

Financial Statements  
and Independent Auditors' Report  
Permanent Health Fund  
*Years Ended August 31, 2015 and 2014*

# Permanent Health Fund

## Financial Statements

Years Ended August 31, 2015 and 2014

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## **INDEPENDENT AUDITORS' REPORT**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Permanent Health Fund (the "Fund") which comprise the statements of fiduciary net position as of August 31, 2015 and 2014, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

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

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Permanent Health Fund as of August 31, 2015 and 2014, and the changes in its fiduciary net position thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 1, the financial statements of the Fund are intended only to present the fiduciary net position of the Fund as of August 31, 2015 and 2014, and the changes in its fiduciary net position for the years then ended in conformity with accounting principles generally accepted in the United States and do not purport to, and do not, present the fiduciary net position of UTIMCO or The University of Texas System, as of August 31, 2015 or 2014, or the changes in their fiduciary net positions for the years then ended.

As discussed in Note 3, the financial statements include an investment in The University of Texas System General Endowment Fund (the "GEF"), valued at \$1,075,394,060 and \$1,113,290,881 as of August 31, 2015 and 2014, respectively. The GEF has 73.5% and 69.9% of its total assets as of August 31, 2015 and 2014, respectively, invested in assets whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimate of the value of the Fund is based on the net asset value per unit of the GEF, which is calculated by management.

Our opinion is not modified with respect to these matters.

## **Other Matters**

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

## Report on Supplemental Schedule

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

*Deloitte & Touche LLP*

October 30, 2015

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

Our discussion and analysis of the Permanent Health Fund's (Fund) financial performance provides an overview of its activities for the years ended August 31, 2015 and 2014. This discussion was prepared by The University of Texas Investment Management Company (UTIMCO) and should be read in conjunction with the Fund's financial statements and notes. The Fund 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 University of Texas System General Endowment Fund (GEF) in exchange for the contribution of its investment assets. The GEF, established by the UT Board effective March 1, 2001, is a pooled fund for the collective investment of long-term funds under the control and management of the UT Board. The performance of the Fund is directly impacted by the performance of the GEF. The GEF has only two participants: the Fund and The 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 decreased by \$37.9 million from \$1,113.6 million to \$1,075.7 million or by approximately 3.4% for the year ended August 31, 2015, compared to an increase of \$98.3 million or approximately 9.7% for the year ended August 31, 2014. The change in net fiduciary position from year to year is mainly attributable to the following:

1. The Fund posted a net investment gain of 0.98%, calculated using the Modified Dietz Method as described by the CFA Institute, for the year ended August 31, 2015, compared to a net investment gain of 14.63% 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 private investments, developed country equities and hedge funds were the biggest contributors to the 2015 return. For the year ended August 31, 2014, investments in developed country equities, emerging markets equities 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, 2015. This equated to an increase in the 2015 rate to \$0.0597 per unit from the 2014 rate of \$0.0585 per unit. The 2014 rate was increased by 2.1% from the year ended August 31, 2014 rate. The fiscal year distributions represented 4.44% of the Fund's average net position for the year ended August 31, 2015, and 4.48% of the Fund's average net position for the year ended August 31, 2014.

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3. There were no participant contributions to the Fund or withdrawals from the Fund during the years ended August 31, 2015 and 2014.

### 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, 2015, the Fund owned 4,197,109 GEF units representing an ownership percentage of 13.06% compared to 4,391,601 GEF units representing an ownership percentage of 13.37% as of August 31, 2014. As of August 31, 2015 and 2014, the fair value of the GEF units was \$1,075.4 million and \$1,113.3 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>2015</u>	<u>2014</u>	<u>2013</u>
<b>Assets</b>			
GEF Units, at Fair Value	\$ 1,075.4	\$ 1,113.3	\$ 1,015.0
Cash and Cash Equivalents	0.3	0.3	0.3
<b>Net Position Held in Trust</b>	<u>\$ 1,075.7</u>	<u>\$ 1,113.6</u>	<u>\$ 1,015.3</u>

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### 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 \$4.7 million during the year compared to an increase in investments of \$136.4 million for the year ended August 31, 2014. The Fund's investment expenses totaled \$1.1 million for the years ended August 31, 2015, 2014, and 2013, respectively.

