

Financial Statements
and Independent Auditors' Report
Permanent University Fund
Years Ended August 31, 2007 and 2006

Permanent University Fund

Financial Statements

Years Ended August 31, 2007 and 2006

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Independent Auditors' Report

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

We have audited the accompanying Statement of Fiduciary Net Assets of the Permanent University Fund (the "PUF"), as of August 31, 2007, and the related Statement of Changes in Fiduciary Net Assets for the year then ended. These financial statements are the responsibility of The University of Texas Investment Management Company ("UTIMCO" or "management"). Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the PUF as of and for the year ended August 31, 2006, were audited by other auditors whose report, dated October 27, 2006, expressed an unqualified opinion on those statements and included an explanatory paragraph noting that the financial statements of the PUF were not intended to present the financial positions of UTIMCO or The University of Texas System, and a second explanatory paragraph describing the exclusion of certain lands belonging to the PUF as discussed in Note 1 to the financial statements.

We conducted our audit 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing the audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the PUF's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the PUF are intended only to present the financial position of the PUF and do not purport to, and do not, present the financial positions of UTIMCO or The University of Texas System as of August 31, 2007, and the changes in their financial positions for the year then ended in conformity with accounting principles generally accepted in the United States.

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

As discussed in Note 2, the financial statements include investments valued at \$4,716,887,378 (40.2% of net assets) as of August 31, 2007, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on procedures performed by management which use information provided by the fund managers or the general partners.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the PUF as of August 31, 2007, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was conducted for the purpose of forming an opinion on the financial statements of the PUF. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of management. The supplemental schedules as of and for the year ended August 31, 2007, have been subjected to the audit procedures applied by us in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Deloitte & Touche LLP

October 29, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Our discussion and analysis of the Permanent University Fund's (PUF) financial performance provides an overview of its activities for the year ended August 31, 2007. This discussion was prepared by The University of Texas Investment Management Company (UTIMCO) and should be read in conjunction with the PUF's financial statements and notes. The PUF is a public endowment contributing to the support of 18 institutions and 6 agencies in The University of Texas System (UT System) and The Texas A&M University System (TAMU System). The Texas Constitution and various state statutes designate The University of Texas System Board of Regents (UT Board) as the fiduciary for the management of certain public endowment and operating funds. The UT Board has entered into an Investment Management Services Agreement delegating investment management responsibility for all investments to UTIMCO.

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

Financial Highlights

- The PUF's net fiduciary assets after distributions increased by \$1,429.4 million from \$10,313.4 million to \$11,742.8 million, or approximately 13.86% for the year ended August 31, 2007, compared to an increase of \$886.7 or approximately 9.4% for the year ended August 31, 2006. The change in net fiduciary assets from year to year is mainly attributable to the following:
 1. Fiscal year 2007 contributions of PUF Lands mineral income increased by 26.9% from \$215.0 million to \$272.8 million and represented 2.5% of the average value of the PUF investments during the year, compared to fiscal year 2006 contributions which increased by 11.3%, from \$193.1 million to \$215.0 million and represented 2.1% of the average value of the PUF investments during the year. PUF Lands consist of more than 2.1 million acres in 19 counties primarily in West Texas.
 2. The PUF posted a net investment return of 15.34%, calculated using the Modified Dietz Method as described by the CFA Institute, for the year ended August 31, 2007. Investments in private market investment funds, emerging markets equities and directional hedge funds were the leading contributors to the 2007 return. For the fiscal year ended August 31, 2006, the real estate investment trusts, private market investments and global equity asset classes were the leading performers contributing to a net investment return of 11.17%.
 3. The PUF's annual distribution to the Available University Fund (AUF) increased by 12.1% in fiscal year 2007, compared to a increase of 4.7% in fiscal year 2006.

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Use of Financial Statements and Notes

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

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

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

Statements of Fiduciary Net Assets

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

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

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Assets			
Investments, at Fair Value	\$ 12,053.3	\$ 10,477.1	\$ 9,575.6
Other Assets	<u>1,301.7</u>	<u>1,341.5</u>	<u>1,224.0</u>
Total Assets	<u>13,355.0</u>	<u>11,818.6</u>	<u>10,799.6</u>
Total Liabilities	<u>1,612.2</u>	<u>1,505.2</u>	<u>1,372.9</u>
Net Assets Held in Trust	<u>\$ 11,742.8</u>	<u>\$ 10,313.4</u>	<u>\$ 9,426.7</u>

Statements of Changes in Fiduciary Net Assets

Changes in fiduciary net assets as presented on the Statements of Changes in Fiduciary Net Assets are based on activity of the PUF investments. The purpose of these statements is to present additions to the PUF resulting from net investment income and contributions from PUF Lands mineral income and to present deductions from the PUF resulting from the distributions to the AUF.

The net increase in investments of the PUF was \$1,369.0 million during the year compared to \$845.3 million for the year ended August 31, 2006. Investment expenses totaled \$77.7 million, \$76.8 million, and \$46.0 million, respectively, for the years ended August 31, 2007, 2006, and 2005.

The PUF's two primary investment objectives are:

- Provide for current beneficiaries by increasing the annual distribution rate at least equal to the rate of inflation so that real purchasing power is maintained, and
- Provide for future beneficiaries by increasing the market value of endowment funds after the annual distribution at a rate at least equal to the rate of inflation so that future distributions maintain purchasing power as well.

Distributions to the AUF increased by \$43.4 million, from \$357.3 million in fiscal year 2006 to \$400.7 million, in fiscal year 2007. The fiscal year 2006 distribution amount increased by \$16.1 million from the fiscal year 2005 distribution of \$341.2 million. PUF distributions are controlled by a spending policy approved by the UT Board as directed by the Texas Constitution, which directs the UT Board to establish a distribution policy that provides stable, inflation-adjusted distributions to the AUF and preserves the real value of the PUF investments over the long term. To achieve this, the annual distribution is currently established at 4.75% of the prior twelve quarters' average net asset value of the PUF investments, as determined each February 28 for the following fiscal year.

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

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

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Investment Income	\$ 1,639.8	\$ 1,111.6	\$ 1,537.9
Less Investment Expenses	(77.7)	(76.8)	(46.0)
PUF Lands Contributions	272.8	215.0	193.1
Total Additions	<u>1,834.9</u>	<u>1,249.8</u>	<u>1,685.0</u>
Administrative Expenses			
PUF Lands Expenses	4.4	5.3	4.7
UT System Oversight Fee	0.4	0.5	0.3
Distributions to Available University Fund	400.7	357.3	341.2
Total Deductions	<u>405.5</u>	<u>363.1</u>	<u>346.2</u>
Change in Fiduciary Net Assets	1,429.4	886.7	1,338.8
Net Asset Held in Trust, Beginning of Year	<u>10,313.4</u>	<u>9,426.7</u>	<u>8,087.9</u>
Net Assets Held in Trust, End of Year	<u>\$11,742.8</u>	<u>\$10,313.4</u>	<u>\$ 9,426.7</u>

Contacting UTIMCO

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

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Statements of Fiduciary Net Assets

August 31, 2007 and 2006

(in thousands)

Assets	2007	2006
Investments, at Fair Value:		
Equity Securities	\$ 1,580,737	\$ 1,542,800
Preferred Stock	2,505	2,483
Debt Securities	1,542,436	1,932,380
Convertible Securities	5,005	114
Investment Funds	7,267,359	5,717,408
Purchased Options	10,782	47,982
Cash and Cash Equivalents	1,644,435	1,233,886
Total Investments	<u>12,053,259</u>	<u>10,477,053</u>
Collateral for Securities Loaned, at Fair Value	717,417	990,531
Deposit with Brokers for Derivative Contracts	74,783	137,568
Deposit with Broker for Securities Sold Short	-	7,476
Unrealized Gains on Foreign Currency Exchange Contracts	18,788	12,296
Swaps, at Fair Value	132,664	3,895
Receivables:		
Investment Securities Sold	323,391	161,250
Accrued Income	22,731	26,901
Other	11,993	1,612
Total Receivables	<u>358,115</u>	<u>189,763</u>
Total Assets	<u>13,355,026</u>	<u>11,818,582</u>
Liabilities		
Payable Upon Return of Securities Loaned	717,417	990,531
Options Written, at Fair Value	7,235	77,163
Swaps, at Fair Value	122,451	22,514
Securities Sold Short, at Fair Value	16,105	8,476
Unrealized Losses on Foreign Currency Exchange Contracts	8,656	18,335
Payables:		
Investment Securities Purchased	721,009	373,509
Other	19,373	14,660
Total Payables	<u>740,382</u>	<u>388,169</u>
Total Liabilities	<u>1,612,246</u>	<u>1,505,188</u>
Net Assets Held in Trust	<u>\$11,742,780</u>	<u>\$10,313,394</u>

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

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Statements of Changes in Fiduciary Net Assets

Years Ended August 31, 2007 and 2006

(in thousands)

	<u>2007</u>	<u>2006</u>
Additions		
Investment Income:		
Net Increase in Investments	\$ 1,368,976	\$ 845,348
Interest	140,736	145,078
Dividends	46,898	54,017
Income Distributions from Private Market Investment Funds	28,837	19,665
Securities Lending Income	51,869	44,764
Other	2,502	2,744
Total Investment Income	<u>1,639,818</u>	<u>1,111,616</u>
Less Investment Expenses:		
Investment Management	18,616	28,916
Consulting Fees	724	400
Securities Lending Fees	49,779	42,296
UTIMCO Management Fee	6,482	3,247
Custodial Fees and Expenses	825	951
Legal	509	471
Analytical and Risk Measurement Fees	565	256
Other	190	237
Total Investment Expenses	<u>77,690</u>	<u>76,774</u>
Net Investment Income	1,562,128	1,034,842
Contributions from PUF Lands	272,776	214,955
Total Additions	<u>1,834,904</u>	<u>1,249,797</u>
Deductions		
Administrative Expenses:		
PUF Lands Expenses	4,384	5,338
UT System Oversight Fee	448	471
Total Administrative Expenses	<u>4,832</u>	<u>5,809</u>
Distributions to Available University Fund	400,686	357,337
Total Deductions	<u>405,518</u>	<u>363,146</u>
Change in Fiduciary Net Assets	1,429,386	886,651
Net Assets Held in Trust, Beginning of Year	10,313,394	9,426,743
Net Assets Held in Trust, End of Year	<u>\$ 11,742,780</u>	<u>\$ 10,313,394</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 and investment income. Expenses related to the PUF's security investments and PUF Lands, as well as distributions from the PUF to the AUF, are also included. The PUF Lands asset values are not included in the accompanying financial statements.

