

Financial Statements
and Independent Auditors' Report
Permanent University Fund
Years Ended August 31, 2009 and 2008

Permanent University Fund

Financial Statements

Years Ended August 31, 2009 and 2008

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Independent Auditors' Report

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

We have audited the accompanying Statements of Fiduciary Net Assets of the Permanent University Fund (the "PUF"), as of August 31, 2009 and August 31, 2008, and the related Statements of Changes in Fiduciary Net Assets for the years then ended. These financial statements are the responsibility of The University of Texas Investment Management Company ("UTIMCO" or "management"). 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing the 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the PUF are intended only to present the financial position of the PUF and do not purport to, and do not, present the financial positions of UTIMCO or The University of Texas System as of August 31, 2009 or August 31, 2008, and the changes in their financial positions for the years then ended in conformity with accounting principles generally accepted in the United States.

As also discussed in Note 1, the financial statements of the PUF include only the investment related assets and liabilities and changes therein which are being managed by UTIMCO and do not include the PUF's 2.1 million acres of land. This report, therefore, is not intended to be a complete presentation of the PUF's assets, liabilities, income, and expenses.

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As discussed in Note 2, the financial statements include investments valued at \$5,001,424,224 (51.7% of net assets) and \$5,746,288,213 (50.6% of net assets) as of August 31, 2009, and August 31, 2008, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on procedures performed by management which use information provided by the fund managers or the general partners.

In our opinion, the financial statements present fairly, in all, material respects, the financial position of the PUF as of August 31, 2009 and August 31, 2008, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statement of the PUF. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of management. The supplemental schedules as of and for the years ended August 31, 2009 and August 31, 2008, have been subjected to the audit procedures applied by us in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Deloitte & Touche LLP

October 30, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Our discussion and analysis of the Permanent University Fund's (PUF) financial performance provides an overview of its activities for the year ended August 31, 2009. This discussion was prepared by The University of Texas Investment Management Company (UTIMCO) and should be read in conjunction with the PUF's financial statements and notes. The PUF is a public endowment contributing to the support of 18 institutions and 6 agencies in The University of Texas System (UT System) and The Texas A&M University System (TAMU System). The Texas Constitution and various state statutes designate The University of Texas System Board of Regents (UT Board) as the fiduciary for the management of certain public endowment and operating funds. The UT Board has entered into an Investment Management Services Agreement delegating investment management responsibility for all investments to UTIMCO.

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

Financial Highlights

- The PUF's net fiduciary assets after distributions decreased by \$1,685.6 million from \$11,359.5 million to \$9,673.9 million, or approximately 14.84% for the year ended August 31, 2009, compared to a decrease of \$383.3 million or approximately 3.26% for the year ended August 31, 2008. The change in net fiduciary assets from year to year is mainly attributable to the following:
 1. Fiscal year 2009 contributions of PUF Lands mineral income decreased by 25.7% from \$457.8 million to \$340.0 million and represented 3.6% of the average value of the PUF investments during the year, compared to fiscal year 2008 contributions which increased by 67.8%, from \$272.8 million to \$457.8 million and represented 3.9% of the average value of the PUF investments during the year. PUF Lands consist of more than 2.1 million acres in 19 counties primarily in West Texas.
 2. The PUF posted a net investment loss of 12.98%, calculated using the Modified Dietz Method as described by the CFA Institute, for the year ended August 31, 2009. Investments in private investment funds, hedge funds, real estate, natural resources, developed country and emerging market equities were negative contributors to the 2009 return, while investment grade and credit-related fixed income posted positive returns. For the fiscal year ended August 31, 2008, the PUF posted a net investment loss of 3.34%. Investments in private investment funds, hedge funds, natural resources, and investment grade fixed income were positive contributors to the 2008 return, while real estate and developed and emerging markets equities posted negative returns.

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3. The PUF's annual distribution to the Available University Fund (AUF) increased by 18.3% in fiscal year 2009, compared to a increase of 12.0% in fiscal year 2008.

Use of Financial Statements and Notes

The PUF's financial statements were prepared in accordance with standards issued by the Governmental Accounting Standards Board (GASB). Two financial statements are typically required under GASB: the Statement of Fiduciary Net Assets and the Statement of Changes in Fiduciary Net Assets.

In compliance with the reporting requirements of Section 66.05 of the Texas Education Code, we have included as supplementary information a Schedule of Changes in Cost of Investments and Investment Income. We have also included as supplementary information a Comparison Summary of Investments.

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

Statements of Fiduciary Net Assets

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

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

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The following summarizes the Statements of Fiduciary Net Assets (in millions):

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Assets			
Investments, at Fair Value	\$ 9,673.0	\$ 11,628.7	\$ 12,053.3
Other Assets	<u>262.4</u>	<u>722.0</u>	<u>1,301.7</u>
Total Assets	<u>9,935.4</u>	<u>12,350.7</u>	<u>13,355.0</u>
Total Liabilities	<u>261.5</u>	<u>991.2</u>	<u>1,612.2</u>
Net Assets Held in Trust	<u>\$ 9,673.9</u>	<u>\$ 11,359.5</u>	<u>\$ 11,742.8</u>

Statements of Changes in Fiduciary Net Assets

Changes in fiduciary net assets as presented on the Statements of Changes in Fiduciary Net Assets 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 the distributions to the AUF.

The net decrease in appreciation of investments of the PUF was \$1,585.5 million during the year compared to a net decrease in appreciation of investments of \$554.7 million for the year ended August 31, 2008. Investment expenses totaled \$26.2 million, \$42.6 million, and \$77.7 million, respectively, for the years ended August 31, 2009, 2008, and 2007.

The PUF's objectives are:

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

Distributions to the AUF increased by \$82.0 million, from \$448.9 million in fiscal year 2008 to \$530.9 million, in fiscal year 2009. The fiscal year 2008 distribution amount increased by \$48.2 million from the fiscal year 2007 distribution of \$400.7 million. PUF distributions are controlled by a spending policy approved by the UT Board as directed by 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. To achieve this, the annual distribution is established at 4.75% of the prior twelve quarters' average net asset value of the PUF investments, as determined each February 28 for the

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following fiscal year, unless the average annual rate of return of PUF investments over the trailing twelve quarters exceeds the expected return of the Endowment Policy Portfolio by twenty-five basis points or more, in which case the distribution is calculated at 5.00% of the trailing twelve quarters' average net asset value. The fiscal year 2009 rate was based on 5.00% of the prior twelve quarters' average net asset value of the PUF investments.

The distributions to the AUF are subject to the following overriding conditions:

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 percent 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 Assets (in millions):

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Investment Income (Loss)	\$ (1,459.4)	\$ (342.9)	\$ 1,639.8
Less Investment Expenses	(26.2)	(42.6)	(77.7)
PUF Lands Contributions	340.0	457.8	272.8
Total Additions	<u>(1,145.6)</u>	<u>72.3</u>	<u>1,834.9</u>
Administrative Expenses			
PUF Lands Expenses	8.8	6.4	4.4
UT System Oversight Fee	0.3	0.3	0.4
Distributions to Available University Fund	530.9	448.9	400.7
Total Deductions	<u>540.0</u>	<u>455.6</u>	<u>405.5</u>
Change in Fiduciary Net Assets	(1,685.6)	(383.3)	1,429.4
Net Asset Held in Trust, Beginning of Year	11,359.5	11,742.8	10,313.4
Net Assets Held in Trust, End of Year	<u>\$ 9,673.9</u>	<u>\$11,359.5</u>	<u>\$11,742.8</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 Assets

August 31, 2009 and 2008

(in thousands)

Assets	2009	2008
Investments, at Fair Value:		
Equity Securities	\$ 1,044,425	\$ 1,204,835
Preferred Stock	13,500	2,351
Debt Securities	987,495	1,278,731
Convertible Securities	-	80
Investment Funds	6,745,239	8,199,252
Purchased Options	21,056	3,257
Cash and Cash Equivalents	861,306	940,223
Total Investments	<u>9,673,021</u>	<u>11,628,729</u>
Collateral for Securities Loaned, at Fair Value	162,978	417,683
Deposit with Brokers for Derivative Contracts	69,634	58,696
Unrealized Gains on Foreign Currency Exchange Contracts	3,552	5,763
Swaps, at Fair Value	3,264	128,628
Receivables:		
Investment Securities Sold	10,105	93,486
Accrued Income	12,230	17,717
Other	647	-
Total Receivables	<u>22,982</u>	<u>111,203</u>
Total Assets	<u>9,935,431</u>	<u>12,350,702</u>
Liabilities		
Payable Upon Return of Securities Loaned	162,978	417,683
Payable to Brokers for Collateral Held	17,373	-
Unrealized Losses on Foreign Currency Exchange Contracts	2,611	13,193
Swaps, at Fair Value	2,209	138,956
Options Written, at Fair Value	150	4,673
Payables:		
Investment Securities Purchased	62,071	400,149
Other	14,131	16,585
Total Payables	<u>76,202</u>	<u>416,734</u>
Total Liabilities	<u>261,523</u>	<u>991,239</u>
Net Assets Held in Trust	<u>\$ 9,673,908</u>	<u>\$11,359,463</u>

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

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Statements of Changes in Fiduciary Net Assets

Years Ended August 31, 2009 and 2008

(in thousands)

	<u>2009</u>	<u>2008</u>
Additions		
Investment Income:		
Net Decrease in Investments	\$ (1,585,543)	\$ (554,734)
Interest	61,705	107,260
Dividends	45,653	62,334
Income Distributions from Private Investment Funds	14,695	15,633
Securities Lending Income	2,239	22,859
Other	1,869	3,736
Total Investment Loss	<u>(1,459,382)</u>	<u>(342,912)</u>
Less Investment Expenses:		
Investment Management	14,759	12,963
UTIMCO Management Fee	8,135	7,542
Securities Lending Fees	1,122	19,106
Custodial Fees and Expenses	834	880
Analytical and Risk Measurement Fees	420	474
Consulting Fees	312	408
Accounting	283	345
Legal	282	841
Other	44	57
Total Investment Expenses	<u>26,191</u>	<u>42,616</u>
Net Investment Loss	<u>(1,485,573)</u>	<u>(385,528)</u>
Contributions from PUF Lands	<u>340,028</u>	<u>457,757</u>
Total Additions	<u>(1,145,545)</u>	<u>72,229</u>
Deductions		
Administrative Expenses:		
PUF Lands Expenses	8,806	6,352
UT System Oversight Fee	271	251
Total Administrative Expenses	<u>9,077</u>	<u>6,603</u>
Distributions to Available University Fund	<u>530,933</u>	<u>448,943</u>
Total Deductions	<u>540,010</u>	<u>455,546</u>
Change in Fiduciary Net Assets	<u>(1,685,555)</u>	<u>(383,317)</u>
Net Assets Held in Trust, Beginning of Year	<u>11,359,463</u>	<u>11,742,780</u>
Net Assets Held in Trust, End of Year	<u>\$ 9,673,908</u>	<u>\$ 11,359,463</u>

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 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 asset values are not included in the accompanying financial statements because the statements are only intended to include the investment assets which are being managed by UTIMCO.

