlement Permanent Trust Fund.....	34
Texas Guaranteed Tuition Plan Fund	36
Permanent Public Health Fund.....	38
Permanent Higher Education Fund	39
Appendix C.	
Glossary	41
Appendix D.	
References.....	47
Original Data from Agencies and Institutions of Higher Education	49

EXECUTIVE SUMMARY

The fiscal year 2007 Annual Report on Major State Investment Funds presents the performance for Texas' major investment funds. This report includes the risk-adjusted returns for the funds, 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 Legislative Budget Board (LBB) staff calculates the risk-adjusted return, the five-year average total fund rate of return and the rate of return less investment expenses. This report does not make recommendations regarding portfolio allocations or current management practices. It is intended as an information resource only.

ECONOMIC/INVESTMENT ENVIRONMENT

The U.S. economy and especially the Texas economy continued to have a good year in 2007 after a very healthy 2006. The U.S. gross domestic product increased at an annual rate of 2.2 percent, while the equivalent measure for the state, the Texas gross state product, increased at a higher rate of 3.6 percent. These robust economic indicators translated into robust returns for U.S. and Texas households. Personal income for the U.S. increased by 6.1 percent in 2007, while the personal income for Texas residents also increased at a higher annual rate of 8.2 percent. The economic well-being of both U.S. households and Texas households was also reflected in the relatively low unemployment levels for both areas: 4.6 percent for the U.S. and 4.3 percent for Texas.

However, economic conditions began to wane in the late summer and fall of 2007. The first indication came from the housing mortgage sector, with the sub-prime mortgage sub-sector beginning to falter and then collapse, causing large number of mortgage loan defaults and subsequent large losses in the mortgage loan and banking sectors. These problems had a strong ripple effect because a large number of mortgage loans had been bundled into securities, and thus negatively affected the balance sheets of many investors. As lenders tightened home mortgage credit, the housing sector finished 2007 with large declines from 2006 levels. Year-end U.S. housing starts decreased 25.8 percent compared to 2006, while Texas housing starts decreased 17.9 percent over the year as well.

Fortunately, the predicted recession or near-recession of early 2008 may not affect Texas as severely as the rest of the U.S. economy because of two reasons: (1) unlike most other states, the cost of housing in Texas was not overvalued; and (2) there was much less sub-prime mortgage loan lending in Texas than in other parts of the country. However, due to the inter-dependency of the Texas and the U.S. economies, the economic slowdown occurring in late 2007 and early 2008 in the rest of the country will affect Texas.

Despite this slowdown, the investment climate was positive throughout most of 2007, and especially positive through the end of the Texas fiscal year (August 31, 2007). The downward trend in rates of return for the major stock market indices was obvious when comparing the year-over-year rates of return between the 2007 state fiscal year versus the 2007 calendar year. The Dow-Jones Industrial Average posted a 17.3 percent year-over-year rate of return for the 2007 fiscal year, while only posting a 6.4 percent rate of return for the 2007 calendar year. Similarly, the Standard & Poor (S&P) 500 index ended the 2007 fiscal year with a 13.1 percent return while only posting a 2.2 percent return for the 2007 calendar year. The 2007 fiscal year return for the Wilshire 5000 index was 13.5 percent, while its corresponding 2007 calendar year return was 3.8 percent.

The U.S. Federal Reserve spent much of the second half of 2007 ratcheting down the discount interest rate, from a rate of 6.25 percent (which lasted from the end of June 2006 through mid-August 2007) to a rate of 4.75 percent in December 2007.

ENDING MARKET VALUE

The ending market value of the major investment funds for fiscal year 2007 was \$180.5 billion, \$17.8 billion more than value of the funds at the end of fiscal year 2006. The funds and their ending market values are shown in **Figure 1**.

RATES OF RETURN

All funds earned positive rates of return for fiscal year 2007. The rates of return range from 8.7 percent to 15.9 percent and averaged 13.7 percent, as **Figure 2** 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 rate of return less investment expenses as shown in **Figure 3**, provides the rate of return after related investment

FIGURE 1
ENDING MARKET VALUE OF MAJOR INVESTMENT FUNDS
FISCAL YEAR 2007

FUND	VALUE (IN BILLIONS)
Teacher Retirement System Pension Trust Fund	\$111.1
Permanent School Fund – TEA	25.4
Permanent School Fund – GLO	1.3
Employees Retirement System Pension Trust Fund	24.4
Permanent University Fund	11.7
Permanent Health Fund	1.1
Tobacco Settlement Permanent Trust Fund	2.4
Texas Guaranteed Tuition Plan Fund	1.9
Permanent Public Health Fund	0.5
Permanent Higher Education Fund	0.6
Total Investment Funds	\$180.5

NOTE: PSF-GLO ending market value is Year Ending June 30, 2007.
 SOURCE: Investing agencies and institutions of higher education.

FIGURE 2
MAJOR INVESTMENT FUNDS RATES OF RETURN
FISCAL YEAR 2007

FUND	RATE OF RETURN	
	TIME WEIGHTED	BENCHMARK*
Teacher Retirement System Pension Trust Fund	14.4%	13.2%
Permanent School Fund – TEA	14.3	14.0
Permanent School Fund – GLO	11.3	17.3
Employees Retirement System Pension Trust Fund	13.9	12.1
Permanent University Fund	15.6	13.4
Permanent Health Fund	15.9	13.4
Tobacco Settlement Permanent Trust Fund	14.4	13.8
Texas Guaranteed Tuition Plan Fund	8.7	8.5
Permanent Public Health Fund	14.3	13.8
Permanent Higher Education Fund	14.1	13.8

*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, 2007. SOURCE: Investing agencies and institutions of higher education.

FIGURE 3
MAJOR INVESTMENT FUNDS RATES OF RETURN
LESS INVESTMENT EXPENSES
FISCAL YEAR 2007

FUND	RATE OF RETURN	
	LESS INVESTMENT EXPENSES	
Teacher Retirement System Pension Trust Fund	14.38%	
Permanent School Fund – TEA	14.28	
Permanent School Fund – GLO	11.22	
Employees Retirement System Pension Trust Fund	13.79	
Permanent University Fund	14.89	
Permanent Health Fund	15.22	
Tobacco Settlement Permanent Trust Fund	14.11	
Texas Guaranteed Tuition Plan Fund	8.34	
Permanent Public Health Fund	13.99	
Permanent Higher Education Fund	13.80	

NOTE: Detailed fund investment costs are presented in Appendix B. SOURCE: Agencies and Institutions of Higher Education provided the rates of return and investment costs used in the calculation.

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 4** 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 5** shows, the returns range from 1.93 percent to 4.54 percent.

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

FIGURE 4
AVERAGE ANNUAL RATES OF RETURN
FISCAL YEARS 2003 TO 2007

FUND	RATE OF RETURN
Teacher Retirement System Pension Trust Fund	12.33%
Permanent School Fund – TEA	11.99
Permanent School Fund – GLO	8.00
Employees Retirement System Pension Trust Fund	11.24
Permanent University Fund	14.64
Permanent Health Fund	14.61
Tobacco Settlement Permanent Trust Fund	12.77
Texas Guaranteed Tuition Plan Fund	9.75
Permanent Public Health Fund	12.89
Permanent Higher Education Fund	13.09

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 2003 to 2007. The average annual rate of return was determined using the time-weighted rate of return provided by the investing agencies.

SOURCE: Investing agencies and institutions of higher education.

FIGURE 5
RISK-ADJUSTED RETURN
FISCAL YEARS 2003 TO 2007

FUND	RATE OF RETURN (SHARPE RATIO)
Teacher Retirement System Pension Trust Fund	3.76%
Permanent School Fund – TEA	4.54
Employees Retirement System Pension Trust Fund	3.42
Permanent University Fund	3.27
Permanent Health Fund	3.30
Tobacco Settlement Permanent Trust Fund	3.73
Texas Guaranteed Tuition Plan Fund	1.93
Permanent Public Health Fund	3.38
Permanent Higher Education Fund	3.06

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 time-weighted rates provided by the investing agencies and institutions of higher education.

The formula for the Sharpe ratio follows:

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

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. The annual rates used for the risk-free rate of the 90-day Treasury Bill are from the Merrill Lynch 90-day U.S. Treasury Bill Index, as provided by The University of Texas Investment Management Company. The five-year average risk-free rate used in the calculation is 2.9 percent compared to 2.3 percent from last year.

USE OF EXTERNAL MANAGERS/ADVISORS FOR INVESTMENTS

Each of the funds varies in its use of external managers or advisors to invest its assets. **Figure 6** shows the portion of assets managed internally and externally for fiscal year 2007.

**FIGURE 6
PORTION OF ASSETS MANAGED INTERNALLY AND EXTERNALLY FISCAL YEAR 2007**

FUND	INTERNAL	EXTERNAL
Teacher Retirement System Pension Trust Fund	100.0%	0.0%
Permanent School Fund – TEA	79.7	20.3
Permanent School Fund – GLO	61.0	39.0
Employees Retirement System Pension Trust Fund	67.2	32.8
Permanent University Fund	21.7	78.3
Permanent Health Fund	26.0	74.0
Tobacco Settlement Permanent Trust Fund	0.0	100.0
Texas Guaranteed Tuition Plan Fund	0.0	100.0
Permanent Public Health Fund	0.0	100.0
Permanent Higher Education Fund	0.0	100.0

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 institutions of higher education.

RATES OF RETURN FOR DOMESTIC EQUITY INVESTMENTS

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

Figure 7 shows the rates of returns for domestic equity investments for fiscal year 2007. As applicable, the rates are shown for investments managed by external managers and for investments managed internally.

**FIGURE 7
RATES OF RETURNS FOR DOMESTIC EQUITY INVESTMENTS FISCAL YEAR 2007**

BENCHMARKS	INTERNAL	EXTERNAL
Standard & Poor's 500 Index	15.13%	15.13%
Standard & Poor's 1500 Index	15.20%	15.20%
FUND	INTERNAL	EXTERNAL
Teacher Retirement System Pension Trust Fund	17.0	N/A
Permanent School Fund – TEA	15.3	N/A
Employees Retirement System Pension Trust Fund	15.6	13.5
Permanent University Fund	12.1	15.6
Permanent Health Fund	12.1	15.5
Tobacco Settlement Permanent Trust Fund	N/A	16.5
Texas Guaranteed Tuition Plan Fund	N/A	16.4
Permanent Public Health Fund	N/A	16.5
Permanent Higher Education Fund	N/A	16.5

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.

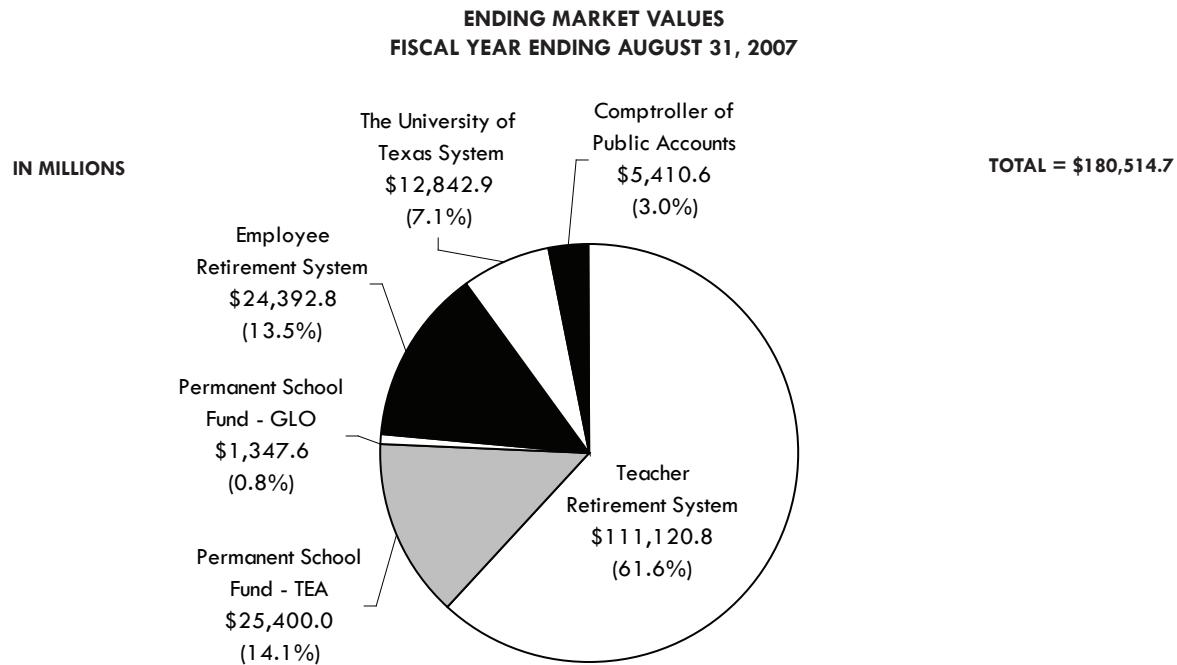
SOURCE: Investing agencies and institutions of higher education.

ACRONYMS

Acronyms used throughout this report follow:

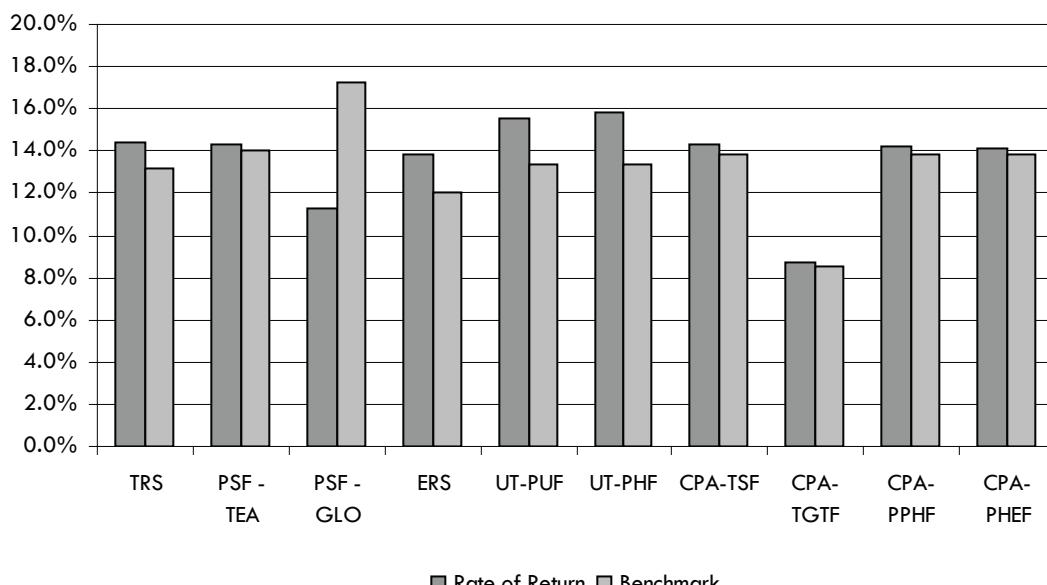
- The University of Texas System – UT
- Texas Education Agency – TEA
- General Land Office – GLO
- State Board of Education – SBOE
- State Land Board – SLB
- Employees Retirement System – ERS
- Teacher Retirement System – TRS
- Comptroller of Public Accounts – CPA
- Permanent School Fund – PSF
- Permanent 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



