

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

Permanent Health Fund

Financial Statements

Years Ended August 31, 2014 and 2013

Contents

Independent Auditors' Report.....	1
Management's Discussion and Analysis (Unaudited)	4
Audited Financial Statements	
Statements of Fiduciary Net Position	8
Statements of Changes in Fiduciary Net Position.....	9
Notes to Financial Statements.....	10
Supplemental Schedule.....	26

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 Health Fund (the "Fund") which comprise the statements of fiduciary net position as of August 31, 2014 and 2013, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Emphasis of Matter

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

As discussed in Note 3, the financial statements include an investment in The University of Texas System General Endowment Fund (the "GEF"), valued at \$1,113,290,881 and \$1,014,942,609 as of August 31, 2014 and 2013, respectively. The GEF has 69.9% and 68.7% of its total assets as of August 31, 2014 and 2013, respectively, invested in assets whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimate of the value of the Fund is based on the net asset value per unit of the GEF, which is calculated by management.

Our opinion is not modified with respect to these matters.

Other Matters

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

Report on Supplemental Schedule

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

Deloitte & Touche LLP

October 31, 2014

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

Our discussion and analysis of the Permanent Health Fund's (Fund) financial performance provides an overview of its activities for the years ended August 31, 2014 and 2013. This discussion was prepared by The University of Texas Investment Management Company (UTIMCO) and should be read in conjunction with the Fund's financial statements and notes. The Fund is a pooled investment fund for the collective investment of state endowment funds for health-related institutions of higher education. The University of Texas System Board of Regents (UT Board) established the Fund in August 1999 with proceeds from state tobacco litigation. The Texas Constitution and various state statutes designate the UT Board as the fiduciary for the management of certain public endowment and operating funds. The UT Board has entered into an Investment Management Services Agreement delegating investment management responsibility for all investments to UTIMCO.

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

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

Financial Highlights

The Fund's net fiduciary position after distributions increased by \$98.3 million from \$1,015.3 million to \$1,113.6 million or by approximately 9.7% for the year ended August 31, 2014, compared to a increase of \$38.7 million or approximately 4.0% for the year ended August 31, 2013. The change in net fiduciary position from year to year is mainly attributable to the following:

1. The Fund posted a net investment gain of 14.63%, calculated using the Modified Dietz Method as described by the CFA Institute, for the year ended August 31, 2014, compared to a net investment gain of 8.88% for the prior fiscal year. The net investment return of the Fund is dependent on the results of the investments held in the GEF. The GEF's investments in developed country equities, emerging markets equities and real estate were the biggest contributors to the 2014 return. For the year ended August 31, 2013, investments in developed country equities, credit-related fixed income and real estate were the biggest contributors to the net investment gain.
2. The Fund's distribution rate was increased by 2.1%, approximately the three year average rate of inflation, for the year ended August 31, 2014. This equated to an increase in the 2014 rate to \$0.0585 per unit from the 2013 rate of \$0.0573 per unit. The 2013 rate was increased by 2.1% from the year ended August 31, 2013 rate. The fiscal year distributions represented 4.48% of the Fund's average net position for the year ended August 31, 2014, and 4.66% of the Fund's average net position for the year ended August 31, 2013.

PERMANENT HEALTH FUND

3. There were no participant contributions to the Fund or withdrawals from the Fund during the years ended August 31, 2014 and 2013.

Use of Financial Statements and Notes

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

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

Statements of Fiduciary Net Position

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

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

As of August 31, 2014, the Fund owned 4,391,601 GEF units representing an ownership percentage of 13.37%, compared to 4,593,854 GEF units representing an ownership percentage of 13.72% as of August 31, 2013. As of August 31, 2014 and 2013, the fair value of the GEF units was \$1,113.3 million and \$1,015.0 million, respectively.

The GEF invests in a broad mix of investments and is actively managed to its benchmark, the Endowment Policy Portfolio. The Endowment Policy Portfolio is the index or benchmark for the endowment funds that UTIMCO manages. The return of the Endowment Policy Portfolio is the sum of the weighted benchmark returns for each asset class. UTIMCO allocates GEF's assets to internally and externally managed portfolios in accordance with approved asset allocation policies, and attempts to supplement the original endowment corpus by increasing purchasing power over time.

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets			
GEF Units, at Fair Value	\$ 1,113.3	\$ 1,015.0	\$ 976.2
Cash and Cash Equivalents	0.3	0.3	0.4
Net Position Held in Trust	<u>\$ 1,113.6</u>	<u>\$ 1,015.3</u>	<u>\$ 976.6</u>

PERMANENT HEALTH FUND

Statements of Changes in Fiduciary Net Position

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

The net increase in investments of the Fund was \$136.4 million during the year compared to a increase in the appreciation of investments of \$78.6 million for the year ended August 31, 2013. The Fund's investment expenses totaled \$1.1 million, \$1.1 million, and \$0.9 million, respectively, for the years ended August 31, 2014, 2013, and 2012.

