

Financial Statements
and Independent Auditors' Report
Permanent University Fund
Years Ended August 31, 2014 and 2013

Permanent University 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 Permanent University Fund (the "PUF") 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 PUF'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 PUF'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 Permanent University 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 PUF are intended only to present the fiduciary net position of the PUF 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 also discussed in Note 1, the financial statements of the PUF include only the investment related assets and liabilities and changes therein which are being managed by UTIMCO and do not include the PUF's 2.1 million acres of land. This report, therefore, is not intended to be a complete presentation of the PUF's assets, liabilities, additions, and deductions.

As discussed in Note 2, the financial statements include investments valued at \$12,742,901,418 (70.9% of total assets) and \$10,374,753,862 (68.0% of total assets) as of August 31, 2014 and 2013, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on procedures performed by management which use information provided by the fund managers or the general partners.

Our opinion is not modified with respect to these three 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 Schedules

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

Deloitte & Touche LLP

October 31, 2014

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

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

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

Financial Highlights

The PUF's net fiduciary position after distributions increased by \$2,512.4 million from \$14,852.5 million to \$17,364.9 million, or approximately 16.92% for the year ended August 31, 2014, compared to an increase of \$1,382.2 million or approximately 10.26% 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 PUF posted a net investment return of 15.11%, calculated using the Modified Dietz Method as described by the CFA Institute, for the year ended August 31, 2014. Investments in developed country equities, emerging markets equities and real estate were the biggest contributors to the 2014 return. For the year ended August 31, 2013 the PUF posted a net investment return of 8.79%. Investments in credit-related fixed income, developed country equities and real estate were the biggest contributors to the 2013 returns.
2. Fiscal year 2014 contributions of PUF Lands mineral income increased by 31.9% from \$856.5 million to \$1,129.7 million and represented 7.0% of the average value of the PUF investments during the year, compared to fiscal year 2013 contributions which decreased by 10.3%, from \$954.5 million to \$856.5 million and represented 6.0% of the average value of the PUF investments during the year. PUF Lands expenses were \$8.3 million and \$8.9 million for the years ending August 31, 2014 and 2013, respectively. PUF Lands consist of more than 2.1 million acres in 19 counties primarily in West Texas.
3. The PUF's annual distribution to the Available University Fund (AUF) increased by 36.2% in fiscal year 2014, compared to an increase of 12.0% in fiscal year 2013.

PERMANENT UNIVERSITY FUND

Use of Financial Statements and Notes

The PUF'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). PUF's activities are accounted for as a fiduciary fund, therefore two financial statements are typically required under GASB: the statement of fiduciary net position and the statement of changes in fiduciary net position.

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

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

Statements of Fiduciary Net Position

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

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

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets			
Investments, at Fair Value	\$ 17,438.9	\$ 14,851.3	\$ 13,462.4
Other Assets	<u>530.4</u>	<u>413.1</u>	<u>406.1</u>
Total Assets	<u>17,969.3</u>	<u>15,264.4</u>	<u>13,868.5</u>
Total Liabilities	<u>604.4</u>	<u>411.9</u>	<u>398.2</u>
Net Position Held in Trust	<u>\$ 17,364.9</u>	<u>\$ 14,852.5</u>	<u>\$ 13,470.3</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 PUF investments. The purpose of these statements is to present additions to the PUF resulting from net investment income and contributions from PUF Lands mineral income and to present deductions from the PUF resulting from distributions to the AUF and administrative and investment expenses.

The net increase in investments of the PUF was \$2,110.7 million during the year compared to a net increase in investments of \$1,073.5 million for the year ended August 31, 2013. Investment expenses totaled \$43.8 million, \$44.4 million, and \$30.3 million, respectively, for the years ended August 31, 2014, 2013, and 2012.

The PUF's objectives are:

- Provide a predictable, stable stream of distributions over time,
- Provide that the inflation adjusted value of distributions is maintained over the long-term, and
- Provide that the inflation adjusted value of the PUF's net position after distributions is maintained over rolling 10-year periods.

Distributions to the AUF increased by \$233.1 million, from \$644.3 million in fiscal year 2013 to \$877.4 million, in fiscal year 2014. The fiscal year 2013 distribution amount increased by \$68.8 million from the fiscal year 2012 distribution of \$575.5 million. PUF distributions are determined by the UT Board as provided in the Texas Constitution, which directs the UT Board to establish a distribution policy that provides stable, inflation-adjusted distributions to the AUF and preserves the real value of the PUF investments over the long term. The annual distributions are calculated based on the trailing twelve-quarter average net position of the PUF as of February 28 of each year. For the years ending August 31, 2014 and 2013, respectively, distributions were 7.00% and 5.69% of the trailing twelve-quarter average net position. Distributions to the AUF are made at the discretion of the UT Board subject to the following overriding conditions of the Texas Constitution:

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

PERMANENT UNIVERSITY FUND

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Investment Income	\$ 2,312.3	\$ 1,223.5	\$ 443.0
Less Investment Expenses	43.8	44.4	30.3
PUF Lands Contributions	1,129.7	856.5	954.5
Total Additions	<u>3,398.2</u>	<u>2,035.6</u>	<u>1,367.2</u>
Administrative Expenses			
PUF Lands Expenses	8.3	8.9	9.1
UT System Oversight Fee	0.1	0.2	0.2
Distributions to AUF	877.4	644.3	575.5
Total Deductions	<u>885.8</u>	<u>653.4</u>	<u>584.8</u>
Change in Fiduciary Net Position	2,512.4	1,382.2	782.4
Net Position Held in Trust, Beginning of Year	14,852.5	13,470.3	12,687.9
Net Position Held in Trust, End of Year	<u>\$17,364.9</u>	<u>\$14,852.5</u>	<u>\$13,470.3</u>

Contacting UTIMCO

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

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Statements of Fiduciary Net Position

August 31, 2014 and 2013

(in thousands)

Assets	2014	2013
Investments, at Fair Value:		
Equity Securities	\$2,263,730	\$ 1,903,670
Preferred Stock	59,316	46,478
Debt Securities	964,832	814,327
Convertible Securities	-	423
Investment Funds	12,866,280	10,476,618
Purchased Options	1,096	27,314
Physical Commodities	384,878	375,683
Cash and Cash Equivalents	898,783	1,206,760
Total Investments	<u>17,438,915</u>	<u>14,851,273</u>
Collateral for Securities Loaned, at Fair Value	457,154	287,587
Deposits with Brokers for Derivative Contracts	7,356	68,409
Unrealized Gains on Foreign Currency Exchange Contracts	10,981	11,362
Futures Contracts, at Fair Value	4,534	4,057
Swaps, at Fair Value	12,924	832
Receivables:		
Investment Securities Sold	23,341	28,475
Accrued Income	14,082	12,372
Other	12	12
Total Receivables	<u>37,435</u>	<u>40,859</u>
Total Assets	<u>17,969,299</u>	<u>15,264,379</u>
Liabilities		
Payable Upon Return of Securities Loaned	457,154	287,587
Payable to Brokers for Collateral Held	9,831	25,428
Unrealized Losses on Foreign Currency Exchange Contracts	4,519	13,665
Futures Contracts, at Fair Value	9,615	4,270
Swaps, at Fair Value	12,341	775
Options Written, at Fair Value	392	640
Payables:		
Investment Securities Purchased	101,897	69,798
Other	8,647	9,677
Total Payables	<u>110,544</u>	<u>79,475</u>
Total Liabilities	<u>604,396</u>	<u>411,840</u>
Net Position Held in Trust	<u>\$17,364,903</u>	<u>\$14,852,539</u>

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

PERMANENT UNIVERSITY FUND

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	\$ 2,110,666	\$ 1,073,491
Interest	34,609	39,051
Dividends	55,281	41,197
Income Distributions from Private Investment Funds	109,359	67,695
Securities Lending Income	689	554
Other Income	1,728	1,596
Total Investment Income	<u>2,312,332</u>	<u>1,223,584</u>
Less Investment Expenses:		
Investment Management Fees	29,124	29,537
UTIMCO Management Fee	12,302	12,158
Custodial Fees and Expenses	1,941	1,933
Analytical and Risk Measurement Fees	364	348
Accounting Fees	208	181
Consulting Fees	181	207
Legal Fees	170	397
Background Check Fees	152	189
Foreign Tax Consulting and Filing Fees	70	43
Other Expenses	9	6
Securities Lending Fees	(690)	(582)
Total Investment Expenses	<u>43,831</u>	<u>44,417</u>
Net Investment Income	<u>2,268,501</u>	<u>1,179,167</u>
Contributions from PUF Lands	<u>1,129,698</u>	<u>856,459</u>
Total Additions	<u>3,398,199</u>	<u>2,035,626</u>
Deductions		
Administrative Expenses:		
PUF Lands Expenses	8,304	8,894
UT System Oversight Fee	157	156
Total Administrative Expenses	<u>8,461</u>	<u>9,050</u>
Distributions to Available University Fund	<u>877,374</u>	<u>644,300</u>
Total Deductions	<u>885,835</u>	<u>653,350</u>
Change in Fiduciary Net Position	<u>2,512,364</u>	<u>1,382,276</u>
Net Position Held in Trust, Beginning of Year	<u>14,852,539</u>	<u>13,470,263</u>
Net Position Held in Trust, End of Year	<u>\$17,364,903</u>	<u>\$ 14,852,539</u>

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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements

Note 1 – Organization and Basis of Presentation

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

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

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

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

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

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

(C) 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 – Significant Accounting Policies

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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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

Equity security fair values are based on the closing price on the primary exchange on which the security is traded (if a closing price is not available, the average of the last reported bid and ask price is used).

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

Private investment funds, which consist of non-regulated investment funds, are fair valued by management. The fair values of these investments are estimated by management using the investment's capital account balance at the closest available reporting date, as communicated by the investment manager, adjusted for contributions and withdrawals subsequent to the latest available reporting date as well as consideration of any other information, which has been provided by the investment manager or other source. In rare cases the private investment funds are valued at cost, but only when management considers it to be the best approximation of fair value. As of August 31, 2014 and 2013, investments in private investment funds in the amount of \$4,857,361,671 and \$3,919,976,176, respectively, have been estimated by management.

Hedge funds, developed country equity, emerging markets equity and fixed income investment funds and certain other private placements are fair valued by management based on net asset value information provided by the investment managers as well as other relevant factors as indicated above. As of August 31, 2014 and 2013, investments in these funds in the amount of \$7,885,539,747 and \$6,454,777,686, respectively, have been estimated by management.

The statements of fiduciary net position include investments in private investment funds, hedge funds and other private placements as described above fair valued in the aggregate at \$12,742,901,418 (70.9% of total assets) and \$10,374,753,862 (68.0% of total assets) as of August 31, 2014 and 2013, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values.