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

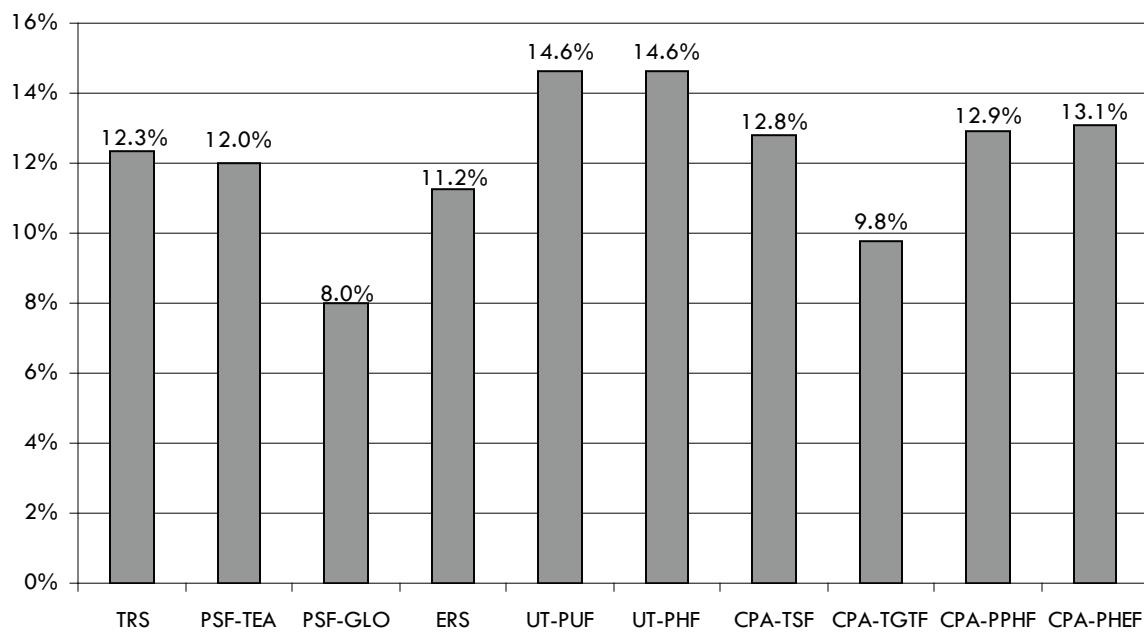
**TOTAL RATES OF RETURN AND BENCHMARKS
FISCAL YEAR 2007**



NOTE: Permanent School Fund-General Land Office (GLO) rates of return are reported on a Year Ending June 30, 2007. Rates of return shown in the charts are time-weighted.

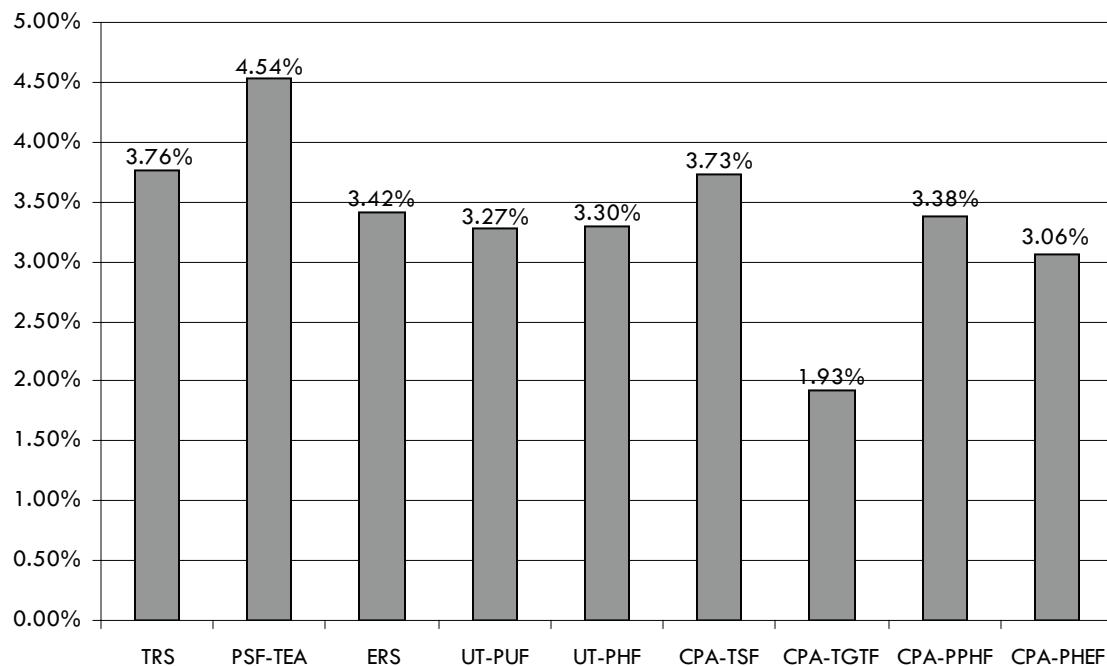
ALL MAJOR FUNDS

AVERAGE TOTAL FUND RATES OF RETURN
FIVE-YEAR PERIOD ENDING AUGUST 31, 2007



NOTE: PSF-GLO Average Total Fund Rates of Return are based on a Year Ending June 30 from 2003 to 2007.

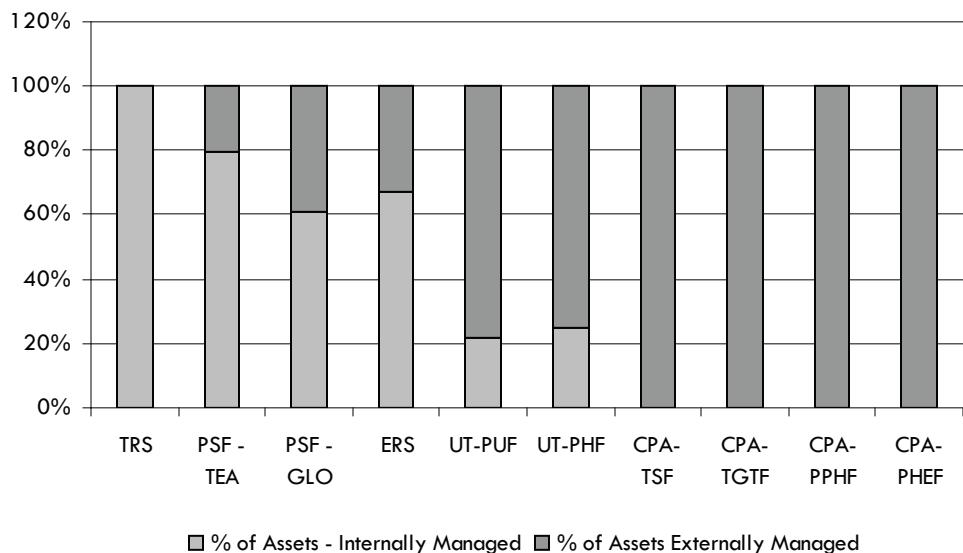
RISK ADJUSTED RATES OF RETURN
FIVE-YEAR PERIOD ENDING AUGUST 31, 2007



NOTE: The PSF-GLO invests only in real estate; therefore, it is not appropriate to use the GLO's risk adjusted rates as measured by the Sharpe Ratio in comparison to the other funds.

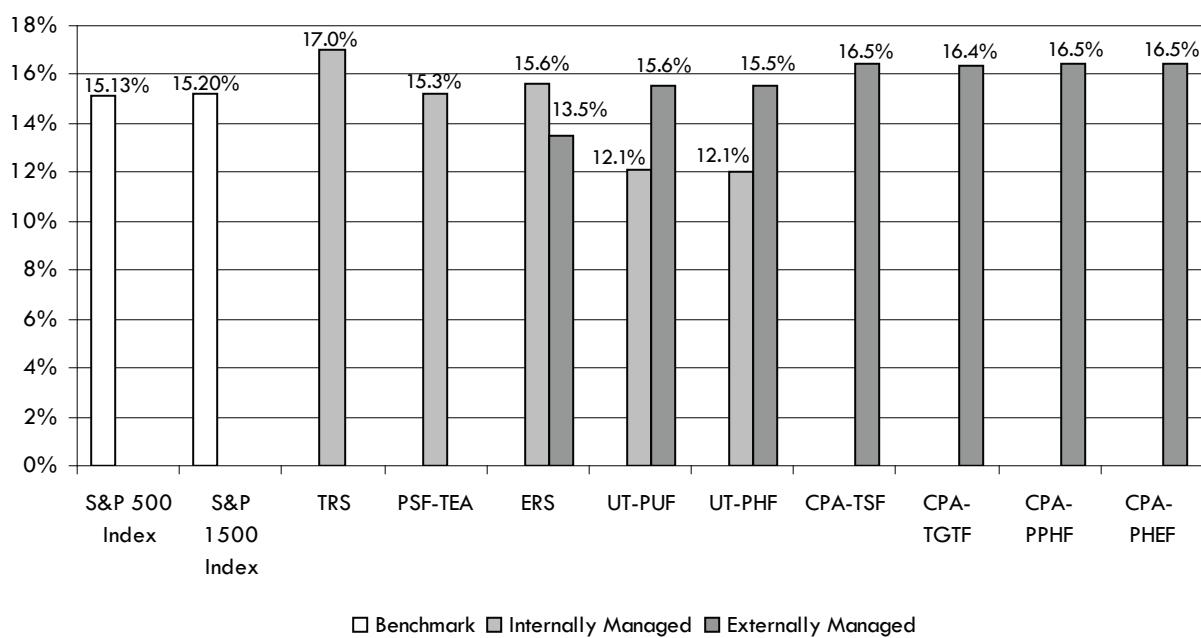
ALL MAJOR FUNDS

**PORTION OF ASSETS INTERNALLY AND EXTERNALLY MANAGED
FISCAL YEAR 2007**



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 Management of real estate assets are presented above. The GLO cash & securities are all managed externally.

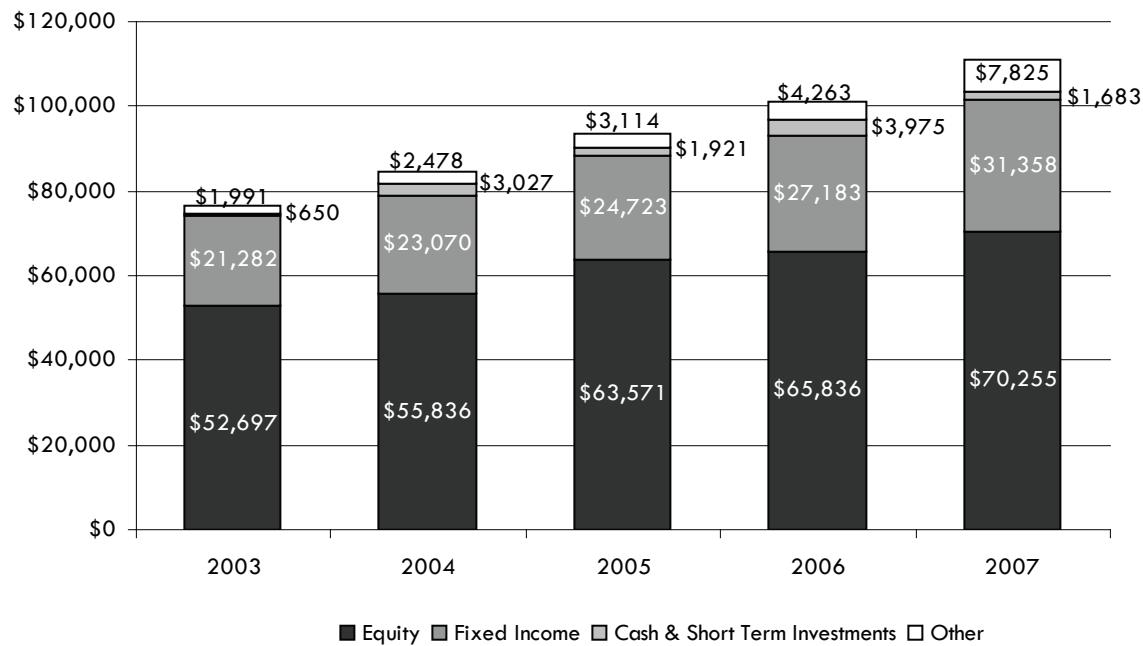
**RATES OF RETURN FOR DOMESTIC EQUITIES
FISCAL YEAR 2007**



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

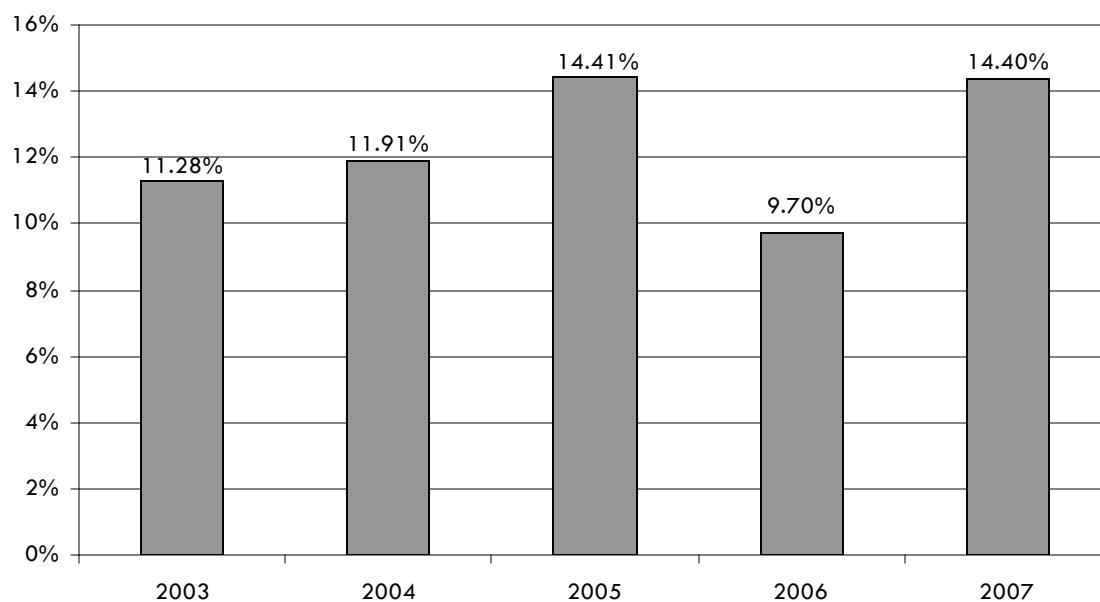
TEACHER RETIREMENT SYSTEM—PENSION TRUST FUND

PORTFOLIO DIVERSIFICATION
ENDING MARKET VALUES
FISCAL YEARS 2003 TO 2007



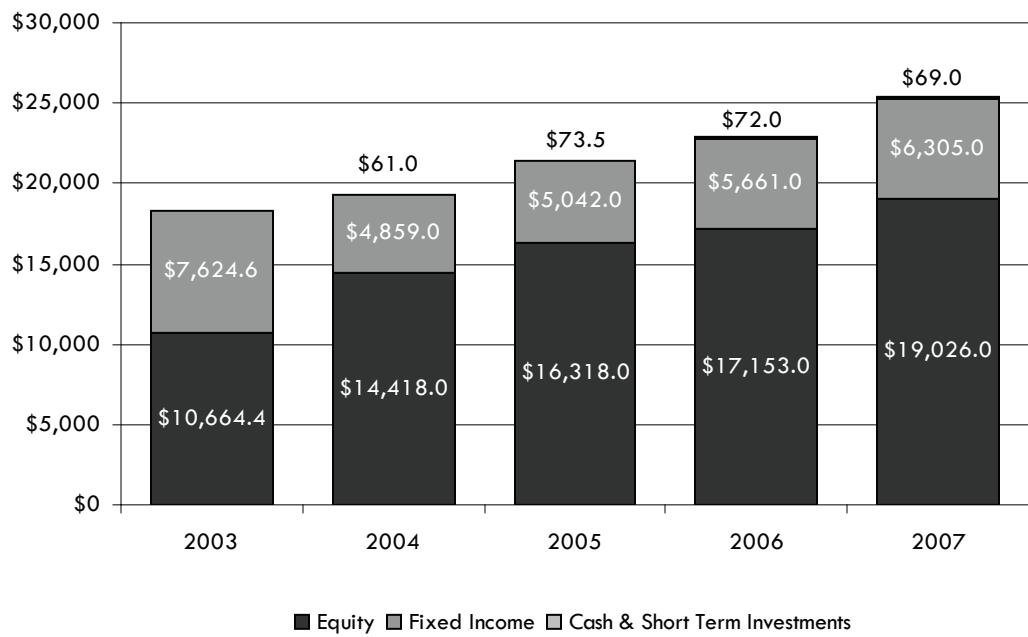
NOTE: Other Investments include investments in private equity, absolute return equity and real estate.