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

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

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

Note 2 – Significant Accounting Policies

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

Fixed income securities held directly by the PUF are valued based upon prices supplied by Merrill Lynch Securities Pricing Service and other major fixed income pricing services, external broker quotes and internal pricing matrices.

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

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Notes to Financial Statements (cont.)

on which the security is traded (if a closing price is not available, the average of the last reported bid and ask price is used).

Private market funds and certain other equity securities are fair valued by management. The fair values of these investments are estimated by management using the partnership's capital account balance at the closest available reporting period, as communicated by the general partner, adjusted for contributions and withdrawals subsequent to the latest available reporting period as well as consideration of any other information which has been provided by the partnership or other source. In rare cases the private market funds are valued at cost, but only when management feels this is the best approximation of value.

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

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

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

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

Marketable alternative, U.S. equity, non-U.S. developed equity, emerging market and fixed income investment funds and certain other investment funds are fair valued by management based on net asset value information provided by the investment company.

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

(C) ***Investment Income*** -- Interest income is accrued as earned. Dividend income is recorded on the ex-dividend date. Dividend and interest income is recorded net of foreign taxes where recovery of such taxes is not assured. For the years ended August 31, 2007 and 2006, interest and dividend withholding in the amounts of \$855,105 and \$764,076 have been netted against dividend and interest income. Investment income includes net realized and unrealized currency gains and losses recognized between accrual and payment dates on dividend and interest transactions. Interest expense amounts paid on certain derivative settlements are netted against interest income in the statements of changes in fiduciary net assets. Premiums and discounts on bonds are not amortized.

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

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Notes to Financial Statements (cont.)

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

(F) ***Derivative Applications*** -- Derivative securities are financial instruments whose value is derived, in whole or part, from the value of any one or more underlying securities or assets, or index of securities or assets, such as stocks, bonds, commodities, or currencies. The PUF from time to time uses various derivative applications, as allowed under Board of Regent approved derivative investment policy guidelines, and by guidelines established in contracts with external investment managers. Derivative applications included under these policies and contracts include futures, forwards, swaps and all forms of options. Futures contracts are valued at closing market prices on valuation date. Written options and swaps are valued by using independent broker quotes or using models with externally verifiable model inputs. Derivative applications 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,
- construct portfolios with risk and return characteristics that could not be created with cash market securities,
- hedge and control risks so that the PUF's risk/return profile is more closely aligned with the PUF's targeted risk/return profile, and
- facilitate transition trading.

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

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

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Notes to Financial Statements (cont.)

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

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

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

(G) *Securities Sold Short* -- The PUF may sell securities it does not own in anticipation of a decline in the fair value of that security, or as a means to adjust the duration of certain fixed income

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Notes to Financial Statements (cont.)

portfolios. When the PUF sells a security short, it must borrow the security sold short and deliver it to the broker-dealer through which it made the short sale as collateral for its obligation to deliver the security upon conclusion of the sale. The market value of securities sold short as of August 31, 2007 and 2006 was \$16,105,047 and \$8,475,707, respectively. The securities sold short as of August 31, 2007 are commitments to sell U.S. Treasury securities that do not require cash deposits. The Deposit with Broker for Securities Sold Short was \$7,476,175 as of August 31, 2006. The PUF must pay dividends or interest on the securities sold short. Until the PUF covers its short sales, it is exposed to market risk to the extent that subsequent market fluctuations may require purchasing securities sold short at prices which may be significantly higher than the market value reflected in the statements of fiduciary net assets.

(H) ***Cash and Cash Equivalents*** -- Cash and cash equivalents consist of money market investments, cash held at the State Treasury, foreign currencies and other overnight funds. A portion of the PUF's cash and cash equivalents are maintained to support the notional value of future contracts held (see Note 8). Cash and cash equivalents are an integral part of the PUF's investment activities, and as such are included in the investments balance on the statement of fiduciary net assets.

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

(J) ***Reclassifications*** -- Certain items in the 2006 financial statements and related notes have been reclassified to conform with the 2007 classification.

Note 3 – Investment Risk

The investment risk disclosure that follows relates to the PUF's investments before securities lending transactions and the investment of cash collateral. Disclosures relating to securities lending are provided in Note 4.

(A) *Credit Risk*

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

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The PUF's investment policy limits investments in U.S. Domestic bonds and non-dollar denominated bond investments to those that are rated investment grade, Baa3 or better by Moody's Investor Services, BBB- or better, by Standard & Poor's Corporation, or BBB- or

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Notes to Financial Statements (cont.)

better, by Fitch Investors Service at the time of acquisition. This requirement does not apply to investment managers that are authorized by the terms of an investment advisory agreement to invest in below investment grade bonds. Per GASB Statement No. 40 (GASB 40), *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3*, unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. GASB 40 also provides that securities with split ratings, or a different rating assignment between NRSROs, are disclosed using the rating indicative of the greatest degree of risk. The following table presents each applicable investment type grouped by rating at August 31, 2007 and 2006:

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Notes to Financial Statements (cont.)

Investment Type	August 31,		Rating
	2007	2006	
Investments:			
U.S. Government Guaranteed	\$ 559,387,423	\$ 941,500,304	Exempt from Disclosure
U.S. Government Non-Guaranteed:			
U.S. Agency	33,382,477	22,495,507	AAA
U.S. Agency Asset Backed	530,217,675	258,354,317	AAA
Total U.S. Government Non-Guaranteed	563,600,152	280,849,824	
Total U.S. Government	1,122,987,575	1,222,350,128	
Corporate Obligations:			
Domestic	82,823,455	62,957,174	AAA
Domestic	30,835,986	16,390,703	AA
Domestic	38,363,938	31,906,859	A
Domestic	26,967,071	39,563,681	BAA/BBB
Domestic	8,683,223	9,322,354	BA/BB
Domestic	4,322,937	10,825,660	B
Domestic	1,065,300	314,062	CAA
Domestic	300,873	214,725	CCC
Domestic	293,979	-	P
Commercial Paper	64,855,545	367,707,619	P
Commercial Paper	-	9,270,683	AAA
Commercial Paper	6,992,643	-	A
Certificates of Deposit	7,601,651	-	AA
Foreign	14,596,269	14,525,682	AAA
Foreign	8,188,554	4,126,010	AA
Foreign	9,363,764	14,073,864	A
Foreign	15,424,270	15,616,781	BAA/BBB
Total Corporate Obligations	320,679,458	596,815,857	
Foreign Government and Provincial Obligations	65,703,753	69,987,530	AAA
Foreign Government and Provincial Obligations	2,063,952	18,146,253	AA
Foreign Government and Provincial Obligations	21,820,676	6,329,396	A
Foreign Government and Provincial Obligations	3,240,493	4,782,530	BAA/BBB
Foreign Government and Provincial Obligations	1,579,364	1,590,876	BA/BB
Total Foreign Government and Provincial Obligations	94,408,238	100,836,585	
Other Debt Securities	1,595,969	3,969,722	AAA
Other Debt Securities	2,007,512	1,296,235	AA
Other Debt Securities	757,688	7,111,208	BAA/BBB
Total Other Debt Securities	4,361,169	12,377,165	
Total Debt Securities	\$ 1,542,436,440	\$ 1,932,379,735	
Other Investment Funds - Debt	\$ 32,110,086	\$ 66,347,671	AAA
Other Investment Funds - Debt	38,753,033	96,111,721	AA
Other Investment Funds - Debt	99,557,276	-	A
Other Investment Funds - Debt	8,913,909	8,150,615	BA/BB
Other Investment Funds - Debt	5,592,289	-	B
Total Other Investment Funds - Debt	\$ 184,926,593	\$ 170,610,007	
Cash and Cash Equivalents - Money Market Funds	\$ 1,627,706,573	\$ 1,222,640,410	AAA
Cash and Cash Equivalents - Other	16,728,381	11,245,940	Exempt from Disclosure
Total Cash and Cash Equivalents	\$ 1,644,434,954	\$ 1,233,886,350	
Deposit with Brokers for Derivative Contracts:			
U.S. Government Guaranteed	\$ 71,852,155	\$ 84,823,711	Exempt from Disclosure
Cash	2,930,980	52,744,196	Exempt from Disclosure
	\$ 74,783,135	\$ 137,567,907	
Deposit with Broker for Securities Sold Short:			
Cash	\$ -	\$ 7,476,175	Exempt from Disclosure
	\$ -	\$ 7,476,175	

(B) Concentrations of Credit Risk

The PUF's investment policy statement contains the limitation that no more than 5% of the market value of domestic fixed income securities may be invested in corporate or municipal bonds of a single issuer. As of August 31, 2007 and 2006, the PUF does not hold any direct investments in any one issuer of corporate or municipal bonds that is 5% or more of the market value of the PUF's domestic fixed income investments.

