

Financial Statements
and Independent Auditors' Report
Permanent University Fund
Years Ended August 31, 2018 and 2017

Permanent University Fund

Financial Statements

Years Ended August 31, 2018 and 2017

Contents

Independent Auditors' Report.....1

Management's Discussion and Analysis (Unaudited).....3

Audited Financial Statements

Statements of Fiduciary Net Position7

Statements of Changes in Fiduciary Net Position.....8

Notes to Financial Statements.....9

Supplemental Schedule.....37



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

INDEPENDENT AUDITORS' REPORT

To the Board of Regents of The University of Texas System
To the Board of Directors of The University of Texas/Texas A&M Investment
Management Company

Report on the Financial Statements

We have audited the accompanying financial statements of the Permanent University Fund (the "PUF"), which comprise the statements of fiduciary net position, as of August 31, 2018 and 2017, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Permanent University Fund as of August 31, 2018 and 2017, and the changes in its fiduciary net position thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the PUF are intended only to present the fiduciary net position of the PUF as of August 31, 2018 and 2017, and the changes in its fiduciary net position for the years then ended in conformity with accounting principles generally accepted in the United States and do not purport to, and do not, present the consolidated net position of The University of Texas System, as of August 31, 2018 or 2017, or the changes in its consolidated net positions for the years then ended.

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

Our opinion is not modified with respect to these matters.

Other Matters

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 6 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Supplemental Schedule

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

Deloitte & Touche LLP

October 29, 2018

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, 2018 and 2017. This discussion was prepared by The University of Texas/Texas A&M Investment Management Company (UTIMCO) and should be read in conjunction with the 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 \$1,964.3 million from \$19,912.8 million to \$21,877.1 million, or approximately 9.86% for the year ended August 31, 2018, compared to an increase of \$2,032.7 million or approximately 11.37% for the year ended August 31, 2017. 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 9.16%, calculated using the Modified Dietz Method as described by the CFA Institute, for the year ended August 31, 2018. Investments in private investments, developed country equities, and credit-related hedge funds were the biggest contributors to the 2018 return. For the year ended August 31, 2017, the PUF posted a net investment return of 12.23%. Investments in emerging markets and developed country equities and private investments were the biggest contributors to the 2017 returns.
2. Fiscal year 2018 contributions of PUF Lands mineral income increased by 49.82% from \$688.7 million to \$1,031.8 million and represented 4.88% of the average value of the PUF investments during the year, compared to fiscal year 2017 contributions which increased by 34.44%, from \$512.3 million to \$688.7 million and represented 3.63% of the average value of the PUF investments during the year. PUF Lands expenses were \$25.7 million and \$15.7 million for the years ended August 31, 2018 and 2017, 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 5.70% in fiscal year 2018, compared to an increase of 8.61% in fiscal year 2017.

PERMANENT UNIVERSITY FUND

Use of Financial Statements and Notes

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

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

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

Statements of Fiduciary Net Position

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

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

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Assets			
Investments, at Fair Value	\$ 22,008.4	\$ 19,884.3	\$ 17,922.0
Other Assets	395.9	547.0	551.0
Total Assets	<u>22,404.3</u>	<u>20,431.3</u>	<u>18,473.0</u>
Total Liabilities	<u>527.2</u>	<u>518.5</u>	<u>592.9</u>
Net Position Held in Trust	<u>\$ 21,877.1</u>	<u>\$ 19,912.8</u>	<u>\$ 17,880.1</u>

Statements of Changes in Fiduciary Net Position

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

The net increase in fair value of investments of the PUF was \$1,664.1 million during the year compared to a net increase in fair value of investments of \$2,018.3 million for the year ended August 31, 2017. Investment expenses totaled \$61.3 million, \$54.9 million, and \$47.4 million, respectively, for the years ended August 31, 2018, 2017, and 2016.

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

Distributions to the AUF increased by \$47.9 million, from \$839.4 million in fiscal year 2017 to \$887.3 million, in fiscal year 2018. The fiscal year 2017 distribution amount increased by \$66.5 million from the fiscal year 2016 distribution of \$772.9 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. The annual distributions are calculated based on the trailing twelve-quarter average net position of the PUF as of February 28 of each year. For the years ended August 31, 2018 and 2017, distributions were 5.00% of the trailing twelve-quarter average net position. Distributions to the AUF are made at the discretion of the UT Board subject to the following overriding conditions of the Texas Constitution:

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

PERMANENT UNIVERSITY FUND

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Investment Income	\$ 1,906.9	\$ 2,254.2	\$ 720.3
Less Investment Expenses	61.3	54.9	47.4
PUF Lands Contributions	<u>1,031.8</u>	<u>688.7</u>	<u>512.3</u>
Total Additions	<u>2,877.4</u>	<u>2,888.0</u>	<u>1,185.2</u>
Administrative Expenses			
PUF Lands Expenses	25.7	15.7	22.1
UT System Oversight Fee	0.1	0.2	0.1
Distributions to AUF	<u>887.3</u>	<u>839.4</u>	<u>772.9</u>
Total Deductions	<u>913.1</u>	<u>855.3</u>	<u>795.1</u>
Change in Fiduciary Net Position	1,964.3	2,032.7	390.1
Net Position Held in Trust, Beginning of Year	<u>19,912.8</u>	<u>17,880.1</u>	<u>17,490.0</u>
Net Position Held in Trust, End of Year	<u><u>\$21,877.1</u></u>	<u><u>\$19,912.8</u></u>	<u><u>\$17,880.1</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.

PERMANENT UNIVERSITY FUND

Statements of Fiduciary Net Position

August 31, 2018 and 2017

(in thousands)

Assets	2018	2017
Investments, at Fair Value:		
Equity Securities	\$ 2,532,913	\$ 2,240,031
Preferred Stock	50,624	53,573
Debt Securities	1,619,060	1,371,411
Investment Funds	15,954,294	15,116,543
Convertible Securities	1,017	882
Purchased Options	1,491	5,571
Physical Commodities	335,512	473,781
Cash and Cash Equivalents	1,513,509	622,545
Total Investments	<u>22,008,420</u>	<u>19,884,337</u>
Collateral for Securities Loaned, at Fair Value	177,374	228,334
Deposits with Brokers for Derivative Contracts	18,538	30,564
Unrealized Gains on Foreign Exchange Contracts	19,082	10,984
Futures Contracts, at Fair Value	4,050	1,637
Swaps, at Fair Value	15,053	27,130
Receivables:		
Investment Securities Sold	141,832	234,127
Accrued Income	19,526	14,146
Other	482	93
Total Receivables	<u>161,840</u>	<u>248,366</u>
Total Assets	<u>22,404,357</u>	<u>20,431,352</u>
Liabilities		
Payable Upon Return of Securities Loaned	177,374	228,334
Payable to Brokers for Collateral Held	13,436	4,709
Unrealized Losses on Foreign Exchange Contracts	14,800	19,636
Futures Contracts, at Fair Value	17,448	446
Swaps, at Fair Value	6,654	29,072
Options Written, at Fair Value	187	1,554
Payables:		
Investment Securities Purchased	286,668	222,070
Other	10,643	12,712
Total Payables	<u>297,311</u>	<u>234,782</u>
Total Liabilities	<u>527,210</u>	<u>518,533</u>
Net Position Held in Trust	<u>\$21,877,147</u>	<u>\$19,912,819</u>

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

PERMANENT UNIVERSITY FUND

Statements of Changes in Fiduciary Net Position

Years Ended August 31, 2018 and 2017

(in thousands)

