

Financial Statements
and Independent Auditors' Report
The University of Texas System
Long Term Fund
Years Ended August 31, 2014 and 2013

The University of Texas System Long Term Fund

Financial Statements

Years Ended August 31, 2014 and 2013

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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

Report on the Financial Statements

We have audited the accompanying financial statements of The University of Texas System Long Term Fund (the "Fund") which comprise the statements of fiduciary net position as of August 31, 2014 and 2013, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of The University of Texas System Long Term Fund as of August 31, 2014 and 2013, and the changes in its fiduciary net position thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Fund are intended only to present the fiduciary net position of the Fund as of August 31, 2014 and 2013, and the changes in its fiduciary net position for the years then ended in conformity with accounting principles generally accepted in the United States and do not purport to, and do not, present the fiduciary net position of UTIMCO or The University of Texas System, as of August 31, 2014 or 2013, or the changes in their fiduciary net positions for the years then ended.

As discussed in Note 3, the financial statements include an investment in The University of Texas System General Endowment Fund (the "GEF"), valued at \$7,211,750,581 and \$6,380,587,929 as of August 31, 2014 and 2013, respectively. The GEF has 69.9% and 68.7% of its total assets as of August 31, 2014 and 2013, respectively, invested in assets whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimate of the value of the Fund is based on the net asset value per unit of the GEF, which is calculated by management.

Our opinion is not modified with respect to these matters.

Other Matters

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 4 through 7 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Supplemental Schedule

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

Deloitte & Touche LLP

Deloitte & Touche LLP
October 31, 2014

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

Our discussion and analysis of The University of Texas System Long Term Fund's (Fund) financial performance provides an overview of its activities for the years ended August 31, 2014 and 2013. This discussion was prepared by The University of Texas Investment Management Company (UTIMCO) and should be read in conjunction with the Fund's financial statements and notes. The Fund was established February 9, 1995, by The University of Texas System Board of Regents (UT Board) to succeed the Common Trust Fund pooled investment fund. The Fund is a pooled investment fund established for the collective investment of approximately 11,100 privately raised endowments and other long-term funds established to benefit the 15 institutions of the UT System. The Texas Constitution and various state statutes designate the UT Board as the fiduciary for the management of certain public endowment and operating funds. The UT Board has entered into an Investment Management Services Agreement delegating investment management responsibility for all investments to UTIMCO.

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

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

Financial Highlights

The Fund's net fiduciary position, after contributions, withdrawals and distributions, increased by \$831.2 million from \$6,380.6 million to \$7,211.8 million or approximately 13.0% for the year ended August 31, 2014, compared to an increase of \$252.2 million from \$6,128.4 million to \$6,380.6 million or approximately 4.1% for the year ended August 31, 2013. The change in net fiduciary position from year to year is mainly attributable to the following:

1. The Fund posted a net investment gain of 14.63% for the year ended August 31, 2014, calculated using the Modified Dietz Method as described by the CFA Institute. The net investment return of the Fund is dependent on the results of the investments held in the GEF. The GEF's investments in developed country equities, emerging markets equities and real estate were the biggest contributors to the 2014 return. Investments in developed country equities, credit-related fixed income and real estate were the biggest contributors to the net investment gain of 8.88% for August 31, 2013.

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2. Participant contributions to the Fund increased by 31.8% from fiscal year 2013 to 2014. Fiscal year 2014 contributions of \$245.6 million represented 3.6% of the average value of the Fund position during the year. From fiscal year 2012 to 2013, participant contributions to the Fund decreased by 11.8%. Contributions for fiscal year 2013 totaled \$186.4 million and represented 2.9% of the average value of the Fund position during the year. Participant contributions consist of endowment and other long-term funds that have been forwarded to the Fund for management by UTIMCO.
3. The Fund's distribution rate per unit was increased by 2.1%, approximately the three-year average rate of inflation, for the year ended August 31, 2014. This equated to an increase in the 2014 rate to \$0.3352 per unit from the 2013 rate of \$0.3283 per unit. The 2013 rate represented an increase of 2.1% over the fiscal year 2012 rate of \$0.3215 per unit. Fiscal year 2014 distributions represented 4.73% of the Fund's average net position during the year, compared to the fiscal year 2013 distributions which represented 4.94% of the Fund's average net position for the year.

Use of Financial Statements and Notes

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

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

Statements of Fiduciary Net Position

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

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

As of August 31, 2014, the Fund owned 28,448,211 GEF units representing an ownership percentage of 86.63%, compared to 28,879,947 GEF units representing an ownership percentage of 86.28%, as of August 31, 2013. As of August 31, 2014 and 2013, the fair value of the GEF units was \$7,211.8 million and \$6,380.6 million, respectively.

