

Financial Statements
and Independent Auditors' Report
Permanent University Fund
Years Ended August 31, 2008 and 2007

Permanent University Fund

Financial Statements

Years Ended August 31, 2008 and 2007

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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 Permanent University Fund (the "PUF"), as of August 31, 2008, and August 31, 2007, 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 PUF'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 statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the PUF are intended only to present the financial position of the PUF and do not purport to, and do not, present the financial positions of UTIMCO or The University of Texas System as of August 31, 2008, or August 31, 2007 and the changes in their financial positions for the years then ended in conformity with accounting principles generally accepted in the United States.

As also discussed in Note 1, the financial statements of the PUF include only the investment related assets and liabilities and changes therein which are being managed by UTIMCO and do not include the PUF's 2.1 million acres of land. This report, therefore, is not intended to be a complete presentation of the PUF's assets, liabilities, income, and expenses.

As discussed in Note 2, the financial statements include investments valued at \$5,746,288,213 (50.6% of net assets) and \$4,716,887,378 (40.2% of net assets) as of August 31, 2008, and August 31, 2007, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values.

Management's estimates are based on procedures performed by management which use information provided by the fund managers or the general partners.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the PUF as of August 31, 2008, and August 31, 2007, 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 7 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 the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements of the PUF. 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, 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, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Our discussion and analysis of the Permanent University Fund's (PUF) financial performance provides an overview of its activities for the year ended August 31, 2008. This discussion was prepared by The University of Texas Investment Management Company (UTIMCO) and should be read in conjunction with the PUF's financial statements and notes. The PUF is a public endowment contributing to the support of 18 institutions and 6 agencies in The University of Texas System (UT System) and The Texas A&M University System (TAMU System). The Texas Constitution and various state statutes designate The University of Texas System Board of Regents (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.

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

Financial Highlights

- The PUF's net fiduciary assets after distributions decreased by \$383.3 million from \$11,742.8 million to \$11,359.5 million, or approximately 3.26% for the year ended August 31, 2008, compared to an increase of \$1,429.4 million or approximately 13.86% for the year ended August 31, 2007. The change in net fiduciary assets from year to year is mainly attributable to the following:
 1. Fiscal year 2008 contributions of PUF Lands mineral income increased by 67.8% from \$272.8 million to \$457.8 million and represented 3.9% of the average value of the PUF investments during the year, compared to fiscal year 2007 contributions which increased by 26.9%, from \$215.0 million to \$272.8 million and represented 2.5% of the average value of the PUF investments during the year. PUF Lands consist of more than 2.1 million acres in 19 counties primarily in West Texas.
 2. The PUF posted a net investment loss of 3.34%, calculated using the Modified Dietz Method as described by the CFA Institute, for the year ended August 31, 2008. Investments in private investment funds, hedge funds, natural resources, and investment grade fixed income were positive contributors to the 2008 return, while real estate and developed and emerging market equities posted negative returns. For the fiscal year ended August 31, 2007, the private investment funds, emerging markets equities and hedge funds were the leading performers contributing to a net investment return of 15.34%.
 3. The PUF's annual distribution to the Available University Fund (AUF) increased by 12.0% in fiscal year 2008, compared to a increase of 12.1% in fiscal year 2007.

Use of Financial Statements and Notes

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

In compliance with the reporting requirements of Section 66.05 of the Texas Education Code, we have included as supplementary information a Schedule of Changes in Cost of Investments and Investment Income. We have also included as supplementary information a Comparison Summary of Investments.

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 PUF under UTIMCO management as of the end of the fiscal year. These statements, along with all of the PUF's financial statements, are prepared using the accrual basis of accounting, whereby PUF investment income is recognized when earned and PUF expenses are recognized when incurred.

The PUF 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 PUF investment assets to internally and externally managed portfolios in accordance with approved asset allocation policies, and attempts to supplement the endowment corpus by increasing purchasing power over time. In doing so, UTIMCO increases the PUF resources available to fund the debt service on bonds issued by the UT Board and the TAMU System Board of Regents to fund capital expenditures and to fund academic excellence programs at The University of Texas at Austin, Texas A&M University, and Prairie View A&M.

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Assets			
Investments, at Fair Value	\$ 11,628.7	\$ 12,053.3	\$ 10,477.1
Other Assets	<u>722.0</u>	<u>1,301.7</u>	<u>1,341.5</u>
Total Assets	<u>12,350.7</u>	<u>13,355.0</u>	<u>11,818.6</u>
Total Liabilities	<u>991.2</u>	<u>1,612.2</u>	<u>1,505.2</u>
Net Assets Held in Trust	<u>\$ 11,359.5</u>	<u>\$ 11,742.8</u>	<u>\$ 10,313.4</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 PUF investments. The purpose of these statements is to present additions to the PUF resulting from net investment income and contributions from PUF Lands mineral income and to present deductions from the PUF resulting from the distributions to the AUF.

The net decrease in appreciation of investments of the PUF was \$554.7 million during the year compared to a net increase in appreciation of investments of \$1,369.0 million for the year ended August 31, 2007. Investment expenses totaled \$42.6 million, \$77.7 million, and \$76.8 million, respectively, for the years ended August 31, 2008, 2007, and 2006.

The PUF's objectives are:

- Provide a predictable, stable stream of distributions over time,
- Ensure that the inflation adjusted value of distributions is maintained over the long-term, and
- Ensure that the inflation adjusted value of PUF assets after distributions is maintained over rolling 10-year periods.

Distributions to the AUF increased by \$48.2 million, from \$400.7 million in fiscal year 2007 to \$448.9 million, in fiscal year 2008. The fiscal year 2007 distribution amount increased by \$43.4 million from the fiscal year 2006 distribution of \$357.3 million. PUF distributions are controlled by a spending policy approved by the UT Board as directed by the Texas Constitution, which directs the UT Board to establish a distribution policy that provides stable, inflation-adjusted distributions to the AUF and preserves the real value of the PUF investments over the long term. To achieve this, the annual distribution was previously established at 4.75% of the prior twelve quarters' average net asset value of the PUF investments, as determined each February 28 for the

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following fiscal year. During the year the PUF's spending policy was amended to establish the annual distribution at 4.75% unless the average annual rate of return of PUF investments over the trailing twelve quarters exceeds the expected return of the Endowment Policy Portfolio by twenty-five basis points or more, in which case the distribution is calculated at 5.00% of the trailing twelve quarters' average net asset value. The fiscal year 2008 rate was determined and approved by the UT Board prior to the amendment, and was based on 4.75% of the prior twelve quarters' average net asset value of the PUF investments.

The distributions to the AUF are subject to the following overriding conditions:

1. Distributions must be at least equal to the amount needed to pay debt service on PUF Bonds;
2. Distributions may not increase from the preceding year (except as necessary to pay debt service on PUF Bonds) unless the purchasing power of PUF Investments for any rolling 10-year period has been preserved;
3. Distributions may not exceed 7 percent of the average net fair market value of PUF investments in any fiscal year, except as necessary to pay debt service on PUF Bonds.

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Investment Income (Loss)	\$ (342.9)	\$ 1,639.8	\$ 1,111.6
Less Investment Expenses	(42.6)	(77.7)	(76.8)
PUF Lands Contributions	457.8	272.8	215.0
Total Additions	<u>72.3</u>	<u>1,834.9</u>	<u>1,249.8</u>
Administrative Expenses			
PUF Lands Expenses	6.4	4.4	5.3
UT System Oversight Fee	0.3	0.4	0.5
Distributions to Available University Fund	448.9	400.7	357.3
Total Deductions	<u>455.6</u>	<u>405.5</u>	<u>363.1</u>
Change in Fiduciary Net Assets	(383.3)	1,429.4	886.7
Net Asset Held in Trust, Beginning of Year	<u>11,742.8</u>	<u>10,313.4</u>	<u>9,426.7</u>
Net Assets Held in Trust, End of Year	<u><u>\$11,359.5</u></u>	<u><u>\$11,742.8</u></u>	<u><u>\$10,313.4</u></u>

Subsequent to August 31, 2008, the U.S. and international financial markets experienced significant volatility. This resulted in substantial declines in equity, fixed income and commodities markets in which the PUF invests directly, and indirectly, through its investments in various hedge funds, private investments and public markets. The financial results of the PUF are impacted by market volatility and, therefore, the PUF was negatively impacted as a result of these market conditions.

Contacting UTIMCO

The above financial highlights are designed to provide a general overview of the PUF'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, 2008 and 2007

(in thousands)

Assets	2008	2007
Investments, at Fair Value:		
Equity Securities	\$ 1,204,835	\$ 1,580,737
Preferred Stock	2,351	2,505
Debt Securities	1,278,731	1,542,436
Convertible Securities	80	5,005
Investment Funds	8,199,252	7,267,359
Purchased Options	3,257	10,782
Cash and Cash Equivalents	940,223	1,644,435
Total Investments	11,628,729	12,053,259
Collateral for Securities Loaned, at Fair Value	417,683	717,417
Deposit with Brokers for Derivative Contracts	58,696	74,783
Unrealized Gains on Foreign Currency Exchange Contracts	5,763	18,788
Swaps, at Fair Value	128,628	132,664
Receivables:		
Investment Securities Sold	93,486	323,391
Accrued Income	17,717	22,731
Other	-	11,993
Total Receivables	111,203	358,115
Total Assets	12,350,702	13,355,026
Liabilities		
Payable Upon Return of Securities Loaned	417,683	717,417
Options Written, at Fair Value	4,673	7,235
Swaps, at Fair Value	138,956	122,451
Securities Sold Short, at Fair Value	-	16,105
Unrealized Losses on Foreign Currency Exchange Contracts	13,193	8,656
Payables:		
Investment Securities Purchased	400,149	721,009
Other	16,585	19,373
Total Payables	416,734	740,382
Total Liabilities	991,239	1,612,246
Net Assets Held in Trust	\$11,359,463	\$11,742,780

*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, 2008 and 2007

(in thousands)

	<u>2008</u>	<u>2007</u>
Additions		
Investment Income:		
Net Increase (Decrease) in Investments	\$ (554,734)	\$ 1,368,976
Interest	107,260	140,736
Dividends	62,334	46,898
Income Distributions from Private Investment Funds	15,633	28,837
Securities Lending Income	22,859	51,869
Other	3,736	2,502
Total Investment Income (Loss)	<u>(342,912)</u>	<u>1,639,818</u>
Less Investment Expenses:		
Securities Lending Fees	19,106	49,779
Investment Management	12,963	18,616
UTIMCO Management Fee	7,542	6,482
Custodial Fees and Expenses	880	825
Legal	841	509
Analytical and Risk Measurement Fees	474	565
Consulting Fees	408	724
Accounting	345	141
Other	57	49
Total Investment Expenses	<u>42,616</u>	<u>77,690</u>
Net Investment Income (Loss)	<u>(385,528)</u>	<u>1,562,128</u>
Contributions from PUF Lands	<u>457,757</u>	<u>272,776</u>
Total Additions	<u>72,229</u>	<u>1,834,904</u>
Deductions		
Administrative Expenses:		
PUF Lands Expenses	6,352	4,384
UT System Oversight Fee	251	448
Total Administrative Expenses	<u>6,603</u>	<u>4,832</u>
Distributions to Available University Fund	<u>448,943</u>	<u>400,686</u>
Total Deductions	<u>455,546</u>	<u>405,518</u>
Change in Fiduciary Net Assets	<u>(383,317)</u>	<u>1,429,386</u>
Net Assets Held in Trust, Beginning of Year	<u>11,742,780</u>	<u>10,313,394</u>
Net Assets Held in Trust, End of Year	<u>\$ 11,359,463</u>	<u>\$ 11,742,780</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

(A) The Permanent University Fund (PUF) is a state endowment contributing to the support of eligible institutions of The University of Texas System (UT System) and The Texas A&M University System (TAMU System). The PUF was established in the Texas Constitution of 1876 through the appropriation of land grants previously given to the University of Texas, as well as an additional one million acres. Additional land grants to the PUF were completed in 1883 with the contribution of another one million acres. Today, the PUF contains over 2.1 million acres of land located primarily in 19 counties in West Texas (PUF Lands).

PUF Lands are managed by UT System administration and produce two streams of income: mineral and surface. UT System administration remits mineral income to the PUF, and distributes surface income to the Available University Fund (AUF). The mineral income retained by the PUF is invested and managed by The University of Texas Investment Management Company (UTIMCO).