Additions	2018	2017
Investment Income:		
Net Increase in Fair Value of Investments	\$ 1,664,082	\$ 2,018,268
Interest	59,314	39,642
Dividends	63,974	55,027
Income Distributions from Private Investment Funds	117,066	138,940
Securities Lending Income	2,169	2,295
Other Income	304	-
Total Investment Income	<u>1,906,909</u>	<u>2,254,172</u>
Less Investment Expenses:		
Investment Management Fees	32,975	34,018
UTIMCO Management Fee	23,764	17,619
Custodial Fees and Expenses	3,480	2,237
Accounting Fees	320	312
Consulting Fees	250	152
Background Check Fees	201	122
Analytical and Risk Measurement Fees	155	364
Legal Fees	86	54
Foreign Tax Consulting and Filing Fees	28	25
Other Expenses	2	8
Total Investment Expenses	<u>61,261</u>	<u>54,911</u>
Net Investment Income	1,845,648	2,199,261
Contributions from PUF Lands	1,031,825	688,734
Total Additions	<u>2,877,473</u>	<u>2,887,995</u>
Deductions		
Administrative Expenses:		
PUF Lands Expenses	25,736	15,726
UT System Oversight Fee	159	160
Total Administrative Expenses	<u>25,895</u>	<u>15,886</u>
Distributions to Available University Fund	887,250	839,441
Total Deductions	<u>913,145</u>	<u>855,327</u>
Change in Fiduciary Net Position	1,964,328	2,032,668
Net Position Held in Trust, Beginning of Year	<u>19,912,819</u>	<u>17,880,151</u>
Net Position Held in Trust, End of Year	<u>\$ 21,877,147</u>	<u>\$ 19,912,819</u>

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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements

Note 1 – Organization and Basis of Presentation

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

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

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

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

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

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

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

Note 2 – Significant Accounting Policies

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

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

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

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

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

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

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

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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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

Hedge funds, developed country equity, emerging markets equity, fixed income, real estate, and natural resources 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.

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

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

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

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

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

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

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

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

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

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

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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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 fair value of the futures contracts and is included on the statements of fiduciary net position. The PUF executes such contracts either on major exchanges or with major international financial institutions and minimizes market and credit risk associated with these contracts through the managers' various trading and credit monitoring techniques.

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

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

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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Note 3 – Investments and Investment Derivatives

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

	Fair Value Measurements Using			
	Fair Value as of August 31, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level:				
Equity Securities:				
Domestic Common Stock	\$ 667,961,018	\$ 667,961,018	\$ -	\$ -
Foreign Common Stock	1,827,578,279	1,827,562,729	15,550	-
Other Equities	37,373,416	34,965,962	2,407,454	-
Total Equity Securities	2,532,912,713	2,530,489,709	2,423,004	-
Preferred Stock:				
Domestic Preferred Stock	400,000	-	400,000	-
Foreign Preferred Stock	50,224,464	50,224,464	-	-
Total Preferred Stock	50,624,464	50,224,464	400,000	-
Debt Securities:				
U.S. Government Obligations	490,065,031	416,593,342	73,471,689	-
Foreign Government and Provincial Obligations	679,592,459	-	679,592,459	-
Corporate Obligations	446,204,321	-	446,204,321	-
Other	3,198,768	-	3,198,768	-
Total Debt Securities	1,619,060,579	416,593,342	1,202,467,237	-
Purchased Options	1,490,853	1,429,150	61,703	-
Convertible Securities	1,016,640	-	1,016,640	-
Investment Funds:				
Private Investments	227,115,796	-	-	227,115,796
Developed Country Equity	51,825,851	51,825,851	-	-
Fixed Income	20,408,333	20,408,333	-	-
Natural Resources	235,900	235,900	-	-
Total Investment Funds	299,585,880	72,470,084	-	227,115,796
Physical Commodities - Gold	335,511,951	335,511,951	-	-
Cash Equivalents	1,451,976,495	1,451,976,495	-	-
Total Investments by Fair Value Level	6,292,179,575	\$ 4,858,695,195	\$ 1,206,368,584	\$ 227,115,796
Cash	61,532,398			
Investments Funds Fair Valued Using Practical Expedient:				
Hedge Funds	3,939,178,658			
Private Investments	8,371,216,814			
Public Markets	3,344,312,618			
Investments Funds Fair Valued Using Practical Expedient	15,654,708,090			
Total Investments, at Fair Value	\$ 22,008,420,063			
		Fair Value Measurements Using		
	Fair Value as of August 31, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment Derivatives				
Foreign Exchange Contracts	\$ 4,282,708	\$ -	\$ 4,282,708	\$ -
Futures Contracts	(13,398,499)	(13,398,499)	-	-
Swaps	8,399,403	-	8,399,403	-
Written Options	(186,828)	-	(186,828)	-
Investment Derivatives	\$ (903,216)	\$ (13,398,499)	\$ 12,495,283	\$ -

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

	Fair Value Measurements Using			
	Fair Value as of August 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level:				
Equity Securities:				
Domestic Common Stock	\$ 579,452,795	\$ 579,452,795	\$ -	\$ -
Foreign Common Stock	1,625,370,227	1,625,354,633	15,594	-
Other Equities	35,208,284	35,066,504	141,780	-
Total Equity Securities	2,240,031,306	2,239,873,932	157,374	-
Preferred Stock:				
Domestic Preferred Stock	110,220	110,220	-	-
Foreign Preferred Stock	53,462,511	53,462,511	-	-
Total Preferred Stock	53,572,731	53,572,731	-	-
Debt Securities:				
U.S. Government Obligations	288,716,642	236,524,210	52,192,432	-
Foreign Government and Provincial Obligations	693,067,238	-	693,067,238	-
Corporate Obligations	385,408,496	-	385,408,496	-
Other	4,218,442	-	4,218,442	-
Total Debt Securities	1,371,410,818	236,524,210	1,134,886,608	-
Purchased Options	5,570,818	4,909,052	661,766	-
Convertible Securities	881,662	-	881,662	-
Investment Funds:				
Private Investments	241,817,008	-	-	241,817,008
Fixed Income	21,578,518	21,578,518	-	-
Natural Resources	234,268	234,268	-	-
Total Investment Funds	263,629,794	21,812,786	-	241,817,008
Physical Commodities - Gold	473,781,273	473,781,273	-	-
Cash Equivalents	601,284,006	601,284,006	-	-
Total Investments by Fair Value Level	5,010,162,408	\$ 3,631,757,990	\$ 1,136,587,410	\$ 241,817,008
Cash	21,261,152			
Investments Funds Fair Valued Using Practical Expedient:				
Hedge Funds	4,196,535,921			
Private Investments	7,621,207,928			
Public Markets	3,035,169,436			
Investments Funds Fair Valued Using Practical Expedient	14,852,913,285			
Total Investments, at Fair Value	\$ 19,884,336,845			

	Fair Value Measurements Using			
	Fair Value as of August 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment Derivatives				
Foreign Exchange Contracts	\$ (8,652,235)	\$ -	\$ (8,652,235)	\$ -
Futures Contracts	1,191,436	1,191,436	-	-
Swaps	(1,942,232)	-	(1,942,232)	-
Written Options	(1,553,852)	-	(1,553,852)	-
Investment Derivatives	\$ (10,956,883)	\$ 1,191,436	\$ (12,148,319)	\$ -

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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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

