

Financial Statements
and Independent Auditors' Report
Permanent University Fund
Years Ended August 31, 2012 and 2011

Permanent University Fund

Financial Statements

Years Ended August 31, 2012 and 2011

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying Statements of Fiduciary Net Assets of the Permanent University Fund (the "PUF"), as of August 31, 2012 and August 31, 2011, and the related Statements of Changes in Fiduciary Net Assets for the years then ended. These financial statements are the responsibility of The University of Texas Investment Management Company ("UTIMCO" or "management"). Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1, the financial statements of the PUF are intended only to present the financial position of the PUF as of August 31, 2012 and August 31, 2011, and the changes in its financial 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 financial position of UTIMCO or The University of Texas System, as of August 31, 2012 or August 31, 2011, or the changes in its financial position for the years then ended.

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

As discussed in Note 2, the financial statements include investments valued at \$9,147,993,604 (67.9% of net assets) and \$8,499,711,392 (67.0% of net assets) as of August 31, 2012 and August 31, 2011, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on procedures performed by management which use information provided by the fund managers or the general partners.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the PUF as of August 31, 2012 and August 31, 2011, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules referred to in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such schedules have been subjected to the auditing procedures applied in our audits of the financial statements and certain additional procedures, including comparing and reconciling such schedules 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 schedules are fairly stated in all material respects in relation to the financial statements taken as a whole.

Deloitte & Touche LLP

October 31, 2012

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

Our discussion and analysis of the Permanent University Fund's (PUF) financial performance provides an overview of its activities for the year ended August 31, 2012. This discussion was prepared by The University of Texas Investment Management Company (UTIMCO) and should be read in conjunction with the PUF's financial statements and notes. The PUF is a public endowment contributing to the support of 18 institutions and 6 agencies in The University of Texas System (UT System) and The Texas A&M University System (TAMU System). The Texas Constitution and various state statutes designate The University of Texas System Board of Regents (UT Board) as the fiduciary for the management of certain public endowment and operating funds. The UT Board has entered into an Investment Management Services Agreement delegating investment management responsibility for all investments to UTIMCO.

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

Financial Highlights

- The PUF's net fiduciary assets after distributions increased by \$782.4 million from \$12,687.9 million to \$13,470.3 million, or approximately 6.17% for the year ended August 31, 2012, compared to an increase of \$1,962.9 million or approximately 18.30% for the year ended August 31, 2011. The change in net fiduciary assets from year to year is mainly attributable to the following:
 1. The PUF posted a net investment return of 3.21%, calculated using the Modified Dietz Method as described by the CFA Institute, for the year ended August 31, 2012. Investments in developed country equities, credit-related fixed income and real estate were the biggest contributors to the 2012 return. For the year ended August 31, 2011 the PUF posted a net investment return of 14.62%. Investments in natural resources, developed country equities and credit-related fixed income were the biggest contributors to the 2011 returns.
 2. Fiscal year 2012 contributions of PUF Lands mineral income increased by 6.6% from \$895.6 million to \$954.5 million and represented 7.4% of the average value of the PUF investments during the year, compared to fiscal year 2011 contributions which increased by 165.0%, from \$337.9 million to \$895.6 million and represented 7.4% of the average value of the PUF investments during the year. PUF Lands expenses were \$9.1 million and \$10.0 million for the years ending August 31, 2012 and 2011, respectively. PUF Lands consist of more than 2.1 million acres in 19 counties primarily in West Texas.
 3. The PUF's annual distribution to the Available University Fund (AUF) increased by 13.6% in fiscal year 2012, compared to a decrease of 1.9% in fiscal year 2011.

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Use of Financial Statements and Notes

The PUF's financial statements were prepared in accordance with standards issued by the Governmental Accounting Standards Board (GASB). Two financial statements are typically required under GASB: the statement of fiduciary net assets and the statement of changes in fiduciary net assets.

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

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

Statements of Fiduciary Net Assets

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

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

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets			
Investments, at Fair Value	\$ 13,462.4	\$ 12,674.9	\$ 10,640.1
Other Assets	406.1	457.8	373.6
Total Assets	<u>13,868.5</u>	<u>13,132.7</u>	<u>11,013.7</u>
Total Liabilities	<u>398.2</u>	<u>444.8</u>	<u>288.7</u>
Net Assets Held in Trust	<u>\$ 13,470.3</u>	<u>\$ 12,687.9</u>	<u>\$ 10,725.0</u>

Statements of Changes in Fiduciary Net Assets

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

The net increase in investments of the PUF was \$324.2 million during the year compared to a net increase in appreciation of investments of \$1,482.7 million for the year ended August 31, 2011. Investment expenses totaled \$30.3 million, \$35.7 million, and \$30.0 million, respectively, for the years ended August 31, 2012, 2011, and 2010.

The PUF's objectives are:

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

Distributions to the AUF increased by \$69.1 million, from \$506.4 million in fiscal year 2011 to \$575.5 million, in fiscal year 2012. The fiscal year 2011 distribution amount decreased by \$10.0 million from the fiscal year 2010 distribution of \$516.4 million. PUF distributions are determined by the UT Board as provided in the Texas Constitution, which directs the UT Board to establish a distribution policy that provides stable, inflation-adjusted distributions to the AUF and preserves the real value of the PUF investments over the long term. To achieve this, the annual distribution is established at 4.75% of the prior twelve quarters' average net asset value of the PUF investments, as determined each February 28 for the following fiscal year, unless the average annual rate of return of PUF investments over the trailing twelve quarters exceeds the expected return of the Endowment Policy Portfolio by twenty-five basis points or more, in which case the distribution is calculated at 5.00% of the trailing twelve quarters' average net asset value. For the fiscal year 2012, due to a record year of PUF Lands' lease sales and the constrained State budget for the current biennium, the UT Board increased the annual distribution to an amount equivalent to 5.50% of the trailing twelve quarters' average net asset value of PUF investments.

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

1. Distributions must be at least equal to the amount needed to pay debt service on PUF Bonds;

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

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Investment Income (Loss)	\$ 443.0	\$ 1,619.7	\$ 1,268.3
Less Investment Expenses	(30.3)	(35.7)	(30.0)
PUF Lands Contributions	954.5	895.6	337.9
Total Additions	<u>1,367.2</u>	<u>2,479.6</u>	<u>1,576.2</u>
Administrative Expenses			
PUF Lands Expenses	9.1	10.0	8.4
UT System Oversight Fee	0.2	0.3	0.3
Distributions to AUF	575.5	506.4	516.4
Total Deductions	<u>584.8</u>	<u>516.7</u>	<u>525.1</u>
Change in Fiduciary Net Assets	782.4	1,962.9	1,051.1
Net Asset Held in Trust, Beginning of Year	<u>12,687.9</u>	<u>10,725.0</u>	<u>9,673.9</u>
Net Assets Held in Trust, End of Year	<u><u>\$13,470.3</u></u>	<u><u>\$12,687.9</u></u>	<u><u>\$10,725.0</u></u>

Contacting UTIMCO

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

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Statements of Fiduciary Net Assets

August 31, 2012 and 2011

(in thousands)

Assets	2012	2011
Investments, at Fair Value:		
Equity Securities	\$ 1,554,166	\$ 1,597,148
Preferred Stock	46,661	56,147
Debt Securities	1,048,676	940,527
Convertible Securities	573	4,207
Investment Funds	9,249,190	8,512,561
Purchased Options	35,453	162,926
Physical Commodities	591,201	641,812
Cash and Cash Equivalents	936,441	759,577
Total Investments	<u>13,462,361</u>	<u>12,674,905</u>
Collateral for Securities Loaned, at Fair Value	243,295	176,739
Deposits with Brokers for Derivative Contracts	80,872	141,100
Unrealized Gains on Foreign Currency Exchange Contracts	7,180	8,248
Futures Contracts, at Fair Value	2,695	5,419
Swaps, at Fair Value	4,625	3,585
Receivables:		
Investment Securities Sold	52,466	108,432
Accrued Income	14,758	13,789
Other	232	559
Total Receivables	<u>67,456</u>	<u>122,780</u>
Total Assets	<u>13,868,484</u>	<u>13,132,776</u>
Liabilities		
Payable Upon Return of Securities Loaned	243,295	176,739
Payable to Brokers for Collateral Held	22,760	86,500
Unrealized Losses on Foreign Currency Exchange Contracts	11,957	15,351
Futures Contracts, at Fair Value	4,009	954
Swaps, at Fair Value	3,237	38,222
Options Written, at Fair Value	12,261	88,307
Payables:		
Investment Securities Purchased	91,266	32,167
Other	9,436	6,590
Total Payables	<u>100,702</u>	<u>38,757</u>
Total Liabilities	<u>398,221</u>	<u>444,830</u>
Net Assets Held in Trust	<u>\$13,470,263</u>	<u>\$12,687,946</u>

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

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Statements of Changes in Fiduciary Net Assets

Years Ended August 31, 2012 and 2011

(in thousands)

	<u>2012</u>	<u>2011</u>
Additions		
Investment Income:		
Net Increase in Investments	\$ 324,197	\$ 1,482,677
Interest	47,866	53,292
Dividends	39,339	42,320
Income Distributions from Private Investment Funds	28,609	38,829
Securities Lending Income	641	692
Other Income	2,279	1,913
Total Investment Income	<u>442,931</u>	<u>1,619,723</u>
Less Investment Expenses:		
Investment Management Fees	18,962	23,948
UTIMCO Management Fee	8,900	8,471
Custodial Fees and Expenses	1,989	1,984
Legal Fees	474	475
Accounting Fees	147	258
Analytical and Risk Measurement Fees	332	323
Consulting Fees	207	205
Background Check Fees	153	122
Foreign Tax Consulting and Filing Fees	71	75
Other Expenses	40	4
Securities Lending Fees	(989)	(178)
Total Investment Expenses	<u>30,286</u>	<u>35,687</u>
Net Investment Income	412,645	1,584,036
Contributions from PUF Lands	954,493	895,619
Total Additions	<u>1,367,138</u>	<u>2,479,655</u>
Deductions		
Administrative Expenses:		
PUF Lands Expenses	9,103	10,014
UT System Oversight Fee	207	261
Total Administrative Expenses	<u>9,310</u>	<u>10,275</u>
Distributions to Available University Fund	575,511	506,396
Total Deductions	<u>584,821</u>	<u>516,671</u>
Change in Fiduciary Net Assets	782,317	1,962,984
Net Assets Held in Trust, Beginning of Year	12,687,946	10,724,962
Net Assets Held in Trust, End of Year	<u><u>\$ 13,470,263</u></u>	<u><u>\$ 12,687,946</u></u>

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

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Notes to Financial Statements

Note 1 – Organization and Basis of Presentation

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

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

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

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

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

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

(C) Management has evaluated subsequent events through October 31, 2012, 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) ***Security Valuation*** -- Investments with readily determinable fair values are primarily valued on the basis of market valuations provided by independent pricing services.

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Notes to Financial Statements (cont.)

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

Equity security and publicly traded mutual fund fair values are based on the closing price on the primary exchange on which they are traded (if a closing price is not available, the average of the last reported bid and ask price is used).