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

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets			
GEF Units, at Fair Value	\$ 7,211.8	\$ 6,380.6	\$ 6,128.4
Receivable for GEF Units Sold	9.9	142.3	11.9
Total Assets	<u>7,221.7</u>	<u>6,522.9</u>	<u>6,140.3</u>
Liabilities			
Payable to Participants	9.9	142.3	11.9
Total Liabilities	<u>9.9</u>	<u>142.3</u>	<u>11.9</u>
Net Position Held in Trust	<u>\$ 7,211.8</u>	<u>\$ 6,380.6</u>	<u>\$ 6,128.4</u>

Statements of Changes in Fiduciary Net Position

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

The net increase in investments of the Fund was \$870.4 million during the year compared to the net increase in investments of \$498.0 million for the year ended August 31, 2013. The Fund's investment expenses totaled \$6.9 million, \$6.8 million and \$5.3 million, respectively, for the years ended August 31, 2014, 2013, and 2012.

Distributions to participants totaled \$322.6 million, \$313.3 million and \$297.8 million, respectively, for the years ended August 31, 2014, 2013, and 2012. The increase in distributions is a result of the UT Board increasing the distribution rate from \$0.3283 per unit to \$0.3352 per unit for fiscal year 2014, and additional contributions into the Fund. The increase for fiscal year 2013 is a result of the UT Board's increase of the distribution rate from \$0.3215 per unit to \$0.3283 per unit, and additional contributions to the Fund. The Fund is structured as a pooled investment fund in which each endowment or account purchases units at the Fund's fair value or net position per unit. Cash distributions are paid quarterly, on a per unit basis, directly to the UT System institution of record.

The Fund's objectives are:

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

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

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

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

	2014	2013	2012
Investment Income	\$ 940.9	\$ 550.5	\$ 192.6
Less Investment Expenses	6.9	6.8	5.3
Net Investment Income	934.0	543.7	187.3
Participant Contributions	245.6	186.4	211.4
Total Additions	1,179.6	730.1	398.7
Administrative Expenses	13.2	13.6	12.6
Participant Withdrawals	12.6	151.0	16.5
Participant Distributions	322.6	313.3	297.8
Total Deductions	348.4	477.9	326.9
Change in Fiduciary Net Position	831.2	252.2	71.8
Net Position Held in Trust, Beginning of Year	6,380.6	6,128.4	6,056.6
Net Position Held in Trust, End of Year	\$ 7,211.8	\$ 6,380.6	\$ 6,128.4

Contacting UTIMCO

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

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Statements of Fiduciary Net Position

August 31, 2014 and 2013

(Dollars in thousands, except per unit amounts)

	<u>2014</u>	<u>2013</u>
Assets		
GEF Units, at Fair Value	\$ 7,211,750	\$ 6,380,588
Receivable for GEF Units Sold	9,922	142,297
Other	<u>1</u>	<u>1</u>
Total Assets	<u>7,221,673</u>	<u>6,522,886</u>
Liabilities		
Payable to Participants	<u>9,922</u>	<u>142,297</u>
Total Liabilities	<u>9,922</u>	<u>142,297</u>
Net Position Held in Trust (976,346,758 Units and 943,401,576 Units, respectively)	<u>\$ 7,211,751</u>	<u>\$ 6,380,589</u>
Net Position Held in Trust Per Unit	<u>\$7.386</u>	<u>\$6.763</u>

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

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Statements of Changes in Fiduciary Net Position

Years Ended August 31, 2014 and 2013

(in thousands)

	<u>2014</u>	<u>2013</u>
Additions		
Investment Income:		
Net Increase in Investments	\$ 870,412	\$ 498,016
Allocation of GEF Net Investment Income	70,485	52,536
Total Investment Income	<u>940,897</u>	<u>550,552</u>
Less Investment Expenses:		
UTIMCO Management Fee	6,914	6,798
Other Expenses	21	23
Total Investment Expenses	<u>6,935</u>	<u>6,821</u>
Net Investment Income	933,962	543,731
Participant Contributions	<u>245,623</u>	<u>186,402</u>
Total Additions	<u>1,179,585</u>	<u>730,133</u>
Deductions		
Administrative Expenses:		
Fee for Endowment Administration and Management	13,139	13,571
Fee for UT System Oversight	73	73
Total Administrative Expenses	<u>13,212</u>	<u>13,644</u>
Participant Withdrawals	12,588	150,995
Participant Distributions	<u>322,623</u>	<u>313,281</u>
Total Deductions	<u>348,423</u>	<u>477,920</u>
Change in Fiduciary Net Position	831,162	252,213
Net Position Held in Trust, Beginning of Year	<u>6,380,589</u>	<u>6,128,376</u>
Net Position Held in Trust, End of Year	<u><u>\$ 7,211,751</u></u>	<u><u>\$ 6,380,589</u></u>

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

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Notes to Financial Statements

Note 1 – Organization and Basis of Presentation

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

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

The activities of the Fund are accounted for as a fiduciary fund. The financial statements of the Fund use an economic resources measurement focus and the accrual basis of accounting, whereby revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of cash flows. The financial statements of the Fund are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by 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 of the Fund may differ in presentation from the Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements.

Management has evaluated subsequent events through October 31, 2014, 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 – Investment in GEF

The Fund only invests in GEF units and a negligible amount of cash. Subsequent participant contributions received by the Fund are also used to purchase GEF units. At August 31, 2014, the Fund is the majority participant in the GEF, with ownership of 28,448,211 units, which represents 86.63% of the GEF. At August 31, 2013, the Fund held 28,879,947 units, which represents 86.28% of the GEF.