Investment Funds:	Fair Value as of August 31, 2018	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge Funds:				
Developed Country Equity				
Redeemable Within One Year	\$ 1,382,725,716	\$ -	Monthly to Annually	30 - 90 Days
Redeemable Beyond One Year	968,598,059	-	Quarterly to Annually	45 - 90 Days
Nonredeemable	132,925,492	142,697,327	Not Applicable	Not Applicable
Total Developed Country Equity	<u>2,484,249,267</u>	<u>142,697,327</u>		
Credit-Related Fixed Income				
Redeemable Within One Year	316,348,331	-	Quarterly to Annually	90 Days
Redeemable Beyond One Year	50,080,603	-	Quarterly to Annually	90 - 120 Days
Nonredeemable	244,706,656	276,489,196	Not Applicable	Not Applicable
Total Credit-Related Fixed Income	<u>611,135,590</u>	<u>276,489,196</u>		
Investment Grade Fixed Income				
Redeemable Within One Year	349,968,129	-	Monthly to Annually	5 - 75 Days
Redeemable Beyond One Year	162,086,022	33,127,631	Quarterly to Annually	65 - 75 Days
Total Investment Grade Fixed Income	<u>512,054,151</u>	<u>33,127,631</u>		
Emerging Market Equity				
Redeemable Within One Year	94,236,402	-	Annually	60 - 90 Days
Redeemable Beyond One Year	216,534,405	-	Annually	60 - 90 Days
Nonredeemable	20,968,843	-	Not Applicable	Not Applicable
Total Emerging Markets Equity	<u>331,739,650</u>	<u>-</u>		
Total Hedge Funds	<u>3,939,178,658</u>	<u>452,314,154</u>		
Private Investments (Nonredeemable):				
Developed Country Equity	2,779,991,450	1,032,010,071	Not Applicable	Not Applicable
Credit-Related Fixed Income	377,334,216	103,358,057	Not Applicable	Not Applicable
Natural Resources	2,429,154,838	980,843,147	Not Applicable	Not Applicable
Emerging Market Equity	1,118,136,433	338,265,615	Not Applicable	Not Applicable
Real Estate	1,666,599,877	962,793,976	Not Applicable	Not Applicable
Total Private Investments	<u>8,371,216,814</u>	<u>3,417,270,866</u>		
Public Markets:				
Developed Country Equity				
Redeemable Within One Year	2,226,121,447	-	Monthly to Annually	6 - 90 Days
Redeemable Beyond One Year	262,476,407	17,621,500	Monthly to Annually	1 - 90 Days
Total Developed Country Equity	<u>2,488,597,854</u>	<u>17,621,500</u>		
Emerging Market Equity				
Redeemable Within One Year	725,367,711	-	Daily to Semi-Annually	1 - 90 Days
Redeemable Beyond One Year	94,644,543	-	Monthly to Quarterly	45 - 60 Days
Nonredeemable	35,702,510	79,390,556	Not Applicable	Not Applicable
Total Emerging Markets Equity	<u>855,714,764</u>	<u>79,390,556</u>		
Total Public Markets	<u>3,344,312,618</u>	<u>97,012,056</u>		
Total Investment Funds	<u>\$ 15,654,708,090</u>	<u>\$ 3,966,597,076</u>		

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Funds:	Fair Value as of August 31, 2017	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge Funds:				
Developed Country Equity				
Redeemable Within One Year	\$ 1,504,377,144	\$ -	Monthly to Annually	30 - 95 Days
Redeemable Beyond One Year	1,085,738,474	-	Quarterly to Annually	45 - 90 Days
Nonredeemable	96,541,130	206,948,382	Not Applicable	Not Applicable
Total Developed Country Equity	<u>2,686,656,748</u>	<u>206,948,382</u>		
Credit-Related Fixed Income				
Redeemable Within One Year	332,163,267	-	Quarterly to Annually	90 Days
Redeemable Beyond One Year	88,966,559	-	Quarterly to Annually	90 - 120 Days
Nonredeemable	199,441,053	115,565,002	Not Applicable	Not Applicable
Total Credit-Related Fixed Income	<u>620,570,879</u>	<u>115,565,002</u>		
Investment Grade Fixed Income				
Redeemable Within One Year	480,205,267	-	Monthly to Annually	5 - 75 Days
Redeemable Beyond One Year	83,386,822	31,581,518	Quarterly to Annually	65 - 75 Days
Total Investment Grade Fixed Income	<u>563,592,089</u>	<u>31,581,518</u>		
Emerging Market Equity				
Redeemable Within One Year	76,634,658	-	Annually	60 - 90 Days
Redeemable Beyond One Year	224,577,425	-	Annually	60 - 90 Days
Nonredeemable	23,974,069	-	Not Applicable	Not Applicable
Total Emerging Markets Equity	<u>325,186,152</u>	<u>-</u>		
Natural Resources				
Redeemable Beyond One Year	530,053	-	Not Applicable	Not Applicable
Total Natural Resources	<u>530,053</u>	<u>-</u>		
Total Hedge Funds	<u>4,196,535,921</u>	<u>354,094,902</u>		
Private Investments (Nonredeemable):				
Developed Country Equity	2,303,673,737	981,559,545	Not Applicable	Not Applicable
Credit-Related Fixed Income	583,534,861	163,624,996	Not Applicable	Not Applicable
Natural Resources	2,317,807,274	976,525,089	Not Applicable	Not Applicable
Emerging Market Equity	967,730,517	327,955,038	Not Applicable	Not Applicable
Real Estate	1,448,461,539	924,845,538	Not Applicable	Not Applicable
Total Private Investments	<u>7,621,207,928</u>	<u>3,374,510,206</u>		
Public Markets:				
Developed Country Equity				
Redeemable Within One Year	1,499,426,030	-	Monthly to Annually	1 - 90 Days
Redeemable Beyond One Year	521,922,365	81,105,000	Quarterly to Annually	1 - 184 Days
Total Developed Country Equity	<u>2,021,348,395</u>	<u>81,105,000</u>		
Emerging Market Equity				
Redeemable Within One Year	762,069,783	-	Daily to Semi-Annually	1 - 90 Days
Redeemable Beyond One Year	231,272,962	-	Monthly to Quarterly	45 - 60 Days
Nonredeemable	20,478,296	65,739,266	Not Applicable	Not Applicable
Total Emerging Markets Equity	<u>1,013,821,041</u>	<u>65,739,266</u>		
Total Public Markets	<u>3,035,169,436</u>	<u>146,844,266</u>		
Total Investment Funds	<u>\$ 14,852,913,285</u>	<u>\$ 3,875,449,374</u>		

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

The PUF invests in hedge funds through unit interests in investment pools established in the name of the UT Board. Amounts presented in the PUF's financial statements and related note disclosures represent the PUF's pro-rata share of these investment pool assets. The hedge fund pools are invested in private funds with external investment managers who invest in equity and fixed income securities, including related derivatives, of both domestic and international issuers. These investment managers may invest in both long and short securities and may utilize leverage in their portfolios. Certain funds are subject to a lock-up restriction of typically one to three years before the investment may be withdrawn from the investment manager without significant penalty. The amounts shown as nonredeemable are considered to be illiquid in that they typically become liquid over multi-year periods when and if the fund managers distribute proceeds realized from the underlying fund investments and the timing cannot be estimated. There are certain risks associated with these private funds, some of which include investment manager risk, market risk, and liquidity risk, as well as the risk of utilizing leverage in the portfolios. The hedge fund pools have committed \$1,156,006,041 of future funding to various hedge fund investments as of August 31, 2018 of which the PUF's pro-rata portion is \$452,314,154.

The PUF invests in private investments in investment pools created in the name of the UT Board. Amounts presented in the PUF's financial statements and related note disclosures for the years ended August 31, 2018 and 2017, represent the PUF's pro-rata share of these investment pool assets. The private investment pools are generally invested in limited partnerships with external investment managers or general partners who invest primarily in private equity securities. These investments are domestic and international, are illiquid, and typically become liquid over multi-year periods when and if the fund managers distribute proceeds realized from underlying fund investments. It is estimated that the underlying assets of the private investments will be liquidated over seven to ten years after initial investment. There are certain risks associated with these investments, some of which are liquidity risk, market risk, event risk, and investment manager risk. Certain of these investments are held through limited liability companies, of which UTIMCO is the manager of the limited liability companies. The private investment pools have committed \$5,077,668,448 of future funding to various private market investments as of August 31, 2018 of which the PUF's pro-rata portion is \$3,417,270,866.