(C) Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the PUF will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the PUF will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Texas State Statutes and the PUF's investment policy statements do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. As of August 31, 2007 and 2006, the PUF does not have any deposits or investments that are exposed to custodial credit risk.

(D) Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its value to changes in market interest rates. Interest rate risk inherent in the PUF is measured by monitoring the modified duration of the overall investment portfolio. Modified duration estimates the sensitivity of the PUF's investments to changes in interest rates. The PUF has no specific policy statement limitations with respect to its overall modified duration. The following table summarizes the PUF's modified duration by investment type at August 31, 2007 and 2006:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type	August 31,			
	2007		2006	
	Value	Modified Duration	Value	Modified Duration
Investments:				
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	\$ 125,429,786	7.34	\$ 240,121,771	7.22
U.S. Treasury Strips	5,416,919	3.98	5,619,945	5.00
U.S. Treasury Bills	12,679,088	0.04	8,440,906	0.04
U.S. Treasury Inflation Protected	400,002,468	8.76	670,527,380	7.95
U.S. Agency Asset Backed	15,859,162	6.51	16,790,302	5.16
Total U.S. Government Guaranteed	<u>559,387,423</u>	8.14	<u>941,500,304</u>	7.62
U.S. Government Non-Guaranteed:				
U.S. Agency	20,300,126	1.81	22,495,507	2.36
U.S. Agency Asset Backed	530,217,675	5.19	258,354,317	4.99
U.S. Agency Commercial Paper	13,082,351	0.02	-	-
Total U.S. Government Non-Guaranteed	<u>563,600,152</u>	4.94	<u>280,849,824</u>	4.78
Total U.S. Government	<u>1,122,987,575</u>	6.53	<u>1,222,350,128</u>	6.97
Corporate Obligations:				
Domestic	193,656,762	4.35	171,997,674	4.42
Commercial Paper	71,848,188	0.16	376,475,846	0.07
Certificates of Deposit	7,601,651	1.00	-	-
Foreign	47,572,857	6.96	48,342,337	11.22
Total Corporate Obligations	<u>320,679,458</u>	3.72	<u>596,815,857</u>	2.22
Foreign Government and Provincial Obligations	<u>94,408,238</u>	5.83	<u>100,836,585</u>	7.42
Other Debt Securities	<u>4,361,169</u>	9.91	<u>12,377,165</u>	10.81
Total Debt Securities	<u>1,542,436,440</u>	5.92	<u>1,932,379,735</u>	5.55
Other Investment Funds - Debt	<u>184,926,593</u>	3.59	<u>170,610,007</u>	3.76
Cash and Cash Equivalents:				
Money Market Funds	1,627,706,573	0.08	1,222,640,410	0.08
Other	16,728,381	-	11,245,940	-
Total Cash and Cash Equivalents	<u>1,644,434,954</u>	0.08	<u>1,233,886,350</u>	0.08
Total	<u>\$ 3,371,797,987</u>	2.94	<u>\$ 3,336,876,092</u>	3.44
Deposit with Brokers for Derivative Contracts:				
U.S. Government Guaranteed:				
U.S. Treasury Bills	\$ 71,852,155	0.13	\$ 84,823,711	0.13
Cash	<u>2,930,980</u>	-	<u>52,744,196</u>	-
Total Deposit with Brokers for Derivative Contracts	<u>\$ 74,783,135</u>	0.13	<u>\$ 137,567,907</u>	0.08
Deposit with Broker for Securities Sold Short:				
Cash	<u>\$ -</u>	-	<u>\$ 7,476,175</u>	-

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

In accordance with the PUF's investment policy statement, 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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

securities. As of August 31, 2007 and 2006, the PUF's investments include the following investments that are highly sensitive to interest rate changes:

Collateralized mortgage obligations which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. These securities amounted to \$163,477,418 and \$84,611,496 as of August 31, 2007 and 2006, 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 \$442,400,200 and \$236,996,121 as of August 31, 2007 and 2006, 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 \$23,296,794 and \$23,386,086 as of August 31, 2007 and 2006, respectively.

Step-up notes that grant the issuer the option to call the note on certain specified dates. At each call date, should the issuer not call the note, the coupon rate of the note increases (steps up) by an amount specified at the inception of the note. The call feature embedded within a step-up note causes the fair value of the instrument to be considered highly sensitive to interest rate changes. These securities amounted to \$3,457,619 and \$2,558,496 as of August 31, 2007 and 2006, 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. The PUF's investment policy statement limits investments in non-U.S. denominated bonds to 50% of the PUF's total fixed income exposure. The following table summarizes the PUF's non-U.S. dollar investments by asset type at August 31, 2007 and 2006:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type	August 31,	
	2007	2006
Domestic Common Stock:		
Canadian Dollar	\$ 92,144	\$ -
UK Pound	66,172	-
Total Domestic Common Stock	158,316	-
Foreign Common Stock:		
Australian Dollar	\$ 20,358,308	\$ 16,499,188
Canadian Dollar	69,215,277	75,585,560
Swiss Franc	11,116,544	10,378,942
Danish Krone	2,882,348	3,612,338
Euro	53,424,740	43,954,967
UK Pound	65,577,730	52,762,374
Hong Kong Dollar	19,615,350	21,194,451
Japanese Yen	206,666,761	231,668,385
South Korean Won	-	6,250,811
Norwegian Kroner	12,831,753	5,491,197
New Zealand Dollar	-	669,683
Swedish Krona	10,007,981	6,976,106
Singapore Dollar	3,980,715	10,728,221
Total Foreign Common Stock	475,677,507	485,772,223
Other - Equity Securities		
Canadian Dollar	-	48
Foreign Government and Provincial Obligations:		
Canadian Dollar	120,883	127,064
Danish Krone	2,542,823	2,466,736
Euro	76,931,363	80,585,557
UK Pound	1,050,278	-
Japanese Yen	4,755,034	3,718,898
Polish Zloty	3,346,927	3,081,607
Total Foreign Government and Provincial Obligations	88,747,308	89,979,862
Corporate Obligations:		
Danish Krone	2,243,330	-
Euro	22,454,445	24,619,480
UK Pound	5,008,915	3,311,744
Japanese Yen	6,803,173	5,762,839
Total Corporate Obligations	36,509,863	33,694,063
Purchased Options:		
Canadian Dollar	-	67,369
Euro	326,615	949,491
UK Pound	43,609	145,096
Japanese Yen	-	3,132,648
Total Purchased Options	370,224	4,294,604
Private Market Investments:		
Euro	175,111,377	98,926,472
UK Pound	2,309,163	6,691,668
Total Limited Partnerships	177,420,540	105,618,140
Cash and Cash Equivalents:		
Australian Dollar	235,312	165,989
Canadian Dollar	2,290,035	1,341,214
Swiss Franc	537,192	112,256
Danish Krone	68,227	44,296
Euro	5,679,433	1,718,211
UK Pound	2,315,003	579,252
Hong Kong Dollar	19,663	223,245
Japanese Yen	8,309,661	8,837,728
Mexico Peso	12,168	-
Norwegian Kroner	346,996	58,560
New Zealand Dollar	340,418	233,048
Polish Zloty	170,193	355,151
Swedish Krona	391,749	133,510
Singapore Dollar	202,291	306,505
Taiwan Dollar	991,275	992,660
Total Cash and Cash Equivalents	21,909,616	15,101,625
Total	\$ 800,793,374	\$ 734,460,565

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Note 4 – Securities Lending

In accordance with the prudent investor investment standards, the PUF loans securities to certain brokers who pay the PUF negotiated lenders' fees. These fees are included in investment income, and related expenses are included in investment expenses. The PUF receives qualified securities and/or cash as collateral against the loaned securities. The collateral, when received, will have a market value of 102% of loaned securities of U.S. issuers and a market value of 105% for loaned securities of non-U.S. issuers. If the market value of the collateral held in connection with loans of securities of U.S. issuers is less than 100% at the close of trading on any business day, the borrower is required to deliver additional collateral by the close of the next business day to equal 102% of the market value. For non-U.S. issuers, the collateral should remain at 105% of the market value of the loaned securities at the close of any business day. If it falls below 105%, the borrower must deliver additional collateral by the close of the following business day. The value of securities loaned and the value of collateral held are as follows at August 31, 2007 and 2006:

Securities on Loan	2007 Value	2006 Value	Type of Collateral	2007 Value of Collateral	2006 Value of Collateral
U.S. Government	\$ 380,790,711	\$ 725,905,176	Cash	\$384,930,544	\$738,197,245
Foreign Government	-	11,031,766	Cash	-	11,576,419
Corporate Bonds	10,108,565	11,836,052	Cash	10,377,087	12,139,900
Common Stock	309,048,328	219,321,315	Cash	322,109,503	228,617,153
Total	\$699,947,604	\$968,094,309	Total	\$717,417,134	\$990,530,717
Common Stock	\$ 7,138,093	\$ 1,397,330	Non-Cash	\$ 7,252,103	\$ 1,425,627
Corporate Bonds	206,185	-	Non-Cash	209,478	-
U.S. Government	89,137,329	14,154,872	Non-Cash	90,718,507	14,808,629
Total	\$ 96,481,607	\$ 15,552,202	Total	\$ 98,180,088	\$ 16,234,256

Cash received as collateral for securities lending activities is invested and reinvested in a commingled pool managed exclusively for the benefit of the PUF, the General Endowment Fund, the Intermediate Term Fund and other Board of Regent 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, 2007 and 2006 is shown in the following table:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Description	August 31,					
	2007			2006		
	Fair Value	Rating	Weighted Average Maturity In Days	Fair Value	Rating	Weighted Average Maturity In Days
Repurchase Agreements	\$ 233,339,724	No Rating Available	4	\$ 360,618,038	No Rating Available	14
Commercial Paper	196,744,787	P	38	430,757,870	P	26
Floating Rate Notes	51,665,268	AAA		56,532,430	AAA	
Floating Rate Notes	146,930,993	AA		40,604,505	AA	
Total Floating Rate Notes	<u>198,596,261</u>		13	<u>97,136,935</u>		69
Fixed Rate Notes	2,287,392	AAA	105	-	-	-
Certificates of Deposit	-	-	-	123,934,917	P	67
Asset Backed Securities	87,658,787	AAA		1,776,447	AAA	
Asset Backed Securities	915,994	P		-	-	
Total Asset Backed Securities	<u>88,574,781</u>		32	<u>1,776,447</u>		11
Other Receivables/Payables	<u>(2,125,811)</u>	Not Rated	-	<u>(23,693,490)</u>	Not Rated	-
Total Collateral Pool Investment	<u>\$ 717,417,134</u>		20	<u>\$ 990,530,717</u>		31

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

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

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

As of August 31, 2007 and 2006, 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, 2007 and 2006.