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

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

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

Note 2 – Significant Accounting Policies

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

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

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Notes to Financial Statements (cont.)

Equity security market values are based on the New York Stock Exchange composite closing prices, if available. If not available, the market value is 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).

Private investment funds and certain other equity securities are fair valued by management. The fair values of these investments are estimated by management using the investment's capital account balance at the closest available reporting date, as communicated by the investment manager, adjusted for contributions and withdrawals subsequent to the latest available reporting date as well as consideration of any other information, which has been provided by the investment manager or other source. In rare cases the private investment funds are valued at cost, but only when management feels this is the best approximation of value. As of August 31, 2009 and 2008, investments in private investment funds in the amount of \$2,807,507,690 and \$3,625,180,848 have been estimated by management.

Hedge funds, developed country equity, emerging markets equity and fixed income investment funds and certain other investment funds are fair valued by management based on net asset value information provided by the investment manager as well as other relevant factors as indicated above. As of August 31, 2009 and 2008, investments in hedge funds in the amount of \$2,193,916,534 and \$2,121,107,365, respectively, have been estimated by management.

The statements of fiduciary net assets include investments in private investment funds and hedge funds as described above valued in the aggregate at \$5,001,424,224 (51.7% of net assets) and \$5,746,288,213 (50.6% of net assets) as of August 31, 2009, and August 31, 2008, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values.

Securities held by the PUF in index and exchange traded funds are generally valued as follows:

Long and short stock positions traded on security exchanges are valued at closing market prices on the valuation date.

Long and short stock positions traded on the over-the-counter market are valued at the last reported bid price, except for National Market System OTC stocks, which are valued at their closing market prices.

Fixed income securities are valued based upon bid quotations obtained from major market makers or security exchanges.

Investments in registered U.S. mutual funds are being valued at their respective net asset value per share amounts.

(B) **Foreign Currency Translation** -- The accounting records of the PUF are maintained in U.S. dollars. Investments in securities are 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 assets resulting from

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Notes to Financial Statements (cont.)

changes in foreign exchange rates on investments from fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net increase in investments.

(C) ***Investment Income*** -- Interest income is accrued as earned. Dividend income is recorded on the ex-dividend date. Dividend and interest income is recorded net of foreign taxes where recovery of such taxes is not assured. For the years ended August 31, 2009 and 2008, interest and dividend withholding in the amounts of \$972,480 and \$1,075,146 have been netted against dividend and interest income. Investment income includes net realized and unrealized currency gains and losses recognized between accrual and payment dates on dividend and interest transactions. Interest expense amounts paid on certain derivative settlements are netted against interest income in the statements of changes in fiduciary net assets. Premiums and discounts on bonds are not amortized.

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

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

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

- implement investment strategies in a low cost and efficient manner,
- alter the PUF's market (systematic) exposure without trading the underlying 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 market securities,
- hedge and control risks, or
- facilitate transition trading.

Through the use of derivative instruments, the complex risks that are bound together in traditional investments can be separated and managed independently. The primary intent of the PUF's investment in derivative investments is to hedge its risk or to implement investment strategies more effectively and at a lower cost than would be possible in the cash market.

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

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Notes to Financial Statements (cont.)

unexercised are treated by the PUF on the expiration date as realized gains from investments. The difference between the premium and the amount paid on effecting a closing purchase transaction, including brokerage commissions, is also treated as a realized gain, or, if the premium is less than the amount paid for the closing purchase transaction, as a realized loss. 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. Options are marked to market on a daily basis, and are included as a liability on the statements of fiduciary net assets.

Swaps -- The PUF invests in certain types of swaps to increase or decrease its exposure to long-term interest rates and to certain commodity and equity sector returns. 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 assets. Cash flows may occur when a swap is opened, when it resets, if or when it is prematurely terminated by both parties to the agreement, and when it reaches maturity. The frequency of the resets is defined by the term sheet of the particular swap agreement, and varies from instrument to instrument. These instruments involve market and/or credit risk in excess of the amount recognized in the statements of fiduciary net assets. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movement in currency and securities 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 valued at the close of business each day, and a gain or loss is recorded between the value of the contracts that day and on the previous day. The daily gain or loss is referred to as the daily variation margin which is settled in cash with the broker each morning for the amount of the previous day's mark to market. The amount that is settled in cash with the broker each morning is the carrying and fair value of the futures contracts, and is included as an other receivable or other payable on the statements of fiduciary net assets. The PUF executes such contracts either on major exchanges or with major international financial institutions and minimizes market and credit risk associated with these contracts through the managers' various trading and credit monitoring techniques.

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

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Notes to Financial Statements (cont.)

currency for an agreed-upon price on an agreed future date. These contracts are 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 assets. Realized and unrealized gains and losses are included in the statements of changes in fiduciary net assets. These instruments involve market and/or credit risk in excess of the amount recognized in the statements of fiduciary net assets. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movement in currency and securities values and interest rates.

(G) ***Securities Sold Short*** -- The PUF may sell securities it does not own in anticipation of a decline in the fair value of that security, or as a means to adjust the duration of certain fixed income portfolios. When the PUF sells a security short, it must borrow the security sold short and deliver it to the broker-dealer through which it made the short sale and provide collateral for its obligation to deliver the security upon conclusion of the sale. The PUF must pay dividends or interest on the securities sold short. Until the PUF covers its short sales, it is exposed to market risk to the extent that subsequent market fluctuations may require purchasing securities sold short at prices which may be significantly higher than the market value reflected in the statements of fiduciary net assets. There were no securities sold short as of August 31, 2009 or 2008.

(H) ***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. A portion of the PUF's cash and cash equivalents are maintained to support the notional value of derivatives positions held (see Notes 6, 7 and 8). 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 statement of fiduciary net assets.

(I) ***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 assets as a contribution to fiduciary net assets.

(J) ***Recently Issued Accounting Standards*** -- In June 2008, the GASB issued GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments." GASB No. 53 is intended to improve the reporting information about derivative instruments in financial statements. This statement specifically requires that most derivative instruments be measured at fair value in financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting, and is effective for periods beginning after June 15, 2009. Management is currently assessing the impact of the implementation of GASB No. 53 on the PUF's financial statements.

Note 3 – Investment Risk

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

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Notes to Financial Statements (cont.)

(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 fund 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). During the year ended August 31, 2008, the PUF's investment policy was amended to remove requirements and limitations regarding investment ratings. The amendments became effective March 1, 2008. Prior to the amendments, the policy limited investments in U.S. Domestic bonds and non-dollar denominated bond investments to those that were rated investment grade, Baa3 or better by Moody's Investor Services, BBB- or better, by Standard & Poor's Corporation, or BBB- or better, by Fitch Investors Service at the time of acquisition. These requirements did not apply to investment managers that were authorized by the terms of an investment advisory agreement to invest in below investment grade bonds. 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, 2009 and 2008:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type	August 31,		Rating
	2009	2008	
U.S. Government Guaranteed	\$ 130,869,200	\$ 320,972,087	Exempt from Disclosure
U.S. Government Non-Guaranteed:			
U.S. Agency	10,599,577	1,578,092	AAA
U.S. Agency Asset Backed	197,041,230	253,524,828	AAA
Total U.S. Government Non-Guaranteed	207,640,807	255,102,920	
Total U.S. Government	338,510,007	576,075,007	
Corporate Obligations:			
Domestic	81,223,138	107,664,217	AAA
Domestic	22,755,158	51,685,984	AA
Domestic	95,755,653	111,002,252	A
Domestic	62,650,413	45,159,483	BAA/BBB
Domestic	12,874,107	2,490,129	BA/BB
Domestic	13,123,548	2,797,460	B
Domestic	49,952,375	298,770	CAA/CCC
Domestic	13,849,661	-	CC
Domestic	12,267,985	-	C
Domestic	1,415,301	-	D
Domestic	-	1,121,073	P
Domestic	717,250	-	Not Rated
Commercial Paper	-	17,679,402	P
Foreign	48,117,036	47,785,081	AAA
Foreign	20,774,674	21,064,268	AA
Foreign	11,840,229	20,536,408	A
Foreign	25,146,754	29,591,080	BAA/BBB
Foreign	1,586,924	-	BA/BB
Foreign	522,000	-	B
Foreign	924,000	-	CAA/CCC
Foreign	807,689	802,091	Not Rated
Total Corporate Obligations	476,303,895	459,677,698	
Foreign Government and Provincial Obligations	112,390,122	105,372,578	AAA
Foreign Government and Provincial Obligations	18,925,929	57,547,732	AA
Foreign Government and Provincial Obligations	19,376,297	46,838,155	A
Foreign Government and Provincial Obligations	6,483,082	10,018,943	BAA/BBB
Foreign Government and Provincial Obligations	11,498,907	11,143,040	BA/BB
Total Foreign Government and Provincial Obligations	168,674,337	230,920,448	
Other Debt Securities	-	1,149,146	AAA
Other Debt Securities	867,306	2,751,345	AA
Other Debt Securities	1,017,719	716,637	A
Other Debt Securities	2,122,025	2,701,607	BAA/BBB
Other Debt Securities	-	4,738,972	Not Rated
Total Other Debt Securities	4,007,050	12,057,707	
Total Debt Securities	\$ 987,495,289	\$ 1,278,730,860	
Other Investment Funds - Debt	\$ 2,991,239	\$ -	AAA
Other Investment Funds - Debt	166,401,554	176,427,582	AA
Other Investment Funds - Debt	8,353,109	13,867,647	BA/BB
Other Investment Funds - Debt	53,872,648	1,413,334	B
Total Other Investment Funds - Debt	\$ 231,618,550	\$ 191,708,563	
Cash and Cash Equivalents - Money Market Funds	\$ 861,306,056	\$ 940,222,615	AAA
Net Deposit with (from) Brokers for Derivative Contracts:			
U.S. Government Guaranteed	\$ 25,685,226	\$ 32,430,842	Exempt from Disclosure
U.S. Government Non-Guaranteed:			
U.S. Agency	25,989	-	AAA
U.S. Agency Asset Backed	119,436	-	AAA
Cash	26,430,132	26,265,293	Exempt from Disclosure
Total Net Deposit with (from) Brokers for Derivative Contracts:	\$ 52,260,783	\$ 58,696,135	