Public market funds are invested in exchange traded funds, index funds, and private placements with external investment managers who invest in equity and fixed income securities, including related derivatives, of both domestic and international issuers. These funds are characterized as public market funds based on individual risk/return characteristics and their relationship to the overall asset mix of the PUF. Some of these investment managers may invest in both long and short securities and may utilize leverage in their portfolios. Certain funds are subject to a lock-up restriction of typically one to three years before the investment may be withdrawn from the investment manager without significant penalty. The amounts shown as nonredeemable are considered to be illiquid in that they typically become liquid over multi-year periods when and if the fund managers distribute proceeds realized from the underlying fund investments and the timing cannot be estimated. Certain of these investments are held through limited liability companies of which UTIMCO is the manager of the limited liability companies. There are certain risks associated with these investments, some of which are investment manager risk, market risk, and liquidity risk, as well as the risk of utilizing leverage in the portfolios. Future funding in the amount of \$173,606,726, of which the PUF's pro-rata portion is \$97,012,056, have been committed to certain public market funds as of August 31, 2018.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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

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

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

Note 4 – Investment Risk

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

(A) Credit Risk

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

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The PUF's investment policy does not provide specific requirements or limitations with regards to investment ratings. Per GASB Statement No. 40 (GASB 40), *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3*, unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. GASB 40 also provides that securities with split ratings, or a different rating assignment between NRSROs, are disclosed using the rating indicative of the greatest degree of risk. The following table presents each applicable investment type grouped by rating at August 31, 2018 and 2017:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type	August 31,		Rating
	2018	2017	
Investments:			
U.S. Government Guaranteed	\$ 420,405,735	\$ 240,737,257	AA
U.S. Government Non-Guaranteed:			
U.S. Agency	-	3,793,953	AA
U.S. Agency Asset Backed	68,541,557	42,712,085	AA
U.S. Agency Asset Backed	384,780	-	A
U.S. Agency Asset Backed	-	436,410	BAA/BBB
U.S. Agency Asset Backed	732,959	677,625	B
U.S. Agency Asset Backed	-	359,312	Not Rated
Total U.S. Government Non-Guaranteed	69,659,296	47,979,385	
Total U.S. Government	490,065,031	288,716,642	
Corporate Obligations:			
Domestic	17,056,684	16,364,825	AAA
Domestic	31,230,892	20,069,602	AA
Domestic	123,871,861	91,145,965	A
Domestic	120,796,689	98,839,737	BAA/BBB
Domestic	6,442,562	6,043,924	BA/BB
Domestic	1,614,449	1,044,368	B
Domestic	1,363,260	1,232,143	CAA/CCC
Domestic	340,216	401,564	CA/CC
Domestic	122,910	1,476,923	D
Domestic	1,144,046	-	Not Rated
Foreign	47,065,994	55,338,038	AAA
Foreign	13,602,419	21,419,800	AA
Foreign	31,739,115	27,481,132	A
Foreign	32,334,377	31,527,499	BAA/BBB
Foreign	3,439,217	3,291,616	BA/BB
Foreign	3,497,426	2,679,584	B
Foreign	205,628	624,606	CAA/CCC
Foreign	10,336,576	6,427,170	Not Rated
Total Corporate Obligations	446,204,321	385,408,496	
Foreign Government and Provincial Obligations	164,797,597	140,117,020	AAA
Foreign Government and Provincial Obligations	100,600,164	108,030,108	AA
Foreign Government and Provincial Obligations	184,197,960	190,795,130	A
Foreign Government and Provincial Obligations	165,294,397	144,802,004	BAA/BBB
Foreign Government and Provincial Obligations	49,203,005	103,505,428	BA/BB
Foreign Government and Provincial Obligations	489,709	622,320	B
Foreign Government and Provincial Obligations	15,009,627	5,195,228	Not Rated
Total Foreign Government and Provincial Obligations	679,592,459	693,067,238	
Other Debt Securities	310,842	1,069,536	AAA
Other Debt Securities	1,801,735	191,834	AA
Other Debt Securities	715,986	2,578,402	A
Other Debt Securities	370,205	221,798	BAA/BBB
Other Debt Securities	-	156,872	BA/BB
Total Other Debt Securities	3,198,768	4,218,442	
Total Debt Securities	\$ 1,619,060,579	\$ 1,371,410,818	
Convertible Securities	\$ 55,080	\$ -	B
Convertible Securities	961,560	881,662	Not Rated
Total Convertible Securities	\$ 1,016,640	\$ 881,662	
Other Investment Funds - Debt	\$ 20,408,333	\$ 21,578,518	BA/BB
Cash Equivalents - Money Market Funds	\$ 1,451,976,495	\$ 601,284,006	AAA
Cash	61,532,398	21,261,152	Not Rated
Total Cash and Cash Equivalents	\$ 1,513,508,893	\$ 622,545,158	
Net Deposit with Brokers for Derivative Contracts:			
U.S. Government Guaranteed	\$ 2,490,491	\$ 1,530,950	AA
Cash	2,610,642	24,323,922	Not Rated
Total Net Deposit with Brokers for Derivative Contracts	\$ 5,101,133	\$ 25,854,872	

(B) Concentrations of Credit Risk

The PUF's investment policy statement contains the limitation that no more than 5% of the market value of fixed income securities may be invested in corporate or municipal bonds of a single issuer. As of August 31, 2018 and 2017, 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, 2018 and 2017, the PUF does not have any deposits or investments that are exposed to custodial credit risk.

(D) Interest Rate Risk

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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

The following table summarizes the PUF's modified duration in years by investment type at August 31, 2018 and 2017:

Investment Type	August 31,			
	2018		2017	
	Fair Value	Modified Duration	Fair Value	Modified Duration
Investments:				
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	\$ 404,247,079	6.59	\$ 228,552,463	6.67
U.S. Treasury Inflation Protected	12,346,263	10.85	7,971,748	6.36
U.S. Agency Asset Backed	3,812,393	4.61	4,213,046	3.50
Total U.S. Government Guaranteed	<u>420,405,735</u>	6.70	<u>240,737,257</u>	6.61
U.S. Government Non-Guaranteed:				
U.S. Agency	-	-	3,793,953	0.06
U.S. Agency Asset Backed	69,659,296	6.12	44,185,432	5.39
Total U.S. Government Non-Guaranteed	<u>69,659,296</u>	6.12	<u>47,979,385</u>	4.96
Total U.S. Government	<u>490,065,031</u>	6.62	<u>288,716,642</u>	6.33
Corporate Obligations:				
Domestic	303,983,569	4.24	236,619,051	6.02
Foreign	142,220,752	4.62	148,789,445	6.64
Total Corporate Obligations	<u>446,204,321</u>	4.36	<u>385,408,496</u>	6.26
Foreign Government and Provincial Obligations	<u>679,592,459</u>	4.21	<u>693,067,238</u>	4.38
Other Debt Securities	<u>3,198,768</u>	5.76	<u>4,218,442</u>	15.80
Total Debt Securities	<u>1,619,060,579</u>	4.99	<u>1,371,410,818</u>	5.35
Convertible Securities	<u>1,016,640</u>	0.27	<u>881,662</u>	0.14
Other Investment Funds - Debt	<u>20,408,333</u>	6.70	<u>21,578,518</u>	6.80
Cash and Cash Equivalents	<u>1,513,508,893</u>	0.08	<u>622,545,158</u>	0.08
Total	<u>\$ 3,153,994,445</u>	2.64	<u>\$ 2,016,416,156</u>	3.74
Net Deposit with Brokers for Derivative Contracts:				
U.S. Government Guaranteed:				
U.S. Treasury Bills	\$ 2,490,491	1.42	\$ 1,530,950	5.86
Cash	2,610,642	-	24,323,922	-
Total Net Deposit with Brokers for Derivative Contracts	<u>\$ 5,101,133</u>	0.69	<u>\$ 25,854,872</u>	0.35

(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, 2018 and 2017, 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 \$27,756,212 and \$28,564,004 as of August 31, 2018 and 2017, respectively.