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

(C) ***Investment Income and Investment Expenses*** -- Interest income is accrued as earned. Dividend income is recorded on the ex-dividend date. Dividend and interest income are recorded net of foreign taxes where recovery of such taxes is not assured. For the years ended August 31, 2014 and 2013, interest and dividend withholding in the amounts of \$3,044,597 and \$2,716,673, respectively, have been netted against dividend and interest income. Investment income includes net

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

realized and unrealized currency gains and losses recognized between accrual and payment dates on dividend and interest transactions. Investment expenses are recorded on the accrual basis as incurred.

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

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

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

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

Through the use of derivative instruments, the complex risks that are bound together in traditional investments can be separated and managed independently. The primary intent of the PUF's investment in derivative instruments is to manage and implement investment strategies more effectively and at a lower cost than would be possible in the cash market. All of the PUF's derivative instruments are considered investment derivatives, and therefore do not qualify for hedge accounting; all changes in fair value are included in the net increase in investments in the statement of changes in fiduciary net position.

Options Written -- When the PUF writes an option, an amount equal to the premium received by the PUF is recorded as a liability and is subsequently adjusted to the current fair value of the option written. Premiums received from writing options that expire unexercised are treated by the PUF on the expiration date as realized gains from investments and are included in the net increase in investments in the statement of changes in fiduciary net position. The difference between the premium and the amount paid on effecting a closing purchase transaction, including brokerage commissions, is also treated as a realized gain, or, if the premium is less than the amount paid for the closing

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

purchase transaction, as a realized loss and are included in the net increase in investments in the statements of changes in fiduciary net position. If a call option is exercised, the premium is added to the proceeds from the sale of the underlying security or currency in determining whether the PUF has realized a gain or loss. If a put option is exercised, the premium reduces the cost basis of the securities purchased by the PUF.

The PUF as writer of an option bears the market risk of an unfavorable change in the price of the security underlying the written option. Written options are marked to market on a daily basis, and are included as a liability on the statements of fiduciary net position.

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

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

Foreign Currency Contracts -- The PUF enters into forward foreign currency exchange contracts to hedge against foreign currency exchange rate risks on its non-U.S. dollar denominated investment securities and to facilitate trading strategies primarily as a tool to increase or decrease market exposure to various foreign currencies. When entering into a forward currency contract, the PUF agrees to receive or deliver a fixed quantity of foreign currency for an agreed-upon price on an agreed future date. These contracts are fair

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

valued daily and the PUF's net equity therein, representing unrealized gain or loss on the contracts as measured by the difference between the forward foreign exchange rates at the dates of entry into the contracts and the forward rates at the reporting date, is included in the statements of fiduciary net position. Realized and unrealized gains and losses are included in the net increase in investments in the statements of changes in fiduciary net position. These instruments involve market and/or credit risk in excess of the amount recognized in the statements of fiduciary net position. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movement in currency and securities fair values and interest rates.

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

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

Note 3 – Investment Risk

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

(A) **Credit Risk**

Article VII, Section 11b of the Texas Constitution authorizes the UT Board, subject to procedures and restrictions it establishes, to invest the PUF in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the UT Board, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all of the assets of the PUF rather than a single investment.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The PUF's investment policy does not provide specific requirements or limitations with regards to investment ratings. Per GASB Statement No. 40 (GASB 40), *Deposit 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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

NRSROs, are disclosed using the rating indicative of the greatest degree of risk. The following table presents each applicable investment type grouped by rating at August 31, 2014 and 2013:

Investment Type	August 31,		Rating
	2014	2013	
Investments:			
U.S. Government Guaranteed	\$ 159,857,291	\$ 171,952,692	AA
U.S. Government Non-Guaranteed:			
U.S. Agency	3,699,034	3,005,912	AA
U.S. Agency Asset Backed	31,501,991	48,969,983	AA
Total U.S. Government Non-Guaranteed	35,201,025	51,975,895	
Total U.S. Government	195,058,316	223,928,587	
Corporate Obligations:			
Domestic	6,306,866	9,471,722	AAA
Domestic	8,950,873	8,334,002	AA
Domestic	49,917,666	51,499,719	A
Domestic	39,200,120	34,830,213	BAA/BBB
Domestic	2,229,804	6,016,349	BA/BB
Domestic	2,706,556	3,254,279	B
Domestic	5,086,310	5,142,432	CAA/CCC
Domestic	112,406	745,337	CA/CC
Domestic	704,285	943,869	C
Domestic	291,426	-	D
Domestic	1,094,419	1,268,916	Not Rated
Foreign	20,728,957	42,492,904	AAA
Foreign	17,575,767	21,507,535	AA
Foreign	24,815,021	17,538,642	A
Foreign	25,792,508	23,910,079	BAA/BBB
Foreign	2,170,295	5,946,940	BA/BB
Foreign	5,359,804	-	B
Foreign	293,908	277,190	CAA/CCC
Foreign	395,775	-	Not Rated
Total Corporate Obligations	213,732,766	233,180,128	
Foreign Government and Provincial Obligations	79,754,298	76,861,030	AAA
Foreign Government and Provincial Obligations	130,170,626	98,039,575	AA
Foreign Government and Provincial Obligations	124,889,640	46,975,675	A
Foreign Government and Provincial Obligations	191,453,202	108,306,504	BAA/BBB
Foreign Government and Provincial Obligations	23,313,755	23,390,616	BA/BB
Foreign Government and Provincial Obligations	3,037,686	-	Not Rated
Total Foreign Government and Provincial Obligations	552,619,207	353,573,400	
Other Debt Securities	355,306	-	AAA
Other Debt Securities	503,836	994,644	AA
Other Debt Securities	2,343,633	1,858,241	A
Other Debt Securities	219,393	232,413	BA/BB
Other Debt Securities	-	559,331	B
Total Other Debt Securities	3,422,168	3,644,629	
Total Debt Securities	\$ 964,832,457	\$ 814,326,744	
Convertible Securities	\$ -	\$ 422,527	B
Other Investment Funds - Debt	\$ 18,071,234	\$ 15,243,096	BA/BB
Cash and Cash Equivalents - Money Market Funds	\$ 831,482,930	\$ 1,138,359,416	AAA
Cash and Cash Equivalents	67,300,528	68,400,240	Not Rated
Total Cash and Cash Equivalents	\$ 898,783,458	\$ 1,206,759,656	
Net Deposit with Brokers for Derivative Contracts:			
U.S. Government Guaranteed	\$ 5,653,606	\$ 28,955,528	AA
Foreign Government and Provincial Obligations	-	(728,751)	AA
Cash	(8,128,297)	14,754,158	Not Rated
Total Net Deposit with Brokers for Derivative Contracts	\$ (2,474,691)	\$ 42,980,935	

(B) Concentrations of Credit Risk

The PUF's investment policy statement contains the limitation that no more than 5% of the market value of fixed income securities may be invested in corporate or municipal bonds of a single issuer. As of August 31, 2014 and 2013, the PUF does not hold any direct investments in any one issuer of corporate or municipal bonds that is 5% or more of the market value of the PUF's fixed income investments.

(C) Custodial Credit Risk

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

(D) Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the 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 PUF is measured by monitoring the modified duration of the overall investment portfolio. Modified duration estimates the sensitivity of the PUF's investments to changes in interest rates. The PUF has no specific policy statement limitations with respect to its overall modified duration. The following table summarizes the PUF's modified duration by investment type at August 31, 2014 and 2013:

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Notes to Financial Statements (cont.)

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	\$ 154,136,256	8.07	\$ 141,464,440	8.03
U.S. Treasury Bills	374,122	0.02	16,719,474	0.29
U.S. Treasury Inflation Protected	2,439,242	11.69	10,841,410	14.15
U.S. Agency Asset Backed	2,907,671	3.51	2,927,368	4.07
Total U.S. Government Guaranteed	159,857,291	8.03	171,952,692	7.59
U.S. Government Non-Guaranteed:				
U.S. Agency	3,699,034	0.25	3,005,912	0.95
U.S. Agency Asset Backed	31,501,991	3.19	48,969,983	3.96
Total U.S. Government Non-Guaranteed	35,201,025	2.88	51,975,895	3.79
Total U.S. Government	195,058,316	7.10	223,928,587	6.71
Corporate Obligations:				
Domestic	116,600,731	5.64	121,506,838	5.13
Foreign	97,132,035	4.30	111,673,290	5.25
Total Corporate Obligations	213,732,766	5.03	233,180,128	5.19
Foreign Government and Provincial Obligations	552,619,207	6.51	353,573,400	5.27
Other Debt Securities	3,422,168	11.11	3,644,629	9.61
Total Debt Securities	964,832,457	6.32	814,326,744	5.66
Convertible Securities	-	-	422,527	14.35
Other Investment Funds - Debt	18,071,234	7.70	15,243,096	7.00
Cash and Cash Equivalents	898,783,458	0.08	1,206,759,656	0.08
Total	\$ 1,881,687,149	3.35	\$ 2,036,752,023	2.37
Net Deposit with Brokers for Derivative Contracts:				
U.S. Government Guaranteed:				
U.S. Treasury Bills	\$ 3,931,115	0.21	\$ 28,333,805	0.36
U.S. Treasury Bonds and Notes	701,629	6.19	(334,116)	-
U.S. Treasury Inflation Protected	1,020,862	8.28	955,839	11.65
Total U.S. Government Guaranteed	5,653,606	2.41	28,955,528	0.74
Foreign Government and Provincial Obligations	-	-	(728,751)	-
Cash	(8,128,297)	-	14,754,158	-
Total Net Deposit with Brokers for Derivative Contracts	\$ (2,474,691)	-	\$ 42,980,935	0.50

The PUF has purchased options on ten year constant maturity swaps and certain currencies, with expirations ranging from five to seven years, as insurance against possible future increases in inflation. As of August 31, 2014, these options had a notional value of \$5,120,000,000 and a fair value of \$709,571. As of August 31, 2013, these options had a notional value of \$5,891,000,000 and a fair value of \$11,654,255. The risk of loss on these options is limited to the premiums paid by the

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

PUF upon the purchase of the options, which totaled \$29,215,008 and \$33,121,408 as of August 31, 2014 and 2013. The PUF also purchased both puts and swaptions on the Japanese Yen, with expirations ranging from one to two years, as insurance against the possibility of a downturn in the Japanese economy. As of August 31, 2014, these puts and swaptions had a notional value of \$567,039,496 with a fair value of \$306,303 and a loss limited to \$4,225,757 which represents the premiums paid. As of August 31, 2013, these puts and swaptions had a notional value of \$3,375,995,895 with a fair value of \$15,226,891 and a loss limited to \$25,655,664 which represents the premiums paid. It is estimated that these options would adjust the 2014 duration of total debt securities of 6.32 downward by approximately 0.05, and the total duration of 3.35 downward by approximately 0.05. It is estimated that these options would adjust the 2013 duration of total debt securities of 5.66 downward by approximately 0.72, and the total duration of 2.37 downward by approximately 0.52. One of the PUF's external managers also uses options and interest rate and credit default swaps to modify the duration of its portfolios in a cost efficient manner. It is estimated by management that these positions held by the external manager would not significantly adjust the duration of the PUF as presented above.

