

Financial Statements
and Independent Auditors' Report
Permanent University Fund
Years Ended August 31, 2013 and 2012

Permanent University Fund

Financial Statements

Years Ended August 31, 2013 and 2012

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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

Report on the Financial Statements

We have audited the accompanying Statements of Fiduciary Net Position of the Permanent University Fund (the "PUF"), as of August 31, 2013, and August 31, 2012, and the related Statements of Changes in Fiduciary Net Position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the PUF as of August 31, 2013 and 2012, and the changes in its fiduciary net position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the PUF are intended only to present the fiduciary net position of the PUF as of August 31, 2013 and 2012, and the changes in its fiduciary net position for the years then ended in conformity with accounting principles generally accepted in the United States and do not purport to, and do not, present the fiduciary net position of UTIMCO or The University of Texas System, as of August 31, 2013 or 2012, or the changes in their fiduciary net position for the years then ended.

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.

As discussed in Note 2, the financial statements include investments valued at \$10,374,753,862 (68.0% of total assets) and \$9,147,993,604 (66.0% of total assets) as of August 31, 2013 and August 31, 2012, 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.

Our opinion is not modified with respect to these three matters.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

Deloitte & Touche LLP

October 31, 2013

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

Our discussion and analysis of the Permanent University Fund's (PUF) financial performance provides an overview of its activities for the years ended August 31, 2013 and 2012. 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 and conditions.

Financial Highlights

The PUF's net fiduciary position after distributions increased by \$1,382.2 million from \$13,470.3 million to \$14,852.5 million, or approximately 10.26% for the year ended August 31, 2013, compared to an increase of \$782.4 million or approximately 6.17% for the year ended August 31, 2012. The change in net fiduciary position from year to year is mainly attributable to the following:

1. The PUF posted a net investment return of 8.79%, calculated using the Modified Dietz Method as described by the CFA Institute, for the year ended August 31, 2013. Investments in credit-related fixed income, developed country equities and real estate were the biggest contributors to the 2013 return. For the year ended August 31, 2012 the PUF posted a net investment return of 3.21%. Investments in developed country equities, credit-related fixed income and real estate were the biggest contributors to the 2012 returns.
2. Fiscal year 2013 contributions of PUF Lands mineral income decreased by 10.3% from \$954.5 million to \$856.5 million and represented 6.0% of the average value of the PUF investments during the year, compared to fiscal year 2012 contributions which increased by 6.6%, from \$895.6 million to \$954.5 million and represented 7.4% of the average value of the PUF investments during the year. PUF Lands expenses were \$8.9 million and \$9.1 million for the years ending August 31, 2013 and 2012, respectively. PUF Lands consist of more than 2.1 million acres in 19 counties primarily in West Texas.
3. The PUF's annual distribution to the Available University Fund (AUF) increased by 12.0% in fiscal year 2013, compared to an increase of 13.6% in fiscal year 2012.

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Use of Financial Statements and Notes

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

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

The statements of fiduciary net position present assets, liabilities, and the net position of the PUF under UTIMCO management as of the end of the fiscal year. These statements, along with all 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.

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Assets			
Investments, at Fair Value	\$ 14,851.3	\$ 13,462.4	\$ 12,674.9
Other Assets	413.1	406.1	457.8
Total Assets	<u>15,264.4</u>	<u>13,868.5</u>	<u>13,132.7</u>
Total Liabilities	<u>411.9</u>	<u>398.2</u>	<u>444.8</u>
Net Position Held in Trust	<u>\$ 14,852.5</u>	<u>\$ 13,470.3</u>	<u>\$ 12,687.9</u>

Statements of Changes in Fiduciary Net Position

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

The net increase in investments of the PUF was \$1,073.5 million during the year compared to a net increase in investments of \$324.2 million for the year ended August 31, 2012. Investment expenses totaled \$44.4 million, \$30.3 million, and \$35.7 million, respectively, for the years ended August 31, 2013, 2012, and 2011.

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 the PUF's net position after distributions is maintained over rolling 10-year periods.

Distributions to the AUF increased by \$68.8 million, from \$575.5 million in fiscal year 2012 to \$644.3 million, in fiscal year 2013. The fiscal year 2012 distribution amount increased by \$69.1 million from the fiscal year 2011 distribution of \$506.4 million. PUF distributions are determined by the UT Board as provided in the Texas Constitution, which directs the UT Board to establish a distribution policy that provides stable, inflation-adjusted distributions to the AUF and preserves the real value of the PUF investments over the long term. To achieve this, the annual distribution is established at 4.75% of the prior 12 quarters' average net position of the PUF investments, as determined each February 28 for the following fiscal year, unless the average annual rate of return of PUF investments over the trailing 12 quarters exceeds the expected return of the Endowment Policy Portfolio by 25 basis points or more, in which case the distribution is calculated at 5.00% of the trailing 12 quarters' average net position. However, the distributions to the AUF are at the discretion of the UT Board 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;

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3. Distributions may not exceed 7% of the average net fair market value of PUF investments in any fiscal year, except as necessary to pay debt service on PUF Bonds.

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Investment Income	\$ 1,223.5	\$ 443.0	\$ 1,619.7
Less Investment Expenses	44.4	30.3	35.7
PUF Lands Contributions	856.5	954.5	895.6
Total Additions	<u>2,035.6</u>	<u>1,367.2</u>	<u>2,479.6</u>
Administrative Expenses			
PUF Lands Expenses	8.9	9.1	10.0
UT System Oversight Fee	0.2	0.2	0.3
Distributions to AUF	644.3	575.5	506.4
Total Deductions	<u>653.4</u>	<u>584.8</u>	<u>516.7</u>
Change in Fiduciary Net Position	1,382.2	782.4	1,962.9
Net Position Held in Trust, Beginning of Year	<u>13,470.3</u>	<u>12,687.9</u>	<u>10,725.0</u>
Net Position Held in Trust, End of Year	<u><u>\$14,852.5</u></u>	<u><u>\$13,470.3</u></u>	<u><u>\$12,687.9</u></u>

Contacting UTIMCO

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

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Statements of Fiduciary Net Position

August 31, 2013 and 2012

(in thousands)

Assets	2013	2012
Investments, at Fair Value:		
Equity Securities	\$ 1,903,670	\$ 1,554,166
Preferred Stock	46,478	46,661
Debt Securities	814,327	1,048,676
Convertible Securities	423	573
Investment Funds	10,476,618	9,249,190
Purchased Options	27,314	35,453
Physical Commodities	375,683	591,201
Cash and Cash Equivalents	1,206,760	936,441
Total Investments	<u>14,851,273</u>	<u>13,462,361</u>
Collateral for Securities Loaned, at Fair Value	287,587	243,295
Deposits with Brokers for Derivative Contracts	68,409	80,872
Unrealized Gains on Foreign Currency Exchange Contracts	11,362	7,180
Futures Contracts, at Fair Value	4,057	2,695
Swaps, at Fair Value	832	4,625
Receivables:		
Investment Securities Sold	28,475	52,466
Accrued Income	12,372	14,758
Other	12	232
Total Receivables	<u>40,859</u>	<u>67,456</u>
Total Assets	<u>15,264,379</u>	<u>13,868,484</u>
Liabilities		
Payable Upon Return of Securities Loaned	287,587	243,295
Payable to Brokers for Collateral Held	25,428	22,760
Unrealized Losses on Foreign Currency Exchange Contracts	13,665	11,957
Futures Contracts, at Fair Value	4,270	4,009
Swaps, at Fair Value	775	3,237
Options Written, at Fair Value	640	12,261
Payables:		
Investment Securities Purchased	69,798	91,266
Other	9,677	9,436
Total Payables	<u>79,475</u>	<u>100,702</u>
Total Liabilities	<u>411,840</u>	<u>398,221</u>
Net Position Held in Trust	<u>\$14,852,539</u>	<u>\$13,470,263</u>

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

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Statements of Changes in Fiduciary Net Position

Years Ended August 31, 2013 and 2012

(in thousands)

	<u>2013</u>	<u>2012</u>
Additions		
Investment Income:		
Net Increase in Investments	\$ 1,073,491	\$ 324,197
Interest	39,051	47,866
Dividends	41,197	39,339
Income Distributions from Private Investment Funds	67,695	28,609
Securities Lending Income	554	641
Other Income	1,596	2,279
Total Investment Income	<u>1,223,584</u>	<u>442,931</u>
Less Investment Expenses:		
Investment Management Fees	29,537	18,962
UTIMCO Management Fee	12,158	8,900
Custodial Fees and Expenses	1,933	1,989
Legal Fees	397	474
Accounting Fees	181	147
Analytical and Risk Measurement Fees	348	332
Consulting Fees	207	207
Background Check Fees	189	153
Foreign Tax Consulting and Filing Fees	43	71
Other Expenses	6	40
Securities Lending Fees	(582)	(989)
Total Investment Expenses	<u>44,417</u>	<u>30,286</u>
Net Investment Income	1,179,167	412,645
Contributions from PUF Lands	856,459	954,493
Total Additions	<u>2,035,626</u>	<u>1,367,138</u>
Deductions		
Administrative Expenses:		
PUF Lands Expenses	8,894	9,103
UT System Oversight Fee	156	207
Total Administrative Expenses	<u>9,050</u>	<u>9,310</u>
Distributions to Available University Fund	644,300	575,511
Total Deductions	<u>653,350</u>	<u>584,821</u>
Change in Fiduciary Net Position	1,382,276	782,317
Net Position Held in Trust, Beginning of Year	13,470,263	12,687,946
Net Position Held in Trust, End of Year	<u>\$ 14,852,539</u>	<u>\$ 13,470,263</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 value is 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 accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

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

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

(C) Management has evaluated subsequent events through October 31, 2013, the date the financial statements were available to be issued. No subsequent events requiring adjustment to, or disclosure in, the financial statements were identified as a result of this evaluation.

Note 2 – Significant Accounting Policies

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

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Notes to Financial Statements (cont.)

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

Equity security fair values are based on the closing price on the primary exchange on which the security is traded (if a closing price is not available, the average of the last reported bid and ask price is used).

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

Private investment funds, which consist of non-regulated investment funds, 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 fair value. As of August 31, 2013 and 2012, investments in private investment funds in the amount of \$3,919,976,176 and \$3,547,861,137 have been estimated by management.

Hedge funds, developed country equity, emerging markets equity and fixed income investment funds and certain other private placements are fair valued by management based on net asset value information provided by the investment managers as well as other relevant factors as indicated above. As of August 31, 2013 and 2012, investments in these funds in the amount of \$6,454,777,686 and \$5,600,132,467, respectively, have been estimated by management.

