

Financial Statements
and Independent Auditors' Report
The University of Texas System
Long Term Fund
Years Ended August 31, 2011 and 2010

The University of Texas System Long Term Fund

Financial Statements

Years Ended August 31, 2011 and 2010

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INDEPENDENT AUDITORS' REPORT

The Board of Regents of The University of Texas System
The Board of Directors of The University of Texas Investment Management Company

We have audited the accompanying Statements of Fiduciary Net Assets of The University of Texas System Long Term Fund (the "Fund"), as of August 31, 2011 and August 31, 2010, and the related Statements of Changes in Fiduciary Net Assets for the years then ended. These financial statements are the responsibility of The University of Texas Investment Management Company ("UTIMCO" or "management"). Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing the audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Fund are intended only to present the financial position of the Fund as of August 31, 2011 or August 31, 2010, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States and do not purport to, and do not, present the financial position of UTIMCO or The University of Texas System as of August 31, 2011 or August 31, 2010, or the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 3, the financial statements include an investment in The University of Texas System General Endowment Fund (the "GEF"), valued at \$6,056,577,496 and \$5,130,267,662 as of August 31, 2011 and August 31, 2010, respectively. The GEF has 68.3% and 64.6% of its net assets as of August 31, 2011 and August 31, 2010, respectively, invested in assets whose fair value has been estimated by management in the absence of readily determinable fair values. Management's estimate of the value of the Fund is based on the net asset value per unit of GEF, which is also calculated by UTIMCO.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as of August 31, 2011 and August 31, 2010, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements of the Fund. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of management. The supplemental schedules as of and for the years ended August 31, 2011, August 31, 2010, August 31, 2009, August 31, 2008, and August 31, 2007 have been subjected to the audit procedures applied by us in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Deloitte & Touche LLP

October 31, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (Unaudited)

Our discussion and analysis of The University of Texas System Long Term Fund's (Fund) financial performance provides an overview of its activities for the year ended August 31, 2011. This discussion was prepared by The University of Texas Investment Management Company (UTIMCO) and should be read in conjunction with the Fund's financial statements and notes. The Fund was established February 9, 1995, by The University of Texas System Board of Regents (UT Board) to succeed the Common Trust Fund pooled investment fund. The Fund is a pooled investment fund established for the collective investment of approximately 9,850 privately raised endowments and other long-term funds established to benefit the 15 institutions of the UT System. The Texas Constitution and various state statutes designate the UT Board as the fiduciary for the management of certain public endowment and operating funds. The UT Board has entered into an Investment Management Services Agreement delegating investment management responsibility for all investments to UTIMCO.

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

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

Financial Highlights

- The Fund's net fiduciary assets, after contributions, withdrawals and distributions, increased by \$926.3 million from \$5,130.3 million to \$6,056.6 million or approximately 18.1% for the year ended August 31, 2011, compared to an increase of \$613.5 million from \$4,516.8 million to \$5,130.3 million or approximately 13.6% for the year ended August 31, 2010. The change in net fiduciary assets from year to year is mainly attributable to the following:
 1. Participant contributions to the Fund increased by 50.7% from fiscal year 2010 to 2011. Fiscal year 2011 contributions of \$453.5 million represented 7.8% of the average value of the Fund assets during the year. From fiscal year 2009 to 2010, participant contributions to the Fund increased by 48.9%. Contributions for fiscal year 2010 totaled \$301.0 million and represented 6.2% of the average value of the Fund assets during the year. Participant contributions consist of endowment and other long-term funds that have been forwarded to the Fund for management by UTIMCO.

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2. The Fund posted a net investment gain of 14.77% for the year ended August 31, 2011, calculated using the Modified Dietz Method as described by the CFA Institute. The net investment return of the Fund is dependent on the results of the investments held in the GEF. The GEF's investments in natural resources, developed country equities and credit-related fixed income were the biggest contributors to the 2011 return. Investments in credit-related fixed income, emerging market equities and real estate were the biggest contributors to the net investment gain of 12.90% for August 31, 2010.
3. The Fund's distribution rate per unit was increased by 2.4%, approximately the three-year average rate of inflation, for the year ended August 31, 2011. This equated to an increase in the 2011 rate to \$0.3172 per unit from the 2010 rate to \$0.3098 per unit. The 2010 rate represented an increase of 2.4% over the fiscal year 2009 rate of \$0.3024 per unit. Fiscal year 2011 distributions represented 4.87% of the Fund's average net asset value during the year, compared to the fiscal year 2010 distributions which represented 5.20% of the Fund's average net asset value for the year.

Use of Financial Statements and Notes

The Fund's financial statements were prepared in accordance with standards issued by the Governmental Accounting Standards Board (GASB). Two financial statements are required under GASB: the statement of fiduciary net assets and the statement of changes in fiduciary net assets.

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

Statements of Fiduciary Net Assets

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

Since the Fund invests in only GEF units and a negligible amount of cash, the majority of the Fund's net assets represent investment in GEF units.

As of August 31, 2011, the Fund owned 30,840,825 GEF units representing an ownership percentage of 85.92%, compared to 30,006,442 GEF units representing an ownership percentage of 85.00% as of August 31, 2010. As of August 31, 2011 and 2010, the fair value of the GEF units was \$6,056.6 million and \$5,130.3 million, respectively.

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

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and attempts to supplement the original endowment corpus by increasing purchasing power over time. In doing so, UTIMCO increases the endowment resources available to fund the teaching, research, and health care programs specified by the various donors.

