

Financial Statements
and Independent Auditors' Report
Permanent University Fund
Years Ended August 31, 2010 and 2009

Permanent University Fund

Financial Statements

Years Ended August 31, 2010 and 2009

Contents

Independent Auditors' Report..... 1

Management's Discussion and Analysis..... 3

Audited Financial Statements

Statements of Fiduciary Net Assets 7

Statements of Changes in Fiduciary Net Assets 8

Notes to Financial Statements..... 9

Supplemental Schedules 41

Independent Auditors' Report

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

We have audited the accompanying Statements of Fiduciary Net Assets of the Permanent University Fund (the "PUF"), as of August 31, 2010 and August 31, 2009, and the related Statements of Changes in Fiduciary Net Assets for the years then ended. These financial statements are the responsibility of The University of Texas Investment Management Company ("UTIMCO" or "management"). Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing the audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the PUF's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the PUF are intended only to present the financial position of the PUF and do not purport to, and do not, present the financial positions of UTIMCO or The University of Texas System as of August 31, 2010 or August 31, 2009, and the changes in their financial positions for the years then ended in conformity with accounting principles generally accepted in the United States.

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

As discussed in Note 2, the financial statements include investments valued at \$6,800,324,864 (63.4% of net assets) and \$5,812,994,208 (60.1% of net assets) as of August 31, 2010 and August 31, 2009, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on procedures performed by management which use information provided by the fund managers or the general partners.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the PUF as of August 31, 2010 and August 31, 2009, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audits were conducted for the purpose of forming an opinion on the financial statement of the PUF. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of management. The supplemental schedules as of and for the years ended August 31, 2010 and August 31, 2009, have been subjected to the audit procedures applied by us in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Deloitte & Touche LLP

October 29, 2010

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, 2010. 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 \$1,051.1 million from \$9,673.9 million to \$10,725.0 million, or approximately 10.87% for the year ended August 31, 2010, compared to a decrease of \$1,685.6 million or approximately 14.84% for the year ended August 31, 2009. The change in net fiduciary assets from year to year is mainly attributable to the following:
 1. The PUF posted a net investment return of 13.04%, calculated using the Modified Dietz Method as described by the CFA Institute, for the year ended August 31, 2010. Investments in private investment funds, hedge funds, real estate, natural resources, developed country and emerging market equities, and investment grade and credit related fixed income were positive contributors to the 2010 returns. For the fiscal year ended August 31, 2009, the PUF posted a net investment loss of 12.98%. Investments in private investment funds, hedge funds, real estate, natural resources, developed country and emerging markets equities were negative contributors to the 2009 return, while investment grade and credit-related fixed income posted positive returns.
 2. Fiscal year 2010 contributions of PUF Lands mineral income decreased by .62% from \$340.0 million to \$337.9 million and represented 3.3% of the average value of the PUF investments during the year, compared to fiscal year 2009 contributions which decreased by 25.7%, from \$457.8 million to \$340.0 million and represented 3.6% of the average value of the PUF investments during the year. PUF Lands consist of more than 2.1 million acres in 19 counties primarily in West Texas.

PERMANENT UNIVERSITY FUND

3. The PUF's annual distribution to the Available University Fund (AUF) decreased by 2.7% in fiscal year 2010, compared to a increase of 18.3% in fiscal year 2009.

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.

PERMANENT UNIVERSITY FUND

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Assets			
Investments, at Fair Value	\$ 10,640.1	\$ 9,673.0	\$ 11,628.7
Other Assets	<u>373.6</u>	<u>262.4</u>	<u>722.0</u>
Total Assets	<u>11,013.7</u>	<u>9,935.4</u>	<u>12,350.7</u>
Total Liabilities	<u>288.7</u>	<u>261.5</u>	<u>991.2</u>
Net Assets Held in Trust	<u>\$ 10,725.0</u>	<u>\$ 9,673.9</u>	<u>\$ 11,359.5</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 distributions to the AUF and administrative and investment expenses.

The net increase in investments of the PUF was \$1,147.9 million during the year compared to a net decrease in appreciation of investments of \$1,585.5 million for the year ended August 31, 2009. Investment expenses totaled \$30.0 million, \$26.2 million, and \$42.6 million, respectively, for the years ended August 31, 2010, 2009, and 2008.

The PUF's objectives are:

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

Distributions to the AUF decreased by \$14.5 million, from \$530.9 million in fiscal year 2009 to \$516.4 million, in fiscal year 2010. The fiscal year 2009 distribution amount increased by \$82.0 million from the fiscal year 2008 distribution of \$448.9 million. PUF distributions are controlled by a spending policy approved by the UT Board as directed by the Texas Constitution, which directs the UT Board to establish a distribution policy that provides stable, inflation-adjusted distributions to the AUF and preserves the real value of the PUF investments over the long term. To achieve this, the annual distribution is established at 4.75% of the prior twelve quarters' average net asset value of the PUF investments, as determined each February 28 for the

PERMANENT UNIVERSITY FUND

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

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

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

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Investment Income (Loss)	\$ 1,268.3	\$ (1,459.4)	\$ (342.9)
Less Investment Expenses	(30.0)	(26.2)	(42.6)
PUF Lands Contributions	337.9	340.0	457.8
Total Additions	<u>1,576.2</u>	<u>(1,145.6)</u>	<u>72.3</u>
Administrative Expenses			
PUF Lands Expenses	8.4	8.8	6.4
UT System Oversight Fee	0.3	0.3	0.3
Distributions to Available University Fund	516.4	530.9	448.9
Total Deductions	<u>525.1</u>	<u>540.0</u>	<u>455.6</u>
Change in Fiduciary Net Assets	1,051.1	(1,685.6)	(383.3)
Net Asset Held in Trust, Beginning of Year	9,673.9	11,359.5	11,742.8
Net Assets Held in Trust, End of Year	<u>\$10,725.0</u>	<u>\$ 9,673.9</u>	<u>\$11,359.5</u>

Contacting UTIMCO

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

PERMANENT UNIVERSITY FUND

Statements of Fiduciary Net Assets

August 31, 2010 and 2009

(in thousands)

Assets	2010	2009
Investments, at Fair Value:		
Equity Securities	\$ 1,391,784	\$ 1,044,425
Preferred Stock	44,995	13,500
Debt Securities	993,150	987,495
Convertible Securities	47	-
Investment Funds	7,071,116	6,745,239
Purchased Options	9,682	21,056
Cash and Cash Equivalents	1,129,375	861,306
Total Investments	<u>10,640,149</u>	<u>9,673,021</u>
Collateral for Securities Loaned, at Fair Value	235,257	162,978
Deposits with Brokers for Derivative Contracts	81,914	69,634
Unrealized Gains on Foreign Currency Exchange Contracts	3,889	3,552
Futures Contracts, at Fair Value	9,546	49
Swaps, at Fair Value	2,673	3,264
Receivables:		
Investment Securities Sold	25,166	10,105
Accrued Income	14,205	12,230
Other	1,042	647
Total Receivables	<u>40,413</u>	<u>22,982</u>
Total Assets	<u>11,013,841</u>	<u>9,935,480</u>
Liabilities		
Payable Upon Return of Securities Loaned	235,257	162,978
Payable to Brokers for Collateral Held	10,260	17,373
Unrealized Losses on Foreign Currency Exchange Contracts	3,076	2,611
Futures Contracts, at Fair Value	118	1,911
Swaps, at Fair Value	2,169	2,209
Options Written, at Fair Value	1,018	150
Payables:		
Investment Securities Purchased	19,150	62,071
Other	17,831	12,269
Total Payables	<u>36,981</u>	<u>74,340</u>
Total Liabilities	<u>288,879</u>	<u>261,572</u>
Net Assets Held in Trust	<u>\$10,724,962</u>	<u>\$ 9,673,908</u>

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

PERMANENT UNIVERSITY FUND

Statements of Changes in Fiduciary Net Assets

Years Ended August 31, 2010 and 2009

(in thousands)

	<u>2010</u>	<u>2009</u>
Additions		
Investment Income:		
Net Increase (Decrease) in Investments	\$ 1,147,941	\$ (1,585,543)
Interest	56,400	61,705
Dividends	39,162	45,653
Income Distributions from Private Investment Funds	22,393	14,695
Securities Lending Income	825	2,239
Other	1,560	1,869
Total Investment Income (Loss)	<u>1,268,281</u>	<u>(1,459,382)</u>
Less Investment Expenses:		
Investment Management Fees	22,179	14,759
UTIMCO Management Fee	5,198	8,135
Custodial Fees and Expenses	1,048	834
Legal Fees	579	282
Analytical and Risk Measurement Fees	379	420
Accounting Fees	269	283
Consulting Fees	262	312
Securities Lending Fees	61	1,122
Other Expenses	76	44
Total Investment Expenses	<u>30,051</u>	<u>26,191</u>
Net Investment Income (Loss)	<u>1,238,230</u>	<u>(1,485,573)</u>
Contributions from PUF Lands	<u>337,877</u>	<u>340,028</u>
Total Additions	<u>1,576,107</u>	<u>(1,145,545)</u>
Deductions		
Administrative Expenses:		
PUF Lands Expenses	8,369	8,806
UT System Oversight Fee	265	271
Total Administrative Expenses	<u>8,634</u>	<u>9,077</u>
Distributions to Available University Fund	<u>516,419</u>	<u>530,933</u>
Total Deductions	<u>525,053</u>	<u>540,010</u>
Change in Fiduciary Net Assets	<u>1,051,054</u>	<u>(1,685,555)</u>
Net Assets Held in Trust, Beginning of Year	<u>9,673,908</u>	<u>11,359,463</u>
Net Assets Held in Trust, End of Year	<u>\$ 10,724,962</u>	<u>\$ 9,673,908</u>

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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements

Note 1 – Organization and Basis of Presentation

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

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

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

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

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

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

Note 2 – Significant Accounting Policies

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

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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Equity security fair values are based on the New York Stock Exchange composite closing prices, if available. If not available, the fair value is based on the closing price on the primary exchange on which the security is traded (if a closing price is not available, the average of the last reported bid and ask price is used).

