

Financial Statements

and Independent Auditors' Report

The University of Texas System

General Endowment Fund

*Years Ended August 31, 2012 and 2011*

# The University of Texas System General Endowment Fund

## Financial Statements

Years Ended August 31, 2012 and 2011

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying Statements of Fiduciary Net Assets of The University of Texas System General Endowment Fund (the "Fund"), as of August 31, 2012 and August 31, 2011, and the related Statements of Changes in Fiduciary Net Assets for the years then ended. These financial statements are the responsibility of The University of Texas Investment Management Company ("UTIMCO" or "management"). Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1, the financial statements of the Fund are intended only to present the financial position of the Fund as of August 31, 2012 and August 31, 2011, 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, 2012 or August 31, 2011, or the changes in its financial position for the years then ended.

As discussed in Note 2, the financial statements include investments valued at \$4,933,094,554 (69.4% of net assets) and \$4,811,582,613 (68.3% of net assets) as of August 31, 2012 and August 31, 2011, 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 Fund as of August 31, 2012 and August 31, 2011, 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 5 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 as a whole. The supplemental schedules referred to in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such schedules have been subjected to the auditing procedures applied in our audits of the financial statements and certain additional procedures, including comparing and reconciling such schedules directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such schedules are fairly stated in all material respects in relation to the financial statements taken as a whole.

*Deloitte & Touche LLP*

October 31, 2012

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

Our discussion and analysis of The University of Texas System General Endowment Fund's (Fund) financial performance provides an overview of its activities for the year ended August 31, 2012. This discussion was prepared by The University of Texas Investment Management Company (UTIMCO) and should be read in conjunction with the Fund's financial statements and notes. The Fund is a pooled investment fund for the collective investment of the Permanent Health Fund (PHF) and The University of Texas System Long Term Fund (LTF). The Fund was created to allow the PHF and LTF to benefit from their identical investment objectives by providing greater efficiencies and cost savings than was possible when the investments of the PHF and LTF were managed separately. 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 Fund's financial statements based upon currently known facts, decisions and conditions.

### Financial Highlights

- The Fund's fiduciary net assets, after contributions and withdrawals, increased by \$55.4 million from \$7,049.2 million to \$7,104.6 million or approximately 0.8% for the year ended August 31, 2012, compared to an increase of \$1,013.8 million or approximately 16.8% for the year ended August 31, 2011. The change in net fiduciary net assets from year to year is mainly attributable to the following:
  1. The Fund posted a net investment gain of 3.24%, calculated using the Modified Dietz Method as described by the CFA Institute, for the year ended August 31, 2012. Investments in developed country equities, credit-related fixed income and real estate were the biggest contributors to the 2012 return. Investments in natural resources, developed country equities and credit-related fixed income were the biggest contributors to the net investment gain of 14.74% for August 31, 2011.
  2. The PHF and LTF redeemed and purchased Fund units resulting in net distributions of \$167.8 million for the year ended August 31, 2012, compared to net contributions for the year ended August 31, 2011 of \$92.9 million.
  3. The Fund allocates its net investment income and its realized gain or loss to the PHF and LTF monthly based on their ownership of Fund units at month end. The distributed net investment income and realized gain amounts increase the cost basis of the units of the Fund, and any distributed realized losses reduce the cost basis of the units in the Fund. Since the distribution is proportional to the percentage ownership by the PHF and LTF, no additional units are purchased.

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**Use of Financial Statements and Notes**

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

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

**Statements of Fiduciary Net Assets**

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

The Fund 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 the Fund's assets to internally and externally managed portfolios in accordance with approved asset allocation policies, and attempts to supplement the original endowment corpus by increasing purchasing power over time. In doing so, UTIMCO increases the endowment resources available to fund the teaching, research, and health care programs specified by the various donors.

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

<b>Assets</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Investments, at Fair Value	\$ 7,115.5	\$ 7,042.1	\$ 5,997.5
Other Assets	239.7	257.1	192.7
<b>Total Assets</b>	<b>7,355.2</b>	<b>7,299.2</b>	<b>6,190.2</b>
<b>Total Liabilities</b>	<b>250.6</b>	<b>250.0</b>	<b>154.8</b>
<b>Net Assets Held in Trust</b>	<b>\$ 7,104.6</b>	<b>\$ 7,049.2</b>	<b>\$ 6,035.4</b>

**Statements of Changes in Fiduciary Net Assets**

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

The net increase in investments of the Fund was \$171.4 million during the year ended August 31, 2012 compared to the net increase in appreciation of investments of \$858.8 million for the year ended August 31, 2011. Expenses totaled \$12.3 million, \$15.8 million, and \$14.3 million, respectively, for the years ended August 31, 2012, 2011, and 2010.

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The net increase in fiduciary net assets totaled \$55.4 million for the year ended August 31, 2012 compared to a net increase in fiduciary net assets totaling \$1,013.8 million for the year ended August 31, 2011.

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

	<b>2012</b>	<b>2011</b>	<b>2010</b>
Investment Income	\$ 235.5	\$ 936.7	\$ 714.1
Less Investment Expenses	(12.3)	(15.8)	(14.3)
Net Investment Income	<u>223.2</u>	<u>920.9</u>	<u>699.8</u>
Participant Contributions	193.3	432.3	285.3
Total Additions	<u>416.5</u>	<u>1,353.2</u>	<u>985.1</u>
Participant Withdrawals	361.1	339.4	308.5
Total Deductions	<u>361.1</u>	<u>339.4</u>	<u>308.5</u>
Change in Fiduciary Net Assets	55.4	1,013.8	676.6
Net Assets Held in Trust, Beginning of Year	7,049.2	6,035.4	5,358.8
Net Assets Held in Trust, End of Year	<u>\$ 7,104.6</u>	<u>\$ 7,049.2</u>	<u>\$ 6,035.4</u>

**Contacting UTIMCO**

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

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**Statements of Fiduciary Net Assets**

*August 31, 2012 and 2011*

*(Dollars in thousands, except per unit amounts)*

<b>Assets</b>	<b>2012</b>	<b>2011</b>
Investments, at Fair Value:		
Equity Securities	\$ 852,535	\$ 895,613
Preferred Stock	26,255	32,589
Purchased Options	19,873	92,847
Debt Securities	556,588	542,313
Convertible Securities	309	2,384
Investment Funds	4,987,743	4,818,502
Physical Commodities	327,869	365,031
Cash and Cash Equivalents	344,371	292,775
Total Investments	<u>7,115,543</u>	<u>7,042,054</u>
Collateral for Securities Loaned, at Fair Value	135,636	91,498
Deposits with Brokers for Derivative Contracts	43,349	78,401
Futures Contracts, at Fair Value	1,485	3,248
Swaps, at Fair Value	2,367	1,938
Unrealized Gains on Foreign Currency Exchange Contracts	4,029	4,686
Receivables:		
Investment Securities Sold	44,717	69,081
Accrued Income	7,910	7,888
Other	152	474
Total Receivables	<u>52,779</u>	<u>77,443</u>
<b>Total Assets</b>	<u>7,355,188</u>	<u>7,299,268</u>
<b>Liabilities</b>		
Payable Upon Return of Securities Loaned	135,636	91,498
Payable to Brokers for Collateral Held	12,480	49,670
Payable to Participants	11,874	4,647
Unrealized Losses on Foreign Currency Exchange Contracts	6,685	8,935
Future Contracts, at Fair Value	2,183	547
Swaps, at Fair Value	1,751	21,452
Options Written, at Fair Value	6,827	50,141
Payables:		
Investment Securities Purchased	67,970	19,522
Other	5,178	3,608
Total Payables	<u>73,148</u>	<u>23,130</u>
<b>Total Liabilities</b>	<u>250,584</u>	<u>250,020</u>
<b>Net Assets Held in Trust</b>	<u>\$ 7,104,604</u>	<u>\$ 7,049,248</u>
<b>Number of Units:</b>		
Permanent Health Fund (PHF)	4,816,184	5,054,800
The University of Texas System Long Term Fund (LTF)	<u>30,233,803</u>	<u>30,840,825</u>
<b>Total</b>	<u>35,049,987</u>	<u>35,895,625</u>
<b>Net Asset Value Held in Trust Per Unit</b>	<u>\$ 202.699</u>	<u>\$ 196.382</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, 2012 and 2011*

*(in thousands)*

	<u>2012</u>	<u>2011</u>
<b>Additions</b>		
Investment Income:		
Net Increase in Investments	\$ 171,404	\$ 858,838
Interest	25,288	30,267
Dividends	21,879	24,052
Income Distributions from Private Investment Funds	15,607	22,262
Securities Lending Income	336	374
Other Income	956	988
Total Investment Income	<u>235,470</u>	<u>936,781</u>
Less Investment Expenses:		
Investment Management Fees	10,694	13,549
Custodial Fees and Expenses	1,373	1,494
Legal Fees	273	273
Analytical and Risk Measurement Fees	189	184
Consulting Fees	121	118
Accounting Fees	109	206
Background Check Fees	88	70
Foreign Tax Consulting and Filing Fees	40	42
Securities Lending Fees	(570)	(96)
Other Expenses	23	3
Total Investment Expenses	<u>12,340</u>	<u>15,843</u>
Net Investment Income	223,130	920,938
Participant Contributions	193,291	432,290
<b>Total Additions</b>	<u>416,421</u>	<u>1,353,228</u>
<b>Deductions</b>		
Participant Withdrawals	<u>361,065</u>	<u>339,404</u>
<b>Change in Fiduciary Net Assets</b>	55,356	1,013,824
Net Assets Held in Trust, Beginning of Year	<u>7,049,248</u>	<u>6,035,424</u>
<b>Net Assets Held in Trust, End of Year</b>	<u>\$ 7,104,604</u>	<u>\$ 7,049,248</u>

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

## **Note 1 – Organization and Basis of Presentation**

The University of Texas System General Endowment Fund (Fund), created March 1, 2001, is a pooled fund established for the collective investment of long-term funds under the control and management of the Board of Regents of The University of Texas System (UT Board). The Fund is organized as a pooled investment fund and has two participants, the Permanent Health Fund (PHF) and The University of Texas System Long Term Fund (LTF). The PHF and LTF initially purchased units of the Fund on March 1, 2001, in exchange for the contribution of their investment assets. The Fund provides for greater diversification of investments than would be possible if each account were managed separately.

Fiduciary responsibility for the Fund rests with the UT Board. The day-to-day operational responsibilities of the Fund are delegated to The University of Texas Investment Management Company (UTIMCO), pursuant to an Investment Management Services Agreement with the UT Board.

