

Financial Statements  
and Independent Auditors' Report  
The University of Texas System  
Long Term Fund  
*Years Ended August 31, 2015 and 2014*

The University of Texas System Long Term Fund

Financial Statements

Years Ended August 31, 2015 and 2014

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Regents of The University of Texas System  
To the Board of Directors of The University of Texas 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, 2015 and 2014, 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, 2015 and 2014, 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, 2015 and 2014, 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, 2015 or 2014, 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 \$7,161,597,988 and \$7,211,750,581 as of August 31, 2015 and 2014, respectively. The GEF has 73.5% and 69.9% of its total assets as of August 31, 2015 and 2014, 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 the 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 audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## Report on Supplemental Schedule

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedule listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the financial statements. This schedule is the responsibility of 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*

October 30, 2015

## **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, 2015 and 2014. 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 11,700 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 University of Texas System 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, decreased by \$50.2 million from \$7,211.8 million to \$7,161.6 million or approximately 0.7% for the year ended August 31, 2015, compared to an increase of \$831.2 million from \$6,380.6 million to \$7,211.8 million or approximately 13.0% for the year ended August 31, 2014. 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 0.98% for the year ended August 31, 2015, 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 private investments, developed country equities and hedge funds were the biggest contributors to the 2015 return. Investments in developed country equities, emerging markets equities and real estate were the biggest contributors to the net investment gain of 14.63% for August 31, 2014.
2. Participant contributions to the Fund increased by 2.8% from fiscal year 2014 to 2015. Fiscal year 2015 contributions of \$252.5 million represented 3.5% of the average value of the

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Fund position during the year. From fiscal year 2013 to 2014, participant contributions to the Fund increased by 31.8%. Contributions for fiscal year 2014 totaled \$245.6 million and represented 3.6% 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, 2015. This equated to an increase in the 2015 rate to \$0.3423 per unit from the 2014 rate of \$0.3352 per unit. The 2014 rate represented an increase of 2.1% over the fiscal year 2013 rate of \$0.3283 per unit. Fiscal year 2015 distributions represented 4.72% of the Fund's average net position during the year, compared to the fiscal year 2014 distributions which represented 4.73% 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, 2015, the Fund owned 27,950,695 GEF units representing an ownership percentage of 86.94%, compared to 28,448,211 GEF units representing an ownership percentage of 86.63%, as of August 31, 2014. As of August 31, 2015 and 2014, the fair value of the GEF units was \$7,161.6 million and \$7,211.8 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 and externally managed portfolios in accordance with approved asset allocation policies, and attempts to supplement the original endowment corpus by increasing purchasing power over

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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>2015</u>	<u>2014</u>	<u>2013</u>
<b>Assets</b>			
GEF Units, at Fair Value	\$ 7,161.6	\$ 7,211.8	\$ 6,380.6
Receivable for GEF Units Sold	6.3	9.9	142.3
<b>Total Assets</b>	<u>7,167.9</u>	<u>7,221.7</u>	<u>6,522.9</u>
<b>Liabilities</b>			
Payable to Participants	6.3	9.9	142.3
<b>Total Liabilities</b>	<u>6.3</u>	<u>9.9</u>	<u>142.3</u>
<b>Net Position Held in Trust</b>	<u>\$ 7,161.6</u>	<u>\$ 7,211.8</u>	<u>\$ 6,380.6</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 \$28.7 million during the year compared to the net increase in investments of \$870.4 million for the year ended August 31, 2014. The Fund's investment expenses totaled \$7.0 million, \$6.9 million and \$6.8 million, respectively, for the years ended August 31, 2015, 2014, and 2013.

Distributions to participants totaled \$341.1 million, \$322.6 million and \$313.3 million, respectively, for the years ended August 31, 2015, 2014, and 2013. The increase in distributions is a result of the UT Board increasing the distribution rate from \$0.3352 per unit to \$0.3423 per unit for fiscal year 2015, and additional contributions into the Fund. The increase for fiscal year 2014 is a result of the UT Board's increase of the distribution rate from \$0.3283 per unit to \$0.3352 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
- 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.

