

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

Permanent Health Fund

Financial Statements

Years Ended August 31, 2016 and 2015

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Audited Financial Statements of The University of Texas System General Endowment Fund

## **INDEPENDENT AUDITORS' REPORT**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Permanent Health Fund (the "Fund"), which comprise the statements of fiduciary net position as of August 31, 2016 and 2015, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

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

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Permanent Health Fund as of August 31, 2016 and 2015, and the changes in its fiduciary net position thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 1, the financial statements of the Fund are intended only to present the fiduciary net position of the Fund as of August 31, 2016 and 2015, and the changes in its fiduciary net position for the years then ended in conformity with accounting principles generally accepted in the United States and do not purport to, and do not, present the fiduciary net position of The University of Texas System, as of August 31, 2016 or 2015, or the changes in their fiduciary net positions for the years then ended.

Our opinion is not modified with respect to this matter.

## **Other Matters**

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

## **Report on Supplemental Schedule**

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

*Deloitte & Touche LLP*

October 28, 2016

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

Our discussion and analysis of the Permanent Health Fund's (Fund) financial performance provides an overview of its activities for the years ended August 31, 2016 and 2015. This discussion was prepared by The University of Texas Investment Management Company (UTIMCO) and should be read in conjunction with the Fund's financial statements and notes and the financial statements and notes of The University of Texas System General Endowment Fund (GEF). The Fund is a pooled investment fund for the collective investment of state endowment funds for health-related institutions of higher education. The University of Texas System Board of Regents (UT Board) established the Fund in August 1999 with proceeds from state tobacco litigation. The Texas Constitution and various state statutes designate the 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.

On March 1, 2001, the Fund purchased units in GEF in exchange for the contribution of its investment assets. The GEF, established by the UT Board effective March 1, 2001, is a pooled fund for the collective investment of long-term funds under the control and management of the UT Board. The performance of the Fund is directly impacted by the performance of the GEF. The GEF has only two participants: the Fund and The University of Texas System Long Term Fund (LTF), which was also established by the UT Board. The Fund and the LTF purchase and redeem units in the GEF quarterly. The GEF is under the fiduciary responsibility of the UT Board and is provided day-to-day operations by UTIMCO.

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

#### Financial Highlights

The Fund's net fiduciary position after distributions decreased by \$10.0 million from \$1,075.7 million to \$1,065.7 million or by approximately 0.9% for the year ended August 31, 2016, compared to a decrease of \$37.9 million or approximately 3.4% for the year ended August 31, 2015. The change in net fiduciary position from year to year is mainly attributable to the following:

1. The Fund posted a net investment gain of 3.90%, calculated using the Modified Dietz Method as described by the CFA Institute, for the year ended August 31, 2016, compared to a net investment gain of 0.98% for the prior fiscal year. The net investment return of the Fund is dependent on the results of the investments held in the GEF. The GEF's investments in private investments, emerging markets equities and real estate equities were the biggest contributors to the 2016 return. For the year ended August 31, 2015, investments in private investments, developed country equities and hedge funds were the biggest contributors to the net investment gain.
2. The Fund's distribution rate was increased by 1.5%, approximately the three year average rate of inflation, for the year ended August 31, 2016. This equated to an increase in the 2016 rate to \$0.0606 per unit from the 2015 rate of \$0.0597 per unit. The 2015 rate was increased by 2.1% from the year ended August 31, 2014 rate. The fiscal year distributions represented

## PERMANENT HEALTH FUND

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4.74% of the Fund's average net position for the year ended August 31, 2016, and 4.44% of the Fund's average net position for the year ended August 31, 2015.

3. There were no participant contributions to the Fund or withdrawals from the Fund during the years ended August 31, 2016 and 2015.

### Use of Financial Statements and Notes

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

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

### Statements of Fiduciary Net Position

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

Since the Fund invests in only GEF units and a negligible amount of cash, the majority of the Fund's net position represents investment in GEF units.

As of August 31, 2016, the Fund owned 3,997,131 GEF units representing an ownership percentage of 12.53% compared to 4,197,109 GEF units representing an ownership percentage of 13.06% as of August 31, 2015. As of August 31, 2016 and 2015, the fair value of the GEF units was \$1,065.4 million and \$1,075.4 million, respectively.

The GEF 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 GEF's assets to internally and externally managed portfolios in accordance with approved asset allocation policies, and attempts to supplement the original endowment corpus by increasing purchasing power over time.

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Assets</b>			
GEF Units, at Fair Value	\$ 1,065.4	\$ 1,075.4	\$ 1,113.3
Cash and Cash Equivalents	0.3	0.3	0.3
<b>Net Position Held in Trust</b>	<u>\$ 1,065.7</u>	<u>\$ 1,075.7</u>	<u>\$ 1,113.6</u>

## PERMANENT HEALTH FUND

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### Statements of Changes in Fiduciary Net Position

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

The net increase in fair value of investments of the Fund was \$31.8 million during the year compared to an increase in fair value of investments of \$4.7 million for the year ended August 31, 2015. The Fund's investment expenses totaled \$1.3 million for the year ended August 31, 2016 and \$1.1 million for the years ended August 31, 2015, and 2014, respectively.

Distributions to participants totaled \$49.7 million, \$49.0 million and \$48.0 million, respectively, for the years ended August 31, 2016, 2015, and 2014. The increase in distributions is a result of the UT Board increasing the distribution rate from \$0.0597 per unit to \$0.0606 per unit for fiscal year 2016. The increase for fiscal year 2015 is a result of the UT Board's increase of the distribution rate from \$0.0585 per unit to \$0.0597 per unit.

The Fund's objectives are:

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

Fund distributions are determined by the UT Board. The key to preservation of endowment purchasing power over the long-term is control of spending through a target distribution rate. This target rate should not exceed the endowment's average annual net investment return after and inflation. The Fund distributions are typically increased annually at a three year average rate of inflation provided that the distribution rate remains within a range of 3.5% to 5.5% of the Fund's net position. As reported on the financial highlights schedule of the financial statements, the ratio of distributions to average net position (12-quarter average) has remained between 3.5% to 5.5%.



## PERMANENT HEALTH FUND

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Investment Income	\$ 41.0	\$ 12.2	\$ 147.4
Less Investment Expenses	1.3	1.1	1.1
Net Investment Income	<u>39.7</u>	<u>11.1</u>	<u>146.3</u>
Participant Distributions	<u>49.7</u>	<u>49.0</u>	<u>48.0</u>
Change in Fiduciary Net Position	(10.0)	(37.9)	98.3
Net Position Held in Trust, Beginning of Year	<u>1,075.7</u>	<u>1,113.6</u>	<u>1,015.3</u>
Net Position Held in Trust, End of Year	<u>\$ 1,065.7</u>	<u>\$ 1,075.7</u>	<u>\$ 1,113.6</u>

### Contacting UTIMCO

The above financial highlights are designed to provide a general overview of the Fund'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](http://www.utimco.org).

## PERMANENT HEALTH FUND

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### Statements of Fiduciary Net Position

August 31, 2016 and 2015

(Dollars in thousands, except per unit amounts)

	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
GEF Units, at Fair Value	\$ 1,065,376	\$ 1,075,394
Cash and Cash Equivalents	366	302
Other	<u>6</u>	<u>14</u>
<b>Net Position Held in Trust (820,000,000 Units)</b>	<u>\$ 1,065,748</u>	<u>\$ 1,075,710</u>
<b>Net Position Held in Trust Per Unit</b>	<u>\$ 1.300</u>	<u>\$ 1.312</u>

*The accompanying notes and the attached financial statements of the GEF  
are an integral part of these financial statements.*

## PERMANENT HEALTH FUND

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### Statements of Changes in Fiduciary Net Position

Years Ended August 31, 2016 and 2015

(in thousands)

	<u>2016</u>	<u>2015</u>
<b>Additions</b>		
Investment Income:		
Net Increase (Decrease) in Fair Value of Investments	\$ 31,756	\$ 4,659
Allocation of GEF Net Investment Income	9,299	7,495
Total Investment Income	<u>41,055</u>	<u>12,154</u>
Less Investment Expenses:		
UTIMCO Management Fee	1,290	1,065
Other Expenses	24	23
Total Investment Expenses	<u>1,314</u>	<u>1,088</u>
Net Investment Income	39,741	11,066
<b>Deductions</b>		
Administrative Fee for UT System Oversight	11	11
Participant Distributions	49,692	48,954
<b>Total Deductions</b>	<u>49,703</u>	<u>48,965</u>
<b>Change in Fiduciary Net Position</b>	(9,962)	(37,899)
Net Position Held in Trust, Beginning of Year	1,075,710	1,113,609
<b>Net Position Held in Trust, End of Year</b>	<u>\$ 1,065,748</u>	<u>\$ 1,075,710</u>

*The accompanying notes and the attached financial statements of the GEF  
are an integral part of these financial statements.*

## PERMANENT HEALTH FUND

### *Notes to Financial Statements*

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#### **Note 1 – Organization and Basis of Presentation**

The Permanent Health Fund (Fund) is a pooled investment fund established for the collective investment of state endowment funds for health-related institutions of higher education, created August 30, 1999. The distributions from the Fund endowments support programs that benefit medical research, health education, public health, nursing, and treatment programs at health-related institutions of higher education. Fiduciary responsibility for the Fund rests with the Board of Regents of The University of Texas System (UT Board). The day-to-day operational responsibilities of the Fund are delegated to The University of Texas Investment Management Company (UTIMCO), pursuant to an Investment Management Services Agreement with the UT Board.

On March 1, 2001, the Fund purchased units in The University of Texas System General Endowment Fund (GEF) in exchange for the contribution of its investment assets. The GEF, established by the UT Board effective March 1, 2001, is a pooled fund for the collective investment of long-term funds under the control and management of the UT Board. The performance of the Fund is directly impacted by the performance of the GEF. The GEF has only two participants: the Fund and The University of Texas System Long Term Fund (LTF), which was also established by the UT Board. The Fund and the LTF purchase and redeem units in the GEF quarterly. The GEF is under the fiduciary responsibility of the UT Board and is provided day-to-day operations by UTIMCO.

The activities of the Fund are accounted for as a fiduciary fund. The financial statements of the Fund 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 Fund are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

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

Management has evaluated subsequent events through October 28, 2016, the date the financial statements were available to be issued. No subsequent events requiring adjustment to, or disclosure in, the financial statements were identified as a result of this evaluation.

#### **Note 2 – Investment in GEF**

The Fund only invests in GEF units and a negligible amount of cash. At August 31, 2016, the Fund is the minority participant in the GEF, with ownership of 3,997,131 units, which represents 12.53% of the GEF. At August 31, 2015, the Fund held 4,197,109 units, which represented 13.06% of the GEF.

## PERMANENT HEALTH FUND

*Notes to Financial Statements (cont.)*

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The GEF and the Fund have identical investment objectives. The financial statements of GEF are included elsewhere in this report and should be read with the Fund's financial statements. On a monthly basis for accounting purposes, the GEF allocates its net investment income and realized gain or loss to the Fund based on its ownership of GEF units at month end. The allocated investment income and realized gain amounts increase the cost basis of the units in the GEF, and any allocated realized losses reduce the cost basis of the units in the GEF. Since the allocation is proportional to the percentage of ownership by the unitholders, no additional units are purchased. The Fund redeems GEF units quarterly to meet its distribution requirements to its unitholders.

