

Financial Statements
and Independent Auditors' Report
Permanent University Fund
Years Ended August 31, 2011 and 2010

Permanent University Fund

Financial Statements

Years Ended August 31, 2011 and 2010

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INDEPENDENT AUDITORS' REPORT

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

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

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

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

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

As discussed in Note 2, the financial statements include investments valued at \$8,499,711,392 (67.0% of net assets) and \$6,800,324,864 (63.4% of net assets) as of August 31, 2011 and August 31, 2010, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on procedures performed by management which use information provided by the fund managers or the general partners.

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

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

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

Deloitte & Touche LLP

October 31, 2011

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

Our discussion and analysis of the Permanent University Fund's (PUF) financial performance provides an overview of its activities for the year ended August 31, 2011. This discussion was prepared by The University of Texas Investment Management Company (UTIMCO) and should be read in conjunction with the PUF's financial statements and notes. The PUF is a public endowment contributing to the support of 18 institutions and 6 agencies in The University of Texas System (UT System) and The Texas A&M University System (TAMU System). The Texas Constitution and various state statutes designate The University of Texas System Board of Regents (UT Board) as the fiduciary for the management of certain public endowment and operating funds. The UT Board has entered into an Investment Management Services Agreement delegating investment management responsibility for all investments to UTIMCO.

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

Financial Highlights

- The PUF's net fiduciary assets after distributions increased by \$1,962.9 million from \$10,725.0 million to \$12,687.9 million, or approximately 18.30% for the year ended August 31, 2011, compared to an increase of \$1,051.1 million or approximately 10.87% for the year ended August 31, 2010. The change in net fiduciary assets from year to year is mainly attributable to the following:
 1. The PUF posted a net investment return of 14.62%, calculated using the Modified Dietz Method as described by the CFA Institute, for the year ended August 31, 2011. Investments in the natural resources, developed country equities and credit-related fixed income asset classes were the biggest contributors to the 2011 return. For the year ended August 31, 2010 the PUF posted a net investment return of 13.04%. Investments in the credit-related fixed income, emerging market equities and real estate were the biggest contributors to the 2010 returns.
 2. Fiscal year 2011 contributions of PUF Lands mineral income increased by 165.0% from \$337.9 million to \$895.6 million and represented 7.4% of the average value of the PUF investments during the year, compared to fiscal year 2010 contributions which decreased by .62%, from \$340.0 million to \$337.9 million and represented 3.3% of the average value of the PUF investments during the year. PUF Lands expenses were \$10.0 million and \$8.4 million for the years ending August 31, 2011 and 2010, 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) decreased by 1.9% in fiscal year 2011, compared to a decrease of 2.7% in fiscal year 2010.

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Use of Financial Statements and Notes

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

In compliance with the reporting requirements of Section 66.05 of the Texas Education Code, we have included as supplementary information a schedule of changes in cost of investments and investment income. We have also included as supplementary information a comparison summary of investments.

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

Statements of Fiduciary Net Assets

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

The PUF invests in a broad mix of investments and is actively managed to its benchmark, the Endowment Policy Portfolio. The Endowment Policy Portfolio is the index or benchmark for the endowment funds that UTIMCO manages. The return of the Endowment Policy Portfolio is the sum of the weighted benchmark returns for each asset class. UTIMCO allocates PUF investment assets to internally and externally managed portfolios in accordance with approved asset allocation policies, and attempts to supplement the endowment corpus by increasing purchasing power over time. In doing so, UTIMCO increases the PUF resources available to fund the debt service on bonds issued by the UT Board and the TAMU System Board of Regents to fund capital expenditures and to fund academic excellence programs at The University of Texas at Austin, Texas A&M University, and Prairie View A&M.

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assets			
Investments, at Fair Value	\$ 12,674.9	\$ 10,640.1	\$ 9,673.0
Other Assets	457.8	373.6	262.4
Total Assets	<u>13,132.7</u>	<u>11,013.7</u>	<u>9,935.4</u>
Total Liabilities	<u>444.8</u>	<u>288.7</u>	<u>261.5</u>
Net Assets Held in Trust	<u>\$ 12,687.9</u>	<u>\$ 10,725.0</u>	<u>\$ 9,673.9</u>

Statements of Changes in Fiduciary Net Assets

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

The net increase in investments of the PUF was \$1,482.7 million during the year compared to a net increase in appreciation of investments of \$1,147.9 million for the year ended August 31, 2010. Investment expenses totaled \$35.7 million, \$30.0 million, and \$26.2 million, respectively, for the years ended August 31, 2011, 2010, and 2009.

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 PUF assets after distributions is maintained over rolling 10-year periods.

Distributions to the AUF decreased by \$10.0 million, from \$516.4 million in fiscal year 2010 to \$506.4 million, in fiscal year 2011. The fiscal year 2010 distribution amount decreased by \$14.5 million from the fiscal year 2009 distribution of \$530.9 million. PUF distributions are controlled by a spending policy approved by the UT Board as directed by the Texas Constitution, which directs the UT Board to establish a distribution policy that provides stable, inflation-adjusted distributions to the AUF and preserves the real value of the PUF investments over the long term. To achieve this, the annual distribution is established at 4.75% of the prior twelve quarters' average net asset value of the PUF investments, as determined each February 28 for the following fiscal year, unless the average annual rate of return of PUF investments over the trailing twelve quarters exceeds the expected return of the Endowment Policy Portfolio by twenty-five basis points or more, in which case the distribution is calculated at 5.00% of the trailing twelve quarters' average net asset value.

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

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

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Investment Income (Loss)	\$ 1,619.7	\$ 1,268.3	\$ (1,459.4)
Less Investment Expenses	(35.7)	(30.0)	(26.2)
PUF Lands Contributions	895.6	337.9	340.0
Total Additions	<u>2,479.6</u>	<u>1,576.2</u>	<u>(1,145.6)</u>
Administrative Expenses			
PUF Lands Expenses	10.0	8.4	8.8
UT System Oversight Fee	0.3	0.3	0.3
Distributions to AUF	506.4	516.4	530.9
Total Deductions	<u>516.7</u>	<u>525.1</u>	<u>540.0</u>
Change in Fiduciary Net Assets	1,962.9	1,051.1	(1,685.6)
Net Asset Held in Trust, Beginning of Year	10,725.0	9,673.9	11,359.5
Net Assets Held in Trust, End of Year	<u>\$12,687.9</u>	<u>\$10,725.0</u>	<u>\$ 9,673.9</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.

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Statements of Fiduciary Net Assets

August 31, 2011 and 2010

(in thousands)

Assets	2011	2010
Investments, at Fair Value:		
Equity Securities	\$ 1,597,148	\$ 1,391,784
Preferred Stock	56,147	44,995
Debt Securities	940,527	993,150
Convertible Securities	4,207	47
Investment Funds	8,512,561	7,071,116
Purchased Options	162,926	9,682
Physical Commodities	641,812	-
Cash and Cash Equivalents	759,577	1,129,375
Total Investments	<u>12,674,905</u>	<u>10,640,149</u>
Collateral for Securities Loaned, at Fair Value	176,739	235,257
Deposits with Brokers for Derivative Contracts	141,100	81,914
Unrealized Gains on Foreign Currency Exchange Contracts	8,248	3,889
Futures Contracts, at Fair Value	5,419	9,546
Swaps, at Fair Value	3,585	2,673
Receivables:		
Investment Securities Sold	108,432	25,166
Accrued Income	13,789	14,205
Other	559	1,042
Total Receivables	<u>122,780</u>	<u>40,413</u>
Total Assets	<u>13,132,776</u>	<u>11,013,841</u>
Liabilities		
Payable Upon Return of Securities Loaned	176,739	235,257
Payable to Brokers for Collateral Held	86,500	10,260
Unrealized Losses on Foreign Currency Exchange Contracts	15,351	3,076
Futures Contracts, at Fair Value	954	118
Swaps, at Fair Value	38,222	2,169
Options Written, at Fair Value	88,307	1,018
Payables:		
Investment Securities Purchased	32,167	19,150
Other	6,590	17,831
Total Payables	<u>38,757</u>	<u>36,981</u>
Total Liabilities	<u>444,830</u>	<u>288,879</u>
Net Assets Held in Trust	<u>\$12,687,946</u>	<u>\$10,724,962</u>

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

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Statements of Changes in Fiduciary Net Assets

Years Ended August 31, 2011 and 2010

(in thousands)

	<u>2011</u>	<u>2010</u>
Additions		
Investment Income:		
Net Increase in Investments	\$ 1,482,677	\$ 1,147,941
Interest	53,292	56,400
Dividends	42,320	39,162
Income Distributions from Private Investment Funds	38,829	22,393
Securities Lending Income	692	825
Other Income	1,913	1,560
Total Investment Income	<u>1,619,723</u>	<u>1,268,281</u>
Less Investment Expenses:		
Investment Management Fees	23,948	22,179
UTIMCO Management Fee	8,471	5,198
Custodial Fees and Expenses	1,984	1,048
Legal Fees	475	579
Accounting Fees	333	269
Analytical and Risk Measurement Fees	323	379
Consulting Fees	205	262
Background Check Fees	122	72
Other Expenses	4	4
Securities Lending Fees	(178)	61
Total Investment Expenses	<u>35,687</u>	<u>30,051</u>
Net Investment Income	1,584,036	1,238,230
Contributions from PUF Lands	895,619	337,877
Total Additions	<u>2,479,655</u>	<u>1,576,107</u>
Deductions		
Administrative Expenses:		
PUF Lands Expenses	10,014	8,369
UT System Oversight Fee	261	265
Total Administrative Expenses	<u>10,275</u>	<u>8,634</u>
Distributions to Available University Fund	506,396	516,419
Total Deductions	<u>516,671</u>	<u>525,053</u>
Change in Fiduciary Net Assets	1,962,984	1,051,054
Net Assets Held in Trust, Beginning of Year	10,724,962	9,673,908
Net Assets Held in Trust, End of Year	<u><u>\$ 12,687,946</u></u>	<u><u>\$ 10,724,962</u></u>

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

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Notes to Financial Statements

Note 1 – Organization and Basis of Presentation

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

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

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

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

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

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

Note 2 – Significant Accounting Policies

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

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

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Notes to Financial Statements (cont.)

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

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

Private investment funds are fair valued by management. The fair values of these investments 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 withdrawals 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 source. In rare cases the private investment funds are valued at cost, but only when management feels this is the best approximation of value. As of August 31, 2011 and 2010, investments in private investment funds in the amount of \$3,142,762,418 and \$2,386,892,454 have been estimated by management.