The following table summarizes the statements of fiduciary net assets (in millions):

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assets			
GEF Units, at Fair Value	\$ 6,056.6	\$ 5,130.3	\$ 4,516.8
Receivable for GEF Units Sold	4.6	6.7	4.3
Total Assets	<u>6,061.2</u>	<u>5,137.0</u>	<u>4,521.1</u>
Liabilities			
Payable to Participants	4.6	6.7	4.3
Total Liabilities	<u>4.6</u>	<u>6.7</u>	<u>4.3</u>
Net Assets Held in Trust	<u>\$ 6,056.6</u>	<u>\$ 5,130.3</u>	<u>\$ 4,516.8</u>

Statements of Changes in Fiduciary Net Assets

Changes in fiduciary net assets as presented on the statements of changes in fiduciary net assets are based on activity of the Fund. The purpose of these statements is to present additions to the Fund resulting from net investment income and participant contributions and to present deductions from the Fund resulting from administrative and investment expenses and participant distributions.

The net increase in investments of the Fund was \$733.9 million during the year compared to the net increase in appreciation of investments of \$547.5 million for the year ended August 31, 2010. The Fund's investment expenses totaled \$4.9 million, \$3.1 million and \$5.2 million, respectively, for the years ended August 31, 2011, 2010, and 2009.

Distributions to participants totaled \$282.1 million, \$253.4 million and \$236.3 million, respectively, for the years ended August 31, 2011, 2010, and 2009. The increase in distributions is a result of the UT Board increasing the distribution rate from \$0.3098 per unit to \$0.3172 per unit for fiscal year 2011, and additional contributions into the Fund. The increase for fiscal year 2010 is a result of the UT Board's increase of the distribution rate from \$0.3024 per unit to \$0.3098 per unit, and additional contributions to the Fund. The Fund is structured as a pooled investment fund in which each endowment or account purchases units at the Fund's fair value or net asset value per unit. Cash distributions are paid quarterly, on a per unit basis, directly to the UT System institution of record.

The Fund's objectives are:

- Provide for current beneficiaries by increasing the annual distribution rate at least equal to the rate of inflation so that real purchasing power is maintained, and

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

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

The following table summarizes the statements of changes in fiduciary net assets (in millions):

	2011	2010	2009
Investment Income (Loss)	\$ 787.1	\$ 591.8	\$ (706.4)
Less Investment Expenses	(4.8)	(3.1)	(5.2)
Net Investment Income (Loss)	782.3	588.7	(711.6)
Participant Contributions	453.5	301.0	202.1
Total Additions	1,235.8	889.7	(509.5)
Administrative Expenses	12.2	12.4	12.3
Participant Withdrawals	15.2	10.4	10.1
Participant Distributions	282.1	253.4	236.3
Total Deductions	309.5	276.2	258.7
Change in Fiduciary Net Assets	926.3	613.5	(768.2)
Net Assets Held in Trust, Beginning of Year	5,130.3	4,516.8	5,285.0
Net Assets Held in Trust, End of Year	\$ 6,056.6	\$ 5,130.3	\$ 4,516.8

Contacting UTIMCO

The above financial highlights are designed to provide a general overview of the Fund's investment results and insight into the following financial statements. Additional information may be found on our website and inquiries may be directed to UTIMCO via www.utimco.org.

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Statements of Fiduciary Net Assets

August 31, 2011 and 2010

(Dollars in thousands, except per unit amounts)

	<u>2011</u>	<u>2010</u>
Assets		
GEF Units, at Fair Value	\$ 6,056,577	\$ 5,130,268
Receivable for GEF Units Sold	4,647	6,689
Other	<u>1</u>	<u>8</u>
Total Assets	<u>6,061,225</u>	<u>5,136,965</u>
Liabilities		
Payable to Participants	<u>4,647</u>	<u>6,689</u>
Total Liabilities	<u>4,647</u>	<u>6,689</u>
Net Assets Held in Trust (907,954,363 Units and 840,110,224 Units, respectively)	<u>\$6,056,578</u>	<u>\$5,130,276</u>
Net Asset Value Held in Trust Per Unit	<u>\$6.671</u>	<u>\$6.107</u>

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

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Statements of Changes in Fiduciary Net Assets

Years Ended August 31, 2011 and 2010

(in thousands)

	<u>2011</u>	<u>2010</u>
Additions		
Investment Income:		
Net Increase in Investments	\$ 733,906	\$ 547,533
Allocation of GEF Net Investment Income	53,226	44,229
Other Income	1	-
Total Investment Income	<u>787,133</u>	<u>591,762</u>
Less Investment Expenses:		
UTIMCO Management Fee	4,821	3,046
Other Expenses	33	33
Total Investment Expenses	<u>4,854</u>	<u>3,079</u>
Net Investment Income	782,279	588,683
Participant Contributions	<u>453,490</u>	<u>300,957</u>
Total Additions	<u>1,235,769</u>	<u>889,640</u>
Deductions		
Administrative Expenses:		
Fee for Endowment Administration and Management	12,074	12,227
Fee for UT System Oversight	122	122
Total Administrative Expenses	<u>12,196</u>	<u>12,349</u>
Participant Withdrawals	15,177	10,391
Participant Distributions	<u>282,094</u>	<u>253,424</u>
Total Deductions	<u>309,467</u>	<u>276,164</u>
Change in Fiduciary Net Assets	926,302	613,476
Net Assets Held in Trust, Beginning of Year	<u>5,130,276</u>	<u>4,516,800</u>
Net Assets Held in Trust, End of Year	<u>\$ 6,056,578</u>	<u>\$ 5,130,276</u>

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

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Notes to Financial Statements

Note 1 – Organization and Basis of Presentation

The University of Texas System Long Term Fund (Fund) is a pooled fund established for the collective investment of private endowments and other long-term funds supporting various programs and purposes of the 15 institutions comprising The University of Texas System (UT System). The Fund was formerly known as the Common Trust Fund. The Long Term Fund was established February 9, 1995, by the Board of Regents of The University of Texas System (UT Board) to succeed the Common Trust Fund pooled investment fund. Fiduciary responsibility for the Fund rests with the UT Board. The day-to-day operational responsibilities of the Fund are delegated to The University of Texas Investment Management Company (UTIMCO), pursuant to an Investment Management Services Agreement with the UT Board.