(B) The accompanying financial statements report the investment in securities of the PUF, including the assets, liabilities, mineral contributions of the PUF Lands and investment income. Expenses related to the PUF's security investments and PUF Lands, as well as distributions from the PUF to the AUF, are also included. The PUF Lands asset values are not included in the accompanying financial statements because the statements are only intended to include the investment assets which are being managed by UTIMCO.

The activities of the PUF are accounted for as a fiduciary fund. The financial statements of the PUF 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 PUF are prepared in accordance with the requirements of the Governmental Accounting Standards Board (GASB).

The supplemental Schedule of Changes in Cost of Investments and Investment Income has been prepared for the purpose of complying with the reporting requirements of Section 66.05 of the Texas Education Code.

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 PUF. The accompanying financial statements may differ in presentation from the Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements.

Note 2 – Significant Accounting Policies

(A) **Security Valuation** -- Investments with readily determinable fair values are primarily valued on the basis of market valuations provided by independent pricing services.

Fixed income securities held directly by the PUF are valued based upon prices supplied by FT Interactive Data and other major fixed income pricing services, external broker quotes and internal pricing matrices.

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Notes to Financial Statements

Equity security market values are based on the New York Stock Exchange composite closing prices, if available. If not available, the market value is based on the closing price on the primary exchange on which the security is traded (if a closing price is not available, the average of the last reported bid and ask price is used).

Private investment funds and certain other equity securities are fair valued by management. The fair values of these investments are estimated by management using the partnership's capital account balance at the closest available reporting period, as communicated by the general partner, adjusted for contributions and withdrawals subsequent to the latest available reporting period as well as consideration of any other information which has been provided by the partnership or other source. In rare cases the private market funds are valued at cost, but only when management feels this is the best approximation of value.

Securities held by the PUF in index and exchange traded funds are generally valued as follows:

Long and short stock positions traded on security exchanges are valued at closing market prices on the valuation date.

Long and short stock positions traded on the over-the-counter market are valued at the last reported bid price, except for National Market System OTC stocks, which are valued at their closing market prices.

Fixed income securities are valued based upon bid quotations obtained from major market makers or security exchanges.

Investments in registered U.S. mutual funds are being valued at their respective net asset value per share amounts.

Hedge funds, developed country equity, emerging market equity and fixed income investment funds and certain other investment funds are fair valued by management based on net asset value information provided by the investment manager as well as other relevant factors as indicated above.

(B) ***Foreign Currency Translation*** -- The accounting records of the PUF are maintained in U.S. dollars. Investments in securities are valued at the daily rates of exchange on the valuation date. Purchases and sales of securities of foreign entities and the related income receipts and expense payments are translated into U.S. dollars at the exchange rate on the dates of the transactions. The PUF does not isolate that portion of the results of the change in fiduciary net assets resulting from changes in foreign exchange rates on investments from fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net increase in investments.

(C) ***Investment Income*** -- Interest income is accrued as earned. Dividend income is recorded on the ex-dividend date. Dividend and interest income is recorded net of foreign taxes where recovery of such taxes is not assured. For the years ended August 31, 2008 and 2007, interest and dividend withholding in the amounts of \$1,075,146 and \$855,105 have been netted against dividend and interest income. Investment income includes net realized and unrealized currency gains and losses recognized between accrual and payment dates on dividend and interest transactions. Interest expense amounts paid on certain derivative settlements are netted against interest income in the statements of

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Notes to Financial Statements (cont.)

changes in fiduciary net assets. Premiums and discounts on bonds are not amortized.

(D) ***Security Transactions*** -- Security transactions are recorded on a trade date basis. Gains and losses on securities sold are determined on the basis of average cost.

(E) ***Use of Estimates*** -- The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions 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 income and expenses during the reporting period. Actual results could differ from these estimates.

(F) ***Derivative Instruments*** -- Derivative securities are financial instruments whose value is derived, in whole or part, from the value of any one or more underlying securities or assets, or index of securities or assets, such as stocks, bonds, commodities, or currencies. The PUF from time to time uses various derivative instruments, as allowed under The University of Texas System Board of Regents (UT Board) approved derivative investment policy guidelines, and by guidelines established in contracts with external investment managers. Derivative instruments included under these policies and contracts include futures, forwards, swaps and all forms of options. Futures contracts are valued at closing market prices on valuation date. Written options and swaps are valued by using independent broker quotes or using models with primarily externally verifiable model inputs. Derivative instruments in the PUF are used to achieve the following objectives:

- implement investment strategies in a low cost and efficient manner,
- alter the PUF's market (systematic) exposure without trading the underlying market securities, through purchases or short sales, or both, of appropriate derivatives,
- construct portfolios with risk and return characteristics that could not be created with market securities,
- hedge and control risks, or
- facilitate transition trading.

Through the use of derivative instruments, the complex risks that are bound together in traditional investments can be separated and managed independently. The primary intent of the PUF's investment in derivative investments is to hedge its risk or to implement investment strategies more effectively and at a lower cost than would be possible in the cash market.

Options Written -- When the PUF writes an option, an amount equal to the premium received by the PUF is recorded as a liability and is subsequently adjusted to the current fair value of the option written. Premiums received from writing options that expire unexercised are treated by the PUF on the expiration date as realized gains from investments. The difference between the premium and the amount paid on effecting a closing purchase transaction, including brokerage commissions, is also treated as a realized gain, or, if the premium is less than the amount paid for the closing purchase transaction, as a realized loss. If a call option is exercised, the premium is added to the proceeds from the sale of the underlying security or currency in determining whether the PUF has realized a gain or loss. If a put option is exercised, the premium reduces the cost basis of the securities purchased by the PUF. The PUF as writer of an option bears the market risk of an unfavorable change in the price of the security underlying the written option. Options are marked to market on a daily basis, and are included as a liability on

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Notes to Financial Statements (cont.)

the statements of fiduciary net assets.

Swaps -- The PUF invests in certain types of swaps to increase or decrease its exposure to long-term interest rates and to certain commodity and equity sector returns. Swaps are agreements between two parties to exchange periodic payments on the notional value of the contract multiplied by a stated fixed interest rate versus a stated floating interest rate, or on a commodity or equity sector return versus a specified cost per contract. Swaps are marked to market on a daily basis, and are included, at fair value, on the statements of fiduciary net assets. Cash flows may occur when a swap is opened, when it resets, if or when it is prematurely terminated by both parties to the agreement, and when it reaches maturity. The frequency of the resets is defined by the term sheet of the particular swap agreement, and varies from instrument to instrument. These instruments involve market and/or credit risk in excess of the amount recognized in the statements of fiduciary net assets. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movement in currency and securities values and interest rates.

Futures Contracts -- The PUF enters into futures contracts to facilitate various trading strategies, primarily as a tool to increase or decrease market exposure to various asset classes. Upon entering into a futures contract, initial margin deposit requirements are satisfied by the segregation of specific securities as collateral for the account of the broker (the PUF's agent in acquiring the futures position). During the period the futures positions are open, the contracts are marked to market daily; that is, they are valued at the close of business each day, and a gain or loss is recorded between the value of the contracts that day and on the previous day. The daily gain or loss is referred to as the daily variation margin which is settled in cash with the broker each morning for the amount of the previous day's mark to market. The amount that is settled in cash with the broker each morning is the carrying and fair value of the futures contracts, and is included as an other receivable or other payable on the statements of fiduciary net assets. The PUF executes such contracts either on major exchanges or with major international financial institutions and minimizes market and credit risk associated with these contracts through the managers' various trading and credit monitoring techniques.

Foreign Currency Contracts -- The PUF enters into forward foreign currency exchange contracts to hedge against foreign currency exchange rate risks on its non-U.S. dollar denominated investment securities and to facilitate trading strategies primarily as a tool to increase or decrease market exposure to various foreign currencies. When entering into a forward currency contract, the PUF agrees to receive or deliver a fixed quantity of foreign currency for an agreed-upon price on an agreed future date. These contracts are valued daily and the PUF's net equity therein, representing unrealized gain or loss on the contracts as measured by the difference between the forward foreign exchange rates at the dates of entry into the contracts and the forward rates at the reporting date, is included in the statements of fiduciary net assets. Realized and unrealized gains and losses are included in the statements of changes in fiduciary net assets. These instruments involve market and/or credit risk in excess of the amount recognized in the statements of fiduciary net assets. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movement in currency and securities values and interest rates.

(G) *Securities Sold Short* -- The PUF may sell securities it does not own in anticipation of a

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

decline in the fair value of that security, or as a means to adjust the duration of certain fixed income portfolios. When the PUF sells a security short, it must borrow the security sold short and deliver it to the broker-dealer through which it made the short sale and provide collateral for its obligation to deliver the security upon conclusion of the sale. The market value of securities sold short as of August 31, 2007, was \$16,105,047. There were no securities sold short as of August 31, 2008. The securities sold short as of August 31, 2007 were commitments to sell U.S. Treasury securities that did not require cash deposits. The PUF must pay dividends or interest on the securities sold short. Until the PUF covers its short sales, it is exposed to market risk to the extent that subsequent market fluctuations may require purchasing securities sold short at prices which may be significantly higher than the market value reflected in the statements of fiduciary net assets.

(H) ***Cash and Cash Equivalents*** -- Cash and cash equivalents consist of money market investments, cash held at the State Treasury, foreign currencies and other overnight funds. A portion of the PUF's cash and cash equivalents are maintained to support the notional value of derivatives positions held (see Note 8). Cash and cash equivalents are an integral part of the PUF's investment activities, and as such are included in the investments balance on the statement of fiduciary net assets.

(I) ***Contributions from PUF Lands*** -- The mineral income earned from PUF Lands is recorded as remitted by UT System administration and presented on the accompanying statements of changes in fiduciary net assets as a contribution to fiduciary net assets.

(J) ***Recently Issued Accounting Standards*** -- In June 2008, the GASB issued GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments." GASB No. 53 is intended to improve the reporting information about derivative instruments in financial statements. This statement specifically requires that most derivative instruments be measured at fair value in financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting, and is effective for periods beginning after June 15, 2009. Management is currently assessing the impact of the implementation of GASB No. 53 on the PUF's financial statements.

(K) ***Reclassifications*** -- Certain items in the 2007 financial statements and related notes have been reclassified to conform with the 2008 classification.

Note 3 – Investment Risk

The investment risk disclosure that follows relates to the PUF's investments before securities lending transactions and the investment of cash collateral. Disclosures relating to securities lending are provided in Note 4.

(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 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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

single investment.

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). During the year, the PUF's investment policy was amended to remove requirements and limitations regarding investment ratings. The amendments became effective March 1, 2008. Prior to the amendments, the policy limited investments in U.S. Domestic bonds and non-dollar denominated bond investments to those that were rated investment grade, Baa3 or better by Moody's Investor Services, BBB- or better, by Standard & Poor's Corporation, or BBB- or better, by Fitch Investors Service at the time of acquisition. These requirements did not apply to investment managers that were authorized by the terms of an investment advisory agreement to invest in below investment grade bonds. Per GASB Statement No. 40 (GASB 40), *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3*, unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. GASB 40 also provides that securities with split ratings, or a different rating assignment between NRSROs, are disclosed using the rating indicative of the greatest degree of risk. The following table presents each applicable investment type grouped by rating at August 31, 2008 and 2007:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type	August 31,		Rating
	2008	2007	
Investments:			
U.S. Government Guaranteed	\$ 320,972,087	\$ 559,387,423	Exempt from Disclosure
U.S. Government Non-Guaranteed:			
U.S. Agency	1,578,092	33,382,477	AAA
U.S. Agency Asset Backed	253,524,828	530,217,675	AAA
Total U.S. Government Non-Guaranteed	255,102,920	563,600,152	
Total U.S. Government	576,075,007	1,122,987,575	
Corporate Obligations:			
Domestic	107,664,217	82,823,455	AAA
Domestic	51,685,984	30,835,986	AA
Domestic	111,002,252	38,363,938	A
Domestic	45,159,483	26,967,071	BAA/BBB
Domestic	2,490,129	8,683,223	BA/BB
Domestic	2,797,460	4,322,937	B
Domestic	-	1,065,300	CAA
Domestic	298,770	300,873	CCC
Domestic	1,121,073	293,979	P
Commercial Paper	17,679,402	64,855,545	P
Commercial Paper	-	6,992,643	A
Certificate of Deposits	-	7,601,651	AA
Foreign	47,785,081	14,596,269	AAA
Foreign	21,064,268	8,188,554	AA
Foreign	20,536,408	9,363,764	A
Foreign	29,591,080	15,424,270	BAA/BBB
Foreign	802,091	-	Not Rated
Total Corporate Obligations	459,677,698	320,679,458	
Foreign Government and Provincial Obligations	105,372,578	65,703,753	AAA
Foreign Government and Provincial Obligations	57,547,732	2,063,952	AA
Foreign Government and Provincial Obligations	46,838,155	21,820,676	A
Foreign Government and Provincial Obligations	10,018,943	3,240,493	BAA/BBB
Foreign Government and Provincial Obligations	11,143,040	1,579,364	BA/BB
Total Foreign Government and Provincial Obligations	230,920,448	94,408,238	
Other Debt Securities	1,149,146	1,595,969	AAA
Other Debt Securities	2,751,345	2,007,512	AA
Other Debt Securities	716,637	-	A
Other Debt Securities	2,701,607	757,688	BAA/BBB
Other Debt Securities	4,738,972	-	Not Rated
Total Other Debt Securities	12,057,707	4,361,169	
Total Debt Securities	\$ 1,278,730,860	\$ 1,542,436,440	
Other Investment Funds - Debt	\$ -	\$ 32,110,086	AAA
Other Investment Funds - Debt	176,427,582	38,753,033	AA
Other Investment Funds - Debt	-	99,557,276	A
Other Investment Funds - Debt	13,867,647	8,913,909	BA/BB
Other Investment Funds - Debt	1,413,334	5,592,289	B
Total Other Investment Funds - Debt	\$ 191,708,563	\$ 184,926,593	
Cash and Cash Equivalents - Money Market Funds	\$ 940,222,615	\$ 1,644,434,954	AAA
Deposit with Brokers for Derivative Contracts:			
U.S. Government Guaranteed	\$ 32,430,842	\$ 71,852,155	Exempt from Disclosure
Cash	26,265,293	2,930,980	Exempt from Disclosure
	\$ 58,696,135	\$ 74,783,135	