Mortgage backed securities which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. These securities amounted to \$71,987,283 and \$44,822,314 as of August 31, 2018 and 2017, respectively.

Asset backed securities which are backed by home equity loans, auto loans, equipment loans and credit card receivables. Prepayments by the obligee of the underlying assets in periods of decreasing interest rates could reduce or eliminate the stream of income that would have been received. These securities amounted to \$10,320,958 and \$7,911,332 as of August 31, 2018 and 2017, respectively.

(F) *Foreign Currency Risk*

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

The classification of domestic common stock and foreign common stock is based on the country of domicile of the issuer, not the currency in which the security is traded.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

The following table summarizes the PUF's non-U.S. dollar investments at August 31, 2018 and 2017:

Investment Type	August 31,	
	2018	2017
Domestic Common Stock:		
Australian Dollar	\$ 104,030	\$ 114,092
Foreign Common Stock:		
Australian Dollar	2,243,919	19,710,064
Brazilian Real	169,281,590	214,439,467
Canadian Dollar	11,458,369	33,556,032
Chilean Peso	979,519	867,047
Chinese Yuan Renminbi	253,465,124	2,639,477
Colombian Peso	132,007	175,161
Czech Koruna	5,047,759	5,312,293
Danish Krone	11,287,661	-
Egyptian Pound	12,592,310	10,353,733
Euro	177,716,122	156,598,960
Hong Kong Dollar	90,162,125	105,745,526
Hungarian Forint	1,054,682	841,683
Indian Rupee	62,002,440	48,469,776
Indonesian Rupiah	22,099,631	19,238,820
Japanese Yen	217,906,488	190,285,047
Malaysian Ringgit	17,936,501	18,901,210
Mexican Peso	72,718,279	70,649,923
Moroccan Dirham	-	1,910,913
Norwegian Krone	2,111,265	-
Peruvian Nuevo Sol	70,918	-
Philippine Peso	864,833	6,601,677
Polish Zloty	3,011,424	1,527,179
Qatari Riyal	5,302,223	3,305,709
Singapore Dollar	14,948,576	14,449,847
South African Rand	24,535,366	25,347,849
South Korean Won	262,147,812	226,433,088
Sri Lankan Rupee	4,976,391	-
Swedish Krona	-	8,296,080
Swiss Franc	13,190,730	9,586,082
Taiwan Dollar	86,528,348	78,154,706
Thai Baht	23,163,041	20,497,244
Turkish Lira	10,405,069	8,102,392
UK Pound	67,896,072	78,546,486
United Arab Emirates Dirham	20,458,181	25,187,874
Vietnamese Dong	8,553,322	5,817,227
Total Foreign Common Stock	1,676,248,097	1,411,548,572
Other - Equity Securities:		
Australian Dollar	2,177	-
Malaysian Ringgit	20,902	23,819
Total Other - Equity Securities	23,079	23,819
Foreign Preferred Stocks:		
Brazilian Real	27,240,111	25,739,907
Colombian Peso	-	40,257
Euro	5,749,825	2,558,552
South African Rand	59,646	69,593
South Korean Won	17,174,882	22,475,889
Total Foreign Preferred Stock	50,224,464	50,884,198

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type	August 31,	
	2018	2017
Foreign Government and Provincial Obligations:		
Australian Dollar	\$ 59,225,900	\$ 68,874,159
Brazilian Real	27,874,049	65,614,602
Canadian Dollar	38,156,630	16,521,972
Colombian Peso	14,549,366	9,222,497
Czech Koruna	-	458,304
Euro	123,592,421	107,238,899
Hungarian Forint	-	4,134,365
Indonesian Rupiah	17,192,697	16,038,146
Japanese Yen	76,030,758	73,839,971
Malaysian Ringgit	35,769,376	36,448,602
Mexican Peso	81,852,463	78,591,948
New Zealand Dollar	30,312,869	32,900,075
Norwegian Krone	9,371,893	8,791,674
Peruvian Sol	11,585,837	8,446,160
Polish Zloty	46,289,788	52,027,648
Romanian Leu	1,629,353	1,637,880
Singapore Dollar	30,396,152	27,963,522
South African Rand	19,906,832	27,664,477
South Korean Won	8,925,860	-
Thai Baht	5,472,144	4,958,196
Turkish Lira	1,048,867	3,522,448
UK Pound	14,022,021	24,243,482
Total Foreign Government and Provincial Obligations	653,205,276	669,139,027
Corporate Obligations:		
Australian Dollar	1,293,492	2,374,289
Canadian Dollar	228,309	-
Danish Krone	19,259,899	31,980,138
Euro	10,637,232	12,325,285
Indian Rupee	3,360,602	581
South African Rand	2,694,356	-
Swedish Krona	11,514,179	12,877,078
UK Pound	15,430,797	13,267,690
Total Corporate Obligations	64,418,866	72,825,061
Purchased Options:		
Australian Dollar	-	8,669
Brazilian Real	308,777	723,094
Euro	50,300	3,857,373
Total Purchased Options	359,077	4,589,136
Private Investments:		
Australian Dollar	82,401,631	35,536,870
Canadian Dollar	196,449,110	183,421,406
Euro	272,288,789	272,225,989
UK Pound	39,080,056	40,763,778
Total Private Investments	590,219,586	531,948,043
Investment Funds-Emerging Markets:		
Brazilian Real	16,516,059	20,349,686
Convertible Securities:		
Brazilian Real	960,746	880,970
Cash and Cash Equivalents:		
Australian Dollar	5,444	18,118
Brazilian Real	2,231,396	5,612,828
Canadian Dollar	2,765,581	98,666

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type	August 31,	
	2018	2017
Cash and Cash Equivalents (continued):		
Chilean Peso	\$ 164	\$ 4,690
Chinese Yuan Renminbi	39,821,156	114,286
Colombian Peso	378,311	748,537
Czech Koruna	7	191
Danish Krone	748	97
Egyptian Pound	9,261	1
Euro	156,243	1,706,212
Hong Kong Dollar	246,394	(372,273)
Hungarian Forint	6,770	1
Indian Rupee	111,148	640,768
Indonesian Rupiah	111,594	69,449
Israeli Shekel	60	217
Japanese Yen	7,434,077	3,089,311
Malaysian Ringgit	297,388	41,727
Mexican Peso	1,357,825	870,314
New Zealand Dollar	102,337	41,530
Norwegian Krone	294	101,430
Philippine Peso	6,836	18,982
Polish Zloty	199,074	425
Singapore Dollar	637,066	175
South African Rand	1,167,724	662,824
South Korean Won	5,113,673	5,750,675
Swedish Krona	13	87,227
Swiss Franc	358	690
Taiwan Dollar	621,300	43,388
Thai Baht	18,371	36,503
Turkish Lira	53,965	194
UK Pound	378,100	375,520
United Arab Emirates Dirham	(1,943)	(149)
Total Cash and Cash Equivalents	<u>63,230,735</u>	<u>19,762,554</u>
Written Options:		
Australian Dollar	(3,362)	-
Brazilian Real	(81)	(999,357)
Canadian Dollar	-	(7,720)
Euro	(14,508)	(513,756)
UK Pound	(41,123)	-
Total Written Options	<u>(59,074)</u>	<u>(1,520,833)</u>
Swaps:		
Canadian Dollar	138,957	(38,514)
Euro	1,420,149	47,063
Japanese Yen	(106,685)	(270,288)
Mexican Peso	1,178	(12,191)
New Zealand Dollar	90,067	50,043
South African Rand	(78,691)	19,463
South Korean Won	8,586	(35,810)
Swedish Krona	-	(63,317)
UK Pound	3,062,070	22,547,548
Total Swaps	<u>4,535,631</u>	<u>22,243,997</u>
Futures:		
Australian Dollar	-	(2,995)
Canadian Dollar	(11,981)	(9,880)
Euro	(70,920)	(1,932)
Total Futures	<u>(82,901)</u>	<u>(14,807)</u>
Total	<u>\$ 3,119,903,671</u>	<u>\$ 2,802,773,515</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, 2018 for options, swaps, and foreign exchange contracts shown in the following table:

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

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

	Notional		Fair Value		Counterparty Rating
	Assets	Liabilities	Assets	Liabilities	
Options	\$ 64,367,556	\$ 49,761,529	\$ 62,275	\$ 43,545	A
Swaps	4,281,222	1,000,000	571,120	33,913	AA
Swaps	62,143,551	76,690,238	29,195,979	26,919,692	A
Foreign Exchange Contracts	263,076,772	323,560,176	5,983,081	6,040,752	AA
Foreign Exchange Contracts	343,386,230	534,678,678	5,000,960	13,595,523	A
			<u>\$ 40,813,415</u>	<u>\$ 46,633,425</u>	

As of August 31, 2018 and 2017, the PUF also had investments in futures contracts, options on futures contracts and exchange-cleared swaps. Futures contracts, options on futures contracts, and exchange-cleared swaps expose the PUF to minimal counterparty credit risk since they are exchange traded and the exchange's clearinghouse, as counterparty to all exchange traded futures, guarantees them against default. Therefore, they are not presented in the table above.

Counterparty risk for swaps, options and foreign exchange contracts which are traded over-the-counter is mitigated by having master netting arrangements between the PUF and its counterparties, and by the posting of collateral on a daily basis by the counterparty to the PUF to cover the PUF's exposure to a counterparty above the limits set in place in each master netting agreement. Collateral posted by counterparties is held by the PUF in one of its accounts at the PUF's custodian bank. As of August 31, 2018 and 2017, the PUF held \$13,436,701 and \$4,708,619 respectively, of collateral related to derivative instruments other than futures, and had on deposit with brokers \$15,214,448 and \$29,289,737, respectively, as collateral related to derivative instruments other than futures.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Note 5 – Securities Lending

In accordance with the prudent investor investment standards, the PUF loans securities to certain brokers who pay the PUF negotiated lenders' fees. These fees are included in investment income in the statements of changes in fiduciary net position. The PUF receives qualified securities and/or cash as collateral against the loaned securities. The collateral, when received, will have a market value of 102% of loaned securities of U.S. issuers and a market value of 105% for loaned securities of non-U.S. issuers. If the market value of the collateral held in connection with loans of securities of U.S. issuers is less than 100% at the close of trading on any business day, the borrower is required to deliver additional collateral by the close of the next business day to equal 102% of the market value. For non-U.S. issuers, the collateral should remain at 105% of the market value of the loaned securities at the close of any business day. If it falls below 105%, the borrower must deliver additional collateral by the close of the following business day. The fair value of securities loaned, and the fair value of collateral held are as follows at August 31, 2018 and 2017:

<u>Securities on Loan</u>	<u>2018 Fair Value</u>	<u>2017 Fair Value</u>	<u>Type of Collateral</u>	<u>2018 Fair Value of Collateral</u>	<u>2017 Fair Value of Collateral</u>
U.S. Government	\$ 19,542,658	\$ 10,923,278	Cash	\$ 19,956,198	\$ 11,152,187
Foreign Government	-	1,848,116	Cash	-	1,891,000
Corporate Bonds	43,874,752	28,302,766	Cash	44,966,771	28,990,543
Common Stock	108,277,251	180,094,934	Cash	112,451,076	186,300,451
Total	<u>\$ 171,694,661</u>	<u>\$ 221,169,094</u>	Total	<u>\$ 177,374,045</u>	<u>\$ 228,334,181</u>
U.S. Government	\$ 28,230,311	\$ 22,489,338	Non-Cash	\$ 28,827,432	\$ 23,020,176
Corporate Bonds	-	501,535	Non-Cash	-	511,684
Common Stock	79,403,412	43,020,343	Non-Cash	82,861,664	44,896,898
Total	<u>\$ 107,633,723</u>	<u>\$ 66,011,216</u>	Total	<u>\$ 111,689,096</u>	<u>\$ 68,428,758</u>

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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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

Description	2018			2017		
	Fair Value	Rating	Weighted Average Maturity In Days	Fair Value	Rating	Weighted Average Maturity In Days
Repurchase Agreements	\$ 61,700,505	No Rating Available	4	\$ 77,542,096	No Rating Available	2
Agencies	3,063,882	AA	7	-		
Commercial Paper	56,155,650	P	24	56,332,451	P	39
Floating Rate Notes	30,870,905	AA		52,094,221	AA	
Floating Rate Notes	30,942,129	A		44,339,157	A	
Total Floating Rate Notes	61,813,034		27	96,433,378		22
Other Receivables/Payables	(5,359,026)	Not Rated	-	(1,973,744)	Not Rated	-
Total Collateral Pool Investment	\$ 177,374,045		19	\$ 228,334,181		19

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

	Fair Value as of August 31, 2018	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Repurchase Agreements	\$ 61,700,505	\$ -	\$ 61,700,505	\$ -
Agencies	3,063,882	-	3,063,882	-
Commercial Paper	56,155,650	-	56,155,650	-
Floating Rate Notes	61,813,034	-	61,813,034	-
Total by Fair Value Level	182,733,071	\$ -	\$ 182,733,071	\$ -
Other Receivables/Payables	(5,359,026)			
Total Collateral Pool Investments	\$ 177,374,045			

	Fair Value as of August 31, 2017	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Repurchase Agreements	\$ 77,542,096	\$ -	\$ 77,542,096	\$ -
Commercial Paper	56,332,451	-	56,332,451	-
Floating Rate Notes	96,433,378	-	96,433,378	-
Total by Fair Value Level	230,307,925	\$ -	\$ 230,307,925	\$ -
Other Receivables/Payables	(1,973,744)			
Total Collateral Pool Investments	\$ 228,334,181			

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.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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

In the event of default, where the borrower is unable to return the securities loaned, the 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, 2018 and 2017, 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, 2018 and 2017.

Note 6 – Written Options

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

Type	Fair Value at August 31, 2018		Fair Value at August 31, 2017	
	Assets	Liabilities	Assets	Liabilities
Equity	\$ -	\$ 86,936	\$ -	\$ 1,087,761
Currency	-	44,024	-	399,891
Commodity	-	623	-	5,700
Interest Rate Swap	-	1,996	-	-
	<u>\$ -</u>	<u>\$ 133,579</u>	<u>\$ -</u>	<u>\$ 1,493,352</u>

The fair values are included on the statements of fiduciary net position as options written, at fair value. The changes in fair value of open call options was an increase in the amount of \$141,785 for the year ended August 31, 2018 and a decrease in the amount of \$373,106 for the year ended August 31, 2017, which are included in the net increase in fair value of investments on the statements of changes in fiduciary net position.