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

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

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

Note 2 – Investment in GEF

The Fund only invests in GEF units and a negligible amount of cash. The Fund also continues to receive securities as proceeds in class action suits from the securities the Fund previously owned. These securities are normally sold when received, but from time to time will be reflected as a Fund investment. Subsequent participant contributions received by the Fund are also used to purchase GEF units. At August 31, 2011, the Fund is the majority participant in the GEF, with ownership of 30,840,825 units, which represents 85.92% of the GEF. At August 31, 2010, the Fund held 30,006,442 units, which represented 85.00% of the GEF.

The GEF and the Fund have identical investment objectives. Additionally, the GEF's accounting policies follow the Fund's, as described in Note 3, except for the distributions to participants. On a monthly basis for accounting purposes, the GEF allocates its net investment income and realized gain or loss to the Fund based on its ownership of GEF units at month end. The allocated investment

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Notes to Financial Statements (cont.)

income and realized gain amounts increase the cost basis of the units in the GEF, and any allocated realized losses reduce the cost basis of the units in the GEF. Since the allocation is proportional to the percentage of ownership by the unitholders, no additional units are purchased. The Fund redeems GEF units quarterly to meet its distribution requirements to its unitholders.

Note 3 – Significant Accounting Policies

(A) **Security Valuation** -- The Fund's investment in GEF units is valued at the net asset value per unit reported by the GEF. Investment assets which are held in the GEF that have readily determinable fair values are primarily valued on the basis of market valuations provided by independent pricing services. The GEF's investments in private investment funds, hedge funds, U.S. equity, non-U.S. equity, emerging market and fixed income investment funds and certain other equity securities are fair valued by management using the investments' capital balances and net asset value information provided by the investment manager as well as other considerations as described in the GEF financial statements. The Fund's investment in the GEF is valued at \$6,056,577,496 and \$5,130,267,662, as of August 31, 2011 and 2010, respectively.

(B) **Investment Income** -- Interest income is accrued as earned.

(C) **Security Transactions** -- A gain or loss is recognized on GEF unit sales on the basis of average cost.

(D) **Distributions to Participants** -- Cash distributions to participants are paid quarterly based on a per unit payout established by the UT Board. For the year ended August 31, 2011, the quarterly rate was \$.07930 which equates to an annual rate of \$.3172 per unit. For the year ended August 31, 2010, the quarterly distribution rate was \$.07745 which equated to an annual rate of \$.3098 per unit. The ratio of distributions to average net assets (12-quarter average) was 5.12% as of August 31, 2011. The investment policy provides that the annual payout will be adjusted by the average consumer price index of the prior 36 months subject to a maximum distribution of 5.5% of the Fund's average market value and a minimum distribution of 3.5% of the Fund's average market value.

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

(F) **Purchases and Redemption of Units** -- Unit purchases occur on the first business day of each fiscal quarter. Unit redemptions occur on the last business day of each fiscal quarter. The value of participating units, upon admission to the Fund, is based upon the market value of net assets held as of the quarterly valuation date. Redemptions from the Fund will also be made at the market value price per unit at the quarterly valuation date at the time of the redemption. There are no transaction costs incurred by participants for the purchase or redemption of units.

(G) **Participants' Net Assets** -- All participants in the Fund have a proportionate interest in the Fund's net assets.

(H) **Use of Estimates** -- The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make

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Notes to Financial Statements (cont.)

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

(I) **Cash and Cash Equivalents** -- Cash and Cash Equivalents consist of money market investments and other overnight funds.

Note 4 – Investment Risk

The investment risk disclosure that follows relates to the GEF's investments before securities lending transactions and the investment of cash collateral. Disclosures relating to the GEF's securities lending are provided in Note 5. Values presented are the Fund's pro-rata share of GEF investments based on its unit ownership in the GEF.

(A) **Credit Risk**

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

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The GEF's investment policy does not provide specific limitations or requirements regarding investment ratings. Per GASB Statement No. 40 (GASB 40), *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3*, unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. GASB 40 also provides that securities with split ratings, or a different rating assignment between NRSROs, are disclosed using the rating indicative of the greatest degree of risk. The following table presents the Fund's pro-rata share of each applicable GEF investment type grouped by rating as of August 31, 2011 and 2010:

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Notes to Financial Statements (cont.)