(B) Concentrations of Credit Risk

The PUF's investment policy statement contains the limitation that no more than 5% of the market value of domestic fixed income securities may be invested in corporate or municipal bonds of a single issuer. As of August 31, 2008 and 2007, the PUF 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 PUF's domestic 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 PUF 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 PUF 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 PUF'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, 2008 and 2007, the PUF 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 PUF is measured by monitoring the modified duration of the overall investment portfolio. Modified duration estimates the sensitivity of the PUF's investments to changes in interest rates. The PUF has no specific policy statement limitations with respect to its overall modified duration. The following table summarizes the PUF's modified duration by investment type at August 31, 2008 and 2007:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type	August 31,			
	2008		2007	
	Value	Modified Duration	Value	Modified Duration
Investments:				
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	\$ 48,820,171	5.28	\$ 125,429,786	7.34
U.S. Treasury Strips	5,551,649	3.00	5,416,919	3.98
U.S. Treasury Bills	13,266,748	0.08	12,679,088	0.04
U.S. Treasury Inflation Protected	206,431,289	8.52	400,002,468	8.76
U.S. Agency Asset Backed	46,902,230	4.36	15,859,162	6.51
Total U.S. Government Guaranteed	<u>320,972,087</u>	6.97	<u>559,387,423</u>	8.14
U.S. Government Non-Guaranteed:				
U.S. Agency	1,578,091	5.13	20,300,126	1.81
U.S. Agency Asset Backed	253,524,829	6.06	530,217,675	5.19
U.S. Agency Commercial Paper	-	-	13,082,351	0.02
Total U.S. Government Non-Guaranteed	<u>255,102,920</u>	6.05	<u>563,600,152</u>	4.94
Total U.S. Government	<u>576,075,007</u>	6.57	<u>1,122,987,575</u>	6.53
Corporate Obligations:				
Domestic	322,219,368	5.40	193,656,762	4.35
Commercial Paper	17,679,402	0.09	71,848,188	0.16
Certificates of Deposit	-	-	7,601,651	1.00
Foreign	119,778,928	5.23	47,572,857	6.96
Total Corporate Obligations	<u>459,677,698</u>	5.15	<u>320,679,458</u>	3.72
Foreign Government and Provincial Obligations	<u>230,920,448</u>	7.61	<u>94,408,238</u>	5.83
Other Debt Securities	<u>12,057,707</u>	5.92	<u>4,361,169</u>	9.91
Total Debt Securities	<u>1,278,730,860</u>	6.24	<u>1,542,436,440</u>	5.92
Other Investment Funds - Debt	<u>191,708,563</u>	5.70	<u>184,926,593</u>	3.59
Cash and Cash Equivalents:				
Money Market Funds	<u>940,222,615</u>	0.08	<u>1,644,434,954</u>	0.08
Total	<u>\$ 2,410,662,038</u>	3.80	<u>\$ 3,371,797,987</u>	2.94
Deposit with Brokers for Derivative Contracts:				
U.S. Government Guaranteed:				
U.S. Treasury Bills	\$ 32,430,842	0.18	\$ 71,852,155	0.13
Cash	<u>26,265,292</u>	-	<u>2,930,980</u>	-
Total Deposit with Brokers for Derivative Contracts	<u>\$ 58,696,134</u>	0.10	<u>\$ 74,783,135</u>	0.13

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

The PUF may invest in various mortgage backed securities, such as collateralized mortgage backed obligations. The PUF 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, 2008 and 2007, the PUF's investments include the following investments that are highly sensitive to interest rate changes:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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. These securities amounted to \$192,462,475 and \$163,477,418 as of August 31, 2008 and 2007, 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. These securities amounted to \$192,506,999 and \$442,400,200 as of August 31, 2008 and 2007, 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. These securities amounted to \$30,534,964 and \$23,296,794 as of August 31, 2008 and 2007, respectively.

Step-up notes that grant the issuer the option to call the note on certain specified dates. At each call date, should the issuer not call the note, the coupon rate of the note increases (steps up) by an amount specified at the inception of the note. The call feature embedded within a step-up note causes the fair value of the instrument to be considered highly sensitive to interest rate changes. These securities amounted to \$220,434 and \$3,457,619 as of August 31, 2008 and 2007, respectively.

(F) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the PUF's non-U.S. dollar investments. The PUF's investment policy statement was amended during the year to remove limitations on investments in non-U.S. denominated bonds. The amendments became effective March 1, 2008. Prior to the amendment, the policy statement limited investments in non-U.S. denominated bonds to 50% of the PUF's total fixed income exposure. The following table summarizes the PUF's non-U.S. dollar investments by asset type at August 31, 2008 and 2007:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type	August 31,	
	2008	2007
Domestic Common Stock:		
Canadian Dollar	\$ -	\$ 92,144
UK Pound	90,769	66,172
Total Domestic Common Stock	90,769	158,316
Foreign Common Stock:		
Australian Dollar	20,133,152	20,358,308
Canadian Dollar	60,089,238	69,215,277
Swiss Franc	5,972,349	11,116,544
Danish Krone	1,653,940	2,882,348
Euro	65,764,184	53,424,740
UK Pound	75,524,018	65,577,730
Hong Kong Dollar	46,036,526	19,615,350
Japanese Yen	111,073,706	206,666,761
Norwegian Kroner	8,164,663	12,831,753
Philippines Peso	1,044,958	-
Swedish Krona	6,003,026	10,007,981
Singapore Dollar	13,782,791	3,980,715
Thai Baht	1,654,342	-
Total Foreign Common Stock	416,896,893	475,677,507
Other Equity Securities:		
Canadian Dollar	67	-
Foreign Government and Provincial Obligations:		
Australian Dollar	12,866,053	-
Brazilian	7,248,239	-
Canadian Dollar	12,257,536	120,883
Danish Krone	-	2,542,823
Euro	63,104,138	76,931,363
UK Pound	19,076,263	1,050,278
Indian Rupee	3,894,801	-
Japanese Yen	56,672,541	4,755,034
Mexican Peso	8,310,458	-
Malaysian Ringgit	10,927,314	-
New Zealand Dollar	6,344,747	-
Polish Zloty	12,778,326	3,346,927
Swedish Krona	4,207,054	-
Singapore Dollar	3,481,642	-
South African Rand	7,068,136	-
Total Foreign Government and Provincial Obligations	228,237,248	88,747,308
Corporate Obligations:		
Australian Dollar	5,474,202	-
Canadian Dollar	470,495	-
Danish Krone	20,131,057	2,243,330
Euro	37,543,304	22,454,445
UK Pound	4,087,261	5,008,915
Hong Kong Dollar	802,090	-
Iceland Krona	3,194,160	-
Japanese Yen	5,063,740	6,803,173
Total Corporate Obligations	76,766,309	36,509,863
Other - Debt Securities		
Hong Kong Dollar	2,300,595	-
Purchased Options:		
Euro	90,792	326,615
UK Pound	-	43,609
Total Purchased Options	90,792	370,224
Private Investments:		
Euro	231,790,095	175,111,377
UK Pound	1,681,677	2,309,163
Total Private Investments	233,471,772	177,420,540
Cash and Cash Equivalents:		
Australian Dollar	364,854	235,312
Canadian Dollar	1,135,281	2,290,035
Swiss Franc	466,331	537,192
Danish Krone	133,441	68,227
Euro	944,828	5,679,433
UK Pound	991,272	2,315,003
Hong Kong Dollar	643,166	19,663
Japanese Yen	1,125,426	8,309,661
Mexican Peso	7,054	12,168
Norwegian Kroner	3,008	346,996
New Zealand Dollar	973	340,418
Polish Zloty	4,150	170,193
Swedish Krona	2,840	391,749
Singapore Dollar	272,952	202,291
Taiwan Dollar	1,038,442	991,275
Total Cash and Cash Equivalents	7,134,018	21,909,616
Total	\$ 964,988,463	\$ 800,793,374

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Note 4 – Securities Lending

In accordance with the prudent investor investment standards, the PUF loans securities to certain brokers who pay the PUF negotiated lenders' fees. These fees are included in investment income, and related expenses are included in investment expenses. The PUF 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 value of securities loaned and the value of collateral held are as follows at August 31, 2008 and 2007:

Securities on Loan	2008 Value	2007 Value	Type of Collateral	2008 Value of Collateral	2007 Value of Collateral
U.S. Government	\$ 135,816,556	\$ 380,790,711	Cash	\$ 139,047,861	\$ 384,930,544
Foreign Government	5,088,932	-	Cash	5,411,957	-
Corporate Bonds	1,389,004	10,108,565	Cash	1,425,000	10,377,087
Common Stock	259,184,337	309,048,328	Cash	271,798,333	322,109,503
Total	\$ 401,478,829	\$ 699,947,604	Total	\$ 417,683,151	\$ 717,417,134
Common Stock	\$ 2,879,795	\$ 7,138,093	Non-Cash	\$ 2,992,927	\$ 7,252,103
Corporate Bonds	-	206,185	Non-Cash	-	209,478
U.S. Government	5,962,691	89,137,329	Non-Cash	6,196,935	90,718,507
Total	\$ 8,842,486	\$ 96,481,607	Total	\$ 9,189,862	\$ 98,180,088

Cash received as collateral for securities lending activities is invested and reinvested in a commingled pool managed exclusively for the benefit of the PUF, the General Endowment Fund (GEF), the Intermediate Term Fund and other UT Board accounts that participate in securities lending activities by the securities lending agent. The pool is managed in accordance with investment guidelines established in the securities lending contract between the PUF 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 for interest on the cash collateral received. The income remaining after the borrower rebates is then shared by the PUF and the securities 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 is made from the PUF and the securities lending agent in the same proportion as income is shared.

The PUF's pro-rata share of collateral pool investments, rating by NRSRO, and weighted average maturity at August 31, 2008 and 2007 is shown in the following table:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Description	August 31,					
	2008			2007		
	Fair Value	Rating	Weighted Average Maturity In Days	Fair Value	Rating	Weighted Average Maturity In Days
		No Rating			No Rating	
Repurchase Agreements	\$ 189,577,541	Available	2	\$ 233,339,724	Available	4
Commercial Paper	176,167,708	P	23	196,744,787	P	38
Floating Rate Notes	10,611,144	AAA		51,665,268	AAA	
Floating Rate Notes	31,725,221	AA		146,930,993	AA	
Total Floating Rate Notes	<u>42,336,365</u>		9	<u>198,596,261</u>		13
Fixed Rate Notes	3,521,866	AAA	13	2,287,392	AAA	105
Certificates of Deposit	9,505,358	P	36	-	-	-
Asset Backed Securities	-	-	-	87,658,787	AAA	-
Asset Backed Securities	-	-	-	915,994	P	-
Total Asset Backed Securities	<u>-</u>		-	<u>88,574,781</u>		32
Other Receivables/Payables	<u>(3,425,687)</u>	Not Rated	-	<u>(2,125,811)</u>	Not Rated	-
Total Collateral Pool Investment	<u>\$ 417,683,151</u>		13	<u>\$ 717,417,134</u>		20

Collateral pool investments are uninsured, and are held by the PUF's securities lending agent, in its name, on behalf of the PUF, 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 PUF 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. 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 PUF 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 PUF from any loss due to borrower default.