ANNUAL TOTAL RATES OF RETURN
FISCAL YEARS 2003 TO 2007



PERMANENT SCHOOL FUND—TEA

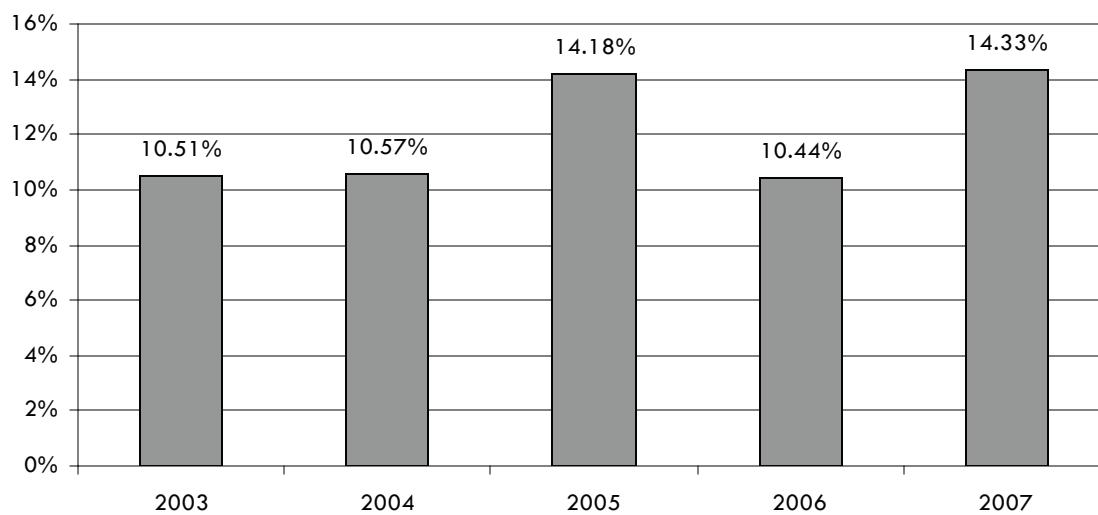
PORTFOLIO DIVERSIFICATION
ENDING MARKET VALUES
FISCAL YEARS 2003 TO 2007



■ Equity ■ Fixed Income ■ Cash & Short Term Investments

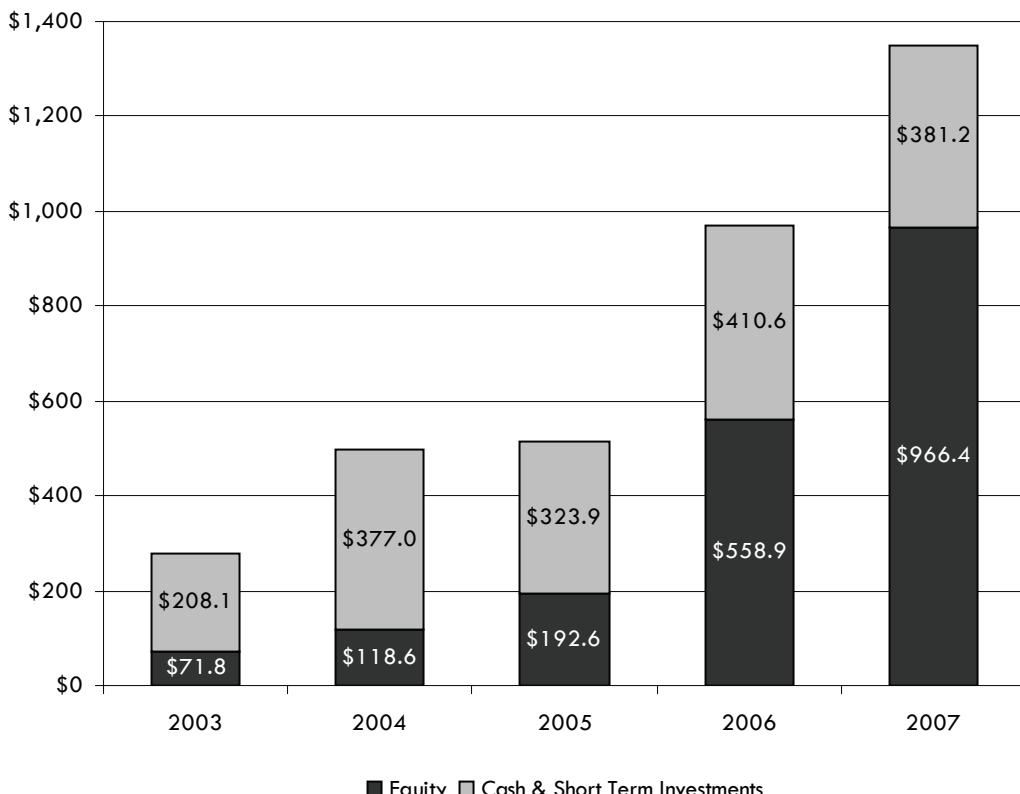
NOTE: The other Investments category is not applicable to this Fund.

ANNUAL TOTAL RATES OF RETURN
FISCAL YEARS 2003 TO 2007



PERMANENT SCHOOL FUND—GLO

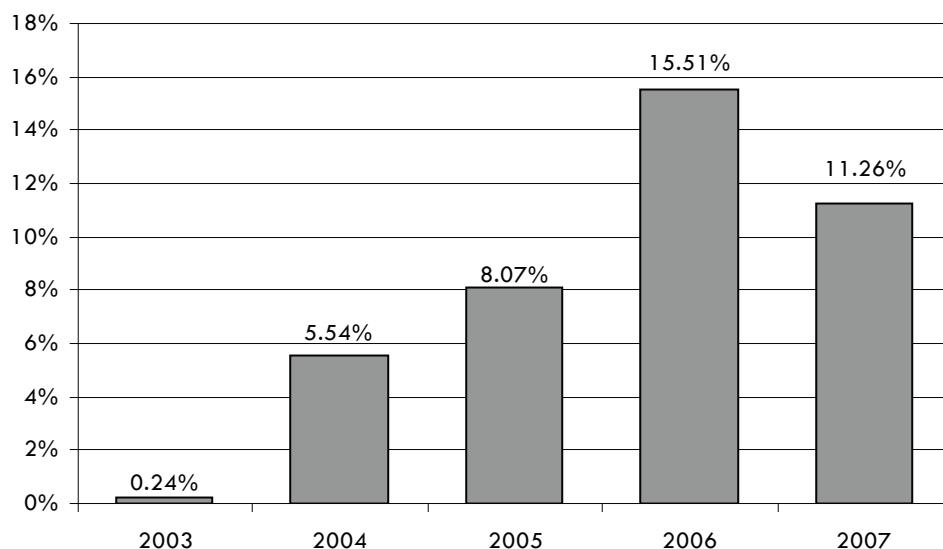
PORTFOLIO DIVERSIFICATION
ENDING MARKET VALUES
YEAR ENDING JUNE 30, 2003 TO 2007



■ Equity □ Cash & Short Term Investments

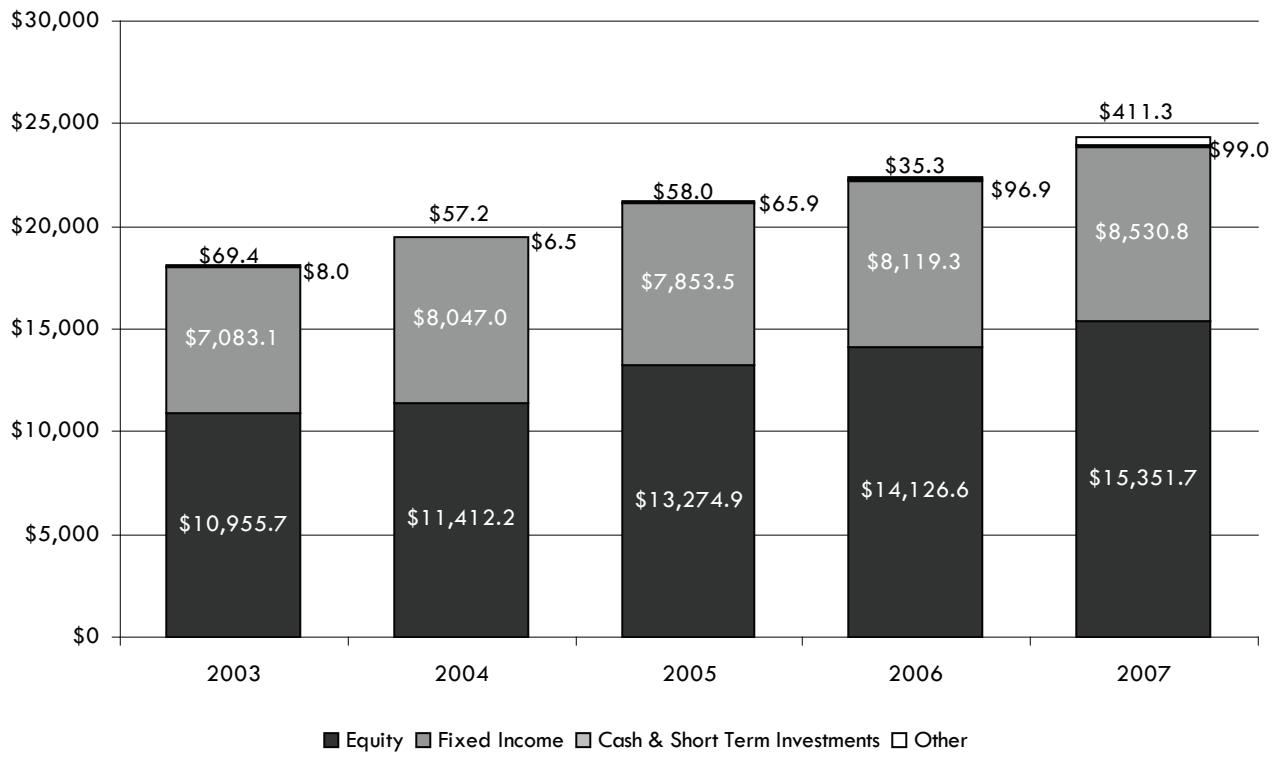
NOTE: The fixed income and other investments categories are not applicable to this fund.

ANNUAL TOTAL RATES OF RETURN
YEAR ENDING JUNE 30, 2003 TO 2007



EMPLOYEES RETIREMENT SYSTEM—PENSION TRUST FUND

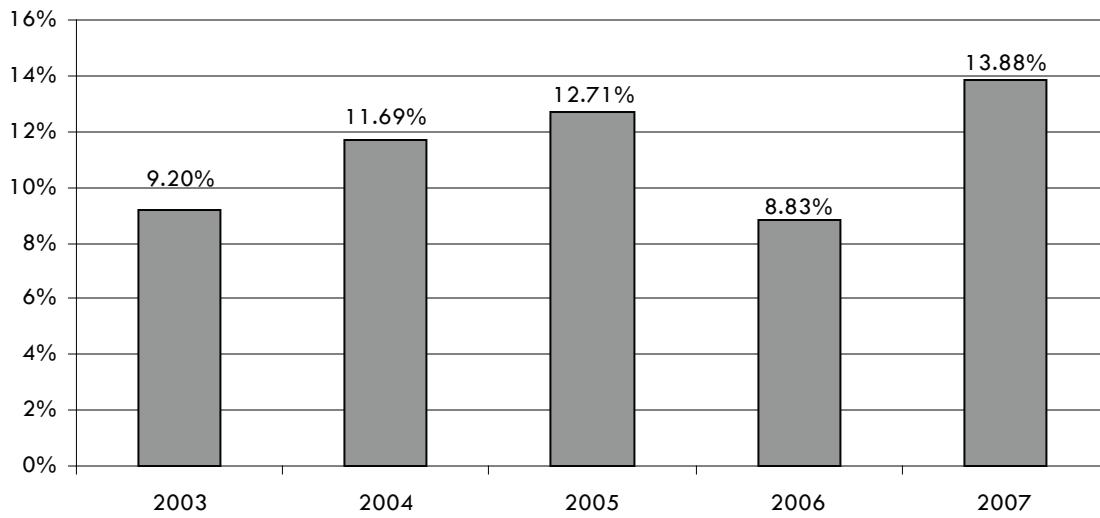
PORTFOLIO DIVERSIFICATION
ENDING MARKET VALUES
FISCAL YEARS 2003 TO 2007



■ Equity ■ Fixed Income □ Cash & Short Term Investments □ Other

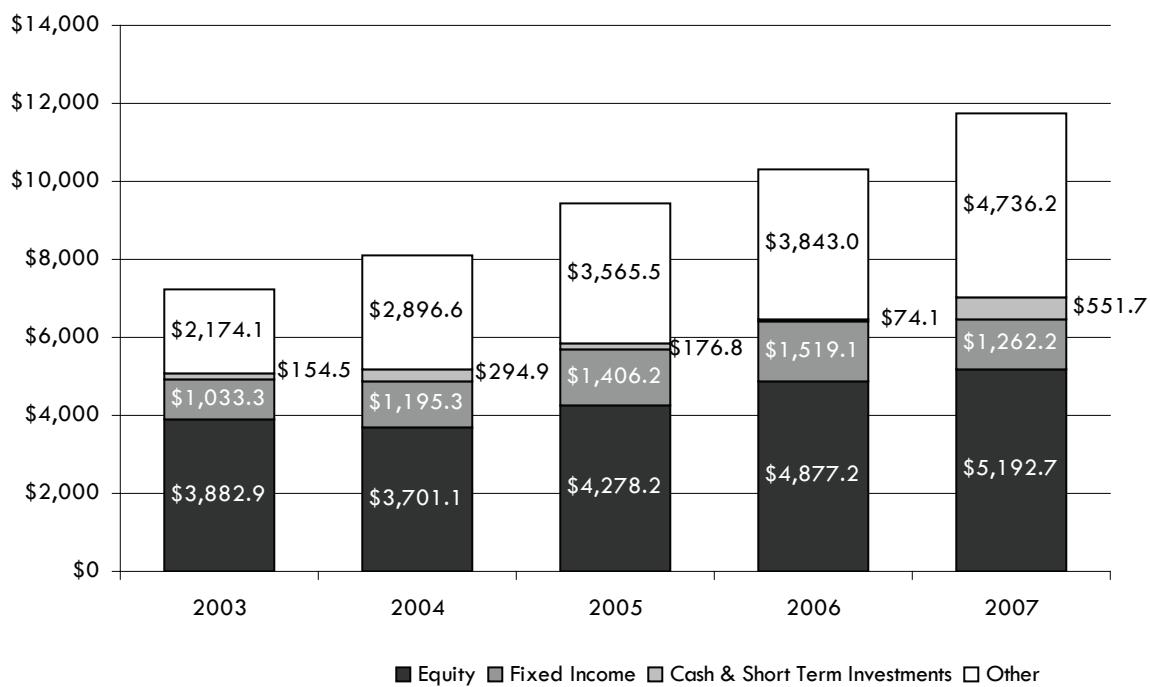
NOTE: Other investments include private equities, Domestic Real Estate Investment Trusts (REIT) and Global REIT.

