

Financial Statements  
and Independent Auditors' Report  
Permanent University Fund  
*Years Ended August 31, 2017 and 2016*

Permanent University Fund

Financial Statements

Years Ended August 31, 2017 and 2016

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Regents of The University of Texas System  
To the Board of Directors of The University of Texas/Texas A&M Investment  
Management Company

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Permanent University Fund (the "PUF"), which comprise the statements of fiduciary net position, as of August 31, 2017 and 2016, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

The University of Texas/Texas A&M Investment Management Company ("UTIMCO" or "management") is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the PUF's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Permanent University Fund as of August 31, 2017 and 2016, and the changes in its fiduciary net position thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 1, the financial statements of the PUF are intended only to present the fiduciary net position of the PUF as of August 31, 2017 and 2016, and the changes in its fiduciary net position for the years then ended in conformity with accounting principles generally accepted in the United States and do not purport to, and do not, present the consolidated net position of The University of Texas System, as of August 31, 2017 or 2016, or the changes in their consolidated net positions for the years then ended.

Also, the financial statements of the PUF include the investment-related assets and liabilities and changes therein which are being managed by UTIMCO and do not include the 2.1 million acres of land discussed in Note 1.

Our opinion is not modified with respect to these matters.

## **Other Matters**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 6 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Report on Supplemental Schedule**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedule listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the financial statements. This schedule is the responsibility of PUF's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such schedule has been subjected to the auditing procedures applied in our audits of the financial statements and certain additional procedures, including comparing and reconciling such schedule directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such schedule is fairly stated in all material respects in relation to the financial statements as a whole.

*Deloitte & Touche LLP*

October 27, 2017

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

Our discussion and analysis of the Permanent University Fund's (PUF) financial performance provides an overview of its activities for the years ended August 31, 2017 and 2016. This discussion was prepared by The University of Texas/TexasA&M 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 and conditions.

### Financial Highlights

The PUF's net fiduciary position after distributions increased by \$2,032.7 million from \$17,880.1 million to \$19,912.8 million, or approximately 11.37% for the year ended August 31, 2017, compared to an increase of \$390.1 million or approximately 2.23% for the year ended August 31, 2016. The change in net fiduciary position from year to year is mainly attributable to the following:

1. The PUF posted a net investment return of 12.23%, calculated using the Modified Dietz Method as described by the CFA Institute, for the year ended August 31, 2017. Investments in emerging markets and developed country equities and private investments were the biggest contributors to the 2017 return. For the year ended August 31, 2016, the PUF posted a net investment return of 3.94%. Investments in private investments, emerging markets equities, and real estate equities were the biggest contributors to the 2016 returns.
2. Fiscal year 2017 contributions of PUF Lands mineral income increased by 34.44% from \$512.3 million to \$688.7 million and represented 3.63% of the average value of the PUF investments during the year, compared to fiscal year 2016 contributions which decreased by 36.49%, from \$806.7 million to \$512.3 million and represented 2.93% of the average value of the PUF investments during the year. PUF Lands expenses were \$15.7 million and \$22.1 million for the years ended August 31, 2017 and 2016, respectively. PUF Lands consist of more than 2.1 million acres in 19 counties primarily in West Texas.
3. The PUF's annual distribution to the Available University Fund (AUF) increased by 8.61% in fiscal year 2017, compared to an increase of 1.22% in fiscal year 2016.

## PERMANENT UNIVERSITY FUND

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### Use of Financial Statements and Notes

The PUF's financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). PUF's activities are accounted for as a fiduciary fund, therefore two financial statements are typically required under GASB: the statement of fiduciary net position and the statement of changes in fiduciary net position.

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.

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

### Statements of Fiduciary Net Position

The statements of fiduciary net position present assets, liabilities, and the net position 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.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Assets</b>			
Investments, at Fair Value	\$ 19,884.3	\$ 17,922.0	\$ 17,539.7
Other Assets	547.0	551.0	454.0
<b>Total Assets</b>	<u>20,431.3</u>	<u>18,473.0</u>	<u>17,993.7</u>
<b>Total Liabilities</b>	<u>518.5</u>	<u>592.9</u>	<u>503.7</u>
<b>Net Position Held in Trust</b>	<u>\$ 19,912.8</u>	<u>\$ 17,880.1</u>	<u>\$ 17,490.0</u>

### Statements of Changes in Fiduciary Net Position

Changes in fiduciary net position as presented on the statements of changes in fiduciary net position 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 distributions to the AUF and administrative and investment expenses.

The net increase in fair value of investments of the PUF was \$2,018.3 million during the year compared to a net increase in fair value of investments of \$530.2 million for the year ended August 31, 2016. Investment expenses totaled \$54.9 million, \$47.4 million, and \$40.8 million, respectively, for the years ended August 31, 2017, 2016, and 2015.

The PUF's objectives are:

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

Distributions to the AUF increased by \$66.5 million, from \$772.9 million in fiscal year 2016 to \$839.4 million, in fiscal year 2017. The fiscal year 2016 distribution amount increased by \$9.3 million from the fiscal year 2015 distribution of \$763.6 million. PUF distributions are determined by the UT Board as provided in 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. The annual distributions are calculated based on the trailing twelve-quarter average net position of the PUF as of February 28 of each year. For the years ended August 31, 2017 and 2016, distributions were 5.00% of the trailing twelve-quarter average net position. Distributions to the AUF are made at the discretion of the UT Board subject to the following overriding conditions of the Texas Constitution:

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% of the average net fair market value of PUF investments in any fiscal year, except as necessary to pay debt service on PUF Bonds.

## PERMANENT UNIVERSITY FUND

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Investment Income	\$ 2,254.2	\$ 720.3	\$ 136.0
Less Investment Expenses	54.9	47.4	40.8
PUF Lands Contributions	688.7	512.3	806.6
<b>Total Additions</b>	<u>2,888.0</u>	<u>1,185.2</u>	<u>901.8</u>
Administrative Expenses			
PUF Lands Expenses	15.7	22.1	13.0
UT System Oversight Fee	0.2	0.1	0.1
Distributions to AUF	839.4	772.9	763.6
<b>Total Deductions</b>	<u>855.3</u>	<u>795.1</u>	<u>776.7</u>
Change in Fiduciary Net Position	2,032.7	390.1	125.1
Net Position Held in Trust, Beginning of Year	17,880.1	17,490.0	17,364.9
<b>Net Position Held in Trust, End of Year</b>	<u><u>\$19,912.8</u></u>	<u><u>\$17,880.1</u></u>	<u><u>\$17,490.0</u></u>

### 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](http://www.utimco.org).

# PERMANENT UNIVERSITY FUND

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## Statements of Fiduciary Net Position

August 31, 2017 and 2016

(in thousands)

<b>Assets</b>	<b>2017</b>	<b>2016</b>
Investments, at Fair Value:		
Equity Securities	\$ 2,240,031	\$ 2,124,443
Preferred Stock	53,573	51,350
Debt Securities	1,371,411	1,026,598
Investment Funds	15,116,543	13,658,312
Convertible Securities	882	579
Purchased Options	5,571	2,640
Physical Commodities	473,781	392,854
Cash and Cash Equivalents	622,545	665,233
Total Investments	<u>19,884,337</u>	<u>17,922,009</u>
Collateral for Securities Loaned, at Fair Value	228,334	329,471
Deposits with Brokers for Derivative Contracts	30,564	24,942
Unrealized Gains on Foreign Exchange Contracts	10,984	8,848
Futures Contracts, at Fair Value	1,637	5,790
Swaps, at Fair Value	27,130	42,732
Receivables:		
Investment Securities Sold	234,127	127,613
Accrued Income	14,146	11,524
Other	93	92
Total Receivables	<u>248,366</u>	<u>139,229</u>
<b>Total Assets</b>	<u>20,431,352</u>	<u>18,473,021</u>
<b>Liabilities</b>		
Payable Upon Return of Securities Loaned	228,334	329,471
Payable to Brokers for Collateral Held	4,709	2,500
Unrealized Losses on Foreign Exchange Contracts	19,636	14,894
Futures Contracts, at Fair Value	446	4,163
Swaps, at Fair Value	29,072	46,192
Options Written, at Fair Value	1,554	3,009
Payables:		
Investment Securities Purchased	222,070	182,168
Other	12,712	10,473
Total Payables	<u>234,782</u>	<u>192,641</u>
<b>Total Liabilities</b>	<u>518,533</u>	<u>592,870</u>
<b>Net Position Held in Trust</b>	<u><b>\$19,912,819</b></u>	<u><b>\$17,880,151</b></u>

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

# PERMANENT UNIVERSITY FUND

## Statements of Changes in Fiduciary Net Position

Years Ended August 31, 2017 and 2016

(in thousands)

	<u>2017</u>	<u>2016</u>
<b>Additions</b>		
Investment Income:		
Net Increase (Decrease) in Fair Value of Investments	\$ 2,018,268	\$ 530,228
Interest	39,642	34,024
Dividends	55,027	48,860
Income Distributions from Private Investment Funds	138,940	104,001
Securities Lending Income	2,295	2,488
Other Income	-	757
Total Investment Income	<u>2,254,172</u>	<u>720,358</u>
Less Investment Expenses:		
Investment Management Fees	34,018	26,922
UTIMCO Management Fee	17,619	16,913
Custodial Fees and Expenses	2,237	2,381
Analytical and Risk Measurement Fees	364	379
Accounting Fees	312	308
Consulting Fees	152	185
Background Check Fees	122	148
Legal Fees	54	93
Foreign Tax Consulting and Filing Fees	25	102
Other Expenses	8	10
Total Investment Expenses	<u>54,911</u>	<u>47,441</u>
Net Investment Income	2,199,261	672,917
Contributions from PUF Lands	688,734	512,315
<b>Total Additions</b>	<u>2,887,995</u>	<u>1,185,232</u>
<b>Deductions</b>		
Administrative Expenses:		
PUF Lands Expenses	15,726	22,085
UT System Oversight Fee	160	160
Total Administrative Expenses	<u>15,886</u>	<u>22,245</u>
Distributions to Available University Fund	839,441	772,877
<b>Total Deductions</b>	<u>855,327</u>	<u>795,122</u>
Change in Fiduciary Net Position	2,032,668	390,110
Net Position Held in Trust, Beginning of Year	<u>17,880,151</u>	<u>17,490,041</u>
<b>Net Position Held in Trust, End of Year</b>	<u><b>\$ 19,912,819</b></u>	<u><b>\$17,880,151</b></u>

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

## PERMANENT UNIVERSITY FUND

### *Notes to Financial Statements*

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#### **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/Texas A&M 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 value is not included in the accompanying financial statements because the statements are only intended to include the investment assets which are 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 accounting principles generally accepted in the United States of America as prescribed by 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 consolidated 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 of the PUF may differ in presentation from the Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements.