(B) Concentrations of Credit Risk

The PUF's investment policy statement contains the limitation that no more than 5% of the market value of domestic fixed income securities may be invested in corporate or municipal bonds of a single issuer. As of August 31, 2009 and 2008, 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 domestic 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 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, 2009 and 2008, 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 value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its value to changes in market interest rates. Interest rate risk inherent in the PUF is measured by monitoring the modified duration of the overall investment portfolio. Modified duration estimates the sensitivity of the PUF's investments to changes in interest rates. The PUF has no specific policy statement limitations with respect to its overall modified duration. The following table summarizes the PUF's modified duration by investment type at August 31, 2009 and 2008:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type	August 31,			
	2009		2008	
	Value	Modified Duration	Value	Modified Duration
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	\$ 68,980,958	8.43	\$ 48,820,171	5.28
U.S. Treasury Strips	5,567,366	2.00	5,551,649	3.00
U.S. Treasury Bills	8,170,484	0.46	13,266,748	0.08
U.S. Treasury Inflation Protected	5,573,585	3.55	206,431,289	8.52
U.S. Agency Asset Backed	42,576,807	2.64	46,902,230	4.36
Total U.S. Government Guaranteed	<u>130,869,200</u>	5.57	<u>320,972,087</u>	6.97
U.S. Government Non-Guaranteed:				
U.S. Agency	5,501,835	0.13	1,578,091	5.13
U.S. Agency Asset Backed	197,041,230	3.55	253,524,829	6.06
U.S. Agency Commercial Paper	5,097,742	0.21	-	-
Total U.S. Government Non-Guaranteed	<u>207,640,807</u>	3.38	<u>255,102,920</u>	6.05
Total U.S. Government	<u>338,510,007</u>	4.22	<u>576,075,007</u>	6.57
Corporate Obligations:				
Domestic	366,584,589	4.85	322,219,368	5.40
Commercial Paper	-	-	17,679,402	0.09
Foreign	109,719,306	4.48	119,778,928	5.23
Total Corporate Obligations	<u>476,303,895</u>	4.77	<u>459,677,698</u>	5.15
Foreign Government and Provincial Obligations	<u>168,674,337</u>	6.53	<u>230,920,448</u>	7.61
Other Debt Securities	<u>4,007,050</u>	8.81	<u>12,057,707</u>	5.92
Total Debt Securities	<u>987,495,289</u>	4.90	<u>1,278,730,860</u>	6.24
Other Investment Funds - Debt	<u>231,618,550</u>	5.67	<u>191,708,563</u>	5.70
Cash and Cash Equivalents:				
Money Market Funds	<u>861,306,056</u>	0.08	<u>940,222,615</u>	0.08
Total	<u>\$ 2,080,419,895</u>	2.99	<u>\$ 2,410,662,038</u>	3.80
Net Deposit with (from) Brokers for Derivative Contracts:				
U.S. Government Guaranteed:				
U.S. Treasury Bills	\$ 25,830,651	0.73	\$ 32,430,842	0.18
Cash	<u>26,430,132</u>	-	<u>26,265,292</u>	-
Total Net Deposit with (from) Brokers for Derivative Contracts	<u>\$ 52,260,783</u>	0.36	<u>\$ 58,696,134</u>	0.10

(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, 2009 and 2008, the PUF's investments include the following investments that are highly sensitive to interest rate changes:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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 \$272,486,259 and \$192,462,475 as of August 31, 2009 and 2008, 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 \$138,589,867 and \$192,506,999 as of August 31, 2009 and 2008, respectively.

Asset backed securities which are backed by home equity loans, auto loans, equipment loans and credit card receivables. Prepayments by the obligees of the underlying assets in periods of decreasing interest rates could reduce or eliminate the stream of income that would have been received. These securities amounted to \$37,549,073 and \$30,534,964 as of August 31, 2009 and 2008, respectively.

Step-up notes that grant the issuer the option to call the note on certain specified dates. At each call date, should the issuer not call the note, the coupon rate of the note increases (steps up) by an amount specified at the inception of the note. The call feature embedded within a step-up note causes the fair value of the instrument to be considered highly sensitive to interest rate changes. These securities amounted to \$220,434 as of August 31, 2008. There were no-step up notes held at August 31, 2009.

(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. As of August 31, 2009, there are no limitations on investments in non-U.S. denominated bonds or common stocks in relation to the PUF's total fixed income and developed country equity exposures in the PUF's investment policy statement. The PUF's investment policy statement was amended during the year ended August 31, 2008, to remove limitations on investments in non-U.S. denominated bonds. The amendments became effective March 1, 2008. Prior to the amendment, the policy statement limited investments in non-U.S. denominated bonds to 50% of the PUF's total fixed income exposure.

One of the PUF's external managers employs an investment strategy in which they hedge their long non-U.S. investment positions back to the U.S. dollar by utilizing currency transactions in amounts equal to the long investment position. In the following table the negative amounts shown for the Danish Krone, Euro, Hong Kong Dollar, Swiss Franc, and the UK Pound in the cash and cash equivalents section reflect this strategy. The negative amounts offset long positions presented in the foreign common stock section.

Classification between domestic common stock and foreign common stock in the supplemental schedule, Comparison Summary of Investments, is based on the country of domicile of the issuer, not the currency in which the security is traded. The following table summarizes the PUF's non-U.S. dollar investments by asset type at August 31, 2009 and 2008:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type	August 31,	
	2009	2008
Domestic Common Stock:		
Canadian Dollar	\$ 176,922	\$ -
UK Pound	-	90,769
Total Domestic Common Stock	176,922	90,769
Foreign Common Stock:		
Australian Dollar	21,805,073	20,133,152
Brazilian Real	4,962,484	-
Canadian Dollar	16,655,614	60,089,238
Czech Koruna	605,680	-
Danish Krone	1,962,482	1,653,940
Egyptian Pound	3,285,608	-
Euro	107,305,735	65,764,184
Hong Kong Dollar	87,132,604	46,036,526
Hungarian Forint	1,914,330	-
Indonesian Rupian	4,093,226	-
Israeli Shekel	416,016	-
Japanese Yen	45,726,502	111,073,706
Malaysian Ringgit	5,432,235	-
Mexican Peso	5,005,957	-
Moroccan Dirham	468,907	-
Norwegian Kroner	687,949	8,164,663
Pakistan Rupee	1,126,656	-
Philippines Peso	1,229,299	1,044,958
Polish Zloty	1,686,960	-
Singapore Dollar	10,359,372	13,782,791
South African Rand	9,075,574	-
South Korean Won	20,654,024	-
Swedish Krona	1,315,376	6,003,026
Swiss Franc	25,556,867	5,972,349
Thai Baht	7,802,094	1,654,342
Turkish Lira	3,749,070	-
UK Pound	53,387,867	75,524,018
Total Foreign Common Stock	443,403,561	416,896,893
Other Equity Securities:		
Canadian Dollar	103	67
Foreign Preferred Stocks:		
Brazilian Real	9,862,701	-
Foreign Government and Provincial Obligations:		
Australian Dollar	16,819,255	12,866,053
Brazilian Real	6,688,800	7,248,239
Canadian Dollar	10,054,153	12,257,536
Euro	64,678,106	63,104,138
Indonesian Rupian	3,936,158	3,894,801
Japanese Yen	7,320,927	56,672,541
Malaysian Ringgit	8,502,227	10,927,314
Mexican Peso	6,483,082	8,310,458
New Zealand Dollar	6,384,966	6,344,747
Norwegian Kroner	4,574,198	-
Polish Zloty	6,982,331	12,778,326
Singapore Dollar	-	3,481,642
South African Rand	2,547,040	7,068,136
Swedish Krona	9,193,084	4,207,054
UK Pound	10,228,528	19,076,263
Total Foreign Government and Provincial Obligations	164,392,855	228,237,248

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type (continued):	August 31,	
	2009	2008
Corporate Obligations:		
Australian Dollar	\$ 9,384,215	\$ 5,474,202
Canadian Dollar	465,811	470,495
Danish Krone	174,922	20,131,057
Euro	38,460,315	37,543,304
Hong Kong Dollar	807,689	802,090
Iceland Krona	-	3,194,160
Japanese Yen	1,280,236	5,063,740
UK Pound	3,239,919	4,087,261
Total Corporate Obligations	<u>53,813,107</u>	<u>76,766,309</u>
Other - Debt Securities		
Hong Kong Dollar	-	2,300,595
Purchased Options:		
Euro	18,476	90,792
Indian Rupee	1,310,752	-
Swiss Franc	1,302,694	-
Total Purchased Options	<u>2,631,922</u>	<u>90,792</u>
Private Investments:		
Canadian Dollar	1,549,271	-
Euro	191,573,827	231,790,095
UK Pound	1,238,798	1,681,677
Total Private Investments	<u>194,361,896</u>	<u>233,471,772</u>
Cash and Cash Equivalents:		
Australian Dollar	502,641	364,854
Brazilian Real	218,727	-
Canadian Dollar	141,619	1,135,281
Czech Koruna	91,001	-
Danish Krone	(1,979,118)	133,441
Euro	(74,808,480)	944,828
Hong Kong Dollar	(3,495,993)	643,166
Hungarian Forint	48,109	-
Indonesian Rupian	20,476	-
Israeli Shekel	20,422	-
Japanese Yen	84,373	1,125,426
Malaysian Ringgit	25,550	-
Mexican Peso	7,121	7,054
Moroccan Dirham	21,992	-
New Zealand Dollar	6,519	973
Norwegian Kroner	79	3,008
Philippines Peso	7,562	-
Polish Zloty	68,935	4,150
Singapore Dollar	202	272,952
South African Rand	3,838	-
South Korean Won	17,190	-
Swedish Krona	7,954	2,840
Swiss Franc	(27,345,525)	466,331
Taiwan Dollar	995,617	1,038,442
Thailand Baht	2,257	-
Turkish Lira	102,663	-
UK Pound	(6,334,540)	991,272
Total Cash and Cash Equivalents	<u>(111,568,809)</u>	<u>7,134,018</u>
Total	<u>\$ 757,074,258</u>	<u>\$ 964,988,463</u>