Private investment funds and certain other equity securities are fair valued by management. The fair values of these investments are estimated by management using the investment's capital account balance at the closest available reporting date, as communicated by the investment manager, adjusted for contributions and withdrawals subsequent to the latest available reporting date as well as consideration of any other information, which has been provided by the investment manager or other source. In rare cases the private investment funds are valued at cost, but only when management feels this is the best approximation of value. As of August 31, 2010 and 2009, investments in private investment funds in the amount of \$2,386,892,454 and \$2,193,916,534 have been estimated by management.

Hedge funds, developed country equity, emerging markets equity and fixed income investment funds and certain other private placements are fair valued by management based on net asset value information provided by the investment manager as well as other relevant factors as indicated above. As of August 31, 2010 and 2009, investments in these funds in the amount of \$4,413,432,410 and \$3,619,077,674, respectively, have been estimated by management.

The statements of fiduciary net assets include investments in private investment funds and hedge funds as described above valued in the aggregate at \$6,800,324,864 (63.4% of net assets) and \$5,812,994,208 (60.1% of net assets) as of August 31, 2010, and August 31, 2009, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values.

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

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

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

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

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

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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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

(C) ***Investment Income*** -- Interest income is accrued as earned. Dividend income is recorded on the ex-dividend date. Dividend and interest income are recorded net of foreign taxes where recovery of such taxes is not assured. For the years ended August 31, 2010 and 2009, interest and dividend withholding in the amounts of \$1,632,346 and \$972,480 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.

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

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

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

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

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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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. Written options are marked to market on a daily basis, and are included as a liability on the statements of fiduciary net assets.

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

Futures Contracts -- The PUF enters into futures contracts to facilitate various trading strategies, primarily as a tool to increase or decrease market exposure to various asset classes. Upon entering into a futures contract, initial margin deposit requirements are satisfied by the segregation of specific securities as collateral for the account of the broker (the PUF's agent in acquiring the futures position). During the period the futures positions are open, the contracts are marked to market daily; that is, they are valued at the close of business each day, and a gain or loss is recorded between the value of the contracts that day and on the previous day. The daily gain or loss is referred to as the daily variation margin which is settled in cash with the broker each morning for the amount of the previous day's mark to market. The amount that is settled in cash with the broker each morning is the carrying and fair value of the futures contracts, and is included 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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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 portfolios. When the PUF sells a security short, it must borrow the security sold short and deliver it to the broker-dealer through which it made the short sale and provide collateral for its obligation to deliver the security upon conclusion of the sale. The PUF must pay dividends or interest on the securities sold short. Until the PUF covers its short sales, it is exposed to market risk to the extent that subsequent market fluctuations may require purchasing securities sold short at prices which may be significantly higher than the market value reflected in the statements of fiduciary net assets. There were no securities sold short as of August 31, 2010 or 2009.

(H) ***Cash and Cash Equivalents*** -- Cash and cash equivalents consist of money market investments, cash held at the State Treasury, foreign currencies and other overnight funds. A portion of the PUF's cash and cash equivalents are maintained to support the notional value of derivatives positions held (see Notes 6, 7 and 8). Cash and cash equivalents are an integral part of the PUF's investment activities, and as such are included in the investments balance on the statement of fiduciary net assets.

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

(J) ***Reclassifications*** -- Certain items in the 2009 financial statements and related notes have been reclassified to conform with the 2010 presentation.

Note 3 – Investment Risk

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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

(A) **Credit Risk**

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

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The PUF's investment policy does not provide specific requirements or limitations with regards to investment ratings. Per GASB Statement No. 40 (GASB 40), *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3*, unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. GASB 40 also provides that securities with split ratings, or a different rating assignment between NRSROs, are disclosed using the rating indicative of the greatest degree of risk. The following table presents each applicable investment type grouped by rating at August 31, 2010 and 2009:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type	August 31,		Rating
	2010	2009	
Investments:			
U.S. Government Guaranteed	\$ 127,168,041	\$ 130,869,200	Exempt from Disclosure
U.S. Government Non-Guaranteed:			
U.S. Agency	1,263,073	10,599,577	AAA
U.S. Agency Asset Backed	120,687,079	197,041,230	AAA
Total U.S. Government Non-Guaranteed	<u>121,950,152</u>	<u>207,640,807</u>	
Total U.S. Government	<u>249,118,193</u>	<u>338,510,007</u>	
Corporate Obligations:			
Domestic	36,235,196	81,223,138	AAA
Domestic	20,840,840	22,755,158	AA
Domestic	107,925,549	95,755,653	A
Domestic	102,905,574	62,650,413	BAA/BBB
Domestic	25,834,437	12,874,107	BA/BB
Domestic	9,499,097	13,123,548	B
Domestic	22,922,215	49,952,375	CAA/CCC
Domestic	7,277,730	-	CA/CC
Domestic	-	13,849,661	CC
Domestic	674,130	12,267,985	C
Domestic	-	1,415,301	D
Domestic	859,500	717,250	Not Rated
Foreign	73,562,207	48,117,036	AAA
Foreign	29,472,346	20,774,674	AA
Foreign	18,221,341	11,840,229	A
Foreign	24,147,550	25,146,754	BAA/BBB
Foreign	4,193,190	1,586,924	BA/BB
Foreign	1,654,169	522,000	B
Foreign	-	924,000	CAA/CCC
Foreign	3,087,007	807,689	Not Rated
Total Corporate Obligations	<u>489,312,078</u>	<u>476,303,895</u>	
Foreign Government and Provincial Obligations	132,532,845	112,390,122	AAA
Foreign Government and Provincial Obligations	48,910,878	18,925,929	AA
Foreign Government and Provincial Obligations	40,089,903	19,376,297	A
Foreign Government and Provincial Obligations	17,835,019	6,483,082	BAA/BBB
Foreign Government and Provincial Obligations	7,578,770	11,498,907	BA/BB
Total Foreign Government and Provincial Obligations	<u>246,947,415</u>	<u>168,674,337</u>	
Other Debt Securities	822,316	867,306	AA
Other Debt Securities	4,768,456	1,017,719	A
Other Debt Securities	2,181,462	2,122,025	BAA/BBB
Total Other Debt Securities	<u>7,772,234</u>	<u>4,007,050</u>	
Total Debt Securities	<u>\$ 993,149,920</u>	<u>\$ 987,495,289</u>	
Other Investment Funds - Debt	\$ -	\$ 2,991,239	AAA
Other Investment Funds - Debt	110,125,169	166,401,554	AA
Other Investment Funds - Debt	11,379,960	8,353,109	BA/BB
Other Investment Funds - Debt	-	53,872,648	B
Total Other Investment Funds - Debt	<u>\$ 121,505,129</u>	<u>\$ 231,618,550</u>	
Cash and Cash Equivalents - Money Market Funds	\$ 1,125,047,190	\$ 861,306,056	AAA
Cash and Cash Equivalents - Money Market Funds	4,059	-	A
Cash and Cash Equivalents	4,323,919	-	Not Rated
Total Cash and Cash Equivalents	<u>\$ 1,129,375,168</u>	<u>\$ 861,306,056</u>	
Net Deposit with (from) Brokers for Derivative Contracts:			
U.S. Government Guaranteed	\$ 19,189,931	\$ 25,685,226	Exempt from Disclosure
U.S. Government Non-Guaranteed:			
U.S. Agency	-	25,989	AAA
U.S. Agency Asset Backed	-	119,436	AAA
Cash	52,463,637	26,430,132	Exempt from Disclosure
Total Net Deposit with (from) Brokers for Derivative Contracts	<u>\$ 71,653,568</u>	<u>\$ 52,260,783</u>	

(B) Concentrations of Credit Risk

The PUF's investment policy statement contains the limitation that no more than 5% of the market value of fixed income securities may be invested in corporate or municipal bonds of a single issuer. As of August 31, 2010 and 2009, the PUF does not hold any direct investments in any one issuer of corporate or municipal bonds that is 5% or more of the market value of the PUF's fixed income investments.