(C) Management has evaluated subsequent events through October 27, 2017, the date the financial statements were available to be issued. No subsequent events requiring adjustment to, or disclosure in, the financial statements were identified as a result of this evaluation.

#### **Note 2 – Significant Accounting Policies**

(A) ***Fair Value Measurements*** -- Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Generally accepted accounting principles provide a hierarchy that prioritizes the inputs of fair value measurements based on the extent to which inputs to valuation techniques are observable in the marketplace. The hierarchy assigns a higher priority to observable inputs that reflect

## PERMANENT UNIVERSITY FUND

*Notes to Financial Statements (cont.)*

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verifiable information obtained from independent sources, and a lower priority to unobservable inputs that would reflect management's assumptions about how market participants would value an asset or liability based on the best information available. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs.

The three levels of the hierarchy of inputs used to measure fair value are as follows:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that are available at the measurement date.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – Unobservable inputs for the asset or liability.

Investments with readily determinable fair values are primarily valued on the basis of market valuations provided by independent pricing services.

Debt securities, including corporate obligations and government and provincial obligations, held directly by the PUF are fair valued based upon prices supplied by Intercontinental Exchange Data Services and other major fixed income pricing services, external broker quotes and internal pricing matrices. U.S. government obligations valued based on unadjusted prices in active markets are categorized as Level 1. Debt securities valued based on multiple quotations or models utilizing observable market inputs are categorized as Level 2; otherwise they would be categorized as Level 3.

Equity securities, including common and preferred stock, and publicly traded mutual fund fair values are 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). When these securities are actively traded, and valuation adjustments are not applied, they are categorized as Level 1. In the event that a stock is not actively traded or a closing price is unavailable on a national or international exchange, the last available price per the exchange would be utilized and the security would be categorized as Level 2.

Physical commodities, specifically gold, are fair valued using the composite closing price from Bloomberg for the XAU currency code which represents the standard for one troy ounce of gold, and are categorized as Level 1.

Generally accepted accounting principles permit management to fair value certain investments that do not have a readily determinable fair value using the investment's net asset value per share or ownership interest in partners' capital as a practical expedient. Investments valued in this manner are not classified in the fair value hierarchy.

The fair value of private investment funds, which consist of non-regulated investment funds and various other investment vehicles, are estimated by management using the investment's capital account balance at the closest available reporting date, as communicated by the investment manager, adjusted for contributions and distributions subsequent to the latest available reporting date as well as consideration of any other information, which has been provided by the investment manager or other sources.

## PERMANENT UNIVERSITY FUND

*Notes to Financial Statements (cont.)*

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Hedge funds, developed country equity, emerging markets equity, fixed income, real estate, and natural resources investment funds and certain other private placements are fair valued by management based on net asset value information provided by the investment managers 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 fair 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 position resulting from changes in foreign exchange rates on investments from fluctuations arising from changes in market prices of securities held on the statements of changes in fiduciary net position. Such fluctuations are included with the net increase (decrease) in fair value of investments on the statements of changes in fiduciary net position.

**(C) *Investment Income and Investment Expenses*** -- Interest income is accrued as earned. Dividend income is recorded on the ex-dividend date. Dividend and interest income are recorded net of foreign taxes where recovery of such taxes is not assured. For the years ended August 31, 2017 and 2016, interest and dividend withholding in the amounts of \$3,226,039 and \$2,594,401, respectively, 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. Investment expenses are recorded on the accrual basis as incurred.

**(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 materially from these estimates.

**(F) *Derivative Instruments*** -- Derivatives are financial instruments whose fair value is derived, in whole or part, from the fair 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. Derivative instruments included under these policies include futures, forwards, swaps and various forms of options. Futures contracts and foreign exchange contracts are fair valued at closing market prices on the valuation date. Futures contracts actively traded are categorized as Level 1 and foreign exchange contracts are not actively traded and therefore categorized as Level 2. Options and swaps are fair valued by using independent broker quotes or using models with primarily externally verifiable model inputs. Purchased options actively traded are categorized as Level 1, otherwise options and swaps are generally categorized as Level 2. 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 cash market securities, through purchases or short sales, or both, of appropriate derivatives,

## PERMANENT UNIVERSITY FUND

*Notes to Financial Statements (cont.)*

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- construct portfolios with risk and return characteristics that could not be created with cash 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 instruments is to manage and implement investment strategies more effectively and at a lower cost than would be possible in the cash market. All of the PUF's derivative instruments are considered investment derivatives, and therefore do not qualify for hedge accounting; all changes in fair value are included in the net increase (decrease) in fair value of investments in the statements of changes in fiduciary net position.

*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 and are included in the net increase (decrease) in fair value of investments in the statements of changes in fiduciary net position. The difference between the premium and the amount paid on effecting a closing transaction, including brokerage commissions, is also treated as a realized gain, or, if the premium is less than the amount paid for the closing transaction, as a realized loss and are included in the net increase (decrease) in fair value of investments in the statements of changes in fiduciary net position. 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. Written options are marked to market on a daily basis, and are included as a liability on the statements of fiduciary net position.

*Swaps* -- The PUF invests in certain types of swaps to increase or decrease its exposure to long-term interest rates, certain commodity or equity sector returns, market events, and currency fluctuations. 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 position. 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 based on instruments and counterparty. These instruments involve market and/or credit risk in excess of the amount recognized in the statements of fiduciary net position. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movement in currency and securities fair 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

## PERMANENT UNIVERSITY FUND

*Notes to Financial Statements (cont.)*

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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 fair valued at the close of business each day, and a gain or loss is recorded between the fair 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 fair value of the futures contracts, and is included on the statements of fiduciary net position. 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 Exchange Contracts* -- The PUF enters into forward foreign exchange contracts to hedge against foreign 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 foreign exchange 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 fair 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 position. Realized and unrealized gains and losses are included in the net increase (decrease) in fair value of investments in the statements of changes in fiduciary net position. These instruments involve market and/or credit risk in excess of the amount recognized in the statements of fiduciary net position. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movement in currency and securities fair values and interest rates.

**(G) *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. 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 statements of fiduciary net position. Investments in public money market funds are categorized as Level 1.

**(H) *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 position as an addition to fiduciary net position.

**PERMANENT UNIVERSITY FUND**

*Notes to Financial Statements (cont.)*

**Note 3 – Investments and Investment Derivatives**

The following tables reflect fair value measurements of investments and investment derivatives as of August 31, 2017 and 2016, respectively, as categorized by level of the fair value hierarchy:

	Fair Value Measurements Using			
	Fair Value as of <u>August 31, 2017</u>	Quoted Prices in Active Markets for Identical Assets <u>(Level 1)</u>	Significant Other Observable Inputs <u>(Level 2)</u>	Significant Unobservable Inputs <u>(Level 3)</u>
<b>Investments by Fair Value Level:</b>				
<b>Equity Securities:</b>				
Domestic Common Stock	\$ 579,452,795	\$ 579,452,795	\$ -	\$ -
Foreign Common Stock	1,625,370,227	1,625,354,633	15,594	-
Other Equities	35,208,284	35,066,504	141,780	-
<b>Total Equity Securities</b>	<u>2,240,031,306</u>	<u>2,239,873,932</u>	<u>157,374</u>	<u>-</u>
<b>Preferred Stock:</b>				
Domestic Preferred Stock	110,220	110,220	-	-
Foreign Preferred Stock	53,462,511	53,462,511	-	-
<b>Total Preferred Stock</b>	<u>53,572,731</u>	<u>53,572,731</u>	<u>-</u>	<u>-</u>
<b>Debt Securities:</b>				
U.S. Government Obligations	288,716,642	236,524,210	52,192,432	-
Foreign Government and Provincial Obligations	693,067,238	-	693,067,238	-
Corporate Obligations	385,408,496	-	385,408,496	-
Other	4,218,442	-	4,218,442	-
<b>Total Debt Securities</b>	<u>1,371,410,818</u>	<u>236,524,210</u>	<u>1,134,886,608</u>	<u>-</u>
<b>Purchased Options</b>	<u>5,570,818</u>	<u>4,909,052</u>	<u>661,766</u>	<u>-</u>
<b>Convertible Securities</b>	<u>881,662</u>	<u>-</u>	<u>881,662</u>	<u>-</u>
<b>Investment Funds:</b>				
Private Investments	241,817,008	-	-	241,817,008
Fixed Income	21,578,518	21,578,518	-	-
Natural Resources	234,268	234,268	-	-
<b>Total Investment Funds</b>	<u>263,629,794</u>	<u>21,812,786</u>	<u>-</u>	<u>241,817,008</u>
<b>Physical Commodities - Gold</b>	<u>473,781,273</u>	<u>473,781,273</u>	<u>-</u>	<u>-</u>
<b>Cash Equivalents</b>	<u>601,284,006</u>	<u>601,284,006</u>	<u>-</u>	<u>-</u>
<b>Total Investments by Fair Value Level</b>	<u>5,010,162,408</u>	<u>\$ 3,631,757,990</u>	<u>\$ 1,136,587,410</u>	<u>\$ 241,817,008</u>
<b>Cash</b>	<u>21,261,152</u>			
<b>Investments Funds Fair Valued Using Practical Expedient:</b>				
<b>Hedge Funds</b>	4,196,535,921			
<b>Private Investments</b>	7,621,207,928			
<b>Public Markets</b>	3,035,169,436			
<b>Investments Funds Fair Valued Using Practical Expedient</b>	<u>14,852,913,285</u>			
<b>Total Investments, at Fair Value</b>	<u>\$ 19,884,336,845</u>			

