

Financial Statements

and Independent Auditors' Report

The University of Texas System

Intermediate Term Fund

*Years Ended August 31, 2018 and 2017*

The University of Texas System Intermediate Term Fund

Financial Statements

Years Ended August 31, 2018 and 2017

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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/Texas A&M Investment  
Management Company

**Report on the Financial Statements**

We have audited the accompanying financial statements of The University of Texas System Intermediate Term Fund (the "Fund"), which comprise the statements of fiduciary net position as of August 31, 2018 and 2017, 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/Texas A&M Investment Management Company ("UTIMCO" or "management") is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

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

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of The University of Texas System Intermediate Term Fund as of August 31, 2018 and 2017, 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, 2018 and 2017, 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 consolidated net position of The University of Texas System, as of August 31, 2018 or 2017, or the changes in its consolidated net positions for the years then ended.

Our opinion is not modified with respect to this matter.

## **Other Matters**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 5 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 29, 2018

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

Our discussion and analysis of The University of Texas System Intermediate Term Fund's (Fund) financial performance provides an overview of its activities for the years ended August 31, 2018 and 2017. This discussion was prepared by The University of Texas/Texas A&M Investment Management Company (UTIMCO) and should be read in conjunction with the Fund's financial statements and notes. The Fund, created February 1, 2006, is an internal University of Texas System (UT System) pooled investment fund for the investment of operating funds and other intermediate and long-term funds held by the UT System institutions and UT System Administration. The Fund was created to improve the efficiency of operating funds management and to improve investment returns on UT System operating reserves. The Texas Constitution and various state statutes designate The University of Texas System Board of Regents (UT Board) as the fiduciary for the management of certain public endowment and operating funds. The UT Board has entered into an Investment Management Services Agreement delegating investment management responsibility for all investments to UTIMCO.

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

**Financial Highlights**

The Fund's net fiduciary position, after contributions, withdrawals, and distributions increased by \$860.0 million from \$9,075.1 million to \$9,935.1 million or by approximately 9.5% for the year ended August 31, 2018, compared to an increase of \$1,239.0 million or approximately 15.8% for the year ended August 31, 2017. The change in net fiduciary position from year to year is mainly attributable to the following:

1. Net participant contributions to the Fund were \$865.5 million for the year ended August 31, 2018, compared to \$822.2 million for the year ended August 31, 2017.
2. The Fund posted a net investment return of 3.01%, calculated using the Modified Dietz Method as described by the CFA Institute, for the year ended August 31, 2018. Investments in developed country equities, credit-related hedge funds, and developed country hedge funds were the biggest contributors to the 2018 return. For the year ended August 31, 2017, the Fund posted a net investment return of 8.37%. Investments in emerging markets equities, developed country equities, and emerging markets hedge funds were the biggest contributors for August 31, 2017.
3. The Fund's distribution rate was 3.0% per year, or 0.25% per month, for the years ended August 31, 2018 and 2017. Distributions from the Fund were \$292.9 million for the year ended August 31, 2018 compared to the \$247.5 million distributed for the year ended August 31, 2017.

# THE UNIVERSITY OF TEXAS SYSTEM

## INTERMEDIATE TERM FUND

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### 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 typically required under GASB: the statement of fiduciary net position and the statement of changes in fiduciary net position.

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

### Statements of Fiduciary Net Position

The statements of fiduciary net position present assets, liabilities, and the net position of the Fund as of the end of the 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.

The Fund invests in a broad mix of investments and is actively managed to its benchmark, the Policy Portfolio. The Policy Portfolio is the index or benchmark for the intermediate term funds that UTIMCO manages. The return of the Policy Portfolio is the sum of the weighted benchmark returns for each asset class. UTIMCO allocates the Fund's assets to internally and externally managed portfolios in accordance with approved asset allocation policies and attempts to preserve the purchasing power of Fund assets by earning a compound annualized return over rolling three year-periods, net of all direct and allocated expenses, of at least inflation as measured by the Consumer Price Index plus 3%. In doing so, UTIMCO increases the operating resources available to the UT System institutions which invest in the Fund.

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>Assets</b>			
Investments, at Fair Value	\$ 10,206.0	\$ 9,151.5	\$ 7,925.6
Other Assets	530.7	610.6	612.0
<b>Total Assets</b>	<u>10,736.7</u>	<u>9,762.1</u>	<u>8,537.6</u>
<b>Total Liabilities</b>	801.6	687.0	701.5
<b>Net Position Held in Trust</b>	<u>\$ 9,935.1</u>	<u>\$ 9,075.1</u>	<u>\$ 7,836.1</u>

### Statements of Changes in Fiduciary Net Position

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

**THE UNIVERSITY OF TEXAS SYSTEM  
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The net increase in fair value of investments of the Fund was \$205.1 million during the year ended August 31, 2018 compared to the net increase in fair value of investments of \$598.9 million for the year ended August 31, 2017. Investment expenses totaled \$39.6 million, \$37.2 million and \$21.9 million respectively, for the years ended August 31, 2018, 2017 and 2016.

Distributions to participants totaled \$292.9 million, \$247.5 million and \$219.5 million, respectively, for the years ended August 31, 2018, 2017 and 2016. Cash distributions are paid monthly based on a 3% annual distribution rate.

The following summarizes the statements of changes in fiduciary net position (in millions) for the years ended August 31, 2018, 2017 and 2016:

	<b>2018</b>	<b>2017</b>	<b>2016</b>
Investment Income	\$ 327.1	\$ 701.6	\$ 279.6
Less Investment Expenses	39.6	37.2	21.9
<b>Net Investment (Loss) Income</b>	<u>287.5</u>	<u>664.4</u>	<u>257.7</u>
Participant Contributions	1,323.4	1,234.5	1,009.1
<b>Total Additions</b>	<u>1,610.9</u>	<u>1,898.9</u>	<u>1,266.8</u>
UT System Oversight Fee	0.1	0.1	0.1
Participant Withdrawals	457.9	412.3	247.6
Participant Distributions	292.9	247.5	219.5
<b>Total Deductions</b>	<u>750.9</u>	<u>659.9</u>	<u>467.2</u>
<b>Change in Fiduciary Net Position</b>	860.0	1,239.0	799.6
<b>Net Position Held in Trust, Beginning of Period</b>	9,075.1	7,836.1	7,036.5
<b>Net Position Held in Trust, End of Period</b>	<u>\$ 9,935.1</u>	<u>\$ 9,075.1</u>	<u>\$ 7,836.1</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).

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

**Statements of Fiduciary Net Position**

*August 31, 2018 and 2017*

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

<b>Assets</b>	<b>2018</b>	<b>2017</b>
Investments, at Fair Value:		
Equity Securities	\$ 828,662	\$ 920,712
Preferred Stock	17,052	17,293
Debt Securities	3,001,179	2,616,086
Convertible Securities	303	259
Investment Funds	5,339,362	4,818,447
Physical Commodities	251,765	208,742
Purchased Options	609	2,114
Cash and Cash Equivalents	767,048	567,864
Total Investments	<u>10,205,980</u>	<u>9,151,517</u>
Collateral for Securities Loaned, at Fair Value	168,721	153,836
Deposits with Brokers for Derivative Contracts	18,807	25,435
Futures Contracts, at Fair Value	1,928	926
Swaps, at Fair Value	17,794	57,162
Unrealized Gains on Foreign Currency Exchange Contracts	24,727	20,703
Receivables:		
Investment Securities Sold	274,113	332,383
Accrued Income	24,471	19,927
Other	166	243
Total Receivables	<u>298,750</u>	<u>352,553</u>
<b>Total Assets</b>	<u>10,736,707</u>	<u>9,762,132</u>
<b>Liabilities</b>		
Payable upon Return of Securities Loaned	168,721	153,836
Payable to Brokers for Collateral Held	7,017	10,384
Options Written, at Fair Value	219	590
Futures Contracts, at Fair Value	7,299	240
Swaps, at Fair Value	8,918	56,800
Unrealized Losses on Foreign Currency Exchange Contracts	27,163	23,795
Payables:		
Investment Securities Purchased	551,535	402,339
Distributions Payable	25,036	22,541
Other	5,694	16,523
Total Payables	<u>582,265</u>	<u>441,403</u>
<b>Total Liabilities</b>	<u>801,602</u>	<u>687,048</u>
<b>Net Position Held in Trust (83,401,306 Units and 76,249,608 Units, respectively)</b>	<u><u>\$ 9,935,105</u></u>	<u><u>\$ 9,075,084</u></u>
<b>Net Position Held in Trust Per Unit</b>	<u><u>\$ 119.124</u></u>	<u><u>\$ 119.018</u></u>

