

Financial Statements
and Independent Auditors' Report
Permanent University Fund
Years Ended August 31, 2016 and 2015

Permanent University Fund

Financial Statements

Years Ended August 31, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Regents of The University of Texas System
To the Board of Directors of The University of Texas 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, 2016 and 2015, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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, 2016 and 2015, 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, 2016 and 2015, and the changes in its fiduciary net position for the years then ended in conformity with accounting principles generally accepted in the United States and do not purport to, and do not, present the fiduciary net position of The University of Texas System, as of August 31, 2016 or 2015, or the changes in their fiduciary 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 two matters.

Other Matters

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

Report on Supplemental Schedule

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedule listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the financial statements. This schedule is the responsibility of the 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 28, 2016

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, 2016 and 2015. This discussion was prepared by The University of Texas Investment Management Company (UTIMCO) and should be read in conjunction with the PUF's financial statements and notes. The PUF is a public endowment contributing to the support of 18 institutions and 6 agencies in The University of Texas System (UT System) and The Texas A&M University System (TAMU System). The Texas Constitution and various state statutes designate The University of Texas System Board of Regents (UT Board) as the fiduciary for the management of certain public endowment and operating funds. The UT Board has entered into an Investment Management Services Agreement delegating investment management responsibility for all investments to UTIMCO.

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

Financial Highlights

The PUF's net fiduciary position after distributions increased by \$390.1 million from \$17,490.0 million to \$17,880.1 million, or approximately 2.23% for the year ended August 31, 2016, compared to an increase of \$125.1 million or approximately 0.72% for the year ended August 31, 2015. 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 3.94%, calculated using the Modified Dietz Method as described by the CFA Institute, for the year ended August 31, 2016. Investments in private investments, emerging markets equities, and real estate equities were the biggest contributors to the 2016 return. For the year ended August 31, 2015 the PUF posted a net investment return of 0.43%. Investments in private investment, developed country equities, and hedge funds were the biggest contributors to the 2015 returns.
2. Fiscal year 2016 contributions of PUF Lands mineral income decreased by 36.49% from \$806.7 million to \$512.3 million and represented 2.93% of the average value of the PUF investments during the year, compared to fiscal year 2015 contributions which decreased by 28.59%, from \$1,129.7 million to \$806.7 million and represented 4.55% of the average value of the PUF investments during the year. PUF Lands expenses were \$22.1 million and \$13.0 million for the years ended August 31, 2016 and 2015, 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 1.22% in fiscal year 2016, compared to an decrease of 12.97% in fiscal year 2015.

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Use of Financial Statements and Notes

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

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

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

Statements of Fiduciary Net Position

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

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

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Assets			
Investments, at Fair Value	\$ 17,922.0	\$ 17,539.7	\$ 17,438.9
Other Assets	551.0	454.0	530.4
Total Assets	<u>18,473.0</u>	<u>17,993.7</u>	<u>17,969.3</u>
Total Liabilities	<u>592.9</u>	<u>503.7</u>	<u>604.4</u>
Net Position Held in Trust	<u>\$ 17,880.1</u>	<u>\$ 17,490.0</u>	<u>\$ 17,364.9</u>

Statements of Changes in Fiduciary Net Position

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

The net increase in fair value of investments of the PUF was \$530.2 million during the year compared to a net decrease in fair value of investments of \$31.3 million for the year ended August 31, 2015. Investment expenses totaled \$47.4 million, \$40.8 million, and \$44.5 million, respectively, for the years ended August 31, 2016, 2015, and 2014.

The PUF's objectives are:

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

Distributions to the AUF increased by \$9.3 million, from \$763.6 million in fiscal year 2015 to \$772.9 million, in fiscal year 2016. The fiscal year 2015 distribution amount decreased by \$113.8 million from the fiscal year 2014 distribution of \$877.4 million. PUF distributions are determined by the UT Board as provided in the Texas Constitution, which directs the UT Board to establish a distribution policy that provides stable, inflation-adjusted distributions to the AUF and preserves the real value of the PUF investments over the long term. 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, 2016 and 2015, respectively, distributions were 5.00% and 5.50% 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>2016</u>	<u>2015</u>	<u>2014</u>
Investment Income	\$ 720.3	\$ 136.0	\$ 2,313.0
Less Investment Expenses	47.4	40.8	44.5
PUF Lands Contributions	512.3	806.6	1,129.7
Total Additions	<u>1,185.2</u>	<u>901.8</u>	<u>3,398.2</u>
Administrative Expenses			
PUF Lands Expenses	22.1	13.0	8.3
UT System Oversight Fee	0.1	0.1	0.1
Distributions to AUF	772.9	763.6	877.4
Total Deductions	<u>795.1</u>	<u>776.7</u>	<u>885.8</u>
Change in Fiduciary Net Position	390.1	125.1	2,512.4
Net Position Held in Trust, Beginning of Year	17,490.0	17,364.9	14,852.5
Net Position Held in Trust, End of Year	<u>\$17,880.1</u>	<u>\$17,490.0</u>	<u>\$17,364.9</u>

Contacting UTIMCO

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

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Statements of Fiduciary Net Position

August 31, 2016 and 2015

(in thousands)

Assets	2016	2015
Investments, at Fair Value:		
Equity Securities	\$2,124,443	\$1,896,169
Preferred Stock	51,350	36,958
Debt Securities	1,026,598	912,031
Investment Funds	13,658,312	13,565,327
Convertible Securities	579	-
Purchased Options	2,640	27,371
Physical Commodities	392,854	338,454
Cash and Cash Equivalents	665,233	763,458
Total Investments	<u>17,922,009</u>	<u>17,539,768</u>
Collateral for Securities Loaned, at Fair Value	329,471	317,476
Deposits with Brokers for Derivative Contracts	24,942	12,267
Unrealized Gains on Foreign Currency Exchange Contracts	8,848	15,262
Futures Contracts, at Fair Value	5,790	10,755
Swaps, at Fair Value	42,732	29,461
Receivables:		
Investment Securities Sold	127,613	57,387
Accrued Income	11,524	11,149
Other	92	215
Total Receivables	<u>139,229</u>	<u>68,751</u>
Total Assets	<u>18,473,021</u>	<u>17,993,740</u>
Liabilities		
Payable Upon Return of Securities Loaned	329,471	317,476
Payable to Brokers for Collateral Held	2,500	16,384
Unrealized Losses on Foreign Currency Exchange Contracts	14,894	9,275
Futures Contracts, at Fair Value	4,163	34,411
Swaps, at Fair Value	46,192	32,855
Options Written, at Fair Value	3,009	16,088
Payables:		
Investment Securities Purchased	182,168	71,758
Other	10,473	5,452
Total Payables	<u>192,641</u>	<u>77,210</u>
Total Liabilities	<u>592,870</u>	<u>503,699</u>
Net Position Held in Trust	<u>\$17,880,151</u>	<u>\$17,490,041</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, 2016 and 2015

(in thousands)

	<u>2016</u>	<u>2015</u>
Additions		
Investment Income:		
Net Increase (Decrease) in Fair Value of Investments	\$ 530,228	\$ (31,272)
Interest	34,024	32,785
Dividends	48,860	49,166
Income Distributions from Private Investment Funds	104,001	81,836
Securities Lending Income	2,488	2,198
Other Income	757	1,257
Total Investment Income	<u>720,358</u>	<u>135,970</u>
Less Investment Expenses:		
Investment Management Fees	26,922	24,328
UTIMCO Management Fee	16,913	13,033
Custodial Fees and Expenses	2,381	2,279
Analytical and Risk Measurement Fees	379	385
Accounting Fees	308	291
Consulting Fees	185	147
Background Check Fees	148	171
Foreign Tax Consulting and Filing Fees	102	31
Legal Fees	93	139
Other Expenses	10	3
Total Investment Expenses	<u>47,441</u>	<u>40,807</u>
Net Investment Income	672,917	95,163
Contributions from PUF Lands	512,315	806,672
Total Additions	<u>1,185,232</u>	<u>901,835</u>
Deductions		
Administrative Expenses:		
PUF Lands Expenses	22,085	12,985
UT System Oversight Fee	160	159
Total Administrative Expenses	<u>22,245</u>	<u>13,144</u>
Distributions to Available University Fund	772,877	763,553
Total Deductions	<u>795,122</u>	<u>776,697</u>
Change in Fiduciary Net Position	390,110	125,138
Net Position Held in Trust, Beginning of Year	<u>17,490,041</u>	<u>17,364,903</u>
Net Position Held in Trust, End of Year	<u>\$17,880,151</u>	<u>\$17,490,041</u>

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

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Notes to Financial Statements

Note 1 – Organization and Basis of Presentation

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

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

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

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

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

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

(C) Management has evaluated subsequent events through October 28, 2016, 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 Measurement*** -- 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. Generally accepted accounting principles provide 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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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 on the basis of market valuations provided by independent pricing services.