The statements of fiduciary net position include investments in private investment funds, hedge funds and other private placements as described above fair valued in the aggregate at \$10,374,753,862 (68.0% of total assets) and \$9,147,993,604 (66.0% of total assets) as of August 31, 2013 and 2012, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values.

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

(C) ***Investment Income and Investment Expenses*** -- Interest income is accrued as earned. Dividend income is recorded on the ex-dividend date. Dividend and interest income are recorded net of foreign taxes where recovery of such taxes is not assured. For the years ended August 31, 2013 and 2012, interest and dividend withholding in the amounts of \$2,716,673 and \$2,770,430 have been netted against dividend and interest income. Investment income includes net realized and unrealized

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Notes to Financial Statements (cont.)

currency gains and losses recognized between accrual and payment dates on dividend and interest transactions. Investment expenses are recorded on the accrual basis as incurred.

(D) ***Security Transactions*** -- Security transactions are recorded on a trade date basis. Gains and losses on securities sold are determined 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 fair 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 and foreign currency exchange contracts are fair valued at closing market prices on valuation date. Options and swaps are fair 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 cash market securities, through purchases or short sales, or both, of appropriate derivatives,
- construct portfolios with risk and return characteristics that could not be created with cash market securities,
- hedge and control risks, or
- facilitate transition trading.

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

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

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

Swaps -- The PUF invests in certain types of swaps to increase or decrease its exposure to long-term interest rates 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 position. Cash flows may occur when a swap is opened, when it resets, if or when it is prematurely terminated by both parties to the agreement, and when it reaches maturity. The frequency of the resets is defined by the term sheet of the particular swap agreement, and varies from instrument to instrument. These instruments involve market and/or credit risk in excess of the amount recognized in the statements of fiduciary net position. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movement in currency and securities fair values and interest rates.

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

Foreign 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 currency for an agreed-upon price on an agreed future date. These contracts are fair

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Notes to Financial Statements (cont.)

valued daily and the PUF's net equity therein, representing unrealized gain or loss on the contracts as measured by the difference between the forward foreign exchange rates at the dates of entry into the contracts and the forward rates at the reporting date, is included in the statements of fiduciary net position. Realized and unrealized gains and losses are included in the net increase in investments in the statements of changes in fiduciary net position. These instruments involve market and/or credit risk in excess of the amount recognized in the statements of fiduciary net position. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movement in currency and securities fair values and interest rates.

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

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

(I) ***Recently Issued Accounting Standards*** -- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* was adopted in fiscal year 2013. The adoption resulted in the renaming of net assets to net position in the two required financial statements for fiduciary funds as well as the accompanying notes and disclosures.

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.

(A) *Credit Risk*

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

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The PUF's investment policy does not provide specific requirements or limitations with regards to investment ratings. Per GASB Statement No. 40 (GASB 40), *Deposit*

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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, 2013 and 2012:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type	August 31,		Rating
	2013	2012	
Investments:			
U.S. Government Guaranteed	\$ 171,952,692	\$ 117,247,476	AA
U.S. Government Non-Guaranteed:			
U.S. Agency	3,005,912	1,270,968	AA
U.S. Agency Asset Backed	48,969,983	76,664,617	AA
Total U.S. Government Non-Guaranteed	51,975,895	77,935,585	
Total U.S. Government	223,928,587	195,183,061	
Corporate Obligations:			
Domestic	9,471,722	14,150,666	AAA
Domestic	8,334,002	6,910,685	AA
Domestic	51,499,719	74,243,436	A
Domestic	34,830,213	62,480,111	BAA/BBB
Domestic	6,016,349	8,209,617	BA/BB
Domestic	3,254,279	5,469,930	B
Domestic	5,142,432	5,384,226	CAA/CCC
Domestic	745,337	2,968,452	CA/CC
Domestic	943,869	-	C
Domestic	-	501,448	D
Domestic	1,268,916	1,260,013	Not Rated
Foreign	42,492,904	49,232,087	AAA
Foreign	21,507,535	14,777,758	AA
Foreign	17,538,642	23,231,290	A
Foreign	23,910,079	23,843,887	BAA/BBB
Foreign	5,946,940	4,321,298	BA/BB
Foreign	-	2,629,219	B
Foreign	277,190	870,725	CAA/CCC
Total Corporate Obligations	233,180,128	300,484,848	
Foreign Government and Provincial Obligations	76,861,030	147,568,759	AAA
Foreign Government and Provincial Obligations	98,039,575	60,440,285	AA
Foreign Government and Provincial Obligations	46,975,675	102,378,269	A
Foreign Government and Provincial Obligations	108,306,504	126,823,488	BAA/BBB
Foreign Government and Provincial Obligations	23,390,616	22,914,523	BA/BB
Foreign Government and Provincial Obligations	-	75,987,003	Not Rated
Total Foreign Government and Provincial Obligations	353,573,400	536,112,327	
Other Debt Securities	-	911,028	AAA
Other Debt Securities	994,644	4,172,921	AA
Other Debt Securities	1,858,241	9,138,862	A
Other Debt Securities	-	685,277	BAA/BBB
Other Debt Securities	232,413	-	BA/BB
Other Debt Securities	559,331	1,987,714	B
Total Other Debt Securities	3,644,629	16,895,802	
Total Debt Securities	\$ 814,326,744	\$ 1,048,676,038	
Convertible Securities	\$ 422,527	\$ 572,888	B
Other Investment Funds - Debt	\$ 15,243,096	\$ 14,962,332	BA/BB
Cash and Cash Equivalents - Money Market Funds	\$ 1,138,359,416	\$ 914,780,552	AAA
Cash and Cash Equivalents	68,400,240	21,660,561	Not Rated
Total Cash and Cash Equivalents	\$ 1,206,759,656	\$ 936,441,113	
Net Deposit with Brokers for Derivative Contracts:			
U.S. Government Guaranteed	\$ 28,955,528	\$ 628,023	AA
Foreign Government and Provincial Obligations	(728,751)	-	AA
Foreign Government and Provincial Obligations	-	20,152,818	BAA/BBB
Foreign Government and Provincial Obligations	-	19,150,336	Not Rated
Cash	14,754,158	18,181,161	Not Rated
Total Net Deposit with Brokers for Derivative Contracts	\$ 42,980,935	\$ 58,112,338	

(B) Concentrations of Credit Risk

The PUF's investment policy statement contains the limitation that no more than 5% of the market value of fixed income securities may be invested in corporate or municipal bonds of a single issuer.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

As of August 31, 2013 and 2012, the PUF does not hold any direct investments in any one issuer of corporate or municipal bonds that is 5% or more of the market value of the PUF's fixed income investments.

(C) Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the PUF will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the PUF will not be able to recover the fair value of its investment or collateral securities that are in the possession of another party. Texas State Statutes and the PUF's investment policy statements do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. As of August 31, 2013 and 2012, the PUF does not have any deposits or investments that are exposed to custodial credit risk.

(D) Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Interest rate risk inherent in the PUF is measured by monitoring the modified duration of the overall investment portfolio. Modified duration estimates the sensitivity of the PUF's investments to changes in interest rates. The PUF has no specific policy statement limitations with respect to its overall modified duration. The following table summarizes the PUF's modified duration by investment type at August 31, 2013 and 2012:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type	August 31,			
	2013		2012	
	Fair Value	Modified Duration	Fair Value	Modified Duration
Investments:				
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	\$ 141,464,440	8.03	\$ 90,416,074	7.83
U.S. Treasury Bills	16,719,474	0.29	20,642,821	0.55
U.S. Treasury Inflation Protected	10,841,410	14.15	935,396	6.11
U.S. Agency Asset Backed	2,927,368	4.07	5,253,185	4.40
Total U.S. Government Guaranteed	<u>171,952,692</u>	7.59	<u>117,247,476</u>	6.38
U.S. Government Non-Guaranteed:				
U.S. Agency	3,005,912	0.95	1,270,968	3.00
U.S. Agency Asset Backed	48,969,983	3.96	76,664,617	3.15
Total U.S. Government Non-Guaranteed	<u>51,975,895</u>	3.79	<u>77,935,585</u>	3.15
Total U.S. Government	<u>223,928,587</u>	6.71	<u>195,183,061</u>	5.09
Corporate Obligations:				
Domestic	121,506,838	5.13	181,578,584	6.29
Foreign	111,673,290	5.25	118,906,264	5.55
Total Corporate Obligations	<u>233,180,128</u>	5.19	<u>300,484,848</u>	6.00
Foreign Government and Provincial Obligations	<u>353,573,400</u>	5.27	<u>536,112,327</u>	6.48
Other Debt Securities	<u>3,644,629</u>	9.61	<u>16,895,802</u>	12.85
Total Debt Securities	<u>814,326,744</u>	5.66	<u>1,048,676,038</u>	6.18
Convertible Securities	<u>422,527</u>	14.35	<u>572,888</u>	29.03
Other Investment Funds - Debt	<u>15,243,096</u>	7.00	<u>14,962,332</u>	6.90
Cash and Cash Equivalents	<u>1,206,759,656</u>	0.08	<u>936,441,113</u>	0.07
Total	<u>\$ 2,036,752,023</u>	2.37	<u>\$ 2,000,652,371</u>	3.33
Net Deposit with Brokers for Derivative Contracts:				
U.S. Government Guaranteed:				
U.S. Treasury Bills	\$ 28,333,805	0.36	\$ 328,467	0.76
U.S. Treasury Bonds and Notes	(334,116)	-	28,257	18.80
U.S. Treasury Inflation Protected	955,839	11.65	271,299	13.78
Total U.S. Government Guaranteed	<u>28,955,528</u>	0.74	<u>628,023</u>	7.19
Foreign Government and Provincial Obligations	<u>(728,751)</u>	-	<u>39,303,154</u>	5.50
Cash	<u>14,754,158</u>	-	<u>18,181,161</u>	-
Total Net Deposit with Brokers for Derivative Contracts	<u>\$ 42,980,935</u>	0.50	<u>\$ 58,112,338</u>	3.79

The PUF has purchased options on ten year constant maturity swaps and certain currencies, with expirations ranging from five to seven years, as insurance against possible future increases in inflation. As of August 31, 2013 these options had a notional value of \$5,891,000,000 and a fair value of \$11,654,255. As of August 31, 2012 these options had a notional value of \$5,891,000,000 and a fair value of \$8,371,321. The risk of loss on these options is limited to the premiums paid by the

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

PUF upon the purchase of the options, which totaled \$33,121,408 as of August 31, 2013 and 2012. The PUF also purchased both puts and swaptions on the Japanese Yen, with expirations ranging from one to two years, as insurance against the possibility of a downturn in the Japanese economy. As of August 31, 2013 these puts and swaptions had a notional value of \$3,375,995,895 with a fair value of \$15,226,891 and a loss limited to \$25,655,664 which represents the premiums paid. As of August 31, 2012 these puts and swaptions had a notional value of \$3,490,630,527 with a fair value of \$3,230,880 and a loss limited to \$29,750,866 which represents the premiums paid. It is estimated that these options would adjust the 2013 duration of total debt securities of 5.66 downward by approximately 0.72, and the total duration of 2.37 downward by approximately 0.52. It is estimated that these options would adjust the 2012 duration of total debt securities of 6.18 downward by approximately 0.42, and the total duration of 3.33 downward by approximately 0.41. One of the PUF's external managers also uses options and interest rate and credit default swaps to modify the duration of its portfolios in a cost efficient manner. It is estimated by management that these positions held by the external manager would not significantly adjust the duration of the PUF as presented above.