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

Private investment funds, which consist of non-regulated investment funds, are fair valued by management. The fair values of these investments are estimated by management using the investment's capital account balance at the closest available reporting date, as communicated by the investment manager, adjusted for contributions and withdrawals subsequent to the latest available reporting date as well as consideration of any other information, which has been provided by the investment manager or other source. In rare cases the private investment funds are valued at cost, but only when management feels this is the best approximation of value. As of August 31, 2012 and 2011, investments in private investment funds in the amount of \$3,547,861,137 and \$3,142,762,418 have been estimated by management.

Hedge funds, developed country equity, emerging markets equity and fixed income investment funds and certain other private placements are fair valued by management based on net asset value information provided by the investment managers as well as other relevant factors as indicated above. As of August 31, 2012 and 2011, investments in these funds in the amount of \$5,600,132,467 and \$5,356,948,974, respectively, have been estimated by management.

The statements of fiduciary net assets include investments in private investment funds, hedge funds and other investment funds as described above valued in the aggregate at \$9,147,993,604 (67.9% of net assets) and \$8,499,711,392 (67.0% of net assets) as of August 31, 2012, and August 31, 2011, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values.

(B) ***Foreign Currency Translation*** -- The accounting records of the PUF are maintained in U.S. dollars. Investments in securities are valued at the daily rates of exchange on the valuation date. Purchases and sales of securities of foreign entities and the related income receipts and expense payments are translated into U.S. dollars at the exchange rate on the dates of the transactions. The PUF does not isolate that portion of the results of the change in fiduciary net assets resulting from changes in foreign exchange rates on investments from fluctuations arising from changes in market prices of securities held on the statements of changes in fiduciary net assets. Such fluctuations are included with the net increase in 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, 2012 and 2011, interest and dividend withholding in the amounts of \$2,770,430 and \$2,913,795 have been netted against dividend and interest income. Investment income includes net realized and unrealized

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Notes to Financial Statements (cont.)

currency gains and losses recognized between accrual and payment dates on dividend and interest transactions. Investment expenses are recorded on the accrual basis as incurred.

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

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

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

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

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

Options Written -- When the PUF writes an option, an amount equal to the premium received by the PUF is recorded as a liability and is subsequently adjusted to the current fair value of the option written. Premiums received from writing options that expire unexercised are treated by the PUF on the expiration date as realized gains from investments and are included in the net increase in investments in the statement of changes in fiduciary net assets. The difference between the premium and the amount paid on effecting a closing purchase transaction, including brokerage commissions, is also treated as a realized gain, or, if the premium is less than the amount paid for the closing purchase transaction, as a realized loss and are included in the net increase in investments in the statements of changes in fiduciary net assets. If a call option is

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Notes to Financial Statements (cont.)

exercised, the premium is added to the proceeds from the sale of the underlying security or currency in determining whether the PUF has realized a gain or loss. If a put option is exercised, the premium reduces the cost basis of the securities purchased by the PUF.

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

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

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

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

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Notes to Financial Statements (cont.)

included in the net increase in investments in the statements of changes in fiduciary net assets. These instruments involve market and/or credit risk in excess of the amount recognized in the statements of fiduciary net assets. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movement in currency and securities values and interest rates.

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

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

(I) **Reclassification** -- Certain items in the 2011 financial statements and related notes have been reclassified to conform with the 2012 classification.

Note 3 – Investment Risk

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

(A) **Credit Risk**

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

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The PUF's investment policy does not provide specific requirements or limitations with regards to investment ratings. Per GASB Statement No. 40 (GASB 40), *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3*, unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. GASB 40 also provides that securities with split ratings, or a different rating assignment between NRSROs, are disclosed using the rating indicative of the greatest degree of risk. The following table presents each applicable investment type grouped by rating at August 31, 2012 and 2011:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type	August 31,		Rating
	2012	2011	
Investments:			
U.S. Government Guaranteed	\$ 117,247,476	\$ 146,693,285	AA
U.S. Government Non-Guaranteed:			
U.S. Agency	1,270,968	1,260,056	AA
U.S. Agency Asset Backed	-	13,461,875	AAA
U.S. Agency Asset Backed	76,664,617	75,779,560	AA
Total U.S. Government Non-Guaranteed	77,935,585	90,501,491	
Total U.S. Government	195,183,061	237,194,776	
Corporate Obligations:			
Domestic	14,150,666	19,160,234	AAA
Domestic	6,910,685	13,071,219	AA
Domestic	74,243,436	65,424,822	A
Domestic	62,480,111	47,717,790	BAA/BBB
Domestic	8,209,617	4,722,464	BA/BB
Domestic	5,469,930	5,087,331	B
Domestic	5,384,226	7,095,471	CAA/CCC
Domestic	2,968,452	2,800,619	CA/CC
Domestic	-	99,198	C
Domestic	501,448	388,217	D
Domestic	1,260,013	1,564,758	Not Rated
Foreign	49,232,087	45,416,236	AAA
Foreign	14,777,758	12,351,173	AA
Foreign	23,231,290	23,404,644	A
Foreign	23,843,887	16,979,559	BAA/BBB
Foreign	4,321,298	6,230,752	BA/BB
Foreign	2,629,219	1,341,089	B
Foreign	870,725	-	CAA/CCC
Total Corporate Obligations	300,484,848	272,855,576	
Foreign Government and Provincial Obligations	147,568,759	178,355,945	AAA
Foreign Government and Provincial Obligations	60,440,285	26,311,472	AA
Foreign Government and Provincial Obligations	102,378,269	45,646,596	A
Foreign Government and Provincial Obligations	126,823,488	137,620,697	BAA/BBB
Foreign Government and Provincial Obligations	22,914,523	8,024,723	BA/BB
Foreign Government and Provincial Obligations	75,987,003	20,032,001	Not Rated
Total Foreign Government and Provincial Obligations	536,112,327	415,991,434	
Other Debt Securities	911,028	815,436	AAA
Other Debt Securities	4,172,921	3,675,932	AA
Other Debt Securities	9,138,862	7,915,692	A
Other Debt Securities	685,277	672,335	BAA/BBB
Other Debt Securities	-	1,405,304	BA/BB
Other Debt Securities	1,987,714	-	B
Total Other Debt Securities	16,895,802	14,484,699	
Total Debt Securities	\$ 1,048,676,038	\$ 940,526,485	
Convertible Securities	\$ 572,888	\$ -	B
Convertible Securities	-	3,606,157	Not Rated
Total Convertible Securities	\$ 572,888	\$ 3,606,157	
Other Investment Funds - Debt	\$ 14,962,332	\$ 12,849,753	BA/BB
Cash and Cash Equivalents - Money Market Funds	\$ 914,780,552	\$ 744,809,208	AAA
Cash and Cash Equivalents	21,660,561	14,768,022	Not Rated
Total Cash and Cash Equivalents	\$ 936,441,113	\$ 759,577,230	
Net Deposit with Brokers for Derivative Contracts:			
U.S. Government Guaranteed	\$ 628,023	\$ 1,610,844	AA
Foreign Government and Provincial Obligations	20,152,818	27,277,337	BAA/BBB
Foreign Government and Provincial Obligations	19,150,336	1,884,906	Not Rated
Cash	18,181,161	23,827,500	Not Rated
Total Net Deposit with Brokers for Derivative Contracts	\$ 58,112,338	\$ 54,600,587	

(B) Concentrations of Credit Risk

The PUF's investment policy statement contains the limitation that no more than 5% of the market value of fixed income securities may be invested in corporate or municipal bonds of a single issuer. As of August 31, 2012 and 2011, the PUF does not hold any direct investments in any one issuer of corporate or municipal bonds that is 5% or more of the market value of the PUF's fixed income investments.

(C) Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the PUF will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the PUF will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Texas State Statutes and the PUF's investment policy statements do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. As of August 31, 2012 and 2011, the PUF does not have any deposits or investments that are exposed to custodial credit risk.

(D) Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its value to changes in market interest rates. Interest rate risk inherent in the PUF is measured by monitoring the modified duration of the overall investment portfolio. Modified duration estimates the sensitivity of the PUF's investments to changes in interest rates. The PUF has no specific policy statement limitations with respect to its overall modified duration. The following table summarizes the PUF's modified duration by investment type at August 31, 2012 and 2011:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type	August 31,			
	2012		2011	
	Value	Modified Duration	Value	Modified Duration
Investments:				
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	\$ 90,416,074	7.83	\$ 134,841,495	10.45
U.S. Treasury Bills	20,642,821	0.55	4,534,968	0.50
U.S. Treasury Inflation Protected	935,396	6.11	-	-
U.S. Agency Asset Backed	5,253,185	4.40	7,316,822	4.49
Total U.S. Government Guaranteed	117,247,476	6.38	146,693,285	9.84
U.S. Government Non-Guaranteed:				
U.S. Agency	1,270,968	3.00	1,260,056	6.69
U.S. Agency Asset Backed	76,664,617	3.15	89,241,435	3.27
Total U.S. Government Non-Guaranteed	77,935,585	3.15	90,501,491	3.32
Total U.S. Government	195,183,061	5.09	237,194,776	7.36
Corporate Obligations:				
Domestic	181,578,584	6.29	167,132,123	6.16
Foreign	118,906,264	5.55	105,723,453	5.31
Total Corporate Obligations	300,484,848	6.00	272,855,576	5.83
Foreign Government and Provincial Obligations	536,112,327	6.48	415,991,434	6.83
Other Debt Securities	16,895,802	12.85	14,484,699	12.38
Total Debt Securities	1,048,676,038	6.18	940,526,485	6.76
Convertible Securities	572,888	29.03	3,606,157	2.37
Other Investment Funds - Debt	14,962,332	6.90	12,849,753	7.50
Cash and Cash Equivalents	936,441,113	0.07	759,577,230	0.08
Total	\$ 2,000,652,371	3.33	\$ 1,716,559,625	3.80
Net Deposit with Brokers for Derivative Contracts:				
U.S. Government Guaranteed:				
U.S. Treasury Bills	\$ 328,467	0.76	\$ 1,610,844	0.28
U.S. Treasury Bonds and Notes	28,257	18.80	-	-
U.S. Treasury Inflation Protected	271,299	13.78	-	-
Total U.S. Government Guaranteed	628,023	7.19	1,610,844	0.28
Foreign Government and Provincial Obligations	39,303,154	5.50	29,162,243	6.91
Cash	18,181,161	-	23,827,500	-
Total Net Deposit with Brokers for Derivative Contracts	\$ 58,112,338	3.79	\$ 54,600,587	3.70

The PUF has purchased options on ten year constant maturity swaps and certain currencies, with expirations ranging from five to seven years, as insurance against possible future increases in inflation. As of August 31, 2012 these options had a notional value of \$5,891,000,000 and a fair value of \$8,371,321. As of August 31, 2011 these options had a notional value of \$4,851,000,000 and a fair value of \$21,750,596. The risk of loss on these options is limited to the premiums paid by the PUF upon the purchase of the options, which totaled \$33,121,408 and \$26,569,408 as of August 31,

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

2012 and 2011. The PUF also purchased both puts and swaptions on the Japanese Yen, with expirations ranging from one to two years, as insurance against the possibility of a downturn in the Japanese economy. As of August 31, 2012 these puts and swaptions had a notional value of \$3,490,630,527 with a fair value of \$3,230,880 and a loss limited to \$29,750,866 which represents the premiums paid. As of August 31, 2011 these puts and swaptions had a notional value of \$6,527,952,894 with a fair value of \$12,185,889 and a loss limited to \$35,049,713 which represents the premiums paid. It is estimated that these options would adjust the 2012 duration of total debt securities of 6.18 downward by approximately .42, and the total duration of 3.33 downward by approximately .41. It is estimated that these options would adjust the 2011 duration of total debt securities of 6.76 downward by approximately 1.04, and the total duration of 3.80 downward by approximately 1.09. One of the PUF's external managers also uses options and interest rate and credit default swaps to modify the duration of its portfolios in a cost efficient manner. It is estimated by management that these positions held by the external manager would not significantly adjust the duration of the PUF as presented above.