Note 5 – Investment Funds

Investment funds include exchange traded funds, index funds, Securities and Exchange Commission regulated mutual funds and externally managed funds, limited partnerships, and corporate structures which are generally unrated and may be unregulated. The composition of investment funds at August 31, 2007 and 2006 is summarized in the table below as they are classified within the asset mix of the PUF.

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

	August 31,	
	2007	2006
Marketable Alternatives:		
Absolute Return Strategies	\$ 2,176,711,306	\$ 1,763,658,673
Directional Equity	1,155,234,545	890,403,135
Total Marketable Alternatives	<u>3,331,945,851</u>	<u>2,654,061,808</u>
Private Markets	1,384,941,527	973,740,367
Public Markets:		
U.S. Equity:		
Private Placements	879,265,389	694,426,740
Exchange Traded Funds	88,833,203	341,789,777
Total U.S. Equity	<u>968,098,592</u>	<u>1,036,216,517</u>
Non-U.S. Developed Equity:		
Private Placements	370,906,502	307,456,759
Index Funds	147,445,832	-
Total Non-U.S. Developed Equity	<u>518,352,334</u>	<u>307,456,759</u>
Emerging Markets:		
Private Placements	629,723,015	366,906,922
Exchange Traded Funds	19,970,597	32,494,606
Publicly Traded Mutual Funds	91,447,386	175,920,415
Index Funds	137,953,109	-
Total Emerging Markets	<u>879,094,107</u>	<u>575,321,943</u>
Fixed Income:		
Private Placements	99,557,276	160,239,287
Publicly Traded Mutual Funds	85,369,317	10,370,720
Total Fixed Income	<u>184,926,593</u>	<u>170,610,007</u>
Total Investment Funds	<u>\$ 7,267,359,004</u>	<u>\$ 5,717,407,401</u>

The PUF invests in marketable alternative investments through undivided unit interests in investment pools established in the name of the Board of Regents. Amounts presented in the PUF financial statements and related note disclosures represent the PUF's pro-rata share of these investment pool assets. The marketable alternatives investment pools are invested in private placements with external investment managers who invest in equity and fixed income securities of both domestic and international issuers. These investment managers may invest in both long and short securities and may utilize leverage in their portfolios. The funds invested may be subject to a lock-up restriction of one or more years before the investment may be withdrawn from the manager without significant penalty. There are certain risks associated with these private placements, some of which include investment manager risk, market risk, and liquidity risk, as well as the risk of utilizing leverage in the portfolios.

Private markets funds are invested in limited partnerships with external investment managers or general partners who invest primarily in private equity securities. These investments are domestic and international, are illiquid and may not be realized for a period of several years after the investments are made. There are certain risks associated with these investments, some of which are liquidity risk, market risk, event risk, and investment manager risk. The PUF has committed \$1,357,574,374 of future funding to various private market investments as of August 31, 2007.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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

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

- *Non-regulation risk* -- Some of these funds are not registered with the Securities and Exchange Commission, and therefore are not subject to regulatory controls.
- *Key personnel risk* -- The success of certain funds is substantially dependent on key investment managers and the loss of those individuals may adversely impact the fund's performance.
- *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.

Note 6 – Written Options

For the year ended August 31, 2007, the PUF wrote call options on Treasury note, commodity, and domestic and international equity index futures and exchange traded funds. Transactions in call options written during the year ended August 31, 2007 were as follows:

	<u>Contracts</u>	<u>Premiums Received</u>
Call Options Outstanding at August 31, 2006	3,148,544	\$6,578,268
Options Written	294,962	5,559,612
Options Expired	(115,241)	(1,024,609)
Options Exercised	(41,587)	(1,774,104)
Options terminated in closing purchase transactions	(2,813,952)	(5,719,230)
Call Options Outstanding at August 31, 2007	<u>472,726</u>	<u>\$3,619,937</u>

The fair value of call options outstanding as of August 31, 2007, was \$5,648,416. This amount is included on the statements of fiduciary net assets as written options, at fair value. The PUF recognized losses of \$56,900,943 on call options written for the year ended August 31, 2007.

For the year ended August 31, 2006, the PUF wrote call options on Treasury note, commodity, and domestic and international equity index futures and exchange traded funds. Transactions in call options written during the year ended August 31, 2006 were as follows:

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

	Contracts	Premiums Received
Call Options Outstanding at August 31, 2005	1,473,043	\$ 5,011,038
Options Written	2,173,252	8,106,587
Options Expired	(473,600)	(5,517,907)
Options Exercised	(1,820)	(304,846)
Options terminated in closing purchase transactions	(22,331)	(716,604)
Call Options Outstanding at August 31, 2006	<u>3,148,544</u>	<u>\$ 6,578,268</u>

The fair value of call options outstanding as of August 31, 2006, was \$48,729,702. This amount is included on the statements of fiduciary net assets as written options, at fair value. The PUF had \$2,828,782 on deposit with a broker for collateral for call options written as of August 31, 2006. The PUF recognized losses of \$48,307,122 on call options written for the year ended August 31, 2006.

The PUF also wrote put options on Treasury note, commodity, and domestic and international equity index futures for the year ended August 31, 2007. Transactions in put options written during the year ended August 31, 2007, were as follows:

	Contracts	Premiums Received
Put Options Outstanding at August 31, 2006	2,989,901	\$ 3,851,052
Options Written	6,471,337	3,402,574
Options Expired	(5,855,476)	(1,667,736)
Options terminated in closing purchase transactions	(3,369,522)	(5,442,646)
Put Options Outstanding at August 31, 2007	<u>236,240</u>	<u>\$ 143,244</u>

The fair value of put options outstanding as of August 31, 2007, was \$1,586,142. This amount was included on the statements of fiduciary net assets as written options, at fair value. The PUF recognized losses in the amount of \$14,616,045 on put options written for the year ended August 31, 2007.

The PUF also wrote put options on Treasury note, commodity, and domestic and international equity index futures for the year ended August 31, 2006. Transactions in put options written during the year ended August 31, 2006, were as follows:

	Contracts	Premiums Received
Put Options Outstanding at August 31, 2005	1,230,113	\$ 347,568
Options Written	2,428,557	10,445,551
Options Expired	(273,597)	(1,226,526)
Options Exercised	(237,587)	(578,657)
Options terminated in closing purchase transactions	(157,585)	(5,136,884)
Put Options Outstanding at August 31, 2006	<u>2,989,901</u>	<u>\$ 3,851,052</u>

The fair value of put options outstanding as of August 31, 2006, was \$28,433,649. This amount was included on the statements of fiduciary net assets as written options, at fair value. The PUF had \$1,650,587 on deposit with a broker for collateral for call options written as of August 31, 2006. The PUF recognized losses in the amount of \$25,712,374 on put options written for the year ended August 31, 2006.

Note 7 – Swaps

During the year the PUF entered into interest rate, credit default and commodity swap contracts. The following discloses the notional amount, the coupon rate, and the fair values of the outstanding swap contracts as of August 31, 2007:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