Distributions to participants totaled \$49.0 million, \$48.0 million and \$47.0 million, respectively, for the years ended August 31, 2015, 2014, and 2013. The increase in distributions is a result of the UT Board increasing the distribution rate from \$0.0585 per unit to \$0.0597 per unit for fiscal year 2015. The increase for fiscal year 2014 is a result of the UT Board's increase of the distribution rate from \$0.0573 per unit to \$0.0585 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 determined by the UT Board. The key to preservation of endowment purchasing power over the long-term is control of spending through a target distribution rate. This target rate should not exceed the endowment's average annual net investment return after and inflation. The Fund distributions are typically 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

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Investment Income	\$ 12.2	\$ 147.4	\$ 86.8
Less Investment Expenses	1.1	1.1	1.1
Net Investment Income	<u>11.1</u>	<u>146.3</u>	<u>85.7</u>
Participant Distributions	<u>49.0</u>	<u>48.0</u>	<u>47.0</u>
Change in Fiduciary Net Position	(37.9)	98.3	38.7
Net Position Held in Trust, Beginning of Year	<u>1,113.6</u>	<u>1,015.3</u>	<u>976.6</u>
Net Position Held in Trust, End of Year	<u>\$ 1,075.7</u>	<u>\$ 1,113.6</u>	<u>\$ 1,015.3</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](http://www.utimco.org).

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### Statements of Fiduciary Net Position

August 31, 2015 and 2014

(Dollars in thousands, except per unit amounts)

	<u>2015</u>	<u>2014</u>
<b>Assets</b>		
GEF Units, at Fair Value	\$ 1,075,394	\$ 1,113,291
Cash and Cash Equivalents	302	318
Other	<u>14</u>	<u>-</u>
<b>Net Position Held in Trust (820,000,000 Units)</b>	<u>\$ 1,075,710</u>	<u>\$ 1,113,609</u>
<b>Net Position Held in Trust Per Unit</b>	<u>\$ 1.312</u>	<u>\$ 1.358</u>

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

## PERMANENT HEALTH FUND

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### Statements of Changes in Fiduciary Net Position

Years Ended August 31, 2015 and 2014

(in thousands)

	<u>2015</u>	<u>2014</u>
<b>Additions</b>		
Investment Income:		
Net Increase in Investments	\$ 4,659	\$ 136,418
Allocation of GEF Net Investment Income	7,495	11,005
Total Investment Income	<u>12,154</u>	<u>147,423</u>
Less Investment Expenses:		
UTIMCO Management Fee	1,065	1,063
Other Expenses	<u>23</u>	<u>19</u>
Total Investment Expenses	<u>1,088</u>	<u>1,082</u>
Net Investment Income	11,066	146,341
<b>Deductions</b>		
Administrative Fee for UT System Oversight	11	12
Participant Distributions	<u>48,954</u>	<u>47,970</u>
<b>Total Deductions</b>	<u>48,965</u>	<u>47,982</u>
<b>Change in Fiduciary Net Position</b>	(37,899)	98,359
Net Position Held in Trust, Beginning of Year	<u>1,113,609</u>	<u>1,015,250</u>
<b>Net Position Held in Trust, End of Year</b>	<u>\$ 1,075,710</u>	<u>\$ 1,113,609</u>

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

## PERMANENT HEALTH FUND

### *Notes to Financial Statements*

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#### **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 University of Texas System General Endowment Fund (GEF) in exchange for the contribution of its investment assets. The GEF, established by the UT Board effective March 1, 2001, is a pooled fund for the collective investment of long-term funds under the control and management of the UT Board. The performance of the Fund is directly impacted by the performance of the GEF. The GEF has only two participants: the Fund and The 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 30, 2015, the date the financial statements were available to be issued. No subsequent events requiring adjustment to, or disclosure in, the financial statements were identified as a result of this evaluation.

#### **Note 2 – Investment in GEF**

The Fund only invests in GEF units and a negligible amount of cash. At August 31, 2015, the Fund is the minority participant in the GEF, with ownership of 4,197,109 units, which represents 13.06% of the GEF. At August 31, 2014, the Fund held 4,391,601 units, which represented 13.37% of the GEF.

## PERMANENT HEALTH FUND

### *Notes to Financial Statements (cont.)*

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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 \$1,075,394,060 and \$1,113,290,881, as of August 31, 2015 and 2014, respectively.

