

Financial Statements
and Independent Auditors' Report
Permanent University Fund
Years Ended August 31, 2019 and 2018

Permanent University Fund

Financial Statements

Years Ended August 31, 2019 and 2018

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Deloitte & Touche LLP
500 West 2nd Street
Suite 1600
Austin, TX 78701
USA
Tel: +1 512 691 2300
Fax: +1 512 708 1035
www.deloitte.com

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 Permanent University Fund (the "PUF"), which comprise the statements of fiduciary net position, as of August 31, 2019 and 2018, 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 PUF's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the PUF's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Permanent University Fund as of August 31, 2019 and 2018, and the changes in its fiduciary net position thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the PUF are intended only to present the fiduciary net position of the PUF as of August 31, 2019 and 2018, 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, 2019 or 2018, or the changes in its consolidated net position for the years then ended.

Also, the financial statements of the PUF include the investment-related assets and liabilities and changes therein which are being managed by UTIMCO and do not include the 2.1 million acres of land discussed in Note 1.

Our opinion is not modified with respect to these matters.

Other Matters

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 6 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 PUF's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such schedule has been subjected to the auditing procedures applied in our audits of the financial statements and certain additional procedures, including comparing and reconciling such schedule directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such schedule is fairly stated in all material respects in relation to the financial statements as a whole.

Deloitte & Touche LLP

October 30, 2019

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

Our discussion and analysis of the Permanent University Fund's (PUF) financial performance provides an overview of its activities for the years ended August 31, 2019 and 2018. This discussion was prepared by The University of Texas/Texas A&M Investment Management Company (UTIMCO) and should be read in conjunction with the PUF's financial statements and notes. The PUF is a public endowment contributing to the support of 18 institutions and 6 agencies in The University of Texas System (UT System) and The Texas A&M University System (TAMU System). The Texas Constitution and various state statutes designate The University of Texas System Board of Regents (UT Board) as the fiduciary for the management of certain public endowment and operating funds. The UT Board has entered into an Investment Management Services Agreement delegating investment management responsibility for all investments to UTIMCO.

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

Financial Highlights

The PUF's net fiduciary position after distributions increased by \$953.0 million from \$21,877.1 million to \$22,830.1 million, or approximately 4.36% for the year ended August 31, 2019, compared to an increase of \$1,964.3 million or approximately 9.86% for the year ended August 31, 2018. The change in net fiduciary position from year to year is mainly attributable to the following:

1. The PUF posted a net investment return of 4.48%, calculated using the Modified Dietz Method as described by the CFA Institute, for the year ended August 31, 2019. Investments in gold, private equity, private real estate, and investment grade fixed income were the biggest contributors to the 2019 return. For the year ended August 31, 2018, the PUF posted a net investment return of 9.16%. Investments in private equity, private real estate, private infrastructure, and global and U.S. public equities were the biggest contributors to the 2018 returns.
2. Fiscal year 2019 contributions of PUF Lands mineral income decreased by 0.55% from \$1,031.8 million to \$1,026.1 million and represented 4.63% of the average value of the PUF investments during the year, compared to fiscal year 2018 contributions which increased by 49.82%, from \$688.7 million to \$1,031.8 million and represented 4.88% of the average value of the PUF investments during the year. PUF Lands expenses were \$21.5 million and \$25.7 million for the years ended August 31, 2019 and 2018, respectively. PUF Lands consist of more than 2.1 million acres in 19 counties primarily in West Texas.
3. The PUF's annual distribution to the Available University Fund (AUF) increased by 14.28% in fiscal year 2019, compared to an increase of 5.70% in fiscal year 2018.

PERMANENT UNIVERSITY FUND

Use of Financial Statements and Notes

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

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

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

Statements of Fiduciary Net Position

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

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

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Assets			
Investments, at Fair Value	\$ 23,026.7	\$ 22,008.4	\$ 19,884.3
Other Assets	531.3	395.9	547.0
Total Assets	<u>23,558.0</u>	<u>22,404.3</u>	<u>20,431.3</u>
Total Liabilities	<u>727.9</u>	<u>527.2</u>	<u>518.5</u>
Net Position Held in Trust	<u>\$ 22,830.1</u>	<u>\$ 21,877.1</u>	<u>\$ 19,912.8</u>

Statements of Changes in Fiduciary Net Position

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

The net increase in fair value of investments of the PUF was \$787.2 million during the year compared to a net increase in fair value of investments of \$1,664.1 million for the year ended August 31, 2018. Investment expenses totaled \$72.7 million, \$61.3 million, and \$54.9 million, respectively, for the years ended August 31, 2019, 2018, and 2017.

The PUF's objectives are to maximize investment returns within the risk parameters specified in its investment policy statement without regard to the distribution rate.

Distributions to the AUF increased by \$126.7 million, from \$887.3 million in fiscal year 2018 to \$1,014.0 million, in fiscal year 2019. The fiscal year 2018 distribution amount increased by \$47.9 million from the fiscal year 2017 distribution of \$839.4 million. PUF distributions are determined by the UT Board as provided in the Texas Constitution, which directs the UT Board to establish a distribution policy that provides stable, inflation-adjusted distributions to the AUF and preserves the real value of the PUF investments over the long term. Beginning with the distribution for the year ended August 31, 2019, the annual amount will be calculated based on the following formula:

1. Increase the prior year's distribution amount by the sum of the average inflation rate for the previous twelve-quarters plus 2.65%, unless further modified pursuant to 2 and 3 below.
2. If the inflationary increase in step 1 results in a distribution rate below 3.5% of the trailing twenty-quarter average of the net position of the PUF for the quarter ending February of each year, the distribution shall be increased to 3.5%.
3. If the inflationary increase in step 1 results in a distribution rate exceeding 6.0% of the trailing twenty-quarter average of the net position of the PUF for the quarter ending February of each year, the distribution increase shall be capped at 6.0%.

Prior years' distributions were based on a trailing twelve-quarter average net position of the PUF for the quarter ended February of each year.

For the year ended August 31, 2019, the distribution was 5.70% of the trailing twenty-quarter net position of the PUF as of February 28, 2018. For the year ended August 31, 2018 the distribution was 5.00% of the trailing twelve-quarter net position of the PUF as of February 28, 2017.

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Distributions to the AUF are made at the discretion of the UT Board subject to the following overriding conditions of the Texas Constitution:

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

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Investment Income	\$ 1,035.3	\$ 1,906.9	\$ 2,254.2
Less Investment Expenses	72.7	61.3	54.9
PUF Lands Contributions	<u>1,026.1</u>	<u>1,031.8</u>	<u>688.7</u>
Total Additions	<u>1,988.7</u>	<u>2,877.4</u>	<u>2,888.0</u>
Administrative Expenses			
PUF Lands Expenses	21.5	25.7	15.7
UT System Oversight Fee	0.2	0.1	0.2
Distributions to AUF	<u>1,014.0</u>	<u>887.3</u>	<u>839.4</u>
Total Deductions	<u>1,035.7</u>	<u>913.1</u>	<u>855.3</u>
Change in Fiduciary Net Position	953.0	1,964.3	2,032.7
Net Position Held in Trust, Beginning of Year	<u>21,877.1</u>	<u>19,912.8</u>	<u>17,880.1</u>
Net Position Held in Trust, End of Year	<u>\$22,830.1</u>	<u>\$21,877.1</u>	<u>\$19,912.8</u>

Contacting UTIMCO

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

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Statements of Fiduciary Net Position

August 31, 2019 and 2018

(in thousands)

Assets	2019	2018
Investments, at Fair Value:		
Equity Securities	\$ 2,731,490	\$ 2,532,913
Preferred Stock	55,452	50,624
Debt Securities	2,152,485	1,619,060
Investment Funds	16,718,957	15,954,294
Convertible Securities	-	1,017
Purchased Options	4,155	1,491
Physical Commodities	308,398	335,512
Cash and Cash Equivalents	1,055,744	1,513,509
Total Investments	<u>23,026,681</u>	<u>22,008,420</u>
Collateral for Securities Loaned, at Fair Value	186,855	177,374
Deposits with Brokers for Derivative Contracts	24,156	18,538
Unrealized Gains on Foreign Exchange Contracts	20,730	19,082
Futures Contracts, at Fair Value	127	4,050
Swaps, at Fair Value	20,122	15,053
Receivables:		
Investment Securities Sold	257,465	141,832
Accrued Income	21,462	19,526
Other	434	482
Total Receivables	<u>279,361</u>	<u>161,840</u>
Total Assets	<u>23,558,032</u>	<u>22,404,357</u>
Liabilities		
Payable Upon Return of Securities Loaned	186,855	177,374
Payable to Brokers for Collateral Held	30,663	13,436
Unrealized Losses on Foreign Exchange Contracts	15,970	14,800
Futures Contracts, at Fair Value	63	17,448
Swaps, at Fair Value	23,771	6,654
Options Written, at Fair Value	775	187
Payables:		
Investment Securities Purchased	449,638	286,668
Other	20,153	10,643
Total Payables	<u>469,791</u>	<u>297,311</u>
Total Liabilities	<u>727,888</u>	<u>527,210</u>
Net Position Held in Trust	<u>\$22,830,144</u>	<u>\$21,877,147</u>