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Fund distributions are determined 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 typically 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):

	<b>2015</b>	<b>2014</b>	<b>2013</b>
Investment Income	\$ 78.2	\$ 940.9	\$ 550.5
Less Investment Expenses	7.0	6.9	6.8
Net Investment Income	71.2	934.0	543.7
Participant Contributions	252.5	245.6	186.4
Total Additions	323.7	1,179.6	730.1
Administrative Expenses	15.1	13.2	13.6
Participant Withdrawals	17.7	12.6	151.0
Participant Distributions	341.1	322.6	313.3
Total Deductions	373.9	348.4	477.9
Change in Fiduciary Net Position	(50.2)	831.2	252.2
Net Position Held in Trust, Beginning of Year	7,211.8	6,380.6	6,128.4
Net Position Held in Trust, End of Year	\$ 7,161.6	\$ 7,211.8	\$ 6,380.6

**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 Position**

*August 31, 2015 and 2014*

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

	<u>2015</u>	<u>2014</u>
<b>Assets</b>		
GEF Units, at Fair Value	\$ 7,161,598	\$ 7,211,750
Receivable for GEF Units Sold	6,256	9,922
Other	<u>15</u>	<u>1</u>
<b>Total Assets</b>	<u>7,167,869</u>	<u>7,221,673</u>
<b>Liabilities</b>		
Payable to Participants	<u>6,256</u>	<u>9,922</u>
<b>Total Liabilities</b>	<u>6,256</u>	<u>9,922</u>
<b>Net Position Held in Trust</b> (1,008,344,408 Units and 976,346,758 Units, respectively)	<u>\$ 7,161,613</u>	<u>\$ 7,211,751</u>
<b>Net Position Held in Trust Per Unit</b>	<u>\$7.102</u>	<u>\$7.386</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, 2015 and 2014*

*(in thousands)*

	<u>2015</u>	<u>2014</u>
<b>Additions</b>		
Investment Income:		
Net Increase in Investments	\$ 28,736	\$ 870,412
Allocation of GEF Net Investment Income	49,487	70,485
Total Investment Income	<u>78,223</u>	<u>940,897</u>
Less Investment Expenses:		
UTIMCO Management Fee	6,966	6,914
Other Expenses	24	21
Total Investment Expenses	<u>6,990</u>	<u>6,935</u>
Net Investment Income	71,233	933,962
Participant Contributions	<u>252,537</u>	<u>245,623</u>
<b>Total Additions</b>	<u>323,770</u>	<u>1,179,585</u>
<b>Deductions</b>		
Administrative Expenses:		
Fee for Endowment Administration and Management	15,009	13,139
Fee for UT System Oversight	70	73
Total Administrative Expenses	<u>15,079</u>	<u>13,212</u>
Participant Withdrawals	17,744	12,588
Participant Distributions	<u>341,085</u>	<u>322,623</u>
<b>Total Deductions</b>	<u>373,908</u>	<u>348,423</u>
<b>Change in Fiduciary Net Position</b>	(50,138)	831,162
Net Position Held in Trust, Beginning of Year	<u>7,211,751</u>	<u>6,380,589</u>
<b>Net Position Held in Trust, End of Year</b>	<u><u>\$ 7,161,613</u></u>	<u><u>\$ 7,211,751</u></u>

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

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## LONG TERM FUND

*Notes to Financial Statements*

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### **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 University of Texas System 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 30, 2015, 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, 2015, the Fund is the majority participant in the GEF, with ownership of 27,950,695 units, which represents 86.94% of the GEF. At August 31, 2014, the Fund held 28,448,211 units, which represents 86.63% 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.)*

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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 \$7,161,597,988 and \$7,211,750,581, as of August 31, 2015 and 2014, 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, 2015, the quarterly rate was \$0.085575 which equates to an annual rate of \$0.3423 per unit. For the year ended August 31, 2014, the quarterly distribution rate was \$0.0838 which equated to an annual rate of \$0.3352 per unit. The ratio of distributions to average net position (12-quarter average) was 4.75% as of August 31, 2015, and 4.83% as of August 31, 2014. For the years ended August 31, 2015 and 2014, the annual payout was adjusted by the average consumer price index of the prior 36 months.

(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.

(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

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*Notes to Financial Statements (cont.)*

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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.

(I) **Recently Issued Accounting Standards** -- GASB Statement No. 72 (Statement 72), *Fair Value Measurement and Application*, effective 2016, clarifies the definition of fair value, establishes principles for measuring fair value, provides additional fair value guidance, and enhances disclosures about fair value measurements. Management is evaluating the effect that Statement 72 will have on the Fund's financial statements.