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

As of August 31, 2011 and 2010, investments in these funds in the amount of \$5,356,948,974 and \$4,413,432,410, respectively, have been estimated by management.

The statements of fiduciary net assets include investments in private investment funds and hedge funds as described above valued in the aggregate at \$8,499,711,392 (67.0% of net assets) and \$6,800,324,864 (63.4% of net assets) as of August 31, 2011, and August 31, 2010, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values.

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

(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, 2011 and 2010, interest and dividend withholding in the amounts of \$2,913,795 and \$1,632,346 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.

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Notes to Financial Statements (cont.)

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

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

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

- implement investment strategies in a low cost and efficient manner,
- alter the PUF's market (systematic) exposure without trading the underlying cash market securities, through purchases or short sales, or both, of appropriate derivatives,
- construct portfolios with risk and return characteristics that could not be created with 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 hedge its risk or to 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 in investments in the statement of changes in fiduciary net assets.

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 in investments in the statement of changes in fiduciary net assets. The difference between the premium and the amount paid on effecting a closing purchase transaction, including brokerage commissions, is also treated as a realized gain, or, if the premium is less than the amount paid for the closing purchase transaction, as a realized loss and are included in the net increase in investments in the statements of changes in fiduciary net assets. 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.

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Notes to Financial Statements (cont.)

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 assets.

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

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

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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

inability of counterparties to meet the terms of their contracts and from movement in currency and securities values and interest rates.

(G) ***Securities Sold Short*** -- The PUF may sell securities it does not own in anticipation of a decline in the fair value of that security, or as a means to adjust the duration of certain fixed income portfolios. When the PUF sells a security short, it must borrow the security sold short and deliver it to the broker-dealer through which it made the short sale and provide collateral for its obligation to deliver the security upon conclusion of the sale. The PUF must pay dividends or interest on the securities sold short. Until the PUF covers its short sales, it is exposed to market risk to the extent that subsequent market fluctuations may require purchasing securities sold short at prices which may be significantly higher than the market value reflected in the statements of fiduciary net assets. There were no securities sold short as of and during the years ended August 31, 2011 or 2010.

(H) ***Cash and Cash Equivalents*** -- Cash and cash equivalents consist of money market investments, cash held at the State Treasury, foreign currencies and other overnight funds. Cash and cash equivalents are an integral part of the PUF's investment activities, and as such are included in the investments balance on the statement of fiduciary net assets.

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

(J) ***Reclassification*** -- Certain items in the 2010 financial statements and related notes have been reclassified to conform with the 2011 classification.

Note 3 – Investment Risk

The investment risk disclosure that follows relates to the PUF's investments before securities lending transactions and the investment of cash collateral. Disclosures relating to securities lending are provided in Note 4. Risk disclosures relating to the PUF's investments in hedge funds, private investments, and public market funds are discussed in Note 5.

(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*

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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, 2011 and 2010:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type	August 31,		Rating
	2011	2010	
Investments:			
U.S. Government Guaranteed	\$ -	\$ 127,168,041	Exempt from Disclosure
U.S. Government Guaranteed	146,693,285	-	AA
Total U.S. Government Guaranteed	<u>146,693,285</u>	<u>127,168,041</u>	
U.S. Government Non-Guaranteed:			
U.S. Agency	-	1,263,073	AAA
U.S. Agency	1,260,056	-	AA
U.S. Agency Asset Backed	13,461,875	120,687,079	AAA
U.S. Agency Asset Backed	75,779,560	-	AA
Total U.S. Government Non-Guaranteed	<u>90,501,491</u>	<u>121,950,152</u>	
Total U.S. Government	<u>237,194,776</u>	<u>249,118,193</u>	
Corporate Obligations:			
Domestic	19,160,234	36,235,196	AAA
Domestic	13,071,219	20,840,840	AA
Domestic	65,424,822	107,925,549	A
Domestic	47,717,790	102,905,574	BAA/BBB
Domestic	4,722,464	25,834,437	BA/BB
Domestic	5,087,331	9,499,097	B
Domestic	7,095,471	22,922,215	CAA/CCC
Domestic	2,800,619	7,277,730	CA/CC
Domestic	99,198	674,130	C
Domestic	388,217	-	D
Domestic	1,564,758	859,500	Not Rated
Foreign	45,416,236	73,562,207	AAA
Foreign	12,351,173	29,472,346	AA
Foreign	23,404,644	18,221,341	A
Foreign	16,979,559	24,147,550	BAA/BBB
Foreign	6,230,752	4,193,190	BA/BB
Foreign	1,341,089	1,654,169	B
Foreign	-	3,087,007	Not Rated
Total Corporate Obligations	<u>272,855,576</u>	<u>489,312,078</u>	
Foreign Government and Provincial Obligations	178,355,945	132,532,845	AAA
Foreign Government and Provincial Obligations	26,311,472	48,910,878	AA
Foreign Government and Provincial Obligations	45,646,596	40,089,903	A
Foreign Government and Provincial Obligations	137,620,697	17,835,019	BAA/BBB
Foreign Government and Provincial Obligations	8,024,723	7,578,770	BA/BB
Foreign Government and Provincial Obligations	20,032,001	-	Not Rated
Total Foreign Government and Provincial Obligations	<u>415,991,434</u>	<u>246,947,415</u>	
Other Debt Securities	815,436	-	AAA
Other Debt Securities	3,675,932	822,316	AA
Other Debt Securities	7,915,692	4,768,456	A
Other Debt Securities	672,335	2,181,462	BAA/BBB
Other Debt Securities	1,405,304	-	BA/BB
Total Other Debt Securities	<u>14,484,699</u>	<u>7,772,234</u>	
Total Debt Securities	<u>\$ 940,526,485</u>	<u>\$ 993,149,920</u>	
Convertible Securities	<u>\$ 3,606,157</u>	<u>\$ -</u>	Not Rated
Other Investment Funds - Debt	\$ -	\$ 110,125,169	AA
Other Investment Funds - Debt	12,849,753	11,379,960	BA/BB
Total Other Investment Funds - Debt	<u>\$ 12,849,753</u>	<u>\$ 121,505,129</u>	
Cash and Cash Equivalents - Money Market Funds	\$ 744,809,208	\$ 1,125,047,190	AAA
Cash and Cash Equivalents - Money Market Funds	-	4,059	A
Cash and Cash Equivalents	14,768,022	4,323,919	Not Rated
Total Cash and Cash Equivalents	<u>\$ 759,577,230</u>	<u>\$ 1,129,375,168</u>	
Net Deposit with Brokers for Derivative Contracts:			
U.S. Government Guaranteed	\$ -	\$ 19,189,931	Exempt from Disclosure
U.S. Government Guaranteed	1,610,844	-	AA
Foreign Government and Provincial Obligations	27,277,337	-	BAA/BBB
Foreign Government and Provincial Obligations	1,884,906	-	Not Rated
Cash	23,827,500	52,463,637	Exempt from Disclosure
Total Net Deposit with Brokers for Derivative Contracts	<u>\$ 54,600,587</u>	<u>\$ 71,653,568</u>	

(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, 2011 and 2010, 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 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, 2011 and 2010, the PUF does not have any deposits or investments that are exposed to custodial credit risk.

(D) Interest Rate Risk

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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type	August 31,			
	2011		2010	
	Value	Modified Duration	Value	Modified Duration
Investments:				
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	\$ 134,841,495	10.45	\$ 100,279,670	9.81
U.S. Treasury Strips	-	-	5,406,579	0.94
U.S. Treasury Bills	4,534,968	0.50	7,098,637	0.09
U.S. Treasury Inflation Protected	-	-	1,926,040	22.11
U.S. Agency Asset Backed	7,316,822	4.49	12,457,115	4.73
Total U.S. Government Guaranteed	<u>146,693,285</u>	<u>9.84</u>	<u>127,168,041</u>	<u>8.58</u>
U.S. Government Non-Guaranteed:				
U.S. Agency	1,260,056	6.69	1,263,073	7.36
U.S. Agency Asset Backed	89,241,435	3.27	120,687,079	2.58
Total U.S. Government Non-Guaranteed	<u>90,501,491</u>	<u>3.32</u>	<u>121,950,152</u>	<u>2.63</u>
Total U.S. Government	<u>237,194,776</u>	<u>7.36</u>	<u>249,118,193</u>	<u>5.67</u>
Corporate Obligations:				
Domestic	167,132,123	6.16	334,974,268	5.37
Foreign	105,723,453	5.31	154,337,810	4.58
Total Corporate Obligations	<u>272,855,576</u>	<u>5.83</u>	<u>489,312,078</u>	<u>5.12</u>
Foreign Government and Provincial Obligations	<u>415,991,434</u>	<u>6.83</u>	<u>246,947,415</u>	<u>6.34</u>
Other Debt Securities	<u>14,484,699</u>	<u>12.38</u>	<u>7,772,234</u>	<u>11.92</u>
Total Debt Securities	<u>940,526,485</u>	<u>6.76</u>	<u>993,149,920</u>	<u>5.61</u>
Convertible Securities	<u>3,606,157</u>	<u>2.37</u>	<u>-</u>	<u>-</u>
Other Investment Funds - Debt	<u>12,849,753</u>	<u>7.50</u>	<u>121,505,129</u>	<u>6.14</u>
Cash and Cash Equivalents	<u>759,577,230</u>	<u>0.08</u>	<u>1,129,375,168</u>	<u>0.08</u>
Total	<u>\$ 1,716,559,625</u>	<u>3.80</u>	<u>\$ 2,244,030,217</u>	<u>2.86</u>
Net Deposit with Brokers for Derivative Contracts:				
U.S. Government Guaranteed:				
U.S. Treasury Bills	\$ 1,610,844	0.28	\$ 18,125,125	0.27
U.S. Treasury Bonds and Notes	-	-	1,064,806	10.15
Total U.S. Government Guaranteed	<u>1,610,844</u>	<u>0.28</u>	<u>19,189,931</u>	<u>0.82</u>
Foreign Government and Provincial Obligations	<u>29,162,243</u>	<u>6.91</u>	<u>-</u>	<u>-</u>
Cash	<u>23,827,500</u>	<u>-</u>	<u>52,463,637</u>	<u>-</u>
Total Net Deposit with Brokers for Derivative Contracts	<u>\$ 54,600,587</u>	<u>3.70</u>	<u>\$ 71,653,568</u>	<u>0.22</u>

The PUF has purchased options on ten year constant maturity swaps and certain currencies, with expirations ranging from five to seven years, as insurance against possible future increases in inflation. As of August 31, 2011 these options had a notional value of \$4,851,000,000 and a fair value of \$21,750,596. As of August 31, 2010 these options had a notional value of \$2,056,000,000 and a fair value of \$7,110,685. The risk of loss on these options is limited to the premiums paid by the PUF upon the purchase of the options, which totaled \$26,569,408 and \$11,002,813 as of August 31, 2011 and 2010. The Fund also purchased both puts and swaptions on the Japanese Yen, with expirations ranging from one to two years, as insurance against the possibility of a downturn in the Japanese economy. As of August 31, 2011 these puts and swaptions had a notional value of \$6,527,952,894 with a fair value of \$12,185,889 and a loss limited to \$35,049,713 which represents the premiums paid. It is estimated that these options would adjust the 2011 duration of total debt securities of 6.76 downward by approximately 1.04, and the total duration of 3.80 downward by

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

approximately 1.09. It is estimated that these options would adjust the 2010 duration of total debt securities of 5.61 downward by approximately 0.24, and the total duration of 2.86 downward by approximately 0.21. One of the PUF's external managers also use options and interest rate and credit default swaps to modify the duration of their portfolios in a cost efficient manner. It is estimated by management that these positions held by external managers would not significantly adjust the duration of the PUF as presented above.