  

	Fair Value Measurements Using			
	Fair Value as of <u>August 31, 2017</u>	Quoted Prices in Active Markets for Identical Assets <u>(Level 1)</u>	Significant Other Observable Inputs <u>(Level 2)</u>	Significant Unobservable Inputs <u>(Level 3)</u>
<b>Investment Derivatives</b>				
Foreign Exchange Contracts	\$ (8,652,235)	\$ -	\$ (8,652,235)	\$ -
Futures Contracts	1,191,436	1,191,436	-	-
Swaps	(1,942,232)	-	(1,942,232)	-
Written Options	(1,553,852)	-	(1,553,852)	-
<b>Investment Derivatives</b>	<u>\$ (10,956,883)</u>	<u>\$ 1,191,436</u>	<u>\$ (12,148,319)</u>	<u>\$ -</u>

# PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

	Fair Value Measurements Using			
	Fair Value as of August 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments by Fair Value Level:</b>				
<b>Equity Securities:</b>				
Domestic Common Stock	\$ 733,608,157	\$ 733,608,157	\$ -	\$ -
Foreign Common Stock	1,365,703,611	1,365,687,876	15,735	-
Other Equities	25,130,925	25,130,925	-	-
<b>Total Equity Securities</b>	<b>2,124,442,693</b>	<b>2,124,426,958</b>	<b>15,735</b>	<b>-</b>
<b>Preferred Stock:</b>				
Domestic Preferred Stock	618,030	109,120	508,910	-
Foreign Preferred Stock	50,731,929	50,731,929	-	-
<b>Total Preferred Stock</b>	<b>51,349,959</b>	<b>50,841,049</b>	<b>508,910</b>	<b>-</b>
<b>Debt Securities:</b>				
U.S. Government Obligations	153,315,455	104,140,898	49,174,557	-
Foreign Government and Provincial Obligations	565,985,891	-	565,985,891	-
Corporate Obligations	303,622,348	-	303,622,348	-
Other	3,674,411	-	3,674,411	-
<b>Total Debt Securities</b>	<b>1,026,598,105</b>	<b>104,140,898</b>	<b>922,457,207</b>	<b>-</b>
<b>Purchased Options</b>	<b>2,639,950</b>	<b>2,264,286</b>	<b>375,664</b>	<b>-</b>
<b>Convertible Securities</b>	<b>579,190</b>	<b>-</b>	<b>579,190</b>	<b>-</b>
<b>Investment Funds:</b>				
Private Investments	143,150,173	-	-	143,150,173
Emerging Markets Equity	15,210	15,210	-	-
Fixed Income	19,941,261	19,941,261	-	-
<b>Total Investment Funds</b>	<b>163,106,644</b>	<b>19,956,471</b>	<b>-</b>	<b>143,150,173</b>
<b>Physical Commodities - Gold</b>	<b>392,854,065</b>	<b>392,854,065</b>	<b>-</b>	<b>-</b>
<b>Cash Equivalents</b>	<b>631,959,959</b>	<b>631,959,959</b>	<b>-</b>	<b>-</b>
<b>Total Investments by Fair Value Level</b>	<b>4,393,530,565</b>	<b>\$ 3,326,443,686</b>	<b>\$ 923,936,706</b>	<b>\$ 143,150,173</b>
<b>Cash</b>	<b>33,273,542</b>			
<b>Investments Funds Fair Valued Using Practical Expedient:</b>				
<b>Hedge Funds</b>	<b>4,680,318,346</b>			
<b>Private Investments</b>	<b>6,340,521,841</b>			
<b>Public Markets</b>	<b>2,474,365,042</b>			
<b>Investments Funds Fair Valued Using Practical Expedient</b>	<b>13,495,205,229</b>			
<b>Total Investments, at Fair Value</b>	<b>\$ 17,922,009,336</b>			

	Fair Value Measurements Using			
	Fair Value as of August 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investment Derivatives</b>				
Foreign Exchange Contracts	\$ (6,045,679)	\$ -	\$ (6,045,679)	\$ -
Futures Contracts	1,627,582	1,627,582	-	-
Swaps	(3,459,866)	-	(3,459,866)	-
Written Options	(3,008,770)	-	(3,008,770)	-
<b>Investment Derivatives</b>	<b>\$ (10,886,733)</b>	<b>\$ 1,627,582</b>	<b>\$ (12,514,315)</b>	<b>\$ -</b>

See Note 5 for fair value categorization of collateral for securities loaned.

# PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment funds fair valued at net asset value per share or based on the PUF's ownership interest in partners' capital include externally managed funds, limited partnerships, and corporate structures which are generally unrated and may be unregulated. The composition of investment funds that are fair valued using a practical expedient at August 31, 2017 and 2016 is summarized in the tables below as they are included within the asset mix of the PUF.

<b>Investment Funds:</b>	<b>Fair Value as of</b>	<b>Unfunded</b>	<b>Redemption Frequency</b>	<b>Redemption</b>
<b>Hedge Funds:</b>	<b>August 31, 2017</b>	<b>Commitments</b>		<b>Notice Period</b>
<b>Developed Country Equity</b>				
Redeemable Within One Year	\$ 1,504,377,144	\$ -	Monthly to Annually	30 - 95 Days
Redeemable Beyond One Year	1,085,738,474	-	Quarterly to Annually	45 - 90 Days
Nonredeemable	96,541,130	206,948,382	Not Applicable	Not Applicable
<b>Total Developed Country Equity</b>	<b>2,686,656,748</b>	<b>206,948,382</b>		
<b>Credit-Related Fixed Income</b>				
Redeemable Within One Year	332,163,267	-	Quarterly to Annually	90 Days
Redeemable Beyond One Year	88,966,559	-	Quarterly to Annually	90 - 120 Days
Nonredeemable	199,441,053	115,565,002	Not Applicable	Not Applicable
<b>Total Credit-Related Fixed Income</b>	<b>620,570,879</b>	<b>115,565,002</b>		
<b>Investment Grade Fixed Income</b>				
Redeemable Within One Year	480,205,267	-	Monthly to Annually	5 - 75 Days
Redeemable Beyond One Year	83,386,822	31,581,518	Quarterly to Annually	65 - 75 Days
<b>Total Investment Grade Fixed Income</b>	<b>563,592,089</b>	<b>31,581,518</b>		
<b>Emerging Market Equity</b>				
Redeemable Within One Year	76,634,658	-	Annually	60 - 90 Days
Redeemable Beyond One Year	224,577,425	-	Annually	60 - 90 Days
Nonredeemable	23,974,069	-	Not Applicable	Not Applicable
<b>Total Emerging Markets Equity</b>	<b>325,186,152</b>	<b>-</b>		
<b>Natural Resources</b>				
Redeemable Beyond One Year	530,053	-	Not Applicable	Not Applicable
<b>Total Natural Resources</b>	<b>530,053</b>	<b>-</b>		
<b>Total Hedge Funds</b>	<b>4,196,535,921</b>	<b>354,094,902</b>		
<b>Private Investments (Nonredeemable):</b>				
Developed Country Equity	2,303,673,737	981,559,545	Not Applicable	Not Applicable
Credit-Related Fixed Income	583,534,861	163,624,996	Not Applicable	Not Applicable
Natural Resources	2,317,807,274	976,525,089	Not Applicable	Not Applicable
Emerging Market Equity	967,730,517	327,955,038	Not Applicable	Not Applicable
Real Estate	1,448,461,539	924,845,538	Not Applicable	Not Applicable
<b>Total Private Investments</b>	<b>7,621,207,928</b>	<b>3,374,510,206</b>		
<b>Public Markets:</b>				
<b>Developed Country Equity</b>				
Redeemable Within One Year	1,499,426,030	-	Monthly to Annually	1 - 90 Days
Redeemable Beyond One Year	521,922,365	81,105,000	Quarterly to Annually	1 - 184 Days
<b>Total Developed Country Equity</b>	<b>2,021,348,395</b>	<b>81,105,000</b>		
<b>Emerging Market Equity</b>				
Redeemable Within One Year	762,069,783	-	Daily to Semi-Annually	1 - 90 Days
Redeemable Beyond One Year	231,272,962	-	Monthly to Quarterly	45 - 60 Days
Nonredeemable	20,478,296	65,739,266	Not Applicable	Not Applicable
<b>Total Emerging Markets Equity</b>	<b>1,013,821,041</b>	<b>65,739,266</b>		
<b>Total Public Markets</b>	<b>3,035,169,436</b>	<b>146,844,266</b>		
<b>Total Investment Funds</b>	<b>\$ 14,852,913,285</b>	<b>\$ 3,875,449,374</b>		

# PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Funds:	Fair Value as of August 31, 2016	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
<b>Hedge Funds:</b>				
<b>Developed Country Equity</b>				
Redeemable Within One Year	\$ 2,112,393,197	\$ -	Quarterly to Annually	15 - 95 Days
Redeemable Beyond One Year	980,106,691	-	Monthly to Annually	45 - 90 Days
Nonredeemable	92,458,555	53,643,903	Not Applicable	Not Applicable
<b>Total Developed Country Equity</b>	<u>3,184,958,443</u>	<u>53,643,903</u>		
<b>Credit-Related Fixed Income</b>				
Redeemable Within One Year	429,263,468	-	Quarterly to Annually	90 Days
Redeemable Beyond One Year	116,876,607	-	Quarterly/Annually	90 - 120 Days
Nonredeemable	170,417,382	124,708,271	Not Applicable	Not Applicable
<b>Total Credit-Related Fixed Income</b>	<u>716,557,457</u>	<u>124,708,271</u>		
<b>Investment Grade Fixed Income</b>				
Redeemable Within One Year	319,745,852	-	Monthly to Annually	5 - 75 Days
Redeemable Beyond One Year	123,774,370	34,154,435	Monthly to Annually	60 - 75 Days
<b>Total Investment Grade Fixed Income</b>	<u>443,520,222</u>	<u>34,154,435</u>		
<b>Emerging Market Equity</b>				
Redeemable Within One Year	101,656,741	-	Annually	60 - 90 Days
Redeemable Beyond One Year	208,232,827	-	Annually	60 - 90 Days
Nonredeemable	24,852,613	-	Not Applicable	Not Applicable
<b>Total Emerging Markets Equity</b>	<u>334,742,181</u>	<u>-</u>		
<b>Natural Resources</b>				
Redeemable Within One Year	391,712	-	Daily	Not Applicable
Nonredeemable	148,331	-	Not Applicable	Not Applicable
<b>Total Natural Resources</b>	<u>540,043</u>	<u>-</u>		
<b>Total Hedge Funds</b>	<u>4,680,318,346</u>	<u>212,506,609</u>		
<b>Private Investments (Nonredeemable):</b>				
Developed Country Equity	2,090,616,766	1,122,018,361	Not Applicable	Not Applicable
Credit-Related Fixed Income	649,561,588	223,133,070	Not Applicable	Not Applicable
Natural Resources	1,687,003,556	1,269,059,240	Not Applicable	Not Applicable
Emerging Market Equity	759,545,277	491,913,495	Not Applicable	Not Applicable
Real Estate	1,153,794,654	998,099,473	Not Applicable	Not Applicable
<b>Total Private Investments</b>	<u>6,340,521,841</u>	<u>4,104,223,639</u>		
<b>Public Markets:</b>				
<b>Developed Country Equity</b>				
Redeemable Within One Year	1,220,354,502	-	Monthly to Annually	1 - 90 Days
Redeemable Beyond One Year	403,800,968	-	Quarterly to Annually	1 - 184 Days
<b>Total Developed Country Equity</b>	<u>1,624,155,470</u>	<u>-</u>		
<b>Emerging Market Equity</b>				
Redeemable Within One Year	769,804,807	-	Daily to Annually	1 - 90 Days
Redeemable Beyond One Year	44,424,015	-	Quarterly	45 - 60 Days
Nonredeemable	35,980,750	20,939,266	Not Applicable	Not Applicable
<b>Total Emerging Markets Equity</b>	<u>850,209,572</u>	<u>20,939,266</u>		
<b>Total Public Markets</b>	<u>2,474,365,042</u>	<u>20,939,266</u>		
<b>Total Investment Funds</b>	<u>\$ 13,495,205,229</u>	<u>\$ 4,337,669,514</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's 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 funds with external investment managers who invest in equity and fixed income securities, including related derivatives, of both domestic and international issuers. These investment managers may invest in both long and short securities and may utilize leverage in their portfolios. Certain funds are subject to a lock-up restriction of typically one to three years before the investment may be withdrawn from the investment manager without significant penalty. The amounts shown as nonredeemable are considered to be illiquid in that they typically become liquid over multi-year periods when and if the fund managers distribute proceeds realized from the underlying fund investments and

## PERMANENT UNIVERSITY FUND

*Notes to Financial Statements (cont.)*

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the timing cannot be estimated. There are certain risks associated with these private funds, 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 pools have committed \$852,092,970 of future funding to various hedge fund investments as of August 31, 2017 of which the PUF's pro-rata portion is \$354,094,902.

The PUF invests in private investments in investment pools created in the name of the UT Board. Amounts presented in the PUF's financial statements and related note disclosures for the years ended August 31, 2017 and 2016, represent the PUF's pro-rata share of these investment pool assets. The private investment pools are generally 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 typically become liquid over multi-year periods when and if the fund managers distribute proceeds realized from underlying fund investments. It is estimated that the underlying assets of the private investments will be liquidated over seven to ten years after initial investment. 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 limited liability companies, of which UTIMCO is the manager of the limited liability companies. The private investment pools have committed \$4,969,823,573 of future funding to various private market investments as of August 31, 2017 of which the PUF's pro-rata portion is \$3,374,510,206.

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, including related derivatives, 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 leverage in their portfolios. Certain funds are subject to a lock-up restriction of typically one to three years before the investment may be withdrawn from the investment manager without significant penalty. The amounts shown as nonredeemable are considered to be illiquid in that they typically become liquid over multi-year periods when and if the fund managers distribute proceeds realized from the underlying fund investments and the timing cannot be estimated. Certain of these investments are held through limited liability companies of which UTIMCO is the manager of the limited liability companies. 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. Future fundings in the amount of \$267,113,198, of which the PUF's pro-rata portion is \$146,844,266, have been committed to certain public market funds as of August 31, 2017.

Hedge funds, private investments, 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:

- *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 disclose the holdings of their portfolios.

## PERMANENT UNIVERSITY FUND

*Notes to Financial Statements (cont.)*

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

Investments in hedge funds, private investments, and public market funds are also subject to the investment risks discussed in Note 4. Fixed income investments held by these funds would also be subject to credit risk and interest rate risk; moreover, they may invest in securities whose fair values would be sensitive to changes in interest rates.

### **Note 4 – 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 5. Risk disclosures relating to the PUF's investments in hedge funds, private investments, and public market funds are discussed in Note 3.

#### **(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 PUF rather than a 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). The PUF's investment policy does not provide specific requirements or limitations with regards to investment ratings. Per GASB Statement No. 40 (GASB 40), *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3*, unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. GASB 40 also provides that securities with split ratings, or a different rating assignment between NRSROs, are disclosed using the rating indicative of the greatest degree of risk. The following table presents each applicable investment type grouped by rating at August 31, 2017 and 2016:

# PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type	August 31,		Rating
	2017	2016	
<b>Investments:</b>			
U.S. Government Guaranteed	\$ 240,737,257	\$ 111,761,485	AA
U.S. Government Non-Guaranteed:			
U.S. Agency	3,793,953	1,899,212	AA
U.S. Agency Asset Backed	42,712,085	39,654,758	AA
U.S. Agency Asset Backed	436,410	-	BAA/BBB
U.S. Agency Asset Backed	677,625	-	B
U.S. Agency Asset Backed	359,312	-	Not Rated
Total U.S. Government Non-Guaranteed	47,979,385	41,553,970	
Total U.S. Government	288,716,642	153,315,455	
Corporate Obligations:			
Domestic	16,364,825	13,100,302	AAA
Domestic	20,069,602	18,730,907	AA
Domestic	91,145,965	75,327,316	A
Domestic	98,839,737	62,479,056	BAA/BBB
Domestic	6,043,924	9,802,523	BA/BB
Domestic	1,044,368	1,497,844	B
Domestic	1,232,143	1,862,528	CAA/CCC
Domestic	401,564	415,009	CA/CC
Domestic	1,476,923	1,179,100	D
Domestic	-	295,700	Not Rated
Foreign	55,338,038	22,377,108	AAA
Foreign	21,419,800	35,002,592	AA
Foreign	27,481,132	19,118,080	A
Foreign	31,527,499	30,150,680	BAA/BBB
Foreign	3,291,616	6,635,437	BA/BB
Foreign	2,679,584	4,893,924	B
Foreign	624,606	753,707	CAA/CCC
Foreign	6,427,170	535	Not Rated
Total Corporate Obligations	385,408,496	303,622,348	
Foreign Government and Provincial Obligations	140,117,020	86,994,177	AAA
Foreign Government and Provincial Obligations	108,030,108	122,704,674	AA
Foreign Government and Provincial Obligations	190,795,130	148,783,682	A
Foreign Government and Provincial Obligations	144,802,004	136,868,295	BAA/BBB
Foreign Government and Provincial Obligations	103,505,428	70,051,761	BA/BB
Foreign Government and Provincial Obligations	622,320	583,302	B
Foreign Government and Provincial Obligations	5,195,228	-	Not Rated
Total Foreign Government and Provincial Obligations	693,067,238	565,985,891	
Other Debt Securities	1,069,536	310,485	AAA
Other Debt Securities	191,834	300,119	AA
Other Debt Securities	2,578,402	2,886,985	A
Other Debt Securities	221,798	-	BAA/BBB
Other Debt Securities	156,872	176,822	BA/BB
Total Other Debt Securities	4,218,442	3,674,411	
Total Debt Securities	\$ 1,371,410,818	\$ 1,026,598,105	
Convertible Securities	\$ 881,662	\$ 579,190	Not Rated
Other Investment Funds - Debt	\$ 21,578,518	\$ 19,941,261	BA/BB
Cash Equivalents - Money Market Funds	\$ 601,284,006	\$ 631,959,959	AAA
Cash	21,261,152	33,273,542	Not Rated
Total Cash and Cash Equivalents	\$ 622,545,158	\$ 665,233,501	
<b>Net Deposit with Brokers for Derivative Contracts:</b>			
U.S. Government Guaranteed	\$ 1,530,950	\$ 2,550,604	AA
Cash	24,323,922	19,890,890	Not Rated
<b>Total Net Deposit with Brokers for Derivative Contracts</b>	<b>\$ 25,854,872</b>	<b>\$ 22,441,494</b>	