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

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

Management has evaluated subsequent events through October 31, 2012, the date the financial statements were available to be issued. No subsequent events requiring adjustment to, or disclosure in, the financial statements were identified as a result of this evaluation.

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

(A) ***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 Fund are valued based upon prices supplied by FT Interactive Data and other major fixed income pricing services, external broker quotes and internal pricing matrices.

Equity security and publicly traded mutual fund fair values are based on the closing price on the primary exchange on which they are 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, which consist of non-regulated investment funds, are fair valued by management. The fair values of these investments are estimated by management using the

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*Notes to Financial Statements (cont.)*

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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 last available reporting date as well as consideration of any other information which has been provided by the investment manager or other sources. In rare cases the private market funds are valued at cost, but only when management determines that it is the best approximation of value. As of August 31, 2012 and 2011, investments in private investment funds in the amount of \$1,910,386,766 and \$1,781,268,007 have been estimated by management.

Hedge funds, developed country equity, emerging markets equity, fixed income, real estate and natural resources investment funds, and certain other private placements are fair valued by management based on net asset value information provided by the investment managers as well as other relevant factors as indicated above. As of August 31, 2012 and 2011, investments in these funds in the amount of \$3,022,707,788 and \$3,030,314,606, respectively, have been estimated by management.

The statements of fiduciary net assets include investments in private investment funds, hedge funds and other investment funds as described above valued in the aggregate at \$4,933,094,554 (69.4% of net assets) and \$4,811,582,613 (68.3% of net assets) as of August 31, 2012 and 2011, 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 Fund 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 Fund 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, 2012 and 2011, interest and dividend withholding in the amounts of \$1,530,688 and \$1,635,032 have been netted against dividend and interest income. Investment income includes net realized and unrealized currency gains and losses recognized between accrual and payment dates on dividend and interest transactions. Investment expenses are recorded on the accrual basis as incurred.

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

(E) ***Distributions to Participants*** -- The Fund, for accounting purposes, allocates its net investment income and realized gain or loss to the PHF and LTF monthly, based on their ownership of Fund units at month end. The allocated investment income and realized gain amounts increase the cost basis of the units of the Fund, and any allocated realized losses reduce the cost basis of the units of the Fund. Since the allocation is proportional to the percentage ownership by the PHF and LTF, no additional units are issued.

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*Notes to Financial Statements (cont.)*

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

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

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

(I) ***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 revenues and expenses during the reporting period. Actual results could differ from these estimates.

(J) ***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 Fund from time to time uses various derivative instruments, as allowed under UT Board approved derivative investment policy guidelines. Futures contracts are valued at closing market prices on valuation date. Options and swaps are valued by using independent broker quotes or using models with primarily externally verifiable model inputs. Derivative instruments included under these policies include futures, forwards, swaps and all forms of options. Derivative instruments in the Fund are used to achieve the following objectives:

- implement investment strategies in a low cost and efficient manner,
- alter the Fund'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 Fund's investment in derivative instruments is to manage and implement investment strategies more effectively and at a lower cost than would be possible in the cash market. All of the Fund'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 statements of changes in fiduciary net assets.

***Options Written*** -- When the Fund writes an option, an amount equal to the premium received by the Fund 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

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*Notes to Financial Statements (cont.)*

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the Fund 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 Fund has realized a gain or loss. If a put option is exercised, the premium reduces the cost basis of the securities purchased by the Fund. The Fund 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 Fund invests in certain types of swaps to increase or decrease its exposure to long-term interest rates and to certain commodity or 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 in 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 Fund 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 Fund'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 Fund 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 Fund 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 foreign currency contract, the Fund 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 Fund's net equity therein, representing unrealized gain or loss on the contracts as

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*Notes to Financial Statements (cont.)*

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

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

(L) ***Reclassification*** -- Certain items in the 2011 financial statements and related notes have been reclassified to conform with the 2012 classification.

### **Note 3 – Investment Risk**

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

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 Fund's investment policy does not provide specific requirements and limitations regarding investment ratings. Per GASB Statement No. 40 (GASB 40), *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3*, unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. GASB 40 also provides that securities with split ratings, or a different rating assignment between NRSROs, are disclosed using the rating indicative of the greatest degree of risk. The following table presents each applicable investment type grouped by rating as of August 31, 2012 and 2011:

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*Notes to Financial Statements (cont.)*

Investment Type	August 31,		Rating
	2012	2011	
U.S. Government Guaranteed	\$ 61,171,975	\$ 81,322,070	AA
U.S. Government Non-Guaranteed:			
U.S. Agency	1,982,472	1,888,633	AA
U.S. Agency Asset Backed	-	10,356,250	AAA
U.S. Agency Asset Backed	40,355,484	39,190,922	AA
Total U.S. Government Non-Guaranteed	42,337,956	51,435,805	
Total U.S. Government	103,509,931	132,757,875	
Corporate Obligations:			
Domestic	8,170,025	11,911,823	AAA
Domestic	3,345,231	4,887,853	AA
Domestic	34,342,402	38,101,023	A
Domestic	34,374,421	26,937,705	BAA/BBB
Domestic	5,824,159	4,092,891	BA/BB
Domestic	4,124,695	2,910,775	B
Domestic	3,330,853	4,207,359	CAA/CCC
Domestic	1,337,563	1,592,036	CA/CC
Domestic	-	169,858	C
Domestic	427,627	297,432	D
Domestic	622,364	817,604	Not Rated
Foreign	24,317,789	27,860,847	AAA
Foreign	8,731,669	7,528,367	AA
Foreign	10,127,679	14,742,819	A
Foreign	12,671,046	9,962,774	BAA/BBB
Foreign	2,379,188	1,670,699	BA/BB
Foreign	774,607	750,688	B
Foreign	469,787	-	CAA/CCC
Foreign	143,938	-	Not Rated
Total Corporate Obligations	155,515,043	158,442,553	
Foreign Government and Provincial Obligations	82,885,566	105,721,381	AAA
Foreign Government and Provincial Obligations	34,896,593	17,607,400	AA
Foreign Government and Provincial Obligations	54,838,821	26,357,087	A
Foreign Government and Provincial Obligations	66,850,269	78,424,453	BAA/BBB
Foreign Government and Provincial Obligations	11,991,021	4,732,556	BA/BB
Foreign Government and Provincial Obligations	39,501,274	11,378,872	Not Rated
Total Foreign Government and Provincial Obligations	290,963,544	244,221,749	
Other Debt Securities	455,514	407,718	AAA
Other Debt Securities	1,076,200	1,257,800	AA
Other Debt Securities	3,912,348	4,177,181	A
Other Debt Securities	123,052	341,385	BAA/BBB
Other Debt Securities	-	706,382	BA/BB
Other Debt Securities	1,032,618	-	B
Total Other Debt Securities	6,599,732	6,890,466	
Total Debt Securities	\$ 556,588,250	\$ 542,312,643	
Convertible Securities	\$ 309,093	\$ -	B
Convertible Securities	-	2,048,170	Not Rated
Total Convertible Securities	\$ 309,093	\$ 2,048,170	
Other Investment Funds - Debt	\$ 8,056,640	\$ 6,919,098	BA/BB
Cash and Cash Equivalents - Money Market Funds	\$ 332,849,447	\$ 282,452,528	AAA
Cash and Cash Equivalents	11,521,459	10,321,999	Not Rated
Total Cash and Cash Equivalents	\$ 344,370,906	\$ 292,774,527	
<b>Net Deposit with Brokers for Derivative Contracts:</b>			
U.S. Government Guaranteed	\$ 358,639	\$ 815,959	AA
Foreign Government and Provincial Obligations	10,473,029	15,494,474	BAA/BBB
Foreign Government and Provincial Obligations	9,957,541	1,070,692	Not Rated
Cash	10,079,891	11,350,497	Not Rated
<b>Total Net Deposit with Brokers for Derivative Contracts</b>	<b>\$ 30,869,100</b>	<b>\$ 28,731,622</b>	

**(B) Concentrations of Credit Risk**

The Fund's investment policy statement contains the limitation that no more than 5% of the market value of fixed income securities may be invested in corporate or municipal bonds of a single issuer. The Fund does not hold any direct investments in any one issuer that is 5% percent or more of the market value of the Fund'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 Fund 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 Fund 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 Fund'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, 2012 and 2011, the Fund 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 Fund is measured by monitoring the modified duration of the overall investment portfolio. Modified duration estimates the sensitivity of the Fund's investments to changes in interest rates. The Fund has no specific policy statement limitations with respect to its overall modified duration. The following table summarizes the Fund's modified duration by investment type at August 31, 2012 and 2011:



**THE UNIVERSITY OF TEXAS SYSTEM  
GENERAL ENDOWMENT FUND**

*Notes to Financial Statements (cont.)*

Investment Type	August 31,			
	2012		2011	
	Value	Modified Duration	Value	Modified Duration
<b>Investments:</b>				
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	\$ 47,881,284	7.96	\$ 79,773,574	10.47
U.S. Treasury Bills	12,158,005	0.53	822,813	0.50
U.S. Treasury Inflation Protected	480,799	7.15	-	-
U.S. Agency Asset Backed	651,887	4.18	725,683	3.47
Total U.S. Government Guaranteed	<u>61,171,975</u>	6.44	<u>81,322,070</u>	10.31
U.S. Government Non-Guaranteed:				
U.S. Agency	1,982,472	7.06	1,888,633	9.11
U.S. Agency Asset Backed	40,355,484	2.65	49,547,172	2.83
Total U.S. Government Non-Guaranteed	<u>42,337,956</u>	2.85	<u>51,435,805</u>	3.06
Total U.S. Government	<u>103,509,931</u>	4.97	<u>132,757,875</u>	7.50
Corporate Obligations:				
Domestic	95,899,340	6.37	95,926,359	6.33
Foreign	59,615,703	5.37	62,516,194	5.10
Total Corporate Obligations	<u>155,515,043</u>	5.98	<u>158,442,553</u>	5.84
Foreign Government and Provincial Obligations	<u>290,963,544</u>	6.44	<u>244,221,749</u>	6.76
Other Debt Securities	<u>6,599,732</u>	12.77	<u>6,890,466</u>	11.87
Total Debt Securities	<u>556,588,250</u>	6.12	<u>542,312,643</u>	6.74
Convertible Securities	<u>309,093</u>	29.03	<u>2,048,170</u>	2.37
Other Investment Funds - Debt	<u>8,056,640</u>	6.90	<u>6,919,098</u>	7.50
Cash and Cash Equivalents	<u>344,370,906</u>	0.06	<u>292,774,527</u>	0.08
Total	<u>\$ 909,324,889</u>	3.84	<u>\$ 844,054,438</u>	4.42
<b>Net Deposit with Brokers for Derivative Contracts:</b>				
U.S. Government Guaranteed:				
U.S. Treasury Bills	\$ 93,867	0.67	\$ 815,959	0.28
U.S. Treasury Bonds and Notes	264,772	18.28	-	-
Total U.S. Government Guaranteed	<u>358,639</u>	13.67	<u>815,959</u>	0.28
Foreign Government and Provincial Obligations	<u>20,430,570</u>	5.49	<u>16,565,166</u>	6.91
Cash	<u>10,079,891</u>	-	<u>11,350,497</u>	-
Total Net Deposit with Brokers for Derivative Contracts	<u>\$ 30,869,100</u>	3.79	<u>\$ 28,731,622</u>	3.99