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

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**INTERMEDIATE TERM FUND**

**Statements of Changes in Fiduciary Net Position**

*Years Ended August 31, 2018 and 2017*

*(in thousands)*

<b>Additions</b>	<b>2018</b>	<b>2017</b>
Investment Income:		
Net Increase in Fair Value of Investments	\$ 205,091	\$ 598,942
Interest	98,590	77,576
Dividends	21,950	23,744
Securities Lending Income	1,177	1,329
Other Income	284	-
<b>Total Investment Income</b>	<b>327,092</b>	<b>701,591</b>
Less Investment Expenses:		
Investment Management Fees	26,263	29,388
UTIMCO Management Fee	10,492	5,480
Custodial Fees and Expenses	2,396	1,923
Accounting Fees	173	168
Consulting Fees	102	95
Analytical and Risk Measurement Fees	69	151
Legal Fees	26	4
Foreign Tax Consulting and Filing Fees	21	18
Background Check Fees	18	16
Other Expenses	1	5
<b>Total Investment Expenses</b>	<b>39,561</b>	<b>37,248</b>
Net Investment Income	287,531	664,343
Participant Contributions	1,323,388	1,234,521
<b>Total Additions</b>	<b>1,610,919</b>	<b>1,898,864</b>
<b>Deductions</b>		
Administrative Fee for UT System Oversight	67	64
Participant Withdrawals	457,897	412,368
Participant Distributions	292,934	247,468
<b>Total Deductions</b>	<b>750,898</b>	<b>659,900</b>
Change in Fiduciary Net Position	860,021	1,238,964
Net Position Held in Trust, Beginning of Year	9,075,084	7,836,120
<b>Net Position Held in Trust, End of Year</b>	<b>\$ 9,935,105</b>	<b>\$ 9,075,084</b>

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

### Note 1 – Organization and Basis of Presentation

The University of Texas System Intermediate Term Fund (Fund) is a pooled investment fund established for the collective investment of operating funds and other short and intermediate term funds held by the 14 University of Texas System (UT System) institutions and UT System Administration. The Fund was established February 1, 2006, by the Board of Regents of UT System (UT Board). Fiduciary responsibility for the Fund rests with the UT Board. The day-to-day operational responsibilities of the Fund are delegated to The University of Texas/Texas A&M Investment Management Company (UTIMCO), pursuant to an Investment Management Services Agreement with the UT Board.

The activities of the Fund are accounted for as a fiduciary fund. The financial statements of the Fund use an economic resources management 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 generally accepted accounting principles in the United States of America (GAAP) as prescribed by the requirements of the Governmental Accounting Standards Board (GASB).

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

Management has evaluated subsequent events through October 29, 2018, the date the financial statements were available to be issued. No subsequent events requiring adjustment to, or disclosure in, the financial statements were identified as a result of this evaluation.

### Note 2 – Significant Accounting Policies

**(A) Fair Value Measurements** -- Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP provides a hierarchy that prioritizes the inputs of fair value measurements based on the extent to which inputs to valuation techniques are observable in the marketplace. The hierarchy assigns a higher priority to observable inputs that reflect verifiable information obtained from independent sources, and a lower priority to unobservable inputs that would reflect management's assumptions about how market participants would value an asset or liability based on the best information available. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs.

The three levels of the hierarchy of inputs used to measure fair value are as follows:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that are available at the measurement date.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – Unobservable inputs for the asset or liability.

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## INTERMEDIATE TERM FUND

*Notes to Financial Statements (cont.)*

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Investments with readily determinable fair values are primarily valued on the basis of market valuations provided by independent pricing services.

Debt securities, including corporate obligations and government and provincial obligations, held directly by the Fund are fair valued based upon prices supplied by Intercontinental Exchange Data Services and other major fixed income pricing services, external broker quotes and internal pricing matrices. U.S. government obligations valued based on unadjusted prices in active markets are categorized as Level 1. Debt securities valued based on multiple quotations or models utilizing observable market inputs are categorized as Level 2; otherwise they would be categorized as Level 3.

Equity securities, including common and preferred stock, and publicly traded mutual fund fair values are based on the closing price on the primary exchange on which they are traded (if a closing price is not available, the average of the last reported bid and ask price is used). When these securities are actively traded, and valuation adjustments are not applied, they are categorized as Level 1. In the event that a stock is not actively traded or a closing price is unavailable on a national or international exchange, the last available price per the exchange would be utilized and the security would be categorized as Level 2.

Physical commodities, specifically gold, are fair valued using the composite closing price from Bloomberg for the XAU currency code which represents the standard for one troy ounce of gold, and are categorized as Level 1.

GAAP permits management to fair value certain investments that do not have a readily determinable fair value using the investment's net asset value per share or ownership interest in partners' capital as a practical expedient. Investments valued in this manner are not classified in the fair value hierarchy.

Hedge funds, developed country equity, emerging markets equity, fixed income, real estate, and natural resources investment funds are fair valued by management based on net asset value information provided by the investment managers as well as consideration of any other information provided by the investment managers or other sources.

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

**(C) *Investment Income and Investment Expenses*** -- Interest income is accrued as earned. Dividend income is recorded on the ex-dividend date. Dividend and interest income are recorded net of foreign taxes where recovery of such taxes is not assured. Investment income includes net realized and unrealized currency gains and losses recognized between accrual and payment dates on dividend and interest transactions. Investment expenses are recorded on the accrual basis as incurred.

THE UNIVERSITY OF TEXAS SYSTEM

INTERMEDIATE TERM FUND

*Notes to Financial Statements (cont.)*

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

**(E) Distributions to Participants** -- Cash distributions to participants are paid monthly based on a percentage rate established by the UT Board. For the years ended August 31, 2018 and 2017 the annual distribution rate was 3.0%.

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

**(G) Purchases and Redemption of Units** -- Unit purchases and redemptions occur on the first business day of each month. The value of participating units, upon admission to the Fund, is based upon the market value of net position held as of the monthly valuation date. Redemptions from the Fund will also be made at the market value price per unit at the monthly valuation date at the time of the redemption. There are no transaction costs incurred by participants for the purchase or redemption of units.

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

**(I) Use of Estimates** -- The preparation of financial statements in conformity with GAAP 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.

**(J) Derivative Instruments** -- Derivatives are financial instruments whose fair value is derived, in whole or part, from the fair value of any one or more underlying securities or assets, or index of securities or assets, such as stocks, bonds, commodities, or currencies. The Fund from time to time uses various derivative instruments, as allowed under the UT Board approved derivative investment policy guidelines. Derivative instruments included under these policies and contracts include futures, forwards, swaps and various forms of options. Futures contracts and foreign exchange contracts are fair valued at closing market prices on the valuation date. Futures contracts actively traded are categorized as Level 1 and foreign exchange contracts are not actively traded and therefore categorized as Level 2. Options and swaps are fair valued by using independent broker quotes or using models with primarily externally verifiable model inputs. Purchased options actively traded are categorized as Level 1, otherwise options and swaps are generally categorized as Level 2.

Derivative instruments in the Fund are used to achieve the following objectives:

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

# THE UNIVERSITY OF TEXAS SYSTEM

## INTERMEDIATE TERM FUND

*Notes to Financial Statements (cont.)*

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

*Options Written* -- When the Fund writes an option, an amount equal to the premium received by the Fund is recorded as a liability and is subsequently adjusted to the current fair value of the option written. Premiums received from writing options that expire unexercised are treated by the Fund on the expiration date as realized gains from investments and are included in the net increase in fair value of investments in the statements of changes in fiduciary net position. The difference between the premium and the amount paid on effecting a closing transaction, including brokerage commissions, is also treated as a realized gain, or, if the premium is less than the amount paid for the closing transaction, as a realized loss and are included in the net increase in fair value of investments in the statements of changes in fiduciary net position. If a call option is exercised, the premium is added to the proceeds from the sale of the underlying security or currency in determining whether the Fund has realized a gain or loss. If a put option is exercised, the premium reduces the cost basis of the securities purchased by the Fund.

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

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

# THE UNIVERSITY OF TEXAS SYSTEM

## INTERMEDIATE TERM FUND

*Notes to Financial Statements (cont.)*

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

*Foreign Exchange Contracts* -- The Fund enters into forward foreign exchange contracts to hedge against foreign exchange rate risks on its non-U.S. dollar denominated investment securities and to facilitate trading strategies primarily as a tool to increase or decrease market exposure to various foreign currencies. When entering into a foreign exchange contract, the Fund agrees to receive or deliver a fixed quantity of foreign currency for an agreed-upon price on an agreed future date. These contracts are fair valued daily and the Fund's net equity therein, representing unrealized gain or loss on the contracts as measured by the difference between the forward foreign exchange rates at the dates of entry into the contracts and the forward rates at the reporting date, is included in the statements of fiduciary net position. Realized and unrealized gains and losses are included in the net increase in fair value of investments in the statements of changes in fiduciary net position. These instruments involve market and/or credit risk in excess of the amount recognized in the statements of fiduciary net position. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movement in currency and securities fair values and interest rates.

**(K) *Cash and Cash Equivalents*** -- Cash and cash equivalents consist of money market investments, foreign currencies and other overnight funds. Cash and cash equivalents are an integral part of the Fund's investment activities, and as such are included in the investments balance on the statements of fiduciary net position. Investments in public money market funds are categorized as Level 1.

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INTERMEDIATE TERM FUND

Notes to Financial Statements (cont.)