**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, 2015 and 2014:

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Notes to Financial Statements (cont.)

GEF Investment Type	August 31,		Rating
	2015	2014	
<b>Investments:</b>			
U.S. Government Guaranteed	\$ 58,203,896	\$ 65,600,888	AA
U.S. Government Non-Guaranteed:			
U.S. Agency	9,434,405	2,570,228	AA
U.S. Agency Asset Backed	7,057,538	10,742,820	AA
Total U.S. Government Non-Guaranteed	16,491,943	13,313,048	
Total U.S. Government	74,695,839	78,913,936	
Corporate Obligations:			
Domestic	5,475,453	3,192,260	AAA
Domestic	3,120,758	3,330,296	AA
Domestic	32,433,032	19,530,954	A
Domestic	17,845,819	14,727,214	BAA/BBB
Domestic	2,405,849	1,819,265	BA/BB
Domestic	235,018	884,513	B
Domestic	1,624,820	2,062,750	CAA/CCC
Domestic	252,553	149,182	CA/CC
Domestic	203,027	295,160	C
Domestic	190,460	223,879	D
Domestic	265,647	465,396	Not Rated
Foreign	8,126,462	9,815,030	AAA
Foreign	16,132,695	7,936,202	AA
Foreign	11,035,545	10,484,341	A
Foreign	14,089,891	11,987,411	BAA/BBB
Foreign	2,033,254	1,527,455	BA/BB
Foreign	2,349,902	2,249,158	B
Foreign	613,155	123,661	CAA/CCC
Foreign	52,394	166,333	Not Rated
Total Corporate Obligations	118,485,734	90,970,460	
Foreign Government and Provincial Obligations	28,034,938	33,173,051	AAA
Foreign Government and Provincial Obligations	39,697,346	58,169,444	AA
Foreign Government and Provincial Obligations	55,556,380	53,758,365	A
Foreign Government and Provincial Obligations	53,856,526	78,505,807	BAA/BBB
Foreign Government and Provincial Obligations	7,210,535	9,854,680	BA/BB
Foreign Government and Provincial Obligations	139,394	1,276,650	Not Rated
Total Foreign Government and Provincial Obligations	184,495,119	234,737,997	
Other Debt Securities	131,705	146,620	AAA
Other Debt Securities	168,480	207,912	AA
Other Debt Securities	1,135,507	1,303,756	A
Total Other Debt Securities	1,435,692	1,658,288	
Total Debt Securities	\$ 379,112,384	\$ 406,280,681	
Other Investment Funds - Debt	\$ 7,932,261	\$ 8,429,402	BA/BB
Cash and Cash Equivalents - Money Market Funds	\$ 251,264,178	\$ 288,124,489	AAA
Cash and Cash Equivalents	93,181,930	34,748,606	Not Rated
Total Cash and Cash Equivalents	\$ 344,446,108	\$ 322,873,095	
<b>Net Deposit with Brokers for Derivative Contracts:</b>			
U.S. Government Guaranteed	\$ 869,336	\$ 2,285,753	AA
Cash	(2,528,475)	(4,321,550)	Not Rated
<b>Total Net Deposit with Brokers for Derivative Contracts</b>	\$ (1,659,139)	\$ (2,035,797)	

# THE UNIVERSITY OF TEXAS SYSTEM

## LONG TERM FUND

*Notes to Financial Statements (cont.)*

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### (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, 2015 and 2014, 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, 2015 and 2014:

# THE UNIVERSITY OF TEXAS SYSTEM

## LONG TERM FUND

Notes to Financial Statements (cont.)