GEF Investment Type	August 31,		Rating
	2011	2010	
Investments:			
U.S. Government Guaranteed	\$ -	\$ 53,598,587	Exempt from Disclosure
U.S. Government Guaranteed	69,870,345	-	AA
Total U.S. Government Guaranteed	69,870,345	53,598,587	
U.S. Government Non-Guaranteed:			
U.S. Agency	-	1,700,159	AAA
U.S. Agency	1,622,677	-	AA
U.S. Agency Asset Backed	8,897,889	52,083,100	AAA
U.S. Agency Asset Backed	33,672,080	-	AA
Total U.S. Government Non-Guaranteed	44,192,646	53,783,259	
Total U.S. Government	114,062,991	107,381,846	
Corporate Obligations:			
Domestic	10,234,407	17,694,523	AAA
Domestic	4,199,548	9,380,943	AA
Domestic	32,735,660	50,960,368	A
Domestic	23,144,354	49,340,612	BAA/BBB
Domestic	3,516,533	12,789,170	BA/BB
Domestic	2,500,881	5,474,942	B
Domestic	3,614,881	11,156,980	CAA/CCC
Domestic	1,367,846	3,511,423	CA/CC
Domestic	145,939	455,030	C
Domestic	255,548	79,631	D
Domestic	702,469	371,327	Not Rated
Foreign	23,937,499	46,639,831	AAA
Foreign	6,468,227	13,889,427	AA
Foreign	12,666,744	8,963,228	A
Foreign	8,559,822	8,838,655	BAA/BBB
Foreign	1,435,432	874,806	BA/BB
Foreign	644,977	386,287	B
Foreign	-	1,470,178	Not Rated
Total Corporate Obligations	136,130,767	242,277,361	
Foreign Government and Provincial Obligations	90,833,759	59,308,937	AAA
Foreign Government and Provincial Obligations	15,127,936	23,343,078	AA
Foreign Government and Provincial Obligations	22,645,498	18,968,326	A
Foreign Government and Provincial Obligations	67,380,768	8,670,138	BAA/BBB
Foreign Government and Provincial Obligations	4,066,120	3,396,080	BA/BB
Foreign Government and Provincial Obligations	9,776,506	-	Not Rated
Total Foreign Government and Provincial Obligations	209,830,587	113,686,559	
Other Debt Securities	350,303	-	AAA
Other Debt Securities	1,080,677	456,458	AA
Other Debt Securities	3,588,953	2,316,029	A
Other Debt Securities	293,311	952,396	BAA/BBB
Other Debt Securities	606,910	-	BA/BB
Total Other Debt Securities	5,920,154	3,724,883	
Total Debt Securities	\$ 465,944,499	\$ 467,070,649	
Convertible Securities	\$ 1,759,748	\$ -	Not Rated
Other Investment Funds - Debt	\$ -	\$ 50,835,353	AA
Other Investment Funds - Debt	5,944,755	5,208,680	BA/BB
Total Other Investment Funds - Debt	\$ 5,944,755	\$ 56,044,033	
Cash and Cash Equivalents - Money Market Funds	\$ 242,677,731	\$ 481,588,272	AAA
Cash and Cash Equivalents - Money Market Funds	-	2,048	A
Cash and Cash Equivalents	8,868,461	2,074,353	Not Rated
Total Cash and Cash Equivalents	\$ 251,546,192	\$ 483,664,673	
Net Deposit with Brokers for Derivative Contracts:			
U.S. Government Guaranteed	\$ -	\$ 8,817,757	Exempt from Disclosure
U.S. Government Guaranteed	701,056	-	AA
Foreign Government and Provincial Obligations	13,312,551	-	BAA/BBB
Foreign Government and Provincial Obligations	919,918	-	Not Rated
Cash	9,752,127	24,217,878	Exempt from Disclosure
Total Net Deposit with Brokers for Derivative Contracts	\$ 24,685,652	\$ 33,035,635	

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Notes to Financial Statements (cont.)

(B) Concentrations of Credit Risk

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

(C) Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the GEF will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the GEF will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Texas State Statutes and the GEF's investment policy statements do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. As of August 31, 2011 and 2010, the GEF does not have any deposits or investments that are exposed to custodial credit risk.

(D) Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its value to changes in market interest rates. Interest rate risk inherent in the GEF is measured by monitoring the modified duration of the overall investment portfolio. Modified duration estimates the sensitivity of the GEF's investments to changes in interest rates. The GEF has no specific policy statement limitations with respect to its overall modified duration. The following table summarizes the GEF's modified duration and the Fund's pro-rata share of the GEF investment value by investment type as of August 31, 2011 and 2010:

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LONG TERM FUND

Notes to Financial Statements (cont.)

GEF Investment Type	August 31,			
	2011		2010	
	Value	Modified Duration	Value	Modified Duration
Investments:				
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	\$ 68,539,907	10.47	\$ 44,220,054	10.39
U.S. Treasury Strips	-	-	2,391,203	0.94
U.S. Treasury Bills	706,945	0.50	6,288,479	0.13
U.S. Agency Asset Backed	623,493	3.47	698,851	6.41
Total U.S. Government Guaranteed	<u>69,870,345</u>	10.31	<u>53,598,587</u>	8.71
U.S. Government Non-Guaranteed:				
U.S. Agency	1,622,677	9.11	1,700,159	9.22
U.S. Agency Asset Backed	42,569,969	2.83	52,083,100	2.28
Total U.S. Government Non-Guaranteed	<u>44,192,646</u>	3.06	<u>53,783,259</u>	2.50
Total U.S. Government	<u>114,062,991</u>	7.50	<u>107,381,846</u>	5.60
Corporate Obligations:				
Domestic	82,418,066	6.33	161,214,949	5.28
Foreign	53,712,701	5.10	81,062,412	4.31
Total Corporate Obligations	<u>136,130,767</u>	5.84	<u>242,277,361</u>	4.96
Foreign Government and Provincial Obligations	<u>209,830,587</u>	6.76	<u>113,686,559</u>	6.44
Other Debt Securities	<u>5,920,154</u>	11.87	<u>3,724,883</u>	11.96
Total Debt Securities	<u>465,944,499</u>	6.74	<u>467,070,649</u>	5.52
Convertible Securities	<u>1,759,748</u>	2.37	-	-
Other Investment Funds - Debt	<u>5,944,755</u>	7.50	<u>56,044,033</u>	6.14
Cash and Cash Equivalents	<u>251,546,192</u>	0.08	<u>483,664,673</u>	0.08
Total	<u>\$ 725,195,194</u>	4.42	<u>\$ 1,006,779,355</u>	2.94
Net Deposit with Brokers for Derivative Contracts:				
U.S. Government Guaranteed:				
U.S. Treasury Bills	\$ 701,056	0.28	\$ 8,472,332	17.18
U.S. Treasury Bonds and Notes	-	-	345,425	0.27
Total U.S. Government Guaranteed	<u>701,056</u>	0.28	<u>8,817,757</u>	0.93
Foreign Government and Provincial Obligations	<u>14,232,469</u>	6.91	-	-
Cash	<u>9,752,127</u>	-	<u>24,217,878</u>	-
Total Net Deposit with Brokers for Derivative Contracts	<u>\$ 24,685,652</u>	3.99	<u>\$ 33,035,635</u>	0.25