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

The PUF may invest in various mortgage backed securities, such as collateralized mortgage backed obligations. The PUF also may invest in investments that have floating rates with periodic coupon changes in market rates, zero coupon bonds and stripped Treasury and Agency securities created from coupon securities. No percentage of holdings limitations are specified in the investment policy statements regarding these types of securities. As of August 31, 2012 and 2011, the PUF's investments include the following investments that are highly sensitive to interest rate changes:

Collateralized mortgage obligations which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. These securities amounted to \$69,910,399 and \$86,772,936 as of August 31, 2012 and 2011, 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 \$45,625,594 and \$45,849,858 as of August 31, 2012 and 2011, 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 \$4,129,313 and \$5,751,132 as of August 31, 2012 and 2011, respectively.

(F) Foreign Currency Risk

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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

The classification of domestic common stock and foreign common stock in the supplemental schedule, Comparison Summary of Investments, is based on the country of domicile of the issuer, not the currency in which the security is traded. The following table summarizes the PUF's non-U.S. dollar investments by asset type at August 31, 2012 and 2011:

Investment Type	August 31,	
	2012	2011
Foreign Common Stock:		
Australian Dollar	\$ 30,572,010	\$ 41,106,679
Brazilian Real	88,038,506	58,672,215
Canadian Dollar	28,852,554	41,752,836
Chilean Peso	2,740,206	2,624,824
Czech Koruna	1,402,100	1,757,914
Danish Krone	3,905,996	3,207,470
Egyptian Pound	1,074,530	1,188,975
Euro	65,009,302	79,473,221
Hong Kong Dollar	150,224,361	129,908,662
Hungarian Forint	1,106,184	1,341,934
Indian Rupee	17,217,040	24,885,870
Indonesian Rupian	15,809,835	13,260,700
Israeli Shekel	-	82,846
Japanese Yen	39,552,908	46,793,152
Malaysian Ringgit	21,595,515	18,708,069
Mexican Peso	16,678,208	16,721,524
Moroccan Dirham	429,602	566,299
Norwegian Kroner	1,185,883	3,241,639
Pakistan Rupee	760,522	583,886
Peruvian Nuevo Sol	5,152	-
Philippine Peso	11,489,321	3,725,951
Polish Zloty	6,706,152	9,354,486
Russian Rubel	-	1,685,315
Singapore Dollar	17,440,609	14,882,442
South African Rand	22,654,193	30,273,211
South Korean Won	63,376,338	86,358,596
Swedish Krona	16,197,616	16,693,316
Swiss Franc	12,341,814	16,552,632
Taiwan Dollar	39,188,983	33,180,237
Thai Baht	21,429,772	18,005,880
Turkish Lira	12,575,412	12,880,466
UK Pound	114,935,215	122,105,816
United Arab Emirates Dirham	1,279,456	1,434,429
Total Foreign Common Stock	<u>825,775,295</u>	<u>853,011,492</u>
Other Equity Securities:		
Canadian Dollar	-	159
Chilean Peso	787	-
Malaysian Ringgit	-	2,813
Thai Baht	82,965	-
UK Pound	38	-
Total Other Equity Securities	<u>83,790</u>	<u>2,972</u>
Foreign Preferred Stocks:		
Brazilian Real	32,400,149	39,561,080
South Korean Won	651,024	248,702
Total Foreign Preferred Stock	<u>33,051,173</u>	<u>39,809,782</u>

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type (continued):	August 31,	
	2012	2011
Foreign Government and Provincial Obligations:		
Australian Dollar	\$ 35,883,476	\$ 21,076,098
Brazilian Real	171,481,793	165,662,417
Canadian Dollar	10,532,526	10,895,745
Colombian Peso	2,617,996	-
Euro	119,283,747	76,746,796
Hong Kong Dollar	772,242	1,039,610
Hungarian Forint	9,144,731	5,736,007
Indonesian Rupian	-	8,024,723
Japanese Yen	48,425,368	18,047,284
Malaysian Ringgit	9,710,675	10,979,023
Mexican Peso	32,811,501	15,416,517
New Zealand Dollar	27,665,733	18,707,198
Norwegian Kroner	-	10,719,062
Polish Zloty	25,882,605	13,561,316
Singapore Dollar	3,627,914	8,852,814
South African Rand	12,597,331	10,176,576
South Korean Won	10,240,602	10,657,443
UK Pound	50,046,116	35,809,766
Total Foreign Government and Provincial Obligations	570,724,356	442,108,395
Corporate Obligations:		
Australian Dollar	15,110,505	12,706,744
Canadian Dollar	1,512,813	2,668,161
Euro	48,249,473	46,225,670
Japanese Yen	2,337,096	2,894,201
New Zealand Dollar	1,336,615	-
UK Pound	17,950,232	11,762,130
Total Corporate Obligations	86,496,734	76,256,906
Purchased Options:		
Australian Dollar	4,528,875	69,279,358
Brazilian Real	516,133	-
Euro	8,236	3,941,002
Japanese Yen	3,230,880	12,185,889
South Korean Won	18,688,108	55,586,060
Total Purchased Options	26,972,232	140,992,309
Private Investments:		
Canadian Dollar	24,541,572	12,991,944
Euro	203,499,097	201,033,944
UK Pound	22,953,620	10,132,498
Total Private Investments	250,994,289	224,158,386
Convertible Securites:		
Brazilian Real	-	3,606,157
Investment Funds-Emerging Markets:		
Brazilian Real	6,613,396	6,385,154
Canadian Dollar	1,052,584	-
Euro	3,953,949	-
Hong Kong Dollar	1,257,371	-
Swedish Krona	773,472	-
Taiwan Dollar	74,420	-
UK Pound	50,839,034	-
Total Investment Funds-Emerging Markets	64,564,226	6,385,154
Investment Funds-Natural Resources:		
UK Pound	3,001,730	-

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type (continued):	August 31,	
	2012	2011
Cash and Cash Equivalents:		
Australian Dollar	\$ 1,081,403	\$ 1,091,621
Brazilian Real	1,180,035	1,671,591
Canadian Dollar	60,358	141,712
Chilean Peso	12,515	2,168
Czech Koruna	39,454	1,058
Danish Krone	9,455	624
Egyptian Pound	771	-
Euro	1,927,459	2,311,570
Hong Kong Dollar	974,170	439,455
Hungarian Forint	4,405	387
Indian Rupee	340,148	761,552
Indonesian Rupian	50,431	19,564
Israeli Shekel	4,839	-
Japanese Yen	187,033	10,782
Malaysian Ringgit	203,539	254,203
Mexican Peso	48,739	27,869
Moroccan Dirham	6,318	21,657
New Zealand Dollar	1,281	213
Norwegian Kroner	51	171,220
Pakistan Rupee	49	100
Peruvian Nuevo Sol	443	-
Philippine Peso	9,244	33,424
Polish Zloty	104,823	24,766
Singapore Dollar	378,531	3,466
South African Rand	79,907	25,492
South Korean Won	430,981	238,602
Swedish Krona	14,198	1,122
Swiss Franc	297	32,254
Taiwan Dollar	1,191,029	1,030,220
Thailand Baht	50,610	17,882
Turkish Lira	113,903	417
UK Pound	548,343	4,408,406
Total Cash and Cash Equivalents	<u>9,054,762</u>	<u>12,743,397</u>
Written Options:		
Australian Dollar	(2,307,845)	(42,427,183)
Euro	-	(32,764)
South Korean Won	(9,276,041)	(36,080,051)
Total Written Options	<u>(11,583,886)</u>	<u>(78,539,998)</u>
Swaps:		
Australian Dollar	41,550	-
Brazilian Real	-	49,111
Euro	1,009	(42,255)
Japanese Yen	(1,562,370)	26,812
Mexican Peso	514,996	821,334
UK Pound	(173,493)	(357,358)
Total Swaps	<u>(1,178,308)</u>	<u>497,644</u>
Futures:		
Australian Dollar	(32,295)	52,563
Brazilian Real	(1,320,860)	-
Canadian Dollar	(8,533)	(51,583)
Euro	7,070	171,267
Japanese Yen	11,598	-
UK Pound	(922)	(176,644)
Total Futures	<u>(1,343,942)</u>	<u>(4,397)</u>
Total	<u>\$ 1,856,612,451</u>	<u>\$ 1,721,028,199</u>

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

(G) Counterparty (Credit) Risk

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

The PUF had gross counterparty exposure as of August 31, 2012 for options, swaps, and foreign currency exchange contracts shown in the following table:

Options				
<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Counterparty Rating</u>
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2012</u>	<u>Fair Value as of August 31, 2012</u>	
\$ 11,315,481,766	\$ 1,673,346,974	\$ 34,827,420	\$ 12,119,360	
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, 2012</u>	<u>Fair Value as of August 31, 2012</u>	
\$ 171,505,976	\$ 236,593,357	\$ 3,030,110	\$ 1,397,182	
12,443,220	1,632,861	1,612,299	1,632,037	AA
\$ 183,949,196	\$ 238,226,218	\$ 4,642,409	\$ 3,029,219	
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, 2012</u>	<u>Fair Value as of August 31, 2012</u>	
\$ 323,755,360	\$ 575,512,543	\$ 7,058,512	\$ 11,830,053	
9,958,088	5,505,659	121,672	127,079	AA
\$ 333,713,448	\$ 581,018,202	\$ 7,180,184	\$ 11,957,132	

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

The PUF had gross counterparty exposure as of August 31, 2011 for options, swaps, and foreign currency exchange contracts shown in the following table:

Options		Options		Options		Counterparty Rating
Assets	Liabilities	Assets	Liabilities			
Notional	Notional	Fair Value as of August 31, 2011	Fair Value as of August 31, 2011			
\$ 4,513,273,057	\$ 1,715,393,529	\$ 118,276,135	\$ 68,652,971	A		
3,349,331,251	279,230,023	44,586,890	19,579,882	AA		
<u>\$ 7,862,604,308</u>	<u>\$ 1,994,623,552</u>	<u>\$ 162,863,025</u>	<u>\$ 88,232,853</u>			
Swaps		Swaps		Swaps		Counterparty Rating
Assets	Liabilities	Assets	Liabilities			
Notional	Notional	Fair Value as of August 31, 2011	Fair Value as of August 31, 2011			
\$ 78,874,279	\$ 485,228,583	\$ 2,493,964	\$ 38,148,557	A		
1,404,199,988	5,300,000	1,090,964	73,884	AA		
<u>\$ 1,483,074,267</u>	<u>\$ 490,528,583</u>	<u>\$ 3,584,928</u>	<u>\$ 38,222,441</u>			
Foreign Currency Exchange Contracts		Foreign Currency Exchange Contracts		Foreign Currency Exchange Contracts		Counterparty Rating
Assets	Liabilities	Assets	Liabilities			
Notional	Notional	Fair Value as of August 31, 2011	Fair Value as of August 31, 2011			
\$ 539,940,575	\$ 438,238,268	\$ 6,144,722	\$ 3,407,319	A		
230,036,773	209,578,396	2,102,927	11,943,821	AA		
<u>\$ 769,977,348</u>	<u>\$ 647,816,664</u>	<u>\$ 8,247,649</u>	<u>\$ 15,351,140</u>			

As of August 31, 2012 and 2011, the PUF also had investments in futures contracts, options on futures contracts and exchange-cleared swaps. Futures contracts, options on futures, and exchange-cleared swaps expose the PUF to minimal counterparty credit risk since they are exchange traded and the exchange's clearinghouse, as counterparty to all exchange traded futures, guarantees them against default, and therefore they are not presented in the table above.