Distributions to participants totaled \$48.0 million, \$47.0 million and \$46.0 million, respectively, for the years ended August 31, 2014, 2013, and 2012. The increase in distributions is a result of the UT Board increasing the distribution rate from \$0.0573 per unit to \$0.0585 per unit for fiscal year 2014. The increase for fiscal year 2013 is a result of the UT Board's increase of the distribution rate from \$0.0561 per unit to \$0.0573 per unit.

The Fund's objectives are:

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

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

PERMANENT HEALTH 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	\$ 147.4	\$ 86.8	\$ 30.6
Less Investment Expenses	1.1	1.1	0.9
Net Investment Income	<u>146.3</u>	<u>85.7</u>	<u>29.7</u>
Participant Distributions	<u>48.0</u>	<u>47.0</u>	<u>46.0</u>
Change in Fiduciary Net Position	98.3	38.7	(16.3)
Net Position Held in Trust, Beginning of Year	<u>1,015.3</u>	<u>976.6</u>	<u>992.9</u>
Net Position Held in Trust, End of Year	<u>\$ 1,113.6</u>	<u>\$ 1,015.3</u>	<u>\$ 976.6</u>

Contacting UTIMCO

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

PERMANENT HEALTH FUND

Statements of Fiduciary Net Position

August 31, 2014 and 2013

(Dollars in thousands, except per unit amounts)

	<u>2014</u>	<u>2013</u>
Assets		
GEF Units, at Fair Value	\$ 1,113,291	\$ 1,014,943
Cash and Cash Equivalents	<u>318</u>	<u>307</u>
Net Position Held in Trust (820,000,000 Units)	<u>\$ 1,113,609</u>	<u>\$ 1,015,250</u>
Net Position Held in Trust Per Unit	<u>\$ 1.358</u>	<u>\$ 1.238</u>

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

PERMANENT HEALTH 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	\$ 136,418	\$ 78,567
Allocation of GEF Net Investment Income	11,005	8,245
Other	-	4
Total Investment Income	<u>147,423</u>	<u>86,816</u>
Less Investment Expenses:		
UTIMCO Management Fee	1,063	1,102
Other Expenses	<u>19</u>	<u>19</u>
Total Investment Expenses	<u>1,082</u>	<u>1,121</u>
Net Investment Income	146,341	85,695
Deductions		
Administrative Fee for UT System Oversight	12	12
Participant Distributions	<u>47,970</u>	<u>46,986</u>
Total Deductions	<u>47,982</u>	<u>46,998</u>
Change in Fiduciary Net Position	98,359	38,697
Net Position Held in Trust, Beginning of Year	<u>1,015,250</u>	<u>976,553</u>
Net Position Held in Trust, End of Year	<u>\$ 1,113,609</u>	<u>\$ 1,015,250</u>

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

PERMANENT HEALTH FUND

Notes to Financial Statements

Note 1 – Organization and Basis of Presentation

The Permanent Health Fund (Fund) is a pooled investment fund established for the collective investment of state endowment funds for health-related institutions of higher education, created August 30, 1999. The distributions from the Fund endowments support programs that benefit medical research, health education, public health, nursing, and treatment programs at health-related institutions of higher education. Fiduciary responsibility for the Fund rests with the Board of Regents of The University of Texas System (UT Board). The day-to-day operational responsibilities of the Fund are delegated to The University of Texas Investment Management Company (UTIMCO), pursuant to an Investment Management Services Agreement with the UT Board.

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

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

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

Management has evaluated subsequent events through October 31, 2014, the date the financial statements were available to be issued. No subsequent events requiring adjustment to, or disclosure in, the financial statements were identified as a result of this evaluation.

Note 2 – Investment in GEF

The Fund only invests in GEF units and a negligible amount of cash. At August 31, 2014, the Fund is the minority participant in the GEF, with ownership of 4,391,601 units, which represents 13.37% of the GEF. At August 31, 2013, the Fund held 4,593,854 units, which represented 13.72% of the GEF.

PERMANENT HEALTH FUND

Notes to Financial Statements (cont.)

The GEF and the Fund have identical investment objectives. Additionally, the GEF's accounting policies follow the Fund's, as described in Note 3, except for the distributions to participants. On a monthly basis for accounting purposes, the GEF allocates its net investment income and realized gain or loss to the Fund based on its ownership of GEF units at month end. The allocated investment income and realized gain amounts increase the cost basis of the units in the GEF, and any allocated realized losses reduce the cost basis of the units in the GEF. Since the allocation is proportional to the percentage of ownership by the unitholders, no additional units are purchased. The Fund redeems GEF units quarterly to meet its distribution requirements to its unitholders.