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

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Statements of Changes in Fiduciary Net Position

Years Ended August 31, 2019 and 2018

(in thousands)

Additions	2019	2018
Investment Income:		
Net Increase in Fair Value of Investments	\$ 787,185	\$ 1,664,082
Interest	83,792	59,314
Dividends	65,655	63,974
Income Distributions from Private Investment Funds	97,429	117,066
Securities Lending Income	1,225	2,169
Other Income	-	304
Total Investment Income	1,035,286	1,906,909
Less Investment Expenses:		
Investment Management Fees	46,588	32,975
UTIMCO Management Fee	22,500	23,764
Custodial Fees and Expenses	2,361	3,480
Accounting Fees	328	320
Background Check Fees	282	201
Consulting Fees	249	250
Legal Fees	169	86
Analytical and Risk Measurement Fees	149	155
Foreign Tax Consulting and Filing Fees	67	28
Other Expenses	47	2
Total Investment Expenses	72,740	61,261
Net Investment Income	962,546	1,845,648
Contributions from PUF Lands	1,026,115	1,031,825
Total Additions	1,988,661	2,877,473
Deductions		
Administrative Expenses:		
PUF Lands Expenses	21,497	25,736
UT System Oversight Fee	167	159
Total Administrative Expenses	21,664	25,895
Distributions to Available University Fund	1,014,000	887,250
Total Deductions	1,035,664	913,145
Change in Fiduciary Net Position	952,997	1,964,328
Net Position Held in Trust, Beginning of Year	21,877,147	19,912,819
Net Position Held in Trust, End of Year	\$ 22,830,144	\$ 21,877,147

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

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Notes to Financial Statements

Note 1 – Organization and Basis of Presentation

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

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

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

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

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

The annual 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 PUF. The accompanying financial statements of the PUF may differ in presentation from the Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements.

(C) Management has evaluated subsequent events through October 30, 2019, 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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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.

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

Debt securities, including corporate obligations and government and provincial obligations, held directly by the PUF 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 the security is 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.

The fair value of private investment funds, which consist of non-regulated investment funds and various other investment vehicles, are estimated by management using the investment's capital account balance at the closest available reporting date, as communicated by the investment manager, adjusted for contributions and distributions subsequent to the latest available reporting date as well as consideration of any other information, which has been provided by the investment manager or other sources.

Hedge funds, public market investment funds and certain other private placements are fair valued by management based on net asset value information provided by the investment managers as well as other relevant factors as indicated above.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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

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

(E) *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 income and expenses during the reporting period. Actual results could differ materially from these estimates.

(F) *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 PUF from time to time uses various derivative instruments, as allowed under The University of Texas System Board of Regents (UT Board) approved derivative investment policy guidelines. Derivative instruments included under these policies include futures, forwards, swaps and 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 PUF are used to achieve the following objectives:

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

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Notes to Financial Statements (cont.)

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

Options Written -- When the PUF writes an option, an amount equal to the premium received by the PUF is recorded as a liability and is subsequently adjusted to the current fair value of the option written. Premiums received from writing options that expire unexercised are treated by the PUF on the expiration date as realized gains from investments and are included in the net increase in 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 PUF has realized a gain or loss. If a put option is exercised, the premium reduces the cost basis of the securities purchased by the PUF.

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

Swaps -- The PUF invests in certain types of swaps to increase or decrease its exposure to long-term interest rates, certain commodity or 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 instruments 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.

Futures Contracts -- The PUF enters into futures contracts to facilitate various trading strategies, primarily as a tool to increase or decrease market exposure to various asset classes. Upon entering into a futures contract, initial margin deposit requirements are satisfied by the segregation of specific securities as collateral for the account of the broker (the PUF's agent in acquiring the futures position). During the period the futures positions are open, the contracts are marked to market daily; that is, they are fair valued at the close of business each day, and a gain or loss is recorded between the fair value of the contracts that day and on the previous day. The daily gain or loss is referred to as the daily variation

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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 PUF executes such contracts either on major exchanges or with major international financial institutions and minimizes market and credit risk associated with these contracts through the managers' various trading and credit monitoring techniques.

Foreign Exchange Contracts -- The PUF 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 PUF agrees to receive or deliver a fixed quantity of foreign currency for an agreed-upon price on an agreed future date. These contracts are fair valued daily and the PUF's net equity therein, representing unrealized gain or loss on the contracts as measured by the difference between the forward foreign exchange rates at the dates of entry into the contracts and the forward rates at the reporting date, is included in the statements of fiduciary net position. Realized and unrealized gains and losses are included in the net increase in 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.

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

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

(I) *Reclassification* -- During the year ended August 31, 2019, management reclassified the categorizations of the investment funds to align with revisions made to the investment strategy used by management in managing PUF, effective September 1, 2018. This reclassification was approved by the UT Board and is reflected in the presentation of the investment funds in *Note 3 – Investments and Investment Derivatives*. Accordingly, the August 31, 2018 investment funds categorization was reclassified from the 2018 audited financial statements to conform to the current year presentation.

PERMANENT UNIVERSITY 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, 2019 and 2018, respectively, as categorized by level of the fair value hierarchy:

	Fair Value Measurements Using			
	Fair Value as of August 31, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level:				
Equity Securities:				
Domestic Common Stock	\$ 776,112,828	\$ 776,112,828	\$ -	\$ -
Foreign Common Stock	1,924,232,099	1,924,216,523	15,576	-
Other Equities	31,144,850	26,409,339	4,735,511	-
Total Equity Securities	2,731,489,777	2,726,738,690	4,751,087	-
Preferred Stock:				
Domestic Preferred Stock	434,880	-	434,880	-
Foreign Preferred Stock	55,017,263	55,017,263	-	-
Total Preferred Stock	55,452,143	55,017,263	434,880	-
Debt Securities:				
U.S. Government Obligations	742,413,869	398,057,316	344,356,553	-
Foreign Government and Provincial Obligations	801,136,831	-	801,136,831	-
Corporate Obligations	605,345,492	-	605,345,492	-
Other	3,589,474	-	3,589,474	-
Total Debt Securities	2,152,485,666	398,057,316	1,754,428,350	-
Purchased Options	4,154,714	1,183,679	2,971,035	-
Convertible Securities	-	-	-	-
Investment Funds:				
Private Investments	257,707,756	-	-	257,707,756
U.S. Equity	34,464,648	34,464,648	-	-
Fixed Income	22,712,457	22,712,457	-	-
Total Investment Funds	314,884,861	57,177,105	-	257,707,756
Physical Commodities - Gold	308,398,106	308,398,106	-	-
Cash Equivalents	973,983,967	973,983,967	-	-
Total Investments by Fair Value Level	6,540,849,234	\$ 4,520,556,126	\$ 1,762,585,352	\$ 257,707,756
Cash	81,759,982			
Investments Funds Fair Valued Using Practical Expedient:				
Hedge Funds	4,355,999,062			
Private Investments	8,434,282,779			
Public Markets	3,613,790,419			
Investments Funds Fair Valued Using Practical Expedient	16,404,072,260			
Total Investments, at Fair Value	\$ 23,026,681,476			

	Fair Value Measurements Using			
	Fair Value as of August 31, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment Derivatives				
Foreign Exchange Contracts	\$ 4,759,728	\$ -	\$ 4,759,728	\$ -
Futures Contracts	64,642	64,642	-	-
Swaps	(3,649,201)	-	(3,649,201)	-
Written Options	(775,498)	-	(775,498)	-
Investment Derivatives	\$ 399,671	\$ 64,642	\$ 335,029	\$ -