(B) **Security Transactions** -- A gain or loss is recognized on GEF unit sales on the basis of average cost, and is included in the net increase in investments on the 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, 2015, the quarterly rate was \$0.014925 per unit which equates to an annual rate of \$0.0597 per unit and for the year ended August 31, 2014, the quarterly rate was \$0.014625 per unit which equated to an annual rate of \$0.0585 per unit. The ratio of distributions to average net position (12-quarter average) was 4.50% as of August 31, 2015. For the years ended August 31, 2015 and 2014, the annual payout was adjusted by the average consumer price index of the prior 36 months.

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

(E) **Purchases and Redemption of Units** -- Unit purchases occur on the first business day of each fiscal quarter. Unit redemptions occur on the last business day of each fiscal quarter. The value of participating units, upon admission to the Fund, is based upon the market value of net position held as of the quarterly valuation date. Redemptions from the Fund will also be made at the market value price per unit at the quarterly valuation date at the time of the redemption. There are no transaction costs incurred by participants for the purchase or redemption of units. There were no purchase or redemption of Fund units during the years ended August 31, 2015 and 2014.

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

## PERMANENT HEALTH FUND

### *Notes to Financial Statements (cont.)*

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(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.

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

#### **Note 4 – Investment Risk**

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

##### **(A) Credit Risk**

Article VII, Section 11b of the Texas Constitution authorizes the UT Board, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (the "PUF") in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the UT Board, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all of the assets of the fund rather than a single investment. Pursuant to Section 51.0031(c) of the Texas Education Code, the UT Board has elected the prudent investor standard to govern its management of the 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, 2015 and 2014:

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## Notes to Financial Statements (cont.)

GEF Investment Type	August 31,		Rating
	2015	2014	
<b>Investments:</b>			
U.S. Government Guaranteed	\$ 8,739,966	\$ 10,126,927	AA
U.S. Government Non-Guaranteed:			
U.S. Agency	1,416,681	396,771	AA
U.S. Agency Asset Backed	1,059,768	1,658,388	AA
Total U.S. Government Non-Guaranteed	2,476,449	2,055,159	
Total U.S. Government	11,216,415	12,182,086	
Corporate Obligations:			
Domestic	822,201	492,795	AAA
Domestic	468,617	514,104	AA
Domestic	4,870,183	3,015,028	A
Domestic	2,679,749	2,273,466	BAA/BBB
Domestic	361,265	280,843	BA/BB
Domestic	35,291	136,544	B
Domestic	243,985	318,430	CAA/CCC
Domestic	37,924	23,029	CA/CC
Domestic	30,487	45,564	C
Domestic	28,600	34,561	D
Domestic	39,890	71,844	Not Rated
Foreign	1,220,279	1,515,164	AAA
Foreign	2,422,505	1,225,126	AA
Foreign	1,657,111	1,618,487	A
Foreign	2,115,755	1,850,518	BAA/BBB
Foreign	305,316	235,796	BA/BB
Foreign	352,864	347,207	B
Foreign	92,072	19,090	CAA/CCC
Foreign	7,867	25,677	Not Rated
Total Corporate Obligations	17,791,961	14,043,273	
Foreign Government and Provincial Obligations	4,209,760	5,120,983	AAA
Foreign Government and Provincial Obligations	5,961,001	8,979,721	AA
Foreign Government and Provincial Obligations	8,342,412	8,298,775	A
Foreign Government and Provincial Obligations	8,087,160	12,119,082	BAA/BBB
Foreign Government and Provincial Obligations	1,082,743	1,521,285	BA/BB
Foreign Government and Provincial Obligations	20,932	197,079	Not Rated
Total Foreign Government and Provincial Obligations	27,704,008	36,236,925	
Other Debt Securities	19,777	22,634	AAA
Other Debt Securities	25,299	32,096	AA
Other Debt Securities	170,509	201,263	A
Total Other Debt Securities	215,585	255,993	
Total Debt Securities	\$ 56,927,969	\$ 62,718,277	
Other Investment Funds - Debt	\$ 1,191,118	\$ 1,301,262	BA/BB
Cash and Cash Equivalents - Money Market Funds	\$ 37,730,128	\$ 44,478,294	AAA
Cash and Cash Equivalents	13,992,309	5,364,205	Not Rated
Total Cash and Cash Equivalents	\$ 51,722,437	\$ 49,842,499	
<b>Net Deposit with Brokers for Derivative Contracts:</b>			
U.S. Government Guaranteed	\$ 130,541	\$ 352,856	AA
Cash	(379,679)	(667,126)	Not Rated
<b>Total Net Deposit with Brokers for Derivative Contracts</b>	\$ (249,138)	\$ (314,270)	

## PERMANENT HEALTH FUND

*Notes to Financial Statements (cont.)*

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### **(B) Concentrations of Credit Risk**

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

### **(C) Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the GEF will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the GEF will not be able to recover the fair value of its investment or collateral securities that are in the possession of another party. Texas State Statutes and the GEF's investment policy statements do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. As of August 31, 2015 and 2014, the GEF does not have any deposits or investments that are exposed to custodial credit risk.