(C) Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the PUF will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the PUF will not be able to recover the 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, 2010 and 2009, 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, 2010 and 2009:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type	August 31,			
	2010		2009	
	Value	Modified Duration	Value	Modified Duration
Investments:				
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	\$ 100,279,670	9.81	\$ 68,980,958	8.43
U.S. Treasury Strips	5,406,579	0.94	5,567,366	2.00
U.S. Treasury Bills	7,098,637	0.09	8,170,484	0.46
U.S. Treasury Inflation Protected	1,926,040	22.11	5,573,585	3.55
U.S. Agency Asset Backed	12,457,115	4.73	42,576,807	2.64
Total U.S. Government Guaranteed	<u>127,168,041</u>	8.58	<u>130,869,200</u>	5.57
U.S. Government Non-Guaranteed:				
U.S. Agency	1,263,073	7.36	5,501,835	0.13
U.S. Agency Asset Backed	120,687,079	2.58	197,041,230	3.55
U.S. Agency Commercial Paper	-	-	5,097,742	0.21
Total U.S. Government Non-Guaranteed	<u>121,950,152</u>	2.63	<u>207,640,807</u>	3.38
Total U.S. Government	<u>249,118,193</u>	5.67	<u>338,510,007</u>	4.22
Corporate Obligations:				
Domestic	334,974,268	5.37	366,584,589	4.85
Foreign	154,337,810	4.58	109,719,306	4.48
Total Corporate Obligations	<u>489,312,078</u>	5.12	<u>476,303,895</u>	4.77
Foreign Government and Provincial Obligations	<u>246,947,415</u>	6.34	<u>168,674,337</u>	6.53
Other Debt Securities	<u>7,772,234</u>	11.92	<u>4,007,050</u>	8.81
Total Debt Securities	<u>993,149,920</u>	5.61	<u>987,495,289</u>	4.90
Other Investment Funds - Debt	<u>121,505,129</u>	6.14	<u>231,618,550</u>	5.67
Cash and Cash Equivalents	<u>1,129,375,168</u>	0.08	<u>861,306,056</u>	0.08
Total	<u>\$ 2,244,030,217</u>	2.86	<u>\$ 2,080,419,895</u>	2.99
Net Deposit with (from) Brokers for Derivative Contracts:				
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	\$ 1,064,806	10.15	\$ -	-
U.S. Treasury Bills	18,125,125	0.27	25,830,651	0.73
Total U.S. Government Guaranteed	<u>19,189,931</u>	0.82	<u>25,830,651</u>	0.73
Cash	<u>52,463,637</u>	-	<u>26,430,132</u>	-
Total Net Deposit with (from) Brokers for Derivative Contracts	<u>\$ 71,653,568</u>	0.22	<u>\$ 52,260,783</u>	0.36

The PUF has purchased options on ten year constant maturity swaps, with expiries ranging from five to seven years, as insurance against possible future increases in inflation. As of August 31, 2010 and 2009, these options had a notional value of \$2,056,000,000 and a fair value of \$7,110,685 and \$17,500,117, respectively. The risk of loss on these options is limited to the premiums paid by the PUF upon the purchase of the options, which totaled \$11,002,813 as of August 31, 2010 and 2009. It is estimated that these options would adjust the 2010 duration of total debt securities of 5.61 downward by approximately 0.24, and the total duration of 2.86 downward by approximately 0.21. It is estimated that these options would adjust the 2009 duration of total debt securities of 4.90 downward by approximately 0.56, and the total duration of 2.99 downward by approximately 0.37. One of the PUF's external managers also use options and interest rate and credit default swaps to

modify the duration of their portfolios in a cost efficient manner. It is estimated by management that these positions held by external managers would not significantly adjust the duration of the PUF as presented above.

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

The PUF may invest in various mortgage backed securities, such as collateralized mortgage backed obligations. The PUF also may invest in investments that have floating rates with periodic coupon changes in market rates, zero coupon bonds and stripped Treasury and Agency securities created from coupon securities. No percentage of holdings limitations are specified in the investment policy statements regarding these types of securities. As of August 31, 2010 and 2009, 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 \$257,260,201 and \$272,486,259 as of August 31, 2010 and 2009, 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 \$44,603,974 and \$138,589,867 as of August 31, 2010 and 2009, 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 \$20,743,629 and \$37,549,073 as of August 31, 2010 and 2009, respectively.

(F) Foreign Currency Risk

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

During the year ended 2009, one of the PUF's external managers employed an investment strategy in which they hedged their long non-U.S. investment positions back to the U.S. dollar by utilizing currency transactions in amounts equal to the long investment position. During the year ended August 31, 2010 they changed their strategy to hedge their investments against the Euro dollar. In the following table the negative amounts shown for the Canadian Dollar, Czech Koruna, Danish Krone, Euro, Hong Kong Dollar, Norwegian Kroner, Swiss Franc, and the UK Pound in the cash and cash equivalents section reflect these strategies. The negative amounts offset long positions presented in the domestic and foreign common stock section.

The classification of domestic common stock and foreign common stock in the supplemental schedule, Comparison Summary of Investments, is based on the country of domicile of the issuer, not

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

the currency in which the security is traded. The following table summarizes the PUF's non-U.S. dollar investments by asset type at August 31, 2010 and 2009:

Investment Type	August 31,	
	2010	2009
Domestic Common Stock:		
Canadian Dollar	\$ -	\$ 176,922
Foreign Common Stock:		
Australian Dollar	27,194,685	21,805,073
Brazilian Real	45,719,995	4,962,484
Canadian Dollar	31,892,950	16,655,614
Chilean Peso	2,768,696	-
Czech Koruna	2,826,788	605,680
Danish Krone	1,015,748	1,962,482
Egyptian Pound	3,321,458	3,285,608
Euro	108,474,034	107,305,735
Hong Kong Dollar	142,472,130	87,132,604
Hungarian Forint	2,063,725	1,914,330
Indonesian Rupian	12,331,502	4,093,226
Israeli Shekel	87,429	416,016
Indian Rupee	9,523,224	-
Japanese Yen	43,330,995	45,726,502
Malaysian Ringgit	20,854,641	5,432,235
Mexican Peso	13,997,518	5,005,957
Moroccan Dirham	457,281	468,907
Norwegian Kroner	2,310,014	687,949
Pakistan Rupee	1,127,004	1,126,656
Philippines Peso	1,973,476	1,229,299
Polish Zloty	7,818,992	1,686,960
Singapore Dollar	12,862,057	10,359,372
South African Rand	30,601,104	9,075,574
South Korean Won	70,006,429	20,654,024
Swedish Krona	8,231,687	1,315,376
Swiss Franc	22,574,629	25,556,867
Taiwan Dollar	25,254,180	-
Thai Baht	17,440,401	7,802,094
Turkish Lira	12,931,207	3,749,070
UK Pound	84,866,704	53,387,867
Total Foreign Common Stock	766,330,683	443,403,561
Other Equity Securities:		
Canadian Dollar	-	103
Foreign Preferred Stocks:		
Brazilian Real	32,516,251	9,862,701
Euro	842,328	-
Total Foreign Preferred Stock	33,358,579	9,862,701

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type (continued):	August 31,	
	2010	2009
Foreign Government and Provincial Obligations:		
Australian Dollar	\$ 16,453,908	\$ 16,819,255
Brazilian Real	7,508,594	6,688,800
Canadian Dollar	24,180,182	10,054,153
Euro	49,320,356	64,678,106
Hong Kong Dollar	553,552	-
Hungarian Forint	3,811,471	-
Indonesian Rupian	6,991,583	3,936,158
Japanese Yen	31,853,118	7,320,927
Malaysian Ringgit	10,385,202	8,502,227
Mexican Peso	6,514,954	6,483,082
New Zealand Dollar	7,285,341	6,384,966
Norwegian Kroner	4,224,335	4,574,198
Polish Zloty	12,476,845	6,982,331
Singapore Dollar	1,946,122	-
South African Rand	5,965,929	2,547,040
South Korean Won	9,359,586	-
Swedish Krona	8,761,761	9,193,084
UK Pound	33,997,482	10,228,528
Total Foreign Government and Provincial Obligations	241,590,321	164,392,855
Corporate Obligations:		
Australian Dollar	15,567,655	9,384,215
Brazilian Real	2,282,210	-
Canadian Dollar	496,525	465,811
Danish Krone	924,290	174,922
Euro	70,531,096	38,460,315
Hong Kong Dollar	804,797	807,689
Japanese Yen	2,953,850	1,280,236
UK Pound	8,474,838	3,239,919
Total Corporate Obligations	102,035,261	53,813,107
Purchased Options:		
Euro	-	18,476
Indian Rupee	-	1,310,752
Swiss Franc	-	1,302,694
Total Purchased Options	-	2,631,922
Private Investments:		
Canadian Dollar	4,804,825	1,549,271
Euro	159,751,691	191,573,827
UK Pound	-	1,238,798
Total Private Investments	164,556,516	194,361,896
Convertible Securites		
Swiss Franc	46,967	-
Investment Funds-Emerging Markets		
Brazilian Real	1,212,997	-