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

	Fair Value Measurements Using			
	Fair Value as of August 31, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level:				
Equity Securities:				
Domestic Common Stock	\$ 667,961,018	\$ 667,961,018	\$ -	\$ -
Foreign Common Stock	1,827,578,279	1,827,562,729	15,550	-
Other Equities	37,373,416	34,965,962	2,407,454	-
Total Equity Securities	2,532,912,713	2,530,489,709	2,423,004	-
Preferred Stock:				
Domestic Preferred Stock	400,000	-	400,000	-
Foreign Preferred Stock	50,224,464	50,224,464	-	-
Total Preferred Stock	50,624,464	50,224,464	400,000	-
Debt Securities:				
U.S. Government Obligations	490,065,031	416,593,342	73,471,689	-
Foreign Government and Provincial Obligations	679,592,459	-	679,592,459	-
Corporate Obligations	446,204,321	-	446,204,321	-
Other	3,198,768	-	3,198,768	-
Total Debt Securities	1,619,060,579	416,593,342	1,202,467,237	-
Purchased Options	1,490,853	1,429,150	61,703	-
Convertible Securities	1,016,640	-	1,016,640	-
Investment Funds:				
Private Investments	227,115,796	-	-	227,115,796
U.S. Equity	51,825,851	51,825,851	-	-
Fixed Income	20,408,333	20,408,333	-	-
Global Developed Public Equity	235,900	235,900	-	-
Total Investment Funds	299,585,880	72,470,084	-	227,115,796
Physical Commodities - Gold	335,511,951	335,511,951	-	-
Cash Equivalents	1,451,976,495	1,451,976,495	-	-
Total Investments by Fair Value Level	6,292,179,575	\$ 4,858,695,195	\$ 1,206,368,584	\$ 227,115,796
Cash	61,532,398			
Investments Funds Fair Valued Using Practical Expedient:				
Hedge Funds	3,939,178,658			
Private Investments	8,371,216,814			
Public Markets	3,344,312,618			
Investments Funds Fair Valued Using Practical Expedient	15,654,708,090			
Total Investments, at Fair Value	\$ 22,008,420,063			

	Fair Value Measurements Using			
	Fair Value as of August 31, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment Derivatives				
Foreign Exchange Contracts	\$ 4,282,708	\$ -	\$ 4,282,708	\$ -
Futures Contracts	(13,398,499)	(13,398,499)	-	-
Swaps	8,399,403	-	8,399,403	-
Written Options	(186,828)	-	(186,828)	-
Investment Derivatives	\$ (903,216)	\$ (13,398,499)	\$ 12,495,283	\$ -

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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment funds fair valued at net asset value per share or based on the PUF'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, 2019 and 2018 is summarized in the tables below as they are included within the asset mix of the PUF.

Investment Funds:	Fair Value as of August 31, 2019	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge Funds:				
Directional				
Redeemable Within One Year	\$ 1,134,316,396	\$ -	Monthly to Annually	45 - 90 Days
Redeemable Beyond One Year	1,253,130,635	-	Quarterly to Annually	45 - 120 Days
Nonredeemable	290,501,731	355,101,963	Not Applicable	Not Applicable
Total Directional	<u>2,677,948,762</u>	<u>355,101,963</u>		
Stable Value				
Redeemable Within One Year	943,416,260	-	Monthly to Annually	5 - 65 Days
Redeemable Beyond One Year	549,485,916	-	Quarterly to Annually	45 - 90 Days
Nonredeemable	185,148,124	82,317,300	Not Applicable	Not Applicable
Total Stable Value	<u>1,678,050,300</u>	<u>82,317,300</u>		
Total Hedge Funds	<u>4,355,999,062</u>	<u>437,419,263</u>		
Private Investments (Nonredeemable):				
Private Equity	1,577,296,542	1,325,819,022	Not Applicable	Not Applicable
Emerging Market Equity	1,069,720,880	228,500,117	Not Applicable	Not Applicable
Credit	371,498,621	546,739,642	Not Applicable	Not Applicable
Venture	1,647,557,385	619,758,445	Not Applicable	Not Applicable
Natural Resources	1,515,949,672	367,674,391	Not Applicable	Not Applicable
Infrastructure	484,773,934	362,024,449	Not Applicable	Not Applicable
Real Estate	1,767,485,745	1,349,645,746	Not Applicable	Not Applicable
Total Private Investments	<u>8,434,282,779</u>	<u>4,800,161,812</u>		
Public Markets:				
U.S. Equity				
Redeemable Within One Year	633,397,824	-	Daily to Annually	1 - 90 Days
Redeemable Beyond One Year	506,731,788	105,921,769	Annually	1 - 90 Days
Total U.S. Equity	<u>1,140,129,612</u>	<u>105,921,769</u>		
Non-U.S. Developed Equity				
Redeemable Within One Year	476,744,410	-	Monthly to Quarterly	6 - 30 Days
Global Developed Public Equity				
Redeemable Within One Year	1,076,787,229	-	Monthly to Quarterly	30 - 60 Days
Redeemable Beyond One Year	91,393,039	-	Monthly	60 Days
Total Global Developed Equity	<u>1,168,180,268</u>	<u>-</u>		
Emerging Market Equity				
Redeemable Within One Year	697,108,415	-	Daily to Semi-Annually	1 - 90 Days
Redeemable Beyond One Year	102,043,978	-	Monthly to Quarterly	45 - 60 Days
Nonredeemable	29,583,736	33,366,143	Not Applicable	Not Applicable
Total Emerging Markets Equity	<u>828,736,129</u>	<u>33,366,143</u>		
Total Public Markets	<u>3,613,790,419</u>	<u>139,287,912</u>		
Total Investment Funds	<u>\$ 16,404,072,260</u>	<u>\$ 5,376,868,987</u>		

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Funds:	Fair Value as of August 31, 2018	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge Funds:				
Directional				
Redeemable Within One Year	\$ 1,639,372,237	\$ -	Monthly to Annually	30 - 90 Days
Redeemable Beyond One Year	1,095,118,664	-	Quarterly to Annually	45 - 120 Days
Nonredeemable	311,649,080	297,730,431	Not Applicable	Not Applicable
Total Directional	<u>3,046,139,981</u>	<u>297,730,431</u>		
Stable Value				
Redeemable Within One Year	503,906,342	-	Monthly to Annually	5 - 75 Days
Redeemable Beyond One Year	302,180,425	-	Quarterly to Annually	45 - 75 Days
Nonredeemable	86,951,910	154,583,723	Not Applicable	Not Applicable
Total Stable Value	<u>893,038,677</u>	<u>154,583,723</u>		
Total Hedge Funds	<u>3,939,178,658</u>	<u>452,314,154</u>		
Private Investments (Nonredeemable):				
Private Equity	1,663,200,516	716,585,639	Not Applicable	Not Applicable
Emerging Market Equity	1,055,281,498	282,978,665	Not Applicable	Not Applicable
Credit	377,334,537	103,358,057	Not Applicable	Not Applicable
Venture	1,380,992,023	544,549,632	Not Applicable	Not Applicable
Natural Resources	1,866,019,698	482,681,115	Not Applicable	Not Applicable
Infrastructure	361,784,532	324,323,782	Not Applicable	Not Applicable
Real Estate	1,666,604,010	962,793,976	Not Applicable	Not Applicable
Total Private Investments	<u>8,371,216,814</u>	<u>3,417,270,866</u>		
Public Markets:				
U.S. Equity				
Redeemable Within One Year	1,136,252,643	-	Quarterly to Annually	1 - 90 Days
Redeemable Beyond One Year	206,154,459	17,621,500	Quarterly to Annually	1 - 90 Days
Total U.S. Equity	<u>1,342,407,102</u>	<u>17,621,500</u>		
Non-U.S. Developed Equity				
Redeemable Within One Year	436,140,383	-	Monthly to Quarterly	6 - 30 Days
Global Developed Equity				
Redeemable Within One Year	653,728,421	-	Monthly to Quarterly	45 - 60 Days
Redeemable Beyond One Year	56,321,948	-	Monthly	60 Days
Total Global Developed Equity	<u>710,050,369</u>	<u>-</u>		
Emerging Market Equity				
Redeemable Within One Year	725,367,711	-	Daily to Semi-Annually	1 - 90 Days
Redeemable Beyond One Year	94,644,543	-	Monthly to Quarterly	45 - 60 Days
Nonredeemable	35,702,510	79,390,556	Not Applicable	Not Applicable
Total Emerging Markets Equity	<u>855,714,764</u>	<u>79,390,556</u>		
Total Public Markets	<u>3,344,312,618</u>	<u>97,012,056</u>		
Total Investment Funds	<u>\$ 15,654,708,090</u>	<u>\$ 3,966,597,076</u>		

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

The PUF invests in hedge funds through unit interests in investment pools established in the name of the UT Board. Amounts presented in the PUF's financial statements and related note disclosures represent the PUF's pro-rata share of these investment pool assets. The hedge fund pools are invested in private 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 investment 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 \$1,092,693,121 of future funding to various hedge fund investments as of August 31, 2019 of which the PUF's pro-rata portion is \$437,419,263.