(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, 2013 and 2012, the PUF's investments include the following investments that are highly sensitive to interest rate changes:

Collateralized mortgage obligations which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. These securities amounted to \$48,825,005 and \$69,910,399 as of August 31, 2013 and 2012, 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 \$28,030,685 and \$45,625,594 as of August 31, 2013 and 2012, 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 \$4,162,923 and \$4,129,313 as of August 31, 2013 and 2012, respectively.

(F) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the PUF's non-U.S. dollar investments. There are no limitations on investments in non-U.S. 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.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

The classification of domestic common stock and foreign common stock is based on the country of domicile of the issuer, not the currency in which the security is traded. The following table summarizes the PUF's non-U.S. dollar investments by asset type at August 31, 2013 and 2012:

Investment Type	August 31,	
	2013	2012
Domestic Common Stock:		
Indian Rupee	\$ 49,147	\$ -
Foreign Common Stock:		
Australian Dollar	26,725,286	30,572,010
Brazilian Real	73,380,328	88,038,506
Canadian Dollar	36,148,014	28,852,554
Chilean Peso	2,376,452	2,740,206
Colombian Peso	457,654	-
Czech Koruna	1,586,688	1,402,100
Danish Krone	3,887,223	3,905,996
Egyptian Pound	1,511,921	1,074,530
Euro	72,187,992	65,009,302
Hong Kong Dollar	151,368,942	150,224,361
Hungarian Forint	714,221	1,106,184
Indian Rupee	18,362,438	17,217,040
Indonesian Rupiah	13,719,631	15,809,835
Japanese Yen	259,802,486	39,552,908
Malaysian Ringgit	20,511,210	21,595,515
Mexican Peso	16,611,214	16,678,208
Moroccan Dirham	402,380	429,602
Norwegian Kroner	5,142,689	1,185,883
Pakistan Rupee	1,021,137	760,522
Peruvian Nuevo Sol	3,550	5,152
Philippine Peso	16,163,155	11,489,321
Polish Zloty	6,203,444	6,706,152
Singapore Dollar	17,593,692	17,440,609
South African Rand	22,248,148	22,654,193
South Korean Won	70,834,368	63,376,338
Swedish Krona	18,840,091	16,197,616
Swiss Franc	14,466,372	12,341,814
Taiwan Dollar	48,132,416	39,188,983
Thai Baht	16,824,868	21,429,772
Turkish Lira	10,637,918	12,575,412
UK Pound	115,868,160	114,935,215
United Arab Emirates Dirham	2,739,960	1,279,456
Total Foreign Common Stock	1,066,474,048	825,775,295
Other Equity Securities:		
Chilean Peso	34	787
Hong Kong Dollar	8,299	-
Indian Rupee	234	-
Taiwan Dollar	166	-
Thai Baht	-	82,965
UK Pound	-	38
Total Other Equity Securities	8,733	83,790
Foreign Preferred Stocks:		
Brazilian Real	34,371,486	32,400,149
Colombian Peso	24,633	-
South Korean Won	-	651,024
Total Foreign Preferred Stock	34,396,119	33,051,173

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type (continued):	August 31,	
	2013	2012
Foreign Government and Provincial Obligations:		
Australian Dollar	\$ 33,497,361	\$ 35,883,476
Brazilian Real	16,303,000	171,481,793
Canadian Dollar	9,857,157	10,532,526
Colombian Peso	2,186,740	2,617,996
Euro	100,452,898	119,283,747
Hong Kong Dollar	808,309	772,242
Hungarian Forint	7,661,527	9,144,731
Japanese Yen	29,938,686	48,425,368
Malaysian Ringgit	2,452,776	9,710,675
Mexican Peso	35,566,599	32,811,501
New Zealand Dollar	27,422,192	27,665,733
Polish Zloty	16,149,870	25,882,605
Singapore Dollar	4,602,371	3,627,914
South African Rand	11,626,775	12,597,331
South Korean Won	8,240,478	10,240,602
Swedish Krona	421,537	-
Turkish Lira	4,793,210	-
UK Pound	31,689,154	50,046,116
Total Foreign Government and Provincial Obligations	343,670,640	570,724,356
Corporate Obligations:		
Australian Dollar	17,068,914	15,110,505
Canadian Dollar	1,190,524	1,512,813
Euro	26,342,853	48,249,473
Japanese Yen	1,640,491	2,337,096
New Zealand Dollar	1,217,234	1,336,615
Swedish Krona	902,288	-
UK Pound	19,120,654	17,950,232
Total Corporate Obligations	67,482,958	86,496,734
Purchased Options:		
Australian Dollar	-	4,528,875
Brazilian Real	-	516,133
Euro	-	8,236
Japanese Yen	15,226,891	3,230,880
South Korean Won	-	18,688,108
Total Purchased Options	15,226,891	26,972,232
Private Investments:		
Australian Dollar	10,999,903	-
Canadian Dollar	89,700,622	24,541,572
Euro	203,404,058	203,499,097
UK Pound	31,011,367	22,953,620
Total Private Investments	335,115,950	250,994,289
Investment Funds-Emerging Markets:		
Brazilian Real	14,947,329	6,613,396
Canadian Dollar	486,460	1,052,584
Euro	-	3,953,949
Hong Kong Dollar	1,304,777	1,257,371
Swedish Krona	737,474	773,472
Taiwan Dollar	392,579	74,420
UK Pound	54,356,877	50,839,034
Total Investment Funds-Emerging Markets	72,225,496	64,564,226
Investment Funds-Natural Resources:		
UK Pound	2,682,242	3,001,730

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type (continued):	August 31,	
	2013	2012
Cash and Cash Equivalents:		
Australian Dollar	\$ 284,826	\$ 1,081,403
Brazilian Real	7,147,518	1,180,035
Canadian Dollar	73,252	60,358
Chilean Peso	6,325	12,515
Colombian Peso	3,932	-
Czech Koruna	10,437	39,454
Danish Krone	156	9,455
Egyptian Pound	1	771
Euro	20,485,502	1,927,459
Hong Kong Dollar	2,037,995	974,170
Hungarian Forint	1,095	4,405
Indian Rupee	130,037	340,148
Indonesian Rupiah	807,355	50,431
Israeli Shekel	1	4,839
Japanese Yen	2,661,834	187,033
Malaysian Ringgit	66,195	203,539
Mexican Peso	281,133	48,739
Moroccan Dirham	19,101	6,318
New Zealand Dollar	161,996	1,281
Norwegian Kroner	192	51
Pakistan Rupee	66	49
Peruvian Nuevo Sol	423	443
Philippine Peso	36,228	9,244
Polish Zloty	102,536	104,823
Singapore Dollar	1,251	378,531
South African Rand	41,020	79,907
South Korean Won	226,258	430,981
Swedish Krona	404	14,198
Swiss Franc	1,034	297
Taiwan Dollar	392,182	1,191,029
Thailand Baht	438,848	50,610
Turkish Lira	19,557	113,903
UK Pound	6,201,478	548,343
Total Cash and Cash Equivalents	<u>41,640,168</u>	<u>9,054,762</u>
Written Options:		
Australian Dollar	-	(2,307,845)
Euro	(11,108)	-
South Korean Won	-	(9,276,041)
UK Pound	(20,478)	-
Total Written Options	<u>(31,586)</u>	<u>(11,583,886)</u>
Swaps:		
Australian Dollar	-	41,550
Euro	7,998	1,009
Japanese Yen	7,116	(1,562,370)
Mexican Peso	8,071	514,996
UK Pound	(5,840)	(173,493)
Total Swaps	<u>17,345</u>	<u>(1,178,308)</u>
Futures:		
Australian Dollar	667	(32,295)
Brazilian Real	-	(1,320,860)
Canadian Dollar	(2,046)	(8,533)
Euro	45,375	7,070
Japanese Yen	1,213	11,598
UK Pound	21,505	(922)
Total Futures	<u>66,714</u>	<u>(1,343,942)</u>
Total	<u>\$ 1,979,024,865</u>	<u>\$ 1,856,612,451</u>

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

(G) Counterparty (Credit) Risk

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

The PUF had gross counterparty exposure as of August 31, 2013 for options, swaps, and foreign currency exchange contracts shown in the following table:

Options				
<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2013</u>	<u>Fair Value as of August 31, 2013</u>	<u>Counterparty Rating</u>
\$ 9,268,795,895	\$ 39,977,990	\$ 27,160,777	\$ 574,227	A
Swaps				
<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2013</u>	<u>Fair Value as of August 31, 2013</u>	<u>Counterparty Rating</u>
\$ 32,853,242	\$ 32,607,643	\$ 826,045	\$ 714,732	A
Foreign Currency Exchange Contracts				
<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2013</u>	<u>Fair Value as of August 31, 2013</u>	<u>Counterparty Rating</u>
\$ 376,157,023	\$ 502,633,044	\$ 11,361,243	\$ 13,650,743	A
447,860	848,044	806	14,082	AA
\$ 376,604,883	\$ 503,481,088	\$ 11,362,049	\$ 13,664,825	

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

The PUF had gross counterparty exposure as of August 31, 2012 for options, swaps, and foreign currency exchange contracts shown in the following table:

Options								
<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>					
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2012</u>	<u>Fair Value as of August 31, 2012</u>					<u>Counterparty Rating</u>
\$ 11,315,481,766	\$ 1,673,346,974	\$ 34,827,420	\$ 12,119,360					A
Swaps								
<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>					
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2012</u>	<u>Fair Value as of August 31, 2012</u>					<u>Counterparty Rating</u>
\$ 171,505,976	\$ 236,593,357	\$ 3,030,110	\$ 1,397,182					A
12,443,220	1,632,861	1,612,299	1,632,037					AA
\$ 183,949,196	\$ 238,226,218	\$ 4,642,409	\$ 3,029,219					
Foreign Currency Exchange Contracts								
<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>					
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2012</u>	<u>Fair Value as of August 31, 2012</u>					<u>Counterparty Rating</u>
\$ 323,755,360	\$ 575,512,543	\$ 7,058,512	\$ 11,830,053					A
9,958,088	5,505,659	121,672	127,079					AA
\$ 333,713,448	\$ 581,018,202	\$ 7,180,184	\$ 11,957,132					

As of August 31, 2013 and 2012, the PUF also had investments in futures contracts, options on futures contracts and exchange-cleared swaps. Futures contracts, options on futures, and exchange-cleared swaps expose the PUF to minimal counterparty credit risk since they are exchange traded and the exchange's clearinghouse, as counterparty to all exchange traded futures, guarantees them against default, and therefore they are not presented in the table above.