The Fund has purchased options on ten year constant maturity swaps, with expirations ranging from five to seven years, as insurance against possible future increases in inflation. As of August 31, 2012 these options had a notional value of \$3,358,000,000 and a fair value of \$4,752,462. As of August 31, 2011 these options had a notional value of \$2,782,000,000 and a fair value of \$12,464,378. The risk of loss on these options is limited to the premiums paid by the Fund upon the purchase of the options, which totaled \$18,856,833 as of August 31, 2012 and \$15,228,033 as of August 31, 2011. 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, 2012 these puts and swaptions had a notional value of \$2,029,119,640 with a fair value of \$1,848,862 and a loss limited to \$17,260,335 which represents the premiums paid. As of August 31,

**THE UNIVERSITY OF TEXAS SYSTEM  
GENERAL ENDOWMENT FUND**

*Notes to Financial Statements (cont.)*

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2011 these puts and swaptions had a notional value of \$3,770,709,494 with a fair value of \$7,034,444 and a loss limited to \$20,295,507 which represents the premiums paid. It is estimated that these options would adjust the 2012 duration of total debt securities of 6.12 downward by approximately 0.47, and the total duration of 3.84 downward by approximately 0.48. It is estimated that these options would adjust the 2011 duration of total debt securities of 6.74 downward by approximately 1.04, and the total duration of 4.42 downward by approximately 1.17. One of the Fund's external managers also uses options and interest rate and credit default swaps to modify the duration of its portfolio in a cost efficient manner. It is estimated by management that these positions held by the external manager would not significantly adjust the duration of the Fund as presented above.

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

The Fund may invest in various mortgage backed securities, such as collateralized mortgage backed obligations. The Fund 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, 2012 and 2011, the Fund'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 \$33,681,192 and \$46,547,523 as of August 31, 2012 and 2011, 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 \$24,719,723 and to \$24,865,703 as of August 31, 2012 and 2011, 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 \$3,248,930 and \$5,629,825, as of August 31, 2012 and 2011, respectively.

**(F) *Foreign Currency Risk***

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the Fund'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 Fund's total fixed income and developed country equity exposures in the Fund's investment policy statement.

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 Fund's exposure to non-U.S. dollar investments at August 31, 2012 and 2011:

**THE UNIVERSITY OF TEXAS SYSTEM  
GENERAL ENDOWMENT FUND**

*Notes to Financial Statements (cont.)*

Investment Type	August 31,	
	2012	2011
<b>Foreign Common Stock:</b>		
Australian Dollar	\$ 17,025,178	\$ 23,214,814
Brazilian Real	47,661,281	33,155,791
Canadian Dollar	16,220,924	23,233,847
Chilean Peso	1,473,926	1,423,456
Czech Koruna	755,655	952,302
Danish Krone	2,107,776	1,794,307
Egyptian Pound	580,615	679,351
Euro	35,586,376	44,723,449
Hong Kong Dollar	82,368,592	72,806,913
Hungarian Forint	595,987	745,097
Indian Rupee	9,269,695	13,854,998
Indonesian Rupian	8,534,131	7,401,794
Israeli Shekel	-	37,915
Japanese Yen	22,090,484	26,328,425
Malaysian Ringgit	11,652,633	10,586,845
Mexican Peso	8,990,633	9,354,058
Moroccan Dirham	232,133	344,441
Norwegian Kroner	650,974	1,780,333
Pakistani Rupee	410,943	341,297
Peruvian Nuevo Sol	2,784	48,846
Philippine Peso	6,221,664	2,048,729
Polish Zloty	3,616,346	5,326,058
Russian Ruble	-	977,505
Singapore Dollar	9,653,752	8,363,460
South African Rand	12,227,679	16,951,745
South Korean Won	34,198,665	48,545,693
Swedish Krona	8,791,267	9,349,327
Swiss Franc	6,659,826	9,261,514
Taiwan Dollar	21,132,182	18,810,544
Thai Baht	11,615,431	10,194,396
Turkish Lira	6,785,041	7,270,635
UK Pound	63,207,264	68,968,236
United Arab Emirates Dirham	690,433	802,394
Total Foreign Common Stock	<u>451,010,270</u>	<u>479,678,515</u>
<b>Other - Equity Securities:</b>		
Canadian Dollar	-	89
Chilean Peso	423	-
Malaysian Ringgit	-	866
Thai Baht	44,809	-
UK Pound	21	-
Total Other - Equity Securities	<u>45,253</u>	<u>955</u>
<b>Foreign Preferred Stock:</b>		
Brazilian Real	17,530,908	22,289,018
South African Rand	-	38,267
South Korean Won	353,784	138,793
Total Foreign Preferred Stock	<u>17,884,692</u>	<u>22,466,078</u>
<b>Foreign Government and Provincial Obligations:</b>		
Australian Dollar	19,244,069	12,007,977
Brazilian Real	89,208,317	94,142,429
Canadian Dollar	6,095,609	9,915,776
Colombian Peso	1,359,055	-
Euro	67,643,676	46,516,052
Hong Kong Dollar	416,652	581,932
Hungarian Forint	4,842,841	3,383,987
Indonesian Rupian	-	4,732,555
Japanese Yen	26,782,549	10,038,740
Malaysian Ringgit	5,144,044	6,477,825

**THE UNIVERSITY OF TEXAS SYSTEM  
GENERAL ENDOWMENT FUND**

*Notes to Financial Statements (cont.)*

<b>Investment Type</b>	<b>August 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Foreign Government and Provincial Obligations (continued):</b>		
Mexican Peso	\$ 16,986,254	\$ 8,842,074
New Zealand Dollar	14,849,761	10,587,209
Norwegian Kroner	-	6,122,311
Polish Zloty	13,578,763	7,770,490
Singapore Dollar	1,957,388	5,095,391
South African Rand	6,752,693	5,908,313
South Korean Won	5,429,753	6,101,644
UK Pound	28,554,892	20,888,322
Total Foreign Government and Provincial Obligations	308,846,316	259,113,027
<b>Corporate Obligations:</b>		
Australian Dollar	8,291,516	9,868,869
Canadian Dollar	968,931	2,212,686
Euro	24,273,045	29,891,972
Japanese Yen	1,315,982	1,627,375
New Zealand Dollar	693,864	-
UK Pound	7,459,889	5,715,620
Total Corporate Obligations	43,003,227	49,316,522
<b>Convertible Securities:</b>		
Brazilian Real	-	2,048,170
<b>Purchased Options:</b>		
Australian Dollar	2,560,631	39,634,973
Brazilian Real	280,908	-
Euro	4,634	2,217,290
Japanese Yen	1,848,862	7,034,445
South Korean Won	10,364,521	31,382,313
Total Purchased Options	15,059,556	80,269,021
<b>Private Investment Funds:</b>		
Canadian Dollar	13,214,692	7,363,628
Euro	109,576,437	113,942,858
UK Pound	12,359,642	5,742,940
Total Private Investment Funds	135,150,771	127,049,426
<b>Investment Funds - Emerging Markets:</b>		
Brazilian Real	3,576,098	3,626,543
Canadian Dollar	568,701	-
Euro	2,136,281	-
Hong Kong Dollar	679,346	-
Swedish Krona	417,900	-
Taiwan Dollar	40,209	-
UK Pound	27,467,851	-
Total Investment Funds - Emerging Markets	34,886,386	3,626,543
<b>Investment Funds - Natural Resources:</b>		
UK Pound	1,621,806	-
<b>Cash and Cash Equivalents:</b>		
Australian Dollar	592,479	1,262,176
Brazilian Real	829,211	951,631
Canadian Dollar	36,422	75,824
Chilean Peso	6,732	1,176
Czech Koruna	21,285	14
Danish Krone	5,192	492
Egyptian Pound	417	-
Euro	1,530,553	1,066,648
Hong Kong Dollar	528,359	244,677
Hungarian Forint	2,370	48
Indian Rupee	183,531	343,653
Indonesian Rupian	27,239	12,070
Israeli Shekel	2,615	1,437

**THE UNIVERSITY OF TEXAS SYSTEM**  
**GENERAL ENDOWMENT FUND**  
*Notes to Financial Statements (cont.)*

<b>Investment Type</b>	<b>August 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Cash and Cash Equivalents (continued):</b>		
Japanese Yen	\$ 69,432	\$ 5,967
Malaysian Ringgit	109,935	138,251
Mexican Peso	28,506	16,926
Moroccan Dirham	3,414	11,920
New Zealand Dollar	564	592
Norwegian Kroner	196	100,840
Pakistani Rupee	27	-
Peruvian Nuevo Sol	239	19,790
Philippine Peso	4,972	22,422
Polish Zloty	55,012	11,185
Singapore Dollar	204,762	2,415
South African Rand	42,696	14,084
South Korean Won	232,983	127,393
Swedish Krona	7,826	1,074
Swiss Franc	206	3
Taiwan Dollar	643,163	573,003
Thai Baht	27,314	10,328
Turkish Lira	61,519	136
UK Pound	324,812	4,701,137
Total Cash and Cash Equivalents	<u>5,583,983</u>	<u>9,717,312</u>
<b>Written Options:</b>		
Australian Dollar	(1,303,747)	(24,247,745)
Euro	-	(18,589)
South Korean Won	(5,160,801)	(20,369,773)
Total Written Options	<u>(6,464,548)</u>	<u>(44,636,107)</u>
<b>Swaps:</b>		
Australian Dollar	20,775	(1,126)
Brazilian Real	-	25,910
Euro	1,897	(13,582)
Japanese Yen	(916,454)	18,835
Mexican Peso	265,619	489,535
UK Pound	(98,314)	(226,166)
Total Swaps	<u>(726,477)</u>	<u>293,406</u>
<b>Futures:</b>		
Australian Dollar	(19,353)	29,556
Brazilian Real	(686,610)	-
Canadian Dollar	(4,063)	(29,636)
Euro	(263)	288,990
Japanese Yen	5,353	-
UK Pound	(5,739)	(81,626)
Total Futures	<u>(710,675)</u>	<u>207,284</u>
Total	<u>\$ 1,005,190,560</u>	<u>\$ 989,150,152</u>