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Note 4 – Securities Lending

In accordance with the prudent investor investment standards, the PUF loans securities to certain brokers who pay the PUF negotiated lenders' fees. These fees are included in investment income, and related expenses are included in investment expenses. 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 value of securities loaned and the value of collateral held are as follows at August 31, 2009 and 2008:

Securities on Loan	2009 Value	2008 Value	Type of Collateral	2009 Value of Collateral	2008 Value of Collateral
U.S. Government	\$ 23,724,480	\$ 135,816,556	Cash	\$ 24,207,632	\$ 139,047,861
Foreign Government	6,207,724	5,088,932	Cash	6,506,037	5,411,957
Corporate Bonds	2,653,863	1,389,004	Cash	2,726,639	1,425,000
Common Stock	125,057,512	259,184,337	Cash	129,538,052	271,798,333
Total	\$ 157,643,579	\$ 401,478,829	Total	\$ 162,978,360	\$ 417,683,151
Common Stock	\$ -	\$ 2,879,795	Non-Cash	\$ -	\$ 2,992,927
U.S. Government	-	5,962,691	Non-Cash	-	6,196,935
Total	\$ -	\$ 8,842,486	Total	\$ -	\$ 9,189,862

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

The PUF's pro-rata share of collateral pool investments, rating by NRSRO, and weighted average maturity at August 31, 2009 and 2008 is shown in the following table:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Description	August 31,					
	2009			2008		
	Fair Value	Rating	Weighted Average Maturity In Days	Fair Value	Rating	Weighted Average Maturity In Days
		No Rating			No Rating	
Repurchase Agreements	\$ 108,082,824	Available	1	\$ 189,577,541	Available	2
Commercial Paper	28,775,218	P	44	176,167,708	P	23
Floating Rate Notes	2,985,635	AAA		10,611,144	AAA	
Floating Rate Notes	10,547,653	AA		31,725,221	AA	
Total Floating Rate Notes	<u>13,533,288</u>		21	<u>42,336,365</u>		9
Fixed Rate Notes	-		-	3,521,866	AAA	13
Certificates of Deposit	12,804,924	P	68	9,505,358	P	36
Other Receivables/Payables	(217,894)	Not Rated	-	(3,425,687)	Not Rated	-
Total Collateral Pool Investment	<u>\$ 162,978,360</u>		16	<u>\$ 417,683,151</u>		13

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 assets. Pool investments are valued at amortized cost which is indicative of fair value. Investments received as collateral for securities lending activities are not recorded as assets because the investments remain under the control of the transferor, except in the event of default.

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

As of August 31, 2009 and 2008, 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, 2009 and 2008.

Note 5 – Investment Funds

Investment funds include exchange traded funds, index funds, Securities and Exchange Commission regulated mutual funds and externally managed funds, limited partnerships, and corporate structures which are generally unrated and may be unregulated. The composition of investment funds at August 31, 2009 and 2008 is summarized in the table below as they are classified within the asset mix of the PUF.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

	August 31,	
	2009	2008
Investment Funds:		
Hedge Funds:		
Developed Country Equity	\$ 1,688,347,414	\$ 2,426,247,064
Credit-Related Fixed Income	710,374,302	314,899,237
Emerging Market Equity	230,943,475	520,081,582
Investment Grade Fixed Income	134,387,472	222,704,569
Real Estate	29,409,242	27,990,232
Natural Resources	14,045,785	113,258,164
Total Hedge Funds	2,807,507,690	3,625,180,848
Private Investments:		
Developed Country Equity	1,100,258,629	1,224,312,673
Credit-Related Fixed Income	732,718,556	561,669,921
Natural Resources	166,328,892	158,608,045
Emerging Market Equity	141,204,680	128,710,214
Real Estate	53,405,777	47,806,512
Total Private Investments	2,193,916,534	2,121,107,365
Public Markets:		
Developed Country Equity:		
Private Placements	374,719,319	789,318,888
Index Funds	193,817,334	93,621,423
Exchange Traded Funds	51,822,688	172,853,815
Total Developed Country Equity	620,359,341	1,055,794,126
Emerging Markets:		
Private Placements	436,850,665	649,206,232
Exchange Traded Funds	220,536,693	158,445,449
Index Funds	163,901,468	264,494,722
Total Emerging Markets	821,288,826	1,072,146,403
Real Estate:		
Index Funds	70,548,140	83,903,715
Exchange Traded Funds	-	49,410,892
Total Real Estate	70,548,140	133,314,607
Fixed Income:		
Index Funds	220,274,202	176,427,583
Publicly Traded Mutual Funds	11,344,348	13,867,646
Private Placements	-	1,413,334
Total Fixed Income	231,618,550	191,708,563
Total Public Markets	1,743,814,857	2,452,963,699
Total Investment Funds	\$ 6,745,239,081	\$ 8,199,251,912

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 financial statements and related note disclosures represent the PUF's pro-rata share of these investment pool assets. The hedge fund pools are invested in private placements with external investment managers who invest in equity and fixed income securities of both domestic and international issuers. Included in emerging market equity under hedge funds is an August 31, 2009 investment in the amount of \$13,390,000 to the emerging market equity pool which was not invested in the underlying hedge fund pool investment until September 1, 2009. These investment managers may invest in both long and short securities and may utilize leverage in their portfolios. The funds invested may be subject to a lock-up restriction of one or more years before the investment may be withdrawn from the manager without significant penalty. There are certain risks associated with these private placements, some of which include investment manager risk, market risk, and liquidity risk, as well as the risk of utilizing leverage in the portfolios. The

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

hedge fund pools have committed \$98,077,673 of future funding to various hedge fund investments as of August 31, 2009 of which the PUF's pro-rata portion is \$52,539,803.

Certain of the hedge fund pools' investments were held through limited liability companies (LLCs), of which UTIMCO was the sole managing member. These investments were managed by an external investment manager under management agreements between the LLCs and the external manager. These management agreements were terminated during the year ended August 31, 2009. The external manager employed an investment strategy utilizing leveraged commodity futures and options. As of August 31, 2008, the PUF's pro-rata share of these investments included \$27,183,602 of cash and cash equivalents, options on commodity futures with a fair value of \$11,918, net of liabilities for margin in the amount of \$670,232 related to the outstanding futures contracts.

Effective January 1, 2008, the PUF's private investments were combined with those of the GEF in investment pools created in the name of the UT Board, and are now held through unit interests in those pools. Upon creation of the pools, the PUF and GEF received units in exchange for the fair value of their respective private investments as of the date of the formation of the pools. Amounts presented in the PUF financial statements and related note disclosure for the periods ending August 31, 2009 and 2008, represent the PUF's pro-rata share of these investment pool assets. The private investment pools are invested in limited partnerships with external investment managers or general partners who invest primarily in private equity securities. These investments are domestic and international, are illiquid and may not be realized for a period of several years after the investments are made. There are certain risks associated with these investments, some of which are liquidity risk, market risk, event risk, and investment manager risk. Certain of these investments are held through LLCs, of which UTIMCO is the sole managing member. The private investment pools have committed \$2,536,892,509 of future funding to various private market investments as of August 31, 2009 of which the PUF's pro-rata portion is \$1,621,358,122.

Public market funds are invested in exchange traded funds, index funds, and private placements with external investment managers who invest in equity and fixed income securities of both domestic and international issuers. These funds are characterized as public market funds based on individual risk/return characteristics and their relationship to the overall asset mix of the PUF. Some of these investment managers may invest in both long and short securities and may utilize modest leverage in their portfolios. 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.

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:

- *Non-regulation risk* -- Some of the PUF's general partners and investment managers are not registered with the Securities and Exchange Commission or other domestic or international regulators, and therefore are not subject to regulatory controls.
- *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.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

- *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 3, including custodial credit risk and foreign currency risk. Fixed income investments held by these funds would also be subject to credit risk and interest rate risk; moreover, they may invest in securities whose fair values would be sensitive to changes in interest rates.

Note 6 – Written Options

For the year ended August 31, 2009, the PUF wrote call options on Treasury note futures, commodity, domestic and international equities and equity indexes and exchange traded funds. Transactions in call options written during the year ended August 31, 2009 were as follows:

	<u>Contracts</u>	<u>Premiums Received</u>
Call Options Outstanding at August 31, 2008	29,589	\$ 5,080,029
Options Written	634,305,352	5,192,385
Options Expired	(3,114,873)	(897,515)
Options terminated in closing purchase transactions	(631,220,068)	(9,374,899)
Call Options Outstanding at August 31, 2009	<u>-</u>	<u>\$ -</u>

There were no call options outstanding as of August 31, 2009. The PUF recognized losses of \$6,881,194 on call options written for the year ended August 31, 2009.

For the year ended August 31, 2008, the PUF wrote call options on Treasury note, commodity, and domestic and international equity index futures and exchange traded funds. Transactions in call options written during the year ended August 31, 2008 were as follows:

	<u>Contracts</u>	<u>Premiums Received</u>
Call Options Outstanding at August 31, 2007	472,726	\$ 3,619,937
Options Written	201,530	7,928,091
Options Expired	(570,875)	(2,197,761)
Options terminated in closing purchase transactions	(73,792)	(4,270,238)
Call Options Outstanding at August 31, 2008	<u>29,589</u>	<u>\$ 5,080,029</u>

The fair value of call options outstanding as of August 31, 2008, was \$4,453,136. This amount is included on the statements of fiduciary net assets as options written, at fair value. The PUF recognized losses of \$8,547,267 on call options written for the year ended August 31, 2008.

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

The PUF also wrote put options on Treasury note futures, commodity, domestic and international equities and equity indexes, and exchange traded funds for the year ended August 31, 2009. Transactions in put options written during the year ended August 31, 2009, were as follows:

	<u>Contracts</u>	<u>Premiums Received</u>
Put Options Outstanding at August 31, 2008	454	\$ 678,974
Options Written	114,016,129	6,013,412
Options Expired	(5,338,046)	(848,444)
Options terminated in closing purchase transactions	<u>(75,978,537)</u>	<u>(5,513,393)</u>
Put Options Outstanding at August 31, 2009	<u>32,700,000</u>	<u>\$ 330,549</u>

The fair value of put options outstanding as of August 31, 2009, was \$149,949. This amount was included on the statements of fiduciary net assets as options written, at fair value. The PUF recognized gains in the amount of \$5,825,165 on put options written for the year ended August 31, 2009.