The GEF has purchased options on ten year constant maturity swaps, with expirations ranging from five to seven years, as insurance against possible future increases in inflation. As of August 31, 2011 the Fund's pro-rata share of these options had a notional value of \$2,390,294,400 and a fair value of \$10,709,394. As of August 31, 2010 the Fund's pro-rata share of these options had a notional value of \$986,000,000 and a fair value of \$3,410,086. The risk of loss on these options is limited to the Fund's pro-rata share of the premiums paid by the GEF upon the purchase of the options, which totaled \$13,083,926 as of August 31, 2011 and \$5,276,640 as of August 31, 2010. The GEF also purchased both puts and swaptions on the Japanese Yen, with expirations ranging from one to two years, as insurance against the possibility of a downturn in the Japanese economy.

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LONG TERM FUND

Notes to Financial Statements (cont.)

As of August 31, 2011 the Fund's pro-rata share of these puts and swaptions had a notional value of \$3,239,793,597 with a fair value of \$6,043,994 and a loss limited to \$17,437,900 which represents the premiums paid. It is estimated that these options would adjust the 2011 duration of total debt securities of 6.74 downward by approximately 1.04, and the total duration of 4.42 downward by approximately 1.17. It is estimated that these options would adjust the 2010 duration of total debt securities of 5.52 downward by approximately 0.26, and the total duration of 2.94 downward by approximately 0.22. One of the GEF's external managers also uses options and interest rate and credit default swaps to modify the duration of their portfolio in a cost efficient manner. It is estimated by management that these positions held by the external manager would not significantly adjust the modified duration as presented above.

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

The GEF may invest in various mortgage backed securities, such as collateralized mortgage backed obligations. The GEF also may invest in investments that have floating rates with periodic coupon changes in market rates, zero coupon bonds and stripped Treasury and Agency securities created from coupon securities. No percentage of holdings limitations are specified in the investment policy statements regarding these types of securities. As of August 31, 2011 and 2010, the GEF's investments include the following investments that are highly sensitive to interest rate changes.

Collateralized mortgage obligations which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. The Fund's pro-rata share of these securities amounted to \$39,993,632 and \$114,846,205 as of August 31, 2011 and 2010, respectively.

Mortgage backed securities which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. The Fund's pro-rata share of these securities amounted to \$21,364,612 and \$18,340,140 as of August 31, 2011 and 2010, respectively.

Asset backed securities which are backed by home equity loans, auto loans, equipment loans and credit card receivables. Prepayments by the obligees of the underlying assets in periods of decreasing interest rates could reduce or eliminate the stream of income that would have been received. The Fund's pro-rata share of these securities amounted to \$4,837,146 and \$13,204,220, as of August 31, 2011 and 2010, respectively.

(F) *Foreign Currency Risk*

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the GEF's non-U.S. dollar investments. There are no limitations on investments in non-U.S. denominated bonds or common stocks in relation to the GEF's total fixed income and developed country equity exposures in the GEF's investment policy statement.

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Notes to Financial Statements (cont.)

During the year ended August 31, 2010, one of the GEF's external managers employs an investment strategy in which they hedge their long non-U.S. investment positions back to the U.S. dollar by utilizing currency transactions in amounts equal to the long investment position. In the following table the negative amounts shown for the Canadian Dollar, Czech Koruna, Hong Kong Dollar, Norwegian Kroner, Swiss Franc, and the UK Pound in the cash and cash equivalents section reflect this strategy. The negative amounts offset long positions presented in the foreign common stock section.

The following table summarizes the Fund's pro-rata exposure of the GEF's non-U.S. dollar investments at August 31, 2011 and 2010:

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Notes to Financial Statements (cont.)

GEF Investment Type	August 31,	
	2011	2010
Foreign Common Stock:		
Australian Dollar	\$ 19,945,718	\$ 13,084,766
Brazilian Real	28,486,813	22,259,699
Canadian Dollar	19,962,071	15,390,067
Chilean Peso	1,223,006	1,304,317
Czech Koruna	818,199	1,269,490
Danish Krone	1,541,634	501,470
Egyptian Pound	583,685	1,623,104
Euro	38,425,520	52,574,857
Hong Kong Dollar	62,554,288	69,421,301
Hungarian Forint	640,173	1,009,730
Indian Rupee	11,903,946	4,907,343
Indonesian Rupian	6,359,478	6,283,860
Israeli Shekel	32,576	42,955
Japanese Yen	22,620,872	20,858,851
Malaysian Ringgit	9,096,012	10,200,481
Mexican Peso	8,036,825	6,858,073
Moroccan Dirham	295,937	232,354
Norwegian Kroner	1,529,628	1,086,351
Pakistani Rupee	293,236	553,176
Peruvian Nuevo Sol	41,968	25,565
Philippine Peso	1,760,228	991,385
Polish Zloty	4,576,046	3,987,802
Russian Ruble	839,853	-
Singapore Dollar	7,185,723	6,129,989
South African Rand	14,564,611	15,178,263
South Korean Won	41,709,518	34,684,975
Swedish Krona	8,032,760	4,025,105
Swiss Franc	7,957,313	11,024,413
Taiwan Dollar	16,161,655	12,246,350
Thai Baht	8,758,827	8,550,146
Turkish Lira	6,246,789	6,338,320
UK Pound	59,256,171	41,069,473
United Arab Emirates Dirham	689,401	-
Total Foreign Common Stock	412,130,480	373,714,031
Other - Equity Securities		
Canadian Dollar	76	-
Malaysian Ringgit	744	-
Total Other - Equity Securities	820	-
Foreign Preferred Stock:		
Brazilian Real	19,150,292	15,659,002
Euro	-	415,547
South African Rand	32,878	-
South Korean Won	119,248	-
Total Foreign Preferred Stock	19,302,418	16,074,549
Foreign Government and Provincial Obligations:		
Australian Dollar	10,317,021	8,030,497
Brazilian Real	80,885,350	3,656,389
Canadian Dollar	8,519,442	10,926,008
Euro	39,965,690	20,929,899
Hong Kong Dollar	499,985	269,696
Hungarian Forint	2,907,456	1,851,342
Indonesian Rupian	4,066,119	3,396,080
Japanese Yen	8,625,091	14,274,645
Malaysian Ringgit	5,565,622	5,044,396
Mexican Peso	7,596,939	3,162,407
New Zealand Dollar	9,096,325	3,536,889