Note 3 – Significant Accounting Policies

(A) **Security Valuation** -- The Fund's investment in GEF units is fair valued at the net asset value per unit reported by the GEF. Investment assets which are held in the GEF that have readily determinable fair values are primarily valued on the basis of market valuations provided by independent pricing services. The GEF's investments in private investment funds, hedge funds, U.S. equity, non-U.S. equity, emerging market, real estate and fixed income investment funds and certain other equity securities are fair valued by management using the investments' capital balances and net asset value information provided by the investment managers as well as other considerations as described in the notes to the GEF financial statements. The Fund's investment in the GEF is fair valued at \$1,113,290,881 and \$1,014,942,609, as of August 31, 2014 and 2013, respectively.

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

(C) **Distributions to Participants** -- Cash distributions to participants are paid quarterly based on a per unit payout established by the UT Board. For the year ended August 31, 2014, the quarterly rate was \$0.014625 per unit which equates to an annual rate of \$0.0585 per unit and for the year ended August 31, 2013, the quarterly rate was \$0.014325 per unit which equated to an annual rate of \$0.0573 per unit. The ratio of distributions to average net position (12-quarter average) was 4.60% as of August 31, 2014. For the years ended August 31, 2014 and 2013, the investment policy provided that the annual payout was adjusted by the average consumer price index of the prior 36 months subject to a maximum distribution of 5.5% of the Fund's average market value and a minimum distribution of 3.5% of the Fund's average market value.

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

(E) **Purchases and Redemption of Units** -- Unit purchases occur on the first business day of each fiscal quarter. Unit redemptions occur on the last business day of each fiscal quarter. The value of participating units, upon admission to the Fund, is based upon the market value of net position held as of the quarterly valuation date. Redemptions from the Fund will also be made at the market value price per unit at the quarterly valuation date at the time of the redemption. There are no transaction costs incurred by participants for the purchase or redemption of units. There were no purchase or redemption of Fund units during the years ended August 31, 2014 and 2013.

PERMANENT HEALTH FUND

Notes to Financial Statements (cont.)

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

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

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

Note 4 – Investment Risk

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

(A) Credit Risk

Article VII, Section 11b of the Texas Constitution authorizes the UT Board, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (the "PUF") in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the UT Board, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all of the assets of the fund rather than a single investment. Pursuant to Section 51.0031(c) of the Texas Education Code, the UT Board has elected the prudent investor standard to govern its management of the GEF.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The Fund's investment policy does not provide specific limitations or requirements regarding investment ratings. Per GASB Statement No. 40 (GASB 40), *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3*, unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. GASB 40 also provides that securities with split ratings, or a different rating assignment between NRSROs, are disclosed using the rating indicative of the greatest degree of risk. The following table presents the Fund's pro-rata share of each applicable GEF investment type grouped by rating as of August 31, 2014 and 2013:

PERMANENT HEALTH FUND

Notes to Financial Statements (cont.)

GEF Investment Type	August 31,		Rating
	2014	2013	
Investments:			
U.S. Government Guaranteed	\$ 10,126,927	\$ 11,418,331	AA
U.S. Government Non-Guaranteed:			
U.S. Agency	396,771	534,178	AA
U.S. Agency Asset Backed	1,658,388	2,749,244	AA
Total U.S. Government Non-Guaranteed	2,055,159	3,283,422	
Total U.S. Government	12,182,086	14,701,753	
Corporate Obligations:			
Domestic	492,795	618,251	AAA
Domestic	514,104	539,725	AA
Domestic	3,015,028	3,126,958	A
Domestic	2,273,466	2,108,119	BAA/BBB
Domestic	280,843	517,565	BA/BB
Domestic	136,544	215,036	B
Domestic	318,430	352,269	CAA/CCC
Domestic	23,029	72,362	CA/CC
Domestic	45,564	73,952	C
Domestic	34,561	17,282	D
Domestic	71,844	87,247	Not Rated
Foreign	1,515,164	2,226,475	AAA
Foreign	1,225,126	1,435,622	AA
Foreign	1,618,487	1,034,492	A
Foreign	1,850,518	1,499,584	BAA/BBB
Foreign	235,796	347,987	BA/BB
Foreign	347,207	-	B
Foreign	19,090	20,037	CAA/CCC
Foreign	25,677	-	Not Rated
Total Corporate Obligations	14,043,273	14,292,963	
Foreign Government and Provincial Obligations	5,120,983	5,204,592	AAA
Foreign Government and Provincial Obligations	8,979,721	7,507,895	AA
Foreign Government and Provincial Obligations	8,298,775	3,563,438	A
Foreign Government and Provincial Obligations	12,119,082	7,689,802	BAA/BBB
Foreign Government and Provincial Obligations	1,521,285	1,567,965	BA/BB
Foreign Government and Provincial Obligations	197,079	-	Not Rated
Total Foreign Government and Provincial Obligations	36,236,925	25,533,692	
Other Debt Securities	22,634	-	AAA
Other Debt Securities	32,096	66,866	AA
Other Debt Securities	201,263	116,405	A
Other Debt Securities	-	38,921	B
Total Other Debt Securities	255,993	222,192	
Total Debt Securities	\$ 62,718,277	\$ 54,750,600	
Convertible Securities	\$ -	\$ 30,543	B
Other Investment Funds - Debt	\$ 1,301,262	\$ 1,126,419	BA/BB
Cash and Cash Equivalents - Money Market Funds	\$ 44,478,294	\$ 58,177,164	AAA
Cash and Cash Equivalents	5,364,205	4,074,789	Not Rated
Total Cash and Cash Equivalents	\$ 49,842,499	\$ 62,251,953	
Net Deposit with Brokers for Derivative Contracts:			
U.S. Government Guaranteed	\$ 352,856	\$ 2,070,147	AA
Foreign Government and Provincial Obligations	-	(49,044)	AA
Cash	(667,126)	945,820	Not Rated
Total Net Deposit with Brokers for Derivative Contracts	\$ (314,270)	\$ 2,966,923	