### Note 3 – Significant Accounting Policies

(A) **Security Valuation of Investments** -- The Fund records its investment in GEF at fair value. The notes to GEF's financial statements included elsewhere in this report provide information about GEF's valuation policy and its period-end security valuations. The Fund's investment in the GEF is fair valued at \$1,065,376,208 and \$1,075,394,060, as of August 31, 2016 and 2015, respectively.

(B) **Security Transactions** -- A gain or loss is recognized on GEF unit sales on the basis of average cost, and is included in the net increase (decrease) in fair value of investments on the statements of changes in fiduciary net assets.

(C) **Distributions to Participants** -- Cash distributions to participants are paid quarterly based on a per unit payout established by the UT Board. For the year ended August 31, 2016, the quarterly rate was \$0.01515 per unit which equates to an annual rate of \$0.0606 per unit and for the year ended August 31, 2015, the quarterly rate was \$0.014925 per unit which equated to an annual rate of \$0.0597 per unit. The ratio of distributions to average net position (12-quarter average) was 4.55% as of August 31, 2016. For the years ended August 31, 2015 and 2014, the annual payout was adjusted by the average consumer price index of the prior 36 months.

(D) **Fund Valuation** -- Valuation of the Fund's units occurs on a quarterly basis. Unit values are determined by dividing the value of the Fund's net position by the number of units outstanding on the valuation date.

(E) **Purchases and Redemption of Units** -- Unit purchases occur on the first business day of each fiscal quarter. Unit redemptions occur on the last business day of each fiscal quarter. The value of participating units, upon admission to the Fund, is based upon the market value of net position held as of the quarterly valuation date. Redemptions from the Fund will also be made at the market value price per unit at the quarterly valuation date at the time of the redemption. There are no transaction costs incurred by participants for the purchase or redemption of units. There were no purchase or redemption of Fund units during the years ended August 31, 2016 and 2015.

(F) **Participants' Net Position** -- All participants in the Fund have a proportionate interest in the Fund's net position.

(G) **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

## PERMANENT HEALTH FUND

### *Notes to Financial Statements (cont.)*

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assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from these estimates.

(H) **Cash and Cash Equivalents** -- Cash and Cash Equivalents consist of money market investments and other overnight funds.

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

#### **Note 4 – Fees and Expenses**

The Fund is assessed a management fee by UTIMCO to cover the costs of managing the Fund and providing day-to-day operations. These fees are based on a budget prepared by management and approved by the UT Board. For the years ended August 31, 2016 and 2015, the fees assessed were \$1,290,296 and \$1,064,608, respectively.

The Fund is assessed a fee to cover costs associated with UT System personnel in their effort to provide assistance to the UT Board and the Chancellor of the UT System in their oversight responsibilities of UTIMCO. For the years ended August 31, 2016 and 2015, the fees amounted to \$10,530 and \$11,130, respectively.

The Fund incurs other expenses related to its operations primarily consisting of audit fees, legal and custodial fees.

**PERMANENT HEALTH FUND***Supplemental Schedule***Financial Highlights***Years Ended August 31,*

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Selected Per Unit Data</b>					
Net Position, Beginning of Year	\$ 1.312	\$ 1.358	\$ 1.238	\$ 1.191	\$ 1.211
Income from Investment Operations					
Net Investment Income (A)	0.010	0.008	0.013	0.009	0.008
Net Realized and Unrealized Gains on Investments	0.039	0.006	0.166	0.095	0.028
Total Income from Investment Operations	0.049	0.014	0.179	0.104	0.036
Less Distributions					
From Net Investment Income	0.010	0.008	0.013	0.009	0.008
From Net Realized Gain and In Excess of Net Realized Investment Return	0.051	0.052	0.046	0.048	0.048
Total Distributions	0.061	0.060	0.059	0.057	0.056
Net Position, End of Year	<u>\$ 1.300</u>	<u>\$ 1.312</u>	<u>\$ 1.358</u>	<u>\$ 1.238</u>	<u>\$ 1.191</u>

**Ratios and Supplemental Data**

Net Position, End of Year (in thousands)	\$ 1,065,748	\$ 1,075,710	\$ 1,113,609	\$ 1,015,250	\$ 976,553
Ratios to Average Net Position					
Distributions (5-quarter average)	4.74%	4.44%	4.48%	4.66%	4.73%
Distributions (12-quarter average)	4.55%	4.50%	4.60%	4.65%	4.75%

(A) Net investment income is comprised of investment income (excluding the net increase (decrease) in fair value of investments) and expenses as presented on the statements of changes in fiduciary net position.

Financial Statements

and Independent Auditors' Report

The University of Texas System

General Endowment Fund

*Years Ended August 31, 2016 and 2015*



# The University of Texas System General Endowment Fund

## Financial Statements

Years Ended August 31, 2016 and 2015

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## **INDEPENDENT AUDITORS' REPORT**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of The University of Texas System General Endowment Fund (the "Fund"), which comprise the statements of fiduciary net position as of August 31, 2016 and 2015, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

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

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of The University of Texas System General Endowment Fund as of August 31, 2016 and 2015, and the changes in its fiduciary net position thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 1, the financial statements of the Fund are intended only to present the fiduciary net position of the Fund as of August 31, 2016 and 2015, and the changes in its fiduciary net position for the years then ended in conformity with accounting principles generally accepted in the United States and do not purport to, and do not, present the fiduciary net position of The University of Texas System, as of August 31, 2016 or 2015, or the changes in their fiduciary net positions for the years then ended.

Our opinion is not modified with respect to this matter.

### **Other Matters**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 6 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Report on Supplemental Schedule**

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

*Deloitte & Touche LLP*

October 28, 2016

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

Our discussion and analysis of The University of Texas System General Endowment Fund's (Fund) financial performance provides an overview of its activities for the years ended August 31, 2016 and 2015. This discussion was prepared by The University of Texas Investment Management Company (UTIMCO) and should be read in conjunction with the Fund's financial statements and notes. The Fund is a pooled investment fund for the collective investment of the Permanent Health Fund (PHF) and The University of Texas System Long Term Fund (LTF). The Fund was created to allow the PHF and LTF to benefit from their identical investment objectives by providing greater efficiencies and cost savings than was possible when the investments of the PHF and LTF were managed separately. 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 Fund's financial statements based upon currently known facts, decisions and conditions.

### Financial Highlights

The Fund's fiduciary net position, after contributions and withdrawals, increased by \$263.2 million from \$8,237.0 million to \$8,500.2 million or approximately 3.2% for the year ended August 31, 2016, compared to a decrease of \$88.0 million or approximately 1.1% for the year ended August 31, 2015. The change in net fiduciary net position from year to year is mainly attributable to the following:

1. The Fund posted a net investment gain of 4.03%, calculated using the Modified Dietz Method as described by the CFA Institute, for the year ended August 31, 2016. Investments in private investments, emerging markets equities and real estate equities were the biggest contributors to the 2016 return. Investments in private investments, developed country equities and hedge funds were the biggest contributors to the net investment gain of 1.08% for August 31, 2015.
2. The PHF and LTF redeemed and purchased Fund units resulting in net distributions of \$71.2 million for the year ended August 31, 2016, compared to net distributions for the year ended August 31, 2015 of \$178.4 million.
3. The Fund allocates its net investment income and its realized gain or loss to the PHF and LTF monthly based on their ownership of Fund units at month end. The allocated net investment income and realized gain amounts increase the cost basis of the units of the Fund, and any allocated realized losses reduce the cost basis of the units in the Fund. Since the allocation is proportional to the percentage ownership by the PHF and LTF, no additional units are purchased.

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**Use of Financial Statements and Notes**

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

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

**Statements of Fiduciary Net Position**

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

The Fund 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 the Fund's assets to internally and externally managed portfolios in accordance with approved asset allocation policies, and attempts to supplement the original endowment corpus by increasing purchasing power over time. In doing so, UTIMCO increases the endowment resources available to fund the teaching, research, and health care programs specified by the various donors.

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

<b>Assets</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Investments, at Fair Value	\$ 8,524.2	\$ 8,273.2	\$ 8,374.1
Other Assets	267.5	216.0	260.0
<b>Total Assets</b>	<b>8,791.7</b>	<b>8,489.2</b>	<b>8,634.1</b>
<b>Total Liabilities</b>	<b>291.5</b>	<b>252.2</b>	<b>309.1</b>
<b>Net Position Held in Trust</b>	<b>\$ 8,500.2</b>	<b>\$ 8,237.0</b>	<b>\$ 8,325.0</b>

**Statements of Changes in Fiduciary Net Position**

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

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The net increase in fair value of investments of the Fund was \$261.4 million during the year ended August 31, 2016 compared to the net increase in fair value of investments of \$33.4 million for the year ended August 31, 2015. Expenses totaled \$19.5 million, \$25.5 million, and \$21.0 million, respectively, for the years ended August 31, 2016, 2015, and 2014.

The net increase in fiduciary net position totaled \$263.2 million for the year ended August 31, 2016 compared to a net decrease in fiduciary net position totaling \$88.0 million for the year ended August 31, 2015.

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

	<b>2016</b>	<b>2015</b>	<b>2014</b>
Investment Income	\$ 353.8	\$ 115.9	\$ 1,109.3
Less Investment Expenses	19.5	25.5	21.0
Net Investment Income	334.3	90.4	1,088.3
Participant Contributions	361.4	230.3	225.3
Total Additions	695.7	320.7	1,313.6
Participant Withdrawals	432.5	408.7	384.1
Total Deductions	432.5	408.7	384.1
Change in Fiduciary Net Position	263.2	(88.0)	929.5
Net Position Held in Trust, Beginning of Year	8,237.0	8,325.0	7,395.5
Net Position Held in Trust, End of Year	\$ 8,500.2	\$ 8,237.0	\$ 8,325.0

**Contacting UTIMCO**

The above financial highlights are designed to provide a general overview of the Fund'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](http://www.utimco.org).