The PUF invests in private investments in investment pools created in the name of the UT Board. Amounts presented in the PUF's financial statements and related note disclosures for the years ended August 31, 2019 and 2018, represent the PUF's pro-rata share of these investment pool assets. The private investment pools are generally invested in limited partnerships with external investment managers or general partners who invest primarily in private equity securities. These investments are domestic and international, are illiquid, and typically become liquid over multi-year periods when and if the fund managers distribute proceeds realized from underlying fund investments. It is estimated that the underlying assets of the private investments will be liquidated over seven to ten years after initial investment. There are certain risks associated with these investments, some of which are liquidity risk, market risk, event risk, and investment manager risk. Certain of these investments are held through limited liability companies, of which UTIMCO is the manager of the limited liability companies. The private investment pools have committed \$7,523,764,596 of future funding to various private market investments as of August 31, 2019 of which the PUF's pro-rata portion is \$4,800,161,812.

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 PUF. 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 investment 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 funding in the amount of \$253,820,746, of which the PUF's pro-rata portion is \$139,287,912, have been committed to certain public market funds as of August 31, 2019.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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

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

Investments in hedge funds, private investments, and public market funds are also subject to the investment risks discussed in Note 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 PUF'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 PUF's investments in hedge funds, private investments, and public market funds are discussed in Note 3.

(A) Credit Risk

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

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The PUF's investment policy does not provide specific requirements or limitations with regards to investment ratings. Per GASB Statement No. 40 (GASB 40), *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3*, unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. GASB 40 also provides that securities with split ratings, or a different rating assignment between 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, 2019 and 2018:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type	August 31,		Rating
	2019	2018	
Investments:			
U.S. Government Guaranteed	\$ 401,319,770	\$ 420,405,735	AA
U.S. Government Non-Guaranteed:			
U.S. Agency	198,981,009	-	AA
U.S. Agency Asset Backed	140,894,011	68,541,557	AA
U.S. Agency Asset Backed	372,468	384,780	A
U.S. Agency Asset Backed	846,611	732,959	B
Total U.S. Government Non-Guaranteed	341,094,099	69,659,296	
Total U.S. Government	742,413,869	490,065,031	
Corporate Obligations:			
Domestic	25,814,208	17,056,684	AAA
Domestic	32,965,388	31,230,892	AA
Domestic	189,819,792	123,871,861	A
Domestic	171,682,503	120,796,689	BAA/BBB
Domestic	9,431,280	6,442,562	BA/BB
Domestic	641,764	1,614,449	B
Domestic	1,859,148	1,363,260	CAA/CCC
Domestic	314,571	340,216	CA/CC
Domestic	56,150	122,910	D
Domestic	1,404,224	1,144,046	Not Rated
Foreign	50,710,704	47,065,994	AAA
Foreign	14,439,065	13,602,419	AA
Foreign	40,639,395	31,739,115	A
Foreign	57,373,876	32,334,377	BAA/BBB
Foreign	4,409,962	3,439,217	BA/BB
Foreign	3,782,971	3,497,426	B
Foreign	-	205,628	CAA/CCC
Foreign	491	10,336,576	Not Rated
Total Corporate Obligations	605,345,492	446,204,321	
Foreign Government and Provincial Obligations	141,178,756	164,797,597	AAA
Foreign Government and Provincial Obligations	80,617,895	100,600,164	AA
Foreign Government and Provincial Obligations	152,619,909	184,197,960	A
Foreign Government and Provincial Obligations	215,438,530	165,294,397	BAA/BBB
Foreign Government and Provincial Obligations	65,439,823	49,203,005	BA/BB
Foreign Government and Provincial Obligations	-	489,709	B
Foreign Government and Provincial Obligations	145,841,918	15,009,627	Not Rated
Total Foreign Government and Provincial Obligations	801,136,831	679,592,459	
Other Debt Securities	352,969	310,842	AAA
Other Debt Securities	2,308,725	1,801,735	AA
Other Debt Securities	668,393	715,986	A
Other Debt Securities	259,387	370,205	BAA/BBB
Total Other Debt Securities	3,589,474	3,198,768	
Total Debt Securities	\$ 2,152,485,666	\$ 1,619,060,579	
Convertible Securities	\$ -	\$ 55,080	B
Convertible Securities	-	961,560	Not Rated
Total Convertible Securities	\$ -	\$ 1,016,640	
Other Investment Funds - Debt	\$ 22,712,457	\$ 20,408,333	BA/BB
Cash Equivalents - Money Market Funds	\$ 973,983,967	\$ 1,451,976,495	AAA
Cash	81,759,982	61,532,398	Not Rated
Total Cash and Cash Equivalents	\$ 1,055,743,949	\$ 1,513,508,893	
Net Deposit with Brokers for Derivative Contracts:			
U.S. Government Guaranteed	\$ 541,144	\$ 2,490,491	AA
Cash	(7,048,480)	2,610,642	Not Rated
Total Net (Payable to)/Deposit with Brokers for Derivative Contracts	\$ (6,507,336)	\$ 5,101,133	

(B) Concentrations of Credit Risk

The PUF's investment policy statement contains the limitation that no more than 5% of the market value of fixed income securities may be invested in corporate or municipal bonds of a single issuer. As of August 31, 2019 and 2018, the PUF does not hold any direct investments in any one issuer of corporate or municipal bonds that is 5% or more of the market value of the PUF's fixed income investments.

(C) Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the PUF will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the PUF will not be able to recover the fair value of its investment or collateral securities that are in the possession of another party. Texas State Statutes and the PUF's investment policy statements do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. As of August 31, 2019 and 2018, the PUF does not have any deposits or investments that are exposed to custodial credit risk.

(D) Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Interest rate risk inherent in the PUF is measured by monitoring the modified duration of the overall investment portfolio. Modified duration estimates the sensitivity of the PUF's investments to changes in interest rates. The PUF has no specific policy statement limitations with respect to its overall modified duration.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

The following table summarizes the PUF's modified duration in years by investment type at August 31, 2019 and 2018:

Investment Type	August 31,			
	2019		2018	
	Fair Value	Modified Duration	Fair Value	Modified Duration
Investments:				
U.S. Government Guaranteed:				
U.S. Treasury Bills	\$ 108,472,148	0.41	\$ -	-
U.S. Treasury Bonds and Notes	271,400,752	10.44	404,247,079	6.59
U.S. Treasury Inflation Protected	18,184,416	11.02	12,346,263	10.85
U.S. Agency Asset Backed	3,262,454	2.11	3,812,393	4.61
Total U.S. Government Guaranteed	<u>401,319,770</u>	7.68	<u>420,405,735</u>	6.70
U.S. Government Non-Guaranteed:				
U.S. Agency	198,981,009	2.88	-	-
U.S. Agency Asset Backed	142,113,090	2.25	69,659,296	6.12
Total U.S. Government Non-Guaranteed	<u>341,094,099</u>	2.62	<u>69,659,296</u>	6.12
Total U.S. Government	<u>742,413,869</u>	5.36	<u>490,065,031</u>	6.62
Corporate Obligations:				
Domestic	433,989,028	5.02	303,983,569	4.24
Foreign	171,356,464	6.14	142,220,752	4.62
Total Corporate Obligations	<u>605,345,492</u>	5.34	<u>446,204,321</u>	4.36
Foreign Government and Provincial Obligations	<u>801,136,831</u>	4.09	<u>679,592,459</u>	4.21
Other Debt Securities	<u>3,589,474</u>	7.66	<u>3,198,768</u>	5.76
Total Debt Securities	<u>2,152,485,666</u>	4.88	<u>1,619,060,579</u>	4.99
Convertible Securities	<u>-</u>	-	<u>1,016,640</u>	0.27
Other Investment Funds - Debt	<u>22,712,457</u>	7.50	<u>20,408,333</u>	6.70
Cash and Cash Equivalents	<u>1,055,743,949</u>	0.08	<u>1,513,508,893</u>	0.08
Total	<u>\$ 3,230,942,072</u>	3.33	<u>\$ 3,153,994,445</u>	2.64
Net Deposit with Brokers for Derivative Contracts:				
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	\$ 541,144	2.27	\$ 2,490,491	1.42
Cash	(7,048,480)	-	2,610,642	-
Total Net (Payable to)/Deposit with Brokers for Derivative Contracts	<u>\$ (6,507,336)</u>	-	<u>\$ 5,101,133</u>	0.69

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

The PUF may invest in various mortgage backed securities, such as collateralized mortgage backed obligations. The PUF also may invest in investments that have floating rates with periodic coupon changes in market rates, zero coupon bonds and stripped Treasury and Agency securities created from coupon securities. No percentage of holdings limitations are specified in the investment policy statements regarding these types of securities. As of August 31, 2019 and 2018, the PUF's investments include the following investments that are highly sensitive to interest rate changes:

Collateralized mortgage obligations which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. These securities amounted to \$35,328,478 and \$27,756,212 as of August 31, 2019 and 2018, 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 \$144,311,429 and \$71,987,283 as of August 31, 2019 and 2018, respectively.