PERMANENT HEALTH FUND

Notes to Financial Statements (cont.)

(B) Concentrations of Credit Risk

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

(C) Custodial Credit Risk

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

(D) Interest Rate Risk

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

PERMANENT HEALTH FUND

Notes to Financial Statements (cont.)

GEF Investment Type	August 31,			
	2014		2013	
	Fair Value	Modified Duration	Fair Value	Modified Duration
Investments:				
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	\$ 9,786,838	8.06	\$ 9,542,892	8.01
U.S. Treasury Bills	24,300	0.02	934,260	0.46
U.S. Treasury Inflation Protected	158,142	10.25	729,721	14.22
U.S. Agency Asset Backed	157,647	2.70	211,458	2.98
Total U.S. Government Guaranteed	<u>10,126,927</u>	7.99	<u>11,418,331</u>	7.70
U.S. Government Non-Guaranteed:				
U.S. Agency	396,771	3.17	534,178	2.10
U.S. Agency Asset Backed	1,658,388	2.75	2,749,244	3.34
Total U.S. Government Non-Guaranteed	<u>2,055,159</u>	2.83	<u>3,283,422</u>	3.14
Total U.S. Government	<u>12,182,086</u>	7.12	<u>14,701,753</u>	6.68
Corporate Obligations:				
Domestic	7,206,208	5.67	7,728,766	5.30
Foreign	6,837,065	4.40	6,564,197	5.53
Total Corporate Obligations	<u>14,043,273</u>	5.05	<u>14,292,963</u>	5.40
Foreign Government and Provincial Obligations	<u>36,236,925</u>	6.45	<u>25,533,692</u>	5.07
Other Debt Securities	<u>255,993</u>	11.94	<u>222,192</u>	9.75
Total Debt Securities	<u>62,718,277</u>	6.29	<u>54,750,600</u>	5.61
Convertible Securities	-	-	30,543	14.35
Other Investment Funds - Debt	<u>1,301,262</u>	7.70	<u>1,126,419</u>	7.00
Cash and Cash Equivalents	<u>49,842,499</u>	0.07	<u>62,251,953</u>	0.08
Total	<u>\$ 113,862,038</u>	3.59	<u>\$ 118,159,515</u>	2.71
Net Deposit with Brokers for Derivative Contracts:				
U.S. Government Guaranteed:				
U.S. Treasury Bills	\$ 267,001	0.20	\$ 2,094,250	0.36
U.S. Treasury Bonds and Notes	-	-	(24,103)	-
U.S. Treasury Inflation Protected	85,855	8.24	-	-
Total U.S. Government Guaranteed	<u>352,856</u>	2.16	<u>2,070,147</u>	0.36
Foreign Government and Provincial Obligations	-	-	(49,044)	-
Cash	<u>(667,126)</u>	-	<u>945,820</u>	-
Total Net Deposit with Brokers for Derivative Contracts	<u>\$ (314,270)</u>	-	<u>\$ 2,966,923</u>	0.25

The GEF has purchased options on ten year constant maturity swaps, with expirations ranging from five to seven years, as insurance against possible future increases in inflation. As of August 31, 2014, the Fund's pro-rata portion of these options had a notional value of \$390,886,850 and a fair value of \$53,063. As of August 31, 2013, the Fund's pro-rata portion of these options had a notional value of \$460,842,837 and a fair value of \$906,527. The risk of loss on these options is limited to the Fund's pro-rata portion of the premiums paid by the Fund upon the purchase of the options, which totaled \$2,226,950 as of August 31, 2014 and \$2,587,861 as of August 31, 2013. The GEF also purchased

PERMANENT HEALTH FUND

Notes to Financial Statements (cont.)