The PUF also wrote put options on Treasury note, commodity, and domestic and international equity index futures for the year ended August 31, 2008. Transactions in put options written during the year ended August 31, 2008, were as follows:

	<u>Contracts</u>	<u>Premiums Received</u>
Put Options Outstanding at August 31, 2007	236,240	\$ 143,244
Options Written	220,304	5,208,741
Options Expired	(406,295)	(1,837,782)
Options terminated in closing purchase transactions	<u>(49,795)</u>	<u>(2,835,229)</u>
Put Options Outstanding at August 31, 2008	<u>454</u>	<u>\$ 678,974</u>

The fair value of put options outstanding as of August 31, 2008, was \$220,401. This amount was included on the statements of fiduciary net assets as options written, at fair value. The PUF recognized gains in the amount of \$2,723,803 on put options written for the year ended August 31, 2008.

Note 7 – Swaps

During the year the PUF entered into interest rate, credit default, equity, inflation and commodity swap contracts. The following discloses the notional amount (presented in local currency), the coupon rate, and the fair values of the outstanding swap contracts as of August 31, 2009:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2009	
				Assets	Liabilities
Interest Rate					
Australian Dollar					
	4.500%	12,700,000	12/15/2011	\$ -	\$ 136,378
	5.000%	23,000,000	12/15/2011	-	158,666
	6.500%	27,500,000	6/15/2012	65,130	-
UK Pound					
	3.500%	1,200,000	3/17/2015	-	21,769
	3.500%	3,300,000	5/17/2015	-	59,865
	4.500%	8,500,000	3/17/2020	380,819	-
Japanese Yen					
	1.400%	2,550,000,000	12/16/2014	156,832	-
Swedish Krona					
	4.500%	9,000,000	3/18/2014	108,601	-
				<u>711,382</u>	<u>376,678</u>
Credit Default					
UK Pound					
	0.670%	780,000	9/20/2014	-	15,093
	8.750%	600,000	6/20/2012	-	175,613
U.S. Dollar					
	0.110%	300,000	6/20/2010	10,232	-
	0.210%	300,000	9/20/2011	412	-
	0.220%	200,000	9/20/2011	7,870	-
	0.290%	300,000	3/20/2011	-	568
	0.460%	300,000	9/20/2011	11,859	-
	0.460%	300,000	3/20/2012	21,812	-
	0.460%	1,000,000	12/20/2013	-	8,867
	0.550%	300,000	9/20/2011	11,272	-
	0.630%	300,000	9/20/2011	-	3,026
	0.750%	1,000,000	12/20/2013	22	-
	0.770%	300,000	3/20/2012	-	3,624
	0.820%	1,000,000	3/20/2018	-	1,647
	0.860%	1,800,000	11/20/2016	269,719	-
	0.900%	1,000,000	6/20/2019	-	35,048
	0.940%	200,000	6/20/2018	21,759	-
	0.950%	1,000,000	9/20/2017	-	23,635
	1.000%	600,000	6/20/2014	3,747	-
	1.000%	2,000,000	12/20/2016	179,400	-
	1.000%	5,200,000	6/20/2019	41,169	-
	1.090%	1,000,000	6/20/2018	32,655	-
	1.280%	1,000,000	6/20/2013	18	-
	1.290%	300,000	6/20/2011	-	1,436
	1.300%	900,000	6/20/2013	-	665
	1.306%	2,100,000	6/20/2018	129,517	-
	1.350%	600,000	3/20/2018	-	31,755
	1.380%	1,000,000	3/20/2017	-	46,021
	1.400%	1,100,000	3/20/2018	-	64,115
	1.420%	1,500,000	3/20/2018	-	89,705
	1.450%	1,000,000	6/20/2013	-	7,167
	1.500%	1,800,000	6/20/2010	-	13,694
	1.530%	500,000	9/20/2016	-	14,656
	1.540%	200,000	6/20/2018	-	1,450
	1.743%	400,000	6/20/2013	-	6,997
	1.780%	300,000	6/20/2013	-	5,674
	1.820%	300,000	6/20/2013	-	6,129
	1.880%	1,000,000	12/20/2015	-	12,133
	2.170%	1,000,000	8/20/2013	53,033	-
	2.300%	400,000	3/20/2014	-	21,641
	2.700%	1,000,000	3/20/2019	1,812	-
	2.980%	1,300,000	3/20/2019	-	184,215
	3.460%	700,000	6/20/2017	-	66,611
	4.230%	1,000,000	12/20/2013	-	125,751
				<u>796,308</u>	<u>966,936</u>

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2009	
				Assets	Liabilities
Credit Default (Continued)					
Equity					
Euro		1,297,371	8/4/2010	\$ -	\$ 14,422
U.S. Dollar		85,820,782	11/5/2009	1,756,343	-
		73,450,210	11/23/2009	-	850,869
				<u>1,756,343</u>	<u>865,291</u>
Total				\$ 3,264,033	\$ 2,208,905

The following discloses the notional amount (presented in local currency), the coupon rate, and the fair values of the outstanding swap contracts as of August 31, 2008:

Interest Rate	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2008	
				Assets	Liabilities
Australian Dollar					
	6.403%	17,300,000	6/15/2010	\$ -	\$ 303,806
	6.421%	15,200,000	6/15/2015	545,532	-
	6.540%	4,300,000	1/15/2010	-	36,374
	7.254%	3,800,000	6/15/2013	58,100	-
	7.403%	31,900,000	6/15/2010	-	46,498
	7.540%	65,000,000	3/15/2010	435,236	-
	7.540%	3,100,000	3/15/2012	58,255	-
	7.754%	10,400,000	6/15/2010	89,493	-
UK Pound					
	4.254%	400,000	6/12/2036	29,928	-
	4.496%	5,800,000	12/15/2035	73,162	-
	4.542%	27,900,000	9/15/2017	137,347	-
	4.549%	100,000	12/15/2035	-	7,142
	5.399%	1,700,000	6/15/2009	-	27,338
	5.402%	200,000	3/19/2010	-	3,805
	5.402%	10,900,000	3/20/2010	208,061	-
	5.404%	1,400,000	9/15/2010	-	28,042
	5.415%	600,000	9/17/2013	-	11,984
	5.422%	14,200,000	9/15/2015	-	350,349
	5.431%	400,000	3/20/2018	-	9,063
	5.508%	200,000	3/18/2039	-	36,340
Canadian Dollar					
	4.254%	6,400,000	12/20/2013	-	195,178
	5.421%	1,400,000	6/15/2015	109,328	-
Euro					
	3.754%	15,400,000	6/18/2013	-	970,759
	4.400%	28,500,000	9/19/2009	-	742,887
	4.415%	24,200,000	9/17/2013	-	1,061,329
	4.419%	700,000	12/15/2014	-	32,869
	4.435%	6,900,000	6/18/2015	301,202	-
	4.540%	9,600,000	3/19/2010	-	113,569
	4.541%	11,100,000	3/18/2014	-	71,207
	5.404%	1,900,000	9/17/2010	7,322	-
	5.435%	300,000	3/18/2019	11,608	-
	5.506%	2,300,000	9/17/2038	-	174,153
	5.508%	7,100,000	3/18/2039	-	564,229
	6.491%	1,400,000	6/18/2034	-	253,154

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2008	
				Assets	Liabilities
Interest Rate (Continued)					
Japanese Yen					
	0.923% (A)	13,216,000,000	9/10/2009	\$ 122,028,296	\$ -
	1.340%	1,540,000,000	12/17/2010	-	66,601
	1.398%	200,000,000	3/18/2009	-	669
	1.541%	6,420,000,000	6/17/2013	615,107	-
	1.984%	800,000,000	9/27/2016	-	303,757
	2.430%	2,590,000,000	12/17/2017	-	768,337
	2.549%	80,000,000	6/20/2036	-	24,578
	3.498%	370,000,000	6/20/2036	-	475,906
U.S. Dollar					
	2.696% (A)	112,000,000	9/10/2009	-	112,670,912
	4.401%	18,000,000	12/17/2009	152,843	-
	4.403%	96,700,000	6/17/2010	485,908	-
	4.405%	68,300,000	12/17/2010	-	211,943
	4.407%	6,500,000	6/17/2011	18,281	-
	4.416%	36,300,000	12/17/2013	-	235,627
	5.423%	15,900,000	12/17/2015	-	603,912
	5.434%	74,164,000	12/17/2018	-	2,602,192
	5.452%	14,200,000	12/17/2023	204,342	-
	5.471%	400,000	12/17/2028	-	9,049
	5.507%	32,700,000	12/17/2038	-	738,055
	5.539%	2,000,000	5/21/2009	42,720	-
Mexican Peso					
	8.334%	3,200,000	2/14/2017	-	9,732
Brazilian Real					
	10.575%	4,800,000	1/2/2012	-	216,316
	12.414%	1,000,000	1/4/2010	-	8,556
	12.544%	3,200,000	1/2/2012	-	42,920
	14.765%	200,000	1/2/2012	2,134	-
				<u>125,614,205</u>	<u>124,029,137</u>
Commodity					
U.S. Dollar					
	DJAIG	83,014,149	10/5/2008	-	2,413,826
	DJAIG	26,145,248	10/28/2008	-	1,918,135
	DJAIG	70,316,375	11/26/2008	-	1,403,031
	DJAIG	11,793,824	1/5/2009	-	437,202
				<u>-</u>	<u>6,172,194</u>
Credit Default					
UK Pound					
	0.235%	100,000	6/20/2012	3,042	-
	0.254%	100,000	6/20/2012	11,520	-
	0.294%	100,000	6/20/2012	3,265	-
	0.365%	100,000	6/20/2012	1,299	-
	0.394%	100,000	6/20/2012	1,171	-
	0.674%	930,000	9/20/2014	-	5,389