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type (continued):	August 31,	
	2010	2009
Cash and Cash Equivalents:		
Australian Dollar	\$ 428,714	\$ 502,641
Brazilian Real	886,668	218,727
Canadian Dollar	(265,543)	141,619
Chilean Peso	1,767	-
Czech Koruna	(275,964)	91,001
Danish Krone	609	(1,979,118)
Egyptian Pound	51,882	-
Euro	36,879,914	(74,808,480)
Hong Kong Dollar	(8,998,230)	(3,495,993)
Hungarian Forint	2,189	48,109
Indonesian Rupian	82,134	20,476
Indian Rupee	17	-
Israeli Shekel	-	20,422
Japanese Yen	114,491	84,373
Malaysian Ringgit	48,324	25,550
Mexican Peso	181,875	7,121
Moroccan Dirham	17,789	21,992
New Zealand Dollar	355	6,519
Norwegian Kroner	(914,863)	79
Philippines Peso	2,998	7,562
Polish Zloty	138,040	68,935
Singapore Dollar	174	202
South African Rand	57,501	3,838
South Korean Won	80,678	17,190
Swedish Krona	64,791	7,954
Swiss Franc	(14,044,098)	(27,345,525)
Taiwan Dollar	617,724	995,617
Thailand Baht	37,988	2,257
Turkish Lira	-	102,663
UK Pound	(662,537)	(6,334,540)
Total Cash and Cash Equivalents	<u>14,535,387</u>	<u>(111,568,809)</u>
Written Options		
Euro	(37,281)	-
UK Pound	(422)	-
Total Written Options	<u>(37,703)</u>	<u>-</u>
Swaps		
Australian Dollar	123,806	(229,914)
Brazilian Real	42,978	-
Canadian Dollar	38,116	-
Euro	40,103	(14,422)
Japanese Yen	458,911	156,832
Swedish Krona	-	108,601
UK Pound	91,573	108,479
Total Swaps	<u>795,487</u>	<u>129,576</u>
Futures		
Canadian Dollar	46,701	-
Euro	851,632	39,151
Japanese Yen	-	(592,776)
UK Pound	34,530	4,259
Total Futures	<u>932,863</u>	<u>(549,366)</u>
Total	<u>\$ 1,325,357,358</u>	<u>\$ 756,654,468</u>

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

(G) Counterparty (Credit) Risk

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

The PUF had gross counterparty exposure as of August 31, 2010 and 2009 for options, swaps, and foreign currency exchange contracts shown in the following tables.

Options

<u>Assets</u>		<u>Liabilities</u>		<u>Assets</u>		<u>Liabilities</u>		<u>Counterparty Rating</u>
<u>Notional</u>		<u>Notional</u>		<u>Fair Value as of August 31, 2010</u>		<u>Fair Value as of August 31, 2010</u>		
\$	2,058,457,501	\$	56,590,355	\$	9,584,017	\$	997,262	
	98,172		5,543,855		98,172		20,776	AA
\$	<u>2,058,555,673</u>	\$	<u>62,134,210</u>	\$	<u>9,682,189</u>	\$	<u>1,018,038</u>	

Swaps

<u>Assets</u>		<u>Liabilities</u>		<u>Assets</u>		<u>Liabilities</u>		<u>Counterparty Rating</u>
<u>Notional</u>		<u>Notional</u>		<u>Fair Value as of August 31, 2010</u>		<u>Fair Value as of August 31, 2010</u>		
\$	42,544,694	\$	67,962,427	\$	2,038,660	\$	1,728,693	
	48,803,247		39,386,830		634,696		439,959	AA
\$	<u>91,347,941</u>	\$	<u>107,349,256</u>	\$	<u>2,673,356</u>	\$	<u>2,168,652</u>	

Foreign Currency Exchange Contracts

<u>Assets</u>		<u>Liabilities</u>		<u>Assets</u>		<u>Liabilities</u>		<u>Counterparty Rating</u>
<u>Notional</u>		<u>Notional</u>		<u>Fair Value as of August 31, 2010</u>		<u>Fair Value as of August 31, 2010</u>		
\$	96,574,468	\$	78,285,630	\$	2,483,718	\$	1,449,309	
	62,098,597		65,205,086		1,404,880		1,626,744	AA
\$	<u>158,673,065</u>	\$	<u>143,490,716</u>	\$	<u>3,888,598</u>	\$	<u>3,076,053</u>	

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Options				
Assets	Liabilities	Assets	Liabilities	Counterparty Rating
Notional	Notional	Fair Value as of August 31, 2009	Fair Value as of August 31, 2009	
\$ 2,061,978,524	\$ 27,900,000	\$ 21,056,060	\$ 132,518	A
-	4,800,000	-	17,431	AA
<u>\$ 2,061,978,524</u>	<u>\$ 32,700,000</u>	<u>\$ 21,056,060</u>	<u>\$ 149,949</u>	

Swaps				
Assets	Liabilities	Assets	Liabilities	Counterparty Rating
Notional	Notional	Fair Value as of August 31, 2009	Fair Value as of August 31, 2009	
\$ 170,214,272	\$ 131,327,690	\$ 3,264,033	\$ 2,005,890	A
-	2,300,000	-	203,015	AA
<u>\$ 170,214,272</u>	<u>\$ 133,627,690</u>	<u>\$ 3,264,033</u>	<u>\$ 2,208,905</u>	

Foreign Currency Exchange Contracts				
Assets	Liabilities	Assets	Liabilities	Counterparty Rating
Notional	Notional	Fair Value as of August 31, 2009	Fair Value as of August 31, 2009	
\$ 153,954,111	\$ 102,011,260	\$ 3,375,141	\$ 1,786,019	A
19,465,510	36,894,173	176,902	824,698	AA
<u>\$ 173,419,621</u>	<u>\$ 138,905,433</u>	<u>\$ 3,552,043</u>	<u>\$ 2,610,717</u>	

As of August 31, 2010 and 2009, the PUF also had investments in futures contracts. Futures contracts expose the PUF to minimal counterparty credit risk since futures are exchange traded and the exchange's clearinghouse, as counterparty to all exchange traded futures, guarantees the futures against default.

Counterparty risk for swaps, options and foreign currency exchange contracts is mitigated by having master netting arrangements between the PUF and its counterparties, and by the posting of collateral on a daily basis by the counterparty to the PUF to cover the PUF's exposure to a counterparty above the limits set in place in each master netting agreement. Collateral posted by counterparties for net assets is held by the PUF in one of its accounts at the PUF's custodian bank. As of August 31, 2010 and 2009, the PUF held \$10,260,000 and \$17,372,805 respectively, of collateral related to derivative instruments other than futures, and had on deposit with brokers \$35,870,439 and \$1,338,839, respectively, as collateral related to derivative instruments other than futures.

Note 4 – Securities Lending

In accordance with the prudent investor investment standards, the PUF loans securities to certain brokers who pay the PUF negotiated lenders' fees. These fees are included in investment income, and related expenses 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, 2010 and 2009:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Securities on Loan	2010 Value	2009 Value	Type of Collateral	2010 Value of Collateral	2009 Value of Collateral
U.S. Government	\$ 17,968,851	\$ 23,724,480	Cash	\$ 18,339,962	\$ 24,207,632
Foreign Government	9,042,328	6,207,724	Cash	9,497,745	6,506,037
Corporate Bonds	18,968,687	2,653,863	Cash	19,421,961	2,726,639
Common Stock	180,292,998	125,057,512	Cash	187,997,249	129,538,052
Total	\$226,272,864	\$157,643,579	Total	\$235,256,917	\$162,978,360
Common Stock	\$ 1,746,980	\$ -	Non-Cash	\$ 1,783,972	\$ -

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

The PUF's pro-rata share of collateral pool investments, rating by NRSRO, and weighted average maturity at August 31, 2010 and 2009 is shown in the following table:

Description	August 31,					
	2010			2009		
	Fair Value	Rating	Weighted Average Maturity In Days	Fair Value	Rating	Weighted Average Maturity In Days
		No Rating			No Rating	
Repurchase Agreements	\$ 169,094,652	Available	1	\$ 108,082,824	Available	1
Commercial Paper	38,789,047	P	35	28,775,218	P	44
Floating Rate Notes	-	AAA		2,985,635	AAA	
Floating Rate Notes	8,619,988	AA		10,547,653	AA	
Floating Rate Notes	8,552,777	A		-	A	
Total Floating Rate Notes	17,172,765		26	13,533,288		21
Certificates of Deposit	11,651,573	P	63	12,804,924	P	68
Other Receivables/Payables	(1,451,120)	Not Rated	-	(217,894)	Not Rated	-
Total Collateral Pool Investment	\$ 235,256,917		12	\$ 162,978,360		16

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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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

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

As of August 31, 2010 and 2009, 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, 2010 and 2009.