GEF Investment Type	August 31,			
	2015		2014	
	Fair Value	Modified Duration	Fair Value	Modified Duration
<b>Investments:</b>				
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	\$ 49,845,162	11.99	\$ 63,397,838	8.06
U.S. Treasury Bills	-	-	157,411	0.02
U.S. Treasury Inflation Protected	5,240,029	8.23	1,024,422	10.25
U.S. Agency Asset Backed	3,118,705	3.81	1,021,217	2.70
Total U.S. Government Guaranteed	<u>58,203,896</u>	11.21	<u>65,600,888</u>	7.99
U.S. Government Non-Guaranteed:				
U.S. Agency	9,434,405	1.01	2,570,228	3.17
U.S. Agency Asset Backed	7,057,538	2.09	10,742,820	2.75
Total U.S. Government Non-Guaranteed	<u>16,491,943</u>	1.47	<u>13,313,048</u>	2.83
Total U.S. Government	<u>74,695,839</u>	9.06	<u>78,913,936</u>	7.12
Corporate Obligations:				
Domestic	64,052,436	5.77	46,680,869	5.67
Foreign	54,433,298	4.56	44,289,591	4.40
Total Corporate Obligations	<u>118,485,734</u>	5.21	<u>90,970,460</u>	5.05
Foreign Government and Provincial Obligations	<u>184,495,119</u>	6.90	<u>234,737,997</u>	6.45
Other Debt Securities	<u>1,435,692</u>	11.21	<u>1,658,288</u>	11.94
Total Debt Securities	<u>379,112,384</u>	6.81	<u>406,280,681</u>	6.29
Other Investment Funds - Debt	<u>7,932,261</u>	7.00	<u>8,429,402</u>	7.70
Cash and Cash Equivalents	<u>344,446,108</u>	0.11	<u>322,873,095</u>	0.07
Total	<u>\$ 731,490,753</u>	3.66	<u>\$ 737,583,178</u>	3.59
<b>Net Deposit with Brokers for Derivative Contracts:</b>				
U.S. Government Guaranteed:				
U.S. Treasury Bills	\$ 869,336	0.22	\$ 1,729,593	0.20
U.S. Treasury Inflation Protected	-	-	556,160	8.24
Total U.S. Government Guaranteed	<u>869,336</u>	0.22	<u>2,285,753</u>	2.16
Cash	<u>(2,528,475)</u>	-	<u>(4,321,550)</u>	-
Total Net Deposit with Brokers for Derivative Contracts	<u>\$ (1,659,139)</u>	-	<u>\$ (2,035,797)</u>	-

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, 2015, the Fund's pro-rata share of these options had a notional value of \$2,541,382,921 and a fair value of \$8,373. 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. 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 \$14,478,694 as of August 31, 2015 and \$14,425,883 as of August 31, 2014. The GEF also purchased puts 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, 2015, the Fund's pro-rata share of these puts had a notional value of \$281,925,227 with a fair value of \$15,620 and a loss limited to \$3,024,274 which represents the premiums paid. As of August 31, 2014, the Fund's pro-rata share of these puts had a notional value of \$280,896,897 with a fair value of \$151,734 and a

# THE UNIVERSITY OF TEXAS SYSTEM

## LONG TERM FUND

*Notes to Financial Statements (cont.)*

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loss limited to \$2,093,332 which represents the premiums paid. It is estimated that these options would not change the 2015 duration of total debt securities of 6.81 or the total duration of 3.66. 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. 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, 2015 and 2014, 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 \$18,089,669 and \$16,888,037 as of August 31, 2015 and 2014, 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 \$5,428,851 and \$4,902,661 as of August 31, 2015 and 2014, 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 \$1,000,451 and \$1,716,091, as of August 31, 2015 and 2014, respectively.

### (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, 2015 and 2014:

# THE UNIVERSITY OF TEXAS SYSTEM

## LONG TERM FUND

Notes to Financial Statements (cont.)

GEF Investment Type	August 31,	
	2015	2014
<b>Domestic Common Stock:</b>		
Indian Rupee	\$ 1,706	\$ 24,968
Taiwan Dollar	6,117	14,051
Total Domestic Common Stock	7,823	39,019
<b>Foreign Common Stock:</b>		
Australian Dollar	7,479,303	8,377,680
Brazilian Real	31,486,967	41,839,253
Canadian Dollar	11,468,519	19,154,219
Chilean Peso	252,572	803,009
Chinese Yuan Renminbi	91,588,673	99,142,045
Colombian Peso	89,151	307,494
Czech Koruna	868,309	464,225
Danish Krone	2,451,983	3,606,146
Egyptian Pound	1,352,767	1,045,886
Euro	22,211,708	39,197,465
Hong Kong Dollar	68,811,658	76,917,621
Hungarian Forint	65,687	140,294
Indian Rupee	20,431,728	17,672,796
Indonesian Rupiah	5,394,812	9,024,268
Japanese Yen	99,583,952	117,633,418
Malaysian Ringgit	4,765,448	7,032,846
Mexican Peso	24,568,854	24,090,480
Norwegian Krone	131,089	-
Philippine Peso	4,592,302	7,563,875
Polish Zloty	1,772,964	2,125,743
Qatari Riyal	1,544,809	114,038
Singapore Dollar	7,652,324	9,242,803
South African Rand	8,632,327	10,038,752
South Korean Won	74,010,812	65,243,325
Swedish Krona	1,390,215	5,454,267
Swiss Franc	2,751,930	5,100,432
Taiwan Dollar	17,716,792	19,560,291
Thai Baht	9,071,921	6,243,065
Turkish Lira	5,295,759	3,777,834
UK Pound	41,543,324	55,455,758
United Arab Emirates Dirham	1,006,573	593,769
Vietnamese Dong	3,600,691	1,921,322
Total Foreign Common Stock	573,585,923	658,884,419
<b>Other - Equity Securities:</b>		
Brazilian Real	-	55
Canadian Dollar	-	6,067
Hong Kong Dollar	-	86,987
Indonesian Rupiah	-	40
South African Rand	70	-
South Korean Won	-	2,754
Taiwan Dollar	517	113
Thai Baht	932	2,690
Total Other - Equity Securities	1,519	98,706