Counterparty risk for swaps, options and foreign currency exchange contracts which are traded over-the-counter is mitigated by having master netting arrangements between the PUF and its counterparties, and by the posting of collateral on a daily basis by the counterparty to the PUF to cover the PUF's exposure to a counterparty above the limits set in place in each master netting agreement. Collateral posted by counterparties is held by the PUF in one of its accounts at the PUF's custodian bank. As of August 31, 2012 and 2011, the PUF held \$22,760,000 and \$86,500,000 respectively, of collateral related to derivative instruments other than futures, and had on deposit with brokers \$40,287,822 and \$88,452,243, respectively, as collateral related to derivative instruments other than futures.

Note 4 – Securities Lending

In accordance with the prudent investor investment standards, the PUF loans securities to certain brokers who pay the PUF negotiated lenders' fees. These fees are included in investment income, and related expenses, net of rebates paid to borrowers, are included in investment expenses in the statement of changes in fiduciary net assets. The PUF receives qualified securities and/or cash as collateral against the loaned securities. The collateral, when received, will have a market value of 102% of loaned securities of U.S. issuers and a market value of 105% for loaned securities of non-U.S. issuers. If the market value of the collateral held in connection with loans of securities of U.S.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

issuers is less than 100% at the close of trading on any business day, the borrower is required to deliver additional collateral by the close of the next business day to equal 102% of the market value. For non-U.S. issuers, the collateral should remain at 105% of the market value of the loaned securities at the close of any business day. If it falls below 105%, the borrower must deliver additional collateral by the close of the following business day. The value of securities loaned and the value of collateral held are as follows at August 31, 2012 and 2011:

Securities on Loan	2012 Value	2011 Value	Type of Collateral	2012 Value of Collateral	2011 Value of Collateral
U.S. Government	\$ 19,037,541	\$ 5,519,696	Cash	\$ 19,428,346	\$ 5,633,021
Foreign Government	5,282,405	14,003,056	Cash	5,535,585	14,685,786
Corporate Bonds	14,745,988	11,801,137	Cash	15,146,637	12,257,584
Common Stock	193,491,774	138,991,668	Cash	203,184,364	144,162,570
Total	\$232,557,708	\$170,315,557	Total	\$243,294,932	\$176,738,961
U.S. Government	\$ 55,155,299	\$ 1,374,114	Non-Cash	\$ 56,294,988	\$ 1,458,089
Corporate Bonds	-	244,327	Non-Cash	-	259,258
Common Stock	1,445,549	16,284	Non-Cash	1,475,390	17,279
	\$ 56,600,848	\$ 1,634,725		\$ 57,770,378	\$ 1,734,626

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

The PUF's pro-rata share of collateral pool investments, rating by NRSRO, and weighted average maturity at August 31, 2012 and 2011 is shown in the following table:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Description	August 31,					
	2012			2011		
	Fair Value	Rating	Weighted Average Maturity In Days	Fair Value	Rating	Weighted Average Maturity In Days
		No Rating			No Rating	
Repurchase Agreements	\$ 119,076,034	Available	4	\$ 62,706,825	Available	1
Treasuries	3,382,832	AA	169	-	-	-
Agencies	6,639,605	P	36	-	-	-
Commercial Paper	52,414,272	P	57	61,684,012	P	28
Floating Rate Notes	29,127,358	AA		15,173,821	AA	
Floating Rate Notes	8,148,031	A		18,240,533	A	
Total Floating Rate Notes	<u>37,275,389</u>		40	<u>33,414,354</u>		33
Interest Bearing Notes	-		-	834,906	AA	76
Certificates of Deposit	22,833,118	P	68	18,077,672	P	33
Time Deposits	1,691,740	P	24	-	-	-
Other Receivables/Payables	(18,058)	Not Rated	-	21,192	Not Rated	-
Total Collateral Pool Investment	<u>\$ 243,294,932</u>		30	<u>\$ 176,738,961</u>		20

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

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

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

As of August 31, 2012 and 2011, the PUF had no credit risk exposure to borrowers because the amounts the PUF owed to borrowers exceeded the amounts the borrowers owed the PUF.

There were no significant violations of legal or contractual provisions, no borrower or securities lending agent default losses, and no recoveries of prior period losses during the years ended August 31, 2012 and 2011.

Note 5 – Investment Funds

Investment funds include exchange traded funds, index funds, Securities and Exchange Commission regulated mutual funds, externally managed funds, limited partnerships, and corporate structures which are generally unrated and may be unregulated. The composition of investment funds at August

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

31, 2012 and 2011 is summarized in the table below as they are classified within the asset mix of the PUF.

	August 31,	
	2012	2011
Investment Funds:		
Hedge Funds:		
Developed Country Equity	\$ 2,506,130,610	\$ 2,417,003,553
Credit-Related Fixed Income	670,509,200	555,371,737
Investment Grade Fixed Income	377,498,116	357,852,993
Emerging Market Equity	341,402,806	321,193,175
Real Estate	74,546,228	78,971,152
Natural Resources	8,810,856	13,306,679
Total Hedge Funds	3,978,897,816	3,743,699,289
Private Investments:		
Developed Country Equity	1,622,533,262	1,511,039,321
Credit-Related Fixed Income	854,053,510	841,832,748
Natural Resources	423,388,221	330,986,008
Emerging Market Equity	332,749,561	290,303,368
Real Estate	315,136,583	168,600,973
Total Private Investments	3,547,861,137	3,142,762,418
Public Markets:		
Developed Country Equity:		
Private Placements	1,109,334,130	934,257,367
Emerging Markets:		
Private Placements	352,722,129	516,775,213
Other Investment Funds	80,548,205	-
Total Emerging Markets	433,270,334	516,775,213
Fixed Income:		
Publicly Traded Mutual Funds	14,962,332	12,849,753
Natural Resources		
Private Placements	159,178,392	162,217,105
Other Investment Funds	5,686,105	-
Total Natural Resources	164,864,497	162,217,105
Total Public Markets	1,722,431,293	1,626,099,438
Total Investment Funds	\$ 9,249,190,246	\$ 8,512,561,145

The PUF invests in hedge funds through unit interests in investment pools established in the name of the UT Board. Amounts presented in the PUF's financial statements and related note disclosures represent the PUF's pro-rata share of these investment pool assets. The hedge fund pools are invested in private placements 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. The funds invested may be 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. There are certain risks associated with these private placements, some of which include investment manager risk, market risk, and liquidity risk, as well as the risk of utilizing leverage in the portfolios. The hedge fund pools have committed \$122,892,459 of future funding to various hedge fund investments as of August 31, 2012 of which the PUF's pro-rata portion is \$61,667,436.

The PUF invests in private investments in investment pools created in the name of the UT Board. Amounts presented in the PUF's financial statements and related note disclosure for the years ending August 31, 2012 and 2011, represent the PUF's pro-rata share of these investment pool assets. The private investment pools are invested in limited partnerships with external investment managers or general partners who invest primarily in private equity securities. These investments are domestic and international, are illiquid, and may not be realized for a period of several years after the

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

investments are made. There are certain risks associated with these investments, some of which are liquidity risk, market risk, event risk, and investment manager risk. Certain of these investments are held through limited liability companies, of which UTIMCO is the sole managing member. The private investment pools have committed \$3,717,867,684 of future funding to various private market investments as of August 31, 2012 of which the PUF's pro-rata portion is \$2,416,613,995.

Public market funds are invested in exchange traded funds, index funds, and private placements with external investment managers who invest in equity and fixed income securities of both domestic and international issuers. These funds are characterized as public market funds based on individual risk/return characteristics and their relationship to the overall asset mix of the PUF. Some of these investment managers may invest in both long and short securities and may utilize modest leverage in their portfolios. Certain of these investments are held through limited liability companies of which UTIMCO is the sole managing member. There are certain risks associated with these investments, some of which are investment manager risk, market risk, and liquidity risk, as well as the risk of utilizing leverage in the portfolios. Future fundings in the amount of \$22,000,000, of which the PUF's pro-rata portion is \$11,794,188, have been committed to certain public market funds as of August 31, 2012.

In some instances it may be necessary for the PUF to provide funding for certain managers in advance of the effective investment date to facilitate trading in the international market by the investment manager. As of August 31, 2012, \$25,000,000, of which the PUF's pro-rata share was \$13,410,000, had been funded to a manager for investment on the first business day of September 2012. This amount is included in the investment funds fair value on the statements of fiduciary net assets.

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

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

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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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

Note 6 – Written Options

For the year ended August 31, 2012, the PUF wrote call options on commodities and interest rate swaps. The following discloses the contracts outstanding, the expiration date, and the fair values of the outstanding written call options contracts as of August 31, 2012:

Type	Underlying	Contracts	Expiration Date	Fair Value at August 31, 2012	
				Assets	Liabilities
Commodity					
	Corn Futures	4	11/23/12	\$ -	\$ 1,881
Interest Rate Swap					
	United States 3 month Libor	2,300,000	10/11/12	-	9,858
	United States 3 month Libor	4,200,000	11/14/12	-	43,098
	United States 3 month Libor	14,400,000	3/18/13	-	496,607
				<u>-</u>	<u>549,563</u>
				<u>\$ -</u>	<u>\$ 551,444</u>

The fair value is included on the statements of fiduciary net assets as options written, at fair value. The change in fair value of open call options for the year ending August 31, 2012 was a decrease in the amount of \$391,491, which is included in the net increase in investments on the statement of changes in fiduciary net assets. The PUF recognized gains in the amount of \$96,196 on call options written which are included in the net increase in investments on the statement of changes in fiduciary net assets for the year ended August 31, 2012.