Note 5 – Investment Funds

Investment funds include exchange traded funds, index funds, Securities and Exchange Commission regulated mutual funds, externally managed funds, limited partnerships, and corporate structures which are generally unrated and may be unregulated. The composition of investment funds at August 31, 2010 and 2009 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,	
	2010	2009
Investment Funds:		
Hedge Funds:		
Developed Country Equity	\$ 1,846,548,240	\$ 1,688,347,414
Credit-Related Fixed Income	844,822,733	710,374,302
Emerging Market Equity	265,190,478	230,943,475
Investment Grade Fixed Income	203,282,819	134,387,472
Real Estate	67,795,439	29,409,242
Natural Resources	11,369,121	14,045,785
Total Hedge Funds	<u>3,239,008,830</u>	<u>2,807,507,690</u>
Private Investments:		
Developed Country Equity	1,103,327,608	1,100,258,629
Credit-Related Fixed Income	773,015,819	732,718,556
Natural Resources	220,927,922	166,328,892
Emerging Market Equity	197,177,503	141,204,680
Real Estate	92,443,602	53,405,777
Total Private Investments	<u>2,386,892,454</u>	<u>2,193,916,534</u>
Public Markets:		
Developed Country Equity:		
Private Placements	658,038,101	374,719,319
Index Funds	34,786,819	193,817,334
Exchange Traded Funds	3,816,763	51,822,688
Total Developed Country Equity	<u>696,641,683</u>	<u>620,359,341</u>
Emerging Markets:		
Private Placements	399,234,980	436,850,665
Exchange Traded Funds	40,938,430	220,536,693
Index Funds	55,761,159	163,901,468
Total Emerging Markets	<u>495,934,569</u>	<u>821,288,826</u>
Real Estate:		
Index Funds	13,982,355	70,548,140
Total Real Estate	<u>13,982,355</u>	<u>70,548,140</u>
Fixed Income:		
Index Funds	110,125,169	220,274,202
Publicly Traded Mutual Funds	11,379,960	11,344,348
Total Fixed Income	<u>121,505,129</u>	<u>231,618,550</u>
Natural Resources:		
Private Placements	117,150,499	-
Total Natural Resources	<u>117,150,499</u>	<u>-</u>
Total Public Markets	<u>1,445,214,235</u>	<u>1,743,814,857</u>
Total Investment Funds	<u><u>\$ 7,071,115,519</u></u>	<u><u>\$ 6,745,239,081</u></u>

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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

certain risks associated with these private placements, some of which include investment manager risk, market risk, and liquidity risk, as well as the risk of utilizing leverage in the portfolios. The hedge fund pools have committed \$27,579,189 of future funding to various hedge fund investments as of August 31, 2010 of which the PUF's pro-rata portion is \$13,687,551.

The PUF invests in private investments in investment pools created in the name of the UT Board. Amounts presented in the PUF financial statements and related note disclosure for the periods ending August 31, 2010 and 2009, represent the PUF's pro-rata share of these investment pool assets. The private investment pools are invested in limited partnerships with external investment managers or general partners who invest primarily in private equity securities. These investments are domestic and international, are illiquid, and may not be realized for a period of several years after the investments are made. There are certain risks associated with these investments, some of which are liquidity risk, market risk, event risk, and investment manager risk. Certain of these investments are held through limited liability companies, of which UTIMCO is the sole managing member. The private investment pools have committed \$2,453,783,015 of future funding to various private market investments as of August 31, 2010 of which the PUF's pro-rata portion is \$1,559,625,713.

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.

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

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

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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

- *Limited transparency* -- As private placement investment vehicles, these funds may not disclose the holdings of their portfolios.
- *Investment strategy risk* -- These funds often employ sophisticated investment strategies and may use leverage which could result in the loss of invested capital.

Investments in hedge funds, private investments, and public market funds are also subject to the investment risks discussed in Note 3, including custodial credit risk and foreign currency risk. Fixed income investments held by these funds would also be subject to credit risk and interest rate risk; moreover, they may invest in securities whose fair values would be sensitive to changes in interest rates.

Note 6 – Written Options

For the year ended August 31, 2010, the PUF wrote call options on Treasury note and Euro Bund futures, domestic and international equities, interest rate swaps and various currencies. The following discloses the contracts outstanding, the expiration date, and the fair values of the outstanding written call options contracts as of August 31, 2010:

Type	Underlying	Contracts	Expiration Date	Fair Value at August 31, 2010	
				Assets	Liabilities
Calls					
Interest Rate Swap					
	United States 3 month Libor	12,100,000	10/29/10	\$ -	\$ 799,229
Credit Default Swap					
	British Petroleum	2,200,000	12/15/10	-	3,305
Currency					
	U.S. Dollar vs. Euro	6,000	9/9/10	-	334
	U.S. Dollar vs. Euro	18,000	9/22/10	-	14,628
	U.S. Dollar vs. Mexican Peso	7,000	9/22/10	-	-
	U.S. Dollar vs. South Korean Won	6,000	9/7/10	-	-
	U.S. Dollar vs. U.K. Pound	6,000	9/15/10	-	422
				-	15,384
Equity					
	MetroPCS Communications	139	11/20/10	-	10,425
				<u>\$ -</u>	<u>\$ 828,343</u>

The fair value is included on the statements of fiduciary net assets as options written, at fair value. The change in fair value of open call options for the year ending August 31, 2010 was a decrease in the amount of \$678,389, which is included in the net increase (decrease) in investments on the statement of changes in fiduciary net assets. The PUF recognized gains in the amount of \$740,040 on call options written which are included in the net increase (decrease) in investments on the statement of changes in fiduciary net assets for the year ended August 31, 2010.

The PUF also wrote put options on Treasury note and Euro Bund futures, domestic and international equities, interest rate swaps and various currencies for the year ended August 31, 2010. The

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

following discloses the contracts outstanding, the expiration date, and the fair values of the outstanding written put options contracts as of August 31, 2010:

Type	Underlying	Contracts	Expiration Date	Fair Value at August 31, 2010	
				Assets	Liabilities
Puts					
Interest Rate Swap					
	United States 3 month Libor	12,100,000	10/29/10	\$ -	\$ 129
	United States 3 month Libor	21,400,000	6/18/12	-	141,399
	United States 3 month Libor	3,600,000	7/10/10	-	632
				<u>-</u>	<u>142,160</u>
Credit Default Swap					
	British Petroleum	2,200,000	12/15/10	-	8,903
Currency					
	U.S. Dollar vs. Euro	20,000	9/9/10	-	22,319
Equity					
	Devon Energy	24	10/16/10	-	3,648
	Papa John's International	57	10/16/10	-	2,565
	Walmart	25	9/18/10	-	10,100
				<u>-</u>	<u>16,313</u>
				<u>\$ -</u>	<u>\$ 189,695</u>

The fair value is included on the statements of fiduciary net assets as options written, at fair value. The change in fair value of open put options for the year ending August 31, 2010 was an increase in the amount of \$195,496, which is included in the net increase (decrease) in investments on the statement of changes in fiduciary net assets. The PUF recognized gains in the amount of \$1,547,148 on put options written which are included in the net increase (decrease) in investments on the statement of changes in fiduciary net assets for the year ended August 31, 2010.

For the year ended August 31, 2009, the PUF wrote call options on Treasury note futures, commodities, domestic and international equities, interest rate swaps, equity indexes and exchange traded funds. The PUF recognized losses of \$6,881,194 on call options written which are included in the net increase (decrease) in investments on the statement of changes in fiduciary net assets for the year ended August 31, 2009. There were no written call options outstanding as of August 31, 2009.

The PUF also wrote put options on Treasury note futures, commodities, domestic and international equities, interest rate swaps, equity indexes and exchange traded funds for the year ended August 31, 2009. The following discloses the contracts outstanding, the expiration date, and the fair values of the outstanding written put options contracts as of August 31, 2009:

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

	Type	Underlying	Contracts	Expiration Date	Fair Value at August 31, 2009	
					Assets	Liabilities
Puts						
	Interest Rate Swap					
		United States 3 month Libor	27,800,000	11/23/09	\$ -	\$ 146,283
		United States 3 month Libor	4,900,000	12/15/09	-	3,666
					<u>\$ -</u>	<u>\$ 149,949</u>

The fair value is included on the statements of fiduciary net assets as options written, at fair value. The change in fair value of open put options for the year ending August 31, 2009 was an increase in the amount of \$180,600, which is included in the net increase (decrease) in investments on the statement of changes in fiduciary net assets. The PUF recognized gains in the amount of \$5,825,165 on put options written which are included in the net increase (decrease) in investments on the statement of changes in fiduciary net assets for the year ended August 31, 2009.