ANNUAL TOTAL RATES OF RETURN
FISCAL YEARS 2003 TO 2007



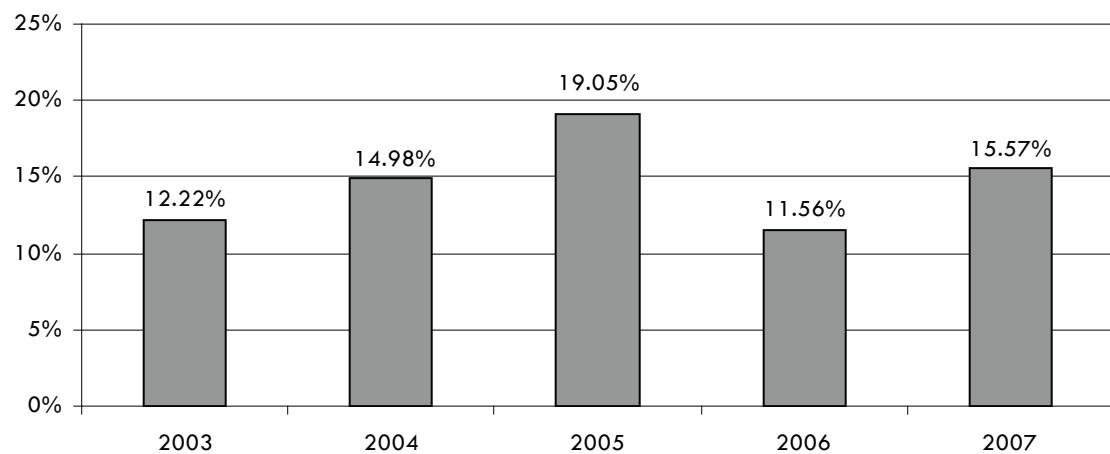
THE UNIVERSITY OF TEXAS SYSTEM— PERMANENT UNIVERSITY FUND

PORTFOLIO DIVERSIFICATION
ENDING MARKET VALUES
FISCAL YEARS 2003 TO 2007



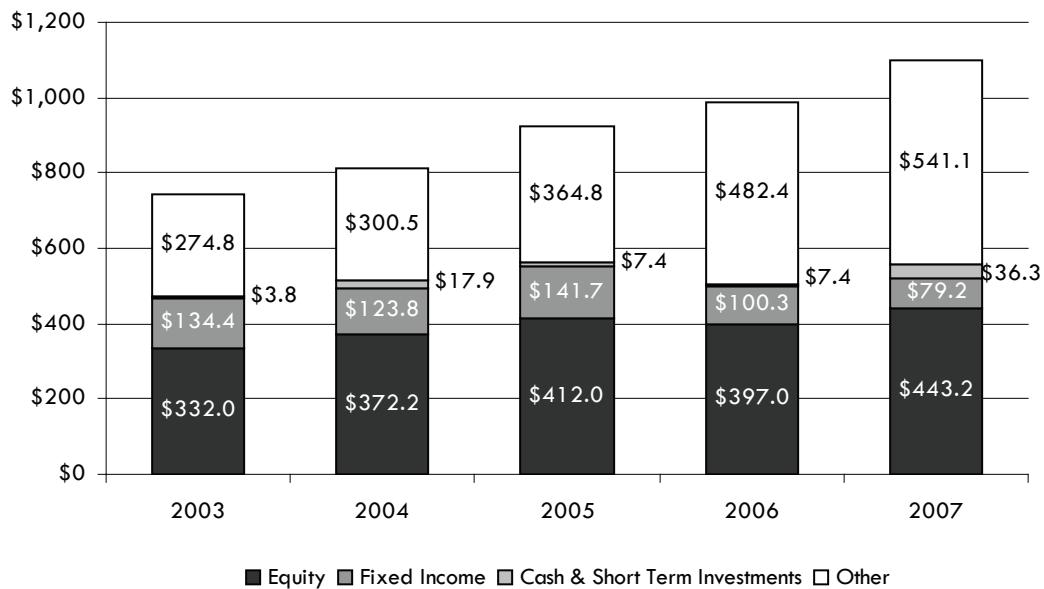
NOTE: Other investments include directional and absolute return hedge funds, real estate investment trusts, private market investment funds and commodities.

ANNUAL TOTAL RATES OF RETURN
FISCAL YEARS 2003 TO 2007



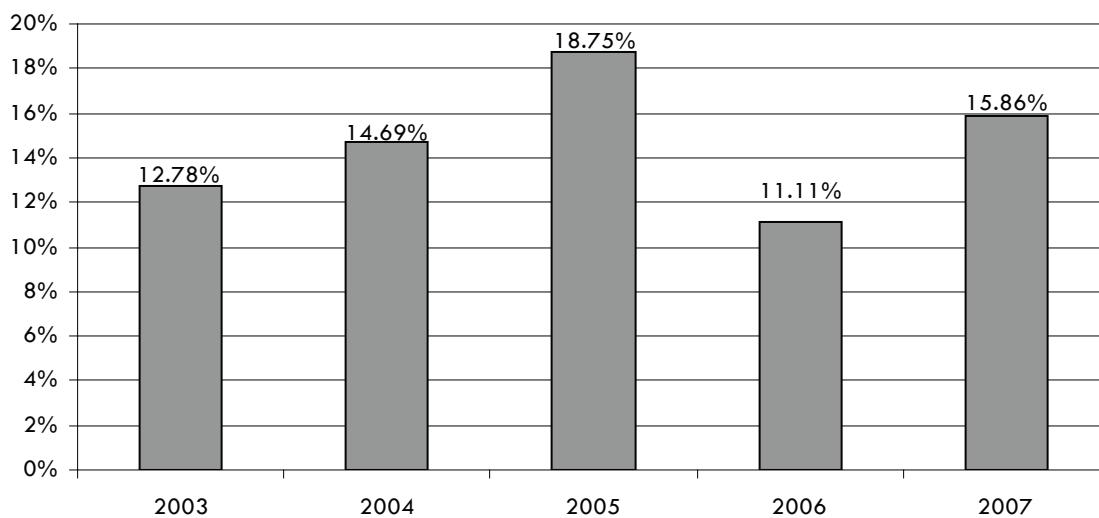
THE UNIVERSITY OF TEXAS SYSTEM— PERMANENT HEALTH FUND

**PORTFOLIO DIVERSIFICATION
ENDING MARKET VALUES
FISCAL YEARS 2003 TO 2007**



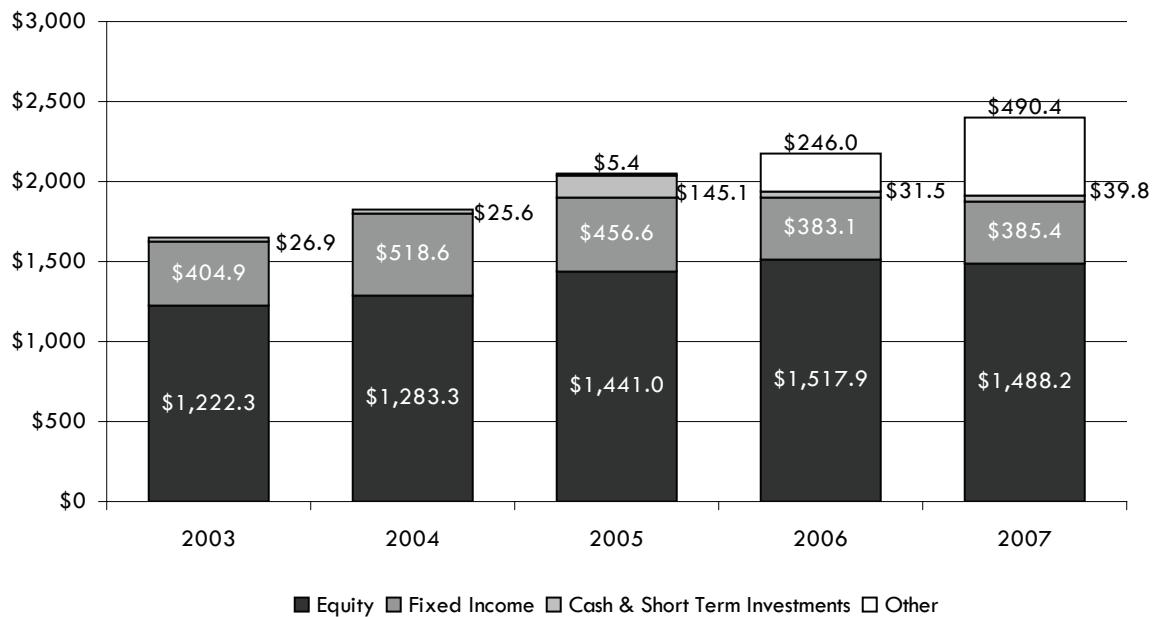
NOTE: The PHF assets are invested in the UT System General Endowment Fund (GEF). The allocation of PHF ending market value is based upon the allocation of GEF ending market value. Other Investments include inflation hedging assets such as direct real estate and oil and gas interests; marketable investments such as hedge funds, arbitrage and special situation funds; and nonmarketable investments such as special equity and mezzanine venture capital. Cash includes short-term investments.

**ANNUAL TOTAL RATES OF RETURN
FISCAL YEARS 2003 TO 2007**



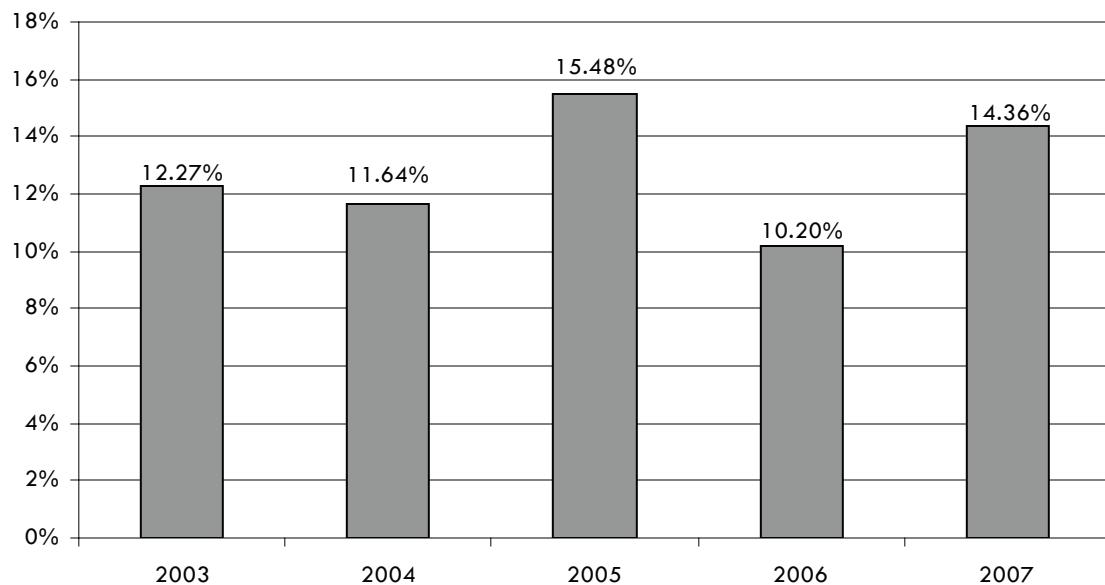
COMPTROLLER OF PUBLIC ACCOUNTS— TOBACCO SETTLEMENT PERMANENT TRUST FUND

PORTFOLIO DIVERSIFICATION
ENDING MARKET VALUES
FISCAL YEARS 2003 TO 2007



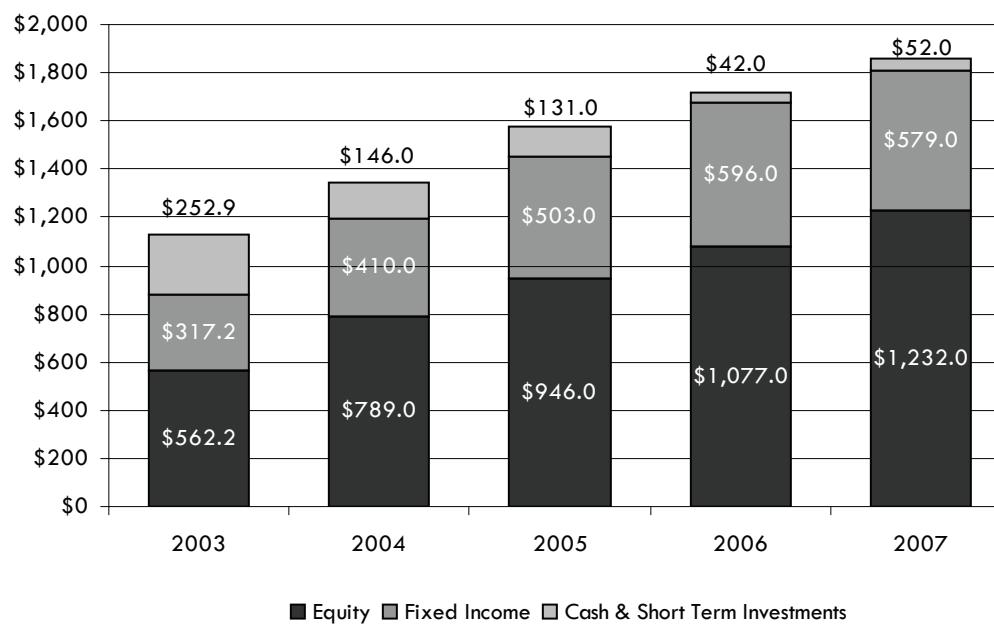
NOTE: Other investments include directional and non-directional hedge funds, private equity and real estate.