(A) These items represent a single swap and, therefore, could not be settled independently.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2008	
				Assets	Liabilities
Credit Default (Continued)					
Euro					
	0.235%	100,000	6/20/2012	\$ -	\$ 140
	0.254%	100,000	6/20/2012	-	149
	0.294%	100,000	6/20/2012	-	173
	0.365%	100,000	6/20/2012	-	218
	0.394%	100,000	6/20/2012	-	233
	0.454%	2,200,000	9/20/2012	82,198	-
	0.464%	1,700,000	9/20/2012	46,387	-
	0.474%	2,800,000	9/20/2012	209,623	-
	0.494%	1,700,000	9/20/2012	28,035	-
	0.741%	3,300,000	12/20/2012	138,259	-
	0.854%	3,100,000	12/20/2016	205,807	-
	1.654%	500,000	3/20/2013	12,827	-
	1.754%	5,900,000	6/20/2018	-	534,682
	2.941%	200,000	6/20/2013	-	17,119
U.S. Dollar					
	0.054%	300,000	9/20/2009	160	-
	0.073%	1,700,000	9/20/2008	38	-
	0.085%	530,000	12/13/2049	-	55,134
	0.089%	300,000	6/20/2012	1,609	-
	0.114%	300,000	6/20/2010	6,088	-
	0.115%	600,000	5/25/2046	-	197,931
	0.124%	100,000	6/20/2012	880	-
	0.144%	300,000	3/20/2011	530	-
	0.164%	700,000	6/20/2012	77,066	-
	0.174%	900,000	6/20/2010	147,634	-
	0.184%	300,000	3/20/2012	1,658	-
	0.214%	600,000	9/20/2011	2,863	-
	0.214%	300,000	12/20/2016	5,544	-
	0.224%	300,000	9/20/2009	94	-
	0.224%	200,000	9/20/2011	6,353	-
	0.233%	300,000	6/20/2009	3,587	-
	0.324%	300,000	6/20/2010	2,507	-
	0.324%	400,000	12/20/2012	1,562	-
	0.344%	300,000	12/20/2016	33,319	-
	0.354%	300,000	9/20/2011	1,270	-
	0.354%	500,000	6/20/2012	21,811	-
	0.395%	300,000	9/20/2011	40,186	-
	0.434%	300,000	12/20/2012	4,337	-
	0.435%	2,000,000	3/20/2013	7,810	-
	0.453%	1,000,000	1/20/2009	-	120
	0.455%	500,000	6/20/2012	-	1,985
	0.464%	300,000	9/20/2011	24,308	-
	0.464%	300,000	3/20/2012	23,098	-
	0.464%	1,000,000	12/20/2013	10,665	-
	0.465%	11,300,000	3/20/2013	59,065	-
	0.474%	1,700,000	3/20/2013	9,261	-
	0.493%	300,000	2/20/2009	-	196
	0.524%	200,000	6/20/2012	-	1,284
	0.529%	300,000	12/20/2012	4,721	-
	0.553%	2,300,000	12/20/2008	4,247	-
	0.554%	300,000	9/20/2011	23,524	-
	0.641%	12,800,000	12/20/2012	432,433	-
	0.642%	100,000	6/20/2017	3,576	-

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

	Coupon	Notional Value	Maturity Date	Assets	Liabilities
Credit Default (Continued)					
U.S. Dollar (Continued)	0.643%	1,000,000	3/20/2018	\$ 6,283	\$ -
	0.654%	9,600,000	12/20/2016	570,390	-
	0.664%	200,000	9/20/2012	-	18,994
	0.674%	1,400,000	1/20/2017	-	65,025
	0.684%	300,000	12/20/2012	7,759	-
	0.708%	800,000	12/20/2012	9,189	-
	0.714%	200,000	9/20/2012	-	2,520
	0.724%	5,300,000	12/20/2012	63,673	-
	0.741%	200,000	6/20/2012	-	31,422
	0.741%	100,000	9/20/2012	-	9,357
	0.754%	1,000,000	12/20/2013	18,495	-
	0.754%	700,000	12/20/2017	-	11,762
	0.758%	900,000	12/20/2012	12,238	-
	0.774%	300,000	3/20/2012	-	2,611
	0.815%	3,200,000	3/20/2018	-	33,231
	0.824%	1,000,000	3/20/2018	12,568	-
	0.843%	2,200,000	12/20/2017	91,814	-
	0.844%	100,000	6/20/2012	-	2,066
	0.862%	1,800,000	11/20/2016	2,993	-
	0.924%	1,000,000	6/20/2013	-	4,307
	0.944%	2,000,000	6/20/2018	105,465	-
	0.954%	1,000,000	9/20/2017	-	10,080
	1.094%	1,000,000	6/20/2018	10,655	-
	1.143%	1,200,000	6/20/2018	25,275	-
	1.184%	1,300,000	9/20/2013	1,205	-
	1.254%	900,000	6/20/2013	6,868	-
	1.284%	1,000,000	6/20/2013	-	9,859
	1.294%	300,000	6/20/2011	2,711	-
	1.306%	2,100,000	6/20/2018	46,597	-
	1.323%	700,000	12/20/2008	1,883	-
	1.333%	900,000	12/20/2008	2,468	-
	1.341%	900,000	6/20/2013	-	9,684
	1.384%	1,000,000	3/20/2017	-	28,806
	1.441%	100,000	6/20/2012	10,440	-
	1.441%	100,000	6/20/2013	-	980
	1.454%	1,000,000	6/20/2013	7,371	-
	1.534%	500,000	9/20/2016	-	13,907
	1.534%	1,000,000	6/20/2018	9,488	-
	1.540%	1,800,000	6/20/2010	-	53,726
	1.541%	900,000	6/20/2013	22,179	-
	1.543%	1,600,000	6/20/2018	-	22,087
	1.544%	200,000	6/20/2018	-	4,561
	1.554%	19,000,000	6/20/2013	-	160,492
	1.574%	1,800,000	3/20/2013	-	59,951
	1.574%	2,700,000	9/20/2013	7,114	-
	1.664%	1,600,000	3/20/2018	23,980	-
	1.683%	900,000	4/20/2009	7,643	-
	1.713%	400,000	4/20/2009	3,464	-
	1.784%	100,000	12/20/2012	-	2,973
	1.834%	1,000,000	9/20/2018	18,955	-
	1.839%	800,000	12/20/2008	673	-
	1.884%	1,000,000	12/20/2015	30,613	-
	1.913%	100,000	4/20/2009	1,172	-
	2.141%	150,000	9/20/2013	-	3,192
	2.154%	1,000,000	6/20/2018	8,666	-
	2.174%	1,000,000	8/20/2013	15,077	-
	2.741%	400,000	9/20/2013	-	430

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2008	
				Assets	Liabilities
Credit Default (Continued)					
U.S. Dollar (Continued)					
	2.754%	1,188,000	6/20/2012	\$ 111,958	\$ -
	3.053%	300,000	3/20/2009	-	3,639
	3.054%	200,000	9/20/2012	-	70,939
	3.153%	800,000	6/20/2009	-	15,415
	3.239%	600,000	12/20/2008	-	2,105
	3.841%	100,000	9/20/2012	-	25,439
	3.854%	100,000	9/20/2012	-	25,305
	4.854%	100,000	9/20/2012	31,387	-
	5.239%	800,000	9/20/2008	-	6,175
	5.441%	400,000	9/20/2012	-	120,558
	5.454%	400,000	9/20/2012	-	120,105
	6.854%	100,000	6/20/2012	-	26,454
	7.411%	100,000	9/20/2012	-	26,511
				<u>3,013,946</u>	<u>1,819,421</u>
Inflation					
UK Pound					
	3.183%	300,000	12/19/2017	-	31,064
	3.444%	200,000	9/10/2027	-	33,278
Euro					
	1.944%	600,000	4/10/2012	-	26,023
	1.948%	900,000	3/15/2012	-	36,245
	1.954%	400,000	3/30/2012	-	16,514
	1.965%	500,000	3/15/2012	-	17,589
	1.984%	100,000	4/30/2012	-	4,238
	2.028%	400,000	10/15/2011	-	8,953
	2.044%	1,300,000	2/21/2011	-	21,706
	2.084%	2,300,000	6/15/2012	-	85,210
	2.095%	900,000	10/15/2011	-	15,744
	2.103%	2,000,000	10/15/2010	-	17,925
	2.146%	500,000	10/15/2010	-	2,888
	2.275%	400,000	10/15/2016	-	6,329
	2.353%	300,000	10/15/2016	-	4,540
	2.354%	400,000	10/15/2016	-	6,329
				<u>-</u>	<u>334,575</u>
Equity					
U.S. Dollar					
	EAFE	54,687,117	1/15/2009	-	1,609,777
	EAFE	47,448,311	3/16/2009	-	4,991,298
				<u>-</u>	<u>6,601,075</u>
Total				\$ 128,628,151	\$ 138,956,402

Note 8 – Futures

During the years ended August 31, 2009 and 2008, the asset classes that used futures include domestic and foreign equities, domestic and foreign debt, and commodities. The PUF had \$69,633,587 and \$58,696,135 on deposit with brokers for collateral as margin for the futures contracts as of August 31, 2009 and 2008, respectively. Short futures were used by internal managers and may be used by a limited number of external managers of the PUF to hedge the PUF's interest rate or country risk associated with security positions. For the year ended August 31, 2009, the net realized loss on the futures contracts was \$126,815,824 compared to the net realized loss of \$3,964,063 for the year ended August 31, 2008.