As of August 31, 2008 and 2007, the PUF had no credit risk exposure to borrowers because the amounts the PUF owed to borrowers exceeded the amounts the borrowers owed the PUF.

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, 2008 and 2007.

Note 5 – Investment Funds

Investment funds include exchange traded funds, index funds, Securities and Exchange Commission regulated mutual funds and externally managed funds, limited partnerships, and corporate structures which are generally unrated and may be unregulated. The composition of investment funds at August 31, 2008 and 2007 is summarized in the table below as they are classified within the asset mix of the PUF.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

	August 31,	
	2008	2007
Hedge Funds:		
Developed Country Equity	\$ 2,426,247,064	\$ 2,340,521,669
Emerging Market Equity	520,081,582	453,256,614
Credit Related Fixed Income	314,899,237	261,720,560
Investment Grade Fixed Income	222,704,569	217,507,704
Natural Resources	113,258,164	58,939,304
Real Estate	27,990,232	-
Total Hedge Funds	<u>3,625,180,848</u>	<u>3,331,945,851</u>
Private Investments:		
Developed Country Equity	1,224,312,673	1,073,602,260
Credit Related Fixed Income	561,669,921	181,685,916
Natural Resources	158,608,045	111,251,146
Emerging Market Equity	128,710,214	18,402,205
Real Estate	47,806,512	-
Total Private Investments	<u>2,121,107,365</u>	<u>1,384,941,527</u>
Public Markets:		
Developed Country Equity:		
Private Placements	789,318,888	1,250,171,891
Index Funds	93,621,423	147,445,832
Exchange Traded Funds	172,853,815	88,833,203
Total Developed Country Equity	<u>1,055,794,126</u>	<u>1,486,450,926</u>
Emerging Markets:		
Private Placements	649,206,232	629,723,015
Index Funds	264,494,722	137,953,109
Exchange Traded Funds	158,445,449	19,970,597
Publicly Traded Mutual Funds	-	91,447,386
Total Emerging Markets	<u>1,072,146,403</u>	<u>879,094,107</u>
Real Estate:		
Index Funds	83,903,715	-
Exchange Traded Funds	49,410,892	-
Total Real Estate	<u>133,314,607</u>	<u>-</u>
Fixed Income:		
Index Funds	176,427,583	-
Publicly Traded Mutual Funds	13,867,646	85,369,317
Private Placements	1,413,334	99,557,276
Total Fixed Income	<u>191,708,563</u>	<u>184,926,593</u>
Total Public Markets	<u>2,452,963,699</u>	<u>2,550,471,626</u>
Total Investment Funds	<u>\$ 8,199,251,912</u>	<u>\$ 7,267,359,004</u>

The PUF invests in hedge funds through unit interests in investment pools established in the name of the UT Board. Amounts presented in the PUF financial statements and related note disclosures represent the PUF's pro-rata share of these investment pool assets. The hedge fund pools are invested in private placements with external investment managers who invest in equity and fixed income securities of both domestic and international issuers. These investment managers may invest in both long and short securities and may utilize leverage in their portfolios. The funds invested may be subject to a lock-up restriction of one or more years before the investment may be withdrawn from the manager without significant penalty. There are certain risks associated with these private placements, some of which include investment manager risk, market risk, and liquidity risk, as well as the risk of utilizing leverage in the portfolios. The hedge fund pool has committed \$303,188,933 of future funding to various hedge fund investments as of August 31, 2008 of which the PUF's pro-rata portion is \$164,729,839.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Certain of the hedge fund pools' investments are held through limited liability companies (LLCs), of which UTIMCO is the sole managing member. These investments are managed by an external investment manager under a management agreement between the LLC and the external manager. The external manager employs an investment strategy utilizing leveraged commodity futures and options. As of August 31, 2008, the PUF's pro-rata share of these investments included \$27,183,602 of cash and cash equivalents, options on commodity futures with a fair value of \$11,918, net of liabilities for margin in the amount of \$670,232 related to the outstanding futures contracts.

Effective January 1, 2008, the PUF's private investments were combined with those of the GEF in investment pools created in the name of the UT Board, and are now held through unit interests in those pools. Upon creation of the pools, the PUF and GEF received units in exchange for the fair value of their respective private investments as of the date of the formation of the pool. Amounts presented in the PUF financial statements and related note disclosure for the period ending August 31, 2008, represent the PUF's pro-rata share of these investment pool assets. The private investment pools are invested in limited partnerships with external investment managers or general partners who invest primarily in private equity securities. These investments are domestic and international, are illiquid and may not be realized for a period of several years after the investments are made. There are certain risks associated with these investments, some of which are liquidity risk, market risk, event risk, and investment manager risk. Certain of these investments are held through LLCs, of which UTIMCO is the sole managing member. The private investment pool has committed \$2,909,326,821 of future funding to various private market investments as of August 31, 2008 of which the PUF's pro-rata portion is \$1,865,378,266.

Public market funds are invested in exchange traded funds, index funds, and private placements with external investment managers who invest in equity and fixed income securities of both domestic and international issuers. These funds are characterized as public market funds based on individual risk/return characteristics and their relationship to the overall asset mix of the PUF. Some of these investment managers may invest in both long and short securities and may utilize modest leverage in their portfolios. There are certain risks associated with these investments, some of which are investment manager risk, market risk, and liquidity risk, as well as the risk of utilizing leverage in the portfolios.

Hedge funds, private market, and public market funds include investments in private placement vehicles that are subject to risk which could result in the loss of invested capital. The risks include the following:

- *Non-regulation risk* -- Some of the PUF's general partners and investment managers are not registered with the Securities and Exchange Commission or other domestic or international regulators, and therefore are not subject to regulatory controls.
- *Key personnel risk* -- The success of certain funds is substantially dependent on key investment managers and the loss of those individuals may adversely impact the fund's performance.
- *Liquidity risk* -- Many of the PUF's investment funds may impose lock-up periods which would cause the PUF to incur penalties to redeem its units or prevent the PUF from redeeming its shares until a certain period of time has elapsed.

- *Limited transparency* -- As private placement investment vehicles, these funds may not

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

disclose the holdings of their portfolios.

- *Investment strategy risk* -- These funds often employ sophisticated investment strategies and may use leverage which could result in the loss of invested capital.

Note 6 – Written Options

For the year ended August 31, 2008, the PUF wrote call options on Treasury note, commodity, and domestic and international equity index futures and exchange traded funds. Transactions in call options written during the year ended August 31, 2008 were as follows:

	<u>Contracts</u>	<u>Premiums Received</u>
Call Options Outstanding at August 31, 2007	472,726	\$ 3,619,937
Options Written	201,530	7,928,091
Options Expired	(570,875)	(2,197,761)
Options terminated in closing purchase transactions	(73,792)	(4,270,238)
Call Options Outstanding at August 31, 2008	<u>29,589</u>	<u>\$ 5,080,029</u>

The fair value of call options outstanding as of August 31, 2008, was \$4,453,136. This amount is included on the statements of fiduciary net assets as written options, at fair value. The PUF recognized losses of \$8,547,267 on call options written for the year ended August 31, 2008.

For the year ended August 31, 2007, the PUF wrote call options on Treasury note, commodity, and domestic and international equity index futures and exchange traded funds. Transactions in call options written during the year ended August 31, 2007 were as follows:

	<u>Contracts</u>	<u>Premiums Received</u>
Call Options Outstanding at August 31, 2006	3,148,544	\$ 6,578,268
Options Written	294,962	5,559,612
Options Expired	(115,241)	(1,024,609)
Options Exercised	(41,587)	(1,774,104)
Options terminated in closing purchase transactions	(2,813,952)	(5,719,230)
Call Options Outstanding at August 31, 2007	<u>472,726</u>	<u>\$ 3,619,937</u>

The fair value of call options outstanding as of August 31, 2007, was \$5,648,416. This amount is included on the statements of fiduciary net assets as written options, at fair value. The PUF recognized losses of \$56,900,943 on call options written for the year ended August 31, 2007.

The PUF also wrote put options on Treasury note, commodity, and domestic and international equity index futures for the year ended August 31, 2008. Transactions in put options written during the year ended August 31, 2008, were as follows:

	<u>Contracts</u>	<u>Premiums Received</u>
Put Options Outstanding at August 31, 2007	236,240	\$ 143,244
Options Written	220,304	5,208,741
Options Expired	(406,295)	(1,837,782)
Options terminated in closing purchase transactions	(49,795)	(2,835,229)
Put Options Outstanding at August 31, 2008	<u>454</u>	<u>\$ 678,974</u>

The fair value of put options outstanding as of August 31, 2008, was \$220,401. This amount was included on the statements of fiduciary net assets as written options, at fair value. The PUF

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Notes to Financial Statements (cont.)

recognized gains in the amount of \$2,723,803 on put options written for the year ended August 31, 2008.

The PUF also wrote put options on Treasury note, commodity, and domestic and international equity index futures for the year ended August 31, 2007. Transactions in put options written during the year ended August 31, 2007, were as follows:

	<u>Contracts</u>	<u>Premiums Received</u>
Put Options Outstanding at August 31, 2006	2,989,901	\$ 3,851,052
Options Written	6,471,337	3,402,574
Options Expired	(5,855,476)	(1,667,736)
Options terminated in closing purchase transactions	(3,369,522)	(5,442,646)
Put Options Outstanding at August 31, 2007	<u>236,240</u>	<u>\$ 143,244</u>

The fair value of put options outstanding as of August 31, 2007, was \$1,586,142. This amount was included on the statements of fiduciary net assets as written options, at fair value. The PUF recognized losses in the amount of \$14,616,045 on put options written for the year ended August 31, 2007.

Note 7 – Swaps

During the year the PUF entered into interest rate, credit default, equity, inflation and commodity swap contracts. The following discloses the notional amount (presented in local currency), the coupon rate, and the fair values of the outstanding swap contracts as of August 31, 2008:

	<u>Coupon</u>	<u>Notional Value</u>	<u>Maturity Date</u>	<u>Fair Value at August 31, 2008</u>	
				<u>Assets</u>	<u>Liabilities</u>
Interest Rate					
Australian Dollar					
	6.403%	17,300,000	6/15/2010	\$ -	\$ 303,806
	6.421%	15,200,000	6/15/2015	545,532	-
	6.540%	4,300,000	1/15/2010	-	36,374
	7.254%	3,800,000	6/15/2013	58,100	-
	7.403%	31,900,000	6/15/2010	-	46,498
	7.540%	65,000,000	3/15/2010	435,236	-
	7.540%	3,100,000	3/15/2012	58,255	-
	7.754%	10,400,000	6/15/2010	89,493	-
UK Pound					
	4.254%	400,000	6/12/2036	29,928	-
	4.496%	5,800,000	12/15/2035	73,162	-
	4.542%	27,900,000	9/15/2017	137,347	-
	4.549%	100,000	12/15/2035	-	7,142
	5.399%	1,700,000	6/15/2009	-	27,338
	5.402%	200,000	3/19/2010	-	3,805
	5.402%	10,900,000	3/20/2010	208,061	-
	5.404%	1,400,000	9/15/2010	-	28,042
	5.415%	600,000	9/17/2013	-	11,984
	5.422%	14,200,000	9/15/2015	-	350,349
	5.431%	400,000	3/20/2018	-	9,063
	5.508%	200,000	3/18/2039	-	36,340
Canadian Dollar					
	4.254%	6,400,000	12/20/2013	-	195,178
	5.421%	1,400,000	6/15/2015	109,328	-

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Notes to Financial Statements (cont.)