### **(D) Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Interest rate risk inherent in the GEF is measured by monitoring the modified duration of the overall investment portfolio. Modified duration estimates the sensitivity of the GEF's investments to changes in interest rates. The GEF has no specific policy statement limitations with respect to its overall modified duration. The following table summarizes the GEF's modified duration and the Fund's pro-rata share of the GEF investment fair value by investment type as of August 31, 2015 and 2014:



**PERMANENT HEALTH FUND**  
*Notes to Financial Statements (cont.)*

GEF Investment Type	August 31,			
	2015		2014	
	Fair Value	Modified Duration	Fair Value	Modified Duration
<b>Investments:</b>				
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	\$ 7,484,808	11.99	\$ 9,786,838	8.06
U.S. Treasury Bills	-	-	24,300	0.02
U.S. Treasury Inflation Protected	786,849	8.23	158,142	10.25
U.S. Agency Asset Backed	468,309	3.81	157,647	2.70
Total U.S. Government Guaranteed	<u>8,739,966</u>	11.21	<u>10,126,927</u>	7.99
U.S. Government Non-Guaranteed:				
U.S. Agency	1,416,681	1.01	396,771	3.17
U.S. Agency Asset Backed	1,059,768	2.09	1,658,388	2.75
Total U.S. Government Non-Guaranteed	<u>2,476,449</u>	1.47	<u>2,055,159</u>	2.83
Total U.S. Government	<u>11,216,415</u>	9.06	<u>12,182,086</u>	7.12
Corporate Obligations:				
Domestic	9,618,192	5.77	7,206,208	5.67
Foreign	8,173,769	4.56	6,837,065	4.40
Total Corporate Obligations	<u>17,791,961</u>	5.21	<u>14,043,273</u>	5.05
Foreign Government and Provincial Obligations	<u>27,704,008</u>	6.90	<u>36,236,925</u>	6.45
Other Debt Securities	<u>215,585</u>	11.21	<u>255,993</u>	11.94
Total Debt Securities	<u>56,927,969</u>	6.81	<u>62,718,277</u>	6.29
Other Investment Funds - Debt	<u>1,191,118</u>	7.00	<u>1,301,262</u>	7.70
Cash and Cash Equivalents	<u>51,722,437</u>	0.11	<u>49,842,499</u>	0.07
Total	<u>\$ 109,841,524</u>	3.66	<u>\$ 113,862,038</u>	3.59
<b>Net Deposit with Brokers for Derivative Contracts:</b>				
U.S. Government Guaranteed:				
U.S. Treasury Bills	\$ 130,541	0.22	\$ 267,001	0.20
U.S. Treasury Inflation Protected	-	-	85,855	8.24
Total U.S. Government Guaranteed	<u>130,541</u>	0.22	<u>352,856</u>	2.16
Cash	<u>(379,679)</u>	-	<u>(667,126)</u>	-
Total Net Deposit with Brokers for Derivative Contracts	<u>\$ (249,138)</u>	-	<u>\$ (314,270)</u>	-

The GEF has purchased options on ten year constant maturity swaps, with expirations ranging from five to seven years, as insurance against possible future increases in inflation. As of August 31, 2015, the Fund's pro-rata portion of these options had a notional value of \$381,617,079 and a fair value of \$1,257. 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. 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 \$2,174,138 as of August 31, 2015 and \$2,226,950 as of August 31, 2014. The GEF also purchased puts on the Japanese Yen, with expirations ranging from one to two years, as insurance against the possibility of a downturn in the Japanese economy. As of August 31, 2015, these puts had a notional value of \$42,334,227 with a fair value of \$2,345 and a loss limited to \$454,128 which represents the

## PERMANENT HEALTH FUND

*Notes to Financial Statements (cont.)*

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premiums paid. As of August 31, 2014, the Fund's pro-rata portion of these puts 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. It is estimated that these options would not change the 2015 duration of total debt securities of 6.81 or the total duration of 3.66. It is estimated that these options would adjust the 2014 duration of total debt securities of 6.29 downward by approximately 0.06, and the total duration of 3.59 downward by approximately 0.06. One of the GEF's external managers also uses options and interest rate and credit default swaps to modify the duration of its portfolio in a cost efficient manner. It is estimated by management that these positions held by the external manager would not significantly adjust the modified duration as presented above.