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

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

Collateralized mortgage obligations which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. These securities amounted to \$42,099,009 and \$48,825,005 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. These securities amounted to \$15,903,725 and \$28,030,685 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. These securities amounted to \$4,271,832 and \$4,162,923 as of August 31, 2014 and 2013, respectively.

(F) Foreign Currency Risk

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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

The classification of domestic common stock and foreign common stock is based on the country of domicile of the issuer, not the currency in which the security is traded. The following table summarizes the PUF's non-U.S. dollar investments by asset type at August 31, 2014 and 2013:

Investment Type	August 31,	
	2014	2013
Domestic Common Stock:		
Indian Rupee	\$ 50,178	\$ 49,147
Taiwan Dollar	28,239	-
Total Domestic Common Stock	78,417	49,147
Foreign Common Stock:		
Australian Dollar	19,852,841	26,725,286
Brazilian Real	100,910,703	73,380,328
Canadian Dollar	44,689,074	36,148,014
Chilean Peso	1,613,835	2,376,452
Colombian Peso	617,981	457,654
Czech Koruna	1,083,409	1,586,688
Danish Krone	8,570,561	3,887,223
Egyptian Pound	2,564,289	1,511,921
Euro	93,404,653	72,187,992
Hong Kong Dollar	182,485,817	151,368,942
Hungarian Forint	281,955	714,221
Indian Rupee	40,935,446	18,362,438
Indonesian Rupiah	20,909,824	13,719,631
Japanese Yen	280,022,530	259,802,486
Malaysian Ringgit	15,900,968	20,511,210
Mexican Peso	56,657,380	16,611,214
Moroccan Dirham	-	402,380
Norwegian Kroner	-	5,142,689
Pakistan Rupee	-	1,021,137
Peruvian Nuevo Sol	-	3,550
Philippine Peso	18,130,929	16,163,155
Polish Zloty	4,580,349	6,203,444
Qatari Riyal	278,628	-
Singapore Dollar	22,429,061	17,593,692
South African Rand	22,109,843	22,248,148
South Korean Won	155,277,485	70,834,368
Swedish Krona	12,970,378	18,840,091
Swiss Franc	12,131,813	14,466,372
Taiwan Dollar	43,499,512	48,132,416
Thai Baht	14,456,255	16,824,868
Turkish Lira	8,764,991	10,637,918
UK Pound	131,767,129	115,868,160
United Arab Emirates Dirham	1,462,285	2,739,960
Vietnamese Dong	4,692,781	-
Total Foreign Common Stock	1,323,052,705	1,066,474,048
Other Equity Securities:		
Brazilian Real	135	-
Canadian Dollar	14,155	-
Chilean Peso	-	34
Hong Kong Dollar	208,477	8,299
Indian Rupee	-	234
Indonesian Rupiah	80	-
South Korean Won	6,612	-
Taiwan Dollar	229	166
Thai Baht	5,405	-
Total Other Equity Securities	235,093	8,733

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type (continued):	August 31,	
	2014	2013
Foreign Preferred Stocks:		
Brazilian Real	\$ 45,151,160	\$ 34,371,486
Colombian Peso	152,938	24,633
South African Rand	24,028	-
South Korean Won	6,558,059	-
Total Foreign Preferred Stock	51,886,185	34,396,119
Foreign Government and Provincial Obligations:		
Australian Dollar	53,322,320	33,497,361
Brazilian Real	63,152,712	16,303,000
Canadian Dollar	2,541,301	9,857,157
Colombian Peso	3,553,854	2,186,740
Euro	147,444,383	100,452,898
Hong Kong Dollar	-	808,309
Hungarian Forint	10,220,297	7,661,527
Indonesian Rupiah	8,675,644	-
Japanese Yen	13,065,719	29,938,686
Malaysian Ringgit	16,674,701	2,452,776
Mexican Peso	67,132,290	35,566,599
New Zealand Dollar	37,035,967	27,422,192
Norwegian Kroner	13,661,205	-
Polish Zloty	25,251,042	16,149,870
Singapore Dollar	3,449,924	4,602,371
South African Rand	19,223,915	11,626,775
South Korean Won	16,664,719	8,240,478
Swedish Krona	8,668,699	421,537
Swiss Franc	327,525	-
Thai Baht	3,598,600	-
Turkish Lira	-	4,793,210
UK Pound	27,033,070	31,689,154
Total Foreign Government and Provincial Obligations	540,697,887	343,670,640
Corporate Obligations:		
Australian Dollar	12,228,063	17,068,914
Canadian Dollar	-	1,190,524
Danish Krone	373,410	-
Euro	28,935,647	26,342,853
Japanese Yen	-	1,640,491
Mexican Peso	470,299	-
New Zealand Dollar	-	1,217,234
Swedish Krona	896,555	902,288
UK Pound	9,220,513	19,120,654
Total Corporate Obligations	52,124,487	67,482,958
Purchased Options:		
Japanese Yen	306,303	15,226,891
Private Investments:		
Australian Dollar	14,157,817	10,999,903
Canadian Dollar	130,522,464	89,700,622
Euro	221,690,633	203,404,058
UK Pound	37,386,627	31,011,367
Total Private Investments	403,757,541	335,115,950
Investment Funds-Emerging Markets:		
Brazilian Real	17,835,882	14,947,329
Canadian Dollar	-	486,460
Hong Kong Dollar	1,936,880	1,304,777
Swedish Krona	1,169,958	737,474
Taiwan Dollar	-	392,579
UK Pound	69,116,156	54,356,877
Total Investment Funds-Emerging Markets	90,058,876	72,225,496
Investment Funds-Natural Resources:		
UK Pound	1,690,156	2,682,242

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type (continued):	August 31,	
	2014	2013
Cash and Cash Equivalents:		
Australian Dollar	\$ 720,008	\$ 284,826
Brazilian Real	2,605,174	7,147,518
Canadian Dollar	54,671	73,252
Chilean Peso	18,899	6,325
Colombian Peso	100,637	3,932
Czech Koruna	1,045	10,437
Danish Krone	580	156
Egyptian Pound	33,183	1
Euro	3,099,735	20,485,502
Hong Kong Dollar	1,927,389	2,037,995
Hungarian Forint	22	1,095
Indian Rupee	166,196	130,037
Indonesian Rupiah	9,223	807,355
Israeli Shekel	742	1
Japanese Yen	5,498,088	2,661,834
Malaysian Ringgit	144,412	66,195
Mexican Peso	3,092,218	281,133
Moroccan Dirham	-	19,101
New Zealand Dollar	258	161,996
Norwegian Kroner	311	192
Pakistan Rupee	-	66
Peruvian Nuevo Sol	3,558	423
Philippine Peso	10,834	36,228
Polish Zloty	58,349	102,536
Singapore Dollar	617	1,251
South African Rand	13,809	41,020
South Korean Won	502,215	226,258
Swedish Krona	15	404
Swiss Franc	167	1,034
Taiwan Dollar	419,729	392,182
Thai Baht	11,192	438,848
Turkish Lira	22,404	19,557
UK Pound	420,015	6,201,478
Vietnamese Dong	97,376	-
Total Cash and Cash Equivalents	<u>19,033,071</u>	<u>41,640,168</u>
Written Options:		
Australian Dollar	(7,717)	-
Brazilian Real	(121,219)	-
Euro	808	(11,108)
Japanese Yen	(162,261)	-
Mexican Peso	(347)	-
UK Pound	-	(20,478)
Total Written Options	<u>(290,736)</u>	<u>(31,586)</u>
Swaps:		
Brazilian Real	66,129	-
Euro	10,713,427	7,998
Japanese Yen	461,488	7,116
Mexican Peso	84,469	8,071
UK Pound	(124,651)	(5,840)
Total Swaps	<u>11,200,862</u>	<u>17,345</u>
Futures:		
Australian Dollar	442	667
Canadian Dollar	(6,896)	(2,046)
Euro	(55,967)	45,375
Japanese Yen	-	1,213
UK Pound	(2,275)	21,505
Total Futures	<u>(64,696)</u>	<u>66,714</u>
Total	<u>\$ 2,493,766,151</u>	<u>\$ 1,979,024,865</u>

PERMANENT UNIVERSITY FUND*Notes to Financial Statements (cont.)***(G) Counterparty (Credit) Risk**

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

The PUF had gross counterparty exposure as of August 31, 2014 for options, swaps, and foreign currency exchange contracts shown in the following table:

Options				
<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2014</u>	<u>Fair Value as of August 31, 2014</u>	<u>Counterparty Rating</u>
\$ 5,699,422,068	\$ 40,359,910	\$ 1,094,636	\$ 395,157	A
Swaps				
<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2014</u>	<u>Fair Value as of August 31, 2014</u>	<u>Counterparty Rating</u>
\$ 93,550,044	\$ 31,155,787	\$ 12,002,055	\$ 11,400,103	A
Foreign Currency Exchange Contracts				
<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2014</u>	<u>Fair Value as of August 31, 2014</u>	<u>Counterparty Rating</u>
\$ 764,177,597	\$ 328,004,421	\$ 10,854,678	\$ 4,490,632	A
13,555,896	1,653,537	126,173	28,084	AA
\$ 777,733,493	\$ 329,657,958	\$ 10,980,851	\$ 4,518,716	

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Notes to Financial Statements (cont.)

The PUF had gross counterparty exposure as of August 31, 2013 for options, swaps, and foreign currency exchange contracts shown in the following table:

Options				
<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2013</u>	<u>Fair Value as of August 31, 2013</u>	<u>Counterparty Rating</u>
<u>\$ 9,268,795,895</u>	<u>\$ 39,977,990</u>	<u>\$ 27,160,777</u>	<u>\$ 574,227</u>	A
Swaps				
<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2013</u>	<u>Fair Value as of August 31, 2013</u>	<u>Counterparty Rating</u>
<u>\$ 32,853,242</u>	<u>\$ 32,607,643</u>	<u>\$ 826,045</u>	<u>\$ 714,732</u>	A
Foreign Currency Exchange Contracts				
<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2013</u>	<u>Fair Value as of August 31, 2013</u>	<u>Counterparty Rating</u>
<u>\$ 376,157,023</u>	<u>\$ 502,633,044</u>	<u>\$ 11,361,243</u>	<u>\$ 13,650,743</u>	A
<u>447,860</u>	<u>848,044</u>	<u>806</u>	<u>14,082</u>	AA
<u>\$ 376,604,883</u>	<u>\$ 503,481,088</u>	<u>\$ 11,362,049</u>	<u>\$ 13,664,825</u>	

As of August 31, 2014 and 2013, the PUF also had investments in futures contracts, options on futures contracts and exchange-cleared swaps. Futures contracts, options on futures, and exchange-cleared swaps expose the PUF to minimal counterparty credit risk since they are exchange traded and the exchange's clearinghouse, as counterparty to all exchange traded futures, guarantees them against default. 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 PUF and its counterparties, and by the posting of collateral on a daily basis by the counterparty to the PUF to cover the PUF's exposure to a counterparty above the limits set in place in each master netting agreement. Collateral posted by counterparties is held by the PUF in one of its accounts at the PUF's custodian bank. As of August 31, 2014 and 2013, the PUF held \$9,830,502 and \$25,093,751 respectively, of collateral related to derivative instruments other than futures, and had on deposit with brokers \$2,925,128 and \$2,485,709, respectively, as collateral related to derivative instruments other than futures.