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**Statements of Fiduciary Net Position**

*August 31, 2016 and 2015*

*(Dollars in thousands, except per unit amounts)*

<b>Assets</b>	<b>2016</b>	<b>2015</b>
Investments, at Fair Value:		
Equity Securities	\$ 1,157,166	\$ 1,004,949
Preferred Stock	25,119	17,493
Purchased Options	1,260	13,003
Debt Securities	482,258	436,040
Convertible Securities	277	-
Investment Funds	6,378,510	6,244,791
Physical Commodities	188,564	160,736
Cash and Cash Equivalents	291,022	396,169
Total Investments	<u>8,524,176</u>	<u>8,273,181</u>
Collateral for Securities Loaned, at Fair Value	155,422	150,353
Deposits with Brokers for Derivative Contracts	10,566	6,168
Futures Contracts, at Fair Value	2,779	5,108
Swaps, at Fair Value	20,130	13,926
Unrealized Gains on Foreign Currency Exchange Contracts	7,291	6,699
Receivables:		
Investment Securities Sold	65,585	28,031
Accrued Income	5,506	5,341
Other	212	430
Total Receivables	<u>71,303</u>	<u>33,802</u>
<b>Total Assets</b>	<u>8,791,667</u>	<u>8,489,237</u>
<b>Liabilities</b>		
Payable Upon Return of Securities Loaned	155,422	150,353
Payable to Brokers for Collateral Held	2,824	8,076
Payable to Participants	11,672	6,256
Unrealized Losses on Foreign Currency Exchange Contracts	7,038	4,307
Futures Contracts, at Fair Value	1,997	16,324
Swaps, at Fair Value	21,418	15,511
Options Written, at Fair Value	1,438	7,637
Payables:		
Investment Securities Purchased	84,270	38,633
Other	5,437	5,148
Total Payables	<u>89,707</u>	<u>43,781</u>
<b>Total Liabilities</b>	<u>291,516</u>	<u>252,245</u>
<b>Net Position Held in Trust</b>	<u>\$ 8,500,151</u>	<u>\$ 8,236,992</u>
<b>Number of Units:</b>		
Permanent Health Fund (PHF)	3,997,131	4,197,109
The University of Texas System Long Term Fund (LTF)	<u>27,894,154</u>	<u>27,950,695</u>
<b>Total</b>	<u>31,891,285</u>	<u>32,147,804</u>
<b>Net Position Held in Trust Per Unit</b>	<u>\$ 266.535</u>	<u>\$ 256.223</u>

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



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**Statements of Changes in Fiduciary Net Position**

*Years Ended August 31, 2016 and 2015*

*(in thousands)*

	<u>2016</u>	<u>2015</u>
<b>Additions</b>		
Investment Income:		
Net Increase (Decrease) in Fair Value of Investments	\$ 261,396	\$ 33,386
Interest	15,472	14,757
Dividends	26,265	26,988
Income Distributions from Private Investment Funds	49,088	39,062
Securities Lending Income	1,177	1,030
Other Income	390	652
Total Investment Income	<u>353,788</u>	<u>115,875</u>
Less Investment Expenses:		
Investment Management Fees	16,967	22,931
Custodial Fees and Expenses	1,799	1,935
Accounting Fees	241	227
Analytical and Risk Measurement Fees	177	158
Consulting Fees	88	70
Foreign Tax Consulting and Filing Fees	75	38
Background Check Fees	70	80
Legal Fees	44	67
Other Expenses	4	1
Total Investment Expenses	<u>19,465</u>	<u>25,507</u>
Net Investment Income	334,323	90,368
Participant Contributions	<u>361,361</u>	<u>230,277</u>
<b>Total Additions</b>	<u>695,684</u>	<u>320,645</u>
<b>Deductions</b>		
Participant Withdrawals	<u>432,525</u>	<u>408,694</u>
<b>Change in Fiduciary Net Position</b>	263,159	(88,049)
Net Position Held in Trust, Beginning of Year	<u>8,236,992</u>	<u>8,325,041</u>
<b>Net Position Held in Trust, End of Year</b>	<u>\$ 8,500,151</u>	<u>\$ 8,236,992</u>

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

## **Note 1 – Organization and Basis of Presentation**

The University of Texas System General Endowment Fund (Fund), created March 1, 2001, is a pooled investment fund established for the collective investment of long-term funds under the control and management of the Board of Regents of The University of Texas System (UT Board). The Fund is organized as a pooled investment fund and has two participants, the Permanent Health Fund (PHF) and The University of Texas System Long Term Fund (LTF). The PHF and LTF initially purchased units of the Fund on March 1, 2001, in exchange for the contribution of their investment assets. The Fund provides for greater diversification of investments than would be possible if each account were managed separately.

Fiduciary responsibility for the Fund rests with the UT Board. The day-to-day operational responsibilities of the Fund are delegated to The University of Texas Investment Management Company (UTIMCO), pursuant to an Investment Management Services Agreement with the UT Board.

The activities of the Fund are accounted for as a fiduciary fund. The financial statements of the Fund use an economic resources management 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 Fund are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

The 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 Fund. The accompanying financial statements of the Fund may differ in presentation from the Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements.

Management has evaluated subsequent events through October 28, 2016, the date the financial statements were available to be issued. No subsequent events requiring adjustment to, or disclosure in, the financial statements were identified as a result of this evaluation.

## **Note 2 – Significant Accounting Policies**

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

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

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that are available at the measurement date.

# THE UNIVERSITY OF TEXAS SYSTEM

## GENERAL ENDOWMENT FUND

*Notes to Financial Statements (cont.)*

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- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – Unobservable inputs for the asset or liability.

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

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

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

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

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

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

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

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

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GENERAL ENDOWMENT FUND

*Notes to Financial Statements (cont.)*

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prices of securities held on the statements of changes in fiduciary net position. Such fluctuations are included with the net increase (decrease) in fair value of investments.

(C) ***Investment Income and Investment Expenses*** -- Interest income is accrued as earned. Dividend income is recorded on the ex-dividend date. Dividend and interest income are recorded net of foreign taxes where recovery of such taxes is not assured. For the years ended August 31, 2016 and 2015, interest and dividend withholding in the amounts of \$1,555,764 and \$1,996,978, respectively, have been netted against dividend and interest income. Investment income includes net realized and unrealized currency gains and losses recognized between accrual and payment dates on dividend and interest transactions. Investment expenses are recorded on the accrual basis as incurred.

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

(E) ***Allocations to Participants*** -- The Fund, for accounting purposes, allocates its net investment income and realized gain or loss to the PHF and LTF monthly, based on their ownership of Fund units at month end. The allocated investment income and realized gain amounts increase the cost basis of the units of the Fund, and any allocated realized losses reduce the cost basis of the units of the Fund. Since the allocation is proportional to the percentage ownership by the PHF and LTF, no additional units are issued.

(F) ***Fund Valuation*** -- Valuation of the Fund's units occurs on a quarterly basis. Unit values are determined by dividing the value of the Fund's net position by the number of units outstanding on the valuation date.

(G) ***Purchases and Redemption of Units*** -- Unit purchases occur on the first business day of each fiscal quarter. Unit redemptions occur on the last business day of each fiscal quarter. The value of participating units, upon admission to the Fund, is based upon the market value of net position as of the quarterly valuation date. Redemptions from the Fund will also be made at the market value price per unit at the quarterly valuation date at the time of the redemption. There are no transaction costs incurred by participants for the purchase or redemption of units.

(H) ***Participants' Net Position*** -- All participants in the Fund have a proportionate interest in the Fund's net position.

(I) ***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 revenues and expenses during the reporting period. Actual results could differ materially from these estimates.

(J) ***Derivative Instruments*** -- Derivatives are financial instruments whose fair value is derived, in whole or part, from the value of any one or more underlying securities or assets, or index of securities or assets, such as stocks, bonds, commodities, or currencies. The Fund from time to time uses various derivative instruments, as allowed under UT Board approved derivative investment policy guidelines. Futures contracts and foreign exchange contracts are fair valued at closing market prices on the valuation date. Futures contracts actively traded are categorized as Level 1 and foreign currency exchange contracts are not actively traded and therefore categorized as Level 2. Options and swaps are fair valued by using independent broker quotes or using models with primarily

# THE UNIVERSITY OF TEXAS SYSTEM

## GENERAL ENDOWMENT FUND

*Notes to Financial Statements (cont.)*

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externally verifiable model inputs. Purchased options actively traded are categorized as Level 1, otherwise options and swaps are generally categorized as Level 2. Derivative instruments included under these policies include futures, forwards, swaps and various forms of options. Derivative instruments in the Fund are used to achieve the following objectives:

- implement investment strategies in a low cost and efficient manner,
- alter the Fund'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 Fund's investment in derivative instruments is to manage and implement investment strategies more effectively and at a lower cost than would be possible in the cash market. All of the Fund's derivative instruments are considered investment derivatives, and therefore do not qualify for hedge accounting; all changes in fair value are included in the net increase (decrease) in fair value of investments in the statements of changes in fiduciary net position.

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

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

# THE UNIVERSITY OF TEXAS SYSTEM

## GENERAL ENDOWMENT FUND

*Notes to Financial Statements (cont.)*

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inability of counterparties to meet the terms of their contracts and from movement in currency and securities fair values and interest rates.

*Futures Contracts* -- The Fund 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 Fund's agent in acquiring the futures position). During the period the futures positions are open, the contracts are marked to market daily; that is, they are fair valued at the close of business each day, and a gain or loss is recorded between the fair value of the contracts that day and on the previous day. The daily gain or loss is referred to as the daily variation margin which is settled in cash with the broker each morning for the amount of the previous day's mark to market. The amount that is settled in cash with the broker each morning is the fair value of the futures contracts, and is included on the statements of fiduciary net position. The Fund 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 Fund enters into forward foreign currency exchange contracts to hedge against foreign currency exchange rate risks on its non-U.S. dollar denominated investment securities and to facilitate trading strategies primarily as a tool to increase or decrease market exposure to various foreign currencies. When entering into a forward foreign currency contract, the Fund agrees to receive or deliver a fixed quantity of foreign currency for an agreed-upon price on an agreed future date. These contracts are fair valued daily and the Fund's net equity therein, representing unrealized gain or loss on the contracts as measured by the difference between the forward foreign exchange rates at the dates of entry into the contracts and the forward rates at the reporting date, is included in the statements of fiduciary net position. Realized and unrealized gains and losses are included in the net increase (decrease) in fair value of investments in the statements of changes in fiduciary net position. These instruments involve market and/or credit risk in excess of the amount recognized in the statements of fiduciary net position. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movement in currency and securities fair values and interest rates.

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

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

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

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GENERAL ENDOWMENT FUND  
Notes to Financial Statements (cont.)