(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, 2011 and 2010, 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 \$86,772,936 and \$257,260,201 as of August 31, 2011 and 2010, respectively.

Mortgage backed securities which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. These securities amounted to \$45,849,858 and \$44,603,974 as of August 31, 2011 and 2010, respectively.

Asset backed securities which are backed by home equity loans, auto loans, equipment loans and credit card receivables. Prepayments by the obligees of the underlying assets in periods of decreasing interest rates could reduce or eliminate the stream of income that would have been received. These securities amounted to \$5,751,132 and \$20,743,629 as of August 31, 2011 and 2010, respectively.

(F) Foreign Currency Risk

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

During the year ended 2010, one of the PUF's external managers employed an investment strategy in which they hedged their investments against the Euro dollar. In the following table the negative amounts shown for the Canadian Dollar, Czech Koruna, Hong Kong Dollar, Norwegian Kroner, Swiss Franc, and the UK Pound in the cash and cash equivalents section reflect these strategies. The negative amounts offset long positions presented in the domestic and foreign common stock section.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

The classification of domestic common stock and foreign common stock in the supplemental schedule, Comparison Summary of Investments, 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 by asset type at August 31, 2011 and 2010:

Investment Type	August 31,	
	2011	2010
Foreign Common Stock:		
Australian Dollar	\$ 41,106,679	\$ 27,194,685
Brazilian Real	58,672,215	45,719,995
Canadian Dollar	41,752,836	31,892,950
Chilean Peso	2,624,824	2,768,696
Czech Koruna	1,757,914	2,826,788
Danish Krone	3,207,470	1,015,748
Egyptian Pound	1,188,975	3,321,458
Euro	79,473,221	108,474,034
Hong Kong Dollar	129,908,662	142,472,130
Hungarian Forint	1,341,934	2,063,725
Indian Rupee	24,885,870	9,523,224
Indonesian Rupian	13,260,700	12,331,502
Israeli Shekel	82,846	87,429
Japanese Yen	46,793,152	43,330,995
Malaysian Ringgit	18,708,069	20,854,641
Mexican Peso	16,721,524	13,997,518
Moroccan Dirham	566,299	457,281
Norwegian Kroner	3,241,639	2,310,014
Pakistan Rupee	583,886	1,127,004
Philippine Peso	3,725,951	1,973,476
Polish Zloty	9,354,486	7,818,992
Russian Rubel	1,685,315	-
Singapore Dollar	14,882,442	12,862,057
South African Rand	30,273,211	30,601,104
South Korean Won	86,358,596	70,006,429
Swedish Krona	16,693,316	8,231,687
Swiss Franc	16,552,632	22,574,629
Taiwan Dollar	33,180,237	25,254,180
Thai Baht	18,005,880	17,440,401
Turkish Lira	12,880,466	12,931,207
UK Pound	122,105,816	84,866,704
United Arab Emirates Dirham	1,434,429	-
Total Foreign Common Stock	853,011,492	766,330,683
Other Equity Securities:		
Canadian Dollar	159	-
Malaysian Ringgit	2,813	-
Total Other Equity Securities	2,972	-
Foreign Preferred Stocks:		
Brazilian Real	39,561,080	32,516,251
Euro	-	842,328
South Korean Won	248,702	-
Total Foreign Preferred Stock	39,809,782	33,358,579

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type (continued):	August 31,	
	2011	2010
Foreign Government and Provincial Obligations:		
Australian Dollar	\$ 21,076,098	\$ 16,453,908
Brazilian Real	165,662,417	7,508,594
Canadian Dollar	10,895,745	24,180,182
Euro	76,746,796	49,320,356
Hong Kong Dollar	1,039,610	553,552
Hungarian Forint	5,736,007	3,811,471
Indonesian Rupian	8,024,723	6,991,583
Japanese Yen	18,047,284	31,853,118
Malaysian Ringgit	10,979,023	10,385,202
Mexican Peso	15,416,517	6,514,954
New Zealand Dollar	18,707,198	7,285,341
Norwegian Kroner	10,719,062	4,224,335
Polish Zloty	13,561,316	12,476,845
Singapore Dollar	8,852,814	1,946,122
South African Rand	10,176,576	5,965,929
South Korean Won	10,657,443	9,359,586
Swedish Krona	-	8,761,761
UK Pound	35,809,766	33,997,482
Total Foreign Government and Provincial Obligations	442,108,395	241,590,321
Corporate Obligations:		
Australian Dollar	12,706,744	15,567,655
Brazilian Real	-	2,282,210
Canadian Dollar	2,668,161	496,525
Danish Krone	-	924,290
Euro	46,225,670	70,531,096
Hong Kong Dollar	-	804,797
Japanese Yen	2,894,201	2,953,850
UK Pound	11,762,130	8,474,838
Total Corporate Obligations	76,256,906	102,035,261
Purchased Options:		
Australian Dollar	69,279,358	-
Euro	3,941,002	-
Japanese Yen	12,185,889	-
South Korean Won	55,586,060	-
Total Purchased Options	140,992,309	-
Private Investments:		
Canadian Dollar	12,991,944	4,804,825
Euro	201,033,944	159,751,691
UK Pound	10,132,498	-
Total Private Investments	224,158,386	164,556,516
Convertible Securities		
Brazilian Real	3,606,157	-
Swiss Franc	-	46,967
Total Convertible Securities	3,606,157	46,967

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type (continued):	August 31,	
	2011	2010
Investment Funds-Emerging Markets		
Brazilian Real	\$ 6,385,154	\$ 1,212,997
Cash and Cash Equivalents:		
Australian Dollar	1,091,621	428,714
Brazilian Real	1,671,591	886,668
Canadian Dollar	141,712	(265,543)
Chilean Peso	2,168	1,767
Czech Koruna	1,058	(275,964)
Danish Krone	624	609
Egyptian Pound	-	51,882
Euro	2,311,570	36,879,914
Hong Kong Dollar	439,455	(8,998,230)
Hungarian Forint	387	2,189
Indian Rupee	761,552	17
Indonesian Rupian	19,564	82,134
Japanese Yen	10,782	114,491
Malaysian Ringgit	254,203	48,324
Mexican Peso	27,869	181,875
Moroccan Dirham	21,657	17,789
New Zealand Dollar	213	355
Norwegian Kroner	171,220	(914,863)
Pakistan Rupee	100	-
Philippine Peso	33,424	2,998
Polish Zloty	24,766	138,040
Singapore Dollar	3,466	174
South African Rand	25,492	57,501
South Korean Won	238,602	80,678
Swedish Krona	1,122	64,791
Swiss Franc	32,254	(14,044,098)
Taiwan Dollar	1,030,220	617,724
Thailand Baht	17,882	37,988
Turkish Lira	417	-
UK Pound	4,408,406	(662,537)
Total Cash and Cash Equivalents	<u>12,743,397</u>	<u>14,535,387</u>
Written Options		
Australian Dollar	(42,427,183)	-
Euro	(32,764)	(37,281)
South Korean Won	(36,080,051)	-
UK Pound	-	(422)
Total Written Options	<u>(78,539,998)</u>	<u>(37,703)</u>
Swaps		
Australian Dollar	-	123,806
Brazilian Real	49,111	42,978
Canadian Dollar	-	38,116
Euro	(42,255)	40,103
Japanese Yen	26,812	458,911
Mexican Peso	821,334	-
UK Pound	(357,358)	91,573
Total Swaps	<u>497,644</u>	<u>795,487</u>
Futures		
Australian Dollar	52,563	-
Canadian Dollar	(51,583)	46,701
Euro	171,267	851,632
UK Pound	(176,644)	34,530
Total Futures	<u>(4,397)</u>	<u>932,863</u>
Total	<u>\$ 1,721,028,199</u>	<u>\$ 1,325,357,358</u>

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

(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 statement of changes in fiduciary net assets. 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, 2011 for options, swaps, and foreign currency exchange contracts shown in the following table.

Options

<u>Assets</u>		<u>Liabilities</u>			
<u>Notional</u>		<u>Notional</u>		<u>Fair Value as of August 31, 2011</u>	
\$	4,513,273,057	\$	1,715,393,529	\$	118,276,135
	3,349,331,251		279,230,023		44,586,890
\$	<u>7,862,604,308</u>	\$	<u>1,994,623,552</u>	\$	<u>162,863,025</u>
				\$	<u>68,652,971</u>
					<u>19,579,882</u>
				\$	<u>88,232,853</u>
Counterparty Rating					
A					
AA					

Swaps

<u>Assets</u>		<u>Liabilities</u>			
<u>Notional</u>		<u>Notional</u>		<u>Fair Value as of August 31, 2011</u>	
\$	78,874,279	\$	485,228,583	\$	2,493,964
	1,404,199,988		5,300,000		1,090,964
\$	<u>1,483,074,267</u>	\$	<u>490,528,583</u>	\$	<u>3,584,928</u>
				\$	<u>38,148,557</u>
					<u>73,884</u>
				\$	<u>38,222,441</u>
Counterparty Rating					
A					
AA					

Foreign Currency Exchange Contracts

<u>Assets</u>		<u>Liabilities</u>			
<u>Notional</u>		<u>Notional</u>		<u>Fair Value as of August 31, 2011</u>	
\$	539,940,575	\$	438,238,268	\$	6,144,722
	230,036,773		209,578,396		2,102,927
\$	<u>769,977,348</u>	\$	<u>647,816,664</u>	\$	<u>8,247,649</u>
				\$	<u>3,407,319</u>
					<u>11,943,821</u>
				\$	<u>15,351,140</u>
Counterparty Rating					
A					
AA					

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

The PUF had gross counterparty exposure as of August 31, 2010 for options, swaps, and foreign currency exchange contracts shown in the following table.