Note 3 – Investments and Investment Derivatives

The following tables reflect fair value measurements of investments and investment derivatives as of August 31, 2018 and 2017, respectively, as categorized by the level of the fair value hierarchy:

	Fair Value as of August 31, 2018	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments by Fair Value Level:</b>				
<b>Equity Securities:</b>				
Domestic Common Stock	\$ 240,103,937	\$ 240,103,937	\$ -	\$ -
Foreign Common Stock	577,554,396	577,549,439	4,957	-
Other Equities	11,004,096	10,295,269	708,827	-
<b>Total Equity Securities</b>	<b>828,662,429</b>	<b>827,948,645</b>	<b>713,784</b>	<b>-</b>
<b>Preferred Stock:</b>				
Domestic Preferred Stock	1,908,400	-	1,908,400	-
Foreign Preferred Stock	15,143,698	15,143,698	-	-
<b>Total Preferred Stock</b>	<b>17,052,098</b>	<b>15,143,698</b>	<b>1,908,400</b>	<b>-</b>
<b>Debt Securities:</b>				
U. S. Government Obligations	913,590,402	780,695,152	132,895,250	-
Foreign Government and Provincial Obligations	1,261,851,247	-	1,261,851,247	-
Corporate Obligations	818,119,939	-	818,119,939	-
Other	7,617,863	-	7,617,863	-
<b>Total Debt Securities</b>	<b>3,001,179,451</b>	<b>780,695,152</b>	<b>2,220,484,299</b>	<b>-</b>
<b>Purchased Options</b>	<b>608,734</b>	<b>496,589</b>	<b>112,145</b>	<b>-</b>
<b>Convertible Securities</b>	<b>302,671</b>	<b>-</b>	<b>302,671</b>	<b>-</b>
<b>Investment Funds:</b>				
Developed Country Equity	9,345,369	9,345,369	-	-
Natural Resources	84,778	84,778	-	-
<b>Total Investment Funds</b>	<b>9,430,147</b>	<b>9,430,147</b>	<b>-</b>	<b>-</b>
<b>Physical Commodities - Gold</b>	<b>251,765,306</b>	<b>251,765,306</b>	<b>-</b>	<b>-</b>
<b>Cash Equivalents</b>	<b>745,620,646</b>	<b>745,620,646</b>	<b>-</b>	<b>-</b>
<b>Total Investments by Fair Value Level</b>	<b>4,854,621,482</b>	<b>\$ 2,631,100,183</b>	<b>\$ 2,223,521,299</b>	<b>\$ -</b>
<b>Cash</b>	<b>21,427,382</b>			
<b>Investments Funds Fair Valued Using Practical Expedient:</b>				
<b>Hedge Funds</b>	<b>4,198,945,157</b>			
<b>Public Markets</b>	<b>1,130,986,196</b>			
<b>Investments Funds Fair Valued Using Practical Expedient</b>	<b>5,329,931,353</b>			
<b>Total Investments, at Fair Value</b>	<b>\$ 10,205,980,217</b>			

	Fair Value as of August 31, 2018	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investment Derivatives</b>				
Foreign Exchange Contracts	\$ (2,436,156)	\$ -	\$ (2,436,156)	\$ -
Futures Contracts	(5,371,706)	(5,371,706)	-	-
Swaps	8,875,905	-	8,875,905	-
Written Options	(218,822)	-	(218,822)	-
<b>Investment Derivatives</b>	<b>\$ 849,221</b>	<b>\$ (5,371,706)</b>	<b>\$ 6,220,927</b>	<b>\$ -</b>

THE UNIVERSITY OF TEXAS SYSTEM

INTERMEDIATE TERM FUND

Notes to Financial Statements (cont.)

	Fair Value Measurements Using			
	Fair Value as of August 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments by Fair Value Level:</b>				
<b>Equity Securities:</b>				
Domestic Common Stock	\$ 220,494,719	\$ 220,494,719	\$ -	\$ -
Foreign Common Stock	689,851,213	689,846,242	4,971	-
Other Equities	10,366,391	10,324,647	41,744	-
<b>Total Equity Securities</b>	<b>920,712,323</b>	<b>920,665,608</b>	<b>46,715</b>	<b>-</b>
<b>Preferred Stock:</b>				
Domestic Preferred Stock	1,326,180	90,180	1,236,000	-
Foreign Preferred Stock	15,966,438	15,966,438	-	-
<b>Total Preferred Stock</b>	<b>17,292,618</b>	<b>16,056,618</b>	<b>1,236,000</b>	<b>-</b>
<b>Debt Securities:</b>				
U. S. Government Obligations	558,559,533	470,266,498	88,293,035	-
Foreign Government and Provincial Obligations	1,322,738,104	-	1,322,738,104	-
Corporate Obligations	724,493,999	-	724,493,999	-
Other	10,294,404	-	10,294,404	-
<b>Total Debt Securities</b>	<b>2,616,086,040</b>	<b>470,266,498</b>	<b>2,145,819,542</b>	<b>-</b>
<b>Purchased Options</b>	<b>2,113,649</b>	<b>1,831,137</b>	<b>282,512</b>	<b>-</b>
<b>Convertible Securities</b>	<b>259,377</b>	<b>-</b>	<b>259,377</b>	<b>-</b>
<b>Investment Funds:</b>				
Natural Resources	87,366	87,366	-	-
<b>Total Investment Funds</b>	<b>87,366</b>	<b>87,366</b>	<b>-</b>	<b>-</b>
<b>Physical Commodities - Gold</b>	<b>208,742,287</b>	<b>208,742,287</b>	<b>-</b>	<b>-</b>
<b>Cash Equivalents</b>	<b>548,998,970</b>	<b>548,998,970</b>	<b>-</b>	<b>-</b>
<b>Total Investments by Fair Value Level</b>	<b>4,314,292,630</b>	<b>\$ 2,166,648,484</b>	<b>\$ 2,147,644,146</b>	<b>\$ -</b>
<b>Cash</b>	<b>18,864,438</b>			
<b>Investments Funds Fair Valued Using Practical Expedient:</b>				
<b>Hedge Funds</b>	<b>3,914,486,710</b>			
<b>Public Markets</b>	<b>903,872,720</b>			
<b>Investments Funds Fair Valued Using Practical Expedient</b>	<b>4,818,359,430</b>			
<b>Total Investments, at Fair Value</b>	<b>\$ 9,151,516,498</b>			

	Fair Value Measurements Using			
	Fair Value as of August 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investment Derivatives</b>				
Foreign Exchange Contracts	\$ (3,091,372)	\$ -	\$ (3,091,372)	\$ -
Futures Contracts	685,465	685,465	-	-
Swaps	362,056	-	362,056	-
Written Options	(589,725)	-	(589,725)	-
<b>Investment Derivatives</b>	<b>\$ (2,633,576)</b>	<b>\$ 685,465</b>	<b>\$ (3,319,041)</b>	<b>\$ -</b>

See Note 5 for fair value categorization of collateral for securities loaned.

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

*Notes to Financial Statements (cont.)*

Investment funds fair valued at net asset value per share or based on the Fund's ownership interest in partners' capital include externally managed funds, limited partnerships, and corporate structures, which are generally unrated and may be unregulated. The composition of investment funds that are fair valued using a practical expedient at August 31, 2018 and 2017, is summarized in the following tables as they are included within the asset mix of the Fund.

Investment Funds:	<u>Fair Value as of August 31, 2018</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
<b>Hedge Funds:</b>				
<b>Developed Country Equity</b>				
Redeemable Within One Year	\$ 1,473,933,040	\$ -	Monthly to Annually	30 - 90 Days
Redeemable Beyond One Year	1,032,488,703	-	Quarterly to Annually	45 - 90 Days
Nonredeemable	<u>141,693,520</u>	<u>152,103,518</u>	Not Applicable	Not Applicable
<b>Total Developed Country Equity</b>	<u>2,648,115,263</u>	<u>152,103,518</u>		
<b>Credit-Related Fixed Income</b>				
Redeemable Within One Year	337,201,094	-	Quarterly to Annually	90 Days
Redeemable Beyond One Year	53,381,770	-	Quarterly to Annually	90 - 120 Days
Nonredeemable	<u>260,837,005</u>	<u>294,714,558</u>	Not Applicable	Not Applicable
<b>Total Credit-Related Fixed Income</b>	<u>651,419,869</u>	<u>294,714,558</u>		
<b>Investment Grade Fixed Income</b>				
Redeemable Within One Year	373,027,991	-	Monthly to Annually	5 - 75 Days
Redeemable Beyond One Year	<u>172,766,085</u>	<u>35,311,307</u>	Quarterly to Annually	65 - 75 Days
<b>Total Investment Grade Fixed Income</b>	<u>545,794,076</u>	<u>35,311,307</u>		
<b>Emerging Market Equity</b>				
Redeemable Within One Year	100,450,744	-	Annually	60 - 90 Days
Redeemable Beyond One Year	230,813,589	-	Annually	60 - 90 Days
Nonredeemable	<u>22,351,616</u>	-	Not Applicable	Not Applicable
<b>Total Emerging Markets Equity</b>	<u>353,615,949</u>	-		
<b>Total Hedge Funds</b>	<u>4,198,945,157</u>	<u>482,129,383</u>		
<b>Public Markets:</b>				
<b>Developed Country Equity</b>				
Redeemable Within One Year	785,108,492	-	Monthly to Annually	6 - 90 Days
Redeemable Beyond One Year	<u>93,605,287</u>	<u>6,191,250</u>	Monthly to Annually	1 - 90 Days
<b>Total Developed Country Equity</b>	<u>878,713,779</u>	<u>6,191,250</u>		
<b>Emerging Market Equity</b>				
Redeemable Within One Year	213,799,097	-	Daily to Quarterly	1 - 90 Days
Redeemable Beyond One Year	27,964,628	-	Monthly to Quarterly	45 - 60 Days
Nonredeemable	<u>10,508,692</u>	<u>23,529,363</u>	Not Applicable	Not Applicable
<b>Total Emerging Markets Equity</b>	<u>252,272,417</u>	<u>23,529,363</u>		
<b>Total Public Markets</b>	<u>1,130,986,196</u>	<u>29,720,613</u>		
<b>Total Investment Funds</b>	<u>\$ 5,329,931,353</u>	<u>\$ 511,849,996</u>		

THE UNIVERSITY OF TEXAS SYSTEM

INTERMEDIATE TERM FUND

Notes to Financial Statements (cont.)