Note 4 – Securities Lending

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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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 fair value of securities loaned and the fair value of collateral held are as follows at August 31, 2014 and 2013:

Securities on Loan	2014		Type of Collateral	2013	
	Fair Value	Fair Value		Fair Value of Collateral	Fair Value of Collateral
U.S. Government	\$ 72,962,585	\$ 44,906,252	Cash	\$ 74,443,979	\$ 45,884,434
Foreign Government	17,169,552	4,138,499	Cash	18,154,851	4,467,960
Corporate Bonds	19,057,335	17,544,060	Cash	19,527,394	18,079,791
Common Stock	332,040,783	210,249,797	Cash	345,027,664	219,155,115
Total	\$441,230,255	\$276,838,608	Total	\$457,153,888	\$287,587,300
U.S. Government	\$ 25,326,803	\$ 75,172,243	Non-Cash	\$ 25,843,957	\$76,850,090
Corporate Bonds	-	423,391	Non-Cash	-	432,841
Common Stock	191,264	119,406	Non-Cash	211,843	122,071
	\$ 25,518,067	\$ 75,715,040		\$ 26,055,800	\$ 77,405,002

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

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

PERMANENT UNIVERSITY FUND

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	\$ 114,161,685	Available	2	\$ 132,298,255	Available	3
Commercial Paper	223,897,511	P	59	61,271,228	P	56
Floating Rate Notes	-	AAA		2,045,490	AAA	
Floating Rate Notes	70,506,910	AA		57,694,304	AA	
Floating Rate Notes	33,118,484	A		18,922,232	A	
Total Floating Rate Notes	<u>103,625,394</u>		41	<u>78,662,026</u>		38
Interest Bearing Notes	-	P		3,242,892	P	286
Certificates of Deposit	15,490,944	P	71	12,092,913	P	75
Other Receivables/Payables	(21,646)	Not Rated	-	19,986	Not Rated	-
Total Collateral Pool Investment	<u>\$ 457,153,888</u>		41	<u>\$ 287,587,300</u>		30

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

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

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

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

Note 5 – Investment Funds

Investment funds include exchange traded funds, index funds, Securities and Exchange Commission regulated mutual funds, externally managed funds, limited partnerships, and corporate structures which are generally unrated and may be unregulated. The composition of investment funds at August 31, 2014 and 2013 is summarized in the table below as they are classified within the asset mix of the PUF.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

	August 31,	
	2014	2013
Investment Funds:		
Hedge Funds:		
Developed Country Equity	\$ 3,710,752,572	\$ 2,859,563,518
Credit-Related Fixed Income	778,009,921	734,645,823
Investment Grade Fixed Income	366,137,585	426,522,942
Emerging Market Equity	205,352,736	276,528,717
Real Estate	77,685,530	75,018,582
Natural Resources	4,535,024	5,992,033
Total Hedge Funds	<u>5,142,473,368</u>	<u>4,378,271,615</u>
Private Investments:		
Developed Country Equity	1,875,063,601	1,640,085,181
Credit-Related Fixed Income	681,832,612	698,904,367
Natural Resources	1,103,643,668	698,467,693
Emerging Market Equity	504,031,103	390,548,093
Real Estate	692,790,687	491,970,842
Total Private Investments	<u>4,857,361,671</u>	<u>3,919,976,176</u>
Public Markets:		
Developed Country Equity:		
Private Placements	1,847,121,558	1,415,313,898
Other Investment Funds	484,963	-
Total Developed Country Equity	<u>1,847,606,521</u>	<u>1,415,313,898</u>
Emerging Markets:		
Private Placements	789,904,973	516,617,891
Other Investment Funds	101,271,759	82,200,546
Total Emerging Markets	<u>891,176,732</u>	<u>598,818,437</u>
Fixed Income:		
Publicly Traded Mutual Funds	18,071,234	15,243,096
Natural Resources:		
Private Placements	-	144,574,281
Other Investment Funds	3,550,142	4,420,975
Total Natural Resources	<u>3,550,142</u>	<u>148,995,256</u>
Real Estate:		
Private Placements	106,039,848	-
Total Public Markets	<u>2,866,444,477</u>	<u>2,178,370,687</u>
Total Investment Funds	<u>\$12,866,279,516</u>	<u>\$ 10,476,618,478</u>

The PUF invests in hedge funds through unit interests in investment pools established in the name of the UT Board. Amounts presented in the PUF's financial statements and related note disclosures represent the PUF's pro-rata share of these investment pool assets. The hedge fund pools are invested in private placements with external investment managers who invest in equity and fixed income securities, including related derivatives, of both domestic and international issuers. These investment managers may invest in both long and short securities and may utilize leverage in their portfolios. The funds invested may be subject to a lock-up restriction of typically one to three years before the investment may be withdrawn from the investment manager without significant penalty. There are certain risks associated with these private placements, some of which include investment manager risk, market risk, and liquidity risk, as well as the risk of utilizing leverage in the portfolios. The hedge fund pools have committed \$211,315,684 of future funding to various hedge fund investments as of August 31, 2014 of which the PUF's pro-rata portion is \$102,340,186.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

The PUF invests in private investments in investment pools created in the name of the UT Board. Amounts presented in the PUF's financial statements and related note disclosure for the years ending August 31, 2014 and 2013, represent the PUF's pro-rata share of these investment pool assets. The private investment pools are invested in limited partnerships with external investment managers or general partners who invest primarily in private equity securities. These investments are domestic and international, are illiquid, and may not be realized for a period of several years after the investments are made. There are certain risks associated with these investments, some of which are liquidity risk, market risk, event risk, and investment manager risk. Certain of these investments are held through limited liability companies, of which UTIMCO is the manager of the limited liability companies. The private investment pools have committed \$4,772,443,769 of future funding to various private market investments as of August 31, 2014 of which the PUF's pro-rata portion is \$3,216,627,100.

Public market funds are invested in exchange traded funds, index funds, and private placements with external investment managers who invest in equity and fixed income securities of both domestic and international issuers. These funds are characterized as public market funds based on individual risk/return characteristics and their relationship to the overall asset mix of the PUF. Some of these investment managers may invest in both long and short securities and may utilize modest leverage in their portfolios. Certain of these investments are held through limited liability companies of which UTIMCO is the manager of the limited liability companies. There are certain risks associated with these investments, some of which are investment manager risk, market risk, and liquidity risk, as well as the risk of utilizing leverage in the portfolios. Future fundings in the amount of \$54,744,444, of which the PUF's pro-rata portion is \$32,224,968, have been committed to certain public market funds as of August 31, 2014.

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

Hedge funds, private investments, and public market funds include investments in private placement vehicles that are subject to risk which could result in the loss of invested capital. The risks include the following:

- *Key personnel risk* -- The success of certain funds is substantially dependent on key investment managers and the loss of those individuals may adversely impact the fund's performance.
- *Liquidity risk* -- Many of the PUF's investment funds may impose lock-up periods which would cause the PUF to incur penalties to redeem its units or prevent the PUF from redeeming its shares until a certain period of time has elapsed.
- *Limited transparency* -- As private placement investment vehicles, these funds may not disclose the holdings of their portfolios.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

- *Investment strategy risk* -- These funds often employ sophisticated investment strategies and may use leverage which could result in the loss of invested capital.

Investments in hedge funds, private investments, and public market funds are also subject to the investment risks discussed in Note 3. Fixed income investments held by these funds would also be subject to credit risk and interest rate risk; moreover, they may invest in securities whose fair values would be sensitive to changes in interest rates.

Note 6 – Written Options

For the year ended August 31, 2014, the PUF wrote call options on currencies, equities and other indices. The following discloses the contracts outstanding, the expiration date, and the fair values of the outstanding written call options contracts as of August 31, 2014:

Type	Underlying	Contracts	Expiration Date	Fair Value at August 31, 2014	
				Assets	Liabilities
Currency					
	AUD/USD Spot Option	1,500,000	11/26/2014	\$ -	\$ 7,717
	BRL/USD Spot Option	700,000	9/9/2014	-	24
	BRL/USD Spot Option	400,000	9/11/2014	-	96
	BRL/USD Spot Option	700,000	9/25/2014	-	286
	BRL/USD Spot Option	600,000	9/26/2014	-	206
	BRL/USD Spot Option	700,000	3/11/2015	-	7,177
	BRL/USD Spot Option	1,300,000	5/29/2015	-	19,243
	BRL/USD Spot Option	500,000	6/2/2015	-	7,091
	BRL/USD Spot Option	1,200,000	6/8/2015	-	17,517
	BRL/USD Spot Option	600,000	6/10/2015	-	11,215
	BRL/USD Spot Option	1,000,000	6/15/2015	-	19,306
	BRL/USD Spot Option	1,300,000	6/21/2016	-	39,058
	MXN/USD Spot Option	1,300,000	9/11/2014	-	347
				-	129,283
Other					
	Euro-Bund Future	17	9/26/2014	-	2,104
Equity					
	Laredo Petroleum Inc.	3	1/17/2015	-	163
	Rosetta Resources, Inc.	7	1/17/2015	-	1,390
				-	1,553
				\$ -	\$ 132,940

The fair value is included on the statements of fiduciary net position as options written, at fair value. The change in fair value of open call options for the year ending August 31, 2014 was an increase in the amount of \$77,505, which is included in the net increase in investments on the statement of changes in fiduciary net position. The PUF recognized gains in the amount of \$17,181,280 on call options written which are included in the net increase in investments on the statement of changes in fiduciary net position for the year ended August 31, 2014.