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

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

The Fund had gross counterparty exposure as of August 31, 2012 for options, swaps, and foreign currency exchange contracts as shown in the following table:

**THE UNIVERSITY OF TEXAS SYSTEM  
GENERAL ENDOWMENT FUND**

*Notes to Financial Statements (cont.)*

<b>Options</b>				
<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, 2012</u>	<u>Fair Value as of August 31, 2012</u>	<u>Counterparty Rating</u>
\$ 6,472,448,416	\$ 937,096,979	\$ 19,531,109	\$ 6,749,760	A
<b>Swaps</b>				
<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, 2012</u>	<u>Fair Value as of August 31, 2012</u>	<u>Counterparty Rating</u>
\$ 91,917,017	\$ 135,291,364	\$ 1,489,890	\$ 741,918	A
3,451,346	918,485	902,894	918,021	AA
\$ 95,368,363	\$ 136,209,849	\$ 2,392,784	\$ 1,659,939	
<b>Foreign Currency Exchange Contracts</b>				
<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, 2012</u>	<u>Fair Value as of August 31, 2012</u>	<u>Counterparty Rating</u>
\$ 174,813,295	\$ 311,221,194	\$ 3,937,000	\$ 6,582,217	A
5,805,162	4,718,193	92,166	102,278	AA
\$ 180,618,457	\$ 315,939,387	\$ 4,029,166	\$ 6,684,495	

The Fund had gross counterparty exposure as of August 31, 2011 for options, swaps, and foreign currency exchange contracts as shown in the following table:

**THE UNIVERSITY OF TEXAS SYSTEM  
GENERAL ENDOWMENT FUND**

*Notes to Financial Statements (cont.)*

<b>Options</b>				
<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, 2011</u>	<u>Fair Value as of August 31, 2011</u>	<u>Counterparty Rating</u>
\$ 4,708,376,223	\$ 1,185,246,368	\$ 67,467,734	\$ 39,044,810	A
3,195,359,032	251,507,117	25,343,470	11,054,185	AA
<u>\$ 7,903,735,255</u>	<u>\$ 1,436,753,485</u>	<u>\$ 92,811,204</u>	<u>\$ 50,098,995</u>	

  

<b>Swaps</b>				
<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, 2011</u>	<u>Fair Value as of August 31, 2011</u>	<u>Counterparty Rating</u>
\$ 39,836,179	\$ 277,604,187	\$ 1,257,787	\$ 21,401,264	A
965,699,995	2,400,000	680,188	50,539	AA
<u>\$ 1,005,536,174</u>	<u>\$ 280,004,187</u>	<u>\$ 1,937,975</u>	<u>\$ 21,451,803</u>	

  

<b>Foreign Currency Exchange Contracts</b>				
<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, 2011</u>	<u>Fair Value as of August 31, 2011</u>	<u>Counterparty Rating</u>
\$ 313,899,249	\$ 269,308,632	\$ 3,515,872	\$ 2,042,720	A
131,734,220	118,573,194	1,169,884	6,892,675	AA
<u>\$ 445,633,469</u>	<u>\$ 387,881,826</u>	<u>\$ 4,685,756</u>	<u>\$ 8,935,395</u>	

As of August 31, 2012 and 2011, the Fund also had investments in futures contracts, options on future contracts and exchange-cleared swaps. Futures contracts, options on future contracts and exchange-cleared swaps expose the Fund 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 which are traded over-the-counter is mitigated by having master netting arrangements between the Fund and its counterparties, and by the posting of collateral on a daily basis by the counterparty to the Fund to cover the Fund's exposure to a counterparty above the limits set in place in each master netting agreement. Collateral posted by counterparties is held by the Fund in one of its accounts at the Fund's custodian bank. As of August 31, 2012 and 2011, the Fund held \$12,480,000 and \$49,670,000 respectively, of collateral related to derivative instruments other than futures, and had on deposit with brokers \$20,848,983 and \$48,475,166, respectively, as collateral related to derivative instruments other than futures.

**Note 4 – Securities Lending**

In accordance with the prudent investor investment standards, the Fund loans securities to certain brokers who pay the Fund 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 Fund receives qualified securities and/or cash as collateral against the loaned securities. The collateral, when received, will have a market value of 102% of loaned securities of U.S. issuers and a market value of 105% for loaned securities of non-

**THE UNIVERSITY OF TEXAS SYSTEM**

**GENERAL ENDOWMENT FUND**

*Notes to Financial Statements (cont.)*

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, 2012 and 2011:

<b>Securities on Loan</b>	<b>2012 Value</b>	<b>2011 Value</b>	<b>Type of Collateral</b>	<b>2012 Value of Collateral</b>	<b>2011 Value of Collateral</b>
U.S. Government	\$ 14,417,440	\$ 3,257,398	Cash	\$ 14,714,106	\$ 3,324,276
Foreign					
Government	2,883,401	8,181,146	Cash	3,020,985	8,580,024
Corporate Bonds	6,657,144	8,382,372	Cash	6,841,209	8,591,874
Common Stock	105,623,295	68,444,425	Cash	111,060,163	71,001,671
<b>Total</b>	<b>\$ 129,581,280</b>	<b>\$ 88,265,341</b>	<b>Total</b>	<b>\$ 135,636,463</b>	<b>\$ 91,497,845</b>
U.S. Government	\$ 27,163,524	\$ 810,921	Non-Cash	\$ 27,724,842	\$ 860,478
Corporate Bonds	-	144,105	Non-Cash	-	152,912
	<b>\$ 27,163,524</b>	<b>\$ 955,026</b>		<b>\$ 27,724,842</b>	<b>\$ 1,013,390</b>

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

The Fund's pro-rata share of collateral pool investments, rating by NRSRO, and weighted average maturity as of August 31, 2012 and 2011, is shown in the following table:



**THE UNIVERSITY OF TEXAS SYSTEM**  
**GENERAL ENDOWMENT FUND**  
*Notes to Financial Statements (cont.)*

Description	August 31,					
	2012			2011		
	Fair Value	Rating	Weighted Average Maturity In Days	Fair Value	Rating	Weighted Average Maturity In Days
Repurchase Agreements	\$ 66,384,663	No Rating	4	\$ 32,463,354	No Rating	1
Treasuries	1,885,923	AA	169	-	-	-
Agencies	3,701,567	P	36	-	-	-
Commercial Paper	29,220,857	P	57	31,933,842	P	28
Floating Rate Notes	16,238,447	AA		7,855,494	AA	
Floating Rate Notes	4,542,512	A		9,443,133	A	
Total Floating Rate Notes	<u>20,780,959</u>		40	<u>17,298,627</u>		33
Interest Bearing Notes	-		-	432,231	AA	76
Certificates of Deposit	12,729,420	P	68	9,358,820	P	33
Time Deposits	943,142	P	24	-	-	-
Other Receivables/Payables	(10,068)	Not Rated	-	10,971	Not Rated	-
Total Collateral Pool Investment	<u>\$ 135,636,463</u>		30	<u>\$ 91,497,845</u>		20

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

As of August 31, 2012 and 2011, the Fund had no credit risk exposure to borrowers because the amounts the Fund owed to borrowers exceeded the amounts the borrowers owed the Fund.

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, 2012 and 2011.

**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, 2012 and 2011 is summarized in the following table as they are classified within the asset mix of the Fund.

**THE UNIVERSITY OF TEXAS SYSTEM**  
**GENERAL ENDOWMENT FUND**  
*Notes to Financial Statements (cont.)*

	<b>August 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Investment Funds:</b>		
<b>Hedge Funds:</b>		
Developed Country Equity	\$ 1,349,460,567	\$ 1,361,638,100
Credit Related Fixed Income	361,041,946	312,823,107
Emerging Markets Equity	183,832,282	180,944,607
Investment Grade Fixed Income	203,268,216	201,495,471
Real Estate	40,140,277	44,500,782
Natural Resources	4,743,785	7,499,930
Total Hedge Funds	<u>2,142,487,073</u>	<u>2,108,901,997</u>
<b>Private Investments:</b>		
Developed Country Equity	873,671,757	856,433,176
Credit Related Fixed Income	459,874,966	477,137,480
Natural Resources	227,978,272	187,597,632
Emerging Markets Equity	179,172,841	164,539,356
Real Estate	169,688,930	95,560,363
Total Private Investments	<u>1,910,386,766</u>	<u>1,781,268,007</u>
<b>Public Markets:</b>		
<b>Developed Country Equity:</b>		
Private Placements	<u>599,498,078</u>	<u>527,611,235</u>
<b>Emerging Markets:</b>		
Private Placements	192,446,615	299,135,299
Other Investment Funds	43,520,054	-
Total Emerging Markets	<u>235,966,669</u>	<u>299,135,299</u>
<b>Fixed Income:</b>		
Publicly Traded Mutual Funds	<u>8,056,640</u>	<u>6,919,098</u>
<b>Natural Resources:</b>		
Private Placements	88,276,022	94,666,075
Other Investment Funds	3,072,149	-
Total Natural Resources	<u>91,348,171</u>	<u>94,666,075</u>
Total Public Markets	<u>934,869,558</u>	<u>928,331,707</u>
<b>Total Investment Funds</b>	<u>\$ 4,987,743,397</u>	<u>\$ 4,818,501,711</u>

The Fund invests in hedge funds through unit interests in investment pools established in the name of the UT Board. Amounts presented in the Fund's financial statements and related note disclosures represent the Fund'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. The hedge fund pools have committed \$122,892,459, of future funding to various hedge fund investments as of August 31, 2012 of which the Fund's pro-rata portion is \$33,205,542.

The Fund invests in private investments in investment pools created in the name of the UT Board. Amounts presented in the Fund's financial statements and related note disclosures for the years ending August 31, 2012 and 2011, represent the Fund's pro-rata share of the investment pool assets. The private investment pools are invested in limited partnerships with external investment managers

THE UNIVERSITY OF TEXAS SYSTEM  
GENERAL ENDOWMENT FUND

*Notes to Financial Statements (cont.)*

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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. The private investment pools have committed \$3,717,867,684 of future funding to various private investments as of August 31, 2012 of which the Fund's pro-rata portion is \$1,301,253,689.