Interest Rate (Continued)	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2008	
				Assets	Liabilities
Euro					
	3.754%	15,400,000	6/18/2013	\$ -	\$ 970,759
	4.400%	28,500,000	9/19/2009	-	742,887
	4.415%	24,200,000	9/17/2013	-	1,061,329
	4.419%	700,000	12/15/2014	-	32,869
	4.435%	6,900,000	6/18/2015	301,202	-
	4.540%	9,600,000	3/19/2010	-	113,569
	4.541%	11,100,000	3/18/2014	-	71,207
	5.404%	1,900,000	9/17/2010	7,322	-
	5.435%	300,000	3/18/2019	11,608	-
	5.506%	2,300,000	9/17/2038	-	174,153
	5.508%	7,100,000	3/18/2039	-	564,229
	6.491%	1,400,000	6/18/2034	-	253,154
Japanese Yen					
	0.923% (A)	13,216,000,000	9/10/2009	122,028,296	-
	1.340%	1,540,000,000	12/17/2010	-	66,601
	1.398%	200,000,000	3/18/2009	-	669
	1.541%	6,420,000,000	6/17/2013	615,107	-
	1.984%	800,000,000	9/27/2016	-	303,757
	2.430%	2,590,000,000	12/17/2017	-	768,337
	2.549%	80,000,000	6/20/2036	-	24,578
	3.498%	370,000,000	6/20/2036	-	475,906
U.S. Dollar					
	2.696% (A)	112,000,000	9/10/2009	-	112,670,912
	4.401%	18,000,000	12/17/2009	152,843	-
	4.403%	96,700,000	6/17/2010	485,908	-
	4.405%	68,300,000	12/17/2010	-	211,943
	4.407%	6,500,000	6/17/2011	18,281	-
	4.416%	36,300,000	12/17/2013	-	235,627
	5.423%	15,900,000	12/17/2015	-	603,912
	5.434%	74,164,000	12/17/2018	-	2,602,192
	5.452%	14,200,000	12/17/2023	204,342	-
	5.471%	400,000	12/17/2028	-	9,049
	5.507%	32,700,000	12/17/2038	-	738,055
	5.539%	2,000,000	5/21/2009	42,720	-
Mexican Peso					
	8.334%	3,200,000	2/14/2017	-	9,732
Brazilian Real					
	10.575%	4,800,000	1/2/2012	-	216,316
	12.414%	1,000,000	1/4/2010	-	8,556
	12.544%	3,200,000	1/2/2012	-	42,920
	14.765%	200,000	1/2/2012	2,134	-
				125,614,205	124,029,137
Commodity					
U.S. Dollar					
	DJAIG	83,014,149	10/5/2008	-	2,413,826
	DJAIG	26,145,248	10/28/2008	-	1,918,135
	DJAIG	70,316,375	11/26/2008	-	1,403,031
	DJAIG	11,793,824	1/5/2009	-	437,202
				-	6,172,194
Credit Default					
UK Pound					
	0.235%	100,000	6/20/2012	3,042	-
	0.254%	100,000	6/20/2012	11,520	-
	0.294%	100,000	6/20/2012	3,265	-
	0.365%	100,000	6/20/2012	1,299	-
	0.394%	100,000	6/20/2012	1,171	-
	0.674%	930,000	9/20/2014	-	5,389

(A) These items represent a single swap and, therefore, could not be settled independently.

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Notes to Financial Statements (cont.)

Credit Default (Continued)	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2008	
				Assets	Liabilities
Euro					
	0.235%	100,000	6/20/2012	\$ -	\$ 140
	0.254%	100,000	6/20/2012	-	149
	0.294%	100,000	6/20/2012	-	173
	0.365%	100,000	6/20/2012	-	218
	0.394%	100,000	6/20/2012	-	233
	0.454%	2,200,000	9/20/2012	82,198	-
	0.464%	1,700,000	9/20/2012	46,387	-
	0.474%	2,800,000	9/20/2012	209,623	-
	0.494%	1,700,000	9/20/2012	28,035	-
	0.741%	3,300,000	12/20/2012	138,259	-
	0.854%	3,100,000	12/20/2016	205,807	-
	1.654%	500,000	3/20/2013	12,827	-
	1.754%	5,900,000	6/20/2018	-	534,682
	2.941%	200,000	6/20/2013	-	17,119
U.S. Dollar					
	0.054%	300,000	9/20/2009	160	-
	0.073%	1,700,000	9/20/2008	38	-
	0.085%	530,000	12/13/2049	-	55,134
	0.089%	300,000	6/20/2012	1,609	-
	0.114%	300,000	6/20/2010	6,088	-
	0.115%	600,000	5/25/2046	-	197,931
	0.124%	100,000	6/20/2012	880	-
	0.144%	300,000	3/20/2011	530	-
	0.164%	700,000	6/20/2012	77,066	-
	0.174%	900,000	6/20/2010	147,634	-
	0.184%	300,000	3/20/2012	1,658	-
	0.214%	600,000	9/20/2011	2,863	-
	0.214%	300,000	12/20/2016	5,544	-
	0.224%	300,000	9/20/2009	94	-
	0.224%	200,000	9/20/2011	6,353	-
	0.233%	300,000	6/20/2009	3,587	-
	0.324%	300,000	6/20/2010	2,507	-
	0.324%	400,000	12/20/2012	1,562	-
	0.344%	300,000	12/20/2016	33,319	-
	0.354%	300,000	9/20/2011	1,270	-
	0.354%	500,000	6/20/2012	21,811	-
	0.395%	300,000	9/20/2011	40,186	-
	0.434%	300,000	12/20/2012	4,337	-
	0.435%	2,000,000	3/20/2013	7,810	-
	0.453%	1,000,000	1/20/2009	-	120
	0.455%	500,000	6/20/2012	-	1,985
	0.464%	300,000	9/20/2011	24,308	-
	0.464%	300,000	3/20/2012	23,098	-
	0.464%	1,000,000	12/20/2013	10,665	-
	0.465%	11,300,000	3/20/2013	59,065	-
	0.474%	1,700,000	3/20/2013	9,261	-
	0.493%	300,000	2/20/2009	-	196
	0.524%	200,000	6/20/2012	-	1,284
	0.529%	300,000	12/20/2012	4,721	-
	0.553%	2,300,000	12/20/2008	4,247	-
	0.554%	300,000	9/20/2011	23,524	-
	0.641%	12,800,000	12/20/2012	432,433	-
	0.642%	100,000	6/20/2017	3,576	-

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Notes to Financial Statements (cont.)

Credit Default (Continued) U.S. Dollar (Continued)	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2008	
				Assets	Liabilities
	0.643%	1,000,000	3/20/2018	\$ 6,283	\$ -
	0.654%	9,600,000	12/20/2016	570,390	-
	0.664%	200,000	9/20/2012	-	18,994
	0.674%	1,400,000	1/20/2017	-	65,025
	0.684%	300,000	12/20/2012	7,759	-
	0.708%	800,000	12/20/2012	9,189	-
	0.714%	200,000	9/20/2012	-	2,520
	0.724%	5,300,000	12/20/2012	63,673	-
	0.741%	200,000	6/20/2012	-	31,422
	0.741%	100,000	9/20/2012	-	9,357
	0.754%	1,000,000	12/20/2013	18,495	-
	0.754%	700,000	12/20/2017	-	11,762
	0.758%	900,000	12/20/2012	12,238	-
	0.774%	300,000	3/20/2012	-	2,611
	0.815%	3,200,000	3/20/2018	-	33,231
	0.824%	1,000,000	3/20/2018	12,568	-
	0.843%	2,200,000	12/20/2017	91,814	-
	0.844%	100,000	6/20/2012	-	2,066
	0.862%	1,800,000	11/20/2016	2,993	-
	0.924%	1,000,000	6/20/2013	-	4,307
	0.944%	2,000,000	6/20/2018	105,465	-
	0.954%	1,000,000	9/20/2017	-	10,080
	1.094%	1,000,000	6/20/2018	10,655	-
	1.143%	1,200,000	6/20/2018	25,275	-
	1.184%	1,300,000	9/20/2013	1,205	-
	1.254%	900,000	6/20/2013	6,868	-
	1.284%	1,000,000	6/20/2013	-	9,859
	1.294%	300,000	6/20/2011	2,711	-
	1.306%	2,100,000	6/20/2018	46,597	-
	1.323%	700,000	12/20/2008	1,883	-
	1.333%	900,000	12/20/2008	2,468	-
	1.341%	900,000	6/20/2013	-	9,684
	1.384%	1,000,000	3/20/2017	-	28,806
	1.441%	100,000	6/20/2012	10,440	-
	1.441%	100,000	6/20/2013	-	980
	1.454%	1,000,000	6/20/2013	7,371	-
	1.534%	500,000	9/20/2016	-	13,907
	1.534%	1,000,000	6/20/2018	9,488	-
	1.540%	1,800,000	6/20/2010	-	53,726
	1.541%	900,000	6/20/2013	22,179	-
	1.543%	1,600,000	6/20/2018	-	22,087
	1.544%	200,000	6/20/2018	-	4,561
	1.554%	19,000,000	6/20/2013	-	160,492
	1.574%	1,800,000	3/20/2013	-	59,951
	1.574%	2,700,000	9/20/2013	7,114	-
	1.664%	1,600,000	3/20/2018	23,980	-
	1.683%	900,000	4/20/2009	7,643	-
	1.713%	400,000	4/20/2009	3,464	-
	1.784%	100,000	12/20/2012	-	2,973
	1.834%	1,000,000	9/20/2018	18,955	-
	1.839%	800,000	12/20/2008	673	-
	1.884%	1,000,000	12/20/2015	30,613	-
	1.913%	100,000	4/20/2009	1,172	-
	2.141%	150,000	9/20/2013	-	3,192
	2.154%	1,000,000	6/20/2018	8,666	-
	2.174%	1,000,000	8/20/2013	15,077	-
	2.741%	400,000	9/20/2013	-	430
	2.754%	1,188,000	6/20/2012	111,958	-
	3.053%	300,000	3/20/2009	-	3,639
	3.054%	200,000	9/20/2012	-	70,939
	3.153%	800,000	6/20/2009	-	15,415
	3.239%	600,000	12/20/2008	-	2,105
	3.841%	100,000	9/20/2012	-	25,439
	3.854%	100,000	9/20/2012	-	25,305
	4.854%	100,000	9/20/2012	31,387	-
	5.239%	800,000	9/20/2008	-	6,175
	5.441%	400,000	9/20/2012	-	120,558
	5.454%	400,000	9/20/2012	-	120,105
	6.854%	100,000	6/20/2012	-	26,454
	7.411%	100,000	9/20/2012	-	26,511
				3,013,946	1,819,421

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Notes to Financial Statements (cont.)

	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2008	
				Assets	Liabilities
Inflation					
UK Pound					
	3.183%	300,000	12/19/2017	\$ -	\$ 31,064
	3.444%	200,000	9/10/2027	-	33,278
Euro					
	1.944%	600,000	4/10/2012	-	26,023
	1.948%	900,000	3/15/2012	-	36,245
	1.954%	400,000	3/30/2012	-	16,514
	1.965%	500,000	3/15/2012	-	17,589
	1.984%	100,000	4/30/2012	-	4,238
	2.028%	400,000	10/15/2011	-	8,953
	2.044%	1,300,000	2/21/2011	-	21,706
	2.084%	2,300,000	6/15/2012	-	85,210
	2.095%	900,000	10/15/2011	-	15,744
	2.103%	2,000,000	10/15/2010	-	17,925
	2.146%	500,000	10/15/2010	-	2,888
	2.275%	400,000	10/15/2016	-	6,329
	2.353%	300,000	10/15/2016	-	4,540
	2.354%	400,000	10/15/2016	-	6,329
				-	334,575
Equity					
U.S. Dollar					
	EAFE	54,687,117	1/15/2009	-	1,609,777
	EAFE	47,448,311	3/16/2009	-	4,991,298
				-	6,601,075
Total				\$ 128,628,151	\$ 138,956,402

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Notes to Financial Statements (cont.)