						Fair Value at August 31, 2007	
Interest Rate	Coupon	Notional Value	Maturity Date	Assets	Liabilities		
Australian Dollar							
	6.000%	27,300,000	15-Jun-10	\$ -	\$	498,605	
	6.000%	16,500,000	15-Jun-15	579,363		-	
	6.500%	19,120,000	15-Jan-09	-		46,227	
	6.500%	4,300,000	15-Jan-10	-		24,330	
	7.000%	42,100,000	15-Jun-10	60,456		-	
UK Pound							
	0.670%	-	20-Sep-14	-		15,088	
	4.000%	12,600,000	15-Dec-35	968,378		-	
	4.250%	400,000	12-Jun-36	91,871		-	
	4.500%	38,000,000	15-Sep-17	490,432		-	
	5.000%	2,000,000	15-Jun-08	-		44,442	
	5.000%	3,300,000	15-Jun-09	-		131,116	
	5.000%	9,800,000	15-Sep-10	-		641,456	
	5.000%	14,200,000	15-Sep-15	-		1,381,405	
	5.000%	1,100,000	20-Mar-18	168,577		-	
	5.322%	1,800,000	14-Sep-09	53,621		-	
	6.000%	16,500,000	20-Sep-12	142,977		-	
Canadian Dollar							
	5.000%	1,400,000	15-Jun-15	12,076		-	
	5.000%	6,900,000	20-Jun-17	-		15,558	
	5.500%	1,200,000	20-Jun-17	-		169,365	
Euro							
	0.000%	800,000	15-Mar-12	-		7,535	
	1.948%	200,000	15-Mar-12	-		1,141	
	1.950%	600,000	30-Mar-12	-		3,069	
	1.955%	300,000	28-Mar-12	-		1,380	
	1.965%	500,000	15-Mar-12	-		518	
	1.988%	900,000	15-Dec-11	564		-	
	1.995%	4,800,000	15-Mar-12	-		1,842	
	2.028%	700,000	15-Oct-11	6,370		-	
	2.040%	1,300,000	21-Feb-11	16,908		-	
	2.095%	2,000,000	15-Oct-11	32,311		-	
	2.103%	4,000,000	15-Oct-10	82,862		-	
	2.146%	900,000	15-Oct-10	21,336		-	
	2.275%	800,000	15-Oct-16	3,641		-	
	2.350%	800,000	15-Oct-16	1,796		-	
	2.353%	600,000	15-Oct-16	1,883		-	
	4.000%	-	19-Sep-09	-		11,654	
	4.000%	6,970,000	17-Jun-10	119,610		-	
	4.000%	-	19-Sep-12	176,793		-	
	4.000%	22,930,000	16-Jun-14	960,774		-	
	4.000%	2,400,000	15-Dec-14	-		107,011	
	4.000%	3,600,000	15-Jun-17	235,503		-	
	4.000%	-	15-Dec-11	125,487		-	
	4.000%	4,000,000	21-Jun-36	-		661,454	
	4.435%	6,900,000	18-Jun-15	443,477		-	
	4.500%	500,000	18-Jun-34	-		387,287	
	5.000%	24,900,000	15-Dec-11	-		720,405	
	5.000%	19,100,000	19-Sep-12	556,889		-	
	5.000%	2,300,000	16-Jun-14	89,729		-	
	5.000%	100,000	19-Mar-18	-		7,910	
	5.000%	4,900,000	19-Mar-38	-		227,777	
	6.000%	1,800,000	18-Jun-34	-		239,069	

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

				<u>Fair Value at August 31, 2007</u>	
Interest Rate (Continued)	<u>Coupon</u>	<u>Notional Value</u>	<u>Maturity Date</u>	<u>Assets</u>	<u>Liabilities</u>
Japanese Yen					
	0.000%	13,216,000,000	10-Sep-09	\$ 114,014,577	\$ -
	0.800%	720,000,000	30-Mar-12	148,462	-
	1.000%	3,930,000,000	18-Sep-08	12,948	-
	1.000%	20,620,000,000	18-Mar-09	-	225,296
	1.500%	6,320,000,000	20-Mar-11	-	102,421
	1.500%	1,920,000,000	20-Jun-12	124,029	-
	1.980%	800,000,000	27-Sep-16	-	178,285
	2.000%	1,850,000,000	20-Jun-10	-	229,374
	2.000%	530,000,000	15-Jun-12	-	145,874
	2.000%	1,050,000,000	20-Dec-13	-	291,074
	2.000%	4,330,000,000	20-Dec-16	-	654,418
	2.500%	1,300,000,000	15-Dec-35	132,964	-
	3.000%	370,000,000	20-Jun-36	-	339,005
U.S. Dollar					
	0.000%	2,600,000	7-Dec-07	67,695	-
	0.000%	44,600,000	18-Jun-09	142,742	-
	0.000%	112,000,000	10-Sep-09	-	112,000,000
	0.700%	1,700,000	20-Sep-08	243	-
	4.000%	-	31-Aug-07	42,176	-
	4.000%	27,600,000	15-Dec-08	-	419,318
	4.500%	-	31-Aug-07	2,381	-
	5.000%	-	31-Aug-07	17,920	-
	5.000%	109,400,000	19-Dec-08	247,025	-
	5.000%	48,100,000	18-Jun-09	153,944	-
	5.000%	5,900,000	17-Dec-09	27,684	-
	5.000%	55,800,000	19-Dec-09	261,825	-
	5.000%	44,800,000	19-Dec-12	130,026	-
	5.000%	17,400,000	19-Dec-14	68,836	-
	5.000%	38,600,000	19-Dec-17	651,136	-
	5.000%	4,500,000	19-Dec-37	-	292,441
Mexican Peso					
	8.170%	26,700,000	4-Nov-16	-	21,706
	8.330%	15,900,000	14-Feb-17	1,691	-
	8.840%	13,000,000	23-Sep-16	41,323	-
				<u>121,733,311</u>	<u>120,244,856</u>
Commodity					
U.S. Dollar					
	Fixed	77,040,000	26-Sep-07	-	530,759
	TBILL + 22 Basis Points	129,370,000	26-Sep-07	889,723	-
	TBILL + 25 Basis Points	160,000	26-Sep-07	1,100	-
	TBILL + 28 Basis Points	77,210,000	26-Sep-07	530,869	-
				<u>1,421,692</u>	<u>530,759</u>

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

		<u>Fair Value at August 31, 2007</u>			
Credit Default	<u>Coupon</u>	<u>Notional Value</u>	<u>Maturity Date</u>	<u>Assets</u>	<u>Liabilities</u>
Euro	0.000%	-	20-Dec-16	\$ 1,507	\$ -
	0.210%	-	20-Jun-12	1	-
	0.235%	-	20-Jun-12	702	-
	0.250%	-	20-Jun-12	1,408	-
	0.290%	-	20-Jun-12	-	416
	0.340%	-	20-Jun-12	-	1,261
	0.365%	-	20-Jun-12	-	1,238
	0.390%	-	20-Jun-12	-	266
	0.450%	-	20-Sep-12	8,626	-
	0.460%	-	20-Sep-12	-	88
	0.470%	-	20-Sep-12	-	29,459
	0.490%	-	20-Sep-12	-	4
	0.850%	-	20-Dec-16	14,459	-
	1.958%	2,100,000	10-Apr-12	-	14,981
U.S. Dollar	0.350%	-	31-Aug-07	-	383,182
	0.350%	6,860,000	20-Jun-12	-	100,006
	0.000%	-	20-Jun-12	-	2,980
	0.050%	-	20-Sep-09	147	-
	0.070%	2,000,000	20-Dec-07	-	2,498
	0.070%	1,500,000	20-Jun-08	-	2,977
	0.089%	-	20-Jun-12	2,072	-
	0.090%	-	20-Jun-12	3,641	-
	0.100%	-	20-Jun-12	2,777	-
	0.110%	-	20-Jun-10	1,518	-
	0.120%	1,000,000	20-Jun-08	-	2,017
	0.120%	-	20-Jun-12	669	-
	0.135%	1,400,000	20-Jun-08	-	3,895
	0.140%	-	20-Mar-11	334	-
	0.150%	1,800,000	20-Jun-08	-	7,859
	0.150%	-	20-Jun-17	908	-
	0.160%	3,000,000	20-Jun-08	-	20,248
	0.160%	-	20-Jun-12	21,235	-
	0.170%	-	20-Jun-10	13,393	-
	0.180%	-	20-Mar-12	1,902	-
	0.210%	-	20-Sep-11	1,834	-
	0.210%	-	20-Dec-16	4,312	-
	0.210%	-	20-Jun-12	2,571	-
	0.220%	-	20-Sep-09	-	549
	0.220%	-	20-Sep-11	2,689	-
	0.230%	-	20-Jun-09	431	-
	0.245%	100,000	20-Jun-08	-	191
	0.320%	-	20-Jun-10	-	614
	0.340%	-	20-Dec-16	8,586	-
	0.350%	-	20-Sep-11	-	1,101
	0.350%	100,000	20-Jun-12	2,850	-
	0.395%	-	20-Sep-11	2,420	-
	0.452%	-	20-Jun-12	-	1,250
	0.455%	-	20-Jun-12	-	6,873
	0.459%	-	20-Jun-12	-	634
	0.460%	-	20-Sep-11	4,518	-
	0.460%	-	20-Mar-12	-	29
	0.495%	-	20-Jun-17	-	118
	0.519%	-	20-Jun-12	-	3,437
	0.520%	-	20-Jun-12	-	3,300
	0.530%	-	20-Jun-12	-	602
	0.539%	-	20-Jun-17	1,481	-
	0.550%	-	20-Sep-11	3,480	-
	0.600%	-	20-Jun-17	187,675	-
	0.600%	-	20-Jun-17	-	208,005
	0.650%	-	20-Dec-16	237,278	-