**(B) Concentrations of Credit Risk**

The PUF's investment policy statement contains the limitation that no more than 5% of the market value of fixed income securities may be invested in corporate or municipal bonds of a single issuer. As of August 31, 2017 and 2016, 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 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 fair 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, 2017 and 2016, 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 fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair 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 in years by investment type at August 31, 2017 and 2016:

# PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type	August 31,			
	2017		2016	
	Fair Value	Modified Duration	Fair Value	Modified Duration
<b>Investments:</b>				
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	\$ 228,552,463	6.67	\$ 94,086,850	9.26
U.S. Treasury Inflation Protected	7,971,748	6.36	10,054,048	7.63
U.S. Agency Asset Backed	4,213,046	3.50	7,620,587	2.81
Total U.S. Government Guaranteed	<u>240,737,257</u>	6.61	<u>111,761,485</u>	8.67
U.S. Government Non-Guaranteed:				
U.S. Agency	3,793,953	0.06	1,899,212	0.13
U.S. Agency Asset Backed	44,185,432	5.39	39,654,758	3.91
Total U.S. Government Non-Guaranteed	<u>47,979,385</u>	4.96	<u>41,553,970</u>	3.73
Total U.S. Government	<u>288,716,642</u>	6.33	<u>153,315,455</u>	7.33
Corporate Obligations:				
Domestic	236,619,051	6.02	184,690,285	6.55
Foreign	148,789,445	6.64	118,932,063	6.11
Total Corporate Obligations	<u>385,408,496</u>	6.26	<u>303,622,348</u>	6.37
Foreign Government and Provincial Obligations	<u>693,067,238</u>	4.38	<u>565,985,891</u>	6.20
Other Debt Securities	<u>4,218,442</u>	15.80	<u>3,674,411</u>	11.63
Total Debt Securities	<u>1,371,410,818</u>	5.35	<u>1,026,598,105</u>	6.44
Convertible Securities	<u>881,662</u>	0.14	<u>579,190</u>	0.28
Other Investment Funds - Debt	<u>21,578,518</u>	6.80	<u>19,941,261</u>	7.00
Cash and Cash Equivalents	<u>622,545,158</u>	0.08	<u>665,233,501</u>	0.08
Total	<u>\$ 2,016,416,156</u>	3.74	<u>\$ 1,712,352,057</u>	3.96
<b>Net Deposit with Brokers for Derivative Contracts:</b>				
U.S. Government Guaranteed:				
U.S. Treasury Bills	\$ 1,530,950	5.86	\$ 2,550,604	6.92
Cash	24,323,922	-	19,890,890	-
Total Net Deposit with Brokers for Derivative Contracts	<u>\$ 25,854,872</u>	0.35	<u>\$ 22,441,494</u>	0.79

**(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, 2017 and 2016, the PUF's investments include the following investments that are highly sensitive to interest rate changes:

Collateralized mortgage obligations which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. These securities amounted to \$28,564,004 and \$34,313,034 as of August 31, 2017 and 2016, 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 \$44,822,314 and \$40,378,860 as of August 31, 2017 and 2016, 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 \$7,911,332 and \$3,669,655 as of August 31, 2017 and 2016, 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. There are no limitations on investments in non-U.S. dollar denominated bonds or common stocks in relation to the PUF's total fixed income and developed country equity exposures in the PUF's investment policy statement.

The classification of domestic common stock and foreign common stock is based on the country of domicile of the issuer, not the currency in which the security is traded. The following table summarizes the PUF's non-U.S. dollar investments at August 31, 2017 and 2016:

# PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type	August 31,	
	2017	2016
<b>Domestic Common Stock:</b>		
Australian Dollar	\$ 114,092	\$ -
Hong Kong Dollar	-	117,145
Total Domestic Common Stock	114,092	117,145
<b>Foreign Common Stock:</b>		
Australian Dollar	19,710,064	34,191,972
Brazilian Real	214,439,467	165,209,013
Canadian Dollar	33,556,032	72,018,397
Chilean Peso	867,047	136,956
Chinese Yuan Renminbi	2,639,477	-
Colombian Peso	175,161	-
Czech Koruna	5,312,293	3,246,258
Egyptian Pound	10,353,733	9,506,009
Euro	156,598,960	91,078,329
Hong Kong Dollar	105,745,526	117,348,032
Hungarian Forint	841,683	-
Indian Rupee	48,469,776	49,143,846
Indonesian Rupiah	19,238,820	11,274,848
Japanese Yen	190,285,047	172,662,342
Malaysian Ringgit	18,901,210	11,344,261
Mexican Peso	70,649,923	58,560,360
Moroccan Dirham	1,910,913	1,539,221
Norwegian Krone	-	486,519
Philippine Peso	6,601,677	6,536,754
Polish Zloty	1,527,179	1,736,814
Qatari Riyal	3,305,709	5,447,686
Singapore Dollar	14,449,847	22,262,497
South African Rand	25,347,849	21,621,875
South Korean Won	226,433,088	154,858,719
Swedish Krona	8,296,080	6,190,090
Swiss Franc	9,586,082	6,317,435
Taiwan Dollar	78,154,706	46,078,225
Thai Baht	20,497,244	18,913,503
Turkish Lira	8,102,392	5,515,115
UK Pound	78,546,486	91,016,562
United Arab Emirates Dirham	25,187,874	16,278,518
Vietnamese Dong	5,817,227	10,340,538
Total Foreign Common Stock	1,411,548,572	1,210,860,694
<b>Other Equity Securities:</b>		
Canadian Dollar	-	802,743
Indian Rupee	-	4,521
Malaysian Ringgit	23,819	-
UK Pound	-	11,718
Total Other Equity Securities	23,819	818,982

**PERMANENT UNIVERSITY FUND***Notes to Financial Statements (cont.)*

Investment Type (continued):	August 31,	
	2017	2016
<b>Foreign Preferred Stocks:</b>		
Brazilian Real	\$ 25,739,907	\$ 30,247,607
Colombian Peso	40,257	35,841
Euro	2,558,552	4,496,116
South African Rand	69,593	28,172
South Korean Won	22,475,889	14,070,942
Total Foreign Preferred Stock	50,884,198	48,878,678
<b>Foreign Government and Provincial Obligations:</b>		
Australian Dollar	68,874,159	47,785,378
Brazilian Real	65,614,602	48,065,396
Canadian Dollar	16,521,972	14,119,454
Colombian Peso	9,222,497	5,485,525
Czech Koruna	458,304	997,625
Euro	107,238,899	70,766,238
Hungarian Forint	4,134,365	14,140,537
Indonesian Rupiah	16,038,146	12,004,756
Japanese Yen	73,839,971	84,029,753
Malaysian Ringgit	36,448,602	30,541,478
Mexican Peso	78,591,948	62,962,340
New Zealand Dollar	32,900,075	42,309,864
Norwegian Krone	8,791,674	14,706,137
Peruvian Nuevo Sol	8,446,160	-
Polish Zloty	52,027,648	18,705,100
Romania New Leu	1,637,880	1,142,756
Singapore Dollar	27,963,522	17,547,171
South African Rand	27,664,477	20,878,812
South Korean Won	-	3,174,085
Thai Baht	4,958,196	3,507,676
Turkish Lira	3,522,448	-
UK Pound	24,243,482	36,105,363
Total Foreign Government and Provincial Obligations	669,139,027	548,975,444
<b>Corporate Obligations:</b>		
Australian Dollar	2,374,289	7,679,343
Danish Krone	31,980,138	10,950,622
Euro	12,325,285	19,540,074
Indian Rupee	581	535
Swedish Krona	12,877,078	577,630
UK Pound	13,267,690	11,173,769
Total Corporate Obligations	72,825,061	49,921,973
<b>Purchased Options:</b>		
Australian Dollar	8,669	-
Brazilian Real	723,094	2,453,868
Euro	3,857,373	20,361
Japanese Yen	-	1,903
UK Pound	-	35,201
Total Purchased Options	4,589,136	2,511,333

# PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type (continued):	August 31,	
	2017	2016
<b>Private Investments:</b>		
Australian Dollar	\$ 35,536,870	\$ 33,873,971
Canadian Dollar	183,421,406	121,593,428
Euro	272,225,989	216,739,117
UK Pound	40,763,778	46,004,679
Total Private Investments	531,948,043	418,211,195
<b>Investment Funds-Emerging Markets:</b>		
Brazilian Real	20,349,686	13,870,186
<b>Convertible Securities</b>		
Brazilian Real	880,970	579,190
<b>Cash and Cash Equivalents:</b>		
Australian Dollar	18,118	200,424
Brazilian Real	5,612,828	1,473,212
Canadian Dollar	98,666	94,472
Chilean Peso	4,690	2,483
Chinese Yuan Renminbi	114,286	(2,119,056)
Colombian Peso	748,537	605,833
Czech Koruna	191	28,547
Danish Krone	97	5,076,510
Egyptian Pound	1	(15,781)
Euro	1,706,212	3,549,948
Hong Kong Dollar	(372,273)	130,905
Hungarian Forint	1	1
Indian Rupee	640,768	571,520
Indonesian Rupiah	69,449	89,422
Israeli Shekel	217	206
Japanese Yen	3,089,311	7,669,375
Malaysian Ringgit	41,727	177,521
Mexican Peso	870,314	1,642,295
New Zealand Dollar	41,530	563
Norwegian Krone	101,430	61,169
Philippine Peso	18,982	7,402
Polish Zloty	425	117,073
Singapore Dollar	175	14,914
South African Rand	662,824	550,391
South Korean Won	5,750,675	3,915,776
Swedish Krona	87,227	96,477
Swiss Franc	690	(1,428,201)
Taiwan Dollar	43,388	2,248,893
Thai Baht	36,503	503,926
Turkish Lira	194	295,738
UK Pound	375,520	279,130
United Arab Emirates Dirham	(149)	-
Vietnamese Dong	-	197,141
Total Cash and Cash Equivalents	19,762,554	26,038,229

**PERMANENT UNIVERSITY FUND***Notes to Financial Statements (cont.)*

Investment Type (continued):	August 31,	
	2017	2016
<b>Written Options:</b>		
Australian Dollar	\$ -	\$ (2,786)
Brazilian Real	(999,357)	(2,711,267)
Canadian Dollar	(7,720)	-
Euro	(513,756)	(36,142)
Japanese Yen	-	(1,874)
UK Pound	-	(56,131)
Total Written Options	<u>(1,520,833)</u>	<u>(2,808,200)</u>
<b>Swaps:</b>		
Canadian Dollar	(38,514)	4,021,288
Euro	47,063	15,688,408
Japanese Yen	(270,288)	(6,372,943)
Mexican Peso	(12,191)	(15,095)
New Zealand Dollar	50,043	-
South African Rand	19,463	(120)
South Korean Won	(35,810)	-
Swedish Krona	(63,317)	10,680
UK Pound	22,547,548	11,841,820
Total Swaps	<u>22,243,997</u>	<u>25,174,038</u>
<b>Futures:</b>		
Australian Dollar	(2,995)	1,212
Canadian Dollar	(9,880)	(267)
Euro	(1,932)	(6,549)
Japanese Yen	-	(580)
UK Pound	-	1,513
Total Futures	<u>(14,807)</u>	<u>(4,671)</u>
Total	<u>\$ 2,802,773,515</u>	<u>\$ 2,343,144,216</u>

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

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

The PUF had gross counterparty exposure as of August 31, 2017 for options, swaps, and foreign exchange contracts shown in the following table:

## PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

	Notional		Fair Value		Counterparty Rating
	Assets	Liabilities	Assets	Liabilities	
Options	\$ 64,367,556	\$ 49,761,529	\$ 62,275	\$ 43,545	A
Swaps	4,281,222	1,000,000	571,120	33,913	AA
Swaps	62,143,551	76,690,238	29,195,979	26,919,692	A
Foreign Exchange Contracts	263,076,772	323,560,176	5,983,081	6,040,752	AA
Foreign Exchange Contracts	343,386,230	534,678,678	5,000,960	13,595,523	A
			<u>\$ 40,813,415</u>	<u>\$ 46,633,425</u>	

The PUF had gross counterparty exposure as of August 31, 2016 for options, swaps, and foreign exchange contracts shown in the following table:

	Notional		Fair Value		Counterparty Rating
	Assets	Liabilities	Assets	Liabilities	
Options	\$ -	\$ 300,000	\$ -	\$ 244	AA
Options	126,623,299	821,198,382	182,519	159,486	A
Swaps	533,516	535,127	533,605	535,127	AA
Swaps	80,119,949	78,945,167	41,177,829	41,403,291	A
Swaps	2,231,601	3,933,223	186,511	627,739	BBB
Foreign Exchange Contracts	71,000	369,519	684	2,518	AA
Foreign Exchange Contracts	537,449,899	542,860,261	8,847,786	14,891,631	A
			<u>\$ 50,928,934</u>	<u>\$ 57,620,036</u>	

As of August 31, 2017 and 2016, the PUF also had investments in futures contracts, options on futures contracts and exchange-cleared swaps. Futures contracts, options on futures contracts, and exchange-cleared swaps expose the PUF to minimal counterparty credit risk since they are exchange traded and the exchange's clearinghouse, as counterparty to all exchange traded futures, guarantees them against default. Therefore, they are not presented in the table above.

Counterparty risk for swaps, options and foreign exchange contracts which are traded over-the-counter is mitigated by having master netting arrangements between the PUF and its counterparties, and by the posting of collateral on a daily basis by the counterparty to the PUF to cover the PUF's exposure to a counterparty above the limits set in place in each master netting agreement. Collateral posted by counterparties is held by the PUF in one of its accounts at the PUF's custodian bank. As of August 31, 2017 and 2016, the PUF held \$4,708,619 and \$2,500,713 respectively, of collateral related to derivative instruments other than futures, and had on deposit with brokers \$29,289,737 and \$15,359,603, respectively, as collateral related to derivative instruments other than futures.

### Note 5 – 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 in the statements of changes in fiduciary net position. 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

## PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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 fair value of securities loaned and the fair value of collateral held are as follows at August 31, 2017 and 2016:

Securities on Loan	2017 Fair Value	2016 Fair Value	Type of Collateral	2017 Fair Value of Collateral	2016 Fair Value of Collateral
U.S. Government	\$ 10,923,278	\$ 28,611,210	Cash	\$ 11,152,187	\$ 29,196,287
Foreign Government	1,848,116	-	Cash	1,891,000	-
Corporate Bonds	28,302,766	30,139,636	Cash	28,990,543	30,864,463
Common Stock	180,094,934	261,310,312	Cash	186,300,451	269,409,777
<b>Total</b>	<b>\$ 221,169,094</b>	<b>\$ 320,061,158</b>	<b>Total</b>	<b>\$ 228,334,181</b>	<b>\$ 329,470,527</b>
U.S. Government	\$ 22,489,338	\$ 10,350,230	Non-Cash	\$ 23,020,176	\$ 10,564,606
Corporate Bonds	501,535	-	Non-Cash	511,684	-
Common Stock	43,020,343	53,419,832	Non-Cash	44,896,898	54,991,191
<b>Total</b>	<b>\$ 66,011,216</b>	<b>\$ 63,770,062</b>	<b>Total</b>	<b>\$ 68,428,758</b>	<b>\$ 65,555,797</b>

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 University of Texas System General Endowment Fund (GEF), The University of Texas System Intermediate Term Fund (ITF) 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, 2017 and 2016 is shown in the following table:

# PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Description	August 31, 2017			August 31, 2016		
	Fair Value	Rating	Weighted Average Maturity In Days	Fair Value	Rating	Weighted Average Maturity In Days
Repurchase Agreements	\$ 77,542,096	No Rating Available	2	\$ 180,096,241	No Rating Available	1
Commercial Paper	56,332,451	P	39	22,704,579	P	53
Floating Rate Notes	52,094,221	AA		63,102,361	AA	
Floating Rate Notes	44,339,157	A		63,608,380	A	
Total Floating Rate Notes	96,433,378		22	126,710,741		29
Other Receivables/Payables	(1,973,744)	Not Rated	-	(41,034)	Not Rated	-
Total Collateral Pool Investment	\$ 228,334,181		19	\$ 329,470,527		16

The following tables reflect fair value measurements of collateral pool investments as of August 31, 2017 and 2016, respectively, as categorized by level of the fair value hierarchy:

	Fair Value Measurements Using			
	Fair Value as of August 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Repurchase Agreements	\$ 77,542,096	\$ -	\$ 77,542,096	\$ -
Commercial Paper	56,332,451	-	56,332,451	-
Floating Rate Notes	96,433,378	-	96,433,378	-
<b>Total by Fair Value Level</b>	230,307,925	\$ -	\$ 230,307,925	\$ -
Other Receivables/Payables	(1,973,744)			
<b>Total Collateral Pool Investments</b>	\$ 228,334,181			

	Fair Value Measurements Using			
	Fair Value as of August 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Repurchase Agreements	\$ 180,096,241	\$ -	\$ 180,096,241	\$ -
Commercial Paper	22,704,579	-	22,704,579	-
Floating Rate Notes	126,710,741	-	126,710,741	-
<b>Total by Fair Value Level</b>	329,511,561	\$ -	\$ 329,511,561	\$ -
Other Receivables/Payables	(41,034)			
<b>Total Collateral Pool Investments</b>	\$ 329,470,527			

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 position. 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.

## PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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, 2017 and 2016, 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, 2017 and 2016.