Asset backed securities which are backed by home equity loans, auto loans, equipment loans and credit card receivables. Prepayments by the obligee 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 \$10,814,494 and \$10,320,958 as of August 31, 2019 and 2018, respectively.

(F) *Foreign Currency Risk*

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

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Notes to Financial Statements (cont.)

The following table summarizes the PUF's non-U.S. dollar investments at August 31, 2019 and 2018:

Investment Type	August 31,	
	2019	2018
Domestic Common Stock:		
Australian Dollar	\$ -	\$ 104,030
Foreign Common Stock:		
Australian Dollar	2,904,716	2,243,919
Brazilian Real	218,729,060	169,281,590
Canadian Dollar	4,948,095	11,458,369
Chilean Peso	1,745,330	979,519
Chinese Yuan Renminbi	337,769,181	253,465,124
Colombian Peso	218,997	132,007
Czech Koruna	340,255	5,047,759
Danish Krone	10,517,704	11,287,661
Egyptian Pound	7,514,034	12,592,310
Euro	140,663,285	177,716,122
Hong Kong Dollar	113,934,559	90,162,125
Hungarian Forint	2,151,934	1,054,682
Indian Rupee	47,267,706	62,002,440
Indonesian Rupiah	19,448,315	22,099,631
Japanese Yen	214,123,007	217,906,488
Malaysian Ringgit	12,989,873	17,936,501
Mexican Peso	61,174,322	72,718,279
Norwegian Krone	12,270,670	2,111,265
Peruvian Nuevo Sol	59,066	70,918
Philippine Peso	1,107,394	864,833
Polish Zloty	7,025,150	3,011,424
Qatari Riyal	2,214,680	5,302,223
Saudi Riyal	1,607,834	-
Singapore Dollar	8,484,289	14,948,576
South African Rand	22,375,964	24,535,366
South Korean Won	191,185,744	262,147,812
Sri Lankan Rupee	1,746,238	4,976,391
Swedish Krona	4,510,590	-
Swiss Franc	17,953,434	13,190,730
Taiwan Dollar	89,931,489	86,528,348
Thai Baht	14,366,686	23,163,041
Turkish Lira	24,917,190	10,405,069
UK Pound	82,143,120	67,896,072
United Arab Emirates Dirham	19,197,462	20,458,181
Vietnamese Dong	10,861,605	8,553,322
Total Foreign Common Stock	1,708,398,978	1,676,248,097
Other - Equity Securities:		
Australian Dollar	-	2,177
Chinese Yuan Renminbi	2,016,889	-
Malaysian Ringgit	9,799	20,902
Taiwan Dollar	5,334	-
Total Other - Equity Securities	2,032,022	23,079
Foreign Preferred Stocks:		
Brazilian Real	36,216,430	27,240,111
Colombian Peso	121,202	-
Euro	-	5,749,825
South African Rand	62,688	59,646
South Korean Won	18,616,942	17,174,882
Total Foreign Preferred Stock	55,017,262	50,224,464

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type	August 31, 2019	August 31, 2018
Foreign Government and Provincial Obligations:		
Australian Dollar	\$ 27,442,978	\$ 59,225,900
Brazilian Real	41,661,088	27,874,049
Canadian Dollar	49,177,846	38,156,630
Colombian Peso	31,966,918	14,549,366
Euro	158,046,583	123,592,421
Hungarian Forint	5,150,828	-
Indonesian Rupiah	22,599,577	17,192,697
Japanese Yen	168,410,790	76,030,758
Malaysian Ringgit	30,526,365	35,769,376
Mexican Peso	105,773,085	81,852,463
New Zealand Dollar	372,876	30,312,869
Norwegian Krone	9,125,704	9,371,893
Peruvian Sol	6,223,830	11,585,837
Polish Zloty	38,644,856	46,289,788
Romanian Leu	3,377,723	1,629,353
Russian Ruble	336,285	-
Singapore Dollar	30,024,301	30,396,152
South African Rand	22,990,786	19,906,832
South Korean Won	4,302,262	8,925,860
Thai Baht	-	5,472,144
Turkish Lira	-	1,048,867
UK Pound	10,568,820	14,022,021
Total Foreign Government and Provincial Obligations	766,723,501	653,205,276
Corporate Obligations:		
Australian Dollar	730,742	1,293,492
Canadian Dollar	204,712	228,309
Danish Krone	28,472,929	19,259,899
Euro	16,435,751	10,637,232
Indian Rupee	491	3,360,602
South African Rand	1,161,136	2,694,356
Swedish Krona	-	11,514,179
UK Pound	22,696,768	15,430,797
Total Corporate Obligations	69,702,529	64,418,866
Purchased Options:		
Australian Dollar	17	-
Brazilian Real	96,435	308,777
Euro	3,057,337	50,300
Japanese Yen	2,860	-
Swiss Franc	235,092	-
Total Purchased Options	3,391,741	359,077
Private Investments:		
Australian Dollar	88,109,235	82,401,631
Canadian Dollar	156,894,225	196,449,110
Euro	228,000,744	272,288,789
UK Pound	57,454,939	39,080,056
Total Private Investments	530,459,143	590,219,586
Investment Funds-Emerging Markets:		
Brazilian Real	11,438,858	16,516,059
Convertible Securities:		
Brazilian Real	-	960,746
Cash and Cash Equivalents:		
Australian Dollar	27,733	5,444
Brazilian Real	4,008,731	2,231,396
Canadian Dollar	181,991	2,765,581

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type	August 31, 2019	August 31, 2018
Cash and Cash Equivalents (continued):		
Chilean Peso	\$ 16,625	\$ 164
Chinese Yuan Renminbi	14,475,080	39,821,156
Colombian Peso	453,901	378,311
Czech Koruna	28,885	7
Danish Krone	(81,943)	748
Egyptian Pound	5,426	9,261
Euro	1,623,349	156,243
Hong Kong Dollar	1,423,265	246,394
Hungarian Forint	34,986	6,770
Indian Rupee	267,220	111,148
Indonesian Rupiah	82,439	111,594
Israeli Shekel	128	60
Japanese Yen	12,956,914	7,434,077
Malaysian Ringgit	64,094	297,388
Mexican Peso	594,290	1,357,825
New Zealand Dollar	684	102,337
Norwegian Krone	534,792	294
Peruvian Nuevo Sol	4,763	-
Philippine Peso	9,853	6,836
Polish Zloty	241,466	199,074
Qatari Riyal	154,838	-
Romanian Leu	75	-
Russian Ruble	7	-
Singapore Dollar	16,659	637,066
South African Rand	642,692	1,167,724
South Korean Won	4,146,729	5,113,673
Swedish Krona	26,330	13
Swiss Franc	11,122	358
Taiwan Dollar	808,094	621,300
Thai Baht	34,147	18,371
Turkish Lira	68,014	53,965
UK Pound	(476,227)	378,100
United Arab Emirates Dirham	22,735	(1,943)
Total Cash and Cash Equivalents	42,409,887	63,230,735
Written Options:		
Australian Dollar	(23,466)	(3,362)
Brazilian Real	(306,206)	(81)
Euro	-	(14,508)
Japanese Yen	(2,257)	-
UK Pound	-	(41,123)
Total Written Options	(331,929)	(59,074)
Swaps:		
Australian Dollar	4,112,521	-
Canadian Dollar	690,274	138,957
Chinese Yuan Renminbi	158,366	-
Czech Koruna	20,672	-
Euro	10,138,719	1,420,149
Israeli Shekel	230,364	-
Japanese Yen	235,775	(106,685)
Mexican Peso	9,820	1,178
New Zealand Dollar	2,188	90,067
Polish Zloty	29,388	-
South African Rand	22,438	(78,691)

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type	August 31, 2019	August 31, 2018
Swaps (continued):		
South Korean Won	\$ 232,952	\$ 8,586
Swedish Krona	62,989	-
UK Pound	(1,298,030)	3,062,070
Total Swaps	<u>14,648,436</u>	<u>4,535,631</u>
Futures:		
Canadian Dollar	-	(11,981)
Euro	(36,014)	(70,920)
Total Futures	<u>(36,014)</u>	<u>(82,901)</u>
Total	<u>\$ 3,203,854,414</u>	<u>\$ 3,119,903,671</u>

(G) Counterparty (Credit) Risk

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

The PUF had gross counterparty exposure as of August 31, 2019 for options, swaps, and foreign exchange contracts shown in the following table:

	Notional		Fair Value		Counterparty Rating
	Assets	Liabilities	Assets	Liabilities	
Options	\$ 48,360,941	\$ -	\$ 2,671,838	\$ -	AA
Options	10,684,903	14,564,875	87,871	75,608	A
Swaps	34,416,893	7,321,305	3,584,353	2,246,773	AA
Swaps	188,715,525	400,626,794	12,511,479	15,584,321	A
Foreign Exchange Contracts	334,724,230	134,443,826	7,381,676	1,676,915	AA
Foreign Exchange Contracts	897,563,446	837,263,652	13,347,956	14,292,989	A
			<u>\$ 39,585,173</u>	<u>\$ 33,876,606</u>	

The PUF had gross counterparty exposure as of August 31, 2018 for options, swaps, and foreign exchange contracts shown in the following table:

	Notional		Fair Value		Counterparty Rating
	Assets	Liabilities	Assets	Liabilities	
Options	\$ -	\$ 2,500,000	\$ -	\$ 22,782	AA
Options	4,626,820	28,832,650	329,342	76,489	A
Swaps	3,078,123	2,986,990	764,042	312,364	AA
Swaps	397,501,113	161,545,390	12,687,359	6,143,516	A
Foreign Exchange Contracts	359,232,139	854,096,444	8,211,870	9,372,552	AA
Foreign Exchange Contracts	500,464,384	629,699,914	10,846,851	5,368,731	A
Foreign Exchange Contracts	854,568	889,042	23,642	58,372	BBB
			<u>\$ 32,863,106</u>	<u>\$ 21,354,806</u>	

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

As of August 31, 2019 and 2018, the PUF 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 PUF to minimal counterparty credit risk since they are exchange traded and the exchange's clearinghouse, as counterparty to all exchange traded futures, guarantees them against default. Therefore, they are not presented in the table above.

Counterparty risk for swaps, options and foreign exchange contracts which are traded over-the-counter is mitigated by having master netting arrangements between the PUF and its counterparties, and by the posting of collateral on a daily basis by the counterparty to the PUF to cover the PUF's exposure to a counterparty above the limits set in place in each master netting agreement. Collateral posted by counterparties is held by the PUF in one of its accounts at the PUF's custodian bank. As of August 31, 2019 and 2018, the PUF held \$30,663,499 and \$13,436,701 respectively, of collateral related to derivative instruments other than futures, and had on deposit with brokers \$22,757,163 and \$15,214,448, respectively, as collateral related to derivative instruments other than futures.

Note 5 – Securities Lending

In accordance with the prudent investor investment standards, the PUF loans securities to certain brokers who pay the PUF negotiated lenders' fees. These fees are included in investment income in the statements of changes in fiduciary net position. The PUF receives qualified securities and/or cash as collateral against the loaned securities. The collateral, when received, will have a 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, 2019 and 2018:

Securities on Loan	2019 Fair Value	2018 Fair Value	Type of Collateral	2019 Fair Value of Collateral	2018 Fair Value of Collateral
U.S. Government	\$ 51,748,652	\$ 19,542,658	Cash	\$ 53,092,228	\$ 19,956,198
Corporate Bonds	45,946,893	43,874,752	Cash	47,093,547	44,966,771
Common Stock	82,483,148	108,277,251	Cash	86,668,972	112,451,076
Total	\$ 180,178,693	\$ 171,694,661	Total	\$ 186,854,747	\$ 177,374,045
U.S. Government	\$ 48,689,831	\$ 28,230,311	Non-Cash	\$ 49,690,957	\$ 28,827,432
Common Stock	111,372,620	79,403,412	Non-Cash	115,016,698	82,861,664
Total	\$ 160,062,451	\$ 107,633,723	Total	\$ 164,707,655	\$ 111,689,096

Cash received as collateral for securities lending activities is invested and reinvested in a commingled pool managed exclusively for the benefit of the PUF, The University of Texas System General Endowment Fund (GEF), The University of Texas System Intermediate Term Fund (ITF) and other UT Board accounts that participate in securities lending activities by the securities lending agent. The pool is managed in accordance with investment guidelines established in the securities lending contract between the PUF and its securities lending agent. The maturities of the investments in the pool do not necessarily match the term of the loans, rather the pool is managed to maintain a maximum dollar-weighted average maturity of 60 days and an overnight liquidity of 20%. Lending income is earned if

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

the returns on those investments exceed the rebate paid to borrowers of the securities for interest on the cash collateral received. The income remaining after the borrower rebates is then shared by the PUF and the securities lending agent on a contractually negotiated split. If the investment of the cash collateral does not provide a return exceeding the rebate or if the investment incurs a loss of principal, the payment of the shortfall to the borrower is made from the PUF and the securities lending agent in the same proportion as income is shared.

The PUF's pro-rata share of collateral pool investments, rating by NRSRO, and weighted average maturity at August 31, 2019 and 2018 is shown in the following table:

Description	2019			2018		
	Fair Value	Rating	Weighted Average Maturity In Days	Fair Value	Rating	Weighted Average Maturity In Days
Repurchase Agreements	\$ 116,753,304	No Rating Available	3	\$ 61,700,505	No Rating Available	4
Agencies	-	AA	-	3,063,882	AA	7
Commercial Paper	5,075,909	P	58	56,155,650	P	24
Floating Rate Notes	37,131,899	AA		30,870,905	AA	
Floating Rate Notes	27,933,761	A		30,942,129	A	
Total Floating Rate Notes	65,065,660		40	61,813,034		27
Other Receivables/Payables	(40,126)	Not Rated	-	(5,359,026)	Not Rated	-
Total Collateral Pool Investment	\$ 186,854,747		17	\$ 177,374,045		19

The following tables reflect fair value measurements of collateral pool investments as of August 31, 2019 and 2018, respectively, as categorized by level of the fair value hierarchy:

	Fair Value as of August 31, 2019	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	\$ 116,753,304	\$ -	\$ 116,753,304	\$ -
Commercial Paper	5,075,909	-	5,075,909	-
Floating Rate Notes	65,065,660	-	65,065,660	-
Total by Fair Value Level	186,894,873	\$ -	\$ 186,894,873	\$ -
Other Receivables/Payables	(40,126)			
Total Collateral Pool Investments	\$ 186,854,747			

	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	\$ 61,700,505	\$ -	\$ 61,700,505	\$ -
Agencies	3,063,882	-	3,063,882	-
Commercial Paper	56,155,650	-	56,155,650	-
Floating Rate Notes	61,813,034	-	61,813,034	-
Total by Fair Value Level	182,733,071	\$ -	\$ 182,733,071	\$ -
Other Receivables/Payables	(5,359,026)			
Total Collateral Pool Investments	\$ 177,374,045			

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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

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

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

As of August 31, 2019 and 2018, the PUF had no credit risk exposure to borrowers because the amounts the PUF owed to borrowers exceeded the amounts the borrowers owed the PUF.

There were no significant violations of legal or contractual provisions, no borrower or securities lending agent default losses, and no recoveries of prior period losses during the years ended August 31, 2019 and 2018.

Note 6 – Written Options

The following table discloses the fair values of the PUF's written call option contracts outstanding as of August 31, 2019 and 2018:

Type	Fair Value at August 31, 2019		Fair Value at August 31, 2018	
	Assets	Liabilities	Assets	Liabilities
Equity	\$ -	\$ 278,185	\$ -	\$ 86,936
Currency	-	38,188	-	44,024
Commodity	-	-	-	623
Interest Rate Swap	-	-	-	1,996
Other	-	113,380	-	-
	<u>\$ -</u>	<u>\$ 429,753</u>	<u>\$ -</u>	<u>\$ 133,579</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 was a decrease in the amount of \$221,573 for the year ended August 31, 2019 and an increase in the amount of \$141,785 for the year ended August 31, 2018, 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 PUF's written put option contracts as of August 31, 2019 and 2018:

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Notes to Financial Statements (cont.)