Investment Funds:	Fair Value as of August 31, 2017	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
<b>Hedge Funds:</b>				
<b>Developed Country Equity</b>				
Redeemable Within One Year	\$1,403,264,139	\$ -	Monthly to Annually	30 - 95 Days
Redeemable Beyond One Year	1,012,673,241	-	Quarterly to Annually	45 - 90 Days
Nonredeemable	90,052,360	193,039,242	Not Applicable	Not Applicable
<b>Total Developed Country Equity</b>	<u>2,506,079,740</u>	<u>193,039,242</u>		
<b>Credit-Related Fixed Income</b>				
Redeemable Within One Year	309,836,723	-	Quarterly to Annually	90 Days
Redeemable Beyond One Year	82,986,618	-	Quarterly to Annually	90 - 120 Days
Nonredeemable	186,035,501	107,797,803	Not Applicable	Not Applicable
<b>Total Credit-Related Fixed Income</b>	<u>578,858,842</u>	<u>107,797,803</u>		
<b>Investment Grade Fixed Income</b>				
Redeemable Within One Year	447,940,683	-	Monthly to Annually	5 - 75 Days
Redeemable Beyond One Year	77,784,132	29,458,903	Quarterly to Annually	65 - 75 Days
<b>Total Investment Grade Fixed Income</b>	<u>525,724,815</u>	<u>29,458,903</u>		
<b>Emerging Market Equity</b>				
Redeemable Within One Year	71,483,697	-	Annually	60 - 90 Days
Redeemable Beyond One Year	209,482,565	-	Annually	60 - 90 Days
Nonredeemable	22,362,666	-	Not Applicable	Not Applicable
<b>Total Emerging Markets Equity</b>	<u>303,328,928</u>	<u>-</u>		
<b>Natural Resources</b>				
Redeemable Beyond One Year	494,385	-	Not Applicable	Not Applicable
<b>Total Natural Resources</b>	<u>494,385</u>	<u>-</u>		
<b>Total Hedge Funds</b>	<u>3,914,486,710</u>	<u>330,295,948</u>		
<b>Public Markets:</b>				
<b>Developed Country Equity</b>				
Redeemable Within One Year	560,606,888	-	Monthly to Annually	1 - 90 Days
Redeemable Beyond One Year	195,081,935	30,465,000	Quarterly to Annually	1 - 184 Days
<b>Total Developed Country Equity</b>	<u>755,688,823</u>	<u>30,465,000</u>		
<b>Emerging Market Equity</b>				
Redeemable Within One Year	93,501,656	-	Daily to Quarterly	1 - 90 Days
Redeemable Beyond One Year	48,664,055	-	Monthly to Quarterly	45 - 60 Days
Nonredeemable	6,018,186	19,600,791	Not Applicable	Not Applicable
<b>Total Emerging Markets Equity</b>	<u>148,183,897</u>	<u>19,600,791</u>		
<b>Total Public Markets</b>	<u>903,872,720</u>	<u>50,065,791</u>		
<b>Total Investment Funds</b>	<u>\$4,818,359,430</u>	<u>\$ 380,361,739</u>		

The Fund invests in hedge funds through unit interests in investment pools established in the name of the UT Board. Amounts presented in the Fund's financial statements and related note disclosures represent the Fund's pro-rata share of these investment pool assets. The hedge fund pools are invested in private funds with external investment managers who invest in equity and fixed income securities, including related derivatives, of both domestic and international issuers. These investment managers may invest in both long and short securities and may utilize leverage in their portfolios. Certain funds are subject to a lock-up restriction of typically one to three years before the investment may be withdrawn from the manager without significant penalty. The amounts shown as nonredeemable are considered to be illiquid in that they typically become liquid over multi-year periods when and if the fund managers distribute proceeds realized from the underlying fund investments and the timing cannot be estimated. There are certain risks associated with these private funds, some of which include investment manager risk, market risk, and liquidity risk, as well as the risk of utilizing leverage in the portfolios. The hedge fund pools have committed \$1,156,006,041 of future funding to various hedge fund investments as of August 31, 2018 of which the Fund's pro-rata portion is \$482,129,383.

Public market funds are invested in exchange traded funds, index funds, and private placements with external investment managers who invest in equity and fixed income securities, including related derivatives, of both domestic and international issuers. These funds are characterized as public market funds based on individual risk/return characteristics and their relationship to the overall asset mix of the Fund. Some of these investment managers may invest in both long and short securities and may utilize leverage in their portfolios. Certain funds are subject to a lock-up restriction of typically one to three years before the investment may be withdrawn from the manager without significant penalty. The amounts shown as nonredeemable are considered to be illiquid in that they typically become liquid over multi-year periods when and if the fund managers distribute proceeds realized from the underlying fund investments and the timing cannot be estimated. Certain of these investments are held through limited liability companies of which UTIMCO is the manager of the limited liability companies. There are certain risks associated with these investments, some of which are investment manager risk, market risk, and liquidity risk, as well as the risk of utilizing leverage in the portfolios. Future fundings in the amount of \$173,606,726, of which the Fund's pro-rata portion is \$29,720,613, have been committed to certain public market funds as of August 31, 2018.

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

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

Investments in hedge funds and public market funds are also subject to the investment risks discussed in Note 4. Fixed income investments held by these funds would also be subject to credit risk and interest rate risk; moreover, they may invest in securities whose fair values would be sensitive to changes in interest rates.

#### **Note 4 – Investment Risk**

The investment risk disclosure that follows relates to the Fund's investments before securities lending transactions and the investment of cash collateral. Disclosures relating to securities lending are provided in Note 5. Risk disclosures relating to the Fund's investments in hedge funds and public market funds are discussed in Note 3.

# THE UNIVERSITY OF TEXAS SYSTEM

## INTERMEDIATE TERM FUND

*Notes to Financial Statements (cont.)*

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### (A) *Credit Risk*

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

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The Fund’s investment policy does not provide specific requirements or limitations 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 each applicable investment type grouped by rating at August 31, 2018 and 2017:

**THE UNIVERSITY OF TEXAS SYSTEM**

**INTERMEDIATE TERM FUND**

*Notes to Financial Statements (cont.)*

Investment Type	August 31,		Rating
	2018	2017	
<b>Investments:</b>			
U.S. Government Guaranteed	\$ 790,057,620	\$ 480,208,767	AA
U.S. Government Non-Guaranteed:			
U.S. Agency	299,494	-	AA
U.S. Agency Asset Backed	121,143,980	75,479,079	AA
U.S. Agency Asset Backed	719,241	-	A
U.S. Agency Asset Backed	-	850,603	BAA/BBB
U.S. Agency Asset Backed	1,370,067	1,320,753	B
U.S. Agency Asset Backed	-	700,331	Not Rated
Total U.S. Government Non-Guaranteed	123,532,782	78,350,766	
Total U.S. Government	913,590,402	558,559,533	
Corporate Obligations:			
Domestic	32,363,624	33,017,906	AAA
Domestic	64,276,943	41,804,384	AA
Domestic	230,902,327	173,461,808	A
Domestic	214,655,832	178,261,216	BAA/BBB
Domestic	13,979,129	10,285,197	BA/BB
Domestic	4,132,526	2,447,706	B
Domestic	1,983,647	2,255,880	CAA/CCC
Domestic	722,263	868,994	CA/CC
Domestic	102,732	2,323,634	D
Domestic	1,060,080	-	Not Rated
Foreign	94,172,063	112,294,327	AAA
Foreign	29,284,058	49,093,635	AA
Foreign	58,802,585	55,036,031	A
Foreign	54,199,931	48,233,270	BAA/BBB
Foreign	7,871,391	6,620,002	BA/BB
Foreign	6,469,196	5,223,838	B
Foreign	73,899	922,080	CAA/CCC
Foreign	3,067,713	2,344,091	Not Rated
Total Corporate Obligations	818,119,939	724,493,999	
Foreign Government and Provincial Obligations	308,342,062	273,089,349	AAA
Foreign Government and Provincial Obligations	189,414,739	212,602,850	AA
Foreign Government and Provincial Obligations	348,744,520	398,360,474	A
Foreign Government and Provincial Obligations	304,131,397	279,717,319	BAA/BBB
Foreign Government and Provincial Obligations	85,035,085	149,652,052	BA/BB
Foreign Government and Provincial Obligations	1,101,846	1,248,944	B
Foreign Government and Provincial Obligations	25,081,598	8,067,116	Not Rated
Total Foreign Government and Provincial Obligations	1,261,851,247	1,322,738,104	
Other Debt Securities	581,042	2,372,485	AAA
Other Debt Securities	5,117,493	2,195,936	AA
Other Debt Securities	1,483,992	5,282,386	A
Other Debt Securities	435,336	443,597	BAA/BBB
Total Other Debt Securities	7,617,863	10,294,404	
Total Debt Securities	\$ 3,001,179,451	\$ 2,616,086,040	
Convertible Securities	\$ 19,795	\$ -	B
Convertible Securities	282,876	259,377	Not Rated
Total Convertible Securities	\$ 302,671	\$ 259,377	
Cash Equivalents - Money Market Funds	\$ 745,620,646	\$ 548,998,970	AAA
Cash	21,427,382	18,864,438	Not Rated
Total Cash and Cash Equivalents	\$ 767,048,028	\$ 567,863,408	
<b>Net Deposit with Brokers for Derivative Contracts:</b>			
U.S. Government Guaranteed	\$ 2,943,550	\$ 3,353,307	AA
Cash	8,846,501	11,697,468	Not Rated
<b>Total Net Deposit with Brokers for Derivative Contracts</b>	<b>\$ 11,790,051</b>	<b>\$ 15,050,775</b>	