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

The GEF may invest in various mortgage backed securities, such as collateralized mortgage backed obligations. The GEF also may invest in investments that have floating rates with periodic coupon changes in market rates, zero coupon bonds and stripped Treasury and Agency securities created from coupon securities. No percentage of holdings limitations are specified in the investment policy statements regarding these types of securities. As of August 31, 2015 and 2014, the GEF's investments include the following investments that are highly sensitive to interest rate changes.

Collateralized mortgage obligations which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. The Fund's pro-rata share of these securities amounted to \$2,716,366 and \$2,607,036 as of August 31, 2015 and 2014, respectively.

Mortgage backed securities which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. The Fund's pro-rata share of these securities amounted to \$815,203 and \$756,833 as of August 31, 2015 and 2014, respectively.

Asset backed securities which are backed by home equity loans, auto loans, equipment loans and credit card receivables. Prepayments by the obligees of the underlying assets in periods of decreasing interest rates could reduce or eliminate the stream of income that would have been received. The Fund's pro-rata share of these securities amounted to \$150,229 and \$264,916 as of August 31, 2015 and 2014, respectively.

## PERMANENT HEALTH FUND

*Notes to Financial Statements (cont.)*

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### **(F) Foreign Currency Risk**

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

The following table summarizes the Fund's pro-rata exposure of the GEF's non-U.S. dollar investments at August 31, 2015 and 2014:

# PERMANENT HEALTH FUND

## Notes to Financial Statements (cont.)

GEF Investment Type	August 31,	
	2015	2014
<b>Domestic Common Stock:</b>		
Indian Rupee	\$ 256	\$ 3,854
Taiwan Dollar	919	2,169
Total Domestic Common Stock	1,175	6,023
<b>Foreign Common Stock:</b>		
Australian Dollar	1,123,101	1,293,277
Brazilian Real	4,728,120	6,458,800
Canadian Dollar	1,722,127	2,956,871
Chilean Peso	37,926	123,962
Chinese Yuan Renminbi	13,753,064	15,304,735
Colombian Peso	13,387	47,468
Czech Koruna	130,386	71,663
Danish Krone	368,193	556,687
Egyptian Pound	203,133	161,455
Euro	3,335,336	6,050,983
Hong Kong Dollar	10,332,840	11,873,911
Hungarian Forint	9,864	21,658
Indian Rupee	3,068,052	2,728,181
Indonesian Rupiah	810,091	1,393,092
Japanese Yen	14,953,645	18,159,282
Malaysian Ringgit	715,585	1,085,673
Mexican Peso	3,689,288	3,718,891
Norwegian Krone	19,684	-
Philippine Peso	689,585	1,167,649
Polish Zloty	266,230	328,155
Qatari Riyal	231,970	17,604
Singapore Dollar	1,149,082	1,426,828
South African Rand	1,296,241	1,549,700
South Korean Won	11,113,552	10,071,729
Swedish Krona	208,756	841,985
Swiss Franc	413,233	787,363
Taiwan Dollar	2,660,375	3,019,557
Thai Baht	1,362,251	963,753
Turkish Lira	795,217	583,191
UK Pound	6,238,195	8,560,805
United Arab Emirates Dirham	151,148	91,661
Vietnamese Dong	540,684	296,598
Total Foreign Common Stock	86,130,341	101,713,167
<b>Other - Equity Securities:</b>		
Brazilian Real	-	9
Canadian Dollar	-	936
Hong Kong Dollar	-	13,428
Indonesian Rupiah	-	6
South African Rand	10	-
South Korean Won	-	425
Taiwan Dollar	78	18
Thai Baht	140	415
Total Other - Equity Securities	228	15,237
<b>Foreign Preferred Stock:</b>		
Brazilian Real	1,466,534	2,861,772
Chilean Peso	979	-
Colombian Peso	2,896	11,747
South African Rand	1,498	1,518
South Korean Won	642,509	414,464
Total Foreign Preferred Stock	2,114,416	3,289,501