The GEF and the Fund have identical investment objectives. Additionally, the GEF's accounting policies follow the Fund's, as described in Note 3, except for the distributions to participants. On a

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Notes to Financial Statements (cont.)

monthly basis for accounting purposes, the GEF allocates its net investment income and realized gain or loss to the Fund based on its ownership of GEF units at month end. The allocated investment income and realized gain amounts increase the cost basis of the units in the GEF, and any allocated realized losses reduce the cost basis of the units in the GEF. Since the allocation is proportional to the percentage of ownership by the unitholders, no additional units are purchased. The Fund redeems GEF units quarterly to meet its distribution requirements to its unitholders.

Note 3 – Significant Accounting Policies

(A) **Security Valuation** -- The Fund's investment in GEF units is fair valued at the net asset value per unit reported by the GEF. Investment assets which are held in the GEF that have readily determinable fair values are primarily valued on the basis of market valuations provided by independent pricing services. The GEF's investments in private investment funds, hedge funds, U.S. equity, non-U.S. equity, emerging market, real estate and fixed income investment funds and certain other equity securities are fair valued by management using the investments' capital balances and net asset value information provided by the investment managers as well as other considerations as described in the GEF financial statements. The Fund's investment in the GEF is fair valued at \$7,211,750,581 and \$6,380,587,929, as of August 31, 2014 and 2013, respectively.

(B) **Security Transactions** -- A gain or loss is recognized on GEF unit sales on the basis of average cost, and is included in the net increase in investments on the statements of changes in fiduciary net position.

(C) **Distributions to Participants** -- Cash distributions to participants are paid quarterly based on a per unit payout established by the UT Board. For the year ended August 31, 2014, the quarterly rate was \$0.0838 which equates to an annual rate of \$0.3352 per unit. For the year ended August 31, 2013, the quarterly distribution rate was \$0.082075 which equated to an annual rate of \$0.3283 per unit. The ratio of distributions to average net position (12-quarter average) was 4.83% as of August 31, 2014, and 4.87% as of August 31, 2013. For the years ended August 31, 2014 and 2013, the investment policy provided that the annual payout was adjusted by the average consumer price index of the prior 36 months subject to a maximum distribution of 5.5% of the Fund's average market value and a minimum distribution of 3.5% of the Fund's average market value.

(D) **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 position by the number of units outstanding on the valuation date.

(E) **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 position 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.

(F) **Participants' Net Position** -- All participants in the Fund have a proportionate interest in the Fund's net position.

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Notes to Financial Statements (cont.)

(G) **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 materially from these estimates.

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

Note 4 – Investment Risk

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

(A) ***Credit Risk***

Article VII, Section 11b of the Texas Constitution authorizes the UT Board, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (the “PUF”) in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the UT Board, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all of the assets of the Fund rather than a single investment. Pursuant to Section 51.0031(c) of the Texas Education Code, the UT Board has elected the prudent investor standard to govern its management of the 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 GEF’s investment policy does not provide specific limitations or requirements regarding investment ratings. Per GASB Statement No. 40 (GASB 40), *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3*, unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. GASB 40 also provides that securities with split ratings, or a different rating assignment between NRSROs, are disclosed using the rating indicative of the greatest degree of risk. The following table presents the Fund’s pro-rata share of each applicable GEF investment type grouped by rating as of August 31, 2014 and 2013:

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Notes to Financial Statements (cont.)

GEF Investment Type	August 31,		Rating
	2014	2013	
Investments:			
U.S. Government Guaranteed	\$ 65,600,888	\$ 71,783,036	AA
U.S. Government Non-Guaranteed:			
U.S. Agency	2,570,228	3,358,193	AA
U.S. Agency Asset Backed	10,742,820	17,283,532	AA
Total U.S. Government Non-Guaranteed	<u>13,313,048</u>	<u>20,641,725</u>	
Total U.S. Government	<u>78,913,936</u>	<u>92,424,761</u>	
Corporate Obligations:			
Domestic	3,192,260	3,886,727	AAA
Domestic	3,330,296	3,393,064	AA
Domestic	19,530,954	19,658,089	A
Domestic	14,727,214	13,253,002	BAA/BBB
Domestic	1,819,265	3,253,747	BA/BB
Domestic	884,513	1,351,856	B
Domestic	2,062,750	2,214,593	CAA/CCC
Domestic	149,182	454,917	CA/CC
Domestic	295,160	464,911	C
Domestic	223,879	108,648	D
Domestic	465,396	548,490	Not Rated
Foreign	9,815,030	13,997,066	AAA
Foreign	7,936,202	9,025,254	AA
Foreign	10,484,341	6,503,491	A
Foreign	11,987,411	9,427,355	BAA/BBB
Foreign	1,527,455	2,187,674	BA/BB
Foreign	2,249,158	-	B
Foreign	123,661	125,965	CAA/CCC
Foreign	166,333	-	Not Rated
Total Corporate Obligations	<u>90,970,460</u>	<u>89,854,849</u>	
Foreign Government and Provincial Obligations	33,173,051	32,719,440	AAA
Foreign Government and Provincial Obligations	58,169,444	47,199,504	AA
Foreign Government and Provincial Obligations	53,758,365	22,402,083	A
Foreign Government and Provincial Obligations	78,505,807	48,343,087	BAA/BBB
Foreign Government and Provincial Obligations	9,854,680	9,857,245	BA/BB
Foreign Government and Provincial Obligations	1,276,650	-	Not Rated
Total Foreign Government and Provincial Obligations	<u>234,737,997</u>	<u>160,521,359</u>	
Other Debt Securities	146,620	-	AAA
Other Debt Securities	207,912	420,364	AA
Other Debt Securities	1,303,756	731,798	A
Other Debt Securities	-	244,684	B
Total Other Debt Securities	<u>1,658,288</u>	<u>1,396,846</u>	
Total Debt Securities	<u>\$ 406,280,681</u>	<u>\$ 344,197,815</u>	
Convertible Securities	\$ -	\$ 192,011	B
Other Investment Funds - Debt	\$ 8,429,402	\$ 7,081,402	BA/BB
Cash and Cash Equivalents - Money Market Funds	\$ 288,124,489	\$ 365,739,409	AAA
Cash and Cash Equivalents	34,748,606	25,616,768	Not Rated
Total Cash and Cash Equivalents	<u>\$ 322,873,095</u>	<u>\$ 391,356,177</u>	
Net Deposit with Brokers for Derivative Contracts:			
U.S. Government Guaranteed	\$ 2,285,753	\$ 13,014,285	AA
Foreign Government and Provincial Obligations	-	(308,323)	AA
Cash	(4,321,550)	5,946,041	Not Rated
Total Net Deposit with Brokers for Derivative Contracts	<u>\$ (2,035,797)</u>	<u>\$ 18,652,003</u>	