Counterparty risk for swaps, options and foreign currency exchange contracts which are traded over-the-counter is mitigated by having master netting arrangements between the PUF and its counterparties, and by the posting of collateral on a daily basis by the counterparty to the PUF to cover the PUF's exposure to a counterparty above the limits set in place in each master netting agreement. Collateral posted by counterparties is held by the PUF in one of its accounts at the PUF's custodian bank. As of August 31, 2013 and 2012, the PUF held \$25,093,751 and \$22,760,000 respectively, of collateral related to derivative instruments other than futures, and had on deposit with brokers \$2,485,709 and \$40,287,822, respectively, as collateral related to derivative instruments other than futures.

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, net of rebates paid to borrowers, are included in investment expenses in the statement of changes in fiduciary net position. The PUF receives qualified securities and/or cash as collateral against the loaned securities. The collateral, when received, will have a market value of 102% of loaned securities of U.S. issuers and a market value of 105% for loaned securities of non-

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

U.S. issuers. If the market value of the collateral held in connection with loans of securities of U.S. issuers is less than 100% at the close of trading on any business day, the borrower is required to deliver additional collateral by the close of the next business day to equal 102% of the market value. For non-U.S. issuers, the collateral should remain at 105% of the market value of the loaned securities at the close of any business day. If it falls below 105%, the borrower must deliver additional collateral by the close of the following business day. The fair value of securities loaned and the fair value of collateral held are as follows at August 31, 2013 and 2012:

Securities on Loan	2013		Type of Collateral	2012	
	Fair Value	Fair Value		Fair Value of Collateral	Fair Value of Collateral
U.S. Government	\$ 44,906,252	\$ 19,037,541	Cash	\$ 45,884,434	\$ 19,428,346
Foreign Government	4,138,499	5,282,405	Cash	4,467,960	5,535,585
Corporate Bonds	17,544,060	14,745,988	Cash	18,079,791	15,146,637
Common Stock	210,249,797	193,491,774	Cash	219,155,115	203,184,364
Total	\$276,838,608	\$232,557,708	Total	\$287,587,300	\$243,294,932
U.S. Government	\$ 75,172,243	\$ 55,155,299	Non-Cash	\$ 76,850,090	\$56,294,988
Corporate Bonds	423,391	-	Non-Cash	432,841	-
Common Stock	119,406	1,445,549	Non-Cash	122,071	1,475,390
	\$ 75,715,040	\$ 56,600,848		\$ 77,405,002	\$ 57,770,378

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 (ITF) and other UT Board accounts that participate in securities lending activities by the securities lending agent. The pool is managed in accordance with investment guidelines established in the securities lending contract between the PUF and its securities lending agent. The maturities of the investments in the pool do not necessarily match the term of the loans, rather the pool is managed to maintain a maximum dollar-weighted average maturity of 60 days and an overnight liquidity of 20%. Lending income is earned if 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, 2013 and 2012 is shown in the following table:

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Notes to Financial Statements (cont.)

Description	August 31,					
	2013			2012		
	Fair Value	Rating	Weighted Average Maturity In Days	Fair Value	Rating	Weighted Average Maturity In Days
		No Rating			No Rating	
Repurchase Agreements	\$ 132,298,255	Available	3	\$ 119,076,034	Available	4
Treasuries	-	AA	-	3,382,832	AA	169
Agencies	-	P	-	6,639,605	P	36
Commercial Paper	61,271,228	P	56	52,414,272	P	57
Floating Rate Notes	2,045,490	AAA	-	-	AAA	-
Floating Rate Notes	57,694,304	AA	-	29,127,358	AA	-
Floating Rate Notes	18,922,232	A	-	8,148,031	A	-
Total Floating Rate Notes	78,662,026		38	37,275,389		40
Interest Bearing Notes	3,242,892	P	286	-	P	-
Certificates of Deposit	12,092,913	P	75	22,833,118	P	68
Time Deposits	-	P	-	1,691,740	P	24
Other Receivables/Payables	19,986	Not Rated	-	(18,058)	Not Rated	-
Total Collateral Pool Investment	\$ 287,587,300		30	\$ 243,294,932		30

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

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

In the event of default, where the borrower is unable to return the securities loaned, the 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, 2013 and 2012, 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, 2013 and 2012.

Note 5 – Investment Funds

Investment funds include exchange traded funds, index funds, Securities and Exchange Commission regulated mutual funds, externally managed funds, limited partnerships, and corporate structures

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

which are generally unrated and may be unregulated. The composition of investment funds at August 31, 2013 and 2012 is summarized in the table below as they are classified within the asset mix of the PUF.

	August 31,	
	2013	2012
Investment Funds:		
Hedge Funds:		
Developed Country Equity	\$ 2,859,563,518	\$ 2,506,130,610
Credit-Related Fixed Income	734,645,823	670,509,200
Investment Grade Fixed Income	426,522,942	377,498,116
Emerging Market Equity	276,528,717	341,402,806
Real Estate	75,018,582	74,546,228
Natural Resources	5,992,033	8,810,856
Total Hedge Funds	<u>4,378,271,615</u>	<u>3,978,897,816</u>
Private Investments:		
Developed Country Equity	1,640,085,181	1,622,533,262
Credit-Related Fixed Income	698,904,367	854,053,510
Natural Resources	698,467,693	423,388,221
Emerging Market Equity	390,548,093	332,749,561
Real Estate	491,970,842	315,136,583
Total Private Investments	<u>3,919,976,176</u>	<u>3,547,861,137</u>
Public Markets:		
Developed Country Equity:		
Private Placements	<u>1,415,313,898</u>	<u>1,109,334,130</u>
Emerging Markets:		
Private Placements	516,617,891	352,722,129
Other Investment Funds	82,200,546	80,548,205
Total Emerging Markets	<u>598,818,437</u>	<u>433,270,334</u>
Fixed Income:		
Publicly Traded Mutual Funds	<u>15,243,096</u>	<u>14,962,332</u>
Natural Resources		
Private Placements	144,574,281	159,178,392
Other Investment Funds	4,420,975	5,686,105
Total Natural Resources	<u>148,995,256</u>	<u>164,864,497</u>
Total Public Markets	<u>2,178,370,687</u>	<u>1,722,431,293</u>
Total Investment Funds	<u>\$10,476,618,478</u>	<u>\$ 9,249,190,246</u>

The PUF invests in hedge funds through unit interests in investment pools established in the name of the UT Board. Amounts presented in the PUF's financial statements and related note disclosures represent the PUF's pro-rata share of these investment pool assets. The hedge fund pools are invested in private placements with external investment managers who invest in equity and fixed income securities, including related derivatives, of both domestic and international issuers. These investment managers may invest in both long and short securities and may utilize leverage in their portfolios. The funds invested may be subject to a lock-up restriction of typically one to three years before the investment may be withdrawn from the investment manager without significant penalty. 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 hedge fund pools have committed \$217,890,087 of future funding to various hedge fund investments as of August 31, 2013 of which the PUF's pro-rata portion is \$108,400,318.

The PUF invests in private investments in investment pools created in the name of the UT Board. Amounts presented in the PUF's financial statements and related note disclosure for the years ending

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

August 31, 2013 and 2012, 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 limited liability companies, of which UTIMCO is the manager of the limited liability companies. The private investment pools have committed \$3,781,271,249 of future funding to various private market investments as of August 31, 2013 of which the PUF's pro-rata portion is \$2,488,076,482.

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. Certain of these investments are held through limited liability companies of which UTIMCO is the manager of the limited liability companies. There are certain risks associated with these investments, some of which are investment manager risk, market risk, and liquidity risk, as well as the risk of utilizing leverage in the portfolios. Future fundings in the amount of \$13,800,000, of which the PUF's pro-rata portion is \$8,621,435, have been committed to certain public market funds as of August 31, 2013.

In some instances it may be necessary for the PUF to provide funding for certain managers in advance of the effective investment date to facilitate trading in the international market by the investment manager. As of August 31, 2013, there were no fundings in advance of the effective date. As of August 31, 2012, \$25,000,000, of which the PUF's pro-rata share was \$13,410,000, had been funded to a manager for investment on the first business day of September 2012. This amount is included in the investment funds fair value on the statements of fiduciary net position.

The PUF, in conjunction with the GEF and the ITF, invests in certain long-only public markets managers in separate investment pools created in the name of the UT Board. The PUF, the GEF and the ITF are the sole investors in these pools, and therefore, jointly own 100% of the assets of these separately managed accounts. The net assets and the income, expenses, realized and unrealized gains and losses of these pools have been allocated based on the proportional unit ownership of the PUF, the GEF and the ITF, and the PUF's pro-rata share has been consolidated into the statements of fiduciary net position, the statements of changes in fiduciary net position, and the accompanying note disclosures.

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:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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

Investments in hedge funds, private investments, and public market funds are also subject to the investment risks discussed in Note 3. 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, 2013, the PUF wrote call options on commodities and interest rate swaps. The following discloses the contracts outstanding, the expiration date, and the fair values of the outstanding written call options contracts as of August 31, 2013:

Type	Underlying	Contracts	Expiration Date	Fair Value at August 31, 2013	
				Assets	Liabilities
Commodity					
	Aluminum Futures	9	12/4/2013	\$ -	\$ 35
	Copper Futures	5	12/3/2014	-	17,478
				-	17,513
Interest Rate Swap					
	6 month Euribor	3,700,000	3/12/2014	-	3,371
				<u>\$ -</u>	<u>\$ 20,884</u>

The fair value is included on the statements of fiduciary net position as options written, at fair value. The change in fair value of open call options for the year ending August 31, 2013 was an increase in the amount of \$96,943, which is included in the net increase in investments on the statement of changes in fiduciary net position. The PUF recognized gains in the amount of \$977,806 on call options written which are included in the net increase in investments on the statement of changes in fiduciary net position for the year ended August 31, 2013.