Options								
<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>					
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2010</u>	<u>Fair Value as of August 31, 2010</u>					<u>Counterparty Rating</u>
\$ 2,058,457,501	\$ 56,590,355	\$ 9,584,017	\$ 997,262					A
98,172	5,543,855	98,172	20,776					AA
<u>\$ 2,058,555,673</u>	<u>\$ 62,134,210</u>	<u>\$ 9,682,189</u>	<u>\$ 1,018,038</u>					
Swaps								
<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>					
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2010</u>	<u>Fair Value as of August 31, 2010</u>					<u>Counterparty Rating</u>
\$ 42,544,694	\$ 67,962,427	\$ 2,038,660	\$ 1,728,693					A
48,803,247	39,386,830	634,696	439,959					AA
<u>\$ 91,347,941</u>	<u>\$ 107,349,257</u>	<u>\$ 2,673,356</u>	<u>\$ 2,168,652</u>					
Foreign Currency Exchange Contracts								
<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>					
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2010</u>	<u>Fair Value as of August 31, 2010</u>					<u>Counterparty Rating</u>
\$ 96,574,468	\$ 78,285,630	\$ 2,483,718	\$ 1,449,309					A
62,098,597	65,205,086	1,404,880	1,626,744					AA
<u>\$ 158,673,065</u>	<u>\$ 143,490,716</u>	<u>\$ 3,888,598</u>	<u>\$ 3,076,053</u>					

As of August 31, 2011 and 2010, the PUF also had investments in futures contracts and options on futures contracts. Futures contracts and options on futures 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, and therefore they are not presented in the table above.

Counterparty risk for swaps, options and foreign currency exchange contracts is mitigated by having master netting arrangements between the 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 for net assets is held by the PUF in one of its accounts at the PUF's custodian bank. As of August 31, 2011 and 2010, the PUF held \$86,500,000 and \$10,260,000 respectively, of collateral related to derivative instruments other than futures, and had on deposit with brokers \$88,452,243 and \$35,870,439, respectively, as collateral related to derivative instruments other than futures.

Note 4 – Securities Lending

In accordance with the prudent investor investment standards, the PUF loans securities to certain brokers who pay the PUF negotiated lenders' fees. These fees are included in investment income, and related expenses, net of rebates paid to borrowers, are included in investment expenses in the statement of changes in fiduciary net assets. The PUF receives qualified securities and/or cash as

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

collateral against the loaned securities. The collateral, when received, will have a market value of 102% of loaned securities of U.S. issuers and a market value of 105% for loaned securities of non-U.S. issuers. If the market value of the collateral held in connection with loans of securities of U.S. issuers is less than 100% at the close of trading on any business day, the borrower is required to deliver additional collateral by the close of the next business day to equal 102% of the market value. For non-U.S. issuers, the collateral should remain at 105% of the market value of the loaned securities at the close of any business day. If it falls below 105%, the borrower must deliver additional collateral by the close of the following business day. The value of securities loaned and the value of collateral held are as follows at August 31, 2011 and 2010:

Securities on Loan	2011 Value	2010 Value	Type of Collateral	2011 Value of Collateral	2010 Value of Collateral
U.S. Government	\$ 5,519,696	\$ 17,968,851	Cash	\$ 5,633,021	\$ 18,339,962
Foreign Government	14,003,056	9,042,328	Cash	14,685,786	9,497,745
Corporate Bonds	11,801,137	18,968,687	Cash	12,257,584	19,421,961
Common Stock	138,991,668	180,292,998	Cash	144,162,570	187,997,249
Total	\$170,315,557	\$226,272,864	Total	\$176,738,961	\$235,256,917
U.S. Government	\$ 1,374,114	\$ -	Non-Cash	\$ 1,458,089	\$ -
Corporate Bonds	244,327	-	Non-Cash	259,258	-
Common Stock	16,284	1,746,980	Non-Cash	17,279	1,783,972
	\$ 1,634,725	\$ 1,746,980	Non-Cash	\$ 1,734,626	\$ 1,783,972

Cash received as collateral for securities lending activities is invested and reinvested in a commingled pool managed exclusively for the benefit of the PUF, the General Endowment Fund (GEF), the Intermediate Term Fund (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, 2011 and 2010 is shown in the following table:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Description	August 31,					
	2011			2010		
	Fair Value	Rating	Weighted Average Maturity In Days	Fair Value	Rating	Weighted Average Maturity In Days
		No Rating			No Rating	
Repurchase Agreements	\$ 62,706,825	Available	1	\$ 169,094,652	Available	1
Commercial Paper	61,684,012	P	28	38,789,047	P	35
Floating Rate Notes	15,173,821	AA		8,619,988	AA	
Floating Rate Notes	18,240,533	A		8,552,777	A	
Total Floating Rate Notes	<u>33,414,354</u>		33	<u>17,172,765</u>		26
Interest Bearing Notes	834,906	AA	76	-		-
Certificates of Deposit	18,077,672	P	33	11,651,573	P	63
Other Receivables/Payables	21,192	Not Rated	-	(1,451,120)	Not Rated	-
Total Collateral Pool Investment	<u>\$ 176,738,961</u>		20	<u>\$ 235,256,917</u>		12

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

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

In the event of default, where the borrower is unable to return the securities loaned, the 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, 2011 and 2010, 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, 2011 and 2010.

Note 5 – Investment Funds

Investment funds include exchange traded funds, index funds, Securities and Exchange Commission regulated mutual funds, externally managed funds, limited partnerships, and corporate structures which are generally unrated and may be unregulated. The composition of investment funds at August 31, 2011 and 2010 is summarized in the table below as they are classified within the asset mix of the PUF.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

	August 31,	
	2011	2010
Investment Funds:		
Hedge Funds:		
Developed Country Equity	\$ 2,417,003,553	\$ 1,846,548,240
Credit-Related Fixed Income	555,371,737	844,822,733
Investment Grade Fixed Income	357,852,993	203,282,819
Emerging Market Equity	321,193,175	265,190,478
Real Estate	78,971,152	67,795,439
Natural Resources	13,306,679	11,369,121
Total Hedge Funds	<u>3,743,699,289</u>	<u>3,239,008,830</u>
Private Investments:		
Developed Country Equity	1,511,039,321	1,103,327,608
Credit-Related Fixed Income	841,832,748	773,015,819
Natural Resources	330,986,008	220,927,922
Emerging Market Equity	290,303,368	197,177,503
Real Estate	168,600,973	92,443,602
Total Private Investments	<u>3,142,762,418</u>	<u>2,386,892,454</u>
Public Markets:		
Developed Country Equity:		
Private Placements	934,257,367	658,038,101
Index Funds	-	34,786,819
Exchange Traded Funds	-	3,816,763
Total Developed Country Equity	<u>934,257,367</u>	<u>696,641,683</u>
Emerging Markets:		
Private Placements	516,775,213	399,234,980
Exchange Traded Funds	-	40,938,430
Index Funds	-	55,761,159
Total Emerging Markets	<u>516,775,213</u>	<u>495,934,569</u>
Real Estate:		
Index Funds	-	13,982,355
Total Real Estate	<u>-</u>	<u>13,982,355</u>
Fixed Income:		
Index Funds	-	110,125,169
Publicly Traded Mutual Funds	12,849,753	11,379,960
Total Fixed Income	<u>12,849,753</u>	<u>121,505,129</u>
Natural Resources		
Private Placements	162,217,105	117,150,499
Total Natural Resources	<u>162,217,105</u>	<u>117,150,499</u>
Total Public Markets	<u>1,626,099,438</u>	<u>1,445,214,235</u>
Total Investment Funds	<u>\$ 8,512,561,145</u>	<u>\$ 7,071,115,519</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 placements 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. The funds invested may be 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. There are certain risks associated with these private placements, some of which include investment manager risk, market risk, and liquidity risk, as well as the risk of utilizing leverage in the portfolios.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

The hedge fund pools have committed \$42,371,530 of future funding to various hedge fund investments as of August 31, 2011 of which the PUF's pro-rata portion is \$21,245,085.

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 disclosure for the years ending August 31, 2011 and 2010, represent the PUF's pro-rata share of these investment pool assets. The private investment pools are invested in limited partnerships with external investment managers or general partners who invest primarily in private equity securities. These investments are domestic and international, are illiquid, and may not be realized for a period of several years after the investments are made. There are certain risks associated with these investments, some of which are liquidity risk, market risk, event risk, and investment manager risk. Certain of these investments are held through limited liability companies, of which UTIMCO is the sole managing member. The private investment pools have committed \$3,086,712,651 of future funding to various private market investments as of August 31, 2011 of which the PUF's pro-rata portion is \$1,970,094,349.

Public market funds are invested in exchange traded funds, index funds, and private placements with external investment managers who invest in equity and fixed income securities of both domestic and international issuers. These funds are characterized as public market funds based on individual risk/return characteristics and their relationship to the overall asset mix of the PUF. Some of these investment managers may invest in both long and short securities and may utilize modest leverage in their portfolios. Certain of these investments are held through limited liability companies of which UTIMCO is the sole managing member. 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.

The PUF, in conjunction with the GEF and the ITF, invests in certain long-only public markets managers in separate investment pools created in the name of the UT Board. The PUF, the GEF and the ITF are the sole investors in these pools, and therefore, jointly own 100% of the assets of these separately managed accounts. The net assets and the income, expenses, realized and unrealized gains and losses of these pools have been allocated based on the proportional unit ownership of the PUF, the GEF and the ITF, and the PUF's pro-rata share has been consolidated into the statements of fiduciary net assets, the statements of changes in fiduciary net assets, and the accompanying note disclosures.

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:

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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

- *Limited transparency* -- As private placement investment vehicles, these funds may not disclose the holdings of their portfolios.
- *Investment strategy risk* -- These funds often employ sophisticated investment strategies and may use leverage which could result in the loss of invested capital.