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

Type	Fair Value at August 31, 2018		Fair Value at August 31, 2017	
	Assets	Liabilities	Assets	Liabilities
Currency	\$ -	\$ 48,602	\$ -	\$ 30,743
Equity	-	-	-	24,858
Commodity	-	-	-	4,896
Other	-	-	-	2
Interest Rate Swap	-	766	-	-
Credit Default Swap	-	3,881	-	-
	<u>\$ -</u>	<u>\$ 53,249</u>	<u>\$ -</u>	<u>\$ 60,499</u>

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

The fair values are included on the statements of fiduciary net position as options written, at fair value. The changes in fair value of open put options for the years ended August 31, 2018 and 2017 were increases in the amounts of \$23,001 and \$150,652, respectively, which are included in the net increase in fair value of investments on the statements of changes in fiduciary net position.

Note 7 – Swaps

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

Type	Notional Value	Fair Value at August 31, 2018	
		Assets	Liabilities
Interest Rate	\$ 755,484,069	\$ 4,423,503	\$ 1,177,323
Equity	506,600,834	7,302,471	2,521,142
Credit Default	35,312,550	450,984	327,756
Currency	5,039,500	2,573,793	2,440,000
Commodity	4,715,596	302,411	150,203
Volatility	3,500,000	-	37,335
Total		\$ 15,053,162	\$ 6,653,759

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

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

Type	USD Notional Value	Fair Value at August 31, 2017	
		Assets	Liabilities
Interest Rate	\$ 502,859,490	\$ 1,184,022	\$ 2,432,896
Equity	49,351,770	165,048	2,258,727
Credit Default	44,777,800	740,163	293,027
Currency	48,953,470	24,991,573	23,955,600
Commodity	2,686,014	49,044	131,832
Total		\$ 27,129,850	\$ 29,072,082

The change in fair value of open swap positions for the year ended August 31, 2017 was a decrease in the amount of \$723,863, which is included in the net increase in fair value of investments on the statements of changes in fiduciary net position.

Note 8 – Futures Contracts

The changes in fair value of open futures contracts for the years ended August 31, 2018 and 2017 were increases in the amounts of \$12,935,188 and \$2,673,521, respectively, which are included in the net increase in fair value of investments on the statements of changes in fiduciary net position. The PUF had \$3,323,386 and \$1,273,755 on deposit with brokers for collateral as margin for the futures contracts as of August 31, 2018 and 2017, respectively. Short futures may be used by the PUF to hedge the PUF's interest rate or currency risk associated with security positions.

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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

cash settlements for these open commodities contracts amounted to \$26,333,687 and \$1,482,085 as of August 31, 2018 and 2017, respectively.

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

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

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

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

Contract	Notional Value at August 31, 2017		Fair Value at August 31, 2017	
	Long	Short	Assets	Liabilities
Commodities	\$ 31,205,531	\$ 7,650,570	\$ 1,472,628	\$ 414,715
Domestic Fixed Income	132,043,900	76,931,762	164,356	16,025
Foreign Fixed Income	124,392,069	829,971	-	14,808
Total	\$ 287,641,500	\$ 85,412,303	\$ 1,636,984	\$ 445,548

Note 9 – Foreign Exchange Contracts

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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Currency	Net Buy August 31, 2018	Net Sell August 31, 2018	Unrealized Gains on Foreign Currency Exchange Contracts August 31, 2018	Unrealized Losses on Foreign Currency Exchange Contracts August 31, 2018
Argentina Peso	\$ 536,245	\$ -	\$ 231,881	\$ 352,288
Australian Dollar	-	47,553,119	588,273	147,833
Brazilian Real	-	16,456,980	1,569,601	182,450
Canadian Dollar	-	15,558,243	186,788	507,214
Chilean Peso	8,495,276	-	-	34,146
Chinese Yuan Renminbi	-	1,469,056	77,090	511,911
Colombian Peso	11,853,309	-	256,502	571,715
Czech Koruna	6,454	-	-	1,962
Danish Krone	-	21,142,365	75,002	93,353
Euro	-	300,323,668	1,416,342	826,843
Hong Kong Dollar	-	9,120,758	103,187	-
Hungarian Forint	-	11,866,867	-	10,650
Indian Rupee	-	1,316,467	188,381	154,439
Indonesian Rupiah	-	12,920,160	173,012	148,686
Israeli Shekel	5,921	-	8,175	8
Japanese Yen	-	219,163,418	6,948,129	722,711
Malaysian Ringgit	-	258,706	-	27,236
Mexican Peso	-	12,569,435	307,432	933,001
New Zealand Dollar	-	43,923,425	491,202	58,975
Norwegian Kroner	22,634,525	-	71,661	672,180
Peruvian Sol	-	3,235,614	25,547	-
Polish Zloty	-	14,917,438	89,769	280,588
Romanian Leu	-	3,068,530	779	17,393
Russian Ruble	2,823,830	-	-	171,966
Singapore Dollar	-	42,898,019	782,406	73,945
South African Rand	-	5,070,896	1,339,620	992,669
South Korean Won	-	18,034,029	8,731	170,683
Swedish Krona	44,685,984	-	138,949	2,964,173
Swiss Franc	-	13,000,924	45,724	4,275
Taiwan Dollar	-	8,598,480	163,991	23,702
Thai Baht	-	16,082,312	2,866	91,600
Turkish Lira	-	982,404	2,652,497	2,824,734
UK Pound	-	56,062,016	1,138,826	1,226,326
	\$ 91,041,544	\$ 895,593,329	\$ 19,082,363	\$ 14,799,655

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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Currency	Net Buy August 31, 2017	Net Sell August 31, 2017	Unrealized Gains on Foreign Currency Exchange Contracts August 31, 2017	Unrealized Losses on Foreign Currency Exchange Contracts August 31, 2017
Australian Dollar	\$ -	\$ 31,436,952	\$ 314,090	\$ 913,622
Brazilian Real	-	16,795,638	73,028	779,847
Canadian Dollar	16,348,924	-	207,544	130,951
Chilean Peso	-	-	-	-
Chinese Yuan (Offshore)	-	94,589,280	-	5,403,557
Chinese Yuan Renminbi	32,538	-	47,493	78,803
Colombian Peso	9,230	-	25	-
Czech Koruna	-	259,839	8,953	53,708
Danish Krone	-	20,202,207	233,566	1,153,930
Euro	53,777,288	-	2,652,335	1,127,545
Hong Kong Dollar	-	8,481,856	88,533	125
Hungarian Forint	-	4,150,243	-	27,991
Indian Rupee	18,252,168	-	307,753	14,289
Indonesian Rupiah	1,247,851	-	6,859	-
Israeli Shekel	259,880	-	-	5,612
Japanese Yen	-	53,620,564	706,370	6,265,715
Malaysian Ringgit	1,551,920	-	7,588	11,461
Mexican Peso	-	611,251	27,427	94,529
New Zealand Dollar	-	28,192,137	1,373,798	277,914
Norwegian Kroner	32,925,730	-	1,953,016	42,434
Peruvian Sol	616,564	-	2,505	-
Philippines Peso	8,139	-	-	8
Polish Zloty	-	23,345,166	103,341	855,911
Russian Ruble	1,591,394	-	59,461	9,531
Singapore Dollar	-	44,748,166	102,161	409,867
South African Rand	-	18,985,530	55,263	501,250
South Korean Won	-	6,206,142	69,711	39,093
Swedish Krona	15,968,721	-	1,684,050	366,914
Swiss Franc	1,978,510	-	9,437	6
Taiwan Dollar	-	33,031,768	-	162,907
Thai Baht	-	4,187,689	11,194	6,605
Turkish Lira	12,463,696	-	400,990	-
UK Pound	26,786,807	-	477,550	902,151
	<u>\$ 183,819,360</u>	<u>\$ 388,844,428</u>	<u>\$ 10,984,041</u>	<u>\$ 19,636,276</u>

The change in fair value of open foreign exchange contracts for the year ended August 31, 2017 was a decrease in the amount of \$8,652,235 which is included in the net increase in fair value of investments on the statements of changes in fiduciary net position.