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 Fund. 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. Future funding in the amount of \$22,000,000, of which the Fund's pro-rata portion is \$6,387,537, have been committed to certain public market funds as of August 31, 2012.

In some instances it may be necessary for the Fund to provide funding for certain managers in advance of the effective investment date to facilitate trading in the international market by the investment manager. As of August 31, 2012, \$25,000,000, of which the Fund's pro-rata share was \$7,230,000, had been funded to a manager for investment on the first business day of September 2012. This amount is included in the investment funds fair value on the statements of fiduciary net assets.

The Fund, in conjunction with the PUF and the ITF, invests in certain long-only public markets managers in separate investment pools created in the name of the UT Board. The Fund, the PUF 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, and realized gains and losses of these pools have been allocated based on the proportional unit ownership of the Fund, the PUF and the ITF, and the Fund'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:

- *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 Fund's investment funds may impose lock-up periods which would cause the Fund to incur penalties to redeem its units or prevent the Fund from redeeming its shares until a certain period of time has elapsed.
- *Limited transparency* -- As private placement investment vehicles, these funds may not disclose the holdings of their portfolios.
- *Investment strategy risk* -- These funds often employ sophisticated investment strategies and may use leverage which could result in the loss of invested capital.

**THE UNIVERSITY OF TEXAS SYSTEM**

**GENERAL ENDOWMENT FUND**

*Notes to Financial Statements (cont.)*

Investments in hedge funds, private investments, and public market funds are also subject to the investment risks discussed in Note 3. 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, 2012, the Fund wrote call options on commodities and interest rate swaps. The following discloses the contracts outstanding, the expiration date, and the fair values of the outstanding written call options contracts as of August 31, 2012:

<u>Type</u>	<u>Underlying</u>	<u>Contracts</u>	<u>Expiration Date</u>	<u>Fair Value</u>	
				<u>at August 31, 2012</u>	
				<u>Assets</u>	<u>Liabilities</u>
<b>Commodity</b>					
	Corn Futures	2	11/23/12	\$ -	\$ 1,044
<b>Interest Rate Swap</b>					
	United States 3 month Libor	1,200,000	10/11/12	-	5,143
	United States 3 month Libor	2,200,000	11/14/12	-	22,575
	United States 3 month Libor	7,700,000	3/18/13	-	265,725
				<u>-</u>	<u>293,443</u>
				<u>\$ -</u>	<u>\$ 294,487</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, 2012 was a decrease in the amount of \$208,972, which is included in the net increase in investments on the statement of changes in fiduciary net assets. The Fund recognized gains in the amount of \$48,113 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, 2012.

The Fund also wrote put options on commodities, international equities and indices and interest rate swaps for the year ended August 31, 2012. The following discloses the contracts outstanding, the expiration date, and the fair values of the outstanding written put options contracts as of August 31, 2012:

**THE UNIVERSITY OF TEXAS SYSTEM  
GENERAL ENDOWMENT FUND**

*Notes to Financial Statements (cont.)*

Type	Underlying	Contracts	Expiration Date	Fair Value at August 31, 2012	
				Assets	Liabilities
<b>Interest Rate Swap</b>					
	United States 3 month Libor	1,200,000	10/11/12	\$ -	\$ 15
	United States 3 month Libor	2,200,000	11/14/12	-	126
	United States 3 month Libor	7,700,000	3/18/13	-	14,329
				<u>-</u>	<u>14,470</u>
<b>Commodity</b>					
	Brent Crude Futures	1	11/12/12	-	11,171
	Copper Futures	2	12/5/12	-	2,458
	Corn Futures	14	11/23/12	-	237
	Corn Futures	9	11/23/13	-	19,007
	Crude Oil Futures	1	11/13/12	-	355
	Crude Oil Futures	2	11/17/15	-	11,548
	Natural Gas Futures	7	12/26/12	-	8,621
				<u>-</u>	<u>53,397</u>
<b>Equity</b>					
	Australia S&P/ASX 200 Index	78,450	9/20/12	-	27,311
	Australia S&P/ASX 200 Index	33,274	8/15/13	-	1,276,436
	Korean KOSPI 200 Index	1,096,403,490	6/13/13	-	1,109,750
	Korean KOSPI 200 Index	1,128,718,418	8/8/13	-	4,051,051
				<u>-</u>	<u>6,464,548</u>
				<u>\$ -</u>	<u>\$ 6,532,415</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, 2012 was an increase in the amount of \$15,833,679, which is included in the net increase in investments on the statement of changes in fiduciary net assets. The Fund recognized gains in the amount of \$55,070,575 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, 2012.

For the year ended August 31, 2011, the Fund 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:

THE UNIVERSITY OF TEXAS SYSTEM

GENERAL ENDOWMENT FUND

Notes to Financial Statements (cont.)

Type	Underlying	Contracts	Expiration Date	Fair Value at August 31, 2011	
				Assets	Liabilities
<b>Commodity</b>					
	Copper Futures	1	12/7/11	\$ -	\$ 4,702
	Corn Futures	2	11/23/12	-	1,295
				-	5,997
<b>Other</b>					
	Forward Volatility Agreement	1,200,000	10/11/11	-	3,740
	Forward Volatility Agreement	2,200,000	11/14/11	-	22,318
				-	26,058
				<u>\$ -</u>	<u>\$ 32,055</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 \$7,198, which is included in the net increase in investments on the statement of changes in fiduciary net assets. The Fund recognized gains in the amount of \$80,686 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 Fund also wrote put options on commodities, Treasury note and Euro Bund futures, domestic and international equities and indices, interest rate swaps, and 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:

**THE UNIVERSITY OF TEXAS SYSTEM  
GENERAL ENDOWMENT FUND**

*Notes to Financial Statements (cont.)*

Type	Underlying	Contracts	Expiration Date	Fair Value at August 31, 2011	
				Assets	Liabilities
<b>Interest Rate Swap</b>					
	United States 3 month Libor	10,500,000	6/18/12	\$ -	\$ 6,626
	United States 3 month Libor	1,700,000	7/10/12	-	5
	United States 3 month Libor	13,200,000	9/24/12	-	13,783
				<u>-</u>	<u>20,414</u>
<b>Commodity</b>					
	Brent Crude Futures	5	11/10/11	-	1,222
	Corn Futures	4	11/23/12	-	7,948
	Crude Oil Futures	1	11/15/11	-	1,222
	Crude Oil Futures	2	11/17/15	-	15,998
				<u>-</u>	<u>26,390</u>
<b>Currency</b>					
	U.S. Dollar vs. Euro	1,700,000	9/27/11	-	18,589
<b>Equity</b>					
	Australia S&P/ASX 200 Index	64,784	6/21/12	-	11,926,228
	Australia S&P/ASX 200 Index	26,718	6/20/13	-	7,186,910
	Australia S&P/ASX 200 Index	33,274	8/15/13	-	5,134,608
	Dow Jones U.S. Real Estate Index	1,199,198	2/21/12	-	1,610,942
	MSCI Emerging Markets Index	1,664,150	2/21/12	-	1,790,801
	Korean KOSPI 200 Index	488,857,812	6/13/13	-	7,770,895
	Korean KOSPI 200 Index	1,128,718,418	8/8/13	-	12,598,878
	S&P Metals & Mining ETF	1,081,987	2/21/12	-	2,014,673
				<u>-</u>	<u>50,033,935</u>
<b>Fixed Income</b>					
	Euro-BOBL Futures	11	9/30/11	-	-
	U.S. 10 yr Treasury Note Futures	23	9/23/11	-	9,765
				<u>-</u>	<u>9,765</u>
				<u>\$ -</u>	<u>\$ 50,109,093</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 \$3,543,964, which is included in the net increase in investments on the statement of changes in fiduciary net assets. The Fund recognized gains in the amount of \$1,572,192 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.

**Note 7 – Swaps**

During the years ended August 31, 2012 and 2011, the Fund entered into interest rate, credit default, commodities, currency 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, 2012:

**THE UNIVERSITY OF TEXAS SYSTEM  
GENERAL ENDOWMENT FUND**

*Notes to Financial Statements (cont.)*

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2012	
				Assets	Liabilities
<b>Interest Rate</b>					
<b>Australian Dollar</b>					
	5.000%	200,000	6/15/2022	\$ 20,775	\$ -
<b>British Pound</b>					
	1.250%	3,100,000	9/21/2014	-	47,855
	2.500%	1,400,000	9/21/2013	-	50,459
<b>Japanese Yen</b>					
	0.250%	200,000,000	6/20/2014	2,894	-
	0.300%	850,000,000	12/19/2014	169	-
	0.350%	140,000,000	6/20/2014	-	1,496
<b>Mexican Peso</b>					
	5.500%	16,000,000	9/13/2017	17,182	-
	6.750%	49,500,000	6/8/2016	226,804	-
	6.590%	5,800,000	12/8/2015	21,633	-
<b>U.S. Dollar</b>					
	1.250%	400,000	6/20/2016	-	11,111
				<u>289,457</u>	<u>110,921</u>
<b>Credit Default</b>					
<b>Euro</b>					
	0.250%	600,000	3/20/2016	-	300
	0.250%	700,000	6/20/2016	-	1,120
	1.000%	200,000	6/20/2017	3,317	-
<b>U.S. Dollar</b>					
	0.250%	1,500,000	12/20/2016	-	14,128
	0.250%	1,200,000	6/20/2017	-	43,691
	0.590%	1,000,000	9/20/2014	-	8,358
	0.590%	1,000,000	9/20/2016	-	8,705
	0.700%	800,000	12/20/2018	10,425	-
	0.750%	1,000,000	9/20/2017	-	14,271
	1.000%	1,400,000	12/20/2012	5,904	-
	1.000%	1,900,000	6/20/2015	46,270	-
	1.000%	3,800,000	12/20/2015	15,554	-
	1.000%	1,600,000	3/20/2016	33,062	-
	1.000%	3,600,000	6/20/2016	70,483	-
	1.000%	1,100,000	9/20/2016	25,390	-
	1.000%	600,000	6/20/2017	-	94,748
	1.000%	200,000	12/20/2020	-	11,455
	1.135%	500,000	9/20/2013	-	3,071
	1.160%	2,000,000	3/20/2013	-	13,382
	1.350%	200,000	6/20/2016	-	1,238
	1.380%	1,000,000	3/20/2017	-	40,162
	1.400%	400,000	3/20/2021	1,566	-
	1.450%	1,000,000	6/20/2013	-	12,701
	1.540%	100,000	6/20/2018	1,071	-
	1.920%	1,000,000	3/20/2017	32,259	-
	2.880%	600,000	12/20/2020	27,816	-
	2.920%	400,000	3/20/2021	19,424	-
	2.930%	300,000	6/20/2015	-	19,784
				<u>292,541</u>	<u>287,114</u>