The PUF also wrote put options on commodities, international equities and indices and interest rate swaps for the year ended August 31, 2012. The following discloses the contracts outstanding, the expiration date, and the fair values of the outstanding written put options contracts as of August 31, 2012:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Type	Underlying	Contracts	Expiration Date	Fair Value at August 31, 2012	
				Assets	Liabilities
Interest Rate Swap					
	United States 3 month Libor	2,300,000	10/11/12	\$ -	\$ 28
	United States 3 month Libor	4,200,000	11/14/12	-	241
	United States 3 month Libor	14,400,000	3/18/13	-	26,830
				<u>-</u>	<u>27,099</u>
Commodity					
	Brent Crude Futures	2	11/12/12	-	20,135
	Copper Futures	4	12/5/12	-	4,430
	Corn Futures	25	11/23/12	-	428
	Corn Futures	15	11/23/13	-	34,260
	Crude Oil Futures	3	11/13/12	-	640
	Crude Oil Futures	4	11/17/15	-	20,816
	Natural Gas Futures	12	12/26/12	-	15,539
				<u>-</u>	<u>96,248</u>
Equity					
	Australia S&P/ASX 200 Index	134,836	9/20/12	-	46,941
	Australia S&P/ASX 200 Index	58,937	8/15/13	-	2,260,904
	Korean KOSPI 200 Index	2,075,335,178	6/13/13	-	2,100,598
	Korean KOSPI 200 Index	1,999,247,477	8/8/13	-	7,175,443
				<u>-</u>	<u>11,583,886</u>
Other					
	CPI Urban Consumer Not Seasonally Adj.	600,000	9/29/20	-	756
	CPI Urban Consumer Not Seasonally Adj.	600,000	10/13/20	-	1,395
				<u>-</u>	<u>2,151</u>
				<u>\$ -</u>	<u>\$ 11,709,384</u>

The fair value is included on the statements of fiduciary net assets as options written, at fair value. The change in fair value of open put options for the year ending August 31, 2012 was an increase in the amount of \$27,965,709, which is included in the net increase in investments on the statement of changes in fiduciary net assets. The PUF recognized gains in the amount of \$97,372,329 on put options written which are included in the net increase in investments on the statement of changes in fiduciary net assets for the year ended August 31, 2012.

For the year ended August 31, 2011, the PUF wrote call options on commodities and volatility. The following discloses the contracts outstanding, the expiration date, and the fair values of the outstanding written call options contracts as of August 31, 2011:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Type	Underlying	Contracts	Expiration Date	Fair Value at August 31, 2011	
				Assets	Liabilities
Commodity					
	Copper Futures	2	12/7/11	\$ -	\$ 8,201
	Corn Futures	4	11/23/12	-	2,258
				-	10,459
Other					
	Forward Volatility Agreement	2,300,000	10/11/11	-	7,169
	Forward Volatility Agreement	4,200,000	11/14/11	-	42,606
				-	49,775
				\$ -	\$ 60,234

The fair value is included on the statements of fiduciary net assets as options written, at fair value. The change in fair value of open call options for the year ending August 31, 2011 was an increase in the amount of \$13,247, which is included in the net increase in investments on the statement of changes in fiduciary net assets. The PUF recognized gains in the amount of \$234,399 on call options written which are included in the net increase in investments on the statement of changes in fiduciary net assets for the year ended August 31, 2011.

The PUF also wrote put options on Treasury note and Euro Bund futures, domestic and international equities and indices, interest rate swaps, commodities and various currencies for the year ended August 31, 2011. The following discloses the contracts outstanding, the expiration date, and the fair values of the outstanding written put options contracts as of August 31, 2011:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Type	Underlying	Contracts	Expiration Date	Fair Value at August 31, 2011	
				Assets	Liabilities
Interest Rate Swap					
	United States 3 month Libor	20,000,000	6/18/12	\$ -	\$ 12,626
	United States 3 month Libor	3,600,000	7/10/12	-	11
	United States 3 month Libor	25,200,000	9/24/12	-	26,312
				<u>-</u>	<u>38,949</u>
Commodity					
	Brent Crude Futures	9	11/10/11	-	2,000
	Corn Futures	7	11/23/12	-	13,861
	Crude Oil Futures	2	11/15/11	-	2,131
	Crude Oil Futures	4	11/17/15	-	27,901
				<u>-</u>	<u>45,893</u>
Currency					
	U.S. Dollar vs. Euro	3,000,000	9/27/11	-	32,764
Equity					
	Australia S&P/ASX 200 Index	111,899	6/21/12	-	20,599,738
	Australia S&P/ASX 200 Index	47,335	6/20/13	-	12,732,704
	Australia S&P/ASX 200 Index	58,937	8/15/13	-	9,094,741
	Dow Jones U.S. Real Estate Index	2,158,934	2/21/12	-	2,900,204
	MSCI Emerging Markets Index	2,930,411	2/21/12	-	3,153,431
	Korean KOSPI 200 Index	865,891,556	6/13/13	-	13,764,232
	Korean KOSPI 200 Index	1,999,247,477	8/8/13	-	22,315,819
	S&P Metals & Mining ETF	1,902,804	2/21/12	-	3,543,046
				<u>-</u>	<u>88,103,915</u>
Fixed Income					
	Euro-BOBL Futures	18	9/30/11	-	-
	U.S. 10 yr Treasury Note Futures	41	9/23/11	-	17,422
				<u>-</u>	<u>17,422</u>
Other					
	CPI Urban Consumer Not Seasonally Adjusted	600,000	9/29/20	-	2,821
	CPI Urban Consumer Not Seasonally Adjusted	600,000	10/13/20	-	4,628
				<u>-</u>	<u>7,449</u>
				<u>\$ -</u>	<u>\$ 88,246,392</u>

The fair value is included on the statements of fiduciary net assets as options written, at fair value. The change in fair value of open put options for the year ending August 31, 2011 was a decrease in the amount of \$5,977,571, which is included in the net increase in investments on the statement of changes in fiduciary net assets. The PUF recognized gains in the amount of \$2,840,253 on put options written which are included in the net increase in investments on the statement of changes in fiduciary net assets for the year ended August 31, 2011.

Note 7 – Swaps

During the years ended August 31, 2012 and 2011, the PUF entered into interest rate, credit default, commodity, currency and equity swap contracts. The following discloses the type, coupon rate, notional amount (presented in local currency), maturity date, and the fair values of the outstanding swap contracts as of August 31, 2012:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2012	
				Assets	Liabilities
Interest Rate					
Australian Dollar					
	5.000%	400,000	6/15/2022	\$ 41,550	\$ -
British Pound					
	1.250%	4,500,000	9/21/2014	-	69,467
	2.500%	2,600,000	9/21/2013	-	93,709
Japanese Yen					
	0.250%	920,000,000	6/20/2014	13,312	-
	0.300%	1,360,000,000	12/19/2014	270	-
	0.350%	270,000,000	6/20/2014	-	2,885
	1.000%	50,000,000	3/21/2023	5,379	-
	2.000%	50,000,000	12/21/2041	53,591	-
Mexican Peso					
	5.500%	4,300,000	9/13/2017	4,618	-
	6.750%	91,000,000	6/8/2016	416,953	-
	6.590%	9,900,000	12/8/2015	36,925	-
	6.960%	8,300,000	7/27/2020	56,500	-
U.S. Dollar					
	1.250%	700,000	6/20/2016	-	19,445
	2.250%	600,000	6/20/2022	-	36,352
				<u>629,098</u>	<u>221,858</u>
Credit Default					
Euro					
	0.250%	1,100,000	3/20/2016	-	549
	0.250%	1,100,000	6/20/2016	-	1,759
	1.000%	200,000	6/20/2017	3,317	-
British Pound					
	0.670%	780,000	9/20/2014	-	10,317
U.S. Dollar					
	0.250%	2,800,000	12/20/2016	-	26,372
	0.250%	2,200,000	6/20/2017	-	80,101
	0.460%	1,000,000	12/20/2013	-	5,294
	0.820%	1,000,000	3/20/2018	-	829
	0.862%	1,800,000	11/20/2016	99,196	-
	0.900%	1,000,000	6/20/2019	-	15,891
	1.000%	900,000	12/20/2012	3,795	-
	1.000%	6,100,000	6/20/2015	148,552	-
	1.000%	5,400,000	12/20/2015	46,783	-
	1.000%	2,400,000	3/20/2016	49,302	-
	1.000%	3,600,000	6/20/2016	68,887	-
	1.000%	1,800,000	9/20/2016	41,547	-
	1.000%	2,200,000	12/20/2016	128,082	-
	1.000%	1,200,000	6/20/2017	-	189,497
	1.000%	200,000	6/20/2019	-	4,715
	1.000%	2,200,000	12/20/2020	-	126,010
	1.350%	400,000	3/20/2018	-	19,141
	1.380%	1,000,000	3/20/2017	-	40,162
	1.400%	300,000	3/20/2021	1,175	-
	1.450%	1,000,000	6/20/2013	-	12,701
	1.530%	400,000	9/20/2016	485	-
	1.540%	200,000	6/20/2018	2,141	-
	1.630%	700,000	3/20/2021	4,673	-
	2.150%	700,000	3/20/2021	27,386	-
	2.700%	1,000,000	3/20/2019	-	71,797
	2.800%	400,000	3/20/2021	16,384	-
	2.950%	1,400,000	12/20/2020	71,017	-
				<u>712,722</u>	<u>605,135</u>

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2012	
				Assets	Liabilities
Commodity					
U.S. Dollar					
	Uranium	527,176	4/30/2013	\$ -	\$ 36,712
	S&P GSCI Grains	5,697,332	2/28/2013	-	72,584
				<u>-</u>	<u>109,296</u>
Currency					
Japanese Yen					
		128,000,000	5/15/2014	-	1,632,037
U.S. Dollar					
		1,600,000	5/15/2014	1,600,000	-
				<u>1,600,000</u>	<u>1,632,037</u>
Equity					
U.S. Dollar					
	MSCI Europe Index	67,057,607	8/14/2013	-	395,987
	MSCI Japan Index	37,085,675	8/8/2013	710,724	-
	MSCI Korea Index	13,869,926	5/29/2013	341,131	-
	U.S. Real Estate Index	56,086,022	8/8/2013	-	96,503
	U.S. Real Estate Index	77,340,985	8/20/2013	-	62,255
	S&P 500 Index	83,550,757	8/20/2013	630,949	-
	Taiwan TAIEX Index	9,679,308	9/19/2012	-	114,386
				<u>1,682,804</u>	<u>669,131</u>
Total				\$ 4,624,624	\$ 3,237,457

The change in fair value of open swap positions for the year ending August 31, 2012 was an increase in the amount of \$686,628, which is included in the net increase in investments on the statement of changes in fiduciary net assets.