The PUF also wrote put options on commodities, equities and other indices and interest rate swaps for the year ended August 31, 2013. The following discloses the contracts outstanding, the expiration date, and the fair values of the outstanding written put options contracts as of August 31, 2013:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Type	Underlying	Contracts	Expiration Date	Fair Value at August 31, 2013	
				Assets	Liabilities
Interest Rate Swap					
	3 month United States Libor	2,200,000	9/3/2013	\$ -	\$ 39,891
	3 month United States Libor	3,900,000	9/30/2013	-	60,901
	3 month United States Libor	13,200,000	10/18/2013	-	95,704
	6 month British Libor	1,500,000	10/25/2013	-	20,478
	6 month Euribor	3,700,000	3/12/2014	-	7,737
	3 month United States Libor	7,400,000	9/21/2015	-	344,493
				-	569,204
Other					
	US CPI Urban Consumer Not Seasonally Adj.	600,000	9/29/2020	-	735
	US CPI Urban Consumer Not Seasonally Adj.	600,000	10/13/2020	-	916
				-	1,651
Commodity					
	Crude Oil Futures	4	11/17/2015	-	11,410
Equity					
	Apple Inc	7	1/17/2015	-	36,518
				\$ -	\$ 618,783

The fair value is included on the statements of fiduciary net position as options written, at fair value. The change in fair value of open put options for the year ending August 31, 2013 was a decrease in the amount of \$251,054, which is included in the net increase in investments on the statement of changes in fiduciary net position. The PUF recognized gains in the amount of \$11,530,086 on put options written which are included in the net increase in investments on the statement of changes in fiduciary net position for the year ended August 31, 2013.

For the year ended August 31, 2012, the PUF wrote call options on commodities and interest rate swaps. The following discloses the contracts outstanding, the expiration date, and the fair values of the outstanding written call options contracts as of August 31, 2012:

Type	Underlying	Contracts	Expiration Date	Fair Value at August 31, 2012	
				Assets	Liabilities
Commodity					
	Corn Futures	4	11/23/2012	\$ -	\$ 1,881
Interest Rate Swap					
	United States 3 month Libor	2,300,000	10/11/2012	-	9,858
	United States 3 month Libor	4,200,000	11/14/2012	-	43,098
	United States 3 month Libor	14,400,000	3/18/2013	-	496,607
				-	549,563
				\$ -	\$ 551,444

The fair value is included on the statements of fiduciary net position as options written, at fair value. The change in fair value of open call options for the year ending August 31, 2012 was a decrease in

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

the amount of \$391,491, which is included in the net increase in investments on the statement of changes in fiduciary net position. The PUF recognized gains in the amount of \$96,196 on call options written which are included in the net increase in investments on the statement of changes in fiduciary net position for the year ended August 31, 2012.

The PUF also wrote put options on commodities, international equities and other indices and interest rate swaps for the year ended August 31, 2012. The following discloses the contracts outstanding, the expiration date, and the fair values of the outstanding written put options contracts as of August 31, 2012:

Type	Underlying	Contracts	Expiration Date	Fair Value at August 31, 2012	
				Assets	Liabilities
Interest Rate Swap					
	United States 3 month Libor	2,300,000	10/11/2012	\$ -	\$ 28
	United States 3 month Libor	4,200,000	11/14/2012	-	241
	United States 3 month Libor	14,400,000	3/18/2013	-	26,830
				<u>-</u>	<u>27,099</u>
Commodity					
	Brent Crude Futures	2	11/12/2012	-	20,135
	Copper Futures	4	12/5/2012	-	4,430
	Corn Futures	25	11/23/2012	-	428
	Corn Futures	15	11/23/2013	-	34,260
	Crude Oil Futures	3	11/13/2012	-	640
	Crude Oil Futures	4	11/17/2015	-	20,816
	Natural Gas Futures	12	12/26/2012	-	15,539
				<u>-</u>	<u>96,248</u>
Equity					
	Australia S&P/ASX 200 Index	134,836	9/20/2012	-	46,941
	Australia S&P/ASX 200 Index	58,937	8/15/2013	-	2,260,904
	Korean KOSPI 200 Index	2,075,335,178	6/13/2013	-	2,100,598
	Korean KOSPI 200 Index	1,999,247,477	8/8/2013	-	7,175,443
				<u>-</u>	<u>11,583,886</u>
Other					
	CPI Urban Consumer Not Seasonally Adj.	600,000	9/29/2020	-	756
	CPI Urban Consumer Not Seasonally Adj.	600,000	10/13/2020	-	1,395
				<u>-</u>	<u>2,151</u>
				<u>\$ -</u>	<u>\$ 11,709,384</u>

The fair value is included on the statements of fiduciary net position as options written, at fair value. The change in fair value of open put options for the year ending August 31, 2012 was an increase in the amount of \$27,965,709, which is included in the net increase in investments on the statement of changes in fiduciary net position. The PUF recognized gains in the amount of \$97,372,329 on put options written which are included in the net increase in investments on the statement of changes in fiduciary net position for the year ended August 31, 2012.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Note 7 – Swaps

During the years ended August 31, 2013 and 2012, the PUF entered into interest rate, credit default, commodity, currency and equity swap contracts. The following discloses the type, coupon rate, notional amount (presented in local currency), maturity date, and the fair values of the outstanding swap contracts as of August 31, 2013:

	Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2013	
					Assets	Liabilities
Interest Rate						
Euro		0.750%	2,000,000	3/19/2015	\$ 3,051	\$ -
British Pound		1.000%	2,400,000	6/18/2015	2,745	-
Japanese Yen		1.500%	50,000,000	6/19/2033	-	15,180
Mexican Peso		5.000%	7,700,000	6/11/2018	-	22,427
		5.000%	100,000	9/6/2019	-	512
		5.750%	2,100,000	2/22/2023	-	13,760
		6.590%	9,900,000	12/8/2015	28,331	-
		6.750%	4,800,000	6/8/2016	16,439	-
U.S. Dollar		1.700%	1,400,000	3/20/2018	-	15,747
		2.650%	1,300,000	7/31/2023	-	29,470
					<u>50,566</u>	<u>97,096</u>
Credit Default						
Euro		1.000%	200,000	6/20/2017	4,947	-
British Pound		0.670%	780,000	9/20/2014	-	8,585
Japanese Yen		1.000%	500,000,000	6/20/2018	22,296	-
U.S. Dollar		0.460%	1,000,000	12/20/2013	-	2,216
		0.820%	1,000,000	3/20/2018	-	14,521
		0.862%	1,800,000	11/20/2016	58,766	-
		0.900%	1,000,000	6/20/2019	-	19,500
		1.000%	1,100,000	9/20/2016	26,794	-
		1.000%	2,000,000	12/20/2016	16,839	-
		1.000%	3,700,000	6/20/2018	47,552	43,493
		1.000%	200,000	6/20/2019	-	5,196
		1.350%	400,000	3/20/2018	-	18,476
		1.380%	1,000,000	3/20/2017	-	34,281
		1.530%	400,000	9/20/2016	-	12,380
		2.700%	1,000,000	3/20/2019	-	70,880
					<u>177,194</u>	<u>229,528</u>
Commodity						
U.S. Dollar	S&P GSCI Industrial Metals		423,320	12/31/2013	7,268	-
	Nuexco Uranium Ore		101,711	2/28/2014	-	21,627
	Nuexco Uranium Ore		101,298	3/31/2014	-	21,213
	Nuexco Uranium Ore		421,603	4/28/2014	-	61,786
	S&P GSCI Grains		4,350,990	8/29/2014	-	23,298
					<u>7,268</u>	<u>127,924</u>
Equity						
U.S. Dollar	MSCI Taiwan Index		18,783,997	1/11/2014	-	320,580
	MSCI Korea Index		18,269,245	5/29/2014	596,813	-
					<u>596,813</u>	<u>320,580</u>
Total					<u>\$ 831,841</u>	<u>\$ 775,128</u>

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

The change in fair value of open swap positions for the year ending August 31, 2013 was a decrease in the amount of \$666,614, which is included in the net increase in investments on the statement of changes in fiduciary net position.

The following discloses the type, coupon rate, notional amount (presented in local currency), maturity date, and the fair values of the outstanding swap contracts as of August 31, 2012:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2012	
				Assets	Liabilities
Interest Rate					
Australian Dollar					
	5.000%	400,000	6/15/2022	\$ 41,550	\$ -
British Pound					
	1.250%	4,500,000	9/21/2014	-	69,467
	2.500%	2,600,000	9/21/2013	-	93,709
Japanese Yen					
	0.250%	920,000,000	6/20/2014	13,312	-
	0.300%	1,360,000,000	12/19/2014	270	-
	0.350%	270,000,000	6/20/2014	-	2,885
	1.000%	50,000,000	3/21/2023	5,379	-
	2.000%	50,000,000	12/21/2041	53,591	-
Mexican Peso					
	5.500%	4,300,000	9/13/2017	4,618	-
	6.750%	91,000,000	6/8/2016	416,953	-
	6.590%	9,900,000	12/8/2015	36,925	-
	6.960%	8,300,000	7/27/2020	56,500	-
U.S. Dollar					
	1.250%	700,000	6/20/2016	-	19,445
	2.250%	600,000	6/20/2022	-	36,352
				<u>629,098</u>	<u>221,858</u>
Credit Default					
Euro					
	0.250%	1,100,000	3/20/2016	-	549
	0.250%	1,100,000	6/20/2016	-	1,759
	1.000%	200,000	6/20/2017	3,317	-
British Pound					
	0.670%	780,000	9/20/2014	-	10,317
U.S. Dollar					
	0.250%	2,800,000	12/20/2016	-	26,372
	0.250%	2,200,000	6/20/2017	-	80,101
	0.460%	1,000,000	12/20/2013	-	5,294
	0.820%	1,000,000	3/20/2018	-	829
	0.862%	1,800,000	11/20/2016	99,196	-
	0.900%	1,000,000	6/20/2019	-	15,891
	1.000%	900,000	12/20/2012	3,795	-
	1.000%	6,100,000	6/20/2015	148,552	-
	1.000%	5,400,000	12/20/2015	46,783	-
	1.000%	2,400,000	3/20/2016	49,302	-
	1.000%	3,600,000	6/20/2016	68,887	-
	1.000%	1,800,000	9/20/2016	41,547	-
	1.000%	2,200,000	12/20/2016	128,082	-
	1.000%	1,200,000	6/20/2017	-	189,497
	1.000%	200,000	6/20/2019	-	4,715
	1.000%	2,200,000	12/20/2020	-	126,010
	1.350%	400,000	3/20/2018	-	19,141
	1.380%	1,000,000	3/20/2017	-	40,162
	1.400%	300,000	3/20/2021	1,175	-
	1.450%	1,000,000	6/20/2013	-	12,701
	1.530%	400,000	9/20/2016	485	-
	1.540%	200,000	6/20/2018	2,141	-
	1.630%	700,000	3/20/2021	4,673	-
	2.150%	700,000	3/20/2021	27,386	-
	2.700%	1,000,000	3/20/2019	-	71,797
	2.800%	400,000	3/20/2021	16,384	-
	2.950%	1,400,000	12/20/2020	71,017	-
				<u>712,722</u>	<u>605,135</u>