ANNUAL TOTAL RATES OF RETURN
FISCAL YEARS 2003 TO 2007



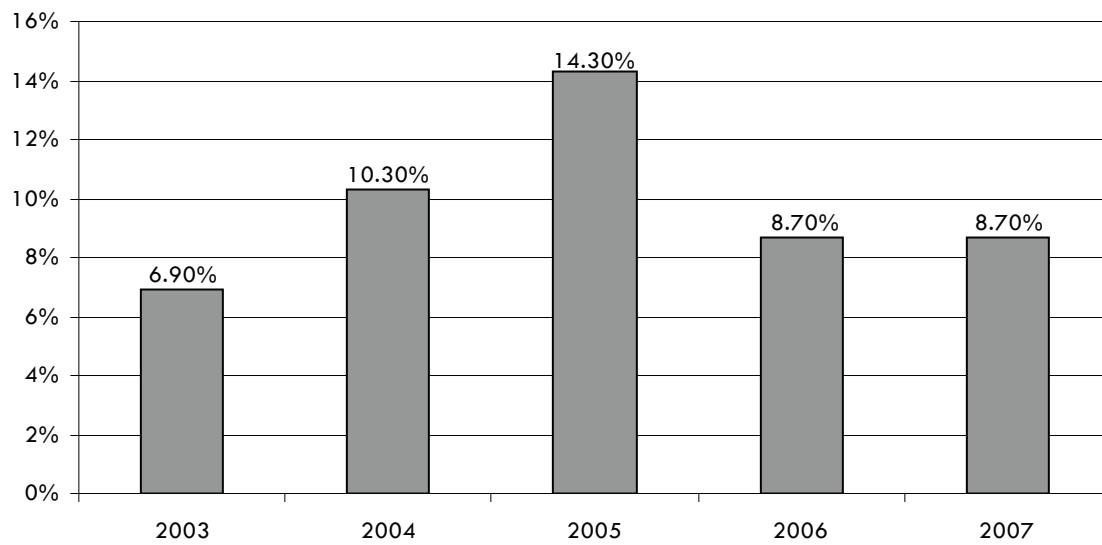
COMPTROLLER OF PUBLIC ACCOUNTS— TEXAS GUARANTEED TUITION PLAN FUND

PORTFOLIO DIVERSIFICATION
ENDING MARKET VALUES
FISCAL YEARS 2003 TO 2007



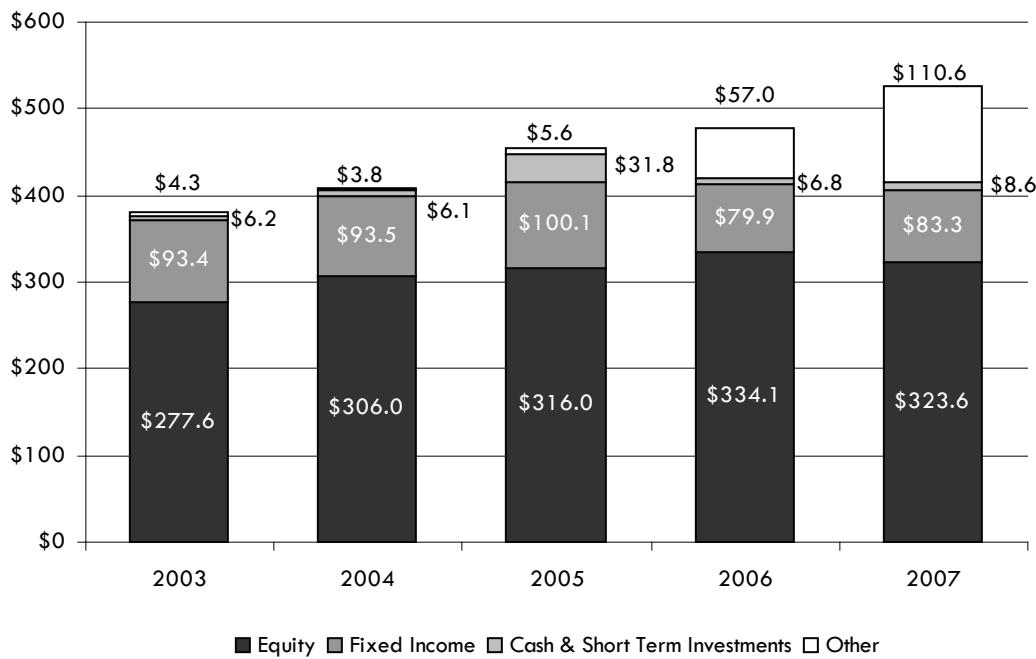
NOTE: The other investments category is not applicable to this fund.

ANNUAL TOTAL RATES OF RETURN
FISCAL YEARS 2003 TO 2007



COMPTROLLER OF PUBLIC ACCOUNTS— PERMANENT PUBLIC HEALTH FUND

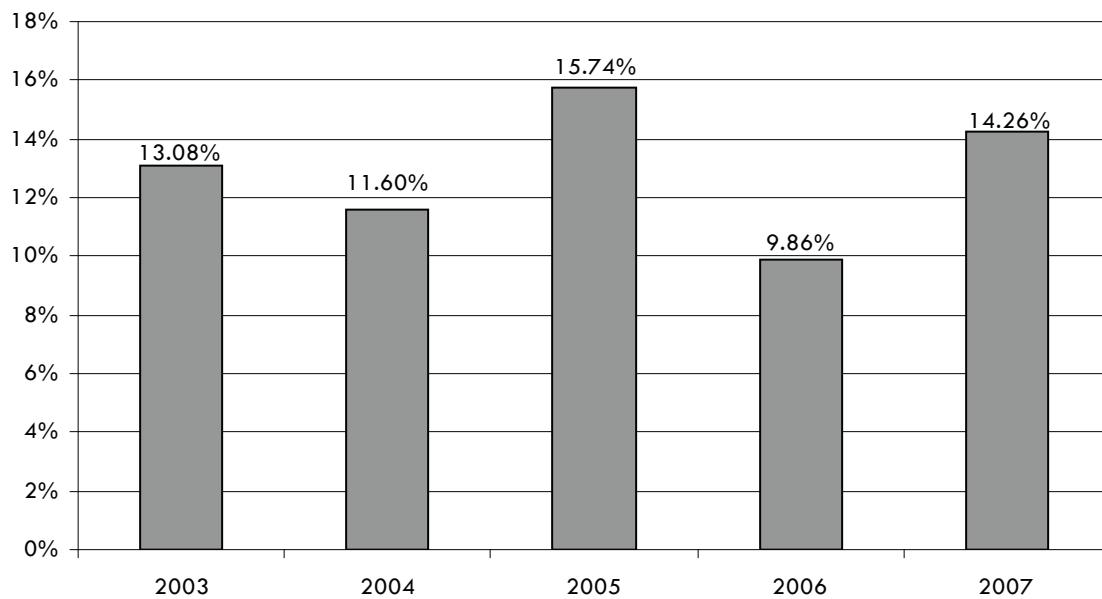
PORTFOLIO DIVERSIFICATION
ENDING MARKET VALUES
FISCAL YEARS 2003 TO 2007



■ Equity ■ Fixed Income ■ Cash & Short Term Investments □ Other

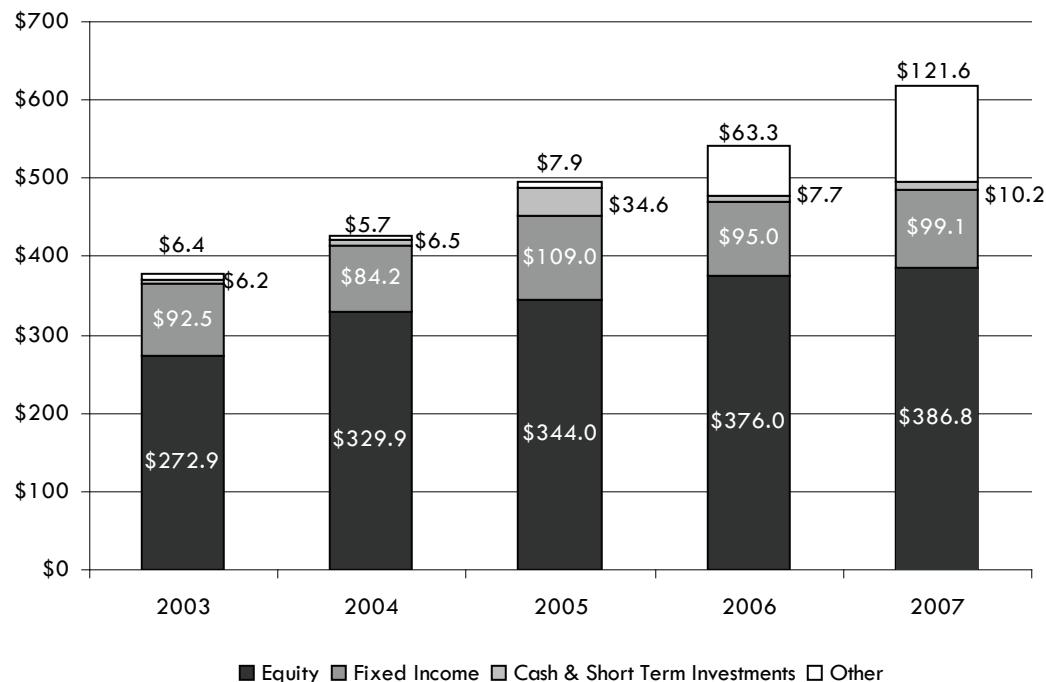
NOTE: Other investments include directional and non-directional hedge funds, private equity and real estate.

ANNUAL TOTAL RATES OF RETURN
FISCAL YEARS 2003 TO 2007



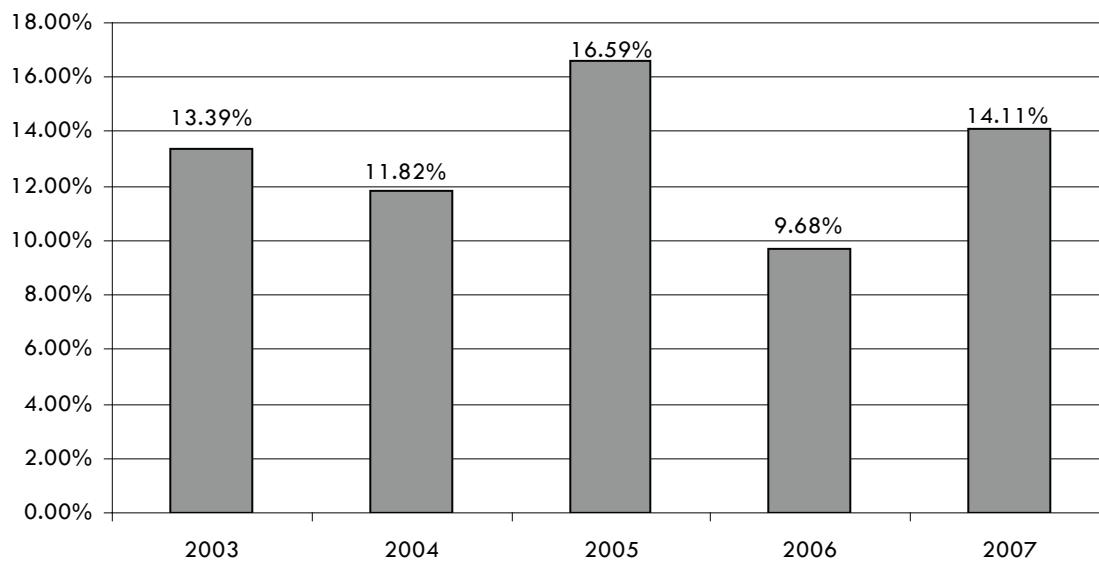
COMPTROLLER OF PUBLIC ACCOUNTS— PERMANENT HIGHER EDUCATION FUND

PORTFOLIO DIVERSIFICATION
ENDING MARKET VALUES
FISCAL YEARS 2003 TO 2007



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

ANNUAL TOTAL RATES OF RETURN
FISCAL YEARS 2003 TO 2007



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, member reinstatements, and investment income increase the fund. The state constitution requires the legislature to establish a member contribution rate of not less than 6 percent of the member's annual compensation and a state contribution rate of not less than 6 percent and not more than 10 percent of the aggregate annual compensation of all members of the system during that fiscal year. The contribution rates for fiscal year 2007 remained the same as fiscal year 2006 with the members contributing 6.4 percent and the state contributing 6.0 percent.

The system's Comprehensive Annual Financial Report for fiscal year 2007 reflects member contributions were \$1.9 billion, state contributions were \$1.5 billion, reporting entity contributions were \$282 million, member reinstatements were \$87 million, and net investment income was \$14.3 billion. According to TRS, \$18.0 billion was added to the Trust Fund in FY 2007.

FUND DISTRIBUTIONS

Deductions from the fund are predominantly retirement, death, and survivor benefits. During fiscal year 2007, the fund paid \$5.8 billion for benefits, \$278 million for members refunding their accounts, and \$28 million for administrative expenses (net of investing activity expenses). In fiscal year 2007 fund distributions totaled \$6.1 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" rule.

INVESTMENT AND OVERSIGHT RESPONSIBILITY

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

PERCENTAGE OF ASSETS EXTERNALLY MANAGED/ ADVISED

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

INVESTMENT COSTS

The cost of investing the funds for fiscal year was \$21 million, or 2 basis points (0.02 percent) of the net assets held in trust for pension benefits at the end of fiscal year 2007. The investment cost consists of \$14 million in direct internal cost and \$7 million in indirect internal cost. According to TRS, investment expenses included items such as salaries and other personnel costs, dues, fees and subscriptions, travel, and reference materials, consumable supplies, professional fees and services, furniture, equipment and maintenance. Prior year investment costs were \$19.0 million or 0.02 percent of the net asset held in trust for pension benefits at the end of the year.

TEACHER RETIREMENT SYSTEM—PENSION TRUST FUND (CONTINUED)

PERFORMANCE BENCHMARKS

TRS provided the following benchmarks for fiscal year 2007. The italicized benchmark has been updated from fiscal year 2006.

- *Fixed Income – Lehman Brothers Universal*
- Domestic Large Cap Equities – Standard & Poor's 500 Index
- Domestic Mid Cap Equities – Standard & Poor's Mid Cap 400 Index
- Domestic Small Cap Equities – Standard & Poor's Small Cap 600 Index
- International Equities – Morgan Stanley Capital International (MSCI) All Country World Index Free Ex-U.S.
- Private Equities – Russell 2000 plus 500 bps
- Absolute Return – 70 percent three-month London InterBank Offered Rate (LIBOR) plus 30 percent Standard & Poor's 500 Index
- Real Estate – NCREIF Property Index (1 quarter lag) + 200 bps.

RECENT LEGISLATION

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 over 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.

Senate Bill 1846 specifies the state contribution rate may not be less than the member contribution rate during a fiscal year. In the 2008-09 biennium the state contribution rate is set by the bill at 6.58 percent of the member's annual salary. The bill also requires a one-time supplemental benefit payment to eligible annuitants by September 2007.

Senate Bill 1691, Seventy-ninth Legislature, Regular Session, 2005, makes numerous changes affecting TRS policies and operations. Changes affecting the pension fund include the addition of a minimum age of 60 to the Rule of 80 for purposes of determining eligibility for a TRS service retirement. The legislation includes a grandfathering clause that allows individuals who establish TRS membership before September 1, 2007, to retire under the eligibility rules in effect before the effective date of the legislation. Senate Bill 1691 also requires school districts that hire TRS retirees to work in TRS-covered positions to contribute an amount equivalent to the state and the active member contribution to the pension fund (currently 6 percent for the state contribution plus 6.4 percent for the active member contribution). In addition, for retirees enrolled in the TRS-Care group health insurance program, school districts are required to pay the difference between the retiree's cost and the total cost of coverage under the plan for retirees working in TRS-covered positions. These changes to the return-to-work program apply only to retirees who were not reported as retirees employed by a district as of January 2005.

Senate Bill 1691 also contains several provisions addressing other TRS policy issues, including the elimination of subsidized early retirement, changes in eligibility to participate in TRS-Care, changes in eligibility for the Partial Lump Sum Option, discontinuation for new participation in the Deferred Retirement Option Plan at the end of calendar year 2005, a change in the calculation of final average salary for determining annuity amounts to include the highest five years of salary (instead of three years), and changes to policies regarding service credit purchases. TRS members are no longer permitted to purchase service credit, also referred to as “air time,” after January 1, 2006. Payments on current service

TEACHER RETIREMENT SYSTEM—PENSION TRUST FUND (CONTINUED)

purchase agreements must be completed by December 31, 2005. Out-of-state service credit purchases require actuarially equivalent contributions after January 1, 2006, with some exceptions.