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

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

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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Hedge funds, developed country equity, emerging markets equity and fixed income investment funds and certain other private placements are fair valued by management based on net asset value information provided by the investment managers as well as other relevant factors as indicated above.

(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 (decrease) in fair value of investments.

(C) ***Investment Income and Investment Expenses*** -- Interest income is accrued as earned. Dividend income is recorded on the ex-dividend date. Dividend and interest income are recorded net of foreign taxes where recovery of such taxes is not assured. For the years ended August 31, 2016 and 2015, interest and dividend withholding in the amounts of \$2,594,401 and \$3,355,424, respectively, have been netted against dividend and interest income. Investment income includes net realized and unrealized currency gains and losses recognized between accrual and payment dates on dividend and interest transactions. Investment expenses are recorded on the accrual basis as incurred.

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

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

(F) ***Derivative Instruments*** -- Derivatives are financial instruments whose fair value is derived, in whole or part, from the value of any one or more underlying securities or assets, or index of securities or assets, such as stocks, bonds, commodities, or currencies. The PUF from time to time uses various derivative instruments, as allowed under The University of Texas System Board of Regents (UT Board) approved derivative investment policy guidelines. Derivative instruments included under these policies include futures, forwards, swaps and various forms of options. Futures contracts and foreign currency exchange contracts are fair valued at closing market prices on valuation date. Futures contracts actively traded are categorized as Level 1 and foreign currency 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,

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

- hedge and control risks, or
- facilitate transition trading.

Through the use of derivative instruments, the complex risks that are bound together in traditional investments can be separated and managed independently. The primary intent of the PUF's investment in derivative instruments is to manage and implement investment strategies more effectively and at a lower cost than would be possible in the cash market. All of the PUF's derivative instruments are considered investment derivatives, and therefore do not qualify for hedge accounting; all changes in fair value are included in the net increase (decrease) 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 (decrease) 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 (decrease) 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 and equity sector returns, market events, and currency fluctuations. Swaps are agreements between two parties to exchange periodic payments on the notional value of the contract multiplied by a stated fixed interest rate versus a stated floating interest rate, or on a commodity or equity sector return versus a specified cost per contract. Swaps are marked to market on a daily basis, and are included, at fair value, on the statements of fiduciary net position. Cash flows may occur when a swap is opened, when it resets, if or when it is prematurely terminated by both parties to the agreement, and when it reaches maturity. The frequency of the resets is defined by the term sheet of the particular swap agreement, and varies from instrument to instrument. These instruments involve market and/or credit risk in excess of the amount recognized in the statements of fiduciary net position. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movement in currency and securities fair values and interest rates.

Futures Contracts -- The PUF enters into futures contracts to facilitate various trading strategies, primarily as a tool to increase or decrease market exposure to various asset classes. Upon entering into a futures contract, initial margin deposit requirements are

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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 Currency Contracts -- The PUF enters into forward foreign currency exchange contracts to hedge against foreign currency exchange rate risks on its non-U.S. dollar denominated investment securities and to facilitate trading strategies primarily as a tool to increase or decrease market exposure to various foreign currencies. When entering into a forward currency contract, the PUF agrees to receive or deliver a fixed quantity of foreign currency for an agreed-upon price on an agreed future date. These contracts are fair 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 (decrease) 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 publicly listed money market funds are categorized as Level 1.

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

(I) *GASB Statements Implemented in 2016* -- GASB Statement No. 72 (Statement 72), *Fair Value Measurement and Application*, effective 2016, clarifies the definition of fair value, establishes principles for measuring fair value, provides additional fair value guidance, and enhances disclosures about fair value measurements. The implementation of Statement 72 had no effect on the PUF's net position or changes in net position for the years ended August 31, 2016 and 2015.

(J) *Reclassification* -- Certain items in the 2015 financial statements and related notes have been reclassified to conform with 2016 classification.

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, 2016 and 2015, respectively, as categorized by level of the fair value hierarchy:

	Fair Value Measurements Using			
	Fair Value as of August 31, 2016	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	\$ 733,608,157	\$ 733,608,157	\$ -	\$ -
Foreign Common Stock	1,365,703,611	1,365,687,876	15,735	-
Other Equities	25,130,925	25,130,925	-	-
Total Equity Securities	2,124,442,693	2,124,426,958	15,735	-
Preferred Stock:				
Domestic Preferred Stock	618,030	109,120	508,910	-
Foreign Preferred Stock	50,731,929	50,731,929	-	-
Total Preferred Stock	51,349,959	50,841,049	508,910	-
Debt Securities:				
U.S. Government Obligations	153,315,455	104,140,898	49,174,557	-
Foreign Government and Provincial Obligations	565,985,891	-	565,985,891	-
Corporate Obligations	303,622,348	-	303,622,348	-
Other	3,674,411	-	3,674,411	-
Total Debt Securities	1,026,598,105	104,140,898	922,457,207	-
Purchased Options	2,639,950	2,264,286	375,664	-
Convertible Securities	579,190	-	579,190	-
Investment Funds:				
Private Investments	143,150,173	-	-	143,150,173
Emerging Markets Equity	15,210	15,210	-	-
Fixed Income	19,941,261	19,941,261	-	-
Total Investment Funds	163,106,644	19,956,471	-	143,150,173
Physical Commodities - Gold	392,854,065	392,854,065	-	-
Cash Equivalents	631,959,959	631,959,959	-	-
Total Investments by Fair Value Level	4,393,530,565	\$ 3,326,443,686	\$ 923,936,706	\$ 143,150,173
Cash	33,273,542			
Investments Funds Fair Valued Using Practical Expedient:				
Hedge Funds	4,680,318,346			
Private Investments	6,340,521,841			
Public Markets	2,474,365,042			
Investments Funds Fair Valued Using Practical Expedient	13,495,205,229			
Total Investments, at Fair Value	\$ 17,922,009,336			

	Fair Value Measurements Using			
	Fair Value as of August 31, 2016	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	\$ (6,045,679)	\$ -	\$ (6,045,679)	\$ -
Futures Contracts	1,627,582	1,627,582	-	-
Swaps	(3,459,866)	-	(3,459,866)	-
Written Options	(3,008,770)	-	(3,008,770)	-
Investment Derivatives	\$ (10,886,733)	\$ 1,627,582	\$ (12,514,315)	\$ -