The following discloses the type, coupon rate, notional amount (presented in local currency), maturity date, and the fair values of the outstanding swap contracts as of August 31, 2011:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2011	
				Assets	Liabilities
Interest Rate					
UK Pound					
	2.500%	9,000,000	9/21/2013	\$ -	\$ 350,947
Euro					
	2.000%	12,400,000	9/21/2016	-	143,994
	3.000%	1,500,000	9/21/2016	84,570	-
	3.000%	2,800,000	9/21/2021	49,610	-
Japanese Yen					
	0.250%	1,210,000,000	12/21/2013	26,812	-
U.S. Dollar					
	2.500%	700,000	6/15/2016	-	46,465
	3.250%	3,700,000	12/21/2021	-	248,671
	3.500%	6,000,000	6/15/2021	-	654,010
Mexican Peso					
	6.590%	9,900,000	12/8/2015	41,394	-
	6.750%	110,200,000	6/8/2016	526,801	-
	6.960%	23,400,000	7/27/2020	93,660	-
	7.500%	23,000,000	6/2/2021	159,479	-
Brazilian Real					
	11.245%	1,900,000	1/2/2012	-	3,781
	11.250%	3,100,000	1/2/2012	-	6,059
	11.360%	5,700,000	1/2/2012	58,951	-
				<u>1,041,277</u>	<u>1,453,927</u>
Credit Default					
U.K. Pound					
	0.670%	780,000	9/20/2014	-	6,411
Euro					
	0.250%	1,100,000	3/20/2016	-	15,328
	0.250%	1,100,000	6/20/2016	-	17,113
U.S. Dollar					
	0.210%	100,000	9/20/2011	-	39
	0.250%	5,300,000	12/20/2015	-	259,288
	0.250%	900,000	3/20/2016	-	47,597
	0.250%	3,200,000	9/20/2016	-	194,280
	0.460%	100,000	9/20/2011	-	80
	0.460%	1,000,000	12/20/2013	-	5,032
	0.550%	300,000	9/20/2011	-	309
	0.750%	1,000,000	12/20/2013	-	10,165
	0.770%	300,000	3/20/2012	-	1,243
	0.820%	1,000,000	3/20/2018	6,464	-
	0.862%	1,800,000	11/20/2016	121,242	-
	0.900%	1,000,000	6/20/2019	14,328	-
	1.000%	7,900,000	12/20/2011	25,303	-
	1.000%	4,300,000	12/20/2012	-	48,046
	1.000%	6,100,000	6/20/2015	101,539	-
	1.000%	6,000,000	12/20/2015	6,995	-
	1.000%	2,400,000	3/20/2016	25,822	-
	1.000%	3,600,000	6/20/2016	35,637	-
	1.000%	3,600,000	9/20/2016	-	37,805
	1.000%	2,000,000	12/20/2016	291,196	-
	1.000%	200,000	6/20/2019	1,005	-
	1.000%	2,200,000	12/20/2020	-	117,426
	1.350%	400,000	3/20/2018	-	16,464
	1.380%	1,000,000	3/20/2017	-	34,613
	1.400%	300,000	3/20/2021	1,198	-
	1.450%	1,000,000	6/20/2013	-	17,066

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2011	
				Assets	Liabilities
Credit Default					
U.S. Dollar (continued)					
	1.530%	400,000	9/20/2016	\$ 8,563	\$ -
	1.540%	200,000	6/20/2018	-	472
	1.630%	700,000	3/20/2021	5,290	-
	1.743%	400,000	6/20/2013	-	7,446
	1.780%	300,000	6/20/2013	-	5,810
	1.820%	300,000	6/20/2013	-	6,050
	2.150%	700,000	3/20/2021	21,100	-
	2.700%	1,000,000	3/20/2019	-	46,203
	2.800%	400,000	3/20/2021	21,524	-
	2.870%	500,000	3/20/2021	14,362	-
	2.900%	700,000	3/20/2021	21,456	-
	2.950%	1,400,000	12/20/2020	89,707	-
				<u>812,731</u>	<u>894,286</u>
Commodity					
U.S. Dollar	Uranium	579,985	4/30/2012	-	96,318
Equity					
U.S. Dollar					
	Global Real Estate Index	44,741,845	2/9/2012	-	5,095,095
	Oil & Gas	40,474,279	9/26/2011	1,597,667	-
	MSCI Europe Index	69,498,379	2/22/2012	-	3,927,199
	MSCI Japan Index	18,999,988	2/8/2012	133,253	-
	MSCI Japan Index	22,199,823	2/22/2012	-	889,036
	S&P 400 Index	63,114,854	2/21/2012	-	7,009,287
	S&P 500 Index	160,711,187	8/20/2012	-	13,771,212
	U.S. Real Estate Index	63,002,510	8/20/2012	-	5,086,081
				<u>1,730,920</u>	<u>35,777,910</u>
Total				<u>\$ 3,584,928</u>	<u>\$ 38,222,441</u>

The change in fair value of open swap positions for the year ending August 31, 2011 was a decrease in the amount of \$35,226,987, which is included in the net increase in investments on the statement of changes in fiduciary net assets.

Note 8 – Futures Contracts

During the years ended August 31, 2012 and 2011, the asset classes that used futures include domestic and foreign equities, domestic and foreign debt, and commodities. The change in fair value of open futures contracts for the year ending August 31, 2012 was an increase in the amount of \$1,415,468, which is included in the net increase in investments on the statement of changes in fiduciary net assets. The change in fair value of open futures contracts for the year ending August 31, 2011 was an increase in the amount of \$4,464,681 which is included in the net increase in investments on the statement of changes in fiduciary net assets. The PUF had \$40,584,517 and \$52,648,344 on deposit with brokers for collateral as margin for the futures contracts as of August 31, 2012 and 2011, respectively. Short futures may be used by the PUF to hedge the PUF's interest rate or currency risk associated with security positions. For the year ended August 31, 2012, the net realized loss on futures contracts was \$18,844,153. For the year ended August 31, 2011, the net realized gain on futures contracts was \$87,336,798.

PERMANENT UNIVERSITY FUND

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 carrying and fair value, for August 31, 2012, 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 \$2,729,587 and \$472,057 as of August 31, 2012 and 2011, respectively.

During the years ended August 31, 2012 and 2011, certain of the PUF's investment managers trading in commodity futures on the London Metals Exchange (LME) closed out various long contract positions with offsetting short contract positions. For contracts traded and closed on the LME, cash settlement does not occur until the expiration date of the contract. The gross notional value of these long and short positions are shown below with the associated pending cash settlement amounts shown as the carrying and fair value as of August 31, 2012 and 2011.

The following discloses the type, number of contracts, expiration date, notional value, and the carrying and fair values at August 31, 2012 for futures contracts:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Contract	Number of Contracts	Expiration	Notional Value at August 31, 2012		Carrying and Fair Value at August 31, 2012	
			Long	Short	Assets	Liabilities
Commodities						
Aluminum Hg	-	Sep-12	\$ 1,607,137	\$ 1,607,137	\$ -	\$ 93,456
Aluminum Hg	184	Dec-12	13,728,028	4,936,616	-	1,222,071
Aluminum Hg	78	Jun-13	3,814,200	-	-	-
Brent Crude Oil	56	Dec-12	6,361,600	-	-	-
Brent Crude Oil	24	Oct-12	2,697,410	-	213,685	-
Brent Crude Oil	35	Dec-13	5,387,000	1,599,165	-	86,641
Coffee 'C'	83	Dec-12	5,118,133	-	-	111,273
Copper	13	Sep-12	5,065,775	2,435,469	38,904	-
Copper	97	Dec-12	8,925,671	-	-	152,715
Copper	89	Mar-13	7,710,738	-	-	-
Corn	473	Dec-12	18,891,449	-	2,708	-
Corn	25	Jul-13	975,625	-	-	-
Cotton No. 2	66	Dec-12	2,529,216	-	-	31,768
Cotton No. 2	46	Mar-13	1,793,540	-	-	-
Crude Oil	6	Oct-12	543,129	-	15,201	-
Crude Oil	32	Dec-12	3,129,996	-	205,297	-
Crude Oil	6	Jun-13	551,912	-	46,760	-
Crude Oil	101	Dec-13	9,754,377	-	54,560	-
Crude Oil	120	Dec-14	11,131,200	-	-	-
Gasoline RBOB	9	Oct-12	1,086,381	-	146,879	-
Gasoline RBOB	57	Dec-12	6,770,232	-	-	-
Gasoline RBOB	9	Jun-13	1,096,994	-	-	-
Gold 100 Oz	3	Oct-12	431,286	-	14,295	-
Gold 100 Oz	156	Dec-12	26,331,952	-	184,586	-
Heating Oil	12	Oct-12	1,503,989	-	163,784	-
Heating Oil	32	Dec-12	4,268,410	-	-	-
Heating Oil	27	Mar-13	3,548,966	-	-	-
Lead	-	Sep-12	553,010	553,010	-	31,387
Lean Hogs	156	Dec-12	4,525,976	-	-	995
Live Cattle	125	Dec-12	6,466,138	-	2,564	-
Live Cattle	41	Apr-13	2,228,760	-	-	-
Natural Gas	131	Oct-12	4,054,222	386,001	28,215	-
Natural Gas	16	Nov-12	-	485,985	-	535
Natural Gas	3	Dec-12	-	102,520	-	-
Natural Gas	490	Jan-13	16,424,460	-	-	169,024
Natural Gas	15	Feb-13	500,945	-	-	13,584
Natural Gas	8	Mar-13	258,265	-	10,451	-
Natural Gas	168	Jan-14	6,602,760	-	-	1,617
Natural Gas	21	Mar-14	830,839	-	1,464	-
Nickel	-	Sep-12	4,868,154	4,868,154	-	460,416
Nickel	63	Dec-12	6,408,205	392,268	-	72,298
Platinum	25	Oct-12	1,927,715	-	130,845	-
Silver	54	Dec-12	8,449,761	-	227,750	-
Soybean	97	Nov-12	8,575,817	-	920,067	-
Soybean	70	Mar-13	5,894,875	-	-	-
Soybean	163	May-13	12,958,500	-	-	-
Soybean Oil	205	Dec-12	7,028,696	-	188,450	-
Soybean Oil	90	Mar-13	3,103,920	-	-	-
Sugar #11 World	245	Oct-12	5,441,094	-	-	59,288
Sugar #11 World	18	Mar-13	413,481	-	-	-

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Contract	Number of Contracts	Expiration	Notional Value at August 31, 2012		Carrying and Fair Value at August 31, 2012	
			Long	Short	Assets	Liabilities
Commodities (continued)						
Sugar #11 World	118	May-13	\$ 2,709,280	\$ -	\$ -	\$ -
Wheat	110	Dec-12	4,941,306	-	31,796	-
Wheat	111	Mar-13	4,992,225	-	-	-
Wheat	182	Jul-13	7,796,756	-	8,699	-
Zinc	-	Sep-12	3,732,537	3,732,537	-	53,969
Zinc	203	Dec-12	9,351,438	-	-	63,523
			<u>295,793,481</u>	<u>21,098,862</u>	<u>2,636,960</u>	<u>2,624,560</u>
Foreign Equities						
Bovespa Index	5	Oct-12	-	246,913	3,955	-
			<u>-</u>	<u>246,913</u>	<u>3,955</u>	<u>-</u>
Domestic Fixed Income						
US Treasury Bond	14	Dec-12	-	2,119,688	-	13,125
US 10yr Treasury Note	46	Dec-12	6,151,062	-	26,593	-
			<u>6,151,062</u>	<u>2,119,688</u>	<u>26,593</u>	<u>13,125</u>
Foreign Fixed Income						
Australian 3yr Bond	84	Sep-12	-	9,567,125	-	32,295
Canada 10yr Bond	12	Dec-12	-	1,661,529	-	8,533
Cupom Cambial	2,974	Jan-13	156,599,311	-	-	1,325,808
Euro-Bobl	29	Sep-12	4,665,085	-	7,307	-
Euro-Btp	5	Dec-12	623,191	-	-	3,504
Euro-Bund	2	Sep-12	-	363,074	3,267	-
Japan 10yr Bond	13	Sep-12	23,908,046	-	11,598	-
One-day Bank Deposit Rate	2,974	Jan-13	-	138,611,774	4,948	-
UK Long Gilt	2	Dec-12	-	384,222	-	922
			<u>185,795,633</u>	<u>150,587,724</u>	<u>27,120</u>	<u>1,371,062</u>
Total			<u>\$ 487,740,176</u>	<u>\$ 174,053,187</u>	<u>\$ 2,694,628</u>	<u>\$ 4,008,747</u>