The following discloses the notional amount (presented in local currency), the coupon rate, and the fair values of the outstanding swap contracts as of August 31, 2007:

Interest Rate	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2007	
				Assets	Liabilities
Australian Dollar					
	6.000%	27,300,000	15-Jun-10	\$ -	\$ 498,605
	6.000%	16,500,000	15-Jun-15	579,363	-
	6.500%	19,120,000	15-Jan-09	-	46,227
	6.500%	4,300,000	15-Jan-10	-	24,330
	7.000%	42,100,000	15-Jun-10	60,456	-
UK Pound					
	0.670%	-	20-Sep-14	-	15,088
	4.000%	12,600,000	15-Dec-35	968,378	-
	4.250%	400,000	12-Jun-36	91,871	-
	4.500%	38,000,000	15-Sep-17	490,432	-
	5.000%	2,000,000	15-Jun-08	-	44,442
	5.000%	3,300,000	15-Jun-09	-	131,116
	5.000%	9,800,000	15-Sep-10	-	641,456
	5.000%	14,200,000	15-Sep-15	-	1,381,405
	5.000%	1,100,000	20-Mar-18	168,577	-
	5.322%	1,800,000	14-Sep-09	53,621	-
	6.000%	16,500,000	20-Sep-12	142,977	-
Canadian Dollar					
	5.000%	1,400,000	15-Jun-15	12,076	-
	5.000%	6,900,000	20-Jun-17	-	15,558
	5.500%	1,200,000	20-Jun-17	-	169,365
Euro					
	0.000%	800,000	15-Mar-12	-	7,535
	1.948%	200,000	15-Mar-12	-	1,141
	1.950%	600,000	30-Mar-12	-	3,069
	1.955%	300,000	28-Mar-12	-	1,380
	1.965%	500,000	15-Mar-12	-	518
	1.988%	900,000	15-Dec-11	564	-
	1.995%	4,800,000	15-Mar-12	-	1,842
	2.028%	700,000	15-Oct-11	6,370	-
	2.040%	1,300,000	21-Feb-11	16,908	-
	2.095%	2,000,000	15-Oct-11	32,311	-
	2.103%	4,000,000	15-Oct-10	82,862	-
	2.146%	900,000	15-Oct-10	21,336	-
	2.275%	800,000	15-Oct-16	3,641	-
	2.350%	800,000	15-Oct-16	1,796	-
	2.353%	600,000	15-Oct-16	1,883	-
	4.000%	-	19-Sep-09	-	11,654
	4.000%	6,970,000	17-Jun-10	119,610	-
	4.000%	-	19-Sep-12	176,793	-
	4.000%	22,930,000	16-Jun-14	960,774	-
	4.000%	2,400,000	15-Dec-14	-	107,011
	4.000%	3,600,000	15-Jun-17	235,503	-
	4.000%	-	15-Dec-11	125,487	-
	4.000%	4,000,000	21-Jun-36	-	661,454
	4.435%	6,900,000	18-Jun-15	443,477	-
	4.500%	500,000	18-Jun-34	-	387,287
	5.000%	24,900,000	15-Dec-11	-	720,405
	5.000%	19,100,000	19-Sep-12	556,889	-
	5.000%	2,300,000	16-Jun-14	89,729	-
	5.000%	100,000	19-Mar-18	-	7,910
	5.000%	4,900,000	19-Mar-38	-	227,777
	6.000%	1,800,000	18-Jun-34	-	239,069

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

						<u>Fair Value at August 31, 2007</u>	
	<u>Coupon</u>	<u>Notional Value</u>	<u>Maturity Date</u>	<u>Assets</u>	<u>Liabilities</u>		
Japanese Yen	0.000% (A)	13,216,000,000	10-Sep-09	114,014,577	-		
	0.800%	720,000,000	30-Mar-12	148,462	-		
	1.000%	3,930,000,000	18-Sep-08	12,948	-		
	1.000%	20,620,000,000	18-Mar-09	-	225,296		
	1.500%	6,320,000,000	20-Mar-11	-	102,421		
	1.500%	1,920,000,000	20-Jun-12	124,029	-		
	1.980%	800,000,000	27-Sep-16	-	178,285		
	2.000%	1,850,000,000	20-Jun-10	-	229,374		
	2.000%	530,000,000	15-Jun-12	-	145,874		
	2.000%	1,050,000,000	20-Dec-13	-	291,074		
	2.000%	4,330,000,000	20-Dec-16	-	654,418		
	2.500%	1,300,000,000	15-Dec-35	132,964	-		
	3.000%	370,000,000	20-Jun-36	-	339,005		
U.S. Dollar	0.000%	2,600,000	7-Dec-07	67,695	-		
	0.000%	44,600,000	18-Jun-09	142,742	-		
	0.000% (A)	112,000,000	10-Sep-09	-	112,000,000		
	0.700%	1,700,000	20-Sep-08	243	-		
	4.000%	-	31-Aug-07	42,176	-		
	4.000%	27,600,000	15-Dec-08	-	419,318		
	4.500%	-	31-Aug-07	2,381	-		
	5.000%	-	31-Aug-07	17,920	-		
	5.000%	109,400,000	19-Dec-08	247,025	-		
	5.000%	48,100,000	18-Jun-09	153,944	-		
	5.000%	5,900,000	17-Dec-09	27,684	-		
	5.000%	55,800,000	19-Dec-09	261,825	-		
	5.000%	44,800,000	19-Dec-12	130,026	-		
	5.000%	17,400,000	19-Dec-14	68,836	-		
	5.000%	38,600,000	19-Dec-17	651,136	-		
5.000%	4,500,000	19-Dec-37	-	292,441			
Mexican Peso	8.170%	26,700,000	4-Nov-16	-	21,706		
	8.330%	15,900,000	14-Feb-17	1,691	-		
	8.840%	13,000,000	23-Sep-16	41,323	-		
				121,733,311	120,244,856		
Commodity U.S. Dollar	Fixed	\$ 77,040,000	26-Sep-07	\$ -	\$ 530,759		
	TBILL + 22 Basis Points	129,370,000	26-Sep-07	889,723	-		
	TBILL + 25 Basis Points	160,000	26-Sep-07	1,100	-		
	TBILL + 28 Basis Points	77,210,000	26-Sep-07	530,869	-		
				1,421,692	530,759		

(A) These items represent a single swap and, therefore, could not be settled independently.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

		<u>Fair Value at August 31, 2007</u>				
	<u>Coupon</u>	<u>Notional Value</u>	<u>Maturity Date</u>	<u>Assets</u>	<u>Liabilities</u>	
Credit Default						
Euro						
	0.000%	-	20-Dec-16	\$ 1,507	\$ -	
	0.210%	-	20-Jun-12	1	-	
	0.235%	-	20-Jun-12	702	-	
	0.250%	-	20-Jun-12	1,408	-	
	0.290%	-	20-Jun-12	-	416	
	0.340%	-	20-Jun-12	-	1,261	
	0.365%	-	20-Jun-12	-	1,238	
	0.390%	-	20-Jun-12	-	266	
	0.450%	-	20-Sep-12	8,626	-	
	0.460%	-	20-Sep-12	-	88	
	0.470%	-	20-Sep-12	-	29,459	
	0.490%	-	20-Sep-12	-	4	
	0.850%	-	20-Dec-16	14,459	-	
	1.958%	2,100,000	10-Apr-12	-	14,981	
U.S. Dollar						
	0.350%	-	31-Aug-07	-	383,182	
	0.350%	6,860,000	20-Jun-12	-	100,006	
	0.000%	-	20-Jun-12	-	2,980	
	0.050%	-	20-Sep-09	147	-	
	0.070%	2,000,000	20-Dec-07	-	2,498	
	0.070%	1,500,000	20-Jun-08	-	2,977	
	0.089%	-	20-Jun-12	2,072	-	
	0.090%	-	20-Jun-12	3,641	-	
	0.100%	-	20-Jun-12	2,777	-	
	0.110%	-	20-Jun-10	1,518	-	
	0.120%	1,000,000	20-Jun-08	-	2,017	
	0.120%	-	20-Jun-12	669	-	
	0.135%	1,400,000	20-Jun-08	-	3,895	
	0.140%	-	20-Mar-11	334	-	
	0.150%	1,800,000	20-Jun-08	-	7,859	
	0.150%	-	20-Jun-17	908	-	
	0.160%	3,000,000	20-Jun-08	-	20,248	
	0.160%	-	20-Jun-12	21,235	-	
	0.170%	-	20-Jun-10	13,393	-	
	0.180%	-	20-Mar-12	1,902	-	
	0.210%	-	20-Sep-11	1,834	-	
	0.210%	-	20-Dec-16	4,312	-	
	0.210%	-	20-Jun-12	2,571	-	
	0.220%	-	20-Sep-09	-	549	
	0.220%	-	20-Sep-11	2,689	-	
	0.230%	-	20-Jun-09	431	-	
	0.245%	100,000	20-Jun-08	-	191	
	0.320%	-	20-Jun-10	-	614	
	0.340%	-	20-Dec-16	8,586	-	
	0.350%	-	20-Sep-11	-	1,101	
	0.350%	100,000	20-Jun-12	2,850	-	
	0.395%	-	20-Sep-11	2,420	-	
	0.452%	-	20-Jun-12	-	1,250	
	0.455%	-	20-Jun-12	-	6,873	
	0.459%	-	20-Jun-12	-	634	
	0.460%	-	20-Sep-11	4,518	-	
	0.460%	-	20-Mar-12	-	29	
	0.495%	-	20-Jun-17	-	118	
	0.519%	-	20-Jun-12	-	3,437	
	0.520%	-	20-Jun-12	-	3,300	
	0.530%	-	20-Jun-12	-	602	
	0.539%	-	20-Jun-17	1,481	-	
	0.550%	-	20-Sep-11	3,480	-	
	0.600%	-	20-Jun-17	187,675	-	
	0.600%	-	20-Jun-17	-	208,005	
	0.650%	-	20-Dec-16	237,278	-	

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

						Fair Value at August 31, 2007	
		Coupon	Notional Value	Maturity Date	Assets	Liabilities	
Credit Default (Continued)							
U.S. Dollar (Continued)							
		0.660%	200,000	20-Sep-12	\$ -	\$ 5,366	
		0.670%	1,400,000	20-Jan-17	-	4,778	
		0.670%	-	20-Jun-17	5,200	-	
		0.675%	-	20-Jun-17	1,988	-	
		0.700%	200,000	20-Jun-12	-	15,963	
		0.700%	100,000	20-Sep-12	-	2,515	
		0.700%	-	20-Jun-17	3,258	-	
		0.710%	100,000	20-Sep-12	-	2,470	
		0.720%	200,000	20-Sep-12	-	5,267	
		0.750%	100,000	20-Sep-12	38	-	
		0.770%	-	20-Mar-12	-	3,871	
		0.800%	100,000	20-Sep-12	261	-	
		0.840%	100,000	20-Jun-12	484	-	
		0.850%	-	20-Mar-08	42,184	-	
		0.895%	-	20-Jun-17	1,899	-	
		0.898%	-	20-Jun-17	3,771	-	
		0.990%	-	20-Jun-17	2,392	-	
		1.010%	200,000	20-Jun-12	-	6,056	
		1.040%	-	20-Jun-17	1,764	-	
		1.080%	-	20-Jun-17	3,596	-	
		1.200%	620,000	20-Jun-12	-	30,463	
		1.200%	-	20-Jun-17	9,742	-	
		1.290%	-	20-Jun-11	-	1,434	
		1.300%	-	20-Jun-17	72,121	-	
		1.330%	-	20-Jun-17	9,809	-	
		1.600%	-	20-Jun-17	12,764	-	
		2.750%	760,000	20-Jun-12	-	37,678	
		3.050%	200,000	20-Sep-12	-	17,087	
		3.800%	100,000	20-Sep-12	-	4,558	
		3.850%	100,000	20-Sep-12	-	4,390	
		4.300%	1,000,000	20-Jun-10	-	11,761	
		4.850%	-	20-Sep-12	3,406	-	
		5.200%	-	20-Sep-08	4,059	-	
		5.400%	400,000	20-Sep-12	-	7,147	
		5.450%	400,000	20-Sep-12	-	6,553	
		6.850%	100,000	20-Jun-12	2,454	-	
		7.000%	100,000	20-Sep-12	2,924	-	
					<u>719,538</u>	<u>967,435</u>	
Inflation							
UK Pound							
		3.381%	500,000	14-Jun-27	-	2,443	
Euro							
		1.980%	100,000	30-Apr-12	-	512	
		2.080%	2,300,000	15-Jun-12	1,876	-	
		2.238%	1,500,000	20-Jun-12	16,321	-	
		1.940%	600,000	10-Apr-12	-	4,112	
					<u>18,197</u>	<u>7,067</u>	
Equity							
U.S. Dollar							
		Emerging	55,000,012	16-Nov-07	7,459,040	-	
		Emerging	28,469,832	29-Sep-07	1,311,895	-	
		Domestic	5,440,703	30-Oct-07	-	700,808	
					<u>8,770,935</u>	<u>700,808</u>	
Total					<u>\$ 132,663,673</u>	<u>\$ 122,450,925</u>	

Note 8 – Futures

During the years ended August 31, 2008 and 2007, the asset classes that used futures include domestic and foreign equities, domestic and foreign debt, and commodities. The PUF had \$58,696,135 and \$71,853,135 on deposit with brokers for collateral as margin for the futures contracts as of August 31, 2008 and 2007, respectively. Short futures were used by internal managers and may be used by a limited number of external managers of the PUF to hedge the PUF's interest rate or country risk associated with security positions. For the year ended August 31, 2008, the net realized loss on the futures contracts was \$3,964,063 compared to the net realized gain of \$18,961,779 for the year ended August 31, 2007.