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

	Fair Value Measurements Using			
	Fair Value as of August 31, 2015	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	\$ 618,737,888	\$ 618,737,888	\$ -	\$ -
Foreign Common Stock	1,277,427,598	1,277,427,598	-	-
Other Equities	3,690	3,690	-	-
Total Equity Securities	1,896,169,176	1,896,169,176	-	-
Preferred Stock:				
Domestic Preferred Stock	1,011,621	168,502	843,119	-
Foreign Preferred Stock	35,946,030	35,946,030	-	-
Total Preferred Stock	36,957,651	36,114,532	843,119	-
Debt Securities:				
U.S. Government Obligations	172,817,861	131,344,254	41,473,607	-
Foreign Government and Provincial Obligations	449,465,566	-	449,465,566	-
Corporate Obligations	286,305,953	-	286,305,953	-
Other	3,441,131	-	3,441,131	-
Total Debt Securities	912,030,511	131,344,254	780,686,257	-
Purchase Options	27,370,731	611,484	26,759,247	-
Investment Funds:				
Private Investments	127,256,367	-	-	127,256,367
Emerging Markets Equity	31,991	31,991	-	-
Fixed Income	16,943,418	16,943,418	-	-
Total Investment Funds	144,231,776	16,975,409	-	127,256,367
Physical Commodities - Gold	338,453,903	338,453,903	-	-
Cash Equivalents	678,195,121	678,195,121	-	-
Total Investments by Fair Value Level	4,033,408,869	\$ 3,097,863,879	\$ 808,288,623	\$ 127,256,367
Cash	85,263,463			
Investments Funds Fair Valued Using Practical Expedient:				
Hedge Funds	5,239,083,619			
Private Investments	5,476,251,343			
Public Markets	2,705,760,273			
Investments Funds Fair Valued Using Practical Expedient	13,421,095,235			
Total Investments, at Fair Value	\$ 17,539,767,567			

	Fair Value Measurements Using			
	Fair Value as of August 31, 2015	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	\$ 5,987,019	\$ -	\$ 5,987,019	\$ -
Futures Contracts	(23,655,492)	(23,655,492)	-	-
Swaps	(3,394,608)	-	(3,394,608)	-
Written Options	(16,088,023)	-	(16,088,023)	-
Investment Derivatives	\$ (37,151,104)	\$ (23,655,492)	\$ (13,495,612)	\$ -

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, 2016 and 2015 is summarized in the tables below as they are included within the asset mix of the PUF.

Investment Funds:	<u>Fair Value as of</u> <u>August 31, 2016</u>	<u>Unfunded</u> <u>Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption</u> <u>Notice Period</u>
Hedge Funds:				
Developed Country Equity				
Redeemable Within One Year	\$ 2,112,393,197	\$ -	Quarterly to Annually	15 - 95 Days
Redeemable Beyond One Year	980,106,691	-	Monthly to Annually	45 - 90 Days
Nonredeemable	92,458,555	53,643,903	Not Applicable	Not Applicable
Total Developed Country Equity	<u>3,184,958,443</u>	<u>53,643,903</u>		
Credit-Related Fixed Income				
Redeemable Within One Year	429,263,468	-	Quarterly to Annually	90 Days
Redeemable Beyond One Year	116,876,607	-	Quarterly/Annually	90 - 120 Days
Nonredeemable	170,417,382	124,708,271	Not Applicable	Not Applicable
Total Credit-Related Fixed Income	<u>716,557,457</u>	<u>124,708,271</u>		
Investment Grade Fixed Income				
Redeemable Within One Year	319,745,852	-	Monthly to Annually	5 - 75 Days
Redeemable Beyond One Year	123,774,370	34,154,435	Monthly to Annually	60 - 75 Days
Total Investment Grade Fixed Income	<u>443,520,222</u>	<u>34,154,435</u>		
Emerging Market Equity				
Redeemable Within One Year	101,656,741	-	Annually	60 - 90 Days
Redeemable Beyond One Year	208,232,827	-	Annually	60 - 90 Days
Nonredeemable	24,852,613	-	Not Applicable	Not Applicable
Total Emerging Markets Equity	<u>334,742,181</u>	<u>-</u>		
Natural Resources				
Redeemable Within One Year	391,712	-	Daily	Not Applicable
Nonredeemable	148,331	-	Not Applicable	Not Applicable
Total Natural Resources	<u>540,043</u>	<u>-</u>		
Total Hedge Funds	<u>4,680,318,346</u>	<u>212,506,609</u>		
Private Investments (Nonredeemable):				
Developed Country Equity	2,090,616,766	1,122,018,361	Not Applicable	Not Applicable
Credit-Related Fixed Income	649,561,588	223,133,070	Not Applicable	Not Applicable
Natural Resources	1,687,003,556	1,269,059,240	Not Applicable	Not Applicable
Emerging Market Equity	759,545,277	491,913,495	Not Applicable	Not Applicable
Real Estate	1,153,794,654	998,099,473	Not Applicable	Not Applicable
Total Private Investments	<u>6,340,521,841</u>	<u>4,104,223,639</u>		
Public Markets:				
Developed Country Equity				
Redeemable Within One Year	1,220,354,502	-	Monthly to Annually	1 - 90 Days
Redeemable Beyond One Year	403,800,968	-	Quarterly to Annually	1 - 184 Days
Total Developed Country Equity	<u>1,624,155,470</u>	<u>-</u>		
Emerging Market Equity				
Redeemable Within One Year	769,804,807	-	Daily to Annually	1 - 90 Days
Redeemable Beyond One Year	44,424,015	-	Quarterly	45 - 60 Days
Nonredeemable	35,980,750	20,939,266	Not Applicable	Not Applicable
Total Emerging Markets Equity	<u>850,209,572</u>	<u>20,939,266</u>		
Total Public Markets	<u>2,474,365,042</u>	<u>20,939,266</u>		
Total Investment Funds	<u>\$ 13,495,205,229</u>	<u>\$ 4,337,669,514</u>		

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Funds:	Fair Value as of August 31, 2015	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge Funds:				
Developed Country Equity				
Redeemable Within One Year	\$ 2,867,625,655	\$ -	Monthly to Annually	15 - 95 Days
Redeemable Beyond One Year	948,869,526	-	Monthly to Annually	60 - 90 Days
Nonredeemable	89,181,437	92,810,601	Not Applicable	Not Applicable
Total Developed Country Equity	<u>3,905,676,618</u>	<u>92,810,601</u>		
Credit-Related Fixed Income				
Redeemable Within One Year	277,062,213	-	Quarterly/Annually	1 - 90 Days
Redeemable Beyond One Year	334,656,616	-	Annually	90 - 180 Days
Nonredeemable	144,819,340	79,048,039	Not Applicable	Not Applicable
Total Credit-Related Fixed Income	<u>756,538,169</u>	<u>79,048,039</u>		
Investment Grade Fixed Income				
Redeemable Within One Year	282,227,906	-	Monthly/Quarterly	5 - 69 Days
Emerging Market Equity				
Redeemable Within One Year	27,276,217	-	Annually	75 Days
Redeemable Beyond One Year	231,482,783	-	Monthly	60 - 90 Days
Nonredeemable	32,718,188	-	Not Applicable	Not Applicable
Total Emerging Markets Equity	<u>291,477,188</u>	<u>-</u>		
Real Estate				
Redeemable Within One Year	1,320,772	-	Not Applicable	Not Applicable
Natural Resources				
Redeemable Within One Year	683,013	-	Daily	Not Applicable
Nonredeemable	1,159,953	-	Not Applicable	Not Applicable
Total Natural Resources	<u>1,842,966</u>	<u>-</u>		
Total Hedge Funds	<u>5,239,083,619</u>	<u>171,858,640</u>		
Private Investments (Nonredeemable):				
Developed Country Equity	2,095,656,210	1,084,460,035	Not Applicable	Not Applicable
Credit-Related Fixed Income	649,572,824	251,642,225	Not Applicable	Not Applicable
Natural Resources	1,232,505,737	1,336,333,002	Not Applicable	Not Applicable
Emerging Market Equity	643,422,769	476,793,812	Not Applicable	Not Applicable
Real Estate	855,093,803	1,007,979,324	Not Applicable	Not Applicable
Total Private Investments	<u>5,476,251,343</u>	<u>4,157,208,398</u>		
Public Markets:				
Developed Country Equity				
Redeemable Within One Year	1,354,602,803	-	Monthly to Annually	1 - 90 Days
Redeemable Beyond One Year	437,077,252	-	Quarterly, Annually	1 - 184 Days
Total Developed Country Equity	<u>1,791,680,055</u>	<u>-</u>		
Emerging Market Equity				
Redeemable Within One Year	802,348,176	-	Daily to Annually	1 - 90 Days
Nonredeemable	34,752,039	31,808,942	Not Applicable	Not Applicable
Total Emerging Markets Equity	<u>837,100,215</u>	<u>31,808,942</u>		
Real Estate				
Redeemable Within One Year	76,980,003	-	Monthly	30 Days
Total Public Markets	<u>2,705,760,273</u>	<u>31,808,942</u>		
Total Investment Funds	<u>\$ 13,421,095,235</u>	<u>\$ 4,360,875,980</u>		

The PUF invests in hedge funds through unit interests in investment pools established in the name of the UT Board. Amounts presented in the PUF's financial statements and related note disclosures represent the PUF's pro-rata share of these investment pool assets. The hedge fund pools are invested in private 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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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 \$477,253,372 of future funding to various hedge fund investments as of August 31, 2016 of which the PUF's pro-rata portion is \$212,506,609.