# THE UNIVERSITY OF TEXAS SYSTEM

## LONG TERM FUND

Notes to Financial Statements (cont.)

GEF Investment Type	August 31,	
	2015	2014
<b>Foreign Preferred Stock:</b>		
Brazilian Real	\$ 9,766,398	\$ 18,538,182
Chilean Peso	6,517	-
Colombian Peso	19,289	76,099
South African Rand	9,977	9,835
South Korean Won	4,278,794	2,684,843
Total Foreign Preferred Stock	14,080,975	21,308,959
<b>Foreign Government and Provincial Obligations:</b>		
Australian Dollar	17,919,779	21,937,038
Brazilian Real	15,854,629	24,997,025
Canadian Dollar	4,195,013	1,724,449
Colombian Peso	1,541,347	1,438,374
Euro	42,318,966	64,761,349
Hungarian Forint	3,877,736	4,285,261
Indonesian Rupiah	3,971,131	3,635,888
Japanese Yen	20,119,894	5,366,248
Malaysian Ringgit	6,742,240	6,913,056
Mexican Peso	22,209,641	29,923,643
New Zealand Dollar	12,818,973	15,494,432
Norwegian Krone	4,399,482	5,604,669
Polish Zloty	4,615,409	10,461,535
Singapore Dollar	2,014,611	1,451,551
South African Rand	7,090,770	7,954,533
South Korean Won	2,275,868	6,991,166
Swedish Krona	142,637	3,641,339
Thai Baht	-	1,512,386
UK Pound	6,554,181	11,383,447
Total Foreign Government and Provincial Obligations	178,662,307	229,477,389
<b>Corporate Obligations:</b>		
Australian Dollar	4,051,184	6,693,148
Danish Krone	1,322,904	169,439
Euro	10,087,930	12,172,706
Indian Rupee	221	-
Mexican Peso	-	203,704
Swedish Krona	311,813	380,658
UK Pound	6,079,585	4,101,310
Total Corporate Obligations	21,853,637	23,720,965
<b>Purchased Options:</b>		
Euro	12,191	-
Japanese Yen	15,620	151,734
Total Purchased Options	27,811	151,734
<b>Private Investment Funds:</b>		
Australian Dollar	6,813,731	5,932,097
Canadian Dollar	52,568,120	54,688,658
Euro	77,263,771	92,887,942
UK Pound	21,551,266	15,664,924
Total Private Investment Funds	158,196,888	169,173,621
<b>Investment Funds - Emerging Markets:</b>		
Brazilian Real	5,710,590	7,298,533
Hong Kong Dollar	-	792,685
Swedish Krona	-	478,815
UK Pound	-	28,286,395
Total Investment Funds - Emerging Markets	5,710,590	36,856,428
<b>Investment Funds - Natural Resources:</b>		
UK Pound	-	691,711

# THE UNIVERSITY OF TEXAS SYSTEM

## LONG TERM FUND

Notes to Financial Statements (cont.)