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 \$43,362,558 with a fair value of \$23,424 and a loss limited to \$323,152 which represents the premiums paid. As of August 31, 2013, the Fund's pro-rata portion of these puts and swaptions had a notional value of \$248,046,322 with a fair value of \$1,169,198 and a loss limited to \$1,920,012 which represents the premiums paid. It is estimated that these options would adjust the 2014 duration of total debt securities of 6.29 downward by approximately 0.06, and the total duration of 3.59 downward by approximately 0.06. It is estimated that these options would adjust the 2013 duration of total debt securities of 5.61 downward by approximately 0.87, and the total duration of 2.71 downward by approximately 0.67. One of the GEF's external managers also uses options and interest rate and credit default swaps to modify the duration of its portfolio in a cost efficient manner. It is estimated by management that these positions held by the external manager would not significantly adjust the modified duration as presented above.

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

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

Collateralized mortgage obligations which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. The Fund's pro-rata share of these securities amounted to \$2,607,036 and \$3,036,451 as of August 31, 2014 and 2013, respectively.

Mortgage backed securities which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. The Fund's pro-rata share of these securities amounted to \$756,833 and \$1,389,348 as of August 31, 2014 and 2013, respectively.

Asset backed securities which are backed by home equity loans, auto loans, equipment loans and credit card receivables. Prepayments by the obligees of the underlying assets in periods of decreasing interest rates could reduce or eliminate the stream of income that would have been received. The Fund's pro-rata share of these securities amounted to \$264,916 and \$324,085 as of August 31, 2014 and 2013, respectively.

PERMANENT HEALTH FUND

Notes to Financial Statements (cont.)

(F) Foreign Currency Risk

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

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

PERMANENT HEALTH FUND

Notes to Financial Statements (cont.)

GEF Investment Type	August 31,	
	2014	2013
Domestic Common Stock:		
Indian Rupee	\$ 3,854	\$ 3,557
Taiwan Dollar	2,169	-
Total Domestic Common Stock	6,023	3,557
Foreign Common Stock:		
Australian Dollar	1,293,277	1,912,257
Brazilian Real	6,458,800	5,303,139
Canadian Dollar	2,956,871	2,599,494
Chilean Peso	123,962	171,963
Chinese Yuan Renminbi	15,304,735	9,262,456
Colombian Peso	47,468	33,118
Czech Koruna	71,663	113,772
Danish Krone	556,687	281,053
Egyptian Pound	161,455	108,570
Euro	6,050,983	5,227,461
Hong Kong Dollar	11,873,911	10,950,619
Hungarian Forint	21,658	51,680
Indian Rupee	2,728,181	1,325,127
Indonesian Rupiah	1,393,092	992,270
Japanese Yen	18,159,282	18,772,868
Malaysian Ringgit	1,085,673	1,483,694
Mexican Peso	3,718,891	1,200,979
Moroccan Dirham	-	29,103
Norwegian Kroner	-	370,503
Pakistani Rupee	-	73,855
Peruvian Nuevo Sol	-	257
Philippine Peso	1,167,649	1,169,107
Polish Zloty	328,155	448,791
Qatari Riyal	17,604	-
Singapore Dollar	1,426,828	1,268,509
South African Rand	1,549,700	1,604,389
South Korean Won	10,071,729	5,117,992
Swedish Krona	841,985	1,364,585
Swiss Franc	787,363	1,046,753
Taiwan Dollar	3,019,557	3,478,266
Thai Baht	963,753	1,218,428
Turkish Lira	583,191	768,481
UK Pound	8,560,805	8,401,341
United Arab Emirates Dirham	91,661	197,102
Vietnamese Dong	296,598	-
Total Foreign Common Stock	101,713,167	86,347,982
Other - Equity Securities:		
Brazilian Real	9	-
Canadian Dollar	936	-
Chilean Peso	-	2
Hong Kong Dollar	13,428	601
Indian Rupee	-	17
Indonesian Rupiah	6	-
South Korean Won	425	-
Taiwan Dollar	18	12
Thai Baht	415	-
Total Other - Equity Securities	15,237	632
Foreign Preferred Stock:		
Brazilian Real	2,861,772	2,483,565
Colombian Peso	11,747	1,782
South African Rand	1,518	-
South Korean Won	414,464	-
Total Foreign Preferred Stock	3,289,501	2,485,347

PERMANENT HEALTH FUND

Notes to Financial Statements (cont.)