The PUF invests in private investments in investment pools created in the name of the UT Board. Amounts presented in the PUF's financial statements and related note disclosure for the years ended August 31, 2016 and 2015, 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. 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 \$6,071,336,744 of future funding to various private market investments as of August 31, 2016 of which the PUF's pro-rata portion is \$4,104,223,639.

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 modest 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 fundings in the amount of \$37,113,198, of which the PUF's pro-rata portion is \$20,939,266, have been committed to certain public market funds as of August 31, 2016.

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.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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

Investments in hedge funds, private investments, and public market funds are also subject to the investment risks discussed in Note 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, 2016 and 2015:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type	August 31,		Rating
	2016	2015	
Investments:			
U.S. Government Guaranteed	\$ 111,761,485	\$ 139,253,967	AA
U.S. Government Non-Guaranteed:			
U.S. Agency	1,899,212	9,993,899	AA
U.S. Agency Asset Backed	39,654,758	23,569,995	AA
Total U.S. Government Non-Guaranteed	41,553,970	33,563,894	
Total U.S. Government	153,315,455	172,817,861	
Corporate Obligations:			
Domestic	13,100,302	11,985,195	AAA
Domestic	18,730,907	8,296,341	AA
Domestic	75,327,316	77,366,877	A
Domestic	62,479,056	47,148,998	BAA/BBB
Domestic	9,802,523	3,534,601	BA/BB
Domestic	1,497,844	1,134,606	B
Domestic	1,862,528	3,642,840	CAA/CCC
Domestic	415,009	439,325	CA/CC
Domestic	-	492,446	C
Domestic	1,179,100	228,205	D
Domestic	295,700	615,156	Not Rated
Foreign	22,377,108	18,441,854	AAA
Foreign	35,002,592	38,602,527	AA
Foreign	19,118,080	28,619,877	A
Foreign	30,150,680	33,537,132	BAA/BBB
Foreign	6,635,437	4,917,867	BA/BB
Foreign	4,893,924	5,697,530	B
Foreign	753,707	1,477,596	CAA/CCC
Foreign	535	126,980	Not Rated
Total Corporate Obligations	303,622,348	286,305,953	
Foreign Government and Provincial Obligations	86,994,177	68,548,747	AAA
Foreign Government and Provincial Obligations	122,704,674	93,810,891	AA
Foreign Government and Provincial Obligations	148,783,682	134,557,994	A
Foreign Government and Provincial Obligations	136,868,295	134,874,902	BAA/BBB
Foreign Government and Provincial Obligations	70,051,761	17,330,787	BA/BB
Foreign Government and Provincial Obligations	583,302	-	B
Foreign Government and Provincial Obligations	-	342,245	Not Rated
Total Foreign Government and Provincial Obligations	565,985,891	449,465,566	
Other Debt Securities	310,485	319,272	AAA
Other Debt Securities	300,119	408,419	AA
Other Debt Securities	2,886,985	2,513,946	A
Other Debt Securities	176,822	199,494	BA/BB
Total Other Debt Securities	3,674,411	3,441,131	
Total Debt Securities	\$ 1,026,598,105	\$ 912,030,511	
Convertible Securities	\$ 579,190	\$ -	Not Rated
Other Investment Funds - Debt	\$ 19,941,261	\$ 16,943,418	BA/BB
Cash Equivalents - Money Market Funds	\$ 631,959,959	\$ 678,195,121	AAA
Cash	33,273,542	85,263,463	Not Rated
Total Cash and Cash Equivalents	\$ 665,233,501	\$ 763,458,584	
Net Deposit with Brokers for Derivative Contracts:			
U.S. Government Guaranteed	\$ 2,550,604	\$ 1,999,755	AA
Cash	19,890,890	(6,116,735)	Not Rated
Total Net Deposit with Brokers for Derivative Contracts	\$ 22,441,494	\$ (4,116,980)	

(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, 2016 and 2015, 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, 2016 and 2015, the PUF does not have any deposits or investments that are exposed to custodial credit risk.

(D) Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Interest rate risk inherent in the PUF is measured by monitoring the modified duration of the overall investment portfolio. Modified duration estimates the sensitivity of the PUF's investments to changes in interest rates. The PUF has no specific policy statement limitations with respect to its overall modified duration. The following table summarizes the PUF's modified duration by investment type at August 31, 2016 and 2015:

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Notes to Financial Statements (cont.)

Investment Type	August 31,			
	2016		2015	
	Fair Value	Modified Duration	Fair Value	Modified Duration
Investments:				
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	\$ 94,086,850	9.26	\$ 118,326,721	12.09
U.S. Treasury Inflation Protected	10,054,048	7.63	13,017,533	8.56
U.S. Agency Asset Backed	<u>7,620,587</u>	2.81	<u>7,909,713</u>	3.81
Total U.S. Government Guaranteed	<u>111,761,485</u>	8.67	<u>139,253,967</u>	11.29
U.S. Government Non-Guaranteed:				
U.S. Agency	1,899,212	0.13	9,993,899	0.26
U.S. Agency Asset Backed	<u>39,654,758</u>	3.91	<u>23,569,995</u>	2.88
Total U.S. Government Non-Guaranteed	<u>41,553,970</u>	3.73	<u>33,563,894</u>	2.10
Total U.S. Government	<u>153,315,455</u>	7.33	<u>172,817,861</u>	9.50
Corporate Obligations:				
Domestic	184,690,285	6.55	154,884,590	5.78
Foreign	<u>118,932,063</u>	6.11	<u>131,421,363</u>	4.38
Total Corporate Obligations	<u>303,622,348</u>	6.37	<u>286,305,953</u>	5.13
Foreign Government and Provincial Obligations	<u>565,985,891</u>	6.20	<u>449,465,566</u>	6.89
Other Debt Securities	<u>3,674,411</u>	11.63	<u>3,441,131</u>	10.55
Total Debt Securities	<u>1,026,598,105</u>	6.44	<u>912,030,511</u>	6.85
Convertible Securities	<u>579,190</u>	0.28	-	-
Other Investment Funds - Debt	<u>19,941,261</u>	7.00	<u>16,943,418</u>	7.00
Cash and Cash Equivalents	<u>665,233,501</u>	0.08	<u>763,458,584</u>	0.07
Total	<u>\$ 1,712,352,057</u>	3.96	<u>\$ 1,692,432,513</u>	3.79
Net Deposit with Brokers for Derivative Contracts:				
U.S. Government Guaranteed:				
U.S. Treasury Bills	<u>\$ 2,550,604</u>	6.92	<u>\$ 1,999,755</u>	0.22
Cash	<u>19,890,890</u>	-	<u>(6,116,735)</u>	-
Total Net Deposit with Brokers for Derivative Contracts	<u>\$ 22,441,494</u>	0.79	<u>\$ (4,116,980)</u>	-

(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, 2016 and 2015, the PUF's investments include the following investments that are highly sensitive to interest rate changes:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Collateralized mortgage obligations which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. These securities amounted to \$34,313,034 and \$42,877,097 as of August 31, 2016 and 2015, 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 \$40,378,860 and \$19,479,608 as of August 31, 2016 and 2015, respectively.