GEF Investment Type	August 31,	
	2015	2014
<b>Cash and Cash Equivalents:</b>		
Australian Dollar	\$ 140,598	\$ 297,772
Brazilian Real	758,702	1,071,773
Canadian Dollar	12,843	36,325
Chilean Peso	303	9,403
Chinese Yuan Renminbi	58,975,775	8,717,238
Colombian Peso	128,192	50,075
Czech Koruna	3,003	510
Danish Krone	239	351
Egyptian Pound	2,283	13,581
Euro	415,034	847,025
Hong Kong Dollar	63,916	795,829
Hungarian Forint	13	10
Indian Rupee	44,854	74,343
Indonesian Rupiah	35,345	4,527
Israeli Shekel	24,750	211
Japanese Yen	3,640,554	2,318,826
Malaysian Ringgit	17,581	59,956
Mexican Peso	254,971	1,371,782
New Zealand Dollar	256	318
Norwegian Krone	496	226
Peruvian Nuevo Sol	1,285	1,456
Philippine Peso	51,515	4,917
Polish Zloty	26,818	27,349
Qatari Riyal	9,621	-
Singapore Dollar	17	257
South African Rand	239,118	6,507
South Korean Won	1,108,831	208,018
Swedish Krona	3,611	381
Swiss Franc	626	364
Taiwan Dollar	98,676	186,405
Thai Baht	7,824	5,569
Turkish Lira	9,968	10,271
UK Pound	119,711	182,602
Vietnamese Dong	55,640	39,864
Total Cash and Cash Equivalents	<u>66,252,969</u>	<u>16,344,041</u>
<b>Written Options:</b>		
Australian Dollar	-	(3,116)
Brazilian Real	(6,961)	(52,246)
Chinese Yuan Renminbi	(4,629)	-
Euro	(71,888)	643
Japanese Yen	-	(67,189)
Mexican Peso	(718)	(163)
Total Written Options	<u>(84,196)</u>	<u>(122,071)</u>
<b>Swaps:</b>		
Brazilian Real	(15,925)	30,938
Euro	11,178,897	4,586,867
Japanese Yen	(68,609)	209,223
Mexican Peso	4,987	42,971
Swedish Krona	(6,510)	-
Swiss Franc	810,599	-
UK Pound	(11,605)	(44,331)
Total Swaps	<u>11,891,834</u>	<u>4,825,668</u>
<b>Futures:</b>		
Australian Dollar	-	(786)
Canadian Dollar	882	(4,392)
Euro	(8,747)	(27,814)
UK Pound	(201)	(1,094)
Total Futures	<u>(8,066)</u>	<u>(34,086)</u>
Total	<u>\$ 1,030,180,014</u>	<u>\$ 1,161,416,503</u>

**THE UNIVERSITY OF TEXAS SYSTEM  
LONG TERM FUND**

*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, 2015 for options, swaps, and foreign currency exchange contracts is shown in the table below:

**Options**

Assets	Liabilities	Assets	Liabilities	Counterparty Rating
Notional	Notional	Fair Value as of August 31, 2015	Fair Value as of August 31, 2015	
\$ 1,835,180,604	\$ 1,107,193,677	\$ 11,053,122	\$ 6,523,278	A

**Swaps**

Assets	Liabilities	Assets	Liabilities	Counterparty Rating
Notional	Notional	Fair Value as of August 31, 2015	Fair Value as of August 31, 2015	
\$ 12,998,169	\$ 32,130,819	\$ 11,723,013	\$ 12,946,576	A

**Foreign Currency Exchange Contracts**

Assets	Liabilities	Assets	Liabilities	Counterparty Rating
Notional	Notional	Fair Value as of August 31, 2015	Fair Value as of August 31, 2015	
\$ 221,150,376	\$ 132,645,955	\$ 5,824,456	\$ 3,739,391	A
-	317,897	-	4,895	AA
\$ 221,150,376	\$ 132,963,852	\$ 5,824,456	\$ 3,744,286	

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 following table:

**THE UNIVERSITY OF TEXAS SYSTEM**

**LONG TERM FUND**

*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, 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>	

As of August 31, 2015 and 2014, 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, 2015 and 2014, the Fund’s pro-rata share was \$5,914,957 and \$4,899,378 respectively, of collateral held by the GEF related to derivative instruments other than futures. As of August 31, 2015 and 2014, the Fund’s pro-rata share was \$3,018,707 and \$930,500, 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 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

**THE UNIVERSITY OF TEXAS SYSTEM**  
**LONG TERM FUND**

*Notes to Financial Statements (cont.)*

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, 2015 and 2014:

<b>GEF Securities on Loan</b>	<b>2015 Fair Value</b>	<b>2014 Fair Value</b>	<b>Type of Collateral</b>	<b>2015 Fair Value of Collateral</b>	<b>2014 Fair Value of Collateral</b>
U.S. Government	\$ 12,554,356	\$ 30,642,052	Cash	\$ 12,810,499	\$ 31,264,601
Foreign					
Government	2,496,939	7,846,258	Cash	2,621,825	8,301,679
Corporate Bonds	8,813,294	7,236,267	Cash	9,043,940	7,411,106
Common Stock	102,062,549	140,252,910	Cash	106,247,358	145,717,716
<b>Total</b>	<b>\$ 125,927,138</b>	<b>\$ 185,977,487</b>	<b>Total</b>	<b>\$ 130,723,622</b>	<b>\$ 192,695,102</b>
U.S. Government	\$ 17,408,862	\$ 11,908,116	Non-Cash	\$ 17,768,772	\$ 12,151,748
Corporate Bonds	259,879	-	Non-Cash	265,226	-
Common Stock	8,462,475	142,610	Non-Cash	8,795,864	152,812
<b>Total</b>	<b>\$ 26,131,216</b>	<b>\$ 12,050,726</b>	<b>Total</b>	<b>\$ 26,829,862</b>	<b>\$ 12,304,560</b>

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 University of Texas System 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, 2015 and 2014 is shown in the following table:

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LONG TERM FUND**

*Notes to Financial Statements (cont.)*

Description	August 31, 2015			August 31, 2014		
	Fair Value	Rating	Weighted Average Maturity In Days	Fair Value	Rating	Weighted Average Maturity In Days
Repurchase Agreements	\$ 75,554,698	No Rating	1	\$ 48,120,334	No Rating	2
Commercial Paper	9,827,536	P	18	94,375,121	P	59
Floating Rate Notes	23,465,621	AA		29,719,393	AA	
Floating Rate Notes	21,876,527	A		13,959,784	A	
Total Floating Rate Notes	45,342,148		29	43,679,177		41
Certificates of Deposit	-	P		6,529,594	P	71
Other Receivables/Payables	(760)	Not Rated	-	(9,124)	Not Rated	-
Total Collateral Pool Investment	\$ 130,723,622		12	\$ 192,695,102		41

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, 2015 and 2014, 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, 2015 and 2014.

**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, 2015 and 2014, were \$6,965,995 and \$6,914,570, 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

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*Notes to Financial Statements (cont.)*

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assessed and paid at the beginning of each fiscal year. The fees assessed for the years ending August 31, 2015 and 2014, were \$15,009,088 and \$13,139,259, 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, 2015 and 2014, were \$70,140 and \$72,840, respectively.

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

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*Supplemental Schedule*

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>Selected Per Unit Data</b>					
Net Position, Beginning of Year	\$ 7.386	\$ 6.763	\$ 6.534	\$ 6.671	\$ 6.107
Income from Investment Operations					
Net Investment Income (A)	0.026	0.052	0.034	0.029	0.040
Net Realized and Unrealized Gains on Investments	<u>0.032</u>	<u>0.906</u>	<u>0.523</u>	<u>0.156</u>	<u>0.841</u>
Total Income from Investment Operations	<u>0.058</u>	<u>0.958</u>	<u>0.557</u>	<u>0.185</u>	<u>0.881</u>
Less Distributions					
From Net Investment Income	0.026	0.052	0.034	0.029	0.040
From Net Realized Gains	<u>0.316</u>	<u>0.283</u>	<u>0.294</u>	<u>0.293</u>	<u>0.277</u>
Total Distributions	<u>0.342</u>	<u>0.335</u>	<u>0.328</u>	<u>0.322</u>	<u>0.317</u>
Net Position, End of Year	<u>\$ 7.102</u>	<u>\$ 7.386</u>	<u>\$ 6.763</u>	<u>\$ 6.534</u>	<u>\$ 6.671</u>

**Ratios and Supplemental Data**

Net Position, End of Year (in thousands)	\$7,161,613	\$7,211,751	\$6,380,589	\$6,128,376	\$6,056,578
Ratios to Average Net Position					
Distributions (5-quarter average)	4.72%	4.73%	4.94%	4.96%	4.87%
Distributions (12-quarter average)	4.75%	4.83%	4.87%	4.93%	5.12%

(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.