The PUF also wrote put options on commodities, equities, interest rate and credit default swaps, currencies and other indices for the year ended August 31, 2014. The following discloses the contracts outstanding, the expiration date, and the fair values of the outstanding written put options contracts as of August 31, 2014:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Type	Underlying	Contracts	Expiration Date	Fair Value at August 31, 2014	
				Assets	Liabilities
Interest Rate Swap					
	3 month United States Libor	7,400,000	9/21/2015	\$ -	\$ 94,267
Credit Default Swap					
	Markit ITraxx Europe Index Series 21	1,400,000	9/17/2014	-	43
	Markit ITraxx Europe Index Series 21	2,500,000	12/14/2014	-	3,880
	Markit ITraxx Europe Index Series 21	2,900,000	12/17/2014	-	2,766
	Markit CDX North America Inv. Grade Index Series 22	4,200,000	12/17/2014	-	2,338
				-	9,027
Other					
	US CPI Urban Consumer Not Seasonally Adj.	600,000	9/29/2020	-	319
	Euro-Bund Future	64	9/26/2014	9,762	161
				9,762	480
Commodity					
	Crude Oil Futures	4	11/17/2015	-	2,838
Currency					
	JPY/USD Spot Option	2,800,000	2/18/2016	-	28,764
	JPY/USD Spot Option	900,000	4/21/2016	-	15,538
	JPY/USD Spot Option	900,000	5/19/2016	-	13,421
	JPY/USD Spot Option	1,300,000	2/18/2019	-	46,548
	JPY/USD Spot Option	1,600,000	2/28/2019	-	57,990
				-	162,261
Equity					
	Apple Inc	56	1/17/2015	-	397
				\$ 9,762	\$ 269,270

The fair value is included on the statements of fiduciary net position as options written, at fair value. The change in fair value of open put options for the year ending August 31, 2014 was an increase in the amount of \$446,683, which is included in the net increase in investments on the statement of changes in fiduciary net position. The PUF recognized gains in the amount of \$931,092 on put options written which are included in the net increase in investments on the statement of changes in fiduciary net position for the year ended August 31, 2014.

For the year ended August 31, 2013, the PUF wrote call options on commodities and interest rate swaps. The following discloses the contracts outstanding, the expiration date, and the fair values of the outstanding written call options contracts as of August 31, 2013:

Type	Underlying	Contracts	Expiration Date	Fair Value at August 31, 2013	
				Assets	Liabilities
Commodity					
	Aluminum Futures	9	12/4/2013	\$ -	\$ 35
	Copper Futures	5	12/3/2014	-	17,478
				-	17,513
Interest Rate Swap					
	6 month Euribor	3,700,000	3/12/2014	-	3,371
				\$ -	\$ 20,884

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

The fair value is included on the statements of fiduciary net position as options written, at fair value. The change in fair value of open call options for the year ending August 31, 2013 was an increase in the amount of \$96,943, which is included in the net increase in investments on the statement of changes in fiduciary net position. The PUF recognized gains in the amount of \$977,806 on call options written which are included in the net increase in investments on the statement of changes in fiduciary net position for the year ended August 31, 2013.

The PUF also wrote put options on commodities, equities and other indices and interest rate swaps for the year ended August 31, 2013. The following discloses the contracts outstanding, the expiration date, and the fair values of the outstanding written put options contracts as of August 31, 2013:

Type	Underlying	Contracts	Expiration Date	Fair Value at August 31, 2013	
				Assets	Liabilities
Interest Rate Swap					
	3 month United States Libor	2,200,000	9/3/2013	\$ -	\$ 39,891
	3 month United States Libor	3,900,000	9/30/2013	-	60,901
	3 month United States Libor	13,200,000	10/18/2013	-	95,704
	6 month British Libor	1,500,000	10/25/2013	-	20,478
	6 month Euribor	3,700,000	3/12/2014	-	7,737
	3 month United States Libor	7,400,000	9/21/2015	-	344,493
				<u>-</u>	<u>569,204</u>
Other					
	US CPI Urban Consumer Not Seasonally Adj.	600,000	9/29/2020	-	735
	US CPI Urban Consumer Not Seasonally Adj.	600,000	10/13/2020	-	916
				<u>-</u>	<u>1,651</u>
Commodity					
	Crude Oil Futures	4	11/17/2015	-	11,410
				<u>-</u>	<u>11,410</u>
Equity					
	Apple Inc	7	1/17/2015	-	36,518
				<u>-</u>	<u>36,518</u>
				<u>\$ -</u>	<u>\$ 618,783</u>

The fair value is included on the statements of fiduciary net position as options written, at fair value. The change in fair value of open put options for the year ending August 31, 2013 was a decrease in the amount of \$251,054, which is included in the net increase in investments on the statement of changes in fiduciary net position. The PUF recognized gains in the amount of \$11,530,086 on put options written which are included in the net increase in investments on the statement of changes in fiduciary net position for the year ended August 31, 2013.

Note 7 – Swaps

During the years ended August 31, 2014 and 2013, the PUF entered into interest rate, credit default, commodity, currency and equity swap contracts. The following discloses the type, coupon rate, notional amount (presented in local currency), maturity date, and the fair values of the outstanding swap contracts as of August 31, 2014:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2014	
				Assets	Liabilities
Interest Rate					
Brazilian Real	10.910%	25,500,000	1/2/2017	\$ 65,322	\$ -
	11.000%	14,600,000	1/4/2021	1,586	779
British Pound	1.750%	18,200,000	12/17/2016	-	73,335
	3.500%	200,000	9/17/2044	-	51,316
Euro	2.000%	2,100,000	9/17/2024	-	245,189
	2.750%	500,000	9/17/2044	-	162,172
Japanese Yen	1.500%	1,010,000,000	6/19/2033	385,715	-
Mexican Peso	5.610%	62,100,000	7/7/2021	21,967	-
	5.630%	8,800,000	7/7/2021	3,867	-
	6.600%	3,300,000	5/21/2029	4,308	-
	6.985%	3,000,000	5/19/2034	8,588	-
	7.140%	2,300,000	4/26/2034	9,647	-
	7.380%	5,000,000	2/9/2029	36,092	-
U.S. Dollar	0.750%	7,300,000	12/17/2016	26,698	-
	1.250%	39,700,000	6/17/2017	97,961	-
	2.500%	11,400,000	6/18/2021	-	340,575
	3.000%	6,400,000	6/20/2023	-	46,122
	3.000%	600,000	12/17/2024	-	21,793
	3.500%	200,000	12/17/2044	15,683	-
	4.500%	800,000	6/19/2024	41,159	-
			<u>718,593</u>	<u>941,281</u>	
Credit Default					
Euro	1.000%	300,000	3/20/2019	4,461	-
	1.000%	2,600,000	6/20/2019	52,598	2,223
	1.000%	100,000	3/20/2021	-	453
Japanese Yen	1.000%	96,000,000	12/20/2018	20,359	-
	1.000%	290,000,000	6/20/2019	55,414	-
U.S. Dollar	0.820%	1,000,000	3/20/2018	-	22,306
	0.862%	1,800,000	11/20/2016	35,530	-
	0.900%	1,000,000	6/20/2019	-	29,123
	1.000%	400,000	6/20/2015	3,483	-
	1.000%	2,800,000	6/20/2018	84,958	-
	1.000%	3,800,000	3/20/2019	14,769	8,704
	1.000%	14,200,000	6/20/2019	286,491	6,882
	1.000%	2,300,000	9/20/2019	42,801	5,091
	1.350%	400,000	3/20/2018	-	17,967
	1.380%	1,000,000	3/20/2017	-	27,842
	1.530%	400,000	9/20/2016	-	11,993
	2.700%	1,000,000	3/20/2019	-	95,334
5.000%	1,200,000	6/20/2019	244,548	-	
			<u>845,412</u>	<u>227,918</u>	

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2014	
				Assets	Liabilities
Commodity					
U.S. Dollar	Gold	480,321	1/30/2015	\$ 7,504	\$ -
	Platinum	594,499	10/31/2014	-	3,485
	S&P GSCI Grains	2,790,678	2/27/2015	-	-
	S&P GSCI Grains	3,804,272	3/31/2015	-	29,116
	S&P GSCI Grains	2,146,048	7/31/2015	-	16,425
	S&P GSCI Industrial Metals	518,618	2/27/2015	4,001	-
	S&P GSCI Industrial Metals	661,556	3/31/2015	5,105	-
	Uranium Physical Spot Price	385,279	11/21/2014	-	50,563
	Uranium Physical Spot Price	67,070	12/19/2014	-	39
	Uranium Physical Spot Price	33,587	1/30/2015	-	86
				<u>16,610</u>	<u>99,714</u>
Currency					
Euro		8,400,000	12/17/2019	11,066,405	-
U.S. Dollar		11,071,693	12/17/2019	-	11,071,693
				<u>11,066,405</u>	<u>11,071,693</u>
Equity					
U.S. Dollar	MSCI Taiwan Index	24,314,787	1/13/2015	141,657	-
	MSCI Korea Index	22,754,982	5/29/2015	135,607	-
				<u>277,264</u>	<u>-</u>
Total				\$ 12,924,284	\$ 12,340,606

The change in fair value of open swap positions for the year ending August 31, 2014 was an increase in the amount of \$667,774, which is included in the net increase in investments on the statement of changes in fiduciary net position. The PUF recognized gains in the amount of \$10,132,028 on swaps which are included in the net increase in investments on the statement of changes in fiduciary net position for the year ended August 31, 2014.

The following discloses the type, coupon rate, notional amount (presented in local currency), maturity date, and the fair values of the outstanding swap contracts as of August 31, 2013:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

	Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2013	
					Assets	Liabilities
Interest Rate						
Euro		0.750%	2,000,000	3/19/2015	\$ 3,051	\$ -
British Pound		1.000%	2,400,000	6/18/2015	2,745	-
Japanese Yen		1.500%	50,000,000	6/19/2033	-	15,180
Mexican Peso		5.000%	7,700,000	6/11/2018	-	22,427
		5.000%	100,000	9/6/2019	-	512
		5.750%	2,100,000	2/22/2023	-	13,760
		6.590%	9,900,000	12/8/2015	28,331	-
		6.750%	4,800,000	6/8/2016	16,439	-
U.S. Dollar		1.700%	1,400,000	3/20/2018	-	15,747
		2.650%	1,300,000	7/31/2023	-	29,470
					<u>50,566</u>	<u>97,096</u>
Credit Default						
Euro		1.000%	200,000	6/20/2017	4,947	-
British Pound		0.670%	780,000	9/20/2014	-	8,585
Japanese Yen		1.000%	500,000,000	6/20/2018	22,296	-
U.S. Dollar		0.460%	1,000,000	12/20/2013	-	2,216
		0.820%	1,000,000	3/20/2018	-	14,521
		0.862%	1,800,000	11/20/2016	58,766	-
		0.900%	1,000,000	6/20/2019	-	19,500
		1.000%	1,100,000	9/20/2016	26,794	-
		1.000%	2,000,000	12/20/2016	16,839	-
		1.000%	3,700,000	6/20/2018	47,552	43,493
		1.000%	200,000	6/20/2019	-	5,196
		1.350%	400,000	3/20/2018	-	18,476
		1.380%	1,000,000	3/20/2017	-	34,281
		1.530%	400,000	9/20/2016	-	12,380
		2.700%	1,000,000	3/20/2019	-	70,880
					<u>177,194</u>	<u>229,528</u>
Commodity						
U.S. Dollar	S&P GSCI Industrial Metals		423,320	12/31/2013	7,268	-
	Nuexco Uranium Ore		101,711	2/28/2014	-	21,627
	Nuexco Uranium Ore		101,298	3/31/2014	-	21,213
	Nuexco Uranium Ore		421,603	4/28/2014	-	61,786
	S&P GSCI Grains		4,350,990	8/29/2014	-	23,298
					<u>7,268</u>	<u>127,924</u>
Equity						
U.S. Dollar	MSCI Taiwan Index		18,783,997	1/11/2014	-	320,580
	MSCI Korea Index		18,269,245	5/29/2014	596,813	-
					<u>596,813</u>	<u>320,580</u>
Total					<u>\$ 831,841</u>	<u>\$ 775,128</u>

The change in fair value of open swap positions for the year ending August 31, 2013 was a decrease in the amount of \$666,614, which is included in the net increase in investments on the statement of changes in fiduciary net position. The PUF recognized losses in the amount of \$20,393,608 on swaps which are included in the net increase in investments on the statement of changes in fiduciary net position for the year ended August 31, 2013.