**(B) Concentrations of Credit Risk**

The Fund's investment policy statement contains the limitation that no more than 5% of the market value of fixed income securities may be invested in corporate or municipal bonds of a single issuer. As of August 31, 2018 and 2017, the Fund does not hold any direct investments in any one issuer of corporate or municipal bonds that is 5% or more of the market value of the Fund'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 Fund 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 Fund 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 Fund'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, 2018 and 2017, the Fund 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 Fund is measured by monitoring the modified duration of the overall investment portfolio. Modified duration estimates the sensitivity of the Fund's investments to changes in interest rates. The Fund has no specific policy statement limitations with respect to its overall modified duration. The following table summarizes the Fund's modified duration in years by investment type at August 31, 2018 and 2017:

**THE UNIVERSITY OF TEXAS SYSTEM**  
**INTERMEDIATE TERM FUND**  
*Notes to Financial Statements (cont.)*

Investment Type	August 31,			
	2018		2017	
	Fair Value	Modified Duration	Fair Value	Modified Duration
<b>Investments:</b>				
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	\$ 762,204,564	6.62	\$ 450,422,818	6.71
U.S. Treasury Inflation Protected	18,490,588	13.28	19,843,679	5.31
U.S. Agency Asset Backed	9,362,468	4.26	9,942,270	3.44
Total U.S. Government Guaranteed	<u>790,057,620</u>	6.74	<u>480,208,767</u>	6.58
U.S. Government Non-Guaranteed:				
U.S. Agency	299,494	0.08	-	-
U.S. Agency Asset Backed	123,233,288	6.15	78,350,766	5.49
Total U.S. Government Non-Guaranteed	<u>123,532,782</u>	6.15	<u>78,350,766</u>	5.49
Total U.S. Government	<u>913,590,402</u>	6.66	<u>558,559,533</u>	6.43
Corporate Obligations:				
Domestic	564,179,103	4.26	444,726,725	6.15
Foreign	253,940,836	4.79	279,767,274	6.80
Total Corporate Obligations	<u>818,119,939</u>	4.42	<u>724,493,999</u>	6.40
Foreign Government and Provincial Obligations	<u>1,261,851,247</u>	4.25	<u>1,322,738,104</u>	4.35
Other Debt Securities	<u>7,617,863</u>	5.54	<u>10,294,404</u>	15.90
Total Debt Securities	<u>3,001,179,451</u>	5.03	<u>2,616,086,040</u>	5.41
Convertible Securities	<u>302,671</u>	0.32	<u>259,377</u>	0.14
Cash and Cash Equivalents	<u>767,048,028</u>	0.08	<u>567,863,408</u>	0.08
Total	<u>\$ 3,768,530,150</u>	4.03	<u>\$ 3,184,208,825</u>	4.46
<b>Net Deposit with Brokers for Derivative Contracts:</b>				
U.S. Government Guaranteed:				
U.S. Treasury Bills	\$ 2,943,550	3.21	\$ -	-
U.S. Treasury Bonds and Notes	-	-	1,492,314	3.05
U.S. Treasury Inflation Protected	-	-	1,860,993	5.89
Total U.S. Government Guaranteed	<u>\$ 2,943,550</u>	3.21	<u>\$ 3,353,307</u>	4.63
Cash	<u>8,846,501</u>	-	<u>11,697,468</u>	-
Total Net Deposit with Brokers for Derivative Contracts	<u>\$ 11,790,051</u>	0.80	<u>\$ 15,050,775</u>	1.03

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

The Fund may invest in various mortgage backed securities, such as collateralized mortgage backed obligations. The Fund 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, 2018 and 2017, the Fund's investments include the following investments that are highly sensitive to interest rate changes:

Collateralized mortgage obligations which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. These securities amounted to \$52,687,533 and \$56,479,404 as of August 31, 2018 and 2017, respectively.

Mortgage backed securities which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. These securities amounted to \$129,757,255 and \$81,623,521 as of August 31, 2018 and 2017, respectively.

Asset backed securities which are backed by home equity loans, auto loans, equipment loans and credit card receivables. Prepayments by the obligees of the underlying assets in periods of decreasing interest rates could reduce or eliminate the stream of income that would have been received. These securities amounted to \$24,284,196 and \$19,843,280 as of August 31, 2018 and 2017, respectively.

**(F) Foreign Currency Risk**

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

The classification of domestic common stock and foreign common stock is based on the country of domicile of the issuer, not the currency in which the security is traded. The following table summarizes the Fund's exposure to non-U.S. dollar investments at August 31, 2018 and 2017:

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INTERMEDIATE TERM FUND

Notes to Financial Statements (cont.)

Investment Type	August 31,	
	2018	2017
<b>Domestic Common Stock:</b>		
Australian Dollar	\$ 30,648	\$ 33,612
<b>Foreign Common Stock:</b>		
Australian Dollar	792,798	7,792,186
Brazilian Real	50,228,996	64,256,859
Canadian Dollar	4,446,933	13,350,160
Chilean Peso	288,122	255,033
Chinese Yuan Renminbi	74,550,940	154,163,826
Colombian Peso	38,824	51,515
Czech Koruna	1,487,057	1,564,989
Danish Krone	3,992,910	-
Egyptian Pound	3,708,237	3,049,155
Euro	66,947,735	62,623,939
Hong Kong Dollar	26,943,954	31,622,414
Hungarian Forint	310,185	247,542
Indian Rupee	18,716,086	14,835,754
Indonesian Rupiah	7,007,223	6,155,807
Japanese Yen	75,149,035	69,193,490
Malaysian Ringgit	5,290,580	5,580,955
Mexican Peso	21,346,187	20,785,001
Moroccan Dirham	-	562,631
Norwegian Krone	760,299	-
Peruvian Sol	20,863	-
Philippine Peso	255,326	1,961,246
Polish Zloty	885,750	449,171
Qatari Riyal	1,560,319	972,705
Singapore Dollar	4,415,806	4,257,021
South African Rand	7,225,053	7,464,512
South Korean Won	77,340,452	66,858,555
Sri Lankan Rupee	1,466,078	-
Swedish Krona	-	3,143,907
Swiss Franc	4,718,734	3,584,800
Taiwan Dollar	25,472,512	23,015,613
Thai Baht	6,819,971	6,038,553
Turkish Lira	3,062,195	2,383,193
UK Pound	23,822,821	29,906,992
United Arab Emirates Dirham	6,024,086	7,417,543
Vietnamese Dong	2,519,866	1,713,794
Total Foreign Common Stock	527,615,933	615,258,861
<b>Other - Equity Securities:</b>		
Australian Dollar	866	-
Malaysian Ringgit	6,158	7,017
Total Other - Equity Securities	7,024	7,017
<b>Foreign Preferred Stocks:</b>		
Brazilian Real	8,042,699	7,602,084
Colombian Peso	-	11,840
Euro	2,029,230	958,265
South African Rand	17,545	20,471
South Korean Won	5,054,223	6,614,214
Total Foreign Preferred Stock	15,143,697	15,206,874
<b>Foreign Government and Provincial Obligations:</b>		
Australian Dollar	112,413,902	136,181,858
Brazilian Real	45,864,296	74,493,947

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*Notes to Financial Statements (cont.)*

Investment Type	August 31,	
	2018	2017
<b>Foreign Government and Provincial Obligations (continued):</b>		
Canadian Dollar	\$ 72,386,095	\$ 30,072,991
Colombian Peso	27,196,765	17,986,420
Euro	232,844,100	209,560,020
Hungarian Forint	-	8,063,357
Indonesian Rupiah	32,136,769	31,259,790
Japanese Yen	139,769,266	172,751,792
Malaysian Ringgit	66,863,060	71,061,664
Mexican Peso	153,003,456	153,215,474
New Zealand Dollar	56,638,353	64,103,349
Norwegian Krone	17,508,562	17,125,276
Peruvian Sol	21,656,284	16,462,326
Polish Zloty	86,558,007	101,452,282
Romanian Leu	3,045,492	3,194,399
Singapore Dollar	56,819,961	54,212,198
South African Rand	37,210,219	53,937,007
South Korean Won	16,683,700	-
Thai Baht	10,228,214	9,670,095
Turkish Lira	1,960,569	6,865,568
UK Pound	25,197,636	46,001,331
Total Foreign Government and Provincial Obligations	<u>1,215,984,706</u>	<u>1,277,671,144</u>
<b>Corporate Obligations:</b>		
Australian Dollar	3,313,800	5,525,590
Canadian Dollar	2,087,200	1,827,084
Danish Krone	38,739,896	65,852,839
Euro	20,516,640	24,421,615
Indian Rupee	6,280,630	137
South African Rand	5,036,133	-
Swedish Krona	21,044,521	21,674,511
UK Pound	31,316,686	27,596,581
Total Corporate Obligations	<u>128,335,506</u>	<u>146,898,357</u>
<b>Investment Funds-Emerging Markets:</b>		
Brazilian Real	<u>4,857,858</u>	<u>5,985,440</u>
<b>Convertible Securities:</b>		
Brazilian Real	<u>282,584</u>	<u>259,119</u>
<b>Purchased Options:</b>		
Australian Dollar	-	18,205
Brazilian Real	91,359	212,683
Euro	87,765	1,451,959
Total Purchased Options	<u>179,124</u>	<u>1,682,847</u>
<b>Cash and Cash Equivalents:</b>		
Australian Dollar	12,623	8,317
Brazilian Real	1,167,097	2,248,388
Canadian Dollar	1,264,408	152,257
Chilean Peso	48	1,379
Chinese Yuan Renminbi	11,711,952	7,801,235
Colombian Peso	699,635	1,457,513
Czech Koruna	18	18
Danish Krone	331	382
Egyptian Pound	2,726	-