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

						<u>Fair Value at August 31, 2007</u>	
		<u>Coupon</u>	<u>Notional Value</u>	<u>Maturity Date</u>	<u>Assets</u>	<u>Liabilities</u>	
Credit Default (Continued)							
U.S. Dollar (Continued)							
		0.660%	200,000	20-Sep-12	\$ -	\$ 5,366	
		0.670%	1,400,000	20-Jan-17	-	4,778	
		0.670%	-	20-Jun-17	5,200	-	
		0.675%	-	20-Jun-17	1,988	-	
		0.700%	200,000	20-Jun-12	-	15,963	
		0.700%	100,000	20-Sep-12	-	2,515	
		0.700%	-	20-Jun-17	3,258	-	
		0.710%	100,000	20-Sep-12	-	2,470	
		0.720%	200,000	20-Sep-12	-	5,267	
		0.750%	100,000	20-Sep-12	38	-	
		0.770%	-	20-Mar-12	-	3,871	
		0.800%	100,000	20-Sep-12	261	-	
		0.840%	100,000	20-Jun-12	484	-	
		0.850%	-	20-Mar-08	42,184	-	
		0.895%	-	20-Jun-17	1,899	-	
		0.898%	-	20-Jun-17	3,771	-	
		0.990%	-	20-Jun-17	2,392	-	
		1.010%	200,000	20-Jun-12	-	6,056	
		1.040%	-	20-Jun-17	1,764	-	
		1.080%	-	20-Jun-17	3,596	-	
		1.200%	620,000	20-Jun-12	-	30,463	
		1.200%	-	20-Jun-17	9,742	-	
		1.290%	-	20-Jun-11	-	1,434	
		1.300%	-	20-Jun-17	72,121	-	
		1.330%	-	20-Jun-17	9,809	-	
		1.600%	-	20-Jun-17	12,764	-	
		2.750%	760,000	20-Jun-12	-	37,678	
		3.050%	200,000	20-Sep-12	-	17,087	
		3.800%	100,000	20-Sep-12	-	4,558	
		3.850%	100,000	20-Sep-12	-	4,390	
		4.300%	1,000,000	20-Jun-10	-	11,761	
		4.850%	-	20-Sep-12	3,406	-	
		5.200%	-	20-Sep-08	4,059	-	
		5.400%	400,000	20-Sep-12	-	7,147	
		5.450%	400,000	20-Sep-12	-	6,553	
		6.850%	100,000	20-Jun-12	2,454	-	
		7.000%	100,000	20-Sep-12	2,924	-	
					<u>719,538</u>	<u>967,435</u>	
Inflation							
UK Pound							
		3.381%	500,000	14-Jun-27	-	2,443	
Euro							
		1.980%	100,000	30-Apr-12	-	512	
		2.080%	2,300,000	15-Jun-12	1,876	-	
		2.238%	1,500,000	20-Jun-12	16,321	-	
		1.940%	600,000	10-Apr-12	-	4,112	
					<u>18,197</u>	<u>7,067</u>	
Equity							
U.S. Dollar							
		Emerging	55,000,012	16-Nov-07	7,459,040	-	
		Emerging	28,469,832	29-Sep-07	1,311,895	-	
		Domestic	5,440,703	30-Oct-07	-	700,808	
					<u>8,770,935</u>	<u>700,808</u>	
Total					<u>\$ 132,663,673</u>	<u>\$ 122,450,925</u>	

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

The following discloses the notional amount, the coupon rate, and the fair values of the outstanding swap contracts as of August 31, 2006:

Interest Rate	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2006	
				Assets	Liabilities
Australian Dollar	6.000%	33,900,000	15-Jun-10	\$ -	\$ 213,171
	6.000%	19,400,000	15-Jun-15	169,389	-
UK Pound	0.670%	930,000	20-Sep-14	-	1,123
	4.250%	4,100,000	12-Jun-36	280,732	-
	4.500%	30,800,000	15-Sep-17	46,420	-
	5.000%	3,500,000	15-Jun-08	-	13,630
	5.000%	35,000,000	15-Jun-09	-	337,773
	5.000%	23,700,000	15-Sep-10	-	188,916
	5.000%	400,000	15-Sep-15	-	3,089
	5.000%	600,000	18-Jun-34	86,649	-
Canadian Dollar	5.000%	1,400,000	15-Jun-15	49,672	-
	5.500%	-	31-Aug-06	-	194,302
	5.500%	-	8-Sep-06	-	58,599
Euro	2.040%	1,300,000	21-Feb-11	-	6,396
	2.103%	4,000,000	15-Oct-10	5,564	-
	2.146%	900,000	15-Oct-10	4,203	-
	4.000%	6,970,000	17-Jun-10	-	90,708
	4.000%	22,930,000	16-Jun-14	-	225,201
	4.500%	5,400,000	17-Jun-15	-	295,260
	5.000%	2,300,000	16-Jun-14	223,574	-
	5.000%	100,000	17-Jun-15	10,287	-
	6.000%	700,000	18-Jun-34	128,726	-
Japanese Yen	0.800%	720,000,000	30-Mar-12	156,346	-
	1.000%	-	18-Sep-08	7,709	-
	2.000%	-	4-Sep-06	-	199,440
	2.000%	1,850,000,000	20-Jun-10	-	192,529
	2.000%	530,000,000	15-Jun-12	-	176,301
	2.000%	1,490,000,000	20-Dec-13	-	1,035,105
	2.000%	7,350,000,000	15-Dec-15	-	1,017,122
	2.500%	1,470,000,000	15-Dec-35	-	146,791
	5.000%	3,700,000,000	18-Mar-08	70,423	-
U.S. Dollar	4.000%	24,600,000	21-Jun-07	-	343,710
	4.000%	27,600,000	15-Dec-08	-	780,825
	5.000%	109,400,000	15-Dec-07	-	267,760
	5.000%	9,300,000	20-Dec-08	-	23,917
	5.000%	58,000,000	18-Jun-09	-	9,268
	5.000%	41,600,000	20-Dec-11	301,080	-
	5.000%	35,700,000	20-Dec-13	450,054	-
	5.000%	33,600,000	20-Dec-16	728,747	-
	5.000%	8,400,000	20-Dec-36	-	497,371
				<u>2,719,575</u>	<u>6,318,307</u>

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

			<u>Fair Value at August 31, 2006</u>		
<u>Commodity</u>	<u>Coupon</u>	<u>Notional Value</u>	<u>Maturity Date</u>	<u>Assets</u>	<u>Liabilities</u>
U.S. Dollar					
	TBILL + 23 Basis Points	50,950,000	26-Sep-06	\$ -	\$ 3,050,372
	TBILL + 27 Basis Points	35,040,000	26-Sep-06	-	2,098,979
				<u>-</u>	<u>5,149,351</u>
Credit Default					
U.S. Dollar					
	0.410%	1,000,000	20-Jun-07	1,931	-
	1.800%	100,000	20-Sep-06	446	-
	3.650%	200,000	20-Jun-11	14,214	-
	4.30%	1,000,000	20-Jun-10	45,949	-
	4.55%	700,000	20-Jun-07	23,580	-
	4.60%	600,000	20-Jun-07	20,509	-
				<u>106,629</u>	<u>-</u>
Structured					
U.S. Dollar					
	Emerging	26,000,000	7-Apr-07	-	585,184
	Emerging	32,500,000	13-Apr-07	-	560,814
	Emerging	26,000,000	20-Apr-07	-	326,113
	Emerging	32,500,000	27-Apr-07	-	329,566
	Emerging	32,500,000	4-May-07	-	631,020
	Emerging	16,250,000	11-May-07	-	379,763
	Emerging	48,750,000	18-May-07	-	1,041,439
	Emerging	29,250,000	25-May-07	-	1,799,076
	Emerging	48,750,000	4-Jun-07	-	3,949,030
	TOPIX	26,000,000	4-May-07	-	1,426,728
	TOPIX	21,450,000	7-Apr-07	83,197	-
	TOPIX	16,250,000	8-Apr-07	319,583	-
	TOPIX	32,500,000	9-Apr-07	666,533	-
	TOPIX	7,800,000	15-Apr-07	-	17,892
				<u>1,069,313</u>	<u>11,046,625</u>
Total				<u>\$ 3,895,517</u>	<u>\$ 22,514,283</u>

Note 8 – Futures

During the years ended August 31, 2007 and 2006, the asset classes that used futures include domestic and foreign equities, domestic and foreign debt, and commodities. The PUF had \$71,853,135 and \$86,202,519 on deposit with a broker for collateral as margin for the futures contracts as of August 31, 2007 and 2006, respectively. Short futures were used by internal managers and may be used by a limited number of external managers of the PUF to hedge the PUF's interest rate or country risk associated with security positions. At August 31, 2007, the net realized gain on the futures contracts was \$18,961,779 compared to the net realized loss of \$8,792,816 for the year ended August 31, 2006.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

The following discloses the name, number of contracts, notional value, and the carrying and fair values at August 31, 2007 for futures contracts:

Contract	Number of Contracts	Expiration	Notional Value at August 31, 2007		Carrying and Fair Value at August 31, 2007	
			Long	Short	Assets	Liabilities
Domestic Fixed Income						
U.S. 2 Year Treasury Notes	46	Sep-07	\$ -	\$ 9,478,875	\$ 10,062	\$ -
U.S. 5 Year Treasury Notes	993	Dec-07	-	105,956,203	240,636	-
U.S. 10 Year Treasury Notes	290	Sep-07	-	31,750,469	99,688	-
U.S. 10 Year Treasury Notes	5	Dec-07	545,234	-	-	1,953
U.S. Treasury Bond	20	Dec-07	2,231,250	-	-	7,500
U.S. Treasury Bond	270	Dec-07	-	30,121,875	101,250	-
			<u>2,776,484</u>	<u>177,307,422</u>	<u>451,636</u>	<u>9,453</u>
Domestic Equity						
Russell 2000 Index Mini	5,103	Sep-07	-	405,586,440	-	5,205,060
S&P 500 Index	2,834	Sep-07	1,046,241,950	-	10,698,350	-
			<u>1,046,241,950</u>	<u>405,586,440</u>	<u>10,698,350</u>	<u>5,205,060</u>
Commodities						
Goldman Sachs Commodities	2,325	Sep-07	289,084,688	-	2,528,438	-
Foreign Fixed Income						
90 Day Euro Dollar	4	Mar-08	-	953,600	750	-
90 Day Euro Dollar	26	Mar-09	-	6,197,425	5,525	-
90 Day Euro Dollar	168	Jun-08	40,086,900	-	-	37,800
90 Day Euro Dollar	22	Jun-09	5,240,950	-	-	4,125
90 Day Euro Dollar	38	Jun-09	-	9,052,550	7,125	-
90 Day Euro Dollar	141	Sep-07	33,308,606	-	-	18,506
90 Day Euro Dollar	162	Sep-08	38,653,200	-	-	36,450
90 Day Euro Dollar	12	Sep-08	-	2,863,200	2,700	-
90 Day Euro Dollar	60	Dec-07	14,259,750	-	-	6,750
90 Day Euro Dollar	12	Dec-08	-	2,862,000	2,550	-
Euro-Bobl	94	Sep-07	-	13,842,918	26,204	-
Euro-Bund	170	Sep-07	26,366,482	-	-	30,072
Euro-Bund	12	Sep-07	-	1,861,163	2,123	-
Euro-Schatz	110	Sep-07	15,498,857	-	-	10,472
90 Day Sterling Libor	99	Mar-08	23,430,885	-	-	7,473
90 Day Sterling Libor	51	Jun-08	12,085,886	-	10	-
90 Day Sterling Libor	68	Dec-08	16,136,803	-	5,146	-
3MO Euro Euribor	158	Dec-07	51,430,583	-	-	18,803
3MO Euro Euribor	98	Dec-08	31,981,811	-	-	14,983
3MO Euroyen Tiff	155	Mar-08	33,127,143	-	-	4,993
3MO Euroyen Tiff	105	Dec-07	22,451,153	-	-	3,386
Japan 10 Year Bond	31	Sep-07	36,197,646	-	-	46,738
Japan 10 Year Bond	3	Sep-07	-	3,502,998	-	-
Japan 10 Year Bond	11	Dec-07	12,806,365	-	-	30,721
UK Long Gilt	94	Dec-07	-	20,296,969	2,925	-
			<u>413,063,020</u>	<u>61,432,823</u>	<u>55,058</u>	<u>271,272</u>
Foreign Equity						
DJ Euro Stoxx 50	934	Sep-07	54,699,916	-	488,750	-
FTSE 100 Index	1,692	Sep-07	215,538,453	-	3,256,316	-
			<u>270,238,369</u>	<u>-</u>	<u>3,745,066</u>	<u>-</u>
Total			<u>\$ 2,021,404,511</u>	<u>\$ 644,326,685</u>	<u>\$ 17,478,548</u>	<u>\$ 5,485,785</u>