# PERMANENT HEALTH FUND

## Notes to Financial Statements (cont.)

GEF Investment Type	August 31,	
	2015	2014
<b>Foreign Government and Provincial Obligations:</b>		
Australian Dollar	\$ 2,690,855	\$ 3,386,460
Brazilian Real	2,380,750	3,858,836
Canadian Dollar	629,928	266,206
Colombian Peso	231,450	222,044
Euro	6,354,666	9,997,326
Hungarian Forint	582,286	661,524
Indonesian Rupiah	596,310	561,279
Japanese Yen	3,021,227	828,397
Malaysian Ringgit	1,012,423	1,067,181
Mexican Peso	3,335,026	4,619,367
New Zealand Dollar	1,924,912	2,391,903
Norwegian Krone	660,632	865,203
Polish Zloty	693,055	1,614,966
Singapore Dollar	302,516	224,079
South African Rand	1,064,759	1,227,955
South Korean Won	341,747	1,079,239
Swedish Krona	21,419	562,120
Thai Baht	-	233,470
UK Pound	984,184	1,757,283
Total Foreign Government and Provincial Obligations	26,828,145	35,424,838
<b>Corporate Obligations:</b>		
Australian Dollar	608,331	1,033,233
Danish Krone	198,649	26,157
Euro	1,514,815	1,879,123
Indian Rupee	33	-
Mexican Peso	-	31,446
Swedish Krona	46,822	58,763
UK Pound	912,918	633,127
Total Corporate Obligations	3,281,568	3,661,849
<b>Purchased Options:</b>		
Euro	1,831	-
Japanese Yen	2,345	23,424
Total Purchased Options	4,176	23,424
<b>Private Investment Funds:</b>		
Australian Dollar	1,023,158	915,749
Canadian Dollar	7,893,691	8,442,386
Euro	11,602,020	14,339,278
UK Pound	3,236,164	2,418,222
Total Private Investment Funds	23,755,033	26,115,635
<b>Investment Funds - Emerging Markets:</b>		
Brazilian Real	857,509	1,126,688
Hong Kong Dollar	-	122,368
Swedish Krona	-	73,916
UK Pound	-	4,366,621
Total Investment Funds - Emerging Markets	857,509	5,689,593
<b>Investment Funds - Natural Resources:</b>		
UK Pound	-	106,781

**PERMANENT HEALTH FUND***Notes to Financial Statements (cont.)*

GEF Investment Type	August 31,	
	2015	2014
<b>Cash and Cash Equivalents:</b>		
Australian Dollar	\$ 21,112	\$ 45,968
Brazilian Real	113,928	165,452
Canadian Dollar	1,928	5,607
Chilean Peso	46	1,452
Chinese Yuan Renminbi	8,855,872	1,345,696
Colombian Peso	19,249	7,730
Czech Koruna	451	79
Danish Krone	36	54
Egyptian Pound	343	2,097
Euro	62,322	130,757
Hong Kong Dollar	9,598	122,853
Hungarian Forint	2	2
Indian Rupee	6,735	11,477
Indonesian Rupiah	5,308	699
Israeli Shekel	3,716	33
Japanese Yen	546,670	357,961
Malaysian Ringgit	2,640	9,256
Mexican Peso	38,287	211,764
New Zealand Dollar	38	49
Norwegian Krone	74	35
Peruvian Nuevo Sol	193	225
Philippine Peso	7,736	759
Polish Zloty	4,027	4,222
Qatari Riyal	1,445	-
Singapore Dollar	3	40
South African Rand	35,906	1,004
South Korean Won	166,503	32,112
Swedish Krona	542	59
Swiss Franc	94	56
Taiwan Dollar	14,817	28,776
Thai Baht	1,175	860
Turkish Lira	1,497	1,586
UK Pound	17,976	28,189
Vietnamese Dong	8,355	6,154
Total Cash and Cash Equivalents	<u>9,948,624</u>	<u>2,523,063</u>
<b>Written Options:</b>		
Australian Dollar	-	(481)
Brazilian Real	(1,045)	(8,065)
Chinese Yuan Renminbi	(695)	-
Euro	(10,795)	99
Japanese Yen	-	(10,372)
Mexican Peso	(108)	(25)
Total Written Options	<u>(12,643)</u>	<u>(18,844)</u>
<b>Swaps:</b>		
Brazilian Real	(2,391)	4,776
Euro	1,678,636	708,083
Japanese Yen	(10,302)	32,298
Mexican Peso	749	6,633
Swedish Krona	(977)	-
Swiss Franc	121,721	-
UK Pound	(1,743)	(6,843)
Total Swaps	<u>1,785,693</u>	<u>744,947</u>

## PERMANENT HEALTH FUND

Notes to Financial Statements (cont.)