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

*Notes to Financial Statements (cont.)*

Investment Type	August 31, 2018	August 31, 2017
<b>Cash and Cash Equivalents (continued):</b>		
Euro	\$ 137,461	\$ 69,249
Hong Kong Dollar	72,582	(109,514)
Hungarian Forint	1,995	268
Indian Rupee	32,180	188,479
Indonesian Rupiah	186,807	20,430
Israeli Shekel	170	59
Japanese Yen	2,721,486	1,232,122
Malaysian Ringgit	467,242	20,085
Mexican Peso	431,976	312,816
New Zealand Dollar	162,564	75,932
Norwegian Krone	243	93
Philippine Peso	2,011	5,618
Polish Zloty	199,147	18,105
Singapore Dollar	184,390	554
South African Rand	1,959,004	1,332,570
South Korean Won	1,504,871	1,692,807
Swedish Krona	451	19,857
Swiss Franc	284	266
Taiwan Dollar	182,763	12,778
Thai Baht	5,398	10,731
Turkish Lira	15,939	58
UK Pound	346,446	(11,713)
United Arab Emirates Dirham	(572)	(43)
Total Cash and Cash Equivalents	23,473,676	16,561,096
<b>Written Options:</b>		
Australian Dollar	(6,725)	-
Brazilian Real	(24)	(293,940)
Canadian Dollar	-	(16,212)
Euro	(27,588)	(217,487)
UK Pound	(76,817)	-
Total Written Options	(111,154)	(527,639)
<b>Swaps:</b>		
Australian Dollar	-	(18,724)
Canadian Dollar	283,694	(87,579)
Euro	2,259,698	300,698
Japanese Yen	(179,643)	(478,795)
Mexican Peso	(100,096)	(111,906)
New Zealand Dollar	166,850	92,441
South African Rand	(270,931)	41,041
South Korean Won	13,391	(76,148)
Swedish Krona	-	(121,266)
UK Pound	5,444,920	51,338,605
Total Swaps	7,617,883	50,878,367
<b>Futures:</b>		
Australian Dollar	-	951
Canadian Dollar	(3,994)	(18,694)
Euro	(107,435)	2,477
Japanese Yen	-	(5,906)
Total Futures	(111,429)	(21,172)
Total	\$ 1,923,306,056	\$ 2,129,893,923

**THE UNIVERSITY OF TEXAS SYSTEM**

**INTERMEDIATE TERM FUND**

*Notes to Financial Statements (cont.)*

**(G) Counterparty (Credit) Risk**

The derivative instruments utilized by the Fund, contain varying degrees of off-balance sheet risk whereby changes in the fair values of securities underlying the financial instruments may exceed the amounts recognized in the statements of fiduciary net position. The Fund 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 had gross counterparty exposure as of August 31, 2018 for options, swaps, and foreign exchange contracts as shown in the following table:

	<u>Notional</u>		<u>Fair Value</u>		<u>Counterparty Rating</u>
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	
Options	\$ -	\$ 4,700,000	\$ -	\$ 42,995	AA
Options	8,530,159	54,403,005	191,404	144,908	A
Swaps	906,293	1,437,815	224,957	102,674	AA
Swaps	169,758,688	71,858,622	9,185,111	6,698,342	A
Foreign Exchange Contracts	510,231,075	1,587,523,145	12,420,753	18,048,180	AA
Foreign Exchange Contracts	788,738,228	1,130,058,476	12,260,451	8,999,754	A
Foreign Exchange Contracts	1,690,973	1,759,921	45,987	115,413	BBB
			<u>\$ 34,328,663</u>	<u>\$ 34,152,266</u>	

The Fund had gross counterparty exposure as of August 31, 2017 for options, swaps, and foreign exchange contracts as shown in the following table:

	<u>Notional</u>		<u>Fair Value</u>		<u>Counterparty Rating</u>
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	
Options	\$ 134,984,716	\$ 107,359,227	\$ 105,965	\$ 94,230	A
Swaps	1,431,079	-	168,981	-	AA
Swaps	68,312,791	95,292,828	54,487,251	52,407,511	A
Foreign Exchange Contracts	432,477,764	528,005,322	11,031,639	9,928,204	AA
Foreign Exchange Contracts	662,879,822	721,602,822	9,671,757	13,866,563	A
			<u>\$ 75,465,593</u>	<u>\$ 76,296,508</u>	

As of August 31, 2018 and 2017, the Fund also had investments in futures contracts, options on futures contracts and exchange-cleared swaps. Futures contracts, options on futures contracts and exchange-cleared swaps expose the Fund 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 exchange contracts which are traded over-the-counter is mitigated by having master netting arrangements between the Fund and its counterparties, and by the posting of collateral on a daily basis by the counterparty to the Fund to cover the Fund's exposure to a counterparty above the limits set in place in each master netting agreement.

**THE UNIVERSITY OF TEXAS SYSTEM**

**INTERMEDIATE TERM FUND**

*Notes to Financial Statements (cont.)*

Collateral posted by counterparties is held by the Fund in one of its accounts at the Fund’s custodian bank. As of August 31, 2018 and 2017, the Fund held \$7,017,160 and \$10,384,410 respectively, of collateral related to derivative instruments other than futures and had on deposit with brokers \$15,650,992 and \$22,925,612 respectively as collateral related to derivative instruments other than futures.

**Note 5 – Securities Lending**

In accordance with the prudent investor investment standards, the Fund loans securities to certain brokers who pay the Fund negotiated lenders’ fees. These fees are included in investment income in the statements of changes in fiduciary net position. The Fund 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 fair value of securities loaned and the fair value of collateral held are as follows at August 31, 2018 and 2017:

<b>Securities on Loan</b>	<b>2018 Fair Value</b>	<b>2017 Fair Value</b>	<b>Type of Collateral</b>	<b>2018 Fair Value of Collateral</b>	<b>2017 Fair Value of Collateral</b>
U.S. Government	\$ 42,304,310	\$ 21,280,641	Cash	\$ 43,204,207	\$ 21,726,598
Foreign Government	973,246	5,175,512	Cash	993,100	5,346,107
Corporate Bonds	82,723,428	57,634,521	Cash	84,777,845	59,036,468
Common Stock	38,273,226	65,475,290	Cash	39,745,383	67,726,481
<b>Total</b>	<b>\$ 164,274,210</b>	<b>\$ 149,565,964</b>	<b>Total</b>	<b>\$ 168,720,535</b>	<b>\$ 153,835,654</b>
U.S. Government	\$ 53,025,865	\$ 42,924,009	Non-Cash	\$ 54,150,921	\$ 43,928,381
Corporate Bonds	-	976,649	Non-Cash	-	996,413
Common Stock	27,999,039	15,217,158	Non-Cash	29,202,448	15,868,719
<b>Total</b>	<b>\$ 81,024,904</b>	<b>\$ 59,117,816</b>	<b>Total</b>	<b>\$ 83,353,369</b>	<b>\$ 60,793,513</b>

Cash received as collateral for securities lending activities is invested and reinvested in a commingled pool managed exclusively for the benefit of the Fund, the PUF, The University of Texas System General Endowment Fund (GEF), 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 Fund and its securities lending agent. The maturities of the investments in the pool do not necessarily match the term of the loans, rather the pool is managed to maintain a maximum dollar-weighted average maturity of 60 days and an overnight liquidity of 20%. Lending income is earned if the returns on those investments exceed the rebate paid to borrowers of the securities for interest on the cash collateral received. The income remaining after the borrower rebates is then shared 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 is made from the Fund and the securities lending agent in the same proportion as the income is shared.