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Notes to Financial Statements (cont.)

(B) Concentrations of Credit Risk

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

(C) Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the GEF will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the GEF will not be able to recover the fair value of its investment or collateral securities that are in the possession of another party. Texas State Statutes and the GEF's investment policy statements do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. As of August 31, 2014 and 2013, the GEF does not have any deposits or investments that are exposed to custodial credit risk.

(D) Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Interest rate risk inherent in the GEF is measured by monitoring the modified duration of the overall investment portfolio. Modified duration estimates the sensitivity of the GEF's investments to changes in interest rates. The GEF has no specific policy statement limitations with respect to its overall modified duration. The following table summarizes the GEF's modified duration and the Fund's pro-rata share of the GEF investment fair value by investment type as of August 31, 2014 and 2013:

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Notes to Financial Statements (cont.)

GEF Investment Type	August 31,			
	2014		2013	
	Fair Value	Modified Duration	Fair Value	Modified Duration
Investments:				
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	\$ 63,397,838	8.06	\$ 59,992,810	8.01
U.S. Treasury Bills	157,411	0.02	5,873,363	0.46
U.S. Treasury Inflation Protected	1,024,422	10.25	4,587,500	14.22
U.S. Agency Asset Backed	1,021,217	2.70	1,329,363	2.98
Total U.S. Government Guaranteed	<u>65,600,888</u>	7.99	<u>71,783,036</u>	7.70
U.S. Government Non-Guaranteed:				
U.S. Agency	2,570,228	3.17	3,358,193	2.10
U.S. Agency Asset Backed	10,742,820	2.75	17,283,532	3.34
Total U.S. Government Non-Guaranteed	<u>13,313,048</u>	2.83	<u>20,641,725</u>	3.14
Total U.S. Government	<u>78,913,936</u>	7.12	<u>92,424,761</u>	6.68
Corporate Obligations:				
Domestic	46,680,869	5.67	48,588,044	5.30
Foreign	44,289,591	4.40	41,266,805	5.53
Total Corporate Obligations	<u>90,970,460</u>	5.05	<u>89,854,849</u>	5.40
Foreign Government and Provincial Obligations	<u>234,737,997</u>	6.45	<u>160,521,359</u>	5.07
Other Debt Securities	<u>1,658,288</u>	11.94	<u>1,396,846</u>	9.75
Total Debt Securities	<u>406,280,681</u>	6.29	<u>344,197,815</u>	5.61
Convertible Securities	-	-	192,011	14.35
Other Investment Funds - Debt	<u>8,429,402</u>	7.70	<u>7,081,402</u>	7.00
Cash and Cash Equivalents	<u>322,873,095</u>	0.07	<u>391,356,177</u>	0.08
Total	<u>\$ 737,583,178</u>	3.59	<u>\$ 742,827,405</u>	2.71
Net Deposit with Brokers for Derivative Contracts:				
U.S. Government Guaranteed:				
U.S. Treasury Bills	\$ 1,729,593	0.20	\$ 13,165,813	0.36
U.S. Treasury Bonds and Notes	-	-	(151,528)	-
U.S. Treasury Inflation Protected	556,160	8.24	-	-
Total U.S. Government Guaranteed	<u>2,285,753</u>	2.16	<u>13,014,285</u>	0.36
Foreign Government and Provincial Obligations	-	-	(308,323)	-
Cash	<u>(4,321,550)</u>	-	<u>5,946,041</u>	-
Total Net Deposit with Brokers for Derivative Contracts	<u>\$ (2,035,797)</u>	-	<u>\$ 18,652,003</u>	0.25