The following discloses the name, number of contracts, notional value, and the carrying and fair values at August 31, 2008 for futures contracts:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Contract	Number of Contracts	Expiration	Notional Value at August 31, 2008		Carrying and Fair Value at August 31, 2008		
			Long	Short	Assets	Liabilities	
Domestic Fixed Income							
U.S. 10 Year Treasury Notes	21	Sep-08	\$ 2,450,438	\$ -	\$ -	\$ 2,953	
U.S. 10 Year Treasury Notes	47	Dec-08	5,428,500	-	-	8,813	
U.S. Treasury Bond	124	Dec-08	14,546,750	-	-	75,563	
			<u>22,425,688</u>	<u>-</u>	<u>-</u>	<u>87,329</u>	
Domestic Equity							
Russell 2000 Index Mini	4,439	Sep-08	-	328,441,610	2,263,890	-	
S&P 500 Index	1,614	Sep-08	517,529,100	-	-	6,254,250	
			<u>517,529,100</u>	<u>328,441,610</u>	<u>2,263,890</u>	<u>6,254,250</u>	
Commodities							
Aluminum HG	183	Jan-09	12,546,938	-	-	-	
Brent Crude Oil	77	Jun-09	9,161,460	-	-	-	
Brent Crude Oil	11	Aug-09	1,313,840	-	-	-	
Cattle Feeder	50	Jan-09	2,737,500	-	-	-	
Cocoa	6	Mar-09	173,040	-	-	-	
Cocoa	14	May-09	401,520	-	-	-	
Coffee 'C'	27	Dec-08	1,475,719	-	-	-	
Copper	100	Dec-08	17,207,625	-	-	-	
Corn	274	Dec-08	8,014,500	-	-	-	
Cotton No. 2	39	Jul-09	1,527,045	-	-	-	
Crude Oil	16	Jun-09	1,878,880	-	-	-	
Crude Oil	244	Jul-09	28,665,120	-	-	-	
Gas Oil	58	May-09	6,211,800	-	-	-	
Gasoline Rbob	74	Oct-08	8,870,853	-	-	-	
Gold 100 Oz	79	Dec-08	6,598,080	-	-	-	
Heating Oil	45	May-09	6,159,321	-	-	-	
Lean Hogs	202	Oct-08	5,528,740	-	-	-	
Live Cattle	280	Jun-09	11,687,200	-	-	-	
Natural Gas	29	Oct-08	2,303,470	-	-	-	
Natural Gas	68	Apr-09	5,792,240	-	-	-	
Natural Gas	9	May-09	767,520	-	-	-	
Nickel	38	Jan-09	4,620,420	-	-	-	
Palladium	8	Dec-08	245,440	-	-	-	
Platinum	14	Oct-08	1,042,860	-	-	-	
Silver	22	Dec-08	1,507,770	-	-	-	
Soybean	110	Nov-08	7,282,000	-	-	-	
Soybean Meal	65	Oct-08	2,329,600	-	-	-	
Sugar #11 World	134	Jul-09	2,227,187	-	-	-	
Wheat	84	Dec-08	3,365,250	-	-	-	
Wheat	108	Jul-09	4,625,325	-	-	-	
Zinc	76	Jan-09	3,458,950	-	-	-	
			<u>169,727,213</u>	<u>-</u>	<u>-</u>	<u>-</u>	

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Contract	Number of Contracts	Expiration	Notional Value at August 31, 2008		Carrying and Fair Value at August 31, 2008		
			Long	Short	Assets	Liabilities	
Foreign Fixed Income							
90 Day Euro Dollar	3	Sep-08	\$ -	\$ 728,831	\$ -	\$ -	
90 Day Euro Dollar	63	Dec-08	15,281,438	-	-	-	
90 Day Euro Dollar	114	Mar-09	27,656,400	-	-	4,275	
90 Day Euro Dollar	90	Jun-09	21,805,875	-	-	3,375	
90 Day Euro Dollar	92	Sep-09	22,243,300	-	-	4,600	
90 Day Euro Dollar	315	Dec-09	75,938,625	-	-	11,812	
90 Day Euro Dollar	38	Mar-10	9,141,375	-	-	475	
Australian 3 Year Bond	271	Sep-08	-	22,021,061	28,624	-	
Canada 10 Year Bond	1	Dec-08	112,714	-	19	-	
Euro-Bobl	271	Sep-08	-	43,165,619	57,375	-	
Euro-Bund	37	Sep-08	-	6,218,666	-	12,919	
Euro-Schatz	34	Sep-08	-	5,164,580	1,510	-	
90 Day Sterling Libor	6	Mar-09	-	1,297,034	-	265	
90 Day Sterling Libor	5	Jun-09	-	1,083,141	-	277	
90 Day Sterling Libor	9	Jun-09	1,949,654	-	500	-	
90 Day Bank Acceptance	79	Dec-08	-	18,103,623	-	11,059	
3Month Euro Euribor	15	Dec-08	5,241,578	-	545	-	
3Month Euro Euribor	92	Mar-09	32,243,158	-	-	39	
3Month Euro Euribor	31	Jun-09	10,885,080	-	7,170	-	
Japan 10 Year Bond	7	Sep-08	-	8,925,042	-	7,163	
Japan 10 Year Bond	2	Sep-08	2,550,012	-	5,349	-	
Japan 10 Year Bond	1	Dec-08	-	1,273,071	-	14,052	
UK Long Gilt	8	Dec-08	1,633,238	-	2,583	-	
			<u>226,682,447</u>	<u>107,980,668</u>	<u>103,675</u>	<u>70,311</u>	
Foreign Equity							
Topix Index	856	Sep-08	99,028,611	-	2,769,123	-	
FTSE 100 Index	882	Sep-08	90,868,770	-	628,200	-	
			<u>189,897,381</u>	<u>-</u>	<u>3,397,323</u>	<u>-</u>	
Total			<u>\$ 1,126,261,829</u>	<u>\$ 436,422,278</u>	<u>\$ 5,764,888</u>	<u>\$ 6,411,890</u>	

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

The following discloses the name, number of contracts, notional value, and the carrying and fair values at August 31, 2007 for futures contracts:

Contract	Number of Contracts	Expiration	Notional Value at August 31, 2007		Carrying and Fair Value at August 31, 2007	
			Long	Short	Assets	Liabilities
Domestic Fixed Income						
U.S. 2 Year Treasury Notes	46	Sep-07	\$ -	\$ 9,478,875	\$ 10,062	\$ -
U.S. 5 Year Treasury Notes	993	Dec-07	-	105,956,203	240,636	-
U.S. 10 Year Treasury Notes	290	Sep-07	-	31,750,469	99,688	-
U.S. 10 Year Treasury Notes	5	Dec-07	545,234	-	-	1,953
U.S. Treasury Bond	20	Dec-07	2,231,250	-	-	7,500
U.S. Treasury Bond	270	Dec-07	-	30,121,875	101,250	-
			<u>2,776,484</u>	<u>177,307,422</u>	<u>451,636</u>	<u>9,453</u>
Domestic Equity						
Russell 2000 Index Mini	5,103	Sep-07	-	405,586,440	-	5,205,060
S&P 500 Index	2,834	Sep-07	1,046,241,950	-	10,698,350	-
			<u>1,046,241,950</u>	<u>405,586,440</u>	<u>10,698,350</u>	<u>5,205,060</u>
Commodities						
Goldman Sachs Commodities	2,325	Sep-07	289,084,688	-	2,528,438	-
Foreign Fixed Income						
90 Day Euro Dollar	4	Mar-08	-	953,600	750	-
90 Day Euro Dollar	26	Mar-09	-	6,197,425	5,525	-
90 Day Euro Dollar	168	Jun-08	40,086,900	-	-	37,800
90 Day Euro Dollar	22	Jun-09	5,240,950	-	-	4,125
90 Day Euro Dollar	38	Jun-09	-	9,052,550	7,125	-
90 Day Euro Dollar	141	Sep-07	33,308,606	-	-	18,506
90 Day Euro Dollar	162	Sep-08	38,653,200	-	-	36,450
90 Day Euro Dollar	12	Sep-08	-	2,863,200	2,700	-
90 Day Euro Dollar	60	Dec-07	14,259,750	-	-	6,750
90 Day Euro Dollar	12	Dec-08	-	2,862,000	2,550	-
Euro-Bobl	94	Sep-07	-	13,842,918	26,204	-
Euro-Bund	170	Sep-07	26,366,482	-	-	30,072
Euro-Bund	12	Sep-07	-	1,861,163	2,123	-
Euro-Schatz	110	Sep-07	15,498,857	-	-	10,472
90 Day Sterling Libor	99	Mar-08	23,430,885	-	-	7,473
90 Day Sterling Libor	51	Jun-08	12,085,886	-	10	-
90 Day Sterling Libor	68	Dec-08	16,136,803	-	5,146	-
3 Month Euro Euribor	158	Dec-07	51,430,583	-	-	18,803
3 Month Euro Euribor	98	Dec-08	31,981,811	-	-	14,983
3 Month Euroyen Tiff	155	Mar-08	33,127,143	-	-	4,993
3 Month Euroyen Tiff	105	Dec-07	22,451,153	-	-	3,386
Japan 10 Year Bond	31	Sep-07	36,197,646	-	-	46,738
Japan 10 Year Bond	3	Sep-07	-	3,502,998	-	-
Japan 10 Year Bond	11	Dec-07	12,806,365	-	-	30,721
UK Long Gilt	94	Dec-07	-	20,296,969	2,925	-
			<u>413,063,020</u>	<u>61,432,823</u>	<u>55,058</u>	<u>271,272</u>
Foreign Equity						
DJ Euro Stoxx 50	934	Sep-07	54,699,916	-	488,750	-
FTSE 100 Index	1,692	Sep-07	215,538,453	-	3,256,316	-
			<u>270,238,369</u>	<u>-</u>	<u>3,745,066</u>	<u>-</u>
Total			<u>\$ 2,021,404,511</u>	<u>\$ 644,326,685</u>	<u>\$ 17,478,548</u>	<u>\$ 5,485,785</u>

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Note 9 – Foreign Currency Exchange Contracts

The tables below summarize by currency the contractual amounts of the PUF’s foreign currency exchange contracts at August 31, 2008 and 2007. Foreign currency amounts are translated at exchange rates as of August 31, 2008 and 2007. The “Net Buy” amounts represent the U.S. dollar equivalent of net commitments to purchase foreign currencies, and the “Net Sell” amounts represent the U.S. dollar equivalent of net commitments to sell foreign currencies.