**THE UNIVERSITY OF TEXAS SYSTEM  
GENERAL ENDOWMENT FUND**

*Notes to Financial Statements (cont.)*

	Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2012	
					Assets	Liabilities
<b>Commodity</b>						
<b>U.S. Dollar</b>						
		Uranium	292,466	4/30/2013	\$ -	\$ 20,368
		S&P GSCI Grains	3,160,765	2/28/2013	-	40,268
					<u>-</u>	<u>60,636</u>
<b>Currency</b>						
<b>Japanese Yen</b>						
			72,000,000	5/15/2014	-	918,021
<b>U.S. Dollar</b>						
			900,000	5/15/2014	900,000	-
					<u>900,000</u>	<u>918,021</u>
<b>Equity</b>						
<b>U.S. Dollar</b>						
		MSCI Europe Index	36,079,404	8/14/2013	-	213,055
		MSCI Japan Index	19,670,579	8/8/2013	376,974	-
		MSCI Korea Index	8,668,415	5/29/2013	181,868	-
		U.S. Real Estate Index	31,262,080	8/8/2013	-	53,790
		U.S. Real Estate Index	43,574,392	8/20/2013	-	35,075
		S&P 500 Index	43,214,802	8/20/2013	326,344	-
		Taiwan TAIEX Index	6,086,987	9/19/2012	-	71,933
					<u>885,186</u>	<u>373,853</u>
<b>Total</b>					<b>\$ 2,367,184</b>	<b>\$ 1,750,545</b>

The change in fair value of open swap positions for the year ending August 31, 2012 was an increase in the amount of \$404,141, 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, 2011:

**THE UNIVERSITY OF TEXAS SYSTEM  
GENERAL ENDOWMENT FUND**

*Notes to Financial Statements (cont.)*

	Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2011	
					Assets	Liabilities
<b>Interest Rate</b>						
<b>Australian Dollar</b>						
		4.750%	100,000	12/15/2013	\$ -	\$ 1,126
<b>UK Pound</b>						
		2.500%	5,800,000	9/21/2013	-	226,166
<b>Euro</b>						
		2.000%	6,600,000	9/21/2016	-	76,642
		3.000%	800,000	9/21/2016	45,104	-
		3.000%	2,100,000	9/21/2021	37,207	-
<b>Japanese Yen</b>						
		0.250%	850,000,000	12/21/2013	18,835	-
<b>U.S. Dollar</b>						
		2.500%	400,000	6/15/2016	-	26,552
		3.250%	2,200,000	12/21/2021	-	147,858
		3.500%	2,400,000	6/15/2021	-	261,604
<b>Mexican Peso</b>						
		6.590%	5,800,000	12/8/2015	24,251	-
		6.750%	64,600,000	6/8/2016	308,815	-
		6.960%	13,800,000	7/27/2020	55,235	-
		7.500%	14,600,000	6/2/2021	101,234	-
<b>Brazilian Real</b>						
		11.245%	1,000,000	1/2/2012	-	1,990
		11.250%	1,600,000	1/2/2012	-	3,127
		11.360%	3,000,000	1/2/2012	31,027	-
					<u>621,708</u>	<u>745,065</u>
<b>Credit Default</b>						
<b>Euro</b>						
		0.250%	600,000	3/20/2016	-	8,361
		0.250%	700,000	6/20/2016	-	10,890
<b>U.S. Dollar</b>						
		0.230%	200,000	3/20/2012	-	143
		0.250%	2,300,000	12/20/2015	-	112,521
		0.250%	500,000	3/20/2016	-	26,443
		0.250%	2,400,000	9/20/2016	-	145,710
		0.590%	1,000,000	9/20/2014	822	-
		0.590%	1,000,000	9/20/2016	8,780	-
		0.700%	800,000	12/20/2018	26,436	-
		0.750%	1,000,000	9/20/2017	-	16,099
		0.770%	200,000	3/20/2012	-	829
		1.000%	3,900,000	12/20/2011	12,626	-
		1.000%	2,200,000	12/20/2012	-	24,582
		1.000%	1,900,000	6/20/2015	31,627	-
		1.000%	4,100,000	12/20/2015	-	11,932
		1.000%	1,600,000	3/20/2016	17,711	-
		1.000%	3,600,000	6/20/2016	33,349	-
		1.000%	1,500,000	9/20/2016	-	25,559
		1.000%	200,000	12/20/2020	-	10,675
		1.135%	500,000	9/20/2013	5,754	-
		1.160%	2,000,000	3/20/2013	-	20,696
		1.350%	200,000	6/20/2016	-	3,100
		1.380%	1,000,000	3/20/2017	-	34,613
		1.400%	400,000	3/20/2021	1,597	-

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*Notes to Financial Statements (cont.)*

	Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2011	
					Assets	Liabilities
<b>Credit Default</b>						
<b>U.S. Dollar (continued)</b>						
		1.450%	1,000,000	6/20/2013	\$ -	\$ 17,066
		1.540%	100,000	6/20/2018	-	236
		1.743%	200,000	6/20/2013	-	3,723
		1.780%	200,000	6/20/2013	-	3,873
		1.820%	200,000	6/20/2013	-	4,034
		1.920%	1,000,000	3/20/2017	116,247	-
		2.870%	300,000	3/20/2021	8,617	-
		2.880%	600,000	12/20/2020	35,531	-
		2.900%	400,000	3/20/2021	12,261	-
		2.920%	400,000	3/20/2021	24,903	-
		2.930%	300,000	6/20/2015	-	13,349
		2.950%	700,000	12/20/2020	44,853	-
					<u>381,114</u>	<u>494,434</u>
<b>Commodity</b>						
<b>U.S. Dollar</b>						
		Uranium	332,555	4/30/2012	-	55,228
<b>Equity</b>						
<b>U.S. Dollar</b>						
		Global Real Estate Index	25,243,210	2/9/2012	-	2,874,636
		Oil & Gas	21,736,179	9/26/2011	858,007	-
		MSCI Europe Index	39,199,484	2/22/2012	-	2,215,076
		MSCI Japan Index	10,999,995	2/8/2012	77,146	-
		MSCI Japan Index	12,498,516	2/22/2012	-	500,528
		S&P 400 Index	35,539,213	2/21/2012	-	3,946,845
		S&P 500 Index	90,495,203	8/20/2012	-	7,754,461
		U.S. Real Estate Index	35,496,006	8/20/2012	-	2,865,530
					<u>935,153</u>	<u>20,157,076</u>
<b>Total</b>					<b>\$ 1,937,975</b>	<b>\$ 21,451,803</b>

The change in fair value of open swap positions for the year ending August 31, 2011 was a decrease in the amount of \$19,635,207, 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, 2012 and 2011, the asset classes that used futures include foreign equities, domestic and foreign debt, and commodities. The change in fair value of open futures contracts for the years ending August 31, 2012 and 2011, were an increase in the amount of \$813,546 and an increase in the amount of \$2,700,374, respectively, which is included in the net increase in investments on the statement of changes in fiduciary net assets. The Fund had \$22,500,117 and \$29,926,456 on deposit with brokers for collateral as margin for the futures contracts as of August 31, 2012 and 2011, respectively. Short futures may be used by the Fund to hedge the Fund's interest rate or currency risk associated with security positions. The amount of net realized losses on futures contracts, which is included in the net increase in investments on the statement of changes in fiduciary net assets, was \$11,805,578 for the year ended August 31, 2012. The amount of net realized gains on futures contracts was \$51,404,063 for the year ended August 31, 2011.

**THE UNIVERSITY OF TEXAS SYSTEM**

**GENERAL ENDOWMENT FUND**

*Notes to Financial Statements (cont.)*

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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, 2012 and 2011, shown in the table below for these open contracts do not include amounts previously settled with the exchanges. Net cash settlements for these open commodities contracts amounted to \$1,511,578 and \$270,670, respectively, as of August 31, 2012 and 2011.

During the years ended August 31, 2012 and 2011, certain of the Fund's investment managers trading in commodity futures on the London Metals Exchange (LME) closed out various long contract positions with offsetting short contract positions. For contracts traded and closed on the LME, cash settlement does not occur until the expiration date of the contract. The gross notional value of these long and short positions are shown below with the associated pending cash settlement amounts shown as the carrying and fair value as of August 31, 2012 and 2011.

The following discloses the type, number of contracts, expiration date, notional value, and the carrying and fair values at August 31, 2012 for futures contracts:

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Notes to Financial Statements (cont.)