GEF Investment Type	August 31,	
	2015	2014
<b>Futures:</b>		
Australian Dollar	\$ -	\$ (121)
Canadian Dollar	133	(678)
Euro	(1,314)	(4,294)
UK Pound	(30)	(169)
Total Futures	(1,211)	(5,262)
Total	\$ 154,693,054	\$ 179,289,952

### (G) Counterparty (Credit) Risk

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

The Fund's pro-rata share of the GEF's gross counterparty exposure as of August 31, 2015 for options, swaps, and foreign currency exchange contracts as shown in the following table:

#### Options

Assets	Liabilities	Assets	Liabilities	Counterparty Rating
Notional	Notional	Fair Value as of August 31, 2015	Fair Value as of August 31, 2015	
\$ 275,572,899	\$ 166,257,518	\$ 1,659,750	\$ 979,543	A

#### Swaps

Assets	Liabilities	Assets	Liabilities	Counterparty Rating
Notional	Notional	Fair Value as of August 31, 2015	Fair Value as of August 31, 2015	
\$ 1,951,820	\$ 4,824,802	\$ 1,760,341	\$ 1,944,073	A

#### Foreign Currency Exchange Contracts

Assets	Liabilities	Assets	Liabilities	Counterparty Rating
Notional	Notional	Fair Value as of August 31, 2015	Fair Value as of August 31, 2015	
\$ 33,208,203	\$ 19,918,274	\$ 874,607	\$ 561,511	A
-	47,736	-	735	AA
\$ 33,208,203	\$ 19,966,010	\$ 874,607	\$ 562,246	

## 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, 2014 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, 2014</u>	<u>Fair Value as of August 31, 2014</u>	
<u>\$ 435,082,664</u>	<u>\$ 2,665,625</u>	<u>\$ 82,273</u>	<u>\$ 26,325</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, 2014</u>	<u>Fair Value as of August 31, 2014</u>	
<u>\$ 6,199,111</u>	<u>\$ 2,081,067</u>	<u>\$ 781,216</u>	<u>\$ 755,604</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, 2014</u>	<u>Fair Value as of August 31, 2014</u>	
<u>\$ 52,046,596</u>	<u>\$ 22,145,424</u>	<u>\$ 778,565</u>	<u>\$ 300,921</u>	A
<u>955,603</u>	<u>133,044</u>	<u>8,433</u>	<u>1,627</u>	AA
<u>\$ 53,002,199</u>	<u>\$ 22,278,468</u>	<u>\$ 786,998</u>	<u>\$ 302,548</u>	

As of August 31, 2015 and 2014, the GEF also had investments in futures contracts, options on future contracts and exchange-cleared swaps. Futures contracts, options on future contracts and exchange-cleared swaps expose the GEF to minimal counterparty credit risk since they are exchange traded and the exchange's clearinghouse, as counterparty to all exchange traded futures, guarantees them against default. Therefore they are not presented in the table above.

Counterparty risk for swaps, options and foreign currency exchange contracts which are traded over-the-counter is mitigated by having master netting arrangements between the GEF and its counterparties, and by the posting of collateral on a daily basis by the counterparty to the GEF to cover the GEF's exposure to a counterparty above the limits set in place in each master netting agreement. Collateral posted by counterparties is held by the GEF in one of its accounts at the GEF's custodian bank. As of August 31, 2015 and 2014, the Fund's pro-rata share was \$888,197 and \$756,326 respectively, of collateral held by the GEF related to derivative instruments other than futures. As of August 31, 2015 and 2014, the Fund's pro-rata share was \$453,293 and \$143,643, 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, 2015 and 2014:

<b>GEF Securities on Loan</b>	<b>2015 Fair Value</b>	<b>2014 Fair Value</b>	<b>Type of Collateral</b>	<b>2015 Fair Value of Collateral</b>	<b>2014 Fair Value of Collateral</b>
U.S. Government	\$ 1,885,177	\$ 4,730,268	Cash	\$ 1,923,640	\$ 4,826,372
Foreign					
Government	374,943	1,211,241	Cash	393,696	1,281,545
Corporate Bonds	1,323,415	1,117,075	Cash	1,358,049	1,144,066
Common Stock	15,325,834	21,651,093	Cash	15,954,230	22,494,705
<b>Total</b>	<b>\$ 18,909,369</b>	<b>\$ 28,709,677</b>	<b>Total</b>	<b>\$ 19,629,615</b>	<b>\$ 29,746,688</b>
U.S. Government	\$ 2,614,135	\$ 1,838,277	Non-Cash	\$ 2,668,180	\$ 1,875,887
Corporate Bonds	39,024	-	Non-Cash	39,827	-
Common Stock	1,270,735	22,015	Non-Cash	1,320,797	23,590
<b>Total</b>	<b>\$ 3,923,894</b>	<b>\$ 1,860,292</b>	<b>Total</b>	<b>\$ 4,028,804</b>	<b>\$ 1,899,477</b>

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

## 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, 2015 and 2014 is shown in the following table:

Description	August 31, 2015			August 31, 2014		
	Fair Value	Rating	Weighted Average Maturity In Days	Fair Value	Rating	Weighted Average Maturity In Days
Repurchase Agreements	\$ 11,345,383	No Rating Available	1	\$ 7,428,422	No Rating Available	2
Commercial Paper	1,475,715	P	18	14,568,857	P	59
Floating Rate Notes	3,523,625	AA		4,587,836	AA	
Floating Rate Notes	3,285,005	A		2,154,997	A	
Total Floating Rate Notes	<u>6,808,630</u>		29	<u>6,742,833</u>		41
Certificates of Deposit	-	P		1,007,985	P	71
Other Receivables/Payables	(113)	Not Rated	-	(1,409)	Not Rated	-
Total Collateral Pool Investment	<u>\$ 19,629,615</u>		12	<u>\$ 29,746,688</u>		41

Collateral pool investments are uninsured and are held by the securities lending agent, in its name, on behalf of the GEF, except for the investments in repurchase agreements which are held in the securities lending agent's name by a third party custodian not affiliated with the GEF or the borrower of the associated loaned securities. Therefore, the collateral pool is not exposed to custodial credit risk because the pool investments are not held by counterparties to the lending transactions or 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, 2015 and 2014, the GEF had no credit risk exposure to borrowers because the amounts the GEF owed to borrowers exceeded the amounts the borrowers owed the GEF.

There were no significant violations of legal or contractual provisions, no borrower or securities lending agent default losses, and no recoveries of prior period losses during the years ended August 31, 2015 and 2014.

## PERMANENT HEALTH FUND

*Notes to Financial Statements (cont.)*

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### **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, 2015 and 2014, the fees assessed were \$1,064,608 and \$1,062,565, 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, 2015 and 2014, the fees amounted to \$11,130 and \$11,790, respectively.

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

## PERMANENT HEALTH FUND

### Supplemental Schedule

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#### Financial Highlights

Years Ended August 31,

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>Selected Per Unit Data</b>					
Net Position, Beginning of Year	\$ 1.358	\$ 1.238	\$ 1.191	\$ 1.211	\$ 1.104
Income From Investment Operations					
Net Investment Income (A)	0.008	0.013	0.009	0.008	0.009
Net Realized and Unrealized Gains on Investments	0.006	0.166	0.095	0.028	0.153
Total Income from Investment Operations	0.014	0.179	0.104	0.036	0.162
Less Distributions					
From Net Investment Income	0.008	0.013	0.009	0.008	0.009
From Net Realized Gain and In Excess of Net Realized Investment Return	0.052	0.046	0.048	0.048	0.046
Total Distributions	0.060	0.059	0.057	0.056	0.055
Net Position, End of Year	<u>\$ 1.312</u>	<u>\$ 1.358</u>	<u>\$ 1.238</u>	<u>\$ 1.191</u>	<u>\$ 1.211</u>
<b>Ratios and Supplemental Data</b>					
Net Position, End of Year (in thousands)	\$ 1,075,710	\$ 1,113,609	\$ 1,015,250	\$ 976,553	\$ 992,932
Ratios to Average Net Position					
Distributions (5-quarter average)	4.44%	4.48%	4.66%	4.73%	4.64%
Distributions (12-quarter average)	4.50%	4.60%	4.65%	4.75%	4.96%

(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.