### Note 6 – Written Options

The following table discloses the fair values of the PUF's written call option contracts outstanding as of August 31, 2017 and 2016:

Type	Fair Value at August 31, 2017		Fair Value at August 31, 2016	
	Assets	Liabilities	Assets	Liabilities
Equity	\$ -	\$ 1,087,761	\$ -	\$ 2,708,060
Currency	-	399,891	-	38,542
Futures	-	5,700	-	-
Interest Rate Swap	-	-	-	16,125
Credit Default Swap	-	-	-	1,377
	<u>\$ -</u>	<u>\$ 1,493,352</u>	<u>\$ -</u>	<u>\$ 2,764,104</u>

The fair values are included on the statements of fiduciary net position as options written, at fair value. The changes in fair value of open call options for the years ended August 31, 2017 and 2016 were decreases in the amounts of \$373,106 and \$1,739,049, respectively, which are included in the net increase (decrease) in fair value of investments on the statements of changes in fiduciary net position.

The following table discloses the fair values of the PUF's written put option contracts as of August 31, 2017 and 2016:

Type	Fair Value at August 31, 2017		Fair Value at August 31, 2016	
	Assets	Liabilities	Assets	Liabilities
Currency	\$ -	\$ 30,743	\$ -	\$ 103,116
Equity	-	24,858	-	3,207
Commodity	-	4,896	-	136,395
Other	-	2	-	74
Interest Rate Swap	-	-	-	1,873
	<u>\$ -</u>	<u>\$ 60,499</u>	<u>\$ -</u>	<u>\$ 244,665</u>

The fair values are included on the statements of fiduciary net position as options written, at fair value. The changes in fair value of open put options for the years ended August 31, 2017 and 2016 were an

## PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

increase and a decrease in the amounts of \$150,652 and \$41,415, respectively, which are included in the net increase (decrease) in fair value of investments on the statements of changes in fiduciary net position.

### Note 7 – Swaps

The following table discloses the notional amounts and the fair values of the types of outstanding swap contracts as of August 31, 2017:

Type	USD Notional Value	Fair Value at August 31, 2017	
		Assets	Liabilities
Interest Rate	\$ 502,859,490	\$ 1,184,022	\$ 2,432,896
Credit Default	44,777,800	740,163	293,027
Commodity	2,686,014	49,044	131,832
Currency	48,953,470	24,991,573	23,955,600
Equity	49,351,770	165,048	2,258,727
<b>Total</b>		<b>\$ 27,129,850</b>	<b>\$ 29,072,082</b>

The change in fair value of open swap positions for the year ended August 31, 2017 was a decrease in the amount of \$723,863, which is included in the net increase (decrease) in fair value of investments on the statements of changes in fiduciary net position.

The following table discloses the notional amount and the fair values of the types of outstanding swap contracts as of August 31, 2016:

Type	USD Notional Value	Fair Value at August 31, 2016	
		Assets	Liabilities
Interest Rate	\$ 182,328,256	\$ 1,972,950	\$ 4,699,789
Credit Default	66,816,875	758,134	298,877
Commodity	9,076,768	20,484	569,080
Currency	79,716,390	39,475,602	40,261,152
Equity	38,898,890	504,730	362,868
<b>Total</b>		<b>\$ 42,731,900</b>	<b>\$ 46,191,766</b>

The change in fair value of open swap positions for the year ended August 31, 2016 was a decrease in the amount of \$2,730,425, which is included in the net increase (decrease) in fair value of investments on the statements of changes in fiduciary net position.

### Note 8 – Futures Contracts

During the years ended August 31, 2017 and 2016, the asset classes that used futures include domestic and foreign debt, and commodities. The changes in fair value of open futures contracts for the years ended August 31, 2017 and 2016 were increases in the amounts of \$2,673,521 and \$8,256,468, respectively, which are included in the net increase (decrease) in fair value of investments on the statements of changes in fiduciary net position. The PUF had \$1,273,755 and \$9,582,604 on deposit with brokers for collateral as margin for the futures contracts as of August 31, 2017 and 2016, respectively. Short futures may be used by the PUF to hedge the PUF's interest rate or currency risk associated with security positions.

## PERMANENT UNIVERSITY FUND

*Notes to Financial Statements (cont.)*

Futures contracts on commodities are traded on several different exchanges around the world. The daily cash settlements made by the investment manager for these open commodities contracts are made on a net basis to each respective exchange. The fair value, for August 31, 2017 and 2016, shown in the table below for these open contracts do not include amounts previously settled with the exchanges. Net cash settlements for these open commodities contracts amounted to \$1,482,085 and \$6,628,886 as of August 31, 2017 and 2016, respectively.

During the years ended August 31, 2017 and 2016, certain of the PUF's external investment managers trading in commodity futures on the London Metals Exchange (LME) closed out various long contract positions with offsetting short contract positions. For contracts traded and closed on the LME, cash settlement does not occur until the expiration date of the contract. The gross notional value of these long and short positions are shown below with the associated pending cash settlement amounts shown as the fair value as of August 31, 2017 and 2016.

The following discloses the type, notional value, and fair values for futures contracts as of August 31, 2017:

<b>Contract</b>	<b>Notional Value at August 31, 2017</b>		<b>Fair Value at August 31, 2017</b>	
	<b>Long</b>	<b>Short</b>	<b>Assets</b>	<b>Liabilities</b>
Commodities	\$ 31,205,531	\$ 7,650,570	\$ 1,472,628	\$ 414,715
Domestic Fixed Income	132,043,900	76,931,762	164,356	16,025
Foreign Fixed Income	124,392,069	829,971	-	14,808
<b>Total</b>	<b>\$ 287,641,500</b>	<b>\$ 85,412,303</b>	<b>\$ 1,636,984</b>	<b>\$ 445,548</b>

The following discloses the type, notional value, and fair values for futures contracts as of August 31, 2016:

<b>Contract</b>	<b>Notional Value at August 31, 2016</b>		<b>Fair Value at August 31, 2016</b>	
	<b>Long</b>	<b>Short</b>	<b>Assets</b>	<b>Liabilities</b>
Commodities	\$ 158,303,121	\$ 37,248,573	\$ 5,756,999	\$ 4,137,910
Domestic Fixed Income	67,805,219	20,771,600	15,078	1,913
Foreign Fixed Income	61,769,724	21,023,120	18,023	22,694
<b>Total</b>	<b>\$ 287,878,064</b>	<b>\$ 79,043,293</b>	<b>\$ 5,790,100</b>	<b>\$ 4,162,517</b>

**PERMANENT UNIVERSITY FUND**

*Notes to Financial Statements (cont.)*

**Note 9 – Foreign Exchange Contracts**

The tables below summarize by currency the contractual amounts of the PUF’s foreign exchange contracts at August 31, 2017 and 2016. Foreign currency amounts are translated at exchange rates as of August 31, 2017 and 2016. 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, 2017	Net Sell August 31, 2017	Unrealized Gains on Foreign Currency Exchange Contracts August 31, 2017	Unrealized Losses on Foreign Currency Exchange Contracts August 31, 2017
Australian Dollar	\$ -	\$ 31,436,952	\$ 314,090	\$ 913,622
Brazilian Real	-	16,795,638	73,028	779,847
Canadian Dollar	16,348,924	-	207,544	130,951
Chinese Yuan (Offshore)	-	94,589,280	-	5,403,557
Chinese Yuan Renminbi	32,538	-	47,493	78,803
Colombian Peso	9,230	-	25	-
Czech Koruna	-	259,839	8,953	53,708
Danish Krone	-	20,202,207	233,566	1,153,930
Euro	53,777,288	-	2,652,335	1,127,545
Hong Kong Dollar	-	8,481,856	88,533	125
Hungarian Forint	-	4,150,243	-	27,991
Indian Rupee	18,252,168	-	307,753	14,289
Indonesian Rupiah	1,247,851	-	6,859	-
Israeli Shekel	259,880	-	-	5,612
Japanese Yen	-	53,620,564	706,370	6,265,715
Malaysian Ringgit	1,551,920	-	7,588	11,461
Mexican Peso	-	611,251	27,427	94,529
New Taiwan Dollar	-	33,031,768	-	162,907
New Zealand Dollar	-	28,192,137	1,373,798	277,914
Norwegian Kroner	32,925,730	-	1,953,016	42,434
Peruvian Sol	616,564	-	2,505	-
Philippines Peso	8,139	-	-	8
Polish Zloty	-	23,345,166	103,341	855,911
Russian Ruble	1,591,394	-	59,461	9,531
Singapore Dollar	-	44,748,166	102,161	409,867
South African Rand	-	18,985,530	55,263	501,250
South Korean Won	-	6,206,142	69,711	39,093
Swedish Krona	15,968,721	-	1,684,050	366,914
Swiss Franc	1,978,510	-	9,437	6
Thai Baht	-	4,187,689	11,194	6,605
Turkish Lira	12,463,696	-	400,990	-
UK Pound	26,786,807	-	477,550	902,151
	\$ 183,819,360	\$ 388,844,428	\$ 10,984,041	\$ 19,636,276

The change in fair value of open foreign exchange contracts for the year ended August 31, 2017 was a decrease in the amount of \$8,652,235, which is included in the net increase (decrease) in fair value of investments on the statements of changes in fiduciary net position.