Note 8 – Futures Contracts

During the years ended August 31, 2014 and 2013, the asset classes that used futures include foreign equities, domestic and foreign debt, interest rate swaps and commodities. The change in fair value of open futures contracts for the year ending August 31, 2014 was an increase in the amount of \$19,315,019, which is included in the net increase in investments on the statement of changes in fiduciary net position. The change in fair value of open futures contracts for the year ending August 31, 2013 was an increase in the amount of \$1,092,278 which is included in the net increase in investments on the statement of changes in fiduciary net position. The PUF had \$4,430,684 and \$65,588,978 on deposit with brokers for collateral as margin for the futures contracts as of August 31, 2014 and 2013, respectively. Short futures may be used by the PUF to hedge the PUF's interest rate or currency risk associated with security positions. For the year ended August 31, 2014, the net realized gain on futures contracts was \$6,606,614, which is included in the net increase in investments on the statement of changes in fiduciary net position. For the year ended August 31, 2013, the net realized loss on futures contracts was \$98,229,044.

Futures contracts on commodities are traded on several different exchanges around the world. The daily cash settlements made by the investment manager for these open commodities contracts are made on a net basis to each respective exchange. The carrying and fair value, for August 31, 2014, shown in the table below for these open contracts do not include amounts previously settled with the exchanges. Net cash settlements for these open commodities contracts amounted to \$24,396,157 and \$1,305,313 as of August 31, 2014 and 2013, respectively.

During the years ended August 31, 2014 and 2013, certain of the PUF's investment managers trading in commodity futures on the London Metals Exchange (LME) closed out various long contract positions with offsetting short contract positions. For contracts traded and closed on the LME, cash settlement does not occur until the expiration date of the contract. The gross notional value of these long and short positions are shown below with the associated pending cash settlement amounts shown as the carrying and fair value as of August 31, 2014 and 2013.

The following discloses the type, number of contracts, expiration date, notional value, and the carrying and fair values at August 31, 2014 for futures contracts:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Contract	Number of Contracts	Expiration	Notional Value at August 31, 2014		Carrying and Fair Value at August 31, 2014	
			Long	Short	Assets	Liabilities
Commodities						
Aluminum Hg	-	Sep-14	\$ 17,292,349	\$ 17,292,349	\$ 790,110	\$ -
Aluminum Hg	344	Dec-14	20,333,797	2,243,729	146,254	-
Brent Crude Oil	239	Oct-14	24,658,418	-	-	596,070
Brent Crude Oil	67	Dec-14	7,001,044	-	-	165,262
Cattle Feeder	22	Oct-14	-	2,369,804	-	32,522
Coffee 'C'	58	Dec-14	4,346,429	-	671,769	-
Copper	-	Sep-14	9,049,866	9,049,866	-	154,231
Copper	52	Dec-14	9,587,676	558,505	51,325	-
Corn	433	Dec-14	7,898,978	-	-	1,402,803
Corn	88	Mar-15	-	1,662,295	17,162	-
Cotton No. 2	28	Dec-14	940,966	-	-	152,538
Crude Oil	179	Oct-14	17,198,046	-	-	179,568
Crude Oil	160	Dec-14	15,100,968	-	-	466,401
Crude Oil	26	Dec-15	2,345,747	-	-	10,390
Gas Oil	155	Sep-14	13,330,241	-	-	319,918
Gasoline RBOB	47	Oct-14	5,170,866	-	105,050	-
Gold 100 Oz	624	Dec-14	80,252,235	-	-	450,443
Heating Oil	32	Dec-14	3,861,495	-	44,642	-
Henry Hub LD1	52	Jan-17	573,790	-	22,759	-
Henry Hub LD1	52	Feb-17	570,944	-	19,913	-
Henry Hub LD1	52	Mar-17	568,597	-	11,852	-
Henry Hub LD1	55	Apr-17	564,578	-	-	26,191
Henry Hub LD1	55	May-17	566,381	-	-	24,388
Henry Hub LD1	55	Jun-17	565,742	-	-	19,360
Henry Hub LD1	55	Jul-17	571,099	-	-	14,003
Henry Hub LD1	55	Aug-17	573,159	-	-	11,943
Henry Hub LD1	55	Sep-17	572,472	-	-	12,629
Henry Hub LD1	55	Oct-17	576,043	-	-	9,058
Henry Hub LD1	53	Nov-17	563,706	-	1,360	67
Henry Hub LD1	51	Dec-17	568,259	-	22,895	-
Henry Hub LD1	14	Jan-18	158,376	-	5,325	-
Henry Hub LD1	15	Feb-18	163,675	-	4,723	-
Henry Hub LD1	15	Mar-18	161,443	-	2,491	-
Henry Hub LD1	15	Apr-18	155,362	-	-	9,404
Henry Hub LD1	15	May-18	155,848	-	-	8,918
Henry Hub LD1	15	Jun-18	157,042	-	-	7,724
Henry Hub LD1	15	Jul-18	158,387	-	-	6,379
Henry Hub LD1	15	Aug-18	158,909	-	-	5,857
Henry Hub LD1	15	Sep-18	158,835	-	-	5,931
Henry Hub LD1	15	Oct-18	159,843	-	-	4,923
Henry Hub LD1	15	Nov-18	157,194	-	-	1,757
Henry Hub LD1	14	Dec-18	157,266	-	4,215	-
Lead	-	Sep-14	5,926,250	5,926,250	170,830	-
Lead	106	Dec-14	5,956,767	-	-	35,712
Live Cattle	52	Oct-14	3,133,855	-	99,070	-
Live Cattle	155	Dec-14	9,558,335	-	-	203,058
Natural Gas	495	Jan-15	21,093,574	-	184,584	135,710
Natural Gas	491	Feb-15	20,845,961	-	565,698	-
Natural Gas	54	Mar-15	2,268,746	-	2,470	-
Natural Gas	185	Apr-15	7,209,191	-	30,899	21,736
Natural Gas	228	Jun-15	8,894,311	-	27,438	-
Nickel	-	Sep-14	17,808,778	17,808,778	-	75,542
Nickel	186	Dec-14	20,959,292	-	-	74,849
Palladium	140	Dec-14	12,807,964	-	364,384	-
Platinum	318	Oct-14	22,645,884	-	-	788,981

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

<u>Contract</u>	<u>Number of Contracts</u>	<u>Expiration</u>	<u>Notional Value at August 31, 2014</u>		<u>Carrying and Fair Value at August 31, 2014</u>	
			<u>Long</u>	<u>Short</u>	<u>Assets</u>	<u>Liabilities</u>
Commodities (continued)						
Silver	47	Dec-14	\$ 4,626,643	\$ -	\$ -	\$ 12,580
Soybean	162	Nov-14	8,304,226	-	-	760,246
Soybean	59	Jan-15	-	3,084,095	30,337	-
Soybean Meal	165	Dec-14	2,674,985	3,123,934	141,818	140,992
Soybean Oil	242	Dec-14	4,659,560	-	-	869,121
Sugar #11 World	951	Oct-14	16,490,230	-	-	2,324,124
Wheat	116	Dec-14	3,359,833	330,625	91,461	-
Wheat	93	Jul-15	-	2,796,828	26,330	-
Zinc	-	Sep-14	18,137,835	18,137,835	792,125	-
Zinc	308	Dec-14	18,220,693	-	82,144	-
			<u>482,688,984</u>	<u>84,384,893</u>	<u>4,531,433</u>	<u>9,541,329</u>
Domestic Fixed Income						
US Treasury Bond	24	Dec-14	3,362,250	-	-	4,500
US 5yr Treasury Note	2	Dec-14	237,672	-	62	-
US 10yr Treasury Note	60	Dec-14	7,546,875	-	-	3,750
			<u>11,146,797</u>	<u>-</u>	<u>62</u>	<u>8,250</u>
Foreign Fixed Income						
3mo Euro Euribor	42	Jun-15	13,814,003	-	-	2,361
3mo Euro Euribor	44	Sep-15	14,470,364	-	-	2,173
90 Day Eurodollar	-	Sep-14	-	-	-	10
90 Day Eurodollar	20	Dec-14	4,987,250	-	250	-
90 Day Eurodollar	47	Mar-15	11,708,288	-	588	-
90 Day Eurodollar	46	Jun-15	11,437,900	-	1,150	-
90 Day Eurodollar	27	Dec-15	-	6,682,838	-	337
90day Sterling Libor	12	Sep-15	-	2,459,737	-	498
Australian 3yr Bond	17	Sep-14	1,743,613	-	442	-
Canada 10yr Bond	34	Dec-14	-	4,304,420	-	6,896
Euro-Btp	63	Sep-14	10,831,020	-	-	38,524
Euro-Bund	35	Sep-14	-	6,986,297	-	12,909
UK Long Gilt	27	Dec-14	5,091,162	-	-	1,777
			<u>74,083,600</u>	<u>20,433,292</u>	<u>2,430</u>	<u>65,485</u>
Total			<u>\$ 567,919,381</u>	<u>\$ 104,818,185</u>	<u>\$ 4,533,925</u>	<u>\$ 9,615,064</u>