Asset backed securities which are backed by home equity loans, auto loans, equipment loans and credit card receivables. Prepayments by the obligees of the underlying assets in periods of decreasing interest rates could reduce or eliminate the stream of income that would have been received. These securities amounted to \$3,669,655 and \$3,272,396 as of August 31, 2016 and 2015, respectively.

(F) Foreign Currency Risk

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

The classification of domestic common stock and foreign common stock is based on the country of domicile of the issuer, not the currency in which the security is traded. The following table summarizes the PUF's non-U.S. dollar investments by asset type at August 31, 2016 and 2015:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type	August 31,	
	2016	2015
Domestic Common Stock:		
Hong Kong Dollar	\$ 117,145	\$ -
Indian Rupee	-	4,145
Taiwan Dollar	-	14,862
Total Domestic Common Stock	117,145	19,007
Foreign Common Stock:		
Australian Dollar	34,191,972	17,992,548
Brazilian Real	165,209,013	76,797,368
Canadian Dollar	72,018,397	27,927,843
Chilean Peso	136,956	613,782
Chinese Yuan Renminbi	-	769,672
Colombian Peso	-	216,589
Czech Koruna	3,246,258	2,129,849
Danish Krone	-	5,949,583
Egyptian Pound	9,506,009	3,315,751
Euro	91,078,329	53,555,073
Hong Kong Dollar	117,348,032	166,765,176
Hungarian Forint	-	159,709
Indian Rupee	49,143,846	49,722,525
Indonesian Rupiah	11,274,848	13,110,002
Japanese Yen	172,662,342	240,496,335
Malaysian Ringgit	11,344,261	11,568,502
Mexican Peso	58,560,360	58,844,656
Moroccan Dirham	1,539,221	-
Norwegian Krone	486,519	313,024
Philippine Peso	6,536,754	11,209,309
Polish Zloty	1,736,814	4,310,111
Qatari Riyal	5,447,686	3,751,883
Singapore Dollar	22,262,497	18,524,612
South African Rand	21,621,875	21,053,639
South Korean Won	154,858,719	179,376,784
Swedish Krona	6,190,090	3,344,968
Swiss Franc	6,317,435	6,601,779
Taiwan Dollar	46,078,225	43,140,040
Thai Baht	18,913,503	22,035,716
Turkish Lira	5,515,115	12,888,863
UK Pound	91,016,562	100,165,242
United Arab Emirates Dirham	16,278,518	2,469,894
Vietnamese Dong	10,340,538	8,763,250
Total Foreign Common Stock	1,210,860,694	1,167,884,077
Other Equity Securities:		
Canadian Dollar	802,743	-
Indian Rupee	4,521	-
South African Rand	-	168
Taiwan Dollar	-	1,257
Thai Baht	-	2,264
UK Pound	11,718	-
Total Other Equity Securities	818,982	3,689

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type (continued):	August 31,	
	2016	2015
Foreign Preferred Stocks:		
Brazilian Real	\$ 30,247,607	\$ 23,850,183
Chilean Peso	-	15,833
Colombian Peso	35,841	46,861
Euro	4,496,116	-
South African Rand	28,172	24,257
South Korean Won	14,070,942	10,284,600
Total Foreign Preferred Stock	48,878,678	34,221,734
Foreign Government and Provincial Obligations:		
Australian Dollar	47,785,378	43,670,620
Brazilian Real	48,065,396	41,197,091
Canadian Dollar	14,119,454	10,308,797
Colombian Peso	5,485,525	3,737,946
Czech Koruna	997,625	-
Euro	70,766,238	98,964,967
Hungarian Forint	14,140,537	9,405,533
Indonesian Rupiah	12,004,756	9,632,065
Japanese Yen	84,029,753	49,142,513
Malaysian Ringgit	30,541,478	16,351,694
Mexican Peso	62,962,340	54,481,908
New Zealand Dollar	42,309,864	31,436,544
Norwegian Krone	14,706,137	10,690,764
Polish Zloty	18,705,100	11,177,610
Romania New Leu	1,142,756	-
Singapore Dollar	17,547,171	4,831,773
South African Rand	20,878,812	17,205,643
South Korean Won	3,174,085	5,515,668
Swedish Krona	-	341,784
Thai Baht	3,507,676	-
UK Pound	36,105,363	17,339,221
Total Foreign Government and Provincial Obligations	548,975,444	435,432,141
Corporate Obligations:		
Australian Dollar	7,679,343	8,125,286
Danish Krone	10,950,622	3,347,416
Euro	19,540,074	22,992,331
Indian Rupee	535	536
Swedish Krona	577,630	731,781
UK Pound	11,173,769	16,067,356
Total Corporate Obligations	49,921,973	51,264,706
Purchased Options:		
Brazilian Real	2,453,868	-
Euro	20,361	29,796
Japanese Yen	1,903	31,417
UK Pound	35,201	-
Total Purchased Options	2,511,333	61,213

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type (continued):	August 31,	
	2016	2015
Private Investments:		
Australian Dollar	\$ 33,873,971	\$ 16,501,275
Canadian Dollar	121,593,428	127,307,789
Euro	216,739,117	187,114,927
UK Pound	46,004,679	52,192,165
Total Private Investments	418,211,195	383,116,156
Investment Funds-Emerging Markets:		
Brazilian Real	13,870,186	13,904,424
Convertible Securities		
Brazilian Real	579,190	-
Cash and Cash Equivalents:		
Australian Dollar	200,424	332,641
Brazilian Real	1,473,212	1,844,402
Canadian Dollar	94,472	12,388
Chilean Peso	2,483	736
Chinese Yuan Renminbi	(2,119,056)	510,263
Colombian Peso	605,833	310,914
Czech Koruna	28,547	7,313
Danish Krone	5,076,510	473
Egyptian Pound	(15,781)	5,559
Euro	3,549,948	989,308
Hong Kong Dollar	130,905	155,091
Hungarian Forint	1	32
Indian Rupee	571,520	108,790
Indonesian Rupiah	89,422	85,767
Israeli Shekel	206	673
Japanese Yen	7,669,375	8,895,934
Malaysian Ringgit	177,521	42,725
Mexican Peso	1,642,295	627,865
New Zealand Dollar	563	161
Norwegian Krone	61,169	56,388
Peruvian Nuevo Sol	-	3,129
Philippine Peso	7,402	125,163
Polish Zloty	117,073	3,932
Qatari Riyal	-	23,329
Singapore Dollar	14,914	345
South African Rand	550,391	635,986
South Korean Won	3,915,776	2,660,557
Swedish Krona	96,477	8,335
Swiss Franc	(1,428,201)	267
Taiwan Dollar	2,248,893	239,768
Thai Baht	503,926	19,008
Turkish Lira	295,738	24,032
UK Pound	279,130	342,647
Vietnamese Dong	197,141	135,430
Total Cash and Cash Equivalents	26,038,229	18,209,351

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type (continued):	August 31,	
	2016	2015
Written Options:		
Australian Dollar	\$ (2,786)	\$ -
Brazilian Real	(2,711,267)	(16,903)
Chinese Yuan Renminbi	-	(12,644)
Euro	(36,142)	(178,643)
Japanese Yen	(1,874)	-
Mexican Peso	-	(1,858)
UK Pound	(56,131)	-
Total Written Options	<u>(2,808,200)</u>	<u>(210,048)</u>
Swaps:		
Brazilian Real	-	(33,072)
Canadian Dollar	4,021,288	-
Euro	15,688,408	27,126,831
Japanese Yen	(6,372,943)	(174,595)
Mexican Peso	(15,095)	10,317
South African Rand	(120)	-
Swedish Krona	10,680	(16,574)
Swiss Franc	-	1,968,658
UK Pound	11,841,820	(91,756)
Total Swaps	<u>25,174,038</u>	<u>28,789,809</u>
Futures:		
Australian Dollar	1,212	752
Canadian Dollar	(267)	2,555
Euro	(6,549)	(36,447)
Japanese Yen	(580)	-
UK Pound	1,513	(415)
Total Futures	<u>(4,671)</u>	<u>(33,555)</u>
Total	<u>\$ 2,343,144,216</u>	<u>\$ 2,132,662,704</u>