The following discloses the type, number of contracts, expiration date, notional value, and the carrying and fair values at August 31, 2011 for futures contracts:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Contract	Number of Contracts	Expiration	Notional Value at August 31, 2011		Carrying and Fair Value at August 31, 2011	
			Long	Short	Assets	Liabilities
Commodities						
Aluminum Hg	-	Oct-11	\$ 1,164,819	\$ 1,164,819	\$ 110,656	\$ -
Aluminum Hg	207	Dec-11	14,901,650	2,084,916	-	132,308
Aluminum Hg	19	Dec-12	1,209,221	-	-	70,547
Brent Crude Oil	23	Sep-11	2,640,976	-	190,578	-
Brent Crude Oil	148	Nov-11	16,812,800	-	-	-
Brent Crude Oil	4	May-12	-	515,134	11,712	-
Coffee 'C'	19	Dec-11	2,269,969	220,944	-	22,394
Coffee 'C'	39	Mar-12	4,250,025	-	-	-
Coffee Robusta	9	Nov-11	226,511	-	9,520	-
Copper	158	Dec-11	16,607,775	-	-	-
Copper	20	Dec-11	4,741,824	-	214,364	-
Copper	5	Dec-12	1,184,690	-	59,212	-
Corn	617	Dec-11	23,656,998	-	518,608	-
Cotton No 2	81	Dec-11	4,251,022	-	-	118,522
Crude Oil	15	Sep-11	1,361,457	-	74,197	-
Crude Oil	87	Nov-11	7,768,496	-	-	33,337
Crude Oil	27	May-12	2,511,054	-	-	22,970
Crude Oil	133	Nov-12	12,287,364	-	-	146,825
Gas Oil	22	Sep-11	2,089,326	-	106,515	-
Gasoline Rbob	20	Oct-11	2,326,018	-	5,104	-
Gasoline Rbob	61	Nov-11	7,303,960	180,596	-	9,579
Gold 100 Oz	237	Dec-11	43,392,424	-	2,147,453	-
Heating Oil	1	Sep-11	198,566	-	-	2,228
Heating Oil	6	Oct-11	729,588	-	1,844	-
Heating Oil	45	Nov-11	6,372,185	531,622	-	29,981
Heating Oil	28	May-12	3,556,694	-	-	-
Lead	16	Dec-11	1,219,974	197,834	143,123	-
Lean Hogs	163	Dec-11	5,400,537	-	-	4,780
Live Cattle	5	Oct-11	233,067	-	-	5,959
Live Cattle	106	Dec-11	4,902,477	-	-	33,818
Live Cattle	107	Feb-12	5,112,477	-	74	-
Mill Wheat Euro	45	Nov-11	683,868	-	-	55,732
Natural Gas	16	Sep-11	-	574,061	26,965	19,874
Natural Gas	8	Oct-11	-	284,594	-	33,660
Natural Gas	8	Nov-11	-	302,398	-	31,944
Natural Gas	8	Nov-11	336,187	-	-	34,886
Natural Gas	339	Dec-11	15,228,969	-	-	98,648
Natural Gas	197	Dec-12	10,114,481	-	-	20,532
Nickel	-	Nov-11	1,731,366	1,731,366	265,290	-
Nickel	39	Dec-11	5,342,367	133,266	-	25,955
Platinum	10	Oct-11	948,518	-	25,439	-
Platinum	5	Jan-12	474,847	-	281	-
Silver	61	Dec-11	12,785,185	-	80,674	-
Soybean	174	Nov-11	12,691,108	-	205,822	-
Soybean	114	Jul-12	8,354,775	-	-	-
Soybean Oil	147	Oct-11	5,176,458	-	-	-
Soybean Oil	47	Dec-11	1,665,774	-	-	-
Sugar #11 World	134	Sep-11	4,435,028	-	177,430	-
Sugar #11 World	67	Feb-12	2,167,155	-	-	-
Sugar #11 World	50	Jun-12	1,468,320	-	-	-
Sugar #11 World	10	Sep-12	290,968	-	47,313	-
Wheat	149	Dec-11	5,899,960	-	102,238	-
Wheat	137	Mar-12	5,664,950	-	-	-
Wheat	19	Dec-11	846,088	-	96,980	-
Zinc	60	Dec-11	3,462,013	-	129,855	-
Zinc	79	Jun-12	4,621,994	-	-	-
			305,074,323	7,921,550	4,751,247	954,479

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Contract	Number of Contracts	Expiration	Notional Value at August 31, 2011		Carrying and Fair Value at August 31, 2011		
			Long	Short	Assets	Liabilities	
Foreign Fixed Income							
Australian 3yr Bond	50	Sep-11	\$ -	\$ 5,684,243	\$ 4,699	\$ -	
Canada 10 Year Bond	58	Dec-11	7,681,730	-	21,111	-	
Euro-Bobl	27	Sep-11	4,732,594	-	14,165	-	
Euro-Bund	56	Sep-11	10,849,411	-	134,981	-	
UK Long Gilt	56	Dec-11	11,531,788	-	20,900	-	
			<u>34,795,523</u>	<u>5,684,243</u>	<u>195,856</u>	<u>-</u>	
Total			<u>\$ 339,869,846</u>	<u>\$ 13,605,793</u>	<u>\$ 4,947,103</u>	<u>\$ 954,479</u>	

Note 9 – Foreign Currency Exchange Contracts

The tables below summarize by currency the contractual amounts of the PUF's foreign currency exchange contracts at August 31, 2012 and 2011. Foreign currency amounts are translated at exchange rates as of August 31, 2012 and 2011. The "Net Buy" amounts represent the U.S. dollar equivalent of net commitments to purchase foreign currencies, and the "Net Sell" amounts represent the U.S. dollar equivalent of net commitments to sell foreign currencies.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Currency	Net Buy	Net Sell	Unrealized Gains on Foreign Currency Exchange Contracts	Unrealized Losses on Foreign Currency Exchange Contracts
	August 31, 2012	August 31, 2012	August 31, 2012	August 31, 2012
Australian Dollar	\$ —	\$ 92,775,234	\$ 828,036	\$ 2,484,711
Brazilian Real	4,316,992	—	59,369	1,437,923
Canadian Dollar	—	18,950	163,897	114,793
Chilean Peso	7,607,916	—	265,181	—
Chinese Yuan Renminbi	16,399	—	55,485	533,419
Colombian Peso	—	2,542,343	26,185	—
Danish Krone	1,029,228	—	11,136	1,004
Euro	—	74,066,447	591,076	1,369,158
Hong Kong Dollar	69,959	—	—	21
Hungarian Forint	75,429	—	4	372
Indian Rupee	—	70,888	3,006,524	1,034,641
Indonesian Rupian	2,654	—	3	—
Japanese Yen	—	8,700,835	328,722	2,336,718
Malaysian Ringgit	5,746,340	—	17,533	87
Mexican Peso	19,359,456	—	67,346	517,371
New Zealand Dollar	—	39,692,221	83,860	281,212
Norwegian Kroner	302,087	—	3,227	—
Philippines Peso	—	7,786	—	288
Polish Zloty	—	6,480,700	—	65,007
South African Rand	42,376,826	—	89,813	165,488
Singapore Dollar	231,059	—	2,023	—
South Korean Won	33,449,594	—	771,415	168,667
Swedish Krona	6,481,095	—	73,461	918
Swiss Franc	—	11,207,925	13,094	348,285
Taiwan Dollar	30,441,925	—	161,518	608,318
Thailand Baht	683,799	—	7,139	—
Turkish Lira	9,624,111	—	—	183,501
UK Pound	19,571,111	—	554,137	305,230
	<u>\$ 181,385,980</u>	<u>\$ 235,563,329</u>	<u>\$ 7,180,184</u>	<u>\$ 11,957,132</u>

The change in fair value of open foreign currency exchange contracts for the year ending August 31, 2012 was a decrease in the amount of \$4,776,948, which is included in the net increase in investments on the statement of changes in fiduciary net assets.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Currency	Net Buy	Net Sell	Unrealized Gains	Unrealized
	August 31, 2011	August 31, 2011	on Foreign Currency Exchange Contracts August 31, 2011	Losses on Foreign Currency Exchange Contracts August 31, 2011
Australian Dollar	\$ -	\$ 73,032,236	\$ 704,840	\$ 786,553
Brazilian Real	-	7,900,424	150,621	3,340
Canadian Dollar	6,121,048	-	186,907	46,574
Chilean Peso	21,355	-	415	-
Chinese Yuan Renminbi	13,351,568	-	297,919	90,981
Czech Koruna	358,535	-	7,515	-
Danish Krone	2,850,504	-	44,641	5,208
Euro	-	51,906,761	273,684	833,826
Hong Kong Dollar	-	4,321,574	35	2,263
Hungarian Forint	296,733	-	-	7,871
Indian Rupee	10,336,841	-	319,957	10,386
Indonesian Rupian	4,543,608	-	326,106	-
Japanese Yen	55,037,544	-	2,179,105	12,240,500
Malaysian Ringgit	327,589	-	15,236	334
Mexican Peso	5,867,941	-	530,671	334,795
New Zealand Dollar	-	27,692,631	315,696	99,296
Norwegian Kroner	-	9,158,098	808	243,387
Philippines Peso	179,950	-	73,994	62,264
Polish Zloty	340,666	-	147	18,973
Singapore Dollar	460,682	-	44,303	8,514
South African Rand	9,407,189	-	288,258	91,125
South Korean Won	9,997,290	-	850,674	23,307
Swedish Krona	2,344,190	-	39,728	6,767
Swiss Franc	-	14,583,487	1,095,708	103,358
Taiwan Dollar	19,952,857	-	8,274	148,116
Thailand Baht	351,111	-	22,530	3
Turkish Lira	8,686,695	-	204,254	-
UK Pound	1,398,519	-	265,623	183,398
	<u>\$ 152,232,415</u>	<u>\$ 188,595,211</u>	<u>\$ 8,247,649</u>	<u>\$ 15,351,139</u>

The change in fair value of open foreign currency exchange contracts for the year ending August 31, 2011 was a decrease in the amount of \$7,103,490, which is included in the net increase in investments on the statement of changes in fiduciary net assets.