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LONG TERM FUND

Notes to Financial Statements (cont.)

GEF Investment Type	August 31,	
	2011	2010
Foreign Government and Provincial Obligations (continued):		
Norwegian Kroner	\$ 5,260,171	\$ 2,051,190
Polish Zloty	6,676,254	6,063,218
Singapore Dollar	4,377,861	959,770
South African Rand	5,076,308	2,865,894
South Korean Won	5,242,414	4,543,671
Swedish Krona	-	4,255,127
UK Pound	17,946,841	17,098,074
Total Foreign Government and Provincial Obligations	222,624,889	112,915,192
Corporate Obligations:		
Australian Dollar	8,479,141	12,514,330
Brazilian Real	-	1,101,817
Canadian Dollar	1,901,097	2,226,858
Danish Krone	-	305,386
Euro	25,682,603	37,442,891
Hong Kong Dollar	-	368,361
Japanese Yen	1,398,209	1,420,976
UK Pound	4,910,750	3,257,210
Total Corporate Obligations	42,371,800	58,637,829
Convertible Securities:		
Brazilian Real	1,759,748	-
Swiss Franc	-	19,962
Total Convertible Securities	1,759,748	19,962
Purchased Options:		
Australian Dollar	34,053,600	-
Euro	1,905,053	-
Japanese Yen	6,043,859	-
South Korean Won	26,963,075	-
Total Purchased Options	68,965,587	-
Private Investment Funds:		
Canadian Dollar	6,326,686	2,339,096
Euro	97,897,494	77,929,016
UK Pound	4,934,223	-
Total Private Investment Funds	109,158,403	80,268,112
Investment Funds - Emerging Markets:		
Brazilian Real	3,115,855	585,617
Cash and Cash Equivalents:		
Australian Dollar	1,084,437	288,728
Brazilian Real	817,623	416,671
Canadian Dollar	65,147	(149,322)
Chilean Peso	1,010	723
Czech Koruna	12	(131,080)
Danish Krone	423	2,475
Egyptian Pound	-	25,297
Euro	916,443	17,852,684
Hong Kong Dollar	210,222	(4,366,117)
Hungarian Forint	41	75
Indian Rupee	295,260	29
Indonesian Rupian	10,370	60,365
Israeli Shekel	1,235	1,142
Japanese Yen	5,127	381,544
Malaysian Ringgit	118,783	20,614
Mexican Peso	14,542	60,125
Moroccan Dirham	10,241	7,807
New Zealand Dollar	509	26
Norwegian Kroner	86,640	(444,150)
Peruvian Nuevo Sol	17,003	32
Philippine Peso	19,265	29,342
Polish Zloty	9,610	1,454

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LONG TERM FUND

Notes to Financial Statements (cont.)

GEF Investment Type	August 31,	
	2011	2010
Cash and Cash Equivalents (continued):		
Singapore Dollar	\$ 2,075	\$ 310
South African Rand	12,101	40,908
South Korean Won	109,454	41,633
Swedish Krona	923	64,200
Swiss Franc	3	(6,801,016)
Taiwan Dollar	492,313	375,382
Thai Baht	8,874	18,752
Turkish Lira	117	3
UK Pound	4,039,126	(296,112)
Total Cash and Cash Equivalents	<u>8,348,929</u>	<u>7,502,524</u>
Written Options:		
Australian Dollar	(20,833,192)	-
Euro	(15,971)	(16,882)
South South Korean Won	(17,501,314)	-
UK Pound	-	(179)
Total Written Options	<u>(38,350,477)</u>	<u>(17,061)</u>
Swaps:		
Australian Dollar	(967)	30,694
Brazilian Real	22,261	20,345
Canadian Dollar	-	11,739
Euro	(11,669)	20,622
Japanese Yen	16,183	220,655
Mexican Peso	420,599	-
UK Pound	(194,317)	48,809
Total Swaps	<u>252,090</u>	<u>352,864</u>
Futures:		
Australian Dollar	25,394	-
Canadian Dollar	(25,463)	-
Euro	248,295	557,570
UK Pound	(70,131)	6,902
Total Futures	<u>178,095</u>	<u>564,472</u>
Total	<u>\$ 849,858,637</u>	<u>\$ 650,618,091</u>

(G) **Counterparty (Credit) Risk**

The derivative instruments utilized by the GEF, contain varying degrees of off-balance sheet risk whereby changes in the fair values of securities underlying the financial instruments may exceed the amounts recognized in the statement of changes in fiduciary net assets. The GEF manages these risks on an aggregate basis along with the risks associated with its other investments as part of its overall risk management process.

The Fund's pro-rata share of the GEF's gross counterparty exposure as of August 31, 2011 for options, swaps, and foreign currency exchange contracts is shown in the table below.

**THE UNIVERSITY OF TEXAS SYSTEM
LONG TERM FUND**

Notes to Financial Statements (cont.)