Senate Bill 1691, Seventy-ninth Legislature, Regular Session, 2005, requires that employers make a 6 percent contribution to the pension fund in lieu of a state contribution during the first 90 days of employment for a new employee. School district and active member contributions to TRS-Care apply from the first day of employment.

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 3.5 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 \$128.9 million was added to the PSF during fiscal year 2007.

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 and the total distribution over the past ten years cannot exceed the total return for the same period. The SBOE set the distribution rate at 4.5 percent for fiscal years 2006 and 2007 and 3.5 percent for fiscal years 2008 and 2009. In fiscal year 2007, \$843.1 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 20.25 percent of PSF assets are externally managed. Independent firms are used to invest funds, provide custodial and accounting services, provide securities lending services, advise on asset allocation, and evaluate investment performance.

INVESTMENT COSTS

According to TEA, the cost of administrating the fund was \$6.2 million, or 2 basis points (0.02 percent) of the ending fund balance for fiscal year 2007. This includes \$5.5 million in internal direct costs and over \$600,000 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, and compliance. Prior year investment costs were \$5.4 million or 0.02 percent of the ending fund balance.

PERFORMANCE BENCHMARKS

The following benchmarks were provided by TEA for fiscal year 2007. The benchmark shown in italics has been updated from fiscal year 2006.

- Fixed Income, managed internally – Lehman Brothers Aggregate Bond Index
- Domestic Large Cap Equities, Passive – Standard & Poor’s 500 Stock Composite Index
- Domestic Mid Cap and Small Cap Equities, Passive – Standard & Poor’s 1000 Stock Composite Index

PERMANENT SCHOOL FUND—TEXAS EDUCATION AGENCY (CONTINUED)

- *International Equities, Passive – Morgan Stanley Capital International All Country World ex-U.S. Net 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 \$583.2 million was added to the RESFA in fiscal year 2007.

FUND DISTRIBUTIONS

The RESFA distribution to TEA is authorized annually by the SLB. According to GLO in fiscal year 2007 \$131.9 million was distributed to TEA. This total includes a distribution of \$78 million plus \$22.4 in depository interest and the remainder in various oil and gas royalties. In fiscal year 2008 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, GLO staff, external managers and the Investment Advisory Committee. The SLB is comprised of the Land Commissioner, an appointee of the Governor and an appointee of the

Attorney General. The Investment Advisory Committee is a five member committee consisting of four senior staff members and a SLB member.

PERCENTAGE OF ASSETS EXTERNALLY MANAGED/ ADVISED

According to the GLO, approximately 39 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 year ending June 30, 2007 were \$1.1 million or 8 basis points (.08 percent) of the ending fund balance. This amount includes \$397,000 for direct internal costs and \$738,000 for external costs. Investment expenses include cost for expenses attributed to individual investment properties, such as utility costs, environmental studies and appraisals, as well as management and incentive fees. The investment costs for year ending June 30, 2006 were \$455,000 or .05 percent of the ending fund balance.

PERFORMANCE BENCHMARKS

The following benchmark has been identified by the GLO for year ending June 30, 2007.

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

RECENT LEGISLATION

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,

PERMANENT SCHOOL FUND—GENERAL LAND OFFICE (CONTINUED)

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. The bill also adds a cap of 15% of the total value of the PSF that can be invested in real estate.

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 commingled 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 2006–07, the member contribution was 6 percent and the state contribution was 6.45 percent. No contributions from either the state or the members have been made to the LECOS fund since 1993. JRS I is a pay as you go plan and there is no trust fund to receive contributions. Member contributions of 6 percent go to the general revenue fund. Contributions to JRS II are set by general law and the state appropriations act. For 2006–07, the member contribution was 6.45 percent and the state contribution was 16.83 percent. The 2007 Comprehensive Annual Financial Report (CAFR) reported that total member contributions to the pension trust funds for fiscal year 2007 were \$328 million and the total state contributions were \$330 million. In fiscal year 2006 total member contributions to the pension trust funds were \$333.5 million and the total state contributions were \$326.2 million. According to ERS, fiscal year 2007 total fund contributions equaled \$3.3 billion.

FUND DISTRIBUTIONS

Distributions from the pension trust fund are based on benefit payments owed, and according to ERS, equaled \$1.4 billion in fiscal year 2007.

INVESTMENT OBJECTIVE

The primary investment objective, according to ERS, is to earn a return that will insure the payments due to members of the retirement plans and their beneficiaries are at a reasonable cost to the members and the taxpayers of the state. Investment decisions must adhere to the 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 appointed by the speaker of the House of Representatives. The board appoints an investment advisory committee. The committee members are investment professionals who are required to meet at least quarterly to review ERS investments.

PERCENTAGE OF ASSETS EXTERNALLY MANAGED/ ADVISED:

According to ERS, approximately 67.2 percent of the agency's invested funds are handled completely by internal staff. For the remaining 32.8 percent, staff receives counsel from various fund advisors.

INVESTMENT COSTS

According to ERS, the cost of investing the funds was \$27.1 million, or 11 basis points (0.11 percent) of the ending fund balance for fiscal year 2007. This includes \$8.7 million in direct internal expenses, and \$18.4 million in external investment expenses. Investment expenses included costs related to support staff, operations and investment custodians. Prior year investment costs were \$19.0 million or 0.1 percent of the ending fund balance.

PERFORMANCE BENCHMARKS

The following benchmarks were provided by ERS for fiscal year 2007. The benchmarks shown in italics have been updated from fiscal year 2006.

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

EMPLOYEES RETIREMENT SYSTEM—PENSION TRUST FUND (CONTINUED)

- *Fixed Income – High Yield – Merrill Lynch High Yield Master Trust Index II*
- *Domestic Small Cap Equities – Standard & Poor's 600 Index*
- Domestic Large Cap Equities – Standard & Poor's 500 Stock Composite Index
- *International Equities – Morgan Stanley Capital International (MSCI) Europe, Australia and Far East (EAFE) Free Index*
- Cash Equivalents – 91-day U.S. Treasury Bill rate

RECENT LEGISLATION

The Eightieth Legislature, Regular Session, 2007, enacted several bills that affect ERS including Senate Bill 247, which 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, 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.

Senate Bill 11, enacted by the Seventy-ninth Legislature, Regular Session, 2005, increased the state-paid ERS contribution rate for the 2006–07 biennium from 6 percent to 6.45 percent of the employee's salary. The contribution rate covers the normal cost of paying annuity benefits as reported in the ERS actuarial valuation report dated February 28, 2005.

Senate Bill 1176, enacted by the Seventy-ninth Legislature, Regular Session, 2005, makes permanent the 90-day wait for ERS retirement membership for newly-hired employees. Payroll deductions for the 6.45 percent contributed by the

state and the 6 percent contributed by the employee begin following the 90-day wait.

The bill provides for a reduction for the standard non-occupational disability retirement annuity. The reduction is based on actuarial tables adopted by the board of trustees and applies to members who retire before reaching the normal age and length of time for retirement eligibility. The bill also makes the death benefit plan available only to active state employees and for members who filed a death plan before September 1, 2005.

Senate Bill 1176 increases interest charges on payments to reestablish service from 5 percent to 10 percent (effective 9/1/06). The bill restricts the purchase of additional service credit to 36 months (effective 1/1/06) and it eliminates use of other governmental service toward retirement eligibility if not established by January 1, 2006.

UNIVERSITY OF TEXAS SYSTEM—PERMANENT UNIVERSITY FUND

FUND PURPOSE

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

FUND CONTRIBUTIONS

Mineral and other incomes are added annually to the fund. According to the UT System, \$272.8 million in income earned by PUF lands were contributed to the PUF during fiscal year 2007.

FUND DISTRIBUTIONS

The PUF is a total return fund, and amounts from both income as well as changes in asset values may be distributed. The UT System Board has established an annual distribution to the AUF of 4.75 percent of the prior three years average net asset value of the PUF. According to the UT System, \$400.7 million was paid to the AUF in fiscal year 2007.

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 underperform 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 78.3 percent of the PUF assets are externally managed.

INVESTMENT COSTS

According to the UT System, total investment expenses were \$82.5 million, or 71 basis points (0.71 percent) of the ending fund balance. This amount includes \$2.7 million for direct internal costs, \$3.8 million for indirect internal costs, and \$76.0 million for external costs for fiscal year 2007. The investment expenses included costs for management fees and fees related to custodial, auditing, consulting, performance, risk management, and securities lending services. Investment costs for the previous fiscal year were \$82.6 million or 0.8 percent of the ending 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 benchmark shown in italics has been updated from fiscal year 2006.

- *Fixed Income – Lehman Brothers Aggregate Bond Index, Lehman Brothers US TIPS Index*
- U.S. Equities – Russell 3000 Index
- Global ex U.S. Equities – Morgan Stanley Capital International – Europe, Australia and Far East (EAFE) Index with net dividends
- Emerging Markets – Morgan Stanley Capital International – Emerging Markets Index with net dividends
- *Hedge Fund – Directional –Morgan Stanley Capital International Investable Hedge Fund Index.*
- Real Estate – Dow Jones Wilshire Real Estate Securities Index

UNIVERSITY OF TEXAS SYSTEM—PERMANENT UNIVERSITY FUND (CONTINUED)

- Commodities – 67 percent Goldman Sachs Commodities Index minus 50 basis points and 33 percent Dow Jones AIG Commodity Index
- Treasury Inflation-Protected Securities (TIPS) – Lehman Brothers U.S. TIPS Index
- Private Capital – Venture Economics' Periodic IRR Index
- Cash and Equivalents – 90-day T-Bill

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 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, \$40.7 million was transferred to eligible institutions during fiscal year 2007.

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, 74 percent of the GEF assets are externally managed.

INVESTMENT COSTS

According to the UT System, total investment expenses for fiscal year 2007 were \$7.5 million, or 68 basis points (0.68 percent) of the ending fund balance. This amount includes \$0.3 million in direct investment expenses, \$0.6 million in indirect investment expenses, and \$6.6 million in external expenses. The investment expenses included costs for management fees and fees related to custodial, auditing, consulting, performance, risk management, and securities lending services. Investment costs for fiscal year 2006 were \$3.8 million or 0.4 percent of the ending 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. The benchmarks shown in italics have been updated from fiscal year 2006.

- Fixed Income – Lehman Brothers Aggregate Bond Index
- Absolute Return – 90 day T-Bills Average Yield Plus 3 Percent.
- U.S. Equities – Russell 3000 Index

UNIVERSITY OF TEXAS SYSTEM—PERMANENT HEALTH FUND (CONTINUED)

- Global ex U.S. Equities – Morgan Stanley Capital International – Europe, Australia and Far East (EAFE) Index with net dividends
- Emerging Markets – Morgan Stanley Capital International – Emerging Markets Index with net dividends
- Hedge Fund – Directional – *Morgan Stanley Capital International Investable Hedge Fund Index*.
- Real Estate – Dow Jones Wilshire Real Estate Securities Index
- Commodities – 67 percent Goldman Sachs Commodities Index minus 50 basis points and 33 percent Dow Jones AIG Commodity Index
- Treasury Inflation-Protected Securities (TIPS) – Lehman Brothers U.S. TIPS Index
- Private Capital – Venture Economics' Periodic IRR Index
- Cash and Equivalents – 90-day T-Bill Average Yield

COMPTROLLER OF PUBLIC ACCOUNTS—TOBACCO SETTLEMENT PERMANENT TRUST FUND

FUND PURPOSE

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

FUND CONTRIBUTIONS

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

FUND DISTRIBUTIONS

The TSF is a total return fund and distributions 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, \$82.7 million was distributed during fiscal year 2007.

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 Seventy-eighth Legislature, 2003, amended the method for appointing some of members of the advisory committee. 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 2007 were \$7.1 million, or 29 basis points (0.29 percent) of the ending fund balance. This amount includes \$2.7 million for direct internal costs and \$4.4 million for external costs. Investment expenses included costs for 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 2006 were \$6.4 million or 0.3 percent of the ending fund balance.

PERFORMANCE BENCHMARKS

The CPA provided the following benchmarks. The benchmarks shown in italics have been updated from fiscal year 2006.

- Fixed Income – Investment Grade - Lehman Brothers Aggregate Bond Index
- *Fixed Income – High Yield – Lehman U.S. High Yield Bond Index*
- Domestic Equities – Standard & Poor's 1500 Stock Composite Index

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

- *International Equities – MSCI ACWI ex GD*
- Hedge Fund – Directional – T-Bill Average Yield plus 4 percent and Standard & Poor's 500 Stock Composite Index
- Hedge Fund – Non-Directional – T-Bill Average Yield plus 3 percent and Lehman Brothers Aggregate Bond Index
- Private Equity – Standard & Poor's 500 Stock Composite Index plus 3 percent.
- *Real Estate – 90 percent NCREIF Property Index and 10 Percent FTSE/EPRA NAREIT Property Index*
- 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 Texas College Savings Plan managed by Oppenheimer Funds is the current plan open to new investors.

FUND CONTRIBUTIONS

Member contributions are added annually to the fund. According to the CPA, \$81.8 million in tuition contract payments, \$227,500 in fees and other revenue, and \$209.2 million in investment income were added to the fund during fiscal year 2007 a total of \$291.2 million.

FUND DISTRIBUTIONS

According to the CPA, \$92.8 million was distributed to colleges for tuition payments during fiscal year 2007. An additional \$9.0 million was distributed for administrative expenses and \$22.1 million was refunded to contract purchasers. In fiscal year 2007 fund distributions totaled \$123.9 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 2007 were \$6.9 million, or 36 basis points (0.36 percent) of the ending fund balance. This amount primarily includes external costs. The investment costs for fiscal year 2006 were \$6.6 million or 0.4 percent of the ending fund balance.

PERFORMANCE BENCHMARKS

The CPA provided the following benchmarks for fiscal year 2007. The benchmarks in italics have been updated from fiscal year 2006.

- *Fixed Income – Investment Grade – Lehman Brothers Aggregate Index and a comparable universe of domestic investment grade fixed income managers over a rolling 3 to 5 year period.*
- *Fixed Income – High Yield – Lehman U.S. Corporate High Yield 2 Percent Issuer Cap Index and a comparable universe of domestic high yield fixed income managers over a rolling 3 to 5 year period.*
- Fixed Income – Global – Citigroup World Government Bond Index (*unhedged*) and a comparable universe of global fixed income managers over a rolling 3 to 5 year period.
- Value Equities – Large Capitalization – Russell 1000 Index and a comparable universe of domestic large capitalization value equity managers over a rolling 3 to 5 year period.
- *Growth Equity – Large Capitalization – Russell 1000 Growth Index and a comparable universe of domestic large capitalization growth equity managers over a rolling 3 to 5 year period.*
- Core Equities – Small Capitalization – Russell 2000 Stock Index and a comparable universe of domestic small capitalization core equity managers over a rolling 3 to 5 year period.