Investments in hedge funds, private investments, and public market funds are also subject to the investment risks discussed in Note 3, including custodial credit risk and foreign currency risk. 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 6 – Written Options

For the year ended August 31, 2011, the PUF wrote call options on commodities and volatility. The following discloses the contracts outstanding, the expiration date, and the fair values of the outstanding written call options contracts as of August 31, 2011:

Type	Underlying	Contracts	Expiration Date	Fair Value at August 31, 2011	
				Assets	Liabilities
Commodity					
	Copper Futures	2	12/7/11	\$ -	\$ 8,201
	Corn Futures	4	11/23/12	-	2,258
				-	10,459
Other					
	Forward Volatility Agreement	2,300,000	10/11/11	-	7,169
	Forward Volatility Agreement	4,200,000	11/14/11	-	42,606
				-	49,775
				<u>\$ -</u>	<u>\$ 60,234</u>

The fair value is included on the statements of fiduciary net assets as options written, at fair value. The change in fair value of open call options for the year ending August 31, 2011 was an increase in the amount of \$13,247, which is included in the net increase in investments on the statement of changes in fiduciary net assets. The PUF recognized gains in the amount of \$234,399 on call options written which are included in the net increase in investments on the statement of changes in fiduciary net assets for the year ended August 31, 2011.

The PUF also wrote put options on Treasury note and Euro Bund futures, domestic and international equities and indices, interest rate swaps, commodities and various currencies for the year ended August 31, 2011. The following discloses the contracts outstanding, the expiration date, and the fair values of the outstanding written put options contracts as of August 31, 2011:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Type	Underlying	Contracts	Expiration Date	Fair Value at August 31, 2011	
				Assets	Liabilities
Interest Rate Swap					
	United States 3 month Libor	20,000,000	6/18/12	\$ -	\$ 12,626
	United States 3 month Libor	3,600,000	7/10/12	-	11
	United States 3 month Libor	25,200,000	9/24/12	-	26,312
				<u>-</u>	<u>38,949</u>
Commodity					
	Brent Crude Futures	9	11/10/11	-	2,000
	Corn Futures	7	11/23/12	-	13,861
	Crude Oil Futures	2	11/15/11	-	2,131
	Crude Oil Futures	4	11/17/15	-	27,901
				<u>-</u>	<u>45,893</u>
Currency					
	U.S. Dollar vs. Euro	3,000,000	9/27/11	-	32,764
Equity					
	Australia S&P/ASX 200 Index	111,899	6/21/12	-	20,599,738
	Australia S&P/ASX 200 Index	47,335	6/20/13	-	12,732,704
	Australia S&P/ASX 200 Index	58,937	8/15/13	-	9,094,741
	Dow Jones U.S. Real Estate Index	2,158,934	2/21/12	-	2,900,204
	MSCI Emerging Markets Index	2,930,411	2/21/12	-	3,153,431
	Korean KOSPI 200 Index	865,891,556	6/13/13	-	13,764,232
	Korean KOSPI 200 Index	1,999,247,477	8/8/13	-	22,315,819
	S&P Metals & Mining ETF	1,902,804	2/21/12	-	3,543,046
				<u>-</u>	<u>88,103,915</u>
Fixed Income					
	Euro-BOBL Futures	18	9/30/11	-	-
	U.S. 10 yr Treasury Note Futures	41	9/23/11	-	17,422
				<u>-</u>	<u>17,422</u>
Other					
	CPI Urban Consumer Not Seasonally Adjusted	600,000	9/29/10	-	2,821
	CPI Urban Consumer Not Seasonally Adjusted	600,000	10/13/20	-	4,628
				<u>-</u>	<u>7,449</u>
				<u>\$ -</u>	<u>\$ 88,246,392</u>

The fair value is included on the statements of fiduciary net assets as options written, at fair value. The change in fair value of open put options for the year ending August 31, 2011 was a decrease in the amount of \$5,977,571, which is included in the net increase in investments on the statement of changes in fiduciary net assets. The PUF recognized gains in the amount of \$2,840,253 on put options written which are included in the net increase in investments on the statement of changes in fiduciary net assets for the year ended August 31, 2011.

For the year ended August 31, 2010, the PUF wrote call options on Treasury note and Euro Bund futures, domestic and international equities, interest rate swaps and various currencies. The following discloses the contracts outstanding, the expiration date, and the fair values of the outstanding written call options contracts as of August 31, 2010:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

<u>Type</u>	<u>Underlying</u>	<u>Contracts</u>	<u>Expiration Date</u>	<u>Fair Value</u>	
				<u>Assets</u>	<u>Liabilities</u>
Interest Rate Swap					
	United States 3 month Libor	12,100,000	10/29/10	\$ -	\$ 799,229
Credit Default Swap					
	British Petroleum	2,200,000	12/15/10	-	3,305
Currency					
	U.S. Dollar vs. Euro	6,000	9/9/10	-	334
	U.S. Dollar vs. Euro	18,000	9/22/10	-	14,628
	U.S. Dollar vs. Mexican Peso	7,000	9/22/10	-	-
	U.S. Dollar vs. South Korean Won	6,000	9/7/10	-	-
	U.S. Dollar vs. U.K. Pound	6,000	9/15/10	-	422
				-	15,384
Equity					
	MetroPCS Communications	139	11/20/10	-	10,425
				<u>\$ -</u>	<u>\$ 828,343</u>

The fair value is included on the statements of fiduciary net assets as options written, at fair value. The change in fair value of open call options for the year ending August 31, 2010 was a decrease in the amount of \$678,389, which is included in the net increase in investments on the statement of changes in fiduciary net assets. The PUF recognized gains in the amount of \$740,040 on call options written which are included in the net increase in investments on the statement of changes in fiduciary net assets for the year ended August 31, 2010.

The PUF also wrote put options on Treasury note futures, commodities, domestic and international equities, interest rate and credit default swaps and various currencies for the year ended August 31, 2010. The following discloses the contracts outstanding, the expiration date, and the fair values of the outstanding written put options contracts as of August 31, 2010:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

<u>Type</u>	<u>Underlying</u>	<u>Contracts</u>	<u>Expiration Date</u>	<u>Fair Value</u>	
				<u>Assets</u>	<u>Liabilities</u>
Interest Rate Swap					
	United States 3 month Libor	12,100,000	10/29/10	\$ -	\$ 129
	United States 3 month Libor	21,400,000	6/18/12	-	141,399
	United States 3 month Libor	3,600,000	7/10/12	-	632
				<u>-</u>	<u>142,160</u>
Credit Default Swap					
	British Petroleum	2,200,000	12/15/10	-	8,903
Currency					
	U.S. Dollar vs. Euro	20,000	9/9/10	-	22,319
Equity					
	Devon Energy	24	10/16/10	-	3,648
	Papa John's International	57	10/16/10	-	2,565
	Walmart	25	9/18/10	-	10,100
				<u>-</u>	<u>16,313</u>
				<u>\$ -</u>	<u>\$ 189,695</u>

The fair value is included on the statements of fiduciary net assets as options written, at fair value. The change in fair value of open put options for the year ending August 31, 2010 was an increase in the amount of \$195,496, which is included in the net increase in investments on the statement of changes in fiduciary net assets. The PUF recognized gains in the amount of \$1,547,148 on put options written which are included in the net increase in investments on the statement of changes in fiduciary net assets for the year ended August 31, 2010.

Note 7 – Swaps

During the year the PUF entered into interest rate, credit default, commodities and equity swap contracts. The following discloses the type, coupon rate, notional amount (presented in local currency), maturity date, and the fair values of the outstanding swap contracts as of August 31, 2011:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2011	
				Assets	Liabilities
Interest Rate					
UK Pound					
	2.500%	9,000,000	9/21/2013	\$ -	\$ 350,947
Euro					
	2.000%	12,400,000	9/21/2016	-	143,994
	3.000%	1,500,000	9/21/2016	84,570	-
	3.000%	2,800,000	9/21/2021	49,610	-
Japanese Yen					
	0.250%	1,210,000,000	12/21/2013	26,812	-
U.S. Dollar					
	2.500%	700,000	6/15/2016	-	46,465
	3.250%	3,700,000	12/21/2021	-	248,671
	3.500%	6,000,000	6/15/2021	-	654,010
Mexican Peso					
	6.590%	9,900,000	12/8/2015	41,394	-
	6.750%	110,200,000	6/8/2016	526,801	-
	6.960%	23,400,000	7/27/2020	93,660	-
	7.500%	23,000,000	6/2/2021	159,479	-
Brazilian Real					
	11.245%	1,900,000	1/2/2012	-	3,781
	11.250%	3,100,000	1/2/2012	-	6,059
	11.360%	5,700,000	1/2/2012	58,951	-
				<u>1,041,277</u>	<u>1,453,927</u>
Credit Default					
U.K. Pound					
	0.670%	780,000	9/20/2014	-	6,411
Euro					
	0.250%	1,100,000	3/20/2016	-	15,328
	0.250%	1,100,000	6/20/2016	-	17,113
U.S. Dollar					
	0.210%	100,000	9/20/2011	-	39
	0.250%	5,300,000	12/20/2015	-	259,288
	0.250%	900,000	3/20/2016	-	47,597
	0.250%	3,200,000	9/20/2016	-	194,280
	0.460%	100,000	9/20/2011	-	80
	0.460%	1,000,000	12/20/2013	-	5,032
	0.550%	300,000	9/20/2011	-	309
	0.750%	1,000,000	12/20/2013	-	10,165
	0.770%	300,000	3/20/2012	-	1,243
	0.820%	1,000,000	3/20/2018	6,464	-
	0.862%	1,800,000	11/20/2016	121,242	-
	0.900%	1,000,000	6/20/2019	14,328	-
	1.000%	7,900,000	12/20/2011	25,303	-
	1.000%	4,300,000	12/20/2012	-	48,046
	1.000%	6,100,000	6/20/2015	101,539	-
	1.000%	6,000,000	12/20/2015	6,995	-
	1.000%	2,400,000	3/20/2016	25,822	-
	1.000%	3,600,000	6/20/2016	35,637	-
	1.000%	3,600,000	9/20/2016	-	37,805
	1.000%	2,000,000	12/20/2016	291,196	-
	1.000%	200,000	6/20/2019	1,005	-
	1.000%	2,200,000	12/20/2020	-	117,426
	1.350%	400,000	3/20/2018	-	16,464
	1.380%	1,000,000	3/20/2017	-	34,613
	1.400%	300,000	3/20/2021	1,198	-
	1.450%	1,000,000	6/20/2013	-	17,066