Contract	Number of Contracts	Expiration	Notional Value at August 31, 2012		Carrying and Fair Value at August 31, 2012	
			Long	Short	Assets	Liabilities
<b>Commodities</b>						
Aluminum Hg	-	Sep-12	\$ 898,106	\$ 898,106	\$ -	\$ 52,188
Aluminum Hg	103	Dec-12	7,630,579	2,741,731	-	680,710
Aluminum Hg	43	Jun-13	2,102,700	-	-	-
Brent Crude Oil	13	Oct-12	1,496,469	-	-	-
Brent Crude Oil	32	Nov-12	3,635,200	-	-	-
Brent Crude Oil	27	Nov-13	2,908,980	-	-	-
Brent Crude Oil	8	Dec-13	-	887,184	-	-
Coffee 'C'	46	Dec-12	2,856,425	-	-	61,732
Copper	8	Sep-12	2,810,390	1,351,149	21,583	-
Copper	54	Dec-12	4,948,348	-	-	84,723
Copper	49	Mar-13	4,245,237	-	-	-
Corn	262	Dec-12	10,493,995	-	1,502	-
Corn	13	Jul-13	507,325	-	-	-
Cotton No. 2	34	Dec-12	1,327,246	-	-	17,624
Cotton No. 2	27	Mar-13	1,052,730	-	-	-
Crude Oil	3	Oct-12	301,317	-	126,981	-
Crude Oil	18	Dec-12	1,736,459	-	113,894	-
Crude Oil	3	Jun-13	306,189	-	25,941	-
Crude Oil	52	Nov-13	5,013,840	-	-	-
Crude Oil	4	Dec-13	383,296	-	30,269	48,067
Crude Oil	65	Nov-14	6,029,400	-	-	-
Gasoline RBOB	5	Oct-12	602,702	-	81,486	-
Gasoline RBOB	32	Nov-12	3,800,832	-	-	-
Gasoline RBOB	5	May-13	609,441	-	-	-
Gold 100 Oz	1	Oct-12	239,269	-	7,931	-
Gold 100 Oz	87	Dec-12	14,644,598	-	102,405	-
Heating Oil	6	Oct-12	834,383	-	90,864	-
Heating Oil	17	Nov-12	2,267,593	-	-	-
Heating Oil	16	Feb-13	2,103,091	-	-	-
Lead	-	Sep-12	306,799	306,799	-	17,413
Lean Hogs	86	Dec-12	2,485,195	-	-	552
Live Cattle	70	Dec-12	3,586,316	-	1,423	-
Live Cattle	23	Apr-13	1,250,280	-	-	-
Natural Gas	73	Oct-12	2,249,201	214,146	15,654	-
Natural Gas	9	Nov-12	-	269,615	-	297
Natural Gas	263	Dec-12	8,896,050	56,876	-	-
Natural Gas	6	Jan-13	209,707	-	-	93,771
Natural Gas	8	Feb-13	277,914	-	-	7,536
Natural Gas	4	Mar-13	143,280	-	5,798	-
Natural Gas	91	Dec-13	3,585,400	-	-	-
Natural Gas	2	Jan-14	78,313	-	-	897
Natural Gas	12	Mar-14	460,933	-	812	-
Nickel	-	Sep-12	2,672,712	2,672,712	-	254,616
Nickel	35	Dec-12	3,580,148	217,622	-	40,110
Platinum	14	Oct-12	1,069,458	-	72,590	-
Silver	30	Dec-12	4,710,469	-	126,351	-
Soybean	55	Nov-12	4,790,235	-	510,435	-
Soybean	38	Mar-13	3,200,075	-	-	-
Soybean	91	May-13	7,234,500	-	-	-
Soybean Oil	115	Dec-12	3,922,444	-	104,549	-
Soybean Oil	49	Mar-13	1,689,912	-	-	-
Sugar #11 World	98	Sep-12	2,171,053	-	-	-
Sugar #11 World	39	Oct-12	855,504	-	-	32,892

**THE UNIVERSITY OF TEXAS SYSTEM**  
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*Notes to Financial Statements (cont.)*

<u>Contract</u>	<u>Number of Contracts</u>	<u>Expiration</u>	<u>Notional Value at August 31, 2012</u>		<u>Carrying and Fair Value at August 31, 2012</u>	
			<u>Long</u>	<u>Short</u>	<u>Assets</u>	<u>Liabilities</u>
<b>Commodities (continued)</b>						
Sugar #11 World	10	Feb-13	\$ 229,712	\$ -	\$ -	\$ -
Sugar #11 World	65	Apr-13	1,492,400	-	-	-
Wheat	62	Dec-12	2,753,877	-	17,640	-
Wheat	64	Mar-13	2,878,400	-	-	-
Wheat	98	Jul-13	4,207,208	-	4,826	-
Zinc	-	Sep-12	2,184,900	2,184,900	-	30,731
Zinc	112	Dec-12	5,157,446	-	-	35,242
			<u>164,115,981</u>	<u>11,800,840</u>	<u>1,462,934</u>	<u>1,459,101</u>
<b>Foreign Equities</b>						
Bovespa Index	3	Oct-12	-	143,761	2,153	-
			<u>-</u>	<u>143,761</u>	<u>2,153</u>	<u>-</u>
<b>Domestic Fixed Income</b>						
US Treasury Bond	4	Dec-12	-	605,625	-	3,750
US 10yr Treasury Note	18	Dec-12	2,406,938	-	10,406	-
			<u>2,406,938</u>	<u>605,625</u>	<u>10,406</u>	<u>3,750</u>
<b>Foreign Fixed Income</b>						
Australian 3yr Bond	49	Sep-12	-	5,580,823	-	19,353
Canada 10yr Bond	10	Dec-12	-	1,384,608	-	4,063
Cupom Cambial	1,546	Jan-13	81,403,471	-	-	689,182
Euro-Btp	2	Dec-12	249,276	-	-	1,361
Euro-Bund	2	Sep-12	-	363,074	1,098	-
Japan 10yr Bond	6	Sep-12	11,034,483	-	5,353	-
One-day Bank Deposit Rate	1,546	Jan-13	-	72,053,188	2,572	-
UK Long Gilt	4	Dec-12	-	768,444	-	5,739
			<u>92,687,230</u>	<u>80,150,137</u>	<u>9,023</u>	<u>719,698</u>
<b>Total</b>			<u>\$ 259,210,149</u>	<u>\$ 92,700,363</u>	<u>\$ 1,484,516</u>	<u>\$ 2,182,549</u>

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:

THE UNIVERSITY OF TEXAS SYSTEM

GENERAL ENDOWMENT 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
<b>Commodities</b>						
Aluminum Hg	-	Oct-11	\$ 674,369	\$ 674,369	\$ 64,388	\$ -
Aluminum Hg	118	Dec-11	8,600,341	1,263,088	-	75,863
Aluminum Hg	11	Dec-12	719,967	-	-	40,450
Brent Crude Oil	14	Sep-11	1,572,430	-	109,274	-
Brent Crude Oil	85	Nov-11	9,656,000	-	-	-
Brent Crude Oil	3	May-12	-	306,709	6,716	-
Coffee 'C'	12	Dec-11	1,405,219	131,549	-	12,841
Coffee 'C'	21	Mar-12	2,288,475	-	-	-
Coffee Robusta	6	Nov-11	134,864	-	5,459	-
Copper	102	Dec-11	12,283,394	-	122,914	-
Copper	3	Dec-12	705,361	-	33,951	-
Corn	353	Dec-11	13,564,043	-	297,362	-
Cotton No. 2	46	Dec-11	2,419,660	-	-	67,958
Crude Oil	9	Sep-11	810,608	-	42,544	-
Crude Oil	47	Nov-11	4,244,651	-	-	19,114
Crude Oil	16	May-12	1,495,075	-	-	13,171
Crude Oil	78	Nov-12	7,193,971	-	-	84,188
Gas Oil	13	Sep-11	1,243,979	-	61,074	-
Gasoline RBOB	11	Oct-11	1,322,366	-	2,926	-
Gasoline RBOB	34	Nov-11	4,123,203	107,527	-	5,492
Gold 100 Oz	137	Dec-11	25,028,256	-	1,231,318	-
Heating Oil	1	Sep-11	118,226	-	-	1,277
Heating Oil	3	Oct-11	434,394	-	1,057	-
Heating Oil	25	Nov-11	3,511,204	316,527	-	17,191
Heating Oil	17	May-12	2,159,422	-	-	-
Lead	9	Dec-11	722,015	113,435	82,064	-
Lean Hogs	93	Dec-11	3,085,212	-	-	2,741
Live Cattle	3	Oct-11	138,767	-	-	3,416
Live Cattle	63	Dec-11	2,906,256	-	-	19,391
Live Cattle	59	Feb-12	2,845,676	-	43	-
Mill Wheat	27	Nov-11	407,173	-	-	31,956
Natural Gas	10	Sep-11	-	341,794	15,462	11,395
Natural Gas	5	Oct-11	-	169,446	-	19,300
Natural Gas	-	Nov-11	200,165	180,047	-	38,320
Natural Gas	192	Dec-11	8,628,104	-	-	56,564
Natural Gas	114	Dec-12	5,840,582	-	-	11,773
Nickel	-	Nov-11	799,092	799,092	132,480	-
Nickel	22	Dec-11	2,989,687	-	-	14,882
Platinum	6	Oct-11	564,745	-	14,586	-
Platinum	3	Jan-12	282,722	-	161	-
Silver	35	Dec-11	7,327,143	-	46,257	-
Soybean	100	Nov-11	7,283,902	-	118,015	-
Soybean	65	Jul-12	4,763,688	-	-	-
Soybean Oil	82	Oct-11	2,887,548	-	-	-
Soybean Oil	29	Dec-11	1,027,818	-	-	-
Sugar #11 World	76	Sep-11	2,511,782	-	101,736	-
Sugar #11 World	39	Feb-12	1,261,478	-	-	-
Sugar #11 World	29	Jun-12	851,626	-	-	-
Sugar #11 World	6	Sep-12	173,241	-	27,129	-
Wheat	83	Dec-11	3,289,678	-	58,622	-

**THE UNIVERSITY OF TEXAS SYSTEM  
GENERAL ENDOWMENT FUND**

*Notes to Financial Statements (cont.)*

<u>Contract</u>	<u>Number of Contracts</u>	<u>Expiration</u>	<u>Notional Value at August 31, 2011</u>		<u>Carrying and Fair Value at August 31, 2011</u>	
			<u>Long</u>	<u>Short</u>	<u>Assets</u>	<u>Liabilities</u>
<b>Commodities (continued)</b>						
Wheat	11	Dec-11	\$ 503,759	\$ -	\$ 55,606	\$ -
Wheat	80	Mar-12	3,308,000	-	-	-
Zinc	13	Dec-11	746,606	-	74,457	-
Zinc	46	Jun-12	2,691,288	-	-	-
			<u>173,747,231</u>	<u>4,403,583</u>	<u>2,705,601</u>	<u>547,283</u>
<b>Foreign Fixed Income</b>						
Australian 3yr Bond	29	Sep-11	-	3,296,861	2,726	-
Canada 10yr Bond	35	Dec-11	4,635,527	-	11,453	-
Euro-Bobl	1	Sep-11	175,281	-	54,864	-
Euro-Bund	8	Sep-11	1,549,916	-	190,244	-
UK Long Gilt	21	Dec-11	4,324,420	-	12,099	-
			<u>10,685,144</u>	<u>3,296,861</u>	<u>271,386</u>	<u>-</u>
<b>Total</b>			<u>\$ 184,432,375</u>	<u>\$ 7,700,444</u>	<u>\$ 2,976,987</u>	<u>\$ 547,283</u>

**Note 9 – Foreign Currency Exchange Contracts**

The following tables summarize by currency the contractual amounts of the Fund's foreign currency exchange contracts at August 31, 2012 and 2011. Foreign currency amounts are translated at exchange rates as of August 31, 2012 and 2011. 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.