Note 10 – Purchase Agreements

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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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

Note 11 – Distributions to the Available University Fund

The Texas Constitution allows for (a) distributions to the AUF from the “total return” on PUF investments, including income return as well as capital gains (realized and unrealized) and (b) the payment of PUF expenses from PUF assets. The Texas Constitution directs the UT Board to establish a distribution policy that provides stable, inflation-adjusted annual distributions to the AUF and preserves the real value of the PUF investments over the long term. Accordingly, distributions to the AUF in any given fiscal year are subject to the following: (1) A minimum amount equal to the amount needed to pay debt service on PUF bonds; (2) No increase from the preceding year (except as necessary to pay debt service on PUF bonds) unless the purchasing power of PUF investments for any rolling 10-year period has been preserved; (3) A maximum amount equal to seven percent of the average net fair market value of PUF’s net position in any fiscal year, except as necessary to pay debt service on PUF bonds. Distributions from the PUF to the AUF for the years ended August 31, 2018 and 2017, were \$887,250,000 and \$839,441,000, respectively. The UT Board has approved an amount of \$1,014,000,000 for the PUF distribution to the AUF for the year ended August 31, 2019.

Note 12 – Fees and Expenses

The PUF incurs investment management fees from various external managers of the PUF. The fees, generally assessed quarterly, are based on a percentage of the market value of investments held by each individual investment manager and currently range from 0.10% to 1.50%. In addition to quarterly investment management fees, the PUF may pay performance-based management fees for investment performance in excess of certain defined benchmarks as provided for in the managers’ contracts. The investment management fees presented in the statements of changes in fiduciary net position represent only those paid directly from the PUF, and do not include fees incurred and charged by general partners in private investments, by mutual fund managers, and by hedge fund managers as these types of fees are netted directly against returns for those investments in accordance with standard industry practice. The investment management fees assessed by external managers and paid directly by the PUF for the years ended August 31, 2018 and 2017, were \$32,975,173 and \$34,017,953 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, 2018 and 2017, were \$23,764,375 and \$17,618,775, respectively.

Custodial fees and expenses are assessed by the financial institution which holds the PUF’s assets. Fees are based on the number of accounts, market value of the PUF, and transaction activity in accordance with the contractual agreement with the institution. Additional fees are assessed for performance measurement, risk measurement and on-line communication services per the contractual agreement. The fees assessed for the years ended August 31, 2018 and 2017, were \$3,480,267 and \$2,237,124, respectively.

Accounting fees, in the amounts of \$319,644 and \$312,260, were incurred by the PUF during the years ended August 31, 2018 and 2017, respectively, for external and UT System internal audit services.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Consulting fees, in the amounts of \$249,850 and \$152,345, respectively, for the years ended August 31, 2018 and 2017 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 \$200,534 and \$122,042 were incurred for the years ended August 31, 2018 and 2017, respectively.

Analytical and risk measurement fees, in the amounts of \$155,125 and \$363,824, were also incurred during the years ended August 31, 2018 and 2017, respectively, to maintain a sophisticated risk measurement system for the PUF.

The PUF incurs legal fees associated with the review of new investment manager agreements and with due diligence efforts undertaken as part of the hiring of new investment managers. For the years ended August 31, 2018 and 2017, fees incurred were \$85,870 and \$54,122, 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 \$28,313 and \$24,586 were incurred for the years ended August 31, 2018 and 2017, respectively.

The PUF is assessed a fee by UT System to cover expenses related to the management of the PUF Lands. The fees assessed for the years ended August 31, 2018 and 2017, were \$25,736,078 and \$15,725,746, 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 \$159,090 and \$160,140 were charged to the PUF for the years ended August 31, 2018 and 2017, respectively.

PERMANENT UNIVERSITY FUND

Supplemental Schedule

Schedule of Changes in Cost of Investments and Investment Income

Year Ended August 31, 2018

(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	\$ 541,987	\$ 675,890	\$ (705,167)	\$ 51,666	\$ 6,696	\$ 3,068	\$ 574,140	\$ 8,412
Foreign Common Stock	1,367,345	1,395,236	(1,433,167)	154,233	(6,696)	147,821	1,624,772	43,208
Other	30,864	45,688	(42,734)	1,316	-	-	35,134	1,174
Total Equity Securities	<u>1,940,196</u>	<u>2,116,814</u>	<u>(2,181,068)</u>	<u>207,215</u>	<u>-</u>	<u>150,889</u>	<u>2,234,046</u>	<u>52,794</u>
Preferred Stock								
Domestic Preferred Stock	50	400	(111)	61	-	-	400	13
Foreign Preferred Stock	45,758	62,670	(63,209)	3,380	-	1,642	50,241	818
Total Preferred Stock	<u>45,808</u>	<u>63,070</u>	<u>(63,320)</u>	<u>3,441</u>	<u>-</u>	<u>1,642</u>	<u>50,641</u>	<u>831</u>
Debt Securities								
U. S. Government Obligations	285,701	3,212,173	(3,008,179)	(5,940)	-	6,293	490,048	3,340
Foreign Government and Provincial Obligations	678,843	683,307	(652,671)	4,315	-	15,547	729,341	31,767
Corporate Obligations	378,010	282,289	(214,538)	3,369	-	5,781	454,911	16,338
Other	3,701	1,517	(2,400)	389	-	(12)	3,195	149
Total Debt Securities	<u>1,346,255</u>	<u>4,179,286</u>	<u>(3,877,788)</u>	<u>2,133</u>	<u>-</u>	<u>27,609</u>	<u>1,677,495</u>	<u>51,594</u>
Purchased Options	<u>3,952</u>	<u>8,677</u>	<u>(17,707)</u>	<u>6,380</u>	<u>-</u>	<u>-</u>	<u>1,302</u>	<u>-</u>
Convertible Securities	<u>464</u>	<u>49</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>514</u>	<u>9</u>
Investment Funds								
Hedge Funds	3,221,676	375,179	(848,404)	370,857	-	-	3,119,308	305
Private Markets	6,744,069	1,450,829	(1,929,441)	819,497	-	-	7,084,954	117,066
Developed Country Equity	1,160,898	447,944	(199,171)	46,126	-	-	1,455,797	1,586
Emerging Markets Equity	676,075	89,940	(334,065)	378,524	-	-	810,474	-
Fixed Income	28,353	1,302	-	1,362	-	-	31,017	1,302
Real Estate	8,689	-	-	(8,245)	-	-	444	-
Natural Resources	14,561	23	-	(5,733)	-	2	8,853	-
Total Investment Funds	<u>11,854,321</u>	<u>2,365,217</u>	<u>(3,311,081)</u>	<u>1,602,388</u>	<u>-</u>	<u>2</u>	<u>12,510,847</u>	<u>120,259</u>
Physical Commodities								
Gold Bullion	490,844	54,542	(146,008)	(19,021)	-	23	380,380	-
Cash and Cash Equivalents								
Money Market Funds and Cash Held at State	622,376	1,091,494 *	-	(220,327) **	-	20,593	1,514,136	14,503
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,837</u>
Total Investment in Securities	<u>\$ 16,304,216</u>	<u>\$ 9,879,149</u>	<u>\$ (9,596,971)</u>	<u>\$ 1,582,209</u>	<u>\$ -</u>	<u>\$ 200,758</u>	<u>\$ 18,369,361</u>	<u>\$ 242,827</u>

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

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

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