Note 10 – Purchase Agreements

UTIMCO, as investment manager of the funds under the control and management of the UT Board, entered into a security purchase agreement with the UT Board. The agreement commits the funds under management, including the PUF, to purchase up to \$3,094,315,000 in UT System flexible rate notes in the event of a failed remarketing of such notes. The individual funds under management are not committed to a specific amount, rather all of the funds may be required to provide for the amount noted.

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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Note 11 – Distributions to the Available University Fund

The Texas Constitution allows for (a) distributions to the AUF from the “total return” on PUF investments, including income return as well as capital gains (realized and unrealized) and (b) the payment of PUF expenses from PUF assets. The Texas Constitution directs the UT Board to establish a distribution policy that provides stable, inflation-adjusted annual distributions to the AUF and preserves the real value of the PUF investments over the long term. Accordingly, distributions to the AUF in any given fiscal year are subject to the following: (1) A minimum amount equal to the amount needed to pay debt service on PUF bonds; (2) No increase from the preceding year (except as necessary to pay debt service on PUF bonds) unless the purchasing power of PUF investments for any rolling 10-year period has been preserved; (3) A maximum amount equal to seven percent of the average net fair market value of PUF assets in any fiscal year, except as necessary to pay debt service on PUF bonds. Distributions from the PUF to the AUF for the years ended August 31, 2012 and 2011 were \$575,511,336 and \$506,395,811, respectively. The PUF distribution to the AUF for the year ending August 31, 2013, will be \$664,300,000. The first payment in the amount of \$200,000,000 was made September 4, 2012.

Note 12 – Fees and Expenses

The PUF incurs investment management fees from various external managers of the PUF. The fees, generally assessed quarterly, are based on a percentage of the market value of investments held by each individual investment manager and currently range from 0.15% to 1.50%. In addition to quarterly investment management fees, the PUF may pay performance-based management fees for investment performance in excess of certain defined benchmarks as provided for in the managers’ contracts. The investment management fees presented in the statements of changes in fiduciary net assets represent only those paid directly from the PUF, and do not include fees incurred and charged by general partners in private investments, fees charged by mutual fund managers, and fees charged by hedge fund managers as these types of fees are netted directly against returns for those investments in accordance with standard industry practice.

UTIMCO assesses the PUF a management fee to cover the costs of managing the PUF investments and providing day-to-day operations. These fees are based on a budget prepared by management and approved by the UT Board. The fees assessed for the years ended August 31, 2012 and 2011 were \$8,900,255 and \$8,470,821, respectively.

The PUF is assessed a fee to cover expenses related to the management of the PUF Lands. The fee assessed for the years ended August 31, 2012 and 2011, were \$9,103,131 and \$10,014,144, respectively. Fees are also assessed to cover costs associated with UT System personnel in their efforts to provide assistance to the UT Board and the Chancellor of the UT System in their oversight responsibilities of UTIMCO. Fees in the amounts of \$207,040 and \$261,550 were charged to the PUF for the years ended August 31, 2012 and 2011, respectively.

Custodial fees and expenses are assessed by the financial institution which holds the PUF’s assets. Fees are based on the number of accounts, market value of the PUF, and transaction activity in accordance with the contractual agreement with the institution. Additional fees are assessed for performance measurement, risk measurement and on-line communication services per the contractual agreement. The fees assessed for the years ended August 31, 2012 and 2011, were \$1,989,035 and \$1,984,089, respectively.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

The PUF incurs legal fees associated with the review of new investment manager agreements and with due diligence efforts undertaken as part of the hiring of new investment managers. For the years ended August 31, 2012 and 2011, fees incurred were \$474,217 and \$474,761, respectively.

Analytical and risk measurement fees, in the amounts of \$331,856 and \$323,126, were also incurred during the years ended August 31, 2012 and 2011, respectively, to maintain a sophisticated risk measurement system for the PUF.

Accounting fees, in the amount of \$146,591 and \$258,102, were paid by the PUF during the years ended August 31, 2012 and 2011, respectively, for external and UT System internal audit services.

Consulting fees, in the amount of \$207,041 and \$205,353, respectively, for the years ending August 31, 2012 and 2011 were incurred for investment strategy and other investment consulting services.

Background check fees are incurred as part of the due diligence efforts undertaken as part of the hiring of investment managers. Fees in the amount of \$152,722 and \$121,868 were incurred for the years ending August 31, 2012 and 2011, respectively.

Foreign tax consulting and filing fees are incurred by the PUF for investment managers domiciled in certain foreign countries and for those that invest in securities issued in certain foreign countries. Fees in the amounts of \$71,395 and \$74,756, were incurred for the years ending August 31, 2012 and 2011, respectively.

PERMANENT UNIVERSITY FUND

Supplemental Schedules

Comparison Summary of Investments

August 31, 2012 and 2011

(in thousands)

	2012		2011	
	Value	% of Total Investments	Value	% of Total Investments
Equity Securities				
Domestic Common Stock	\$ 553,338	4.11%	\$ 557,899	4.40%
Foreign Common Stock	1,000,744	7.44%	1,039,141	8.20%
Other Equities	84	0.00%	108	0.00%
Total Equity Securities	<u>1,554,166</u>	<u>11.55%</u>	<u>1,597,148</u>	<u>12.60%</u>
Preferred Stock				
Domestic Preferred Stock	1,835	0.01%	1,848	0.01%
Foreign Preferred Stock	44,826	0.34%	54,299	0.43%
Total Preferred Stock	<u>46,661</u>	<u>0.35%</u>	<u>56,147</u>	<u>0.44%</u>
Debt Securities				
U. S. Government Obligations	195,183	1.45%	237,195	1.87%
Foreign Government and Provincial Obligations	536,112	3.98%	415,991	3.28%
Corporate Obligations	300,485	2.23%	272,856	2.16%
Other	16,896	0.13%	14,485	0.11%
Total Debt Securities	<u>1,048,676</u>	<u>7.79%</u>	<u>940,527</u>	<u>7.42%</u>
Convertible Securities	<u>573</u>	<u>.00%</u>	<u>4,207</u>	<u>.03%</u>
Purchased Options	<u>35,453</u>	<u>.26%</u>	<u>162,926</u>	<u>1.29%</u>
Investment Funds				
Hedge Funds	3,978,898	29.56%	3,743,699	29.54%
Private Investments	3,547,861	26.35%	3,142,762	24.80%
Developed Country Equity	1,109,334	8.24%	934,258	7.36%
Emerging Markets Equity	433,270	3.22%	516,775	4.08%
Natural Resources	164,865	1.22%	162,217	1.28%
Fixed Income	14,962	0.11%	12,850	0.10%
Total Investment Funds	<u>9,249,190</u>	<u>68.70%</u>	<u>8,512,561</u>	<u>67.16%</u>
Physical Commodities - Gold	<u>591,201</u>	<u>4.39%</u>	<u>641,812</u>	<u>5.07%</u>
Cash and Cash Equivalents	<u>936,441</u>	<u>6.96%</u>	<u>759,577</u>	<u>5.99%</u>
Total Investments	<u>\$13,462,361</u>	<u>100.00%</u>	<u>\$12,674,905</u>	<u>100.00%</u>

PERMANENT UNIVERSITY FUND

Supplemental Schedules (cont.)

Schedule of Changes in Cost of Investments and Investment Income

Year Ended August 31, 2012

(in thousands)

	Beginning Cost	Purchases	Sales, Maturities & Redemptions	Gains (Losses)	Reclass	Effects of Pooled Account Rebalancing Activity ***	Ending Cost	Investment Income
Equity Securities								
Domestic Common Stock	\$ 527,542	\$ 554,885	\$ (572,318)	\$ 14,761	\$ 3,220	\$ 808	\$ 528,898	\$ 8,810
Foreign Common Stock	967,376	833,655	(833,322)	6,488	(3,267)	6,299	977,229	25,168
Other	101	1,097	(1,301)	60	47	1	5	-
Total Equity Securities	<u>1,495,019</u>	<u>1,389,637</u>	<u>(1,406,941)</u>	<u>21,309</u>	<u>-</u>	<u>7,108</u>	<u>1,506,132</u>	<u>33,978</u>
Preferred Stock								
Domestic Preferred Stock	2,385	-	-	-	-	-	2,385	59
Foreign Preferred Stock	53,542	57,598	(59,507)	(4,466)	-	261	47,428	1,295
Total Preferred Stock	<u>55,927</u>	<u>57,598</u>	<u>(59,507)</u>	<u>(4,466)</u>	<u>-</u>	<u>261</u>	<u>49,813</u>	<u>1,354</u>
Debt Securities								
U. S. Government Obligations	216,784	693,693	(737,646)	14,578	-	(5,310)	182,099	5,727
Foreign Government and Provincial Obligations	384,770	752,022	(612,810)	(10,503)	4,269	9,469	527,217	25,920
Corporate Obligations	256,926	121,974	(101,922)	5,606	(4,871)	4,706	282,419	12,932
Swaps	-	-	-	-	-	-	-	1,921
Other	14,102	-	(272)	(63)	602	47	14,416	952
Total Debt Securities	<u>872,582</u>	<u>1,567,689</u>	<u>(1,452,650)</u>	<u>9,618</u>	<u>-</u>	<u>8,912</u>	<u>1,006,151</u>	<u>47,452</u>
Purchased Options	<u>178,413</u>	<u>59,406</u>	<u>138</u>	<u>(93,020)</u>	<u>-</u>	<u>2</u>	<u>144,939</u>	<u>-</u>
Convertible Securities	<u>4,261</u>	<u>53</u>	<u>(213)</u>	<u>(3,683)</u>	<u>-</u>	<u>11</u>	<u>429</u>	<u>266</u>
Investment Funds								
Hedge Funds	3,088,283	384,099	(392,986)	104,831	-	-	3,184,227	-
Private Markets	2,642,017	944,008	(741,718)	319,068	-	-	3,163,375	28,609
Developed Country Equity	749,302	66,050	(19,560)	2,859	-	-	798,651	-
Emerging Markets	433,363	143,965	(233,467)	30,002	-	12	373,875	578
Fixed Income	12,736	1,456	(1)	1,523	-	-	15,714	1,455
Natural Resources	137,630	13,728	(4,219)	307	-	(12)	147,434	44
Total Investment Funds	<u>7,063,331</u>	<u>1,553,306</u>	<u>(1,391,951)</u>	<u>458,590</u>	<u>-</u>	<u>-</u>	<u>7,683,276</u>	<u>30,686</u>
Physical Commodities								
Gold Bullion	479,787	6,805	(10,665)	2,054	-	64	478,045	-
Cash and Cash Equivalents								
Money Market Funds and Cash Held at State	759,597	212,602 *	-	(34,735) **	-	(962)	936,502	985
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,013</u>
Total Investment in Securities	<u>\$ 10,908,917</u>	<u>\$ 4,847,096</u>	<u>\$ (4,321,789)</u>	<u>\$ 355,667</u>	<u>\$ -</u>	<u>\$ 15,396</u>	<u>\$ 11,805,287</u>	<u>\$ 118,734</u>

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

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

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