Note 7 – Swaps

During the year the PUF entered into interest rate, credit default, equity, inflation and commodity swap contracts. The following discloses the type, coupon rate, notional amount (presented in local currency), maturity date, and the fair values of the outstanding swap contracts as of August 31, 2010:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2010	
				Assets	Liabilities
Interest Rate					
Australian Dollar	6.000%	2,400,000	12/15/2020	\$ 123,806	\$ -
Brazilian Real	11.33%	14,200,000	1/2/2012	-	-
Canadian Dollar	2.500%	6,900,000	6/18/2013	38,116	-
Japanese Yen	1.500%	990,000,000	12/15/2020	458,911	-
U.S. Dollar	3.250%	1,500,000	9/2/2020	103,890	-
	3.500%	9,600,000	9/2/2020	-	884,339
				<u>724,723</u>	<u>884,339</u>
Credit Default					
UK Pound					
	0.670%	780,000	9/20/2014	-	8,939
Euro					
	1.400%	1,100,000	6/20/2011	-	2,378
U.S. Dollar					
	0.210%	300,000	9/20/2011	515	-
	0.220%	200,000	9/20/2011	642	-
	0.290%	300,000	3/20/2011	-	393
	0.460%	300,000	9/20/2011	2,787	-
	0.460%	300,000	3/20/2012	7,551	-
	0.460%	1,000,000	12/20/2013	-	8,715
	0.550%	300,000	9/20/2011	2,448	-
	0.750%	1,000,000	12/20/2013	-	7,449
	0.770%	300,000	3/20/2012	553	-
	0.820%	1,000,000	3/20/2018	274	-
	0.862%	1,800,000	11/20/2016	312,951	-
	0.900%	1,000,000	6/20/2019	44,545	-
	0.940%	200,000	6/20/2018	13,378	-
	1.000%	8,200,000	6/20/2015	148,839	-
	1.000%	2,000,000	12/20/2016	228,542	-
	1.000%	200,000	6/20/2019	6,927	-
	1.090%	1,000,000	6/20/2018	56,121	-
	1.280%	1,000,000	6/20/2013	-	11,520
	1.290%	300,000	6/20/2011	-	800
	1.300%	900,000	6/20/2013	-	10,901
	1.350%	600,000	3/20/2018	-	28,959
	1.380%	1,000,000	3/20/2017	-	43,314
	1.400%	1,100,000	3/20/2018	-	27,198
	1.420%	1,500,000	3/20/2018	-	39,190
	1.450%	1,000,000	6/20/2013	-	13,158
	1.530%	500,000	9/20/2016	8,536	-
	1.540%	200,000	6/20/2018	-	4,252
	1.743%	400,000	6/20/2013	-	10,091
	1.780%	300,000	6/20/2013	-	7,902
	1.820%	300,000	6/20/2013	-	8,257
	2.700%	1,000,000	3/20/2019	-	26,406
	3.460%	700,000	6/20/2017	-	79,857
	4.230%	1,000,000	12/20/2013	-	118,422
				<u>834,609</u>	<u>458,101</u>

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2010	
				Assets	Liabilities
Commodity					
U.S. Dollar	Sugar #11	973,279	9/14/2010	\$ 181,842	\$ -
Equity					
UK Pound					
	Rio Tinto PLC	615,582	9/10/2012	100,512	-
Euro					
	Ryanair Holdings	868,165	9/10/2012	53,066	-
	Ryanair Holdings	25,657	8/4/2020	-	587
	Telefonica	536,095	9/10/2012	-	9,998
U.S. Dollar					
	Alerian MLP Basket	33,144,366	11/26/2010	-	358,494
	Bank of Baroda	699,290	9/10/2012	81,722	-
	Bank of Baroda	747,624	12/11/2019	12,869	-
	MSCI Australia	38,386,830	5/16/2011	-	413,709
	MSCI Canada	46,703,247	5/16/2011	585,146	-
	State Bank of India	928,768	12/1/2010	-	25,675
	Union Bank of India	305,134	9/10/2012	12,850	-
	Union Bank of India	434,702	11/11/2019	-	17,749
	United Spirits Ltd.	587,901	9/10/2012	43,039	-
Brazilian Real					
	Eletrabras	351,002	9/10/2012	42,978	-
				932,182	826,212
Total				\$ 2,673,356	\$ 2,168,652

The change in fair value of open swap positions for the year ending August 31, 2010 was an increase in the amount of \$479,072, which is included in the net increase (decrease) in investments on the statement of changes in fiduciary net assets.

The following discloses the type, coupon rate, notional amount (presented in local currency), maturity date, and the fair values of the outstanding swap contracts as of August 31, 2009:

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2009	
				Assets	Liabilities
Interest Rate					
Australian Dollar					
	4.500%	12,700,000	12/15/2011	\$ -	\$ 136,378
	5.000%	23,000,000	12/15/2011	-	158,666
	6.500%	27,500,000	6/15/2012	65,130	-
UK Pound					
	3.500%	1,200,000	3/17/2015	-	21,769
	3.500%	3,300,000	5/17/2015	-	59,865
	4.500%	8,500,000	3/17/2020	380,819	-
Japanese Yen					
	1.400%	2,550,000,000	12/16/2014	156,832	-
Swedish Krona					
	4.500%	9,000,000	3/18/2014	108,601	-
				711,382	376,678

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

	Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2009	
					Assets	Liabilities
Credit Default						
UK Pound						
		0.670%	780,000	9/20/2014	\$ -	\$ 15,093
		8.750%	600,000	6/20/2012	-	175,613
U.S. Dollar						
		0.110%	300,000	6/20/2010	10,232	-
		0.210%	300,000	9/20/2011	412	-
		0.220%	200,000	9/20/2011	7,870	-
		0.290%	300,000	3/20/2011	-	568
		0.460%	300,000	9/20/2011	11,859	-
		0.460%	300,000	3/20/2012	21,812	-
		0.460%	1,000,000	12/20/2013	-	8,867
		0.550%	300,000	9/20/2011	11,272	-
		0.630%	300,000	9/20/2011	-	3,026
		0.750%	1,000,000	12/20/2013	22	-
		0.770%	300,000	3/20/2012	-	3,624
		0.820%	1,000,000	3/20/2018	-	1,647
		0.860%	1,800,000	11/20/2016	269,719	-
		0.900%	1,000,000	6/20/2019	-	35,048
		0.940%	200,000	6/20/2018	21,759	-
		0.950%	1,000,000	9/20/2017	-	23,635
		1.000%	600,000	6/20/2014	3,747	-
		1.000%	2,000,000	12/20/2016	179,400	-
		1.000%	5,200,000	6/20/2019	41,169	-
		1.090%	1,000,000	6/20/2018	32,655	-
		1.280%	1,000,000	6/20/2013	18	-
		1.290%	300,000	6/20/2011	-	1,436
		1.300%	900,000	6/20/2013	-	665
		1.306%	2,100,000	6/20/2018	129,517	-
		1.350%	600,000	3/20/2018	-	31,755
		1.380%	1,000,000	3/20/2017	-	46,021
		1.400%	1,100,000	3/20/2018	-	64,115
		1.420%	1,500,000	3/20/2018	-	89,705
		1.450%	1,000,000	6/20/2013	-	7,167
		1.500%	1,800,000	6/20/2010	-	13,694
		1.530%	500,000	9/20/2016	-	14,656
		1.540%	200,000	6/20/2018	-	1,450
		1.743%	400,000	6/20/2013	-	6,997
		1.780%	300,000	6/20/2013	-	5,674
		1.820%	300,000	6/20/2013	-	6,129
		1.880%	1,000,000	12/20/2015	-	12,133
		2.170%	1,000,000	8/20/2013	53,033	-
		2.300%	400,000	3/20/2014	-	21,641
		2.700%	1,000,000	3/20/2019	1,812	-
		2.980%	1,300,000	3/20/2019	-	184,215
		3.460%	700,000	6/20/2017	-	66,611
		4.230%	1,000,000	12/20/2013	-	125,751
					<u>796,308</u>	<u>966,936</u>
Equity						
Euro						
			1,297,371	8/4/2010	-	14,422
U.S. Dollar						
			85,820,782	11/5/2009	1,756,343	-
			73,450,210	11/23/2009	-	850,869
					<u>1,756,343</u>	<u>865,291</u>
Total					\$ 3,264,033	\$ 2,208,905

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

The change in fair value of open swap positions for the year ending August 31, 2009 was an increase in the amount of \$1,055,128, which is included in the net increase (decrease) in investments on the statement of changes in fiduciary net assets.