COMPTROLLER OF PUBLIC ACCOUNTS—TEXAS GUARANTEED TUITION PLAN FUND (CONTINUED)

- *International Equities – Growth Account – Citigroup PMI EPAC Growth Index and a comparable universe developed market international equity growth managers over a rolling 3 to 5 year period.*
- International Equities – Value Account – Citigroup OMI EPAC Value Index and a comparable universe of developed market international equity value managers over a rolling 3 to 5 year period.
- Global Tactical Asset Allocation Fund- Global Securities Markets 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, payable quarterly, are calculated as 4.5 percent times 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, \$18.5 million was transferred during fiscal year 2007 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 administrating the fund for fiscal year 2007 were \$1.6 million, or 31 basis points (0.31 percent) of the ending fund balance. Investment expenses included costs for consulting, auditing, IT systems, compliance monitoring, overhead, risk management, reporting, investment accounting, and investment management. Investment costs for fiscal year 2006 were \$1.4 million or 0.3 percent of the fund balance.

PERFORMANCE BENCHMARKS

The CPA provided the following benchmarks. The benchmarks shown in italics have been updated from fiscal year 2006.

- Fixed Income – Investment Grade – Lehman Brothers Aggregate Bond Index
- *Fixed Income – High Yield – Lehman U.S. High Yield Bond Index*
- Domestic Equities – Standard & Poor's 1500 Stock Composite Index
- *International Equities – MSCI ACWI ex GD*
- Hedge Fund – Directional – T-Bill Average Yield plus 4 percent and Standard & Poor's 500 Stock Composite Index
- Hedge Fund – Non-Directional – T-Bill Average Yield plus 3 percent and Lehman Brothers Aggregate Bond Index
- Private Equity – Standard & Poor's 500 Stock Composite Index plus 3 percent.
- *Real Estate – 90 percent NCREIF Property Index and 10 percent FTSE EPRA NAREIT Property Index*
- 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.

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 2007.

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 2007 were \$1.8 million, or 30 basis points (0.30 percent) of the ending fund balance and mostly include external costs. Investment expenses included costs for consulting, auditing, IT systems, compliance monitoring, overhead, risk management, reporting, investment accounting, and investment management. Investment costs for fiscal year 2006 were \$1.6 million or 0.3 percent of the ending fund balance.

PERFORMANCE BENCHMARKS

The CPA provided the following benchmarks. The benchmarks shown in italics have been updated from fiscal year 2006.

- Fixed Income – Investment Grade – Lehman Brothers Aggregate Bond Index
- *Fixed Income – High Yield – Lehman U.S. High Yield Bond Index*
- *Domestic Equities – Standard & Poor's 1500 Stock Composite Index*
- *International Equities – MSCI ACWI ex GD*
- Hedge Fund – Directional – T-Bill Average Yield plus 4 percent and Standard & Poor's 500 Stock Composite Index
- Hedge Fund – Non-Directional – T-Bill Average Yield plus 3 percent and Lehman Brothers Aggregate Bond Index
- Private Equity – Standard & Poor's 500 Stock Composite Index plus 3 percent
- *Real Estate – 90 percent NCREIF Property Index and 10 percent FTSE/EPEA NAREIT Property Index*
- Cash Equivalents – 90-day U.S. Treasury Bill rate

APPENDIX C. GLOSSARY

ABSOLUTE RETURN HEDGE FUNDS

A marketable alternative investment which includes arbitrage and event oriented strategies and is often referred to as a “non-directional” fund. Arbitrage strategies attempt to take advantage of pricing discrepancies between closely related securities, utilizing a variety of different tactics primarily within equity, fixed income and convertible securities markets. Event driven strategies attempt to take advantage of pricing discrepancies that often exist during discreet events such as bankruptcies, mergers, takeovers, spin-offs and recapitalizations in equity and debt securities.

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 buyout 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 contact 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 HEDGE FUNDS

A marketable alternative investment which includes U.S. and international long/short equity strategies and is often referred to as a "directional" fund. These strategies attempt to take advantage of profits from stock selection skills by taking long positions in securities that are expected to advance and short positions in securities where returns are expected to lag or decline.

EQUITY INVESTMENT

Ownership interest processed by shareholders in a corporation.

EXTERNAL MANAGER

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

FIXED INCOME INVESTMENTS

A security that pays a fixed rate of return in the form of interest or dividends, over a specified period 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, 2007				
	\$ in millions				
Total Fund	\$111,120.8				
		Fiscal Year 2007 Time	Fiscal Year 2007		
		Weighted Gross Fund Return	Benchmark Adjusted Gross Fund Return		
Total Fund		14.40%	13.22%		
		Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2005	Fiscal Year 2004
Gross Return - Total Fund		14.40%	9.70%	14.41%	11.91%
Gross Return - Equity		17%	12.08%	18.35%	13.73%
(For Fiscal Year 2007 only)					
% of Domestic Equity Internally Managed		100%	100%		
Rate of Return for Internally Managed		17%	12.08		
% of Domestic Equity Externally Managed		0%	0%		
Rate of Return for Externally Managed		n/a	n/a		
Gross Return- Fixed Income		5.6%	2.16%	4.78%	7.96%
Gross Return - Cash & Short-term		5.38%	4.52%	2.53%	1.28%
Gross Return - All Other		26.66%	22.92%	28.02%	10.84%
		Market Value of Fund	Market Value of Fund	Market Value of Fund	Market Value of Fund
		Year Ending	Year Ending	Year Ending	Year Ending
		Aug. 31, 2007	Aug. 31, 2006	Aug. 31, 2005	Aug. 31, 2004
		\$ in millions	\$ in millions	\$ in millions	\$ in millions
Portfolio Diversification					
All Equity		\$70,255	\$65,836	\$63,571	\$55,836
All Fixed Income		\$31,358	\$27,183	\$24,723	\$23,070
All Cash & Short Term Securities		\$1,683	\$3,975	\$1,921	\$3,027
All Other Investments		\$7,825	\$4,263	\$3,114	\$2,478
		Total Fiscal Year 2007			
		\$ in millions			
Fund Contributions					
Members		\$1,863			
State		\$1,471			
Reporting Employers		282			
Member Reinstatements		87			
Investment Income		\$14,299			
Total Contributions		\$18,002			
Fund Distributions		\$ in millions			
Benefits		\$5,806			
Refunds		\$278			
Other		\$28			
Total Distributions		\$6,112			
Internal Investment Expenses:		\$ in millions			
Direct		\$14			
Indirect		\$7			
External Investment Expenses:		-			
Total Investment Expenses:		\$21			
		Year Ending			
		Aug. 31, 2007			
Percentage of Assets Externally Managed		0%			

ATTACHMENT 2. PERMANENT SCHOOL FUND—TEA

	Market Value of Fund				
	Year Ending Aug. 31, 2007				
	\$ in millions				
Total Fund	\$25,400.0				
		Fiscal Year 2007	Fiscal Year 2007		
		Time Weighted Gross Fund Return	Benchmark Adjusted Gross Fund Return		
Total Fund		14.33%	14.00%		
		Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2005	Fiscal Year 2004
Gross Return - Total Fund		14.33%	10.44%	14.18%	10.57%
Gross Return - Equity <i>(For Fiscal Year 2007 only)</i>		17.00%	12.84%	17.54%	13.38%
% of Domestic Equity Internally Managed		100.00%	100.00%		
Rate of Return for Internally Managed		15.25%	8.50%		
% of Domestic Equity Externally Managed		0.00%	0.00%		
Rate of Return for Externally Managed		n/a	n/a		
Gross Return- Fixed Income		5.59%	1.74%	4.11%	6.31%
Gross Return - Cash & Short-term					6.04%
Gross Return - All Other					
	Market Value of Fund	Market Value of Fund	Market Value of Fund	Market Value of Fund	Market Value of Fund
	Year Ending Aug. 31, 2007	Year Ending Aug. 31, 2006	Year Ending Aug. 31, 2005	Year Ending Aug. 31, 2004	Year Ending Aug. 31, 2003
Portfolio Diversification	\$ in millions	\$ in millions	\$ in millions	\$ in millions	\$ in millions
All Equity	\$19,026	\$17,153	\$16,318	\$14,418	\$10,664
All Fixed Income	\$6,305	\$5,661	\$5,042	\$4,859	\$7,625
All Cash & Short Term Securities	\$69	\$72	\$74	\$61	
All Other Investments					
Totals	\$25,400	\$22,886	\$21,433.4	\$19,337.7	\$18,289.1
	Total Fiscal Year 2007				
Fund Contributions		\$128,948,052			
Fund Distributions		\$843,136,949			
Internal Investment Expenses:					
Direct		\$5,542,039			
Indirect					
External Investment Expenses:		\$646,156			
Total Investment Expenses:		\$6,188,195			
	Year Ending Aug. 31, 2007				
Percentage of Assets Externally Managed		20.25%			

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

	Market Value of Fund Year Ending June 30, 2007 \$ in millions					
Total Fund	\$1,347.6	Year Ending June 30, 2007	Year Ending June 30, 2007			
	Time Weighted Gross Fund Return	Benchmark Adjusted Gross Fund Return				
Total Fund	11.26%	17.25%				
Gross Return - Total Fund	Year Ending June 30, 2007	Year Ending June 30, 2006	Year Ending June 30, 2005	Year Ending June 30, 2004	Year Ending June 30, 2003	
Gross Return - Real Estate (For Fiscal Year 2007 only)	11.26%	15.51%	8.07%	5.54%	0.24%	
% of Domestic Equity Internally Managed	14.47%	26.65%	21.35%	26.15%	0.76%	
Rate of Return for Internally Managed	61%	n/a	n/a	n/a	n/a	
% of Domestic Real Estate Externally Managed	13.51%	n/a	n/a	n/a	n/a	
Rate of Return for Externally Managed	39%	n/a	n/a	n/a	n/a	
Gross Return- Fixed Income	13.57%	n/a	n/a	n/a	n/a	
Gross Return - Cash & Short-term	n/a	n/a	n/a	n/a	n/a	
Gross Return - All Other	5.17%	4.14%	n/a	1.47%	1.47%	
Gross Return - Absolute Return	n/a	n/a	n/a	n/a	n/a	
Gross Return - Equity Hedge	n/a	n/a	n/a	n/a	n/a	
Gross Return - Non-Marketable	n/a	n/a	n/a	n/a	n/a	
Portfolio Diversification	Market Value of Fund Year Ending June 30, 2007 \$ in millions	Market Value of Fund Year Ending June 30, 2006 \$ in millions	Market Value of Fund Year Ending June 30, 2005 \$ in millions	Market Value of Fund Year Ending June 30, 2004 \$ in millions	Market Value of Fund Year Ending June 30, 2003 \$ in millions	
All Real Estate	\$966.4	\$558.9	\$192.6	\$118.6	\$71.8	
All Fixed Income						
All Cash & Short Term Securities	\$381.2	\$410.6	\$323.9	\$377.0	\$208.1	
All Other Investments						
Absolute Return						
Equity Hedge						
Non-Marketable						
Totals:	\$1,347.6	\$969.5	\$516.5	\$495.6	\$279.9	
Fund Contributions	Year Ending August 31, 2007	Year Ending August 31, 2006	Year Ending August 31, 2005	Year Ending August 31, 2004	Year Ending August 31, 2003	
Contributions to GLO controlled portion	\$583,215,729.77	\$453,192,001.82	\$423,099,270.80	\$297,570,978.27	\$245,884,994.27	
Contributions to TEA controlled portion ¹	\$131,884,610.48	\$121,722,153.08	\$295,794,429.30	\$155,186,719.16	\$104,481,823.50	
Fund Distributions						
Distributions to TEA controlled portion	\$78,000,000.00	\$78,000,000.00	\$260,500,000.00	\$132,000,000.00	\$95,000,000.00	
Depository interest transferred to TEA	\$22,389,313.72	\$15,827,323.75	\$9,173,645.15	\$4,661,821.81	-	

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

	Year Ending June 30, 2007	Year Ending June 30, 2006	Year Ending June 30, 2005	Year Ending June 30, 2004	Year Ending June 30, 2003
Internal Investment Expenses:					
Direct	\$396,895.00	\$454,459.00	\$117,134.00	\$3,180.00	-
Indirect	-	-	-	-	-
External Investment Expenses:	\$738,017.00	-	0		
Total Investment Expenses:	\$1,134,912.00	\$454,459.00	\$117,134.00	\$3,180.00	-
Percentage of Real Estate Assets Externally Managed	Year Ending June 30, 2007 39.0%	Year Ending June 30, 2006 7.0%	Year Ending June 30, 2005	Year Ending June 30, 2004	Year Ending June 30, 2003

ATTACHMENT 4. EMPLOYEES RETIREMENT SYSTEM—PENSION TRUST FUND

	Market Value of Fund Year Ending Aug. 31, 2007 \$ in millions					
Total Fund	\$24,392.80	Fiscal Year 2007	Fiscal Year 2007			
	Time Weighted Gross Fund Return	Benchmark Adjusted Gross Fund Return				
Total Fund	13.88%	12.06%				
Gross Return - Total Fund	13.88%	8.83%	12.71%	11.69%	9.20%	
Gross Return - Equity (For Fiscal Year 2007 only)	16.39%	12.45%	17.61%	14.31%	10.10%	
% of Domestic Equity Internally Managed	31.31%	28.48%				MV Weight - Not Performance Return
Rate of Return for Internally Managed	15.23%	9.71%				MV Weight - Not Performance Return
	(Large Cap)	(Large Cap)				
	17.82%	11.77%				
% of Domestic Equity Externally Managed	(Small Cap)	(Small Cap)				
	12.41%	15.51%				
	13.97%	6.62%				
Rate of Return for Externally Managed	(Large Cap)	(Large Cap)				
	11.70%	(0.88)%				
Gross Return- Fixed Income	(Small Cap)	(Small Cap)				
	5.79%	2.52%	5.21%	7.78%	6.50%	
Gross Return - Cash & Short-term	5.37%	4.66%	2.54%	1.10%	1.40%	
Gross Return - All Other	34.81%	20.46%	6.24%	5.15%	-13.52%	
Portfolio Diversification						Market Value of Fund Year Ending Aug. 31, 2003
All Equity	\$15,351.73	\$14,126.56	\$13,274.89	\$11,412.20	\$10,955.70	
All Fixed Income	\$8,530.78	\$8,119.29	\$7,853.46	\$8,046.97	\$7,083.09	
All Cash & Short Term Securities	\$99.03	\$96.94	\$65.93	\$6.49	\$8.03	
All Other Investments	\$411.25	\$35.27	\$57.96	\$57.19	\$69.39	
Totals	\$24,392.79	\$22,378.06	\$21,252.2	\$19,522.9	\$18,116.2	
Fund Contributions						
Fund Distributions	\$3,339.50	\$1,398.10				
Internal Investment Expenses:						
Direct	\$8.72					
Indirect	NA					
External Investment Expenses:	\$18.40					
Total Investment Expenses:	\$27.12					
Percentage of Assets Externally Managed		32.8%				