(G) Counterparty (Credit) Risk

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

The PUF had gross counterparty exposure as of August 31, 2016 for options, swaps, and foreign currency exchange contracts shown in the following table:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Options

<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2016</u>	<u>Fair Value as of August 31, 2016</u>	<u>Counterparty Rating</u>
\$ 126,623,299	\$ 821,198,382	\$ 182,519	\$ 159,486	A
-	300,000	-	244	AA
<u>\$ 126,623,299</u>	<u>\$ 821,498,382</u>	<u>\$ 182,519</u>	<u>\$ 159,730</u>	

Swaps

<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2016</u>	<u>Fair Value as of August 31, 2016</u>	<u>Counterparty Rating</u>
\$ 80,119,949	\$ 78,945,167	\$ 41,177,829	\$ 41,403,291	A
533,516	535,127	533,605	535,127	AA
2,231,601	3,933,223	186,511	627,739	BBB
<u>\$ 82,885,066</u>	<u>\$ 83,413,517</u>	<u>\$ 41,897,945</u>	<u>\$ 42,566,157</u>	

Foreign Currency Exchange Contracts

<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2016</u>	<u>Fair Value as of August 31, 2016</u>	<u>Counterparty Rating</u>
\$ 537,449,899	\$ 542,860,261	\$ 8,847,786	\$ 14,891,631	A
71,000	369,519	684	2,518	AA
<u>\$ 537,520,899</u>	<u>\$ 543,229,780</u>	<u>\$ 8,848,470</u>	<u>\$ 14,894,149</u>	

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

The PUF had gross counterparty exposure as of August 31, 2015 for options, swaps, and foreign currency exchange contracts shown in the following table:

Options

<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Counterparty Rating</u>
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2015</u>	<u>Fair Value as of August 31, 2015</u>	
\$ 3,762,831,948	\$ 2,213,054,025	\$ 26,759,247	\$ 15,804,573	A

Swaps

<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Counterparty Rating</u>
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2015</u>	<u>Fair Value as of August 31, 2015</u>	
\$ 33,550,837	\$ 78,883,448	\$ 28,460,764	\$ 31,393,658	A

Foreign Currency Exchange Contracts

<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Counterparty Rating</u>
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2015</u>	<u>Fair Value as of August 31, 2015</u>	
\$ 548,752,702	\$ 332,110,462	\$ 15,262,346	\$ 9,263,455	A
-	771,067	-	11,872	AA
\$ 548,752,702	\$ 332,881,529	\$ 15,262,346	\$ 9,275,327	

As of August 31, 2016 and 2015, the PUF also had investments in futures contracts, options on futures contracts and exchange-cleared swaps. Futures contracts, options on futures, and exchange-cleared swaps expose the PUF to minimal counterparty credit risk since they are exchange traded and the exchange's clearinghouse, as counterparty to all exchange traded futures, guarantees them against default. Therefore, they are not presented in the table above.

Counterparty risk for swaps, options and foreign currency exchange contracts which are traded over-the-counter is mitigated by having master netting arrangements between the PUF and its counterparties, and by the posting of collateral on a daily basis by the counterparty to the PUF to cover the PUF's exposure to a counterparty above the limits set in place in each master netting agreement. Collateral posted by counterparties is held by the PUF in one of its accounts at the PUF's custodian bank. As of August 31, 2016 and 2015, the PUF held \$2,500,713 and \$16,383,644 respectively, of collateral related to derivative instruments other than futures, and had on deposit with brokers \$15,359,603 and \$9,429,909, respectively, as collateral related to derivative instruments other than futures.

Note 5 – Securities Lending

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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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, 2016 and 2015:

Securities on Loan	2016 Fair Value	2015 Fair Value	Type of Collateral	2016 Fair Value of Collateral	2015 Fair Value of Collateral
U.S. Government	\$ 28,611,210	\$ 30,447,719	Cash	\$ 29,196,287	\$ 31,068,936
Foreign Government	-	4,684,759	Cash	-	4,870,258
Corporate Bonds	30,139,636	20,310,991	Cash	30,864,463	20,841,579
Common Stock	261,310,312	250,462,503	Cash	269,409,777	260,695,412
Total	\$ 320,061,158	\$ 305,905,972	Total	\$ 329,470,527	\$ 317,476,185
U.S. Government	\$ 10,350,230	\$ 40,890,042	Non-Cash	\$ 10,564,606	\$ 41,730,991
Corporate Bonds	-	622,039	Non-Cash	-	634,840
Common Stock	53,419,832	20,699,428	Non-Cash	54,991,191	21,512,125
Total	\$ 63,770,062	\$ 62,211,509	Total	\$ 65,555,797	\$ 63,877,956

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.

The PUF's pro-rata share of collateral pool investments, rating by NRSRO, and weighted average maturity at August 31, 2016 and 2015 is shown in the following table:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Description	2016			2015		
	Fair Value	Rating	Weighted Average Maturity In Days	Fair Value	Rating	Weighted Average Maturity In Days
		No Rating			No Rating	
Repurchase Agreements	\$ 180,096,241	Available	1	\$ 183,492,598	Available	1
Commercial Paper	22,704,579	P	53	23,867,215	P	18
Floating Rate Notes	63,102,361	AA		56,988,749	AA	
Floating Rate Notes	63,608,380	A		53,129,465	A	
Total Floating Rate Notes	126,710,741		29	110,118,214		29
Other Receivables/Payables	(41,034)	Not Rated	-	(1,842)	Not Rated	-
Total Collateral Pool Investment	\$ 329,470,527		16	\$ 317,476,185		12

The following tables reflect fair value measurements of collateral pool investments as of August 31, 2016 and 2015, respectively, as categorized by level of the fair value hierarchy:

	Fair Value Measurements Using			
	Fair Value as of August 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Repurchase Agreements	\$ 180,096,241	\$ -	\$ 180,096,241	\$ -
Commercial Paper	22,704,579	-	22,704,579	-
Floating Rate Notes	126,710,741	-	126,710,741	-
Total by Fair Value Level	329,511,561	\$ -	\$ 329,511,561	\$ -
Other Receivables/Payables	(41,034)			
Total Collateral Pool Investments	\$ 329,470,527			

	Fair Value Measurements Using			
	Fair Value as of August 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Repurchase Agreements	\$ 183,492,598	\$ -	\$ 183,492,598	\$ -
Commercial Paper	23,867,215	-	23,867,215	-
Floating Rate Notes	110,118,214	-	110,118,214	-
Total by Fair Value Level	317,478,027	\$ -	\$ 317,478,027	\$ -
Other Receivables/Payables	(1,842)			
Total Collateral Pool Investments	\$ 317,476,185			

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

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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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, 2016 and 2015, 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, 2016 and 2015.