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2011	
				Assets	Liabilities
Credit Default					
U.S. Dollar (continued)					
	1.530%	400,000	9/20/2016	\$ 8,563	\$ -
	1.540%	200,000	6/20/2018	-	472
	1.630%	700,000	3/20/2021	5,290	-
	1.743%	400,000	6/20/2013	-	7,446
	1.780%	300,000	6/20/2013	-	5,810
	1.820%	300,000	6/20/2013	-	6,050
	2.150%	700,000	3/20/2021	21,100	-
	2.700%	1,000,000	3/20/2019	-	46,203
	2.800%	400,000	3/20/2021	21,524	-
	2.870%	500,000	3/20/2021	14,362	-
	2.900%	700,000	3/20/2021	21,456	-
	2.950%	1,400,000	12/20/2020	89,707	-
				<u>812,731</u>	<u>894,286</u>
Commodity					
U.S. Dollar					
	Uranium	579,985	4/30/2012	-	96,318
Equity					
U.S. Dollar					
	Global Real Estate Index	44,741,845	2/9/2012	-	5,095,095
	Oil & Gas	40,474,279	9/26/2011	1,597,667	-
	MSCI Europe Index	69,498,379	2/22/2012	-	3,927,199
	MSCI Japan Index	18,999,988	2/8/2012	133,253	-
	MSCI Japan Index	22,199,823	2/22/2012	-	889,036
	S&P 400 Index	63,114,854	2/21/2012	-	7,009,287
	S&P 500 Index	160,711,187	8/20/2012	-	13,771,212
	U.S. Real Estate Index	63,002,510	8/20/2012	-	5,086,081
				<u>1,730,920</u>	<u>35,777,910</u>
Total				<u>\$ 3,584,928</u>	<u>\$ 38,222,441</u>

The change in fair value of open swap positions for the year ending August 31, 2011 was a decrease in the amount of \$35,226,987, which is included in the net increase in investments on the statement of changes in fiduciary net assets.

The following discloses the type, coupon rate, notional amount (presented in local currency), maturity date, and the fair values of the outstanding swap contracts as of August 31, 2010:

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2010	
				Assets	Liabilities
Interest Rate					
Australian Dollar					
	6.000%	2,400,000	12/15/2020	\$ 123,806	\$ -
Brazilian Real					
	11.330%	14,200,000	1/2/2012	-	-
Canadian Dollar					
	2.500%	6,900,000	6/18/2013	38,116	-
Japanese Yen					
	1.500%	990,000,000	12/15/2020	458,911	-
U.S. Dollar					
	3.250%	1,500,000	9/2/2020	103,890	-
	3.500%	9,600,000	9/2/2020	-	884,339
				<u>724,723</u>	<u>884,339</u>

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2010	
				Assets	Liabilities
Credit Default					
UK Pound					
	0.670%	780,000	9/20/2014	\$ -	\$ 8,939
Euro					
	1.400%	1,100,000	6/20/2011	-	2,378
U.S. Dollar					
	0.210%	300,000	9/20/2011	515	-
	0.220%	200,000	9/20/2011	642	-
	0.290%	300,000	3/20/2011	-	393
	0.460%	300,000	9/20/2011	2,787	-
	0.460%	300,000	3/20/2012	7,551	-
	0.460%	1,000,000	12/20/2013	-	8,715
	0.550%	300,000	9/20/2011	2,448	-
	0.750%	1,000,000	12/20/2013	-	7,449
	0.770%	300,000	3/20/2012	553	-
	0.820%	1,000,000	3/20/2018	274	-
	0.862%	1,800,000	11/20/2016	312,951	-
	0.900%	1,000,000	6/20/2019	44,545	-
	0.940%	200,000	6/20/2018	13,378	-
	1.000%	8,200,000	6/20/2015	148,839	-
	1.000%	2,000,000	12/20/2016	228,542	-
	1.000%	200,000	6/20/2019	6,927	-
	1.090%	1,000,000	6/20/2018	56,121	-
	1.280%	1,000,000	6/20/2013	-	11,520
	1.290%	300,000	6/20/2011	-	800
	1.300%	900,000	6/20/2013	-	10,901
	1.350%	600,000	3/20/2018	-	28,959
	1.380%	1,000,000	3/20/2017	-	43,314
	1.400%	1,100,000	3/20/2018	-	27,198
	1.420%	1,500,000	3/20/2018	-	39,190
	1.450%	1,000,000	6/20/2013	-	13,158
	1.530%	500,000	9/20/2016	8,536	-
	1.540%	200,000	6/20/2018	-	4,252
	1.743%	400,000	6/20/2013	-	10,091
	1.780%	300,000	6/20/2013	-	7,902
	1.820%	300,000	6/20/2013	-	8,257
	2.700%	1,000,000	3/20/2019	-	26,406
	3.460%	700,000	6/20/2017	-	79,857
	4.230%	1,000,000	12/20/2013	-	118,422
				<u>834,609</u>	<u>458,101</u>
Commodity					
U.S. Dollar					
	Sugar #11	973,279	9/14/2010	181,842	-
				<u>181,842</u>	<u>-</u>

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2010	
				Assets	Liabilities
Equity					
UK Pound					
	Rio Tinto plc	615,582	9/10/2012	\$ 100,512	\$ -
Euro					
	Ryanair Holdings	868,165	9/10/2012	53,066	-
	Ryanair Holdings	25,657	8/4/2020	-	587
	Telefonica	536,095	9/10/2012	-	9,998
U.S. Dollar					
	Alerian MLP Basket	33,144,366	11/26/2010	-	358,494
	Bank of Baroda	699,290	9/10/2012	81,722	-
	Bank of Baroda	747,624	12/11/2019	12,869	-
	MSCI Australia	38,386,830	5/16/2011	-	413,709
	MSCI Canada	46,703,247	5/16/2011	585,146	-
	State Bank of India	928,768	12/1/2010	-	25,675
	Union Bank of India	305,134	9/10/2012	12,850	-
	Union Bank of India	434,702	11/11/2019	-	17,749
	United Spirits Ltd.	587,901	9/10/2012	43,039	-
Brazilian Real					
	Eletronbras	351,002	9/10/2012	42,978	-
				932,182	826,212
Total				\$ 2,673,356	\$ 2,168,652

The change in fair value of open swap positions for the year ending August 31, 2010 was an increase in the amount of \$479,072, which is included in the net increase in investments on the statement of changes in fiduciary net assets.

Note 8 – Futures Contracts

During the years ended August 31, 2011 and 2010, the asset classes that used futures include domestic and foreign equities, domestic and foreign debt, and commodities. The change in fair value of open futures contracts for the year ending August 31, 2011 was an increase in the amount of \$4,464,681, which is included in the net increase in investments on the statement of changes in fiduciary net assets. The change in fair value of open futures contracts for the year ending August 31, 2010 was an increase in the amount of \$9,427,766 which is included in the net increase in investments on the statement of changes in fiduciary net assets. The PUF had \$52,648,344 and \$46,043,129 on deposit with brokers for collateral as margin for the futures contracts as of August 31, 2011 and 2010, respectively. Short futures may be used by the PUF to hedge the PUF's interest rate or currency risk associated with security positions. For the years ended August 31, 2011 and 2010, the net realized gain on the futures contracts was \$87,336,798 and \$70,251,686, respectively.

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 carrying and fair value, for August 31, 2011, shown in the table below for these open contracts do not include amount previously settled with the exchanges. Net cash settlements for these open commodities contracts amounted to \$472,057 as of August 31, 2011.

During the years ended August 31, 2011 and 2010, certain of the PUF's investment managers trading in commodity futures on the London Metals Exchange (LME) closed out various long contract

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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 carrying and fair value as of August 31, 2011 and 2010.

The following discloses the type, number of contracts, expiration date, notional value, and the carrying and fair values at August 31, 2011 for futures contracts:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Contract	Number of Contracts	Expiration	Notional Value at August 31, 2011		Carrying and Fair Value at August 31, 2011	
			Long	Short	Assets	Liabilities
Commodities						
Aluminum Hg	-	Oct-11	\$ 1,164,819	\$ 1,164,819	\$ 110,656	\$ -
Aluminum Hg	207	Dec-11	14,901,650	2,084,916	-	132,308
Aluminum Hg	19	Dec-12	1,209,221	-	-	70,547
Brent Crude Oil	23	Sep-11	2,640,976	-	190,578	-
Brent Crude Oil	148	Nov-11	16,812,800	-	-	-
Brent Crude Oil	4	May-12	-	515,134	11,712	-
Coffee 'C'	19	Dec-11	2,269,969	220,944	-	22,394
Coffee 'C'	39	Mar-12	4,250,025	-	-	-
Coffee Robusta	9	Nov-11	226,511	-	9,520	-
Copper	158	Dec-11	16,607,775	-	-	-
Copper	20	Dec-11	4,741,824	-	214,364	-
Copper	5	Dec-12	1,184,690	-	59,212	-
Corn	617	Dec-11	23,656,998	-	518,608	-
Cotton No 2	81	Dec-11	4,251,022	-	-	118,522
Crude Oil	15	Sep-11	1,361,457	-	74,197	-
Crude Oil	87	Nov-11	7,768,496	-	-	33,337
Crude Oil	27	May-12	2,511,054	-	-	22,970
Crude Oil	133	Nov-12	12,287,364	-	-	146,825
Gas Oil	22	Sep-11	2,089,326	-	106,515	-
Gasoline Rbob	20	Oct-11	2,326,018	-	5,104	-
Gasoline Rbob	61	Nov-11	7,303,960	180,596	-	9,579
Gold 100 Oz	237	Dec-11	43,392,424	-	2,147,453	-
Heating Oil	1	Sep-11	198,566	-	-	2,228
Heating Oil	6	Oct-11	729,588	-	1,844	-
Heating Oil	45	Nov-11	6,372,185	531,622	-	29,981
Heating Oil	28	May-12	3,556,694	-	-	-
Lead	16	Dec-11	1,219,974	197,834	143,123	-
Lean Hogs	163	Dec-11	5,400,537	-	-	4,780
Live Cattle	5	Oct-11	233,067	-	-	5,959
Live Cattle	106	Dec-11	4,902,477	-	-	33,818
Live Cattle	107	Feb-12	5,112,477	-	74	-
Mill Wheat Euro	45	Nov-11	683,868	-	-	55,732
Natural Gas	16	Sep-11	-	574,061	26,965	19,874
Natural Gas	8	Oct-11	-	284,594	-	33,660
Natural Gas	8	Nov-11	-	302,398	-	31,944
Natural Gas	8	Nov-11	336,187	-	-	34,886
Natural Gas	339	Dec-11	15,228,969	-	-	98,648
Natural Gas	197	Dec-12	10,114,481	-	-	20,532
Nickel	-	Nov-11	1,731,366	1,731,366	265,290	-
Nickel	39	Dec-11	5,342,367	133,266	-	25,955
Platinum	10	Oct-11	948,518	-	25,439	-
Platinum	5	Jan-12	474,847	-	281	-
Silver	61	Dec-11	12,785,185	-	80,674	-
Soybean	174	Nov-11	12,691,108	-	205,822	-
Soybean	114	Jul-12	8,354,775	-	-	-
Soybean Oil	147	Oct-11	5,176,458	-	-	-
Soybean Oil	47	Dec-11	1,665,774	-	-	-
Sugar #11 World	134	Sep-11	4,435,028	-	177,430	-
Sugar #11 World	67	Feb-12	2,167,155	-	-	-
Sugar #11 World	50	Jun-12	1,468,320	-	-	-
Sugar #11 World	10	Sep-12	290,968	-	47,313	-
Wheat	149	Dec-11	5,899,960	-	102,238	-
Wheat	137	Mar-12	5,664,950	-	-	-
Wheat	19	Dec-11	846,088	-	96,980	-
Zinc	60	Dec-11	3,462,013	-	129,855	-
Zinc	79	Jun-12	4,621,994	-	-	-
			305,074,323	7,921,550	4,751,247	954,479