**THE UNIVERSITY OF TEXAS SYSTEM  
GENERAL ENDOWMENT FUND**

*Notes to Financial Statements (cont.)*

<u>Currency</u>	<u>Net Buy August 31, 2012</u>	<u>Net Sell August 31, 2012</u>	<u>Unrealized Gains on Foreign Currency Exchange Contracts August 31, 2012</u>	<u>Unrealized Losses on Foreign Currency Exchange Contracts August 31, 2012</u>
Australian Dollar	\$ -	\$ 50,548,546	\$ 450,331	\$ 1,379,162
Brazilian Real	2,294,048	-	31,634	799,018
Canadian Dollar	-	616,747	69,752	54,673
Chilean Peso	4,019,710	-	140,108	-
Chinese Yuan Renminbi	12,021	-	35,042	293,027
Colombian Peso	-	1,319,782	13,593	-
Danish Krone	613,334	-	6,048	-
Euro	-	44,353,159	333,198	776,739
Hong Kong Dollar	37,432	-	1	12
Hungarian Forint	1,599	-	2	-
Indian Rupee	-	39,726	1,691,702	564,226
Indonesian Rupian	4,189	-	5	-
Japanese Yen	-	7,118,775	171,642	1,290,597
Malaysian Ringgit	2,993,763	-	9,300	47
Mexican Peso	11,142,920	-	39,368	288,766
New Zealand Dollar	-	21,220,166	46,617	149,276
Norwegian Kroner	158,531	-	1,693	-
Philippine Peso	4,497	-	166	-
Polish Zloty	-	3,364,264	-	33,747
Singapore Dollar	120,439	-	1,055	-
South African Rand	23,072,594	-	50,274	90,383
South Korean Won	19,314,964	-	442,667	92,332
Swedish Krona	3,397,993	-	38,450	530
Swiss Franc	-	5,935,894	6,924	184,431
Taiwan Dollar	18,119,643	-	89,733	345,557
Thai Baht	326,715	-	3,358	-
Turkish Lira	5,099,188	-	-	97,225
UK Pound	9,743,575	-	356,503	244,747
	<u>\$ 100,477,155</u>	<u>\$ 134,517,059</u>	<u>\$ 4,029,166</u>	<u>\$ 6,684,495</u>

The change in fair value of open foreign currency exchange contracts for the year ending August 31, 2012 was a decrease in the amount of \$2,655,329, which is included in the net increase in investments on the statement of changes in fiduciary net assets.

**THE UNIVERSITY OF TEXAS SYSTEM  
GENERAL ENDOWMENT FUND**

*Notes to Financial Statements (cont.)*

<u>Currency</u>	<u>Net Buy August 31, 2011</u>	<u>Net Sell August 31, 2011</u>	<u>Unrealized Gains on Foreign Currency Exchange Contracts August 31, 2011</u>	<u>Unrealized Losses on Foreign Currency Exchange Contracts August 31, 2011</u>
Australian Dollar	\$ -	\$ 45,685,041	\$ 414,661	\$ 482,961
Brazilian Real	-	4,617,300	84,375	1,305
Canadian Dollar	-	943,037	52,632	27,478
Chinese Yuan Renminbi	7,627,462	-	163,203	47,398
Danish Krone	1,616,491	-	25,714	3,056
Euro	-	34,434,489	156,590	509,876
Hong Kong Dollar	-	2,446,676	20	1,282
Indian Rupee	6,036,105	-	187,145	5,961
Indonesian Rupian	2,698,400	-	201,084	42
Japanese Yen	32,145,794	-	1,276,892	7,081,969
Malaysian Ringgit	134,543	-	7,095	194
Mexican Peso	3,185,260	-	242,297	199,940
New Zealand Dollar	-	16,326,783	186,718	58,722
Norwegian Kroner	-	5,401,385	604	143,628
Philippine Peso	77,675	-	57,746	42,497
Polish Zloty	-	72,382	244	9,973
Singapore Dollar	304,215	-	23,393	3,041
South African Rand	5,534,991	-	163,648	50,628
South Korean Won	5,638,552	-	493,179	13,348
Swedish Krona	1,602,836	-	23,148	3,954
Swiss Franc	-	8,258,255	649,527	67,273
Taiwan Dollar	11,787,271	-	7,289	84,858
Thai Baht	178,330	-	10,555	4
Turkish Lira	5,122,378	-	120,445	-
UK Pound	-	1,609,761	137,552	96,007
	<u>\$ 83,690,303</u>	<u>\$ 119,795,109</u>	<u>\$ 4,685,756</u>	<u>\$ 8,935,395</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 \$4,249,639, which is included in the net increase in investments on the statement of changes in fiduciary net assets.

**Note 10 – Purchase Agreement**

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 Fund, to purchase up to \$3,094,315,000 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.

**Note 11 – Fees and Expenses**

The Fund incurs investment management fees from various external managers of the Fund. 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 0.15% to 1.50%. In addition to quarterly investment management fees, the Fund may pay performance-based management fees for investment performance in excess of certain defined benchmarks as provided for in the managers'

## THE UNIVERSITY OF TEXAS SYSTEM

### GENERAL ENDOWMENT FUND

*Notes to Financial Statements (cont.)*

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contracts. The investment management fees presented in the statements of changes in fiduciary net assets represent only those paid directly from the Fund, 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.

Custodial fees and expenses are assessed by the financial institution which holds the Fund's assets. Fees are based on the number of accounts, market value of the Fund, and transaction activity in accordance with the contractual agreement with the institution. Additional fees are assessed for performance measurement and on-line communication services per the contractual agreement. For the years ended August 31, 2012 and 2011, custodial fees and expenses incurred by the Fund amounted to \$1,373,015 and \$1,494,125, respectively.

The Fund incurs legal fees associated with the review of investment manager agreements and with due diligence efforts undertaken as part of hiring new investment managers. Fees incurred by the Fund for the years ended August 31, 2012 and 2011, amounted to \$272,992 and \$272,991, respectively.

Analytical and risk measurement fees are also incurred to implement and maintain a sophisticated risk measurement system for the Fund. For the years ended August 31, 2012 and 2011, the fees incurred by the Fund amounted to \$188,702 and \$184,015.

Accounting fees, in the amount of \$109,284 and \$205,576, were paid by the Fund during the years ended August 31, 2012 and 2011, respectively, for external and UT System internal audit services.

Consulting fees, in the amount of \$120,459 and \$118,410, respectively, for the years ending August 31, 2012 and 2011, were incurred for investment strategy and other investment planning services.

Background check fees are incurred as part of the due diligence efforts undertaken as part of hiring of investment managers. Fees in the amount of \$88,186 and \$69,787, were incurred for the years ending August 31, 2012 and 2011, respectively.

Foreign tax consulting and filing fees are incurred by the Fund for investment managers domiciled in certain foreign countries and for those that invest in securities issued in certain foreign countries. Fees in the amounts of \$40,371 and \$42,508, were incurred for the years ending August 31, 2012 and 2011, respectively.

**THE UNIVERSITY OF TEXAS SYSTEM**  
**GENERAL ENDOWMENT FUND**  
*Supplemental Schedules*

**Comparison Summary of Investments**  
*August 31, 2012 and 2011*  
*(in thousands)*

	2012		2011	
	Value	% of Total Investments	Value	% of Total Investments
<b>Equity Securities</b>				
Domestic Common Stock	\$ 305,661	4.30%	\$ 311,456	4.42%
Foreign Common Stock	546,829	7.68%	584,102	8.30%
Other Equity Securities	45	0.00%	55	0.00%
<b>Total Equity Securities</b>	<b>852,535</b>	<b>11.98%</b>	<b>895,613</b>	<b>12.72%</b>
<b>Preferred Stock</b>				
Domestic Preferred Stock	1,976	0.03%	1,998	0.03%
Foreign Preferred Stock	24,279	0.34%	30,591	0.43%
<b>Total Preferred Stock</b>	<b>26,255</b>	<b>0.37%</b>	<b>32,589</b>	<b>0.46%</b>
<b>Debt Securities</b>				
U.S. Government Obligations	103,510	1.45%	132,758	1.88%
Foreign Government and Provincial Obligations	290,963	4.09%	244,222	3.47%
Corporate Obligations	155,515	2.19%	158,443	2.25%
Other	6,600	0.09%	6,890	0.10%
<b>Total Debt Securities</b>	<b>556,588</b>	<b>7.82%</b>	<b>542,313</b>	<b>7.70%</b>
<b>Purchased Options</b>	<b>19,873</b>	<b>0.28%</b>	<b>92,847</b>	<b>1.32%</b>
<b>Convertible Securities</b>	<b>309</b>	<b>0.00%</b>	<b>2,384</b>	<b>0.03%</b>
<b>Investment Funds</b>				
Hedge Funds	2,142,487	30.11%	2,108,902	29.95%
Private Investments	1,910,387	26.85%	1,781,268	25.30%
Developed Country Equity	599,498	8.43%	527,611	7.49%
Emerging Markets Equity	235,967	3.32%	299,136	4.25%
Fixed Income	8,056	0.11%	6,919	0.10%
Natural Resources	91,348	1.28%	94,666	1.34%
<b>Total Investment Funds</b>	<b>4,987,743</b>	<b>70.10%</b>	<b>4,818,502</b>	<b>68.43%</b>
<b>Physical Commodities - Gold</b>	<b>327,869</b>	<b>4.61%</b>	<b>365,031</b>	<b>5.18%</b>
<b>Cash and Cash Equivalents</b>	<b>344,371</b>	<b>4.84%</b>	<b>292,775</b>	<b>4.16%</b>
<b>Total Investments</b>	<b>\$ 7,115,543</b>	<b>100.00%</b>	<b>\$ 7,042,054</b>	<b>100.00%</b>

**THE UNIVERSITY OF TEXAS SYSTEM**  
**GENERAL ENDOWMENT FUND**  
*Supplemental Schedules (cont.)*

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**Financial Highlights**  
*Years Ended August 31,*

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>Selected Per Unit Data</b>					
Net Asset Value, Beginning of Year	\$ 196.382	\$ 170.972	\$ 151.333	\$ 174.268	\$ 179.756
Income from Investment Operations					
Net Investment Income (A)	1.448	1.709	1.467	1.645	2.696
Net Realized and Unrealized Gain (Loss) on Investments	4.869	23.701	18.172	(24.580)	(8.184)
Total Income (Loss) from Investment Operations	6.317	25.410	19.639	(22.935)	(5.488)
Net Asset Value, End of Year	<u>\$ 202.699</u>	<u>\$ 196.382</u>	<u>\$ 170.972</u>	<u>\$ 151.333</u>	<u>\$ 174.268</u>
<b>Ratios and Supplemental Data</b>					
Net Assets, End of Year (in thousands)	\$7,104,604	\$7,049,248	\$6,035,424	\$5,358,787	\$6,310,376
Ratios to Average Net Assets					
Expenses	0.19%	0.24%	0.25%	0.19%	0.18%
Net Investment Income (A)	0.74%	0.92%	0.91%	1.14%	1.49%

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