The following discloses the name, number of contracts, notional value, and the carrying and fair values at August 31, 2009 for futures contracts:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Contract	Number of Contracts	Expiration	Notional Value at August 31, 2009		Carrying and Fair Value at August 31, 2009		
			Long	Short	Assets	Liabilities	
Domestic Fixed Income							
U.S. 10 Year Treasury Notes	22	Dec-09	\$ 2,578,812	\$ -	\$ 5,640	\$ -	
			2,578,812	-	5,640	-	
Domestic Equity							
S&P 500 Index	685	Sep-09	174,623,625	-	-	1,318,625	
			174,623,625	-	-	1,318,625	
Commodities							
Aluminum HG	141	Oct-09	6,648,150	-	-	-	
Aluminum HG	171	Jan-11	8,601,300	-	-	-	
Brent Crude Oil	55	Oct-09	3,830,750	-	-	-	
Coffee 'C'	101	Dec-09	4,632,113	-	-	-	
Coffee 'C'	25	May-10	1,191,563	-	-	-	
Copper	334	Dec-09	23,601,275	-	-	-	
Copper	18	May-10	1,272,150	-	-	-	
Corn	447	Dec-09	7,369,913	-	-	-	
Corn	50	Mar-10	856,250	-	-	-	
Cotton No. 2	167	Dec-09	4,988,290	-	-	-	
Crude Oil	127	Dec-09	9,065,260	-	-	-	
Crude Oil	147	Mar-10	10,757,460	-	-	-	
Crude Oil	177	Feb-11	13,632,540	-	-	-	
Gasoline Rbob	84	Oct-09	6,385,327	-	-	-	
Gasoline Rbob	59	Nov-09	4,464,860	-	-	-	
Gold 100 Oz	170	Dec-09	16,209,500	-	-	-	
Heating Oil	92	Oct-10	7,901,880	-	-	-	
Lean Hogs	172	Oct-09	3,312,720	-	-	-	
Live Cattle	118	Apr-10	4,227,940	-	-	-	
Live Cattle	106	Jun-10	3,640,040	-	-	-	
Natural Gas	201	Nov-09	8,035,980	-	-	-	
Natural Gas	56	Apr-11	3,488,800	-	-	-	
Natural Gas	54	Aug-11	3,474,900	-	-	-	
Nickel	54	Sep-09	6,177,060	-	-	-	
Nickel	17	Feb-11	1,907,502	-	-	-	
Silver	95	Dec-09	7,088,425	-	-	-	
Soybean	279	Nov-09	13,664,025	-	-	-	
Soybean Oil	241	Dec-09	5,147,760	-	-	-	
Sugar #11 World	59	Mar-10	1,706,186	-	-	-	
Sugar #11 World	191	May-10	5,176,864	-	-	-	
Sugar #11 World	162	Jul-10	4,084,214	-	-	-	
Wheat	267	Mar-10	6,918,637	-	-	-	
Wheat	7	Jul-10	190,225	-	-	-	
Zinc	174	Sep-10	8,330,250	-	-	-	
			217,980,109	-	-	-	
Foreign Fixed Income							
90 Day Euro Dollar	110	Jun-10	27,198,875	-	11,000	-	
90 Day Sterling Libor	105	Sep-10	20,948,329	-	4,259	-	
3Month Euro Euribor	49	Sep-10	17,269,966	-	6,973	-	
3Month Euro Euribor	149	Dec-10	52,338,390	-	21,178	-	
			117,755,560	-	43,410	-	
Foreign Equity							
Topix Index	578	Sep-09	59,940,282	-	-	592,776	
			59,940,282	-	-	592,776	
Total			\$ 572,878,388	\$ -	\$ 49,050	\$ 1,911,401	

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

The following discloses the name, number of contracts, notional value, and the carrying and fair values at August 31, 2008 for futures contracts:

Contract	Number of Contracts	Expiration	Notional Value at August 31, 2008		Carrying and Fair Value at August 31, 2008		
			Long	Short	Assets	Liabilities	
Domestic Fixed Income							
U.S. 10 Year Treasury Notes	21	Sep-08	\$ 2,450,438	\$ -	\$ -	\$ 2,953	
U.S. 10 Year Treasury Notes	47	Dec-08	5,428,500	-	-	8,813	
U.S. Treasury Bond	124	Dec-08	14,546,750	-	-	75,563	
			<u>22,425,688</u>	<u>-</u>	<u>-</u>	<u>87,329</u>	
Domestic Equity							
Russell 2000 Index Mini	4,439	Sep-08	-	328,441,610	2,263,890	-	
S&P 500 Index	1,614	Sep-08	517,529,100	-	-	6,254,250	
			<u>517,529,100</u>	<u>328,441,610</u>	<u>2,263,890</u>	<u>6,254,250</u>	
Commodities							
Aluminum HG	183	Jan-09	12,546,938	-	-	-	
Brent Crude Oil	77	Jun-09	9,161,460	-	-	-	
Brent Crude Oil	11	Aug-09	1,313,840	-	-	-	
Cattle Feeder	50	Jan-09	2,737,500	-	-	-	
Cocoa	6	Mar-09	173,040	-	-	-	
Cocoa	14	May-09	401,520	-	-	-	
Coffee 'C'	27	Dec-08	1,475,719	-	-	-	
Copper	100	Dec-08	17,207,625	-	-	-	
Corn	274	Dec-08	8,014,500	-	-	-	
Cotton No. 2	39	Jul-09	1,527,045	-	-	-	
Crude Oil	16	Jun-09	1,878,880	-	-	-	
Crude Oil	244	Jul-09	28,665,120	-	-	-	
Gas Oil	58	May-09	6,211,800	-	-	-	
Gasoline Rbob	74	Oct-08	8,870,853	-	-	-	
Gold 100 Oz	79	Dec-08	6,598,080	-	-	-	
Heating Oil	45	May-09	6,159,321	-	-	-	
Lean Hogs	202	Oct-08	5,528,740	-	-	-	
Live Cattle	280	Jun-09	11,687,200	-	-	-	
Natural Gas	29	Oct-08	2,303,470	-	-	-	
Natural Gas	68	Apr-09	5,792,240	-	-	-	
Natural Gas	9	May-09	767,520	-	-	-	
Nickel	38	Jan-09	4,620,420	-	-	-	
Palladium	8	Dec-08	245,440	-	-	-	
Platinum	14	Oct-08	1,042,860	-	-	-	
Silver	22	Dec-08	1,507,770	-	-	-	
Soybean	110	Nov-08	7,282,000	-	-	-	
Soybean Meal	65	Oct-08	2,329,600	-	-	-	
Sugar #11 World	134	Jul-09	2,227,187	-	-	-	
Wheat	84	Dec-08	3,365,250	-	-	-	
Wheat	108	Jul-09	4,625,325	-	-	-	
Zinc	76	Jan-09	3,458,950	-	-	-	
			<u>169,727,213</u>	<u>-</u>	<u>-</u>	<u>-</u>	

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Contract	Number of Contracts	Expiration	Notional Value at August 31, 2008		Carrying and Fair Value at August 31, 2008		
			Long	Short	Assets	Liabilities	
Foreign Fixed Income							
90 Day Euro Dollar	3	Sep-08	\$ -	\$ 728,831	\$ -	\$ -	
90 Day Euro Dollar	63	Dec-08	15,281,438	-	-	-	
90 Day Euro Dollar	114	Mar-09	27,656,400	-	-	4,275	
90 Day Euro Dollar	90	Jun-09	21,805,875	-	-	3,375	
90 Day Euro Dollar	92	Sep-09	22,243,300	-	-	4,600	
90 Day Euro Dollar	315	Dec-09	75,938,625	-	-	11,812	
90 Day Euro Dollar	38	Mar-10	9,141,375	-	-	475	
Australian 3 Year Bond	271	Sep-08	-	22,021,061	28,624	-	
Canada 10 Year Bond	1	Dec-08	112,714	-	19	-	
Euro-Bobl	271	Sep-08	-	43,165,619	57,375	-	
Euro-Bund	37	Sep-08	-	6,218,666	-	12,919	
Euro-Schatz	34	Sep-08	-	5,164,580	1,510	-	
90 Day Sterling Libor	6	Mar-09	-	1,297,034	-	265	
90 Day Sterling Libor	5	Jun-09	-	1,083,141	-	277	
90 Day Sterling Libor	9	Jun-09	1,949,654	-	500	-	
90 Day Bank Acceptance	79	Dec-08	-	18,103,623	-	11,059	
3Month Euro Euribor	15	Dec-08	5,241,578	-	545	-	
3Month Euro Euribor	92	Mar-09	32,243,158	-	-	39	
3Month Euro Euribor	31	Jun-09	10,885,080	-	7,170	-	
Japan 10 Year Bond	7	Sep-08	-	8,925,042	-	7,163	
Japan 10 Year Bond	2	Sep-08	2,550,012	-	5,349	-	
Japan 10 Year Bond	1	Dec-08	-	1,273,071	-	14,052	
UK Long Gilt	8	Dec-08	1,633,238	-	2,583	-	
			<u>226,682,447</u>	<u>107,980,668</u>	<u>103,675</u>	<u>70,311</u>	
Foreign Equity							
Topix Index	856	Sep-08	99,028,611	-	2,769,123	-	
FTSE 100 Index	882	Sep-08	90,868,770	-	628,200	-	
			<u>189,897,381</u>	<u>-</u>	<u>3,397,323</u>	<u>-</u>	
Total			<u>\$ 1,126,261,829</u>	<u>\$ 436,422,278</u>	<u>\$ 5,764,888</u>	<u>\$ 6,411,890</u>	

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Note 9 – Foreign Currency Exchange Contracts

The tables below summarize by currency the contractual amounts of the PUF’s foreign currency exchange contracts at August 31, 2009 and 2008. Foreign currency amounts are translated at exchange rates as of August 31, 2009 and 2008. The “Net Buy” amounts represent the U.S. dollar equivalent of net commitments to purchase foreign currencies, and the “Net Sell” amounts represent the U.S. dollar equivalent of net commitments to sell foreign currencies.

