

**PERMANENT UNIVERSITY FUND**

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

**PERMANENT HEALTH FUND**

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

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

Statement of Investment Performance Statistics

and Independent Auditors' Report

For the Year Ended August 31, 2015

## **INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL SCHEDULE**

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

We have audited the financial statements of the Permanent University Fund, The University of Texas System General Endowment Fund, the Permanent Health Fund, The University of Texas System Long Term Fund, and The University of Texas System Intermediate Term Fund (collectively, the "Funds") as of and for the years ended August 31, 2015 and 2014, and have issued our reports thereon dated October 30, 2015, which each contained an unmodified opinion on those financial statements. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Statement of Investment Performance Statistics of the Funds (the "Statement") is presented for the purposes of additional analysis and is not a required part of the financial statements. The Statement is the responsibility of The University of Texas Investment Management Company and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The Statement has been subjected to the auditing procedures applied in our audits of the financial statements and certain additional procedures, including comparing and reconciling such information 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, the Statement of Investment Performance Statistics is fairly stated in all material respects in relation to the financial statements as a whole.

*Deloitte & Touche LLP*

October 30, 2015

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**STATEMENT OF INVESTMENT PERFORMANCE STATISTICS**  
**FOR THE YEAR ENDED AUGUST 31, 2015**

Strategy	Rate of Return for the Year Ended August 31, 2015				
	Permanent University Fund	General Endowment Fund	Intermediate Term Fund	Permanent Health Fund	Long Term Fund
<b>NET OF FEES</b>					
<b>Public Markets (More Correlated and Constrained):</b>					
Fixed Income - Investment Grade	-5.2%	-4.1%	-5.8%	-	-
Fixed Income - Credit-Related	-6.2%	-6.2%	-	-	-
Real Estate	-8.6%	-8.6%	-8.6%	-	-
Natural Resources	-30.4%	-30.4%	-30.1%	-	-
Developed Country Equity	5.0%	4.9%	5.1%	-	-
Emerging Markets Equity	-16.9%	-12.5%	-12.5%	-	-
<b>Total Public Markets (Total More Correlated and Constrained)</b>	<b>-9.9%</b>	<b>-8.5%</b>	<b>-8.2%</b>	<b>-</b>	<b>-</b>
<b>Hedge Funds (Less Correlated and Constrained)</b>	<b>3.0%</b>	<b>3.0%</b>	<b>3.0%</b>	<b>-</b>	<b>-</b>
<b>Private Investments</b>	<b>13.4%</b>	<b>13.4%</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL FUND (Net of fees)</b>	<b>0.4%</b>	<b>1.1%</b>	<b>-3.3%</b>	<b>1.0%</b>	<b>1.0%</b>
<b>TOTAL FUND (Gross of fees)</b>	<b>0.7%</b>	<b>1.4%</b>	<b>-3.0%</b>	<b>1.1%</b>	<b>1.1%</b>

See notes to statement of investment performance statistics.

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**NOTES TO STATEMENT OF INVESTMENT PERFORMANCE STATISTICS**

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**1. ORGANIZATION**

The University of Texas Investment Management Company (UTIMCO) is a 501(c)(3) corporation organized to manage the investment assets that are under the fiduciary control of The Board of Regents of The University of Texas System (UT Board). UTIMCO manages these assets through five funds which include the Permanent University Fund (PUF), The University of Texas System General Endowment Fund (GEF), The University of Texas System Intermediate Term Fund (ITF), the Permanent Health Fund (PHF) and The University of Texas System Long Term Fund (LTF) (collectively, the Funds).

The returns for PUF, GEF and ITF are comprised of investment strategies (the Strategies) consisting of investment grade fixed income, credit-related fixed income, real estate, natural resources, developed country equity, emerging markets equity, hedge funds and private investments. Strategies which are not in existence for the full twelve month period are excluded from presentation in the Statement of Investment Performance Statistics. Returns, presented net and gross of cash payments for fees, are also included on a total fund basis for each of these funds. The returns for PHF and LTF are presented only in total, as PHF and LTF only invest in GEF and hold a negligible amount of cash and, therefore, do not directly employ these strategies. Although the PHF and LTF incur additional fees that are not reflected in the GEF, the total returns (net and gross of cash payments for fees) for the PHF and LTF will be similar to those of the GEF.

The Strategies of investment grade fixed income, credit-related fixed income, real estate, natural resources, developed country equity, and emerging markets equity consist of assets managed directly by UTIMCO as well as by third-party managers via investment advisory agreements. The Strategies of hedge funds and private investments consist primarily of externally managed collective investment vehicles such as private equity and hedge funds as well as various other pooled investment vehicles.

**2. BASIS OF PRESENTATION**

The accompanying investment performance statistics have been computed net of investment management fees using the Modified Dietz Method. The formula for the Modified Dietz Method is shown in Appendix I. Other formulas may produce different returns. Individual returns of various investment accounts in the Funds may vary based on factors such as the timing of cash flows. Past returns are no guarantee of future returns.

The total returns for the Funds have been computed net and gross of cash payments for investment management fees for comparative purposes.

Investment assets which are held in the respective Funds that have readily determinable fair values are primarily valued on the basis of market valuations provided by independent pricing services. The Funds' investments in private investment funds, hedge funds, U.S. equity, non-U.S. equity, emerging market, natural resource, 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 manager as well as other considerations as described in the notes to each respective Funds' financial statements. Interest and dividend income is based on the accrual method (interest income is recorded as earned, and dividend income is recorded on the ex-dividend date). Trade date is used when recording trades. Total return (or "return") is defined as a percentage change in fair value (including interest and dividend income), adjusted for cash flows. Monthly returns are geometrically-linked to calculate annual returns.

**FORMULA FOR MODIFIED DIETZ METHOD**

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The formula for estimating the time-weighted rate of return using the Modified Dietz Method,  $R_{DIETZ}$ , is:

	<b>Gross of Fees</b>		<b>Net of Fees</b>
$R_{DIETZ}$	$= \frac{MVE - MVB - F}{MVB + FW}$	=	$R_{DIETZ(net)} = \frac{MVE - MVB - F - FEES}{MVB + FW}$

where  $MVB$  is the fair value at the beginning of the period, including accrued income from the previous period;  
 $MVE$  is the fair value at the end of the period, including accrued income for the period;  
 $F$  is the sum of the cash flows within the period (contributions to the portfolio are positive flows, and withdrawals or distributions are negative flows);  
 $FW$  is the sum of each cash flow,  $F_i$ , multiplied by its weight,  $W_i$ ; and  
 $FEES$  is the sum of investment management fees paid during the period.

$W_i$  is the proportion of the total number of days in the period that the cash flow  $F_i$  has been in (or out of) the portfolio. The formula for  $W_i$  is:

$$W_i = \frac{CD - D_i}{CD}$$

where  $CD$  is the total number of days in the period; and  
 $D_i$  is the number of days since the beginning of the period in which cash flow  $F_i$  occurred.