**Note 3 – Investments and Investment Derivatives**

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

	Fair Value Measurements Using			
	Fair Value as of August 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments by Fair Value Level:</b>				
<b>Equity Securities:</b>				
Domestic Common Stock	\$ 352,102,390	\$ 352,102,390	\$ -	\$ -
Foreign Common Stock	793,111,039	793,102,534	8,505	-
Other Equities	11,952,867	11,952,867	-	-
<b>Total Equity Securities</b>	<b>1,157,166,296</b>	<b>1,157,157,791</b>	<b>8,505</b>	<b>-</b>
<b>Preferred Stock:</b>				
Domestic Preferred Stock	703,415	44,640	658,775	-
Foreign Preferred Stock	24,415,128	24,415,128	-	-
<b>Total Preferred Stock</b>	<b>25,118,543</b>	<b>24,459,768</b>	<b>658,775</b>	<b>-</b>
<b>Debt Securities:</b>				
U.S. Government Obligations	71,524,789	50,253,780	21,271,009	-
Foreign Government and Provincial Obligations	267,015,926	-	267,015,926	-
Corporate Obligations	141,921,572	-	141,921,572	-
Other	1,795,529	-	1,795,529	-
<b>Total Debt Securities</b>	<b>482,257,816</b>	<b>50,253,780</b>	<b>432,004,036</b>	<b>-</b>
<b>Purchased Options</b>	<b>1,259,567</b>	<b>1,082,923</b>	<b>176,644</b>	<b>-</b>
<b>Convertible Securities</b>	<b>277,004</b>	<b>-</b>	<b>277,004</b>	<b>-</b>
<b>Investment Funds:</b>				
Private Investments	68,610,437	-	-	68,610,437
Emerging Markets Equity	7,902	7,902	-	-
Fixed Income	10,737,603	10,737,603	-	-
<b>Total Investment Funds</b>	<b>79,355,942</b>	<b>10,745,505</b>	<b>-</b>	<b>68,610,437</b>
<b>Physical Commodities - Gold</b>	<b>188,563,727</b>	<b>188,563,727</b>	<b>-</b>	<b>-</b>
<b>Cash Equivalents</b>	<b>250,838,544</b>	<b>250,838,544</b>	<b>-</b>	<b>-</b>
<b>Total Investments by Fair Value Level</b>	<b>2,184,837,439</b>	<b>\$ 1,683,102,038</b>	<b>\$ 433,124,964</b>	<b>\$ 68,610,437</b>
<b>Cash</b>	<b>40,184,088</b>			
<b>Investments Funds Fair Valued Using Practical Expedient:</b>				
<b>Hedge Funds</b>	<b>2,245,420,541</b>			
<b>Private Investments</b>	<b>3,038,948,339</b>			
<b>Public Markets</b>	<b>1,014,785,143</b>			
<b>Investments Funds Fair Valued Using Practical Expedient</b>	<b>6,299,154,023</b>			
<b>Total Investments, at Fair Value</b>	<b>\$ 8,524,175,550</b>			
<b>Investment Derivatives</b>				
Foreign Exchange Contracts	\$ 252,731	\$ -	\$ 252,731	\$ -
Futures Contracts	782,334	782,334	-	-
Swaps	(1,287,904)	-	(1,287,904)	-
Written Options	(1,438,246)	-	(1,438,246)	-
<b>Investment Derivatives</b>	<b>\$ (1,691,085)</b>	<b>\$ 782,334</b>	<b>\$ (2,473,419)</b>	<b>\$ -</b>

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GENERAL ENDOWMENT FUND

Notes to Financial Statements (cont.)

	Fair Value Measurements Using			
	Fair Value as of August 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)
<b>Investments by Fair Value Level:</b>				
<b>Equity Securities:</b>				
Domestic Common Stock	\$ 293,324,932	\$ 293,324,932	\$ -	\$ -
Foreign Common Stock	711,621,675	711,621,675	-	-
Other Equities	1,747	1,747	-	-
<b>Total Equity Securities</b>	<b>1,004,948,354</b>	<b>1,004,948,354</b>	<b>-</b>	<b>-</b>
<b>Preferred Stock:</b>				
Domestic Preferred Stock	483,740	74,237	409,503	-
Foreign Preferred Stock	17,009,109	17,009,109	-	-
<b>Total Preferred Stock</b>	<b>17,492,849</b>	<b>17,083,346</b>	<b>409,503</b>	<b>-</b>
<b>Debt Securities:</b>				
U.S. Government Obligations	85,912,254	63,356,847	22,555,407	-
Foreign Government and Provincial Obligations	212,199,127	-	212,199,127	-
Corporate Obligations	136,277,695	-	136,277,695	-
Other	1,651,277	-	1,651,277	-
<b>Total Debt Securities</b>	<b>436,040,353</b>	<b>63,356,847</b>	<b>372,683,506</b>	<b>-</b>
<b>Purchased Options</b>	<b>13,003,080</b>	<b>290,208</b>	<b>12,712,872</b>	<b>-</b>
<b>Investment Funds:</b>				
Private Investments	60,437,389	-	-	60,437,389
Emerging Markets Equity	16,620	16,620	-	-
Fixed Income	9,123,379	9,123,379	-	-
<b>Total Investment Funds</b>	<b>69,577,388</b>	<b>9,139,999</b>	<b>-</b>	<b>60,437,389</b>
<b>Physical Commodities - Gold</b>	<b>160,736,037</b>	<b>160,736,037</b>	<b>-</b>	<b>-</b>
<b>Cash Equivalents</b>	<b>288,994,306</b>	<b>288,994,306</b>	<b>-</b>	<b>-</b>
<b>Total Investments by Fair Value Level</b>	<b>1,990,792,367</b>	<b>\$ 1,544,549,097</b>	<b>\$ 385,805,881</b>	<b>\$ 60,437,389</b>
<b>Cash</b>	<b>107,174,239</b>			
<b>Investments Funds Fair Valued Using Practical Expedient:</b>				
<b>Hedge Funds</b>	<b>2,469,005,189</b>			
<b>Private Investments</b>	<b>2,600,815,535</b>			
<b>Public Markets</b>	<b>1,105,393,255</b>			
<b>Investments Funds Fair Valued Using Practical Ex</b>	<b>6,175,213,979</b>			
<b>Total Investments, at Fair Value</b>	<b>\$ 8,273,180,585</b>			

	Fair Value Measurements Using			
	Fair Value as of August 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)
<b>Investment Derivatives</b>				
Foreign Exchange Contracts	\$ 2,392,531	\$ -	\$ 2,392,531	\$ -
Futures Contracts	(11,215,775)	(11,215,775)	-	-
Swaps	(1,584,757)	-	(1,584,757)	-
Written Options	(7,637,347)	-	(7,637,347)	-
<b>Investment Derivatives</b>	<b>\$ (18,045,348)</b>	<b>\$ (11,215,775)</b>	<b>\$ (6,829,573)</b>	<b>\$ -</b>

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



**THE UNIVERSITY OF TEXAS SYSTEM**  
**GENERAL ENDOWMENT FUND**

*Notes to Financial Statements (cont.)*

Investment funds fair valued at net asset value per share or based on the PUF's ownership interest in partners' capital include externally managed funds, limited partnerships, and corporate structures which are generally unrated and may be unregulated.

The composition of investment funds that are fair valued using a practical expedient at August 31, 2016 and 2015 is summarized in the following tables as they are included within the asset mix of the Fund.

<b>Investment Funds:</b>	<b>Fair Value as of August 31, 2016</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
<b>Hedge Funds:</b>				
<b>Developed Country Equity</b>				
Redeemable Within One Year	\$ 1,013,466,748	\$ -	Quarterly to Annually	15 - 95 Days
Redeemable Beyond One Year	470,227,580	-	Monthly to Annually	45 - 90 Days
Nonredeemable	44,359,008	25,736,110	Not Applicable	Not Applicable
<b>Total Developed Country Equity</b>	<b>1,528,053,336</b>	<b>25,736,110</b>		
<b>Credit-Related Fixed Income</b>				
Redeemable Within One Year	205,934,714	-	Quarterly to Annually	90 Days
Redeemable Beyond One Year	56,070,345	-	Quarterly/Annually	90 - 120 Days
Nonredeemable	81,755,978	59,829,834	Not Applicable	Not Applicable
<b>Total Credit-Related Fixed Income</b>	<b>343,761,037</b>	<b>59,829,834</b>		
<b>Investment Grade Fixed Income</b>				
Redeemable Within One Year	153,380,210	-	Monthly to Annually	5 - 75 Days
Redeemable Beyond One Year	59,373,841	16,385,875	Monthly to Annually	60 - 75 Days
<b>Total Investment Grade Fixed Income</b>	<b>212,754,051</b>	<b>16,385,875</b>		
<b>Emerging Market Equity</b>				
Redeemable Within One Year	48,769,977	-	Annually	60 - 90 Days
Redeemable Beyond One Year	99,900,017	-	Annually	60 - 90 Days
Nonredeemable	11,923,080	-	Not Applicable	Not Applicable
<b>Total Emerging Markets Equity</b>	<b>160,593,074</b>	<b>-</b>		
<b>Natural Resources</b>				
Redeemable Within One Year	187,880	-	Daily	Not Applicable
Nonredeemable	71,163	-	Not Applicable	Not Applicable
<b>Total Natural Resources</b>	<b>259,043</b>	<b>-</b>		
<b>Total Hedge Funds</b>	<b>2,245,420,541</b>	<b>101,951,819</b>		
<b>Private Investments (Nonredeemable):</b>				
Developed Country Equity	1,002,011,587	537,772,114	Not Applicable	Not Applicable
Credit-Related Fixed Income	311,328,335	106,945,436	Not Applicable	Not Applicable
Natural Resources	808,563,835	608,247,328	Not Applicable	Not Applicable
Emerging Market Equity	364,042,411	235,769,190	Not Applicable	Not Applicable
Real Estate	553,002,171	478,379,037	Not Applicable	Not Applicable
<b>Total Private Investments</b>	<b>3,038,948,339</b>	<b>1,967,113,105</b>		
<b>Public Markets:</b>				
<b>Developed Country Equity</b>				
Redeemable Within One Year	583,183,086	-	Monthly to Annually	1 - 90 Days
Redeemable Beyond One Year	192,852,626	-	Quarterly to Annually	1 - 184 Days
<b>Total Developed Country Equity</b>	<b>776,035,712</b>	<b>-</b>		
<b>Emerging Market Equity</b>				
Redeemable Within One Year	210,660,337	-	Daily to Annually	1 - 90 Days
Redeemable Beyond One Year	21,455,541	-	Quarterly	45 - 60 Days
Nonredeemable	6,633,553	10,013,141	Not Applicable	Not Applicable
<b>Total Emerging Markets Equity</b>	<b>238,749,431</b>	<b>10,013,141</b>		
<b>Total Public Markets</b>	<b>1,014,785,143</b>	<b>10,013,141</b>		
<b>Total Investment Funds</b>	<b>\$ 6,299,154,023</b>	<b>\$ 2,079,078,065</b>		

THE UNIVERSITY OF TEXAS SYSTEM

GENERAL ENDOWMENT FUND

Notes to Financial Statements (cont.)