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

	Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2012	
					Assets	Liabilities
Commodity						
U.S. Dollar						
		Uranium	527,176	4/30/2013	\$ -	\$ 36,712
		S&P GSCI Grains	5,697,332	2/28/2013	-	72,584
					-	109,296
Currency						
Japanese Yen						
			128,000,000	5/15/2014	-	1,632,037
U.S. Dollar						
			1,600,000	5/15/2014	1,600,000	-
					1,600,000	1,632,037
Equity						
U.S. Dollar						
		MSCI Europe Index	67,057,607	8/14/2013	-	395,987
		MSCI Japan Index	37,085,675	8/8/2013	710,724	-
		MSCI Korea Index	13,869,926	5/29/2013	341,131	-
		U.S. Real Estate Index	56,086,022	8/8/2013	-	96,503
		U.S. Real Estate Index	77,340,985	8/20/2013	-	62,255
		S&P 500 Index	83,550,757	8/20/2013	630,949	-
		Taiwan TAIIEX Index	9,679,308	9/19/2012	-	114,386
					1,682,804	669,131
Total					\$ 4,624,624	\$ 3,237,457

The change in fair value of open swap positions for the year ending August 31, 2012 was an increase in the amount of \$686,628, which is included in the net increase in investments on the statement of changes in fiduciary net position.

Note 8 – Futures Contracts

During the years ended August 31, 2013 and 2012, the asset classes that used futures include domestic and foreign equities, domestic and foreign debt, interest rate swaps and commodities. The change in fair value of open futures contracts for the year ending August 31, 2013 was an increase in the amount of \$1,092,278, which is included in the net increase in investments on the statement of changes in fiduciary net position. The change in fair value of open futures contracts for the year ending August 31, 2012 was an increase in the amount of \$1,415,468 which is included in the net increase in investments on the statement of changes in fiduciary net position. The PUF had \$65,588,978 and \$40,584,517 on deposit with brokers for collateral as margin for the futures contracts as of August 31, 2013 and 2012, respectively. Short futures may be used by the PUF to hedge the PUF's interest rate or currency risk associated with security positions. For the year ended August 31, 2013, the net realized loss on futures contracts was \$98,229,044, which is included in the net increase in investments on the statement of changes in fiduciary net position. For the year ended August 31, 2012, the net realized loss on futures contracts was \$18,844,153.

Futures contracts on commodities are traded on several different exchanges around the world. The daily cash settlements made by the investment manager for these open commodities contracts are made on a net basis to each respective exchange. The carrying and fair value, for August 31, 2013, shown in the table below for these open contracts do not include amounts previously settled with the exchanges. Net cash settlements for these open commodities contracts amounted to \$1,305,313 and \$2,729,587 as of August 31, 2013 and 2012, respectively.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

During the years ended August 31, 2013 and 2012, certain of the PUF's investment managers trading in commodity futures on the London Metals Exchange (LME) closed out various long contract positions with offsetting short contract positions. For contracts traded and closed on the LME, cash settlement does not occur until the expiration date of the contract. The gross notional value of these long and short positions are shown below with the associated pending cash settlement amounts shown as the carrying and fair value as of August 31, 2013 and 2012.

The following discloses the type, number of contracts, expiration date, notional value, and the carrying and fair values at August 31, 2013 for futures contracts:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Contract	Number of Contracts	Expiration	Notional Value at August 31, 2013		Carrying and Fair Value at August 31, 2013	
			Long	Short	Assets	Liabilities
Commodities						
Aluminum Hg	6	Sep-13	\$ 10,505,375	\$ 10,250,435	\$ 247,331	\$ 26,927
Aluminum Hg	241	Dec-13	21,151,879	10,180,978	-	892,216
Brent Crude Oil	31	Oct-13	3,514,186	-	243,098	-
Brent Crude Oil	33	Dec-13	3,662,670	-	-	-
Brent Crude Oil	97	Dec-14	9,914,803	-	-	2,095
Coffee 'C'	119	Dec-13	5,187,364	-	-	145,592
Copper	9	Sep-13	2,128,623	462,744	-	80,967
Copper	178	Dec-13	15,036,337	649,487	33,662	-
Copper	2	Dec-14	-	374,897	35,996	-
Corn	514	Dec-13	11,013,700	1,372,377	203,790	-
Corn	52	Dec-14	1,342,229	-	64,122	-
Cotton No. 2	107	Dec-13	4,463,635	-	-	977
Cotton No. 2	8	Mar-14	330,960	-	-	-
Crude Oil	37	Dec-13	3,947,837	-	224,238	-
Crude Oil	50	Dec-14	4,670,000	-	-	-
Crude Oil	16	Jun-14	1,535,010	-	115,416	-
Crude Oil	214	Dec-15	18,622,280	-	-	-
Gas Oil	5	Sep-13	506,498	-	28,433	-
Gasoline RBOB	62	Dec-13	7,341,442	-	42,265	-
Gasoline RBOB	15	Jan-14	1,769,544	-	-	-
Gold 100 Oz	1,652	Dec-13	230,617,341	-	467,918	2,472,960
Heating Oil	10	Oct-13	1,307,651	-	-	9,314
Heating Oil	25	Dec-13	3,283,770	-	-	-
Heating Oil	15	Jan-14	1,965,789	-	-	-
Heating Oil	24	Jun-14	3,034,282	-	-	-
Lean Hogs	9	Oct-13	315,450	-	-	-
Lean Hogs	89	Dec-13	3,032,849	-	12,121	-
Lean Hogs	51	Apr-14	1,754,400	-	-	-
Live Cattle	128	Oct-13	6,501,262	-	1,219	-
Live Cattle	15	Dec-13	794,557	-	105	-
Live Cattle	5	Feb-14	263,300	-	-	-
Natural Gas	97	Oct-13	2,793,180	672,891	73,330	-
Natural Gas	472	Nov-13	16,789,557	520,018	232,712	3,077
Natural Gas	322	Jan-14	12,642,971	-	-	27,558
Natural Gas	22	Mar-14	854,647	-	8,077	-
Natural Gas	14	Apr-14	520,509	-	-	41,586
Natural Gas	3	Jun-14	121,685	-	-	9,545
Natural Gas	10	Jan-15	423,948	-	-	11,102
Nickel	24	Sep-13	6,102,299	4,121,400	-	331,773
Nickel	54	Dec-13	4,534,240	82,890	-	28,749
Palladium	3	Dec-13	226,897	-	-	6,460
Platinum	29	Oct-13	2,193,966	-	79,543	-
Silver	72	Dec-13	8,477,102	-	69,413	-
Soybean	49	Nov-13	2,104,125	1,205,642	-	87,984
Soybean	39	Mar-14	2,601,788	-	-	-
Soybean	28	Jan-14	1,910,965	-	119,800	-
Soybean	124	Nov-14	7,522,150	-	-	-
Soybean Meal	155	Dec-13	6,546,565	-	110,489	-
Soybean Meal	13	Mar-14	537,550	-	-	-
Soybean Oil	29	Oct-13	771,837	-	-	10,532
Soybean Oil	206	Dec-13	5,474,244	-	-	-
Sugar #11 World	463	Oct-13	8,466,626	-	-	65,008
Sugar #11 World	69	Mar-14	1,304,486	-	-	-

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Contract	Number of Contracts	Expiration	Notional Value at August 31, 2013		Carrying and Fair Value at August 31, 2013	
			Long	Short	Assets	Liabilities
Commodities (continued)						
Wheat	289	Dec-13	\$ 9,522,915	\$ 136,668	\$ 4,604	\$ 511
Wheat	46	Jul-14	610,090	974,963	5,603	-
Zinc	24	Sep-13	6,609,577	5,506,984	137,074	-
Zinc	112	Dec-13	5,406,344	47,844	69	-
			<u>494,585,286</u>	<u>36,560,218</u>	<u>2,560,428</u>	<u>4,254,933</u>
Foreign Equities						
MSCI Emerging Market	3,709	Sep-13	170,113,285	-	1,427,965	-
Domestic Fixed Income						
US Treasury Bond	123	Dec-13	-	16,224,469	-	-
US 10yr Treasury Note	76	Dec-13	9,445,375	-	-	7,125
			<u>9,445,375</u>	<u>16,224,469</u>	<u>-</u>	<u>7,125</u>
Foreign Fixed Income						
3mo Euro Euribor	41	Dec-14	13,433,880	-	674	-
3mo Euro Euribor	37	Sep-15	12,082,398	-	3,655	-
3mo Euro Euribor	33	Mar-15	10,802,301	-	1,086	-
3mo Euro Euribor	14	Dec-15	4,565,026	-	1,383	-
3mo Euro Euribor	1	Mar-16	325,562	-	115	-
90day Sterling Libor	21	Sep-14	4,028,940	-	1	-
90day Sterling Libor	95	Dec-14	18,209,623	-	1,848	-
90day Sterling Libor	185	Sep-15	35,310,603	-	10,790	-
90day Sterling Libor	145	Mar-15	27,762,794	-	4,232	-
90day Sterling Libor	48	Jun-15	9,177,448	-	1,868	-
90day Sterling Libor	33	Dec-15	6,285,886	-	2,565	-
Australian 10yr Bond	16	Sep-13	1,671,535	-	667	-
Canada 10yr Bond	8	Dec-13	-	976,775	-	2,046
Euro-Bobl	5	Sep-13	-	824,587	-	197
Euro-Btp	14	Sep-13	-	2,061,842	1,842	-
Euro-Bund	74	Sep-13	13,725,096	-	36,817	-
Japan 10yr Bond	2	Sep-13	2,942,465	-	1,213	-
UK Long Gilt	72	Dec-13	-	12,184,622	-	5,977
			<u>160,323,557</u>	<u>16,047,826</u>	<u>68,756</u>	<u>8,220</u>
Interest Rate Swap						
10yr Primary Fixed	6	Sep-13	-	561,375	94	-
Total						
			<u>\$ 834,467,503</u>	<u>\$ 69,393,888</u>	<u>\$ 4,057,243</u>	<u>\$ 4,270,278</u>