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

The following discloses the name, number of contracts, notional value, and the carrying and fair values at August 31, 2006 for futures contracts:

Contract	Number of Contracts	Expiration	Notional Value at August 31, 2006		Carrying and Fair Value at August 31, 2006		
			Long	Short	Assets	Liabilities	
Domestic Fixed Income							
U.S. 5 Year Treasury Notes	728	Dec-06	\$ 76,519,625	\$ -	\$ 113,750	\$ -	
U.S. 10 Year Treasury Notes	170	Sep-06	-	18,261,719	-	89,360	
U.S. 10 Year Treasury Notes	336	Dec-06	36,078,000	-	55,860	-	
U.S. Treasury Bond	93	Sep-06	10,293,938	-	34,875	-	
U.S. Treasury Bond	89	Sep-06	-	9,851,187	-	33,375	
			<u>122,891,563</u>	<u>28,112,906</u>	<u>204,485</u>	<u>122,735</u>	
Domestic Equity							
Dow Jones Index	441	Sep-06	50,234,310	-	4,410	-	
Russell 2000 Index Mini	14,714	Sep-06	-	1,061,909,380	653,194	-	
Russell 2000 Index Mini	2,165	Dec-06	-	157,547,050	7,082	-	
S&P 500 Index	5,405	Sep-06	1,764,192,000	-	655,451	-	
			<u>1,814,426,310</u>	<u>1,219,456,430</u>	<u>1,320,137</u>	<u>-</u>	
Commodities							
Goldman Sachs Commodities	2,718	Sep-06	316,647,000	-	1,223,100	-	
Foreign Fixed Income							
90 Day Euro Dollar	323	Sep-06	76,393,538	-	10,094	-	
90 Day Euro Dollar	125	Dec-06	29,579,687	-	10,938	-	
90 Day Euro Dollar	55	Mar-07	13,032,937	-	6,188	-	
90 Day Euro Dollar	37	Jun-07	8,780,562	-	4,162	-	
90 Day Euro Dollar	130	Sep-07	30,889,625	-	16,250	-	
90 Day Euro Dollar	57	Dec-07	13,553,175	-	7,125	-	
90 Day Euro Dollar	23	Mar-08	5,469,688	-	2,875	-	
90 Day Euro Dollar	41	Sep-08	9,745,700	-	4,100	-	
90 Day Euro Dollar	41	Dec-08	9,741,600	-	4,100	-	
90 Day Euro Dollar	41	Mar-09	9,738,013	-	3,587	-	
90 Day Euro Dollar	41	Jun-09	9,733,912	-	3,075	-	
Euro-Bund	25	Sep-06	3,784,788	-	12,697	-	
Euro-Bund	1	Dec-06	150,521	-	4,024	-	
Japan 10 Year Bond	46	Sep-06	52,940,112	-	247,245	-	
Japan 10 Year Bond	31	Dec-06	35,573,957	-	243,767	-	
UK Long Gilt	3	Dec-06	-	628,680	-	2,531	
			<u>309,107,815</u>	<u>628,680</u>	<u>580,227</u>	<u>2,531</u>	
Foreign Equity							
Amsterdam Index	8	Sep-06	961,369	-	-	-	
CAC 40 Index	35	Sep-06	2,314,906	-	-	-	
DAX Index	6	Sep-06	1,125,356	-	-	-	
DJ Euro Stoxx 50	1,091	Sep-06	53,207,966	-	-	257,926	
FTSE 100 Index	1,541	Sep-06	173,044,169	-	-	1,306,833	
FTSE/JSE Top 40	138	Sep-06	3,850,028	-	-	116,756	
Hang Seng Index	4	Sep-06	446,922	-	-	43	
IBEX Index	6	Sep-06	933,848	-	-	-	
MSCI Singapore Index	272	Sep-06	10,267,022	-	48,828	-	
MSCI Taiwan Index	225	Sep-06	6,192,000	-	51,750	-	
OMX Index	55	Sep-06	754,690	-	-	-	
S&P/MIB Index	4	Sep-06	973,427	-	-	-	
SPI 200 Index	12	Sep-06	1,169,301	-	-	-	
Topix Index	33	Sep-06	4,598,926	-	-	9,578	
			<u>259,839,930</u>	<u>-</u>	<u>100,578</u>	<u>1,691,136</u>	
Total			<u>\$ 2,822,912,618</u>	<u>\$ 1,248,198,016</u>	<u>\$ 3,428,527</u>	<u>\$ 1,816,402</u>	

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Note 9 – Foreign Currency Exchange Contracts

The tables below summarize by currency the contractual amounts of the PUF’s foreign currency exchange contracts at August 31, 2007 and 2006. Foreign currency amounts are translated at exchange rates as of August 31, 2007 and 2006. The “Net Buy” amounts represent the U.S. dollar equivalent of net commitments to purchase foreign currencies, and the “Net Sell” amounts represent the U.S. dollar equivalent of net commitments to sell foreign currencies.

Currency	Net Buy August 31, 2007	Net Sell August 31, 2007	Unrealized Gains on Foreign Currency Exchange Contracts August 31, 2007	Unrealized Losses on Foreign Currency Exchange Contracts August 31, 2007
Australian Dollar	\$ 13,573,010	\$ –	\$ 465,022	\$ 969,308
Brazilian Real	4,923,986	–	110,016	163,840
UK Pound	150,623,620	–	4,859,632	908,160
Canadian Dollar	17,862,444	–	481,673	81,883
Chilean Peso	291,666	–	10,064	–
Chinese Yuan Renminbi	39,366,026	–	575,461	364,806
Czech Koruna	–	188,165	52,244	14,196
Danish Krone	–	3,553,912	287	26,816
Euro	215,003,329	–	5,497,971	1,044,055
Hungarian Forint	–	382,421	32,993	71,163
Indian Rupee	2,000,595	–	–	9,892
Japanese Yen	–	27,199,623	5,468,836	3,495,856
Malaysian Ringgit	4,300,196	–	6,627	180,416
Mexican Peso	5,977,745	–	74,055	162,071
Taiwan Dollar	4,012,221	–	12,260	52,729
New Zealand Dollar	–	5,094,203	268,156	248,032
Norwegian Kroner	2,121,531	–	44,306	1,245
Polish Zloty	–	670,404	152,885	213,575
Russian Rouble	8,087,849	–	99,097	16,247
South African Rand	893,668	–	91,536	66,578
Singapore Dollar	1,394,529	–	327	15,589
South Korean Won	12,062,371	–	31,579	227,449
Swedish Krona	6,221,409	–	96,556	147,629
Swiss Franc	13,256,789	–	356,301	174,745
	\$ 501,972,984	\$ 37,088,728	\$ 18,787,884	\$ 8,656,280

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Currency	Net Buy	Net Sell	Unrealized Gains	Unrealized Losses
	August 31, 2006	August 31, 2006	on Foreign Currency Exchange Contracts August 31, 2006	on Foreign Currency Exchange Contracts August 31, 2006
Australian Dollar	\$ 12,652,476	\$ –	\$ 322,654	\$ 62,718
UK Pound	191,745,353	–	5,665,459	1,323,122
Canadian Dollar	–	4,360,753	306,159	450,111
Chilean Peso	282,678	–	458	–
Chinese Yuan Renminbi	29,314,104	–	194,239	713,246
Czech Koruna	526,068	–	10,143	75,311
Danish Krone	–	1,072,066	6,425	–
Euro	–	30,319,200	1,940,220	1,000,136
Hungarian Forint	–	467,765	40,503	91,868
Indian Rupee	57,255	–	109	–
Japanese Yen	266,644,559	–	2,438,177	11,814,037
Mexican Peso	7,434,113	–	366,360	467,229
Taiwan Dollar	8,613,028	–	112,250	400,592
New Zealand Dollar	–	3,538,888	314,118	309,228
Norwegian Kroner	580,774	–	473	29,593
Polish Zloty	1,159,366	–	66,976	235,464
New Russian Rouble	357,060	–	2,240	–
South African Rand	2,857,935	–	116,174	505,048
Singapore Dollar	12,361,321	–	105,368	544
Slovak Koruna	–	–	6,216	5,064
South Korean Won	6,157,567	–	108,588	271,165
Swedish Krona	7,002,804	–	43,552	66,185
Swiss Franc	14,214,405	–	129,104	514,134
	<u>\$ 561,960,866</u>	<u>\$ 39,758,672</u>	<u>\$ 12,295,965</u>	<u>\$ 18,334,795</u>

Note 10 – Purchase Agreements

The PUF entered into note purchase agreements with the UT System Board of Regents and the TAMU System Board of Regents. The agreement with the UT System Board of Regents committed the PUF to acquire up to \$400,000,000 of UT System flexible rate notes in the event of a failed remarketing of such notes. This agreement was terminated effective November 10, 2005, when UTIMCO, as investment manager of the funds under the control of management of the UT System Board of Regents, entered into a security purchase agreement with the UT System Board of Regents. This agreement with the UT System Board of Regents terminates all prior agreements. The new agreement commits the funds under management, including the PUF, to purchase UT System notes and bonds outstanding up to \$1,285,000,000.