Investment Funds:	Fair Value as of August 31, 2015	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
<b>Hedge Funds:</b>				
<b>Developed Country Equity</b>				
Redeemable Within One Year	\$ 1,351,415,733	\$ -	Monthly to Annually	15 - 95 Days
Redeemable Beyond One Year	447,170,364	-	Monthly to Annually	60 - 90 Days
Nonredeemable	42,028,218	43,738,557	Not Applicable	Not Applicable
<b>Total Developed Country Equity</b>	<b>1,840,614,315</b>	<b>43,738,557</b>		
<b>Credit-Related Fixed Income</b>				
Redeemable Within One Year	130,570,174	-	Quarterly/Annually	1 - 90 Days
Redeemable Beyond One Year	157,712,494	-	Annually	90 - 180 Days
Nonredeemable	68,248,521	37,252,719	Not Applicable	Not Applicable
<b>Total Credit-Related Fixed Income</b>	<b>356,531,189</b>	<b>37,252,719</b>		
<b>Investment Grade Fixed Income</b>				
Redeemable Within One Year	133,004,592	-	Monthly/Quarterly	5 - 69 Days
<b>Emerging Market Equity</b>				
Redeemable Within One Year	12,854,370	-	Annually	75 Days
Redeemable Beyond One Year	109,090,109	-	Monthly	60 - 90 Days
Nonredeemable	15,418,990	-	Not Applicable	Not Applicable
<b>Total Emerging Markets Equity</b>	<b>137,363,469</b>	<b>-</b>		
<b>Real Estate</b>				
Redeemable Within One Year	622,436	-	Not Applicable	Not Applicable
<b>Natural Resources</b>				
Redeemable Within One Year	322,541	-	Daily	Not Applicable
Nonredeemable	546,647	-	Not Applicable	Not Applicable
<b>Total Natural Resources</b>	<b>869,188</b>	<b>-</b>		
<b>Total Hedge Funds</b>	<b>2,469,005,189</b>	<b>80,991,276</b>		
<b>Private Investments (Nonredeemable):</b>				
Developed Country Equity	995,282,153	515,038,542	Not Applicable	Not Applicable
Credit-Related Fixed Income	308,499,188	119,511,499	Not Applicable	Not Applicable
Natural Resources	585,349,333	634,659,626	Not Applicable	Not Applicable
Emerging Market Equity	305,578,365	226,441,899	Not Applicable	Not Applicable
Real Estate	406,106,496	478,715,844	Not Applicable	Not Applicable
<b>Total Private Investments</b>	<b>2,600,815,535</b>	<b>1,974,367,410</b>		
<b>Public Markets:</b>				
<b>Developed Country Equity</b>				
Redeemable Within One Year	645,567,561	-	Monthly to Annually	1 - 90 Days
Redeemable Beyond One Year	207,686,084	-	Quarterly, Annually	1 - 184 Days
<b>Total Developed Country Equity</b>	<b>853,253,645</b>	<b>-</b>		
<b>Emerging Market Equity</b>				
Redeemable Within One Year	207,928,394	-	Daily to Annually	1 - 90 Days
Nonredeemable	7,136,205	15,025,711	Not Applicable	Not Applicable
<b>Total Emerging Markets Equity</b>	<b>215,064,599</b>	<b>15,025,711</b>		
<b>Real Estate</b>				
Redeemable Within One Year	37,075,011	-	Monthly	30 Days
<b>Total Public Markets</b>	<b>1,105,393,255</b>	<b>15,025,711</b>		
<b>Total Investment Funds</b>	<b>\$ 6,175,213,979</b>	<b>\$ 2,070,384,397</b>		

The Fund invests in hedge funds through unit interests in investment pools established in the name of the UT Board. Amounts presented in the Fund's financial statements and related note disclosures represent the Fund's pro-rata share of these investment pool assets. The hedge fund pools are invested in private funds with external investment managers who invest in equity and fixed income securities, including related derivatives, of both domestic and international issuers. These investment managers may invest in both long and short securities and may utilize leverage in their portfolios. Certain funds are subject to a lock-up restriction of typically one to three years before the investment may be withdrawn from the investment manager without significant penalty. The amounts shown as nonredeemable are considered to be illiquid in that they typically become liquid over multi-year

THE UNIVERSITY OF TEXAS SYSTEM  
GENERAL ENDOWMENT FUND

*Notes to Financial Statements (cont.)*

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periods when and if the fund managers distribute proceeds realized from the underlying fund investments and the timing cannot be estimated. There are certain risks associated with these private funds, some of which include investment manager risk, market risk, and liquidity risk, as well as the risk of utilizing leverage in the portfolios. The hedge fund pools have committed \$477,253,372 of future funding to various hedge fund investments as of August 31, 2016 of which the Fund's pro-rata portion is \$101,951,820.

The Fund invests in private investments in investment pools created in the name of the UT Board. Amounts presented in the Fund's financial statements and related note disclosures for the years ended August 31, 2016 and 2015, represent the Fund's pro-rata share of the investment pool assets. The private investment pools are generally invested in limited partnerships with external investment managers or general partners who invest primarily in private equity securities. These investments are domestic and international, are illiquid, and typically become liquid over multi-year periods when and if the fund managers distribute proceeds realized from underlying fund investments. It is estimated that the underlying assets of the private investments will be liquidated over the next seven to ten years. There are certain risks associated with these investments, some of which are liquidity risk, market risk, event risk, and investment manager risk. Certain of these investments are held through limited liability companies, of which UTIMCO is the manager of the limited liability companies. The private investment pools have committed \$6,071,336,744 of future funding to various private investments as of August 31, 2016 of which the Fund's pro-rata portion is \$1,967,113,105.

Public market funds are invested in exchange traded funds, index funds, and private placements with external investment managers who invest in equity and fixed income securities, including related derivatives, of both domestic and international issuers. These funds are characterized as public market funds based on individual risk/return characteristics and their relationship to the overall asset mix of the Fund. Some of these investment managers may invest in both long and short securities and may utilize modest leverage in their portfolios. Certain funds are subject to a lock-up restriction of typically one to three years before the investment may be withdrawn from the investment manager without significant penalty. The amounts shown as nonredeemable are considered to be illiquid in that they typically become liquid over multi-year periods when and if the fund managers distribute proceeds realized from the underlying fund investments and the timing cannot be estimated. Certain of these investments are held through limited liability companies of which UTIMCO is the manager of the limited liability companies. There are certain risks associated with these investments, some of which are investment manager risk, market risk, and liquidity risk, as well as the risk of utilizing leverage in the portfolios. Future funding in the amount of \$37,113,198, of which the Fund's pro-rata portion is \$10,013,141 has been committed to certain public market funds as of August 31, 2016.

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

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

# THE UNIVERSITY OF TEXAS SYSTEM

## GENERAL ENDOWMENT FUND

*Notes to Financial Statements (cont.)*

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- *Investment strategy risk* -- These funds often employ sophisticated investment strategies and may use leverage which could result in the loss of invested capital.

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

### **Note 4 – Investment Risk**

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

#### **(A) Credit Risk**

Article VII, Section 11b of the Texas Constitution authorizes the UT Board, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (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. Pursuant to Section 51.0031(c) of the Texas Education Code, the UT Board has elected the prudent investor standard to govern its management of the Fund.

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 Fund’s investment policy does not provide specific requirements and limitations regarding 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 as of August 31, 2016 and 2015:

**THE UNIVERSITY OF TEXAS SYSTEM**  
**GENERAL ENDOWMENT FUND**  
*Notes to Financial Statements (cont.)*

Investment Type	August 31,		Rating
	2016	2015	
U.S. Government Guaranteed	\$ 53,723,973	\$ 66,943,862	AA
U.S. Government Non-Guaranteed:			
U.S. Agency	1,099,432	10,851,086	AA
U.S. Agency Asset Backed	16,701,384	8,117,306	AA
Total U.S. Government Non-Guaranteed	17,800,816	18,968,392	
Total U.S. Government	71,524,789	85,912,254	
Corporate Obligations:			
Domestic	6,234,849	6,297,654	AAA
Domestic	7,886,981	3,589,375	AA
Domestic	35,037,647	37,303,215	A
Domestic	30,077,003	20,525,568	BAA/BBB
Domestic	4,871,480	2,767,114	BA/BB
Domestic	296,108	270,309	B
Domestic	1,076,445	1,868,805	CAA/CCC
Domestic	278,349	290,477	CA/CC
Domestic	-	233,514	C
Domestic	577,863	219,060	D
Domestic	129,900	305,537	Not Rated
Foreign	10,465,531	9,346,741	AAA
Foreign	16,852,230	18,555,200	AA
Foreign	7,844,017	12,692,656	A
Foreign	14,337,244	16,205,646	BAA/BBB
Foreign	3,079,465	2,338,570	BA/BB
Foreign	2,515,580	2,702,766	B
Foreign	360,627	705,227	CAA/CCC
Foreign	253	60,261	Not Rated
Total Corporate Obligations	141,921,572	136,277,695	
Foreign Government and Provincial Obligations	40,739,004	32,244,698	AAA
Foreign Government and Provincial Obligations	58,211,174	45,658,347	AA
Foreign Government and Provincial Obligations	69,421,119	63,898,792	A
Foreign Government and Provincial Obligations	64,958,022	61,943,686	BAA/BBB
Foreign Government and Provincial Obligations	33,335,323	8,293,278	BA/BB
Foreign Government and Provincial Obligations	351,284	160,326	Not Rated
Total Foreign Government and Provincial Obligations	267,015,926	212,199,127	
Other Debt Securities	148,364	151,482	AAA
Other Debt Securities	143,410	193,779	AA
Other Debt Securities	1,503,755	1,306,016	A
Total Other Debt Securities	1,795,529	1,651,277	
Total Debt Securities	\$ 482,257,816	\$ 436,040,353	
Convertible Securities	\$ 277,004	\$ -	Not Rated
Other Investment Funds - Debt	\$ 10,737,603	\$ 9,123,379	BA/BB
Cash Equivalents - Money Market Funds	\$ 241,403,252	\$ 288,994,306	AAA
Cash Equivalents - Money Market Funds	9,435,292	-	Not Rated
Cash	40,184,088	107,174,239	Not Rated
Total Cash and Cash Equivalents	\$ 291,022,632	\$ 396,168,545	
<b>Net Deposit with Brokers for Derivative Contracts:</b>			
U.S. Government Guaranteed	\$ 415,957	\$ 999,877	AA
Cash	7,326,560	(2,908,154)	Not Rated
<b>Total Net Deposit with Brokers for Derivative Contracts</b>	<b>\$ 7,742,517</b>	<b>\$ (1,908,277)</b>	

(B) ***Concentrations of Credit Risk***

The Fund'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. The Fund does not hold any direct investments in any one issuer that is 5% percent or more of the market value of the Fund'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 Fund 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 Fund will not be able to recover the fair value of its investment or collateral securities that are in the possession of another party. Texas State Statutes and the Fund's investment policy statements do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. As of August 31, 2016 and 2015, the Fund does not have any deposits or investments that are exposed to custodial credit risk.

(D) ***Interest Rate Risk***

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

**THE UNIVERSITY OF TEXAS SYSTEM**  
**GENERAL ENDOWMENT FUND**  
*Notes to Financial Statements (cont.)*

Investment Type	August 31,			
	2016		2015	
	Value	Modified Duration	Value	Modified Duration
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	\$ 44,528,857	9.21	\$ 57,329,970	11.99
U.S. Treasury Inflation Protected	5,724,923	7.22	6,026,878	8.23
U.S. Agency Asset Backed	3,470,193	2.76	3,587,014	3.81
Total U.S. Government Guaranteed	<u>53,723,973</u>	8.58	<u>66,943,862</u>	11.21
U.S. Government Non-Guaranteed:				
U.S. Agency	1,099,432	0.13	10,851,086	1.01
U.S. Agency Asset Backed	16,701,384	3.78	8,117,306	2.09
Total U.S. Government Non-Guaranteed	<u>17,800,816</u>	3.55	<u>18,968,392</u>	1.47
Total U.S. Government	<u>71,524,789</u>	7.33	<u>85,912,254</u>	9.06
Corporate Obligations:				
Domestic	86,466,625	6.62	73,670,628	5.77
Foreign	55,454,947	6.40	62,607,067	4.56
Total Corporate Obligations	<u>141,921,572</u>	6.53	<u>136,277,695</u>	5.21
Foreign Government and Provincial Obligations	<u>267,015,926</u>	6.21	<u>212,199,127</u>	6.90
Other Debt Securities	<u>1,795,529</u>	12.31	<u>1,651,277</u>	11.21
Total Debt Securities	<u>482,257,816</u>	6.49	<u>436,040,353</u>	6.81
Convertible Securities	<u>277,004</u>	0.28	<u>-</u>	-
Other Investment Funds - Debt	<u>10,737,603</u>	7.00	<u>9,123,379</u>	7.00
Cash and Cash Equivalents	<u>291,022,632</u>	0.05	<u>396,168,545</u>	0.11
Total	<u>\$ 784,295,055</u>	4.11	<u>\$ 841,332,277</u>	3.66
<b>Net Deposit with Brokers for Derivative Contracts:</b>				
U.S. Government Guaranteed:				
U.S. Treasury Bills	\$ -	-	\$ 999,877	0.22
U.S. Treasury Inflation Protected	415,957	8.67	-	-
Total U.S. Government Guaranteed	<u>415,957</u>	8.67	<u>999,877</u>	0.22
Cash	<u>7,326,560</u>	-	<u>(2,908,154)</u>	-
Total Net Deposit with Brokers for Derivative Contracts	<u>\$ 7,742,517</u>	0.47	<u>\$ (1,908,277)</u>	-

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

The Fund may invest in various mortgage backed securities, such as collateralized mortgage backed obligations. The Fund also may invest in investments that have floating rates with periodic coupon changes in market rates, zero coupon bonds and stripped Treasury and Agency securities created from coupon securities. No percentage of holdings limitations are specified in the investment policy statements regarding these types of securities. As of August 31, 2016 and 2015, the Fund'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 \$16,976,699 and \$20,806,035 as of August 31, 2016 and 2015, respectively.