The following discloses the type, number of contracts, expiration date, notional value, and the carrying and fair values at August 31, 2012 for futures contracts:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Contract	Number of Contracts	Expiration	Notional Value at August 31, 2012		Carrying and Fair Value at August 31, 2012	
			Long	Short	Assets	Liabilities
Commodities						
Aluminum Hg	-	Sep-12	\$ 1,607,137	\$ 1,607,137	\$ -	\$ 93,456
Aluminum Hg	184	Dec-12	13,728,028	4,936,616	-	1,222,071
Aluminum Hg	78	Jun-13	3,814,200	-	-	-
Brent Crude Oil	56	Dec-12	6,361,600	-	-	-
Brent Crude Oil	24	Oct-12	2,697,410	-	213,685	-
Brent Crude Oil	35	Dec-13	5,387,000	1,599,165	-	86,641
Coffee 'C'	83	Dec-12	5,118,133	-	-	111,273
Copper	13	Sep-12	5,065,775	2,435,469	38,904	-
Copper	97	Dec-12	8,925,671	-	-	152,715
Copper	89	Mar-13	7,710,738	-	-	-
Corn	473	Dec-12	18,891,449	-	2,708	-
Corn	25	Jul-13	975,625	-	-	-
Cotton No. 2	66	Dec-12	2,529,216	-	-	31,768
Cotton No. 2	46	Mar-13	1,793,540	-	-	-
Crude Oil	6	Oct-12	543,129	-	15,201	-
Crude Oil	32	Dec-12	3,129,996	-	205,297	-
Crude Oil	6	Jun-13	551,912	-	46,760	-
Crude Oil	101	Dec-13	9,754,377	-	54,560	-
Crude Oil	120	Dec-14	11,131,200	-	-	-
Gasoline RBOB	9	Oct-12	1,086,381	-	146,879	-
Gasoline RBOB	57	Dec-12	6,770,232	-	-	-
Gasoline RBOB	9	Jun-13	1,096,994	-	-	-
Gold 100 Oz	3	Oct-12	431,286	-	14,295	-
Gold 100 Oz	156	Dec-12	26,331,952	-	184,586	-
Heating Oil	12	Oct-12	1,503,989	-	163,784	-
Heating Oil	32	Dec-12	4,268,410	-	-	-
Heating Oil	27	Mar-13	3,548,966	-	-	-
Lead	-	Sep-12	553,010	553,010	-	31,387
Lean Hogs	156	Dec-12	4,525,976	-	-	995
Live Cattle	125	Dec-12	6,466,138	-	2,564	-
Live Cattle	41	Apr-13	2,228,760	-	-	-
Natural Gas	131	Oct-12	4,054,222	386,001	28,215	-
Natural Gas	16	Nov-12	-	485,985	-	535
Natural Gas	3	Dec-12	-	102,520	-	-
Natural Gas	490	Jan-13	16,424,460	-	-	169,024
Natural Gas	15	Feb-13	500,945	-	-	13,584
Natural Gas	8	Mar-13	258,265	-	10,451	-
Natural Gas	168	Jan-14	6,602,760	-	-	1,617
Natural Gas	21	Mar-14	830,839	-	1,464	-
Nickel	-	Sep-12	4,868,154	4,868,154	-	460,416
Nickel	63	Dec-12	6,408,205	392,268	-	72,298
Platinum	25	Oct-12	1,927,715	-	130,845	-
Silver	54	Dec-12	8,449,761	-	227,750	-
Soybean	97	Nov-12	8,575,817	-	920,067	-
Soybean	70	Mar-13	5,894,875	-	-	-
Soybean	163	May-13	12,958,500	-	-	-
Soybean Oil	205	Dec-12	7,028,696	-	188,450	-
Soybean Oil	90	Mar-13	3,103,920	-	-	-
Sugar #11 World	245	Oct-12	5,441,094	-	-	59,288
Sugar #11 World	18	Mar-13	413,481	-	-	-

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Contract	Number of Contracts	Expiration	Notional Value at August 31, 2012		Carrying and Fair Value at August 31, 2012	
			Long	Short	Assets	Liabilities
Commodities (continued)						
Sugar #11 World	118	May-13	\$ 2,709,280	\$ -	\$ -	\$ -
Wheat	110	Dec-12	4,941,306	-	31,796	-
Wheat	111	Mar-13	4,992,225	-	-	-
Wheat	182	Jul-13	7,796,756	-	8,699	-
Zinc	-	Sep-12	3,732,537	3,732,537	-	53,969
Zinc	203	Dec-12	9,351,438	-	-	63,523
			<u>295,793,481</u>	<u>21,098,862</u>	<u>2,636,960</u>	<u>2,624,560</u>
Foreign Equities						
Bovespa Index	5	Oct-12	-	246,913	3,955	-
Domestic Fixed Income						
US Treasury Bond	14	Dec-12	-	2,119,688	-	13,125
US 10yr Treasury Note	46	Dec-12	6,151,062	-	26,593	-
			<u>6,151,062</u>	<u>2,119,688</u>	<u>26,593</u>	<u>13,125</u>
Foreign Fixed Income						
Australian 3yr Bond	84	Sep-12	-	9,567,125	-	32,295
Canada 10yr Bond	12	Dec-12	-	1,661,529	-	8,533
Cupom Cambial	2,974	Jan-13	156,599,311	-	-	1,325,808
Euro-Bobl	29	Sep-12	4,665,085	-	7,307	-
Euro-Btp	5	Dec-12	623,191	-	-	3,504
Euro-Bund	2	Sep-12	-	363,074	3,267	-
Japan 10yr Bond	13	Sep-12	23,908,046	-	11,598	-
One-day Bank Deposit Rate	2,974	Jan-13	-	138,611,774	4,948	-
UK Long Gilt	2	Dec-12	-	384,222	-	922
			<u>185,795,633</u>	<u>150,587,724</u>	<u>27,120</u>	<u>1,371,062</u>
Total			<u>\$ 487,740,176</u>	<u>\$ 174,053,187</u>	<u>\$ 2,694,628</u>	<u>\$ 4,008,747</u>

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, 2013 and 2012. Foreign currency amounts are translated at exchange rates as of August 31, 2013 and 2012. The "Net Buy" amounts represent the U.S. dollar equivalent of net commitments to purchase foreign currencies, and the "Net Sell" amounts represent the U.S. dollar equivalent of net commitments to sell foreign currencies.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Currency	Net Buy	Net Sell	Unrealized Gains on Foreign Currency Exchange Contracts	Unrealized Losses on Foreign Currency Exchange Contracts
	August 31, 2013	August 31, 2013	August 31, 2013	August 31, 2013
Australian Dollar	\$ -	\$ 54,004,536	\$ 1,237,109	\$ 41,965
Brazilian Real	-	5,444,136	369,785	500,560
Canadian Dollar	-	6,872,451	24,368	4,676
Chilean Peso	9,600,978	-	-	182,177
Chinese Yuan Renminbi	73,030	-	-	173,733
Colombian Peso	-	1,913,693	48,227	-
Czech Koruna	186,556	-	-	777
Danish Krone	562,703	-	8	5,490
Euro	-	54,165,132	430,582	403,915
Hong Kong Dollar	-	57,842	-	14
Hungarian Forint	-	3,258	56	-
Indian Rupee	10,015,303	-	2	426,232
Indonesian Rupiah	-	6,568	31,179	29,694
Israeli Shekel	199,210	-	1,128	-
Japanese Yen	-	161,510,654	7,176,318	1,309,263
Malaysian Ringgit	5,072,795	-	-	37,784
Mexican Peso	18,231,836	-	385,907	606,058
New Zealand Dollar	-	33,958,505	960,305	59,364
Norwegian Kroner	801,331	-	76,378	156,792
Polish Zloty	-	9,383,282	129,568	359,922
Russian Ruble	28,276	-	208,743	246,339
South African Rand	36,001,764	-	16,762	6,003,899
Singapore Dollar	1,470,674	-	8,737	6,551
South Korean Won	28,221,341	-	112,325	1,120,011
Swedish Krona	2,316,684	-	22,404	76,631
Swiss Franc	-	6,831,778	-	213,394
Taiwan Dollar	32,807,646	-	5,983	1,339,381
Thailand Baht	398,034	-	-	16,414
UK Pound	3,961,403	-	116,175	343,789
	<u>\$ 149,949,564</u>	<u>\$ 334,151,835</u>	<u>\$ 11,362,049</u>	<u>\$ 13,664,825</u>

The change in fair value of open foreign currency exchange contracts for the year ending August 31, 2013 was a decrease in the amount of \$2,042,437, which is included in the net increase in investments on the statement of changes in fiduciary net position.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Currency	Net Buy	Net Sell	Unrealized Gains on Foreign Currency Exchange Contracts	Unrealized Losses on Foreign Currency Exchange Contracts
	August 31, 2012	August 31, 2012	August 31, 2012	August 31, 2012
Australian Dollar	\$ -	\$ 92,775,234	\$ 828,036	\$ 2,484,711
Brazilian Real	4,316,992	-	59,369	1,437,923
Canadian Dollar	-	18,950	163,897	114,793
Chilean Peso	7,607,916	-	265,181	-
Chinese Yuan Renminbi	16,399	-	55,485	533,419
Colombian Peso	-	2,542,343	26,185	-
Danish Krone	1,029,228	-	11,136	1,004
Euro	-	74,066,447	591,076	1,369,158
Hong Kong Dollar	69,959	-	-	21
Hungarian Forint	75,429	-	4	372
Indian Rupee	-	70,888	3,006,524	1,034,641
Indonesian Rupiah	2,654	-	3	-
Japanese Yen	-	8,700,835	328,722	2,336,718
Malaysian Ringgit	5,746,340	-	17,533	87
Mexican Peso	19,359,456	-	67,346	517,371
New Zealand Dollar	-	39,692,221	83,860	281,212
Norwegian Kroner	302,087	-	3,227	-
Philippines Peso	-	7,786	-	288
Polish Zloty	-	6,480,700	-	65,007
South African Rand	42,376,826	-	89,813	165,488
Singapore Dollar	231,059	-	2,023	-
South Korean Won	33,449,594	-	771,415	168,667
Swedish Krona	6,481,095	-	73,461	918
Swiss Franc	-	11,207,925	13,094	348,285
Taiwan Dollar	30,441,925	-	161,518	608,318
Thailand Baht	683,799	-	7,139	-
Turkish Lira	9,624,111	-	-	183,501
UK Pound	19,571,111	-	554,137	305,230
	<u>\$ 181,385,980</u>	<u>\$ 235,563,329</u>	<u>\$ 7,180,184</u>	<u>\$ 11,957,132</u>

The change in fair value of open foreign currency exchange contracts for the year ending August 31, 2012 was a decrease in the amount of \$4,776,948, which is included in the net increase in investments on the statement of changes in fiduciary net position.