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INTERMEDIATE TERM FUND**

*Notes to Financial Statements (cont.)*

The Fund's pro-rata share of collateral pool investments, rating by NRSRO, and weighted average maturity at August 31, 2018 and 2017 is shown in the following table:

Description	2018			2017		
	Fair Value	Rating	Weighted Average Maturity In Days	Fair Value	Rating	Weighted Average Maturity In Days
Repurchase Agreements	\$ 58,690,335	No Rating	4	\$ 52,242,458	No Rating	2
Agencies	2,914,406	Available	7	-	Available	
Commercial Paper	53,415,997	AA	24	37,952,880	P	39
Floating Rate Notes	29,364,812	P		35,097,454	AA	
Floating Rate Notes	29,432,562	AA		29,872,633	A	
Total Floating Rate Notes	58,797,374	A	27	64,970,087		22
Other Receivables/Payables	(5,097,577)	Not Rated	-	(1,329,771)	Not Rated	-
Total Collateral Pool Investment	\$ 168,720,535		19	\$ 153,835,654		19

The following tables reflect fair value measurements of collateral pool investments as of August 31, 2018 and 2017, respectively, as categorized by the level of the fair value hierarchy:

	Fair Value as of August 31, 2018	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		Repurchase Agreements	\$ 58,690,335	\$ -
Agencies	2,914,406	-	2,914,406	-
Commercial Paper	53,415,997	-	53,415,997	-
Floating Rate Notes	58,797,374	-	58,797,374	-
<b>Total by Fair Value Level</b>	173,818,112	\$ -	\$ 173,818,112	\$ -
Other Receivables/Payables	(5,097,577)			
<b>Total Collateral Pool Investments</b>	\$ 168,720,535			

	Fair Value as of August 31, 2017	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		Repurchase Agreements	\$ 52,242,458	\$ -
Commercial Paper	37,952,880	-	37,952,880	-
Floating Rate Notes	64,970,087	-	64,970,087	-
<b>Total by Fair Value Level</b>	155,165,425	\$ -	\$ 155,165,425	\$ -
Other Receivables/Payables	(1,329,771)			
<b>Total Collateral Pool Investments</b>	\$ 153,835,654			

Collateral pool investments are uninsured, and are held by the securities lending agent, in its name, on behalf of the Fund, 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 Fund or the borrower of the associated loaned securities. Therefore, the collateral pool is not exposed to custodial credit risk because the pool investments are not held by counterparties to the lending transactions or the counterparties' trust department or agent.

**THE UNIVERSITY OF TEXAS SYSTEM**

**INTERMEDIATE TERM FUND**

*Notes to Financial Statements (cont.)*

Cash collateral is recorded as an asset with an equal and offsetting liability to return the collateral on the statements of fiduciary net position. 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 Fund 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 Fund from any loss due to borrower default.

As of August 31, 2018 and 2017, the Fund had no credit risk exposure to borrowers because the amounts the Fund owed to borrowers exceeded the amounts the borrowers owed the Fund.

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, 2018 and 2017.

**Note 6 – Written Options**

The following table discloses the fair values of the Fund’s written call option contracts outstanding as of August 31, 2018 and 2017:

Type	Fair Value at August 31, 2018		Fair Value at August 31, 2017	
	Assets	Liabilities	Assets	Liabilities
	Currency	\$ -	\$ 83,177	\$ -
Equity	-	30,671	-	360,173
Interest Rate Swap	-	3,875	-	-
Commodity	-	249	-	12,200
	<u>\$ -</u>	<u>\$ 117,972</u>	<u>\$ -</u>	<u>\$ 514,948</u>

The fair values are included on the statements of fiduciary net position as options written, at fair value. The changes in fair value of open call options for the years ended August 31, 2018 and 2017 were an increase in the amount of \$60,133 and a decrease in the amount \$99,693, respectively, which are included in the net increase in fair value of investments on the statements of changes in fiduciary net position.

The following table discloses the fair values of the Fund’s written put option contracts as of August 31, 2018 and 2017:

Type	Fair Value at August 31, 2018		Fair Value at August 31, 2017	
	Assets	Liabilities	Assets	Liabilities
	Currency	\$ -	\$ 92,131	\$ -
Credit Default Swap	-	7,232	-	-
Interest Rate Swap	-	1,487	-	-
Equity	-	-	-	7,312
Commodity	-	-	-	1,955
Other	-	-	-	2
	<u>\$ -</u>	<u>\$ 100,850</u>	<u>\$ -</u>	<u>\$ 74,777</u>

# THE UNIVERSITY OF TEXAS SYSTEM

## INTERMEDIATE TERM FUND

Notes to Financial Statements (cont.)

The fair values are included on the statements of fiduciary net position as options written, at fair value. The change in fair value of open put options for the year ended August 31, 2018 and 2017 were increases in the amounts of \$45,913 and \$107,235, respectively, which are included in the net increase in fair value of investments on the statements of changes in fiduciary net position.

### Note 7 – Swaps

The following table discloses the notional amounts, and the fair values of the types of outstanding swap contracts as of August 31, 2018:

Type	Notional Value	Fair Value at August 31, 2018	
		Assets	Liabilities
Interest Rate	\$ 1,387,918,936	\$ 8,213,617	\$ 2,312,636
Equity	196,026,869	2,885,303	951,661
Credit Default	76,525,100	1,169,149	383,958
Currency	10,582,950	5,404,964	5,124,000
Volatility	6,600,000	-	85,638
Commodity	1,882,569	120,729	59,964
Total		\$ 17,793,762	\$ 8,917,857

The change in fair value of open swap positions for the year ended August 31, 2018 was an increase in the amount of \$8,642,966, which is included in the net increase in fair value of investments on the statements of changes in fiduciary net position.

The following table discloses the notional amounts and the fair values of the types of outstanding swap contracts as of August 31, 2017:

Type	Notional Value	Fair Value at August 31, 2017	
		Assets	Liabilities
Interest Rate	\$ 971,662,818	\$ 2,327,378	\$ 4,433,895
Currency	104,236,955	53,203,857	51,019,840
Credit Default	100,073,480	1,549,327	447,566
Equity	18,483,926	61,816	845,971
Commodity	1,072,315	19,580	52,630
Total		\$ 57,161,958	\$ 56,799,902

The change in fair value of open swap positions for the year ended August 31, 2017 was an increase in the amount of \$2,376,910, which is included in the net increase in fair value of investments on the statements of changes in fiduciary net position.

### Note 8 – Futures Contracts

The changes in fair value of open futures contracts for the years ended August 31, 2018 and 2017 were increases in the amounts of \$5,422,634 and \$1,361,723 respectively, which are included in the net increase in fair value of investments on the statements of changes in fiduciary net position. The Fund had \$3,156,219 and \$2,509,573 on deposit with brokers for collateral as margin for the futures contracts as of August 31, 2018 and 2017, respectively. Short futures may be used by the Fund to hedge the Fund's interest rate or currency risk associated with security positions.

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*Notes to Financial Statements (cont.)*

Futures contracts on commodities are traded on several different exchanges around the world. The daily cash settlements made by the investment manager for these open commodities contracts are made on a net basis to each respective exchange. The fair value, for August 31, 2018, shown in the table below for these open contracts do not include amounts previously settled with the exchanges. Net cash settlements for these open commodities contracts amounted to \$10,794,340 and \$676,258 as of August 31, 2018 and 2017, respectively.

During the years ended August 31, 2018 and 2017, certain of the Fund's external investment managers trading in commodity futures on the London Metals Exchange (LME) closed out various long contract positions with offsetting short contract positions. For contracts traded and closed on the LME, cash settlement does not occur until the expiration date of the contract. The gross notional value of these long and short positions are shown in the following tables with the associated pending cash settlement amounts shown as the fair value as of August 31, 2018 and 2017.

The following discloses the type, notional value, and fair values for futures contracts as of August 31, 2018:

<b>Contract</b>	<b>Notional Value at August 31, 2018</b>		<b>Fair Value at August 31, 2018</b>	
	<b>Long</b>	<b>Short</b>	<b>Assets</b>	<b>Liabilities</b>
Commodities	\$ 154,505,629	\$ 40,969,668	\$ 1,524,937	\$ 6,809,795
Domestic Fixed Income	545,464,682	431,885,750	190,075	139,056
Foreign Fixed Income	422,128,784	164,767,729	212,242	310,475
Domestic Equities	9,141,615	-	315	-
Foreign Equities	5,439,021	-	-	39,949
<b>Total</b>	<b>\$ 1,136,679,731</b>	<b>\$ 637,623,147</b>	<b>\$ 1,927,569</b>	<b>\$ 7,299,275</b>

The following discloses the type, notional value, and fair values for futures contracts as of August 31, 2017:

<b>Contract</b>	<b>Notional Value at August 31, 2017</b>		<b>Fair Value at August 31, 2017</b>	
	<b>Long</b>	<b>Short</b>	<b>Assets</b>	<b>Liabilities</b>
Commodities	\$ 31,009,694	\$ 3,054,273	\$ 587,905	\$ 165,563
Domestic Fixed Income	253,051,281	147,137,456	316,383	32,088
Foreign Fixed Income	281,707,483	6,076,645	21,213	42,385
<b>Total</b>	<b>\$ 565,768,458</b>	<b>\$ 156,268,374</b>	<b>\$ 925,501</b>	<b>\$ 240,036</b>

THE UNIVERSITY OF TEXAS SYSTEM

INTERMEDIATE TERM FUND

Notes to Financial Statements (cont.)

**Note 9 – Foreign Exchange Contracts**

The following tables summarize by currency the contractual amounts of the Fund’s foreign exchange contracts at August 31, 2018 and 2017. Foreign currency amounts are translated at exchange rates as of August 31, 2018 and 2017. The “Net Buy” amounts represent the U.S. dollar equivalent of net commitments to purchase foreign currencies, and the “Net Sell” amounts represent the U.S. dollar equivalent of net commitments to sell foreign currencies.