The GEF has purchased options on ten year constant maturity swaps, with expirations ranging from five to seven years, as insurance against possible future increases in inflation. As of August 31, 2014, the Fund's pro-rata share of these options had a notional value of \$2,532,113,150 and a fair value of \$343,734. As of August 31, 2013, the Fund's pro-rata share of these options had a notional value of \$2,897,157,163 and a fair value of \$5,699,013. The risk of loss on these options is limited to the Fund's pro-rata share of the premiums paid by the GEF upon the purchase of the options, which totaled \$14,425,883 as of August 31, 2014 and \$16,268,972 as of August 31, 2013. The GEF also purchased both puts and swaptions on the Japanese Yen, with expirations ranging from one to

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Notes to Financial Statements (cont.)

two years, as insurance against the possibility of a downturn in the Japanese economy. As of August 31, 2014, the Fund's pro-rata share of these puts and swaptions had a notional value of \$280,896,897 with a fair value of \$151,734 and a loss limited to \$2,093,332 which represents the premiums paid. As of August 31, 2013, the Fund's pro-rata share of these puts and swaptions had a notional value of \$1,559,380,164 with a fair value of \$7,350,334 and a loss limited to \$12,070,439 which represents the premiums paid. It is estimated that these options would adjust the 2014 duration of total debt securities of 6.29 downward by approximately 0.06, and the total duration of 3.59 downward by approximately 0.06. It is estimated that these options would adjust the 2013 duration of total debt securities of 5.61 downward by approximately 0.87, and the total duration of 2.71 downward by approximately 0.67. One of the GEF'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 modified duration as presented above.

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

The GEF may invest in various mortgage backed securities, such as collateralized mortgage backed obligations. The GEF also may invest in investments that have floating rates with periodic coupon changes in market rates, zero coupon bonds and stripped Treasury and Agency securities created from coupon securities. No percentage of holdings limitations are specified in the investment policy statements regarding these types of securities. As of August 31, 2014 and 2013, the GEF's investments include the following investments that are highly sensitive to interest rate changes.

Collateralized mortgage obligations which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. The Fund's pro-rata share of these securities amounted to \$16,888,037 and \$19,089,100 as of August 31, 2014 and 2013, respectively.

Mortgage backed securities which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. The Fund's pro-rata share of these securities amounted to \$4,902,661 and \$8,734,346 as of August 31, 2014 and 2013, respectively.

Asset backed securities which are backed by home equity loans, auto loans, equipment loans and credit card receivables. Prepayments by the obligees of the underlying assets in periods of decreasing interest rates could reduce or eliminate the stream of income that would have been received. The Fund's pro-rata share of these securities amounted to \$1,716,091 and \$2,037,407, as of August 31, 2014 and 2013, respectively.

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Notes to Financial Statements (cont.)

(F) Foreign Currency Risk

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

The following table summarizes the Fund's pro-rata exposure of the GEF's non-U.S. dollar investments at August 31, 2014 and 2013:

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Notes to Financial Statements (cont.)

GEF Investment Type	August 31,	
	2014	2013
Domestic Common Stock:		
Indian Rupee	\$ 24,968	\$ 22,358
Taiwan Dollar	14,051	-
Total Domestic Common Stock	39,019	22,358
Foreign Common Stock:		
Australian Dollar	8,377,680	12,021,685
Brazilian Real	41,839,253	33,338,973
Canadian Dollar	19,154,219	16,342,103
Chilean Peso	803,009	1,081,072
Chinese Yuan Renminbi	99,142,045	58,229,808
Colombian Peso	307,494	208,198
Czech Koruna	464,225	715,243
Danish Krone	3,606,146	1,766,883
Egyptian Pound	1,045,886	682,538
Euro	39,197,465	32,863,211
Hong Kong Dollar	76,917,621	68,842,695
Hungarian Forint	140,294	324,896
Indian Rupee	17,672,796	8,330,610
Indonesian Rupiah	9,024,268	6,238,050
Japanese Yen	117,633,418	118,018,434
Malaysian Ringgit	7,032,846	9,327,461
Mexican Peso	24,090,480	7,550,137
Moroccan Dirham	-	182,957
Norwegian Kroner	-	2,329,221
Pakistani Rupee	-	464,298
Peruvian Nuevo Sol	-	1,614
Philippine Peso	7,563,875	7,349,766
Polish Zloty	2,125,743	2,821,393
Qatari Riyal	114,038	-
Singapore Dollar	9,242,803	7,974,672
South African Rand	10,038,752	10,086,228
South Korean Won	65,243,325	32,175,018
Swedish Krona	5,454,267	8,578,665
Swiss Franc	5,100,432	6,580,568
Taiwan Dollar	19,560,291	21,866,634
Thai Baht	6,243,065	7,659,826
Turkish Lira	3,777,834	4,831,169
UK Pound	55,455,758	52,816,279
United Arab Emirates Dirham	593,769	1,239,113
Vietnamese Dong	1,921,322	-
Total Foreign Common Stock	658,884,419	542,839,418
Other - Equity Securities:		
Brazilian Real	55	-
Canadian Dollar	6,067	-
Chilean Peso	-	16
Hong Kong Dollar	86,987	3,775
Indian Rupee	-	107
Indonesian Rupiah	40	-
South Korean Won	2,754	-
Taiwan Dollar	113	75
Thai Baht	2,690	-
Total Other - Equity Securities	98,706	3,973

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Notes to Financial Statements (cont.)