The following discloses the type, number of contracts, expiration date, notional value, and the carrying and fair values at August 31, 2013 for futures contracts:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Contract	Number of Contracts	Expiration	Notional Value at August 31, 2013		Carrying and Fair Value at August 31, 2013	
			Long	Short	Assets	Liabilities
Commodities						
Aluminum Hg	6	Sep-13	\$ 10,505,375	\$ 10,250,435	\$ 247,331	\$ 26,927
Aluminum Hg	241	Dec-13	21,151,879	10,180,978	-	892,216
Brent Crude Oil	31	Oct-13	3,514,186	-	243,098	-
Brent Crude Oil	33	Dec-13	3,662,670	-	-	-
Brent Crude Oil	97	Dec-14	9,914,803	-	-	2,095
Coffee 'C'	119	Dec-13	5,187,364	-	-	145,592
Copper	9	Sep-13	2,128,623	462,744	-	80,967
Copper	178	Dec-13	15,036,337	649,487	33,662	-
Copper	2	Dec-14	-	374,897	35,996	-
Corn	514	Dec-13	11,013,700	1,372,377	203,790	-
Corn	52	Dec-14	1,342,229	-	64,122	-
Cotton No. 2	107	Dec-13	4,463,635	-	-	977
Cotton No. 2	8	Mar-14	330,960	-	-	-
Crude Oil	37	Dec-13	3,947,837	-	224,238	-
Crude Oil	50	Dec-14	4,670,000	-	-	-
Crude Oil	16	Jun-14	1,535,010	-	115,416	-
Crude Oil	214	Dec-15	18,622,280	-	-	-
Gas Oil	5	Sep-13	506,498	-	28,433	-
Gasoline RBOB	62	Dec-13	7,341,442	-	42,265	-
Gasoline RBOB	15	Jan-14	1,769,544	-	-	-
Gold 100 Oz	1,652	Dec-13	230,617,341	-	467,918	2,472,960
Heating Oil	10	Oct-13	1,307,651	-	-	9,314
Heating Oil	25	Dec-13	3,283,770	-	-	-
Heating Oil	15	Jan-14	1,965,789	-	-	-
Heating Oil	24	Jun-14	3,034,282	-	-	-
Lean Hogs	9	Oct-13	315,450	-	-	-
Lean Hogs	89	Dec-13	3,032,849	-	12,121	-
Lean Hogs	51	Apr-14	1,754,400	-	-	-
Live Cattle	128	Oct-13	6,501,262	-	1,219	-
Live Cattle	15	Dec-13	794,557	-	105	-
Live Cattle	5	Feb-14	263,300	-	-	-
Natural Gas	97	Oct-13	2,793,180	672,891	73,330	-
Natural Gas	472	Nov-13	16,789,557	520,018	232,712	3,077
Natural Gas	322	Jan-14	12,642,971	-	-	27,558
Natural Gas	22	Mar-14	854,647	-	8,077	-
Natural Gas	14	Apr-14	520,509	-	-	41,586
Natural Gas	3	Jun-14	121,685	-	-	9,545
Natural Gas	10	Jan-15	423,948	-	-	11,102
Nickel	24	Sep-13	6,102,299	4,121,400	-	331,773
Nickel	54	Dec-13	4,534,240	82,890	-	28,749
Palladium	3	Dec-13	226,897	-	-	6,460
Platinum	29	Oct-13	2,193,966	-	79,543	-
Silver	72	Dec-13	8,477,102	-	69,413	-
Soybean	49	Nov-13	2,104,125	1,205,642	-	87,984
Soybean	39	Mar-14	2,601,788	-	-	-
Soybean	28	Jan-14	1,910,965	-	119,800	-
Soybean	124	Nov-14	7,522,150	-	-	-
Soybean Meal	155	Dec-13	6,546,565	-	110,489	-
Soybean Meal	13	Mar-14	537,550	-	-	-
Soybean Oil	29	Oct-13	771,837	-	-	10,532
Soybean Oil	206	Dec-13	5,474,244	-	-	-
Sugar #11 World	463	Oct-13	8,466,626	-	-	65,008
Sugar #11 World	69	Mar-14	1,304,486	-	-	-

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Contract	Number of Contracts	Expiration	Notional Value at August 31, 2013		Carrying and Fair Value at August 31, 2013	
			Long	Short	Assets	Liabilities
Commodities (continued)						
Wheat	289	Dec-13	\$ 9,522,915	\$ 136,668	\$ 4,604	\$ 511
Wheat	46	Jul-14	610,090	974,963	5,603	-
Zinc	24	Sep-13	6,609,577	5,506,984	137,074	-
Zinc	112	Dec-13	5,406,344	47,844	69	-
			<u>494,585,286</u>	<u>36,560,218</u>	<u>2,560,428</u>	<u>4,254,933</u>
Foreign Equities						
MSCI Emerging Market	3,709	Sep-13	170,113,285	-	1,427,965	-
Domestic Fixed Income						
US Treasury Bond	123	Dec-13	-	16,224,469	-	-
US 10yr Treasury Note	76	Dec-13	9,445,375	-	-	7,125
			<u>9,445,375</u>	<u>16,224,469</u>	<u>-</u>	<u>7,125</u>
Foreign Fixed Income						
3mo Euro Euribor	41	Dec-14	13,433,880	-	674	-
3mo Euro Euribor	37	Sep-15	12,082,398	-	3,655	-
3mo Euro Euribor	33	Mar-15	10,802,301	-	1,086	-
3mo Euro Euribor	14	Dec-15	4,565,026	-	1,383	-
3mo Euro Euribor	1	Mar-16	325,562	-	115	-
90day Sterling Libor	21	Sep-14	4,028,940	-	1	-
90day Sterling Libor	95	Dec-14	18,209,623	-	1,848	-
90day Sterling Libor	185	Sep-15	35,310,603	-	10,790	-
90day Sterling Libor	145	Mar-15	27,762,794	-	4,232	-
90day Sterling Libor	48	Jun-15	9,177,448	-	1,868	-
90day Sterling Libor	33	Dec-15	6,285,886	-	2,565	-
Australian 10yr Bond	16	Sep-13	1,671,535	-	667	-
Canada 10yr Bond	8	Dec-13	-	976,775	-	2,046
Euro-Bobl	5	Sep-13	-	824,587	-	197
Euro-Btp	14	Sep-13	-	2,061,842	1,842	-
Euro-Bund	74	Sep-13	13,725,096	-	36,817	-
Japan 10yr Bond	2	Sep-13	2,942,465	-	1,213	-
UK Long Gilt	72	Dec-13	-	12,184,622	-	5,977
			<u>160,323,557</u>	<u>16,047,826</u>	<u>68,756</u>	<u>8,220</u>
Interest Rate Swap						
10yr Primary Fixed	6	Sep-13	-	561,375	94	-
Total			<u>\$ 834,467,503</u>	<u>\$ 69,393,888</u>	<u>\$ 4,057,243</u>	<u>\$ 4,270,278</u>

Note 9 – Foreign Currency Exchange Contracts

The tables below summarize by currency the contractual amounts of the PUF's foreign currency exchange contracts at August 31, 2014 and 2013. Foreign currency amounts are translated at exchange rates as of August 31, 2014 and 2013. The "Net Buy" amounts represent the U.S. dollar equivalent of net commitments to purchase foreign currencies, and the "Net Sell" amounts represent the U.S. dollar equivalent of net commitments to sell foreign currencies.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Currency	Net Buy	Net Sell	Unrealized Gains on Foreign Currency Exchange Contracts	Unrealized Losses on Foreign Currency Exchange Contracts
	August 31, 2014	August 31, 2014	August 31, 2014	August 31, 2014
Australian Dollar	\$ —	\$ 42,481,276	\$ 36,267	\$ 415,313
Brazilian Real	—	30,184,789	151,933	886,217
Canadian Dollar	14,872,116	—	136,797	6,605
Chilean Peso	17,645,355	—	—	884,361
Chinese Yuan Renminbi	122,576	—	—	75,898
Colombian Peso	—	3,396,693	28,614	27,336
Czech Koruna	—	9,941,297	224,041	5,434
Danish Krone	226,893	—	13,439	10,714
Euro	—	70,909,042	1,365,869	99,353
Hong Kong Dollar	—	209,471	—	2
Hungarian Forint	—	3,462,702	38,596	3,177
Indian Rupee	13,504,847	—	144,664	28,017
Israeli Shekel	—	3,177,679	47,739	9,810
Japanese Yen	—	175,520,152	4,010,875	1,405,175
Malaysian Ringgit	7,704,426	—	70,850	5,726
Mexican Peso	1,962,382	—	870,999	212,843
New Zealand Dollar	—	47,440,379	914,783	46,158
Norwegian Kroner	157,129	—	3,213	1,064
Polish Zloty	—	10,551,930	391,137	15,226
Russian Ruble	222,549	—	47,742	42,778
Singapore Dollar	259,413	—	1,562	545
South African Rand	—	4,987,199	9,096	42,227
South Korean Won	44,133,662	—	1,735,929	24,495
Swedish Krona	—	6,942,493	114,469	16,063
Swiss Franc	—	13,064,042	278,265	14,106
Taiwan Dollar	101,497,946	—	149,769	—
Thailand Baht	366,247	—	2,428	37
Turkish Lira	338,889	—	335	3,971
UK Pound	3,993,676	—	191,440	236,065
	<u>\$ 207,008,106</u>	<u>\$ 422,269,144</u>	<u>\$ 10,980,851</u>	<u>\$ 4,518,716</u>

The change in fair value of open foreign currency exchange contracts for the year ending August 31, 2014 was an increase in the amount of \$6,500,008, which is included in the net increase in investments on the statement of changes in fiduciary net position.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Currency	Net Buy		Unrealized Gains	
	August 31, 2013	August 31, 2013	Unrealized Gains on Foreign Currency Exchange Contracts	Unrealized Losses on Foreign Currency Exchange Contracts
Australian Dollar	\$ -	\$ 54,004,536	\$ 1,237,109	\$ 41,965
Brazilian Real	-	5,444,136	369,785	500,560
Canadian Dollar	-	6,872,451	24,368	4,676
Chilean Peso	9,600,978	-	-	182,177
Chinese Yuan Renminbi	73,030	-	-	173,733
Colombian Peso	-	1,913,693	48,227	-
Czech Koruna	186,556	-	-	777
Danish Krone	562,703	-	8	5,490
Euro	-	54,165,132	430,582	403,915
Hong Kong Dollar	-	57,842	-	14
Hungarian Forint	-	3,258	56	-
Indian Rupee	10,015,303	-	2	426,232
Indonesian Rupiah	-	6,568	31,179	29,694
Israeli Shekel	199,210	-	1,128	-
Japanese Yen	-	161,510,654	7,176,318	1,309,263
Malaysian Ringgit	5,072,795	-	-	37,784
Mexican Peso	18,231,836	-	385,907	606,058
New Zealand Dollar	-	33,958,505	960,305	59,364
Norwegian Kroner	801,331	-	76,378	156,792
Polish Zloty	-	9,383,282	129,568	359,922
Russian Ruble	28,276	-	208,743	246,339
South African Rand	36,001,764	-	16,762	6,003,899
Singapore Dollar	1,470,674	-	8,737	6,551
South Korean Won	28,221,341	-	112,325	1,120,011
Swedish Krona	2,316,684	-	22,404	76,631
Swiss Franc	-	6,831,778	-	213,394
Taiwan Dollar	32,807,646	-	5,983	1,339,381
Thailand Baht	398,034	-	-	16,414
UK Pound	3,961,403	-	116,175	343,789
	<u>\$ 149,949,564</u>	<u>\$ 334,151,835</u>	<u>\$ 11,362,049</u>	<u>\$ 13,664,825</u>

The change in fair value of open foreign currency exchange contracts for the year ending August 31, 2013 was a decrease in the amount of \$2,042,437, which is included in the net increase in investments on the statement of changes in fiduciary net position.

Note 10 – Purchase Agreements

UTIMCO, as investment manager of the funds under the control and management of the UT Board, entered into a security purchase agreement with the UT Board. The agreement commits the funds under management, including the PUF, to purchase up to \$2,397,830,000 in UT System flexible rate notes in the event of a failed remarketing of such notes. The individual funds under management are not committed to a specific amount, rather all of the funds may be required to provide for the amount noted.