Note 8 – Futures Contracts

During the years ended August 31, 2010 and 2009, the asset classes that used futures include domestic and foreign equities, domestic and foreign debt, and commodities. The change in fair value of open futures contracts for the year ending August 31, 2010 was an increase in the amount of \$9,427,766, which is included in the net increase (decrease) in investments on the statement of changes in fiduciary net assets. The change in fair value of open futures contracts for the year ending August 31, 2009 was a decrease in the amount of \$1,862,351 which is included in the net increase (decrease) in investments on the statement of changes in fiduciary net assets. The PUF had \$46,043,129 and \$68,294,748 on deposit with brokers for collateral as margin for the futures contracts as of August 31, 2010 and 2009, respectively. Short futures may be 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 currency risk associated with security positions. For the year ended August 31, 2010, the net realized gain on the futures contracts was \$70,251,686 compared to the net realized loss of \$126,815,824 for the year ended August 31, 2009.

During the year ended August 31, 2010, one of the PUF's investment managers trading in commodity futures on the London Metals Exchange (LME) closed out various long contract positions with offsetting short contract positions. For contracts traded and closed on the LME, cash settlement does not occur until the expiration date of the contract. The gross notional value of these long and short positions are shown below with the associated pending cash settlement amounts shown as the carrying and fair value as of August 31, 2010.

The following discloses the type, number of contracts, expiration date, notional value, and the carrying and fair values at August 31, 2010 for futures contracts:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Contract	Number of Contracts	Expiration	Notional Value at August 31, 2010		Carrying and Fair Value at August 31, 2010		
			Long	Short	Assets	Liabilities	
Domestic Fixed Income							
U.S. 10 Year Treasury Notes	295	Dec-10	\$ 37,059,375	\$ -	\$ 101,406	\$ -	
			<u>37,059,375</u>	<u>-</u>	<u>101,406</u>	<u>-</u>	
Domestic Equity							
S&P 500 Index	189	Sep-10	49,532,175	-	151,200	-	
			<u>49,532,175</u>	<u>-</u>	<u>151,200</u>	<u>-</u>	
Commodities							
Aluminum HG	72	Jan-11	11,431,225	7,707,025	751,284	-	
Aluminum HG	84	Mar-11	6,758,375	2,391,425	432,975	-	
Brent Crude Oil	14	Dec-10	1,058,120	-	-	-	
Coffee 'C'	40	Dec-10	2,676,750	-	-	-	
Coffee 'C'	22	Mar-11	1,472,625	-	-	-	
Coffee 'C'	14	May-11	930,563	-	-	-	
Copper	140	Dec-10	11,795,000	-	-	-	
Corn	189	Dec-10	4,150,913	-	-	-	
Com	153	Mar-11	3,459,712	-	-	-	
Com	178	Jul-11	4,134,050	-	-	-	
Cotton No. 2	37	Dec-10	1,594,700	-	-	-	
Cotton No. 2	51	Mar-11	2,160,870	-	-	-	
Crude Oil	9	Dec-10	675,900	-	-	-	
Crude Oil	122	Dec-11	9,886,880	-	-	-	
Crude Oil	104	Jun-12	8,564,400	-	-	-	
Gasoline Rbob	48	Oct-10	3,744,518	-	-	-	
Gasoline Rbob	13	Dec-10	1,022,494	-	-	-	
Gold 100 Oz	2,754	Dec-10	344,332,620	-	2,917,084	-	
Heating Oil	59	Jun-11	5,212,969	-	-	-	
Lean Hogs	127	Dec-10	3,722,370	-	-	-	
Live Cattle	17	Oct-10	661,470	-	-	-	
Live Cattle	144	Jun-11	5,673,600	-	-	-	
Natural Gas	69	Jan-11	3,211,260	-	-	-	
Natural Gas	13	Jan-12	718,770	-	-	-	
Natural Gas	180	Apr-12	9,131,400	-	-	-	
Nickel	-	Feb-11	2,113,746	2,113,746	211,920	-	
Nickel	22	Jun-11	2,859,084	124,308	-	77,022	
Nickel	12	Nov-11	1,474,560	-	-	-	
Silver	56	Dec-10	5,440,960	-	-	-	
Soybean	55	Nov-10	2,777,500	-	-	-	
Soybean	133	Jan-11	6,778,012	-	-	-	
Soybean	53	May-11	2,721,550	-	-	-	
Soybean Oil	70	Oct-10	1,665,720	-	-	-	
Soybean Oil	111	Dec-10	2,667,330	-	-	-	
Soybean Oil	14	May-11	343,056	-	-	-	
Sugar #11 World	106	Mar-11	2,293,670	-	-	-	
Sugar #11 World	48	Jul-11	928,973	-	-	-	
Wheat	200	Dec-10	6,857,500	-	-	-	
Wheat	65	Jul-11	2,264,438	-	-	-	
Zinc	-	Sep-10	10,353,000	10,353,000	4,006,056	-	
Zinc	71	Aug-11	4,505,000	742,000	-	-	
			<u>504,225,653</u>	<u>23,431,504</u>	<u>8,319,319</u>	<u>77,022</u>	
Foreign Fixed Income							
90 Day Euro Dollar	798	Mar-11	-	198,552,375	881,358	-	
Canada 10 Year Bond	23	Dec-10	2,723,937	-	46,701	-	
Euro-Bobl	20	Sep-10	3,116,624	-	11,539	-	
Euro-Bund	62	Sep-10	10,592,936	-	-	41,265	
UK Long Gilt	34	Dec-10	6,545,411	-	34,530	-	
			<u>22,978,908</u>	<u>198,552,375</u>	<u>974,128</u>	<u>41,265</u>	
Total			<u>\$ 613,796,111</u>	<u>\$ 221,983,879</u>	<u>\$ 9,546,053</u>	<u>\$ 118,287</u>	

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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

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

PERMANENT UNIVERSITY FUND*Notes to Financial Statements (cont.)***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, 2010 and 2009. Foreign currency amounts are translated at exchange rates as of August 31, 2010 and 2009. 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, 2010	Net Sell August 31, 2010	Unrealized Gains on Foreign Currency Exchange Contracts August 31, 2010	Unrealized Losses on Foreign Currency Exchange Contracts August 31, 2010
Australian Dollar	\$ –	\$ 8,246,347	\$ 209,418	\$ 151,334
Brazilian Real	250,946	–	2,669	698
Canadian Dollar	661,927	–	47,568	25,276
Chilean Peso	19,756	–	–	528
Chinese Yuan Renminbi	8,222,143	–	52,067	366,361
Danish Krone	1,053,586	–	31,686	–
Egyptian Pound	–	19,810	2,112	51
Euro	–	18,187,517	148,787	652,244
Hong Kong Dollar	79,276	–	232	59
Hungarian Forint	–	–	126,428	61,530
Indian Rupee	171,583	–	301	869
Indonesian Rupian	1,065,675	–	148,307	–
Japanese Yen	19,352,160	–	1,654,590	916,613
Malaysian Ringgit	1,394,566	–	44,406	2,221
Mexican Peso	310,070	–	69,151	110,137
New Zealand Dollar	3,100,396	–	106,711	11,055
Norwegian Kroner	8,134,255	–	126,759	–
Philippines Peso	–	–	–	142
Polish Zloty	–	45,681	447	–
Singapore Dollar	498,012	–	18,297	3,767
South African Rand	964,012	–	41,535	1,302
South Korean Won	3,255,007	–	15,651	86,571
Swedish Krona	3,747,401	–	78,052	396,590
Swiss Franc	3,639,297	–	134,832	42,241
Taiwan Dollar	1,405,024	–	–	21,476
Thailand Baht	705,652	–	27,979	4,813
Turkish Lira	7,549,890	–	423,798	4
UK Pound	15,789,577	–	376,815	220,171
	\$ 81,370,211	\$ 26,499,355	\$ 3,888,598	\$ 3,076,053

The change in fair value of open foreign currency exchange contracts for the year ending August 31, 2010 was an increase in the amount of \$812,545, which is included in the net increase (decrease) in investments on the statement of changes in fiduciary net assets.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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

The change in fair value of open foreign currency exchange contracts for the year ending August 31, 2009 was an increase in the amount of \$1,004,571, which is included in the net increase (decrease) in investments on the statement of changes in fiduciary net assets.

Note 10 – Purchase Agreements

UTIMCO, as investment manager of the funds under the control and management of the UT Board, entered into a security purchase agreement with the UT Board. The agreement commits the funds under management, including the PUF, to purchase up to \$3,666,850,000 in UT System flexible rate notes in the event of a failed remarketing of such notes. The individual funds under management are not committed to a specific amount, rather all of the funds may be required to provide for the amount noted.