GEF Investment Type	August 31,	
	2014	2013
Foreign Government and Provincial Obligations:		
Australian Dollar	\$ 3,386,460	\$ 2,265,323
Brazilian Real	3,858,836	1,105,273
Canadian Dollar	266,206	662,690
Colombian Peso	222,044	147,165
Euro	9,997,326	7,374,105
Hong Kong Dollar	-	58,429
Hungarian Forint	661,524	511,361
Indonesian Rupiah	561,279	-
Japanese Yen	828,397	2,041,638
Malaysian Ringgit	1,067,181	165,069
Mexican Peso	4,619,367	3,150,344
New Zealand Dollar	2,391,903	1,955,428
Norwegian Kroner	865,203	-
Polish Zloty	1,614,966	1,085,607
Singapore Dollar	224,079	332,687
South African Rand	1,227,955	772,245
South Korean Won	1,079,239	555,326
Swedish Krona	562,120	27,768
Thai Baht	233,470	-
Turkish Lira	-	322,501
UK Pound	1,757,283	2,268,299
Total Foreign Government and Provincial Obligations	35,424,838	24,801,258
Corporate Obligations:		
Australian Dollar	1,033,233	1,112,252
Canadian Dollar	-	95,307
Danish Krone	26,157	-
Euro	1,879,123	1,416,330
Japanese Yen	-	120,782
Mexican Peso	31,446	-
New Zealand Dollar	-	81,918
Swedish Krona	58,763	60,715
UK Pound	633,127	1,049,393
Total Corporate Obligations	3,661,849	3,936,697
Purchased Options:		
Japanese Yen	23,424	1,169,198
Private Investment Funds:		
Australian Dollar	915,749	784,623
Canadian Dollar	8,442,386	6,398,347
Euro	14,339,278	14,508,816
UK Pound	2,418,222	2,212,041
Total Private Investment Funds	26,115,635	23,903,827
Investment Funds - Emerging Markets:		
Brazilian Real	1,126,688	1,081,165
Canadian Dollar	-	35,185
Hong Kong Dollar	122,368	94,373
Swedish Krona	73,916	53,341
Taiwan Dollar	-	28,395
UK Pound	4,366,621	3,931,580
Total Investment Funds - Emerging Markets	5,689,593	5,224,039
Investment Funds - Natural Resources:		
UK Pound	106,781	194,004

PERMANENT HEALTH FUND

Notes to Financial Statements (cont.)

GEF Investment Type	August 31,	
	2014	2013
Cash and Cash Equivalents:		
Australian Dollar	\$ 45,968	\$ 23,346
Brazilian Real	165,452	515,758
Canadian Dollar	5,607	3,979
Chilean Peso	1,452	458
Chinese Yuan Renminbi	1,345,696	634,217
Colombian Peso	7,730	284
Czech Koruna	79	754
Danish Krone	54	24
Egyptian Pound	2,097	-
Euro	130,757	1,282,275
Hong Kong Dollar	122,853	147,388
Hungarian Forint	2	79
Indian Rupee	11,477	9,407
Indonesian Rupiah	699	58,401
Israeli Shekel	33	-
Japanese Yen	357,961	166,504
Malaysian Ringgit	9,256	4,680
Mexican Peso	211,764	20,307
Moroccan Dirham	-	1,382
New Zealand Dollar	49	1,402
Norwegian Kroner	35	23
Pakistani Rupee	-	5
Peruvian Nuevo Sol	225	31
Philippine Peso	759	2,620
Polish Zloty	4,222	7,523
Singapore Dollar	40	47
South African Rand	1,004	3,010
South Korean Won	32,112	16,372
Swedish Krona	59	60
Swiss Franc	56	211
Taiwan Dollar	28,776	28,372
Thai Baht	860	31,738
Turkish Lira	1,586	1,415
UK Pound	28,189	434,604
Vietnamese Dong	6,154	-
Total Cash and Cash Equivalents	2,523,063	3,396,676
Written Options:		
Australian Dollar	(481)	-
Brazilian Real	(8,065)	-
Euro	99	(742)
Japanese Yen	(10,372)	-
Mexican Peso	(25)	-
UK Pound	-	(1,311)
Total Written Options	(18,844)	(2,053)
Swaps:		
Brazilian Real	4,776	-
Euro	708,083	1,748
Japanese Yen	32,298	1,552
Mexican Peso	6,633	1,550
UK Pound	(6,843)	1,271
Total Swaps	744,947	6,121

PERMANENT HEALTH FUND

Notes to Financial Statements (cont.)