Type	Fair Value at August 31, 2019		Fair Value at August 31, 2018	
	Assets	Liabilities	Assets	Liabilities
	Currency	\$ -	\$ 37,360	\$ -
Equity	-	58,392	-	-
Interest Rate Swap	-	250,935	-	766
Credit Default Swap	-	60	-	3,881
Other	3,017	2,015	-	-
	<u>\$ 3,017</u>	<u>\$ 348,762</u>	<u>\$ -</u>	<u>\$ 53,249</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 put options for the years ended August 31, 2019 and 2018 were increases in the amounts of \$175,091 and \$23,001, 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, 2019:

Type	Notional Value	Fair Value at August 31, 2019	
		Assets	Liabilities
Interest Rate	\$ 1,224,715,070	\$ 6,864,095	\$ 5,292,647
Equity	540,579,493	2,962,596	7,812,807
Fixed Income	5,400,000	-	492,989
Credit Default	90,245,250	1,542,844	998,904
Currency	17,640,650	8,752,549	8,905,525
Volatility	2,900,000	-	268,413
Total		<u>\$ 20,122,084</u>	<u>\$ 23,771,285</u>

The change in fair value of open swap positions for the year ended August 31, 2019 was a decrease in the amount of \$4,934,132, 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 amount 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	\$ 755,484,069	\$ 4,423,503	\$ 1,177,323
Equity	506,600,834	7,302,471	2,521,142
Credit Default	35,312,550	450,984	327,756
Currency	5,039,500	2,573,793	2,440,000
Commodity	4,715,596	302,411	150,203
Volatility	3,500,000	-	37,335
Total		<u>\$ 15,053,162</u>	<u>\$ 6,653,759</u>

The change in fair value of open swap positions for the year ended August 31, 2018 was an increase in the amount of \$9,178,967, which is included in the net increase in fair value of investments on the statements of changes in fiduciary net position.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Note 8 – Futures Contracts

The changes in fair value of open futures contracts for the years ended August 31, 2019 and 2018 were increases in the amounts of \$1,477,668 and \$12,935,188, respectively, which are included in the net increase in fair value of investments on the statements of changes in fiduciary net position. The PUF had \$1,399,000 and \$3,323,386 on deposit with brokers for collateral as margin for the futures contracts as of August 31, 2019 and 2018, respectively. Short futures may be used by the PUF to hedge the PUF's interest rate or currency risk associated with security positions.

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, 2019 and 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 \$1,413,026 and \$26,333,687 as of August 31, 2019 and 2018, respectively.

During the years ended August 31, 2019 and 2018, certain of the PUF'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 below with the associated pending cash settlement amounts shown as the fair value as of August 31, 2018. As of August 31, 2019, there were no open long or short positions or associated pending cash settlement amounts.

The following discloses the type, notional value, and fair values for futures contracts as of August 31, 2019:

Contract	Notional Value at August 31, 2019		Fair Value at August 31, 2019	
	Long	Short	Assets	Liabilities
Domestic Fixed Income	\$ 257,048,492	\$ -	\$ 100,656	\$ -
Foreign Fixed Income	288,840,198	66,893,117	26,730	62,744
Total	\$ 545,888,690	\$ 66,893,117	\$ 127,386	\$ 62,744

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

Contract	Notional Value at August 31, 2018		Fair Value at August 31, 2018	
	Long	Short	Assets	Liabilities
Commodities	\$ 433,266,785	\$ 102,623,881	\$ 3,819,775	\$ 17,057,681
Domestic Fixed Income	291,178,049	234,867,900	95,958	174,490
Foreign Fixed Income	246,116,094	95,395,237	133,091	106,721
Domestic Equities	24,377,640	-	840	-
Foreign Equities	14,847,964	-	-	109,271
Total	\$ 1,009,786,532	\$ 432,887,018	\$ 4,049,664	\$ 17,448,163

Note 9 – Foreign Exchange Contracts

The tables below summarize by currency the contractual amounts of the PUF's foreign exchange contracts at August 31, 2019 and 2018. Foreign currency amounts are translated at exchange rates as of August 31, 2019 and 2018. The "Net Buy" amounts represent the U.S. dollar equivalent of net commitments to purchase foreign currencies, and the "Net Sell" amounts represent the U.S. dollar equivalent of net commitments to sell foreign currencies.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Currency	Net Buy August 31, 2019	Net Sell August 31, 2019	Unrealized Gains on Foreign Currency Exchange Contracts August 31, 2019	Unrealized Losses on Foreign Currency Exchange Contracts August 31, 2019
Argentina Peso	\$ -	\$ -	\$ 12,729	\$ 94,061
Australian Dollar	-	14,171,441	261,201	293,004
Brazilian Real	-	22,931,764	1,829,967	681,695
Canadian Dollar	-	46,746,938	389,213	324,573
Chilean Peso	15,383,307	-	4,670	620,361
Chinese Yuan Renminbi	-	3,798,629	213,593	240,607
Colombian Peso	-	5,667,246	832,890	148,385
Czech Koruna	4,722,746	-	-	251,944
Danish Krone	-	38,102,901	634,559	35,989
Euro	-	315,957,844	6,270,656	850,178
Hong Kong Dollar	-	6,313,023	59,214	27,055
Hungarian Forint	-	18,469,935	692,268	122,046
Indian Rupee	-	26,544	312,312	132,830
Indonesian Rupiah	-	9,590,735	140,265	77,208
Israeli Shekel	-	211,152	3,277	-
Japanese Yen	-	284,755,619	75,427	6,064,111
Malaysian Ringgit	-	1,398,803	14,725	1
Mexican Peso	-	55,973,341	2,155,890	212,922
New Zealand Dollar	-	11,344,687	791,393	383,954
Norwegian Kroner	9,810,274	-	829,394	1,247,538
Peruvian Sol	-	20,190,139	254,652	18,018
Polish Zloty	-	12,841,583	791,189	353,483
Qatari Riyal	-	154,838	-	590
Romanian Leu	-	3,345,493	158,925	43,739
Russian Ruble	4,945,891	-	-	85,456
Singapore Dollar	-	35,026,685	369,115	95,864
South African Rand	-	24,943,830	420,645	248,255
South Korean Won	17,270,612	-	198,956	625,360
Swedish Krona	27,150,049	-	341,404	1,491,789
Swiss Franc	-	23,663,243	286,377	335,660
Taiwan Dollar	-	6,332,443	7,309	56,313
Thai Baht	-	24,831,773	-	236,719
UK Pound	-	48,340,943	2,377,417	570,196
	\$ 79,282,879	\$ 1,035,131,572	\$ 20,729,632	\$ 15,969,904

The change in fair value of open foreign exchange contracts for the year ended August 31, 2019 was an increase in the amount of \$4,759,896, which is included in the net increase in fair value of investments on the statements of changes in fiduciary net position.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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	\$ 536,245	\$ -	\$ 231,881	\$ 352,288
Australian Dollar	-	47,553,119	588,273	147,833
Brazilian Real	-	16,456,980	1,569,601	182,450
Canadian Dollar	-	15,558,243	186,788	507,214
Chilean Peso	8,495,276	-	-	34,146
Chinese Yuan Renminbi	-	1,469,056	77,090	511,911
Colombian Peso	11,853,309	-	256,502	571,715
Czech Koruna	6,454	-	-	1,962
Danish Krone	-	21,142,365	75,002	93,353
Euro	-	300,323,668	1,416,342	826,843
Hong Kong Dollar	-	9,120,758	103,187	-
Hungarian Forint	-	11,866,867	-	10,650
Indian Rupee	-	1,316,467	188,381	154,439
Indonesian Rupiah	-	12,920,160	173,012	148,686
Israeli Shekel	5,921	-	8,175	8
Japanese Yen	-	219,163,418	6,948,129	722,711
Malaysian Ringgit	-	258,706	-	27,236
Mexican Peso	-	12,569,435	307,432	933,001
New Zealand Dollar	-	43,923,425	491,202	58,975
Norwegian Kroner	22,634,525	-	71,661	672,180
Peruvian Sol	-	3,235,614	25,547	-
Polish Zloty	-	14,917,438	89,769	280,588
Romanian Leu	-	3,068,530	779	17,393
Russian Ruble	2,823,830	-	-	171,966
Singapore Dollar	-	42,898,019	782,406	73,945
South African Rand	-	5,070,896	1,339,620	992,669
South Korean Won	-	18,034,029	8,731	170,683
Swedish Krona	44,685,984	-	138,949	2,964,173
Swiss Franc	-	13,000,924	45,724	4,275
Taiwan Dollar	-	8,598,480	163,991	23,702
Thai Baht	-	16,082,312	2,866	91,600
Turkish Lira	-	982,404	2,652,497	2,824,734
UK Pound	-	56,062,016	1,138,826	1,226,326
	\$ 91,041,544	\$ 895,593,329	\$ 19,082,363	\$ 14,799,655

The change in fair value of open foreign exchange contracts for the year ended August 31, 2018 was an increase in the amount of \$4,469,137 which is included in the net increase in fair value of investments on the statements of changes in fiduciary net position.