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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Note 11 – Distributions to the Available University Fund

The Texas Constitution allows for (a) distributions to the AUF from the “total return” on PUF investments, including income return as well as capital gains (realized and unrealized) and (b) the payment of PUF expenses from PUF assets. The Texas Constitution directs the UT Board to establish a distribution policy that provides stable, inflation-adjusted annual distributions to the AUF and preserves the real value of the PUF investments over the long term. Accordingly, distributions to the AUF in any given fiscal year are subject to the following: (1) A minimum amount equal to the amount needed to pay debt service on PUF bonds; (2) No increase from the preceding year (except as necessary to pay debt service on PUF bonds) unless the purchasing power of PUF investments for any rolling 10-year period has been preserved; (3) A maximum amount equal to seven percent of the average net fair market value of PUF 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, 2010 and 2009 were \$516,419,406 and \$530,932,622, respectively. The PUF distribution to the AUF for the year ending August 31, 2011, will be \$506,395,811. The first payment in the amount of \$126,598,953 was made September 1, 2010.

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 1.50%. In addition to quarterly investment management fees, the PUF may pay performance-based management fees for investment performance in excess of certain defined benchmarks as provided for in the managers’ contracts. The investment management fees presented in the Statements of Changes in Fiduciary Net Assets represent only those paid directly from the PUF, and do not include fees incurred and charged by general partners in private investments, fees charged by mutual fund managers, and fees charged by hedge fund managers as these types of fees are netted directly against returns for those investments in accordance with standard industry practice.

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, 2010 was \$5,198,266, net of a rebate of \$2,648,238 of prior year reserves from UTIMCO to the PUF. The fee assessed for the year ended August 31, 2009 was \$8,134,921.

The PUF is assessed a fee to cover expenses related to the management of the PUF Lands. The fee assessed for the years ended August 31, 2010 and 2009, were \$8,369,141 and \$8,806,445, respectively. Fees are also assessed to cover costs associated with UT System personnel in their efforts to provide assistance to the UT Board and the Chancellor of the UT System in their oversight responsibilities of UTIMCO. Fees in the amounts of \$265,450 and \$270,750 were charged to the PUF for the years ended August 31, 2010 and 2009, respectively.

Custodial fees and expenses are assessed by the financial institution which holds the PUF’s assets. Fees are based on the number of accounts, market value of the PUF, and transaction activity in accordance with the contractual agreement with the institution. Additional fees are assessed for performance measurement, risk measurement and on-line communication services per the contractual agreement. The fees assessed for the years ended August 31, 2010 and 2009 were \$1,047,664 and \$834,367 respectively.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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, 2010 and 2009, fees incurred were \$579,359 and \$282,206, respectively.

Analytical and risk measurement fees, in the amounts of \$379,133 and \$420,271, were also incurred during the years ended August 31, 2010 and 2009, respectively, to maintain a sophisticated risk measurement system for the PUF.

Accounting fees, in the amount of \$269,161 and \$283,414, were paid by the PUF during the years ended August 31, 2010 and 2009, respectively, for external and UT System internal audit services. Consulting fees, in the amount of \$261,725 and \$311,919, respectively, for the years ending August 31, 2010 and 2009 were incurred for investment strategy and other investment consulting services.

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

PERMANENT UNIVERSITY FUND

Supplemental Schedules

Comparison Summary of Investments

August 31, 2010 and 2009

(in thousands)

	2010		2009	
	Value	% of Total Investments	Value	% of Total Investments
Equity Securities				
Domestic Common Stock	\$ 439,950	4.13%	\$ 489,320	5.06%
Foreign Common Stock	949,938	8.93%	555,105	5.74%
Other Equities	1,896	.02%	-	.00%
Total Equity Securities	<u>1,391,784</u>	<u>13.08%</u>	<u>1,044,425</u>	<u>10.80%</u>
Preferred Stock				
Domestic Preferred Stock	1,876	.02%	1,939	.02%
Foreign Preferred Stock	43,119	.41%	11,561	.12%
Total Preferred Stock	<u>44,995</u>	<u>.43%</u>	<u>13,500</u>	<u>.14%</u>
Debt Securities				
U. S. Government Obligations	249,118	2.34%	338,510	3.50%
Foreign Government and Provincial Obligations	246,948	2.32%	168,674	1.74%
Corporate Obligations	489,312	4.60%	476,304	4.92%
Other	7,772	.07%	4,007	.05%
Total Debt Securities	<u>993,150</u>	<u>9.33%</u>	<u>987,495</u>	<u>10.21%</u>
Convertible Securities	<u>47</u>	<u>.00%</u>	<u>-</u>	<u>.00%</u>
Purchased Options	<u>9,682</u>	<u>.09%</u>	<u>21,056</u>	<u>.22%</u>
Investment Funds				
Hedge Funds	3,239,009	30.44%	2,807,508	29.03%
Private Investments	2,386,892	22.43%	2,193,916	22.68%
Developed Country Equity	696,642	6.55%	620,359	6.41%
Emerging Markets Equity	495,935	4.66%	821,289	8.49%
Natural Resources	117,151	1.10%	-	.00%
Real Estate	13,982	.13%	70,548	.73%
Fixed Income	121,505	1.14%	231,619	2.39%
Total Investment Funds	<u>7,071,116</u>	<u>66.45%</u>	<u>6,745,239</u>	<u>69.73%</u>
Cash and Cash Equivalents				
Money Market Funds Maintained to Back Derivative Contracts	574,937	5.41%	560,695	5.80%
Other Money Market Funds and Cash Held at State Treasury	554,438	5.21%	300,611	3.10%
Total Cash and Cash Equivalents	<u>1,129,375</u>	<u>10.62%</u>	<u>861,306</u>	<u>8.90%</u>
Total Investments	<u>\$ 10,640,149</u>	<u>100.00%</u>	<u>\$ 9,673,021</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, 2010

(in thousands)

	Beginning Cost	Purchases	Sales, Maturities & Redemptions	Gains (Losses)	Reclass/ Consolidation	Ending Cost	Investment Income
Equity Securities							
Domestic Common Stock	\$ 501,081	\$ 820,535	\$ (940,478)	\$ 40,944	\$ 20,434	\$ 442,516	\$ 10,066
Foreign Common Stock	525,295	897,158	(682,765)	44,057	133,745	917,490	15,787
Other	-	2,630	(1,109)	188	8	1,717	14
Total Equity Securities	<u>1,026,376</u>	<u>1,720,323</u>	<u>(1,624,352)</u>	<u>85,189</u>	<u>154,187</u>	<u>1,361,723</u>	<u>25,867</u>
Preferred Stock							
Domestic Preferred Stock	2,385	-	-	-	-	2,385	20
Foreign Preferred Stock	10,773	28,000	(21,290)	936	20,213	38,632	957
Total Preferred Stock	<u>13,158</u>	<u>28,000</u>	<u>(21,290)</u>	<u>936</u>	<u>20,213</u>	<u>41,017</u>	<u>977</u>
Debt Securities							
U. S. Government Obligations	326,577	469,372	(570,918)	2,710	-	227,741	11,140
Foreign Government and Provincial Obligations	168,788	367,366	(290,911)	(611)	(6,427)	238,205	10,202
Corporate Obligations	467,561	188,725	(264,415)	40,978	8,592	441,441	26,246
Swaps	-	-	-	-	-	-	(305)
Other	4,529	4,516	(1,124)	25	-	7,946	370
Total Debt Securities	<u>967,455</u>	<u>1,029,979</u>	<u>(1,127,368)</u>	<u>43,102</u>	<u>2,165</u>	<u>915,333</u>	<u>47,653</u>
Purchased Options	<u>13,826</u>	<u>-</u>	<u>(759)</u>	<u>590</u>	<u>-</u>	<u>13,657</u>	<u>5</u>
Convertible Securities	<u>-</u>	<u>4,798</u>	<u>(296)</u>	<u>-</u>	<u>(4,456)</u>	<u>46</u>	<u>3</u>
Investment Funds							
Hedge Funds	2,608,711	313,012	(219,802)	29,076	-	2,730,997	-
Private Markets	2,452,483	506,418	(646,362)	58,087	-	2,370,626	22,393
Developed Country Equity	582,363	435,817	(335,095)	20,170	(104,648)	598,607	4,542
Emerging Markets	664,463	524,595	(884,615)	200,879	(86,107)	419,215	6,744
Real Estate	93,599	(22,009)	(36,959)	(25,635)	-	8,996	832
Fixed Income	227,950	3,717	(116,036)	(3,916)	-	111,715	7,186
Natural Resources	-	124,400	-	-	-	124,400	-
Total Investment Funds	<u>6,629,569</u>	<u>1,885,950</u>	<u>(2,238,869)</u>	<u>278,661</u>	<u>(190,755)</u>	<u>6,364,556</u>	<u>41,697</u>
Cash and Cash Equivalents							
Money Market Funds and Cash Held at State	863,261	206,028	(43,148) *	86,647 **	18,646	1,131,434	1,923
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,215</u>
Total Investment in Securities	<u>\$ 9,513,645</u>	<u>\$ 4,875,078</u>	<u>\$ (5,056,082)</u>	<u>\$ 495,125</u>	<u>\$ -</u>	<u>\$ 9,827,766</u>	<u>\$ 120,340</u>

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

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