Note 6 – Written Options

The following table discloses the fair values of the PUF's written call option contracts outstanding as of August 31, 2016 and 2015:

Type	Fair Value at August 31, 2016		Fair Value at August 31, 2015	
	Assets	Liabilities	Assets	Liabilities
Interest Rate Swap	\$ -	\$ 16,125	\$ -	\$ 59,373
Credit Default Swap	-	1,377	-	4,264
Currency	-	38,542	-	28,199
Equity	-	2,708,060	-	4,813,907
	<u>\$ -</u>	<u>\$ 2,764,104</u>	<u>\$ -</u>	<u>\$ 4,905,743</u>

The fair values are included on the statements of fiduciary net position as options written, at fair value. The changes in fair value of open call options for the years ended August 31, 2016 and 2015 were a (decrease) and an increase in the amount of \$1,739,049 and \$8,410,732, respectively, which are included in the net increase (decrease) 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, 2016 and 2015:

Type	Fair Value at August 31, 2016		Fair Value at August 31, 2015	
	Assets	Liabilities	Assets	Liabilities
Interest Rate Swap	\$ -	\$ 1,873	\$ -	\$ 118,153
Credit Default Swap	-	-	-	1,124
Commodity	-	136,395	-	279,186
Currency	-	103,116	-	3,206
Equity	-	3,207	-	10,780,045
Other	-	74	-	566
	<u>\$ -</u>	<u>\$ 244,665</u>	<u>\$ -</u>	<u>\$ 11,182,280</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, 2016 and 2015 were a decrease in the amount of \$41,415 and \$3,058,221, respectively, which are included in the net increase (decrease) 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, 2016:

Type	USD Notional Value	Fair Value at August 31, 2016	
		Assets	Liabilities
Interest Rate	\$ 182,328,256	\$ 1,972,950	\$ 4,699,789
Credit Default	66,816,875	758,134	298,877
Commodity	9,076,768	20,484	569,080
Currency	79,716,390	39,475,602	40,261,152
Equity	38,898,890	504,730	362,868
Total		\$ 42,731,900	\$ 46,191,766

The change in fair value of open swap positions for the year ended August 31, 2016 was a decrease in the amount of \$2,730,425, which is included in the net increase (decrease) 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, 2015:

Type	USD Notional Value	Fair Value at August 31, 2015	
		Assets	Liabilities
Interest Rate	\$ 227,822,650	\$ 287,381	\$ 1,494,561
Credit Default	64,001,300	762,265	313,544
Inflation	1,461,100	22,039	-
Commodity	15,818,667	42,061	502,467
Currency	55,773,505	28,340,995	27,723,525
Volatility	22,748	5,798	6,154
Equity	23,523,040	-	2,814,896
Total		\$ 29,460,539	\$ 32,855,147

The change in fair value of open swap positions for the year ended August 31, 2015 was a decrease in the amount of \$3,277,066, which is included in the net increase (decrease) in fair value of investments on the statements of changes in fiduciary net position.

Note 8 – Futures Contracts

During the years ended August 31, 2016 and 2015, the asset classes that used futures include domestic and foreign debt, and commodities. The changes in fair value of open futures contracts for the years ended August 31, 2016 and 2015 were increases in the amount of \$8,256,468 and \$39,253,565, respectively, which are included in the net increase (decrease) in fair value of investments on the statements of changes in fiduciary net position. The PUF had \$9,582,604 and \$2,836,755 on deposit with brokers for collateral as margin for the futures contracts as of August 31,

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

2016 and 2015, 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, 2016 and 2015, shown in the table below for these open contracts do not include amounts previously settled with the exchanges. Net cash settlements for these open commodities contracts amounted to \$6,628,886 and \$62,909,058 as of August 31, 2016 and 2015, respectively.

During the years ended August 31, 2016 and 2015, certain of the PUF's investment managers trading in commodity futures on the London Metals Exchange (LME) closed out various long contract positions with offsetting short contract positions. For contracts traded and closed on the LME, cash settlement does not occur until the expiration date of the contract. The gross notional value of these long and short positions are shown below with the associated pending cash settlement amounts shown as the fair value as of August 31, 2016 and 2015.

The following discloses the type, notional value, and fair values for futures contracts as of August 31, 2016 for futures contracts:

Contract	Notional Value at August 31, 2016		Fair Value at August 31, 2016	
	Long	Short	Assets	Liabilities
Commodities	\$ 158,303,121	\$ 37,248,573	\$ 5,756,999	\$ 4,137,910
Domestic Fixed Income	67,805,219	20,771,600	15,078	1,913
Foreign Fixed Income	61,769,724	21,023,120	18,023	22,694
Total	\$ 287,878,064	\$ 79,043,293	\$ 5,790,100	\$ 4,162,517

The following discloses the type, notional value, and fair values for futures contracts as of August 31, 2015 for futures contracts:

Contract	Notional Value at August 31, 2015		Fair Value at August 31, 2015	
	Long	Short	Assets	Liabilities
Commodities	\$ 516,377,917	\$ 115,916,709	\$ 10,750,965	\$ 34,305,541
Domestic Fixed Income	55,377,188	-	-	67,611
Foreign Fixed Income	21,685,000	6,502,283	4,233	37,538
Total	\$ 593,440,105	\$ 122,418,992	\$ 10,755,198	\$ 34,410,690

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Note 9 – Foreign Currency Exchange Contracts

The tables below summarize by currency the contractual amounts of the PUF’s foreign currency exchange contracts at August 31, 2016 and 2015. Foreign currency amounts are translated at exchange rates as of August 31, 2016 and 2015. The “Net Buy” amounts represent the U.S. dollar equivalent of net commitments to purchase foreign currencies, and the “Net Sell” amounts represent the U.S. dollar equivalent of net commitments to sell foreign currencies.

Currency	Net Buy	Net Sell	Unrealized Gains on Foreign Currency Exchange Contracts	Unrealized Losses on Foreign Currency Exchange Contracts
	August 31, 2016	August 31, 2016	August 31, 2016	August 31, 2016
Australian Dollar	\$ –	\$ 24,809,486	\$ 255,531	\$ 430,969
Brazilian Real	–	12,076,143	20,550	345,489
Canadian Dollar	9,980,534	–	111,754	128,946
Chilean Peso	12,998,864	–	177,311	100,233
Chinese Yuan (Offshore)	–	90,552,707	1,447,293	–
Chinese Yuan Renminbi	–	8,611,546	344,499	282,405
Colombian Peso	–	3,629,955	74,321	115,691
Czech Koruna	–	884,448	20,346	–
Danish Krone	–	10,476,361	32,493	21,925
Euro	295,780	–	1,409,730	623,491
Hong Kong Dollar	–	11,947,023	1,676	31
Indian Rupee	12,127,138	–	36,174	351
Israeli Shekel	246,434	–	2,397	–
Japanese Yen	–	15,697,325	772,497	11,311,380
Malaysian Ringgit	–	6,588,464	10,137	4,945
Mexican Peso	–	7,068,792	1,199	73,427
New Zealand Dollar	–	41,067,574	5,453	272,990
Norwegian Kroner	16,327,425	–	153,129	55,296
Polish Zloty	–	3,081,869	6,023	–
Russian Ruble	1,645,509	–	45,328	1,666
Singapore Dollar	–	55,972,401	751,188	101,093
South African Rand	1,461,497	–	4,374	90,376
South Korean Won	–	7,095,276	160,337	13,828
Swedish Krona	24,390,258	–	21,014	139,832
Swiss Franc	1,261,207	–	–	9,336
Thailand Baht	–	3,587,411	–	36,460
Turkish Lira	465,748	–	–	191
UK Pound	–	5,772,207	2,983,716	733,798
	<u>\$ 81,200,394</u>	<u>\$ 308,918,988</u>	<u>\$ 8,848,470</u>	<u>\$ 14,894,149</u>