GEF Investment Type	August 31,	
	2014	2013
Foreign Preferred Stock:		
Brazilian Real	\$ 18,538,182	\$ 15,613,302
Colombian Peso	76,099	11,206
South African Rand	9,835	-
South Korean Won	2,684,843	-
Total Foreign Preferred Stock	21,308,959	15,624,508
Foreign Government and Provincial Obligations:		
Australian Dollar	21,937,038	14,241,288
Brazilian Real	24,997,025	6,948,461
Canadian Dollar	1,724,449	4,166,102
Colombian Peso	1,438,374	925,174
Euro	64,761,349	46,358,411
Hong Kong Dollar	-	367,326
Hungarian Forint	4,285,261	3,214,746
Indonesian Rupiah	3,635,888	-
Japanese Yen	5,366,248	12,835,060
Malaysian Ringgit	6,913,056	1,037,730
Mexican Peso	29,923,643	19,805,105
New Zealand Dollar	15,494,432	12,293,093
Norwegian Kroner	5,604,669	-
Polish Zloty	10,461,535	6,824,832
Singapore Dollar	1,451,551	2,091,486
South African Rand	7,954,533	4,854,831
South Korean Won	6,991,166	3,491,140
Swedish Krona	3,641,339	174,570
Thai Baht	1,512,386	-
Turkish Lira	-	2,027,449
UK Pound	11,383,447	14,260,003
Total Foreign Government and Provincial Obligations	229,477,389	155,916,807
Corporate Obligations:		
Australian Dollar	6,693,148	6,992,337
Canadian Dollar	-	599,165
Danish Krone	169,439	-
Euro	12,172,706	8,903,971
Japanese Yen	-	759,315
Mexican Peso	203,704	-
New Zealand Dollar	-	514,992
Swedish Krona	380,658	381,694
UK Pound	4,101,310	6,597,165
Total Corporate Obligations	23,720,965	24,748,639
Purchased Options:		
Japanese Yen	151,734	7,350,334
Private Investment Funds:		
Australian Dollar	5,932,097	4,932,652
Canadian Dollar	54,688,658	40,224,165
Euro	92,887,942	91,211,834
UK Pound	15,664,924	13,906,329
Total Private Investment Funds	169,173,621	150,274,980
Investment Funds - Emerging Markets:		
Brazilian Real	7,298,533	6,796,903
Canadian Dollar	-	221,197
Hong Kong Dollar	792,685	593,292
Swedish Krona	478,815	335,334
Taiwan Dollar	-	178,508
UK Pound	28,286,395	24,716,462
Total Investment Funds - Emerging Markets	36,856,428	32,841,696
Investment Funds - Natural Resources:		
UK Pound	691,711	1,219,635

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Notes to Financial Statements (cont.)

GEF Investment Type	August 31,	
	2014	2013
Cash and Cash Equivalents:		
Australian Dollar	\$ 297,772	\$ 146,767
Brazilian Real	1,071,773	3,242,391
Canadian Dollar	36,325	25,011
Chilean Peso	9,403	2,877
Chinese Yuan Renminbi	8,717,238	3,987,098
Colombian Peso	50,075	1,789
Czech Koruna	510	4,738
Danish Krone	351	150
Egyptian Pound	13,581	-
Euro	847,025	8,061,211
Hong Kong Dollar	795,829	926,580
Hungarian Forint	10	495
Indian Rupee	74,343	59,141
Indonesian Rupiah	4,527	367,148
Israeli Shekel	211	1
Japanese Yen	2,318,826	1,046,751
Malaysian Ringgit	59,956	29,423
Mexican Peso	1,371,782	127,661
Moroccan Dirham	-	8,685
New Zealand Dollar	318	8,814
Norwegian Kroner	226	146
Pakistani Rupee	-	30
Peruvian Nuevo Sol	1,456	192
Philippine Peso	4,917	16,472
Polish Zloty	27,349	47,294
Singapore Dollar	257	299
South African Rand	6,507	18,923
South Korean Won	208,018	102,927
Swedish Krona	381	380
Swiss Franc	364	1,329
Taiwan Dollar	186,405	178,366
Thai Baht	5,569	199,524
Turkish Lira	10,271	8,892
UK Pound	182,602	2,732,202
Vietnamese Dong	39,864	-
Total Cash and Cash Equivalents	16,344,041	21,353,707
Written Options:		
Australian Dollar	(3,116)	-
Brazilian Real	(52,246)	-
Euro	643	(4,662)
Japanese Yen	(67,189)	-
Mexican Peso	(163)	-
UK Pound	-	(8,245)
Total Written Options	(122,071)	(12,907)
Swaps:		
Brazilian Real	30,938	-
Euro	4,586,867	10,989
Japanese Yen	209,223	9,756
Mexican Peso	42,971	9,743
UK Pound	(44,331)	7,993
Total Swaps	4,825,668	38,481
Futures:		
Australian Dollar	(786)	7,315
Canadian Dollar	(4,392)	(1,323)
Euro	(27,814)	17,502
Japanese Yen	-	524
UK Pound	(1,094)	9,001
Total Futures	(34,086)	33,019
Total	\$ 1,161,416,503	\$ 952,254,648

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Notes to Financial Statements (cont.)