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

Contract	Number of Contracts	Expiration	Notional Value at August 31, 2011		Carrying and Fair Value at August 31, 2011		
			Long	Short	Assets	Liabilities	
Foreign Fixed Income							
Australian 3yr Bond	50	Sep-11	\$ -	\$ 5,684,243	\$ 4,699	\$ -	
Canada 10 Year Bond	58	Dec-11	7,681,730	-	21,111	-	
Euro-Bobl	27	Sep-11	4,732,594	-	14,165	-	
Euro-Bund	56	Sep-11	10,849,411	-	134,981	-	
UK Long Gilt	56	Dec-11	11,531,788	-	20,900	-	
			<u>34,795,523</u>	<u>5,684,243</u>	<u>195,856</u>	<u>-</u>	
Total			<u>\$ 339,869,846</u>	<u>\$ 13,605,793</u>	<u>\$ 4,947,103</u>	<u>\$ 954,479</u>	

The following discloses the type, number of contracts, expiration date, notional value, and the carrying and fair values at August 31, 2010 for futures contracts:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Contract	Number of Contracts	Expiration	Notional Value at August 31, 2010		Carrying and Fair Value at August 31, 2010		
			Long	Short	Assets	Liabilities	
Domestic Fixed Income							
U.S. 10 Year Treasury Notes	295	Dec-10	\$ 37,059,375	\$ -	\$ 101,406	\$ -	
			<u>37,059,375</u>	<u>-</u>	<u>101,406</u>	<u>-</u>	
Domestic Equity							
S&P 500 Index	189	Sep-10	49,532,175	-	151,200	-	
			<u>49,532,175</u>	<u>-</u>	<u>151,200</u>	<u>-</u>	
Commodities							
Aluminum HG	72	Jan-11	11,431,225	7,707,025	751,284	-	
Aluminum HG	84	Mar-11	6,758,375	2,391,425	432,975	-	
Brent Crude Oil	14	Dec-10	1,058,120	-	-	-	
Coffee 'C'	40	Dec-10	2,676,750	-	-	-	
Coffee 'C'	22	Mar-11	1,472,625	-	-	-	
Coffee 'C'	14	May-11	930,563	-	-	-	
Copper	140	Dec-10	11,795,000	-	-	-	
Corn	189	Dec-10	4,150,913	-	-	-	
Corn	153	Mar-11	3,459,712	-	-	-	
Corn	178	Jul-11	4,134,050	-	-	-	
Cotton No. 2	37	Dec-10	1,594,700	-	-	-	
Cotton No. 2	51	Mar-11	2,160,870	-	-	-	
Crude Oil	9	Dec-10	675,900	-	-	-	
Crude Oil	122	Dec-11	9,886,880	-	-	-	
Crude Oil	104	Jun-12	8,564,400	-	-	-	
Gasoline Rbob	48	Oct-10	3,744,518	-	-	-	
Gasoline Rbob	13	Dec-10	1,022,494	-	-	-	
Gold 100 Oz	2,754	Dec-10	344,332,620	-	2,917,084	-	
Heating Oil	59	Jun-11	5,212,969	-	-	-	
Lean Hogs	127	Dec-10	3,722,370	-	-	-	
Live Cattle	17	Oct-10	661,470	-	-	-	
Live Cattle	144	Jun-11	5,673,600	-	-	-	
Natural Gas	69	Jan-11	3,211,260	-	-	-	
Natural Gas	13	Jan-12	718,770	-	-	-	
Natural Gas	180	Apr-12	9,131,400	-	-	-	
Nickel	-	Feb-11	2,113,746	2,113,746	211,920	-	
Nickel	22	Jun-11	2,859,084	124,308	-	77,022	
Nickel	12	Nov-11	1,474,560	-	-	-	
Silver	56	Dec-10	5,440,960	-	-	-	
Soybean	55	Nov-10	2,777,500	-	-	-	
Soybean	133	Jan-11	6,778,012	-	-	-	
Soybean	53	May-11	2,721,550	-	-	-	
Soybean Oil	70	Oct-10	1,665,720	-	-	-	
Soybean Oil	111	Dec-10	2,667,330	-	-	-	
Soybean Oil	14	May-11	343,056	-	-	-	
Sugar #11 World	106	Mar-11	2,293,670	-	-	-	
Sugar #11 World	48	Jul-11	928,973	-	-	-	
Wheat	200	Dec-10	6,857,500	-	-	-	
Wheat	65	Jul-11	2,264,438	-	-	-	
Zinc	-	Sep-10	10,353,000	10,353,000	4,006,056	-	
Zinc	71	Aug-11	4,505,000	742,000	-	-	
			<u>504,225,653</u>	<u>23,431,504</u>	<u>8,319,319</u>	<u>77,022</u>	
Foreign Fixed Income							
90 Day Euro Dollar	798	Mar-11	-	198,552,375	881,358	-	
Canada 10 Year Bond	23	Dec-10	2,723,937	-	46,701	-	
Euro-Bobl	20	Sep-10	3,116,624	-	11,539	-	
Euro-Bund	62	Sep-10	10,592,936	-	-	41,265	
UK Long Gilt	34	Dec-10	6,545,411	-	34,530	-	
			<u>22,978,908</u>	<u>198,552,375</u>	<u>974,128</u>	<u>41,265</u>	
Total			<u>\$ 613,796,111</u>	<u>\$ 221,983,879</u>	<u>\$ 9,546,053</u>	<u>\$ 118,287</u>	

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Note 9 – Foreign Currency Exchange Contracts

The tables below summarize by currency the contractual amounts of the PUF’s foreign currency exchange contracts at August 31, 2011 and 2010. Foreign currency amounts are translated at exchange rates as of August 31, 2011 and 2010. 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	Net Sell	Unrealized Gains on Foreign Currency Exchange Contracts	Unrealized Losses on Foreign Currency Exchange Contracts
	August 31, 2011	August 31, 2011	August 31, 2011	August 31, 2011
Australian Dollar	\$ –	\$ 73,032,236	\$ 704,840	\$ 786,553
Brazilian Real	–	7,900,424	150,621	3,340
Canadian Dollar	6,121,048	–	186,907	46,574
Chilean Peso	21,355	–	415	–
Chinese Yuan Renminbi	13,351,568	–	297,919	90,981
Czech Koruna	358,535	–	7,515	–
Danish Krone	2,850,504	–	44,641	5,208
Euro	–	51,906,761	273,684	833,826
Hong Kong Dollar	–	4,321,574	35	2,263
Hungarian Forint	296,733	–	–	7,871
Indian Rupee	10,336,841	–	319,957	10,386
Indonesian Rupian	4,543,608	–	326,106	–
Japanese Yen	55,037,544	–	2,179,105	12,240,500
Malaysian Ringgit	327,589	–	15,236	334
Mexican Peso	5,867,941	–	530,671	334,795
New Zealand Dollar	–	27,692,631	315,696	99,296
Norwegian Kroner	–	9,158,098	808	243,387
Philippines Peso	179,950	–	73,994	62,264
Polish Zloty	340,666	–	147	18,973
Singapore Dollar	460,682	–	44,303	8,514
South African Rand	9,407,189	–	288,258	91,125
South Korean Won	9,997,290	–	850,674	23,307
Swedish Krona	2,344,190	–	39,728	6,767
Swiss Franc	–	14,583,487	1,095,708	103,358
Taiwan Dollar	19,952,857	–	8,274	148,116
Thailand Baht	351,111	–	22,530	3
Turkish Lira	8,686,695	–	204,254	–
UK Pound	1,398,519	–	265,623	183,398
	<u>\$ 152,232,415</u>	<u>\$ 188,595,211</u>	<u>\$ 8,247,649</u>	<u>\$ 15,351,139</u>

The change in fair value of open foreign currency exchange contracts for the year ending August 31, 2011 was a decrease in the amount of \$7,103,490, which is included in the net increase in investments on the statement of changes in fiduciary net assets.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Currency	Net Buy	Net Sell	Unrealized Gains	Unrealized
	August 31, 2010	August 31, 2010	on Foreign Currency Exchange Contracts August 31, 2010	Losses on Foreign Currency Exchange Contracts August 31, 2010
Australian Dollar	\$ -	\$ 8,246,347	\$ 209,418	\$ 151,334
Brazilian Real	250,946	-	2,669	698
Canadian Dollar	661,927	-	47,568	25,276
Chilean Peso	19,756	-	-	528
Chinese Yuan Renminbi	8,222,143	-	52,067	366,361
Danish Krone	1,053,586	-	31,686	-
Egyptian Pound	-	19,810	2,112	51
Euro	-	18,187,517	148,787	652,244
Hong Kong Dollar	79,276	-	232	59
Hungarian Forint	-	-	126,428	61,530
Indian Rupee	171,583	-	301	869
Indonesian Rupian	1,065,675	-	148,307	-
Japanese Yen	19,352,160	-	1,654,590	916,613
Malaysian Ringgit	1,394,566	-	44,406	2,221
Mexican Peso	310,070	-	69,151	110,137
New Zealand Dollar	3,100,396	-	106,711	11,055
Norwegian Kroner	8,134,255	-	126,759	-
Philippines Peso	-	-	-	142
Polish Zloty	-	45,681	447	-
Singapore Dollar	498,012	-	18,297	3,767
South African Rand	964,012	-	41,535	1,302
South Korean Won	3,255,007	-	15,651	86,571
Swedish Krona	3,747,401	-	78,052	396,590
Swiss Franc	3,639,297	-	134,832	42,241
Taiwan Dollar	1,405,024	-	-	21,476
Thailand Baht	705,652	-	27,979	4,813
Turkish Lira	7,549,890	-	423,798	4
UK Pound	15,789,577	-	376,815	220,171
	<u>\$ 81,370,211</u>	<u>\$ 26,499,355</u>	<u>\$ 3,888,598</u>	<u>\$ 3,076,053</u>

The change in fair value of open foreign currency exchange contracts for the year ending August 31, 2010 was an increase in the amount of \$812,545, which is included in the net increase in investments on the statement of changes in fiduciary net assets.