**PERMANENT UNIVERSITY FUND**

*Notes to Financial Statements (cont.)*

Currency	Net Buy August 31, 2016	Net Sell August 31, 2016	Unrealized Gains on Foreign Currency Exchange Contracts August 31, 2016	Unrealized Losses on Foreign Currency Exchange Contracts August 31, 2016
Australian Dollar	\$ -	24,809,486	\$ 255,531	\$ 430,969
Brazilian Real	-	12,076,143	20,550	345,489
Canadian Dollar	9,980,534	-	111,754	128,946
Chilean Peso	12,998,864	-	177,311	100,233
Chinese Yuan (Offshore)	-	90,552,707	1,447,293	-
Chinese Yuan Renminbi	-	8,611,546	344,499	282,405
Colombian Peso	-	3,629,955	74,321	115,691
Czech Koruna	-	884,448	20,346	-
Danish Krone	-	10,476,361	32,493	21,925
Euro	295,780	-	1,409,730	623,491
Hong Kong Dollar	-	11,947,023	1,676	31
Indian Rupee	12,127,138	-	36,174	351
Israeli Shekel	246,434	-	2,397	-
Japanese Yen	-	15,697,325	772,497	11,311,380
Malaysian Ringgit	-	6,588,464	10,137	4,945
Mexican Peso	-	7,068,792	1,199	73,427
New Zealand Dollar	-	41,067,574	5,453	272,990
Norwegian Kroner	16,327,425	-	153,129	55,296
Polish Zloty	-	3,081,869	6,023	-
Russian Ruble	1,645,509	-	45,328	1,666
Singapore Dollar	-	55,972,401	751,188	101,093
South African Rand	1,461,497	-	4,374	90,376
South Korean Won	-	7,095,276	160,337	13,828
Swedish Krona	24,390,258	-	21,014	139,832
Swiss Franc	1,261,207	-	-	9,336
Thai Baht	-	3,587,411	-	36,460
Turkish Lira	465,748	-	-	191
UK Pound	-	5,772,207	2,983,716	733,798
	\$ 81,200,394	\$ 308,918,988	\$ 8,848,470	\$ 14,894,149

The change in fair value of open foreign exchange contracts for the year ended August 31, 2016 was a decrease in the amount of \$6,045,679 which is included in the net increase (decrease) in fair value of investments on the statements of changes in fiduciary net position.

**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 commits the funds under management, including the PUF, to purchase up to \$3,457,675,000 in UT System flexible rate notes in the event of a failed remarketing of such notes. 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 \$125,000,000 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 payment of PUF expenses from PUF assets. The Texas Constitution directs the UT Board 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’s net position 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, 2017 and 2016, were \$839,441,000 and \$772,876,690, respectively. The UT Board has approved an amount of \$887,250,000 for the PUF distribution to the AUF for the year ended August 31, 2018.

**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 0.10% to 1.50%. 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 position represent only those paid directly from the PUF, and do not include fees incurred and charged by general partners in private investments, by mutual fund managers, and by hedge fund managers as these types of fees are netted directly against returns for those investments in accordance with standard industry practice. The investment management fees assessed by external managers and paid directly by the PUF for the years ended August 31, 2017 and 2016, were \$34,017,953 and \$26,922,039, respectively.

UTIMCO assesses the PUF a management fee to cover the costs of managing the PUF investments and providing day-to-day operations. These fees are based on a budget prepared by management and approved by the UT Board. The fees assessed for the years ended August 31, 2017 and 2016, were \$17,618,775 and \$16,912,692, 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, 2017 and 2016, were \$2,237,124 and \$2,380,880, respectively.

Analytical and risk measurement fees, in the amounts of \$363,824 and \$379,271, were also incurred during the years ended August 31, 2017 and 2016, respectively, to maintain a sophisticated risk measurement system for the PUF.

Accounting fees, in the amounts of \$312,260 and \$308,281, were incurred by the PUF during the years ended August 31, 2017 and 2016, respectively, for external and UT System internal audit services.

## PERMANENT UNIVERSITY FUND

### *Notes to Financial Statements (cont.)*

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Consulting fees, in the amounts of \$152,345 and \$185,082, respectively, for the years ended August 31, 2017 and 2016 were incurred for investment strategy and other investment consulting services.

Background check fees are incurred as part of the due diligence efforts undertaken as part of the hiring of investment managers. Fees in the amounts of \$122,042 and \$148,160 were incurred for the years ended August 31, 2017 and 2016, respectively.

Foreign tax consulting and filing fees are incurred by the PUF for investment managers domiciled in certain foreign countries and for those that invest in securities issued in certain foreign countries. Fees in the amounts of \$24,586 and \$101,713 were incurred for the years ended August 31, 2017 and 2016, respectively.

The PUF incurs legal fees associated with the review of new investment manager agreements and with due diligence efforts undertaken as part of the hiring of new investment managers. For the years ended August 31, 2017 and 2016, fees incurred were \$54,122 and \$93,710, respectively.

The PUF is assessed a fee by UT System to cover expenses related to the management of the PUF Lands. The fees assessed for the years ended August 31, 2017 and 2016, were \$15,725,746 and \$22,085,044, respectively. Fees are also assessed to cover costs associated with UT System personnel in their efforts to provide assistance to the UT Board and the Chancellor of the UT System in their oversight responsibilities of UTIMCO. Fees in the amounts of \$160,140 and \$160,290 were charged to the PUF for the years ended August 31, 2017 and 2016, respectively.

# PERMANENT UNIVERSITY FUND

## Supplemental Schedule

### Schedule of Changes in Cost of Investments and Investment Income

Year Ended August 31, 2017

(in thousands)

	Beginning Cost	Purchases	Sales, Maturities & Redemptions	Gains (Losses)	Reclass	Effects of Pooled Account Rebalancing Activity ***	Ending Cost	Investment Income
<b>Equity Securities</b>								
Domestic Common Stock	\$ 689,588	\$ 669,326	\$ (877,446)	\$ 64,943	\$ 1,644	\$ (6,068)	\$ 541,987	\$ 9,345
Foreign Common Stock	1,277,674	1,306,081	(1,296,080)	82,116	5,878	(8,324)	1,367,345	39,381
Other	24,560	43,181	(40,564)	4,592	(905)	-	30,864	1,197
<b>Total Equity Securities</b>	<u>1,991,822</u>	<u>2,018,588</u>	<u>(2,214,090)</u>	<u>151,651</u>	<u>6,617</u>	<u>(14,392)</u>	<u>1,940,196</u>	<u>49,923</u>
<b>Preferred Stock</b>								
Domestic Preferred Stock	520	-	(455)	16	(31)	-	50	16
Foreign Preferred Stock	48,757	48,572	(47,892)	3,189	(6,807)	(61)	45,758	1,483
<b>Total Preferred Stock</b>	<u>49,277</u>	<u>48,572</u>	<u>(48,347)</u>	<u>3,205</u>	<u>(6,838)</u>	<u>(61)</u>	<u>45,808</u>	<u>1,499</u>
<b>Debt Securities</b>								
U. S. Government Obligations	149,253	1,946,794	(1,826,391)	(942)	-	16,987	285,701	3,720
Foreign Government and Provincial Obligations	580,665	678,416	(590,155)	(23,609)	-	33,526	678,843	21,694
Corporate Obligations	297,905	193,238	(128,376)	819	-	14,424	378,010	9,844
Other	3,036	1,099	(594)	18	-	142	3,701	182
<b>Total Debt Securities</b>	<u>1,030,859</u>	<u>2,819,547</u>	<u>(2,545,516)</u>	<u>(23,714)</u>	<u>-</u>	<u>65,079</u>	<u>1,346,255</u>	<u>35,440</u>
<b>Purchased Options</b>	<u>6,447</u>	<u>6,656</u>	<u>(2,086)</u>	<u>(7,032)</u>	<u>-</u>	<u>(33)</u>	<u>3,952</u>	<u>-</u>
<b>Convertible Securities</b>	<u>460</u>	<u>-</u>	<u>4</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>464</u>	<u>41</u>
<b>Investment Funds</b>								
Hedge Funds	3,598,896	536,369	(1,393,649)	480,060	-	-	3,221,676	-
Private Markets	5,819,204	1,690,659	(1,098,729)	332,935	-	-	6,744,069	138,940
Developed Country Equity	932,964	330,894	(239,543)	136,583	-	-	1,160,898	507
Emerging Markets Equity	661,543	171,055	(198,533)	42,010	-	-	676,075	118
Fixed Income	24,777	1,429	-	2,147	-	-	28,353	1,428
Real Estate	945	659	(659)	7,744	-	-	8,689	-
Natural Resources	2,237	-	(1)	12,104	221	-	14,561	-
<b>Total Investment Funds</b>	<u>11,040,566</u>	<u>2,731,065</u>	<u>(2,931,114)</u>	<u>1,013,583</u>	<u>221</u>	<u>-</u>	<u>11,854,321</u>	<u>140,993</u>
<b>Physical Commodities</b>								
Gold Bullion	419,102	71,805	-	-	-	(63)	490,844	-
<b>Cash and Cash Equivalents</b>								
Money Market Funds and Cash Held at State	665,398	-	(79,064) *	22,384 **	-	13,658	622,376	4,765
<b>Other</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,243</u>
<b>Total Investment in Securities</b>	<u>\$ 15,203,931</u>	<u>\$ 7,696,233</u>	<u>\$ (7,820,213)</u>	<u>\$ 1,160,077</u>	<u>\$ -</u>	<u>\$ 64,188</u>	<u>\$ 16,304,216</u>	<u>\$ 235,904</u>

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

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

\*\*\* The amounts shown in this column represent the change in the PUF's pro-rata cost basis of the securities held in long-only public markets manager's accounts that are invested through separate investment pools created in the name of the UT Board. The PUF, GEF and ITF are the sole investors in these pools, and therefore, jointly own 100% of the assets of these separately managed accounts.