Mortgage backed securities which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. These securities amounted to \$16,726,870 and to \$6,244,054 as of August 31, 2016 and 2015, respectively.

Asset backed securities which are backed by home equity loans, auto loans, equipment loans and credit card receivables. Prepayments by the obligees of the underlying assets in periods of decreasing interest rates could reduce or eliminate the stream of income that would have been received. These securities amounted to \$815,283 and \$1,150,680, as of August 31, 2016 and 2015, respectively.

(F) *Foreign Currency Risk*

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the Fund'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 Fund's total fixed income and developed country equity exposures in the Fund's investment policy statement.

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



**THE UNIVERSITY OF TEXAS SYSTEM**  
**GENERAL ENDOWMENT FUND**

*Notes to Financial Statements (cont.)*

Investment Type	August 31,	
	2016	2015
<b>Domestic Common Stock:</b>		
Hong Kong Dollar	\$ 55,911	\$ -
Indian Rupee	-	1,962
Taiwan Dollar	-	7,036
Total Domestic Common Stock	55,911	8,998
<b>Foreign Common Stock:</b>		
Australian Dollar	16,429,901	8,602,404
Brazilian Real	79,782,627	36,215,087
Canadian Dollar	34,631,568	13,190,646
Chilean Peso	67,484	290,498
Chinese Yuan Renminbi	138,358,077	105,341,737
Colombian Peso	-	102,538
Czech Koruna	1,547,111	998,695
Danish Krone	-	2,820,176
Egyptian Pound	4,531,540	1,555,900
Euro	43,505,777	25,547,044
Hong Kong Dollar	56,332,877	79,144,498
Hungarian Forint	-	75,551
Indian Rupee	23,574,568	23,499,780
Indonesian Rupiah	5,432,552	6,204,903
Japanese Yen	82,468,407	114,537,597
Malaysian Ringgit	5,431,236	5,481,033
Mexican Peso	27,921,558	28,258,142
Moroccan Dirham	731,826	-
Norwegian Krone	233,344	150,773
Philippine Peso	3,126,887	5,281,887
Polish Zloty	847,741	2,039,194
Qatari Riyal	2,613,953	1,776,779
Singapore Dollar	10,631,915	8,801,406
South African Rand	10,340,142	9,928,568
South Korean Won	74,234,891	85,124,364
Swedish Krona	2,971,843	1,598,971
Swiss Franc	3,020,800	3,165,163
Taiwan Dollar	22,035,155	20,377,167
Thai Baht	9,067,983	10,434,172
Turkish Lira	2,668,880	6,090,976
UK Pound	43,665,182	47,781,519
United Arab Emirates Dirham	7,747,138	1,157,721
Vietnamese Dong	4,951,977	4,141,375
Total Foreign Common Stock	718,904,940	659,716,264
<b>Other - Equity Securities:</b>		
Canadian Dollar	385,905	-
Indian Rupee	2,158	-
South African Rand	-	80
Taiwan Dollar	-	595
Thai Baht	-	1,072
UK Pound	5,633	-
Total Other - Equity Securities	393,696	1,747
<b>Foreign Preferred Stock:</b>		
Brazilian Real	14,626,292	11,232,932
Chilean Peso	-	7,496
Colombian Peso	17,812	22,185
Euro	2,134,847	-
South African Rand	13,874	11,475
South Korean Won	6,739,086	4,921,303
Total Foreign Preferred Stock	23,531,911	16,195,391
<b>Foreign Government and Provincial Obligations:</b>		
Australian Dollar	22,709,466	20,610,634
Brazilian Real	23,011,278	18,235,379

**THE UNIVERSITY OF TEXAS SYSTEM  
GENERAL ENDOWMENT FUND**

*Notes to Financial Statements (cont.)*

<b>Investment Type</b>	<b>August 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Foreign Government and Provincial Obligations (continued):</b>		
Canadian Dollar	\$ 6,537,484	\$ 4,824,941
Colombian Peso	2,619,449	1,772,797
Czech Koruna	24,736	-
Euro	34,096,616	48,673,632
Hungarian Forint	6,757,665	4,460,022
Indonesian Rupiah	5,736,918	4,567,441
Japanese Yen	38,541,462	23,141,121
Malaysian Ringgit	14,590,808	7,754,663
Mexican Peso	30,081,549	25,544,667
New Zealand Dollar	20,009,172	14,743,885
Norwegian Krone	7,014,357	5,060,114
Polish Zloty	8,941,663	5,308,464
Romanian Leu	546,138	-
Singapore Dollar	8,381,716	2,317,127
South African Rand	9,975,466	8,155,529
South Korean Won	1,516,937	2,617,615
Swedish Krona	-	164,056
Thai Baht	1,676,365	-
UK Pound	16,994,024	7,538,365
Total Foreign Government and Provincial Obligations	259,763,269	205,490,452
<b>Corporate Obligations:</b>		
Australian Dollar	3,620,623	4,659,515
Danish Krone	4,624,953	1,521,553
Euro	9,899,403	11,602,745
Indian Rupee	253	254
Swedish Krona	-	358,635
UK Pound	4,551,633	6,992,503
Total Corporate Obligations	22,696,865	25,135,205
<b>Purchased Options:</b>		
Brazilian Real	1,173,586	-
Euro	9,404	14,022
Japanese Yen	761	17,965
UK Pound	15,981	-
Total Purchased Options	1,199,732	31,987
<b>Private Investment Funds:</b>		
Australian Dollar	16,235,454	7,836,889
Canadian Dollar	58,278,507	60,461,811
Euro	103,880,878	88,865,791
UK Pound	22,049,580	24,787,430
Total Private Investment Funds	200,444,419	181,951,921
<b>Investment Funds - Emerging Markets:</b>		
Brazilian Real	6,633,553	6,568,099
<b>Convertible Securities</b>		
Brazilian Real	277,004	-
<b>Cash and Cash Equivalents:</b>		
Australian Dollar	98,669	161,710
Brazilian Real	714,527	872,630
Canadian Dollar	3,768	14,771
Chilean Peso	1,234	349
Chinese Yuan Renminbi	33,344,391	67,831,647
Colombian Peso	289,301	147,441
Czech Koruna	79,827	3,454
Danish Krone	227,881	275
Egyptian Pound	(7,545)	2,626
Euro	1,362,506	477,356

**THE UNIVERSITY OF TEXAS SYSTEM**  
**GENERAL ENDOWMENT FUND**

*Notes to Financial Statements (cont.)*

<b>Investment Type</b>	<b>August 31, 2016</b>	<b>August 31, 2015</b>
<b>Cash and Cash Equivalents (continued):</b>		
Hong Kong Dollar	\$ 62,772	\$ 73,514
Hungarian Forint	-	15
Indian Rupee	272,745	51,589
Indonesian Rupiah	42,613	40,653
Israeli Shekel	104	28,466
Japanese Yen	3,603,628	4,187,224
Malaysian Ringgit	84,873	20,221
Mexican Peso	1,174,271	293,258
New Zealand Dollar	63	294
Norwegian Krone	567	570
Peruvian Nuevo Sol	-	1,478
Philippine Peso	3,679	59,251
Polish Zloty	44,724	30,845
Qatari Riyal	-	11,066
Singapore Dollar	7,379	20
South African Rand	260,682	275,024
South Korean Won	1,875,141	1,275,334
Swedish Krona	1,375	4,153
Swiss Franc	(649,614)	720
Taiwan Dollar	1,072,412	113,493
Thai Baht	225,830	8,999
Turkish Lira	133,395	11,465
UK Pound	210,585	137,687
Vietnamese Dong	94,602	63,995
Total Cash and Cash Equivalents	44,636,385	76,201,593
<b>Written Options:</b>		
Australian Dollar	(1,672)	-
Brazilian Real	(1,296,690)	(8,006)
Chinese Yuan Renminbi	-	(5,324)
Euro	(15,555)	(82,683)
Japanese Yen	(874)	-
Mexican Peso	-	(826)
UK Pound	(26,901)	-
Total Written Options	(1,341,692)	(96,839)
<b>Swaps:</b>		
Brazilian Real	-	(18,316)
Canadian Dollar	1,804,902	-
Euro	7,589,965	12,857,533
Japanese Yen	(3,196,653)	(78,911)
Mexican Peso	(1,724)	5,736
South African Rand	(55)	-
Swedish Krona	7,958	(7,487)
Swiss Franc	-	932,320
UK Pound	5,270,913	(13,348)
Total Swaps	11,475,306	13,677,527
<b>Futures:</b>		
Australian Dollar	1,816	-
Canadian Dollar	(114)	1,015
Euro	(3,230)	(10,061)
Japanese Yen	(193)	-
UK Pound	19	(231)
Total Futures	(1,702)	(9,277)
Total	\$ 1,288,669,597	\$ 1,184,873,068

**THE UNIVERSITY OF TEXAS SYSTEM  
GENERAL ENDOWMENT FUND**

*Notes to Financial Statements (cont.)*

**(G) Counterparty (Credit) Risk**

The derivative instruments utilized by the Fund contain varying degrees of off-balance sheet risk whereby changes in the fair values of securities underlying the financial instruments may exceed the amounts recognized in the statements of fiduciary net position. The Fund 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 Fund had gross counterparty exposure as of August 31, 2016 for options, swaps, and foreign currency exchange contracts as shown in the following table:

**Options**

<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Counterparty Rating</u>
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2016</u>	<u>Fair Value as of August 31, 2016</u>	
\$ 41,352,601	\$ 450,524,337	\$ 70,581	\$ 75,417	A
15,700,000	100,000	13,690	81	AA
<u>\$ 57,052,601</u>	<u>\$ 450,624,337</u>	<u>\$ 84,271</u>	<u>\$ 75,498</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, 2016</u>	<u>Fair Value as of August 31, 2016</u>	
\$ 37,847,298	\$ 35,090,562	\$ 19,398,070	\$ 19,400,996	A
228,650	229,340	228,688	229,340	AA
1,061,020	1,870,060	88,677	298,460	BBB
<u>\$ 39,136,968</u>	<u>\$ 37,189,962</u>	<u>\$ 19,715,435</u>	<u>\$ 19,928,796</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, 2016</u>	<u>Fair Value as of August 31, 2016</u>	
\$ 410,841,782	\$ 251,550,227	\$ 7,290,675	\$ 7,036,995	A
29,000	183,802	281	1,230	AA
<u>\$ 410,870,782</u>	<u>\$ 251,734,029</u>	<u>\$ 7,290,956</u>	<u>\$ 7,038,225</u>	

**THE UNIVERSITY OF TEXAS SYSTEM  
GENERAL ENDOWMENT FUND**

*Notes to Financial Statements (cont.)*

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

**Options**

<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Counterparty Rating</u>
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2015</u>	<u>Fair Value as of August 31, 2015</u>	
\$ 2,110,753,503	\$ 1,273,451,195	\$ 12,712,872	\$ 7,502,821	A

**Swaps**

<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Counterparty Rating</u>
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2015</u>	<u>Fair Value as of August 31, 2015</u>	
\$ 14,949,989	\$ 36,955,621	\$ 13,483,354	\$ 14,890,649	A

**Foreign Currency Exchange Contracts**

<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Counterparty Rating</u>
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2015</u>	<u>Fair Value as of August 31, 2015</u>	
\$ 254,358,579	\$ 152,564,229	\$ 6,699,063	\$ 4,300,902	A
-	365,633	-	5,630	AA
<u>\$ 254,358,579</u>	<u>\$ 152,929,862</u>	<u>\$ 6,699,063</u>	<u>\$ 4,306,532</u>	

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

Counterparty risk for swaps, options and foreign currency exchange contracts which are traded over-the-counter is mitigated by having master netting arrangements between the Fund and its counterparties, and by the posting of collateral on a daily basis by the counterparty to the Fund to cover the Fund's exposure to a counterparty above the limits set in place in each master netting agreement. Collateral posted by counterparties is held by the Fund in one of its accounts at the Fund's custodian bank. As of August 31, 2016 and 2015, the Fund held \$2,823,782 and \$6,803,154 respectively, of collateral related to derivative instruments other than futures, and had on deposit with brokers \$10,043,300 and \$3,472,000, respectively, as collateral related to derivative instruments other than futures.

**Note 5 – Securities Lending**

In accordance with the prudent investor investment standards, the Fund loans securities to certain brokers who pay the Fund negotiated lenders' fees. These fees are included in investment income in the statements of changes in fiduciary net position. The Fund 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.

**THE UNIVERSITY OF TEXAS SYSTEM  
GENERAL ENDOWMENT FUND**

*Notes to Financial Statements (cont.)*

For non-U.S. issuers, the collateral should remain at 105% of the market value of the loaned securities at the close of any business day. If it falls below 105%, the borrower must deliver additional collateral by the close of the following business day. The fair value of securities loaned and the fair value of collateral held are as follows at August 31, 2016 and 2015:

<b>Securities on Loan</b>	<b>2016 Fair Value</b>	<b>2015 Fair Value</b>	<b>Type of Collateral</b>	<b>2016 Fair Value of Collateral</b>	<b>2015 Fair Value of Collateral</b>
U.S. Government	\$ 13,673,317	\$ 14,439,533	Cash	\$ 13,952,926	\$ 14,734,139
Foreign					
Government	-	2,871,882	Cash	-	3,015,521
Corporate Bonds	13,054,460	10,136,709	Cash	13,372,356	10,401,989
Common Stock	124,239,458	117,388,383	Cash	128,096,741	122,201,588
<b>Total</b>	<b>\$ 150,967,235</b>	<b>\$ 144,836,507</b>	<b>Total</b>	<b>\$ 155,422,023</b>	<b>\$ 150,353,237</b>
U.S. Government	\$ 4,753,837	\$ 20,022,997	Non-Cash	\$ 4,851,204	\$ 20,436,952
Corporate Bonds	-	298,903	Non-Cash	-	305,053
Common Stock	23,591,357	9,733,210	Non-Cash	24,291,152	10,116,661
<b>Total</b>	<b>\$ 28,345,194</b>	<b>\$ 30,055,110</b>	<b>Total</b>	<b>\$ 29,142,356</b>	<b>\$ 30,858,666</b>

Cash received as collateral for securities lending activities is invested and reinvested in a commingled pool managed exclusively for the benefit of the Fund, the PUF, The University of Texas System Intermediate Term Fund (ITF) and other UT Board accounts that participate in securities lending activities. The pool is managed in accordance with investment guidelines established in the securities lending contract between the Fund 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. The income remaining after the borrower rebates is then shared with the 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 would come from the Fund and the securities lending agent in the same proportion as the split of income.

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

<b>Description</b>	<b>August 31, 2016</b>			<b>August 31, 2015</b>		
	<b>Fair Value</b>	<b>Rating</b>	<b>Weighted Average Maturity In Days</b>	<b>Fair Value</b>	<b>Rating</b>	<b>Weighted Average Maturity In Days</b>
Repurchase Agreements	\$ 84,957,287	No Rating Available	1	\$ 86,900,081	No Rating Available	1
Commercial Paper	10,710,492	P	53	11,303,251	P	18
Floating Rate Notes	29,767,447	AA		26,989,246	AA	
Floating Rate Notes	30,006,153	A		25,161,532	A	
Total Floating Rate Notes	59,773,600		29	52,150,778		29
Other Receivables/Payables	(19,356)	Not Rated	-	(873)	Not Rated	-
Total Collateral Pool Investment	<b>\$ 155,422,023</b>		16	<b>\$ 150,353,237</b>		12

THE UNIVERSITY OF TEXAS SYSTEM

GENERAL ENDOWMENT FUND

Notes to Financial Statements (cont.)

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

	Fair Value as of August 31, 2016	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Repurchase Agreements	\$ 84,957,287	\$ -	\$ 84,957,287	\$ -
Commercial Paper	10,710,492	-	10,710,492	-
Floating Rate Notes	59,773,600	-	59,773,600	-
<b>Total by Fair Value Level</b>	155,441,379	\$ -	\$ 155,441,379	\$ -
Other Receivables/Payables	(19,356)			
<b>Total Collateral Pool Investments</b>	<u>\$ 155,422,023</u>			

	Fair Value as of August 31, 2015	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Repurchase Agreements	\$ 86,900,081	\$ -	\$ 86,900,081	\$ -
Commercial Paper	11,303,251	-	11,303,251	-
Floating Rate Notes	52,150,778	-	52,150,778	-
<b>Total by Fair Value Level</b>	150,354,110	\$ -	\$ 150,354,110	\$ -
Other Receivables/Payables	(873)			
<b>Total Collateral Pool Investments</b>	<u>\$ 150,353,237</u>			

Collateral pool investments are uninsured, and are held by the securities lending agent, in its name, on behalf of the Fund, 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 Fund or the borrower of the associated loaned securities. Therefore, the collateral pool is not exposed to custodial credit risk because the pool investments are not held by counterparties to the lending transactions or the counterparties' trust department or agent.

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

In the event of default, where the borrower is unable to return the securities loaned, the Fund 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 Fund from any loss due to borrower default.

**THE UNIVERSITY OF TEXAS SYSTEM  
GENERAL ENDOWMENT FUND**

*Notes to Financial Statements (cont.)*

As of August 31, 2016 and 2015, the Fund had no credit risk exposure to borrowers because the amounts the Fund owed to borrowers exceeded the amounts the borrowers owed the Fund.

There were no significant violations of legal or contractual provisions, no borrower or securities lending agent default losses, and no recoveries of prior period losses during the years ended August 31, 2016 and 2015.

**Note 6 – Written Options**

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

<b>Type</b>	<b>Fair Value at August 31, 2016</b>		<b>Fair Value at August 31, 2015</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
Interest Rate Swap	\$ -	\$ 7,127	\$ -	\$ 25,429
Credit Default Swap	-	614	-	-
Commodity	-	-	-	2,024
Currency	-	17,205	-	12,692
Equity	-	1,295,155	-	2,286,251
	<u>\$ -</u>	<u>\$ 1,320,101</u>	<u>\$ -</u>	<u>\$ 2,326,396</u>

The fair values included on the statements of fiduciary net position as options written, at fair value. The changes in fair value of open call options for the years ended August 31, 2016 and 2015 were a decrease and an increase in the amount of \$833,554 and \$3,994,126, respectively, which are included in the net increase (decrease) in fair value of investments on the statements of changes in fiduciary net position.

The following table discloses the fair values of the Fund’s written put option contracts as of August 31, 2016 and 2015:

<b>Type</b>	<b>Fair Value at August 31, 2016</b>		<b>Fair Value at August 31, 2015</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
Interest Rate Swap	\$ -	\$ 874	\$ -	\$ 56,752
Credit Default Swap	-	-	-	506
Commodity	-	65,444	-	132,503
Currency	-	50,293	-	1,464
Equity	-	1,534	-	5,119,726
	<u>\$ -</u>	<u>\$ 118,145</u>	<u>\$ -</u>	<u>\$ 5,310,951</u>

The fair values are included on the statements of fiduciary net position as options written, at fair value. The changes in fair value of open put options for the years ended August 31, 2016 and 2015 were a decrease in the amount of \$23,508 and \$1,446,994, respectively, which are included in the net increase (decrease) in fair value of investments on the statements of changes in fiduciary net position.



**THE UNIVERSITY OF TEXAS SYSTEM**  
**GENERAL ENDOWMENT FUND**  
*Notes to Financial Statements (cont.)*

**Note 7 – Swaps**

The following table discloses the notional amounts and the fair values of the types of outstanding swap contracts as of August 31, 2016:

Type	Notional Value	Fair Value at August 31, 2016	
		Assets	Liabilities
Interest Rate	\$ 79,605,487	\$ 971,243	\$ 2,037,792
Credit Default	27,268,500	357,510	53,663
Commodity	4,355,127	9,828	273,050
Currency	37,422,510	18,551,417	18,880,756
Equity	18,469,975	239,656	172,297
Total		\$ 20,129,654	\$ 21,417,558

The change in fair value of open swap positions for the year ended August 31, 2016 was a decrease in the amount of \$1,140,210, which is included in the net increase (decrease) in fair value of investments on the statements of changes in fiduciary net position.

The following table discloses the notional amounts and the fair values of the types of outstanding swap contracts as of August 31, 2015:

Type	Notional Value	Fair Value at August 31, 2015	
		Assets	Liabilities
Interest Rate	\$ 100,716,468	\$ 103,937	\$ 638,457
Credit Default	28,463,600	347,896	92,687
Inflation	692,100	12,796	-
Commodity	7,507,740	19,963	238,484
Currency	26,454,024	13,438,751	13,153,039
Volatility	10,340	2,690	3,061
Equity	11,574,449	-	1,385,062
Total		\$ 13,926,033	\$ 15,510,790

The change in fair value of open swap positions for the year ended August 31, 2015 was a decrease in the amount of \$1,574,471, which is included in the net increase (decrease) in fair value of investments on the statements of changes in fiduciary net position.