Options

<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Counterparty Rating</u>
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2011</u>	<u>Fair Value as of August 31, 2011</u>	
\$ 4,045,345,503	\$ 1,018,340,684	\$ 57,966,968	\$ 33,546,543	A
<u>2,745,390,487</u>	<u>216,090,035</u>	<u>21,774,618</u>	<u>9,497,541</u>	AA
<u>\$ 6,790,735,990</u>	<u>\$ 1,234,430,719</u>	<u>\$ 79,741,586</u>	<u>\$ 43,044,084</u>	

Swaps

<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Counterparty Rating</u>
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2011</u>	<u>Fair Value as of August 31, 2011</u>	
\$ 34,226,472	\$ 238,512,132	\$ 1,080,666	\$ 18,387,551	A
<u>829,710,700</u>	<u>2,062,033</u>	<u>584,404</u>	<u>43,422</u>	AA
<u>\$ 863,937,172</u>	<u>\$ 240,574,165</u>	<u>\$ 1,665,070</u>	<u>\$ 18,430,973</u>	

Foreign Currency Exchange Contracts

<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Counterparty Rating</u>
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2011</u>	<u>Fair Value as of August 31, 2011</u>	
\$ 269,696,145	\$ 231,384,752	\$ 3,020,769	\$ 1,755,065	A
<u>113,183,486</u>	<u>101,875,788</u>	<u>1,005,143</u>	<u>5,922,053</u>	AA
<u>\$ 382,879,631</u>	<u>\$ 333,260,540</u>	<u>\$ 4,025,912</u>	<u>\$ 7,677,118</u>	

The Fund's pro-rata share of the GEF's gross counterparty exposure as of August 31, 2010 for options, swaps, and foreign currency exchange contracts is shown in the table below.

**THE UNIVERSITY OF TEXAS SYSTEM
LONG TERM FUND**

Notes to Financial Statements (cont.)

Options

<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2010</u>	<u>Fair Value as of August 31, 2010</u>	<u>Counterparty Rating</u>
\$ 987,234,515	\$ 23,703,622	\$ 4,621,801	\$ 297,810	A
46,625	5,702,298	46,625	120,736	AA
<u>\$ 987,281,140</u>	<u>\$ 29,405,920</u>	<u>\$ 4,668,426</u>	<u>\$ 418,546</u>	

Swaps

<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2010</u>	<u>Fair Value as of August 31, 2010</u>	<u>Counterparty Rating</u>
\$ 19,528,481	\$ 29,676,369	\$ 713,558	\$ 727,167	A
23,062,987	19,450,903	288,957	217,579	AA
<u>\$ 42,591,468</u>	<u>\$ 49,127,272</u>	<u>\$ 1,002,515</u>	<u>\$ 944,746</u>	

Foreign Currency Exchange Contracts

<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2010</u>	<u>Fair Value as of August 31, 2010</u>	<u>Counterparty Rating</u>
\$ 57,755,121	\$ 37,509,877	\$ 1,279,792	\$ 717,193	A
28,763,847	30,842,154	635,526	748,754	AA
<u>\$ 86,518,968</u>	<u>\$ 68,352,031</u>	<u>\$ 1,915,318</u>	<u>\$ 1,465,947</u>	

As of August 31, 2011 and 2010, the GEF also had investments in futures contracts and options on future contracts. Futures contracts and options on future contracts expose the GEF to minimal counterparty credit risk since they are exchange traded and the exchange's clearinghouse, as counterparty to all exchange traded futures, guarantees them against default, and therefore they are not presented in the table above.

Counterparty risk for swaps, options and foreign currency exchange contracts is mitigated by having master netting arrangements between the GEF and its counterparties, and by the posting of collateral on a daily basis by the counterparty to the GEF to cover the GEF's exposure to a counterparty above the limits set in place in each master netting agreement. Collateral posted by counterparties for net assets is held by the GEF in one of its accounts at the GEF's custodian bank. As of August 31, 2011 and 2010, the Fund's pro-rata share was \$42,675,500 and \$5,234,259 respectively, of collateral held by the GEF related to derivative instruments other than futures. As of August 31, 2011 and 2010, the Fund's pro-rata share was \$41,648,922 and \$16,265,714, respectively, of collateral posted with brokers by the GEF related to derivative instruments other than futures.

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LONG TERM FUND

Notes to Financial Statements (cont.)

Note 5 – Securities Lending

In accordance with the prudent investor investment standards, the GEF loans securities to certain brokers who pay the GEF negotiated lenders' fees. These fees are included in the GEF's investment income, and related expenses, net of rebates paid to borrowers, are included in investment expenses in the statement of changes in fiduciary net assets. The GEF receives qualified securities and/or cash as collateral against the loaned securities. The collateral, when received, will have a market value of 102% of loaned securities of U.S. issuers and a market value of 105% for loaned securities of non-U.S. issuers. If the market value of the collateral held in connection with loans of securities of U.S. issuers is less than 100% at the close of trading on any business day, the borrower is required to deliver additional collateral by the close of the next business day to equal 102% of the market value. For non-U.S. issuers, the collateral should remain at 105% of the market value of the loaned securities at the close of any business day. If it falls below 105%, the borrower must deliver additional collateral by the close of the following business day. The Fund's pro-rata share of the value of the GEF's securities loaned and the value of collateral held are as follows at August 31, 2011 and 2010:

GEF Securities on Loan	2011 Value	2010 Value	Type of Collateral	2011 Value of Collateral	2010 Value of Collateral
U.S. Government	\$ 2,798,693	\$ 5,612,908	Cash	\$ 2,856,153	\$ 5,726,208
Foreign					
Government	7,029,082	4,391,167	Cash	7,371,790	4,612,328
Corporate Bonds	7,201,971	7,501,425	Cash	7,381,971	7,677,569
Common Stock	58,806,122	76,350,307	Cash	61,003,258	79,223,259
Total	\$ 75,835,868	\$ 93,855,807	Total	\$ 78,613,172	\$ 97,239,364
U.S. Government	\$ 696,728	\$ -	Non-Cash	\$ 739,306	\$ -
Corporate Bonds	123,812	-	Non-Cash	131,379	-
Common Stock	-	1,262,285	Non-Cash	-	1,289,015
	\$ 820,540	\$ 1,262,285		\$ 870,685	\$ 1,289,015

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

The Fund's pro-rata share of the GEF's portion of the collateral pool investments, rating by NRSRO, and weighted average maturity as of August 31, 2011 and 2010 is shown in the following table:

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LONG TERM FUND

Notes to Financial Statements (cont.)

Description	August 31,					
	2011			2010		
	Fair Value	Rating	Weighted Average Maturity In Days	Fair Value	Rating	Weighted Average Maturity In Days
Repurchase Agreements	\$ 27,891,884	No Rating	1	\$ 69,892,339	No Rating	1
Commercial Paper	27,436,937	P	28	16,032,779	P	35
Floating Rate Notes	6,749,288	AA		3,562,923	AA	
Floating Rate Notes	8,113,357	A		3,535,142	A	
Total Floating Rate Notes	<u>14,862,645</u>		33	<u>7,098,065</u>		26
Interest Bearing Notes	371,364	AA	76	-	AA	-
Certificates of Deposit	8,040,917	P	33	4,815,976	P	63
Other Receivables/Payables	9,427	Not Rated	-	(599,795)	Not Rated	-
Total Collateral Pool Investment	<u>\$ 78,613,174</u>		20	<u>\$ 97,239,364</u>		12

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

Cash collateral is recorded as an asset with an equal and offsetting liability to return the collateral on the statements of fiduciary net assets. Pool investments are valued at amortized cost which is indicative of fair value. Investments received as collateral for securities lending activities are not recorded as assets because the investments remain under the control of the transferor, except in the event of default.

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

As of August 31, 2011 and 2010, the GEF had no credit risk exposure to borrowers because the amounts the GEF owed to borrowers exceeded the amounts the borrowers owed the GEF.

There were no significant violations of legal or contractual provisions, no borrower or securities lending agent default losses, and no recoveries of prior period losses during the years ended August 31, 2011 and 2010.

Note 6 – Fees and Expenses

The Fund is assessed a management fee by UTIMCO to cover the costs of managing the Fund and providing day-to-day operations. The fee assessed for the year ended August 31, 2011, was \$4,821,311. The fee assessed for the year ended August 31, 2010, was \$3,046,039, net of a rebate of \$1,393,602 of excess reserves from UTIMCO to the Fund.

THE UNIVERSITY OF TEXAS SYSTEM
LONG TERM FUND

Notes to Financial Statements (cont.)

The Fund is assessed an annual administrative fee on behalf of UT System and UT System institutions for the support of endowment administration and management efforts. This fee is assessed and paid at the beginning of each fiscal year. The fees assessed for the years ending August 31, 2011 and 2010, were \$12,074,085 and \$12,226,864, respectively.

The Fund is assessed a fee to cover costs associated with UT System personnel in their efforts to provide assistance to the UT Board and the Chancellor of the UT System in their oversight responsibilities of UTIMCO. The fees assessed for the years ended August 31, 2011 and 2010, were \$122,050 and \$121,900, respectively.

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

THE UNIVERSITY OF TEXAS SYSTEM
LONG TERM FUND
Supplemental Schedule

Financial Highlights
Years Ended August 31,

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Selected Per Unit Data					
Net Asset Value, Beginning of Year	\$ 6.107	\$ 5.706	\$ 6.976	\$ 7.503	\$ 6.744
Income from Investment Operations					
Net Investment Income (A)	0.040	0.035	0.043	0.090	0.122
Net Realized and Unrealized Gains (Losses) on Investments	<u>0.841</u>	<u>0.676</u>	<u>(1.011)</u>	<u>(0.324)</u>	<u>0.921</u>
Total Income (Loss) from Investment Operations	<u>0.881</u>	<u>0.711</u>	<u>(0.968)</u>	<u>(0.234)</u>	<u>1.043</u>
Less Distributions					
From Net Investment Income	0.040	0.035	0.043	0.090	0.122
From Net Realized Gains	<u>0.277</u>	<u>0.275</u>	<u>0.259</u>	<u>0.203</u>	<u>0.162</u>
Total Distributions	<u>0.317</u>	<u>0.310</u>	<u>0.302</u>	<u>0.293</u>	<u>0.284</u>
Net Asset Value, End of Year	<u><u>\$ 6.671</u></u>	<u><u>\$ 6.107</u></u>	<u><u>\$ 5.706</u></u>	<u><u>\$ 6.976</u></u>	<u><u>\$ 7.503</u></u>

Ratios and Supplemental Data

Net Assets, End of Year (in thousands)	\$6,056,578	\$5,130,276	\$4,516,800	\$5,285,011	\$5,333,046
Ratios to Average Net Assets					
Investment Expenses	0.32%	0.31%	0.31%	0.26%	0.28%
Total Expenses	0.53%	0.56%	0.59%	0.45%	0.36%
Net Investment Income (A)	0.62%	0.59%	0.77%	1.22%	1.72%
Distributions (5-quarter average)	4.87%	5.20%	5.38%	3.96%	4.00%
Distributions (12-quarter average)	5.12%	4.83%	4.41%	4.00%	4.15%

(A) Net investment income is comprised of investment income (excluding the net increase in investments) and investment expenses as presented on the statements of changes in fiduciary net assets.