(G) Counterparty (Credit) Risk

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

The Fund's pro-rata share of the GEF's gross counterparty exposure as of August 31, 2014 for options, swaps, and foreign currency exchange contracts is shown in the table below:

Options

<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Counterparty Rating</u>
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2014</u>	<u>Fair Value as of August 31, 2014</u>	
\$ 2,818,407,758	\$ 17,267,565	\$ 532,957	\$ 170,528	A

Swaps

<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Counterparty Rating</u>
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2014</u>	<u>Fair Value as of August 31, 2014</u>	
\$ 40,157,022	\$ 13,480,878	\$ 5,060,614	\$ 4,894,706	A

Foreign Currency Exchange Contracts

<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Counterparty Rating</u>
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2014</u>	<u>Fair Value as of August 31, 2014</u>	
\$ 337,150,943	\$ 143,455,118	\$ 5,043,441	\$ 1,949,326	A
6,190,270	861,838	54,631	10,542	AA
<u>\$ 343,341,213</u>	<u>\$ 144,316,956</u>	<u>\$ 5,098,072</u>	<u>\$ 1,959,868</u>	

The Fund's pro-rata share of the GEF's gross counterparty exposure as of August 31, 2013 for options, swaps, and foreign currency exchange contracts is shown in the following table:

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Notes to Financial Statements (cont.)

Options

<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Counterparty Rating</u>
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2013</u>	<u>Fair Value as of August 31, 2013</u>	
\$ 4,457,400,088	\$ 16,677,022	\$ 13,183,378	\$ 255,446	A

Swaps

<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Counterparty Rating</u>
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2013</u>	<u>Fair Value as of August 31, 2013</u>	
\$ 13,178,459	\$ 16,176,544	\$ 342,129	\$ 302,963	A

Foreign Currency Exchange Contracts

<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Counterparty Rating</u>
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2013</u>	<u>Fair Value as of August 31, 2013</u>	
\$ 166,511,455	\$ 226,314,543	\$ 5,147,820	\$ 6,304,716	A
4,190,302	4,436,878	10,301	18,213	AA
<u>\$ 170,701,757</u>	<u>\$ 230,751,421</u>	<u>\$ 5,158,121</u>	<u>\$ 6,322,929</u>	

As of August 31, 2014 and 2013, the GEF 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 GEF to minimal counterparty credit risk since they are exchange traded and the exchange's clearinghouse, as counterparty to all exchange traded futures, guarantees them against default. 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 GEF and its counterparties, and by the posting of collateral on a daily basis by the counterparty to the GEF to cover the GEF's exposure to a counterparty above the limits set in place in each master netting agreement. Collateral posted by counterparties is held by the GEF in one of its accounts at the GEF's custodian bank. As of August 31, 2014 and 2013, the Fund's pro-rata share was \$4,899,378 and \$12,102,289 respectively, of collateral held by the GEF related to derivative instruments other than futures. As of August 31, 2014 and 2013, the Fund's pro-rata share was \$930,500 and \$711,774, respectively, of collateral posted with brokers by the GEF related to derivative instruments other than futures.

Note 5 – Securities Lending

In accordance with the prudent investor investment standards, the GEF loans securities to certain brokers who pay the GEF negotiated lenders' fees. These fees are included in the GEF's investment income, and related expenses, net of rebates paid to borrowers. The GEF receives qualified securities and/or cash as collateral against the loaned securities. The collateral, when received, will

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Notes to Financial Statements (cont.)

have a market value of 102% of loaned securities of U.S. issuers and a market value of 105% for loaned securities of non-U.S. issuers. If the market value of the collateral held in connection with loans of securities of U.S. issuers is less than 100% at the close of trading on any business day, the borrower is required to deliver additional collateral by the close of the next business day to equal 102% of the market value. For non-U.S. issuers, the collateral should remain at 105% of the market value of the loaned securities at the close of any business day. If it falls below 105%, the borrower must deliver additional collateral by the close of the following business day. The Fund's pro-rata share of the fair value of the GEF's securities loaned and the fair value of collateral held are as follows at August 31, 2014 and 2013:

GEF Securities on Loan	2014 Fair Value	2013 Fair Value	Type of Collateral	2014 Fair Value of Collateral	2013 Fair Value of Collateral
U.S. Government	\$ 30,642,052	\$ 14,507,804	Cash	\$ 31,264,601	\$ 14,830,895
Foreign					
Government	7,846,258	702,989	Cash	8,301,679	770,391
Corporate Bonds	7,236,267	5,775,615	Cash	7,411,106	5,957,402
Common Stock	140,252,910	94,693,613	Cash	145,717,716	98,710,653
Total	\$ 185,977,487	\$ 115,680,021	Total	\$ 192,695,102	\$ 120,269,341
U.S. Government	\$ 11,908,116	\$ 30,125,075	Non-Cash	\$ 12,151,748	\$ 30,797,468
Corporate Bonds	-	192,405	Non-Cash	-	196,699
Common Stock	142,610	54,306	Non-Cash	152,812	55,518
Total	\$ 12,050,726	\$ 30,371,786	Total	\$ 12,304,560	\$ 31,049,685

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

The Fund's pro-rata share of the GEF's portion of the collateral pool investments, rating by NRSRO, and weighted average maturity as of August 31, 2014 and 2013 is shown in the following table:

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Notes to Financial Statements (cont.)