Note 10 – Purchase Agreements

UTIMCO, as investment manager of the funds under the control and management of the UT Board, entered into a security purchase agreement with the UT Board. The agreement commits the funds under management, including the PUF, to purchase up to \$3,876,205,000 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 the funds may be required to provide for the amount noted.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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

Note 11 – Distributions to the Available University Fund

The Texas Constitution allows for (a) distributions to the AUF from the “total return” on PUF investments, including income return as well as capital gains (realized and unrealized) and (b) the payment of PUF expenses from PUF assets. The Texas Constitution directs the UT Board to establish a distribution policy that provides stable, inflation-adjusted annual distributions to the AUF and preserves the real value of the PUF investments over the long term. Accordingly, distributions to the AUF in any given fiscal year are subject to the following: (1) A minimum amount equal to the amount needed to pay debt service on PUF bonds; (2) No increase from the preceding year (except as necessary to pay debt service on PUF bonds) unless the purchasing power of PUF investments for any rolling 10-year period has been preserved; (3) A maximum amount equal to seven percent of the average net fair market value of PUF’s net position in any fiscal year, except as necessary to pay debt service on PUF bonds. Distributions from the PUF to the AUF for the years ended August 31, 2019 and 2018, were \$1,014,000,000 and \$887,250,000, respectively. The UT Board has approved an amount of \$1,311,390,000 for the PUF distribution to the AUF for the year ended August 31, 2020. The first payment was made on September 3, 2019 in the amount of \$250,000,000.

Note 12 – Fees and Expenses

The PUF incurs investment management fees from various external managers of the PUF. The fees, generally assessed quarterly, are based on a percentage of the market value of investments held by each individual investment manager and currently range from 0.10% to 1.50%. In addition to quarterly investment management fees, the PUF may pay performance-based management fees for investment performance in excess of certain defined benchmarks as provided for in the managers’ contracts. The investment management fees presented in the statements of changes in fiduciary net position represent only those paid directly from the PUF, and do not include fees incurred and charged by general partners in private investments, by mutual fund managers, and by hedge fund managers as these types of fees are netted directly against returns for those investments in accordance with standard industry practice. The investment management fees assessed by external managers and paid directly by the PUF for the years ended August 31, 2019 and 2018, were \$46,587,547 and \$32,975,173 respectively.

UTIMCO assesses the PUF a management fee to cover the costs of managing the PUF investments and providing day-to-day operations. These fees are based on a budget prepared by management and approved by the UT Board. The fees assessed for the years ended August 31, 2019 and 2018, were \$22,500,436 and \$23,764,375, respectively.

Custodial fees and expenses are assessed by the financial institution which holds the PUF’s assets. Fees are based on the number of accounts, market value of the PUF, and transaction activity in accordance with the contractual agreement with the institution. Additional fees are assessed for performance measurement, risk measurement and on-line communication services per the contractual agreement. The fees assessed for the years ended August 31, 2019 and 2018, were \$2,361,439 and \$3,480,267, respectively.

Accounting fees, in the amounts of \$328,444 and \$319,644, were incurred by the PUF during the years ended August 31, 2019 and 2018, respectively, for external and UT System internal audit services.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Consulting fees, in the amounts of \$248,642 and \$249,850, respectively, for the years ended August 31, 2019 and 2018 were incurred for investment strategy and other investment consulting services.

Background check fees are incurred as part of the due diligence efforts undertaken as part of the hiring of investment managers. Fees in the amounts of \$282,065 and \$200,534 were incurred for the years ended August 31, 2019 and 2018, respectively.

Analytical and risk measurement fees, in the amounts of \$149,134 and \$155,125, were also incurred during the years ended August 31, 2019 and 2018, respectively, to maintain a sophisticated risk measurement system for the PUF.

The PUF incurs legal fees associated with the review of new investment manager agreements and with due diligence efforts undertaken as part of the hiring of new investment managers. For the years ended August 31, 2019 and 2018, fees incurred were \$169,428 and \$85,870, respectively.

Foreign tax consulting and filing fees are incurred by the PUF for investment managers domiciled in certain foreign countries and for those that invest in securities issued in certain foreign countries. Fees in the amounts of \$66,634 and \$28,313 were incurred for the years ended August 31, 2019 and 2018, respectively.

The PUF is assessed a fee by UT System to cover expenses related to the management of the PUF Lands. The fees assessed for the years ended August 31, 2019 and 2018, were \$21,496,814 and \$25,736,078, respectively. Fees are also assessed to cover costs associated with UT System personnel in their efforts to provide assistance to the UT Board and the Chancellor of the UT System in their oversight responsibilities of UTIMCO. Fees in the amounts of \$166,758 and \$159,090 were charged to the PUF for the years ended August 31, 2019 and 2018, respectively.

PERMANENT UNIVERSITY FUND

Supplemental Schedule

Schedule of Changes in Cost of Investments and Investment Income

Year Ended August 31, 2019

(in thousands)

	Beginning Cost	Purchases	Sales, Maturities & Redemptions	Gains (Losses)	Reclass	Effects of Pooled Account Rebalancing Activity ***	Ending Cost	Investment Income
Equity Securities								
Domestic Common Stock	\$ 574,140	\$ 1,089,806	\$ (938,186)	\$ 60,357	\$ -	\$ (115,184)	\$ 670,933	\$ 6,906
Foreign Common Stock	1,624,772	1,589,117	(1,416,320)	33,455	(8)	(46,558)	1,784,458	46,325
Other	35,134	50,780	(59,941)	2,672	-	(1,212)	27,433	468
Total Equity Securities	<u>2,234,046</u>	<u>2,729,703</u>	<u>(2,414,447)</u>	<u>96,484</u>	<u>(8)</u>	<u>(162,954)</u>	<u>2,482,824</u>	<u>53,699</u>
Preferred Stock								
Domestic Preferred Stock	400	-	-	-	-	-	400	24
Foreign Preferred Stock	50,241	67,068	(64,995)	1,950	8	(2,085)	52,187	1,605
Total Preferred Stock	<u>50,641</u>	<u>67,068</u>	<u>(64,995)</u>	<u>1,950</u>	<u>8</u>	<u>(2,085)</u>	<u>52,587</u>	<u>1,629</u>
Debt Securities								
U. S. Government Obligations	490,048	5,081,626	(4,944,373)	26,241	-	69,328	722,870	13,678
Foreign Government and Provincial Obligations	729,341	769,194	(755,375)	(14,743)	-	108,130	836,547	30,964
Corporate Obligations	454,911	336,751	(254,027)	(4,492)	(650)	51,959	584,452	20,037
Other	3,195	-	(458)	4	650	58	3,449	164
Total Debt Securities	<u>1,677,495</u>	<u>6,187,571</u>	<u>(5,954,233)</u>	<u>7,010</u>	<u>-</u>	<u>229,475</u>	<u>2,147,318</u>	<u>64,843</u>
Purchased Options	<u>1,302</u>	<u>13,271</u>	<u>(6,316)</u>	<u>(1,609)</u>	<u>-</u>	<u>(462)</u>	<u>6,186</u>	<u>-</u>
Convertible Securities	<u>514</u>	<u>274</u>	<u>(59)</u>	<u>(696)</u>	<u>-</u>	<u>(33)</u>	<u>-</u>	<u>11</u>
Investment Funds								
Hedge Funds	3,119,308	1,460,209	(1,213,366)	312,661	-	-	3,678,812	11
Private Markets	7,084,954	1,411,772	(1,683,218)	690,456	-	-	7,503,964	97,429
U.S. Equity ****	799,657	446,923	(660,091)	233,632	77,144	-	897,265	1,660
Non-U.S. Developed Equity ****	241,045	74,712	(22,400)	9,781	-	-	303,138	-
Global Developed Equity ****	424,392	427,276	53,079	8,869	(77,144)	(7)	836,465	-
Emerging Markets Equity	810,474	53,880	(135,007)	(6,920)	-	(815)	721,612	4,948
Fixed Income	31,017	1,530	(49,324)	37,170	-	-	20,393	1,530
Total Investment Funds	<u>12,510,847</u>	<u>3,876,302</u>	<u>(3,710,327)</u>	<u>1,285,649</u>	<u>-</u>	<u>(822)</u>	<u>13,961,649</u>	<u>105,578</u>
Physical Commodities								
Gold Bullion	380,380	-	(108,480)	4,324	-	43	276,267	-
Cash and Cash Equivalents								
Money Market Funds and Cash Held at State	1,514,136	-	(232,446) *	(834) **	-	(224,222)	1,056,634	23,169
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(828)</u>
Total Investment in Securities	<u>\$ 18,369,361</u>	<u>\$ 12,874,189</u>	<u>\$ (12,491,303)</u>	<u>\$ 1,392,278</u>	<u>\$ -</u>	<u>\$ (161,060)</u>	<u>\$ 19,983,465</u>	<u>\$ 248,101</u>

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

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

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

**** Beginning cost balances were reclassified, see note 2 for detail.