**Note 8 – Futures Contracts**

During the years ended August 31, 2016 and 2015, the Fund's asset classes that used futures include domestic and foreign debt and commodities. The changes in fair value of open futures contracts for the years ended August 31, 2016 and 2015, were increases in the amounts of \$3,968,611 and \$18,656,592, respectively, which are included in the net increase (decrease) in fair value of investments on the statements of changes in fiduciary net position. The Fund had \$523,000 and \$1,422,878 on deposit with brokers for collateral as margin for the futures contracts as of August 31, 2016 and 2015, respectively. Short futures may be used by the Fund to hedge the Fund's interest rate or currency risk associated with security positions.

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*Notes to Financial Statements (cont.)*

Futures contracts on commodities are traded on several different exchanges around the world. The daily cash settlements made by the investment manager for these open commodities contracts are made on a net basis to each respective exchange. The fair value, for August 31, 2016 and 2015, shown in the table below for these open contracts do not include amounts previously settled with the exchanges. Net cash settlements for these open commodities contracts amounted to \$3,186,276 and \$29,872,367, respectively, as of August 31, 2016 and 2015.

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

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

<b>Contract</b>	<b>Notional Value at August 31, 2016</b>		<b>Fair Value at August 31, 2016</b>	
	<b>Long</b>	<b>Short</b>	<b>Assets</b>	<b>Liabilities</b>
Commodities	\$ 75,955,450	\$ 17,872,245	\$ 2,762,267	\$ 1,985,411
Domestic Fixed Income	33,963,938	9,179,850	7,969	788
Foreign Fixed Income	20,631,983	9,584,492	8,822	10,524
<b>Total</b>	<b>\$ 130,551,371</b>	<b>\$ 36,636,587</b>	<b>\$ 2,779,058</b>	<b>\$ 1,996,723</b>

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

<b>Contract</b>	<b>Notional Value at August 31, 2015</b>		<b>Fair Value at August 31, 2015</b>	
	<b>Long</b>	<b>Short</b>	<b>Assets</b>	<b>Liabilities</b>
Commodities	\$ 244,808,384	\$ 55,012,986	\$ 5,102,376	\$ 16,280,777
Domestic Fixed Income	24,815,281	-	-	28,547
Foreign Fixed Income	9,745,681	4,144,587	5,954	14,781
<b>Total</b>	<b>\$ 279,369,346</b>	<b>\$ 59,157,573</b>	<b>\$ 5,108,330</b>	<b>\$ 16,324,105</b>

THE UNIVERSITY OF TEXAS SYSTEM

GENERAL ENDOWMENT FUND

Notes to Financial Statements (cont.)

**Note 9 – Foreign Currency Exchange Contracts**

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

Currency	Net Buy August 31, 2016	Net Sell August 31, 2016	Unrealized Gains on Foreign Currency Exchange Contracts August 31, 2016	Unrealized Losses on Foreign Currency Exchange Contracts August 31, 2016
Australian Dollar	\$ -	\$ 11,708,645	\$ 134,704	\$ 210,163
Brazilian Real	-	5,766,839	9,813	164,988
Canadian Dollar	1,884,088	-	35,121	31,471
Chilean Peso	6,211,989	-	84,734	47,900
Chinese Yuan (Offshore)	-	202,207,114	3,792,886	-
Chinese Yuan Renminbi	-	4,112,563	161,885	128,341
Colombian Peso	-	1,733,376	35,490	55,245
Czech Koruna	-	104,846	658	-
Danish Krone	-	4,414,160	14,315	9,117
Euro	-	636,475	674,044	286,510
Hong Kong Dollar	-	5,700,971	800	15
Indian Rupee	5,795,843	-	17,287	167
Israeli Shekel	115,144	-	1,120	-
Japanese Yen	-	5,507,895	408,818	5,378,799
Malaysian Ringgit	-	3,147,324	4,840	2,363
Mexican Peso	-	3,415,510	596	33,705
New Zealand Dollar	-	19,433,639	2,987	130,296
Norwegian Kroner	7,846,685	-	73,163	26,763
Polish Zloty	-	1,472,336	2,876	-
Russian Ruble	738,724	-	20,375	747
Singapore Dollar	-	26,727,843	356,042	46,199
South African Rand	702,612	-	2,090	43,386
South Korean Won	-	3,393,610	76,607	6,609
Swedish Krona	11,937,671	-	10,137	70,801
Swiss Franc	615,273	-	-	4,545
Thai Baht	-	1,714,468	-	17,425
Turkish Lira	231,466	-	-	95
UK Pound	-	3,118,061	1,369,568	342,575
	\$ 36,079,495	\$ 304,315,675	\$ 7,290,956	\$ 7,038,225

The change in fair value of open foreign currency exchange contracts for the year ended August 31, 2016 was an increase in the amount of \$252,731, which is included in the net increase (decrease) in fair value of investments on the statements of changes in fiduciary net position.

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*Notes to Financial Statements (cont.)*

Currency	Net Buy August 31, 2015	Net Sell August 31, 2015	Unrealized Gains on Foreign Currency Exchange Contracts August 31, 2015	Unrealized Losses on Foreign Currency Exchange Contracts August 31, 2015
Australian Dollar	\$ -	\$ 17,026,631	\$ 1,037,510	\$ 32,851
Brazilian Real	-	5,941,834	856,073	379,339
Canadian Dollar	1,857,828	-	185,989	91,749
Chilean Peso	7,684,632	-	-	559,511
Chinese Yuan Renminbi	-	1,052,080	53,021	88,017
Colombian Peso	-	1,775,796	112,658	-
Danish Krone	-	1,329,307	-	31,901
Euro	12,302,627	-	388,899	556,424
Hong Kong Dollar	-	1,348	-	-
Indian Rupee	6,158,688	-	-	44,622
Indonesian Rupiah	-	75,584	-	260
Israeli Shekel	82,284	-	-	3,431
Japanese Yen	-	68,475,109	2,434,475	332,645
Malaysian Ringgit	-	1,138,068	48,876	9,745
Mexican Peso	-	37,004	195,682	698,132
New Zealand Dollar	-	17,186,952	958,963	18,199
Norwegian Kroner	4,574,650	-	-	99,722
Philippines Peso	-	158,217	-	205
Polish Zloty	1,525,817	-	23,179	713
Russian Ruble	58,846	-	605	1,535
Singapore Dollar	-	7,385,415	99,979	3,615
South African Rand	-	1,033,112	26,677	2,859
South Korean Won	-	1,368,733	66,653	61,615
Swedish Krona	4,202,131	-	32,817	3,509
Swiss Franc	606,400	-	9,915	-
Taiwan Dollar	43,596,612	-	1,327	1,109,464
Thai Baht	-	398,931	2,905	-
Turkish Lira	128,201	-	1,755	9,989
UK Pound	-	9,533,773	161,105	166,480
	\$ 82,778,716	\$ 133,917,894	\$ 6,699,063	\$ 4,306,532

The change in fair value of open foreign currency exchange contracts for the year ended August 31, 2015 was an increase in the amount of \$2,359,418, which is included in the net increase (decrease) in fair value of investments on the statements of changes in fiduciary net position.

**Note 10 – Purchase Agreement**

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 Fund, to purchase up to \$3,457,675,000 in UT System flexible rate notes in the event of a failed remarketing of such notes. The individual funds under management are not committed to a specific amount, rather all of the funds may be required to provide for the amount noted.

**Note 11 – Fees and Expenses**

The Fund incurs investment management fees from various external managers of the Fund. The fees, generally assessed quarterly, are based on a percentage of the market value of investments held by each individual investment manager and currently range from 0.10% to 1.50%. In addition to quarterly investment management fees, the Fund may pay performance-based management fees for investment performance in excess of certain defined benchmarks as provided for in the managers' contracts. The investment management fees presented in the statements of changes in fiduciary net position represent only those paid directly from the Fund, and do not include fees incurred and charged by general partners in private investments, fees charged by mutual fund managers, and fees charged by hedge fund managers as these types of fees are netted directly against returns for those investments in accordance with standard industry practice. The investment management fees assessed by external managers and paid directly by the Fund for the years ended August 31, 2016 and 2015 were \$16,966,740 and \$22,931,316, respectively.

Custodial fees and expenses are assessed by the financial institution which holds the Fund's assets. Fees are based on the number of accounts, market value of the Fund, and transaction activity in accordance with the contractual agreement with the institution. Additional fees are assessed for performance measurement and on-line communication services per the contractual agreement. For the years ended August 31, 2016 and 2015, custodial fees and expenses incurred by the Fund amounted to \$1,798,990 and \$1,934,848, respectively.

Accounting fees, in the amount of \$241,184 and \$227,346, were incurred by the Fund during the years ended August 31, 2016 and 2015, respectively, for external and UT System internal audit services.

Analytical and risk measurement fees are also incurred to implement and maintain a sophisticated risk measurement system for the Fund. For the years ended August 31, 2016 and 2015, the fees incurred by the Fund amounted to \$177,012 and \$158,144, respectively.

Consulting fees, in the amount of \$87,960 and \$69,827, for the years ended August 31, 2016 and 2015, respectively, were incurred for investment strategy and other investment planning services.

Foreign tax consulting and filing fees are incurred by the Fund for investment managers domiciled in certain foreign countries and for those that invest in securities issued in certain foreign countries. Fees in the amounts of \$75,146 and \$37,408 were incurred for the years ended August 31, 2016 and 2015, respectively.

Background check fees are incurred as part of the due diligence efforts undertaken as part of hiring of investment managers. Fees in the amount of \$69,855 and \$80,155 were incurred for the years ended August 31, 2016 and 2015, respectively.

The Fund incurs legal fees associated with the review of investment manager agreements and with due diligence efforts undertaken as part of hiring new investment managers. Fees incurred by the Fund for the years ended August 31, 2016 and 2015, amounted to \$44,101 and \$66,588, respectively.

**THE UNIVERSITY OF TEXAS SYSTEM**  
**GENERAL ENDOWMENT FUND**  
*Supplemental Schedule*

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**Financial Highlights**  
*Years Ended August 31,*

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Selected Per Unit Data</b>					
Net Position, Beginning of Year	\$ 256.223	\$ 253.505	\$ 220.935	\$ 202.699	\$ 196.382
Income from Investment Operations					
Net Investment Income (A)	2.253	1.741	2.443	1.745	1.448
Net Realized and Unrealized Gain on Investments	<u>8.059</u>	<u>0.977</u>	<u>30.127</u>	<u>16.491</u>	<u>4.869</u>
Total Income from Investment Operations	<u>10.312</u>	<u>2.718</u>	<u>32.570</u>	<u>18.236</u>	<u>6.317</u>
Net Position, End of Year	<u>\$ 266.535</u>	<u>\$ 256.223</u>	<u>\$ 253.505</u>	<u>\$ 220.935</u>	<u>\$ 202.699</u>

(A) Net investment income is comprised of investment income (excluding the net increase (decrease) in fair value of investments) and investment expenses as presented on the statements of changes in fiduciary net position.