Description	August 31,					
	2014			2013		
	Fair Value	Rating	Weighted Average Maturity In Days	Fair Value	Rating	Weighted Average Maturity In Days
		No Rating			No Rating	
Repurchase Agreements	\$ 48,120,334	Available	2	\$ 55,327,283	Available	3
Commercial Paper	94,375,121	P	59	25,623,699	P	56
Floating Rate Notes	-	AAA		855,427	AAA	
Floating Rate Notes	29,719,393	AA		24,127,825	AA	
Floating Rate Notes	13,959,784	A		7,913,299	A	
Total Floating Rate Notes	<u>43,679,177</u>		41	<u>32,896,551</u>		38
Interest Bearing Notes	-	P		1,356,181	P	286
Certificates of Deposit	6,529,594	P	71	5,057,270	P	75
Other Receivables/Payables	(9,125)	Not Rated	-	8,357	Not Rated	-
Total Collateral Pool Investment	<u>\$ 192,695,101</u>		41	<u>\$ 120,269,341</u>		30

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

Cash collateral is recorded as an asset with an equal and offsetting liability to return the collateral on the statements of fiduciary net position. 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 GEF has authorized the securities lending agent to seize the collateral held. The collateral is then used to replace the borrowed securities where possible. Due to some market conditions, it is possible that the original securities cannot be replaced. If the collateral is insufficient to replace the securities, the securities lending agent has indemnified the GEF from any loss due to borrower default.

As of August 31, 2014 and 2013, the GEF had no credit risk exposure to borrowers because the amounts the GEF owed to borrowers exceeded the amounts the borrowers owed the GEF.

There were no significant violations of legal or contractual provisions, no borrower or securities lending agent default losses, and no recoveries of prior period losses during the years ended August 31, 2014 and 2013.

THE UNIVERSITY OF TEXAS SYSTEM
LONG TERM FUND

Notes to Financial Statements (cont.)

Note 6 – Fees and Expenses

The Fund is assessed a management fee by UTIMCO to cover the costs of managing the Fund and providing day-to-day operations. These fees are based on a budget prepared by management and approved by the UT Board. The fees assessed for the years ending August 31, 2014 and 2013, were \$6,914,570 and \$6,798,178, respectively.

The Fund is assessed an annual administrative fee on behalf of UT System and UT System institutions for the support of endowment administration and management efforts. This fee is assessed and paid at the beginning of each fiscal year. The fees assessed for the years ending August 31, 2014 and 2013, were \$13,139,259 and \$13,571,143, respectively.

The Fund is assessed a fee to cover costs associated with UT System personnel in their efforts to provide assistance to the UT Board and the Chancellor of the UT System in their oversight responsibilities of UTIMCO. The fees assessed for the years ended August 31, 2014 and 2013, were \$72,840 and \$73,470, respectively.

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

THE UNIVERSITY OF TEXAS SYSTEM
LONG TERM FUND
Supplemental Schedule

Financial Highlights
Years Ended August 31,

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Selected Per Unit Data					
Net Position, Beginning of Year	\$ 6.763	\$ 6.534	\$ 6.671	\$ 6.107	\$ 5.706
Income from Investment Operations					
Net Investment Income (A)	0.052	0.034	0.029	0.040	0.035
Net Realized and Unrealized Gains on Investments	<u>0.906</u>	<u>0.523</u>	<u>0.156</u>	<u>0.841</u>	<u>0.676</u>
Total Income from Investment Operations	<u>0.958</u>	<u>0.557</u>	<u>0.185</u>	<u>0.881</u>	<u>0.711</u>
Less Distributions					
From Net Investment Income	0.052	0.034	0.029	0.040	0.035
From Net Realized Gains	<u>0.283</u>	<u>0.294</u>	<u>0.293</u>	<u>0.277</u>	<u>0.275</u>
Total Distributions	<u>0.335</u>	<u>0.328</u>	<u>0.322</u>	<u>0.317</u>	<u>0.310</u>
Net Position, End of Year	<u>\$ 7.386</u>	<u>\$ 6.763</u>	<u>\$ 6.534</u>	<u>\$ 6.671</u>	<u>\$ 6.107</u>

Ratios and Supplemental Data

Net Position, End of Year (in thousands)	\$7,211,751	\$6,380,589	\$6,128,376	\$6,056,578	\$5,130,276
Ratios to Average Net Position					
Distributions (5-quarter average)	4.73%	4.94%	4.96%	4.87%	5.20%
Distributions (12-quarter average)	4.83%	4.87%	4.93%	5.12%	4.83%

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