The PUF also has an agreement with the TAMU System Board of Regents which commits the PUF to acquire up to \$125,000,000 of Texas A&M System flexible rate notes in the event of a failed remarketing of such notes.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Note 11 – Distributions to the Available University Fund

The Texas Constitution allows for (a) distributions to the AUF from the “total return” on PUF investments, including income return as well as capital gains (realized and unrealized) and (b) the payment of PUF expenses from PUF assets. The Texas Constitution directs the UT Board to establish a distribution policy that provides stable, inflation-adjusted annual distributions to the AUF and preserves the real value of the PUF investments over the long term. Accordingly, distributions to the AUF in any given fiscal year are subject to the following: (1) A minimum amount equal to the amount needed to pay debt service on PUF bonds; (2) No increase from the preceding year (except as necessary to pay debt service on PUF bonds) unless the purchasing power of PUF investments for any rolling 10-year period has been preserved; (3) A maximum amount equal to seven percent of the average net fair market value of PUF position in any fiscal year, except as necessary to pay debt service on PUF bonds. Distributions from the PUF to the AUF for the years ended August 31, 2014 and 2013 were \$877,373,812 and \$644,300,000, respectively. The UT Board has approved an amount of \$763,552,645 for the PUF distribution to the AUF for the year ending August 31, 2015.

Note 12 – Fees and Expenses

The PUF incurs investment management fees from various external managers of the PUF. The fees, generally assessed quarterly, are based on a percentage of the market value of investments held by each individual investment manager and currently range from 0.10% to 1.50%. In addition to quarterly investment management fees, the PUF may pay performance-based management fees for investment performance in excess of certain defined benchmarks as provided for in the managers’ contracts. The investment management fees presented in the statements of changes in fiduciary net position represent only those paid directly from the PUF, and do not include fees incurred and charged by general partners in private investments, fees charged by mutual fund managers, and fees charged by hedge fund managers as these types of fees are netted directly against returns for those investments in accordance with standard industry practice. The investment management fees assessed by external managers and paid directly by the PUF for the years ended August 31, 2014 and 2013 were \$29,123,909 and \$29,536,998, respectively.

UTIMCO assesses the PUF a management fee to cover the costs of managing the PUF investments 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 ended August 31, 2014 and 2013 were \$12,302,184 and \$12,158,434, respectively.

The PUF is assessed a fee to cover expenses related to the management of the PUF Lands. The fee assessed for the years ended August 31, 2014 and 2013, were \$8,304,061 and \$8,893,707, respectively. Fees are also assessed to cover costs associated with UT System personnel in their efforts to provide assistance to the UT Board and the Chancellor of the UT System in their oversight responsibilities of UTIMCO. Fees in the amounts of \$156,960 and \$155,550 were charged to the PUF for the years ended August 31, 2014 and 2013, respectively.

Custodial fees and expenses are assessed by the financial institution which holds the PUF’s assets. Fees are based on the number of accounts, market value of the PUF, and transaction activity in accordance with the contractual agreement with the institution. Additional fees are assessed for performance measurement, risk measurement and on-line communication services per the contractual

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

agreement. The fees assessed for the years ended August 31, 2014 and 2013, were \$1,940,641 and \$1,932,976, respectively.

The PUF incurs legal fees associated with the review of new investment manager agreements and with due diligence efforts undertaken as part of the hiring of new investment managers. For the years ended August 31, 2014 and 2013, fees incurred were \$170,407 and \$396,937, respectively.

Analytical and risk measurement fees, in the amounts of \$363,890 and \$348,009, were also incurred during the years ended August 31, 2014 and 2013, respectively, to maintain a sophisticated risk measurement system for the PUF.

Accounting fees, in the amount of \$207,968 and \$180,518, were paid by the PUF during the years ended August 31, 2014 and 2013, respectively, for external and UT System internal audit services.

Consulting fees, in the amount of \$180,480 and \$207,085, respectively, for the years ending August 31, 2014 and 2013 were incurred for investment strategy and other investment consulting services.

Background check fees are incurred as part of the due diligence efforts undertaken as part of the hiring of investment managers. Fees in the amounts of \$151,604 and \$189,226 were incurred for the years ending August 31, 2014 and 2013, respectively.

Foreign tax consulting and filing fees are incurred by the PUF for investment managers domiciled in certain foreign countries and for those that invest in securities issued in certain foreign countries. Fees in the amounts of \$70,224 and \$43,365 were incurred for the years ending August 31, 2014 and 2013, respectively.

PERMANENT UNIVERSITY FUND

Supplemental Schedules

Comparison Summary of Investments

August 31, 2014 and 2013

(in thousands)

	2014		2013	
	Fair Value	% of Total Investments	Fair Value	% of Total Investments
Equity Securities				
Domestic Common Stock	\$ 803,945	4.61%	\$ 670,536	4.52%
Foreign Common Stock	1,459,550	8.37%	1,231,100	8.29%
Other Equities	235	0.00%	2,034	0.01%
Total Equity Securities	2,263,730	12.98%	1,903,670	12.82%
Preferred Stock				
Domestic Preferred Stock	1,393	0.01%	2,270	0.02%
Foreign Preferred Stock	57,923	0.33%	44,208	0.30%
Total Preferred Stock	59,316	0.34%	46,478	0.32%
Debt Securities				
U. S. Government Obligations	195,058	1.12%	223,929	1.51%
Foreign Government and Provincial Obligations	552,619	3.17%	353,573	2.38%
Corporate Obligations	213,733	1.22%	233,180	1.57%
Other	3,422	0.02%	3,645	0.02%
Total Debt Securities	964,832	5.53%	814,327	5.48%
Convertible Securities	—	0.00%	423	0.00%
Purchased Options	1,096	0.01%	27,314	0.18%
Investment Funds				
Hedge Funds	5,142,473	29.49%	4,378,272	29.48%
Private Investments	4,857,362	27.85%	3,919,976	26.40%
Developed Country Equity	1,847,607	10.59%	1,415,314	9.53%
Emerging Markets Equity	891,177	5.11%	598,818	4.03%
Natural Resources	3,550	0.02%	148,995	1.00%
Fixed Income	18,071	0.11%	15,243	0.10%
Real Estate	106,040	0.61%	—	0.00%
Total Investment Funds	12,866,280	73.78%	10,476,618	70.54%
Physical Commodities - Gold	384,878	2.21%	375,683	2.53%
Cash and Cash Equivalents	898,783	5.15%	1,206,760	8.13%
Total Investments	\$17,438,915	100.00%	\$ 14,851,273	100.00%

PERMANENT UNIVERSITY FUND

Supplemental Schedules (cont.)

Schedule of Changes in Cost of Investments and Investment Income

Year Ended August 31, 2014

(in thousands)

	Beginning Cost	Purchases	Sales, Maturities & Redemptions	Gains (Losses)	Reclass	Effects of Pooled Account Rebalancing Activity ***	Ending Cost	Investment Income
Equity Securities								
Domestic Common Stock	\$ 583,446	\$ 534,098	\$ (591,838)	\$ 104,696	\$ (1,965)	\$ 14,466	\$ 642,903	\$ 9,081
Foreign Common Stock	1,203,207	1,092,770	(1,117,845)	67,255	5,514	52,663	1,303,564	38,437
Other	3,803	155	(3,279)	(735)	21	66	31	30
Total Equity Securities	<u>1,790,456</u>	<u>1,627,023</u>	<u>(1,712,962)</u>	<u>171,216</u>	<u>3,570</u>	<u>67,195</u>	<u>1,946,498</u>	<u>47,548</u>
Preferred Stock								
Domestic Preferred Stock	2,919	801	(2,476)	(2)	-	35	1,277	141
Foreign Preferred Stock	57,186	45,057	(41,042)	(3,037)	(3,962)	3,657	57,859	4,742
Total Preferred Stock	<u>60,105</u>	<u>45,858</u>	<u>(43,518)</u>	<u>(3,039)</u>	<u>(3,962)</u>	<u>3,692</u>	<u>59,136</u>	<u>4,883</u>
Debt Securities								
U. S. Government Obligations	224,034	1,170,218	(1,204,619)	1,211	-	266	191,110	5,646
Foreign Government and Provincial Obligations	367,707	586,402	(421,804)	1,260	-	2,803	536,368	18,976
Corporate Obligations	231,202	126,050	(154,111)	4,403	-	(220)	207,324	8,311
Other	3,674	-	(713)	(126)	-	51	2,886	190
Total Debt Securities	<u>826,617</u>	<u>1,882,670</u>	<u>(1,781,247)</u>	<u>6,748</u>	<u>-</u>	<u>2,900</u>	<u>937,688</u>	<u>33,123</u>
Purchased Options	<u>59,115</u>	<u>274</u>	<u>(6,189)</u>	<u>(19,735)</u>	<u>-</u>	<u>183</u>	<u>33,648</u>	<u>-</u>
Convertible Securities	<u>321</u>	<u>-</u>	<u>(483)</u>	<u>137</u>	<u>-</u>	<u>25</u>	<u>-</u>	<u>21</u>
Investment Funds								
Hedge Funds	3,203,824	790,796	(494,922)	169,207	-	-	3,668,905	-
Private Markets	3,474,605	1,348,916	(1,090,191)	440,309	-	-	4,173,639	109,359
Developed Country Equity	857,699	186,093	(75,843)	18,331	-	19	986,299	24
Emerging Markets	507,183	217,228	(139,853)	6,682	392	6,454	598,086	2,011
Fixed Income	17,627	1,348	-	1,219	-	-	20,194	1,349
Real Estate	-	174,586	(75,551)	6,169	-	-	105,204	704
Natural Resources	150,679	7,886	(155,303)	3,199	-	406	6,867	74
Total Investment Funds	<u>8,211,617</u>	<u>2,726,853</u>	<u>(2,031,663)</u>	<u>645,116</u>	<u>392</u>	<u>6,879</u>	<u>9,559,194</u>	<u>113,521</u>
Physical Commodities								
Gold Bullion	383,017	39,573	(849)	(107)	-	163	421,797	-
Cash and Cash Equivalents								
Money Market Funds and Cash Held at State	1,206,621	-	(345,425) *	31,325 **	-	6,258	898,779	622
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,948</u>
Total Investment in Securities	<u>\$ 12,537,869</u>	<u>\$ 6,322,251</u>	<u>\$ (5,922,336)</u>	<u>\$ 831,661</u>	<u>\$ -</u>	<u>\$ 87,295</u>	<u>\$ 13,856,740</u>	<u>\$ 201,666</u>

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

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

*** The amounts shown in this column represent the change in the PUF's pro-rata cost basis of the securities held in long-only public markets manager's accounts that are invested through separate investment pools created in the name of the UT Board. The PUF, GEF and ITF are the sole investors in these pools, and therefore, jointly own 100% of the assets of these separately managed accounts.