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

	Market Value of Fund Year Ending Aug. 31, 2007 \$ in millions				
	Fiscal Year 2007 Time Weighted Gross Fund Return	Fiscal Year 2007 Benchmark Adjusted Gross Fund Return			
Total Fund			15.57%	13.38%	
Gross Return - Total Fund	Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2005	Fiscal Year 2004	Fiscal Year 2003
Gross Return - Equity (For Fiscal Year 2007 only)	15.57%	11.56%	19.05%	14.98%	12.22%
% of Domestic Equity Internally Managed	48.74%	55.70%	39.51%		
Rate of Return for Internally Managed	12.12%	11.85%	14.56%		
% of Domestic Equity Externally Managed	51.26%	44.30%	60.49%		
Rate of Return for Externally Managed	15.58%	9.56%	24.31%		
Foreign	23.74%	21.02%	26.55%	20.58%	17.30%
Gross Return- Fixed Income	4.76%	2.42%	6.67%	9.82%	6.84%
Gross Return - Cash & Short-term	7.86%	16.45%	2.48%	1.06%	1.34%
Gross Return - All Other					
Absolute Return	14.79%	9.11%	14.52%	13.02%	21.12%
Equity Hedge	19.01%	6.24%	13.23%	11.17%	4.30%
Non-Marketable	28.59%	23.02%	30.00%	13.03%	-6.25%
Commodities	-9.70%	-4.41%	32.29%	18.32%	21.76%
Portfolio Diversification	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	Market Value of Fund Year Ending Aug. 31, 2004 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2003 \$ in millions
All Equity	\$5,192.7	\$4,877.2	\$4,278.2	\$3,701.1	\$3,882.9
Domestic	\$2,930.0	\$2,750.8	\$2,612.9	\$2,228.6	\$2,537.9
Foreign	\$2,262.7	\$2,126.4	\$1,665.3	\$1,472.5	\$1,345.0
All Fixed Income	\$1,262.2	\$1,519.1	\$1,406.2	\$1,195.3	\$1,033.3
All Cash & Short Term Securities	\$551.7	\$74.1	\$176.8	\$294.9	\$154.5
All Other Investments	\$4,736.2	\$3,843.0	\$3,565.5	\$2,896.6	\$2,174.1
Absolute Return	\$1,762.7	\$1,511.0	\$1,277.8	\$1,057.0	\$669.9
Equity Hedge	\$1,155.2	\$859.0	\$917.3	\$664.4	\$561.8
Non-Marketable	\$1,396.1	\$981.1	\$875.0	\$794.0	\$845.2
Commodities	\$422.2	\$491.9	\$495.4	\$381.2	\$97.2
Totals	\$11,742.8	\$10,313.4	\$9,426.7	\$8,087.9	\$7,244.8
	Total Fiscal Year 2007 \$ in millions				
Fund Contributions	\$272.8		PUF Land receipts		
Fund Distributions	(400.7)		Distributed to Available University Fund		
Internal Investment Expenses:					
Direct	\$2.7				
Indirect	\$3.8				
External Investment Expenses:	\$76.0				
Total Investment Expenses:	\$82.5				
	Year Ending Aug. 31, 2007				
Percentage of Assets Externally Managed	78.27%				

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

	Market Value of Fund Year Ending Aug. 31, 2007 \$ in millions					
Total Fund	\$1,100.1					
	Fiscal Year 2007	Fiscal Year 2007				
	Time Weighted Gross Fund Return	Benchmark Adjusted Gross Fund Return				
Total Fund	15.86%	13.38%				
PHF		Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2005	Fiscal Year 2004	Fiscal Year 2003
Gross Return - Total Fund		15.86%	11.11%	18.75%	14.69%	12.78%
Gross Return - Equity		See Note 1	See Note 1	See Note 1	See Note 1	See Note 1
(For Fiscal Year 2007 only)						
% of Domestic Equity Internally Managed		100.0%	100.0%	100.0%		
% of Domestic Equity Externally Managed		0.0%	0.0%	0.0%		
Gross Return- Fixed Income		See Note 1	See Note 1	See Note 1	See Note 1	See Note 1
Gross Return - Cash & Short-term		5.39%	4.58%	2.48%	1.06%	1.34%
Gross Return - All Other		See Note 1	See Note 1	See Note 1	See Note 1	See Note 1
GEF		Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2005	Fiscal Year 2004	Fiscal Year 2003
Gross Return - Total Fund		16.07%	11.45%	19.04%	14.95%	12.94%
Gross Return - Equity						
Domestic		13.89%	12.68%	19.65%	14.96%	17.89%
(For Fiscal Year 2007 only)						
% of Domestic Equity Internally Managed		50.97%	51.38%	33.60%		
Rate of Return for Internally Managed		12.05%	12.89%	14.92%		
% of Domestic Equity Externally Managed		49.03%	48.62%	66.40%		
Rate of Return for Externally Managed		15.52%	9.50%	23.47%		
Foreign		24.16%	20.70%	27.06%	20.70%	17.24%
Gross Return- Fixed Income		4.76%	2.50%	6.67%	9.90%	7.25%
Gross Return - Cash & Short-term		7.79%	17.97%	2.48%	1.06%	1.34%
Gross Return - All Other						
Absolute Return		14.79%	9.04%	14.69%	13.02%	21.11%
Equity Hedge		19.01%	6.15%	13.17%	11.09%	4.20%
Non-Marketable		31.86%	21.77%	28.26%	12.13%	-6.59%
Commodities		-9.56%	-4.42%	32.46%	18.57%	21.78%

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

	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	Market Value of Fund Year Ending Aug. 31, 2004 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2003 \$ in millions
Portfolio Diversification					
All Equity	\$1,099.8	\$986.7	\$925.7	\$814.2	\$744.8
All Fixed Income					
All Cash & Short Term Securities	\$0.3	\$0.3	\$0.2	\$0.2	\$0.2
All Other Investments					
		Total Fiscal Year 2007 \$ in millions			
Fund Contributions	-				
Fund Distributions	\$(40.7)				Distributed to unit holders of the fund
Internal Investment Expenses:					
Direct	\$0.3				
Indirect	\$0.6				
External Investment Expenses:	-				
Total Investment Expenses:	\$0.9				
Allocation from GEF	\$6.6				
Total Expense	\$7.5				
		Year Ending Aug. 31, 2007			
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 unitholders. As of August 31, 2007, the PHF had a 17.1% ownership of the GEF. The returns by asset class for the GEF for fiscal year 2007 are shown above. According to UTIMCO 74% of GEF assets are externally managed.

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

	Market Value of Fund Year Ending Aug. 31, 2007 \$ in millions					
Total Fund	\$2,403.8					
	Fiscal Year 2007	Fiscal Year 2007				
	Time Weighted Gross Fund Return	Benchmark Adjusted Gross Fund Return	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year
Total Fund	14.36%	13.80%	2007	2006	2005	2004
Gross Return - Total Fund	14.36%	10.20%	15.48%	11.64%	12.27%	
Gross Return - Equity <i>(For Fiscal Year 2007 only)</i>	16.47%	13.02%	20.00%	13.46%	15.30%	
% of Domestic Equity Internally Managed	0.00%	0.00%				
Rate of Return for Internally Managed	0.00%	0.00%				
% of Domestic Equity Externally Managed	100.00%	100.00%				
Rate of Return for Externally Managed	16.47%	13.02%				
Gross Return- Fixed Income	5.10%	2.23%	4.29%	6.08%	2.28%	
Gross Return - Cash & Short-term	5.11%	2.94%	3.08%	0.85%	1.23%	
Gross Return - All Other						
Gross Return - Absolute Return	9.61%	9.08%	n/a	n/a	n/a	
Gross Return - Equity Hedge	15.37%	4.87%	n/a	n/a	n/a	
Gross Return - Non-marketable - Private Equity		7.75%				
Gross Return - Non-marketable - Real Estate		24.10%				
Gross Return - Non-marketable		7.02%	3.27%	n/a	n/a	
Portfolio Diversification	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	Market Value of Fund Year Ending Aug. 31, 2004 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2003 \$ in millions	
All Equity	\$1,488.2	\$1,517.9	\$1,441.0	\$1,283.3	\$1222.3	
All Fixed Income	\$385.4	\$383.1	\$456.6	\$518.6	\$404.9	
All Cash & Short Term Securities	\$39.8	\$31.5	\$145.1	\$25.6	\$26.9	
All Other Investments	\$490.4	\$246.0	\$5.4	-	-	
Absolute Return	\$187.4	\$107.9	n/a	n/a	n/a	
Equity Hedge	\$191.2	\$104.1	n/a	n/a	n/a	
Non-marketable - Private Equity	\$55.1					
Non-marketable - Real Estate	\$56.7					
Non-marketable						
Totals:	\$2,403.8	\$2,178.5	\$2,048.1	\$1,827.5	\$1,654.1	
	Total Fiscal Year 2007 \$ in millions					
Fund Contributions						
Fund Distributions	\$82,691,441.00					
Internal Investment Expenses:	\$2,743,955.21					
Direct	\$2,743,955.21					
Indirect						
External Investment Expenses:	\$4,335,921.54					
Total Investment Expenses:	\$7,099,876.75					
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, 2007 \$ in millions					
Total Fund	\$1,863.0	Fiscal Year 2007	Fiscal Year 2007			
	Time Weighted Gross Fund Return	Benchmark Adjusted Gross Fund Return				
Total Fund	8.7%	8.5%				
	Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2005	Fiscal Year 2004	Fiscal Year 2003	
Gross Return - Total Fund	8.7%	8.7%	14.3%	10.3%	6.9%	
Gross Return - Equity <i>(For Fiscal Year 2007 only)</i>	16.4%	12.2%	21.2%	16.8%	9.2%	
Rate of Return for Internally Managed	n/a	0.0%	n/a	n/a	n/a	n/a
Rate of Return for Externally Managed	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross Return- Fixed Income	16.4%	7.6%				
Gross Return - Cash & Short-term	5.4%	2.9%	4.7%	5.3%	3.2%	
Gross Return - All Other	5.0%	4.3%	2.5%	0.5%	1.4%	
	n/a	n/a	n/a	n/a	n/a	n/a
Portfolio Diversification	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	Market Value of Fund Year Ending Aug. 31, 2004 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2003 \$ in millions	
All Equity	\$1,232	\$1,077	\$946	\$789	\$562	
All Fixed Income	\$579	\$596	\$503	\$410	\$317	
All Cash & Short Term Securities	\$52	\$42	\$131	\$146	\$253	
All Other Investments	-	-	-	-	-	
Totals:	\$1,863.0	\$1,715.1	\$1,580.0	\$1,345.0	\$1,132.1	
	Total Fiscal Year 2007					
Fund Contributions:						
Prepaid Tuition Contract Payments	\$81,830,498					
Application Fees & Other Income	\$227,461					
Investment Income	\$209,159,654					
Total Fund Contributions	\$291,217,613					
Fund Distributions:						
Tuition Payments to Colleges	\$92,838,415					
Administrative Expenses	\$8,967,239					
Refunds to Contract Purchasers	\$22,096,787					
Total Fund Distributions	\$123,902,441					
Internal Investment Expenses:	\$10,000					
Direct	-					
Indirect	\$10,000					
External Investment Expenses:	\$6,936,308					
Total Investment Expenses:	\$6,936,308					
	Year Ending Aug. 31, 2007					
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, 2007 \$ in millions					
Total Fund	\$526.1					
	Fiscal Year 2007	Fiscal Year 2007				
	Time Weighted Gross Fund Return	Benchmark Adjusted Gross Fund Return	Fiscal Year 2006	Fiscal Year 2005	Fiscal Year 2004	Fiscal Year 2003
Total Fund	14.26%	13.80%				
Gross Return - Total Fund	14.26%	9.86%	15.74%	11.60%	13.08%	
Gross Return - Equity <i>(For Fiscal Year 2007 only)</i>	16.47%	13.15%	19.56%	12.84%	14.89%	
% of Domestic Equity Internally Managed	0.00%	0.00%				
Rate of Return for Internally Managed	0.00%	0.00%				
% of Domestic Equity Externally Managed	100.00%	100.00%				
Rate of Return for Externally Managed	16.47%	13.15%				
Gross Return- Fixed Income	5.10%	2.25%	4.31%	6.65%	2.27%	
Gross Return - Cash & Short-term	5.11%	2.94%	3.67%	0.96%	1.23%	
Gross Return - All Other			-4.69%	-14.55%	-19.73%	
Gross Return - Absolute Return	9.61%	9.08%	n/a	n/a	n/a	
Gross Return - Equity Hedge	15.37%	4.87%	n/a	n/a	n/a	
Gross Return - Non-marketable - Private Equity	5.22%					
Gross Return - Non-marketable - Real Estate	24.10%					
Gross Return - Non-marketable		-9.68%	-4.69%	-14.55%	-19.73%	
Portfolio Diversification	\$526.1	\$477.8	\$453.5	\$409.4	\$381.5	
Fund Contributions	\$0.0					
Fund Distributions	\$18,554,924.72					
Internal Investment Expenses:	\$598,764.88					
Direct	\$598,764.88					
Indirect						
External Investment Expenses:	\$954,154.95					
Total Investment Expenses:	\$1,552,919.83					
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, 2007				
	\$ in millions				
Total Fund	\$617.7				
	Fiscal Year 2007	Fiscal Year 2007			
	Time Weighted Gross Fund Return	Benchmark Adjusted Gross Fund Return			
Total Fund	14.11%	13.80%			
	Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2005	Fiscal Year 2004	Fiscal Year 2003
Gross Return - Total Fund	14.11%	9.68%	16.59%	11.82%	13.39%
Gross Return - Equity <i>(For Fiscal Year 2007 only)</i>	16.47%	13.07%	20.58%	13.11%	16.26%
% of Domestic Equity Internally Managed	0.00%	0.00%			
Rate of Return for Internally Managed	0.00%	0.00%			
% of Domestic Equity Externally Managed	100.00%	100.00%			
Rate of Return for Externally Managed	16.47%	13.07%			
Gross Return- Fixed Income	5.10%	2.23%	4.33%	7.04%	2.28%
Gross Return - Cash & Short-term	2.94%	2.94%	3.72%	0.97%	1.13%
Gross Return - All Other					
Gross Return - Absolute Return	9.61%	9.08%	n/a	n/a	n/a
Gross Return - Equity Hedge	15.37%	4.87%	n/a	n/a	n/a
Gross Return - Non-marketable - Private Equity	5.22%				
Gross Return - Non-marketable - Real Estate	24.10%				
Gross Return - Non-marketable		-12.78%	-5.65%	-14.55%	-19.73%
	Market Value of Fund	Market Value of Fund	Market Value of Fund	Market Value of Fund	Market Value of Fund
	Year Ending	Year Ending	Year Ending	Year Ending	Year Ending
	Aug. 31, 2007	Aug. 31, 2006	Aug. 31, 2005	Aug. 31, 2004	Aug. 31, 2003
	\$ in millions	\$ in millions	\$ in millions	\$ in millions	\$ in millions
Portfolio Diversification					
All Equity	\$386.8	\$376.0	\$344.0	\$329.9	\$272.9
All Fixed Income	\$99.1	\$95.0	\$109.0	\$84.2	\$92.5
All Cash & Short Term Securities	\$10.2	\$7.7	\$34.6	\$6.5	\$6.2
All Other Investments	\$121.6	\$63.3	\$7.9	\$5.7	\$6.4
Absolute Return	\$44.7	\$25.8	n/a	n/a	n/a
Equity Hedge	\$45.6	\$24.9	n/a	n/a	n/a
Non-marketable - Private Equity	\$17.8				
Non-marketable - Real Estate	\$13.5				
Non-marketable	\$12.6	\$12.6	\$7.9	\$5.7	\$6.4
Totals	\$617.7	\$542.0	\$495.5	\$426.3	\$378.0
	Total Fiscal Year 2007				
Fund Contributions	\$0.00				
Fund Distributions	\$0.00				
Internal Investment Expenses:	\$691,544.91				
Direct	\$691,544.91				
Indirect					
External Investment Expenses:	\$1,099,065.20				
Total Investment Expenses:	\$1,790,610.11				
	Year Ending				
	Aug. 31, 2007				
Percentage of Assets Externally Managed	100.0%				