GEF Investment Type	August 31,	
	2014	2013
Futures:		
Australian Dollar	(121)	1,163
Canadian Dollar	(678)	(211)
Euro	(4,294)	2,784
Japanese Yen	-	83
UK Pound	(169)	1,432
Total Futures	(5,262)	5,251
Total	\$ 179,289,952	\$ 151,472,536

(G) Counterparty (Credit) Risk

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

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

Options

Assets	Liabilities	Assets	Liabilities	Counterparty Rating
Notional	Notional	Fair Value as of August 31, 2014	Fair Value as of August 31, 2014	
\$ 435,082,664	\$ 2,665,625	\$ 82,273	\$ 26,325	A

Swaps

Assets	Liabilities	Assets	Liabilities	Counterparty Rating
Notional	Notional	Fair Value as of August 31, 2014	Fair Value as of August 31, 2014	
\$ 6,199,111	\$ 2,081,067	\$ 781,216	\$ 755,604	A

Foreign Currency Exchange Contracts

Assets	Liabilities	Assets	Liabilities	Counterparty Rating
Notional	Notional	Fair Value as of August 31, 2014	Fair Value as of August 31, 2014	
\$ 52,046,596	\$ 22,145,424	\$ 778,565	\$ 300,921	A
955,603	133,044	8,433	1,627	AA
\$ 53,002,199	\$ 22,278,468	\$ 786,998	\$ 302,548	

PERMANENT HEALTH FUND

Notes to Financial Statements (cont.)

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

Options

<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Counterparty Rating</u>
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2013</u>	<u>Fair Value as of August 31, 2013</u>	
<u>\$ 709,026,398</u>	<u>\$ 2,652,768</u>	<u>\$ 2,097,044</u>	<u>\$ 40,633</u>	A

Swaps

<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Counterparty Rating</u>
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2013</u>	<u>Fair Value as of August 31, 2013</u>	
<u>\$ 2,096,261</u>	<u>\$ 2,573,158</u>	<u>\$ 54,422</u>	<u>\$ 48,192</u>	A

Foreign Currency Exchange Contracts

<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Counterparty Rating</u>
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2013</u>	<u>Fair Value as of August 31, 2013</u>	
<u>\$ 26,486,520</u>	<u>\$ 35,999,233</u>	<u>\$ 818,850</u>	<u>\$ 1,002,874</u>	A
<u>666,540</u>	<u>705,762</u>	<u>1,639</u>	<u>2,897</u>	AA
<u>\$ 27,153,060</u>	<u>\$ 36,704,995</u>	<u>\$ 820,489</u>	<u>\$ 1,005,771</u>	

As of August 31, 2014 and 2013, the GEF also had investments in futures contracts, options on future contracts and exchange-cleared swaps. Futures contracts, options on future contracts and exchange-cleared swaps expose the GEF to minimal counterparty credit risk since they are exchange traded and the exchange's clearinghouse, as counterparty to all exchange traded futures, guarantees them against default. Therefore they are not presented in the table above.

Counterparty risk for swaps, options and foreign currency exchange contracts which are traded over-the-counter is mitigated by having master netting arrangements between the GEF and its counterparties, and by the posting of collateral on a daily basis by the counterparty to the GEF to cover the GEF's exposure to a counterparty above the limits set in place in each master netting agreement. Collateral posted by counterparties is held by the GEF in one of its accounts at the GEF's custodian bank. As of August 31, 2014 and 2013, the Fund's pro-rata share was \$756,326 and \$1,925,078 respectively, of collateral held by the GEF related to derivative instruments other than futures. As of August 31, 2014 and 2013, the Fund's pro-rata share was \$143,643 and \$113,220, respectively, of collateral posted with brokers by the GEF related to derivative instruments other than futures.

PERMANENT HEALTH FUND

Notes to Financial Statements (cont.)

Note 5 – Securities Lending

In accordance with the prudent investor investment standards, the GEF loans securities to certain brokers who pay the GEF negotiated lenders' fees. These fees are included in the GEF's investment income, and the related expenses, net of rebates paid to borrowers. The GEF receives qualified securities and/or cash as collateral against the loaned securities. The collateral, when received, will have a market value of 102% of loaned securities of U.S. issuers and a market value of 105% for loaned securities of non-U.S. issuers. If the market value of the collateral held in connection with loans of securities of U.S. issuers is less than 100% at the close of trading on any business day, the borrower is required to deliver additional collateral by the close of the next business day to equal 102% of the market value. For non-U.S. issuers, the collateral should remain at 105% of the market value of the loaned securities at the close of any business day. If it falls below 105%, the borrower must deliver additional collateral by the close of the following business day. The Fund's pro-rata share of the fair value of the GEF's securities loaned and the fair value of collateral held are as follows at August 31, 2014 and 2013:

GEF Securities on Loan	2014 Fair Value	2013 Fair Value	Type of Collateral	2014 Fair Value of Collateral	2013 Fair Value of Collateral
U.S. Government	\$ 4,730,268	\$ 2,307,716	Cash	\$ 4,826,372	\$ 2,359,110
Foreign					
Government	1,211,241	111,822	Cash	1,281,545	122,544
Corporate Bonds	1,117,075	918,711	Cash	1,144,066	947,628
Common Stock	21,651,093	15,062,653	Cash	22,494,705	15,701,633
Total	\$ 28,709,677	\$ 18,400,902	Total	\$ 29,746,688	\$ 19,130,915
U.S. Government	\$ 1,838,277	\$ 4,791,913	Non-Cash	\$ 1,875,887	\$ 4,898,869
Corporate Bonds	-	30,605	Non-Cash	-	31,288
Common Stock	22,015	8,638	Non-Cash	23,590	8,831
Total	\$ 1,860,292	\$ 4,831,156	Total	\$ 1,899,477	\$ 4,938,988

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

PERMANENT HEALTH FUND

Notes to Financial Statements (cont.)

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

Description	August 31,					
	2014			2013		
	Fair Value	Rating	Weighted Average Maturity In Days	Fair Value	Rating	Weighted Average Maturity In Days
Repurchase Agreements	\$ 7,428,422	No Rating Available	2	\$ 8,800,759	No Rating Available	3
Commercial Paper	14,568,857	P	59	4,075,891	P	56
Floating Rate Notes	-	AAA		136,070	AAA	
Floating Rate Notes	4,587,836	AA		3,837,947	AA	
Floating Rate Notes	2,154,997	A		1,258,747	A	
Total Floating Rate Notes	6,742,833		41	5,232,764		38
Interest Bearing Notes	-	P		215,724	P	286
Certificates of Deposit	1,007,985	P	71	804,446	P	75
Other Receivables/Payables	(1,408)	Not Rated	-	1,331	Not Rated	-
Total Collateral Pool Investment	\$ 29,746,689		41	\$ 19,130,915		30

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

Cash collateral is recorded as an asset with an equal and offsetting liability to return the collateral on the statements of fiduciary net position. Pool investments are valued at cost which because of the nature of these investments is indicative of fair value. Investments received as collateral for securities lending activities are not recorded as assets because the investments remain under the control of the transferor, except in the event of default.

In the event of default, where the borrower is unable to return the securities loaned, the GEF has authorized the securities lending agent to seize the collateral held. The collateral is then used to replace the borrowed securities where possible. Due to some market conditions, it is possible that the original securities cannot be replaced. If the collateral is insufficient to replace the securities, the securities lending agent has indemnified the GEF from any loss due to borrower default.

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

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

PERMANENT HEALTH FUND

Notes to Financial Statements (cont.)

Note 6 – Fees and Expenses

The Fund is assessed a management fee by UTIMCO to cover the costs of managing the Fund and providing day-to-day operations. These fees are based on a budget prepared by management and approved by the UT Board. For the years ended August 31, 2014 and 2013, the fees assessed were \$1,062,565 and \$1,101,430, respectively.

The Fund is assessed a fee to cover costs associated with UT System personnel in their effort to provide assistance to the UT Board and the Chancellor of the UT System in their oversight responsibilities of UTIMCO. For the years ended August 31, 2014 and 2013, the fees amounted to \$11,790 and \$12,420, respectively.

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

PERMANENT HEALTH FUND

Supplemental Schedule

Financial Highlights

Years Ended August 31,

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Selected Per Unit Data					
Net Position, Beginning of Year	\$ 1.238	\$ 1.191	\$ 1.211	\$ 1.104	\$ 1.027
Income From Investment Operations					
Net Investment Income (A)	0.013	0.009	0.008	0.009	0.009
Net Realized and Unrealized Gains on Investments	0.166	0.095	0.028	0.153	0.122
Total Income from Investment Operations	0.179	0.104	0.036	0.162	0.131
Less Distributions					
From Net Investment Income	0.013	0.009	0.008	0.009	0.009
From Net Realized Gain and In Excess of Net Realized Investment Return	0.046	0.048	0.048	0.046	0.045
Total Distributions	0.059	0.057	0.056	0.055	0.054
Net Position, End of Year	<u>\$ 1.358</u>	<u>\$ 1.238</u>	<u>\$ 1.191</u>	<u>\$ 1.211</u>	<u>\$ 1.104</u>
Ratios and Supplemental Data					
Net Position, End of Year (in thousands)	\$ 1,113,609	\$ 1,015,250	\$ 976,553	\$ 992,932	\$ 905,442
Ratios to Average Net Position					
Distributions (5-quarter average)	4.48%	4.66%	4.73%	4.64%	5.00%
Distributions (12-quarter average)	4.60%	4.65%	4.75%	4.96%	4.66%

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