Note 10 – Purchase Agreements

UTIMCO, as investment manager of the funds under the control and management of the UT Board, entered into a security purchase agreement with the UT Board. The agreement commits the funds under management, including the PUF, to purchase up to \$3,059,210,000 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 \$125,000,000 of Texas A&M System flexible rate notes in the event of a failed remarketing of such notes.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Note 11 – Distributions to the Available University Fund

The Texas Constitution allows for (a) distributions to the AUF from the “total return” on PUF investments, including income return as well as capital gains (realized and unrealized) and (b) the payment of PUF expenses from PUF assets. The Texas Constitution directs the UT Board to establish a distribution policy that provides stable, inflation-adjusted annual distributions to the AUF and preserves the real value of the PUF investments over the long term. Accordingly, distributions to the AUF in any given fiscal year are subject to the following: (1) A minimum amount equal to the amount needed to pay debt service on PUF bonds; (2) No increase from the preceding year (except as necessary to pay debt service on PUF bonds) unless the purchasing power of PUF investments for any rolling 10-year period has been preserved; (3) A maximum amount equal to seven percent of the average net fair market value of PUF position in any fiscal year, except as necessary to pay debt service on PUF bonds. Distributions from the PUF to the AUF for the years ended August 31, 2013 and 2012 were \$664,300,000 and \$575,511,336, respectively. The PUF distribution to the AUF for the year ending August 31, 2014, will be \$689,365,138. The first payment in the amount of \$57,447,095 was made September 3, 2013.

Note 12 – Fees and Expenses

The PUF incurs investment management fees from various external managers of the PUF. The fees, generally assessed quarterly, are based on a percentage of the market value of investments held by each individual investment manager and currently range from 0.10% to 1.50%. In addition to quarterly investment management fees, the PUF may pay performance-based management fees for investment performance in excess of certain defined benchmarks as provided for in the managers’ contracts. The investment management fees presented in the statements of changes in fiduciary net position represent only those paid directly from the PUF, and do not include fees incurred and charged by general partners in private investments, fees charged by mutual fund managers, and fees charged by hedge fund managers as these types of fees are netted directly against returns for those investments in accordance with standard industry practice. The investment management fees assessed by external managers and paid directly by the PUF for the years ended August 31, 2013 and 2012 were \$29,536,998 and \$18,961,901, respectively.

UTIMCO assesses the PUF a management fee to cover the costs of managing the PUF investments and providing day-to-day operations. These fees are based on a budget prepared by management and approved by the UT Board. The fees assessed for the years ended August 31, 2013 and 2012 were \$12,158,434 and \$8,900,255, respectively.

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, 2013 and 2012, were \$8,893,707 and \$9,103,131, 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 \$155,550 and \$207,040 were charged to the PUF for the years ended August 31, 2013 and 2012, 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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

agreement. The fees assessed for the years ended August 31, 2013 and 2012, were \$1,932,976 and \$1,989,035, 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, 2013 and 2012, fees incurred were \$396,937 and \$474,217, respectively.

Analytical and risk measurement fees, in the amounts of \$348,009 and \$331,856, were also incurred during the years ended August 31, 2013 and 2012, respectively, to maintain a sophisticated risk measurement system for the PUF.

Accounting fees, in the amount of \$180,518 and \$146,591, were paid by the PUF during the years ended August 31, 2013 and 2012, respectively, for external and UT System internal audit services.

Consulting fees, in the amount of \$207,085 and \$207,041, respectively, for the years ending August 31, 2013 and 2012 were incurred for investment strategy and other investment consulting services.

Background check fees are incurred as part of the due diligence efforts undertaken as part of the hiring of investment managers. Fees in the amounts of \$189,226 and \$152,722 were incurred for the years ending August 31, 2013 and 2012, respectively.

Foreign tax consulting and filing fees are incurred by the PUF for investment managers domiciled in certain foreign countries and for those that invest in securities issued in certain foreign countries. Fees in the amounts of \$43,365 and \$71,395 were incurred for the years ending August 31, 2013 and 2012, respectively.

PERMANENT UNIVERSITY FUND

Supplemental Schedules

Comparison Summary of Investments

August 31, 2013 and 2012

(in thousands)

	2013		2012	
	Fair Value	% of Total Investments	Fair Value	% of Total Investments
Equity Securities				
Domestic Common Stock	\$ 670,536	4.52%	\$ 553,338	4.11%
Foreign Common Stock	1,231,100	8.29%	1,000,744	7.44%
Other Equities	2,034	0.01%	84	0.00%
Total Equity Securities	1,903,670	12.82%	1,554,166	11.55%
Preferred Stock				
Domestic Preferred Stock	2,270	0.02%	1,835	0.01%
Foreign Preferred Stock	44,208	0.30%	44,826	0.34%
Total Preferred Stock	46,478	0.32%	46,661	0.35%
Debt Securities				
U. S. Government Obligations	223,929	1.51%	195,183	1.45%
Foreign Government and Provincial Obligations	353,573	2.38%	536,112	3.98%
Corporate Obligations	233,180	1.57%	300,485	2.23%
Other	3,645	0.02%	16,896	0.13%
Total Debt Securities	814,327	5.48%	1,048,676	7.79%
Convertible Securities	423	0.00%	573	0.00%
Purchased Options	27,314	0.18%	35,453	0.26%
Investment Funds				
Hedge Funds	4,378,272	29.48%	3,978,898	29.56%
Private Investments	3,919,976	26.40%	3,547,861	26.35%
Developed Country Equity	1,415,314	9.53%	1,109,334	8.24%
Emerging Markets Equity	598,818	4.03%	433,270	3.22%
Natural Resources	148,995	1.00%	164,865	1.22%
Fixed Income	15,243	0.10%	14,962	0.11%
Total Investment Funds	10,476,618	70.54%	9,249,190	68.70%
Physical Commodities - Gold	375,683	2.53%	591,201	4.39%
Cash and Cash Equivalents	1,206,760	8.13%	936,441	6.96%
Total Investments	\$ 14,851,273	100.00%	\$ 13,462,361	100.00%

PERMANENT UNIVERSITY FUND

Supplemental Schedules (cont.)

Schedule of Changes in Cost of Investments and Investment Income

Year Ended August 31, 2013

(in thousands)

	Beginning Cost	Purchases	Sales, Maturities & Redemptions	Gains (Losses)	Reclass	Effects of Pooled Account Rebalancing Activity ***	Ending Cost	Investment Income
Equity Securities								
Domestic Common Stock	\$ 528,898	\$ 488,691	\$ (473,808)	\$ 41,369	\$ (1,775)	\$ 71	\$ 583,446	\$ 8,797
Foreign Common Stock	977,229	805,148	(628,787)	40,683	1,764	7,170	1,203,207	25,513
Other	5	7,719	(3,643)	(432)	11	143	3,803	86
Total Equity Securities	<u>1,506,132</u>	<u>1,301,558</u>	<u>(1,106,238)</u>	<u>81,620</u>	<u>-</u>	<u>7,384</u>	<u>1,790,456</u>	<u>34,396</u>
Preferred Stock								
Domestic Preferred Stock	2,385	534	-	-	-	-	2,919	71
Foreign Preferred Stock	47,428	55,785	(48,872)	1,475	-	1,370	57,186	4,744
Total Preferred Stock	<u>49,813</u>	<u>56,319</u>	<u>(48,872)</u>	<u>1,475</u>	<u>-</u>	<u>1,370</u>	<u>60,105</u>	<u>4,815</u>
Debt Securities								
U. S. Government Obligations	182,099	825,016	(783,069)	1,043	-	(1,055)	224,034	4,410
Foreign Government and Provincial Obligations	527,217	450,000	(607,936)	2,822	-	(4,396)	367,707	21,681
Corporate Obligations	282,419	108,194	(159,321)	8,840	-	(8,930)	231,202	10,690
Other	14,416	127	(12,878)	2,107	-	(98)	3,674	417
Total Debt Securities	<u>1,006,151</u>	<u>1,383,337</u>	<u>(1,563,204)</u>	<u>14,812</u>	<u>-</u>	<u>(14,479)</u>	<u>826,617</u>	<u>37,198</u>
Purchased Options	<u>144,939</u>	<u>6,063</u>	<u>(354)</u>	<u>(91,542)</u>	<u>-</u>	<u>9</u>	<u>59,115</u>	<u>-</u>
Convertible Securities	<u>429</u>	<u>48</u>	<u>(240)</u>	<u>85</u>	<u>-</u>	<u>(1)</u>	<u>321</u>	<u>37</u>
Investment Funds								
Hedge Funds	3,184,227	260,502	(310,791)	69,886	-	-	3,203,824	-
Private Markets	3,163,375	947,857	(974,546)	337,919	-	-	3,474,605	67,695
Developed Country Equity	798,651	231,337	(238,129)	65,840	-	-	857,699	-
Emerging Markets	373,875	152,636	(29,313)	7,230	-	2,755	507,183	1,514
Fixed Income	15,714	1,052	-	861	-	-	17,627	1,051
Natural Resources	147,434	1,695	1,513	(152)	-	189	150,679	119
Total Investment Funds	<u>7,683,276</u>	<u>1,595,079</u>	<u>(1,551,266)</u>	<u>481,584</u>	<u>-</u>	<u>2,944</u>	<u>8,211,617</u>	<u>70,379</u>
Physical Commodities								
Gold Bullion	478,045	115,409	(246,031)	35,609	-	(15)	383,017	-
Cash and Cash Equivalents								
Money Market Funds and Cash Held at State	936,502	342,613 *	-	(72,124) **	-	(370)	1,206,621	1,345
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,923</u>
Total Investment in Securities	<u>\$ 11,805,287</u>	<u>\$ 4,800,426</u>	<u>\$ (4,516,205)</u>	<u>\$ 451,519</u>	<u>\$ -</u>	<u>\$ (3,158)</u>	<u>\$ 12,537,869</u>	<u>\$ 150,093</u>

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

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

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