The change in fair value of open foreign currency exchange contracts for the year ended August 31, 2016 was a decrease in the amount of \$6,045,679, which is included in the net increase (decrease) 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	Net Sell	Unrealized Gains on Foreign Currency Exchange Contracts	Unrealized Losses on Foreign Currency Exchange Contracts
	August 31, 2015	August 31, 2015	August 31, 2015	August 31, 2015
Australian Dollar	\$ –	\$ 34,467,138	\$ 2,140,837	\$ 64,403
Brazilian Real	–	15,217,818	2,770,285	744,742
Canadian Dollar	3,803,310	–	394,618	194,351
Chilean Peso	16,205,764	–	–	1,179,928
Chinese Yuan Renminbi	–	2,490,343	103,531	192,533
Colombian Peso	–	3,744,268	237,540	–
Czech Koruna	151,238	–	5,246	–
Danish Krone	–	2,902,971	–	69,667
Euro	21,056,036	–	673,013	1,172,126
Hong Kong Dollar	–	3,004	–	1
Indian Rupee	12,996,295	–	–	94,295
Indonesian Rupiah	–	159,915	–	549
Israeli Shekel	236,400	–	–	9,858
Japanese Yen	–	152,495,273	5,267,147	707,486
Malaysian Ringgit	–	2,397,928	102,977	21,186
Mexican Peso	–	579,856	547,976	1,598,138
New Zealand Dollar	–	36,591,573	2,067,994	64,886
Norwegian Kroner	9,556,389	–	–	208,503
Philippines Peso	–	334,827	–	433
Polish Zloty	3,321,037	–	48,873	–
Russian Ruble	125,244	–	1,076	3,516
Singapore Dollar	–	15,593,857	211,540	7,960
South African Rand	–	2,226,328	56,233	6,178
South Korean Won	–	2,861,397	140,739	132,878
Swedish Krona	8,888,556	–	69,200	6,749
Swiss Franc	1,433,591	–	23,439	–
Taiwan Dollar	94,037,263	–	2,796	2,392,002
Thailand Baht	–	857,772	6,198	–
Turkish Lira	247,308	–	3,386	21,146
UK Pound	–	21,041,839	387,702	381,813
	<u>\$ 172,058,431</u>	<u>\$ 293,966,107</u>	<u>\$ 15,262,346</u>	<u>\$ 9,275,327</u>

The change in fair value of open foreign currency exchange contracts for the year ended August 31, 2015 was an increase in the amount of \$5,922,755 which is included in the net (decrease) 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 \$3,457,675,000 in UT System flexible rate notes in the event of a failed remarketing of such notes. The individual funds under management are not committed to a specific amount, rather all of the funds may be required to provide for the amount noted.

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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Note 11 – Distributions to the Available University Fund

The Texas Constitution allows for (a) distributions to the AUF from the “total return” on PUF investments, including income return as well as capital gains (realized and unrealized) and (b) the payment of PUF expenses from PUF assets. The Texas Constitution directs the UT Board to establish a distribution policy that provides stable, inflation-adjusted annual distributions to the AUF and preserves the real value of the PUF investments over the long term. Accordingly, distributions to the AUF in any given fiscal year are subject to the following: (1) A minimum amount equal to the amount needed to pay debt service on PUF bonds; (2) No increase from the preceding year (except as necessary to pay debt service on PUF bonds) unless the purchasing power of PUF investments for any rolling 10-year period has been preserved; (3) A maximum amount equal to seven percent of the average net fair market value of PUF position in any fiscal year, except as necessary to pay debt service on PUF bonds. Distributions from the PUF to the AUF for the years ended August 31, 2016 and 2015, were \$772,876,690 and \$763,552,645, respectively. The UT Board has approved an amount of \$839,441,000 for the PUF distribution to the AUF for the year ended August 31, 2017.

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, 2016 and 2015, were \$26,922,039 and \$24,328,479, 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, 2016 and 2015, were \$16,912,692 and \$13,033,233, 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, 2016 and 2015, were \$2,380,880 and \$2,278,513, respectively.

Analytical and risk measurement fees, in the amounts of \$379,271 and \$385,045, were also incurred during the years ended August 31, 2016 and 2015, respectively, to maintain a sophisticated risk measurement system for the PUF.

Accounting fees, in the amount of \$308,281 and \$291,355, were incurred by the PUF during the years ended August 31, 2016 and 2015, respectively, for external and UT System internal audit services.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Consulting fees, in the amount of \$185,082 and \$146,591, respectively, for the years ended August 31, 2016 and 2015 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 \$148,160 and \$170,996 were incurred for the years ended August 31, 2016 and 2015, 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 \$101,713 and \$30,594 were incurred for the years ended August 31, 2016 and 2015, respectively.

The PUF incurs legal fees associated with the review of new investment manager agreements and with due diligence efforts undertaken as part of the hiring of new investment managers. For the years ended August 31, 2016 and 2015, fees incurred were \$93,710 and \$138,873, respectively.

The PUF is assessed a fee by UT System to cover expenses related to the management of the PUF Lands. The fee assessed for the years ended August 31, 2016 and 2015, were \$22,085,044 and \$12,985,198, 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 \$160,290 and \$159,060 were charged to the PUF for the years ended August 31, 2016 and 2015, respectively.

PERMANENT UNIVERSITY FUND

Supplemental Schedule

Schedule of Changes in Cost of Investments and Investment Income

Year Ended August 31, 2016

(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	\$ 676,326	\$ 546,214	\$ (449,405)	\$ (37,390)	\$ (22,740)	\$ (23,417)	\$ 689,588	\$ 14,500
Foreign Common Stock	1,418,696	960,351	(1,012,060)	(53,982)	22,445	(57,776)	1,277,674	31,015
Other	2	52,925	(25,345)	(2,480)	295	(837)	24,560	497
Total Equity Securities	<u>2,095,024</u>	<u>1,559,490</u>	<u>(1,486,810)</u>	<u>(93,852)</u>	<u>-</u>	<u>(82,030)</u>	<u>1,991,822</u>	<u>46,012</u>
Preferred Stock								
Domestic Preferred Stock	934	601	(1,014)	22	-	(23)	520	63
Foreign Preferred Stock	57,590	44,042	(37,485)	(13,609)	-	(1,781)	48,757	1,266
Total Preferred Stock	<u>58,524</u>	<u>44,643</u>	<u>(38,499)</u>	<u>(13,587)</u>	<u>-</u>	<u>(1,804)</u>	<u>49,277</u>	<u>1,329</u>
Debt Securities								
U. S. Government Obligations	170,829	1,130,730	(1,159,129)	8,783	-	(1,960)	149,253	3,404
Foreign Government and Provincial Obligations	513,520	443,423	(354,298)	(12,716)	-	(9,264)	580,665	19,145
Corporate Obligations	292,454	104,663	(92,133)	(2,770)	-	(4,309)	297,905	8,882
Other	3,195	637	(840)	87	-	(43)	3,036	211
Total Debt Securities	<u>979,998</u>	<u>1,679,453</u>	<u>(1,606,400)</u>	<u>(6,616)</u>	<u>-</u>	<u>(15,576)</u>	<u>1,030,859</u>	<u>31,642</u>
Purchased Options	<u>56,916</u>	<u>19,023</u>	<u>(35,327)</u>	<u>(34,193)</u>	<u>-</u>	<u>28</u>	<u>6,447</u>	<u>-</u>
Convertible Securities	<u>-</u>	<u>460</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>460</u>	<u>-</u>
Investment Funds								
Hedge Funds	3,842,927	605,181	(1,114,962)	265,750	-	-	3,598,896	-
Private Markets	4,845,631	1,670,829	(1,069,322)	372,066	-	-	5,819,204	104,001
Developed Country Equity	971,041	141,965	(281,611)	101,569	-	-	932,964	384
Emerging Markets Equity	664,338	86,204	(125,774)	37,435	-	(660)	661,543	-
Fixed Income	22,986	1,127	-	664	-	-	24,777	1,128
Real Estate	103,904	-	(70,565)	(32,394)	-	-	945	-
Natural Resources	5,321	60,685	(60,687)	(3,082)	-	-	2,237	-
Total Investment Funds	<u>10,456,148</u>	<u>2,565,991</u>	<u>(2,722,921)</u>	<u>742,008</u>	<u>-</u>	<u>(660)</u>	<u>11,040,566</u>	<u>105,513</u>
Physical Commodities								
Gold Bullion	419,439	9,890	(9,415)	(699)	-	(113)	419,102	-
Cash and Cash Equivalents								
Money Market Funds and Cash Held at State	763,639	-	(36,866) *	(55,266) **	-	(6,109)	665,398	715
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,919</u>
Total Investment in Securities	<u>\$ 14,829,688</u>	<u>\$ 5,878,950</u>	<u>\$ (5,936,238)</u>	<u>\$ 537,795</u>	<u>\$ -</u>	<u>\$ (106,264)</u>	<u>\$ 15,203,931</u>	<u>\$ 190,130</u>

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

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

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