Based on the prior agreement with the UT System Board of Regents the PUF received an annual commitment fee equal to 0.15% of the notes outstanding. Under the new agreement the commitment fee was eliminated.

The agreement with the TAMU System Board of Regents committed the PUF to acquire up to \$80,000,000 of Texas A&M System flexible rate notes in the event of a failed remarketing of such notes.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

The note purchase agreement between the PUF and the TAMU System Board of Regents was amended effective November 1, 2005, to eliminate the annual commitment fee required under the original agreement. Under the original agreement the PUF received an annual commitment fee equal to 0.1% of the commitment amount.

The commitment fees earned by the PUF were \$13,443, for the year ended August 31, 2006.

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 Board of Regents of UT System 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 assets in any fiscal year, except as necessary to pay debt service on PUF bonds. Distributions from the PUF to the AUF for the years ended August 31, 2007 and 2006 were \$400,685,603 and \$357,337,255, respectively. The PUF distribution to the AUF for the year ending August 31, 2008, will be \$448,942,761. The first payment in the amount of \$112,235,690 was made September 4, 2007.

Note 12 – Fees and Expenses

The PUF incurs investment management fees from various external managers of the PUF. The fees, generally assessed quarterly, are based on a percentage of the market value of investments held by each individual investment manager and currently range from 0.07% to 1.0%. In addition to quarterly investment management fees, the PUF may pay annual performance-based management fees for investment performance in excess of certain defined benchmarks as provided for in the managers’ contracts. In addition, the PUF incurs consulting fees for investment planning and oversight services with regard to private market and marketable alternative investment funds.

UTIMCO assesses the PUF a management fee to cover the costs of managing the PUF investments and providing day-to-day operations. The fee assessed for the year ended August 31, 2007 was \$6,481,749. The fee assessed for the year ended August 31, 2006 was \$3,246,736, net of a rebate of \$2,344,400 of prior year reserves from UTIMCO to the PUF.

The PUF is assessed a fee to cover expenses related to the management of the PUF Lands. The fee assessed for the year ended August 31, 2007 was \$4,384,062 and was \$5,338,378 for the year ended August 31, 2006. Beginning in fiscal year 2005, the PUF is assessed a fee to cover costs associated with UT System personnel in their efforts to provide assistance to the Board of Regents of UT System and the Chancellor of the UT System in their oversight responsibilities of UTIMCO. The fees assessed for the years ended August 31, 2007 and 2006 were \$447,801 and \$471,337, respectively.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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, 2007 and 2006 were \$825,184 and \$951,447, 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, 2007 and 2006, fees incurred were \$509,025 and \$470,621, respectively.

Analytical and risk measurement fees, in the amounts of \$564,823 and \$255,660, were also incurred during the years ended August 31, 2007 and 2006, respectively, to implement and maintain a sophisticated risk measurement system for the PUF.

The PUF incurs other expenses related to its operations primarily consisting of audit fees, printing and graphic expenses, and consultation fees.

PERMANENT UNIVERSITY FUND

Supplemental Schedules

Comparison Summary of Investments

August 31, 2007 and 2006

(in thousands)

	2007		2006	
Equity Securities				
Domestic Common Stock	\$ 997,458	8.28%	\$ 971,465	9.27%
Foreign Common Stock	576,722	4.78%	565,609	5.40%
Other	6,557	.06%	5,726	.05%
Total Equity Securities	<u>1,580,737</u>	<u>13.12%</u>	<u>1,542,800</u>	<u>14.72%</u>
Preferred Stock	<u>2,505</u>	<u>.02%</u>	<u>2,483</u>	<u>.02%</u>
Debt Securities				
U. S. Government Obligations	1,122,988	9.32%	1,222,350	11.67%
Foreign Government and Provincial Obligations	94,408	.78%	100,837	.96%
Corporate Obligations	320,679	2.66%	596,816	5.70%
Other	4,361	.04%	12,377	.12%
Total Debt Securities	<u>1,542,436</u>	<u>12.80%</u>	<u>1,932,380</u>	<u>18.45%</u>
Convertible Securities	<u>5,005</u>	<u>.04%</u>	<u>114</u>	<u>.00%</u>
Purchased Options	<u>10,782</u>	<u>.09%</u>	<u>47,982</u>	<u>.46%</u>
Investment Funds				
Absolute Return Strategies	2,176,711	18.06%	1,763,659	16.83%
Directional Equity	1,155,235	9.58%	858,978	8.20%
Private Markets	1,384,942	11.49%	973,740	9.29%
U.S. Equity	968,099	8.03%	1,036,217	9.89%
Non-U.S. Developed Equity	518,352	4.30%	338,882	3.24%
Emerging Markets	879,094	7.29%	575,322	5.49%
Fixed Income	184,926	1.54%	170,610	1.63%
Total Investment Funds	<u>7,267,359</u>	<u>60.29%</u>	<u>5,717,408</u>	<u>54.57%</u>
Cash and Cash Equivalents				
Money Market Funds Maintained to Back Futures Contracts	886,061	7.35%	894,772	8.54%
Other Money Market Funds and Cash Held at State Treasury	758,374	6.29%	339,114	3.24%
Total Cash and Cash Equivalents	<u>1,644,435</u>	<u>13.64%</u>	<u>1,233,886</u>	<u>11.78%</u>
Total Investment in Securities	<u>\$ 12,053,259</u>	<u>100.00%</u>	<u>\$ 10,477,053</u>	<u>100.00%</u>

PERMANENT UNIVERSITY FUND

Supplemental Schedules (cont.)

Schedule of Changes in Cost of Investments and Investment Income

Year Ended August 31, 2007

(in thousands)

	Beginning Cost	Purchases	Sales, Maturities & Redemptions	Gains (Losses)	Reclass	Ending Cost	Investment Income
Equity Securities							
Domestic Common Stock	\$ 788,015	\$ 680,684	\$ (757,897)	\$ 167,784	\$ 9,188	\$ 887,774	\$ 20,702
Foreign Common Stock	469,840	408,660	(473,053)	72,672	638	478,757	11,238
Other	421	1,992	(148)	27	-	2,292	1,049
Total Equity Securities	1,258,276	1,091,336	(1,231,098)	240,483	9,826	1,368,823	32,989
Preferred Stock							
Domestic Preferred Stock	2,336	-	(188)	188	-	2,336	183
Foreign Preferred Stock	-	741	(726)	(15)	-	-	-
Total Preferred Stock	2,336	741	(914)	173	-	2,336	183
Debt Securities							
U. S. Government Obligations	1,223,055	5,964,734	(6,059,422)	(4,554)	-	1,123,813	42,457
Foreign Government and Provincial Obligations	92,036	360,432	(369,071)	3,816	-	87,213	3,141
Corporate Obligations	595,366	2,161,232	(2,437,172)	231	-	319,657	28,839
Swaps	-	-	-	-	-	-	(9,596)
Other	11,330	1,051	(9,329)	1,283	-	4,335	428
Total Debt Securities	1,921,787	8,487,449	(8,874,994)	776	-	1,535,018	65,269
Purchased Options	1,732	-	(3,605)	10,100	-	8,227	-
Convertible Securities	114	10,018	(4,958)	37	-	5,211	74
Investment Funds							
Absolute Return	1,631,200	172,010	(24,192)	3,847	656	1,783,521	-
Directional Equity	800,389	240,193	(129,377)	17,877	(656)	928,426	-
Private Markets	895,105	525,780	(371,319)	185,421	(9,826)	1,225,161	28,837
U.S. Equity	934,821	525,829	(759,742)	77,977	-	778,885	5,905
Non U.S. - Developed Equity	317,745	277,659	(147,974)	18,938	-	466,368	1,844
Emerging Markets	514,821	454,544	(364,437)	79,631	-	684,559	6,952
Fixed Income	165,527	186,126	(178,144)	2,006	-	175,515	5,396
Total Investment Funds	5,259,608	2,382,141	(1,975,185)	385,697	(9,826)	6,042,435	48,934
Cash and Cash Equivalents							
Money Market Funds and Cash Held at State Treasury	1,234,041	433,352 *	-	(22,891) **	-	1,644,502	70,071
Other							
Total Investment in Securities	\$ 9,677,894	\$ 12,405,037	\$ (12,090,754)	\$ 614,375	\$ -	\$ 10,606,552	\$ 221,063

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

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