Currency	Net Buy August 31, 2018	Net Sell August 31, 2018	Unrealized Gains on Foreign Currency Exchange Contracts August 31, 2018	Unrealized Losses on Foreign Currency Exchange Contracts August 31, 2018
Argentina Peso	\$ 1,001,735	\$ -	\$ 428,862	\$ 653,977
Australian Dollar	-	91,034,226	1,099,037	265,970
Brazilian Real	-	21,918,363	2,270,371	386,939
Canadian Dollar	-	31,830,898	394,751	1,012,270
Chilean Peso	15,880,030	-	-	63,810
Chinese Yuan Renminbi	-	2,744,232	147,556	1,004,087
Colombian Peso	22,154,676	-	479,502	1,068,545
Czech Koruna	12,380	-	-	3,659
Danish Krone	-	39,682,144	135,923	127,536
Euro	-	477,605,771	2,392,482	1,381,669
Hong Kong Dollar	-	2,687,036	30,400	-
Hungarian Forint	-	22,221,384	-	20,207
Indian Rupee	-	2,434,429	373,044	310,164
Indonesian Rupiah	-	24,152,887	320,572	270,468
Israeli Shekel	111,076	-	16,405	14
Japanese Yen	-	234,490,289	4,058,348	1,154,774
Malaysian Ringgit	-	56,108	933	51,489
Mexican Peso	-	23,510,134	577,989	1,728,428
New Zealand Dollar	-	82,073,855	916,469	110,233
Norwegian Kroner	42,321,143	-	133,949	1,256,505
Peruvian Sol	-	6,026,704	47,752	175
Polish Zloty	-	27,760,855	169,733	524,474
Romanian Leu	-	5,732,412	1,453	32,385
Russian Ruble	5,274,142	-	-	320,937
Singapore Dollar	-	60,715,941	1,375,703	137,704
South African Rand	-	9,651,891	2,503,408	1,853,202
South Korean Won	-	32,484,343	13,809	315,294
Swedish Krona	83,989,975	-	255,759	5,540,723
Swiss Franc	-	24,292,890	84,299	7,991
Taiwan Dollar	-	16,067,394	306,201	44,278
Thai Baht	-	30,030,084	7,034	180,400
Turkish Lira	-	1,836,336	4,958,594	5,266,881
UK Pound	-	63,919,766	1,226,853	2,068,159
	\$ 170,745,157	\$ 1,334,960,372	\$ 24,727,191	\$ 27,163,347

The change in fair value of open foreign exchange contracts for the year ended August 31, 2018 was a decrease in the amount of \$2,063,297, which is included in the net increase in fair value of investments on the statements of changes in fiduciary net position.

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INTERMEDIATE TERM FUND

Notes to Financial Statements (cont.)

Currency	Net Buy August 31, 2017	Net Sell August 31, 2017	Unrealized Gains on Foreign Currency Exchange Contracts August 31, 2017	Unrealized Losses on Foreign Currency Exchange Contracts August 31, 2017
Australian Dollar	\$ -	\$ 63,713,093	\$ 594,771	\$ 1,749,297
Brazilian Real	-	32,130,366	27,332	534,676
Canadian Dollar	32,728,358	-	434,869	174,757
Chinese Yuan (Offshore)	-	126,757,307	-	5,679,964
Chinese Yuan Renminbi	69,458	-	119,373	180,267
Colombian Peso	18,000	-	49	-
Czech Koruna	446,109	-	19,196	-
Danish Krone	-	42,934,239	424,523	2,489,520
Euro	184,364,706	-	5,221,330	850,825
Hong Kong Dollar	-	2,457,708	26,083	38
Hungarian Forint	-	8,094,324	-	54,592
Indian Rupee	35,575,317	-	603,387	29,605
Indonesian Rupiah	2,439,005	-	14,008	-
Israeli Shekel	584,520	-	-	12,623
Japanese Yen	140,334,764	-	1,467,158	5,350,195
Malaysian Ringgit	3,032,577	-	-	31,306
Mexican Peso	-	1,183,964	45,104	182,565
New Zealand Dollar	-	54,923,473	2,679,472	540,399
Norwegian Kroner	64,421,408	-	3,807,226	84,011
Peruvian Sol	1,109,027	-	4,506	-
Philippine Peso	2,422	-	-	2
Polish Zloty	-	45,667,544	200,933	1,669,235
Russian Ruble	3,103,675	-	116,518	15,960
Singapore Dollar	-	63,835,714	124,978	833,888
South African Rand	-	37,235,734	100,623	976,131
South Korean Won	-	9,574,095	147,997	110,848
Swedish Krona	45,265,256	-	3,259,616	465,436
Swiss Franc	3,265,617	-	17,694	2
Taiwan Dollar	-	64,381,890	-	317,520
Thai Baht	-	8,484,197	23,905	12,800
Turkish Lira	24,297,471	-	781,714	-
UK Pound	83,555,401	-	441,030	1,448,305
	<u>\$ 624,613,091</u>	<u>\$ 561,373,648</u>	<u>\$ 20,703,395</u>	<u>\$ 23,794,767</u>

The change in fair value of open foreign exchange contracts for the year ended August 31, 2017 was a decrease in the amount of \$3,091,372, which is included in the net increase in fair value of investments on the statements of changes in fiduciary net position.

**Note 10 – Purchase Agreement**

UTIMCO, as investment manager of the funds under the control and management of the UT Board, has entered into a security purchase agreement with the UT Board. The agreement commits the funds under management, including the Fund, to purchase up to \$3,404,360,000 in UT System flexible rate notes in the event of a failed remarketing of such notes. The individual funds under management are not committed to a specific amount, rather all of the funds may be required to provide for the amount noted.

**Note 11 – Fees and Expenses**

The Fund incurs investment management fees from various external managers of the Fund. The fees, generally assessed quarterly, are based on a percentage of the market value of investments held by each individual investment manager and currently range from 0.10% to 1.50%. In addition to quarterly investment management fees, the Fund may pay performance-based management fees for investment performance in excess of certain defined benchmarks as provided for in the managers' contracts. The investment management fees presented in the statements of changes in fiduciary net position represent only those paid directly from the Fund, and do not include fees incurred and charged by general partners in private investments, fees charged by mutual fund managers, and fees charged by hedge fund managers as these types of fees are netted directly against returns for those investments in accordance with standard industry practice. The investment management fees assessed by external managers and paid directly by the Fund for the years ended August 31, 2018 and 2017, were \$26,263,301 and \$29,387,581, respectively.

UTIMCO assesses the Fund a management fee to cover the costs of managing the Fund and providing day to day operations. These fees are based on a budget prepared by management and approved by the UT Board. The fees for the years ended August 31, 2018 and 2017 were \$10,492,361 and \$5,479,755, respectively.

Custodial fees and expenses are assessed by the financial institution which holds the Fund's assets. Fees are based on the number of accounts, market value of the Fund, and transaction activity in accordance with the contractual agreement with the institution. Additional fees are assessed for performance measurement and on-line communication services per the contractual agreement. Fees incurred for the years ended August 31, 2018 and 2017, were \$2,395,882 and \$1,922,716, respectively.

The Fund incurs accounting fees for external and UT System internal audit services. For the years ended August 31, 2018 and 2017, fees amounted to \$172,590 and \$168,457, respectively.

Analytical and risk measurement fees are also incurred to maintain a sophisticated risk measurement system for the Fund. Fees incurred for the years ended August 31, 2018 and 2017, were \$69,009 and \$151,574, respectively.

Consulting fees, in the amounts of \$102,300 and \$95,430, respectively, for the years ended August 31, 2018 and 2017, were incurred for investment strategy and other investment planning services.

Foreign tax consulting and filing fees are incurred by the Fund for investment managers domiciled in certain foreign countries and for those that invest in securities issued in certain foreign countries. Fees in the amounts of \$20,675 and \$17,631, were incurred for the years ended August 31, 2018 and 2017, respectively.

Background check fees are incurred as part of the due diligence efforts undertaken as part of hiring of investment managers. Fees in the amounts of \$17,784 and \$15,824, were incurred for the years ended August 31, 2018 and 2017, respectively.

The Fund incurs legal fees associated with the review of investment manager agreements and with due diligence efforts undertaken as part of hiring new investment managers. For the years ended August 31, 2018 and 2017 the fees incurred totaled \$26,277 and \$3,680, respectively.

**THE UNIVERSITY OF TEXAS SYSTEM**

**INTERMEDIATE TERM FUND**

*Notes to Financial Statements (cont.)*

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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, 2018 and 2017, the fees amounted to \$66,450 and \$64,080, respectively.

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

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**Financial Highlights**

*Years Ended August 31,*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Selected Per Unit Data</b>					
Net Position, Beginning of Year	\$ 119.018	\$ 113.303	\$ 113.068	\$ 120.477	\$ 112.366
Income From Investment Operations					
Net Investment Income (A)	1.010	0.909	1.000	0.935	1.136
Net Realized and Unrealized Gain (Loss) on Investments	2.712	8.240	2.554	(4.797)	10.485
Total Income (Loss) from Investment Operations	3.722	9.149	3.554	(3.862)	11.621
Less Distributions					
From Net Investment Income	1.010	0.909	1.000	0.935	1.136
From Net Realized Gain	2.606	2.525	2.319	2.612	2.374
Total Distributions	3.616	3.434	3.319	3.547	3.510
Net Position, End of Year	<u>\$ 119.124</u>	<u>\$ 119.018</u>	<u>\$ 113.303</u>	<u>\$ 113.068</u>	<u>\$ 120.477</u>
<b>Ratios and Supplemental Data</b>					
Net Position, End of Year (in thousands)	\$ 9,935,105	\$ 9,075,084	\$ 7,836,120	\$ 7,036,516	\$ 6,664,853
Distribution Ratios to Average Net Position	3.02%	2.99%	3.00%	3.03%	3.01%

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