Currency	Net Buy August 31, 2009	Net Sell August 31, 2009	Unrealized Gains on Foreign Currency Exchange Contracts August 31, 2009	Unrealized Losses on Foreign Currency Exchange Contracts August 31, 2009
Australian Dollar	\$ –	\$ 12,691,381	\$ –	\$ 150,611
Brazilian Real	2,370,239	–	152,863	–
Bulgarian Lev	–	1,268,052	–	29,470
Canadian Dollar	4,478,369	–	3,353	151,789
Chilean Peso	18,125	–	3,227	2,592
Chinese Yuan Renminbi	5,021,493	–	9,252	172,425
Danish Krone	1,158,984	–	27,654	–
Estonia Kroon	–	1,858,959	–	48,823
Euro	9,846,124	–	390,843	438,767
Hong Kong Dollar	–	511,279	–	10
Indian Rupee	–	7,590	54	8
Japanese Yen	38,303,903	–	1,606,745	638,484
Malaysian Ringgit	529,302	–	7,139	30
Mexican Peso	639,041	–	61,583	–
New Zealand Dollar	–	1,672,720	525	50,990
Norwegian Kroner	1,120,801	–	238,318	144,886
Philippines Peso	–	17,332	87	–
Singapore Dollar	475,377	–	5,342	41
South African Rand	638,935	–	121,492	–
South Korean Won	11,985,759	–	107,478	24,922
Swedish Krona	1,745,812	–	490,046	122,393
Taiwan Dollar	1,223,231	–	2,702	2,836
Thailand Baht	549,382	–	5,261	–
Turkish Lira	1,678,768	–	75,638	–
UK Pound	30,726,878	–	242,441	631,640
	\$ 112,510,523	\$ 18,027,313	\$ 3,552,043	\$ 2,610,717

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Currency	Net Buy August 31, 2008	Net Sell August 31, 2008	Unrealized Gains on Foreign Currency Exchange Contracts August 31, 2008	Unrealized Losses on Foreign Currency Exchange Contracts August 31, 2008
Australian Dollar	\$ —	\$ 5,055,889	\$ 160,199	\$ 14,472
Brazilian Real	3,316,711	—	479,140	492,359
Canadian Dollar	7,399,698	—	—	53,070
Chilean Peso	291,972	—	—	26,554
Chinese Yuan Renminbi	9,312,138	—	152,417	394,574
Danish Krone	—	19,342,411	861,616	1,077
Euro	205,863,575	—	5,362	10,094,388
Hong Kong Dollar	—	36,326	—	15
Indian Rupee	231,598	—	2,788	187,769
Japanese Yen	26,973,292	—	1,363,866	295,429
Malaysian Ringgit	4,949,373	—	20,416	525,286
Mexican Peso	844,259	—	18,481	—
New Zealand Dollar	171,390	—	—	15
Norwegian Kroner	427,633	—	—	15,781
Philippines Peso	1,018,825	—	—	36,223
Polish Zloty	—	2,548,356	58,331	10,846
Russian Rouble	211,424	—	12,514	30,048
South African Rand	680,240	—	48,950	2,249
Saudi Arabia Riyal	966,162	—	—	15,838
Singapore Dollar	2,911,625	—	—	55,917
South Korean Won	3,465,548	—	2,161	271,504
Swedish Krona	2,124,392	—	2,583	137,817
Swiss Franc	—	8,451,774	416,421	—
Taiwan Dollar	1,442,825	—	29,097	116,789
Turkish Lira	2,855,148	—	88,526	—
UK Pound	—	20,874,110	2,040,282	415,240
	\$ 275,457,828	\$ 56,308,866	\$ 5,763,150	\$ 13,193,260

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 \$3,666,850,000 in UT System flexible rate notes in the event of a failed remarketing of such notes. The individual funds under management are not committed to a specific amount, rather all of the funds may be required to provide for the amount noted.

The PUF also has an agreement with the TAMU System Board of Regents which commits the PUF to acquire up to \$80,000,000 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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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 assets 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, 2009 and 2008 were \$530,932,622 and \$448,942,761, respectively. The PUF distribution to the AUF for the year ending August 31, 2010, will be \$516,419,406. The first payment in the amount of \$129,104,852 was made September 1, 2009.

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 0.07% to 1.5%. 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 Assets represent only those paid directly from the PUF, and do not include fees incurred and charged by general partners in private investments, fees charged by mutual fund managers, and fees charged by hedge fund managers as these types of fees are netted directly against returns for those investments in accordance with standard industry practice. In addition, the PUF incurs consulting fees for investment planning services.

UTIMCO assesses the PUF a management fee to cover the costs of managing the PUF investments and providing day-to-day operations. The fee assessed for the year ended August 31, 2009 was \$8,134,921. The fee assessed for the year ended August 31, 2008 was \$7,541,715.

The PUF is assessed a fee to cover expenses related to the management of the PUF Lands. The fee assessed for the years ended August 31, 2009 and 2008, were \$8,806,445 and \$6,352,561, 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 \$270,750 and \$250,669, were charged to the PUF for the years ended August 31, 2009 and 2008, 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, 2009 and 2008 were \$834,367 and \$880,282, respectively.

The PUF incurs legal fees associated with the review of new investment manager agreements and with due diligence efforts undertaken as part of the hiring of new investment managers. For the years ended August 31, 2009 and 2008, fees incurred were \$282,206 and \$841,234, respectively.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Analytical and risk measurement fees, in the amounts of \$420,271 and \$474,365, were also incurred during the years ended August 31, 2009 and 2008, respectively, to maintain a sophisticated risk measurement system for the PUF.

Accounting fees, in the amount of \$283,414 and \$345,040, were paid by the PUF during the years ended August 31, 2009 and 2008, respectively, for external and internal audit services.

Consulting fees, in the amount of \$311,919 and \$408,160, respectively, for the years ending August 31, 2009 and 2008 were incurred for investment strategy and other investment consulting services.

The PUF incurs other expenses related to its operations primarily consisting of printing and graphic expenses and fees to conduct background checks on investment personnel of potential external investments managers.

PERMANENT UNIVERSITY FUND

Supplemental Schedules

Comparison Summary of Investments

August 31, 2009 and 2008

(in thousands)

	2009		2008	
	Value	% of Total Investments	Value	% of Total Investments
Equity Securities				
Domestic Common Stock	\$ 489,320	5.06%	\$ 687,030	5.91%
Foreign Common Stock	555,105	5.74%	517,805	4.45%
Total Equity Securities	<u>1,044,425</u>	<u>10.80%</u>	<u>1,204,835</u>	<u>10.36%</u>
Preferred Stock				
Domestic Preferred Stock	1,939	.02%	2,351	.02%
Foreign Preferred Stock	11,561	.12%	-	.00%
Total Preferred Stock	<u>13,500</u>	<u>.14%</u>	<u>2,351</u>	<u>.02%</u>
Debt Securities				
U. S. Government Obligations	338,510	3.50%	576,075	4.95%
Foreign Government and Provincial Obligations	168,674	1.74%	230,920	1.99%
Corporate Obligations	476,304	4.92%	459,678	3.95%
Other	4,007	.05%	12,058	.10%
Total Debt Securities	<u>987,495</u>	<u>10.21%</u>	<u>1,278,731</u>	<u>10.99%</u>
Convertible Securities	<u>-</u>	<u>.00%</u>	<u>80</u>	<u>.00%</u>
Purchased Options	<u>21,056</u>	<u>.22%</u>	<u>3,257</u>	<u>.03%</u>
Investment Funds				
Hedge Funds	2,807,508	29.03%	3,625,181	31.17%
Private Investments	2,193,916	22.68%	2,121,107	18.24%
Developed Country Equity	620,359	6.41%	1,055,794	9.08%
Emerging Markets Equity	821,289	8.49%	1,072,146	9.22%
Real Estate	70,548	.73%	133,315	1.15%
Fixed Income	231,619	2.39%	191,709	1.65%
Total Investment Funds	<u>6,745,239</u>	<u>69.73%</u>	<u>8,199,252</u>	<u>70.51%</u>
Cash and Cash Equivalents				
Money Market Funds Maintained to Back Derivative Contracts	560,695	5.80%	633,434	5.45%
Other Money Market Funds and Cash Held at State Treasury	300,611	3.10%	306,789	2.64%
Total Cash and Cash Equivalents	<u>861,306</u>	<u>8.90%</u>	<u>940,223</u>	<u>8.09%</u>
Total Investment in Securities	<u>\$ 9,673,021</u>	<u>100.00%</u>	<u>\$ 11,628,729</u>	<u>100.00%</u>

PERMANENT UNIVERSITY FUND

Supplemental Schedules (cont.)

	Beginning Cost	Purchases	Sales, Maturities & Redemptions	Gains (Losses)	Reclass	Ending Cost	Investment Income
Equity Securities							
Domestic Common Stock	\$ 659,949	\$ 821,539	\$ (770,882)	\$ (205,062)	\$ (4,463)	\$ 501,081	\$ 15,899
Foreign Common Stock	567,235	665,360	(536,439)	(175,324)	4,463	525,295	11,683
Total Equity Securities	<u>1,227,184</u>	<u>1,486,899</u>	<u>(1,307,321)</u>	<u>(380,386)</u>	<u>-</u>	<u>1,026,376</u>	<u>27,582</u>
Preferred Stock							
Domestic Preferred Stock	2,336	49	-	-	-	2,385	84
Foreign Preferred Stock	-	18,667	(9,280)	1,386	-	10,773	320
Total Preferred Stock	<u>2,336</u>	<u>18,716</u>	<u>(9,280)</u>	<u>1,386</u>	<u>-</u>	<u>13,158</u>	<u>404</u>
Debt Securities							
U. S. Government Obligations	570,422	2,258,014	(2,498,232)	(3,627)	-	326,577	13,359
Foreign Government and Provincial Obligations	235,372	848,632	(911,529)	(4,536)	849	168,788	5,212
Corporate Obligations	477,286	294,817	(291,412)	(12,662)	(468)	467,561	23,759
Swaps	-	-	-	-	-	-	5,608
Other	12,320	4,525	(9,178)	(2,757)	(381)	4,529	465
Total Debt Securities	<u>1,295,400</u>	<u>3,405,988</u>	<u>(3,710,351)</u>	<u>(23,582)</u>	<u>-</u>	<u>967,455</u>	<u>48,403</u>
Purchased Options	<u>4,635</u>	<u>-</u>	<u>(1,065)</u>	<u>10,256</u>	<u>-</u>	<u>13,826</u>	<u>-</u>
Convertible Securities	<u>100</u>	<u>50</u>	<u>(127)</u>	<u>(23)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Investment Funds							
Hedge Funds	3,068,551	391,924	(864,370)	12,606	-	2,608,711	-
Private Markets	2,002,554	548,675	(113,502)	14,756	-	2,452,483	14,695
Developed Country Equity	1,043,453	539,495	(793,663)	(206,922)	-	582,363	3,400
Emerging Markets	1,118,683	753,349	(808,607)	(398,962)	-	664,463	11,541
Real Estate	151,207	12,765	(58,700)	(11,673)	-	93,599	2,726
Fixed Income	201,639	62,728	(31,270)	(5,147)	-	227,950	3,956
Total Investment Funds	<u>7,586,087</u>	<u>2,308,936</u>	<u>(2,670,112)</u>	<u>(595,342)</u>	<u>-</u>	<u>6,629,569</u>	<u>36,318</u>
Cash and Cash Equivalents							
Money Market Funds and Cash Held at State	940,318	1,196,799	(1,084,334) *	(189,522) **	-	863,261	9,976
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,356</u>
Total Investment in Securities	<u>\$ 11,056,060</u>	<u>\$ 8,417,388</u>	<u>\$ (8,782,590)</u>	<u>\$ (1,177,213)</u>	<u>\$ -</u>	<u>\$ 9,513,645</u>	<u>\$ 125,039</u>

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

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