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 \$3,528,030,000 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.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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 assets in any fiscal year, except as necessary to pay debt service on PUF bonds. Distributions from the PUF to the AUF for the years ended August 31, 2011 and 2010 were \$506,395,811 and \$516,419,406, respectively. The PUF distribution to the AUF for the year ending August 31, 2012, will be \$575,511,336. The first payment in the amount of \$316,000,000 was made September 29, 2011.

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 0.07% 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 assets represent only those paid directly from the PUF, and do not include fees incurred and charged by general partners in private investments, fees charged by mutual fund managers, and fees charged by hedge fund managers as these types of fees are netted directly against returns for those investments in accordance with standard industry practice.

UTIMCO assesses the PUF a management fee to cover the costs of managing the PUF investments and providing day-to-day operations. The fee assessed for the year ended August 31, 2011 was \$8,470,821. The fee assessed for the year ended August 31, 2010 was \$5,198,266, net of a rebate of \$2,648,238 of prior year reserves from UTIMCO to the PUF.

The PUF is assessed a fee to cover expenses related to the management of the PUF Lands. The fee assessed for the years ended August 31, 2011 and 2010, were \$10,014,144 and \$8,369,141, 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 \$261,550 and \$265,450 were charged to the PUF for the years ended August 31, 2011 and 2010, 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, 2011 and 2010 were \$1,984,089 and \$1,047,664 respectively.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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, 2011 and 2010, fees incurred were \$474,761 and \$579,359, respectively.

Analytical and risk measurement fees, in the amounts of \$323,126 and \$379,133, were also incurred during the years ended August 31, 2011 and 2010, respectively, to maintain a sophisticated risk measurement system for the PUF.

Accounting fees, in the amount of \$332,858 and \$ 269,161, were paid by the PUF during the years ended August 31, 2011 and 2010, respectively, for external and UT System internal audit services and for foreign tax consulting services.

Consulting fees, in the amount of \$205,353, and \$261,725, respectively, for the years ending August 31, 2011 and 2010 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 new investment managers. Fees in the amount of \$121,868 and \$72,049 were incurred for the years ending August 31, 2011 and 2010, respectively.

PERMANENT UNIVERSITY FUND

Supplemental Schedules

Comparison Summary of Investments

August 31, 2011 and 2010

(in thousands)

	2011		2010	
	Value	% of Total Investments	Value	% of Total Investments
Equity Securities				
Domestic Common Stock	\$ 557,899	4.40%	\$ 439,950	4.13%
Foreign Common Stock	1,039,141	8.20%	949,938	8.93%
Other Equities	108	.00%	1,896	.02%
Total Equity Securities	<u>1,597,148</u>	<u>12.60%</u>	<u>1,391,784</u>	<u>13.08%</u>
Preferred Stock				
Domestic Preferred Stock	1,848	.01%	1,876	.02%
Foreign Preferred Stock	54,299	.43%	43,119	.41%
Total Preferred Stock	<u>56,147</u>	<u>.44%</u>	<u>44,995</u>	<u>.43%</u>
Debt Securities				
U. S. Government Obligations	237,195	1.87%	249,118	2.34%
Foreign Government and Provincial Obligations	415,991	3.28%	246,948	2.32%
Corporate Obligations	272,856	2.16%	489,312	4.60%
Other	14,485	.11%	7,772	.07%
Total Debt Securities	<u>940,527</u>	<u>7.42%</u>	<u>993,150</u>	<u>9.33%</u>
Convertible Securities	<u>4,207</u>	<u>.03%</u>	<u>47</u>	<u>.00%</u>
Purchased Options	<u>162,926</u>	<u>1.29%</u>	<u>9,682</u>	<u>.09%</u>
Investment Funds				
Hedge Funds	3,743,699	29.54%	3,239,009	30.44%
Private Investments	3,142,762	24.80%	2,386,892	22.43%
Developed Country Equity	934,258	7.36%	696,642	6.55%
Emerging Markets Equity	516,775	4.08%	495,935	4.66%
Natural Resources	162,217	1.28%	117,151	1.10%
Real Estate	--	.00%	13,982	.13%
Fixed Income	12,850	.10%	121,505	1.14%
Total Investment Funds	<u>8,512,561</u>	<u>67.16%</u>	<u>7,071,116</u>	<u>66.45%</u>
Physical Commodities - Gold	<u>641,812</u>	<u>5.07%</u>	<u>--</u>	<u>0.0%</u>
Cash and Cash Equivalents	<u>759,577</u>	<u>5.99%</u>	<u>1,129,375</u>	<u>10.62%</u>
Total Investments	<u>\$12,674,905</u>	<u>100.00%</u>	<u>\$10,640,149</u>	<u>100.00%</u>

PERMANENT UNIVERSITY FUND

Supplemental Schedules (cont.)

Schedule of Changes in Cost of Investments and Investment Income

Year Ended August 31, 2011

(in thousands)

	Beginning Cost	Purchases	Sales, Maturities & Redemptions	Gains (Losses)	Reclass	Ending Cost	Pooled Account Adjustments	Adjusted Ending Cost	Investment Income
Equity Securities									
Domestic Common Stock	\$ 442,516	\$ 595,343	\$ (599,013)	\$ 57,840	\$ (2,114)	\$ 494,572	\$ 32,970	\$ 527,542	\$ 8,726
Foreign Common Stock	917,490	273,955	(610,709)	60,097	1,641	642,474	324,902	967,376	30,203
Other	1,717	(2)	(1,943)	329	(1)	100	1	101	3
Total Equity Securities	<u>1,361,723</u>	<u>869,296</u>	<u>(1,211,665)</u>	<u>118,266</u>	<u>(474)</u>	<u>1,137,146</u>	<u>357,873</u>	<u>1,495,019</u>	<u>38,932</u>
Preferred Stock									
Domestic Preferred Stock	2,385	-	(75)	75	-	2,385	-	2,385	20
Foreign Preferred Stock	38,632	5,916	(15,004)	1,049	474	31,067	22,475	53,542	2,344
Total Preferred Stock	<u>41,017</u>	<u>5,916</u>	<u>(15,079)</u>	<u>1,124</u>	<u>474</u>	<u>33,452</u>	<u>22,475</u>	<u>55,927</u>	<u>2,364</u>
Debt Securities									
U. S. Government Obligations	227,741	472,659	(625,845)	1,662	-	76,217	140,567	216,784	9,060
Foreign Government and Provincial	238,205	350,298	(343,466)	12,656	-	257,693	127,077	384,770	17,151
Corporate Obligations	441,441	46,395	(383,391)	60,290	-	164,735	92,191	256,926	19,428
Swaps	-	-	-	-	-	-	-	-	401
Other	7,946	6,970	(2,106)	292	-	13,102	1,000	14,102	867
Total Debt Securities	<u>915,333</u>	<u>876,322</u>	<u>(1,354,808)</u>	<u>74,900</u>	<u>-</u>	<u>511,747</u>	<u>360,835</u>	<u>872,582</u>	<u>46,907</u>
Purchased Options	<u>13,657</u>	<u>151,532</u>	<u>-</u>	<u>13,128</u>	<u>-</u>	<u>178,317</u>	<u>96</u>	<u>178,413</u>	<u>9</u>
Convertible Securities	<u>46</u>	<u>-</u>	<u>(47)</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>4,261</u>	<u>4,261</u>	<u>-</u>
Investment Funds									
Hedge Funds	2,730,997	538,978	(270,297)	88,605	-	3,088,283	-	3,088,283	-
Private Markets	2,370,626	744,879	(532,245)	58,757	-	2,642,017	-	2,642,017	38,829
Developed Country Equity	598,607	441,483	(159,442)	37,540	-	918,188	(168,886)	749,302	283
Emerging Markets	419,215	370,678	(173,622)	54,299	-	670,570	(237,207)	433,363	1,426
Fixed Income	111,715	495,805	(197,316)	16,577	-	426,781	(414,045)	12,736	3,181
Real Estate	8,996	593	(16,645)	7,056	-	-	-	-	225
Natural Resources	124,400	64,353	-	3,231	-	191,984	(54,354)	137,630	-
Total Investment Funds	<u>6,364,556</u>	<u>2,656,769</u>	<u>(1,349,567)</u>	<u>266,065</u>	<u>-</u>	<u>7,937,823</u>	<u>(874,492)</u>	<u>7,063,331</u>	<u>43,944</u>
Physical Commodities									
Gold Bullion	-	486,472	(12,411)	269	-	474,330	5,457	479,787	-
Cash and Cash Equivalents									
Money Market Funds and Cash Held at State	1,131,434	-	(562,206) *	102,680 **	-	671,908	87,689	759,597	1,816
Other	-	-	-	-	-	-	-	-	3,074
Total Investment in Securities	<u>\$ 9,827,766</u>	<u>\$ 5,046,307</u>	<u>\$ (4,505,783)</u>	<u>\$ 576,433</u>	<u>\$ -</u>	<u>\$ 10,944,723</u>	<u>\$ (35,806) ***</u>	<u>\$ 10,908,917</u>	<u>\$ 137,046</u>

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

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

*** Cost basis of Pooled Account balance sheet items other than investments in securities.