Currency	Net Buy August 31, 2008	Net Sell August 31, 2008	Unrealized Gains on Foreign Currency Exchange Contracts August 31, 2008	Unrealized Losses on Foreign Currency Exchange Contracts August 31, 2008
Australian Dollar	\$ –	\$ 5,055,889	\$ 160,199	\$ 14,472
Brazilian Real	3,316,711	–	479,140	492,359
UK Pound	–	20,874,110	2,040,282	415,240
Canadian Dollar	7,399,698	–	–	53,070
Chilean Peso	291,972	–	–	26,554
Chinese Yuan Renminbi	9,312,138	–	152,417	394,574
Danish Krone	–	19,342,411	861,616	1,077
Euro	205,863,575	–	5,362	10,094,388
Hong Kong Dollar	–	36,326	–	15
Indian Rupee	231,598	–	2,788	187,769
Japanese Yen	26,973,292	–	1,363,866	295,429
Malaysian Ringgit	4,949,373	–	20,416	525,286
Mexican Peso	844,259	–	18,481	–
Taiwan Dollar	1,442,825	–	29,097	116,789
Turkish Lira	2,855,148	–	88,526	–
New Zealand Dollar	171,390	–	–	15
Norwegian Kroner	427,633	–	–	15,781
Philippines Peso	1,018,825	–	–	36,223
Polish Zloty	–	2,548,356	58,331	10,846
Russian Rouble	211,424	–	12,514	30,048
South African Rand	680,240	–	48,950	2,249
Saudi Arabia Riyal	966,162	–	–	15,838
Singapore Dollar	2,911,625	–	–	55,917
South Korean Won	3,465,548	–	2,161	271,504
Swedish Krona	2,124,392	–	2,583	137,817
Swiss Franc	–	8,451,774	416,421	–
	\$ 275,457,828	\$ 56,308,866	\$ 5,763,150	\$ 13,193,260

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Currency	Net Buy	Net Sell	Unrealized Gains on Foreign Currency Exchange Contracts	Unrealized Losses on Foreign Currency Exchange Contracts
	August 31, 2007	August 31, 2007	August 31, 2007	August 31, 2007
Australian Dollar	\$ 13,573,010	\$ –	\$ 465,022	\$ 969,308
Brazilian Real	4,923,986	–	110,016	163,840
UK Pound	150,623,620	–	4,859,632	908,160
Canadian Dollar	17,862,444	–	481,673	81,883
Chilean Peso	291,666	–	10,064	–
Chinese Yuan Renminbi	39,366,026	–	575,461	364,806
Czech Koruna	–	188,165	52,244	14,196
Danish Krone	–	3,553,912	287	26,816
Euro	215,003,329	–	5,497,971	1,044,055
Hungarian Forint	–	382,421	32,993	71,163
Indian Rupee	2,000,595	–	–	9,892
Japanese Yen	–	27,199,623	5,468,836	3,495,856
Malaysian Ringgit	4,300,196	–	6,627	180,416
Mexican Peso	5,977,745	–	74,055	162,071
Taiwan Dollar	4,012,221	–	12,260	52,729
New Zealand Dollar	–	5,094,203	268,156	248,032
Norwegian Kroner	2,121,531	–	44,306	1,245
Polish Zloty	–	670,404	152,885	213,575
Russian Rouble	8,087,849	–	99,097	16,247
South African Rand	893,668	–	91,536	66,578
Singapore Dollar	1,394,529	–	327	15,589
South Korean Won	12,062,371	–	31,579	227,449
Swedish Krona	6,221,409	–	96,556	147,629
Swiss Franc	13,256,789	–	356,301	174,745
	<u>\$ 501,972,984</u>	<u>\$ 37,088,728</u>	<u>\$ 18,787,884</u>	<u>\$ 8,656,280</u>

Note 10 – Purchase Agreements

UTIMCO, as investment manager of the funds under the control and management of the UT Board, entered into a security purchase agreement with the UT Board. The agreement committed the funds under management, including the PUF, to purchase UT System notes and bonds outstanding up to \$1,285,000,000. During the current year, the agreement was amended to include additional bonds issued by UT System raising the commitment amount to \$3,265,945,000. Subsequent to August 31, 2008, the agreement was amended to increase the amount to \$3,666,850,000. The individual funds under management are not committed to a specific amount, rather all of the funds may be required to provide for the amount noted.

The PUF also has an agreement with the TAMU System Board of Regents which commits the PUF to acquire up to \$80,000,000 of Texas A&M System flexible rate notes in the event of a failed remarketing of such notes.

Note 11 – Distributions to the Available University Fund

The Texas Constitution allows for (a) distributions to the AUF from the “total return” on PUF investments, including income return as well as capital gains (realized and unrealized) and (b) the

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

payment of PUF expenses from PUF assets. The Texas Constitution directs the Board of Regents of UT System to establish a distribution policy that provides stable, inflation-adjusted annual distributions to the AUF and preserves the real value of the PUF investments over the long term. Accordingly, distributions to the AUF in any given fiscal year are subject to the following: (1) A minimum amount equal to the amount needed to pay debt service on PUF bonds; (2) No increase from the preceding year (except as necessary to pay debt service on PUF bonds) unless the purchasing power of PUF investments for any rolling 10-year period has been preserved; (3) A maximum amount equal to seven percent of the average net fair market value of PUF assets in any fiscal year, except as necessary to pay debt service on PUF bonds. Distributions from the PUF to the AUF for the years ended August 31, 2008 and 2007 were \$448,942,761 and \$400,685,603, respectively. The PUF distribution to the AUF for the year ending August 31, 2009, will be \$530,932,622. The first payment in the amount of \$132,733,155 was made September 2, 2008.

Note 12 – Fees and Expenses

The PUF incurs investment management fees from various external managers of the PUF. The fees, generally assessed quarterly, are based on a percentage of the market value of investments held by each individual investment manager and currently range from 0.04% to 1.0%. In addition to quarterly investment management fees, the PUF may pay performance-based management fees for investment performance in excess of certain defined benchmarks as provided for in the managers' contracts. The investment management fees presented in the Statements of Changes in Fiduciary Net Assets represent only those paid directly from the PUF, and do not include fees incurred and charged by general partners in private investments, fees charged by mutual fund managers, and fees charged by hedge fund managers as these types of fees are netted directly against returns for those investments in accordance with standard industry practice. In addition, the PUF incurs consulting fees for investment planning services.

UTIMCO assesses the PUF a management fee to cover the costs of managing the PUF investments and providing day-to-day operations. The fee assessed for the year ended August 31, 2008 was \$7,541,715. The fee assessed for the year ended August 31, 2007 was \$6,481,749.

The PUF is assessed a fee to cover expenses related to the management of the PUF Lands. The fee assessed for the years ended August 31, 2008 and 2007, were \$6,352,561 and \$4,384,062, respectively. Fees are also assessed to cover costs associated with UT System personnel in their efforts to provide assistance to the Board of Regents of UT System and the Chancellor of the UT System in their oversight responsibilities of UTIMCO. Fees in the amounts of \$250,669 and \$447,801, were charged to the PUF for the years ended August 31, 2008 and 2007, respectively.

Custodial fees and expenses are assessed by the financial institution which holds the PUF's assets. Fees are based on the number of accounts, market value of the PUF, and transaction activity in accordance with the contractual agreement with the institution. Additional fees are assessed for performance measurement, risk measurement and on-line communication services per the contractual agreement. The fees assessed for the years ended August 31, 2008 and 2007 were \$880,282 and \$825,184, respectively.

The PUF incurs legal fees associated with the review of new investment manager agreements and

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

with due diligence efforts undertaken as part of the hiring of new investment managers. For the years ended August 31, 2008 and 2007, fees incurred were \$841,234 and \$509,025, respectively.

Analytical and risk measurement fees, in the amounts of \$474,365 and \$564,823, were also incurred during the years ended August 31, 2008 and 2007, respectively, to maintain a sophisticated risk measurement system for the PUF.

Accounting fees, in the amount of \$345,040 and \$140,725, were paid by the PUF during the years ended August 31, 2008 and 2007, respectively, for external and internal audit services.

The PUF incurs other expenses related to its operations primarily consisting of printing and graphic expenses, and consultation fees.

Note 13 – Subsequent Events

Subsequent to August 31, 2008, the U.S. and international financial markets experienced significant volatility. This resulted in substantial declines in equity, fixed income and commodities markets in which the PUF invests directly, and indirectly, through its investments in various hedge funds, private investments and public markets. The financial results of the PUF are impacted by market volatility and, therefore, the PUF was negatively impacted as a result of these market conditions.

PERMANENT UNIVERSITY FUND

Supplemental Schedules

Comparison Summary of Investments

August 31, 2008 and 2007

(in thousands)

	2008		2007	
	Value	% of Total Investments	Value	% of Total Investments
Equity Securities				
Domestic Common Stock	\$ 687,030	5.91%	\$ 997,458	8.28%
Foreign Common Stock	517,805	4.45%	576,722	4.78%
Other	-	.00%	6,557	.06%
Total Equity Securities	1,204,835	10.36%	1,580,737	13.12%
Preferred Stock	2,351	.02%	2,505	.02%
Debt Securities				
U. S. Government Obligations	576,075	4.95%	1,122,988	9.32%
Foreign Government and Provincial Obligations	230,920	1.99%	94,408	.78%
Corporate Obligations	459,678	3.95%	320,679	2.66%
Other	12,058	.10%	4,361	.04%
Total Debt Securities	1,278,731	10.99%	1,542,436	12.80%
Convertible Securities	80	.00%	5,005	.04%
Purchased Options	3,257	.03%	10,782	.09%
Investment Funds				
Hedge Funds	3,625,181	31.17%	3,331,946	27.64%
Private Investments	2,121,107	18.24%	1,384,942	11.49%
Developed Country Equity	1,055,794	9.08%	1,486,451	12.33%
Emerging Markets Equity	1,072,146	9.22%	879,094	7.29%
Real Estate	133,315	1.15%	-	.00%
Fixed Income	191,709	1.65%	184,926	1.54%
Total Investment Funds	8,199,252	70.51%	7,267,359	60.29%
Cash and Cash Equivalents				
Money Market Funds Maintained to Back				
Derivative Contracts	633,434	5.45%	886,061	7.35%
Other Money Market Funds and Cash Held at State				
Treasury	306,789	2.64%	758,374	6.29%
Total Cash and Cash Equivalents	940,223	8.09%	1,644,435	13.64%
Total Investment in Securities	\$ 11,628,729	100.00%	\$ 12,053,259	100.00%

PERMANENT UNIVERSITY FUND

Supplemental Schedules (cont.)

Schedule of Changes in Cost of Investments and Investment Income

Year Ended August 31, 2008

(in thousands)

	Beginning Cost	Purchases	Sales, Maturities & Redemptions	Gains (Losses)	Reclass	Ending Cost	Investment Income
Equity Securities							
Domestic Common Stock	\$ 887,774	\$ 747,821	\$ (985,405)	\$ 2,942	\$ 6,817	\$ 659,949	\$ 21,807
Foreign Common Stock	478,757	592,122	(505,979)	2,335	-	567,235	15,485
Other	2,292	388	(425)	33	(2,288)	-	299
Total Equity Securities	<u>1,368,823</u>	<u>1,340,331</u>	<u>(1,491,809)</u>	<u>5,310</u>	<u>4,529</u>	<u>1,227,184</u>	<u>37,591</u>
Preferred Stock							
Domestic Preferred Stock	2,336	7,195	(7,177)	(18)	-	2,336	290
Foreign Preferred Stock	-	-	-	-	-	-	-
Total Preferred Stock	<u>2,336</u>	<u>7,195</u>	<u>(7,177)</u>	<u>(18)</u>	<u>-</u>	<u>2,336</u>	<u>290</u>
Debt Securities							
U. S. Government Obligations	1,123,813	5,718,843	(6,313,795)	41,561	-	570,422	32,950
Foreign Government and Provincial Obligations	87,213	1,042,319	(908,566)	14,406	-	235,372	4,966
Corporate Obligations	319,657	1,189,251	(1,032,094)	472	-	477,286	21,099
Swaps	-	-	-	-	-	-	(14,383)
Other	4,335	9,264	(1,281)	2	-	12,320	341
Total Debt Securities	<u>1,535,018</u>	<u>7,959,677</u>	<u>(8,255,736)</u>	<u>56,441</u>	<u>-</u>	<u>1,295,400</u>	<u>44,973</u>
Purchased Options	<u>8,227</u>	<u>-</u>	<u>(1,027)</u>	<u>(2,565)</u>	<u>-</u>	<u>4,635</u>	<u>-</u>
Convertible Securities	<u>5,211</u>	<u>5,569</u>	<u>(10,586)</u>	<u>(94)</u>	<u>-</u>	<u>100</u>	<u>220</u>
Investment Funds							
Hedge Funds	2,711,947	688,280	(416,426)	84,750	-	3,068,551	-
Private Markets	1,225,161	1,044,671	(326,054)	63,305	(4,529)	2,002,554	15,633
Developed Country Equity	1,245,253	572,379	(758,130)	(16,049)	-	1,043,453	16,858
Emerging Markets	684,559	678,677	(354,533)	109,980	-	1,118,683	7,675
Real Estate	-	183,373	(31,788)	(378)	-	151,207	-
Fixed Income	175,515	351,673	(337,773)	12,224	-	201,639	9,014
Total Investment Funds	<u>6,042,435</u>	<u>3,519,053</u>	<u>(2,224,704)</u>	<u>253,832</u>	<u>(4,529)</u>	<u>7,586,087</u>	<u>49,180</u>
Cash and Cash Equivalents							
Money Market Funds and Cash Held at State Treasury	1,644,502	-	(735,380) *	31,196 **	-	940,318	53,557
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,905</u>
Total Investment in Securities	<u>\$ 10,606,552</u>	<u>\$ 12,831,825</u>	<u>\$ (12,726,419)</u>	<u>\$ 344,102</u>	<u>\$ -</u>	<u>\$ 11,056,060</u>	<u>\$ 192,716</u>

* Net decrease in cash and money markets during the year.

** Includes net realized gains(losses) on futures contracts, written options and foreign currency contracts.